Growing Asia's Markets

ASIA CREDIT REPORT
Second Quarter 2017

PREPARED IN PARTNERSHIP WITH

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Market Overview and Highlights of Asia (ex-Japan, Australia and New Zealand) debt issuance in Second Quarter 2017

Total issuance in 2Q'17 came in at USD 79.2 billion (bn) as of June 30, down 5.2% quarter-over-quarter (qoq) from 1Q'17 (USD 83.5bn) and up 33.4% year-over-year (yoy), inclusive of high grade (HG), high yield (HY), and unrated deals. Year to date, total issuance is USD 162.7bn, up 72.1% from the first half of 2016. A broad mix of HY issuance (particularly out of China), pre-funding to meet across-the board refinancing requirements and the strong growth of a new asset class – perpetuals (particularly of the non-financial variety) have all combined to keep Asian G3 bond issuance buoyant.

Within Asia ex-Japan, Australia and New Zealand, in line with recent trends, Chinese issuance dominated but more interestingly, this was also a strong quarter for Indian issuance, particularly in the green bonds space; the largest corporate green bond issue out of Asia (USD 1.0bn), was recently concluded by an Indian green finance company (Greenko Dutch BV). Overall though, Chinese green bond issuance still remains significantly higher on a YTD basis, representing approximately 15.6% of global green bond issuance for the first half of 2017. Several factors are likely to drive strong issuance through the second half of this year – these include the strong bid from Chinese asset managers for Chinese (and Asian) paper, a cluster of maturities across the board in Asia later this year (driving issuance to meet refinancing requirements), expectations of continued tightening in the US which should act as a catalyst to issuers to consider pre-funding and finally, a shift in Indian issuance away from banks (as investors have turned a bit defensive towards this sector on account of high non-performing loans (NPLs)) and towards HY and green bonds. Other key features of 1H'17 issuance are as follows:

1) HG issuance (of USD 55.9bn) continues to easily outpace HY issuance of USD 18.6bn. However, HY issuance remains at historical highs, with second quarter issuance of USD 18.6bn the second highest level ever and only slightly below the record high achieved in the first quarter 2017 of USD 18.7bn. High yield issuance in the first half of 2017 have already eclipsed annual volumes of prior years. As mentioned earlier, a marked preference for longer-dated issuance – perpetuals in particular, coupled with increased continuing high levels of Chinese HY issuance and the newly emerging Indian HY sector have combined to support overall HY supply.

2) On a quarterly total return basis, Asian IG debt outperformed Asian HY paper, with HG paper reporting a total return of 1.48% in 2Q'17, compared to a 0.06% decline in HY paper. Given that Asian HY paper has provided annualized total returns in the 10.0% plus annualized range over the last 4-5 years, a correction was only to be expected. A combination of other factors were also responsible for the significantly weaker HY performance during 2Q'17:

   - Towards the end of 2Q'17, investigations into a handful of high-profile Chinese HY issuers, particularly those involved in overseas acquisitions, saw a sharp sell-off in these names;

   - The weak financials of a well-known commodity company in the Asian HY space resulted in the bonds of this corporate selling off; and

   - A number of Chinese HY issuers chose to issue short-term paper (1y or shorter), in order to get around restrictions on longer-dated issuance, resulting in yields pushing out on existing Chinese HY bonds.

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

For the second quarter 2017, total G3 issuance stood at USD 79.2bn, down 5.2% qoq and up 33.4% yoy; year to date, total G3 issuance has been USD 162.8bn, up 7.21% from the first half of 2016 (USD 94.5bn). China remained the largest issuing country in the second quarter, accounting for a total of USD 53.4bn, or approximately two thirds (67.4%) of G3 issuance in 2Q'17; USD 38.6bn and USD 11.9bn in HG and HY deals, respectively, were priced from China. Hong Kong came in second as the second largest issuer, with USD 7.0bn issued, followed by South Korea with USD 6.2bn.

Finance remained the largest sector of G3 issuance in the second quarter (USD 25.5bn), followed by utility (USD 13.0bn) and real estate/property (USD 12.7bn).

In terms of ratings, within the HG space, AA- transactions accounted for the largest share of deals priced during the quarter, with USD 11.7bn in total issuance, followed by A+ rated transactions totaling USD 9.9bn. Within HY issuance, the BB category led with USD 5.0bn of issuance, followed by B- rated transactions of USD 4.3bn.

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'17, with a total of USD 44.1bn in short tenor issues being priced during the quarter. Of these, USD 33.4bn were HG deals, USD 8.3bn were HY deals and the balance unrated.

Overall G3 debt outstanding in the region stood at USD 958.5bn, increasing 3.5% qoq and 16.7% yoy. High grade debt accounted for the bulk of total outstanding debt at USD 642.1bn (a 13.9% increase qoq), followed by unrated debt at USD 188.3bn (a growth of 7.7% qoq) and HY debt at USD 128.1bn (a decline of 31.7% qoq). The sharp decline in HY volumes is largely due to the sovereign upgrade of Indonesia in May by Standard and Poor's to investment grade status.

China (with USD 422.2bn), South Korea (with USD 116.5bn) and Hong Kong (with USD 114.0bn) remain the three countries with the largest shares of G3 debt outstanding. Ratings-wise, among HG issuers, deals rated BBB- (USD 152.5bn) now account for the largest share of debt outstanding (from A+ in prior quarters) due to the sovereign upgrade of Indonesia, while B+ transactions outstanding (USD 28.1bn) dominate in the HY space (from BB- in prior quarters), again due to the shift of Indonesia to investment grade status. By sector, financials with a total of USD 285.2bn accounted for a little less than a third of outstanding G3 paper, followed by sovereigns (USD 235.5bn) and energy (USD 106.8bn). Finally, deals with remaining tenors of 5 years or less (USD 500.5bn) accounted for the bulk of total Asia (ex-Japan, Australia and NZ) debt outstanding.

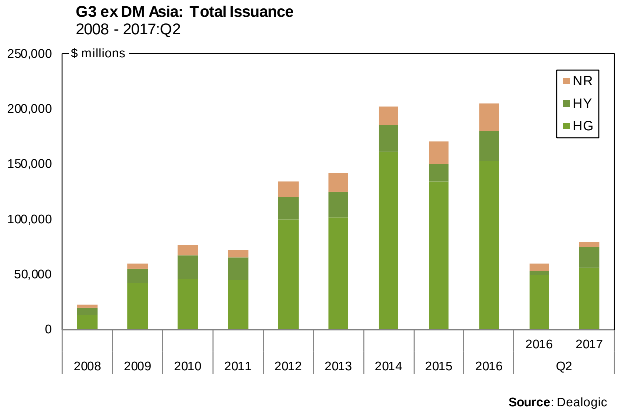
Turning to the LCY debt markets, USD 180.8bn in total LCY-denominated debt was issued in Asia (ex-Japan, Australia & NZ) in 2Q'17, an increase of 13.2% qoq (USD 159.8bn) and a decline of 18.9% yoy (USD 223.0bn). China remins the largest issuer in the LCY debt markets, with USD 123.7bn, followed by South Korea (USD 23.2bn) and India (USD 9.0bn). Finance also remains the largest category in 2Q'17 with USD 79.7bn issued, followed by construction (USD 21.6bn) and transportation (USD 19.1bn).

Total LCY debt outstanding at the end of 2Q'17 in Asia (ex-Japan, Australia and NZ) stood at USD 15.5tn, rising by 3.0% qoq, with HG and NR debt outstanding increasing 7.3% and 2.8% qoq, respectively, while HY debt continued declined 48.4%. China remains the bulk of total outstanding LCY debt at USD 10.2tn, followed by India (USD 1.8tn) and South Korea (USD 1.5tn).

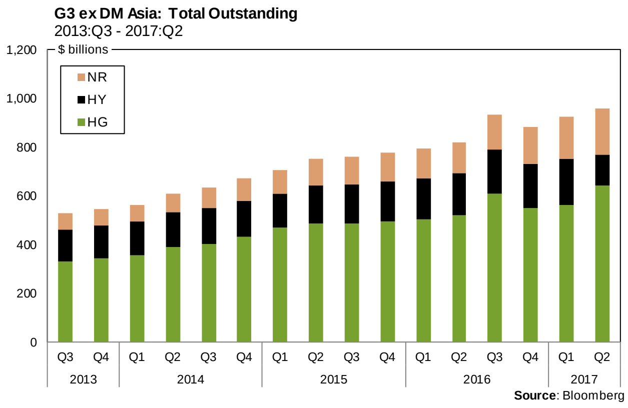
State of the Asian leveraged loan market

Asian leveraged loan debt, excluding developed market Asia, reached USD 58.9bn in 2Q'17, a 72.9% increase qoq and a 18.3% decline yoy. Leading sectors in 2Q'17 issuance were construction/building (USD 18.0bn), real estate/property (USD 7.7bn), and utility & energy (USD 7.0bn). Leveraged loan issuance was primarily used for project financing (USD 28.4bn) and repayment of debt (USD 6.4bn). Sponsored loan deals as a percentage of issuance fell, representing only 2.0% by dollar amount in the second quarter from 2.2% in 1Q'17.

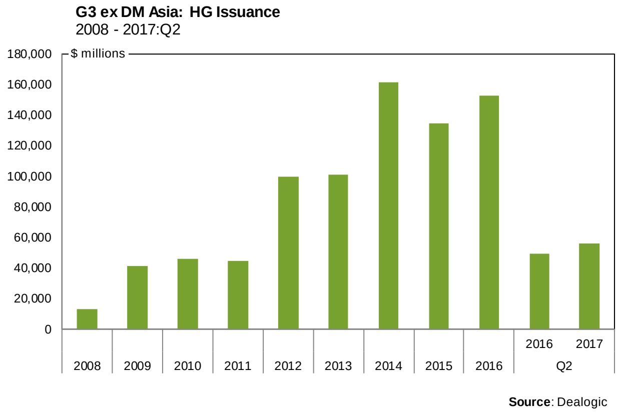
2.1. G3 ex DM Asia: Total Issuance



2.2. G3 ex DM Asia: Total Outstanding



2.3. G3 ex DM Asia: HG Issuance



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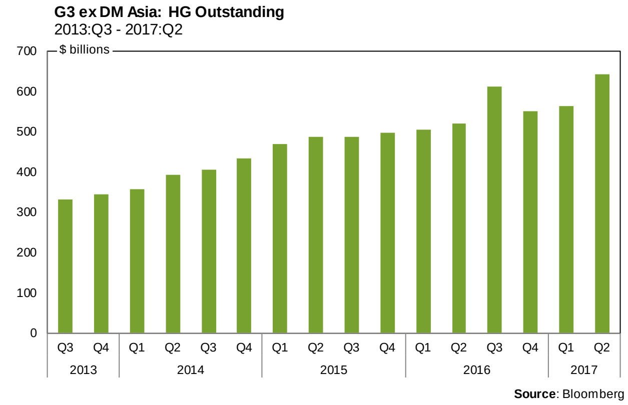

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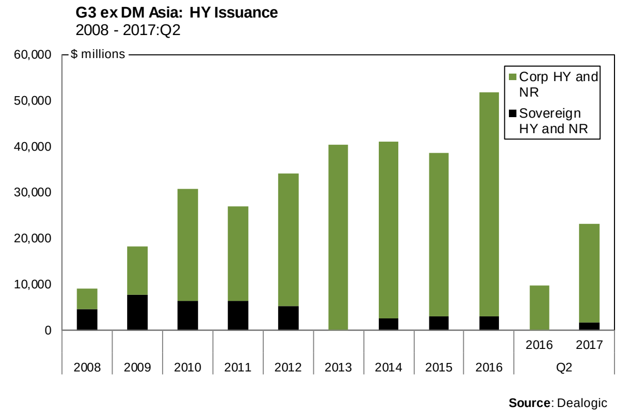
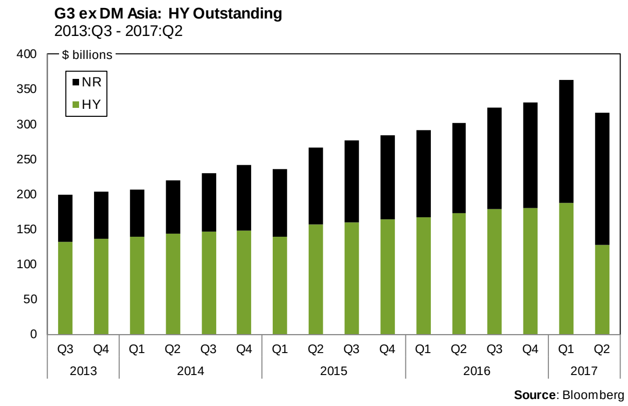
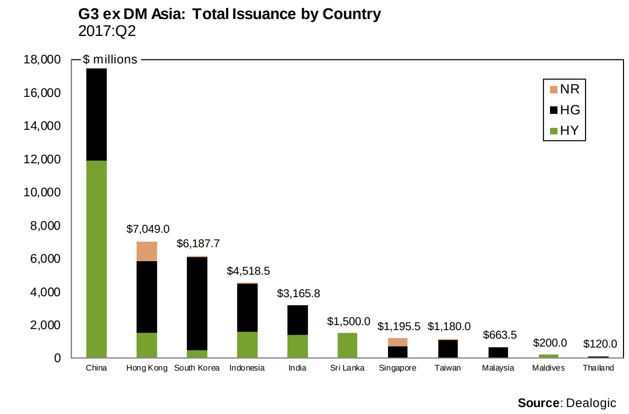


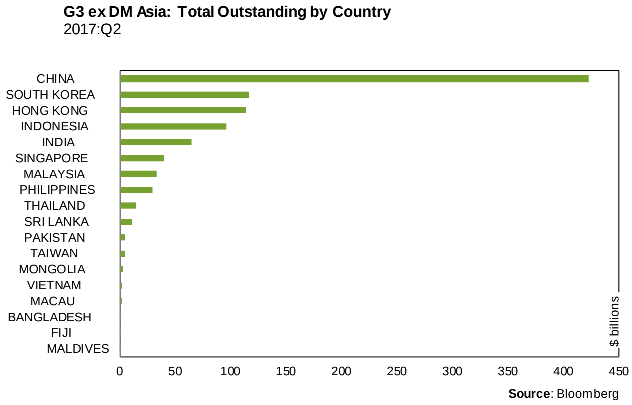
2.6. G3 ex DM Asia: HY Outstanding



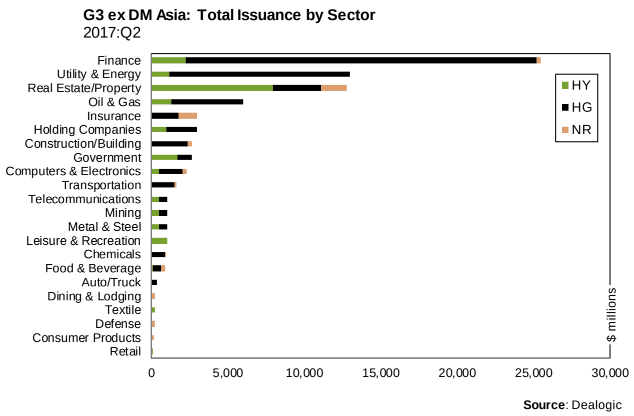
2.7. G3 ex DM Asia: Total Issuance by Country



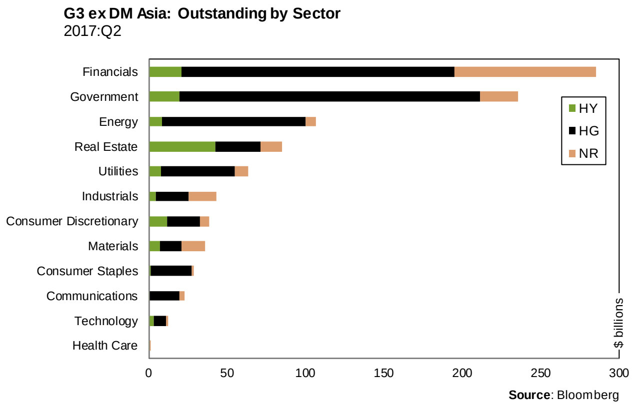
2.8. G3 ex DM Asia: Total Outstanding by Country



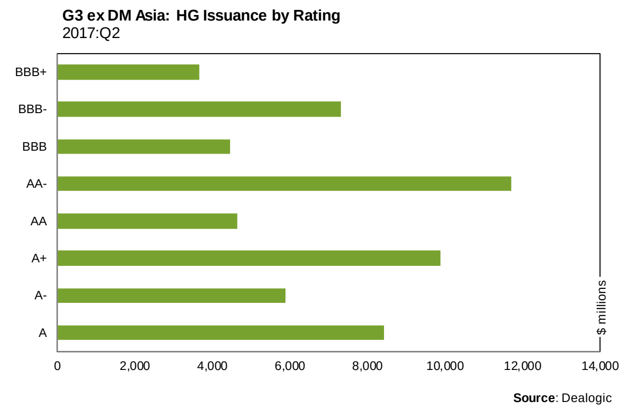
2.9. G3 ex DM Asia: Total Issuance by Sector



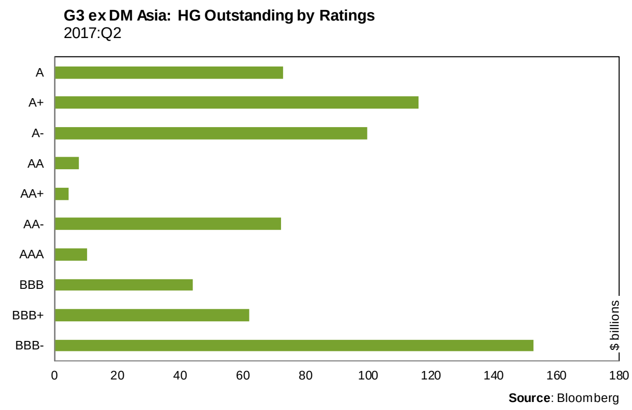
2.10. G3 ex DM Asia: Total Outstanding by Sector



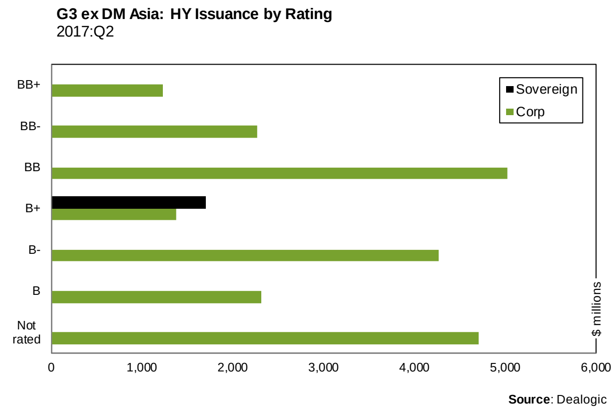
2.11. G3 ex DM Asia: HG Issuance by Rating



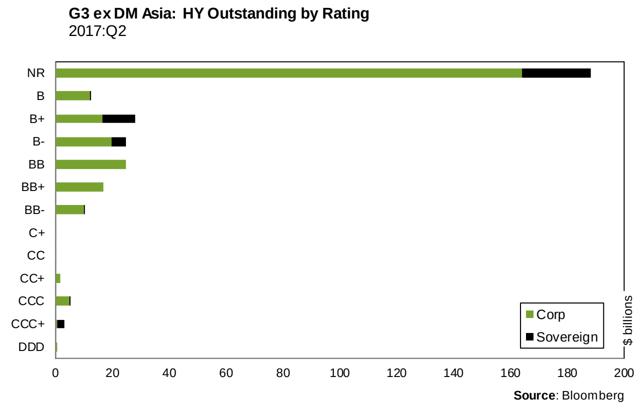
2.12. G3 ex DM Asia: HG Outstanding by Rating



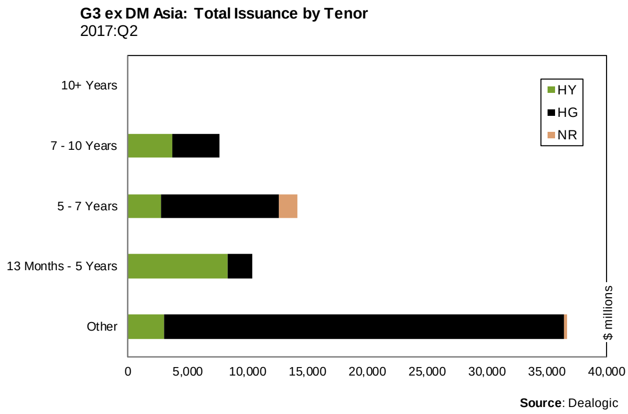
2.13. G3 ex DM Asia: HY Issuance by Rating



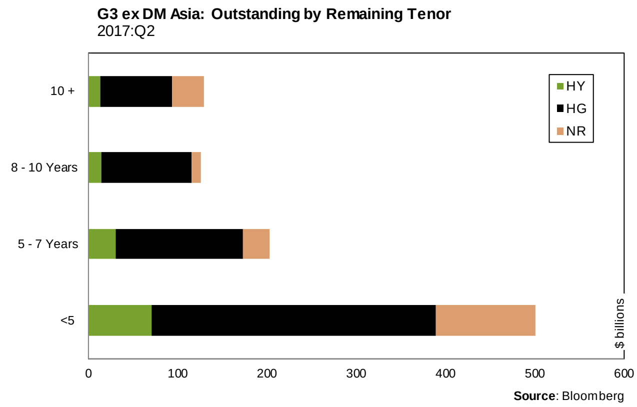
2.14. G3 ex DM Asia: HY Outstanding by Rating



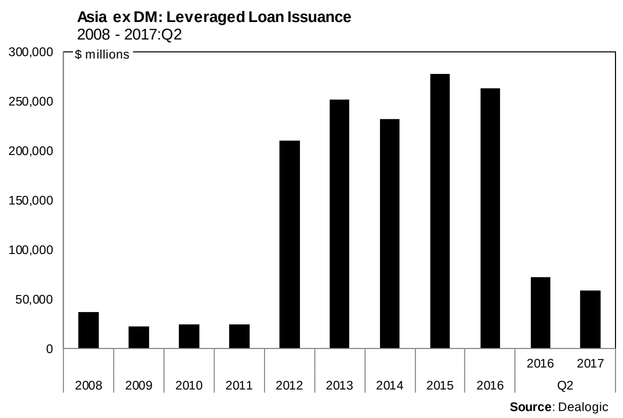
2.15. G3 ex DM Asia: Total Issuance by Tenor



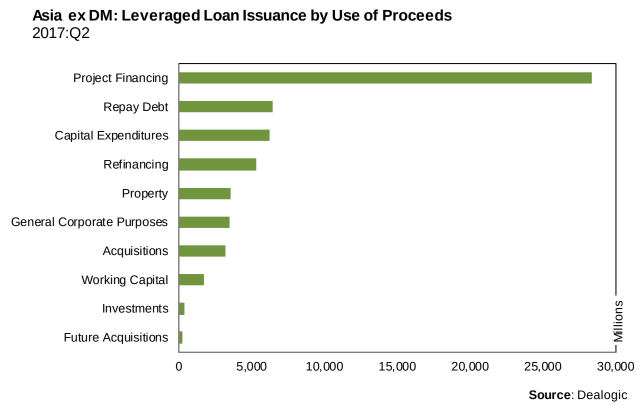
2.16. G3 ex DM Asia: Outstanding by Remaining Tenor



2.17. Asia ex DM: Total Leveraged Loan Issuance

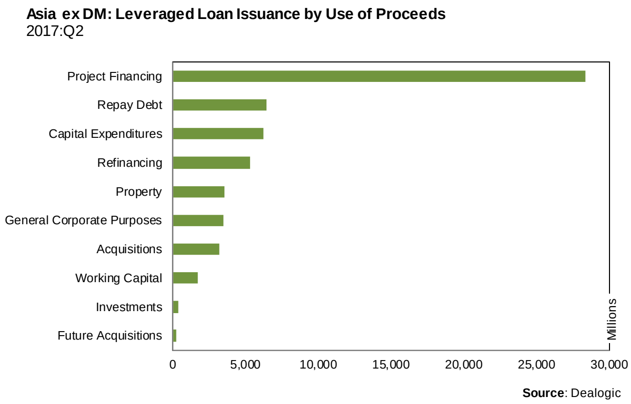


2.18. Asia ex DM: Total Leveraged Loan Issuance by Use of Proceeds

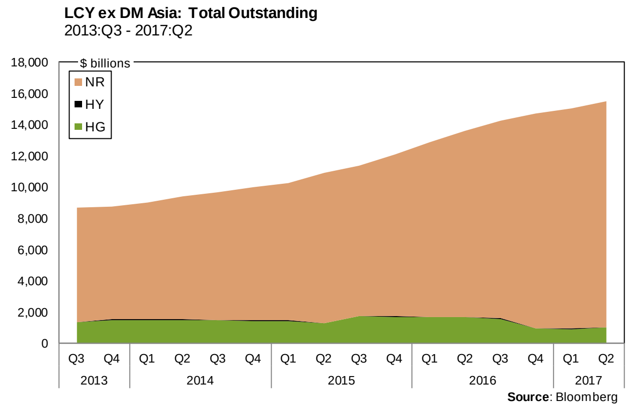


3. LCY Asia ex Developed Market Asia (Japan, Australia and New Zealand)

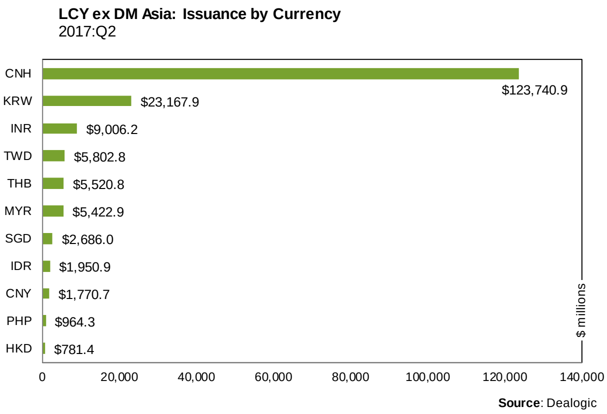
3.1. LCY ex DM Asia: Total Issuance



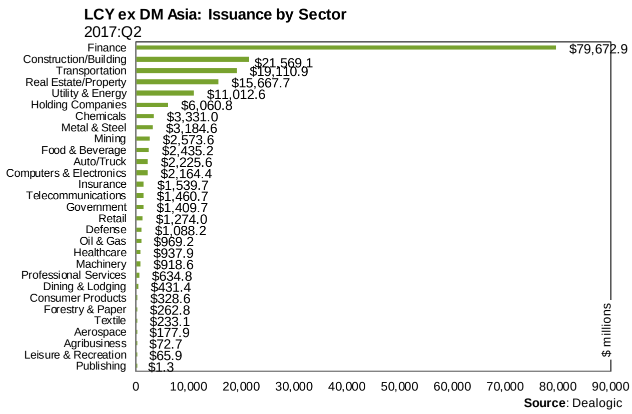
3.2. LCY ex DM Asia: Total Outstanding



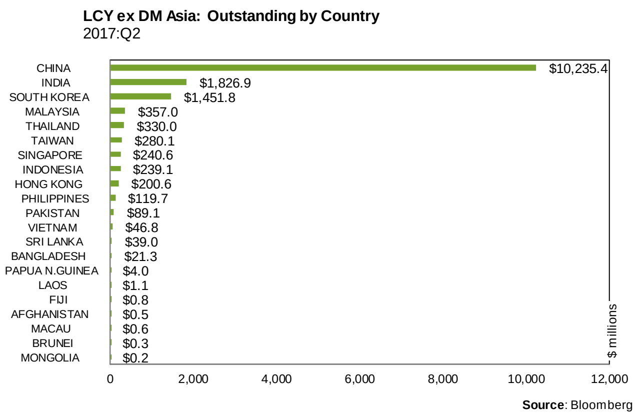
3.3. LCY ex DM Asia: Issuance by Currency



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) was USD 158.3bn in the second quarter of 2017, a decline of 9.5% qoq but an increase of 9.0% yoy. In 2Q'17, total HG G3 issuance in Asia was USD 110.4bn, a decline of 12.7% qoq and an increase of 6.3% yoy; HY issuance was USD 20.4bn, a decline of 13.9% qoq but a 186.8% increase yoy; and unrated issuance was USD 27.5bn, an increase of 11.1% qoq but a decline of 19.7% yoy. High yield issuance in 2Q'17 was second only to the all time high reached in 1Q'17; total volumes in the first half of 2017 have also exceeded annual volumes in prior years.

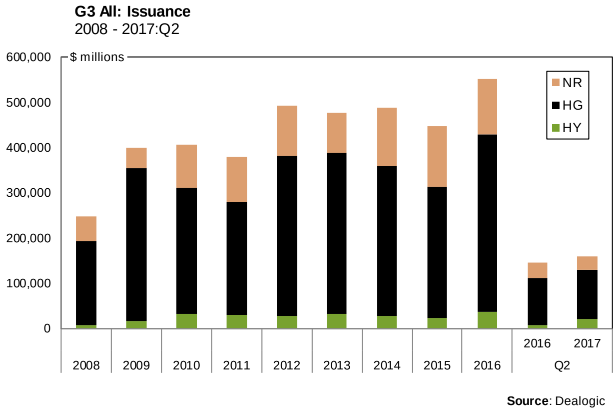
Outstanding G3 debt, including developed market Asia, stood at USD 11.6tn at the end of the second quarter 2017, an increase of 0.7% qoq, with declines in HY debt (USD 168.2bn, a 25.9% decline qoq) and NR debt (USD 5.7tn, a 22.7% decline) but increases in HG debt (USD 5.7tn, a 47.5% increase). Changes in outstanding volumes by rating were largely due to the upgrade of Indonesia to investment grade status by Standard and Poor's.

With the slight decline in G3 volumes in 2Q'17, local currency volumes picked up in the second quarter of 2017. LCY debt issuance, including Japan, Australia, and New Zealand, stood at USD 531.9bn, an increase of 6.5% qoq and a decline of 6.5% yoy, comprised of USD 383.4bn in HG issuance, USD 8.5bn in HY issuance and USD 140.0bn in unrated issuance.

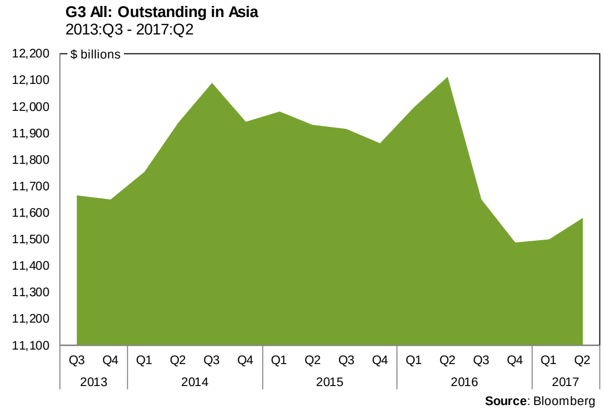
Going into 2H'17, there are a few headwinds which could stand in the way of sustained LCY issuance. One of the key considerations remains the determination on the part of the Chinese authorities to ensure an orderly de-leveraging of the entire corporate sector in China, in time for the all-important party Congress later this year. Of course, selective increases in borrowings/leverage might well be permitted (particularly in key sectors such as those pertaining to "One belt, one road" initiative). Selectively, sovereign panda bond issuance might see an uptick, while corporate pandas from offshore companies wishing to expand their China presence should remain limited on the still pending issue of "foreign currency GAAP reconciliation" and the "appointment of PRC-qualified auditors".

Away from China, India has just closed off the "masala bond" (essentially, offshore INR-denominated bonds) issuance route, on account of the fact that FPI (Foreign Portfolio Investor) holdings are close to the designated limits. This should also have some dampening effect on overall fundraising in LCY, on the part of Indian issuers.

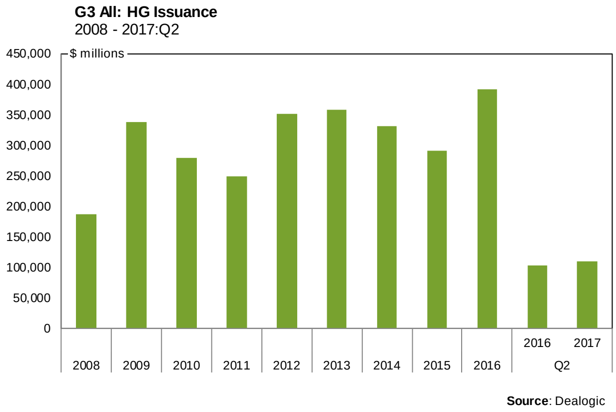
4.1. G3 All: Total Issuance



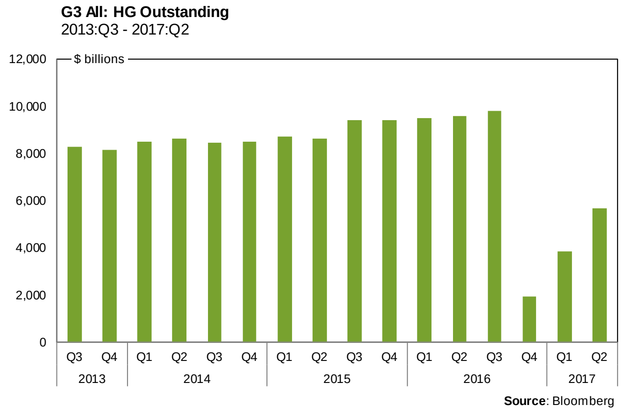
4.2. G3 All: Total Outstanding



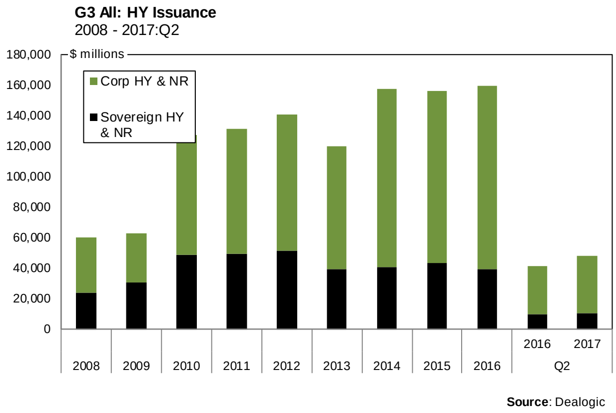
4.3. G3 All: HG Issuance



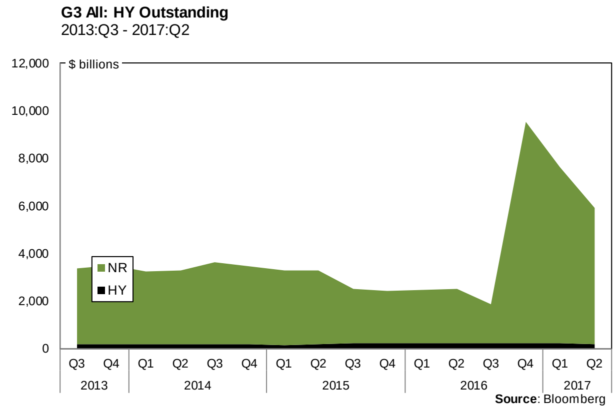
4.4. G3 All: HG Outstanding



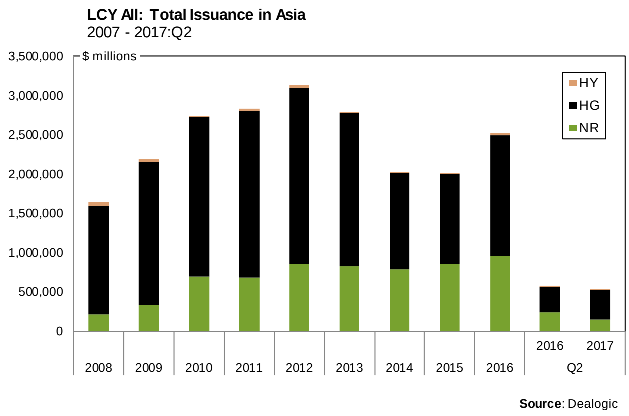
4.5. G3 All: HY Issuance



4.6. G3 All: HY Outstanding



4.7. LCY All: Total Issuance



5. China – Domestic

Total Issuance & Outstanding – Domestic CNY issuance

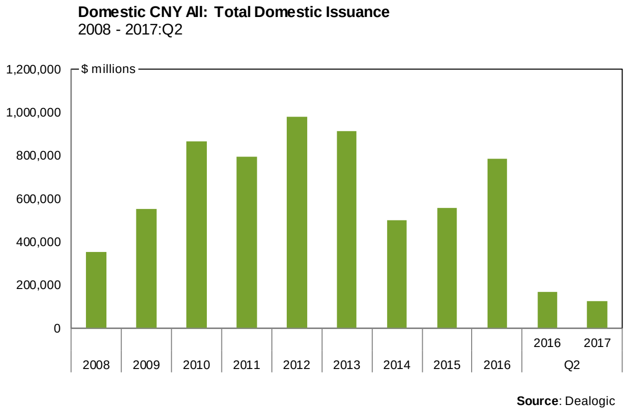
Total domestic CNY issuance stood at USD 123.7bn in the second quarter of 2017, up 24.4% from the first quarter (USD 99.5bn) but a decline of 27.0% yoy (USD 169.5bn). By tenor, 66.4% of second quarter issuance (USD 82.2bn) would mature in five years or less, followed by the 7 – 10 year bucket (USD 24.0bn, or 19.4% of issuance). By sector, finance led issuance totals (USD 47.8bn), followed by construction (USD 18.8bn). Despite the slight uptick in second quarter volume relative to first quarter, domestic CNY volumes remain well below in average volumes from prior quarters: for the first half of 2017, volumes totaled USD 123.7bn, down 44.6% compared to the the first half of 2016.

Outstanding domestic CNY debt stood at USD 10.1tn at the end of second quarter 2017, with sovereigns leading totals (USD 5.36tn), followed by financials (USD 2.5tn) and industrials (USD 791.4bn).

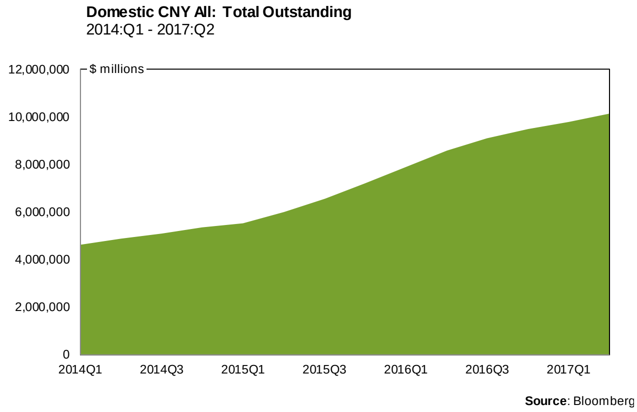
Our view in 1Q'17 was that there could be some pick-up in issuance going into the second quarter and that has come to pass. That said, generally tight liquidity onshore in an environment of rising interest rates domestically, coupled with YTD defaults (according to Bloomberg, 14) more or less on pace with 2016 (according to Bloomberg, 29 in total), will keep both issuance and investor interest restrained relative to previous years. In addition, the downgrade of China's credit rating by Moody's has also adversely impacted sentiment towards Chinese credits. With the government and Chinese regulatory authorities determined to control excessive credit growth and leverage ahead of the crucial party Congress later this year, the dampening effect this has on issuance is likely to continue into the second half of the year.

Among the bright spots with respect to domestic issuance, one positive development is that investors have become more discriminating among higher and lower rated bonds, with spread differentials between weaker issuers (such as certain LGFVs) and stronger credits (such as those linked to the sovereign) widening, thus revealing increasing sophistication on the part of the investor base. Other factors likely to be supportive of the Chinese domestic bond markets at the margin are 1) increasing foreign investor interest, following the inauguration of the "Bond Connect" programme, which gives investors yet another channel to access the Chinese domestic bond markets and 2) the inclusion of the renminbi in the SDR and the prospective inclusion of Chinese bonds in global indices, which will ensure a large volume of "passive" inflows from index funds, who would need to necessarily have a certain percentage of funds invested in Chinese bonds at all times.

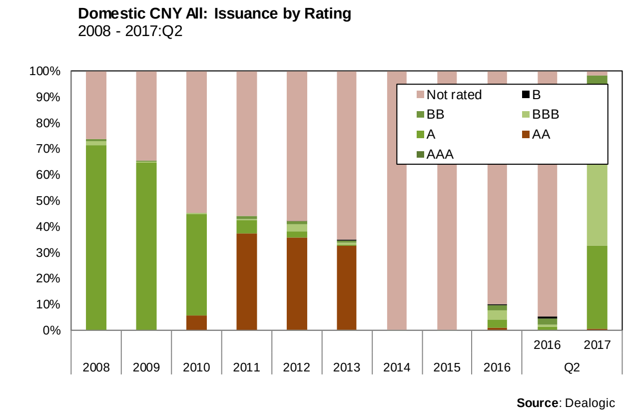
5.1. Domestic CNY All: Total Issuance



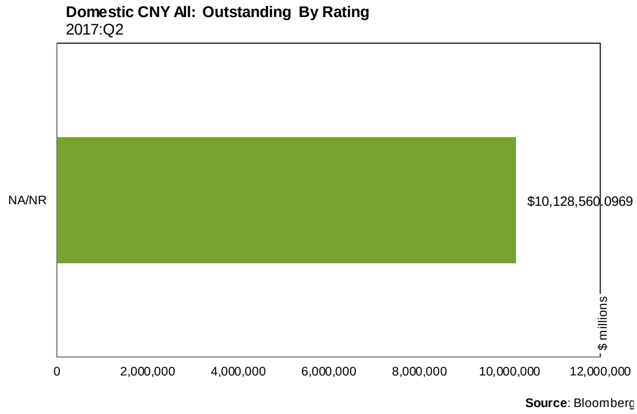
5.2. Domestic CNY All: Total Outstanding



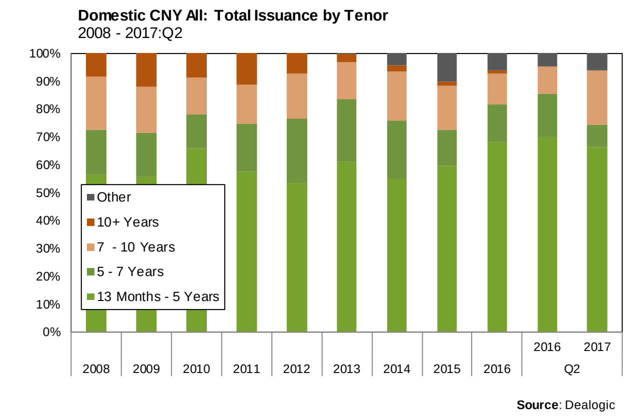
5.3. Domestic CNY All: Issuance by Rating



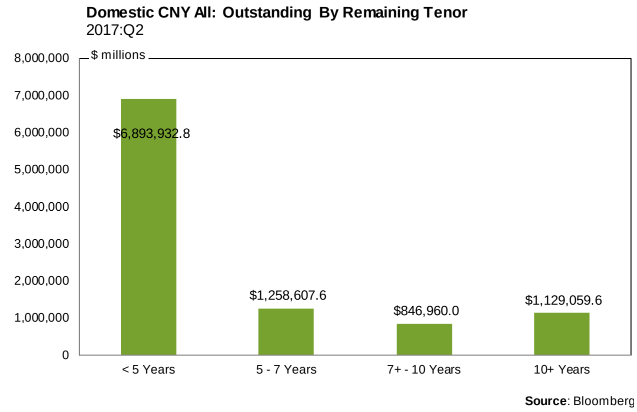
5.4. Domestic CNY All: Outstanding by Rating



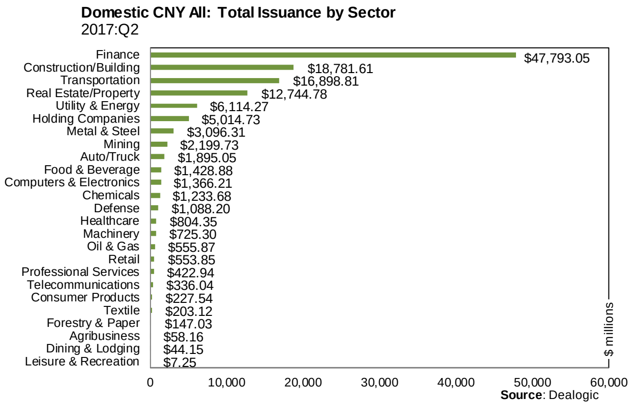
5.5. Domestic CNY All: Issuance by Tenor



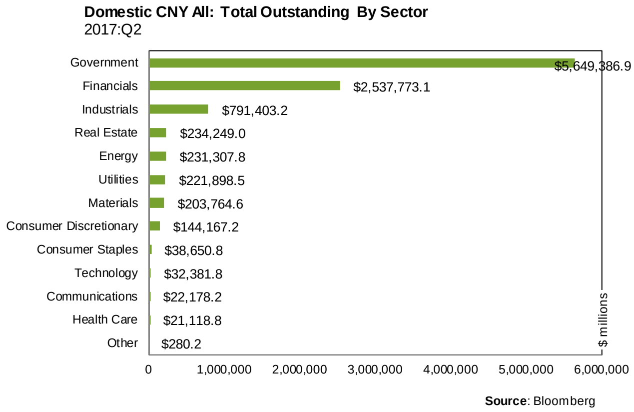
5.6. Domestic CNY All: Outstanding by Remaining Tenor



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 offshore issuance picked up slightly in the second quarter but overall remain depressed compared to prior quarters; an equivalent of USD 2.4bn in CNH bonds were issued, an increase of 14.7% qoq but a decline of 68.8% yoy. In terms of tenor, 97.8% all of second quarter issuance was accounted for by transactions with tenors of 5-years or less, with approximately a fifth of overall volume from short-term paper (USD 450mn). HG deals rated A totaling USD 435.4mn had the highest share among rated deals (18.5%). In terms of sector, only sovereigns (USD 1.0bn), finance (USD 899.3mn) and auto (USD 435.4mn) deals were issued in the second quarter.

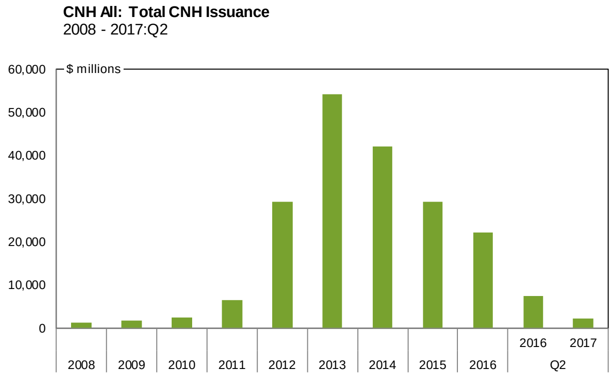
CNH Deposit Base by Location	Amt (USD bn)	As of
Hong Kong	77.4	May-17
Singapore	18.7	May-17
Taiwan	45.6	Jun-17
Korea, Republic of	1.9	Jun-17
Luxembourg	9.8	Aug-15
United Kingdom	8.8	Mar-17
France	3.0	Dec-15

Sources: HKMA (Hong Kong), MAS (Singpore), Central Bank of Republic of China (Taiwan), Bank of Korea (Korea), Luxembourg for Finance (Luxembourg), Bank of England (UK), PWC (France); Exchange Rate: CNH 6.7807 = USD 1.0, GBP 1.30 = USD 1.0

The total of dim sum bonds outstanding stood at USD 63.3bn at the end of the second quarter, a decline of 13.1% qoq. The reasons for this decline are several and have been highlighted in our earlier credit reports. To repeat, as onshore access to CNY instruments gets progressively easier for international investors with the passage of time, this decline in the relative importance of offshore CNH is unlikely to be reversed. From time to time, the pace of decline could slow, as has occurred recently, with the renminbi actually strengthening during the most recent bout of USD weakness, which has provided some support to offshore CNH liquidity in recent months.

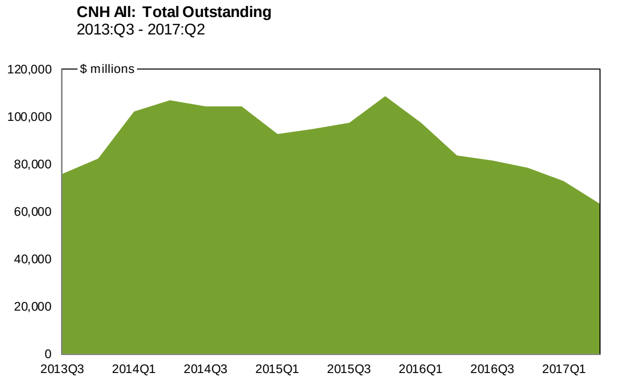
One consequence of the renewed “relative strength” in the renminbi is that most deposit centers have reported no change or a very slight pickup in offshore CNH deposits from March 2017. Overall deposit volumes remain well below the highs, however.

6.1. CNH All: Total CNH Issuance



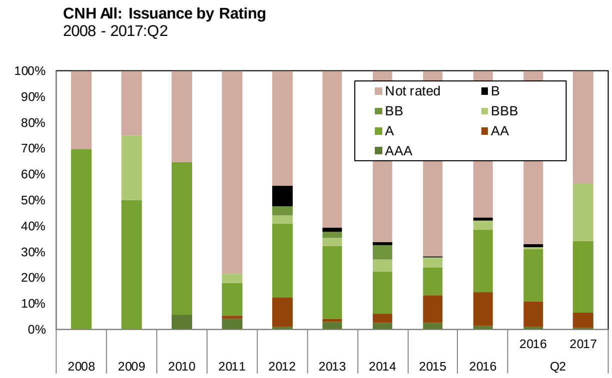
Source: Dealogic

6.2. CNH All: Total Outstanding



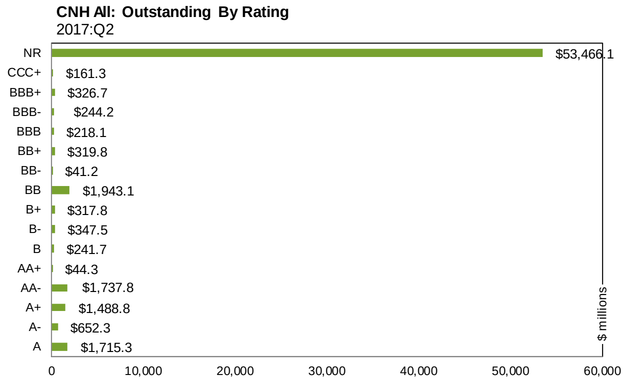
Source: Bloomberg

6.3. CNH All: Issuance by Rating



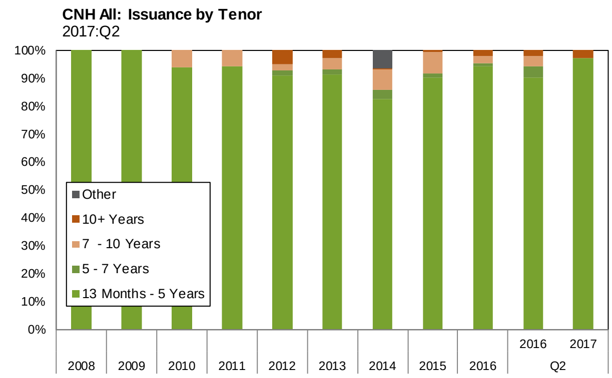
Source: Dealogic

6.4. CNH All: Outstanding by Rating



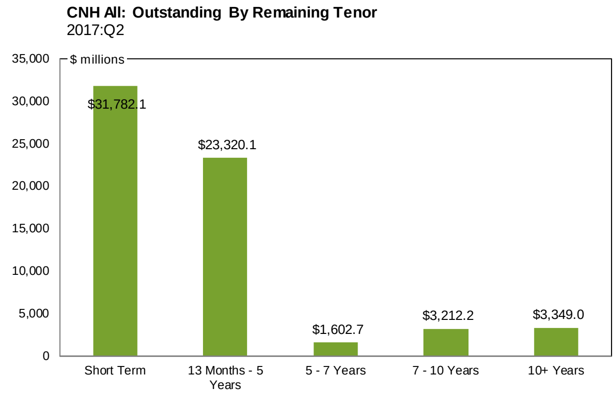
Source: Bloomberg

6.5. CNH All: Issuance by Tenor



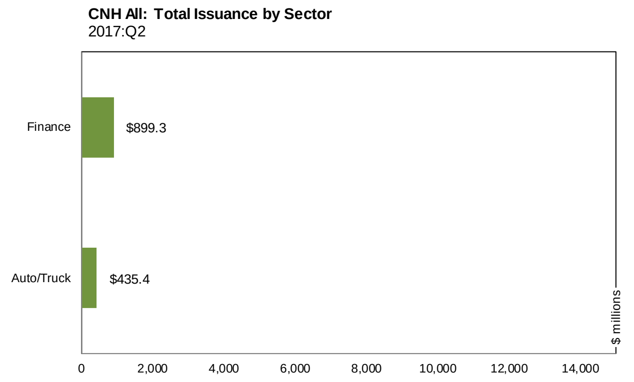
Source: Dealogic

6.6. CNH All: Outstanding by Remaining Tenor



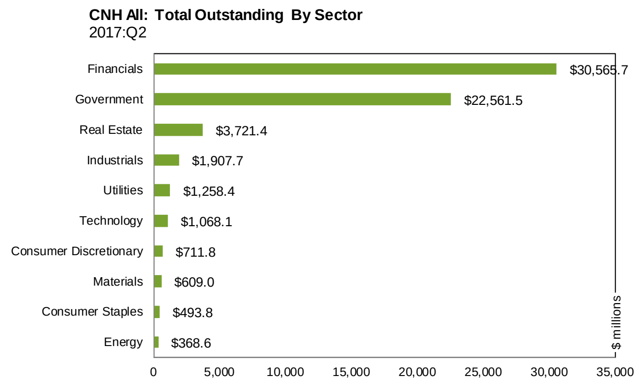
Source: Bloomberg

6.7. CNH All: Issuance by Sector



Source: Dealogic

6.8. CNH All: Outstanding by Sector



Source: Bloomberg

7. Spreads, Credit & Total Return

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

Asian HG bond spreads traded a few basis points wider in 2Q'17 from the first quarter, while both US and European bond spreads tightened. At the end of 2Q'17, Asian HG bonds on a composite basis were quoted at an average spread of 133 basis points (bps) in June from 131 bps in March while US and European HG bond issues were quoted at average spreads of 118 bps (from 121 bps) and 107 bps (from 121 bps), respectively. Asian HY corporates also traded wider in the second quarter of 2017 while US and European bond spreads tightened, averaging 408 bps in June (from 384 bps in March 2017), while US and European bonds were much tighter at 375 bps (from 390 bps) and 289 bps (from 350 bps), respectively.

In terms of total return, emerging market Asia and Japanese equities were the outperformers in the second quarter, while emerging market Latin America and Australia underperformed. Asian HG gained 1.48% in the second quarter, while Asian HY indices lost 0.06%.

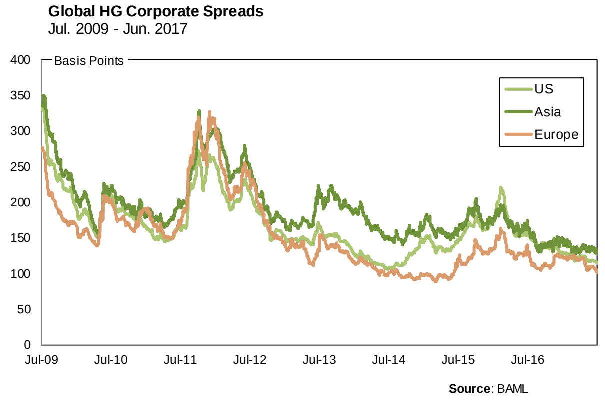
With respect to the calls we made earlier this year and the outlook, going forward:

a) We did flag that China would be likely to underperform (on account of various macro headwinds) and that has indeed proven to be the case – Chinese credits overall returned 3.33% YTD, while among the larger regional economies, Indonesia, Vietnam and Pakistan have returned 7.50%, 6.90% and 5.89% over the same period (and have outperformed relative to the other bigger sovereigns).

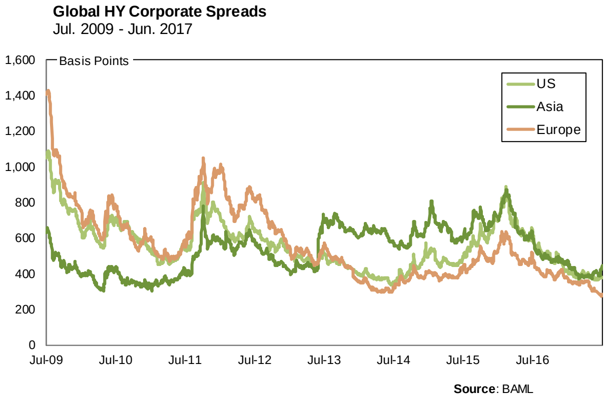
b) Idiosyncratic factors have undermined HY performance during the quarter – the investigation of certain HY Chinese issuers that were high profile acquirers of assets and weakness in one industry leader in the commodities space, together with some supply pressures from the Chinese HY property sector, led to unanticipated HY underperformance. This recent underperformance in HY could well reverse itself during the second half of the year; in an environment where absolute levels of interest rates remain low (although rising off a very low base) and central banks are still broadly accommodative, investor yield hunger should help support HY paper at these wider spreads, more so in the context that Asian HY quoted wider than comparable European and US paper.

c) In addition to macro uncertainties with respect to China, India GDP growth has also slowed by up to a couple of percentage points on an annualized basis – most likely a delayed reaction to last year's demonetization exercise and more recent nationwide GST implementation, which may have contributed to a temporary slowdown in consumer spending. On account of these factors, investors should continue to look at the smaller regional economies such as Indonesia and the Philippines for continued outperformance (among the sovereigns) and select HY corporates in the non-sovereign space – particularly those issuers whose credit profiles remain relatively strong.

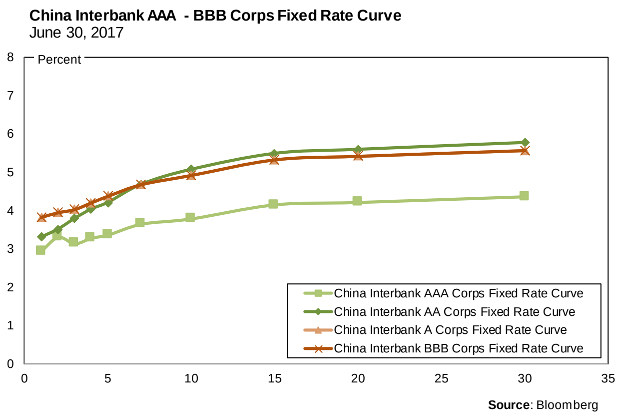
7.1. Global HG Corporate Spreads



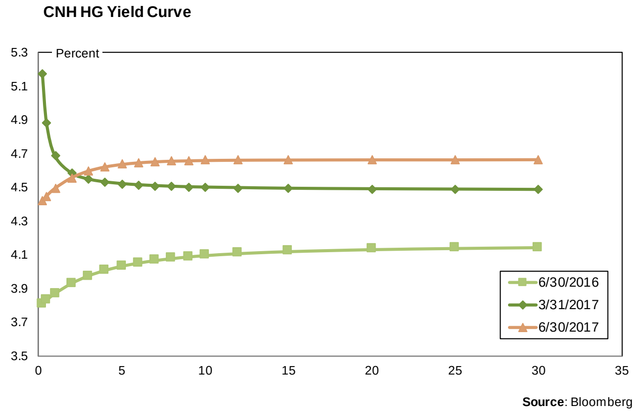
7.2. Global HY Corporate Spreads



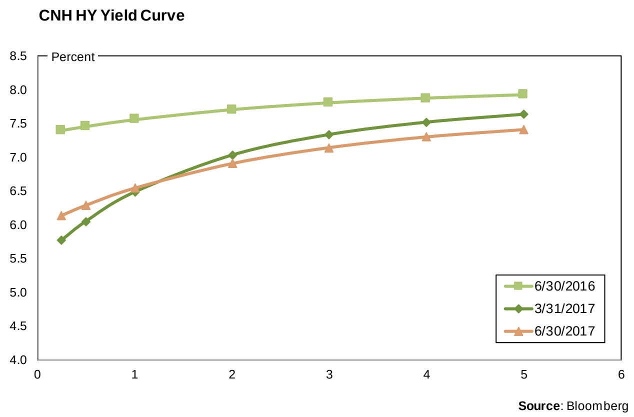
7.3. China Interbank AAA - BBB Corps Fixed Rate Curve



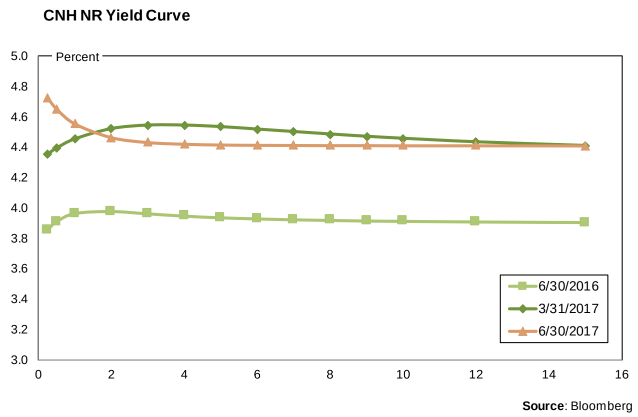
7.4. CNH HG Yield Curve



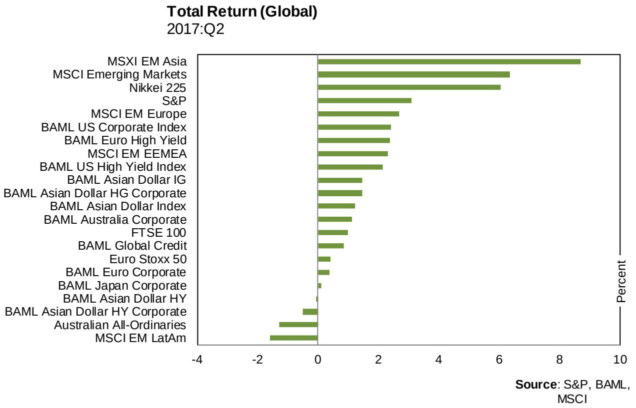
7.5. CNH HY Yield Curve



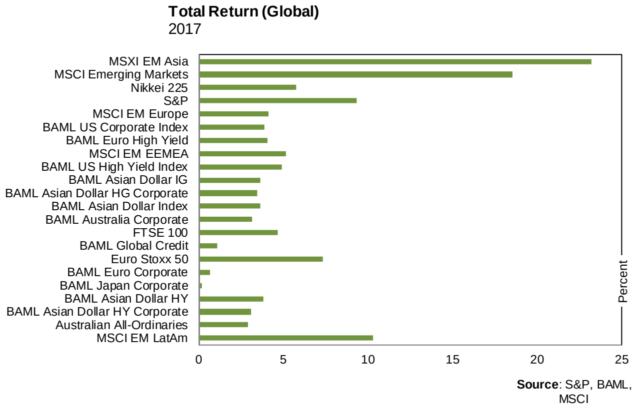
7.6. CNH NR Yield Curve



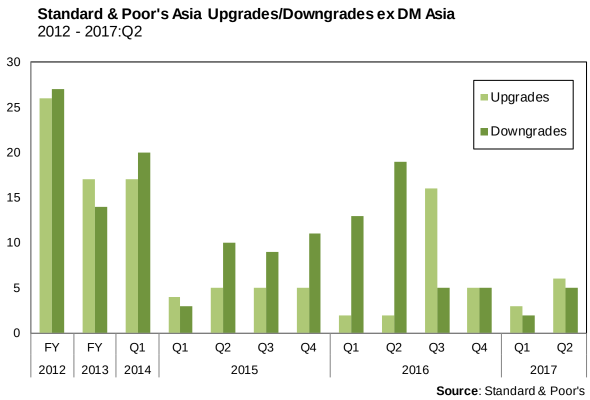
7.7. Global Returns, Quarter-End



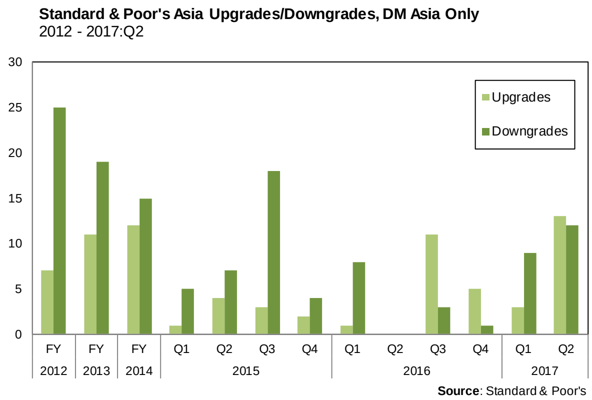
7.8. Global Returns, 2017



7.9. Asia Upgrades / Downgrades ex DM Asia



7.10. Asia Upgrades / Downgrades, DM Asia



7.11. Asian Upgrades & Downgrades, Standard & Poor's, Second Quarter 2017

Upgrades	Country	Date	Rating
PT Pelabuhan Indonesia III (Persero) (Republic of Indonesia)	Indonesia	5/19/2017	BBB-
Doosan Bobcat Inc.	Korea, Republic of	4/28/2017	BB-
CLP Holdings Ltd.	Hong Kong	5/26/2017	A
MagnaChip Semiconductor Corp	Korea, Republic of	6/23/2017	B-
Goodman Group	Australia	5/22/2017	BBB+
Nissan Motoro Co. Ltd.	Japan	6/13/2017	A
DBNGP Trust	Australia	5/17/2017	BBB
Republic of Indonesia	Indonesia	5/19/2017	BBB-
Barminco Holdings Pty Limited	Australia	4/12/2017	B
Shikoku Electric Power Co. Inc.	Japan	4/21/2017	A-
CIMIC Group Ltd.	Australia	5/10/2017	BBB
China Petrochemical Corp.	China	4/13/2017	AA-
Aristocrat Leisure Ltd.	Australia	5/28/2017	BB+
Tokyo Electric Power Co. Inc.	Japan	4/25/2017	BB
Energy Partnership (Gas) Pty Ltd. (DUET Group)	Australia	5/17/2017	BBB
Broadspectrum Limited	Australia	5/29/2017	BBB-
United Energy Distribution Pty Ltd. (DUET Group)	Australia	5/17/2017	BBB+
Alumina Ltd.	Australia	4/7/2017	BB+
Electric Power Development Co. Ltd	Japan	4/25/2017	A

Downgrades	Country	Date	Rating
Quintis Ltd.	Australia	5/11/2017	B
Quintis Ltd.	Australia	6/22/2017	CCC-
Quintis Ltd.	Australia	5/30/2017	CCC+
PT Gajah Tunggal Tbk.	Indonesia	4/25/2017	CCC
Yuexiu Real Estate Investment Trust (Guangzhou Yuexiu Holdings LImited)	Hong Kong	5/17/2017	BB+
AMP Bank Ltd. (AMP Ltd.)	Australia	5/21/2017	A
Auswide Bank Ltd.	Australia	5/21/2017	BBB-
Bendigo and Adelaide Bank Ltd.	Australia	5/21/2017	BBB+
Boart Longyear Ltd.	Australia	4/5/2017	CC
Jiangsu New Headline Development Group Co. Ltd.	China	4/5/2017	BB
MyState Bank Ltd. (MyState Limited)	Australia	5/21/2017	BBB
Members Equity Bank Pty Ltd.	Australia	5/21/2017	BBB
IMB Ltd.	Australia	5/21/2017	BBB
PT MNC Investama Tbk.	Indonesia	5/15/2017	CCC+
Newcastle Permanent Building Society Ltd.	Australia	5/21/2017	BBB
Global A&T Electronics Ltd.	Singapore	5/9/2017	CCC-
Liberty Financial Pty Ltd.	Australia	5/21/2017	BBB-

7.12. Asian Defaults, Standard & Poor's, Second Quarter 2017

Defaults	Country	Type
N/A	N/A	N/A

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 (C0A0) 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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10. Credit

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