

June 27, 2016

Market Commentary: The SGD swap curve flattened last Friday, with the very short-end rates traded 6-14bps higher while the belly-to-long-end rates traded 5-15bps lower. Flows in the SGD corporates were fairly quiet on polling day with better buying seen in SOCGEN 4.3%'26s. In the broader dollar space, the spread on JACI IG corporates increased by 16bps to 241bps while the yield on JACI HY corporates were steady at 6.97%. 10y UST yield fell as low as 1.40%, lowest since July 25, 2012, before stabilizing at 1.56%, after investors fled to safe haven assets following the UK referendum poll result that points towards UK's exit from the EU.

News Issues: Housing and Development Board (HDB) priced a SGD700mn 15-year bond at 2.55% with expected ratings of "NR/Aaa/NR".

Rating Changes: Moody's affirmed its "Aa1" long term issuer and debt ratings but revised the outlook to negative from stable given the Brexit result and likely negative economic consequences from increased policy uncertainty and lower spending and investment. S&P has affirmed its long term credit rating on Chubb Ltd. (Insurance) of "A" and its "AA" financial strength ratings on Chubb's operating subsidiaries. Additionally, S&P also upgraded its credit rating of ACE INA Insurance Co. to "AA" from "AA-" with stable outlook. The outlook is revised to stable from negative, reflecting S&P's view that Chubb is making strong progress integrating two complex entities and shifting its strategy to support a new risk profile. Moody's has affirmed its credit rating on Fortescue Metals Group Ltd's corporate family rating of "Ba3" and revised its outlook to stable from negative. The revision follows the announcement that the company has issued a USD500mn repayment notice for its 2019 senior secured term loan facility, bringing total debt repayments in the FY ended 30 June, 2016 to USD2.9bn and reducing interest payments by USD186mn per annum. The stable outlook reflects the considerable progress that the company has made in reducing its debt levels in FY 2016. Fitch upgraded its insurer financial strength rating of Dai-ichi Life Insurance Co. Ltd. (Daiichi) to "A+" from "A" with negative outlook. At the same time, Fitch affirmed Daiichi long-term issuer default rating of "A" with revision of its outlook to negative. The one-notch upgrade of Daiichi rating reflects the company's recent successful international expansion, which has pushed its global diversification above the threshold at which it may be rated above the Japanese sovereign rating, as outlined in Fitch's methodology.

Table 1: Key Financial Indicators

	27-Jun	1W chg (bps)	1M chg (bps)		27-Jun	1W chg	1M chg
iTraxx Asiax IG	150	8	9	Brent Crude Spot (\$/bbl)	48.01	-5.21%	-2.66%
iTraxx SovX APAC	55	3	3	Gold Spot (\$/oz)	1,332.65	3.31%	9.92%
iTraxx Japan	77	8	11	CRB	188.69	-1.92%	1.37%
iTraxx Australia	137	9	10	GSCI	369.23	-2.02%	-0.71%
CDX NA IG	87	7	11	VIX	25.76	32.72%	96.34%
CDX NA HY	102	-1	-1	CT10 (bp)	1.560%	-4.79	-30.30
iTraxx Eur Main	93	15	23	USD Swap Spread 10Y (bp)	-11	1	3
iTraxx Eur XO	399	58	94	USD Swap Spread 30Y (bp)	-47	0	1
iTraxx Eur Snr Fin	126	23	37	TED Spread (bp)	38	-2	6
iTraxx Sovx WE	37	8	11	US Libor-OIS Spread (bp)	30	4	10
iTraxx Sovx CEEMEA	135	7	-4	Euro Libor-OIS Spread (bp)	10	2	2
					27-Jun	1W chg	1M chg
				AUD/USD	0.743	-0.32%	3.49%
				USD/CHF	0.972	-1.04%	2.31%
				EUR/USD	1.105	-2.35%	-0.60%
				USD/SGD	1.357	-1.00%	1.68%
Korea 5Y CDS	61	2	3	DJIA	17,401	-1.55%	-2.64%
China 5Y CDS	130	6	7	SPX	2,037	-1.63%	-2.94%
Malaysia 5Y CDS	167	8	10	MSCI Asiax	487	-1.91%	-1.02%
Philippines 5Y CDS	120	8	10	HSI	20,259	0.44%	-1.54%
Indonesia 5Y CDS	200	10	10	STI	2,735	-1.01%	-2.40%
Thailand 5Y CDS	122	6	2	KLCI	1,634	0.61%	-0.19%
				JCI	4,835	-0.01%	0.41%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
24-June-16	Housing & Development Board	NR/Aaa/NR	SGD700mn	15-year	2.55%
23-June-16	CapitaLand Commercial Trust	A-/NR/NR	SGD75mn	6-year	2.77%
23-June-16	Hanrui Overseas Investment Co.	NR/NR/BB+	USD300mn	3-year	5.25%
22-June-16	Astrea III Pte. Ltd	A/NR/A	SGD228mn	3-year	3.9%
22-June-16	Astrea III Pte. Ltd	NR/NR/A	USD170mn	5-year	4.65%
22-June-16	Astrea III Pte. Ltd	NR/NR/BBB	USD100mn	10-year	6.5%
22-June-16	Astrea III Pte. Ltd	NR/NR/NR	USD70mn	10-year	9.25%
20-June-16	Wuxi Construction & Development Inv. Co. Ltd.	BBB/NR/BBB+	USD300mn	3-year	CT3+240bps

Source: OCBC, Bloomberg

Credit Headlines:

Ascott Residence Trust (“ART”): ART’s properties in the UK contributed 8.6% to gross profit for the quarter ended 31 March 2016 (“1Q2016”) while EUR-based properties contributed 23.2% to gross profits. In the highly unlikely event of a total loss of income from such properties, ART’s EBITDA/(Gross Interest) coverage remains above 2.1x. 11.4% of total assets were GBP-based while EUR-based properties (ie: France, Germany, Belgium and Spain) contributed 16.1% to total assets. Debt-to-Total Asset ratio of 38.9% as at 31 March 2016. With the decline of the GBP against the SGD to 1.82 and the EUR against the SGD to 1.49, Debt-to-Asset ratio may rise to 39%, within MAS’ property funds appendix which allows REITs in Singapore a gearing limit of 45%. We continue to hold ART at a Neutral issuer profile. (Company, OCBC)

Frasers Hospitality Trust (“FHT”): FHT’s UK properties contributed SGD3m or ~15% to net property income for the quarter ended 31 March 2016 (“2Q2016”). The UK properties make up ~18% of total investment property value. Debt-to-Total Asset ratio as at 31 March 2016 was 39%. With the decline of the GBP against the SGD to 1.82, we view Debt-to-Asset ratio to rise to 40% and think that the GBP will need to drop a further 6% before breaching FHT’s internal threshold of 40%. OCBC Credit Research does not cover FHT. (Company, OCBC)

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