



# Monthly Market Insights

July 2021

## Macro update – Monetary Policies remain powerful drivers

Asset Classes	Closing	MTD	YTD
S&P 500	4298	2.22%	16.13%
MSCI EM	1377	1.20%	5.57%
MSCI World	3024	1.52%	13.27%
MSCI GCC	675	3.20%	22.64%
Oil	75.08	9.72%	50.10%
Gold	1761	-7.49%	-9.35%
US Treasury Yield	1.468	-13bps	55bps

Key Interest Rates	Closing	MTD (bps)	YTD (bps)
LIBOR	0.145	1.4	-9.2
EURIBOR	-0.542	0.2	0.4
TIBOR	0.059	-1.0	-2.0
SIBOR	0.793	0.1	-2.3
EIBOR	0.350	-2.5	-10.0
HIBOR	0.170	-0.2	-16.0

Sovereign CDS	Closing	MTD (bps)	YTD (bps)
Abu Dhabi	38.9	-3.5	0.6
Saudi Arabia	53.2	-7.2	-12.4
Kuwait	49.5	-0.7	2.6
Bahrain	208.3	2.3	-38.2
Oman	246.7	-12.2	-120.6
Turkey	382.5	-27.2	78.7

Upcoming Key Events	
09.07.2021	Dubai CPI
14.07.2021	Turkey Central Bank Meeting
15.07.2021	Qatar 1Q21 GDP
27.07.2021	FOMC Meeting

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### OVERVIEW

June marked the month that kick-started discussions regarding a reversal in the US central bank's monetary policy against the backdrop of a faster-than-expected rise in inflation. At the policy meeting, Federal Reserve chair Jerome Powell signaled to bring forward projections of its first post-pandemic rate hike into 2023 from 2024 earlier, while opening the debate on the timing of tapering of the security buying program. Moreover, the Fed's quarterly projection revealed forecasts of a solid 7% GDP growth rate for 2021. Although the unexpected hawkish Fed commentary spooked the equity markets, prospects of economic revival boosted tech and energy stocks that helped offset losses. Meanwhile, the 10-year US Treasury yield rose as high as 1.58% post the Fed policy, but quickly regained footing to end the month below 1.50% after Powell's highlighted 'broad and inclusive recovery in the job market as a pre-requisite to any rate hike. European Central Bank avoided any taper talk with chief Christine Lagarde expecting inflation to remain lower than its target, citing the recent overshoot in inflation as temporary. Meanwhile, the completion of national ratifications has now enabled the EU to start making funds available to member states under the Recovery and Resilience Facility. However, investors remain watchful of the evolution of the pandemic, given that the emergence of the highly-contagious delta variant cases in the region could pose a threat.

### MACRO BACKDROP

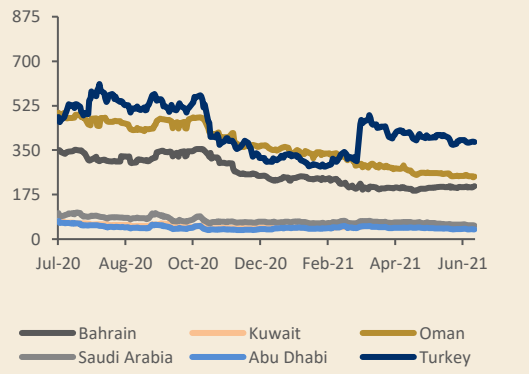
- US macro data revealed a mixed picture. CPI rose 5% y/y in May, posting the largest gain since 2008, from 4.2% in the month prior, beating estimates of a 4.7% rise. Manufacturing activity too picked pace, with flash PMI rising to 62.6 in June from 62.1 in May. Jobless claims slipped to 411K in the week of June 19. Unemployment rate declined to 5.8% in May from 6.1. Meanwhile, non-farm payrolls revealed an addition of 559K jobs in May, far below expectations of 650K, however above the 278K reported in April. On the contrary, retail sales fell 1.3% m/m from a 0.9% surge in April, while housing starts rose 3.6% m/m to 1.57mn.
- In Eurozone, manufacturing PMI rose to record high of 63.1 in June while service sector jumped to 58. CPI rose 0.3% m/m and 2% y/y in May. The Eurozone ZEW sentiment index fell marginally to 81.3 in June from 84 in May. Retail sales declined 3.1% m/m, however rose 23.9% y/y in April.

### KEY REGIONAL NEWS

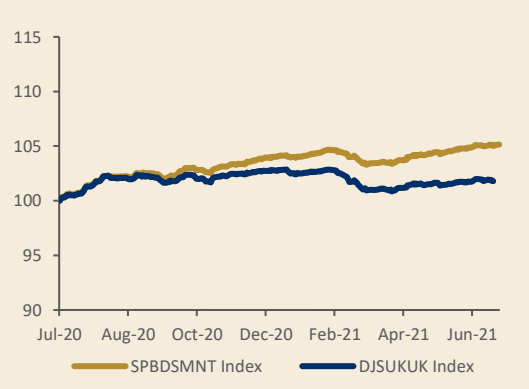
- The UAE Central Bank raised the base rate on the Overnight Deposit Facility (ODF) by 5 basis points, which followed FRB's announcement to increase the Interest on Excess Reserves (IOER). *Source: Gulf news*
- OPEC+ is discussing a further easing of oil output cuts from August. However, UAE has refused to accept the plan unless it's allowed to have a higher baseline for its own cuts, to better reflect its increased production capacity, by changing baseline from October 18 to April 20 which would enable it to pump up more oil. *Source: Marketwatch*

## Sukuk – Issuances picking up pace

Sovereign 5-year CDS spread movement

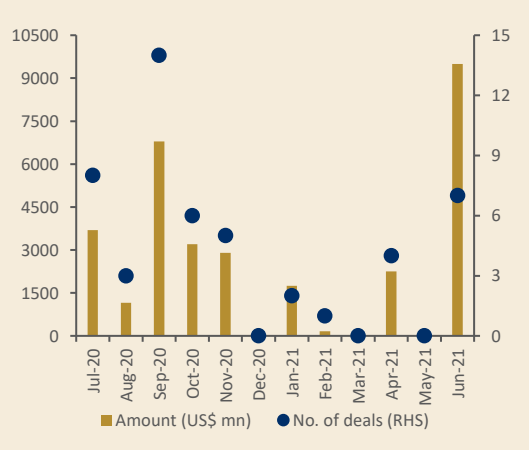


Sukuk index total return\*



\*Rebased to 100 on 1 July 2020

Monthly Sukuk new issuance volume



### Development in regional CDS market

GCC economies except Bahrain witnessed the tightening of 5-year CDS spreads on an MTD basis in June 2021 resonating with the positive signs for recovery in the second half of 2021 and strengthening business confidence in the region amid easing coronavirus restrictions coupled with steady progress in vaccination rollouts. Moreover, the GCC economies are seeking to capitalise on the surge of travel demand. Preparation for various regional events, such as Expo 2020 in Dubai and the 2022 FIFA World Cup in Qatar, an easing of regional tensions and spending by the Saudi Public Investment Fund (PIF) should support growth. CDS spreads of Oman tightened the most in the region by 12.2bps on MTD basis, followed by Saudi Arabia (7.2bps). Turkish CDS spreads tightened by 27.2bps MTD. Continuing the trend, Turkey's central bank kept its key interest rate at 19% reiterating its commitment to keep rates above inflation. Though it suggested that it is gradually approaching an expected cut by the end of 2021.

### Sukuk issuance regains traction

On MTD basis, both S&P Sukuk Mena and Dow Jones Sukuk indices witnessed a marginal rise in June 2021. Senaat 25s' and Mumtalakat Bahrain 21s' were the best performers with yield to worst (YTW) tightening by 191bps and 149bps, respectively. On the contrary, Oman Government 24s' and DUGB 29s' were the worst performers, with YTW widening 262bps and 163bps, respectively. In utility companies, Saudi Electric 43s' underperformed with yield widened by 163bps. The primary Sukuk market gained tremendous traction in June 2021 with some major Sukuk issuances as the issuers banked upon the lower interest rates.

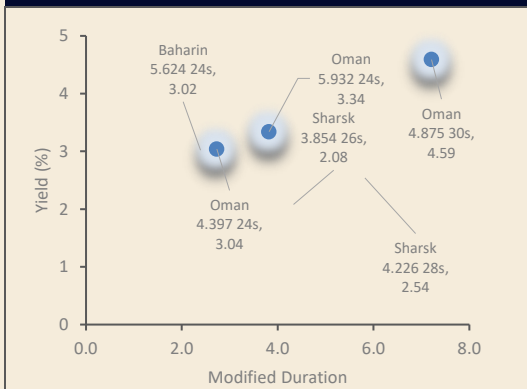
### Key developments

- On June 24, 2021, **Fitch affirmed Bahrain Mumtalakat Holding Company (Mumtalakat) at 'B+' with Stable outlook.** Fitch views Mumtalakat as a government-related entity (GRE) of Bahrain and equalises its ratings with those of the sovereign.
- On 21 June 2021, **Moody's assigned a rating of Aa2 for Abu Dhabi Developmental Holding Company PJSC (ADQ)** with stable outlook, which is intrinsically linked to the Government of Abu Dhabi.
- Saudi Aramco raised \$6.0bn from the sale of its first USD denominated Sukuk**, in three tranches. The company is raising money to help pay an annual dividend of \$75bn, a key revenue source for the Saudi government
- Dubai Islamic Bank issued \$1.0bn, 5 year senior Sukuk with a profit rate of 1.959%.** This transaction represents the lowest ever pricing achieved by DIB on any of their previous Sukuk issuances.
- S&P has revised Emaar Properties' outlook to Stable from Negative** as the Dubai residential real estate market gains momentum as stronger demand drives prices up for the first time since 2015. Moreover, a rebound in the company's earnings and credit metrics is expected in 2021.

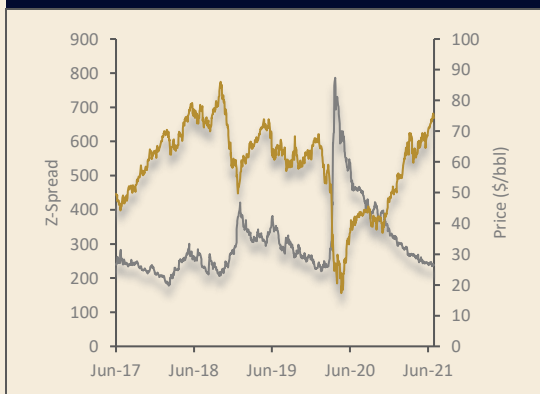
## Oman Sukuks- Overwhelming response to recent Sukuk issuance

### Sultanate of Oman

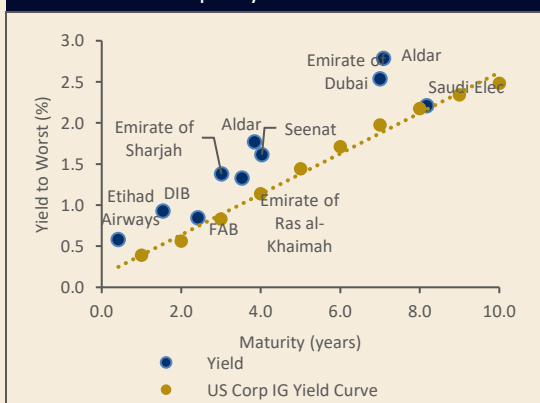
#### Oman Sukuk's decipherable attractiveness



#### Oman 4.397% 24s' (Z spread vs Oil Price)



#### Sukuk vs. US Corp IG yield curve



➤ In a bid to plug the large fiscal deficit, Oman issued a 9 yr. \$1.75bn Sukuk with a profit-sharing of 4.875% in June 2021. The issuance generated a robust order book of more than \$11.5bn and tightened from the initial price talks of around 5.375%-5.5%. Oman is rated at BB- and B+ by Fitch and S&P, respectively. The government's total debt stood at OMR19.7bn by the end of 2020 (OMR17.6bn at 2019-end). Presently, the debt pile stands at OMR21.2bn. The government will witness maturities of around 6% of the debt in 2021, while 2022 poses a challenge as roughly OMR4.5bn or 21.3% of debt matures in the year. After that, the maturities are staggered, with an average of 6.8% of the outstanding debt maturing every year until 2030.

➤ Looking ahead, real GDP is likely to rebound 2.3% in 2021 as vaccinations pick up and social distancing measures ease. The 2021 budget that is based on an oil price of \$45/bbl sees a fiscal deficit at 8% of GDP. The sultanate expects 73% of the deficit will be financed through external and domestic borrowing and the remaining by drawing on reserves. Starting April 2021, the government imposed a 5% Value Added Tax (VAT) on goods and services in Oman, which is expected to raise OMR300mn in 2021. Additionally, expansion of the excise tax base should revive non-hydrocarbon revenue. Thus, the government debt/GDP ratio is expected to fall below 71.7% in 2024, after reaching the high of 82.7% of GDP in 2021 due to pandemic and oil price crash last year.

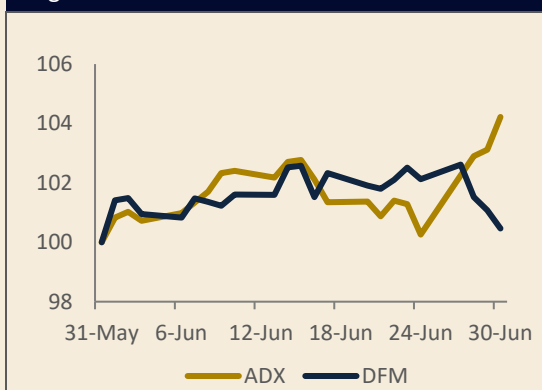
➤ Historically, the Oman Sukuks have shown a strong correlation with oil prices (refer Z-spread and oil price chart). A surge in oil prices, progress on fiscal consolidation, and abundant global liquidity have helped Oman issue the recent Sukuk at favorable pricing. Hence, despite the rating downgrades, the Oman Sukuk will stay resilient due to the rise in oil prices and strengthening business confidence in the region amid easing coronavirus restrictions coupled with steady progress in vaccination rollouts. Moreover, Oman's Sukuks are also attractively placed against the comparable sovereign issuances and high coupon rate protect them from potential interest rate hike.

### GCC- USD denominated Sukuk issuances in June 2021

Issuer Name	Coupon (%)	Issue Date	Maturity	Amount (\$mn)	Country
DIB Sukuk Ltd	1.959	6/22/2021	6/22/2026	1,000	UAE
SA Global Sukuk Ltd	2.694	6/17/2021	6/17/2031	3,000	Saudi Arabia
SA Global Sukuk Ltd	1.602	6/17/2021	6/17/2026	2,000	Saudi Arabia
SA Global Sukuk Ltd	0.946	6/17/2021	6/17/2024	1,000	Saudi Arabia
Ahli United Sukuk Ltd	3.875	6/17/2021	Perpetual	600	Kuwait
Oman Sukuk	4.875	6/15/2021	6/15/2030	1,750	Oman
QIB Sukuk	1.950	6/08/2021	10/27/2025	150	Qatar

## UAE Equities– UAE economy to recover in 2021

Regional index movement\*



\*Rebased to 100 on May 31

### DFM top five gainers and losers

Gainers	MTD	Losers	MTD
IFA	19.5%	ERC	-27.7%
GFH	14.5%	ALRAMZ	-9.9%
TAKAFULE	12.3%	MAZAYA	-8.5%
MASQ	9.8%	GULFNAV	-8.4%
ALSALAMK	5.7%	OIC	-8.0%

### ADX top five gainers and losers

Gainers	MTD	Losers	MTD
RAKCC	114.1%	AKIC	-76.2%
IHC	25.3%	FCI	-21.2%
EIC	21.3%	FNF	-19.2%
ZS	18.5%	RAKWCT	-17.1%
REEM	16.9%	AGTHIA	-13.7%

### UAE: DFM gained; ADX witnessed some profit-booking

Global equities witnessed some sell-off in the mid-June over risks of shift in US Fed policy due to rising inflation worries. However, most markets recovered strongly since then and closed in positive territory MTD (May 25 to June 25), reflecting improving economy conditions, moderating inflationary fears, and further supported by continued availability of low cost liquidity in the financial markets. The UAE equities closed mixed as ADX dropped on likely profit booking from higher levels especially in banking stocks, while DFM gained driven by buying into index heavyweight sectors such as Banks and Real Estate. The CBUAE expects the UAE economy to grow at 2.4% with 4% growth in the non-oil sectors which augurs well for the corporate earnings as well as the local equities. The foreign investors bought shares worth AED1,694mn on the ADX and AED339mn on the DFM. On the sectoral front, the Banks index (DFM: +3.3%) and Real Estate (DFM: +2.5%), Industrial (ADX: +10.5%) and Services index (ADX: +9.3%) contributed towards the gains. Index heavyweights such as Emirates NBD (+6.2%) and Emaar Properties (+3.7%) were the gainers. The average daily volume rose by 6.8% MoM to 236mn and declined 19.6% MoM to 120mn on ADX and DFM, respectively.

For the ADX, the index is in upward trajectory; however, the index has consolidated in the last few trading sessions. The index has witnessed negative cross-over between 50- and 100-SMAs and faced resistance around the 6,788 level. To continue its uptrend, the index must break this level. After its recent upward trajectory, DFM has faced resistance at 2,875 and has shown some correction from this level. The index is trading below all major moving averages and may take support at 2,808, 2,733 & 2,647 levels.

### Most read regional company headlines

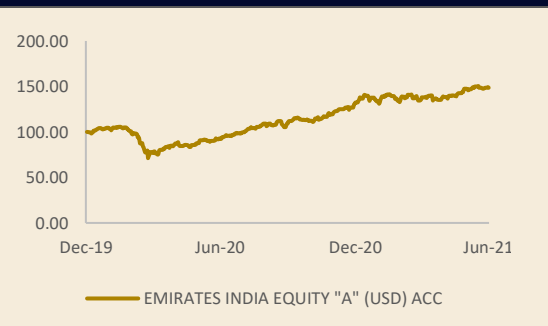
FAB	First Abu Dhabi Bank issues \$23mn in green security
ADCB	ADCB holders sell 164mn shares for AED1.1bn
SHUAA	SHUAA Capital sell all their Khaleeji Commercial Bank stake
DAMAC	DAMAC hires Arqam as financial advisor on Maple Invest offer

### Performance of regional markets

Country	Last close	Index changes %		MCap US\$bn	Volume mn shrs	Turnover US\$ mn	P/E (x) 12M	P/B (x) 12M	Div Yld 12M %
		1M	YTD						
Abu Dhabi	6,835.43	4.2	35.5	267.4	199.3	338.7	23.2	1.9	3.6
Dubai	2,810.56	0.5	12.8	83.1	123.1	91.1	21.3	1.0	2.8
Saudi Arabia	10,984.15	4.1	26.4	2,591.2	327.7	3,192.0	36.0	2.4	1.9
Kuwait (All shares)	6,386.79	2.8	15.2	121.3	398.0	245.2	40.7	1.6	2.0
Oman	4,063.40	5.5	11.1	12.8	13.7	5.5	14.3	0.8	3.9
Bahrain	1,587.97	4.0	6.6	24.5	2.1	0.8	27.3	1.1	2.1
Qatar	10,730.68	-0.2	2.8	147.7	80.1	86.4	18.1	1.6	2.7

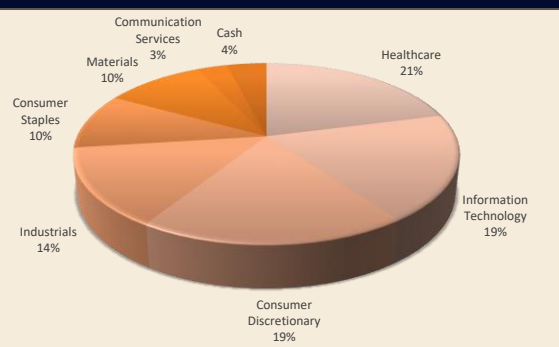
## Mutual funds – Optimism over improving demand prospects

Emirates India Equity "A" (USD)



\*\*Rebased to 100 on Jan 01, 2020

Emirates India Equity "A" (USD)



### Equity funds outperformance continues

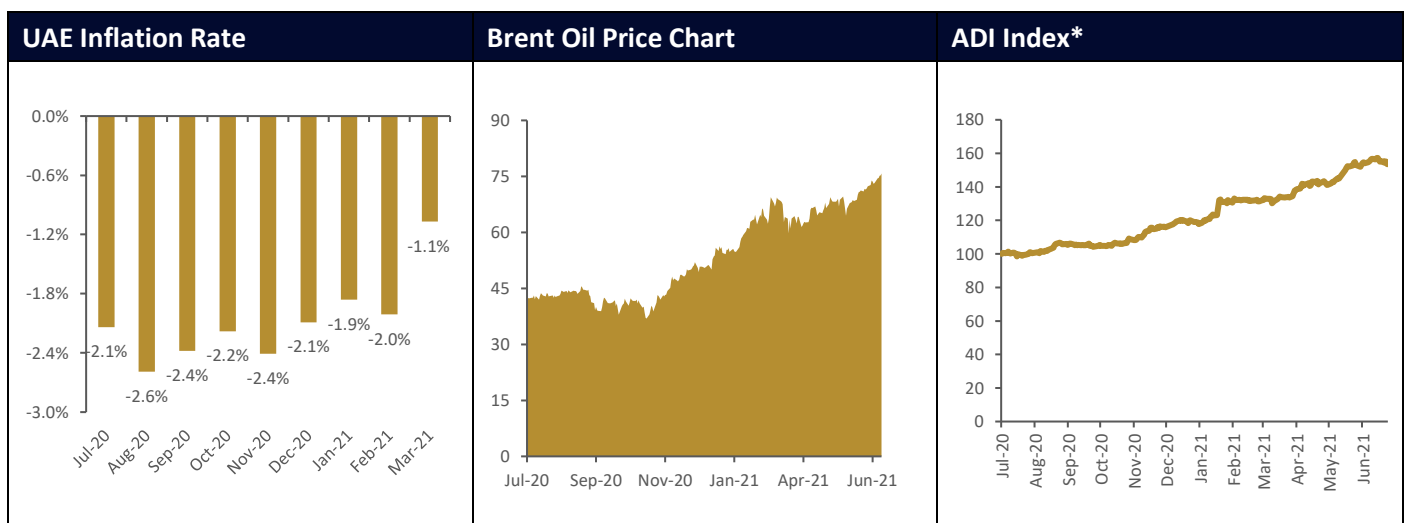
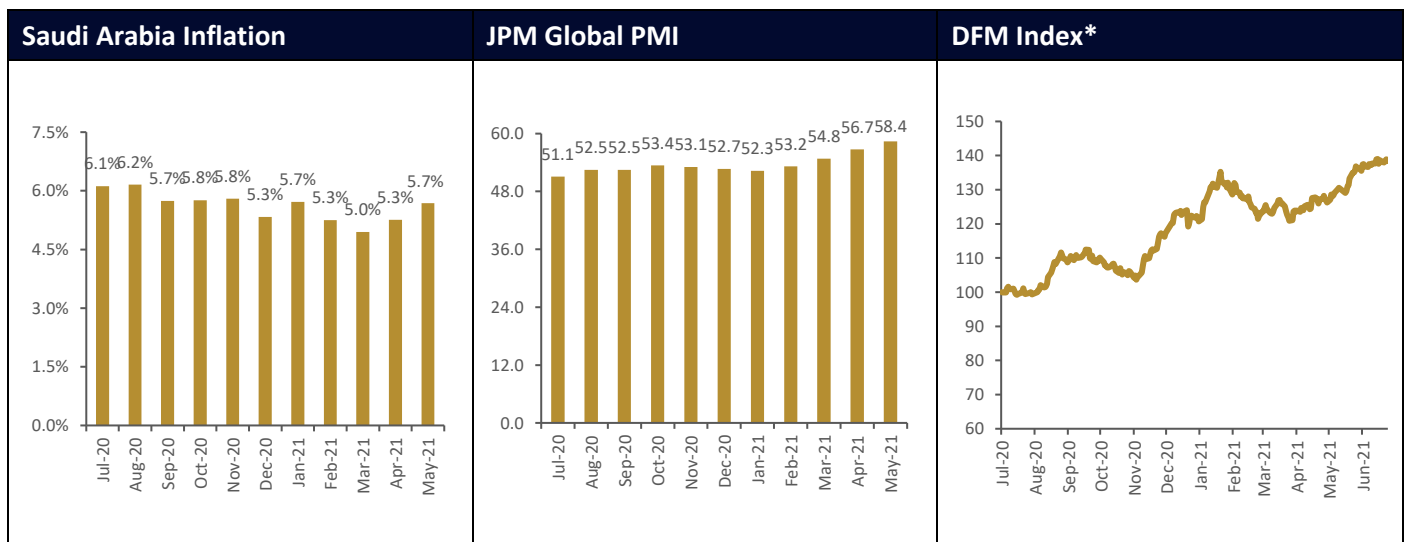
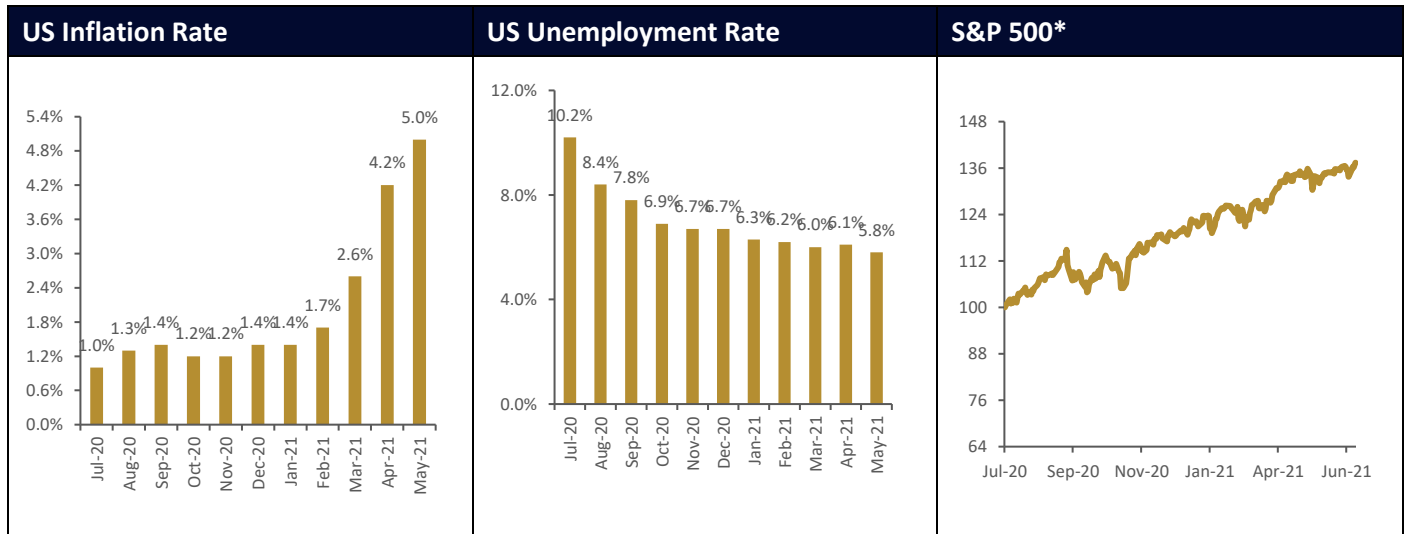
- From our coverage of 31 funds, 13 funds closed in the green on MTD basis (May 25 to June 25), primarily led by equity funds, due to the ongoing economy recovery assisted by fiscal stimulus and accommodative monetary policy. The global recovery is expected to be further boosted by the likely increase in household spending amid gradual restart of global economies. Going forward, rising vaccination coverage offers demand visibility while inflation and the outbreak of the new virus mutations remains key risks.
- Comgest Growth Europe S "EUR" ACC (+4.7% MTD) was the standout performer among the basket of our covered mutual funds. The outperformance was mainly attributed to the high investment allocation in Information Technology, Health Care and Consumer Discretionary sectors, which contributed to the returns.
- Mashreq Al Islami Income Fund "D" INC declined (-2.9% MTD), owing to the fund's exposure to Serba Dinamilk and Garuda Airline, both of which witnessed significant volatility during June 2021.

### Emirates India Equity "A" (USD)

The Emirates India Equity "A" (USD) Fund is an open-ended Shariah-compliant equity fund that invests in the companies listed in the Indian market to generate medium to long-term capital growth (89.8% return since inception; exceeding the benchmark's return of 82.5%). The fund follows active management style and focuses on specific opportunities to generate strong returns. The asset allocation comprises of 96% Equity and 4% Cash with the majority of allocation is skewed towards the Healthcare (21%), Information Technology (19%), Consumer Discretionary (19%) and Industrials (14%) sectors. As of May 2021, the Fund has been performing exceptionally well (~11.7% YTD), mainly due to the momentum witnessed in the equity market and majorly in the Healthcare & IT sector.

### List of mutual funds

Fund names	ISIN	NAV	Currency	MTD	YTD
Comgest Growth Europe S	IE00B4ZJ4634	33.74	EUR	5.04%	15.67%
AlAhli North America Index Fun	AFB007013901	7.54	USD	4.08%	13.70%
Emirates World Opportunities F	LU1060357412	13.79	USD	3.57%	18.02%
Emirates World Opportunities F	LU1654397329	11.33	USD	3.56%	15.38%
Franklin Global Sukuk Fund	LU0923115892	13.45	EUR	3.07%	2.99%
Comgest Growth Europe S	IE00B3ZL9H82	30.10	USD	2.28%	12.52%
AlAhli Saudi Trading Equity Fu	AFB007482007	13.50	SAR	2.12%	23.95%
Old Mutual Global Islamic Equi	IE00BYMM2054	16.49	USD	1.73%	18.55%
AlAhli GCC Trading Equity Fund	AFB007482106	1.31	SAR	1.65%	20.96%
Emirates Global Sukuk Fund Ltd	JE00B5V8LK49	15.46	EUR	0.91%	2.51%



All figures and charts across the report are sourced from Bloomberg and ADIB research. Data is as on 30 June 2021

\*Rebased to 100 on 1 July 2020

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