

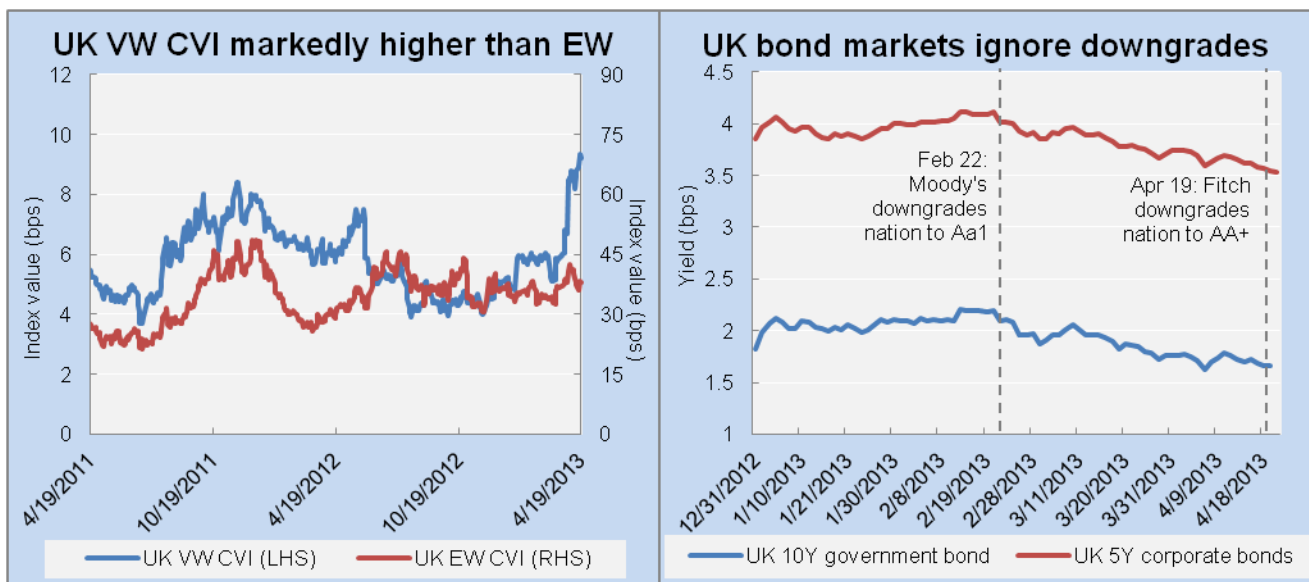


Story of the Week

Weak economic growth weighs on credit outlook for large UK corporations

By [James Weston](#)

RMI Corporate Vulnerability Index (CVI) data, a bottom-up measure of credit risk, suggests the weakening growth outlook in the UK is credit negative for UK companies, in particular larger corporations. The RMI UK value-weighted (VW) CVI reached the highest level since late-2009 on April 19. However, the RMI UK equally-weighted (EW) CVI remains relatively flat; suggesting the credit outlook for larger listed UK companies has weakened. Anemic growth and further fiscal consolidation appear to be the largest credit outlook drivers for UK corporations, as funding conditions remain extremely favorable.



Last week, the IMF cut its YoY growth forecasts for the UK economy to 0.7% from 1% for 2013. It also lowered UK growth in 2014 to 1.5% from 1.8%. The IMF suggested the government should adjust the pace of its fiscal austerity measures, due to lackluster private demand. The March UK manufacturing PMI reflected this, with the manufacturing sector continuing to contract. Industrial production also remains subdued, with output contracting 2.2% in February. The services sector continues to provide support to the weak economy, with the March UK Services PMI showing the fastest expansion in seven months in March.

Citing the weaker economic outlook and increasing levels of government debt, Fitch last week downgraded the nation's sovereign rating to AA+ from AAA, becoming the second major rating agency to strip the country of its highest credit rating. Moody's downgraded the nation to Aa1 from Aaa in February, citing similar reasons. Credit markets have hardly reacted to each downgrade, with UK government bond yields falling last week. BAML index data shows borrowing costs for UK companies have not been affected by the downgrades either, with five year corporate borrowing costs in bond markets reaching record lows last week.

Moreover, funding conditions remain extremely favorable for UK companies, with surveys by both the BoE and Deloitte showing corporate credit is more available and less expensive than at any time in the past five years. However, demand for bank loans was anemic in Q1, with survey respondents expecting an increase in demand through Q2. UK corporate borrowers appear to have turned to debt capital markets for funding when needed instead. Net capital issuance in February 2013 was the highest since June 2009.

Sources[IMF lowers UK growth forecast for 2013 again](#) (BBC)[Fitch downgrades UK rating](#) (WSJ)[Credit supply and demand](#) (Bank of England)[Trends in lending: April 2013](#) (Bank of England)**In the News****South Korea unveils fiscal package to support growth**

Apr 16. South Korea announced a USD 15.4bn supplementary government budget to spur growth in the economy, its first fiscal stimulus program in four years. The Finance Ministry expects the extra budget to boost growth by 0.3 percentage points and create 40,000 jobs, or a net increase of KRW 5.3tn after covering expected revenue shortfalls. Although expected to temporarily strain the country's fiscal conditions, the supplementary budget should help secure growth momentum, with a fiscal recovery seen in the mid- to long-term. ([Bloomberg](#))

Loans slump to 2006 low as Sukuk costs decline

Apr 18. Shariah-compliant lending slumped to the lowest in 7 years as banks took a greater role as debt arrangers rather than supplying funds directly to the borrowers. Islamic loans sank 95% to USD 287mn in 2013 from the same period last year, while issuance of Islamic bonds rose 6.2% to USD 13.8bn during the same period, according to Bloomberg data. Commentators suggested that while the trend is likely to continue, lower-rated borrowers will continue to tap the Shariah loans market. ([Bloomberg](#))

Indonesia bonds go from worst to first as oil declines

Apr 19. Falling oil costs handed Indonesian global bonds a reversal of fortune as Southeast Asia's worst performers this year lead regional gains in April. The country's USD notes gained 2.7% this month after a loss of 3.1% in Q1 while IRD-denominated debt erased its loss for the year by gaining 0.8%. Indonesia's benchmark 10-year bonds yielded 5.46%, more than two percentage points higher than its regional neighbors' bonds. Brent crude prices fell 16% in two months, easing pressure on the nation's budget deficit as it hopes to spend less than the USD 22bn spent on fuel subsidies last year. ([Bloomberg](#))

Consumer loans surge across Asia

Apr 22. Lenders are fueling a boom in short-term loans across Asia, pushing debt to record levels as banks aim to capitalize on the burgeoning middle class for greater diversification from the slow-growing West. Nonmortgage consumer credit in Asia ex-Japan rose 67% to USD 1.66tn over a five-year period to 2012. In the United States the rise was only 10% during the same period. Lenders are pitching a wide range of products from credit cards to short-term installment loans for motorcycles and appliances, with interest rates that range from 15% for secured auto loans to as much as 40% for unsecured loans. ([WSJ](#))

BOJ: Japan banks would face JPY6.6tr in losses if interest rates rise 1 percentage point

Apr 17. Japanese banks would suffer losses of JPY 6.6tn should interest rates increase broadly by 1 percentage point, according to Bank of Japan's semi-annual Financial System Report. This figure is little-changed from an estimate of JPY 6.7tn made last year. The BOJ also said that the stability of the banking industry would be maintained even if huge stresses occurred, such as a deep recession or a spike in interest rates. ([WSJ](#))

S&P early victory in US fraud suit seen as unlikely ([Bloomberg](#))

KSA inflation rises in March ([Arab News](#))

Consumers optimistic about Dubai economy in 2013 ([Gulf News](#))

HSBC to focus on region's infrastructure finance and Islamic debt capital ([Gulf News](#))

Middle East banking M&A deals touch USD 7bn in 2012 ([Gulf News](#))

Abu Dhabi continues to experience rental deflation: CBRE ([Gulf News](#))

Kuroda endgame seen as swaps climb most since 2010 ([Bloomberg](#))

China slowdown shows struggle to channel money into real economy ([Reuters](#))

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