

Mar 30, 2016

Market Commentary: The SGD swap curve traded lower yesterday, with the short-to-belly-end rates trading 6bps-10bps lower, while the long-end rates traded 29bps lower. In the broader dollar space, JACI IG corporates spread is level at 232bps, while the yield on the JACI HY corporates stayed flat at 7.80%. 10y UST decreased by 8bps to 1.80% as treasuries rose following Chair Yellen's cautious comments on the pace of US interest rate policy in response to the current global economic outlook.

New Issues: Japan Finance Organization for Municipalities (JFM) mandates BofAML, Daiwa, Goldman Sachs, JP Morgan for a potential USD issue. The Government of Mongolia priced a USD500mn 5-year bond at 10.875%, tightening from an initial guidance of 11%. The expected issue rating is "B/B2/B".

Rating Changes: Moody's, Fitch and S&P assigned investment grade "Baa3/BBB-/BBB-" corporate credit ratings respectively with stable outlooks to Adani Transmission ("Adani"). Moody's and S&P also assigned a provisional "Baa3" rating and a preliminary "BBB-" long-term issue rating respectively to the company's proposed issuance of Indian rupee senior secured notes, subject to a review of the final issuance documentation. Similarly, Fitch also assigned a local currency issuer default rating of "BBB-" for the proposed issue. Moody's confirmed Yingde Gases Group Co Ltd ("Yingde Gases") "B1" corporate family rating, as well as the "B2" senior unsecured rating on the bonds by Yingde Gases Investment Ltd and guaranteed by Yingde Gases. Outlook is negative. The ratings confirmation reflects Moody's expectation that Yingde Gases can withstand the negative impact from the current very weak steel industry conditions in China. At the same time, Fitch Ratings downgraded Yingde Gases long-term issuer default rating to "B+" from "BB", as well as the senior unsecured debt ratings of Yingde Gases and Yingde Gases Investment Ltd to "B+" from "BB". The downgrade reflects the increase in Yingde Gases' customer risk and weakening bargaining power, especially in the steel sector. Outlook is stable.

Table 1: Key Financial Indicators

	30-Mar	1W chg (bps)	1M chg (bps)		30-Mar	1W chg	1M chg
iTraxx Asiax IG	151	-1	-5	Brent Crude Spot (\$/bbl)	39.14	-5.78%	8.81%
iTraxx Sovx APAC	57	-1	-18	Gold Spot (\$/oz)	1,241.05	0.53%	0.55%
iTraxx Japan	92	--	-7	CRB	171.47	-2.78%	5.06%
iTraxx Australia	143	-2	-13	GSCI	324.21	-3.55%	6.78%
CDX NA IG	83	1	-25	VIX	13.82	0.22%	-32.75%
CDX NA HY	102	0	3	CT10 (bp)	1.809%	-6.98	7.41
iTraxx Eur Main	76	2	-23	USD Swap Spread 10Y (bp)	-13	1	3
iTraxx Eur XO	322	13	-86	USD Swap Spread 30Y (bp)	-47	3	6
iTraxx Eur Snr Fin	95	4	-13	TED Spread (bp)	41	7	9
iTraxx Sovx WE	26	-1	-8	US Libor-OIS Spread (bp)	25	1	1
iTraxx Sovx CEEMEA	154	6	-35	Euro Libor-OIS Spread (bp)	11	0	-5
					30-Mar	1W chg	1M chg
				AUD/USD	0.764	0.67%	6.93%
				USD/CHF	0.966	0.70%	3.53%
				EUR/USD	1.129	0.88%	3.58%
				USD/SGD	1.353	0.83%	3.87%
Korea 5Y CDS	66	1	-1	DJIA	17,633	0.05%	6.76%
China 5Y CDS	123	-3	-10	SPX	2,055	0.17%	6.35%
Malaysia 5Y CDS	157	-2	-18	MSCI Asiax	496	-1.15%	8.55%
Philippines 5Y CDS	105	-1	-14	HSI	20,366	-1.48%	6.56%
Indonesia 5Y CDS	200	-3	-30	STI	2,819	-2.14%	5.72%
Thailand 5Y CDS	138	--	-14	KLCI	1,715	-0.56%	3.64%
				JCI	4,781	-2.13%	0.22%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
29-Mar-16	Government of Mongolia	B/B2/B	USD500mn	5-year	10.875%
24-Mar-16	Yunnan Provincial Investment Holdings	NR/NR/BBB+	USD300mn	3-year	3.375%
24-Mar-16	TMB Bank Public Co Ltd	BBB-/Baa2/BBB-	USD300mn	5.5-year	3.108%
23-Mar-16	ABN AMRO Bank	Baa3/BBB-/A-	SGD450mn	10-year	4.75%
23-Mar-16	Blue Sky Fliers Co	NR/NR/NR	USD120mn	3-year	6.90%
22-Mar-16	TA Corporation Ltd	NR/NR/NR	SGD40mn	2-year	5.5%
22-Mar-16	Republic of Indonesia	BB+/Baa3/BBB-	USD750mn	5-year	3.4%
22-Mar-16	Republic of Indonesia	BB+/Baa3/BBB-	USD1.75bn	10-year	4.55%

Source: OCBC, Bloomberg

Note: Ratings for ABN AMRO Bank reflects issue ratings

Credit Headlines:

Nam Cheong Limited ("NCL"): NCL has received a notice of termination / cancellation from Petra Offshore Limited, a wholly-owned subsidiary of Perdana Petroleum Berhad ("Perdana"). This is related to the sale of one unit of Accommodation Work Barge ("AWB") ordered by Perdana from NCL during June 2014. NCL's position is that the notice of termination / cancellation is not valid, and is tantamount to the repudiation of the contract by Perdana, which entitles NCL to compensation. The original contract was for two AWB for USD84mn in aggregate. As such, we estimate that the AWB cancellation would impact USD42mn (~MYR168mn) worth of the existing order book of MYR1.2bn. As the AWBs were scheduled to be delivered in 2016, there could be some revenue already recognized (due to percentage of completion revenue recognition) and these may have to be reversed. For now, it looks like the other AWB contract is still valid, but if the legal battle escalates, or if the Perdana relationship sours further, the other AWB delivery may also be at stake. We will continue to hold our Negative Issuer Profile rating (Company, OCBC).

Bank of Communications Co., Ltd. (BOCOM) reported its FY2015 results with net interest margins compressed to 2.22% in FY2015 from 2.36% in FY2014. The bank's efficiency ratio was relatively stable at 30.54% while net profit rose by 1% to RMB66bn, largely due to a 18% y/y increase in net fee and commission income (mostly management and agency services) as well as strong asset growth (14% y/y). As a result of asset growth, return on equity and return on assets weakened slightly as did BOCOM's capital ratios with Tier 1 CER at 11.14% (FY2014: 11.30%) and the total capital ratio at 13.49% (FY2014: 14.04%). Asset quality indicators weakened as expected, mostly for loans overdue by more than 90 days, with the NPL ratio rising to 1.51% (FY2014: 1.25%) and the LLCR falling to 155.6% (FY2014: 178.9%) although it should be noted that BOCOM's NPL ratio remains better than the industry average for mainland China banks of 1.67%. Similarly, BOCOM's loan to deposit ratio remained stable at around 75% as management sought to balance asset growth with liabilities. Overall BOCOM's results are slightly better than anticipated. The trend though was as expected and reflect industry wide pressures that will also influence the results of China's other major banks as they report in the coming days. We expect 2016 to be another challenging year for China's banks as they struggle with slowing growth, rising profit pressures and ongoing asset rationalization. (Company, OCBC)

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