

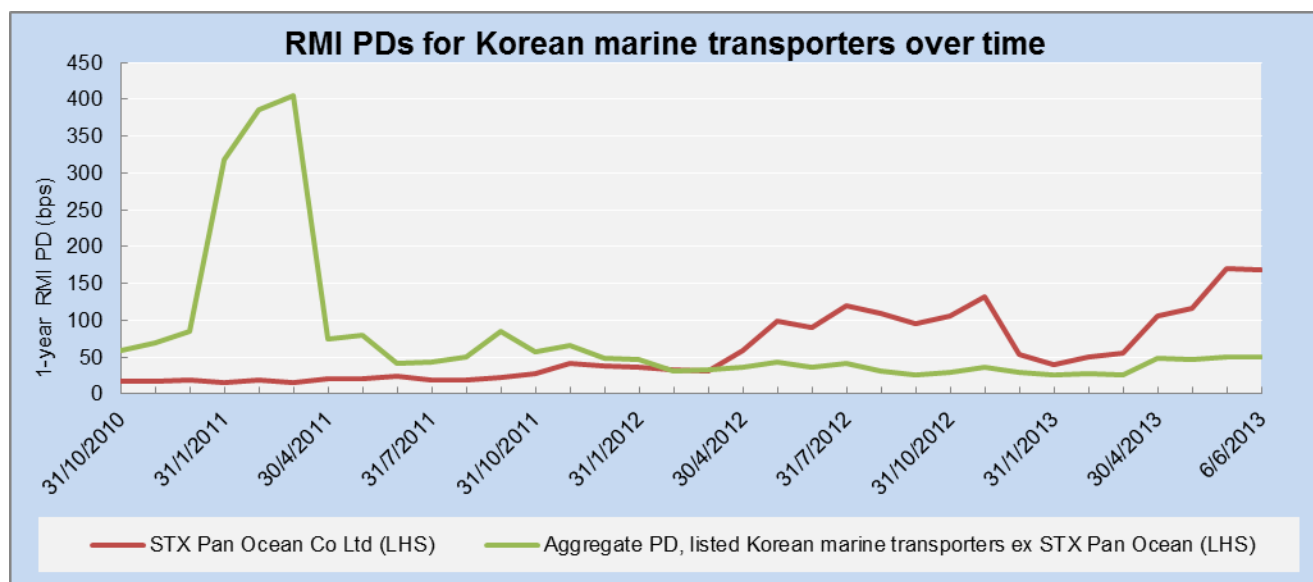


Story of the Week

STX marine transport unit files for court receivership

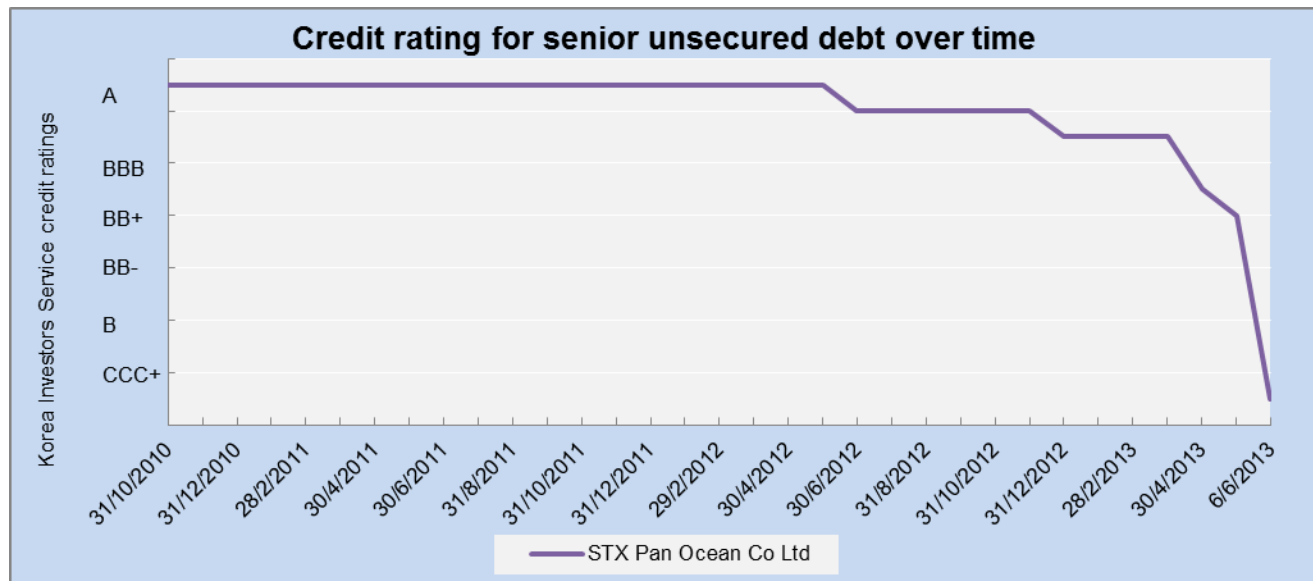
South Korea's largest dry bulk shipper, STX Pan Ocean Co. filed for court receivership on June 7. The firm reportedly faced a liquidity crisis as it was unable to raise sufficient funds after rates in the bulk shipping market fell significantly. The Baltic Dry Index, which tracks the cost of shipping raw material, is now around 805 points, compared with its record high of 11,793 points in May 2008. The decision by the firm's main creditor, Korea Development Bank not to buy its business, forced the STX dry bulk unit to file for bankruptcy.

The chart below shows the RMI aggregate 1-year probability of default (RMI PD) for the listed Korean marine transporters over the last few years. As shown in the diagram, the default risk for STX Pan Ocean has exceeded the sectoral average since April 2012. The firm's lower distance to default (DTD) level, lower earnings and cash to total asset ratios were among the factors which contributed to the higher than average default risk profile for the company. STX Pan Ocean accumulated losses of USD 437mn in the last two financial years and its net debt at the end of March stood at USD 3.1bn, or six times the company's equity. The company blamed the plunge in freight rates, sluggish industry recovery, oversupply of ships and elevated fuel costs for its state of loss.



The issues which STX Pan Ocean faced are a reflection of the broader shipping industry's problems. The Korean government is considering resuming the sale of its 17.15% stake in Daewoo Shipbuilding and Marine Engineering Co, the current third largest shipbuilder in the world. Korea's Financial Services Commission (FSC) became the second largest shareholder for the shipbuilder in February after Korea Asset Management passed on the part of its 19.1% stake to the FSC. Earlier in the year, Daiichi Chuo Kisen Kaisha also received a bailout from its largest shareholder Mitsui OSK Lines Ltd following large losses at the firm. In 2012, one of Japan's oldest shipping firms Sanko Steamship also filed for bankruptcy after the company struggled to restructure some USD 2bn in debt. Sanko Steamship joined the ranks of US based General Maritime Corp and South Korea's Korean Line in seeking bankruptcy protection.

STX Pan Ocean's senior unsecured debt is covered by Moody's affiliate Korea Investors Service. The CRA has been issuing ratings on the company's bonds since October 19, 2010, which were initiated at an investment grade "A" rating. The agency downgraded the bonds to speculative grade territory on May 30, 2013, only one week before its bankruptcy. The South Korean credit appraiser has slashed ratings on a number of cash-strapped firms in the last two months amid criticism that they inflated ratings and overlooked potential corporate failure to secure funding sources.



Sources:

[D-day dawns for STX Pan Ocean as bankruptcy protection looms](#) (Tradewinds News)

[STX Pan Ocean files for court receivership on debt, losses](#) (Bloomberg)

[STX Bankruptcy filing reflects global slump in shipping](#) (WSJ)

[Credit appraisers downgrade ratings on troubled firms](#) (Yonhap News)

In the News

Local currency bond boom in Asia

Jun 09. Asia's local currency bond markets expanded 12.1% YoY to USD 6.7tn at the end of March 2013, driven by double-digit growth in corporate bonds. The region's corporate bond market expanded 19.5% YoY and 4.6% QoQ to USD 2.4tn at the end of March. Meanwhile, the government bond market grew at an annual rate of 8.3% and a quarterly rate of 2.0% to USD 4.3tn. Indonesia led the region's corporate bond market growth over the first quarter, expanding 26.9% YoY to USD 20bn, followed by China, the region's largest corporate bond market at USD 1.1tn, which grew 25.3% YoY. ([Gulf News](#))

Indonesian firms rush to issue dollar debt offerings

Jun 08. As a result of the Rupiah's decline against the US dollar over the last year, Indonesian companies are rushing to issue more dollar denominated bonds even though the amount of foreign currency issues have more than doubled the amount of local currency bonds. Companies are issuing debt despite rising average borrowing costs. Issuers have sold USD 11.95bn of dollar securities so far in 2013, 2.4 times the equivalent of USD 5bn in rupiah notes. This ratio was 3.7 in 2009, after the global financial crisis triggered a 16% plunge in the rupiah in 2008. State-owned companies such as electricity producer PT Perusahaan Listrik Negara and infrastructure companies are expected to issue dollar debt issues by year-end. ([Business Times](#))

China money rates jump, partly on default talk; conditions tight

Jun 07. The bond repurchase rate in China surged to a multi-month high ahead of a national holiday, amidst tight liquidity conditions in the financial market. The 7-day repo rate soared to 6.68% on Friday from 5.32% the day before, the highest since January 2012; while the 1-day repo rate jumped to 8.45% on Friday from 6.15% on Thursday, the highest since October 2007. An unsubstantiated rumor of an interbank loan default by a mid-sized bank sparked the increase in rates. Apart from seasonal factors, a slowdown in capital inflows was also likely responsible for the rise in rates. ([Reuters](#))

Fed's USD 5.7tn gift imperiled on yield rise

Jun 07. Yields on US corporate and high yield bonds have been climbing for the sixth week. Investors sold longer dated corporate bonds leaving USD 146bn of investment grade bonds in the US with maturities greater than 10 years trading below par. Companies have borrowed USD 5.74tn through bond markets since 2008 after the Fed suppressed benchmark interest rates close to zero percent. The recent rise in yields suggest that bondholders may have become more discriminating in their purchases as policymakers consider tapering their monthly bond purchases. ([Bloomberg](#))

Brazil rating outlook cut to negative by S&P on sluggish growth

Jun 06. Standard & Poor's downgraded its outlook on Brazil's BBB credit rating to negative from stable, along with the outlooks for state-controlled oil company Petroleo Brasileiro SA and government-run utility Centrais Eletricas Brasileiras SA. The credit rating agency cited mediocre economic growth, loose fiscal policy and deterioration in the government's credibility as the rating rationale. Marcio Holland, the economic policy secretary at the Finance Ministry, said that Brazil's "fiscal policy is anti-cyclical" rather than expansionary, and there has been no change in economic policy. ([Bloomberg](#))

No devaluation pledge lost on peso bondholders

Jun 06. Holders of Argentine bonds are facing deeper losses as the peso weakens against the US dollar at a pace faster than the highest inflation in the Western Hemisphere after Venezuela. Yields on Argentina's benchmark peso-denominated 5-year bonds rose 2.97 percentage points to 11.83%, while bonds on emerging-market local debt climbed an average of 0.58 percentage points to 3.58%, after President Cristina Fernández de Kirchner declared that there will be no official devaluation of the peso. Economists have been questioning the validity of the official consumer price index since 2007, which showed YoY inflation at 10.5% in April, less than half of the 23.7% estimated by private economists for the same period. ([Bloomberg](#))

Nikkei sinks into bear market territory; JGBs gain ([Reuters](#))

Bond issuance to pick up in Saudi Arabia, Qatar ([Arab News](#))

India raises gold duty to deter soaring consumption ([Arab News](#))

RBI to come out with paper on banking structure ([The Times of India](#))

European junk bond issuance jumps to record ([Financial Times](#))

Cyprus's credit ratings downgraded by Fitch on uncertain outlook ([Bloomberg](#))

Poland cuts benchmark interest rate to record low 2.75% ([Bloomberg](#))

AirAsia X to raise up to USD 370mn in IPO to fund growth ([Bloomberg](#))

Singapore bonds decline as 10-year yields climb to 22-month high ([Bloomberg](#))