SGD Credit vs Asiadollar Credit Special Interest Commentary

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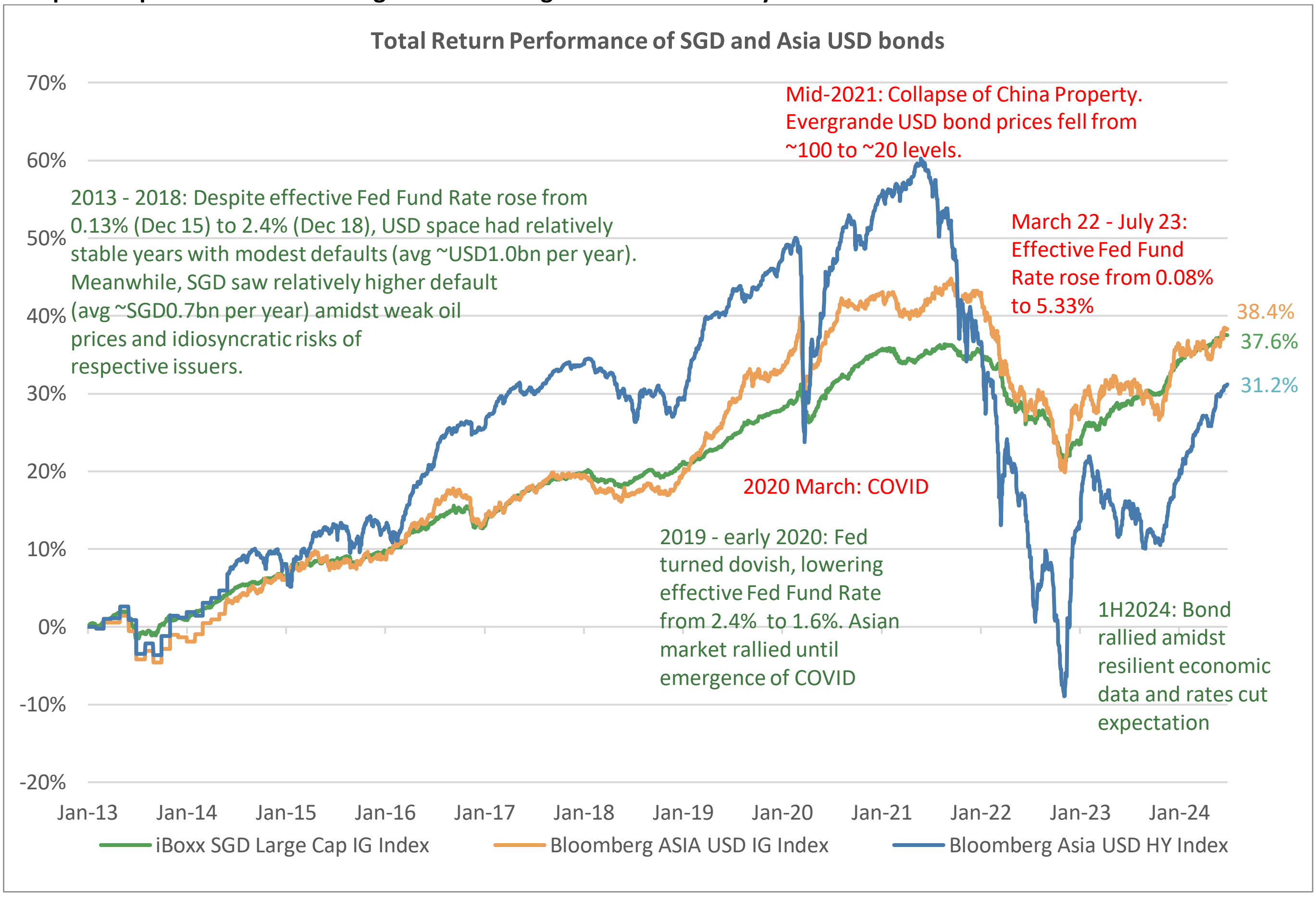
SGD Credit: Less is more with modest defaults since 2019

Based on the historic performance since 2013, we believe **SGD credit market offers (1) comparable returns to Asia USD credit market, (2) more resilient credit fundamentals of issuers, (3) lower volatility and are more defensive in nature, (4) less vulnerable to rising rates and (5) modest default rates particularly after 2019.** That said, we observed SGD credit market tend to lag against Asia USD credit market during booming periods as evidenced in 2014 and 2019.

Though the smaller scale SGD credit market may often be viewed as a less exciting and less attractive investment, the performance since 2013 could mean that less is more, particularly during volatile and challenging environments. The SGD credit market gained 37.6% from 2013 – 1H2024 according to iBoxx SGD Non-Sovereigns Large Cap IG Index as a reference, outperforming Asia USD HY (31.2%) while largely on par with the performance of Asia USD IG (38.4%).

Asia USD bonds in general outperformed SGD bonds during relatively stable environments as evidenced in 2015 - 2019, although this was likely due to (1) SGD bond defaults concentrated in 2016 – 2018 and (2) China's booming property sector during these years. That said, Asia USD bonds tend to fall more heavily in comparison to SGD bonds amidst market downturns for instance (1) COVID in March 2020, (2) China's property crisis starting in mid-2021, and (3) steep rate hikes since March 2022.

Comparable performance of SGD against USD along with lower volatility



Source: Bloomberg, per disclosed as at 26 June 2024, OCBC Global Markets Credit Research

Based on our calculation, **SGD IG bonds outperformed Asia USD IG bonds six out of eleven years between 2013 – 2023 as well as 1H2024**, though underperformed Asia USD IG bonds by 0.8 percentage points ("ppts") during the whole period. SGD bonds performed better in 2022 – 1H2024 amidst limited exposure to China Property and slower rise in SGD SORA than US Treasury yields.

The period when SGD bonds underperformed was in 2014 and 2019, where SGD bonds underperformed USD IG bonds by 3.0ppts and 5.5ppts respectively. USD bonds performed meaningfully better in 2019 partly as (1) US Treasuries (eg: 5Y fell 82bps y/y to 1.69%) fell more considerably in comparison to Singapore's Swap Offer Rates (eg: 5Y fell 41bps y/y to 1.498%) and (2) a prosperous year for China property, before "three red lines" policy was rolled out in August 2020.

In our view, SGD IG bonds have lower volatility and are more defensive in nature, thanks to Singapore's stable economy and resilient issuer credit fundamentals although this has also led to smaller extents of gains as well as falls. More importantly, there are only two occasions of yearly losses for SGD IG bonds since 2013, in comparison to three times for USD IG and USD HY bonds.

Total Return Performance of SGD and Asia USD bonds

	OCBC's SGD Credit Universe Tracker	iBoxx SGD Non-Sovereigns Large Cap IG Index (b)	Bloomberg ASIA USD IG Index (c)	Bloomberg Asia USD HY Index	SGD IG vs Asia USD IG (b) - (c)
2013	--	0.9 %	-1.9 %	1.9 %	2.8%
2014	--	5.5 %	8.5 %	6.0 %	-3.0%
2015	--	2.8 %	2.3 %	4.4 %	0.5%
2016	--	3.3 %	4.5 %	11.4 %	-1.2%
2017	--	6.0 %	5.1 %	6.5 %	0.9%
2018	--	1.2 %	0.1 %	-3.3 %	1.1%
2019	--	5.6 %	11.1 %	13.8 %	-5.5%
2020	--	6.0 %	7.5 %	5.7 %	-1.5%
2021	0.2 %	-0.3 %	-0.0 %	-12.3 %	-0.2%
2022	-6.8 %	-8.7 %	-11.2 %	-16.8 %	2.5%
2023	7.6 %	8.6 %	7.4 %	5.1 %	1.2%
1H2024	2.6 %	2.5 %	1.5 %	10.0 %	1.0%
Total Return Since 2013	--	37.6 %	38.4 %	31.2 %	-0.8%

Source: Bloomberg, per disclosed as at 26 June 2024, OCBC Global Markets Credit Research
Note: OCBC's SGD Credit Universe Tracker and iBoxx SGD Large Cap IG Index includes issues from statutory boards

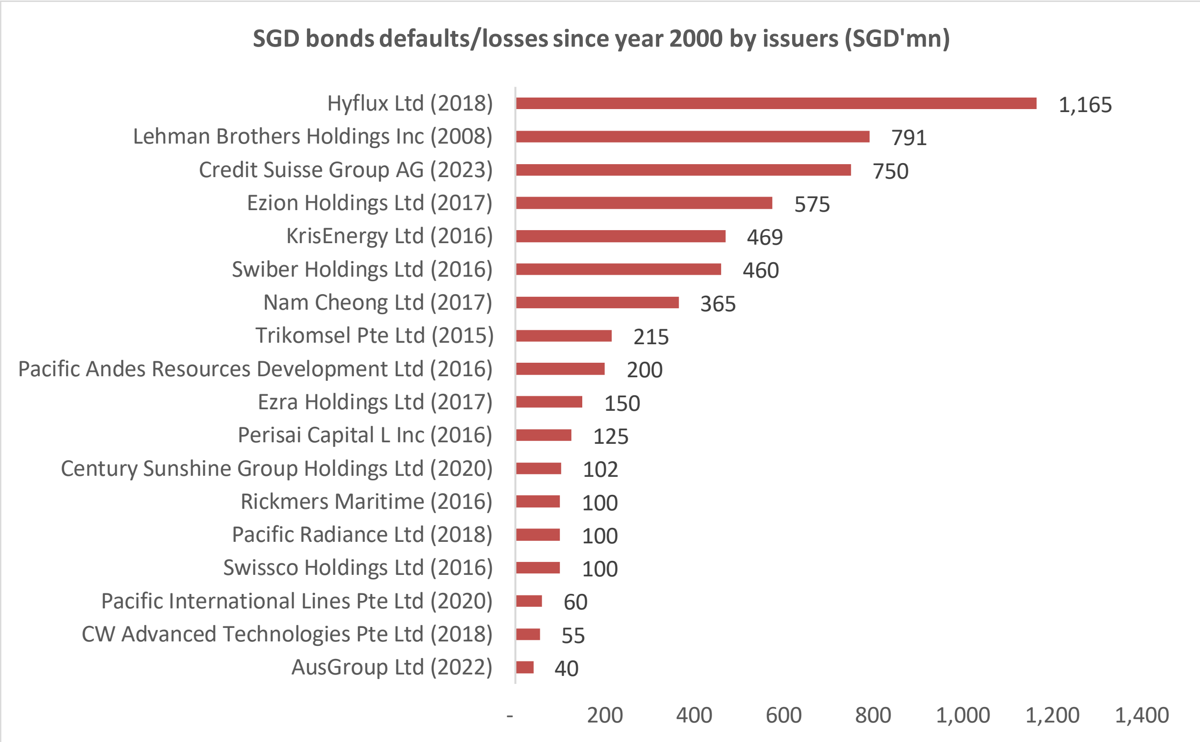
Modest defaults/losses since 2019

Based on Bloomberg data and our estimations, there were SGD5.80bn of SGD bond defaults/losses since 2000, of which 88% is contributed by the top ten defaulters including Hyflux Limited, Lehman Brothers Holdings Inc, Credit Suisse Group AG, Ezion Holdings Ltd, KrisEnergy Ltd , Swiber Holdings Ltd, Nam Cheong Ltd, Celestial Nutrifoods Ltd, Trikomsel Pte Ltd and Pacific Andes Resources Development Ltd.

Also, it is worth mentioning that these defaults occurred in concentrated periods during 2008-2009 and 2016-2018 amidst (1) the global financial crisis in 2008 – 2009 and (2) weak oil prices in 2014 – 2017 which led to a spate of defaults among issuers within the offshore oil and gas sectors (eg. Ezion Holdings Ltd, KrisEnergy Ltd, Swiber Holdings Ltd and Nam Cheong Ltd). Other defaulters were subject to the idiosyncratic risks of the respective issuers, although all of these issuers benefited at some point from a period of loose liquidity and a low interest rate environment (eg. Hyflux Ltd and Trikomsel Pte Ltd) boosted by investor perception of the SGD credit market as a relative safe haven with a limited history of defaults. Notably, these were high yielding issues and heavily targeted at retail and high net worth investors.

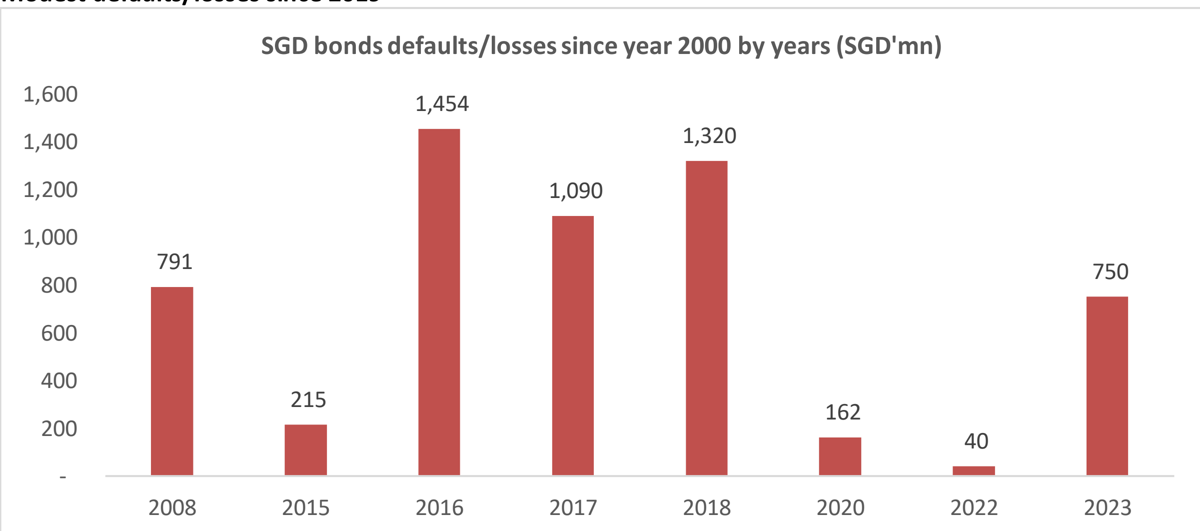
There was only a modest default/loss of SGD952mn (of which SGD750mn was from the unexpected full write down of Credit Suisse Group AG's CS 5.625%-PERP) **in the SGD credit market since 2019 despite the impacts of COVID**, **spiking rates and volatile Asian markets**.

88% of total defaults since 2000 were contributed by the top ten defaulters



Source: Bloomberg, OCBC Global Markets Credit Research

Modest defaults/losses since 2019



Source: Bloomberg, OCBC Global Markets Credit Research

Unlike more developed credit markets with long established debt restructuring systems that encourages the re-entry of defaulted names back into the market post-restructuring, SGD defaulted/total loss issuers have exited from the new issuance market. Additionally, there has been limited new high yield supply since 2018. Based on our estimations, the average default rate per year from 2007-1H2024 was 0.41%, 2013-1H2024 was 0.54% and 2019-1H2024 was 0.17%.

SGD Default Rates

Average SGD Outstanding SGD'mn (2007-1H2024)	81,200
Total Default Since 2007 (SGD'mn)	5,823
Avg default per year SGD'mn (2007-1H2024)	333
Avg. Default % per year (2007 - 1H2024)	0.41%
Average SGD Outstanding SGD'mn (2013-1H2024)	96,900
Total Default Since 2013 (SGD'mn)	5,032
Avg default per year SGD'mn (2013-1H2024)	438
Avg. Default % per year (2013 - 1H2024)	0.54%
Average SGD Outstanding SGD'mn (2019-1H2024)	100,995
Total Default Since 2019 (SGD'mn)	952
Avg default per year SGD'mn (2019-1H2024)	173
Avg. Default % per year (2019 - 1H2024)	0.17%

Source: Bloomberg, OCBC Global Markets Credit Research

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral ("N") – The bond represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Underweight ("UW") – The bond represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Please note that Bond Recommendations are dependent on a bond's price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed. We may also suspend our issuer rating and bond level recommendation in the ordinary course of business if (1) we believe the current issuer profile is incorrect and we have incomplete information to complete a review; or (2) where evolving circumstances and increasingly divergent outcomes for different investors results in less conviction on providing a bond level recommendation.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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