

SPECIAL FEATURE

Qatar

A year on from the boycott



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28 July 2018

The State of Qatar has ridden out a full year following its boycott by three GCC states and Egypt. But far from scrabbling for survival, the peninsular monarchy looks in fighting form with growing sources of alternative funding and a widening network of influence globally.

On 5 June 2017, Saudi Arabia, the United Arab Emirates (UAE), Bahrain and Egypt announced they were withdrawing their ambassadors and cutting diplomatic relations with Qatar. In addition, the four countries sealed their sea borders and air space to Qatari aircraft, while Saudi Arabia closed its land border to the peninsula. The quartet accuses Qatar of supporting terrorism, extremism and cosyng up to Iran politically.

The boycott has tuned into one of the largest political crises in decades in the Gulf Coopera on Council (GCC), resulting in logistical challenges for residents and visitors of all GCC countries, and impacting companies operating in the region.

This report explores some of the areas where Qatar is breaking new ground, its biggest challenges in the months ahead and some of the key highlights of 2018 – including a USD 12bn triple-tranche bond issuance in April that surpassed rival Saudi Arabia's efforts.

Background

The current standoff between Qatar and its neighbours, most notably Saudi Arabia, is a result of an underlying feud between Riyadh and Doha that traces its roots to the 1990s.

Khalifa al Thani, a close ally of Saudi Arabia, ruled Qatar, following its independence from Britain in 1971. Riyadh heavily influenced Qatari affairs, and Qatar echoed Saudi policies in internal issues, foreign affairs and oil. This led to Qatari resentment towards Saudi interference, as well as disputes over territory and borders.

In 1995, Sheikh Hamid bin Khalifa al Thani deposed his

father, Khalifa al Thani in a bloodless coup, marking a new beginning for Qatar. Sheikh Hamid was keen on pursuing policies that made Qatar independent from Saudi Arabia, particularly over territorial claims and in foreign policy. In addition, he strived to transform Qatar into a regional power.

Sheikh Hamid pursued aggressive economic diversification that propelled Qatar- as of 2006- into the world's largest exporter of liquefied natural gas. Qatar became one of the wealthiest nations in the world, with the highest GDP per capita. The launch of Al Jazeera in 1996, the region's first 24-hour international news channel, revolutionised the Arab media landscape. Al Jazeera branded itself as editorially independent from the Qatari government.

Qatar adopted a pragmatic foreign policy by maintaining relations with allies like the GCC and the US, as well as Iran and Israel, and militant groups like Hezbollah and Hamas. Qatar also supported other Islamist groups, most notably the Muslim Brotherhood.

Saudi Arabia was unsettled with the 1995 coup and Doha's general foreign policy. The kingdom was in turn implicated in an attempted coup in Qatar in 1996. Gulf monarchs grew concerned over Qatar's support for the Muslim Brotherhood as well as the use of Al Jazeera as a mouthpiece for the Islamist organisation, and other political opponents in Arab countries.

Examples of Qatar's difficult relations with its neighbours, were on display in 2002, when Saudi Arabia withdrew its ambassador over Qatar's foreign policies. Riyadh returned to Doha six years later.

In the 2011 Arab uprisings, Al Jazeera's coverage of protests in countries like Egypt, Libya, Syria, Yemen and Bahrain stoked animosity between Qatar and its Gulf neighbours. The subsequent support for the Muslim Brotherhood, most notably in Egypt, further inflamed intra-GCC tensions.

In June 2013, Sheikh Hamid stepped down and

appointed his son Tamim (current ruler) as Emir. Hopes were high in Riyadh and Abu Dhabi that Doha would change its foreign policies. And a week later, Egypt's Muslim Brotherhood-endorsed president, Mohammed Morsi, was deposed by the military. In response, Saudi Arabia and other GCC allies condoned the move and provided financial support to the new Egyptian government. Qatar's relations with Cairo as well as with GCC allies soured when reports emerged five months later that the Muslim Brotherhood was regrouping in Doha.

As a result, then King Abdullah of Saudi Arabia summoned Emir Tamim to Riyadh in late 2013. He presented Tamim with an ultimatum forcing Qatar to align its foreign policies with a Saudi Arabia led-GCC as well as sign a security agreement of non-interference in other GCC internal affairs. Tamim obliged.

In March 2014, Saudi Arabia, the UAE and Bahrain withdrew their ambassadors from Doha, attesting that Qatar failed to hold its end of the agreement. The crisis lasted eight months and ended with Qatar making several concessions. These included relocating members of the Muslim Brotherhood from Doha to Turkey, expelling Emirati dissidents and closing Al Jazeera's Egyptian unit.

Tensions resurfaced in April 2017, with newswires reporting that Qatar had allegedly paid USD 1bn to Shi'a militias in Iraq. The payment was part of a wider deal to release 26 members of the Qatari royal family who had been kidnapped while on a hunting trip in Iraq in December 2015.

On 25 May 2017, state-owned, Qatar News Agency (QNA) published an article citing statements from Emir Tamim. In the article, Tamim criticised US presence in the region, praised Hamas and Hezbollah, and described Iran as an Islamic power. The alleged comments came a week after US President Donald Trump made his first foreign visit as president to Riyadh. Qatari authorities insisted that the QNA was hacked and that the statements were false.

On 5 June Saudi Arabia, the UAE, Bahrain and Egypt announced they were cutting diplomatic relations with Doha. They shut their sea entry and air space to the peninsula, and Saudi Arabia closed its land border with Qatar. In addition, they imposed trade restrictions, expelled Qatari nationals, and instructed some of their financial institutions to cease or limit exposure to Qatari banks and clients.

“The [current boycott] is a product of years of frustration at the fact that Qatar followed a set of regional policies that was distinctive and not aligned with their [GCC] own, notes Kristian Coates Ulrichsen, fellow for the Middle East at the Baker Institute for Public Policy. “The major difference from 2014 is that the withdrawal of ambassadors has been followed by an economic and trade embargo and the suspension of movement of people and goods.”

On 23 June, the quartet presented Qatar with 13 demands, which included the closure of Al Jazeera, significantly scaling back cooperation with Iran, the closure of a Turkish military base in Qatar, and the termination of support for the Muslim Brotherhood. Qatar was also asked to submit to monthly external compliance checks. The four states gave Doha 10 days to comply. In response, Qatar rejected the demands claiming they infringed on its sovereignty.

A month later, the boycotting nations came back and presented Doha with six principle demands, in exchange for ending their boycott. Qatar did not meet the demands and continues to defend itself on the basis that the six demands pose a violation to its sovereignty.

Economy

Shortly after news of the boycott emerged, market participants told Debtwire that the standoff would likely have a negative impact on the Qatari economy due to Doha's overreliance on imports and external trade. Sectors that were particularly at risk included oil and

gas, aviation, banking, logistics, food and agriculture, tourism and construction.

“In the first two months, there were a number of scenarios and conclusions being drawn,” said a Doha-based loans banker. “People were trying to understand what was going to happen.”

The International Monetary Fund (IMF) noted in May 2018 that, at the beginning of the crisis, around one-sixth of Qatar's imports were coming from countries imposing trade restrictions, and that a significant amount of goods transited through Saudi Arabia and the UAE. Furthermore, the fund noted that Qatari banks were reliant on lending from their GCC peers, and that the embargo will likely have a negative impact on the financial sector.

What has transpired over the year since the boycott, has not had the detrimental impact on the Qatari economy that most anticipated or that the anti-Qatar quartet had envisaged.

Qatar's economy grew by 2.1% in 2017 compared to 2.2% in 2016, and is set to grow 2.6% in 2018 and 2.7% in 2019, according to IMF calculations. The Qatari government reduced its deficit to 6% of GDP in 2017 compared to 9.3% in 2016 and is forecast to reduce it by a further 1.4% in 2018, thanks to restrained spending. The IMF notes that public debt stood at 54% of GDP at the end of 2017.

“The blockade put Qatar's weakening balance sheet- fiscal, external, banking sector- in the spotlight but the initial negative impact proved largely temporary,” said Maya Senussi, Senior Economist, Middle East at Oxford Economics. “The liquidity picture stabilised after the government deployed liquid assets to offset withdrawal of GCC deposits to support banks and the dollar peg.”

The oil and gas sector, which make up half of Qatar's economy, has not suffered from the boycott, analysts said. In a June 2018 report, Ehsan Khoman, head of

research and strategy for MENA at MUFG, said that one-year on, Qatar's oil and gas exports have continued to move freely. He notes that the Dolphin pipeline, which exports gas to the UAE has remained open. Both countries remain committed to the pipeline.

Furthermore, Khoman notes that Qatar's oil production declined, but that was more to the OPEC+ production quota agreement rather than any impact from the impasse.

Qatar has managed to withstand pressure on its banking sector since the crisis began. Foreign financing (non-resident deposits and inter-bank placements) and resident private sector deposits declined by around USD 40bn (around 11% of total liabilities), according to the IMF.

Qatari authorities responded by injecting liquidity through the central bank (QCB) and public-sector deposits, particularly from the country's sovereign wealth fund- the Qatar Investment Authority (QIA). The IMF notes that the decline in non-resident liabilities to banks has reduced the need for further support from the QCB and QIA to the banking system, as Qatari banks seek funding from outside the GCC.

“The immediate response in helping its banking sector deal with capital outflows was swift and seamless,” said a Dubai-based portfolio manager. “While the bank sector does, nonetheless, seem to have to deal with some higher funding costs now than before the boycott (the most recent CBQ deal being a good example), the access to foreign funding through private placements has been impressive.”

MUFG's Ehsan Khoman notes that one area of initial concerns had been Qatar's overreliance on food and beverage imports from its neighbours. However, he notes that Doha managed to offset this by securing additional supplies from Turkey, Iran and other countries. In addition, Qatar has managed to reroute imports via Oman rather than Dubai's Jebel Ali port. Furthermore, Qatar opened in the fourth quarter of 2017 the new Hamad port, the second largest in the

region. The port enables large container ships to dock in Qatar.

Despite Qatar's efforts in managing the economic impacts of the boycott, the tourism sector has been less resilient. GCC nationals accounted for around half of all tourists to Qatar before the events, according to Yasemin Engin of Capital Economics. The footfall has now declined by around 80% year-on-year, since July 2017. This has had a negative impact on the profits of flag carrier Qatar Airways. Despite easing visa restrictions, Qatar could not make up for the loss of visitors from the GCC, which has resulted in a 20% decline in air traffic to the country.

"Tourism remained weighed down by uncertainty, hotel occupancy remains below levels seen a year earlier," said Maya Senussi. "Although rules for visitors have been relaxed, a continued boycott from tourists from neighbouring countries could imply an infrastructure oversupply as it comes online ahead of World Cup 2022."

Qatar's real estate sector has also suffered from the chastisement. The IMF estimates that the real estate price index fell by 11% in 2017 (year-on-year basis) following a 53% cumulative increase during 2013 to 2016. The fund says that this reflects increased supply of new properties and reduced effective demand.

Nonetheless, international investors are positive on Qatar's performance under the circumstances.

One London-based portfolio manager described Qatar's economy as doing pretty well.

"They [Qatar] dealt with the embargo's main impact in 2017 through import diversion and repatriation of assets by QIA and CB [central bank]," he said. "They had to delay fiscal consolidation to ease the pain, but that is to rising oil prices they have room to breathe." The portfolio manager sees growth picking up this year as capital expenditure rebounds and as the economic shock passes.

"It actually helped slow some of their imbalances by keeping them out of external funding markets," he said. Though now they are back with the Eurobond and non-residential deposits are flowing back in."

On a domestic level, Qatari companies faced challenges such as disruptions to supply chains, which forced local corporates to be more innovative in order to weather the boycott.

"Many local companies had to rethink their strategies and get creative with cost moderation due to the complete overhaul in importing their goods," said Rami Jamal, portfolio manager at Qatar-based Amwal Asset Management. "On the other hand, local initiatives to support local products were being promoted heavily to increase the dependence on local products." Sectors like hospitality and food and beverage were negatively impacted as the number of regional visitors to Qatar had declined from previous years, Jamal added.

The boycott has also forced Qatar to become more self-reliant, particularly in the areas of food production.

"Look at food and agriculture for example," said a Qatar-based portfolio manager. "Milk products are now produced in-house, before the boycott, they used to be imported."

Qatar returns with triple-tranche bond

In a test of confidence, Qatar returned to the international bond market on 12 April 2018. The sovereign sold a triple-tranche USD 12bn bond. The deal comprised a USD 3bn 3.875% 2023 note, a USD 3bn 4.5% 2028 tranche and a longer-dated USD 6bn 5.103% 2048 piece, as reported. The size exceeded previous estimates of USD 9bn that Qatar had communicated to the market.

The bond was mostly sold to US and UK-based investors, but the 30-year tranche (also listed in Taipei) saw strong Asian demand, accounting for 24%, as

reported. Fund managers dominated across the board, but less so for the 30-year tranche, which saw 22% of orders go to pension and insurance funds, compared to 5% and 7% for the five- and 10-year respectively. This is because the longer-dated bond appealed to Asia investors, where pension and insurance funds have a strong presence.

"The boycott forced Qatar to target international investors," said a regional investment banker. "Before the boycott, there would be an understanding that domestic and regional investors would get involved in the secondary markets, and this would drive down the spread and price."

The deal surpassed Saudi Arabia's USD 11bn triple-tranche bond, which priced on 10 April, after the kingdom opened books unannounced while Qatar was still meeting investors. The move sparked concern that Riyadh's offering would soak up demand for Qatar's bond. However, Qatar managed to build a USD 52bn orderbook, exceeding Saudi Arabia's USD 50bn demand, and putting the fears to rest.

Qatar's 2023 bonds were priced at 99.322, equating to a spread of 135bps over US Treasuries (UST). The 2028s carried a cash price of 99.673 and a spread of UST+ 170bps, while the 2048s came out at par and at a spread of UST+ 205bps.

In comparison Saudi Arabia sold a USD 4.5bn 4% 2025 bond at a re-offer price of 99.073, equating to a spread of 140bps over US Treasuries. It also issued a USD 3bn 4.5% 2030 bond at 99.432 re-offer, or at UST plus 175bps. The sovereign also printed a longer-dated USD 3.5bn 5% 2049, with a 210bps spread over US treasuries

Qatar's USD 12bn offering was its first capital market transaction since the GCC boycott began. The sovereign last tapped the Eurobond markets in May 2016 with a USD 9bn transaction. That deal paid a 2.375% coupon for the USD 3.5bn 2021 piece, which priced at a spread of 120bps over mid-swaps. Qatar also offered coupons

of 3.25% and 4.625% for its USD 3.5bn 2026 note and USD 2bn 2046s, which were issued at a spread of MS+ 150bps and MS+ 210bps, respectively.

Prior to the April 2018 deal, Qatari bond yields had risen sharply on the back of the crisis, reflecting the continued increased risk premium embedded into the bond market, as well as higher US interest rates in line with the Qatari Riyal peg, said Khoman.

“The new issue proved that Qatar can still access the capital market,” said a Kuwait-based portfolio manager. “Compared to pre-crisis levels, Qatar’s bonds are on average 10bps to 15bps higher. The spread is a fair compensation for liquidity, still below its regional peers level to some extent.”

During the initial phase of the boycott, Qatar’s five-year credit default swap (CDS) increased by 50bps from 60bps to 110bps, while the sovereign’s bond spreads widened by 20bps to 50bps, said the portfolio manager.

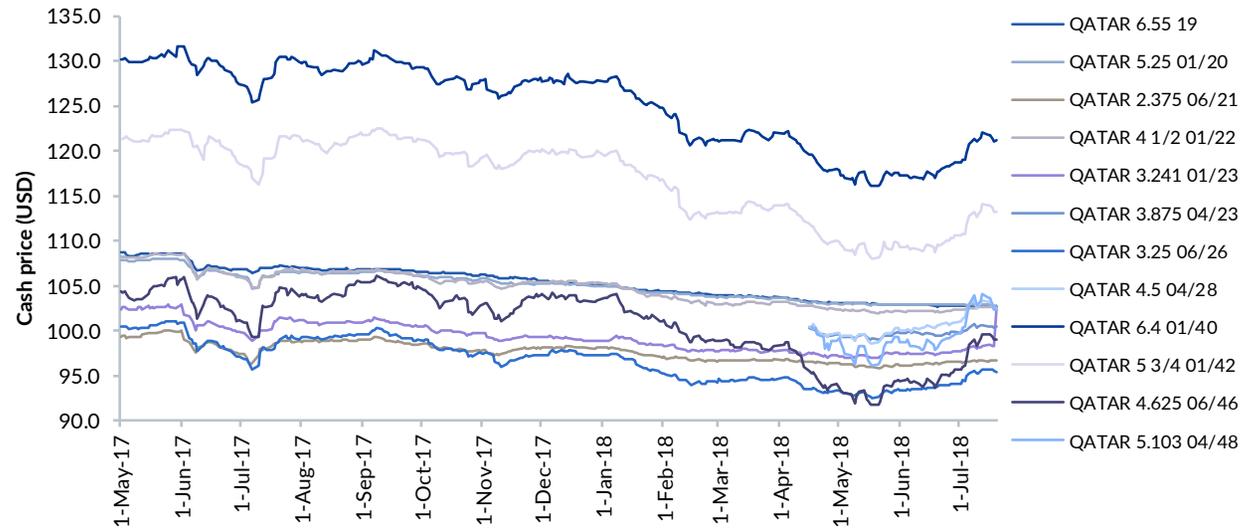
“Liquidity dried up, as some regional market participants avoided them [Qatar] fearing that sanctions would force them to sell Qatari paper later on,” he said. “Since then, spreads tightened back and are now around 10bps to 15 bps higher than pre-crisis levels only. Qatar sovereign curve is now back inside Saudi Arabia’s sovereign curve.”

Other investors noted the spread difference in the new bonds compared to the sovereign’s previous international bond in 2016.

“The 2018 sovereign deal paid a higher spread than the one in 2016, despite more favourable market condition,” said the Dubai-based portfolio manager. “The issue was well received though, as was seen from the size of the order book, and a part of that higher spread was likely due to the larger issue size. In the secondary market today, such a Qatar premium does not seem meaningful, for the sovereign or otherwise.”

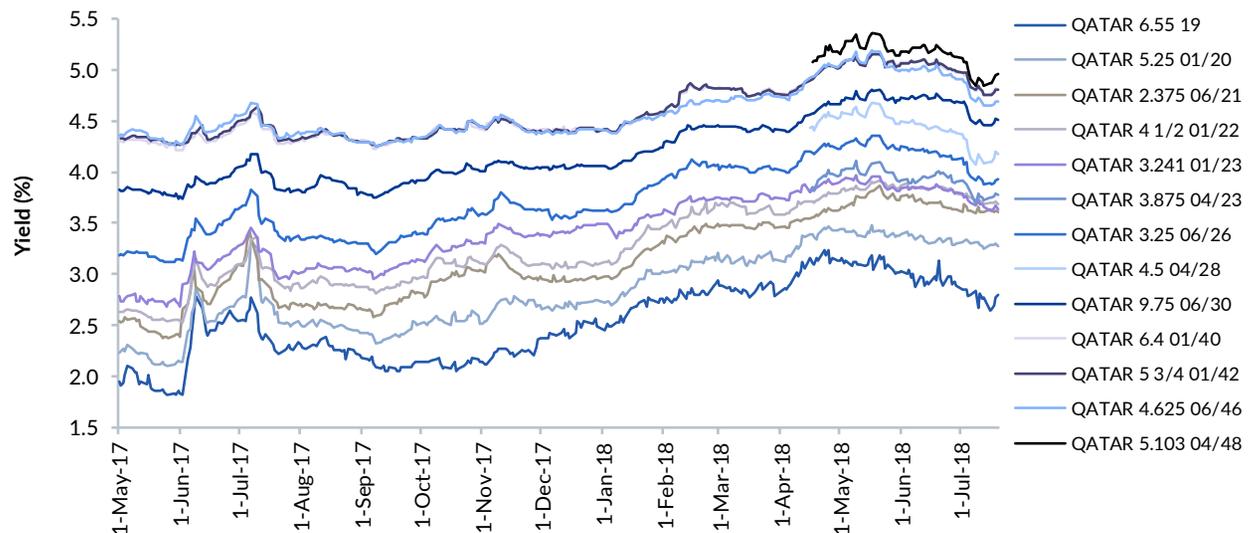
The transaction did not come without controversy, and

GOVERNMENT OF QATAR BOND PRICES



Source: Debtwire

GOVERNMENT OF QATAR BOND YIELDS



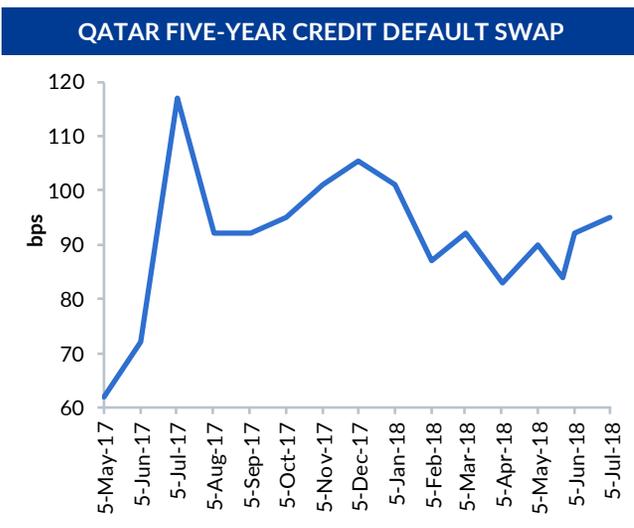
Source: Debtwire

highlighted the conundrum banks faced when simultaneously trying to get on deals in boycotting countries like Saudi Arabia.

Al Khaliji, Barclays, Credit Agricole, Credit Suisse, Deutsche Bank, QNB Capital and Standard Chartered were joint lead managers and joint bookrunners on Qatar's issue. None of these lenders arranged Saudi Arabia's bond.

Although originally mandated as a bookrunner for Qatar's sovereign bond, Japanese lender Mizuho pulled out of the deal due to its business interests in Saudi Arabia, according to press reports. This is not an isolated case. Earlier in the year, HSBC, one of the more active bond arrangers in the region, turned down a role to arrange Qatar's bond. The bank still maintains a presence and operations in Qatar.

"If you do business in or with Qatar, there is an implicit understanding that there could be repercussions if you have operations in boycotting countries," said the Qatar-based portfolio manager.



Source: Debtwire

In the initial aftermath of the boycott, there were concerns about Qatar's credit rating. On 7 June 2017, S&P Global Ratings downgraded Qatar one notch from AA to AA-. The decision was based on S&P's concern that the diplomatic cuts by the six countries would "exacerbate Qatar's external vulnerabilities and could put pressure on its economic growth and fiscal metrics." Fitch followed suit on 12 June 2017, by lowering the sovereign one notch to AA-, and placing it on negative watch. Moody's however, maintained their rating of Aa3, having downgraded the sovereign in May 2017.

Qatari issuers finding new sources of financing

Bahrain, Egypt, Saudi Arabia and the UAE's central banks instructed their FIs to limit lending and exposure to Qatari banks and clients. As a result, Qatari borrowers have had to seek alternative sources of funding.

One of the markets they have sought is Asia, which has been experiencing growing trade ties with Qatar. Cementing the new alliance, Sheikh Tamim visited in October 2017 Asian countries including Malaysia and Indonesia to develop political and economic relations.

"The [Qatari] banks have built new pools of liquidity, for example in China and Taiwan and Switzerland," said a Malaysia-based portfolio manager. "It's very smart of them during this boycott."

Qatar National Bank has been particularly active. In February, it priced a USD 119m-equivalent renminbi bond, as well as an AUD 700m (USD 538m) triple-tranche bond and a privately-placed USD 720m 30-year Formosa bond in January.

Last September, it raised a USD 630m 2047 Formosa bond. QNB also privately placed two two-year notes in February, one for USD 1bn and another one for USD 1.38bn, as reported. **Commercial Bank of Qatar**

(**CBQ**) turned to Swiss franc markets in February, raising close to USD 350m-equivalent.

Following the sovereign's landmark bond deal in April, other Qatari financial institutions have lined up their own deals.

On 17 May 2018, CBQ became the first Qatari bank or financial institution to issue a US dollar bond when it came out with a USD 500m 5% 2023 bond, as reported.

The question of what kind of premium Qatari borrowers will have to pay with increased levels of geopolitical risk, is slowly getting answered.

The Kuwait-based portfolio manager said that corporates always pay a higher premium compared to the sovereign

"Generally speaking, it will depend on the issuer name," he said. "Good and strong names like QNB won't need to pay a relatively higher premium, while weaker ones might have. But this also applies to other GCC papers, and not a Qatar-specific issue."

Other investors agree that Qatari debt will be snapped up, supported by the strong credit fundamentals of the sovereign.

"We continue to see investor appetite in Qatari issued debt given the strong credit rating and more stable economic environment," said Rami Jamal. "We saw Qatar National Bank and CBQ issuing debt which was well received by investors."

Bankers are also optimistic that investor appetite for Qatari name will continue.

"With the sovereign paying up with the new bonds, we will likely see more issuances from banks and other issuers," said the regional investment banker. "A lot of the banks have diversified their sources of liquidity. Although I think it will take time."

Several Islamic borrowers are also lining up their deals including Qatar International Islamic Bank (QIIB), which is eyeing a US dollar sukuk, noted the Qatar-based portfolio manager.

In the loans space, the results have been mixed.

In February, QNB managed to secure a three-year USD 3.5bn loan despite the regional impasse. The facility was dominated however by international lenders. Debtwire reported on the same day that the deal also prompted a flurry of secondary loan trading activity, with the debt offered at a price discount.

In April, **Qatar Islamic Bank (QIB)** closed a one-year USD 155m loan with a club of banks. At the time sources said that transaction was difficult. Although QIB launched the US dollar loan into general syndication in February, the borrower struggled to find interest from GCC and regional Islamic banks outside of Qatar. These quartet states are also home to most of the Middle Eastern Islamic banks, which would normally be the natural lenders to QIB.

Qatari Islamic borrowers are more exposed than their conventional peers. Traditionally, they have obtained financing from Islamic lenders in the UAE and Bahrain. However, with the boycott closing these channels, Qatari Islamic banks are turning to Islamic lenders in Malaysia and Indonesia. This is proving difficult as illustrated by QIB's struggle to attract interest. Uncertainty looms on whether Qatari Islamic banks will be able to tap the loan market efficiently.

Real estate business **Ezdan** has suffered the worse of the boycott. Notably the charitable foundation belonging to Ezdan's founder and majority owner Sheikh Thani bin Abdullah al-Thani- the Sheikh Thani Bin Abdullah Foundation for Humanitarian Services-, along with 12 other entities and 69 individuals, was named on a terrorist list. The anti-Qatar quartet accused the foundation of fundraising to finance terrorism. Meanwhile, the Qatari real estate market has suffered as a whole from the embargo, and credit lines that were

previously available to Ezdan may now be rescinded as UAE-based lenders are encouraged to cut ties with Qatar.

Ezdan's sukuk price buffeted in the secondary market, as the blockade on the country by fellow GCC states bit into profitability. The company's USD 500m 4.375% 2021 sukuk was quoted at 81.5/83 mid-July week, while its USD 500m 4.875% 2022s were indicated at 81.25/82.75. This compares to respective cash prices of 91/92 and 90/91.5 at the start of the year.

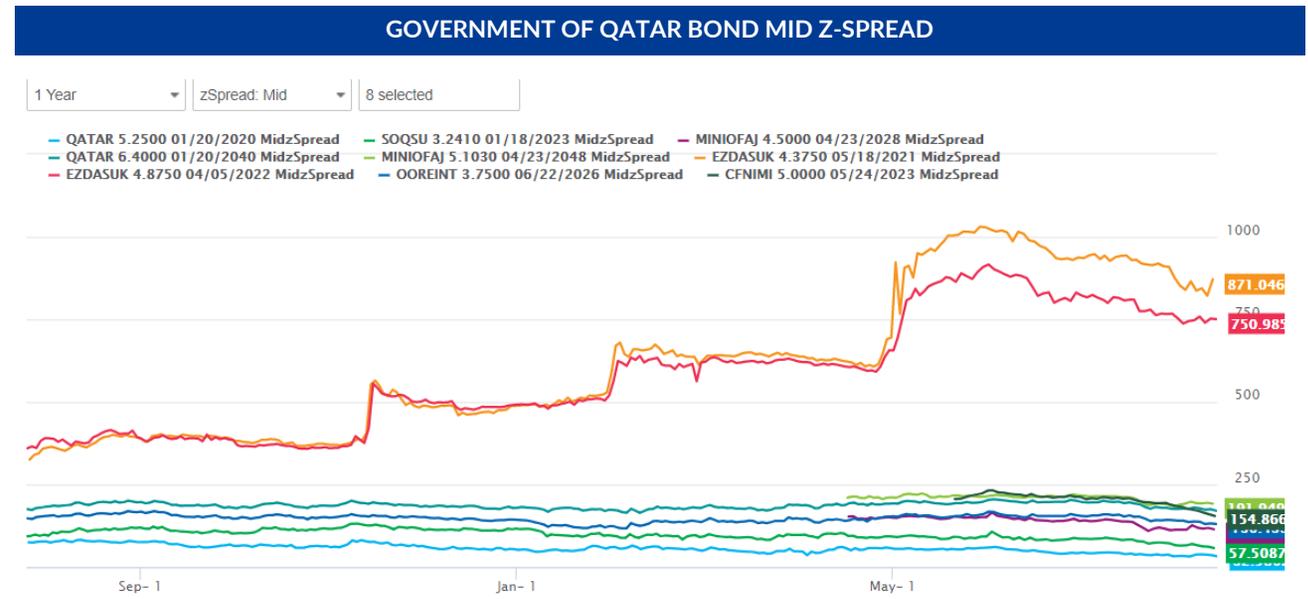
The-role of the US and future of GCC

As the rhetoric and measures by all parties increase, geopolitical risk in the region has also increased. For example Saudi Arabia's King Salman threatened military invasion of Qatar, after a senior Russian politician said Moscow plans to supply an advanced s-400 missile aerial defence system to Qatar on 2 June.

The inability of the US to resolve the Qatar dispute has raised serious questions about the United States' role and influence in the region. In particular, the confusion arose early on in the crisis, when Donald Trump tweeted that he supported the boycott, but later modified his position and engaged with Sheikh Tamim.

Qatar remains a strategic ally for the US, and houses the Al Udeid Air Base, which hosts around 10,000 US troops, who participate in US military operations in the region. The base is also home to US Central Command (CENTCOM), its Air Component Commander and its Combined Air Operations Centre.

"The Trump administration initially lacked one voice as the president praised the boycott while the Secretaries of State and Defence worked to resolve the impasse," said Ulrichsen. "The US government now has a clear approach and wishes the crisis ended but is finding that it has far less leverage over the Saudis and Emiratis than it may have assumed and cannot force them to the



Source: Debtwire, Markit

negotiating table.”

He said “Kuwait is the natural mediator and the Emir [Sabah] played a critical role in his shuttle diplomacy in the opening week of the boycott that prevented the initial action from escalating further.”

Nonetheless, investors maintain that the US is still an important player and the prime broker in the crisis.

“Honestly for me I think the US position is key”, said the London portfolio manager. “As long as the US wants to avoid regime change in Qatar there won’t be a military invasion.”

But analysts say that the situation remains unclear.

“... It is far from clear that President Trump has the political capital or the willingness to use it to force Saudi Arabia and the UAE to moderate their demands and Qatar to adjust its decision-making structure,” said Ehsan Khoman.

In addition to the US, analysts said the GCC is fragmented and its position as a regional bloc has proved ineffective during the current crisis.

“The GCC as a functioning organization is on life support if not already terminal,” said Ulrichsen. “Twice in three years it has failed to prevent three of its members from turning on a fourth, and it has been bypassed at every stage of the crisis. The centre of gravity in Gulf politics now runs between Riyadh and Abu Dhabi and was formalised in the new Saudi-Emirati Coordination Council that was announced in Riyadh in early June.”

Other sources agreed with this consensus.

“I don’t really think the GCC will have much validity, but it probably doesn’t matter,” said the London portfolio manager. “Countries will deal with each other case by case. Saudi and the UAE may stick together on most issues, and the others will follow when they want.”

Looking ahead

Over one year on, there seems little prospect of a resolution for the Saudi-led boycott against Qatar.

“A major reason the boycott has not been resolved is that none of the parties is willing to blink first and make the initial concession,” said Ulrichsen. “Until an agreement can be found that allows all sides to save face, it is hard to see the impasse ending. All parties are finding that they can live with the status quo, meaning it is likely to become the ‘new normal’ for the foreseeable future.”

The Qatar-based portfolio manager said that crisis is very political in nature and echoed pessimism.

“I don’t see any resolution,” he said, “The concerned countries are highly unlikely to change their position for the immediate (6 months) term. Longer term things maybe things could change.”

But some analysts are more optimistic that upcoming events could provide a breakthrough to the deadlock.

“A key signpost of movement towards any form of reconciliation would be a direct meeting between representatives of the two camps in the next few months,” notes Ehsan Khoman. “Potentially in September at the new proposed date of the GCC summit.”

Qatar remains a key ally of the US and maintains relations with Turkey, Iran, the UK and France. Qatar also cooperates with its allies in several areas. An example of cooperation includes an agreement between Qatar and the US in August 2017 to enhance anti-money laundering (AML) and combating terrorism financing (CFT).

International banks and financial institutions seeking to be involved on transactions in Qatar, will need to be aware of the potential political blowback from other

GCC states. This was exemplified by Mizuho’s role in Qatar’s sovereign bond.

Despite the political unlikelihood of a deal for now, investors are focused on the fundamentals of Qatar’s economy.

“My hope is they slow their ambitious growth strategy a bit and become more conservative,” said the London portfolio manager. “I see debt to GDP levelling off around current levels. They plan to boost liquefied natural gas production 30% by 2022, so should be good for growth. Main issue will remain their high reliance on LNG. Non-oil sectors might grow some but it’s hard to see those taking a much larger share of GDP even over the medium term.”

Qatar’s credit rating remains robust despite being under pressure. At present, the sovereign is rated Aa3 by Moody’s, AA- by S&P and AA- by Fitch.

In a sign of growing confidence, Moody’s affirmed their rating of Qatar and upgraded the outlook from negative to stable on 13 July 2018. The ratings agency said that Qatar could withstand the boycott in the present form or with possible further restrictions, for an extended period of time without material deterioration of the sovereign’s credit.

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