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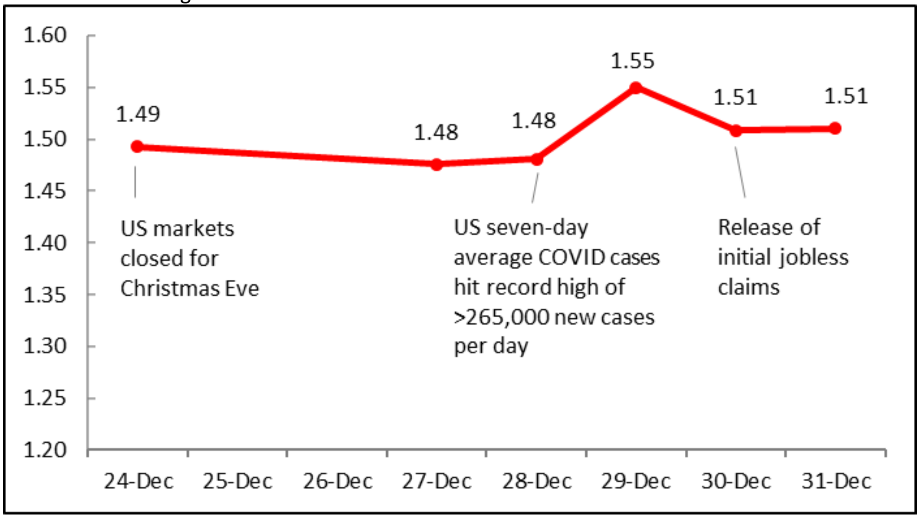
Credit Week in Brief

Markets

Figure 1: 10Y UST Yields, %

Source: Bloomberg



Yields fluctuate as investors continue to assess impacts of the Omicron variant:

- On Monday, UST 10Y yields traded 1bps lower to 1.48% after the holiday weekend as COVID-19 cases in the United States continued to rise, driven primarily by the Omicron variant. UST 10Y yields remained relatively unchanged at 1.48% on Tuesday, as investors weighed on the impacts of the Omicron variant. On Wednesday, UST 10Y Yields traded 7bps higher to 1.55% as positive research studies of the Omicron variant's possibly lower fatality and health damage boosted more risk-on sentiments. On Thursday, UST 10Y yields traded 4bps lower to 1.51% as investors continued to weigh on the Omicron variant developments. This came alongside a lower-than-expected US weekly jobless claims reading released by the US Department of Labor at 198,000, compared to Bloomberg median estimates of 206,000. Following this pullback on Thursday, UST 10Y Yields traded relatively flat at 1.51% on Friday. This represents a 60bps y/y increase registered in 2021 amidst the Fed's hawkish pivot over the year, which is also the largest annual increase since 2013.
- W/w, 10Y UST Yields rose 2bps from 1.49% to 1.51%. (Bloomberg, OCBC)

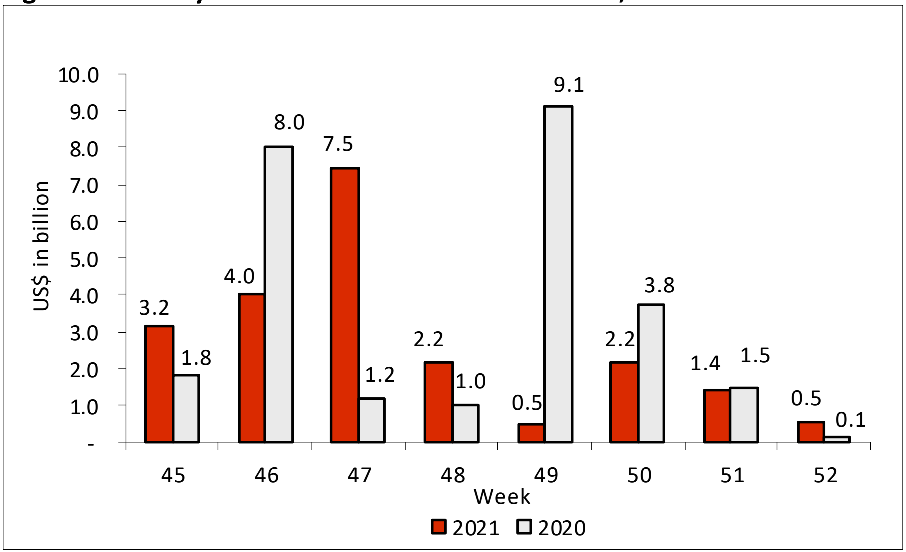
Zero issuances over the last week of 2021 in the US primary market:

- The IG space saw issuances falling to zero last week, decreasing from USD5.81bn in the prior week. According to Bloomberg, option adjusted spreads for investment grade bonds narrowed w/w.
  - Sector-wise, option adjusted spreads narrowed the most in the Communications industry and widened the most for Other Industrials.
  - As expected over the year-end period and Christmas holiday, issuances in the US high-grade primary market were down as compared to the first two weeks of December 2021 which contributed to the record supply of USD61bn in new issuances for the month.

- With seven issuers already pricing over USD11bn of bond issuances on the first trading day of the year yesterday, higher numbers could be expected this week as issuances in the US high-grade primary market bounce back following the year-end holiday. (Bloomberg, OCBC)

- HY issuances were also at zero last week, same as per the prior week. According to Bloomberg, option adjusted spreads for US high-yield bonds also remained unchanged.
  - Sector-wise, option adjusted spreads widened the most for insurers, but narrowed the most for companies in the Energy industry.
  - As similarly experienced in the US high-grade primary market, issuances remained quiet in the high-yield primary market over the year-end period. This is in line with the overall low issuance volume in December 2021 at USD12.4bn, which represents a 66% m/m decrease. (Bloomberg, OCBC)

Figure 2: Weekly Asiadollar bond issuance volume, USDbn



Source: Bloomberg

New year but same problems in Asiadollar:

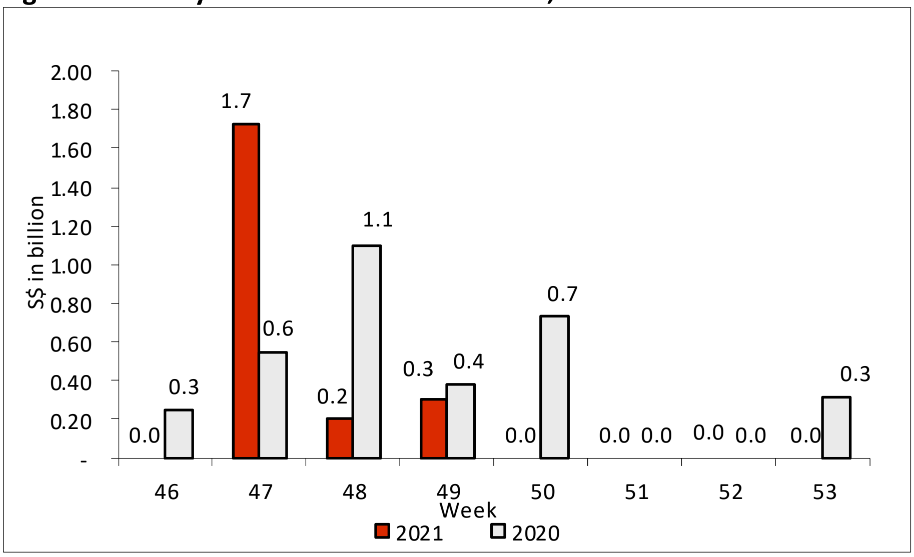
- Asiadollar activity was somewhat muted at the end of 2021 following an eventful year with the Bloomberg Barclays Asia USD IG Bond Index average OAS tightening 1bps w/w to 121bps and the Bloomberg Barclays Asia USD HY Index average OAS remaining stable w/w at 893bps. For the year, the Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 19bps from 150bps while the Bloomberg Barclays Asia USD HY Index average OAS widened 249bps y/y from 644bps to finish at its highest point in the past 10 years. The HY index peaked at 1204bps on 20 December 2021.
- The driver for high yield performance in 2021 which is liquidity concerns in China high yield property looks to persist and potentially amplify going into January 2022. According to Bloomberg, bond repayments for stressed firms in January are larger than November and December combined with around USD197bn needed by the sector to cover maturing bonds, coupons, trust products and deferred wages to millions of migrant workers.
- Last week, China Evergrande Group ("EVERRE") failed to repay USD255.2mn in coupons due 28th December 2021 on EVERRE 8.75% '25s and EVERRE 7.5% '23s. There is also a 30-day grace period on the payments, and we expect that a managed debt restructuring process would be carried out as next course of

action given ongoing liquidity issues. Although EVERRE is in the process of raising liquidity through accelerating completion of development projects as well as other measures including selling its stake in Chinese Developer China Calxon Group Co., that is owned by its Kailong unit, there are liquidity issues on multiple fronts for EVERRE.

- Kailong may have to liquidate its entire 13.6% stake in the developer anyway after pledging the shares as collateral for a loan in a deal with Citic Securities.
- EVERRE has extended its repayment plans for overdue wealth management products paying a lower monthly amount over a longer period.
- EVERRE shares were suspended yesterday before resuming this afternoon following the company's announcement of a demolition order for 39 buildings in Hainan province.
- EVERRE also announced that contracted property sales fell 39% y/y in 2021 to CNY443bn, the first y/y fall in around 10 years.

- Away from EVERRE, Kaisa Group Holdings Ltd ("Kaisa") had USD154mn of bond coupons due December 30th on its 8.5% 2022 bond and 9.375% 2024 bond. As of writing, bondholders are yet to receive payments although both coupons have 30-day grace periods before an event of default could be declared. Kaisa remains in default on three other payments due early December and also has another USD141mn in coupons due in January 2022.
- With so many repayments due in the China high yield property space in January, every announcement is being watched. Zhenro Properties Group Ltd has said it will pay the CNY57.5mn coupon on its CNY1.6bn 7.125% note when due on January 2nd, Shanghai Powerlong Industrial Development Group Co Ltd said it will repay in full a CNY930mn note on January 20th, three years earlier than its maturity date due to bondholders exercising a put option while Logan Group Co Ltd announced the repayment of its LOGPH 5.75% '22s that matured on January. (Bloomberg, OCBC)

Figure 3: Weekly SGD bond issuance volume, SGDbn



Source: Bloomberg

Optimism in 2022 for Singapore:

- As a summary of our Credit Outlook 2022 published on 31 Dec 2021 (abridged version here), last year was a stand-out year for the Singapore corporate bond market with total issuances of SGD25.3bn hitting a 9-year high on the back of a stronger macroeconomic outlook and deep liquidity in the market.
- Looking into 2022, a recurring theme will be developments on the COVID-19 front though investors will need to keep a closer eye on inflation readings. We expect a broader potential range of outcomes though overall we are optimistic as countries have become better prepared against the pandemic.
- Given the volatile rates and expected improvements in the macroeconomy, we prefer taking some credit risk and subordination risk (including perpetuals with resets) over interest risk to generate returns. Conversely, we would stay away from long dated and very high-grade bullet bonds.
- Even though inflation and rates are the bane of bonds, perpetuals have held up better relative to straight bonds (including shorter-tenured ones) amidst the rising rates environment in 2H2021. This is because higher rates reduce the likelihood for distribution rates to be reset lower while the likelihood of the call being exercised increases with higher rates. Higher spreads and higher carry offered by perpetuals also cushions the impact from rising interest rates to keep total returns positive.
- By industry, REITs have overall been stable though the sub-sector performance diverged. Commercial REIT asset values generally held up despite the move towards hybrid working model impacting office occupancy while tenant sales declined in shopping malls, especially in downturn areas. Industrial REITs proved to be the most resilient and we expect good performance to hold up into 1H2022. Hospitality REITs are still plagued by uncertainty and several have diversified into student accommodation.
- We turned out too bearish on the Singapore residential property market. Prices rose 10.6% y/y, beating our 7-10% growth forecast. We think the firm prices attest to the strong property demand driven by the increasing wealth and aspirations of Singaporeans to upgrade while supply crunch is looming. The latest property cooling measures do not significantly impact first-time homebuyers and HDB upgraders who are a significant source of demand, and as such we expect property prices to grow 5-7% in 2022.
- The largest news flow before the end of 2021 was the surprise announcement on the proposed combination of Mapletree Commercial Trust ("MCT") and Mapletree North Asia Commercial Trust ("MNACT"). As at 30 Sep 2021, the aggregate leverage was 33.7% for MCT while 41.5% for MNACT. Given that this is largely an equity deal where MNACT unitholders will be taking units of MCT (under option A) or ~84% in MCT units and ~16% in cash (under option B), the combined entity will have an aggregate leverage of 38-40%. As such, the transaction is somewhat credit negative for MCT while being somewhat beneficial for MNACT. The equity market reacted with MCT unit prices down ~9% while MNACT unit prices down ~1% compared to pre-announcement. (Company, URA, OCBC)

Expansion in Malaysia despite flood:

- Malaysia's December manufacturing purchasing managers' index (PMI) was a notch higher as compared to November. The index rose from 52.3 to 52.8, marking a third consecutive month of expansion. Output sub-index and new orders similarly recorded an increase in December, both readings are at its highest since April 2021.
- The Malaysian Ringgit closed lower against the US dollar on the first trading day of the year. The Ringgit continues to weaken with the pair trading at 4.1805 as of writing. Bursa Malaysia's KLCI started the year on a weaker note as market sentiment is clouded by new clusters of the Omicron variant in Malaysia.
- Meanwhile, both the government and corporate bonds space saw muted demand on the last trading day of the year. The 10Y MGS bond yield closed at 3.60% on 31 Dec 2021 which is 81 bps higher as compared to 31 Dec 2020. 10Y corporate yield (AAA curve) also closed higher at 4.10%, a year-to-date increased of 84bps. In the new year, Maxis Broadband Sdn Bhd, a communications service provider in Malaysia, came to the market with 3 new Sukuk Al Murabaha issues amounting to MYR1.1bn in deal size.
- In Malaysia's 2022 Budget, tax exemption on foreign income was proposed to be removed effective 1 January 2022. In essence, this translates to an incremental tax on foreign-sourced income ("FSI") which was not well received by both individuals and entities especially those with significant FSI. However, the Ministry of Finance ("MOF") announced on 30 December 2021 that the government will extend the tax exemption on all types of foreign income for individuals. Tax exemption is also extended to dividend income earn by limited liability companies and partnerships. The exemption would be effective from 1 January 2022 till 31 December 2026, subject to the eligibility criteria detailed in the Inland Revenue Board's guidelines.
- Ekovest Berhad ("Ekovest") is engaged in construction operations, property development, investment holding and toll operations in Malaysia. Ekovest issued a first tranche of MYR150m bonds under its MYR1.3bn Sukuk Murabahah programme with up to 20 years tenor. Proceeds will be used to finance its investment activities, capital expenditure and working capital requirements.
- Malaysia Airports Holdings Bhd ("MAHB"), which provides management and maintenance at designated airports, raised MYR800m via a triple-tranche sukuk to support the group's business growth plans and strategies. The offering comprises a 5-year MYR475m sukuk, a 7-year MYR225m sukuk and a 10-year MYR100m sukuk. The book received overwhelming demand from investors, with an oversubscription rate of more than nine times from initial target issue size of MYR500m. (Bernama, Bloomberg, BIX, Edge Malaysia, The Straits Times, New Straits Times)

What's in store for Indonesia?

- Amidst persisting uncertainty from COVID-19 and rising interest rates that will push up borrowing costs and possibly lead to capital outflows is a record amount of local currency bonds maturing. According to Bloomberg, Indonesian issuers must repay around IDR135tr in 2022, higher than the ~IDR100bn due in 2020 and 2021. Of some relief is that IDR80tr occur in 2H2022.
- Local rating agency PT Pemeringkat Efek Indonesia ("Pefindo") is therefore expecting active issuance in 2022 forecasting domestic issuance of around

IDR150tr, a 50% increase from 2021 per Bloomberg. The Indonesian government's traditional start of the year issue may provide an indication of investor appetite for Indonesia in 2022 although there appears generally positive sentiment towards Indonesia credit on expectations of positive performance of the economy in 2022 and improving consumer sentiment in addition to better relative yields. According to the Indonesia Bond Pricing Agency, yields on AAA rated 3-year local-currency corporate securities fell 6.3bps during December 27-30.

- There were two new issuers in the last few weeks of 2021 with commercial lender PT Bank Pembangunan Daerah Sulawesi Selatan Dan Sulawesi Barat and property developer PT PP Properti Tbk both issuing dual tranche bonds.
- A better outlook may have positive implications on distressed scenarios in Indonesia. Clothing maker PT Sri Rejeki Isman has reportedly offered bondholders an additional tranche of secured 5 year notes and more collateral in its updated debt restructuring proposal as opposed to the previously proposed straight swap. Voting instructions for creditors are expected to be provided at a creditors' meeting on January 21st. The previously reported deadline for completion of the court-enforced debt restructuring is January 31st.
- In addition, PT Garuda Indonesia is offering a recovery rate of 19 cents on the dollar to creditors in its debt restructuring plan according to deputy minister of Indonesia's State-Owned Enterprises Ministry, Kartika Wirjoatmodjo. Administrators will reportedly verify creditor claims on January 19th with a vote on the restructuring plan expected on January 20th. (Bloomberg, OCBC)

China to issue more treasury bonds in 2022:

- RMB160.7bn (excluding CDs) was priced in primary markets last week, capping issuances for 2021 at RMB13.4trillion (up 38.5% y/y). The largest issuance last week, at RMB10bn was a 10YNC5 paper from Beijing Rural Commercial Bank Co Ltd while the rest of the issuances was relatively dispersed. The RMB appreciated slightly by 0.17% in the past week against the USD, ending at RMB6.357 on 31 December 2021. The China 10Y government bond yield rallied 5bps to 2.78% on Friday.
- The Caixin/Markit Manufacturing Purchasing Managers Index ("PMI") increased to 50.9 in December 2021, superseding analyst expectations. As detailed in OCBC's China Economist's Week in Review – more "pro-growth" China's official PMI has also rebounded. The report also detailed the latest stance on the latest monetary policy.
- China has locked down the city of Xi'an in Shaanxi Province due to a rise in COVID-19 cases. This comes ahead of the Beijing Winter Olympics set to begin in a month's time.
- Reporting on statements from a director of the Treasury Department, Ministry of Finance, Reuters reported that China plans to sell a record volume of treasury bonds in 2022 while keeping interest rates lower (by increasing proportion of shorter dated bonds). The higher volume is on the back of high maturities amidst a policy to stabilise economic growth. China will also guide more mid-to-long term foreign capital to China's bond market.
- According to an earlier statement from the State Administration of Foreign Exchange ("SAFE"), foreign investors increased their holdings of Chinese bonds and stock by USD24.4bn in November 2021.

- In a bid to calm bond markets, the National Development and Reform Commission ("NDRC") asked its local branches to conduct "comprehensive" inspections on companies' bond repayment arrangements and risks in an annual inspection. Bond underwriters were also told to check and report any risks of bonds they underwrite to the NDRC.
- On capital market developments, the People's Bank of China and various other departments including the China Securities Regulatory Commission and the China Banking and Insurance Regulatory Commission issued a joint plan for the Chengdu-Chongqing Co-construction of Western Financial Center. Under the plan, a western financial center will be initially completed in the Chengdu-Chongqing Region by 2025. Aside from increasing the links between the domestic and overseas financial markets, the plan aims to support non-financial Singapore and Japanese companies to conduct equity and debt financing. A national fintech certification centre in Chongqing is also planned.
- Additionally, the NDRC is encouraging the growth of Real Estate Investment Trust in the market. In China, this segment is targeted towards the listing of infrastructure projects. (Bloomberg, Reuters, CNN, China Daily, Yicai Global, OCBC)

Braving the Omicron outbreak in Australia:

- Despite record cases of COVID-19 in Australia, with New South Wales hospitalisation hitting 1,344 and surpassing the previous peak during the Delta outbreak, the Australian government (under Scott Morrison) is still looking to reopen the economy. While an open economy is beneficial for corporate profitability, it remains to be seen if the policy will change if the healthcare system faces further pressure.
- In the final two weeks in December 2021, AFR reported that AUD3.2bn of malls, office towers, healthcare assets, childcare centres and major development sites were transacted. This includes CapitaLand Integrated Commercial Trust buying a 50%-stake in an office asset for AUD422mn.
- The primary market was quiet, with just an AUD200mn re-tap by South Australian Government Financing Authority last week.
- Last Friday, 10Y Australia Yield rose 9bps w/w to close at 1.67% while Bloomberg Australia Corporate Average OAS tightened 2bps w/w to close at 1.13%. (Bloomberg, AFR, CNA, OCBC)

Transparency and Disclosures:

- Singapore Exchange announced its roadmap for issuers to provide climate-related disclosures based on recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") on 15 December 2021. All issuers must provide climate reporting on a 'comply or explain' basis in their sustainability reports from financial year ("FY") commencing 2022. More details on the key changes effective 1 Jan 2022 can be found on the SGX website here.
- Bank Negara Malaysia and Securities Commission will issue an Application Guide on TCFD-aligned disclosures on climate-related risks by financial institutions for public consultation in January 2022. Financial institutions are expected to make mandatory disclosure from 2024.
- The European Council approved EU Taxonomy Climate Delegated Act on 9 December 2021, with the regulation taking effect on 1 January 2022. Separately,

the EU have begun consultation on the inclusion of natural gas and nuclear-energy as green investment and aims to formally adopt the revised EU taxonomy following consultation.

- France's financial regulators, the Autorité des Marchés Financiers (AMF) and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) announced on 29 December 2021, the publication of a new report examining climate commitments made by financial institutions including banks, insurers and investment management companies. The report focuses in particular on the exposures relating to fossil fuel sector. More details can be found here.
- Similarly, Canada has joined the bandwagon towards mandatory climate disclosures. Prime Minister Justin Trudeau has directed the government's cabinet ministers to move toward mandatory climate-related financial disclosures based on the TCFD and also to require regulated institutions like financial institutions, pension funds and government agencies, to issue climate-related disclosures and net zero plans.
- JPMorgan Chase ("JPM") appointed Ben Ratner as Executive Director in Sustainability on 3 January 2022, reporting to Marisa Buchanan, Global Head of Sustainability. Ratner will be responsible in JPM's sustainability strategy and helping to further integrate sustainability into its business to drive inclusive and sustainable growth. He joins JPM following 10 years at environmental sustainability-focused group, Environmental Defense Fund ("EDF").
- Saudi National Bank ("SNB"), the largest bank by assets in the kingdom established the first sustainable finance framework in Saudi Arabia. SNB's Sustainable Finance Framework consists of four main pillars, such as promoting sustainable financing, preserving the environment, empowering individuals and communities, as well as promoting principles of ethical governance. HSBC acted as the sole ESG structuring agent on the establishment of this said framework for SNB.
- According to data compiled by Bloomberg, sustainability-linked bond (SLB) issuances have recorded a total of USD15.57bn in December. This is a decrease from the previous month which may be due to year-end holidays. The European region continues to dominate overall issuances.
- Lastly, per Bloomberg, green, social, sustainability and sustainability-linked bond sales from governments and corporates total USD1.04tr in 2021. Of this, green bond sales total about USD546bn. (ESG Today, The Straits Times, The Business Times, CNA, The Edge, The Star, Bloomberg, OCBC)

Key Market Movements

	04-Jan	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	77	-3	-16
iTraxx SovX APAC	21	-1	-4
iTraxx Japan	46	0	-6
iTraxx Australia	63	-1	-12
CDX NA IG	50	0	-7
CDX NA HY	109	0	1
iTraxx Eur Main	48	0	-9
US 10Y Yield	1.62%	14	28
Singapore 10Y Yield	1.70%	12	12
Malaysia 10Y Yield	3.59%	3	4
Indonesia 10Y Yield	6.39%	3	13
China 10Y Yield	2.79%	-1	-11
Australia 10Y Yield	1.74%	16	13
USD Swap Spread 10Y	5	-2	-4
USD Swap Spread 30Y	-20	-3	-7
Malaysia 5Y CDS	45	-1	-15
Indonesia 5Y CDS	73	-1	-14
China 5Y CDS	40	-1	-12
Australia 5Y CDS	14	0	0

	04-Jan	1W chg	1M chg
Brent Crude Spot ($/bbl)	79.00	0.08%	13.05%
Gold Spot ($/oz)	1805.76	-0.02%	1.52%
CRB	233.00	-0.58%	5.60%
CPO	5217.00	0.00%	0.81%
GSCI	564.48	-0.36%	7.49%
VIX	16.60	-6.11%	-45.88%
SGD/USD	0.74	-0.09%	-1.15%
MYR/USD	0.24	0.00%	-1.21%
IDR/USD	0.07	0.52%	-0.95%
CNY/USD	0.16	0.06%	-0.06%
AUD/USD	0.72	-0.37%	2.16%
DJIA	36585	0.78%	5.80%
SPX	4797	0.11%	5.69%
MSCI Asiax	790	0.56%	0.44%
HSI	23184	-0.42%	-2.45%
STI	3160	1.00%	1.86%
KLCI	1539	-0.04%	2.50%
JCI	6716	2.14%	2.72%
CSI300	4878	-0.84%	-0.47%
ASX200	7571	2.48%	4.55%

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, Lendlease Global Commercial REIT, and Ascott Residence Trust.