

# GCC Market Update



## Market Commentary

### Islamic market on track despite fall in issuances from the GCC region

Global sukuk issuances were lower in July and August 2014 at USD 7.95bn and USD 7.54bn, respectively, a decrease from USD 11.6bn new issues reported in June 2014. The decline was mainly due to a reduction in new issuances from the GCC region on account of the festive season Ramadan and summer holidays. Despite the decline, the global issuance volume peaked at USD 80.35bn for YTD August 2014, 6.8% higher than that during the same period the previous year. New issuances were boosted by a rise in sovereign and quasi-sovereign issuances, particularly from Malaysia, which accounted for 92.3% of total issuances in August (up from 80.6% in July), making up for lesser issuances from the GCC region. (Source: Arab Times)

### New rules for developing UAE's bond and sukuk market

SCA outlined revised rules to develop the bond and sukuk market in the UAE. The new rules are designed to simplify the issuance process, and make bonds and sukuk cheaper to issue and easier to trade. As per the new rule, the minimum issue size has been decreased to DH 10mn from DH 50mn earlier. Further, issuers will not be required to maintain their quarterly reports and need not obtain a credit rating before the issuance, thus reducing a major cost burden. SCA is aiming to diversify the excess risk built on the banking system due to UAE's heavy reliance on bank loans and pass them on to the large investor pool. (Source: Arab Times)

### S&P affirms Qatar's sovereign credit ratings at "AA/A-1+"

In September 2014, S&P affirmed Qatar's long- and short-term foreign and local currency sovereign credit ratings at AA/A-1+. The rating agency confirmed a stable outlook based on the government's strong fiscal position and high level of economic wealth. S&P expects Qatar to maintain its competitive position in the Liquefied Natural Gas (LNG) market due to its low production cost and strong global demand. However, the economy faces risks due to heavy reliance on the oil and gas sector, limited monetary flexibility, and data disclosure gaps. (Source: Gulf News)

### Oman exports fell 10.4% to OMR8.3bn in May

According to the National Centre for Statistics and Information (NCSI) the total value of exports in Oman declined by 10.4% y-o-y in May 2014 to OMR 8.3bn. The decline was mainly attributed to a 9.9% drop in oil and gas exports from OMR 6.1bn in May 2013 to OMR 5.5bn in May 2014 and a 24% fall in re-exports to OMR 1.2bn, partially offset by a 2.9% rise in non-oil exports to OMR 1.5bn at the end of May 2014. (Source: Zawya)

### Oman Oil Company's USD1.85bn credit facility oversubscribed 2x

Oman Oil Company (OOC) successfully signed a USD 1.85bn revolving credit facility with 16 banks. It attracted orders worth USD 3.75bn from all major local regional and international banks, citing the company's strong fundamentals, Oman's stable economy, and accelerated growth in the energy sector. (Source: Zawya)

## Repo and Interbank Rates

Country	Repo Rate	3M Inter Bank Rates	
		31/12/13	29/09/14
Saudi Arabia	2.00%	0.96%	0.94%
UAE	1.00%	0.81%	0.71%
Qatar	4.50%	1.32%	1.10%
Kuwait	0.75%	0.88%	1.31%
Oman	1.00%	NA	NA
Bahrain	2.25%	0.65%	0.60%

## Bank Deposits

Country	Total Deposits (USD bn)	Reporting Date
Saudi Arabia	406.07	August-14
UAE	382.39	July-14
Qatar	160.00	August-14
Kuwait	129.68	July-14
Oman	44.61	July-14
Bahrain	41.41	July-14

## Recent Bond and Sukuk Issuances in the GCC

Issuer	Coupon	Volume (mn)	Currency	Subscription date	Tenor (Years)	Over Subscription
Agricultural Bank of China - Dubai Branch	3.50%	163	CNY	Sep 11, 2014	3	NA
Abu Dhabi Commercial Bank	2.75%	600	USD	Sep 15, 2014	5	NA
Ministry of Finance – Bahrain	6.00%	1,250	USD	Sep 17, 2014	30	NA
Sharjah Sukuk Limited (Sukuk)	3.76%	750	USD	Sep 17, 2014	10	10x
ENBD (Perpetual Bond)	6.38%	500	USD	Sep 17, 2014	-	2.6x
IDB Trust Services Limited (Sukuk)	2.11%	1,500	USD	Sep 18, 2014	5	1.3x
Goldman Sachs International Sukuk	2.84%	500	USD	Sep 23, 2014	5	3x
Burgan Bank (Perpetual Bond)	7.25%	500	USD	Sep 30, 2014	-	1.7x

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### Sharjah's debut sukuk oversubscribed 10x

Sharjah successfully issued its first 10-year USD750mn Islamic bond at 3.76% in September 2014, making a debut in the sukuk market. The US dollar denominated bond attracted strong demand and booked orders worth USD7.85bn, representing an oversubscription of more than 10x. Most of the investors were from the Middle East (50%) and UK (20%), while rest of Europe and Asia contributed 11% and 14%, respectively. The money raised would be used for refinancing government debt and investments in infrastructure. Moreover, S&P and Moody's assigned a definitive rating of A and A3, respectively, to the sovereign sukuk, citing the emirate's credit strength supported by its strong fiscal and debt position. (Source: *Khaleej Times*)

### Bahrain issues a 30-year USD 1.25bn bond

Bahrain issued a US dollar denominated 30-year USD 1.25bn bond at 6% on September 10, 2014. The 30 year bond attracted a strong demand despite Bahrain's weak, politically unstable, and less diversified economy. Strong support from Saudi Arabia and a positive outlook on the overall performance of the Gulf region helped Bahrain successfully complete the transaction. The money raised from the bond issuance would be used for general budgetary purposes. (Source: *Wall Street Journal*)

### Oman reported the lowest inflation rate among GCC peers

According to the Statistical Centre for the Cooperation Council for the Arab Countries of the Gulf (GCC-Stat), Oman reported the lowest inflation rate among its GCC peers, of 0.63% over a 12-month period until July 2014. In contrast, Qatar reported the highest inflation rate of 3.1%, mainly driven by the rise in housing and utility costs, which grew at 7.6%. Kuwait and Bahrain reported the second-highest inflation rate of 2.7% each in July 2014, followed by 2.6% in Saudi Arabia and 2.33% in UAE. Housing and utility cost in Bahrain increased 5.4%, furniture and household cost in Oman grew 7.28%, and prices of miscellaneous goods and services in UAE went up 5.64%. Price reduction was also observed, as healthcare cost in Kuwait declined 1.18%; transportation costs in Oman decreased 1.17%; and prices of food, drinks, and tobacco in Qatar fell 0.8%. (Source: *Times of Oman*)

### Saudi's GDP growth decelerates to 3.8% y-o-y in 2Q2014

Saudi Arabia's GDP grew 3.8% y-o-y in 2Q2014, lower than the revised inflation-adjusted GDP growth of 5.1% in 1Q2014. The decline was mainly due to the slowdown in the hydrocarbon sector which reported a growth of 2.5% y-o-y in 2Q2014 from 6.1% in 1Q2014. However, growth in the non-oil private sector was 4.7% y-o-y in 2Q2014, in line with 4.6% growth reported in the previous quarter. Saudi Arabia's GDP growth is expected to remain subdued in the remaining half of the year due to the decline in crude oil prices and decrease in demand as the region exits its peak demand period. (Source: *Zawya*)

### GCC's hospitality industry to grow at 9.5% annually till 2018

According to Investment Bank Alpen Capital's report, the hospitality industry in GCC is expected to grow at an annual rate of 9.5% from USD 22.8bn in 2013 to USD 35.9bn by 2018. A rise in international tourists, especially from Asia, for business, leisure as well as stopovers, and major events such as Expo 2020 to be held in Dubai, would drive growth in the hospitality and tourism sector in GCC. The region is making heavy investments in retail infrastructure projects, expanding airports, increasing number of hotels, and expanding housing capacity to accommodate rising demands from increasing tourist arrivals. A major concern for GCC is to sustain the growth in the sector at the same pace even after the event Expo 2020 is over. (Source: *Zawya*)

### Middle East investors to invest USD 180bn in overseas real estate

According to a recent report from CBRE, Middle East investors are gearing up to increase their investments mainly in the overseas real estate market. They are expected to invest nearly USD 180bn in overseas commercial real estate market over the next decade. Nearly 80% of the targeted investment will flow into the European region, with about USD 85bn in the UK and USD 60bn in continental Europe, where France, Germany, Italy, and Spain will be the likely key targets. (Source: *Gulf Base*)

### Decline in oil prices pose no threat to Gulf economies in the near term

Brent crude price declined by USD20 to as low as USD 96 in September 2014, and is expected to further reduce due to the rising supply demand mismatches. Huge financial reserves in the Gulf countries would help them comfortably cope up with the oil price decline and pose no major threat in the near term. On the contrary, it would help the struggling Arab countries reduce their import bills, narrow deficit, and rebalance growth. Egypt, Morocco, Tunisia, Jordan, and Lebanon expect a reduction of USD 4bn in their import bill with every 10 dollar decline in oil prices. Cheaper oil prices for a longer duration would pass on the wealth to poor countries rather than being passed in the form of loans from Gulf economies. (Source: *Zawya*)

### Oman raised OMR 1.17bn through Capital Market Funding

The Capital Market Authority reported that Oman's capital market grew significantly in 2013. Oman-based companies raised additional funding worth OMR 1.17bn through capital markets in 2013, double the amount of new loans and credits raised through banks. Companies listed on Muscat Securities Market, which now contributes 17% to the GDP, grew at a rate of 16% and provided an annual return of 24.8% to their investors. (Source: *Zawya*)

### Emaar Properties to come up with Hotel IPO after Malls

Emaar Properties plans to sell shares from its hotel business after the successful Emaar Mall IPO. Emaar Mall group, a subsidiary of Emaar Properties, raised USD 1.6bn (DH 5.8bn) by selling around two billion shares priced at DH 2.9 per share. This was Dubai's largest IPO since 2007, and attracted order books which were oversubscribed 30x for institutional investors and 20x for retail investors. The money raised from the Mall IPO would be extended as dividends to shareholders, including the Dubai government. (Source: *Bloomberg*)

### Goldman Sachs debut sukuk oversubscribed 3x

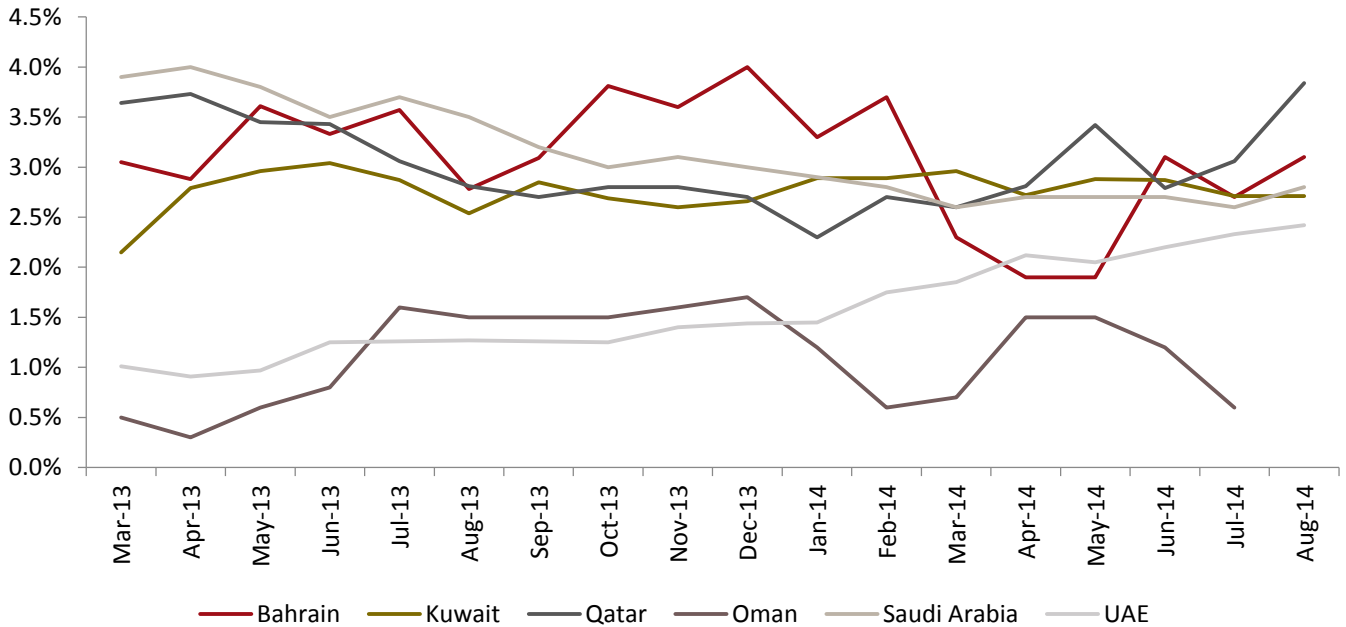
Goldman Sachs successfully issued its first 5-year USD500mn Islamic bond at 2.844% in September 2014 after an unsuccessful attempt made in 2011. It is the first conventional US Bank to make a debut in the international sukuk market. The US dollar denominated issue attracted strong demand and booked orders worth USD1.5bn, representing an oversubscription of more than 3x. The money raised through the issue will be invested in J. Aron & Co, a unit of Goldman Sachs to fund their commodities business. The sukuk was issued through a vehicle 'Jany Sukuk Co' with a guarantee from Goldman Sachs and was rated 'A-' by Standard & Poor's and 'A' by Fitch. This issue was listed on the Luxembourg Stock Exchange. (Source: *Reuters*)

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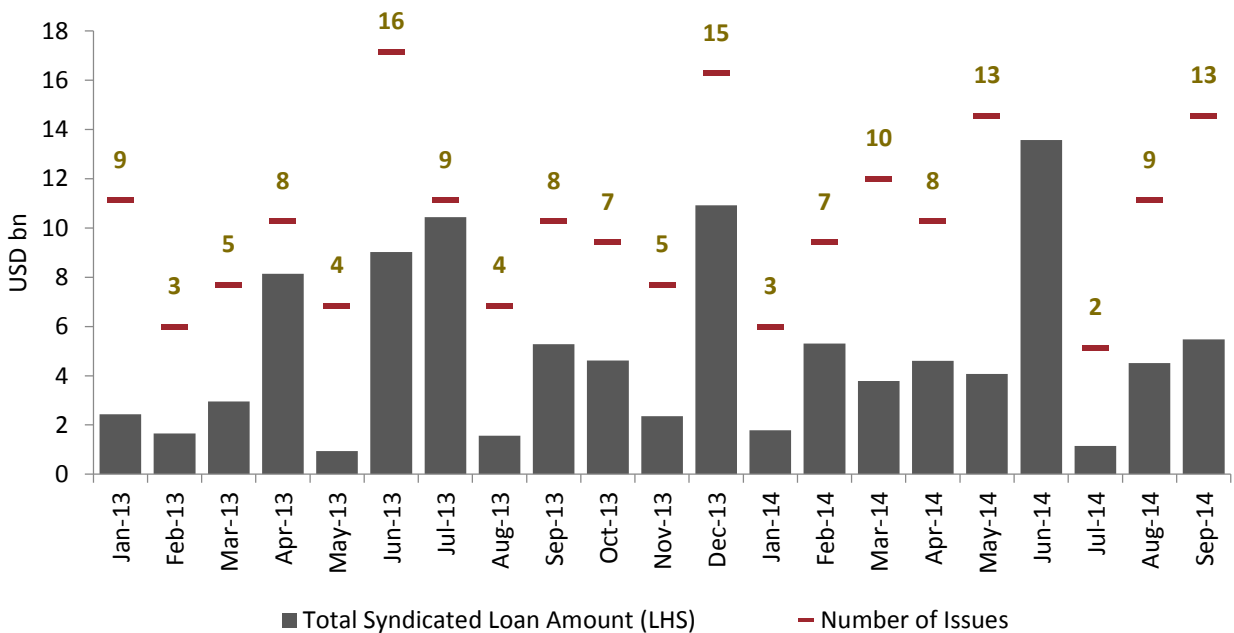


## Inflation Trend

*Qatar's inflation rose 3.8% y-o-y in August 2014, mainly due to an increase in rents and cost of food, transport, and communication.*



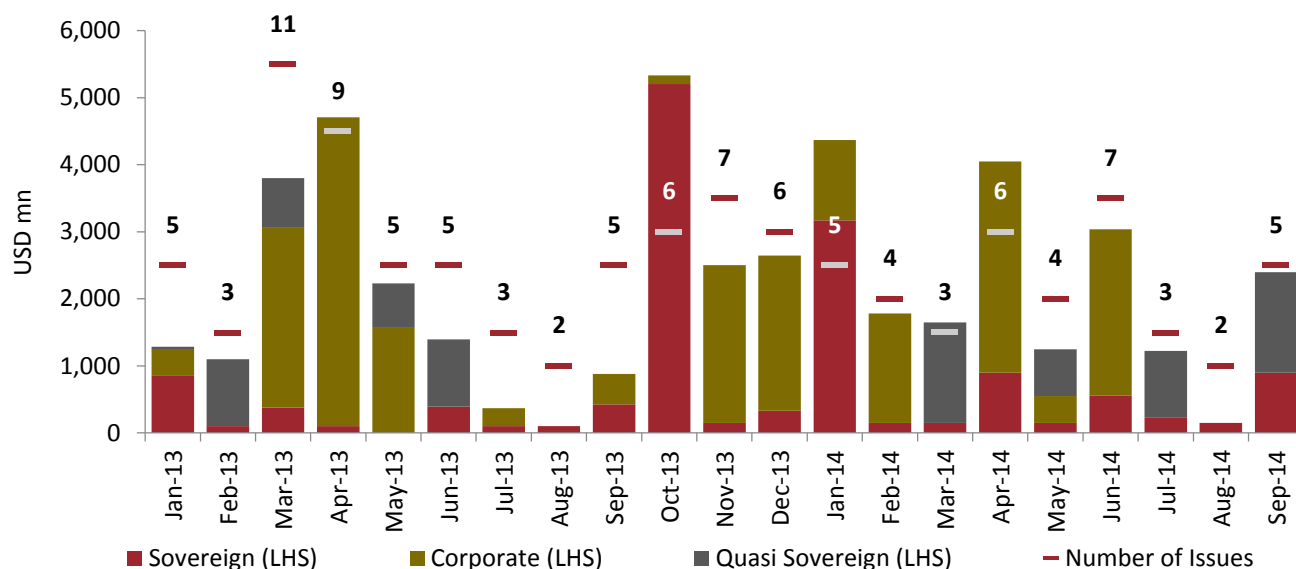
## Syndicated Finance Flows



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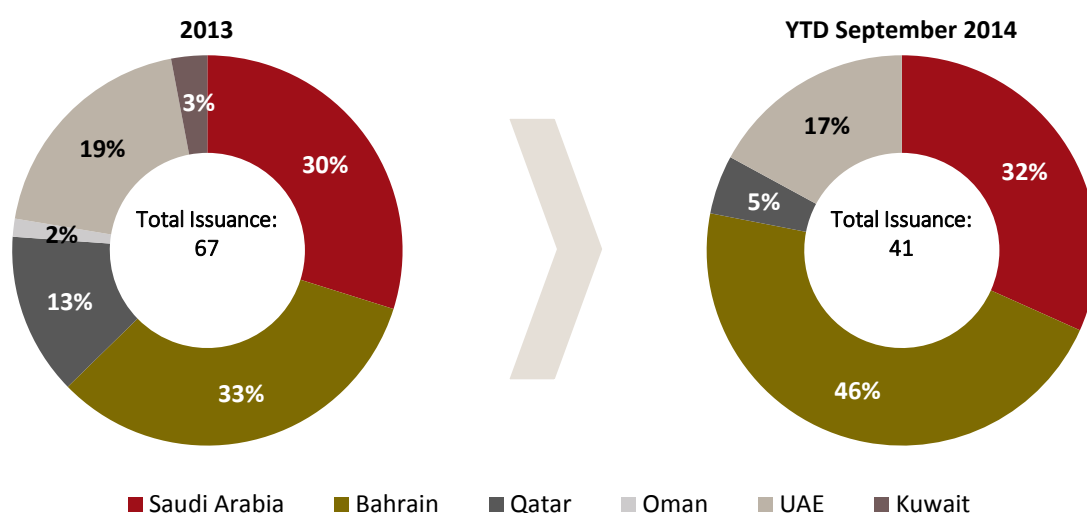


## Sukuk Issuance by Value, Number, and Type



- Although the number of issues were same, Sukuk issuances by value soared 174% y-o-y to USD2.4bn for September 2014 as the issuances had higher values. Sukuk issuance by value increased 25% y-o-y to USD19.9bn for YTD September 2014, mainly driven by a sharp rise in sovereign and quasi sovereign issuances, partially offset by a drop in corporate issuances. Corporates comprised 45% of the total issuance volume for YTD September 2014, followed by sovereign at 32% and quasi-sovereign issuances at 24%.

## Sukuk Issuance by Country – Number of Issuances



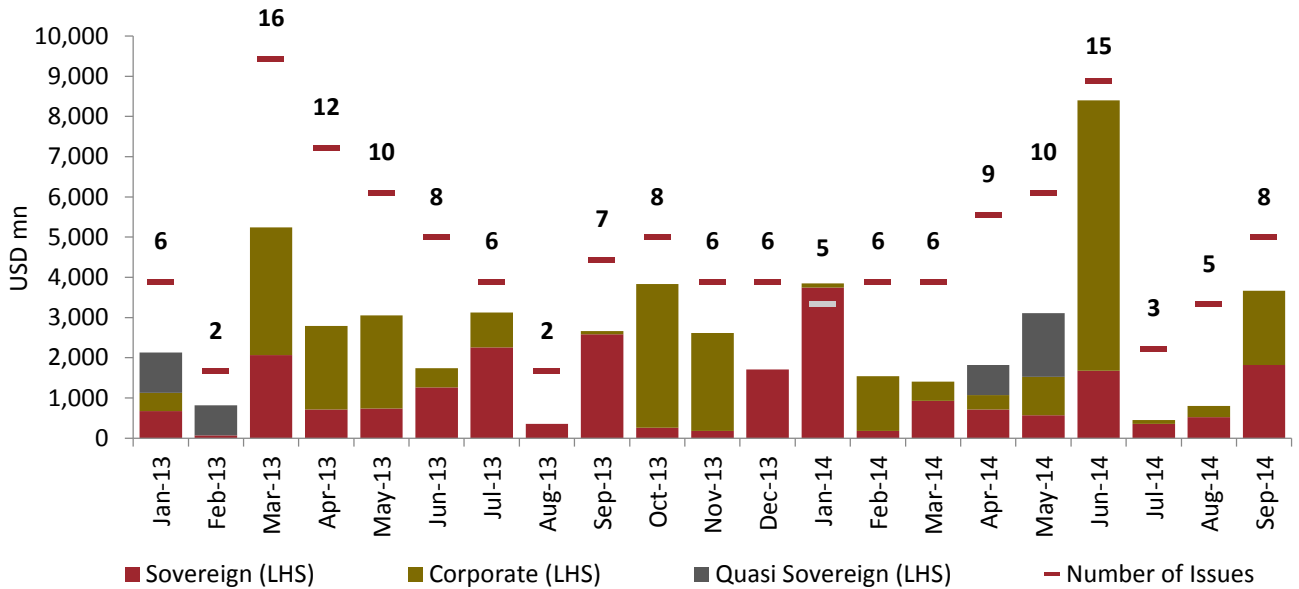
- Bahrain was the largest issuer of sukuk by number of issuances (19) in GCC for YTD September 2014, followed by Saudi Arabia (13).
- Saudi Arabia accounted for the largest share of sukuk issued by value among GCC countries, with 13 issuances totaling USD11.5bn for YTD September 2014, followed by the UAE (seven issuances worth USD4.4bn).

Source: Zawya

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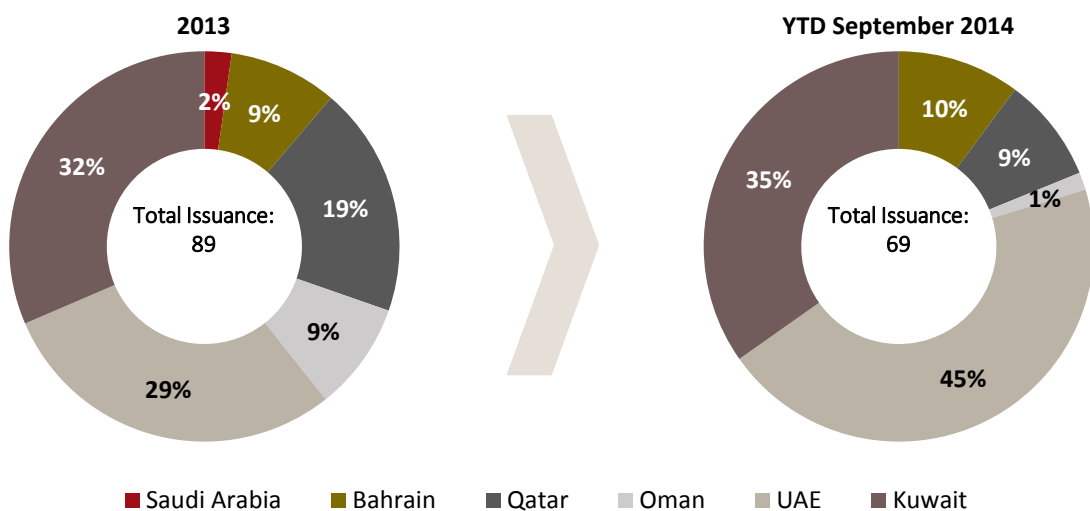


## Bond Issuance by Value, Number, and Type



- Bond issuances by value rose 356% m-o-m and 38% y-o-y for September 2014, with eight issuances totaling USD3.7bn. Total bond issuance by value increased 14% y-o-y to USD25.0bn for YTD September 2014, led by a rise in quasi-sovereign (33% y-o-y) and corporate (29% y-o-y) issuances, slightly offset by a decline in sovereign (-2% y-o-y) issuances. Corporate issuances comprised 49% of the total issuance volume for YTD September 2014, followed by sovereign at 42% and quasi-sovereign at 9%.

## Bond Issuance by Country – Number of Issuances

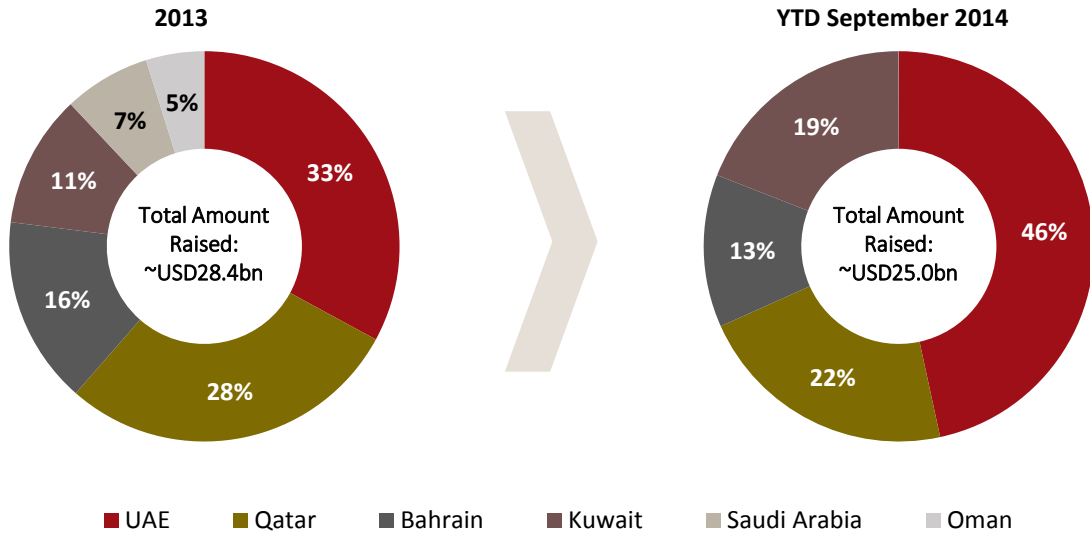


- The UAE accounted for the largest share of bond issuances by number (31) and value (USD11.6bn) for YTD September 2014.
- With 24 issuances, Kuwait was the second largest issuer by number, while Qatar ranked second in terms of value; its bond issuances totaled USD5.4bn for YTD September 2014.

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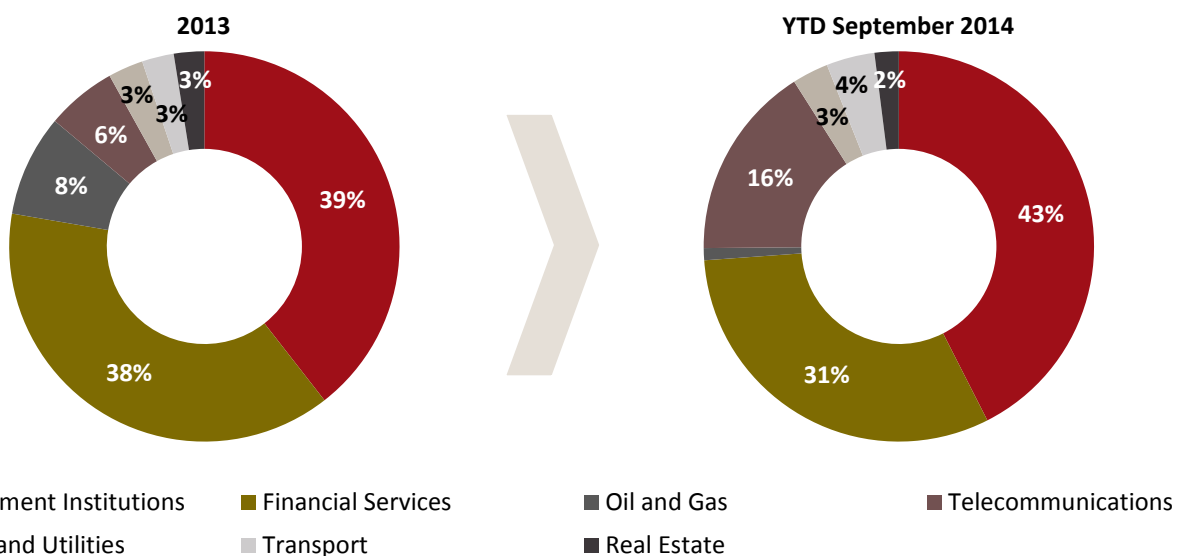


## Outstanding Bonds by Country



- The outstanding value of GCC bonds stood at USD25.0bn for YTD September 2014; the UAE led the GCC region in terms of the number and volume of issuances. Outstanding value of bonds issued for YTD September 2014 in the UAE surged 60% y-o-y to USD11.6bn from USD7.3bn for YTD September 2013.

## Outstanding Bonds by Industry



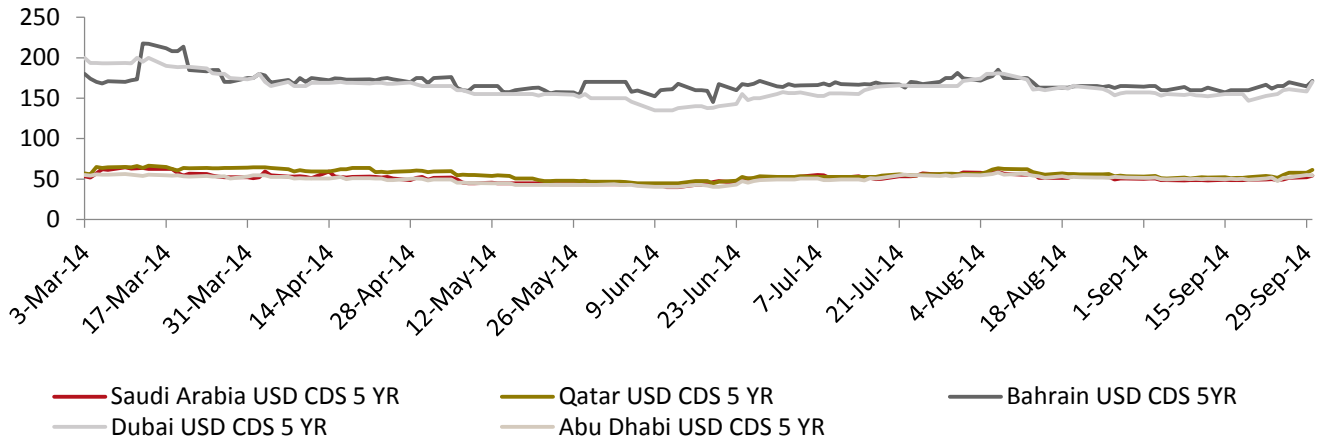
- Government institutions (43%, USD10.6bn) and financial services (31%, USD7.8bn) were the major sectors, with total bond outstanding of USD18.5bn for YTD September 2014. Outstanding value of bonds issued by government institutions soared 57% y-o-y to USD10.6bn for YTD September 2014 from USD6.8bn for YTD September 2013.

Source: Zawya

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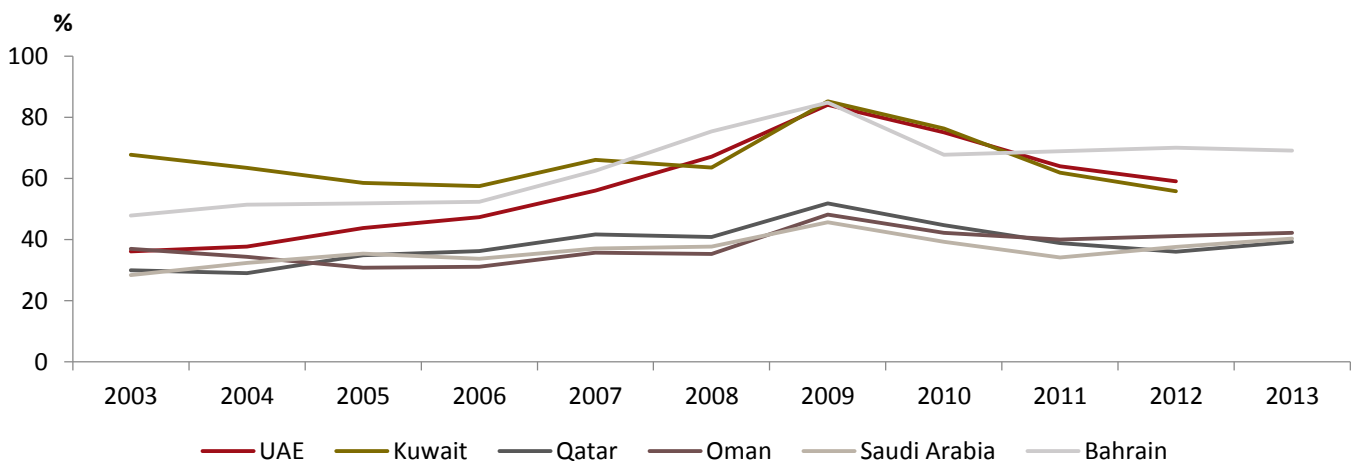
## 5-Year USD CDS Spread



## 5-Year CDS Watch (bps)

Country	September 30, 2014	December 31, 2013	52-Week	
			High	Low
Saudi Arabia	54.17	55.00	70.28	39.79
Abu Dhabi	54.48	55.00	63.89	40.50
Dubai	170.01	220.00	231.59	135.01
Qatar	61.26	59.00	71.00	44.50
Bahrain	171.41	240.00	263.82	145.08

## Credit to GDP Gap

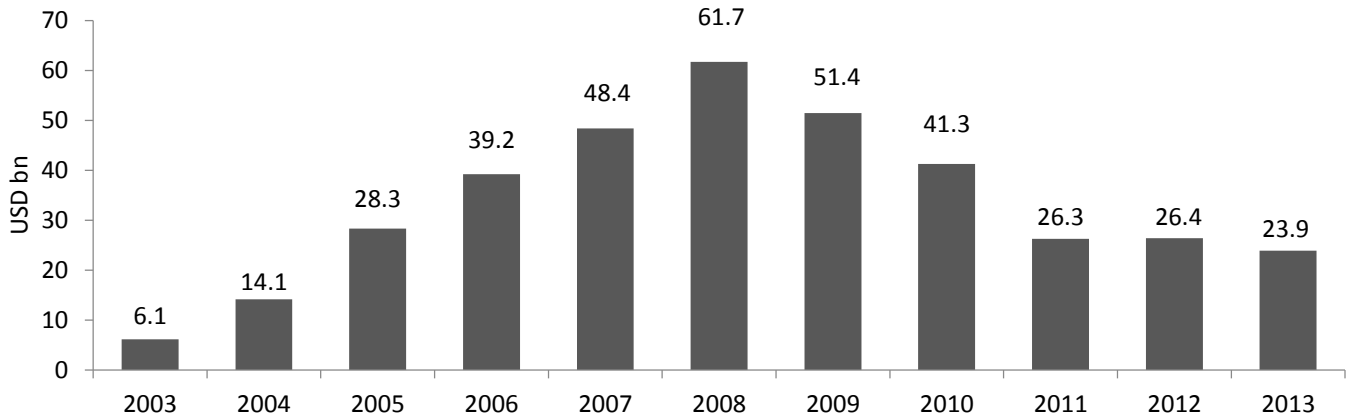


Source: Bloomberg

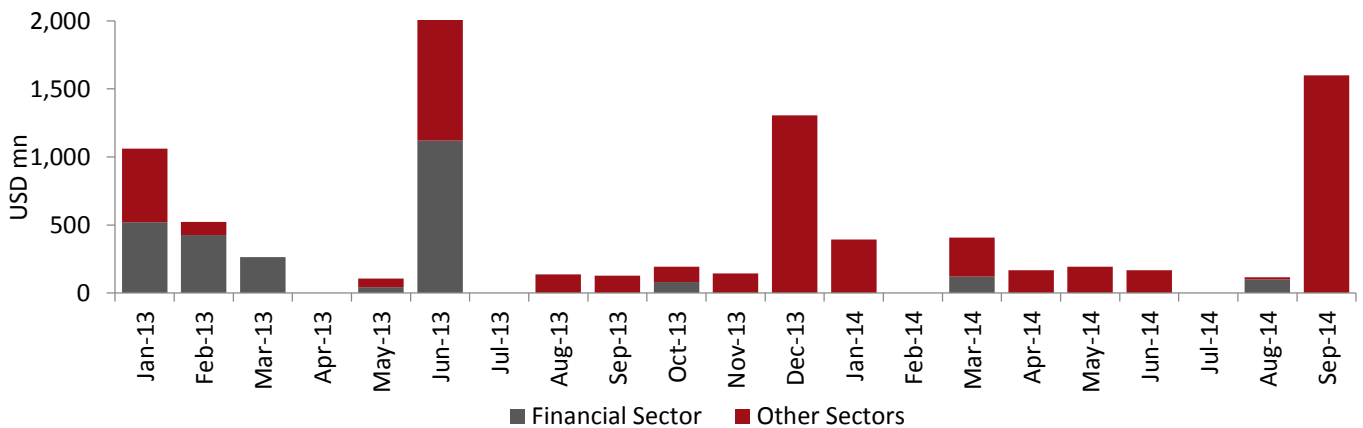
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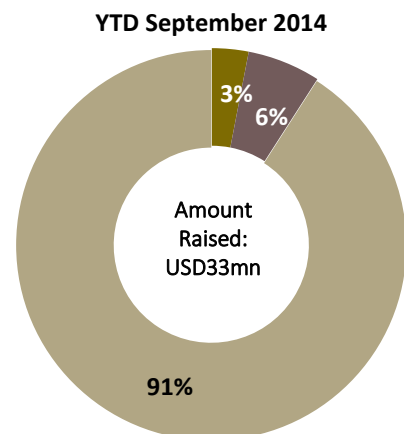
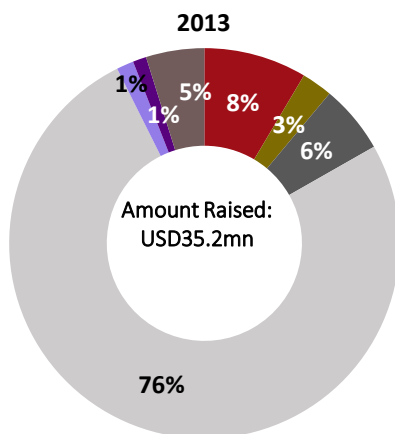
## FDI Inflow into the GCC Region



## IPO and FPO Activity in the GCC Region



## Private Equity Investments in the GCC Region (by Sector)



Media Services Health Care Education Information Technology Retail Transport Real Estate



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