



ASIA CREDIT REPORT Second Quarter 2016

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2. G3 Asia ex Developed Market Asia (Japan, Australia and New Zealand)

Market Overview and Highlights of Asia (ex-Japan, Australia and New Zealand) debt issuance in Second Quarter 2016

Total issuance in 2Q'16 came in at USD 58.8 billion (bn) as of June 30, up 64.1% quarter-over-quarter (qoq) from 1Q'16 (USD 36.4bn) but down 7.2% year-over-year (yoy), inclusive of high grade (HG), high yield (HY), and unrated deals. Turning to emerging markets (EM) overall, one interesting highlight of the quarter is that the largest and the third-largest EM transactions ever, the Argentina sovereign USD 16.5bn issue and the Qatar sovereign USD 9.0bn issue were both priced during the quarter – giving a boost to total EM bond issuance which started the year on a relatively lackluster note.

Within Asia ex-Japan/Australia and New Zealand, Chinese issuance dominated as usual, resuming its typically strong second quarter issuance volumes, although slightly down yoy. As expected, Chinese offshore issuance did pick up significantly in the second quarter, as an easing in offshore liquidity conditions and a constructive EM outlook overall (which remains so, even after Brexit) contributed to higher volumes of offshore Chinese issuance in 2Q'16. Even so, one Chinese sub-sector that remains conspicuous by its relative paucity of issuance year to date (YTD) is the Chinese HY sub-sector. Property and other HY issuers have found the domestic markets overall to be more accommodating – this accounts for the continued dominance of domestic Chinese CNY issuance relative to offshore G3 issuance on a YTD basis.

Key highlights of the quarter:

- 1) HG issuance (of USD 49.1bn) easily outpaced HY issuance of USD 3.7bn. HY issuance represented 6.3% by dollar amount of total debt issuance in the second quarter, down slightly from 7.5% in the first quarter of 2016. One key contributor to 1H'16 overall offshore issuance is the Chinese Local Government Financing Vehicle (LGFV) issuance (over USD 10.0bn in such bonds have been priced on a YTD basis) and to a large extent, issuance from this sub-sector, which is rated Investment Grade (IG) – at least for the time being - has offset some of the sharp fall-off in Chinese HY issuance.
- 2) Global green bond volumes continue to climb, with volumes in first half of 2016 reaching 85% of annual volume in 2015. China continues to remain the dominant issuer in the green bond sector globally, although Chinese volumes have fallen to represent 29% of all global green bond issuance in 1H'16, compared to half of volume in the first quarter.
- 3) On a quarterly basis, Asian HY debt outperformed Asian HG paper, with HG paper reporting total returns of 2.49% in 2Q'16, compared to a 4.84% gain in HY paper during the quarter. In terms of countries and sectors, the Indonesian sovereign was the standout outperformer on a YTD 1H'16 basis, returning 13.8% (in total return terms), while Filipino (+ 8.3%) and Sri Lankan (+ 7.9%) sovereigns also delivered strong returns (according to JP Morgan Asia Credit index (JACI)). Within sectors, Metals & Mining and Oil & Gas (HY) dominated with strong double digit percentage YTD returns, while in the IG space, Oil & Gas (+ 7.1%), Utilities (+ 6.0%) and Real Estate (+ 5.7%), delivered the best YTD total returns through June 30, 2016.
- 4) Looking ahead, one truly impressive feature of the markets overall has been the ability of market participants to shrug off “Brexit” and other global uncertainties. Moreover, given nearly a third of global sovereign bond yields in negative territory, coupled with the continuing scarcity of HY issuance, has led to “yield hunger” on the part of investors, which in turn has led to aggressive spread contraction in existing HY issues, which we expect to continue through the rest of 2016.

State of the Asian leveraged loan market

Asian leveraged loan debt, excluding developed market Asia, reached USD 50.3bn in 2Q'16, a 16.0% decline qoq (USD 59.9bn) and a 25.5% decline yoy (USD 67.5bn). Leading sectors in 2Q'16 issuance were transportation (USD 12.2bn), utility & energy (USD 8.7bn), and construction/building (USD 8.1bn). Sponsored loan deals declined by percentage, representing 3.1% by dollar amount in the second quarter.

Key trends in Asia (ex-Japan, Australia and New Zealand) G3 & LCY bond issuance

For the second quarter 2016, total G3 issuance stood at USD 58.8bn, up 61.4% qoq but down 7.2% yoy. China remained the largest issuing country in the second quarter, accounting for a total of USD 39.3bn, or just over two thirds (66.9%) of G3 issuance in 2Q'16; USD 32.6bn and USD 2.9bn in HG and HY deals, respectively, were priced from China alone. South Korea remained the second largest issuing nation, with USD 6.2bn issued in 2Q'16, followed by Indonesia with USD 4.7bn in issuance.

Finance remained the largest sector of G3 issuance in the second quarter (USD 24.9bn), followed by sovereigns (USD 5.8bn), and oil & gas (USD 4.9bn).

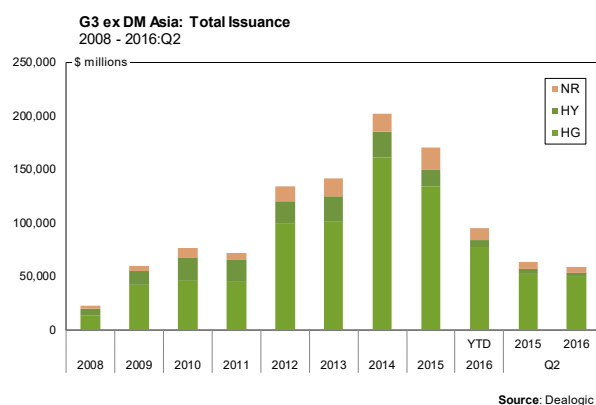
In terms of ratings, within the HG space, AA- transactions accounted for the largest share of deals priced during the quarter, with USD 14.4bn in total issuance, followed by A- rated transactions totaling USD 13.0bn and BBB-rated issuance with USD 5.8bn. Within HY issuance, the BB- category dominated with USD 1.4bn of issuance, followed by BB rated transactions of USD 969.1mn.

By tenor, Asia ex-Japan, Australia and NZ G3 deals with tenors of 5 years or less continued to account for the bulk of issuance in 2Q'16, with a total of USD 34.8bn in short tenor issues being priced during the quarter. Of these, USD 28.7bn were HG deals, USD 3.4bn were HY deals and the balance unrated.

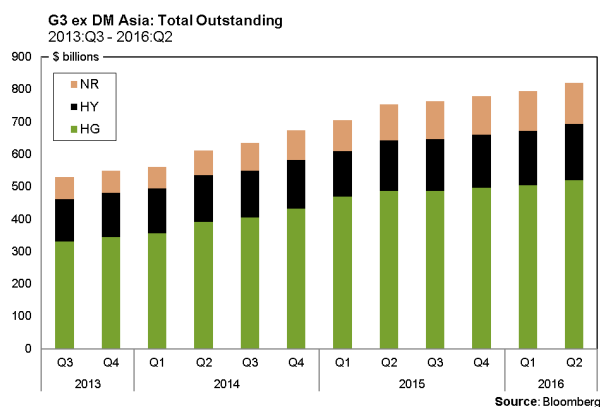
Overall G3 debt outstanding in the region stood at USD 820.99bn, a growth of 3.2% qoq. High grade debt accounted for the bulk of total outstanding debt at USD 520.01bn (a 3.0% increase qoq), followed by HY debt at USD 172.635bn (a growth of 3.4% qoq) and NR debt at USD 128.35bn (a growth of 3.5% qoq). China (with USD 307.9bn), South Korea (with USD 120.9bn) and Hong Kong (with USD 104.5bn) remain the three countries with the largest shares of G3 debt outstanding. In terms of ratings, within the HG space, deals rated AA- (USD 94.0bn) now account for the largest share of debt outstanding, while BB+ transactions (USD 77.2bn) continued to remain the dominant rating outstanding in the HY space. By sector, financials with a total of USD 231.1bn accounted for less than a third of outstanding G3 paper, followed by sovereigns (USD 205.0bn). Finally, deals with remaining tenors of 5 years or less (USD 475.7bn) accounted for the bulk of total Asia (ex-Japan, Australia and NZ) debt outstanding.

Finally, turning to the LCY debt markets, USD 200.0bn in total LCY-denominated debt was issued in Asia (ex-Japan, Australia & NZ) in 2Q'16, a decline of 27.3% qoq (USD 275.1bn) but an increase of 3.8% yoy (USD 192.7bn). Total LCY debt outstanding at the end of 2Q'16 in Asia (ex-Japan, Australia and NZ) stood at USD 13.6tn, rising by 5.9% qoq, with HG and HY debt outstanding declining 1.5% and 14.4%, respectively, while non-rated debt rose 7.1%. China also continued to account for the bulk of total outstanding LCY debt at USD 8.71tn, followed by India (USD 1.65tn) and South Korea (USD 1.42tn).

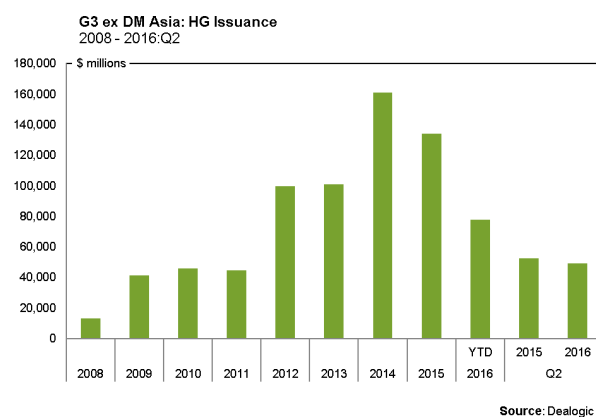
2.1. G3 ex DM Asia: Total Issuance



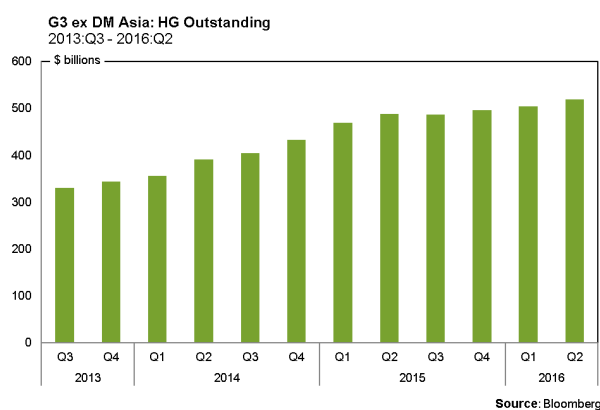
2.2. G3 ex DM Asia: Total Outstanding



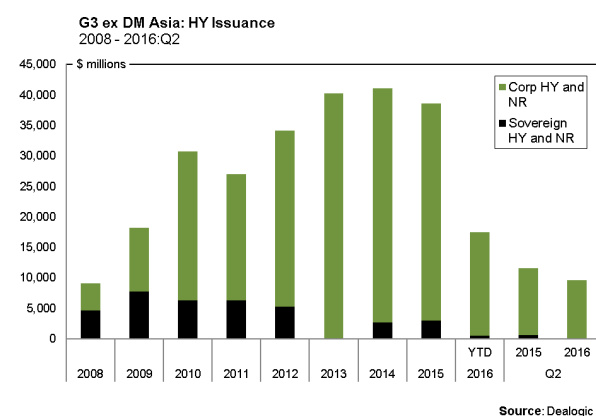
2.3. G3 ex DM Asia: HG Issuance



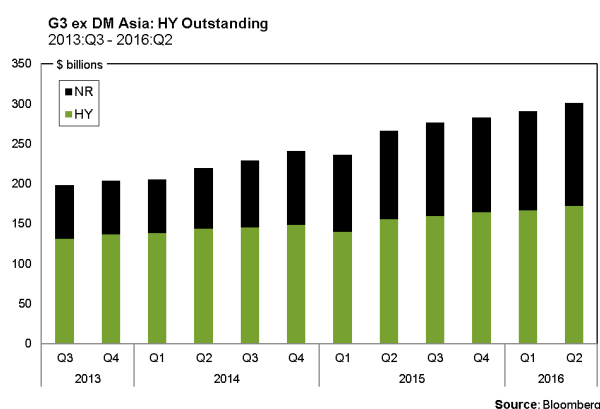
2.4. G3 ex DM Asia: HG Outstanding



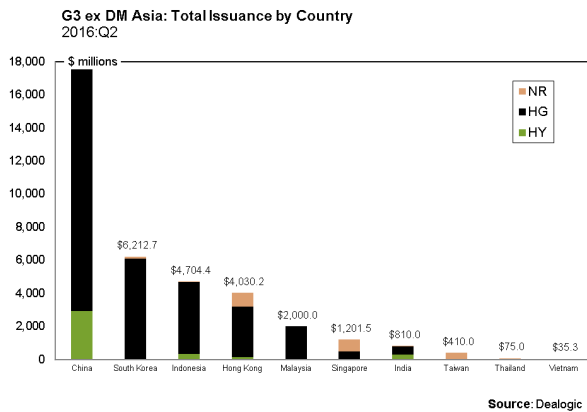
2.5. G3 ex DM Asia: HY Issuance



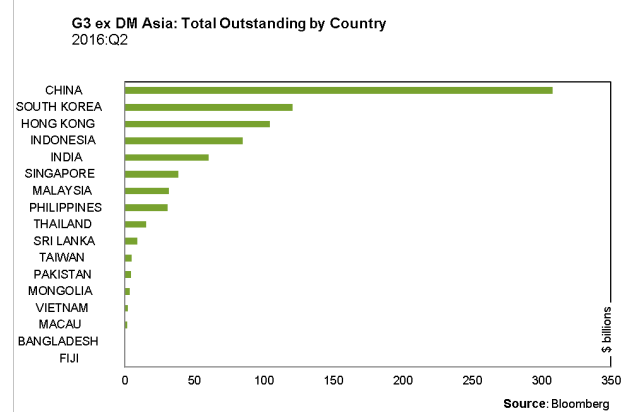
2.6. G3 ex DM Asia: HY Outstanding



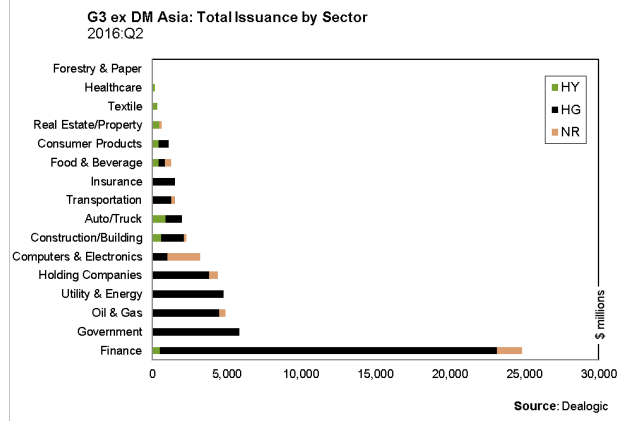
2.7. G3 ex DM Asia: Total Issuance by Country



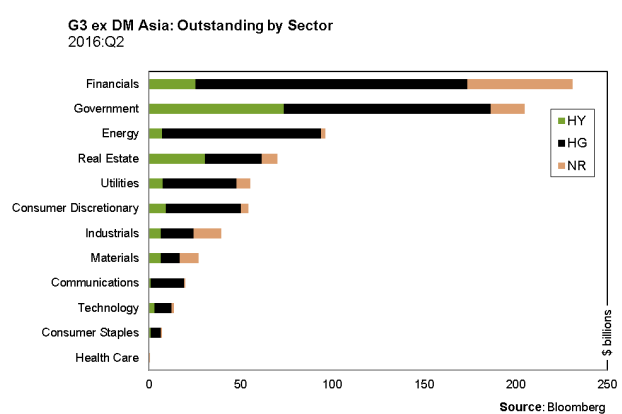
2.8. G3 ex DM Asia: Total Outstanding by Country



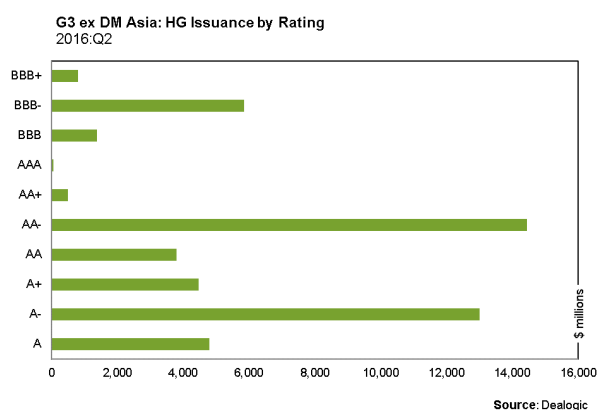
2.9. G3 ex DM Asia: Total Issuance by Sector



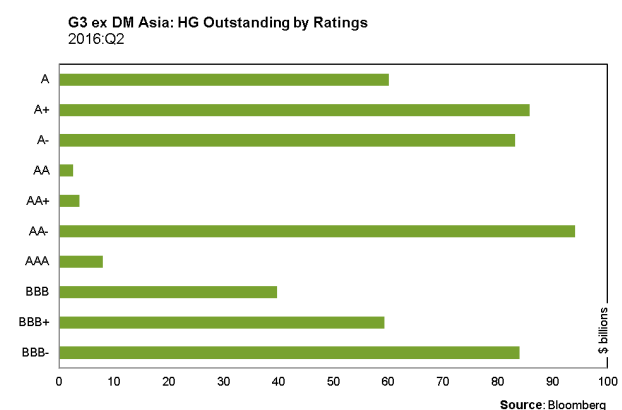
2.10. G3 ex DM Asia: Total Outstanding by Sector



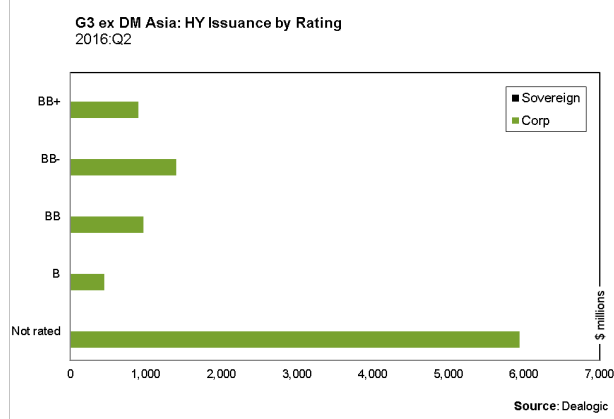
2.11. G3 ex DM Asia: HG Issuance by Rating



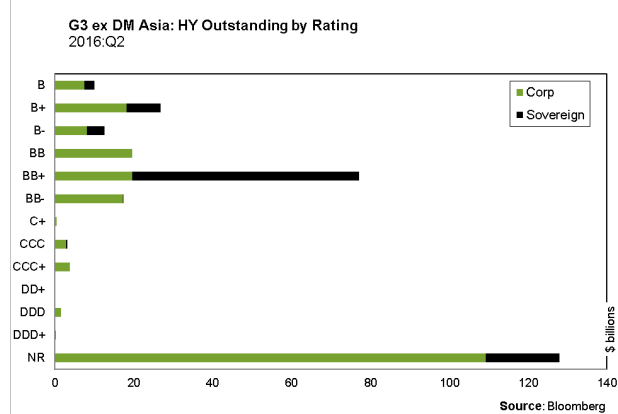
2.12. G3 ex DM Asia: HG Outstanding by Rating



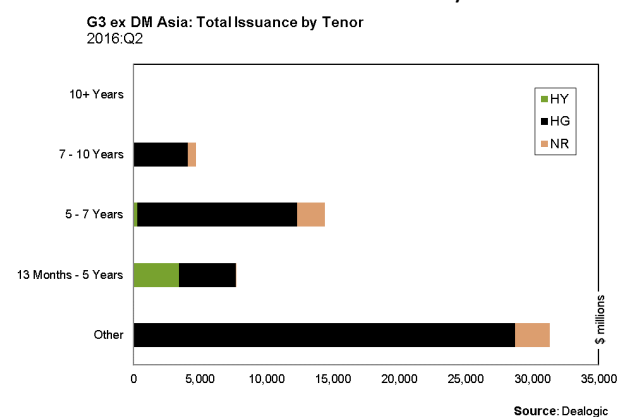
2.13. G3 ex DM Asia: HY Issuance by Rating



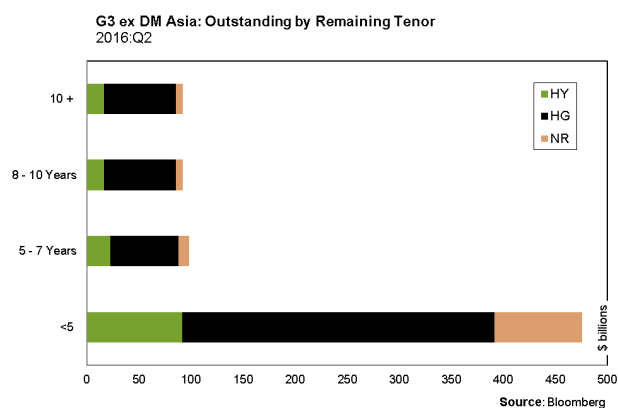
2.14. G3 ex DM Asia: HY Outstanding by Rating



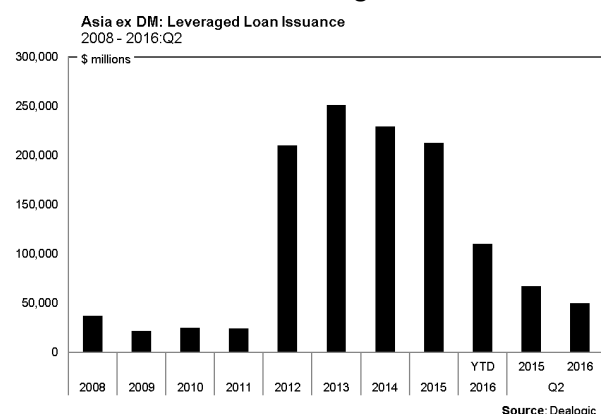
2.15. G3 ex DM Asia: Total Issuance by Tenor



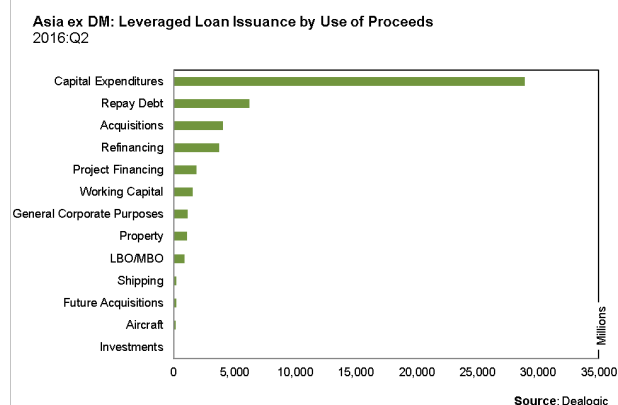
2.16. G3 ex DM Asia: Outstanding by Remaining Tenor



2.17. Asia ex DM: Total Leveraged Loan Issuance

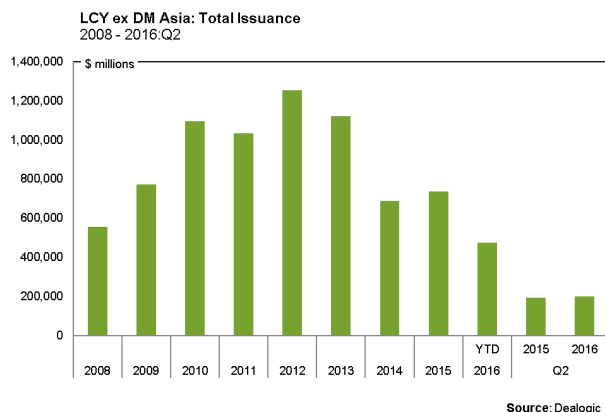


2.18. Asia ex DM: Total Leveraged Loan Issuance by Use of Proceeds

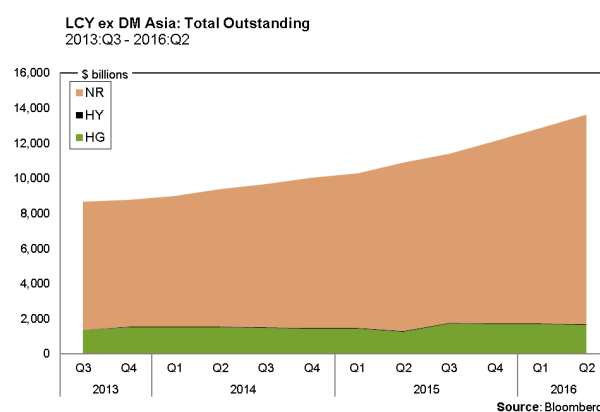


3. LCY Asia ex Developed Market Asia (Japan, Australia and New Zealand)

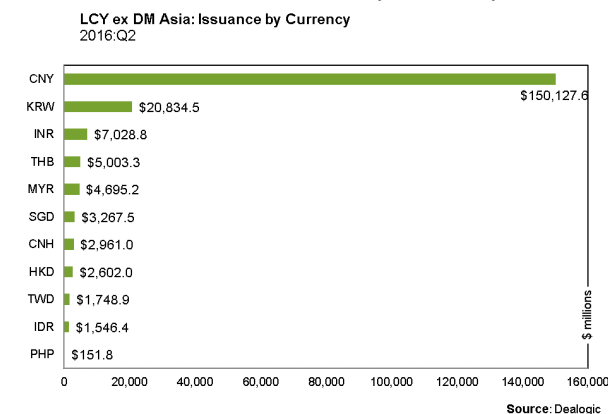
3.1. LCY ex DM Asia: Total Issuance



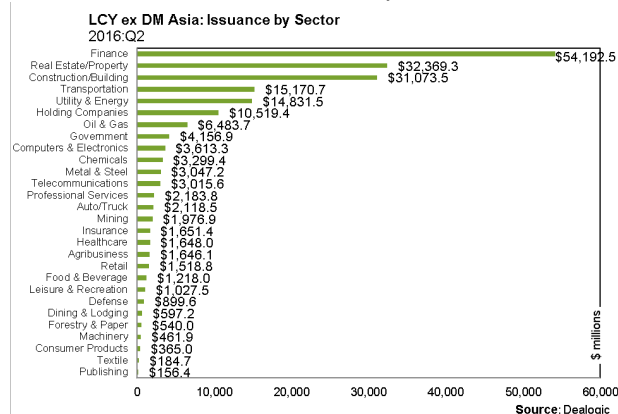
3.2. LCY ex DM Asia: Total Outstanding



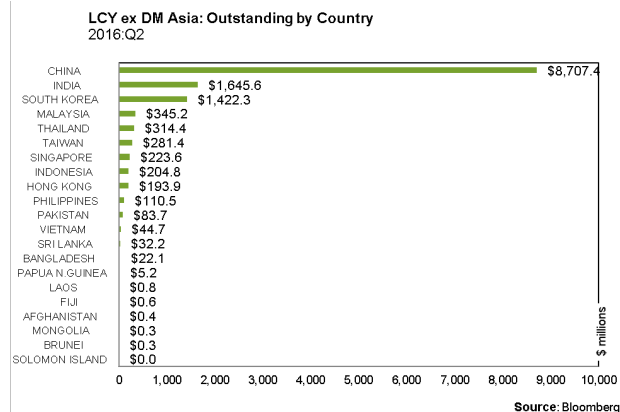
3.3. LCY ex DM Asia: Issuance by Currency



3.4. LCY ex DM Asia: Issuance by Sector



3.5. LCY ex DM Asia: Outstanding by Country



4. All Asia

Total Issuance & Outstanding – G3 and LCY for Asia (including Japan, Australia and New Zealand)

Total G3 issuance in Asia (including Japan, Australia and New Zealand) stood at USD 143.1bn in the second quarter of 2016, a growth of 35.5% qoq and 16.5% yoy. In 2Q'16, total HG G3 issuance in Asia was USD 102.5bn, a growth of 45.2% qoq and 23.7% yoy; HY issuance was USD 7.1bn, an increase of 178.1% qoq and 44.7% yoy; and unrated issuance was USD 33.5bn, an increase of 3.0% qoq but a decline of 9.0% yoy. Outstanding G3 debt, including developed market Asia, stood at USD 12.11tn at the end of the second quarter 2016, an increase of 1.0% qoq, with growth in HG debt (USD 9.6tn, a 1.0% growth), HY debt (USD 223.4bn, a 3.1% growth), and in unrated debt (USD 2.3tn, 0.8% growth).

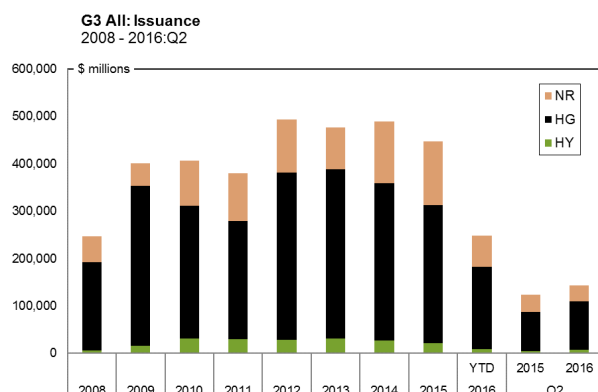
Finally, turning to LCY debt issuance, total issuance, including Japan, Australia, and New Zealand, stood at \$542.3 billion, a decline of 9.5% qoq but an increase of 11.0% yoy, comprised of USD 317.9bn in HG issuance, \$5.0 billion in HY issuance and \$219.3 billion in unrated issuance.

Chinese securitization, particularly auto securitization, has been robust in recent quarters, with \$20.2 billion issued year to date in 2016, compared to \$18.2 billion in the first half of 2015. Asian securitization outstanding, including Japan, Australia, and New Zealand, totaled \$385.6 billion at the end of 2Q'16, the bulk from Australia, South Korea and Japan, although China has been rapidly catching up in volume, with approximately \$54 billion in outstanding as of end-June.

The return of investor appetite for risk, as mentioned earlier, is likely to drive issuance trends going forward. This is likely to occur despite the fact that concerns around China and the Chinese economy have intensified during the course of the quarter, with both the identities of the issuers and volume of their defaults causing concern. Somewhat surprisingly, defaults seem to be claiming unlikely candidates, such as the first State-Owned Enterprise (SOE), Baoding Tianwei, which defaulted on its principal repayment earlier this year. Since then, three additional SOE defaults followed in quick succession in April. While many Chinese defaults have not been settled yet, it is still possible that investors can be made whole after a lengthy delay. Also, with the Chinese government having signaled its intention to allow for market-based solutions and the implementation of a more streamlined/transparent bankruptcy process, these defaults may be resolved in an orderly fashion.

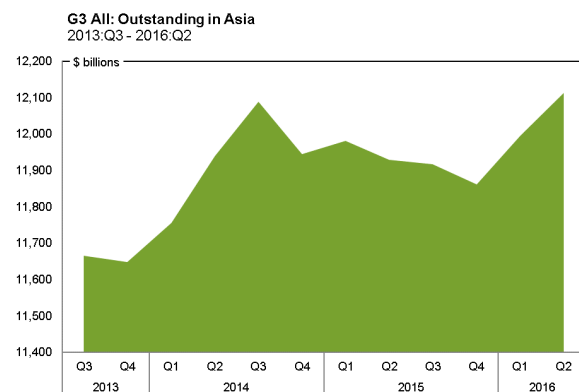
Even so, it is interesting that the search for yield has led investors to embrace risk – defaults, downgrades and a combination of macro/micro weakness in the region's heavyweight China have clearly not deterred investors from driving spreads tighter. Another example of investors' ability to "discount" risk was exemplified by a well-known property developer shrugging off a two-notch credit ratings downgrade to price a very well-received USD 450mn deal towards the end of July. If this trend continues, as expected, this should embolden many lower-rated/higher risk issuers to tap the markets, especially in this low interest rate world where "reach for yield" has become the dominant theme.

4.1. G3 All: Total Issuance



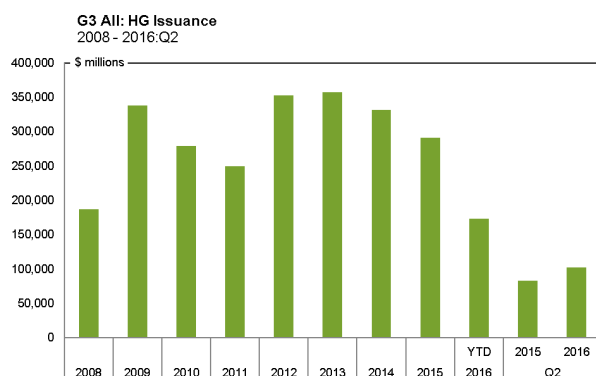
Source: Dealogic

4.2. G3 All: Total Outstanding



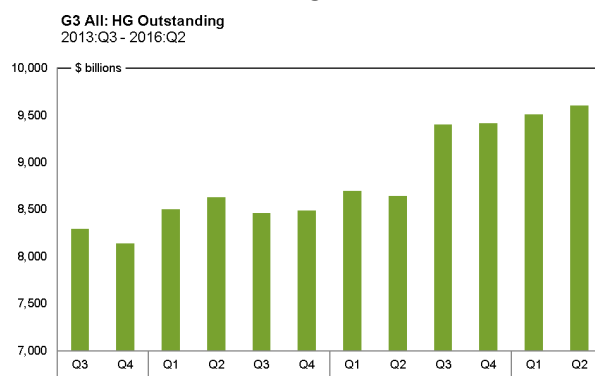
Source: Bloomberg

4.3. G3 All: HG Issuance



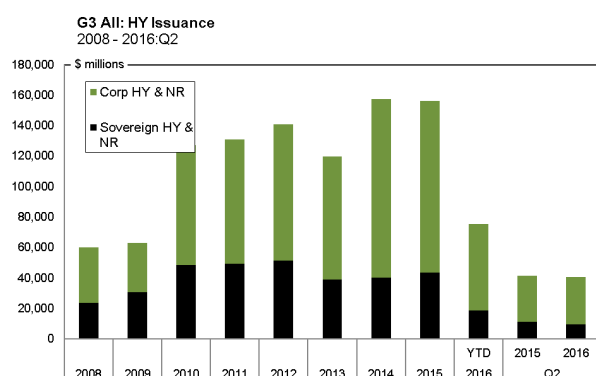
Source: Dealogic

4.4. G3 All: HG Outstanding



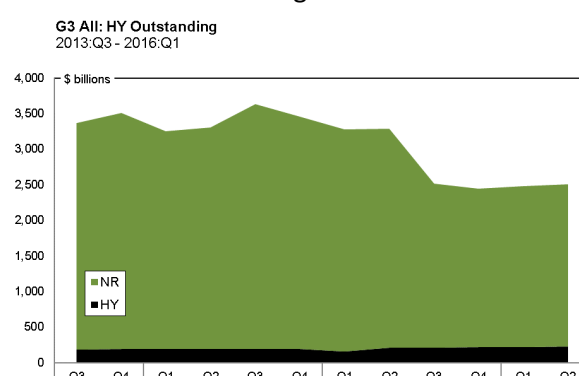
Source: Bloomberg

4.5. G3 All: HY Issuance



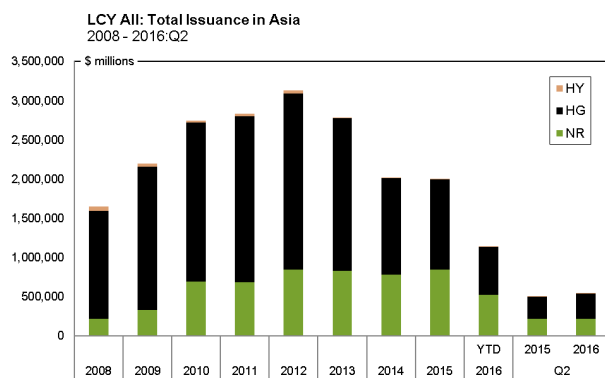
Source: Dealogic

4.6. G3 All: HY Outstanding



Source: Bloomberg

4.7. LCY All: Total Issuance



Source: Dealogic

5. China – Domestic

Total Issuance & Outstanding – Domestic CNY issuance

Total domestic CNY issuance stood at USD 150.1bn in the second quarter of 2016, down 37.0% from first quarter volume (USD 238.5bn), but an increase of 6.3% yoy (USD 141.2bn). By tenor, 67.2% of second quarter issuance (USD 100.8bn) would mature in five years or less, followed by the 5 – 7 year bucket (USD 24.6bn, or 16.4% of issuance). By sector, real estate led issuance totals (USD 30.5bn), followed by construction (USD 29.2bn).

Outstanding domestic CNY debt stood at USD 8.6tn at the end of second quarter 2016, with sovereigns leading totals (USD 4.81tn), followed by financials (USD 2.00tn) and industrials (USD 676.6bn).

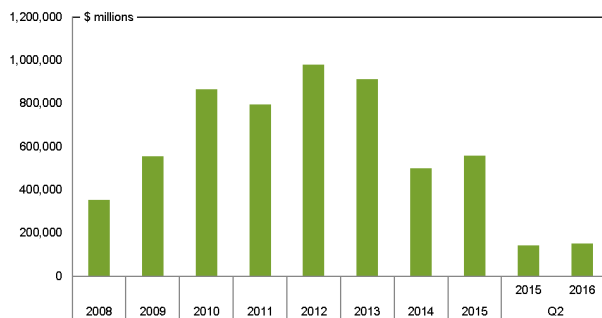
Some evidence of a tightening in domestic liquidity, coupled with a gradual pickup in the pace of onshore defaults were the main factors behind the slowdown in onshore Chinese debt issuance during the quarter. Additionally, increased willingness on the part of offshore investors to assume a “risk-on” stance helped Chinese offshore issuance at the margin, at the expense of onshore issuance during the second quarter. This is a partial reversal of trends that were visible in the first quarter, as ample onshore domestic liquidity and lower funding costs for the bulk of corporates were the key drivers behind 1Q’16 issuance. While those props supporting onshore domestic issuance have not entirely disappeared, there have been sufficient changes at the margin during 2Q’16.

Looking ahead, onshore domestic issuance is likely to be well supported, as increasing numbers of overseas investors (who by some measures hold less than 2.0% of the Chinese domestic bond market) consider increasing their investments in Chinese onshore debt securities, following the China Interbank Bond Market (CIBM) opening initiatives unveiled by the PRC authorities. Furthermore, once the issues that have temporarily stood in the way of increased “panda” bond issuance are resolved, a flurry of issuance by offshore corporates and other entities will definitely provide an exciting addition to the domestic Chinese market – the potential diversity of issuers by country, sector and ratings classes in the onshore CNY market would most definitely be a welcome development, adding to the market’s potential allure for offshore investors.

Finally, one key factor worth noting is that global demographics (applicable in particular to China as well) will necessarily mean that investor weightings in the world’s largest bond markets will increase as the world’s aging trend continues. China, now the world’s third largest bond market and potentially the second largest within a reasonably short timeframe, will attract interest from international investors looking to mimic global indices; furthermore, diversification into a new market like China will tend to deliver higher risk-adjusted returns, well into the future.

5.1. Domestic CNY All: Total Issuance

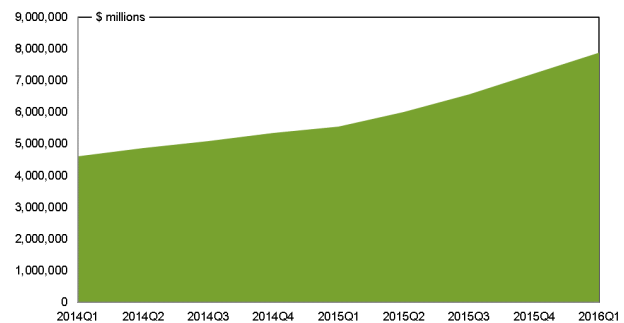
Domestic CNY All: Total Domestic Issuance
2008 - 2016:Q2



Source: Dealogic

5.2. Domestic CNY All: Total Outstanding

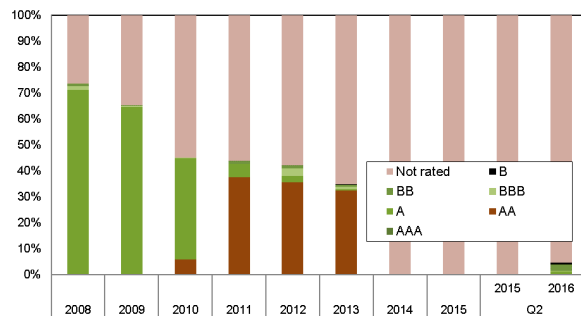
Domestic CNY All: Total Outstanding
2014:Q1 - 2016:Q2



Source: Bloomberg

5.3. Domestic CNY All: Issuance by Rating

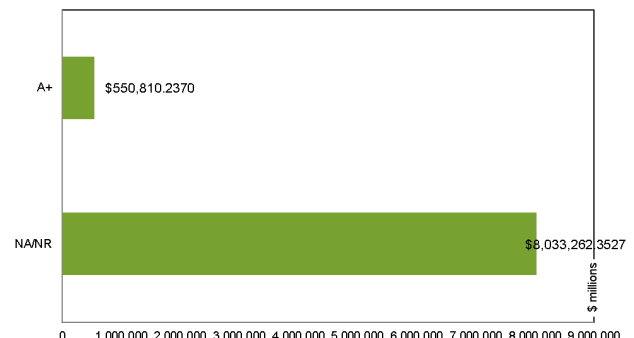
Domestic CNY All: Issuance by Rating
2008 - 2016:Q2



Source: Dealogic

5.4. Domestic CNY All: Outstanding by Rating

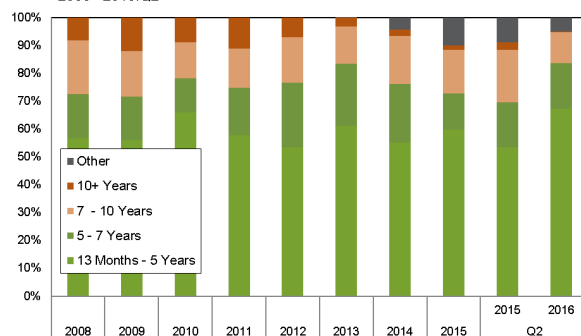
Domestic CNY All: Outstanding By Rating
2016:Q2



Source: Bloomberg

5.5. Domestic CNY All: Issuance by Tenor

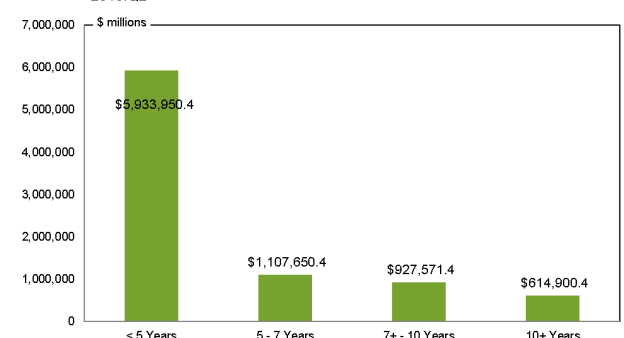
Domestic CNY All: Total Issuance by Tenor
2008 - 2016:Q2



Source: Dealogic

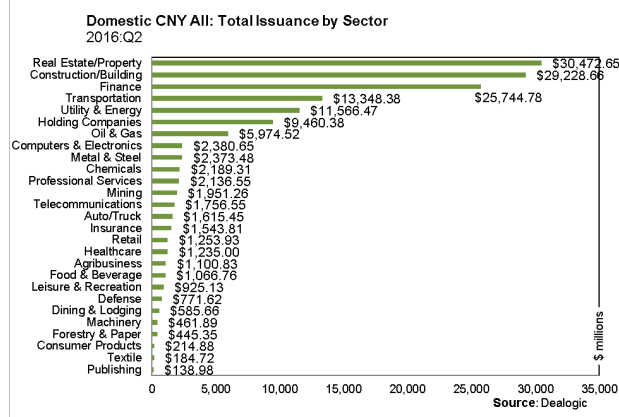
5.6. Domestic CNY All: Outstanding by Remaining Tenor

Domestic CNY All: Outstanding By Remaining Tenor
2016:Q2

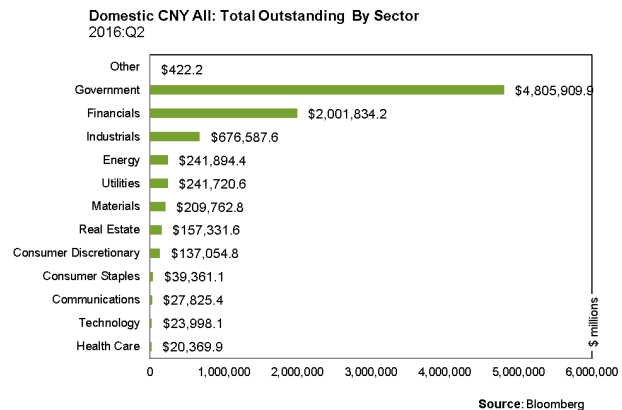


Source: Bloomberg

5.7. Domestic CNY All: Issuance by Sector



5.8. Domestic CNY All: Outstanding by Sector



6. China – CNH

Key trends in offshore renminbi (CNH) and the dim sum bond markets

The pace of issuance picked up on a qoq basis in the second quarter. For the second quarter of 2016, an equivalent of USD 7.3bn in CNH bonds were issued, an increase of 311.2% qoq but a decline of 18.2% yoy. In terms of tenor, nearly all of first quarter issuance (94.8%) accounted for by transactions with tenors of 5-years or less and half of all issuance was from short-term paper (USD 3.7bn). HG deals rated A+ totaling USD 791.1mn had the highest share among rated deals (10.9%). In terms of sector, finance transactions totaling USD 4.0bn accounted for the largest volume of deals by sector (55.1%), followed by sovereigns, totaling USD 2.6bn (representing 35.3% of issuance).

The total of dim sum bonds outstanding stands at USD 83.3bn, a decline of 13.8% qoq. The same factors that

Hong Kong	110.8	Jun-16
Singapore	25.4	Mar-16
Taiwan	46.0	Jun-16
Korea, Republic of	4.3	Feb-16
Luxembourg	9.8	Aug-15
United Kingdom	9.6	Mar-16
France	4.0	Dec-14

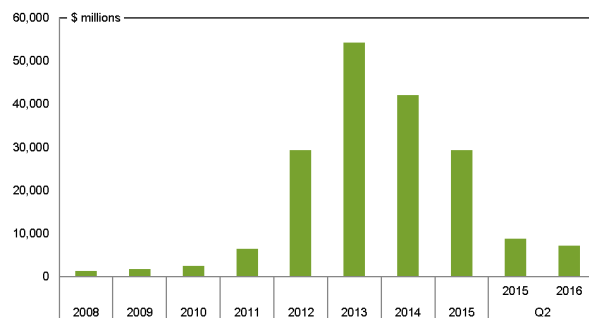
were supportive of offshore USD bond issuance during the quarter provided limited support to offshore CNH issuance as well. That said, the reprieve enjoyed by the dim sum bond market this quarter is likely to be all too brief, since the long-term decline of the offshore dim sum bond market is likely to continue. The continued decline in the offshore RMB deposit base (driven to a large extent by the depreciation of the RMB), coupled with the increased attractiveness of the onshore bond market for both investors and issuers is likely to lead to a gradual erosion of interest in offshore RMB.

Sources: HKMA (Hong Kong), MAS (Singapore), Central Bank of Republic of China (Taiwan), Global Times (Korea), Luxembourg for Finance (Luxembourg), Bank of England (UK), Standard Chartered (France); Exchange Rate: CNH 6.65 = USD 1.0, GBP 1.32 = USD 1.0

Finally, the sheer size of the onshore bond market (well in excess of USD 8.0tn at this point) translates into much greater liquidity onshore. Given that the natural tendency for investors and other market participants is to migrate to that market where liquidity is the greatest, this is yet another hurdle that the dim sum bond market will find difficult to overcome in the long run.

6.1. CNH All: Total CNH Issuance

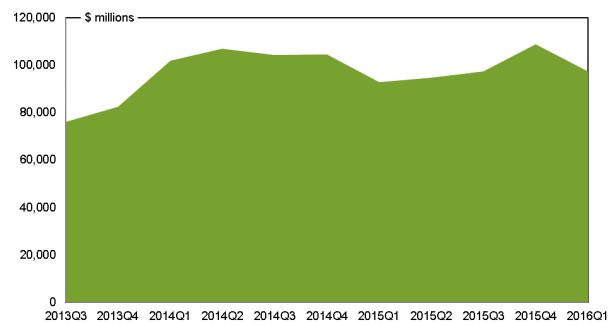
CNH All: Total CNH Issuance
2008 - 2016:Q2



Source: Dealogic

6.2. CNH All: Total Outstanding

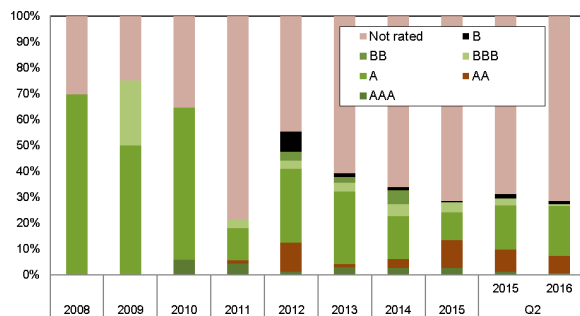
CNH All: Total Outstanding
2013:Q3 - 2016:Q2



Source: Bloomberg

6.3. CNH All: Issuance by Rating

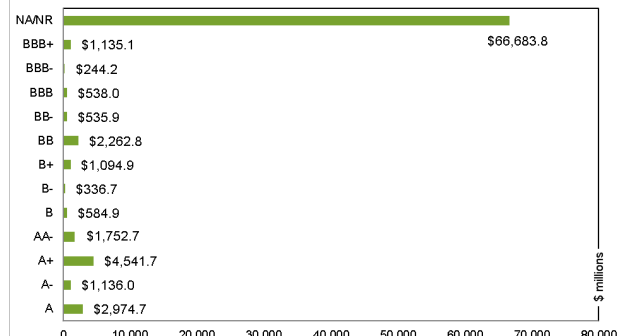
CNH All: Issuance by Rating
2008 - 2016:Q2



Source: Dealogic

6.4. CNH All: Outstanding by Rating

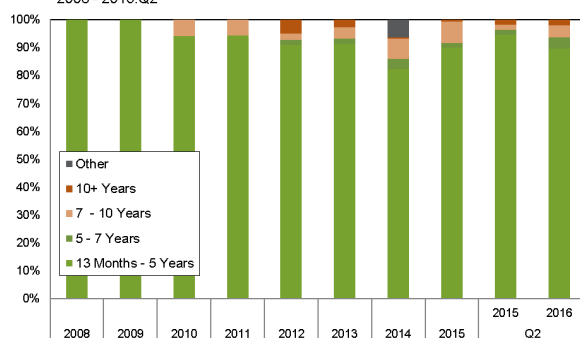
CNH All: Outstanding By Rating
2016:Q2



Source: Bloomberg

6.5. CNH All: Issuance by Tenor

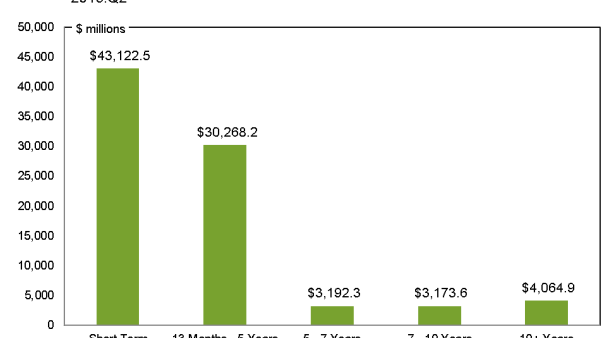
CNH All: Total Issuance by Tenor
2008 - 2016:Q2



Source: Dealogic

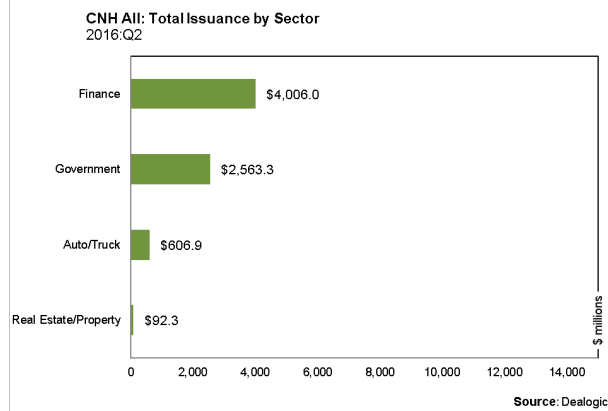
6.6. CNH All: Outstanding by Remaining Tenor

CNH All: Outstanding By Remaining Tenor
2016:Q2

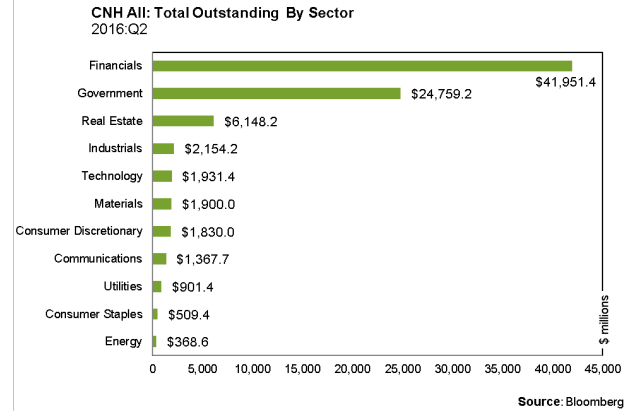


Source: Bloomberg

6.7. CNH All: Issuance by Sector



6.8. CNH All: Outstanding by Sector



7. Spreads, Credit & Total Return

Relative Value and returns (Asia ex-Japan, Australia & New Zealand G3)

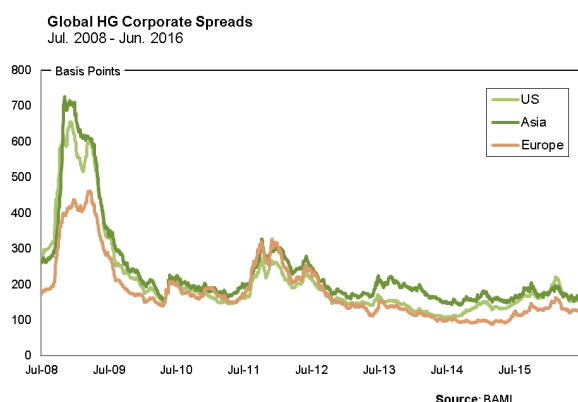
Asian HG bond spreads narrowed and then widened in the second quarter, trading only a few basis points tighter than in the first quarter. At the end of 2Q'16, Asian HG bonds on a composite basis were quoted at an average spread of 170 basis points (bps) from 173 bps end-March while US and European HG bond issues were quoted at average spreads of 162 bps (previously 170 bps) and 137 bps (previously 131 bps), respectively. Asian HY corporates narrowed considerably, ending 2Q'16 at 603 bps (from 674 bps), while US and European bonds were tighter at 621 bps (from 705 bps) and 482 bps (from 505 bps), respectively.

In terms of total return in the second quarter, the commodity rally led to the continued outperformance in the second quarter, followed by global HY and emerging market corporate credit, while global equities generally underperformed. Asian HG gained 2.49% in the second quarter, while HY indices gained 4.84%.

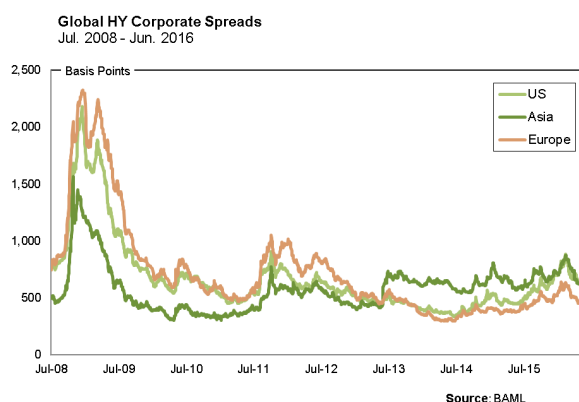
Looking ahead, it is difficult to identify any consistent themes – the market's current "risk-on" attitude will continue only so long as global authorities remain coordinated in maintaining low interest rates and/or continuing with various forms of monetary accommodation, including quantitative easing. There are tentative signs that performance across the major global economies is beginning to diverge – while the US macro situation seems to be improving, the same cannot be said of Europe and Japan. In the case of Europe especially, the aftermath of the "Brexit" vote suggests that risks remain skewed to the downside.

All in all, risk assets have enjoyed a strong quarter and for that reason, a certain amount of short-term caution might be warranted. Even in the hitherto buoyant commodities space, trends are diverging among specific commodities: while the rally in precious metals continues, oil prices have resumed their downward trend on the uncertain economic outlook. Also, as the US elections draw closer, uncertainty around the outcome could contribute to spikes in volatility and are another reason to adopt a defensive posture. Finally, with respect to China, continued credit ratings downgrades, the potential for more defaults and continued macro uncertainties could also weigh on sentiment. Specific Chinese sectors that are likely to dominate issuance for the rest of the year include bank capital, Local Government Financing Vehicles (LGFVs) and select HY issuers, particularly those in the property space.

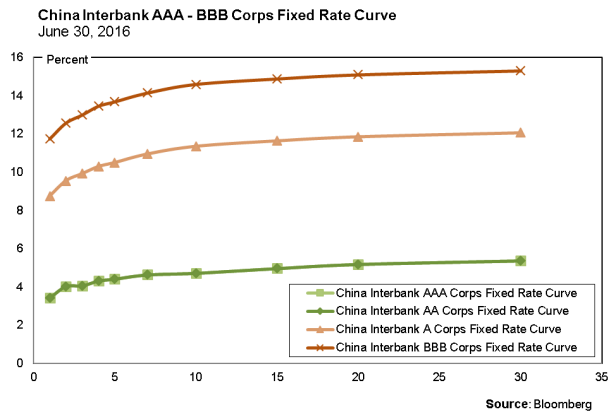
7.1. Global HG Corporate Spreads



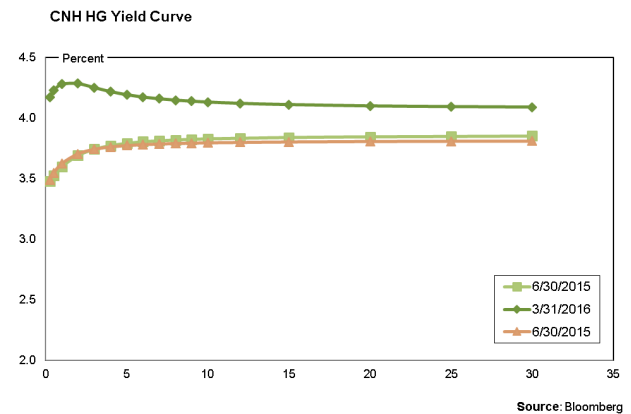
7.2. Global HY Corporate Spreads



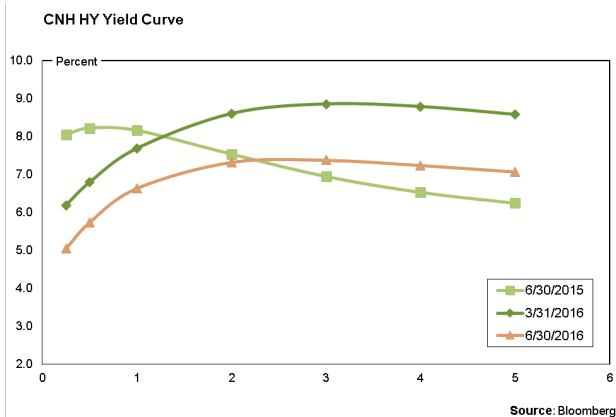
7.3. China Interbank AAA - BBB Corps Fixed Rate Curve



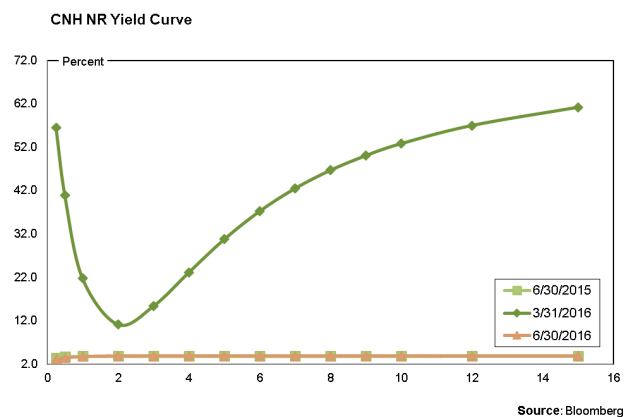
7.4. CNH HG Yield Curve



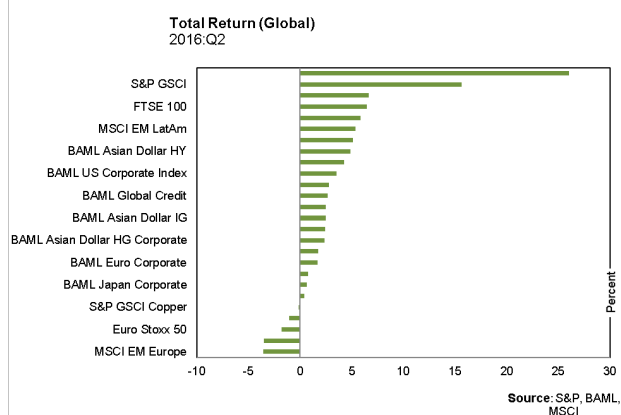
7.5. CNH HY Yield Curve



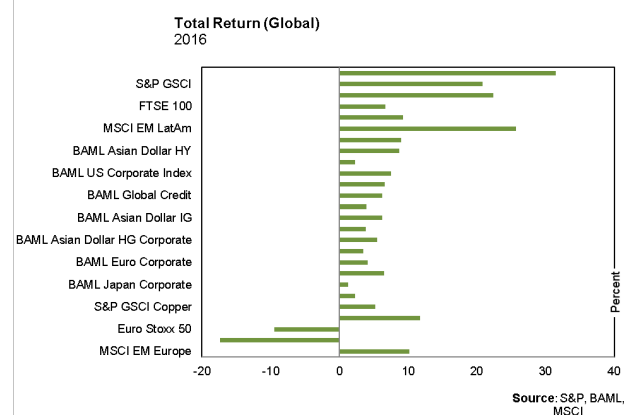
7.6. CNH NR Yield Curve



7.7. Global Returns, Quarter-End

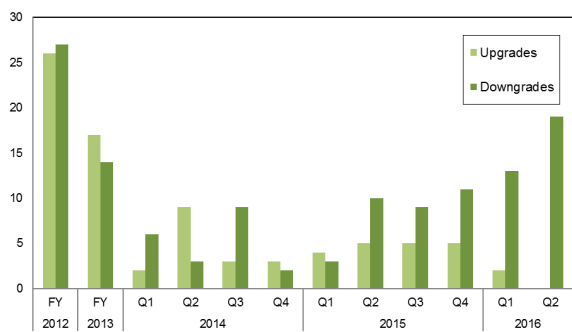


7.8. Global Returns, 2016



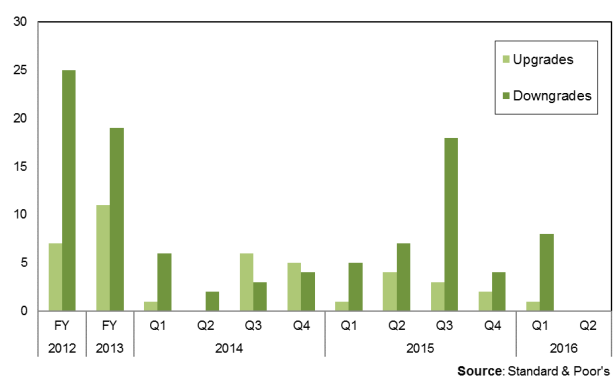
7.9. Asia Upgrades / Downgrades ex DM Asia

Standard & Poor's Asia Upgrades/Downgrades ex DM Asia
2012 - 2016:Q2



7.10. Asia Upgrades / Downgrades, DM Asia Only

Standard & Poor's Asia Upgrades/Downgrades, DM Asia Only
2012 - 2016:Q2



7.11. Asian Upgrades & Downgrades, Standard & Poor's, Second Quarter 2016

Upgrades	Country	Date	Rating
PT Profesional Telekomunikasi Indonesia	Indonesia	4/1/2016	BBB-
PT Pakuwon Jati Tbk.	Indonesia	5/6/2016	BB-
Downgrades	Country	Date	Rating
China Oilfield Services Limited (China National Offshore Oil Corp.)	China	4/6/2016	BBB+
AEON Credit Service (Asia) Co. Ltd. (AEON Co. Ltd.)	Hong Kong	4/13/2016	BBB
Greenland Holding Group Company Ltd.	China	4/29/2016	BB
Yanzhou Coal Mining Company Limited (Yankuang Group Co. Ltd.)	China	4/29/2016	BB-
PT Multipolar Tbk.	Indonesia	5/4/2016	B
STATS ChipPAC Ltd.	Singapore	5/11/2016	B+
Shanghai Huayi (Group) Company	China	5/12/2016	BBB-
Rolta India Limited	India	5/27/2016	CCC-
Syndicate Bank	India	5/30/2016	BB+
Indian Overseas Bank	India	5/30/2016	BB
Bank of India	India	5/30/2016	BB+
Rolta India Limited	India	5/31/2016	SD
Advance Info Service Public Co. Ltd.	Thailand	5/31/2016	BBB+
Shanghai Pudong Development Bank Co. Ltd.	China	6/17/2016	BBB
Power Construction Corporation of China	China	6/22/2016	BBB+
SABAN SHARI'AH COMPLIANT REIT	Singapore	6/23/2016	BB+
Beijing Capital Group Co. Ltd.	China	6/27/2016	BBB-
COFCO (Hong Kong) Limited (China National Cereals, Oils and Foodstuffs Corp.)	Hong Kong	6/29/2016	BBB+
China Cinda (HK) Holdings Company Limited (China Cinda Asset Management Co. Ltd.)	Hong Kong	6/29/2016	A-

7.12. Asian Defaults, Standard & Poor's, Second Quarter 2016

Defaults	Country	Type
Atlas Iron Ltd.	Australia	Metals and mining
Barmingo Holdings Pty Ltd.	Australia	Capital Goods
Rolta India Ltd.	India	High Technology

8. Summary of the Methodologies Adopted for this Report

2. G3 Asia ex Developed Market Asia (Japan, Australia, and New Zealand)

Issuance

Bond transactions are sourced primarily from Dealogic, with supplemental information sourced from Bloomberg. Unless otherwise noted, all issuance are long-term debt. High grade transactions are defined as transactions with a Dealogic “effective” rating of equal or greater than BBB-, and may include unrated transactions based on issuer and desk notes. High yield transactions are defined as transactions with a Dealogic “effective” rating of equal or less than BB+, and may also include unrated transactions based on issuer and desk notes. Unrated deals are those deals with no effective rating from Dealogic.

“All Asia” issuance are defined as being a corporate bond issue having a Dealogic “deal nationality” as within Asia, regardless of market, including domestic. Sovereign, sub-sovereign, medium-term notes, and agencies are also included from issuance, while supranational and ABS/MBS issuers are excluded from issuance. Loans are excluded from issuance as well.

“DM”, or Developed Market Asia, include those deals with a Dealogic deal nationality from Australia, Japan, and New Zealand. “Ex DM Asia” will refer to all deals excluding those deals with a Dealogic deal nationality from Australia, Japan, and New Zealand.

G3 deals are defined a subset of deals in “All Asia” that are rank eligible, according to Dealogic’s rank eligibility guidelines, with a tranche currency in US dollar (USD), European euro (EUR), or Japanese yen (JPY). There may exist deals within “All Asia” issuance that are denominated in a G3 currency but are not rank eligible and therefore not included in G3 tables but may be included in all other non-G3 exclusive tables.

“LCY”, or local currency, are defined as a subset of deals in “All Asia” flagged by Dealogic local currency flag. G3 and LCY deals are not mutually exclusive and may overlap (e.g., in the case of Japanese JPY deals).

All issuance are denoted in USD equivalents based on exchange rates as of the issue date of the bond.

Outstanding

Outstanding figures are sourced from Bloomberg and contain all bonds from its corporate securities database, including private placements. Structured notes and debt secured by assets are excluded. All other criteria hew closely to the criteria for issuance.

All outstandings are denoted in USD equivalent based on exchange rates as of quarter-end.

Outstanding G3 deals are defined a subset of deals in “All Asia” that are rated with at least one rating by one of the four rating agencies: Fitch Ratings, Moody’s, Standard & Poor’s, or DBRS; and denominated in US dollar (USD), European euro (EUR), or Japanese yen (JPY). Deals that are not rated by one of the four rating agencies (those deals with a Bloomberg composite rating of “NA”) are excluded. The “NA” exclusion is due to overlap between rank ineligible deals and those deals with no rating; a close analysis of the data reveals that the figures for data excluding “rank ineligible” deals and the figures for data excluding data rated N.A. in Bloomberg are similar.

2.1., 2.3, 2.5., 2.7., 2.9., 2.11., 2.13., 2.15., 2.17., 2.18.

Data are sourced from Dealogic.

Issuance by country is determined by Dealogic's deal nationality.

Issuance by tenor is determined by years of maturity at issuance.

Issuance by sector is defined by Dealogic's General Industry Group ("GIG") groupings and are not analogous to Bloomberg's Sector grouping.

2.2., 2.4., 2.6., 2.8., 2.10., 2.12.

Data are sourced from Bloomberg.

Outstanding by rating are by current composite rating assigned by Bloomberg. Composite ratings by Bloomberg are the average of ratings assigned by Moody's, Standard & Poor's, Fitch Ratings, and DBRS; a minimum of two ratings must be given to a bond before a composite rating is generated. "NR" denotes a bond with a single rating assigned by the four rating agencies, whereas "NA" denotes a bond with no rating from any of the four.

Outstanding by tenor are based on current tenor as quarter-end. "Other" includes those bonds with no listed maturity date and perpetuals.

3. LCY Asia ex Developed Market Asia (Japan, Australia and New Zealand)

3.1. - 3.4.

Issuance data are sourced from Dealogic according to the criteria outlined in Section 1. Outstanding data are sourced from Bloomberg according to the criteria outlined in Section 1.

4. All Asia

4.1. – 4.9.

Issuance data are sourced from Dealogic according to the criteria outlined in Section 1. Outstanding data are sourced from Bloomberg according to the criteria outlined in Section 1.

5. Domestic CNY

Issuance

Bond transactions for CNY are sourced from Dealogic and are defined as all issued debt denominated in renminbi (CNY) and in the domestic debt markets. CNY-denominated deals issued in the euro, foreign, or international markets are excluded. There are no restrictions on deal type and will include supranationals, medium-term notes, money market notes, securitisations, and commercial paper debt. Due to the lower restrictions in CNY issuance, CNY-denominated deals outside of Section 5 and 6 are a subset of the deals contained in Section 5 and 6.

Outstanding

Bond transactions for CNY are sourced from Bloomberg and are defined as debt denominated in CNY and issued in the domestic or domestic MTN markets. CNY-denominated deals issued in the euro, foreign, or international debt markets are excluded. Deals include corporate high grade bonds, high yield bonds, medium-term notes, money market and commercial paper debt. The combination of CNH and CNY debt exclude a small minority of dual-currency deals that are non-domestic, non-dim sum debt.

All outstandings are denoted in USD equivalent based on exchange rates as of quarter-end.

5.1. – 5.8.

Issuance data are sourced from Dealogic in accordance to the criteria specified in Section 5. Outstanding data are sourced from Bloomberg in accordance to the criteria specified in Section 5.

6. CNH

Issuance

Bond transactions for CNH are sourced from Dealogic and are defined as all debt denominated in renminbi (CNY) issued and in the euro, foreign, or international debt markets. CNY-denominated deals issued in the domestic market are excluded. There are no restrictions on deal type and will include supranationals, medium-term notes, money market notes, securitisations, and commercial paper debt. Due to the lower restrictions in CNH issuance, CNH-denominated deals outside of Section 5 and 6 are a subset of the deals contained in Section 5 and 6.

All issuance are denoted in USD equivalents based on exchange rates as of the issue date of the bond.

Outstanding

Bond transactions for CNH are sourced from Bloomberg and are defined as debt denominated in CNY and issued in the euro, foreign, or international debt markets. CNY-denominated deals issued in the domestic market are excluded. Deals include corporate high grade bonds, high yield bonds, medium-term notes, money market, securitisations, and commercial paper debt. The combination of CNH and CNY debt exclude a small minority of dual-currency deals that are non-domestic, non-dim sum debt.

All outstandings are denoted in USD equivalent based on exchange rates as of quarter-end.

6.1. – 6.8.

Issuance data are sourced from Dealogic in accordance to the criteria specified in Section 4. Outstanding data are sourced from Bloomberg in accordance to the criteria specified in Section 6.

7. Spreads, Credit Quality & Total Return

7.1. – 7.2. Global Corporate Spreads

High grade and high yield US and European corporate spreads are sourced from Bank of America-Merrill Lynch (BAML) indices. Spreads are over government debt.

US high grade spreads are sourced from BAML's US Corporate Index (COA0) and tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch), at last 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of USD 250 million. Original issue zero coupon bonds, 144a securities (with and without registration rights), and pay-in-kind securities (including toggle notes) are included in the index. Fixed-to-floating rate securities are included provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities, including those with automatic principal write-down provisions, are included in the index provided they do not have an automatic common equity conversion, unless the conversion is activated by a regulatory authority in which case they are included. Other hybrid capital securities, such as those that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Securities issued or marketed primarily to retail investors, equity-linked securities, securities in legal default, hybrid securitized

corporates, Eurodollar bonds (USD securities not issued in the US domestic market), taxable and tax-exempt US municipal securities and DRD eligible securities are excluded from the index.

European high grade spreads are sourced from BAML's Euro Corporate Index (ER00) and tracks the performance of EUR denominated investment grade corporate debt publicly issued in the Eurobond or Euro member domestic markets. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch), at last 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of EUR 250 million. Original issue zero coupon bonds and pay-in-kind securities, including toggle notes, are included in the index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities are included in the index provided they do not have an automatic common equity conversion feature; these securities with triggers activated by a regulatory authority, including conversions into equity, qualify for inclusion. Also qualifying for inclusion are contingent capital securities with principal write-down triggers. Hybrid capital securities qualify for the index, including those potentially converting into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms. Euro legacy currency, equity-linked and securities in legal default are excluded from the Index. Securities issued or marketed primarily to retail investments do not qualify for inclusion in the index.

US high yield spreads are sourced from BAML's US High Yield Index (H0A0) and tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at last 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of \$100 million. In addition, qualifying securities must have risk exposure to countries that are members of the FX-G10, Western Europe or territories of the US and Western Europe. The FX-G10 includes all Euro members, the US, Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway and Sweden. Original issue zero coupon bonds, 144a securities (with and without registration rights), and pay-in-kind securities (including toggle notes) are included in the index. Callable perpetual securities are included provided they are at least one year from the first call date. Fixed-to-floating rate securities are included provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities, including those with automatic principal write-down provisions, are included in the index provided they do not have an automatic common equity conversion, unless the conversion is activated by a regulatory authority in which case they are included. Other hybrid capital securities, such as those that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Securities issued or marketed primarily to retail investors, equity-linked securities, securities in legal default, hybrid securitized corporates, Eurodollar bonds (USD securities not issued in the US domestic market), taxable and tax-exempt US municipal securities and DRD eligible securities are excluded from the index.

European high yield spreads are sourced from BAML's Euro High Yield Index (HE00) and tracks the performance of EUR denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance. In addition, qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of EUR 100 million. Original issue zero coupon bonds, "Global"

securities (debt issued simultaneously in the Eurobond and euro domestic markets), 144a securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities are included in the index provided they do not have an automatic common equity conversion feature; these securities with triggers activated by a regulatory authority, including conversions into equity, qualify for inclusion. Also qualifying for inclusion are contingent capital securities with principal write-down triggers. Hybrid capital securities qualify for the index, including those potentially converting into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms. Euro legacy currency, equity-linked and securities in legal default are excluded from the Index. Securities issued or marketed primarily to retail investments do not qualify for inclusion in the index.

Asian high grade and investment grade spreads are sourced from J.P. Morgan's Asia Credit Index (JACI) and tracks the performance of USD-denominated Asian debt in the Asian ex-Japan region. Qualifying countries are those Asian region excluding Japan, including: China, Hong Kong, Indonesia, India, South Korea, Sri Lanka, Mongolia, Macao, Malaysia, the Philippines, Pakistan, Singapore, Thailand, Taiwan and Vietnam. Minimum deal sizes are \$150 million and at least 12 months to final maturity at time of issuance. Fixed and floating rate instruments, and debt issued by sovereign, quasi-sovereign and corporate entities qualify for inclusion. Convertible bonds do not qualify for inclusion in the index.

7.3. China Interbank AAA Yield Curve

The curve is comprised of yuan-denominated fixed-rate corporate bonds that are traded on the China Interbank exchange. The bonds are rated AAA by local rating agencies. The values for the points on the curve are contributed by China Government Securities Depository Trust & Clearing Co Ltd (CDC).

7.4. – 7.6. China CNH Yield Curves

The securities underlying this curve are a subset of CNH data and sourced from Bloomberg; please see section 6 for more details regarding criteria. Ratings are determined by Bloomberg composite rating. Curves are fitted using Nelson-Siegel regression on mid-yield to maturity of underlying bonds.

7.7. – 7.8. Total Return (Quarter-End and YTD)

Total return data are sourced from various global bond and equity, including, but not limited to: the Bank of America-Merrill Lynch, Standard & Poor's, J.P. Morgan, and MSCI,

7.9. – 7.11. Asian Issuer Rating Actions

European issuer upgrades and downgrades are sourced from S&P. and are a combination of both emerging market, Japan, Australia, and New Zealand rating actions. Multiple upgrades or downgrades of a single issuer are counted separately. Rating actions are inclusive of both corporate (both credit, policy, or merger-related) as well as sovereign ratings.

Due to publication timing, these data set may run on a quarter lag.

7.12. Asian Issuer Defaults

European issuer upgrades and downgrades are sourced from S&P and are a combination of both emerging market, Japan, Australia, and New Zealand defaults reported. Defaults are inclusive of both corporate (both credit, policy, or merger-related) as well as sovereign defaults.

9. Disclaimer

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