

For inquiries related to this article, please contact:

[Alain.Marckus@bankfab.com](mailto:Alain.Marckus@bankfab.com)

[Christofer.Langner@bankfab.com](mailto:Christofer.Langner@bankfab.com)

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## Oman could be paying the price of perception after downgrade

♦ **S&P Global Ratings downgraded the sovereign borrower to B+ on Friday, putting it on par with Jamaica, Bolivia, Kenya and Senegal.**

♦ **Moody's Investors Service and Fitch Ratings still rate Oman within the BB space, though both have negative outlooks for the country.**

♦ **Oman's Sultan Haitham bin Tariq al-Said has moved ahead with the Tawazun, the National Program for Fiscal Balance, which could balance its budget by 2024.**

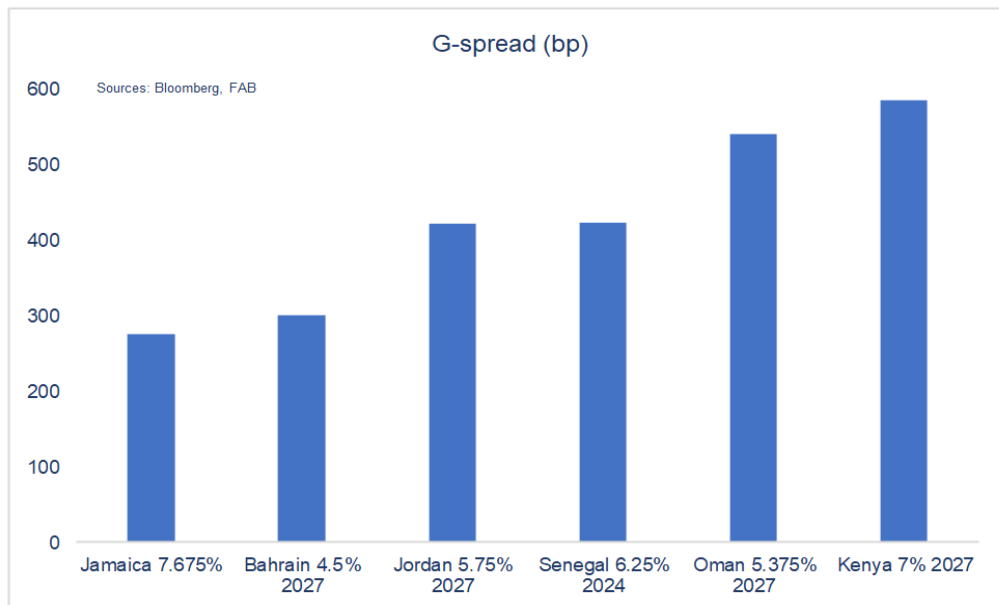
♦ **The country's bonds are offering higher yields than lower-rated sovereigns in emerging markets.**

♦ **The FAB AAC remains overweight EM dollar-denominated bonds.**

Credit markets are often said to preempt rating moves. Usually, when a company or a country is expected to be downgraded, its bonds start to price the move way before it happens. This seems to have happened to the Sultanate of Oman.

The country's bonds have been trading with a higher premium to US Treasuries than many sovereigns with lower credit ratings and worse economic metrics. Part of the reason for that was probably because global investors were discounting what happened on Friday, when S&P Global Ratings was the first of the three major credit agencies to move Oman into the B category.

S&P moved Oman to B+ from BB-, after having downgraded the sovereign to BB- just last March. Now, at least, the agency has Oman on a stable outlook.



Moody's Investors Service and Fitch Ratings have recently downgraded Oman as well, to BB- and Ba3 (the equivalent of BB-) respectively. Both have negative outlooks on the sovereign.

Further downgrades from these agencies, however, seem to be priced in. As of Monday, medium-term bonds from Oman offered a premium twice as high as the one offered by bonds of Jamaica, which is rated B2 by Moody's, B+ by S&P and B+ by Fitch. Oman also was paying more than Senegal, which has the same ratings but is participating in the Debt Service Suspension Initiative of the G-20.

Unlike Oman, Jamaica has a recent history of restructurings, having forced a haircut on many creditors a bit over a decade ago. The country also has only US\$2.75 billion in net foreign currency reserves, compared to about US\$16.5 billion for Oman, when the central bank's reserves are combined with the State General Reserve Fund's assets.

### Oman bonds trade with twice the premium of Jamaica, which has lower credit ratings

The rating agencies, however, are mostly taking into account the fiscal situation. Fitch Ratings calculates that Oman needs oil prices to be around US\$70/barrel to break even, compared to the average price of about US\$45/barrel the country has achieved, according to the agency.

Sultan Haitham bin Tariq al-Said, however, has indicated his commitment to the country's Tawazun, National Program for Fiscal Balance, and has started to implement cost-cutting measures. He has also indicated he will roll out a value-added tax and other revenue-improving measures that could bring the country to balance by 2024. For now, however, Oman is still grappling with the fallout from Covid-19, and that is costly.

# Investment Strategy Update

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