

### Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 0-1bps lower, while the belly and longer tenors traded 0-2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 132bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 523bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERPs and UBS 4.85%-PERPs. We also saw flows in GSHSP 5.2%'22s, STANLN 5.375%-PERPs, SOCGEN 6.125%-PERPs, ARASP 5.6%-PERPs, CAPLSP 4.3%'20s, HSBC 4.7%-PERPs and KITSP 4.75%-PERPs.
- Reversing from the fall in rates during the earlier part of the trading day, 10Y USTs yields rose 4bps on the back of improved risk sentiment, with optimism on a Brexit deal between the EU and the UK, and a strong start to the US's 3Q earnings season.

### Credit Summary:

- **Industry Outlook – Financial Institutions:** The Australian Prudential Regulation Authority is proposing to update its minimum capital requirements for authorised deposit-taking institutions with a view to strengthening capital protection for bank depositors. In particular, APRA is reviewing the appropriateness of the current capital treatment of ADIs' investments in their banking and insurance subsidiaries. Key proposals within APRA's consultation paper include an increase in ADIs' minimum capital requirements to support its major investments so as to maintain a level of protection for Australian depositors and a corresponding reduction in capital requirements against smaller exposures. Regardless of the manageable impact to group level CET1 ratios, additional requirements may pressure the bank's capital positions although at this stage this pressure is expected to be alleviated internally rather than via more capital issuance. Submissions for the consultation paper close 31 January 2020.
- **Mapletree Commercial Trust | Neutral (3):** MCT reported 2QFY2020 results for the financial year ended 31 March 2020. Gross revenue was up 1.9% y/y at SGD112.0mn, net property income rose 1.7% y/y to SGD87.7mn though lower by 0.7% q/q. Operating expenses were 2.8% higher y/y. Reported aggregate leverage was lower at 31.7%, down from 33.1% in the preceding quarter. That said, we expect aggregate leverage to rise following the announcement on the acquisition Mapletree Business City (Phase 2) ("MBC II") in Sep 2019 for a total acquisition of ~SGD1,575.8mn. We are maintaining MCT at Neutral (3) Issuer Profile.

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**Asian Credit Daily****Credit Headlines****Industry Outlook – Financial Institutions:**

- The Australian Prudential Regulation Authority (“APRA”) is [proposing to update its minimum capital requirements](#) for authorised deposit-taking institutions (“ADIs” as defined by APRA) with a view to strengthening capital protection for bank depositors. In particular, APRA is reviewing the appropriateness of the current capital treatment of ADIs’ investments in their banking and insurance subsidiaries.
- The review is being driven by the Reserve Bank of New Zealand’s own proposal to raise minimum regulatory capital requirements for New Zealand banks, of which Australia’s big 4 bank’s own New Zealand’s largest four banks. Under the Reserve Bank of New Zealand’s proposal, minimum CET1/Tier1/CAR requirements are proposed to increase materially from 7.0%/8.5%/10.5% to 14.5%/16.0%/18.0% with finalisation of the proposal expected by end of 2019 and transitional implementation thereafter.
- Key proposals within APRA’s consultation paper include an increase in ADIs’ minimum capital requirements to support its major investments so as to maintain a level of protection for Australian depositors and a corresponding reduction in capital requirements against smaller exposures. As per APRA’s press release, the proposals “seek to balance the benefits of revenue diversification that banks can achieve by owning subsidiary operations against the potential concentration risk that arises as these investments increase in size” with no material additional capital required at an industry level. That said, individual banks may have to either raise capital or will get a capital benefit from the proposed changes depending on ADIs’ exposure to material investments.
- New Zealand exposures contribute around 10-17% of net revenues for Australia’s big four banks with anticipated impact of the proposed changes varying depending on the composition of each bank’s balance sheet. Each bank has done preliminary assessments of the impact and while level 2 (or group level) CET1 ratios will not be impacted materially, the need to possibly hold more capital in New Zealand to comply with new requirements will result in varying impacts on each bank’s Level 1 (standalone) CET1 ratio. As per statements by Commonwealth Bank of Australia and Westpac Banking Corporation, the level 1 impact is expected to be around 30-40bps while Australia & New Zealand Banking Group Ltd expects a 75bps impact to its level 1 CET1 ratio given its comparatively larger exposure to New Zealand in terms of contribution to net revenues and total assets compared to domestic peers.
- Regardless of the manageable impact to group level CET1 ratios, additional requirements may pressure the bank’s capital positions although at this stage this pressure is expected to be alleviated internally rather than via more capital issuance. Submissions for the consultation paper close 31 January 2020. (OCBC, APRA, Bloomberg)

**Asian Credit Daily****Credit Headlines****Mapletree Commercial Trust (“MCT”) | Issuer Profile: Neutral (3)**

- MCT reported 2QFY2020 results for the financial year ended 31 March 2020. Gross revenue was up 1.9% y/y at SGD112.0mn, on the back of higher contributions from all properties except Mapletree Anson. Net property income (“NPI”) similarly rose 1.7% y/y to SGD87.7mn though lower by 0.7% q/q. Operating expenses were 2.8% higher y/y due to higher staff costs, utilities expenses and property taxes (a result of higher annual values assessed).
- Across the portfolio, Vivacity recorded +5.1% q/q higher revenue, mainly due to higher rental income from new and renewed leases. PSA Building saw +5.0% q/q increase in revenue, as a result of higher rental income from renewed leases offset by lower occupancy. Bank of America Merrill Lynch Harbourfront (“MLHF”) also saw revenue rise by 2.0% q/q due to effects of the step-up rents in existing leases. Mapletree Anson (“Anson”) though saw revenue fall by 18.8% q/q due to lower occupancy. While actual occupancy at Anson was 75.1% at 30 Sep 2019 (from 92.7% as at 30 June 2019), we are not overly concerned as reported committed occupancy at the property was 99.0%. Therefore, we would expect revenue generated at Anson to recover in the following quarter.
- Overall MCT’s portfolio occupancy was 98.8% on committed basis and slightly lower at 96.1% on actual basis. The portfolio also saw positive rental reversion of 5.0% which was largely driven by the retail segment. MCT has minimal expiring leases (<1% each for retail and office/business park) for the remaining of FY2020.
- Over 1H2019, shopper traffic fell by 2.8% y/y while tenant sales was down by 2.0% y/y. Given new stores on Basement 2 and Level 1 have progressive opened during the quarter and NTUC FairPrice which started contributing full month from Aug 2019, we think both metrics have room to improve further.
- Reported aggregate leverage was lower at 31.7%, down from 33.1% in the preceding quarter. That said, we expect aggregate leverage to rise following the [announcement on the acquisition Mapletree Business City \(Phase 2\) \(“MBC II”\)](#) in Sep 2019 for a total acquisition of ~SGD1,575.8mn. MCT has also proposed to raise no less than SGD902.3mn of equity funding. SGD884.9mn of which will be used to partially fund the above-mentioned acquisition. As such, we estimate that aggregate leverage may rise to 33.8%. MCT has minimal debt coming due in FY2020 (just SGD50mn) and its assets remain fully unencumbered. We are maintaining MCT at Neutral (3) Issuer Profile. (Company, OCBC)

## Asian Credit Daily

### Key Market Movements

	16-Oct	1W chg (bps)	1M chg (bps)		16-Oct	1W chg	1M chg
iTraxx Asiax IG	73	-5	17	<b>Brent Crude Spot (\$/bbl)</b>	58.91	1.01%	-14.65%
iTraxx SovX APAC	34	-2	-1	<b>Gold Spot (\$/oz)</b>	1,483.28	-1.48%	-1.01%
iTraxx Japan	60	-3	6	<b>CRB</b>	174.75	0.95%	-4.59%
iTraxx Australia	64	-4	6	<b>GSCI</b>	403.38	0.80%	-7.50%
CDX NA IG	56	-5	5	<b>VIX</b>	13.54	-24.19%	-7.70%
CDX NA HY	107	1	-1	<b>CT10 (%)</b>	1.743%	15.94	-10.37
iTraxx Eur Main	53	-5	6				
iTraxx Eur XO	236	-16	-8	<b>AUD/USD</b>	0.673	0.10%	-1.94%
iTraxx Eur Snr Fin	60	-8	3	<b>EUR/USD</b>	1.103	0.54%	0.26%
iTraxx Eur Sub Fin	122	-22	3	<b>USD/SGD</b>	1.372	0.64%	0.26%
iTraxx Sovx WE	13	-1	-2	<b>AUD/SGD</b>	0.924	0.53%	2.23%
<b>USD Swap Spread 10Y</b>	-7	2	5	<b>ASX 200</b>	6,734	2.86%	0.91%
<b>USD Swap Spread 30Y</b>	-38	3	5	<b>DJIA</b>	27,025	3.29%	-0.19%
<b>US Libor-OIS Spread</b>	36	0	6	<b>SPX</b>	2,996	3.55%	-0.08%
<b>Euro Libor-OIS Spread</b>	4	-1	-2	<b>MSCI Asiax</b>	630	2.78%	-0.52%
				<b>HSI</b>	26,516	3.24%	-2.25%
<b>China 5Y CDS</b>	43	-5	4	<b>STI</b>	3,132	1.38%	-2.23%
<b>Malaysia 5Y CDS</b>	49	-4	6	<b>KLCI</b>	1,570	1.24%	-1.93%
<b>Indonesia 5Y CDS</b>	86	-6	9	<b>JCI</b>	6,176	2.44%	-0.69%
<b>Thailand 5Y CDS</b>	29	-1	1	<b>EU Stoxx 50</b>	3,599	4.83%	2.28%
<b>Australia 5Y CDS</b>	19	-1	1				

Source: Bloomberg

## Asian Credit Daily

### New Issues

- China Construction Bank Corporation Hong Kong Branch priced a USD1.0bn 3-year FRN at 3m-US LIBOR+66bps, tightening from IPT of 3m-US LIBOR+95bps area.
- HPCL-Mittal Energy Ltd priced a USD300mn 7NC4 bond at 5.45%, tightening from IPT of 5.75% area.
- Kaisa Group Holdings Ltd priced a USD400mn 11.95% 3NC2 bond at 12.25%.
- China Development Bank Corporation of Hong Kong priced a USD100mn 2-year 4-month FRN at 3m-US LIBOR+45bps.
- PT Adaro Energy Tbk scheduled investor meetings commencing 16 Oct for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
15-Oct-19	China Construction Bank Corporation Hong Kong Branch	USD1.0bn	3-year FRN	3m-US LIBOR+66bps
15-Oct-19	HPCL-Mittal Energy Ltd	USD300mn	7NC4	5.45%
15-Oct-19	Kaisa Group Holdings Ltd	USD400mn	3NC2	12.25%
15-Oct-19	China Development Bank Corporation of Hong Kong	USD100mn	2-year 4-month FRN	3m-US LIBOR+45bps
14-Oct-19	Kunming Municipal Urban Construction Investment & Development Co., Ltd	USD300mn	3-year	6.0%
14-Oct-19	GSH Corporation Ltd	SGD50mn	3-year	5.2%
11-Oct-19	Jiayuan International Group Ltd	USD200mn	3-year 4-month NP2	13.763%
10-Oct-19	Industrial & Commercial Bank of China Ltd, Dubai (DIFC) Branch	USD500mn	3-year FRN	3m-US LIBOR+66bps
10-Oct-19	E-House (China) Enterprise Holdings Ltd	USD200m	2.5-year	8.375%
10-Oct-19	SDSC International Development Ltd	USD200mn	3-year	6.0%
10-Oct-19	Oriental Capital Co., Ltd	USD360mn	3-year	7.0%
10-Oct-19	CapitaLand Treasury Ltd	SGD500mn	NC5-Perpetual	3.65%
09-Oct-19	Bank of China Ltd., Macau Branch	USD350mn	3-year	SOFR+95bps
09-Oct-19	Three Gorges Finance I	USD500mn USD350mn	5-year 30-year	T+95bps 3.2%
09-Oct-19	Ronshine China Holdings Ltd	USD265mn	RONXIN 8.75% '22s	8.75%
09-Oct-19	Central Japan Railway Co	USD750mn	5-year	2.2%

Source: OCBC, Bloomberg

# Treasury Research & Strategy

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## Macro Research

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