KAMCO ECONOMIC REPORT

MENA could issue over $80bn of debt in 2019, inflows to pick up

JP Morgan EMBI inclusion could attract over $30bn in inflows to GCC bonds

MENA fixed income white paper roundtable

DUBAI: MENA fixed income instruments provided a relative oasis of calm against volatile market moves in 2018. MENA hard currency bond and Sukuk issuance reached $84 billion in 2018, with demand for new issues remaining high as regional debt was oversubscribed 2x -2.5x, according to a white paper by KAMCO Investment Company, Emirates NBD Asset Management, and Fisch Asset Management. Investor appetite is likely to remain strong in 2019, as GCC bonds are included in the JP Morgan EMBI index series and regional governments sustain ambitious reform agendas. The co-authored paper, "MENA debt: an evolving world for fixed income investors", provides an in-depth look at regional fixed income in 2018 and provides an outlook for 2019.

Financial markets in the MENA region are evolving at a fast pace and more outward-looking policies aimed at integration with global markets are increasing the breadth of financial instruments traded in the region, giving international and local investors compelling reasons for exposure. The case for fixed income portfolio allocation to MENA is supported by the growing share of global GDP represented by the region, which for the GCC is expected to increase from 1.8 percent in 2015 to 2.0 percent in 2019, while its share of emerging markets GDP is expected to increase from 4.7 percent to 5.0 percent.

Faisal Hasan CFA, CBDO & Head of Investment Research at KAMCO Investment Company, commented: "Regional gross government debt as a percentage of GDP increased from 29.7 percent in 2014 to 44.4 percent in 2018, after a series of issuances. Fiscal deficits for most MENA countries have been the reason for an increase in government debt, and this trend is expected to continue in 2019 - providing a fresh set of opportunities for investors. Reforms being implemented across MENA make it an attractive destination for global investors - spending on infrastructure remains a priority for policymakers and expanding the non-oil sector to diversify economies away from oil dependence has received support from almost all governments in the region."

Less than a month into 2019 the GCC has already delivered $9.1 billion in issuance from both sovereigns and corporates, including the Saudi sovereign, First Abu Dhabi Bank (Sukuk) and Dubai Islamic Bank (AT1), setting the scene for the rest of the year. In addition, there are market-wide expectations that Saudi Aramco will issue debt in 2Q19 to fund its SABIC stake acquisition.

The paper also highlights that, while regional bonds look attractive on a ratings-adjusted basis against other emerging markets, there are a range of important considerations for investors: these include geopolitical uncertainty; possible rating downgrades, although in the case of most sovereigns this is mitigated by diversification initiatives; increased supply carrying the risk of a glut outstripping demand; and the region's over-reliance on oil as a revenue source.

Parth Kikani CFA, Director Fixed Income at Emirates NBD Asset Management, said: "Last year, GCC fixed income provided a safe haven during a sustained EM sell-off period. For 2019, we think risks are more balanced, and investors will need to be more discerning in credit selection. While risks stem from further oil price volatility, increased issuance and geopolitical uncertainty, investors may benefit from attractive risk premiums, improving fundamentals and the benefits of index inclusion leading to efficient price discovery. Moreover, with most GCC currencies pegged to the US dollar, this reiterates an attractive relative risk premium amid weakening emerging market FX rates and a stronger US dollar."

Furthermore, financial sector subordinated papers are especially attractive for investors. These offer relative value as they benefit from unique features including no hard capital ratio triggers, substantial ownership stakes from GCC sovereigns, the absence of a taxpayer base that reduces moral hazard in the event of any pre-emptive capital injections and typically high distributable profits that protect against coupon skips. Given easy access to capital markets, issuers typically call issues on the first call date, so extension risk is heavily discounted, offering relative value to investors.

Philipp Good, CEO and Head of Portfolio Management at Fisch Asset Management, concluded: "An important driver for investors, whose demand encourages new supply, has been a widening of spreads as a consequence of rising interest rates in the US. Until a new equilibrium in the rate market is found, emerging markets remain attractive alternatives for allocation, with GCC countries among the most appealing of all. Most countries are pushing their reform agendas, and the balancing of the pace of reform will be one of the key drivers for stability in the region. Meanwhile, oil price performance remains crucial, and a key driver for credit."

KAMCO's Chief Business Development Officer Faisal Hasan

Default risk in the GCC remains low despite volatility in oil prices. The GCC region has seen very few defaults or restructurings compared to broader emerging markets. Large government reserves - in the form of Sovereign Wealth Funds (SWFs) - offer support in times of distress and provide a liquidity cushion that can reduce default risk, which is considered a key differentiator from emerging market peers.

DFSA enforces fine in the UK against sanctioned individual

DUBAI: The Dubai Financial Services Authority (DFSA), the independent regulator of financial services conducted in or from the DIFC, has successfully enforced payment of a fine imposed on an individual. This enforcement action demonstrates the DFSA's commitment to take the necessary steps to enforce the regulatory actions it imposes.

As set out in its two media releases dated 19 July 2017 and 28 May 2018 respectively, in May 2017 the DFSA took action against Andrew John Grimes including imposing a fine of $52,500 (AED192, 675) and restricting him from performing any function in connection with the provision of Financial Services in or from the DIFC.

While Grimes did not challenge the DFSA's findings against him, he failed to pay the fine by the date it was due. Therefore, in 2018 the DFSA commenced proceedings in the DIFC Courts to enforce payment of the fine by Grimes, and obtained judgment in its favor in May 2018. Accordingly, the DFSA required Grimes to pay the debt owed pursuant to the judgment.

Following Grimes' continued failure to make the payment, the DFSA took formal legal steps to pursue him in the United Kingdom in the latter half of 2018. As a result, Grimes eventually paid the debt in January 2019.

Bryan Stirewalt, Chief Executive of the DFSA, said: "The DFSA ensures that there are real and significant consequences for firms and individuals not complying with our rules while operating in or from the DIFC. We are committed to our statutory objectives and will take all available and appropriate steps to rigorously enforce any fine we have imposed on a person, regardless of the location of the person or the person's assets. By doing so, the DFSA seeks to protect direct or indirect users or prospective users of the financial services industry in the DIFC and deter similar breaches by other individuals or firms," he added.

The Dubai Financial Services Authority (DFSA) is the independent regulator of financial services conducted in or from the Dubai International Financial Centre (DIFC), a purpose-built financial free-zone in Dubai.

Brazil mining giant Vale suspends dividend payments after dam burst

RIO DE JANEIRO: Brazilian mining giant Vale said yesterday it was suspending dividend payments to shareholders and performance-related executive bonuses after a dam at one of its mines burst, killing dozens and leaving hundreds missing. Vale, the world's biggest iron-ore miner, has seen its reputation severely tarnished by the deadly accident, the second involving a company-owned mine in the southeast Brazilian state of Minas Gerais in just over three years.

The decision to suspend payments follows an emergency board meeting on Sunday, officials said in a statement. It said Vale was also suspending stock buybacks. The news came hours before the Sao Paulo stock exchange opened. Trading in Vale shares was expected to be intense as the market was closed for a holiday on Friday. However Vale shares lost eight percent in New York trading on Friday following news of the dam rupture. Brazilian authorities separately have frozen 11 billion reais-around $3 billion-in Vale assets in anticipation of compensation it will likely have to fork out.

A tsunami of toxic mud broke through a dam at an iron-ore mine owned by Vale near the town of Brumadinho, in Minas Gerais, on January 25. The official toll from the disaster was 58 dead and 305 missing as of late Sunday.

In 2015 a dam at another mine jointly owned by the company ruptured, killing 19 and causing what was considered the worst environmental disaster Brazil had seen. Vale and its partner BHP are still paying for that accident, with compensation and fines costing over $6 billion and lawsuits ongoing.

The company is also mourning its lost personnel, as the overwhelming majority of those dead and missing in Friday's disaster were Vale employees.

Many of the victims were eating lunch at the site when millions of tons of muddy sludge, a byproduct of mining, burst through the dam and engulfed the administrative area they were in. Emergency workers also found a company bus buried in the mud with bodies inside.

Profitable company

The dam that broke was built in 1976 and was in the process of being decommissioned. Vale said it had passed a structural safety inspection four months ago, which was confirmed by Tuev Sued, the German firm that carried it out. Vale, headquartered in Rio de Janeiro, has a deep purse from which to pay fines, compensation and lawsuits resulting from the latest disaster.

In 2017, based on the last full-year results available, the company made $5.5 billion in profits, on revenue of $34 billion. That net result was 38 percent higher than the previous year, evidence of a bounce-back after a sharp commodities slump in 2015 that forced the company into cost-cutting.—AFP

EXCHANGE RATES

Al-Muzaini Exchange Co.

EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	303.900
Euro	349.790
Sterling Pound	404.340
Canadian dollar	231.980
Turkish lira	59.010
Swiss Franc	309.130
US Dollar Buying	304.300
ASIAN COUNTRIES	
Japanese Yen	2.774
Indian Rupees	4.277
Pakistani Rupees	2.210
Srilankan Rupees	1.669
Nepali Rupees	2.666
Singapore Dollar	226.030
Hongkong Dollar	38.736
Bangladesh Taka	3.551
Philippine Peso	5.787
Thai Baht	9.627
Malaysian ringgit	77.724
GCC COUNTRIES	
Saudi Riyal	81.094
Qatari Riyal	83.523
ani Riyal	789.864
Bahraini Dinar	807.490
UAE Dirham	82.795
ARAB COUNTRIES	
Egyptian Pound - Cash	19.850
Egyptian Pound - Transfer	16.941
Yemen Riyal/for 1000	1.221
Tunisian Dinar	103.720
Jordanian Dinar	428.480
Lebanese Lira/for 1000	2.026
Syrian Lira	0.000
Morocco Dirham	32.295

Dollarco Exchange Co. Ltd

Rate for Transfer	Selling Rate
US Dollar	303.540
Canadian Dollar	230.560
Sterling Pound	403.155
Euro	349.150
Swiss Frank	303.735
Bahrain Dinar	807.225
UAE Dirhams	83.045
Qatari Riyals	84.280
Saudi Riyals	81.840
Jordanian Dinar	429.410
Egyptian Pound	16.918
Sri Lankan Rupees	1.669
Indian Rupees	4.274
Pakistani Rupees	2.184
Bangladesh Taka	3.620
Philippines Pesso	5.785
Cyprus pound	18.060
Japanese Yen	3.775
Syrian Pound	1.590
Nepalese Rupees	2.674
Malaysian Ringgit	74.760
Chinese Yuan Renminbi	45.545
Thai Bhat	10.645
Turkish Lira	58.135
Singapore dollars	224.548

BAHRAIN EXCHANGE COMPANY WLL

CURRENCY	BUY	SELL
Europe		
British Pound	0.393876	0.407776
Czech Korune	0.005506	0.014806
Danish Krone	0.042407	0.047407
Euro	0. 339315	0.353015
Georgian Lari	0.131826	0.131826
Hungarian 0.001145	0.001335	
Norwegian Krone	0.031672	0.036872
Romanian Leu	0.065096	0.081946
Russian ruble	0.004647	0.004647
Slovakia	0.009076	0.019076
Swedish Krona	0.029600	0.034600
Swiss Franc	0.299645	0.0310645
Australasia		
Australian Dollar	0.210395	0.222395
New Zealand Dollar	0.202399	0.211829
America		
Canadian Dollar	0.224601	0.233601
US Dollars	0.299800	0.305100
US Dollars Mint	0.300300	0.305100
Asia		
Bangladesh Taka	0.003010	0.003811
Chinese Yuan	0.043552	0.047052
Hong Kong Dollar	0.036972	0.039722
Indian Rupee	0.003713	0.004485
Indonesian Rupiah	0.000017	0.000023
Japanese Yen	0.002695	0.002875
Korean Won	0.000262	0.000277
Malaysian Ringgit	0.070268	0.076268
Nepalese Rupee	0.002605	0.002945
Pakistan Rupee	0.001564	0.002334
Philippine Peso	0.005788	0.006088
Singapore Dollar	0.219609	0.229509
Sri Lankan Rupee	0.001327	0.001907
Taiwan	0.010143	0.010323
Thai Baht	0.009267	0.009807
Vietnamese Dong	0.00013	0.00013
Arab		
Bahraini Dinar	0.791531	0.808021
Egyptian Pound	0.017087	0.019687
Iranian Riyal	0.000084	0.000085
Iraqi Dinar	0.000208	0.000268
Jordanian Dinar	0.424331	0.433331
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000156	0.000256
Moroccan Dirhams	0.021689	0.045689
Omani Riyal	0.783032	0.788712
Qatar Riyal	0.079184	0.084124
audi Riyal	0.079953	0.081253
Syrian Pound	0.001288	0.001508
Tunisian Dinar	0.095983	0.103695
Turkish Lira	0.050316	0.063816
UAE Dirhams	0.081316	0.083016
Yemeni Riyal	0.000988	0.001068