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

Mixed sentiment: 10Y UST Yields moved in a V-shape fashion last week. The earlier part of the week saw investors buying back into the UST following the selloff in the prior week, with a weak ADP employment data fuelling further investor allocations to the UST. However, a strong US manufacturing data followed by strong employment gains (with unemployment falling significantly to 8.4% from 10.2% m/m) pushed the 10Y UST higher to close almost flat w/w, perhaps also influenced by expectation of new treasury supply this week. (Bloomberg, OCBC)

The calm before a potential September surge: US investment grade primary market saw a quiet start to the month, with only ~USD5.7bn issuance priced. The most prolific issuer was Mondelez International (a US F&B company), which priced USD1bn in two tranches. The 10-year and 30-year were both priced inside Mondelez's credit curve and have garnered strong demand with the deal being 7.5x covered despite being its fourth issuance since April. Investor appetite remained strong especially given the lack of supply and new issues in the past 2 weeks were nearly 8x oversubscribed on average. Within the high yield space, ~USD3.4bn was printed. Notable names include Tenet Healthcare Corporation (USD2.5bn 8NC3 at 6.125%) and Spirit Airlines Inc (USD850mn 5NC3 at 8.25%). On the corporate front, Neiman Marcus Group Inc., an American chain of luxury department stores filed for bankruptcy protection in May. Last week, US Bankruptcy Court approved the company's reorganization plan that will hand ownership to creditors in return for eliminating more than USD4bn of Neiman's USD5.5bn debt. This marks one of the biggest-name retail collapses since COVID-19. W/w, the Bloomberg Barclays US Corporate High Yield Average OAS widened 13bps to 488bps and the Bloomberg Barclays US Aggregate Corporate Index OAS tightened 1bps to 129bps. We expect an active month ahead with continuing new supply as corporates may bring forward funding plans before November's presidential election. (Bloomberg, OCBC)

Asiadollar was driven by banks last week: It was a relatively busy week last week with USD8.5bn of primary deals, more than doubling from the previous week. Banks dominated issuances last week with the Industrial & Commercial Bank of China Ltd/Singapore raising USD1.8bn across two tranches and Bank of Communications Co Ltd/Hong Kong raising USD1.15bn, also across two tranches. China Merchants Bank Co Ltd/Hong Kong raised USD800mn of 5Y paper while a Singapore bank raised USD1bn in a Tier 2 bank capital instrument. In lockstep with its closest peers, UOB Bank has today launched a Tier 2 bank capital instrument. After the 20bps compression in the previous week, compression in the Bloomberg Barclays USD HY OAS Index was more muted, compressing just 6bps as of last Friday to 648bps. The Bloomberg Barclays USD IG OAS Index compressed 2bp w/w to 166bps. In the sovereign space, Laos which has a few tranches of USD bonds in addition to THB issuances was in the headlines on possible sovereign debt default last week. News also emerged that due to possible debt default, majority control over its national grid may also be transferred to China Southern Power Grid Co. In a case that is testing the market for bonds issued under keepwell structures, the bankruptcy administrator of Peking University Founder Group rejected the recognition of keepwell deed and deed of equity interest purchase undertaking for five USD bonds. This week could see new deals from Contemporary Amperex Technology Co (a battery maker for electric vehicles and first time issuer), AIA Group Ltd (a leading insurer and routine issuer) and Filinvest Development (a real estate company based in the Philippines). (Bloomberg, Reuters, OCBC).

Busy week for Singapore REITs: After a quiet week last week, Monday saw two new deals from first time issuer Logos Property Group ("Logos") in a rare true high yield deal and a new replacement perpetual by Keppel REIT ("KREIT"). Australia-based Logos is a partly owned subsidiary of ARA Asset Management Limited ("ARA") and the Sponsor of ARA LOGOS Logistics Trust ("ALLT", Issuer profile: Neutral (4)). Ascendas REIT ("AREIT", Issuer profile: Neutral (3))'s sole perpetual faces first call on 14 October 2020. Going by the tight yields of corporate perpetuals in the secondary market, we would not be surprised if AREIT can come back with a replacement perpetual with the same structure at a cost that is between 2.5-3.0%. Meanwhile the statutory body, Housing Development Board has also launched a new deal. W/w, the Singapore swap curve bull flattened, with the front end declining 4-6bps while the belly to longer tenors declined 6-10bps for the most part. Last week was a busy week for REITs. Among the big REITs, CapitaLand Mall Trust and CapitaLand Commercial Trust will hold their extraordinary general meetings on 29 September 2020 to seek unitholders approval on their proposed combination. Should the deal go through, we are likely to place the issuer profile of the combined entity at Neutral (3). Additionally, Frasers Centrepoint Trust ("FCT") announced the proposed acquisition of the remaining ~63%-stake in AsiaRetail Fund from its Sponsor with an equity raising of SGD1.39bn. Among smaller REITs, Lippo Malls Indonesia Retail Trust ("LMRT", Issuer profile: Negative (6)), finally announced the proposed acquisition of Puri Mall from its Sponsor while the Sponsor of Soilbuild Business Space REIT had signed non-binding term sheets in relation to their stakes in SBREIT which could herald yet another M&A deal among Singapore REITs. Topping it off, two institutional investors at ESR-REIT and Sabana Shari'ah Compliant Industrial Trust are still opposing the proposed combination of the REITs and calling for independent directors to step down if the combination falls through. Unitholders are expected to vote on the deal sometime in October 2020. (Business Times, Bloomberg, OCBC).

Foreign ownership of Malaysians sovereign and corporate debt rose to highest in over two years: The MYR strengthened further against the USD and ended the week at 4.148. 10Y govvies dipped 5bps to 2.55%. Foreign ownership of Malaysian sovereign and corporate debt climbed 1.4% m/m to MYR209bn in August, highest since March 2018. For the week, new issuances were mostly commercial papers with the exception of Cypark Renewable Energy Sdn Bhd which priced a MYR97.25mn perpetual NC5 at 6.5%. In relation to the pandemic, Malaysia announced that it will block citizens of India, Indonesia and the Philippines from entering the country starting Monday, while all foreign tourists have been banned from entry since March. The country also reported the highest daily increases in virus cases since June due to local transmissions in the Borneo state of Sabah. (Bloomberg, OCBC)

Delicate times in Indonesia seem apparent on the political and pandemic fronts. Firstly, markets appear uneasy with a parliamentary proposal to amend laws that govern the central bank which could affect its independence and see the government assert more control over monetary policy. Secondly, COVID-19 cases are on the rise as a consequence of economic re-openings including in both Jakarta and Bali which recently re-opened to domestic tourists. While the central bank proposals are still preliminary and the Indonesian government is reportedly yet to discuss them with the central bank, they along with virus statistics may nevertheless impact investor sentiment and attractiveness for IDR bonds that are also being challenged by the relative appeal of issuing USD debt as global investors look for yield in the low rate environment, pushing USD funding costs down. This has seen Indonesian borrowers issue a record USD10.5bn in USD denominated bonds on a year to date basis compared to previous years according to Bloomberg with several new issuers remaining in the pipeline. That said, it was an active week with six new issuers that listed IDR bonds in the past week with key issuers including telecommunication infrastructure company PT Tower Bersama Infrastructure Tbk and consumer financing company PT BFI Finance Indonesia Tbk issuing 2 tranche deals and state owned electricity utility PT Perusahaan Listrik Negara Tbk ("PLN") issuing a bumper multi-tranche deal. Funds may be in short supply for PLN given the Ministry of Energy and Mineral Resources' recent announcement to lower power prices for some non-subsidized customers in 4Q2020 to support the economic recovery. Two more issuers also reportedly launched bonds this week (PT Oki Pulp & Paper Mills and PT Medikaloka Hermina Tbk) with expected pipeline deals including PT Profesional Telekomunikasi Indonesia (Protelindo), PT Global Mediacom Tbk and state owned pawn broker PT Pegadaian Persero. The Bloomberg Barclays EM Local Currency Indonesia Total Return Index fell 3.1bps to 242.6 (Bloomberg, IDN Financials, OCBC)

Chinese semiconductor player engulfed in US-China tensions: Primary market issuance last week was lower at only RMB564.4bn (including CDs). Excluding CDs, this was RMB211.7bn, down significantly by 44.9% w/w. Issuances were more dispersed with no mega issuances though we saw issuers from the brokerage sector including papers from Huatai Securities Co Ltd, Guotai Junan Securities Co Ltd and China Galaxy Securities Co Ltd. The Bloomberg Barclays China Aggregate Total Return Index gave up some of the intraweek gains by end of the week, though was still up by 0.24% w/w, extending the gains from the previous seven weeks. The 10Y government bond yield was up by 5bps w/w, ending at 3.13% last Friday. On geopolitical developments, tensions worsened, with a spill-over into the capital markets. Yesterday, the shares of Semiconductor Manufacturing International Corporation ("SMIC") fell ~23% after reports emerged that the US is considering adding SMIC onto a trade blacklist. Additions into the blacklist would restrict exporters from supplying US-made inputs to SMIC, thus limiting the company's ability to expand. SMIC, a major chipmaker headquartered in Shanghai, is listed in both Shanghai and HKSAR. China has been aiming to increase domestic self-sufficiency and new policies to support the semiconductor sector's growth may be revealed in October 2020. Last week Tech-New Group Co Ltd, a vehicle and auto parts manufacturer, defaulted on two bonds with an aggregate outstanding amount of RMB2.0bn. The issuer owns ~39% of Shenzhen-listed Zotye Automobile, famed for being an early entrant among Chinese automakers into the US market (Bloomberg, CNBC, Yicai Global, OCBC).

Bond market remains open in Australia with AUD4.46bn in issuances priced last week, anchored by Treasury Corp of Victoria (AUD2bn), Commonwealth Bank of Australia (AUD1.4bn) and Qantas Airways Ltd (AUD500mn). However, things are not entirely business as usual as lockdowns remain with Victoria unlikely to open up yet – Australia reported 48 total new cases, with 41 in Victoria. Victoria has thus far borne the brunt with 675 deaths and 19,574 total confirmed cases as of 7 Sep, which is the largest contributor to the nationwide 762 deaths and 26,322 confirmed cases. The relationship with China remains sour with two Australian journalists disallowed from leaving China until an interview was held with China's Ministry of State Security. Separately, the Reserve Bank of Australia announced an increase in its Term Funding Facility, which has been providing low-cost funding for the banking system. (Bloomberg, OCBC)

Key Market Movements

	8-Sep	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	59	0	-8
iTraxx SovX APAC	32	0	-6
iTraxx Japan	60	-1	-2
iTraxx Australia	61	-2	-8
CDX NA IG	67	5	1
CDX NA HY	106	-1	1
iTraxx Eur Main	53	1	-2
US 10Y Yield	0.71%	4	15
Singapore 10Y Yield	0.96%	-4	28
Malaysia 10Y Yield	2.56%	-6	11
Indonesia 10Y Yield	6.87%	1	7
China 10Y Yield	3.13%	6	14
Australia 10Y Yield	0.97%	0	14
USD Swap Spread 10Y	1	0	-1
USD Swap Spread 30Y	-38	-1	0
Malaysia 5Y CDS	44	-1	-10
Indonesia 5Y CDS	88	-16	-28
China 5Y CDS	35	1	-6

	8-Sep	1W chg	1M chg
Brent Crude Spot ($/bbl)	41.73	-8.45%	-6.01%
Gold Spot ($/oz)	1932.44	-1.92%	-4.68%
CRB	149.69	-2.30%	1.93%
CPO	2900.00	0.31%	0.52%
GSCI	347.11	-3.10%	0.57%
VIX	30.75	33.93%	38.45%
SGD/USD	0.73	0.40%	-0.52%
MYR/USD	0.24	0.54%	-0.75%
IDR/USD	0.07	0.04%	0.15%
CNY/USD	0.15	0.04%	-1.88%
AUD/USD	0.73	-1.10%	1.97%
DJIA	28133	-1.82%	2.55%
SPX	3427	-2.31%	2.26%
MSCI Asiax	718	-2.31%	0.93%
HSI	24645	-2.14%	0.46%
STI	2525	-0.53%	-0.80%
KLCI	1503	-1.21%	-4.76%
JCI	5243	-1.27%	1.93%
CSI300	4687	-3.19%	-0.43%
ASX200	6008	0.91%	0.05%

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.

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