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Credit Week in Brief

Markets

US 10 year yields fell rather consistently last week, reaching a 3-month low and moving on headlines revolving around the outbreak of the Wuhan coronavirus ("2019-nCoV"). The week started with yields falling 8bps to 1.61%, due to increased concerns on the spread of 2019-nCoV. Despite gaining 5bps after as efforts to contain the virus was acknowledged by investors coupled with positive data on consumer confidence, yields fell 7bps by mid-week as the death toll in China increased sharply while the Federal Reserve left interest rates unchanged. On Friday, yields fell 8bps due to continued uncertainties regarding 2019-nCoV as investors braced for a likely decline in Chinese markets on Monday when onshore financial markets resume following the Lunar New Year break. Since Friday, the 10 Year to 3 Month Treasury Spread has inverted. W/w, 10Y Treasury yields fell 10bps to close at 1.51%. Last week, there was only USD19.2bn of bonds priced in the US corporate bond market, falling from the bumper issuances in the first three weeks of January 2020. The largest issuers last week were mostly from telecommunications and transportation, with the high yield telco Sprint Corp and railroad operator Union Pacific Corp pricing deals. In the corporate space, news flow was focused on Boeing which reported its first full year of losses in more than 20 years, plagued by the 737 Max (Bloomberg, Washington Post, OCBC)

Unsurprisingly Asiadollar credit weakened with soft pipeline with the Bloomberg Barclays Asia USD IG Bond Index Average OAS widening by 7bps w/w while the Bloomberg Barclays Asia USD HY Bond Index Average OAS widened significantly by 46bps w/w. Since the official announcement of the first human-to-human transmission of the nCoV, the indices have widened 10bps and 80bps respectively to 31 January 2020. With swathes of East Asia and Southeast Asia out for the holidays compounded by a rise in risk aversion, Asiadollar primary markets were quiet last week with only USD1.3bn priced. Main issuances were in the certificate of deposit markets, without which primary markets would have seen near-zero activity. With the market effectively re-opening yesterday, investment grade Asiadollar bonds were stable, perhaps driven by some comfort over the large RMB1.2 trillion (~USD174bn) liquidity injection by the Chinese government though high yield continued to widen from Friday. Both Shanghai and Shenzhen equities fell near-circuit breaker levels yesterday though looks to stabilize this morning. While there is no direct comparative point in history given that private housing in China only took off since the early-2000s, we think the tone towards China property bonds would continue to be weak and thus far there has been no measures announced to support the property sector amidst the 2019-nCoV outbreak. Asiadollar pipeline is soft, with Jiayuan International, a high yield China property issuer re-tapping its USD 2023 bond yesterday while Huatai Securities is starting roadshows for a proposed USD bond. Outside China, India announced its budget on Saturday which was seen as conservative (FYE March 2021 budget deficit target of 3.5% of GDP, though supplanted with potential one-off divestment gains), leading to a rally in India 10 year bonds. (Bloomberg, OCBC)

Singapore primary quiet ahead of long weekend and rising risk aversion, with four deals amounting to SGD215mn being priced last week. This was driven by Suntec REIT's SGD200mn 7 year senior paper which priced at 2.95%. For the whole month of January 2020, a total of SGD2.1bn was priced versus SGD1.7bn same time last year. Issuers and issue type were diverse, apart from frequent issuers in the property space; we saw Cathay Pacific Airways and Allgreen Properties coming back to the SGD market and a first time issuer, German-listed Czech-focused property owner CPI Property Group pricing a NC5.5 perpetual to raise SGD150mn. In the true high yield space, Thomson Medical Group priced a 5 year senior paper at 4.05%, tightening 30bps. Coming off the holiday period, the SGD bond market has opened the week with higher risk aversion where investors who were once chasing for deals being more cautious over pricing. In the corporate space, news headlines were focused on companies exposed to the tourism and hospitality sector. (Company, Business Times, OCBC)

Malaysia vulnerable to coronavirus. Government bond yields fell by 2bps last week to close at 3.13% while MYR weakened 1.0 % against the USD, in part due to equity outflows as the concerns over the spread of the 2019-nCoV. Last week was overall quiet relatively with just one MYR100mn floating rate bond priced. Short term instruments such as commercial papers were more common with MYR1.6bn priced. Bulk of the commercial papers was issued by Maybank which raised MYR1.2bn. In the corporate space, AirAsia X Bhd faces uncertainty as it was hit by not just the virus but also financial penalties imposed by Malaysia Aviation Commission and corruption and bribery allegations against the low-cost carrier and Airbus. For the week ahead, Pac Lease Bhd, Bank Negara Malaysia and Sunway Treasury Sukuk Sdn Bhd may come to the market though most likely to issue commercial papers.

All quiet in Indonesia as volatility spikes. There have been no new local corporate issues since frequent issuer PT Sinar Mas Multifinance, a finance company, priced two tranches of IDR bonds on 15th January. Otherwise, issuance continues to be driven by very small deals from international finance companies. Solid performance of IDR bonds in the first part of the month due to foreign demand for high yield debt fell away as 2019 Novel Coronavirus fears stoked risk off sentiments and foreign funds outflows in the latter part of January. Although this injected some volatility, Japan Credit Rating Agency raised Indonesia's sovereign debt rating to BBB+/Stable from BBB/positive on 31st January while Fitch maintained its rating on Indonesia at BBB/Stable last week. PT Chandra Asri Petrochemical Tbk also reportedly offered a IDR750bn third phase sustainable bond. (The Jakarta Post, The Insider Stories, OCBC)

Onshore China out for the holidays. Primary deals were near-zero last week with only RMB719mn priced in the onshore market (mostly certificates of deposits), versus RMB1.5 trillion priced in the first three weeks of January. The Bloomberg Barclays China Aggregate Total Return Index was flat w/w. When comparing returns since the official announcement of the first human-to-human transmission of the nCoV, the index has been down 0.7%. Per Bloomberg data, onshore bonds that have defaulted in January 2020 amounted to RMB2.5bn, with affected issuers including Xiwang Group, Dalian Zeus Entertainment Group and Anhui Foreign Economic Construction. For this week, China's Ministry of Finance may look to price RMB44bn in bonds across two tranches. Apart from government and government linked entities, we expect primary market activity to be lacking as China continues its fight to contain the 2019-nCoV. (Bloomberg, OCBC)

Australia largely shrugged off weakness from global markets. AUD issuance was largely muted last week with no major bond deal. That said, the bond markets appear to be holding up with the S&P Australia Aggregate Bond Index up 78bps w/w. Meanwhile, equity markets continued its w/w upward trend as of 31 January though names exposed to the tourism sector such as Qantas Airways Ltd fell. The saga at Cromwell Property Group ("Cromwell") continues with its chairman Geoff Levy announcing his retirement after ARA Asset Management Ltd (which owns 23.7% stake in Cromwell) demanded his resignation. The Australian property market performed well with CoreLogic Home Value Index reporting a rise of 0.9% m/m. Meanwhile, Korea Resources is looking to price an AUD bond.

Key Market Movements

	04-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	57	0	0
iTraxx SovX APAC	31	2	2
iTraxx Japan	47	1	2
iTraxx Australia	54	2	4
CDX NA IG	50	3	4
CDX NA HY	108	0	-1
iTraxx Eur Main	46	1	1
US 10Y Yield	1.54%	-12	-25
Singapore 10Y Yield	1.60%	-3	-6
Malaysia 10Y Yield	3.12%	-3	-16
Indonesia 10Y Yield	6.70%	-5	-33
China 10Y Yield	2.87%	-14	-28
Australia 10Y Yield	0.90%	-6	-36
USD Swap Spread 10Y	-5	1	1
USD Swap Spread 30Y	-33	-1	2
Malaysia 5Y CDS	40	-1	3
Indonesia 5Y CDS	65	-4	-1
China 5Y CDS	40	-1	5
Australia 5Y CDS	18	0	1

	04-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	54.40	-8.59%	-20.70%
Gold Spot ($/oz)	1575.09	0.51%	0.60%
CRB	168.05	-2.96%	-10.08%
CPO	2670.00	NA	-14.15%
GSCI	381.35	-4.26%	-13.98%
VIX	17.97	-1.43%	28.17%
SGD/USD	0.73	0.96%	1.62%
MYR/USD	0.24	0.78%	0.37%
IDR/USD	0.07	0.69%	-1.37%
CNY/USD	0.14	1.45%	0.50%
AUD/USD	0.67	-1.04%	-3.57%
DJIA	28400	-0.48%	-0.82%
SPX	3249	0.16%	0.43%
MSCI Asiax	655	-4.46%	-5.71%
HSI	26492	-5.22%	-6.89%
STI	3147	-1.08%	-2.84%
KLCI	1529	-1.46%	-5.11%
JCI	5884	-4.06%	-6.95%
CSI300	3688	-11.88%	-11.02%
ASX200	6949	-0.65%	3.20%

Source: Bloomberg

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Please note that Bond Recommendations are dependent on a bond's price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed. We may also suspend our issuer rating and bond level recommendation in the ordinary course of business if (1) we believe the current issuer profile is incorrect and we have incomplete information to complete a review; or (2) where evolving circumstances and increasingly divergent outcomes for different investors results in less conviction on providing a bond level recommendation.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons held financial interests in the following issuers or companies as at the time of the publication of this report: Singapore Airlines Ltd, GuocoLand Ltd, Perennial Real Estate Holdings Ltd, Oxley Holdings Ltd, Suntec Real Estate Investment, Mapletree Commercial Trust, Frasers Hospitality Trust, United Overseas Bank Ltd, BreadTalk Group Ltd and Ascott Residence Trust.

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