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Weekly Credit Brief

Mar 12 - Mar 18 2013

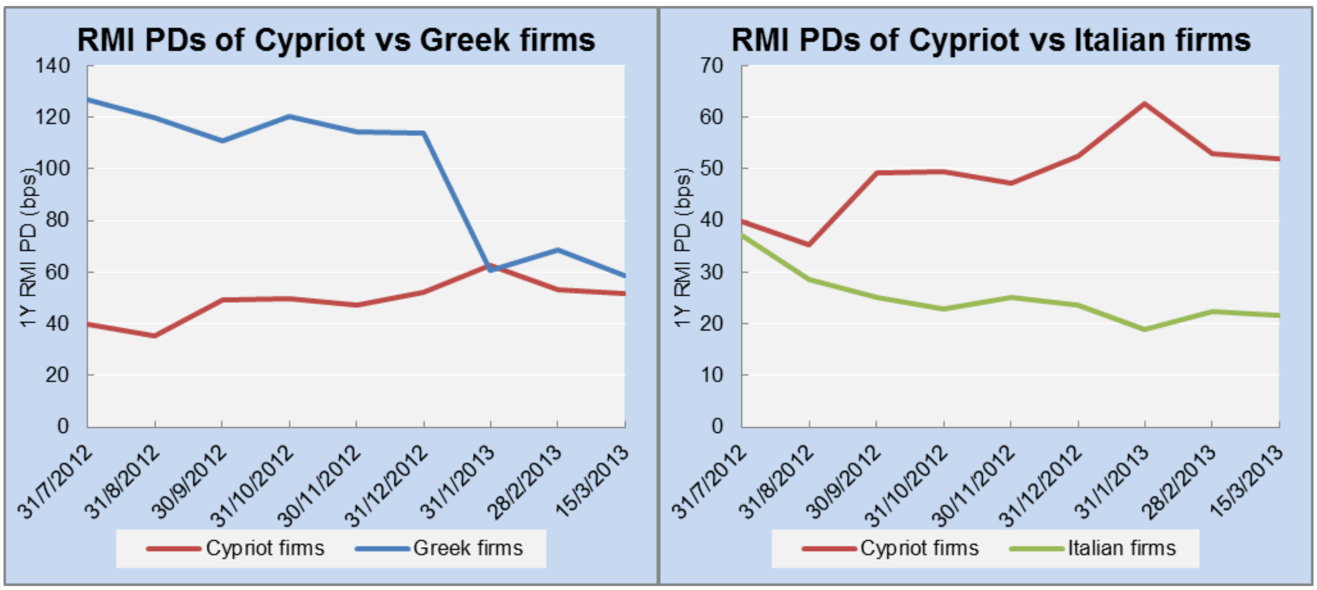
<u>Story of the Week</u>

<u>Credit outlook for Cypriot companies remains uncertain as country seeks EU bailout</u>

By Jun Jie Ne Win Jonathan

Concerns of another economic crisis in Europe were reignited as Cypriot residents queued up to empty their ATMs over the weekend, despite the government freezing ATM and electronic transactions over the weekend. This comes as Cypriot lawmakers negotiate a tax on bank deposits to secure a USD 13bn EU bailout to save the nation's banks. Eurozone finance ministers on Monday evening urged Cyprus to fully guarantee deposits under USD130 000, and ramp up the levy on deposits above this threshold to raise the EUR 5.8bn needed to support its bailout.

The chart below displays the change in credit profiles of Cypriot firms and other European companies. Over the last six months, there is a convergence between the 1-year aggregate RMI probability of default (RMI PD) of Cypriot firms and Greek firms. At the same time, the RMI PD of Italian and Cypriot companies has diverged.



Six months ago, Cypriot and Italian firms nearly shared the same RMI PD. Presently the credit quality of Cypriot companies is more akin to Greek than to Italian companies. The credit quality of Cypriot firms appears to be more consistent with companies domiciled in Greece than to those in Italy. In addition, the health of the country's banking system has deteriorated in tandem with Greece.

The chart also underscores the linkages in the European Union and the ripple effect it creates. As a result of its long intertwined history, Cyprus always had close economic ties to Greece. In the years leading up to 2008, Cypriot banks were awash with liquidity from foreign depositors. They naturally chose to invest the excess capital in Greece.

Cypriot banks have been buying Greek government bonds over the years and saw large write downs on their holdings during the Greek debt restructuring in 2012. When Greece faced harsh economic conditions and austerity measures, Cypriot investments in Greece floundered. The Cypriot banking system is eight times larger than its GDP. Thus, a weakening in the banking system has quickly translated into a systemic problem for the domestic economy.

Sources:

[How Europe Let Cyprus Get Into This Mess](#) (Bloomberg)
[Cyprus President Delays Parliament Vote on Deposit Tax Plan](#) (Bloomberg)

In the News

Suntech doesn't make required debt payment

Mar 17. The distressed Chinese solar-panel Suntech Power Holdings did not fulfill required payments after USD 541mn of its bonds matured on Friday. Being one of the largest solar-panel manufactures in the world, Suntech mainly relied on government support and suffered from overproduction, declining prices and anti-dumping lawsuits in the U.S. in recent years. Total debt at the company amounted to more than USD 2bn and analysts expect that an involuntary bankruptcy filing would soon follow. (WSJ)

LBOs imperil USD 940bn of US company bonds

Mar 15. Investors holding almost USD 1tr of the lowest-rated U.S. investment-grade corporate bonds are at risk of losses as the pace of buyouts surges to the fastest pace in six years. More than half of the USD 1.6tr of securities in the Bank of America Merrill Lynch US Corporate Index with ratings in the BBB tier lack safeguards that would allow creditors to sell the debt back to the issuer at a premium in the event of a merger. Investors face the threat of their claims being weakened by more senior-ranking lenders financing the buyouts. More than USD 160bn of speculative-grade loans have been issued so far this year, compared with USD 300bn in all of 2012. (Bloomberg)

China to transfer railway ministry debt

Mar 14. The Ministry of Railways (MOR) has been dismantled in China after the government arranged for CNY 2.7tr of debt to be transferred to a new state railway company. The ministry's regulatory duties will be taken over by the Ministry of Transport, while railway operations will continue to be managed by the new state railway company. MOR's debt will still be backed by the state after the transfer of liabilities, according to the State Council. The MOR was facing issues of corruption, safety and surveillance even though it was managing the world's second best rail system. (WSJ)

Qatar central bank says to issue QAR 7bn debt

Mar 10. Qatar's central bank announced that it will issue QAR 4bn (USD 1.1bn) of Sukuk and QAR 3bn of conventional bonds, as part of an effort to help local commercial banks meet Basel III liquidity requirements. According to an official statement from the central bank, the local currency denominated bonds will be issued in batches of 3-year and 5-year maturities every quarter. The bond issuance will help the central bank manage excess liquidity in the banking sector which was a result of the country's rapid economic growth. (Business Recorder)

Li takes mantle as China Premier with growth model at stake (Bloomberg)

Banks' debt addiction said to face scrutiny at Basel Group (Bloomberg)

Swaps-clearing D-Day set to trim dealer profits (Bloomberg)

Chavez's 692% bond gain seen living on to Fidelity (Bloomberg)

Covenant arbitrage exploited in high-yield bonds (Bloomberg)

Greece faces 150,000 job-cut hurdle to aid payment (Bloomberg)

Morgan Stanley cautions on junk quality souring (Bloomberg)

Dallas Fed cap would force US banking units to shrink by half (Bloomberg)

JPMorgan report ignites debate on bank size and Dimon roles (Bloomberg)

Traders short junk-bond ETFs as gains top 100% (Bloomberg)

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