

Corporate Credit Monthly Update

August 2018

Industrial output took a dip this month in Europe, and especially in Germany. Europe is also facing the threat of additional US trade tariffs. The Trump administration has its eye on the sensitive automotive sector, which could have a particularly strong impact on German exports. To top it all off, Europe is living with the uncertainty of Brexit, with no decisive progress on UK-EU negotiations as of yet. Inflation hit 2.0% over a rolling 12-month period (1.0% excluding food and energy) in August.

Sovereign spreads climbed to varying extents on the fixed income market. Italy struggled with fears surrounding its economic and fiscal policy. The 10-year risk premium rose 61 bp in August to nearly 2.9%. The credit markets proved fairly rudderless this month.

The US markets and economy were driven by a business-friendly tax policy in August, but this stimulating effect is expected to gradually decline. Meanwhile, the US maintained a protectionist policy, setting up another slew of trade tariffs on Chinese imports. China kept the trade war going with retaliatory measures. Europe and emerging countries were by no means spared, although a bilateral agreement was announced between the US and Mexico covering agriculture and the automotive sector in particular.

10-year yields were on the decline (-13 bp in August). Yields on the BB/B segment (excl. financials) shed 11 bp over the month to 5.78% YTW, while spreads held relatively steady at 307 bp.

In emerging countries, the markets turned their attention to Turkey this month, whose sovereign rating was downgraded from BB- to B+ by S&P, and from Ba2 to BA3 by Moody's. The country's economic future is jeopardised by the subjugation of the central bank, forced to apply a low interest rate policy despite the lira going into free-fall, inflation hitting new heights and Turkey's current account deficit topping 6%. The situation was exacerbated by the Trump administration's decision to double tariffs on Turkish steel (50%) and aluminium (20%) in the wake of failed negotiations with Ankara over the liberation of a US pastor accused of terrorism. This shock wave spread to other emerging countries perceived as vulnerable, and especially Argentina.

After its unilateral withdrawal from the Iran deal, the US kept up pressure on Teheran, forcing international countries to pull up stakes under threat of sanctions. Daimler and Total responded by dropping their plans in Iran.

Companies in the Spotlight

Lecta (Europe)

Lecta reported solid Q2 2018 results, with revenues up 3% and EBITDA 33% yoy on the back of higher selling prices and lower costs, while net leverage declined by 0.5x YoY to 4.5x. Lecta's results were influenced by the timing and stickiness of price increases, along with lower operating costs despite significant pulp price inflation. Recent industrywide capacity closures have had a positive effect on pricing, with the company avoiding low margin contracts while maintaining decent operating rates.

FTI Consulting (US)

Moody's upgraded FTI Consulting's senior unsecured rating to Ba1 from Ba2, reflecting its resilient operating performance, solid free cash flow profile and good deleveraging trend. The rating agency expects the company to maintain debt-to-EBITDA (adj.) at or below 2.5x through-the-cycle. This upgrade brings FTI's unsecured rating almost in line with S&P (BB+).

West China Cement (Emerging Countries)

West China Cement (WCC) released strong H1 2018 results, with revenues up 23% vs. H1 2017 and EBITDA up a whopping 68%. Results were boosted by a strong rise in average selling prices, thanks to the rationalization efforts in cement supply undertaken by WCC (and its competitors) in its regions of operation. Credit metrics improved as a result: LTM total debt/EBITDA declined to 1.6x (FY17: 2x). During the call, management suggested it would rather repay than refinance the \$400m 6.5% 2019 bond at maturity next September in order to save on interest.

Significative Primary Issues

EUR

<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>
Nexans SA	3.750%	2023	€325M	BB

US

<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>
HCA	5.375%	2026	\$1Bn	Ba2
Intelsat Connect	9.500%	2023	\$1.25Bn	CCC-

EM

<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Amount</i>	<i>Rating</i>
Powerlong	5.950%	2020	\$550M	B2
Sands China	5.400%	2028	\$1.9Bn	Ba1

Rating Moves

Constellium NV	Moody's	↗	B2
ENI SpA	S&P	↗	A-
Equinor	Moody's	↗	Aa2
Ford Moto Co	Moody's	↘	Baa3
Harley-Davidson Inc.	S&P	↘	BBB+
Schaeffler AG	S&P	↗	BBB-
XPO Logistics Inc.	S&P	↗	BB

Macro Economic Events

Germany: inflation slowed a little more than expected in August, falling to 1.9% yoy.

France: Prime Minister Edouard Philippe unveiled some of the measures included in the draft 2019 Finance Act aimed at curbing the deficit. The government's growth forecast for 2019 was lowered to 1.7% (as opposed to 1.9%), in line with IMF and Banque de France projections. As a result, the deficit can be expected to rebound in 2019.

United Kingdom: the Bank of England raised its key rate 25 bp, but warned it was in no rush to further its monetary tightening policy, due to the uncertainties surrounding Brexit negotiations.

Greece: Fitch raised its rating from B to BB-, with a stable outlook. According to Fitch, Greece's banking sector is getting better, adding that its relationship with its European creditors has substantially improved. In May, the unemployment rate dropped to under 20% for the first time since September 2011, coming out at 19.5%.

United States:

- US second-quarter growth was revised to 4.2% yoy, recording its best performance in nearly four years.
- Trump announced that the US and Mexico had reached a free trade agreement, set to replace NAFTA.
- despite the President's recently expressed fears on the consequences of a rate hike on US growth, the Fed reiterated at its monthly meeting that it would go ahead with two additional hikes by the end of the year.

Turkey: US-Turkey trade tensions hit a new high this month. Turkey filed a complaint with the WTO against the US, disputing the steel and aluminium tariffs imposed by the Trump administration. What's more, S&P downgraded the country's rating from BB- to B+, maintaining a stable outlook, citing lira volatility and pressure on Turkey's weakened institutions as threats to its financial situation and growth.

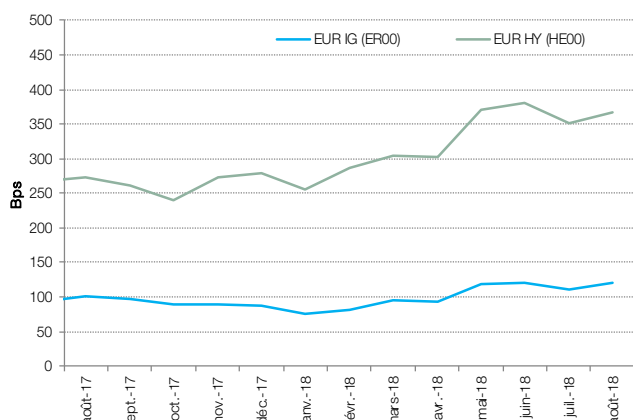
Market Data Indices		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	-0.20%	-0.35%	3.69	3.39%
JOA0	High Yield United States	0.72%	1.90%	4.02	6.29%
H7PC	High Yield Europe BB/B Excluding Financials	0.07%	0.28%	3.51	3.38%
JC4N	High Yield United States BB/B Excluding Financials	0.79%	1.48%	4.12	5.84%
HYEF	High Yield Emerging Countries Excluding Financials	-2.03%	-3.85%	3.59	8.13%
Investment Grade					
ER00	Investment Grade Europe	0.03%	-0.28%	5.06	1.01%
COA0	Investment Grade United States	0.54%	-1.87%	7.00	4.01%
EMIC	Investment Grade Emerging Countries	0.27%	-1.02%	5.19	4.11%
Governments					
10YGE	10-Year German Bond	1.14%	0.91%		0.33%
10YUS	10-Year US Bond	0.93%	-3.86%		2.86%

Inflation		August	July	June	6M	12M
Expected inflation						
EURO INF	Expected inflation for 2018 in Europe	1.70%	1.70%	1.60%	1.50%	1.50%
US INF	Expected inflation for 2018 in the United States	2.50%	2.50%	2.56%	2.30%	2.00%
Realized inflation						
EUR CPI	Realized inflation in Europe (rolling 12-month)	2.00%	2.10%	2.00%	1.10%	1.50%
US CPI	Realized inflation in the United States (rolling 12-month)	2.50%	2.90%	2.90%	2.20%	1.90%

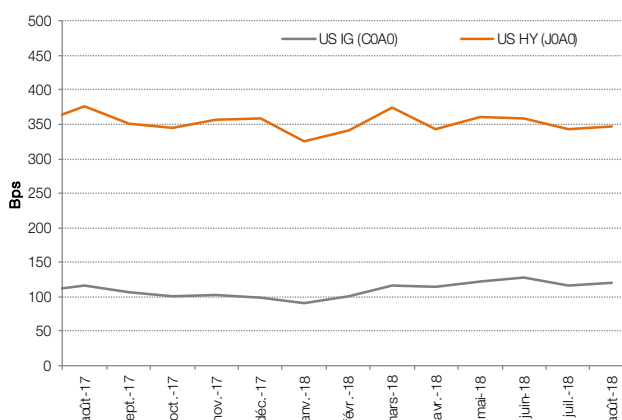
*MTD = Month-to-date, YTD = Year-to-date, DTW = Duration-to-worst, YTW = Yield-to-worst

Source : Merrill Lynch

EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		August	July	6 months	12 months
Europe					
ER00	Investment Grade Europe	119	110	79	99
HE00	High Yield Europe	368	351	290	281
ER30	Bonds rated A Europe	95	90	66	83
ER40	Bonds rated BBB Europe	150	137	97	121
HE10	Bonds rated BB Europe	290	271	218	229
HE20	Bonds rated B Europe	515	519	461	386
United States					
C0A0	Investment Grade United States	120	115	100	113
J0A0	High Yield United States	358	353	355	389
C0A3	Bonds rated A United States	94	92	80	89
C0A4	Bonds rated BBB United States	152	146	127	145
JUC1	Bonds rated BB United States	242	244	231	249
JUC2	Bonds rated B United States	383	375	361	399
Emerging Countries					
EMIC	Investment Grade Emerging Countries	167	156	131	148
HYEF	High Yield Emerging Countries	556	470	365	457
EMAQ	Bonds rated A Emerging Countries	126	122	107	120
EM2B	Bonds rated BBB Emerging Countries	222	205	167	189
EM3C	Bonds rated BB Emerging Countries	384	334	249	281
EM6B	Bonds rated B Emerging Countries	733	577	409	482

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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