

May 11, 2016

Market Commentary: The SGD swap curve bull-flattened yesterday, with the short-end rates trading 2bps lower while the belly-to-long-end rates traded 3bps-4bps lower. Flows in the SGD corporate space were heavy, with activity centred on the bank capital space ahead of the proposed new T2 issue from Societe Generale. There was better buying in STANLN 4.4%'26s and ABNANV 4.75%'26s, while better selling was seen in BNP 4.3%'25s. In the corporate space, there were mixed interests in GENSSP 5.125%'49s and FCLSP 4.25%'26s. In the broader dollar space, the spread on the JACI IG corporates was level at 229bps, while the yield on the JACI HY corporates decreased by 1bp to 7.33%. 10y UST yield increased by 1bp to 1.76%.

New Issues: The Metropolis of Tokyo priced a USD1bn 5-year bond at MS+90bps, tightening from an initial guidance of MS+95bps. The issue is expected to be rated "A+/NR/NR". Mapletree Logistics Trust has scheduled investor meetings from May 12 2016 onwards in Singapore. Societe Generale held an investor call yesterday on a possible SGD T2 transaction.

Rating Changes: Moody's placed on review for downgrade the "Baa2" issue rating of IOI Corporation Berhad (IOI), driven by uncertainty regarding IOI's operating performance, particularly on its downstream business. Outlook is negative. S&P sees fiscal and economic policies under the incoming administration of Philippines as supportive of its "BBB" rating with stable outlook. Along the same theme, Fitch released a statement that the outcome of the Philippines elections won't have immediate impact on its "BBB-" rating or outlook. This is as Fitch waits to see whether improvement in governance standards under President Benigno Aquino can be sustained.

Table 1: Key Financial Indicators

	11-May	1W chg (bps)	1M chg (bps)		11-May	1W chg	1M chg
iTraxx Asiax IG	143	-6	-3	Brent Crude Spot (\$/bbl)	45.60	2.20%	6.47%
iTraxx Sovx APAC	53	-3	-6	Gold Spot (\$/oz)	1,266.30	-1.05%	0.67%
iTraxx Japan	76	1	-9	CRB	180.28	0.24%	4.92%
iTraxx Australia	134	-1	-4	GSCI	351.72	0.97%	5.94%
CDX NA IG	80	-3	-1	VIX	13.63	-12.63%	-16.17%
CDX NA HY	103	1	0	CT10 (bp)	1.763%	-1.21	3.77
iTraxx Eur Main	76	-2	-2	USD Swap Spread 10Y (bp)	-16	-3	-4
iTraxx Eur XO	323	-6	-10	USD Swap Spread 30Y (bp)	-49	-1	-3
iTraxx Eur Snr Fin	97	-2	-3	TED Spread (bp)	38	-5	-2
iTraxx Sovx WE	26	1	-2	US Libor-OIS Spread (bp)	24	0	-1
iTraxx Sovx CEEMEA	135	-1	-14	Euro Libor-OIS Spread (bp)	9	-1	-1
					11-May	1W chg	1M chg
				AUD/USD	0.737	-1.14%	-2.94%
				USD/CHF	0.975	-1.80%	-2.15%
				EUR/USD	1.138	-0.96%	-0.27%
				USD/SGD	1.367	-0.67%	-1.73%
Korea 5Y CDS	62	-4	-3	DJIA	17,928	1.00%	2.12%
China 5Y CDS	126	-7	2	SPX	2,084	1.02%	2.08%
Malaysia 5Y CDS	157	-10	2	MSCI Asiax	486	-1.05%	-2.76%
Philippines 5Y CDS	112	-10	9	HSI	20,243	-2.10%	-0.97%
Indonesia 5Y CDS	186	-9	-19	STI	2,741	-2.49%	-2.42%
Thailand 5Y CDS	124	-4	-6	KLCI	1,636	-0.94%	-4.63%
				JCI	4,763	-1.56%	-0.50%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
11-May-16	Metropolis of Tokyo	A+/NR/NR	USD1000mn	5-year	MS+90bps
09-May-16	Agricultural Bank of China	A/A1/NR	USD400mn	3-year	CT3+107.5bps
09-May-16	Agricultural Bank of China	A/A1/NR	USD850mn	3-year	3mL+98bps
09-May-16	Westpac Banking Corporation	AA-/Aa2/AA-	USD750mn	3-year	CT3+80bps
09-May-16	Westpac Banking Corporation	AA-/Aa2/AA-	USD250mn	3-year	3mL+71bps
09-May-16	Westpac Banking Corporation	AA-/Aa2/AA-	USD1.25bn	5-year	CT5+95bps
09-May-16	Westpac Banking Corporation	AA-/Aa2/AA-	USD250mn	5-year	3mL+100bps
09-May-16	Westpac Banking Corporation	AA-/Aa2/AA-	USD1.5bn	10-year	CT10+115bps

Source: OCBC, Bloomberg

Credit Headlines:

Singapore Post Limited ("SPOST"): SPOST reported FY2016 results for the fiscal year ending March 2016. Annual revenue increased sharply by 25.2% y/y to SGD1.15bn, largely due to acquisitions made in the logistics and retail & eCommerce business segments. Examples include the consolidation of Trade Global in November 2015 and Jagged Peak in March 2016. Overseas revenue is now 44% of total revenue. The mail segment saw more muted growth, with segment revenue flat at -0.1% y/y. Adjusting for divestments made during the year though, segment revenue would have been higher by 6.7% y/y. For 4QFY2016, the mail segment is now just 36% of total revenue (4QFY2015: 44%). Mail segment operating margin was 27.5% (4QFY2015: 29.9%), logistics segment operating margin was 6.9% (4QFY2015: 3.7%) and retail & eCommerce segment operating margin was -5.5% (4QFY2015: 10.4%). Mail segment margin compression was due to lower domestic letter mail volumes. Logistics segment margin improvement was partly driven by synergies from the acquisitions made. The operating loss generated by the retail & eCommerce business was driven in part by customer acquisition efforts made by recent acquisitions. Despite operating margin pressure, net margin jumped to 33.7% (4QFY2015: 14.5%), driven by divestment gains recognized from the partial divestment of associate, GD Express Carrier Bhd, for SGD78.4mn, with SPOST booking ~SGD64mn in gains from the divestment. The cash proceeds from the divestment were used to reduce gross debt. SPOST managed to generate SGD55.3mn of operating cash flow for the quarter (including interest service) and generated ~SGD5mn in free cash flow. Net gearing remained steady at 10% (3QFY2016: 12%). The second Alibaba investment has been delayed yet again to 30/10/16. The deal was first announced in July 2015. We will continue to hold SPOST's issuer profile at Neutral, with the expectation that the rotation away from the more profitable mail segment would limit improvements to SPOST's credit profile. (Company, OCBC)

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Nicholas Koh Jun Ming

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
NicholasKoh@ocbc.com

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