Semi-Annual Credit Summary

S2/2019 *Volume 1, No 1*

Credit Research Initiative
Risk Management Institute, National University of Singapore

NUS National University of Singapore | RMI Advancing Risk Management for Singapore and Beyond

Introduction

The Semi-Annual Credit Summary (SACS) is a summary of credit outlooks across regions, economies and sectors. This analysis incorporates probabilities of default (PD) generated by the Risk Management Institute - Credit Research Initiative's (NUS-CRI) default forecast model, a part of the RMI Credit Research Initiative at the National University of Singapore (NUS). The SACS provides insights on trends in credit outlooks to credit professionals, investors and researchers.

SACS Volume 1, Issue 1 covers the second half of 2019. We discuss the general credit outlook for a selection of economies from around the world, based on relevant indicators, and relate this discussion to forecasts provided by NUS-CRI's PD model.

While the PD system output default forecasts at horizons ranging from one month to five years, the SACS reports only 1-year PDs in order to allow the reader to make consistent comparisons. The commentary in the SACS is based on median PD of exchange-listed firms within economies and industry sectors. Classification into economies is based on each firm's country of domicile, and classification into industry sectors is based on each firm's Level I Bloomberg Industry Classification. The only exception is the banking sector, where firms are included based on the Level II Bloomberg Industry Classifications. The daily frequency PD graphs in the written commentary are aggregates of firms that have a PD in both the first ten days and last ten days of the quarter. This prevents, for example, drops in the aggregate PD when high PD firms default and leave the sample.

The economies that are considered in each region are based on a selection of 8 economies covered by NUS-CRI's default forecast model. The developed economies of Asia-Pacific include: Australia and Singapore. The emerging economies of Asia-Pacific include: China, India, Indonesia and Malaysia. Western Europe includes: Italy and the UK.

Credit Research Initiative

The SACS is a companion publication to the Weekly Credit Brief and Credit Brief on Singapore SMEs, with all three publications produced as part of the Credit Research Initiative undertaken by CRI.

These publications supplement NUS-CRI's operational Probability of Default (PD) model. The model takes financial statements and market data from a database of more than 71,000 listed firms and estimates a PD for each firm, effectively transforming big data into smart data. The outputs from the NUS-CRI PD model are available free for all users at:

www.rmicri.org

As of March 2020, the PD system covers 133 economies in Africa, Asia-Pacific, Latin America, North America, the Middle East and Europe. The probabilities of default include historical data for firms that are now delisted from exchanges or firms that have defaulted. PDs aggregated at the region, economy and sector level are also available. The full list of firms is freely available to users who can give evidence of their professional qualifications to ensure that they will not misuse the data. General users who do not request global access are restricted to a list of 5,000 firms. The PD system operates in a transparent manner, and a detailed description of our model is provided in a Technical Report available on our website.

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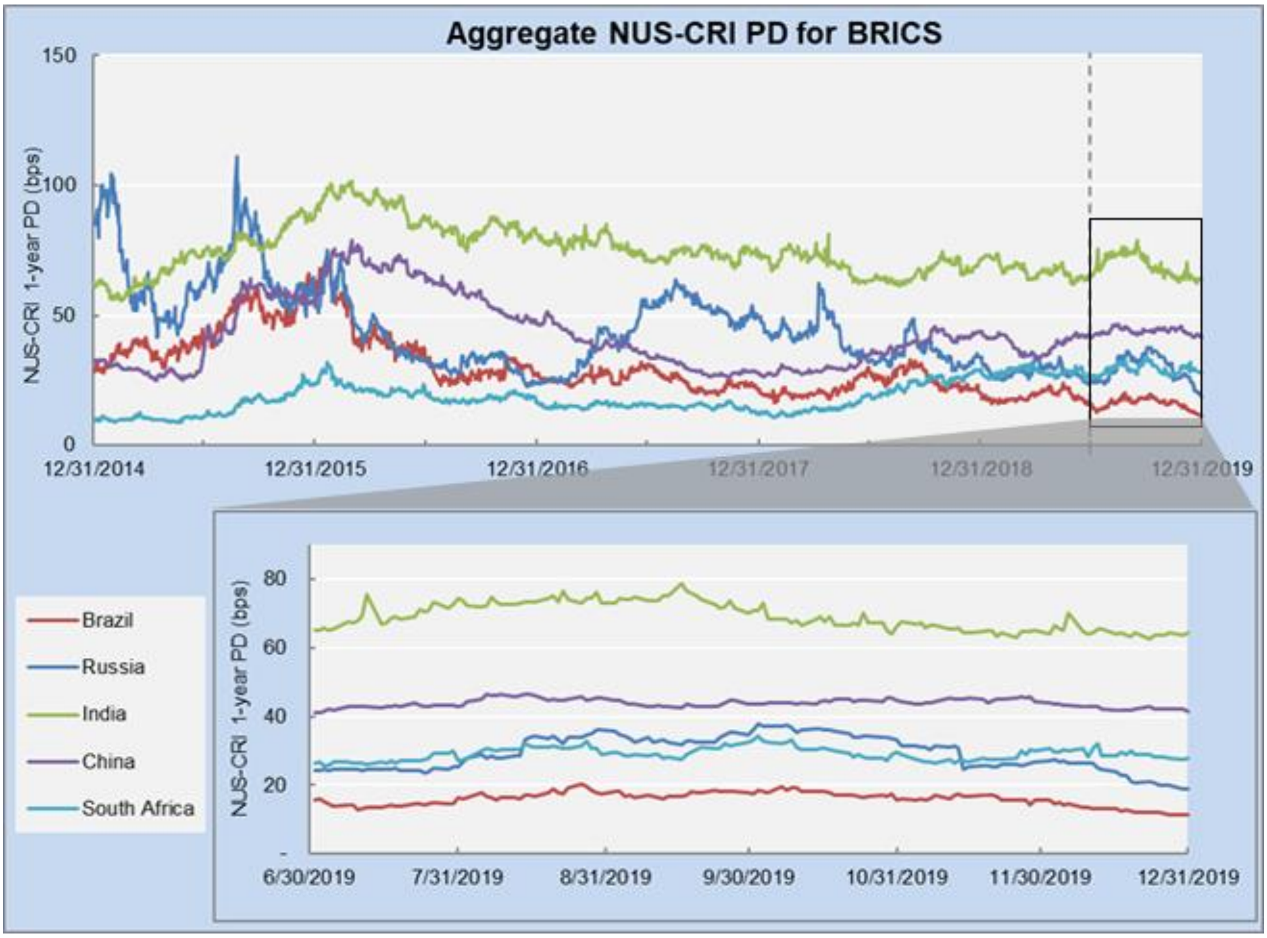
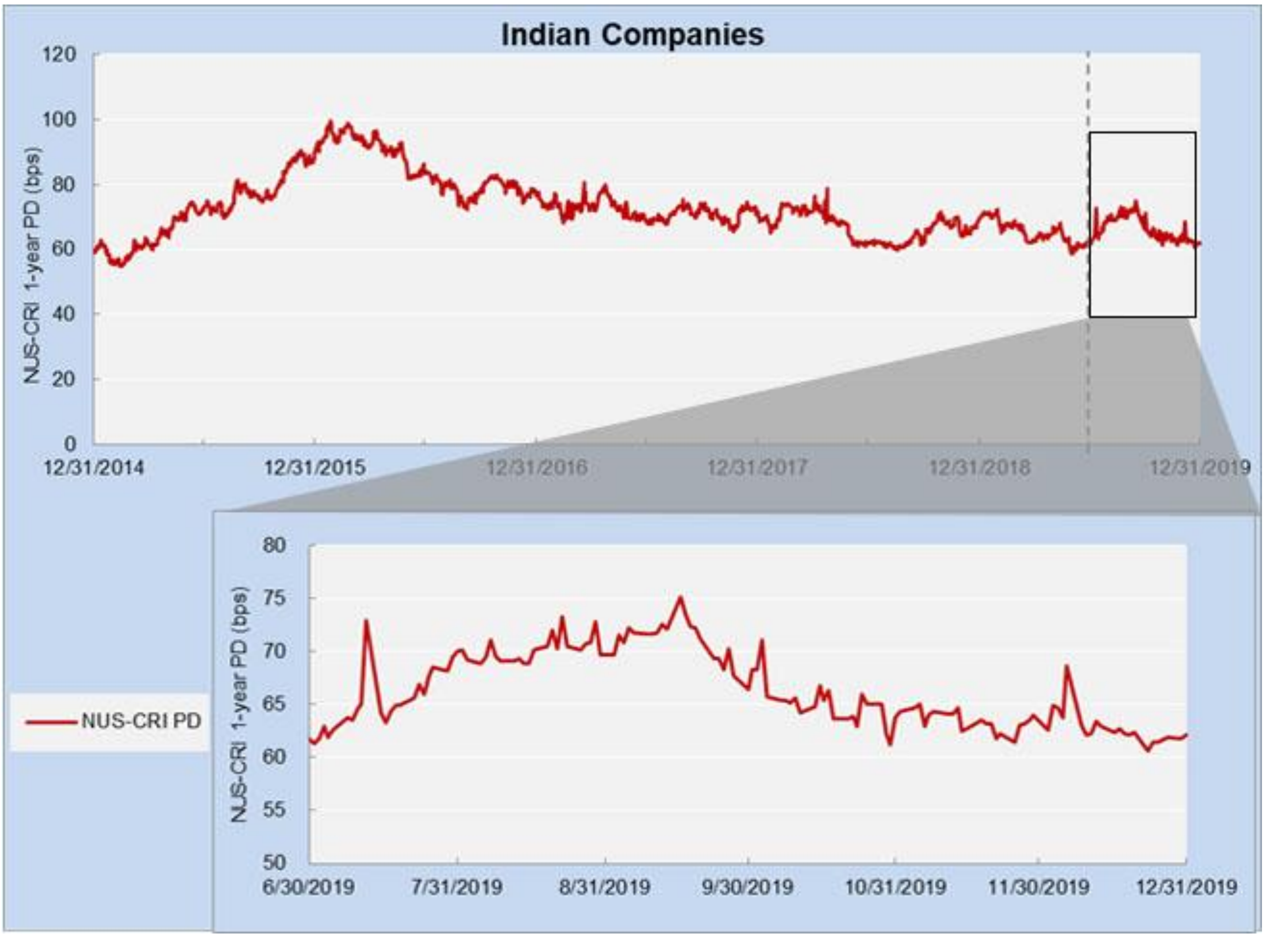
BRICS

In the second half of 2019, listed companies in BRICS delivered mixed results. The NUS-CRI aggregate PDs for Brazil, Russia and India improved while China stayed almost at the same level and South Africa slightly deteriorated. This deterioration in credit profile for South Africa is in line with its 0.6% GDP decline as consumption weakens. Compared with the first half of 2018, GDP growth declined from 1.0% by 1.6 percentage points. In accordance with the stable aggregate PD of China is a stable GDP growth at a level of 6.0% in both Q3 and Q4 2019. Contrary to a decline in India's GDP from 5.3% to 4.8%, its credit profile improved by 1.03bps. For Brazil and Russia, their enhancement of aggregate PDs comes in line with increasing GDP. While Brazils GDP grows from Q2 to Q4 2018 by 0.6 percentage point to 1.7%, Russia's GDP increases from 0.9% to 1.6%.



Indian Companies

The NUS-CRI Aggregate 1-yearnPD for Indian companies has increased to over 70bps from around 61bps in Q3 and then dropped back to around 60bps in Q4 2019. Q3 and Q4 of 2019 saw large involvement by the Indian government to tackle non-performing assets. The manufacturing sector continued to strengthen, with operating conditions improving at a pace not seen in 8 years. The annual rate of inflation, based on monthly Wholesale Price Index (WPI), stood at 2.59% in Dec 2019. Current Account Deficit is USD 6.3bn in July - September 2019, narrowed from USD 19.0bn in Q2 2019 and USD 14.2bn in the preceding quarter.



Economy

- The Indian economy expanded 4.7% yoy in Q4 2019, matching market expectations. It follows an upwardly revised 5.1% expansion in Q3 (4.5% earlier reported). It is the weakest growth rate since Q1 2013 considering the upward revision for the previous quarter. On the expenditure side, faster declines were seen for gross fixed capital formation (-5.2% vs -4.1% in Q3), exports (-5.5% vs -2.1%) and imports (-11.2% vs -9.3%) while private consumption growth accelerated (5.9% vs 5.6%). On the production side, gross value added expanded 4.5%, compared to 4.8% in Q3. The output for utilities (-0.7% vs 3.9% in Q3) and manufacturing (-0.2% vs -0.4%) contracted and construction slowed sharply (0.3% vs 2.9%). On the other hand, faster increases were seen for finance and real estate (7.3% vs 7.1%); the farm sector (3.5% vs 3.1%); trade, hotels, transport and communication (5.9% vs 5.8%); and mining and quarrying (3.2% vs 0.2%).[1]
- Manufacturing sector growth in India continued to strengthen in Jan 2020, with operating conditions improving at a pace not seen in close to eight years. The IHS Markit India Manufacturing PMI rose from 52.7 in December to 55.3 in January, its highest level in just under eight years. The consumer goods sub-sector remained the brightest spot, although growth was sustained in intermediate goods and capital goods moved back into expansion. The rise in total sales was supported by strengthening demand from external markets, as noted by the fastest increase in new export orders since November 2018. Manufacturers particularly noted higher sales to clients in Asia, Europe and North America, with favorable exchange rates assisting the upturn. [2]
- The annual rate of inflation, based on monthly Wholesale Price Index (WPI), stood at 2.59% (provisional) for December, 2019 (over December,2018) as compared to 0.58% (provisional) for the previous month

and 3.46% during the corresponding month of the previous year. Build up inflation rate in the financial year so far was 2.42% compared to a build-up rate of 2.92% in the corresponding period of the previous year.[3]

- India's Current Account Deficit (CAD) stood at USD 6.3bn (0.9% of GDP) in Q2 2019, narrowing from USD 19.0bn (2.9% of GDP) in Q2 2018 and USD 14.2bn (2.0% of GDP) in the preceding quarter. The CAD narrowed to 1.5% of GDP in April-September (H1) of 2019-20 from 2.6% a year ago on the back of a reduction in the trade deficit which shrank to USD 84.3bn in H1 of 2019-20 from USD 95.8bn in H1 of 2018-19. Net services receipts increased by 0.9% on a yoy basis, on the back of a rise in net earnings from computer, travel and financial services. Private transfer receipts, mainly representing remittances by Indians employed overseas, rose to USD 21.9bn, increasing by 5.2% from their level a year ago. Portfolio investment recorded a net inflow of USD 7.3bn in H1 of 2019-20 as against an outflow of USD 9.8bn a year ago. In H1 of 2019-20, there was an accretion of USD 19.1bn of the foreign exchange reserves (on a BoP basis). [4]

Monetary

- According to the bi-monthly monetary policy statement on Feb 06, 2020, the RBI kept the policy rate (repo rate) at 5.15%. The reverse repo rate under the liquidity adjustment facility remained at 4.9%. Similarly, the Bank Rate remained at 5.40%.[5]
- Overall liquidity in the system remained in surplus in December 2019 and January 2020. The Reserve Bank of India took an easy liquidity stance in the middle of 2019, aiming at driving down borrowing costs. In December 2019 and January 2020, the average daily absorption under the Liquidity Adjustment Facility (LAF) amounted to Rs 2.61 lakh crore and Rs 3.18 lakh crore, respectively. In October and November 2019, it was Rs 2.41 lakh crore and Rs 1.99 lakh crore, respectively. In ABI approved a record Rs 1.76 lakh crore payout to the government, which is more than double the Rs 68,000 crore that it gave the previous year. This also included Rs 52,640 crore from its surplus capital.[6][7]
- The Monetary Policy Committee decided to continue with the accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains at the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%. Crude oil and gold prices shot up in early January sparked by the US-Iran confrontation, but both softened from mid-January as geo-political tensions eased. By end-January, crude oil prices dipped sharply due to sell-offs triggered by the outbreak of the coronavirus. Gold prices inched up towards end-January because of safe haven demand. International food prices have been rising on higher demand and supply disruptions from major exporting countries. Reflecting on these developments, inflation has edged up in some major AEs and EMEs. [8]
- Retail inflation, measured by year-on-year changes in the CPI, surged from 4.6% in October to 5.5% in November and further to 7.4% in December 2019, the highest reading since July 2014. CPI food inflation increased from 6.9% in October to 12.2% in December, primarily caused by a spike in onion prices due to unseasonal rains in October-November. Housing inflation moderated further in December reflecting subdued demand.[9]

Funding & Liquidity

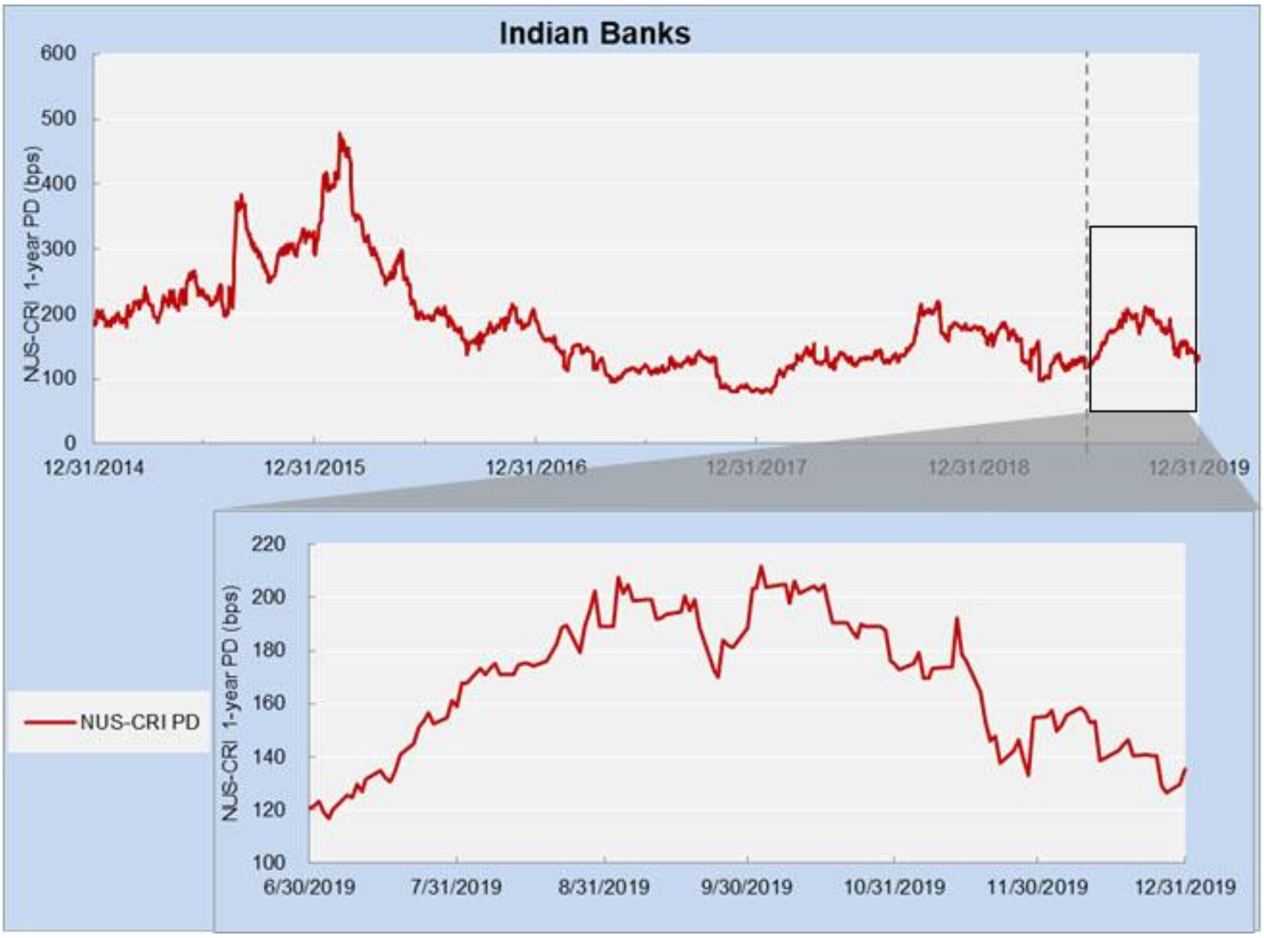
- Yields on India's 10-year government sovereign bonds see a fluctuation in Q3 and Q4 2019. Yields were at 6.55% at the end of Q4 2019 as compared to 6.88% at the end of Q2 2019. [10]
- The Reserve Bank of India has been buying longer bonds and selling very-short end ones since mid-December 2019 to pull down term spreads and spur lending. The administration will borrow 7.8 trillion rupees (USD 109bn) in 2020 starting April 1. Debt sales for the current fiscal were maintained at 7.1tn rupees, quelling fears of the government taking on an extra borrowing of as much as 500bn rupees. For the longer term, the market will still have to depend on the central bank's open market debt purchases to support bonds. Budget deficit for the year starting April 1 pegged at 3.5% of GDP, compared with the revised estimate of 3.8%.[11]

Sovereign Credit Ratings

- Standard & Poor's credit rating for India stands at BBB- with stable outlook. Moody's credit rating for India was last set at Baa2 with negative outlook. Fitch's credit rating for India was last reported at BBB- with stable outlook. DBRS's credit rating for India is BBB with stable outlook.[12]

Indian Banks

The NUS-CRI Aggregate 1-year RMI PD for Indian banks saw an overall uptrend in Q3 2019, rising from 120bps to 200bps, and then declined in Q4, dropping back to 135bps in December 2019. Gross non-performing loans of banks improved to 9.1% as of end-September 2019, compared to 11.2% in FY18. The surplus liquidity conditions are expected to continue for some time, and it would be necessary for the central bank to absorb part of the surplus liquidity for a slightly longer duration.



Profitability

- India's private sector banks had a credit to deposit ratio of 88.26% in the fiscal year 2019, up from around 87 percent in the previous fiscal year. [13]
- Banks need to adopt defensive moves like improving risk management with advanced analytics and offensive moves such as dramatically lowering costs by outsourcing non-differentiated cost drivers to industry utilities. [14]

Funding & Liquidity

- The weighted-average call money rate, the interest rate on short-term finance repayable on demand, decreased from 6.57% as of December 28, 2018 to 5.11% as of Dec 27, 2019. The call money rates were generally lower than the repo rate during Q3 and Q4 in 2019, indicating a stable banking system. Savings Deposit rates generally remained stable in Q3 and Q4 2019.[15]
- The amount of cash in hand on the balance sheet of Indian banks increased from INR 73062bn on December 22, 2018 to INR 82217bn on Dec 20, 2019.[16]
- During Q3 and Q4 2019, the system liquidity has remained in a large surplus. As on October 31, 2019, the Reserve Bank had absorbed on a net basis, an amount of INR 2.51bn from the system. Since the surplus liquidity conditions are expected to continue for some time, it would be necessary to absorb part of the surplus liquidity for a slightly longer duration, while continuing to meet the durable liquidity requirements for the FY 2019-20 consistently.[17]

Asset Quality

- Gross non-performing loans of banks improved to 9.1% as of end-September 2019, compared to 11.2% in FY18. The improvement in asset quality was driven by state-run lenders that experienced a drop both in the gross NPA (GNPA) and net NPA ratios. Net non-performing assets (NPAs) of all commercial banks reduced to 3.7% in FY19 as against 6% in FY18.[18]

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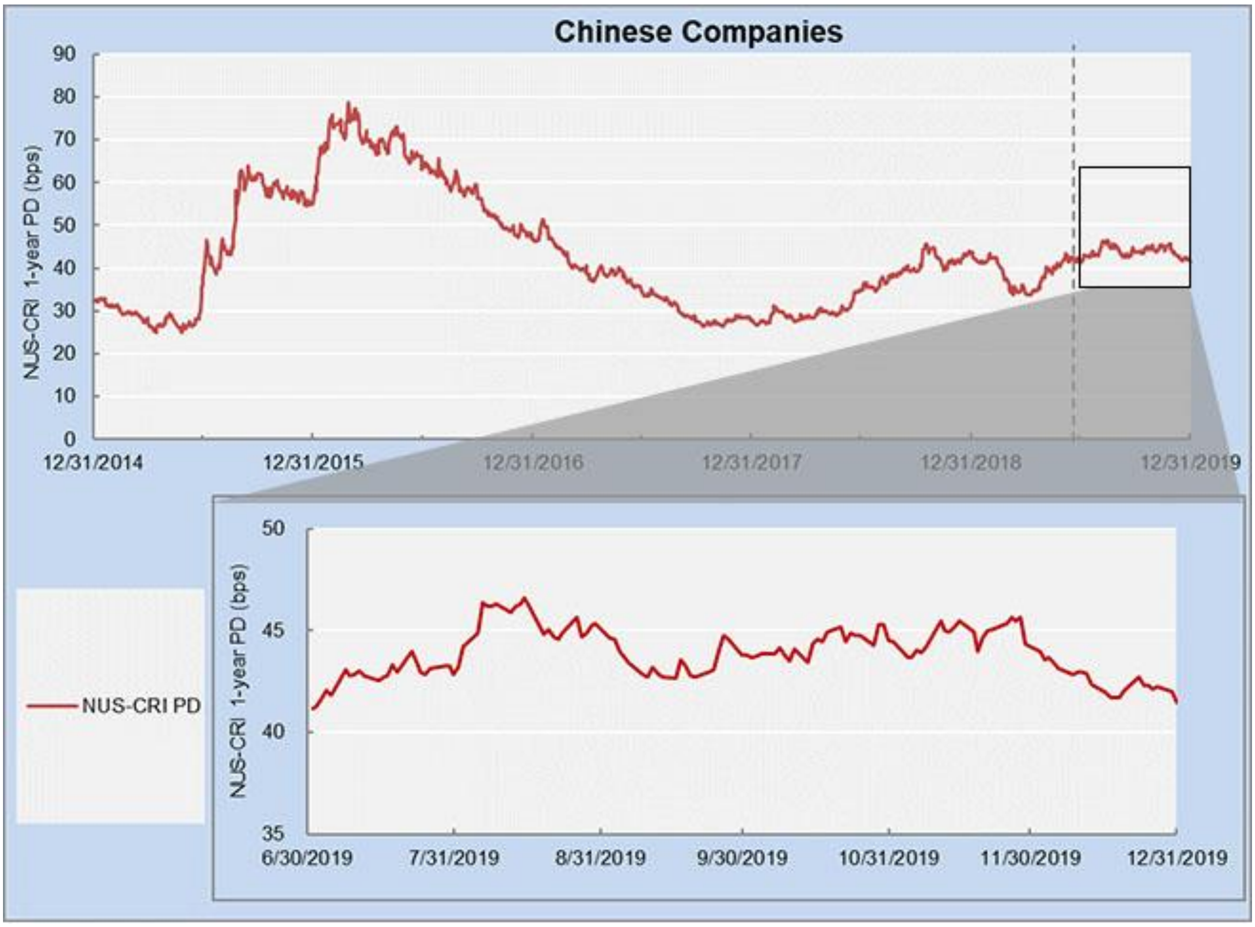
Chinese Companies

The Chinese economy expanded by a seasonally adjusted 1.4% on quarter in Q3 and 1.5% on quarter in Q4 2019, following a 1.6% growth in Q2 2019 and matching market consensus. The 1-year aggregate PD for China-domiciled firms shows a fluctuated trend in Q3 and Q4 2019, surging in the first two months but decreasing in the last two months during that period. In terms of the trade war, the so-called “Phase One” agreement was signed between Beijing and Washington. China maintains a proactive fiscal policy stance in 2019, with a higher deficit-to-GDP ratio to leave policy space to address potential risks. On fiscal policy, China isn’t signaling more tax cuts or bigger government spending programs any time soon. Required Reserve Ratio decreased by 0.5% from the second quarter.



Economy

- The Chinese economy advanced 6.0% YoY in both Q3 and Q4 2019, slowing from a 6.2% expansion in Q2 2019 and compared with market expectations of 6.1%. Still, it remained the weakest growth rate since the first quarter of 1992, amid weakening global demand and alarming off-balance-sheet borrowings by local governments. On a quarterly basis, the economy expanded 1. 4% in the three months to December 2019, slowing from a 1.6% growth half year before.[1]

- China's annual inflation rose to 4.5% in December 2019 from 2.7% in June 2019. It was the same as in the previous month and less than market expectations of 4.7%. It remained the highest inflation rate since January 2012, as pork prices surged 97% on the back of a prolonged African swine fever epidemic. On a monthly basis, consumer prices were flat in December 2019, compared to market estimates of a 0.3% advance. Annual core inflation, which strips out volatile food and energy prices, was at 1.4% in September 2019, slowing from 1.6% in June. Meanwhile, China's producer price index fell 0.5% from a year earlier. [2] [3]

- Unemployment rate in China increased to 3.62% in Q4 2019 from 3.61% in Q2 2019. The average unemployment from 2002 until 2019 is 4.07%, reaching an all-time high of 4.30% in Q4 2003 and a record low of 3.61% in Q2 2019. [4]

- The Caixin China Composite PMI fell to 52.6 in December 2019 from a 21-month high of 53.2 in November. Manufacturing growth slowed to a three month-low and services sector output expanded at a softer rate. Total new orders increased the least in four months, amid weaker new export growth, and employment increased slightly. In terms of prices, cost burdens rose at the weakest rate for four months, while selling prices went up at a fractional pace. Looking forward, business confidence stayed subdued, but the Phase One trade deal between China and the US should be able to help corporate sentiment recover. [5] [6]

- China's fixed-asset investment (FAI) increased 5.4% year-on-year to CNY 55.15tn in 2019, compared to a 5.8% rise in the first six months and above market consensus of 5.2%. Private investment expanded 4.7% and public investment grew 6.8%. Investment in high-tech industries jumped 17.3%, with the FAI in high-tech manufacturing and service sectors up 17.7% and 16.5%, respectively. Property investment growth slowed slightly to 9.9%, the lowest rate since the start of the year. [7]

- China's trade surplus narrowed to USD 46.79bn in December 2019 from USD 50.98 bn in June 2019 and below market expectations of USD 48mn, ahead of the signing of the so-called "Phase One" agreement between Beijing and Washington. Exports jumped 7.6%, the first increase in five months, amid strengthening global demand and trade talks with the US. In addition, imports climbed 16.3% the most since October 2018, boosted in part by higher commodity prices.[8]

Monetary Policy

- Maintaining currency stability and strengthening economic growth will be key objectives of the monetary policy in 2020, as flexible measures from the People's Bank of China, the central bank, will help maintain ample liquidity in the financial system. Monetary policies will stress on dampening inflation expectations, maintaining yuan stability and supporting economic growth. [9]

- Cash Reserve Ratio in China fall to 13% in Q4 2019 compared to 13.5% in Q2 2019.

- M0, the most liquid measure of the money supply including coins and notes in circulation and other assets that are easily convertible into cash, increased to CNY 7718.95bn in December from CNY 7258.1bn in June of 2019. M1 increased from CNY 56769.62bn in June to CNY 57600.92bn in December 2019, the highest level on record. M2, a broad measure of money supply that covers cash in circulation and all deposits, grew 8.7% from a year earlier to CNY 198.65bn in December 2019. It was the largest increase in M2 money supply since an 8.9% gain in December last year.

- 10-year government bond yield decreased from 3.28% at end-June 2019 to 3.17% at the end of December 2019.1-year government bill yield decreased from 2.64% to 2.39% over the same period. [10]

- China's foreign exchange reserves increased by USD 12.3bn to USD 3.1tn in December 2019, while markets had forecast a USD 7.4bn surge to USD 3.1tn, due to fluctuations in global exchange rates and the prices of foreign bonds that the country holds. The value of gold reserves went up to USD 95.4bn at the end of December from USD 91.5bn at the end of November. [11]

Fiscal Policy

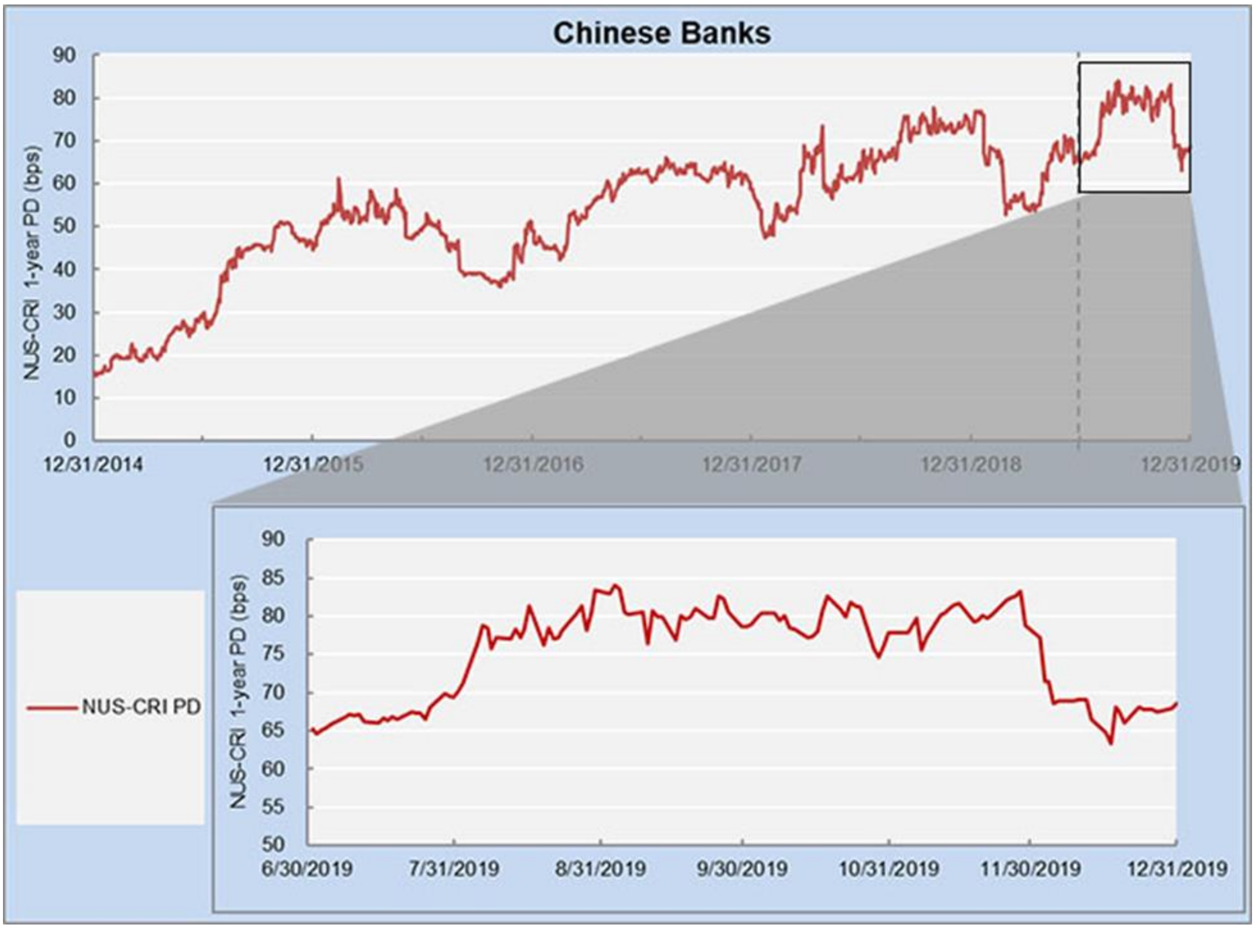
- China's fiscal revenue increased 3.8% year on year to around CNY 17.9tn in the first 11 months of 2019. The country's central government collected more than CNY 8.61tn during the period, up 4.8% year on year, while local governments saw fiscal revenue up 3% to about CNY 9.29tn, according to the Ministry of Finance (MOF). China's fiscal spending expanded 7.7% year on year to around CNY 20.65tn during the January-November period. The central government spent a total of CNY 3.04tn in the first 11 months, up 8.3% from the same period last year, while local governments' spending grew 7.6% year on year to CNY 17.6tn. [12]

Sovereign Credit Ratings

- Both S&P and Fitch maintained rating A+ on the Chinese government while Moody's credit rating for China stood at A1, all with a stable outlook. [13]

Chinese Banks

The NUS-CRI Aggregate 1-year PD over the third and fourth quarters remained fluctuated. It showed an upward trend at the beginning of Q3 2019 and a downward trend at the end of Q4 2019.



Profitability

- China's big banks posted records earnings in 2019. In simultaneous earnings releases on Friday, Industrial & Commercial Bank of China Ltd, and Bank of Communications Co, said profit in 2019 gained 5%, while Bank of China Ltd, posted a 4% increase, all beating estimates. [14]

Finding & Liquidity

- Chinese banks extended CNY 1.14tn in net new yuan loans in December 2019, compared to CNY 1.66tn in June 2019 and below market consensus of CNY 1.19tn. The PBOC is seen maintaining its accommodative stance despite easing trade tensions with the US, after economic growth slowed to the weakest in 30 years during the third quarter. New yuan-denominated loans totaled CNY 16.81tn in 2019. [15]
- The PBOC cut the interest rate on its one-year MLF loans by a marginal 5bps in November 2019, the first time since early 2016, as policymakers work to prop up a slowing economy hit by weaker demand at home and abroad. The PBOC extended CNY 300bn through its MLF, and the interest rate on one-year MLF loans stood at 3.25% in December 2019. [16]

Asset Quality

- China disposed of around CNY 2tn in non-performing loans (NPL) in 2019 amid a national campaign to restrict high-risk lending. The China Banking and Insurance Regulatory Commission (CBIRC) said the total assets of the country's shadow banking sector had fallen by CNY 16tn over the past three years. The CBIRC would continue to dismantle the shadow banking sector in 2020 and step up punishments for those that violate regulations. [17]

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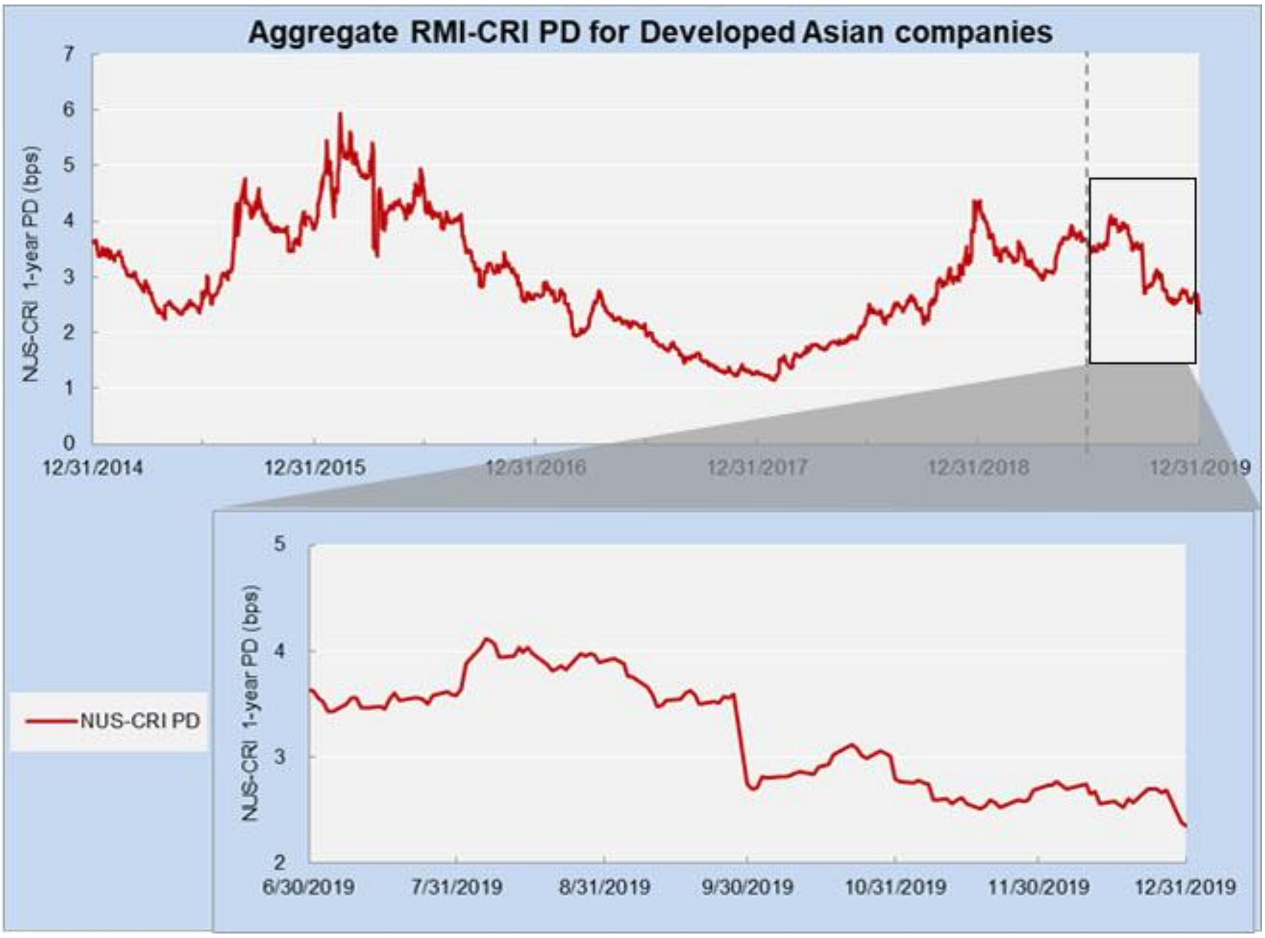
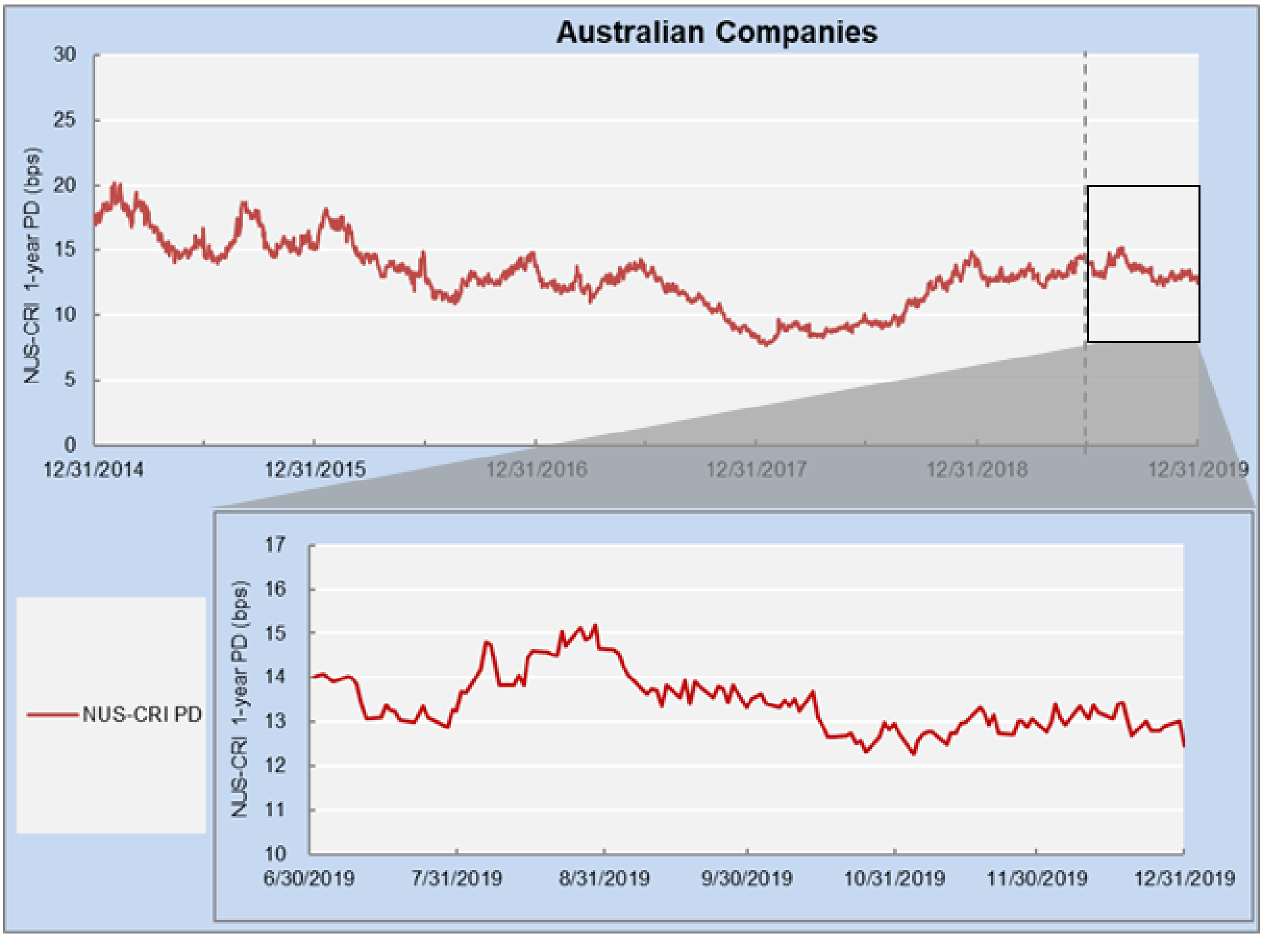
Asia-Pacific - Developed economies

The NUS-CRI Aggregate 1 year PD for listed companies in the developed Asia Pacific region decreased slightly from 3.5bps to 2.4bps during Q3 and Q4 of 2019, suggesting a higher credit outlook. Easing trade frictions between China and US, lower interest rates and strengthened labour markets could be some of the reasons supporting the region's growth. Major countries have seen GDP YoY expansion in the latest two quarters. The Australian economy expanded by 0.6% in Q3 2019 and 0.5% in Q4 2019, both of which higher compared to the previous year when the economy grew by 0.3% in Q3 2018 and 0.2% in Q4 2018. The Singapore economy expanded by 1.0% YoY in Q4 2019, compared to the advance estimate of a 0.8% growth and after a 0.7% expansion in Q3. Developed Asia Pacific economies are expected to continue to do well for 2020 but the risk of the widespread coronavirus remains.



Australian Companies

The NUS-CRI Aggregate 1-year PD for Australian companies slightly decreased during Q3 and Q4 2019. Based on Q4 data, YoY economic growth was at its strongest since Q4 2018. Going forward, the credit outlook for Australian firms remains dependent on the rebalancing of the economy as the increasing performances of household consumption, exports, manufacturing sectors and decreasing unemployment rate fades the concern in household debts. Credit standards have been tightened to reduce the risk profile of household borrowers. Attempts to support economic growth is also assisted by RBA's monetary policy in boosting investment and hiring. Low level of interest rates, further progress in reducing unemployment, as well as having inflation return to target are supporting the Australian economy.



Economy

- The Australian economy expanded by 0.6% in Q3 2019 and 0.5% in Q4 2019, both of which higher compared to the previous year when the economy grew by 0.3% in Q3 2018 and 0.2% in Q4 2018. Overall, the economy increased by 2.2% YoY and exceeded market expectations of a 1.9% expansion. This was the strongest annual growth since Q4 2018. Markets expect the economy to remain at a growth rate of 2.2% in 2020. [1 2]
- Both private and public investment declined with slowing government spending (1.1% in Q3, 0.7% in Q4) and falling gross fixed capital formation (0.6% in Q3, -1% in Q4). In the second half of 2019, exports rose by 0.5% while imports fell by 0.3% in Q3 and 0.5% in Q4. However, household consumption continued to grow (0.4% in Q3, 0.1% in Q4). [3 4 5]
- The Reserve Bank of Australia (RBA) decided to keep the cash rate unchanged at 0.75%, amid accommodative global financial conditions and low unemployment rates. Supported by the low level of interest rates, recent tax cuts, ongoing spending on infrastructure and a brighter outlook for the resources sector, the Australian economy is expected to grow by 2.2% over 2020. Long-term government bond yields declined further to record low level. Inflation is expected to pick up gradually and reaching close to 2% in 2020 and 2021. [6]
- The unemployment rate decreased from 5.3% in the first half of 2019 by 0.2 percentage points until the second half. Furthermore, the labour participation rate rose by 0.1 percentage point to 66.1%, which is slightly above the forecast of 66%. [7]

- As reported by The Australian Industry Group, The Australian Performance of Manufacturing Index (PMI) slightly increased in Dec 2019 by 0.2 percentage points to 48.3%. This makes the first two consecutive months of PMI contraction since mid-2015. The Australian Performance of Services Index (PSI) fell by 5.0 percentage points to 48.7% in Dec 2019. This is the first declining month after four months of positive conditions, expressing a weakening of the Australian service sector performance. The Australian Performance of Construction Index (PCI) also decreased. With a fall of 1.1 percentage points to 28.9% in Dec 2019, it reached the lowest PCI result in six and a half years. Deteriorating indices for activity, new orders and supplier deliveries contributed to this result. [8] [9] [10]
- On the one hand, key export prices fell 5.2% in Q4 2019 but rose 4.1% through the year. Thereby, coal, coke and briquettes posted the sharpest fall in prices with 14.7%. On the other hand, import prices rose 0.7% in Q4 2019 and 1.4% through the year. Main contributors are petroleum, petroleum products and related materials with an increase of 3.8%. The trade surplus decreased to AUD 5.22bn in Dec 2019 as exports and imports rose 1% and 2% month-over-month, respectively. The Australian bushfire did not have any impact to International Trade in Goods and Services statistics for the last month of 2019. In total, the trade surplus of 2019 amounted to AUD 67.74bn, which is an increase of AUD 44.71bn YoY. [11] [12]

Monetary Policy

- The Reserve Bank of Australia (RBA) decided to leave the benchmark interest rate unchanged at 0.75%. Despite risks of the global economy being tilted to the downside, some of these risks have lessened. Although inflation remains low, in most advanced economies unemployment rates are low and wages growth picked up. Low interest rates around the world led to several central banks having eased their monetary policy, but expectations of further monetary easing have been scaled back. [13]

Funding & Liquidity

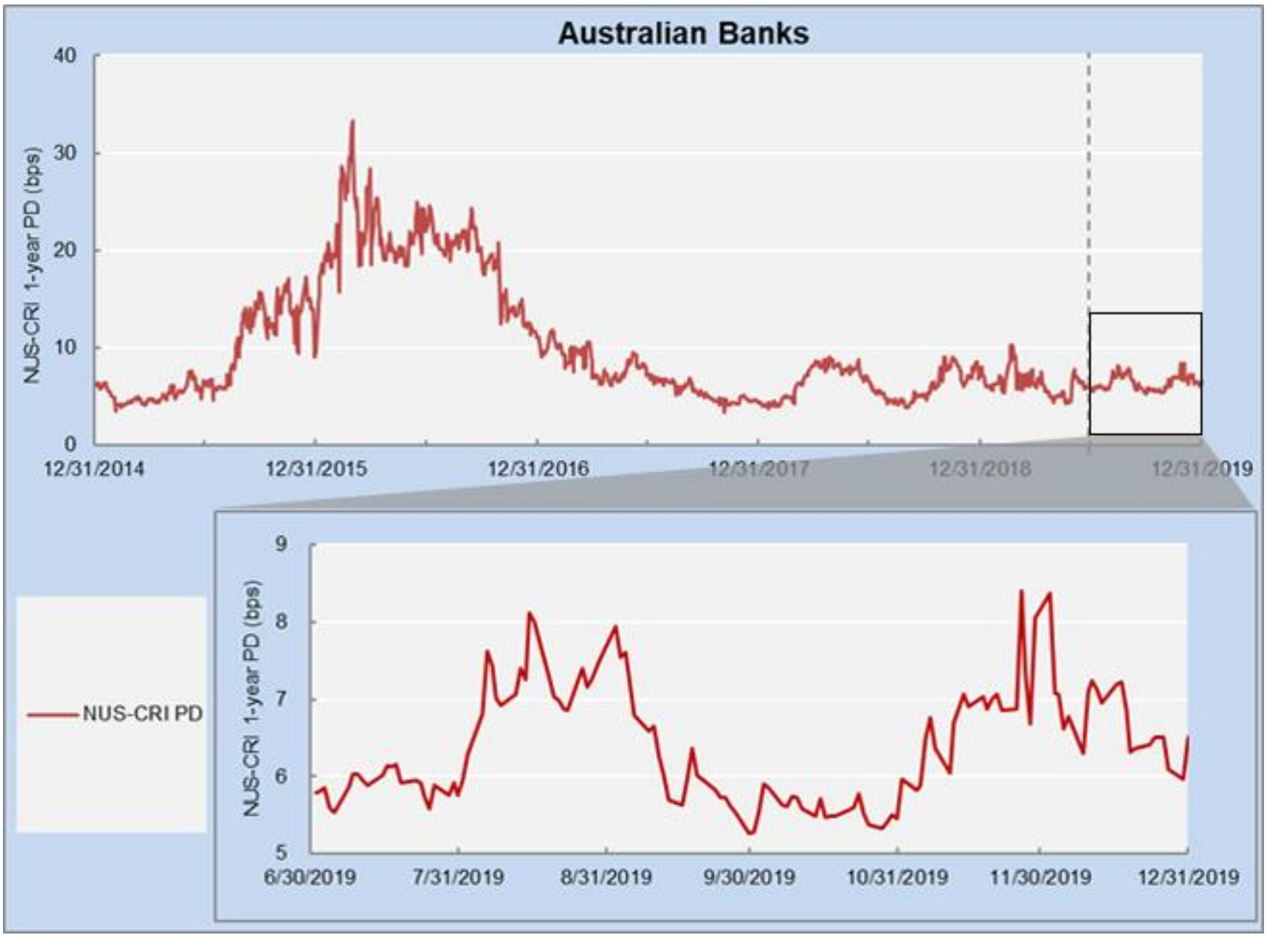
- Yields in 10-year Australian government bonds started with 1.77% in Jul 2019, dropped to 1.42% in Aug 2019, and increased gradually from then on to 1.66% in Dec 2019. The previous six months reported a different trend since yields continuously decreased from 2.6% in Jan 2019 to 1.91% in Jun 2019. [14]
- The 3-year fixed lending rate to small businesses fluctuated from Jul 2019 to Dec 2019 between 4.19% and 4.66%. The lending rates for owner-occupied housing loan was 4.94% during Q3 2019 and decreased to 4.8% during Q4 2019. [15]
- Generally, average commercial lending during second half-year 2019 increased mainly driven by lending to the business sector. Commercial lending to financial intermediaries decreased from AUD 136.2bn in Q2 2019 to AUD 124.7bn in Q4 2019, while loans to individuals and government increased. [16]

Sovereign Credit Ratings

- Standard & Poor's and Fitch Ratings maintained their AAA ratings on Australia, while Moody's maintained their Aaa rating. All three rating agencies had stable outlooks on the government's credit. [17]

Australian Banks

The NUS-CRI Aggregate 1-year PD slightly increased over the quarter. The profitability of banks has slightly decreased due to challenging regulatory and operating environment. NIMs and asset quality for Australian banks also worsened during 2019. [18]



Profitability

- For 2019, aggregate cash profit after tax from continuing operations decreased by 7.8% from 2018 to AUD 26.9bn. This was largely due to margin pressure, increased remediation and regulatory costs. [19]

Funding & Liquidity

- Australian major banks continued to maintain a strong Common Equity Tier 1 capital position by increasing 21bps from 2018 to 10.8%, which is above the APRA benchmark of 10.5%. Mainly driven by customers switching to cheaper home loans, customer refunds and competitive pricing pressure, net interest margins for all major banks declined. [20]
- The Liquidity Coverage Ratio of Australian banks remained well above its 100% minimum, with the major banks averaging a level above 132%. Meanwhile, the leverage ratio for major banks is running at an average of 5.6%, higher than the currently agreed minimum requirement of 3%. [21]

Asset Quality

- Asset quality deteriorated as reflected by a 13.7% increase in aggregated impaired assets to AUD 9.4bn. The implementation of AASB 9 resulted in an increase in credit provisions of AUD 2.8bn compared to 2018, which reflects the incorporation of forward-looking factors and an assessment of macroeconomic conditions and forecasts. [22]

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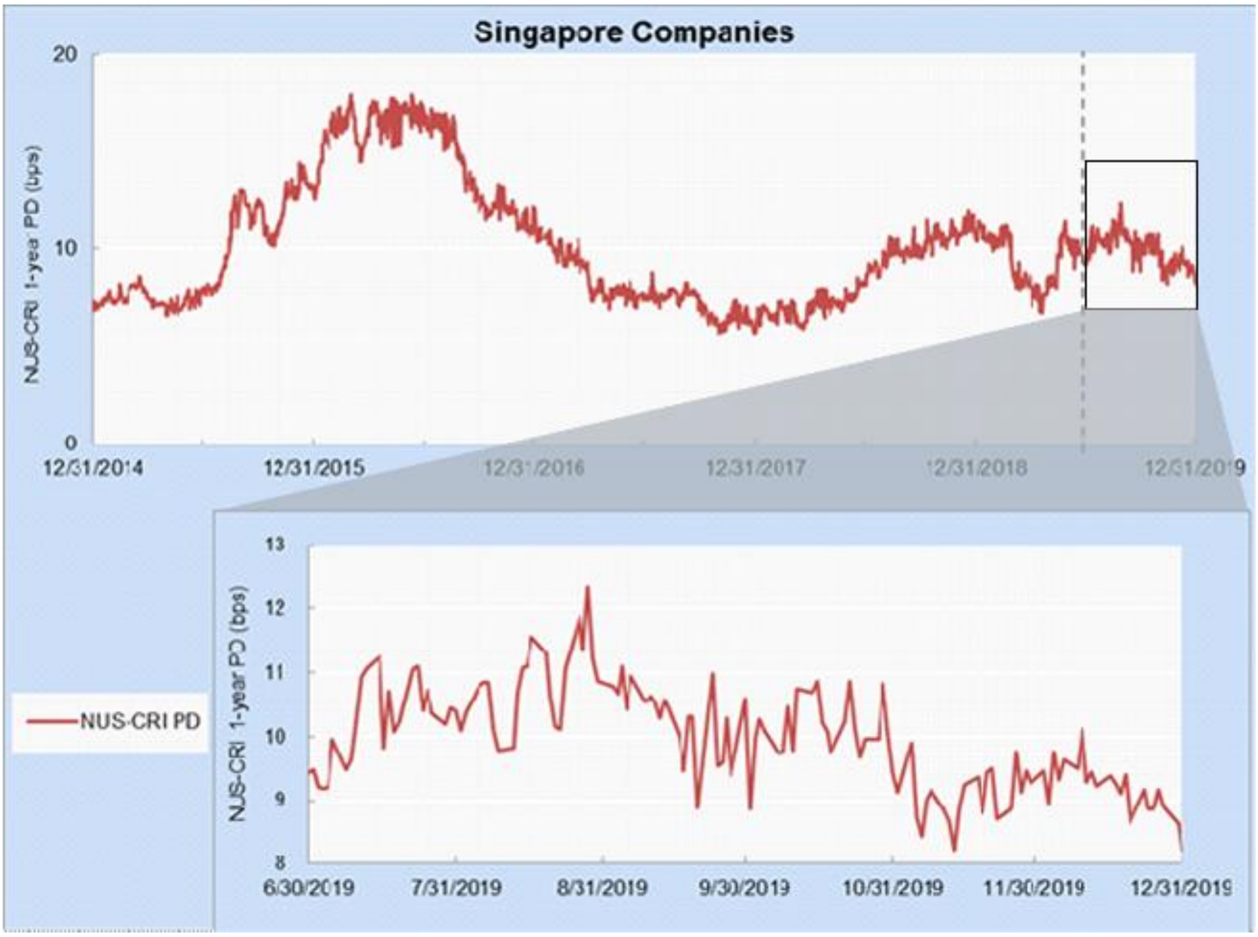
Singapore Companies

The NUS-CRI Aggregate 1-year PD for Singapore companies increased from around 9.47bps at the end of June 2019 to 8.22bps at the end of December 2019. Singapore's economy experienced a growth of 0.7% in 2019, slower than the 3.4% growth recorded in 2018. 2019Q4 experienced the highest growth rate since 2019Q1 and this is thanks to mainly the expansion of the construction, transportation and storage and accommodation and food services sectors. All sectors experienced positive growth when comparing Q4 to Q3 with the exception of the manufacturing sector.



Economy

- The Singapore economy expanded by 1.0% YoY in Q4 2019, compared to the advance estimate of a 0.8% growth and after a 0.7% expansion in Q3. This was the highest growth rate since 2019 Q1. The Singapore economy expanded by 0.7% for the whole of 2019, which was slower than the 3.4% growth recorded in 2018.[1]
- GDP from construction sector increased to 4.3% from 3.1% in Q3, transportation & storage increased to 0.8% from flat reading, accommodation & food services increased to 2.5% from 1.9%, information & communications increased to 4.5% from 4.4%, finance & insurance increased to 4.0% from 4.1%, business services increased to 1.7% from 1.1% and other services increased to 3.3% from 2.4%. The only drop in output was in the manufacturing sector, it shrank 2.3% YoY. This was weighed down by fall in output of electonics, chemicals, transport engineering and general manufacturing clusters. On a QoQ basis, the sector contracted 5.9% in Q4, reversing the 4.8% expansion in Q3. reflecting the ongoing downturn in the global electronics cycle as well as the pullback in investment spending, caused in part mainly by the strained US-China relations.[2]
- Singapore's retail sales fell 3.4% YoY in December 2019, registering a soft end to 2019 when retail sales contracted for the second year by 2.8% YoY. Excluding motor vehicles, retail sales rose 0.1% yoy after two months of contraction. The main drag was motor vehicle sales which slumped 24.1% YoY in December. Other underperforming retail segments included furniture & household equipment (-8.2% YoY), telecommunication & computers (-6.3% YoY) and department stores (-5.6% YoY).[3]
- Singapore's seasonally adjusted unemployment rate was at 2.3% in Q4 2019, the same as in Q3, remaining the highest figure in nearly a decade, and in line with the preliminary estimate. The jobless rate was unchanged for both residents (at 3.2%) and citizens (at 3.3%), but the resident long-term unemployment rate inched up (from 0.8% to 0.9%). The pace of employment growth has slowed in Q4, growing at a more moderate pace of 18,300, compared to 14,700 in the fourth quarter of 2018, and the

third quarter of 2019 (21,700). There were slightly more retrenchments than the third quarter of 2019 (from 2,470 to 2,670). But the re-entry rate improved to 66%. The job vacancies to unemployed persons ratio held steady at 0.84, after trending down in previous quarters.[4]

- In the MAS Survey of Professional Forecasters, shows that the median CPI-All Items inflation for 2019 as a whole is forecast to be 0.6%, down from 0.7% in the September survey. Similarly, the forecast for MAS Core Inflation in 2019 has fallen to 1.1%, from 1.2% previously.[5]
- The Percent Change In Consumer Price Index (CPI) By Household Income Group Over Corresponding Period Of Previous Year, 2014 as Base Year shows that for the bottom 20% of households, the percentage change in CPI was from 0.5% (1H2019) to 0.1% (2H2019). While for the middle 60% income group the percentage change in CPI was from 0.5% to 0.4%. Lastly, for the top 20% of households, the percentage change in CPI was from 0.7% to 0.8%.[6]
- Non oil domestic exports (NODX) grew by 2.4% in December 2019, after the 5.9% decline in November; growth was due to non-electronics while electronics declined. NODX to the majority of the top markets grew in December 2019, except Hong Kong and Indonesia; growth was mainly due to China, Taiwan and the US. Meanwhile, non-oil re-exports (NORX) rose by 9.9% in December 2019, following the 2.4% growth in November 2019; both electronic and non-electronic re-exports grew. Total trade grew over the year in December 2019; exports grew while imports declined.[7]
- According to the survey by MAS, the top three downside risks to Singapore's economy highlighted in Q42019 was the escalating trade tensions, China's slowdown and the Global growth slowdown.[8]

Monetary

- At its latest semi-annual review Oct 14, the Monetary Authority of Singapore (MAS) made a slight reduction to the rate of appreciation of the S$NEER policy band. However, there will be no change to the width of the policy band and the level at which it is centred. This measured adjustment to the policy stance is consistent with medium-term price stability, given the weak economic growth amidst growing uncertainty of US-China relations and global tech downturn substantially keeping level of output below potential and consequently muting inflationary pressures. MAS will continue to closely monitor economic developments and is prepared to recalibrate monetary policy should prospects for inflation and growth weaken significantly. MAS Core Inflation is likely to remain below its historical average over the next few quarters before rising gradually over the medium term.[9]

Funding and Liquidity

- Yields of 10-year Singapore government bonds increased to 2.00% on end June 2019 from 1.74% on end December 2019.[10]
- Lending to non-bank customers rose from SGD 687.1bn in Q2 2019 to SGD 692.4bn in Q4 2019. Total loans to businesses rose from SGD 423.5bn in June 2019 to SGD 429.6bn in December 2019 while loans to consumers dropped marginally from SGD 263.6bn in June 2019 to SGD 262.8bn in December 2019.[11]
- The amount of outstanding sovereign bonds increased by SGD 5.2bn to SGD 123.9bn in the latter half of 2019.[12]
- The prime lending rate remained constant at 5.25% in Q3 and Q4 2019.[13]

Sovereign Credit Ratings

- All three major rating agencies kept their highest investment grade ratings for Singapore sovereign bonds over the latter half of 2019.

Singapore Banks

The aggregate 1-year NUS-CRI PD across Singapore banks was kept low and stable within the range of 4.5bps to 10.1bps in the second half of 2019. Singapore's banking system is healthy with strong capital and liquidity positions, but the extended uncertain global operating environment such as the strained US-China relations and Brexit could present challenges. Some pressures on profit margins may re-emerge as interest rates are likely to stay lower for longer and banks face increasing competition amidst a slower pace of credit expansion. Banks should thus continue to maintain strong underwriting standards and ensure adequate provisioning coverage. While asset quality saw a slight deterioration in the recent two quarters, Singapore banks continue to maintain ample capital buffers to cushion credit losses as regulated by the MAS. Overall liquidity positions remained strong but banks' foreign currency liquidity could face heightened pressures under stressed conditions such as stresses in the FX swap market or an unexpected tightening of global liquidity.

Profitability

- For the fourth quarter ended 31 December 2019, the three listed banks in Singapore, UOB, OCBC and DBS recorded SGD 1.01bn, SGD 1.24bn and SGD 1.51bn in net profits respectively. On average the trio recorded a 19.4% YoY gain compared to Dec 2018 with OCBC taking the lead with YoY percentage growth of 34.2% for the three-month period.[14, 15, 16]
- For the third quarter of 2019, UOB, OCBC and DBS recorded SGD 1.18bn, SGD 1.17bn and SGD 1.62bn in net profits respectively. Compared to the second quarter, it is a percentage change of -4%, -4%, 2% respectively. Overall, comparing Q4 with Q2, both UOB and DBS faced a drop in earnings while OCBC figures rose. [17, 18, 19]
- The trio averaged an ROE of 12.1%, versus 11.6% in FY18. The NPL ratio averaged 1.5% as of 31 Dec 2019, unchanged from the previous year. [20]

Funding and Liquidity

- Total deposits in Singapore banks increased by SGD 18.9bn in Q3 and Q4 of 2019. Local currency deposits increased by SGD 8.0bn, with Q4 showing a steady increase throughout and contributing to 65.3% of this increase. Meanwhile, foreign currency deposits increased by SGD 10.9bn, 141% from June 2019. The flow of capital into Singapore's banking system comes amid global geopolitical uncertainties — the pending Brexit, unclear prospects of China-U.S. trade talks, as well as the ongoing social unrest in Hong Kong that started in June. The U.S. also signed into law the Hong Kong Human Rights and Democracy Act, which could hurt the city's special status in terms of tariffs. This gave rise to the highest recorded foreign currency deposits in Singapore as since 1991, the earliest year of MAS data series.[21]

- Singapore's fixed deposit rates remained the same during the second half of 2019 for both 3-month, 6-month and 12-month deposits. Current fixed deposit rates are at 0.20%, 0.26% and 0.57% respectively. The prime lending rate was also unchanged at 5.25% in Q3 and Q4. [22]

Capital Levels & Regulations

- All three Singapore banks kept their Common Equity Tier 1 Capital (CET1), Tier 1 and Total Capital Adequacy Ratios (CAR) to be well above the recommended Basel III guidelines and well above the regulatory minima specified by MAS, making them some of the most well-capitalized banks in the world.

Asset quality

- NPL ratios at DBS and UOB remained at 1.5% throughout the second half of 2019. OCBC's NPL ratio showed some changes: in Q3 it rose from 1.5% to 1.6% then dropping back to 1.5% again at Q4. [23,24,25,26,27,28]
- Loans placed under the "special mention" category declined from 2.08% of total exposure to 2.03% at the end of 2 quarters in Q42019. Loans marked as a loss lowered to 0.19% in Q4 2019 from 0.20%. Loans classified as doubtful increased to 0.27% of total exposure from 0.26%. While loans classified as substandard rose substantially form 0.71% to 0.87% of total exposure. Overall asset quality and provisioning coverage declined slightly. This is because since the global financial crisis the extended low interest rate environment encourages further borrowing by already highly leveraged corporates. However, we take comfort in knowing that MAS' annual industry-wide stress test (IWST) results show that banks in Singapore have the capacity to withstand severe shocks.[29, 30]
- MAS' corporate stress test suggests that most corporates would be resilient to interest rate and earnings shocks, with cash reserves providing additional buffers. Under a stress scenario of a 25% increase in interest costs and a 25% decline in earnings before interest, tax, depreciation and amortization (EBITDA), the percentage of firms-at-risk increases from 36% to 45% of all corporates, and their share of debt-at-risk increases from 19% to 45% (Chart 2.8).9 However, after taking net cash reserves and hedging10 into consideration, the share of firms-at-risk would drop to 29% and debt-at- risk to 38%.[31]

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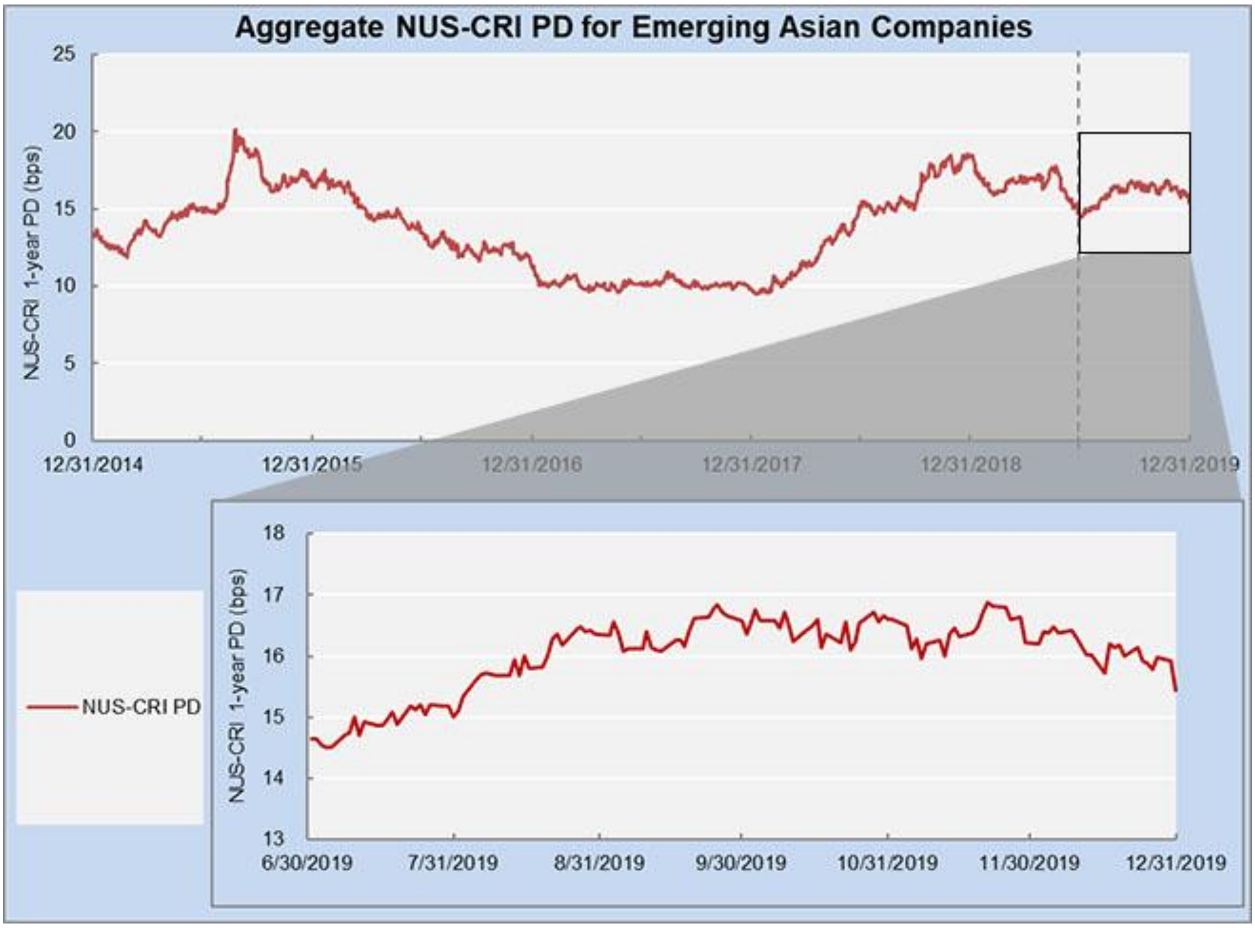
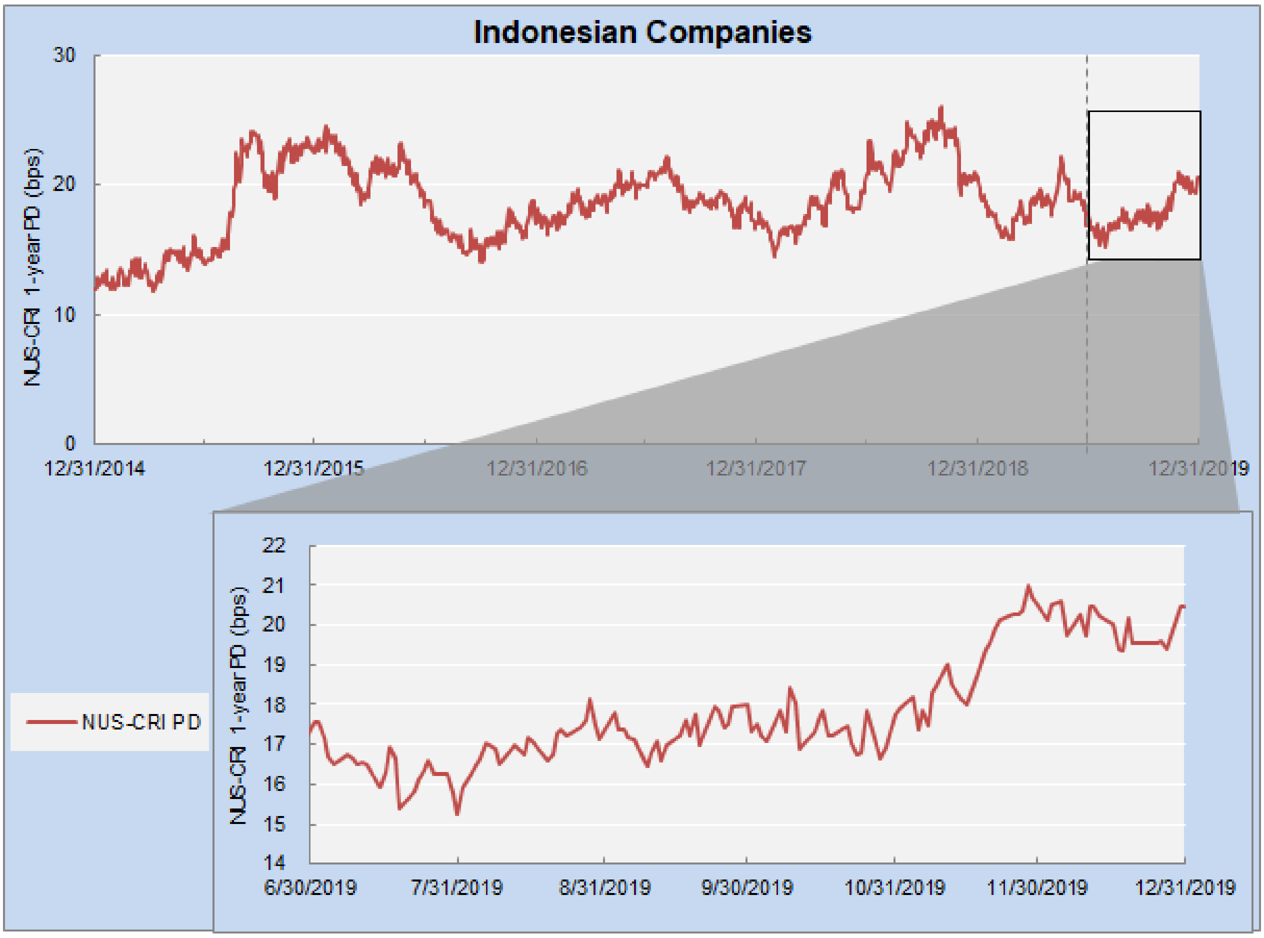
Asia-Pacific - Emerging economies

The NUS-CRI Aggregate 1-year PD for listed corporations in emerging Asia, excluding India and China, was mostly stable during Q3 and Q4 2019. In terms of economic growth, Indonesia's economic growth eased slightly to 4.97% in Q4 2019 from 5.05% in Q2 2019, slightly below market expectations at 5.04%. That was the weakest pace of expansion since Q4 2016, due to softer increases in household consumption, fixed investment as well as government spending. The Malaysian economy, as measured by Gross Domestic Product (GDP), grew 3.6% in Q4 2019 from 4.9% in Q2 2019. On the production side, the performance was anchored by services, manufacturing and construction. However, mining, quarrying and Agriculture sectors decreased in Q4 2019. Thailand's economy grew by 0.2% quarter-on-quarter in the three months to December 2019, the same as an upwardly revised figure in the previous quarter but missing market consensus of a 0.4% expansion. This performance was led by a contraction in industrial and agriculture sectors.



Indonesian Companies

The NUS-CRI Aggregate 1-year PD for Indonesian companies increased from around 16.77bps at the end of June 2019 to 20.55bps at the end of December 2019. Indonesia's economy experienced a growth of 5.02% in 2019, slightly below the market expectation of 5.03%. Overall, Indonesia recorded a 2.72% inflation and USD 3.2bn trade balance deficit in 2019.



Economy

- The Indonesian economy expanded by 5.02% in Q3 2019 and 4.97% in Q4 2019, both of which lower compared to the previous year when the economy grew by 5.05% in Q3 2018 and 5.02% in Q4 2018. Overall, the economy expanded 5.02%, the weakest annual growth since 2015. Bank Indonesia expects the economy will grow faster at a rate of 5.3% in 2020. [1]
- The Consumer Price Index (CPI) of Indonesia stood at 2.72% at the end of 2019. Respectively, the inflation of volatile food reached 4.30% (YoY), core inflation at 3.02% (YoY), inflation of administered prices at 0.51% (YoY). Going forward, the inflation is to be maintained at around 3.00% throughout 2020. Therefore, it is important that the central and regional governments as well as Bank Indonesia strengthen their coordination to keep inflation at check. [2]
- Indonesia's trade balance recorded a USD 3.2bn deficit at the end 2019, which is considerably lower than the USD 8.7bn deficit recorded in 2018. The improvement can be attributed to the import substitution policy to control imports against a backdrop of sluggish export performance amid falling international commodity prices. Bank Indonesia is confident that the trade balance developments recorded throughout 2019 were able to strengthen the external resilience of Indonesia's national economy. Moving forward, Bank Indonesia will continue to coordinate with the government to monitor global and domestic economic developments to strengthen external sector resilience. [3]
- According to Nikkei Indonesia Manufacturing Purchasing Managers Index (PMI), Indonesia's manufacturing conditions deteriorate at the end of 2019, albeit increasing from 48.2 in November to 49.6 in December. The deterioration was the softest in the sector since July as the return of growth of output, new orders and input inventories indicated that a recovery could be around the corner. [4]

Monetary

- On 22nd and 23rd January 2020, the Bank Indonesia (BI) agreed to hold the BI 7-day repo rate, deposit facility rate and lending facility rate at 5.00%, 4.25% and 5.75% respectively. The decision is consistent with Bank Indonesia's ongoing effort to maintain external stability and sustain domestic economic growth momentum. Looking forward, Bank Indonesia will continue to coordinate with the Government to maintain economic stability and catalyse domestic demand, while also putting efforts to attract foreign capital flows. [5]

Funding & Liquidity

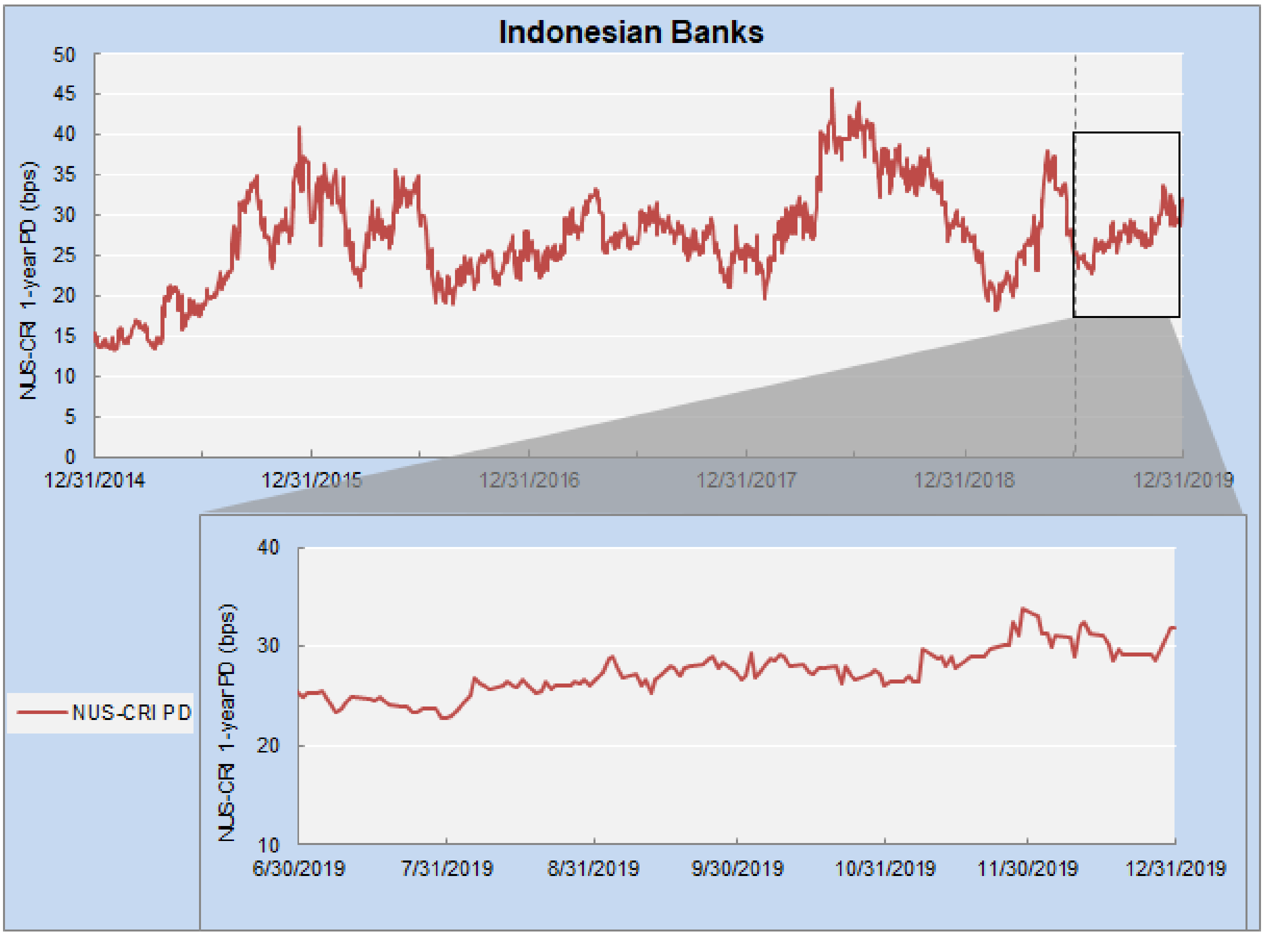
- The yield of Indonesia's 5-year bond decreased from 6.87% at the end of June 2019 to 6.41% at the end of December 2019. Similarly, Indonesia's 10-year government bond yield decreased from 7.34% to 7.05% during the same time period. [6,7]
- Indonesia's official reserve assets position stood at USD 129.2bn as of late December 2019, higher than the end of November 2019 level registered at USD 126.6bn. The increase was primarily attributable to oil and gas foreign exchange receipts, and other foreign exchange receipts. Bank Indonesia considered the official reserve assets adequate, supported by the stability and solid domestic economic prospect. [8]
- External debt grew slower with a yearly rate of 7.7% in Q4 2019 compared to 10.4% in Q3 2019. Long-term external debt remained dominant in Indonesia's external debt and stood at USD 357.08bn or 88.3% of total external debt. Long term external debt consisted of public sector external debt amounting to USD 201.95bn (56.6% of total long-term external debt) and private sector external debt amounting to USD 155.13bn (43.4% of total long-term external debt). Short-term external debt amounted to USD 47.20bn (11.7% of total external debt), comprised of private sector external debt amounting to USD 46.28bn (98.1% of total short-term external debt) and public sector external debt amounting to USD 918mn (1.9% of total short-term external debt). The ratio of external debt to GDP is stable at 36.1% at the end of 2019. [9]

Sovereign Credit Ratings

- S&P, Moody's and Fitch kept their ratings on the local currency long term bonds of Indonesia at BBB, Baa2 and BBB respectively. All three credit rating agencies have maintained their stable outlook on Indonesia's sovereign debt. This reflected the Indonesian government's consistent effort to ramp up productive spending and attract foreign investments. [10]

Indonesian Banks

The NUS-CRI Aggregate 1-year PD for Indonesian banks increased from 20.71bps in June 2019 to 25.01bps in December 2019. Loans extended by Indonesian banks grew 6.08% in December 2019 from a year earlier. Meanwhile, non-performing loans (NPL) stood at 2.77%. [11]



Profitability

- Two of the three largest majority state-owned Indonesian banks, Bank Mandiri and Bank Rakyat Indonesia reported an increase in net income of 14.8% and 19.9% respectively in the second half of 2019. However, Bank Negara Indonesia reported a decrease in net income of 4.1% in the same period. [12,13,14]

Funding & Liquidity

- The liquidity ratio (liquid asset/bank deposit) of Indonesian banks stood at 21.1% in November 2019. [15]
- The Jakarta 3-month interbank rate decreased from 6.92% in the early Q3 2019 to 5.51% by the end of Q4 2019. Similarly, the 1-month interbank rate decreased from 6.70% at the beginning of Q3 2019 to 5.44% by the end of Q4 2019. [16]

Asset Quality

- According to Bank Indonesia, the financial system remained stable. Capital adequacy ratio and liquidity of Indonesian banks, as of November 2019, stood at 23.66% and 21.1% respectively, while non-performing loans (NPL) stood at 2.77% (gross) or 1.24% (net). Bank Indonesia projects credit growth in 2020 to be in the range of 10-12%. Moving forward, Bank Indonesia will maintain the financial system stability and stimulate the bank intermediation function by maintaining an accommodative macro prudential policy stance and strengthening coordination with other relevant authorities. [17]

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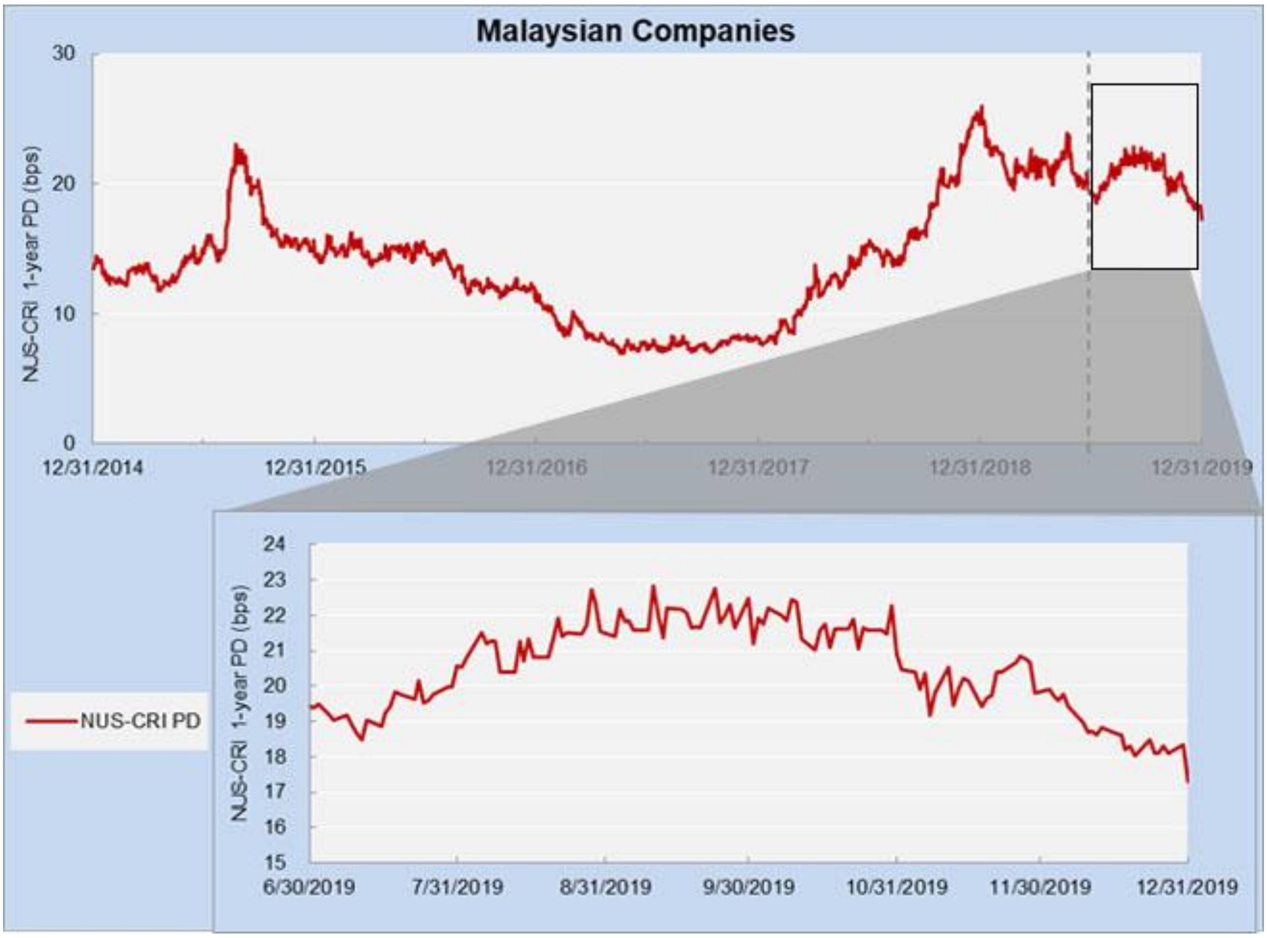
Malaysian Companies

The NUS-CRI Aggregate 1-year PD for Malaysian companies remained stable around 21bps during Q3 2019 and increased to 17.29bps in December 31. Malaysia's economy grows slower but inflation averaged lower and unemployment rate decreased. Unemployment rate dropped to lower 3.2% YoY.



Economy

- The Gross Domestic Product (GDP) in Malaysia expanded 3.6% YoY in December 2019, following a growth of 4.4% in the previous quarter. Nominal GDP of Malaysia reached USD 91.6bn in Sep 2019, and the growth was underpinned by stronger private sector expenditure, amid supply disruptions in the commodities sector. The GDP deflator increased 0.8% in Dec 2019. Gross Savings Rate was measured at 23.0% in December 2019. Higher growth in the services and construction sectors, weighed down by supply disruptions in the commodities sector. [1]
- Headline inflation averaged lower in the fourth quarter. Consumer Price Index (CPI) decreased to 1.0% in 4Q 2019 (3Q 2019: 1.3%). The lower inflation outcome mainly reflected the lapse in the impact of the SST implementation. Fuel inflation continued to have a negative contribution to inflation, as domestic retail fuel price ceilings were maintained. [2]
- During the fourth quarter, labor market conditions improved. Employment growth was higher (2.2%; 3Q 2019: 2.1%), while the unemployment rate was lower at 3.2% (3Q 2019: 3.3%) as employment growth outpaced labor force growth during the quarter. [3]
- In the fourth quarter of 2019, gross exports contracted by 3.3% (3Q 2019: -1.9%), weighed by declines in both manufactured and commodities exports. Gross imports declined at a slower pace of 4.0% (3Q 2019: -5.8%), due mainly to a positive turnaround in intermediate imports and a smaller contraction in capital imports. The trade surplus increased to MYR 36.5bn (3Q 2019: MYR 33.5bn). Manufactured exports contracted by 1.2% (3Q 2019: -0.6%), due mainly to the decline in E&E exports (-6.5%; 3Q 2019: -4.9%) amid lower exports to the US, PR China and regional economies. This partly reflected the slowdown in global semiconductor sales. By contrast, non-E&E exports continued to expand at a sustained pace. Exports of commodities recorded a larger decline (-14.3%; 3Q 2019: -10.0%) due to a sharp contraction in liquefied

natural gas exports (-25.2%; 3Q 2019: 4.1%), following temporary facility closures and lower prices. Intermediate import growth turned positive during the quarter (0.9%; 3Q 2019: -3.0%), due to higher imports of industrial supplies, such as metals and metal products, and parts and accessories of capital goods. Capital imports recorded a smaller decline (-8.9%; 3Q 2019: -15.5%), supported by higher demand for maritime ships, aircrafts and office equipment.[4]

Monetary

- Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.0% since July 2019. The global economy is expanding at a more moderate pace, with the slowdown becoming more synchronised across both the advanced and emerging economies. There is also evidence of the weak global trade affecting domestic demand, particularly investment activity. Going forward, geopolitical tensions, policy uncertainty and the unresolved trade disputes could exacerbate financial market volatility and further weigh on the global growth outlook. Monetary easing and other policy measures are expected to provide some support to growth.[5]
- Malaysia's Money Supply M2 was reported at USD 478.331bn in January 2020. This records an increase from the previous number of USD 470.424bn for December 2019.[6]
- The ringgit appreciated by 2.3% against the USD in the fourth quarter. The foreign currency reserves of Bank Negara Malaysia amounted to USD 97.2bn as of Dec 31, 2019.[7]

Funding & Liquidity

- Interbank borrowings and FCY deposits in the domestic banking system accounted for 38.6% (or d MYR 245.3bn) of FCY-denominated external debt. About three quarters of the interbank borrowings were in the form of largely stable intragroup borrowings, including from parent banks, regional offices and subsidiaries. Foreign-currency risk, measured in terms of the net open position of FCY-denominated exposures, remained low at 4.4% of banks' total capital. From a maturity perspective, 58.6% of the total external debt was skewed to medium- to long-term tenure (end-September 2019: 57.0%), suggesting limited rollover risks. Short-term external debt accounted for the remaining 41.4% of external debt. Close to half of the short-term external debt were intragroup borrowings among banks and corporations, which are generally stable and on concessionary terms, while another 12.2% were accounted by trade credits, largely backed by export earnings. As at 31 January 2020, international reserves stood at USD104.2 bn, sufficient to finance 7.5 months of retained imports, and is 1.1 times the short-term external debt.[8]
- The level of surplus liquidity placed with the Bank remained relatively stable. At the institutional level, most banks continued to maintain surplus liquidity positions with the Bank. In the fourth quarter, net financing expanded by 4.7% on an annual basis (3Q 2019: 4.8%), supported by sustained growth in outstanding loans (3Q 2019: 3.5%, 4Q 2019: 3.5%). Nonetheless, growth in outstanding corporate bonds moderated slightly to 8.0% during the quarter (3Q 2019: 9.0%) amid higher redemptions. Corporate bond issuances, however, were higher across most sectors. Growth in outstanding business loans improved to 2.4% (3Q 2019: 1.6%), driven by higher loan growth in the manufacturing sector and improvements across most sectors. For the household segment, growth in outstanding loans was stable at 4.7% during the same period (3Q 2019: 4.6%), with higher loans disbursed for purchase of residential property, credit card and personal use. Demand for both business and household loans was broadly stable.[9]

Regulations and Policies

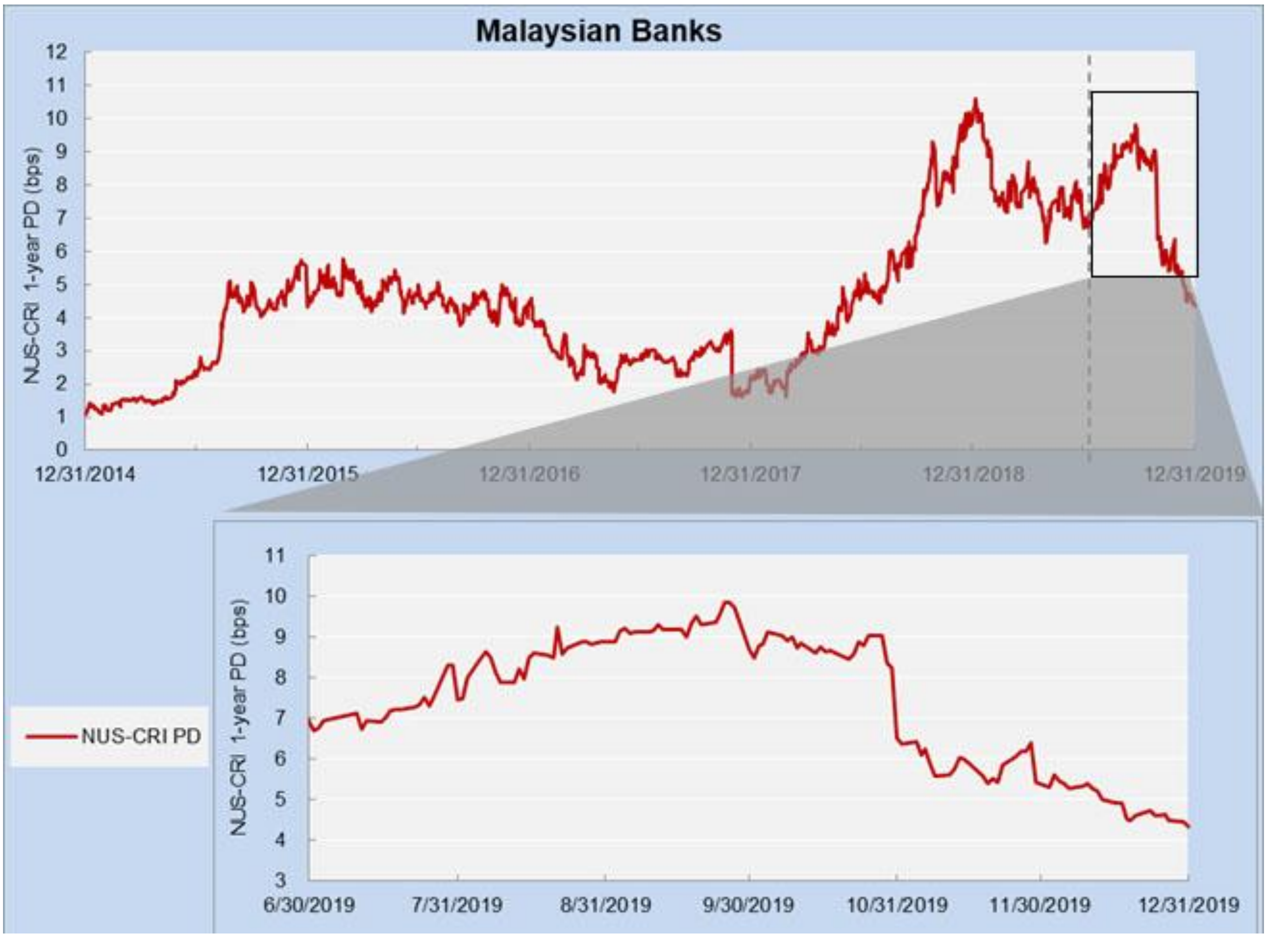
- The Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 3.00% at the November 2019 meeting. More recently, at the January 2020 MPC meeting, the MPC reduced the OPR by 25 basis points to 2.75%.[10]
- Digital Services Tax with a rate of 6% will be charged to foreign digital service providers with sales of more than MYR 500,000 a year. The tax is purposed during the tabling of Budget 2019 in November last year, and it would be imposed on foreign digital services which included software, music, video and digital advertising.
- The government will raise the minimum monthly wage to MYR 1,200 in 57 town and major cities, while the minimum wage remains at MYR 1,100 monthly for the rest of the country.[11]

Sovereign Credit Ratings

- The Malaysian government maintained its sovereign credit ratings at all three rating agencies. The country was rated at A3, A- and A- respectively by Moody's, S&P and Fitch. All three agencies assigned a stable outlook for their ratings on Malaysia.

Malaysian Banks

The NUS-CRI Aggregate 1-year PD for Malaysian banks slightly decreased from 7bps to 4bps in Q3 and Q4 2019, as the banking system remained well capitalized. Stable total bank deposits continue to ensure liquidity in Malaysian banks.



Lending

- Nominal interbank interest rates were broadly stable in the fourth quarter of 2019. The 3-month KLIBOR, however, declined slightly after the announcement of the reduction in the Statutory Reserve Requirement (SRR) ratio in November 2019 and ended the quarter at 3.35% (3Q 2019: 3.38%). [12]
- Retail lending rates remained stable, with the weighted average base rate (BR) and the weighted average lending rate (ALR) on outstanding loans at 3.68% (3Q 2019: 3.68%) and 5.16% (3Q 2019: 5.18%), respectively. [13]
- Bank Lending Rate in Malaysia decreased from 4.82% in June 2019 to 4.7% in December 2019. [14]

Funding & Liquidity

- Total bank deposits increased from USD 471.224bn in August 2019 to USD 482.436bn in December 2019. Currently, Malaysia's total deposits was reported at USD 487.174bn in Jan 2020. [15]
- Real fixed deposit (FD) rates increased in the fourth quarter amid lower headline inflation. In particular, the real 3-month and 12-month FD rates increased to 1.90% (3Q 2019: 1.75%) and 2.09% (3Q 2019: 1.99%), respectively. [16]

Capital Levels & Regulations

- Tier 1 Capital Ratio of Malaysia dropped from 14.73% in June 2019 to 14.2 in November 2019, then rebounded back to 14.838% in December 2019. Now the data was reported at 14.916 % in January 2020. [17]

Asset Quality

- Loans growth YTD slowed to 3.6% (annualized) from 4.1% in Q2 2019, mainly from corporate repayments and slow demand in the non-retail segment. With a steadily climbing gross impaired loans (GIL) ratio over the past three quarters, asset quality (and subsequently credit cost) will be a swing factor in the sector's earnings going forward.[18]
- The asset quality of Malaysian banks is expected to deteriorate with a 15% to 20% or MYR 4bn-MYR 5bn upsurge in gross impaired loans (GIL) in 2020.[19]

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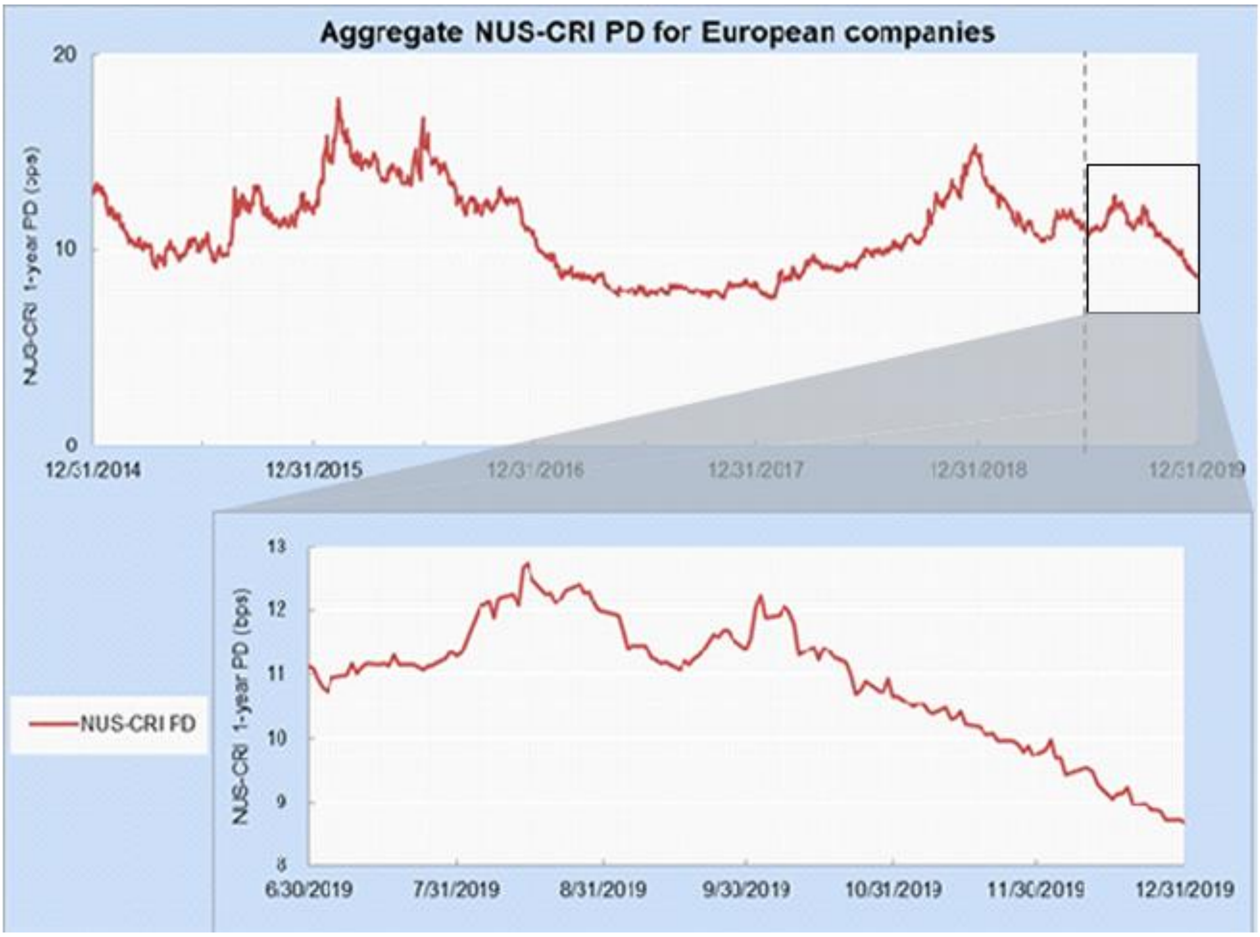
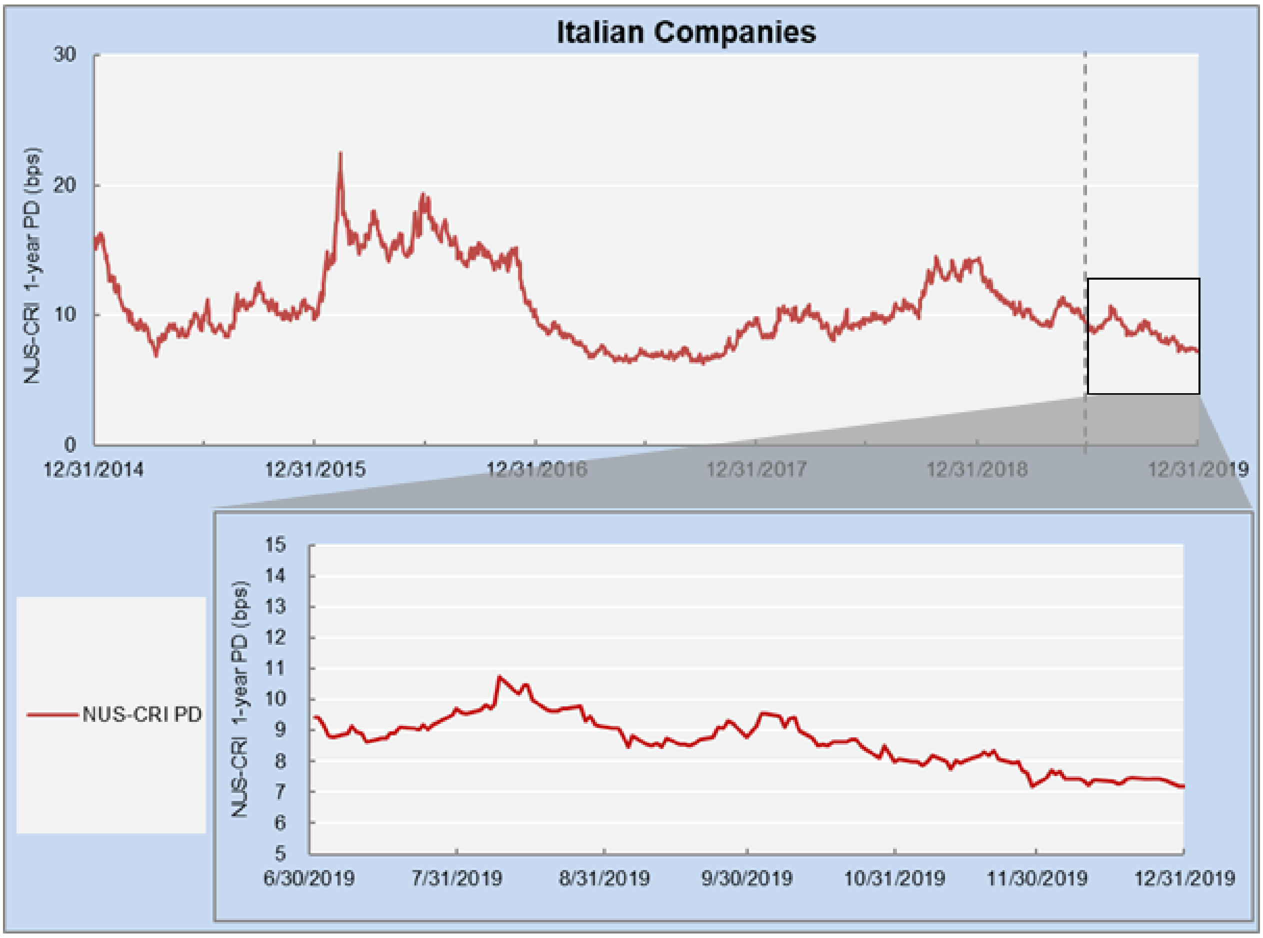
Europe

European firms ended Q4 2019 with a slight drop in their NUS-CRI Aggregate 1-year probability of default (PD) from the end of the first half of 2019. Compared to the same quarter of the previous year the GDP in the Euro Area in Q3 and Q4 grew 1.2% and 1.0% respectively. Meanwhile employment rates slowed. In Q2 there was a 1.0% growth in employment but by the end of Q4 it dropped to 0.9% growth Y-o-Y. In September 2019, the ECB also announced that additional monetary stimulus will be given amidst the subdued outlook for growth to prevent core inflation from falling lower than its already persistently low levels. In Q4, we see that the credit outlook for European companies improved as the 'Phase One' trade deal between US and China has reduced trade tension and terms of trading between EU and UK was also drawn out for the year 2020. This, along with very low interest rates provide an opportunity for companies to increase their liquidity and strengthen their credit profiles.



Italian Companies

The NUS-CRI aggregate 1-year PD for Italian companies slightly decreased during the second half of 2019, from 9.23bps at the end of Q2 2019 to 7.47bps at the end of Q4 2019. The economy grew by 0.1% in the last quarter and 2019 is the first year since 2015 with a lower expansion than the previous year. However, Italy's economic outlook improved, including the industrial, services, construction, retail and consumer sectors.



Economy

- The GDP of Italy increased by 0.1% in Q3 2019 and decreased by 0.3% in Q4 2019 with respect to the previous quarter. Regarding the YoY change, GDP increased by 0.3% in Q3 2019 and 0.1% in Q4 2019. While imports went up by 1.3% and exports went down by 0.1% in Q3 2019, imports decreased by 1.7% and exports increased by 0.3% in Q4 2019. [1] [2]
- Italy's unemployment rate was 9.8% in Q4, a slight increase over Q2 with a rate of 9.7%. The country ended the year with 23.38mn people employed. 1.2mn people were unemployed, which is a slight increase of 0.1% over the previous month. Youth unemployment (aged 15-24) remained stable as the previous month at 28.9%. [3] [4]
- Italy's manufacturing Purchasing Managers' Index (PMI) – a single-figure measure of developments in overall business conditions – decreased to 46.2 in Dec 2019 from 47.6 in Nov 2019. This marks the 15th month running for which the index posted below the 50.0 no-change mark and its lowest overall since Mar 2019. Both output and new orders underwent further reductions. Meanwhile, business confidence strengthened to the highest in five months amid hopes of improved demand. [5]
- Italy's services PMI returned to growth in Dec 2019 as new orders further rise amid stronger domestic demand conditions. The services PMI registered 51.1 In Dec 2019, up from 50.4 in the previous month although remained lower than the 51.4 in Sep 2019. Job creation fell to the weakest since Apr 2019 and capacity pressure was stable. Furthermore,

cost inflation increased while falling output charges. However, Italian service providers were optimistic regarding next year's business activity, but the level of positive sentiment remained below the long-run series average. [6]

- The European Commission Italy Economic Sentiment Indicator (ESI), which assesses the economic outlook of EU countries as a weighted average of the industrial, services, construction, retail and consumer sectors, reported a reading of 101.6 in the second half of 2019, which is higher than 100.2 in the first half. [7]
- The confidence climate in Dec 2019 improved from 116.5 to 120.7. All components rose: The current one from 106.8 to 108.8, the personal one from 105.8 to 106.8 and the future one from 110.2 to 112.2. The balance concerning expectations on production in manufacturing declined from 5.0 to 4.3. The balance on expectations on employment in construction decreased from 4.2 to 2.1. Market services balances on business improved from 4.6 to 7.0.[8]

Funding & Liquidity

- Yield on 10-year Italian bonds decreased from 1.55% in Q2 2019 to 1.43% in Q4 2019. This is an improvement compared with the yield of 0.83% in Q3 2019. Italian yields are the second highest in the Eurozone after Greece, attracting investors hunting for positive return in a negative yield environment. [9]
- Interest rates on loans (other than bank overdrafts) to non-financial corporations fell in the second half of 2019, from 2.08% in Q2 2019 to 2.0% in Q4 2019. Bank interest rates (including revolving loans, overdrafts and extended credit card credit) to corporations dipped from 2.91% in Q2 2019 to 2.82 in Q3 2019. Loans for house purchases decreased from 1.77% to 1.43% in the second half of 2019. [10] [11] [12]
- Preliminary estimates for outstanding loans to non-financial institutions stood at 642472. Total outstanding loans overall decreased by 3.98% from the previous half-year. [13]

Politics

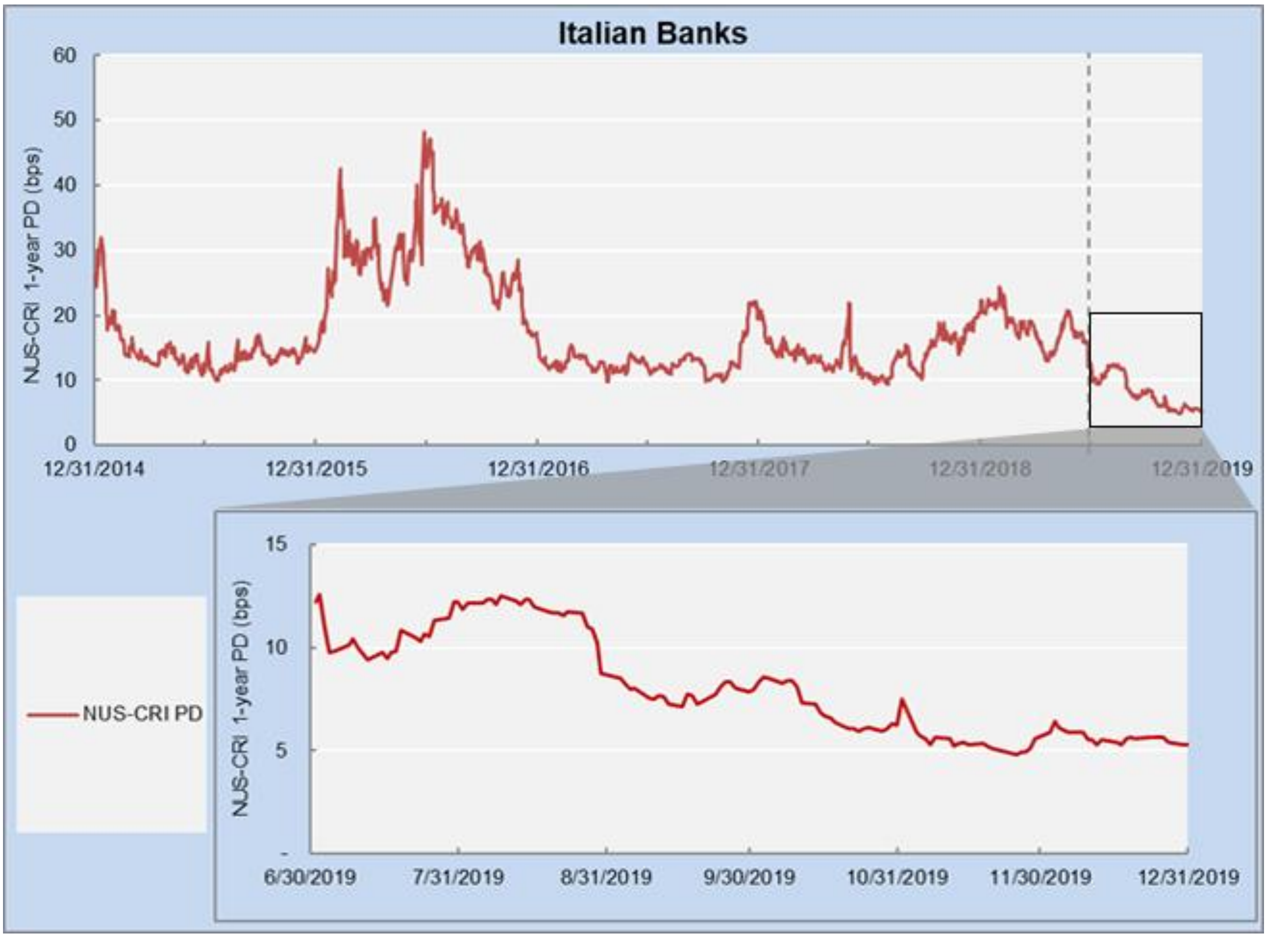
- Italy's latest published public accounts were that of Q2 2019. Total revenues for General government grew by 1% while total expenditures grew by 0.8% compared to the same quarter of the previous year. The growth of total revenues results from an increase in (+2.7%). The trend in expenditure results from an increase in total current expenditures (+2.1%). The General government deficit (net borrowing) to GDP ratio was 1.1% in Q2 2019, with an improvement with respect to the same quarter in 2018 (1.3%). Italy's debt-to-GDP ratio. Italy's debt-to-GDP ratio is set to stand at 137.3% based on latest data in Q3 2019. [14] [15]

Sovereign Credit Ratings

- Moody's and S&P maintained their ratings at Baa3 with a stable outlook and BBB with a negative outlook respectively. Fitch revised its ratings to BBB with a stable outlook. [16]

Italian Banks

The NUS-CRI aggregate 1-year PD for Italian banks decreased during the second half of 2019, from 11.95bps in Q2 2019 to 5.26bps in Q4 2019. Interest rates to firms and to household slightly increased within the near multiple-year low. Nevertheless, the demand for business lending slowed down. In the meantime, asset quality at Italian banks improved slightly, with the ratio of new non-performing loans to outstanding loans decreasing. Meanwhile, coverage ratio for Italian banks improved to 52.9%.



Profitability

- Italy's biggest bank UniCredit posted a 3.4% growth for its YoY total revenues in Q4 2019. Underlying net profits of this quarter amounted to EUR 1.4bn and an underlying net profit of the year of EUR 4.7bn, up 55.5% YoY. The group had a coverage ratio of 70.6%, which is an increase of 3.5 percentage points YoY), while the CET1 ratio was up 49bps to 13.9% in Q4 2019 compared to the previous quarter. For Intesa Sanpaolo, another major Italian bank, its net interest income is down 3.7% as compared to a year ago while its CET1 ratio improved to 13.9% in Q4 2019 from 13.5% in Q4 2018. Based on its results, the bank expected its net income to grow in 2020. [17] [18]

Funding & Liquidity

- The 12-month percentage change in deposits of funds by Italian residents was 6%, while for the total deposits of non-domestic residents it was 1.8%. Refinancing from Eurosystem decreased by 9.8% as compared to Dec 2018, while debt securities issued by banks decreased by 1.71% as compared to the same period last year. [19]
- Interest charged on business loans (other than bank overdrafts) of over EUR 1mn to non-financial institutions were 1.06% in the second half of 2019, higher than in the first half with 0.92%. Similar loans with collateral and/or guarantees were charged with an interest rate

of 1.41% in Q4 2019, up from the 1.39% charged in Q2 2019. Bank interest rates on loans to sole proprietors were 2.72% in Q4 2019, down from 3.03% in Q2 2019. [20]

- The Bank of Italy's liabilities to Euro-area financial counterparties remained relatively stable at to EUR 101,775.2bn in Dec 2019 from 103,564.6bn in Jun 2019. [21]
- Italian bank liabilities towards the Eurosystem decreased to EUR 234bn in Nov 2019 compared to EUR 238bn in Aug 2019. Capital and reserves increased to EUR 370bn in Nov 2019 from EUR 268bn in Aug 2019. [22]
- According to the latest bank lending survey, Italian banks reported that in the third quarter of 2019, credit supply conditions tightened slightly, mainly due to stringer competitive pressures from other banks. Lending to firms declined since firms' funding needs for productive investments, inventory and working capital lowered. [23]

Asset Quality

- According to the Bank of Italy, the ratio of new non-performing loans to total outstanding loans declined, from 1.3% in the first half of 2019 to 1.2% in the second half of the year. [24]
- The coverage ratio of Italian banks slightly decreased from 53.0% to 52.9% between Jun 2019 and Sep 2019. [25]

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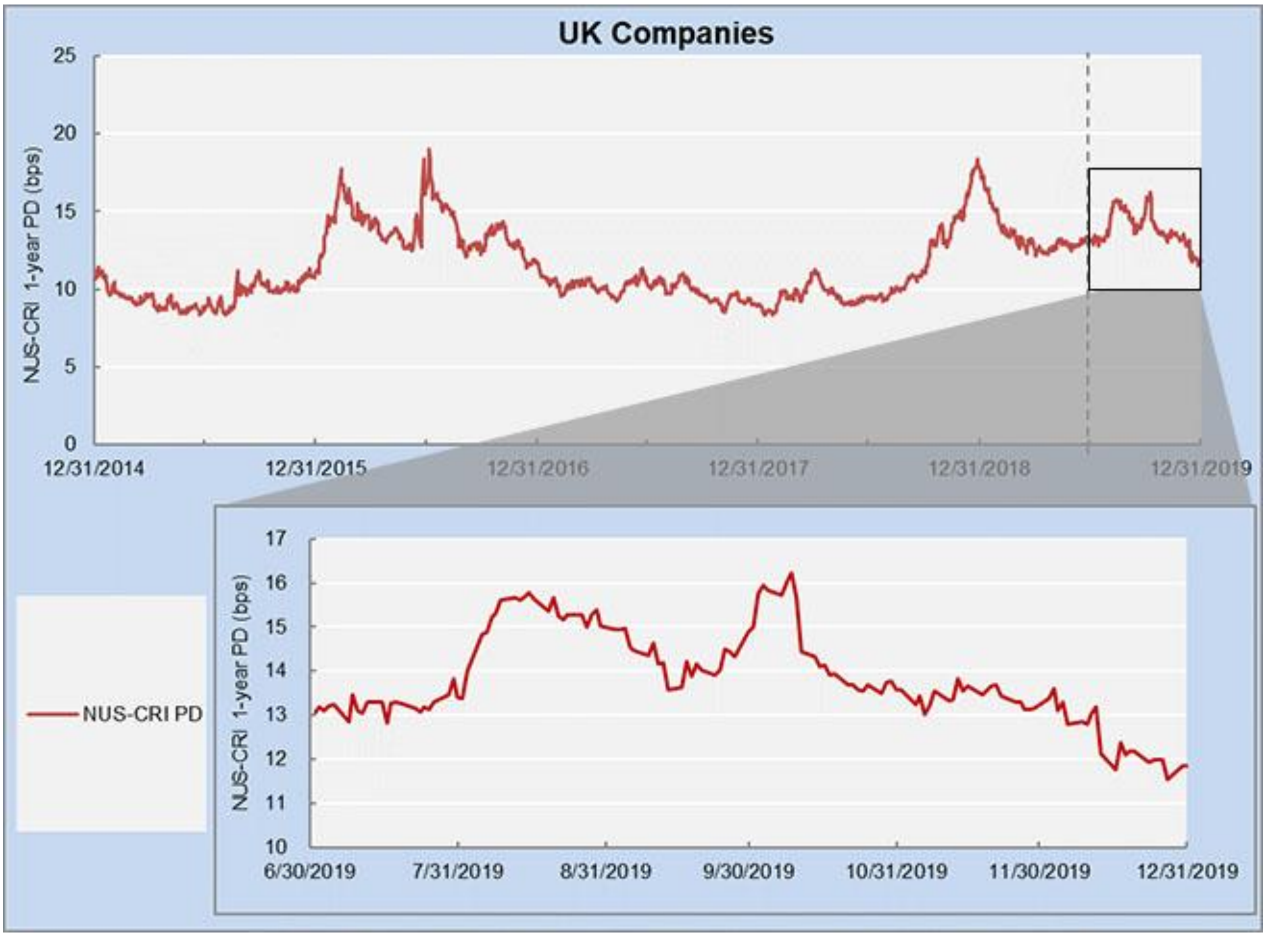
UK Companies

The NUS-CRI Aggregate 1-year PD for companies in the UK showed a fluctuated trend in Q3 and Q4 2019. There was an increase from 13.03bps to 15.67 bps at the beginning of August, another surge from 13.62bps to 15.67bps at the beginning of October, and a drop to 11.83bps since then. The quarterly growth rates of GDP in Q3 and Q4 2020 are 0.5% and 0.0%, respectively. Consumer spending for the quarter declined when compared to same quarter one year ago, in line with a marked drop in consumer confidence. Trade deficit narrowed on the account of because of rising exports. The UK continues to be hassled by the uncertainty brought about by Brexit and its complex dealings on various areas, such as trade, migration, etc. [1]



Economy

- The UK GDP quarter on quarter growth rates were 0.5% and 0% in Q3 and Q4 2019, both of which lower compared to the previous year when GDP quarter on quarter growths were 0.6% and 0.2% in Q3 and Q4 2018. Overall, the economy expanded 1.4% on an annual basis, compared to 1.3% in 2018 and 1.9% in 2017. [2] [3]
- The UK unemployment rates was estimated at 3.8% at the end of 2019, lower than half year earlier (3.9%) and one year (4%) earlier. Annual growth in average weekly earnings for employees in Great Britain was estimated to be 2.9%, which was also lower than half year earlier (4%) and one year (3.6%) earlier. [4]
- Visa's UK Consumer Spending Index, compiled by IHS Markit, pointed to a softer fall in household expenditure at the end of 2019. Overall, consumer spending decreased by 1.2% on an annual basis in December 2019. Spending on Face-to-Face categories continued to fall (-3.4%), while eCommerce categories saw a marked pick up in spend in December 2019, with expenditure rising at the quickest rate since August 2017. [5]
- The total trade increased from GBP -8.58bn in Q2 2019 to GBP 7.93bn in Q4 2019. [6]
- UK Manufacturing PMI fell from 49.4 in May 2019 to 47.5 in December 2019, the second-weakest level for almost seven-and-a-half years (the PMI stood at 47.4 in August 2019). The PMI posted

below the neutral mark of 50.0 in each of the past eight months, indicating a deepening downturn in the UK manufacturing sector at the end of 2019. [7]

- UK construction output data in December 2019 encountered another sharp reduction, with a downturn persisting across all three broad categories of activity since the sharpest fall in April 2009. At the level of 44.4 in December, down from 45.3 in November, the headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index registered below the crucial 50.0 no-change value for the eighth consecutive month. The current period of falling business activity across the construction sector is the longest recorded by the survey for almost a decade. [8]

Monetary

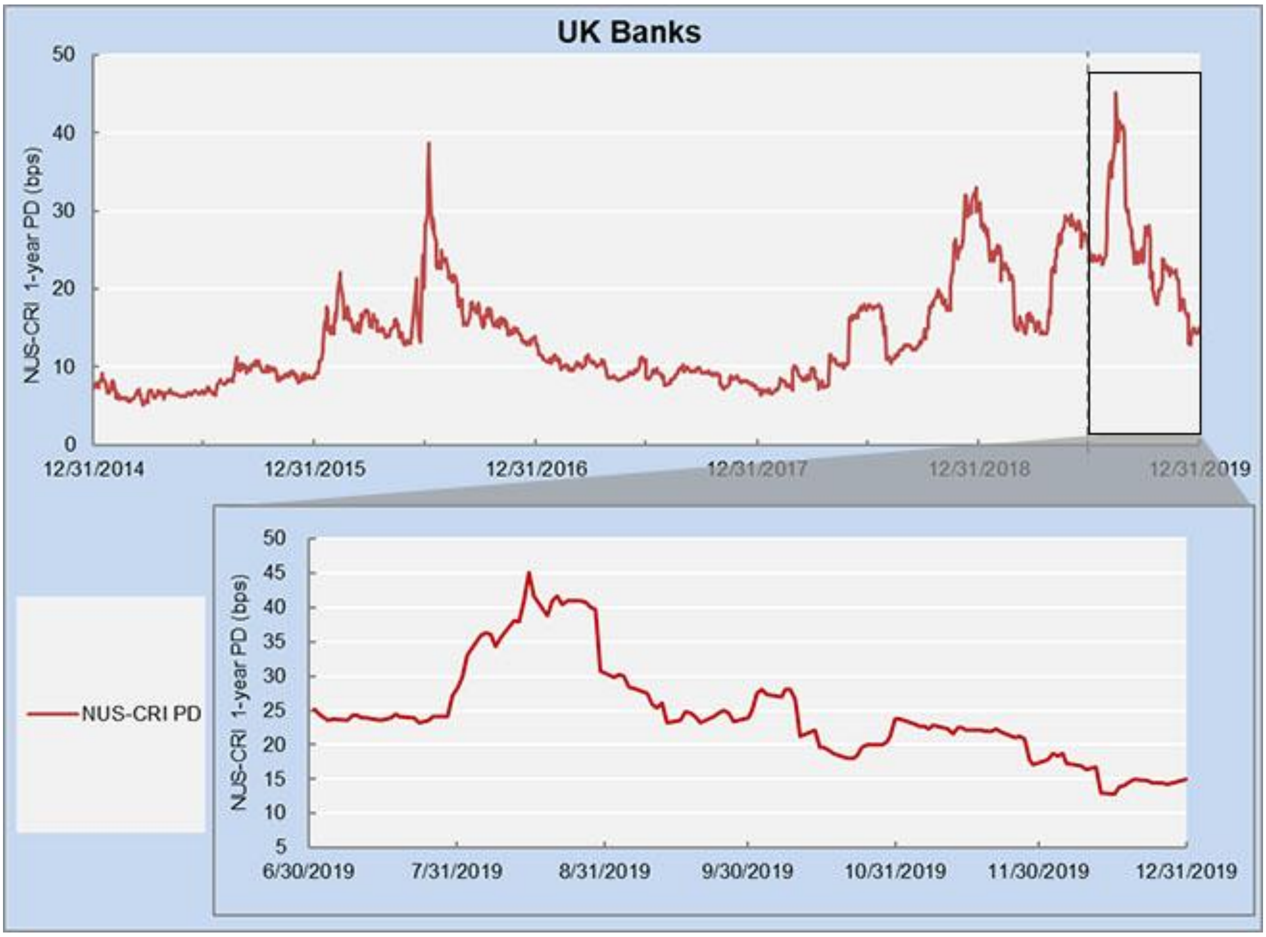
- At its meeting ending on 18 December 2019, the Monetary Policy Committee (MPC) voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10bn. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435bn. MPC sets monetary policy to meet the 2% inflation target, in a way that helps to sustain growth and employment. [9]
- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 1.4% in December 2019, 0.5% lower than the number in June 2019. The largest downward contributions to change in the 12-month rate between November and December 2019 came from accommodation services and clothing. The Consumer Prices Index (CPI) 12-month rate was 1.3% in December 2019, down from 2.0% in June 2019. [10]

Sovereign Credit Ratings

- On 8 November, 2019, Moody's Investors Service changed the outlook on the Government of the United Kingdom's Aa2 ratings to negative from stable. The change is driven by two factors: UK institutions have weakened as they have struggled to cope with magnitude of policy challenges that they currently face, including those that relate to fiscal policy; The UK's economic and fiscal strength are likely to be weaker going forward and more susceptible to shocks than previously assumed. [11]

UK Banks

The NUS-CRI Aggregate 1-year PD for banks in the United Kingdom showed a downward trend since the middle of August in 2019, falling from 45.14bps to 14.97bps. The FTSE 350 Banks Index remained stable in both Q3 and Q4 2019.



Profitability

- Lloyds Banking Group's quarterly net interest income margin in Q4 2019 is 2.85%, lower from 2.89% in Q2 2019. Net interest income remained stable at GBP 3.1bn, the same as half year ago, while lower from GBP 3.2bn in Q4 2018. Net interest margin for 2020 is expected to be between 2.75% to 2.80%. Its asset margin across key segments in H2 2019 remained resilient in a competitive market. [12]
- Royal Bank of Scotland (RBS) reported an operating profit before tax of GBP 1,546mn and an attributable profit of GBP 1,410mn. The British lender's profit was 24% higher than 2018 and above the average of analysts' forecasts compiled by the bank. It also announced a dividend of 8 pence for the fourth quarter. [13]
- Standard Chartered's underlying profit before tax grew 8% to USD 4.2bn. Its 4Q' 2019 income growth was flat on a yearly basis. It remained1% at constant currency and up 4% excluding USD 118mn movement in DVA. [14]

Funding & Liquidity

- According to the Bank Liabilities Survey produced by the Bank of England, UK banks and building societies reported that their total funding volumes increased in the three months to end-November 2019 (Q4). Lenders expected funding volumes to increase in the three months to end-February 2020 (Q1). [15]

- Lenders reported that the internal price charged to business units to fund the flow of new loans (the "transfer" price) had increased in Q4. Lenders expected no change in the transfer price in 2020 Q1. [16]

Asset Quality

- The total write-offs of sterling denominated loans increased from GBP 1166bn in 30 June 2019 to GBP 1459bn in 31 December 2019, attributed mainly to write-offs to private non-financial corporates, which increased from GBP 289mn to GBP 497mn. Non-financial loan write-offs to individuals increased from GBP 823mn to GBP 941mn, and write-offs to non-residents decreased from GBP 11mn to GBP 2mn during the same period. [17]
- Write-offs on loans denominated in foreign currency increased from GBP 51mn in Q2 2019 to GBP 238mn in Q4 2019, driven by increase in the write-offs on loans to non-residents, which constituted the largest share of the total write-offs. [18]

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About The Credit Research Initiative

The Credit Research Initiative (CRI) was launched by Professor Jin-Chuan Duan in July 2009 at the Risk Management Institute of the National University of Singapore. Aiming at ”Transforming Big Data into Smart Data”, the CRI covers over 68,000 public firms and produces daily updated Probabilities of Default (1-month to 5-year horizon), Actuarial Spreads (1-year to 5-year contract) and Probability of Default implied Ratings on over 39,000 currently active, exchange-listed firms in 133 economies. The CRI also distributes historical time series of over 32,000 inactive firms due to bankruptcy, corporate consolidation or delisting for other reasons. In addition, the CRI produces and maintains Corporate Vulnerability Indices (CVI), which can be viewed as stress indicators, measuring credit risk in economies, regions and special portfolios.

As a further step, the CRI converts smart data to actionable data to meet the customized demands of its users and offers bespoke credit risk solutions leveraging on its expertise in credit risk analytics. A concrete example is our development of the BuDA (Bottom-up Default Analysis) toolkit in collaboration with the IMF. BuDA is an automated analytic tool based on the CRI PD system, enabling IMF economists to conduct scenarios analyses for the macro-financial linkage.

The CRI publishes Weekly Credit Brief and Semi-Annual Credit Summary, highlighting key credit related events, offering insights based on the CRI PD of the entities involved, and providing useful statistics on credit risk of economies and sectors.

For more information about the CRI project, please visit our main site at http://rmicri.org

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