

Mar 14, 2016

Market Commentary: The SGD swap curve bear-steepened last Friday, with the short-end rates trading 1-4bps lower while the middle-to-long-end rates traded 2bps-3bps higher. In the broader dollar space, credit markets ended the week on a positive note with JACI IG corporates spread tightening by 6bps to 233bps, while the yield on the JACI HY corporates decreased by 3bps to 7.94%. 10y UST yield increased by 5bps to 1.98%.

New Issues: Croesus Retail Asset Management Pte Ltd scheduled for investors meetings in Singapore today for a potential SGD perp issue.

Rating Changes: S&P downgraded French Bank BNP Paribas to “A” from “A+”, and has removed the long-term rating from CreditWatch with negative implications. This is in light of the bank’s tighter capital management stance than peers, and S&P opines that they don’t see BNP Paribas building a large enough ALAC buffer to benefit from a rating uplift. At the same time, S&P affirmed BNP Paribas’ “a” stand-alone credit profile and “A-1” short-term counterparty credit rating on the bank as its fundamental credit profile remains the same. Outlook is stable. Moody’s affirmed the government of Hong Kong’s long-term debt and issuer ratings at “Aa1”, and changed the outlook to negative from stable. This reflects Moody’s view that trends in Hong Kong’s credit profile will continue to track those in China, due to its tightening political, economic and financial linkages with the Mainland. (Bloomberg, S&P, Moody’s)

Table 1: Key Financial Indicators

	14-Mar	1W chg (bps)	1M chg (bps)		14-Mar	1W chg	1M chg
iTraxx Asiax IG	136	-11	-31	Brent Crude Spot (\$/bbl)	40.38	-1.13%	21.04%
iTraxx SovX APAC	66	-3	-13	Gold Spot (\$/oz)	1,252.84	-1.22%	3.55%
iTraxx Japan	82	-7	-27	CRB	173.53	2.95%	8.21%
iTraxx Australia	138	-4	-23	GSCI	331.41	5.31%	12.35%
CDX NA IG	83	-11	-38	VIX	16.5	-2.14%	-35.04%
CDX NA HY	103	1	5	CT10 (bp)	1.984%	7.82	23.58
iTraxx Eur Main	69	-21	-46	USD Swap Spread 10Y (bp)	-16	-1	-2
iTraxx Eur XO	313	-54	-137	USD Swap Spread 30Y (bp)	-50	1	2
iTraxx Eur Snr Fin	75	-23	-46	TED Spread (bp)	32	-5	-2
iTraxx Sovx WE	28	-3	-5	US Libor-OIS Spread (bp)	24	1	-1
iTraxx Sovx CEEMEA	164	-16	-30	Euro Libor-OIS Spread (bp)	11	-3	-2
					14-Mar	1W chg	1M chg
				AUD/USD	0.756	2.19%	5.66%
				USD/CHF	0.983	1.66%	0.03%
				EUR/USD	1.116	1.91%	-0.33%
				USD/SGD	1.374	0.61%	1.75%
Korea 5Y CDS	60	-1	-11	DJIA	17,213	1.21%	7.76%
China 5Y CDS	118	-9	-21	SPX	2,022	1.11%	8.44%
Malaysia 5Y CDS	153	-11	-31	MSCI Asiax	487	0.55%	10.43%
Philippines 5Y CDS	103	-7	-26	HSI	20,200	0.11%	10.26%
Indonesia 5Y CDS	195	-11	-47	STI	2,829	-0.29%	11.37%
Thailand 5Y CDS	132	-12	-31	KLCI	1,697	0.24%	3.21%
				JCI	4,814	-0.62%	2.11%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
11-Mar-16	Perennial Real Estate Holdings Ltd	NR/NR/NR	SGD125mn	3-year	4.9%
11-Mar-16	AusNet Services	BBB/Baa2/NR	USD375mn	60NC5.5	5.75%
10-Mar-16	National Australian Bank	NR/Aaa/AAA	USD1.4bn	5-year	MS+97bps
10-Mar-16	UOB Ltd	NR/A2/A+	USD500mn	10.5NC5.5	CT10+220bps
08-Mar-16	Commonwealth Bank of Australia	AA-/Aa2/AA-	USD750mn	3-year	Ct3+108bps
08-Mar-16	Commonwealth Bank of Australia	AA-/Aa2/AA-	USD750mn	3-year	3mL+106bps
08-Mar-16	Commonwealth Bank of Australia	AA-/Aa2/AA-	USD1bn	5-year	CT5+125bps
08-Mar-16	Korea Export Import Bank (KEXIM)	AA-/Aa2/AA-	EUR750mn	3-year	MS+58bps

Source: OCBC, Bloomberg

Credit Headlines:

China Vanke Co. Ltd ("Vanke"): Vanke reported strong 2015 results, representative of the strong demand seen in China's real estate market. Revenue was up 33.6% y/y to RMB184.3bn. About 52% of sales are derived from Beijing and Shanghai. During the year, Vanke achieved 20.7mn sqm in contracted sales area, up 14.3% y/y. The group was able to expand its market share (in terms of sales) from 2.8% (2014) to 3.0% (2015). Of the residential units sold during 2015 by Vanke, 93% were small to medium ordinary residential units below 144 sqm. In addition, Vanke has RMB215.1bn in contracted sales not yet booked as of end-2015. During the year, Vanke acquired 15.8mn sqm worth of GFA for development, spending roughly RMB77.7bn. Operating margin was sustained at ~21%. Vanke's leverage profile improved, with net gearing falling from 23.4% (end-3Q2015) to 19.3% (end-4Q2015). Gross debt / EBITDA improved as well from 2.4x (end-3Q2015) to 2.1x (end-4Q2015). Liquidity remains strong, with interest coverage at 7.7x and RMB26.6bn in short-term borrowings covered by RMB53.2bn in cash balance. We remain Positive on Vanke's Issuer Profile and remain Overweight on the VANKE'17s. Meanwhile, Vanke has also signed a memorandum of understanding with Shenzhen Metro Group Company Ltd, a railway operator, to buy an estimated CNY40bn-60bn worth of assets via sale of new shares (Vanke currently has a market capitalization of CNY257bn as of 11 Mar 2016). Vanke will top up the shortfall to the transaction with cash. If the transaction goes through, Baoneng's 24.26% stake as of December 2015 will be diluted to 19.7%, while Shenzhen Metro could potentially end up with a range of 13.5%-18.9% stake in Vanke. We previously noted that it would be credit negative if Baoneng Group succeeds in its hostile takeover exercise over Vanke. In light of this newly announced event, the probability of a hostile takeover would be greatly reduced if it goes through. The transaction is subject to approval from the board, shareholders of both companies and relevant government departments. Baoneng Group is yet to comment on this event. Vanke's shares have opened today in Hong Kong up around 5% likely in reaction to the news as well as its strong earnings while its Shenzhen-listed shares remain suspended. (Company, OCBC, South China Morning Post, Bloomberg)

First Real Estate Investment Trust ("First REIT"): Plot B (a piece of land in Surabaya) owned by an indirect wholly-owned subsidiary of First REIT has been divested to an indirect wholly-owned subsidiary of the Sponsor, PT Lippo Karawaci Tbk. The first progress payment of SGD18m has also been paid by the Sponsor to First REIT. This divestment is in conjunction to an asset swap announced on 21st October 2015 between the parties. The Sponsor is intending to re-develop Plot B together with adjacent land (where the Existing Surabaya Hospital is located) into a mixed development project comprising of a school, retail mall, car parks and a New Surabaya Hospital. Post completion of the development works and obtainment of necessary licenses, First REIT will swap its stake in the Existing Surabaya Hospital with the New Surabaya Hospital. (Company)

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