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Credit Week in Brief

Markets

Mixed economic updates influence yield movement

- 10Y UST Yields fell last week after mixed economic updates. On Monday, yields remained unchanged at 1.60% in observance of Memorial Day. On Tuesday, yields gained 1bps to 1.61% as economic data continued to show signs of inflationary pressure in the economy. The ISM Manufacturing PMI registered 61.2 in May, up from 60.7 in April, signalling expansion in the overall economy. Yields then fell 2bps to 1.59% as Philadelphia Fed President Patrick Harker's commented that it was time to consider the time frame for scaling back on the Fed's asset purchase program. On Thursday, yields gained 4bps to 1.63% on the back of better-than-expected ADP private payrolls in May as companies hired 978,000 workers, up from April's 654,000. Meanwhile, weekly jobless claims came in near expectations at 385,000. Friday saw yields fall 7bps to 1.56% after nonfarm payrolls increased last month by 559,000 jobs, below the forecast of 650,000 job gains.
- W/w, 10Y UST fell 4bps from 1.60% to 1.56%.

A slow start to June

- The IG space saw issuance fall to USD23.0bn from 24 issuers last week.
  - Key issues came from Citigroup INC (USD3.15bn in two parts) and Toronto-Dominion Bank/The (USD3.0bn in three parts). The former will use proceeds from its debt offering to fund general corporate purposes. The latter was able to sell its bonds at thin margins as credit spreads remained tight. However, volume for the deal came in at a modest USD4.65bn relative to the deal size. The Canadian lender also dropped its proposed 5-year Floating-Rate Note (FRN) at launch as the longer floating-rate tenor remains challenging to source.
  - Utilities included NextEra Energy Capital Holdings Inc (Guarantor: NextEra Energy Inc), which priced a USD1.5bn 7-year senior unsecured green bond at T+65bps, tightening from IPT of 90bps area, and Puget Energy Inc (a USD500mn Will-Not-Grow 7-year secured bond at T+108bps, tightening from IPT of T+130bps area). NextEra Energy Capital Holdings will use proceeds to fund capital expenditures of new or repowered wind power energy, solar power energy generation and other renewable energy projects. On the other hand, Puget Energy will use proceeds for refinancing purposes, such as repaying its PSD 6%'21's. Orderbook for Puget Energy was strong, with up to ~5x coverage.
  - Consolidated Edison Co of New York Inc priced a USD750mn 10-year senior unsecured bond at T+80bps, tightening from IPT of T+105bps area, and a USD750mn 40-year green bond at T+130bps, tightening from IPT of T+150bps area. Notably, the green 40s marginally underperformed their vanilla counterparts. However, the 10Y's outperformance could be attributed to the scarcity of issuance at that part of the curve compared to the relatively crowded longer end.
  - Insurance provider Athene Global Funding (a USD500mn 10-year Funding Agreement-Backed bond at T+108bps, tightening from IPT of T+130bps) tapped the U.S. credit market for the fourth time in under two months.

Other companies from the insurance sector included MassMutual Global Funding (a USD400mn 2-year bond at SOFR+22bps) and New York Life Global Funding (USD750mn in two parts).
  - With the Federal Reserve's unexpected decision to gradually sell a portfolio of corporate debt purchased through the emergency corporate credit facility launched last year, U.S. high-grade issuers may move forward their issuances sooner rather than later as the likelihood of widening spreads and higher borrowing costs becomes higher.
- HY issuance fell to USD10.6bn from 13 issuers last week.
  - The biggest deals came from Vodafone Group PLC (USD2.45bn in three tranches), where all three parts have various step-up coupons, and Bombardier Inc (a USD1.2bn 5NC3 bond at 7.125%). The latter, a Montreal-based aircraft and train manufacturer, was on the verge of defaulting last month before an unidentified party bought USD260mn of its BBDBCN 7.45%'34s and agreed to approve several covenant changes tied to its bonds. The offering was upsized from USD1.0bn.
  - Canadian issuers accounted for a sizable amount of deal volume last week, in part due to Memorial Day falling on Monday. Ontario-based GFL Environmental upsized its deal from USD600mn to price a USD750mn 8NC3 senior unsecured bond at 4.75% to refinance its GFLCN 8.5%'27s as well as other borrowings. Additionally, Quebec-based cable operator Videotron Ltd priced a USD500mn 8NC3 bond at 3.625% as part of a multi-currency deal.
  - Two wireline telecommunications companies tapped the market last week, with Switch Ltd (a USD500mn 8NC3 senior unsecured bond at 4.125%) upsizing its deal from an original USD430mn and Lumen Technologies Inc pricing a USD1.0bn 8NC3 senior unsecured bond at 5.375%.
  - A rally in oil saw two energy companies pushing deals last week. Midstream company Energy Transfer LP, which controls the controversial Dakota Access Pipeline priced USD900mn in PerpNC5 preferred units at 6.5% while Precision Drilling Corporation priced a USD400mn 7.5NC3.5 bond at 99.253 to yield 7%, which saw an oversubscription of over USD3.0bn.
- W/w, the Bloomberg Barclays US Corporate High Yield Average OAS widened 1bps to 297bps while the Bloomberg Barclays US Aggregate Corporate Index OAS widened 1bps to 85bps. (Bloomberg, OCBC)

Indonesia blooming in Asiadollar but not all is rosy

- Issuance volumes rose last week to USD10.3bn, up from USD7.7bn in the prior week to its highest level since 19th April. While Credit markets were relatively calm last week, there were still pockets of volatility and idiosyncratic risks as reflected by divergence in performance between investment grade credit which was relatively flat w/w whilst high yield underperformed.
- In particular, high yield Chinese property credits were heavy last week and influenced by the regulator driven investigation of transactions between China Evergrande Group ("Evergrande") and Shengjing Bank, which holds substantial Evergrande's bonds. Other names seeing pressure on their bond prices included Kaisa Group Holdings, Jinke Properties Group Co Ltd's newly issued JINKE 6.85% '24s which dipped below 96cents according to Bloomberg and Sichuan Languang Development Co Ltd following ratings downgrades.
- Conversely, it was a solid week for Indonesia credits. PT Indofood CBP Sukses Makmur Tbk priced a USD1.15bn 10-year senior unsecured bond at T+180bps, tightening from IPT of T+225bps area, and a USD600mn 30-year senior

unsecured bond at T+245bps, tightening from IPT of T+280bps area. This was the food company's first dollar bond. In addition, the Indonesian sovereign sold USD3bn of sukuk at record-low yields with the USD1.25bn 5-year bond priced at 1.5%, tightening from IPT of 1.9% area, a USD1.0bn 10-year bond at 2.55%, tightening from IPT of 3% area, and a USD750mn 30-year bond at 3.55%, tightening from IPT of 4% area, all below previous record levels for similar maturities per Bloomberg. Proceeds from the 30-year note will go toward financing or refinancing expenditure directly related to green projects.

- That said, not all developments from Indonesia were positive last week. Flag carrier PT Garuda Indonesia deferred a distribution on its USD500mn GARUDA 5.95% '23s sukuk and has halted other debt payments to creditors as it seeks to restructure its business. According to Deputy Minister at the Ministry of State-Owned Enterprises, Kartika Wirjoatmodjo, a debt standstill is a necessary part of the airline's restructuring plan, without which the airline may be forced into bankruptcy. Other aspects of the plan include cutting costs by 50%, reducing Airbus orders and returning planes and also reviewing Indonesia's open sky policy to limit the number of airports in the country that are open to foreign airlines. In addition, clothing maker Pan Brothers received its own debt moratorium until 1st July from a Singapore court on its USD200m senior notes due 2022.
- Finally, fluctuating developments on China Huarong Asset Management Ltd ("Huarong") last week saw spreads on its bonds widen during the week before reversing towards the end of the week. Earlier it was reported that the Ministry of Finance ("MoF") were reportedly considering a proposal to transfer its shares in Huarong along with three other asset management companies ("AMCs") into a new holding company as part of discussions on dealing with financial risks posed by Huarong. Authorities are also reportedly discussing whether to bring in more external investors, which may reduce the MoF's controlling stakes. This was followed a Reuters report that regulators are pushing Huarong to sell non-core assets, while considering offering an implicit guarantee of the liabilities of Huarong coming due this year. (Bloomberg, OCBC)

Singapore primary bond markets back in action

- Last week, SGD950mn were priced across 3 issuers (SGD400mn SCISP 2.45% '31s, SGD300mn KITSP 4.3% PERP, SGD250mn MAGIC 3.5% PERP), continuing the good issuance momentum from the prior week when SGD735mn were priced across 4 issuers. However, we saw SUNSP 3.8% PERP repriced lower after the pricing of SUNSP 4.25% PERP, perhaps signalling indigestion by the market.
- As we flagged in our Credit Monthly, we think that the market could be approaching a tipping point. While we made no changes to our model portfolio which has seen 3.05% YTD gains, we are reassessing the overweight position on perpetuals.
- Two companies in default provided updates which may lead to winding up. KrisEnergy Ltd ("KrisEnergy") announced that it is unable to pay its debt and will proceed to liquidate. With KrisEnergy 40%-owned by Keppel Corporation Ltd ("KEP") and KEP expected to make-whole a credit facility extended to KrisEnergy, KEP may need to repay SGD247mn to the bank with a non-cash impairment ranging from SGD141mn to SGD181mn. Separately, the judicial managers of Hyflux Ltd ("Hyflux") have filed an application to wind up Hyflux.

- Retail landlords have committed to abide by a new code of conduct on leasing of retail premises in Singapore, which is aimed at making lease negotiations fairer between landlords and retail tenants. (Company, OCBC)

Malaysia grapples with COVID-19:
- The MYR against USD was unchanged at MYR4.13 last Friday, while 10-year govvies rose 5bps w/w to 3.25%.
- Headlines continue to revolve around the pandemic and tightened restrictions. Permitted services and manufacturing sectors have a 60% limit on manpower capacity. This cuts into the production output. A failure to comply can result in stop-work orders and strict unappealable penalties. For instance, Toyota Malaysia suspended both its sales and manufacturing operations during lockdown which started since June 1. Carlsberg Brewery Malaysia Bhd has also temporarily suspended the operations of its brewery in Shah Alam from June 2.
- Separately, the government is exploring hybrid parliamentary sittings where lawmakers have the flexibility to attend physically or participate online.
- Within the bond space, Sabah Development Bank Bhd issued a MYR290mn 2-year bond at 4.2% and Tropicana Corp Bhd issued a MYR110mn 3-year bond at 5.45%. (Bloomberg, OCBC)

Greening Indonesia
- There was one issuer who listed bonds in the Indonesian bond market last week with integrated palm oil plantation company PT Sinar Mas Agro Resources and Technology Tbk listing IDR1.5tr across three tranches to increase liquidity and improve debt management. The government also issued IDR11tr of sukuk across five tranches, above its IDR10tr target and receiving bids of IDR44.6tr, and privately placed IDR6tr in two tranches.
- Elsewhere, green initiatives are picking up as the economy tries to recover from the pandemic. In its latest draft electricity 10-year plan, Indonesia's Ministry of Energy and Mineral Resources along with state-owned utility, PT Perusahaan Listrik Negara indicated 41 gigawatts ("GW") of additional capacity by 2030 with 18.4GW of thermal power plant additions proposed under the previous plan replaced with sustainable or renewable sources including solar capacity which has increased to 6GW by 2030, up significantly from the previous plan's target of 907MW. As mentioned last week, Indonesia will no longer approve any new coal-fired power plants and will only allow the completion of plants that are already under construction or have reached their financial close while Indonesia is considering implementing a carbon tax on emissions from the use of fossil fuels.
- Meanwhile the Fiscal Policy Agency is projecting the information and communications technology sector to lead the economic recovery with growth of 9.1%-10.1% in 2021 and 9.8%-10.3% in 2022. It was the second highest growth sector in 2020 at 10.6% after healthcare highlighting the divergent pandemic impacts on industries. Conversely, transportation and warehousing, contracted 15% y/y.
- In the pipeline is telecommunication infrastructure company PT Solusi Tunas Pratama Tbk who is planning to issue IDR13.64tr to repay loans. The bonds are planned to be issued in IDR and USD. (Bloomberg, Jakarta Post, IDN Financials, OCBC)

China stepping up pandemic response

- Excluding CDs, last week's issuance was RMB170.6bn, 33.7% lower than last week. Issuance were diverse across issuers. The China 10Y government bond yield widened 4bps w/w, ending the week at 3.13%.
- Last week an executive order was signed by US President Biden that expands an investment blacklist which bans US entities from investing in Chinese companies with ties to defense or surveillance technology. The updated list though will be maintained by the US Treasury Department rather than the Department of Defense. Further details are captured in OCBC's Greater China – Week in Review published by OCBC's China Economists.
- Guangzhou, a key trade and travel hub and the capital of the Guangdong Province, has imposed travel restrictions and increased virus testing in a bid to control a resurgence of the COVID-19 virus (with Delta variant). From 31 May 2021, virus testing is also required for people leaving the city.
- An official from the People's Bank of China stated in an interview that China is considering launching trials using the digital yuan as a carrier to test capital account convertibility in the Greater Bay Area ("GBA"), where various cities operate under different legal and financial regimes. As it stands, the digital yuan is being used and tested as a substitute for cash.
- On geopolitics, foreign ministers of the Association of Southeast Asian Nations ("ASEAN") and China met in Chongqing yesterday in-person to discuss the Myanmar issue, with China expressing its willingness to continue playing a constructive role and cooperate with ASEAN. (Bloomberg, Reuters, Straits Times, CGTN, Caixin, OCBC)

Strengthening business outlook in Australia

- National Australia Bank's business conditions index which measures hiring, sales and profits surged to an all-time high of +37 in May. Australian businesses have more to look forward to as Victoria is planning to ease COVID-19 restrictions with falling local COVID-19 cases.
- While the business outlook is brightening, cost of debt will no longer be as cheap for owner occupiers as bank lenders are looking to hike rates.
- Aside from the red-hot residential property market, logistics properties are seeing transactions with Ascendas Real Estate Investment Trust selling three logistics properties in Melbourne for a total sale price of ~SGD128.7mn (~AUD125.1mn).
- On separate news, National Australia Bank is being probed by AUSTRAC over serious concerns on compliance with money-laundering and counter-terrorism laws.
- Reported by Nine Entertainment Co publications, 150 employees of Qantas Airways Ltd ("Qantas") are linked to criminality. Qantas has written to four criminal intelligence agencies seeking further details.
- There were only 2 small issuances totalling AUD75mn last week. 10Y Australia government yields saw little movements and ended the week unchanged at 1.69%. Meanwhile the stock market roared ahead with S&P/ASX 200 rising 1.6% w/w and reaching its all-time high of 7295.35 points last Friday. (AFR, Company, OCBC)

All The Small Things:

- The Singapore Exchange is in the midst of creating a tool for sustainability disclosures that will allow data to be easily collected from companies and shared with end-users such as data providers and investors.
- Participants at a panel held to celebrate the 10th anniversary of BoardAgender, an initiative under the Singapore Council of Women's Organizations that aims to raise awareness of the need for gender balance in businesses and boards, stated that despite recent progress, more women are needed on company boards. BoardAgender also launched a mentoring programme for aspiring women directors, which will begin later this month. 10 board-ready women will be mentored by 10 board directors in a specially curated six-month programme.
- Singapore's Public Utilities Board ("PUB") was named Resilient Water Agency of the Year while the Keppel Marina East Desalination Plant took top honours in its category for its innovative capability to treat both seawater and freshwater from the surrounding reservoir at the annual Global Water Awards.
- Sembcorp Industries Ltd ("SCI", Issuer Profile: Neutral (4)) priced a SGD400mn 10-year green bond at SOR+89.5, its first green bond, through its wholly announced subsidiary Sembcorp Financial Services. According to the company, this is the first certified green bond under the Climate Bonds Standard by a Singapore-based energy company. SCI will use the proceeds to finance or refinance new or existing eligible green projects.
- A report by the International Energy Agency ("IEA") found that China is driving an increase in coal-fired power plants to reboot its post-pandemic economy. The number of plants approved last year rose for the first time since 2015. It's World Energy Investment report found that China approved 13GW of coal-fired plants in 2020, an increase of 45% compared to 2019.
- India launched the Mission Innovation CleanTech Exchange at the Innovating to Net Zero Summit to create a network of incubators across 23 governments to accelerate clean energy innovation. The goal is to achieve the Paris Agreement climate goals by catalysing public-private action and investment through sector-specific activities.
- After issuing its inaugural green offering last month, Pakistan announced further developments in a bid to tap global green financing avenues. It completed its first assessment for blue bonds and launched its first blue carbon estimation last week with the help of the World Bank. According to Climate Change Minister Aslam, the World Bank estimated that the country's new plantation projects could be worth ~USD500mn by 2050 if nurtured successfully. Furthermore, Pakistan released a joint statement with Canada, Britain, Germany, and the United Nations Development Programme to outline the potential establishment of a "Nature Performance Bond" to provide accelerated access to development financing and debt relief in exchange for meeting ecosystem restoration targets.
- The EU and Bill Gates' Commission and Breakthrough Energy Catalyst have partnered to mobilize up to USD1.0bn between 2022 and 2026 to invest in large-scale, commercial-demonstration projects that will deliver reductions in carbon emissions, as well as direct air emissions capture and long-duration energy storage. The partnership plans to use private capital and philanthropic funds to finance the projects and will be open to national investments by EU member states.
- Lastly, green, social, sustainability and sustainability-linked bond sales from

governments and corporates so far this year total USD455.0bn, 234% higher than the same point last year. (Bloomberg, IEA, OCBC)

Key Market Movements

	8-Jun	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	83	-3	5
iTraxx SovX APAC	26	0	1
iTraxx Japan	47	0	0
iTraxx Australia	59	-1	-1
CDX NA IG	50	0	-2
CDX NA HY	110	0	0
iTraxx Eur Main	49	0	-1
US 10Y Yield	1.56%	-5	-2
Singapore 10Y Yield	1.50%	3	-3
Malaysia 10Y Yield	3.24%	4	13
Indonesia 10Y Yield	6.41%	-2	-1
China 10Y Yield	3.14%	5	-1
Australia 10Y Yield	1.61%	-8	-7
USD Swap Spread 10Y	-3	0	0
USD Swap Spread 30Y	-29	-1	1
Malaysia 5Y CDS	45	-1	0
Indonesia 5Y CDS	75	-1	1
China 5Y CDS	37	-1	1

	8-Jun	1W chg	1M chg
Brent Crude Spot ($/bbl)	71.24	1.41%	4.34%
Gold Spot ($/oz)	1892.38	-0.42%	3.07%
CRB	209.53	1.86%	1.24%
CPO	4180.00	3.88%	-14.40%
GSCI	529.65	0.30%	1.27%
VIX	16.45	-8.10%	-1.44%
SGD/USD	0.76	0.05%	-0.13%
MYR/USD	0.24	-0.12%	0.37%
IDR/USD	0.07	0.04%	0.40%
CNY/USD	0.16	0.23%	-0.32%
AUD/USD	0.77	-0.15%	-1.12%
DJIA	34630	0.29%	-0.42%
SPX	4227	0.53%	-0.14%
MSCI Asiax	890	-1.36%	1.38%
HSI	28781	-2.33%	0.60%
STI	3167	-0.63%	-1.03%
KLCI	1588	0.28%	0.03%
JCI	5999	0.87%	1.20%
CSI300	5232	-2.05%	4.73%
ASX200	7293	2.10%	2.99%

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, CapitaLand Integrated Commercial Trust, Aims APAC REIT, and Ascott Residence Trust.

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