

July 7, 2016

Market Commentary: The SGD swap curve traded mostly downward on Tuesday, with the swap rates past the 1-yr mark trading 1-6bps lower across all tenors. Flows in the SGD corporates space were heavy with better buying seen in FCLSP 5%’49s, BAERVX 5.9%’49s and FCLSP 4.88%’49s. Better selling was seen in MLTSP 4.18%’49s while mixed interest was seen in SANYPH 7%’17s. In the broader dollar space yesterday, the spread on JACI IG corporates hasn’t moved much in the past 2 days ending at 229bps while the yield on JACI HY corporates has fallen over the same period down 9bps to 6.56%. 10y UST yield remained relatively unchanged overnight at 1.37%.

New Issues: National Australia Bank priced a 4-tranche deal yesterday, with the USD1bn 3-year bond at 1.38% (tightening from its initial guidance of 1.49%), USD1.25bn 5-year bond at 1.88% (tightening from its initial guidance of 1.94%), USD1.25bn 10-year bond at 2.5% (tightening from its initial guidance of 2.58%), and USD500mn 5-year bond at 3mL+100bps. The expected credit ratings for the issues are “AA-/Aa2/NR”. Bank of China Limited also priced a 4-tranche deal on Tuesday, with the USD750mn 3-year bond at 3mL+100bps, USD500mn 3-year bond at CT3+125bps (tightening from its initial guidance of CT3+145bps), USD1bn 5-year bond at CT5+135bps (tightening from its initial guidance of CT5+160bps), and EUR500mn 5-year bond at MS+95bps (tightening from its initial guidance of MS+120bps). The expected ratings for the issues are “A/A1/A”. Commonwealth Bank of Australia priced a 2-tranche deal, with the AUD1.8bn 5-year bond priced at 3mBBSW+121bps while the other tranche of AUD475mn priced at 2.9%. The expected ratings for the issue are “AA-/Aa2/AA-”. Yunnan Metropolitan Construction Investment Group Co. Ltd. has priced a USD500mn 3-year bond at CT3+260bps, tightening from its initial guidance of CT3+290bps. The expected ratings for the issue are “NR/NR/BBB+”. Shenzhen Expressway has scheduled investor road shows from 7 July onwards for potential USD bond issuance.

Rating Changes: S&P revised its outlook on Cheung Kong Property Holdings Ltd.’s “A-” credit rating to positive from stable on a better financial position. S&P downgraded West China Cement Ltd.’s (WCC) credit rating to “B” from “B+” with negative outlook. The downgrade reflects S&P’s view that liquidity risks have risen following the termination of a potential takeover by Anhui Conch Cement Co. Ltd, therefore WCC may encounter a less favorable market for its short-term maturities, given that lenders and investors have become cautious towards borrowers operating in sectors with surplus capacity. Likewise, Fitch downgraded WCC’s issuer default rating to “B+” from “BB-” with stable outlook..

Table 1: Key Financial Indicators

	7-Jul	1W chg (bps)	1M chg (bps)		7-Jul	1W chg	1M chg
iTraxx Asiax IG	141	3	3	Brent Crude Spot (\$/bbl)	49.02	-1.33%	-4.70%
iTraxx SovX APAC	55	1	4	Gold Spot (\$/oz)	1,366.80	3.40%	9.89%
iTraxx Japan	70	3	5	CRB	189.96	-0.83%	-1.28%
iTraxx Australia	127	2	2	GSCI	365.96	-1.65%	-4.29%
CDX NA IG	76	-1	3	VIX	14.96	-20.21%	6.48%
CDX NA HY	103	0	0	CT10 (bp)	1.363%	-10.65	-35.45
iTraxx Eur Main	83	3	10	USD Swap Spread 10Y (bp)	-9	2	4
iTraxx Eur XO	366	15	50	USD Swap Spread 30Y (bp)	-42	4	6
iTraxx Eur Snr Fin	116	5	22	TED Spread (bp)	39	0	-1
iTraxx Sovx WE	32	0	6	US Libor-OIS Spread (bp)	28	0	1
iTraxx Sovx CEEMEA	129	2	0	Euro Libor-OIS Spread (bp)	7	0	-1
					7-Jul	1W chg	1M chg
				AUD/USD	0.752	0.94%	0.83%
				USD/CHF	0.975	0.10%	-0.99%
				EUR/USD	1.109	-0.12%	-2.33%
				USD/SGD	1.350	-0.17%	0.14%
Korea 5Y CDS	56	1	-1	DJIA	17,919	2.92%	-0.11%
China 5Y CDS	124	4	4	SPX	2,100	3.13%	-0.59%
Malaysia 5Y CDS	157	4	3	MSCI Asiax	498	-1.14%	-1.96%
Philippines 5Y CDS	113	0	5	HSI	20,495	1.60%	-3.91%
Indonesia 5Y CDS	187	5	3	STI	2,865	3.92%	1.18%
Thailand 5Y CDS	113	1	-4	KLCI	1,651	1.02%	0.10%
				JCI	4,972	2.83%	2.42%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
6-June-16	National Bank of Australia	AA-/Aa2/NR	USD1bn	3-year	1.38%
6-June-16	National Bank of Australia.	AA-/Aa2/NR	USD1.25bn	5-year	1.88%
6-June-16	National Bank of Australia.	AA-/Aa2/NR	USD1.25bn	10-year	2.5%
6-June-16	National Bank of Australia	AA-/Aa2/NR	USD500mn	5-tear	3mL+100bps
5-June-16	Bank of China Ltd.	A/A1/A	USD750mn	3-year	3mL+100bps
5-June-16	Bank of China Ltd.	A/A1/A	USD500mn	3-year	CT3+135bps
5-June-16	Bank of China Ltd.	A/A1/A	USD1bn	5-year	CT5+135bps
5-June-16	Bank of China Ltd.	A/A1/A	EUR500mn	5-year	MS+95bps
5-June-16	Yunnan Metropolitan Construction Investment	NR/NR/BBB+	USD500mn	3-year	CT3+260bps

Source: OCBC, Bloomberg

Rating Changes (Cont'd): S&P revised its outlook on Link REIT's "A-" corporate credit rating to stable from negative. The revision reflects S&P's expectation that Link REIT will continue to generate growing rental income despite softening retail sales in Hong Kong. Fitch downgraded China Fishery Group Limited's issuer default rating to "D" from "RD". The downgrade follows China Fishery's announcement on 30 June that the company and its subsidiaries had filed for US bankruptcy protection under Chapter 15 and 11 of the US bankruptcy code. Fitch downgraded CAR Inc.'s issuer default rating to "BB" from "BB+" with negative outlook. The downgrade reflects the substantial and growing related-party transactions with CAR's affiliate UCAR, which has a weak credit profile

Credit Headlines:

City Development Limited ("CDL") and Wing Tai Holdings ("Wing Tai"): On 05/07/16, it was announced that CDL acquired Wing Tai's 50% stake in the Nouvel 18 joint venture for an aggregate consideration of SGD410.96mn, and is now the sole owner of the project. The Nouvel 18 will be affected by QC charges come November 2016, and has not been formally launched for sale by CDL. The intent of consolidating the ownership was to provide flexibility over options to monetize, with CDL mentioning bulk sales or a capital markets transaction. We believe that CDL could potentially use a PPS (profit participation scheme) structure, which CDL had utilized in the past to recycle its balance sheet. The transaction will be funded by CDL's internal resources, and we expect a modest negative impact on CDL's credit profile in 3Q2016. The positive impact on Wing Tai's credit profile will be more distinct given Wing Tai's smaller balance sheet. We will review the upcoming 2Q2016 calendar quarter results for both issuers for any potential changes to our current Positive and Neutral issuer profile on CDL and Wing Tai respectively. (Company, OCBC)

Financial Institutions: The Bank of England lowered the countercyclical capital buffer requirement for UK banks as a measure to support bank lending and ensure financial stability. According to the BOE's Financial Policy Committee, the cut in the buffer requirement from 0.5% to 0% of risk weighted assets is expected to generate GPD150bn in additional lending capacity. While this action is obviously event driven, we think that regulators may become increasingly mindful of the burden on banks to raise capital in a low growth environment. This could have potentially negative consequences on loan growth and cost of capital and end up being counter-productive to regulator's desire to improve the fundamental strength of bank's balance sheets and government's need for banks to support economic growth. (Company, OCBC)

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.