



Monthly Market Insights

December 2020

Macro update – Optimism over vaccine

OVERVIEW

November was largely characterised by two major sources of uncertainty – a bitterly contested US election and a surge in coronavirus infections leading to renewed lockdowns. Even as markets opened with caution, a move closer towards resolution on both fronts significantly bolstered risk appetite at month-end. Investors seemed reassured on more positive vaccine headlines. Top vaccine makers, Pfizer and Moderna have claimed efficacy of over 90% while AstraZeneca, with an average efficacy of ~70%, is set to conduct fresh clinical trials due to varied data. The political uncertainty also diminished as President Trump finally cleared the way for a transition of government to the president-elect Joe Biden. Most of the major benchmarks touched record highs, with DJIA gaining most attention by crossing the 30,000 milestone for the first time. The sell-off in the Treasury market showed the 10-year benchmark yield entered a higher range averaging above 0.85% in November, compared with 0.78% in October. Latest minutes of the November Fed meeting showed policymakers discussed offering guidance on bond-buying, which triggered hopes for further accommodation.

MACRO BACKDROP

- In the US, macro data presented a mixed picture. The US labor market indicated slowing recovery as initial jobless claims rose for a second consecutive week, by 30,000 to 778,000 for the week ended Nov.21. Personal incomes dropped 0.7% in October, reversing September's gain. Consumer sentiment hit 76.9 in November, its lowest level since August. On a positive note, core capital goods orders surprised on the upside, +0.7% in October, and building on September's surge of 1.9%. Moreover, new home sales also continued to support to the economy.
- In Eurozone, a rise in covid-19 infections and the re-imposition of lockdown restrictions threaten the region's economic rebound. The preliminary IHS composite PMI index fell in November to a six-month low of 45.1 from 50.0 in October, dragged down by a sharp decline in the services sector. The manufacturing activity index also edged slightly lower to 53.6 yet continued to expand.

KEY REGIONAL NEWS

- Abu Dhabi National Oil Company (ADNOC)** announced capex plan of AED448bn (\$122bn) for 2021-2025 upon the recent crude oil discovery. This shall help boost the production of its flagship Murban crude. Source: Bloomberg
- An estimated 22bn barrels of non-conventional and 2bn barrels of conventional oil was recently discovered in Abu Dhabi. Source: Gulf News
- The Emirates of Dubai raises US\$1.5bn from private bond placement. Source: Bloomberg

Asset Classes	Closing	MTD	YTD
S&P 500	3,622	10.75%	11.17%
MSCI EM	1,205	9.21%	6.83%
MSCI World	2,583	12.66%	8.72%
MSCI GCC	548	8.55%	-3.91%
Oil	47.17	27.83%	-29.20%
Gold	1,777	--5.42%	16.21%
US Treasury Yield	0.844	-3bps	-103bps

Key Interest Rates	Closing	MTD (bps)	YTD (bps)
LIBOR	0.225	1.0	-167.5
EURIBOR	-0.526	-0.3	-14.7
TIBOR	0.079	0.0	1.0
SIBOR	0.831	-1.4	-139.9
EIBOR	0.332	-13.5	-182.5
HIBOR	0.307	-19.6	-210.2

Sovereign CDS	Closing	MTD (bps)	YTD (bps)
Abu Dhabi	37.1	-14.0	1.4
Saudi Arabia	69.3	-18.9	13.5
Kuwait	43.7	-8.0	7.0
Bahrain	297.3	-57.4	121.4
Oman	417.1	-60.1	182.8
Turkey	386.0	-172.5	104.3

Upcoming Key Event

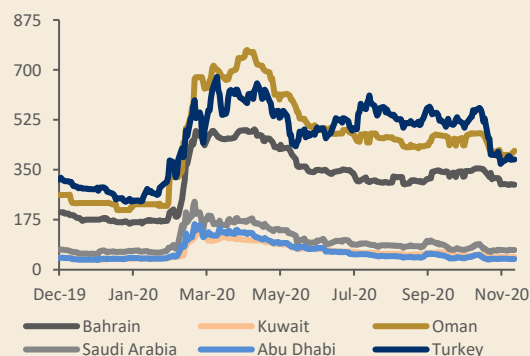
01.12.2020	Economic Outlook by OECD
04.12.2020	US Unemployment Rate-Nov 20'
16.12.2020	FOMC Rate Meeting
17.12.2020	BOE Interest Rate Meeting
22.12.2020	US 3Q20 GDP YoY
24.12.2020	Turkey Interest Rate Meeting
30.12.2020	Saudi Arabia 3Q20 GDP YoY

Contacts

Saif Al Alkeem	Kais Dachraoui, PhD, FRM
Head of Priority Banking, Wealth Management and Liabilities	Head of Investment Advisory
saif@adib.com	kais.dachraoui@adib.com

Sukuk – Banks continue to drive volumes

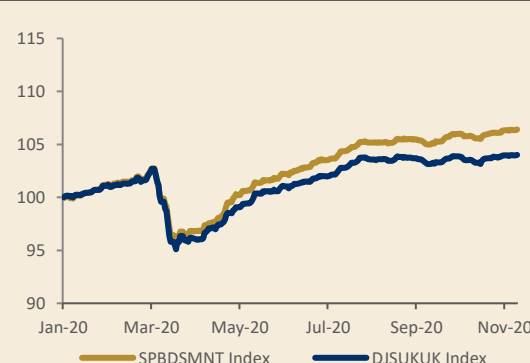
Sovereign 5-year CDS spread movement



Development in regional CDS market

During November 2020, the CDS spreads for Turkey tightened significantly (-161bps) as the Turkish lira recovered sharply (+14% from the peak of 8.55) after the central bank shot up its key interest rate by a whopping 475bps to 15%. Moreover, the CDS spreads of GCC nations responded positively to a crude oil price recovery. The WTI crude oil rallied 30% during the month and crossed \$48/bbl as the vaccine development optimism drives hopes for a global demand recovery in 2021. Besides, the investors now anticipate more stimulus from newly elected US President-Biden. That being said, the 5-yr CDS of Oman (-76bps) and Bahrain (-56bps) tightened the most in the region followed by Saudi Arabia (-21bps), Abu Dhabi (-12bps) and Kuwait (-7bps). Notably, a relatively swift recovery in spreads of Bahrain and Oman, discounts the expectations of sharp improvement in their fiscal balances due to considerable reversal in oil prices given their higher breakeven points (Bahrain: \$93.2, Oman: \$104.5, as per IMF 2020 projections).

Sukuk index total return*

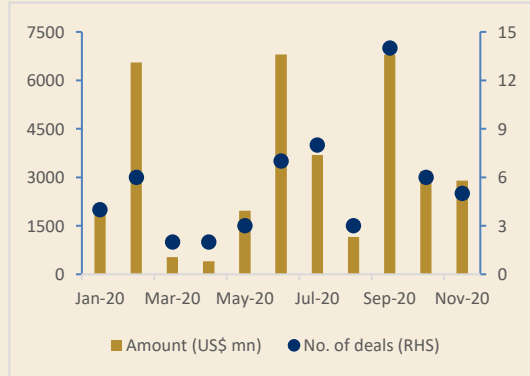


*rebased to 100 on 1 January 2020

UAE-based issuers drive sukuk volumes

S&P Sukuk MENA and Dow Jones Sukuk indices rose 0.7% each in November 2020. The sovereign Sukuk of Bahrain (2024) and Etihad Airlines outperformed with yield-to-worst (YTW) tightening by 56bps each. The utility credits continue to perform well with Mazoon Electricity and Saudi Electricity tightening by 27bps and 20bps, respectively. The Investment Corp of Dubai remained the worst performer with YTW widening by 5bps. The Global Sukuk issuance (USD and EUR denominated) remained stable during November 2020 with total deals of 5 (marginally lower than the YTD monthly average of 5.5), thereby raising US\$2.9bn. Among the issuers, the Dubai Islamic Bank was the largest issuer with an issuance size of US\$1.0bn. The deal was oversubscribed 5.7x. Moreover, the Kuwait International Bank issued 10-yr dollar-denominated Sukuk worth US\$300mn, which received orders more than US\$2.4bn.

Monthly Sukuk new issuance volume

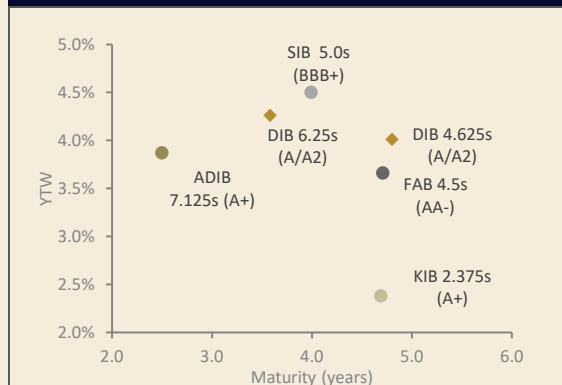


Key developments

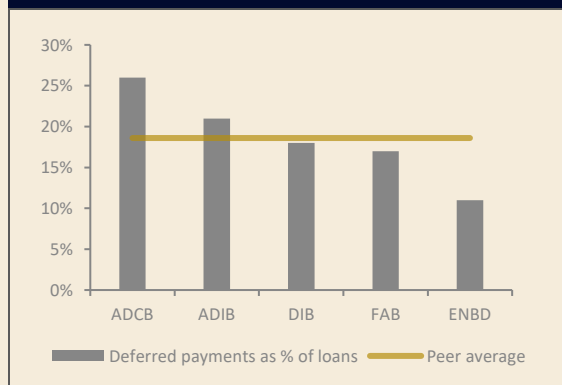
- On November 27, 2020, **S&P affirmed Bahrain's 'B+' ratings with a stable outlook.**
- On November 25, 2020, **Moody's upgraded Saudi Electricity Company's rating to 'A1' from 'A2',** citing increased government support. The rating outlook remains negative, in line with the sovereign rating.
- On November 09, 2020, **Fitch revised Saudi Arabia's outlook to 'negative' from 'stable' while affirming its 'A' rating,** citing the continued weakening of its fiscal and external balance sheets.

Sukuk – Banks continue to drive volumes

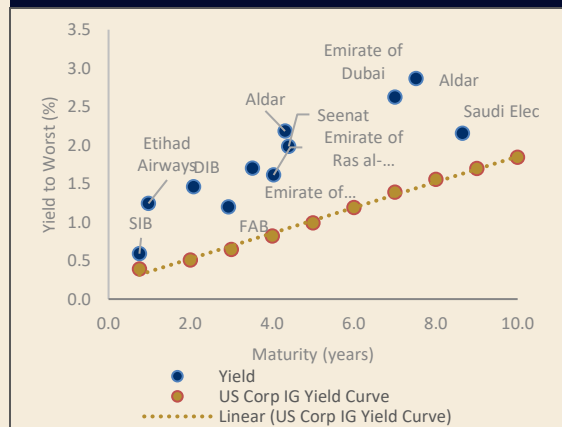
DIB offers an attractive yield vs. peers



COVID-led deferrals at par with peers



Sukuk vs. US Corp IG yield curve



Dubai Islamic Bank

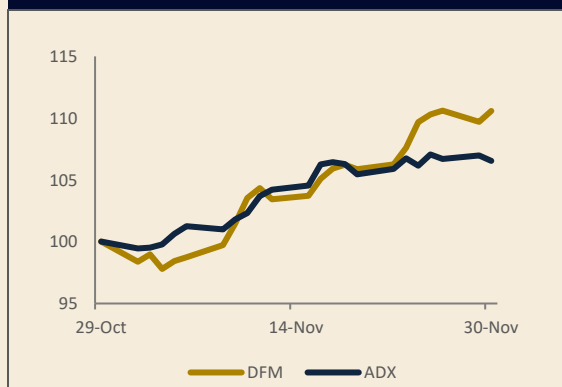
- Established in 1975, Dubai Islamic Bank (DIB) is the largest Islamic bank in the UAE and the second-largest in GCC with an asset base of AED299bn (\$81.4bn) as of September-end 2020. With the recent acquisition of Noor Bank in January 2020, DIB's domestic market share has increased to 9% in terms of total assets.
- Noor Bank acquisition has bolstered DIB's top-line, evident from fee income growth of 38% y/y in 9M20 and an overall jump of 15% in the revenues. Moreover, the long-duration asset portfolio holds up the margin partially offsetting the impact of falling interest rates.
- DIB is set to accelerate the provision in 4Q20 and 1H21. On a positive note, the cost synergies along with rapidly increasing CASA deposits (+52% YTD) may help offset some pressure on profitability. The bank has a strong capitalisation (CET1- 12.9%, CAR- 17.3%) and a robust funding profile (deposits represent 83% of funding).
- DIB holds a status of Domestic Systematically Important Bank (D-SIB) and is rated at A/A2 by Fitch/Moody's reflecting a very high likelihood of government support from UAE (rated Aa2), in case of need.
- DIB recently placed a \$1.0bn (AED3.7bn) perpetual non-callable 5.5-yr additional tier 1 (AT1) Sukuk with an annual profit rate of 4.625%, the lowest yield achieved by any bank globally on an AT1 Sukuk issue. The Sukuk received an oversubscription of 5.7x. The proceeds would further strengthen the bank's capitalization (i.e. tier 1 capital).
- At issuance, the new 4.625% priced at T+407.7bps, wider than 6.25% of T+366.4bps but tighter than 6.75% of T+512.6bps. That said, we still see some room for the new Sukuk for tightening.

GCC – USD and EUR-denominated Sukuk issuances in November 2020

Issuer Name	Coupon (%)	Issue Date	Maturity	Amount Issued (US\$m)	Country
KIB Sukuk Ltd.	2.375	11/30/2020	11/30/2030	300	Kuwait
DAE Sukuk Diftc Ltd.	3.750	11/25/2020	02/15/2026	750	UAE
DIB Tier 1 Sukuk 4 Ltd.	4.625	11/19/2020	PERP	1000	UAE
Sharjah Sukuk Program Ltd.	3.234	11/05/2020	10/23/2029	250	UAE
Unity 1 Sukuk Ltd.	2.394	11/03/2020	11/03/2025	600	UAE

UAE Equities – Real Estate and Banks propelled the UAE indices

Regional index movement*



*rebased to 100 on 29 October 2020

DFM top five gainers and losers

Gainers	MTD	Losers	MTD
GULFA	31.1%	DNIR	-6.3%
EMAARMLS	23.6%	AMLAK	-3.3%
EMAARDEV	19.3%	GULFNAV	-2.9%
EMAAR	19.1%	OIC	-2.6%
EMIRATES	15.3%	UPP	-2.1%

ADX top five gainers and losers

Gainers	MTD	Losers	MTD
ARKAN	31.7%	TKFL	-33.0%
ADNIC	29.3%	WATANIA	-5.0%
BOS	28.3%	GCIC	-5.0%
RAKNIC	21.3%	IH	-4.9%
RAPCO	13.6%	CBI	-4.9%

UAE markets posted strong gains

The UAE equities closed on a strong note MTD (Oct 25 to Nov 25, 2020) with DFM and ADX rising 10.8% and 9.2%, respectively, driven by positive global cues. Investors' risk appetites improved significantly, following the outcome of the US elections and the positive development of the much-awaited COVID-19 vaccine. Further, stronger Q3 UAE consumer spending data and likely better tourism season this winter due to controlled COVID cases also lifted the local market sentiments. Regionally, the DFM and ADX indices outperformed their peers, led by huge gains in key sectors such as Real Estate (+22.9% for DFM; +36.5% for ADX), Banks (+7.7% for DFM and 12.3% for ADX). Index heavyweight stocks such as Emaar Properties (+26.3%), FAB (+14.2%), and EMIRATES NBD (+8.8%) also posted robust gains. DFM (+7% MoM) and ADX (+49% MoM) also witnessed an increase in average daily volume, mainly due to increased foreign investors' activities. In terms of valuation, both DFM and ADX are trading at an appealing valuation compared to other Emerging markets including Saudi Arabia.

For the ADX index, all major simple moving averages are positively stacked; however, the index is consolidated in the last few trading sessions. The index may face resistance around the 5,070 level; if it manages to break this level then it can move towards its recent high level i.e. 5,250. The moving averages are also supportive for DFM index. After finding its bottom, the index is likely to move towards 2,500 mark and after that it may aim for 2,750 level.

Most read regional company headlines

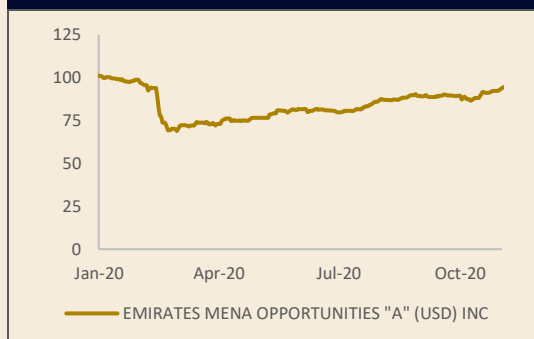
ADCB	ADCB's net profit falls 3.6% YoY to AED1,361.2mn in 3Q2020
AGTHIA	Agthia seeking buyouts despite third-quarter loss
FAB	First Abu Dhabi Bank plans to expand payments business
DIB	Dubai Islamic Bank sells \$1bn in perpetual Sukuk
TABREED	Tabreed weighs deals starting with Dubai airport
AIRARABIA	Air Arabia in talks with government for funding
TAQA	TAQA lifts foreign ownership cap to 49%, net profit falls

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	4,965	6.5	-2.2	196.9	245.0	348.2	19.2	1.4	4.9
Dubai	2,420	10.6	-12.5	71.3	282.4	159.5	11.3	0.8	4.0
Saudi Arabia	8,747	10.6	4.3	2,475.6	446.8	4,106.0	33.0	2.1	2.4
Kuwait (All shares)	5,459	0.3	-13.1	99.5	1,535.9	3,123.3	35.9	1.3	3.6
Oman	3,644	2.4	-8.5	11.3	7.9	5.6	11.0	0.7	6.9
Bahrain	1,478	3.5	-8.2	22.6	4.6	2.9	14.4	1.0	4.5
Qatar	10,262	5.9	-1.6	144.0	364.2	429.1	17.6	1.5	3.8

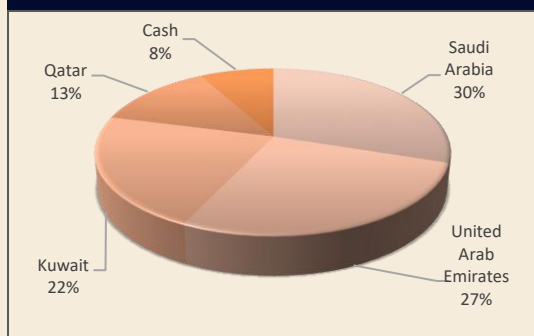
Mutual funds' – Equities continue to outperform

Emirates MENA Opportunities "A" (USD) ACC



*rebased to 100 on 1 January 2020

Emirates MENA Opportunities Fund



Global equity funds continue to maintain its momentum

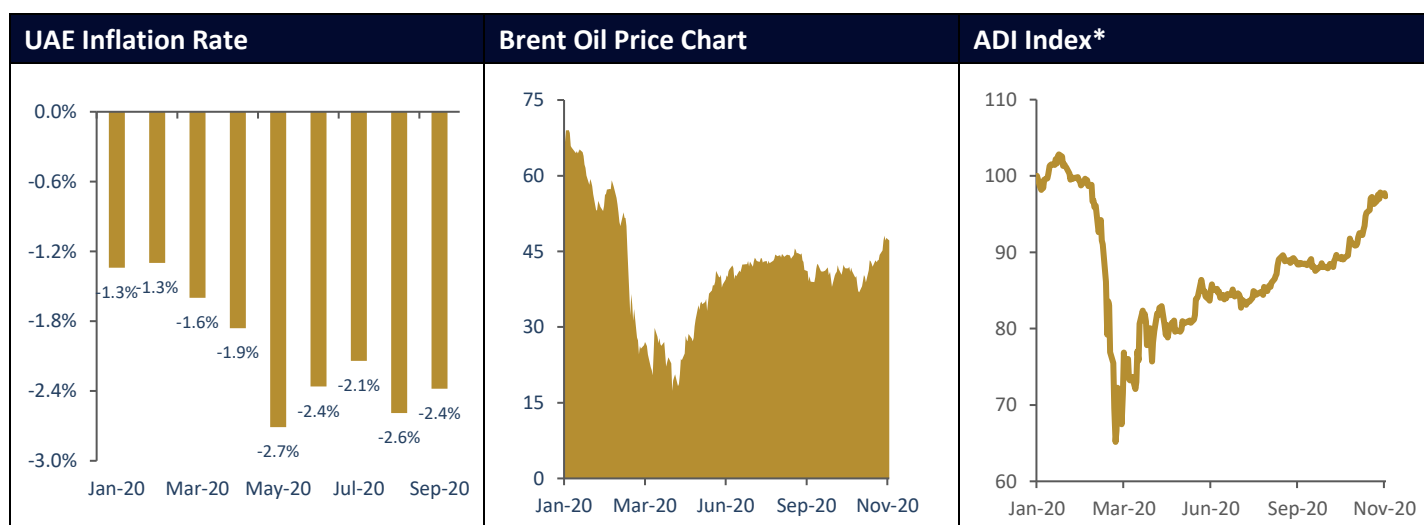
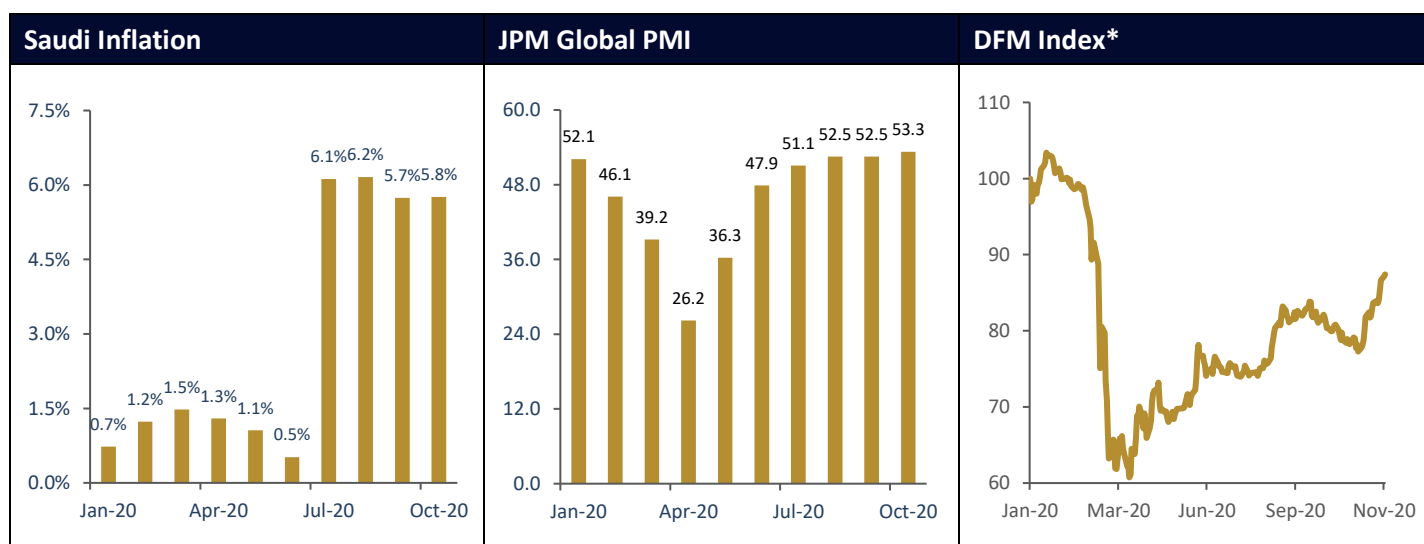
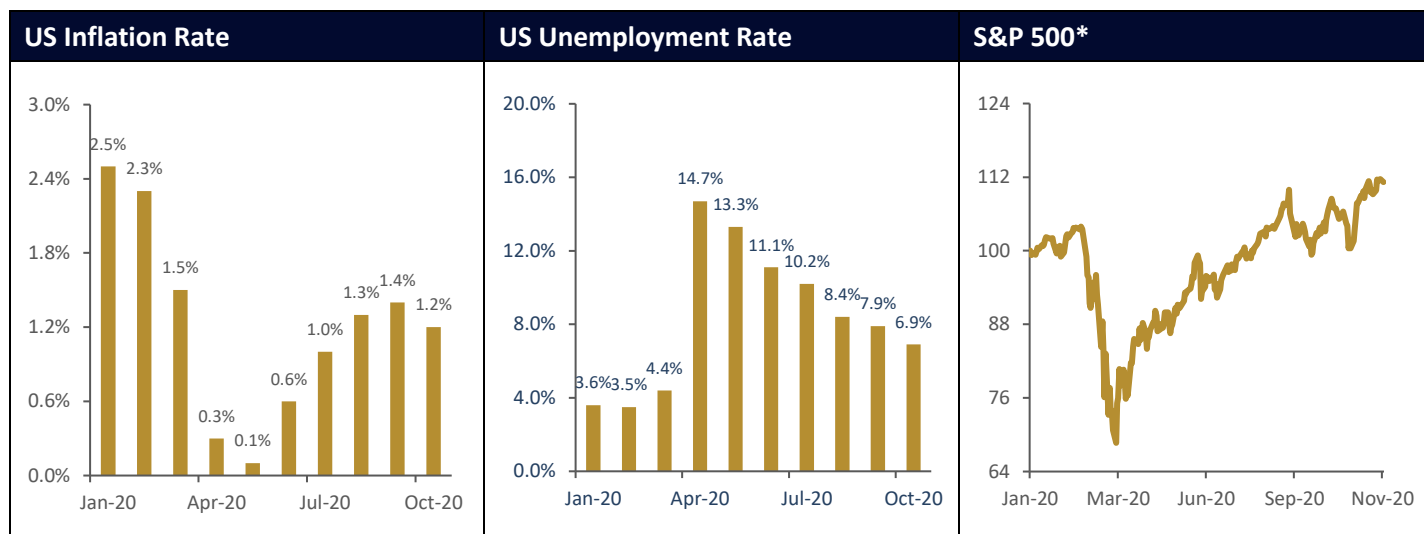
- From our coverage of 30 funds, all funds closed in the green on MTD basis (Oct 25 to Nov 25), with equity funds leading the gainers pack, as the risk appetite of portfolio managers has increased significantly on the expectation of a breakthrough in vaccine trials, which may push the things back to normal.
- Templeton Shariah Global Equity Fund (+9.68% MTD) was the standout performer among the basket of our covered mutual funds. The outperformance was mainly attributed to the strong gains in the IT and Healthcare sectors, particularly in the US market.

EMIRATES MENA OPPORTUNITIES "A" (USD) ACC

Launched in 2006, the Emirates MENA Opportunities Fund is an open-ended Shariah-compliant equity fund that invests in the companies listed in the MENA markets to generate long-term capital growth (34.3% return since inception; better than the benchmark's negative return of 15.9%). The asset allocation comprises of 92% Equity and 8% Cash with the majority of allocation is skewed towards the Financials (36%), Real Estate (19%), and Consumer Discretionary (9%) sectors. Geographically, the Fund has nearly 30% of the exposure in Saudi Arabia, followed by 27% in UAE, 22% in Kuwait, and 13% in Qatar. As of Oct 20, the Fund has been underperforming the benchmark, down by ~7.0% YTD, mainly due to a weak performance of cyclical sectors (including Real Estate and Financials), on the back of low oil prices amid the pandemic. Nonetheless, with the increased consumer spending in the region in Q3, and likely better corporate earnings due to controlled COVID-19 cases and a recovery in oil prices, the regional market is well-positioned to witness a sustainable recovery compared to other Emerging markets, which may benefit the Fund.

List of mutual funds

Fund names	ISIN	NAV	Currency	MTD	YTD
Templeton Shariah Global Equity	LU0792757196	13.19	USD	14.20%	1.93%
Old Mutual Global Islamic Equity	IE00BYMM2054	13.34	USD	13.05%	2.54%
Oasis Crescent Global Property	IE00BCV7MS54	8.99	USD	10.71%	-13.31%
AlAhli North America Index Fun	AFB007013901	6.41	USD	10.70%	19.09%
Oasis Crescent Global Equity F	IE0032587655	34.20	USD	10.48%	3.29%
Oasis Crescent Global Equity F	IE00BCV7MP24	35.02	USD	10.47%	3.58%
Comgest Growth Europe S	IE00B3ZL9H82	25.29	USD	10.44%	14.85%
Emirates NBD SICAV - Mena Oppo	LU1654397329	9.62	USD	7.97%	-5.50%
Emirates NBD SICAV - Mena Oppo	LU1060357412	11.44	USD	7.95%	-1.68%
Comgest Growth Europe S	IE00B4ZJ4634	28.24	EUR	7.66%	7.87%
Oasis Crescent Global Equity F	IE00BWH63161	26.57	GBP	7.40%	3.63%



All figures and charts across the report are sourced from Bloomberg and ADIB research. Data as on 30 Nov 2020

*rebased to 100 on 1 January 2020

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