

October 24, 2018 06:47 AM GMT

## Asia Credit Strategy | Asia Pacific

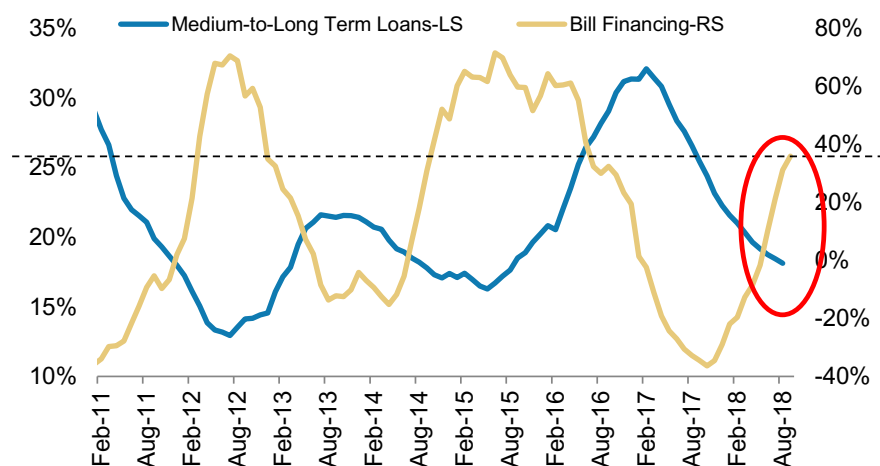
## What's Going on in Asia Credit

What's Going on in Asia Credit (WGOIAC) is our weekly publication that highlights the key themes in Asia credit. Our WGOIAC publication includes detailed returns calculations for Asia credit, relative value sector performance, technicals and valuation tools.

Over the weekend, China policy-makers made new efforts to bolster business confidence, releasing a plan for personal income tax deduction, and pledging support for the private sector. Our China economist, Robin Xing, continues to expect broad credit growth to moderate, and most of the easing to come from the fiscal side (see [China Steps Up Efforts to Boost Business Confidence; More Tax Cuts to Be Rolled Out](#), October 22, 2018) such as personal income tax deduction (Rmb435bn, or 0.5% of GDP). In addition, he expects at least another Rmb400bn (or 0.5% of GDP) of VAT cuts in the next few months.

Hence, for now, our defensive easing thesis is still in place. As mentioned in [Screening the China HY Property Sector for Alpha](#), October 19, 2018, credit creation in China has remained selective ([Exhibit 1](#)), driving credit dispersion in China HY. We believe that the China HY property sector offers good alpha opportunities. Using three factors from our PCA analysis and land bank concentration, we screen for defensive China HY property credit.

**Exhibit 1: Loan lending has not picked up in the current defensive easing cycle**



Source: CEIC, Morgan Stanley Research

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### Most recent research

#### [Screening the China HY Property Sector for Alpha](#)

Credit creation in China has remained selective, driving credit dispersion in China HY. We believe that the China HY property sector offers good alpha opportunities. Using three factors from our PCA analysis and land bank concentration, we screen for defensive China HY property credit.

#### [Asia Credit Strategy, Not Yet Time to Be Long Asia Credit](#)

We try to tackle a few key themes in our Asia credit back-to-school report: 1) Three myths on China's defensive easing; 2) Signposts we are monitoring for tail risk in China credit; 3) Not only about China; we expect volatility to pick up globally; and 4) An update on our How to Beat the Market framework.

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**For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.**

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## Asia Credit Performance Summary

Exhibit 2: Asia credit broad spread performance table summary as of September 2018

| ASSET CLASS                           | 1Y TIGHTS | CURRENT | 1Y WIDES | 1Y AVG | 1Y% RANGE | 1Y RANGE | ABOVE TIGHTS | BELOW WIDES | 1D CHANGE | 1W CHANGE | 1M CHANGE | YTD CHANGE | 1M PERFORMANCE |
|---------------------------------------|-----------|---------|----------|--------|-----------|----------|--------------|-------------|-----------|-----------|-----------|------------|----------------|
| <b>ASSET CLASS</b>                    |           |         |          |        |           |          |              |             |           |           |           |            |                |
| AxJ                                   | 150       | 220     | 242      | 189    | 76%       |          | 70           | -22         | 5         | 7         | -3        | 60         |                |
| Non-Financials                        | 149       | 208     | 231      | 184    | 72%       |          | 59           | -23         | 4         | 5         | -6        | 46         |                |
| Financials                            | 186       | 304     | 332      | 248    | 81%       |          | 118          | -28         | 3         | 6         | 0         | 109        |                |
| Corporates                            | 163       | 244     | 269      | 208    | 76%       |          | 81           | -25         | 4         | 6         | -3        | 70         |                |
| Investment Grade                      | 123       | 165     | 176      | 148    | 79%       |          | 42           | -11         | 5         | 5         | -2        | 34         |                |
| High Yield                            | 343       | 562     | 638      | 455    | 74%       |          | 219          | -76         | 11        | 21        | -6        | 158        |                |
| Sovereigns                            | 133       | 188     | 211      | 167    | 71%       |          | 55           | -23         | 11        | 14        | -4        | 41         |                |
| Frontier                              | 241       | 372     | 434      | 321    | 68%       |          | 131          | -62         | 18        | 27        | -5        | 109        |                |
| <b>CORPS</b>                          |           |         |          |        |           |          |              |             |           |           |           |            |                |
| IG non fin Corp                       | 124       | 166     | 179      | 149    | 76%       |          | 42           | -13         | 4         | 4         | -4        | 34         |                |
| AA                                    | 90        | 101     | 116      | 105    | 42%       |          | 11           | -15         | 2         | 0         | -8        | 1          |                |
| A                                     | 103       | 128     | 140      | 122    | 68%       |          | 25           | -12         | 3         | 2         | -6        | 14         |                |
| BBB                                   | 156       | 220     | 238      | 191    | 78%       |          | 64           | -18         | 5         | 7         | -1        | 55         |                |
| HY non fin Corp                       | 324       | 522     | 605      | 443    | 70%       |          | 198          | -83         | 10        | 20        | -17       | 56         |                |
| BB                                    | 240       | 418     | 515      | 340    | 65%       |          | 178          | -97         | 9         | 17        | -30       | 150        |                |
| B                                     | 353       | 663     | 757      | 507    | 77%       |          | 310          | -94         | 11        | 22        | -5        | 278        |                |
| CCC                                   | 719       | 1,815   | 10,674   | 3,078  | 11%       |          | 1,096        | -8,859      | 50        | 75        | 177       | -5,745     |                |
| <b>CURVE</b>                          |           |         |          |        |           |          |              |             |           |           |           |            |                |
| 1-3                                   | 172       | 289     | 322      | 228    | 78%       |          | 117          | -33         | 3         | 6         | 0         | 111        |                |
| 3-5                                   | 151       | 237     | 265      | 201    | 75%       |          | 86           | -28         | 5         | 6         | -5        | 75         |                |
| 5-7                                   | 141       | 244     | 270      | 198    | 80%       |          | 103          | -26         | 6         | 8         | -2        | 92         |                |
| 7-10                                  | 139       | 191     | 216      | 172    | 68%       |          | 52           | -25         | 5         | 8         | -3        | 42         |                |
| 10+                                   | 144       | 181     | 199      | 168    | 67%       |          | 37           | -18         | 7         | 8         | -5        | 27         |                |
| <b>FINANCIALS</b>                     |           |         |          |        |           |          |              |             |           |           |           |            |                |
| Banks Senior Debt                     | 105       | 128     | 134      | 120    | 79%       |          | 23           | -6          | 2         | 1         | -1        | 16         |                |
| Banks Subordinated Debt               | 161       | 218     | 240      | 201    | 72%       |          | 57           | -22         | 3         | 1         | 1         | 43         |                |
| <b>CHINA</b>                          |           |         |          |        |           |          |              |             |           |           |           |            |                |
| China Non-Financials Investment Grade | 110       | 153     | 167      | 139    | 75%       |          | 43           | -14         | 3         | 3         | -5        | 31         |                |
| China High Yield                      | 413       | 697     | 814      | 548    | 71%       |          | 284          | -117        | 9         | 20        | 4         | 255        |                |
| China Property IG                     | 164       | 263     | 263      | 205    | 100%      |          | 99           | 0           | 5         | 7         | 10        | 90         |                |
| China Property HY                     | 431       | 753     | 893      | 591    | 70%       |          | 322          | -140        | 10        | 22        | 9         | 295        |                |

1 stdev range | 1Y average • current

Source: IBoxx, Morgan Stanley Research

Exhibit 3: Asia credit sector performance table summary as of September 2018

|                    | 1Y<br>TIGHTS | CURRENT | 1Y<br>WIDES | 1Y<br>AVG | 1Y%<br>RANGE | 1Y RANGE | ABOVE<br>TIGHTS | BELOW<br>WIDES | 1D<br>CHANGE | 1W<br>CHANGE | 1M<br>CHANGE | YTD<br>CHANGE | 1M<br>PERFORMANCE |
|--------------------|--------------|---------|-------------|-----------|--------------|----------|-----------------|----------------|--------------|--------------|--------------|---------------|-------------------|
| <b>ASIA</b>        |              |         |             |           |              |          |                 |                |              |              |              |               |                   |
| Asia IG            | 123          | 165     | 176         | 142       | 79%          |          | 42              | -11            | 5            | 5            | -2           | 34            |                   |
| Asia HY            | 339          | 562     | 638         | 428       | 75%          |          | 223             | -76            | 11           | 21           | -6           | 158           |                   |
| <b>SOVEREIGN</b>   |              |         |             |           |              |          |                 |                |              |              |              |               |                   |
| Philippines        | 53           | 84      | 106         | 81        | 58%          |          | 31              | -22            | 5            | 10           | 7            | 14            |                   |
| Indon Sov          | 103          | 148     | 169         | 133       | 68%          |          | 45              | -21            | 5            | 13           | -3           | 28            |                   |
| <b>FINANCIALS</b>  |              |         |             |           |              |          |                 |                |              |              |              |               |                   |
| Bank Capital       | 161          | 218     | 240         | 193       | 72%          |          | 57              | -22            | 3            | 1            | 1            | 46            |                   |
| Senior Banks       | 105          | 128     | 135         | 119       | 76%          |          | 23              | -7             | 2            | 1            | -1           | 16            |                   |
| China AMC          | 125          | 159     | 165         | 148       | 85%          |          | 34              | -6             | -1           | -1           | -2           | 15            |                   |
| China Leasing      | 105          | 131     | 136         | 120       | 84%          |          | 26              | -5             | -3           | -4           | -3           | 12            |                   |
| SBLC               | 98           | 121     | 124         | 109       | 88%          |          | 23              | -3             | -2           | -3           | 1            | 9             |                   |
| <b>IG CORP</b>     |              |         |             |           |              |          |                 |                |              |              |              |               |                   |
| China Central SOE  | 89           | 106     | 123         | 104       | 50%          |          | 17              | -17            | -3           | -1           | -6           | 7             |                   |
| China LG SOE       | 144          | 249     | 359         | 180       | 49%          |          | 105             | -110           | 0            | 1            | -3           | 86            |                   |
| China Property     | 130          | 173     | 180         | 150       | 86%          |          | 43              | -7             | -4           | -2           | -2           | 34            |                   |
| China Private Corp | 86           | 138     | 141         | 109       | 95%          |          | 52              | -3             | -1           | 1            | 3            | 35            |                   |
| India Corp         | 113          | 175     | 186         | 144       | 86%          |          | 62              | -10            | -3           | 1            | -2           | 51            |                   |
| Indon SOE          | 148          | 206     | 230         | 187       | 71%          |          | 58              | -24            | 4            | 10           | -10          | 36            |                   |
| <b>HY CORP</b>     |              |         |             |           |              |          |                 |                |              |              |              |               |                   |
| China Industrials  | 555          | 1,202   | 1,255       | 717       | 92%          |          | 647             | -54            | 13           | 32           | 108          | 581           |                   |
| China Property     | 339          | 715     | 793         | 492       | 83%          |          | 377             | -78            | 9            | 20           | 15           | 277           |                   |
| China LG SOE       | 351          | 773     | 1,009       | 455       | 64%          |          | 423             | -236           | 4            | 11           | 61           | 410           |                   |
| Indon Corp         | 296          | 578     | 664         | 471       | 77%          |          | 282             | -86            | 6            | 10           | -68          | 255           |                   |
| India Corp         | 269          | 537     | 537         | 355       | 100%         |          | 268             | 0              | 11           | 31           | 13           | 250           |                   |
| Philip Corp        | 125          | 218     | 218         | 166       | 100%         |          | 92              | 0              | 2            | 9            | 27           | 68            |                   |

1 stdev range | 1Y average ● current

Source: IBBox, Morgan Stanley Research

## Asia Credit Excess and Total Returns

**Exhibit 4:** Asia credit excess and total returns (part 1)

| Broad Credit Sectors           |                     |                    |                     |                    |
|--------------------------------|---------------------|--------------------|---------------------|--------------------|
|                                | Excess Return (Sep) | Total Return (Sep) | Excess Return (YTD) | Total Return (YTD) |
| Asia Credit Universe           | -0.41%              | 0.18%              | -0.04%              | -0.31%             |
| Sovereigns                     | -0.05%              | 0.83%              | -1.00%              | -1.43%             |
| Financials                     | -0.36%              | 0.07%              | 0.99%               | 1.02%              |
| Asia IG Non-Financials         | -0.78%              | -0.10%             | 0.35%               | -0.44%             |
| Asia HY Non- Financials        | 0.14%               | 0.60%              | -2.22%              | -1.76%             |
| Sovereign Sectors              |                     |                    |                     |                    |
|                                | Excess Return (Sep) | Total Return (Sep) | Excess Return (YTD) | Total Return (YTD) |
| Philippines Sovereign          | -0.95%              | 0.09%              | -0.95%              | -2.60%             |
| Indonesia Sovereign            | -0.05%              | 0.89%              | -0.92%              | -1.44%             |
| Frontier Sovereigns            | 1.44%               | 2.08%              | -2.11%              | -0.55%             |
| Financials Sectors             |                     |                    |                     |                    |
|                                | Excess Return (Sep) | Total Return (Sep) | Excess Return (YTD) | Total Return (YTD) |
| Senior Financials              | -0.55%              | -0.08%             | 0.14%               | 0.48%              |
| Banks                          | -0.53%              | -0.06%             | 0.15%               | 0.53%              |
| Non Banks                      | -0.68%              | -0.14%             | 0.16%               | 0.38%              |
| SBLC                           | -0.19%              | 0.10%              | 0.45%               | 1.22%              |
| Bank Cap                       | 0.06%               | 0.39%              | 1.80%               | 2.32%              |
| B3T2                           | -0.64%              | -0.08%             | 0.51%               | 0.69%              |
| AT1                            | 0.42%               | 0.69%              | 2.17%               | 2.79%              |
| Asia IG Non-Financials Sectors |                     |                    |                     |                    |
|                                | Excess Return (Sep) | Total Return (Sep) | Excess Return (YTD) | Total Return (YTD) |
| China SOE                      | -0.71%              | -0.08%             | -0.18%              | -0.15%             |
| China Central SOE              | -0.84%              | -0.15%             | -0.07%              | -0.13%             |
| LG SOE                         | -0.11%              | 0.25%              | -0.88%              | -0.48%             |
| Indonesia SOE                  | -0.17%              | 0.83%              | -1.78%              | -2.29%             |
| India Corporates               | -1.21%              | -0.45%             | -2.72%              | -2.90%             |
| Hong Kong Corp                 | -0.98%              | -0.33%             | -0.69%              | -0.68%             |
| China Property                 | -0.78%              | -0.20%             | -0.92%              | -0.68%             |
| China Private Sector           | -1.02%              | -0.30%             | -1.36%              | -1.34%             |

Source: Bloomberg, Morgan Stanley Research

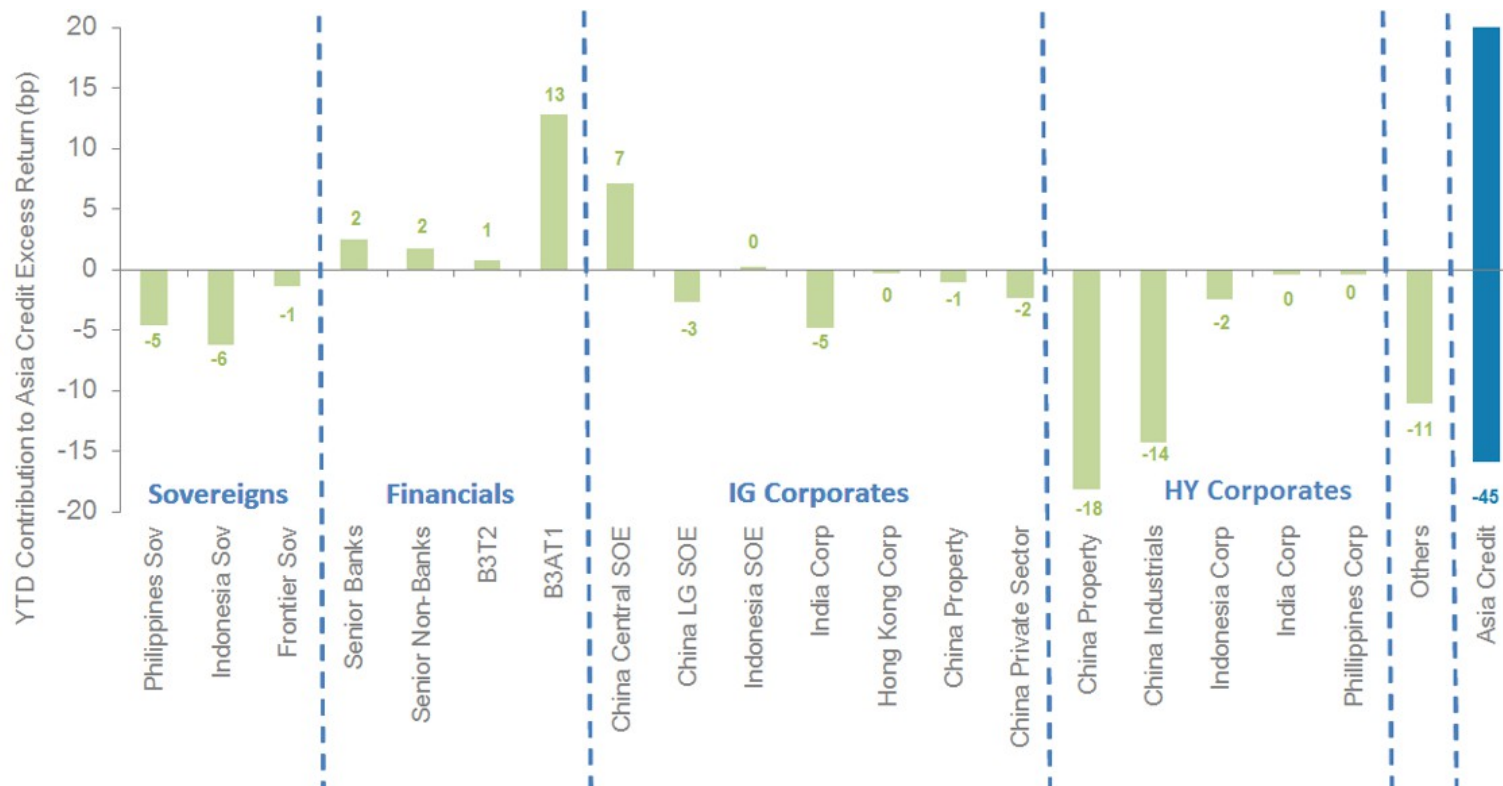
**Exhibit 5:** Asia credit excess and total returns (part 2)

| Asia HY Non-Financials Sectors |                     |                    |                     |                    |
|--------------------------------|---------------------|--------------------|---------------------|--------------------|
|                                | Excess Return (Sep) | Total Return (Sep) | Excess Return (YTD) | Total Return (YTD) |
| China Property                 | -0.12%              | 0.32%              | -2.74%              | -2.53%             |
| China Industrials              | -0.37%              | -0.02%             | -4.97%              | -4.41%             |
| Indonesia Corporates           | 2.56%               | 3.19%              | -1.88%              | -1.73%             |
| India Corporates               | 1.22%               | 1.82%              | 0.12%               | 0.27%              |
| Philippines Corporates         | -0.37%              | 0.16%              | -1.36%              | -1.12%             |
| Maturity Buckets               |                     |                    |                     |                    |
|                                | Excess Return (Sep) | Total Return (Sep) | Excess Return (YTD) | Total Return (YTD) |
| 0-3y                           | -0.02%              | 0.26%              | 0.47%               | 1.23%              |
| 3-5y                           | -0.45%              | 0.11%              | -0.35%              | -0.25%             |
| 5-10y                          | -0.86%              | 0.06%              | -1.65%              | -1.89%             |
| 10+                            | -1.08%              | 0.25%              | -1.15%              | -2.38%             |
| Maturity Buckets               |                     |                    |                     |                    |
|                                | Excess Return (Sep) | Total Return (Sep) | Excess Return (YTD) | Total Return (YTD) |
| AAA                            | -1.06%              | -0.43%             | -0.83%              | -0.33%             |
| AA                             | -0.67%              | -0.08%             | 0.20%               | 0.38%              |
| A                              | -0.78%              | -0.17%             | -0.16%              | -0.04%             |
| BBB                            | -0.57%              | 0.12%              | -0.85%              | -0.89%             |
| BB                             | 0.11%               | 0.51%              | -0.08%              | 0.41%              |
| B                              | 0.89%               | 1.39%              | -0.99%              | -0.72%             |
| CCC                            | 0.18%               | 0.47%              | 0.42%               | 0.94%              |
| NR                             | -0.31%              | 0.18%              | -0.41%              | -0.25%             |

Source: Bloomberg, Morgan Stanley Research

# Excess Returns Contribution of Asia Credit (As of September 2018)

**Exhibit 6:** Excess returns contribution of Asia credit (As of September 2018)

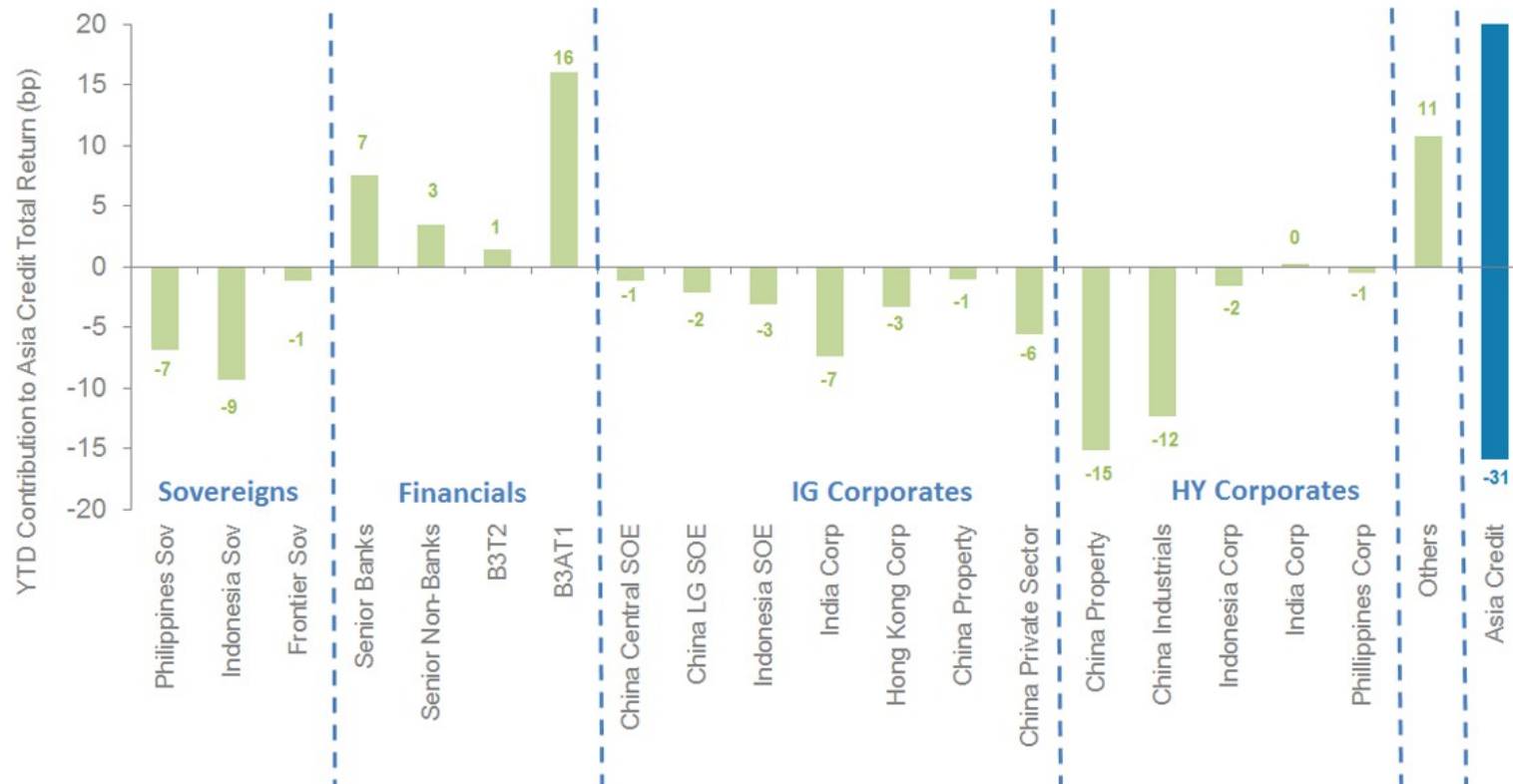


Source: Bloomberg, Morgan Stanley Research



# Total Returns Contribution of Asia Credit (As of September 2018 )

Exhibit 7: Total returns contribution of Asia credit (As of September 2018)



Source: Bloomberg, Morgan Stanley Research

Global Markets Overview

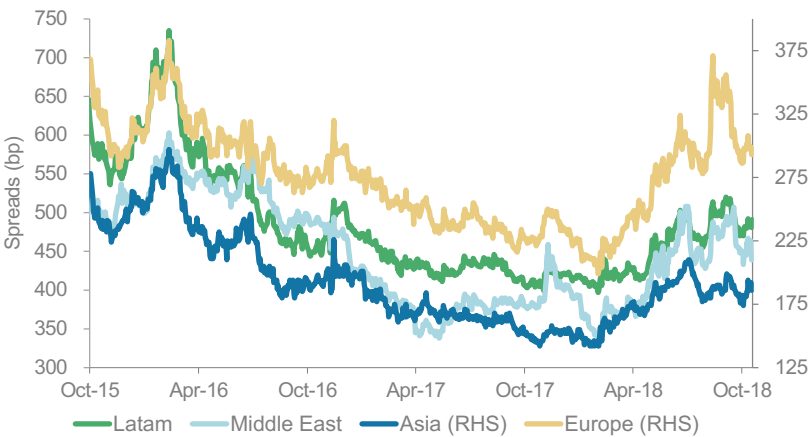
Global Credit Spreads

Exhibit 8: Asia spreads versus developed markets



Source: iBoxx, Yieldbook, Morgan Stanley Research

Exhibit 9: Asia sovereign versus EM sovereigns



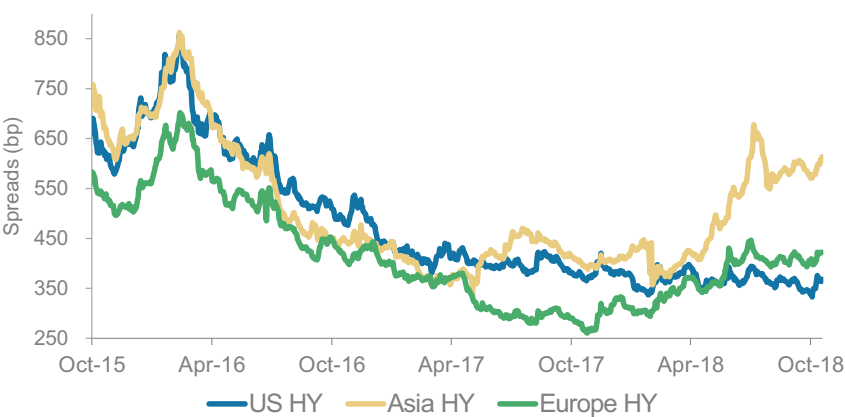
Source: Datastream, Morgan Stanley Research

Exhibit 10: Global IG cash spreads



Source: iBoxx, Yieldbook, Morgan Stanley Research

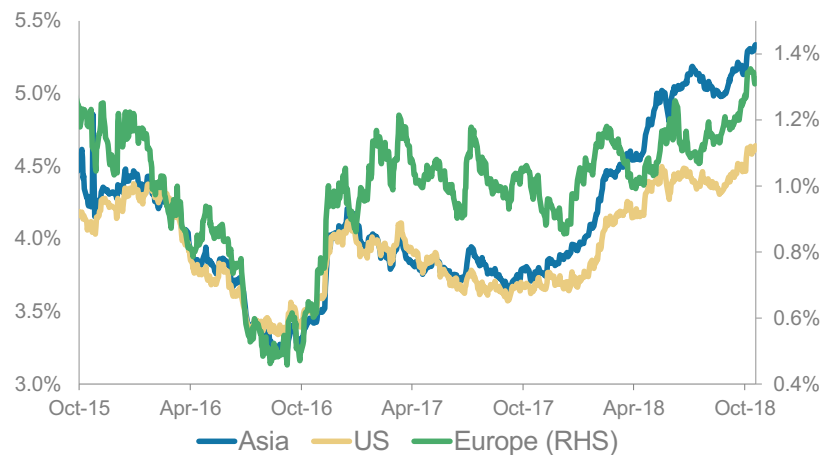
Exhibit 11: Global HY cash spreads



Source: iBoxx, Yieldbook, Morgan Stanley Research

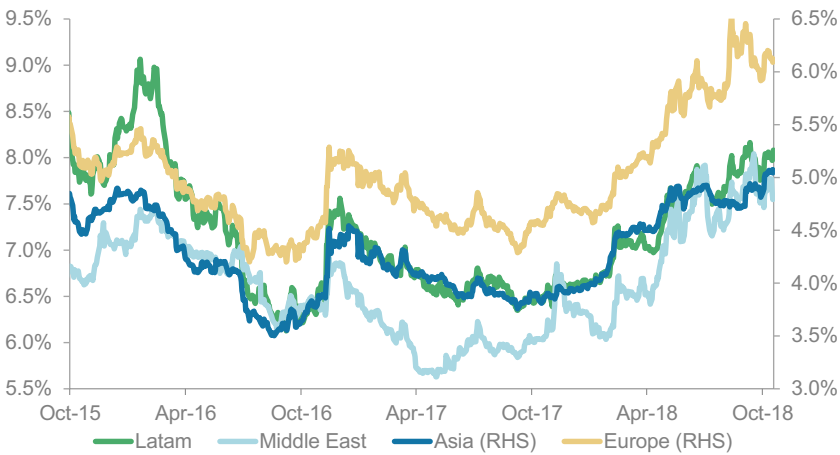
Global Credit Yields

Exhibit 12: Asia YTM versus developed markets



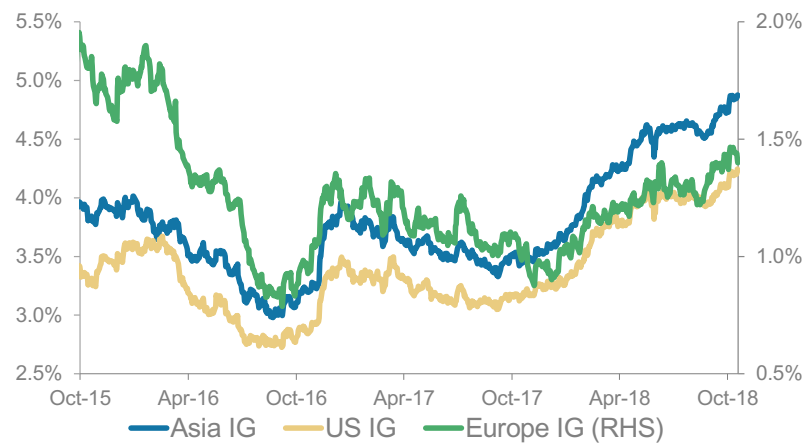
Source: iBoxx, Morgan Stanley Research

Exhibit 13: Asia sovereign versus EM sovereigns



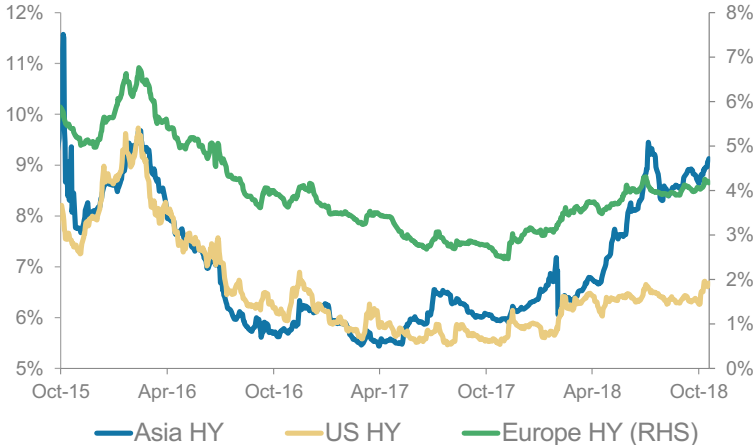
Source: Datastream, Morgan Stanley Research

Exhibit 14: Global IG cash YTM



Source: iBoxx, YieldBook, Morgan Stanley Research

Exhibit 15: Global HY cash YTM



Source: iBoxx, YieldBook, Morgan Stanley Research



Asia Credit Relative Sector Performance

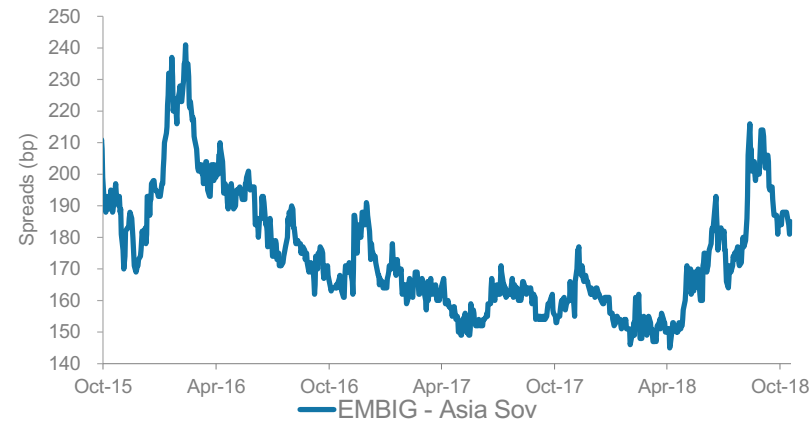
Broad Sector Relative Value Performance

Exhibit 16: Asia HY vs. Asia IG



Source: IBoxx, Morgan Stanley Research

Exhibit 17: EMBIG vs. Asia sovereign



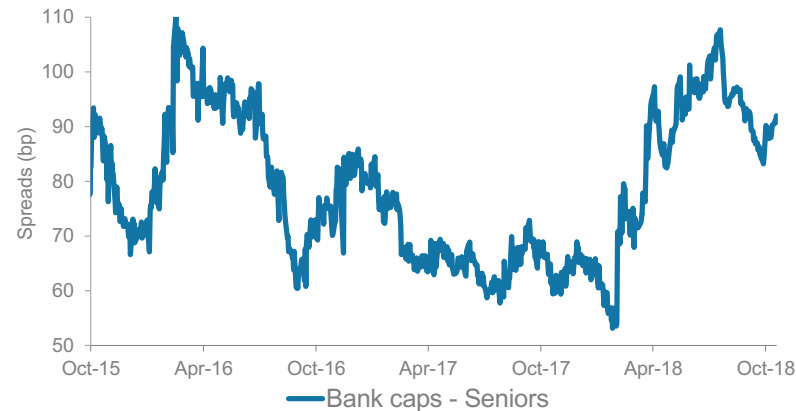
Source: Datastream, Morgan Stanley Research

Exhibit 18: Asia non-financials vs. Asia financials



Source: IBoxx, Morgan Stanley Research

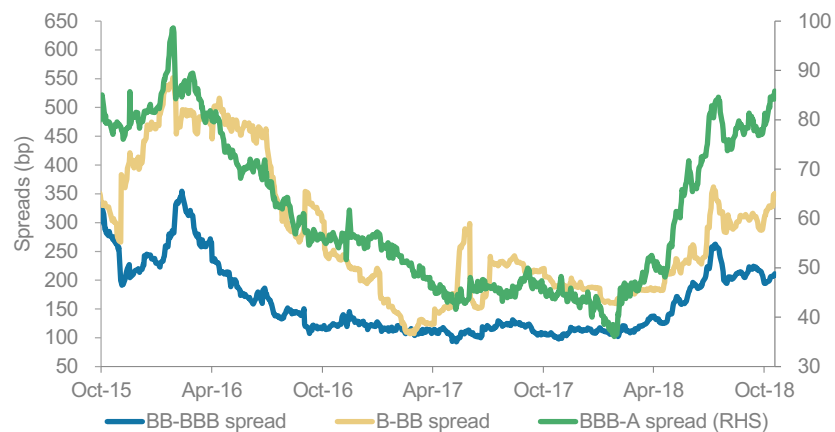
Exhibit 19: Asia bank cap vs. Asia seniors



Source: IBoxx, Morgan Stanley Research

# Non-Financials Sector Relative Value Performance

**Exhibit 20:** Asia corporates credit quality curve



Source: IBoxx, Morgan Stanley Research

**Exhibit 21:** IG sector relative spread performance



Source: Bloomberg, Morgan Stanley Research

**Exhibit 22:** HY sector relative spread performance



Source: Bloomberg, Morgan Stanley Research

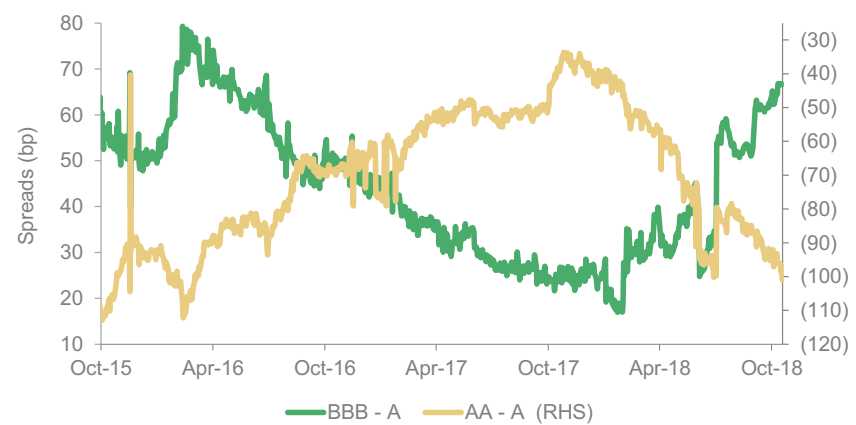
**Exhibit 23:** China sector relative spread performance



Source: Bloomberg, Morgan Stanley Research

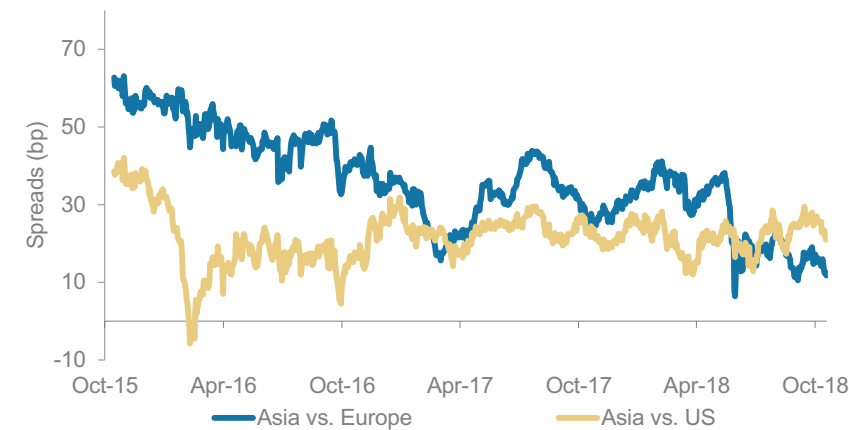
Financials Sector Relative Value Performance

Exhibit 24: Asia financials credit quality curve



Source: iBoxx, Morgan Stanley Research

Exhibit 25: Asia senior financials vs. US vs. EUR



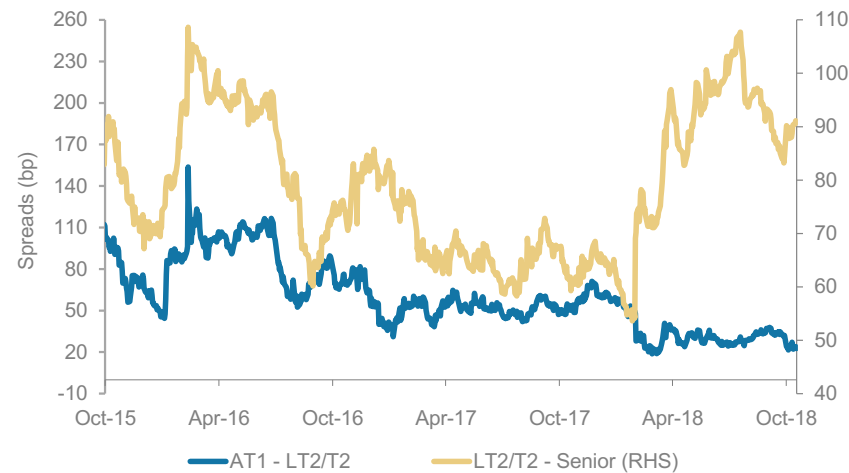
Source: iBoxx, Yield Book, Morgan Stanley Research

Exhibit 26: Asia Senior Relative Value



Source: Bloomberg, iBoxx, Morgan Stanley Research

Exhibit 27: Asia AT1 versus LT2/T2 and LT2/T2 versus Senior



Source: Bloomberg, iBoxx, Morgan Stanley Research

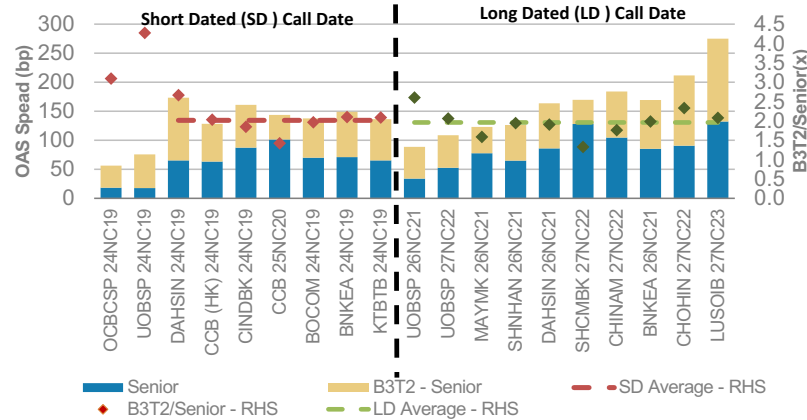
Financial Relative Value

Exhibit 28: Non-bank Chinese financials pick-up over Chinese banks senior



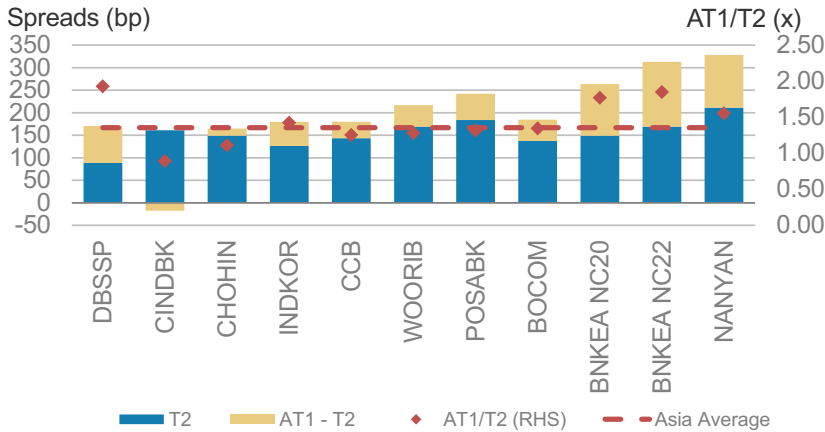
Source: Bloomberg, Morgan Stanley Research

Exhibit 29: Callable Asia T2 versus Senior



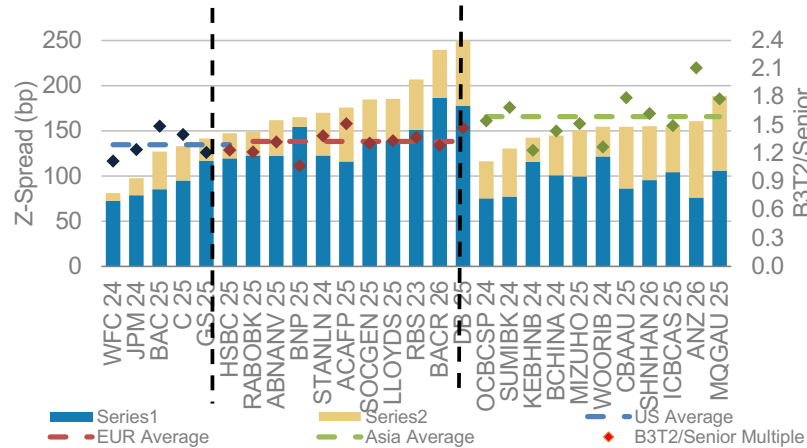
Source: Bloomberg, Morgan Stanley Research

Exhibit 30: Global AT1 pick-up over T2



Source: Bloomberg, Morgan Stanley Research

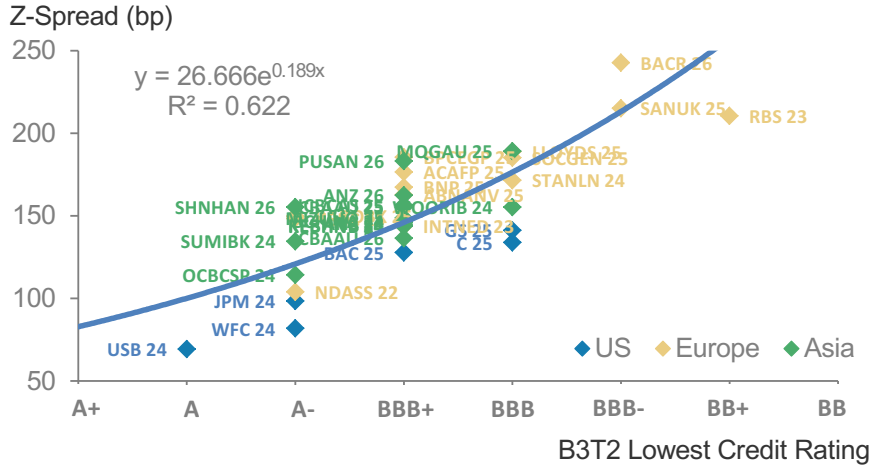
Exhibit 31: Global bullet T2 pick-up over senior



Source: Bloomberg, Morgan Stanley Research

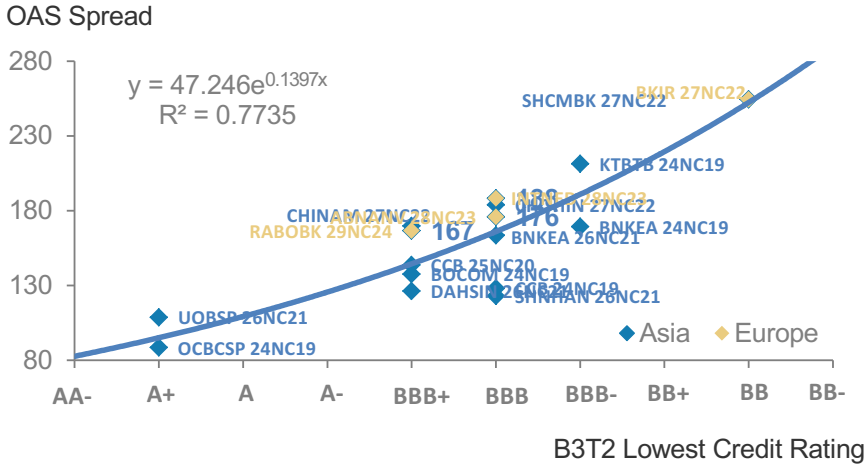
Financial Relative Value (II)

Exhibit 32: Bullet T2 Global RV



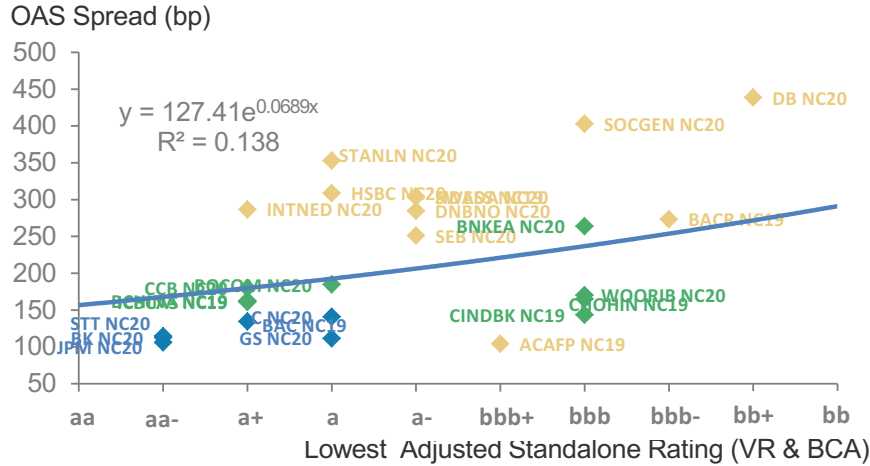
Source: Bloomberg, Morgan Stanley Research

Exhibit 33: Callable T2 Global RV



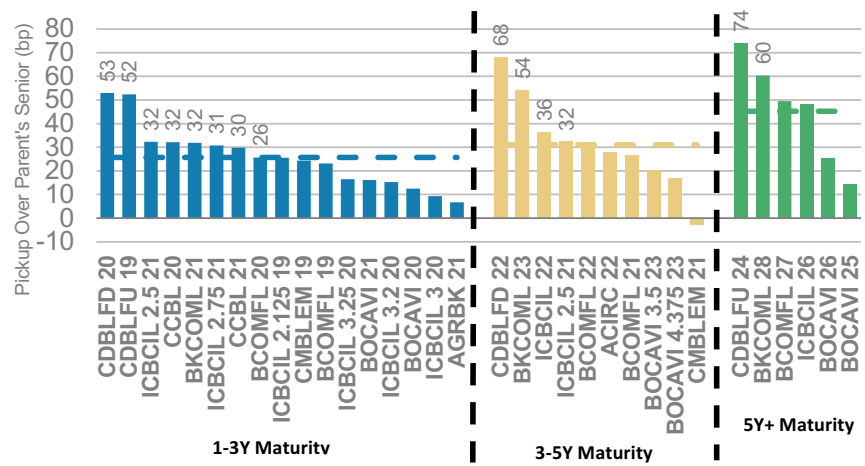
Source: Bloomberg, Morgan Stanley Research

Exhibit 34: Global AT1 Spread versus Adjusted Standalone Rating



Source: Bloomberg, Morgan Stanley Research

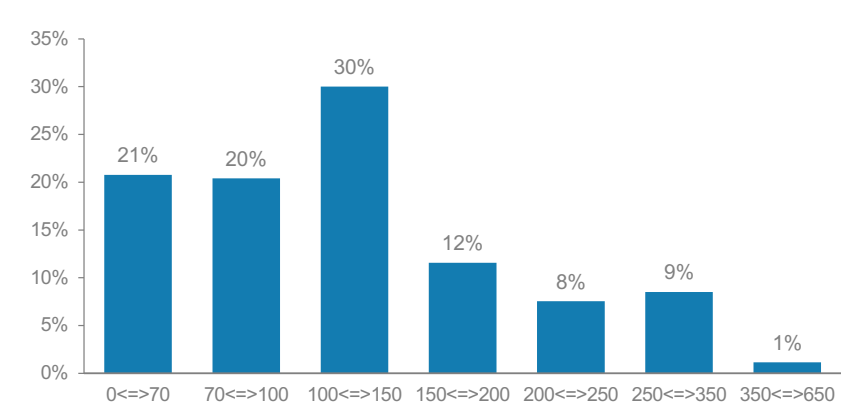
Exhibit 35: China leasing pick-up over senior



Source: Bloomberg, Morgan Stanley Research

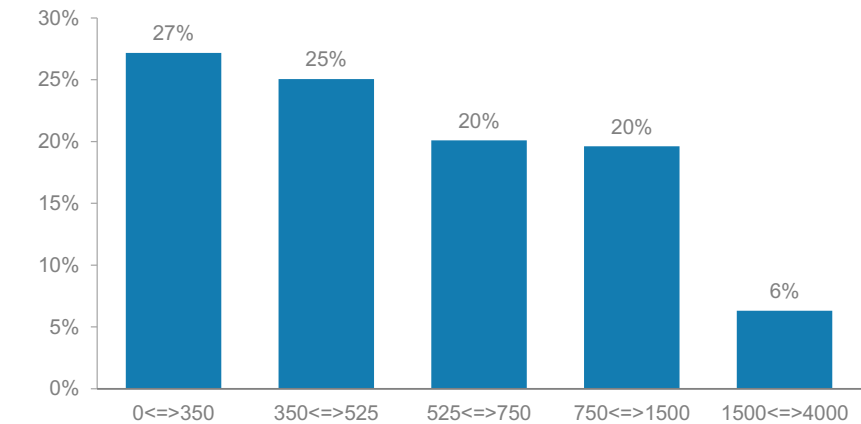
Asia Credit Spread, Yield and Price Distribution

Exhibit 36: Asia IG spread distribution



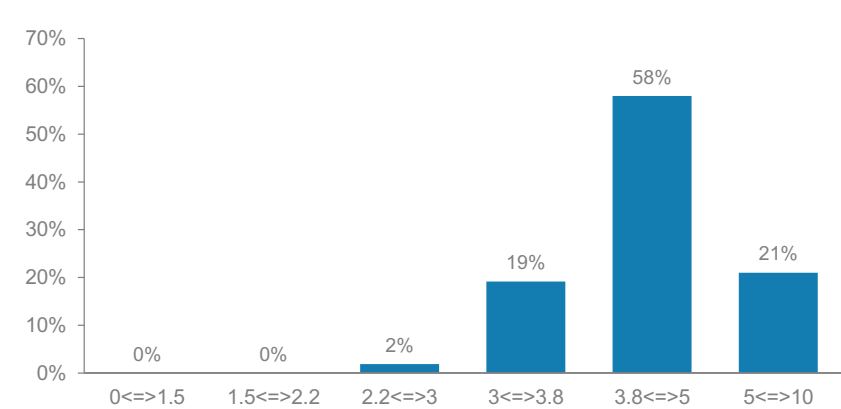
Source: Bloomberg, Morgan Stanley Research

Exhibit 37: Asia HY spread distribution



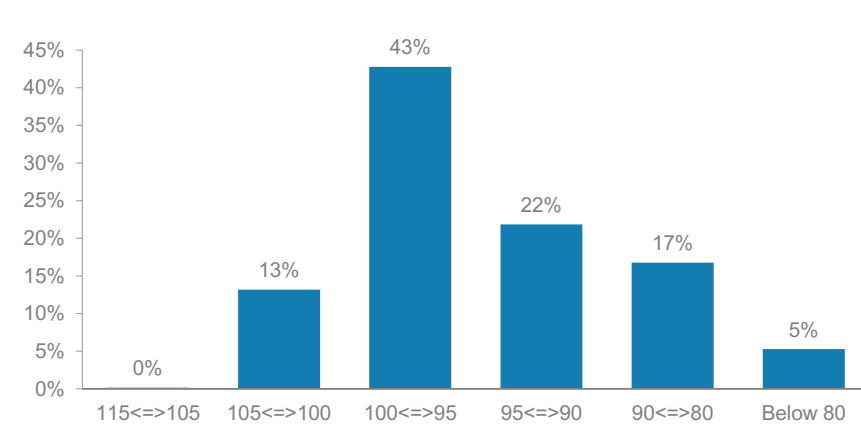
Source: Bloomberg, Morgan Stanley Research

Exhibit 38: Asia IG yield distribution



Source: Bloomberg, Morgan Stanley Research

Exhibit 39: Asia HY price distribution



Source: Bloomberg, Morgan Stanley Research



# Global Macro Indicators

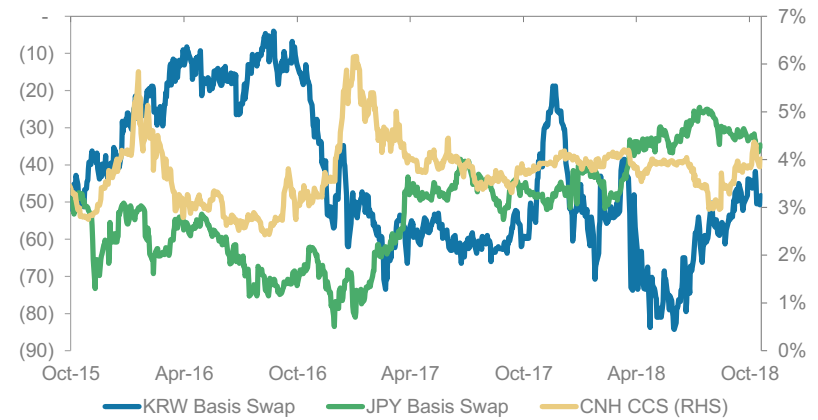
## Global Liquidity Indicators

**Exhibit 40: UST Libor-OIS spread**



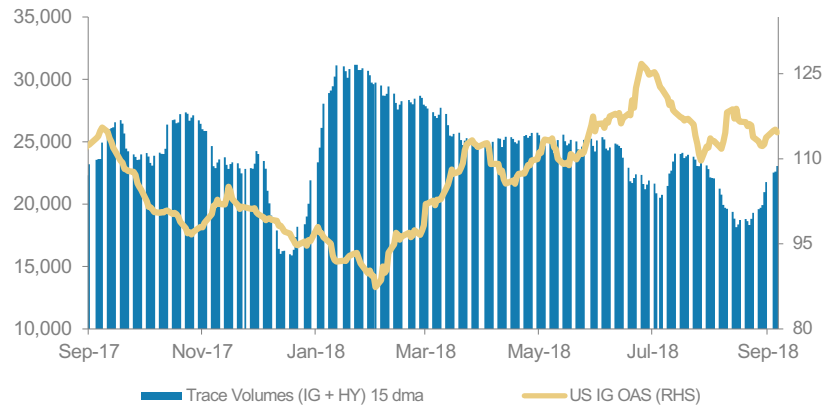
Source: Bloomberg, Morgan Stanley Research

**Exhibit 41: Cross-currency swap**



Source: Bloomberg, Morgan Stanley Research

**Exhibit 42: Trading volumes (IG + HY) versus US IG OAS**



Source: Bloomberg, Yieldbook Morgan Stanley Research

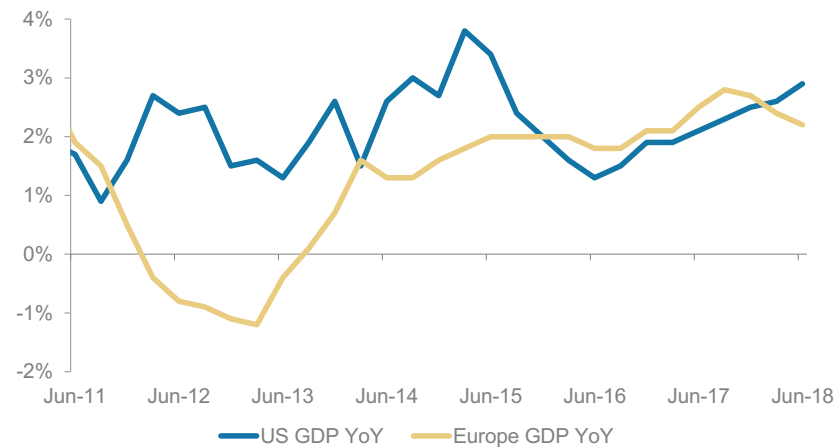
**Exhibit 43: Global credit conditions**



Eurozone Credit Conditions: Number of banks reporting tighter conditions – number of banks reporting easier conditions. US: Net Percentage of Domestic Respondents Tightening Standards for C&I Loans Asia & EM: A score above 50 shows easing conditions and below 50 reflects tightening conditions. A score of 50 reflects unchanged conditions. Source: Bloomberg, Fed, ECB, IIF, Morgan Stanley Research

Global Economic Indicators

Exhibit 44: Historical GDP growth for DM



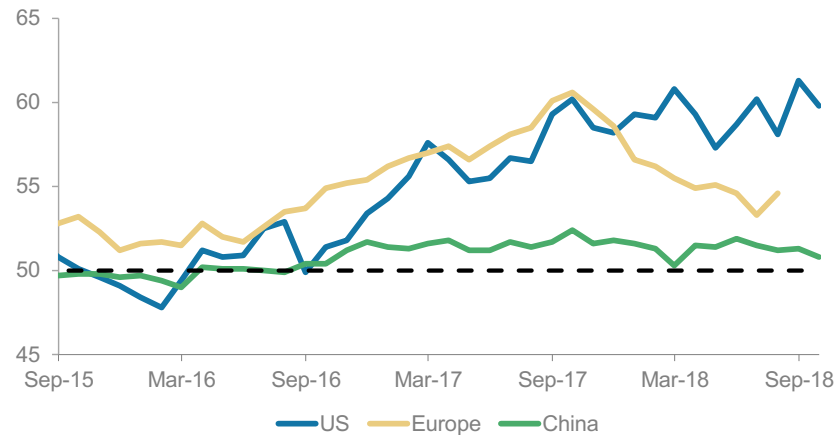
Source: Bloomberg, Morgan Stanley Research forecasts

Exhibit 45: US & Europe Economic Surprise Indices



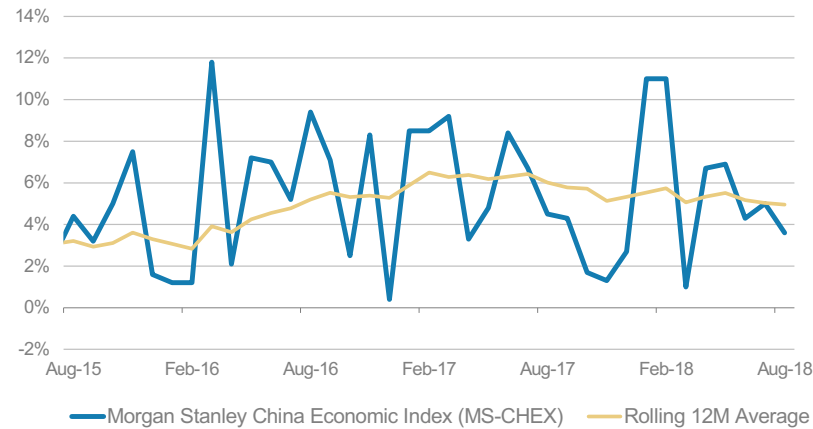
Source: Bloomberg, Morgan Stanley Research

Exhibit 46: Global PMI surveys



Source: Bloomberg, Morgan Stanley Research

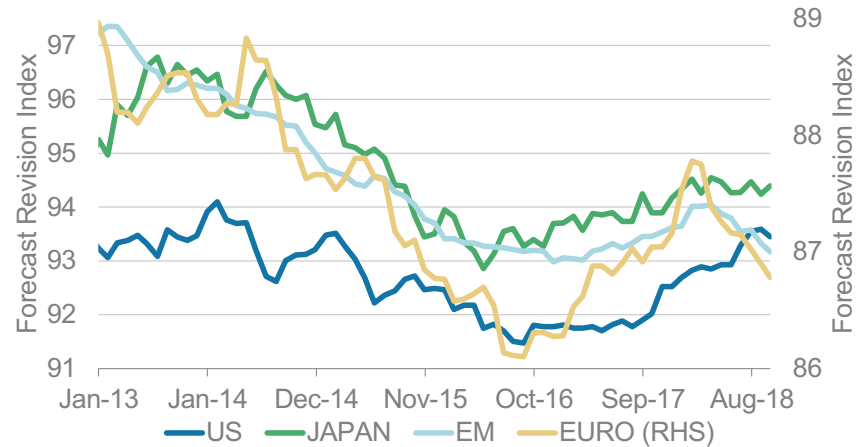
Exhibit 47: Measure of China's growth



Source: Bloomberg, Morgan Stanley Research

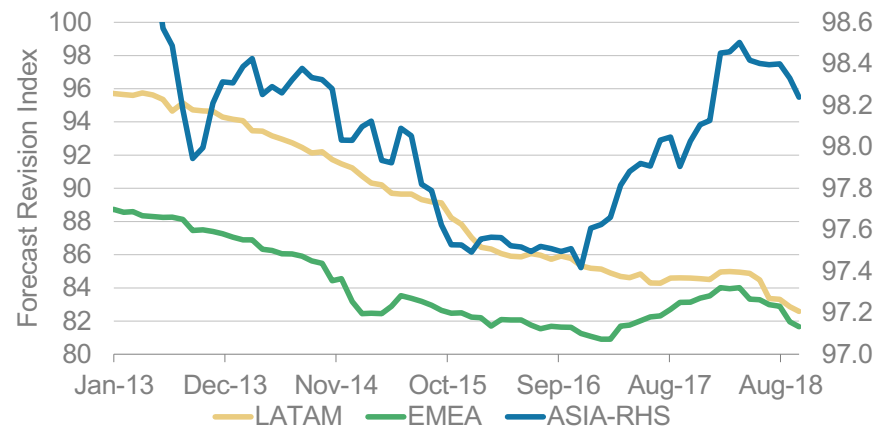
Asia Economic Indicators

Exhibit 48: Global GDP forecast revision index



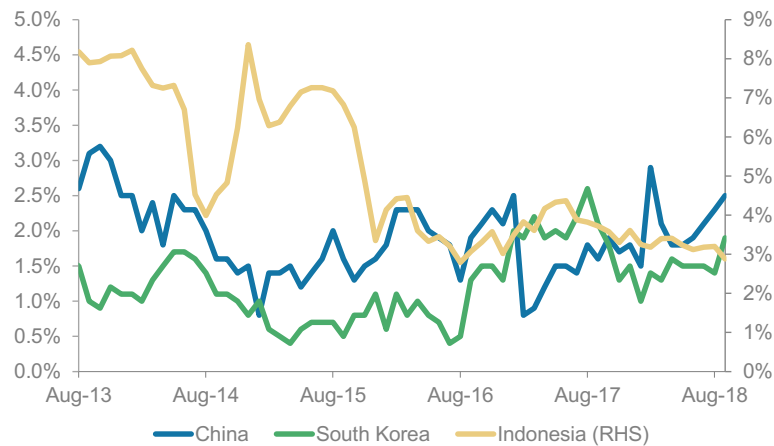
Source: Bloomberg, Morgan Stanley Research

Exhibit 49: Asia versus EM GDP forecast revision index



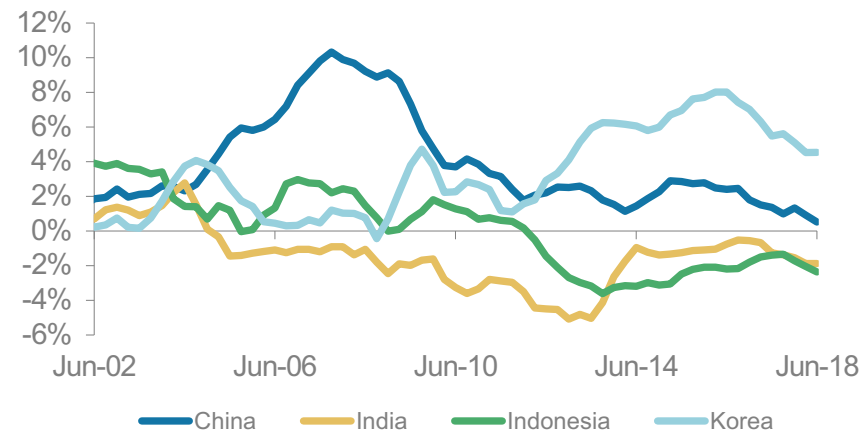
Source: Bloomberg, Morgan Stanley Research

Exhibit 50: Asia inflation (CPI % change YoY)



Source: Bloomberg, Morgan Stanley Research

Exhibit 51: AxJ current account balance (% of GDP)

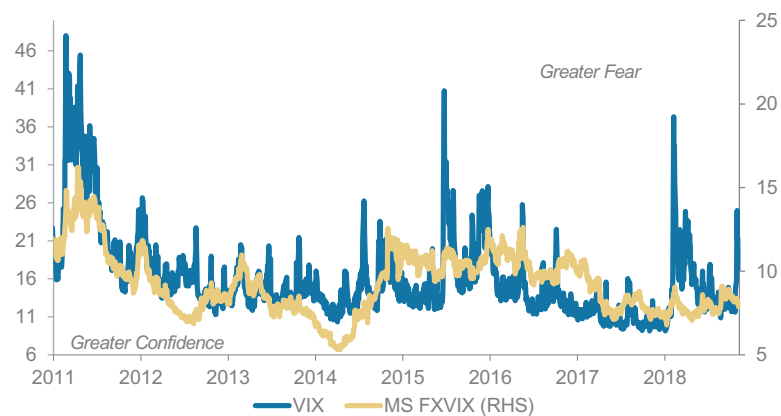


Source: Bloomberg, Morgan Stanley Research

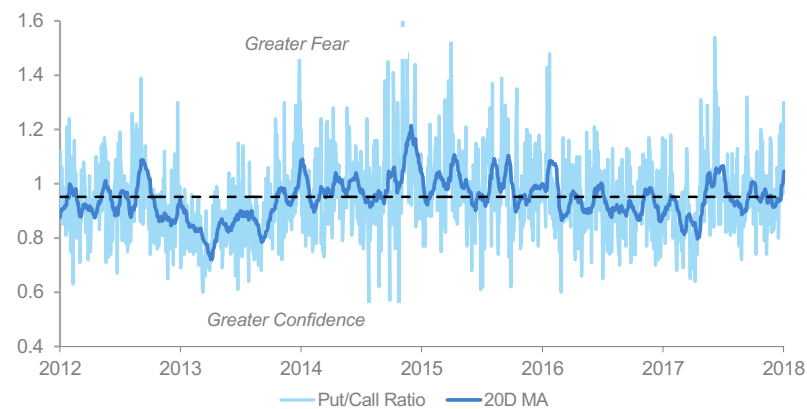
# Technicals Indicators

## Global Sentiment Indicator

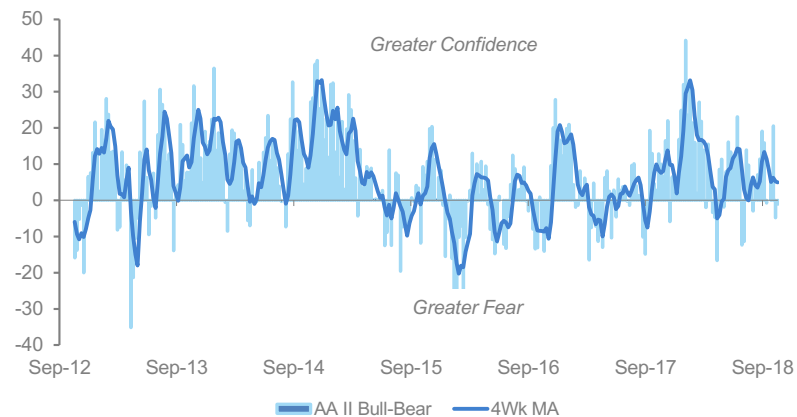
**Exhibit 52: VIX and FX VIX**



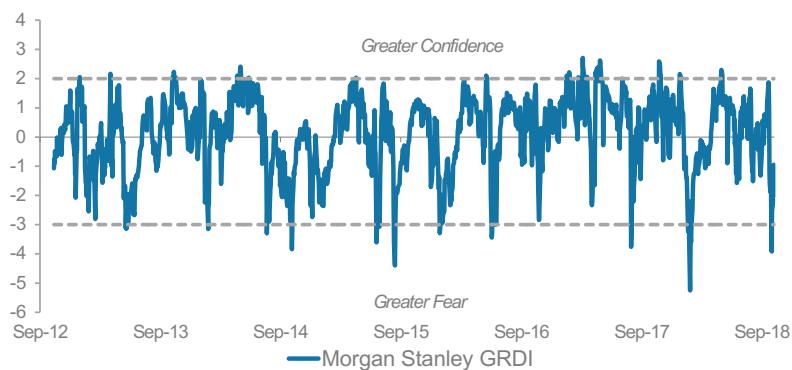
**Exhibit 53: US equity put/call ratio**



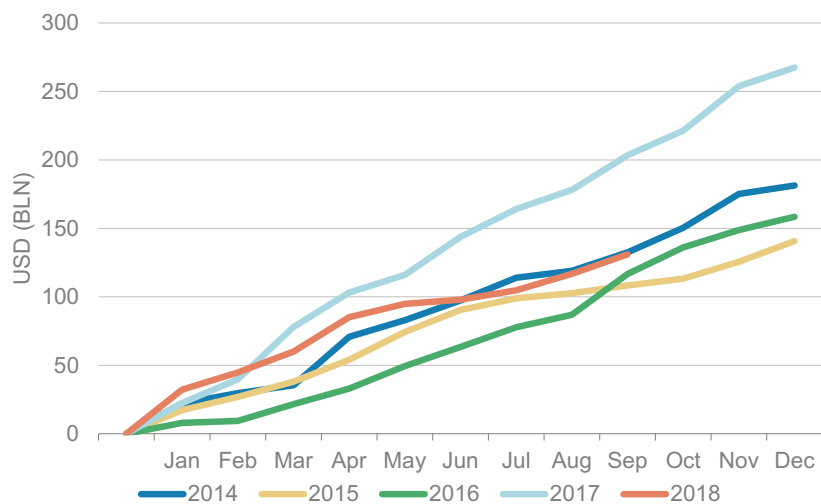
**Exhibit 54: Retail investors sentiment (AAII Bulls - Bear)**



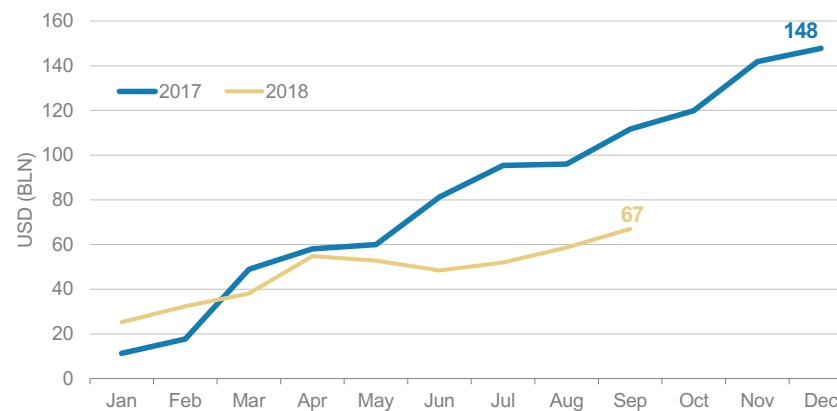
**Exhibit 55: Morgan Stanley Global Risk Demand Index**



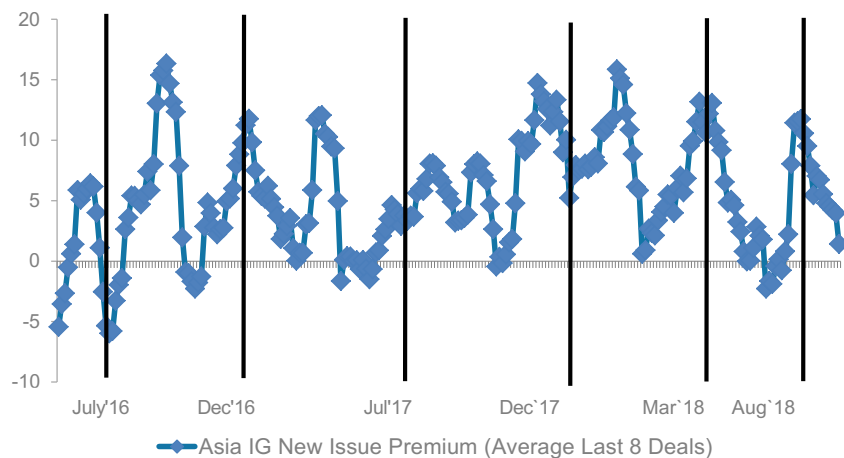
## Asia Credit Supply Technicals

**Exhibit 56:** Asia credit MTD gross supply


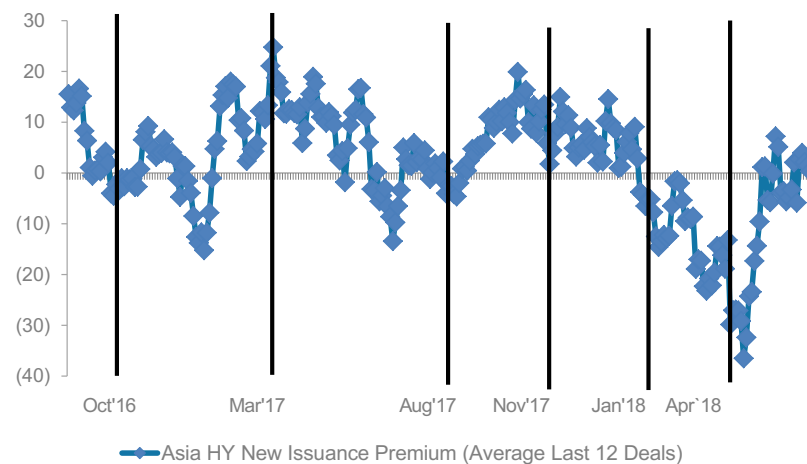
Source: EMDB, Bloomberg, Morgan Stanley Research

**Exhibit 57:** Asia credit MTD net supply


Source: Bloomberg, Morgan Stanley Research

**Exhibit 58:** Asia IG non-financials new issues premium


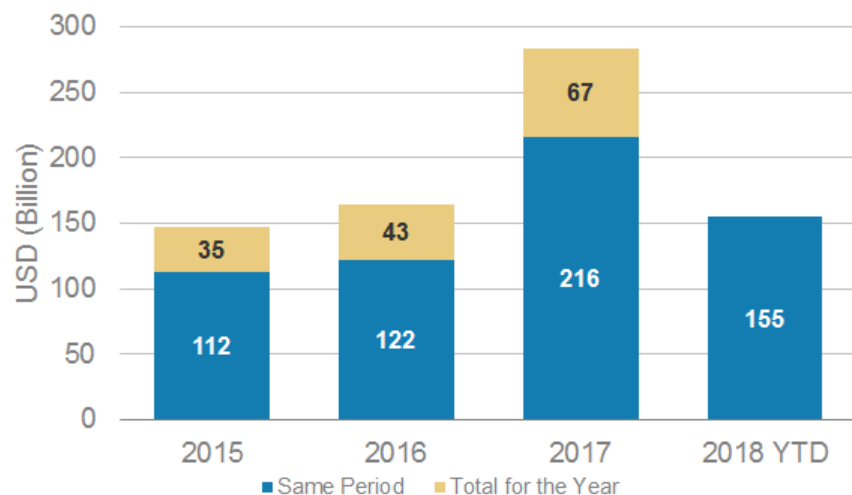
Note: New Issue Premium = End of day spread on first day of issuance - issuance spread + change in Asia IG spread Source: Bloomberg, iBoxx, Morgan Stanley Research

**Exhibit 59:** Asia HY non-financials new issues premium


Note: New Issue Premium = End of day spread on first day of issuance - issuance spread + change in Asia HY spread Source: Bloomberg, iBoxx Morgan Stanley Research

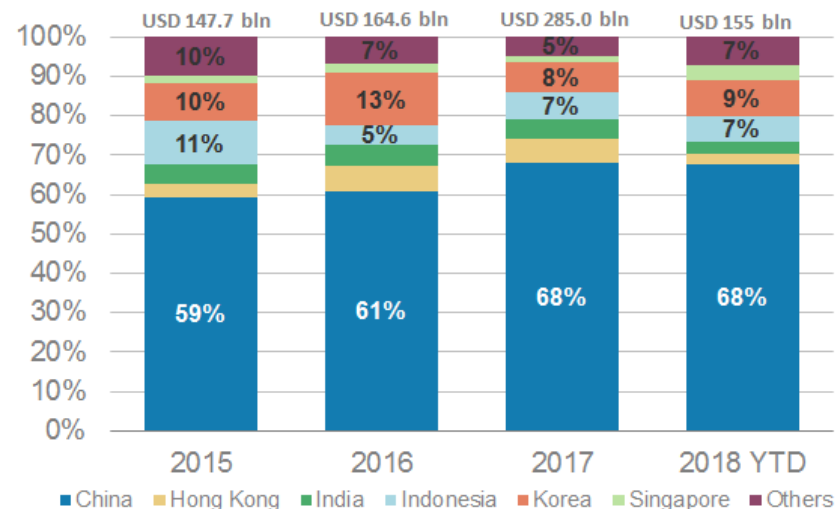
## Asia Credit Supply Breakdown

**Exhibit 60:** Asia credit YTD gross supply comparison



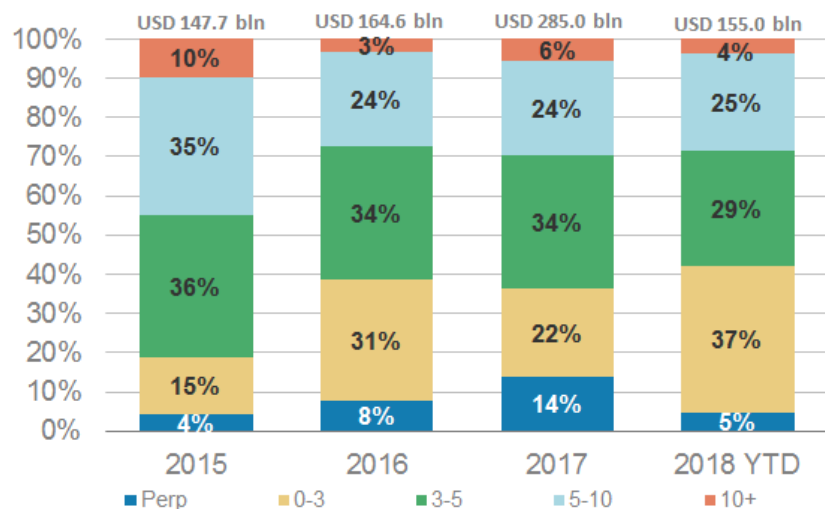
Source: EMDB, Bloomberg, Morgan Stanley Research

**Exhibit 61:** Asia credit supply breakdown by countries



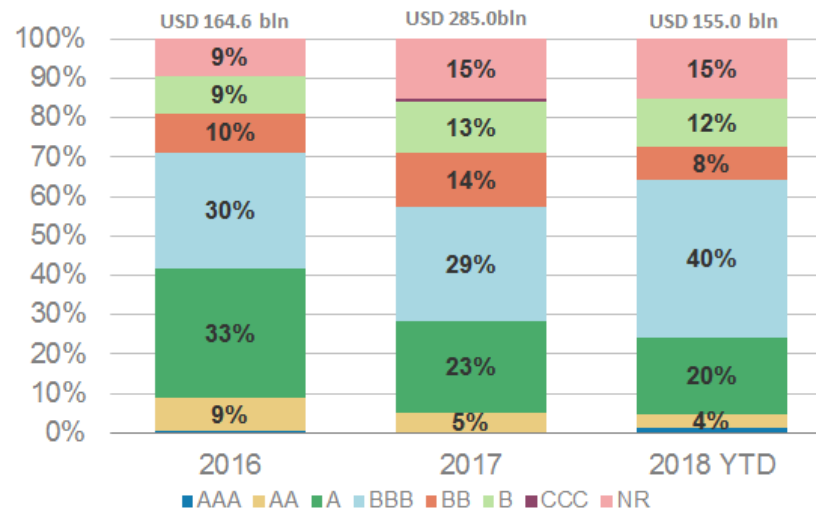
Source: EMDB, Bloomberg, Morgan Stanley Research

**Exhibit 62:** Asia credit supply breakdown by maturities



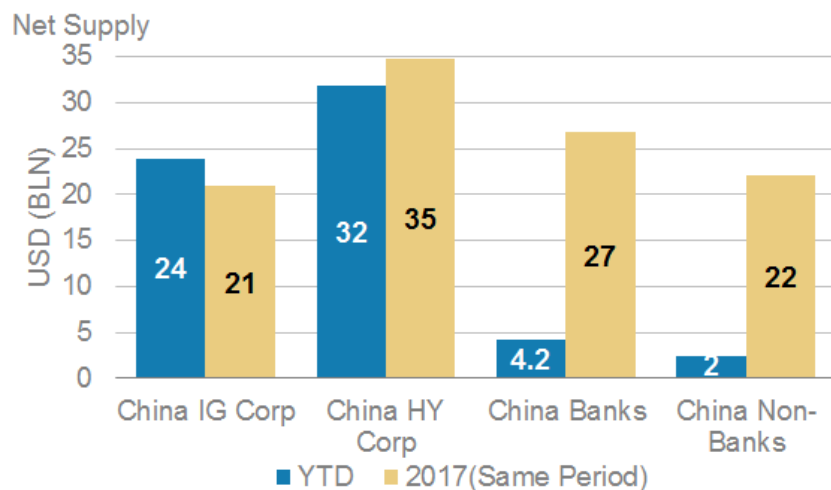
Source: EMDB, Bloomberg, Morgan Stanley Research

**Exhibit 63:** Asia credit supply breakdown by ratings

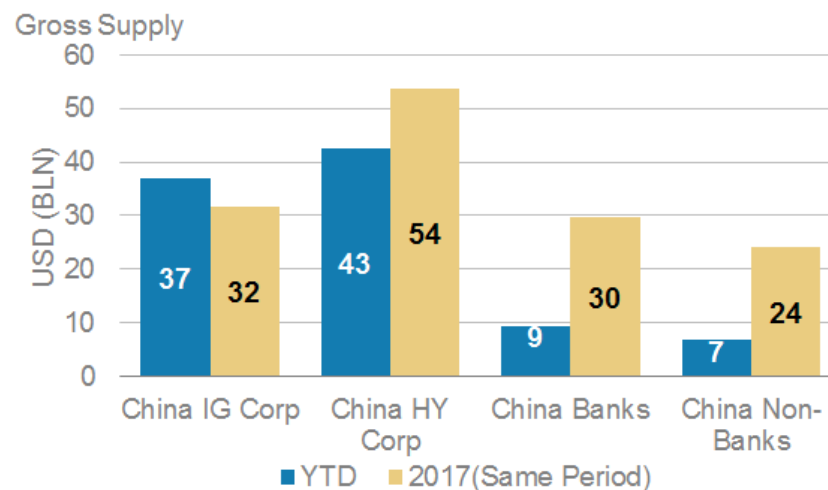


Source: EMDB, Bloomberg, Morgan Stanley Research



**Exhibit 64:** Breakdown of China Net Supply


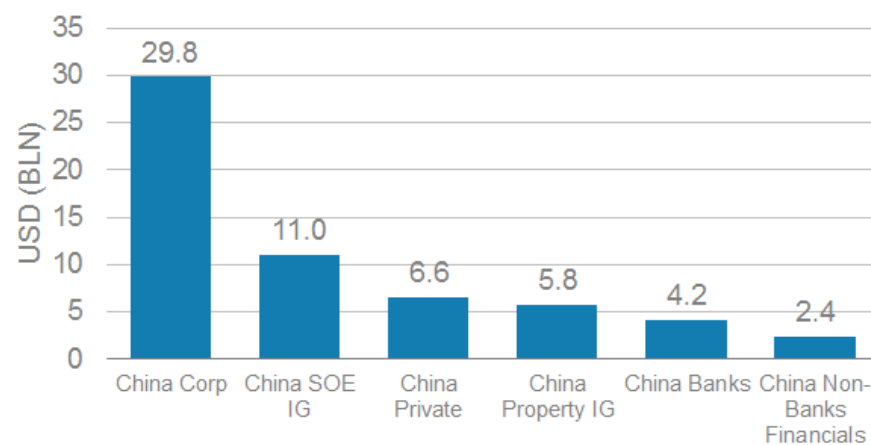
Source: EMDB, Bloomberg, Morgan Stanley Research

**Exhibit 65:** Breakdown of China Gross Supply


Source: EMDB, Bloomberg, Morgan Stanley Research

**Exhibit 66:** China IG net supply by sectors

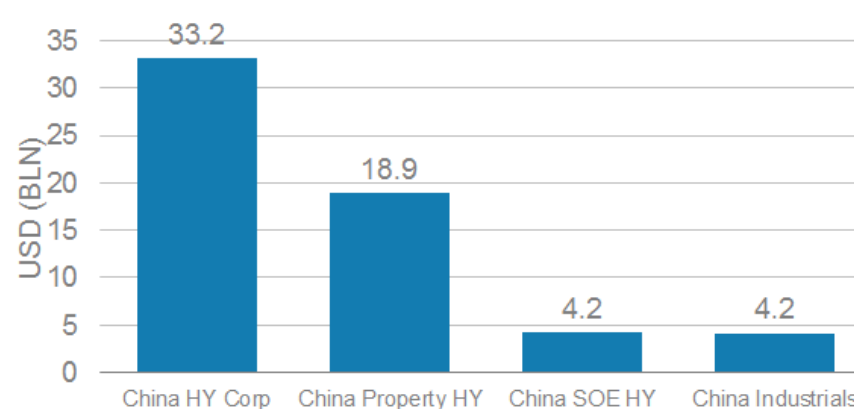
Net Supply in 2018



Source: EMDB, Bloomberg, Morgan Stanley Research

**Exhibit 67:** China HY net supply by sectors

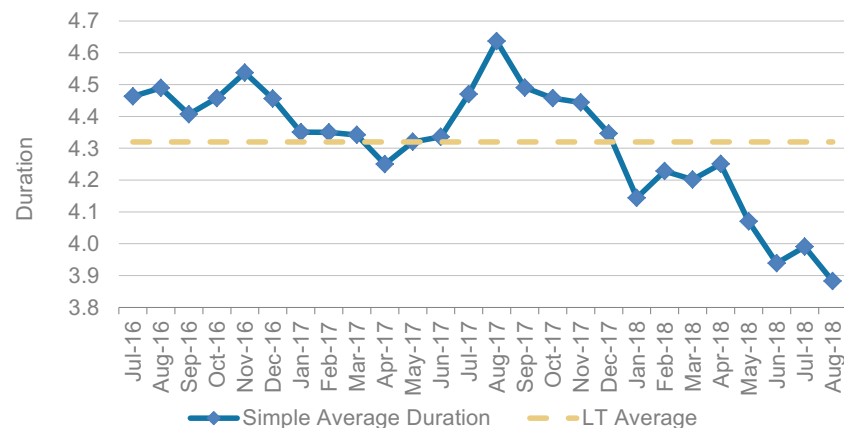
Net Supply in 2018



Source: EMDB, Bloomberg, Morgan Stanley Research

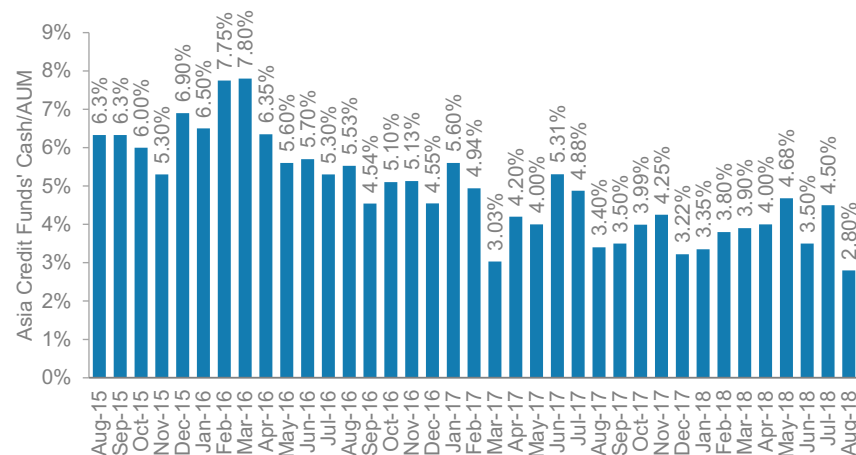
## Asia Credit Demand

**Exhibit 68:** Duration of Asia credit funds



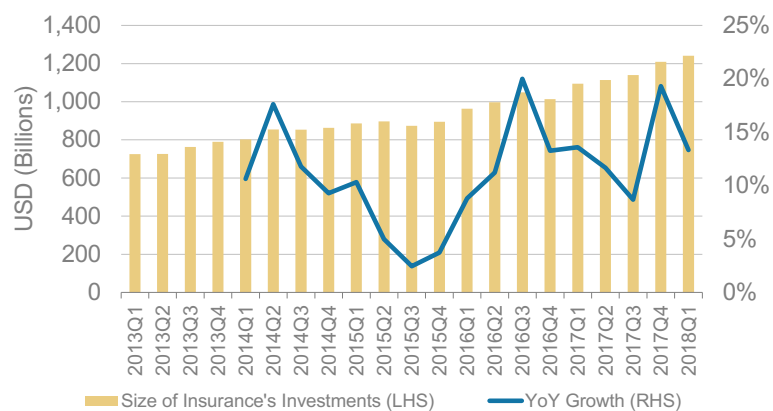
Note: 20 out of 21 funds had reported for Aug'18  
Source: Funds fact sheets, Morgan Stanley Research

**Exhibit 69:** Cash/AUM of Asia credit funds



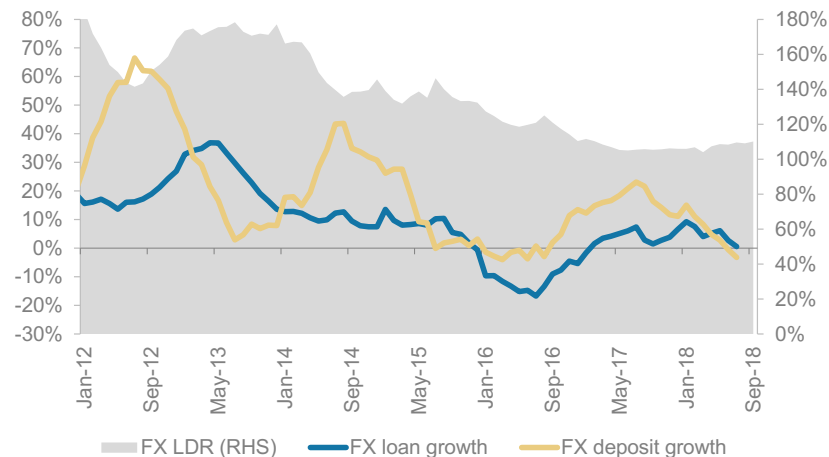
Note: 33 out of 34 funds had reported for Aug'18  
Source: Funds fact sheets, Morgan Stanley Research

**Exhibit 70:** Asia insurance investment demand



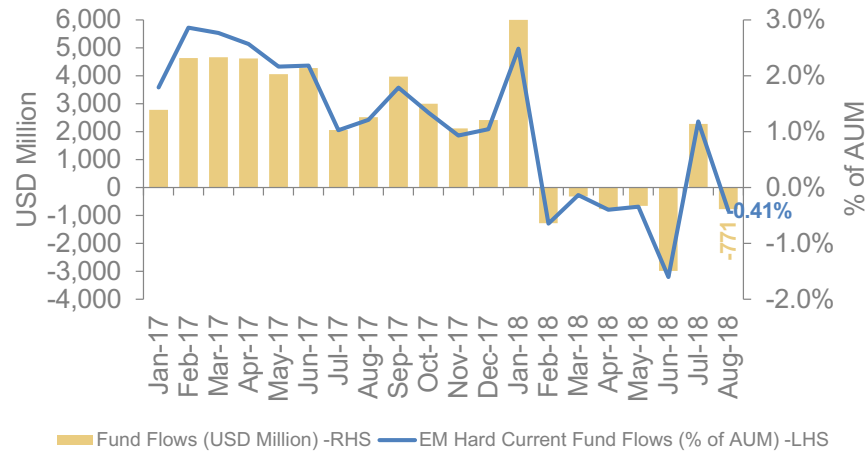
Source: SNL, Morgan Stanley Research

**Exhibit 71:** Onshore demand for Asia credit



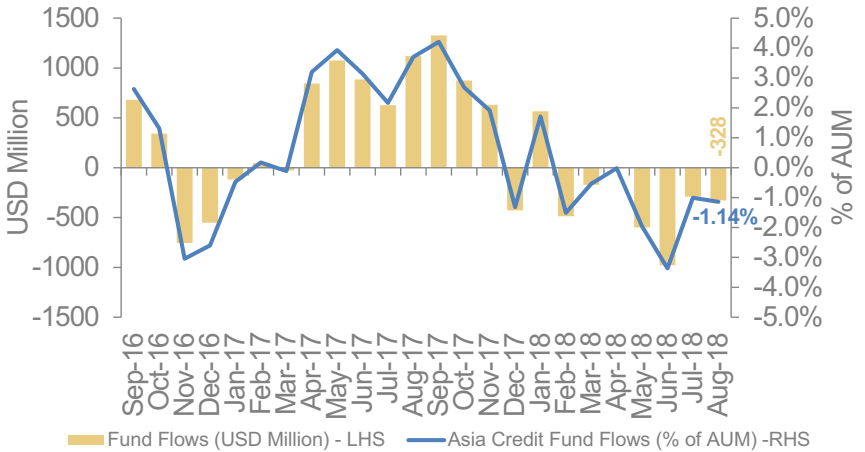
Source: CEIC, Morgan Stanley Research

Exhibit 72: Monthly EM hard currency funds' flow



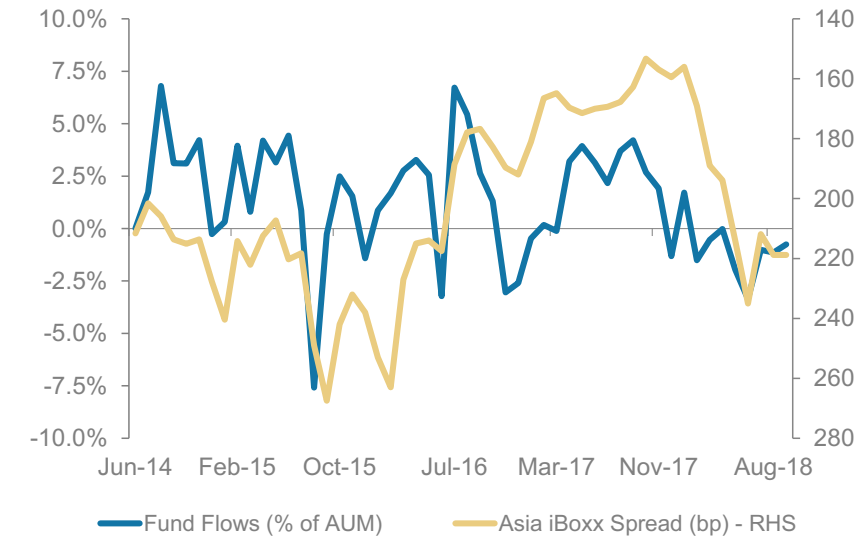
Source: EPFR, Morgan Stanley Research

Exhibit 73: Monthly Asia credit funds' flow



Source: Bloomberg, Morgan Stanley Research

Exhibit 74: Asia credit fund flows vs. Asia credit spread



Source: Bloomberg, iBoxx, Company data, Morgan Stanley Research

## Asia New Issue Monitor – Outperformers

**Exhibit 75:** Asia IG new issuance outperformers in the past three months

| Security Des          | Ticker | Cpn   | Maturity  | Amt issued(mn) | Rating | Issue Spread | Current Spread | Change in Spread |
|-----------------------|--------|-------|-----------|----------------|--------|--------------|----------------|------------------|
| GSHIAV 6 1/4 08/02/21 | GSHIAV | 6.250 | 2-Aug-21  | 350            | BBB-   | 375          | 315            | -60              |
| CHALUM 4 7/8 09/07/21 | CHALUM | 4.875 | 7-Sep-21  | 400            | BBB+   | 235          | 186            | -49              |
| FUFENG 5 7/8 08/28/21 | FUFENG | 5.875 | 28-Aug-21 | 350            | BBB-   | 325          | 282            | -43              |
| AHTRHK 4 7/8 09/13/21 | AHTRHK | 4.875 | 13-Sep-21 | 350            | BBB+   | 218          | 189            | -29              |
| BJCONS 5 3/4 08/20/21 | BJCONS | 5.750 | 20-Aug-21 | 600            | NR     | 307          | 286            | -21              |
| KOHNPW 3 3/4 07/25/23 | KOHNPW | 3.750 | 25-Jul-23 | 600            | AA     | 113          | 94             | -18              |
| SHLGED 4 5/8 09/05/21 | SHLGED | 4.625 | 5-Sep-21  | 300            | BBB    | 189          | 172            | -17              |

Source: Bloomberg, Morgan Stanley Research

**Exhibit 76:** Asia HY new issuance outperformers in the past three months

| Security Des           | Ticker | Cpn    | Maturity  | Amt issued(mn) | Rating | Issue Price | Current Price | Change in Price |
|------------------------|--------|--------|-----------|----------------|--------|-------------|---------------|-----------------|
| MDLNIJ 10 3/4 08/30/21 | MDLNIJ | 10.750 | 30-Aug-21 | 150            | B      | 100         | 102           | 2.05            |
| ZHPRHK 12 1/2 01/02/21 | ZHPRHK | 12.500 | 2-Jan-21  | 350            | B-     | 98          | 98            | 0.33            |
| SUNAC 8 5/8 07/27/20   | SUNAC  | 8.625  | 27-Jul-20 | 400            | B      | 100         | 100           | 0.33            |
| ZHEBAR 6.8 08/27/21    | ZHEBAR | 6.800  | 27-Aug-21 | 200            | NR     | 100         | 100           | 0.31            |
| WHREST 5.7 08/09/21    | WHREST | 5.700  | 9-Aug-21  | 430            | BBB-   | 100         | 100           | 0.23            |
| JIAYUA 12 10/22/20     | JIAYUA | 12.000 | 22-Oct-20 | 225            | B-     | 100         | 100           | 0.16            |
| GEMDAL 6 09/06/21      | GEMDAL | 6.000  | 6-Sep-21  | 150            | BB-    | 100         | 100           | 0.12            |

Source: Bloomberg, Morgan Stanley Research

## Asia New Issue Monitor – Underperformers

**Exhibit 77:** Asia IG new issuance underperformers in the past three months

| Security Des          | Ticker | Cpn   | Maturity  | Amt issued(mn) | Rating | Issue Spread | Current Spread | Change in Spread |
|-----------------------|--------|-------|-----------|----------------|--------|--------------|----------------|------------------|
| NANFUN 5 09/05/28     | NANFUN | 5.000 | 5-Sep-28  | 500            | BBB-   | 228          | 253            | 25               |
| POWFIN 5 1/4 08/10/28 | POWFIN | 5.250 | 10-Aug-28 | 300            | BBB-   | 235          | 252            | 17               |
| WFURCD 6 1/2 10/23/21 | WFURCD | 6.500 | 23-Oct-21 | 250            | BBB-   | 355          | 362            | 7                |
| POLYRE 4 3/4 09/17/23 | POLYRE | 4.750 | 17-Sep-23 | 500            | BBB-   | 220          | 225            | 5                |
| CHMEDA 4 1/4 08/07/23 | CHMEDA | 4.250 | 7-Aug-23  | 500            | BBB+   | 148          | 152            | 4                |
| CSSCCO 4 1/8 09/27/21 | CSSCCO | 4.125 | 27-Sep-21 | 485            | A+     | 125          | 126            | 1                |
| SOPOWZ 3 7/8 09/18/23 | SOPOWZ | 3.875 | 18-Sep-23 | 600            | A+     | 105          | 105            | 0                |

Source: Bloomberg, Morgan Stanley Research

**Exhibit 78:** Asia HY new issuance underperformers in the past three months

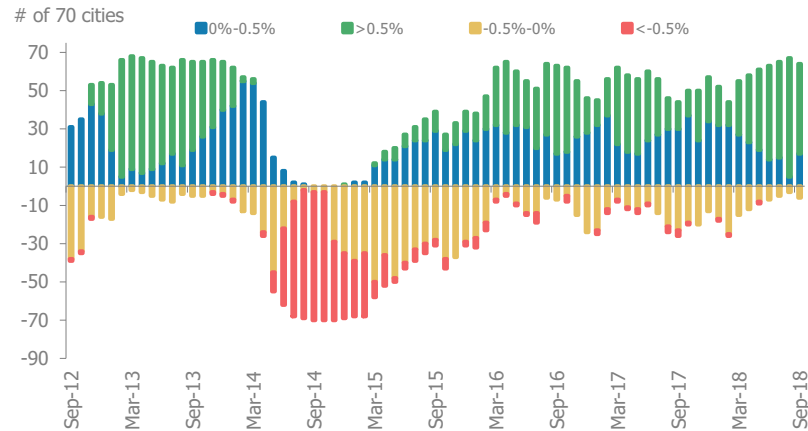
| Security Des          | Ticker | Cpn   | Maturity  | Amt issued(mn) | Rating | Issue Price | Current Price | Change in Price |
|-----------------------|--------|-------|-----------|----------------|--------|-------------|---------------|-----------------|
| CIFIHG 5 1/2 01/23/22 | CIFIHG | 5.500 | 23-Jan-22 | 585            | B+     | 100         | 90            | -10.33          |
| COGARD 8 01/27/24     | COGARD | 8.000 | 27-Jan-24 | 550            | BBB-   | 100         | 96            | -4.17           |
| LOGPH 7 1/2 08/27/21  | LOGPH  | 7.500 | 27-Aug-21 | 300            | B+     | 99          | 97            | -2.69           |
| SANLTD 5.4 08/08/28   | SANLTD | 5.400 | 8-Aug-28  | 1900           | BBB-   | 100         | 97            | -2.34           |
| THSCPA 7.95 08/15/21  | THSCPA | 7.950 | 15-Aug-21 | 350            | NR     | 99          | 96            | -2.31           |
| CHFOTN 9 07/31/21     | CHFOTN | 9.000 | 31-Jul-21 | 530            | BB     | 100         | 98            | -2.09           |
| BEIPRO 9 08/16/20     | BEIPRO | 9.000 | 16-Aug-20 | 250            | NR     | 100         | 98            | -2.08           |

Source: Bloomberg, Morgan Stanley Research

## Key Credit Themes

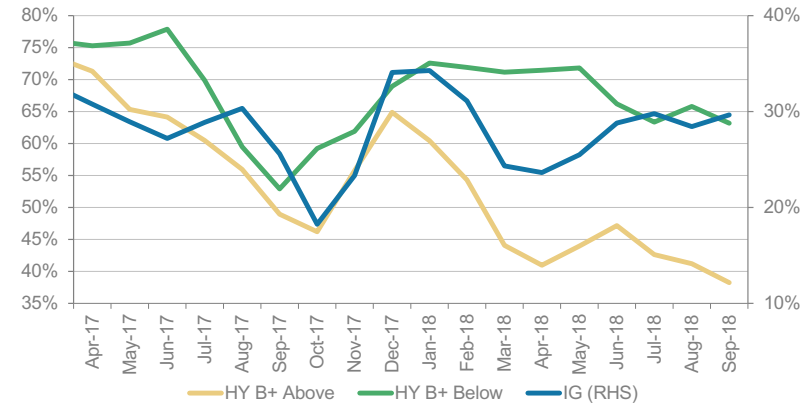
### China Property Sector

**Exhibit 79:** 70 cities: number of cities with ASP rise/decline



Note: The chart plots the number of cities that recorded a MoM rise or decline in sale prices as per the Property Price Index  
Source: NBS,CEIC, Morgan Stanley Research

**Exhibit 80:** YoY China property corp contracted sales growth



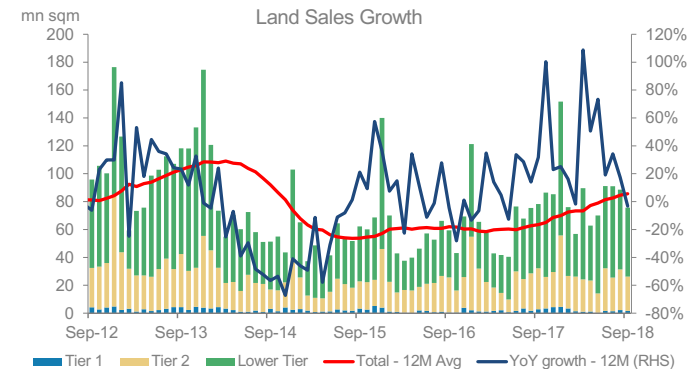
Source: Bloomberg, Morgan Stanley Research

**Exhibit 81:** China HY versus IG property spread



Source: Bloomberg, Morgan Stanley Research

**Exhibit 82:** Land sales growth in China



Source: Bloomberg, Morgan Stanley Research



Onshore Credit Monitor

Exhibit 83: Onshore versus offshore credit curve



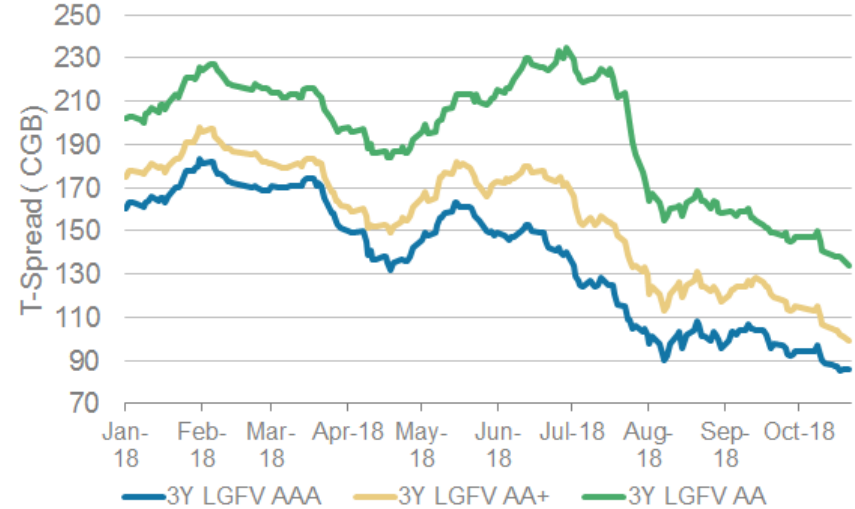
Source: WIND, iBoxx, Morgan Stanley Research

Exhibit 84: China Onshore AAA and CGB Yield



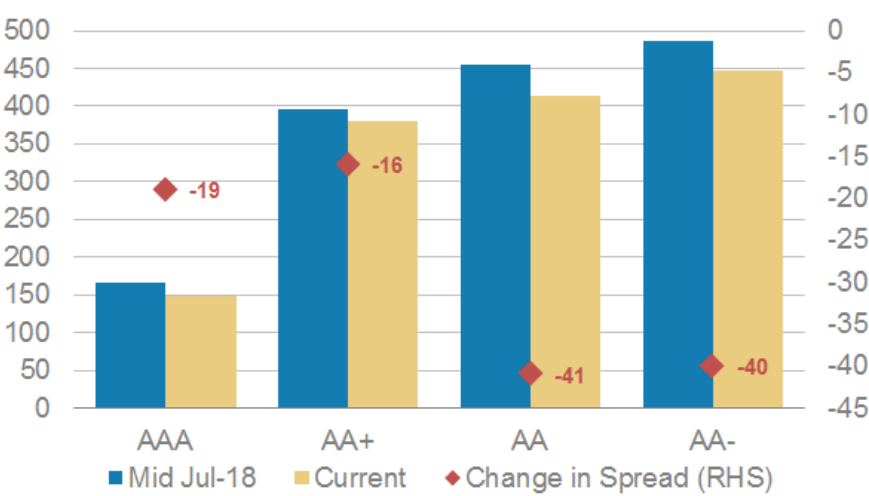
Source: WIND, Morgan Stanley Research

Exhibit 85: Onshore LGFV spreads performance

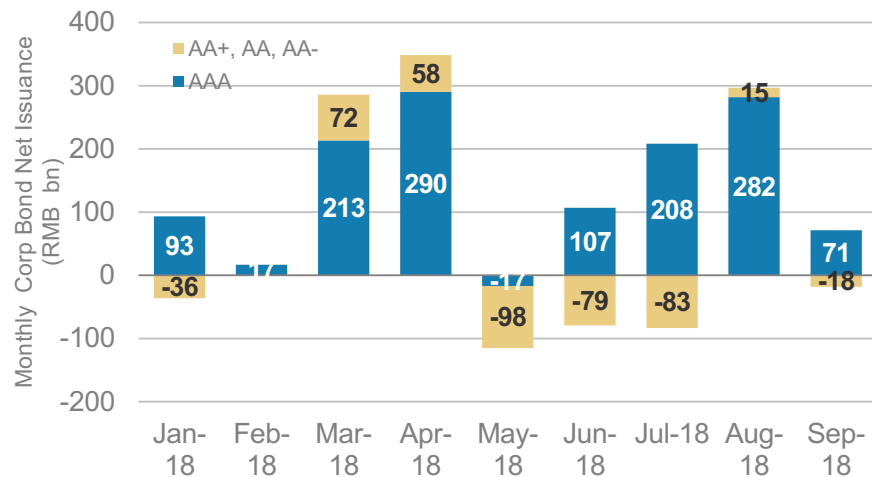


Source: WIND, Morgan Stanley Research

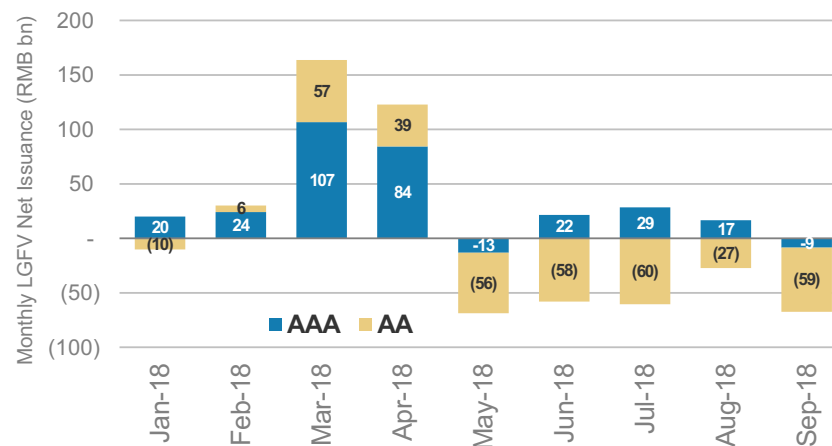
Exhibit 86: Onshore credit curve performance



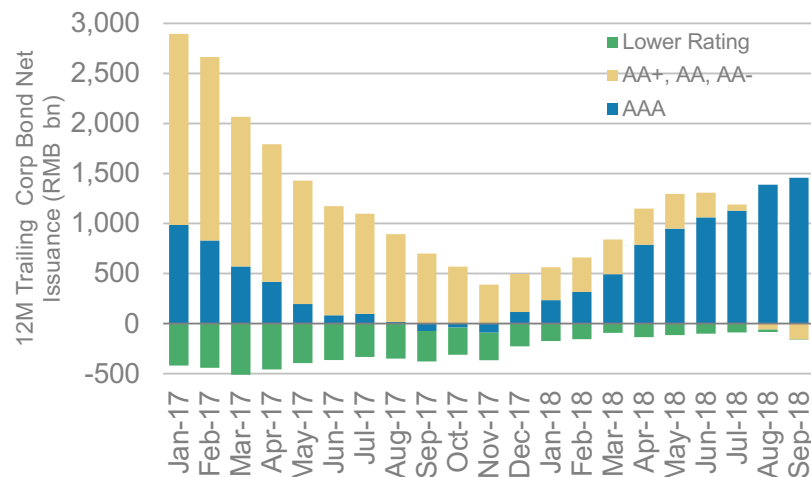
Source: Bloomberg, Morgan Stanley Research

**Exhibit 87:** Monthly onshore AAA & AA corporate bond issuance


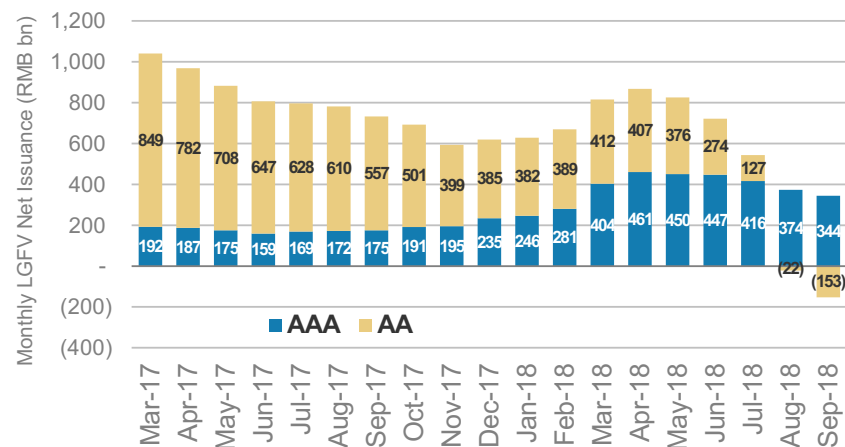
Source: WIND, Morgan Stanley Research

**Exhibit 88:** Monthly onshore AAA & AA corporate LGFV bond issuance


Source: WIND, Morgan Stanley Research

**Exhibit 89:** 12M trailing onshore corporate bond issuance


Source: WIND, Morgan Stanley Research

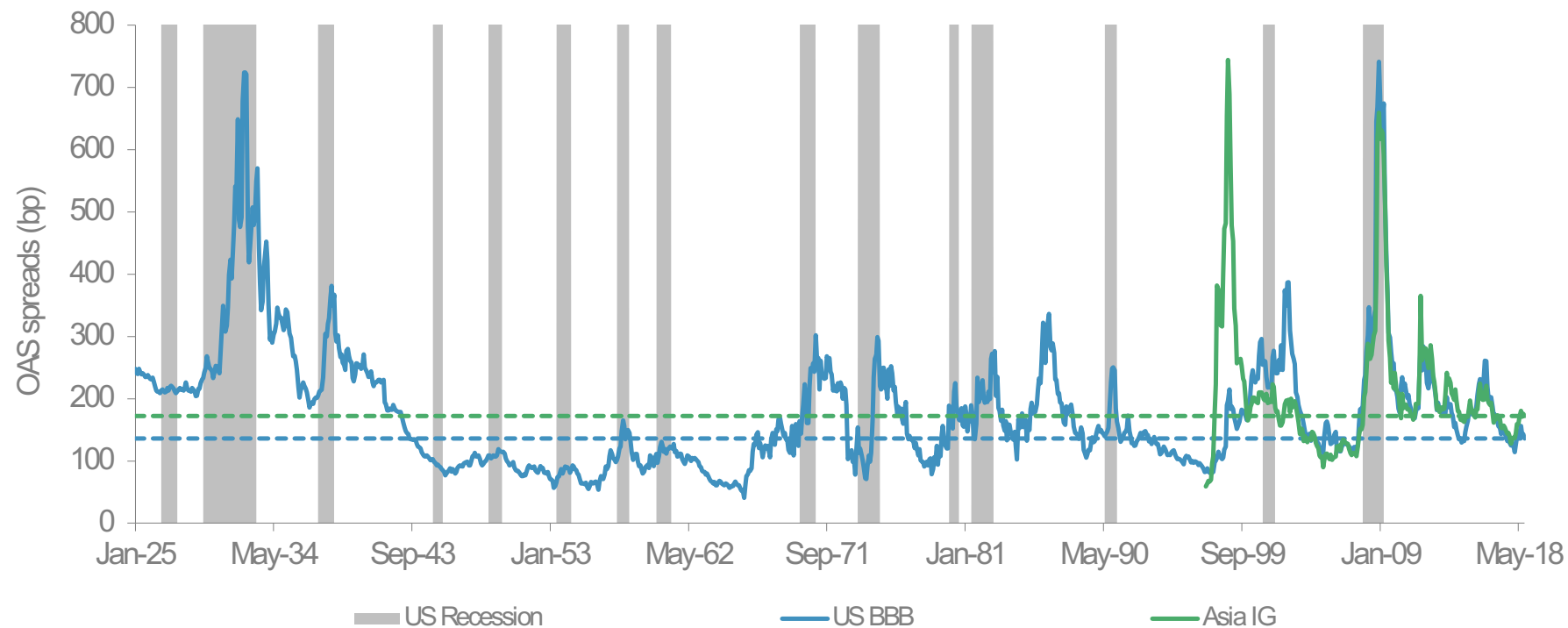
**Exhibit 90:** 12M trailing onshore AAA & AA corporate LGFV bond issuance


Source: WIND, Morgan Stanley Research

## Valuations

### Global Credit – The Long-Term View

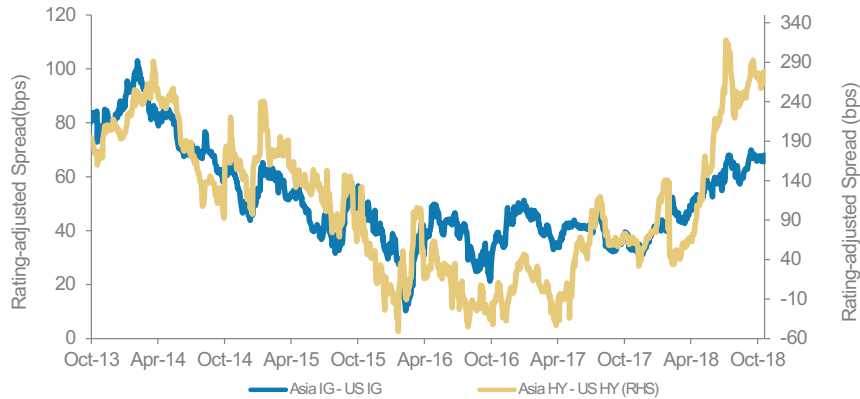
**Exhibit 91:** US BBB and Asia IG spreads



Source: Moody's, Yield Book, NBER, Bloomberg, iBoxx, Morgan Stanley Research

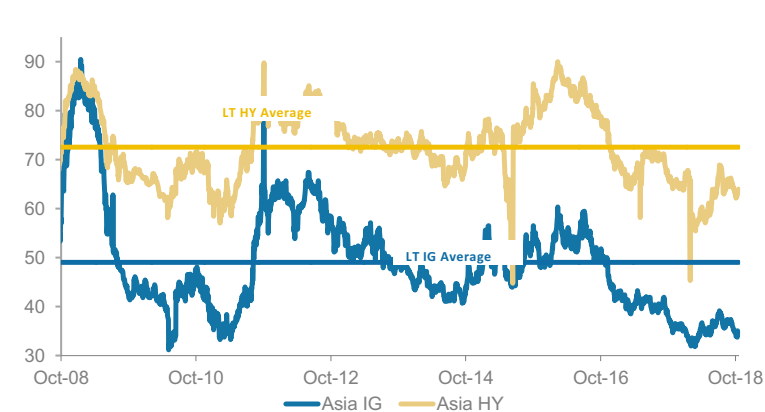
Asia Credit Valuations

Exhibit 92: Spread pick-up switching from US to Asia credit



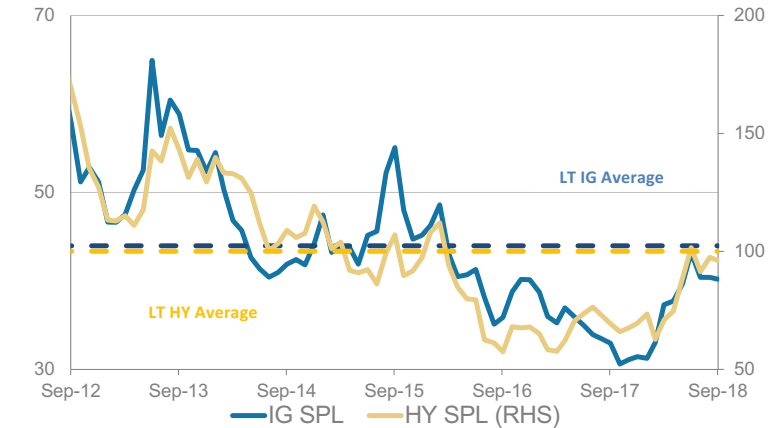
Source: iBoxx, Yieldbook, Morgan Stanley Research

Exhibit 93: Asia corporate cash spread as % of yield



Source : iBoxx, Morgan Stanley Research

Exhibit 94: Asia corporate cash spread per gross leverage (SPL)



Note: The chart shows the Asian corporate cash spreads per unit. Gross leverage is defined as total debt/LTM EBITDA  
Source: Bloomberg, iBoxx, Morgan Stanley Research

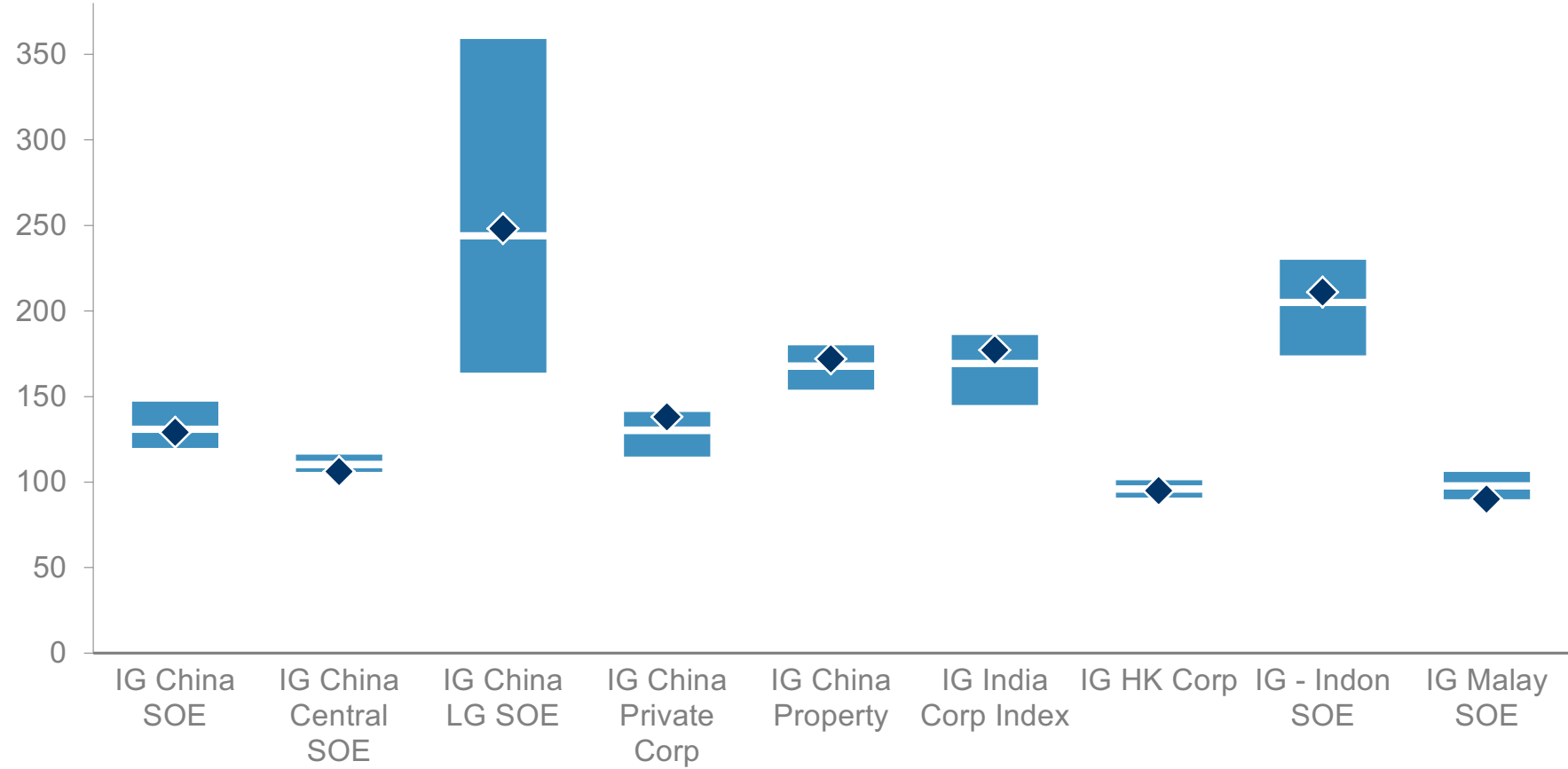
Exhibit 95: Asia IG and Asia HY rolling 1-year risk-adjusted return



Source: Bloomberg, Morgan Stanley Research

Asia IG Corp Sectors' Spread Range in the Past Six Months

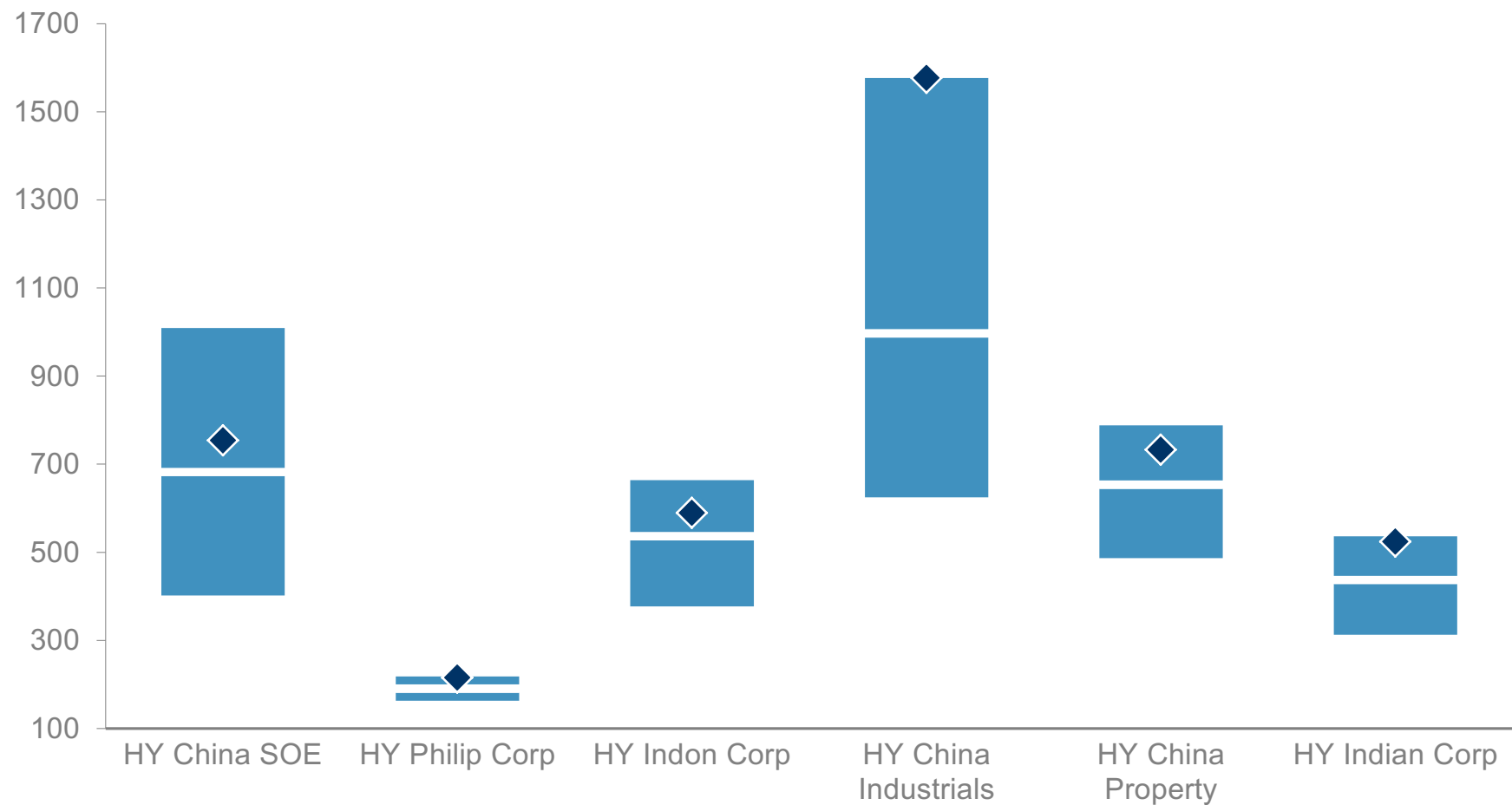
Exhibit 96:



Source: Bloomberg, Morgan Stanley Research

Asia HY Corp Sectors' Spread Range in the Past Six Months

Exhibit 97:



Source: Bloomberg, Morgan Stanley Research



## Disclosure Section

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(as of September 30, 2018)

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| STOCK RATING CATEGORY | COVERAGE UNIVERSE |            | INVESTMENT BANKING CLIENTS (IBC) |                |                      | OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC) |                       |
|-----------------------|-------------------|------------|----------------------------------|----------------|----------------------|---|-----------------------|
|                       | COUNT             | % OF TOTAL | COUNT                            | % OF TOTAL IBC | % OF RATING CATEGORY | COUNT   | % OF TOTAL OTHER MISC |
| Overweight/Buy        | 1178              | 37%        | 308                              | 42%            | 26%                  | 562   | 40%                   |
| Equal-weight/Hold     | 1378              | 44%        | 343                              | 46%            | 25%                  | 625   | 44%                   |
| Not-Rated/Hold        | 49                | 2%         | 5                                | 1%             | 10%                  | 7   | 0%                    |
| Underweight/Sell      | 554               | 18%        | 83                               | 11%            | 15%                  | 224   | 16%                   |
| <b>TOTAL</b>          | <b>3,159</b>      |            | <b>739</b>                       |                |                      | <b>1418</b>                                       |                       |

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