

Market Commentary

- The SGD swap curve rose slightly yesterday, with most of the tenors trading 0-1bps higher while the 20-year and 30-year remained unchanged.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 170bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 664bps. The HY-IG Index Spread tightened 1bps to 495bps.
- Flows in SGD corporates were heavy, with flows in OLAMSP 4%'26s, OLAMSP 6%'22s, SINTEC 4.1%-PERPs, AREIT 2.65%'30s, OLAMSP 5.5%-PERPs, STANLN 5.375%-PERPs, NTUCSP 3.1%'50s, CMZB 4.875%'27s, UBS 4.85%-PERPs and SIASP 3.13%'27s.
- 10Y UST Yields fell 2bps to 0.67% as the market awaited auction of the 20-year bonds on Wed and looked ahead to the FOMC minutes for July's meeting.

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Credit Summary:

- [Australia and New Zealand Banking Group Ltd \("ANZ"\)](#) | **Issuer Profile: Positive (2)**: ANZ has announced its 3Q2020 trading update with unaudited statutory profit of AUD1.3bn, up 72% against the 1H2020 quarterly average. Excluding large / notable items, unaudited cash profit for Continuing Operations was AUD1.6bn, up 30% although this is due to the significant provisions raised in 1H2020. Contributing to performance is increased revenues from stronger markets performance which offset lower margins and transactions volumes. At the same time, expenses fell 1% due to cost containment. AUD500mn in provisions were raised in 3Q2020, which was materially lower than 1H2020. The collective provisions ratio as a percentage of credit risk weighted assets is now 1.25%. ANZ's APRA compliant CET1 ratio rose 30bps q/q to 11.1% as at 30 June 2020 as lower institutional credit RWAs offset a rise in other RWAs from wholesale exposure regradings while the increase in CET1 was mainly due to earnings performance. Given the decent earnings, ANZ declared a 1H2020 dividend of 25 cents or 46% of 1H2020 statutory profit, down 69% compared to the 1H2019 dividend. On a proforma basis, ANZ's CET1 ratio as at 30 June 2020 was 11.3%. Other credit ratios also remain solid with the liquidity coverage ratio and net stable funding ratio improving marginally q/q to 138% and 120% respectively against the 100% regulatory minimum. ANZ's COVID-19 support measures are ongoing with ~84,000 home loans in Australia or AUD31bn in loan balances under repayment deferrals while ~22,000 Australian business loans or around AUD10bn in exposure at default are also in deferral.

Asian Credit Daily**Credit Headlines****Australia and New Zealand Banking Group Ltd (“ANZ”) | Issuer Profile: Positive (2)**

- ANZ has announced its 3Q2020 trading update with unaudited statutory profit of AUD1.3bn, up 72% against the 1H2020 quarterly average. Excluding large / notable items (including divestments, customer remediation, royal commission costs, restructuring), unaudited cash profit for Continuing Operations was AUD1.6bn, up 30% although this is due to the significant provisions raised in 1H2020.
- Contributing to performance is increased revenues from stronger markets performance (+60% against the 1H2020 quarterly average) which offset lower margins (net interest margins fell 10bps compared to 1H2020 to 1.59% in 3Q2020 from lower interest rates, changes in product and funding mix and competition) and transactions volumes. At the same time, expenses fell 1% due to cost containment – management indicated investment expenditure was at record levels in 3Q2020.
- AUD500mn in provisions were raised in 3Q2020 comprising AUD264mn in individual provisions and AUD236mn in collective provisions for what the bank calls a ‘rainy day fund’. This was materially lower than 1H2020 (AUD1.67bn raised) and while it reflects the pro-active building of loan loss buffers in 2Q2020, the lower 3Q2020 charge also reflects a somewhat better economic outlook as at 30 June 2020 relative to 31 March 2020. That said, the outlook likely does not consider the stage 3 and 4 lockdowns implemented in Victoria in July and August. The collective provisions ratio as a percentage of credit risk weighted assets (“RWA”) is now 1.25% (1.17% as at 31 March 2020, 0.94% as at 30 September 2019). While home loan credit quality ratios look decent, they incorporate the impact of deferrals and support measures (see below). Similar to peers, the gross impaired assets ratio is holding at 2.5% as at 30 June 2020 (2.6% as at 31 March 2020 on lower impaired loans balances) but the 90+ days past due ratio rose 15bps q/q for total group residential mortgage to 0.99% indicating underlying stress.
- ANZ’s APRA compliant CET1 ratio rose 30bps q/q to 11.1% as at 30 June 2020 as lower institutional credit RWAs offset a rise in other RWAs from wholesale exposure regradings while the increase in CET1 was mainly due to earnings performance. Given the decent earnings, ANZ declared a 1H2020 dividend of 25 cents or 46% of 1H2020 statutory profit (15bps impact to 4Q2020 CET1 ratio), down 69% compared to the 1H2019 dividend. On a proforma basis (which includes the conversion of a NZD500mn capital note and announced sale of New Zealand-based vehicle finance unit UDC Finance to Shinsei Bank Limited for NZD762mn), ANZ’s CET1 ratio as at 30 June 2020 was 11.3%. Per the management presentation, the CET1 ratio on a reported and proforma basis has AUD14bn and AUD15bn in CET1 buffers above the minimum CET1 ratio including the Capital Conservation Buffer. Other credit ratios also remain solid with the liquidity coverage ratio and net stable funding ratio improving marginally q/q to 138% and 120% respectively against the 100% regulatory minimum (137% and 118% respectively as at 31 March 2020).
- ANZ’s COVID-19 support measures are ongoing with ~84,000 home loans in Australia or AUD31bn in loan balances (9% of total accounts and 12% of home loans) under repayment deferrals while ~22,000 Australian business loans or around AUD10bn in exposure at default (14% of the loan book) are also in deferral. In New Zealand, 24,000 home loans with AUD5.5bn in balances or 6% of the New Zealand loan book is in deferral while around 2,700 in temporary overdraft facilities have been provided for working capital relief.
- ANZ explained the need to strike a balance between provisioning for uncertainty, maintaining capital buffers and providing a return to shareholders. While there are some positives in the results from a better economic outlook and the confidence to pay the dividend, the provisioning continues to highlight the uncertainty that exists in the current operating environment. We maintain our Positive (2) issuer profile on ANZ. (Company, OCBC)

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Key Market Movements

	19-Aug	1W chg (bps)	1M chg (bps)		19-Aug	1W chg	1M chg
iTraxx Asiax IG	65	-1	-12	Brent Crude Spot (\$/bbl)	45.13	-0.66%	4.61%
iTraxx SovX APAC	36	0	-7	Gold Spot (\$/oz)	2,003.60	4.58%	10.22%
iTraxx Japan	59	0	-2	CRB	151.69	2.25%	7.72%
iTraxx Australia	68	0	-11	GSCI	358.23	3.21%	6.15%
CDX NA IG	66	1	-4	VIX	21.51	-10.49%	-16.24%
CDX NA HY	105	0	3	CT10 (%)	0.664%	-1.08	3.73
iTraxx Eur Main	55	2	-4				
iTraxx Eur XO	341	6	-5	AUD/USD	0.725	1.20%	3.31%
iTraxx Eur Snr Fin	65	4	-3	EUR/USD	1.194	1.35%	4.32%
iTraxx Eur Sub Fin	135	6	-6	USD/SGD	1.364	0.59%	1.82%
iTraxx Sovx WE	15	-1	-4	AUD/SGD	0.989	-0.60%	-1.43%
USD Swap Spread 10Y	-1	-1	1	ASX 200	6,140	0.13%	1.76%
USD Swap Spread 30Y	-41	-1	6	DJIA	27,778	0.33%	4.15%
US Libor-OIS Spread	19	0	-1	SPX	3,390	1.68%	5.12%
Euro Libor-OIS Spread	-1	0	-4	MSCI Asiax	722	1.03%	5.21%
				HSI	25,367	1.92%	1.11%
China 5Y CDS	39	-2	-5	STI	2,563	0.74%	-2.12%
Malaysia 5Y CDS	50	-1	-14	KLCI	1,578	0.84%	-1.16%
Indonesia 5Y CDS	103	-1	-22	JCI	5,295	2.66%	4.24%
Thailand 5Y CDS	40	0	-2	EU Stoxx 50	3,290	-1.27%	-2.26%
Australia 5Y CDS	15	0	-2				

Source: Bloomberg

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New Issues

- Yibin Grace Group Co (Guarantor: Yibin State-owned Assets Management Co Ltd) priced a USD140mn 3-year bond at 3.9%, tightening from IPT of 4.3% area.
- ICBCIL Finance Co. (Guarantor: ICBC Financial Leasing Co.) priced a USD900mn 5-year bond at T+147.5bps, tightening from IPT of T+200bps area.
- Elect Global Investments Ltd. (Guarantor: Hysan Development Co.) priced a USD300mn PerpNC3 bond at 4.85%, tightening from IPT of 5.3% area.
- Yangzhou Urban Construction State-owned Asset Holding Group Co Ltd priced a USD300mn 3-year bond at 3.02%, tightening from IPT of 3.7% area.
- Li & Fung Limited priced a USD100mn re-tap of its LIFUNG 4.5%'25s.
- China Jianyin Investment Ltd. has arranged investor calls commencing 18 August 2020 for its proposed USD bond offering.
- KT Corp. has arranged investor calls commencing 19 August 2020 for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
18-Aug-20	Yibin Grace Group Co (Guarantor: Yibin State-owned Assets Management Co Ltd)	USD140mn	3-year	3.9%
18-Aug-20	ICBCIL Finance Co. (Guarantor: ICBC Financial Leasing Co.)	USD900mn	5-year	T+147.5bps
18-Aug-20	Elect Global Investments Ltd. (Guarantor: Hysan Development Co.)	USD300mn	PerpNC3	4.85%
18-Aug-20	Yangzhou Urban Construction State-owned Asset Holding Group Co Ltd	USD300mn	3-year	3.02%
18-Aug-20	Li & Fung Limited	USD100mn	LIFUNG 4.5%'25s	4.5%
17-Aug-20	National Australia Bank Ltd	USD1.5bn	10-year	T+165bps
17-Aug-20	Vedanta Holdings Mauritius II Ltd. (Guarantors: Vedanta Resources Ltd., Vedanta Holdings Jersey Ltd. and Vedanta Holdings Mauritius Ltd.)	USD1.4bn	3-year	13.0%
17-Aug-20	Shui On Development Holding Ltd (Guarantor: Shui On Land)	USD500mn	4NC2	6.15%
17-Aug-20	HSBC Institutional Trust Services (Singapore) Ltd. (in its capacity as trustee of Ascendas Real Estate Investment Trust)	SGD100mn	10-year	2.65%
17-Aug-20	Olam International Limited	SGD400mn	5.5-year	4.0%
14-Aug-20	Lotte Shopping Co., Ltd. (Guarantor: Kookmin Bank)	USD100mn	3-year	3m-US LIBOR+140bps

Source: OCBC, Bloomberg

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