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Credit Week in Brief

Markets

The blue wave effect: 10Y UST Yields gained last week and moved mainly on the result of the Georgia elections and economic news. Yields started the week by falling 1bps to 0.91% over anticipation regarding Tuesday's U.S. Senate runoff elections. On Tuesday, 10Y UST gained 5bps to 0.96% over stronger than anticipated manufacturing data and the unsure outcome of the Georgia elections. Yields gained 8bps to 1.04% on Wednesday, topping 1% for the first time since March, as the Democrats moved closer to gaining control over the White House and Capitol Hill. On Thursday, 10Y UST gained 4bps to 1.08% after news that the Democrats would soon assume control of the U.S. government, increasing the likelihood of further stimulus. Friday saw yields gain 4bps to 1.12% after reports emerged that nonfarm payrolls decreased by 140,000 jobs in December, which raised expectations of more stimulus spending. W/w, 10Y UST gained 21bps from 0.91% to 1.12%. (Bloomberg, OCBC)

The boys are back in town: US IG new issuance volume jumped to USD55bn across 32 issuers last week. Notable deals included Standard Chartered PLC (USD3bn in two tranches and a USD1.25bn PerpNC10 AT1 at 4.75%) and Broadcom Inc (USD10bn across five tranches), whose orderbook exceeded USD33bn at its peak. Broadcom Inc's bond proceeds will be used to fund a concurrent tender offer for USD2.75bn across seven series of notes which mature between 2021 and 2023. Automotive companies were also active with Toyota Motor Credit Corp, Hyundai Capital America, and General Motors Financial Co Inc. all launching sizeable multi-tranche deals last week (American Honda Finance Corp similarly came to market yesterday). Within the HY space, issuance volume rose to USD10.8bn from 12 issuers last week. Issuance was dominated by the energy sector, fuelled by rising oil prices and a drop in energy index yields to below 6% for the first time since January 2018. Equitrans Midstream Corp (USD1.9bn in two tranches) priced the biggest deal of the week, while Hilcorp Energy I LP (USD1.2bn in two tranches), Range Resources Corp (a USD600mn 8NC3 at 8.25%) and Crestwood Midstream Partners LP (a USD700mn 8NC3 at 6%) followed suit. Cemex SAB de CV priced USD1.75bn 10.5NC5.5 at 3.875%, and will use the proceeds for general corporate purposes, including to repay other indebtedness. W/w, the Bloomberg Barclays US Corporate High Yield Average OAS tightened 12bps to 348bps while the Bloomberg Barclays US Aggregate Corporate Index OAS tightened 1bps to 95bps. (Bloomberg, OCBC)

Hive of activity in Asiadollar: Primary markets saw USD16.1bn priced last week amidst strong investor demand. Issuance volume was driven by a three-tranche deal from the Republic of Indonesia which raised USD3.0bn, while multiple issuers priced more than USD1.0bn of bonds each. These include Hyundai Capital America, China Petrochemical Corporation, Country Garden Holdings Co Ltd, Macquarie Group Ltd and the National Australia Bank while a smaller deal, Haidilao International Holding Ltd, a hotpot restaurant chain and household name, raised USD600mn in its debut bond with a large orderbook of over 8.3x. Among deals where information was available per Bloomberg data, deals were priced at a median 45bps compression from initial price talk with median orderbooks of 4.9x. W/w, the Bloomberg Barclays Asia USD IG Bond Index average OAS was flat at

150bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 27bps to 671bps. Following on from the “three red lines policy” which aims to limit debt that can be taken by property companies in China, new regulations were issued by the People’s Bank of China to [cap property loans by banks](#). These have led to a more cautious view among certain highly levered property companies out of China with the latest being China Fortune Land Development Co. Ltd. (“CFLD”), with concerns about its debt repayment abilities, weak earnings and balance sheet coming to fore. USD bonds issued by CFLD have fallen sharply to 60-70 ppt. This week we may see deals from PT Sri Rejeki Isman Tbk, PT Tower Bersama Infrastructure Tbk, China Huaneng Group Co. Ltd, China Cinda (HK) Holdings Company Limited, Yuexiu Property Company Limited and Singapore Airlines Ltd (“SIA”, Issuer profile: Neutral (5)). SIA has mandated banks for fixed income investor calls on a proposed debut USD bond. (Bloomberg, OCBC).

Singapore primary market whirring back to life: Last week, United Overseas Bank Ltd (“UOB”) priced SGD150mn of additional tier 1 (“AT1”) capital instruments with a first call date in 2026 at 2.25%. If the AT1s are not redeemed in 2026, the coupon will be reset at +181bps above the five-year Singapore Overnight Rate Average Overnight Indexed Swap (“SORA-OIS”) rate. This marks the first time a SORA-OIS rate paper was priced in the SGD bond market, where the Swap Offer Rate (“SOR”) is commonly used. As of writing, the target date for transitioning to SORA-OIS based benchmarks is end-2021. Marking a busier start to the week [Olam International Ltd \(“Olam”, Issuer profile: Neutral \(5\)\)](#) priced SGD250mn of perpetuals with a first call date in 5.5Y’s time at 5.375%, tightening from initial price talk at the 5.5% area while the Housing Development Board has launched a new 5Y paper today. In the secondary market, we saw more selling of short dated papers while expected new supply influenced investor positioning. The Singapore swap curve bear steepened last week, with the shorter dated to belly of the curve rising by 1-5bps and the longer dated part of the curve rising 6-11bps w/w. On corporate developments, [Oxley Holdings Ltd \(“OHL”, Issuer profile: Negative \(6\)\)](#) announced that it is proposing to issue up to USD80mn (~SGD106.4mn) in 4.5% secured convertible notes to funds managed by a credit hedge fund while at the same time, entities linked to the same hedge fund will also make available to OHL a term loan facility of USD100mn. The regulator of the Singapore Stock Exchange (“SGX Regco”) announced that all primary issuers on the SGX must appoint an auditor registered with the Singapore Accounting Corporate Regulatory Authority (“ACRA”) to conduct their statutory audits while the regulator may also require companies to appoint a second auditor in exceptional circumstances. Additionally, standards of qualifications of property valuers and standards for property valuation reporting has also been increased. This comes on the back of various debt defaults in the past few years, with at least one major bond issuer’s audit signing partner located outside of Singapore and outside the purview of ACRA. Elsewhere, in tentative signs of stabilisation, Singapore’s overall unemployment rate fell to 3.3% in November 2020, the lowest since July 2020. (Bloomberg, Business Times, OCBC)

Malaysia declares state of emergency until 1 August: Parliament will be suspended, and no election can be held during the state of emergency to curb the spread of COVID-19. Yesterday PM Muhyiddin had announced a nationwide travel ban and a 14-day lockdown in the capital Kuala Lumpur and five states, saying the country’s healthcare system was at a breaking point. The number of new daily

infections hit a record high last week, breaching the 3,000 mark for the first time. Amidst the outbreak of COVID-19, Malaysia's National Pharmaceutical Regulatory Agency has granted conditional approval for Pfizer's COVID-19 vaccine. The government is also purchasing an additional 12.2mn doses from Pfizer, bringing the total order to 25mn doses which would be enough to inoculate 39% of the population. The MYR against USD closed at 4.03 last Friday. 10-year govies rose 1bps w/w to 2.66% at end last week. In other news, the MYR44bn China-linked East Coast Rail Link project is targeted to reach 30% completion by the end of 2021 from 19.7% currently, according to project owner Malaysia Rail Link Sdn. In the bond space, there was no issuance except for commercial papers. (Bloomberg, OCBC)

Looking for a shot in the arm in Indonesia: With COVID-19 cases still rising, new partial lockdowns have been imposed in Java and Bali for two weeks commencing 11 January including non-essential businesses operating with 75 per cent of employees working from home, restaurants and cafes operating at 25 per cent of capacity, and malls closing at 7pm. To combat this, Indonesia's vaccination program is scheduled to commence this week (Indonesia recently approved China's Sinovac coronavirus vaccine shots for emergency use) with President Joko Widodo to take Indonesia's first coronavirus vaccine shot on Jan 13th. Indonesia expects its vaccination program to vaccinate 181mn people by March 2022 to cost more than IDR73 trillion (USD5.3bn) and has requested 108mn free doses from the Vaccine Alliance, Gavi, to ease the budget burden given that Indonesia's budget deficit rose to 6.09% of GDP in 2020. While this is below the government's 6.34% estimate, it is still the widest level since 2004 according to Bloomberg on a ~17% fall in state revenues and ~12% rise in state expenditure. To finance the deficit and ongoing expenditure, the government sold IDR37.55tr (~USD2.7bn) of bonds excluding bills and also issued in the Asiadollar market as mentioned above and European markets to take advantage of strong investor demand and low funding costs. In particular, the government's local currency offering was its largest offering since at least 2002, attracting IDR91.2tr of bids. With Indonesia credit being well received, corporate issuers are also expected to ride the wave with many including state owned enterprises seeking to tap markets for liquidity and take advantage of the sovereign's solid funding costs. Only one issuer has listed bonds so far with cable network infrastructure company PT Ketrosden Triasmitra listing a dual tranche bond however according to local ratings agency PT Pemeringkat Efek Indonesia ("Pefindo"), around IDR20tr of bonds will mature in 1Q2021. Distressed issuers will also be looking to ride on constructive sentiments with Tiphone Mobile reaching a debt settlement with creditors including banks and bondholders to extend tenors and lower interest rates and state-owned property and construction firm PT Waskita Karya (Persero) Tbk pursuing a debt restructuring including asset divestments and bond issuances in addition to amendments to current financing agreements. The Bloomberg Barclays EM Local Currency Indonesia Total Return Index fell 7.4bps w/w to 267.1 but remains at historically high levels. (Bloomberg, IDN Financials, Straits Times, OCBC)

China locks down a city as a precautionary measure: Last week's issuance was RMB403.4bn (including CDs), while excluding CDs, this was RMB190.9bn, with issuances dispersed. The Bloomberg Barclays China Aggregate Total Return Index reached a new 1Y high last Thursday and ended the week 1.2% higher w/w. The 10Y government bond yield ended the week flat at 3.15%. Resurgence of COVID-19

cases in China was a focus last week, with Shijiazhuang city, capital of Hebei Province put into lockdown. Shijiazhuang has a population of 11 million people and is 3.5 hours drive away from Beijing. Travel during the upcoming Chinese New Year holiday has been discouraged by healthcare authority. On geopolitics, tensions between China and Taiwan has risen, with the current US administration removing restrictions on interactions with Taiwan officials. Last week, after a short U-turn, the New York Stock Exchange (“NYSE”) has confirmed that it will delist three Chinese telecommunication companies from the NYSE. At least two US banks will be delisting derivative products linked to these telecommunication companies, where such products represent ~4% of all HK SAR’s listed derivative products. Haitong Securities Co., may face penalties in relation to its dealing conduct, as a continuation of the probe into the default at Yongcheng Coal & Electricity Holding Group Co. In other corporate developments, Baidu Inc. reportedly plans to form a company to make smart electric vehicles in a venture with Geely Automobile Holdings Limited. This development has come on the back of heightened interest in electrifying mobility through 2020. (Reuters, Bloomberg, SCMP, Wall Street Journal, OCBC)

Pace of activity slowly picking up in Australia: After a slow start, issuance and economic signals have picked up with four issues from the New South Wales Treasury Corp, International Finance Corp, and the University of Melbourne. Economic and other indicators are also promising with job advertisements reaching 159k in December, its highest for 2020 (up 9.2% m/m) while higher household spending is boosting Australia’s share market with the S&P/ASX 200 Retailing Index approaching levels last seen in 2008 on strong retail sales ahead of the Christmas shopping period. That said, the recovery path forward may not be one way. Brisbane entered a three day lockdown due to the discovery of the more contagious UK variant of COVID-19 with border restrictions re-imposed while the government’s intention to reject a AUD300mn takeover of building contractor Probuild by government owned China State Construction Engineering Corp on national security concerns may inject further discord into Australia-China relations. (Bloomberg, Australian Financial Review, OCBC)

Georgia on my mind: The Second Minister for Trade and Industry, Dr. Tan See Leng, said that Singapore’s electricity demand is expected to have declined by 2% to 4% in 2020, largely due to the COVID-19 pandemic. Dr. Tan also expects natural gas to continue to be the main source of energy in Singapore and that solar energy should supply around 3% of the country’s total electricity consumption by 2030. Furthermore, Singapore plans on implementing a Low-Carbon Energy Research Funding Initiative, which will see ~SGD50mn used to explore the supply, storage, and downstream uses of hydrogen, as well as carbon capture and storage. In Malaysia, Blackrock Inc. requested for the removal of Top Glove’s board of directors. This comes on the back of COVID-19 outbreaks at the glove maker last year which infected over 5,000 foreign workers, albeit not the only company regionally to see outbreaks amongst its foreign workers. Separately, Malaysia’s Employees Provident Fund disposed of 40mn shares of the company, resulting in the retirement fund ceasing to be a substantial shareholder. China’s Ministry of Ecology and Environment announced that China’s national carbon trading rules will come into force on 1 February 2021. The trial period will cover 2,225 power companies which emit over 26,000 tonnes of greenhouse gases annually, with companies expecting to learn their emission quotas by 29 January 2021. The

scheme is expected to eclipse a similar system in the European Union to become the world's largest emissions trading scheme. Staying in Europe, UBS Group AG Chairman Axel Weber has affirmed his support for recently installed CEO Ralph Hamers. This is due to an order by a Dutch court in December 2020 to the public prosecutor to open a probe into Mr Hamers's role as CEO at ING Groep NV ("ING") when ING was found to have breached anti-money laundering rules in the past. Democratic control of the U.S. government following the party's win in Georgia's senate race last week is expected to accelerate President-Elect Biden's initiatives to increase investment in sustainable infrastructure, among others. While issuance of green bonds in 2020 totalled USD305.1bn (December accounted for USD12.3bn of sales), up from USD269.4bn in 2019, Biden's implementation of the Green New Deal could see even greater issuance in 2021. (Bloomberg, Straits Times, China Daily, OCBC)

Key Market Movements

	12-Jan	1W chg (bps)	1M chg (bps)		12-Jan	1W chg	1M chg
iTraxx Asiax IG	60	2	1	Brent Crude Spot (\$/bbl)	56.03	4.53%	12.13%
iTraxx SovX APAC	26	1	0	Gold Spot (\$/oz)	1854.85	-4.88%	1.50%
iTraxx Japan	51	-1	-3	CRB	172.73	3.22%	7.12%
iTraxx Australia	58	2	0	CPO	3950.00	-0.40%	6.50%
CDX NA IG	51	0	-3	GSCI	426.02	1.28%	8.20%
CDX NA HY	109	0	0	VIX	23.79	-6.12%	2.06%
iTraxx Eur Main	49	0	-1				
				SGD/USD	0.75	0.94%	-0.39%
US 10Y Yield	1.15%	19	25	MYR/USD	0.25	1.10%	0.20%
Singapore 10Y Yield	0.96%	2	5	IDR/USD	0.07	1.92%	0.44%
Malaysia 10Y Yield	2.66%	8	-8	CNY/USD	0.15	0.16%	-1.27%
Indonesia 10Y Yield	6.22%	30	8	AUD/USD	0.77	-0.54%	2.42%
China 10Y Yield	3.15%	1	-16				
Australia 10Y Yield	1.15%	17	16	DJIA	31009	2.60%	3.20%
				SPX	3800	2.67%	3.72%
USD Swap Spread 10Y	0	1	0	MSCI Asiax	885	2.25%	8.13%
USD Swap Spread 30Y	-26	0	1	HSI	28277	2.27%	6.68%
				STI	2978	4.14%	5.55%
Malaysia 5Y CDS	39	2	1	KLCI	1608	-0.01%	-4.54%
Indonesia 5Y CDS	73	3	3	JCI	6396	4.21%	7.70%
China 5Y CDS	30	1	1	CSI300	5596	4.24%	14.45%
				ASX200	6679	-0.04%	0.55%

Source: Bloomberg

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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.

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