

October 3, 2016

Credit Headlines (Page 2 onwards): Deutsche Bank AG, Perennial Real Estate Holdings, Industry Outlook – China Property

Market Commentary: The SGD swap curve traded downwards last Friday with swap rates trading 1-9bps lower across all tenors except shorter term rates (less than 1 year). Flows in the SGD corporates were heavy with better buying seen in SCISP 4.75%'49s and GENSSP 5.13%'49s while better selling were seen in UOBSP 4%'49s, ABNAV 4.75%'26s and ABNAV 4.7%'22s. There were mixed interests seen in FCLSP 4.88%'49s, SOCGEN 4.3%'26s, CROESP 5%'20s and STANLN 4.4%'26s. In the broader dollar space, the spread on JACI IG corporates increased 3bps to 207bps while the yield on JACI HY corporates increased 6bps to 6.48%. 10y UST yield increased 4bps to 1.59% as investors turned risk-on on market expectation that Deutsche Bank AG will likely pay less than half the penalty sought by the US Department of Justice, sparking a risk-asset rally and a recovery in the bank's share price.

New Issues: The Wharf Holdings Ltd. has mandated Bank of China and Industrial & Commercial Bank of China Ltd. for a CNY4bn 3-year panda bond issue.

Rating Changes: S&P downgraded Shanghai International Port (Group) Co. Ltd.'s (SIPG) corporate credit rating to "A+" from "AA-" with a stable outlook. The downgrade reflects S&P's expectation that SIPG's financial strength will rapidly deteriorate following its debt-funded investment in the IPO of Postal Savings Bank of China (PSBC). Moody's revised its outlook on China Aoyuan Property Group Limited's "B2" corporate family rating to positive from stable. The outlook revision reflects the improving trend in China Aoyuan's credit profile, stemming in turn from its strengthened level of sales execution, lower borrowing costs, and disciplined approach in land acquisitions. Moody's placed Gajah Tunggal Tbk's "B2" corporate family rating on review for downgrade. The ratings review reflects the likelihood of a downgrade if the company fails to make substantial progress over the next three months in refinancing its USD500mn senior secured notes coming due February 2018. Moody's withdrew its issuer rating of "Baa3" on Keppel REIT for its own business reasons.

Table 1: Key Financial Indicators

	3-Oct	1W chg (bps)	1M chg (bps)		3-Oct	1W chg	1M chg
iTraxx Asiax IG	116	-6	5	Brent Crude Spot (\$/bbl)	49.83	5.24%	6.41%
iTraxx SovX APAC	33	0	-5	Gold Spot (\$/oz)	1,318.67	-1.44%	-0.63%
iTraxx Japan	57	-1	6	CRB	186.32	1.76%	3.51%
iTraxx Australia	102	-3	5	GSCI	364.47	3.68%	4.98%
CDX NA IG	75	-4	3	VIX	13.29	8.14%	10.93%
CDX NA HY	104	0	0	CT10 (bp)	1.600%	1.57	-0.28
iTraxx Eur Main	73	0	6	USD Swap Spread 10Y (bp)	-14	2	0
iTraxx Eur XO	329	-4	20	USD Swap Spread 30Y (bp)	-54	1	-1
iTraxx Eur Snr Fin	101	2	16	TED Spread (bp)	58	-11	7
iTraxx Sovx WE	25	1	0	US Libor-OIS Spread (bp)	42	-1	4
iTraxx Sovx CEEMEA	92	3	-14	Euro Libor-OIS Spread (bp)	5	1	0
					3-Oct	1W chg	1M chg
				AUD/USD	0.765	0.13%	0.84%
				USD/CHF	0.972	-0.32%	0.78%
				EUR/USD	1.123	-0.24%	0.72%
				USD/SGD	1.364	-0.27%	-0.55%
Korea 5Y CDS	40	-3	-2	DJIA	18,308	0.26%	-0.99%
China 5Y CDS	105	0	6	SPX	2,168	0.17%	-0.54%
Malaysia 5Y CDS	119	-11	0	MSCI Asiax	551	-0.18%	1.16%
Philippines 5Y CDS	116	0	28	HSI	23,297	-1.64%	0.13%
Indonesia 5Y CDS	149	-7	5	STI	2,869	0.69%	2.34%
Thailand 5Y CDS	85	-4	2	KLCI	1,653	-1.10%	-1.15%
				JCI	5,365	-0.45%	0.21%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
29-Sep-16	Croesus Retail Asset Management	"NR/NR/NR"	SGD50mn	Re-Tap	99.5
29-Sep-16	Kasikornbank PCL (Hong Kong)	"BBB+/Baa1/BBB+"	USD400mn	5.5-year	2.375%
29-Sep-16	Jubilant Pharma Ltd.	"BB-/NR/BB"	USD300mn	5NC3	4.875%
29-Sep-16	Television Broadcast Ltd.	"NR/NR/NR"	USD500mn	5-year	3.625%
29-Sep-16	RHB Bank	"BBB+/A3/NR"	USD500mn	5-year	CT5+137.5bps
29-Sep-16	China CITIC Bank International Ltd.	"NR/Ba2/NR"	USD500mn	Perp-NC5	4.25%
28-Sep-16	Jababeka International B.V.	"B+/NR/B+"	USD20.617mn	7NC4	6.5%
28-Sep-16	New World Development	"NR/NR/NR"	USD1.2bn	Perp-NC5	5.75%

Source: OCBC, Bloomberg

Credit Headlines:

Deutsche Bank AG (“DB”): As a follow on from Friday’s headline, DB’s shares have whipsawed around news firstly about hedge funds reducing exposure and more recently that the bank was nearing a settlement with the US Department of Justice for USD5.4bn, much lower than the initial claim of USD14bn. In between these news points have been reports on the near finalization of job cuts and that DB has now been charged in Italy for colluding with Banca Monte dei Paschi di Siena SpA (“Monte Paschi “) to manipulate the derivatives market. According to Bloomberg, Monte Paschi previously asked for a plea-bargain agreement in July which was agreed to by prosecutors, with anticipated fines of around EUR11m and a decision expected on October 14. Charges therefore may not be large but nevertheless add to current negative headlines for DB. Germany’s business leaders have come out to support the existence of DB for the benefit of Germany’s business community which lends weight to a shift in fortunes for the bank although government support continues to be viewed as a challenging prospect if needed. That said, the potentially lower fine would settle one of the multiple and connected factors at play and lower uncertainty surrounding DB’s situation and the ultimate need for government support. (Bloomberg, OCBC)

Perennial Real Estate Holdings (“PREHL”): PREHL secured RMB6.4b (c.\$1.3b) loans from Bank of China to finance the development and project related costs of phases 1 and 2 of the Beijing Tongzhou Integrated Development. Bank of China has agreed to grant the loans on terms such as attractive interest rate and long repayment tenor. This is credit positive for PREHL as RMB loans creates a natural FX hedge (with 64% of total assets in China) while interest coverage ratios may improve with lower funding costs. Given the large size of the loans with favourable terms, we see a lower supply risk for PREHL bonds. (Company, OCBC)

Industry Outlook – China Property: 7 cities in China announced property cooling measures over the weekend (Beijing, Tianjin, Zhengzhou, Chengdu, Wuxi, Jinan and Hefei). While each city has announced a set of differentiated policies as a response to local conditions, key measures include (i) increasing minimum down payment (ii) restriction on purchases (iii) increasing land supply. OCBC Greater China Research opines that the measures over the last two week shows that China’s top level may have reached consensus that the concerns about overheating in the property market have overshadowed concerns about an economic slowdown. Among our China property coverage universe, we see Yanlord to be most affected, given its focus on tier 1 and upper-tier 2 cities. Whilst we continue to hold its issuer profile at Neutral, we will not be looking to add to the YLLGSP 6.2 '17. (Caixin, OCBC)

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