

Mar 22, 2016

Market Commentary: The entire SGD swap curve traded higher yesterday with the curve 4bps-6bps higher at the shorter end while the long-end rates traded up 3-4bps. In the broader dollar space, JACI IG corporates spread continued to be somewhat range bound widening by 1bp to 232bps, while the yield on the JACI HY corporates decreased by 2bps to 7.79%. 10y UST widened by 4bps to 1.91% amidst comments by Fed officials that a rate hike could come sooner rather than later, a continuing rally in equity markets and strengthening oil prices.

New Issues: The Republic of Indonesia sold a dual tranche sukuk with the USD750m 5-year priced at 3.4% against IPT in the 3.7% area and the USD1.75bn 10-year tranche priced at 4.55%, tighter than IPT 4.8% area. BreadTalk Group Limited launched and priced a SGD75mn 3-year bond at 4.6%, tightening from IPT of 4.75%. Aspiat Corporation Limited announced an offer of up to SGD75mn of 4-year bonds at 5.3%. PSA International is arranging investor update meetings in Asia and Europe over March 28-30.

Rating Changes: Moody's has placed the ratings on Deutsche Bank AG and its supported affiliates on review for downgrade given the rising execution hurdles facing the Bank to improve profitability over the next three years due to the bank's internal and external environment. Moody's also downgraded the senior unsecured ratings on Statoil ASA, Norway's national oil company, to "Aa3" from "Aa2" and its baseline credit assessment to "a2" from "a1" given the ongoing influence of weaker oil prices on earnings and cash flows. Outlook is stable.

Table 1: Key Financial Indicators

	22-Mar	1W chg (bps)	1M chg (bps)		22-Mar	1W chg	1M chg
iTraxx Asiax IG	149	9	-8	Brent Crude Spot (\$/bbl)	41.36	6.76%	19.23%
iTraxx Sovx APAC	57	-10	-20	Gold Spot (\$/oz)	1,244.38	0.97%	2.96%
iTraxx Japan	73	-6	-32	CRB	176.37	2.31%	8.44%
iTraxx Australia	148	12	-5	GSCI	336.15	2.75%	11.79%
CDX NA IG	77	-12	-36	VIX	13.79	-18.50%	-28.84%
CDX NA HY	103	1	5	CT10 (bp)	1.916%	-5.44	16.37
iTraxx Eur Main	72	-5	-37	USD Swap Spread 10Y (bp)	-16	-1	-1
iTraxx Eur XO	296	-33	-130	USD Swap Spread 30Y (bp)	-51	-2	-1
iTraxx Eur Snr Fin	87	4	-29	TED Spread (bp)	32	0	0
iTraxx Sovx WE	26	-2	-7	US Libor-OIS Spread (bp)	21	-3	-2
iTraxx Sovx CEEMEA	145	-25	-40	Euro Libor-OIS Spread (bp)	11	0	-3
					22-Mar	1W chg	1M chg
				AUD/USD	0.757	1.57%	4.80%
				USD/CHF	0.970	1.77%	3.06%
				EUR/USD	1.124	1.17%	1.89%
				USD/SGD	1.363	1.36%	2.66%
Korea 5Y CDS	65	2	-3	DJIA	17,624	2.29%	6.04%
China 5Y CDS	124	4	-8	SPX	2,052	1.58%	5.45%
Malaysia 5Y CDS	161	-1	-15	MSCI Asiax	503	3.35%	8.71%
Philippines 5Y CDS	107	2	-14	HSI	20,734	2.19%	6.52%
Indonesia 5Y CDS	203	0	-30	STI	2,892	1.86%	8.71%
Thailand 5Y CDS	138	3	-19	KLCI	1,720	1.74%	2.73%
				JCI	4,885	0.16%	3.75%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
21-Mar-16	BreadTalk Group Ltd	NR/NR/NR	SGD75mn	3-year	4.6%
18-Mar-16	UOB Ltd	NR/A2/A+	USD200mn	10-year	CT10+213bps
18-Mar-16	Korea Development Bank	AA-/Aa2/AA-	USD150mn	3-year	3mL+85bps
18-Mar-16	Korea Development Bank	AA-/Aa2/AA-	USD150mn	5-year	3mL+95bps
17-Mar-16	Ascendas Pte Ltd	NR/NR/NR	SGD75mn	10-year	3.5%
17-Mar-16	Lum Chang Holdings	NR/NR/NR	SGD50mn	3-year	5.5%
17-Mar-16	Shinhan Bank	BBB+/Baa1/BBB+	USD500mn	10-year	CT10+205bps
16-Mar-16	Ascott REIT	NR/Baa3/NR	SGD120mn	8-year	4.0%

Source: OCBC, Bloomberg

Credit Headlines:

Financials: Caixin reported that loan coverage ratios (LCR) may be lowered for 7 major banks in China from the current 150% coverage ratio requirement. LCR requirements at Agricultural Bank of China, China Construction Bank and Bank of China could be cut to 130%, while the ratio at Industrial and Commercial Bank of China, Bank of Communications, China Merchants Bank and Industrial Bank could be lowered to 140%. This move adds to growing measures for banks to tackle China's rising bad loans including bad debt for equity swaps at troubled borrowers and allowing certain banks to issue asset-backed securities using non-performing loans as the underlying asset. While the actions could protect bank profitability through lower provisioning and allow banks to continue growing their assets while maintaining capital ratios, the main credit concern is the rising bad loan levels and bank's ability to grow their asset base with discipline (OCBC, Caixin).

Ezra Holdings Ltd ("Ezra"): Ezra has initiated its second consent solicitation in recent history, for its sole outstanding bond maturing in 2018. In the previous consent solicitation, one of the amendments were Ezra relaxing its interest coverage covenant to 1.75x (till August 2016), 2.5x (till August 2017) and 3.0x (there after). However, based on Ezra's subsequent 1QFY2016 results (ending November 2015), we believed that Ezra will have a tough time meeting its interest coverage covenant for 1HFY2016's test period (please see OCBC Asia Credit – Ezra Credit Update 020216 for more information). The current consent solicitation seeks to address this by including a cure mechanism to Ezra's existing interest coverage covenants. Specifically, till end-February 2017, Ezra will be able to cure the interest coverage covenant by maintaining 2 periods worth of bond coupon in an interest service reserve account. Post February 2017, Ezra will be able to cure the interest coverage covenant by maintaining 1 period's worth of bond coupon in the account. It should be noted that post February 2017, the cure mechanism will not be available to Ezra if interest coverage is lower than 1.0x. We will be publishing our views regarding the consent solicitation in the near future. It is worth noting that Ezra has also redeemed its SGD95mn in bonds maturing on 21/03/16. This was refinanced by a SGD100mn term loan that was secured against Ezra's shareholdings in EMAS Offshore and Triyards. (Company, OCBC)

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