



Story of the Week

Fall in coal price leads to deterioration in credit outlook of coal miners

By Jonathan Jun Jie Ne Win



The chart above depicts the relationship between the price of thermal coal and the aggregate RMI probability of default (RMI PD) for Indonesian coal miners,¹ from January 2012 to June 16, 2013. As shown in the chart, the credit outlook of coal miners exhibits swift deterioration after showing an improvement for the past six months.

The price of thermal coal at the Australian port of Newcastle, Asia's benchmark coal price, has fallen by more than half since its peak of USD 192 per tonne in 2008 amid slowing Chinese coal imports and rising global output. The fall in the price of coal has compressed profit margins greatly, placing more pressure on the highly levered industry.

Furthermore, the woes of coal miners in Indonesia have been exacerbated by two new regulations. The first is an import ban in China, proposing a limit on low quality coal imports, much of which comes from Indonesia. This ban is likely to cause some of the smaller players to scale back on their output, making it harder to pay down their debt burdens. Secondly, Indonesia has indicated a need to raise revenue from mining after a slide in commodity prices led to a near-record trade deficit in April. Thus, authorities plan to raise mining royalties to between 10 and 13%. With margins compressing and debt burdens high, the additional mining royalties are likely to make it very difficult for Indonesia miners to break even.

Being the world's biggest exporter of thermal coal, Indonesia plays a key role in both the global commodity and energy supply chain. Thus, the credit health of the natural resource sector is relevant to many and deserves close attention. The Indonesian coal industry has a dozen major players and not all of them are covered by the major credit rating agencies. RMI produces daily PD updates for over 60,400 companies worldwide, including these companies, illustrating the broad coverage and utility of the RMI's PD model.

Sources:

- [Small Indonesian coal miners to be hit by China import ban](#) (Financial Times)
- [Debt-laden Indonesian coal miners bump up output in bid for revenue](#) (Reuters)
- [Indonesia Plan for Higher Coal Royalties to Hurt Low Rank Miners](#) (Bloomberg)
- [Indonesia to Raise Royalties on Small Coal Miners](#) (Jakarta Globe)

¹ There are 19 Indonesia coal miners in the RMI PD database.

In the News**133 traders tried to rig key financial rates, says MAS**

Jun 15. Singapore's central bank censured 20 banks after it found 133 traders in the city state tried to manipulate key borrowing and currency rates. The Monetary Authority of Singapore (MAS) ordered 19 of the lenders involved to set aside additional reserves for a year at zero interest. MAS ordered UBS, RBS and ING to set aside the most in additional reserves, with each having to post between SGD 1bn and SGD 1.2bn extra with the central bank. The money will be returned if the banks take the required remedial action. ([AsiaOne](#))

BRL falls as tax removal not enough; swap rates jump

Jun 15. The Brazilian real (BRL) fell 1.4% to 2.1516 per USD, the worst decline among major emerging-market currencies, after the government failed in its attempts to restrain capital outflows triggered by slowing economic growth and a jump in US bond yields. While the currency rebounded from a four-year low on June 14 after the government removed a 1% financial transactions tax on foreign-exchange derivatives, the gains were short-lived as fears of Fed tapering sent funds flowing out from Latin America's biggest economy. The rates on the currency swap contract due in January 2015 rose as much as 19 bps intraday after central bank President Alexandre Tombini reaffirmed the bank's determination to reduce inflation. ([Bloomberg](#))

China debt sale fails for first time in 23 Months on cash crunch

Jun 14. China's Finance Ministry sold only CNY 9.53bn of 273-day bills out of a CNY 15bn target, failing for the first time since July 2011 to sell all of the debt offered at an auction, according to Chinabond, the nation's biggest bond-clearing house. Banks are putting aside money to meet the quarter-end capital requirements at the same time as capital inflows are easing amid the slowing economic outlook and speculation that the Federal Reserve will reduce monetary stimulus. The seven-day repurchase rate, an indicator of interbank funding availability, jumped 51 bps today to 6.90%, more than doubling over the past month. ([Bloomberg](#))

Bond sales dry up as interest rates rise

June 13. US corporate bond issuance dwindled as a result of rising interest rates and increasing market volatility. Only USD 4.1bn of investment-grade bonds were sold in the week ending June 13, down from a weekly average this year of USD 23.2bn. Bonds issued before the surge in benchmark government rates since last month are showing paper losses for investors, and investment-grade bonds have suffered the steepest declines, with average yields climbing 50 bps since the end of April. The drop in bond issuance is also reflected worldwide as only 55 companies issued bonds last week, versus a weekly average of 202 for the year. ([FT](#))

Indonesia unexpectedly raises rate for first time since 2011

Jun 13. Indonesia's central bank has unexpectedly increased its main interest rate for the first time since 2011, to 6% from 5.75%, in a bid to support the rupiah and ease inflationary pressures. The move came two days after Bank Indonesia surprised the market by raising another interbank interest rate, the deposit facility rate, or Fasbi, by 25bps to 4.25%. This decision gave a strong signal of independence by new Bank Indonesia governor Agus Martowardojo, who took over from Darmin Nasution last month. ([Bloomberg](#))

Supreme Court ruling on mortgages to hit Spanish bank profits

Jun 13. Spain's Supreme Court has issued a ruling instructing Spanish banks to offer less demanding lending terms to hundreds of thousands of mortgage holders. The ruling comes after BBVA, Spain's second-largest bank by assets, announced that it was removing from some 460,000 outstanding home-loan agreements floor clauses that set a minimum interest rate on variable-interest mortgages. The court ruling dealt a further blow to Spain's troubled financial sector, as Spanish house prices dropped 6.6% QoQ in Q1. Bank analysts warned that the ruling could have an even bigger impact on some of Spain's smaller listed banks, which have a particularly high number of mortgages with floor clauses. ([Financial Times](#))

Philippines holds rates as capital outflows buffet stocks

Jun 13. The central bank of the Philippines kept its benchmark interest rate unchanged to mitigate capital outflows amid speculations that policy makers across the globe could reduce monetary stimulus. Bangko Sentral ng Pilipinas maintained the rates on overnight deposits and special deposit accounts at 3.5% and 2% respectively. Central bank governor Amando Tetangco has said the financial watchdog is considering further curbs on mortgages to prevent a housing bubble. Moderate inflation and robust domestic growth should allow more room for the central bank to implement its monetary policy. ([Bloomberg](#))

Emerging-market anxieties jump by most since '08

Jun 12. Prices of Markit CDX Emerging Markets index, a credit-default swaps benchmark for sovereign borrowers from Latin America to the Middle East and Asia, have fallen 4 cents in the two weeks through June 11 to 107 cents on the USD. The decline is the steepest since the global financial crisis erupted in 2008 when the index plunged 6.7 cents in the period ended November 18, 2008. Speculation is mounting that the Federal Reserve will lead central banks across the globe to scale back record stimulus as developing economies like China and Brazil slow. ([Bloomberg](#))

Greece first developed market cut to emerging at MSCI

Jun 12. Morgan Stanley Capital International (MSCI) cut Greece from developed-market to emerging-market status, the first such shift from the index provider. MSCI cited Greece's failure to meet criteria regarding securities borrowing and lending facilities, short selling and transferability as the downgrade rationale. The MSCI's reclassification follows Russell Investments, which said in March it will downgrade Greece to emerging market status after it failed economic and operational-risk assessments. The local stock index has dropped 83% since 2007 and fell 10% last week as Greece failed to win any bids in its sale of the country's gas monopoly. ([Bloomberg](#))

Credit unions cleared to charge higher interest rates ([Financial Times](#))

S&P revises US credit outlook to 'stable' from 'negative' ([Reuters](#))

EU agrees breakthrough in market rules ([Financial Times](#))

Rigged-benchmark probes proliferate from Singapore to UK ([Bloomberg](#))

Singapore bonds decline to become second-worst debt market ([Bloomberg](#))

South Korea tightens capital flow checks to catch tax dodgers ([Bloomberg](#))