

June 12, 2018

Credit Headlines: HSBC Holdings PLC

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 1-2bps higher while swap rates for the longer tenors traded 2-4bps higher.
- Flows in SGD corporates were moderate yesterday, with better buying seen in HSBC 4.7%-PERPs and better selling seen in GEMAU 5.5%'19s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 138bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 451bps.
- While 10Y UST yield traded little changed at 2.95%, intra-day movements were volatile. In the earlier part of the trading session, 10Y UST yields rose by 2bps to 2.97% as the Fed is expected to raise interest rates this Wednesday. However, yield movements reversed to close at 2.95% towards the latter part of the trading session, possibly due to safe haven flows ahead of the historic summit between President Donald Trump and North Korean leader Kim Jong Un.

Credit Headlines

HSBC Holdings PLC ("HSBC") | Issuer Profile: Positive (2)

- HSBC announced a strategy update focused on a return to growth to improve returns including a target Return on Tangible Equity of above 11% by 2020, positive JAWs (income growth rate greater than expense growth rate) and a Common Equity Tier 1 ratio of above 14%.
- Underpinning the announcement were 8 strategic priorities including growing HSBC's Asian franchises (particularly Hong Kong, ASEAN, Asian Wealth and Asset Management), turning around its US business (HSBC's biggest generator of outbound client revenue), improving capital efficiency (risk weighted asset reduction with revenue growth) and investing USD15-17bn over 2018-2020 with most of the investments going towards growth and the rest towards technology.
- This strategy announcement does not alter our view of HSBC's credit fundamentals which is based on its size and operating diversity. While rising investment costs will detract from future earnings, underlying business growth in key segments along with a still constructive outlook for banks should support capital generation and continuation of our Positive (2) Issuer Profile. (OCBC, Company)

Table 1: Key Financial Indicators

	12-Jun	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	79	2	4
iTraxx SovX APAC	13	0	1
iTraxx Japan	52	0	6
iTraxx Australia	71	2	6
CDX NA IG	65	1	5
CDX NA HY	107	0	-1
iTraxx Eur Main	71	6	17
iTraxx Eur XO	300	12	32
iTraxx Eur Snr Fin	84	9	26
iTraxx Sovx WE	26	1	8
AUD/USD	0.762	0.01%	1.21%
EUR/USD	1.177	0.40%	-1.36%
USD/SGD	1.335	-0.05%	0.04%
China 5Y CDS	56	0	-2
Malaysia 5Y CDS	97	4	6
Indonesia 5Y CDS	128	5	13
Thailand 5Y CDS	44	0	0

	12-Jun	1W chg	1M chg
Brent Crude Spot (\$/bbl)	76.52	1.51%	-0.78%
Gold Spot (\$/oz)	1,298.78	0.18%	-1.12%
CRB	199.39	0.27%	-2.05%
GSCI	475.35	0.67%	-1.87%
VIX	12.35	-3.06%	-2.37%
CT10 (bp)	2.944%	1.66	-2.52
USD Swap Spread 10Y (bp)	6	0	3
USD Swap Spread 30Y (bp)	-7	1	2
TED Spread (bp)	41	1	-4
US Libor-OIS Spread (bp)	40	0	-7
Euro Libor-OIS Spread (bp)	3	0	1
DJIA	25,322	2.05%	1.98%
SPX	2,782	1.28%	1.99%
MSCI Asiax	724	-0.08%	0.02%
HSI	31,046	-0.15%	-0.24%
STI	3,434	-1.40%	-3.81%
KLCI	1,770	0.83%	-4.16%
JCI	5,994	0.17%	0.62%

Source: OCBC, Bloomberg

New issues

- National Australia Bank Ltd/New York has priced a USD1.6bn deal across three-tranches, with the USD500mn 3.25-year bond priced at CT3+80bps, tightening from its initial price guidance of CT3+85bps; the USD750mn 5-year bond priced at CT5+90bps, tightening from its initial price guidance of CT5+105bps and the USD350mn 3.25-year FRN priced at 3mL+58bps, in line with its initial price guidance.
- Qingdao Jiaozhou Bay Development Co Ltd has priced a USD120mn 3-year bond at 6.9%, tightening from its initial price guidance of 7%.
- China Aoyuan Property Group Ltd has priced a USD225mn re-tap of its CAPG 7.5%'21 bond (guaranteed by certain non-PRC subsidiaries of the issuer) at 8.25%, tightening from its initial price guidance of 8.375%.

Date	Issuer	Size	Tenor	Pricing
11-June-18	National Australia Bank Ltd/New York	USD500mn	3.25-year	CT3+80bps
11-June-18	National Australia Bank Ltd/New York	USD750mn	5-year	CT5+90bps
11-June-18	National Australia Bank Ltd/New York	USD350mn	3.25-year	3mL+58bps
11-June-18	Qingdao Jiaozhou Bay Development Co Ltd	USD120mn	3-year	6.9%
11-June-18	China Aoyuan Property Group Ltd (re-tap)	USD225mn	CAPG 7.5%'21	8.25%
7-June-18	Asian Development Bank (re-tap)	GBP100mn	ASIA 1.375%'23	99.985+accrued interest
7-June-18	Export-Import Bank of Korea	CNH1.5bn	3-year	4.65%
7-June-18	ASB Bank Ltd	USD500mn	5-year	3mL+97bps
7-June-18	ASB Bank Ltd	USD500mn	5-year	CT5+110bps
6-June-18	China Everbright Bank Co Ltd/Hong Kong	USD300mn	3-year	3mL+85bps
6-June-18	China Everbright Bank Co Ltd/Hong Kong	EUR300mn	3-year	3mE+75bps
6-June-18	Astrea IV Pte Ltd	SGD242mn	10NC5	4.35%
6-June-18	Astrea IV Pte Ltd	USD210mn	10NC5	5.5%
6-June-18	Astrea IV Pte Ltd	USD110mn	10-year	6.75%
5-June-18	Industrial and Commercial Bank of China Ltd (London Branch)	USD500mn	5-year	3mL+83bps
5-June-18	Industrial and Commercial Bank of China Ltd (London Branch)	USD500mn	3-year	3mL+73bps
5-June-18	Industrial and Commercial Bank of China Ltd (London Branch)	EUR500mn	3-year	3mE+50bps

Andrew Wong

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

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei

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

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