S&P Global Ratings

Asia-Pacific Sector Roundup Q1 2024

Slowing Dragons, Roaring Tigers

Nov. 7, 2023

This report does not constitute a rating action

Key Takeaways

- **Slowing dragons, roaring tigers.** Economic growth prospects are shifting from the East to the South. We expect the economic growth of Hong Kong (largest percentage point fall), Japan, Australia, and mainland China to slow in 2024 because of trade and higher interest rates. We anticipate Indonesia will hold steady. Meanwhile Taiwan (largest percentage point gain), Vietnam, New Zealand, Singapore, South Korea, Philippines, India, Thailand and Malaysia could speed up. The prospects for industries also differ with export-centric manufacturing faring worse.
- **Near-balanced rating bias.** While our ratings outlook bias is nearly balanced at net negative 1%, sector outlooks diverge. The net negative bias is worse for building materials, real estate investment trusts, business services, public finance, technology, real estate development, transportation cyclical, capital goods, and media and entertainment. Middling for hotels, gaming, and leisure; consumer products; auto; sovereign; transportation infrastructure; utilities; and insurance. Neutral to positive for chemicals, metals and mining, telecommunications, financial institutions, oil and gas, and retail.
- **Risks to outlook.** High risks include (1) troubles in China's property sector, weak business and consumer confidence, and high debt levels; (2) steep interest rates exacerbating the debt-servicing burden of highly leveraged borrowers; (3) harder-than-expected landing of the global economy, further depressing demand and exports; and (4) borrowers' lack of ability to fully pass on inflated costs to customers. Intensifying geopolitical tensions is an elevated risk. Uncertainty about Japan's monetary policy and additional real estate sector cash flow challenges (beyond current ones) are moderate risks.

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China plus one. With China's dampened economic prospects, corporates and investors are looking at other emerging markets (the "plus one") to set up operations and invest. While it's still early days, the development implies that the center of gravity of credit activity in Asia-Pacific may be shifting from China to South and Southeast Asia. This shift could be as profound as when the economic center of gravity moved in the late 20th century from Japan to China. The current shift is already showing up in near-term economic prospects, industry outlooks, and credit conditions risks of the region.

China's struggling economy. Demand for new properties has fallen amid the country's slow economic recovery and would-be buyers' doubts on the ability of property developers to deliver new apartments on time. This is hitting property developers' cash flows and land purchases, a key source of revenue for local and regional governments (LRGs). The fiscal constraints of these LRGs diminish their ability to support local state-owned enterprises (SOEs) and local government financing vehicles (LGFVs), intensifying liquidity strains. A waning propensity to spend among businesses and households results in a weaker economic growth outlook for China. Weaker Chinese demand is stifling Asia-Pacific's credit conditions, given export dependency (see "Credit Conditions Asia-Pacific Q4 2023: China Downside Risk Is High," Sept. 26, 2023). In the event that China's property crisis deepens in a downside scenario, the country's growth momentum could contract further (see "China Growth Could Fall Below 3% If The Property Crisis Worsens," Oct. 24, 2023).

Overleveraged SOEs. High leverage and faltering liquidity among some Chinese LGFVs could spill over to Chinese regional banks, which may cause a capital hit that could spread over many years (see "LGFV Strains May Inflict A RMB2 Trillion Hit On China Regional Banks," Oct. 18, 2023). Concurrently, the more leveraged SOEs and government linked companies (GLCs) across Southeast Asia and India could see debt restructurings pick up as government support becomes increasingly selective (see "Southeast Asian And Indian SOEs/GLCs: Watch For Support Amid Rising Leverage," Nov. 1, 2023).

Costlier borrowing. Interest rates are likely to stay higher for longer as central banks in major economies (including the U.S. Federal Reserve and the European Central Bank) focus on reining in inflation. For those borrowers with impending or sizable refinancing needs, high borrowing costs and tighter credit availability from lenders are prominent risks. While onshore funding options remain accessible, often cheaper than offshore, these too could turn selective. Outside China and Vietnam, property markets across emerging Asia could see gradual and manageable price adjustments due to tighter lending conditions, slowing economic activity, and cyclical factors (see "Which Emerging Market Banking Sectors Are Vulnerable To Property-Related Losses?," Nov 2, 2023). Meanwhile, rising interest rate differentials with the U.S. could see capital outflows for the region's economies, putting pressure on domestic currencies.

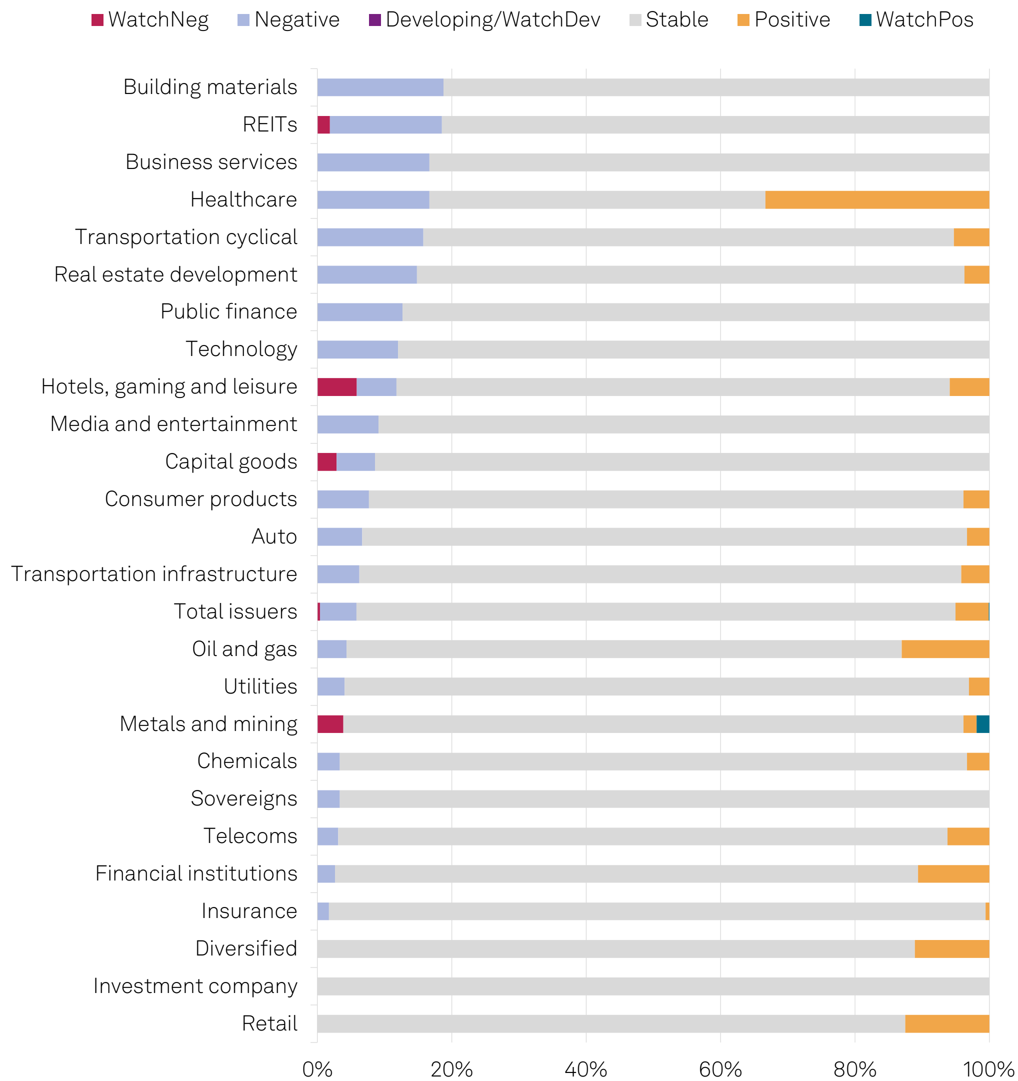
Sticky core inflation. High energy and food prices are keeping core inflation pressures elevated for most Asia-Pacific economies--largely driven by domestic currency weaknesses, geopolitical tensions, and lower agricultural yield. Cautionary behavior among consumers means softer discretionary spending. For consumption-dependent sectors--notably retail--this means increasingly limited room to pass through higher costs. Elsewhere, subdued global demand is squeezing margins in the capital goods and chemicals sectors, amid difficulty in passing through high input costs.

Widening scope of geopolitical tensions. International tensions have intensified following the recent Middle East conflict (see "Credit Conditions: War In Middle East Compounds Global Geopolitical Risks," Oct. 18, 2023). This adds to ongoing diplomatic frictions between China and the U.S. (and its partners), and territorial disputes around the South China Sea. In particular, the U.S.'s widening export restrictions within the advanced technology sector and the introduction of tax incentives under the U.S. Inflation Reduction Act could compel businesses to diversify supply chains (see "Asian Battery Makers Are Shifting Strategies To Hold Onto Global Lead," Oct. 5, 2023). However, such moves pose higher economic and operational costs.

Longer-term risks. Climate change and rapid technological advancements are disrupting business models. To prepare for these risks, businesses are incurring higher capex investments (notably in the oil and gas, aviation, and utilities sectors for the energy transition), leading to rising debt leverage. Concurrently, increasingly extreme weather (such as flooding and high temperatures across Asia) could mean some assets become uninsurable; it could also threaten agriculture production and affect energy supply. Collectively, these raise the possibility of another bout of global inflation.

Chart 1

Outlook distribution of Asia-Pacific issuers by sector



Data cut-off is as of Oct. 16, 2023.
Source: S&P Global Ratings.

Table 1

Net outlook bias of Asia-Pacific issuers by sector, Oct. 16, 2023

	Oct. 2022	Feb. 2023	May 2023	Aug. 2023	Oct. 16, 2023	No. of entities	Notional average rating
Auto OEM and suppliers	0%	-6%	-3%	-6%	-3%	30	BBB
Building materials	-7%	-7%	-13%	-19%	-19%	16	BBB-
Business services	-8%	-8%	7%	-8%	-17%	12	BBB-
Capital goods	-11%	-8%	-6%	-9%	-9%	35	BBB
Chemicals	0%	0%	-3%	-3%	0%	30	BBB
Consumer products	-3%	7%	0%	-4%	-4%	26	BBB
Diversified	0%	6%	17%	6%	11%	18	A-
Healthcare	-29%	-14%	-14%	0%	17%	6	BB+
Hotels, gaming, and leisure	-20%	-22%	-12%	-6%	-6%	17	BB
Investment company	0%	0%	0%	0%	0%	6	A
Media and entertainment	-11%	-9%	-9%	-9%	-9%	11	BBB
Metals and mining	12%	15%	13%	4%	0%	52	BB+
Oil and gas	-4%	0%	9%	9%	9%	23	BBB+
Real estate development	-28%	-23%	-13%	-14%	-11%	27	BBB-
Real estate investment trusts	-13%	-10%	-15%	-19%	-19%	54	BBB+
Retail	-6%	6%	6%	13%	13%	16	BBB+
Technology	-5%	-10%	-12%	-10%	-12%	50	BBB
Telecommunications	0%	0%	3%	0%	3%	32	BBB
Transportation cyclical	-17%	-17%	-17%	-17%	-11%	19	BBB
Transportation infrastructure	-4%	-6%	-6%	-6%	-2%	48	A-
Utilities	-6%	-8%	-7%	-3%	-1%	99	A-
Total corporates	**-6%**	**-5%**	**-4%**	**-5%**	**-4%**	**627**	**BBB**
Financial institutions	6%	5%	5%	8%	8%	377	BBB+
Insurance	-11%	-9%	-8%	-8%	-1%	172	A
Public finance	-9%	-14%	-11%	-13%	-13%	79	AA-
Sovereign	-7%	-3%	-3%	-7%	-3%	30	BBB+
Total issuers	**-3%**	**-3%**	**-2%**	**-2%**	**-1%**	**1,285**	**BBB+**

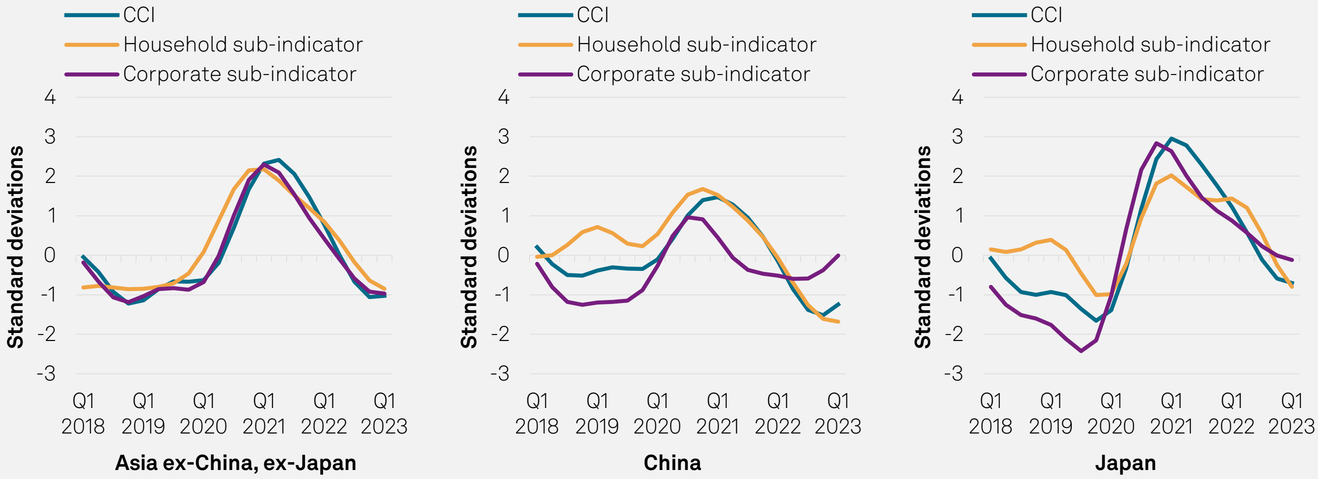
We calculate the net outlook bias by deducting the percentage of negative outlooks and CreditWatch negative listings against the percentage of positive outlooks and CreditWatch positive listings. A minus figure indicates that the former exceeds the latter, and a positive figure, vice versa. OEM--Original equipment manufacturer. Teal colored cells indicate improvement from prior period, red, deterioration. Source: S&P Global Ratings.

Credit Cycle Indicator

Turning point: Asia-Pacific credit conditions could see an upturn in 2025

Chart 2

The credit correction is likely to continue into 2024 before an upturn plays out



Peaks in the CCI tend to lead credit stresses by six to 10 quarters. When the CCI's upward trend is prolonged or the CCI nears upper thresholds, the associated credit stress tends to be greater. Sovereign risk is not included as a formal part of the CCI. Sources: Bank for International Settlements. Bloomberg. S&P Global Ratings.

Asia-Pacific. While our Credit Cycle Indicator (CCI) for Asia ex-China, ex-Japan is showing early signs of troughing, we expect an upturn only in 2025. Meanwhile, headwinds from a slower China and lagged effects of rapid rate hikes could prolong the ongoing credit correction into 2024. With interest rates poised to stay higher for longer, tight financing conditions exacerbate liquidity pressure on weaker credits. Concurrently, lenders could turn risk averse and become more selective. High mortgage interest rates could slow property demand, risking a property sector correction. A rapid intensifying of property strains could implicate banks, narrowing credit availability. For more details about our proprietary CCI, see "White Paper: Introducing Our Credit Cycle Indicator," June 27, 2022.

China. The China CCI shows a pronounced inflection, stemming largely from a rise in the corporate sub-indicator as the country contends with slowing growth and rising corporate debt since its exit from COVID lockdowns. Meanwhile, China's ongoing property crisis is hitting confidence and dampening the propensity for households to spend (see "China Property Watch: A Slow, Sequential Recovery In 2024", Oct. 16, 2023), as reflected in the declining household sub-indicator.

Spillover risks around China's corporate leverage, especially that of the country's state-owned enterprises (SOEs) remain pronounced (see "Global Debt Leverage: China's SOEs Are Stuck In A Debt Trap," Sept. 20, 2022 and "Global Debt Leverage: What If Chinese Corporate Earnings Further Decline?," Oct. 18, 2023). This is especially true for weaker and liquidity-strained SOEs and local government financing vehicles. The pressure they exert on local government resources, which are already squeezed by lower land sales (see "China Growth Could Fall Below 3% If The Property Crisis Worsens," Oct. 24, 2023), raises the specter of selective credit stress for individual banks (see "LGFV Strains May Inflict A RMB2 Trillion Hit On China Regional Banks," Oct. 18, 2023). However, we think broad and significant policy stimulus measures by the central government is unlikely.

Japan. The Japan CCI continues its decline from peak of three standard deviations, as seen in the first quarter of 2021. This reflects the broad downward trend in both the corporate and household sub-indicators.

The pace of Japan's gross nonfinancial corporate debt build-up has slowed, following the sharp uptick during the onset of COVID. With global economic conditions softening and U.S. interest rates staying higher for longer, corporates may seek more onshore debt (given prevailing interest rate differentials) to prefinance maturing debt and build cash positions. We expect the Bank of Japan to embark on a mild policy rate increase in 2024 (see "Economic Outlook Asia-Pacific Q4 2023: Resilient Growth Amid China Slowdown," Sept. 25, 2023). The country's economic growth remains supportive, but domestic currency weakness could entail higher imported inflation, particularly around energy. Funding and liquidity pressures could mount for companies with relatively low creditworthiness (typically small to mid-sized [mostly unrated] companies), given their susceptibility to financial market conditions (see "Japan Corporate Credit Spotlight: Scant Room For Improvement," Oct. 18, 2023).

Macroeconomic Outlook

Resilient growth amid China slowdown

- We expect China will continue to pursue calibrated policy support following a property-driven downturn. Strong third quarter growth means there is upside risk to our 4.8% growth forecast for 2023 but we expect growth to ease to 4.4% in 2024.
- While the rest of the region is slowing on weaker global trade and higher interest rates, our projected GDP growth of 3.9% in 2023 reflects domestic resilience. Growth should rise to 4.4% in 2024 on somewhat better external demand and some monetary policy easing.
- Rising food and oil prices along with lingering capital outflow risks bolster the case for central banks to take their time in lowering policy rates, despite progress in curbing core inflation.

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A soft landing in the U.S. and Europe is possible but not certain. Recent developments suggest that the likelihood has risen that policymakers in the U.S. and Europe can lower inflation without causing a substantial downturn. But risks remain.

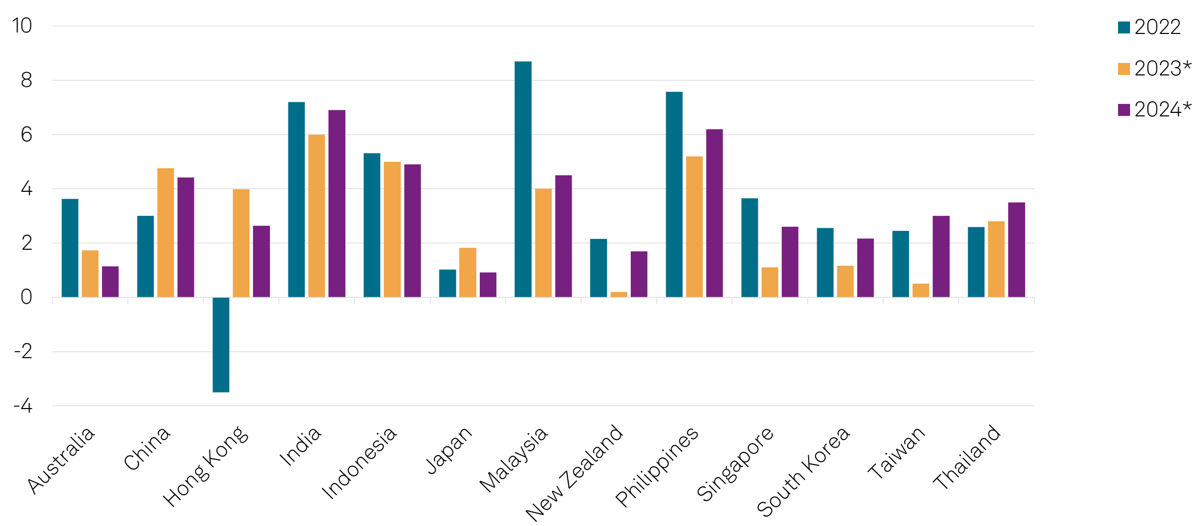
Still, global interest rates are likely to remain high. The decline in U.S. inflation toward the Fed's 2% target will be gradual. As a result, we expect its policy interest rate to remain elevated for most of 2024, implying that the strain on Asia-Pacific markets and currencies will likely persist into 2024.

In China, following a weak second quarter, growth improved in the third quarter. This was in part due to a range of policy measures to support growth. Fiscal and monetary easing has remained limited, and we don't expect major macroeconomic stimulus, given policymakers' focus on containing financial risks. But the measures are starting to add up, especially in real estate. And the government in late October announced an uncommon additional issuance of central government bonds to finance infrastructure spending by local governments.

Chart 3

Growth to be mostly solid in 2023 but lowest where exposure to trade or rate hikes is highest

GDP growth, %, y-o-y



*Indicates forecast. Sources: CEIC. S&P Global Ratings Economics.

While China's outlook has improved, obstacles remain. The better third quarter outcome and fiscal expansion imply upside risks to our GDP growth forecast of 4.8% for 2023. Still, with the property sector struggling and confidence subdued, the growth outlook remains cloudy. Our base case projects GDP growth in 2024 of 4.4% but our downside scenario (with a 20% probability) implies 2.9% growth (see "China Growth Could Fall Below 3% If The Property Crisis Worsens," Oct. 24, 2023).

Asia-Pacific ex-China has shown resilience. Our estimates suggest that seasonally-adjusted monthly export volumes have bottomed out in Japan, South Korea and, especially Taiwan. However, slowing global demand is weighing on exports and, judged by the moderate global growth prospects, the export recovery will be modest. Still, domestic economies have been resilient amid interest rate increases. A resumption of robust domestic demand growth in emerging markets and strong labor markets in developed economies have provided support.

Following a slowdown in 2023, we expect a modest pick-up in growth in 2024. Growth momentum remains especially robust in relatively domestic demand-led emerging market economies. India continues to lead. Overall, we expect the region excluding China to grow by 4.4% in 2024, compared with 3.9% in 2023, with the pick-up due to a gradual improvement in external demand and some monetary policy easing.

Renewed inflation pressure has mostly been contained. In 2023, sequential core price increases eased in most Asia-Pacific economies, paving the way for headline year-on-year inflation to decline. The impact of recent increases in international prices of oil and food on overall inflation has so far remained modest, especially in terms of core inflation momentum. This has limited the need for a new round of monetary tightening.

However, sequential core inflation momentum has picked up again in Australia. In the Philippines, core inflation has remained moderate so far. But hefty food price increases, in part driven by rice price hikes, spurred the central bank to raise rates again there in October.

The recent increase in Bank Indonesia's policy rate underscores the influence of the high U.S. interest rates. Inflation is manageable in Indonesia. But the central bank wanted to support the rupiah amid capital outflow pressure.

While policy rates in most economies have been on hold in this setting, we don't expect policy interest rates to come down significantly soon. In addition to the lingering challenges on the inflation front, this is because we don't see U.S. interest rates falling soon. The high U.S. rates pose capital outflow risks for the region.

Despite higher inflation, wage growth, and global interest rates, the Bank of Japan (BOJ) takes its time in tightening monetary policy. A premature tightening would unduly hurt economic growth and possibly trigger fiscal pressure. The BOJ will only increase rates if it sees a sustained rise in consumer inflation to at least 2% in coming years, supported by a sustained rise in wage growth amid solid demand growth in the economy.

While there are tentative signs that underlying wage growth and inflation are picking up, it remains unclear whether the wage growth is strong enough and will be sustained. We expect a small increase in the policy rate to 0% in 2024. We think a further adjustment or removal of yield curve control is likely before any policy rate change.

Risks remain. Key risks to growth stem from possibly slower growth in the West and China. Significant further increases in global energy and commodity prices would stoke inflation and external deficits and possibly fuel renewed depreciation pressure on currencies amid elevated U.S. interest rates.

Financing Conditions

Getting tighter

- Higher-for-longer rates globally are affecting Asia-Pacific through capital outflows, currency weakness, offshore funding costs, and additional hiking pressure on local central banks.
- Offshore bond markets are becoming increasingly expensive, with little to no access for lower-rated issuers. This continues to highlight refinancing risks for borrowers with foreign currency debt coming due.
- Local currency borrowing remains available, and onshore costs have risen more slowly than offshore costs. However, even bank credit growth is slowing on the back of lower demand for borrowing and tighter lending standards in select sectors or regions.

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The global rate environment continues to squeeze both offshore and onshore funding costs. The region has seen capital outflows in the past few months amid a strong dollar. This stems from markets' acceptance of a higher-for-longer narrative for global rates, leading to less beneficial yield differentials of Asia with respect to the U.S. or Europe. Year-to-date, currencies are weaker across the board. This affects offshore borrowing costs directly and puts additional pressure on regional central banks to increase or maintain tight monetary policy stances.

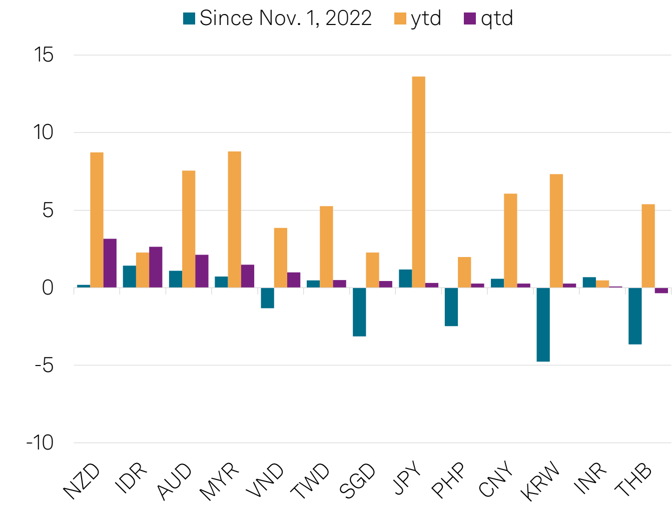
Offshore bond markets are becoming more expensive and are highly selective. Asian investment-grade dollar bond yields are up 74 basis points year-to-date, largely in line with five-year U.S. Treasuries. There are further upside risks if a second round of supply-side price shocks spills over into developed economies' core inflation. The region's high-yield dollar bonds, on the other hand, have largely trended sideways despite some extra volatility. However, we believe this is more a reflection of the lack of supply of speculative-grade bonds over the past two years than of stability. As such, high-yield bond pricing provides little signal at the moment. A much stronger gauge of the tight offshore financing conditions for speculative-grade issuers is their lack of access to primary markets, resulting in two years of rare primary market bond issuance. As the maturity wall for speculative grade rises, most markedly so in late 2025 onward, dollar refinancing risks will continue to be a watchpoint for speculative-grade issuers.

Local currency credit remains available, but is growing at a slower rate. In the big domestic bond markets, corporate bond yield increases have been lower relative to the U.S. This has led to strong local currency bond issuance, at least partially alleviating funding cost pressures. Furthermore, banks are still generally able and willing to lend. However, interest rate increases by local central banks have also begun to affect demand for bank credit, resulting in slower credit growth this year. We also indicated some sectors where lenders might be starting to tighten lending standards--China property and local governments in lower-tier cities, and Korean households.

Chart 4

Asia-Pacific currencies weaker across the board

Depreciation (%)

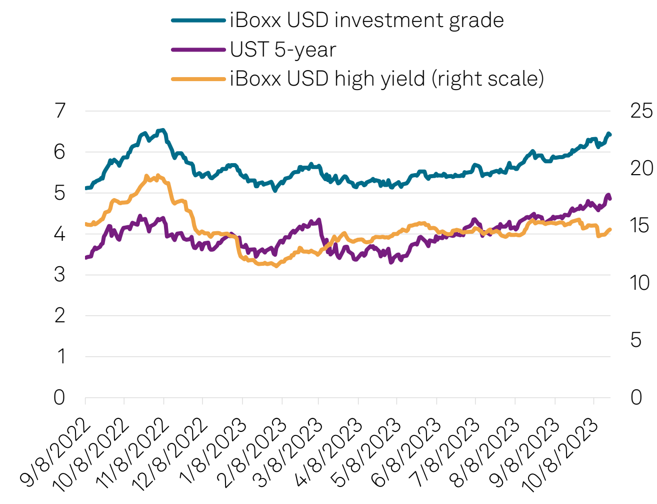


Data as of Oct. 20, 2023. Sources: S&P Global Market Intelligence. S&P Global Ratings Credit Research and Insights.

Chart 5

U.S. dollar benchmark rates pushing up Asian offshore financing costs

Yield to maturity (%)

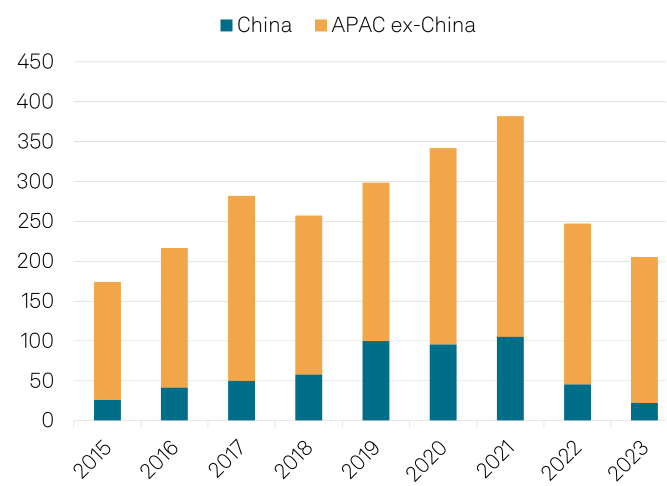


Data as of Oct. 20, 2023. Sources: S&P Global Market Intelligence. S&P Global Ratings Credit Research and Insights.

Chart 6

APAC offshore bond issuance volumes, Jan.-Sept.

Bil. US$



Data as of Oct. 20, 2023. Includes nonfinancial and financial entities. Sources: Refinitiv. S&P Global Ratings Credit Research and Insights.

Chart 7

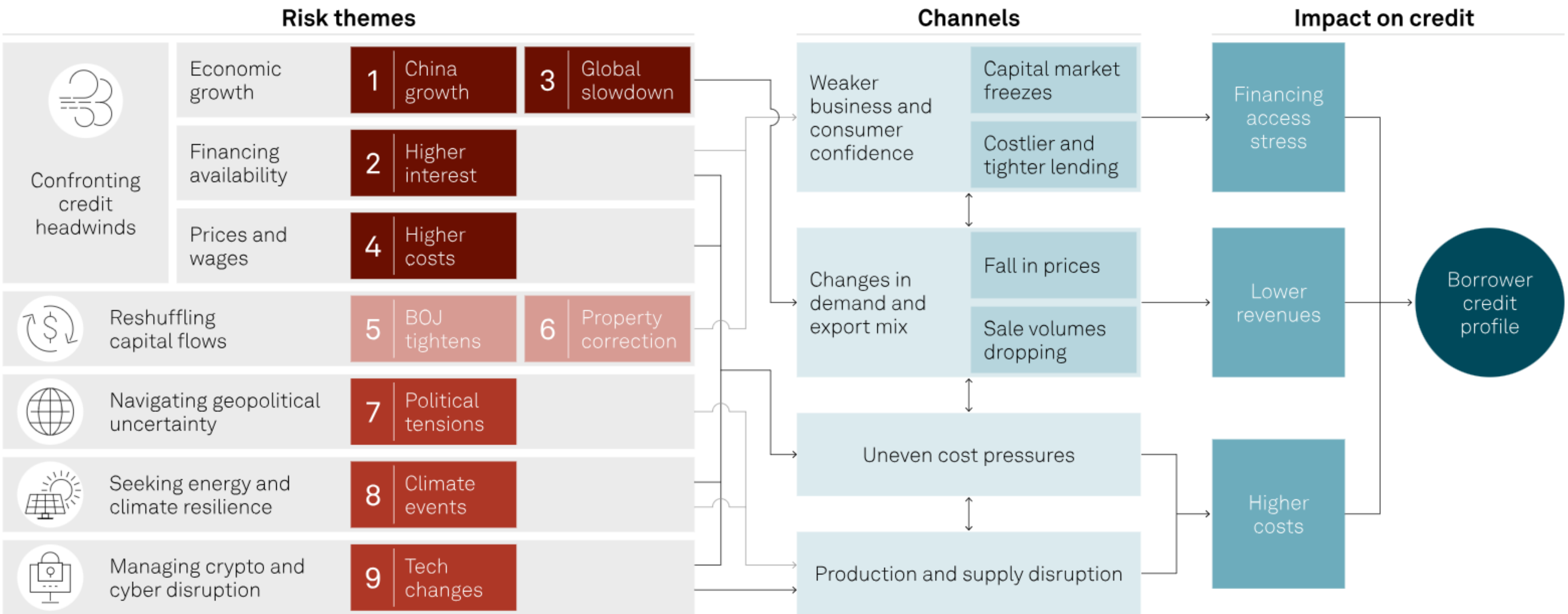
APAC rated bond issuance volumes, Jan.-Sept.

Bil. US$

Data as of Oct. 20, 2023. Based on issue-level ratings. Includes both nonfinancial and financial entities. Sources: Refinitiv. S&P Global Ratings Credit Research and Insights.

Chart 8

How risks affect credit



BOJ--Bank of Japan. Not all relationships are displayed. Rank-numbered risks are discussed in our "Credit Conditions Asia-Pacific Q4 2023: China Downside Risk Is High" report; colors denote risk levels: brown--high, red--elevated, light red--moderate. Source: S&P Global Ratings.

Auto

Carmakers to steer through demand volatility and electrification

What do we expect over the next 12 months?

- Credit profiles for most rated Asia-Pacific auto companies will remain stable in 2024. This is despite decelerating growth and less favorable pricing.
- Modest volume expansion, continuous mix improvement and easing supply-chain disruptions will likely enhance their financial metrics in general.
- That said, electrification will continue to weigh on select carmakers' profitability and cash flow.

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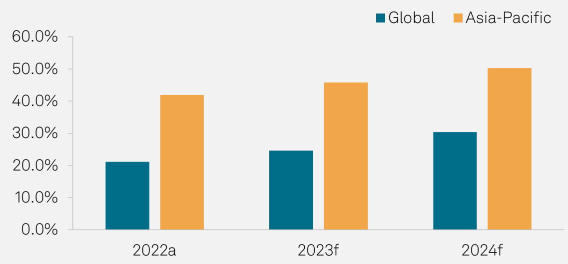
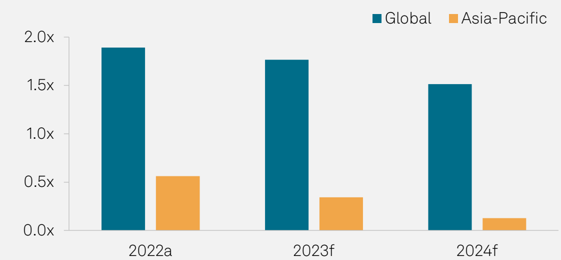
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast. Source: S&P Global Ratings.

What are the key risks around the baseline?

Tough macro conditions. Continued weakness in China's property sector and no significant government stimulus could slow economic growth further in China, keeping consumers cautious on spending big-ticket items. In the U.S., stubborn inflation and resilient demand could keep rates higher for longer, dampening affordability. In Europe, a pronounced downturn in the labor market could push the economy into a recession.

Electrification shifts the competitive landscape. With the rising adoption of electric vehicles in China, local brands have been gaining market share while international brands (which are normally laggards in electrification) are losing edge. The ability to roll out competitive electric vehicle products at affordable prices will test the competitiveness of Japanese carmakers in China over the next three to five years.

What do they mean for the sector?

Soft demand outlook. Considering fragile consumer sentiment, we have turned slightly more conservative on auto demand in China. We now expect the country's domestic light-vehicle sales to grow by 0%-2% in 2024, versus our previous assumption of 2%-4%. We also anticipate growth to slow substantially to a similar range in the U.S. and Europe, from about 10% this year, because pent-up demand has largely been met and persistent inflation and high interest rates are starting to bite.

Margin pressure elevated. Muted growth will heighten competition and prolong the price war in China. In the U.S., new vehicle prices will be dragged down by declining used-vehicle prices and consumer preferences for lower-trim versions and more entry-level segments. These factors, combined with rising electric vehicle sales, will weigh on carmakers' margins. Our base case factored in modest margin improvement for most rated Asia-Pacific carmakers in 2024 due to higher volumes, mix optimization, and improving operating efficiency. Nonetheless, risk is tilted toward the downside given demand uncertainty and fierce competition.

Building Materials

Asia-Pacific producers brace for market volatility

What do we expect over the next 12 months?

- The satisfactory competitive position and sufficient financial headroom of most rated Asia-Pacific building material companies will help them manage demand uncertainty, and steady their creditworthiness.
- Chinese producers' demand and financial performance may stay sluggish in 2024. We foresee weak demand and excess supply in lower-tier cities causing an extended L-shaped recovery in property sales.
- Korean producers' operating performance faces a test: construction companies are turning more selective about project starts, and housing-market sentiment remains weak amid rising interest rates. The Australian market will remain healthy, with a strong pipeline in the residential sector as growth in net overseas migration supports housing demand and public sector investment improves.

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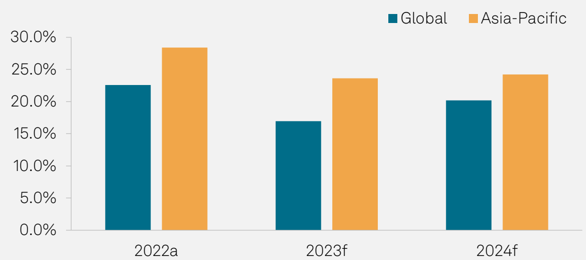
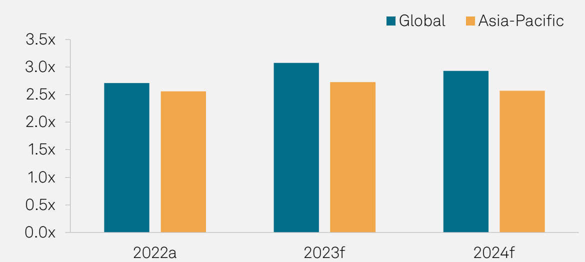
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

A slow recovery in the Chinese property sector, and high interest rates outside of China. China's property sales may linger at around RMB 11-12 trillion in 2023 and 2024. This reflects our base case assumptions that sales in 2024 will further decline by 5%, following a 10%-15% decline this year. Infrastructure growth momentum could also moderate in 2024 because of more disciplined spending, due to an increasing focus on debt risk and investment sustainability. Outside China, prolonged high interest rates continue to weaken housing market sentiment.

Still-high input costs and extreme weather. This includes high raw material and labor costs stemming from inflation, supply constraints, and geopolitical risks outside China. Extreme weather may also cause supply-chain bottlenecks and delays in construction activities.

What do they mean for the sector?

Demand pressure. Subdued economic growth and weak homebuyer confidence in China would dampen investment into new properties, hitting construction and demand for building materials. Weak housing market sentiment due to sustaining-high interest rates outside China will have the same impact.

Margin squeeze. Still-high raw material prices would constrain building material companies' profitability. Constraints on coal supply in China because of tightened safety measures may keep producers' energy input cost high. Chinese players may face greater strains on profitability among regional peers because of limits on their ability to raise prices amid sluggish demand.

Capital Goods

Slow recovery in China dampens earnings outlook

What we expect over the next 12 months

- A slow recovery in China and some end-markets slashes the earnings outlook in Asia-Pacific.
- Key risks include high interest rates and a global economic slowdown hurting corporate customer sentiment in terms of capital spending, in turn impeding the recovery of key leverage measures.
- The demand outlook and degree of margin protection, as well as cash flow management, will be key drivers of credit quality.

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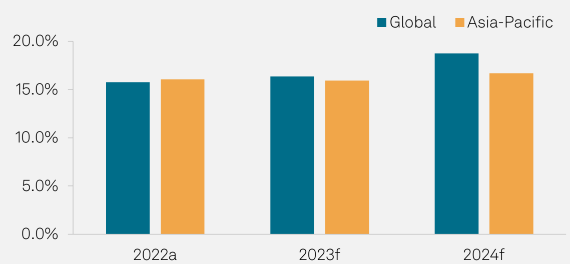
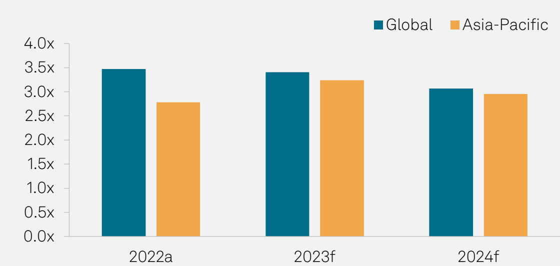
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Slower recovery in China and some end-markets. The weak property sector and slow consumption spending in China should dampen demand among the Chinese corporate sector for capital goods. Delays in demand recovery in some end-markets, such as semiconductors and factory automations for manufacturing, means slower capex investments by corporate customers.

Global economic slowdown. Although demand outlook in the U.S. still looks healthy, it is getting weaker for European economies. High interest rates should cool capital spending by corporate customers and the construction sector, especially in Europe. Some Asia-Pacific capital goods companies--especially Japanese ones--have exposures to the European market. A weaker macroeconomy will erode EBITDA and cash flow, potentially hurting credit metrics.

What do they mean for the sector?

Margin pressure. Weaker demand and soft sales, together with a lower ability to pass on costs, would prevent Asia-Pacific companies from improving EBITDA and margins.

Delayed improvement in cash flow metrics. Given our continued expectation for weak economic conditions, we assume capital goods companies will manage capital spending and growth investment when necessary. However, if the economic outlook weakens further, cash flow ratios could deteriorate.

Chemicals

Sluggish demand continues to dog Asia's chemical market

What do we expect over the next 12 months?

- Slow demand growth could limit earnings recovery for chemical companies in 2024.
- Product spreads for commodity chemicals are likely to stay weak, albeit improving gradually in the coming quarters.
- As profit stabilizes, so should leverage.

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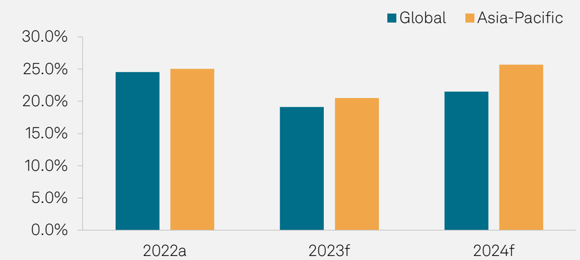
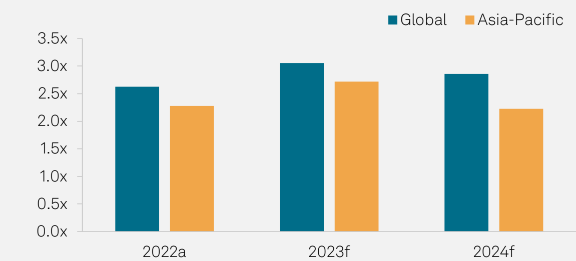
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Stalling market demand. A persistent slump in China's property market and exports could prevent a meaningful rebound in chemical demand.

A weaker ability to pass through costs. Rising crude oil prices could again hurt the ability of commodity chemical companies to pass through product costs if demand does not pick up sufficiently to support higher chemical prices.

Persist overcapacity. Aggressive capacity additions in China in combination with weak demand could keep utilization low, adding additional pricing and cost pressures to Asia's chemical companies.

What do they mean for the sector?

Depressed profitability. A recovery in chemical companies' profitability could stall in 2024, keeping the level of profitability materially below the average of past cycles.

Higher leverage. Leverage could rise on continued capex if profitability does not improve as we assume.

Thinner financial buffer. Most rated entities' leverage will remain within their ratings triggers, despite thinner financial buffers. Some issuers running out of financial buffer could face increasing downside pressure on ratings over the next 12 months.

Consumer Products

Markups remain supportive, but a slower recovery in performance ahead

What do we expect over the next 12 months?

- Subdued real income for recent inflation and slowing growth for the Chinese economy weigh on consumption, deflating the post-pandemic recovery momentum.
- Pressure on profitability moderates thanks to ongoing markup efforts by consumer goods companies and lower input cost inflation.
- Prudent financial policies will support credit profiles of consumer-product companies.

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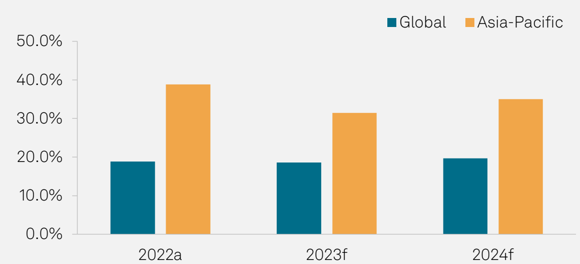
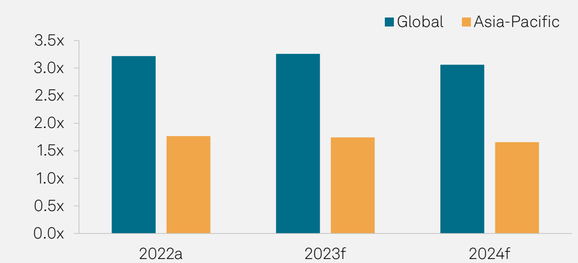
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Note: All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Price competition intensifies. This adds to margin pressure following a series of increases to input costs. Where higher prices do pass through, this could benefit private-label brands--as consumers tend trade down to cheaper, no-brand goods in such circumstances.

Subdued spending in China. Consumer confidence remains weak due to slowing economic growth. Continued uncertainties in the real estate sector also sap consumers' spending appetite. Households may reduce their discretionary spending further, should the country's property crisis worsen and further hit confidence.

Souring financing conditions. Growing refinancing costs stemming from unfavorable exchange rates, along with higher interest rates, weigh on companies with a highly leveraged capital structure.

What do they mean for the sector?

Brand equity matters. An ability to pass on higher costs hinges on a company's ability to offer differentiable value to consumers. High value and a differentiated offering enable a firm to protect its profitability amid intensified price competition and elevated input costs.

Sluggish recovery in performance. Consumer goods companies operating in China, especially those in discretionary areas, could face a slower recovery in profitability than others. A further reduction in household discretionary spending, depending on the extent of the property crisis' hit to consumer confidence, could hamper their credit headroom.

Slower debt growth. Higher funding costs urge highly leveraged companies to adopt prudent financial policies. Tough economic conditions also encourage companies to focus more on their core businesses than large M&A transactions.

Financial Institutions

On track

What do we expect over the next 12 months?

- Our base case for 2024 is that most rating outlooks are likely to remain stable, noting that risks generally remain on the downside.
- A downside scenario outside our base case of much weaker-than-expected economic growth and higher-than-anticipated interest rates will test borrowers, and ultimately rating outlooks on financial institutions.
- Most banks can absorb property stresses at current rating levels. Commercial property sector stress is unwinding in China and Vietnam, which could be problematic for banks' asset quality in these jurisdictions.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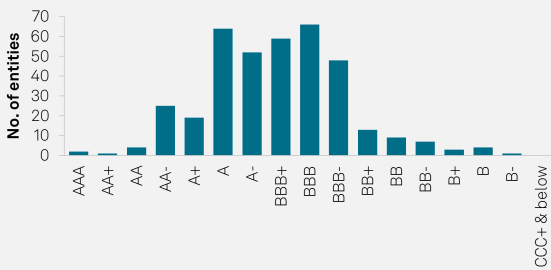
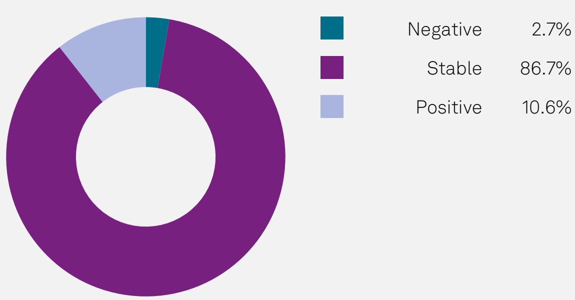


Outlook distribution



As of Oct. 16, 2023. Source: S&P Global Ratings.

What are the key risks around the baseline?

Economic downside risks intensify. Banks' net interest margins benefit from higher interest rates, but materially weaker economic prospects or higher-for-longer interest rates will eventually hurt banks' asset quality. This is especially the case amid already highly leveraged corporate, household, and government sectors, and the region's property markets that are experiencing pockets of stress.

Confidence sensitivity. While funding and liquidity risks in the wake of Credit Suisse and U.S. regional bank failures in the first half of 2023 have clearly moderated, they are a timely reminder of the confidence sensitivity of banks when markets are under stress. In the higher-rates, lower-growth environment in 2024 investor confidence could be easily shaken.

Structural risks. Climate change, cyber risks, and digitalization trends affecting the competitive landscape are structural risks that will increasingly test banks and their borrowers.

What do they mean for the sector?

A strain on asset quality and profitability. Net interest margins for most financial institutions are benefiting from higher interest rates. However, if economic hurdles are much worse than we now anticipate, this will dampen credit demand, strain corporate and household borrowers, and affect banks' asset quality and profitability.

Greater credit differentiation. Potentially more vulnerable are Asia-Pacific financial institutions include those with high direct exposures to weak counterparties or sectors, are inherently weaker and non-systemically important (such as some nonbank financial institutions) or face confidence sensitivity issues.

Gaming

Revenue recovery remains intact across the region

What do we expect over the next 12 months?

- Gaming revenue in Singapore, Malaysia, Australia, and New Zealand should surpass pre-pandemic levels.
- In Macao, planned additions to hotel capacity and nongaming attractions should support the mass market; the VIP segment remains weak.
- Cambodia will likely underperform given its previous high dependency on Chinese tourists and junkets.

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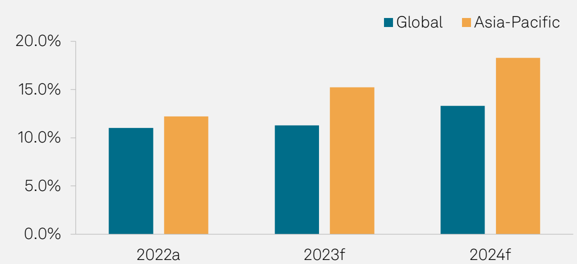
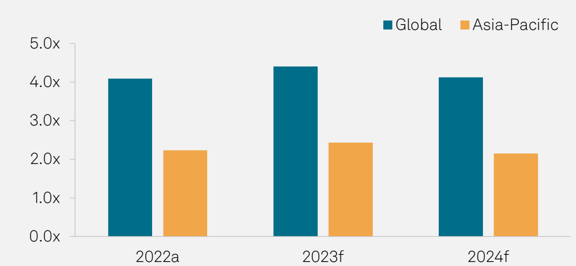
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Diminishing financial risks for most of our rated issuers. Quick recovery in visitation and gaming revenue should support operators to restore cash flow and credit metrics in the next 12-24 months.

Economic headwinds. Lower disposable income amid slower economic growth could influence travel decisions. Gaming is discretionary and cyclical.

Growing refinancing costs from higher interest rates. This will test companies' management of capital structures and alter their refinancing decisions.

What do they mean for the sector?

Positive bias for Macao. Rating actions for Macao issuers have veered positive in 2023, and we expect some further upside into 2024. Our current gaming revenue forecast implies that rated issuers could restore their leverage to closer to 2019 levels by 2025.

Genting Group companies (GENT and GENM). We expect credit quality to notably improve by 2024, as planned investments remain contained, relative to its cash flow generating abilities. During the pandemic GENM completed key investments, including a theme park; it has no other major investments in the pipeline. Nevertheless, we believe the outcome of the downstate New York license bidding could result in heightened spending for the group in the future.

Development projects could slow the pace of deleveraging. Global operators such as Las Vegas Sands, Wynn Resorts Ltd., MGM Resorts International, and Genting Bhd. all have resort development plans or interests in the U.S. or other regional markets (such as Singapore, Japan, etc.). In Macao, high investment commitment under the new concession would need to be matched with a quick recovery in gaming revenue for deleveraging to happen.

Insurance

High rates and market hurdles test capitalization

What do we expect over the next 12 months?

- Stabilizing credit profiles despite capital market swings and shifting reinsurance capacity.
- High rates benefit yield returns, but also dent valuation on existing fixed-income investments. Forex risks could mount for insurers with significant overseas investments.
- Strained underwriting results as frequency of extreme weather events and reinsurance costs rise.

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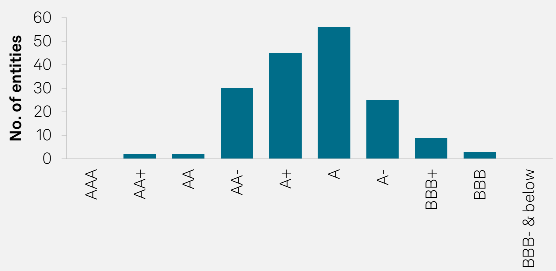
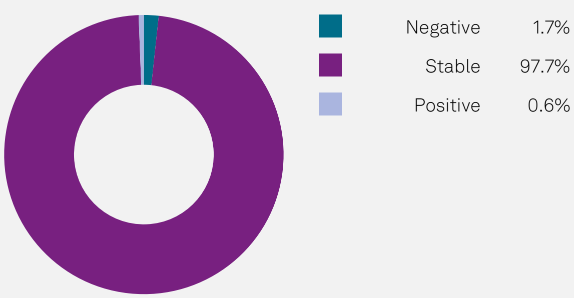
Rating distribution



Outlook distribution



As of Oct. 16, 2023. Includes public ratings only.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Capital market obstacles intensify. Sharp and prolonged market volatility could hit insurers' financial profile. Forex risks could mount for insurers with significant overseas investments (e.g., in Taiwan and Japan). High hedging costs will also erode insurers' earnings. Insurers' chase for yield in the past could raise credit risks.

Shifting reinsurance capacity. Changing risk appetite among global reinsurers could reduce aggregate reinsurance capacity. This would lead to increased reinsurance costs. Underwriting margins may come under strain amid rising frequency of extreme weather, and the impact of nonmodeled secondary perils.

What do they mean for the sector?

Market swings could dent capital and earnings. Equity market volatility weighs on insurers' investment returns, diluting their capital buffers. Still-high interest rate differentials will keep hedging costly. Except for China, rate hikes across the region could dent asset valuations and result in unrealized losses, despite easing pressure for reserve provisioning and better yield on new investments.

Compressed insurance margins. Rising reinsurance costs could disrupt nonlife insurers' risk mitigation plans, weighing on nonlife insurers' profit margins. Further, some insurers may struggle to pass this increased cost to customers. Global climate change and rapid urbanization across emerging Asia could raise catastrophe-related insurance losses.

Significant change in financial statement position. International Financial Report Standard 17 and new regulatory frameworks could result in changes to strategies and key performance indicators. Insurers also face higher operational resources.

Media And Entertainment

Tepid growth outlook for 2024

What do we expect over the next 12 months?

- China advertising spending growth to slow in 2024 following a recovery in 2023, on moderating economic growth outlook.
- Intense competition, particularly in e-commerce, will somewhat offset improving economic growth in Asia-Pacific ex-China. This could erode margins for some issuers.
- Large internet companies have plenty of financial buffer to withstand slowing growth and investments to remain competitive.

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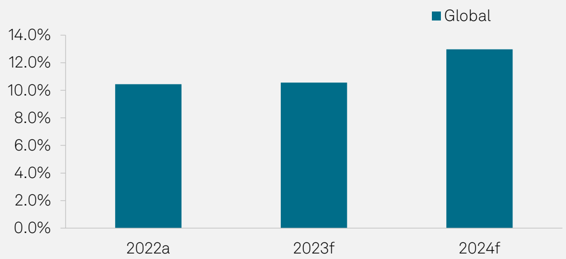
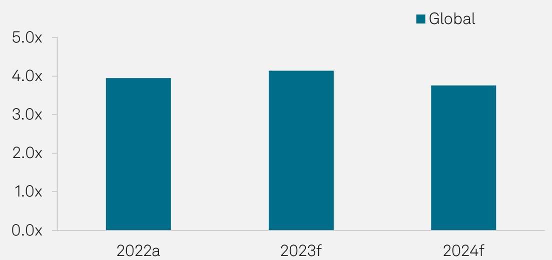
FFO to debt* (median, adjusted)



Debt to EBITDA* (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. *More than half of the Asia-Pacific media & entertainment rated portfolio has zero debt on an adjusted basis. These rated issuers are not included in the above charts. FFO--Funds from operations. a--Actual. f--Forecast. Source: S&P Global Ratings.

What are the key risks around the baseline?

Slowing economic growth is challenging incumbent Chinese online retail platforms. Consumer spending patterns are changing amid the economic slowdown. Consumers are spending more on services and value-for-money products. The trend has caught some online retailers off-guard, resulting in slower sales growth relative to online retailers focused on bargain products. A worse-than-expected economic slowdown could further share losses for some Chinese e-commerce platforms.

New regulations create uncertainty for Asia-Pacific media and entertainment companies. Regulators across Asia-Pacific are announcing new rules and restrictions for internet companies. In China, new rules were issued to tighten content moderation for social media platforms. Indonesia has announced restrictions on cross-border online trading. We see increasing regulatory uncertainty for some online media and entertainment platforms, particularly companies with greater exposure to social media.

What do they mean for the sector?

Stiff competition and evolving user preferences will push online platforms to scale up investments. Companies are under pressure to increase spending on marketing, user experience, and content. Advances in artificial intelligence (AI) technologies are creating opportunities for internet companies to invest. Together, they will weigh on profitability and increase capital investments.

Most Asia-Pacific media & entertainment companies have sufficient financial buffers. Most of our rated media and entertainment issuers in Asia-Pacific have dominant market positions and large financial buffers to absorb rising investments, margin pressure, and rising regulatory costs.

Metals And Mining

Demand weakness persists.

What do we expect over the next 12 months?

- Industrial metals' demand to remain soft, reflecting weak growth of base metals consumption in the U.S. and Europe, and still-subdued property construction in China.
- Some industrial metals and steel markets will face supply surplus as additional supplies come onstream and the influences of the Russia-Ukraine conflict and La Nina wane.
- The pace of China's economic recovery and contrasting macroeconomic signals from different economies will continue to determine the direction of metals markets.

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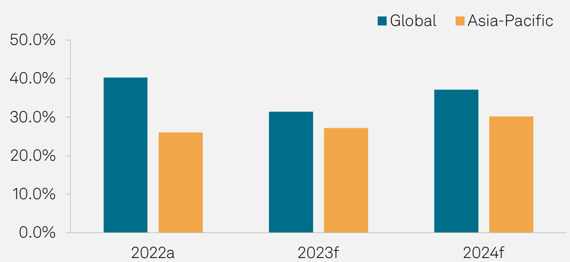
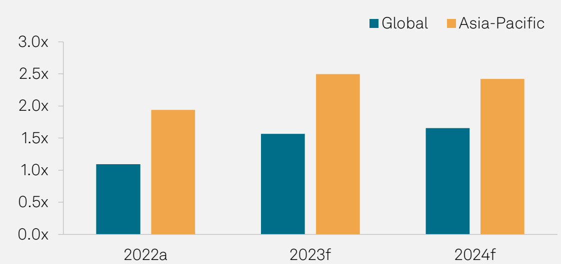
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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Source: S&P Global Ratings.

What are the key risks around the baseline?

Economic pressure looms. We have made some modest downward adjustments to our base-case price assumptions for most of the base metals, except for gold. We expect most metal prices will hold higher for longer. Our base-case price assumptions assume a sticky economic slowdown, but risks of a harsher downside persist.

Geopolitical risks escalate. The uncertainty of how these risks unfold further limits price visibility. The Israel-Hamas conflict has a limited impact on the metals market for now, but could cause supply disruptions.

Pressure on metal downstream players. Downstream players, such as steel companies, face tighter profitability, with product prices dropping while coking coal and iron ore prices remain robust. Persistently negative mill margins led to China's production cuts in October.

What do they mean for the sector?

Credit quality is generally good for upstream companies, but credit buffers could narrow. Credit quality for upstream mining companies is holding up. Most issuers can withstand further price pressures before testing our downside credit threshold.

Margin erosion for both upstream and downstream players, as cost structure continues to incur pressure from key input costs such as energy, labor, and logistics.

Less earnings visibility amid high volatility in prices for commodities and energy. This is the result of different catalysts, including economic uncertainty, currency swings, and geopolitical risks.

Oil And Gas

Supply cuts to support oil prices

What do we expect over the next 12 months?

- We expect demand growth to remain positive until end-2023, before moderating in 2024 and 2025.
- Brent oil prices will likely average US$85 per barrel in 2023 through 2025. Sustained prices will be backed by the Saudi Arabian and Russian supply cuts.
- Producers will likely become more cautious about the demand outlook. Deferred investment decisions may hinder the region's effort to address the energy transition.

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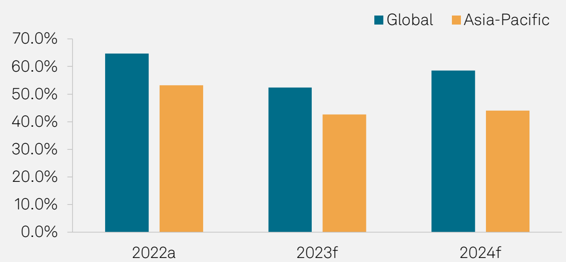
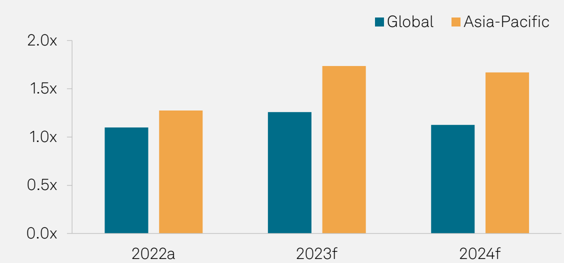
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Promising demand outlook, for now. The oil demand growth forecasts of 2.2 million barrel per day in 2023 is up from an annual average of 1.6 million barrel per day between 2010 and 2019. China, India, and Southeast Asia collectively account for about 70% of the global demand growth. In China, the rebound in freight and travel is mitigating the impact from the subdued outlook in the property sector--negating a hit to oil demand for now. The economic outlook in developed countries will also influence the global oil demand outlook in the next two years.

Modest supply risks. Production cuts from Saudi Arabia and Russia will continue to prop up oil prices; the Saudi cuts will broadly continue into 2024. Global oil production is likely to increase by about 1.5 million barrel per day, backed by increased production from the non-OPEC+ members. Oversupply, high rig count, and high inventory will keep natural gas prices subdued.

Pressure on climate-related investment. Windfall earnings in 2022 have prompted rated oil and gas companies in Asia-Pacific to invest in renewable projects, including hydrogen initiatives. However, a subdued earnings outlook driven by demand concerns may prompt some producers to address increased leverage. Rising interest rates may also defer climate-related investment.

What do they mean for the sector?

Uncertain demand-supply prospects. High volatility will continue to pose potential downside risks that depress earnings. Geopolitical turbulence and the uplift this gives to energy prices, while positive to earnings, could lead to large swings in producers' inventory gains and losses. Rising interest rates will likely cause the industry to curtail its spending. Balancing investment needs and maintaining prudent financial policy will be crucial amid volatilities and strained earnings over the next 12 months.

Public Finance

Fiscal divergence amid persistent external tests

What do we expect over the next 12 months?

- Inflation and high rates in Asia-Pacific (except China) continue to weigh on local and regional governments (LRGs) and their associated enterprises.
- Local governments in China, Australia, and New Zealand will continue to spend on large infrastructure pipelines, resulting in growing debt levels, while most other systems are under less spending pressures.
- Tail risks include lower-tier Chinese LRGs failing to restore confidence amid the property slowdown, and inflation amplifying strains as New Zealand LRGs continue to spend.

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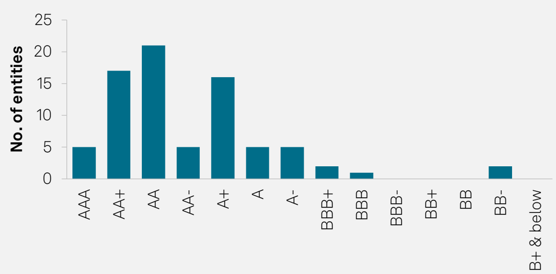
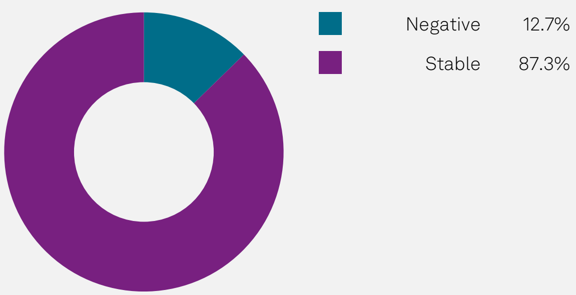
Rating distribution



Outlook distribution



As of Oct. 16, 2023.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Economic slowdown. Persistent inflation, high interest rates, and downside risks to the global economy could further squeeze the region's consumption, supply chains, and economic growth, leading to declining revenues or slower revenue growth for LRGs.

Property market correction. Most LRGs in the region are fiscally dependent on revenues tied to domestic property sales and prices. China's slow property sector, in the event of a "descending staircase" correction, would delay local recovery and market confidence.

Policy shifts. To ease the economic slowdown and restore confidence, select LRGs could roll out aggressive fiscal stimulus, including tax cuts and additional spending. Separately a change in New Zealand central government could place water reforms with local government finances under a cloud.

What do they mean for the sector?

Delayed fiscal recovery. Some LRGs could push forward aggressive fiscal stimulus, including tax cuts or more spending, disrupting their fiscal recovery and lifting debt.

Resumption of leveraging SOE investments in China. Chinese LRGs may add to leverage if they let their state-owned enterprises (SOEs) use debt to support public investment to stimulate local economic growth, while also committing to support the entities in a stress scenario. China's increased tolerance of SOE defaults, meanwhile, may stymie or otherwise disrupt local economies.

Real Estate Development

China's property sales could face a slow, sequential recovery in 2024

What do we expect over the next 12 months?

- China's property sales will decline by another 5% to Chinese renminbi (RMB) 11 trillion-11.5 trillion in 2024 due to weak homebuying demand in lower-tier cities.
- Hong Kong's home prices will likely fall in 2024 amid high inventory and increasing mortgage rates.
- Indonesia residential property sales are likely to grow at 5%-10% in 2024, benefiting from a new round of value-added tax reduction.

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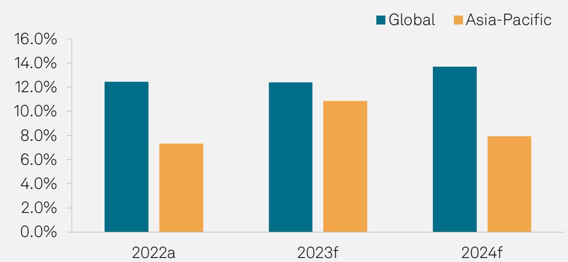
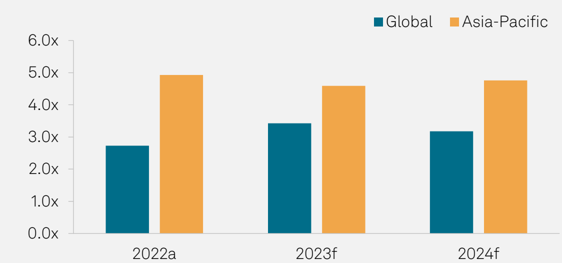
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

China's property market will continue to diverge. The government's continuous policy relaxations aimed at stabilizing the sector will benefit the upper-tier markets. However, lower-tier cities will likely continue to face excess supply and depleted homebuyer confidence. State-owned developers will gain market share because they have continued access to multiple funding means.

Hong Kong's property sales volume may not return to historical levels amid high interest rates. Primary residential transaction volumes will likely be about 11,000 units in 2023, far below the 15,000-21,000 units during 2017-2021. After the stamp duty reduction in late October, volumes could moderately rebound in 2024.

Indonesia developers will face tough offshore funding conditions and high funding costs. As a result, developers will continue to rely on domestic funding. However, domestic markets may not fully satisfy refinancing needs to address the offshore maturity wall in 2025.

What do they mean for the sector?

Chinese developers most exposed to lower-tier markets will be hardest hit. We expect sales in lower-tier cities to drop by 9% in 2024. Developers will need to further discount residential prices to boost sales in such cities. In contrast, we think sales in the four first-tier cities will see a 3% increase in 2024.

Hong Kong developers will experience shrinking margins in 2024. To boost sales volume, developers will likely cut prices. While we believe there is still solid demand for high quality mass-market residential property in Hong Kong, developers' margins will likely trend down.

Lower-rated Indonesia developers are likely to face higher refinancing risk. This is especially the case for those rated 'B' and below because they will need to address the debt maturity wall in 2025. The likelihood for such developers conducting debt market transactions below par ahead of actual maturity dates will increase.

Real Estate Investment Trusts

Commercial properties are under increasing strain

What we expect over the next 12 months

- Valuation pressure will become more apparent for Asia-Pacific office landlords, particularly in cities challenged by higher adoption of hybrid working and oversupply of lettable office space.
- Higher interest rates will further strain credit metrics.
- Logistics, hospitality, and retail (nondiscretionary) assets remain well supported.

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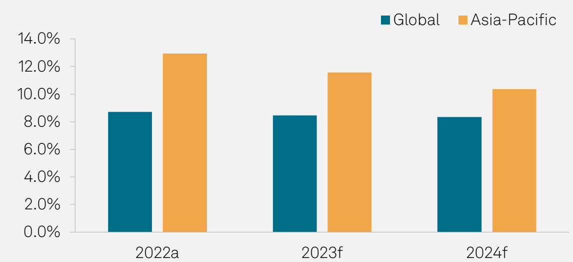
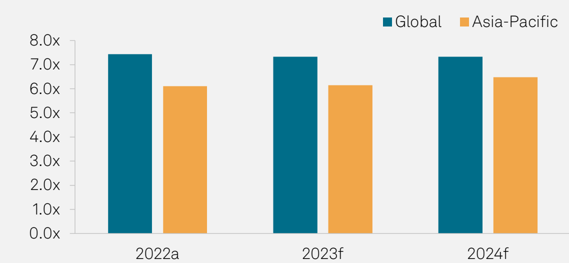
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Steeper than expected decline in office assets valuations. Higher-for-longer interest rates could hasten landlords' decision to sell assets, spurring faster price discovery. This could compound the valuation pressure from the supply-demand mismatch in the CBD markets of Australian cities and Hong Kong.

Higher-for-longer financing costs could cause a lingering impact on credit quality. Floating-to-fixed rate hedges implemented over the next six to 12 months could lock in higher interest costs for longer.

What do they mean for the sector?

Tougher conditions will reduce buffers. While financial headroom could deteriorate, we expect most rated Asia-Pacific REITs can tolerate the challenging operating and financial conditions. For asset classes that are not facing structural obstacles, we expect earnings and valuations to remain largely stable for high-quality assets, given favorable supply-demand dynamics and higher replacement costs.

Office asset valuations under the spotlight. A sharp and sizable decline in office asset values could impinge on credit metrics. We expect articulated targeted gearing ranges for some REITs to be tested. Covenant headroom will decline but remain manageable for most.

A flight to quality benefits prime assets. Tenants' preference for prime retail locations and sustainable office buildings will support rated Asia-Pacific REITs, given they own quality assets.

REITs must manage shorter debt maturity profile. REITs' refinancing risk remains manageable. However, further shortening of debt maturity profile as landlords opt for shorter dated funding could weigh on their capital structure and credit quality.

Retail

Retailers' focus sharpens on costs as consumers become more frugal

What do we expect over the next 12 months?

- Discretionary retail spending slides as the weight of persistent inflation, elevated interest rates, recession risks, and unemployment concerns take hold.
- Retailers pay close attention to operational efficiencies as rising costs and shrinking consumer budgets constrain earnings and threaten credit quality.
- Tougher refinancing conditions for speculative-grade issuers with weaker profitability and higher debt levels; issuers with unhedged floating-rate debt remain particularly exposed.

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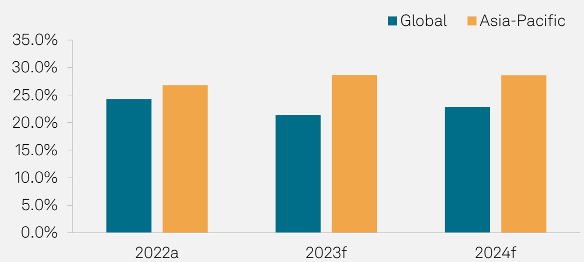
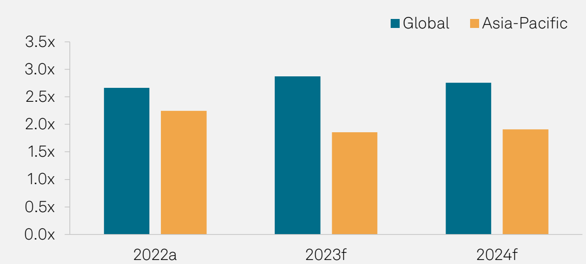
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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Source: S&P Global Ratings.

What are the key risks around the baseline?

Consumption stalls as consumers show more discipline. As cautious consumers become increasingly more frugal about their purchases, discretionary based retailers suffer. China consumption levels remain sluggish, as consumers save more and splurge less. Thus, limiting the consumption boost that Asia-Pacific domestic economies need while growth is scarce.

Focus on operational and cost efficiencies sharpens. Retailers are less able to pass on higher input costs to protect or conserve their margins. Strict cost management will be enforced, but discounting and promotional activity will rise as retailers try to maintain market share.

Refinancing on favorable terms will be tricky. Refinancing fixed instruments in a higher rate environment will reduce interest coverage ratio cushions. Retailers with higher debt levels and weaker profitability will find raising debt challenging.

What do they mean for the sector?

Profitability squeeze. As retailers' ability to pass on higher input and operating costs to cash-constrained consumers diminishes, EBITDA margins begin to buckle. Rating buffers contract and credit quality weakens.

Expansion plans remain on the backburner. However, retailers who possess solid market shares, pricing power, strong brands, low-cost structures, and balance sheet capacity are well positioned. These retailers may see the current environment as an opportunity to take market share from weaker competitors.

Rising cost of debt to have divergent effects. Rising debt costs will test capital structures of speculative-grade issuers. Challenging capital markets will steer investment-grade issuers to a more conservative capital management approach, staying away from large debt-funded investments.

Sovereign

Geopolitical risks back to the forefront

What do we expect over the next 12 months?

- International uncertainties to remain elevated, with geopolitical risks and higher U.S. interest rates putting pressure on external accounts.
- Current account balances and inflation in most economies should stabilize, following improvements over 2023.
- We still expect governments' fiscal performances to improve, although a return to pre-COVID fiscal performances will take longer in many cases.

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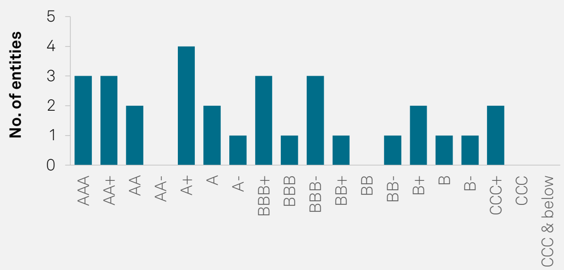
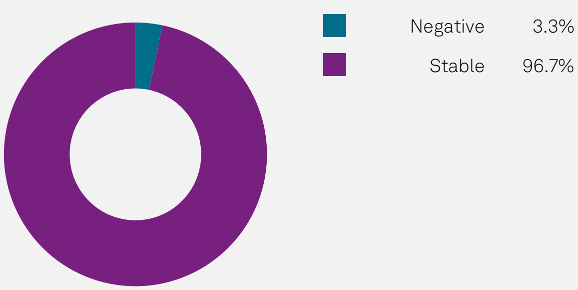
Rating distribution



Outlook distribution



As of Oct. 16, 2023. Includes public ratings only, and ratings on policy-related financial institutions and corporates.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Even higher energy prices seriously undermine external and fiscal metrics. This could result if the Israel-Hamas conflict becomes prolonged and involves more parties.

Sudden capital swings. Further escalations in the war in Ukraine and/or the Middle East could bring about a more negative outlook for the global economy and exacerbate investor risk aversion. Should sentiment toward Asian emerging markets deteriorate sharply, capital outflows could intensify.

What do they mean for the sector?

A spike in funding costs could weaken fiscal support and economic growth. Higher interest payments are negative for fiscal support to sovereign ratings, especially where government debt is high and nonresidents are important sources of funding. If higher financing costs also significantly affect economic growth, this could exacerbate the hit to fiscal performance.

A further rebound of energy imports could damage external support for some Asia-Pacific sovereigns. Net external indebtedness would weaken where current account deficits persist or widen because of energy imports. Additionally, such a deterioration could worsen investor confidence and further raise financing costs. These deteriorations could damage the credit support of some sovereigns.

Structured Finance

Consumer confidence and household balance sheets driving lending activity

What do we expect over the next 12 months?

- A modest weakening in asset performance in coming months because unemployment remains relatively low and stable across markets and is expected to increase moderately.
- Consumer confidence remains weak across several markets, discouraging purchases and dampening the outlook for households; this will be reflected in lower loan volumes.
- Cost-of-living pressures and higher interest rates are stretching some households, leading to higher delinquency levels and adding to subdued consumer outlooks.

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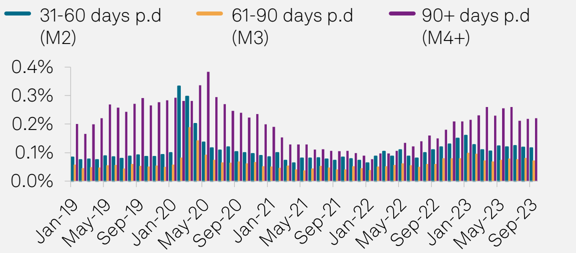
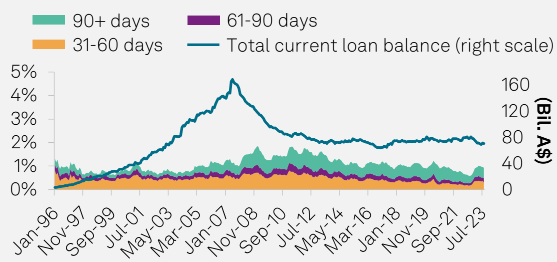
China auto loan ABS w.a. asset delinquency rates



Data as of Sept. 30, 2023. The delinquency rates of the first three months after transaction close are excluded. ABS--Asset-backed securities. w.a.--Weighted average. p.d.--Past due. Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

Australian RMBS prime SPIN data



Data as of Aug. 31, 2023. Source: S&P Global Ratings.

What are the key risks around the baseline?

China's housing sector risk. Weak consumer sentiment as well as a prolonged L-shaped recovery in residential property markets remain delicately poised. Any shocks could further weaken sentiment and weigh more heavily on house prices and resale values.

Rates and inflation. Australia and New Zealand continue to grapple with higher interest rates to tackle inflation. This is translating into some borrower cohorts facing strains from both higher costs of living and higher mortgage repayments. We are watching inflation in Japan; while not at high levels, we consider modest increases to be meaningful for the country, after years of low interest rates and persistent deflation. In our view, inflation could stress household finances if it is not accompanied by a growth in real wages.

What do they mean for the sector?

Issuance is likely to diverge. Lower lending activity and macroeconomic weakness could see less issuance of structured finance assets.

Delinquencies to rise. We expect delinquencies to likely increase across most markets and asset types, particularly those exposed to rapid interest rate increases, including Australia and New Zealand. However, this is off historically low levels and is generally supported by low and relatively stable unemployment trends.

Structural supports are in place. Most transactions have or can build support to mitigate downside risks.

Technology

Negative outlooks could take time to improve amid macro uncertainty

What do we expect over the next 12 months?

- Rating pressure remains high among tech companies due to slower economic growth and high funding costs.
- Tech firms' financial buffer is narrowing, with weakening profitability and declining operating cash flow.
- Outlook is mixed, with gradual recovery in end-demand and tightening U.S. tech export control. The operating performance of upstream semiconductor producers could stay under pressure.

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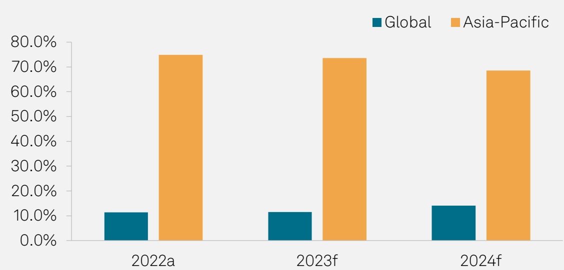
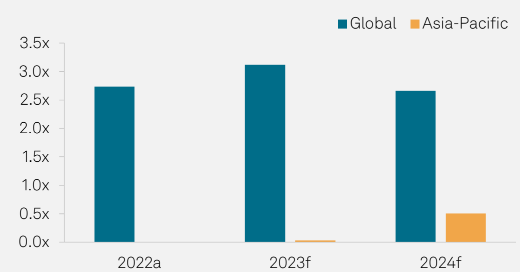


Debt to EBITDA (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast. Source: S&P Global Ratings.

What are the key risks around the baseline?

Macro headwinds accumulate. Slowing economic growth in the U.S. and the eurozone, and a weaker-than-expected recovery in China will continue to limit the export-oriented tech sector in Asia-Pacific. Geopolitical tensions such as tightening U.S. tech exports to China further add to the industry risk in the region.

Recovery expected for end-products but upstream stays weak. Shipment of end products such as PCs and smartphones will likely bottom out in late 2023 as the inventory correction comes to an end and demand gradually resumes. AI will be a key growth driver for the still-sluggish data center market. Auto and industrial are relatively strong. We now expect some rebound for the semiconductor sector in 2024, after an expected 12% decline in 2023. Memory producers should also see a recovery in 2024 on AI application and inventory replenishment, compared with a sales decline of about 40% in 2023. But uncertainty over the timing of recovery for upstream semiconductor producers remains.

Narrowing financial buffer. Most rated Asia-Pacific technology hardware issuers have enough cash flow and leverage buffer to withstand a moderate shortfall in revenue and profitability. However, a prolonged downturn in demand could reduce headroom.

What do they mean for the sector?

Margin pressure is likely given IT budget constraints. Below-trend demand, inventory correction, and IT budget constraints are an unfavorable combination that should compress margins.

Increasing cash flow volatility amid slow demand recovery. Higher cash flow volatility for rated hardware companies during the downcycle in 2023, with weakening profitability and declining operating cash flow.

Negative outlooks could take time to improve owing to weak macroeconomic conditions and rising rates.

Telecommunications

Telcos balance risks with strategic partners and divestments

What do we expect over the next 12 months?

- Telecom operators' earnings will rise mildly from increased mobile data traffic, fixed broadband adoption, and the return of roaming revenues. 5G monetization will remain limited.
- Average capex intensity should ease but stay high. Capex risks diverge across markets, hinging on the progress of 5G rollouts.
- Investment focus on digital infrastructure, especially data centers, will rise. We expect more telcos to bring in strategic partners to such investments that are away from the traditional telco realm, to rein in leverage and manage execution risks.

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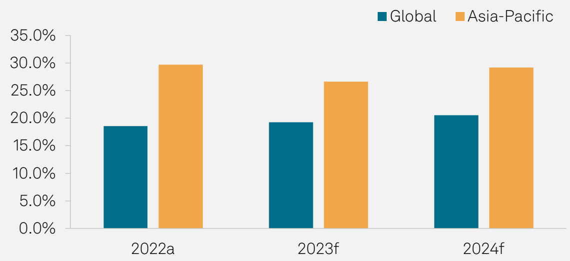
FFO to debt (median, adjusted)



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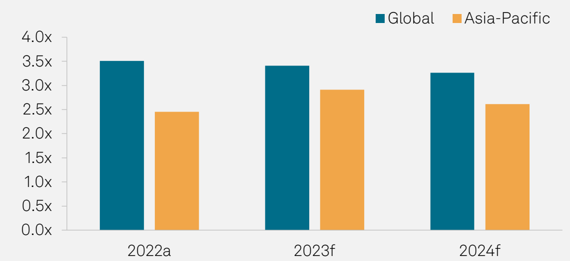

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What are the key risks around the baseline?

A need for more 5G capex. Telcos that have rolled out non-standalone 5G may face another investment wave as they move toward standalone 5G. Sporadic spectrum buys could also exacerbate leverage stress.

Competition and inflation could limit earnings upside. Operators in markets with new entrants, such as in the Philippines, or those with growing mobile virtual network operators, such as in Korea, could adopt more cautious pricing. Prolonged inflationary pressures could result in slower upgrades to higher-priced plans and new 5G-enabled handsets, especially in price-sensitive and predominantly prepaid markets.

Rising investment in growth engines could raise leverage. Telcos have been investing in new growth engines, particularly in data centers, to boost growth. Such investments, if debt-funded, can erode rating headroom, because these new earnings streams take time to ramp up. Execution risks could also lead to higher-than-expected capital intensity.

What do they mean for the sector?

Telcos' approach to 5G remains cautious. 5G adoption rates in many Asia-Pacific markets remain too low to boost overall average revenue per user. While 5G investments are necessary for competitive parity, telcos will focus network spending on pockets with higher demand for now to maximize returns.

Telcos will divest to invest. We believe telcos will move from selling towers to selling other passive infrastructure assets. We see signs of this as some telcos restructure their businesses, which could facilitate subsequent divestments. There is also some initial momentum in bringing in strategic partners for new growth engines such as data centers. This could reduce exposure to execution risks, and also reduce leverage strain.

Transportation Cyclical

Air traffic restoration, but decelerating freight rates

What do we expect over the next 12 months?

- Air traffic in Asia-Pacific to gradually revert to pre-pandemic levels, further supported by China's international air traffic.
- Decline in freight rates will continue to lower profits and cash buffer for container and freight forwarders.
- Decarbonization agenda returns to focus. Transportation operators gradually transition toward cleaner energy and more fuel-efficient models as they move toward the net-zero targets.

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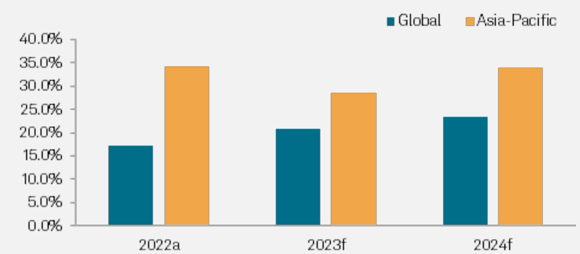
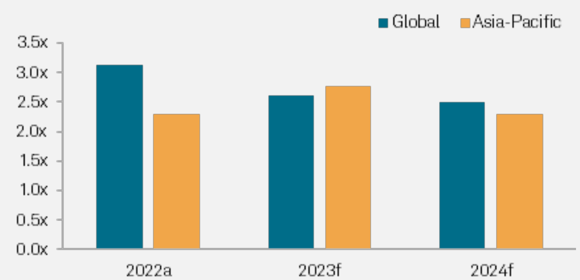
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Slowing economy, geopolitical shocks. Slower growth, war escalation between Israel and Hamas could derail aviation's pace of recovery, and further weigh on freight operators exposed to consumer demand.

Elevated interest rates and costs. Persistent high rates will keep funding costs elevated. Coupled with labor cost inflation and volatile oil prices, risks to earnings recovery could ensue. Lower-rated entities with upcoming debt maturities could face elevated liquidity and refinancing risks.

Supply side constraints for aviation but further easing for freight. Delays in aircraft deliveries, backlogs in maintenance, engine and staffing issues could weigh on aviation by limiting capacity restoration and growth prospects. More efficient shipping supply chains, however, will lead to further freight correction.

What do they mean for the sector?

Sustainability of airlines' profitability is uncertain. Costlier tickets could weaken demand as passengers limit discretionary spending. That, along with reduced load factors and high costs, will weigh on earnings margins. Pratt and Whitney engine recalls could impede airlines' operations. Air cargo will face further freight-rate declines amid subdued global trade.

Capacity management and cash buffer are key for freight operators. Container liners could resort to offloading tonnage and carrying out blank/slower sailings to decrease capacity. We expect freight operators in general to rely on strong cash flows built up in 2021/2022 to weather a cycle of weaker margins.

A refocus toward a green agenda and growth aspirations could mean higher capital expenditure. Freight operators could invest in more fuel-efficient fleets, following reductions in capex during the pandemic, as well as supply constraints (for aviation) lengthening delivery schedules. This could limit meaningful deleveraging.

Transportation Infrastructure

Growth amid economic tests

What do we expect over the next 12 months?

- Passenger-related assets should see continued growth, albeit at different rates.
- Capital expenditure will depend on demand growth, interest rates, and individual asset circumstances. China is tapering its appetite for new projects and focusing more on key ones under central oversight.
- We doubt inflation will affect patronage generally but persistent high inflation in Australia may slow leisure-based growth.

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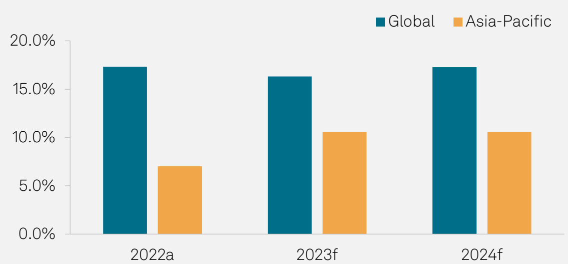
FFO to debt (median, adjusted)



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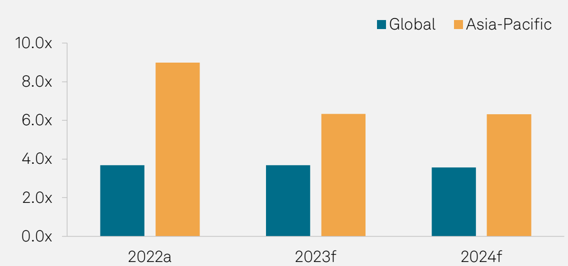

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Source: S&P Global Ratings.

What are the key risks around the baseline?

Path of economic growth. Downside risks could threaten ongoing improvement in passenger-related assets. In China, the sustainability of traffic recovery hinges on economic momentum over the next 12 months.

Inflation persists in some markets. Inflation is not uniform across markets. Where inflation is higher, such as Australia, consumer willingness to spend and travel may contract.

High interest rates in some markets may pressure borrowers. This could be acute, particularly for issuers more reliant on dollar funding, those with lower interest rate hedging, or those with large refinancing or capex needs.

What do they mean for the sector?

EBITDA margin improvement. Robust traffic recovery and consumer spending in Indian airports will lift non-aeronautical revenues, supporting higher margins. Chinese issuers will see a restoration of profitability due to significant traffic rebound from 2022. Australian toll roads are benefiting from inflation-linked toll increases.

Patronage should continue to grow with the performance of economies influencing the rate. Traffic recovery through Indian airports has been outpacing most regions, with both domestic and international passenger traffic surpassing pre-COVID levels in the current fiscal year. Australian airports continue to experience healthy growth. Mainland China airport passenger levels are almost back to 2019 levels, but international travel remains subdued. Recovery at Hong Kong airport has improved.

Funding costs in bank and domestic bond markets are benefiting issuers across parts of the region. Indian issuers experience continued access to domestic banks and the onshore bond market where costs are cheaper than offshore. Chinese issuers also have access to favorable funding costs.

Utilities

Elevated investment to keep leverage high

What do we expect over the next 12 months?

- Continued large spending of renewables (including grid and storage) and coal-fired capacity (for energy security) will keep leverage high.
- Regional demand growth is likely to remain steady at the mid-single-digit percentage level.
- An overall negative rating bias continues to improve under volume recovery and subsiding fuel cost, despite uneven cost recovery throughout the region.

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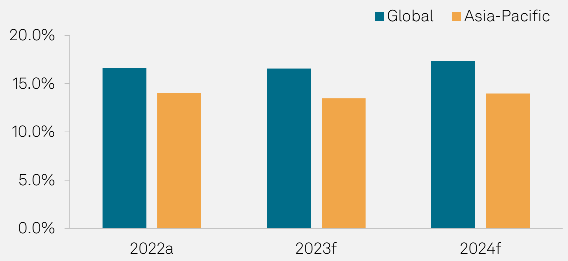
FFO to debt (median, adjusted)



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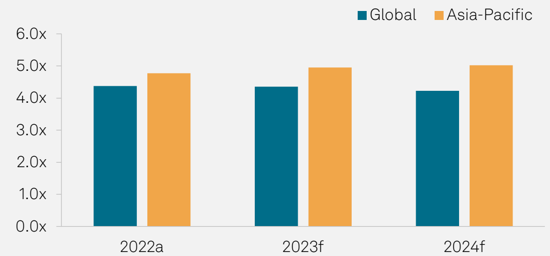

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Source: S&P Global Ratings.

What are the key risks around the baseline?

Potential escalation of geopolitical tensions. This may reverse the trend of margin recovery and hinder the effectiveness of cost passthrough, depending on the extent of energy price volatility it may cause. Companies may still have to factor in supply chain risk in budgeting and capex delivery processes.

Inflation and high interest rates to bite. Fuel cost passthrough is in place in some markets but may not be even across all entities. High interest rates in most markets could alter funding options and costs for most entities, except in a few countries (including China) that face less pressure on this front.

Accelerated new investments and funding needs. We view excessive debt funding of new developments, adverse regulatory reforms or interventions, and grid constraints as risks. Capex will focus mainly on renewables, integrated hybrid projects, grid and energy storage, or renewable acquisition.

What do they mean for the sector?

Rapid increments in new capacity could weigh on utilization. A spending boom in the name of either energy transition or energy security could potentially lead to overcapacity, even more so amid the lack of contractual protection in some Asian markets.

High working capital needs due to cost recovery delay and electricity-price volatility in some markets. In China, power tariffs are likely to moderate as marketized reform continues. Any fuel cost spike due to disruption of energy supply could hurt profitability in some markets.

Liquidity risk: restrained access to funding could increase interest costs and lead to capex reviews. Most rated Chinese players benefit from robust financing support.

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- White Paper: Introducing Our Credit Cycle Indicator, June 27, 2022

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