

Dec 4, 2018

**Credit Headlines:** Julius Baer Group Ltd, Industry Outlook – Financial Institutions

## **Market Commentary**

- The SGD swap curve steepened yesterday, with swap rates trading 4-6bps higher across most tenors.
- Flows in SGD corporates were moderate yesterday, with better buying seen in UBS 5.875%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 157bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 616bps.
- Overall, 10Y UST yields fell 2bps to close at 2.97%, remaining below the 3.0% handle as risk appetite sparked by the US-China trade agreement faded.

## **Credit Headlines:**

### **Julius Baer Group Ltd (“JBG”) | Issuer Profile: Neutral (3)**

- Following [previously mentioned](#) staff movements, JBG’s Head of Middle East Markets along with seven other private bankers are leaving to join rival Pictet Group. This has been an ever present and now growing risk since ex-CEO of JBG [Boris Collardi resigned](#) to join Pictet Group in November 2017.
- While there was an expectation that he may seek to recruit previous colleagues, Mr Collardi stated a desire to take time to acclimatize with the new organization and new position as co-head of Wealth Management before moving into a growth phase. This time appears to be at an end.
- In addition, there have been reports that JBG’s chairman since 2012, Daniel Sauter, is also contemplating whether to seek re-election at JBG’s shareholder meeting in 2019.
- JBG’s share price is down around 30% from the start of the year while bond prices have fallen around 3-4%. We expect sentiment towards the name to remain subdued and are in the process of reviewing the bond level recommendations for the BAERVX 5¼ PERPc22 and BAERVX 5.9 PERPc20 (OCBC, Company)

### **Industry Outlook – Financial Institutions:**

- The Bank Of England (“BoE”) published last week the results of its 2018 stress test as part of its November 2018 Financial Stability Report. The test covered Barclays plc, Lloyds Banking Group plc, HSBC Holdings plc, Nationwide Building Society, The Royal Bank of Scotland plc, Santander UK Group Holdings plc and Standard Chartered plc.
- Key parameters for the 2018 stress test (which are the same as the 2017 test) are more severe than the Global Financial Crisis and follow the “disorderly” BREXIT scenario also released by the BoE last week which included key assumptions of 8% drop in GDP, 30% and 48% fall in house prices and commercial property prices respectively, unemployment rises to 7.5%, inflation increases to 6.5% while benchmark interest rates rise to 5.5%.
- For the 2018 stress test, some key assumptions included GDP falling by 4.7%, unemployment rising to 9.5%, a 33% and 40% fall in residential property prices and commercial real estate prices respectively, depreciation of the pound and benchmark interest rates rising to 4%.
- In summary, all banks passed the test by remaining above their risk weighted capital hurdle rates on a transitional basis, while two banks (Barclays plc and Lloyds Banking Group plc) saw Additional Tier 1 capital convert into CET1 in the non-transitional scenario given their capital position fell below the 7% non-transitional CET1 ratio. This is due to their relatively higher exposure to UK consumer and retail banking.
- In BOE’s view, all banks appear resilient to stress and no bank had to submit a revised capital plan to address the results. (OCBC, BoE)

**Table 1: Key Financial Indicators**

	4-Dec	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	87	-11	0
iTraxx SovX APAC	9	-1	-1
iTraxx Japan	66	1	5
iTraxx Australia	85	-3	5
CDX NA IG	74	-4	9
CDX NA HY	105	1	-1
iTraxx Eur Main	79	-1	9
iTraxx Eur XO	320	-19	32
iTraxx Eur Snr Fin	101	-1	15
iTraxx Sovx WE	26	-1	0
AUD/USD	0.736	1.84%	2.04%
EUR/USD	1.136	0.58%	-0.46%
USD/SGD	1.367	0.79%	0.60%
China 5Y CDS	64	-10	-3
Malaysia 5Y CDS	106	-14	-6
Indonesia 5Y CDS	136	-16	-15
Thailand 5Y CDS	43	-3	0

	4-Dec	1W chg	1M chg
Brent Crude Spot (\$/bbl)	61.69	2.00%	-15.30%
Gold Spot (\$/oz)	1,231.41	1.35%	-0.01%
CRB	183.51	1.78%	-4.57%
GSCI	414.76	1.68%	-7.94%
VIX	16.44	-13.02%	-15.74%
CT10 (bp)	2.973%	-8.39	-23.88
USD Swap Spread 10Y (bp)	6	0	0
USD Swap Spread 30Y (bp)	-14	-1	-3
TED Spread (bp)	33	5	13
US Libor-OIS Spread (bp)	36	2	7
Euro Libor-OIS Spread (bp)	3	-1	-1
DJIA	25,826	4.81%	2.20%
SPX	2,790	4.37%	2.47%
MSCI Asiax	629	3.72%	2.78%
HSI	27,182	3.06%	2.63%
STI	3,191	3.14%	2.38%
KLCI	1,700	-0.13%	-0.83%
JCI	6,118	1.59%	3.59%

## New issues

- CITIC Securities Finance MTN Co Ltd has priced a USD300mn 3-year bond (guaranteed by CITIC Securities Company Limited) at CT3+155bps, tightening from its initial price guidance of CT3+165bps area.
- Jiayuan International Group Ltd has priced a USD80mn re-tap of its JIAYUA 12.0%'20s (subsidiary guarantors: certain restricted subsidiaries incorporated outside of the PRC) at 12.0%.
- Vanke Real Estate (Hong Kong) Co Ltd has priced a USD630mn 5.25-year bond (keepwell provider: China Vanke Co Ltd) at CT5+250bps, tightening from its initial price guidance of CT5+285bps area.
- Republic of Indonesia has priced a USD3bn deal across three tranches, with the USD750mn 5-year bond priced at 4.48%, tightening from its initial price guidance of 4.7%; the USD1.25bn 10-year bond at 4.78%, tightening from its initial price guidance of 5.1% and the USD1bn 30-year bond at 5.38%, tightening from its initial price guidance of 5.65%.
- China Development Bank has hired banks for its potential 3-year/5-year USD bond issuance.
- Shaoxing City Investment Group Limited has scheduled for investor meetings from 5 Dec for its potential USD bond issuance.
- Hanwha Total Petrochemical Co Ltd has hired banks for its potential USD bond issuance.
- Korea Midland Power has hired banks for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
3-Dec-18	Republic of Indonesia	USD1bn	30-year	5.38%
3-Dec-18	Republic of Indonesia	USD1.25bn	10-year	4.78%
3-Dec-18	Republic of Indonesia	USD750mn	5-year	4.48%
3-Dec-18	Vanke Real Estate (Hong Kong) Co Ltd	USD630mn	5.25-year	CT5+250bps
3-Dec-18	Jiayuan International Group Ltd	USD80mn	JIAYUA 12.0%'20s	12.0%
3-Dec-18	CITIC Securities Finance MTN Co Ltd	USD300mn	3-year	CT3+155bps
30-Nov-18	KWG Group Holdings Ltd	USD150mn	KWGPRO 9.85%'20s	101.5 + accrued interest
30-Nov-18	Huaibei City Construction Investment Holding Group Company Ltd	USD300mn	3-year	5.2%
30-Nov-18	Shinhan Life insurance	USD350mn	10NC5	5.1%
30-Nov-18	Kookmin Bank	USD100mn	2-year	3.409%
30-Nov-18	Industrial & Commercial Bank of China Limited/Dubai DIFC	USD100mn	2-year	3mL+60bps
29-Nov-18	Sunac China Holdings Ltd	USD350mn	SUNAC 8.625%'20s	9.125%

Source: OCBC, Bloomberg

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