Amelioration of inflation led to favourable returns across all asset classes

Rating:
MARKETWEIGHT

GCC Fixed Income Outlook

The fixed-income market experienced a steep double-digit decline in 2022, however in 2023, despite the rising interest rates, the indices are showing marginal signs of recovery this year. Fixed income issuances in GCC saw a rebound during 1H23 as compared to 1H22. Aggregate issuances grew from USD 51.8 Bn in 1H22 to USD 57.4 Bn in 1H23 mainly due to a substantial increase in corporate issuance. Corporate issuance grew from USD 20.0 Bn in 1H22 to USD 34.6 Bn in 1H23. The GCC economic growth is expected to outperform global growth in FY2023, with project market activity expected to drive fixed-income issuances in the area. Fixed income issuance is anticipated to grow further in FY2023 as compared to FY2022. GCC bonds and sukuk maturities are estimated to total USD 25.3 Bn by 2H23, with the refinancing of the securities constituting the majority of corporate and government issuances. Moreover, Bond and sukuk maturities are projected to increase from FY2023-27, after that it is anticipated to fall. Green and sustainable bond issuance is also expected to increase in 2H23 as the government prioritises the green economy in the country.

The appetite for the GCC bonds market remained subdued for the first two weeks then improved over the month. The 5-year sovereign CDS spread tightened in almost all the GCC countries. The 10-year sovereign USD bond yield declined across the GCC countries except Saudi Arabia. The growth in the oil and non-oil sectors enabled the GCC countries to post significant GDP growth in FY2022. The Central Bank of UAE forecasts a slowdown in the country's economic growth to 3.9% in FY2023. The deceleration is primarily attributed to reduced oil production and moderate expansion in the non-oil sector. However, the UAE non-oil sector experienced an increase in June 2023. UAE's PMI rose from 55.5 in May 2023 to 56.9 in June 2023, owing to a significant growth in new business and output, which increased employment and inventory levels. According to GASTAT, KSA's economy grew 3.9% in 1Q23 owing to the strong growth in the country's non-oil sector. The non-oil sector recorded a growth of 5.4% in 1Q23 as compared to 1Q22. According to IMF, KSA's economic growth is expected grow by 3.1% in FY2023 driven by a robust growth in the non-oil sector partially offset by a decline in oil production. KSA's PMI rose from 58.5 in May 2023 to 59.6 in June 2023. The non-oil sector continued to grow in June as new business accelerated with strong growth in the construction and tourism sector. The new order inflows continued to grow in June due to increased demand and a favourable market environment. According to IMF, Qatar's real GDP growth is expected to grow by 2.4% in FY2023-24 backed by robust domestic demand and the ongoing LNG expansion. The country's non-oil sector continued to grow further in June 2023 but at a slower pace as compared to May 2023. Qatar's PMI declined from 55.6 in May 2023 to 53.8 in June 2023. However, output, new orders, employment, and purchasing all maintained healthy growth rates, and the 12-month outlook remained firmly positive. According to the IMF, Oman's economy is anticipated to grow 1.7% in FY2023. In addition, Abu Dhabi Commercial Bank (ADCB) raised USD 500 Mn of USD-denominated through five-year senior unsecured bonds. While, Masdar raised USD 750 Mn from the debut issuance of green bonds, which drew over USD 4.2 Bn in demand. The bonds debuted with a spread of 115 bps, which was lower than the earlier projection of roughly 150 bps over a similar benchmark.

Gold Outlook

After declining for two consecutive months, the prices rose 2.4% to settle at USD 1,965.09 per ounce on 31 July 2023. The month began with moderate growth in gold prices during the opening session, as the Federal Reserve decided to maintain steady interest rates after its June meeting. As the first full trading week of July progressed, gold prices remained mixed and traded in a narrow range awaiting the Fed's minutes of the meeting for June 2023. In the following week, gold prices remained positive and tested three-week high drawing support from the weak US dollar. Gold prices further rose after incoming US inflation data raised hope that the US Fed would not hike interest rates any more. The prices scaled to a one-month high by mid of July. Following the development, gold prices experienced a gradual uptick, staying close to an eight-week peak, while the dollar index fluctuated around a level not seen in more than a year. As the last week of July 2023 unfolded, gold prices corrected due to interest rate hikes by the Fed leading to an appreciation of the US dollar. The correction was short-lived and prices bounced back by the end of the month. This helped consolidate gold's recovery in the short term. Additionally, higher US interest rates increase the opportunity cost of holding gold along with the market drivers such as geopolitical uncertainties, and an economic slowdown likely to support the gold prices.

Oil Outlook

Oil prices ended on a positive note at the end of June 2023, after falling for five consecutive months. Oil prices closed at a three-month high and recorded the highest monthly gain of 14.2% in July 2023. At the beginning of the month, oil prices rose as OPEC+ countries announced an additional extension in the production cut. Saudi Arabia voluntarily agreed to reduce oil production by 1 Mn barrels per day (bpd) while Russia and Algeria voluntarily agreed to lower the August output by 500,000 bpd and 200,000 bpd respectively. The prices gained further and ended the first week just shy away from USD 80 per barrel levels owing to resilient demand and a fall in US inventory. In the following week, oil prices rose above USD 80 per barrel due to the easing of US inflation and China's monthly oil imports which were the second highest in June 2023. However, oil prices couldn't sustain above USD 80 per barrel and traded in a narrow range. The growth in oil prices was attributable to tight supply due to complications in Libya and Nigeria, a decline in US inflation, and hopes of a pause in the Fed's interest rate hikes. Oil Prices further increased during the last week due to supply shortages and increasing tension between Russia and Ukraine.

At the end of the month, oil prices rose above the monthly high of USD 85 per barrel mark, due to the implementation of supportive economic policies by Chinese market participants. Moreover, the expectation of tight crude oil supplies resulting from OPEC+ output cuts combined with a pause in interest rate hikes is likely to provide additional support to economic growth. Oil prices further inched higher to USD 85.56 per barrel on 31 July 2023.

Top picks for 2023

Name	Sector	Price	Mid YTM	Rating*
ALDAR 3.875% 2029	Real Estate	93.90	5.09	Baa1/NA/NA
KWIPKK 4.5% 2027	Investment Co.	85.51	9.62	Ba2/NR/NA
ARAMCO 3.5% 2029	Oil & Gas	92.75	5.00	A1/NA/A+
BGBKKK 5.749% PERP	Bank	92.16	8.75	NA/NA/NA
SIB 5% PERP	Bank	97.18	7.31	NA/NA/NA
ALMARA 4.311% 2024	Food and Beverages	99.08	6.00	Baa3/BBB-/NA
GENHLD 4.76% 2025	Investment Co.	99.49	5.02	A1/NA/A
REITDU 9.5% 2024	Real Estate	96.12	13.06	NA/NA/NA
ADIBUH 7.125% PERP	Bank	100.28	8.43	B1/NA/NA
OTELOM 5.625% 2023	Telecom	100.28	5.59	Ba2/NA/BB+
INTLWT 5.95% 2039	Power Generation and Water Utility	98.14	6.17	Ba1/NR/BBB-

*Source: Bloomberg, * Moody's, S&P and Fitch*

Content:

Sobha Realty completes issuance of USD 300 Mn from the debut Sukuk

Sobha Realty completed the issuance of its inaugural USD 300 Mn five-year sukuk, which holds a non-callable feature for three years, at an attractive yield of 8.75%. This remarkable achievement marks a significant milestone as it represents the first-ever GCC sub-investment grade benchmark-sized sukuk to incorporate a call option. The issuance garnered widespread investor interest and diversification, with substantial participation from esteemed international investors.

ADCB & ADIB tap the debt market to raise a combined sum of over USD 1.25 Bn

Abu Dhabi Commercial Bank (ADCB) and Abu Dhabi Islamic Bank (ADIB) successfully raised a sum of USD 1.25 Bn through the issuance of conventional and Islamic bonds. ADCB raised USD 500 Mn from five-year senior unsecured bonds, priced at 120 bps over US Treasury yield (UST). The issue was managed by Barclays, Deutsche Bank, Emirates NBD Capital, JPMorgan, Mizuho and ADCB. Meanwhile, ADIB entered the market with a USD 750 Mn offering of perpetual Islamic bonds, carrying an attractive yield of 7.25% and non-callable for 5.5 years. The Islamic bond issuance reflects the banks' strong positioning in the financial markets and their ability to attract investor confidence in their respective offerings.

Almarai will issue trust certificates denominated in USD

Almarai Group, Saudi Arabia, unveiled its intention to issue USD-denominated trust certificates under its established USD 2 Bn Trust Certificate Issuance Programme. The specific size of the issuance will be determined in due course, contingent upon prevailing market conditions at the time of the offering. The proceeds will be used for general corporate purpose. Notably, prominent financial institutions including Citigroup, Dubai Islamic Bank, HSBC, JP Morgan, and Standard Chartered Bank appointed as joint lead managers.

Dar Al Arkan successfully places USD 600 Mn Islamic bond due February 2029

Dar Al Arkan Real Estate Development Co, based in Saudi Arabia, successfully sold USD 600 Mn in Islamic bonds maturing in February 2029. The Sukuk offering was launched at a competitive rate of 8.25%, which was tightened from the initial guidance of approximately 8.5%, following overwhelming investor interest. The issuance received total bids of USD 1.55 Bn, with joint lead managers contributing USD 299.45 Mn.

Masdar to raise USD 750 Mn from debut green bond

Masdar, the renewable energy company based in Abu Dhabi, is poised to raise USD 750 Mn from the issuance of green bonds. The issuance received exceptional investor interest and received bids worth USD 4.2 Bn. The green bonds were initially launched with a spread of 115 bps over US Treasuries, notably tighter than the initial guidance of approximately 150 bps over the same benchmark. It is noteworthy that issuers in the hydrocarbon-rich Gulf region are increasingly recognizing the significance of enhancing their environmental credentials by embracing green bonds and other forms of sustainability-linked debt.

Rawabi Energy closes USD 7.17 Bn syndicated financing deal

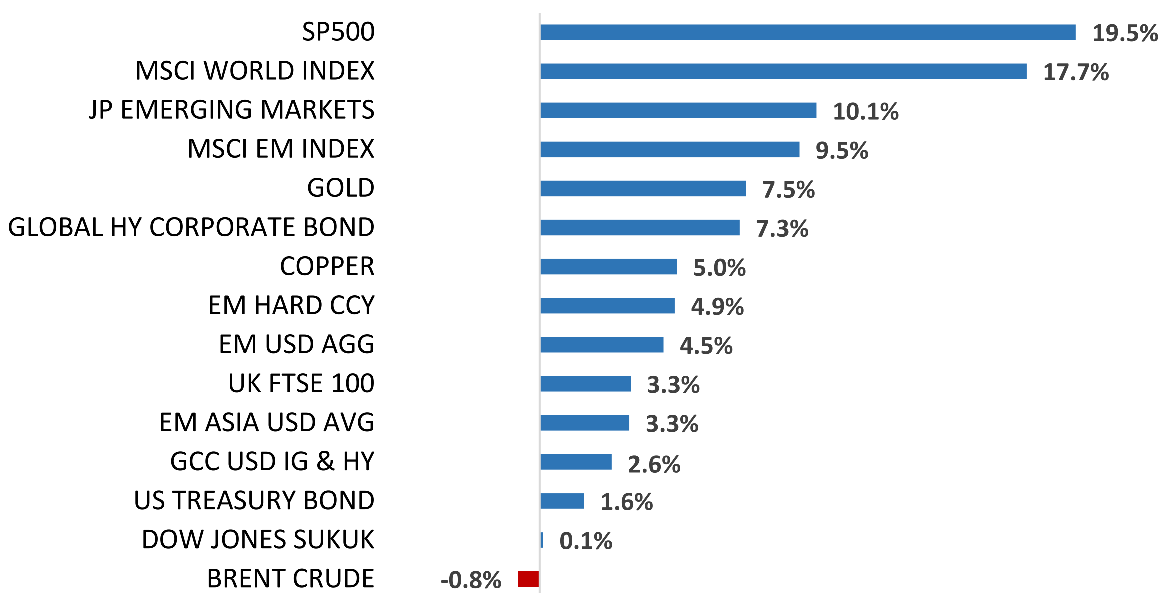
Rawabi Energy, a Saudi company, closed a USD 7.17 Bn multi-currency term and revolving credit facility in one of the largest financing deals in the kingdom. The syndicated facility oversubscribed by 1.33x, providing the company with funding for growth. HSBC Saudi Arabia, Gulf International Bank, and Gulf International Bank Saudi Arabia acted as sole structuring banks, joint global coordinators, and global agents. The transaction streamlines Rawabi's existing finances and provides the necessary funding for further growth.

Global Asset Performance

The table below summarizes the performance of a key equity and debt indices along with commodity price performance. All the asset classes continued to report a positive return during YTD 2023 after witnessing a negative performance during 2022 mainly due to the early signs of easing inflation. Except US Treasury Bond and Dow Jones Sukuk Index all the other asset classes recorded positive performance in July 2023. Oil prices after registered a steep gain in July 2023 on account of production cut by OPEC+ countries. Earlier during the year oil prices registered losses on account of slowdown in global growth and abundant supplies. The return was further boosted in July 2023 after positive performance of both equity and debt indices. The S&P 500 Index achieved its strongest performance of the year, closely followed by the MSCI World Index, with substantial support from the outstanding performance of developed market indices. MSCI Emerging Market Index also generated a positive return however it lagged MSCI World Index. The performance of the bond indices also remained positive on MOM basis except US Treasury Yield and Dow Jones Sukuk Index. Gold prices continued to record positive performance as it expects US inflation to decline and interest rates to increase meaningfully from this level.

In the bond market, emerging market and global high-yield bond indices recorded solid performance with JP Emerging Market, Global High Yield Corporate Bond, EM hard Currency, EM USD Aggregate, EM Asia USD average and GCC USD Investment Grade & High Yield recording a gain of 10.08%, 7.28%, 4.92%, 4.51%, 3.27% and 2.62% respectively on a YTD basis. While US Treasury Yield and Dow Jones Sukuk Index recorded a gain of 1.62% and 0.13%, respectively on a YTD basis.

Figure 1: Global Asset Performance (YTD%)

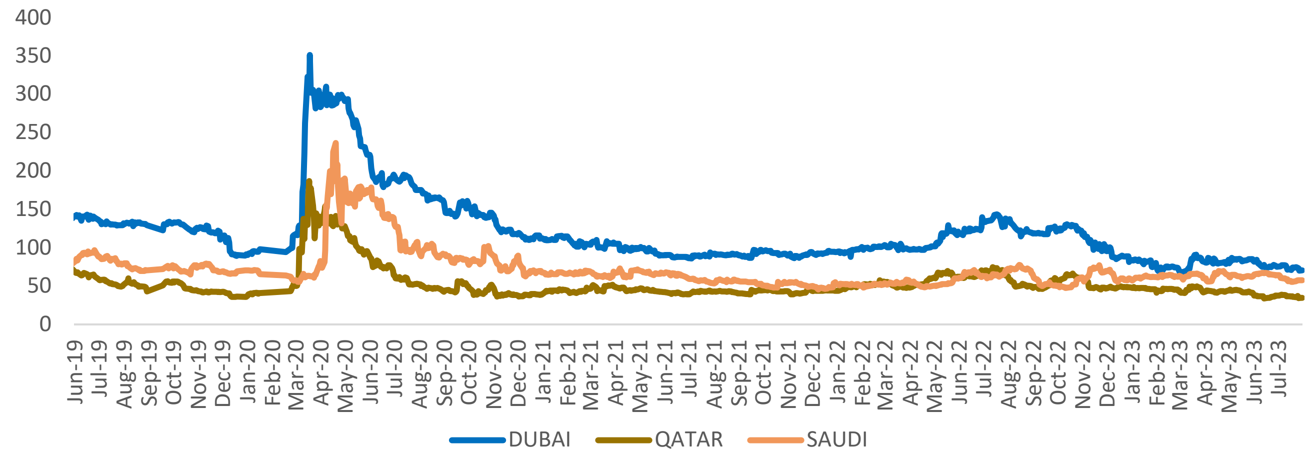


Source: Bloomberg

5-Year CDS

The 5-year CDS spread tightened across all the GCC countries. Oman recorded the highest decline in the 5-year CDS spread on a MOM basis in July 2023 followed by Egypt, Saudi Arabia, Abu Dhabi, Qatar, Kuwait, and Dubai.

Figure 2: GCC Countries- 5 Year CDS



Source: Bloomberg

Sovereigns	DUBAI	QATAR	SAUDI	ABU DHABI
MTD (%)	-5.87%	-7.47%	-13.84%	-8.12%

Banking sector

Wio Bank acquires 20,000 customers since inception

Wio Bank, the region's pioneering platform bank, achieved remarkable success by acquiring over 20,000 SME customers since its launch in September last year. With a focus on agility, adaptability, and utmost security, Wio offers digital banking apps, embedded finance, and Banking-as-a-Service (BaaS) solutions. Wio Business, the fully digital arm of the bank, seamlessly caters to start-ups, freelancers, and SMEs, fostering growth in the fintech and digital economy.

Saudi Central Bank authorizes "Tamara" to offer BNPL solutions

Saudi Central Bank (SAMA) granted "Tamara" a permit to provide Buy Now Pay Later (BNPL) solutions, aligning with the regulatory framework of the Saudi Central Bank Law and Finance Companies Control Law. With this approval, Tamara becomes the fourth authorized company offering BNPL solutions in the country. SAMA remains steadfast in its commitment to support and facilitate growth in the finance and FinTech sector while ensuring adherence to regulatory and supervisory guidelines. Leveraging technology in financial services, SAMA actively aligns with the broader objectives of Vision 2030.

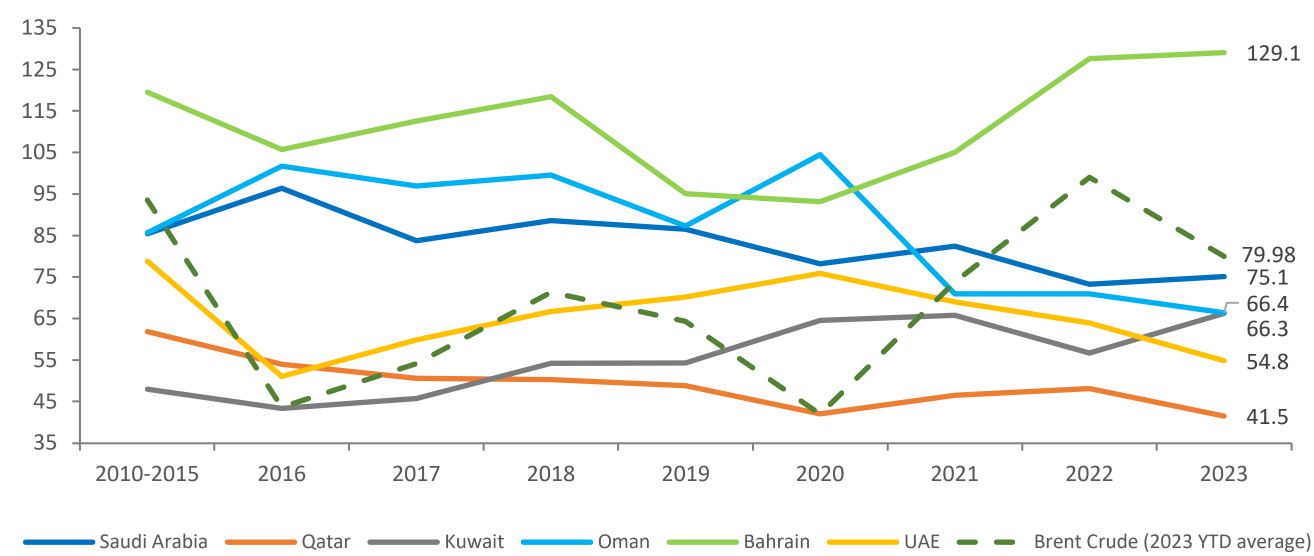
ADIB raises USD 750 Mn from perpetual Sukuk

Abu Dhabi Islamic Bank (ADIB) successfully raised USD 750 Mn through perpetual Islamic bonds (AT1) listed and traded on the London Stock Exchange. The USD-denominated sukuk carries a profit rate of 7.25% per annum, payable semi-annually. The issuance was over-subscribed by nine times, which will bolster the bank's capital structure and support its financial stability.

Fiscal Breakeven Oil Price

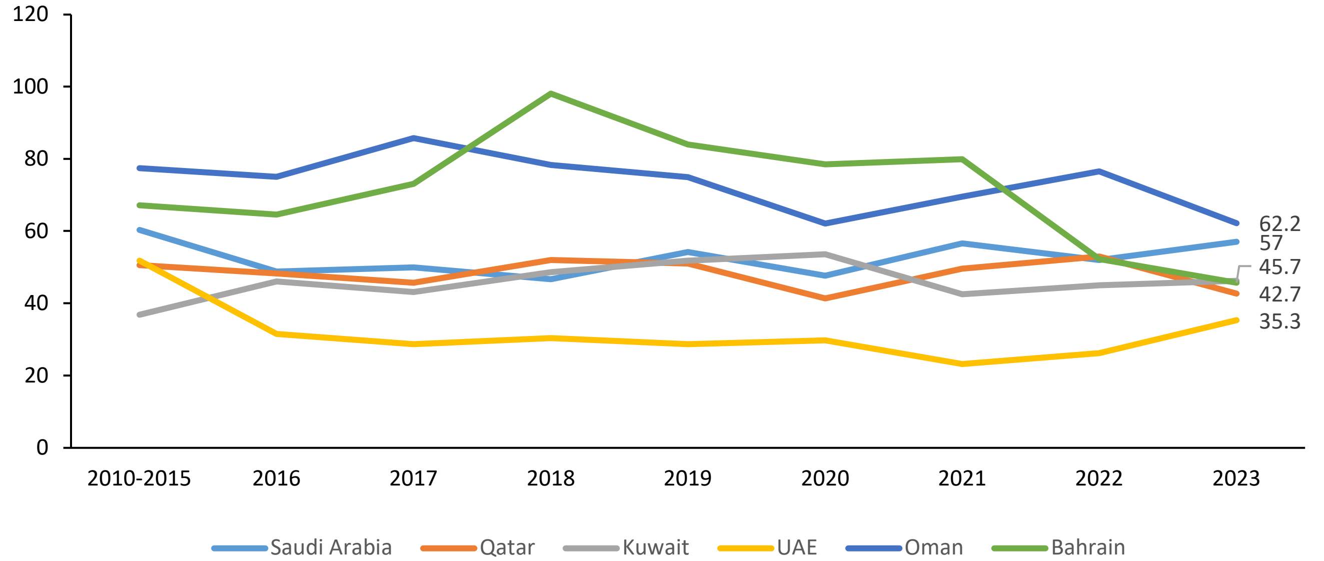
The fiscal breakeven oil prices grew in FY2023, particularly in Saudi Arabia, Kuwait, and Bahrain due to decline in crude oil and gas production partially offset by limited government spending cuts. Kuwait's fiscal breakeven saw the highest rise from USD 56.7 in FY2022 to USD 66.3 in FY2023. Saudi Arabia and Bahrain fiscal breakeven rose to USD 75.1 per barrel and USD 129.1 per barrel, respectively in FY2023 from USD 73.3 per barrel and USD 127.6 per barrel in FY2022. While Qatar, Oman, and UAE recorded a decline in break-even oil price in FY2023. UAE recorded the highest decline in break-even oil price from USD 63.9 per barrel in FY2022 to USD 54.8 per barrel in FY2023. Qatar break-even oil price fell from USD 48.1 per barrel in FY2022 to USD 41.5 per barrel in FY2023 followed by a decline in Oman which fell from USD 70.9 per barrel in FY2022 to USD 66.4 per barrel in FY2023.

Figure 3: Fiscal Breakeven Oil Price (USD/bbl)



Source: Bloomberg

Figure 4: External Breakeven Oil Price (USD/bbl)



Source: Bloomberg

Corporate Sector

AD Ports Group completes acquisition of Noatum, a Global Logistics Services Provider

AD Ports Group successfully completed the acquisition of Noatum, a prominent global integrated logistics services provider operating in 26 countries. The acquisition received approvals from all relevant regulatory bodies, including the Spanish Authorities, following earlier clearance from the European Commission. The total purchase consideration for 100% ownership of Noatum stands at AED 2.65 Bn (EUR 660 Mn) at an exchange rate of EUR EUR 4.01 per AED on the signing date. The price translates into an EV/EBITDA multiple of 5.9x for the last twelve months. The consolidation of Noatum commenced on 30 June 2023, marking a significant step in AD Ports Group's strategic expansion in the logistics industry.

JD Sports to open 50 stores in MENA region through franchise agreement with GMG

British sportswear retailer JD Sports is set to expand its presence in the MENA region by opening 50 stores through a franchise agreement with Dubai-based GMG. The expansion will begin in the UAE, Saudi Arabia, Kuwait, and Egypt, with a target to open all stores by 2028. This initiative is part of JD Sports' ambitious plan to establish 200-300 stores annually over the next five years. Notably, this move marks JD Sports' second venture into the GCC following its acquisition of GymNation, a homegrown UAE company, by its low-cost fitness centre brand JD Gyms last year. The planned expansion signifies JD Sports' commitment to further growth and market penetration in the MENA region.

Aldar Properties, IHC, and ADNEC Group create the largest Property & Facilities Management Company in the region

Aldar Properties partners with International Holding Company (IHC) and ADNEC Group to form the region's largest property and facilities management company. IHC and ADNEC Group, a subsidiary of the investment holding company ADQ, will merge their jointly owned property and facilities management businesses, Eltizam Asset Management Group, within the Aldar Estates platform. Aldar retains majority stake and control. The enhanced platform will manage a vast portfolio of residential properties, prime retail and commercial spaces, and facilities worth approximately AED 2.5 Bn (USD 681 Mn).

SNB Capital acquires USD 100 Mn stake in SK ON

SNB Capital Company acquires USD 100 Mn stake in prominent South Korean Battery Maker, SK ON. The strategic investment was facilitated through SNB Capital EV Batteries fund, a closed-end sharia-compliant fund. The infusion of capital from SNB Capital will empower SK ON to enhance its production capacity and bolster research and development initiatives. Presently, SK ON operates state-of-the-art production facilities in key global markets, including North America, Europe, and Asia, positioning itself as a vital supplier of electric vehicle batteries to top automobile manufacturers such as Ford, Hyundai, Volkswagen, and Mercedes-Benz.

EDGE Group acquires Etimad Holding, a key player in UAE's security solutions space

EDGE Group PJSC acquires 100% stake in Etimad Holding LLC, a technology solutions and services company specializing in security systems solutions, systems integration, and cybersecurity. The acquisition will establish a new Homeland Security cluster and expand EDGE's workforce to 12,000+ employees, enhancing its position as a leader in security solutions and diversifying offerings across critical sectors. This strategic move aligns with the fast-growing homeland security sector and creates synergies with EDGE's current programs and capabilities.

ADNOC started discussions to merger Borealis and Borouge

Abu Dhabi National Oil Company (ADNOC) announced its initiation of formal negotiations with OMV AG (OMV) to explore the establishment of a new combined petrochemical holding entity. The proposed merger aims to consolidate their existing shareholdings in Borouge and Borealis AG. Currently, Borouge is 54% owned by ADNOC, 36% by Borealis, and 10% held by retail and institutional investors. Borealis, on the other hand, is owned 75% by OMV, with ADNOC holding a 25% stake. The negotiation is undertaken by ADNOC as the majority shareholder of Borouge and OMV as the majority shareholder in Borealis. Further, decision regarding this potential merger will be subject to the approval of relevant parties, including Borouge and other involved stakeholders.

All three rating agencies upgrades Emaar Properties credit rating

Emaar Properties received credit rating upgrades from all the three leading rating agencies, including Fitch, Moody's, and S&P Global. The upgrade is reflective of Emaar's robust financial performance and improved leverage ratios. Fitch and S&P Global revised Emaar Properties' long-term Issuer Default rating from 'BBB-' to 'BBB', with a Stable Outlook. Similarly, Moody's has upgraded Emaar's long-term issuer rating from 'Baa3' to 'Baa2', also with a Stable Outlook. These upgrades demonstrate the confidence in Emaar's financial stability and future prospects.

ADNOC Gas inks 14-Year LNG supply agreement with IOCL

ADNOC Gas entered into a landmark 14-year supply agreement with Indian Oil Corporation Ltd (IOCL) for the export of up to 1.2 Mn metric tonnes per annum (mmtpa) of liquefied natural gas (LNG) to India's largest integrated and diversified energy company. The deal is valued between USD 7 Bn to USD 9 Bn (AED 25.7 to AED 33 Bn) over its term, marks a significant step forward in the partnership between the two industry leaders. This agreement further solidifies ADNOC Gas as a prominent global LNG export partner and reaffirms IOCL as its key strategic customer in the LNG market.

Rating Outlook

- **Abu Dhabi's** Long-Term Foreign-Currency Issuer Default Rating (IDR) has been confirmed by Fitch Ratings at 'AA' with a Stable Outlook. The 'AA' grade reflects Abu Dhabi's excellent fiscal and external metrics, as well as a high GDP per capita, which are offset by the country's substantial reliance on hydrocarbons, a weak but developing economic policy framework, and low governance indices when compared to peers. The government debt of Abu Dhabi is among the lowest among Fitch-rated sovereigns, while sovereign net foreign assets are among the greatest. Lastly, Moody's assigned Aa2 rating to the UAE government with a stable outlook. This is a testament that depicts the nation's financial and economic vision and policies' success and the strength and stability of its economic, financial and credit sectors.
- Moody's Investors Service upgraded **Oman's** ratings and maintained a positive outlook, citing the country's improved fiscal surplus and spending discipline. The Government of Oman's issuer and long-term senior unsecured ratings were upgraded from Ba3 to Ba2, along with an upgrade to the government's senior unsecured medium-term note program rating. Fitch Ratings revised Oman's outlook from stable to positive, citing improvements in key fiscal parameters such as government debt/GDP and the budget surplus. Higher oil prices and fiscal changes prompted the revision, as well as a reduction in external financing constraints compared to prior years, even though external funding needs remain substantial. The sovereign's long-term foreign and local currency Issuer Default Ratings were likewise confirmed at BB by Fitch. Meanwhile, the BB ratings suggest a high chance of default, particularly if a business or economic conditions deteriorate over time; yet, business or financial flexibility remains, allowing for the service of financial commitments. Hydrocarbon revenue increased by a third, owing to a 28% increase in Oman's average fiscal oil price, and presumably accounted for more than half of the budget deficit reduction. The administration has made headway on its medium-term fiscal strategy, which calls for balancing the budget and reducing government debt to 61 % of GDP by 2025.
- S&P Global Ratings confirmed **Bahrain's** credit rating and maintained a positive outlook owing to the government's efforts to implement reforms to boost the non-oil revenue and increase the current account surplus. The positive outlook is also supported by the stability of the financial sector and the potential for larger current account surpluses. The rating agency expects the Bahrain government to implement fiscal reforms to reduce the fiscal deficit and is likely to receive support from other GCC sovereigns. S&P Global Ratings reaffirmed Bahrain's short-term foreign and local currency sovereign credit ratings at 'B+/B' with a positive outlook.
- Fitch Ratings has affirmed **Kuwait's** long-term foreign-currency issuer default ratings, or IDR, to 'AA-' with a stable outlook. This is due to the Gulf state's fundamental issues being worsened by continued political limitations on decision-making. Since 2017, the Gulf state has been debating debt legislation, demonstrating the slowness with which decisions are made. Kuwait's debt is expected to climb to about 50% of GDP after the debt law is approved, according to the credit rating agency, up from the current 10%. The Kuwaiti administration has been attempting to adopt new public debt legislation to alleviate the country's liquidity constraints, but the bill has been continually blocked by parliament.

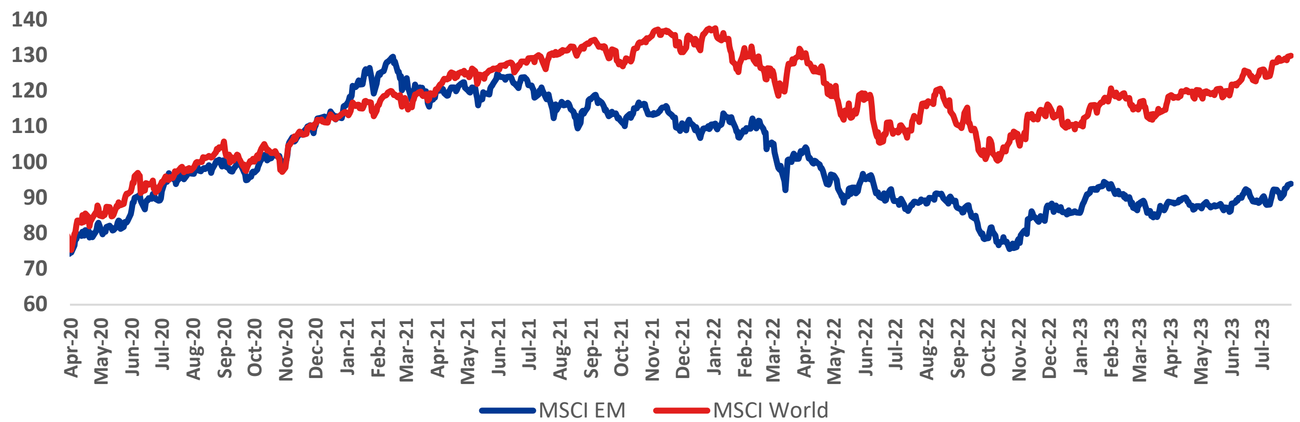
- **Saudi Arabia's** Long-Term Foreign-Currency Issuer Default Rating (IDR) has been upgraded to 'A+' by Fitch Ratings, with the Outlook changed to 'Stable'. The key reasons for the rating upgrading are improvements in the sovereign balance due to increased oil revenue and the fiscal structure. According to Fitch's proprietary SRM, Saudi Arabia has an 'A+' rating on the Long-Term Foreign-Currency (LT FC) IDR scale. Moody's Investors Service also lifted Saudi Arabia's credit rating outlook from stable to positive, noting the kingdom's capacity to reverse much of last year's debt growth. According to a statement, Moody's confirmed the sovereign at A1, the fifth-highest rating.

Particulars	Moody's		S&P		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
UAE (Abu Dhabi)	Aa2	Stable	AA	Stable	AA	Stable
Kuwait	A1	Stable	A+	Stable	AA-	Stable
Qatar	Aa3	Positive	AA	Stable	AA-	Positive
Saudi Arabia	A1	Positive	Au	Stable	A+	Stable
Oman	Ba2	Positive	BB	Positive	BB	Positive
Bahrain	B2	Stable	B+	Positive	B+	Stable

Global Markets

Global Equity markets continued their upward momentum, with both indices showing positive growth in July 2023. The upswing was driven by a drop in inflation in developed markets and strong GDP data, which provided a boost to market sentiment and contributed to the overall positive performance. The MSCI World Index continues to show strong double-digit YTD returns, with US equities outperforming the majority of global peers. While, the MSCI Emerging Market Index also tested the highest level since February 2022. MSCI World/Developed Market Index continued to outperform MSCI Emerging Market Index by a wide margin. On YTD basis, the MSCI World market achieved a notable growth of 17.7%, whereas the MSCI Emerging market recorded a growth of 9.5%. In July 2023, both MSCI World Index and Emerging Market recorded a gain of 3.3% and 5.8%, respectively on MOM basis. The MSCI world index generated healthy return mainly due to solid performance of the US and UK stocks partially offset by a subdued performance of Japanese index. Despite remaining the best-performing regional market YTD, Japanese stocks experienced a relative underperformance in July 2023. The TOPIX index recorded a modest gain of 1.5%, this gain is lower than the gains seen in other developed markets. The decline in performance can be attributed to the Bank of Japan's decision to loosen its yield curve control framework leading to the strengthening of the yen. The performance of the US is driven by resilient 2Q23 GDP data and falling inflation. The US and Japanese stocks carry higher weight in the index. The UK index underperformed the MSCI World Index mainly due to the weak growth outlook as the UK manufacturing PMI deteriorated in June 2023. However, the index received some support from the oil prices as the FTSE Index carries a higher weight of energy and commodity companies. The Chinese equities achieved positive YTD return, bolstered by policy relaxation and expectations of more stimulus measures, leading to its overall strength. The positive performance in China's market, in turn, had a favourable impact on the broader emerging market, resulting in positive growth. Additionally, other Emerging markets like India, Taiwan, and South Korea also recorded positive performance during the same period.

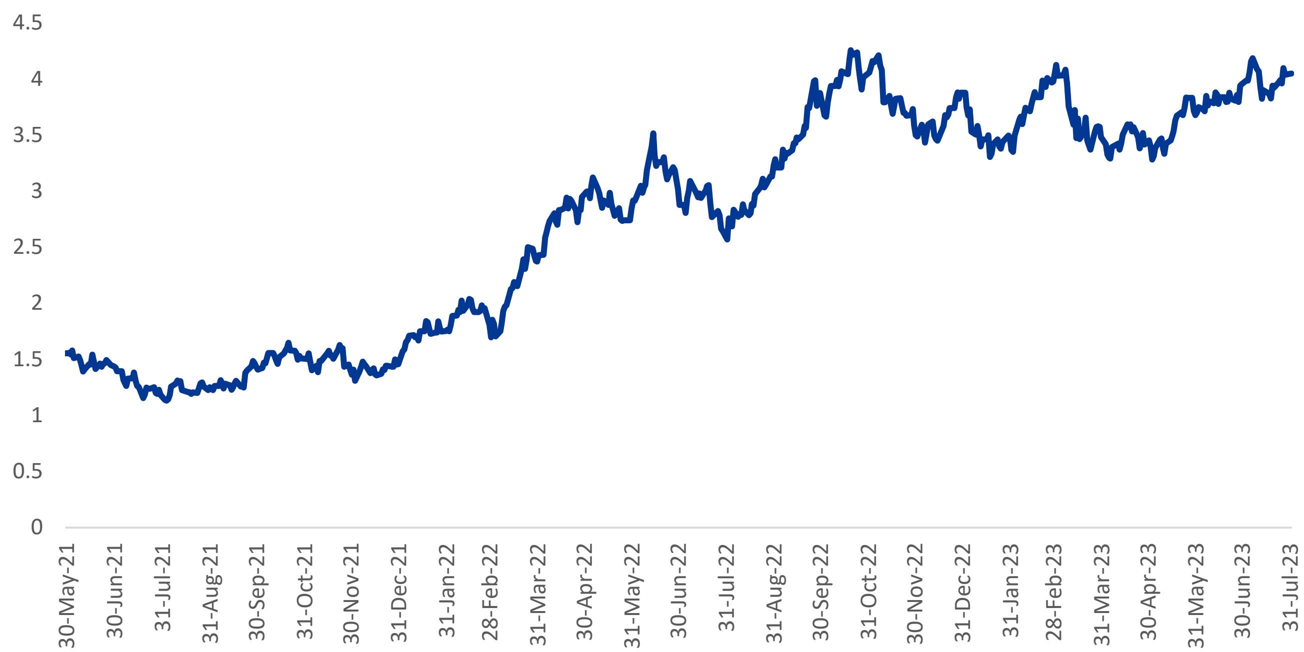
Figure 5: MSCI World and Emerging Market Index Historical trend



Source: Investing.com

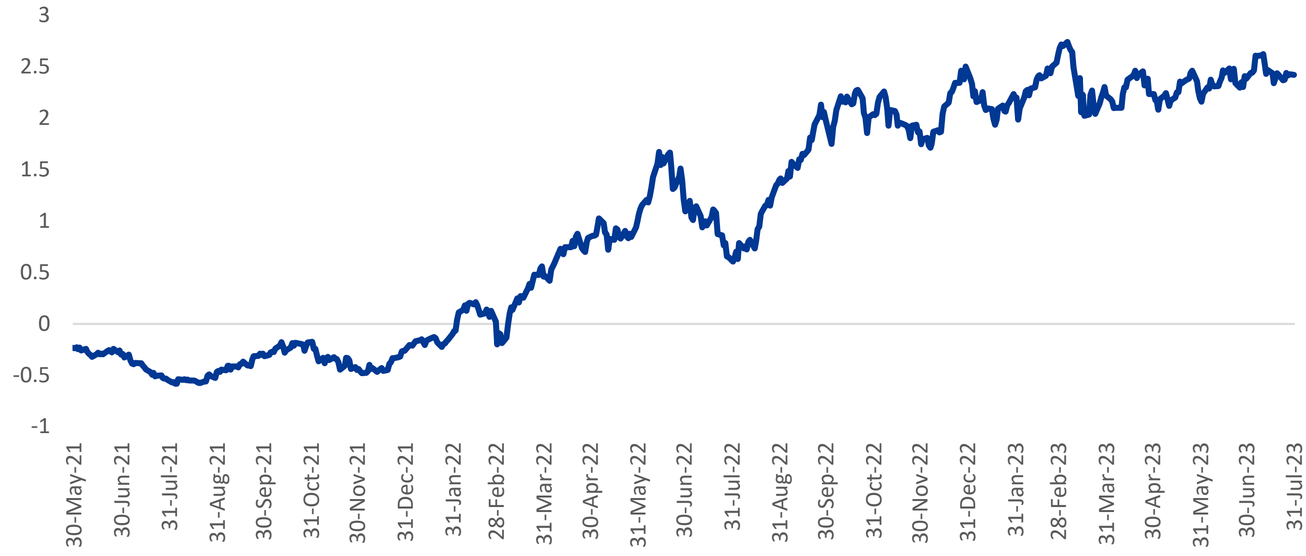
Yield on 10-year government

Figure 6: US 10-year government yield



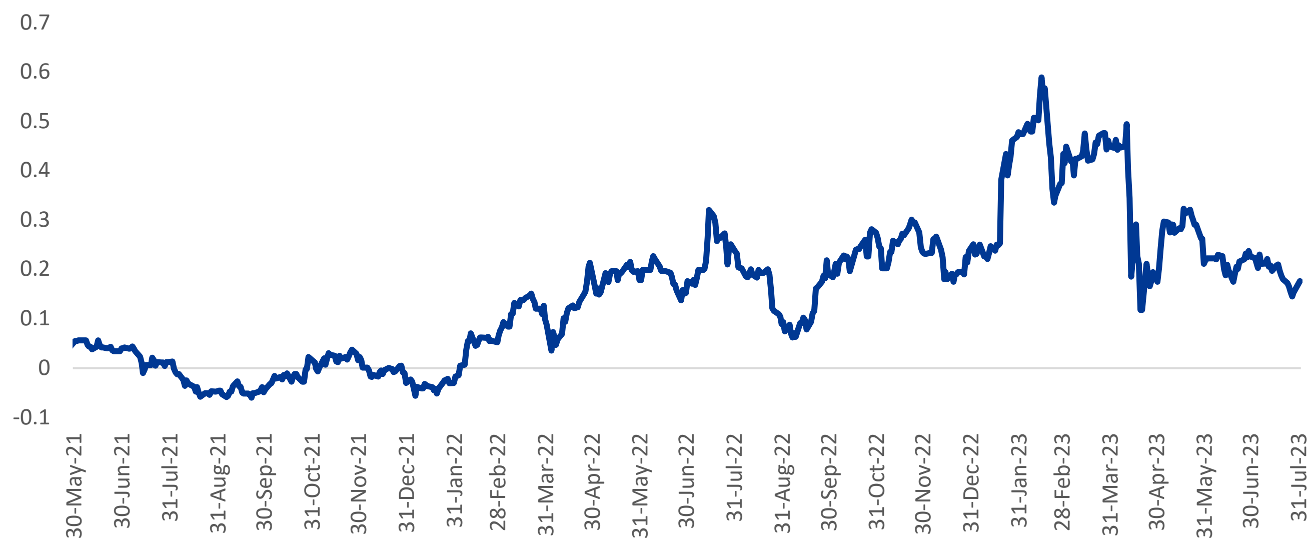
Source: Bloomberg

Figure 7: Germany 10-year government yield



Source: Bloomberg

Figure 8: Japan 10-year government yield



Source: Bloomberg

Figure 9: UK 10-year government yield

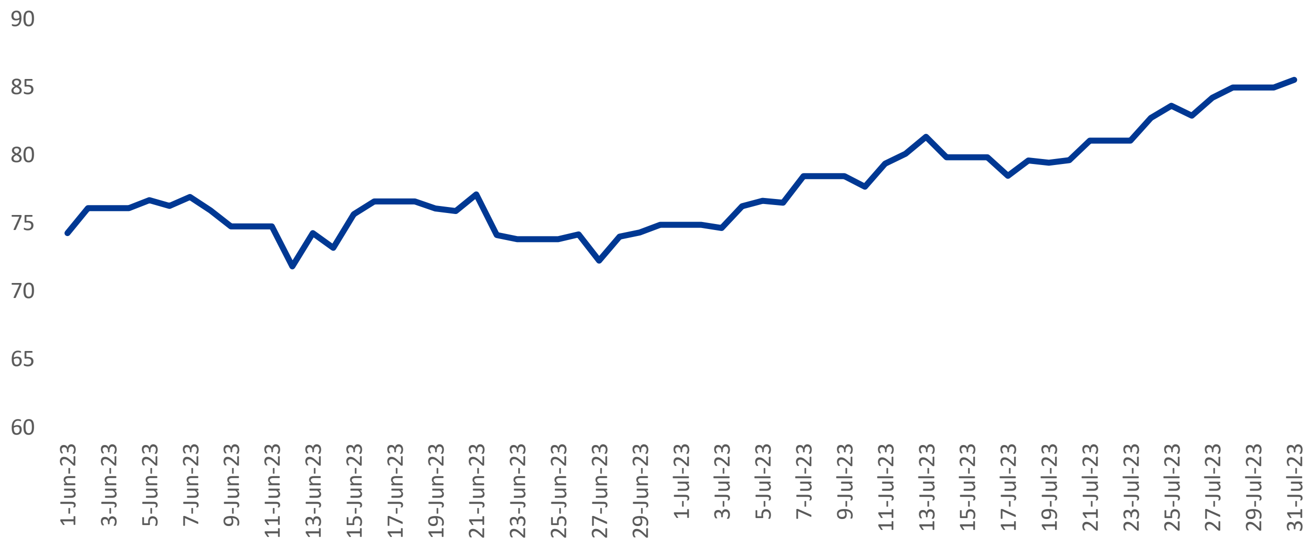
Source: Bloomberg

Oil Outlook

The oil prices after falling for five consecutive months reversed and ended on a positive note at the end of June 2023. The market carried over its gain in July 2023 and registered the highest monthly gain of 14.2% in a year. The prices also closed at a three-month high in July 2023. At the beginning of the month, the market welcomed the move by the OPEC+ countries to reduce oil output by notable producers such as KSA and Russia. OPEC+ countries announced an additional extension of the output cut, with Saudi Arabia voluntarily agreeing to reduce oil production by 1 Mn barrels per day (bpd). Likewise, Russia and Algeria voluntarily agreed to lower the August output and export levels by 500,000 bpd and 200,000 bpd respectively. The prices gained further and ended the first week just shy away from USD 80 per barrel levels due to resilient demand and higher than expected fall in US inventory. In the following week, the prices crossed USD 80 per barrel mark for the first time since April 2023 driven by the easing of US inflation and China's monthly oil imports which were the second highest in June 2023. The prices failed to sustain above USD 80 per barrel mark and traded in a narrow range for a few days. The growth was fuelled by various factors, including tight supply due to complications in Libya and Nigeria, as well as a reduction in US inflation, raising hopes that interest rate hikes in the world's largest economy would come to an end. Oil prices rose further during the last week on account of supply shortage and growing tension between Russia and Ukraine which could further impact supplies in 2023.

Almost at the end of the month, oil prices reached their monthly high above USD 85 per barrel mark, primarily driven by the implementation of supportive economic policies by Chinese market participants. Moreover, expectations of tight crude supplies resulting from OPEC+ output cuts, combined with the global central banks' conclusion of their monetary policies, are likely to provide additional support to economic growth. Nonetheless, oil prices followed a favourable path, influenced by the supply decisions made by OPEC and its allied nations in response to global economic conditions, and prices further inched higher to USD 85.56 per barrel on 31 July 2023.

Figure 10: Brent Crude Oil Prices (USD per barrel)

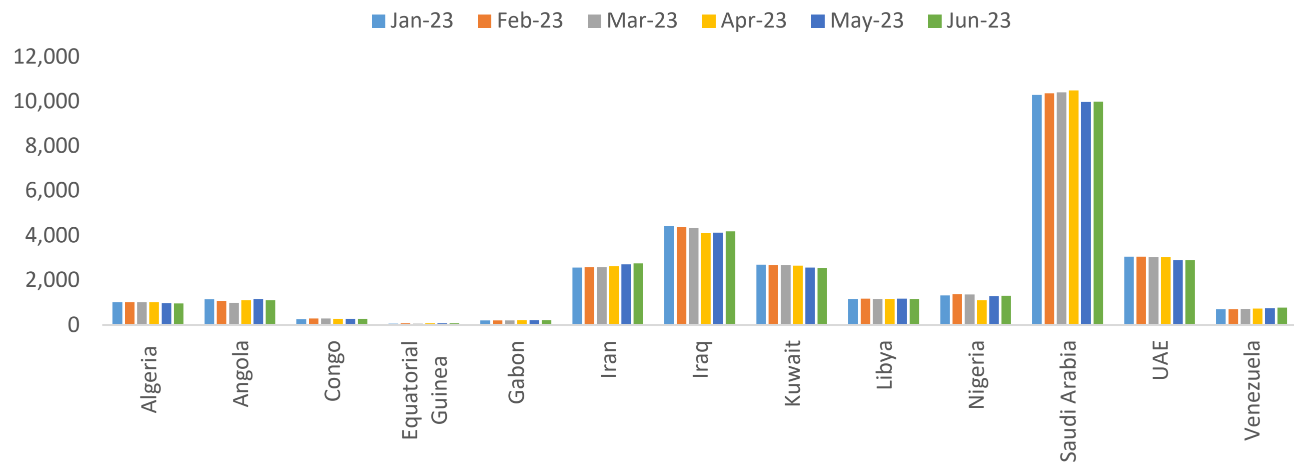


Source: Bloomberg

OPEC Production

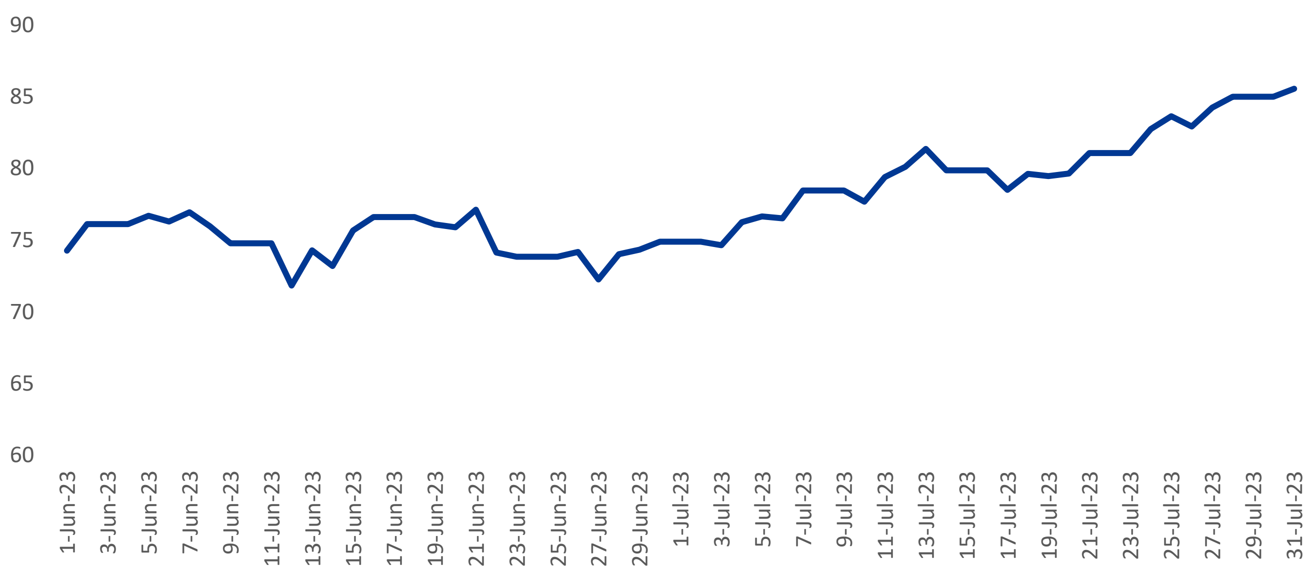
OPEC-13 crude oil production increased by 91 thousand barrels per day (bpd) MOM to an average of 28.19 Mn bpd in June 2023. While the majority of the countries in OPEC-13 countries witnessed a decline in oil production during June 2023. However, seven out of 13 countries recorded a MOM decline in oil production in June 2023. Angola witnessed the largest decline in production in June 2023. Angola's oil production declined 46 thousand bpd MOM in June 2023 followed by Algeria with a decline of 16 thousand bpd MOM. Libya's production declined 13 thousand bpd MOM in June 2023 whereas Gabon and Congo's production declined 5 and 4 thousand bpd MOM respectively. Kuwait's and UAE's production declined marginally by 3 thousand bpd and 1 thousand bpd MOM in June 2023. Iran recorded the largest growth in production of 56 thousand bpd MOM during June 2023 followed by Iraq with 54 thousand bpd, Venezuela with 23 thousand bpd, Saudi Arabia with 22 thousand bpd, and Nigeria with 21 thousand bpd MOM during June 2023. Furthermore, Equatorial Guinea's production rose by 4 thousand bpd in June 2023. Saudi Arabia remained the largest producer of oil out of the OPEC-13 countries with a total production of 10.00 Mn bpd in June 2023.

Figure 11: OPEC Crude Oil Production



Source: OPEC

Figure 12: Oil Rig Count



Source: Bloomberg

Credit Strategy

Top picks for 2023

Name	Sector	Price	Mid YTM	Rating
ALDAR 3.875% 2029	Real Estate	93.90	5.09	Baa1/NA/NA
KWIPKK 4.5% 2027	Investment Co.	85.51	9.62	Ba2/NR/NA
ARAMCO 3.5% 2029	Oil & Gas	92.75	5.00	A1/NA/A+
BGBKKK 5.749% PERP	Bank	92.16	8.75	NA/NA/NA
SIB 5% PERP	Bank	97.18	7.31	NA/NA/NA
ALMARA 4.311% 2024	Food and Beverages	99.08	6.00	Baa3/BBB-/NA
GENHLD 4.76% 2025	Investment Co.	99.49	5.02	A1/NA/A
REITDU 9.5% 2024	Real Estate	96.12	13.06	NA/NA/NA
ADIBUH 7.125% PERP	Bank	100.28	8.43	B1/NA/NA
OTELOM 5.625% 2023	Telecom	100.28	5.59	Ba2/NA/BB+
INTLWT 5.95% 2039	Power Generation and Water Utility	98.14	6.17	Ba1/NR/BBB-

Source: Bloomberg

We continue to remain OVERWEIGHT on ALDAR, KWIPKK, ARAMCO, SIB, ALMARA, REITDU, and SIB while assign MARKETWEIGHT rating on ADIBUH, GENHLD, INTLWT and OTELOM.

Implications of Securities Recommendations

Bond Particulars	Call	Ask Price	Yield	1M return	3M Return	YTD Return	12M Return
INTLWT 5.95% 2039	MW	98.14	6.19	-0.07	0.87	4.33	-2.80
OTELOM 5.625 %2023	MW	100.28	4.29	0.05	0.14	0.29	-0.69
ADIBUH 7.125% PERP	MW	100.28	4.92	0.08	0.17	-0.73	-2.20
ARAMCO 3.5% 2029	OW	92.75	4.97	0.34	-2.02	0.68	-5.91
KWIPKK 4.5% 2027	OW	85.51	9.38	-0.12	-1.45	0.52	7.26
ALDAR 3.875% 2029	OW	93.90	5.03	-0.86	-1.70	1.77	-3.20
REITDU 9.5% 2024	OW	96.12	12.67	-0.44	3.00	0.03	NA
GENHLD 4.76% 2025	MW	99.49	4.99	-0.11	-0.57	1.27	NA
ALMARA 4.311% 2024	OW	99.08	5.91	0.06	-0.12	0.04	-1.39
SIB 5% PERP	OW	97.18	6.59	0.08	0.32	-0.79	-2.12
BGBKKK 5.7492% PERP	OW	92.16	15.02	1.25	3.59	4.57	5.10

Source: Bloomberg

**ALDAR 3.875% 2029 was issued on November 2019. Its 12-month return will be calculated in November 2020.*

ALDAR 3.875% 2029: Initiated with OVERWEIGHT rating

We initiated coverage on Aldar Properties PJSC's (Aldar Properties) 3.875% senior unsecured Sukuk maturing in October 2029 with an OVERWEIGHT rating. The Sukuk is trading at USD 94.71 with a yield of 4.88% when held until maturity (redemption at par) with a modified duration of 5.58. The Sukuk also enjoys an investment-grade rating of 'Baa1' by Moody's.

- Aldar Properties is a leading real estate developer, with the highest market cap of AED 37.74 Bn, in Abu Dhabi. Apart from being a reliable government contractor, the company developed many innovative projects, such as Yas Island's F1 circuit and the Gate Towers in Shams Abu Dhabi. Demand for Abu Dhabi's real estate is robust, and the government supports it in terms of home purchasers. The current market has a good supply, and investors are confident in investing in quality projects in prime locations. Aldar diversified its operation and acquired SODIC in Egypt in FY2021. SODIC is a leading Egyptian real estate company with a strong track record of 25 years, having a land bank of 16 Mn sqm across 3 geographies in Egypt.
- Mubadala Investment Company, a Sovereign wealth fund of the Abu Dhabi government, owns a 25.1% stake in Aldar. Alpha Dhabi Holding owns a 28.4% stake through its related companies Sublime Commercial Corporation, Sogno Two, and Sogno Three Sole Proprietorship LLC. Aldar Properties is an important strategic partner to the government, having completed several large-scale infrastructure projects and developments in UAE.
- Aldar Properties (Aldar) released its financial results for the full year of FY2022, announcing revenues of AED 11.2 Bn, up 31% YOY with a gross profit of AED 4.7 Bn, up 31% YOY, and a net profit of AED 3.1 Bn, up 35% YOY, demonstrating the resilience of Aldar's diversified business model. Aldar EPS rose 24.7% YOY to AED 0.368 in FY2022, demonstrating consistent long-term shareholder value growth.
- Aldar's strong financial results were driven by the strong performance of Aldar Development and Aldar Investment's recurring income portfolio. The strong growth in the investment business is driven by a rapid recovery in the investment property, hospitality, and leisure business. The backlog of the development business nearly doubled to AED 14.4 Bn in 2022 as a result of record sales and project launches, in addition to strong contributions from SODIC, offering strong revenue visibility over the period of next two to three years. Additionally, Aldar already sold 86% of its launched development project pipeline in the UAE as of FY2022. The Project Management business revenue backlog increased to AED 64.8 Bn, led by the addition of new projects valued at AED 35.6 Bn in FY2022. Aldar Investment's AUM reached AED 32 Bn in FY2022 as a result of strategic acquisitions and capital deployment. The occupancy rate in the investment property business reached 92% in 2022, and the acquisition of ADGM towers supported the Company's revenue. Aldar's hospitality and leisure business recovered, owing to a robust recovery in the tourism sector in FY2022. The Company entered the Dubai market through a JV with Dubai Holding and plans to launch three developments over 3.6 Mn sqm of land. Aldar also purchased Al Fahid Island, a 3.4 Mn sqm island positioned between Saadiyat and Yas Island. Aldar Investment deployed capital amounting to AED 7.4 Bn and Aldar Development deployed AED 4.1bn in FY2022.
- The company completed a USD 1.4 Bn long-term investment with Apollo Global Management. The investment consists of a USD 500 Mn land JV between Aldar Properties and Apollo that will diversify the Company's funding source, a USD 500 Mn investment in non-call 15 Hybrid Perpetual Notes to Aldar Investment Properties priced at 5.625%, and a USD 400 Mn equity investment in Aldar Investment Properties LLC (AIP) at

100% of NAV. A considerable revenue backlog, along with a robust project pipeline and diverse revenue sources, supports the Company's long-term revenue visibility

- Liquidity position remains healthy with AED 7.6 Bn worth of free & subsidiary cash and AED 4.0 bn of undrawn bank facilities. The Company has no debt due for maturity in 2023 and AED 0.03 bn in 2024

KWIPKK 4.5% 2027: Maintain OVERWEIGHT rating

We are OVERWEIGHT on Kuwait Projects Company (KIPCO)'s 4.5% senior unsecured bond maturing in February 2027 with an OVERWEIGHT rating. The bond is trading at USD 86.84 with a yield of 8.85% when held until maturity (redemption at par) and has a modified duration of 3.41. The bond is issued at the holding company level, so the debt service obligations would be met through the cash balance available with KIPCO and the dividends it receives.

KIPCO is one of the largest holding companies in MENA, with its consolidated assets growth of 12% to KD 11.4 Bn (USD 37.2 Bn) in FY2022, and sustained through multiple economic cycles, making consistent dividend payments for the last 17 years until FY2021. Members of the Kuwaiti ruling family remain KIPCO's shareholders since FY1988, through Al Futtooh Holding Company K.S.C. (AFH), and currently own a 44.9% direct holding. AFH supported KIPCO in all business activities, including treasury share repurchases, capital raising, and reduction in dividends.

- KIPCO's total revenue from operations increased 47% from KD 721 Mn (USD 2.35 Bn) in 2021 to KD 1.06 Bn (USD 3.5 Bn) in FY2022 mainly due to healthy performance from commercial banking, asset management & investment banking, and industrial & logistics partially offset by a decline in insurance, media & satellite services, and hospitality & real estate segment. The rise in revenue was also due to the continued exceptional performance of core firms. KIPCO completed its merger with Qurain Petrochemical Industries, expanding its portfolio to encompass additional areas such as energy, food, healthcare, and logistics. KIPCO expressed its interest in exploring investment opportunities in high-growth potential sectors such as food, healthcare, and education, and its portfolio will serve as a platform for the efforts and pave the way toward the company's future vision.
- The company's operating profit from continuing operations before provisions and directors' remuneration increased to KD 317 Mn in FY2022, up from KD 134 Mn in FY2021. Provisions for credit losses and investments were reported at KD 34 Mn in FY2022, down from KD 74 Mn in FY2021.
- The company recorded an increase in net profit to KD 25.2 Mn (USD 82.3 Mn) for FY2022, up from KD 17.5 Mn (USD 57.1 Mn) in FY2021. During FY2022, earnings per share climbed 15% YOY to KD 6.9 fils (USD 2.3 cents).
- KIPCO's Board recommended not to distribute dividends for FY2022 to ensure liquidity, timely repayment of debt maturing in the near term and pursue new investment opportunities. This also ensures the company maintains its credit profile and rating position.
- KIPCO is rated as BB- with a negative outlook from S&P and a BB stable outlook rating from Fitch. According to Fitch, KIPCO's liquidity is tight and possesses re-financing risk for the company which is manageable due to the company's proven track record and established relationship with financers and banks. In addition, ownership of Kuwait's royal family will also help in managing this risk. The recently completed acquisition will increase the company's gross assets and diversify dividend streams from multiple sectors.
- KIPCO with KD 286.4 Mn of debt maturing in FY2023 and it held cash and cash equivalents of KD 140 Mn at the parent company level

ARAMCO 3.5% 2029: Maintain OVERWEIGHT rating

We are OVERWEIGHT on Saudi Aramco's 3.5% bond maturing in April 2029. The bond is trading for USD 91.43 and offers a yield of 5.15%. We believe the bond offers an attractive yield for A1-rated security (limited by sovereign rating), considering it has characteristics of an 'AAA' rated company, supported by robust profitability, market leadership, significant cash flows visibility and low debt levels.

- Saudi Aramco is the world's largest integrated oil & gas company. The company generated a net profit of USD 161 Bn in FY2022, making it one of the highest profits generating public companies in the world. Aramco achieved a record financial performance in FY2022, as oil prices rose owing to rising global demand and geopolitical tension. The firm maintained its long-term objective of increasing capacity and competence across the value chain with the goal of addressing energy security and long-term viability. Aramco expects oil and gas to be crucial for the foreseeable future; yet, the risks of underinvestment in the industry are substantial, contributing to rising energy costs. Aramco embarked on the largest capital investment program in its history in order to utilize its unique advantages at scale and be part of the global solution. The company's priority is to increase oil, gas, and chemical products while also investing in innovative lower-carbon technologies that have the potential to reduce emissions. Total revenue from operations rose from USD 359 Bn in FY2021 to USD 535 Bn in FY2022.
- According to Fitch's latest credit rating, the rating agency assigned Long-Term Foreign & Local Currency of Saudi Aramco at 'A' with a positive outlook. Aramco standalone credit rating stood at 'AA+', higher than Saudi Arabia's rating, given its low debt levels, market leadership, and strong profitability. Both agencies Moody's and Fitch assigned Aramco a long-term issuer rating of 'A1' and 'A', respectively.
- In FY2022, Aramco's net income grew by 46.5% to a record USD 161.1 Bn, up from USD 110 Bn in FY2021. The rise in net income is due to increased crude oil prices, higher volume sold, and improved refined product margins. In FY2022, free cash flow reached an all-time high of USD 148.5 Bn, up from USD 107.5 Bn in FY2021. Aramco continues to prioritize a strong balance sheet, with a negative gearing ratio of 7.9% by the end of FY2022, decreasing from a positive gearing ratio of 12.0% in FY2021
- Aramco declared a dividend of USD 19.5 Bn in 4Q22, which will be paid in 1Q23. The dividend rose 4% QOQ and is consistent with the Company's dividend policy, which aims to offer a sustainable and progressive dividend. In addition, the Board of Directors proposed that eligible shareholders receive one bonus share for every ten shares held, subject to the approval at the Extraordinary General Assembly. The Company strives to maintain a stable and rising dividend in accordance with prospects, as well as to develop underlying free cash flow and create long-term value through investments in accessible opportunities.
- Aramco spent USD 37.6 Bn on capex in FY2022, up 18.0% from FY2021. Aramco anticipates to spend USD 45.0 Bn to USD 55.0 Bn on capex in FY2023, including external investments, with capex growing until the middle of the decade. In February 2022, Aramco also concluded an energy infrastructure deal which resulted in a consortium of investors led by BlackRock Real Assets and Hassana Investment Company purchasing a 49% stake in a newly established subsidiary, Aramco Gas Pipelines Company (AGPC) for USD 15.5 Bn
- The Company has USD 52.5 Bn debt due for expiration in FY2023-24, however it has enough liquidity to meet the requirement.

BGBKKK 5.749% PERP: Maintain OVERWEIGHT rating

We are OVERWEIGHT on Burgan Bank's 5.749% Jr. subordinated perpetual Additional Tier 1 (AT1) bond currently trading at USD 88.25. The bond has a yield of 8.47% with a duration of 1.12. Its loan book is diversified with exposure to Kuwait and international operations in multiple sectors. The top ten customers comprise 26% of gross loans and advances in FY2022.

- Burgan Bank is one of the leading conventional banks in Kuwait in terms of total assets and listed on Boursa Kuwait. The Bank has the network of 127 branches and 284 ATMs. The Bank is majorly owned by KIPCO Company with a stake of 64.3%
- Burgan Bank Group's revenues remained stable at KD 232.1 Mn in FY2022 as compared to KD 234.7 Mn in FY2021. Burgan Bank reported a net profit of KD 52.1 Mn despite the geopolitical turmoil and hyperinflationary accounting (IAS 29) losses of KD 24.6 Mn on its Turkish subsidiary. The net profit rose 15% in FY2022, primarily due to increase in net interest income growth of 15% YOY and a decline in cost of risk by 69.8% YOY. Net interest income increased by 15% to KD 147.5 Mn in FY2022 from KD 128.2mn in FY2021, owing to a 30-basis point increase in net interest margins to 2.4%. Fees and commissions income rose 16% over the previous year, showing strong contributions from various lines of business. Operational expenses grew 13% to KD 107 Mn due to the inflationary environment and increased costs associated with current investments in the digital banking platform. For the FY2022, the cost-to-income ratio stood at 46.1%. Total credit provisions charge declined significantly from KD 84.6 Mn in FY2021 to KD 25.3 Mn in FY2022 due to improvement in economic environment
- The Bank's non-performing loan ratio rose marginally from 1.7% in FY2021 to 1.9% in FY2022. In 2022, the loan loss coverage ratio without collateral remained strong at 206%. Burgan's Capital Adequacy Ratio stood at 16.8%, compared to the regulatory requirement of 12.5%. The Group maintains high liquidity levels, with a liquid coverage ratio (LCR) and net stable funding ratio (NSFR) of 151.2% and 110.1%, respectively, as of FY2022, substantially above the minimum regulatory requirement of 90%
- The Board of Directors approved a cash dividend of 8 fils per share, in addition to a 5% bonus share distribution, subject to shareholder approval at the Annual General Meeting
- Fitch Ratings affirmed Burgan Bank's rating at "A" Outlook-Stable. Moody's assigned a credit rating of "Baa1" with a Stable Outlook and S&P Global also assigned a rating of "BBB+" with a Stable outlook

SIB 5% PERP: Maintain OVERWEIGHT rating

We are OVERWEIGHT on Sharjah Islamic Bank's (SIB) 5.0% Jr. subordinated perpetual (AT1) bond. The bond offers a yield of 7.25% currently trades at USD 98.16 with a duration of 2.14 years.

- Moody's Investor Service recently downgraded the local and foreign currency long-term issuer ratings of Sharjah Islamic Bank PJSC (SIB) to Baa2 from Baa1. The outlook of the long-term issue rating is revised from Stable to Negative. The rating agency mainly revised the rating on the security in September 2022 due to a decline in the Bank's asset quality and expects it further decline due to sector concentration. The profitability will be further pressured due to an increase in financing growth and capitalization will further create earnings volatility. S&P Global Ratings upgraded SIB's long-term issuer credit rating to 'A-' from 'BBB-,' backed by the bank's strong relationship with the Government of Sharjah and expected stable business and financial profile over the next two years. The agency also expects the bank's asset quality to remain resilient and sufficient capitalization.

- Sharjah Islamic Bank's (SIB) net profit rose 26.6% to AED 651 Mn in FY2022 mainly due to an increase in funded and non-funded income partially offset by a decline in operating expenses and provisions. Total operating income also rose 12.7% to AED 1,609 Mn in FY2022 due to 10.9% in net funded income and 18.8% growth in non-funded income. In line with the bank's prudent credit management approach the provisions rose 28.3% to AED 314 Mn in FY2022. Non-performing loans rose from 4.8% in FY2021 to 6.0% in FY2022 with a stage 2 ratio of 7.8%.
- SIB's total assets grew 7.6% to AED 59.1 Bn in 2022. While net advances rose 5.7% to AED 30.7 Bn in 2022. The Bank's liquid assets amounted to AED 14.1 Bn, representing 23.9% of total assets in 2022. The Bank's customer deposits rose marginally 2.7% to AED 39.5 Bn in 4Q22. However, total equity declined 0.8% to AED 7.6 Bn in 2022. The bank's liquidity ratio remained solid for prospects, reaching AED14.1 Bn, or 23.9% of total assets, up from AED14.3 Bn, or 26.1% of total assets, at the end of the previous year. The bank's financing-to-deposits ratio hit 77.6%, indicating the strength and stability of its liquidity position.

ALMARA 4.311% 2024: Maintain OVERWEIGHT rating

We maintain OVERWEIGHT on Almarai's 4.311% Sukuk maturing in March 2024. The Sukuk is trading for USD 99.097 with a yield of 5.388% when held till maturity (redemption at par). The current price provides a good entry point for a Sukuk with a duration of 0.885 years. The Company generated robust revenue and profitability growth in the past with a dominant market share in dairy products.

- Almarai is the largest integrated consumer food producer in the Middle East, offering more than 650 products. The company's recorded an increase in annual revenues driven by a growth in revenue from Jordan, Egypt, Saudi Arabia and Kuwait. The company debt reduced from SAR 9.7 bn in FY2021 to SAR 9.5 Bn in FY2022. The Company's finance cost will increase due to higher benchmark rates. In addition, the company is expected to incur heavy capex in the next two years for the expansion of the poultry segment
- Almarai generated a total revenue of SAR 18.7 Bn in FY2022 with a total net income of SAR 1.8 Bn. The Dairy & Juice segment contributed 53% of Almarai's total revenue, followed by poultry 16%, bakery 13%, Foods 14%, and other activities 4%. The expansion in the food category and the reopening and normalization of schools supported the growth in volumes in FY2022.
- The high prices of feed (corn and soya) and dairy commodities, as well as the increased transportation and packaging costs, led to a 21% increase in the cost of sales. Growth in operating profit is lower than revenue growth rate due to higher feed cost, alfalfa cost and packaging cost. Net profit grew in line with operating profit despite an increase in benchmark interest rates
- In FY2022, Almarai's investment in working capital stood at 19% of revenue in FY2022 as compared to 16% in FY2021. Capex declined 2.2% to reach SAR 1.334 Bn. As a result, the company's free cash flow fell 40.6% to SAR 1.842 Bn in FY2022. The current CAPEX is only attributed for maintenance purposes
- Operating cash flow fell 21.9% to SAR 3.8 bn due to investment in working capital and higher zakat expenses
- Almarai is provided an investment grade credit rating of Baa3 by Moody's and BBB- by S&P with stable outlook

GENHLD 4.76% 2025: Maintain MARKETWEIGHT rating

We assign MARKETWEIGHT on Senaat's 4.76% Sukuk maturing in December 2025. The Sukuk is trading for USD 99.70 and has a yield of 4.87% when held till maturity (redemption at par). Arkan Building Materials Company PJSC completed the acquisition of Emirates Steel Industries PJSC ("Emirates Steel") and issued share capital from its majority shareholder, General Holding Corporation PJSC ("SENAAT"), on October 6, 2021, in exchange for the issuance of 5.1 Bn new ordinary shares in the Company. Emirates Steel became a direct 100% subsidiary of the Company, and SENAAT's ownership in Arkan increased from 51% to 87.5% of its issued share capital as a result of this transaction.

- Overall Group revenues in FY2021 reached AED 3,022.2 Mn, up from AED 828.7 Mn in FY2020, with Emirates Steel contributing AED 2,232.9 Mn since its acquisition.
- As of December 31, 2021, the Group's total assets were AED 12.1 Bn, up from AED 3.3 Bn in December 2020, and the value of shareholders' equity was AED 7.2 Bn, up from AED 1.7 Bn in December 2020.
- The Long-Term Issuer Default Rating (IDR) of General Holding Corporation PJSC (Senaat) has been affirmed by Fitch Ratings at 'A' with a Stable Outlook. SenaatSukuk Limited's senior unsecured notes were similarly affirmed at 'A' by Fitch. Senaat's strong relations with the Abu Dhabi government are reflected in the rating, which is based on the Government-Related Entities Rating (GRE) Criteria.

REITDU 9.5% 2024: Maintain OVERWEIGHT rating

We maintain OVERWEIGHT on Emirates REIT’s 9.5% Sukuk maturing in December 2024. The Sukuk is trading at USD 90.90 with a yield of 16.07% when held till maturity (redemption at par). Over the years Emirates REIT has been showing promising occupancy rates. The company properties are diversified among commercial, educational, and retail sectors. The highest percentage of the portfolio goes to the commercial where they see the value.

- As Dubai's real estate market rebounds from the effects of the COVID-19 outbreak, the REIT continues to observe strong growth. For the year ending December 31, 2021, the company's EBITDA increased by 59.04% to USD 46.6 Mn, compared to the same period in FY2020. The year ended with a net profit of USD 63.1 Mn, compared to a net loss of USD 242.9 Mn in FY2020.
- Net property revenue climbed 7.69% to USD 56 Mn as of the year ending December 31, 2021. Total property expenditures fell 11.11% to USD 12.5 Mn as of December 2021, compared to the same period a year ago, as the REIT continued to focus on cost reduction.
- The occupancy in the portfolio increased by 2.8 % to 71.8% as of December 31, 2021, owing to the successful conclusion of ongoing lease negotiations since the end of FY2021, the occupancy has reached 81.0% as of March 31, 2022, a 12.1% increase compared to December 31, 2020. The portfolio’s total number of tenants increased from 307 as of December 31, 2020, to 327 as of December 31, 2021, whilst the WALE remains over 7.1 years as of December 31, 2021
    - In FY2021, the REIT recorded a net reversal on estimated credit losses of USD 5.2 Mn, compared to a charge of USD 6.8 Mn in the same period of FY2020, owing to partial recovery from one of its tenants. The fair value of investment property appreciated 6.8% YOY, to close at USD 737.1 Mn compared to FY2020 at USD 690.3 Mn resulting in an unrealized gain of USD 44.7m in FY2021.The NAV per share increased by 28.3% over FY2021 and is equal to USD 0.95 per share as of December 31, 2021.
    - As of December 31, 2021, the market value of the office portfolio totalled USD 504.1 Mn and, the market value of the retail portfolio totalled USD 57.1 Mn.

ADIBUH 7.125% PERP: Maintain MARKETWEIGHT rating

We assign MARKETWEIGHT on Abu Dhabi Islamic Bank's (ADIB) 7.125% Jr. subordinated perpetual (AT1) bond. The bond's current yield is at 8.44% and is currently trading at USD 100.74 The bond received a credit rating of B1 from Moody's. The bond offers a fixed coupon rate of 7.125 until the next call date 09/20/23 with a modified duration of 0.51.

- Net income increased 54.0% to AED 3.6 Bn in FY2022. The increase in net profit reflects the company's excellent underlying performance, which was aided by a 22.9% increase in total operating income to AED 6.8 Bn compared to the previous year. Revenues increased due to higher benchmark rates and robust growth in the customer base driving advances growth by 26% to AED 112.2 Bn in FY2022. The operating expense grew lower than revenue boosting pre-provisioning profit 34.8% to AED 4.4 Bn. Impairments declined 19.4% YOY to AED 769 Mn due to improvement in the economic outlook.
- The Bank's net income was partially offset by 5.6% rise in operating expenses due to investments in digitization to achieve cost synergies along with strong growth in the customer base, whereas the cost-to-income ratio improved 573 bps to 34.9% due to higher operating income. ADIB's balance sheet stood strong with 23.1% YOY rise in total assets, driven by a 26.0% YOY growth in net advances while customer deposits rose 26.0% YOY as compared to FY2021. The capitalization remained healthy with a total CAR of 17.2% in FY2022.
- ADIB launched various new products in FY2022 to grow its market share and diversify its revenue segment through a wide range of product offerings to maximize shareholder value. ADIB focuses on a solid digitization plan to grow its customer base and build a new strategy to provide comprehensive financial solutions for SMEs to support their short-term and long-term goals.

OTELOM 5.625% 2023: Maintain MARKETWEIGHT rating

We assign MARKETWEIGHT on OTELOM 5.625% 2023 secured bond with expected price appreciation from the current price of USD 100.203 with a yield to maturity of 5.78%. The company 'Ba3 'was assigned by Moody's and a rating of 'BB' was assigned by Fitch with a positive and stable outlook, respectively.

- The Group's overall revenue for FY2022 stood at OMR 2,682.8 Mn, up 10.2% YOY from OMR 2,408.3 Mn in FY2021.The Group's revenue includes revenue from Zain Group's acquired businesses, which reported revenues of OMR 2,129 Mn. Revenue from the domestic operation rose from OMR 531.4 Mn in FY2021 to OMR 565.5 Mn in FY2022 due to growth in revenue from mobile post-paid and fixed broadband partially offset by a decline in prepaid revenue. The company's customer base grew by 3% in FY2022, while Zain group's customer base was up by 7% in 2022. Total operating costs rose from OMR 1,267.5 Mn in FY2021 to OMR 1,305.3 Mn in FY2022. The increase in cost of sales is mainly due to an increase in royalty charges for fixed businesses from 7% in FY2021 to 10% in FY2022 as well as higher costs for devices and modems.
- The Group made an after-tax profit of OMR 278.9 Mn, up from OMR 233.6 Mn in FY2021. After adjusting for minority interest, the net profit for the period is OMR 91.3 Mn, up 35.3% from OMR 67.5 Mn in FY2021. The growth in net profits was due to the revenue growth in Mobile postpaid (11.2%) and fixed broadband services (3.3%), currency depreciation and cost optimization steps undertaken.
- The Board declared a final dividend of 55 bz per share, and an interim dividend of 5 bz per share for FY2023, which is subject to approval by shareholders at the annual general meeting.

- The domestic subscriber base (including mobile and fixed businesses) rose from 3.208 Mn in FY2021 to 3.216 Mn (excluding Mobile Resellers) With mobile resellers, the total user base reached 3.8 Mn. Omantel's capex in the domestic business rose 37.7% to OMR 84 Mn in FY2022 owing to continued investments in 5G services and 4G expansion in Oman.
- Omantel did two major transactions in the year 2022, first, the sale of the 2,519 tower sites for USD 494 Mn in cash and second, the IPO of Pearl REIF by selling 136.7 Mn investment units at OMR 0.112 per share price. Omantel monetized its headquarter building located in Madinat Al Irfan-Muscat through IPO. The proceeds from these asset sales will be used to pay off the company's debt. After completion of this transaction, the Company's domestic net debt declined from OMR 717 Mn in FY2021 to OMR 669 Mn in FY2022 with a net debt to EBITDA ratio of 2.2x in FY2022 and interest coverage ratio of 4.4x.
- Omantel is majority-owned by the Oman government (51%) and Oman is expected to extend financial support to Omantel when required. Oman has a strong domestic presence in the prepaid and postpaid mobile segment and over the years has a leading market share in the country's mobile and fixed markets. Omantel's strategic diversification strategy and unique geographical presence aided the company to become the sector leader and one of the main wholesale providers serving telecom operators and content providers locally and globally

INTLWT 5.95% 2039: Maintain MARKETWEIGHT rating

We assign MARKETWEIGHT on APMI One's 5.95% bond maturing in May 2039. The bond is trading at USD 95.43 with a yield of 6.44% if held till maturity (redemption at par). The bond has a modified duration of 7.64. The Bond has a credit rating of BBB- from Fitch and Ba1 from Moody's both with a stable outlook.

ACWA Power Management and Investments One Ltd (APMI One) is wholly owned subsidiary of Acwa Power Company. ACWA Power Co. develops, operates, and invest in power generating and desalinated water production plants in Saudi Arabia. The company was established in FY2004 in KSA and expanded throughout the years to operate in 12 countries. The first expansion plan took place in FY2008-FY2010 in Oman and Jordan, then from 2012 to 2014, the company expanded in Morocco, South Africa, and Turkey. The final expansion was in UAE, Egypt, Bahrain, Vietnam, Ethiopia, and Uzbekistan from FY2015 to FY2020.

- Five large-scale new renewable projects have been added to the advanced development fleet (+3,500 MW) which will increase the renewable energy capacity to 14.8 GW by FY2021, accounting for 35% of the portfolio. The Company has 64 assets (in operation, under construction, or in advanced development) with a total investment cost of SAR 251.7 Bn, generating 42.7 GW of electricity producing 6.4 Mn cubic meters of desalinated water per day.
- The Company agreed to sell its 32% effective investment in SQWEC, an oil-fired facility with 850 MW of power and 212,000 cubic meters' water desalination capacity in the Kingdom of Saudi Arabia, on September 7, 2021. The sale reduced the diversification of APMI One cash flow. In order to offset the impact of lost cashflows from SQWEC, ACWA Power increased the stake in RAWEC that forms part of APMI One bondholder security and cashflows from 37% to 80%. While this offsets the cashflow impact of the sale of SQWEC, it results in greater concentration at RAWEC, for which we view the offtaker as of lower credit quality than for others in the portfolio. The issuer APMI One is a Special Purpose Company, incorporated under the laws of DIFC, which is 100% owned by ACWA Power Projects. However, APMI One is not the only entity ACWA Power Projects has its hands on. Below is the effective percentage share of ACWA Power in the listed entities as of 30th June FY2020:

- 30% in Shuaibah Water & Electricity Co. (SWEC), Contract Initiated in 1Q10 for 20-yr PWPA.
- 32% in Shuqaiq Water & Electricity Co. (SqWEC), Contract Initiated in 2Q11 for 20-yr PWPA.
- 30% in Shuaibah Expansion Project Co. (SEPCO), Contract Initiated in 4Q09 for 20-yr WPA.
- 74% in Rabigh Arabian Water & Electricity Co. (RAWEC), Contract Initiated in 2Q08 & 2Q16 for 25-yr WECA. However, in 2018 RAWEC pledged 37% of its stake leaving ACWA Power Projects with a current stake of 99% in RAWEC.
- 40% in Rabigh Electricity Co. (RABEC), Contract Initiated in 2Q13 for 20-yr PPA.
- 20% in Jubail Water & Power Co. (JWAP), Contract Initiated in 3Q10 for 20-yr PWPA.
- 100% in International Barges Co. for Water Desal. (BOWAREGE), No active Contract was leaving ACWA Power Projects with 100% ownership. All the assets were disposed of as scrap or fully impaired in 2019 Books.
- 22.5% in Hajr for Electricity Production Co. (HEPCO), Contract Initiated in 2Q16 for 20-yr PPA.
- In FY2020 APP increased its stake by 4.99% by acquiring Samsung C&T’s share in Hajr Electricity Production Company, increasing its shares from 17.5% to 22.5%. The acquisition will strengthen the position of APP as the second-ranked shareholder after the Offtaker Saudi Electricity Company (SEC).
- 100% in First National Holding Co., which own 99% ownership in First National O&M Co. (NOMAC), NOMAC went through a restructuring that led to all the assets and liability, (Not including Rabigh Power Company (O&M)), under APP to be transferred to First National Holding Co.

- APP filed its zakat and tax returns for all the years till FY2021. APP's position with the ZATCA had been finalized till FY2014. APP obtained a ZATCA assessment for FY2018 in FY2020, with an increased zakat liability of SAR 31 Mn. The revised zakat liability was closed out at SAR 1.3 Mn. APP obtained a ZATCA evaluation for the years 2015 to 2017 in April 2021, with an additional zakat liability of SAR 39.7 Mn. APP filed an objection with the Tax Violations and Dispute Resolution Committee ("TVDRC") of the General Secretariat of Tax Committees ("GSTC"). During FY2022, the TVDRC issued a judgment partially in favor of APP, reducing the liability to SAR 11.3 Mn. After that, the ZATCA filed an appeal with the Tax Violations and Dispute Appeal Committee ("TVDAC") against the TVDRC verdict. The TVDAC is yet to review the case.
- NOMAC filed zakat returns for all years up to FY2021. During the years FY2008 to FY2012 and FY2013 to FY2016, the Firm received two zakat assessments from the ZATCA. The TVDAC ruled in favor of the company for the years FY2008 to FY2012. During the years FY2013 to FY2016, the TVDAC ruling resulted in a zakat liability of SAR 4.5 Mn. NOMAC, on the other hand, is in the midst of filing a reconsideration application in response to the TVDAC verdict.
- Financial details as of FY2022 for ACWA Power are listed below:
    - ACWA Power reported operating income before impairment loss and other expenses rose 13.5% to SAR 2,614 Mn in FY2022, higher than SAR 2,303 Mn in FY2021. The growth in the profit is driven by projects achieving initial as well as commercial operation after 2021, higher contribution from development and construction management services for projects that achieved financial close during the year, and lower project development cost, provision and write-offs in 2022 as compared to 2021. Recognition of liquidated damages and insurance recovery, and higher employee long-term incentive plan expenses also added to the higher variance. Some factors partially offset the growth, included the reversal of an impairment loss of SWEC, lower contribution from projects with extended outages, higher maintenance costs in some plants, and higher corporate expenses.

- Adjusted net profit for FY2022 was SAR 1,575 Mn, 32%, higher than SAR 1,194 Mn of FY2021. ACWA Power reported net profit for FY2022 rose 103% to SAR 1,540 Mn from SAR 759 Mn in FY2021. In addition to higher operating income before impairment loss and other expenses, the growth was largely driven by lower impairment loss, higher other income, higher profit from discontinued operations, and higher net loss attributable to non-controlling interests (NCI) which were partially offset by higher finance charges mainly due to Rabigh 3 coming into operations and higher finance cost on Sukuk, higher Zakat and tax charge.
- In FY2022, due to refinancing of project debt at RAWEC project debt rose from SAR 2,863 Mn (USD 763 Mn) to SAR 5,231 Mn (USD 1,395 Mn), resulting in lenders to APMI One being subordinated to a higher level of debt at the project level with lower coverage ratios at RAWEC, and a smaller buffer to lock-up covenants
- ACWA Power reported a cash balance of SAR 4,297 Mn at the parent level in FY2022. The Company's debt stood at SAR 13.1 Bn in FY2022 with a net leverage ratio of 2.12x
- ACWA Power, through APMI One, partially bought back bonds with a pre-amortization aggregate principal amount of SAR 1,502.7 Mn (USD 400.7 Mn) at a discount through a tender offer during FY2022. The Company recorded a gain of SAR 74.8 Mn on the buyback, net of the proportional share of the unamortized transaction cost associated with the bond's issue, which is shown as other income on the consolidated statement of profit or loss. The debt has an outstanding balance of SAR 1.5 Bn as of 31 December 2022.

Bond Yield charts (%)

Figure 13: ALDAR 3.875% 2029

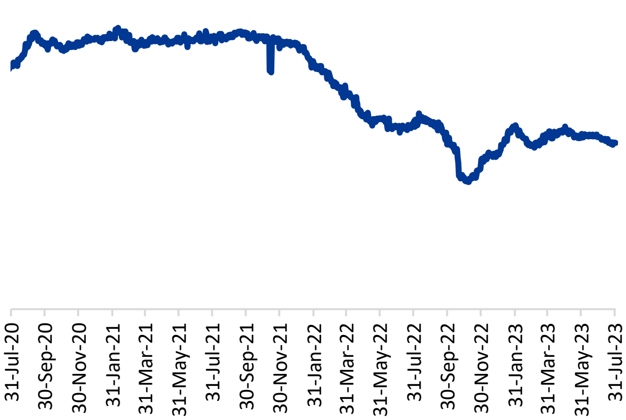


Figure 14: KWIPKK 4.5% 2027

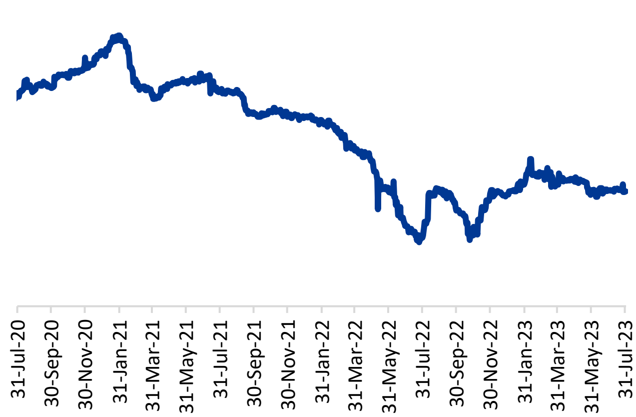


Figure 15: ARAMCO 3.5% 2029

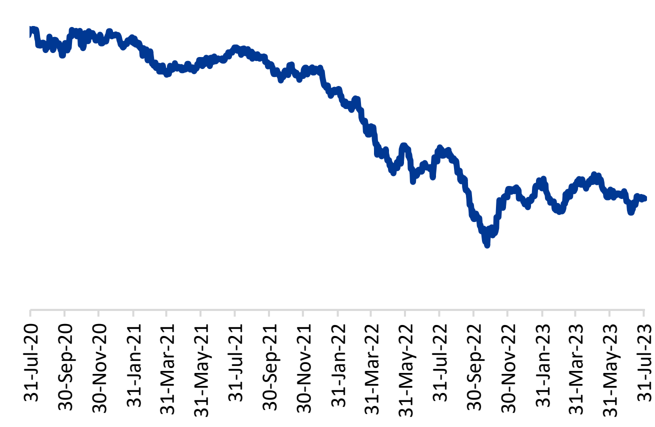


Figure 16: SIB 5% PERP

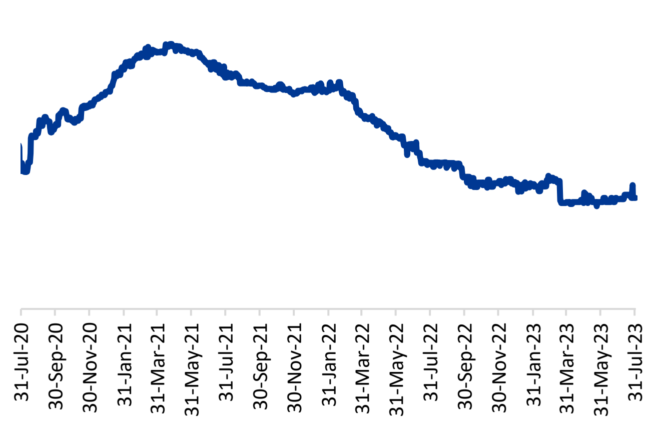


Figure 17: GENHLD 4.76% 2025

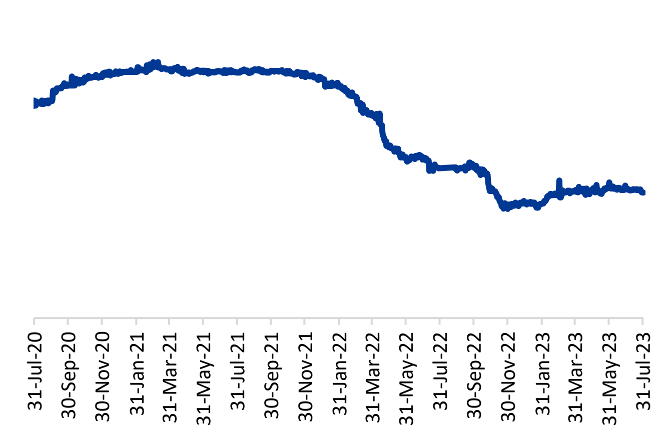


Figure 18: REITDU 9.5% 2024

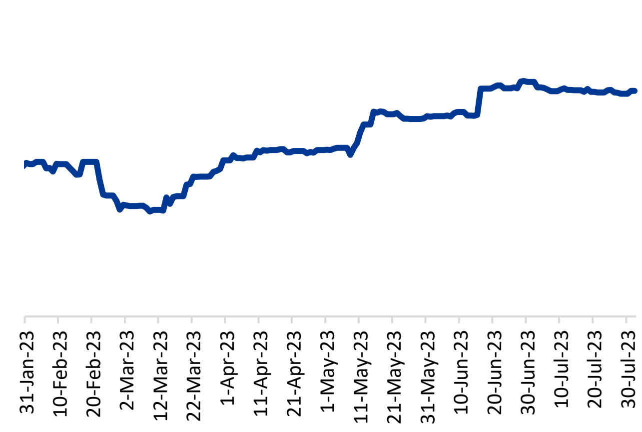


Figure 19: ADIBUH 7.125% PERP

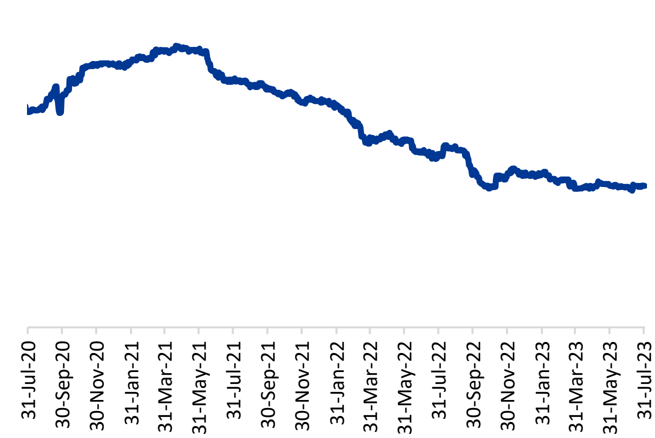


Figure 20: OTELOM 5.625% 2023

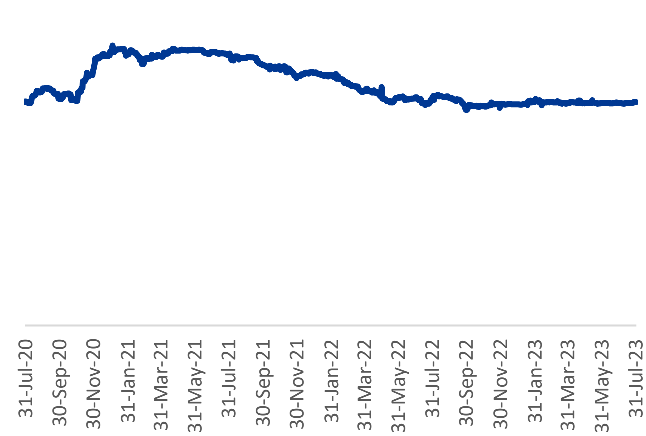


Figure 21: INTLWT 5.95% 2039

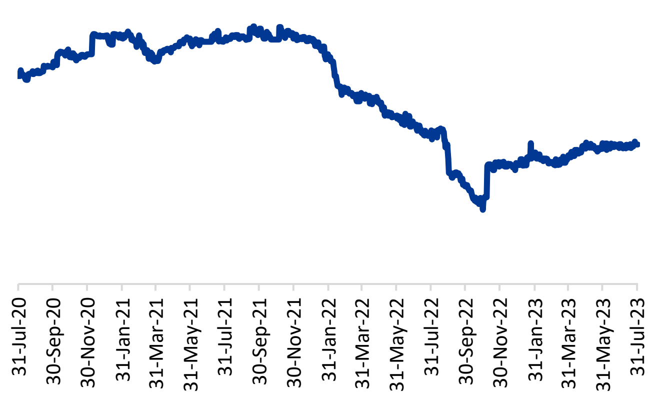


Figure 22: BGBKKK 5.749% PERP

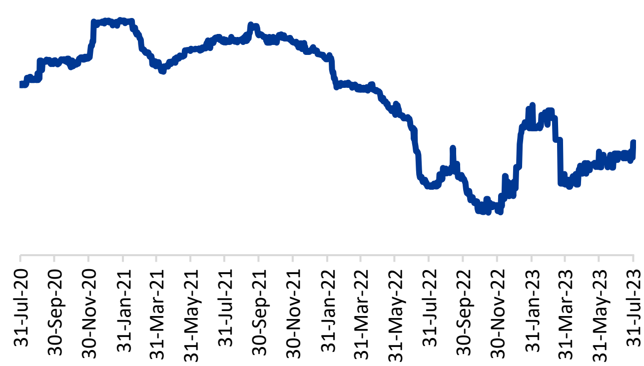
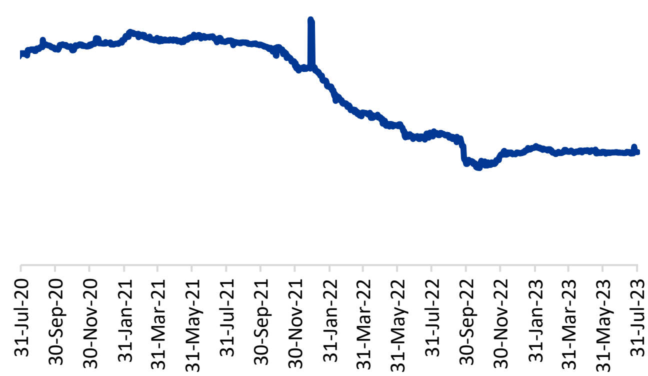


Figure 23: ALMARA 4.311% 2024



Source: Bloomberg

Key Market Indicators

Particulars	Price/Yield	YTD (% change)	MOM (% change)
Brent crude	85.24	-0.78	13.81
US dollar index	102.05	-1.42	-0.84
10Y Treasury yield	3.96	NA	NA
2Y Treasury yield	4.87	NA	NA
10Y German bund yield	2.49	NA	NA
10Y Japan bond yield	0.59	NA	NA
Bloomberg UAE Composite USD Liquid index	131.30	2.13	0.15

Source: Bloomberg

Sovereign Highlights

UAE

UAE to establish a new Investment Ministry to develop an investment strategy

UAE plans to establish a new federal ministry of investment to diversify its economy and aims to attract global investments, improve competitiveness and reduce the dependence on hydrocarbons for revenue. UAE also plans to establish a Financial Stability Council to monitor risks, supporting its goal of becoming a global financial center in the near future. The initiative is in line with Sheikh Mohammed's 10-year economic plan, D33, which aims to double the economy's size and position Dubai as one of the world's top four financial hubs within a decade.

ADNOC Gas awards USD 1.34 Bn in contracts for pipeline network expansion

ADNOC Gas has awarded USD 1.34 Bn in contracts to Petrofac Emirates LLC and a consortium between National Petroleum Construction Co. PJSC and C.A.T International Ltd. to expand its natural gas pipeline network in the UAE's northern region. The strategic network expansion aims to provide the benefit of lower-cost, sustainable, and cleaner gas to more locations in the UAE, improving industrial access to cost-effective and environmentally-friendly fuel option. More than 70% of the contract's worth is projected to circulate within the UAE economy through ADNOC's In-Country Value (ICV) initiative, which aims to strengthen the local value chain by promoting domestic manufacturing and supporting local industries. ADNOC Gas supplies over 60% of the UAE's gas needs, with access to 95% of the country's natural gas reserves, this new pipeline enhances ADNOC Gas' network to over 3,500km, reinforcing its position as a significant player in the UAE's energy landscape.

UAE's non-oil business strengthens with record PMI in June 2023

The non-oil sector in the UAE experienced strong growth, with S&P Global's UAE Purchasing Managers' Index (PMI) rising from 55.5 in May to 56.9 in June, mainly due to an increase in output and surge in new orders, reaching their highest levels in four years. The expansion in new business was supported by a strong rise in demand, particularly in the construction, wholesale & retail, and travel & tourism sectors. As a result, hiring continued for the 14th consecutive month, with the construction sector showing strong job creation, supporting backlogs of work and further job creation. The output charges decreased for the 14th consecutive month in June, reflecting competitive pricing efforts, however, input prices rose for the fifth consecutive month. The non-oil sector is poised for continued growth in H2, with confidence that new orders will continue to increase.

Abu Dhabi's ADQ and Canada's Bank of Montreal are set to acquire minority stakes in Sagard

Abu Dhabi Development Holding Co. (ADQ) and Canada's Bank of Montreal (BMO) have entered into an agreement to acquire a minority equity stake in Sagard, a global alternative asset management firm with USD 14.5 Bn of asset under management. The joint investment aims to drive Sagard's expansion through M&A transactions. The transaction is expected to close in 3Q23, subject to regulatory approvals. The strategic partners have also committed to providing additional long-term capital to support Sagard's current and future investment strategies. This commitment aims to enhance fundraising capabilities and empower the company to introduce new investment products.

Edge acquires OryxLabs to strengthen cybersecurity solutions portfolio

UAE's Edge has acquired prominent cybersecurity firm OryxLabs to expand its advanced technology solutions portfolio. OryxLabs offers tailored cybersecurity solutions and employs three proprietary solutions, enhancing Edge's capabilities in addressing emerging cyber threats. The acquisition provides Edge with advanced cybersecurity solutions and opportunities to grow both locally and internationally.

Aster DM Healthcare in talks to sell stake in India business to private equity groups

UAE's Aster DM Healthcare is in talks to sell its stake in India Business to private equity groups such as Blackstone and KKR, among others. The move aims to capitalize on sectoral consolidation, while early discussions claim to focus on reverse merging India's portfolio of Care Hospitals with the listed India business. Reuters earlier reported that Aster is reportedly looking to sell 65% stake in its Gulf business to a private equity firm Fajr Capital at a USD 500 Mn valuation

ENOC Group and QatarEnergy ink 10-Year agreement for supply of 120 Mn barrels of condensates

The UAE's National Oil Company (ENOC) Group signed a 10-year deal with QatarEnergy for up to 120 Mn barrels of condensates supply. The agreement is signed by QatarEnergy on behalf of Qatar Petroleum for the Sale of Petroleum Products Company Ltd (QPSPP) and ENOC Supply and Trading LLC. The terms also allow for a possible increase in condensate volumes as Qatar's North Field East (NFE) and North Field South (NFS) expansion projects come online

Invictus to invest USD 272 Mn in agro-food trading across the MENA

Abu Dhabi's Invictus Investment Company is planning to invest AED 1 Bn (USD 272 Mn) to expand into MENA through acquisitions and joint ventures with local entities. The focus will be on agro-food trading and diversifying into logistics and food processing with potential markets being Morocco, Algeria, Kenya, Tanzania, and Mozambique. The company's primary focus will be on investing in food processing within Africa, aiming to enhance its trading operations and establish better consumer access within the region. Invictus has already exported 1 Mn metric tonnes of agro-commodity exports to Egypt this year

Emirates Airline launches charter services to GCC destinations

Emirates Airline has introduced an on-demand regional charter service for travelers seeking short trips within the GCC nations, departing from Al Maktoum International Airport by using the Phenom 100 aircraft, with a seating capacity for up to four passengers. The service enables customers to travel to various destinations within and outside the GCC through the Emirates network, ensuring swift connections to Saudi Arabia, Bahrain, Kuwait, Oman, and within the UAE. The services aim to provide privacy, flexibility, and a hassle-free ground experience. Upon reaching to the destination, passengers will enjoy streamlined on-ground services, including VIP customs clearance, immigration assistance, and guided arrivals, facilitated by the terminal's dedicated service partners.

ADIA in advanced talks to join KKR &Co in EUR 23 Bn bid for Telecom Italia's landline network

Abu Dhabi Investment Authority (ADIA) is in advanced talks to join KKR in its EUR 23 Bn bid (USD 25 Bn) to acquire Telecom Italia's Landline SpA's Network. ADIA is discussing equity support for the bid and may invest directly in the network or take a stake in the KKR fund housing the company. Telecom Italia is selling the landline network to reduce its debt. KKR raised its bid last month to EUR 23 Bn but still fell short of the EUR 30 Bn valuation sought by Vivendi, the company's top shareholder

Agthia Ventures launches AED 200 Mn VC fund to invest in complementary F&B startups

Agthia has launched an AED 200 Mn (USD 54 Mn) corporate venture capital fund (CVC) with its parent company ADQ to foster mutual value with startups in the food and related industries. Agthia Ventures will be jointly managed with Touchdown Ventures, a player in establishing and operating bespoke CVC programs for major corporates. Agthia Ventures seeks to partner with F&B startups, granting them access to Agthia's industry expertise, distribution networks, and technological infrastructure. The fund is stage-agnostic and seeks companies with product-market fit and revenue growth. The fund will prioritize investments in brands, categories, and solutions that complement and align with Agthia's existing portfolio

Abu Dhabi's ADGM introduces hotel and tourism licences under new regulations

Abu Dhabi Global Market (ADGM) will introduce new regulations to issue licenses for leisure and tourism activities, including alcohol licenses, to hotels located within its jurisdiction. The new regulations in ADGM will adopt onshore tourism legislation from DCT for an enhanced regulatory framework. DCT will oversee regulatory responsibilities for hotels and tourism establishments, while ADGM's registration authority will retain the right to issue commercial licences and permits. The entities seeking to operate hotel or tourism businesses in the free zone will have to apply for pre-approval from DCT and obtain a licence from ADGM's registrar.

UAE is expected to issue more local sukuk issuance as per S&P

S&P expects UAE to launch more local sukuk issuances in upcoming years to develop domestic capital markets. The global sukuk issuance for FY2023 is projected to reach USD 160-170 Bn, surpassing the initial estimate of USD 150 Bn. However, 1H23, total issuances decreased by 17.5% to USD 83.2 Bn compared to USD 100.7 Bn in the same period last year. The UAE Government launched a AED 1.1 Bn Islamic Treasury Sukuk in April to build a local currency bond market and boost the Islamic economy. While the local dirham-denominated Islamic bond market is in its early stages, local players currently raise funds through dollar or foreign currency-denominated sukuk.

Abu Dhabi's Masdar hires Citi Bank and FAB for the debut sale of its green bond

Masdar, the Abu Dhabi-based renewable energy company, is preparing to launch its first-ever green bond. The company has appointed Citi and First Abu Dhabi Bank as joint global coordinators for the upcoming bond sale. The issuance will be accompanied by investor calls, followed by the sale of 10-year senior unsecured bonds of benchmark size, subject to market conditions. The move comes as Gulf issuers seek to enhance their environmental credentials through sustainability-linked debt, with the UAE hosting COP28 climate summit later in 2023.

UAE and Turkey sign USD 50.7 Bn in strategic agreements to boost economic cooperation

UAE and Turkey signed several agreements and MoUs of USD 50.7 Bn to strengthen the ties between the two nations. The agreements cover investments in renewable energy, petrochemical projects, defense industries, space cooperation, export credit financing, and sukuk investments for reconstruction. The two nations aim to increase trade to USD 40 Bn in the next five years. Turkiye's economic potential and commitment to macroeconomic stability enhance its appeal as an investment destination.

SAUDI ARABIA

Non-oil sector in KSA recorded strong expansion fuelled by new businesses

Saudi Arabia's non-oil private sector experienced significant expansion in June, with output and new orders rising at accelerated rates, according to Riyad Bank's PMI data. The June PMI reached 59.6 as compared to 58.5 in May 2023, indicating robust growth above the long-run trend. The construction and tourism sector saw accelerated inflows of new business. The output and new orders sub-indices reached multi-year record rates, contributing to the strong PMI reading. The month recorded increased purchasing activity and inventory accumulation to a ten-month high, signalling preparation for future growth.

Saudi Aramco and Sonatrach reduced LPG prices in July 2023 amid weaker demand

Algeria's Sonatrach and Saudi Arabia's Aramco reduced their official selling prices (OSPs) for liquefied petroleum gas (LPG) in July 2023. This was in response to weaker demand and abundant global supply. Aramco's July OSP for propane was cut by USD 50 to USD 400 per tonne, and butane was lowered by USD 65 to USD 375 per tonne. Meanwhile, Sonatrach decreased its July OSP for propane by USD5 to USD 400 per tonne and reduced its butane OSP by USD 70 to USD 335 per tonne.

Saudi Arabia issued 53 new industrial licenses in April 2023

The Ministry of Industry and Mineral Resources (MIM) issued 53 new industrial licenses in Saudi Arabia in April 2023. These licenses were distributed across seven industrial activities food processing leading with 9 licenses, followed by manufacturing of formed metal products and other non-metallic mineral products with 8 licenses each. The report from the National Center for Industrial and Mining Information under MIM highlighted that a total of 385 industrial licenses were issued from the beginning of FY2023 until the end of April, and the number of existing and under-construction factories reached 10,873 with an investment value of SAR1.440 Tn. the small enterprises received the highest number of new licenses during April 2023, and the national factories accounted for the majority of investments.

Jeddah-based ITFC signed USD1.4 Bn financing deal to fund Bangladesh's oil imports

The International Islamic Trade Finance Corporation (ITFC), signed USD 1.4 Bn financing plan with Bangladesh to support the country's oil imports. The plan will facilitate oil product imports by the Bangladesh Petroleum Company from July 2023 to June 2024, as reported by the Saudi state news agency (SPA).

Swiss regulator blocks Saudi National Bank's to increase stake in Credit Suisse

The Saudi National Bank's (SNB) liked to increase its stake in Credit Suisse from 9.88% to 40% which was halted by Swiss regulator FINMA. The foreign investor must secure approval of FINMA before buying more than 10% in a local major Swiss Bank. UBS acquired a stake in Credit Suisse for USD 3.4 Bn. UBS completed the emergency takeover, creating a banking and wealth management giant overseeing USD 5 Tn in assets. The deal converted SNB’s stake in Credit Suisse into just 0.5% of UBS.

SAMA grants license to “Dhamanat”, Saudi Mortgage Guarantee Company

The Saudi Central Bank (SAMA) has licensed the Saudi Mortgage Guarantee Services Company "Dhamanat" to provide "General Insurance" and "Protection and Savings Insurance" services. This move aligns with SAMA's role in promoting financial stability and economic growth in line with Saudi Vision 2030. The licensing aims to address home ownership challenges and encourage finance companies to offer subsidized real estate financing solutions. The emphasis is on dealing with authorized financial institutions to enhance efficiency and promote financial inclusion.

Saudi Arabia's industrial production index records first drop in the last two years

Saudi Arabia's Industrial Production Index (IPI) declined 1.2% YOY in May 2023, marking the first decrease in the last two years. The index reached 130.2 points, down from 131.8 points during the previous year, mainly driven by lower production in the mining and quarrying sector. Activity in the mining and quarrying sector fell 5.5% YoY due to reduced oil production, while manufacturing activity rose 10% YoY and electricity and gas supply rose 12% YoY, according to data from the GASTAT.

Saudi Arabia's PIF faces USD 11 Bn investment loss in FY2022

Saudi Arabia's Public Investment Fund (PIF) recorded a loss of approximately USD 11 Bn from investment activities, in contrast to a USD 19 Bn profit in FY2021. The loss attributed to PIF's owner was USD 9.8 Bn last year, a significant decline from the previous year's profit of SAR 81.8 Bn. Despite the loss, PIF's total assets grew to around USD 778 Bn from USD 676 Bn. The fund's borrowing reached USD 85 Bn by the end of FY2022, and it successfully raised USD 5.5 Bn through a three-part green bond sale earlier in the year.

Inflation declines in KSA in June 2023

Saudi Arabia's annual inflation rate eased to 2.7% in June 2023 from the previous month 2.8% in May 2023. Housing, water, electricity, gas, and other fuel prices rose 9.1% in June 2023 as compared to the same month last year. Restaurant and hotel prices rose 4.3%, and education costs went up 3%. Conversely, clothing and shoe prices fell 2.9%, communication costs decreased 0.7%, and miscellaneous personal goods and services declined by 0.1%. KSA’s inflation has been on a downward trend since the beginning of the year, starting at 3.4% in January 2023.

Saudi Ports records growth in June container volumes

The Saudi Ports Authority (Mawani) registered a 6.8% YoY increase in container numbers in June 2023. The port handled a volume of 685,645 TEUs in June 2023 as compared to 642,024 TEUs in June 2022. The number of exported containers rose 9.90% to 211,568 TEUs, while imported containers rose slightly 0.12% to 205,046 TEUs. Transshipments also surged 9.93% to 269,031 TEUs.

QATAR

Qatari ports witness an impressive 32% growth in container transshipment volume in 1H23

Qatari ports experienced a 32% YOY increase in container transshipment volume in 1H2023, with livestock, building materials, and RORO growing by 196%, 5.3%, and 5.5%, respectively. The three ports (Hamad Port, Ruwais Port, and Doha Port) handled 633,029 containers, 771,883 tonnes of general cargo, 274,694 tonnes of building materials, 40,162 vehicles, and 294,031 heads of livestock. Hamad Port saw 30% of the total containers handled in 2022. Mwani Qatar is working to transform Qatar into a regional trade hub by strengthening its role as a pivotal gateway for transhipment in the region.

Thailand's PTT in advanced negotiations with Qatar for long-term LNG supply deal amid rising Asian demand
Thailand's PTT is in advanced talks with Qatar for a 15-year LNG supply deal, with a supply of 1 or 2 million tonnes per annum. This is the latest in a series of deals by Asian buyers to secure long-term supplies. Qatar is the world's top LNG exporter, and Asian companies are outpacing Europe in securing supply from Qatar's expansion plan. PTT has already signed three LNG supply deals with Asian buyers, with more expected later this year. Thailand, a net oil and gas importer, needs to increase LNG imports to offset a production decline in its gas fields.

EGYPT

Egypt's non-oil private sector business condition deteriorates but at the slowest rate in 22-month

Egypt non-oil private sector records deterioration in business condition however at the slowest pace in the last 22 months. The Purchasing Managers' Index (PMI) for the country increased from 47.8 in May 2023 to 49.0 in June 2023. However, it remains below the threshold of 50.0, indicating economic expansion according to S&P Global Egypt PMI. The decline continued however it was marginal overall. Inflation eased from the peak level in January 2023 although employment dipped for the seven months in a row however at a marginal level. There is subdued confidence in the 12-month outlook and it remained at weakest level since 2012. Price pressures, liquidity issues, and weak demand contributed to lower total business activity volumes by the end of 2Q23.

Egypt’s foreign reserve grows to USD 34.8 Bn in June 2023

The CBE reported foreign reserve value for June 2023 rose USD 146 Mn to USD 38 Bn. During its meeting on 22 June 2023, the Monetary Policy Committee (MPC) made the decision to maintain the benchmark overnight deposit and lending rates at 18.25% and 19.25%, respectively. Similarly, both the main operation and discount rates were kept unchanged at 18.75%. Moreover, the MPC emphasized that the current growth in real economic activity is primarily driven by private-sector businesses. This growth is further supported by positive contributions from the trade, agriculture, and construction sectors.

Egypt's annual urban CPI inflation hits record high of 35.7% in June 2023

Egypt's annual urban consumer price inflation in June 2023 reached a record 35.7%, up from 32.7% in May 2023. The country's headline inflation is expected to rise even higher due to the unfavourable base effect and increased demand during the Eid al-Adha holiday. The Egypt devalued its currency by about half since March 2022, after the fallout from Russia's invasion of Ukraine, exposed its economic vulnerabilities. The first review of the USD 3 Bn IMF Extended Fund Facility loan, approved in December 2022, has been delayed due to uncertainty surrounding Egypt's commitment to adopting a flexible exchange rate.

Egypt targets debt-to-GDP ratio of 75%-80% in next four years

Egypt’s finance minister announced a target debt to GDP ratio of 75%-80% in the next four years, as the government achieved a primary surplus of EGP 157 Bn (USD 5.09 Bn) in the 2022-23 financial year that ended in June.

Egypt initiates plan to realize USD 1.9 Bn from stake sale of national assets

Egypt aims to boost its private sector and raise hard currency by selling USD 1.9 Bn worth of stakes in state assets. The country anticipates increasing its annual hard currency inflow to USD 70 Bn by 2026, helping to address persistent foreign currency shortages said prime minister.

Actis to acquire Gabal El-Zeit wind power plant in Egypt's from TSFE

British company Actis reached a preliminary agreement with the Sovereign Fund of Egypt to acquire the Gabal El-Zeit wind power plant as part of the government's IPO program, which comprises 32 companies. Actis' received bid for the 580-megawatt station was one of four serious offers received from both local and international companies, including Siemens Gamesa, Orascom, and an Italian company. Actis presented a strong technical offer, outlining plans for the complete development of the turbines to enhance production capacity post-acquisition. The final procedure is expected to begin after the official announcement from the government.

Egypt and World Bank's IFC collaborate on ambitious IPO program of state-owned firms

Egypt is currently making an extensive preparation to bring approximately 50 state-owned enterprises to the market under its groundbreaking Initial Public Offering (IPO) program. In a strategic partnership with the International Finance Corporation (IFC), an arm of the World Bank, Egypt is making significant strides towards privatizing key state assets. The government is implementing this program within the framework of the State Ownership Policy Document. On 18 June 2023, the Egypt and the IFC signed a comprehensive five-year agreement, appointing the IFC as the strategic advisor to the state's IPO program. The program, in its current stage, already facilitated the offering of 32 companies for sale, and around 25% of the stake offered already completed with the remaining asset to be offered over the coming period.

Egypt in talks with UAE for USD 400 Mn financing to address wheat procurement

Egypt, one of the world's major wheat importers, is in negotiations with the UAE for a substantial USD 400 Mn financing package aimed at aiding its wheat purchases. The funding, to be provided by the Abu Dhabi Fund for Development of USD 100 Mn in tranches, holds the potential to alleviate the country's acute shortage of foreign exchange and the cost-of-living crisis exacerbated by soaring food prices due to the Ukraine war. This collaboration signifies the importance of international support during economic uncertainties, reinforcing bilateral ties and promoting stability for both nations. The successful conclusion of this deal would bolster Egypt's economic resilience and secure vital food supplies for its population.

OMAN

Oman announces plans for two economic free zones in Khazaen economic city

Oman plans to establish two economic free zones in Khazaen economic city, Al Batinah South Governorate, under the supervision of the Public Authority for Special Economic Zones and Free Zones.

Oman unveils multi-purpose port in Masirah region to boost tourism and transport sectors

Oman plans to build a multi-purpose port in the Masirah region, covering 1.8 million sq m, to cater to tourism, transport, and fisheries sectors. The port will have floating anchors for breakwaters and a length of 4,172 metre. It will have 132 fixed berths for Coast Guard and marine transport, a slide for ferries, a terminal for passengers, and four berths for tourist yachts. The project is part of Oman Vision 2040 and is expected to attract visitors to the island's uninhabited beaches, sea views, and rugged terrains.

BAHRAIN & KUWAIT

Bahrain signs MoU to invest USD 1.3 Bn in UK

Bahrain signed a memorandum of understanding for strategic investments and collaborations with Britain, involving the private sector's investing GBP 1 Bn (USD 1.3 Bn) in Britain. The investments will be made through Mumtalakat, Investcorp, GFH Financial Group, and Osool Asset Management.

Kuwait to establish sovereign fund 'Ciyada' to drive economic development and attract foreign investment

Kuwait plans to establish a new sovereign fund called Ciyada to develop its local economy, spearhead mega projects, and attract foreign investors and the private sector. Ciyada focuses on domestic investments to fuel economic development and diversify Kuwait's economy. The KIA, with over USD 800 Bn in assets under management, controls the Kuwait Investment Office and manages the General Reserve Fund and Future Generations Fund. Similar funds in the MENA region, such as Abu Dhabi Mubadala Investment Company and Saudi Arabia's Public Investment Fund, aim to expand the Kingdom's economic growth.

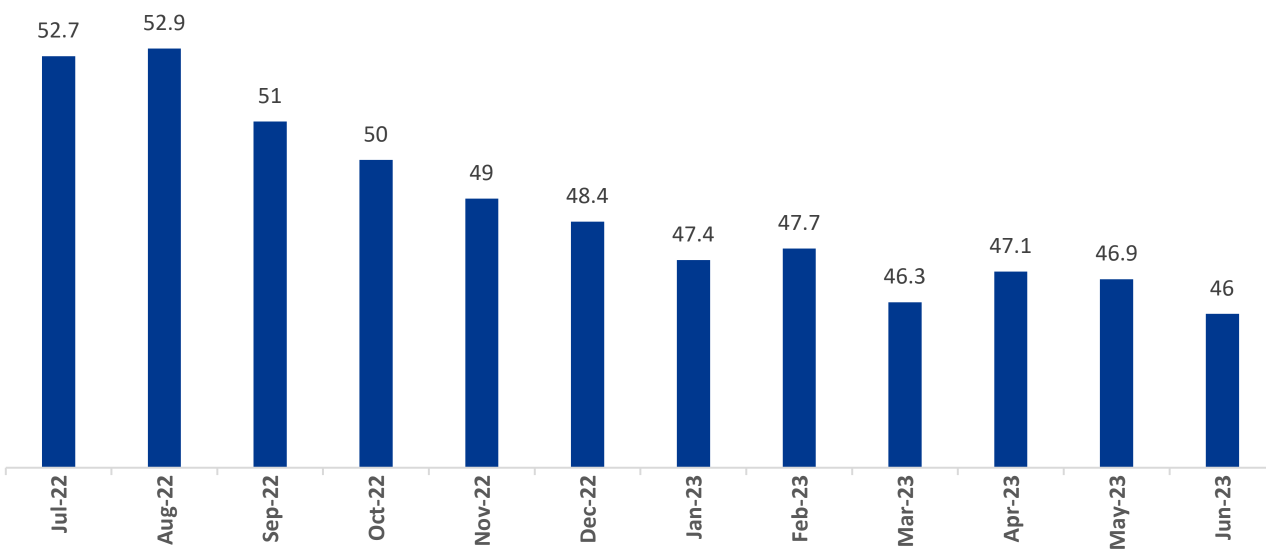
China's manufacturing PMI softened in June 2023

According to Caixin, China's manufacturing sector continued to expand in June 2023 however at a slower pace recording a manufacturing PMI of 50.5 as compared to 50.9 in May 2023. Production increased in the economy owing to firm demand and leading to an increase in the number of new orders. Expansion in the PMI index was mainly driven by improvement in domestic sales. Companies increased their purchasing activity in June owing to the rise in new orders.

US manufacturing PMI contracted at a faster pace in June 2023

According to Institute for Supply Management (ISM), US's manufacturing PMI contracted to 46.0 in June 2023 from 46.9 in May 2023. The contraction is faster than the estimate. The decline in the index was a result of a fall in production, price, and employee index partially offset by an increase in new orders in June 2023 as compared to the previous month. The reading also reflects a decline in companies' output as softness continues which further weakened the outlook for second half of 2023.

Figure 24: US ISM Manufacturing PMI



Source: Investing.com

Eurozone's manufacturing PMI fell to a three-year low in June 2023

The Eurozone S&P Global manufacturing PMI declined to 43.4 in June 2023 as compared to 44.8 in May 2023 declining for the 12th consecutive month. The downturn in manufacturing activity is mainly attributable to a sharp decline in production and orders owing to the impact of tight monetary policy on the private sector. The decline in production altered the demand in the region while new orders declined at the fastest rate in eight months. Furthermore, staffing levels fell in June 2023 for the first time since January 2021 due to a decline in orders and output. Moreover, manufacturers decreased purchases by the highest rate in 26 months during June 2023 along with an increase in destocking. Likewise, input prices declined at the fastest rate since 2009 in June 2023. In addition, Germany, France, Italy, and Spain, the biggest economies in Eurozone witnessed contraction during the period.

UK's manufacturing PMI contracts in June 2023 over uncertainty in demand

UK's manufacturing PMI declined to 46.5 in June 2023 as compared to 47.1 in the previous month. The index declined for the 11th consecutive month in 2023. The decline in the index is driven by a fall in domestic as well as foreign demand along with a fall in home orders. Manufacturers reduced their staffing levels at the sharpest rates since March 2023. Moreover, the economy also witnessed a decline in output due to lower purchasing activity. Input cost reduced at the fastest rate since February 2016. However, S&P Global expects the launch of new products and higher spending along with a growth in capital investment to boost production in the region during the next 12 months.

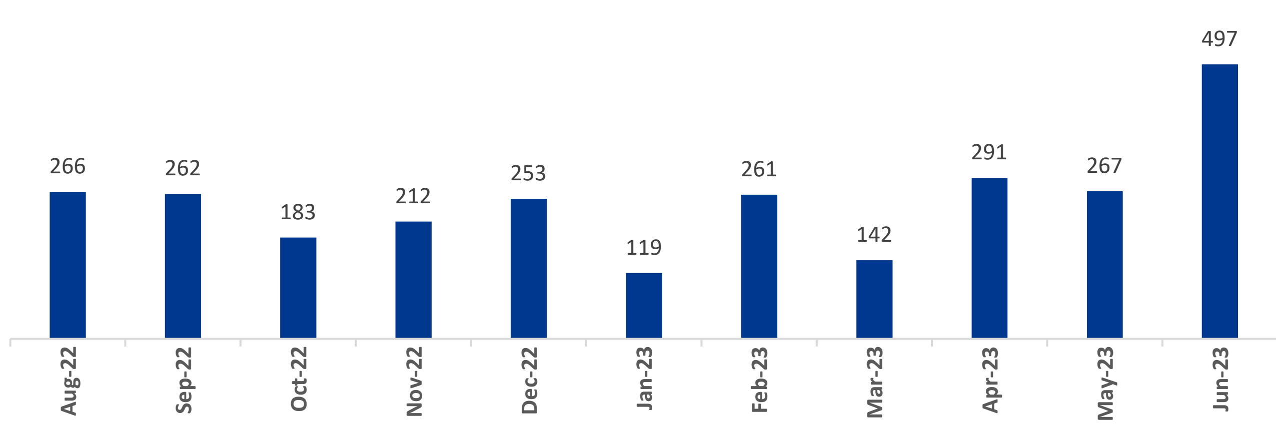
China's services PMI declined but still indicated expansion in June 2023

China's services sector PMI declined to 53.9 in June 2023 as compared to 57.1 in the previous month. The PMI data rose at the slowest pace in the last six months in June 2023 as weak demand weighed on the post-pandemic recovery momentum. The PMI index rose at a faster pace in 1Q23, while it lost momentum in 2Q23 due to steep deflation, high youth unemployment and sluggish foreign demand. In June 2023, business activity and new orders both expanded at a slower rate in May 2023. In addition, new export orders slowed but still maintained a brisk pace.

US private sector employment grew higher than expected in June 2023

The report released by payroll processor ADP indicated that private-sector employment in the US surged more than expected in the month of June 2023. The private sector employment in the US increased significantly by 497 thousand jobs in June 2023 as compared to the previous month's figure of 267 thousand jobs in May 2023. The higher-than-expected employment is attributable to higher employment in the leisure and hospitality sector which grew by 232 thousand jobs in June 2023. Likewise, employment in trade & transportation, construction, and education services also grew partially offset by a decline in employment in the manufacturing and information sector. Despite the growth, wage increments are gradually slowing down and the surge in hiring is probably reaching its peak as the economic cycle matures.

Figure 25: US Private Sector Jobs Growth ('000)

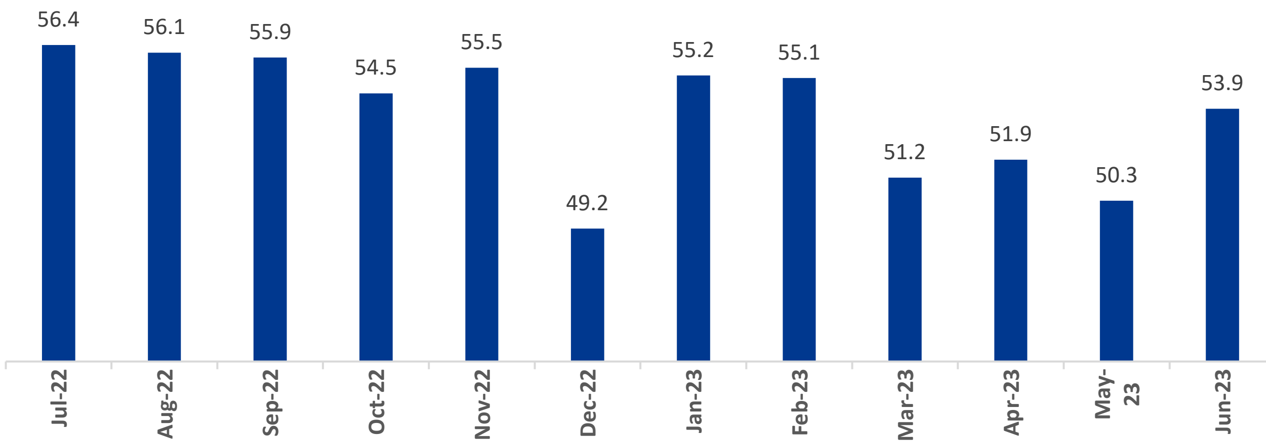


Source: Investing.com

US services PMI rebounded more than expected in June 2023

The US ISM services PMI rose to 53.9 in June 2023 as compared to 50.3 in May 2023, better than expected. The strong growth in PMI data is mainly attributable to growth in business activity, an increase in new orders, and higher employment. In addition, the price index declined to 54.1 in June as compared to 56.2 in the previous month.

Figure 26: US ISM Services PMI

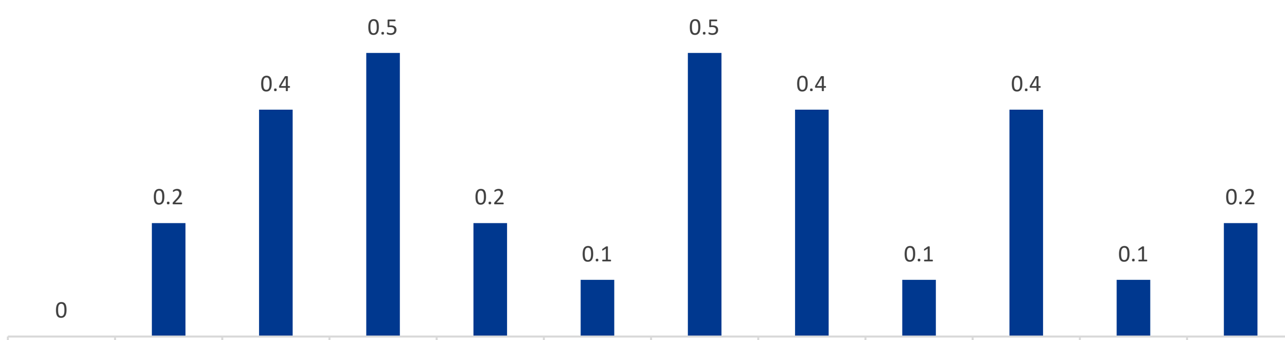


Source: Investing.com

US headline inflation advances 0.2% MOM in June 2023

Consumer price in the US grew at a slower rate than expected in the month of June 2023. The index rose 0.2% MOM in June 2023 as it inched up 0.1% MOM in May 2023. The increase in consumer prices is mainly owing to hike in prices for shelter, food, and energy partially offset by lower prices for communication, household furniture, and used cars. This is the smallest price hike since August 2021. The annual inflation also slowed down to 3.0% in June 2023 as compared to 4.0% in May 2023. The core inflation also fell on annual basis from 5.3% in May 2023 to 4.8% in June 2023.

Figure 27: US Consumer price index (CPI)



Source: Investing.com

China's economy grew 6.3% YOY in 2Q23

China’s GDP rose 6.3% YOY in 2Q2023, below expectations. The economy grew 0.8% QOQ in 2Q23 slower than 2.2% QOQ growth recorded in 1Q23. China eased COVID restrictions in December 2022 and initial economic rebound seems to have lost steam. The real estate sector in China struggled to recover, while exports plunged due to falling demand. China’s demand gradually recovered while rising production led to increasing employment and prices. Retail sales rose 3.1% YOY in June 2023 while the unemployment level rose to 21.3% in June 2023, up from 20.8% in May 2023.

IMF anticipates MENA economic growth rate to decline to 2.6% in 2023

IMF forecast economic growth in the Middle East and North Africa (MENA) region to decline to 2.6% in 2023 from 5.4% in 2022. Specifically, Saudi Arabia's growth rate is expected to slow down significantly from 8.7% in 2022 to 1.9% in 2023 due to production cuts announced as a result of OPEC+ agreements. Nonetheless, the kingdom is anticipated to experience a slight rebound with growth projected to increase to 2.8% in 2024. Private investments, including contributions from giga projects, are helping to support robust non-oil GDP growth despite the slowdown.

GCC central banks hike interest rates tracking US Fed

The GCC central banks raised interest rates, following the US Federal Reserve's decision to increase the benchmark overnight interest rate by one-quarter of a percentage point. UAE raised the base rate on overnight deposits by 25 basis points to 5.40%, marking the 11^{th} hike in the US monetary authority's battle to tackle elevated inflation. The GCC region is expected to see inflationary pressure soften further to 2.7% on average this year due to previous rate hikes and slowing global growth. Saudi Central Bank raised repo and reverse repo rates, Bahrain's key interest rates, Qatar's lending, and Kuwait's discount rate.

Federal reserve raises interest rates amid surging inflation

The Federal Reserve raised interest rates by a quarter of a percentage point, resulting in the highest US central bank policy rate in 16 years. The Fed committee set the benchmark overnight interest rate in the 5.25%-5.50% range and continue to assess additional information and its implications for monetary policy. Key measures of inflation remain more than double the Fed's target, and the economy continues to outperform expectations despite the rapid increase in interest rates. The Fed left the door open for one additional interest rate hike in the future.

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