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Announcement: Moody's: Most Asia Pacific banks have buffers against commodity risks

Global Credit Research - 30 May 2016

Singapore, May 30, 2016 -- Moody's Investors Service says that banks in Asia Pacific (ex-Japan) show moderate loan exposure to borrowers in commodity-related industries, with such loans making up around 7% of gross loans on average at end-2015.

However, the quality of such loans will likely continue to deteriorate, based on Moody's assessment that energy and commodity prices will remain low over a prolonged period.

"In Asia Pacific (ex-Japan), the riskiest exposure for banks in terms of energy and other commodity loans originate from metals and mining, as well as from certain parts of the oil and gas sector, including services, offshore marine and shipping and shipbuilders," says Eugene Tarzimanov, a Moody's Vice President and Senior Credit Officer.

"In general, we do not expect negative bank rating actions related to commodity exposures, because banks in Asia Pacific have either good financial buffers, moderate commodity exposures, or ratings that already capture asset quality weakness," adds Tarzimanov.

Moody's analysis is contained in its just-released report on banks in Asia Pacific (ex-Japan), entitled, "Commodity Exposure Will Add to Asset Quality and Profitability Pressure," and is authored by Tarzimanov.

The report says that based on Moody's expectation that commodity prices will stay low for a prolonged period, corporate earnings will be negatively affected; thereby weakening the debt repayment capacity of many commodity firms, and creating pressure on or delaying the recovery of asset quality and profitability for the banks in Asia Pacific.

Moody's notes that the pressure on the quality of commodity-related loans could lead to possible negative bank rating actions in Singapore, Korea and Mongolia over the next 12-18 months, as reflected in Moody's negative outlooks on many banks in these economies.

Moody's report says that for oil & gas and related industries such as shipping and ship and rig building, banks in Singapore and Korea are more exposed when compared with other banks in Asia Pacific. In Singapore and Korea, the exposure is around 5% of gross loans.

As for the metals & mining sector, banks most exposed to these sectors are in Mongolia (10% of gross loans), India (7%, including steel), Indonesia (around 5%) and China (around 4%). The global metals & mining sector has been under stress for many years and some Asia Pacific banks demonstrate large legacy problem loans in this industry.

On the issue of agriculture-related exposures, Moody's does not expect a material weakening in the banks' asset quality, because global agriculture prices have shown better performance relative to energy and metals prices. Moody's points out that banks most exposed to agriculture are in New Zealand (14% of gross loans), India (13%), and Thailand (around 6%).

Moody's report says that overall, banks in Asia Pacific demonstrate good buffers against rising credit risks, despite the likely continued pressure on the quality of their commodity portfolios. Such buffers include their generally low problem loan ratios and a problem loan coverage above 80% for more than half of Asia Pacific banking systems. Banks in Asia Pacific—except for banks in Vietnam and public-sector banks in India—also show good capital buffers and profitability, providing a good line of defense against rising problem loans.

Subscribers can access the full report at:

http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_1024220

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