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Credit Week in Brief

Markets

Muted end to the year: 10Y UST Yields fell last week and moved mainly on U.S. coronavirus issues and relief checks updates. Yields started the week remaining mostly unchanged at 0.93% after President Trump signed a USD2.3tr aid package. On Tuesday, yields again remained mostly unchanged after U.S. Senate Majority Leader Mitch McConnell urged congressional leaders to stick COVID-19 relief payments of USD600 per person. Yields stayed at 0.93% on Wednesday with thin trading volume as investors looked towards 2021. On Thursday, the last trading day of the year, 10Y UST fell 1bps to 0.92% after emerging variants of the coronavirus muted optimism. W/w, 10Y UST Yields fell 1bps from 0.93% to 0.92%. (Bloomberg, OCBC)

Yes we CAN: The USD IG space saw no bond sales last week as markets looked towards the new year. The previous week, however, saw USD412.3mn over four issuers. Notable deals included JP Morgan Chase & Co (USD300mn) and Peapack-Gladstone Financial Corp (a private placement of USD100mn of Tier 2 Capital). 2020 saw a record issuance of high yield debt worth almost USD432bn, while yields ended the year at a record low of 4.18%. On the other hand, the HY market saw sales jump to USD91.4mn last week (with zero issuers the previous week) courtesy of a single issuer, CAN Community Health Inc. The company plans on using proceeds to finance outstanding bank facilities, terminate related swaps and finance the cost of several acquisitions, among others. W/w, Bloomberg Barclays US Corporate High Yield Average OAS tightened 16bps to 360bps while the Bloomberg Barclays US Aggregate Corporate Index OAX tightened 4bps to 96bps. (Bloomberg, OCBC)

Expecting a pick-up in Asiadollar in January: Following a record year for issuance, activity slowed down in the second half of December. That said, with credit markets still constructive at the end of the year despite prevailing virus concerns on solid liquidity and sentiment, activity is expected to pick up again in January 2021. In addition, issuers may likely bring forward planned issuance with Chinese New Year occurring in the second week of February. Already, a flurry of deals have been announced, headlined by Sumitomo Mitsui Financial Group Inc's ("SMFG") 4-tranche USD2.5bn deal and Export-Import Bank of India's USD1bn 10-year bond. Chinese issuers continue to be active with Powerlong Real Estate Holdings Ltd pricing a USD100mn re-tap of its PWRLNG 5.95%'25s at 5.25%, Yuzhou Group Holdings Co Ltd pricing a USD562mn 6NC4 green bond at 6.35%, Shimao Group Holdings Ltd pricing a USD872mn 10NC5 bond at 3.45%, and Zhenro Properties Group Ltd pricing a USD400mn 5NC3 green bond at 6.63%. Of note is that three of these bonds (SMFG, Yuzhou and Zhenro) are green bonds, in line with our key themes for credit markets in 2021 as mentioned in our Singapore Credit Outlook 2021. Activity is set to continue with the Republic of Indonesia in the market as it looks to raise long term funds to combat against the ongoing effects of the pandemic. This should prompt a wave of issuance by other Indonesian companies looking to boost their liquidity with state linked companies PT Perusahaan Listrik Negara and Bank Mandiri looking to raise funds while textile producer PT Pan Brothers is also planning to sell around USD350mn of five-year notes. PT Pan Brothers issuance should provide a solid litmus test for sentiment in credit markets given its deep high yield status and position in a challenged industry. (Bloomberg, OCBC).

Singapore growth faltering but not fallen: In the last two weeks of December 2020, the market saw one significant bond priced, where StarHub Ltd priced a SGD200mn 10Y senior unsecured paper on the last day of the year at 2.48%. Meanwhile, Aspial Corp Ltd has launched an exchange offer to holders of its outstanding ASPSP 5.9% '21s and ASPSP 6.25% '21s to exchange the bonds into new ones with a coupon rate of 6.15% with a maturity date in January 2024. The secondary market was unsurprisingly quiet heading into end-year though has begun the year with a busy day yesterday with risk taking seen on reopening plays. The Singapore swap curve was little changed as at 31 December 2020 (the last working day for the year) versus the week before. Yesterday, preliminary GDP data was released which showed Singapore's economy contracting by 5.8% y/y in 2020, the first annual contraction since 2001, though slightly narrower than the official range projected earlier. Encouragingly though on a quarter-on-quarter seasonally adjusted basis, Singapore's GDP was up by 2.1% in 4Q2020 (3.8% y/y). On corporate developments, in December 2020, Olam International Ltd ("Olam", Issuer profile: Neutral (5)) announced a negative profit warning for its 2H2020 results, driven by a one-off, non-cash, non-recurring impairment in Gabon though full year results is still expected to be positive while two more directors at City Developments Ltd ("CDL", Issuer profile: Neutral (4)) announced their resignation in relation to its investment in China-based Sincere Property Group. Elsewhere, the judicial managers of Hyflux Ltd is organising a townhall meeting on 14 January 2021 for perpetual and preference shareholders. (Bloomberg, CNA, OCBC)

Malaysia continues to grapple with COVID-19: MYR against USD closed at 4.02 last Thursday. 10-year govvies was 2.65% at end last week. Conditional movement control order in Kuala Lumpur, Sabah and Selangor has been extended to January 14. Outbreaks have also been reported at a handful of companies. For instance, Kossan Rubber Industries reported additional 563 COVID cases at its plant and New Hoong Fatt Holdings Bhd reported that 79 employees have tested positive for COVID-19. Malaysia is said to start COVID-19 vaccinations in February 2020, though registration for vaccination is expected to take between 90 to 120 days. In other news, AirAsia Group Bhd is selling its 32.7% stake in AirAsia India Ltd to its partner Tata Sons Ltd for ~USD38mn. Tata Sons Ltd already owns 51% of the venture. In the bond space, there was no issuance except for commercial papers by Sunway Treasury Sukuk Sdn Bhd. (Bloomberg, OCBC)

Setting the scene for 2021 in Indonesia: With an unprecedented 2020 in the past, recent developments are looking to support a recovery in Indonesia in 2021, both in terms of fundamentals as well as local currency primary issuance which, according to Bloomberg, was down around 35% y/y. Mass vaccinations are expected to commence later this month with the Ministry of Health planning to vaccinate over 181mn people by March 2022 while the government is also planning to raise IDR35tr from its first sovereign bond auction. Consistent fund raising will be likely in 2021 given expectations of a larger than estimated economic contraction in 2020 on ongoing virus concerns that dented 4Q2020 economic performance. Aside from previous multilateral support and the extension of some stimulus measures by the Financial Services Authority ("FSA"), President Joko Widodo has plans to increase the target size of Indonesia's sovereign wealth fund, Nusantara Investment Authority, to USD100bn from USD16bn. With pledges from the US and Japan, and other investors, the fund is expected to finance large projects within the country related to infrastructure, healthcare, tourism, technology and the development of the new capital city to spur economic growth. Interest in the fund from investors is likely supported by the government’s expectation of 5% economic growth in 2021. Still, investors will likely remain wary of persisting risks including refinancing risk for weaker credits, in particular in the property and mining sectors. According to the FSA, Indonesian lenders have restructured IDR951.2trillion in loans as of 30 November 2020, with around 77% of borrowers from micro, small and medium enterprises but comprising 40% of total amounts restructured. (Bloomberg, OCBC)

China taking bond defaults seriously: During the last week of 2020, primary market issuance was RMB195.6bn (including CDs), while excluding CDs, this was RMB99.4bn, half the amount priced in the week before. Issuances were dispersed, with China Post Life Insurance Co ltd and Science City Guangzhou Investment Group Co Ltd being larger issuers. The Bloomberg Barclays China Aggregate Total Return Index continued its march upwards, opening at a 1Y high yesterday and was up 0.11% w/w in the last week of the year. The 10Y government bond yield ended the year at 3.15%, compressing 5bps w/w. The New York Stock Exchange (“NYSE”) finally announced on 31 December 2020 that it will delist three Chinese telecommunication companies from the NYSE. This move also heralds other possible de-listings of Chinese telecommunication companies which would mean that Hong Kong is likely to be the main venue where such equities can be traded, particularly for global investors. Ant Group and Alibaba were in the headlines, with the former reportedly planning to reorganise itself into a holding company and to deprioritise certain businesses to comply with the changed regulatory environment. The latter had been dragged by antitrust and other reputational concerns though its bond prices have held up in contrast to the equity market. On geopolitics, the European Union and China concluded negotiations on an investment agreement, the Comprehensive Agreement on Investment which covers a broad range of issues. On bond defaults, a court ruling in China has stated that a domestic ratings firm should partially compensate some creditors for a construction firm’s default, a move which may mean that going forward, financial intermediaries such as underwriters, legal and accounting firms could also be held accountable on investors. (Reuters, SCMP, Bloomberg, The Asset, OCBC)

Australia enters 2021 with a brighter outlook: While issuance was subdued towards the year-end, the European Investment Bank reportedly priced AUD1.25bn 6.5-year climate Kangaroo bond at ASW + 26bps. Looking to put COVID-19 behind, Australia is catching up on plans for vaccination with regulatory approval for Pfizer and AstraZeneca likely to be around the corner. Meanwhile, S&P/ASX 200 and AUDUSD ended last Thursday at 6587.10 and 0.7694 respectively, near their 2020 highs. (Bloomberg, AFR, OCBC)

Take me down to the paradise city: The Recycle N Save initiative saw almost 4mn beverage containers collected in Singapore since its launch in October 2019. Despite it being a rewards-based programme, it was found that more recyclers opted for non-monetary rewards and one in five selected the “No Reward” option when recycling. In a statement, the National Environmental Agency and F&N Foods, which jointly developed the scheme, said that the results showed greater environmental awareness among users island wide. Last week, City Developments Ltd ("CDL", Issuer profile: Neutral (4)) secured a SGD470mn green revolving credit facility, to be used for refinancing of Republic Plaza and other green projects. The United States has banned a second Malaysian palm oil giant, Sime Darby, following a similar ban on FGV Holdings in September regarding allegations of labour abuses on plantations. The latest ban was announced based on findings of systemic abuses across plantations. The U.S. imported USD410mn worth of crude palm oil in 2020, a third of total imports. Indonesia signed a USD10bn electric vehicle battery deal with South Korea's LG Energy Solution Ltd ("LG"), with investments planned in production and supply chains for lithium batteries. This comes after a report published by SNE Research, which found that LG's battery usage volume globally had a 22.6% market share from January to November 2020. The company came in second to China's Contemporary Amperex Technology, which had a 24.2% market share, and has provided batteries for the Tesla Model 3 since the second half of 2020. South Korea has announced that it will auction more than 18mn carbon allowances in 2021, with an expectation that volumes will rise in the second half of 2021 as tighter regulations for the third phase of the emissions trading scheme kick in. Signatories to the Pairs Climate Agreement were required to submit their revised Nationally Determined Contributions ("NDCs") by 31 December. The NDCs lay out how each state plans on meeting the climate goals set within the United Nations framework. Emphasis on a crossover between climate strategies and a green COVID-19 recovery is expected. Lastly, sales of sustainability-linked loans in 2020 dipped to USD117bn, an 18% decline compared to 2019. The number of borrowers fell from 130 in 2019 to 118 in 2020 while EMEA made up 82% of total numbers. (Straits Times, Bloomberg, OCBC)

Key Market Movements

	5-Jan	1W chg (bps)	1M chg (bps)		5-Jan	1W chg	1M chg
iTraxx Asiax IG	56	-2	-2	**Brent Crude Spot ($/bbl)**	50.91	0.10%	3.37%
iTraxx SovX APAC	25	0	0	**Gold Spot ($/oz)**	1942.41	3.42%	4.28%
iTraxx Japan	51	-1	-2	**CRB**	167.35	1.09%	4.66%
iTraxx Australia	57	-1	-1	**CPO**	3952.00	3.08%	8.42%
CDX NA IG	52	0	1	**GSCI**	408.05	1.55%	5.02%
CDX NA HY	109	0	-1	**VIX**	26.97	25.27%	29.73%
iTraxx Eur Main	49	1	1				
				SGD/USD	0.76	-0.66%	-1.37%
US 10Y Yield	0.92%	-1	-4	**MYR/USD**	0.25	-0.96%	-1.48%
Singapore 10Y Yield	0.89%	3	6	**IDR/USD**	0.07	-1.31%	-1.14%
Malaysia 10Y Yield	2.58%	-8	-10	**CNY/USD**	0.15	-1.08%	-1.07%
Indonesia 10Y Yield	5.91%	-5	-28	**AUD/USD**	0.77	1.46%	3.99%
China 10Y Yield	3.15%	-2	-16				
Australia 10Y Yield	0.98%	2	-1	**DJIA**	30224	0.08%	0.02%
				SPX	3701	-0.07%	0.04%
USD Swap Spread 10Y	0	-2	-1	**MSCI Asiax**	853	4.64%	4.39%
USD Swap Spread 30Y	-26	-2	2	**HSI**	27562	4.74%	2.71%
				STI	2848	0.29%	0.30%
Malaysia 5Y CDS	38	0	1	**KLCI**	1604	-2.44%	-1.11%
Indonesia 5Y CDS	69	1	0	**JCI**	6137	2.14%	5.63%
China 5Y CDS	29	1	0	**CSI300**	5369	6.00%	5.97%
				ASX200	6682	0.26%	0.72%

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

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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.

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.

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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.

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