

Asian credit fundamentals deteriorate to 2013 lows

Below consensus PMI data out of China and Japan this week has put further pressure on credit spreads in the emerging Asian region.

- Sovereign CDS spreads for ASEAN names have widened to late 2013 highs
- Corporate bond spreads for the region are more muted, closing in on January 2015 highs
- Markit iTraxx Asia Ex Japan IG has topped 150bps for the first time since September 2013

Continued slowdown in Asia's developed markets is biting further into the region's emerging economies.

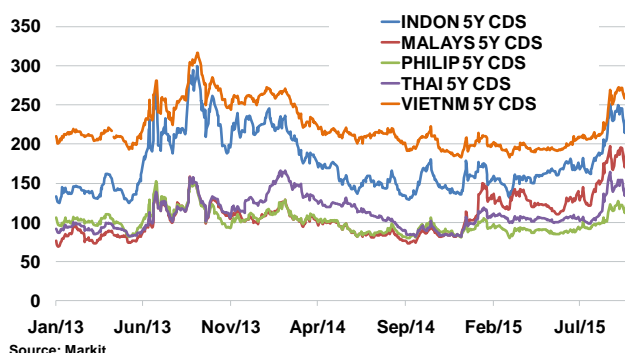
Chinese stocks had the calmest day since March today, but fundamentals in China have continued to deteriorate. Earlier this week, the Caixin China Composite PMI [hit a fresh six year low](#), marking further contraction in the world's growth engine. But it's not just China. Japan's manufacturing [PMI came in below](#) consensus today, signalling falling exports, employment and prices. Deteriorating fundamentals in Asia's more advanced economies have sent credit risk in the region's emerging economies to 2013 highs.

growth remains robust in Vietnam compared to other emerging markets, deflationary pressures also have the potential to sap demand.

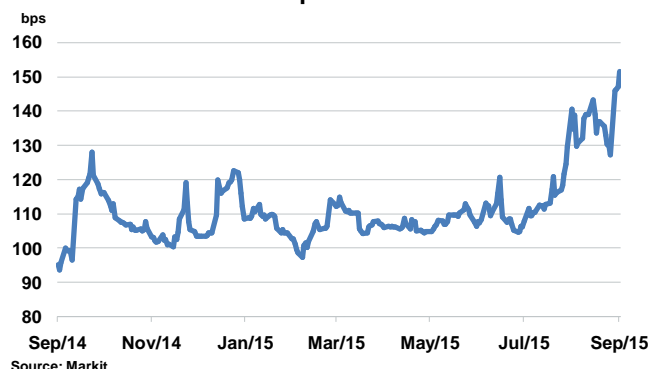
Indonesia, Thailand and Philippines follow a similar trend with 5-yr sovereign CDS spreads widening in tandem, indicating how investors perceive the region's credit position as a close relationship. All three countries are major trading partners with China. Major commodity exporter Malaysia remains the anomaly. Its 5-yr CDS spread is at its widest since 2011 and was actually the tightest among the ASEAN-5 in September 2014. But it has since more than doubled and is now wider than both Thailand and Philippines.

Two year highs

ASEAN sov credit spreads (bps)



Markit iTraxx Asia Ex Japan IG index

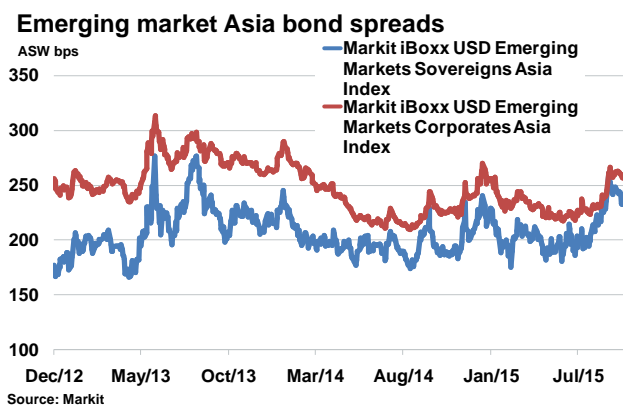


Among the ASEAN-5 nations, Vietnam's 5-yr CDS spread remains the widest at 296bps, up over 50% this year and hitting fresh two year highs. Vietnam faces challenges in the slowdown in China and its potential to create slack in China's labour market as it competes in the low end manufacturing space. While

In overall high grade credit, the Markit iTraxx Asia Ex Japan IG index continues to reach new 2015 highs, surpassing 150bps for the first time since September 2013.

Bond markets

In bond markets, US dollar denominated Asian sovereign debt has seen its asset swap spread, a measure of credit risk, widen to 2013 highs as represented by the Markit iBoxx USD Emerging Markets Sovereigns Asia index. US dollar denominated corporate bond spreads are more subdued, approaching new 2015 highs.



From a technical standpoint, the trend in credit and bond spreads mirrors that of the widening seen during the beginning of 2013's "taper tantrum", when the US mulled over an end to QE3. Whether credit spreads subside like they did in 2014 remains to be seen, but the challenges faced this time around are more fundamental. Low commodity prices that look unlikely to move, the potential for a stronger US dollar if the US hikes interest rates and weak global demand stemming from China all have the potential to prologue a risk off environment in the region.

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