

CMBI Credit Commentary

Fixed Income Daily Market Update 固定收益部市场日报

- *Market flows were light this morning. LGFVs were relatively active with two way flows post the announcement of supportive policies. China developers were weak, LNGFORs/VNKRLEs retreated 0.2-0.5pt, DALWANs dropped c2pts.*
- **HRINTH:** *Investment plans up to RMB50.3bn. HRINTHs remain to be our top picks in the Chinese AMC universe. HRINTHs moved -0.1pt to +0.1pt this morning. See below comments.*
- **China Economy** - *Fiscal policy framework for 2025. See below for comments from CMBI economic research.*

❖ Trading desk comments 交易台市场观点

Last Friday, 10-yr UST yield tightened 4bps to 4.30%. In Chinese IGs, BABA/TENCNT/HAOHUA 30-31s were 3-5bps wider. In BBB TMTs, ZHOSHK 28s closed 10bps tighter and Zhongsheng share price was 26% higher (up another 21% today morning) on the strategic agreement with Seres which utilizes Huawei's technology solution. MEITUA 28-30s closed unchanged to 2bps tighter. In financials, CCAMCLs/ORIEASs were 2-5bps tighter. After Fri close, HRINTH announced an investment plan of up-to RMB50.3bn to further acquire shares in CITIC Ltd, Bank of China, CEB Bank, etc. See comments below. FRESHKs/BNKEAs/DAHSINs closed 4bps tighter. Meanwhile, KBANK 31s tightened 10bps. BBLTB 34s tightened 5bps. In EU AT1s, the sentiment on perps and duration recovered post FOMC last Thu and UBS/HSBC/STANLN/LLOYDS/ ACAFP/INTNED/SEB Perps were up 0.2-0.6pt. In insurance hybrids, FUKOKU Perp/MYLIFE '54/NIPLIF '54 were 0.4-0.5pt higher under buying from RMs. In KR, HYNMTRs/LGENSOs /KOROILs were 2-5bps tighter. Meanwhile KRKPSC 27-29s tightened 3-4bps. In HK, CKPH/HYSAN/NANFUN Perps were up 0.5-0.8pt. Chinese properties were weak. ROADKG 28-30s/Perps fell 3.1-4.5pts following it announced to defer the 18 Nov distribution on the ROADKG 7.75 Perp to next payment date. VNKRLE 25-29s and DALWAN 25-26s dropped 1.3-2.1pts. FTLNHD/FTULAN 25-26s were down 0.5-1.4pts. Outside properties, GEELY announced to call its GEELY 4 Perp on 9 Dec '24 (its first call date) and the perp was up 0.2pt. In Macau gaming, MPELs/STCITYs were 0.3-0.9pt higher. In India, ADANEMs/ADSEZs/ADGREGs were 0.5-1.0pts higher.

In LGFVs, China MOF announced to increase local government's special bond quota by RMB6tn (cUSD838.1bn) to RMB35.5tn (cUSD5.0tn) by the end of 2024. The local gov'ts would be allowed to issue special bonds of RMB2tn each year from 2024 to 2026 to refinance their hidden debts. See comments from economic research below. On primary, NXDTIN priced a USD200mn 3-yr bond at par to yield 6.2%. There were better buying flows from RMs across both USD and CNH LGFVs. CHDUIN '26/BCDHGR'26/

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CPDEV '25 were 0.1pt higher. KMRLGP '24/LIANYU '25 were down 0.1pt. SOE perps were under better buying. SPICPT/SPICPD Perps were up 0.1-0.2pt. CHSCOI 3.4/HUANEN 3.08 Perps were unchanged to 0.1pt higher.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
IDASAL 5.8 05/15/50	96.6	1.6	ROADKG 7.95 PERP	15.9	-4.5
AIA 4 7/8 03/11/44	96.1	1.5	ROADKG 7 PERP	15.7	-4.1
PTTGC 5.2 03/30/52	90.0	1.4	ROADKG 7 3/4 PERP	16.7	-4.1
FRIDPT 6.2 04/14/52	102.2	1.4	ROADKG 5.2 07/12/29	37.9	-3.9
TAISEM 4 1/2 04/22/52	94.6	1.3	ROADKG 5 1/8 01/26/30	36.9	-3.8

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.38%), Dow (+0.59%) and Nasdaq (+0.09%) edged higher on last Friday. China Oct'24 CPI/PPI was +0.3%/-2.9% yoy, compared with the expectation of +0.3%/-2.5% yoy. UST yield retreated on Friday, 2/5/10/30 yield reached 4.26%/4.20%/4.30%/4.47%.

❖ Desk Analyst Comments 分析员市场观点

➤ HRINTH: Investment plans up to RMB50.3bn. HRINTHs remain to be our top picks in the Chinese AMC universe

China CITIC Financial AMC (Huarong) plans to make financial investments up to RMB50.3bn. See Table 1. We see these investments are to recycle capital from non-core asset disposals announced in 1H24. Recalled Huarong announced the transfer of financing leasing to CITIC Group in Jun'24 for RMB12bn, as well as transfer of ownership in certain [equity](#) investments. Please see [our daily on 14 Aug'24](#) for more detailed discussions. The new investments will provide Huarong more stable and recurring earnings and cash flow. Assuming the acquisitions of these investments were completed on 1 Jan'24, Huarong's stakes in CITIC Limited, Bank of China and CEB Bank would have generated an investment income totaled RMB2.6bn and a dividend income of RMB271mn in 1H24 based on Trust's investment target of annual dividend yield of not lower than 4%. These compared with Huarong's PBT from continued operations of RMB4.8bn in 1H24.

Huarong demonstrated a sharp improvement in operating performance. In 1H24, Huarong posted PBT from continued operations of RMB4.8bn, reversed from LBT from continued operations of RMB4.9bn, thanks to the fair value gain on distressed debts and other financial assets. The reversal was also attributable to the higher contributions from its associates and joint ventures. Huarong made a few higher quantity equity investments since 2H23 such as 5.01% in CITIC Ltd..

Last year, Huarong was active in repurchasing its offshore bonds. These help boost the prices of its offshore bond and perps, as well as non-recurring earnings. We notice that Huarong has turned its focus from repurchases of bonds and perps to the acquisitions of higher quality equity stakes since late last year.

As we wrote before, the conviction levels of HRINTHs are lower after the price rally since 2H23. That said, HRINTHs remain to be our top picks in the Chinese AMC universe in view of their better risk-return profiles. Within the HRINTH curve, we prefer HRINTH 4.25 Perp, HRINTH 3.875 11/13/29, HRINTH 3.375 02/24/30 and HRINTH 3.625 09/30/30. HRINTHs was traded c20bps higher than its AMC peers. See Table 2.

Table 1: Proposed Investment by Huarong

Proposed investment	Sub-quota (RMBbn)	Timing of payment	Transferors	Huarong's existing shareholdings	Potential increase in shareholdings
1 4.88% shares of CITIC Limited	11.3	One-time cash payment before 31 Dec'24, to be settled in RMB in mainland China after completion of share transfer in Hong Kong	-ICBC Credit Suisse and its subsidiary (2.22%) -Bosera Funds and its subsidiary (2.31%) -Dacheng Fund and its subsidiary (0.35%)	5.01%	4.88%
2 Shares of Bank of China	26	Contributions in batches and installments within 12 months after the EGM approval	Open market	3.57%	1.66%, assuming 4.9bn shares at RMB4.49 per shares to be acquired at a total consideration of RMB22bn
3 Shares of CEB Bank	4		Open market	7.08%	1.86%, assuming 1.1bn shares at RMB3.19 per shares to be acquired at a total consideration of RMB3.5bn
4 3-year Single Asset Service Trust (Trust)	20		N/A	N/A	N/A
Aggregate quota (RMBbn)	50.3				
Condition precedent These transactions will be proposed as one resolution to the EGM for approval and the notice to convene the EGM will be dispatched to shareholders on or before 29 Nov'24. These are also subject to approval from the respective authorities and regulators.					

Source: Company filing.

Table 2: YTM/YTC of Chinese AMC's bonds and perps

	Ask YTM/YTC (%)	Mod Duration	Ask price
CCAMCL	5.2-6.1	0.5-12.8	87.9-102.0
GRWALL	5.3-5.6	0.5-5.2	85.3-104.6
HRINTH	5.5-6.7	0.1-12.9	87.6-100.0
ORIEAS	5.3-5.6	1.0-5.3	86.7-101.4

Source: Bloomberg.

➤ China Policy - Fiscal policy framework for 2025

China's NPC Standing Committee has approved the LG debt swap program with a total quota of RMB6tn in 2024-2026. LGFVs, government contractors and state-owned banks are expected to gain from the scheme. This program reflects the policymakers' focus on relieving local fiscal stress after the housing bubble burst while the fiscal support to consumer remains limited. China's broad fiscal deficit ratio may moderately rise in 2025. Key fiscal policies include aiding local governments in reducing housing & land inventory, recapitalizing state-owned banks, enhancing fiscal transfers to local governments and increasing fiscal subsidies for upgrades in manufacturing equipment, autos and home appliances. However, these measures may prove insufficient to stimulate consumption or rejuvenate economic growth, particularly in light of the challenges posed by the Trump shock. China must gradually redirect its policy emphasis towards boosting consumption and defying deflation through additional liquidity & credit easing, more robust fiscal support with increased transfers to households and market-oriented reforms aimed at revitalizing the animal spirit within the private sector.

LG hidden debt resolution. The central government only recognized one-fourth to one-third of local governments' off-balance-sheet borrowings as eligible LG hidden debt. It allowed local governments to issue special bonds to replace this recognised hidden debt. According to the MoF, LG hidden debt reached about RMB14.3tn at end-2023, significantly lower than the market's estimate of RMB40-60tn. The NPC Standing Committee approved a quota for LG debt swaps amounting to RMB6tn for the period from 2024 to 2026. This allows local governments to issue additional special bonds to replace their eligible hidden debt in the future. In addition, the central government allowed local governments to utilise RMB0.8tn from the special bond funds each year to settle their hidden debt from 2024 to 2028. The central government continues to prioritize the prevention of moral hazard among local governments by refraining from making any bailout commitments regarding their off-balance-sheet borrowings. For the majority of these borrowings, local governments have to engage in negotiations with financial institutions for rollovers. The primary beneficiaries of the LG debt swap program include LGFVs, government contractors and state-owned banks. In the absence of the debt swap policy, local governments may have to delay payments to civil servants or contractors as they work to address their hidden debt particularly in light of slumping land revenue. The debt swap policy is expected to mitigate the contractionary impact associated with the repayment of hidden debt.

Higher broad fiscal deficit ratio in 2025. The MoF indicated that the general deficit and the quota for LG special bonds are expected to increase in the upcoming year, although specific details remain undisclosed. A significant discussion regarding about the GDP growth target, the general fiscal deficit and the LG special bond quota for 2025 is anticipated among official experts in November. The debate will precede the Central Economic Work Conference, where top leaders will in the second or third week of December to deliberate on development objectives and the policy framework for the following year. The finalised targets will be publicly announced in the cabinet's working report to the NPC in early March 2025. Some experts suggest that it may be prudent to lower the GDP growth target from around 5% in 2024 to a range of 4.5% to 5% in 2025, given that GDP growth has remained below 5% in the last two quarters. The recent easing of policies is unlikely to foster a sustainable economic recovery and potential external shocks such as a renewed trade war in Trump 2.0 era could exert additional downside pressure. Conversely, other experts argue that China should maintain the GDP growth target for 2025 at around 5%, as this aligns with the long-term vision for 2035, especially since the pandemic has resulted in average GDP growth falling short of expectations from 2020 to 2023. Additionally, keeping the growth target stable could enhance market confidence by signaling China's commitment to economic stability. The reported GDP growth for 4Q24 could offer insights into the GDP growth target for 2025, depending on whether it exceeds or falls short of 5%. We maintain our forecast for China's GDP growth at 4.9% in 2024 and 4.6% in 2025. We expect the general fiscal deficit, local government special bond quota, and ultra-long Special Treasury Bond quota may increase from RMB4.06tn (3.1% of GDP), RMB3.9tn (3% of GDP), and RMB1tn (0.8% of GDP) in 2024 to RMB4.3tn (3.1% of GDP), RMB4tn (2.9% of GDP), and RMB2tn (1.4% of GDP) in 2025. The local government debt swap quota is set at RMB6tn for the period from 2024 to 2026, with an annual average of RMB2tn, compared to RMB1.5tn in 2024.

Additional fiscal policies in future. Initially, the central government intends to motivate local governments to utilise special bond funds for the acquisition of unsold housing projects and undeveloped land from property developers. The MoF, along with other ministries, is currently engaged in formulating the specifics of this policy. However, it remains uncertain whether they will establish a definitive target in the future. A significant challenge lies in the strained fiscal conditions of local governments, making it difficult for them, property developers, and their creditors to reach an agreement on acquisition prices. It is comparatively simpler for local governments to procure housing projects or land from their financing vehicles or affiliated state-owned enterprises. Furthermore, the central government plans to allocate special bond funds to bolster the capital of the six largest state-owned banks, with an estimated total injection of around RMB0.6tn. Additionally, there is a possibility that the central government will increase fiscal subsidies to upgrades of manufacturing equipment, autos and home appliances. The MoF has earmarked RMB300bn in this year's budget for these initiatives, with potential increases in the following year to encompass a broader range of equipment and home appliances. Finally, the central government is expected to augment fiscal transfers to local governments to facilitate advancements in technology development and improve social welfare..

Additional policies are essential to rejuvenate consumer demand and defy deflation. The recent meeting of the NPC Standing Committee may have left international investors underwhelmed, as the current policies primarily aim to alleviate local fiscal pressures following the housing market slump, with little emphasis on stimulating household consumption. In the near future, it is likely that policymakers will maintain their focus on stabilizing the housing sector and addressing local fiscal challenges, given that the former continues to hinder economic progress and the latter is crucial for the effective functioning of local governments. While these measures may have some positive effects on household consumption, their influence is largely indirect. We believe that they are insufficient to significantly boost consumption or spur economic growth, particularly in the event of the Trump shock. China must gradually redirect its policy priorities towards fostering consumption and combating deflation. This necessitates the implementation of additional measures, including increased liquidity and credit availability, enhanced fiscal support with greater transfers to households, and market-oriented reforms aimed at revitalizing the entrepreneurial spirit within the private sector.

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➤ **Offshore Asia New Issues (Priced)**

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Nanxun Communications Investment Group	200	3yr	6.2%	6.2%	-/-/-

➤ **Offshore Asia New Issues (Pipeline)**

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
No Offshore Asia New Issues Pipeline Today					

➤ **News and market color**

- Regarding onshore primary issuances, there were 55 credit bonds issued yesterday with an amount of RMB38bn. As for month-to-date, 419 credit bonds were issued with a total amount of RMB396bn raised, representing a 8.8% yoy increase
- China government announced RMB10tn fiscal package to help local governments refinance hidden debts
- **[EHICAR]** Meida reported that eHi said funds to redeem USD44.6mn bond stub due on 14 Nov'24 are ready
- **[GEELY]** Geely announced to redeem USD500mn GEELY 4 PERP on 9 Dec'24; Media reported that Geely seeks cEUR2bn loan to refinance borrowings related to Volvo stake acquisition
- **[POHANG]** Media reported that POSCO plans to sell majority stake in China stainless steel JV for USD357mn
- **[ROADKG]** Road King Infrastructure announced to defer 18 Nov'24 distribution on ROADKG 7.75 perp to next distribution payment date

- **[VEDLN]** Vedanta Limited 1H25 revenue rose 8.1% yoy to cUSD8.7bn and EBITDA rose 46% yoy to cUSD2.5bn

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