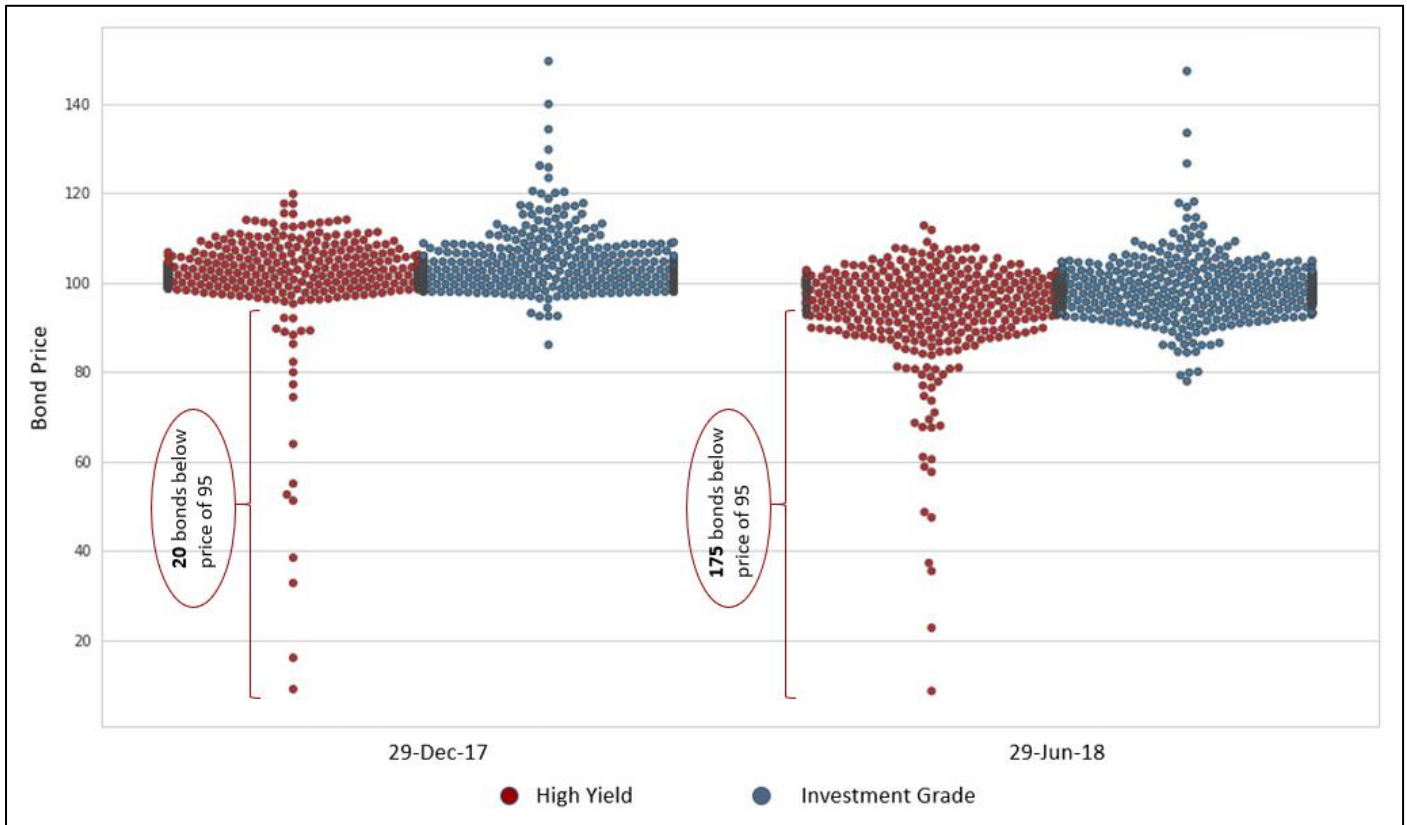


Dear **Subscriber**,

Bondholders have seen significant losses in the first six months of the year. A staggering 96.4% of bonds in our coverage have fallen in value during first half 2018. While the cause of the losses in the first five months was largely to do with rising Treasury yields, the month of June saw spreads widening significantly on account of: (a) global trade-war concerns, (b) EM bond outflows and (c) recent defaults from China high-yield issuers.

A **whopping \$45 billion** in market value (approximately 6% of total amount outstanding of \$764 billion) has been wiped out of US dollar-denominated bonds in the BEV universe since the start of 2018.



Source: BondEvalue

In the swarm plot above, we have compared prices of bonds at the end of 2017, and at the end of the first half of 2018, with each dot representing a bond. Over six months, the High Yield (HY) plot has developed a fatter tail, highlighting that lower rated bonds have fallen by a greater magnitude as compared to investment grade bonds. As seen in the chart above, 20 bonds or 4% of the HY universe were trading below a price of 95 as at the end of last year, as compared to 175 bonds or 36% of the HY universe as at the end of June.

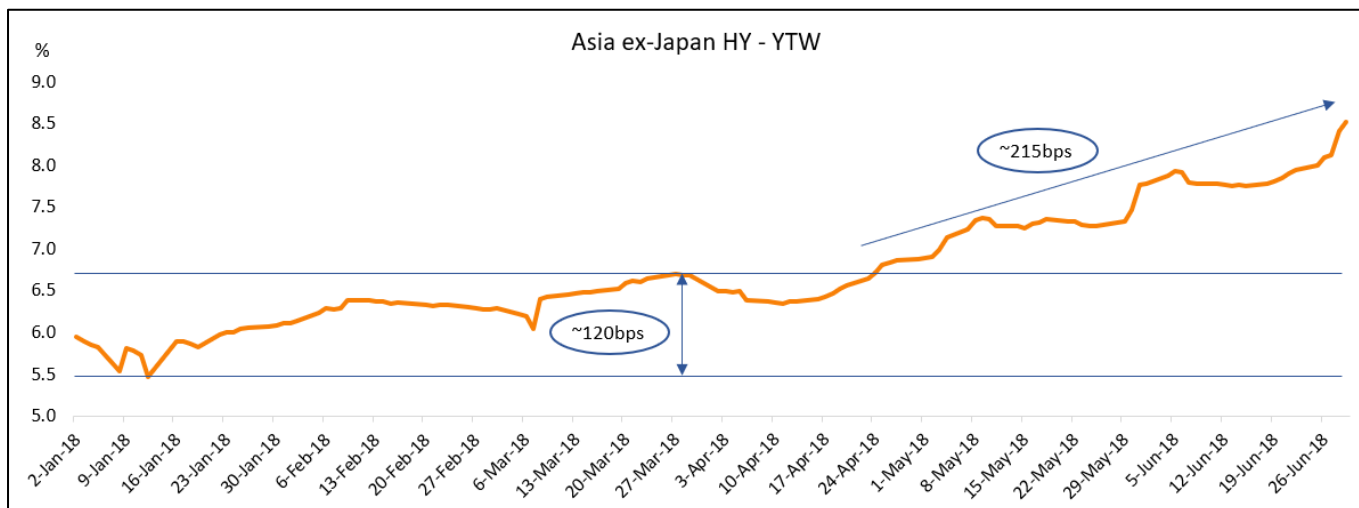
High net-worth investors not only saw great losses on their leveraged positions, but also faced difficulties in selling off bonds to cut their losses due to tighter market liquidity. We noticed that bid-ask spreads have widened for 73% of the bonds in our universe, between 10-Jan-18 and 29-Jun-18. We chose 10-Jan-18 as a proxy to 29-Dec-17 as the trading volumes are always unusually low in the last week of December due to the holidays.

Average bid-ask spreads for IG bonds widened from 0.36 to 0.44 while spreads for HY widened from 0.54

to 0.7. This indicates that market liquidity, as measured by bid-ask spreads, also reduced along with bond prices towards the end of first half of 2018.

### Recent Defaults from China HY Issuers

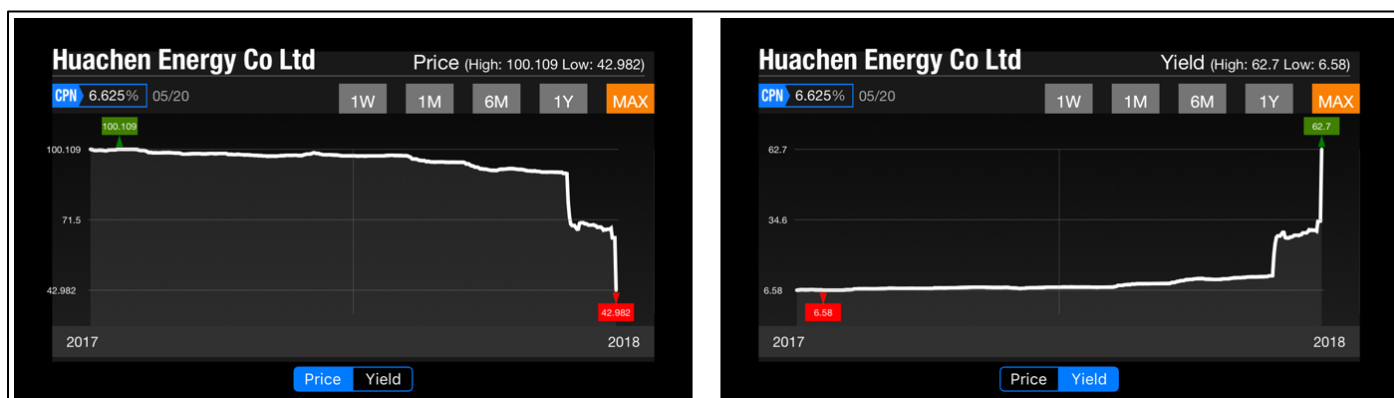
Recent defaults from China-based high yield issuers such as [China Energy Reserve & Chemicals Group \(CERCG\)](#) and [Hsin Chong Group Holdings](#) on their USD bonds have rattled investors and sent credit spreads soaring. Yields on Asia ex-Japan HY bonds have also spiked sharply in the May-June period. See graph below.



Source: Bloomberg-Barclays AxJ HY Index, Bloomberg | YTW: Yield to Worst

This past week saw another [default by Shanghai-listed energy and petrochemical group Wintime Energy](#), as it missed a payment on its RMB 1.5 billion commercial paper. **Wintime Energy** has approximately USD 4.1 billion of outstanding bonds, including a USD 500 million 3-year bond issued (through subsidiary Huachen Energy) last year with a coupon of 6.625%. The bonds hit a low of ~42 cents on the dollar in response to the news.

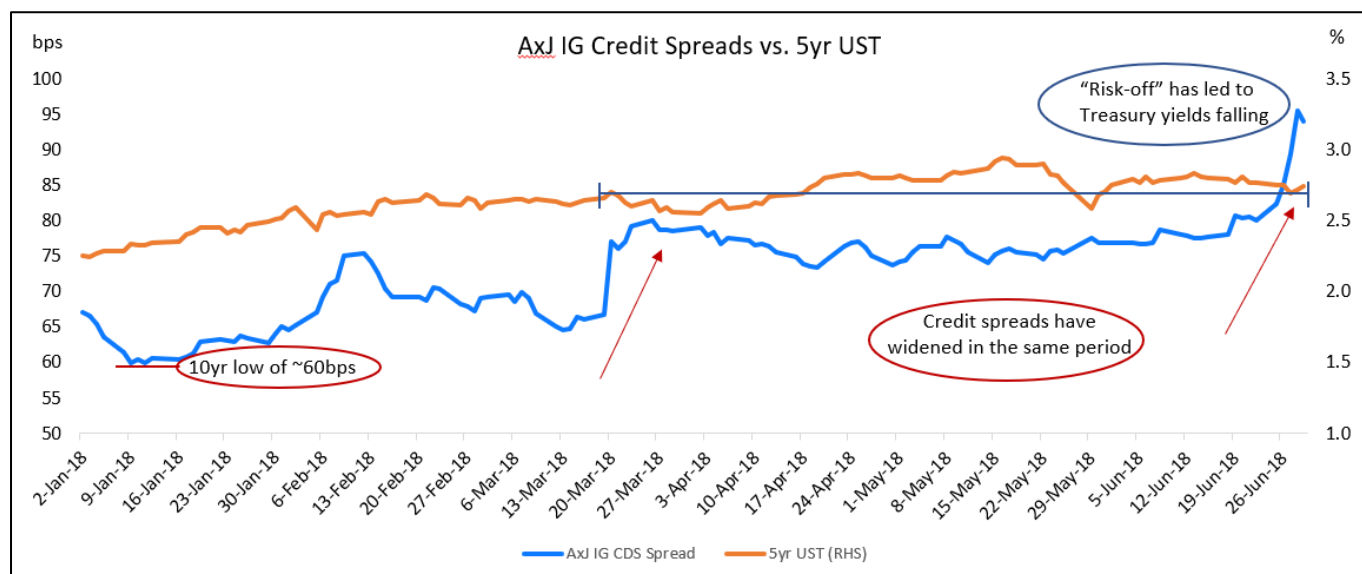
The company’s chairwoman, Tian Ying told investors that Wintime plans to issue new bonds at a discount to existing bondholders and sell its coal mining business (Huachen Energy) to meet its debt obligations over an investor call on 6-Jul-18.



Source: BondValue App

To emphasize the rise in credit spreads, we have compared the IHS Markit iTraxx Asia ex-Japan (AxJ) 5-year CDS Index to the yield on the 5-year US Treasury note. The iTraxx AxJ Index, which tracks average credit

spreads of the top 40 investment grade issuers in the region, ended the month of June at 93bps – approximately 30bps higher as compared to when [our first newsletter](#) was published at the end of January.

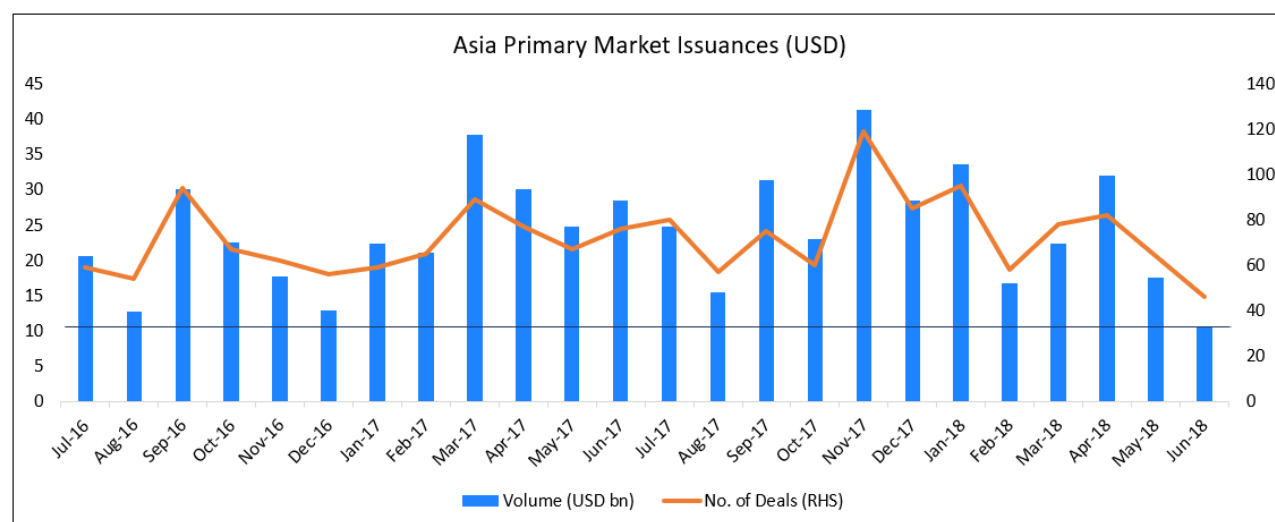


Source: IHS Markit, BondEvalue

As seen from the graph above, credit spreads have widened in the same period that the Treasury yields have fallen. This not only indicates that price decreases in the Asian bond market are driven by fears of worsening credit conditions, but also that the heightened credit risk is leading investors’ flight to safety, thereby keeping 5-year Treasury yields at subdued levels.

The Chinese government’s crackdown on excessive debt has led to a severe liquidity crunch, especially for HY issuers. The National Development and Reform Commission (NDRC) of China is considering a [ban on the sale of dollar bonds with tenors of less than one year](#) to curb issuers from piling on additional debt. Issuing offshore bonds with tenors of less than one year is popular among Chinese issuers as it exempts the issuers from seeking NRDC’s approval. As a result, real estate companies have raised over \$10bn of bonds in the past two years, with tenors of less than 365 days.

Rising credit spreads and falling bond prices have led to a slowdown in the primary markets, with US dollar issuance volume in June of USD 10.5 billion at almost one-third the volume of USD 28.5 billion in June 2017. This June marks a two-year low in terms of both issuance volume and number of deals.



Source: BondEvalue, Bloomberg

## Top Losers – 1H18\*

Bond	Price (29-Jun-18)	Price (29-Dec-17)	Yield (29-Jun-18)	Yield (29-Dec-18)	6m Change in Price (%)	6m Change in Yield (bps)
China Huiyuan 6.5% 2020	61.04	99.85	33.62	6.56	-38.87	2,706.06
Qinghai 6.4% 2021	67.58	101.35	21.56	5.97	-33.32	1,558.66
Huachen Energy 6.625% 2020	67.70	97.45	30.45	7.81	-30.53	2,263.62
China South City 7.25% 2022	68.64	97.05	17.86	7.99	-29.27	987.32
Qinghai 7.25% 2020	74.63	102.59	27.50	5.94	-27.26	2,155.99
China South City 6.75% 2021	73.59	97.52	17.96	7.53	-24.54	1,043.04
Argentina 7.125% 2117	77.84	103.15	9.15	6.91	-24.54	224.66
Kaisa 9.375% 2024	76.98	97.68	15.39	9.87	-21.19	552.54
Panda Green 8.25% 2020	80.96	101.23	23.49	7.59	-20.02	1,590.11
Prudential 4.375% Perp	77.93	97.14	5.61	4.53	-19.77	108.48
Tunghsu Venus 7% 2020	76.52	95.25	22.58	9.21	-19.66	1,337.04
Sino-Ocean 4.9% Perp	79.45	98.40	7.32	5.29	-19.26	203.82
Zambia 8.5% 2024	89.38	110.65	11.03	6.41	-19.23	461.71
Road King 7% Perp	78.93	97.17	8.87	7.20	-18.76	166.38
Alam Synergy 6.625% 2022	80.58	98.83	13.28	6.94	-18.46	633.54

Source: BondValue | \*We have omitted bonds that are trading below \$75 as illiquidity in those bonds distort the change in prices

As seen from the table, the first half of 2018 has been particularly arduous for real estate players. Six of the top 15 losers operate in the real estate industry, five of which are from China.

**China Huiyuan** was downgraded by Moody's and S&P last month to Caa3 and CCC+, respectively, citing severe liquidity issues. S&P stated that China Huiyuan may breach a previously obtained waiver on its EUR 180 million syndicated loan, due to conditions set by the Hong Kong Stock Exchange to resume the company's stock trading. China Huiyuan is yet to file its annual results for the year 2017 and is undergoing forensic investigations into related-party loans and internal controls.

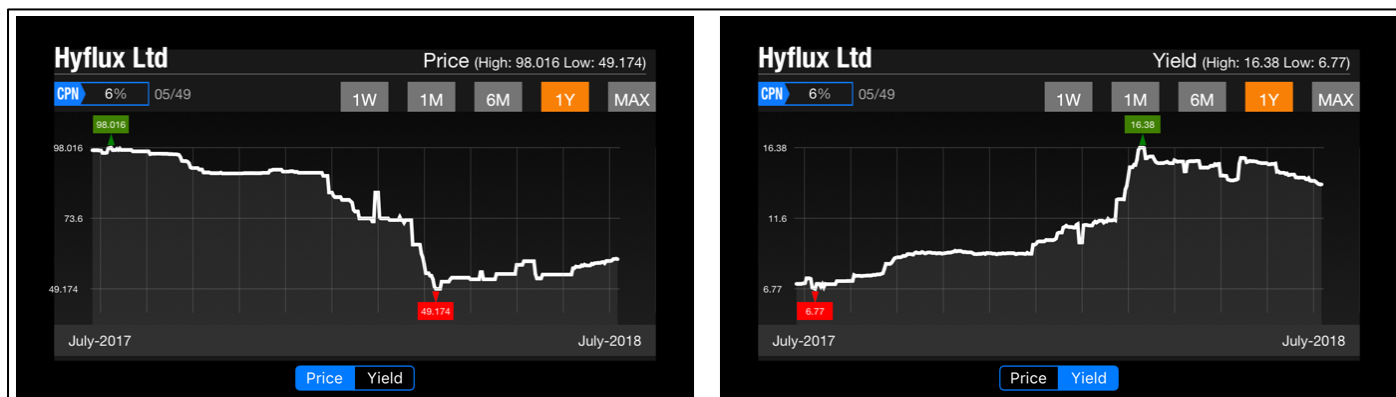
**Qinghai Provincial's** long-term rating of BB- was placed on [creditwatch with negative implications by S&P](#), stating that its short-term debt stood at over six times its cash on balance sheet. This set yield-hungry investors into panic, given that Qinghai Provincial is said to be a local government financing vehicle (LGFV).

Property developer **China South City's** bonds' yields shot up by approximately 1,000 basis points after it tapped the markets for USD 100 million at 11% on its 10.875% 2020s. China South City is one of several [real estate players that are offering double-digit coupons](#) on their bonds, highlighting the strain on HY issuers.

[Argentina's 100-year bond](#) was hit by a double whammy of recession concerns following the slump in the peso, and the rising interest rate environment.

## Singapore Bond market Update

**Hyflux**, the Singapore-based water treatment and power company, [received a six-month debt moratorium](#) from a local High Court to pursue reorganization, thereby providing interim relief from creditors filing winding-up petitions or seizing pledged assets.



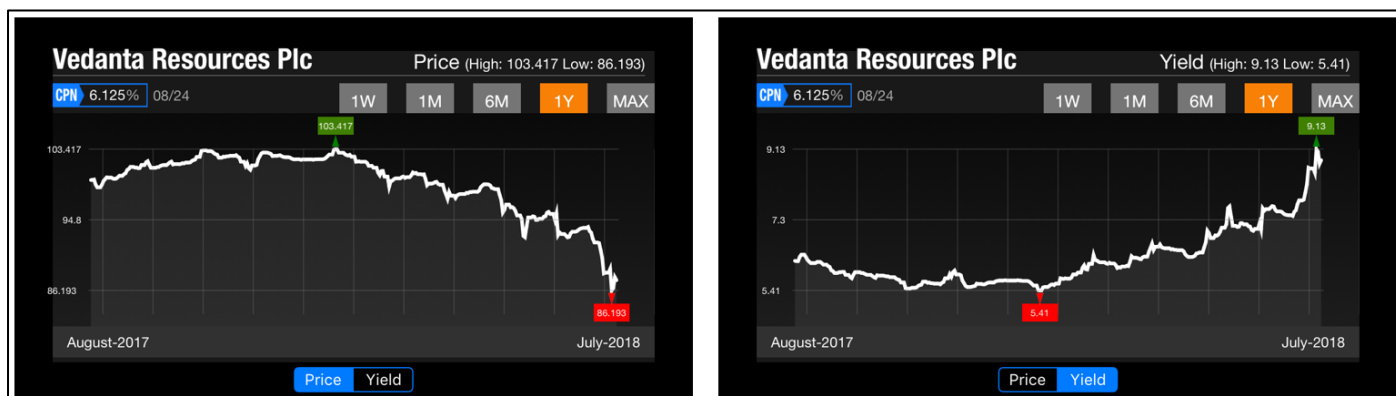
Source: BondValue App

This has led Hyflux to [default on its interest payment of SGD 14.9 million](#) due to holders of its perpetual bonds, some of whom are individual investors who lined up to buy the perpetual bonds from Singapore ATMs in 2016. Hyflux's woes are amongst the precipitants prompting investors to shy away from the Singapore dollar-denominated bond market, leading to a drought in primary issuance in the last month.

**Temasek** launched a private equity backed bond in early June, tapping the retail bond market through its private equity focused subsidiary Azalea Group. The [first of its kind PE-backed retail bonds](#) carried an interest of 4.35% with a minimum investment of USD 2000, available for subscription through Singapore ATMs. The SGD 121 million retail tranche was oversubscribed by over 7x with bids summing up to SGD 890 million.

## Other Updates

**Vedanta Resources'** bonds have fallen significantly in the month of June on news that its Chairman and Founder, Mr. Anil Agarwal has struck a [deal to buy out minority shareholders of London-listed Vedanta Resources](#) for approximately GBP 800 million. Vedanta's 6.125% 2024 bond is down roughly 16 percentage points from its peak, now yielding 8.8%.



Source: BondValue App

## BEV Bond Runs

Our subscribers often ask us about our bond coverage universe. Hence, we decided to attach a bond list along with this newsletter, sorted by region. We currently have 1600+ bonds in our universe – primarily Asian G3 currency bonds. We also have some bonds from Europe, the Americas, Africa and Australia.

[Click here to Download the BEV Bond List](#)

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We welcome feedback from our subscribers so please do write to us for feedback or drop by our new offices in Singapore for a coffee. 😊

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