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Credit Week in Brief

Markets

Market sentiment remained fragile. 10Y UST Yields mostly fell last week, moving mainly on weak market sentiment from a selloff in the stock market and performance of new Treasury debt issuance. As the US market was closed on Monday to observe Labour Day, 10Y USTs remained unchanged at 0.72%. Yields then fell 4bps to 0.68% as the decline in the US stock market boosted demand for safe haven US treasuries. On Wednesday, yields gained 2bps to 0.70%, after the auction of USD35bn 10-year notes drew weak demand and markets awaited the 30-year bond auction on Thursday. Yields then fell 2bps to 0.68%, on the back of a solid performance of the USD23bn 30-year bonds auction. On Friday, 10Y UST Yields fell 1bps despite stronger-than-expected August CPI. W/w, 10Y Treasury Yields fell 5bps to close at 0.67%. Going forward, we expect the yield curve to steepen as markets look to further Treasury debt issuance and the FOMC this week. (Bloomberg, OCBC)

September party started. In contrast to the previous week, the US investment grade primary market finally saw a strong pace of issuance with over USD68bn printed across 46 deals, well above estimates of USD40-50bn, and despite the shortened week. The most prolific issuers included Nestle Holdings Inc, which priced USD4bn in 4 tranches and Nutrition & Biosciences Inc ("N&B"), a subsidiary of DuPont, which priced USD6.25bn across 6 tranches. N&B will use the proceeds to fund the Special Cash Payment to DuPont upon closing of the merger with International Flavors & Fragrances, Inc. in a Reverse Morris Trust transaction. The other notable issue was Nissan Motor Co. Ltd's 4-part USD8bn issue across 3yr, 5yr, 7yr and 10yr tenors which received around USD22bn in orders and offered new issuance concessions of 25-37.5 basis points according to Bloomberg. These were necessary for Nissan Motor Co. Ltd's first USD issue in over 20 years given expected operating losses for FY2021 ending March which has necessitated job and capacity cuts to reduce costs. On the ESG front, more corporates have joined the rally. After Citigroup and Bank of America, another top bank, JPMorgan Chase & Co, issued a USD1bn green bond for the first time last week to finance environmentally-friendly projects. Given the outperformance of ESG related instruments this year and an increasing emphasis on sustainable investing, a surge in green bond sales is expected in the coming quarters to meet investors' strong demand. Within the high yield space, new issues rose to ~USD17bn from 23 issuers last week. Notable names included Quicken Loans LLC / Quicken Loans Co-Issuer Inc (a USD750mn 8.5NC3.5 at 3.625% and another USD1.25bn 10.5NC5.5 at 3.875%) and Radiate Holdings GP LLC (a USD1bn 8NC3 at 6.5% and another USD900mn 6NC3 at 4.5%). Separately, US high yield default volumes reached ~USD2.8bn since the end of July according to Fitch, the lowest level since the start of the pandemic. That said, the trailing 12-month default rate was at 5.7% at the end of July, up from 2.9% at the end of March. Given the slow global economic recovery and market uncertainty, the YTD default rate is expected to increase above its current 4.4% level at the end of the year towards the higher end of Fitch's forecast range of 5-6%. W/w, the Bloomberg Barclays US Corporate High Yield Average OAS widened 8bps to 496bps and the Bloomberg Barclays US Aggregate Corporate Index OAS widened 2bps to 131bps. (Bloomberg, OCBC)

China rising in Asiadollar: Issuance volumes slowed last week in Asiadollar with USD7.7bn printed, down from USD8.7bn in the prior week. That said, the dispersion in issuers was promising with property developers (Xinyuan Real Estate Co Ltd), brokerages (Wending Zhongyuan Co Ltd, Haitong International Securities Group Ltd), utilities (ENN Energy Holdings Ltd), transportation (Guangzhou Metro Investment Finance BVI Ltd) and aircraft leasing (BOC Aviation Ltd) issuers coming to market. Of note is the strong representation of issuers from China as investors ride the wave of upbeat economic data from China for August. Crossing multiple current and post COVID-19 themes including preference for investment grade names, China's economic recovery, interest in tech names and the rising importance of renewable energy was Contemporary Amperex Technology Co. Ltd.'s ("CATL") first bond issue. CATL is a Chinese and global leader in rechargeable battery production for electric vehicles and a key supplier for Tesla Inc. and other global automakers such as BMW AG and Volkswagen AG. Its USD1.5bn 2 tranche deal received USD13.5bn in orders with its USD1bn 5 year tranche receiving USD7.2bn of orders (including USD2.4bn in joint lead manager interest) while the USD500mn 10 year tranche received USD6.3bn of orders (including USD1.4bn in joint lead manager interest). In particular, interest was solid and higher than normal from investors in Europe, the Middle East and Africa with proceeds to be used for CATL's international expansion including a production base in Germany and a new overseas upstream investment. Another key deal of the week was United Overseas Bank Ltd's USD600mn 10.5NC5.5yr Tier 2 issue that received USD4.25bn in orders, indicating both solid demand for high quality names and also perhaps the rising need for capital buffers to meet challenging operating conditions ahead. (Bloomberg, OCBC).

A more active SGD bond market: Last week was a busy week in the SGD primary market, with a total of ~SGD1.4bn priced, including SGD800mn 5Y seniors from the Housing Development Board ("HDB"). The new HDB 5Y paper, which came after two new deals on Monday, was priced at 0.69%. Subsequently on Thursday, Ascendas REIT came to market with its first green perpetual NC5 priced at 3.0%. The strong momentum last week was followed by [CapitaLand Ltd's \("CAPL", Issuer profile: Neutral \(3\)\)](#) bumper SGD800mn 12Y seniors at 2.9%, priced yesterday, making it one of the largest SGD corporate bonds outstanding, with the longest tenor YTD. W/w, the Singapore swap curve was broadly lower by 1-3bps. Secondary market activity was focused on new issues last week while better buying was seen in bank capital instruments and senior papers of issuers lower on the credit scale. In corporate developments, we saw Keppel Corporation Ltd ("KEP", Issuer profile: Neutral (4)) and Olam International Ltd ("Olam", Issuer profile: Neutral (5)) showcasing their financing market access with KEP announcing a successful samurai bond fundraise of JPY8.0bn (~SGD103.2mn) while Olam completed the refinancing of ~USD1.7bn in multi-tranche revolving credit facilities. Elsewhere, [Wing Tai Holdings Ltd \("WINGTA", Issuer profile: Neutral \(4\)\)](#) announced that it is looking to repurchase up to SGD85mn of bonds due to excess cash at the company. Yesterday, [employment numbers that were released](#) showed the toll COVID-19 has taken on the jobs market with labour market conditions likely to remain challenging into 4Q2020. Last week, Singapore Airlines Ltd ("SIA", Neutral (5)) announced its decision to cut 4,300 positions with its retrenchment exercise starting this week. (Business Times, Bloomberg, OCBC).

Malaysia has kept interest rate unchanged at record low: The MYR was

flat against the USD w/w and ended the week at 4.15. 10Y govies rose 6bps to 2.61%. Malaysia's central bank on Thursday kept its overnight policy rate unchanged at a record low of 1.75%, ending its streak of four straight easing decisions as the reopened economy shows signs of recovery. The government has pledged to continue with efforts to make Malaysia an attractive investment destination. Infineon Technologies (M) Sdn Bhd, which is part of a German semiconductor giant, will be investing MYR3.25bn in the span of 10 years until 2029. Infineon has been operating in Malaysia for 47 years and is the only country outside Germany where Infineon has both Wafer Fabrication and Assembly and Test facilities (i.e. front end and back end manufacturing processes). In other news, Malaysia airports say total passenger traffic fell 74.4% in August. For the week, new issuances were mostly commercial papers with the exception of Magnum Corp Sdn Bhd (a commercial gambling company) which priced a MYR125mn 5-year bond at 3.45% and a MYR50mn 6 year bond at 3.7%. Alliance Bank Malaysia Bhd is expected to raise MYR900mn with an option to upsize over three tranches, 10 year, 12 year and 15 year as early as the week of October 12. (Bloomberg, OCBC)

Taking a step backwards in Indonesia: Activity in the IDR bond market went backwards in the past week with three new listings of IDR bonds, down from six in the prior week, as PT Merdeka Copper Gold Tbk, snack manufacturer PT Mayora Indah Tbk, and state toll road operator PT Jasa Marga Persero Tbk all listed multi-tranche bonds. Sentiments also took a step back with the three pronged concerns of still elevated COVID-19 cases and possibly constrained healthcare capacity, the resultant economic impact with Jakarta's governor re-imposing a lockdown and lingering concerns on the parliamentary proposal to amend laws that govern the central bank which could affect its independence. These developments overshadowed a slight improvement in Indonesia's Consumer Confidence Index in August to 86.9 (86.2 in July) albeit still in contraction territory and statements by the Chief Executive of the COVID-19 Handling and National Economic Recovery Committee and State-Owned Enterprises minister Erick Thohir that 30 million doses of a COVID-19 vaccine will be available by the end of this year. This had a negative impact on demand for Indonesian assets with funds flows out of bonds and equities according to finance ministry data and Indonesia stock exchange data. Fundamentals are also likely to remain under pressure, particularly for property owners and developers as highlighted by Moody's Investors Service who sees liquidity pressures from lower operating cash flow and near term debt maturities, in particular for retail, office and industrial properties. PT Aneka Gas Industri Tbk is targeting to raise IDR305bn in bonds and sukuks for refinancing. The Bloomberg Barclays EM Local Currency Indonesia Total Return Index fell 2.7bps to 239.9. (Bloomberg, Jakarta Post, IDN Financials, OCBC)

Encouraging data out of China: Primary market issuance last week was higher at RMB822.9bn (including CDs). Excluding CDs, this was RMB237.6bn, 12.2% higher w/w. Notable issuers last week include China State Railway Group Co Ltd, China International Capital Corp and Huatai Securities Co Ltd. The Bloomberg Barclays China Aggregate Total Return Index was up by 0.11% w/w, extending the gains from the previous eight weeks. The 10Y government bond yield was up by 2bps w/w, ending at 3.15% last Friday. On geopolitical developments, UK-based chip designer Arm Holdings ("Arm"), has become the latest company caught in the US-China technology tussle. Arm is currently owned by Japan-based Softbank though

Softbank is intending to sell the company to US-based NVIDIA Corp, with both the UK and Chinese governments examining ramifications of the deal. China reported a good set of data, with [exports beating market expectations](#) in August 2020, partly driven by strong demand from the US while trade with Southeast Asia remained significant. On the regulatory front, China announced that from 1 November 2020 onwards, financial holding companies will be put under the centralized supervision of the central bank to prevent regulatory arbitrage. This would possibly include Ant Group and Tencent Holdings Ltd's financial businesses. Last week, troubled Tianjin Real Estate Group Co Ltd defaulted on its RMB2bn bond while Anbang Insurance Group whose control was taken over by Chinese regulators in February 2018 announced that the group will be disbanded and liquidated. A new company named Dajia Insurance Group had been formed to takeover Anbang assets (Bloomberg, Reuters, Caixin, CGTN, OCBC).

It was a relatively quiet week in Australia post earnings season, with just 3 issuances totaling AUD1.25bn from NSW Electricity Networks Finance Pty Ltd (AUD600mn), SGSP Australia Assets Pty Ltd (AUD350mn) and Export-Import Bank of Korea (AUD300mn). On the corporates front, Macquarie Group is expecting weaker results (1H FY2020: -35%) due to the impact from COVID-19. After several months of rally, the Aussie dollar appeared to flat-line against the USD last week. Meanwhile, the Reserve Bank of Australia mentioned that the AUD is fairly valued though a weaker exchange rate may better assist the Australian economy. Before recovering to pre COVID-19 levels, the S&P/ASX 200 gave up some of the recovery and retreated 1.1% w/w while the Bloomberg Barclays Australian Corporate Average OAS rose 2bps w/w to 109bps. (Bloomberg, OCBC)

Key Market Movements

	15-Sep	1W chg (bps)	1M chg (bps)		15-Sep	1W chg	1M chg
iTraxx Asiax IG	58	-2	-7	Brent Crude Spot (\$/bbl)	39.56	-0.55%	-11.70%
iTraxx SovX APAC	32	-1	-5	Gold Spot (\$/oz)	1963.97	1.65%	-1.07%
iTraxx Japan	60	0	1	CRB	146.50	0.34%	-1.82%
iTraxx Australia	61	-1	-7	CPO	2930.00	-0.61%	4.53%
CDX NA IG	69	-1	2	GSCI	342.49	2.06%	-2.75%
CDX NA HY	106	1	2	VIX	25.89	-17.71%	17.41%
iTraxx Eur Main	55	1	0				
				SGD/USD	0.73	-0.72%	-0.52%
US 10Y Yield	0.67%	-1	-4	MYR/USD	0.24	-0.87%	-1.49%
Singapore 10Y Yield	0.91%	-9	6	IDR/USD	0.07	-0.15%	-0.23%
Malaysia 10Y Yield	2.61%	5	12	CNY/USD	0.15	-0.90%	-2.14%
Indonesia 10Y Yield	6.92%	5	14	AUD/USD	0.73	1.44%	1.44%
China 10Y Yield	3.11%	-2	16				
Australia 10Y Yield	0.87%	-11	-7	DJIA	27993	-0.50%	0.22%
				SPX	3384	-1.27%	0.32%
USD Swap Spread 10Y	1	0	2	MSCI Asiax	723	1.18%	1.32%
USD Swap Spread 30Y	-36	2	5	HSI	24724	0.41%	-1.82%
				STI	2485	-0.79%	-3.73%
Malaysia 5Y CDS	45	-1	-6	KLCI	1520	0.03%	-2.87%
Indonesia 5Y CDS	91	2	-14	JCI	5107	-2.62%	-2.69%
China 5Y CDS	36	0	-4	CSI300	4688	-0.13%	-0.34%
				ASX200	5895	-1.88%	-3.78%

Source: Bloomberg

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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

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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.

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