

Aug 17, 2018

**Credit Headlines:** CapitaLand Ltd, City Developments Ltd, Industry Outlook – Financial Institutions

## **Market Commentary**

- The SGD swap curve was lower yesterday, with swap rates for the shorter tenors as well as the belly trading 3-4bps lower while the longer tenors traded 1-2bps lower.
- Flows in SGD corporates were heavy yesterday, with flows seen in FPLSP 3.95%-PERPs, OLAMSP 5.5%-PERPs, UOBSP 3.5%'29s and MAPSLP 3.95%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 482bps.
- 10Y UST yields rose 4bps in the earlier part of the trading session as new trade talks between US and China reduced demand for safe havens. Yields were subsequently offset by 3bps to close at 2.87% after US Treasury Secretary Steven Mnuchin said that the United States were ready to impose more sanctions on Turkey if detained American pastor Andrew Brunson was not released.

## **Credit Headlines:**

**CapitaLand Ltd (“CAPL”) | Issuer Profile: Neutral (3) and City Developments Ltd (“CDL”) | Issuer Profile: Positive (2)**

- Under a two-envelope Concept and Price Revenue tender system, CAPL and CDL under a joint venture won a mixed-use residential and commercial site in Sengkang Central for SGD777.78mn (SGD923.60 psf GFA), with completion targeted in 1H2022.
- Noting that the bids were submitted at end June 2018 before the [cooling measures were announced in July](#) that will likely impact transaction volumes and slow down the run up in prices, the price paid for the site may be on the more optimistic end. Nevertheless, we note that CAPL and CDL are targeting first-time home buyers and upgraders, who are less affected by the cooling measures. (Company, OCBC)

## Credit Headlines (cont'd):

### **Industry Outlook – Financial Institutions:**

- The Australian Prudential Regulation Authority (“APRA”) released a discussion paper earlier this week regarding the bank capital framework in Australia. This has been a focus for the regulator to ensure that Australian banks have ‘unquestionably strong’ capital ratios or positions to protect against future stress. The current minimum CET1 requirement is 10.5% by January 2020 with Australia & New Zealand Banking Group Ltd (“ANZ” - Issuer Profile: Positive (2)) currently already above it at 11.1%, while National Australia Bank Ltd (Issuer Profile: Positive (2)) is at 9.7% and Commonwealth Bank of Australia is at 10.1% as of 30 June 2018. Westpac Banking Corporation’s (“Westpac” - Issuer Profile: Positive (2)) CET1 ratio as at 31 March 2018 was at 10.5%.
- Reported or APRA compliant capital ratios for Australian banks are however not comparable to Basel III international standards and much more conservative with APRA compliant capital ratios lower by around 485bps due to relative conservatism within the definition of capital (130bps), relative conservatism in the determination of RWA in the IRB framework (270bps) and upward adjustments to the IRB residential mortgage risk weight function, introduced from 1 July 2016 (85bps). As an example, as at 31 March 2018 the internationally comparable CET1 ratios for ANZ and WBC were 16.3% and 16.1% respectively compared to 11.0% and 10.5%. These internationally comparable ratios however are based on each bank’s interpretation of Basel III regulations and hence could be not directly comparable.
- APRA’s discussion paper dated 14<sup>th</sup> August is seeking to gain inputs for draft revised prudential standards planned in 2019 to improve the comparability of Australian bank capital ratios to international standards to address possible misperceptions on the strength of the Australian banking system given the lower reported capital ratios mentioned above. According to APRA, this in turn could raise funding costs or impede access to capital markets for Australia banks, which is important given Australian Banks’ relative reliance on wholesale funding.
- The two potential changes to the current APRA approach (APRA has also flagged that the current approach could also be retained) are:
  - Establish a methodology to convert the APRA compliant capital ratios into estimated Basel III compliant capital ratios for disclosure purposes only. This approach would be subject to mandatory reporting requirements and consistently applied (ie: two sets of ratios calculated).
  - Modify the conservative aspects of the current bank capital framework so reported capital ratios are more consistent with internationally recognized Basel III ratios (ie: one set calculated). This would then lead to a reassessment or corresponding increase in the definition of the 10.5% minimum CET1 capital requirement for a bank to have unquestionably strong capital ratios.
- APRA has flagged that while these changes if implemented will not raise the quantum of capital needed above current requirements, APRA is also looking at whether there is a need to increase the size of the Capital Conservation Buffer relative to the size of the minimum Prudential Capital Requirement.
- While capital requirements for Australian banks could remain dynamic in the future, we expect credit profiles for Australian banks to remain solid given the pro-active regulatory environment and their strong capital positions. (OCBC, Company, APRA)

**Table 1: Key Financial Indicators**

	17-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	83	3	-5
iTraxx SovX APAC	11	1	-2
iTraxx Japan	56	2	-5
iTraxx Australia	76	4	-5
CDX NA IG	61	2	1
CDX NA HY	107	0	0
iTraxx Eur Main	71	7	7
iTraxx Eur XO	305	12	16
iTraxx Eur Snr Fin	86	6	11
iTraxx Sovx WE	28	2	4
AUD/USD	0.726	-0.63%	-1.80%
EUR/USD	1.137	-0.39%	-2.50%
USD/SGD	1.376	-0.20%	-0.82%
China 5Y CDS	61	1	-3
Malaysia 5Y CDS	88	5	-7
Indonesia 5Y CDS	124	11	7
Thailand 5Y CDS	43	0	-1

	17-Aug	1W chg	1M chg
Brent Crude Spot (\$/bbl)	71.33	-2.03%	-1.15%
Gold Spot (\$/oz)	1,172.79	-3.12%	-4.46%
CRB	188.38	-2.11%	-1.42%
GSCI	449.37	-1.71%	-0.49%
VIX	13.45	19.34%	11.53%
CT10 (bp)	2.866%	-0.73	0.59
USD Swap Spread 10Y (bp)	7	1	0
USD Swap Spread 30Y (bp)	-7	0	-2
TED Spread (bp)	26	-4	-11
US Libor-OIS Spread (bp)	25	-5	-10
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,559	0.19%	1.75%
SPX	2,841	-0.45%	1.11%
MSCI Asiax	641	-4.04%	-3.86%
HSI	27,100	-5.27%	-3.84%
STI	3,212	-3.45%	-0.86%
KLCI	1,777	-1.53%	2.30%
JCI	5,784	-4.64%	-1.33%

## New issues

- Export-Import Bank of China has priced a USD680mn 3-year FRN at 3mL+60bps.
- Oversea-Chinese Banking Corp Ltd has priced a SGD1bn Perp NC5 AT1 at 4%, tightening from its initial price guidance of 4.375%.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
16-Aug-18	Export-Import Bank of China	USD680mn	3-year	3mL+60bps
16-Aug-18	Oversea-Chinese Banking Corp Ltd	SGD1bn	Perp NC5	4.0%
15-Aug-18	Industrial & Commercial Bank of China Asia Ltd	USD100mn	2-year	3mL+70bps
14-Aug-18	CMT MTN Pte Ltd	SGD150mn	7-year	3.2%
13-Aug-18	BCEG HongKong Co Ltd	USD600mn	3-year	5.75%
10-Aug-18	Nimble City Ltd	USD250mn	2NC1	9.0%
8-Aug-18	Tuspark Forward Ltd	USD350mn	3-year	8.5%
8-Aug-18	Powerlong Real Estate Holdings Ltd	USD250mn	PWRLNG 5.95%'20s	9%+accrued interest
7-Aug-18	Shinhan Financial Group	USD500mn	Perp NC5	5.875%
6-Aug-18	SK Broadband Co Ltd	USD300mn	5-year	CT5+117.5bps
2-Aug-18	Power Finance Corp Ltd	USD300mn	10-year	CT10+235bps
2-Aug-18	Sands China Ltd	USD1.8bn	5-year	CT5+175bps
2-Aug-18	Sands China Ltd	USD1.8bn	7-year	CT7+220bps
2-Aug-18	Sands China Ltd	USD1.9bn	10-year	CT10+245bps
2-Aug-18	Wuhan Real Estate Development Investment Group Co Ltd	USD430mn	3-year	5.7%
2-Aug-18	Bank of China Ltd/Macau	USD300mn	3-year	3mL+75bps
31-Jul-18	Lotte Property & Development Co Ltd	USD200mn	3-year	3mL+92.5bps

Source: OCBC, Bloomberg

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