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INTERNATIONAL FINANCING REVIEW ASIA **ROUNDTABLE**

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OUTLOOK FOR ASIAN CREDIT

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FOREWORD

The outlook for Asian credit has rarely been brighter. The first quarter of 2017 was a record for international bond issues from Asia, beating the previous three-month record by 25%, and high-yield offerings are booming.

Supply and demand are nicely balanced: investors are hungry for assets, and issuers want to lock in long-term funding and sell riskier products while appetite is high and rates are low. Most market participants expect a fairly benign 2017, which will drive Asian new issues to new heights.

IFR Asia's Outlook for Asian Credit roundtable, held in late February, offered a chance to test the sustainability of this consensus with a diverse mix of panellists from the buy-side and sell-side.

As ever, there are some risks on the horizon. While the panel was confident that Asian bonds would continue to perform well, the uncertain global backdrop loomed over the discussion.

Donald Trump's election as US President has made market predictions especially challenging. On the one hand, his promises of infrastructure investment and tax reform would help the US drive global growth, with positive implications for Asia. But protectionist policies and anti-trade rhetoric are a threat to Asian

exports, and the collapse of a healthcare reform bill in mid-March has raised questions over how many of Trump's plans will make it through Congress.

Then there is the thorny issue of US interest rates. Few expect the US Federal Reserve to raise rates rapidly, and recent guidance from the policy committee has been comforting. That, however, raises the risk of a shock should events fail to live up to expectations. After an extended run of dollar borrowings from Asia's emerging markets, any renewed capital flight brings with it high risks.

External risks are inherently unpredictable, but Asia can take comfort in the development of the regional investor base. Plenty of recent US dollar issues have been distributed entirely within Asia – often exclusively to buyers in Greater China – and regional bond funds are growing fast.

The depth of local liquidity pools was a hot topic at the roundtable discussion, and participants were keen to emphasise the stabilising influence of longer-term institutional investors such as pension funds and insurance companies.

Risks remain, of course, but the outlook for Asian credit is bright. Market participants will expect to make hay while the sun shines.



COVER

A girl plays on a swing during the Hindu festival of Dasain in Kathmandu.

REUTERS/Navesh Chitrakar

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Roundtable participants



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AMTD

William Fung is managing director in the CIO office at AMTD, where he is also in charge of debt capital markets and distribution. He joined AMTD in March 2016 after about seven years at UBS, most recently as an executive director responsible for debt syndicate.

AMTD is involved in investment banking, asset management and corporate insurance brokerage. Its major shareholders are China Minsheng Investment, private equity firm LR Capital, Morgan Stanley and CK Hutchison.



HAITHAM GHATTAS
Deutsche Bank

Haitham Ghattas is head of debt origination for Asia at Deutsche Bank, covering bond and loan financings for sovereign, investment-grade and high-yield issuers. He took on the role in February 2016 and was previously head of high-yield capital markets for Asia. Ghattas has been with Deutsche Bank for 18 years, with over a dozen of those based in Asia Pacific. He previously specialised in high yield and leveraged finance, covering Asia, Japan and Europe.



ARTHUR LAU
PineBridge Investments

Arthur Lau is co-head of global emerging markets debt and head of Asian fixed income at PineBridge Investments, an independent asset manager with US\$82.7bn of assets under management. His remit covers international and local currency bond markets, where PineBridge invests on behalf of institutional and intermediary clients including sovereign wealth funds, insurance, re-insurance, pension funds and private banks with a long-term investment horizon.



DILIP PARAMESWARAN
Asia Investment Advisors

Dilip Parameswaran is founder and CEO of Asia Investment Advisors, an independent fixed-income consultancy advising family offices, multifamily offices and small funds on Asian credit investments. He has spent 17 years covering Asian credit, first with Fitch Ratings as a corporate rating analyst before moving to run credit research at Credit Agricole and then again at Macquarie.



ALAN ROCH
ANZ

Alan Roch is head of debt syndicate for Asia at ANZ, Australia's second-biggest bank by assets. He joined ANZ in September 2015 from RBS, where he ran the bond syndicate desk for Asia Pacific for four years, having earlier worked in emerging market syndicate positions at RBS and ABN AMRO in London.



MICHAEL TAYLOR
Moody's

Michael Taylor is chief credit officer for Asia Pacific at Moody's Investors Service, where he is primarily responsible for thematic and macro research in the region. He joined Moody's in 2013 after a long career in the official sector, having worked for the Bank of England, International Monetary Fund and the Financial Stability Board, among others. Taylor was head of banking policy at the Hong Kong Monetary Authority for three years until 2007.



AVINASH THAKUR
Barclays

Avinash Thakur is head of debt origination for Asia Pacific, covering bonds, loans, high grade, high yield and leveraged finance. He joined Barclays in 2012 and was promoted to head of origination in 2014. Before joining Barclays, he worked with Citigroup, Deutsche Bank and Merrill Lynch and has spent a total of 20 years in the Asian debt market.



STEVE GARTON
Editor, IFR Asia
Roundtable chair



IFR ASIA: WELCOME. MICHAEL, WHERE ARE WE IN THE ASIAN CREDIT CYCLE AT THE MOMENT, AND DO YOU THINK THAT'S JUSTIFIED?

MICHAEL TAYLOR, MOODY'S: We've been saying for several years that Asia has some pretty fundamental credit strengths, and I think that view has been borne out by events over the last few years.

We believe those credit strengths are still there, and we're not expecting to see any kind of major negative credit event in the region. But we think that those strengths will be increasingly tested as the environment has become more challenging. There are several reasons for that, and one of those is obviously much greater policy uncertainty.

In this part of the world we've become used to having to speculate about the direction of Chinese policy. We haven't really had to do that the same on the other side of the world.

It is clear that there's a lot of policy uncertainty around at the moment. We don't know really what the direction is going to be under the Trump administration, and that situation is leading to a lot of uncertainty in the market.

Now how does that have a credit effect? Well, our primary focus in the region relates to the risks of rising protectionist pressures. Again, we don't know whether that's actually going to play out, but rising protectionism is certainly a risk to the region given that many of the economies in the region still have quite high export dependencies.

We've seen Asia grow very strongly over the last 30 years on the back of globalisation and a more liberal global trading regime. If that goes into reverse, what is the impact going to be on Asia? That's something that we're very much focused on.

Then there are some shorter-term issues in terms of market volatility. Has the market priced in the US Fed's likely action? May we see a steeper series of interest rate rises from the Fed than the

market's currently expecting? That could have an impact.

In Europe, concerns are around trade and politics. I think the extent to which Asia depends on demand from the European Union is often underestimated. It does play a significant role for a number of Asian economies. And if we had some kind of shock materialising as a result of European elections this year – of which there are quite a number – that will also have a spill over effect in terms of market volatility.

Our basic view is still that Asia's credit strengths are in place. This is still one of the fastest-growing regions in the world. If you compare many Asian sovereigns to sovereigns elsewhere in the world in terms of debt dynamics, the situation looks stronger in Asia. We have strong growth, and a relatively good government balance sheet. Central banks have been willing to allow currencies to take some of the adjustment, which again is a big difference to 20 years ago.

There is still scope for additional monetary and fiscal support in several countries around the region if we started to see a slowdown. So those strengths are there, but I think if you look at all the risks, they're certainly weighted towards the down side.

IFR ASIA: HAVE PEOPLE BEEN BROADLY SURPRISED ON HOW MARKETS HAVE REACTED UNDER THE TRUMP ADMINISTRATION? THINGS SEEM TO BE GOING VERY WELL! DILIP, WHAT'S YOUR VIEW ON WHERE WE'RE GOING?

DILIP PARAMESWARAN, ASIA INVESTMENT ADVISORS: As Michael was talking, I was thinking that when we talk about Asian fixed income as an asset class, the glass is always half full. Sometimes it's at 40%, sometimes it's at 60%, but it's never the fullest and it's never empty. I feel that of late the water has been going down in the glass.



“We’ve seen Asia grow very strongly over the last 30 years on the back of globalisation and a more liberal global trading regime. If that goes into reverse, what is the impact going to be on Asia?”

There are a couple of reasons. One is China. Michael talked about the risks that could come from the US, from protectionism, and from Europe, but there is also China. The consensus seems to be that China will grow 6.5% or so this year and then slowly wind its way down. If something happens to that view, that’s an Asia-based risk.

Secondly, when you look at corporate balance sheets, a lot of them have been levered up in the last three or four years. Now that’s again a purely Asian risk. Thirdly, there is the valuation. Given the strengths and the challenges that Asia faces, I think valuations have gotten far ahead of themselves, particularly in high yield but also to some extent in investment grade.

It is still liquidity that’s driving markets, and issuers are of the opinion that they should take the money when they can. Who knows what’s going to happen? It’s not about whether we have two or three rate increases this year; it’s more about the non-priceable risks. What might Trump do? What might Europe do? What might happen to the Chinese economy? So I think the issuers’ mentality is to take the money when it’s there.

IFR ASIA: ARTHUR, LET’S ASK YOU THEN: ARE INVESTORS GETTING A FAIR DEAL AT THE MOMENT FOR THE RISKS THAT THEY’RE TAKING ON?

ARTHUR LAU, PINEBRIDGE: I guess it depends what kind of fixed-income investor you are asking. I agree, as Dilip and Mike described, that the current scenario may not be too friendly for investors looking at short-term opportunities. Judging from what we see, actually the longer-term, traditional fixed-income investor quite likes the current environment.

In the past cycle, interest rates were so low, so it was very hard for them to find good enough investments to back their liabilities or their products. Now rates have risen, and that makes their life easier – as long as there’s no sharp uptick in inflation. The current environment is actually quite conducive, in my view.

Of course, valuations are very stretched, but the Asian bond market actually offers a very good Sharpe ratio because the volatility is very low. This asset class compares very well with the US based on the volatility on a total return basis. It’s not purely about yields. We have seen even European investors increasingly looking at the Asian market.

I think fundamentals are quite steady. The downside risk certainly is higher than the upside in my view because of the policy uncertainty – be it in the US or in China. That is the big risk in the market, but basically we are paid to take risk.

Dilip mentioned the leverage. Apart from the high-yield sector, I don’t see any particular concern about the high leverage at the moment – especially if growth is picking up.

The trouble we have is about the valuation. The valuation is not super attractive, so you really need to look for transactions that are more conducive than others. You need to stay away from the sectors that may be laggards if the market continues to perform.

If you talk about the Sharpe ratio, we try to avoid those sectors with a lower Sharpe ratio.

WILLIAM FUNG, AMTD: I share a similar sentiment to Arthur with regards to valuations. Looking at high yield, today’s Single B credits are probably talking about 6% or 7% yields. If you’re lucky you’ll get 8% or 9%, but those credits were in the double digits two or three years ago.

I think the Asian market is much more technical than the more developed markets in the US and Europe. In our markets there are a lot of momentum trades, and there is a lot of Chinese money that has been increasing in the past few years. If you’re a European or Japanese investor you’re facing negative yields, so looking at Asia is very attractive. For US money managers, Asia may not be so appealing.

A lot of us, including ourselves, have seen a lot of influence from Chinese clients. They are obviously dictating quite a bit of market performance in the past couple of years and how it will perform in the next two years. Capital controls are limiting the impact, but there’s still a lot of money from Chinese clients that is bidding up all these Chinese credits. You think they’re expensive, but there’s still money to be put to work, and it will only get more expensive if you don’t buy now.

The primary market has obviously been pretty good. We have seen a lot of high yields deals perform very well. Single B debt pricing at 6%–7% still trades up 2–3 points in secondary. There’s still ongoing buying from Chinese accounts or private banks.

Valuations obviously look stretched, but I think it’s situational. At the moment we still see pretty good value in some high yield credits and some investment grades. Obviously you need to pick your fights, but we see the deals as fairly positive on this.

ALAN ROCH, ANZ: We’ve mentioned the concerns after the US election, and the market did get quieter in that period as people were worried about fundamental shifts in policies. The reality is we’ve had a very benign market environment so far this year, 10-year Treasuries have traded in a 25bp–30bp range. We haven’t had the type of rate volatility that people expected.

We’ve had a great bull run in equities, whether it’s in the US or here in Hong Kong. So the markets are not really seeing the negative ramifications so far. To go back to Trump, his restatement of a “One China” policy relieved the market.

To William’s point, one of the main differences when we do new issues here in Asia versus elsewhere is the type of investors who place big orders and support deals in secondary. A lot of the local payers have what we call Asia dollars, and are to some degree less sensitive to what could happen elsewhere.

So the risk of an exodus of dollars from the region back to more developed markets is less of a concern than perhaps it was in the past.

IFR ASIA: SO IT’S A PRETTY GOOD TIME TO BE A BANKER, ISN’T IT?

HAITHAM GHATTAS, DEUTSCHE BANK: Absolutely. If you look at Asian credit markets, clearly you have structural growth in many of the underlying economies which is driving the need for debt capital and driving demand from an issuer standpoint. Corporates want the access, they want deeper liquidity pools. They are growing, they want access to that capital.

More importantly – and it’s been touched upon already – the evolution of the Asia buy-side universe is incredibly important. William mentioned the greater demand and flows from Chinese investors, and you’ve also seen regional funds, hedge funds growing dramatically over the past few years.

The ability to raise financing within Asia has dramatically improved, and that gives an issuer certainty that it can access a deeper pool of capital.

We’ve seen the overall G3 market more than triple in size in the past eight years in Asia. However, I would almost say that despite that enormous structural growth, the amount of money looking to be deployed from traditional fund managers, private wealth and newer outbound funds is still at this point overwhelming the pace of supply.

IFR ASIA: TO WHAT EXTENT IS IT DISTORTING THE MARKET? IS THERE A RISK THAT THERE’S JUST TOO MUCH MONEY CHASING TOO FEW ASSETS?

HAITHAM GHATTAS, DEUTSCHE BANK: If you compare Asian markets to their US counterparts – whether it’s investment grade or high yield – we are still a long, long way away.

In many respects Asia’s debt capital markets are still at a nascent point in their development, and I think it’s only natural that we’re going to see some ups and downs. We’re going to have periods

where there’s more supply than demand and vice versa.

Right at this moment, yes, it is a little bit of a sweet spot for the markets. You have a fairly benign environment: volatility is low; Treasuries are range-bound; technicals are very strong. High yield issuance in Asia is up 300% year on year. There’s really no pushback at the moment.

Europe typically is four or five times the size of our market, but this year to date the two have issued about the same amount of paper. So, yes, the current environment is very positive, but as you’ve heard from Arthur and William, investors still see value in it and that goes somewhat to the positive fundamental outlook that investors have on this region.

ALAN ROCH, ANZ: It’s obviously positive that our markets are increasingly being supported by money within the region. Investors in the region have a better understanding of local credits and, to Arthur’s point, the Sharpe ratio in our region is actually lower.

I don’t think it’s a matter of too much money chasing the wrong assets at the wrong levels, otherwise we would have experienced more volatility than in other regions. I think it’s more likely to buffer any exogenous shock just by virtue of the increased amount of money at the disposal of the markets.

Again, when you look at US\$200bn of annual issuance in dollars from Asia, it’s a small number in the context of Europe or the US.

IFR ASIA: I REMEMBER WHEN US\$40BN IN ASIA WAS A GOOD YEAR.

MICHAEL TAYLOR, MOODY’S: Just to follow up on one of the points that Haitham made on the importance of the regional liquidity pools. We’re certainly seeing that from our side as well. One point that does deserve reinforcing is that the level of market development in





"I think fundamentals are quite steady. The downside risk certainly is higher than the upside in my view because of the policy uncertainty – be it in the US or in China. That is the big risk in the market, but basically we are paid to take risk."

Asia is clearly not at the same level as it is either in Europe or in the US.

From a ratings perspective a lot of our outreach is about explaining to investors what is a credit rating and the role that it plays. That is a market development opportunity for us, but it's a process that my colleagues in Europe and the US probably don't have to go through. Here, we're still at that sort of market development stage.

AVINASH THAKUR, BARCLAYS: The Asian markets are coming of age in terms of being self-supportive. The first deal after Trump's election globally was in Asia. An Asian issuer going out the very next day after the election is something we wouldn't have seen even two years back because Asia was more dependent on investors in the US and in Europe. Now we have a lot of liquidity, especially from the Chinese investors and foreign investors who have set up big operations in Asia. You can do a deal just based on Asian liquidity alone.

IFR ASIA: WE'VE SEEN A LOT OF US DOLLAR TRADES WHERE THERE'S NO US INVOLVEMENT WHATSOEVER, AND VERY LITTLE EUROPEAN PARTICIPATION.

AVINASH THAKUR, BARCLAYS: In fact in a lot of the recent transactions now we don't even go to London for our roadshows. It's only Singapore and Hong Kong. So that shows that you don't really need any outside funding. We can be self-sufficient here in Asia.

From the supply perspective I agree with some of the comments so far. But I disagree with the fact that Asian markets are getting very levered. I don't see that. When you look at most of large corporate balance sheets, they're sitting very light. And if you look at the size of the credit markets compared to GDP in countries like China it's still a long way to go before they get anywhere close to where the western world is.

So I see a lot more activity coming out of these markets. Our research also expects about US\$200bn of supply but if you look at the GDP of this region, US\$200bn is minuscule. Asia is still largely a bank

market, and the transition to the bond side is happening over time. I won't be surprised if Asian markets in the next five years are almost 40% of the global markets. We are less than 20% right now. I see that going up to 40% over the next five years.

ALAN ROCH, ANZ: Just a quick stat while we are talking about the Asia dollar. So far this year only 15% of dollar deals from Asia have been in 144A format. If you disregard the sovereigns, that percentage gets chopped down. That reinforces the point about who is holding this paper.

ARTHUR LAU, PINEBRIDGE: I think one important point to understand is that the investor diversity in the Asian market is similar to other developed markets. It's not just institutional, I'm talking about retail and private bank clients. After the financial crisis in 1997 in Asia or the credit crisis of 2008–09, people realised that fixed income actually is a very viable asset class in their portfolio, unlike the long Asian bias for equity.

So you actually have a growing investor base chasing an asset class that is not growing as fast. I think that is a fundamental structural shift. People think that the fixed income market is doomed because of rate rises or volatility, but I was joking with some of my colleagues about our longevity in the industry and I'm still around! Sentiment has changed, and people are chasing steady incomes.

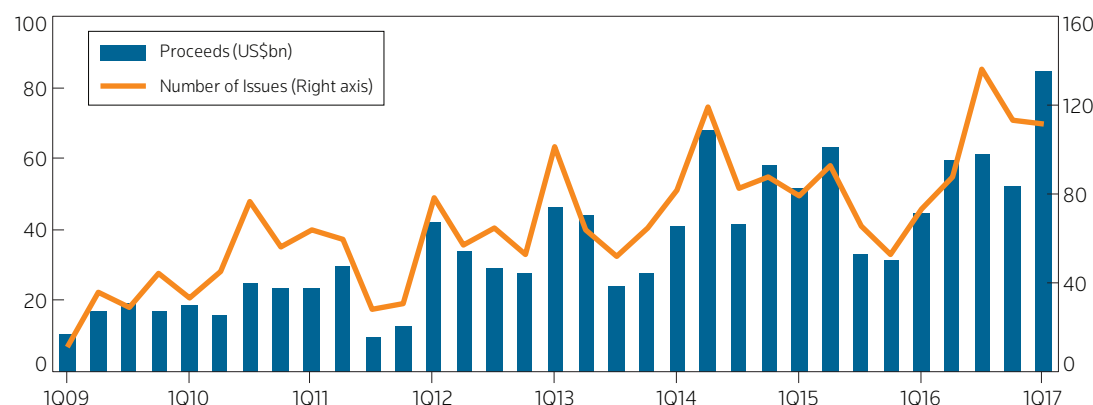
AVINASH THAKUR, BARCLAYS: That's likely to happen as the economy starts to mature. We've talked about China growing at 6.5% and the concerns around that, but just imagine 6.5% in a global context. It's a good growth number!

The markets are getting more mature. I'm not worried about any of the known risks about China slowing down or issues as such as what happens with the elections in Europe. I think only risk to the market will be in terms of something unknown – if we are again hit by something which nobody has foreseen.

ALAN ROCH, ANZ: Maybe an additional point about

HIGH HOPES

RECORD QUARTER FOR INT'L HIGH-YIELD ISSUES FROM ASIA



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liquidity. We're definitely seeing Asia buyers now looking elsewhere. We're seeing that now in Australia very clearly. They look to buy investment-grade bonds in Reg S-only format in Australia, that's a new theme. We've seen non-Asia bank capital deals being done with strong Asian support. We have Taiwan buying US corporate in the Formosa market. We saw a financial institution yesterday doing a good Singapore dollar deal. So this investor base is not only focusing on Asia, it's also looking elsewhere.

IFR ASIA: CALLING A TOP IS ALWAYS TRICKY, BUT WE'VE HAD SOME TOP-OF-THE-MARKET TRADES RECENTLY. YOU THINK ABOUT THE ROAD KING FIXED-FOR-LIFE PERPETUAL, OR THE HIGH-YIELD BOND FROM BUMA, WHICH RELIES ON A COMPANY THAT'S IN DEFAULT FOR HALF OF ITS REVENUES. THESE ARE AGGRESSIVE DEALS, AREN'T THEY?

WILLIAM FUNG, AMTD: It's also about the availability of options. If you have a fixed income fund and you have inflows, you cannot be sitting there with 10%, 15% cash. You still have to invest. To Arthur's point again, we're paid to take risk. If you're just going to buy US\$200m in a private placement and sit there until maturity then our investors don't need us. They can talk to the issuer, strike a deal and get a 6% coupon from a Chinese local government vehicle for three years.

EM funds are still seeing inflows, and Asian fixed income in fact has been performing very well in the past two or three years. So a lot of us still have cash to deploy even though things are toppish, but it's not that we have a lot of options.

Liquidity in Asia is still very thin. Everybody is chasing the same thing. It's always one way, with everybody buying the same two

or three bonds. The global banks have their hands tied in terms of making markets, so you have one pool of Chinese money chasing Chinese credit and everything moves one way. It's hard for the market to normalise that.

HAITHAM GHATTAS, DEUTSCHE BANK: Steve, you cited a few transactions. Clearly, there is a reach for yield. The supply-demand dynamics that are currently being exhibited in Asian markets – in particular in high yield – show there is this huge amount of liquidity that is available and this need to invest that William talked about, and less and less product able to deliver yields of 7%–8% plus.

That obviously makes for a favourable environment for issuers that may have more challenging credit profiles, or may be looking at more challenging structures.

On the other hand, these deals are getting placed very successfully, which might be slightly surprising to market participants on a fundamental basis but again seems to demonstrate the current insatiable appetite for yield.

AVINASH THAKUR, BARCLAYS: One interesting point about Asian markets compared to what's happening in the US or Europe is that the duration-adjusted supply in Asia is still very small. That plays out in the yield, and that plays out in everything that investors do. Asian issuers are still borrowing at five years, or 10 years in rare cases. If you look at the US markets now, issuers are going out to 15 to 30 years or even longer.

DILIP PARAMESWARAN, ASIA INVESTMENT ADVISORS: Talking about liquidity, some people mention the support from private banks. I've been maintaining a database of all new issues and I think the



“Valuations obviously look stretched, but I think it’s situational. At the moment we still see pretty good value in some high yield credits and some investment grades.”

allocations to private money reached its peak three years ago at about 16%. Since then it’s fallen to single digits. Last year it was 7%. So I don’t think that’s really the one that’s supporting liquidity and demand for Asian bonds. On the other hand, Asia last year subscribed to 75% of all new issues, up from 65% the previous year.

What the data doesn’t show is the role of China in all this. On the supply side, 60% of dollar bonds from Asia last year came from China. On the demand side, I think a lot of that is from China as well, as William mentioned. A lot of LGFV bonds have been placed within the Chinese bank universe.

The growth of the Asian dollar bond market is making us believe that it is now maturing and has enough liquidity to support its own issues. But if you take China out of that equation then I think the picture is not going to be that comforting.

MICHAEL TAYLOR, MOODY’S: Has there been a noticeable impact on the flow of Chinese money as a result of capital controls?

ALAN ROCH, ANZ: That’s a question we ask ourselves as well, and something we monitor. So far this year we are not seeing this at all in the new issues that we’ve run. The level of support that Dilip describes is very much still the case today.

HAITHAM GHATTAS, DEUTSCHE BANK: In a way the uptick in offshore issuance is also being driven by the reversal in conditions in the onshore markets. Go back 12, 18 months and you have extremely compliant onshore markets, with funding levels way inside what you can achieve in the US dollar markets even on a swapped basis. Since then you’ve seen a complete reversal, and that has obviously driven Chinese borrowers offshore.

It’s also interesting that Chinese borrowers now have to formally seek permission to come to the offshore markets. The NDRC approvals do seem to mean that we’re avoiding some of the situations that we had a few years ago, when you could have four or five borrowers in the market on any one day. We saw this type of market crowding when conditions were very good. So arguably a more measured and steady flow of issuers is helping the structural dynamic of the market.

DILIP PARAMESWARAN, ASIA INVESTMENT ADVISORS: In the last two months, local Triple A yields in China have gone up by roughly 100bp and local Double A yields by about 150bp. Twelve to eighteen months ago, many offshore borrowers – property companies and so on – were voluntarily raising money onshore because funding was cheaper there. Now it’s the reverse.

AVINASH THAKUR, BARCLAYS: I think regulators in China this year will be much more open to external borrowings. I think a lot of what happened with the NDRC and the gatekeeping last year is going to change this year. We are already seeing evidence of that.

The NDRC is very focused on getting the right kind

of issuers out, so they will encourage the large state-owned entities to go and borrow more in the dollar market.

IFR ASIA: WHEN WE TALK ABOUT CHINA BUYING CHINA, HOW MUCH OF THAT MONEY IS ALREADY OVERSEAS? THE CHINESE BANKS HAVE RAISED A LOT OF INTERNATIONAL MONEY THAT THEY NEED TO REINVEST.

ARTHUR LAU, PINEBRIDGE: If you’re talking about the Chinese banks as investors, of course, they need to invest. I understand the Chinese banking community is also actively involved in the debt market, but they are focusing on shorter tenors than we are – like up to five years. Some banks also focus on credits where they are already lending money.

You can see that strategy as part of the onshore-offshore dynamic. There are many factors that influence this, and some are more relevant to particular sectors.

I mean what Dilip is saying about the onshore curve rising is partly because the central government is encouraging more defaults. It is a natural tendency that credit spreads should rise, and I personally think that the credit spread has not risen enough to compensate for the risk.

At the same time better companies will come to the offshore market, and it’s a part of the reform process in my view. The issuers need to learn about how the international capital market functions, and at the same time the central government also want to leverage this international experience to bring the domestic market more in line with the international standard. I think in that perspective it’s a positive.

DILIP PARAMESWARAN, ASIA INVESTMENT ADVISORS: Steve, you mentioned that there is enough liquidity in the Chinese banks, and so there’s no problem for Chinese issuers to issue offshore bonds. That is true, but it also distorts the credit selection a little bit. Look at the unheard-of LGFV names that have come to market. Would international investors have bought all these bonds without the Chinese banks’ support? So the credit selection I think gets a little bit distorted here.

ALAN ROCH, ANZ: On the LGFV point we’re witnessing a little bit of a change in investor appetite. For sure the foundations of these transactions lie with the appetite of Chinese banks and with Chinese money, but as these bonds make their way into various indices, we’re starting to see funds participate in those transactions – selectively, but more so than one would have thought.

AVINASH THAKUR, BARCLAYS: I agree with Alan on that. Late last year there were a lot of LGFVs issuers who came to the market because they had to get a deal done before their approvals expired at the end of the year. At the time, the market was slow, so those were supported largely by Chinese investors. But when we look at the LGFVs this year we have very broad-based support.

Some of them are very good credits. If you do a fundamental analysis of the credits, there's no reason why international investors in the long run would shy away.

IFR ASIA: THERE ARE DEFINITELY MORE DEFAULTS IN CHINA NOW. MICHAEL, HERE'S A QUESTION FOR YOU: WHEN YOU LOOK ACROSS THE CHINESE ISSUERS THAT YOU RATE, IS THERE A MARKEDLY HIGHER DEFAULT RISK TODAY?

MICHAEL TAYLOR, MOODY'S: Well, what we've been saying for some time is that we expect credit to become more differentiated. A couple of years ago there was a view that basically all Chinese issuers would be supported. We don't think that really holds anymore.

When we look at default risk in China, it's really to what extent do we expect these credits to be supported. The way that we've looked at it is first of all how close is this credit to the central government? There's a difference between a central government SOE in a key strategic industry and an SOE that's owned by a provincial government or one of the lower-tier regional governments.

Then there's also a question in terms of what sort of industries are they in, which sort of sectors are they in. Again, if we're talking about an SOE that's in a key strategic industry, we still expect high levels of support. If we're talking about an SOE in a commercially competitive sector or a sector in which the authorities are now trying to reduce overcapacity then the default risk is higher.

Our view is that there's a much higher likelihood of default as you move through the lower tiers of government and into more competitive sectors. The whole policy has been towards trying to reduce implicit guarantees and introduce more market-based principles.

IFR ASIA: WHEN YOU LOOK FORWARD, HOW CONFIDENT CAN YOU BE THAT THAT IS NOT GOING TO CHANGE? THOSE INDUSTRIES NOW FACING OVERCAPACITY WERE KEY SECTORS 5 OR 10 YEARS AGO.

MICHAEL TAYLOR, MOODY'S: I think we're confident enough over the time horizon of our ratings, which is usually 18 months to two years. Obviously it's a very fast-changing environment, and over the last several years there have been a series of policy announcements with a direct impact on likely government support.

Right now we are seeing a fairly clear direction in terms of expecting more defaults and less support for selected industries and for selected sectors. That much is clear, and that really does change the way that the market has thought about China credit. Until a couple of years ago I think most investors expected the Chinese government to support everything.

ARTHUR LAU, PINEBRIDGE: I think last year the central government reiterated that that was no longer the case. For some of the new LGFV loans or bonds, you should not assume that there is a guarantee or an implicit guarantee. Buyer beware, basically. I agree that some of the LGFVs actually have a viable business model. They have cash flows. For those you can check the independent credit assessment rather than buying it because of a government guarantee.

IFR ASIA: HOW MUCH DO YOU WORRY ABOUT POLICY CHANGES? HOW FAR AHEAD CAN YOU LOOK?

ARTHUR LAU, PINEBRIDGE: I'm sure all these gentlemen around the table have enough experience to know that Chinese policy is always changing. That's a risk you face even if you're not investing in China.





“The ability to raise financing within Asia has dramatically improved, and that gives an issuer certainty that it can access a deeper pool of capital. We’ve seen the overall G3 market more than triple in size in the past eight years in Asia.”

Of course if you understand the policy dynamic it will be easier for you to cherry pick the best sectors in the near to medium term. In my view even those LGFVs that may not have a viable business model should be OK in the near time because the government needs to open up the market for this sector.

IFR ASIA: BEYOND CHINA, DO WE SEE BIG OPPORTUNITIES IN OTHER MARKETS AT THE MOMENT?

HAITHAM GHATTAS, DEUTSCHE BANK: We continue to be very, very constructive on the general expansion of the Asian debt capital markets. India in 2014 had a big breakout year for high yield, and we’ve seen further developments in that market over the last 12 months. I think that’s going to be a continued area for strong growth. You’ve seen a few deals this year that have been well received by the market, both from repeat borrows as well as first-time issuers.

We remain very constructive on India as a source of new high-yield borrowers and we think it’s a natural evolution that more and more of them will come into the international markets.

Just tying back to an earlier question on default rates, we’ve also got to bear in mind just where we are in the default cycle.

There’s a reason why the market is willing to support deals at the levels that’s we’re seeing. If you look back over the last 12 months, you can pick 8 to 10 high-yield names that were trading in the 30s and 40s. Probably 7 of those today are now trading at par and only one is in default.

For all the concerns and the risks that we all acknowledge, actual default rates have been very, very low. To some degree it’s a function of the structure of the markets here in Asia, with very strong domestic bank liquidity, domestic bond market liquidity. The ability for companies potentially to raise equity or bring in external funding is very supportive compared to other developed markets, where individual companies are more dependent on one source of financing.

WILLIAM FUNG, AMTD: I think Haitham’s point is interesting. As a disclaimer, we invest very little in the distressed space, but we’re getting a sense that the onshore banks right now have a lot of liquidity and that’s why we’re not seeing a lot of defaults, especially in China.

They may be willing to bail them borrowers because they were asked to support an important source of GDP or a big taxpayer. Or they have a very good relationship, or very good assets so banks are willing to lend.

I think that is a two-edged sword, because one concern that we have is the availability of leverage. I agree that at the corporate level leverage is actually decent and healthy. But if you look at the market as a whole, we are seeing more and more investors using leverage just because Chinese banks and foreign banks are developing this business. There’s a lot of structured products being put into the market. The Chinese banks are very active in this space both from a lending perspective and also on the receiving end of using this leverage.

At the moment obviously the banks are willing to lend. My concern is what happens when they are unwilling or unable to rollover this leverage when the time comes, and then people are forced to sell.

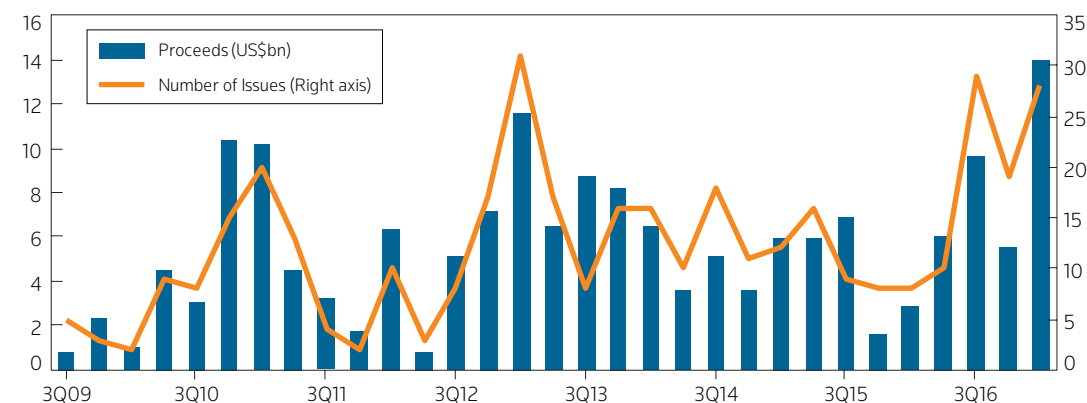
There was a moment last year when we saw Chinese AT1s dip a little because we heard a few big leveraged notes were not rolled over and then they were forced out. After a few days people started picking them up in secondaries and now they’re trading very well.

My concern is that there is a lot of leverage in the system. If the yields on low Single Bs are only at 6%–7%, people chasing double digit returns need to lever up. What happens if this leverage game starts to end? Then we’ll see a crashing of the market for sure.

HAITHAM GHATTAS, DEUTSCHE BANK: In some ways that raises the point around how issuers place notes into the market. Over the lifespan of these companies, it’s important for them to cultivate deep institutional relationships – whether that is within Asia or globally through 144A issuance. Ultimately that is a form of protection for the issuer because they become much less reliant on sources of capital which

RECORD QUARTER

ASIAN G3 BOND ISSUES SOARED IN 1Q 2017



Source: Thomson Reuters, SDC code AR2



are more dependent on leverage and perhaps are more likely to come in and out of the market.

To my mind, while we continue to be very encouraged by the overall deepening of the Asian liquidity pool, what is most encouraging is that the core institutional buyer base is growing very rapidly. I think those issuers that really spend the time with that core investor base, both at the time of issuance and in the future, will ultimately be in a stronger position in periods of market turbulence.

IFR ASIA: DO ISSUERS NOW DELIBERATELY UNDER-ALLOCATE THESE MORE LEVERAGED FUNDS? DILIP MENTIONED PRIVATE BANK ALLOCATIONS HAVE GONE DOWN.

AVINASH THAKUR, BARCLAYS: I think it's a deliberate strategy. We haven't seen any reduction in interest from the private banks in the transactions that we've been managing. There is a very focused approach from the issuers to look at investors who can stay with them in the long term.

They're spending time with investors much more than they did before. You see companies going out to talk about their credit with the right investors. If you look at the quality real money, the way we would define it, the allocation has been going up steadily over time.

ALAN ROCH, ANZ: I'd agree with that. I think for any new issue there's a right mix of investors. A long-term relationship with fund managers and institutional money is beneficial to issuers, and I think they have that at the forefront of their mind when they look at allocations.

We're seeing more and more interest from these private banks in

bond deals, whether it's local currency markets or dollars, but there is merit for an issuer to cultivate those long term relationships with institutional buyers.

IFR ASIA: THEN THE FOLLOW UP IS THEN DOES THAT CHANGE THE WAY THAT DEALS GET BROUGHT TO THE MARKET AT ALL? ARE WE GOING TO SEE LESS OF THESE TERM SHEETS WITH JOINT LEAD MANAGER INTEREST AT THE BOTTOM OF THE PAGE?

ALAN ROCH, ANZ: I think there are two answers to that. One of course is around who ultimately gets allocated bonds. Also the reason you're seeing this statement more now than before is because the disclosure requirement in terms of the composition of the order book is different today than it was in the past.

It's not necessarily a sign that we're seeing more JLM interest in deals today than before. It's just that today you've got to be very upfront in acknowledging it.

IFR ASIA: ARTHUR, FROM THE INVESTOR SIDE, DO YOU GET THE DISCLOSURES AROUND NEW ISSUES THAT YOU NEED?

ARTHUR LAU, PINEBRIDGE: Actually what I really need is more time. The market dynamic that we're describing is so strong, and I often find I just don't have the time to understand the credit a little bit better.

Of course in terms of documentation, you know what to expect in the prospectus. For high-yield issues we would love to spend a little bit more time to understand the structure. In the old days I did get a chance to bargain with the bankers around covenants, but now it seems there is no time because all the buyers are chasing this paper. I think that process could be improved somewhat,



"In fact in a lot of the recent transactions now we don't even go to London for our roadshows. It's only Singapore and Hong Kong. So that shows that you don't really need any outside funding."

especially in some hot deals. I remember one situation where instead of a 1-on-1 meeting we got 14 on 1, with 14 investors facing the issuer. It's not unusual in my field.

I don't know whether I'm allowed to ask this, but can we have a little bit more advanced notice about roadshows? Or would the issuer be kind enough to spend a little bit more time with us? Spend one more day in Hong Kong or in Singapore, not just half a day in both.

In some deals we are not able to participate in a much bigger way because we were not able to get the right answer to some of our questions. I can give you an example. On one of the recent investment grade Malaysian deals, we were able to speak to the issuer in a private session after the roadshow. We actually put in a very good order because we were able to clarify some of the questions that we wanted to address.

I think I can speak on behalf of some of my peers on the investor side. They have a similar challenge. They would love to participate but they have spent too little time with the issuer.

IFR ASIA: I MEAN ACTUALLY WE DON'T NEED TO GO TO LONDON ON THESE ROADSHOWS ANYMORE. WE CAN DO ANOTHER DAY IN HONG KONG.

AVINASH THAKUR, BARCLAYS: Our objective – and I'm sure other bankers here would agree with me – is always to try and get the issuers to spend time with investors. For first-time issuers we do investor marketing well ahead of any issuance.

We are definitely very keen for investors to get their time to look at the credit. There are some issues with that. One is, unlike a few years ago, these exercises don't always achieve much because you don't get the feedback you would get in the past. Maybe it's a function of the volume that we're seeing in the market today, but the question is whether you really need to add to the issuance timeline.

Another issue with any marketing or any credit explanation ahead of an issuance is that you can't involve too many investors. The regulations are much well defined today and you have to do wall crossing of investors before you disclose information. So you have to depend on a very small set of investors and that in some ways defeats the whole purpose because you're getting feedback from very few investors.

The objective is very clear: we want investors to get more time, but there are issues to deal with when you try to do that.

HAITHAM GHATTAS, DEUTSCHE BANK: I completely understand where you're coming from, because when I see roadshow schedules these days, the small group meetings are no longer really small groups at all!

In a way it's a function of how the Asian investor base has developed. We have seen a proliferation of funds that were managing perhaps US\$200m–\$300m two or three years ago and would have been very happy coming to a luncheon, and suddenly they're running US\$1bn.

It's a balance. The banks really do want to give investors time to do a deep dive into the credit. On the other hand you've got limited management time and a tight market window so we have to prioritise. I think it's going to continue to be a struggle just because there are so many market participants.

In the US or European market the smaller investors are typically quite comfortable listening to the management team at a lunch. In Asia, we've evolved in such a way that now everybody needs to be in a group meeting and it's become a little dysfunctional.

I think there's room for improvement there. Ultimately, I think again the overriding positive is the depth and the variety of investors who want to actively participate in these transactions.

ALAN ROCH, ANZ: From the bank standpoint, we have a responsibility to the issuer, and the issuer's incentive is obviously to announce a transaction and price as soon as possible. At the same time we have a duty of care to investors and to making sure they have the proper time to do their due diligence.

I'm of the view that there are some transactions where we should spend a bit more time on the road. You mentioned a few of these high yields. In some of these specific instances the company was very quick in dealing with questions and that translated into a super-high hit ratio between investors at the roadshow and those placing orders.

In the meantime, there are some regular issuers that still insist on doing roadshows and, quite frankly, these are no longer required. People show up for them and it's more of a distraction than anything else. So perhaps there should be a bit more discipline on the banks' side on spending more time with those projects that really require it.

ARTHUR LAU, PINEBRIDGE: I absolutely agree. It's a difficult balance, and I fully appreciate that.

It's not just on the meeting side, but it's also the time we get with the information – the roadshow prospectus. It's not common, but we have seen some issuers announcing in the morning and closing the deal that day. That is pretty challenging for us in terms of cracking the credit.

IFR ASIA: GOING BACK TO CREDIT AND THE BROADER OUTLOOK, MICHAEL, WHAT CONCERNS YOU AND WHAT TRENDS DO YOU SEE AROUND THE REGION?

MICHAEL TAYLOR, MOODY'S: I deliberately didn't mention China in my intro because I knew we would get around to talking about it. As we've been saying for a couple of years now, we were not in the school that expected a hard landing. We also didn't expect a financial crisis, and I think that's still fairly unlikely.

There are really two things that concern us. One is the capital outflows issue, because the stronger those capital outflows are the more constrained the central bank becomes in terms of monetary policy. We've talked already about the tightening liquidity conditions onshore, and the market indicators were very clear even before the PBOC signalled its recent

change in stance. Tighter onshore liquidity does raise the likelihood that defaults will happen in future. So that's one thing to focus on.

The other one is reform momentum. We're not really seeing that much progress on reform at the moment, and I suspect that's going to remain the case until certainly after the party congress later this year. While the lack of reform momentum doesn't sort of point to a sudden shock, it does suggest that the growth rate is gradually trending down and that the inefficiencies in the economy are simply going to grow.

IFR ASIA: WHEN YOU TALK ABOUT REFORM YOU MEAN INDIVIDUAL COMPANIES BEING REFORMED, OR YOU MEAN MORE BROADLY A SHIFT IN THE MARKET?

MICHAEL TAYLOR, MOODY'S: More broadly. It's the 330 separate items that were outlined in the decision that came out of the Third Plenum in November 2013 around rebalancing the economy towards the consumer and away from this past dependence on investment – and infrastructure investment in particular. It's happening, but it's happening quite slowly.

We're not expecting any kind of shock emanating from China. It's more a gradual deterioration in credit quality over time, unless reform really starts to pick up to address some of the economy's underlying structural challenges.

In India, we've had a positive outlook on the sovereign for several years now, and we recently affirmed the rating at Baa3 and kept the positive outlook in place. India has made a number of positive steps in recent years. There's been an improvement in budget and fiscal discipline. India certainly gained from the collapse in the oil price and that has helped the balance of payments. Plus we've seen some progress in reform under Modi, particularly with the GST,

which we saw as a very important development, and the RBI has established a great deal of credibility.

There are still a few issues hanging around. I think the two main ones are the state banks, where there is a need for substantial additional capital. Then there are certainly some parts of the corporate sector which are very highly levered.

More broadly around the region, our view is the credit fundamentals are still strong, but they are likely to be challenged. Again to pick up on something that Dilip mentioned, leverage around the region has certainly risen. If you compare it to 2008, we've seen a very substantial rise.

The interesting thing is when we look at the Moody's rated portfolio, although there has been a bit of deterioration in things like debt to Ebitda, we don't really see the kind of very substantial rise in leverage that would expect from the aggregate numbers.

That comes back to your point, Arthur, that it's still a bank-dominated system. A lot of the rise in leverage that we've seen around the region has been intermediated through banking systems rather than through the debt markets. On a long-term view, there is huge development potential in the debt markets around the region.

IFR ASIA: THIS IS ONE OF THE REASONS I MENTIONED INDIA, BECAUSE THAT'S DEFINITELY HAPPENING IN THE LOCAL MARKET. IS THAT GOING TO BE A DRIVER IN THE INTERNATIONAL CAPITAL MARKETS?

DILIP PARAMESWARAN, ASIA INVESTMENT ADVISORS: India has puzzled me a little bit for a while. At the beginning of last year, I was on a different panel, and people said, "Oh, we have high hopes for this flood of issuance from India". It is the same every year.





“We have US\$6bn of bank capital bonds in US dollars maturing across China, Hong Kong, India, Singapore. I think that could spur some transactions perhaps more in Tier 2 than in AT1.”

Yes, of course last year there were a few new issuers: a couple of infrastructure companies, Motherhood Sumi, and so on. But is it proportionate to the expectations that market participants have? Is it proportionate to the size of the economy and its development potential? I don't think so.

I have asked myself if regulations are holding back issuers who might otherwise have accessed international markets. Is it also a reflection of the slow start to Modi's 'Make in India' policy? I don't know what's holding that market back. But every year people have these high hopes.

ALAN ROCH, ANZ: I'm entirely with this. This market is often characterised with high expectations. Perhaps a very well-functioning local currency market is one of the reasons. There were a few new gems last year, and on our side there are a few more that are going to come out, but they're few and far between in comparison to other markets.

It's one of the reasons why India spreads are actually very tight. India does trade very tight for its rating band. As much as we'd like to encourage more offshore issuance, I'm not sure this year is going to be much different than previous years.

DILIP PARAMESWARAN, ASIA INVESTMENT ADVISORS: The banks used to be steady issuers from India, and I sense a little bit of a slowdown there. Everybody is aware of the bad-loan problems with the banks, and they are themselves trying to sort out the mess.

AVINASH THAKUR, BARCLAYS: The real driver in India will have to be growth and capital expenditure as we restart the investment cycle. That's not yet happened. The last few years have been very slow. The banks and the corporates don't really have a need for capital right now.

We are starting to see that change now. You will see the cycle turning in India because of the reforms that Modi has brought in. It's taken time, but we are constructive on India and we expect more issuance.

IFR ASIA: IT SHOULD BE A BIG MARKET FOR BANK CAPITAL, SHOULDN'T IT? AGAIN, IT HASN'T REALLY TAKEN OFF YET.

ALAN ROCH, ANZ: From my perspective you need three things to have more capital issuance. You need asset growth, and across the region we don't see as much as we had expected. Actually, I think a lot of banks raised capital with the expectation that assets were going to grow at a higher pace.

Then you need conformity with Basel III requirements. Taking out India, there's no real catalyst there. The third is redemptions, and I think that actually could be a driver this year. We have US\$6bn of bank capital bonds in US dollars maturing across China, Hong Kong, India, Singapore. I think that could spur some transactions perhaps more in Tier 2 than in AT1.

Perhaps what could drive this is from a regulation standpoint is IFRS9, which means that you need to take into account capital as a buffer for expected losses from NPLs. Bar that and bar redemptions, it's difficult to find a driver for significant issuance.

HAITHAM GHATTAS, DEUTSCHE BANK: Having said that, issuance on the senior side in the various forms and various currencies has grown and continues to be a bigger and bigger part of the market. Year to date close to 50% of all Asia G3 issuance is from FIG, and it's up about 150% year on year. That is obviously very heavily weighted to the large Chinese entities and their various branches that are in the market week in week out. I agree with Alan there's potential for more capital issuance but I think the senior side is just becoming more and more important as a driver of market volumes.

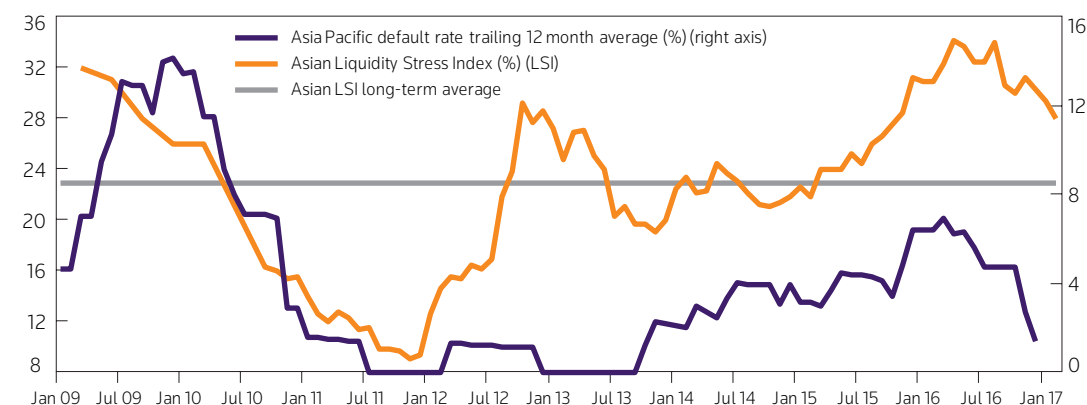
IFR ASIA: BEFORE WE FINISH I WANT TO ASK EVERYONE WHAT THEY SEE COMING UP FOR THE REST OF THIS YEAR. WILLIAM, YOU CAN GIVE US THE FIRST PREDICTION. WHAT IS THE MOST EXCITING OPPORTUNITY IN ASIAN CREDIT RIGHT NOW?

WILLIAM FUNG, AMTD: Our investors are more yield-driven than anything else, and we're quite bullish on high yield this year. I think for the investment-grade side obviously the rates volatility is going to be the greatest performance issue there. That's going to be challenging.

I'm quite surprised that we haven't talked about

LOOSER LIQUIDITY

LIQUIDITY STRESS AND DEFAULT RATES ARE TRENDING LOWER IN ASIA



Source: Moody's Investors Service



Trump for more than one minute. Normally half of the meeting is about Trump! From what he says to what is implemented there's still a lot of uncertainty. Is he going to move the market as he did before? I guess people have doubts now.

We're still quite bullish on Asian high yield, and obviously there are still very good deals coming from investment-grade side. We talked about the fixed-for-life structure, which is fairly aggressive, but we're still quite keen on some of the more investor-friendly perpetual. If I were to sum it up, this year we're still quite favourable on yield products.

HAITHAM GHATTAS, DEUTSCHE BANK: To take a different perspective, one area that's very interesting this year is the commodity sector. If you go back 12 months we were in the depths of despair and there was a huge amount of stress – not just here in Asia but globally. There's been a phenomenal turnaround in the last 12 months across coal, oil, iron ore, all kinds of commodity markets. If we continue to see price rises and further signs of greater global growth you will see a number of issuers who've simply been unable to access markets coming through. You've already seen one or two names in 2017, and this is a trend we expect to continue and will certainly impact issuance this year.

DILIP PARAMESWARAN, ASIA INVESTMENT ADVISORS: I think I differ from William's view on investment grade. Nobody is going to be surprised by three rate increases in the US this year. The 10-year rate might reach say 3% or so, but it won't be a shock. IG spreads I think are going to be flat, but high yield spreads are on their way up by 50bp–75bp on average. For the last several years high yield has outperformed IG, and it will do so again this year but by a much smaller margin.

Given that it's not going to outperform as much as it used to, then on a risk-adjusted basis I'm not sure high yield is the place to be. Within high-yield, there might still be good investments and bad ones, but my view is on average.

We are looking at overall Asia credit producing a total return of 2% to 3% for the year. High yield is going to be a little bit higher, maybe 4% or 5%. On a risk-adjusted basis, IG is more attractive than HY.

AVINASH THAKUR, BARCLAYS: I think it's going to be a year of tight pricing. We're seeing benign markets, and everyone is going towards the more esoteric or more risky stuff. So I'm sure we'll see growth in high yield. It will play out in cyclical industries like commodities getting more attention in the market. It'll play out in more aggressive structures. You'll see more fixed-for-life perps, hybrids coming back, bank capital too. On the high grade side you will see issuers going into very long tenors. It's going to be all about yield this year.

I don't see anything on the horizon which makes me feel that rates are headed up any time soon. Even if you see three rate hikes, our view on the 10-year Treasury at the end of the year is not very different to where it is today.

ARTHUR LAU, PINEBRIDGE: I actually have quite low visibility on how the market will play out given all the political uncertainty in the US or in China. Of course, we can still find good opportunities selectively, but on a broad basis Asia is not cheap, so we are increasingly looking outside Asia. I do sense a little bit of complacency in the market given that credit spreads are very tight and the cushion is very thin.

My current thinking is this complacency could create some



“The growth of the Asian dollar bond market is making us believe that it is now maturing and has enough liquidity to support its own issues. But if you take China out of that equation then I think the picture is not going to be that comforting.”

volatility, but the hunger for yield hasn't really changed. That could be a buying opportunity. At least in the first half what I see is more of a momentum trade, rather than a big structural shift. I think any volatility could come in the latter part of this year, based on how many times rates increase, and how fast. As I mentioned in the opening, the one big macro factor that worries me is inflation, and it seems that prices are rising if you look at China and India.

So we are expecting a more volatile second half. Then once we have a little bit more understanding about Trump then 2018 will be a little bit more predictable. That's my current prediction.

IFR ASIA: OKAY, LET'S GET THROUGH THIS YEAR FIRST THEN. ALAN?

ALAN ROCH, ANZ: I think duration is going to be a theme. I share the view of Avinash in terms of rates. You're going to have a few hikes, but few are seeing the 10-year massively different at the end of this year. That could change the duration weighting for Asia. There's very little long-term supply, and I think that will compound interest in longer-dated transactions.

In bank capital, Tier 1 has got very expensive, and Tier 2 was a forgotten child last year. Some investors are really starting to hone in on those differentials and we are seeing Tier 2 performing quite well. I think that will continue.

I do share an optimistic outlook for high yield

as well. I think this year is going to be a risk-on year, at least as far as we can see. I don't know how many fixed-for-life perpetuals we are going to see, but definitely I'd expect strong corporate issuers to continue issuing high yields products.

IFR ASIA: MICHAEL, YOU HAVE OPPORTUNITY TO WRAP IT ALL UP FOR US.

MICHAEL TAYLOR, MOODY'S: I agree that the first half of this year is unlikely to see any major downside. I think volatility will become more of an issue as we go through the year.

From a China perspective I think there's going to be a great focus on maintaining stability until the party congress, which will probably be sometime in October or November. That means two things. First of all reforms will progress relatively slowly, and I don't think we're going to see major moves in the renminbi or any change to the capital controls for a while longer.

I think any shocks are more likely to originate from outside the region than inside. It's things like the market maybe getting a little bit complacent about the trajectory of US interest rates, or events in Europe that will spill over to Asia. It seems as though it's not within the region that we need to be concerned about at the moment. It's more what might hit us from outside.

IFR ASIA: GENTLEMEN, THANK YOU VERY MUCH FOR YOUR TIME.





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What's changed?

Most importantly, IFRAsia.com's new responsive design automatically re-sizes the site to the device you're using - desktop, tablet or smartphone - so you can keep up to date with IFR Asia's news and commentary on the move.

Search

You can now build an advanced search using multiple filters - including asset class, currency, country, and date - giving you more precision when searching IFR Asia's archive. And your search terms are now highlighted in the results, making it easier to identify the content you're looking for.

Navigation

We've added a new Latest News tab so you can quickly access the most recent stories, and we've focused the main navigation on asset classes (you can still navigate by country once you click through to your chosen asset class). Finally, we've consolidated league table and deals data under a single 'Data' tab.

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