



Monthly Market Insights

May 2021

Macro update – Recovery contingent on pace of inoculations

Asset Classes	Closing	MTD	YTD
S&P 500	4181	5.24%	12.98%
MSCI EM	1365	3.41%	4.61%
MSCI World	2963	5.64%	10.98%
MSCI GCC	647	4.51%	17.52%
Oil	67.99	7.27%	35.93%
Gold	1772	5.16%	-8.79%
US Treasury Yield	1.626	-8bps	71bps

Key Interest Rates	Closing	MTD (bps)	YTD (bps)
LIBOR	0.176	-1.8	-6.1
EURIBOR	-0.535	0.3	1.1
TIBOR	0.069	0.0	-1.0
SIBOR	0.796	-0.1	-2.1
EIBOR	0.356	-4.0	-9.4
HIBOR	0.174	-5.3	-15.7

Sovereign CDS	Closing	MTD (bps)	YTD (bps)
Abu Dhabi	45.1	-5.1	6.8
Saudi Arabia	66.9	-3.8	1.3
Kuwait	50.6	0.1	3.7
Bahrain	199.1	-7.5	-47.3
Oman	277.6	-14.0	-89.6
Turkey	417.9	-57.6	114.1

Upcoming Key Event	
06.05.2021	Turkey Central Bank Meeting
07.05.2021	US Unemployment Rate
10.05.2021	UAE CPI
12.05.2021	US CPI
20.05.2021	Saudi Arabia CPI

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OVERVIEW

In April, the market sentiments were largely driven by the economic recovery in the US, as confirmed by the release of encouraging macro indicators. The equity markets benefitted from efficient vaccination campaigns, stimulus programs and improved earnings outlook, while long-term US Treasury yields stabilized following the Federal Reserve's commitment to near-zero rates through 2023. The 10-year US Treasury yield ended the month at 1.58%, retreating from its 2021 high of 1.74% seen a month ago. On the monetary policy front, minutes of the March meeting revealed that the Fed acknowledged the substantial gains in the economy, however, much more progress would be necessary before the ultra-loose policy shifts. Fed officials indicated that the easy policy would stay in place till its goals of maximum employment and price stability will be achieved, and won't be adjusted based on forecasts. Meanwhile, the European Central Bank left its policy unchanged, while markets keenly anticipate talks on easing stimulus in its June meeting.

MACRO BACKDROP

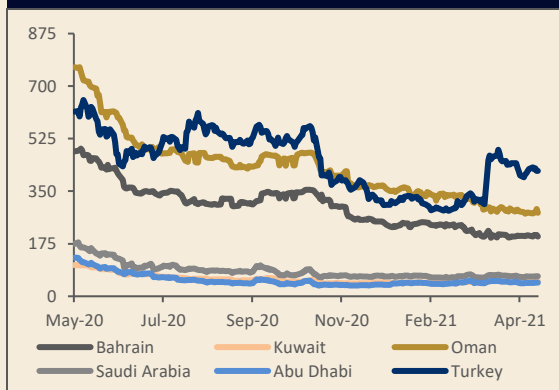
- US macro data came in stronger in April suggesting economic recovery is underway. CPI rose in March for the fourth straight month, rising 0.6% m/m and 2.6% y/y. US retail sales jumped 9.8% in March, its highest level in 10 months. Markit's flash composite PMI reached a record high of 62.2 in April. Manufacturing PMI and services PMI also surged to new all-time highs of 60.6 and 63.1, respectively. Meanwhile, non-farm payrolls jumped to 916K in March from 468K a month ago, with the unemployment rate declining to 6.0% from 6.2% in Feb. Weekly jobless claims too declined to a new post-pandemic low of 547,000 (vs. estimated of 617,000) in the week ended April 17.
- In the Eurozone, consumer confidence improved by 2.7 points in April to -8.1, while the Sentix Investor Confidence index soared to 13.1 in April from 5.0 a month prior. Flash PMI figures for April saw manufacturing activity climb to 63.3, while services PMI rose marginally above the 50 mark to 50.3 in April.

KEY REGIONAL NEWS

- UAE central bank extends COVID loan moratorium until 2021-end. Moreover, banks will continue to be eligible to access collateralised AED50bn zero-cost liquidity facility until 1H22. *Source: Reuters*
- On April 13, 2021, OPEC raised its oil demand forecast to 5.95mn barrels per day (bpd) or 6.6% in 2021, compared with the 5.89 (bpd) forecast in March, on expectations that the pandemic will subside and support more crude supplies over the next few months. *Source: Khaleej Times*
- Saudi Arabia joins United States, Canada, Norway and Qatar to become part of "Net Zero Producers Forum" and discuss ways to achieve net zero carbon emission targets to limit global warming. *Source: Reuters*
- UAE's Ministry of Economy is working on new legislation to include 10 sectors to the commercial companies' law, which allows 100% foreign ownership of onshore companies. *Source: Gulf Business*

Sukuk – Abundant liquidity catalysing primary market activities

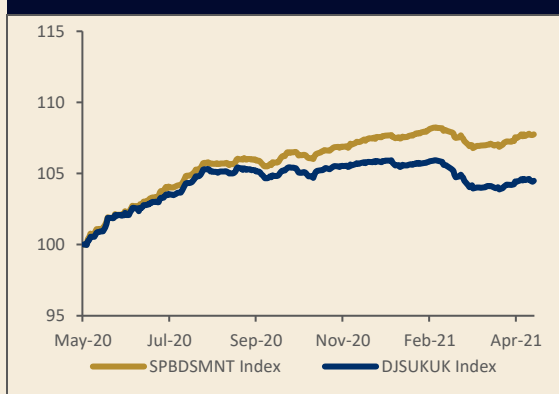
Sovereign 5-year CDS spread movement



Development in regional CDS market

The 5-year CDS spreads tightened across all six regions on an MTD basis in April 2021. Turkish CDS spreads tightened the most by 51bps MTD after widening drastically by 158bps MTD in the previous month. Inflation rose to 16.2% y/y in March 2021, from 15.6% y/y in February 2021, amidst weak Turkish Lira which hovered around a record low of 8.5/\$. On the monetary front, the central bank of Turkey left the benchmark rate unchanged at 19% on April 15 and pledged to maintain the policy rates above inflation to maintain a strong disinflationary effect. In the GCC, CDS spreads were driven by OPEC's improved oil demand forecast, IMF's upward revision of growth rates of GCC economies and optimism over non-oil GDP growth on the back of the mass vaccination drive. CDS spreads of Oman tightened the most in the region by 13bps followed by Abu Dhabi (6bps) and Saudi Arabia (5bps).

Sukuk index total return*



*rebased to 100 on 1 May 2020

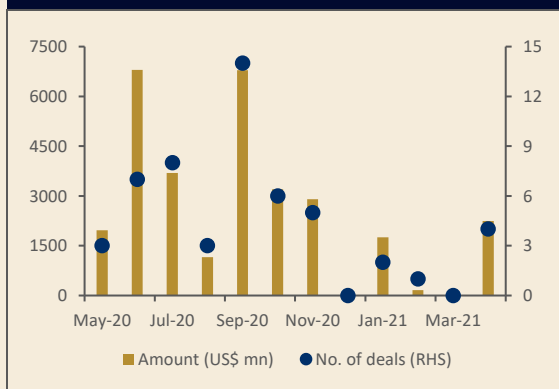
Primary Sukuk market re-gains traction

Both S&P Sukuk Mena and Dow Jones Sukuk indices increased marginally by ~1.0% MTD in April 2021. Seenat 25s' and Dubai Department of Finance 22s' were the best performers with yield to worst (YTW) tightening by 200bps and 62bps, respectively. While, Oman 24s' and Government of Malaysia 45s' were the worst performers with YTW widening by 247bps and 155bps, respectively. Also, utility companies underperformed with Mazoon 27s' and Saudi Electric 43s' widening by 126bps and 144bps, respectively. April was a spectacular month for capital markets with four Sukuk issues worth US\$2.2bn. Among the issuers, Arabian Centres was the biggest Sukuk issuer with an issuance size of US\$650mn which was oversubscribed by 2.0x. Bahrain's National Oil and Gas Holding Company (Nogaholding) raised US\$600mn. Banks also continued to tap the primary market with Boubyan Bank and Dubai Islamic Bank raising perpetual Sukuk worth US\$500mn each.

Key developments

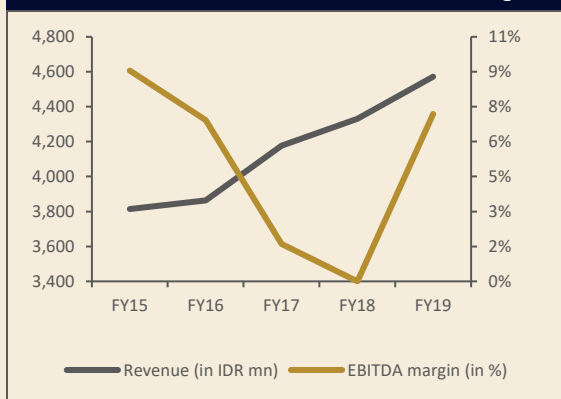
- On April 02, 2021, S&P affirmed Oman's 'B+/B (Stable)' rating citing economic and fiscal pressures to ease as the negative impact of the sharp drop in oil prices and COVID-19 pandemic abate.
- IATA: Middle East air carriers to benefit from relatively rapid vaccination rates on home markets and forecast net losses to reduce to 13.8% of revenues in 2021, up from loss of 28.9% in 2020.
- First Abu Dhabi Bank (FAB) completes carve out of its existing payments business into a fully owned and operational subsidiary 'Magnati'. This will accelerate its digital transformation agenda as well as strengthen FAB's leadership in the payments sector and help partner with FinTechs, thereby, aiding fee-based revenue.
- Dubai Islamic Bank (DIB) does not expect any material negative impact from lawsuits filed by NMC group, which ran into trouble after disclosure of \$4bn in hidden debt. The lawsuit seeks to give NMC power over securities claimed by DIB and possibly use it to pay other creditors.

Monthly Sukuk new issuance volume

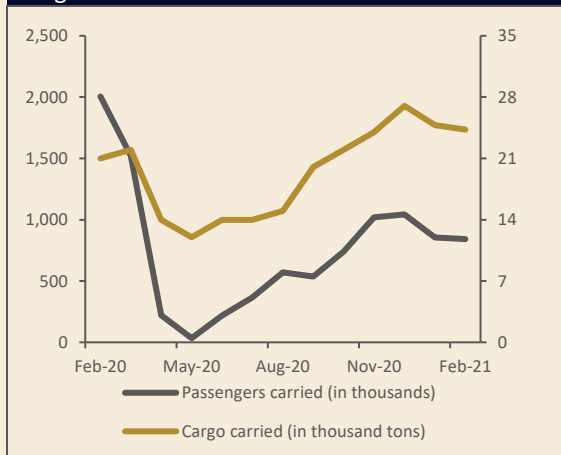


Sukuk – Abundant liquidity catalysing primary market activities

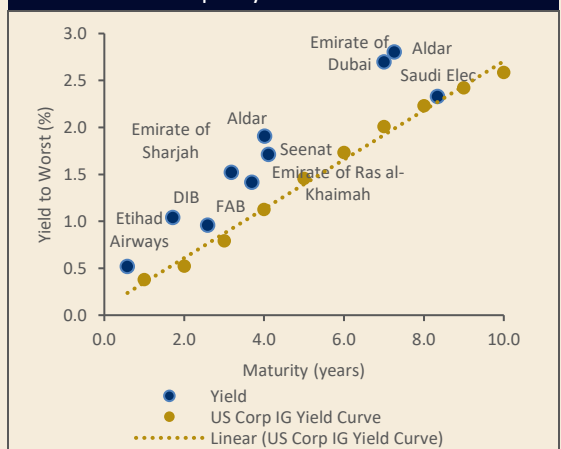
Garuda Indonesia – Revenue vs. EBITDA margin



Garuda Indonesia monthly passengers and cargo carried



Sukuk vs. US Corp IG yield curve



Garuda Indonesia

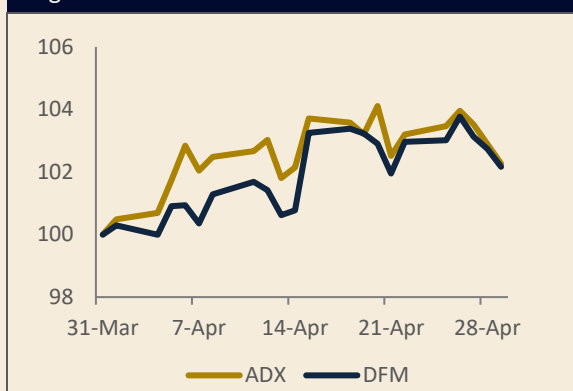
- Established in 1949, Garuda Indonesia (GI) is the second-largest airline of Indonesia after Lion Air and the flag carrier of Indonesia, providing both domestic and international flights (passenger and cargo) with a fleet size of 210. GI has a market share of 35.0% for domestic operations and 21.6% for international operations. Indonesian government owns 60.5% of GI and PT Trans Airways owns 25.6%.
- During 2015-19, GI has grown at a revenue CAGR of 3.7% and EBITDA CAGR of 3.5%. However, amidst travel restriction with the onset of the coronavirus pandemic, GI revenue in 9M20 nosedived by 67.8% y/y to US\$1.1bn which resulted in a negative EBITDA of US\$148.8mn (from a positive US\$374.8mn in 9M19).
- On a positive note, GI actively managed low passenger volumes by shifting revenue focus towards cargo services which helped limit revenue losses. This increased the share of cargo to 15.8% of total revenues in 9M20, compared to 6.8% in 9M19.
- GI has an asset-light model with 90% of the fleet are on operating lease. Moreover, the company successfully renegotiated lease cost, leading to cost savings of US\$41.4mn in FY20 and US\$155.7mn for FY21.
- Historically, the Indonesian government has provided timely and extraordinary support during financial stress. Similarly, in October 2020, the government infused IDR8.5tn (US\$580mn) in form of mandatory convertible fixed-income security with a tenure of seven years to support the liquidity and solvency of the company. Post conversion, the Indonesian government stake in GI shall increase to 84.8%.
- As of September 2020, GI had an asset base of US\$9.9bn and liabilities of US\$10.3bn, translating into negative equity of US\$455.6mn (FY19: a positive equity of US\$720.6mn). However, GI received a debt covenant waiver until operations return to pre-pandemic levels and had extended maturity of US\$500mn Sukuk due in 2020 by three years. This, should ease some pressure on liquidity. The Sukuk carries a profit rate of 5.95% and is currently trading at US\$87.7 with a yield of 12.65%.
- Key risks: prolonged recovery in passenger volumes, deterioration of the financial condition, rising operational cost due to mega merger of state companies announced by the government, profitability impact from fine of US\$15mn in relation to a price-fixing case, and any change in the government's willingness to support the company.

GCC – USD denominated Sukuk issuances in April 2021

Issuer Name	Coupon (%)	Issue Date	Maturity	Amount Issued (US\$m)	Country
Boubyan Bank	3.950	04/01/2021	Perpetual	500	Kuwait
Arabian Centres	5.625	04/07/2021	10/07/2026	650	Saudi Arabia
Nogaholding	5.250	04/08/2021	04/08/2029	600	Bahrain
Dubai Islamic Bank	3.375	04/19/2021	Perpetual	500	UAE

IMF upgrades UAE's economic growth outlook

Regional index movement*



*Rebased to 100 on March 31

DFM top five gainers and losers

Gainers	MTD	Losers	MTD
NGI	30.2%	ERC	-58.2%
DRC	26.7%	AMLAK	-20.7%
TAKAFULE	17.9%	BHMUBASH	-17.4%
EMAARDEV	9.1%	SALAMA	-8.9%
EMAARMLS	8.9%	DU	-6.7%

ADX top five gainers and losers

Gainers	MTD	Losers	MTD
IHC	42.2%	BILDICO	-19.4%
RAKWCT	25.0%	SICO	-16.6%
NCTH	15.0%	RAKNIC	-15.7%
TKFL	14.8%	SUDATEL	-13.5%
ARKAN	11.1%	EASYLEAS	-10.3%

Abu Dhabi: Strong uptrend continues

Global equity markets gained MTD (Mar 25 to Apr 25), driven by reduced worries over rising treasury yields, strong US economic data, good corporate earnings, vaccinations and a proposal for \$2.3tn US infrastructure investment bill. However, the fears over the rising new COVID-19 mutation cases and the news of possible capital gain tax in the US capped the gains. The UAE equities also rallied strongly due to positive global sentiments, steadily higher oil prices and higher earnings from the key banks on lower provisioning. In addition, IMF's recent growth upgrade for the UAE economy for 2021 (raising real GDP growth estimate to 3.1% from its earlier estimate of 1.3%) aided the business optimism and supported the continued buying into equities. Foreign investors bought stocks worth AED239mn on ADX, while the UAE nationals turned net buyers on the DFM buying worth AED25mn. ADX average daily volume rose by 24.8% MoM to 187.9mn, however, volumes decreased by 2.4% MoM to 99.4mn on the DFM. ADX index's strong performance was led by Investment & Financial Services (+66.0%) and Industrial (+6.5%), and for DFM, the performance was led by Real Estate & Construction (+10.9%) and Insurance (+6.5%). Index heavyweights such as Emaar Properties (+11.6%), Emirates NBD (+11.0%) and Emirates Telecom Group Co. (+3.7%) were top gainers. On YTD basis, ADX index continues to be an outperformer in the entire GCC region with a gain of 21.2%. On technical side, ADX index faced resistance at 6,205 and next resistance level is 6,230. If the index breaks 6,000 supports level, then downward momentum is expected in the index. For DFM, the index is in consolidation phase. Resistance levels – 2,650, and 2,800; Support levels – 2,550, 2,473, and 2,200.

Most read regional company headlines

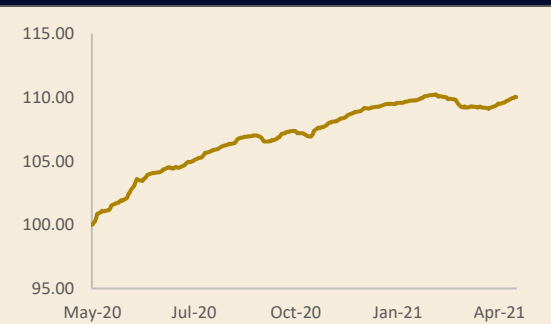
EMIRATES	EMIRATES posts net profit to AED2,321.6mn in 1Q2021
ADCB	ADCB posts net profit to AED1,121.0mn in 1Q2021
EMAAR	Emaar Properties first-quarter sales more than double
EMIRATES	Emirates NBD says closed \$1.75bn three-year term loan
DANA	Dana Gas cancels Egyptian onshore assets sale

Performance of regional markets

Country	Last close	Index changes %		MCap US\$bn	Volume mn shrs	Turnover US\$ mn	P/E (x) 12M	P/B (x) 12M	Div Yld 12M %
		1M	YTD						
Abu Dhabi	6,046.81	2.3	19.8	239.9	200.3	318.2	22.9	1.7	4.3
Dubai	2,605.38	2.2	4.6	77.1	115.8	38.7	20.6	0.9	3.2
Saudi Arabia	10,418.98	5.2	19.9	2,574.0	322.7	2,622.0	31.4	2.3	2.4
Kuwait (All shares)	6,113.60	5.8	10.2	116.0	602.5	270.6	51.4	1.5	2.3
Oman	3,761.01	1.4	2.8	11.9	35.1	17.2	11.3	0.7	4.8
Bahrain	1,484.85	1.8	-0.3	22.8	3.8	2.7	38.1	1.0	2.4
Qatar	10,911.40	4.9	4.6	149.5	174.6	101.8	18.4	1.6	2.7

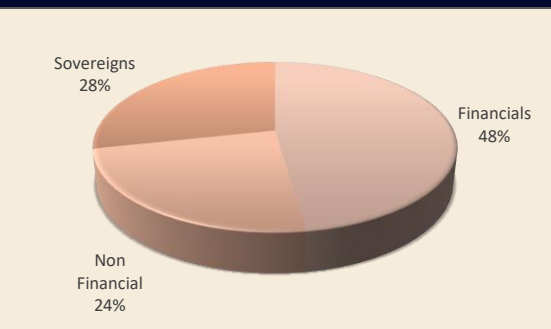
Mutual funds – Recovery gains momentum amid vaccinations

Azimut Global Sukuk Fund (USD)



*Rebased to 100 on May 01, 2020

Azimut Global Sukuk Fund (USD)



Equity funds generated superior returns

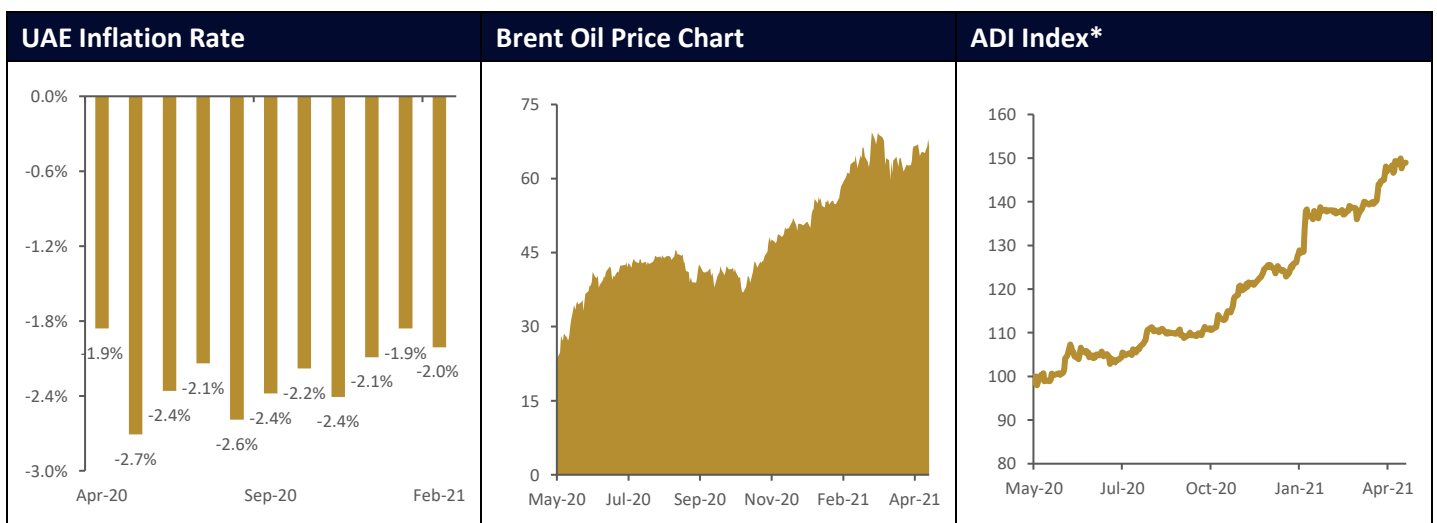
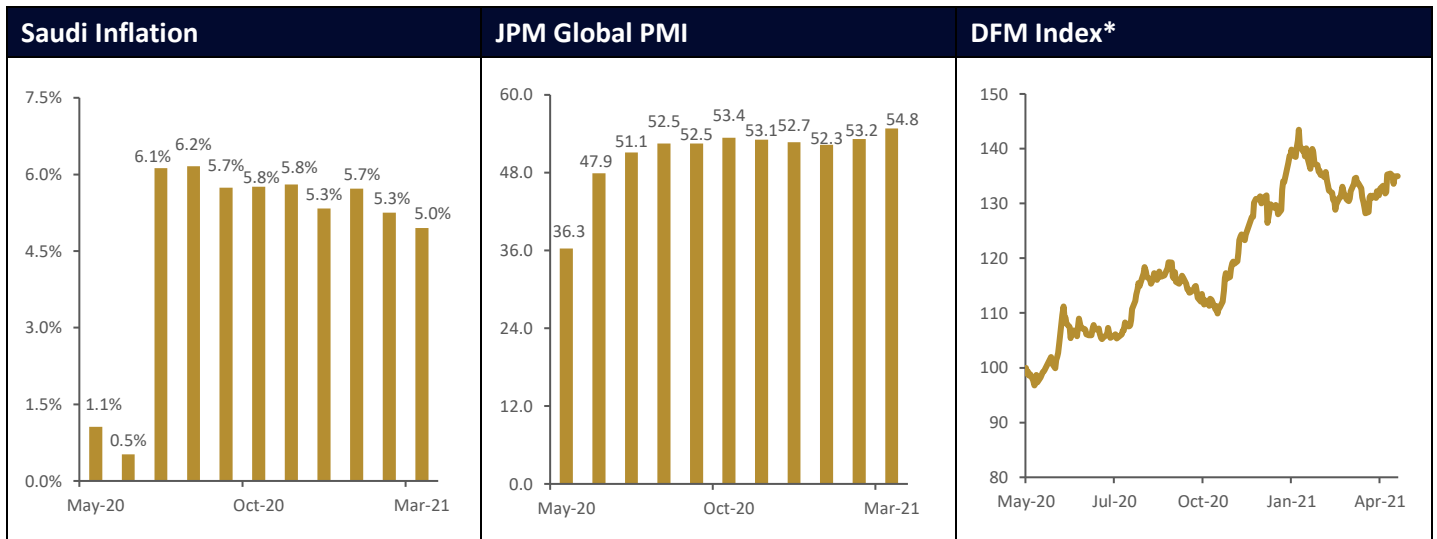
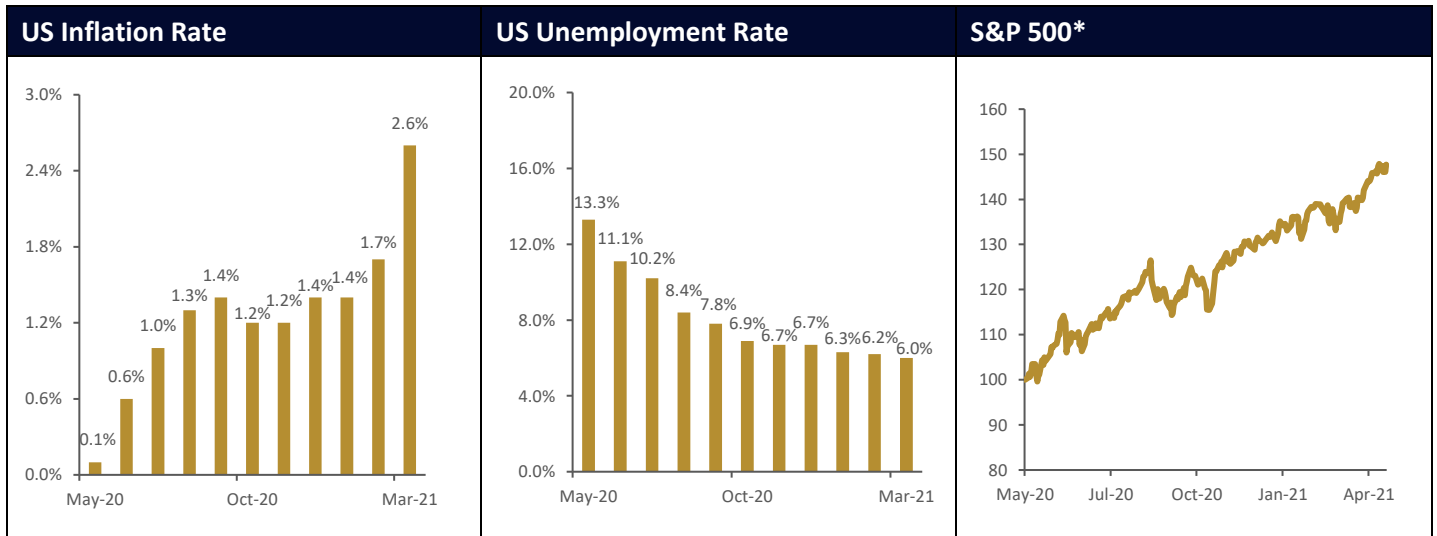
- From our coverage of 31 funds, 19 funds closed in the green on MTD basis (Mar 25 to April 25), led by both equity and debt funds, fuelled by softening US treasury yields from recent highs, strong recovery in the US market, good corporate earnings and optimism over vaccine rollouts across the globe. In terms of average returns, equity funds outpaced debt funds, driven by likely lower risk aversion and high level of liquidity.
- AlAhli Saudi Trading Equity Fund (+8.8% MTD) was the standout performer among the basket of our covered mutual funds. The outperformance was mainly attributed to the high investment allocation in Murabaha & Time Deposits, Materials and Financial sectors, which contributed to the returns.
- Emirates India Equity Fund declined (-1.9% MTD). The underperformance can be attributed to the exposure to Indian market, deeply affected by the lockdown due to sudden spike in infection cases, virus mutation, and shortfall of other key resources in the country.

Azimut Global Sukuk Fund

Launched in 2016, Azimut Global Sukuk Fund is an open-ended fund that principally invests in Shariah-compliant Sukuk (including non-investment grade securities with no restrictions in terms of rating, geographic or sector exposure). Around 54% of the portfolio is exposed to UAE and Saudi Arabia. The fund is well-diversified with more than hundred securities with no single holding accounting for more than 3.3% of the portfolio. As of March 31, 2020, the fund delivered a 1-year total return of 9.08% (vs. 10.38% Dow Jones Sukuk Total Return Index), average credit quality of BBB- and average duration of around 4.5 years. Around 28% of the portfolio is skewed towards sovereigns and 48% is towards financial institutions in the GCC which have government ownership or enjoy strong government support in times of stress. This should ensure stability and safety in the current turbulent capital market conditions.

List of mutual funds

Fund names	ISIN	NAV	Currency	MTD	YTD
AlAhli Saudi Trading Equity Fund	AFB007482007	13.19	SAR	7.66%	21.15%
Comgest Growth Europe S	IE00B3ZL9H82	28.81	USD	6.98%	7.70%
AlAhli GCC Trading Equity Fund	AFB007482106	1.28	SAR	6.76%	17.82%
Emirates NBD SICAV - Mena Opportunities A	LU1060357412	13.01	USD	5.29%	11.34%
Old Mutual Global Islamic Equity D	IE00BYMM2054	15.98	USD	4.72%	14.88%
AlAhli North America Index Fund	AFB007013901	7.23	USD	4.69%	9.02%
Emirates NBD SICAV - Mena Opportunities A	LU1654397329	10.68	USD	4.30%	8.76%
Comgest Growth Europe S	IE00B4ZJ4634	31.75	EUR	3.89%	8.84%
Mashreq Al-Islami Income Fund	AEDFXA1T6467	19.43	USD	1.39%	0.64%
Templeton Shariah Global Equity Fund	LU0792757196	15.29	USD	1.19%	7.60%
Emirates NBD SICAV – Emirates	LU1060356364	12.61	USD	1.06%	0.64%



All figures and charts across the report are sourced from Bloomberg and ADIB research. Data as on 30 April 2021

*rebased to 100 on 1 May 2020

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