Andrew Wong
+65 6530 4736
WongVKAM@ocbc.com

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA
+65 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi, CFA
+65 6530 7348
zhiqiseow@ocbc.com

Credit Week in Brief

Markets

10Y UST Yields mostly rose last week, moving mainly on the Treasury's bond auction and Fed's dovish shift to average inflation targeting. The week started with yields gaining 3bps to 0.66%, boosted by optimism about vaccines for COVID-19 and investors looked ahead for new supply totalling USD148bn starting Tuesday. Yields then gained 3bps to 0.68%, driven by a reaffirmation of the US-China Phase 1 trade deal and a solid 2-year auction which raised a record USD50bn. On Wednesday, yields remained mostly unchanged at 0.69% after a solid 5-year note auction. Yields then gained 6bps to 0.75%, its highest since June 19, after the Fed announced it would seek inflation that averages 2% over time to spur an economic recovery before tightening financial conditions. On Friday, 10Y UST Yields fell 3bps while S&P 500 was pushed higher by technology stocks and closed at its sixth record high. W/w, 10Y Treasury Yields gained 6bps to close at 0.72%. (Bloomberg, OCBC)

Pace eased in the US market. Supply in the US IG bond market continued to slow down with only USD18.1bn priced last week, in line with market's expectations. The most prolific issuers include Royalty Pharma Plc (USD6bn in 6 tranches) and Glencore Funding LLC (USD2bn in 2 tranches). Coca-Cola Femsa's USD705mn green bond also drew incredibly strong demand, indicating investors' increased appetite for ESG issues. Within the HY space, weekly issuance volume declined more significantly to USD992.6mn from three issuers (USD10.5bn issuance a week earlier). Notable names include TreeHouse Foods Inc, which priced USD500mn and Intelligent Packaging Ltd Finco Inc, which priced USD485mn. Approximately USD70bn of outstanding HY bonds are trading above upcoming call prices, and therefore expect more issuers to redeem the bonds on the call date going forward. Separately, after the Fed's dovish shift to 2% average inflation targeting, we saw strong buying interest for selective HY bonds, evident by an inflow of USD1.39bn into U.S. corporate high-yield funds for the week ended August 26, in contrast to the previous week's withdrawal. W/w, the Bloomberg Barclays US Corporate High Yield Average OAS tightened 26bps to 475bps and the Bloomberg Barclays US Aggregate Corporate Index OAS tightened 1bps to 130bps, likely reflecting technical pressures from the large recent supply. (Bloomberg, OCBC)

Music doesn't stop for Asiadollar issuances despite rising US-China trade tensions, with Tencent Music Entertainment Group pricing USD800mn in a two-tranche (5Y, 10Y) deal that was more than 10x covered, driving spreads in the secondaries to compress close to the curve of its more highly-rated parent Tencent Holdings Ltd. Fixed-for-life structures appear to be finding demand still with Hysan Development Co Ltd pricing a USD200mn perpetual last week, following a similar USD300mn perpetual issued in the prior week. Nan Fung International Holding Ltd similarly joined the fray pricing a fixed-for-life USD500mn perpetual. Overall though, the issuance trend is down w/w with just USD4.1bn priced last week (prior week: USD7.0bn). PT Modernland Realty Tbk missed the coupon payments of its '21s, which is in-line with expectations following plans to restructure. Despite threats of default and USD18bn of China USD bonds yielding above 15% (prior week: USD17.6bn), high-yield appears to be well-sought after with the Bloomberg Barclays USD HY OAS Index compressing 20bps w/w as of last Friday to 654bps.

Comparatively, Bloomberg Barclays USD IG OAS Index compressed just 1bp w/w to 168bps. We think investors are still chasing for yield, perhaps helping GENTMK 4.25% '27s (issued by Genting Overseas Holdings Ltd) to recover some lost ground, which previously sold off due to default from Genting Hong Kong Ltd. (Bloomberg, OCBC)

First digital bond in SGD: Last week primary markets were relatively quiet in SGD with the main issuance being a SGD100mn re-tap by Olam on its new 5.5Y bond (the OLAMSP 4.0% '26s). The re-tap was executed as a "digital bond" in a pilot project using DAML, a smart contract language created by blockchain start-up Digital Asset Holdings LLC. The secondary market was active, with buying seen in short dated bullets and bank capital while the Singapore Airlines Ltd ("SIASP", Issuer profile: Neutral (5)) curve stabilised after the re-pricing of the previous week. W/w, the Singapore swap curve bear steepened, with the front end increasing 3-7bps for the most parts though increased by 10-17bps at the belly to longer tenors. Last week, discussions over the Singapore labour market and policy implications dominated headlines. While we see little immediate impact to the SGD-bond issuers we cover, with Singapore at an inflection point, policy direction is likely to have an outsized impact to the property developer sector (albeit unquantifiable for now). (Straits Times, Bloomberg, OCBC)

Interest in Malaysia bonds expected to grow: The MYR strengthened slightly against the USD and ended the week at 4.164. 10Y govvies gained 11bps to 2.60%. Malaysia government debt is likely to benefit from the slump in real yields on US Treasury bonds as well as expectations that the central bank may continue cutting rates to revive the economy. That said, appetite for duration has waned with bid-to-cover ratio of 1.42x for the MYR4bn 14-year Islamic bonds issued at 3.032% on Wednesday. In the corporate primary issuance space, Pelabuhan Tanjung Pelepas Sdn Bhd which operates a container port and terminal issued a MYR295mn 5-year bond at 3.15%, a MYR405mn 7-year bond at 3.3% and a MYR295mn 10-year bond at 3.4% while DRB-Hicom Bhd, involved in the automotive manufacturing, assembly and distribution industry, priced a MYR150mn 5-year bond at 4.43% and a MYR250mn 10-year bond at 5.08%. Columbia Asia Sdn Bhd, an international private healthcare company, too tapped the market to raise MYR420mn across nine tranches. Separately, AirAsia Group Bhd posted its biggest quarterly loss on record of MYR993mn vs a net income of MYR17.3mn a year ago and companies in the Genting group are keeping up with dividend payments despite the conglomerate facing grave challenges as the pandemic hits its casinos, cruises and resorts. Genting Bhd and Genting Malaysia Bhd are keeping their interim dividend payements of 6.5 sen and 6 sen a share respectively, the same as in 2019. (Bloomberg, OCBC)

Rising activity in Indonesia's bond market: There were four new issuers that listed bonds in the past week with asset manager PT Perusahaan Pengelola Aset (PPA), auto finance company PT Astra Sedaya Finance, and agricultural fertilizer PT Pupuk Indonesia Holding Co all issuing multi-tranche deals. Commercial bank PT Bank Commonwealth (related to Commonwealth Bank of Australia) also issued a IDR1tr Certificate of deposit. The market however remains in a delicate position against the backdrop of rising COVID-19 cases that threatens further re-openings of the economy (factories in Cikarang, West Java, were told to close after more than 300 positive virus cases were found at the industrial area) and ongoing issuer stress, with Bank Indonesia seeking to maintain rates at levels to ensure currency stability and attractive yield differentials but that does not impinge access to capital. There appears some expectation that demand for capital may return in 2H2020 if restrictions begin to ease in Indonesia's economy with PT Bank Mandiri expecting loans to large businesses to grow in 2H2020 as businesses seek to acquire assets made cheap from the pandemic and the bank itself shifting from focusing on restructuring to expansion. PT Bank Negara Indonesia Persero Tbk also expects loan growth of 4%-5% by the end of 2020, above previous expectations of 2%-4% although the gross non-performing loan ratio could also rise to 4.5% in 2020 from 2.3% in FY2019. As such, bond market activity could continue to pick up with snack manufacturer PT Mayora Indah Tbk planning an IDR500bn bond issue as part of its UDR2tr bond program and state toll road operator PT Jasa Marga Persero Tbk setting coupons for its IDR2tr bond issue. Further, PT Indah Kiat Pulp & Paper Tbk and PT Merdeka Copper Gold Tbk also recently announced bond issues for September. Recognizing the challenging outlook however, demand for expansion capital could still reduce overall – as examples, builder PT PP Persero Tbk revised its 2020 capex down from IDR5.4tr to IDR2.9tr, mostly for infrastructure projects, and PT Astra Otoparts Tbk cut its capital expenditure budget compared to 2019 in half for 2020 to IDR500bn that will be used for digitalization and automation to support manufacturing activities, amongst other uses. (Bloomberg, IDN Financials, OCBC)

China developers leverage in focus: Primary market issuance last week was significant, though lower at RMB778.9bn (including CDs). Excluding CDs, this was RMB384.0bn, 7.1% lower w/w. Notable issuers included Agricultural Bank of China Ltd (RMB35bn capital bonds priced), Qingdao Rural Bank Corp, Orient Securities Co Ltd, China International Capital Corp Ltd and China Energy Investment Corp Ltd. The Bloomberg Barclays China Aggregate Total Return Index was up by 0.36% w/w, extending the gains from the previous six weeks. The 10Y government bond yield was up by 9bps w/w, ending at 3.08% last Friday. In corporate developments, China Evergrande Group ("Evergrande"), a major high yield property developer reported its 1H2020 financial results which showed unadjusted gross gearing levels creeping up to 2.6x as at 30 June 2020 (31 December 2019: 2.2x). Reportedly, a number of property developers including Evergrande were asked by regulators to present a deleveraging solution by end-September 2020. On geopolitical developments, tensions with the US continued and re-escalated in India (military action at the border) and Australia (trade and technology). Away from geopolitics, China reported industrial profit growth of 19.6% y/y in July (June 2020: 11.5% y/y) while 32 out of 41 industry sectors reported positive profit growth. Last week Tianjin Real Estate Trust Group ("Tianjin Real Estate") defaulted on a small RMB200mn bond, becoming the latest issuer linked to the Tianjin municipality to default. (Bloomberg, Caixin, SCMP, OCBC)

The Aussie dollar continues its march higher against USD, breaking YTD highs again last Friday after climbing 2.8% w/w. Australian Government 10Y bonds appear to mirror the action in the forex market, with yields rising 14bps w/w to close above 1% last Friday for the first time since mid-June this year though yields have since retraced. Although the Australian economy is heading into a recession, the west appears to outperform the east due to a mining boom, with commodities including iron and gold prices continuing to rise, driven by demand from China. That said, the relationship between Australia and China could be better described as frenemies with China starting its second investigation, following the first investigation two weeks ago, into subsidies of Australia's wine industry with exports worth AUD1.2bn p.a. to China. On the corporate front, QBE Insurance Group Ltd's share price plunged over 6% with its ex-CEO Pat Regan leaving following a complaint by a female employee. Other notable newsflows including National Australia Bank selling MLC Wealth to IOOF Holdings Ltd for AUD1.44bn and Qantas pricing a AUD500mn 10Y issue at 450bps over swaps, which was in turn used to repurchase parts of QANAU 7.5% '21. Other notable issuers include Aurizon Network Pty Ltd (AUD500mn), Korea Expressway Corp (AUD225mn), South Australian Government (AUD400mn), Export-Import Bank of Korea (AUD300mn), Suncorp Group Ltd (AUD250mn) and Shizuoka Prefecture (AUD220mn). (Bloomberg, OCBC)

Key Market Movements

	1-Sep	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	61	-2	-10
iTraxx SovX APAC	33	-1	-7
iTraxx Japan	60	0	0
iTraxx Australia	64	-1	-11
CDX NA IG	65	-1	-3
CDX NA HY	106	0	3
iTraxx Eur Main	55	0	-3
US 10Y Yield	0.71%	2	18
Singapore 10Y Yield	1.01%	17	32
Malaysia 10Y Yield	2.62%	12	2
Indonesia 10Y Yield	6.85%	15	3
China 10Y Yield	3.04%	-2	6
Australia 10Y Yield	0.97%	8	16
USD Swap Spread 10Y	1	1	2
USD Swap Spread 30Y	-38	-2	5
Malaysia 5Y CDS	46	-2	-12
Indonesia 5Y CDS	104	*	-12
China 5Y CDS	35	-1	-8

* Last update on 08/20/20

	1-Sep	1W chg	1M chg
Brent Crude Spot ($/bbl)	45.82	-0.09%	5.82%
Gold Spot ($/oz)	1989.78	3.19%	0.65%
CRB	153.21	0.37%	6.63%
CPO	2900.00	4.69%	4.32%
GSCI	358.21	-0.51%	5.41%
VIX	26.41	18.06%	7.97%
SGD/USD	0.74	-0.83%	-1.41%
MYR/USD	0.24	-0.58%	-1.91%
IDR/USD	0.07	0.03%	-0.85%
CNY/USD	0.15	-1.40%	-2.36%
AUD/USD	0.74	2.85%	3.87%
DJIA	28430	0.43%	7.57%
SPX	3500	2.01%	7.01%
MSCI Asiax	725	-0.95%	3.40%
HSI	25186	-1.18%	2.40%
STI	2529	-1.16%	-0.02%
KLCI	1526	-2.70%	-4.83%
JCI	5253	-1.60%	2.02%
CSI300	4831	1.44%	2.89%
ASX200	5953	-3.38%	0.43%

Source: Bloomberg

Treasury Research & Strategy

Macro Research

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

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

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 bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral ("N") – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Underweight ("UW") – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

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 above-mentioned 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, CapitaMall Trust and Ascott Residence Trust.

Disclaimer for research report

Co.Reg.no.:193200032W