Asset classes soar amid hope of soft landing

Sector Weighting:
MARKET WEIGHT

GCC Fixed Income Outlook

GCC Sukuk issuance grew from USD 28.4 Bn in 1Q23 to USD 37.7 Bn in 1Q24. According to Markaz, issuances of the sovereign entities in the GCC grew 57.2% YOY and accounted for 48% or USD 18.1 Bn in 1Q24. Meanwhile, corporate primary issuance rose 16.3% YOY and accounted for 52% or USD 19.6 Bn in 1Q24. The global sukuk issuance is expected to grow in 2024 and 2025, driven by government efforts to enhance domestic debt capital markets, diversify funding sources, support fiscal deficits, finance government projects, and refinance existing debts.

GCC issuances remained strong during June 2024. Bond and sukuk issuance reached USD 8.15 Bn, supported by robust demand from various sectors, including the government, sovereign wealth funds, banks, and corporates. Saudi government-majority-owned Public Investment Fund (PIF) stood as a prominent issuer by raising USD 5.0 Bn during the month. Additionally, UAE, Bahrain and Kuwait banks further boosted the issuance. The National Bank of Kuwait successfully issued its first USD 500 Mn green bonds. The issuance resulted in a strong investor demand and was oversubscribed by 3x. Additionally, Gulf International Bank, Bank of Bahrain & Kuwait, and Mashreq Bank together issued USD c.1.5 Bn issuance during the month. Furthermore, UAE's government also issued USD 1.5 Bn in a 10-year bond in June 2024.

Amidst all this, in the latest policy meeting in June 2024, the Fed opted to hold its policy rates steady, leaving the federal funds target rate unchanged at 5.25% to 5.5%. As a result of the Federal Reserve's decision to maintain interest rates, the 10-year bond yields marginally declined across all GCC countries owing to a decline in the US 10-year treasury yield. The 5-year CDS also declined across all the GCC countries. The non-oil business activity declined in KSA while it remained stable in UAE; however, the non-oil PMI remained above 50 in both countries, separating expansion and contraction. KSA PMI fell from 57.0 in April to 56.4 in May, marking the lowest level in 22 months, primarily as new orders grew at the lowest levels in 25 months. The output sub-index declined from 61.9 in April 2024 to 60.1 in May 2024; however, it continued to indicate expansion, driven by demand and the fulfillment of pending orders. Meanwhile, the UAE's non-oil PMI remained stable at 55.3 in May 2024, compared to April 2024, mainly due to the output growth slowing to its lowest level in 16 months. The output sub-index contracted to 60.8 in May 2024 from 63.2 in April 2024, indicating the slowest growth since January 2023. According to the UAE Ministry of Economy, UAE's real GDP grew 3.6% in 2023, ranking it the fifth largest economy globally in terms of real GDP growth. Additionally, the Central Bank of UAE (CBUAE) expects the UAE economy to grow by 3.9% in 2024 and 6.2% in 2025. KSA's real GDP is anticipated to grow to 2.6% in 2024 and 6% in 2025 mainly due to anticipated growth in the region's non-oil activities. Fitch Rating recently reaffirmed UAE's credit rating at "AA-" with a stable outlook attributing the country's robust external net position, moderate consolidated public debt level, and high GDP per capita. According to the General Authority for Statistics (GSTAT), KSA's non-oil exports grew 12.4% to SAR 101.7 Bn in April 2024. Moody's recently reaffirmed KSA's credit rating at "A1" with a positive outlook, attributed to the country's robust economic framework, which includes improving institutional and policy effectiveness, a strong balance sheet, and substantial foreign currency reserves. Meanwhile, Qatar reported a budget surplus of QAR 2 Bn in 1Q24, with total revenues reaching QAR 53 Bn and total expenditures for the same period amounted to QAR 51 Bn. Oman recorded a trade surplus of OMR 2.6 Bn at the end of March 2024 compared to a surplus of OMR 1.9 Bn in March 2023.

Gold Outlook

Gold prices traded in a narrow range and ended almost flat at the end of the month to USD 2,324.98 per ounce on 30 June 2024. Gold prices rose initially in the first week of June 2024 due to a decline in the US dollar and treasury yields driven by rising bets of interest rate cuts. However, prices declined on the last trading day of the week as China's central bank held off gold purchases in June for the first time after purchasing for 18 consecutive months. Gold prices rose marginally in the following week owing to the softer inflation data which increased hopes of an interest rate cut in 2024 partially offset by the Fed's revised interest rate projections to only one interest rate cut instead of three in 2024. Furthermore, after the mid-month, gold prices inched up due to the weak US economic data which increased bets of interest rate cuts by the Fed. During the last week of June, gold prices traded in a narrow range and remained directionless as investors awaited the US inflation data for further cues on interest rate cuts.

Oil Outlook

Oil prices increased 5.9% MOM to USD 86.41 per barrel on 28 June 2024. Prices declined at the end of May 2024 due to the Fed's stance to maintain rates and growth in the US inventory. The price decline continued in the first week of June because of fears of rising supply. Later during the week, prices strengthened as OPEC+ agreed to extend output cuts to 2025. In the following week, prices further strengthened due to a solid demand outlook with a potential purchase of crude oil for strategic petroleum reserves but gains were capped by a firm dollar. Oil continued its gains after mid-month due to the strong demand, rising concerns regarding the escalation of the war, and an unexpected increase in the US crude inventories. Furthermore, at the end of the month, oil prices remained steady owing to the supply concerns arising from the escalation of the war, which were partially offset by worries about China's recovery. A surprise increase in US crude stock marginally impacted the prices however the mounting supply risk from escalating geopolitical tensions offset signs of weak demand.

Our Top Bond/Sukuk Picks:

Top Bond Picks for Short-term

S No.	Issuer Name	Price	Amount Issued	Yield to Maturity	ISIN	Fitch Rating	Moody Rating	S&P Rating	Coupon	Maturity	Currency
1	MEGlobal Canada ULC	99.2	1,000	5.90	XS2150023906	NA	Baa2	BBB	5.00	18-May-25	USD
2	QIB Sukuk Ltd	100.8	800	5.58	XS2109794417	A	NA	NA	6.95	7-Feb-25	USD
3	Ooredoo International Finance Ltd	99.6	750	5.33	XS0551307100	Au	A2	A	5.00	19-Oct-25	USD

Data Source: Bloomberg

Top Bond Picks for Medium-term

S No.	Issuer Name	Price	Amount Issued	Yield to Maturity	ISIN	Fitch Rating	Moody Rating	S&P Rating	Coupon	Maturity	Currency
1	Emirates NBD Bank PJSC	101.3	600	6.42	XS2754455769	A+	A2	NA	6.76	31-Jan-29	USD
2	QNB Finance Ltd	100.7	1,000	6.38	XS2793223475	NA	Aa3	A+	6.59	2-Apr-29	USD
3	First Abu Dhabi Bank PJSC	100.8	700	6.36	XS2750475894	NA	Aa3	NA	6.56	29-Jan-29	USD
4	MEGlobal Canada ULC	101.1	600	5.66	XS2150023575	NA	Baa2	BBB	5.88	18-May-30	USD
5	CBQ Finance Ltd	99.8	750	5.43	XS2654057970	A	A3	NA	5.38	28-Mar-29	USD
6	BSF Finance	100.4	700	5.37	XS2493296813	A-	A2	NA	5.50	23-Nov-27	USD
7	Suci Second Investment Co	103.0	2,250	5.24	XS2706163131	A+	A1	NA	6.00	25-Oct-28	USD
8	Abu Dhabi Commercial Bank PJSC	101.3	650	5.18	XS2677030194	A+	NA	A	5.50	12-Jan-29	USD

Data Source: Bloomberg

Top Bond Picks for Long-term

S No.	Issuer Name	Price	Amount Issued	Yield to Maturity	Modified Duration	Fitch Rating	Moody Rating	S&P Rating	Coupon	Maturity	Currency
1	Finance Department Government of Sharjah	99.4	1,000	6.21	XS2775892065	NA	Ba1	BBB-	6.13	6-Mar-36	USD
2	DP World Ltd/United Arab Emirates	95.2	1,300	6.00	XS1883879006	BBB+	Baa2	NA	5.63	25-Sep-48	USD
3	Saudi Government International Bond	97.3	4,750	5.96	XS2747599509	A+	A1	NA	5.75	16-Jan-54	USD
4	MDGH GMTN RSC Ltd	115.1	750	5.51	XS0701227075	AA	Aa2	AA	6.88	1-Nov-41	USD
5	Abu Dhabi Government International Bond	101.3	1,750	5.41	XS2811094213	AA	NA	AA	5.50	30-Apr-54	USD
6	Suci Second Investment Co	99.1	2,000	5.34	XS2777443768	A+	A1	NA	5.17	5-Mar-31	USD
7	Qatar Government International Bond	97.0	6,000	5.32	XS1807174559	AA	Aa2	AA	5.10	23-Apr-48	USD
8	Almarai Co JSC	99.9	750	5.25	XS2641777235	NA	Baa3	BBB-	5.23	25-Jul-33	USD
9	Abu Dhabi National Energy Co PJSC	111.3	912	5.24	XS0272949016	AA	Aa3	NR	6.50	27-Oct-36	USD

Data Source: Bloomberg

Top Bond Picks for Sukuk

S No.	Issuer Name	Price	Amount Issued	Yield to Maturity	Modified Duration	Fitch Rating	Moody Rating	S&P Rating	Coupon	Maturity	Currency
1	Saudi Electricity Sukuk Programme Co	97.5	1,500	5.86	XS2608638602	A+	A1	NA	5.68	11-Apr-53	USD
2	Esic Sukuk Ltd	100.0	700	5.84	XS2747181613	NA	Baa3	NA	5.83	14-Feb-29	USD
3	Sharjah Sukuk Program Ltd	102.0	900	5.82	XS2680379695	NA	Ba1	BBB-	6.09	19-Mar-34	USD
4	KFH Sukuk Co	98.7	1,000	5.36	XS2744854261	A	NA	NA	5.01	17-Jan-29	USD
5	DIB Sukuk Ltd	99.7	1,000	5.32	XS2749764382	A	A3	NA	5.24	4-Mar-29	USD
6	BSF Sukuk Ltd	99.0	700	5.26	XS2741362862	A-	NA	A-	5.00	25-Jan-29	USD
7	KSA Sukuk Ltd	100.2	2,250	5.25	XS2829208169	A+	A1	NA	5.25	4-Jun-34	USD
8	Al Rajhi Sukuk Ltd	99.2	1,000	5.25	XS2761205900	A-	A1	NA	5.05	12-Mar-29	USD
9	SNB Sukuk Ltd	99.5	850	5.24	XS2747631914	A-	NA	A-	5.13	27-Feb-29	USD
10	Suci Second Investment Co	103.0	2,250	5.24	XS2706163131	A+	A1	NA	6.00	25-Oct-28	USD

Data Source: Bloomberg

Content:

MENA credit outlook

Public Investment Fund (PIF) prices its first-ever sterling bond offering of USD 830 Mn

Saudi-based PIF priced its first-ever sterling bond offer of USD 830.3 Mn under the Euro Medium-Term Note program. The dual-tranche offering was oversubscribed by six times, comprising USD 383.2 Mn for a five-year note and USD 447 Mn for the 15-year coupon. The indicative price of 15-year issuance is 145 bps over gilt and the five-year note is 135 bps over gilt.

Emirates REIT opts to exercise extension option on USD 380 Mn sukuk

The Manager of the Emirates REIT, Equitativa Dubai Ltd opted to extend the maturity of USD 380 Mn sukuk by utilizing the one-year extension option. The Sukuk was issued in FY2017, refinanced in FY2022, and was due to mature at the end of FY2024. But, now the Sukuk will mature on 12 December 2025 due to an extension.

Arada successfully concluded a USD 400 Mn Sukuk issuance with an oversubscription of 3.5x

Arada Developments LLC (Arada) completed its second public financing transaction with the issuance of a USD 400 Mn Sukuk. The Sukuk is the first under Arada's newly launched USD 1 Bn Sukuk program and is listed on both the London Stock Exchange and Nasdaq Dubai. The Sukuk was rated BB- by Fitch and B1 by Moody's and priced at a coupon rate of 8.0%, lower than the initial guidance of 8.675% with a spread of 355 bps over treasury. The proceeds will be utilized for general corporate purposes, managing existing bilateral funding, and supporting development across Arada's ongoing projects. The issuance was oversubscribed by 3.5x against the original offer size.

Abu Dhabi Government's USD 5 Bn bonds listed on ADX

The Abu Dhabi Securities Exchange (ADX) listed bonds issued by the Abu Dhabi government worth USD 5 Bn. These bonds are divided into three tranches. The first tranche is USD 1.75 Bn with a fixed interest rate of 4.875% maturing in 2029, the second tranche is USD 1.5 Bn with a fixed interest rate of 5% maturing in 2034, and the third tranche is USD 1.75 Bn with a fixed interest rate of 5.5% maturing in 2054. Trading of these bonds started on 21 June 2024.

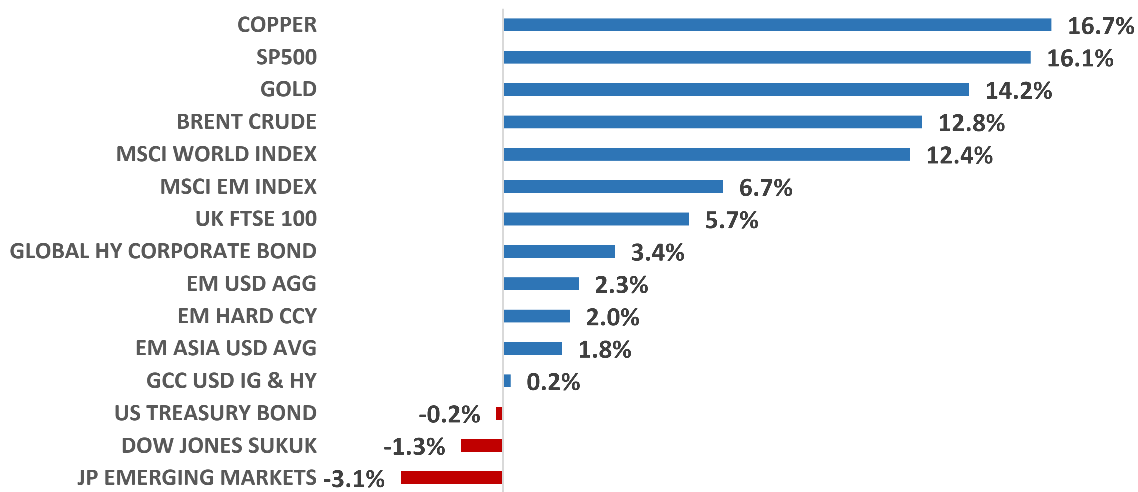
Sharjah Islamic Bank plans 5-year Sukuk offering

Sharjah Islamic Bank (SIB) appointed Emirates NBD Capital, Standard Chartered Bank, and HSBC as joint global coordinators, while Mashreq, Abu Dhabi Islamic Bank, First Abu Dhabi Bank, Abu Dhabi Commercial Bank, Bank ABC, Dubai Islamic Bank, and QNB Capital as joint bookrunners and lead managers for its planned five-year Sukuk sale. The Sukuk will be benchmark-sized USD-denominated and issued under SIB's USD 3 Bn trust certificate issuance program.

Global Asset Performance

The table below summarizes the performance of key equity and debt indices along with commodity price performance. Like the previous month, all asset classes sustained positive performance except copper, UKFTSE 100, JP Emerging Market Bond index and Gold. Copper prices declined 4.6% MOM, while the JP Emerging bond index fell 1.2% MOM in June 2024. UKFTSE 100 also witnessed a decline of 1.3% MOM during June 2024. Energy prices performed best among all assets, rising 5.9% MOM, driven by OPEC+'s decision to extend output cuts to 2025, strong demand outlook, and escalating fears of war in Middle East. Equity market performance also remained strong during the month as the US S&P 500 & MSCI Emerging Market grew 3.5% MOM & 3.6% MOM in June 2024. The positive performance of US stocks is driven by the strong performance of the technology stocks. MSCI World index grew 1.9% MOM in June 2024, supported by the positive performance of the US & Japanese stocks partially offset by the underperformance of the France, Canadian, and UK stocks. Gold prices remained flat during the month, primarily due to China's central bank halting gold purchases and the Fed revising its interest rate cut projections from three to one in 2024, partially offset by increased bets of interest rate cuts by the Fed. The performance of all bond indices remained positive, except for the JP Morgan bond index, supported by the riskier segment of fixed income owing to strong economic activity.

Figure 1: Global Asset Performance (YTD%)

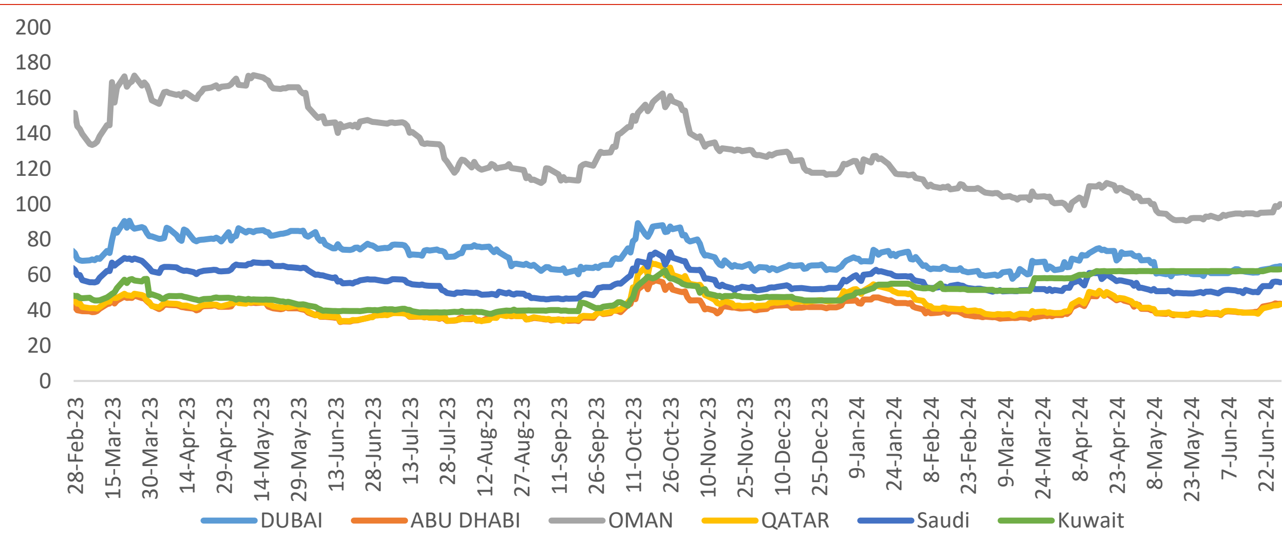


Source: Bloomberg

5-Year CDS

The 5-year CDS spread expanded across all sovereign nations in June 2024. Abu Dhabi recorded the largest growth on a MOM basis in June 2024, followed by Qatar, Saudi Arabia, Oman, and Dubai. The expansion in the CDS spread is mainly a result of rising geopolitical tensions in the Middle East.

Figure 2: GCC Countries- 5 Year CDS



Source: Bloomberg

Sovereigns	DUBAI	ABU DHABI	Oman	QATAR	Saudi	Kuwait
TD (%)	6.54%	15.05%	7.00%	13.55%	10.14%	1.59%

Banking Sector

Mashreqbank completes the issuance of USD 500 Mn AT1 notes

Mashreqbank, listed in Dubai, completed the issuance of USD 500 Mn Additional Tier 1 bond offering with a coupon of 7.125% on 3 June 2024. It will be dollar-denominated perpetual non-callable for 5.5 years. This is the first issuance by Mashreqbank in the last five years. The issuance received a healthy response and received a subscription of USD 2.3 Bn, equivalent to 4.4x. Initially, the issuance was priced at a 7% yield; however owing to healthy demand it was priced 65-75 bps below the offered yield. The issuance was managed by Abu Dhabi Commercial Bank, Al Ahli Bank of Kuwait (DIFC Branch), BofA Securities, Citi, Emirates NBD Capital, FAB, Kamco Investment Company, Mashreq, and Mizuho as joint bookrunners and lead managers for the issuance.

Al Ahli Bank of Kuwait received approval from the CBK to increase its stake in Kuwait Industrial Bank

Al Ahli Bank of Kuwait received approval from the central bank to boost its ownership in Kuwait Industrial Bank from 4.48% to c. 7.17%. According to the bank listed on Borsa Kuwait, this approval is effective for three months starting from 11 June 2024.

Rakbank plans to raise USD 500 Mn from bonds

RakBank is planning to sell bonds worth up to USD 500 Mn to improve its capital adequacy ratio. The bank's General Assembly Meeting approved the issuance of conventional non-convertible bonds. These bonds can qualify as Tier 1 capital for an amount up to USD 500 Mn and/or as Tier 2 capital for up to USD 250 Mn. The bank's liquidity position remains strong as the eligible liquid asset ratio stood at 13.5% and advanced to a stable resources ratio of 78.7% in 1Q24.

Kuwait Finance House (KFH) explores the purchase of a stake in SAIB

Kuwait-based KFH is exploring to purchase a large ownership stake in Saudi Investment Bank (SAIB) to increase its regional presence. Despite the ongoing discussions, it remains uncertain whether the deal will be finalized.

Kuwait's Burgan Bank received the central bank's approval for UGB's acquisition

The Central Bank of Kuwait approved the complete acquisition of United Gulf Bank (UGB) by Burgan Bank. Both the banks are owned by Kuwait Projects Co (KIPCO), an investment firm. According to Burgan Bank, the completion of the acquisition is subject to assessments and final authority approvals.

DBS and Mashreq will partner to provide retail customers with same-day cross-border payments

DBS and Mashreq Bank planned to collaborate to provide Middle Eastern retail customers with same-day and near-instant cross-border payments in specific markets. The service will be provided through DBS's cross-border payment solution covering 132 currencies across 190 markets. The peer-to-peer cross-border payment will be provided in certain specific countries such as Asia Pacific, Europe, and the USA.

Corporate Sector

ADNOC L&S signed a deal to acquire Navig8 for USD 1.49 Bn

ADNOC Logistics & Services (ADNOC L&S) agreed to acquire Navig8 TopCo Holdings Inc. for a total consideration of USD 1.49 Bn. The transaction is set to be completed in two phases, with an 80% stake acquired for USD 1.04 Bn and a transfer of economic ownership by 01 January 2024. The remaining stake 20% will be acquired in 2027 for a deferred consideration of USD 335 to 450Mn.

RAK Ceramics acquired a 100% stake in RAK Porcelain

RAK Ceramics purchased all shares of RAK Porcelain, transforming it into a wholly-owned subsidiary. This acquisition aligns with RAK Ceramics' strategy of focusing on and growing its core business segments while divesting its non-core activities.

Yahsat contracted with Airbus to make two satellites for a value of more than USD 1 Bn

Yahsat agreed with Airbus to manufacture two geostationary satellites, AY4 and AY5, at a cost of approximately AED 3.9 Bn (USD 1.1 Bn). The new satellites will replace the existing satellites. This follows Yahsat securing a significant AED 18.7 Bn (USD 5.1 Bn) contract from the UAE government in September for satellite capacity and managed services spanning 17 years. Yahsat will fund the initial phase of the program, supported by an AED 3.7 Bn advance payment from the UAE government.

Enersol secures majority stake in Gordon Technologies for USD 270 Mn

ADNOC Drilling and Alpha Dhabi Holding's joint venture, Enersol RSC LTD, agreed to acquire an additional 42.2% stake in oil and gas engineering firm Gordon Technologies LLC for USD 270 Mn. This acquisition is set to make Enersol the majority shareholder, increasing its total stake to 67.2% in Gordon Technologies. The additional stake is purchased at the same valuation of their initial 25% stake acquired in January 2024. The majority of the payment for the recent acquisition to be made upon closing, with the remainder paid over the next two years, subject to performance conditions.

ACWA Power announced the right issue of USD 1.9 Bn

Saudi Arabian utility company, ACWA Power, plans a rights issue of SAR 7.125 Bn (USD 1.90 Bn) to bolster growth initiatives and strengthen its financial position. The effort is aligned with ACWA's goal to increase its assets under management threefold by 2030. The rights issue is awaiting approval from regulators and shareholders.

NMC Healthcare explores IPO and sale of the business in strategic review

NMC Healthcare, a UAE-based hospital operator, hired Rothschild & Co. to explore strategic options, such as a potential IPO and a sale of business. NMC entered administration in 2020 due to over USD 4.4 Bn in debt and accusations of inflating asset values and understating debt. Following the restructuring, 34 NMC entities emerged from administration. In March 2024, NMC made an out-of-court settlement on all legal matters with Dubai Islamic Bank and related parties.

Brookfield to acquire majority stake in GEMS Education from CVC consortium

A consortium led by CVC Strategic Opportunities Fund I and II with co-investors agreed to sell a majority stake in GEMS Education to a Brookfield Asset Management-led consortium. GEMS secured financing commitments from UAE banks to fund the transaction and repay existing debts. The deal is expected to close in Q3 2024, subject to conditions met by late June 2024 by Brookfield Asset Management. CVC will retain a stake in GEMS and onboard Brookfield as a new shareholder, while existing minority shareholders, including Khazanah Nasional Berhad, will exit.

National Medical Care acquired Al Salam Health for USD 12 Mn

National Medical Care Company (Care) entered into an agreement with Saudi Medical Care Group for acquisition of Al Salam Health Medical Hospital for SAR 44 Mn (USD 11.74 Mn). The acquisition is made with the intent to support the investment strategy of Care in the industry of health services. The transaction will be completed subject to regulatory approvals, the Saudi Competition Authority's non-objection, and the company's general assembly. GIB Capital and Alsalloum and Altoaimi were appointed as financial advisor and legal advisors respectively.

ADNOC Drilling confirmed a new dividend policy with a minimum annual growth of 10%

ADNOC Drilling confirmed an improved dividend policy with at least 10% yearly growth for the next five years. Under the new dividend policy, the Company is expected to distribute a minimum dividend of USD 4.8 Bn to the shareholders between the years FY2024-28. The policy enables the Board of Directors to authorize additional discretionary dividend and dividend growth. ADNOC also completed ADNOC Drilling's institutional placement which accounted for 5.5% of its total issued share capital, increasing the free float to as much as 16.5% which will provide an opportunity for the company to be included in the MSCI Emerging Market Index.

Saint Gobain agreed to acquire FOSROC for USD 1 Bn

Saint-Gobain agreed to acquire Dubai-based FOSROC, a provider of construction chemicals for EUR 960 Mn (USD 1.03 Bn) aligned with its international expansion plans. The deal will be funded entirely through cash and is estimated to be completed by 1H25. Saint-Gobain anticipates realizing USD 54 Mn in synergies during the third year following the completion of the transaction. The acquisition will enable the firm to expand operations in high-growth regions like India and the Middle East.

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 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, policies success, and the strength and stability of its economic, financial and credit sectors.
- Fitch upgraded Oman's credit rating to BB+ from BB with a stable outlook. The upgrade is driven by a decline in debt-to-GDP ratio, improved government spending, and a rise in oil prices. The upgrade is based on the premise that Oman is using oil revenues to pay down debt, extend its maturity, use fiscal restraint to mitigate external risks, and forecast higher oil prices by Fitch. **Oman**'s gross debt declined to 40% of GDP in 2022 from 60% in 2021, and Fitch expects gross debt to further decline to 36% of GDP in 2023 and will remain stable at 35% in 2024 and 2025. Oman also reported a budget surplus of OMR 1.144 Bn (USD 2.97 Bn) and repaid OMR 1.1 Bn loans in 1Q23. Earlier Moody's Investors Service upgraded Oman's ratings for the second consecutive time to Ba1 in 2023 with a stable outlook. The upgrade is mainly attributable to a decline in public debt, an improvement in the indicator of the government's ability to bear the additional debt, channelling additional revenue to pay off public debt, controlling spending, and improving financial revenue. The rating was upgraded from Ba2 to Ba1 in December 2023.
- S&P Global Ratings revised **Bahrain**'s credit rating outlook from positive to stable due to the expectation of government measures to reduce the budget deficit and the possibility of receiving extra support from other Gulf Cooperation Council (GCC) member countries if needed. The revision of the outlook to stable is attributed to the rating agency's expectation of larger fiscal deficits from 3% to 4% of the GDP between 2023 and 2026, as compared to its earlier projection of 2% to 3% mainly due to increased spending on social subsidies, capital expenditure and debt servicing. S&P Global Ratings affirmed Bahrain's short-term foreign and local currency sovereign credit ratings at 'B+/B' with a stable 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.

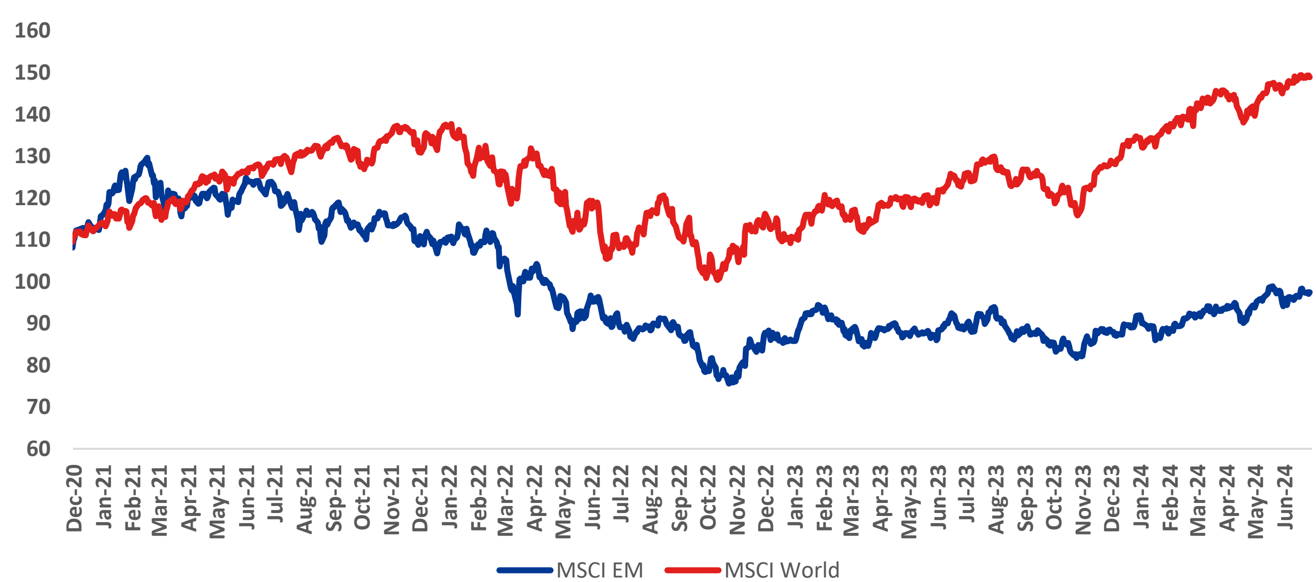
- In January 2024, Moody's upgraded **Qatar**'s Long-Term Foreign-Currency Issuer Default Rating (IDR) to Aa2 from Aa3. The upgrade was attributed to significant improvements in Qatar's fiscal metrics during 2021-2023. Moody's anticipates that the improvement in Qatar's debt burden and debt-service metrics from 2021 to 2023 will continue into the medium term. Fitch Ratings has recently upgraded Qatar's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'AA' from 'AA-' with a Stable outlook. The change in rating is supported by the Country's large sovereign net foreign assets (SNFA) and a flexible public finance structure. Further, Qatar is expected to maintain a fiscal surplus, averaging around 4.5% of GDP over the medium term. The country's government debt is also projected to fall below 30% of GDP by 2028.

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	Aa2	STABLE	AA	STABLE	AA	STABLE
Saudi Arabia	A1	POSITIVE	Au	STABLE	A+	STABLE
Oman	Ba1	STABLE	BB+	POS	BB+	STABLE
Bahrain	B2	STABLE	B+	STABLE	B+	STABLE

Global Markets

- The MSCI Developed Market Index (DM) continued its positive performance for the second consecutive month owing to strong performance across the US and Japanese markets, partially offset by the underperformance of the France, Canadian and UK stocks. Meanwhile, the MSCI Emerging Market (EM) maintained its growth trend in June 2024, marking its fifth consecutive month of gains. The MSCI DM Index continued to outperform the MSCI EM Index on a YTD basis. On a 2024 YTD basis, the MSCI DM index recorded a positive return of 10.8%, while the MSCI EM experienced a positive return of 6.0%. On a MOM basis, MSCI EM performance remained strong compared to the MSCI DM index. MSCI EM recorded a gain of 3.6%, while the MSCI DM recorded a positive growth of 1.9% in June 2024. The MSCI World Index posted a strong return primarily due to the positive performance of US and Japanese stocks. The S&P 500 index recorded a robust performance among developed markets, with a gain of 3.5% MOM in June 2024. Additionally, the market demonstrated a solid performance by achieving a 4.3% growth in the 2Q24. The growth in the US stocks is primarily attributable to the strong performance of the technology stocks. The performance of the US bond market also remained positive due to the decline in treasury yields. However, the US economic data released in June 2024 indicated some signs of softness, mainly due to rising unemployment and rising home sale prices. The Japanese market also reported a positive performance and grew 2.8% during June 2024. The growth is primarily due to the rising differences in interest rates between Japan and other developed countries, leading to yen weakness and the recovery of the country from deflation. Japanese index continued to outperform the other indices and grew 20.1% on a YTD basis in 2024. French equity fell 6.4% during the month, primarily due to the rising uncertainties among investors owing to the parliamentary elections in France. This downturn also weighed on the performance of the MSCI Europe ex-UK index, which registered a modest growth of 0.6% during 2Q24. On the other hand, the UK FTSE share declined 1.3% MOM in June 2024. Chinese equities' performance continued to decline and fell 3.9% MOM in June 2024. The decline was mainly due to persistent challenges in the Chinese real estate sector. On the other hand, emerging markets like South Korea, India, Taiwan, and Brazil recorded growth during June 2024.

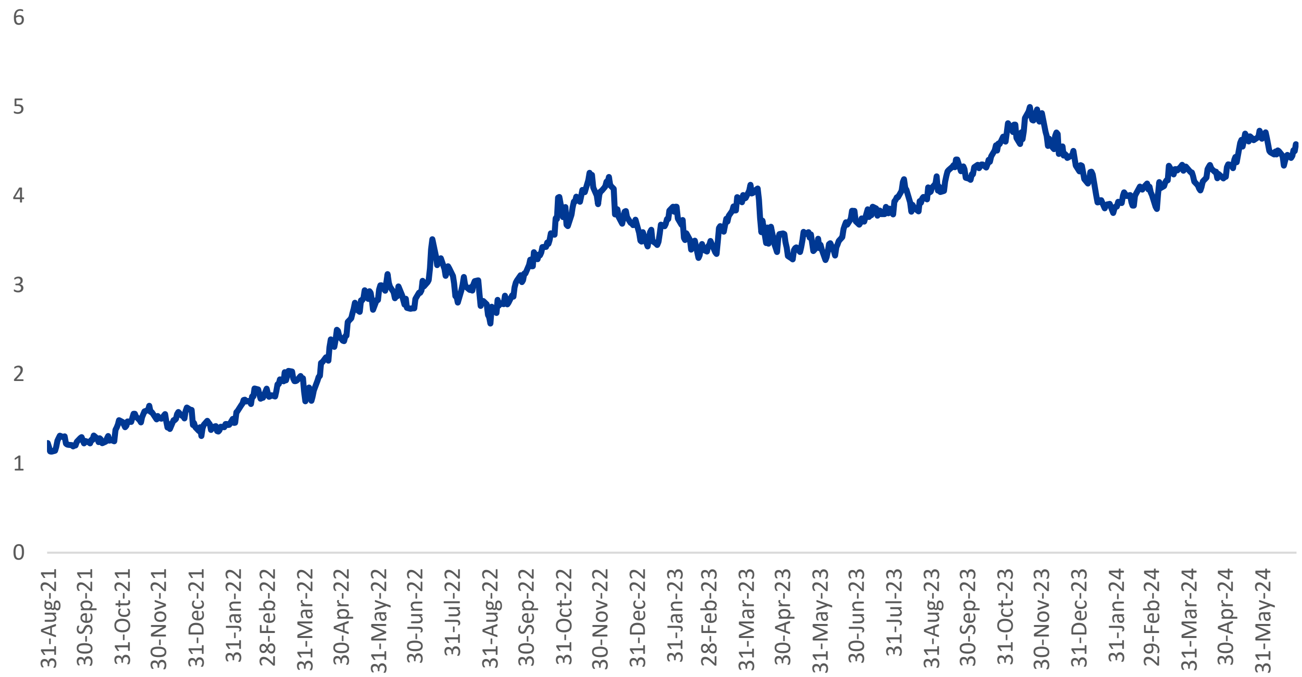
Figure 3: MSCI World and Emerging Market Index Historical trend



Source: Bloomberg

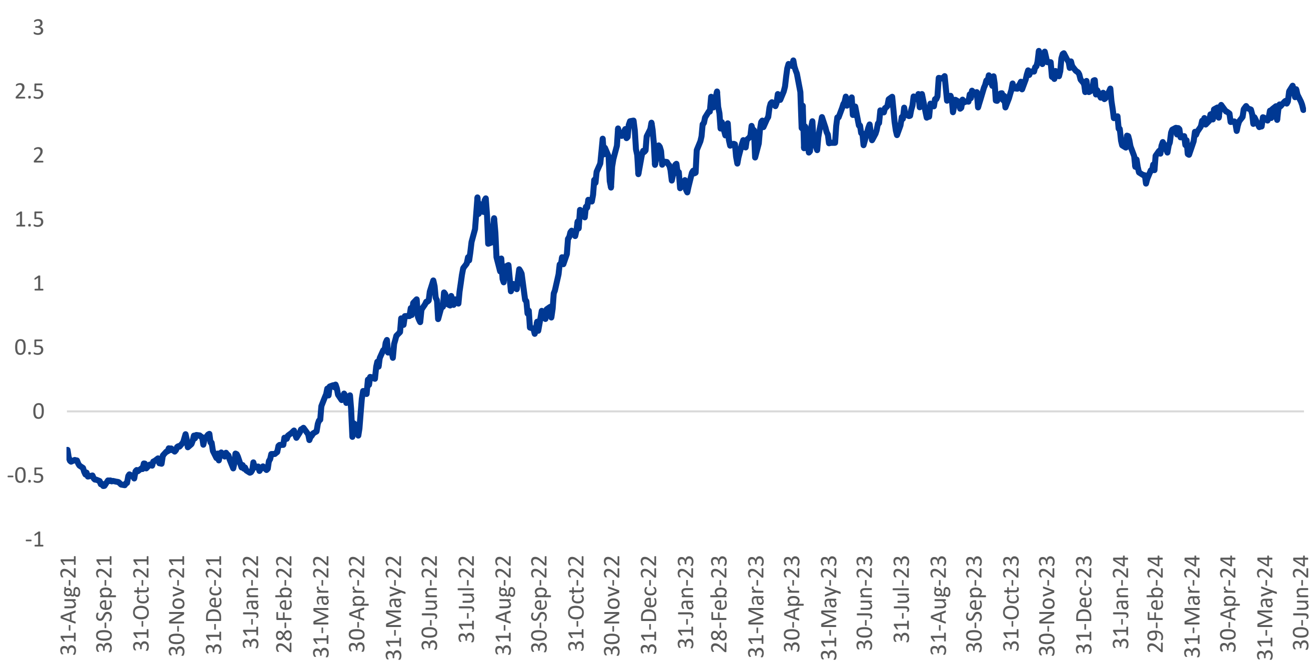
Yield on 10-year government

Figure 4: US 10-year government yield



Source: Bloomberg

Figure 5: Germany 10-year government yield



Source: Bloomberg

Figure 6: Japan 10-year government yield

Source: Bloomberg

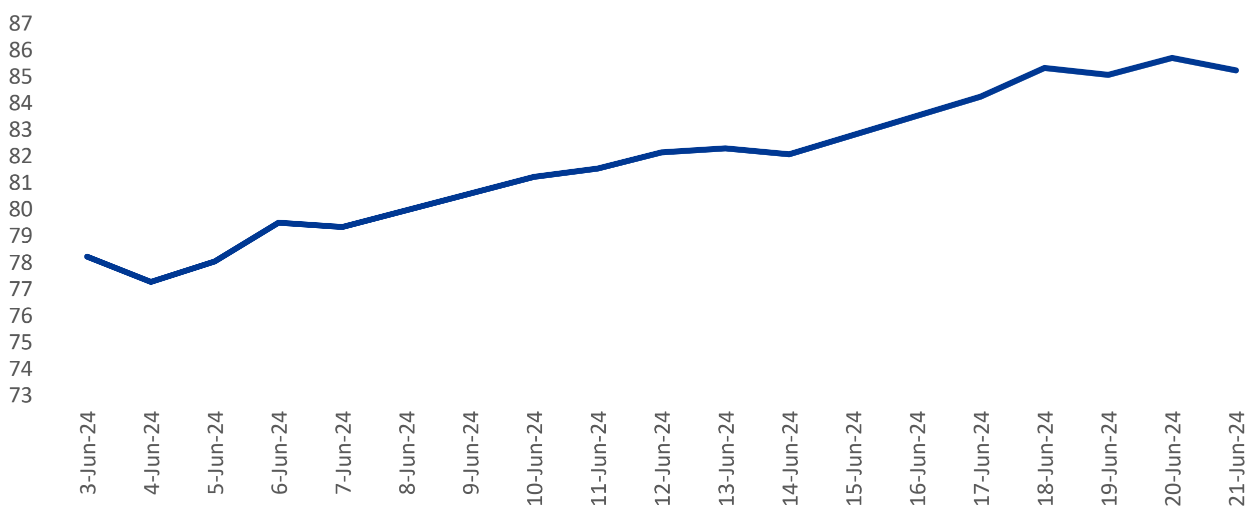
Figure 7: UK 10-year government yield

Source: Bloomberg

Oil Outlook

Oil prices increased 5.9% MOM to USD 86.41 per barrel on 28 June 2024. Fed's stance to maintain rates and growth in the US inventory resulted in a decline in oil prices at the end of May 2024. The decline in the prices continued in the first week of June, and prices fell due to fears of rising supply. Later during the week, prices gradually gained strength as OPEC+ agreed to extend output cuts to 2025. In the following week, prices gained strength due to solid outlook for demand during the year and a potential purchase of crude oil for strategic petroleum reserves. However, a strong dollar capped gains during the period. Oil steadily continued its gains post-mid-month due to a strong demand outlook, rising concerns regarding the escalation of war in the Middle East as Israeli tanks advanced to Gaza, and an unexpected increase in the US crude inventories partially offset by a stronger US dollar. Furthermore, at the end of the month, oil prices remained steady owing to the supply concerns arising from the escalation of the war in the Middle East and Ukraine, which offset worries about China's recovery. A surprise increase in US crude stock marginally impacted the prices; however the mounting supply risk from escalating geopolitical tensions offset signs of weak demand.

Figure 8: Brent Crude Oil Prices (USD per barrel)

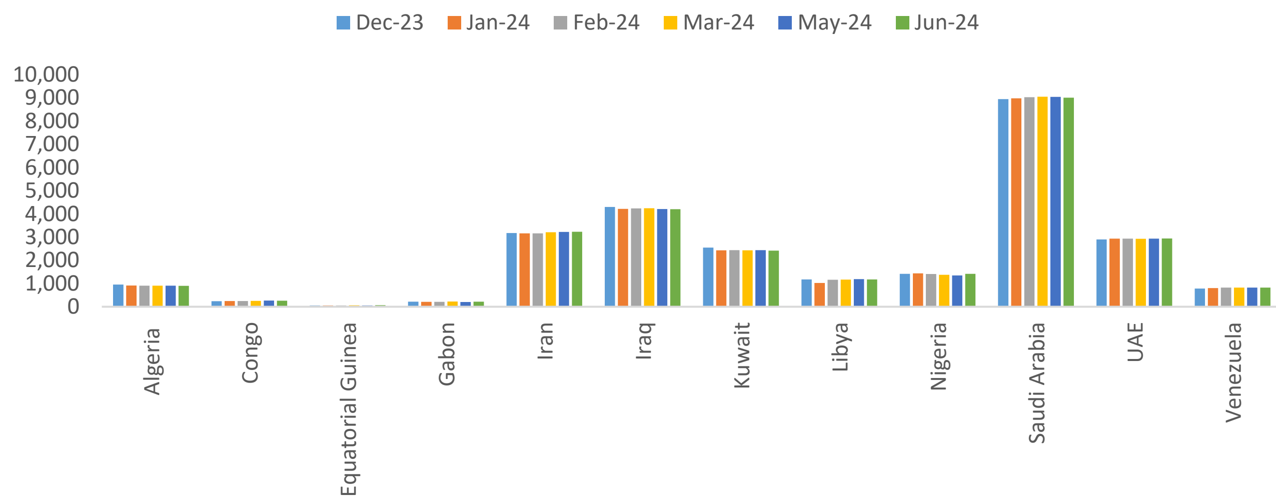


Source: Bloomberg

OPEC Production

OPEC-12 crude oil production declined by 30 thousand barrels per day (bpd) MOM to an average of 26.6 Mn bpd in June 2024. Seven out of the 12 OPEC countries recorded a MOM decline in oil production during June 2024. Saudi Arabia recorded the largest decline of 32 thousand bpd MOM, followed by Kuwait with a decline of 15 thousand bpd MOM in June 2024. Libya and Congo's crude oil production fell 14 and 11 thousand bpd, respectively in June 2024 while Iraq, Algeria, and Venezuela also witnessed a decline of seven, six, and three thousand barrels per day, respectively. On the other hand, Nigeria's crude oil production increased the most by 74 thousand bpd MOM, followed by Gabon with a rise of 17 thousand bpd MOM in June 2024. Similarly, Equatorial Guinea's crude oil production increased by 13 thousand MOM during June 2024 whereas UAE and Iran recorded a growth of seven thousand bpd MOM each. Saudi Arabia continues to be the largest oil producer, with a total production of 9.0 Mn bpd in June 2024.

Figure 9: OPEC Crude Oil Production

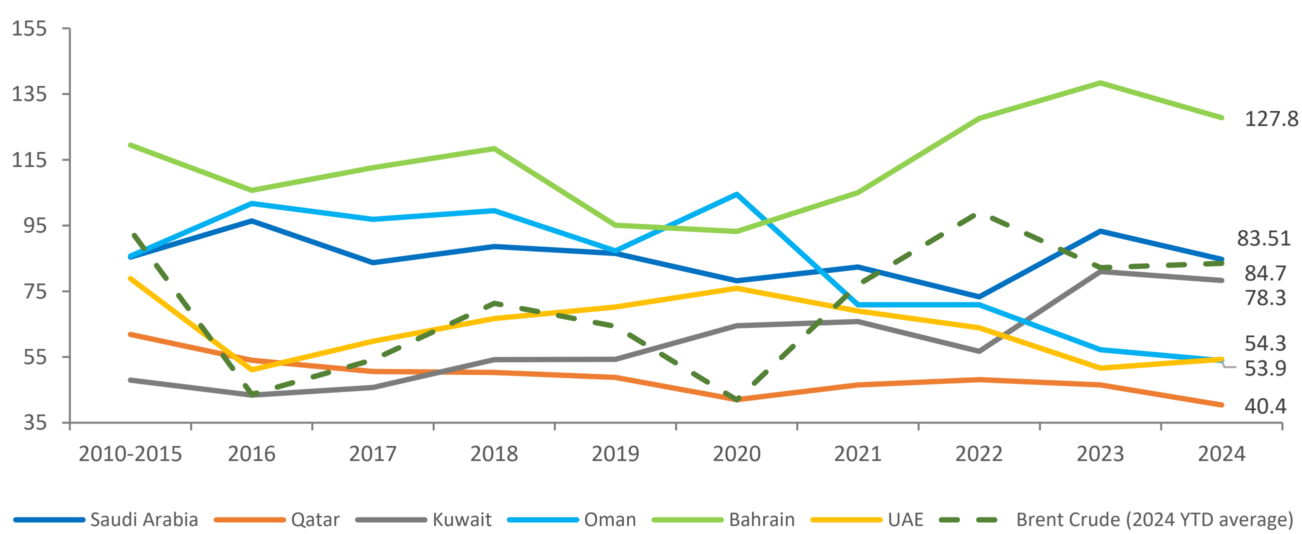


Source: OPEC

Fiscal Breakeven Oil Price

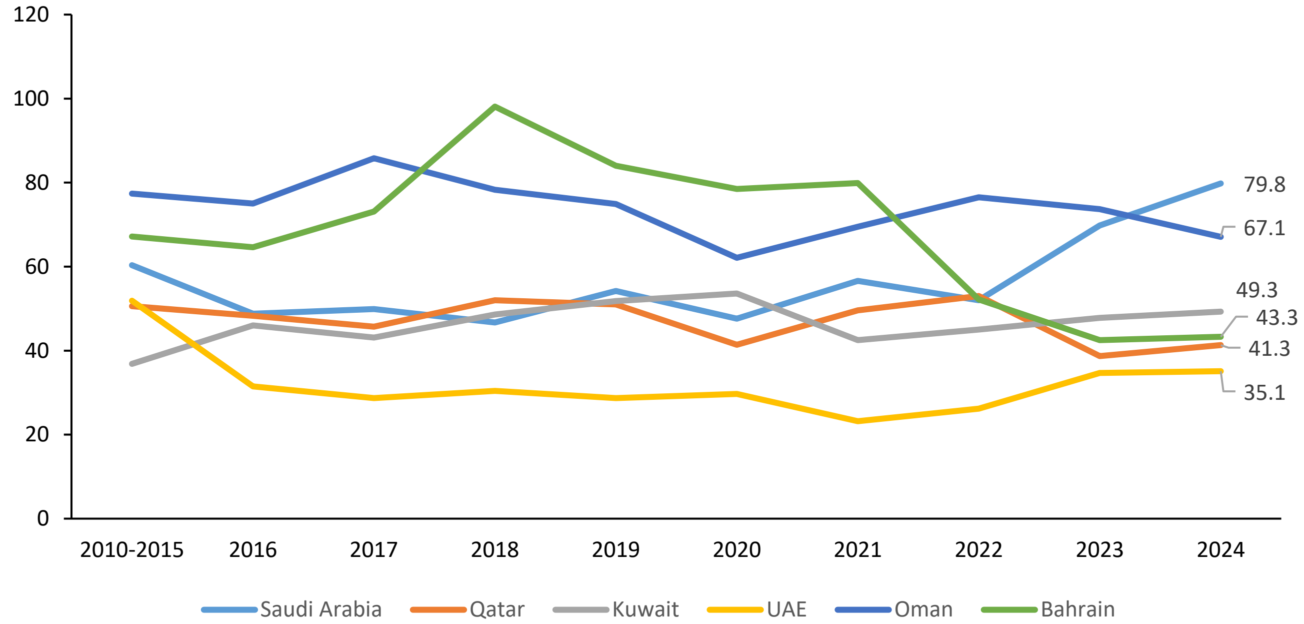
The overall fiscal breakeven oil prices declined in FY2024, except in UAE. UAE's fiscal breakeven rose from USD 51.6 per barrel in FY2023 to USD 54.3 in FY2024. Saudi Arabia, Qatar, Kuwait, Oman, and Bahrain recorded a decline in break-even oil prices in FY2024. Bahrain recorded the highest decline in break-even oil price from USD 138.4 per barrel in FY2023 to USD 127.8 per barrel in FY2024. Saudi Arabia's break-even oil price fell from USD 93.3 per barrel in FY2023 to USD 84.7 per barrel in FY2024, followed by a decline in Qatar, which fell from USD 46.5 per barrel in FY2023 to USD 40.4 per barrel in FY2024. Kuwait and Oman's break-even oil prices also declined to USD 78.3 per barrel and USD 53.9 per barrel in FY2024.

Figure 10: Fiscal Breakeven Oil Price (USD/bbl)



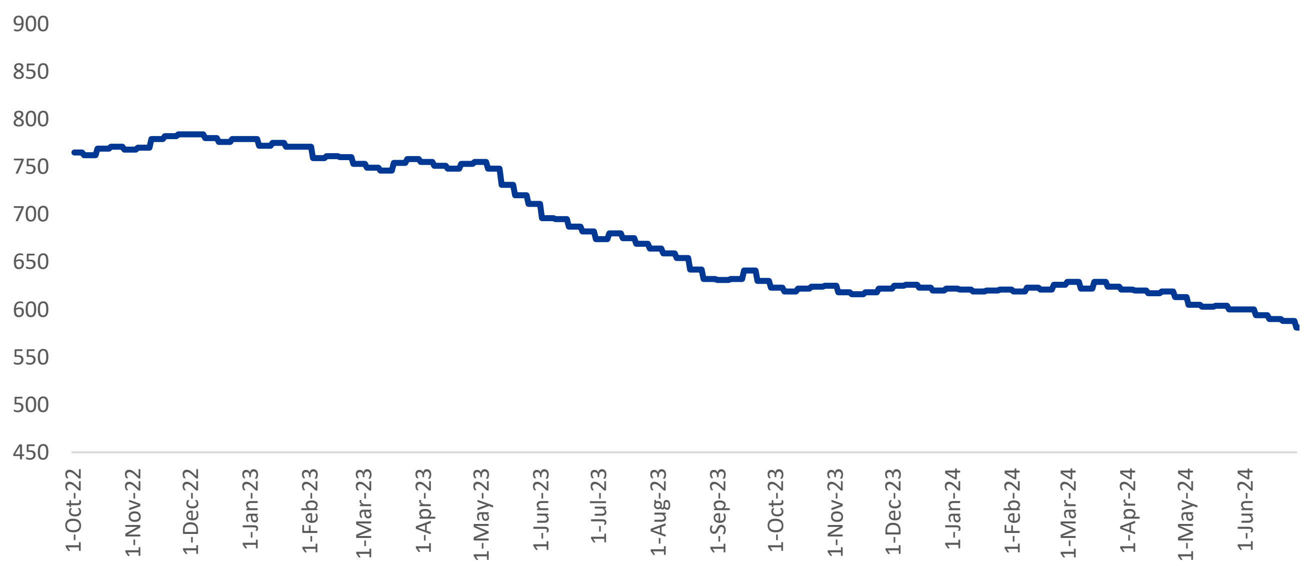
Source: Bloomberg

Figure 11: External Breakeven Oil Price (USD/bbl)



Source: Bloomberg

Figure 12: Oil Rig Count



Source: Bloomberg

FAB أبوظبي الأول للأوراق المالية SECURITIES

Credit Strategy

Current View on Credit

Initiation: Name	Sector	Price	Mid YTM	Rating (M/S/F)
ALDAR 3.875% 2029	Real Estate	93.59	5.32	Baa2/NA/NA
KWIPKK 4.5% 2027	Investment Co.	90.27	9.03	Ba3/NR/BB-
ARAMCO 3.5% 2029	Oil & Gas	93.20	5.14	A1/NA/A+
BGBKKK 2.75% 2031	Bank	88.75	7.12	A/Baa1/BBB+
SIB 5% PERP	Bank	98.21	7.53	Baa1/A-/BBB+
GENHLD 4.76% 2025	Investment Co.	99.15	5.43	A1/NA/A
REITDU 11.0% 2025	Real Estate	98.95	12.06	NA/NA/NA
INTLWT 5.95% 2039	Power Generation and Water Utility	96.63	6.34	Baa3/NR/BBB-

Source: Bloomberg

We continue to remain OVERWEIGHT on GENHLD, KWIPKK, ALDAR, and Aramco while assigning MARKET WEIGHT ratings on REITDU, BURGAN BANK, INTLWT, and SIB.

Bond Particulars	Call	Ask Price	1M Return	3M Return	YTD Return	12M Return
INTLWT 5.95% 2039	MW	96.63	-0.38	-1.56	-1.40	-1.03
REITDU 11.0% 2025	MW	98.95	-0.03	-0.21	4.68	2.95
GENHLD 4.76% 2025	OW	99.15	0.09	0.11	0.06	-0.33
SIB 5% PERP	MW	98.21	0.00	0.11	0.97	1.28
BGBKKK 2.75% 2031	MW	88.75	0.58	2.09	4.38	17.09
ARAMCO 3.5% 2029	OW	93.20	-0.31	0.26	-1.71	1.03
KWIPKK 4.5% 2027	OW	90.27	-0.06	1.37	1.45	5.38
ALDAR 3.875% 2029	OW	93.59	0.44	0.16	-0.72	-1.02

Source: Bloomberg

ALDAR 3.875% 2029: Maintain OVERWEIGHT rating

- We assign an OVERWEIGHT rating on Aldar Properties PJSC’s (Aldar Properties) 3.875% senior unsecured Sukuk maturing in October 2029. The Sukuk is trading at USD 93.59 with a yield of 5.32% when held until maturity (redemption at par) with a modified duration of 4.65. The Sukuk also enjoys Moody's investment-grade rating of ‘Baa2’.
- In Abu Dhabi, Aldar Properties is a leading real estate developer with the highest market cap of AED 43.17 Bn. 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 17 Mn sqm across three 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 the UAE.
- Aldar Properties (Aldar) released its financial results for FY2023 with a total revenue of AED 14.2 Bn, up 26% along with a gross profit of AED 5.6 Bn, up 24%, and a net profit of AED 4.4 Bn, up 40%, demonstrating the resilience of Aldar's

diversified business model. Aldar EPS rose 32.0% YOY to AED 0.486 in FY2023, demonstrating consistent long-term shareholder value growth.

- Aldar's strong financial results were primarily driven by the robust 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 segments. The backlog of the development business nearly doubled to AED 36.8 Bn in 2023 as a result of record sales and project launches, in addition to strong contributions from SODIC, offering healthy revenue visibility over the next two to three years. Additionally, Aldar launched 14 new developmental projects in 2023, along with international expansion in Dubai, Ras Al Khaimah, and the United Kingdom. The Project Management business revenue backlog increased to AED 81.9 Bn, led by the addition of new projects valued at AED 30.3 Bn in FY2023. A considerable revenue backlog and a robust project pipeline and diverse revenue sources support the Company's long-term revenue visibility. Aldar Investment's AUM reached AED 37 Bn in FY2023 as a result of strategic acquisitions and capital deployment. Occupancy levels across the investment properties stood at 93% across the Commercial, Retail, Logistics, and Residential properties resulting from proactive asset management in FY2023.
- Aldar's hospitality and leisure business recovered, owing to a robust recovery in the tourism sector in FY2023. Aldar Development initiated its international expansion strategy by acquiring the UK developer London Square, investing in European real estate private credit, and making direct investments in European logistics and self-storage assets. Aldar's landbank is strategically distributed across significant investment zones in Abu Dhabi, Dubai, and Ras Al Khaimah, with a total owned and controlled land area of 65 Mn sqm. Aldar Investment deployed capital amounting to c. AED 3.1 Bn and Aldar Development deployed c. AED 5.9 Bn in FY2023. In Abu Dhabi, the land area spans 63.0 Mn sqm, with a gross floor area (GFA) of 9.6 Mn sqm. Meanwhile, in Dubai, the land area encompasses 2.6 Mn Sqm. The Company broadened its investment portfolio by procuring seven Logistics and Industrial Central acquisitions in Dubai amounting to AED 92 Mn in FY2023. Additionally, an acquisition of Al Maryah Island land in Abu Dhabi for AED 98 Mn during the same period. Aldar Education is a leading private education provider in Abu Dhabi, with 31 owned and managed schools primarily across the UAE. It further acquired Kent College Dubai and Virginia International Private School by injecting AED 350 Mn in FY2023.
- Liquidity position remains healthy with AED 2.9 Bn worth of free & subsidiary cash and AED 7.5 Bn of undrawn bank facilities. The Company's net debt stood at AED 12.1 Bn in 2023 and further AED 2.2 Bn in 2024 and AED 2.7 Bn in 2025 is due for maturity.

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 90.27 with a yield of 9.03% when held until maturity (redemption at par) and has a modified duration of 2.34. 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 from KD 11.4 Bn (USD 37.2 Bn) in FY2022 to KD 12.3 Bn (USD 40.0 Bn) in FY2023, and sustained through multiple economic cycles, making consistent dividend payments for the last 17 years until FY2021. Members of the Kuwaiti ruling family have remained KIPCO's shareholders since 1988 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 23% from KD 1.06 Bn (USD 3.5 Bn) in FY2022 to KD 1.29 Bn (USD 4.2 Bn) in FY2023, mainly due to healthy performance from commercial banking, energy, industrial & logistics, and hospitality & real estate partially offset by a decline in media & satellite services and asset management segment. The growth in revenue was also due to the continued exceptional performance of core firms.

- The company's operating profit from continuing operations before provisions declined to KD 157 Mn in FY2023, down from KD 300 Mn in FY2022. Provisions for credit losses and investments were reported at KD 42 Mn in FY2023, up from KD 42 Mn in FY2022.
- The company recorded an increase in profit from the discontinued operation of KD 84.6 (USD 284.6 Mn) in FY2023 as compared to KD 17.8 Mn (USD 57.8 Mn) in FY2022 mainly due to the sale of a 46.32% stake in Gulf Insurance Group (GIG) to Fairfax Financial Holding Ltd.
- The company recorded an increase in net profit from KD 25.2 Mn (USD 82.3 Mn) in FY2022 to KD 30.0 Mn (USD 97.6 Mn) in FY2023. During FY2023, earnings per share declined 26% to KD 5.1 fils.
- KIPCO's Board recommended not distributing dividends for FY2023 to ensure liquidity, timely repayment of debt maturing in the near term, and the pursuit of new investment opportunities. This also ensures the company maintains its credit profile and rating position.
- Moody's downgraded KIPCO's rating from Ba2 to Ba3 with a negative outlook. Fitch rating also downgraded KIPCO's long-term issuer rating to 'BB'- from 'BB' with a stable outlook, citing high leverage and ongoing portfolio restructuring efforts. Despite these challenges, the outlook remains stable, supported by KIPCO's established track record, diversified portfolio, and stable dividend flows from the portfolio companies.

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 93.20 and offers a yield of 5.14%. 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 Arabian Oil Company is an integrated energy and chemicals company. Aramco's operations are divided into two main segments: Upstream and Downstream. Upstream activities are predominantly centered in Saudi Arabia, while the Downstream sector operates on a global scale. The Company's Upstream segment is responsible for the exploration, development, production, and sale of natural gas, condensate, crude oil, and natural gas liquids (NGLs). The activities of the downstream section include supply and trading, power generation, retail operations, base oils and lubricants, petrochemicals and refining, and distribution. The reserves of Aramco amounted to 251.2 Bn barrels of oil equivalent in FY2023, consisting of 191.3 Bn barrels of crude oil and condensate, 26.0 Bn barrels of NGL, and 207.5 trillion standard cubic feet of natural gas. The Company manages 541 reservoirs within 144 fields spread across the Kingdom and its territorial waters.
- Fitch upgraded a long-term foreign and local currency IDR to 'A+' with a stable outlook in April 2023, reflecting the Company's strong business profile backed by strong control and support from the government. The government is the company's majority shareholder, with a direct ownership of 90.19%. Aramco's significant investments in capex and capacity expansion positions the Company for future growth. Additionally, the Company maintains low production costs and substantial reserves, offsetting potential energy transition risks. Aramco boasts an S&P rating of 'AA+', three notches above that of the Sovereign's foreign currency rating of 'A+'. The worsening of Saudi Aramco's relative position to local peers would likely lead to a downgrade of rating.
- Total revenue declined 17.6% to SAR 1,653.3 Bn in FY2023, mainly due to the lower realized crude oil prices and volumes sold coupled with a decline in chemicals refining margins. Other income related to sales declined 21.7% YoY to SAR 259.4 Bn in FY2023. Thus, revenue and other income related to sales fell to 18.1% YoY to SAR 1,856.4 Bn in FY2023.
- Royalties and other taxes declined 32.1% to SAR 231.8 Bn in FY2023. The operating income dropped 12.0% to SAR 988.1 Bn in 2023 owing to OPEC+ production cuts and challenging economic conditions. The Company's finance income more than doubled to SAR 32.0 Bn in FY2023 compared to SAR 14.9 Bn in FY2022. Furthermore, Aramco's net profit declined 24.2% to SAR 452.8 Bn in FY2023.

- The Company's operating free cash flow fell 31.9% to USD 101.2 Bn in FY2023. The decline was primarily caused by a decrease in cash flow from operating activities by 23.0% to USD 143.4 Bn in FY2023, which was an outcome of lower earnings partially offset by a favorable change in working capital.
- Aramco introduced a performance-linked dividend (PLD) starting from 3Q23 and anticipates PLD will be computed using 70% of the Company's full-year free cash flow generated in FY2022 and FY2023. The Company paid a PLD of USD 9.9 Bn each in 3Q23 and 4Q23. The Company paid USD 97.8 Bn dividend in FY2023 including a base dividend of USD 78 Bn and PLD of USD 19.8 Bn in 2023. In addition, the Board also approved the distribution of USD 10.8 Bn PLD in 1Q24.
- The Company's progress on its Upstream oil and gas projects such as Marjan, Berri, Dammam, and Zuluf crude oil increments, are expected to enhance its operational flexibility to capture value from strong global demand. However, Aramco's strategy to boost oil production capacity to 13.0 Mn barrels per day by FY2027 is affected due to the OPEC+ cuts.
- Aramco's gearing ratio stood at negative 6.3% in FY2023 compared to a negative 7.9% in FY2022. The increase in gearing was primarily a result of a decline in net cash position due to lower operating cash inflows. This positive cash positions further declined due to capital expenditures and dividend payments made during the same period. The interest coverage ratio stood at 106.1x in FY2023 compared to 128.8x in FY2022. This was primarily due to the decrease in operating income in the recent quarters as a result of lower crude oil prices. Aramco's capex amounted to USD 49.7 Bn in FY2023 including USD 42.2 Bn of organic capex, compared to a capex of USD 42.2 Bn in FY2022. It expects to incur a capex of USD 48 – 58 Bn in FY2024. Furthermore, lower infill drilling due to directives from the govt. authorities in Saudi will result in a decline in total investment by USD 40 Bn from FY2024-2028. The Company's debt declined 26.2% to SAR 290.2 Bn in FY2023.

BGBKKK 2.75% 2031: Maintain MARKET WEIGHT rating

We are MARKETWEIGHT on Burgan Bank's 2.75% Tier 2 subordinated bond currently trading at USD 88.75. The bond offers a yield of 7.12% and a duration of 2.04. Its loan book is diversified with exposure to Kuwait and international operations in multiple sectors.

- 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 126 branches and 297 ATMs as of FY2023. KIPCO Company majorly owns the Bank with a stake of 64.3%.
- Burgan Bank Group's revenues increased to KWD 265 Mn in FY2023 compared to KWD 232 Mn in FY2022. Burgan Bank reported a net profit of KWD 44 Mn in FY2023 despite the geopolitical turmoil and hyperinflationary accounting (IAS 29) losses of KWD 32 Mn on its Turkish subsidiary. The net profit declined 16.5% YoY in FY2023, primarily due to a decline in net interest income of 8.5% YoY, non-funded income by 8.0%, and a rise in provisions. Net interest income declined 8.5% to KWD 134 Mn in FY2023, owing to a decline in net interest margins from 2.4% in FY2022 to 2.1% in FY2023. Net fees and commissions income fell 8.0% YoY in FY2023, whereas the operating expenses grew 8.6% YoY to KWD 116 Mn due to the inflationary environment and increased costs associated with current investments in the digital banking platform. For the FY2023, the cost-to-income ratio stood at 52.4% compared to 47.0% in FY2022.
- The Bank's non-performing loans rose marginally from 1.9% in FY2022 to 2.0% in FY2023. Provision coverage ratio without collateral remained strong at 220% in FY2023 compared to 206% in FY2022. Burgan's Capital Adequacy Ratio stood at 20.0%, 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% and 117%, respectively, as of FY2023, substantially above the minimum regulatory requirement of 100%.
- The Board of Directors proposed a cash dividend of 6 fils per share, in addition to a 5% bonus share distribution for FY2023, subject to shareholder approval at the Annual General Meeting.
- Fitch Ratings affirmed Burgan Bank's rating at "A" with a stable outlook. 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 MARKET WEIGHT rating

We are MARKET WEIGHT on Sharjah Islamic Bank's (SIB) 5.0% Jr. subordinated perpetual (AT1) bond. The bond offers a yield of 7.53% and currently trades at USD 98.21 with a modified duration of 0.93 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 which 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 30.8% YoY to AED 852 Mn in FY2023 mainly due to an increase in funded and non-funded income and a decline in impairments partially offset by a rise in operating expenses. Total operating income rose 22.7% YoY to AED 1,975 Mn in FY2023 due to a 19.7% YoY growth in net funded income and 31.9% YoY growth in non-funded income. In line with the bank's prudent credit management approach the provisions rose 29.7% to AED 221 Mn in FY2023. Non-performing loans declined from 6.2% in FY2022 to 5.6% in FY2023 with a stage 2 ratio of 6.0%.
- SIB's total assets grew 11.4% YoY to AED 65.9 Bn in FY2023. While net advances rose 7.7% YoY to AED 33.0 Bn in 2023. The Bank's customer deposits rose 14.4% YoY to AED 45.2 Bn in FY2023. Similarly, total equity increased 6.5% to AED 8.1 Bn in FY2023. The Bank's liquid asset ratio declined from 23.9% in FY2022 to 20.8% in FY2023. The Bank's headline loan-to-deposits ratio stood at 73.1%, which indicates strong room for loan growth in the upcoming period.

GENHLD 4.76% 2025: OVERWEIGHT rating

We assign OVERWEIGHT rating on Senaat's 4.76% Sukuk maturing in December 2025. The Sukuk is trading for USD 99.15 and offers a yield of 5.43% 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 6th, 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 FY2023 reached AED 13,466 Mn, down from AED 13,525 Mn in FY2022, the decline in revenue is attributed to lower revenues from the Building materials and Steel industries, partially offset by growth in the Food, beverages, and tannery segment.

Revenue from the Food and Beverages segment increased to AED 4,567 Mn in FY2023 compared to AED 4,072 Mn in FY2022. Revenue from the Steel industry declined from AED 8,565 Mn in FY2022 to AED 8,029 Mn in FY2023. The revenue from building materials declined from AED 871 Mn in FY2023 to AED 887 Mn in FY2022.

The EBITDA of the Group reached AED 2,159 Mn in FY2023, up from AED 2,117 Mn in FY 2022. The EBITDA margin increased to 16.04% in FY2023 from 15.65% in FY2022. However, the net profit of the Group declined to AED 1,058 Mn in FY2023 from AED 1,097 Mn in FY2022. The net profit margin also declined to 7.86% in FY2023 from 8.11% in FY2022. The Group earned 8.2% return on equity in FY2023 as compared to 8.8% in FY2022.

- As of December 31, 2023, the Group's total assets stood at AED 20.6 Bn, down from AED 21.0 Bn in December 2022, and the value of shareholders' equity was AED 13.3 Bn, up from AED 12.4 Bn in December 2022. The external debt of the Group declined to AED 3.1 Bn in FY2023 from AED 4.9 Bn in FY2022, improving the EBITDA leverage from 3.1x in FY2022 to 1.7x in FY2023. Out of the total debt, AED 489 Mn will mature in FY2024. The consolidated cash and bank balance declined to AED 1,077 Mn in FY 2023 from AED 1,436 Mn in FY2022 attributed to the investment in working capital.

- 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. Senaat Sukuk 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 11.0% 2025: Maintain MARKET WEIGHT rating

We maintain MARKETWEIGHT on Emirates REIT's 11.0% Sukuk maturing in December 2025. The Sukuk is trading at USD 98.95 with a yield of 12.06% when held till maturity (redemption at par). On 12th December 2022, Emirates REIT refinanced the existing sukuk with a new secured sukuk financing of USD 380 Mn with a two-year maturity. The new sukuk is fully secured with a profit rate of 11% from the second year, a maturity date of December 2024, and a one-year extension option. In June 2024, Emirates REIT has exercised the extension option and extended the sukuk maturity date to 12 December 2025 from 12 December 2024. The refinancing risk for the newly issued sukuk persists as the refinancing was only extended by an additional year in June 2024. The principal outstanding on the new sukuk is reduced by USD 20 Mn. In case, the Company plans to settle the debt it is required to dispose of assets which will reduce cash flows as existing cash flows are not enough to pay the debt. The total debt outstanding was reduced from USD 462.9 Mn in FY2022 to USD 441.1 Mn in FY2023. The net asset value of the REIT rose 34.1% YOY to USD 499.7 Mn in FY2023 due to a 17.7% YOY increase in fair value of investment properties to USD 923.7 Mn. The Company's properties are diversified among the commercial, educational, and retail sectors, with an occupancy rate of 86.2 % in FY2023.

- Emirates REIT net profit grew 55.1% YOY to USD 127.2 Mn in FY2023. The growth in net profit is mainly attributable to an improvement in operating performance and unrealised gain on revaluation of investment properties from USD 78.8 Mn in FY 2022 to USD 132.9 Mn in FY2023.
- Net property income grew 12.2% YOY to USD 62.1 Mn in FY2023 driven by improved rental rates and higher occupancy partially offset by a 2.5% YOY rise in property operating expenses to USD 12.3 Mn in FY2023. Total operating profit rose 36.8% YOY to USD 44.0 Mn in FY2023 due to a rise in net property income and decline in funded expenses partially offset by a rise in ECL allowance. Funded expenses declined mainly due to the expenditure on professional fee and other expenses incurred last year on 2022 sukuk refinancing. Despite a decline in the total outstanding debt, the net finance cost increased from USD 29.0 Mn in FY2022 to USD 49.8 Mn in FY2023 due to high interest rates which impacted the FFO.
- The occupancy across the portfolio rose 1.7% YOY to 86.2% in FY2023 driven by strong growth in the leasing market due to high demand. Meanwhile, occupancy of retail portfolio increased 10.2% YoY to 58.7%. The occupancy of offices at Index tower increased 1.4% to 87.8% while the European Business Centre occupancy increased 14.9% YoY to 83.9%. The Company's weighted average lease expiry (WALE) declined from 7.1 years in FY2022 to 6.3 years in FY2023.
- The Company's Islamic financing was reduced by 4.7% YOY to 441.1 Mn in FY2023, owing to a partial redemption of Sukuk.

INTLWT 5.95% 2039: Maintain MARKET WEIGHT rating

We assign MARKETWEIGHT on APMI One's 5.95% bond maturing in May 2039. The bond is trading at USD 96.63 with a yield of 6.34% if held till maturity (redemption at par). The bond has a modified duration of 7.26. The Bond has a credit rating of BBB- from Fitch and Baa3 from Moody's both with a stable outlook.

ACWA Power Management and Investments One Ltd (APMI One) is a 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 2004 in KSA and expanded throughout the years to operate in 12 countries. The first expansion plan took place in 2008-2010 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.

- Eleven large-scale new renewable projects which aggregate of c.7.1 GW have been added to the portfolio in 2023, which now accounts for 44.5% of the power portfolio. The Company also targets achieving an equal 50/50 portfolio balance between renewables and flexible generation by FY2030. The Company has 81 assets (in operation, under construction, or in advanced development) with a total investment cost of SAR 317.7 Bn, generating 55.1 GW of electricity producing 7.6 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 having lower credit quality than 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 left, 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 FY2022. APP's closed its position with the ZATCA until FY2018, however the assessment is pending for FY2019-22. The Company's subsidiaries and associates received a higher tax assessment from ZATCA, which led to an additional tax liability of SAR 222 Mn (with ACWA Power share of SAR 126 Mn). The Company has recognised provisions of SAR 196 Mn (ACWA Power share of SAR 100 Mn) against this assessment as of 31st December 2023.
- Financial details as of FY2023 for ACWA Power are listed below:
  - ACWA Power's operating income before impairment loss and other expenses rose 14.1% YoY to SAR 2,984 Mn in FY2023, higher than SAR 2,615 Mn in FY2022. The increase in operating profit was mainly due to improved plant availability in existing assets, resulting from the successful implementation of the reliability of the supply program, contributions from new projects that achieved commercial operations, and increased development and management fees. The growth in operating profit was partially offset by increased corporate general and administrative expenses, along with reduced performance liquidated damages and insurance recoveries in 2023.

- Net profit attributed to the equity holders grew 7% YoY to SAR 1,662 Mn in FY2023, higher than SAR 1,540 Mn in FY2022. The growth in net profit is mainly attributed to higher operating income before impairment loss and other expenses, along with lower zakat and tax expenses partially offset by higher finance charges, decline in other income, lower capital recycling gains and higher share to NCI.
- Finance cost grew from SAR 1,229 Mn in FY2022 to SAR 1,475 Mn in FY2023, mainly due to rising market rates and issuance of additional debt, including the second tranche of Sukuk.
- During FY2023, ACWA Power received a lower capital recycling gain of SAR 227 Mn owing to the divestment of the 49% stake in the Sirdarya.
- ACWA Power reported a cash balance of SAR 4,713 Mn at the parent level in FY2023. The Company's debt stood at SAR 18.2 Bn in FY2023 with a net leverage ratio of 5.50x.
- ACWA Power's increase in debt is primarily due to an increase in corporate and project recourse borrowings partially offset by a decline in other financial liabilities.
- The Company's Corporate borrowing grew from SAR 2,792 Mn in FY2022 to SAR 4,588 Mn in FY2023, mainly due to the issuance of the second tranche of Sukuk in 2023. Project recourse borrowing grew from SAR 2,941 Mn in FY2022 to SAR 4,976 Mn in FY2023, primarily due to new debt issuance across different projects in Uzbekistan, Azerbaijan, Saudi Arabia and the UAE.

Bond Yield charts (%)

Figure 13: ALDAR 3.875% 2029

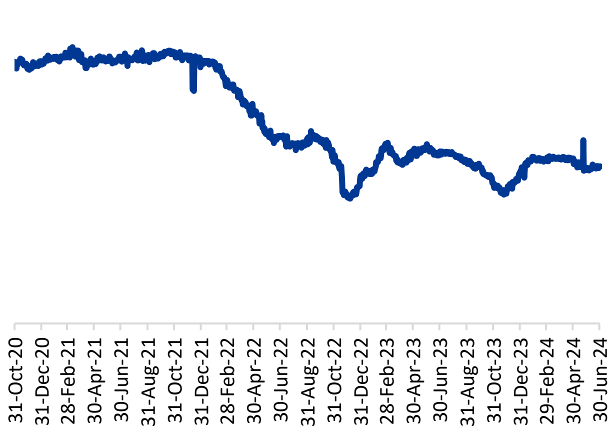


Figure 14: KWIPKK 4.5% 2027

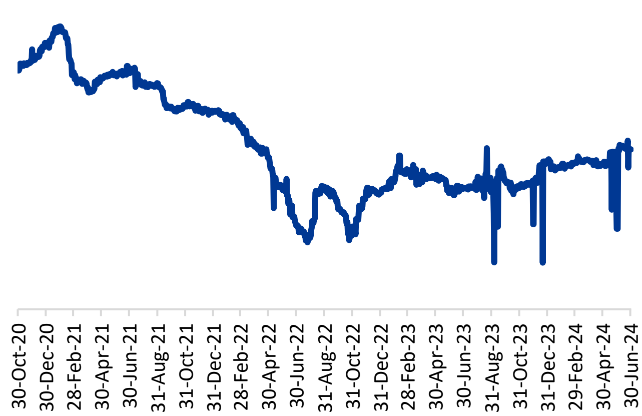


Figure 15: ARAMCO 3.5% 2029

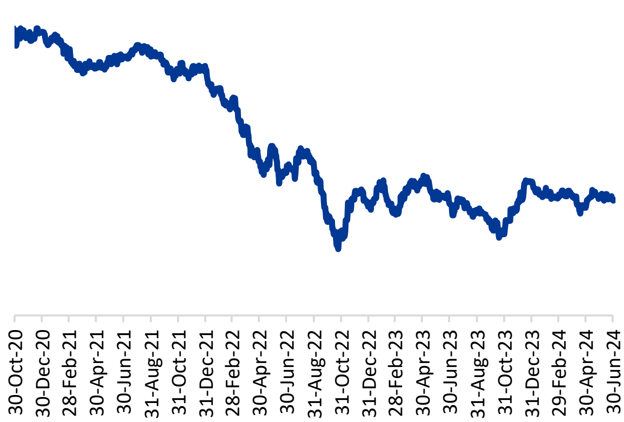
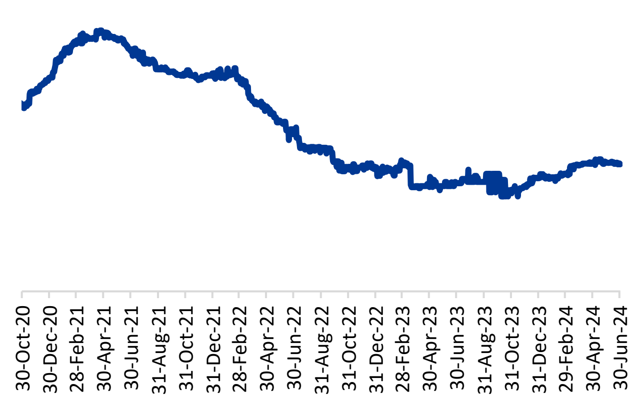


Figure 16: SIB 5% PERP



FAB أبوظبي الأول للأوراق المالية SECURITIES

Figure 17: GENHLD 4.76% 2025

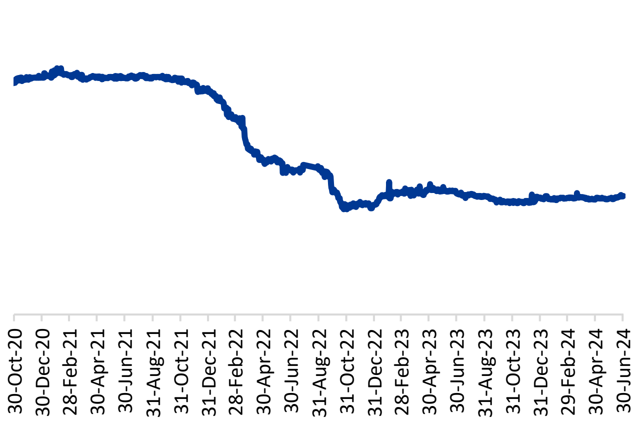


Figure 18: REITDU 11.0% 2025

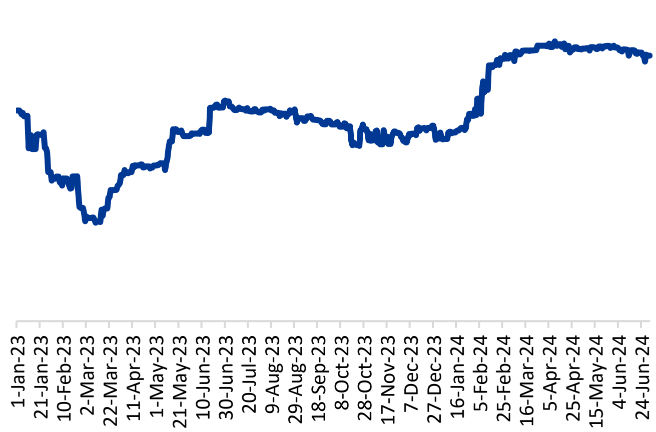


Figure 19: INTLWT 5.95% 2039

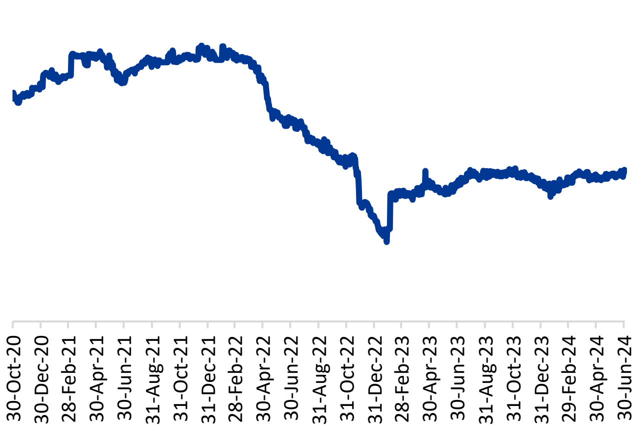
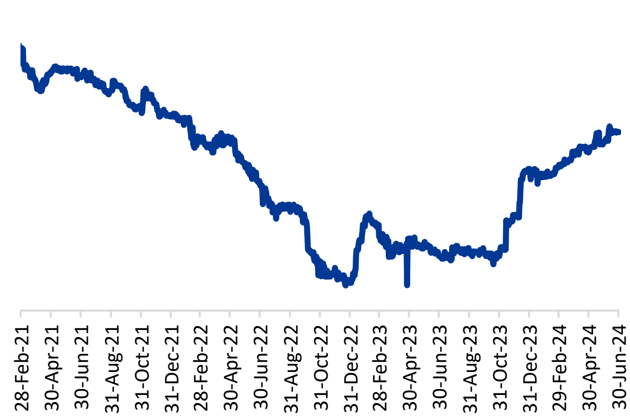


Figure 20: BGBKKK 2.75% 2031



Source: Bloomberg

Key Market Indicators

Particulars	Price/Yield	YTD (% change)	MOM (% change)
Brent crude	86.88	12.77	12.07
US dollar index	105.34	3.96	1.18
10Y Treasury yield	4.36	NA	NA
2Y Treasury yield	4.71	NA	NA
10Y German bund yield	2.58	NA	NA
10Y Japan bond yield	1.09	NA	NA
Bloomberg UAE Composite USD Liquid index	136.06	0.78	0.94

Source: Bloomberg

Sovereign Highlights

UAE

AD Ports and Adani Ports Joint Venture purchased a stake for USD 39.5 Mn in a Tanzania container terminal

AD Ports Group formed a joint venture with an Adani Ports subsidiary based in India, and East Harbour Terminals Limited to purchase a 95% stake in Tanzania International Container Terminal Services Ltd (TICTS), for USD 39.5 Mn by the end of June 2024. The joint venture, East Africa Gateway Limited (EAGL), secured the stake in Tanzia International Container Terminal Services (TICTS) from Hutchison Port Holdings Limited, Hutchison Port Investments Limited and Harbours Investment Limited. The terminal, which has 1 million TEUs of annual container capacity, will be operated by TICTS. Additionally, Adani International Ports Holdings Pte Ltd (APSEZ) finalized a 30-year concession deal with the Tanzania Ports Authority to operate and manage Container Terminal 2, located at the Dar es Salaam Port. The controlling shareholder will be ASPEZ, and EAGL will be consolidated from its books. In the newly JV formed, AD Ports will hold a 30% stake.

Non-oil business growth in the UAE declines as companies deal with flood disruptions

The rate of growth in business activity in the non-oil sector of UAE reached its lowest level in 16 months in May 2024, owing to the disruptions caused by flooding in April 2024. The seasonally adjusted S&P Global UAE Purchasing Managers' Index remained at the same level at 55.3 in May 2024 compared to April 2024. However, it remained higher than the long-run average of 54.4, signalling a rebound in the operating conditions. Moreover, despite a rebound in demand during May, the growth in new orders recorded the second-weakest since August 2023. The job creation rate in May reached its highest level in three months as non-oil firms boosted staff levels to increase capacity. Purchasing growth reached its highest levels since November 2023 owing to robust sales pipelines, output requirements and the need to replenish items damaged by floods.

Zamp, backed by Mubadala, to purchase Starbucks' brand rights and stores in Brazil

Zamp, a Brazilian restaurant chain operator, agreed to purchase the rights to operate the Starbucks brand and a few stores in Brazil. The company signed a deal worth BRL 120 Mn (USD 22.7 Mn) with SouthRock, which owns Starbuck's assets and rights and has been under bankruptcy protection since the previous year. The deal will be implemented through a competitive process, allowing Zamp to match any potentially higher bids. Furthermore, the court overseeing SouthRock's bankruptcy and Brazil's antitrust regulator, CADE, must approve the agreement.

DP World intends to invest USD 3 Bn in Africa

DP World intends to invest USD 3 Bn in Africa over the next three to five years to build new port infrastructure throughout Africa and the logistics and supply chain costs, aiming to reduce the high logistics and supply chain costs compared to other markets. Additionally, the company is expanding its operations in Tanzania and exploring potential investment opportunities in South Africa and Kenya harbours.

Emaar and Salik announced paid parking at Dubai Mall from July

Emaar and Salik announced that people visiting the Dubai Mall now have to pay to park in a few of the mall's car parks. Visitors parking at Grand Parking, Cinema Parking, and Fashion Parking will pay charges of AED 20 for parking their vehicle at the mall for more than four hours on weekdays and AED 80 for more than six hours on weekends under a new system that will be implemented from July 1 in partnership with Dubai toll operator Salik. However, Fountain Views and Zabeel parking lots will always offer free parking and shorter durations in all other car parks will remain free. In specific parking lots, mall visitors will pay more for extended periods, up to AED 1,000 for a 24-hour parking period. The goal of paid parking is to free up spots and make it easier for visitors to find parking.

The Central Bank of UAE lowered its inflation forecasts for 2024

The UAE Central Bank has lowered its previous inflation estimate to 2.3% from 2.5%. The downward revision is the result of lower-than-expected growth in rents, incomes, and commodity costs owing to the strengthening of the USD, which in turn led to an appreciation of Dirham. The Central Bank further forecast inflation to be 2.3% on average, primarily due to the non-tradeable element of the consumer basket.

Mubadala is set to acquire a controlling stake in Giter after securing USD 250 Mn in funding

Mubadala Investment Co. plans to acquire a majority stake in the Turkish food delivery firm Getir. Getir's investors have approved a restructuring strategy to split the business and bring in USD 250 Mn funding. The new funding will be led by the UAE firm, an existing investor, who will also take a controlling interest in Turkey's domestic grocery and food sector. Moreover, the CEO of Getir and one of the co-founders, would own minority shares in the grocery business as part of the restructuring.

SAUDI ARABIA

Non-oil business activity in Saudi Arabia slowed down in May as new orders growth hit a two year low

The seasonally-adjusted Riyad Bank Saudi Arabia Purchasing Managers' Index declined from 57.0 in April to 56.4 in May, marking the lowest level in 22 months. The decline was primarily due to new orders reaching their lowest levels in 25 months, attributed to a slower pace of demand expansion caused by the slowdown in market conditions and challenges in acquiring new customers. Price pressures affecting staff costs and input prices have also resulted from the increase in demand, however the rate of increase in output prices has been slower.

Aramco is in talks with Tellurian and NextDecade for LNG projects

Aramco is discussing with Tellurian and NextDecade for two liquefied natural gas (LNG) projects to expand its gas production and trading. The company aims to enhance its position in the LNG market, which is expected to grow globally by 50% by 2030, with significant growth in the United States, where LNG capacity is projected to nearly double within the next four years. Aramco is in discussions with Tellurian to acquire a stake in its Driftwood LNG Plant, which has a capacity of 27.6 million metric tons per annum (MTPA). Furthermore, the company is also in talks with NextDecade regarding a long-term gas purchase agreement from a planned fifth processing unit at its Rio Grande facility worth USD 18 Bn.

Saudi Arabia plans to raise USD 11.2 Bn from the issuance of Aramco shares

Saudi Arabia plans to raise over USD 11.2 Bn following the pricing of its Aramco stock offering. The stake sale is considered to be the first since Aramco's IPO in 2019. The funds raised will support Crown Prince Mohammed bin Salman's strategy to diversify the Kingdom's economy. Aramco plans to set the price of the shares at SAR 27.25 (USD 7.27) each.

Industrial Production Index of Saudi Arabia dropped 6.1% during April

The Industrial Production Index (IPI) of Saudi Arabia fell 6.1% YOY during April. According to the General Authority for Statistics (GASTAT), IPI declined from 112.43 points during April 2023 to 105.60 points during April 2024 as per the FY2021 base year owing to the slowdown in mining and quarrying activities accounting for 61.4% of the IPI. These activities declined 14.1% YOY due to the cutdown of Saudi Arabia's oil production to 8.9 million barrels per day during April.

Ceer signed a USD 2.18 Bn deal with Hyundai Transys

The electric vehicle (EV) brand Ceer, backed by the Public Investment Fund (PIF) of Saudi Arabia, signed a deal of USD 2.18 Bn with Hyundai Transys of South Korea. As per the agreements, Hyundai Transys has been set to supply integrated EV drive systems (EDS) for Ceer vehicles for over ten years. The deal is anticipated to start from FY2027, under which Hyundai Transys will install the EDS in all the vehicles owned by Ceer, comprising a three-in-one system including an inverter, a motor and a reduction gear.

Inflation in Saudi Arabia remained constant at 1.6% during May

The annual inflation rate of Saudi Arabia remained constant at 1.6% YOY in May for the third consecutive month, driven mainly by higher housing rentals. According to the General Authority for Statistics, housing rents grew 10.5% YOY, driven by 14.3% YOY growth in apartment rents. Prices in the categories of water, housing, electricity, gas and other fuels increased by 8.7% YOY. Food and beverage prices grew by 1.4% YOY, while hotel and restaurant prices increased by 2.5% YOY, owing to a 1.9% YOY rise in food service prices. Furthermore, clothing and footwear prices declined 4% YOY while the purchase prices of vehicles contracted 4.1% YOY, dragging the overall transport costs down by 2.4% YOY.

Saudi PIF to purchase a 15% stake in Heathrow Airport

Saudi PIF and Ardian, a French Private equity firm offered to buy a 37.6% stake in FGP TopCo, Heathrow Airport Holdings Ltd’s parent company, for GBP 3.26 Bn. As per the agreements, Ferrovial will hold a 5.25% stake, whereas PIF and Ardian will acquire a 15.0% and 22.6% stake, respectively.

Chemanol secured a 20-year methanol contract with Aramco & TotalEnergies JV

Chemanol secured a 20-year agreement with Saudi Aramco Total Refining and Petrochemical Company (SATORP), a joint venture between Saudi Aramco and TotalEnergies. Under the agreement, Chemanol will supply 100,000 metric tonnes of methanol per year for the Amiral project of SATORP starting at the end of FY2027.

Oman and Kuwait

Oman’s public debt reduced to USD 37.6 Bn

Oman’s public debt reduced from OMR 15.3 Bn at the end of FY2023 to OMR 14.5 Bn owing to the repayment of OMR 700 Mn towards the maturing international sukuk bonds. This reduction reduced the public debt to gross domestic product (GDP) ratio to 33.9% in 1H24 compared to 36.5% in FY2023. The repayment also led to a drop in the external debt ratio, reaching 71% in 1H24 compared to 74% in FY2023. According to Oman’s Ministry of Finance, the financial obligations were handled by repaying external loans and issuing government development bonds. Moreover, financial surpluses were diverted towards boosting economic growth, social spending, managing financial obligations, reducing public debt, and creating reserve buffers.

Kuwait’s business sentiment peaked in 2024 as new orders surged

Kuwait’s business confidence peaked in May 2024 owing to an increase in new orders and output at the fastest rates in the last four years. The Kuwait Purchasing Managers’ Index (PMI) rose from 51.5 in April to 52.4 in May, indicating a rebound in the non-oil private sector for sixteen consecutive months. The data also indicated a robust expansion in new orders. Moreover, purchase costs rose continuously during the month, and the inflation rate softened to its weakest while the job creation rate grew marginally in May.

Qatar

Nakilat to increase its stake in joint venture KSI Investments

Nakilat, QatarEnergy's leading gas transporter, has been selected to own and manage up to 25 conventional-size LNG carriers in the second phase of QatarEnergy's extensive LNG fleet expansion project. Additionally, Nakilat, which currently holds a 79% stake in the joint venture, has agreed to purchase the 20% minority stake from KSI Investments due to KSI's plans to exit Qatar Shipyard Technology Solutions.

Qatar's Sovereign Wealth Fund to acquire 10% stake in China Asset Management Co

Qatar's sovereign wealth fund to purchase a 10% stake in China Asset Management Co (ChinaAMC) from Primavera Capital. Qatar's planned investment in ChinaAMC arises amid increased efforts by China and Gulf countries to strengthen political, economic, and financial ties, against the backdrop of escalating geopolitical tensions related to the Gaza War and the Russia-Ukraine conflict. The deal, if completed, will make Qatar Investment Authority (QIA) ChinaAMC's third-largest shareholder

Qatar's non-oil business activity recorded strong growth during May

Qatar Financial Centre (QFC) Authority Purchasing Managers' index (PMI) rose from 52.0 in April to 53.6 in May, primarily due to expansion in wholesale, services and retail sector businesses and growth in incoming new work as it grew at the fastest rate in the last eight months. The business growth in the non-energy private sector of Qatar was at the highest levels in eight months, while employment rose for the 15th consecutive month. Moreover, lead times improved, and purchasing activity grew at the second-highest rate in ten months as companies strengthened their connections with suppliers. Cost pressures remained stable while average purchase prices dropped, leading to an offset in higher wages.

UDC approved the sale of 40% shareholding for USD 217 Mn in Qatar Cool

The United Development Company (UDC) authorized the sale of a 40% shareholding in Qatar District Cooling Company for OR 800 Mn (USD 217 Mn) to Qatar Investment Authority (QIA). Following the transaction, UDC will maintain a 51.06% stake in the company. This sale aligns with UDC's strategic growth plan and commitment to maximizing shareholder value, with the additional funds embarked for investment in its Pearl and Gewan Islands projects. The partnership with QIA is also anticipated to improve Qatar Cool's operational efficiency and competitive position.

Qatar Airways is in talks to acquire a stake in 49% stake in RwandAir

Qatar Airways is anticipated to finalise the deal to acquire a 49% stake in Rwand Air by July 2024. The two airlines have been negotiating a deal for the last five years. Qatar Airways had purchased a 60% stake in an international airport in Rwanda and it also possesses code share agreements with various other airlines based in Africa.

The Consumer Price Index of Qatar inched up in May

The Qatar Consumer Price Index (CPI) rose by 0.44% MOM and 0.93% YOY to 107.59 points in May 2024. When compared on a MOM basis, the rise in CPI can be attributed to the price rises in the five groups. The five groups include Recreation and Culture prices grew by 3.19% MOM; food and Beverages prices increased by 1.48% MOM; miscellaneous Goods and services prices increased by 0.28%; Furniture and Household Equipment prices by 0.16%, and Transport prices inched up by 0.12%.

EGYPT

Egypt's economy is expected to grow by 4.2% in FY2025

Egypt's economy is predicted to grow 2.9% or 3% by the end of FY2024. The growth is expected to grow to 4.2% by the end of FY2025. The growth is anticipated to be driven by investment expenditure, consumer spending and net exports and imports. Additionally, the Central Bank indicated that the growth would remain subdued from January to March 2024.

Egypt's PMI grew to its highest level in the last three years in May 2024

Egypt's headline PMI rose from 47.4 in April 2024 to 49.4 in May 2024, marking the highest in the previous three years following a softening of inflationary pressures. The business activity declined at the slowest pace since July, and the companies also increased the staff levels owing to growing confidence in sales improvement. Input costs increased at the weakest rate since March 2021 due to softening inflation and improved currency availability. The employment rate rose due to optimism related to the rising 12-month outlook. New business levels declined at the slowest pace since September 2021, and new orders improved due to increased foreign demand. Services and construction sectors improved, whereas manufacturing, wholesale and retail sectors declined further, indicating an expected delay in the recovery.

Annual urban CPI of Egypt declined to 28.1% in May 2024

The annual urban CPI (consumer price inflation) slowed down at a faster pace than expected to 28.1% during May 2024 from 32.5% in April 2024. The food price inflation stood at 31.0% in May 2024 compared to the same period in the previous year. The prices declined for the third consecutive month in May as prices declined 0.7% and food prices fell 3.0% MOM in May 2024. The inflation remained elevated during the last year driven by a steep growth in money supply.

Egypt intends to cut down its debt service bill to 30% and reduce debt to GDP ratio to 80%

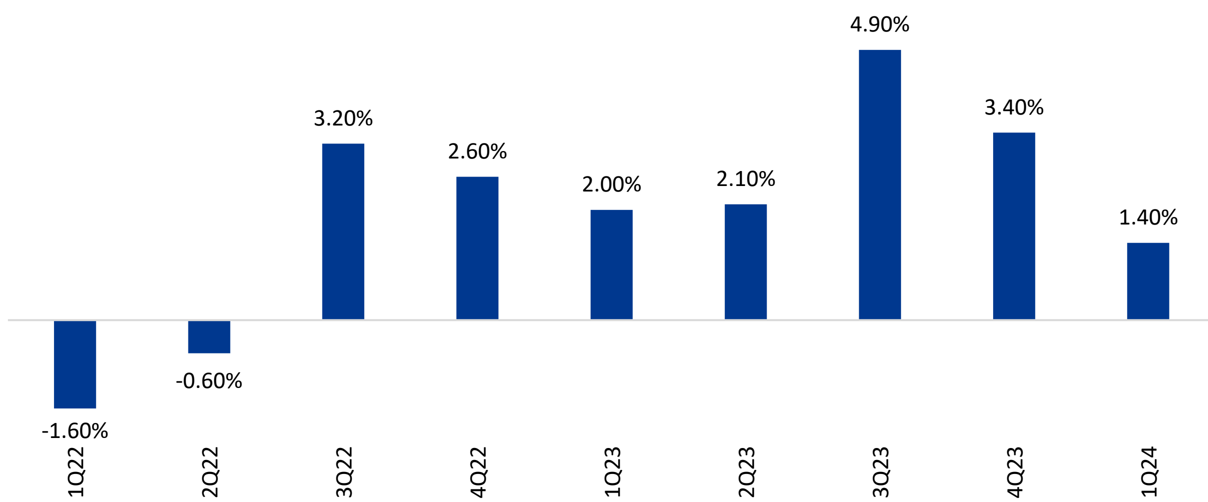
The Finance Minister of Egypt revealed that the government intends to reduce its debt service to 30% of public spending during the medium term as part of its strategy to cut down the debt-to-GDP ratio to 80% by June 2027. Public expenditure rose 43.2% to EGP 2.7 Tn owing to the high debt service bill as a result of higher interest rates and increased expenditure on wages, healthcare, social protection programs, and healthcare. Public revenues increased 73.7% to EGP 2.2 Tn due to increased tax revenues. The total deficit declined from 6.1% during the previous fiscal year to 3.6% of GDP in FY2024/25.

Global Economy

US economic growth slowed more than expected in 1Q24

According to the revised released by the commerce department, the GDP growth of the USA slowed more than previously anticipated in 1Q24. GDP rose 1.4% in 1Q24 compared to the previous estimate of -1.6%. The downward revision in the GDP estimate is attributed to lower private inventory investment, consumer spending, and federal government spending partially offset by an upward revision in the estimate of residential & non-residential fixed investment, state & local government spending, and exports. The US recorded a GDP growth of 3.4% in 4Q23. The lower growth in 1Q24 compared to the previous quarter is due to lower consumer spending, exports, and state & local government spending partially offset by growth in residential fixed investment.

Figure 21: U.S. Gross Domestic Product (GDP) YOY

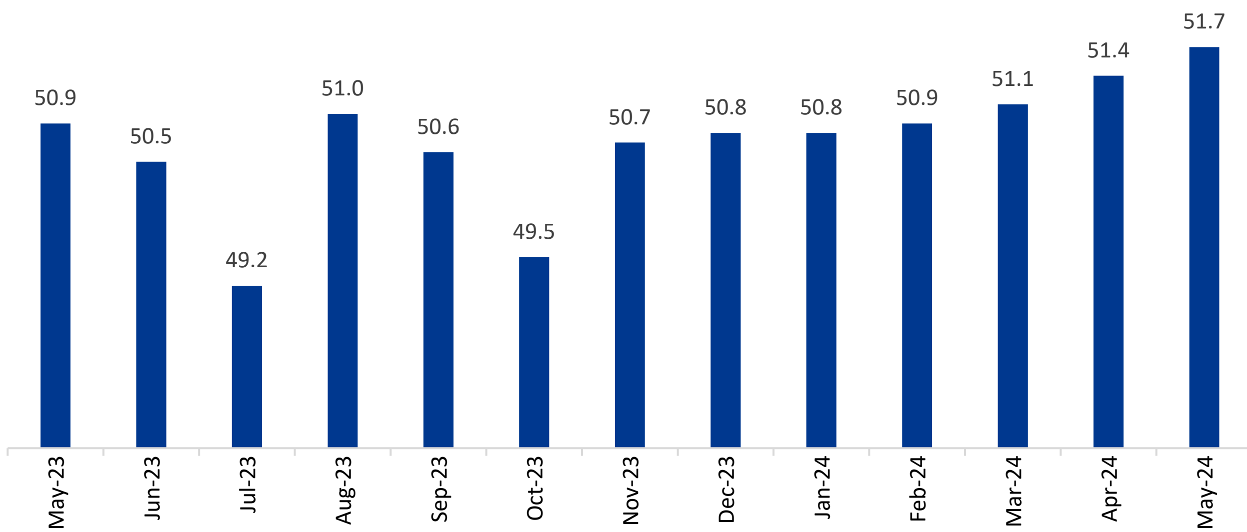


Source: Bureau of Economic Analysis

China's manufacturing sector recorded fastest growth in almost 2 years

Manufacturing PMI of China expanded in May 2024 with a PMI score of 51.7, up from 51.4 in April 2024, recording continuous expansion for the seventh consecutive month and marking the strongest growth in two years. Healthy domestic and international demand with an expansion in new orders drove this expansion. The manufacturers increased purchasing activity to fulfil production needs and output growth. The work backlog increased at the fastest pace since September 2021 due to rising new work inflow. However, the manufacturing sector also recorded a contraction in finished goods' stock due to higher shipments, a continued decline in employment, and higher input costs. Currently, the Chinese economy is relatively stable and in recovery mode.

Figure 22: China Caixin Manufacturing PMI

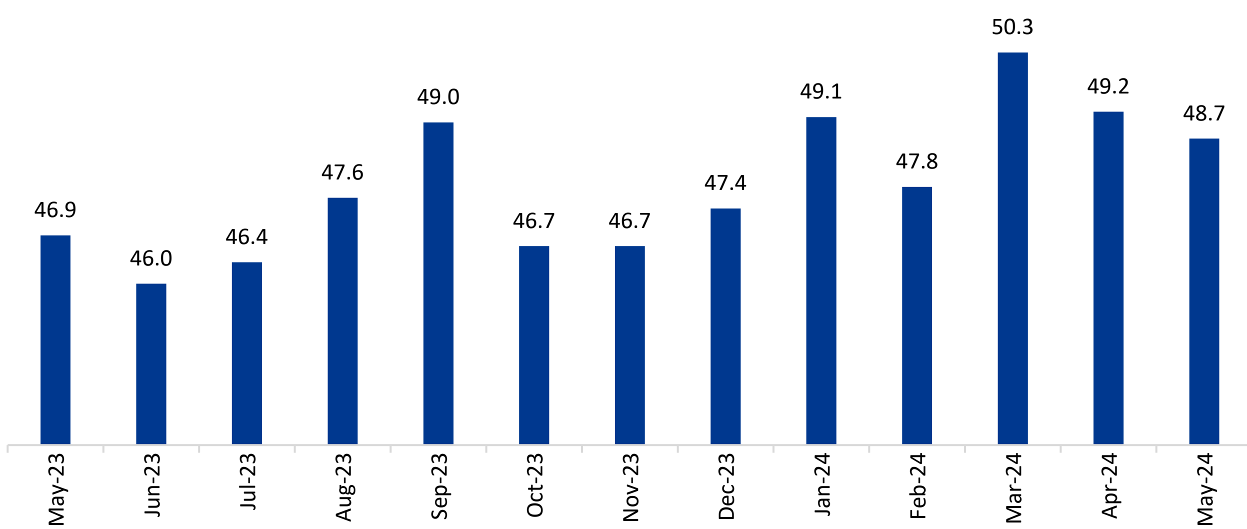


Source: CAPIQ

US manufacturing index showed an unexpected decline in May 2024

The manufacturing PMI of the USA declined unexpectedly to 48.7 in May from 49.2 in April 2024, indicating a contraction in manufacturing activities. The downturn is attributed to the decline of the new orders index from 49.1 in April to 45.4 in May and the Production index from 51.3 in April to 50.2 in May, indicating slower growth. However, the employment index rose from 48.6 in April to 51.1 in May, indicating a growth in manufacturing jobs. Also, the price index declined to 57.0 in May from 60.9 in April, further impacting the PMI.

Figure 23: US ISM Manufacturing PMI

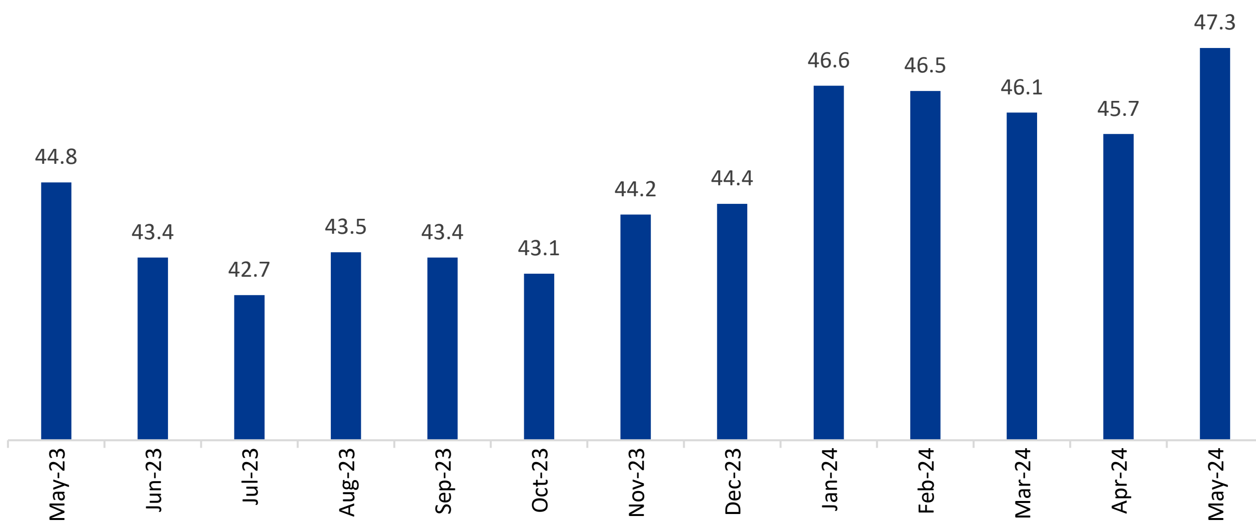


Source: CAPIQ

Eurozone manufacturing activity contracts at a slower pace

Euro area manufacturing PMI rose to 47.3 in May from 45.7 in April 2024, the highest in over a year and indicating a slower contraction. The slower decline is attributed to the stabilization of production and the slower decline in new orders. The stable production in May 2024 is attributed to the slowest drop in factory output over a year and the slowest decline in new orders over the last two years. Employment declined further in May, indicating surplus capacity; however, purchasing activities declined at a slow pace since September 2022, reflecting sufficient input stock levels. Moreover, the input costs continued to decline in May, a trend that started in March 2023.

Figure 24: Eurozone's Manufacturing PMI

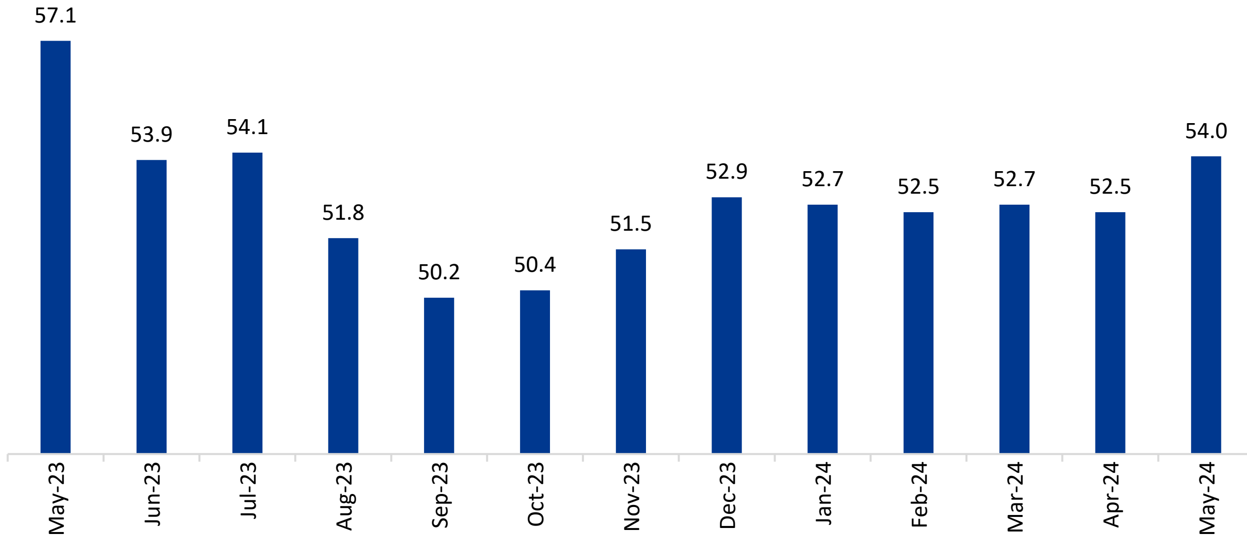


Source: CAPIQ

China's service sector growth recorded the fastest growth in a ten-month high in May 2024

The service PMI of China rose to 54.0 in May 2024 from 52.5 in April, recording continued expansion for 17 consecutive months and at the strongest pace since July 2023. The growth is attributable to an increase in new business inflows. The growth in new business inflow is driven by improvement in domestic and external markets and the launch of new products. Employment rose at the fastest pace since September 2023 to meet the increasing workload. However, input costs continued to grow for nearly four years contributing to inflation. Higher input material, labor and transport costs contributed to inflation and led service providers to raise prices during the month.

Figure 25: China's Services Sector PMI

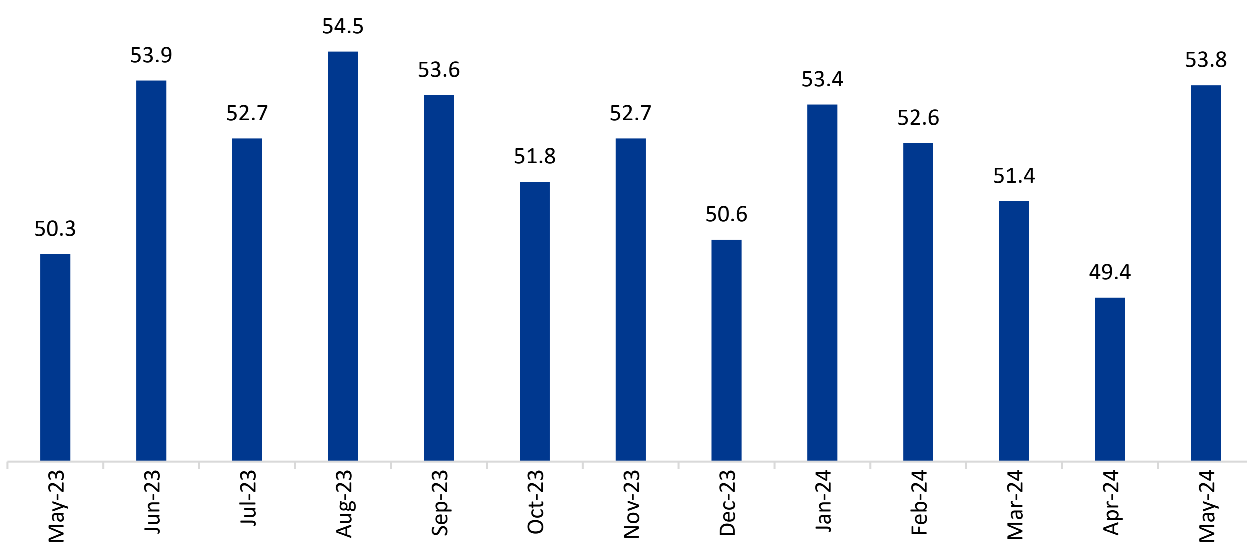


Source: CAPIQ

US service sector rebounded to a nine-month high in May

The US service sector rebounded strongly in May, with the services PMI rising to 53.8 in May 2024 from 49.4 in April 2024, indicating growth after a contraction in April and marking the highest level since August 2023. The acceleration was driven by increased business activity and new orders. While the employment index rose in May 2024 but continued to indicate a contraction. Prices index fell indicating a slowdown in the pace of price growth. The service sector showed robust growth in May. However, inflation and current interest rates are creating obstacles to sector growth.

Figure 26: US ISM services PMI

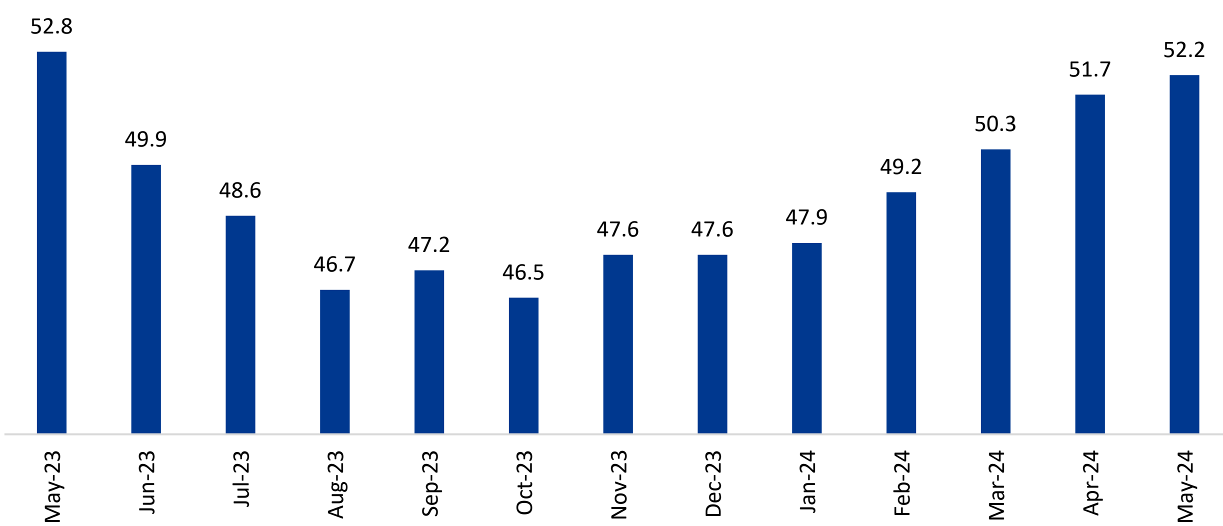


Source: CAPIQ

Eurozone private sector records highest growth rate in a year

The Eurozone private sector reported solid growth in May, with the HCOB composite output index rising to 52.2 in May 2024 from 51.7 in April 2024, marking the strongest expansion since May 2023. The expansion is owing to the strong demand which boosted production and hiring amid decline in inflation. The services PMI remained stable at 53.2, close to April's 11-month high of 53.3 driven by strong demand conditions. New orders increased notably fastest since April 2023, reflecting growing economic confidence. Despite ongoing challenges like sharp rises in input costs, inflation eased to a six-month low, and employment continued to rise for the fifth consecutive month. However, growth rates varied among the big four economies, with Germany and Spain recording faster expansions while Italy slowed and France experienced a contraction.

Figure 27: HCOB Eurozone Composite Purchasing Managers Index (PMI)

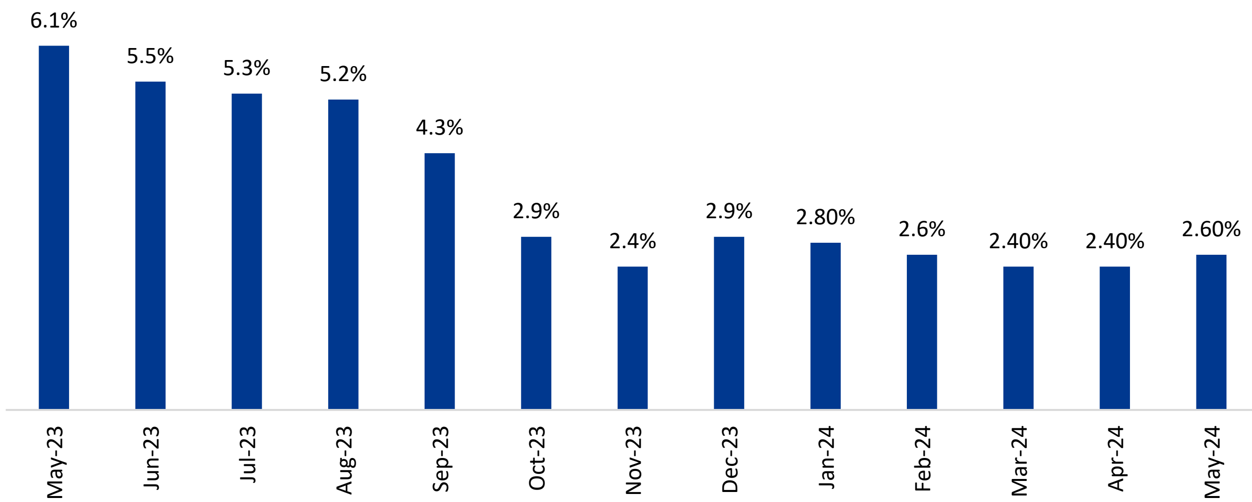


Source: CAPIQ

ECB lowers key interest rates by 25 bps over expected improvement in inflation

The European Central Bank (ECB) announced its first interest rate cut in five years, reducing the main refinancing rate by 25 bps to 4.25%, alongside the deposit facility rate to 3.75% and marginal lending rate to 4.5%. This move aligns with improved inflation forecasts but also recognizes limited room for further cuts due to persistent inflationary pressures. The ECB expects inflation to remain above target into the next year, projecting headline inflation of 2.5% for 2024, 2.2% for 2025, and 1.9% for 2026. Economic growth in the Eurozone is forecasted at 0.9% in 2024, 1.4% in 2025, and 1.6% in 2026. Additionally, the ECB plans to reduce asset purchases under the pandemic emergency purchase program (PEPP) by EUR 7.5 Bn per month on average for the rest of the year.

Figure 28: Eurozone Consumer Price Index (CPI) YoY

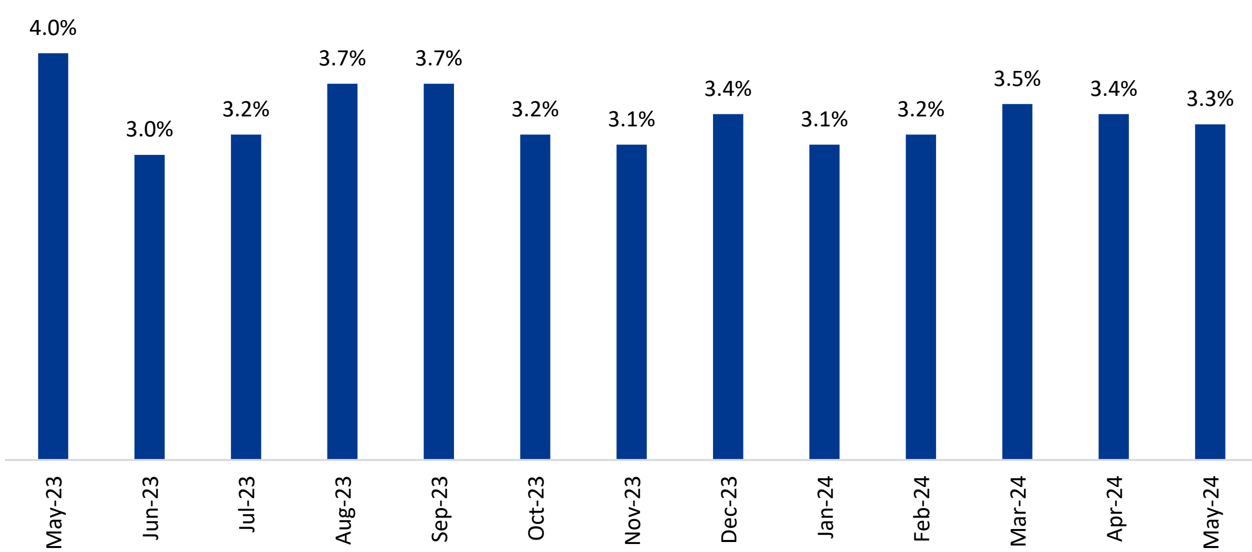


Source: CAPIQ

US consumer prices remained unchanged in May and annual growth slowed down to 3.3%

The Consumer Price Index (CPI) on a MOM basis remained unchanged in May 2024 contrasting a 0.3% increase in April 2024, largely impacted by a substantial decline in gasoline prices owing to a drop in overall energy costs partially offset by an increase in shelter prices. Gasoline prices fell 3.6% in May 2024 compared to a gain of 2.8% in April 2024. Core inflation prices rose 0.2% in May 2024 compared to a 0.3% increase in April 2024, which was mainly driven by a continued increase in shelter prices. The increase in core prices is also driven by a growth in prices of medical care, used cars and trucks, and education. However, airline fares, new vehicles, communication services, recreation, and apparel prices declined. Annual CPI growth eased marginally to 3.3% in May from 3.4% in April 2024, while core CPI growth also slowed to 3.4% in May compared to 3.6% in April 2024.

Figure 29: US Annual CPI (YOY)

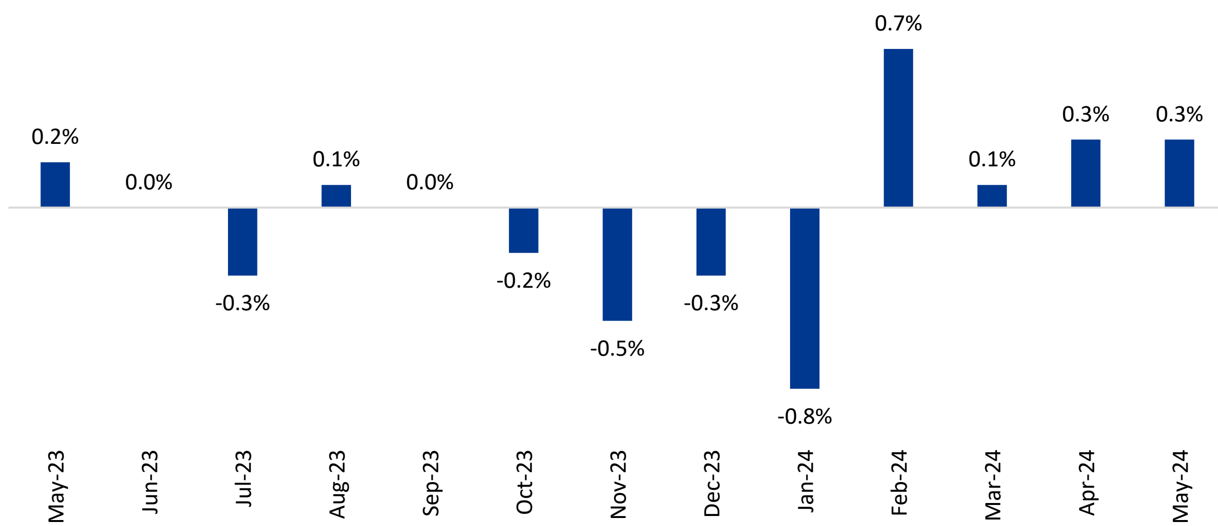


Source: CAPIQ

China inflation remained stable at 0.3%, while PPI continues to decline

China's consumer prices showed marginal growth In May, while the producer price index (PPI) continued to decline, highlighting the need for a stimulus to support demand and consumption. The CPI rose 0.3% YOY in May, similar to April 2024 rate and falling well short of the government's annual target of 3%. Food prices decreased at a slower pace of 2.0% YOY in May after dropping 2.7% in April. Excluding volatile energy and food prices, core inflation declined slightly to 0.6% YOY basis in May from 0.7% in April 2024. Monthly consumer prices declined 0.1% in May 2024 , against a minor gain in April. Inflation is expected to recover in the coming months but it is likely to remain low due to ongoing overcapacity issues. PPI declined 1.4% YOY in May slower than 2.5% in April, while it rose 0.2% MOM in May 2024.

Figure 30: China Consumer Price Index (CPI) YoY



Source: CAPIQ

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