

# ASIAN CREDIT INVESTMENT RETURNS

BLOOMBERG: CHIM<go>

May 2013

- Sharp rises in US treasury yields across the curve unwound some of the recent strong performance of Asian fixed income markets. The longer duration characteristics particularity in the investment grade segment caused underperformance versus Australian comparables. Credit spreads contracted modestly across Asian IG and HY sectors month on month, but remained well off their intra month highs, investor caution and high dealer inventories cited as key drivers of late May credit market underperformance. Fully A\$ Hedged returns for Asian Investment grade issuers gave up April's gains, ending the month lower by -1.18%. The High Yield segment performed better, yet still fell by -0.55% in A\$ hedged terms, shorter duration and greater spread compression earlier in the month helping offset greater potential losses.
- In the Asian investment grade segment, yields levels in USD terms ended May at around 3.9% across the basket of Asian sovereigns, quasi-sovereigns and corporate securities.

The corresponding yield for comparable Australian bonds as measured by the UBS Composite Bond Index remained around 3.4% in AUD terms.

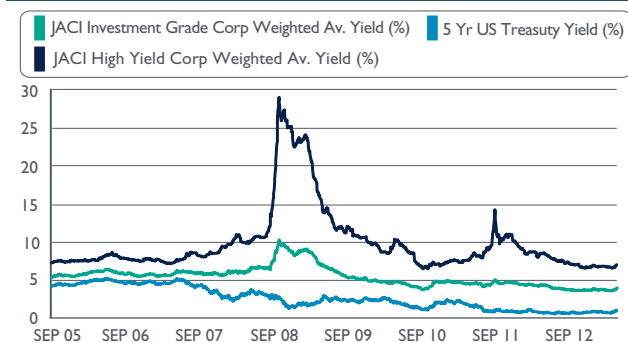
- The RBA cut official cash rates to 2.75% in May, leaving the door open for additional easing later in the year. Despite the large movement in AUD/USD spot rate during May, forward FX differentials narrowed only marginally as a proportion of the AUD spot rate, the current 1yr forward points at -225 or 2.4% below the month end AUD spot rate of \$0.9574.
- Large moves in currencies require investors to facilitate portfolio realignment between underlying investments and currency hedging overlays. Given that Asian credit has experienced heavy inflows over recent years, it is now feasible that some capital repatriation and rebalance related selling could occur, which could exacerbate losses within Asian credit markets as the USD strengthens.

Asian Credit Investment Returns										Annualised Returns				
	31/05/2013		1 Month %	3 Month %	YTD %	1 Year %	3 Year %	5 Year %	7 Year %	Since 30/09/2005	3 Year AGR %	5 Year AGR %	7 Year AGR %	30/09/2005 AGR %
Asian High Yield	Total Return	USD	-1.17%	0.50%	2.60%	17.43%	38.65%	72.05%	92.12%	99.84%	11.51%	11.47%	9.77%	9.45%
	Unhedged	AUD	7.04%	7.48%	11.28%	19.41%	21.62%	71.64%	51.00%	59.43%	6.74%	11.42%	6.06%	6.27%
	AUD Hedge Performance	AUD	-7.59%	-6.06%	-7.00%	0.60%	23.25%	4.16%	33.83%	32.19%	7.22%	0.82%	4.25%	3.71%
	AUD Hedged Return	AUD	-0.55%	1.42%	4.28%	20.01%	44.88%	75.81%	84.83%	91.62%	13.15%	11.95%	9.16%	8.85%
Asian Investment Grade	Total Return	USD	-1.75%	-0.76%	0.11%	7.68%	22.43%	45.53%	62.41%	61.57%	6.98%	7.80%	7.17%	6.45%
	Unhedged	AUD	6.41%	6.13%	8.58%	9.49%	7.39%	45.18%	27.65%	28.90%	2.41%	7.75%	3.55%	3.36%
	AUD Hedge Performance	AUD	-7.59%	-6.06%	-7.00%	0.60%	23.25%	4.16%	33.83%	32.19%	7.22%	0.82%	4.25%	3.71%
	AUD Hedged Return	AUD	-1.18%	0.08%	1.58%	10.10%	30.65%	49.34%	61.48%	61.09%	9.32%	8.36%	7.08%	6.41%
Australian Investment Grade	UBS Composite Bond Index	AUD	-0.07%	1.26%	1.63%	3.69%	24.74%	47.67%	60.22%	64.32%	7.65%	8.11%	6.96%	6.69%
	UBS Australian Credit Index	AUD	0.34%	1.62%	2.38%	6.88%	26.97%	51.47%	63.55%	68.50%	8.29%	8.66%	7.27%	7.04%

	Weight %	Yield % (USD)	Est. Hedged Yield % (AUD)*	Duration (yrs)	Spread v UST. (bp)
Asian Credit Market Statistics					
Asian Investment Grade Corporate	67.3%	3.97%	6.32%	5.28	228
Asian High Yield Corporate	32.7%	6.99%	9.35%	4.59	508
Blended IG/HY Asian Corporate	100.0%	5.0%	7.3%	5.06	320

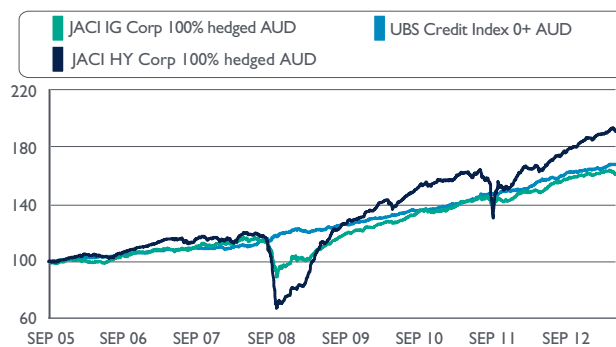
\* USD Yield + USD/ AUD 12mth forward pickup  
Source: UBSAustralia, JP Morgan, Chimaera Index Advisors, Bloomberg

## Asian Corporate Yields vs US Treasuries (USD)



Source: UBSAustralia, JP Morgan, Chimaera Index Advisors, Bloomberg

## UBS 0+ Credit Index vs Asian Credit Indices (% returns -AUD Hedged)



Source: UBSAustralia, JP Morgan, Chimaera Index Advisors, Bloomberg

## iboxx / iTraxx CDS Index Spreads



Source: UBSAustralia, JP Morgan, Chimaera Index Advisors, Bloomberg

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