

Asian Credit Daily

27 June 2024

Market Commentary:

- The SGD SORA curve traded higher yesterday, with short tenors trading 2-7bps higher, belly tenors trading 7-8bps higher and 10Y trading 8bps higher.
- Flows in SGD corporates were heavy, with flows in HSBC 5.25%-PERP, UBS 5.6%-PERP, CMZB 6.5% '34s, TMGSP 5.25% '27s, OLGSP 5.375%-PERP, UOBSP 3.58%-PERP.
- Bloomberg Asia USD Investment Grade tightened by 1bps to 82bps while Bloomberg Asia USD High Yield tightened by 8bps to 489bps. (Bloomberg, OCBC)

Credit Summary:

- **Keppel Real Estate Investment Trust ("KREIT"):** Keppel REIT Management Limited, as manager of KREIT, announced that KREIT has established a Green Financing Framework to support its sustainability efforts and facilitate the achievement of its environmental, social and governance targets and commitments.
- **Lippo Malls Indonesia Retail Trust ("LMRT"):** Upsized loan and tender 2026 USD notes: LMRT upsized the existing IDR loan facilities from IDR2.5 trillion (USD152mn) raised on 28 May 2024 to IDR4.5 trillion (USD273mn).
- **Hongkong Land Holdings Ltd ("HKL") and The Hongkong Land Company Ltd ("HKCL"):** HKL will partner up with ten luxury retail tenants to invest more than USD1bn (HKD7.8bn) in LANDMARK, HKSAR.
- **Olam Group Ltd ("OG"):** OG announced that its wholly-owned subsidiary, olam food ingredients, which focuses on food and beverage ingredients has obtained a multi-tranche revolving credit facility and term loan aggregating USD1.8bn.
- **Industry Outlook – US Financial Institutions:** The US Federal Reserve ("Fed") announced the results of its latest stress test with all 31 banks with at least USD100bn in assets remaining above minimum capital requirements in a hypothetical stress scenario.
- **Industry Outlook – Swiss Financial Institutions; UBS Group AG ("UBS"):** The Swiss Federal Council has confirmed the 1 January 2025 implementation of the final Basel III standards.

Credit Headlines:**Keppel Real Estate Investment Trust ("KREIT")**

- Keppel REIT Management Limited, as manager of KREIT, announced that KREIT has established a Green Financing Framework to support its sustainability efforts and facilitate the achievement of its environmental, social and governance targets and commitments.
- The framework will serve as a reference for all green finance transactions issued by KREIT, including bonds, term loans, revolving credit facilities, medium-term notes, convertible bonds, perpetuals and any other financial instrument publicly or privately placed in various formats, tenure and currency.
- On 20 June 2024, KREIT priced its debut green bond (AUD175mn in aggregate principal amount of floating rate green bonds due 2027). The green bond was issued on 26 June 2024. (Company)

Lippo Malls Indonesia Retail Trust ("LMRT")

- Upsized loan and tender 2026 USD notes: LMRT upsized the existing IDR loan facilities from IDR2.5 trillion (USD152mn) raised on 28 May 2024 to IDR4.5 trillion (USD273mn). The additional USD120mn will be used primarily to tender the LMRTSP 7.5% '26s USD notes.
- Based on LMRT's pro-forma debt maturity profile, LMRTSP 7.5% '26s have an outstanding of USD201.6mn including the recent exchange offer (USD17.6mn) and retap (USD16.2mn).
- The minimum tender price will be 94.0 including consent fee of 0.5. Meanwhile, the secondary bid price of the LMRTSP 7.5% '26s is ~93. (OCBC, Company)

Hongkong Land Holdings Ltd ("HKL") and The Hongkong Land Company Ltd ("HKCL")

- HKL will partner up with ten luxury retail tenants to invest more than USD1bn (HKD7.8bn) in LANDMARK, HKSAR.
- HKL will invest USD400mn while the remaining USD600mn will be shared across these ten tenants namely Cartier, CHANEL, Dior, Hermès, Louis Vuitton, Prada, Saint Laurent, Sotheby's, Tiffany & Co., and Van Cleef & Arpels.
- HKL is making this strategic investment to meet its luxury tenants' demand for significant additional retail space and enhanced brand representation in the heart of Central, HKSAR.
- This project is expected to take three years to complete. The USD400mn capital expenditure will be funded over three years and will be underpinned by HKL's strong financial position.
- As at 31 March 2024, HKL's gearing (debt/assets) was 16% and committed liquidity (cash and unused borrowing facilities) was USD3.1bn. While there will be a temporary and moderate reduction of rental income during the upgrade period, HKL expects this investment to deliver stronger growth in tenant sales and retail income thereafter. (Company, OCBC)

Olam Group Ltd ("OG")

- OG announced that its wholly-owned subsidiary, olam food ingredients, which focuses on food and beverage ingredients has obtained a multi-tranche revolving credit facility and term loan aggregating USD1.8bn.
- The facility has Olam Treasury Pte Ltd as borrower. The facility is initially guaranteed by OG which will transfer to ofi Group Limited ("ofi") following the planned IPO and demerger of ofi.
- The facility comprises a 2Y and 3Y revolving credit facility and a 3Y term loan. (Company)

Industry Outlook – US Financial Institutions

- The US Federal Reserve (“Fed”) announced the results of its latest stress test with all 31 banks with at least USD100bn in assets remaining above minimum capital requirements in a hypothetical stress scenario. On a consolidated basis, the CET1 ratio of the 31 banks would reduce to 9.9%. While the capital reduction is larger than last year’s stress test, it is still above the 4.5% minimum requirement. Individual impacts to participant banks vary with a ~4.4% variance between some of the highest capital levels post stress test and the lowest.
- Key aspects of the stress test included a severe global recession, 10% peak US unemployment, a 55% fall in equity prices, 36% decline in house prices and a 40% drop in commercial real estate prices with substantially higher office vacancies. Banks with larger trading businesses also incorporated an additional “global market shock” with equity price declines, higher short-term Treasury rates and a weaker USD.
- While the results confirm adequate capital buffers for the time being, the trajectory is still to raise capital requirements, especially given the larger losses and larger reduction in capital in the current stress test that was due to higher credit card balances and delinquencies, higher risk corporate exposures, as well as lower profitability due to reduced fee income and higher costs.
- Last July, US regulators comprising the Fed, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency released a proposal for public feedback for higher capital requirements which would result in an average 16% increase in capital for bank with at least USD100bn in assets. The proposal called for a 19% increase for the eight largest banks and an increase of 5% and above for banks with USD100bn-USD250bn in assets. These reforms were tied to implementation of the full package of Basel III standards as well as a response to the US regional banking crisis and failure of Silicon Valley Bank in early 2023.
- The Fed however has reportedly provided a revision to this plan to the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency with the proposed capital increase reduced to as low as 5% per Bloomberg. The new proposal is connected with the recent decision by the Fed to delay the implementation of the full package of Basel III standards that also seeks to increase minimum capital requirements, particularly for market related activities. Finalisation of revised capital requirements in the US however may be delayed due to the November 2024 presidential elections. (Reuters, Bloomberg, US Federal Reserve, OCBC)

Industry Outlook – Swiss Financial Institutions; UBS Group AG (“UBS”)

- The Swiss Federal Council has confirmed the 1 January 2025 implementation of the final Basel III standards. This comes after decisions by the European Union and US Federal Reserve to delay the implementation of the Fundamental Review of the Trading Book (“FRTB”) standards within Basel III for at least one year until 2026. The original implementation dates were 1 January 2025 for the EU and June 2025 for the US and UK.
- The FRTB standards are expected to increase capital requirements for market price risks of Financial Institutions once implemented, hence a synchronised delay in the US and EU was to ensure no region’s banks are disadvantaged by implementing stricter capital requirements first. Per Bloomberg, the implementation of the full package of Basel III standards would increase capital requirements for European banks by 9.9% and more for US banks.
- Switzerland’s decision comes amidst ongoing discussions on increasing minimum capital requirements, in particular for UBS given its higher systemic importance. Given that Basel III standards are seeking to strengthen bank solvency and liquidity, it is not surprising that Switzerland has chosen not to delay the implementation.
- UBS has been vocal in pushing back on raising minimum capital requirements following its acquisition of Credit Suisse Group AG, both as part of a proposed revision of the “Too Big to Fail” regime and as part of an earlier implementation of Basel III standards than the rest of the world. Per various reports, the proposed revisions to current Swiss capital regulation including higher capital allocated for foreign subsidiaries could raise UBS’s

minimum capital requirements by around USD20bn. UBS has indicated that implementation of Basel III standards would increase UBS's risk-weighted assets by ~USD15bn from 2025.

- As at 31 March 2024, UBS's total going concern capital (common equity tier 1 and additional tier 1 capital) was USD93.47bn, hence the Basel III increase would be around 16%. (Company, Bloomberg, Swiss Federal Council, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
26 Jun	NTT Finance Corp	Fixed	USD	600	3Y	T+65bps	T+80 to 85bps
26 Jun	NTT Finance Corp	Fixed	USD	900	5Y	T+85bps	T+95 to 100bps
26 Jun	NTT Finance Corp	Fixed	USD	850	7Y	T+90bps	T+110 to 115bps
26 Jun	Macquarie Bank Ltd	Fixed	USD	750	3Y	T+75bps	T+95bps area
26 Jun	Macquarie Bank Ltd	FRN	USD	850	3Y	SOFR+92bps	SOFR Equiv
26 Jun	Korea International Bond	Fixed	USD	1000	5Y	T+24bps	T+25bps area
26 Jun	Bangkok Bank PCL/Hong Kong	Fixed	USD	750	10Y	T+140bps	T+165bps area
26 Jun	Mitsubishi Corp	Fixed	USD	500	5Y	T+75bps	T+100bps area
26 Jun	China Huaneng Group Hong Kong Treasury Management Holding Ltd	Fixed	USD	500	PerpNC3	5.3%	5.85% area
26 Jun	Huzhou Nanxun Tourism Investment Development Group Co Ltd (Guarantor: Huzhou Nanxun Cultural Tourism Development Group Co.)	Fixed	USD	75	3Y	6.5%	7.0% area
26 Jun	Cathaylife Singapore Pte (Guarantor: Cathay Life Insurance Co Ltd)	Fixed, Tier 2	USD	600	10Y	T+170bps	T+205bps

26 Jun	Swire Pacific Mtn Financing HK Ltd (Guarantor: SWIRE PACIFIC B)	Fixed	USD	500	5Y	T+95bps	T+120bps
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Mandates:

- Takeda Pharmaceutical Company Limited is planning to issue a USD Benchmark sized multi-tranche fixed rate senior unsecured debt.

Key Market Movements

	27-Jun	1W chg (bps)	1M chg (bps)		27-Jun	1W chg	1M chg
iTraxx Asiax IG	100	2	-12	Brent Crude Spot (\$/bbl)	85.0	-0.9%	2.3%
				Gold Spot (\$/oz)	2,299	-2.6%	-2.2%
iTraxx Japan	64	1	-8	CRB Commodity Index	291	-1.5%	-1.0%
iTraxx Australia	76	3	-5	S&P Commodity Index - GSCI	578	-0.9%	-0.7%
CDX NA IG	62	1	-7	VIX	12.6	2.0%	5.2%
CDX NA HY	104	0	3	US10Y Yield	4.34%	8bp	-13bp
iTraxx Eur Main	67	1	-9				
iTraxx Eur XO	369	2	-42	AUD/USD	0.666	0.0%	0.0%
iTraxx Eur Snr Fin	76	0	-12	EUR/USD	1.069	-0.1%	-1.6%
iTraxx Eur Sub Fin	138	0	-24	USD/SGD	1.357	-0.2%	-0.6%
				AUD/SGD	0.904	-0.2%	-0.6%
USD Swap Spread 10Y	-41	-1	-3	ASX200	7,704	-0.8%	-1.1%
USD Swap Spread 30Y	-78	-2	-4	DJIA	39,128	0.8%	0.1%
				SPX	5,478	-0.2%	3.3%
China 5Y CDS	62	3	-9	MSCI Asiax	698	-1.0%	0.1%
Malaysia 5Y CDS	44	4	-8	HSI	17,769	-3.1%	-5.6%
Indonesia 5Y CDS	76	1	-9	STI	3,339	1.2%	0.6%
Thailand 5Y CDS	43	1	-12	KLCI	1,586	-0.4%	-2.0%
Australia 5Y CDS	17	0	-5	JCI	6,946	1.9%	-3.2%
				EU Stoxx 50	4,916	0.6%	-2.8%

Source: Bloomberg

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