

Oct 5, 2018

Credit Headlines: Credit Update – Monthly Credit View for October

Market Commentary

- The SGD swap curve bear-steepened yesterday, with swap rates for the shorter tenors trading 5-7bps higher while the longer tenors traded 8-12bps higher.
- Flows in SGD corporates were heavy yesterday, with better buying seen in DBSSP 3.98%-PERPs, HSBC 5.0%-PERPs, HSBC 4.7%-PERPs, CMZB 4.2%'28s and better selling seen in TRAFIG 7.5%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 5bps to 467bps.
- While 10Y UST yields traded little changed at 3.19%, yields rose 3bps to 3.23% in the earlier part of the trading session, its highest since May 2011 on the back of increasing expectations that the monthly US job data on Friday would be stronger-than-expected. Yields subsequently fell 4bps to close at 3.19%.

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Credit Update – Monthly Credit View for October

- Strong rates conviction in September following August's tepid trend was largely attributable to heightened expectations of continued rate hikes by the Fed. These were fuelled by solid US economic data that overpowered lingering trade concerns between the US and China and emerging market developments.
- Although September bond issuance in the Asia dollar space was higher month on month, it fell short of expectations with volume down ~17% y/y. Supply was dominated by financial institutions and China domiciled issuers. Rising yields led to a rise in new issue premiums required to get deals priced.
- The SGD primary market continued its comeback from a first half hiatus with nine bond issues totaling SGD3.7bn (compared with 7 bond issues totaling SGD2.1bn in August). Similar to the Asia dollar space, financial institutions including DBS Group Holdings Ltd, HSBC Holdings Ltd, Commerzbank AG, ICICI Bank UK PLC, and China Construction Bank contributed the bulk of overall issuance volume. Of note was not only the dispersion of bank names but also the variety of instruments issued across the capital structure.
- In SGD secondary markets, we continue to see investors' selective preferences for good quality names and demand for adequate compensation in a rising rate environment. In the context of a general widening in yields throughout the bond universe, yields on perpetuals and industrials widened the most through the month while yields for financials, Singapore property developers, REITs and China/HK property saw less pressure. The overall repricing of SGD credit last month drove our bond recommendation trend with 22 bond recommendations upgraded and 13 bond recommendations downgraded.
- Repricing as well as recent restructuring activity in the SGD bond space continue to frame our ongoing preference for better quality names that should insulate against both fundamental and technical considerations as we head towards year end. At this point, we advocate switching out of longer duration papers and going into selective shorter dated HY papers where the risk-reward looks attractive.
- Please refer to our [Monthly Credit View for October](#) published yesterday for fuller comments.

Table 1: Key Financial Indicators

	5-Oct	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	82	2	-3
iTraxx SovX APAC	10	1	-3
iTraxx Japan	57	0	0
iTraxx Australia	75	0	0
CDX NA IG	60	1	0
CDX NA HY	107	0	0
iTraxx Eur Main	68	0	3
iTraxx Eur XO	278	4	-14
iTraxx Eur Snr Fin	85	2	6
iTraxx Sovx WE	25	1	-1
AUD/USD	0.708	-1.94%	-1.52%
EUR/USD	1.152	-0.74%	-0.96%
USD/SGD	1.380	-0.97%	-0.34%
China 5Y CDS	59	3	-2
Malaysia 5Y CDS	99	6	-3
Indonesia 5Y CDS	140	10	-5
Thailand 5Y CDS	42	1	0

	5-Oct	1W chg	1M chg
Brent Crude Spot (\$/bbl)	85.02	2.78%	10.03%
Gold Spot (\$/oz)	1,198.57	0.65%	0.15%
CRB	198.79	2.38%	4.07%
GSCI	495.16	2.89%	6.84%
VIX	14.22	14.59%	2.23%
CT10 (bp)	3.191%	12.96	28.86
USD Swap Spread 10Y (bp)	5	-1	-1
USD Swap Spread 30Y (bp)	-9	-2	-2
TED Spread (bp)	20	0	-3
US Libor-OIS Spread (bp)	17	-2	-4
Euro Libor-OIS Spread (bp)	4	1	0
DJIA	26,627	0.71%	2.51%
SPX	2,902	-0.43%	0.45%
MSCI Asiax	628	-4.23%	-3.13%
HSI	26,624	-4.29%	-2.28%
STI	3,232	-0.14%	2.39%
KLCI	1,790	-0.47%	-0.30%
JCI	5,757	-2.91%	1.29%

New issues

- Macquarie Group Ltd has priced a USD850mn 11.25NC10.25 Fxd-to-FRN at CT7+185bps, tightening from its initial price guidance of CT7+190bps area.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
4-Oct-18	Macquarie Group Ltd	USD850mn	11.25NC10.25	CT7+185bps
2-Oct-18	Aspial Corp Ltd	SGD20.75mn	3-year	6.25%
2-Oct-18	Unibail-Rodamco-Westfield SE	USD500mn	10-year	4.125%
2-Oct-18	Unibail-Rodamco-Westfield SE	USD500mn	10-year	4.625%
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%

Source: OCBC, Bloomberg

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