

Mar 23, 2018

Market Commentary

- The SGD swap curve fell yesterday, with swap rates for the shorter tenors trading 2-5bps lower while the longer tenors traded 5-6bps lower.
- Flows in SGD corporates were moderate yesterday.
- In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 121bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 367bps.
- 10Y UST yields fell 6bps to 2.82% on rising risk aversion as Donald Trump announced steps to institute new tariffs and penalties to crack down on China's intellectual properties practices. This heightened concerns of a potential global trade war which led to 10Y UST yields falling.

Credit Headlines

The Bank of East Asia, Limited ("BEA") | Issuer Profile: Not Covered

- BEA's FY2017 results were solid with overall operating income up 8.4% y/y driven by improved net interest income (net interest margin increased from 1.60% to 1.65% y/y and average interest bearing assets increased by 3.3%).
- Expenses were down 1.7% y/y due to branch digitization and branch rationalization.
- Loan impairments fell from a mix of more conservative underwriting standards, reduced exposure to stressed sectors and tighter limits on loan growth. Together with loan growth, BEA's overall non-performing loan ('NPL') ratio fell to 1.09% in FY2017 from 1.49% in FY2016. Mainland China's impaired loan ratio fell from 2.87% to 1.79% while Hong Kong's impaired loan ratio fell from 1.03% to 0.91%.
- This all translated to a 78% rise in operating profit after impairment losses. On a segment basis, personal banking was the key driver to operating profit growth while corporate banking was weaker y/y due to competition as well as a more conservative and selective lending approach.
- Strong earnings as well as issuance of AT1 translated into solid growth in capital ratios with reported CET1 ratio at 13.2%, up from 12.1% in FY2016.
- 2 things to note though from the results:
 - First are the [conclusions](#) from the BIS March quarterly report which highlighted Hong Kong as most vulnerable to a banking sector crisis based on broad based weakness across early warning indicators such as financial imbalances from elevated systemic leverage which are amplified by recent property price appreciation. BEA's loan portfolio is around 40% exposed to property in both HK (21%) and China (19%) from both property development and investment from corporates and residential mortgages. Although the prospect of higher interest rates from the Federal Reserve's interest rate normalization should be positive for bank earnings in FY2018, higher property prices and increased leverage (Our OCBC Hong Kong economist recently highlighted that the total household debt to GDP ratio rose to a record high of 69% at end of 2017, compared to the twenty-year average of 59%) continues to increase earnings vulnerability to asset quality and debt serviceability issues and a property price correction.
 - Secondly, both the Hong Kong economy and BEA have benefited from China's improved economic performance in 2017. This is expected to flow through to Chinese bank's results which are due for release next week. Profitability is expected to recover in 2017 following 2 weak years from slower credit growth and rising impairments. These impairments began stabilizing towards the end of 2016 and together with improved demand for credit, earnings are expected to be solid for 2017. Earnings are expected to improve further in 2018, particularly with the China Banking Regulatory Commission (CBRC) lowering the minimum loan-loss reserve coverage for Chinese banks' NPLs to 120% from 150%, which potentially frees up capital to deploy as loans.

Table 1: Key Financial Indicators

	23-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	78	12	7
iTraxx SovX APAC	13	2	0
iTraxx Japan	50	3	6
iTraxx Australia	68	11	6
CDX NA IG	65	10	8
CDX NA HY	106	0	0
iTraxx Eur Main	60	9	6
iTraxx Eur XO	290	31	20
iTraxx Eur Snr Fin	66	13	10
iTraxx Sovx WE	18	-1	-2
AUD/USD	0.771	-0.03%	-1.68%
EUR/USD	1.234	0.38%	0.34%
USD/SGD	1.315	0.22%	0.36%
China 5Y CDS	65	9	7
Malaysia 5Y CDS	74	10	10
Indonesia 5Y CDS	104	14	15
Thailand 5Y CDS	45	6	3

	23-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	69.69	5.26%	3.54%
Gold Spot (\$/oz)	1,338.29	1.83%	0.72%
CRB	195.23	0.69%	-0.39%
GSCI	450.30	1.28%	-0.27%
VIX	23.34	40.69%	41.54%
CT10 (bp)	2.795%	-4.92	-7.07
USD Swap Spread 10Y (bp)	4	-1	3
USD Swap Spread 30Y (bp)	-15	-1	4
TED Spread (bp)	59	14	28
US Libor-OIS Spread (bp)	56	6	22
Euro Libor-OIS Spread (bp)	3	1	0
DJIA	23,958	-3.68%	-5.34%
SPX	2,644	-3.77%	-3.77%
MSCI Asiax	733	-1.66%	-0.47%
HSI	30,104	-4.44%	-3.72%
STI	3,424	-2.50%	-3.08%
KLCI	1,866	1.07%	0.25%
JCI	6,141	-2.60%	-7.23%

Source: OCBC, Bloomberg

New issues

- Baidu Inc has priced a USD1.5bn deal across two-tranches, with the USD1bn 5.5-year bond priced at CT5.5+125bps, tightening from its initial price guidance of CT5.5+140bps area and the USD500mn 10-year bond priced at CT10+160bps, tightening from its initial price guidance of CT10+180bps area.
- Lenovo Group Ltd (LENOVO) has priced a USD750mn 5-year bond at CT5+215bps, tightening from its initial price guidance of CT5+230bps area.
- Jinshine International Co Ltd has priced a USD400mn 3NP2 bond (guaranteed by Xuzhou Economic and Technology Development Zone State-owned Assets Management Co Ltd) at 6.75% , tightening from its initial price guidance of 7%.
- Blue Skyview Co Ltd has priced a USD60mn re-tap of its HONAIR 7.125%-Perp NC 2020 bond (guaranteed by Hong Kong Airlines International Ltd) at 100.
- Korea Resources Corp has scheduled for investor meetings from 3 Apr for its potential USD bond issuance.
- Ease Trade Global Ltd has scheduled for investor meetings from 22 Mar for its potential USD bond issuance (keepwell provider: China Poly Group, guaranteed by: Poly Property Group Co Ltd) .

Table 2: Recent Asian New Issues

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
22-Mar-18	Blue Skyview Co Ltd	USD60mn	HONAIR 7.125%-Perp NC 2020	100
22-Mar-18	Jinshine International Co Ltd	USD400mn	3NP2	6.75%
22-Mar-18	Lenovo Group Ltd	USD750mn	5-year	CT5+215bps
22-Mar-18	Baidu Inc	USD500mn	10-year	CT10+160bps
22-Mar-18	Baidu Inc	USD1bn	5.5-year	CT5.5+125bps
21-Mar-18	CCT MTN	SGD100mn	6-year	3.17%
20-Mar-18	Inter-American Development Bank	AUD200mn	IADB 3.74%'28	ASW+41bps
20-Mar-18	Nederlandse Waterschapsbank NV	AUD100mn	NEDWBK 3.45%'28	3.261%
20-Mar-18	The Republic of the Philippines	CNH1.46bn	3-year	5.0%
20-Mar-18	RH International Singapore Corp Pte Ltd	USD300mn	10-year	CT10+162.5bps

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