Weekly Credit Brief

Feb 12 - Feb 18 2013

Chart of the Week

Devaluation in the yen and its implications for Japanese exporters' credit outlook

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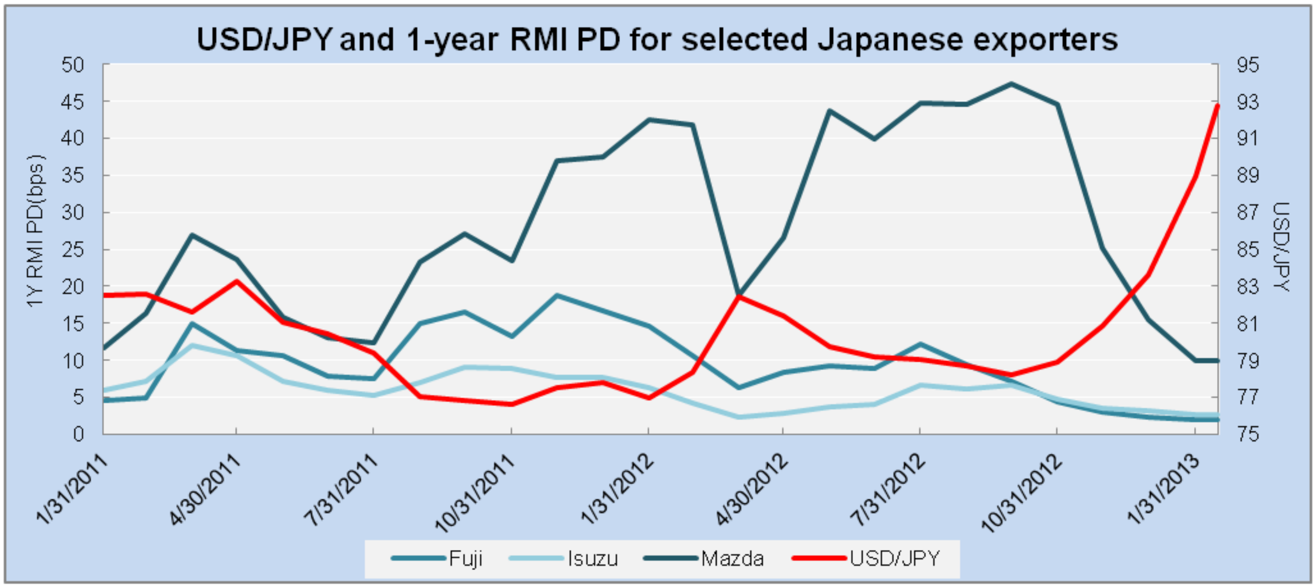

The above chart depicts the relationship between USD/JPY and the 1-year RMI probabilities of default (RMI PD) for three Japanese exporters since 2011. As shown from the chart, there is a significant negative correlation between JPY/USD and the credit outlook of the exporters in the short run.

The yen has fallen more than 13% in the past three months as Japan's Prime Minister, Shinzo Abe, pushed for greater stimulus and higher inflation after 15 years of deflation. The effective devaluation of the yen may improve the competitiveness of Japanese exporters, which could lead to better earnings, supporting the credit profiles of Japanese exporters.

However, the long-term costs and effects of a lower yen to Japanese corporations could potentially be high and difficult to ascertain. The policies introduced by the current Japanese government are not aimed at addressing underlying demographic issues, miss-allocation of capital by Japanese banks and corporations, and a very high level of government debt. Also, it has to be noted that similar strategies in the past have already proved insufficient to extricate Japan from its chronic economic malaise. Last week, the Japanese government said that its real GDP contracted at an annualized rate of 0.4 % in Q4 2012.

Sources:

G-7 roils currency markets with split on concern over JPY (Bloomberg)
Japan GDP decline strengthens Abe's Case for stimulus (Bloomberg)

In the News

S&P: Ratings on MISC Bhd. and PETRONAS not affected by proposed takeover

Feb 13. Standard & Poor's Ratings Services maintained its ratings on Malaysia-based MISC Bhd. (BBB/Stable) and Petroliam Nasional Bhd. (PETRONAS; A-/Stable) following PETRONAS' proposed conditional takeover of MISC which was announced in late January. The credit ratings agency said in the same statement that “the proposed transaction supports our assessment of MISC's strategic importance to its parent PETRONAS. In addition, the transaction is unlikely to have any effect on PETRONAS' financial risk profile.” **(**S&P, Bursa Malaysia)

Bank Indonesia holds rate at 5.75% as expected

Feb 12. The Board of Governors of the Bank of Indonesia kept the discount rate unchanged at 5.75%, a level consistent with manageable inflationary pressures well within the 4.5% inflation target for 2013 and 2014. With rising pressures on external balances due to strong imports, Bank Indonesia will strengthen its policy mix to promote an adjustment in the external balances so that current account deficit will be at a sustainable level. (Business Recorder)

HSBC says Gulf surge to drive 2013 Sukuk record

Feb 11. Gulf Islamic Bonds or sukuk issuances are set to rise in 2013 as Shariah-compliant firms look for quality investments and governments seek financing for big projects. Gulf governments, government-related entities and banks may also take advantage of foreign investor interest in the region to refinance existing debt and raise funding to expand their business. While sales are off to a slower start this year, governments and companies from Turkey, Indonesia, Australia and Hong Kong may help spur worldwide issuance to $55 billion to $60 billion. (Bloomberg)

Bank lending up 16.2% to PHP 3.2tr in 2012

Feb 14. Bank lending in the Philippines increased by 16.2% to PHP 3.24tr in December last year, according to Bangko Sentral ng Pilipinas, the country’s central bank. The strong growth could be attributed to the low interest rate environment that attracted both private enterprises and individuals to increase borrowing. Private enterprise borrowing increased by 16.6% last year, which was mainly driven by industries like financial intermediation, transportation and communication and real estate business. (Business Inquirer, BSP)

Dollar Sibor may be dropped amid global rate-rigging probe

Feb 18. Singapore’s central bank and a group of lenders are considering putting an end to the city-state’s US dollar-linked interbank lending rate as regulators worldwide probe allegations of rigged benchmark borrowing costs. The banks are reviewing how Singapore interbank offered rates are set and may decide to use the US dollar London interbank offered rate instead. (Bloomberg)

Reader’s Digest is bankrupt as iconic magazine falters (Bloomberg)

S&P affirms Japan's credit ratings (RTTNews)

Ghana’s credit rating outlook cut at Fitch on budget gap (Bloomberg)

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