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Credit Week in Brief

Markets

Yields rose despite swings in volatility. 10Y UST Yields mostly rose last week and moved mainly on the FOMC meeting announcement and mixed US economic data. The week started with yields gaining 1bps to 0.67%, as markets awaited the FOMC meeting on Wednesday and further Treasury debt issuance this week. Yields gained a further 1bps to 0.68%, on the back of a decent performance from the sale of USD22bn 20-year bonds and upbeat US manufacturing data and August import prices. Additionally, the Fed's two-day meeting kicked off. On Wednesday, yields gained 2bps to 0.7%, after the Fed's dovish announcement of keeping rates near zero and it would keep its Treasury purchases at current levels. Yields then fell 1bps to 0.69% on the back of mixed economic data as new unemployment benefits claims saw a fall though housing starts fell m/m and missed expectations amidst a continued selloff in stock market. On Friday, 10Y UST Yields fell 1bps, as investors were digesting the Fed's new inflation-tolerant messages and markets looked out for progress of the new stimulus package this week. W/w, 10Y Treasury Yields gained 3bps to close at 0.7%. (Bloomberg, OCBC)

US primary markets remained busy: Investment Grade bond sales slowed down last week with ~USD44bn printed across 46 issuers, in line with market's expectations. The most prolific issuers included Coca-Cola Co/The, which priced USD4.1bn in 3 tranches and Delta Air Lines Inc ("Delta") / SkyMiles IP Ltd, which priced USD6bn in 2 tranches with the 5-year and 8-year at 4.5% and 4.75% respectively. Secured by Delta's frequent-flier programme, the prospective payout of Delta's new issues attracted strong demand from investors with an orderbook oversubscribed by 3x. Together with another USD3bn 7-year loan, Delta's debt transaction was the largest ever deal for a commercial carrier. Interestingly, we also saw a surge of supply from Baa3/BBB- issuers who were taking advantage of a wide-open market for corporate debt and they accounted for ~63% of issuance last week. Within the high yield space, new issues rose to ~USD20bn from 29 issuers last week. Notable names included Cheniere Energy, Inc. (a USD2bn 8NC3 at 4.625%) and First Quantum Minerals Ltd. (a USD1.5bn 7NC3 at 6.874%). Amidst recent heavy supply, US high yield bonds led by CCC-rated names have performed decently well with resilient spreads despite the lack of positive news. Due to the improved outlook for corporate earnings and a plunge in net downgrades of U.S. high-yield issuers from 1Q2020 to 3Q2020, Moody's has lowered their baseline estimates for the U.S. high-yield default rate for February 2021 from 12.1% as of early August 2020 to 11.4% as of early September. W/w, the Bloomberg Barclays US Corporate High Yield Average OAS tightened 6bps to 490bps and the Bloomberg Barclays US Aggregate Corporate Index OAS tightened 3bps to 128bps. (Bloomberg, OCBC)

More Asiadollar supply expected: Supply was heavy last week with USD14.3bn printed. 20% of the issuance was attributed to Industrial and Commercial Bank of China alone with a USD2.9bn perpetual. Other notable issuers included Hyundai Capital, China Three Gorges Corp, Taiwan Semiconductor Manufacturing Company Ltd, the Export-Import Bank of Korea and China National Chemical Corp Ltd. We also saw Tingyi Cayman Islands Holding Corp ("Tingyi"), a noodle and beverage maker, come back to the market with a 5Y senior unsecured paper. With the exception of Tingyi, which saw a strong orderbook of 6.6x and possibly driven by investors looking for diversification, the orderbook for issues where information was available ranged only from 1.2x to 3.75x. The median tightening from initial price guidance ("IPG") was 37bps among the issues where information was available. The Bloomberg Barclays USD HY OAS Index compressed 7bps w/w as of last Friday to 672bps while the Bloomberg Barclays USD IG OAS Index widened by 1bp w/w to 169bps. Bond supply is expected to still be high going into 4Q2020, which may cap further spread compression. Country Garden Holdings Company, a benchmark high yield property issuer, saw its bonds getting a boost after an external ratings agency upgraded the issuer to investment grade. (Bloomberg, OCBC)

Slower week in SGD primary markets: Last week was a quieter week in the primary market. In addition to CapitaLand Ltd's ("CAPL", Issuer profile: Neutral (3)) new 12Y senior unsecured bond on Monday, we saw China Construction Bank/Singapore branch pricing SGD500mn of 3Y senior unsecured bond at 1.073%. Centurion Corporation Limited ("CENSP", Issuer profile: Unrated) has launched an exchange offer to holders of its sole SGD-denominated bond, the CENSP 5.5% '22s with amounting outstanding of SGD60mn into a new 3.5Y paper due in 2024 or subject to the issuer issuing additional bonds, to take cash by selling their existing bonds back to the company. CITIC Envirotech Ltd ("CEL", Issuer profile: Unrated) announced that it will be calling the CELSP 3.9%-PERP, its sole SGD-denominated perpetual on its first call date on 19 October 2020. The perpetual distribution rate would have stepped up to ~7.7% based on today's forward rate if not called (large step up margin of 500bps), thus economically encouraging a call. W/w, the Singapore swap curve bull flattened, with the short dated to belly of the curve trading 2-3bps lower while the longer dated tenors traded 3-5bps lower. In the secondary market, the new CAPLSP 2.9% '32s tightened 6bps and is now trading at 2.84% and re-priced some other high grade longer tenor papers. Yesterday, bank capital instruments were soft on the back of FinCEN files exposé by a group of investigative journalists, alleging a broad group of banks for transferring high-risk funds across borders while at least one SGD-issuing bank was reported to be on China's list of "unreliable entities list". In corporate developments, activity was driven by REITs, with acquisition, fundraising activity and a negotiation of lease terms underway at First Real Estate Investment Trust ("FIRT", Issuer profile: Negative (6)). (BBC, Bloomberg, OCBC)

Malaysia's glove producers are confident: The MYR climbed to its highest level since February and closed on Friday at 4.116. The Malaysian economy is expected to benefit from improvements in exports and this will help support the MYR. 10Y govvies rose 4bps to 2.65%. In other views, Hartelega Holdings Bhd, the world's largest nitrile glove producer, sees demand continuing to outstrip supply in the next three to four years and is keeping a look out for potential mergers and acquisitions. Top Glove Corp reported results last week. Net income jumped a record MYR1.3bn with revenue up 162% y/y. The company, whose shares are traded in Malaysia and Singapore, is also exploring a possible listing in Hong Kong. CIMB Bank has entered into a MYR270mn sustainability-linked term loan facility agreement with Malaren International, a subsidiary of Starhub Group. In the bond primary issuance space, Petronas Gas has proposed a MYR3bn Islamic bond program. Point Zone Malaysia Sdn Bhd (a SPV of KPJ Healthcare Bhd which operates specialist medical centres along with operating a nursing college) raised a

4 year MYR100mn bond at 4.15%. Government-owned Malaysia Rail Link also raise MYR800mn over three tranches last week (45 year 3.89% MYR300mn, 20 year 3.75% MYR300mn and 10 year 2.87% MYR200mn). Proceeds will be used to fund the construction of the East Coast rail project. (Bloomberg, OCBC)

Slower week in Indonesia's bond market: Only state-owned pawn broker PT Pegadaian Persero ("Pegadaian") tapped Indonesia's bond market last week with a IDR3.26tr two-tranche deal including bonds and sukuks to fund working capital requirements. This is Pegadaian's third issue this year and while local rating agency Pefindo rates Pegadaian at the highest level, it nevertheless sees increasing pressure on Pegadaian's asset quality that could offset its strong position in the pawn service industry and solid financials. Activity is expected to be higher this week (albeit off a low base) with PT Mora Telematics Indonesia ("Moratelindo") and PT Sucor Investama expected to issue bonds. Moratelindo started the construction of its fibre optic cable line and joint telecommunications tower in Semarang, Central Java last week. According to Bloomberg, Indonesian property developers have a record level of bonds maturing in the coming quarter at the same time that Jakarta's governor re-imposed a lockdown. As expected, Bank Indonesia kept its policy rate unchanged at 4.0% last week so market activity remains influenced by the opposing forces of ongoing economic uncertainty on COVID-19 and issuers' desire to lock in cheap funding costs. To reduce this uncertainty, the government appears to be taking steps to drive the economic recovery, making adjustments to renewable electricity tariffs to attract investment and the Ministry of Finance launching a partnership with the US Department of Treasury for infrastructure financing. According to the Coordinating Minister for Economic Affairs, Airlangga Hartarto, around 143 companies plan to relocate to Indonesia apparently in a move to diversify their supply chain capabilities. Indonesia's Financial Services Authority announced that IDR863tr or USD58.2bn in loans have been restructured by banks as of 24th August. Around 80% of the 7.19mn restructured borrowers are micro, small and medium enterprises. This may have prompted Finance Minister Sri Mulyani Indrawati to state in a seminar hosted by Indonesia's Deposit Insurance Corporation that the country needs to be very vigilant of weakening corporate performances, especially its impact on the banking system. According to Fitch, the pace of business activity recovery for Indonesian corporates is expected to be slow given companies are yet to be able to operate at full capacity, while lower household income could constrain consumer spending. (Bloomberg, The Insider Stories, Jakarta Post, IDN Financials, OCBC)

Bank issuances drove China primary markets last week: Primary market issuance last week was higher at RMB907.6bn (including CDs). Excluding CDs, this was RMB454.8bn; significantly higher w/w. Issuances last week were driven by bank issuers, including RMB65bn of 10Y callable bonds from China Construction Bank and a RMB40bn perpetual from China Everbright Bank Co Ltd. Other significant issuers were Shanghai Pudong Development Bank and the Industrial & Commercial Bank of China. The Bloomberg Barclays China Aggregate Total Return Index reached a 52-week high with a sharp w/w increase of 1.2% and extending the gains from the previous nine weeks. The 10Y government bond yield rallied by 3bps w/w, ending at 3.12% last Friday. On geopolitical developments, tensions escalated at the Taiwan Strait with military aircraft featuring in the latest round of military exercises. (Financial Times, Bloomberg, OCBC)

The Australian 10Y government yields and dollar fell somewhat after the Reserve Bank of Australia announced that it was evaluating options to support an economic recovery, including buying bonds further out along the curve, currency intervention, decrease in rates and/or utilise negative rates. AUD issuance looks somewhat quiet with just AUD1.55bn priced from issuers including Kiwi Bank Ltd (AUD500mn), Charter Hall Exchange Finance Pty (AUD300mn), and NSW Electricity Networks (AUD600mn). We note that Scentre Group did not stay in AUD but instead turned to the USD market to price USD3bn worth of 60Y (due in 2080) subordinated bonds in a two-tranche deal. These are the longest dated bonds issued by Scentre Group and appear well-anchored by investors with over USD8.1bn in orderbook. (Bloomberg, OCBC)

Key Market Movements

	22-Sep	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	74	17	11
iTraxx SovX APAC	34	2	0
iTraxx Japan	0	1	0
iTraxx Australia	73	12	7
CDX NA IG	53	-15	-13
CDX NA HY	106	-1	1
iTraxx Eur Main	57	3	4
US 10Y Yield	0.67%	-1	4
Singapore 10Y Yield	0.86%	-3	2
Malaysia 10Y Yield	2.67%	6	17
Indonesia 10Y Yield	6.90%	-2	18
China 10Y Yield	3.10%	-2	11
Australia 10Y Yield	0.83%	-4	-5
USD Swap Spread 10Y	1	0	2
USD Swap Spread 30Y	-37	-1	1
Malaysia 5Y CDS	53	9	5
Indonesia 5Y CDS	111	20	7
China 5Y CDS	46	9	8

	22-Sep	1W chg	1M chg
Brent Crude Spot ($/bbl)	42.11	3.90%	-5.05%
Gold Spot ($/oz)	1904.81	-2.52%	-1.25%
CRB	147.82	0.04%	-1.42%
CPO	2994.00	1.77%	7.01%
GSCI	347.36	0.64%	-1.70%
VIX	27.88	8.95%	23.69%
SGD/USD	0.73	0.19%	-0.52%
MYR/USD	0.24	0.04%	-1.03%
IDR/USD	0.07	-0.31%	1.15%
CNY/USD	0.15	0.03%	-1.95%
AUD/USD	0.72	-1.22%	0.70%
DJIA	27148	-3.02%	-2.80%
SPX	3281	-3.03%	-3.42%
MSCI Asiax	719	-1.29%	0.56%
HSI	23717	-4.11%	-5.56%
STI	2463	-0.91%	-2.58%
KLCI	1506	-0.37%	-4.52%
JCI	4934	-3.27%	-6.42%
CSI300	4636	-1.12%	-1.76%
ASX200	5784	-1.88%	-5.35%

Source: Bloomberg

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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, Oxley Holdings Ltd, Suntec Real Estate Investment, Mapletree Commercial Trust, Frasers Hospitality Trust, United Overseas Bank Ltd, CapitaMall Trust and Ascott Residence Trust.

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