

July 09, 2019

Credit Headlines: Julius Baer Group Ltd, Industry Outlook – Financial Institutions

Market Commentary

- The SGD swap curve bear-steepened yesterday, with the shorter tenors trading 1-2bps higher, the belly trading 3bps higher while the longer tenors traded 2-3bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 130bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 462bps.
- Flows in SGD corporates were heavy, with flows in OCBCSP 4.0%-PERPs, UBS 5.875%-PERPs, HSBC 5.0%-PERPs, and SOCGEN 6.125%-PERPs.
- 10Y USTs gained 1bps to 2.05%, as investor expectations of a 50bps rate cut were reduced, and investors look to Fed Chairman Jerome Powell's comments on Wednesday as he delivers the Fed's semi-annual monetary policy report. Spread between 3-month treasury bills and 10-year treasury notes continued to be inverted, with the spread widening to -18bps.

Credit Headlines

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

- BAER has announced the appointment of Philipp Rickenbacher as its new chief executive officer from 1 September, replacing current CEO Bernard Hodler. Mr Hodler will remain involved until 2020 through a transition process but will effectively retire as CEO and from the Executive Board on 31 August 2019.
- Mr Rickenbacher has been with BAER since 2004 and is currently Head of Intermediaries & Global Custody of Bank Julius Baer & Co. Ltd. Before this role, he was Head of Advisory Solutions with responsibility for the development of the Bank's wealth management solutions.
- The appointment of an internal candidate is interesting in the context of recent senior management changes and rumours of potential external candidates assuming the role of CEO. This speaks to BAER's desire for continuity and stability which we see as positive given market volatility and BAER's transitioning credit profile.
- Mr Rickenbacher's appointment follows a period of stabilisation under Mr Hodler (previously Chief Risk Officer) who was appointed himself in 2017 after a strong period of growth and expansion under previous CEO Boris Collardi. As curious as Mr Hodler's appointment seemed at the time to the market, it appears to have been necessary to put BAER on a more solid footing for the new CEO to move forward with someone who is, as Chairman Romeo Lacher has stated is "deeply familiar with Julius Baer's culture and business, but prepared to actively address the challenges of the future." (Company, Bloomberg, OCBC)

Credit Headlines (cont'd)

Industry Outlook – Financial Institutions:

- Following the Australian Prudential Regulation Authority's ("APRA") [discussion paper](#) on increasing the loss absorbing capacity of banks from November 2018, APRA has released its response to submissions, which represent a mid-point compared to initial proposals.
- The November 2018 proposal was for a 4-5% increase in total capital requirements to be met exclusively by Tier 2 instruments. Together with a capital surplus of 3% of risk weighted assets, Australia's four major banks (Commonwealth Bank of Australia, Australia & New Zealand Banking Group Ltd, National Australia Bank Ltd, Westpac Banking Corporation) were expected to maintain a minimum total capital ratio of 18.5-19.5%.
- In its response however, APRA now requires banks to raise their total capital ratio by 3% by January 1, 2024. Reasons for the lower target (as raised by Australia's banks) include a lack of market liquidity to absorb such requirements and the higher funding cost impact. While this 3% requirement represents somewhat of a concession, APRA has still maintained that the original proposal of 4-5% remains a long term target.
- Banks have already responded to APRA's announcement and indicated the likely increase in their total capital requirements with National Australia Bank Ltd and Australia & New Zealand Banking Group Ltd expecting ~AUD12bn in additional capital required while Westpac Banking Corporation has indicated an additional AUD13bn in capital.
- With supply risk likely limited for now given the longer term date for compliance and the technical environment still conducive, we still see decent value in the Aussie bank Tier 2 space in particular ANZ 3.75% '27c22s. That said, call risk could be affected for these instruments given the higher Tier 2 requirement. All of the Aussie bank Tier 2s (ANZ 3.75% '27c22s, NAB 4.15% '28c23s and WSTP 4.0% '27c22s) have call dates preceding implementation of the higher requirements. (OCBC, APRA)

Table 1: Key Financial Indicators

	9-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	65	3	-8
iTraxx SovX APAC	41	1	-6
iTraxx Japan	59	0	-8
iTraxx Australia	64	3	-7
CDX NA IG	55	2	-6
CDX NA HY	107	0	1
iTraxx Eur Main	51	1	-10
iTraxx Eur XO	248	2	-22
iTraxx Eur Snr Fin	62	2	-14
iTraxx Sovx WE	16	0	-3
AUD/USD	0.697	-0.34%	0.13%
EUR/USD	1.122	-0.61%	-0.85%
USD/SGD	1.360	-0.29%	0.47%
China 5Y CDS	43	1	-8
Malaysia 5Y CDS	53	4	-13
Indonesia 5Y CDS	88	2	-12
Thailand 5Y CDS	35	2	0

	9-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	63.90	2.40%	0.96%
Gold Spot (\$/oz)	1,393.15	-1.80%	4.91%
CRB	180.68	-0.20%	3.59%
GSCI	421.54	-0.90%	3.53%
VIX	13.96	-7.43%	-14.36%
CT10 (bp)	2.037%	6.32	-4.37
USD Swap Spread 10Y (bp)	-6	-2	-4
USD Swap Spread 30Y (bp)	-32	0	-5
US Libor-OIS Spread (bp)	15	-3	-5
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,806	0.78%	3.16%
SPX	2,976	1.16%	3.57%
MSCI Asiax	644	-2.46%	3.95%
HSI	28,332	-0.74%	5.07%
STI	3,334	-1.08%	5.30%
KLCI	1,678	-0.79%	1.72%
JCI	6,352	-0.44%	2.30%

New issues:

- Eastern Creation II Investment Holdings Ltd (guarantor: Beijing Infrastructure Investment (Hong Kong) Limited) has priced a USD200mn 3-year bond at T+102bps, tightening from IPT of T+135bps area.
- China Overseas Finance (Cayman) VIII Limited (guarantor: China Overseas Land & Investment Limited) has priced a USD450mn 10-year bond at T+145bps, tightening from IPT of T+170bps area.
- Chong Hing Bank Limited has priced a USD400mn NC5 Perpetual AT1 at 5.7%, tightening from IPT of 6.1% area.
- POSCO has priced a USD500mn 5-year bond at T+105bps, tightening from IPT of T+130bps area.
- Shimao Property Holdings Limited has priced a USD1.0bn 7NC4 bond at 5.6%, tightening from IPT of 6.0% area.
- Sumitomo Mitsui Financial Group has priced a USD4.5bn offering in two tranches: a USD2.0bn 5-year bond at T+85bps (tightening from IPT of T+105bps area), and a USD2.5bn 10-year bond at T+100bps, tightening from IPT of T+120bps area.
- CIFI Holdings (Group) Co., Ltd has priced a USD300mn re-tap of its existing CIFIHG 6.55%'24s bond at 6.82%, tightening from IPT of 7.125% area.
- Lifestyle International Holdings Ltd has priced a USD300mn 5-year bond at 4.875%.
- China Development Bank Corporation of Hong Kong has priced a USD500mn 5-year FRN at 3-month US LIBOR+64bps, and a USD200mn 3-year FRN at 3-month USD LIBOR+54bps.
- Peking University Resources Group Co., Ltd has scheduled investor meetings commencing on 9 July for its potential USD bond issuance.
- Dalian Deta Holding Co. has scheduled investor meetings commencing on 9 July for its potential USD bond issuance.
- China Mengniu Dairy Company Limited has scheduled investor meetings commencing on 9 July for its potential USD bond issuance.
- Greenland Hong Kong Holdings Limited has scheduled investor meetings commencing on 9 July for its potential USD bond issuance.

New issues:

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
08-Jul-19	Eastern Creation II Investment Holdings Ltd	USD200mn	3-year	T+102bps,
08-Jul-19	China Overseas Finance (Cayman) VIII Limited	USD450mn	10-year	T+145bps
08-Jul-19	Chong Hing Bank Limited	USD400mn	NC5-Perpetual	5.7%
08-Jul-19	POSCO	USD500mn	5-year	T+105bps
08-Jul-19	Shimao Property Holdings Limited	USD1.0bn	7NC4	5.6%
08-Jul-19	Sumitomo Mitsui Financial Group	USD2.0bn USD2.5bn	5-year 10-year	T+85bps T+100bps
08-Jul-19	CIFI Holdings (Group) Co., Ltd	USD300mn	CIFIHG 6.55%'24s	6.82%
08-Jul-19	Lifestyle International Holdings Ltd	USD300mn	5-year	4.875%
08-Jul-19	China Development Bank Corporation of Hong Kong	USD500mn USD200mn	5-year FRN 3-year FRN	3M-US LIBOR+64bps 3M-US LIBOR+54bps
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%

Source: OCBC, Bloomberg

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