Asian Credit Daily

20 May 2025

Market Commentary:

- The SGD SORA OIS curve traded higher yesterday with shorter tenors trading 1-4bps higher, belly tenors trading 5-7bps higher and 10Y trading 9bps higher.
- Flows in SGD corporates were heavy, with flows in PRUFIN 3.8% '35s, HSBC 5%-PERP, HSBC 5.25%-PERP, BACR 5.4%-PERP, EQIX 3.5% '30s.
- China Vanke Co Ltd ("VANKE") has repaid RMB14.4bn in publicly-traded bonds since local government intervention in January aimed at stabilizing its operations. According to Bloomberg, its longer-term dollar bonds have risen over 44 cents to above 74 cents on the dollar in four months.
- Bloomberg Asia USD Investment Grade spreads widened by 1bps to 81bps while Bloomberg Asia USD High Yield spreads tightened by 6bps to 478bps respectively. (Bloomberg, OCBC)

Credit Summary:

- **Special Focus – rates, credit and FX:** We expect a limited impact to credit markets from the US sovereign rating change with implications to be indirect at best. Indirect influences may rise through FX risks and higher funding costs although we expect such impacts will likely be softened by recent structural developments within regional credit markets. Credit markets instead will continue to be driven by fundamental influences rather than any direct impact from the sovereign rating action.

Credit Headlines

Special Focus – rates, credit and FX:

- OCBC Global Markets Research published a report on the **Implications on credit markets of the recent US rating downgrade that also includes the implications for rates and FX markets.** Although there are three influences from the US sovereign rating action on credit markets in our view – fundamentals, funding and foreign exchange risk - we expect a limited impact to credit markets with implications to be indirect at best. This is because direct fundamental impacts are contained in our view while we expect potential indirect influences through FX risks and higher funding costs to be likely softened by recent structural developments within regional credit markets.
- Credit markets will continue to be driven by fundamental influences in our view rather than any direct impact from the sovereign rating action. In this regard, we see direct fundamental impacts as contained as this would mostly be through exposure to country risks which in our view are limited. Per Moody's release, the US still "retains exceptional credit strengths such as the size, resilience and dynamism of its economy" and the US' sovereign rating is still at a relatively high level. Country risk in the context of corporate credit does not appear to be altered as opposed the US sovereign's fiscal position.
- In our view, influences on credit markets will be indirect, firstly through funding costs and the potential transmission of higher treasury yields (reflecting a lower credit profile) to corporate financing costs. This in turn however are also influenced by an issuer's own business and/or financing risk characteristics. Our house view remains for three 25bps Fed funds rate cuts this year, albeit with a shift in timing. As such, higher funding costs will continue to be influenced more by idiosyncratic credit drivers at the issuer level.
- We also see contained spillover impacts from the foreign exchange market to the credit markets. According to a Bank for International Settlements ("BIS") working paper dated July 2024 titled "New spare tires: local currency credit as a global shock absorber," emerging market economy ("EME") financial systems have grown noticeably in the last 20 years, leading to higher use of local currency debt.
    - While the use of USD debt for EME non-financial corporates has also increased noticeably over the past 20 years, it has been mostly for corporates where USD is their functional currency.
    - Per the working paper, the "increase in local currency debt was most pronounced in Asian EMEs."
    - This expansion in local currency debt markets means EME corporates are largely less susceptible for foreign exchange risks, both directly but also indirectly with improved access to local currency credit that may be insulated from global financial market developments.
    - The improved diversity of access to credit markets for EME corporates, and the ability to possibly move across currencies as global market conditions change highlights how the recent development of local currency credit markets provides somewhat of a cushion or shock absorber for global financial market volatility.
- Finally, we studied the prior two instances when the US sovereign rating was downgraded, by S&P Global in 2011 and Fitch Ratings in 2023. While credit spreads did increase in 2011 following S&P Global's downgrade, this was likely more influenced by the unfolding European sovereign debt crisis affecting countries such as Greece and Ireland at the time. Another influence on credit spread movements was a fall in US Treasury yields, something that contradicts a hypothesis that the US sovereign rating downgrade had a direct negative impact on credit markets. In contrast, when Fitch announced a similar rating downgrade in 2023, which was a relatively benign operating environment, we observe limited immediate impacts to credit spreads in 2023. (Bloomberg, BIS, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing
19 May	Korea Railroad Corp	Fixed	USD	400	3Y	T+63bps
19 May	Golden Energy and Resources Limited (guarantor: Golden Investments Australia Pte Ltd)	Fixed	USD	160	Retap of GERSP 8.5% '27s	N.A.

Mandates:

- CDBL Funding 1 (guarantor: CDB Aviation Lease Finance Designated Activity Co., Keepwell: China Development Bank Financial Leasing Co.) may issue USD denominated Senior notes.
- Kubota Credit Corporation, U.S.A. (guarantor: KUBOTA CORPORATION) may issue USD denominated 3Y Senior Unsecured Fixed bonds.

Key Market Movements

	20-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	80	-0	-24
iTraxx Japan	62	-0	-11
iTraxx Australia	79	-1	-19
CDX NA IG	55	1	-19
CDX NA HY	106	-0	4
iTraxx Eur Main	57	2	-15
iTraxx Eur XO	300	5	-68
iTraxx Eur Snr Fin	62	2	-16
iTraxx Eur Sub Fin	107	3	-29
USD Swap Spread 10Y	-54	-1	-5
USD Swap Spread 30Y	-87	-2	-5
China 5Y CDS	52	1	-15
Malaysia 5Y CDS	53	-2	-12
Indonesia 5Y CDS	84	-1	-23
Thailand 5Y CDS	53	-1	-11
Australia 5Y CDS	12	-1	-4

	20-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	65.5	-1.6%	-3.6%
Gold Spot ($/oz)	3,213	-1.1%	-6.2%
CRB Commodity Index	296	0.2%	-0.1%
S&P Commodity Index - GSCI	533	-1.6%	-1.0%
VIX	18.1	-1.4%	-38.8%
US10Y Yield	4.46%	-1bp	13bp
AUD/USD	0.644	-0.4%	0.5%
EUR/USD	1.124	0.5%	-2.4%
USD/SGD	1.295	0.5%	0.7%
AUD/SGD	0.834	0.9%	0.3%
ASX200	8,324	0.7%	6.5%
DJIA	42,792	0.9%	9.3%
SPX	5,964	2.0%	12.9%
MSCI Asiax	758	1.0%	10.0%
HSI	23,630	2.3%	10.4%
STI	3,885	0.1%	4.4%
KLCI	1,550	-2.1%	3.4%
JCI	7,177	5.0%	11.5%
EU Stoxx 50	5,427	0.6%	10.0%

Source: Bloomberg

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com