Asian Credit Daily

13 February 2024

Market Commentary:

- The SGD SORA curve traded higher last Friday, with short tenors trading 2bps higher, belly tenors trading 2-3bps higher, and the 10Y trading 2bps higher.

- Flows in SGD corporates were moderate, with flows in BNP 4.75% '34s last Friday.

- According to Bloomberg, Sunac China Holdings Ltd. agreed to sell a 70% stake in Sichuan Sancha Lake International Tourism Resort Co. Ltd. to Guotou Zhongdian (Xianyang) Science Park Co. Ltd. for about CNY3.97bn (USD552mn). The consideration comprises about CNY3.13bn for the company, along with about CNY845mn for the debts owed to Sunac and its affiliates.

- Elsewhere, Zhongliang Holdings Group Co Ltd announced in a filing that around 99% of creditors approved its offshore debt restructuring scheme. A court hearing on 23 February will seek approval and court sanctioning for the scheme.

- Yesterday, Bloomberg Asia USD Investment Grade spreads widened by 1bps to 99bps while the Asia USD High Yield spreads widened by 4bps to 649bps since our last report, per Bloomberg.

- There were no notable bond issuances in both the Asiadollar and Singdollar market yesterday.

Credit Summary:

- **Barclays PLC ("Barclays"):** Barclays has announced that it has entered into an agreement to acquire most of Tesco PLC's ("Tesco") UK retail banking business for around GBP600mn. The transaction, which is through Barclays Bank UK PLC, remains subject to regulatory approval with completion expected in 2H2024.

- **Macquarie Group Limited ("MQG")**: MQG provided an operational briefing for 3QFY2024 and the FY2024 year to date with net profit after tax for 3QFY2024 and 9MFY2024 down substantially down y/y due to a strong 3QFY2023 result.

- **Australia & New Zealand Banking Group Ltd ("ANZ"):** ANZ announced its 1QFY2024 chart pack and earnings update with generally constructive performance. Revenues were in line with the 1HFY2023 quarterly average due to growth in average interest earnings assets. Net loans and advances rose 1% q/q from growth in Australia Retail and Commercial and New Zealand Retail and Commercial while deposits in Australia Retail and Commercial rose ~3% q/q.

Key Market Movements

	13-Feb	1W chg (bps)	1M chg (bps)		13-Feb	1W chg	1M chg
iTraxx Asiax IG	100	0	4	Brent Crude Spot ($/bbl)	82.1	4.4%	4.8%
				Gold Spot ($/oz)	2,018	-0.9%	-1.9%
iTraxx Japan	57	0	1	CRB Commodity Index	273	1.9%	3.4%
iTraxx Australia	68	-1	-1	S&P Commodity Index - GSCI	558	2.5%	3.7%
CDX NA IG	54	-2	-1	VIX	13.9	1.9%	9.7%
CDX NA HY	106	0	0	US10Y Yield	4.18%	8bp	24bp
iTraxx Eur Main	57	-2	-3				
iTraxx Eur XO	313	-15	-16	AUD/USD	0.652	-0.1%	-2.1%
iTraxx Eur Snr Fin	69	-2	-3	EUR/USD	1.076	0.1%	-1.7%
iTraxx Eur Sub Fin	126	-6	-6	USD/SGD	1.346	-0.2%	-1.0%
				AUD/SGD	0.878	-0.1%	1.2%
USD Swap Spread 10Y	-37	1	3	ASX200	7,606	0.3%	1.4%
USD Swap Spread 30Y	-73	0	-2	DJIA	38,797	1.1%	3.2%
				SPX	5,022	1.6%	5.0%
China 5Y CDS	65	1	2	MSCI AC AsiaxJ	621	-0.3%	0.1%
Malaysia 5Y CDS	43	-2	0	HSI	15,747	1.4%	-3.1%
Indonesia 5Y CDS	74	-1	1	STI	3,134	0.0%	-1.8%
Thailand 5Y CDS	40	-1	-1	KLCI	1,524	0.8%	2.5%
Australia 5Y CDS	15	-1	-2	JCI	7,244	0.1%	0.0%
				EU Stoxx 50	4,746	2.0%	5.9%

Source: Bloomberg

Credit Headlines:

Barclays PLC ("Barclays")

- Barclays has announced that it has entered into an agreement to acquire most of Tesco PLC's ("Tesco") UK retail banking business for around GBP600mn. The transaction, which is through Barclays Bank UK PLC, remains subject to regulatory approval with completion expected in 2H2024.
- Tesco is the UK's largest retailer and, per Barclay's statement, operates the UK"s largest loyalty scheme.
- The acquisition includes:
  - GBP4.2bn in credit card receivables.
  - GBP4.1bn in unsecured personal loans.
  - GBP6.7bn in customer deposits.
  - Tesco will retain ATM operations, insurance and travel money services.
  - A 10-year strategic agreement to use the Tesco brand for marketing and distributing credit cards, unsecured personal loans and deposits.
- Barclays will finance the acquisition with internal resources and expects a 0.3% negative impact to its Common Equity Tier 1 ratio which was 14.0% as at 30 September 2023. This was at the top of its CET1 ratio target range of 13-14% and above its 11.8% maximum distributable amount ("MDA") minimum requirement.
- In its 3Q2023 earnings announcement, management highlighted (1) a weaker UK net interest margin outlook, reducing its 2023 outlook for UK net interest margins (contributes 50% of group net interest income) to 3.05%-3.10% (3.15% in 9M2023, 3.04% in 3Q2023) given the higher cost of deposits, and (2) a strategy update to be announced together with the bank's 2023 results that will include revised financial targets and capital allocation priorities. 2023 results are expected to be announced on 20 February.
- The strategy update may give context to this acquisition and Barclays' strategy to grow its UK retail banking and unsecured lending business. Barclays is also selling its German consumer-finance business that includes credit cards, unsecured personal loans and deposits and appears to be viewed as non-core.
- Separately, Barclays announced plans to stop the financing of new oil and gas projects from new and non-diversified oil and gas clients and also released its Transition Finance Framework that includes the purpose of the framework as well as Barclays' definition of transition finance and list of activities that are considered eligible transition activities for the purposes of transition finance that covers lending, capital markets and other financing solutions. (Company, OCBC)

Macquarie Group Limited ("MQG")

- MQG provided an operational briefing for 3QFY2024 and the FY2024 year to date with net profit after tax for 3QFY2024 and 9MFY2024 down substantially down y/y due to a strong 3QFY2023 result. Other influences include:
  - Lower asset realisations in green investments and reduced margins and car loan portfolio (-8% q/q) in MQG's annuity-style businesses' (Macquarie Asset Management ("MAM"), Banking and Financial Services ("BFS") and certain businesses in CGM). This was partially offset by home loans and business lending growth in BFS with the home loan portfolio up 3% q/q and the business banking loan portfolio up 6% q/q.
  - High base of markets facing (Macquarie Capital ("MC") and most businesses in Commodities and Global Markets ("CGM") businesses in FY2023, in particular from gas and power businesses within commodities in CGM as well as non-recurrence of material asset realisations. In addition, fee and commission income in MC was lower. These all offset higher net interest and improved investment-related income in MC.
- MQG's capital position remains sound with the CET1 ratio at 13.4% as at 31 December 2023, up from 13.2% as at 30 September 2023 but down from 13.7% as at 31 March 2023. This translates to a capital surplus of AUD9.7bn against the 10.5% minimum under the Australian Prudential Regulation Authority's "Unquestionably Strong" bank capital framework (revised up from 10.25%). On an internationally comparable Basel III basis, the CET1 ratio was 18.2% as at 31 December 2023.
- MQG also shared the resignation of Mr Nicholas O'Kane as Head of CGM effective 27 February. He will be replaced by Mr Simon Wright who is the current head of CGM's Financial Markets division. Both have been

with MQG for a significant amount of time, Mr O'Kane for 28 years and Mr Wright for 35 years. CGM accounted for ~48% of MQG's adjusted 1HFY2024 net profit before corporate expenses.

- Management is maintaining a cautious and conservative short term outlook given that CGM and MC performance is influenced by market conditions while MAM and BFS will be influenced by lower asset realisations revenue and higher expenses respectively. (Company, OCBC)

Australia & New Zealand Banking Group Ltd ("ANZ")

- ANZ announced its 1QFY2024 chart pack and earnings update with generally constructive performance. Revenues were in line with the 1HFY2023 quarterly average due to growth in average interest earnings assets. Net loans and advances rose 1% q/q from growth in Australia Retail and Commercial and New Zealand Retail and Commercial while deposits in Australia Retail and Commercial rose ~3% q/q.
- At the same time, loan quality appears to be contained with total provisions of AUD53mn. This was evenly split between individual provisions (AUD27mn) and collective provisions (AUD26mn) with the ratio of gross Impaired Assets to total Gross Loans and Advances up 1bp to 0.22%. Consumer portfolio 90+ days past due ratios also continue to rise although remain well below pre Covid levels.
- ANZ's balance sheet remains well provisioned with AUD4.03bn in collective provisions as the additional collective provisions raised were offset by FX movements. The ratio of collective provisions to credit risk weighted assets was 1.17% as at 31 December 2023, stable q/q and up from 1.07% as at 30 September 2023.
- ANZ's CET1 ratio of 13.06% as at 31 December 2023 is down 28bps q/q as 42bps in earnings and other movements was offset by payment of the 2023 final dividend (-64bps) and risk weighted asset growth (-6bps). On a proforma basis including ANZ's proposed acquisition of Suncorp Bank (124bps) and adjusting for surplus capital in the Non-Operating Holding Company (4bps), the CET1 ratio falls to 11.86% as at 31 December 2023, still well above the Australian Prudential Regulation Authority's 'Unquestionably Strong' benchmark of 10.25%. ANZ is expecting to issue AUD30-35bn in term funding in FY2024.
- As previously mentioned in August 2023, Australia's competition regulator, the Australian Competition & Consumer Commission ("ACCC"), rejected ANZ's proposed acquisition of Suncorp Group Limited's Suncorp Bank. ANZ has filed an application to review the decision with the independent Australian Competition Tribunal and an outcome is expected in February 2024. (Company, OCBC)

Mandates:

- There are no Asiadollar mandates for today.

GLOBAL MARKETS RESEARCH

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
Cindyckeung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
HerberthtWong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
MengTeeChin@ocbc.com

Co.Reg.no.: 193200032W