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Credit Week in Brief

Markets

Yields remained within the trading range. 10Y UST Yields fell marginally last week and moved mainly on mixed US economic data. The week started with yields falling 3bps to 0.67% as investors were concerned about the probability of new pandemic lockdowns, election uncertainty and the weak stock market performance over the previous few days. Yields then gained 1bps to 0.67% after US home sales in August hit a new high in nearly 14 years, largely reflecting the positive effect of record-low mortgage rates and a steady recovery of the US housing market. On Wednesday, yields remained mostly unchanged at 0.67% despite a solid 5-year treasury auction. Additionally, Fed officials reaffirmed the Fed's stand of adopting an accommodative monetary policy until inflation hits 2%. Yields then fell 1bps to 0.67% after mixed economic data where the labour market saw an increase in initial claims for state unemployment benefits last week while the housing market reported stronger than expected new single-family home sales in August. On Friday, 10Y UST Yields fell 1bps after the Commerce Department announced that US durable goods orders increased only 0.4%, well below estimates of 1.8% and the 11.7% jump in July. W/w, 10Y Treasury Yields fell 1bps to close at 0.66%. (Bloomberg, OCBC)

Risk appetite hits some headwinds. US credit markets saw the risk-off sentiment persist following rising credit risks and declines in the stock market last week. W/w, the Bloomberg Barclays US Corporate High Yield Average OAS widened 47bps to 537bps and the Bloomberg Barclays US Aggregate Corporate Index OAS widened 12bps to 140bps. The momentum in the investment grade primary market continued to slow down with ~USD34bn printed across 29 issuers, though still above market expectations. The most prolific issuers include BAT International Finance PLC, which priced USD6.25bn in five tranches and Gilead Sciences Inc ("Gilead"), which priced USD7.25bn in 7 tranches. The deal by Gilead attracted heavy demand with orderbooks reaching over USD32bn. According to Gilead, the proceeds would be used to partly-finance the company's USD21bn acquisition of Immunomedics Inc. On the ESG front, after the previous USD1bn issued by Bank of America Corp in May to fund coronavirus relief efforts, the bank priced another USD2bn sustainable bond last week to reduce inequalities for Black and Hispanic communities in the US. Within the high yield space, new issuance volume declined to ~USD5bn from 12 issuers. Notable names include oil and gas exploration and production company Aker BP ASA (a USD500mn 5-year at T+265bps and another USD750mn 10-year at T+340bps) and online used car platform Carvana Co (a USD500mn 5NC2 at 5.625% and another USD600 8NC3 at 5.875%). Due to the volatile macro environment earlier last week, high yield bonds were heading for the biggest weekly loss since April. Going forward, with concerns over renewed lockdowns and a controversial US election, high yield bond funds may suffer another round of massive outflows in view of increased volatility. (Bloomberg, OCBC)

Asiadollar investors find risk-on no more as China Evergrande Group ("Evergrande") shook investors with Bloomberg citing crisis of confidence by creditors in the company following reports that Evergrande was seeking the Guangdong government's support amidst a liquidity crunch. EVERRE 8.75% '25s fell w/w by 8pts last Friday to ~74pts, with its CNY notes reportedly plunging by a larger 30. Despite Evergrande asserting that the report was fabricated, bond prices did not fully recover. While issues at Evergrande appear to be idiosyncratic (e.g. pertaining to its ability to pull off IPO and refinance), the selloff has been systematic in the HY space, with the Bloomberg Barclays Asia USD High Yield Index OAS surging to 764bps last Friday (wider by 92bps w/w), which erased spread compression in the past 3 months. Comparatively, the selloff in the IG space is relatively contained, with Bloomberg Barclays Asia USD IG Index OAS rising by 7bps to 176bps. In the China property space, we note that the regulator is studying the "three red-lines" policy, in which the ability of developers to take on additional debt will be subject to whether the credit-related triggers have been breached. Despite China's Golden Week round the corner (1 Oct to 7 Oct), there appears to be little last minute issuance with issuance in the Asia ex-Japan G3 currency space falling 43% w/w to USD8.1bn (prior week: USD14.3bn). TSMC Global Ltd was the largest issuer with a USD3bn deal across three-tranches. Other notable issuers include China Development Bank Financial Leasing Co Ltd (USD700mn), Huarong Finance (USD1.2bn), China Merchants Bank (USD700mn) and Korea National Oil Corp (USD700mn). That said, the coming week could look interesting with Temasek launching a 3 tranche USD-deal with long and ultra-long tenors (10Y, 30.5Y and 50Y). We think it is likely that Temasek is issuing based on cash needs as investee companies have funding requirements (e.g. SIA may still tap the Mandatory Convertible Bonds for an additional SGD6.2bn). (Bloomberg, OCBC)

Singapore may see debt moratorium extended: Last week was quiet in the primary market with one privately placed Additional Tier 1 ("AT1") bank capital instrument raising SGD200mn. W/w, the Singapore swap curve was mostly lower (with the exception of the 30Y which rose slightly), with the short dated to belly of the curve traded 0-1bps lower while the longer dated tenors traded 2-3bps lower. In the secondary market, HSBC AT1s continued to see selling while in the corporate bullet space longer dated bonds traded heavy. The media has reported that the Monetary Authority of Singapore ("MAS") and banks are in discussions on extending Singapore's debt moratorium beyond 31 December 2020 for certain borrowers in industries which have been most impacted by COVID-19 while a tiered approach targeting borrowers most in need of help is also considered. The extension is expected to reduce the possibility of a cliff effect though details of the plan have not been released. Furthering the transition towards SORA, Olam International Limited ("Olam", Issuer profile: Neutral (5)) has obtained Singapore's first club loan pegged to SORA with an option for the company to enter into a SORA cross-currency swap. In a trend towards more Diversified REITs where scale trumps property types, unitholders of both CapitaLand Commercial Trust ("CCT", Issuer profile: Neutral (3)) and CapitaLand Mall Trust ("CMT", Issuer profile: Positive (2)) are voting today in an extraordinary general meeting. If approved, the Singapore Stock Exchange would see its largest REIT with total assets of SGD21.3bn. Indicatively, we would assign a Neutral (3) issuer profile on the combined REIT, aptly named CapitaLand Integrated Commercial Trust ("CICT"). On other REIT M&A developments, the court has approved the scheme meeting to be convened within three months in relation to the combination of Sabana Shari'ah Compliant Industrial REIT and ESR-REIT. Yesterday, OCBC Credit Research initiated coverage on Mapletree Investments Pte Ltd ("MAPL") with an issuer profile of Neutral (4). (Business Times, Bloomberg, OCBC)

Malaysia on FTSE watchlist for exclusion from bond index: The MYR weakened against USD and closed on Friday at 4.171, in part due to rising political risks. 10Y govvies rose 6bps w/w to 2.71%. FTSE Russell kept Malaysia on a watchlist for possible exclusion from its World Government Bond Index, while acknowledging that the country had taken steps to improve accessibility of its market to foreign investors. The decision is likely to be made over the next six months. In the meantime, this may keep pressure on Bank Negara Malaysia to continue delivering reforms to deepen onshore markets. About USD8bn of funds may exit ringgit bonds if Malaysia is dropped, representing ~18% of total foreign holdings. Investors have positioned defensively ahead of the FTSE decision. The Malaysia government announced additional measures to boost the economy, including distributing nearly MYR7bn in cash aid to households and individuals from end October to January. In other news, Malaysia Airlines Bhd is seeking to defer lease payments and interest of ~MYR1bn. The company had already issued notices of deferral for distribution payments due on sukuk on 30 September. It was also said that the airline is seeking to convert fuel hedges totaling ~MYR500mn into debt. Exxon Mobil Corp started to sell Malaysian assets last year, as part of its global divesture program. UK-listed EnQuest Plc and Kuala-Lumpur traded Hibiscus Petroleum Bhd are among those that have been chosen to submit binding bids. The sale is expected to raise USD2bn-3bn. In the bond primary issuance space, Mercedes-Benz Services Malaysia Sdn Bhd raised a MYR250mn 3 year bond at 2.7% and Pengurusan Air SPV, a unit of the state-owned water asset company Pengurusan Aset Air Bhd., sold MYR76mn in Islamic bonds across three tranches (MYR250mn 7 year at 2.91%, MYR315mn 10 year at 3.12% and MYR200mn 15 year at 1%). All three bonds are trading below par, though we note that the 15 year bond in particular is at 70cents to the dollar with a yield of 3.56% (Bloomberg, OCBC)

Finding funding in Indonesia: With Indonesia's economy headed for its first yearly contraction since the Asian Financial Crisis and the extended lockdown in Jakarta and the surrounding areas severely impacting consumption, Indonesian companies continue to look for funding, most notably for liquidity. Fitch Ratings expects the economic recovery to be slow in Indonesia with corporates facing pressured liquidity and higher refinancing risks while the Financial Services Authority ("OJK") recorded that banks have restructured 7.38mn debtors and IDR885.5tr of loans as of 7 September 2020 while finance companies have restructured 4.55mn debtors and IDR166.94tr of financing contracts. According to OJK, the risk profile of the financial services sector in August 2020 remained stable and the non-performing loan and non-performing financing ratios were at manageable levels. That said, Finance Minister Sri Mulyani Indrawati sounded cautious this week stating that the Indonesian Deposit Insurance Corp ("IDIC") must anticipate pressure on the financial sector and issue appropriate policy and responses to deal with it. Funding has been sought from a variety of sources: (1) OJK has seen demand increase for Islamic finance with assets in Indonesia's sharia finance industry up 20.6% y/y as of July 2020; (2) companies such as PT Hotel Mandarin Regency Tbk, PT Bank Bisnis Internasional Tbk and PT Tiga Pilar Food Tbk have raised rights or shares; (3) while others such as PT Medco Power Indonesia have accessed bank loans. Corporates are also seeking to convert debt into shares such as PT Surya Toto Indonesia Tbk that has converted subsidiary PT Surya Pertiwi Nusantara (SPN)'s debt into shares. Corporates are also supporting liquidity by spending less - according to Bloomberg, PT Mitra Adiperkasa, operator of Starbucks and Sephora outlets in Indonesia may only spend around 30% of its IDR1.2 trillion capital-spending plan this year. These alternate sources of liquidity could be one reason why activity in Indonesia's bond market remains tepid with no new bonds listed last week although PT Mora Telematics Indonesia remains in the pipeline along with PT Federal International Finance, a subsidiary of PT Astra international Tbk. (Bloomberg, The Insider Stories, Jakarta Post, IDN Financials, OCBC)

Step forward in opening up the Chinese capital markets: Primary market issuance last week was lower at RMB818.5bn (including CDs). Excluding CDs, this was RMB527.5bn, higher w/w by 16.0%. Issuances last week was driven by bonds from Bank of China and the Industrial Bank of China, while the Bank of Communications Co Ltd priced a perpetual. Other significant issuers included Bank of China Ltd and China State Railway Group Co Ltd. The Bloomberg Barclays China Aggregate Total Return Index saw a 0.85% w/w dip, breaking ten weeks of consecutive gains. The 10Y government bond yield was marginally higher w/w, ending at 3.13% last Friday. FTSE Russell announced last week that it will include China's government bonds into its flagship World Government Bond Index from October 2021. This is expected to bring in more than USD100 billion of capital into China's bond market. Additionally, Chinese regulators have expanded investment options for foreign investors involving the current Qualified Foreign Institutional Investors ("QFII") and RMB Qualified Foreign Institutional Investors programs. Among the changes, foreign investors will be allowed to participate in the derivatives market, allowed to pledge bonds for cash and margin trading. China announced at the UN General Assembly that it is targeting to be carbon neutral by 2060, strengthening the country's push towards sustainability which has started for more than a decade. This week and next is expected to be quieter with Golden Week starting on Thursday. (Reuters, Bloomberg, OCBC).

Australian banks saw their share price rally last Friday as the government looks to make changes to the Credit Act by shifting the model from "lender beware" to "borrower responsibility" and cutting red tape costs, which in turn may spur lending. Perhaps this may spell a turn from the negative regulatory focus on banks, which included Westpac paying a AUD1.3bn fine to settle anti-money laundering breaches. Separately, the Federal Budget is slated to be announced on Oct 6, which is likely to include plans to aid economic recovery. Issuance last week was strong, anchored by the Australian Government's AUD25bn issue. Aside from this mega issuance, issuance totalled AUD2.75bn, mainly attributable to South Australian Government Financing Authority (AUD1.2bn), AusNet Services (AUD650mn) and Bank of Communications Co Ltd (AUD500mn). Meanwhile, the Australian 10Y Government Yield closed below 0.8% last Friday, which is a level not seen since April. (Bloomberg, OCBC)

Key Market Movements

	29-Sep	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	77	2	16
iTraxx SovX APAC	36	2	3
iTraxx Japan	69	8	9
iTraxx Australia	76	2	12
CDX NA IG	57	5	-7
CDX NA HY	104	-1	-1
iTraxx Eur Main	59	1	5
US 10Y Yield	0.65%	-2	-7
Singapore 10Y Yield	0.87%	3	-10
Malaysia 10Y Yield	2.71%	4	9
Indonesia 10Y Yield	6.92%	1	2
China 10Y Yield	3.13%	4	5
Australia 10Y Yield	0.78%	-5	-24
USD Swap Spread 10Y	3	2	3
USD Swap Spread 30Y	-33	3	5
Malaysia 5Y CDS	56	4	10
Indonesia 5Y CDS	115	4	11
China 5Y CDS	50	4	15

	29-Sep	1W chg	1M chg
Brent Crude Spot ($/bbl)	42.20	1.15%	-6.33%
Gold Spot ($/oz)	1881.66	-0.98%	-4.38%
CRB	148.73	0.82%	-3.07%
CPO	2942.00	-1.74%	3.41%
GSCI	350.56	0.75%	-2.61%
VIX	26.19	-5.72%	14.07%
SGD/USD	0.73	0.43%	0.84%
MYR/USD	0.24	0.67%	-0.12%
IDR/USD	0.07	1.05%	2.38%
CNY/USD	0.15	0.60%	-0.40%
AUD/USD	0.71	-1.24%	-3.99%
DJIA	27584	1.61%	-3.73%
SPX	3352	2.15%	-4.46%
MSCI Asiax	705	-0.99%	-4.18%
HSI	23336	-1.61%	-8.21%
STI	2492	1.17%	-1.87%
KLCI	1510	0.27%	-1.01%
JCI	4884	-1.01%	-8.65%
CSI300	4594	-0.90%	-5.17%
ASX200	5952	2.91%	-2.00%

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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