OCBC TREASURY RESEARCH

Asian Credit Daily

Tuesday, March 10, 2020

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors trading 0-7bps lower, while the belly and the longer tenors traded 8-16bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 18bps to 168bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 79bps to 666bps. The HY-IG Index Spread widened 61bps to 498bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, HSBC 4.7%-PERPs, UBS 4.85%-PERPs, CS 5.625%-PERPs, STANLN 5.375%-PERPs, CAPLSP 3.65%-PERPs, BAERVX 5.9%-PERPs, UBS 5.875%-PERPs, F 4.125%'24s, BACR 3.75%'30s, BAERVX 5.75%-PERPs, CAPLSP 3.08%'27s, OLAMSP 6%'22s, SIASP 3.16%'23s, SLHSP 3.5%'30s and TATAIN 4.95%'23s.
- UST Yields fell 22bps to 0.54%, and at one point touched 0.32% intra-day, due to a combination of a plunge in oil prices and worries about the spread of COVID-19. The global stock markets also tumbled.

Credit Research

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Credit Summary:

- **Credit Market Outlook**: The Bloomberg Barclays US Corporate High Yield bond spreads increased 56bps on Friday to 550bps. Overnight we saw this spread spiking another 90bps, bringing spreads to 640bps. This is still away from where high yield specialist and distress funds would want to come and bottom pick. We expect spreads to widen further this week. In our view, the biggest immediate risk is in the Energy sector, which makes up 14% of high yield bonds outstanding. Beyond Energy we would likely see (1) spillover to other high yield names, including companies starting to breach their covenants (2) heightened refinancing risk as investors pullback from the high yield and (3) secondary knock on effects to investment grade as investors sell investment grade papers to generate liquidity. In the SGD space, spreads have similarly widened materially given the fall in Singapore rates. In our view, we are now operating in a fundamentally weaker environment for corporates who are more highly leveraged. We continue to monitor our credit coverage closely in this environment and continue to advocate good quality names with strong and demonstrated access to liquidity.

Credit Headlines

Credit Market Outlook

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- In our view, the biggest immediate risk is in the Energy sector, which makes up 14% of high yield bonds outstanding. We expect defaults to rise for this sector given the expectation that Brent may test USD30/barrel which would be lower than the cost of production for some issuers. Overnight we've seen the energy specific high yield spreads reach 1,422bps. The 2015-2016 market crash in high yield bonds was in part due to defaults in the Energy sector.
- Beyond Energy we would likely see (1) spillover to other high yield names, including companies starting to breach their covenants (2) heightened refinancing risk as investors pullback from the high yield and (3) secondary knock on effects to investment grade as investors sell investment grade papers to generate liquidity.
- In the SGD space, spreads have similarly widened materially given the fall in Singapore rates. As a result, in our Monthly Credit View for March, we raised our bond level recommendations on 39 bonds while lowering our bond level recommendations on only 12. This is in stark contrast to January and February where we lowered more bond recommendations than raised given the tightening in credit spreads earlier in the year with technical views or valuations running ahead of fundamental considerations or developments in the underlying credit health of the issuers.
- In our view, we are now operating in a fundamentally weaker environment for corporates who are more highly leveraged and hence heavily dependent on a benign or stable operating environment as well as the continuation of low interest rates to continue servicing their debts. With one of these two factors disappearing, it means corporates are more vulnerable to external forces, in particular both the recovery in the operating environment and the patience of lenders or bond holders to keep open their channels of liquidity.
- To reflect the second point, last week we published our thoughts on several weaker companies that we are increasingly monitoring with stretched liquidity and who may find refinancing more difficult considering the operating environment has worsened compared to a month ago.
- We continue to monitor our credit coverage closely in this environment and continue to advocate good quality names with strong and demonstrated access to liquidity, both internal through cash flow, cash balances or assets for sale, and external from both related party and third party liquidity providers. The fundamentally weaker credit environment in our view justifies the spread widening. Whereas in 2008, financial market volatility drove sentiment which in turn drove consumer spending and economic activity, we think now is the reverse. The virus has undoubtedly impacted consumer spending and economic activity. This in turn is driving sentiment and now impacting financial markets. This reverse in influence may make it more uncertain in our view for the accommodative measures by governments to be a 'real' solution for today's problems. (Bloomberg, OCBC)

Key Market Movements

	10-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	110	44	58
iTraxx SovX APAC	67	28	38
iTraxx Japan	93	34	49
iTraxx Australia	113	45	64
CDX NA IG	111	40	66
CDX NA HY	98	-7	-11
iTraxx Eur Main	105	41	62
iTraxx Eur XO	463	177	250
iTraxx Eur Snr Fin	123	53	73
iTraxx Eur Sub Fin	252	109	150
iTraxx Sovx WE	23	9	13
USD Swap Spread 10Y	6	8	12
USD Swap Spread 30Y	-34	5	-1
US Libor-OIS Spread	62	9	47
Euro Libor-OIS Spread	11	3	5
China 5Y CDS	92	47	55
Malaysia 5Y CDS	118	63	80
Indonesia 5Y CDS	180	90	116
Thailand 5Y CDS	70	32	43
Australia 5Y CDS	34	7	13

	10-Mar	1W chg	1M chg
Brent Crude Spot ($/bbl)	36.55	-29.52%	-31.39%
Gold Spot ($/oz)	1,667.94	1.65%	6.09%
CRB	144.81	-11.43%	-14.25%
GSCI	305.29	-17.23%	-20.12%
VIX	54.46	62.96%	262.10%
CT10 (%)	0.680%	-31.86	-88.92
AUD/USD	0.658	-0.08%	-1.62%
EUR/USD	1.138	1.88%	4.33%
USD/SGD	1.385	0.21%	0.30%
AUD/SGD	0.911	0.27%	1.94%
ASX 200	5,805	-9.81%	-17.23%
DJIA	23,851	-10.68%	-18.53%
SPX	2,747	-11.12%	-18.06%
MSCI Asiax	616	-5.01%	-9.16%
HSI	25,040	-4.73%	-8.08%
STI	2,766	-8.39%	-12.55%
KLCI	1,432	-3.13%	-7.16%
JCI	5,137	-4.19%	-13.70%
EU Stoxx 50	2,959	-11.37%	-21.99%

Source: Bloomberg

New Issues

- Aspial Corporation Limited priced a SGD50mn 3-year bond at 6.5%.
- PSA Treasury Pte. Ltd. (Guarantor: PSA International Pte Ltd) priced a SGD500mn 10-year bond at 1.63%.

Date	Issuer	Size	Tenor	Pricing
09-Mar-20	Aspial Corporation Limited	SGD50mn	3-year	6.5%
09-Mar-20	PSA Treasury Pte. Ltd. (Guarantor: PSA International Pte Ltd)	SGD500mn	10-year	1.63%
06-Mar-20	Zensun Enterprises Limited	USD200mn	2.5-year	13%
06-Mar-20	Xi'an Aerospace Science & Technology Industry Company	USD200mn	3-year	6.5%
05-Mar-20	Industrial and Commercial Bank of China Limited of Luxembourg	USD150mn	3-year	3m-US LIBOR+50bps
05-Mar-20	Haitong International Finance Holdings 2015 Limited (Guarantor: Haitong Securities Co.,Ltd.)	USD670mn	5-year	T+142.5bps
05-Mar-20	MCC Holding (Hong Kong) Corporation Limited (Guarantor: Metallurgical Corporation of China Ltd.)	USD400mn	PERPNC3	3.25%
05-Mar-20	Lodha Developers International Ltd. (Guarantors: Macrotech Developers Limited and Lodha Developers UK limited)	USD200mn	3NC1	14%
04-Mar-20	Sinic Holdings (Group) Company Limited	USD280mn	364-day	13.25%
04-Mar-20	Jingrui Holdings Limited	USD180mn	2-year	12.75%
03-Mar-20	CNAC (HK) Finbridge Company Limited (Guarantor: China National Chemical Corporation Limited)	USD200mn	HAOHUA 3.375%'24s	2.65%
03-Mar-20	Gemstones International Ltd (Guarantors include LVGEM (China) Real Estate Investment Company Ltd.)	USD450mn	3-year	12.0%
03-Mar-20	Korea Development Bank Singapore	USD100mn	2-year	3m-US LIBOR+33.5bps

Source: OCBC, Bloomberg

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