OCBC TREASURY RESEARCH

Asian Credit Daily

Wednesday, May 27, 2020

Credit Research

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Market Commentary

- The SGD swap curve bear-steepened yesterday, with the shorter tenors trading 0-3bps higher while the belly and the longer tenors traded 4-5bps higher (with the exception of the 20-year trading 15bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 227bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 8bps to 909bps. The HY-IG Index Spread widened 10bps to 682bps.
- Flows in SGD corporates were heavy, with flows in GSHSP 5.15%'20s, ARASP 5.65%-PERPs, BAERVX 5.75%-PERPs, HSBC 4.7%-PERPs, GUOLSP 4.6%-PERPs, SOCGEN 6.125%-PERPs and CS 5.625%-PERPs.
- 10Y UST Yields gained 4bps to 0.7% by the end of the day, with risk sentiments rising as optimism about a potential vaccine and a revival in business activities outweighed worries of U.S.-China trade tensions.

Credit Summary:

- **Industry Outlook – Financial Institutions: Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2); National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2); Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4); HSBC Holdings PLC ("HSBC") | Issuer Profile: Neutral (3):** ANZ CEO Shayne Elliot stated earlier this week that half of the borrowers that deferred mortgage payments under an emergency relief scheme had not suffered a drop in income, providing positive indicators that the impact of COVID loan deferrals may not be as bad as first thought and that repayments can resume later this year. Elsewhere, banks are preparing for potential difficult times ahead by building capital buffers. As previously reported, NAB is reducing its dividend payout by around 64% and is pursuing a capital raising via an institutional placement and share purchase plan to improve its CET1 capital ratio from 10.4% as at 31 March 2020 to 11.2%. Following strong demand however, NAB is increasing the retail focused share purchase plan to a total of AUD1.25bn. CMZB announced the launch of an Additional Tier 1 issuance program to issue loss absorbing capital up to EUR3bn to counter the impact of COVID-19, accommodate potential business opportunities and continue to comply with minimum regulatory requirements. In line with this train of thought, HSBC's board has apparently ordered a review of HSBC's strategic plan announced in February. Whereas the extreme and rapid uncertainty caused by COVID-19 in March resulted in a preliminary hesitation to proceed with previously announced plans including job cuts, the increasing realisation of a significantly altered operating landscape compared to the one contemplated under the current strategic plan has necessitated in the board's view a revisit of plans with more drastic measures needed than those previously announced. With earnings likely to be weaker and credit costs higher than previously planned, a focus on business restructuring and cost cutting will likely increase. We think COVID-19 has the potential to amplify the existing vulnerabilities in the issuers we rate and the operating environment remains dynamic. We expect on balance that more negative news will come despite more economies looking at exiting lockdowns.

Credit Headlines

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- While uncertainty continues on the eventual impact of the coronavirus, we continue to look for signs of clarity from banks globally. We do expect however that banks will respond in different ways depending on the severity of the situation in their domestic economy, their assumptions for economic activity and each bank's own underlying fundamentals.
- ANZ CEO Shayne Elliot stated earlier this week that half of the borrowers that deferred mortgage payments under an emergency relief scheme had not suffered a drop in income, providing positive indicators that the impact of COVID loan deferrals may not be as bad as first thought and that repayments can resume later this year. Additionally, of the initial expressions of interest for loan deferrals around 20% did not take up the offer. According to reports, 429,000 loans have been deferred by all Australian banks in response to the pandemic with an expectation (or hope) that economic activity can resume when repayments are meant to recommence and the Australian government's JobKeeper scheme is scheduled to end. In the meantime, we expect banks to carefully scrutinize deferred loans to determine how many may not ultimately be repaid and how many deserve to have deferrals continue.
- Elsewhere, banks are preparing for potential difficult times ahead by building capital buffers. As previously reported in late April, NAB is reducing its dividend payout per share by around 64% and is pursuing a AUD3.5bn capital raising via an institutional placement and share purchase plan to improve its CET1 capital ratio from 10.4% as at 31 March 2020 to 11.2%. Following strong demand however, NAB is increasing the retail focused share purchase plan by AUD750mn to a total of AUD1.25bn. According to reports, NAB received total interest for the share purchase plan of AUD2.9bn. As a result of the increase, the total capital raising will be AUD4.25bn comprising a AUD3bn placement to institutional shareholders and the AUD1.25bn placement to retail shareholders, which is in line with new CEO Ross McEwan's desire to have a strong balance sheet both entering and exiting the crisis.

(to be continued in the next page…)

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- CMZB announced the launch of an Additional Tier 1 issuance program to issue loss absorbing capital up to EUR3bn to counter the impact of COVID-19, accommodate potential business opportunities and continue to comply with minimum regulatory requirements. Establishment of the program follows CMZB's first additional tier 1 bond issue in July 2019 for USD1bn. CMZB's fully loaded CET1 ratio was 13.2% as at 31 March 2020 (13.4% as at 31 December 2019) but remains above its revised target CET1 ratio of 12.50% in 2020 as well as its maximum distributable amount requirement of 10.78%. That said, we think future operating performance looks challenging from higher volatility, lower asset valuations and reduced credit demand. This could lead to a more drastic or faster repositioning than previously expected.
- In line with this train of thought, HSBC's board has apparently ordered a review of HSBC's strategic plan announced in February. Whereas the extreme and rapid uncertainty caused by COVID-19 in March resulted in a preliminary hesitation to proceed with previously announced plans including job cuts, the increasing realisation of a significantly altered operating landscape compared to the one contemplated under the current strategic plan has necessitated in the board's view a revisit of plans with more drastic measures needed than those previously announced. As a recap, the current strategic plan included amongst other things USD7.35bn in goodwill impairments, 35,000 in job cuts or 15% of the global workforce, a USD100bn reduction in gross risk weighted assets (targeted mostly in investment banking in the US (together with retail banking) and Europe), and USD4.5bn in cost reductions. With earnings likely to be weaker and credit costs higher than previously planned, a focus on business restructuring and cost cutting will likely increase.
- We think COVID-19 has the potential to amplify the existing vulnerabilities in the issuers we rate and the operating environment remains dynamic. We expect on balance that more negative news will come despite more economies looking at exiting lockdowns. As an indicator, Lloyds Banking Group Plc (Not rated by OCBC Credit Research) recently became the third European bank this year to extend an Additional Tier 1 bond beyond its first call date, deciding not exercise its call option in late June for the EUR750mn LLOYDS 6.375% PERPc20s. While the reason given was the need to preserve capital during the coronavirus epidemic, the other reason was the likely wider spread that Lloyds Banking Group Plc would have needed to pay to refinance or replace the security. With the bond trading around 3c below par, it appears investors had already priced in the higher call risk and anticipated the bank's decision. German banks Aareal Bank AG and Deutsche Bank AG have also extended AT1 bonds this year. (Bloomberg, Financial Times, OCBC)

Key Market Movements

	27-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	104	-3	-17
iTraxx SovX APAC	57	-3	-14
iTraxx Japan	75	-5	-8
iTraxx Australia	106	-5	-21
CDX NA IG	83	-1	-10
CDX NA HY	97	1	3
iTraxx Eur Main	73	-4	-8
iTraxx Eur XO	446	-17	-50
iTraxx Eur Snr Fin	86	-8	-17
iTraxx Eur Sub Fin	186	-19	-37
iTraxx Sovx WE	25	-2	-6
USD Swap Spread 10Y	-1	1	-2
USD Swap Spread 30Y	-46	1	-3
US Libor-OIS Spread	32	1	-45
Euro Libor-OIS Spread	19	0	-6
China 5Y CDS	51	4	1
Malaysia 5Y CDS	94	-4	-22
Indonesia 5Y CDS	172	-9	-56
Thailand 5Y CDS	53	-3	-16
Australia 5Y CDS	0	0	-1

	27-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	35.85	0.28%	79.34%
Gold Spot ($/oz)	1,711.47	-2.10%	-0.15%
CRB	131.62	1.96%	21.87%
GSCI	303.49	2.36%	31.69%
VIX	28.01	-4.40%	-15.86%
CT10 (%)	0.690%	0.99	2.95
AUD/USD	0.664	0.64%	2.69%
EUR/USD	1.096	-0.15%	1.24%
USD/SGD	1.418	-0.36%	0.04%
AUD/SGD	0.942	-1.00%	-2.59%
ASX 200	5,771	3.54%	8.44%
DJIA	24,995	1.62%	3.57%
SPX	2,992	1.28%	3.94%
MSCI Asiax	599	-1.93%	0.91%
HSI	23,305	-4.49%	-4.02%
STI	2,516	-2.52%	-1.30%
KLCI	1,456	3.27%	6.31%
JCI	4,624	2.57%	2.45%
EU Stoxx 50	2,999	3.33%	4.06%

Source: Bloomberg

New Issues

- Vigorous Champion International Ltd. (Guarantor: China Ping An Insurance Overseas (Holdings) Ltd.) priced a USD600mn 5-year bond at T+240bps, tightening from IPT of T+285bps area.
- BOC Aviation Ltd priced a USD750mn 3.5-year bond at T+260bps, tightening from IPT of T+300bps area.
- Hysan (MTN) Limited (Guarantor: Hysan Development Company Limited) priced a USD400mn 7-year bond at T+245bps, tightening from IPT of T+295bps area.
- CITIC Securities Finance MTN Co Ltd and its Guarantor CITIC Securities Company Limited arranged investor calls commencing 26 May for its proposed USD bond offering.
- Shandong Hi-Speed Group Co. Ltd arranged investor calls commencing 26 May for its proposed USD bond offering.
- Tencent Holdings Ltd arranged investor calls commencing 26 May for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
26-May-20	Vigorous Champion International Ltd. (Guarantor: China Ping An Insurance Overseas (Holdings) Ltd.)	USD600mn	5-year	T+240bps
26-May-20	BOC Aviation Ltd	USD750mn	3.5-year	T+260bps
26-May-20	Hysan (MTN) Limited (Guarantor: Hysan Development Company Limited)	USD400mn	7-year	T+245bps
21-May-20	Hotel Properties Ltd	SGD170mn	5-year	3.8%
21-May-20	The Bank of East Asia Limited	USD600mn	10NC2	T+375bps
21-May-20	Clark Equipment Co (Guarantor: Doosan Bobcat Inc)	USD300mn	5NC2	5.875%
20-May-20	Henderson Land MTN Limited (Guarantor: Henderson Land Development Company Limited)	USD300mn	5-year	T+210bps
20-May-20	Jining High Tech Urban Construction Investment Co.	USD118mn	3-year	5.5%
20-May-20	Industrial & Commercial Bank of China Limited of Dubai	USD100mn	3-year	3m-US LIBOR+60bps
20-May-20	Korea Expressway Corporation	USD100mn	5-year	3m-US LIBOR+120bps
19-May-20	Xi’an Aerospace High-Tech Industry Development Co., Ltd (SBLC Provider: Bank of Xi’an Co., Ltd.)	USD200mn	3-year	3.95%

Source: OCBC, Bloomberg

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