

Jun 20, 2017

**Credit Headlines (Page 2 onwards):** Industry Outlook – Australian Banks

**Market Commentary:** The SGD swap curve bull-flattened yesterday, with swap rates trading 4-6bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, STHSP 3.95%-PERP, CHIPEN 4.9%'22s, mixed interest seen in BAER 5.75%-PERPs. In the broader dollar space, the spread on JACI IG corporates added 1bps to 197bps, while the yield on JACI HY corporates changed little at 6.75%. 10y UST yields rose 4bps to 2.19%, with a selloff sparked by comments from U.S Federal Reserve's William Dudley.

**New Issues:** Industrial & Commercial Bank of China Ltd. (Hong Kong Branch) priced a USD700mn 2-tranche deal, with the USD300mn 3-year piece at 3mL+77bps, tightening from initial guidance of 3mL+100bps; the USD400mn 5-year piece at 3mL+90bps, tightening from initial guidance of 3mL+110bps. The expected issue ratings are 'NR/A1/NR'. Road King Infrastructure priced a USD300mn Perp NC5 at 7%, tightening from initial guidance of 7.375%. Prime Bloom Holdings Ltd. hired banks for potential USD bond issuance (guaranteed by Shandong Ruyi Technology Group Co. Ltd.). The expected issue ratings are 'B/B3/NR'. Adani Ports & Special Economic Zone Ltd. scheduled investor roadshow from 20 Jun for potential USD 10-year bond issuance. The expected issue ratings are 'BBB-/Baa3/BBB-'. China Reinsurance Finance Corporation Ltd. scheduled investor roadshow from 20 Jun for potential re-tap of its USD bond maturing in 2022. NongHyup Bank scheduled investor roadshow from 26 Jun for potential USD issuance.

**Rating Changes:** Moody's affirmed Adani Ports and Special Economic Zone Limited's (APSEZ) 'Baa3' issuer and senior unsecured rating. In addition, Moody's revised the outlook to stable from negative. The rating action reflects the stabilization in the company's operating performance and a decline in its financial leverage.

**Table 1: Key Financial Indicators**

	20-Jun	1W chg (bps)	1M chg (bps)		20-Jun	1W chg	1M chg
iTraxx Asiax IG	85	1	-5	Brent Crude Spot (\$/bbl)	46.95	-3.63%	-12.42%
iTraxx SovX APAC	18	0	-2	Gold Spot (\$/oz)	1,245.58	-1.66%	-1.19%
iTraxx Japan	40	-1	-3	CRB	171.28	-2.64%	-7.45%
iTraxx Australia	83	0	0	GSCI	361.38	-2.30%	-7.58%
CDX NA IG	60	1	-2	VIX	10.37	-9.51%	-13.87%
CDX NA HY	107	0	0	CT10 (bp)	2.183%	-2.82	-5.19
iTraxx Eur Main	56	-2	-7	USD Swap Spread 10Y (bp)	-2	1	4
iTraxx Eur XO	232	-5	-21	USD Swap Spread 30Y (bp)	-34	6	12
iTraxx Eur Snr Fin	60	-2	-8	TED Spread (bp)	26	1	-1
iTraxx Sovx WE	7	0	-3	US Libor-OIS Spread (bp)	12	2	-2
iTraxx Sovx CEEMEA	52	4	5	Euro Libor-OIS Spread (bp)	3	0	0
					20-Jun	1W chg	1M chg
				AUD/USD	0.759	0.68%	1.48%
				USD/CHF	0.975	-0.63%	-0.16%
				EUR/USD	1.116	-0.49%	-0.72%
				USD/SGD	1.386	-0.38%	-0.01%
Korea 5Y CDS	50	-1	-6	DJIA	21,529	1.38%	3.48%
China 5Y CDS	66	-1	-13	SPX	2,453	0.99%	3.01%
Malaysia 5Y CDS	83	-2	-19	MSCI Asiax	627	0.36%	2.87%
Philippines 5Y CDS	74	0	-5	HSI	25,910	0.22%	2.92%
Indonesia 5Y CDS	115	2	-10	STI	3,240	-0.53%	0.72%
Thailand 5Y CDS	59	3	3	KLCI	1,784	-0.01%	0.90%
				JCI	5,755	0.84%	-0.63%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
19-Jun-17	Industrial & Commercial Bank of China Ltd.	"NR/A1/NR"	USD300mn	3-year	3mL+77bps
19-Jun-17	Industrial & Commercial Bank of China Ltd..	"NR/A1/NR"	USD400mn	5-year	3mL+90bps
19-Jun-17	Road King Infrastructure	Not Rated	USD300mn	Perp NC5	7%
15-Jun-17	Greenland Global Investment Ltd.	Not Rated	USD500mn	1-year	4.0%
15-Jun-17	Hainan Airlines (Hong Kong) Co., Ltd.	Not Rated	USD300mn	1-year	5.5%
14-Jun-17	Sembcorp Industries Ltd	Not Rated	SGD200mn	Perp NC3	3.7%
14-Jun-17	China Three Gorges Finance II (Cayman Islands) Ltd	"NR/A1/A+"	EUR650mn	7-year	MS+93bps
13-Jun-17	Marble II Pte. Ltd.	Not Rated	USD500mn	5NC2	5.3%
12-Jun-17	Lippo Malls Indonesia Retail Trust	Not Rated	SGD120mn	Perp NC5.5	6.6%

Source: OCBC, Bloomberg

**Rating Changes (cont'd):** Moody's has downgraded the Baseline Credit Assessments (BCAs) and long-term ratings of 12 Australian banks and their affiliates by one notch, The rating outlook is stable. The rating action reflects elevated risks in the household sector which heighten the sensitivity of the banks' credit profiles to an adverse shock. In addition, Moody's affirmed the BCAs and long-term ratings of another six Australian banks and their affiliates, with stable outlook. The rating action reflects the balance sheet buffers and resilience to potential shocks for these banks. In particular, the four major Australian banks' (Australia New Zealand Banking, Commonwealth Bank of Australia, National Australia Bank, Westpac Banking Corp) long-term ratings were downgraded to 'Aa3' from 'Aa2', while their BCA were downgraded to 'A2' from 'A1'. The rating outlook for these four banks were revised to stable from negative.

## **Credit Headlines:**

**Industry Outlook – Australian Banks:** As mentioned in the Rating Changes, Moody's has downgraded 12 out of 18 rated banks in Australia. The rating action mainly reflects the elevated risks in the household sector, which remains an important credit consideration. Despite improvements in banks' capital and liquidity in recent years, the banking industry faces (1) high levels of household debt from significant house price appreciation, (2) low nominal income growth, and (3) rising levels of underemployment. The remaining six banks which were not affected by the sector-wide downgrade (e.g. Suncorp-Metway Limited, Macquarie Bank Limited) have less exposure to the household sector. Moody's has also noted that the Australian banks remain reliant on wholesale funding which dents the industry's funding conditions. The exposure of the Australian banks to confidence-sensitive form of funding is the greatest weakness of their credit profiles. That said, the long-term ratings of the four major Australian banks (baseline credit rating downgraded to 'A2' from 'A1'), Australia New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank, Westpac Banking Corp, (collectively account for over 80% total banking assets) continue to incorporate an uplift which reflects a "very high" probability of government support, in case of need. (Moody's, OCBC)

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