Corporate Credit Monthly Update
July 2018

The euro zone unemployment rate dropped from 9.2% to 8.4% between May 2017 and May 2018, but remained high for young adults (16.8%). Meanwhile, euro zone industrial output and German exports held up relatively well (+1.3% and +1.8%, respectively, published in May). However, the world is faced with the threat of a trade war and its potential impacts on the national economies of various countries, particularly for the automotive sector and German exports. In July, the Trump administration imposed a 25% tariff on $34 billion in Chinese products, and is currently considering additional measures.

German government bond yields tightened, but credit spreads in neighbouring countries trended downward. On the monetary front, the ECB will be terminating its asset buying programme at the end of the year, but plans to renew bonds reaching maturity (estimated reinvestment volume of €180 billion for 2019). Inflation came out at 2% in the euro zone, and even hit 2.3% in France, but with a heavy contribution from energy and food prices.

The biggest ongoing source of uncertainty is the future of UK-EU relations. UK Prime Minister Theresa May developed a new, less draconian, plan, however it triggered a government crisis as well as the resignation of Foreign Affairs Minister Boris Johnson and Brexit Secretary David Davis.

The High Yield markets made a strong comeback in July. The telecom, energy, insurance and healthcare sectors were the main beneficiaries, but all sectors ended up delivering positive performances. Not surprisingly, the compression of risk premiums tended to benefit the longest-dated securities.

In US markets, the spotlight was squarely focused on the Trump administration's policy and negotiations launched - under the threat of additional tariffs - with the United States' main trade partners, starting with China and the European Union.

Economists are concerned about the effects of the potential escalation of US protectionist measures. US trade partners would inevitably strike back, as already evidenced by the proportionate yet firm retaliatory measures taken by China, Russia and the European Union. Inflation levels held steady: 2.9% yoy at end-June and 2.3% excluding energy and food. Finally, 10-year government yields tightened 10 bp to 2.96% in July.

Despite the uncertain environment, investors seemed to regain their appetite for HY bonds and the markets were on a good track. The healthcare and telecom sectors were highly sought-after, posting their strongest performances since January. Conversely, despite their recent rebound, the automotive, banking and consumer goods sectors stayed in the red.

In EM markets, the Mexican elections held this month brought the AMLO party to power. The victory of President Erdogan in Turkey was followed by the implementation of a much-criticised measure, granting him the power to appoint the governor of the central bank, thus significantly reducing its independence. This political decision weighed on the country's equity prices and currency. And yet, the central bank left its key rates unchanged at 17.75%, with published inflation of 15.4%. China saw its GDP dip slightly over the month (6.7% yoy at end-June), but retail sales picked up 9%. It still needs to address the delicate matter of corporate debt, however, and launch structural reforms without destabilising the markets.

Emerging bonds regained investor favour in July, and the HY markets posted sharp rebounds after being shunned in recent months. The biggest gains were recorded in the services, energy, healthcare and tech/electronics sectors. Banking and insurance trailed behind. Despite posting a major comeback, the telecom and real estate sectors were still among the biggest losers year-to-date.

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Companies in the Spotlight

Wind Tre (Europe)

CK Hutchinson (A2/A-) announced that it will become Wind Tre's sole owner by acquiring VEON's stake in the JV for €2.45bn. Though still confronted with a competitive environment in its sector, Wind Tre bonds will benefit from the strong commitment of a highly-rated sponsor. S&P put Wind Tre's credit ratings on CreditWatch Positive following this announcement.

Cardtronics (US)

Cardtronics reported a strong financial performance in Q2 and raised its 2018 guidance after outperforming in the first half of the year. Thanks to a positive resolution for interchange income in the UK, the company now expects to generate EBITDA of $270m to $280m in 2018, with higher adjusted FCF vs. 2017 (> $74m).

Japfa Comfeed (Emerging Countries)

Japfa Comfeed reported strong Q2/18 results with higher revenue and improved profitability. The company benefited from strong demand for poultry, with Q2 revenue up +17.8% and EBITDA surging by 87% to IDR 2.47 tn. According to estimates, Debt/EBITDA was 1.5x at the end of Q2 and liquidity was sound at IDR 1.49 tn (vs. total Debt of IDR 6.3 tn).

Significative Primary Issues

EUR

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Altice France SA	5.875%	2027	€1Bn	B1
Radisson Hotel	6.875%	2023	€250m	B1

US

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Intrepid Aviation	8.500%	2021	$500m	B
Simmons Foods	7.750%	2024	$250m	B1

EM

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Bulgarian Energy	3.500%	2025	€550M	Ba2
Cemig Geracao	9.250%	2024	$1Bn	B

Rating Moves

ArcelorMittal	Fitch	↗	BBB-
Bouygues SA	Moody's	↗	A3
Carlsberg Breweries	Fitch	↗	BBB+
Covestro AG	Moody's	↗	Baa1
eDreams ODIGEO SA	Moody's	↗	B1
Intelsat SA	S&P	↗	CCC+
Jaguar Land Rover	S&P	↘	BB
Novartis AG	Moody4s	↘	A1
Safilo SpA	Moody's	↘	B2
UPM-Kymmene OYJ	S&P	↗	BBB
Vale SA	Moody's	↗	Baa3

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Macro Economic Events

European Union:

- Jean-Claude Juncker and his US counterpart, Donald Trump, announced in late July that they had reached an agreement to work on lowering trade barriers. That said, the EU is preparing a list of counter-measures in case the US decides to impose tariffs on cars imported from the EU.

- Jean-Claude Juncker and Japanese Prime Minister Shinzo Abe also entered into a vast free trade agreement, ultimately set to eliminate virtually all trade tariffs between the two partners, which represent 28% of global GDP.

Germany: against all expectations, economic growth was cut in half in the first quarter, hitting 0.3%.

France: Fitch confirmed its AA sovereign rating and stable outlook, but noted that public finances remain an important point in light of the current credit rating.

United Kingdom: Foreign Affairs Minister Boris Johnson stepped down the day after Brexit Secretary David Davis resigned, amid disagreements over post-Brexit relations between the UK and the EU. Two weeks after appointing Dominic Raab to replace David Davis, Theresa May limited his duties by personally taking over the Brexit negotiations.

Greece: S&P raised its outlook from stable to positive, while confirming its long-term B+ rating. The new outlook may open the door to a higher rating.

World: IMF economists have in no way altered their overall forecasts since spring, namely global growth of 3.9% in 2018 and 2019, vs. 3.7% in 2017.

United States: Donald Trump dug in his heels on the US-China trade war, stating he was ready to impose tariffs on $500 billion in additional goods imported from China by the US. He also criticised the Fed's rate hiking policy, citing its potential for robbing the US of a substantial competitive advantage.

Russia: the country announced new import tariffs on a series of US products and is readying new retaliatory measures in response to the trade barriers set by the US.

Iran: the US refused to grant exemptions or waivers to European companies operating in the country, following a unilateral decision to restore economic sanctions against Iran.

Market Data Indices		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	1.57%	-0.15%	3.84	3.29%
J0A0	High Yield United States	1.14%	1.18%	4.13	6.34%
H7PC	High Yield Europe BB/B Excluding Financials	1.58%	0.21%	3.65	3.39%
JC4N	High Yield United States BB/B Excluding Financials	1.08%	0.69%	4.23	5.89%
HYEF	High Yield Emerging Countries Excluding Financials	1.86%	-1.86%	3.66	7.36%
Investment Grade					
ER00	Investment Grade Europe	0.27%	-0.30%	5.13	0.99%
C0A0	Investment Grade United States	0.75%	-2.40%	7.02	4.05%
EMIC	Investment Grade Emerging Countries	0.69%	-1.29%	5.22	4.09%
Governments					
10YGE	10-Year German Bond	-1.40%	-0.23%		0.44%
10YUS	10-Year US Bond	-0.82%	-4.64%		2.96%

Inflation						
Expected inflation		July	June	May	6M	12M
EURO INF	Expected inflation for 2018 in Europe	1.70%	1.60%	1.50%	1.50%	1.50%
US INF	Expected inflation for 2018 in the United States	2.50%	2.56%	2.50%	2.20%	2.10%
Realized inflation		July	June	May	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	1.20%	2.00%	1.90%	1.30%	1.30%
US CPI	Realized inflation in the United States (rolling 12-month)	2.50%	2.90%	2.80%	2.10%	1.70%

**MTD = Month-to-date, YTD = Year-to-date, DTW = Duration-to-worst, YTW = Yield-to-worst*

Source : Merrill Lynch

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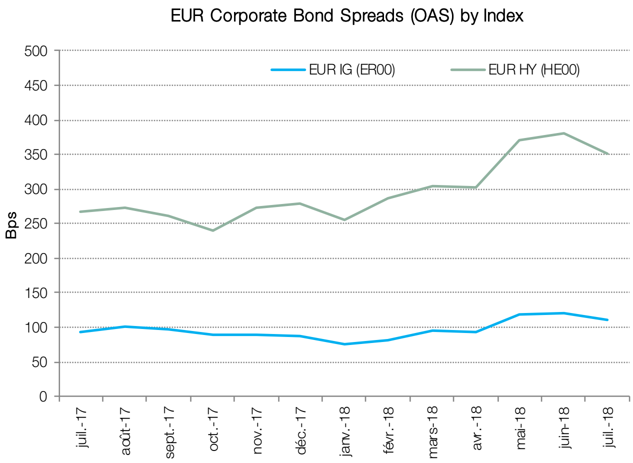

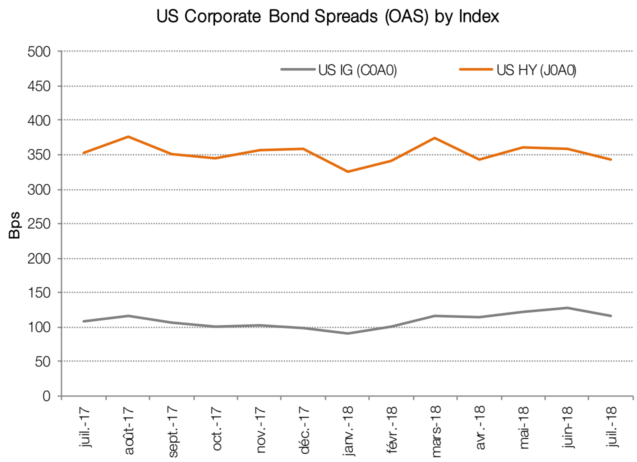

Corporate Bond Spreads		July	June	6 months	12 months
Europe					
ER00	Investment Grade Europe	110	119	74	92
HE00	High Yield Europe	351	381	252	280
ER30	Bonds rated A Europe	90	98	62	78
ER40	Bonds rated BBB Europe	137	149	89	112
HE10	Bonds rated BB Europe	271	303	186	216
HE20	Bonds rated B Europe	519	552	419	396
United States					
C0A0	Investment Grade United States	115	128	90	105
J0A0	High Yield United States	353	368	337	366
C0A3	Bonds rated A United States	92	104	70	83
C0A4	Bonds rated BBB United States	146	161	115	136
JUC1	Bonds rated BB United States	244	266	208	234
JUC2	Bonds rated B United States	375	391	349	374
Emerging Countries					
EMIC	Investment Grade Emerging Countries	156	169	120	144
HYEF	High Yield Emerging Countries	470	512	341	465
EMAQ	Bonds rated A Emerging Countries	122	128	100	118
EM2B	Bonds rated BBB Emerging Countries	205	222	152	184
EM3C	Bonds rated BB Emerging Countries	334	381	230	287
EM6B	Bonds rated B Emerging Countries	577	610	385	481

Source : Merrill Lynch

Anaxis Asset Management

Anaxis Asset Management is the Anaxis group's asset management firm specialized in corporate bonds. For more than 10 years Anaxis Group has provided high performance and resilient investment solutions to European investors. Anaxis benefits from a team of experienced and recognized investment professionals. The team adopts a fundamental approach to credit, based on thorough financial analysis and a rigorous control of risks.


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