

May 21, 2019

Credit Headlines: Industry Outlook – Financial Institutions

Market Commentary

- The SGD swap curve was higher on Friday, with most tenors trading up 1-2bps.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 134bps on Friday and tightened 1 bps yesterday to 133bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 486bps on Friday and tightened 1bps yesterday to 485bps.
- Flows in SGD corporates were moderate, with flows seen in WINGTA 4.48%-PERPs and WINGTA 4.35%-PERPs.
- 10Y UST yields were unchanged on Friday at 2.39% but widened 2bps to 2.41%, on weakness in US stock markets led by technology and media names.

Credit Headlines

Industry Outlook – Financial Institutions:

- The Australian Prudential Regulation Authority (“APRA”) has [announced a consultation period](#) to revise serviceability assessments on residential mortgage loan applications. It seeks to remove the minimum interest rate guidance of 7% for serviceability of repayment obligations and replace it with a minimum interest rate floor to be determined by individual banks.
- The minimum interest rate floor is proposed to have a buffer of 2.5% above a bank’s current mortgage rates. In effect, this is expected to improve the affordability for borrowers and hence boost demand for mortgages with the move seen as practical given the expectation that interest rates in Australia will remain low. Hence, the current measures were seen as punitive for home loan borrowers.
- Based on the recent results of [Westpac Banking Corporation](#), [Australia & New Zealand Banking Group Ltd](#), and [National Australia Bank Ltd](#), this proposed move would be supportive to future earnings given the high contribution of Australian residential mortgages to overall loan books and weaker performance in the segment from lower loan demand and higher delinquencies.
- In our view, APRA remains active in regulating banks’ exposure to residential mortgages and while pressure remains in housing sector exposures we continue to view regulator actions as credit supportive and do not expect any credit impact from the move at this time. Australia’s recent election results are also expected to support sentiment in the housing sector with the incumbent government to keep key tax breaks for the housing sector.
- Written submissions on the proposed revision are to be sent by 18 June 2019 with a final version of the proposal to be released as soon as possible thereafter.
- We currently maintain Positive (2) issuer profiles on the Australian banks under our coverage in view of this solid regulatory framework and strong earnings generation capacity. (APRA, OCBC)

Table 1: Key Financial Indicators

	21-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	73	1	9
iTraxx SovX APAC	47	-1	6
iTraxx Japan	61	1	7
iTraxx Australia	73	0	6
CDX NA IG	64	1	6
CDX NA HY	106	0	-1
iTraxx Eur Main	66	1	9
iTraxx Eur XO	284	2	36
iTraxx Eur Snr Fin	83	3	15
iTraxx Sovx WE	18	0	0
AUD/USD	0.688	-0.88%	-3.52%
EUR/USD	1.116	-0.38%	-0.85%
USD/SGD	1.376	-0.50%	-1.43%
China 5Y CDS	50	1	10
Malaysia 5Y CDS	65	1	12
Indonesia 5Y CDS	106	1	14
Thailand 5Y CDS	38	-1	1

	21-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	72.17	1.31%	0.28%
Gold Spot (\$/oz)	1,275.81	-1.63%	0.06%
CRB	181.70	2.29%	-2.90%
GSCI	443.49	1.51%	-1.63%
VIX	16.31	-20.63%	34.90%
CT10 (bp)	2.418%	0.71	-14.21
USD Swap Spread 10Y (bp)	-5	-1	-3
USD Swap Spread 30Y (bp)	-28	0	-4
US Libor-OIS Spread (bp)	15	-2	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,680	1.40%	-3.31%
SPX	2,840	1.01%	-2.23%
MSCI Asiax	622	-1.81%	-8.92%
HSI	27,849	-0.97%	-7.06%
STI	3,194	-1.26%	-4.60%
KLCI	1,610	0.56%	-0.74%
JCI	5,973	-1.62%	-8.21%

New issues

- Oceanwide Holdings International Development III Co., Ltd has priced a USD134.97mn 2-year bond (PRC Parent Guarantor - Oceanwide Holdings Co., Ltd; Hong Kong Parent Guarantor - China Oceanwide Group Limited; Subsidiary Guarantor - Oceanwide Real Estate International Company Limited) at 14.5%, in line with guidance.
- Jiangsu Hanrui Investment Holdings Co., Ltd. scheduled investor meetings from 20 May.
- Pingxiang Urban Construction Investment Developing Company Limited scheduled investor meetings from 20 May for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
17-May-19	Oceanwide Holdings International Development III Co., Ltd	USD134.97mn	2-year	14.5%
16-May-19	Pioneer Reward Ltd	USD500mn	3-year	T+127.5bps
16-May-19	Shougang Group Co Ltd	USD500mn	5-year	T+195bps
16-May-19	Vigorous Champion International Ltd	USD300mn USD300mn	5-year 10-year	T+147.5bps T+190bps
16-May-19	ASB Bank Ltd	USD500mn	5-year	T+100bps
15-May-19	Zhuzhou City Construction Development Group Ltd	USD400mn	3-year	5.70%
15-May-19	Liuzhou Dongtong Investment & Development Co Ltd	USD140mn	3-year	7.0%
15-May-19	Export-Import Bank of Thailand	USD300mn	5-year	3M-US LIBOR+85bps
15-May-19	Zunyi Road and Bridge Construction (Group) Ltd	USD78mn	ZYRDBG 8.0%'22s	100 + accrued
15-May-19	New Metro Global Ltd	USD300mn	3-year	6.75%
15-May-19	Wing Tai Holdings Ltd	SGD150mn	NC5-perp	4.48%
15-May-19	UOL Treasury Services Pte Ltd	SGD200mn	5-year	3.0%
14-May-19	Housing and Developmental Board	SGD700mn	5-year	2.164%

Source: OCBC, Bloomberg

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