



# 'Gulf needs to develop its bond market amid strong reflation bias'

**The development of sovereign bond market is a major step for the vibrant corporate sector debt market to flourish**

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**W**ith the US' short-term interest rates set to remain low, the GCC has a bias to reflation, making it imperative for the region to actively develop its bond market as cash deposits may no longer be attractive, according to an investment banker.

Washington has hinted at continuing with extremely accommodative monetary policy, which is expected to see near zero short-term interest rates until March and this "will impart a very strong reflationary bias to the Gulf economies," London-based Guy Monson managing partner with Sarasin & Partners, said.

The economies in the Gulf, which have no current account and saving crises but some real estate troubles that concentrate more on developers, will inherit a policy designed for a US housing crisis, which implied that the region will recover fast and that element of reflation will begin to re-enter the economy faster than most economists expect, he told *Gulf Times* in an interview.

Reflation is the act of stimulating the economy by increasing the money supply or by reducing taxes.

In Qatar, the central bank has already bailed out the banking industry in terms of direct capital injection by buying the local investment portfolio and real estate portfolio (of loans and investments) not only to instill confidence but also to provide more financial resources to lenders.

Monson, who is also the chief investment officer of Sarasin & Partners, said in the US markets by forcefully holding the treasury yields down by intervention and by holding short term rates to near zero, the Federal Reserve is encouraging investors to move away from cash deposits to bonds and then from bonds to real economy. It is the reason why there has been a sharp rally in 10-year US treasuries, he said.

"That (shifting stance) will be accelerated here in the Gulf and it will become less and less attractive to hold cash deposits," he said, adding that there was also a need for ratings in this regard.

Since the bond markets in the region is not well developed, Gulf investors will initially target US debts, he said, highlighting that foreign purchases of US treasuries had been much better than expected.

"The next logical step will be to reinvest in local assets and reactivate some of the real estate and some other commercial markets here," he said, adding governments ought to encourage sovereign and sovereign-supported establishments to issue bonds to develop deeper and liquid market.

The development of sovereign bond market is seen as a major step for the vibrant corporate sector debt market to flourish as the country needs an effective benchmark yield curve to assess the performance of the debts.



**The economies in the Gulf, with no current account and saving crises, will inherit a policy designed to deal with the US housing crisis, which implies that the region will recover fast and that the element of reflation will begin to re-enter the economy faster than most economists expect, says Guy Monson managing partner with Sarasin & Partners**

The Qatar Exchange, in which Nyse Euronext holds a 20% stake, has already hinted at listing bonds and exchange traded funds as part of diversifying investment instruments in the country. It will soon begin parleys with the Qatar Central Bank on developing the bond market.

If the ratings are right, bonds will be attractive to local banks initially but the next step should be to build a retail deposit base to offer medium-term duration products (of 5-10 years) to the public in general, Monson said.

There is a need to develop bond markets to deepen the investment avenues because in future the companies and project developers should have more diverse sources of finance rather than relying directly on banks or foreign syndicates, He said.

"We are in the midst of a huge change in savings pattern and there is already a shift in consumption away from the West to parts of the emerging and industrialised world and the Gulf where demographics are attractive," he said, adding the GCC bond market could be attractive in the international arena.