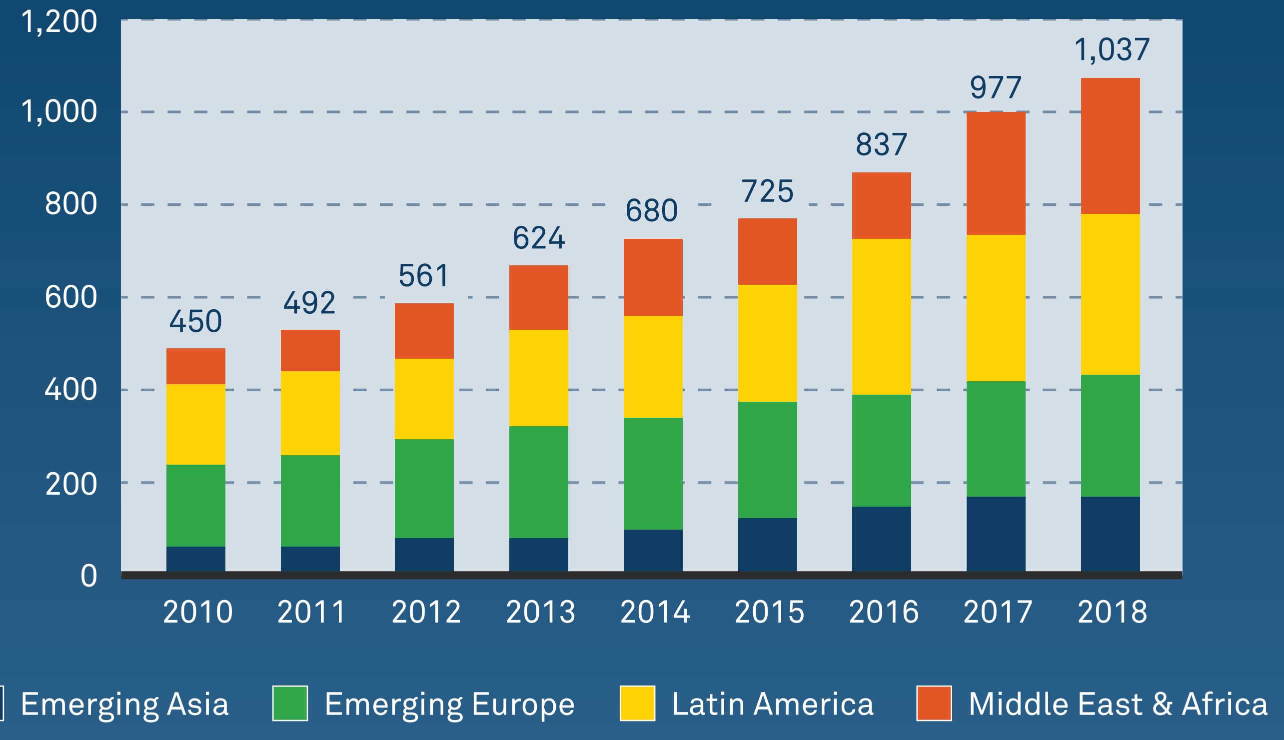
A sea change for Gulf state sovereigns?

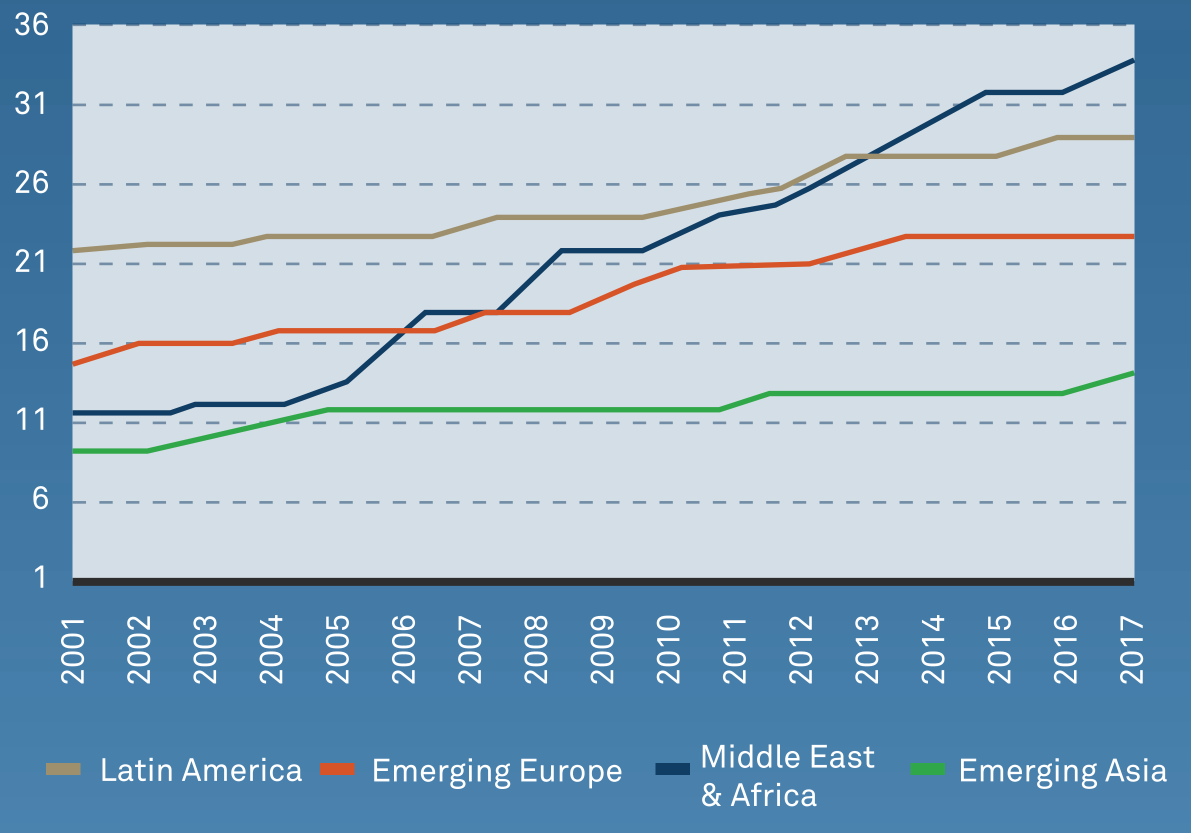
Rising bond issuance from GCC* states has helped buoy wider emerging market hard currency debt stock

EM Sovereign hard currency debt stock US$BN



Source: JP Morgan, as at March 2018.

Number of issuers with outstanding hard currency debt by region each year



Source: JP Morgan, as at March 31, 2018

With the inclusion of five new GCC* states in key emerging market hard currency sovereign indices likely to bring a further boost to EM debt markets**

Bahrain **Kuwait** **Qatar** **Saudi Arabia** **United Arab Emirates**

*Specifically the countries of the Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

**JPMorgan indices. In 2019, sovereign and quasi-sovereign debt issuers from Saudi Arabia, Qatar, the United Arab Emirates, Bahrain and Kuwait are expected to become eligible for the EMBI Global Diversified (EMBIGD), EMBI Global (EMBIG) and EURO-EMBIG indexes. Oman is currently included.

We think the coming year may be a banner one for bond issuers from the Gulf states. This is because, recognizing the region's increased standing, index provider JPMorgan has announced the inclusion of five GCC (Gulf Cooperation Council) countries (Oman is currently included) to its suite of emerging market (EM) hard currency sovereign indices. With more than US$360bn benchmarked against these indices and a likely 11% weighting for the GCC region expected when the indices fully rebalance, these bond markets are expected to receive strong inflows. (Their entry to the indices is to be phased between January 31 and September 30, 2019.)

Such a move makes sense in Insight's view. A notable trend in recent years has been the considerable increase in sovereign bond issuance from GCC states. In the past three years GCC countries combined have issued a quarter of all new debt sold by emerging markets. As a percentage of the EM hard currency sovereign debt asset class, GCC accounts for around 14%, up from just 5% in 2014, as at September 26, 2018.

All data from JPMorgan, as at September 26, 2018

Insight Investment – a BNY Mellon company

Index definitions:

JPMorgan Emerging Market Bond Index Global: The JPM EMBI Global is for measuring the total return performance of international government bonds issued by emerging market countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements.

JPMorgan Emerging Market Bond Index (EMBI) Global Diversified: The JP Morgan EMBI Global Diversified Index includes dollar-denominated sovereign bonds issued by a selection of emerging market countries. It limits the weights of countries with larger debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.

JPMorgan Euro-Emerging Market Bond Index Global: The JPMorgan Euro-Emerging Market Bond Index Global is for measuring the total return performance of government bonds issued by emerging market countries that are considered sovereign (priced in Euros) and that meet specific liquidity and structural requirements.

Bonds are subject to interest rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines.

Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

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