

Maximizing Yield in a Shifting Market

The Trajectory of GCC Local Currency Debt Markets

- ▶ Overall GCC Debt Capital Market has (local currency and foreign currency) surpassed the \$1 trillion mark in 2025.
- ▶ The proportion of debt issued in local currencies have grown substantially, Countries such as **Saudi Arabia, UAE, and Qatar** are leading this transformation. In the **UAE**, the landscape changed profoundly after the federal government began issuing dirham-denominated bonds in 2021.
- ▶ The market has expanded beyond sovereign entities to include a broader range of issuers. Banks and other financial institutions, as well as corporates, have become more active in raising capital via local debt markets.
- ▶ A new era of market breadth and depth, where sukuk issuance, in particular, has gained notable momentum – positioning local currency debt as a compelling alternative to traditional foreign currency funding.

The Growth Momentum Ahead

- ▶ Asset - Liability duration mismatch in the GCC banking book
 - I. More than 60% of the local currency liabilities have average duration of < 6 months for most of the regional banks.
 - II. Whereas, average duration of local currency assets are > 3 years
- ▶ Cross border settlements of debt instruments through clearing arrangements
- ▶ Repo / Reverse repo opportunities (both HQLA/non-HQLA)
- ▶ FX swap driven arbitrage opportunities
- ▶ Liquidity management - switch from traditional MM placements to marketable securities

GCC Debt Issuance Snapshot

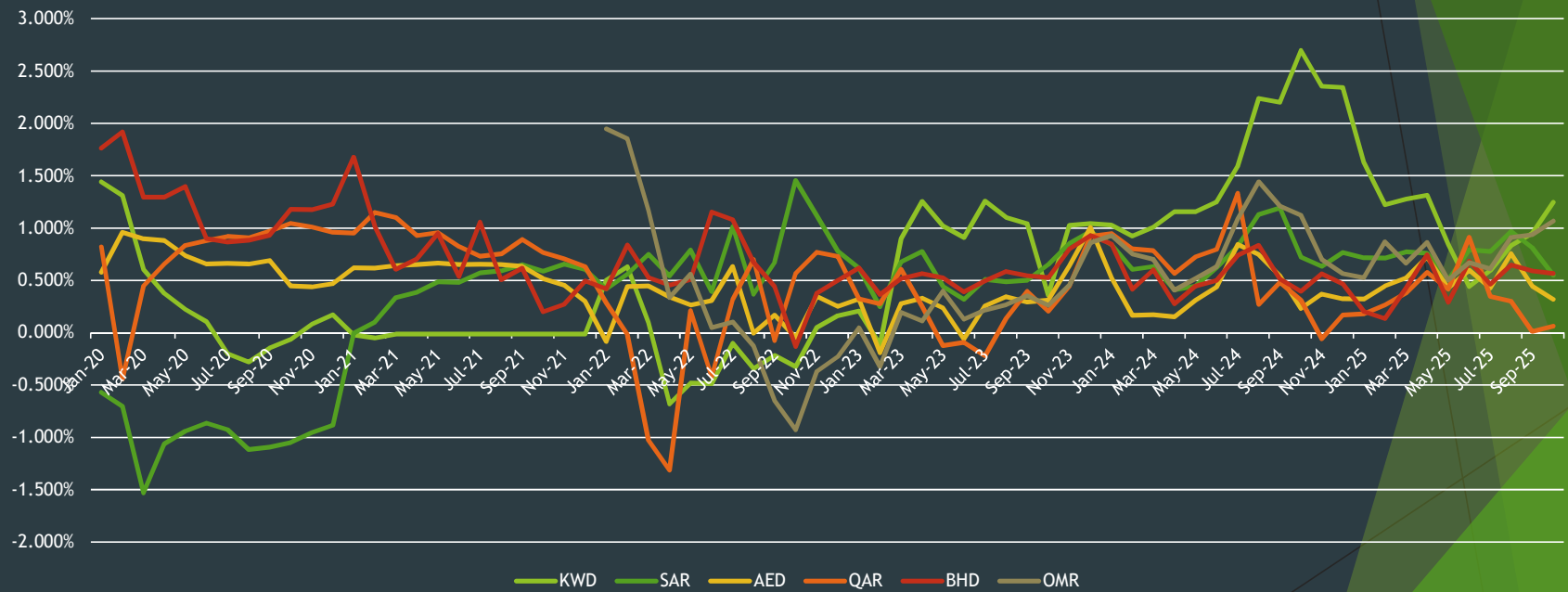
- ▶ Saudi Arabia - as of 30 Sept 2025, Total debt SAR 1.467 trillion (\$391 billion approx.)- Local debt SAR 930.1 billion (63% approx.) - Local currency debt growth since 2020 CAGR of around 12.57%
- ▶ UAE - Expected to be around \$325 billion by end of 2025, Local currency debt accounts to be 25% of total debt.
- ▶ Qatar - Expected to surpass \$150 billion (DCM), with a staggering growth in the local currency debt issuance so far. 28% approx. in QAR

Why Investors Should Care?

- ▶ **Enhanced yield and relative value**, especially as local debt often offers 40-100 basis points pickup over comparable USD instruments.
- ▶ **A diversified, increasingly liquid market**, supported by a **growing repo infrastructure** that remains cheaper to refinance than USD assets.
- ▶ **Carry trade opportunities**, given the **currency peg to the US dollar**, allowing investors to earn higher yields without FX volatility.
- ▶ **Cross border settlement of debt securities** will lead to much easier collateralization and transaction cost optimisation
- ▶ **Liquidity ratio benefit for Local currency sovereign bonds** (zero-credit risk weighted instruments)

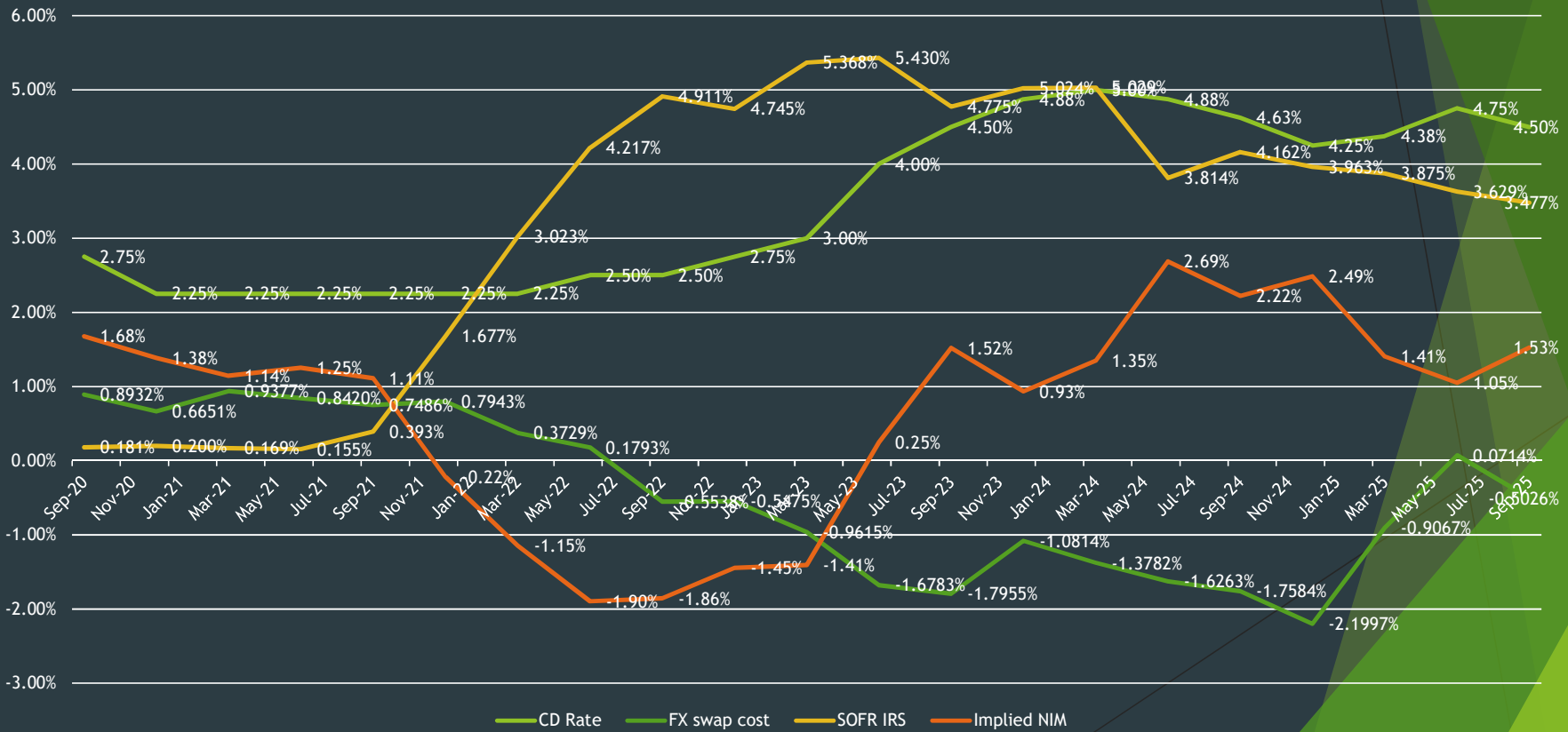
FORWARD adjusted MM / CD spread

GCC Currencies FWD Implied rate - MM rate spread



USD Investment yield enhancement via KWD

Chart Title



A GCC Yield Enhancement Example

The local currency debt (1-year Certificate of Deposit issued by a BBB- rated bank) offers over 1% yield pick-up compared to the same issuer's USD-denominated debt."

Investment details	Amount	Rate	Start Date	Maturity	Interest Income
GCC bank issued CD in KWD, BBB-	KWD 15,000,000.00	4.50%	27/10/2025	27/10/2026	KWD 675,000.00
USDKWD FX Swap discount received	KWD 15,000,000.00	0.613%	27/10/2025	27/10/2026	KWD 90,662.57
Total Lending rate in USD terms		5.113%			KWD 765,662.57
USD IRS for \$49 million (KWD 15mn)	KWD 15,000,000.00	-3.43%	27/10/2025	27/10/2026	(KWD 514,800.00)
Net Margin over daily comp SOFR		1.681%			KWD 250,862.57

KWD 250,862.57 plus daily compounded SOFR will be the total return for an investor (approx. 5.20%) without any FX risk

Medium term investment - yield pickup

Investment details	Amount	Rate
GCC bank (BBB+) issued SAR T2 bond NC5yr	SAR 150,000,000.00	6.02%
USDKWD FX Swap cost (SAR in premium) 5 years	SAR 150,000,000.00	-0.346%
Net YTM in USD terms		5.669%
SOFR IRS for \$40 million (SAR 150 mn equivalent)	SAR 150,000,000.00	-3.25%
Net Margin over daily comp SOFR		2.419%
ASW + 2.419% is approx. 40 bps higher yield than similar rated issuers' USD T2 bonds		

GCC's local currency markets are no longer peripheral

- ▶ They are becoming the core of regional capital formation
- ▶ Offer investors a way to diversify exposure, enhance yield, and align with the long-term macroeconomic transformation of our region.
- ▶ As the GCC economies advance toward greater integration, sustainability, and monetary depth, the local currency market will continue to play a pivotal role – not only in maximizing yield but also in reinforcing financial resilience.

DISCLAIMER

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THANK YOU

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