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Credit Week in Brief

Markets

Yields dip but recover on Friday

- 10Y UST Yields fell last week after investors judged price increases to be temporary. On Monday, yields ticked marginally higher by 1bps to 1.57% amidst a lack of clear drivers and as investors continued to digest the worse-than-expected nonfarm payrolls data released last Friday. On Tuesday, yields slipped 3bps to 1.54% on the back of a narrower goods and services deficit data which came in at USD68.9bn in April, down USD6.1bn from USD75.0bn in March. Yields then slipped another 4bps to 1.49% on the back of solid demand for the 10-year note auction. The ratio of bids accepted for the auction came in at 2.58 times, compared with a historical average of 2.3 times. On Thursday, despite a jump of 5% in the consumer price index, yields slipped 6bps to 1.43% as the strength in the CPI was largely driven by categories that have been heavily disrupted and remain under pressure from supply chain disruptions. Friday saw yields dip to a three-month low of 1.43% early in the session but recover to gain 2bps from Thursday's close to 1.45% at the end of the day as the market deemed any spike in inflation to be transitory.
- W/w, 10Y UST fell 12bps from 1.57% to 1.45%. (Bloomberg, OCBC)

Heighted activity in the IG market ahead of the FOMC meeting

- The IG space saw issuance rise to USD40.8bn from 36 issuers last week.
  - Key Issues came from Goldman Sachs Group Inc/The (USD5.0bn in four parts) and Bank of America Corp (USD4.5bn in two parts). Both issuers will be using proceeds to fund general corporate purposes. Other financial institutions included KeyBank NA/Cleveland OH (USD1.2bn in two tranches), Natwest Group PLC (a USD1.5bn 6NC5 senior unsecured bond at T+90bps), and ABN AMRO Bank NV (a USD750mn 6NC5 senior non-preferred bond at T+80bps) which had not tapped the US debt capital market in the past three years.
  - The utilities sector had a big week as well, with Alabama Power (a USD600mn 30-year senior unsecured bond at T+87.5bps), Baltimore Gas and Electric Co (USD600mn 10-year bond at T+70bps), and Duke Energy (USD3.0bn in four parts), totalling USD4.2bn in issuances.
  - SMBC Aviation Capital Finance DAC sold a USD500mn 7-year senior unsecured bond at T+110bps, tightening from IPT of T+140bps area. Proceeds will go towards refinancing of existing debt. Notably, the global aircraft leasing company's 7Y tranche was ~9x oversubscribed at the peak, with overseas demand accounting for over USD2.0bn of the peak book.
  - HP Inc priced a USD1.0bn 5-year senior unsecured bond at T+70bps and a USD1.0bn senior unsecured sustainability bond at T+113bps. Proceeds from the 5Y tranche will be used to refinance its existing debt, including the repayment of HPQ 4.375%'21s and HPQ 4.650%'21s. Meanwhile, capital raised from the 10Y tranche will be allocated to finance eligible projects under their sustainable bond framework, which is set up with a goal to achieve net zero carbon emissions across its value chain by 2040 and gender parity in management roles by 2030.
  - Similarly, Southern California Edison Co (USD1.375bn in three parts) has

allocated its 10Y and 30Y tranche to fund new or existing sustainable projects.
    - Issuers opportunistically tapped the market ahead of the FOMC meeting happening on 15-16 June to avoid periods of heightened volatility, resulting in the flurry of fresh supply last week. However, the CDX IG (which measures credit risk in the investment-grade space) tightened to 48.3 on Friday, the lowest since February 2020, seemingly indicating that the markets are focused on the patient stance of the Federal Reserve on keeping policies accommodative.
- The HY space saw issuance fall to USD9.98bn from 16 issuers last week.
    - The biggest deals came from Sirius XM Radio Inc (a USD2.0bn 7NC3 bond at 4%) and Clarivate Science Holdings Corporation (USD2.0bn in two tranches). The former boosted its deal size from an original USD1.5bn and will use proceeds to redeem its SIRI 3.875%'22s and to repay a senior secured credit facility. The latter, a software developer, plans to use proceeds to finance its acquisition of ProQuest, a software, data, and analytics provider, from Cambridge Information Group.
    - The week saw this year's 54th and 55th first-time issuers. Enterprise software company MicroStrategy Inc (a USD500mn 7NC3 bond at 6.125%) will use proceeds to finance purchases of Bitcoin, the first of its kind in the high-yield market. The firm upsized its offering from USD400mn and drew orders of over USD5.0bn. Meanwhile, Paysafe Holdings US Corp priced a USD400mn 8NC3 bond at 4% as part of a multi-currency deal.
    - An initial rally in oil prices, reaching levels last since October 2018, saw several energy companies tap the market last week. SM Energy Co (a USD400mn 7NC3 senior unsecured bond at 6.5%) and Ascent Resources Utica Holdings LLC (a USD400mn 8NC3 senior unsecured bond at 5.875%) upsized their deals by USD50mn and saw orders of over USD2.5bn and USD2.0bn respectively.

      Commercial real estate company Ladder Capital priced a USD650mn 8NC3 bond at 4.75% after upsizing its deal by USD250mn and will use proceeds for general corporate purposes, including potential redemptions of outstanding notes. (Bloomberg, OCBC)

Evergrande dampening Asiadollar high yield sentiment

- Compared to the previous week, issuance was slower in the Asiadollar market last week with USD4.7bn priced. Significant issuers included USD1.0bn across two tranches from the Agricultural Bank of Chia Ltd/Hong Kong, USD700mn from Hong Kong-based PCPD Capital Ltd (Guarantor: Pacific Century Premium Developments Limited), USD600mn from South Korea-based Hana Bank and USD600mn from China Everbright Bank Co Ltd/Hong Kong. The rest were mostly smaller issuances from China based issuers although Hong Kong-listed, Cambodia focused gaming and leisure company NagaCorp Ltd (Guarantors: NagaCorp HK Ltd, Nagaworld Ltd, Nagacity Walk Ltd, Naga 2 Land Ltd, Naga 3 Company Ltd and Ariston Sdn Bhd) managed to price USD200mn of 3Y high yield paper.
- Where data was available, deals compressed an average of 36bps from initial price guidance while the average orderbook was ~4.2x.
- While the investment grade market for Asiadollar tightened slightly, the high yield market was dragged by idiosyncratic events and underperformed the investment grade market. Chiefly, China Evergrande Group ("EVERRE"), a

benchmark high yield issuer continued to be plagued by negative developments last week. Reportedly regulators have asked banks in China to perform new stress tests on their EVERRE exposures.

- Certain other China high yield property names were also soft, with a new proposed USD200mn bond deal by China Aoyuan Group Ltd that has launched at an initial price guidance of 8.25% for a 3NC2 paper. As recently as March 2021, CAPG's USD bonds with 3Y to maturity was trading at sub-5.5% YTM in the secondary market.
- Wipro, India's third largest information technology consultancy services company by market cap may launch a debut USD bond this week. (Bloomberg, Global Capital, OCBC)

Singapore primary bond market takes a breather:

- Unlike the week earlier, just SGD100mn was priced last week. Fraser & Neave ("FNN" | Issuer Profile: Neutral (4)) priced SGD100mn of 5Y senior unsecured bonds at 2%, which was the number at launch. Orderbook was more than 2x.
- We also saw Ascendas REIT ("AREIT", Issuer Profile: Neutral (3)), a SGD bond market regular, venture into other currencies and is looking to price EUR300mn of senior unsecured bond with a maturity of 7 years for general working capital purposes including financing or refinancing its acquisitions.
- Separately, Digital Realty is said to weigh a USD300mn Singapore Trust IPO. Digital Realty Trust is a data centre owner and operator who has been selling data centres to Singapore REITs. AREIT has purchased 11 data centres for over half a bn in Europe from Digital Realty in March this year. Mapletree Industrial Trust ("MINT" | Issuer Profile: Neutral (4)) had in purchased around 2bn of data centres from Digital Realty over two occasions in the recent years.
- SingTel-owned subsidiary, HungryGoWhere will cease operations on July 11, due to tougher competition in the F&B industry. It was first acquired for SGD12mn in 2012. It seems that SingTel ("Singtel", Issuer Profile: Positive (2)) has in recent months pivoting more quickly to shut loss-making businesses in the Group Digital Life segment. For example, SingTel had earlier commenced strategic review of Amobee & Trustwave.
- Singapore's Grab Holdings Inc has postponed the expected completion of its merger with a US blank-check company as the ride-hailing and food-delivery giant works on a financial audit for the past three years. The deal is now set to complete in 4Q2021.

Malaysia extends lockdown:

- The MYR against USD weakened to MYR4.11 last Friday, while 10-year govvies fell 2bps w/w to 3.23%.
- The first phase of the lockdown which was due to end June 14 will continue until June 28. Lockdown curbs will be reviewed if daily cases dip below 4000. Vaccination for critical sectors including manufacturing, exports, utilities, logistics, transportation and energy will begin on June 16.
- Palm oil posted its biggest loss since January last year as soy markets tumbled and worries about rising production and weaker Chinese demand further dented sentiment.
- A bright spot is AirAsia's Logistic unit which has seen revenue return to pre-pandemic levels and growing faster than before according to its CEO, Tony Fernandes. The unit saw an impressive triple increase in revenue in 1Q2021 vs 4Q2020 and now has a dedicated freighter aircraft and has converted two

A320 passenger aircraft to provide cargo-only services.

- In the bond space, F&N Holdings has terminated a medium term note programme, replaced by Islamic versions. Bank Muamalat Malaysia Bhd issued a MYR500mn 10 year bond with a 4.5% coupon and Naza TTDI Capital Bhd issued MYR86mn with a 6.5% coupon. Bulk of the other issuances were commercial papers. (Bloomberg, OCBC)

Lower rates or higher cases in Indonesia?

- There is a dichotomy of directions in Indonesia this week with rising COVID-19 cases, particularly in bigger provinces with hotspots forming in Jakarta and Central Java. This may threaten still unchanged expectations for Indonesia's economic recovery and its budget deficit estimate.
- It may also eventually force Bank Indonesia to move already low policy rates down further and possibly jeopardize the supportive technicals that have seen Indonesia sell IDR34tr of bonds last week (above the IDR30tr target with IDR78.5tr in bids) and sell IDR10tr of sukuk today (in line with target with IDR46.7tr in bids received). For now, current expectations are that Bank Indonesia will keep its policy rate on hold at 3.5% after its two-day Monetary Policy Committee meeting that will end on Thursday.
- There were no bonds listed in the Indonesian bond market last week.
- Technicals have possibly assisted corporates with the pipeline looking stronger this week. State construction engineering company PT Pembangunan Perumahan (Persero) Tbk is planning to issue IDR2tr with IDR1.8tr in bonds and IDR500bn in sukuk for refinancing and working capital. Property developer PT Waskita Karya Realty, a subsidiary of another state owned construction company, PT Waskita Karya (Persero) Tbk is planning to issue IDR85bn in medium term notes. Meanwhile, PT Bank Pembangunan Daerah Jawa Barat dan Banten, Tbk is seeking to offer up to IDR1tr in 5yr and 7yr subordinated bonds to shore up its balance sheet. In other news, state owned non-bank financing company PT Permodalan Nasional Madani (Persero) has lowered its Sukuk issuance target to IDR2tr from IDR3tr with proceeds for working capital.
- Also helping are the government's ongoing efforts to stimulate consumption. The government is extending tax relief on vehicle purchases that had previously resulted in car sales rising by 73% y/y in March in earlier rounds of tax incentives. This should support bond issuance by banks and consumer finance companies given automotive loans are a large component of bank and consumer finance firms' portfolios.
- In addition, the government is ramping up its vaccination program, firstly allowing those aged 18 years and older in Jakarta to get vaccinated and subsequently announcing a plan to start offering COVID-19 vaccines to all adults in June in addition to priority groups. (Bloomberg, IDN Financials, OCBC)

Perpetuals featured in onshore China last week

- Excluding CDs, last week's issuance was RMB427.1bn, 150% higher than last week. Key issuances were driven by financial issuers. There were two mega perpetual issuances last week from the Industrial & Commercial Bank of China Ltd and Bank of Communications pricing RMB70bn and RMB41.5bn respectively. China Merchants Bank Corp and China CITIC Bank Corp Ltd each priced RMB20bn of 3Y paper while Bank of Nanjing Co Ltd priced a RMB20bn convertible bond. The rest of the issuances were more dispersed. The China 10Y government bond yield widened 2bps w/w, ending the week at 3.15.

- Geopolitics dominated headlines last week. In a statement released after a meeting between the Association of Southeast Asian Nations ("ASEAN") and China, the parties pledged to exercise self-restraint to avoid actions that would complicate or escalate disputes in the South China Sea. Conversely, the G7 and China are clashing over multiple controversial issues, resulting in China denouncing G7's joint statement yesterday.
- On Tuesday, the US Senate passed the U.S. Innovation and Competition Act, a major bipartisan act to spur US investments in science and technology (eg: semiconductor research and development). The act is broadly seen as a way to counter China's technological rise.
- On regulatory developments, the China Banking and Insurance Regulatory Commission issued new rules on wealth management products for cash, banning such products from investing in stocks and convertible bonds and capping the leverage level of each product. In the meantime, China's crackdown on cryptocurrencies continues with Yunnan Province investigating unauthorised use of electricity by miners.
- On corporate developments, the media has reported that some 64,700 creditors are seeking a total of RMB1.2trillion as part of HNA Group's restructuring. RMB405.7bn of claims has been confirmed as valid by the company while RMB353.5bn of claims has been rejected. Other claims are being assessed while some have yet to be reviewed. (Bloomberg, Reuters, BBC, CGTN, Caixin, OCBC)

Fresh deals with Australia

- UK and Australia have reportedly agreed to terms of a post-Brexit trade deal. Meanwhile, Singapore and Australia are working towards an air travel bubble, which would likely prioritise Singapore students whose studies have been disrupted by movement restrictions.
- AUD2.96bn has been priced across 10 deals, with the largest contributors being African Development Bank (AUD600mn), Macquarie Bank Ltd (AUD750mn) and Industrial & Commercial Bank of China Ltd (AUD500mn).
- S&P200/ASX200 continues to make fresh highs after rising 0.2% w/w to close at 7312.3 pts. Meanwhile, in-line with the fall in US Treasury Yields, 10Y Australian Yield fell 20bps w/w to 1.49%. (AFR, Straits Times, OCBC)

I want it that way:

- The Monetary Authority of Singapore ("MAS") released its inaugural sustainability report, which included previously announced policies. Highlights include the integration of analytics to help the central bank continuously assess the level of climate risk exposure in its portfolio and the incorporation of a climate stress test on the financial industry by end-2022. Furthermore, the MAS expects all banks, insurers and asset managers operating in Singapore to make climate-related disclosures from June 2022.
- The MAS committed to provide SGD1.8bn in funds to five asset managers for their investment in climate-related projects. The funds will be drawn from MAS's foreign exchange reserves and is part of the SGD2.0bn Green Investment Program established in 2019. The five fund managers will set up Asia-Pacific sustainability hubs in Singapore and launch new ESG thematic funds for the region.
- CapitaLand Ltd ("CAPL", Issuer Profile: Neutral (3)) announced plans to set up a SGD50mn fund, the CapitaLand Innovation Fund, over five years to support

projects within the company to make its buildings and facilities more sustainable.

- The People's Bank of China issued a notice stating that it will include green financing in its review of banking and financial institutions in the country. Branches of the central bank will be asked to provide rules for the implementation of green financing evaluation of banks in their jurisdiction.
- The Australia Institute, a think tank, released a report ahead of the G-7 summit, which warned that the potential EU carbon border adjustment mechanism ("CBAM") would seriously affect Australia's exports of alumina, aluminium and steel. According to the report, Australia is the world's second largest producer of alumina, accounting for 13.9% of global production. Meanwhile, the Australian government has denounced the CBAM as a "protectionist policy".
- Australian scientists at Monash University created an environmentally friendly method of producing ammonia at scale from renewable energy in reactors, which could have dramatic effects on the global emissions. Currently, the creation of ammonia accounts for ~1.8% of the world's carbon emissions.
- In North-eastern Australia, the Queensland government will commit AUD2.0bn towards renewable energy projects. The fund will support government-owned businesses to expand ownership of renewable energy generation and storage and deliver on a target of 50% renewable energy by 2030.
- Following the U.S.' tough trade stance on China, First Solar Inc, the largest U.S. solar-panel marker, plans to invest ~USD680mn in a new factory in Ohio which will have a 3.3GW manufacturing capacity. This will boost the company's domestic footprint to ~6GW a year.
- Lastly, green, social, sustainability and sustainability-linked bond sales from governments and corporates so far this year total USD486.0bn, 236% higher than the same point last year. (Bloomberg, Australia Institute, Monetary Authority of Singapore, Straits Times, OCBC)

Key Market Movements

	15-Jun	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	83	0	-2
iTraxx SovX APAC	25	-1	-1
iTraxx Japan	45	-2	-3
iTraxx Australia	57	-1	-3
CDX NA IG	49	-2	-3
CDX NA HY	110	0	1
iTraxx Eur Main	47	-2	-4
US 10Y Yield	1.48%	-5	-15
Singapore 10Y Yield	1.41%	-8	-12
Malaysia 10Y Yield	3.23%	-1	9
Indonesia 10Y Yield	6.39%	-2	-4
China 10Y Yield	3.14%	0	1
Australia 10Y Yield	1.50%	-11	-30
USD Swap Spread 10Y	-3	0	2
USD Swap Spread 30Y	-31	-2	1
Malaysia 5Y CDS	44	-1	-3
Indonesia 5Y CDS	73	-2	-4
China 5Y CDS	36	-1	-2

	15-Jun	1W chg	1M chg
Brent Crude Spot ($/bbl)	73.24	1.41%	6.59%
Gold Spot ($/oz)	1867.02	-1.37%	0.01%
CRB	211.03	0.72%	3.81%
CPO	3559.00	-15.86%	-25.85%
GSCI	529.53	-0.60%	2.82%
VIX	16.27	-4.69%	-13.50%
SGD/USD	0.75	0.15%	-0.72%
MYR/USD	0.24	-0.12%	-0.33%
IDR/USD	0.07	-0.28%	-0.65%
CNY/USD	0.16	0.02%	-0.58%
AUD/USD	0.77	-0.50%	-0.79%
DJIA	34394	-0.68%	0.03%
SPX	4255	0.68%	1.95%
MSCI Asiax	891	0.35%	5.18%
HSI	28672	-0.40%	2.30%
STI	3174	0.23%	3.91%
KLCI	1583	-0.32%	0.02%
JCI	6075	1.26%	2.30%
CSI300	5167	-2.10%	1.10%
ASX200	7380	1.34%	5.21%

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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