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Saudis in Suits Selling Bonds Don't Want to Talk About Oil
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By Lyubov Pronina
(Bloomberg) -- For Saudi Arabia, some things are better left unsaid.

As they swapped their traditional white robes for business suits and ties to meet with prospective investors ahead of the kingdom's first-ever international bond sale, Saudi government officials talked at length about their vision for transforming the economy. When it came to an oil price increasingly influenced by Iran and the proxy war in Yemen they were less forthcoming.

"Every time anyone in our meeting asked about oil they pushed back," said Gregory Saichin, chief investment officer for emerging-market bonds at Allianz Global Investors. He attended the investor day in London, the first of four that end in New York this week after Los Angeles and Boston. "The fact that they refused to take questions on oil prices or how much is achievable on budget rationalization have left investors with half a picture."

The sale marks a pivotal year for Saudi Arabia. The kingdom awoke to the reality that collapsing oil prices had made its economic model unsustainable. While the roadshow provides investors with a window on a country that's never before had to

open its books, it's also raised questions about just how bad things might get.

Deteriorating Finances

The world's largest oil exporter wants to raise at least \$10 billion this week from bonds due in five, 10 and 30 years, people familiar with the plans have said.

That they are having to tap the market at all is testament to how far their finances have deteriorated. The budget deficit has swollen to the widest in more than two decades and the government has eaten into foreign currency reserves and been forced to raise about \$63 billion from local bond sales. The state is cutting spending and salaries as part of Saudi Deputy Crown Prince Mohammed bin Salman's unprecedented overhaul, which also includes a planned initial public offering of oil giant Saudi Aramco.

Officials including Minister of State Mohammed Al Sheikh promised investors to prioritize an economic transformation plan regardless of where the oil price goes, according to two attendees of the London leg of the roadshow. More than 60 bankers and investors gathered to hear the sales pitch in a ballroom at the Corinthia Hotel just off Trafalgar Square on Oct. 12.

Predicting Oil

When asked on the trajectory of oil prices, the delegation skirted the question, with Al Sheikh instead joking to the packed ballroom that he would probably be making money rather than talking about it if he could predict them. Two days before, the Saudi energy minister told a conference in Istanbul the oil price could recover to \$60 a barrel by year's end.

For analysis on Saudi Arabia's financial strains, click [here](#)

Saudi officials pledged to boost non-oil revenues, cut spending to achieve fiscal balance by 2020 and retain current credit ratings, said Pavel Mamai, the co-founder of hedge fund Promeritum Investment in London. He also attended the London presentation and plans to bid for the bonds. "The message was that this is a young government that believes the country structurally wasn't going in the right direction and decided to change that," he said.

"The fact that they committed to continuing with economic adjustment even if oil prices were to rebound I think is commendable and investors will like that," said Mohammed Elmi, an emerging-market money manager at Federated Investors U.K. in London, who will consider buying the bonds. "The interest level goes beyond your traditional emerging-market investors."

Yemen Conflict

Lurking in the background, though, is a deepening conflict next door in Yemen with Iranian-backed rebels. A Saudi-led air

attack on a funeral in Yemen's capital Sana'a that killed more than 100 people this month was based on false information, an investigation team said last week.

"The Saudi engagement in Yemen and Syria will signify higher expenses for the government," said Pictet portfolio manager Andres Sanchez Balcazar, whose colleague attended the roadshow in London. "We don't think that's going to be a great driver for the credit."

There's also the face-off with Iran over oil production, with OPEC last month backing a plan to cut output for the first time in eight years. About 70 percent of Saudi revenue comes from oil and failing to provide forecasts denies investors the chance to fully assess the kingdom's ability to repay its debt, according to Saichin at Allianz.

"This is a debut deal so there will be interest for sure in it, but investors will have to price their undefined fiscal goals somehow," he said.

--With assistance from Ben Bartenstein, Maria Levitov, Christopher Palmeri and Dana El Baltaji.

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