

Market Commentary

- The SGD swap curve bull-flattened yesterday (other than the 7-year tenor which traded 3bps higher), with the shorter tenors 1-2bps lower, while the belly and longer tenors traded 3-4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 129bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 509bps. The HY-IG Index spread widened 1bps to 380bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERPs. We also saw flows in UBS 4.85%-PERPs, HPLSP 4.4%-PERPs, LMRTSP 6.6%-PERPs, CMZB 4.2%'28s and FPLSP 4.98%-PERPs.
- 10Y UST Yields fell 3bps to 1.78%, with US and China still debating on the amount of tariff rollback as part of their phase one trade deal.

Credit Research

Andrew Wong

+65 6530 4736

WongVKAM@ocbc.com

Ezien Hoo, CFA

+65 6722 2215

EzienHoo@ocbc.com

Wong Hong Wei, CFA

+65 6722 2533

WongHongWei@ocbc.com

Seow Zhi Qi

+65 6530 7348

zhiqiseow@ocbc.com

Credit Summary:

- [Mapletree North Asia Commercial Trust](#) | **Neutral (4)**: Festival Walk has been closed since the night of 12 November 2019 where various incidents leading to extensive damage to the mall took place. Recovery and repair works are on-going. Assessment of claims by insurers is underway. MNACT is assisting and working closely with the tenants as the mall is not operational and will remain closed until further notice.
- [Julius Baer Group Ltd](#) | **Neutral (3)**: JBG reported its Interim Management Statement for the 10 months to 31 October 2019. In our view, the positives outweigh negatives and our Neutral (3) issuer profile holds. Slight negatives include lower gross margins, and slower net new money growth. Positives include lower cost to income ratio and improved CET1 ratio.
- [Industry Outlook – Financial Institutions / Commonwealth Bank of Australia / Westpac Banking Corporation](#) | **Positive (2) & Positive (2)**: CBA's life insurance subsidiary Colonial Mutual Life Assurance Society has pleaded guilty to 87 counts by ASIC of selling insurance products through unlawful, unsolicited phone calls that breach anti-hawking rules. In addition, this morning Westpac has acknowledged the commencement of civil proceedings and receipt of a statement of claim by Australia's financial crimes regulator for alleged systemic breaches under the Anti-Money Laundering and Counter-Terrorism Financing Act. All these developments highlight the higher scrutiny being placed on Australia's big banks by both regulators and the public. This is a long term negative for credit profiles in our view. In particular, regulators will likely be highly motivated to actively pursue proceedings against Australia's banks in the shadow of the Royal Commission on misconduct in the Banking industry so as to appear to be enforcing and actioning the outcomes of the Royal Commission through litigation rather than negotiation.

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Credit Headlines

Mapletree North Asia Commercial Trust ("MNACT") | Issuer Profile: Neutral (4)

- Festival Walk has been closed since the night of 12 November 2019 where various incidents leading to extensive damage to the mall took place.
- Recovery and repair works are on-going. Metal hoardings have been erected at various parts of the property for safety and security precautions. Assessment of claims by insurers is underway.
- MNACT is assisting and working closely with the tenants as the mall is not operational and will remain closed until further notice.
- While performance of Festival Walk will unfortunately be negatively impacted, the insurance claims MNACT may receive can possibly help recover some of the repair cost and loss in revenue. That being said, variable rents that are linked to tenant sales is not a key component of rental income of MNACT. For now we maintain the issuer profile at Neutral (4). (Company, OCBC)

Julius Baer Group Ltd ("JBG") | Issuer Profile: Neutral (3)

- JBG reported its Interim Management Statement for the 10 months to 31 October 2019. In our view, the positives outweigh negatives and our Neutral (3) issuer profile holds.
- Slight negatives in the results include the gross margin lower at 82bps for YTD2019 against 85.5bps for FY2018 and 83.2bps in 1H2019 and slower net new money growth due to outflows from Italian asset and wealth management subsidiary Kairos. As a result of its ongoing underperformance, JBG will partially impair the goodwill on its investment in Kairos by EUR90mn.
- On the plus side however, the cost to income ratio improved to 70.0% for YTD2019, lower than 70.6% in FY2018 and 71.0% in 1H2019 and closer to its target of below 68.0% in FY2020; the gross margin performance is decent considering the slower net new money growth and 10% YTD increase in Assets under Management; and JBG's capital ratios improved with its CET1 ratio at 13.9% as at 30 October 2019 (12.8% as at 31 December 2018 and 13.1% as at 30 June 2019). This is still well above the regulatory minimum requirement and management floor of 8.2% and 11% respectively. Given the strong capital ratio, JBG also announced a CHF400mn share buyback.
- While we see no change to fundamentals for now, we think next year will be an interesting year for JBG with new CEO Philipp Rickenbacher angling the bank for growth after a period of consolidation and de-risking under previous CEO Bernard Hodler. (Company, OCBC)

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Credit Headlines

Industry Outlook – Financial Institutions / Commonwealth Bank of Australia (“CBA”) | Issuer Profile: Positive (2) / Westpac Banking Corporation (“WSTP”) | Issuer Profile: Positive (2):

- Further to [National Australia Bank Ltd’s admission to 255 out of 297 alleged breaches](#) of the National Credit Act under proceedings in Australia’s Federal Courts by the Australian Securities and Investments Commission (“ASIC”), CBA’s life insurance subsidiary Colonial Mutual Life Assurance Society (“CommInsure”) has pleaded guilty to 87 counts by ASIC of selling insurance products through unlawful, unsolicited phone calls that breach anti-hawking rules.
 - ❑ The maximum penalty for each count is AUD21,250 translating to a fine of ~AUD2mn with sentencing to occur later this month.
 - ❑ So far, CBA has refunded affected customers AUD12mn under its remediation program.
 - ❑ CommInsure is in the process of being divested to AIA Group Limited although the divestment is subject to the sale of CBA’s stake in BoCommLife Insurance Company Limited (“BoCommLife”) out of CommInsure Life. The sale of BoCommLife to Mitsui Sumitomo Insurance Co. Ltd (MSI) is subject to Chinese regulatory approvals which is expected to be received by the end of 2019.
- In addition, this morning Westpac has acknowledged the [commencement of civil proceedings and receipt of a statement of claim by Australia’s financial crimes regulator \(‘AUSTRAC’\)](#) for alleged systemic breaches under the Anti-Money Laundering and Counter-Terrorism Financing Act.
 - ❑ These proceedings relate to Westpac’s self-reported failure to report over 23 million international funds transfers worth AUD11bn as required under the Anti-Money Laundering and Counter-Terrorism Financing Act. Per Westpac’s 2019 Annual Report, these transfers occurred between 2009-2018 and were recurring, low value payments through one Westpac Institutional Bank product made to foreign government pension funds and corporates.
 - ❑ According to media reports, this is the largest breach of Australia’s Anti-Money Laundering and Counter-Terrorism Financing laws and is much larger than CBA’s 53,000 breaches which resulted in AUD700mn in fines (~AUD13.2k per breach). As per AUSTRAC’s Concise Statement, each contravention attracts a civil penalty of AUD17-21mn. Despite these reference points, it appears to early to estimate any potential fine.
 - ❑ AUSTRAC has applied to the Federal Court of Australia for civil penalty orders against Westpac with AUSTRAC’s filings also detailing additional issues related to customer due diligence processes and an ongoing shortfall in implementation measures to address the issues at hand.
 - ❑ In our view, the scale and substance of these charges are not just limited to breach of Anti-Money Laundering and Counter-Terrorism Financing laws but the potential social consequences of the breaches as detailed by AUSTRAC, which could be as damaging to Westpac’s standing as it could be to Westpac’s financial condition. The contention by AUSTRAC that shortcomings are yet to be fully rectified add to the challenges faced by Westpac in addressing these proceedings.
 - ❑ We will watch developments of these proceedings closely with a view to a possible downgrade in our Issuer Profile.
- All these developments highlight the higher scrutiny being placed on Australia’s big banks by both regulators and the public. This is a long term negative for credit profiles in our view. In particular, regulators will likely be highly motivated to actively pursue proceedings against Australia’s banks in the shadow of the Royal Commission on misconduct in the Banking industry so as to appear to be enforcing and actioning the outcomes of the Royal Commission through litigation rather than negotiation. At the same time, the public perception environment is not conducive for banks to challenge such proceedings with the potential for banks to further damage their reputations. (Company, AUSTRAC, Bloomberg, OCBC)

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Key Market Movements

| | 20-Nov | 1W chg (bps) | 1M chg (bps) | | 20-Nov | 1W chg | 1M chg |
|-----------------------|--------|-----------------|-----------------|---------------------------|----------|--------|--------|
| iTraxx Asiax IG | 65 | -1 | -5 | Brent Crude Spot (\$/bbl) | 60.91 | -1.85% | 2.51% |
| iTraxx SovX APAC | 30 | -- | -2 | Gold Spot (\$/oz) | 1,472.52 | 0.61% | -0.81% |
| iTraxx Japan | 53 | -2 | -7 | CRB | 177.16 | -1.47% | 0.80% |
| iTraxx Australia | 57 | -1 | -5 | GSCI | 409.67 | -1.83% | 0.73% |
| CDX NA IG | 52 | 0 | -2 | VIX | 12.86 | 1.42% | -9.75% |
| CDX NA HY | 107 | 0 | 0 | CT10 (%) | 1.767% | -11.89 | 1.35 |
| iTraxx Eur Main | 49 | 0 | -1 | | | | |
| | | | | | | | |
| iTraxx Eur XO | 233 | -2 | 8 | AUD/USD | 0.682 | -0.20% | -0.64% |
| iTraxx Eur Snr Fin | 59 | 0 | 2 | EUR/USD | 1.108 | 0.65% | -0.65% |
| iTraxx Eur Sub Fin | 123 | 0 | 8 | USD/SGD | 1.361 | 0.11% | -0.02% |
| iTraxx Sovx WE | 13 | 1 | 1 | AUD/SGD | 0.929 | 0.31% | 0.62% |
| | | | | | | | |
| USD Swap Spread 10Y | -11 | -1 | -4 | ASX 200 | 6,742 | 0.65% | 1.38% |
| USD Swap Spread 30Y | -39 | 0 | -3 | DJIA | 27,934 | 0.88% | 4.35% |
| US Libor-OIS Spread | 36 | -1 | 1 | SPX | 3,120 | 0.92% | 4.49% |
| Euro Libor-OIS Spread | 5 | 0 | 1 | MSCI Asiax | 658 | 1.40% | 3.96% |
| | | | | HSI | 27,094 | 0.11% | 1.40% |
| China 5Y CDS | 39 | -1 | -1 | STI | 3,239 | -0.89% | 4.00% |
| Malaysia 5Y CDS | 42 | -1 | -3 | KLCI | 1,605 | -0.27% | 2.17% |
| Indonesia 5Y CDS | 73 | -1 | -8 | JCI | 6,152 | -0.47% | -0.64% |
| Thailand 5Y CDS | 26 | 0 | -1 | EU Stoxx 50 | 3,697 | -0.42% | 3.27% |
| Australia 5Y CDS | 17 | 0 | -1 | | | | |

Source: Bloomberg

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New Issues

- PCGI Intermediate Holdings (II) Limited (Guarantor: PCGI Intermediate Holdings Limited) priced a USD250mn 5-year bond at 5.5%, in line with IPT.
- China Development Bank Corporation of Hong Kong priced a USD250mn re-tap of its existing SDBC Float '24s at 3m-US LIBOR+64bps.
- Housing & Development Board priced a SGD700mn 5-year bond at 1.75%, in line with price guidance.

| Date | Issuer | Size | Tenor | Pricing |
|-----------|---|----------|----------------------|--------------------|
| 19-Nov-19 | PCGI Intermediate Holdings (II) Limited | USD250mn | 5-year | 5.5% |
| 19-Nov-19 | China Development Bank Corporation of Hong Kong | USD250mn | SDBC Float '24s | 3m-US LIBOR+64bps |
| 19-Nov-19 | Housing & Development Board | SGD700mn | 5-year | 1.75% |
| 18-Nov-19 | Agile Group Holdings Limited | USD200mn | NC5.5-year perpetual | 7.75% |
| 18-Nov-19 | Shaanxi Xixian New Area Fengxi New City Development and Construction (Group) Co., Ltd | USD120mn | 3-year | 3.5% |
| 18-Nov-19 | Korea Expressway Corporation | USD200mn | 3-year FRN | 3m-US LIBOR+60bps |
| 15-Nov-19 | Zhenjiang Cultural Tourism Industry Group Co., Ltd | USD230mn | 3-year | 7.5% |
| 15-Nov-19 | Phoenix Charm International Investment Limited | USD205mn | 3-year | 7.0% |
| 14-Nov-19 | Adani Transmission Limited | USD500mn | 16.5-year | 4.25% |
| 14-Nov-19 | Shanghai Electric Group Global Investment Limited | USD500mn | 5-year | T+102.5bps |
| 14-Nov-19 | Chalieco Hong Kong Corporation Limited | USD350mn | NC3.5-Perpetual | 5.0% |
| 14-Nov-19 | Korea Railroad Corp | USD150mn | 5-year FRN | 3m-US LIBOR+70bps |
| 13-Nov-19 | Fantasia Holdings Group Co., Ltd | USD150mn | FTHDGR 12.25%'22s | 13.7% |
| 13-Nov-19 | ICBCIL Finance Co. Limited | USD600mn | 5-year FRN | 3m-US LIBOR+105bps |
| 13-Nov-19 | Nanyang Commercial Bank, Limited | USD700mn | 10NC5 | T+218bps |
| 13-Nov-19 | Tata Motors Limited | USD300mn | 5.5-year | 5.875% |

Source: OCBC, Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Research & Strategy

LingSSSelena@ocbc.com

Howie Lee

Thailand, Korea &

Commodities

HowieLee@ocbc.com

Tommy Xie Dongming

Head of Greater China

Research

XieD@ocbc.com

Carie Li

Hong Kong & Macau

carierli@ocbcwh.com

Wellian Wiranto

Malaysia & Indonesia

WellianWiranto@ocbc.com

Dick Yu

Hong Kong & Macau

dicksnyu@ocbcwh.com

Terence Wu

FX Strategist

TerenceWu@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst

ZhiQiSeow@ocbc.com

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