High bond yield and geopolitical conflict dampen return of all asset classes

Rating:
MARKETWEIGHT

GCC Fixed Income Outlook

Global Sukuk issuances saw a further decline in 3Q23, largely due to a significant reduction in issuances within the GCC region. According to Fitch, the total Sukuk issuance in the GCC, Malaysia, Indonesia, Turkey, and Pakistan (including multilateral issuances) experienced a 12.3% YOY decline to USD 51.7 Bn in 3Q23 however, it remained consistent with the level recorded in 2Q23. While as of 9M23 total sukuk issued across all the markets fell 24.7% YOY to USD 154.6 Bn. Moreover, according to Moody, the total gross short and long-term sukuk issuance is expected to fall from USD 178 Bn in 2022 to USD 150-160 Bn in 2023. The anticipated decline can be attributed to lower volumes by the prominent issuers, mainly as a result of improving fiscal conditions in both GCC countries and Southeast Asia.

The 5-year sovereign CDS spread widened in all the GCC countries. The 10-year sovereign USD bond yield also rose across almost all the GCC countries except Kuwait in line with an increase in yield across major global markets. The growth in the oil and non-oil sectors enabled the GCC countries to post significant GDP growth in FY2022. Additionally, the GCC economy maintained its status as one of the leading global performers due to robust growth in the region. Recently, the UAE government unveiled its federal budget for 2024-26, with a total of AED 192 Bn (USD 52.3 Bn). The budget anticipates a 1.6% growth in spending, reaching to AED 64.1 Bn in 2024, and projects a 3.3% growth in total revenues, amounting to AED 65.7 Bn, compared to 2023. Additionally, UAE GDP experienced a 3.7% growth in the 1H23, primarily driven by a 5.9% expansion in the non-oil sector, which accounts for over 70% of the nation's GDP. Furthermore, according to the Central Bank of UAE (CBUAE), the UAE non-oil GDP is anticipated to expand, with a projected growth rate of 4.5% and 4.6% in 2023 and 2024, however oil GDP is expected to register a negative growth of 0.3% in 2023 and is expected to grow 3.5% in 2024. The UAE's PMI rose from 55.0 in August 2023 to 56.7 in September 2023 mainly driven by the new order index which climbed to the highest level since June 2019. According to the General Authority for Statistics, KSA’s GDP contracted 4.5% in the 3Q23 due to a significant decline in energy prices coupled with a decline in crude oil production. However, the non-oil sector is anticipated to grow by 6% in 2023 owing to higher government spending anticipated in coming years that will boost domestic demand. KSA’s PMI rose from 56.6 in August 2023 to 57.2 in September 2023 as business optimism picked up pace during the month. The companies surveyed reported an increase in output, however purchases, inventories and employment softened during the month. According to the IMF, Oman's economy is anticipated to grow 1.7% in FY2023. Bahrain's GDP registered a 2.0% YOY growth in the 2Q23, supported by a 2% increase in the oil sector and a 2.2% expansion in the non-oil sector. According to IMF, Qatar’s real GDP growth is expected to grow by 2.4% in FY2024 backed by robust domestic demand and the ongoing LNG expansion. Resultantly, due to strong economic activity in the region, the debt and sukuk issuance continued to gather pace but at a modest rate. While the issuance in the region continued to grow owing to the strong demand from the corporate sector. Emirates NBD successfully raised USD 750 Mn by issuing a fresh 5-year USD-denominated green senior unsecured bond, as part of its USD 20 Bn Euro Medium Term Note Program. While, the Saudi Public Investment Fund (PIF) plans to raise a total of USD 2.25 Bn in Islamic bonds, with a five-year maturity period priced at 120 bps over US Treasuries, and another USD 1.25 Bn in sukuk with a ten-year tenure priced at 140 bps over US Treasuries.

Gold Outlook

After declining for two consecutive months, gold prices rose 7.3% MOM to USD 1,983.9 per ounce on 31 October 2023. Gold prices touched a 7-month low during the first week of October 2023 due to a strong dollar and a spike in 10-year treasury yield to a 16-year high owing to hawkish Fed comments which expect the interest rates to remain higher for longer. The sell-off continued in the first week of October as strong US jobs data left room for further policy hikes. Moreover, in the following week, gold prices bounced back as bond yield eased and investors awaited the US nonfarm payrolls data. However, due to the Israel-Hamas conflict investors' demand for the bullion spiked. In addition, dovish remarks from the top Fed officials weighed on the US dollar coupled with rising uncertainty in the Middle East fueled gains in the bullion. Moreover, gold prices were further supported as the US Fed officials suggested high treasury yields might reduce the need for interest rate hikes. The US dollar and treasury yields further declined on the Fed’s approach to interest rates ahead of the inflation report. However, at the end of the second week in October 2023, a higher-than-expected rise in the US inflation pressurized gold prices due to the likely chance of an additional rate hike in the upcoming Fed meeting. The positive momentum in gold prices was maintained amid an escalation of conflict in the Middle East. In the following week, gold prices closed above the psychological level of USD 2,000 per ounce however these gains were short-lived as the benchmark US treasury yield neared the 5% mark ahead of the inflation data. Gold prices witnessed a tumultuous run from a 7-month low to a 5-month peak in October due to uncertainties caused by the Israel-Hamas war. We expect the gold prices to remain higher until the geopolitical tensions ease in the Middle East.

Oil Outlook

Oil prices declined 8.3% MOM in October 2023 after rising for four consecutive months. Oil prices declined during the first trading day of the month owing to strong dollar and profit-taking after a rally. During the first week, Saudi Arabia and Russia confirmed to continue their voluntary oil output cuts. Prices rebounded sharply in the following week and increased more than USD 4 per barrel amid rising uncertainty across the region due to Israel-Hamas war. Later at the end of the second week, oil prices rose above USD 90 per barrel over mixed supply sentiments, crude stock build in the US, and tightening of US sanctions on Russian crude exports. Furthermore, prices stabilized in the following days as US eased sanctions on Venezuela. However, prices again moved past USD 90 per barrel mark amid risk of escalation of conflict in the Middle East. Later the prices eased due to diplomatic efforts towards the

Israel-Hamas war and arrival of aid convoys in Gasa from Egypt. In the last week of October 2023, oil prices remained rangebound due to uncertainty caused by the Israel-Hamas war. At the end of the month, oil prices slightly increased as US military attacked Iranian targets in Syria. However, oil prices eased as investors awaited the Fed's meet and China's manufacturing data. We expect the oil prices to remain volatile amid regional political instability and upcoming Fed policy outcome.

Top picks for 2023

Name	Sector	Price	Mid YTM	Rating*
ALDAR 3.875% 2029	Real Estate	89.02	6.15	Baa1/NA/NA
KWIPKK 4.5% 2027	Investment Co.	85.89	9.81	Ba2/NR/NA
ARAMCO 3.5% 2029	Oil & Gas	89.04	5.90	A1/NA/A+
BGBKKK 5.749% PERP	Bank	91.23	9.47	NA/NA/NA
SIB 5% PERP	Bank	96.68	8.08	NA/NA/NA
ALMARA 4.311% 2024	Food and Beverages	99.46	6.07	Baa3/BBB-/NA
GENHLD 4.76% 2025	Investment Co.	98.49	5.56	A1/NA/A
REITDU 9.5% 2024	Real Estate	94.45	15.44	NA/NA/NA
INTLWT 5.95% 2039	Power Generation and Water Utility	94.27	6.57	Baa3/NR/BBB-

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

Content:

MENA credit outlook

Oman's Omantel hires banks to sell 7-year dollar-denominated debut sukuk

Oman Telecommunication Company (Omantel) a state-owned company hired banks to sell 7-year dollar-denominated debut Islamic bonds. Citigroup and JP Morgan are appointed as joint global coordinators and joint book-runners. In addition, Bank ABC, Bank Muscat, Dubai Islamic Bank, First Abu Dhabi Bank, and Standard Chartered Bank will also serve as joint book-runners.

ADIB completes USD 750 Mn AT1 perpetual Sukuk redemption on September 2023

Abu Dhabi Islamic Bank (ADIB) completed the redemption of its additional tier-one (AT1) perpetual sukuk on 20 September 2023. The sukuk was issued five years ago on 20 September 2018 at a 7.125% profit rate for USD 750 Mn. The Bank fully redeemed sukuk at the trustee call amount equivalent to the current face value of the certificates plus any unpaid amounts as of the redemption date. In addition, ADIB raised another USD 750 Mn in July 2023, AT1 perpetual Sukuk for USD 750 Mn with a profit rate of 7.25% on an annual basis payable semi-annually.

DP World offers green sukuk to raise USD 1.5 Bn to fund eco-friendly projects

DP World a port operator in Dubai secured USD 1.5 Bn Sukuk issuance to fund eco-friendly initiatives globally. The green sukuk was 2.3 times oversubscribed indicating a strong demand from regional and global investors. The Sukuk is listed on Nasdaq Dubai and London Stock Exchange with a coupon rate of 5.5% and priced at 119.8 bps over US treasuries. The sukuk issuance enables the company to align its sustainability strategy and decarbonization efforts with its financial strategy.

Qatar Energy and CP Chem secured USD 4.4 Bn to fund Ras Laffan petrochemicals project

Qatar Energy and Chevron Phillips Chemical Company (CP Chem) secured USD 4.4 Bn to finance Ras Laffan Petrochemicals project to integrate a polymers complex based in Ras Laffan industrial city, Qatar. The financing includes a combination of commercial and Islamic facilities and Export Credit Agency (ECA) financing. Ras Laffan Petrochemical project is a joint venture between Qatar Energy and CP Chem marked as the largest petrochemical project in Qatar. The project is expected to start production in 2026 with a capacity to produce 2.1 Mn tons of ethylene per annum.

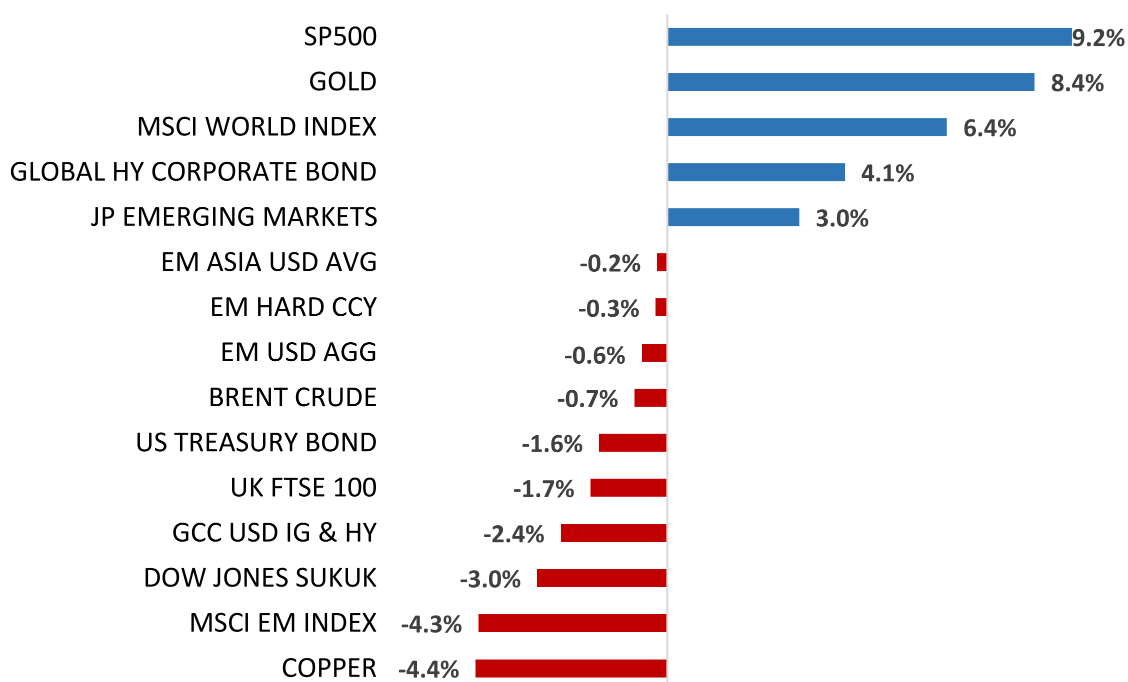
Damac hires banks for the sale of 3.5-year Sukuk

Dubai based Damac real estate development appointed banks for the sale of a 3.5-year dollar-denominated Islamic sukuk. Emirates NBD Capital, HSBC, and JP Morgan will serve as joint global coordinators and joint bookrunners, while ADCB, DIB, FAB, GFH Financial Group, and Mashreqbank will act as joint bookrunners.

Global Asset Performance

The table below summarizes the performance of a key equity and debt indices along with commodity price performance. During the month, all the asset classes generated negative return except gold mainly due to a sharp increase in bond yield and geopolitical conflict weighed on sentiment. The gold was the best performing asset during the month and generated 7.3% return during the month. The SPX Index, Gold, MSCI world, Global High Yield Bond index and JP Morgan Emerging Market generated positive return on YTD basis in 2023 except all other asset classes generated negative return on YTD basis. S&P 500 continued to record the strongest performance on 2023 YTD basis followed by MSCI World Market Index which recorded strong growth owing to the outstanding performance of developed market indices such as US, Japan and Europe. The rout in the bond market also pulled the return of equity while commodities especially oil reacted positively owing to widening of the conflict to other Middle East countries. MSCI EM Index generated negative return due to weakness in Chinese real estate data coupled with new US restrictions on AI chips despite positive Chinese economic data dampened both equity and bond return. The bond indices also recorded negative performance owing to rise in yield as the Fed indicated rates will continue to remain higher for longer period of time. On YTD basis Dow Sukuk Index recorded the highest decline followed by GCC USD IG & HY, US Treasury Bond, EM USD Aggregate, EM Hard Currency and EM Asia USD Average index. FTSE also generated negative return due to fall in oil prices from peak in September 2023. Copper remain under pressure owing to grim global economic outlook.

Figure 1: Global Asset Performance (YTD%)

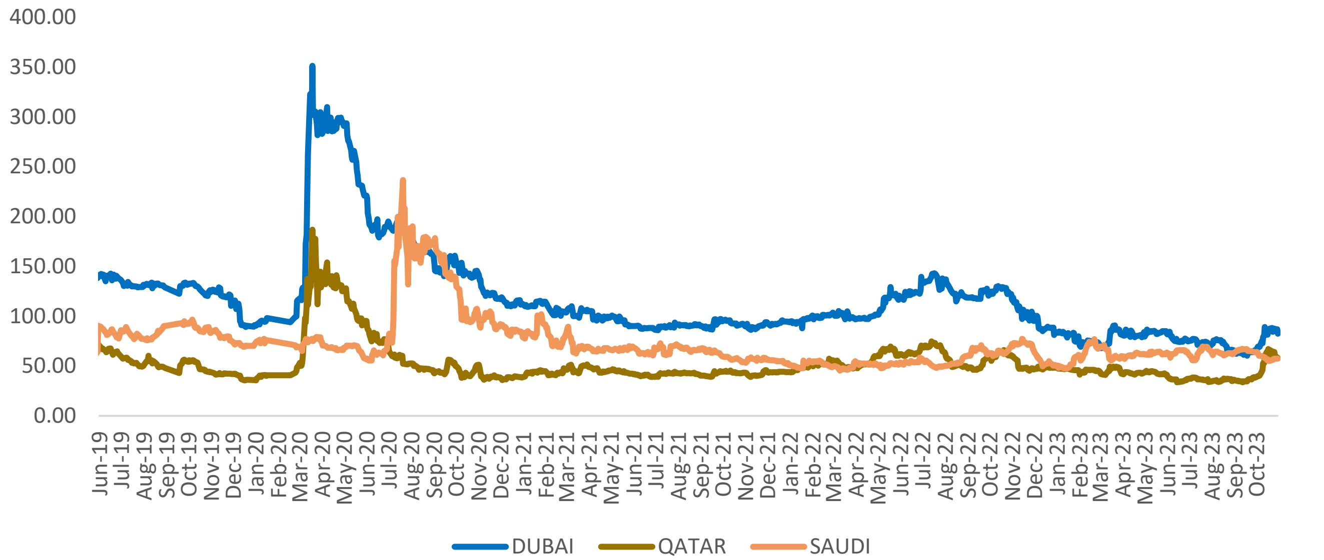


Source: Bloomberg

5-Year CDS

The 5-year CDS spread widened across almost all the GCC countries. Qatar recorded the highest increase in the 5-year CDS spread on a MOM basis in October 2023 followed by Abu Dhabi, Saudi Arabia, Dubai and Oman. The widening is a result of geopolitical conflict in the region between Israel and Hamas.

Figure 2: GCC Countries- 5 Year CDS



Source: Bloomberg

Sovereigns	DUBAI	QATAR	SAUDI	ABU DHABI
MTD (%)	25.54%	51.44%	27.67%	32.49%

Banking Sector

DIB acquires a 20% stake in Turkey's T.O.M. Group

Dubai Islamic Bank (DIB) acquired a 20% stake in Turkey-based TOM Group with an option to increase the shareholding to 25% going forward. The investment represents a minority shareholding in TOM Group and enables the bank to enter into the digital banking and technology sector in Turkey. The investment obtained approval from the Banking Regulations and Supervision Agency, the Central Bank of Turkey, and the regulatory authorities in the UAE. The deal is yet to receive approval from the Turkish competition authority.

SAB to issue SAR-denominated Tier 1 Sukuk through private placement in KSA

Saudi Awwal Bank (SAB) plans to issue SAR-denominated Tier 1 Sukuk through a private placement in the KSA. HSBC Saudi Arabia is authorized as the sole arranger and dealer for the program establishment and issuance of the Sukuk. The offering amount will be determined at a later stage based on market conditions, and the proceeds from issuance will be used to meet the bank's financial and strategic requirements.

Emirates NBD introduces wealth platform in Dubai amid IPO surge

Emirates NBD introduced a digital wealth platform targeting stock market investors with the ongoing IPO surge in the UAE and other regions. The platform enables bank customers to trade over 11,000 regional and global equities, including exchange-traded funds (ETFs) across 21 capital markets. The customers can access securities and ETFs on various stock exchanges, including the DFM, ADX, Nasdaq Dubai, NYSE, London Stock Exchange, and Nasdaq within the bank's mobile app ENBD X. The launch of the digital platform aligns with the region's increasing number of IPOs due to strong investor demand and liquidity.

Egypt's Ministry of Finance to sell ALEXBANK stake to Intesa Sanpaolo for USD 150-175 Mn

Egypt’s Ministry of Finance is planning to sell 20% stake in Alex Bank to Intesa Sanpaolo Group, an Italian banking group that owns an 80% stake in the bank. The deal is valued between USD 150-175 Mn with an expectation to completed in 1Q24. Alex Bank will be the first government owned bank in Egypt to be privatized post the completion of the deal. The Egyptian Government aims to divest its holdings in other companies with a target to raise USD 5 Bn from October 2023 to June 2024. This includes the government’s plans to sell its stake in Vodafone Egypt to a strategic investor before June 2024 and to list the Canal Mooring and Lights Company on the Egyptian Exchange.

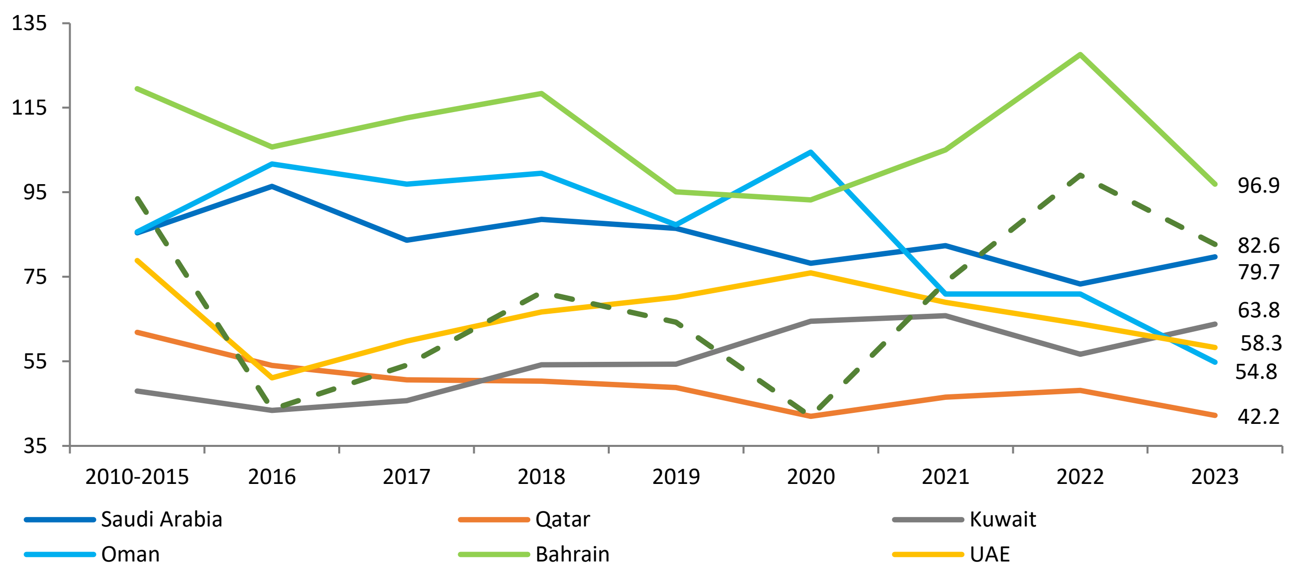
EBRD to provide USD 325 Mn for Egyptian Banks’ Green and SME Projects

The European Bank of Reconstruction and Development (EBRD) plans to provide USD 325 Mn to four Egyptian banks by the end of FY2023. The funds primarily support the bank’s green, small, and medium-sized projects. The NBE secures USD 100 Mn to support small and medium-sized projects, and EBank to receive USD 25 Mn for customer lending. Banque du Caire is to get USD 50 Mn for small and medium-sized project financing, while CIB is to obtain USD 150 Mn as a loan to support green, small and medium-sized projects.

Fiscal Breakeven Oil Price

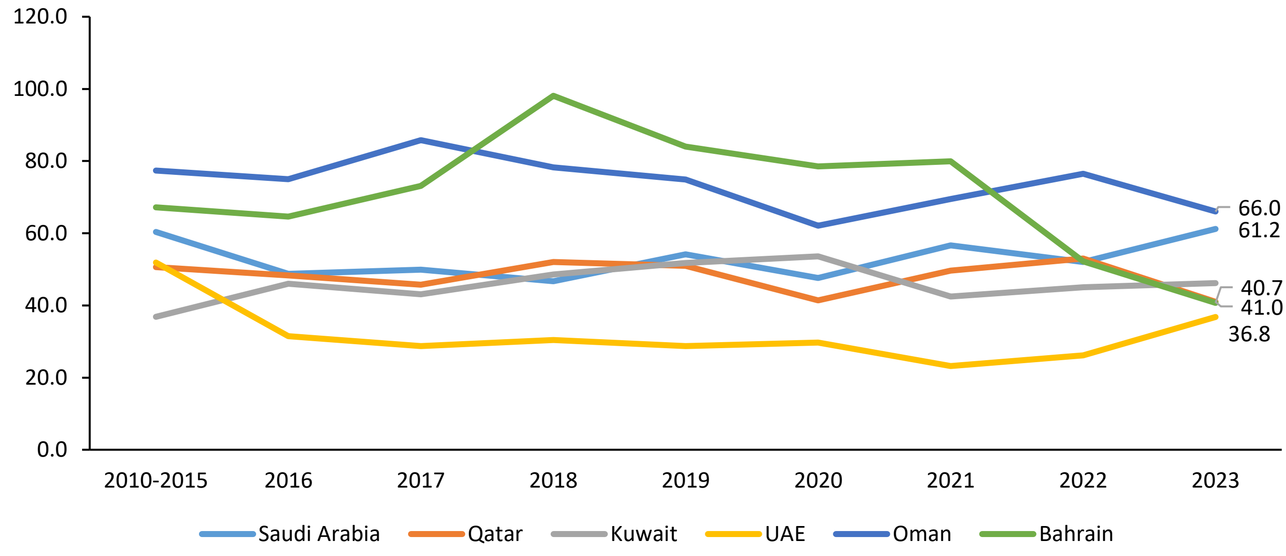
The fiscal breakeven oil prices grew in FY2023, particularly in Saudi Arabia and Kuwait due to decline in crude oil and gas production partially offset by limited government spending cuts. Kuwait's fiscal breakeven saw the highest rise from USD 56.7 in FY2022 to USD 63.8 in FY2023. Saudi Arabia fiscal breakeven rose from USD 73.3 per barrel in FY2022 to USD 79.1 per barrel in FY2023. While Bahrain, Oman, Qatar and UAE recorded a decline in break-even oil price in FY2023. Bahrain recorded the highest decline in break-even oil price from USD 127.6 per barrel in FY2022 to USD 96.9 per barrel in FY2023. Oman break-even oil price fell from USD 70.9 per barrel in FY2022 to USD 54.8 per barrel in FY2023 followed by a decline in Qatar which fell from USD 48.1 per barrel in FY2022 to USD 42.2 per barrel in FY2023. UAE break-even oil price also fell from USD 63.9 per barrel in FY2022 to USD 58.3 per barrel in FY2023.

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



Source: Bloomberg

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



Source: Bloomberg

Corporate Sector

Gulf Navigation Holdings plans to acquire Brooge Petroleum to expand its oil and gas portfolio

Dubai-based ship operator Gulf Navigation Holding PJSC submitted a proposal to acquire Brooge Petroleum and Gas Investment Company from Brooge Energy Limited, an oil refinery and storage company listed on NASDAQ. The proposed acquisition will be funded through a combination of cash and shares, with no terms disclosed. Brooge Petroleum has a capacity of 1 Mn cubic meters of crude oil and oil derivatives, allowing the company to store 6.3 Mn barrels of oil. The company reported a net profit of USD 3.8 Mn in 2Q23 with a positive outlook for the remainder of the year. The proposed acquisition is part of Gulf Navigation's strategy to expand its logistical services related to oil, gas, and petrochemical products.

AD Ports Group's Noatum to acquire Sesé Auto Logistics for EUR 81 Mn

AD Ports Group is backed by the UAE sovereign wealth fund ADQ, to acquire Sesé Auto Logistics a part of the Spanish Grupo Logístico Sesé, for EUR 81 Mn (USD 84.7 Mn). The transaction is expected to be completed by 1Q24, subject to regulatory approvals. Sesé Auto Logistics, a finished vehicle logistics (FVL) company reported a revenue of EUR 100 Mn and operates in multiple European countries with a fleet of over 200 trucks. The acquisition is expected to generate synergies with Noatum's port terminal business in Spain. AD Ports currently owns 10 ports in the UAE and it is planning to expand across the globe. The company secured long-term concession agreements to develop the Karachi port and to manage and operate a terminal in Congo.

Luxury hotel operator FIVE Holdings plans an IPO in Dubai in 2025

Five Holdings Ltd, the operator of luxury brand FIVE plans to issue an IPO in Dubai by FY2025 while exploring dual-listing options as well. As a Dubai-based company, Five will primarily target to list on the Emirate stock market considering the London Stock Exchange as an option for dual listing. Five Holdings operates multiple properties, including FIVE Zurich and FIVE Jumeirah Village by offering unique experiences like driving supercars into nightclubs for AED 10 thousand. The company recently issued a green bond valued at USD 350 Mn on Nasdaq Dubai.

EIH Ethmar International Holding acquires 66.9% Stake in BHM Capital Financial Services

EIH Ethmar International Holding based in Abu Dhabi acquired a 66.97% stake in Dubai-listed BHM Capital Financial Services through its subsidiary. The acquisition reduces Jordan Kuwait Bank's ownership stake to 10% in BHM. The transaction's value is unknown but it still marks as one of the largest investments by Ethmar in the financial sector. EIH Ethmar aims to diversify and expand its investments by representing a significant step in the strategy to enter financial markets and support diversified growth across various sectors.

Shuaa Capital plans to raise USD 150 Mn via Rights Issue

Dubai based Shuaa Capital is set to raise USD 150 Mn through a rights issue after its former largest shareholder, Jassim AlSeddiqi reduced his stake in the investment bank. The company is collaborating with New York-listed Houlihan Lokey Inc. to raise the funds. The funds will also be used to repay a bond due at the end of October, with Shuaa seeking consent from bondholders to extend the payment deadline.

TAQA sells stake in Air Liquide Arabia for USD 160 Mn

Saudi Arabia's Industrialization and Energy Services Company (TAQA) sold its stake in Air Liquide Arabia Ltd company by raising over SAR 600 Mn (USD 160 Mn). The sale aligns with TAQA's strategy to rationalize its non-core portfolio and divest investments which are not aligning with its growth plan. The proceeds from the transaction will be reinvested in the organic growth of its core business and to acquire more technologies to enhance TAQA Well Solutions. Saudi Arabia's sovereign wealth fund, the Public Investment Fund (PIF) owns a 54% stake in TAQA.

Agtech company Silal acquires majority stake in SAFCO Group

Silal, an Agtech company owned by Abu Dhabi state-backed ADQ is expanding its business by acquiring a majority stake in UAE-based F&B distributor SAFCO Group. The acquisition will enhance Silal's ability to cater to the market's demand for various high-quality products to accelerate its efforts to enhance food distribution. SAFCO Group boasts a 30-year track record in importing, distributing, and exporting premium food and non-food products throughout the UAE, Middle East, and Africa.

Abu Dhabi's Investcorp Capital plans to launch an IPO on ADX with a target share capital of 29.34%

Investcorp Capital plc, an Abu Dhabi-based alternative investor plans to launch an IPO ADX. The company will offer 321.5 Mn new shares, representing 29.34% of the total issued share capital. The subscription period runs from November 2 to November 9, 2023, with an ADX listing date set for November 17, 2023. The company intends to pay semi-annual dividends of at least 8% by 30 June 2024. The proceeds from the IPO will be used to increase its capital deployment and fund strategic growth opportunities. The company has authorized Emirates NBD Capital PSC, First Abu Dhabi Bank PJSC, and HSBC Bank Middle East Limited as joint global coordinators and joint bookrunners.

Rating Outlook

- Abu Dhabi's Long-Term Foreign-Currency Issuer Default Rating (IDR) has been confirmed by Fitch Ratings at 'AA' with a Stable Outlook. The 'AA' grade reflects Abu Dhabi's excellent fiscal and external metrics, as well as a high GDP per capita, which are offset by the country's substantial reliance on hydrocarbons, a weak but developing economic policy framework, and low governance indices when compared to peers. The government debt of Abu Dhabi is among the lowest among Fitch-rated sovereigns, while sovereign net foreign assets are among the greatest. Lastly, Moody's assigned Aa2 rating to the UAE government with a stable outlook. This is a testament that depicts the success of the nation's financial and economic vision and policies, 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 rise in oil prices. The upgrade is based on the premise that Oman is using oil revenues to pay down debt, extend its maturity, fiscal restraint to mitigate external risks, and higher oil prices forecast by Fitch. Oman’s gross debt declined to 40% of GDP in 2022 from 60% in 2021 and Fitch expects gross debt will 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 also upgraded Oman's ratings and maintained a positive outlook, citing the country's improved fiscal surplus and spending discipline. The Government of Oman's issuer and long-term senior unsecured ratings were upgraded from Ba3 to Ba2, along with an upgrade to the government's senior unsecured medium-term note program rating.
- S&P Global Ratings confirmed Bahrain's credit rating and maintained a positive outlook owing to the government's efforts to implement reforms to boost the non-oil revenue and increase the current account surplus. The positive outlook is also supported by the stability of the financial sector and the potential for larger current account surpluses. The rating agency expects the Bahrain government to implement fiscal reforms to reduce the fiscal deficit and is likely to receive support from other GCC sovereigns. S&P Global Ratings reaffirmed Bahrain's short-term foreign and local currency sovereign credit ratings at 'B+/B' with a positive outlook.
- Fitch Ratings has affirmed Kuwait's long-term foreign-currency issuer default ratings, or IDR, to 'AA-' with a stable outlook. This is due to the Gulf state's fundamental issues being worsened by continued political limitations on decision-making. Since 2017, the Gulf state has been debating debt legislation, demonstrating the slowness with which decisions are made. Kuwait's debt is expected to climb to about 50% of GDP after the debt law is approved, according to the credit rating agency, up from the current 10%. The Kuwaiti administration has been attempting to adopt new public debt legislation to alleviate the country's liquidity constraints, but the bill has been continually blocked by parliament.

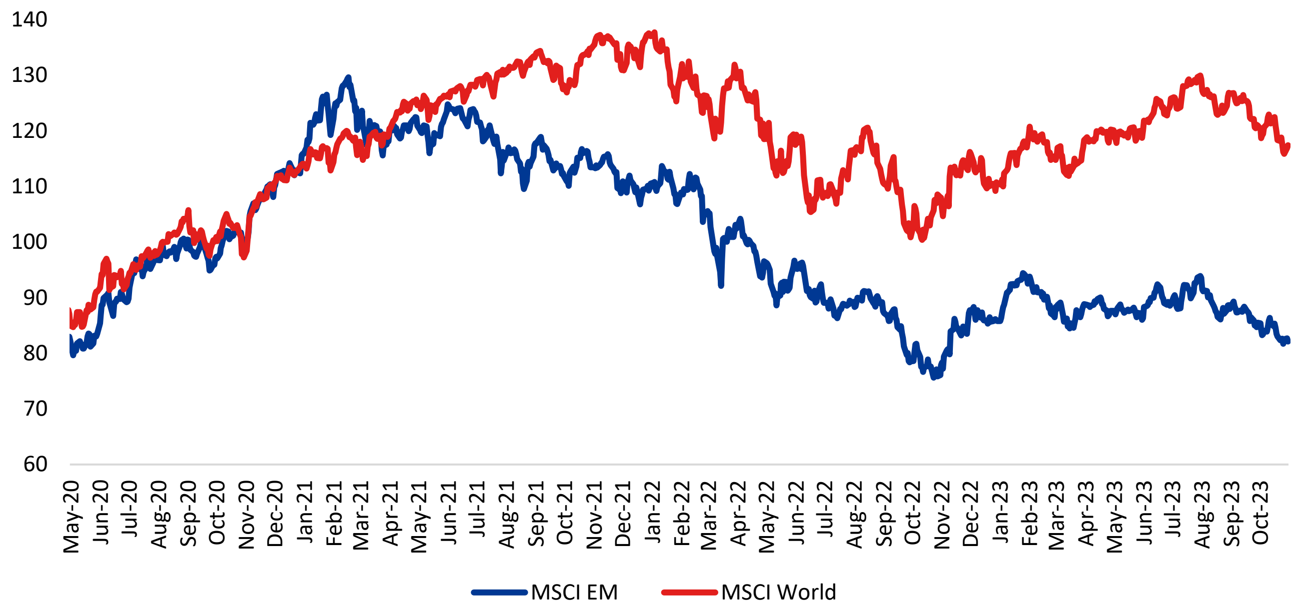
- Saudi Arabia's Long-Term Foreign-Currency Issuer Default Rating (IDR) has been upgraded to 'A+' by Fitch Ratings, with the Outlook changed to 'Stable'. The key reasons for the rating upgrading are improvements in the sovereign balance due to increased oil revenue and the fiscal structure. According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

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

Global Markets

Both MSCI Developed Market (DM) and Emerging Market (EM) continued to decline for the third consecutive month in October 2023. The decline is attributed to a significant uptick in government bond yield and increase in geopolitical uncertainty, which negatively impacted market sentiment over the course of the month. However, on a YTD basis, the MSCI World Index continues to record positive return in 2023, while the MSCI Emerging Market Index recorded a decline. The MSCI World/Developed Market Index continued to outperform the MSCI Emerging Market Index by a wider margin. On a YTD basis, the MSCI World market rose 6.4%, whereas the MSCI Emerging market recorded a decline of 4.3%. Whereas on a MOM basis, both the MSCI World Index and Emerging Market declined 3.0% and 3.9%, respectively in October 2023. The MSCI World Index posted a negative return primarily driven by the underperformance of all the major indices in the region such as US, European, UK and Japan. The UK FTSE index registered a negative performance, despite the rise in the energy prices mainly due to expected pressure on rate hike owing to a rising inflation. Japanese stocks continued to remain the best-performing regional market YTD, as it grew 21.9% in October 2023. However, on MOM basis the TOPIX index registered a 3.0% decline despite the continued weakness in the yen. US S&P 500 Index declined 2.1% MOM in October 2023, but it remained the best performing market in October 2023 compared to the other major market. While on the 2023 YTD basis, the US S&P recorded 10.7% return. Initially, the performance of the US equities remained positive owing to strong retail sales and job data, coupled with advances GDP growth estimates of 4.9% in 3Q23. However, the performance was affected due to an uptick in inflation data, which reached 3.7% YOY in September 2023, against the anticipated trend of a slight moderation. The US and Japanese stocks carry a higher weight in the index. The Chinese equities were also on a positive trajectory in the beginning, driven by strong 3Q23 GDP data, industrial production, and retail sales. However, market sentiment soured during the month due to challenges arising from the property market turmoil and the imposition of new US restrictions on AI chip exports to China. Emerging market returns were also impacted by the news of US restrictions on China, as well as rising yields and higher energy prices. Additionally, other Emerging markets India, and South Korea also recorded negative performance slightly offset by better performance of Taiwan during the month.

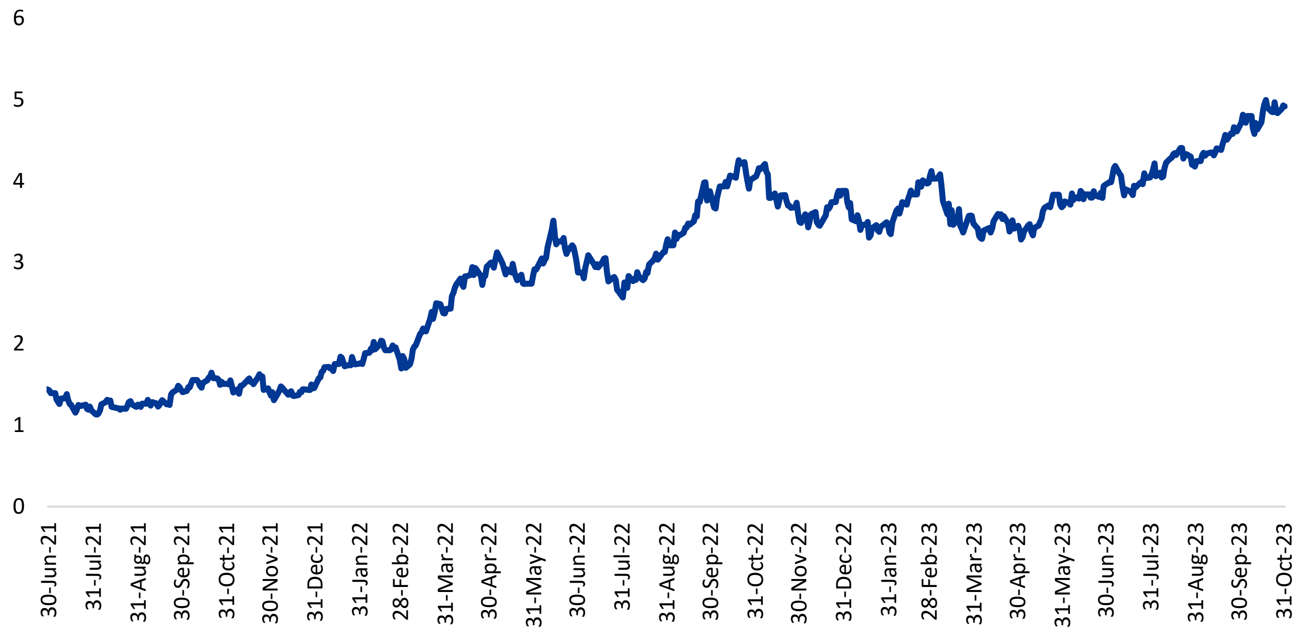
Figure 5: MSCI World and Emerging Market Index Historical trend



Source: Investing.com

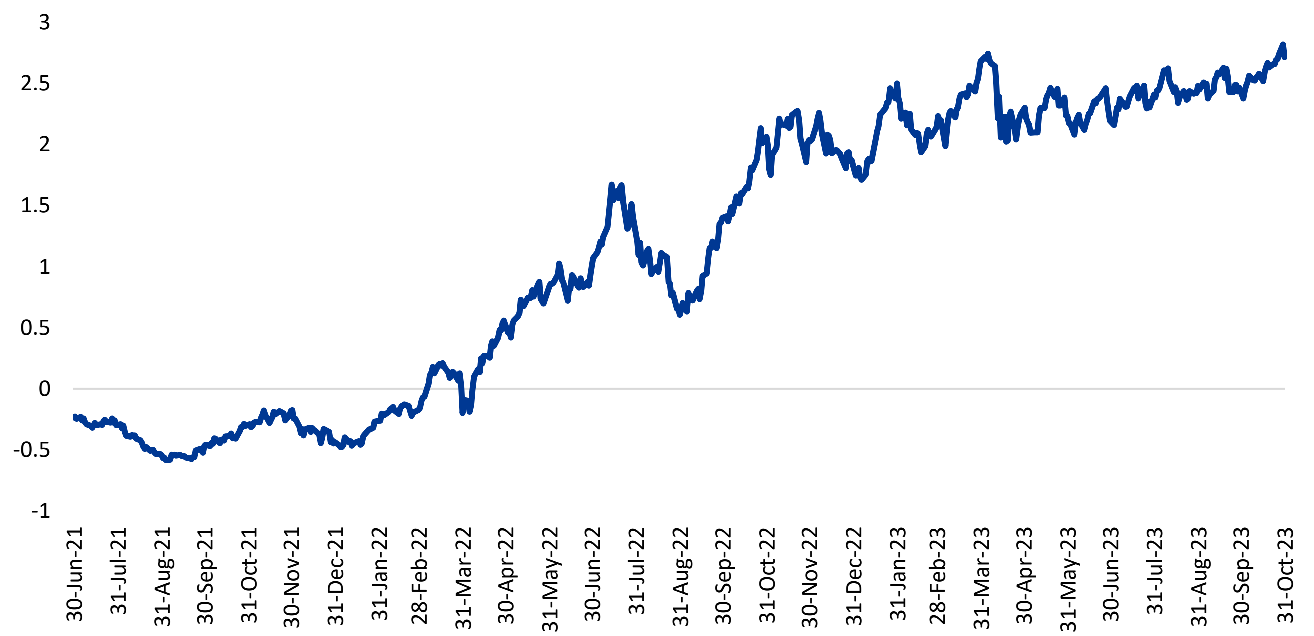
Yield on 10-year government

Figure 6: US 10-year government yield



Source: Bloomberg

Figure 7: Germany 10-year government yield



Source: Bloomberg

Figure 8: Japan 10-year government yield

Source: Bloomberg

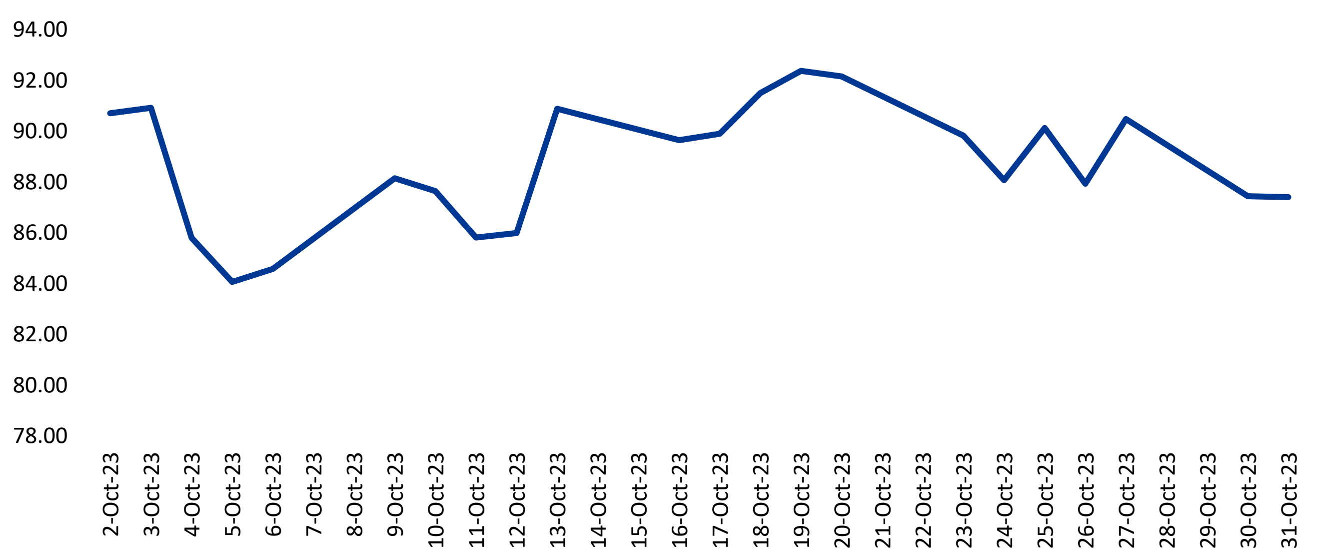
Figure 9: UK 10-year government yield

Source: Bloomberg

Oil Outlook

Oil prices declined 8.3% MOM in October 2023 after rising for four consecutive months and remain volatile amid the Israel-Hamas conflict. Oil prices declined during the first trading day of the month due to strong dollar and profit-taking after a strong rally. Further, the prices registered a sharp decline since March 2023 amid growing demand concerns caused by fears of high interest rates which could lead to a global economic slowdown. During the first week, Saudi Arabia and Russia confirmed to continue their voluntary oil output cuts supporting the oil prices. Oil prices rebounded sharply in the following week and rose more than USD 4 per barrel amid rising uncertainty across the region owing to the Israel-Hamas war. These gains were short-lived as the conflict would not lead to a significant impact on the supplies. Later by the end of the week, the prices rose above USD 90 per barrel over mixed supply sentiments amid the Israel-Hamas war, crude stock build in the US, and tightening of the US sanctions on Russian crude exports. Furthermore, the prices stabilized in the following days as the US eased sanctions on Venezuela which lifted global supplies. The prices further moved past USD 90 per barrel amid the risk of escalation of conflict in the Middle East. Later the prices eased due to increased diplomatic efforts towards the Israel-Hamas war and the arrival of aid convoys in Gaza from Egypt. In the last week of October 2023, oil prices remained rangebound due to a rise in uncertainty caused by the Israel-Hamas war. At the end of the month, oil prices slightly inched up ahead as the US military attacked Iranian targets in Syria which increased concerns of widening Israel-Hamas conflict which could disrupt supply from the Middle East. However, oil prices eased as investors awaited the Fed's meet and China's manufacturing data. We expect the oil prices to remain volatile amid regional political instability and upcoming Fed policy outcome.

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

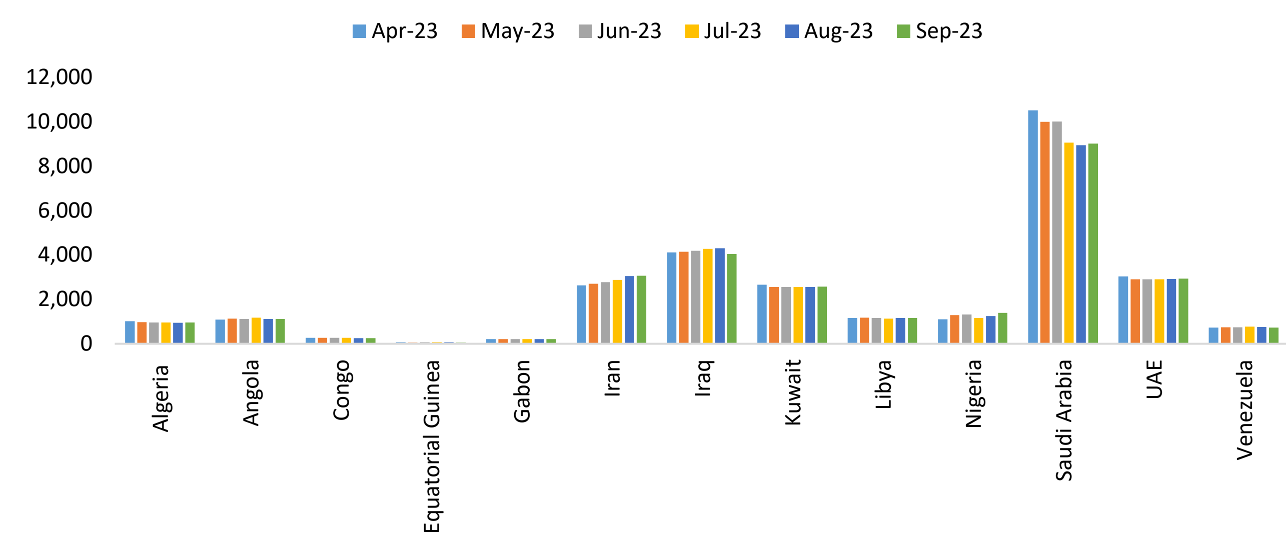


Source: Bloomberg

OPEC Production

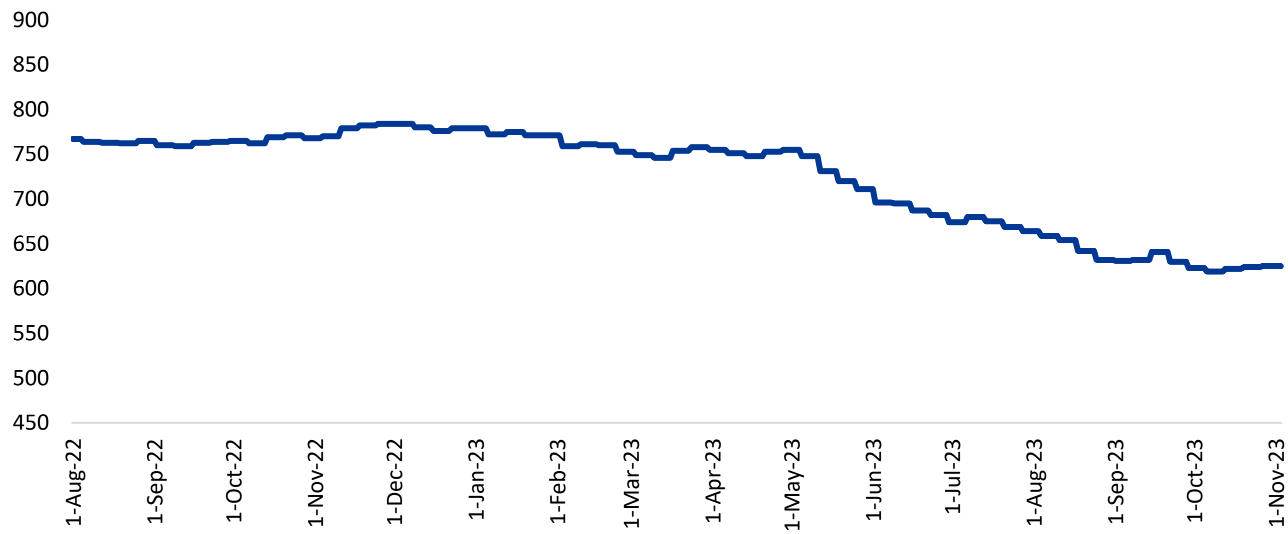
OEPC-13 crude oil production marginally rose 2 thousand barrels per day(bpd) MOM to an average of 27.5 Mn bpd in October 2023. Seven out of 13 countries in OPEC-13 countries witnessed an MOM increase in oil production during October 2023. Nigeria recorded the largest increase of 141 thousand bpd MOM during October 2023 followed by KSA with 82 thousand bpd MOM, Kuwait with 25 thousand bpd MOM and Algeria with 17 thousand bpd. Moreover, Iran's production rose 15 thousand bpd MOM, UAE by 13 thousand bpd MOM and Libya with 10 thousand bpd MOM in October 2023. On the other hand, Iran's oil production declined the most by 255 thousand bpd MOM in October 2023 whereas Venezula's production fell 25 thousand bpd MOM. Moreover, Equatorial Guinea, Angola, and Gabon also witnessed a decline in production by 14 thousand bpd, 4 thousand bpd, and 3 thousand bpd MOM in October 2023. Saudi Arabia remained the largest producer of oil out of the OPEC-13 countries with a total production of 9.0 Mn bpd in October 2023.

Figure 11: OPEC Crude Oil Production



Source: OPEC

Figure 12: Oil Rig Count



Source: Bloomberg

Credit Strategy

Top picks for 2023

Name	Sector	Price	Mid YTM	Rating
ALDAR 3.875% 2029	Real Estate	89.02	6.15	Baa1/NA/NA
KWIPKK 4.5% 2027	Investment Co.	85.89	9.81	Ba2/NR/NA
ARAMCO 3.5% 2029	Oil & Gas	89.04	5.90	A1/NA/A+
BGBKKK 5.749% PERP	Bank	91.23	9.47	NA/NA/NA
SIB 5% PERP	Bank	96.68	8.08	NA/NA/NA
ALMARA 4.311% 2024	Food and Beverages	99.46	6.07	Baa3/BBB-/NA
GENHLD 4.76% 2025	Investment Co.	98.49	5.56	A1/NA/A
REITDU 9.5% 2024	Real Estate	94.45	15.44	NA/NA/NA
INTLWT 5.95% 2039	Power Generation and Water Utility	94.27	6.57	Baa3/NR/BBB-

Source: Bloomberg

We continue to remain OVERWEIGHT on KWIPKK, ARAMCO, REITDU, ALDAR, ALAMARA and BURGAN BANK while assign MARKET WEIGHT rating on GENHLD, INTLWT, and SIB.

Implications on Securities Recommendations

Bond Particulars	Call	Ask Price	Yield	1M return	3M Return	YTD Return	12M Return
INTLWT 5.95% 2039	MW	94.27	6.73	-2.19	-3.57	0.14	8.10
REITDU 9.5% 2024	OW	94.45	15.08	-0.84	-1.62	-1.57	NA
GENHLD 4.76% 2025	MW	98.49	5.53	-0.25	-0.98	0.26	0.83
ALMARA 4.311% 2024	OW	99.46	5.90	0.34	0.42	0.42	1.23
SIB 5% PERP	MW	96.68	7.14	-1.03	-0.52	-1.30	-1.45
ARAMCO 3.5% 2029	OW	89.04	5.88	-1.51	-3.80	-3.30	-0.47
KWIPKK 4.5% 2027	OW	85.89	9.57	-0.72	-1.31	1.02	7.03
ALDAR 3.875% 2029	OW	89.02	6.10	-1.69	-4.99	-3.50	0.58
BGBKKK 5.7492% PERP	OW	91.23	11.84	-0.13	-1.03	3.67	6.40

Source: Bloomberg

ALDAR 3.875% 2029: Maintain OVERWEIGHT rating

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

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

over 3.6 Mn sqm of land. Aldar also purchased Al Fahid Island, a 3.4 Mn sqm island positioned between Saadiyat and Yas Island. Aldar Investment deployed capital amounting to AED 7.4 Bn and Aldar Development deployed AED 4.1bn in FY2022.

- The company completed a USD 1.4 Bn long-term investment with Apollo Global Management. The investment consists of a USD 500 Mn land JV between Aldar Properties and Apollo that will diversify the Company's funding source, a USD 500 Mn investment in non-call 15 Hybrid Perpetual Notes to Aldar Investment Properties priced at 5.625%, and a USD 400 Mn equity investment in Aldar Investment Properties LLC (AIP) at 100% of NAV. A considerable revenue backlog, along with a robust project pipeline and diverse revenue sources, supports the Company's long-term revenue visibility
- Liquidity position remains healthy with AED 7.6 Bn worth of free & subsidiary cash and AED 4.0 bn of undrawn bank facilities. The Company has no debt due for maturity in 2023 and AED 0.03 bn in 2024

KWIPKK 4.5% 2027: Maintain OVERWEIGHT rating

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

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

- KIPCO's total revenue from operations increased 47% from KD 721 Mn (USD 2.35 Bn) in 2021 to KD 1.06 Bn (USD 3.5 Bn) in FY2022 mainly due to healthy performance from commercial banking, asset management & investment banking, and industrial & logistics partially offset by a decline in insurance, media & satellite services, and hospitality & real estate segment. The rise in revenue was also due to the continued exceptional performance of core firms. KIPCO completed its merger with Qurain Petrochemical Industries, expanding its portfolio to encompass additional areas such as energy, food, healthcare, and logistics. KIPCO expressed its interest in exploring investment opportunities in high-growth potential sectors such as food, healthcare, and education, and its portfolio will serve as a platform for the efforts and pave the way toward the company's future vision.
- The company's operating profit from continuing operations before provisions and directors' remuneration increased to KD 317 Mn in FY2022, up from KD 134 Mn in FY2021. Provisions for credit losses and investments were reported at KD 34 Mn in FY2022, down from KD 74 Mn in FY2021.

- The company recorded an increase in net profit to KD 25.2 Mn (USD 82.3 Mn) for FY2022, up from KD 17.5 Mn (USD 57.1 Mn) in FY2021. During FY2022, earnings per share climbed 15% YOY to KD 6.9 fils (USD 2.3 cents).
- KIPCO's Board recommended not to distribute dividends for FY2022 to ensure liquidity, timely repayment of debt maturing in the near term and pursue new investment opportunities. This also ensures the company maintains its credit profile and rating position.
- KIPCO is rated as BB- with a negative outlook from S&P and a BB stable outlook rating from Fitch. According to Fitch, KIPCO's liquidity is tight and possesses re-financing risk for the company which is manageable due to the company's proven track record and established relationship with financers and banks. In addition, ownership of Kuwait's royal family will also help in managing this risk. The recently completed acquisition will increase the company's gross assets and diversify dividend streams from multiple sectors.
- KIPCO with KD 286.4 Mn of debt maturing in FY2023 and it held cash and cash equivalents of KD 140 Mn at the parent company level

ARAMCO 3.5% 2029: Maintain OVERWEIGHT rating

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

- Saudi Aramco is the world's largest integrated oil & gas company. The company generated a net profit of USD 161 Bn in FY2022, making it one of the highest profits generating public companies in the world. Aramco achieved a record financial performance in FY2022, as oil prices rose owing to rising global demand and geopolitical tension. The firm maintained its long-term objective of increasing capacity and competence across the value chain with the goal of addressing energy security and long-term viability. Aramco expects oil and gas to be crucial for the foreseeable future; yet, the risks of underinvestment in the industry are substantial, contributing to rising energy costs. Aramco embarked on the largest capital investment program in its history in order to utilize its unique advantages at scale and be part of the global solution. The company's priority is to increase oil, gas, and chemical products while also investing in innovative lower-carbon technologies that have the potential to reduce emissions. Total revenue from operations rose from USD 359 Bn in FY2021 to USD 535 Bn in FY2022.
- According to Fitch's latest credit rating, the rating agency assigned Long-Term Foreign & Local Currency of Saudi Aramco at 'A' with a positive outlook. Aramco standalone credit rating stood at 'AA+', higher than Saudi Arabia's rating, given its low debt levels, market leadership, and strong profitability. Both agencies Moody's and Fitch assigned Aramco a long-term issuer rating of 'A1' and 'A', respectively.

- In FY2022, Aramco's net income grew by 46.5% to a record USD 161.1 Bn, up from USD 110 Bn in FY2021. The rise in net income is due to increased crude oil prices, higher volume sold, and improved refined product margins. In FY2022, free cash flow reached an all-time high of USD 148.5 Bn, up from USD 107.5 Bn in FY2021. Aramco continues to prioritize a strong balance sheet, with a negative gearing ratio of 7.9% by the end of FY2022, decreasing from a positive gearing ratio of 12.0% in FY2021
- Aramco declared a dividend of USD 19.5 Bn in 4Q22, which will be paid in 1Q23. The dividend rose 4% QOQ and is consistent with the Company's dividend policy, which aims to offer a sustainable and progressive dividend. In addition, the Board of Directors proposed that eligible shareholders receive one bonus share for every ten shares held, subject to the approval at the Extraordinary General Assembly. The Company strives to maintain a stable and rising dividend in accordance with prospects, as well as to develop underlying free cash flow and create long-term value through investments in accessible opportunities.
- Aramco spent USD 37.6 Bn on capex in FY2022, up 18.0% from FY2021. Aramco anticipates to spend USD 45.0 Bn to USD 55.0 Bn on capex in FY2023, including external investments, with capex growing until the middle of the decade. In February 2022, Aramco also concluded an energy infrastructure deal which resulted in a consortium of investors led by BlackRock Real Assets and Hassana Investment Company purchasing a 49% stake in a newly established subsidiary, Aramco Gas Pipelines Company (AGPC) for USD 15.5 Bn
- The Company has USD 52.5 Bn debt due for expiration in FY2023-24, however it has enough liquidity to meet the requirement

BGBKKK 5.749% PERP: Maintain OVERWEIGHT rating

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

- Burgan Bank is one of the leading conventional banks in Kuwait in terms of total assets and listed on Boursa Kuwait. The Bank has the network of 127 branches and 284 ATMs. The Bank is majorly owned by KIPCO Company with a stake of 64.3%
- Burgan Bank Group's revenues remained stable at KD 232.1 Mn in FY2022 as compared to KD 234.7 Mn in FY2021. Burgan Bank reported a net profit of KD 52.1 Mn despite the geopolitical turmoil and hyperinflationary accounting (IAS 29) losses of KD 24.6 Mn on its Turkish subsidiary. The net profit rose 15% in FY2022, primarily due to an increase in net interest income growth of 15% YOY and a decline in cost of risk by 69.8% YOY. Net interest income increased by 15% to KD 147.5 Mn in FY2022 from KD 128.2mn in FY2021, owing to a 30-basis point increase in net interest margins to 2.4%. Fees and commissions income rose 16% over the previous year, showing strong contributions

from various lines of business. Operational expenses grew 13% to KD 107 Mn due to the inflationary environment and increased costs associated with current investments in the digital banking platform. For the FY2022, the cost-to-income ratio stood at 46.1%. Total credit provisions charge declined significantly from KD 84.6 Mn in FY2021 to KD 25.3 Mn in FY2022 due to improvement in economic environment

- The Bank's non-performing loan ratio rose marginally from 1.7% in FY2021 to 1.9% in FY2022. In 2022, the loan loss coverage ratio without collateral remained strong at 206%. Burgan's Capital Adequacy Ratio stood at 16.8%, compared to the regulatory requirement of 12.5%. The Group maintains high liquidity levels, with a liquid coverage ratio (LCR) and net stable funding ratio (NSFR) of 151.2% and 110.1%, respectively, as of FY2022, substantially above the minimum regulatory requirement of 90%
- The Board of Directors approved a cash dividend of 8 fils per share, in addition to a 5% bonus share distribution, subject to shareholder approval at the Annual General Meeting
- Fitch Ratings affirmed Burgan Bank's rating at "A" Outlook-Stable. Moody's assigned a credit rating of "Baa1" with a Stable Outlook and S&P Global also assigned a rating of "BBB+" with a Stable outlook

SIB 5% PERP: Maintain 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 7.25% currently trades at USD 98.16 with a duration of 2.14 years.

- Moody's Investor Service recently downgraded the local and foreign currency long-term issuer ratings of Sharjah Islamic Bank PJSC (SIB) to Baa2 from Baa1. The outlook of the long-term issue rating is revised from Stable to Negative. The rating agency mainly revised the rating on the security in September 2022 due to a decline in the Bank's asset quality and expects it further decline due to sector concentration. The profitability will be further pressured due to an increase in financing growth and capitalization will further create earnings volatility. S&P Global Ratings upgraded SIB's long-term issuer credit rating to 'A-' from 'BBB-,' backed by the bank's strong relationship with the Government of Sharjah and expected stable business and financial profile over the next two years. The agency also expects the bank's asset quality to remain resilient and sufficient capitalization.
- Sharjah Islamic Bank's (SIB) net profit rose 26.6% to AED 651 Mn in FY2022 mainly due to an increase in funded and non-funded income partially offset by a decline in operating expenses and provisions. Total operating income also rose 12.7% to AED 1,609 Mn in FY2022 due to 10.9% in net funded income and 18.8% growth in non-funded income. In line with the bank's prudent credit management approach the provisions rose 28.3% to AED 314 Mn in FY2022. Non-performing loans rose from 4.8% in FY2021 to 6.0% in FY2022 with a stage 2 ratio of 7.8%.
- SIB's total assets grew 7.6% to AED 59.1 Bn in 2022. While net advances rose 5.7% to AED 30.7 Bn in 2022. The Bank's liquid assets amounted to AED 14.1 Bn, representing 23.9% of total assets in 2022. The Bank's customer deposits rose marginally 2.7% to AED 39.5 Bn in 4Q22. However, total equity

declined 0.8% to AED 7.6 Bn in 2022. The bank's liquidity ratio remained solid for prospects, reaching AED14.1 Bn, or 23.9% of total assets, up from AED14.3 Bn, or 26.1% of total assets, at the end of the previous year. The bank's financing-to-deposits ratio hit 77.6%, indicating the strength and stability of its liquidity position.

ALMARA 4.311% 2024: Maintain OVERWEIGHT rating

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

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

GENHLD 4.76% 2025: Maintain MARKET WEIGHT rating

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

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

REITDU 9.5% 2024: Maintain OVERWEIGHT rating

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

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

NAV per share increased by 28.3% over FY2021 and is equal to USD 0.95 per share as of December 31, 2021.

- As of December 31, 2021, the market value of the office portfolio totalled USD 504.1 Mn and, the market value of the retail portfolio totalled USD 57.1 Mn.

INTLWT 5.95% 2039: Maintain MARKETWEIGHT rating

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

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

- Five large-scale new renewable projects have been added to the advanced development fleet (+3,500 MW) which will increase the renewable energy capacity to 14.8 GW by FY2021, accounting for 35% of the portfolio. The Company has 64 assets (in operation, under construction, or in advanced development) with a total investment cost of SAR 251.7 Bn, generating 42.7 GW of electricity producing 6.4 Mn cubic meters of desalinated water per day.
- The Company agreed to sell its 32% effective investment in SQWEC, an oil-fired facility with 850 MW of power and 212,000 cubic meters' water desalination capacity in the Kingdom of Saudi Arabia, on September 7, 2021. The sale reduced the diversification of APMI One cash flow. In order to offset the impact of lost cashflows from SQWEC, ACWA Power increased the stake in RAWEC that forms part of APMI One bondholder security and cashflows from 37% to 80%. While this offsets the cashflow impact of the sale of SQWEC, it results in greater concentration at RAWEC, for which we view the offtaker as of lower credit quality than for others in the portfolio. The issuer APMI One is a Special Purpose Company, incorporated under the laws of DIFC, which is 100% owned by ACWA Power Projects. However, APMI One is not the only entity ACWA Power Projects has its hands on. Below is the effective percentage share of ACWA Power in the listed entities as of 30th June FY2020:
  - 30% in Shuaibah Water & Electricity Co. (SWEC), Contract Initiated in 1Q10 for 20-yr PWPA.
  - 32% in Shuqaiq Water & Electricity Co. (SqWEC), Contract Initiated in 2Q11 for 20-yr PWPA.
  - 30% in Shuaibah Expansion Project Co. (SEPCO), Contract Initiated in 4Q09 for 20-yr WPA.

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

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

SWEC, lower contribution from projects with extended outages, higher maintenance costs in some plants, and higher corporate expenses.

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

Bond Yield charts (%)

Figure 13: ALDAR 3.875% 2029

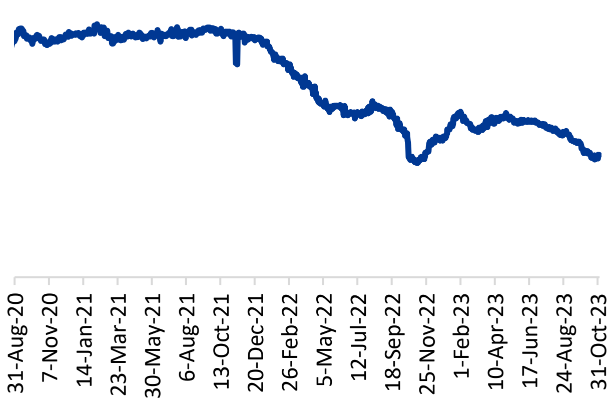


Figure 14: KWIPKK 4.5% 2027

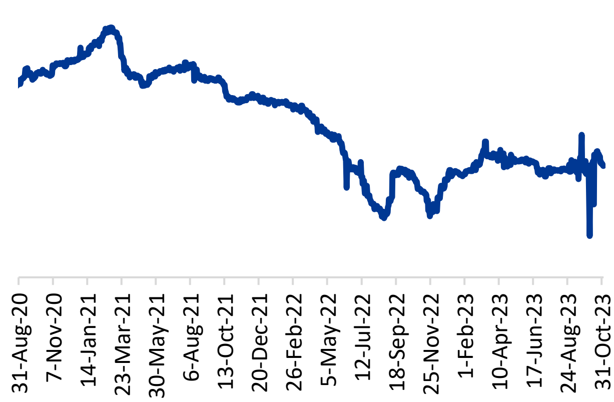


Figure 15: ARAMCO 3.5% 2029

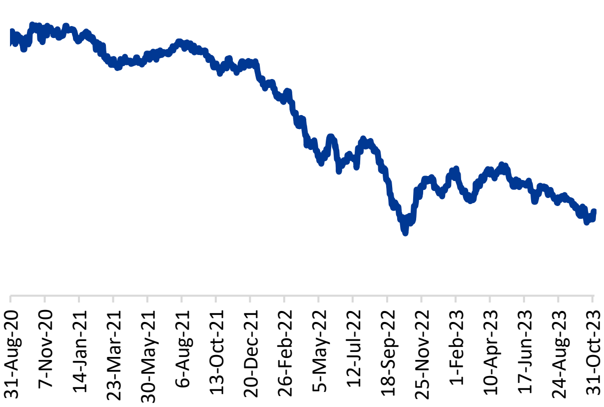


Figure 16: SIB 5% PERP

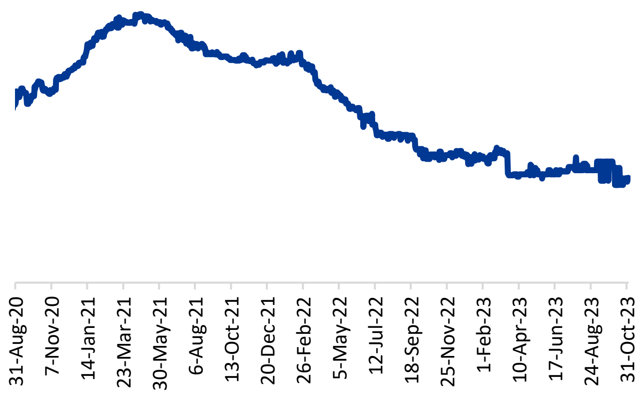


Figure 17: GENHLD 4.76% 2025

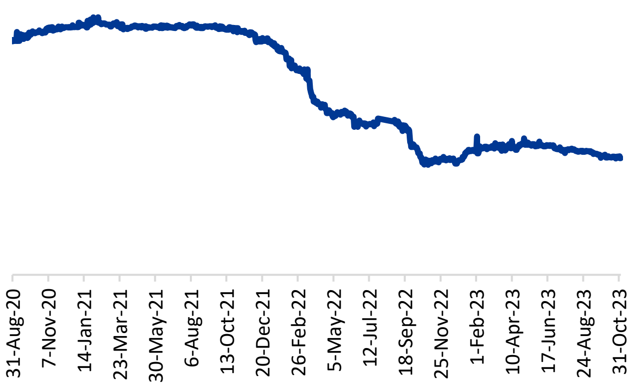


Figure 18: REITDU 9.5% 2024

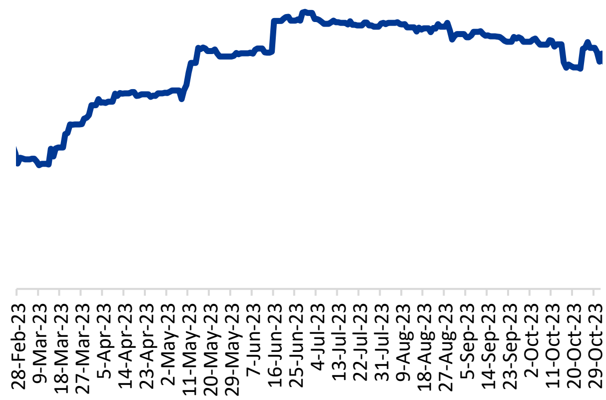


Figure 19: INTLWT 5.95% 2039

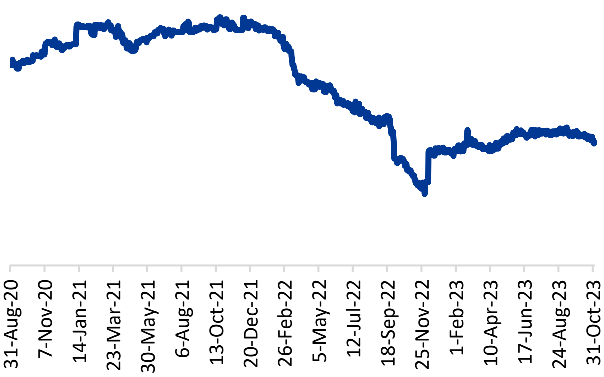


Figure 20: BGBKKK 5.749% PERP

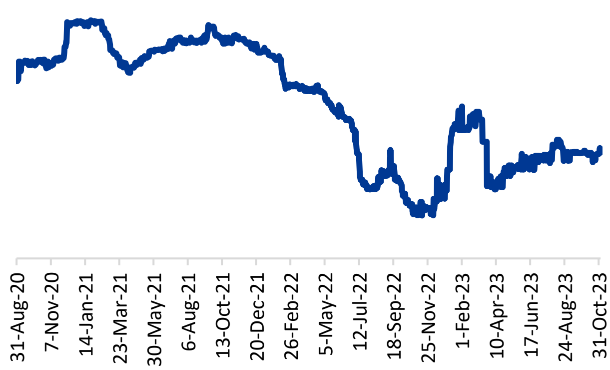
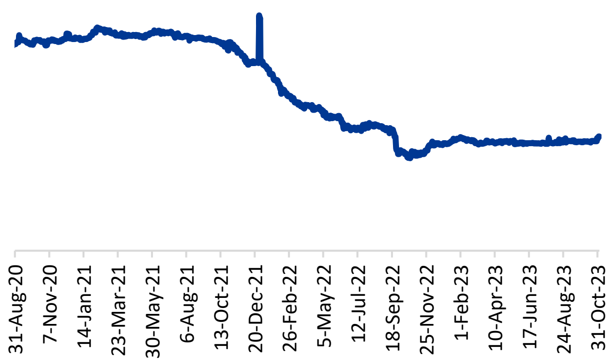


Figure 21: ALMARA 4.311% 2024



Source: Bloomberg

Key Market Indicators

Particulars	Price/Yield	YTD (% change)	MOM (% change)
Brent crude	85.27	-0.74	-10.53
US dollar index	106.75	3.12	0.55
10Y Treasury yield	4.92	NA	NA
2Y Treasury yield	5.08	NA	NA
10Y German bund yield	2.80	0.30	0.30
10Y Japan bond yield	0.95	NA	NA
Bloomberg UAE Composite USD Liquid index	125.61	-2.30	-1.81

Source: Bloomberg

Sovereign Highlights

UAE

Abu Dhabi's non-oil economy grew 12.3% in 2Q23 driven by economic diversification

Abu Dhabi's total GDP grew by 3.5% in 2Q23, with a 12.3% growth in its non-oil economy. The growth is attributed to the emirate's economic strategies and policies. The non-oil real GDP rose to AED 154 Bn, the highest since 2014. Since 2014, the financial sector has grown at the highest rate of 29.7% to AED 18 Bn, followed by the construction sector witnessed 19.1% YOY growth to AED 25.3 Bn. While the manufacturing sector continues to rise by 7% QOQ to AED 25 Bn in 2Q23. The results demonstrate the success of Abu Dhabi's diversification strategy and adaptability to global economic shifts.

Emirates partners with Shell for sustainable aviation fuel supply at Dubai Airport

Dubai's Emirates Airlines partnered with Shell Aviation to supply over 300 thousand gallons of blended sustainable aviation fuel (SAF) for use at DXB. The first time SAF is supplied through the DXB airport fuelling system. The agreement is part of Emirates' environmental strategy. SAF blended with conventional jet fuel at a ratio of up to 50%, by reducing lifecycle carbon emissions by up to 80%. Emirates will track SAF delivery and use data through Avelia, a blockchain-powered SAF solution powered by Shell Aviation and Accenture to reduce its carbon footprint and promote sustainability in aviation.

DEWA and ACWA Power partners for the world's largest solar-powered seawater plant

Dubai Electricity and Water Authority (DEWA) has signed a 30-year water purchase agreement with Saudi Arabia's ACWA Power for the first phase of its seawater reverse osmosis plant at Hassyan. The facility powered by solar energy, will have a capacity of 180 Mn imperial gallons per day (MIGD). ACWA Power was chosen as the preferred bidder investing AED 3.357 Bn (USD 914 Mn) in the project to increase Dubai's utility water desalination capacity to 70 MIGD by 2030 from the current capacity of 490 MIGD. The project will occupy 252,300 sqm and will be highly efficient by using reverse osmosis powered by solar energy.

UAE's first SPAC ADC raises USD 200 Mn from its PIPE bookbuild

ADC Acquisition Corporation, the first special purpose acquisition company (SPAC) in the UAE raised AED 734 Mn (USD 200 Mn) from its private investment in public equity (PIPE) bookbuild. The total gross demand was over AED 8 Bn indicating an oversubscription of more than ten times. ADC was established by Abu Dhabi wealth fund ADQ and private investment firm Chimera Investments. The company recently entered into an agreement to merge with United Printing & Publishing (UPP) and will issue AED 734 Mn new Class A shares at AED 10 per share for PIPE subscribers. Post-merger, ADQ will hold the largest stake in the combined entity.

ADNOC signs USD 2.7 Bn agreement with local firms for non-oil product manufacturing

Abu Dhabi National Oil Company (ADNOC) signed agreements worth AED 10 Bn (USD 2.7 Bn) with 30 local companies to produce non-oil products, aiming to boost local manufacturing, localize supply chains, and decarbonize operations. The agreements support ADNOC's goal to produce USD 19 Bn worth of products by 2027 under the 'Make it in the Emirates' initiative. The products include personal protective equipment, battery energy storage systems, and UPS equipment.

Dubai's non-oil private sector witnessed strong growth in September 2023

Dubai's non-oil private sector experienced strong growth rising to 56.1 in September 2023 from 55.0 in August 2023. The growth is mainly driven by strong sales and increased business optimism the highest growth in the last four years. The sector also witnessed a robust growth in travel & tourism, wholesale & retail, and construction. The healthy growth in new order book also supported the PMI. Meanwhile inflation also remain the strongest in just over a year with construction and wholesale & retail firms experiencing higher inflationary pressures. High-cost pressure also inhibited job creation and constrained inventory expansion leading to capacity constraint if demand continues to rise supply.

IMF forecasts UAE GDP growth of 3.4% in FY2023 and 4% in FY2024

The IMF predicts that the UAE's real GDP is expected to rise by 3.4% in FY2023 and 4.0% in FY2024 in line with the World Bank's estimates. The UAE's current account balance is expected to be around 8.2% of GDP in FY2023 and 7.7% of GDP in FY2024. The IMF also anticipates the Middle East and Central Asia economies to grow by 2.0% in FY2023 and 3.4% in 2024 with Saudi Arabia expected to grow by 4.0% in FY2024. Oil-exporting economies are set to grow by 2.2% in FY2023 and 3.4% in FY2024 while oil-importing economies are predicted to grow by 1.8% and 3.3% in FY2023 and FY2024 respectively.

FIVE Holdings acquires Pacha Group for EUR 303 Mn

Dubai's FIVE Holdings completed the acquisition of Pacha Group, including its hotel and nightclub businesses for EUR 303 Mn (USD 322.06 Mn). The acquisition was funded through the issuance of a green bond and a revolving credit facility. The purchased assets include Pacha Nightclub, Destino Pacha Hotel, and El Hotel Pacha. The acquisition is a part of the company’s strategy to expand its presence in the global hospitality and entertainment sectors. The company raised USD 350 Mn through a five-year non-call two debut green bond with a yield of 9.625% in September 2023.

S&P upgrades Ras Al Khaimah's outlook to positive driven by growth potential and fiscal strength

Ras Al Khaimah's outlook has been revised to positive due to projects like the USD 3.9 Bn Wynn Al Marjan Island, which could strengthen the emirate's growth prospects and income levels. Ras Al Khaimah's fiscal surpluses are expected to support the government's net asset position of around 13% of GDP by FY2026. Thus, S&P revised its long-term rating outlook to positive and affirmed its A-/A-2 sovereign credit ratings for Ras Al Khaimah. The agency may further upgrade the ratings if RAK’s economic prospects strengthen, whereas, a downgrade to a stable outlook if the emirate's fiscal position deteriorates.

Empower contracts cooling plant for Dubai landmarks by 3Q24

Empower, a Dubai-listed cooling company announced that it has awarded contracts for its upcoming Jumeirah Beach Hills cooling plant which is expected to be operational by 3Q24. The plant will have a capacity of 48,000 refrigeration tons (RT) and will serve the Burj Al Arab, Jumeirah Beach Hotel, Marsa Al Arab, and Madinat Jumeirah. The company is also expanding its distribution pipeline network to carter the growing demand.

ADNOC Gas and JERA global markets enter into LNG supply agreements worth USD 700 Mn

ADNOC Gas plc, a subsidiary of Abu Dhabi National Oil Company announced a multi-year liquefied natural gas (LNG) supply agreement worth between USD 500 Mn and USD 700 Mn with JERA Global Markets, a trading subsidiary of Japan's largest power generator, JERA Co., Inc. The agreement follows ADNOC Gas's recent series of international LNG sales agreements which includes deals with PetroChina International, Japan Petroleum Exploration, Total Energies Gas and Power, and Indian Oil Corporation.

SAUDI ARABIA

KSA plans to raise the debt through the international debt market

Saudi Arabia is planning to use international debt markets to finance expected budget deficits in 2023-24 due to lower oil prices and ongoing production cuts. The finance ministry predicts a budget deficit of 2% of GDP this year and a deficit of 1.9% in 2024, estimated at SAR 161 Bn (USD 43 Bn), and is part of a strategy to enhance the country's position in international markets. Oil prices rose above USD 90 after Riyadh extended a voluntary oil output cut until the end of 2023. The ministry revised the 2023 GDP growth forecast to 0.03%, with non-oil GDP expected to grow by 5.9% in 2023. In addition, The government is increasing spending, with a focus on supporting strong domestic growth.

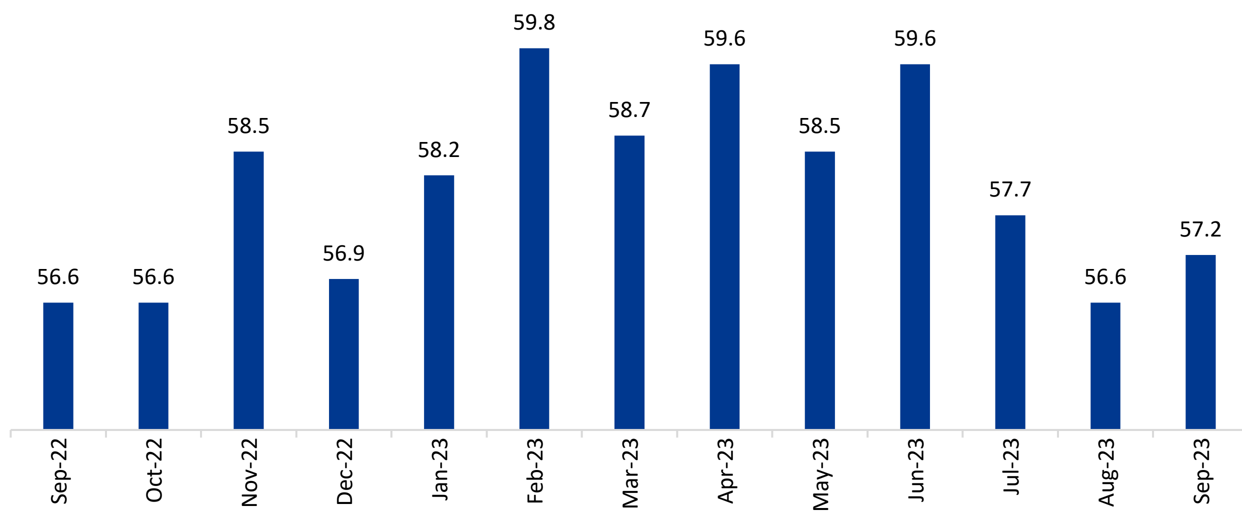
Saudi Aramco ventures into LNG firms with USD 500 Mn MidOcean Energy deal

Saudi Aramco signed a definitive agreement to buy a minority stake in MidOcean Energy, an American LNG company for USD 500 Mn. The acquisition marks the company's expansion into the global market. Saudi Aramco is further planning to diversify business into gas and cleaner sections with a huge spending outlay of USD 45 to 55 Bn to expand investments in 2023.

KSA's non-oil private sector expanded in September amid improved market conditions and rising sales

KSA PMI grew to 57.2 in September 2023 from an 11-month low of 56.6 in August 2023. The output increased in September while the purchasing, inventories, and employment sectors witnessed modest growth. The companies reported sales growth in September 2023 mainly driven by a renewed cut in output charges by offering discounts to customers to curb strong competition. Thus selling prices decreased while input prices continued to rise impacting the profit margins of the companies. Riyadh Bank expects the headline inflation rate of KSA to be at 2.5% in 2023 due to decreased selling prices affected by strong competition.

Figure 22: Riyadh Bank KSA composite PMI



Source: Investing.com

Saudia explores bond sales and other funding options for expanding aircraft fleet

Saudi Arabian Airlines (Saudia) aims to issue its first-ever bond to finance new aircraft orders aligned with the company's expansion strategy. State owned Saudia plans to expand its fleet from 177 aircraft to 317 aircraft to cater to the 30 Mn tourist arrivals in Mecca by 2030. The airline has already secured financing to cover its expenses until mid-2024 by unveiling its new visual identity and incorporating artificial intelligence into its operational processes.

KSA to invest USD 175 Bn annually in Industrial and Megaprojects

KSA is investing more than USD 175 Bn per annum in industrial and mega projects between 2025 and 2028. The investment is expected to rise to USD 180 Bn in 2026 and 2027. The country has already invested USD 1.3 Tn in various projects, including USD 500 Bn in NEOM and Red Sea resorts. Further, KSA is also implementing various industrialized construction and digital and analytical tools to enable a reduction of project completion by 40.0% by lowering overall cost and mitigating project risks.

PIF and SEC are launching an EV Infrastructure company to drive the growth of the EV ecosystem in KSA

The Public Investment Fund (PIF) and Saudi Electricity Company (SEC) are jointly planning to launch the EV Infrastructure Company. PIF will hold a 75% stake while SEC will own the remaining 25% stake in the company. The company plans to install over 5,000 fast chargers in more than 1,000 locations by 2030. Additionally, it aims to collaborate with EV companies by supplying charging stations to meet the future requirements. EV infrastructure also encourages private sector participation in expanding the charging network and supports the localization of R&D and manufacturing of technologically advanced materials to ultimately build domestic expertise and resilience.

Saudi Arabia raises social security pension by 20% to boost financial welfare

The Ministry of Human Resources and Social Development announced a decree to increase the social pension by 20.0% from SAR 1,100 to SAR 1,320, effective from 1st November 2023. King Salman issued the pension rise, to raise the standard of living of KSA citizens and ease the financial burden. The king continued to open the registration of the Citizen's account program under which the king will provide additional financial support to the beneficiaries of the account for three months till the end of December 2023. The king also authorized the citizen account committee to introduce new parameters to increase the effectiveness of support and ensure financial support benefits to the most deserving segments of Saudi society.

PIF launched Tasaru mobility investment to increase investments in automotive industry in KSA

Public Investment Fund (PIF) launched national automotive and mobility investment company or Tasaru mobility investment to align with its expansion strategy. Tasaru made its first investment in a joint venture with Zamil Group Real Estate Company, Abdullah Ibrahim Alkhorayef Sons Company, and Dar Al-Himmah Projects Company Limited. The JV will develop an automotive logistics hub in King Abdullah Economic City (KAEC), to serve the aftermarket parts industry. PIF owns over 60% stake in Lucid Motors a US based firm to inaugurate its initial overseas production facility in KAEC to eventually manufacture up to 155,000 vehicles per year.

Abha International Airport expansion plan accommodates 13 Mn passengers per annum

KSA is launched the master plan to expand the new Abha International Airport to enhance and contribute the prominence of the Asir region as an attractive tourist destination. The airport's the first phase of expansion is expected to be completed by FY2028. The expansion will increase the airport's accommodation capacity to 13 Mn passengers per annum from the current capacity of 1.5 Mn passenger per annum. The airport will also handle 90,000 flights per year from the current 30,000 flights per year. In Addition, the terminal area also increased from 10,500 sq. meters to 65,000 sq. meters with 20 new equipped gates and 41 check-in counters out of which seven new self-service check-in.

KSA inflation eases in September 2023 driven by increasing housing rent

KSA inflation reduced to 1.7% in September 2023 from 2.0% in August 2023. The decline is mainly driven by an increase in housing rent by 9.8% which leads to an 8.1% rise in prices of housing, water, electricity, gas, and other fuels.

PIF and Hyundai partners for USD 500 Mn car plant in Saudi Arabia

Public Investment Fund (PIF) entered into an agreement with Hyundai to develop a car plant in KSA. The car plant is a joint venture between PIF and Hyundai of which PIF will own a 70.0% stake while the remaining 30.0% will be owned by Hyundai. The agreement is expected to be valued at USD 500 Mn with the plant's annual production capacity of 50,000 electric and gas-powered cars. Hyundai will also provide technical and commercial assistance as a strategic technology partner. The plant is expected to start its operation in 2026.

Saudi Aramco entered into an agreement with KNOC to supply 5.3 Mn barrels oil for five years

Korea National Oil Corp (KNOC) signed an oil storage agreement with Aramco to reserve 5.3 Mn barrels for five years. KNOC aims to enhance energy security by storing Aramco's oil in its reserves. Further, the oil will be stored in Ulsan, South Korea's southeastern port city, and South Korea will have the right to purchase the oil stored during emergencies. Additionally, KNOC paid rent for five-year period for the oil reserves.

Saudi's PIF owned The Helicopter Company to add 18 new aircrafts to its fleet

The Helicopter company (THC) fully owned by public investment fund (PIF) expanding its fleet size with 18 new aircrafts. With the addition of new aircrafts, the company's fleet size will be increased to 65 aircrafts by the end of 2024. The company is also planning to further expand its fleet size to more than 100 aircrafts by the end of 2026 to cater a wide range of services to its customers.

PIF and Pirelli engaged into an JV agreement to build manufacturing plant in KSA

KSA's Public Investment Fund (PIF) entered into a joint venture agreement with Pirelli Tyre to build a tire manufacturing plant in KSA. The plant is valued at USD 550 Mn annual production capacity with 3.5 Mn units to create national and regional champion. The plant is expected to start its operations in 2026 and will manufacture tires for passenger vehicles under the Pirelli brand and local brand targeting local markets. PIF holds a 75.0% stake in new JV while the remaining 25.0% is owned by Pirelli. Pirelli will also provide technical and commercial support to design, develop, and operate the plant.

Saudi stock exchange launches single stock option (SSO) available to trade on 27 November 2023

Saudi stock exchange issues single stock option (SSO) contracts, a third derivative product introducedin the bourse. The SSO contracts will be traded on the stock exchange on 27 November 2023 enabling the investors to hedge and manage portfolio risk. The stock exchange authorized the Securities Clearing Centre Company (Muqassa) to clear and settle the SSO's contracts. Saudi Aramco, Al Rajhi Bank, STC, and Stable were selected to provide underlying assets due to liquid positions.

KSA plans to introduce state-funded health insurance by 2024

KSA aims to introduce state-funded insurance coverage for all citizens by mid-2024. The National Insurance program will offer lifetime coverage with no specific ceiling to eliminate the need for prior approvals, streamlining the process for beneficiaries. KSA private insurance is expected to rise 5x driven by population growth, premium residency holders, and increasing number of tourists. The private sector share in health care is expected to increase from 20.0% to 50.0% with transforming health care sector providing more opportunities and authority for the private sector.

KSA's non-oil GDP grew by 3.6% in 3Q23 amid a fall in overall GDP to 4.5% due to reducing oil activity

KSA GDP declined by 4.5% in 3Q23, attributed to a fall in oil activity due to crude oil production cut until December 2023. Despite robust non-oil growth of 3.6% and rising government activities by 1.9%, oil activity declined by 17.3% in 3Q23, driving the lower economy growth. On the other hand, non-oil economy is expected to rise by 6.0% in 2023 mainly driven by higher government spendings, supporting to increase domestic demand and non-GDP.

QATAR

Qatar witnessing an increase in demand for LNG from European nations amid Russai-Ukraine war

A state-owned energy firm Qatar Energy began the expansion plan of the North Field located at Ras Laffan. Qatar primarily focused to supply LNG to Asian countries including, Japan, China, and South Korea. However, with the effect of Russia and Ukraine war, majority of European countries are replacing Russia as a sole LNG supplier to other oil suppliers across globe. Thus, Qatar is experiencing a higher demand for Qatari Gas from European nations. The expansion of North Field will lead to an increase in Qatar's LNG output increase by 60.0%, to more than 126 Mn tonnes per year by 2027. Qatar Energy estimates the North Field to hold about 10% of the world's known natural gas reserves.

Qatar PMI continue to remain stable above the long-run trend of 53.7 in September 2023

Gulf state PMI reached 53.7 in September 2023 slightly decreased from 53.9 in August 2023. Qatar's non-oil business conditions continues to improve with an increase in new orders, and output. Cost grew at a modest rate while selling price increased for the first time in five months. Employment grew at a highest rate due to hiring activities and continue to rise for the seventh consecutive month.

Qatar Energy awarded with offshore exploration block from Egypt

Egypt offered a new exploration block EGY-MED-E8 to Qatar Energy on October 2023. The exploration and production rights for the block comprise of 33% with Qatar Energy, 34% with ENI and 33% to BP. Egypt offered four blocks to Eni, BP, Qatar Energy and Zarubezhneft in oil and gas exploration bid rounds for concessions in the Mediterranean and Nile Delta.

Qatar Energy signs an LNG supply deal with ENI for 27 years starting from 2026

Qatar Energy entered into an agreement with ENI an Italian energy group to supply 1 Mn ton of gas per annum for 27 years starting from 2026. LNG delivery will be sourced from the joint venture between Qatar Energy and ENI. Qatar Energy will deliver LNG to FSRU Italia, a floating storage and regasification unit located in Italy. Qatar is the world's top LNG exporter. Qatar Energy signed a deal with France's Total Energies to supply 3.5 Mn MTPA of LNG for 27 years.

EGYPT

Government of Egypt initiates a database for 824 state-owned company subsidiaries

The Egyptian government is developing a database of state-owned companies of 824 subsidiaries across 33 entities including 243 companies under 8 sectors. The inventory criteria include subsidiary, authorized capital, employee numbers, financial situation, registration status, state share, geographical distribution, profitability status, and time plans for program implementation. In addition, the government also plans to introduce a new sector to monitor and develop plans for the Supreme Committee for Implementing the State Ownership Policy Document affiliated with the Cabinet. The new sector will also analyse potential reforms for private sector, business environment indicators, and market competitiveness indicators.

Egypt to resumes the LNG exports in October 2023 and aims to reach 12 Mn ton capacity by 2025

Egypt plans to resume liquefied natural gas (LNG) exports in September, despite high domestic consumption preventing exports in June. Egypt's LNG terminals on the Mediterranean coast ships 12 Mn metric tons per annum, aiming to reach in FY2025. Egypt aims to position itself as a regional energy hub, selling its own gas and re-exporting Israeli gas as LNG to the Middle East, Africa, and Europe. In 2022, Egypt achieved a record 8 Mn tonnes in natural gas exports with the further expectation to reach 7.5 Mn tonnes of exports in 2023

Egypt's non-oil sector dropped in September 2023 amid supply chain and price issues

Egypt's non-oil business sector experienced a decline in September due to supply chain issues and a sharp price increase. The S&P Global Purchasing Managers' Index (PMI) fell to 48.7 in September 2023 from 49.2 in August 2023, indicating a further contraction in the sector. The rise in prices, influenced by a weak exchange rate against the US dollar, led to a sharp drop in outputs and new orders, with businesses holding onto inventories amidst high inflation. The high-inflationary environment and lack of raw material supply led to businesses boosting employee numbers with wage inflation reaching a seven-month high. Egypt's economy has been under pressure with the pound depreciating by nearly 50% against the US dollar since 2022.

Central Bank of Egypt pays USD 17.7 Bn in external debt servicing in 9M23

The Central Bank of Egypt (CBE) paid USD 17.77 Bn for external debt interest and instalments in the first three quarters FY2023 and FY2022. The debt was distributed in three quarters includes, USD 4.784 Bn in the 1Q23, USD 7.154 Bn in 2Q23 and USD 5.835 Bn in 3Q23. Instalments for external debts were USD 3.229 Bn in 1Q23, USD 5.843 Bn in 2Q23, and USD 3.734 Bn in 3Q23. Interest payments amounted to

USD 1.555 Bn, USD 1.311 Bn, and USD 2.101 Bn in the same order. The CBE's external debt to GDP ratio reached around 38.5% by the end of March 2023.

Egypt's gross debt to GDP ratio is 92.7% in FY2023, amid improvement in fiscal outlook

The IMF Fiscal Monitor Report predicts Egypt's gross debt ratio to GDP to reach 92.7% in FY2023, the highest among emerging markets and middle-income economies. The ratio is expected to decrease in FY2024 to 88.1%, and continue to decline in FY2025 and FY2026 to 83.9% and 81.5% respectively. Egypt's revenues expected to decline to 18.1% of GDP in FY2023 and FY2024, however revenues are expected to increase in FY2025 and FY2026. The government's adjusted primary balance of GDP is expected to hit 2.3% in FY2023, the highest since 2014. The IMF's Executive Board approved a USD 3 Bn extended arrangement for Egypt for 46 months.

S&P downgraded Egypt's credit rating to 'B- 'due to economic challenges

Egypt's long-term sovereign credit rating has been downgraded by S&P to "B-" due to mounting funding pressures and an economic crisis. The downgrade reflects ongoing delays in implementing monetary and structural reforms. S&P expects GDP growth to slow down further in FY2024 due to foreign currency constraints while maintaining a "stable" outlook for the country.

Egypt's tourism sector revenue reached USD 13.6 Bn exceeding pre-COVID levels

Egypt's tourism sector revenue grew by 26.8% YOY to USD 13.6 Bn during 2022-23 from USD 10.7 Bn in 2021-22. Tourists visiting Egypt increased by 35.6%, reaching c.13.9 Mn. The number of nights spent by tourists rose by 27.6% to 146.1 Mn during 2022-23. Further, 10 Mn tourist visited Egypt as of August 2023, align with its expectation of 15 Mn visitors in 2023. The country targets to attract 30 Mn tourists by 2028, to increase tourism investment and expand its hotel pipeline.

Egypt's inflation hits historic high at 38% in September 2023

Egypt's annual urban consumer price inflation reached a historic high of 38.0% in September 2023, surpassing analyst expectations of 37.6%. This marks the fourth consecutive month of record high inflation mainly driven by a 2.0% monthly increase, particularly in food and beverage prices, including significant surges in vegetables and fruit costs. Food and beverage prices accelerated by 3.6% MOM, with vegetable prices surging by 19.2% MOM, fruits by 5.4% MOM, dairy products by 5.4% MOM, and sugar items by 2.9% MOM. The government agreed with private producers and retailers to cut staple food prices by 15-25% and exempt them from customs duties for six months.

Moody's downgraded Egypt's credit rating on worsening debt affordability

Moody's downgraded Egypt's credit rating from 'B3' to 'Caa1' due to deteriorating debt affordability. The country is facing economic crisis, with record inflation and a chronic foreign currency shortage. Moody's expect the materialization of asset sale proceeds at the central bank to help restore the economy's foreign currency liquidity buffer by placing Egypt’s outlook at ‘stable’. The agency expects the country will continue access to official financial support from the IMF under its USD 3 Bn arrangement.

BAHRAIN & KUWAIT

Bahrain's USD 531 Mn bond was oversubscribed three times

Bahrain issued a three-year government development bond of BHD 200 Mn (USD 531 Mn) with a fixed coupon rate of 6.5% maturing on 15 October 2026. The bond received a healthy response and was three times oversubscribed, with a 359% increase from the initial offering, amounting to BHD 718.061 Mn.

Global Economy

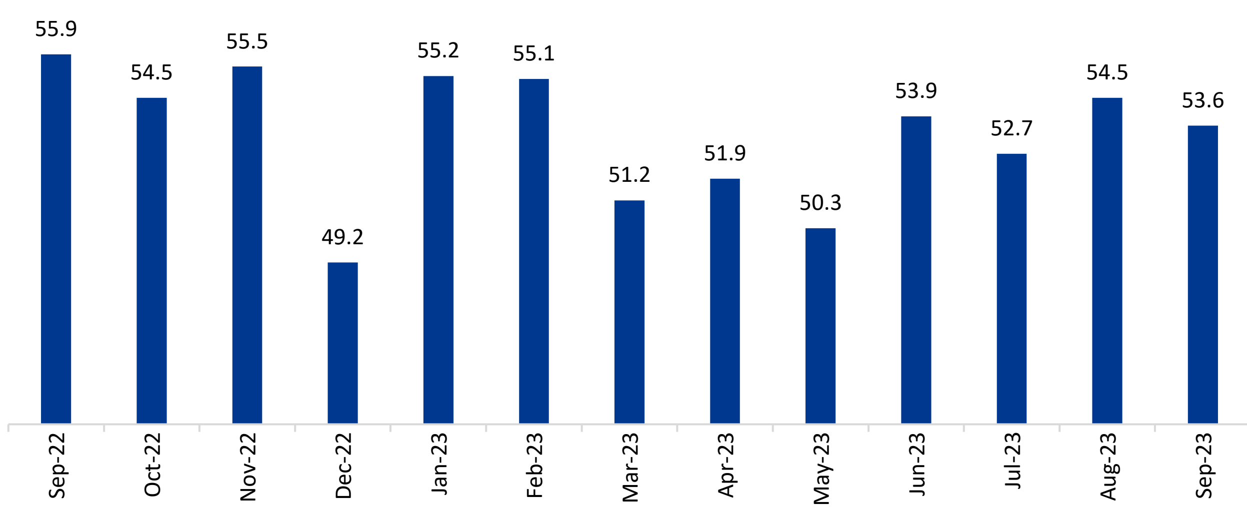
OPEC+ unchanged its policy as KSA continues to keep oil supply cuts

OPEC+ announced to maintain its existing oil output policy in October 2023, due to KSA and Russia's unchanged policy of voluntary oil supply cuts till the end of 2023. The oil prices are growing towards USD 100 per barrel for Brent crude the highest since FY2022. The growth is attributed to the OPEC+ oil supply cut and growing demand which exceeds the inflation concerns and weaker economic outlook. KSA continues to cut its oil supply by 1 Mn barrels per day while Russia cuts its oil supply by 300,000 barrels per day till the end of 2023.

US services sector activities witnessed a slowdown in September 2023

The US services index declined marginally to 53.6 in September 2023 from 54.5 in August 2023, in line with the economist estimates. The decline was mainly driven by the slump in the new order index from 57.5 in August 2023 to 51.8 in September 2023. The employment index declined to 53.4 in September 2023 from 54.7 in August 2023. However, the business activity index grew to 58.8 in September 2023 from 57.3 in August 2023. The decline in the US services index indicates modest growth in new orders and employment followed by the slowdown in US service sector activity.

Figure 23: US Service Sector PMI

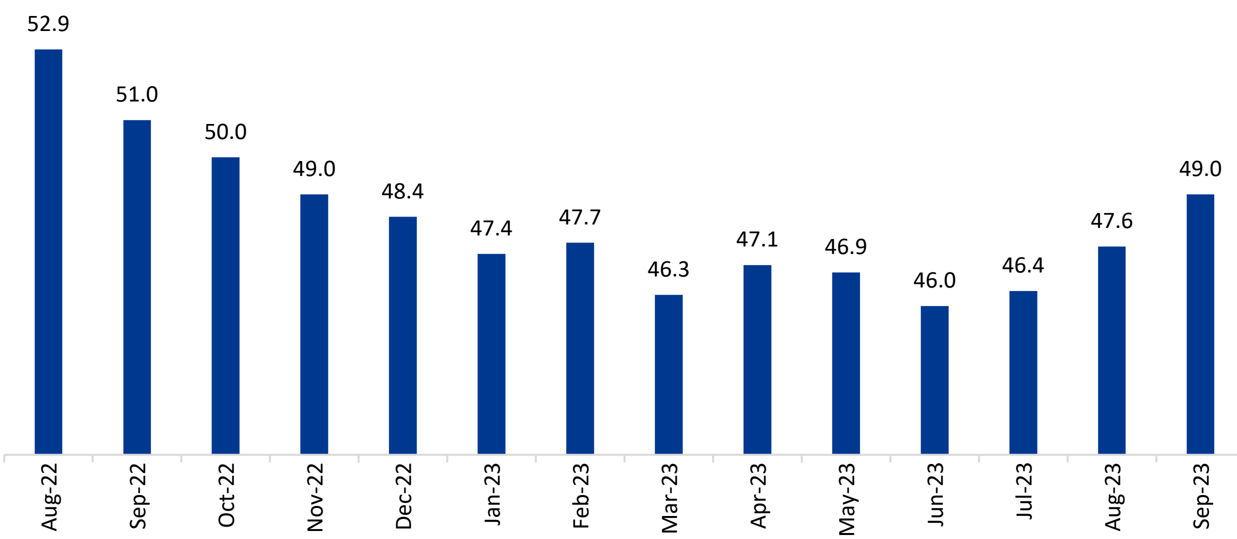


Source: Investing.com

US manufacturing PMI rose to ten-month high in September 2023

The US manufacturing PMI rose to 49.0 in September 2023 from 47.6 in August 2023, surpassing the economist's expectation of 47.7. The manufacturing PMI remained below the threshold of 50, reflecting a continued contraction trend but at a slower rate. It also witnessed the best performance since November 2022. The growth in manufacturing PMI was driven by a growth in new orders index from 46.8 in August 2023 to 49.2 in September 2023. The production index also rose to 52.5 in September from 50.0 in August 2023. The employment index grew from 48.5 in August 2023 to 51.2 in September 2023, reflecting an increase in employment in the manufacturing sector. However, the price index declined from 48.4 in August 2023 to 43.8 in September 2023, indicating a modest price drop.

Figure 24: US Manufacturing PMI

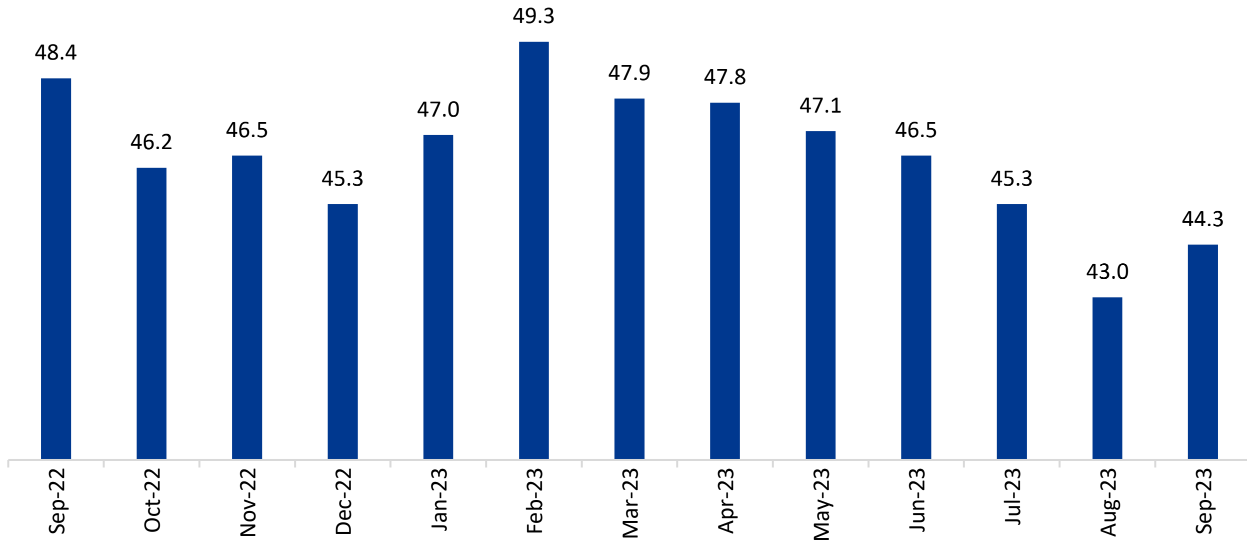


Source: Investing.com

Downturn in UK manufacturing continued in September 2023

The UK's Chartered Institute of Procurement and Supply Factory Purchasing Manager's index (PMI) grew to 44.3 in September 2023 from 43.0 in August 2023 surpassing the estimates of 44.2. The companies reduced production for the seventh consecutive month in response to lower order intakes. Reduced demand from Europe, the US, mainland China, and Brazil led to a contraction in new export business in September 2023. The continuous contraction in new orders and output resulted in job cuts, with the rate of decline being the second steepest in over twelve consecutive months of contraction. Further, the backlog declined for the 17th consecutive month at the fastest rate since April 2020.

Figure 25: UK Manufacturing PMI

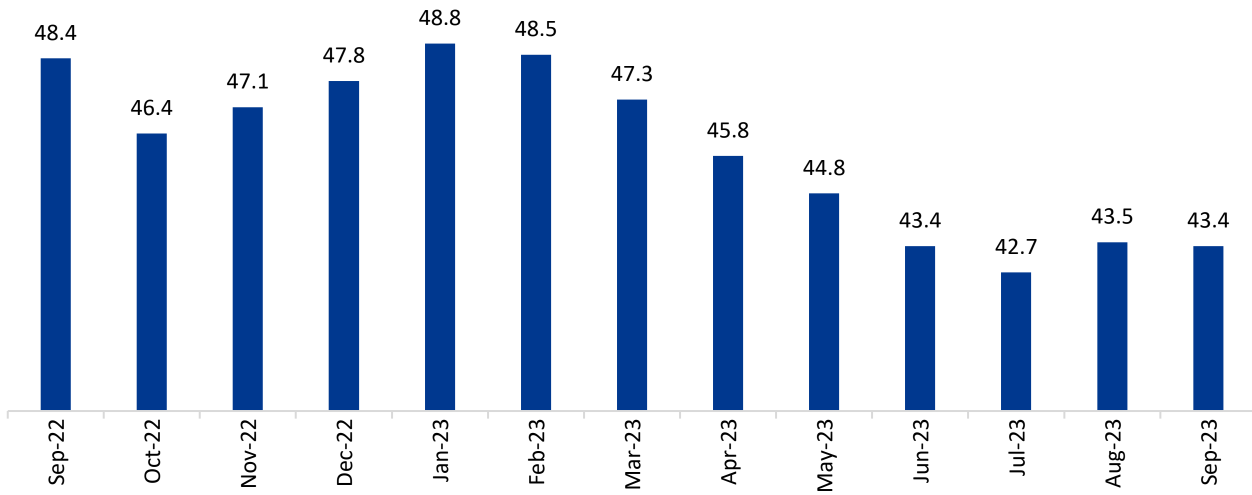


Source: Investing.com

Eurozone manufacturing sector continues to decline due to weak new orders and unemployment

The Eurozone manufacturing PMI dropped to 43.4 in September 2023 from 43.5 in August 2023, continuing to remain below the threshold of 50.0 for the 15th consecutive month in September 2023. The companies scaled back their production more rapidly in September compared to August, primarily in response to a decline in demand. Employment in the manufacturing sector reduced at a faster rate in three years. The youth unemployment rate eased to 13.8% in September 2023 from 13.9% in August. While purchasing activity declined for the 15 consecutive months in September 2023.

Figure 26: Eurozone Manufacturing PMI



Source: Investing.com

World Bank revised UAE GDP growth forecast upward for 2023 and 2024

World Bank revised the UAE GDP growth forecast from 2.8% to 3.4% in FY2023 and from 3.4% to 3.7% in 2024. The upward revision in the economy is attributed to robust growth in non-oil mainly from travel and tourism, aviation, hospitality, real estate, trade and logistics sectors driving the economic growth rate faster. The UAE economy recovered at a faster rate from the COVID-19 impact with short-term economic growth and rebounded domestic activities supported by high oil prices contributing to high fiscal surpluses and external balances.

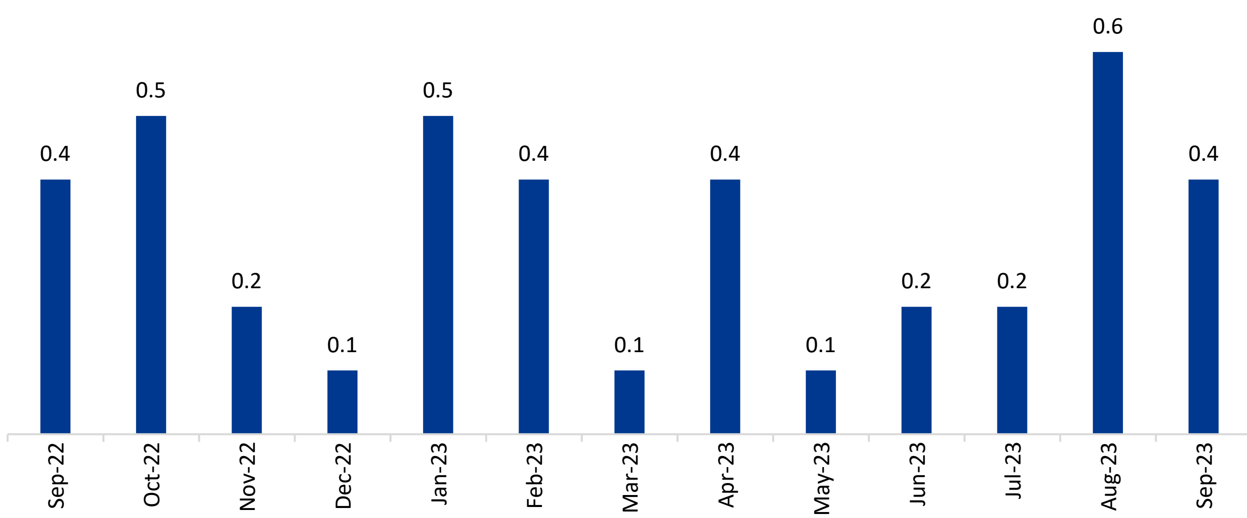
IMF forecast non-oil activities to drive GCC growth in 2023 amid oil slowdown

The growth in GCC oil GDP is expected to slow down to 1.5% due to cuts in crude production and lower oil prices according to the IMF. However, the overall GDP is expected to grow by 3.7% in 2024 while the non-oil GDP is expected to grow 4.3% and 4.0% in 2023 and 2024, respectively. All GCC member countries are committed to diversifying the economy away from the over-dependence on the oil sector. However, the public finances in GCC countries are still sensitive to oil price movement. Thus, the growth in the non-oil economy will not fully compensate for the reduction in oil growth in the medium term. In addition, the continued productivity gaps in the non-oil sector led to challenges in job creation and inclusion. The IMF further cut the growth forecast for KSA to 0.8% in 2023, recovering to 4% in the next year.

US consumer prices index inched up and exceeded the estimates

The consumer price index grew 0.4% MOM in September 2023 following a growth of 0.6% in August 2023, surpassing the economist's expectation of 0.3%. The energy prices contributed to the higher-than-expected increase, rising as by 1.5% in September 2023 following 5.6% growth in August 2023. Gasoline prices increased 2.1% in September 2023, whereas core consumer prices excluding food and energy prices grew 0.3% in September 2023, aligned with the growth in August and economist's expectation. The growth in the consumer price index was also contributed by the increase in the price of motor vehicle insurance, recreation, personal care, new vehicles, and household furnishings and operations. However, used cars trucks and apparel prices continued to decline in September 2023. On an annual basis, consumer price growth remains stable at 3.7% while core consumer price growth declined to 4.1% in September 2023 from 4.3% in August 2023.

Figure 27: US Consumer Price Inflation (% Change MOM)



Source: U.S. Bureau of Labor Statistics

Fed expects one additional rate hike by the end of 2023

The Federal Reserve released minutes of its last policy meeting in which the majority of participants expected one more interest rate hike by the end of 2023. While few participants expect no further increase, a rate hike is necessary. All participants unanimously agreed that it tread carefully considering the incoming information and its implication for the economic outlook while maintaining a balance of risk. The focus of monetary policy decisions and communication will be shifted from raising rates to how long to maintain a restrictive policy until the target inflation is achieved.

PBOC boost liquidity to ease market stress amid economic growth concerns

The People's Bank of China (PBOC) provided additional liquidity supply in the banking system through its medium-term lending facility and ramping up its reverse repo to ease stress in the market. PBOC added CNY 789 Bn through a one-year MLF, with an unchanged MLF rate of 2.5% in September 2023. The LPR rate is also expected to be unchanged in September 2023 due to a stable MLF rate. In addition, the bank also introduced CNY 106 Bn through seven-day reverse repos at an interest rate of 1.8%. The bank aims to maintain appropriate liquidity in the banking system supported by well-advanced debt sales by the local government.

China's economy grew 4.9% YOY in 3Q23

China's GDP rose 4.9% YOY in 3Q23 according to the National Bureau of Statistics surpassing the analyst expectation of 4.4%, but the growth was slower than the 6.3% YOY rise in 2Q23. While, on a QOQ basis GDP grew 1.3% in 3Q23 from 0.5% growth in 2Q23, surpassing the analyst expectation of 1.0%. The slower GDP growth in 2Q23 is attributed to a downturn in the property market and high debt levels due to the long infrastructure binge. Thus, Beijing implemented various measures including increased public spending and interest rate cuts to recover GDP growth in 3Q23. The improved growth in 3Q23 is less likely for the government to launch stimulus in 4Q23 as the 2023 GDP growth target of around 5% looks achievable. The government of China will shift its focus to the growth outlook for 2024.

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