Asian Credit Daily

14 February 2024

Market Commentary:

- The SGD SORA curve traded higher yesterday, with short tenors trading 2-5bps higher, belly tenors trading 6bps higher, and the 10Y trading 5bps higher.

- Flows in SGD corporates were heavy, with flows in BNP 4.75% '34s, STTGDC 5.7%-PERP, LLOYDS 5.25% '33s

- According to Bloomberg, four Adani Group companies, namely (Adani Electricity Mumbai Ltd., Adani Transmission Step-One Ltd., Adani Green Energy Ltd. and one its subsidiaries) had their outlook raised from negative to stable by Moody's Investors Service. Moody's reason for the raise was that the Supreme Court's decision to entrust SEBI to complete the investigation on the Adani Group and the court's view that there is no apparent regulatory failure attributable to SEBI have curbed the potential tail risk in a downside scenario. Moody's also said that the group companies have showed their ability to access equity markets and debt capital at a reasonable cost. Bloomberg also reported that the conglomerate is in talks to raise USD500mn.

- Yesterday, Bloomberg Asia USD Investment Grade spreads tightened by 3bps to 95bps while the Asia USD High Yield spreads tightened by 20bps to 629bps, per Bloomberg.

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

Credit Summary:

- **Standard Chartered PLC ("StanChart"):** StanChart is reportedly considering the separation of its investment banking services within institutional banking from its corporate and commercial banking operations.

- **Commonwealth Bank of Australia ("CBA"):** CBA reported its 1HFY2024 results for the six months ended 31 December 2023 with net profit after tax from continuing operations down 3% y/y to AUD5.02bn. This was driven by a 2% y/y fall in net interest income and a 4% y/y rise in underlying operating expenses.

Key Market Movements

	14-Feb	1W chg (bps)	1M chg (bps)		14-Feb	1W chg	1M chg
iTraxx Asiax IG	101	1	4	**Brent Crude Spot ($/bbl)**	82.4	4.0%	5.2%
				Gold Spot ($/oz)	1,991	-2.2%	-3.2%
iTraxx Japan	57	-1	0	**CRB Commodity Index**	273	1.5%	3.3%
iTraxx Australia	68	0	-1	**S&P Commodity Index - GSCI**	559	2.7%	3.9%
CDX NA IG	55	0	0	**VIX**	15.9	21.4%	24.8%
CDX NA HY	106	0	0	**US10Y Yield**	4.32%	20bp	38bp
iTraxx Eur Main	58	-2	-2				
iTraxx Eur XO	321	-9	-8	**AUD/USD**	0.645	-1.1%	-3.2%
iTraxx Eur Snr Fin	68	-3	-3	**EUR/USD**	1.071	-0.6%	-2.2%
iTraxx Eur Sub Fin	128	-4	-4	**USD/SGD**	1.351	-0.6%	-1.3%
				AUD/SGD	0.872	0.5%	1.9%
USD Swap Spread 10Y	-36	2	3	**ASX200**	7,523	-1.2%	0.3%
USD Swap Spread 30Y	-73	0	-1	**DJIA**	38,273	-0.6%	1.8%
				SPX	4,953	0.0%	3.5%
China 5Y CDS	65	2	2	**MSCI AC AsiaxJ**	622	-0.5%	0.3%
Malaysia 5Y CDS	43	0	0	**HSI**	15,579	0.4%	-4.1%
Indonesia 5Y CDS	75	2	2	**STI**	3,096	-0.9%	-3.0%
Thailand 5Y CDS	40	0	-1	**KLCI**	1,531	1.2%	2.9%
Australia 5Y CDS	15	0	-2	**JCI**	7,210	-0.4%	-0.4%
				EU Stoxx 50	4,689	0.0%	4.7%

Source: Bloomberg

Credit Headlines:

Standard Chartered PLC ("StanChart")

- StanChart is reportedly considering the separation of its investment banking services within institutional banking from its corporate and commercial banking operations.
- StanChart's business segments currently comprise (1) Corporate, Commercial & Institutional Banking that provides transaction banking, lending and financial markets services to local and large corporations, governments and banks, (2) Consumer, Private & Business Banking to individuals and small businesses, and (3) Ventures that is the consolidation of SC Ventures and StanChart's majority-owned digital banks, Mox and Trust Bank.
- StanChart is scheduled to report its 2023 results on 23 February. (Bloomberg, OCBC)

Commonwealth Bank of Australia ("CBA")

- CBA reported its 1HFY2024 results for the six months ended 31 December 2023 with net profit after tax from continuing operations down 3% y/y to AUD5.02bn. This was driven by a 2% y/y fall in net interest income and a 4% y/y rise in underlying operating expenses:
  - Net interest income performance was impacted by a fall in net interest margins to 1.99% in 1HFY2024 (2.10% in 1HFY2023) from higher funding costs, change in deposit mix to higher yielding products as well as competition that impacted asset pricing. This offset home and business lending volume growth and a 13% y/y rise in other operating income from commissions and lending fee income as well as markets trading and sales performance.
  - Operating expenses were impacted by inflation on staff and occupancy/equipment costs as well as higher technology expenditure. The cost to income ratio rose to 44.0% in 1HFY2024 from 42.4% in 1HFY2023.
- Offsetting the above was a 19% y/y fall in loan impairment expenses to AUD415mn driven by lower collective provisions with the loan loss rate at 9bps in 1HFY2024, lower than historical norms excluding FY2021 and FY2022 that were influenced by the pandemic and build up of reserves in FY2020. Supporting the lower impairment expenses is the troublesome and impaired assets ratio to total committed exposures which was 0.49% as at 31 December 2023, improved from 0.51% as at 30 June 2023 (but down from 0.46% y/y). Troublesome and impaired assets balances fell h/h from upgrades and repayments. Loan impairment provisions also remain elevated at AUD6.06bn as at 31 December 2023, up from AUD5.95bn as at 30 June 2023 with around AUD2.2bn in provision buffers against expected losses under CBA's central economic scenario.
- On a h/h basis, net profit after tax from continuing operations was up 3% y/y although this was due to the absence of AUD212mn in one-off restructuring and regulatory provisions recognised in 2HFY2023. Excluding this, net profit after tax from continuing operations was down 1.7% h/h on negative JAWS that offset a 30% h/h fall in loan impairment expenses.
- By segment, Retail Banking Services continues to be the largest contributor to net profit after tax from continuing operations at 53.5% for 1HFY2024. Business Banking contributed 37.7% while Institutional Banking and Markets and New Zealand contributed 11.7% and 12.4% respectively. Owing to the y/y fall in net interest income from competition and the deposit mix as well as its larger contribution, Retail Banking Services net profit after tax from continuing operations was down 7% y/y to AUD2.69bn and drove the weaker y/y performance for the group, overshadowing better performance in Business Banking (+6% y/y to AUD1.89bn) and Institutional Banking and Markets (+28% y/y to AUD589mn).
  - Business Banking performance benefitted from a 8% y/y rise in average interest earning assets that offset lower net interest margins.
  - Y/y improvement in Institutional Banking and Markets reflected higher trading income across Commodities and Carbon and Foreign Exchange, higher fixed income sales and favourable derivative valuation adjustments. Other positive impacts came from commissions and rental income in the aircraft lease portfolio.
  - New Zealand net profit after tax from continuing operations was down 11% y/y to AUD623mn on lower net interest margins and weaker other operating income performance due to lower treasury and markets

earnings amongst others. In addition, operating costs were higher due to higher investment and technology costs and higher staffing costs.

- CBA's Australian Prudential Regulation Authority ("APRA") compliant reported CET1 capital ratio was 12.3% as at 31 December 2023, up from 11.8% as at 30 September 2023 and 12.2% as at 30 June 2023. The improvement was due to earnings, lower interest rate risk in the banking book and lower traded market risk risk weighted assets that was offset by payment of the 2023 final dividend, other regulatory adjustments and the partial completion of the AUD1bn share buy-back. The ratio remains above APRA's minimum 10.25% requirement and translates to an ~AUD10bn capital surplus. On an internationally comparable basis, CBA's CET1 ratio was 19.0% as at 31 December 2023. Other credit ratios remain solid with the liquidity coverage ratio and net stable funding ratio at 136% and 121% respectively as at 31 December 2023.
- CBA's outlook is muted based on rising downside risks from a slower economy and rising inflation with Australia's GDP growth forecast at 1.2% in calendar 2024 before recovering to 2.5% in calendar 2025. Financial conditions are expected to remain challenging for consumers and hence the economy as seen with the weakening in consumer arrears indicators, albeit from a low base, due to the higher cost of living and higher interest rates. 30+ day home loan arrears are at 1.09% as at 31 December 2023, below the historical average of 1.34% but above 1.00% for the first time since Dec 2020.
- Solid credit metrics and capital buffers are expected to buffer a more challenging operating outlook as growth slows, deposit costs rise and earnings possibly peak. (Company, OCBC)

Mandates:

- There are no Asiadollar mandates for today.

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