

July 4, 2018

Credit Headlines: Société Générale, Commerzbank AG

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 1bps higher while the longer tenors traded 1-2bps higher.
- Flows in SGD corporates were light yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 147bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 13bps to 532bps.
- Overall, 10Y UST yields fell 4bps to close at 2.83% as fears of a full-blown global trade war spurred demand for safe havens.

Credit Headlines:

Société Générale (“SG”) | Issuer Profile: Neutral (4) / Commerzbank AG (CMZB) | Issuer Profile: Neutral (4)

- CMZB has agreed to sell its Equity Markets & Commodities business (EMC) to SG.
- This sale has [been previously discussed](#) and is in line with Commerzbank’s 4.0 strategy which is focused on streamlining its core operating segments towards Private and Small Business Customers and Corporate Clients to reduce complexity and free up capital for investment in its core segments. The EMC business comprises the manufacturing and market making of flow and structured trading and investment products including market making for exchange-traded funds (‘ETFs’) under its ETF brand, Comstage.
- The transaction is subject to pre-clearance with tax authorities, approvals from relevant authorities and employee representative committees, and finalisation of documentation but is scheduled to be finalized (and commence transfer of trading books, client franchise, staff, and IT infrastructure) towards the end of 2018. This means that the impact will be seen in 2019 onwards. That said, the impact is not too material. EMC contributed around 4% to total revenues in FY2017 and the cost and capital impact for CMZB will be positive although at the moment indeterminable.
- For SG, the benefits of the transaction include an extension of its Global Banking and Investor Solutions business (~7% of consolidated profits in 1Q2018) and further diversification away from the low return domestic retail business from a product and geographic perspective. According to management, the transaction is also consistent with its 2020 strategic plan.
- Although this transaction appears positive for both, we are unlikely to change our issuer profiles on this news given the small contribution to both bank’s overall business. (OCBC, Company)

Table 1: Key Financial Indicators

	4-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	94	3	18
iTraxx SovX APAC	15	1	2
iTraxx Japan	57	3	14
iTraxx Australia	83	6	14
CDX NA IG	67	-1	3
CDX NA HY	106	0	-1
iTraxx Eur Main	74	0	9
iTraxx Eur XO	320	0	32
iTraxx Eur Snr Fin	89	0	15
iTraxx Sovx WE	25	-1	0
AUD/USD	0.739	0.67%	-3.39%
EUR/USD	1.166	0.95%	-0.30%
USD/SGD	1.365	0.21%	-2.06%
China 5Y CDS	69	3	13
Malaysia 5Y CDS	108	0	15
Indonesia 5Y CDS	136	-2	14
Thailand 5Y CDS	49	-1	4

	4-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	77.81	0.24%	3.35%
Gold Spot (\$/oz)	1,256.39	0.32%	-2.76%
CRB	197.48	0.12%	-0.70%
GSCI	481.00	1.68%	2.23%
VIX	16.14	1.38%	26.69%
CT10 (bp)	2.831%	0.53	-11.15
USD Swap Spread 10Y (bp)	8	0	2
USD Swap Spread 30Y (bp)	-5	1	2
TED Spread (bp)	39	-4	-2
US Libor-OIS Spread (bp)	39	-1	-2
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	24,175	-0.45%	-2.57%
SPX	2,713	-0.36%	-1.23%
MSCI Asiax	663	-0.21%	-8.28%
HSI	28,546	-1.44%	-7.91%
STI	3,236	-1.37%	-6.68%
KLCI	1,680	0.27%	-4.26%
JCI	5,634	-3.29%	-6.33%

New issues

- New Dian Group Pte Ltd has priced a USD100mn 2-year bond (guaranteed by Kunming Iron & Steel Holdings Co Ltd) at 7.50%.
- Legend Fortune Ltd has scheduled for investor meetings from 4-5 July for its potential USD bond issuance (guaranteed by CMB International Capital Corporation Ltd).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
3-Jul-18	New Dian Group Pte Ltd	USD100mn	2-year	7.50%
27-Jun-18	CapitaLand Retail China Trust	SGD130mn	4-year	3.25%
27-Jun-18	Korea National Oil Corp	USD400mn	5-year	3mL+87.5bps
26-Jun-18	Huarong Finance 2017 Co Ltd (re-tap)	USD150mn	HRAM 4.75%'27	95.941+accrued interest
26-Jun-18	Huarong Finance 2017 Co Ltd	USD550mn	5-year	3mL+132.5bps
26-Jun-18	Huarong Finance 2017 Co Ltd	USD400mn	3-year	3mL+117.5bps
25-Jun-18	Far East Horizon Ltd	USD400mn	3-year	3mL+200bps
21-Jun-18	Agile Group Holdings Ltd	USD100mn	Perp NC3	8.55%
21-Jun-18	Horse Gallop Finance Ltd	USD700mn	3-year	3mL+118bps
21-Jun-18	Zhenro Properties Group Ltd	USD250mn	2-year	11.5%
20-Jun-18	Guangsha Holding Group Co Ltd	USD300mn	364-day	7.0%
20-Jun-18	GS Caltex Corp	USD300mn	5-year	CT5+120bps
19-Jun-18	Korea Development Bank	CNH1.75bn	3-year	4.6%
19-Jun-18	Greenland Hong Kong Holdings Ltd	USD200mn	364-day	7.875%
15-Jun-18	Greenland Global Investment Ltd	USD250mn	3.25-year	3mL+485bps
14-Jun-18	CFLD Cayman Investment Ltd	USD200mn	3-year	9.0%

Source: OCBC, Bloomberg

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).