

CMBI Credit Commentary

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

The Asset Asian G3 Bond Benchmark Review 2024

We hope you found our commentaries and ideas helpful. We seek to elevate our efforts and value-add further in the coming year. We highly appreciate your support to us in Sell-Side Analysts of the polls of "[The Asset Asian G3 Bond Benchmark Review 2024](#)". Thank you for your support!

- *UST 2yr yield tightened 12bps following lower-than-expected US CPI. The flows were better buying. JP/AU insurers such as NIPLIF '54/SUMILF Perp/FUKOKU Perp were 0.2pt higher. EU AT1s such as SOCGEN/BNP Perps were up 0.1pt. The front-end of LGFVs were also better bid.*
- **ZHOSHK:** *Initiate coverage with buy recommendations on ZHOSHK 0 05/21/25 (CB) and ZHOSHK 3 01/13/26. ZHOSHKs were unchanged to 0.2pt lower this morning. See below.*
- **China Economy: Deflation mildly alleviated while consumer demand remained weak.** *CMBI expects CPI and PPI may rise from 0.2% and -3% in 2023 to 0.6% and -0.8% in 2024. See below for comments from CMBI economic research.*

❖ Trading desk comments 交易台市场观点

Yesterday, Asia IG space was quiet ahead of US CPI data and FOMC on Wed night. HYUELE '28/HYUCAP '29 tightened 1-3bps. OCBCSP/SIASP 34s tightened 1-2bps. In JP/AU insurance hybrids, FUKOKU Perp/SUMILF/QBEAU Perps were 0.2-0.4pt higher. In Chinese IGs, HAOHUA/TENCNT 30s widened 1bp. In financials, BOCOHN/ICBCAS/KTBTB Perps were up 0.1pt. In EU AT1s, SOCGEN 7.875 Perp/ BNP 8 Perp/ACAFP 6.5 Perp closed 0.4-0.7pt higher. INTNED/ BACR/ UBS/ NWG/ DNBNO Perps were 0.1-0.4pt higher under dip buying among PBs. In HK, PRUFIN '32/AIA '40 were 1.0-1.2pts higher. NWDEVL Perps were 0.3-0.8pt lower. Chinese properties were mixed. CSCHCN 24s increased another 0.8-1.3pts and closed 2.8-3.0pts higher WTD. CHIOLI 34-43s were under better buying from RMs and closed 0.7-0.8pt higher. CHJMAO '26 was up 0.3pt. On the other hand, LNGFOR 27-32s were 0.3-0.5pt lower. ROADKG 7 Perp was down 0.5pt and rest of ROADKGs were roughly unchanged. In industrials, HILOHO '24 declined 0.8pt. In India, VEDLN 26-28s were 0.2-0.4pt lower. In Indonesia, LMRTSP Perp was up 0.3pt.

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LGFVs were skewed to better buying. The flows were light, and were largely driven by portfolio rebalancing and risk optimization needs. In the 5-6% LGFVs, BJSTAT '25/GZGETH '26 were up 0.1pt. We also saw AMs focused on parking cash in front-end of high-yielding IG names. GRPCIN '26/ZHONAN '25 were 0.2-0.3pt higher. In SOE perps, CHSCOI 3.45 Perp/HUADIA 3.375 Perp were 0.1pt lower.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CSCHCN 9 10/09/24	25.4	1.3	NWDEVL 6 1/4 PERP	50.0	-0.8
CSCHCN 9 04/12/24	25.8	1.2	HILHOHO 9 3/4 11/18/24	59.0	-0.8
PRUFIN 3 5/8 03/24/32	90.4	1.2	ROADKG 7 PERP	12.8	-0.5
AIA 3.2 09/16/40	73.5	1.0	LNGFOR 4 1/2 01/16/28	74.7	-0.5
CNOOC 4 7/8 04/30/44	96.8	1.0	YLLGSP 5 1/8 05/20/26	85.1	-0.4

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.85%), Dow (-0.09%) and Nasdaq (+1.53%) were mixed on Wednesday. US May'24 CPI was +3.3% yoy, lower than the expectation of +3.4%. US Fed left its policy rate unchanged and projected only one interest rate cut this year. China May'24 CPI/PPI was +0.3%/-1.4% yoy, compared with the expectation of +0.4%/-1.5% yoy. UST yield retreated yesterday, 2/5/10/30 yield was 4.75%/4.32%/4.31%/4.47%.

❖ Desk analyst comments 分析员市场观点

➤ ZHOSHK: A shorter-dated consumption plays

Initiate coverage with buy recommendations on ZHOSHK 0 05/21/25 (CB) and ZHOSHK 3 01/13/26

We initiate the coverage on Zhongsheng and buy recommendations on ZHOSHK 0 05/21/25 (CB) and ZHOSHK 3 01/13/26. We consider Zhongsheng (rated Baa2/BBB/BBB by Moody's/S&P/Fitch) a solid IG credit with leading market position and adequate liquidity profile. Zhongsheng experienced lower car sales and weaker profit margin over the past 2 years. We take comfort that new car sales only accounted for 5.9% of its aggregate profit (gross profit+ commission income) in FY23 given the growing contribution from after-sale services and used car sales. We take additional comfort with its disciplined expansion strategies with track records of positive free cash flow generation, as well as Jardine Matheson (JMH, rated A1/A+ by Moody's/S&P)'s strategic ownership in Zhongsheng since 2014. At 110.8 and 95.0, ZHOSHK 0 05/21/25 (CB), to be redeemed at 117.49, and ZHOSHK 3 01/13/26 are trading YTM of 6.3%. We consider ZHOSHKs good shorter-dated carry plays.

Table 1: Summary of Zhongsheng's o/s bonds

Ticker	Ccy	O/S (mn)	Coupon	Maturity	Offer price	Z-spread	YTM (%)
ZHOSHK 0 05/21/25 CB	HKD	3,124.0	0.0%	5/21/2025	110.8	142.7	6.3%
ZHOSHK 3 01/13/26	USD	450.0	3.0%	1/13/2026	95.0	142.4	6.3%

Source: Bloomberg

Click [here](#) for the full report.

➤ China Economy: Deflation mildly alleviated while consumer demand remained weak

CPI growth remained flat in May as energy price moderated while food price rebounded. Pork price finally came out of the woods after a prolonged de-stocking cycle. Core CPI growth weakened as prices of durable goods, transport service and tourism service declined amid weak consumer demand and e-commerce promotion activities. PPI continued to recover thanks to low-base effect and rising prices of non-ferrous metals and

materials. Looking forward, policymakers may continue to loosen credit policy to stabilize the housing market and boost consumer demand. Deflation pressure may mildly alleviate as commodity prices continue to rebound and service prices mildly pick up. We expect CPI and PPI may rise from 0.2% and -3% in 2023 to 0.6% and -0.8% in 2024.

CPI stayed flat as energy price moderated and food price rebounded. CPI YoY growth remained unchanged at 0.3% in May, slightly below market expectation of 0.4%. In sequential terms, CPI dropped 0.1% after rising 0.1% in Apr. Energy price slowed down as vehicle fuel price moderated to 6.3% from 6.9% since its MoM growth was -0.8% in May compared to 2.9% growth in Apr. The recent increases in electricity and water bills have yet to be reflected in CPI, as MoM changes of public utilities have been 0 since Feb. The contraction of food price continued to improve as its MoM growth rebounded from -1% to 0% driven by pork price. After a prolonged period of de-capacity, pork prices have finally bottomed out with its YoY growth accelerating from 1.4% to 4.6%. Due to the downward trend of breeding sow and hog inventory, pork price may continue to rebound in the upcoming months, as indicated by pork wholesale price. On the other hand, non-pork food items remained subdued especially the beef price, dropping from 10.4% to 12.9% in May, which was heavily affected by growing imports.

Core CPI receded as durable goods remained subdued. Core CPI declined by 0.2% MoM in May after expanding 0.2% while its YoY growth edged down to 0.6% from 0.7% in Apr, as a sign of weak consumer demand. Tourism, the primary driver of core CPI in the past two months, dipped 0.6% MoM in May after 2.7% growth in Apr, in line with normal seasonality following the Labor Day holiday. Other services including home service and medical service improved with 0.1% MoM increase in May while rent declined by 0.1% as weak employment conditions have yet to improve. Durable goods became the major headwind for core CPI, as home equipment, vehicles and telecom equipment further plummeted 1.1%, 0.9% and 0.4% MoM. Both home equipment and vehicle prices witnessed the largest monthly declines since Apr 2023, yet there is no sign of bottoming out. Prices of clothing and footwear notably grew. Looking forward, core CPI growth may remain restrained in the near term given the deterioration in household income and balance sheet, elevated real interest rate and fierce producer competition, but the trade-in policy could be a potential game-changer, in our view.

PPI continued to recover thanks to low base effect and commodity reflation. PPI notably narrowed its contraction from -2.5% in Apr to -1.4% YoY, slightly better than market expectation of -1.5%. The MoM change of PPI rebounded to 0.2% from -0.2% in Apr. For mining industries, PPI of non-ferrous metals significantly accelerated to 8.9% YoY from 3.6% due to the surge of international non-ferrous commodity prices. Oil and gas mining remained unchanged at 9.4% YoY, due to a lower base last year and falling oil price. Coal mining and ferrous metals both narrowed their decline from -8.5% and -14.2% YoY to -2.7% and -9% YoY in May. For mid-stream industries, PPI in intermediate goods such as rubber & plastics and non-metallic mineral products continued to drop by 0.2% and 0.8% MoM. Final goods such as auto manufacturing and computers & electronics remained muted, dropping 0.3% and 0.2% MoM in May. Looking forward, PPI may continue its MoM growth while its YoY decline may gradually close in on 0 thanks to lower-base effect and rising raw materials costs, based on our estimates.

Deflation pressure may mildly alleviate. China may continue to loosen credit policy to stabilize the housing market and boost consumer demand. We expect smaller YoY declines of housing sales and gradual improvement of service consumption in the next several quarters. Deflation pressure may mildly alleviate as commodity prices continue to rebound and service prices gradually pick up. We maintain our forecast on China's GDP growth at 5% for 2024. CPI and PPI growth rates are expected to rise from 0.2% and -3% in 2023 to 0.6% and -0.8% in 2024, driven by a reduction in pig production capacity, an improvement of urban service activities and an end of the destocking cycle in global manufacturing.

Click [here](#) for the full report.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Linyi City Construction Investment Group Co., Ltd.	300	3y	6.68%	6.68%	Unrated

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

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Zhongyuan Yuzi Investment Holding Group Co., Ltd.	USD	-	3y	6.45%	-/-/A
Wuhan Urban Construction Group Co. Ltd.	USD	-	3y	6.05%	Baa2/-/BBB+

➤ **News and market color**

- Regarding onshore primary issuances, there were 118 credit bonds issued yesterday with an amount of RMB105bn. As for Month-to-date, 567 credit bonds were issued with a total amount of RMB612bn raised, representing a 2.1% yoy decrease
- **[EVERRE]** China Evergrande's Hui Ka Yan's luxury mansion on The Peak in Hong Kong has been sold for HKD448mn (cUSD57mn)
- **[GZFINH]** S&P downgraded Guangzhou Finance Holdings to BBB from BBB+ on protracted asset quality pressure, outlook stable
- **[KWGPRO]** KWG Group has appointed advisors to explore holistic solution to its offshore debts
- **[SHIMAO]** Shimao Group Chairman's 31/F of The Center office building in Hong Kong up for sale at HKD572mn
- **[VEDLN]** Vedanta Ltd expected to obtain demerger approval from required 75% of shareholders within 7-10 days, and plan to conclude the demerger process by Dec'24
- **[VNKRLE]** China Vanke has reaped over HKD820mn (cUSD105mn) from the sale of 100 residential units at Bondlane I & II in Hong Kong

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