

Credit Week in Brief

7 May 2024

Back to normal for Asiadollar

- **Primary issuance trends reverted** to the norm last week with the bulk of the just over USD1.0bn in issuances comprised of a Korean investment grade name and a Chinese Local Government Financing Vehicle. Issuance volumes were down from the USD3.4bn of primary market issuances from Asia ex-Japan issuers last week per Bloomberg league tables and OCBC estimates. The Golden Week and Labor Day public holidays last week likely played a part.
 - Kookmin Bank’s dual tranche USD600mn deal saw pricing tighten noticeably thanks to over USD2.8bn of orders that were evenly spread across the 3 year and 5-year tranches.
 - The other major issue was from Jiujiang Municipal Development Group Co Ltd which saw a larger tightening from initial price guidance with its last issue in the Asiadollar space in May 2021 that is set to mature on 1 June 2024.

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Date	Issuer	Type	Currency	Size (mn)	Tenor	Pricing
29 Apr	Kookmin Bank	Fixed	USD	300	3Y	T+60bps
29 Apr	Kookmin Bank	Fixed	USD	300	5Y	T+65bps
29 Apr	Jiujiang Municipal Development Group Co Ltd	Fixed	USD	300	3Y	6.55%
02 May	Cathay Life Insurance Co., Ltd.	Fixed	USD	187	10Y	5.8%

Source: Bloomberg

- Amidst the slower week and month end rebalancing was some dispersion in spread movements following widening in prior weeks with the Bloomberg Asia USD IG Index average option adjusted spreads stable w/w to 83bps while the Bloomberg Asia USD HY Index average option adjusted spread tightened by 44bps w/w to 576bps. Potentially the prospect of higher rates have also driven investors to search for yield lower down the credit curve while prospects of a soft landing remain in focus.

- While technical developments remain influential, market developments remain focused on China credit finding a floor on an issuer and industry level against the prospect of the Chinese government's ongoing supportive stance. This may be tested in the near future:
 - China's central bank has reportedly advised certain regional lenders to reduce their investments in ultra-long bonds to minimize risks. City and rural commercial banks in at least two eastern provinces were reported by Bloomberg to have received instructions in recent weeks to avoid substantial exposure to these securities. Additionally, under the guidance of local branches of the People's Bank of China, these regional banks have been asked to decrease the duration and leverage of their bond holdings.
 - Country Garden Holdings Co. ("COGARD") is facing two bond-payment deadlines this week that would be the first major test for a state-sponsored program that guarantees debt from some of the country's biggest builders. COGARD has payments due on 9 May on two yuan bonds with combined interest of RMB65.95mn (USD9.1mn). China Bond Insurance Co., a state-owned credit-support provider, guarantees both notes and is a crucial component of a program introduced by authorities in August 2022, aimed at assisting private developers in avoiding liquidity shortages. So far, none of the builders who have utilized this program have failed to make payments on the securities that are guaranteed.
 - China Vanke Co. ("Vanke") plans to enhance its liquidity by divesting assets and exiting all non-core operations to focus solely on its three main operations, namely property development, real estate management services, and rentals. The company emphasized its commitment to reducing debt and achieving high-quality growth, outlining a plan to reduce interest-bearing debt by over RMB100bn (USD13.8bn) within the next two years. Separately, Vanke reportedly informed certain investors that it has prepared funds to repay its RMB1.45bn (USD201mn) note, which is due on 25th May. Bloomberg-compiled data indicates that the security is valued at 97.6, indicating investors' strong belief that the issuer will be able to fully repay the debt upon maturity.
 - Elsewhere, GLP Pte Ltd has also reportedly confirmed to investors it has resources to repay upcoming maturities, in particular the USD1bn GLPSP 3.875% '25s due June 2025. Sources may include debt refinancing and loans from its relationship banks with 46% of the company's debt maturing in 2024.
 - Finally, the trustee of China South City Holdings Ltd. ("CSC"), a developer, has sent five letters to Shenzhen Special Economic Zone Construction & Development Group Co. Ltd. ("Shenzhen SEZ Construction"), a state-owned company, requesting payment for dollar notes that were backed by keepwell deeds. Citicorp International has claimed that Shenzhen SEZ Construction breached the agreements by failing to ensure the solvency of CSC and its ability to secure enough funds to fulfill debt obligations. (Bloomberg, Company, OCBC)

SGD credit market helped by lower yields while DBS announced another set of record earnings

- Last week, no new issues were priced (week prior: SGD1.04bn).
- **SGD OIS SORA yields traded lower w/w** last Friday. The shorter tenors fell 6-10bps, the belly tenors fell 11bps while the 10Y traded 10bps lower. As of 3 May 2024, the SGD OIS SORA 10Y yield was 3.19%
- The **SGD credit market rose 0.24% w/w**, helped by the decline in SGD OIS SORA yields. The outperformers were longer and mid tenor papers, as well as non-financial corporate perpetuals. 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	0.14%
Non-Financial Corp Perp	0.29%
Tier 2s and Other Non-perp Sub	0.17%
Longer Tenors (>9Y)	0.44%
Mid Tenors (>3Y to 9Y)	0.29%
Short Tenors (>1Y to 3Y)	0.17%
Money Market (Up to 12 months)	0.10%

By Issuer Profile	Return w/w
POS (2)	-0.03%
N (3)	0.25%
N (4)	0.14%
N (5)	0.14%

Source: Bloomberg, OCBC

Key highlights include:

- Keppel Real Estate Investment Trust (“KREIT”) Credit Update.** We maintained our fundamental credit view on KREIT with the resilient Singapore portfolio continuing to underpin its credit profile even though we expect interest cover to thin and reported aggregate leverage to breach 40%.
- DBS Group Holdings Ltd (“DBS”) 1Q2024 results.** Yet another record results announcement with profit before tax up 15% y/y to SGD3.39bn, with net interest income up 8% y/y to SGD3.65bn through loan growth (+2% y/y) and higher net interest margins (+2bps y/y) and consolidation of Citi Taiwan, net fee and commission income up 23% y/y to SGD1.04bn with consolidation of Citi Taiwan and higher card fees and loan-related fees while treasury customer sales and other income was up 44% y/y to SGD621mn. Operating expenses (+10% y/y) rose at a slower pace. CET1 ratio of 14.7% was up 10bps q/q. Going forward, CEO Piyush Gupta highlighted that earnings will be better than previously expected on growth in commercial book non-interest income while net interest income is expected to improve y/y in 2024. Net profit in 2024 is expected to exceed 2023 levels. Separately, Monetary Authority of Singapore announced that it had ended the six-month suspension restricting non-essential IT changes.
- Starhill Global REIT (“SGREIT”) 3QFY2024 business update.** Overall results are stable with tenant sales at Wisma Atria improving 6.5% y/y, aggregate leverage at 37.2% and adjusted interest coverage ratio at 2.9x. However, concerns remain over the potential lease termination at Myer Center Adelaide, which contributes 9.0% of SGREIT’s NPI in 1HFY2024.
- Keppel Infrastructure Trust (“KIT”) 1Q2024 Business Update.** Group Adjusted EBITDA rose 3.8% y/y to SGD130.7mn, excluding one-off items and performance fees. Total operational cash flow fell 6.4% y/y to SGD86.5mn as debt was repaid from cash flow generation in January 2024. Adjusted debt to EBITDA was at 5.4x.
- Mapletree Logistics Trust (“MLT”) 4QFY2024 results.** Results were largely stable, with net property income rising 0.6% y/y to SGD155.3mn, portfolio occupancy inching up 0.1 ppts q/q to 96.0% and positive rental reversions of +2.9%. Strong results in Singapore and HKSAR and acquisitions offset weaker results from China and divestments. Reported adjusted interest coverage was 3.1x while aggregate leverage was 38.9%. (Company, MAS, OCBC)

Key Market Movements

	7-May	1W chg (bps)	1M chg (bps)		7-May	1W chg	1M chg
iTraxx Asiax IG	101	-11	-4	Brent Crude Spot (\$/bbl)	83.5	-4.9%	-8.4%
				Gold Spot (\$/oz)	2,322	1.6%	-0.7%
iTraxx Japan	52	-1	6	CRB Commodity Index	288	-2.6%	-3.4%
iTraxx Australia	66	-5	0	S&P Commodity Index - GSCI	577	-1.6%	-4.1%
CDX NA IG	50	-3	-1	VIX	13.5	-8.0%	-15.8%
CDX NA HY	107	1	0	US10Y Yield	4.47%	-21bp	7bp
iTraxx Eur Main	54	-2	0				
iTraxx Eur XO	308	-10	8	AUD/USD	0.660	1.9%	-0.1%
iTraxx Eur Snr Fin	61	-2	-1	EUR/USD	1.076	0.9%	-0.9%
iTraxx Eur Sub Fin	111	-5	-1	USD/SGD	1.353	0.9%	-0.4%
				AUD/SGD	0.893	-1.0%	-0.3%
USD Swap Spread 10Y	-38	-1	-2	ASX200	7,787	1.6%	0.2%
USD Swap Spread 30Y	-77	-1	-2	DJIA	38,852	1.2%	-0.1%
				SPX	5,181	1.3%	-0.5%
China 5Y CDS	63	-6	-8	MSCI Asiax	677	2.2%	3.2%
Malaysia 5Y CDS	44	-4	0	HSI	18,490	4.2%	10.6%
Indonesia 5Y CDS	71	-6	-4	STI	3,308	0.8%	2.8%
Thailand 5Y CDS	42	-3	-3	KLCI	1,609	1.7%	3.5%
Australia 5Y CDS	13	-1	-2	JCI	7,129	-0.4%	-2.2%
				EU Stoxx 50	4,957	-0.5%	-1.2%

Source: Bloomberg

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