

July 08, 2019

## Credit Headlines: Industry Outlook – Singapore Mid-Year 2019 Credit Outlook

### Market Commentary

- The SGD swap curve was mostly unchanged last Friday, with the shorter tenors and belly trading 0-1bps higher, while the longer tenors traded 0-1bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 130bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 10bps to 460bps.
- Flows in SGD corporates were light, with flows in DBSSP 3.98%-PERPs.
- 10Y USTs gained 8bps to 2.04%, after the US released stronger than expected nonfarm payrolls data, tempering expectations of aggressive rate cuts by the Federal Reserve. Spread between 3-month treasury bills and 10-year treasury notes continued to be inverted, with the spread narrowing to -16bps.

### Credit Headlines

#### Industry Outlook – Singapore Mid-Year 2019 Credit Outlook

- Our [Singapore Mid-Year 2019 Credit Outlook](#) was published last Friday. Key highlights include:
  - ❑ Near record issuance in 1H2019 driven by (1) lower interest rates and increasing conviction of the rates outlook leading to re-pricing of secondary curves; (2) broadly resilient issuer fundamentals; and (3) solid market liquidity that was met with funding demand from large cap corporates who sought to use their solid market access and strong balance sheet to expand their business footprint and leverage up in a desire to boost growth. These drivers overshadowed the weaker operating outlook from lower economic growth forecasts and persisting risk events.
  - ❑ 1H2019 sector trends in issuance were driven by fundamental and technical considerations with subdued conditions in Singapore's property market reducing demand for capital and hence lower relative issuance for Real Estate companies including REITs. On the flipside, government-linked issuers continued to dominate the market while solid issuance by Financial Institutions in 1H2019 followed the momentum in 2H2018.
  - ❑ Technical considerations led to an increasing preference for duration with the fall in swap rates and rising dovishness from central banks.
  - ❑ Higher-yielding (paper with yields above 4.5%) bond issuers as a proportion of total issuers fell slightly y/y and shows the influences of lower swap rates with a higher proportion of structurally driven higher-yielding instruments as demand for true high yield issuers remains constrained.
  - ❑ Overall, we think both stronger volumes and an increased breadth of new issuers in the SGD space through 1H2019 indicates a healthy and maturing bond market that is increasingly aware of credit differentiation and idiosyncratic events.
  - ❑ We see a fine balance between positive and negative influences on credit spreads for the remainder of 2019. While we believe credit spreads will be sticky at current levels, we think these conflicting influences will lead to increased volatility and dispersion within credit markets. As such, our preference in 2H2019 is for high quality credits that can withstand market influences from a fundamental and technical perspective.
  - ❑ That said, with underlying fundamentals still sound, we continue to think that any widening in credit spreads can create more opportunities than pitfalls and carry can outweigh price movements for select high yield issuers.
  - ❑ We expect investors in this climate will continue to pursue yield. Should investors look at fundamental high yield then the most important consideration in our view is liquidity. For investors looking to structural high yield then the most important consideration in our view is structure.

**Table 1: Key Financial Indicators**

	8-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	63	2	-9
iTraxx SovX APAC	39	0	-7
iTraxx Japan	58	-1	-8
iTraxx Australia	61	2	-9
CDX NA IG	53	0	-7
CDX NA HY	108	0	1
iTraxx Eur Main	50	-1	-10
iTraxx Eur XO	245	-4	-25
iTraxx Eur Snr Fin	61	-1	-16
iTraxx Sovx WE	16	-1	-3
AUD/USD	0.698	0.26%	0.33%
EUR/USD	1.123	-0.54%	-0.77%
USD/SGD	1.360	-0.34%	0.44%
China 5Y CDS	41	1	-10
Malaysia 5Y CDS	51	1	-16
Indonesia 5Y CDS	86	0	-14
Thailand 5Y CDS	32	0	-3

	8-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	64.29	-1.18%	1.58%
Gold Spot (\$/oz)	1,397.08	0.93%	5.20%
CRB	180.78	-0.93%	3.65%
GSCI	422.34	-1.91%	3.73%
VIX	13.28	-16.06%	-18.53%
CT10 (bp)	2.025%	0.12	-5.57
USD Swap Spread 10Y (bp)	-5	-1	-3
USD Swap Spread 30Y (bp)	-32	-1	-5
US Libor-OIS Spread (bp)	16	-2	-5
Euro Libor-OIS Spread (bp)	5	-1	0
DJIA	26,922	1.49%	3.61%
SPX	2,990	2.24%	4.07%
MSCI Asiax	656	-0.26%	5.84%
HSI	28,775	0.54%	6.71%
STI	3,367	-0.16%	6.33%
KLCI	1,683	-0.06%	2.01%
JCI	6,373	0.23%	2.65%

## New issues:

- Jiayuan International Group Ltd has priced a USD225mn 2.75-year bond at 13.75%, in line with final guidance.
- City Developments Ltd has priced a SGD50mn re-tap of its existing CITSP 2.8%'23s at 2.8%.
- Tianjin Binhai New Area Construction & Investment Group Co., Ltd has scheduled investor meetings commencing on 8 July.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
05-Jul-19	Jiayuan International Group Ltd	USD225mn	2.75-year	13.75%
05-Jul-19	City Developments Ltd	SGD50mn	CITSP 2.8%'23s	2.8%
04-Jul-19	Easy Tactic Ltd	USD450mn	5NC3	8.125%
04-Jul-19	Dafa Properties Group Ltd	USD180mn	2-year	12.875%
04-Jul-19	FWD Group Ltd	USD550mn	5-year	5.75%
03-Jul-19	Pingdingshan Tianan Coal Mining Co., Ltd	USD100mn	1-year	6.25%
02-Jul-19	Shandong Guohui International (BVI) Co., Ltd	USD800mn	3-year	4.37%
02-Jul-19	Sumitomo Corporation	USD500mn	5-year	T+87.5bps
02-Jul-19	Tongfang Aqua Ltd	USD300mn	2.5-year	7.0%
02-Jul-19	Yuzhou Properties Co., Ltd	USD400mn	YUZHOU 6.0%'23s	7.7%
02-Jul-19	Export-Import Bank Of China	USD100mn	4-year	3m-US LIBOR+60bps
01-Jul-19	Skyfame Realty Holdings Ltd	USD105mn	3-year	13.0%
01-Jul-19	Tahoe Group Global (Co.,) Ltd	USD400mn	3-year	16.0%

Source: OCBC, Bloomberg

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