

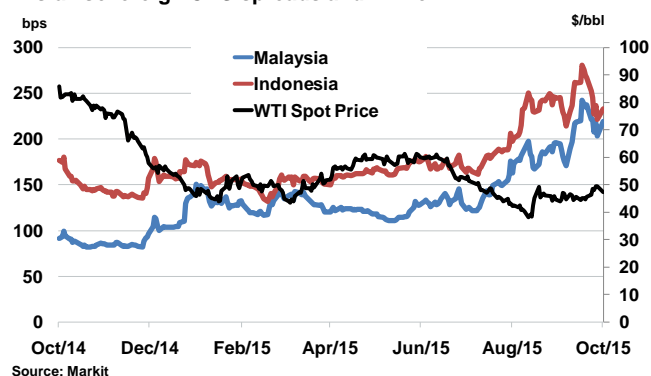
ASEAN credit struggles to shrug off oil volatility

The recent rally in Asian credit was brought to an abrupt end with a 5% drop in oil prices, with Malaysia and Indonesian credit hit hardest.

- [Markit iTraxx](#) Asia Ex Japan IG index is 4bps wider on the back of yesterday's oil price drop
- Malaysia and Indonesia have seen their [CDS spreads](#) widen 8% and 5% intraday, respectively
- Asian bonds have rewarded investors recently, but uncertain oil prices have investors wary

The October rally in Asian credit came to an abrupt end today as the Markit iTraxx Asia Ex Japan IG index widened 4bps to 144bps on an intraday basis. The index, which consists of 50 entities, had edged tighter for five of the last six trading sessions, coinciding with the recent rally in commodity prices from which oil prices bounced 10%. Asian bonds have proved fruitful during this period, outperforming emerging market peers.

Asian sovereign CDS spreads and WTI oil



Total returnIndex	iBoxx USD Emerging Markets Sovereigns Asia Index	iBoxx USD Emerging Markets Sovereigns EEMEA Index	iBoxx USD Emerging Markets Sovereigns Latin America Index
Week	2.2%	1.2%	1.7%
Month-to-date	2.8%	1.6%	3.2%
Month	1.4%	1.3%	0.9%
Three months	0.6%	0.5%	-1.6%

According to [Markit's iBoxx indices](#), Asian emerging market sovereign bonds returned 2.2% last week, 1% more than their EMEA peers and 0.5% higher than Latin America. Over the last three months, Asian sovereigns have provided investors with a positive total return, even amid market turbulence.

Among the best performing credits so far in October have been two of Southeast Asia's biggest countries, Malaysia and Indonesia.

Both have seen their 5-yr CDS spreads tighten in October, with Malaysia's at 35bps and Indonesia's at 54bps as of last Friday's close.

Oil and credit risk

While Asian emerging market bonds have proven to be relatively resilient to the vagrancies of the oil market in the last three months, the asset class is still not entirely immune as seen by yesterday's 5% fall in WTI crude oil prices. This represents the biggest one day move in the commodity for three weeks and proceeded to send Malaysia and Indonesia's CDS spreads back up, with the latest spreads 8% and 5% wider, respectively.

Even as it attempts to diversify away from oil dependency, Malaysia has seen its 5-yr CDS spread actually double since May. Other commodities have come to the fore, driven by weak demand from China. This has battered

its currency as investors fled, dwindling forex reserves. Similarly, Indonesia's sovereign credit spread has also whipsawed in tandem with volatile oil prices.

While the recent spike in oil prices may have to do with transitory effects, such as a weak US dollar and Middle East tensions, consensus remains that the price of oil will remain subdued. [OPEC actually increased its output](#) and further supply from Iran is expected. Coupled with [IEA's prediction that oil demand will slow in 2016](#), the picture looks bleak. Asian investors may look to Russia, a country initially hit by low oil prices but from which returns have soared, thanks to solid fundamentals that have helped bond returns and brought investors back into the market.

The resilience of Asian credit amid further drops in oil and commodity prices will ultimately depend on credit quality, but past performance suggests the region was able to handle volatility better than emerging market peers.

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