

## Asian Credit Daily

1 July 2024

**Market Commentary:**

- The SGD SORA curve traded lower last Friday, with short tenors trading 0-3bps lower, belly tenors trading 3-4bps lower and 10Y trading 3bps lower.
- Flows in SGD corporates were heavy, with flows in UBS 5.6%-PERP, HSBC 5.25%-PERP, BACR 7.3%-PERP, STTGDC 5.7%-PERP, MFCCN 4.275% '34s, TMGSP 5.25% '27s, GESP 3.928% '39s, OLGSPSP 5.375%-PERP.
- Bloomberg Asia USD Investment Grade tightened by 1bps to 82bps while Bloomberg Asia USD High Yield tightened by 5bps to 490bps. (Bloomberg, OCBC)
- There are no new issuances and mandates last Friday.

**Credit Summary:**

- **Industry Outlook – SGD Credit Outlook 2H2024:** We just published our SGD Credit Outlook 2H2024. Key highlights follow on the next page.
- **Industry Outlook - Singapore Property:** 2Q2024 prices rose 1.1% q/q (1Q2024: +1.4% q/q), according to URA flash estimates. The increase is in-line with our expectations for prices to increase by 3-5% in the whole of 2024.
- **Lendlease Group ("LLC"):** LLC entered into an agreement with Omaha Beach Investment Holdings to sell US Military Housing business for AUD480mn.
- **Mapletree Logistics Trust ("MLT"):** The Edge reporting on Mapletree Logistics Trust ("MLT") comments at a Citi conference shared that (1) MLT intends to sell more property in China.
- **Société Générale S.A. ("SocGen"):** Conseil de la Concurrence has approved the sale of SocGen's Moroccan businesses (57.67% stake in Société Générale Marocaine de Banques and 50.98% stake in La Marocaine Vie) to private investment group Saham Group.

**Credit Headlines:****Industry Outlook – SGD Credit Outlook 2H2024:**

- **We just published our SGD Credit Outlook 2H2024. Key highlights include:**
  - **So far, so good.** The SGD credit market performed well, returning +2.6% in YTD2024, with broad-based but uneven returns between segments. The outperformers were non-financial corporate perpetuals (+6.1%) and crossover credits in the Neutral (5) Issuer Profile category (+5.9%). 1H2024 issuance of SGD15.6bn is the highest in recent record, helped by strong demand as yields are still high with forthcoming supply as spreads are around the tightest level in recent years.
  - **Still constructive, but more selectively.** The theme to ‘buy while rates are still high’ should still apply, with no underweight position on any segment. We still like crossover credits with SGD credit market default rates expected to remain low. We think very short and shorter tenor papers offer good risk-reward given the inverted yield curve and can benefit directly from the expected Fed rate cuts. We are now Neutral on bank capital and non-financial corporate perpetuals after a strong YTD2024 performance and potential volatility given geopolitics, though we remain positive on those which are likely to be called.
  - **REITs outlook.** There has been a marked increase in bonds issued by S-REITs in 1H2024, driven by refinancing needs as well as to lock in funding costs at tight spreads to provide certainty to stakeholders in our view. While certain REITs have reduced their proportion of fixed/hedged debt compared to a year ago, we note that the sector median was at ~76% as at 31 March 2024 and similar to levels last year. S-REITs in general are more cautious in their acquisition strategy and have continued to look at divestments to strengthen balance sheets instead (especially those whose reported aggregate leverage ratio are on the high side). Revaluation losses were more pronounced, as observed in the December 2023/March 2024 independent property valuations vis-à-vis a year ago and we expect a similar trend for S-REITs that are due to report their valuations in the coming months.
  - **SG Property outlook.** We still expect prices to rise by 3-5% in 2024. However, certain trends emerged. While prices rose 1.4% in 1Q2024, land bids have been lower. Foreign buyers have been largely absent since the ABSD hike in 2023 and as such, sales have to be targeted at residents. Meanwhile, government land sales reached the highest level in a decade though units available for buyers remain low. Going forward, developers’ gross profit should expand, helped by less competition for land, though risks in property development may increase with less certainty that every unit can be moved while costs can be volatile.
  - **Financial Institutions outlook.** Stable fundamentals for Financial Institutions bely the elevated present risks and rising future ones centred on climate transition risks that are unprecedented and evolving. Offsetting these risks in our view continues to be another sustainability influence which is governance that remains relevant given Financial Institutions’ systemic importance, highly regulated nature, and sensitivity to sentiment and public confidence. This acts to effectively manage the high influence of environmental and social sustainability factors as well as other elevated risks including the deepening use of technology and digitalisation and rising cyber risks as well as the increasing adoption of artificial intelligence. (OCBC)

### Industry Outlook – Singapore Property

- **Property prices rose again:** 2Q2024 prices rose 1.1% q/q (1Q2024: +1.4% q/q), according to URA flash estimates. The increase is in-line with our expectations for prices to increase by 3-5% in the whole of 2024.
- **Uneven increase:** The largest gainer was non-landed property in Rest of Central Region which rose 2.2% q/q (1Q2024: +0.3% q/q), followed by landed property which rose 1.8% q/q (1Q2024: +2.6% q/q), followed by non-landed property in Outside of Central Region which rose 0.3% q/q (1Q2024: +0.2% q/q). Meanwhile, non-landed property in Core Central Region dipped 0.2% q/q (1Q2024: +3.4%).
- **Sales transaction remaining stable:** Sales transactions in 2Q2024 up till mid-June totalled 4,215. This looks in-line with 4,230 units sold in the full 1Q2024. (URA, OCBC)

### Lendlease Group (“LLC”)

- LLC entered into an agreement with Omaha Beach Investment Holdings to **sell US Military Housing business for AUD480mn.**
- LLC is expected to record operating profit after tax (“OPAT”) of AUD105mn - AUD120mn and cash receipt in 1HFY2025 (ended December 2024) from this transaction.
- This is the third transaction announced by LLC recently, including (1) AUD1.3bn sale of Communities projects, (2) AUD147mn sale of Asia Life Sciences interest.
- These three transactions are anticipated to contribute AUD275mn to AUD335mn OPAT and AUD2.2bn cash receipt in FY2025 (ended June 2025).
- More sales could be coming as LLC is also commenced to sell its UK construction business within 18 months. **LLC may recycle a further AUD1.1bn of capital in FY2025 by selling The Exchange TRX in Malaysia, Keyton Australian Retirement Living investment and China Senior Living asset.**
- We think these **disposals are beneficial to LLC** from credit perspective amidst lower gearing and potentially higher profitability by focusing on Australia. (Company, OCBC)

### Mapletree Logistics Trust (“MLT”)

- The Edge reporting on Mapletree Logistics Trust (“MLT”) comments at a Citi conference shared that (1) MLT intends to sell more property in China. However, the underlying investment sales market is slow and will take time, some transactions in China were sold at a 30-40% discount although MLT is not looking to sell below book (2) MLT can potentially sell some assets back to sponsor, including via a development fund over the medium term (with interest from other institutional investor) (3) Within emerging markets, MLT wants to grow in India, Malaysia and Singapore (4) Developed markets will remain dominant at 65-68% exposure. (The Edge)

### Société Générale S.A. (“SocGen”)

- Conseil de la Concurrence has approved the sale of SocGen’s Moroccan businesses (57.67% stake in Société Générale Marocaine de Banques and 50.98% stake in La Marocaine Vie) to private investment group Saham Group.
- Per the announcement in early April 2024, SocGen is selling both businesses for EUR745mn. While SocGen is expected to recognise an accounting loss of EUR75mn, the sale is expected to have a +15bp impact to SocGen’s CET1 ratio.
- SocGen’s CET1 capital ratio as at 31 March 2024 was 13.2%, up 10bps q/q from 13.1% as at 31 December 2023. On a fully loaded basis, the ratio is also 13.2%. The ratio is about 300bps above its 10.22% regulatory requirement as per the European Central Bank’s Supervisory Review and Evaluation Process (“SREP”). (Company, Bloomberg, OCBC)

**Key Market Movements**

	1-Jul	1W chg (bps)	1M chg (bps)		1-Jul	1W chg	1M chg
iTraxx Asiax IG	98	-2	3	Brent Crude Spot (\$/bbl)	85.3	-0.8%	4.5%
				Gold Spot (\$/oz)	2,327	-0.3%	-1.0%
iTraxx Japan	54	0	3	CRB Commodity Index	290	-0.9%	0.1%
iTraxx Australia	71	-1	6	S&P Commodity Index - GSCI	578	-0.7%	0.9%
CDX NA IG	54	0	4	VIX	12.4	-5.8%	-3.7%
CDX NA HY	106	0	-1	US10Y Yield	4.39%	16bp	-10bp
iTraxx Eur Main	61	1	10				
iTraxx Eur XO	320	2	29	AUD/USD	0.667	0.2%	-0.3%
iTraxx Eur Snr Fin	72	2	14	EUR/USD	1.075	0.1%	-1.4%
iTraxx Eur Sub Fin	128	3	24	USD/SGD	1.355	-0.1%	-0.6%
				AUD/SGD	0.904	-0.4%	-0.4%
USD Swap Spread 10Y	-42	-1	6	ASX200	7,740	0.1%	0.5%
USD Swap Spread 30Y	-80	-2	6	DJIA	39,119	-0.1%	1.1%
				SPX	5,460	-0.1%	3.5%
China 5Y CDS	66	-2	5	MSCI Asiax	697	0.2%	3.9%
Malaysia 5Y CDS	45	-2	-1	HSI	17,719	-1.7%	-2.0%
Indonesia 5Y CDS	78	-1	7	STI	3,336	0.7%	0.0%
Thailand 5Y CDS	45	0	2	KLCI	1,590	0.0%	-0.4%
Australia 5Y CDS	13	0	-4	JCI	7,082	2.8%	1.6%
				EU Stoxx 50	4,894	-0.3%	-1.8%

Source: Bloomberg

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