

Sept 28, 2018

Credit Headlines: Westpac Banking Corporation

Market Commentary

- The SGD swap curve bull flattened yesterday, with swap rates for the shorter tenors trading 2-4bps lower while the longer tenors traded 3-5bps lower.
- Flows in SGD corporates were heavy yesterday, with better buying seen in SRBJNG 4.11%'25s, DBSSP 3.98% PERPs, HSBC 5.0%-PERPs, HSBC 4.7%-PERPs and OCBCSP 4.0%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 468bps.
- While 10Y UST yields traded little changed at 3.05%, yields fell 2bps to 3.03% in the earlier part of the trading session on the back of safe haven demand due to concerns over the Italian budget. Yields subsequently rebounded 2bps to close at 3.05% due to weak demand at the USD31bn 7-year bond auction yesterday.

Credit Headlines:

Westpac Banking Corporation (“Westpac”) | Issuer Profile: Positive (2)

- Westpac has announced that full year earnings for the 12 months ending 30 Sept 2018 will be impacted by an estimated AUD235mn charge for higher provisions that relate to
 - Customer refunds for fees associated with poor or non-existent financial planning advice and associated costs;
 - Resolution of legacy product review issues and associated costs;
 - Recent litigation brought by the regulator over responsible lending practices and alleged interest-rate rigging.
- While the overall impact of these provisions should be contained with the AUD235mn charge expected to represent around a 3% hit to forecast full year cash earnings, it nevertheless affirms our view that earnings for Australian banks will be under pressure in the near term from higher regulatory and compliance costs as well as higher funding costs.
- We expect fundamentals to remain intact given banks' strong market positions and pricing power in the domestic market and a benign macro environment.
- Across the SGD Tier 2 papers on a yield to call basis, we think the ANZ 3.75% 27c22s, NAB 4.15% 28c23s and WBC 4.00% 27c22s are all trading fair against each other. (OCBC, Company)

Table 1: Key Financial Indicators

	28-Sep	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	80	0	2
iTraxx SovX APAC	9	0	-1
iTraxx Japan	57	-2	4
iTraxx Australia	75	0	4
CDX NA IG	59	-2	1
CDX NA HY	107	0	0
iTraxx Eur Main	67	-1	2
iTraxx Eur XO	267	2	-19
iTraxx Eur Snr Fin	80	2	0
iTraxx Sovx WE	23	0	-5
AUD/USD	0.721	-1.12%	-1.77%
EUR/USD	1.164	-0.93%	-0.47%
USD/SGD	1.368	-0.29%	-0.29%
China 5Y CDS	56	-1	1
Malaysia 5Y CDS	93	-3	7
Indonesia 5Y CDS	131	-1	16
Thailand 5Y CDS	41	--	0

	28-Sep	1W chg	1M chg
Brent Crude Spot (\$/bbl)	81.63	3.59%	7.48%
Gold Spot (\$/oz)	1,183.55	-1.37%	-1.45%
CRB	194.17	0.76%	1.28%
GSCI	481.24	2.12%	3.87%
VIX	12.41	5.17%	-0.72%
CT10 (bp)	3.048%	-1.48	16.76
USD Swap Spread 10Y (bp)	6	0	-1
USD Swap Spread 30Y (bp)	-6	0	-1
TED Spread (bp)	20	0	-3
US Libor-OIS Spread (bp)	17	-1	-5
Euro Libor-OIS Spread (bp)	3	-1	0
DJIA	26,440	-0.81%	1.44%
SPX	2,914	-0.57%	0.57%
MSCI Asiax	656	-0.57%	-2.32%
HSI	27,716	1.12%	-2.24%
STI	3,236	1.76%	-0.35%
KLCI	1,799	-0.28%	-1.55%
JCI	5,929	-0.03%	-1.88%

New issues

- The Independent State of Papua New Guinea has priced a USD500mn 10-year bond at 8.375%, tightening from its initial price guidance of 9.0%.
- Korea Expressway Corp has scheduled for investor meetings from 4 Oct for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
27-Sept-18	The Independent State of Papua New Guinea	USD500mn	10-year	8.375%
26-Sept-18	CIFIC Holdings (Group) Co Ltd	USD300mn	CIFIHG 5.5%'22s	8.625% + accrued interest
26-Sept-18	Surbana Jurong Pte Ltd	SGD350mn	7-year	4.11%
24-Sept-18	CFLD (Cayman) Investment Ltd	USD100mn	CHFOTN 9.0%'21s	8.991% + accrued interest
21-Sept-18	Lum Chang Holdings Limited	SGD40mn	3-year	5.8%
20-Sept-18	Soilbuild Business Space REIT	SGD65mn	Perp NC3	6.0%
19-Sept-18	ICICI Bank UK PLC	SGD100mn	10-year	5.375%
19-Sept-18	BOC Aviation Ltd	USD500mn	5-year	3mL+112.5bps
19-Sept-18	Country Garden Holdings Company Ltd	USD425mn	3-year	7.125%
19-Sept-18	Country Garden Holdings Company Ltd	USD550mn	5-year	8.0%
19-Sept-18	Zhenro Properties Group Ltd	USD280mn	2.25-year	13.70%
19-Sept-18	Easy Tactic Limited	USD200mn	3-year	8.875%
19-Sept-18	Maoye Intl Holdings	USD150mn	2-year	13.25%
19-Sept-18	Agricultural Development Bank of China	USD700mn	3-year	3mL+62bps
19-Sept-18	Agricultural Development Bank of China	CNH1.2bn	2-year	4.16%

Source: OCBC, Bloomberg

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