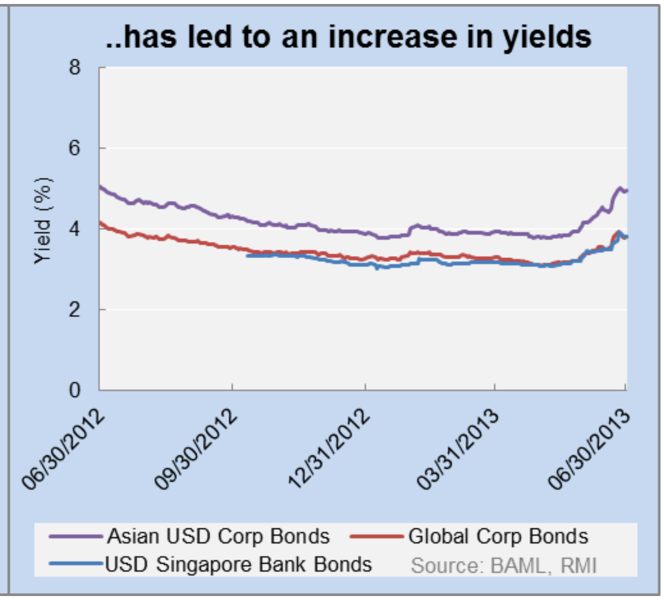
Weekly Credit Brief

Jun 25 - Jul 01 2013

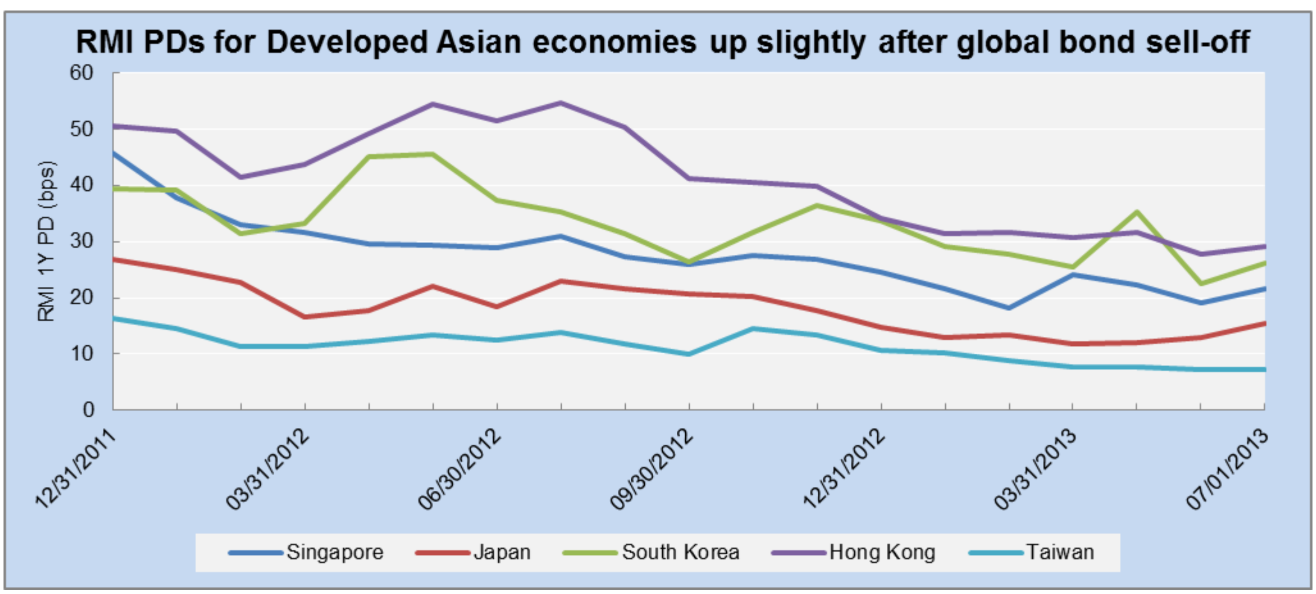
Story of the Week

Developed Asia RMI PDs increase after bond rout; higher funding costs likely

A rout in Asian USD-denominated bond markets appears to have moderated last week, with prices recovering some ground as market tensions over future tapering by the US Federal Reserve eased. Concern the US Fed would slow monetary stimulus by tapering its USD 85bn in monthly bond purchases later this year led to a large selloff in bond markets over the last two weeks. This has caused a steep decline in bond prices and a corresponding increase in yields, especially in Asian USD-denominated debt markets. This sharp sell-off in global bond markets could lead to higher funding costs across Asia, especially in Asian countries where corporates rely on USD funding, or where monetary policy is closely related to the US Fed's policy.



For example, sharp movements in USD-denominated bond markets over the last two weeks appear to have filtered through to Asian-USD markets, with our subordinated USD bank bond index exhibiting a similar pattern, as illustrated above. Prices fell below par on June 19 for the first time since RMI began tracking this data in October 2012, and fell to 97.63 cents per USD of par value on July 1. Yields stood at 3.82% the same day, up from as low as 3.01% in January.



According to RMI probability of default (RMI PD) data, overall regional credit quality has decreased slightly over the last month as the sell-off occurred, based upon aggregate RMI PDs for developed economies across Asia which have traditionally accessed USD funding markets. Further weakening in the credit outlook across Asia may occur, as funding costs will likely be higher through the second half of 2013, as the appetite for Asian bonds wanes. The strong demand for yield that pushed global investors to Asian markets in the first half of 2013 has already faded, with investors withdrawing a record USD 23.3bn from debt funds last week.

Asian USD issuance has come to almost a complete halt since US Fed tapering concerns began, with only one deal coming to market in Asia ex-Japan during June. RMI has also observed a sharp slowdown in SGD-denominated corporate issuance during June, with SGD 1.5bn of issuance in June, down from SGD 1.9bn in May. However, a majority of issuers across Asia appear to have met their refinancing needs over the last year while demand was strong. Issuance in the second half of 2013 is likely to come from higher-quality, well established names that have a better capacity to deal with higher market funding costs.

Sources:

Nowhere to hide in worst bond losses since 2008: Credit markets (Bloomberg)
Asian dollar bond issuance screeches to near halt as markets churn (Reuters)
US Federal Reserve Chairman Bernanke's press conference, June 19 (Federal Reserve)

In the News

State banks boost Brazil lending to help spur growth

Jun 25. A central bank report shows bank lending in Brazil rose 1.5% in May from a month ago, after state-controlled banks boosted disbursements to cut credit costs in Brazil and to foster competition with private-sector banks. Credit growth is not meeting the government's expectations even as state-run banks expanded lending by an average 28% in the twelve months through May. Brazil's private-sector lenders have turned drastically cautious since the start of 2013 as Brazil's economy enters a third year of mediocre growth, with deleveraging in risky segments taking longer than expected. (Reuters)

S. Korea to offer up Woori Finance in 3 parts, vows speedy sales

Jun 26. The South Korean government has announced its fourth attempt to privatise Woori Finance Holdings, the country's largest financial holding company. In order to facilitate the process, the new Park Geun-hye administration has decided to offer the company, which is worth some USD 3.9bn, up in three batches. South Korea has injected USD 11bn of taxpayer money to bail out Woori since the Asian financial crisis in the late 1990s. (Reuters)

Tourists grab bondholder cash as reserves sink: Argentina credit

Jun 26. Argentina's foreign reserves have fallen 12.2% this year to USD 38bn, the fastest pace of decline since 2002. The country's holdings of foreign currencies is now at a six-year low and will equal just 25% of the nation's USD 142bn of foreign debt by the end of 2013, according to Credit Suisse Group AG. Since July 2012, when President Cristina Fernandez de Kirchner imposed currency restrictions that banned buying USD for everything except travel, Argentines have been spending more abroad to avoid the steeper official exchange rate. Argentina posted the worst deficit since 2001 in its current account, the broadest measure of trade in goods and services, with a deficit of USD 223mn from tourism revenue this year through April. (Bloomberg)

Global supervisors take tough line on bank leverage

Jun 26. The Basel Committee on Banking Supervision has published the methodology that banks must use to determine whether they are meeting required leverage ratios. The new rules will provide consistency in calculating leverage ratios, making it easier for investors to compare banks. Lenders holding large amounts of derivatives will hit the limit of leverage ratios sooner as the ratio is based on larger gross derivative positions rather than lower net figures. The decision will be viewed as an attempt to discourage holding of derivatives – the asset class that was at the center of the financial crisis. (Reuters)

Europe strikes deal to push cost of bank failure on investors

Jun 27. The years of taxpayer-funded bank bailouts may be coming to a close as the European Union agreed on June 27 on a blueprint to handle distressed banks. The plan, replicating the "bail-in" approach of Cyprus in March, forces shareholders, bondholders and depositors with more than EUR 100,000 to share the losses in future bank failures. Member states will retain some flexibility to decide when and how to impose losses on a troubled bank's creditors. The EU spent a third of its economic output, using taxpayer cash, on saving its banks between 2008 and 2011. (Reuters)

Malaysian bonds most resilient to US Fed move

Jun 29. Malaysian government debt has been relatively immune to a US Federal Reserve-induced sell-off, with its yields increasing only 29bps to 3.7% in June. In contrast, borrowing costs for Indonesia soared 119bps to 7.17%, making it the worst performer in Southeast Asia. Bank Negara Malaysia governor Tan Sri Dr Zeti Akhtar Aziz has contributed to the stability of Malaysian sovereign bonds by maintaining the country's 3% interest rates since May 2011, amid the slowest inflation among Southeast Asia's three-biggest economies. (Business Times)

Nowhere to hide in worst bond losses since 2008

Jul 01. There is no safe haven from the worst corporate-bond losses in almost five years as the value of debt plunges for the most creditworthy to the riskiest borrowers in every industry worldwide. Corporate bonds fell 2.2% during Q2, the worst quarterly decline since a 5.2% plunge in the period ended September 2008, when Lehman Brothers' collapse commenced the worst credit crisis since the Great Depression, Bank of America Merrill Lynch data show. The index shows decline for all of its 16 industries, from a 0.7% drop for automakers' debt to a 3.5% loss in energy-company bonds. (Bloomberg)

ECB policy makers say accommodative monetary policy to stay (Bloomberg)

EU leaders back use of structural funds to boost lending to firms (Reuters)

S&P cuts Cyprus credit rating to SD after debt exchange (Reuters)

Options on debt derivatives nearing USD 100bn (Bloomberg)

Phl in good position to weather volatility – credit watchers (Philstar)

Indonesia bonds set for worst quarter since 2008 on fund outflow (Bloomberg)

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