

November 2, 2016

Credit Headlines (Page 2 onwards): Standard Chartered PLC

Market Commentary: The SGD swap curve bear-steepened yesterday with swap rates trading 1-4bps higher across all tenors. Flows in the SGD corporates were heavy with better buying seen in SBREIT 3.6%'21s while better selling were seen in UOBSP 4.9%'49s. Mixed interests were also seen in BAERVX 5.9%'49s. In the broader dollar space, the spread on JACI IG corporates decreased 1bps to 202bps while the yield on JACI HY corporates increased 1bps to 6.55%. 10y UST remained relatively unchanged at 1.83%.

New Issues: Wuhan Metro Group Co. Ltd. has priced a USD290mn 3-year bond at CT3+145bps, tightening from its initial guidance at CT3+180bps. The expected issue ratings are "NR/NR/A". Central China Real Estate Ltd. priced a USD200mn 5NC3 bond at 6.75% with expected issue ratings of "B+/Ba3/NR". Huishang Bank has scheduled investor road show on 2 November for potential USD AT1 perpetual issue.

Rating Changes: Moody's has affirmed Greentown China Holdings Ltd's corporate family rating and revised the outlooks of Greentown and Apex Top Group Ltd. to stable from positive. The change in ratings outlook reflects Moody's expectation that Greentown's standalone financial profile will more likely stabilize at the current level than achieve a material improvement in the next 12 – 18 months. Moody's affirmed China National Bluestar Group Co. Ltd.'s (Bluestar) "Baa2" issuer rating with a negative outlook. This concludes the rating review initiated on 4 February, 2016 after China National Chemical Corporation (ChemChina) announced its acquisition of Swiss agrochemical and seeds company, Syngenta AG. The rating affirmation reflects the following: 1) an expectation that ChemChina will complete its acquisition; 2) the completed transaction will not result in a material change in the creditworthiness of ChemChina; 3) Bluestar will remain a core entity of ChemChina with strong support from its parent; and 4) Bluestar's standalone credit profile will remain broadly stable.

Table 1: Key Financial Indicators

	2-Nov	1W chg (bps)	1M chg (bps)		2-Nov	1W chg	1M chg
iTraxx Asiax IG	118	2	1	Brent Crude Spot (\$/bbl)	47.90	-4.16%	-2.36%
iTraxx Sovx APAC	36	2	3	Gold Spot (\$/oz)	1,288.30	1.67%	-1.78%
iTraxx Japan	56	--	0	CRB	185.81	-1.87%	-0.27%
iTraxx Australia	104	2	1	GSCI	360.60	-3.35%	-1.06%
CDX NA IG	80	4	4	VIX	18.56	37.89%	39.65%
CDX NA HY	103	-1	-1	CT10 (bp)	1.820%	2.71	22.58
iTraxx Eur Main	75	3	0	USD Swap Spread 10Y (bp)	-14	1	0
iTraxx Eur XO	336	14	--	USD Swap Spread 30Y (bp)	-54	1	-1
iTraxx Eur Snr Fin	100	4	-5	TED Spread (bp)	55	-2	-3
iTraxx Sovx WE	19	1	-3	US Libor-OIS Spread (bp)	38	-1	-4
iTraxx Sovx CEEMEA	91	0	1	Euro Libor-OIS Spread (bp)	4	0	-1
					2-Nov	1W chg	1M chg
				AUD/USD	0.765	-0.08%	-0.39%
				USD/CHF	0.975	1.88%	-0.17%
				EUR/USD	1.106	1.35%	-1.39%
				USD/SGD	1.390	0.09%	-1.77%
Korea 5Y CDS	43	2	2	DJIA	18,037	-0.73%	-1.48%
China 5Y CDS	111	6	5	SPX	2,112	-1.47%	-2.61%
Malaysia 5Y CDS	126	4	7	MSCI Asiax	544	-0.70%	-1.19%
Philippines 5Y CDS	116	2	-1	HSI	23,147	-1.77%	-0.64%
Indonesia 5Y CDS	156	5	7	STI	2,814	-1.41%	-1.94%
Thailand 5Y CDS	96	2	12	KLCI	1,671	-0.39%	1.11%
				JCI	5,416	0.34%	0.95%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
1-Nov-16	Wuhan Metro Group Co. Ltd.	"NR/NR/A"	USD290mn	3-year	CT3+180bps
1-Nov-16	Central China Real Estate	"B+/Ba3/NR"	USD200mn	5NC3	6.75%
31-Oct-16	Chalco Hong Kong Investment Co. Ltd.	"NR/NR/BBB"	USD500mn	Perp-NC5	4.25%
31-Oct-16	Shangxi Road & Bridge Construction	"BB/NR/NR"	USD250mn	3-year	4.85%
31-Oct-16	Beazley PLC	"NR/NR/BBB+"	USD250mn	10-year	CT10+402.5bps
27-Oct-16	Guangxi Communications Group Corp.	"NR/Baa3/BBB"	USD300mn	3-year	CT3+202.5bps
27-Oct-16	Li & Fung Ltd.	"BBB-/Baa3/NR"	USD650mn	Perp-NC5	5.25%
27-Oct-16	China Development Bank Corp.	"AA-/Aa3/NR"	USD350mn	5-year	CT5+70bps
27-Oct-16	Bank of East Asia Ltd.	"BBB-/NR/NR"	USD500mn	10NC5	CT10+270bps

Source: OCBC, Bloomberg

Rating Changes (cont'd):

Moody's has placed Shanghai Electric Power Company Ltd.'s (SEP) "Baa2" issuer rating on review for downgrade, prompted by SEP's announced acquisition of K-Electric Ltd. in Pakistan which will expose the company to higher levels of geopolitical and execution risks than those present in the China market. Fitch has revised its outlook on Sunac China Holdings Ltd.'s foreign-currency issuer default rating to negative from stable and affirmed it at "BB". The negative outlook reflects the company's surging leverage, which has resulted from an urgent need to replenish its land bank so it can maintain its rapid sales expansion.

Credit Headlines:

Standard Chartered PLC ("StanChart"): StanChart announced together with its 3Q2016 results that it will not be calling its USD750mn 6.409% Tier 1 bonds (STANLN 6.409 '49) that are callable on 30 Jan 2017. The bond resets at US 3mth Libor plus 1.510% and its price fell sharply following the result with the next call date in 2027. At a relatively cheap reset, StanChart had an economic incentive not to call, particularly considering its soft results for the quarter, persisting fundamental concerns (including recent announcement of potential litigation costs in Hong Kong by the Securities and Futures Commission) and expected cost of refinancing the bonds on a call with similar Tier 2 instruments (the bond will lose its Tier 1 status but remain as Tier 2 capital) currently at much wider spreads than the reset spread. StanChart's credit ratings were downgraded earlier this year on profitability and asset quality concerns which weakened the bank's credit profile compared to peers and the recent results are consistent with this view given the somewhat better than expected recent performance of other European bank earnings. That said, the non-call is expected to negatively impact the general market perception and performance of bank capital instruments and highlight the structural risks of capital instruments with regards potential non-call as well as the write-down features of Basel III compliant capital issues. We think StanChart's decision is ultimately idiosyncratic given the bank's still challenging credit fundamentals, ongoing restructuring initiatives with associated costs, and the structural aspects of the instrument. In comparison, recent financial performance of banks with SGD Tier 1 issues, although still buffered by industry challenges, reflect still solid credit fundamentals from entrenched business positions and sound liquidity and capital ratios. Structurally, SGD Tier 1 issues credit spreads in the event of a non-call are higher than the STANLN 6.409 '49 which could provide a better incentive to call and ensure ongoing market access for issuing capital instruments. Separately, StanChart announced that it has redeemed its old style Tier 2 SGD750mn 4.15% on its call date (28 October 2016). (Company, Bloomberg, OCBC)

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