BONDEVALUE
bringing transparency to bonds

BEV Bond Market Wrap

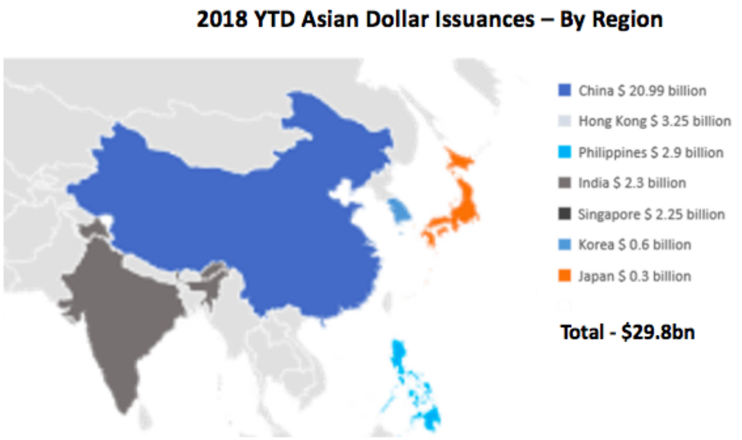
30th January 2018

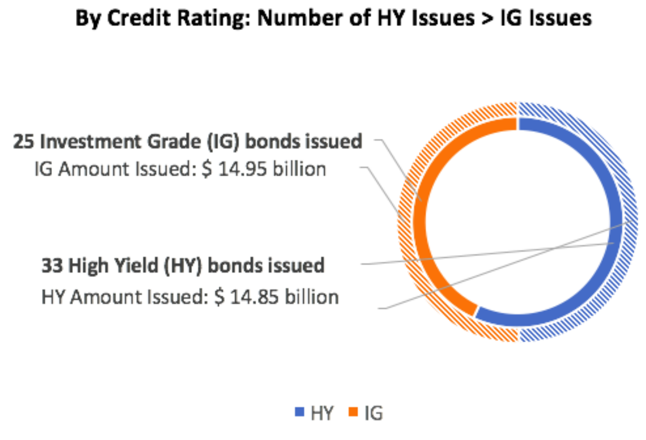
Dear Subscribers,

It has been a busy start to the new year, with many many new issues hitting the market. While we saw regular Jan issuers like the Republic of Philippines, we also saw some infrequent issuers like Tata Steel (Abja) issuing after a gap of over three years.
Many of you have requested that we send out a newsletter highlighting important market events and this, our first newsletter is thus born. Our aim is to present data and curate stories that shaped the market. This is not meant to be investment advice and we don't wish you to take it as investment advice.

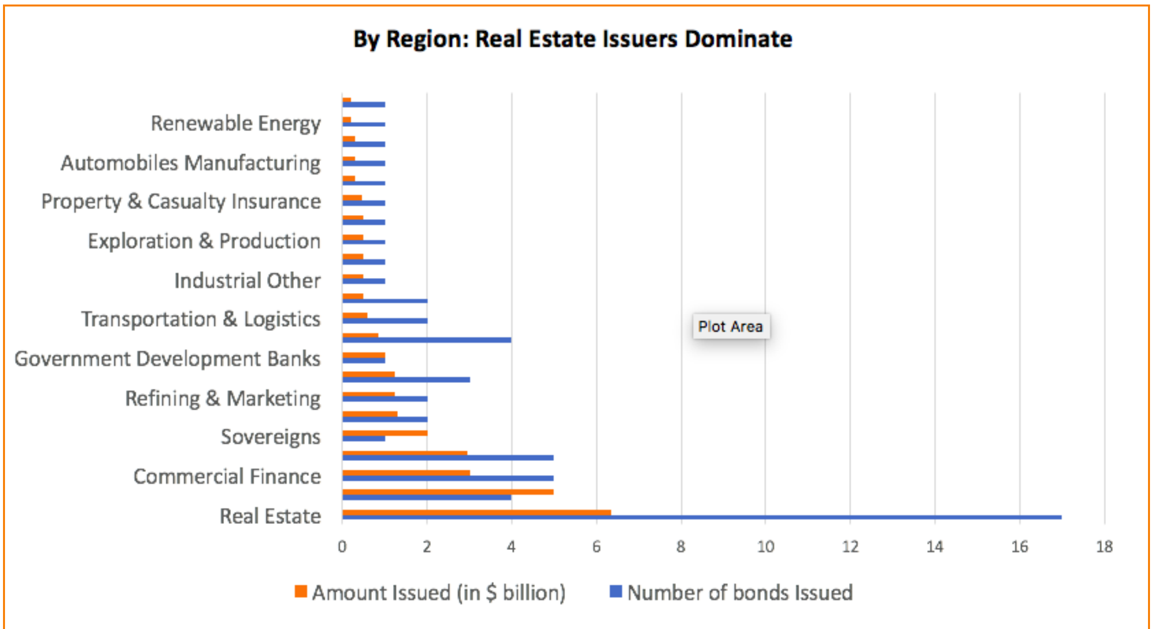
2018 Year-To-Date (YTD) Asian US Dollar Issuances

The primary markets have been robust this year (+19.7% 2018 YTD vs. Jan 2017) with China issuing the bulk of new deals (~$21bn). With a couple of days left in January, this year's volume has exceeded Jan 2017's total, which stood at $24.9bn. We also saw a slightly higher number of high yield issuers hit the market, although issuance volume was relatively matched. In terms of sector/industry, real estate took the lead in terms of volume (~$6.3bn) and number of deals (17).





Source: DSAT Editor, DSAT for MSFT, Geonames, Microsoft, NavInfo, Navteq, Thinkware Extract, Wikipedia, BondEvalue



Source: BondEvalue

You Were Right

While issuance has been robust, bond prices have not given investors much to cheer about. Our data shows that over 69% of the bonds in the BondEvalue universe are today lower than where they were a month ago. We wish that we could predict bond prices, but we can't! However, as the video below shows, it seems that you, our subscribers, can in fact predict bond market moves very well.

During our last classroom-style seminar on the Asian Bond Market in Singapore on 8th Dec, we asked the attendees what they thought 2018 would look like for bond markets. Only 4% of the participants thought the rally will continue while the rest felt that 2018 would be the end of this multi-year bull run. (Click here for a snippet of the panel discussion).

Top Gainers & Losers – For the Week Ending 26-Jan-18

Noble Group bonds were in focus this week after striking a deal with its creditors to restructure $3.5bn of its debt. According to an article by Straits Times, the existing creditors will convert their debt to equity and then sell the shares to a new strategic investor.

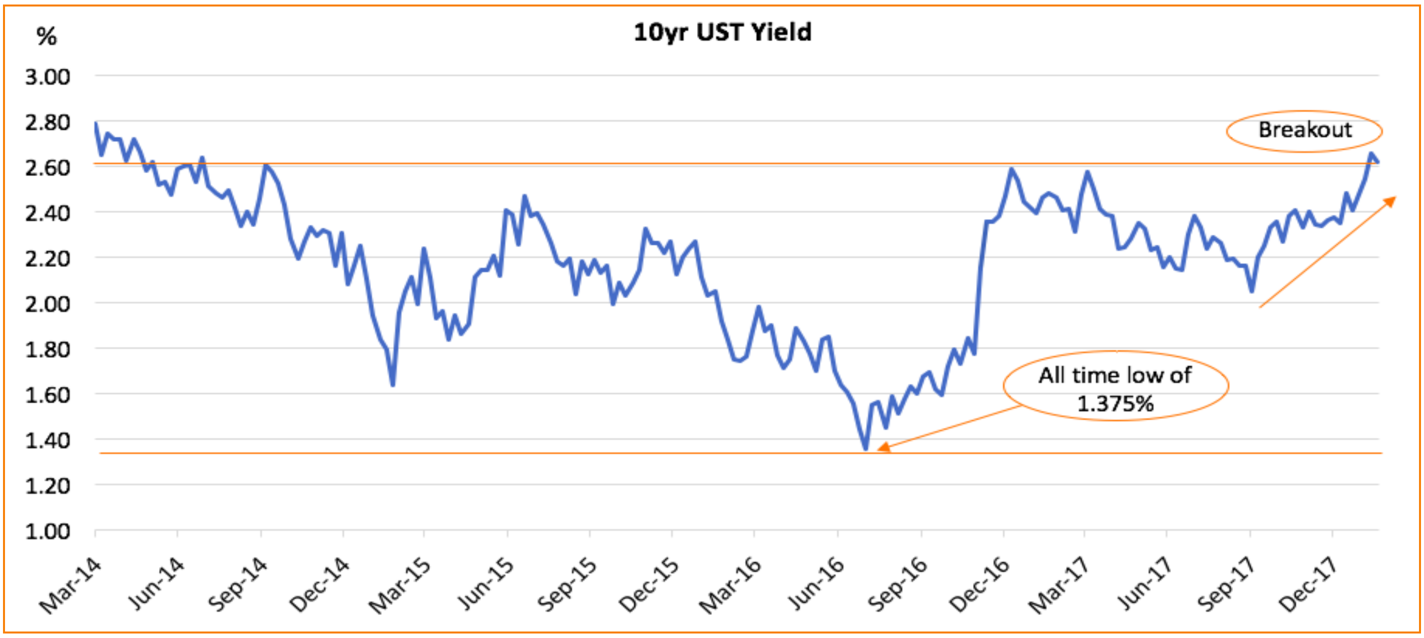
Another group in focus this week was HNA Group and its associate companies (Blue Skyview, Grand China Air, Blue Sky Fliers, Hainan Airlines). HNA Group has been grappling with liquidity issues, having spent ~$45bn over the last three years on acquisitions including a ~10% stake in Deutsche Bank and a 25% stake in Hilton. 6 of its subsidiaries faced trading halts on their equity shares this month, citing pending announcements.

Top Gainer	Price (USD)	Change (%)	Top Loser	Price (USD)	Change (%)
Noble 6% Perp	14.48	39.48	Hyflux 6% Perp	73.54	-10.87
Noble 6.75% 2020	48.75	11.88	Blue Skyview 7.125% Perp	80.86	-8.52
Noble 8.75% 2022	48.69	11.46	KrisEnergy 2% 2023	47.50	-7.32
Noble 3.625% 2018	54.57	11.37	PDVSA 5.375% 2027	23.33	-7.27
Ageasfinlux SA Floating Perp	70.31	5.59	Venezuela 12.75% 2022	27.12	-5.44
Odebrecht Fin 7.5% Perp	40.64	5.18	Grand China Air 6.375% 2019	79.12	-4.88
CGG SA 5.875% 2020	53.50	3.88	Venezuela 11.95% 2031	26.69	-3.58
Energy Resources 0% Perp	60.70	3.51	Ezra 4.875% 2018	10.00	-3.03
Braskem AFC 7.125% 2041	124.55	3.50	Blue Sky Fliers 6.9% 2019	92.65	-2.7
Petrobras GF 7.25% 2044	107.30	3.13	Hainan Airline 6.35% 2018	93.68	-2.45

Source: BondEvalue

US Treasury Yields – Impact on Bond Markets

The pain for bond prices is in part due to the massive sell-off in US Treasury (UST) with the benchmark 10yr at 2.68%, after bottoming at 2.04% as recently as September 2017. Yields have an inverse relationship with bond prices – an increase in yields lead to a decrease in prices and vice versa. As an example, a 10-year corporate bond with a coupon of 3% will fall from 100 to 95.81 if the 10 year yields go up by 50 basis points and credit spreads remain constant.



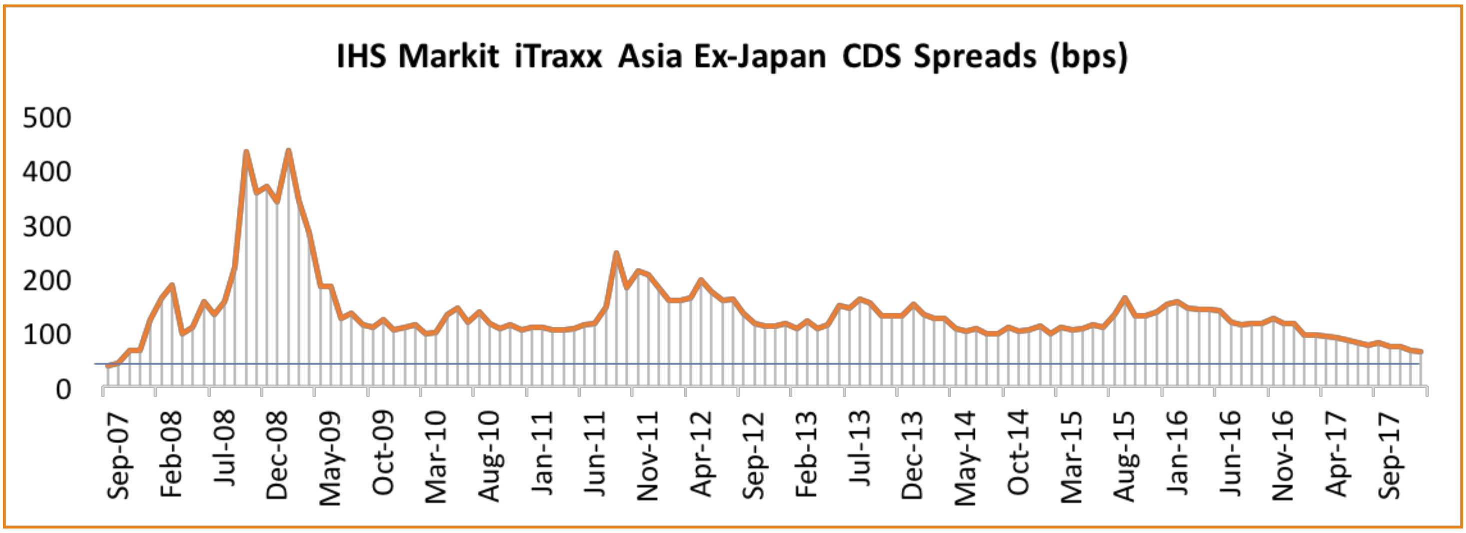
Source: BondEvalue

Bond yields largely consist of 2 factors: treasury yield and credit spread. Thus, the rising USTs have a positive impact on bond yields, and in turn a negative impact on bond prices.

The 10yr UST yield is now at a 3-year high, breaching its previous peak following the election of US President Donald Trump. This rise can be attributed primarily to the strengthening US economy and subsequently to the [Fed's stance of increasing interest rates]. The Fed has guided towards three rate hikes in 2018 and hence the upward trend in yields can be expected to continue through the year – contingent on inflation readings meeting the Fed's 2% target. The median forecast of 42 economists surveyed by Bloomberg for the 3-month LIBOR stands at 2.35% by end of 2018, +58bps higher than where it stands today.

CDS Spreads – Pre-Crisis Lows

Aggregate Credit spreads in Asia have been tightening, which is good for bond investors. An easy to understand proxy for the average credit spread of the top 40 investment grade issuers in Asia Ex-Japan – the IHS Markit iTraxx Asia Ex-Japan Index is now at 63bps as compared to 115bps last year. The last time credit spreads were this low was before the global financial crisis of 2007-2008. CDS spreads are high when economic environment is gloomy and low when economic environment is booming.



Source: IHS Markit

Philippines issued a 10yr bond this week with a coupon of 3%. Philippines has been a consistent issuer in the month of January for 7 of the last 10 years. What is interesting to note is the compression in spread over Treasuries over the years. See below.

Philippines 10yr Sovereign	**Rating**	**Coupon**	**Spread over UST**
14-Jan-09	BB	8.375%	~600bps
21-Jan-14	BBB-	4.200%	~145bps
02-Jan-18	BBB	3.000%	~38bps

~560 bps tightening

Source: BondEvalue

With a rating upgrade of 3 notches over the last 10 years, Philippines managed to compress its spread over Treasuries by ~560bps. To add perspective, China, rated A+, issued a 10yr sovereign bond at T+25bps in December last year, which is now trading at a spread of 14.8bps.
Last month, Indonesia and Philippines received an upgrade in credit rating by S&P. Indonesia's long-term foreign currency debt was upgraded to BBB from BBB-, its second upgrade in 2017, with the first putting Indonesia in the investment grade category. The upgrade was driven by the government's focus on maintaining economic stability, and its rising forex reserves and strong economic growth.

Last week, Moody's upgraded Mongolia's long-term credit rating from Caa1 to B3 with a stable outlook. This was led by reforms by the government to reduce the economy's vulnerability to fluctuations in commodity prices. We had done a small story on the best performing sovereign bonds. Mongolia was at that time near the top of the best performers.

Interesting Articles That Caught Our Eye

- ECB Keeps Policy Unchanged as Euro Gains Risk Curbing Inflation
- Davos: Blockchain Can No Longer Be Ignored
- The Robots Are Coming for the Bond Market
- Bill Gross Investment Outlook: Bonds, Men, It's About Time

Key Upcoming Data

Date	Economic Data
1-Feb-18	FOMC Meeting Announcement
2-Feb-18	US Non-Farm Payrolls
14-Feb-18	US CPI - January

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