

Market Commentary

- The SGD swap curve bull-steepened yesterday, with the shorter and belly tenors trading 2-4bps lower, while the longer tenors traded 1-2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 121bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 488bps. The HY-IG Index Spread tightened 6bps to 367bps.
- Flows in SGD corporates were heavy, with flows in GUOLSP 3.4%'25s, ARASP 5.6%-PERPs, STANLN 5.375%-PERPs, UBS 4.85%-PERPs, UBS 5.875%-PERPs, FPLSP 3.95%-PERPs and OHLSP 5.7%'22s.
- 10Y UST Yields gained 3bps to 1.6%, after Chairman Powell said the U.S. economy appears resilient despite the risk of COVID-19 and the current Fed policy remains appropriate.

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Credit Summary:

- [Commonwealth Bank of Australia \("CBA"\)](#) | **Issuer Profile: Positive (2)**: CBA announced its 1HFY2020 results with cash net profit after tax (which reflects continuing operations) down 4.3% y/y to AUD4.5bn. Influencing cash net profit was stable operating income as higher insurance claims and lower funds management income offset loan volume growth and stable net interest margins. Loan volume growth was decent driven by a 3% y/y rise in business lending and a 4% y/y rise in home lending. CBA's CET1 ratio improved 90bps y/y to 11.7%, well above APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (comes into force January 2020). All in, CBA's business risk continues to support its capital position and insulate against external environment challenges. Although customer remediation costs look to be on a declining trend, this will be offset by ongoing inflation in expenditure on risk and compliance programs.

Asian Credit Daily**Credit Headlines****Commonwealth Bank of Australia (“CBA”) | Issuer Profile: Positive (2)**

- CBA announced its 1HFY2020 results for the 6 months ended 31 December 2019 with cash net profit after tax (reflects continuing operations) down 4.3% y/y to AUD4.5bn. Statutory net profit (which includes discontinued operations) was up 34.0% y/y to AUD6.2bn due to the inclusion of profit on sale of Colonial First State Global Asset Management of AUD1.7bn.
- Influencing cash net profit was stable operating income as higher insurance claims and lower funds management income (reduction in ongoing service fees and grandfathered trail commissions and lower advice as well as repricings) offset loan volume growth and stable net interest margins. At the same time, operating expenses rose 2.6% y/y due to higher risk and compliance costs as well as employee costs while loan impairment expenses rose 12.5% y/y on additional provisions for anticipated loan stress from the recent weather-related events. This offset generally improved loan quality indicators in Retail Banking from an improved property market. The loan loss rate (calculated as the ratio of annualised loan impairment expenses to average gross loans and acceptances of 17bps is higher y/y than 15bps in 1HFY2019 however excluding impairment expenses related to drought and/or bushfires, the ratio is 14bps, the lowest since 1HFY2015.
- As mentioned, loan volume growth was decent driven by a 3% y/y rise in business lending and a 4% y/y rise in home lending. According to management, CBA’s home lending growth is 1.5x above system growth. Similar trends in loan quality are seen as per the trends in loan impairment expenses with the ratio of troublesome and impaired assets to total committed exposures (TIA ratio) up to 0.72% as at 31 December 2019 against 0.72% as at 30 June 2019 and 0.62% as at 31 December 2018. The y/y rise was due to anticipated weakness in discretionary retail, construction and agriculture exposures which have the highest sector TIA ratios. Otherwise Consumer loan performance continues to be solid with a TIA ratio of 0.32% as at 31 December 2019. Overall troublesome and impaired assets rose 16.4% y/y to AUD7.8bn due to 41.9% y/y rise in troublesome Corporate loans while gross impaired loans fell 5.6% y/y. The provisions coverage ratio (comprises collective provisions to credit risk weighted assets) rose to 1.08% as at 31 December 2019 against 1.05% as at 30 June 2019 and 1.03% as at 31 December 2018.
- CBA’s CET1 ratio improved 90bps y/y to 11.7%, well above APRA’s minimum 10.5% CET1 benchmark for ‘unquestionably strong’ capital ratios in Australia’s banking sector (comes into force January 2020). This was driven by earnings and the aforementioned divestment of Colonial First State Global Asset Management that offset dividend payments. On a proforma basis, which includes the expected capital impact from remaining divestments of CommInsure Life, BoCommLife Insurance Company Limited and PT Commonwealth Life, the CET1 ratio improves to 12.2% as at 31 December 2019. On an internationally comparable basis, CBA’s CET1 ratio was at 17.5%, up 100bps y/y as at 31 December 2019.
- All in, CBA’s business risk continues to support its capital position and insulate against external environment challenges. Although customer remediation costs look to be on a declining trend, this will be offset by ongoing inflation in expenditure on risk and compliance programs. The Positive (2) issuer profile remains appropriate in our view (Company, OCBC).

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Key Market Movements

	12-Feb	1W chg (bps)	1M chg (bps)		12-Feb	1W chg	1M chg
iTraxx Asiax IG	50	-2	-3	Brent Crude Spot (\$/bbl)	54.01	0.09%	-16.88%
iTraxx SovX APAC	28	0	2	Gold Spot (\$/oz)	1,567.86	0.76%	1.29%
iTraxx Japan	44	-1	0	CRB	169.61	1.00%	-7.88%
iTraxx Australia	48	0	1	GSCI	384.56	1.11%	-10.59%
CDX NA IG	45	0	1	VIX	15.18	-5.42%	20.86%
CDX NA HY	109	0	0	CT10 (%)	1.599%	-5.19	-22.07
iTraxx Eur Main	42	0	-1				
iTraxx Eur XO	211	-1	3	AUD/USD	0.672	-0.44%	-2.72%
iTraxx Eur Snr Fin	49	0	-2	EUR/USD	1.091	-0.77%	-1.98%
iTraxx Eur Sub Fin	102	-3	-5	USD/SGD	1.387	-0.44%	-2.94%
iTraxx Sovx WE	10	0	-1	AUD/SGD	0.932	0.02%	-0.23%
USD Swap Spread 10Y	-5	-1	0	ASX 200	7,088	1.60%	2.29%
USD Swap Spread 30Y	-33	-1	-1	DJIA	29,276	1.63%	1.57%
US Libor-OIS Spread	15	-2	-12	SPX	3,358	1.82%	2.83%
Euro Libor-OIS Spread	6	1	1	MSCI Asiax	684	1.67%	-2.71%
				HSI	27,584	3.40%	-3.68%
China 5Y CDS	35	2	4	STI	3,176	0.60%	-2.47%
Malaysia 5Y CDS	36	0	2	KLCI	1,551	1.02%	-2.51%
Indonesia 5Y CDS	62	1	1	JCI	5,954	0.54%	-5.11%
Thailand 5Y CDS	27	0	5	EU Stoxx 50	3,826	2.51%	0.96%
Australia 5Y CDS	17	0	0				

Source: Bloomberg

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New Issues

- China ZhengTong Auto Services Holdings Limited priced a USD13mn re-tap of its ZHTONG 12%'22s at 12.0%.
- Far East Horizon Limited priced a USD300mn 5-year bond at T+200bps, tightening from IPT of T+240bps area.
- Chouzhou International Investment Limited (Guarantor: Yiwu State-owned Capital Operation Co., Ltd.) priced a USD400mn 5-year bond at 4.08%, tightening from IPT of 4.5% area.
- Vigorous Champion International Limited (Guarantor: China Ping An Insurance Overseas (Holdings) Limited) priced a SGD330mn 364-day bond at 2.25%.
- Tongling Development Investment Group Co., Ltd mandated banks for its proposed USD bond offering.
- CCCI Treasure Ltd and its guarantor China Communications Construction Co. arranged investor calls commencing Feb 12 for their proposed USD bond offering.
- Vena Energy arranged investor meetings commencing Feb 12 for its proposed USD green bond.
- S.F. Holding Co. arranged investor calls commencing Feb 11 for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
11-Feb-20	China ZhengTong Auto Services Holdings Limited	USD13mn	ZHTONG 12%'22s	12.0%
11-Feb-20	Far East Horizon Limited	USD300mn	5-year	T+200bps
11-Feb-20	Chouzhou International Investment Limited (Guarantor: Yiwu State-owned Capital Operation Co., Ltd.)	USD400mn	5-year	4.08%
11-Feb-20	Vigorous Champion International Limited (Guarantor: China Ping An Insurance Overseas (Holdings) Limited)	SGD330mn	364-day	2.25%
10-Feb-20	CICC Hong Kong Finance 2016 MTN Limited (Guarantor: China International Capital Corporation (Hong Kong) Limited)	USD1bn	3-year	3m-US LIBOR+90bps
10-Feb-20	The Korea Development Bank	USD750mn USD750mn	3-year 5-year	3m-US LIBOR+35bps T+45bps
10-Feb-20	Theta Capital Pte Ltd (Parent guarantor: PT Lippo Karawaci)	USD95mn	LPKRIJ 8.125%'25s	7.80%
10-Feb-20	Zhongliang Holdings Group Company Limited	USD250mn	364-day	9.0%

Source: OCBC, Bloomberg

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