



بنك الإمارات دبي الوطني  
Emirates NBD

## Sukuk Note 8 August 2019

Anita Yadav  
Head Fixed Income Research  
Tel: +9714 230 7630  
anitay@emiratesnbd.com

www.emiratesnbdresearch.com

# Relative Value in Sukuk: Emirates NBD iBoxx Sukuk Index Update

In a much anticipated move, the US Federal Reserve cut the target interest rate by 25bps to be between the 2.00% - 2.25% range last month, cut IOER (interest on excess reserve) by 25bps to 2.10% and opted to end its balance sheet runoff effective beginning of August, rather than the end of September this year as originally planned. However, the sentiment ensuing from the post FOMC press conference was perceived to be less dovish than what the market had priced-in earlier which caused UST yield curve to rise after the rate cut. Yields on 2yr, 5yr, 10yr and 30yr USTs closed the month of July at 1.87% (+12bps, m/m), 1.83% (+6bps), 2.01% (+1bp) and 2.52% (unchg, m/m) respectively.

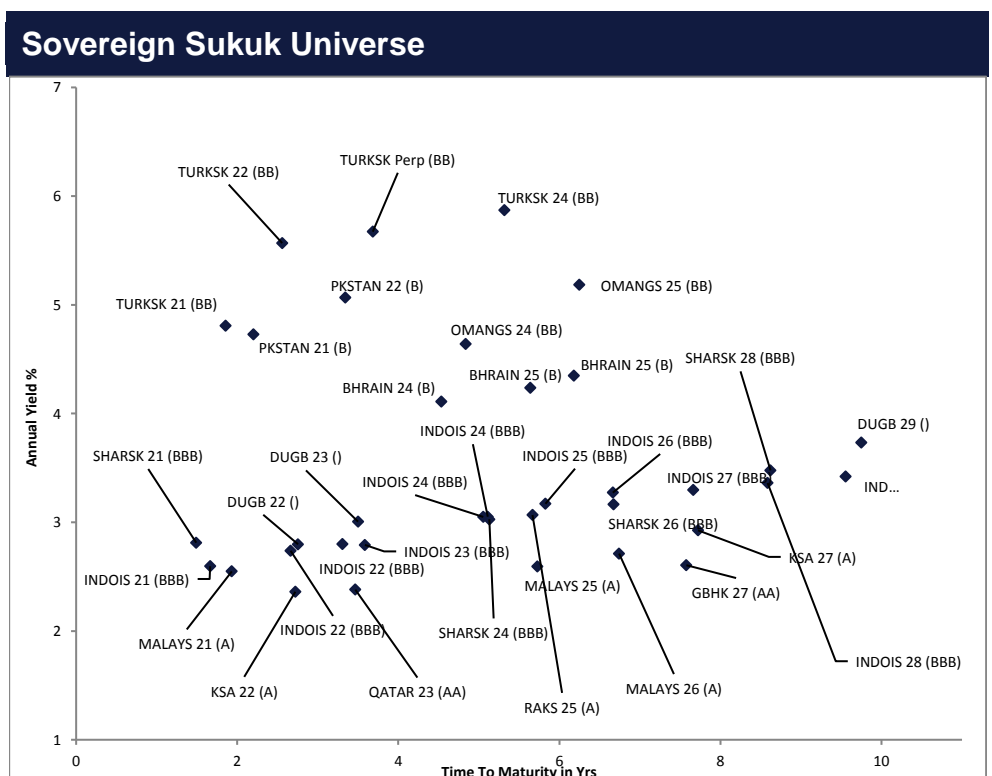
In terms of credit spreads, despite the rising uncertainty on the trade front and falling global economic growth, credit spreads on EM bonds reduced in response to material increase in bids as investors hunt for yield drove capital from DM assets to EM assets. Average option adjusted credit spread on EM USD denominated bonds reduced 12bps during the month to 278bps.

Against this backdrop, USD denominated sukuk portfolios had a constructive month. Total return on the Emirates NBD Markit iBoxx USD Sukuk index in July was a gain of 1.23% of which 0.88% came from capital gains and the remainder from coupon collection. In the year to July end, total return on the index crossed the 8.15% mark.

Two new sukuk got added to the index as at the month end rebalancing. The Baa1 rated, 10yr tenured sukuk issued by the Dubai based DP World and the 5yr tenured Baa3 rated sukuk from Emirates Strategic Investment Co. Currently the index has 107 securities amounting to USD 101.8bn with the average credit rating at A-.

Based purely on trading yields as at the end of July, following relative value observations are made:

- 1) In the sovereign sector :
  - a) The DUGB curve is trading cheaper than the INDOIS curve across all tenures despite similar credit quality.



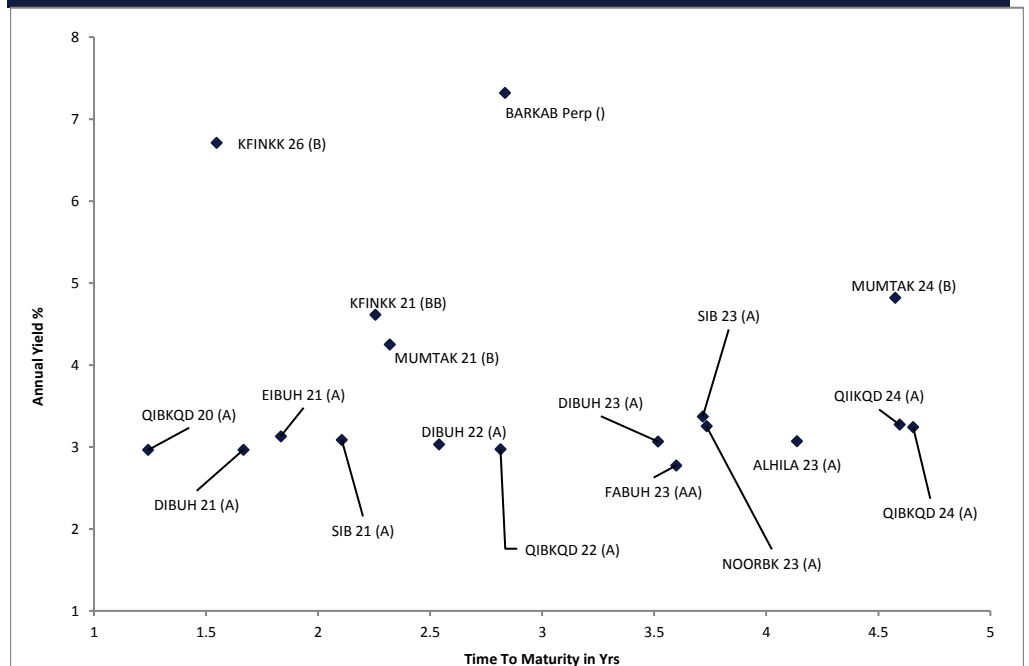
Source: Emirates NBD Research, Markit

- b) B rated PKSTAN 21s trading at 4.73% appear expensive compared with BB rated TURKSK 21s trading at yield of 4.81%.
- c) OMANGS 24s with yield at 4.64% appear cheap compared with BHRAIN 24s at yield of 4.11%, particularly since credit rating on Oman is nearly three notches higher at BB compared with B on Bahrain. Similarly OMANGS 25s at yield of 5.19% are trading cheaper than BHRAIN 25s at 4.24% yield.
- d) With yield at 3.27%, BBB rated INDOIS 26s are trading cheaper than similar rated SHARSK 26s at yield of 3.16%.
- e) RAKS 25s at yield of 3.07% appear cheaper than similar rated MALAYS 25s at yield of 2.59%.

2) In the financial space:

- a) Credit rating and trading yields on issuers in the financial sector are concentrated in a narrow band and reflect minimal value dislocations.
- b) That said, yield differential between DIBUH 23s (3.06%) and NOORBK 23s (3.37%) continue to reflect arbitrage opportunity assuming successful consummation of Noor's acquisition by DIB.
- c) EIBUH 21s trading at yield of 3.13% appear cheaper than similar rated DIBUH 21s at yield of 2.97%,

### Financial sukuk universe

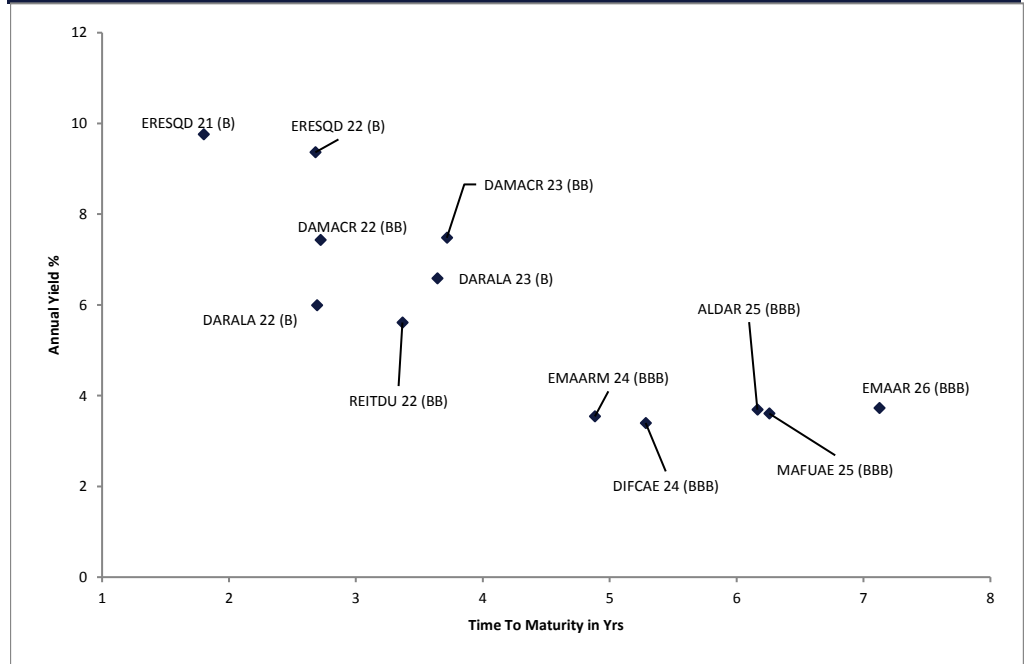


Source: Emirates NBD Research, Markit

3) In the real estate sector:

- a) Though EMAARM 24s, rated BBB, at a yield of 3.54% appear cheaper than longer duration and BBB rated DIFCAE 24s at yield of 3.40%, particularly given the possible development work that DIFCAE may engage in, the spread differential may not contract in view of DIFC's government ownership.

## Real Estate sukuk universe

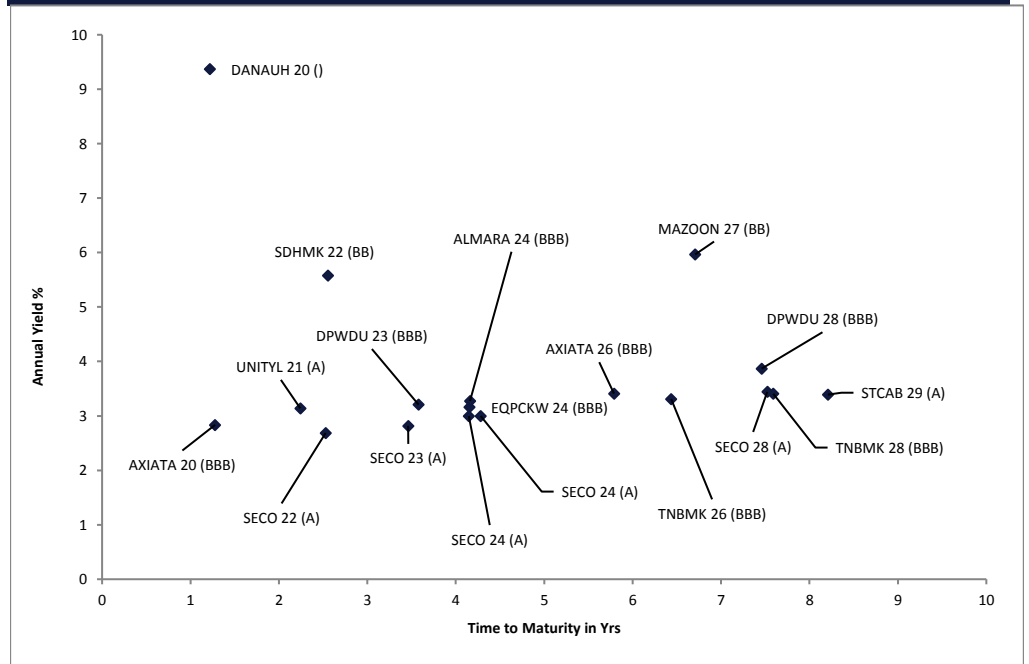


Source: Emirates NBD Research, Markit

### 4) In the corporate space:

- a) BBB rated DPWDU 28s trading at yield of 3.87% appear cheap compared with similar rated TNBMK 28s at yield of 3.41%.

## Corporate sukuk universe



Source: Emirates NBD Research, Markit

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## Emirates NBD Research & Treasury Contact List

**Emirates NBD Head Office**  
12th Floor  
Baniyas Road, Deira  
P.O.Box 777  
Dubai

**Jonathan Morris**  
General Manager Wholesale Banking  
JonathanM@emiratesnbd.com

**Aazar Ali Khwaja**  
Senior Executive Vice President  
Global Markets & Treasury  
+971 4 609 3000  
aazark@emiratesnbd.com

**Tim Fox**  
Head of Research &  
Chief Economist  
+9714 230 7800  
timothyf@emiratesnbd.com

---

### Research

**Khatija Haque**  
Head of MENA Research  
+9714 230 7803  
khatijah@emiratesnbd.com

**Anita Yadav**  
Head of Fixed Income Research  
+9714 230 7630  
anitay@emiratesnbd.com

**Aditya Pugalia**  
Financial Markets Research  
+9714 230 7802  
adityap@emiratesnbd.com

**Mohammed Altajir**  
FX Analytics and Product Development  
+9714 609 3005  
mohammedtaj@emiratesnbd.com

**Edward Bell**  
Commodity Analyst  
+9714 230 7701  
edwardpb@emiratesnbd.com

**Daniel Richards**  
MENA Economist  
+9714 609 3032  
danielricha@emiratesnbd.com

**Hessa Al Khawaja**  
Research Associate  
+9714 609 3015  
Hessaalkh@emiratesnbd.com

---

### Sales & Structuring

**Group Head – Treasury Sales**  
Tariq Chaudhary  
+971 4 230 7777  
tariqmc@emiratesnbd.com

**Saudi Arabia Sales**  
Numair Attiyah  
+966 11 282 5656  
numaira@emiratesnbd.com

**Singapore Sales**  
Supriyakumar Sakhalkar  
+65 65785 627  
supriyakumars@emiratesnbd.com

**London Sales**  
+44 (0) 20 7838 2241  
vallancel@emiratesnbd.com

**Egypt**  
Gary Boon  
+20 22 726 5040  
garyboon@emiratesnbd.com

---

### Emirates NBD Capital

**Ahmed Al Qassim**  
CEO- Emirates NBD Capital  
AhmedAQ@emiratesnbd.com

**Hitesh Asarpota**  
Head of Debt Capital Markets.  
+971 50 4529515  
asarpotah@EmiratesNBD.com

---

### Investor Relations

**Patrick Clerkin**  
+9714 230 7805  
patricke@emiratesnbd.com

---

### Group Corporate Affairs

**Ibrahim Sowaidan**  
+9714 609 4113  
ibrahims@emiratesnbd.com

**Claire Andrea**  
+9714 609 4143  
clairea@emiratesnbd.com