

**Asian Credit Daily**

15 February 2024

**Market Commentary:**

- The SGD SORA curve traded higher yesterday, with short tenors trading 9-13bps higher, belly tenors trading 13bps higher, and the 10Y trading 12bps higher.
- Flows in SGD corporates were moderate, with flows in BNP 4.75% '34s, STTGDC 5.7%-PERP
- According to Bloomberg, China South City Holdings Ltd.'s notes fell at a record pace after the builder defaulted on a dollar bond for the first time, refreshing concerns over how much help the government is willing to support the real estate sector. In a filing, China South City said it is not expecting to make its mandatory redemption payment, as agreed to by creditors — on an October 2024 dollar bond.
- Yesterday, Bloomberg Asia USD Investment Grade spreads widened by 1bps to 96bps while the Asia USD High Yield spreads widened by 14bps to 644bps, per Bloomberg.
- There were no bond issues in the Singdollar market yesterday.
- In the Asiadollar market yesterday, Malayan Banking Bhd priced a 5Y USD100mn FRN at SOFR+95bps.

**Credit Summary:**

- **ABN Amro Bank N.V. ("ABN"):** ABN announced its 4Q2023 and 2023 results with some deceleration in q/q performance amidst strong y/y annual performance. 2023 profit of EUR2.70bn was up 44% y/y on positive JAWS as well as impairment reversals.

**Key Market Movements**

	15-Feb	1W chg (bps)	1M chg (bps)		15-Feb	1W chg	1M chg
iTraxx Asiax IG	103	2	6	Brent Crude Spot (\$/bbl)	81.3	-0.4%	4.0%
				Gold Spot (\$/oz)	1,992	-2.1%	-3.1%
iTraxx Japan	58	0	1	CRB Commodity Index	270	-0.1%	2.2%
iTraxx Australia	69	0	0	S&P Commodity Index - GSCI	553	-0.6%	2.7%
CDX NA IG	54	-1	-1	VIX	14.4	12.1%	13.2%
CDX NA HY	106	0	0	US10Y Yield	4.24%	9bp	30bp
iTraxx Eur Main	58	-2	-3				
iTraxx Eur XO	317	-11	-12	AUD/USD	0.649	-0.1%	-2.6%
iTraxx Eur Snr Fin	68	-3	-3	EUR/USD	1.073	-0.5%	-2.0%
iTraxx Eur Sub Fin	127	-4	-5	USD/SGD	1.347	0.0%	-1.0%
				AUD/SGD	0.874	0.1%	1.6%
USD Swap Spread 10Y	-36	0	3	ASX200	7,606	-0.4%	1.5%
USD Swap Spread 30Y	-73	-1	-1	DJIA	38,424	-0.7%	2.2%
				SPX	5,001	0.1%	4.5%
China 5Y CDS	65	1	2	MSCI AC AsiaxJ	623	0.1%	0.5%
Malaysia 5Y CDS	43	0	1	HSI	15,916	-1.4%	-1.9%
Indonesia 5Y CDS	73	-1	0	STI	3,157	0.0%	-1.3%
Thailand 5Y CDS	42	0	0	KLCI	1,528	1.0%	1.8%
Australia 5Y CDS	16	0	-1	JCI	7,323	1.7%	1.1%
				EU Stoxx 50	4,709	0.6%	5.7%

*Source: Bloomberg*

**Credit Headlines:****ABN Amro Bank N.V. ("ABN")**

- ABN announced its 4Q2023 and 2023 results with some deceleration in q/q performance amidst strong y/y annual performance. 2023 profit of EUR2.70bn was up 44% y/y on positive JAWS as well as impairment reversals.
  - 2023 operating income rose 10% y/y to EUR8.62bn due to 16% y/y growth in net interest income to EUR6.28bn from higher interest margins on deposits – this offset a slight fall in client lending from the wind-down of non-core corporate loans that is almost complete and lower consumer lending from tighter criteria. Net fee and commission income of EUR1.78bn was stable y/y while other operating income fell 13% to EUR558mn from lower Treasury asset and liability management results (including a loss on the sale of a public sector loan portfolio and break funding costs from other portfolio sales) as well as other market driven movements.
  - At the same time, operating expenses fell 4% y/y to EUR5.23bn due to lower external staffing expenses. This resulted in operating income of EUR3.39bn rising 40% y/y.
- ABN recognised EUR158mn in impairment reversals in 2023 against EUR39mn in impairment expenses in 2022. This was due to management overlay releases that were partially offset by higher specific provisions. Coverage ratios are lower y/y as a result – the stage 3 coverage ratio was 22.9% as at 31 December 2023, down from 25.6% as at 31 December 2022. Against this, loan quality ratios are improved y/y – the forbearance ratio and stage 3 ratio were 2.2% and 1.9% respectively as at 31 December 2023 against 2.7% and 2.0% respectively a year ago.
- Q/q trends were in contrast to the 2023 performance with 4Q2023 profit of EUR545mn down 28% q/q on negative JAWS driven by a 19% q/q rise in operating expenses from higher resources allocated to data and digitalisation as well as sustainable finance. At the same time, operating income was down 8% q/q on (1) a 64% q/q fall in other operating income from market driven items including lower Treasury asset and liability management and (2) a 2% q/q fall in net interest income on lower net interest margins by 2bps in mortgages and consumer loans, a 1% q/q fall in client loans, and the absence of interest income on the ECB minimum reserve requirement. ABN's cost to income ratio rose to 71.6% q/q in 4Q2023 as a result (55.5% in 3Q2023, 72.1% in 4Q2022). These were offset by AUD83mn in impairment reversals related to specific exposures, model reviews and releases from management overlays.
- ABN's capital position as at 31 December 2023 was 14.3%, down 70bps q/q and down 90bps compared to 31 December 2022. The q/q movement reflects earnings that were offset by provisioning for a EUR500mn share buyback and higher credit risk weighted assets due to model updates. Capital buffers remain robust and 370bps above the 10.6% maximum distributable amount ("MDA") trigger level (proforma 11.3% level for 2024 following the 2023 Supervisory Review and Evaluation Process).
- ABN's 2024 outlook appears somewhat constructive although costs are expected to increase 1-2% y/y to EUR5.3bn with net interest income expected to be stable y/y and loan quality expected to remain resilient – management have revised down the through the cycle cost of risk to 15-20bps from ~20bps due to tighter underwriting and the wind-down of the non-core corporate portfolio. As such, management have announced a EUR500mn share buy-back. Other updated financial targets for 2026 that replace previous targets for 2024 include a fully-loaded Basel IV CET1 ratio of 13.5% by end of 2026 (~15.0% as at 31 December 2023), a return on equity of 9-10% (previously 10% for 2024) and cost/income ratio of around 60% in 2026.
- The Dutch government will use the EUR500mn buy back to further reduce its ownership in ABN that is held through a foundation linked to the Ministry of Finance that holds both shares and depositary receipts. This is in line with the government's February 2023 announcement that it was reducing its stake and announcement in September 2023 to reduce its stake to ~40% subject to certain price levels under a pre-arranged trading plan.
- The Dutch government reduced its ownership in ABN to 49.5% in late September 2023 from ~52%. We do not factor in government ownership in our fundamental assessment of financial institutions. (Company, Bloomberg, OCBC)

## New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
14 Feb	Malayan Banking Bhd	FRN	USD	100	5Y	SOFR+95bps	NA

## Mandates:

- There are no Asiadollar mandates for today.
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## Macro Research

Selena Ling  
Head of Strategy & Research  
[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)

Tommy Xie Dongming  
Head of Greater China Research  
[XieD@ocbc.com](mailto:XieD@ocbc.com)

Keung Ching (Cindy)  
Hong Kong & Macau  
[Cindyckung@ocbcwh.com](mailto:Cindyckung@ocbcwh.com)

Herbert Wong  
Hong Kong & Macau  
[HerberhtWong@ocbc.com](mailto:HerberhtWong@ocbc.com)

Lavanya Venkateswaran  
Senior ASEAN Economist  
[LavanyaVenkateswaran@ocbc.com](mailto:LavanyaVenkateswaran@ocbc.com)

Ahmad A Enver  
ASEAN Economist  
[Ahmad.Enver@ocbc.com](mailto:Ahmad.Enver@ocbc.com)

Jonathan Ng  
ASEAN Economist  
[JonathanNg4@ocbc.com](mailto:JonathanNg4@ocbc.com)

Ong Shu Yi  
ESG Analyst  
[ShuyiOng1@ocbc.com](mailto:ShuyiOng1@ocbc.com)

## FX/Rates Strategy

Frances Cheung, CFA  
Rates Strategist  
[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)

Christopher Wong  
FX Strategist  
[ChristopherWong@ocbc.com](mailto:ChristopherWong@ocbc.com)

## Credit Research

Andrew Wong  
Credit Research Analyst  
[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)

Ezien Hoo, CFA  
Credit Research Analyst  
[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

Wong Hong Wei, CFA  
Credit Research Analyst  
[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

Chin Meng Tee, CFA  
Credit Research Analyst  
[MengTeeChin@ocbc.com](mailto:MengTeeChin@ocbc.com)

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