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WHAT YOU SHOULD KNOW

Qatar is set to become the first Gulf country to tap global bond markets since oil prices plummeted last month. In spite of a low-oil-price environment and COVID-19-related global economic slowdown, the country on Tuesday began marketing five- 10- and 30-year bonds, which it hopes will raise at least $5bn. The bond is expected to go on sale later today.

Qatar should weather the economic impact of the twin crises better than its Gulf neighbours due to a stronger fiscal position and anticipated state support to prop up state-linked entities and banks. Its move could prompt other regional players to issue bonds, considering the region's significant external borrowing needs, especially if there is any temporary lift in oil prices – potentially as a result of progress on a Saudi-Russia deal to cut output.

WHAT THIS MEANS

1. The bond sale's success will depend on the pricing, which will determine investor appetite for a deal. The Qatari leadership will want to steal ahead of its neighbours and demonstrate there is demand for the issue. According to media reports, the initial price guidance is around 335 basis points (bps) over US Treasuries for the 5-year tranche, 340 bps for the 10-year tranche and a 4.75% for the 30-year tranche. Pricing a sovereign bond in the current environment will be among the biggest challenges facing bankers, as investors will expect a premium on both the current spreads and heightened regional geopolitical risk. In this situation, potential issuers may have to be ready to seize a window to issue as and when they can, which means only issuers that are well-known to the market, have a bond programme in place, and can move quickly will be able to take advantage. Qatar is one of those issuers. It issued $12bn in bonds in March 2019, attracting orders over $50bn. Other regional sovereigns or state-linked entities could do the same.

2. The bond issue will lend Doha first-mover advantage and leverage its reputation for successfully weathering – even flourishing – under the economic blockade in place since 2017. The Saudi, UAE and Bahraini economies have taken significant hits from low oil prices and the pandemic, prompting the Qatari leadership to send what is ultimately a political

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message that the embargo is irrelevant. The blockade will persist, as there is no real appetite between Doha and its neighbours to reach an accommodation – let alone bandwidth to unpick each knotty issue.

WHAT'S NEXT

The twin crises will impact Qatar's economy

1. The banks, though well capitalised, will struggle with non-performing loans and profitability – factors which prompted Moody's to revise its outlook on the banking sector to negative last week. The head of Qatar Airways warned of cash flow concerns in a recent interview and said it would need state aid eventually. The Economist Intelligence Unit forecasts a contraction of 1.5% in GDP this year. In December the finance ministry announced a nearly 2% spending increase in the 2020 budget, mostly for infrastructure projects; these forecasts will likely be revised. Qatar also has substantial bond and loan maturities due, including a $5.5bn syndicated loan due to mature in December this year, according to Refinitiv data.

2. Other Gulf issuers will be watching closely for any pick-up in oil prices and sentiment, as well as a bottoming out in global equity and bond markets to borrow from global markets; risky, emerging market bonds have seen some of the biggest sell offs in recent weeks, pushing spreads wider. Irrespective of whether a new OPEC+ deal can be achieved – there is a meeting on April 9 – prospects for a sustained price recovery this year are extremely limited due to a combination of a sharp supply overhang – to reach

potentially 20m bpd over the next month – and ongoing coronavirus-related demand destruction. Both these factors would take the better part of the year to begin to redress.

But, energy sector opportunities remain strong

1. Given the extremely low-cost base of Qatari gas projects, most gas-related industries and developments in the pipeline remain attractive long-term investments. The big question is whether Qatargas will proceed with its giant $54bn North Field expansion. In the context of a worsening LNG supply glut, falling gas prices and lower purchases, the company will have to decide whether to put projects on offer at a difficult time for valuations or go it alone until conditions improve. This may lead to delays to investment decisions or project timelines this

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year.

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