Asian Credit Daily

OCBC Bank

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Market Commentary: The SGD swap curve traded downward yesterday, trading 6-13bps lower across all tenors on fading expectations for further rate hikes in 2016. Flows in the SGD corporates were moderate with better buying seen in STANLN 4.4%'26s, GENSSP 5.13%'49s and FRESHK 4.25%'19s. Meanwhile, mixed interest was also seen in ABNANV 4.75%'26s. In the broader dollar space, the spread on JACI IG corporates decreased by 6bps to 235bps while the yield on JACI HY corporates decreased by 2bps to 6.95%. 10y UST decreased by 12bps to 1.44% as investors continue to seek treasuries amidst global uncertainty following Brexit.

Rating Changes: S&P downgraded its sovereign credit rating on the UK to "AA" from "AAA". The Bank of England long-term issuer credit rating was also downgraded to "AA" from "AAA" by S&P. The downgrade reflects S&P's view that the "leave" result in the UK referendum will weaken the predictability, stability and effectiveness of policymaking in the UK and will negatively affect the economy, GDP growth and fiscal and external balances. The downgrade also reflects what S&P considers enhanced risks of a marked deterioration of external financing conditions in light of the UK's extremely elevated level of externally financed growth requirements. The outlook is negative. On a similar note, Fitch also downgraded the UK sovereign rating to "AA" from "AA+" and Bank of England's credit rating to "AA" from "AA+" with a negative outlook. S&P downgraded its corporate credit rating on Beijing Capital Group Co. Ltd. (BCG) to "BBB-" from "BBB" with negative outlook. The downgrade reflects the expectation that the company's leverage will remain high over the next two years owing to its aggressive debt-funded expansion to significantly boost scale. BCG's profitability may also recover only moderately following a material deterioration over the past one-to-two years due to the very low margin for property projects in lower-tier cities. S&P affirmed Bank of Nanjing Co. Ltd. (BONJ) "BB+" long-term issuer credit rating and revised its outlook to negative from stable. The negative outlook reflected BONJ's eroded capital buffer to weather heightened economic risk in China. The credit rating was subsequently withdrawn at the company's request.

Table 1: Key Financial Indicators

	28-Jun	1W chg (bps)	1M chg (bps)		28-Jun	1W chg	1M chg
iTraxx Asiax IG	152	12	12	Brent Crude Spot ($/bbl)	47.16	-6.89%	-4.38%
iTraxx SovX APAC	56	4	3	Gold Spot ($/oz)	1,325.07	4.49%	9.97%
iTraxx Japan	77	9	13	CRB	187.57	-3.52%	0.77%
iTraxx Australia	143	15	17	GSCI	364.07	-4.91%	-2.10%
CDX NA IG	91	13	15	VIX	23.85	29.83%	81.78%
CDX NA HY	101	-2	-2	CT10 (bp)	1.438%	-25.09	-41.33
iTraxx Eur Main	99	20	28	USD Swap Spread 10Y (bp)	-12	0	2
iTraxx Eur XO	418	77	112	USD Swap Spread 30Y (bp)	-48	-1	1
iTraxx Eur Snr Fin	137	33	47	TED Spread (bp)	38	-1	2
iTraxx Sovx WE	37	8	11	US Libor-OIS Spread (bp)	26	1	7
iTraxx Sovx CEEMEA	137	8	0	Euro Libor-OIS Spread (bp)	9	1	0
					28-Jun	1W chg	1M chg
				AUD/USD	0.735	-1.37%	2.30%
				USD/CHF	0.979	-1.68%	1.39%
				EUR/USD	1.102	-2.01%	-1.10%
				USD/SGD	1.362	-1.40%	1.44%
Korea 5Y CDS	62	3	5	DJIA	17,140	-3.73%	-4.10%
China 5Y CDS	133	10	10	SPX	2,001	-3.97%	-4.69%
Malaysia 5Y CDS	169	11	11	MSCI Asiax	485	-2.81%	-1.43%
Philippines 5Y CDS	124	12	13	HSI	20,227	-1.38%	-1.70%
Indonesia 5Y CDS	200	11	11	STI	2,730	-2.54%	-2.59%
Thailand 5Y CDS	125	9	5	KLCI	1,630	-0.29%	-0.47%
				JCI	4,836	-0.56%	0.44%

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:

Neptune Orient Lines Limited ("NOL"): CMA CGM now owns 90.68% of NOL, and has reiterated its intent to delist NOL from the SGX upon the close of the offer (the tender of shares to CMA CGM ends 18/07/16) as NOL's float would be below the 10% required under Rule 723 of the SGD Listing Manual. It is worth noting that CMA CGM is very close to crossing the 91.05% ownership threshold (CMA CGA had to acquire 90% of the shares it did not already own upon announcement of the general offer, and it already had a 10.5% stake in NOL then), in which CMA CGM will be able to exercise its right of compulsory acquisition to acquire all the NOL shares held by shareholders who have not accepted the offer. We believe that it is highly likely that NOL will delist and became a wholly-owned subsidiary of CMA CGM. Going forward, this would mean that there could potentially be limited financial disclosure regarding NOL's performance. Though NOL's bonds could interpreted to be backed by CMA CGM going forward, there has been no indication that CMA CGM would formally guarantee NOL's existing debentures. In mitigation, CMA CGM has taken steps signalling their intent to integrate NOL fully, as well as to ramp up their involvement in the Singapore container shipping industry. Steps taken include announcements by CMA CGM that they will be diverting shipping traffic from Malaysia to Singapore as well as moving their Asian HQ from Hong Kong to Singapore. CMA CGM has also announced entering into a JV with PSA to operate and use four mega container berths at the new Pasir Panjang Terminal expansions. We believe that NOL would benefit from being part of CMA CGM (the third largest container shipping company globally) going forward, particularly given the expected rationalization of the industry due to the glut in shipping capacity pressuring shipping rates. Though CMA CGM's leverage is likely to surge post the acquisition, CMA CGM has indicated their intent to make USD1bn in asset sales, as well as from September 2016 onwards to cut costs by USD1bn through the following 18 to 24 months. As such, we believe CMA CGM's credit profile would steadily improve after the initial deterioration. CMA CGM has proven in the past to be disciplined about deleveraging its credit profile, with net gearing falling from 145% (2010) to 73% (2015). This is balanced against the still challenging environment. As such, we will retain our Neutral Issuer Profile on NOL. (Company, OCBC)

Credit market commentary: Market activity in the SGD corporate bond space was somewhat ambivalent to Brexit compared to other bond markets around the world, with price action quite balanced on Monday with roughly even numbers of gainers and decliners. Comparatively, the knee-jerk reaction last Friday post the pro-Brexit poll was more aligned with the global risk-off trend. For now, there was no clear trend in the bonds which went weaker although bonds that saw better price action typically came from stronger credits and safe haven names. This reflects our view that most SGD issuers have relatively limited exposure to UK and EUR investments, aside from select property names including First Sponsor Group Ltd, Ascott Residence Trust, Frasers Hospitality Trust (FHT) and Oxley Holdings Ltd (OHL) (note that OCBC Credit Research does not currently cover FHT or OHL). That said, bank bond levels in the SGD space were slightly lower in general due to the sector being most exposed to Europe and global market volatility although most banks (Asian/European) are domestically focused and those with UK headquarters and hence UK exposure benefit from diversified business exposures. Nevertheless, with uncertainty continuing and broader Europe exposure representing a second stage risk, there could be further downside to bank bond prices.

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