

Market Commentary

- The SGD swap curve bear-steepened on Friday, with the shorter tenors trading 16-23bps higher, while the belly and the longer tenors traded 24-30bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 11bps to 191bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 84bps to 803bps. The HY-IG Index Spread widened 74bps to 612bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, HSBC 4.7%-PERPs, STANLN 5.375%-PERPs, CAPLSP 3.65%-PERPs, SRBJNG 4.11%'25s, BAERVX 5.75%-PERPs, BNP 4.35%'29s, HSBC 5%-PERPs and SINTEC 5%-PERPs.
- 10Y UST Yields gained 16bps to 0.96% with liquidity still seen as an issue in the Treasuries market. Risk sentiments was stronger on Friday in risky assets following President Trump declaration of a national emergency over COVID-19 and the Federal Reserve announced that it will be buying back Treasuries across all durations. On Sunday, the Federal Reserve cut interest rates to zero in another emergency move, announced a reduction in required reserve ratio and that it would purchase additional USD700mn in bonds.

Credit Summary:

- **Credit Market Outlook:** Last week began with a focus on [five names with stretched liquidity](#). However, with 10 year US Treasury yields crashing earlier in the week and COVID-19 spreading throughout the globe, it seems like no issuer may be immune to what's happening in credit markets. Credit indices in the US and Europe ended the week on a positive note following stimulus measures at the end of the week but with the US Federal Reserve announcing another 100bps rate cut earlier today, Friday sentiments look set to reverse. With negative news swirling, we thought it was opportune to also consider something more constructive and on 13th March we published on [high grade credits and searching for quality](#). Here, we are overweight on high grade bonds of issuers with issuer profiles of Neutral (3) and above. Separately, both our pieces on high grade names and the "[Perpetuals Tetralogy: Step-ups Matter](#)" publication sent earlier in the week contemplated zero rates and the impact on the SGD space, more as a hypothetical consideration although as things develop this scenario could become real. We expect volatility to continue in credit markets for some time and expect there may be days when prices go lower. As such, we continue to advocate a strong focus on fundamentals and quality issuers within the SGD space and to start positioning for that.

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Credit Headlines

Credit Market Outlook:

- Last week began with a focus on [five names with stretched liquidity](#). However, with 10 year US Treasury yields crashing earlier in the week and COVID-19 spreading throughout the globe, it seems like no issuer may be immune to what's happening in credit markets. Credit indices had a torrid week with the spread on Bloomberg Barclays Asia USD IG Bond Index average OAS widening 40bps to 191bps w/w while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 216bps to 803bps w/w. Elsewhere, the Markit iTraxx Asia ex-Japan rose 60bps w/w for the biggest weekly jump since 2011 while the Bloomberg Barclays EM Asia USD Credit Average OAS rose 79bps w/w for its largest move since 2012. Credit indices in the US and Europe ended the week on a positive note following stimulus measures at the end of the week but with the US Federal Reserve announcing another 100bps rate cut earlier today, Friday sentiments look set to reverse.
- With negative news swirling, we thought it was opportune to also consider something more constructive and on Friday 13th March we published on [high grade credits and searching for quality](#). Here, we sought to identify those names that would have been impacted by broad based credit market stress and spread widening but not necessarily impacted as much fundamentally therefore are good to pick up on the fall in prices. As such, we are overweight on high grade bonds of issuers with issuer profiles of Neutral (3) and above. Other points include:
 - While we generally consider Neutral (4) issuers to be high grade, at times of extreme stress, this group is more susceptible to downgrades.
 - For non-financial corporates, we particularly like vanilla bonds. Vanilla bonds avoid the structural deficiencies of perpetuals of call risk and resetting into lower distribution rates in this interest rate environment.
 - For financials, certain banks under our coverage remain sound fundamental issuers in view of their strong business franchises, solid capital positions and their systemic importance which gives rise to an expectation of government support when needed. We tend to look therefore at seniors or Tier 2s of these issuers given they have defined maturity dates.
- Both our piece on high grade names and the [“Perpetuals Tetralogy: Step-ups Matter”](#) publication sent earlier in the week contemplated zero rates and the impact on the SGD space, more as a hypothetical consideration although as things develop this scenario could become real:
 - For perpetuals, vulnerable ones facing heightened first non-call risks increases from an initial 7 (FHREIT 4.45% PERP, MLTSP 4.18% PERP, LMRTSP 7% PERP, MLTSP 3.65% PERP, EREIT 4.6% PERP, and SBREIT 6% PERP) to an additional 6 (AREIT 4.75% PERP, ARTSP 4.68% PERP, ARTSP 3.88% PERP, FIRTSP 5.68% PERP, CACHE 5.5% PERP and SCISP 3.7% PERP).
 - For SGD credits, in a situation like this where zero-rates are brought upon by heightened fear of recession risks, we think spreads will continue to widen as SGD corporate bond prices may not increase as investors start pulling out of risk asset markets and as general market illiquidity prevails. However, should a zero-rate environment (and subsequently negative rates) becomes a structural issue like Europe and Japan, then we expect eventually that fundamentals will prevail with bond prices increasing over time.
- We expect volatility to continue in credit markets for some time and expect there may be days when prices go lower. As such, we continue to advocate a strong focus on fundamentals and quality issuers within the SGD space and to start positioning for that. (Bloomberg, OCBC)

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Key Market Movements

	16-Mar	1W chg (bps)	1M chg (bps)		16-Mar	1W chg	1M chg
iTraxx Asiax IG	129	19	81	Brent Crude Spot (\$/bbl)	32.91	-4.22%	-42.59%
iTraxx SovX APAC	77	10	50	Gold Spot (\$/oz)	1,547.63	-7.90%	-2.12%
iTraxx Japan	129	36	86	CRB	140.84	-9.63%	-18.57%
iTraxx Australia	141	28	94	GSCI	298.40	-2.26%	-24.69%
CDX NA IG	107	-5	63	VIX	57.83	37.89%	322.73%
CDX NA HY	98	0	-11	CT10 (%)	0.668%	12.75	-91.66
iTraxx Eur Main	108	3	66				
iTraxx Eur XO	520	57	309	AUD/USD	0.616	-6.54%	-8.31%
iTraxx Eur Snr Fin	131	8	84	EUR/USD	1.111	-2.96%	2.54%
iTraxx Eur Sub Fin	270	18	174	USD/SGD	1.418	-2.35%	-2.02%
iTraxx Sovx WE	29	6	19	AUD/SGD	0.873	4.46%	6.87%
USD Swap Spread 10Y	7	-1	13	ASX 200	5,153	-10.55%	-27.73%
USD Swap Spread 30Y	-49	-15	-16	DJIA	23,186	-10.36%	-21.13%
US Libor-OIS Spread	76	28	63	SPX	2,711	-8.79%	-19.80%
Euro Libor-OIS Spread	8	-3	3	MSCI Asiax	582	-5.45%	-15.70%
				HSI	23,549	-5.96%	-15.34%
China 5Y CDS	74	-18	40	STI	2,563	-7.89%	-20.41%
Malaysia 5Y CDS	146	29	111	KLCI	1,310	-8.03%	-15.19%
Indonesia 5Y CDS	183	3	123	JCI	4,763	-7.28%	-18.82%
Thailand 5Y CDS	77	6	50	EU Stoxx 50	2,586	-19.99%	-32.67%
Australia 5Y CDS	46	14	31				

Source: Bloomberg

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New Issues

- Export-Import Bank of Korea priced a USD425mn 5-year bond at 1.375%.
- PCGI Intermediate Limited (Guarantor: PCGI Ltd) priced a USD137.46mn re-tap of its PCGIIN 4.75%'24s at 4.75%.

Date	Issuer	Size	Tenor	Pricing
13-Mar-20	Export-Import Bank of Korea	USD425mn	5-year	1.375%
13-Mar-20	PCGI Intermediate Limited (Guarantor: PCGI Ltd)	USD137.46mn	PCGIIN 4.75%'24s	4.75%
11-Mar-20	China Cinda (2020) I Management Ltd. (Guarantor: China Cinda (HK) Holdings Co.)	USD700mn USD500mn USD300mn USD500mn	3-year 5-year 7-year 10-year	T+160bps T+195bps T+240bps T+255bps
11-Mar-20	Beijing Capital Polaris Investment Co. Ltd. (Guarantor: Beijing Capital Group Co. Ltd.)	USD300mn	3-year	2.8%
11-Mar-20	Xiang Sheng Holding Limited (Guarantor: Shinsun Real Estate Group Co. Ltd.)	USD53mn	SHXREG 12.5%'22s	12.5%
10-Mar-20	Huantaihu International Investment Co., Ltd. (Guarantor: Huzhou Economic Development Group Co., Ltd.)	USD200mn	3-year	4.5%
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%

Source: OCBC, Bloomberg

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