

Asian Credit Daily

16 February 2024

Market Commentary:

- The SGD SORA curve traded lower yesterday, with short tenors trading 5-7bps lower, belly tenors trading 7-9bps lower, and the 10Y trading 9bps lower.
- Flows in SGD corporates were heavy, with flows in BNP 4.75% '34s, STTGDC 5.7%-PERP, BNP 5.25% '32s, BNP 5.9%-PERP.
- According to Bloomberg, Logan Group Co.'s ("Logan") representatives will appear at a Hong Kong court hearing to avoid involuntary liquidation and present a restructuring plan for court approval. Logan will be looking to address dissension between bondholders and bank creditors on the terms to restructure offshore debt.
- Elsewhere, the government of Thailand is reportedly considering a USD bond offering for the first time in 20 years. Part of the proceeds could be used to fund sustainability linked projects.
- Finally in Europe, Siemens AG priced Europe's largest corporate bond offering in a year pricing EUR5bn across four tranches and receiving almost EUR16bn of orders, mostly for the 20-year tenor. The company recently received a ratings upgrade.
- Yesterday, Bloomberg Asia USD Investment Grade spreads remained at 96bps while the Asia USD High Yield spreads tightened by 4bps to 640bps, per Bloomberg.
- There were no bond issues in the Asiadollar market yesterday.
- In the Singdollar market yesterday, UBS Group AG priced a SGD650mn PerpNC5.5 Additional Tier 1 bank capital instrument at 5.75%.

Credit Summary:

- **Commerzbank AG ("CMZB"):** CMZB reported strong 2023 results characterised by stronger earnings, resilient loan quality and an improved capital position. Management have struck an upbeat tone for 2024 given the solid performance in 2023. That said, net interest income is expected to fall ~5.6% in 2024 from lower interest rates while risk results are expected to rise ~30% y/y given slower economic growth. This is expected to be offset by a 4% y/y rise in net commission income and the cost to income ratio remaining around 60% with 2024 net profit to improve above 2023 levels.
- **Singapore Airlines Ltd ("SIA"):** SIA reported its January 2024 operating data. On a group airline basis, passenger load was 85.3% in January 2024, decreasing by 4.1 ppts versus the 89.4% in December 2023. In January 2023, passenger load factor was 86.9%. Passenger load factor was 84.5% in January 2020 (before COVID-19 went global).

Key Market Movements

	16-Feb	1W chg (bps)	1M chg (bps)		16-Feb	1W chg	1M chg
iTraxx Asiax IG	102	1	1	Brent Crude Spot (\$/bbl)	82.7	0.7%	5.7%
	0	0	0	Gold Spot (\$/oz)	2,005	-0.9%	-1.2%
iTraxx Japan	56	-2	-3	CRB Commodity Index	271	-0.8%	2.6%
iTraxx Australia	67	-1	-4	S&P Commodity Index - GSCI	556	0.0%	3.6%
CDX NA IG	52	-2	-4	VIX	14.0	9.5%	1.2%
CDX NA HY	106	0	1	US10Y Yield	4.25%	7bp	19bp
iTraxx Eur Main	57	-2	-4				
iTraxx Eur XO	314	-10	-17	AUD/USD	0.652	-0.1%	-1.0%
iTraxx Eur Snr Fin	67	-2	-4	EUR/USD	1.077	-0.2%	-1.0%
iTraxx Eur Sub Fin	126	-3	-6	USD/SGD	1.346	0.0%	-0.3%
				AUD/SGD	0.877	0.1%	0.8%
USD Swap Spread 10Y	-35	1	4	ASX200	7,646	0.0%	3.1%
USD Swap Spread 30Y	-72	1	0	DJIA	38,773	0.1%	3.8%
				SPX	5,030	0.6%	5.5%
China 5Y CDS	65	1	0	MSCI AC AsiaxJ	629	1.3%	3.1%
Malaysia 5Y CDS	43	0	-2	HSI	15,945	-0.9%	0.5%
Indonesia 5Y CDS	72	-1	-4	STI	3,190	1.5%	0.1%
Thailand 5Y CDS	44	4	2	KLCI	1,531	1.2%	2.5%
Australia 5Y CDS	16	0	-1	JCI	7,303	0.8%	0.8%
				EU Stoxx 50	4,743	0.7%	6.7%

Source: Bloomberg

Credit Headlines:**Commerzbank AG (“CMZB”)**

- CMZB reported strong 2023 results characterised by stronger earnings, resilient loan quality and an improved capital position. This was despite EUR1.1bn in additional provisions for CMZB’s Swiss franc portfolio at Polish subsidiary mBank. As a recap, a ruling by the European Court of Justice on Swiss franc foreign currency indexed loan agreements allows customers to avoid paying interest on mortgage loans given their punitive terms and also seek compensation from the bank as a penalty for the unfair clauses that effectively resulted in loan values increasing as the Polish currency depreciated.
- Overall, the results highlight the execution of CMZB’s ‘Strategy 2024’ as management looks towards the implementation of its strategic plan to 2027.
- Pre-tax profit of EUR3.4bn was up 69.7% y/y in 2023 and was positively influenced by:
 - 10.6% y/y growth in total revenues to EUR10.5bn from higher interest rates and improved customer business, particularly in Poland.
 - Risk results down 29.4% y/y to EUR618mn on higher releases. CMZB’s non-performing exposure ratio remained low at 0.8% as at 31 December 2023 (1.0% as at 30 September 2023 and 1.1% as at 31 December 2022) while a top-level adjustment of EUR453mn remains intact for inflation, supply chain disruptions and the impact of higher interest rates.
 - A 35.3% y/y fall in compulsory contributions from a lower European bank levy due to reduced deposit growth and lower contributions to Poland’s deposit guarantee scheme.
- Operating expense growth at 2.8% y/y was lower than total revenue improvement, leading to positive JAWS and an improvement in the cost to income ratio to 57.4% in 2023 against 61.8% in 2022 (excluding compulsory contributions). This was despite inflation pressures and higher compensation for inflation and variable salary accruals. Overall costs were in line with CMZB’s target.
- Most improvement in 2023 results was in CMZB’s Corporate Clients segment with its operating result of EUR2.14bn up ~101% y/y from a combination of higher interest rates, lower costs and lower risk results.
- Given the strong earnings performance, CMZB’s common equity CET1 ratio improved 60bps y/y to 14.7% as at 31 December 2023 as earnings offset dividend accruals and higher risk weighted assets y/y. The ratio is 435bps above the minimum regulatory requirement of 10.3% as of 1 January 2024 and the buffer is above management’s 250bps target that includes dividend payments.
- Management have struck an upbeat tone for 2024 given the solid performance in 2023. That said, net interest income is expected to fall ~5.6% in 2024 from lower interest rates while risk results are expected to rise ~30% y/y given slower economic growth. This is expected to be offset by a 4% y/y rise in net commission income and the cost to income ratio remaining around 60% with 2024 net profit to improve above 2023 levels. With the CET1 ratio expected to remain above 14.0% and ongoing execution of its strategic plan to 2027, management is expecting EUR1bn in shareholder returns in 2024 including a EUR600mn ongoing share buy-back program. Key aspects of the 2027 strategic plan that follows the 2024 strategy include:
 - Reducing reliance on net interest income (~80% of 2023 total revenues) with higher fee income.
 - Financial targets including a 11.5% net return on tangible equity, 13.5% CET1 ratio, and a 55% cost to income ratio.
 - Increasing sustainability linked businesses. CMZB recently acquired a 74.9% stake in asset manager Aquila Capital Investmentgesellschaft (“ACI”) that specialises in renewable energies and infrastructure projects. ACI is expected to develop into a leading asset manager for sustainable investment strategies, contributing to the planned commission income growth and 2027 revenue targets. (Company, OCBC)

Singapore Airlines Ltd (“SIA”)

- SIA reported its January 2024 operating data. On a group airline basis, passenger load was 85.3% in January 2024, decreasing by 4.1 pts versus the 89.4% in December 2023. In January 2023, passenger load factor was 86.9%. Passenger load factor was 84.5% in January 2020 (before COVID-19 went global).
- Group passenger carried was 3.22 million for January 2024, versus 3.34 million for December 2023. Passenger capacity on a group airline basis was 14,743.4 million seat-kilometres in January 2024, increasing by 0.55% m/m.
- SIA cargo load factor was 54.5% in January 2024 versus 52.6% in December 2023 (January 2023: 51.8%). Cargo loads by million tonne-km increased by 3.46% m/m and 19.7% y/y while capacity by million tonne-kilometres decreased by 0.27% m/m (+13.8% y/y). (Company, OCBC).

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
16 Feb	UBS Group AG	Fixed, Additional Tier 1	SGD	650	PerpNC5.5	5.75%	6.125% area

Mandates:

- There are no Asiadollar mandates for today.
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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
Cindyckung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
HerberhtWong@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

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