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# Credit Week in Brief

## Markets

**Treasury yields on a roller coaster ride**: 10Y UST Yields seesawed through the week last week and moved mainly on hope over fiscal relief talks. The week started with yields gaining 8bps to 0.78%, a five-week high. This was largely due to growing expectations of a stimulus package being completed before the presidential election, indications that President Trump would leave the hospital and higher than expected activity from the services sector in September. On Tuesday, yields fell 5bps to 0.74% after President Trump postponed coronavirus relief talks until after the election. Yields then rose 5bps to 0.79% as markets were heartened by President Trump's push for a USD25bn airline bailout as well as a stimulus package for small businesses. On Thursday, yields were at 0.79% by the end of the day, and remained mostly unchanged from the day before amid U.S. House Speaker Nancy Pelosi's statement that federal aid for airlines would not arrive without a broader COVID 19 relief package. The 30Y bond auction was softer with a somewhat lower bid to cover ratio at 2.29x. Friday saw 10Y UST Yields fall 1bps to 0.77% by the end of the day, though touched a high of 0.79% in the earlier part of the day over signals that fiscal relief talks with Congress had made progress. W/w, 10Y UST Yields fell 1bps from 0.78% to 0.77%. (Bloomberg, OCBC)

**The issuance window remained open in the US.** US corporate borrowers continued to tap the bond market as they struggled to bolster liquidity. Led by BBB-rated issuers (70% of deals), IG issuance volume rose to ~USD29bn across 31 issuers last week, well above markets' expectations. The most prolific issuers included Lowe's Cos Inc, a US home improvement retailer (USD4bn in three tranches) and LyondellBasell Industries NV, a US plastic, chemical and fuel products manufacturer (USD3.9bn in six tranches). Within the HY space, new issuance volume rose 60% to ~USD8.3bn from 14 issuers last week. Charter Communications Inc (a US cable telecommunication company) priced a USD1.5bn re-tap of its CHTR 4.5%'32s at 103.75 which drew strong demand with the orderbook oversubscribed by 2x. Another notable name is Alliant Holdings Intermediate LLC / Alliant Holdings Co-Issuer (a US insurance broker), which priced a USD525nb 7NC3 at 4.25% and a USD350mn re-tap of its ALIANT6.75%'27s at 6.215%. According to Fitch, default activity slowed down, with USD2.4bn filed over the past two months vs USD12.8bn between April and July. Fitch will continue to hold its 5%-6% US HY default rate for 2020. W/w, the Bloomberg Barclays US Corporate High Yield Average OAS tightened 41bps to 469bps and the Bloomberg Barclays US Aggregate Corporate Index OAS tightened 8bps to 126bps. The US third quarter corporate earnings season will kick off this week and we expect the earnings to more clearly reflect to an extent the state of play as economies slowly recover. (Bloomberg, OCBC)

**Another muted week in Asiadollar**: Issuance volumes fell for the third straight week to the lowest amount since the first week of July following record setting volumes in 3Q2020. USD3.3bn was issued last week against USD4.8bn the week before. Activity was centred around Star Energy Geothermal's two tranche USD1.1bn issuance with the USD790mn 18NC9 bond receiving USD2.8bn in orders (no deal stats for the USD320mn 8.5NC3.5 bond) and relatively balanced interest from investors in the US and Asia. Proceeds will be partly issued to fund geothermal operations and is the third green bond issued by the group according to parent PT Barito Pacific Tbk. The bond generated a number of firsts – for one, it was Indonesia's first green corporate bond with an investment-grade rating. It also pushed Indonesia ahead of Singapore as the largest issuer of green debt across all currencies in South East Asia ahead of Singapore, the Philippines, Malaysia and Thailand. Despite China's holidays for the early part of last week (or perhaps because of the lack of supply from the holidays), Baidu was the other major issuer pricing USD950mn across two tranches for refinancing. With China's golden week over, issuance activity is expected to resume with high yield Chinese companies issuing in the early part of this week but focus likely on China's potential USD6bn sovereign dollar denominated bond that is expected to price sometime mid this week ahead of a ramp up in activity for US elections. Timing may be opportune with the Bloomberg Barclays Asia USD IG Index OAS tightening 8bps w/w to 166bps and the Bloomberg Barclays Asia USD High Yield Index OAS tightening 14bps w/w to 734bps. In other news, the dollar bonds of India's Vedanta Resources Ltd fell by the most since March following its failure to take its Indian unit, Vedanta Ltd, private. According to Bloomberg, Vedanta Resources Ltd was seeking to privatize its commodities focused operating subsidiary to access more cashflow to support debt held at the parent level. Failure of the merger now casts doubt on Vedanta Resources Ltd's liquidity position and ratings and has reportedly also attracted the interest of the Securities and Exchange Board of India. (Bloomberg, OCBC)

**Secondary activity in SGD corporate bond market was active:** Primary markets were quiet last week with only one small transaction where ~SGD10mn of new money was raised in conjunction with a bond exchange. W/w, the Singapore swap rate mostly traded higher, with the belly and longer dated tenors up by 1-4bps though the shorter dated part of the curve was lower by 1-2bps. Secondary market was active, with further compression seen among high grade short dated names while long dated names were well absorbed by the market. Singapore Airlines Ltd ("SIA", Issuer profile: Neutral (5)) saw prices on its short dated bonds declining last week which, aside from its own credit profile, was likely to have been influenced by debt restructuring announcements by other airlines in the region. In corporate developments Suntec Real Estate Investment Trust ("SUN", Issuer profile: Neutral (4)) announced that it will be buying a 50% interest in two Grade A office buildings with ancillary retail in London for GBP430.6mn (SGD766.5mn). If the acquisition is fully debt-funded, SUN's aggregate leverage will be pushed upwards to 45.2%, becoming the first REIT to exceed the 45.0% aggregate leverage cap which was increased to 50.0% in April 2020. Earnings season is starting for companies listed in Singapore, beginning with REITs this week. (Bloomberg, OCBC)

**Political saga continues in Malaysia** with opposition leader Anwar Ibrahim looking to oust Prime Minister Muhyiddin Yassin, claiming support from 120 lawmakers out of 222-member parliament. Meanwhile, Malaysia has announced movement restrictions in Kuala Lumpur, states of Selangor and Sabah as well as the administrative capital Putrajaya. On the corporates front, the Finance Ministry mentioned that it does not provide financing or guarantee to AirAsia or any airline, after news circulated that the government has approved MYR1bn of loans to AirAsia via a group of local banks, with the government guaranteeing 80% of the loan. Without extraordinary support, the business of Malaysia Airlines Bhd ("MAS") may be discontinued. Conversely for AirAsia Group, an unnamed

American lender is looking to lend USD1bn to the group for customer data and digital assets. Last Tuesday AirAsia X Bhd, a perpetual issuer, which shares common ownership with AirAsia announced a proposed debt restructuring which includes aircraft purchase commitments. MYR issuance last week totalled MYR5.0bn, mainly contributed by Malayan Banking Bhd (MYR3.0bn) and Bank Pembangunan Malaysia Bhd (MYR1.0bn). According to the Securities Commission Malaysia which cited a recent World Bank's report, Malaysia's bond market is a key source of fund raising for corporates, which 'funded the nation's infrastructure development, including highways, airports and other key utilities' and the corporate bonds outstanding totals MYR714bn as at [date]. That said, bank loans remain an alternative to bond financing as demonstrated by Serba Dinamik Holdings Bhd, which is looking to buy back some of its bonds using long-term bank facilities. Another alternative is to tap on the equity market, such as Top Glove Corp Bhd which is looking for a dual primary listing on the Hong Kong Stock Exchange while Sunway REIT is looking to place 449.3mn units at MYR1.48 per share. Separately, Malaysian Palm Oil Association is concerned about the reputational damage to the palm oil industry following the US export ban on FGV Holdings Bhd, as the palm oil industry looks to expand into the North American market. (Bloomberg, The Star, The Edge, OCBC)

**Some light for Indonesia:** Some positive steps in the past week may help sentiment recover in Indonesia's credit markets with Jakarta easing social distancing rules following a stabilisation in COVID-19 cases and Bank Indonesia's retail sales survey showing a m/m improvement in retail sales performance, mostly in food, beverages and tobacco. This may build on the recent passing of Indonesia's omnibus law which is expected to improve foreign investment and create jobs in Indonesia. The Bloomberg Barclays EM Local Currency Indonesia Total Return Index rose 2.3bps w/w to 244.2. There was only one issuer active in the Indonesia bond market last week aside from the government with telecommunication service provider PT Mora Telematika Indonesia listing a two tranche issue. In the pipeline are deals by money changer PT Gading Dana Lestari, PT Indonesia Infrastructure Finance (IIF) and Bank QNB Indonesia amongst others. According to Bloomberg, at least four companies were planning to issue bonds in early October for a combined IDR4.26tr, equal to almost half of September's total sales volume. Elsewhere, Indonesian state owned construction company PT Waskita Karya Tbk repaid IDR1.37tr in bonds and is looking to repay a further IDR1.15tr in bonds this week while private oil and gas company PT Medco Energi Internasional Tbk is also looking to repay IDR bonds but earlier than scheduled with plans to seek approval to repay two tranches due September 2021 and September 2023 towards the end of October 2020. It was reported that infrastructure investment company PT Oligo Infrastruktur Indonesia did not make the third interest payment on its MTN's that was scheduled to be paid on 12th October. According to the Indonesian Central Securities Depository (KSEI), this is the third consecutive time that payment was not made. According to Bloomberg, financing costs in the local bond market for weaker Indonesian issuers rose to the highest in seven years. This could dampen full-year issuance volume while funding access will possibly be constrained to better quality issuers. (Bloomberg, Antara News, The Insider Stories, OCBC)

**Swift action continues to steer China towards economic recovery:** With China still on holidays for most of last week, primary market issuance was low at RMB82.7bn (including CDs). Excluding CDs, this was only a mere RMB16.3bn. The Bloomberg Barclays China Aggregate Total Return Index was higher w/w by 1.38%. The 10Y government bond yield ended the week at 3.19%, higher compared to the pre-holiday rate of 3.13%. On Saturday, the People's Bank of China ("PBOC") removed the reserve requirement ratio for financial institutions when conducting some foreign exchange forwards, resulting in a knee jerk reaction of a weaker RMB though has retraced somewhat since the announcement. As a strong sign that daily life has for the most part returned to normalcy in China, the country saw significant demand for domestic travel during the Golden Week holiday though revenue from tourism contracted 30% y/y, not unexpected with some still concerned about travelling. In other positive developments, auto sales figures from the China Association of Automobile Manufacturers ("CAAM") show that vehicle sales were 2.57mn in September 2020, up 12.8% y/y. While 9M2020 y/y sales were still negative, it was only down by 6.9% versus 8M2020 where it was down by 15.4% y/y. A recent COVID-19 cluster in the city of Qingdao (China's first local transmission in two months) saw the city springing into action, with testing to be rolled out for its whole population of nine million people over five days. In corporate developments, China Eastern Airlines announced that its controlling shareholder will be receiving RMB31bn from four investors to expand its aviation and travel services business. The Big Three Chinese airlines are likely to fare better compared to peers in the Asia-Pacific region given their domestic business exposures. China Evergrande Group ("EVERRE") was in the limelight again, this time with reports concerning its banking relationships. Amidst the headlines, EVERRE's 63.5%-owned subsidiary Hengda Real Estate Group is planning to issue up to RMB2.1bn of bonds while as of writing, EVERRE has announced a HKD8.4bn (~RMB7.3bn) share placement to refinance existing debt. This is a small deal size relative to its market cap of HKD252.7bn as at 13 October 2020. (Caixin, SCMP, Bloomberg, Reuters, OCBC)

**It was an active week in Australia**, beginning with the government surprising markets with a massive AUD98bn budget. The bulk of the spending (AUD74bn) will be going towards job creation under the JobMaker Plan, which includes personal and business tax cuts worth AUD50bn. In response, last Wednesday the markets cheered with S&P/ASX 200 rising over 1.2% on the day though the Australian Government 10Y yields fell 4bps on the day. However, relations with China remains in the spotlight. Reported by the Australian Financial Review, its news sources cited that China has stopped purchasing coal from Australia after verbal notice was given – written notice was not given, which could potentially be used as evidence of breaching WTO's rules. However, the impact may not be significant as the import quota was already likely hit, with experts surveyed by the AFR believing the limit to be 270mn tonnes per year. Separately, cyberattacks have intensified against Australia, with Australia believing China to be the party behind the attacks, which in turn could lead to increased regulations on the cyber security front. Separately, the Australian Securities and Investments Commission has acknowledged that it is looking into 'potential misleading conduct and inside information' on Australia's bond market, which includes the AUD350bn semi-government bond market (e.g. issued by Australian state and territory government debt). One concern is that short sellers may use unauthorised information on potential issuances, as such issuances may pressure prices if the supply is very substantial. Corporate actions are also in flavour with Link Administration Holdings, which provides fund administration services, receiving a privatisation bid from Pacific Equity Partners and The Carlyle Group valued at AUD5.20 a share. OptiComm Ltd, which is a fibre infrastructure company, also received a takeover proposal from Aware Super at AUD6.50 a share. JP Morgan Asset Management sold St. Collins Lane mall located in the Melbourne CBD for AUD125mn in spite of the lockdown to a JV involving Credit Suisse Asset Management and Vantage Property. Meanwhile, NEXTDC Ltd signed a AUD1.5bn bank debt deal, which is at a lower cost and longer term, with the intention to redeem AUD800mn of bonds (original maturity were in 2021-22) and fund growth (AUD700mn). Perhaps this indicates that the loans market is preferred over the bond market, noting that issuance last week was a mere AUD1.125bn, with United Overseas Bank Ltd (AUD500mn) and Lonsdale Finance Pty Ltd (AUD350mn) making up the bulk of the issuances. On a brighter note, Commonwealth Bank of Australia released data showing that temporary loan repayment deferral has come down substantially m/m. Meanwhile, the Reserve Bank of Australia released its financial stability review for Oct 2020. Overall, Financial Institutions under our coverage are stable for now despite the material influence of COVID-19 on their results. (AFR, Bloomberg, OCBC)

**Green bond issuance looks to increase exponentially** based on China's 2060 net emissions pledge and should Biden become the next president. Biden's USD2tr energy strategy may accelerate U.S. green issuance, together with his pledge to re-join the Paris Climate Agreement. Furthermore, 83% of China's green debt matures by 2023, which suggests plenty of room for further issuance in the sector. China faces a USD5tr hurdle to achieve carbon neutrality by 2060. This investment is required to increase electrification by 2.5 times to 18.835TWh, and solar, wind and storage capacity 11 times to 5,040GW by 2050. The good news is that China's renewables industry has seen a surge of investment since President Xi's carbon neutral announcement. Sungrow, the global leader in inverter solution suppliers for renewables, together with Huanghe Hydropower Development Co., Ltd., announced that it will be supplying PV inverter solutions and energy storage system to the world's largest solar plant, located in Qinghai Province. Other renewables companies such as GCL-Poly Energy Holdings Ltd., Xinyi Solar Holdings Ltd., and China Longyuan Power Group Corp., have seen their share price jump by over 50% since President Xi's speech. Following climate pledges from JPMorgan Chase & Co. and Morgan Stanley, Goldman Sachs Group Inc. has announced plans to start a group focused on investment opportunities in clean energy, waste, and other sustainability industries. This is part of the bank's 10-year commitment to sustainable financing, investing and advisory activities which will total USD750bn. Star Energy Geothermal (Salak-Darajat) priced a USD790mn green bond at 4.85% last week, which is Indonesia's first green corporate bond with an investment-grade rating. The company plans to use some of the proceeds to fund its geothermal operations. With this sale, Indonesia has become the biggest issuer of green debt in Southeast Asia in 2020. Over in Malaysia, analysts from Maybank Kim Eng have urged local issuers to expand beyond funding renewable energy projects. Currently, 11 out of Malaysia's 15 sustainable bond issuers are in the energy sector, and the country is the fourth-largest green finance market in Southeast Asia. (Bloomberg, Business Times, OCBC)

### Key Market Movements

| | 13-Oct | 1W chg (bps) | 1M chg (bps) |
|---|---|---|---|
| **iTraxx Asiax IG** | 64 | -7 | 6 |
| **iTraxx SovX APAC** | 31 | -2 | -1 |
| **iTraxx Japan** | 65 | -2 | 5 |
| **iTraxx Australia** | 64 | -6 | 3 |
| **CDX NA IG** | 54 | -5 | -15 |
| **CDX NA HY** | 106 | 2 | 0 |
| **iTraxx Eur Main** | 51 | -4 | -4 |
| **US 10Y Yield** | 0.75% | 2 | 9 |
| **Singapore 10Y Yield** | 0.90% | -2 | -5 |
| **Malaysia 10Y Yield** | 2.66% | 1 | 4 |
| **Indonesia 10Y Yield** | 6.89% | -2 | -8 |
| **China 10Y Yield** | 3.19% | 4 | 4 |
| **Australia 10Y Yield** | 0.85% | -4 | -6 |
| **USD Swap Spread 10Y** | 3 | 1 | 3 |
| **USD Swap Spread 30Y** | -34 | 2 | 2 |
| **Malaysia 5Y CDS** | 45 | -6 | 1 |
| **Indonesia 5Y CDS** | 92 | -12 | 1 |
| **China 5Y CDS** | 38 | -6 | 2 |

| | 13-Oct | 1W chg | 1M chg |
|---|---|---|---|
| **Brent Crude Spot ($/bbl)** | 41.86 | -1.85% | 5.10% |
| **Gold Spot ($/oz)** | 1916.40 | 2.03% | -2.07% |
| **CRB** | 149.80 | 1.65% | 2.32% |
| **CPO** | 3060.00 | 7.48% | 6.25% |
| **GSCI** | 355.79 | 0.58% | 4.32% |
| **VIX** | 25.07 | -10.34% | -6.70% |
| **SGD/USD** | 0.74 | -0.29% | -0.39% |
| **MYR/USD** | 0.24 | -0.21% | 0.00% |
| **IDR/USD** | 0.07 | -0.08% | -1.15% |
| **CNY/USD** | 0.15 | -0.71% | -1.00% |
| **AUD/USD** | 0.72 | 1.06% | -1.52% |
| **DJIA** | 28838 | 2.45% | 4.24% |
| **SPX** | 3534 | 3.68% | 5.78% |
| **MSCI Asiax** | 751 | 3.23% | 4.97% |
| **HSI** | 24650 | 3.71% | 0.60% |
| **STI** | 2560 | 1.20% | 2.79% |
| **KLCI** | 1523 | 0.89% | 1.20% |
| **JCI** | 5123 | 2.48% | 2.12% |
| **CSI300** | 4839 | 5.62% | 4.58% |
| **ASX200** | 6196 | 3.92% | 5.74% |

*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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