

Indicator	3-May-19	Last week	%	Last month	%	Last year	%
2/10 UST spread (bps)	21.0	23.0	-9%	15.0	40%	44.0	-52%
10-year US Treasury yield (%)	2.52	2.51	0%	2.76	-9%	2.95	-15%
3-month USD LIBOR (%)	2.58	2.58	0%	2.58	0%	2.38	8%
VIX index	14.80	13.14	13%	13.40	10%	14.75	0%
EM HY Corp yield (%)	7.0	7.0	1%	6.9	1%	6.5	8%
EM HY over IG corp spread (bps)	330	323	2%	311	6%	241	37%
Yield spread of COGARD 1/25s over INDON 1/27s (bps)	237.2	246.0	-4%	281.3	-16%	196.0	21%
5-year China Development Bank onshore bonds (%)*	3.72	3.78	-2%	3.42	9%	4.35	-14%
5-year AAA-rated Chinese corporate onshore bonds (%)*	4.25	4.26	0%	3.96	7%	4.78	-11%
5-year AA+ - rated Chinese corporate onshore bonds (%)*	4.58	4.57	0%	4.28	7%	5.05	-9%
BITCOIN/Gold (oz.)	4.1	4.1	-1%	3.9	6%	7.1	-43%
Baltic Dry Index	1031	1031	0%	685	51%	1,346	-23%
OPEC oil prices (USD)	72.0	72.4	-1%	69.0	4%	71.0	1%

Source: Quandl, B OAML, US Treasury, CBOE, Chinabond, Bloomberg, CNBC, Global-rates

\* As of 30-Apr-19

## The Market (Warut Promboon/Jonathan Lim/Umesh Desai)

- ❖ The Baltic Dry Index said it all, skyrocketing to 1031 from 685 a month ago. 2/10 UST spread also rose 40% in a month to 21bps. We believe a better sentiment toward global trade reflects less negative news on the US-China trade war and the expectation that the Chinese government will further inject stimulus. Oil and US Dollar also inched up, telling us countries with strong reliance on imports (such as Indonesia) will see more pressure on their budget deficits in the near term.
- ❖ Average EM HY Corp yield of 7.0% was the same as that of the week before. COGARD 25's YTM of 5.9% was the lowest in 52 weeks. Resilient market does not surprise us but we believe the best of this year's market is already behind us. A leveraged IG portfolio at this low rate remains ideal but we caution against chasing lowering yield in a rising default environment.
- ❖ We believe there is less chance now that the Fed will cut this year but a rate hike will be contained to say the least and that is an environment for bond investments as long as growth (and inflation) does not pick up too soon, the scenario we do not see this year yet.
- ❖ We maintain our NEUTRAL recommendation on Lippo's LPKRIJ complex as good news has already been priced-in. The bonds traded in-line with peers.
- ❖ S&P upgraded the Philippines' rating to BBB+ from BBB on above-average economic growth, a healthy external position, and sustainable public finances. The upgrade is spread positive for Asian USD bond market, in our view. (30-Apr)
- ❖ Hong Kong Airlines' 3-way ownership dispute between HNA, Zhong Guosong, and Frontier Investment Partner could stem from financial irregularities and how HNA handled Hong Kong Airlines' financials in the past. The news is spread negative on HNA-related bonds. We also view the sale of Hong Kong Express to Cathay Pacific as a desperate attempt to boost liquidity.

## China WATCH (Kerry Liu/Umesh Desai/Warut Promboon)

- ❖ China's Q1 GDP data is better than expected. In fact, almost all other indicators including electricity generation, fixed asset investment, foreign trade, financing data, CPI, PPI, and industrial industry profits have all improved. It shows that this round of rebound is real.
- ❖ At the same time, China's monetary policy may have begun some marginal adjustments. The benchmark DR007 has increased since April. Accordingly, various bond yields have increased as well. If China's monetary policy is re-positioned as neutral or at least less easing, bond markets will be heavily affected. Essentially, this round of momentum from bond markets and stock markets are mainly driven by easing monetary policy. Real estate market also experienced a rebound as the result of monetary stimulus.
- ❖ China's manufacturing PMI in April was 50.1 vs. 50.5 in March but it remains above 50 which indicates the economy still powered ahead, in our view.
- ❖ CBIRC announced a new regulation for classifying non-performing loans to include non-loan assets such as bonds and receivables.
- ❖ South China Morning Post reported 2018 as the worst annual earnings season ever for Chinese corporates, with 452 out of 3,602 public companies incurring annual losses. We believe the slowing earnings, exacerbated by the trade war, were to blame but we expect accommodating policies and stimulus will help major Chinese companies this year.

## CHINA WATCH (Continued)

- ❖ Moody's cut Lodha Developers' B2 rating outlook to negative on asset sale delay and liquidity concerns. Fitch downgraded China Fortune Land Development's rating to BB- from BB+ on high leverage and poor cash collection. (2-May)
- ❖ MGM China plans a USD bond sale with most of the proceeds for refinancing.
- ❖ Fitch downgraded Tewoo Group's rating to B- from BBB- with Watch Negative maintained. The action reflects weak liquidity management and higher-than-expected leverage. We are not surprised on the downgrade or the "B-" rating but the magnitude of Fitch's downgrade tells us there is a disconnect somewhere between the reality and the old rating.

### Notable rating changes

Date	Agency	Description	Rating type	Rating action	Rating	To		From	
						Outlook/Credit Watch	Rating	Outlook/Credit Watch	Rating
2-May	Fitch	China Fortune Land Development	Issuer/issue rating	Downgrade	BB-	Stable	BB+	Stable	Stable
2-May	Moody's	Lodha Developers	Issuer/issue rating	Outlook revision	B2	Negative	B2	Stable	Stable
30-Apr	S&P	Phillippines	Sovereign credit rating	Upgrade	BBB+	Stable	BBB	Positive	Positive
29-Apr	Fitch	Tewoo Group	Issuer/issue rating	Downgrade	B-	Watch Negative	BBB-	Watch Negative	Watch Negative
24-Apr	Fitch	Asahi Mutual Life	Long-Term Issuer Default Rating	Outlook revision	BB+	Positive	BB+	Stable	Stable
22-Apr	S&P	Medco Energi Internasional	Issuer credit rating	Outlook revision	B	Positive	B	Stable	Stable
22-Apr	Fitch	Medco Energi Internasional	Long-Term Issuer Default Rating	Upgrade	B+	Stable	B	Stable	Stable
22-Apr	Fitch	Binhai Investment Co	Issuer default/unsecured issue rating	Outlook revision	BBB-	Negative	BBB-	Stable	Stable
18-Apr	Fitch	Tewoo Group	Issuer/issue rating	Downgrade	BBB-	Stable	BBB	Stable	Stable
17-Apr	S&P	Yihua Enterprise	Issuer credit rating	Downgrade	B-	Negative	B	Negative	Negative
17-Apr	Fitch	Tianjin Binhai New Area Construction and Investment Group	Issuer rating	Downgrade	BBB+	Negative	A-	Stable	Stable
17-Apr	Fitch	Zhaohai Investment (BVI)	Issue rating	Downgrade	BBB+		A-		
17-Apr	Fitch	Tianjin Free Trade Zone Investment Holding Group	Issuer rating	Downgrade	BBB	Negative	BBB+	Stable	Stable
17-Apr	Fitch	Hongkong Baorong Development	Issue rating	Downgrade	BBB		BBB+		
17-Apr	Fitch	Yida China Holdings	Issuer/Issue rating	Downgrade	B-	Stable	B	Stable	Stable
16-Apr	Fitch	China CITIC Bank International	Issuer rating	Upgrade	BBB+	Stable	BBB	Stable	Stable
16-Apr	Fitch	MIE Holdings Corporation	Issuer rating	Downgrade	CC		C		
12-Apr	Fitch	Zhaojin Mining Industry Co	Issuer/issue rating	Outlook revision	BB	Watch Pos	BB	Stable	Stable
11-Apr	S&P	Power Finance Corp	Issuer/senior unsecured	Upgrade	BBB-	Stable	BBB-	Watch Negative	Watch Negative
11-Apr	Fitch	Yunnan Provincial Energy Investment Group	Issuer rating	Outlook revision	BBB	Rating Wat	BBB	Stable	Stable
11-Apr	Fitch	Saka Energi	Issuer/issue rating	Outlook revision	BB+	Negative	BB+	Stable	Stable
11-Apr	Fitch	Fujian Yangco	Issuer/Issue rating	Downgrade	B-	Stable	B	Stable	Stable
11-Apr	Fitch	Kunming Iron & Steel	Issuer/issue rating	Outlook revision	BBB	Watch Neg	BBB	Stable	Stable
10-Apr	Fitch	Thai Beverage	Issuer rating	Outlook revision	BBB-	Negative	BBB-	Stable	Stable
10-Apr	Fitch	Sunshine 100 China	Issue rating	Upgrade	CCC		CCC-		
10-Apr	Moody's	Gajah Tunggal	Issuer/corporate family rating	Outlook revision	B2	Negative	B2	Stable	Stable
9-Apr	S&P	Adani Transmissions	Issuer/senior secured	Off Watch Negative	BBB-	Stable	BBB-	Watch Negative	Watch Negative

Source: S&P, Moody's, Fitch

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