

20 July 2017

2Q2017 - SNAPSHOT

2Q2017 - Snapshot - Valuations of APAC USD bonds issued in 2Q2017

Valuations of the notable APAC USD bond issuances in 2Q2017 paint a contrasting picture between new investment-grade and high yield issues particularly for the Corporate issuers. New IG issues in 2Q2017 generally performed better than the HY issues by the end of the quarter in which issuance volume was lower than 1Q2017.

2Q2017 saw APAC USD bond issuance falling 18.53% from 1Q2017 to USD99.535bn. It did however, manage to push total USD issuance for the year past the USD200bn mark to USD221.715bn with Corporates responsible for 38.65% of YTD volume, Financials 36.53% and SSA/SOE 24.82%. With regards to 2Q2017 issuance, Corporates contributed 44.15%, Financials 27.75% and SSA/SOE about 28.11%.

Chinese names were responsible for 44.16% (or USD97.92bn) of 1H2017 issuance and is poised to cross the USD100bn mark in 3Q2017 (See chart at the end of this report for the country-volume breakdown).

Quick notes on the data:

- Due to the relatively low amount of data across the various sub-groups, the median measure of change in spreads/yields would be a better reflection of general moves within each sub-group
- We treat taps of existing bonds as distinct tranches
- "Sub" refers to subordinated issues, the rest are senior tranches
- All valuations are bid and indicative, as of June 30th 2017

Corporates

Corporate IG Senior issuance in 2Q2017 outperformed at the end of the quarter albeit only slightly. Spreads generally tightened between 1.0-3.0bp across the board, with the exception of South Korea's sole Corporate IG issuance.

- All five tranches from Japan (Toyota, Suntory and NTT Finance Corp) saw spreads tightening between 2.0-10.0bp by the end of the quarter since their respective issuance dates
- Despite the rather tepid performance of Chinese Corporate IG issues, there were a few strong performers at the end of 2Q2017
 - Namely FRESHHK 4.350% PerpNC5, WANTSP 2.875% 2022s, SINOPE 2.375% 2020s and SINOPE 3.000% 2022s

The only **Corporate IG Subordinated** issuance, the CKHH 4.000% PerpNC5 saw strong performance post issuance with yields falling about 34.6bp to 3.654% area at the end of 2Q2017 from 4.000% at issue.

Corporate HY Senior issuance performed markedly worse in general with only HY issuances from India and South Korea outperforming since issuance.

- Indonesian HY issues were amongst the worst performers at the end of 2Q2017 with yields rising a median of 30.67bp
 - Saka Energi's 4.450% 2024s was the only outperformer with yields falling about 8.6bp
 - It was the riskier bonds that were amongst the worst performers within the group with APLNIJ 5.950% 2024s (Ba3/-/BB-), BSEDIJ 5.500% 2023s (Ba3/-/BB-) and INDYIJ 6.875% 2022s (Caa1/-/B-) seeing their yields rising between 38.0-55.0bp
- Chinese HY issues were the next worst performers with yields rising a median of 22.20bp
 - The handful of notable outperformers include YZCOAL 5.750% PerpNC3, CHALUM 4.250% 2022s, KAISAG 7.250% 2020s and KAISAG 9.375% 2024s with yields falling between 10.0-55.0bp

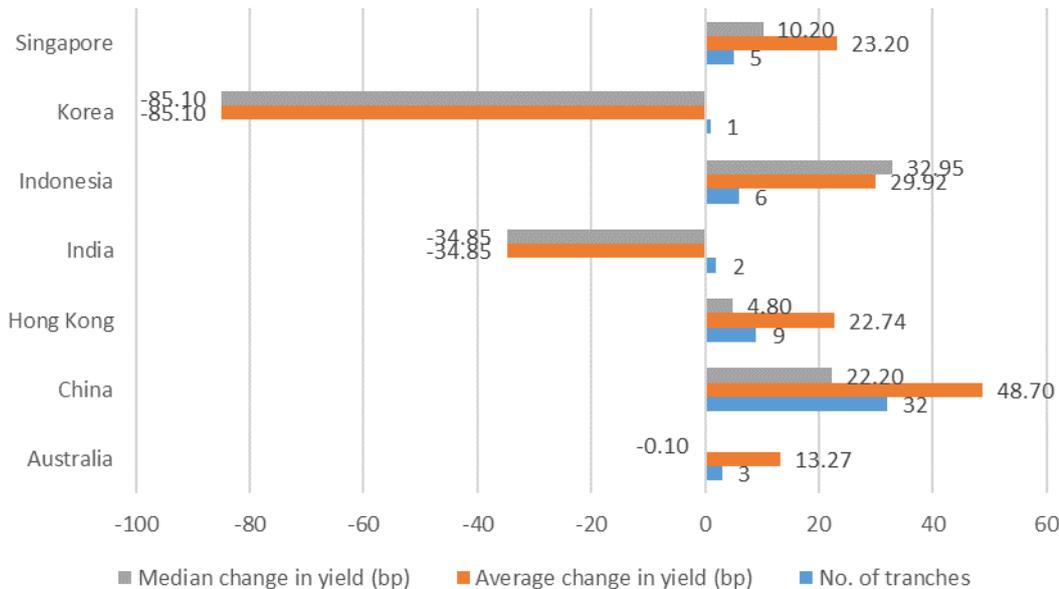
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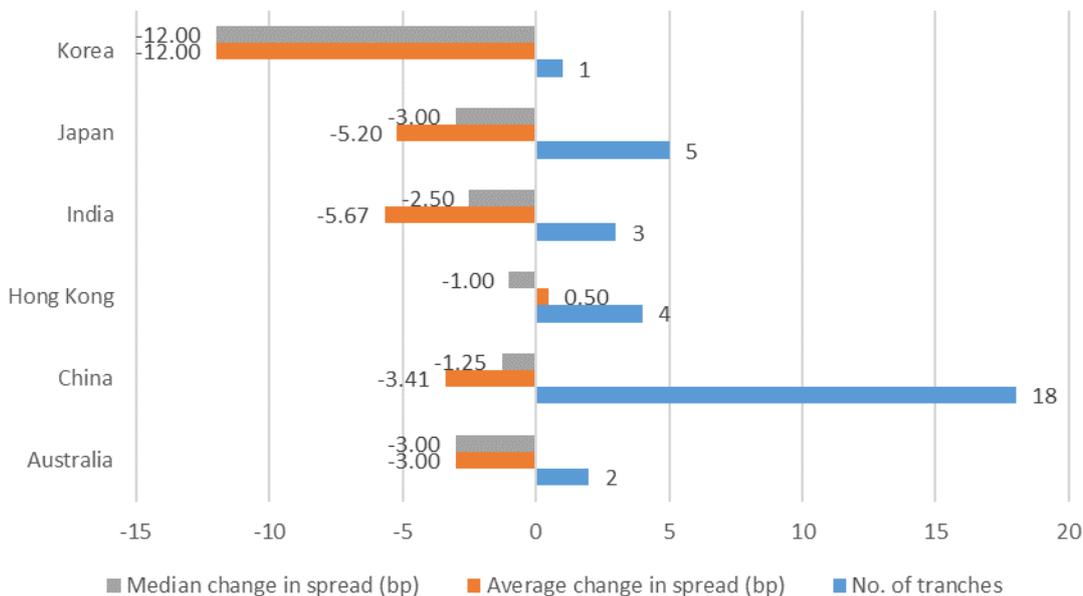
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Corporate HY Snr & above



Corporates IG Snr & above



Financials

2Q2017 **Financials IG Senior issuance** were dominated by Chinese and Australian names; the nature of performance since issuance between the two greatly differs. There was a clear tightening in the Australian issues but median and average spread differences in the Chinese issues were in opposite directions, thanks to the outperformance of a handful of new issues.

- Practically all the Australian Financials IG issues for 2Q2017 saw their spreads tightening between 1.0-11.0bp at the end of the quarter
 - Only the QBEAU 3.000% 2022s widened, by 12bp to a spread of 137bp

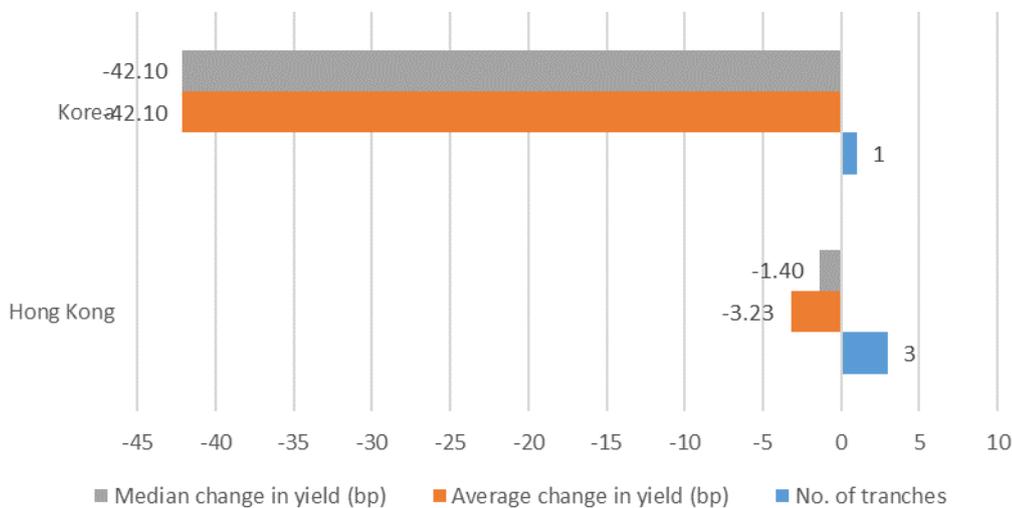
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- On the otherhand, most of the Chinese Financials IG issuance widened but the strong performance of Huarong's USD2.97bn five-part deal and Lianyungang's 3-year issue brought the average spread movement since issuance down to -8.9bp
 - Huarong's 5- and 10-year fixed/floating tranches tightened between 40.0-45.0bp while its 30-year tranche tightened 30.0bp
 - Lianyungang Port Group's 3.875% 2020s issued via Shanghai Hong Kong International Investments Ltd tightened 35.5bp to 212bp from reoffer spread at 247.5bp

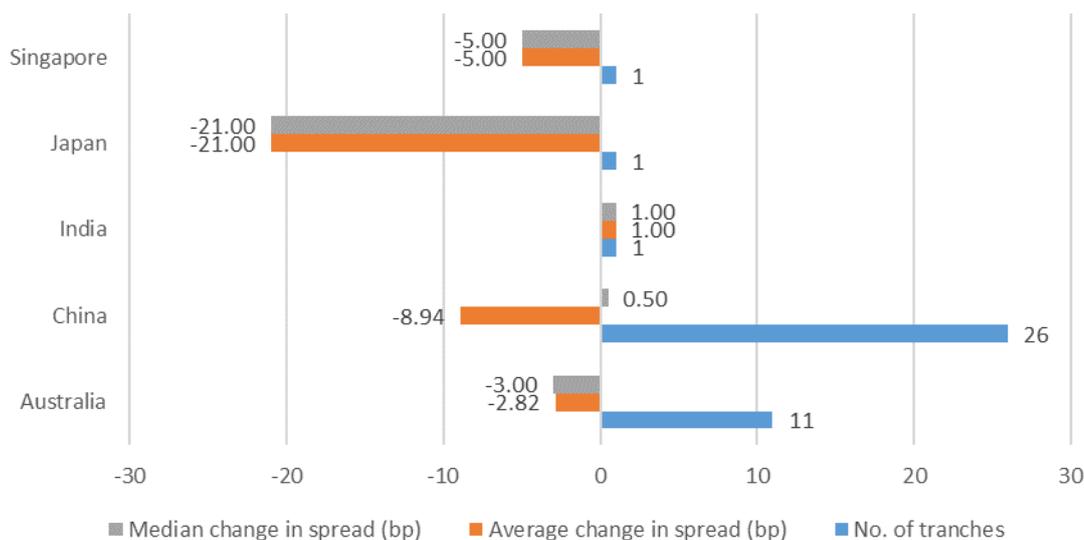
There were only a few issuances which were not of the IG Senior Financials sub-group. **Financials HY Subordinated** sub-group comprising the bulk of the non-IG Senior Financials issuance. The sub-group comprising of four bonds saw mixed performance on the whole.

- Performance of the Perpetual bonds issued by Hong Kong's FWD Group, Nanyang Commercial Bank and Bank of East Asia was tepid overall with the best performer amongst the three being the BNKEA 5.625% PerpNC5 bond whose yield fell 15.6bp to 5.475%
- Korea's Woori Bank 5.250% PerpNC5 bond was a strong performer, yields fell 42.1bp by the end of 2Q2017

Financials HY Sub & below



Financials IG Snr & above



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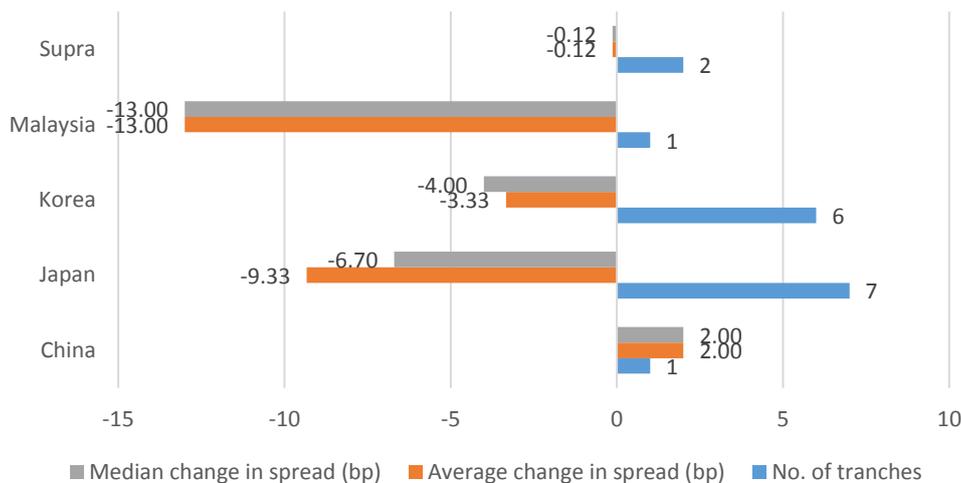
SSA/SOE

SSAs/SOEs performance was generally positive. Almost all of the new issuance in the **SSA IG Senior** sub-group outperformed.

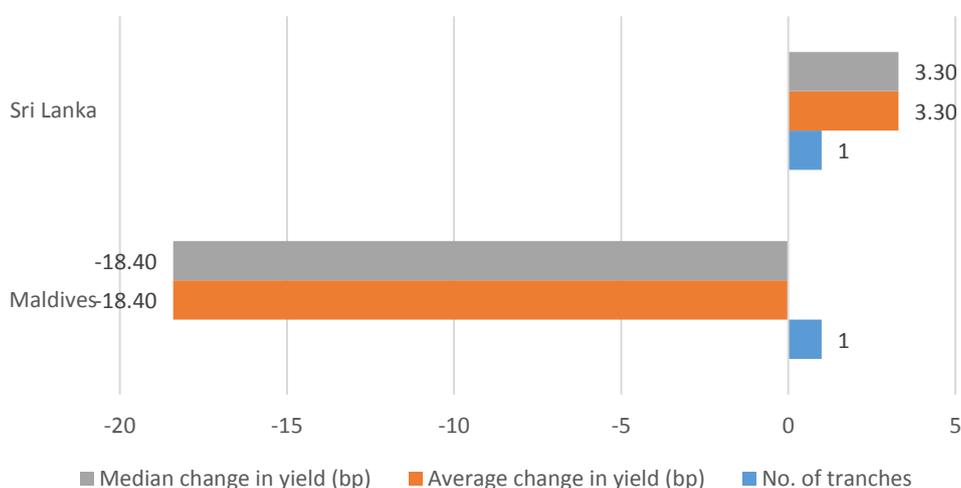
- Japanese and Korean issues within the SSA IG Senior sub-group performed decently, coming in a median of 6.7bp and 4.0bp respectively
 - The sole bond within the sub-group from Malaysia came from Cagamas, whose 2.530% 2020s tightened 13.0bp to 102bp since issuance
 - The only underperformer, albeit slightly, was Eximbank China's 3mL+60bp 2020s which widened by 2.0bp
- The two bonds in the **SSA HY Senior** space saw mixed performance; Sri Lanka's 6.200% 2027s yields rose 3.3bp to 6.233% while Maldives' Ministry of Finance 7.000% 2022s saw its yields falling 18.4bp to 6.816%

Outperformers within the **SOE IG Senior** sub-group were the Chinese which saw their spreads tightening by 2.5bp as a whole while Indonesia's PLN dual-tranche issue underperformed; the 2027s widened 21.5bp to 208bp while its 2047s widened 6.0bp to 238bp.

SSA IG Snr & above

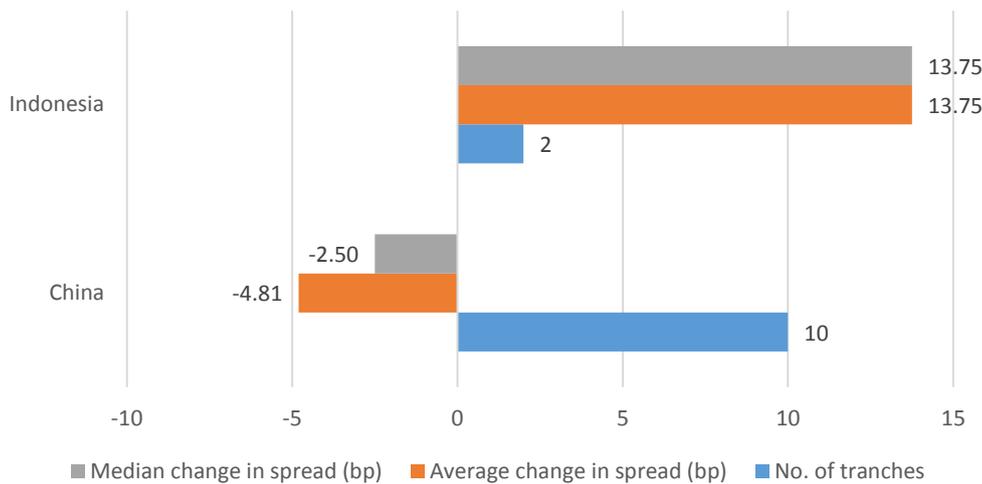


SSA HY Snr & above



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SOE IG Snr & above



Analysis

The slow primary market, particularly in June, meant new APAC USD issuance in 2Q2017 totalled USD99.535bn, 18.53% lower than 1Q2017. Despite the lower volume, there are some observations that can be had when comparing them against 1Q2017's new issues.

Investment grade issuances across Corporates, Financial and SSAs have generally performed better than the high yield issuances by the end of 2Q2017 albeit it was a more tepid outperformance compared to that of the IG issuances in 1Q2017.

- New Japanese and Korean SSA IG issuances continued to outperform in 2Q2017
- New Chinese Corporates IG Senior issues in 2Q2017 performed better than those issued in 1Q2017, tightening about 1.25bp against the 8.5bp widening in spreads seen for the 1Q2017 issuance

Save for the few handful of outperformers, most of the high yield issuances in 2Q2017 have not performed well by the end of the quarter. This is in stark contrast to 1Q2017's HY issuances which, except for Hong Kong issuers, saw strong performance by the end of its quarter.

The disparity in performance of new issuances between the first two quarters of 2017 is more obvious within the Corporates HY Senior issuances space.

- Chinese Corporates HY Senior issuances in 2Q2017 saw yields rising 22.2bp while 1Q2017 issuances had yields falling by 52.65bp
- Yields for Indonesian Corporates HY Senior issuance in 2Q2017 rose 32.95bp; yields for its 1Q2017 issuances fell 9.60bp
- Corporate HY Senior issuances by Hong Kong names however, continued to see underperformance in 2Q2017; yields rose 4.80bp in 1Q2017 and 17.00bp in 2Q2017
- India's new Corporate HY Senior issuances, while just a couple in each quarter, outperformed in both quarters

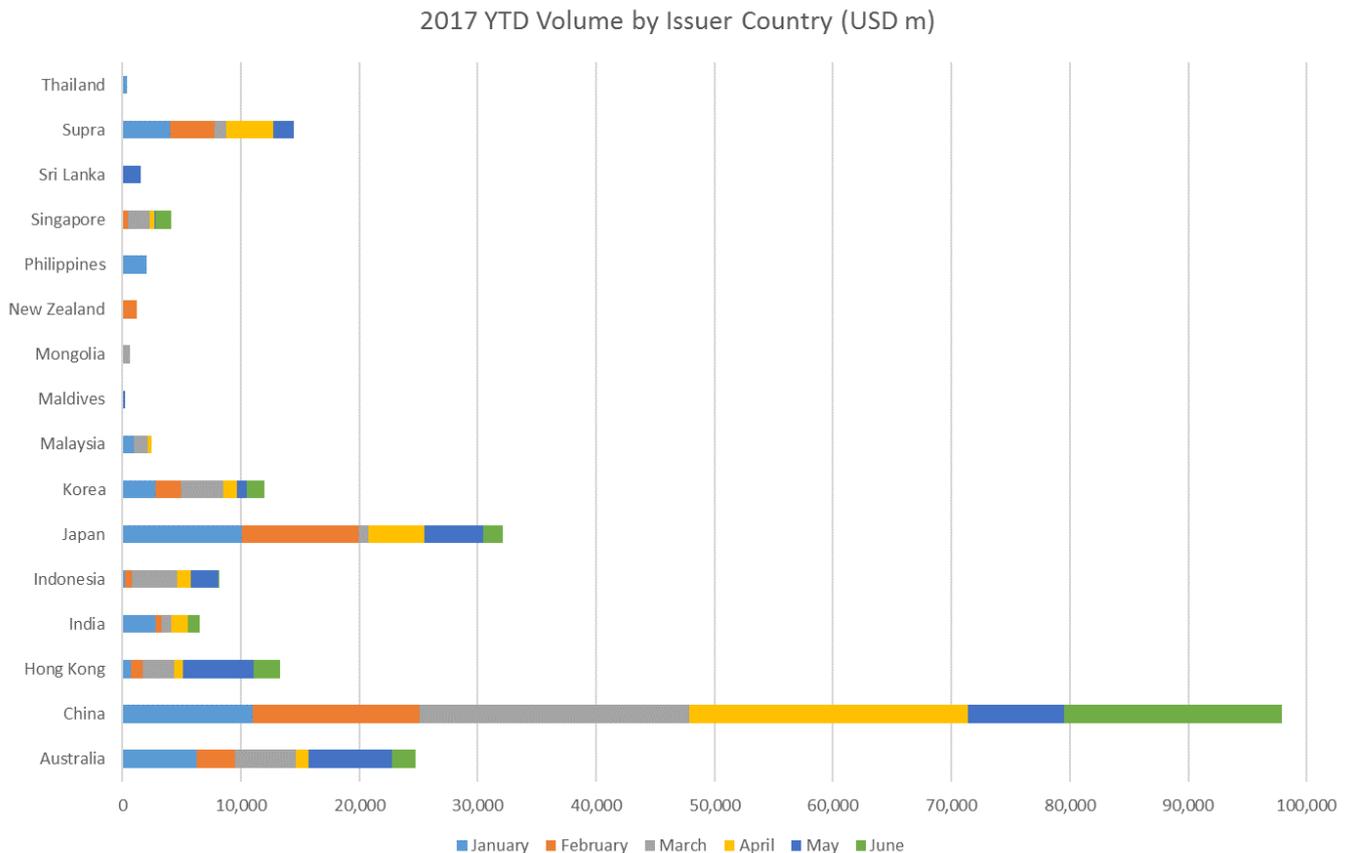
The general outperformance of APAC's IG issuances in 2Q2017 could help buoy positive sentiment of new issuances into 3Q2017. HY issuances on the otherhand, largely seemed to fall out of favour post issuance in the second quarter.

We would particularly keep an eye on Chinese and Indonesian Corporate HY issuances going forward in the third quarter; the reversals in performance between the two quarters could be indicative of a souring sentiment towards such credits.

Unpredictable global macro sentiments coupled with weak US economic data as well as China's recent iteration of their commitment towards deleveraging could turn risk sentiments soft, potentially causing higher funding costs for the HY credits lining up to tap the market in 3Q2017.

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2017 YTD Volume by Issuer Country (USD m)



End of Report

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