

Market Commentary

- The SGD swap curve mostly rose yesterday, with most of the tenors trading 1bps higher while the 1-year traded slightly lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 173bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 19bps to 698bps. The HY-IG Index Spread widened 17bps to 525bps.
- Flows in SGD corporates were heavy, with flows in HSBC 4.7%-PERPs, STANLN 5.375%-PERPs, UBS 5.875%-PERPs, KEPSP 3%'26s, UBS 4.85%-PERPs, SOCGEN 6.125%-PERPs, CAPLSP 2.9%'32s, SIASP 3.035%'25s, ARASP 5.65%-PERPs, SPHSP 3.2%'30s, HSBC 5%-PERPs, STTGDC 3.13%'28s and NOLSP 4.4%'21s.
- 10Y UST Yields fell 1bps to 0.67% after mixed economic data where the labour market saw an increase in initial claims for state unemployment benefits last week while the housing market reported stronger than expected new single-family home sales in August.

Credit Research

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Credit Summary:

- **Industry Outlook – Financial Institutions, [UBS Group AG \(“UBS”\)](#) | Issuer Profile: Neutral (3); [Credit Suisse Group AG \(“CS”\)](#) | Issuer Profile: Neutral (4), [Société Générale \(“SocGen”\)](#) | Issuer Profile: Neutral (4), [Commerzbank AG \(“CMZB”\)](#) | Issuer Profile: Neutral (4):** A key theme to emerge from the Bank of America Merrill Lynch Financials CEO Conference is the drive for consolidation in banking, particularly in Europe where banking industries are highly fragmented. How this proceeds will depend on multiple factors, such as the ease of cross border versus domestic consolidation, the regulatory environment and whether the European Central Bank implements such regulations to facilitate transactions.
- **Industry Outlook – [China Property and China Evergrande Group \(“EVERRE”\)](#) | Issuer Profile: Unrated:** Yesterday, EVERRE, one of China’s largest developers and a bellwether issuer in the China high yield property bond market saw its bond prices reacting negatively. This follows the viral circulation of a letter stating that EVERRE was appealing the government to speedily approve the listing of Hengda Real Estate, an EVERRE subsidiary on the Shenzhen Stock Exchange to avert a near term cash crunch. On secondary impact, the Bloomberg Barclays Asia USD High Yield Index saw spreads widen 20bps, a significant one-day move which likely reflects market jitters given the concentration of the index on the China property developer issuers. On fundamentals, the China property development sector is facing a new government policy on limiting additional debt among developers, popularly named as the “three red-lines” policy.

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Credit Headlines

Industry Outlook – Financial Institutions, UBS Group AG (“UBS”) | Issuer Profile: Neutral (3); Credit Suisse Group AG (“CS”) | Issuer Profile: Neutral (4), Société Générale (“SocGen”) | Issuer Profile: Neutral (4), Commerzbank AG (“CMZB”) | Issuer Profile: Neutral (4)

- A key theme to come out from the Bank of America Merrill Lynch Annual Financials CEO Conference is the drive for consolidation in banking, particularly Europe where banking industries are highly fragmented. Like other themes such as digitilisation that was once a nice to have and medium to longer term goal, the need for consolidation has amplified due to COVID-19 with financial institutions facing a low return and more competitive environment which will suppress earnings generation at a time when banks will need to protect and improve their capital buffers.
- Consolidation has started in Spain (CaixaBank SA and Bankia SA) and Italy (Intesa Sanpaolo SpA and Unione di Banche Italiane SpA) and been discussed or explored in Switzerland ([UBS and CS](#)) and Germany ([CMZB and Deutsche Bank AG](#) (Unrated by OCBC Credit Research)).
- How consolidation proceeds will depend on the ease and logic of cross border versus domestic consolidation which has its separate complications in terms of cultural and systemic risk issues respectively. It will also depend on the regulatory environment and whether the European Central Bank facilitates transactions through regulations.
- For now, minor or internal consolidations are more likely to drive cost benefits and combat weak earnings and low interest rates. SocGen is apparently studying a merger of its retail network with that of its subsidiary Credit Du Nord to create a new retail banks. Separately, SocGen indicated that they are past the worst of the pandemic impact on performance with recent trends indicating a gradual recovery since mid-May. This is seen in improved revenues and expectations that the cost of risk will be at the lower end of SocGen’s previously announced range of 70-100bps and its Common Equity Tier 1 ratio will be at the higher end of the 11.5-12.0% range. (Company, Bloomberg, OCBC).

Asian Credit Daily**Credit Headlines****Industry Outlook – China Property and China Evergrande Group (“EVERRE”) | Issuer Profile: Unrated**

- Yesterday, EVERRE, one of China’s largest developers and a bellwether issuer in the China high yield property bond market saw its bond prices reacting negatively. This follows the viral circulation of a letter stating that EVERRE was appealing the government to speedily approve the listing of Hengda Real Estate (“Hengda”), an EVERRE subsidiary on the Shenzhen Stock Exchange to avert a near term cash crunch. EVERRE is listed on the Hong Kong Stock Exchange though companies listed on the Shenzhen Stock Exchange typically trade at higher multiples, with valuation uplift possible for Hengda if the listing goes through.
- Earlier in 2017, strategic investors were lined up to fund the Hengda listing which was to be achieved by injecting Hengda’s assets into an existing listed company. The letter claimed that EVERRE faces a 31 January 2021 deadline to repay strategic investors amounting to RMB130bn if the listing is not approved.
- The company has since come out with a solemn declaration announcement that the relevant documents and pictures that were circulated are fabricated and the company will take legal actions to protect the rights and interests of the company. EVERRE’s bonds have recovered partially post-announcement.
- On secondary impact, the Bloomberg Barclays Asia USD High Yield Index saw spreads widen 20bps, a significant one-day move which likely reflects market jitters given the concentration of the index on the China property developer issuers.
- On fundamentals, the China property development sector is facing a new government policy on limiting additional debt among developers, popularly named as the “three red-lines” policy.
- Under the “three red-lines” policy, property developers will be subjected to three credit ratio triggers (1) debt-to-asset > 70% (2) net debt-to-equity > 100% and (3) cash-to-short term debt <100%, where the ability of developers to take on additional debt will be subject to whether the issuers have breached the triggers. For example, a developer who as breached all three triggers will not be allowed to increase its interest-bearing debt-levels.
- Reportedly, 12 developers have been identified for a pilot study for the “three red-lines” policy before a full implementation on 1 January 2021. These 12 developers will need to submit a de-leveraging plan to regulators.
- While the property development sector is an important contributor to China’s economy, concerns over the debt taken by developers have been mounting in recent years, amidst an overriding policy direction that housing is meant to be for living, not for speculation. (Company, Bloomberg, Caixin, South China Morning Post, OCBC)

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Key Market Movements

	25-Sep	1W chg (bps)	1M chg (bps)		25-Sep	1W chg	1M chg
iTraxx Asiax IG	78	21	16	Brent Crude Spot (\$/bbl)	41.77	-3.20%	-8.92%
iTraxx SovX APAC	36	4	2	Gold Spot (\$/oz)	1,867.74	-4.26%	-3.13%
iTraxx Japan	68	8	8	CRB	148.36	-2.10%	-2.81%
iTraxx Australia	77	14	12	GSCI	348.47	-2.18%	-3.21%
CDX NA IG	58	-13	-8	VIX	28.51	7.75%	29.41%
CDX NA HY	105	-2	-1	CT10 (%)	0.668%	-2.62	-1.60
iTraxx Eur Main	61	6	7				
iTraxx Eur XO	355	57	26	AUD/USD	0.705	-3.24%	-1.97%
iTraxx Eur Snr Fin	80	18	17	EUR/USD	1.167	-1.43%	-1.39%
iTraxx Eur Sub Fin	156	28	24	USD/SGD	1.375	-1.09%	-0.50%
iTraxx Sovx WE	12	-1	-2	AUD/SGD	0.970	2.23%	1.51%
USD Swap Spread 10Y	2	1	2	ASX 200	5,923	1.00%	-3.87%
USD Swap Spread 30Y	-34	2	3	DJIA	26,815	-3.89%	-5.07%
US Libor-OIS Spread	15	0	-3	SPX	3,247	-3.29%	-5.72%
Euro Libor-OIS Spread	-2	1	-1	MSCI Asiax	695	-4.45%	-5.00%
				HSI	23,311	-4.23%	-8.53%
China 5Y CDS	49	13	13	STI	2,451	-2.00%	-4.23%
Malaysia 5Y CDS	57	13	8	KLCI	1,501	-0.81%	-3.48%
Indonesia 5Y CDS	118	26	21	JCI	4,843	-3.88%	-9.29%
Thailand 5Y CDS	46	8	8	EU Stoxx 50	3,160	-4.73%	-5.11%
Australia 5Y CDS	18	3	4				

Source: Bloomberg

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New Issues

- Huarong Finance 2019 Co Ltd (Guarantor: China Huarong International Holdings Ltd) priced a USD250mn PerpNC5 bond at 4.25%, tightening from IPT of 4.375% area.
- Huarong Finance 2019 Co Ltd (Guarantor: China Huarong International Holdings Ltd) priced a USD600mn 3-year bond at T+205bps, tightening from IPT of T+235bps area and another USD350mn 10-year bond at T+300bps, tightening from IPT of T+325bps area.
- Oversea-Chinese Banking Corporation Limited priced a SGD200mn PerpNC10 AT1 at 3.0%.

Date	Issuer	Size	Tenor	Pricing
24-Sep-20	Huarong Finance 2019 Co Ltd (Guarantor: China Huarong International Holdings Ltd)	USD250mn	PerpNC5	4.25%
		USD600mn	3-year	T+205bps
		USD350mn	10-year	T+300bps
24-Sep-20	Overseas-Chinese Banking Corporation Limited	SGD200mn	PerpNC10	3.0%
23-Sep-20	Perenti Finance Pty Ltd (Guarantor: Perenti Global Ltd)	USD450mn	5NC2	6.50%
23-Sep-20	CFLD Cayman Investment Ltd (Guarantor: China Fortune Land Development Co. Ltd)	USD330mn	2-year	8.75%
23-Sep-20	Kaissa Group Holdings Ltd	USD200mn	PerpNC3	10.875%
23-Sep-20	Powerlong Real Estate Holdings Ltd	USD150mn	PWRLNG 6.25%'24s	5.9%
23-Sep-20	Korea National Oil Corp	USD400mn	5-year	T+70bps
		USD300mn	10-year	T+100bps
23-Sep-20	TSMC Global Ltd.	USD1bn	5-year	T+50bps
		USD750mn	7-year	T+60bps
		USD1.25bn	10-year	T+80bps
22-Sep-20	China Merchants Bank Co Ltd/Luxembourg Branch	USD300mn	3-year	T+95bps
22-Sep-20	China Merchants Bank Singapore Branch	USD400mn	3-year	3m-US LIBOR+85bps
22-Sep-20	Zhejiang Baron BVI Co Ltd (Guarantors: Hangzhou Jiangnan District Urban Construction & Comprehensive Development Co Ltd) DianJian Haiyu Ltd.	USD200mn	3-year	2.8%
22-Sep-20	(Guarantor: Power Construction Corp. of China)	USD300mn	PerpNC5	3.45%
22-Sep-20	China Development Bank Financial Leasing Co Ltd	USD700mn	10NC5	T+275bps

Source: OCBC, Bloomberg

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