

Credit Week in Brief

20 February 2024

Only one small new issue in Asiadollar last week

- Asiadollar credit spreads continued to tighten last week amidst the Lunar new year where year-to-date new supply has also shrunk. The Bloomberg Asia USD IG Index average option adjusted spreads tightened by 3bps w/w to 94bps while the Bloomberg Asia USD HY Index average option adjusted spreads tightened by 23bps w/w to 626bps. Last week saw only one new issuance in the Asiadollar (ex-Japan market) primary market from Malayan Banking Bhd (“Maybank”). Maybank, Malaysia’s largest bank by total assets, priced USD100mn of 5Y senior unsecured floating rate notes.
- This week is likely to also be quiet in the primary space. Of note, Del Monte Philippines, Inc. a producer and distributor of healthy food and beverage products has mandated banks for a USD perpetual while Shaanxi Financial Asset Management Co., Ltd an asset management company focusing on distressed assets based in the Shaanxi province of China, may price a USD senior unsecured bond.
- Key corporate developments were focused on China South City Holdings Ltd (“China South City”), a property company focusing on integrated logistics, trade centres, residential and commercial ancillary facilities. China South City’s single largest shareholder holding a ~29%-stake is the Shenzhen SEZ Construction and Development Group Co. (“SZCDG”, Shenzhen-level state-owned enterprise and provider of the keepwell deed). The company announced that it did not expect to be able to make the mandatory redemption payment due on 9 February 2024 on its CSCHCN 9% ‘24s (maturing in October 2024) which will lead to an event of default (“EoD”), and it also does not expect to make the interest payment due on 12 February 2024 on another tranche of bonds under a keepwell agreement. This bond also matures in 2024, though in April. The company adds that this would lead to an EoD on 13 March 2024 if the interest is not paid and may trigger an EoD on other indebtedness. Earlier in December 2023, the company completed another consent solicitation exercise where the terms on one of its five offshore bonds was changed but the other four did not get sufficient approval from bondholders. As of writing, the total outstanding of offshore bonds amounted to ~USD1.3bn.
- In the besieged China residential property sector, liquidation petitions filed against Logan Group Co Ltd (“Logan”) has been dismissed by the Grand Court of the Cayman Islands and the High Court of Hong Kong. This sets the path for the company to continue with a restructuring plan with its various creditor groups. Meanwhile, a winding-up petition has been filed against Redsun Properties Group Ltd on 14 February 2024 in related to a USD bond. (Bloomberg, Reuters, Reorg, Company, OCBC)

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

One primary market issuance and few results released by financial institutions for SGD Credit

- Last week, SGD650mn in new issue was priced (week prior: SGD627mn).
 - UBS Group AG priced SGD650mn PerpNC5.5 additional tier 1 bank capital at 5.75%.
- **SGD SORA yields traded considerably higher w/w** last Friday. The shorter tenors traded higher by 7 to 13 bps, belly tenors traded higher by 12 to 14bps and 10Y traded higher by 12bps. As at 16 February 2024, 10Y SORA was 3.0%. The trend is similar to US Treasury yields, with 2-10Y UST rising 10 – 16bps w/w.
- **The SGD credit market fell 0.09% w/w amidst higher SGD SORA yields**, driven primarily by the (1) Longer Tenors, Mid Tenors and Tier 2s and Other Non-Perpetual Subordinated papers. For more information on the SGD tracker, please refer to our SGD Credit Outlook 2023 published on 4 January 2023.

Summary of Performance in the SGD Credit Market

By Tenor & Structure	Return w/w
AT1s	0.06%
Non-Financial Corp Perp	0.10%
Tier 2s and Other Non-perp Sub	-0.04%
Longer Tenors (>9Y)	-0.33%
Mid Tenors (>3Y to 9Y)	-0.25%
Short Tenors (>1Y to 3Y)	0.00%
Money Market (Up to 12 months)	0.08%

By Issuer Profile	Return w/w
POS (2)	0.05%
N (3)	0.03%
N (4)	0.06%
N (5)	0.11%

Source: Bloomberg, OCBC

Key headlines in last week were related mostly to results released by financial institutions:

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

- **Australia & New Zealand Banking Group Ltd (“ANZ”)** announced its 1QFY2024 chart pack and earnings update with generally constructive performance. ANZ’s balance sheet remains well provisioned with AUD4.03bn in collective provisions as the additional collective provisions raised were offset by FX movements. 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).
- **Commonwealth Bank of Australia (“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. 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. 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)
- **ABN Amro Bank N.V. (“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. 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 risk weighted assets due to model updates. 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. (Company, Bloomberg, OCBC)
- **Commerzbank AG (“CMZB”)** reported strong 2023 results characterised by stronger earnings, resilient loan quality and an improved capital position. Pre-tax profit of EUR3.4bn was up 69.7% y/y in 2023. 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. Management have struck an upbeat tone for 2024 given the solid performance in 2023. (Company, OCBC)
- **Barclays PLC (“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. Barclays will finance the acquisition with internal resources and expects a 0.3 ppts impact to its Common Equity Tier 1 ratio which was 14.0% as at 30 September 2023. (Company, OCBC).

Key Market Movements

	20-Feb	1W chg (bps)	1M chg (bps)		20-Feb	1W chg	1M chg
iTraxx Asiax IG	99	-2	-5	Brent Crude Spot (\$/bbl)	83.5	0.9%	6.3%
				Gold Spot (\$/oz)	2,021	1.4%	0.0%
iTraxx Japan	55	-2	-1	CRB Commodity Index	273	-0.6%	2.7%
iTraxx Australia	66	-2	-4	S&P Commodity Index - GSCI	559	0.2%	3.7%
CDX NA IG	53	-2	-2	VIX	14.7	5.6%	10.6%
CDX NA HY	106	0	0	US10Y Yield	4.30%	-2bp	17bp
iTraxx Eur Main	56	-3	-3				
iTraxx Eur XO	310	-11	-14	AUD/USD	0.653	1.3%	-0.5%
iTraxx Eur Snr Fin	66	-2	-2	EUR/USD	1.077	0.6%	-1.0%
iTraxx Eur Sub Fin	122	-5	-5	USD/SGD	1.346	0.4%	-0.3%
				AUD/SGD	0.880	-0.9%	0.2%
USD Swap Spread 10Y	-36	0	2	ASX200	7,659	0.7%	3.2%
USD Swap Spread 30Y	-73	0	-2	DJIA	38,628	-0.1%	2.0%
				SPX	5,006	-0.4%	3.4%
China 5Y CDS	64	-1	-3	MSCI Asiax	635	2.1%	5.1%
Malaysia 5Y CDS	41	-2	-3	HSI	16,188	2.8%	5.7%
Indonesia 5Y CDS	71	-5	-3	STI	3,237	3.0%	2.7%
Thailand 5Y CDS	42	1	0	KLCI	1,551	1.3%	4.3%
Australia 5Y CDS	15	0	0	JCI	7,341	0.6%	1.6%
				EU Stoxx 50	4,763	0.4%	7.1%

Source: Bloomberg

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