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Weekly Credit Brief Dec 03 - Dec 09 2013

Story of the Week

Rising bad loans put Indian banks at risk

Rising loan delinquencies are posing a threat to Indian lenders. A recent report by India Ratings & Research said non-performing commercial vehicle loans climbed to unchartered territory. The weighted average of (90-plus days of arrears) delinquencies of commercial loans increased from 2.4% in Q2 to 3% in Q3. Furthermore, the amount of non-performing loans (NPLs) at Indian commercial banks has grown to a record INR 1.84tn in 2013 prompting the Reserve Bank of India to propose capital requirement measures for domestic systemically important banks. RMI data for listed Indian banks shows lenders are facing their highest default risk in years. The 1-year aggregate RMI probability of default (RMI PD) for Indian banks peaked in August 2013 before falling to 275bps on December 6.

The fall in RMI PD over the last few months was possibly a result of the relief measures introduced by the central bank. In the 3 month period between September and November, lenders operating in India managed to attract USD 34bn of foreign currency deposits and borrowings through a special concessional dollar swap window. The scheme was announced by the RBI to stabilize the INR when it depreciated to 68 against the USD in August. Under the scheme, banking firms offered up to 3.5% interest on a range of deposits maturing between 1 and 3 years. In the months following September, bank borrowings through the marginal standing facility and the overnight call rate improved.

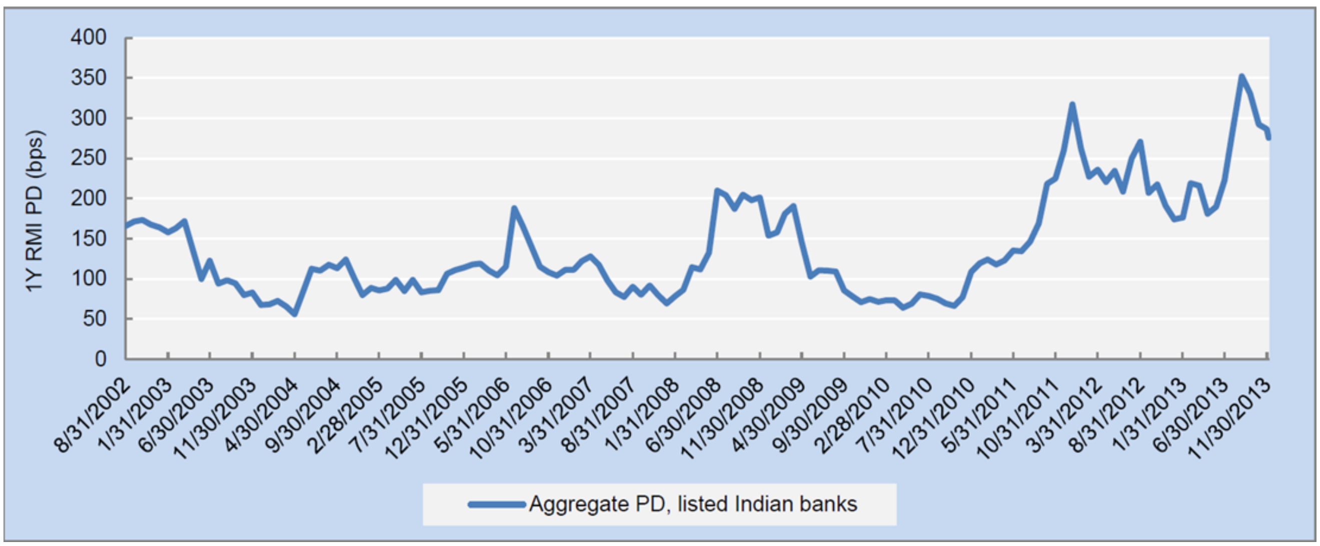

Figure 1: 1-year aggregate RMI PD for banks domiciled in India. Source: RMI

India's largest banks are seeking funds to bolster their balance sheets. The State Bank of India announced plans in November to raise up to INR 95.76bn through a share sale to institutional investors, and an additional INR 20bn through a preferential share sale to the government. The bank posted its worst quarterly profit fall in more than 2 years in Q3 because of poor asset quality, pressuring the firm to seek more funding. Earlier in the year, the nation's second largest lender by revenue - ICICI Bank raised SGD 225mn through a 7 year SGD bond sale and issued CNY 650mn of dim sum bonds in June. The bank also recently priced USD 750mn of fixed rate notes at 5.5%.

Bond sales by Indian banking firms could continue to increase. To further improve the quality of their base capital and to meet Basel III regulatory requirements, banks are exploring the possibility of issuing Basel-III compliant tier 1 bonds to international investors comprising of preference shares and perpetual bonds. The Bank of India is likely to be the first bank to issue Tier 1 Basel III compliant USD bonds in January 2014.

Credit rating agencies are not too optimistic in their credit outlooks on the Indian banking sector. Moody's has maintained a negative outlook on the sector since 2011 as it expects non-performing and restructured loans in the sector to rise especially in banks that have a large exposure to infrastructure projects. India Ratings, the domestic arm of Fitch Ratings expected 22 Indian firms to default on their debt obligations in FY 2014 as the agency anticipates a challenging economic environment backed up by low industrial activity.

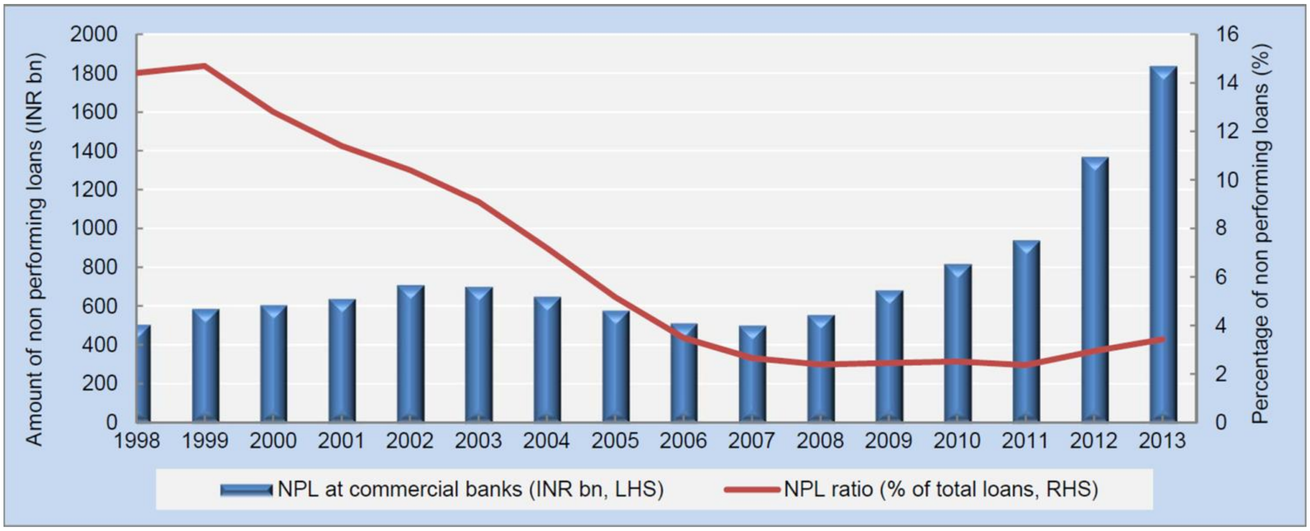

Figure 2: Non performing loan statistics for commercial Indian banks. Source: Reserve Bank of India

Sources:
State Bank of India to raise up to USD 1.5bn via share sale (Reuters)
Indian banks make most of RBI's FCNR deposit scheme (The Indian Express)
Indian banks ready capital push (Reuters)
Rising bad loans to cut government's earnings from PSB by 30% (The Times of India)

In the News

Malaysian bonds set for worst week since July on Fed taper risk

Dec 06. The yield on Malaysia's 3-year sovereign debt rose 11bps from 3.17% to an 8-week high of 3.28%, as the US Federal Reserve's unwinding of its monetary stimulus looks increasingly imminent. The latest release of American manufacturing and payroll data had exceeded expectations, conveying a surer sign of recovery in the US economy. Meanwhile, the rate on Malaysia's 10-year notes, which are most sensitive to inflationary expectations, climbed 4 bps to a 5-month high of 4.13% after Tenaga Nasional Bhd, the state-owned power distributor announced a 15% hike in electricity rates in Peninsular Malaysia starting from next year. The government had just reduced fuel subsidies in September. (Bloomberg)

Argentina's return to bond market seen in Blejer road map

Dec 05. Argentina's attempts to mend its overseas reputation show the nation wants to tap overseas bond markets for the first since its USD 95bn default in 2001. The vice president of Banco Hipotecario SA, who ran the central bank in 2002 after the unprecedented default, said that regaining access to foreign financing will be instrumental to delaying the falling country's reserves, which have plunged at the fastest pace in a decade this year. Mr. Mario Blejer said Argentina is trying to regain investors' confidence by fixing economic data with the International Monetary Fund, paying its Paris Club debt and reaching an agreement with holdout creditors. (Bloomberg)

Indonesia to keep tight stance as IDR weakens

Dec 05. After the IDR fell to a four-year low of 11,985 IDR per USD on Wednesday, Bank Indonesia reiterated its commitment to its tight policy stance to rehabilitate investor confidence. Despite having raised its benchmark interest rate by 1.75%in 6 months, the current account deficit, which has been running for 8 successive quarters and last stood at 3.8% of the country's GDP in Q3, seems impervious to any monetary policy tightening. In light of this, Senior Deputy Governor Mirza Adityaswara said that more aggressive interest raises and increased reserve requirement ratios could be on the horizon in order to narrow the current account deficit to below 3% of GDP in 2014 and combat inflation. Meanwhile, Mr. Adityaswara also noted the stop-gap nature of monetary measures and the need for structural reforms such as diversified energy supplies and new oil production in the long-run. (Bloomberg)

Chile, Colombia, Peru central banks ready for Fed taper

Dec 05. The monetary authorities of Chile, Colombia and Peru are prepared to face high volatility in global economic conditions after the expected withdrawal of monetary stimulus by the US Federal Reserve, according to Peru's central bank. The Peruvian central bank said in a December 5 report that the three countries had implemented monetary and fiscal policies that would cushion them against any ill-effect from a reduction in the Fed's bond-buying program. These include the "the accumulation of international reserves, a greater exchange rate flexibility, a better fiscal position and better handling of public debt" as common aspects that could help the three Andean nations withstand an eventual capital flight from emerging markets. (Reuters)

Fed-Watt combo deepens first MBS loss since 1994

Dec 04. According to indices compiled by Bank of America Merrill Lynch, US government backed mortgage bonds are on track for their first annual loss since 1994. Rumour has it that the newly appointed US representative overseeing Fannie Mae and Freddie Mac – Mel Watt might expand a mortgage refinancing program which could reduce returns to buyers of fixed income securities guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The North Carolina Democrat is looking to expand the government's Home Affordable Refinance Program for borrowers with little or no home equity. Furthermore, the Federal Reserve could reduce its purchase of these mortgage backed securities in the coming months, as interest rates continue to rise. The average 30 year fixed mortgage rate by bankrate.com has increased to 4.52% in December from 3.39% a year ago. (Bloomberg)

Portugal prepares for end of bailout as swap eases debt load

Dec 03. Portugal, seeking to exit its EUR 78bn international bailout program without external assistance, entered a bond swap last week to extend the maturity date of its existing bonds and reduce pressure for bond repayments. About EUR 6.64bn of bonds maturing between 2014 and 2015 were swapped for bonds that matured in 2017 and 2018. The Portuguese government has been trying to regain access to debt markets in preparation for the end of its rescue program in June. However, Portugal's 10-year yield remains above levels seen in the country's last bond offering and the country's debt continues to be rated below investment grade by the three major rating agencies. (Bloomberg)

Sovereign debt ratings fall short of EU standards, ESMA says (Bloomberg)

Spain auctions 5-year debt at lowest yield since 2005 (Bloomberg)

Citigroup to BofA spurn Treasuries for cash on taper risk (Bloomberg)

Detroit bankruptcy risks pensions as cuts ruled possible (Bloomberg)

Banks in Singapore to continue cross-border lending activities (Channel News Asia)

Singapore regulator sees bank risk from rising global rates (Bloomberg)

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