

Market Commentary

- The SGD swap curve bear-flattened yesterday, with the shorter tenors trading 9-11bps higher, while the belly and longer tenors traded 6-7bps higher (with the exception of the 5-year tenor trading 9.5bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 121bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 13bps to 494bps. The HY-IG Index Spread tightened 11bps to 372bps.
- Flows in SGD corporates were heavy, with flows in GUOLSP 3.4%'25s, UBS 5.875%-PERPs, ARASP 5.6%-PERPs, SOCGEN 6.125%-PERPs, HSBC 4.7%-PERPs, TMGSP 4.05%'25s, CATHAY 3.375%'23s, FPLSP 3.95%-PERPs, SLHSP 3.5%'30s and UBS 4.85%-PERPs.
- 10Y UST Yields gained 5bps to 1.65%, driven by strong U.S. economic data as well as optimism that the 2019 Novel Coronavirus will be contained.

Credit Summary:

- [BNP Paribas SA \(“BNPP”\)](#) | **Issuer Profile: Neutral (3)**: Underlying fundamentals drove solid financial performance for BNPP in 2019 with pre-tax income up 11.6% y/y and BNPP’s CET1 ratio rose 40bps since 1 January 2019. Cost of risk rose 15.9% y/y however overall loan quality appears to be sound with the reported doubtful loans to gross outstandings as at 31 December 2019 down 40bps y/y to 2.2%. BNPP’s balance sheet grew with total assets up 6.1% y/y in FY2019, and risk weighted assets rose 40bps. As per peers, BNPP has revised down its strategic targets for 2020 recognizing the weaker operating environment.
- [Wheelock and Company Limited \(“WHEELK”\)](#) | **Issuer Profile: Positive (2)**: WHEELK has outbid 8 others in the tender for the Lohas Park site in New Territories. The cost of the land appears to be cheaper, about 10% below the premium on the previous lot sold in April 2019. The site will be developed into small and medium-sized residential units, sitting on top of a shopping centre that is directly connected to the Lohas Park MTR station.

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Credit Headlines

BNP Paribas SA (“BNPP”) | Issuer Profile: Neutral (3)

- Underlying fundamentals drove solid financial performance for BNPP in 2019 with pre-tax income up 11.6% y/y to EUR13.4bn and BNPP’s CET1 ratio rose 40bps since 1 January 2019.
- Total revenues rose 4.9% y/y with operating division revenues up 5.9% y/y through improvement in all divisions. Domestic Markets revenues rose 0.8% y/y as business growth in specialised businesses (Arval, Leasing Solutions) offset low interest rates. Solid performance continues in International Financial Services (+6.9% y/y due to Personal Finance, insurance, Europe-Mediterranean performance) while revenues in Corporate and Institutional Banking revenues rose 11.6% y/y on strong performance in Fixed Income, Currencies and Commodities (+31.1% y/y) within Global Markets and Corporate Banking (+9.9% y/y).
- At the same time, operating expenses rose 2.5% y/y to EUR31.4bn. This was due to the 3.5% y/y rise in operating division costs due to business growth. However, the positive impact of EUR1.8bn in cost savings in line with BNPP’s 2020 plan created a positive 2.4 point jaws effect and a reduction in the cost of income to 70.3% for FY2019 (71.9% in FY2018).
- Operating expenses also included the recognition of EUR744mn in transformation costs from the 2020 plan, EUR311mn in restructuring costs and EUR162mn in adaptation measures or exit costs related to BNL banca commerciale, Asset Management and BancWest (EUR1,217bn in total against EUR1.235bn in total for FY2018). This was offset by +EUR732mn in net exceptional other non-operating items related to capital gains on asset sales (real estate, SBI Life and deconsolidation of the residual stake) and goodwill impairments. According to management, there will be no further transformation costs in 2020.
- Cost of risk rose 15.9% y/y while the group cost of risk was 39 basis points of outstanding customer loans in FY2019 against 35 basis points in FY2018 and 39bps in 2017. Most of the rise came from Corporate Banking and Europe-Mediterranean exposures. Overall loan quality however appears to be sound with the reported doubtful loans to gross outstandings as at 31 December 2019 down 40bps y/y to 2.2% due to a 11.8% reduction in doubtful loans as well as growth in loan outstandings. Management continue to reiterate that loan quality reflects good risk control at loan origination, the low interest rate environment and continued improvement of credit portfolios in Italy. The Stage 3 coverage ratio at 74.0% as at 31 December 2019 is down from 76.2% as at 31 December 2018.
- BNPP’s balance sheet grew with total assets up 6.1% y/y in FY2019 with solid growth in outstanding loans (+4.1% y/y in Domestic Markets from retail banking loan growth (including +5.4% y/y in France and +4.4% y/y Belgium) and higher financing outstandings in leasing businesses (+6.9% y/y), +8.1% y/y in International Financial Services and +7.5% in Corporate Banking) and assets under management in Insurance and Wealth and Asset Management.
- With the growth in BNPP’s balance sheet, risk weighted assets rose 40bps. However, the better earnings performance (net of a 50% pay-out ratio and excluding exceptional non-operating items) and the net impact of sales and acquisitions drove a 80bps rise in CET1 capital. As such, BNPP’s CET1 ratio rose 40bps since 1 January 2019 to 12.1%. Compared to 31 December 2018 however, the ratio was down 10bps due to implementation of IFRS 16. BNPP’s ratio is now above the 12.0% CET1 ratio target announced in 2017 as part of its 2020 plan and well above its 2020 CET1 requirement of 9.92% following the 2019 Supervisory Review and Evaluation Process.
- As per peers, BNPP has revised down its strategic targets for 2020 recognizing the weaker operating environment. The results are consistent with the Neutral (3) issuer profile. (Company, OCBC)

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Credit Headlines

Wheelock and Company Limited (“WHEELK”) | Issuer Profile: Positive (2)

- WHEELK has outbid 8 others in the tender for the Lohas Park site in New Territories.
- The cost of the land appears to be cheaper, based on the lower land premium of HKD2,835 per sq ft as disclosed in the tender document published in December, about 10% below the premium on the previous lot sold in April 2019.
- We think this is a good time to replenish land bank amid market weakness.
- The site will be developed into small and medium-sized residential units, sitting on top of a shopping centre that is directly connected to the Lohas Park MTR station. (SCMP, OCBC)

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Key Market Movements

	06-Feb	1W chg (bps)	1M chg (bps)		06-Feb	1W chg	1M chg
iTraxx Asiax IG	52	-7	-5	Brent Crude Spot (\$/bbl)	55.59	-4.63%	-19.33%
iTraxx SovX APAC	28	-3	0	Gold Spot (\$/oz)	1,555.76	-1.18%	-0.64%
iTraxx Japan	45	-3	0	CRB	169.54	-1.97%	-9.52%
iTraxx Australia	48	-5	-2	GSCI	386.28	-3.13%	-13.12%
CDX NA IG	45	-3	-1	VIX	15.15	-7.57%	9.39%
CDX NA HY	109	1	0	CT10 (%)	1.653%	6.70	-15.64
iTraxx Eur Main	43	-3	-2				
iTraxx Eur XO	212	-15	0	AUD/USD	0.676	0.54%	-2.62%
iTraxx Eur Snr Fin	49	-5	-5	EUR/USD	1.100	-0.30%	-1.77%
iTraxx Eur Sub Fin	105	-9	-10	USD/SGD	1.384	-1.58%	-2.51%
iTraxx Sovx WE	10	-1	-2	AUD/SGD	0.935	-2.12%	0.12%
USD Swap Spread 10Y	-4	1	2	ASX 200	7,025	0.24%	4.30%
USD Swap Spread 30Y	-33	0	2	DJIA	29,291	1.94%	2.05%
US Libor-OIS Spread	16	-2	-14	SPX	3,335	1.87%	2.72%
Euro Libor-OIS Spread	6	0	-1	MSCI Asiax	673	1.64%	-2.06%
				HSI	26,787	1.28%	-5.10%
China 5Y CDS	33	-9	-1	STI	3,218	1.48%	-0.04%
Malaysia 5Y CDS	36	-6	-1	KLCI	1,544	-0.12%	-3.39%
Indonesia 5Y CDS	61	-7	-4	JCI	5,979	-2.20%	-4.46%
Thailand 5Y CDS	26	0	3	EU Stoxx 50	3,778	1.11%	0.67%
Australia 5Y CDS	17	0	1				

Source: Bloomberg

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New Issues

- Central China Real Estate Limited priced a USD300mn 364-day bond at 7.0%, tightening from IPT of 7.5% area.
- Pioneer Reward Limited (Guarantor: Huatai Securities Company Limited) priced a USD400mn 3-year bond at 3m-US LIBOR+95bps, tightening from IPT of 3m-US LIBOR+125bps area.
- Export-Import Bank of Korea priced a USD500mn 5-year bond at T+47.5bps, tightening from IPT of T+70bps area.
- Adani Electricity Mumbai Ltd priced a USD1bn 10-year bond at T+230bps, tightening from T+270bps area.
- Hyundai Capital America (Guarantor: Hyundai Motor Co) priced a USD2bn debt offering in three tranches: (1) a USD1bn 3-year bond at T+95bps, (2) a USD500mn 5-year bond at T+122.5bps and (3) a USD 500mn 7-year bond at T+147.5bps, tightening from IPT of T+120-125bps, T+145-150bps and T+165-170bps area respectively.
- Resimac has mandated banks for its potential USD bond deal.

Date	Issuer	Size	Tenor	Pricing
05-Feb-20	Central China Real Estate Limited	USD300mn	364-day	7.0%
05-Feb-20	Pioneer Reward Limited (Guarantor: Huatai Securities Company Limited)	USD400mn	3-year	3m-US LIBOR+95bps
05-Feb-20	Export-Import Bank of Korea	USD500mn	5-year	T+47.5bps
05-Feb-20	Adani Electricity Mumbai Ltd	USD1bn	10-year	T+230bps
05-Feb-20	Hyundai Capital America (Guarantor: Hyundai Motor Co)	USD1bn USD500mn USD 500mn	3-year 5-year 7-year	T+95bps T+122.5bps T+147.5bps
04-Feb-20	Jiayuan International Group Limited	USD60mn	JIAYUA 13.75%'23s	13.75%
03-Feb-20	GLL IHT Pte. Ltd. (Guarantor: GuocoLand Limited)	SGD200mn	5.5-year	3.4%
29-Jan-20	Suntec REIT MTN Pte. Ltd	SGD200mn	7-year	2.95%
23-Jan-20	Westpac Banking Corp	USD1.5bn	10NC5	T+135bps
22-Jan-20	Cyprus Investments, Inc.	USD140mn	3-year	3m-US LIBOR+90bps

Source: OCBC, Bloomberg

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