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Vietnam set for record IPOs after stock index surges past 2007's all-time high

Takeda perks up Japanese lenders with talk of jumbo loan for giant Shire bid

Panda market comes up short for global banks in need of TLAC debt

PLUS: OUTLOOK FOR ASIAN CREDIT ROUNDTABLE

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Connecting institutional investors with sustainable, long-term projects
IFR will be holding a Roundtable discussion at the 51st ADB Annual Meeting in Manila, focusing on ways to close the gap between Asian infrastructure development and institutional investors.

Moderated by IFR Asia Editor, **Steve Garton**, the event will convene a panel of senior financial markets professionals to identify the challenges in attracting private sector asset managers to long-term projects and propose solutions that can be applied across the ADB's member economies – including multilateral financing and credit enhancement initiatives in the international and local capital markets.

The Roundtable is **free to attend** for all delegates at the 51st ADB Annual Meeting in Manila.

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Promises, promises

For all the hype around last week's statements, China's pledge to open up its financial markets looks a lot like lip service.

China's top officials used last week's Boao Forum to tell the world that they are committed to opening up the country's financial sector. Foreign investors are to get majority stakes in domestic brokers, Stock Connect quotas are to be quadrupled and a new link with London is on the way.

But these moves are hardly new. Foreign banks have been promised 51% stakes in their securities joint ventures since last November, and the formal rules on the partnerships have left many disappointed.

Bigger Stock Connect quotas are necessary to allow index inclusion for China's A-shares, which again has already been

For those on the front line of capital raising, reforms are proving painfully slow.

agreed. And a symbolic link between London and Shanghai – two markets with no trading overlap – has been on the cards since 2015.

For those on the front line of capital raising, reforms are proving painfully slow.

The Panda bond market is a case in point. Since China reopened the market over two years ago, issuance has grown far more slowly than expected, and even now remains tightly controlled. Market participants are still waiting for formal guidelines, and the approvals needed to use the proceeds overseas are hard to come by.

Recent announcements of Chinese depositary receipts have attracted a lot of attention, but the format will be restricted to a handful of overseas Chinese firms in highly prized industries. While some of those will no doubt answer Xi Jinping's call to list at home, the processes involved and the challenges of taking the proceeds offshore make it a poor funding option for a firm looking to run a global business.

When it comes to attracting foreign investors, however, the doors are well and truly open. Central Huijin, the central government fund that controls stakes in China's biggest banks, is marketing its next onshore bond specifically to foreign buyers through the Bond Connect scheme.

China is clearly willing to import foreign capital, but it is less interested in importing foreign risk.

If it is serious about playing a bigger role in the global markets, that will eventually have to change.

Vietnamese dreams

Vietnam's IPO boom is beginning to look like the moment investors in the frontier market have been waiting for. They need to be careful, however, not to get carried away.

After a successful crop of big deals towards the end of last year, Techcombank and Vinhomes are lining up record listings that will test the market's ability to support US$1bn financings for the first time.

These are major liquidity events in a developing capital market, offering sizeable exposure to a fast-growing economy. It's little wonder that some of the world's biggest funds, including Capital and Fidelity, have already signed up to Techcombank's IPO.

Some caution is warranted, though. Vietnam's main equity index – up 41% in the past six months and back above its early 2007 record – is testing bubble territory. The country has been the darling of the frontier markets before, only to blow up in spectacular fashion.

Seasoned Asia hands will remember the enthusiasm of 2006-07, when Vietnam was on every EM fund's radar and equitisation reforms promised to open the market to global institutions.

That bubble burst when inflation spiralled out of control – hitting an annual rate of 28% in August 2008 – and the country took years to recover.

Vietnam can avoid a similar fate in 2018, but investors will need to be on guard. Today's valuations still look reasonable relative to other markets, but a further rally will strain comparisons.

At the top of its price range, Techcombank's 2.9 times book makes it cheaper than private sector leaders in India or Indonesia.

Interest is understandably high, but with the stock market back in record territory, a crash is only a policy misstep away.

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Vietnam set for record IPOs

■ **Equities** Techcombank, Vinhomes capitalise on booming stock market

BY S ANURADHA

Vietnam's red-hot stock market is poised to welcome its two biggest new listings as surging investor appetite and an upbeat outlook for the economy lift IPO valuations.

VIETNAM TECHNOLOGICAL AND COMMERCIAL JOINT STOCK BANK (Techcombank) on Friday launched a larger-than-expected D19.7trn–D21.0trn (US$864m–$921m) IPO, the country's biggest to date.

VINHOMES, the residential unit of local property giant Vingroup, will embark on an IPO of up to US$1bn as early as next month.

Both are set to beat the record for Vietnam's biggest share sale, set last year by the D16.1trn listing of Vincom Retail, another Vingroup unit.

Investors' enthusiasm for the country has allowed Techcombank to boost the size of its IPO from an original target of US$500m–$600m, with more than three quarters of the deal already allocated to cornerstone investors.

Vietnam appears to be firing on all cylinders as its gross domestic product in the first quarter rose 7.4% year on year, the highest in a decade, on growth in the manufacturing and tourism sectors. Foreign-exchange reserves are at a record high of US$60bn.

The benchmark Vietnam Stock Index, or VN-Index, is up 19% year to date after rising nearly 50% in 2017.

Banking is seen as the key beneficiary of this boom and many stocks in the sector have outperformed the benchmark index. Vietnam Prosperity Bank (VP Bank) and Ho Chi Minh City Development Bank (HD Bank), which listed last year, are up 61% and 27%, respectively, year-to-date.

State-owned banks have also done well in the same period with shares of Joint Stock Commercial Bank for foreign trade of Vietnam (Vietcombank) up 30%, those of Asia Commercial Bank up 46% and those of Military Commercial Joint Stock Bank up 39%.

STRONG SHAREHOLDERS

Techcombank is one of Vietnam's largest private-sector banks and counts Masan Group as one of its key shareholders. It received a big vote of confidence last month, when private-equity firm Warburg Pincus agreed to invest over US$370m for an undisclosed stake, its largest private-sector investment in the country.

Cornerstone investors are already on board for 76% of the deal. They include Capital Research, Clermont Group, Composite Capital Master Fund, Dragon Capital, FMR, Genesis Investment Management and GIC.

"It's one of the rare Asian IPOs, which has Capital, Fidelity FMR and GIC investing at the same time," said a banker on the float.

Techcombank is selling 164m shares, equal to a 14.1% stake, at D120,000–D128,000 a share. The primary shares on offer equal a 5.5% stake, with the remaining 8.6% from secondary shares, held by three undisclosed individuals.

Books close on April 23 and the shares will list on the Ho Chi Minh Stock Exchange on June 4.

Deutsche Bank, *Morgan Stanley* and *Viet Capital* are the joint global coordinators.

The top of the price range translates to a 2018 price-to-book multiple of 2.9, a premium to the local banking sector average of 2.5.

Interest for the IPO among investors appears to be strong, despite the premium price tag and lengthy delay between pricing and listing. A Hong Kong-based fund manager said the underwriters had only reached out to the biggest institutional investors so far, targeting those willing to commit US$15m–$20m, suggesting that books would build quickly as other buyers come in.

The banker on the float said interest for the IPO had been very strong as it was seen as a direct play on Vietnam's economy.

SECTOR IMPROVEMENT

Analysts believe that Vietnam's banking sector has turned a corner since a spike in bad loans stemming from the real-estate crash of 2012, thanks in part to the creation of bad debt manager Vietnam Asset Management (VAMC).

In a March 2018 research report, Viet Capital Securities said the banking sector's non-performing loans had fallen to 2.3% of total borrowings in the first nine months of 2017 from 2.5% in 2016. Banks sold 4.8% of their impaired loans to the VAMC during the same period, up from 3.5% in 2016.

Vingroup will also be looking to make the most of strong market sentiment. Shares in its Vincom Retail arm are up 25% from their IPO price, and parent Vingroup touched a record last week at D136,800, up 77% since the start of the year.

Vinhomes has yet to set a price range or timetable, but is expected to launch its US$1bn IPO as early as next month. *Citigroup*, *Credit Suisse*, *Deutsche Bank* and *Morgan Stanley* are the joint global coordinators and bookrunners with *HSBC* and *Maybank*. The float will comprise primary and secondary shares, and the size could increase if valuations are attractive.

Vinhomes had 48% market shares of high-end property developments in the last three years in Hanoi and Ho Chi Minh City.

Techcombank's listing timetable is slightly more extended than that of Vincom Retail, the shares of which started trading within two weeks of the book's closing, as its offer has a primary component. Only secondary shares were sold in the Vincom Retail issue.

There is a 180-day lock-up period on shareholders Masan Group, Warburg Pincus and other existing shareholders, according to the term-sheet.

Takeda stirs talk of jumbo loan

Loans **A US$40bn-plus bid for Shire would be a boost for yield-starved lenders**

BY WAKAKO SATO

Banks struggling to make returns in Japan's low-margin corporate loan market are hoping for a jumbo cross-border acquisition financing after TAKEDA PHARMACEUTICAL said it was considering a bid for London-listed rare disease specialist Shire.

Takeda, Japan's largest drugmaker, said in March that it was considering an offer to buy Shire, valued at US$40bn at the time, and has until April 25 to submit a bid or walk away.

Shire's stock price has since gained almost 20%, giving it a market cap of over US$47bn. At that kind of size, the purchase of Shire would be Japan's biggest M&A deal since the mega mergers in the country's banking sector in the late 1990s, according to Thomson Reuters data. It would also be Japan's biggest overseas acquisition and Asia's seventh-largest M&A trade.

Takeda has sounded out banks, including its main lender, Sumitomo Mitsui Banking Corp, for loans of several trillion yen (tens of billions of dollars), Reuters reported. nL3N1RP28B

A sizeable debt financing could revive Japanese loan volume, which is flagging despite the appreciating yen.

Expectations that Takeda will bid for Shire rose after the company's Chief Executive Christophe Weber commented on the merits of the deal on April 7.

Weber highlighted the company's ability to boost its debt, while maintaining an investment-grade credit rating, as well as the dividend. Takeda is rated A1 by Moodys, A+ by S&P and AA– by Japan's R&I.

Loan bankers have been anticipating event-driven financings for acquisitive Japanese companies, aided by the appreciation in the yen.

YEN BOOST

The currency is hovering at six-month highs of 107 to the US dollar, a 5.31% gain from 113 at the beginning of this year, which makes overseas buys attractive.

"One of the aspects of yen appreciation is that in-out acquisition costs [for outbound M&A] become lower. We are watching closely as it becomes easier for Japanese companies with healthy financials to acquire companies overseas," said Tomoaki Oikawa, general manager of Mizuho Bank's syndicated finance structuring department No.1.

"We are watching closely as it becomes easier for Japanese companies with healthy financials to acquire companies overseas."

Takeda has a strong track record in the loan market, particularly in M&A financing. The pharmaceutical giant tapped the market in February 2017, when it raised US$3.5bn-equivalent to finance its US$5.2bn takeover of US cancer drug maker Ariad Pharmaceuticals.

MUFG and Sumitomo Mitsui Banking Corp provided the dual-currency bridge facility, which was refinanced only a month later with a US$2.43bn-equivalent 10-year dual-currency loan from Japan Bank for International Cooperation.

Takeda also raised an earlier M&A loan in September 2011 via Japanese banks including MUFG and SMBC. The ¥570bn (then US$7.46bn) one-year bridge loan backed its €9.6bn (then US$13.7bn) acquisition of Swiss rival Nycomed.

VOLUME NEEDED

A jumbo acquisition loan could boost weak first quarter volume statistics and give banks some much-needed income as it would be priced higher than comparable Japanese corporate loans which carry razor-fine single digit margins.

Japanese volume fell in the first quarter of 2018 to US$69.7bn in 599 deals, down from US$85.36bn in 817 loans a year earlier, the data shows.

The first quarter saw no jumbo M&A loans, despite M&A volume hitting a first-quarter record of US$72.7bn, 135% higher than the same time last year.

Technology giant Softbank Group Corp's US$7.6bn acquisition of a stake in ride-sharing firm Uber Technologies, with a group of investors, was the largest outbound Japanese acquisition in the first quarter, but did not lead to any debt financing because the deal was financed through Softbank's Vision Fund.

First quarter M&A lending contrasts unfavourably with the same period a year earlier, when two loans totalling ¥511.86bn (US$4.9bn) backing private equity firm KKR's acquisition of auto parts maker Calsonic Kansei Corp and Hitachi's power tools unit, Hitachi Koki, were syndicated, as well as the take-out of Takeda's bridge loan for Ariad. ■

Is China ready for a TLAC Panda?

Bonds Lack of loss-absorbing framework holding back global banks

BY INA ZHOU

As global banks set their sights on the growing Panda bond market, a lack of clarity over China's approach to loss-absorbing debt is leaving many feeling left out.

Mainland regulators have yet to approve any onshore offering of senior debt that is eligible towards total loss-absorbing capacity (TLAC), ruling out the Panda market for many of the biggest international banks.

CREDIT AGRICOLE, one of the globally systematically important banks (G-SIBs) named by the Financial Stability Board, will sell senior preferred notes in its maiden onshore offering, according to several market sources.

Senior preferred notes do not count towards TLAC, unlike senior non-preferred bonds, which are subordinated to senior preferred notes and can be written down in a crisis.

CA has focused mainly on issuing senior non-preferred debt since the French government introduced the format in December 2016, and its choice for the Panda debut reflects the challenges of selling loss-absorbing notes in the onshore renminbi market.

Another French bank is heard to have dropped plans for a Panda bond offering as it is currently focused solely on TLAC-eligible notes.

"To sell subordinated bonds that are bail-in-able in China, it is not only investors in need of education, but also Chinese regulators, who are not yet comfortable with such a format," said a Beijing-based banker specialising in Panda bonds.

Credit Agricole conducted a non-deal roadshow in Hong Kong and on the mainland last month via *Bank of China*.

In late February, the People's Bank of China referred to TLAC for the first time, in a broad regulatory update on bank capital issuance.

Analysts took that as a signal that China was ready to begin adopting the international framework. Under current rules, its four biggest banks have until January 2025 to meet the minimum TLAC requirement, six years later than those in developed markets, but local regulators may expand the regime to include other important banks.

PBoC did not elaborate on the approach it would take to implement TLAC in the country, where banks are heavily reliant on deposit funding.

SIMPLEST FORMAT

The Beijing-based banker and two others reckoned that the current Panda bond market would all but rule out major banks from countries like Germany and Canada, where vanilla senior bonds are subject to statutory subordination.

A lack of a TLAC framework in China will also turn away global banks that primarily seek to issue to build their capital buffers.

CA, on the other hand, has a relatively smaller TLAC target to meet and is keen to roll out Panda bonds as a way to build its China profile, sources say.

"Sooner or later the Chinese regulators will need to open the door to TLAC notes, otherwise the Panda bond sector can only attract smaller financial players that are not required to meet TLAC targets," said a Shanghai-based DCM banker.

The banker had submitted a proposal for a bail-in debt offering from a global bank to the PBoC and had yet to receive its feedback.

"PBoC needs more time to look into the bail-in debt; it is not something they are familiar with," he said.

Market participants believe CA will become the first French bank to issue Panda bonds with a launch likely this year. *China Construction Bank* is joint lead underwriter on CA's proposed offering, according to the sources.

In 2015, HSBC and Standard Chartered issued senior unsecured Panda bonds through their Hong Kong-incorporated entities.

Two Japanese banks, Bank of Tokyo-Mitsubishi UFJ and Mizuho Bank, privately placed senior unsecured Panda bonds earlier this year. Japan set out a TLAC framework in April 2016, advocating the use of bank holding companies to bolster TLAC.

National Bank of Canada, Canada's sixth-largest lender, launched senior unsecured Panda bonds in China in November 2016, before Canada published draft guidelines on TLAC last June. ■

Upgrades boost property bonds

Bonds Chinese developers' funding costs rise, despite improving credit quality

BY CAROL CHAN

Seven Chinese property developers tapped international investors for a combined US$3.88bn last week, capitalising on improving sentiment towards the industry and a slew of recent credit upgrades.

Among the trades last week were US dollar notes from high-yield issuers POWERLONG REAL ESTATE HOLDINGS, CHINA SCE PROPERTY HOLDINGS, CIFI HOLDINGS (GROUP) and FUJIAN YANGO GROUP, as well as investment-grade rated CHINA VANKE and YUEXIU PROPERTY. Still others, like high-yield issuer LOGAN PROPERTY HOLDINGS turned to the Singapore dollar market. *(See China Debt capital markets.)*

Despite the upgrades and improving profitability, however, their funding costs are rising against the backdrop of a higher interest-rate environment, weak market sentiment and heavy supply.

"Investors have cash, but they are very selective," said a banker at a Chinese brokerage. "Many of these high-yield issuers need to give very generous new-issue premiums of 30bp-50bp for their new bonds. For some weak names like Fujian Yango, despite giving even more new-issue premium, they unable to draw enough investor interest to print a bigger deal."

Fujian Yango paid a 11% yield to put for a US$110m three-year non-call two non-put two issue, implying a new-issue premium of more than 100bp.

The banker said demand for better names was strong due to such generous new-issue premiums, which enabled some, like China SCE and Yuexiu, to increase sizes of their issues from the original targets.

The credit metrics of rated developers, which are the major players in the country's competitive and fragmented property sector, have generally improved, benefiting from better sector conditions and their strengthened positions in an industry where consolidation has accelerated.

"Looking back a few years, many of these Single B names were paying double-digit yields. So, the yields they are paying now, in some sense, are not very high."

According to S&P, about half of the developers it rates lowered their debt-to-Ebitda ratios by more than 10% in 2017, compared with the year before. Moreover, the sector's average gross margin climbed above 30% last year, from about 26% in 2016.

MULTIPLE UPGRADES

S&P has announced 10 positive rating actions on Chinese developers since the beginning of 2018, against just two negative moves, as profitability improved more than expected and operating scales rose significantly.

Moody's has given eight positive ratings moves in the sector this year, with no negative moves. Fitch is the exception, having announced only two positive rating actions, but with six negative ones so far this year.

Among the issuers that tapped the offshore bond market last week, China SCE won an upgrade from S&P on March 20 with its issuer rating raised to B+ from B, with a stable outlook. Powerlong also received a S&P upgrade to B+ from B, with stable outlook, on November 21. S&P on March 23 revised Cifi's BB- rating outlook to positive from stable.

Despite the upgrades, developers were forced to pay a much higher yield for new dollar bond issues than last year, as market sentiment turned much weaker from late January. Moreover, many investors are adopting a defensive strategy and have cut exposure to duration, making it hard for developers to print long-dated bonds.

HIGHER YIELD

For example, China SCE, rated B1/B+ (Moody's/S&P), only paid 5.875% yield for five-year non-call three bonds in March last year, but had to pay 7.45% yield for a three-year non-call two bonds this time.

Powerlong, rated B1/B+ (Moody's/S&P), paid 7.25% yield for three-year bonds this time, but only 6.25% yield for the same tenor last July.

Cifi paid 6.875% yield for three-year non-call two notes this time, versus 5.625% for five-year non-call three notes in January this year.

"Many listed developers have reported record sales and profits for 2017 and their share prices also hit record highs," said a DCM banker at a European bank. "Some of them have seen their credit ratings upgraded, yet they also need to pay higher yield. Issuers need to adjust to the reality."

Although they are having to pay much higher funding costs, developers are expected to continue to hit the offshore bond market for funding, given their high financing needs and the fact that the onshore bond market is still quite restrictive for them.

"China's real-estate companies are always the dominant issuers in the high-yield segment. They constantly need to raise money to fund land purchases and expansion. Their refinancing needs are also huge for this year," the banker said.

"They are also the ones willing to give a higher yield, as their profit margins are much higher than other industrial names. Looking back a few years, many of these Single B names were paying double-digit yields. So, the yields they are paying now, in some sense, are not very high. It all depends on whether they could get a higher return from the borrowings."

China SCE paid 10.25% yield for five-year non-call three notes in June 2015, and Powerlong forked out 11.625% yield for five-year non-call three notes in January 2013.

Amid the overall improvement in the sector, S&P notes that divergence is intensifying in developers' credit profiles and leverage trend, with some smaller players showing rising leverage.

S&P also expects consolidation in the sector to continue to speed up, with big players grabbing market share from the smaller ones.

HNA gives ground on Hilton exit

■ **Equities** Banks, investors make windfall on US$4.8bn stock sale

BY STEPHEN LACEY

HNA GROUP made two major concessions on its US$4.8bn sell-down of a 26% stake in HILTON WORLDWIDE last week, part of a US$16bn asset-sale plan to shore up its liquidity.

HNA agreed to publicly market the shares and allow Hilton to buy back stock at a deep discount, concessions linked to lock-up agreements when it invested US$6.5bn in Hilton in 2016.

Hilton management had a heavy hand in the pricing and allocation of the stock that HNA sold.

After two days of marketing, a syndicate of banks led by *Goldman Sachs*, *JP Morgan*, *Deutsche Bank*, *Bank of America Merrill Lynch* and *Morgan Stanley* placed 66m shares to the public at US$73.00 apiece, with Hilton purchasing another 16.5m shares at US$71.00, both hefty concessions to the US$75.01 last sale.

HNA pocketed US$1.7bn on its Hilton-related investments, but others also did very well.

Hilton shares rose the following day to US$79.61, handing investors a one-day paper profit of US$430m, while investment banks pocketed US$85m from the 1.75% gross spread.

Including fees earned on HNA's sale of stock in former Hilton affiliates Park Hotels & Resorts and Hilton Grand Vacations, both sized at US$1bn, the fee pool climbs to US$155m.

"HNA had to sell, and Hilton helped them by marketing," said one senior banker involved in the negotiations. "They were a desperate seller, and Hilton took advantage of that.

"Did investors get a good deal? Yeah."

Hilton's 5% repurchase of itself certainly helped grease the skids. The US$71.00 share price was 1% below fees paid to investment banks, yet another (and unusual) concession negotiated as a condition of the lock-up waiver.

Hilton funded the buy-back with US$1.5bn raised from the sale of an eight-year bond on Tuesday.

LONG TAIL

HNA has been on a selling spree to repay creditors.

After spending tens of billions on acquisitions, it warned in January of a potential Rmb15 (US$2.4bn) cash shortfall in the first quarter and said it planned to offload US$16bn of assets.

HNA is using a portion of the proceeds from the Hilton stock sale to repay borrowings on a US$3.5bn margin loan pledged to a portion of the Hilton stake.

"There is a significant

BOC prices latest BRI jumbo

■ **Bonds** China lender sticks to multi-currency strategy for US$3.2bn benchmark

BY CAROL CHAN

BANK OF CHINA, rated A1/A/A, has printed US$3.2bn of bonds in four currencies to support projects under China's Belt and Road Initiative.

The state-owned lender sold notes in US dollars, euros, Australian dollars and New Zealand dollars through three branches and one subsidiary, sticking to its policy of multi-tranche, attention-grabbing benchmarks.

The deal is the largest multi-currency transaction from a Asia Pacific financial institution this year.

Liu Xinqun, general manager at BOC's treasury department, said the selection of currencies was mostly based on the funding needs of the offshore issuing entities.

"Considering the multi-currencies financing needs and market impact, we think it's a better choice to price the multi-currencies issuance all at once both in terms of efficiency and final outcome," said Liu.

A banker involved in the issuance said demand for the notes was not as strong as last April's multi-currency trade as the market had turned weaker this year.

However, overall demand was strong and BOC was able to price most tranches without any new-issue premium. The banker said the US dollar tranches offered a premium of around 5bp due to the relatively large sizes.

"From the investor side, the investor base for different currencies are different in demand, but there are actually some investors who will focus on multiple currencies," said Liu. "However, the overall funding cost for this issuance did not raise due to this reason and we've got the size and pricing within our expectation for each currency, especially for the euro tranche, which achieved zero new issue concession."

BOC shifted to floating-rate notes to cater to investors' demand against a backdrop of rising interest rates.

The Singapore branch raised US$1.5bn from the sale of dual-tranche Reg S floating-rate notes. It priced the US$800m three-year and U$700m five-year at 75bp and 85bp wide of three-month Libor, below 100bp area and 110bp area initial guidance, respectively.

Its Luxembourg branch issued a €700m three-year floater at three-month Euribor plus 50bp, inside 65bp-70bp area guidance.

The Sydney branch sold A$800m (US$620m) of three-year Australian dollar floaters at three-month BBSW plus 103bp, inside initial guidance of 108bp area.

Subsidiary Bank of China (New Zealand) also raised NZ$300m (US$221m) from dual-tranche New Zealand dollar bonds. Pricing on the NZ$150m three-year floating-rate notes was at the tight end of BKBM plus 110bp-120bp guidance, while that on the NZ$150m 4.02% five-year fixed-rate bonds was at the tight end of mid-swaps plus 130bp-140bp guidance.

A sterling issue through BOC's London branch was also considered earlier, before being put on hold due to unattractive pricing, said the banker.

The US dollar tranches attracted final orders of over US$2.6bn from 80 accounts. Of the three-year notes, 83% went to Asia and 17% to EMEA. In terms of investor type, 53% were banks, 40% were central banks and sovereign wealth funds, and 7% were fund managers. Of the five-year notes, 90% went to Asia and 10% to EMEA. Investor wise, 90% were banks, 7% were central banks and sovereign wealth funds, 3% were fund managers and others.

For the euro tranche, final orders exceeded €1bn, excluding interest from leads, based on earlier investor updates.

Geographically, 43% went to Asia Pacific, 26% to Germany/Austria, 10% to Middle East, 9% to Southern Europe, 4% to UK/Ireland, 3% to Switzerland, 3% to Benelux, and 2% to others. By investor type, 41% were central banks and agencies, 36% were funds, 20% were banks and private wealth management, and 3% were others.

amount that is still outstanding (on the margin loan)," said one senior banker involved in the stock sale.

JP Morgan, *Deutsche Bank*, *Credit Suisse* and *UBS*, the counterparties on the margin loan, were given bookrunner roles on the Hilton stock sale because they extended credit, bankers involved in the underwriting told IFR.

Hilton management also had a say in the underwriting lineup, with Goldman Sachs joined by BAML, Morgan Stanley, *Barclays* and *Wells Fargo* as the other bookrunners, the bankers said.

HNA in February reduced its stake in Deutsche Bank from 10% to 8.8%, though likely at a loss.

But all the selling may be nearing an end.

The conglomerate announced a tie-up Tuesday with Singapore sovereign wealth fund TEMASEK to invest in aviation, logistics, and airport infrastructure, and a Chinese unit Tianjin Tianhai Investment unveiled a US$1bn-plus acquisition of e-commerce platform Dangdang a day later.

HNA also said it was no longer moving ahead with a planned IPO of airport baggage handler SWISSPORT GROUP, citing market conditions.

That move followed a decision last month to pull the IPO of airline catering business GATEGROUP just hours before that deal was due to price.

HNA was given a deal on the Gategroup IPO but baulked on valuation, a banker close to that situation told IFR.

Swissport and Gategroup are obvious targets from the new HNA-Temasek investment vehicle. ■

For the Australian dollar issue, the orderbook was in excess of A$950m at the final price, including demand from leads, according to earlier investor updates. By region, 48% of the notes went to Australia, 47% to Asia, and 5% to EMEA. By investor type, 75% were banks, 18% were fund managers, and 7% were others.

So far no statistics have been made available for the New Zealand dollar issue.

The banker said foreign investors actively participated in the euro, Australian dollar and New Zealand dollar tranches with quality investors including central banks, sovereign wealth funds and big fund houses.

The latest trade was BOC's fourth in the international bond market specify slated for BRI, the massive infrastructure initiative linking some 65 countries across Asia, Europe and Africa.

In June 2015, the Chinese lender issued US$3.55bn-equivalent of notes in US dollars, euros, Singapore dollars and offshore renminbi. In April 2017, it printed US$3.05bn-equivalent bonds in US dollars, euros, Aussie dollars and offshore renminbi. In May 2017, it printed US$600m three-year US dollar floaters via the Singapore branch.

From 2015 to 2017, BOC followed up on over 500 major projects and granted approximately US$100bn of credit support to BRI countries.

BOC, *Citigroup*, *DBS Bank*, *OCBC Bank*, *Standard Chartered* and *Mizuho Securities* were joint global coordinators on the latest US dollar issue, with BOC and Citi acting as lead global coordinators across all tranches. The JGCs were also joint bookrunners and joint lead managers with *Agricultural Bank of China*, *China Everbright Bank*, Hong Kong branch, *China Minsheng Banking Corp*, Hong Kong branch, *China Construction Bank*, Singapore branch, *Commonwealth Bank of Australia* and *First Abu Dhabi Bank*.

On the euro issue, *BOC*, *Citigroup*, *Commerzbank*, *Credit Agricole* and *ING* were joint global coordinators, joint bookrunners and joint lead managers.

On the Aussie dollar three-year floaters, *BOC*, *Citigroup*, *ANZ*, *UBS* and *Westpac* were joint lead managers.

BOC, *ANZ* and *Westpac* were joint lead managers on the New Zealand dollar trade. ■

Ghana 'on course' for yen debut

■ **Bonds** Finance minister outlines plans to broaden investor base

BY TAKAHIRO OKAMOTO

GHANA is on track to issue its first yen bond as it looks to broaden the investor base for its debt, Finance Minister Ken Ofori-Atta said on Friday.

Ofori-Atta said during a visit to Tokyo that he was building new relationships in Japan but said it was "too soon" to confirm a timeframe for the yen issuance.

"Definitely we are on course to doing something," he told IFR.

Government officials from Ghana, which is already planning a US$1bn Eurobond, visited Japan last week to boost bilateral trade and economic relations and court new investors for its debt.

"To broaden and expand the investor base of Ghana's bonds, the Finance Minister and the Deputy Governor [of the Bank of Ghana] will hold strategic meetings with portfolio and asset managers where they hope to whip up appetite for Ghanaian instruments," the ministry of finance said in a statement.

Ofori-Atta said the Japan visit was not specifically tied to a yen offering, acknowledging that it will take time for Japan's conservative investors to become comfortable with Ghanaian risk. The finance minister is focusing on building up relationships with private-sector partners before it issues yen bonds, and is looking to tie its funding to specific projects in areas such as construction, telecom, transportation and energy.

Ghana may consider Green bonds, he said, to fund solar and metro rail projects in Accra. Ofori-Atta told IFR that he had meetings with SoftBank and many other Japanese firms.

"We have had meetings with everyone – banks, Japan Bank for International Cooperation, everyone – for them to begin to sensitise," he said.

"We have had meetings with everyone – banks, Japan Bank for International Cooperation, everyone."

Ghana's parliament in March approved plans to issue a Eurobond of US$1bn by the end of April to finance the 2018 budget, and ministers have already visited Hong Kong and Singapore to drum up support.

Japanese bankers say B3/B–/B rated Ghana would need a JBIC guarantee in order to sell bonds in Japan. Ofori-Atta acknowledged this as "a must" for the country's first yen issue.

"All of that takes some time, but I think opportunities here are very good, and we should build up relationship," he said.

Ghana, which exports cocoa, gold and oil, is in its final year of a US$918m credit deal with the International Monetary Fund under which it is aiming to reduce the budget deficit, inflation and public debt, which hit 68% of GDP last year. ■

Alternative credit ratings catch on

■ **Bonds** Singapore banks, investors look to address lack of formal ratings

BY KIT YIN BOEY

Demand for alternative credit analysis is growing in Singapore as banks and investors look to address the lack of formal ratings in the local bond market.

Generally, issuers in Singapore see little need to obtain a credit rating, and investors remain willing to accept unrated bonds. Even last year, there was little response when the Monetary Authority of Singapore announced a grant of up to S$400,000 (US$304,000) to offset the costs of obtaining ratings on Singapore dollar issues.

However, the absence of ratings makes it harder for investors to monitor their portfolios, and has left investors, including less-sophisticated individual buyers, to rely on the research and recommendations of the underwriters or their private banks.

To mitigate any potential conflict of interest, some banks and investors have begun paying for independent credit assessments, which provide an alternative to the issuer-pays model followed by specialised rating agencies.

"Third-party research may be used by the bank on an ad-hoc basis to assess the creditworthiness (of an issuer), and for the purpose of lending value assignment or adjustment, especially for unrated securities," said Lee Kong Hong, executive director at DBS Private Bank.

"This could serve as a pre-emptive measure to minimise portfolio risks for both bank and clients alike."

The growing interest in independent credit valuations comes in the wake of a spate of bond defaults and restructurings in Singapore.

Typically, arranging and private banks rely on internal analysis to assess how much leverage they can approve to potential buyers, including HNW individual investors.

This practice came in for much criticism amid perceived conflicts of interest as a host of issuers defaulted on Singapore dollar high-risk unrated bonds from 2015. The bulk of these bonds were sold to accredited individuals and HNW clients.

The defaults also highlighted the absence of ratings or third-party analysis, which could have reflected the creditworthiness of the bond issuers or given an early warning when they started to weaken.

SHADOW RATINGS

IHS Markit, a provider of financial information and analytics and a competitor to Thomson Reuters, rolled out its credit-risk-assessment product in 2015, in collaboration with a local bank.

The product offers independent shadow ratings on the corporate issuer, which private banks and banks then use to determine the amount of leverage that should be given to clients keen to buy the issuer's bonds.

IHS Markit declined to identify the collaborating bank, but said it was Singaporean and its PB unit was one of the largest in the city state.

"The collaborating bank was our first customer (of CRA) and had input into how we validated our rating results to be robust and aligned with industry standards," said Peter Alleston, IHS Markit's director of private-equity services.

The product is designed to be real time by leveraging IHS Markit's proprietary fixed-income data sets to incorporate market sentiment into a rating. The ratings are also refreshed annually or when a trigger event occurs, which then prompts active monitoring with current market data, such as credit spreads, and credit events that may affect ratings.

Bankers and investors in Singapore say the product helps fill a gap.

"Independent credit risk assessment is absolutely the right way, going forward, to mitigate any conflicts of interest," said a major private-bank investor.

Sri Lanka beats weak backdrop

■ **Bonds** EM sovereign overcomes volatile session, negative domestic news

BY DANIEL STANTON

The DEMOCRATIC SOCIALISTIC REPUBLIC OF SRI LANKA sailed through the bond market last Wednesday, despite a volatile trading session and recent turbulence at home, drawing orders of US$6.5bn for a US$2.5bn two-tranche issue, its largest dollar offering on record.

The sovereign, rated B1/B+/B+, priced a US$1.25bn five-year tranche at par to yield 5.750%, inside initial guidance of 6.00% area, and a US$1.25bn 10-year at par to yield 6.75%, tighter than the initial 7.00% area. It had originally targeted a total size of US$2bn.

Sri Lanka's outstanding 2022s were quoted at 5.34% and its 2027s at 6.49%, when bookbuilding began. Based on the curve extension, it looked to have paid a relatively modest new-issue premium of around 15bp.

Just as the US book was opening, President Donald Trump sent a tweet that he planned to fire missiles at Syria. That derailed some planned bond issues in the US, but Sri Lanka was midway through its offering and, in the end, was rewarded for staying the course.

US investors dominated the 144A/Reg S deal, taking around two-thirds of each tranche, thanks to the following that Sri Lanka has built over the years.

Sri Lanka also managed to rise above recent negative domestic news. The country had declared on March 6 a state of emergency, its first in nearly nine years, in response to violence between the Sinhalese and Muslim communities. The emergency was lifted 10 days later.

Then, on April 4, Prime Minister Ranil Wickremesinghe faced a vote of no-confidence, but defeated the motion.

This backdrop had little impact on demand for the issue, expected to be Sri Lanka's only dollar print of the year.

However, investors were reminded of the risks around the country when President Maithripala Sirisena suspended parliament with effect from midnight on Thursday, just a day after the sovereign deal priced.

Sri Lanka's 2023 bonds dropped 0.75 points to a cash price of 99.4, yielding 6.0%, and its 2028 bonds fell 1.2 points

Other independent agencies such as CreditSights and online investment products and services provider iFast Corp also provide research on Singaporean issuers. While CreditSights focuses on US dollar bonds, iFast covers both Singapore and US dollar debts.

One drawback of independent agencies is they may have limited access to a company's management and finances, compared to an established rating agency or bank that has a professional relationship with the issuer.

As such, products from these agencies are often used to supplement internal analysis.

Alleston said, while corporate issuers or private banks were the main users of the service, there was growing interest from origination and syndicate desks to use it to help with bookbuilding, pricing, research and marketing activities.

"We have had several discussions with the Monetary Authority of Singapore about our CRA service and they've given us very positive feedback on what we are doing and believe our solution will continue to benefit the Singapore dollar corporate bond ecosystem." ■

to 99.6, yielding 6.9%. They had traded up to cash prices of 100.30 and 100.75 early afternoon on Thursday.

Orders for the five-year totalled US$3bn involving more than 235 accounts. US investors bought 66%, Europe 24% and Asia 10%.

The 10-year drew demand of US$3.5bn from more than 190 accounts. The US took 65%, Europe 29% and Asia 6%.

Distribution in terms of investor types was identical on both tranches. Fund managers booked 92%, pension funds and insurers 5%, banks 2% and private banks 1%.

Citigroup, *Deutsche Bank*, *HSBC*, *JP Morgan* and *Standard Chartered* were joint bookrunners. ■

Thailand invites foreign issuers

■ **Bonds** Remittance rules remain a challenge for overseas borrowers

BY KIT YIN BOEY

Thailand is once again turning to foreign bond issuers in an effort to cool the strengthening baht, as the country attempts to dodge being named on a list of currency manipulators being compiled by the US.

The Ministry of Finance has moved to attract more baht borrowings from foreign issuers, extending the regular March application window to April 20 and allowing the proceeds to be taken out of the country, provided they are exchanged into US dollars onshore first.

The policy shift is the latest relaxation of a move in early 2016 to ban any foreign issuer from bringing the proceeds of a baht bond sale out of the country. It comes after Thai authorities last September began allowing exceptions on a case-by-case basis, with the Ministry of Finance Laos being the first foreign issuer to obtain approval to repatriate a portion of a Bt14bn bond sold in Thailand in October.

The looser policy is aimed at curbing the baht's appreciation against the US dollar, after a 13% gain since the start of 2017. The baht hit a 4.5-year high at 31.07 to the dollar on March 14 and was last quoted at 31.13.

Thailand is widely touted as a potential candidate for the US Treasury's expected list of currency manipulators, which it defines by three criteria: a current surplus of more than 3% of GDP, a significant bilateral trade surplus with the US and a track record of foreign exchange intervention.

The South-East Asian country's current account surplus was 10.3% of its GDP last year while its trade surplus was more than US$20bn.

"Thailand is at borderline risk of meeting all three criteria should the US Treasury opt to include it in its analysis for the first time," wrote Vijay Patel, foreign exchange strategist at ING.

Ironically, the appreciating baht could just be the factor to tip in Thailand's favour.

"Alternatively, we note that it could give Thailand a 'hall pass' on the FX intervention front – not least given that the Thai baht has appreciated by more than 13% against the USD since 2017," said Patel.

INTERVENTION ALTERNATIVES

The Thai government has been at pains to avoid any move that could be interpreted as currency manipulation. In mid-January, MOF officials stressed that it had not intervened in the currency and would not, thereby forcing it to look at other ways to curb the strong baht.

Previous moves to allow foreign issuers to take the funds out in the spot market had limited success in attracting issuers, and bankers do not think the latest round will be any different. The special window in September yielded only one approval (for a Bt20bn issue from Deutsche Bank) but the offering ultimately did not materialise.

Issuers told PDMO at that time the currency rates were not in their favour to take the additional risks of an exchange in the spot market. While issuers can hedge both coupon and principal payments in the swap market, they are unable to do so in an onshore spot market. This raises currency risks for them when meeting regular and principal payment obligations.

"Allowing foreign issuers to exchange on the spot market to help keep the baht down is just not an effective tool to deal with currency exchange rates," said a local banker.

Other bankers agree, noting that only a handful of foreign issuers sell bonds in the Thai market each year, and that potential issuers have voiced concerns over the same issues as well.

"Borrowers like the Laos sovereign could cope with the currency risks as they had only brought out a very small portion of the bond proceeds out of the country," said one originations banker. "But if the proceeds are larger, the risks will be too high." ■

"When rates go up, the economy is doing better, so spreads should compress and from a technical demand standpoint, investors are more likely to go down the curve, because they see less value in buying a 10-year Single A bond."

IFR ASIA: HOW MUCH OF THAT IS DOWN TO THE VERY HIGH COUPONS PEOPLE ARE PAYING TO GET THEIR DEALS AWAY? WE'VE SEEN QUITE A FEW OF THOSE TRANSACTIONS RECENTLY.

AVINASH THAKUR, BARCLAYS: I think you will see differentiation in credit more and more. The days when people would buy everything that comes their way have gone. We do a lot of high-yield business. When we talk to investors, the difficult questions are being asked and with more and more credits coming out, you will expect the issuers to do a much better job of disclosure to make sure they can get an international following.

But, again, we're seeing a move in that direction. If you go and talk to a high-yield issuer in China or, for that matter, anywhere in Asia, you'd want to see pushback on some of these issues. They're willing to listen to what they need to do to access capital.

Moody's, in a recent report, put default rates here at an all-time low. So far, there's no real sign that Asian issuers are trying to do anything out of the ordinary. They're trying to follow the rules and go and raise capital. They need the capital to grow. Some of them will pay up, and that drives those strong performances. But a lot of them are also trading at all-time lows. There are people who recognise that there's value in these credits coming out of China as well.

PAUL AU, CMBI: On the pricing point, some of the issuers are trading at all-time tights. You have Single B and low Double B real estate names at 5%-6%. Five years ago, they were at 12%, 13% when they first issued. If you look at China high yield, the default rate is, actually, very low. And we have seen some examples of credit stress that actually came out okay, like Kaisa Group. People are getting a bit more comfort about recovery rates.

Now, this particular asset class started out more as a real estate space. It was all the real estate developers who couldn't raise funding onshore six, seven years ago, and needed the offshore money. They were willing to pay up – and they were able to pay up – because their operating margin was higher than it is now. The real estate segment represented roughly 55%-60% of the entire China high-yield market last year, and I think that percentage may drop a little bit, because you're going to see more new issuers from different segments. Energy, new energy, old energy, energy logistics… That's what we're seeing. It's going to be a more diversified and more colourful high-yield space than just real estate.

DESMOND HOW, GAOTENG: This is also a new challenge for international asset managers. Last year we had about 130 debutant new issuers, almost twice as many as in 2014. So, the breadth of the market has increased tremendously. And if you think about the number of research analysts we have on the buy-side, on average, the coverage is not enough. That poses a challenge for international investors, and that's why the Chinese investors pick up the slack, because they are more familiar with these Chinese debutante. They have existing relationships onshore, they know the company already and don't have much credit work to do.

Anecdotally, Asia's annual default rate since 2010 has been just 1.6% on average, which is pretty low. And Paul also pointed out the recent recovery rates are, actually, very high. The property name that he mentioned was almost a 90% recovery. And the recent commodity trader listed in Singapore is talking about 50 cents on the dollar for the senior notes, versus an average recovery rate for US and European corporates of about 40 cents. Asia still offers a pretty low default rate and high recovery. That's the investment case for putting money into Asian high yield.

IFR ASIA: DOES IT FEED INTO THE RATES PICTURE AS WELL? I HEAR THIS ARGUMENT A LOT THAT A HIGHER COUPON GIVES YOU A CUSHION IF RATES ARE GOING UP.

PAUL AU, CMBI: When rates go up, the economy is doing better, so spreads should compress and from a technical demand standpoint, investors are more likely to go down the curve, because they see less value in buying a 10-year Single A bond. In fact, a long-dated high-grade bond is riskier because of the potential rates movement. A 10bp movement in the 10-year Treasury overnight is close to a point in your Single A holding, if you don't hedge. That's why people are moving down the curve to take more credit risk in an interest rate hike cycle.

DESMOND HOW, GAOTENG: I did some work on looking at the responses of credit spreads to a 50bp movement in Treasuries since 2008. Over the course of the next three months, what's the spread impact? It is inconclusive, actually. But Paul's explanation makes sense that a 10bp sell-off may give us something like 5bp in spread compression, meaning it's partially absorbed by the spread.

One reason for that is the investors who have come in more recently are total return players, not spread players. Typically, a spread player would hedge against Treasuries. If there's a back-up in spreads but economies are doing better, that is supposed to be a buying opportunity. But, because a lot of investors are total return players they saw spreads back off and they shied away. In fact, there was also some additional selling. So, I think it's because of the segmentation of Asian buyers that we don't see a conclusive opportunity in spreads if there's a big sell-off in Treasuries.

PAUL CARRETT, FWD: It's not the way we would manage money at all times across the cycle, but insurance companies, as an industry, tend to be long-term absolute return investors. If they need to earn 4% over the long term, then they start reaching for yield when rates go lower. You can look at how many insurance companies have been going down the credit curve as rates have fallen.

Higher rates take some of the pressure off some of them. While they might have bought some of the edgier credits in the past, they may well seek to go up the curve, even if spreads remain tight, because they can hit that absolute return target, whether it's 4% in dollars or whatever it might be.

It also depends which segment of the market is dominating investments into new issuance at any point in time. That's why you'll get ambiguity. Insurance is probably pretty constant there. New premiums come in every week and they're deploying into these markets all the time. They're not always the marginal buyer, but they're a pretty stable source.

That is the case for higher rates taking a bit of pressure off credit spreads tightening further.

AVINASH THAKUR, BARCLAYS: If rates are going higher, that also means that your own cost of raising funding goes up. So, you keep chasing the differential that you require. And that's why when the Treasury is high, Libor has gone up. Investors will always want a return over the base rates, so I would think the high yield environment will continue to be conducive.

In fact, high-yield returns tend to be more correlated to equity than high-grade bond indexes. So, high yield is something that I would be more positive about. There will still be a lot of interest in that segment.

IFR ASIA: IS THERE ANY ROOM FOR CREDIT SPREADS TO GO TIGHTER? THE ITRAXX INVESTMENT GRADE INDEX IN ASIA IS AT 66BP AT THE MOMENT; 12 MONTHS AGO, WE WERE AT 91BP.

AVINASH THAKUR, BARCLAYS: We've seen good returns over the last year, except for the last few months. But the upside will always be more challenging from where we're sitting, close to all-time lows.

CLIFF TAN, MUFG: I agree with that as well. I have some sympathy with what Paul said, that investment-grade credit may be more vulnerable in a rising rate environment. But I've had a view for a couple of years now that investment-grade credit just looks slightly ridiculous.

IFR ASIA: AS LONG AS THERE'S MORE MONEY COMING IN AND NEW INVESTORS TO SUPPORT IT, THEN THAT'S FINE.

PAUL AU, CMBI: As Paul said, it depends on the type of investors you're looking at. For insurance companies, I would imagine the proportion of high grade is going to be higher. Policyholders might demand 4% now, but that probably will go up over time as rates rise.

The mix of investors that I'm seeing right now is increasingly driven by total-return players, and their appetite for risk is actually higher than some of the investors who have been around for a long time. Hence, I'm quite positive on the high yield side of things.

DESMOND HOW, GAOTENG: I would describe it as "We're in the last mile, but we're not there yet"! If you think of a traditional credit cycle of around 10 years, we are about done, but this cycle has been extended because of concerted global monetary policies.

Probably a better example for spreads would be the JP Morgan Asia Credit Index, which puts IG spreads at 164bp right now. The all-time tight was actually early 2007 at 83bp. In CDS terms, China was at 12bp pre-crisis. So, there's definitely room for compression!

AVINASH THAKUR, BARCLAYS: The credit spreads have been getting tighter over the last few years. The probability of spreads going

"Investors will always want a return over the base rates, so I would think the high yield environment will continue to be conducive."

even tighter keeps going down. I'm not saying that it's not going to go down any further, but the probability falls with every tightening.

PAUL CARRETT, FWD: We are confident that there's an absolute lower band for credit spreads, and that's zero!

The point about asymmetry is important. Your upside is limited from here, so at the classic late stage of the cycle your portfolio construction is going to matter a lot. Picking the right bonds is clearly going to matter a whole lot more than it did maybe a couple of years ago. Therefore it's time for a bit of caution and serious research before we get to know some of the new names that we've not known before.

IFR ASIA: ARE THERE ANY COUNTRIES OR SECTORS THAT YOU EXPECT TO OUTPERFORM THIS YEAR? OR IS IT ALL A BIT OF A BROAD BRUSH ACROSS ASIA?

MICHAEL TAYLOR, MOODY'S: I think it's a pretty broad brush across Asia, because, to come back to something I said before, the Asia growth story remains pretty much intact, despite the risks of rising protectionism. Within Asia, there may be one or two where we do see some further upside. I think Indonesia is an interesting one, where we have seen some progress on reform. It's very much like India, where we had seen some reform progress, but it hadn't been fully implemented. We upgraded India's sovereign rating at the end of last year.

Indonesia at the moment is growing at around 5%. If they can get those reforms right and actually start seeing the full impact of the reforms and infrastructure investment, then that's a country that could raise its potential growth rate. That would then become quite interesting from an investment point of view.

India and Indonesia are also worth looking at, if we do get into a more protectionist kind of environment. Those economies are large and are still relatively closed, with large domestic markets. In the event that we do move to a more protectionist world, those are the characteristics you'd probably want to be looking for.

IFR ASIA: IS INDONESIA NOT TOO CORRELATED TO CHINA? IT MIGHT BE INSULATED FROM THE US, BUT DO YOU SEE IT VERY LINKED TO CHINA'S FORTUNES?

MICHAEL TAYLOR, MOODY'S: I wouldn't say that it's very linked. I think one of the features of Asia's economies more broadly is that the linkages with China have grown much deeper over the last 10 years. What happens in China does have a much bigger impact now in Asia. India, I think, is still not quite as coupled to China as some of the other economies in the region. But, certainly, what happens in China does matter a lot for Asian credit.

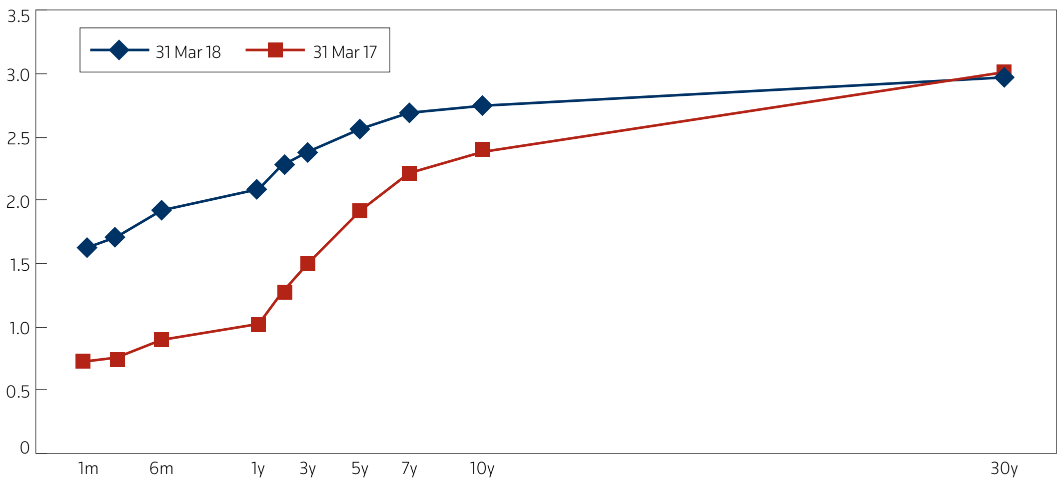
CLIFF TAN, MUFG: On Indonesia, I'm a bit worried about what happens after (President) Jokowi. The fact that Indonesia is still growing at 5% I would say is a failure of reform. This is a country that could easily grow at 6%, 6.5%. I think Jokowi is a relatively clean guy, but I don't think he's managed to wrangle the government into the kind of reforms that are necessary. And I'm even more concerned what happens after him.

This is one of the EM countries where foreign investors really need to have faith in the reform process. And foreigners are so important in the local bond market. If something really does hit the fan, investors' first reaction is not going to be to say, "Hey, this is a large, Muslim country that has a really good domestic demand base." That's not what they're going to do. They're going to leave, first of all, and then take a look around.

IFR ASIA: THAT SOUNDS FAIR. ANY OTHER HOT SECTORS?

RETHINKING RATES

US TREASURY YIELDS HAVE SOARED IN THE PAST 12 MONTHS



Source: Thomson Reuters Eikon

AVINASH THAKUR, BARCLAYS: We're starting to see some infrastructure spend in India, so that is one sector where we'll probably see more activity and better returns. Paul talked about new energy in China, and that's one segment where we're seeing a lot of activity. The regulators are very focused on getting it going. So, you'll continue to see activity from there.

Infrastructure in Indonesia, energy in Indonesia, commodities are coming back. I think those are the areas the market has focused on.

IFR ASIA: THANK YOU. TO WRAP UP, IF I CAN GET YOU TO PUT YOUR PREDICTION HATS ON. THROW IT FORWARD 12 MONTHS, WHAT DO WE THINK ASIAN CREDIT IS GOING TO LOOK LIKE?

AVINASH THAKUR, BARCLAYS: In my view, at the end of December 2018, we'll be very close to where we were in December 2017.

PAUL CARRETT, FWD: I think rates will end up around the 3.20% mark by year end. It's going to be a pretty interesting ride. I wouldn't call it a year of living dangerously, but it could be pretty volatile. There will be opportunities to pick up some interesting assets and to play some cross-currency basis games along the way.

As for how that feeds into issuance, the demand from the supply side is there, so I'm with the consensus on the actual supply side. It will be a fun journey, I'm sure.

DESMOND HOW, GAOTENG: I think we're still in the last phase of a bull cycle. Macro events out there are not catastrophic enough to cause a turn this year. So, I will predict spreads to tighten. Right now the JACI is at 228bp, and we'll probably see that tighter over the year. Long rates are anchored around 3% and the rating trajectory should be positive as we're now seeing synchronised growth – as Michael said.

I'm pretty constructive. I think we can go down the curve to maybe the frontier economies to pick up some extra yield, but I am cautious about the timing of entry. I think this year will be marked by a few bouts of volatility and you're going to have to pick your spots.

PAUL AU, CMBI: My view is you're probably going to see a bit more supply. I've been telling people to expect US$325bn, so a 5%-10% increase from last year. I think 10-year rates are probably going to go beyond 3%. If you look at credit spreads, I do think it's going to compress this year, just because people will be chasing yield, and as a result people will be putting a lot of money to work.

IFR ASIA: YOU'RE GOING TO BE EVEN BUSIER. VERY GOOD. HOW ABOUT YOU, CLIFF?

CLIFF TAN, MUFG: Well, maybe I'm just saying this because I don't have a dog in this fight, but I'm more bearish on rates. We haven't talked about it yet, but I'm expecting the US fiscal deficit to blow out a bit and to easily hit US$1trn in the next fiscal year. I can see the 10-year higher than what Paul is saying by the end of the year, if we get the four hikes.

We had a very uni-directional year for currencies in 2017, but I just really find it very difficult to believe that we're going to have a second uni-directional year. There's going to be some interesting volatility.

I think Trump is going to be worse than expected. I think his execution on policy is going to be worse than expected, because the quality of people around him is going down. And so the market is going to keep pushing this weak dollar story. But I would predict at least two significant dollar rebounds during the course of the year, just because that trade is so crowded.

China seems to be doing some possibly positive things in terms of dealing with its troublesome debt problems. Since the Party Congress, trend credit growth has slowed down, that's for sure, but we don't really know what's going on with the (SOE) restructuring. If it's positive, I'm going to turn more positive on China later in the year. But if it's just more refinancing, our prediction has been that credit troubles will re-emerge in the second half of this year. I'm talking about credit spreads in China widening back to wider than they were in the second half of 2017.

MICHAEL TAYLOR, MOODY'S: Well, I'm in a slightly unusual position here. I'm usually the bear in the room! I think we are late in the credit cycle, but we're not at the end of that cycle yet. We've been talking about how this is a slightly extended cycle because of policy and QE, and I suspect for most of this year we are still going to see a continuation. There will be more volatility, I think, as the year goes ahead. But I doubt if it's going to be sufficient really to derail the fundamentally benign scenario that we expect for 2018.

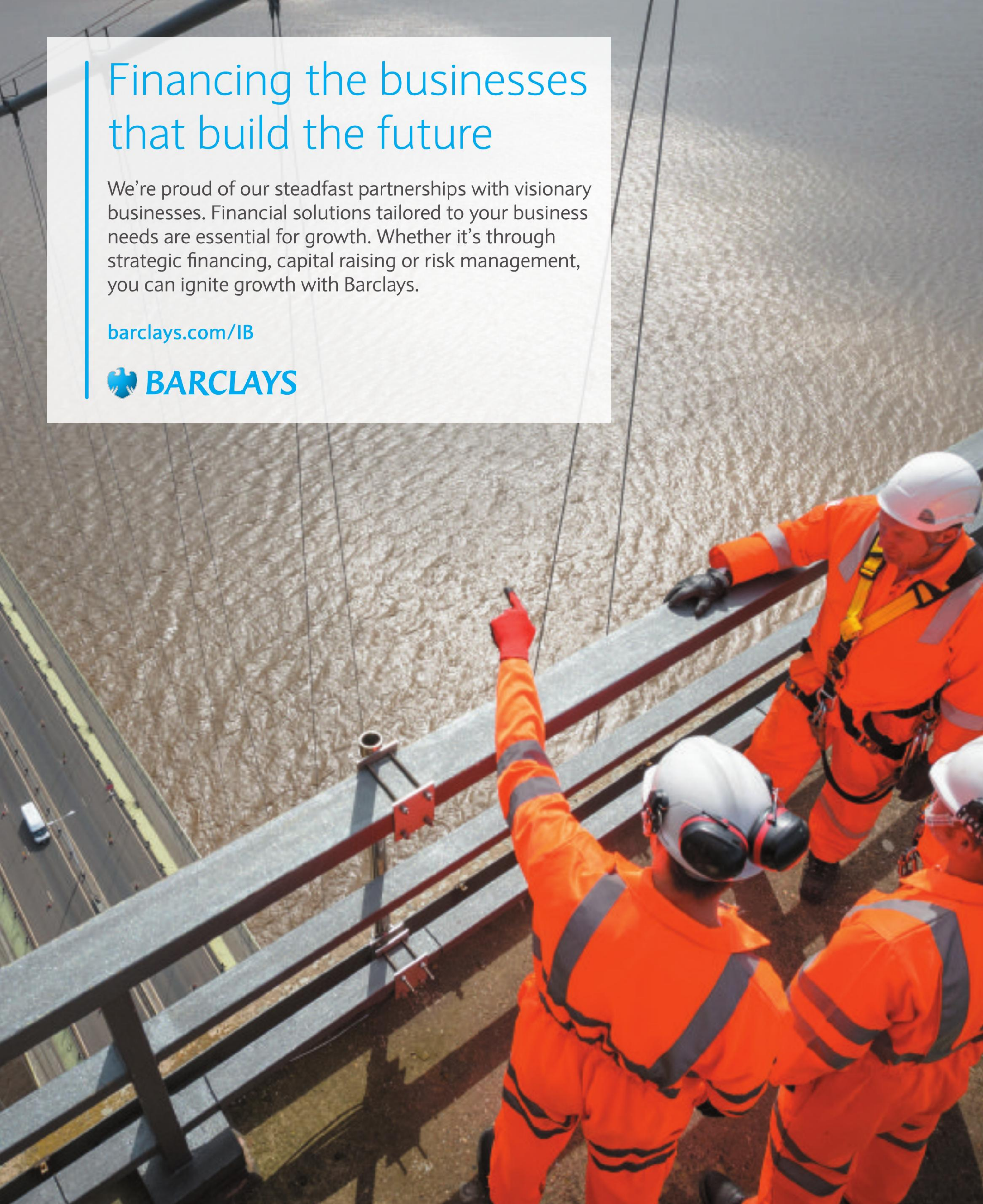
We don't have any kind of projections on issuance, but I think we will continue to see quite strong volumes this year. Some of that is down to China. If credit conditions domestically remain as tight as they are at the moment, we're going to see more offshore issuance throughout the year.

We have predominantly stable outlooks across the Moody's rated portfolio. Negative outlooks peaked at the beginning of 2016, and they've been on a downward trend ever since. For 2018, our outlooks are basically stable across the great majority of the portfolio. So, again, I don't really see a big change there.

Like Cliff, I tend to see the glass half empty. Part of my role is to remind my colleagues of the downsides, and I think it is worth keeping in mind that the volatility story could be greater than we anticipate in our baseline projections. That could then start to have some real economic effects.

Protectionism could become a rising risk this year and I think that would disproportionally affect Asia. Politics do play an increasingly important role, and we have to be increasingly conscious of the political risks and the risks of policy change. Will those downside risks materialise during the course of 2018? I'm not sure they will, but I think if we gather around this table in 12 months' time, some of those downside risks may be a bit more apparent as we look out at 2019.

IFR ASIA: IT SOUNDS LIKE WE HAVE AN INTERESTING YEAR AHEAD! GENTLEMEN, THANK YOU VERY MUCH FOR YOUR INSIGHTS.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