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Asia-Pacific Credit Conditions Still Weak; Eyes Remain On China

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MELBOURNE (S&P Global Ratings) Oct. 12, 2016--Asia-Pacific's credit conditions remain weak, S&P Global Ratings said in a report published today titled, " Weakness Continues In Asia-Pacific Despite Easier Financing; Eyes Remain On China."

Credit trends in Asia-Pacific continued to be less favorable in the third quarter of 2016 with a net negative rating bias continuing as a result of the lag effect from the region's economic slowdown. However, financing and debt capital market conditions have generally stabilized and have swung back to life after volatile market conditions over the previous quarters.

"While stability in the financial markets is welcome, we are likely to continue to see investors on the fixed-income side being selective on asset classes, underlying credit risk, and country exposure with a focus on duration management," said S&P Global Ratings credit analyst Andrew Palmer.

S&P Global Ratings expects the negative momentum in Asia-Pacific's credit quality to continue in the remainder of 2016 in terms of rating downgrades and defaults because of the ongoing rebalancing of China's economy and commodity prices. In fact, the negative bias on Asia-Pacific issuers moved up to 13% in

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August 2016, from 11% in May 2016, despite recent rating downgrades, indicating that rating transition risk remains.

On the economic front, the third quarter has been relatively quiet for Asia-Pacific. Growth trends have been fairly stable and markets have been pretty calm. India and Japan have provided most of the fireworks. India passed a long-awaited good and services tax that should increase efficiency and the tax offtake, as well as boost growth prospects. Japan wobbled yet again as far as second-quarter GDP went, but the Bank of Japan rolled out a new set of initiatives in September including "yield curve control" that signaled a new determination to defeat deflation. Strong growth also continued in the Philippines and Vietnam.