Fixed Income
Credit Commentary

29 Jan 2024

CMBI Credit Commentary

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

- *The market was quiet this morning except for AMC sector, CCAMCL/ORIEAS tightened 5-15bps while GRWALL rose 0.5-1.5pts. Other IG names moved -2 to 1bps. Besides, EU AT1s rallied c0.5pt higher.*
- ***Key takeaways from marketing tours in HK, Singapore, SH and BJ**. See below.*
- ***China Property Sector** – Policy package to boost post-CNY sales but only ST effect on sector performance. See below for comments from CMBI equity research.*

❖ Trading desk comments 交易台市场观点

Asia IG space was soft last Friday. On the new issues, CISIFG priced a USD300mn 3-yr floating-rate note at SOFR+90. The new ORIEAS 27s opened 3bps tighter but closed 10bps wider from RO (CT2+135.5). In Chinese financials, CCAMCL 27s was under small selling and widened 3bps. Chinese IG benchmarks HAOHUA/TENCNT 30s were largely unchanged and the flows were balanced two-way. The high beta TMTs were under profit taking. LENOVO/MEITUA/XIAOMI 30s widened 3-8bps. In KR space, the recent new issues were better sold. DAESEC/KORELE/HYUELE/SAMTOT/WOORIB 26-29s were unchanged to 3bps wider. JP names such as SUMIFL '29/SMBCAC '33 were better bid and closed 2-4bps tighter. In HK space, SHUION 24-26s were up 0.8-2.8pts. However, PEAKRN/FWDGHD Perps were 0.6-1.9pts lower. NWDEVL 27-31s/LIHHK 25-26s were down 0.7-1.3pts. Chinese properties were firm. FTLNHD/FUTLAN 24-26s were up 1.1-1.5pts. VNKRLE 24/25 continued the recovery and closed 0.4-1.2pts higher on PB buying. GEMDAL '24/YLLGSP '26 were up 0.9pt. ROADKGs were 0.4-0.7pt higher, and CSCHCNs were up 0.5-0.6pt. In industrials, FOSUNI 25-27s were 1.3-2.9pts higher. CHIOIL '26 were up 0.8pt whilst ANTOIL '25 was down 0.6pt. Macau gaming names WYNMACs/SANLTDs were up 0.3-0.6pt. In Indian space, VEDLN 26-28s were up 0.8-1.4pts. Indonesian name MDLNIJ '25/APLNIJ '24 were 0.9-1.6pts higher. LPKRIJ '25/LMRTSP '24 were up 0.4-0.6pt.

The LGFVs had an active session with the headline that China's securities regulator has asked some investors to refrain from increasing their exposure to less-than-one-year LGFV dollar bonds. We saw opportunistic buying interests. SYSTIO priced a USD300mn 3-yr bond at par to yield 5.6%, and the new SYSTIO '27 was traded a touch higher than par. Overall, we reckon the LGFV space is approaching the new equilibrium at mid-5% for the quality names' 25s-27s papers. In light of this, we also saw mixed two-way flows in the names such as GZGETH/GZINFU/CDCOMM/NJYZSO/SXUCI/ZHANLO, as offshore AMs were happy to take profit at the current levels, whilst

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RMs/onshore banks who were funded in CNY remained better buyers on these USD bonds on the back of falling CNY yields and falling FX hedging costs. As a result of cross-border buying, the high-beta higher-yielding LGFVs also continued to compress in yields. In SOE perps, flows were better buying for c26 papers vs better selling for c24s perps. CHPWCN 3.08 Perp was up 0.1pt, whereas CHPWCN 4.3 Perp/HUADIA 4 Perp were down 0.1-0.2pt. In the high-beta IG names, flows were better buying on the insurance names. SUNSHG/GRPCIN 26s were 0.1-0.6pt higher.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
FOSUNI 5.05 01/27/27	**75.4**	**2.9**
SHUION 5 1/2 03/03/25	**70.0**	**2.8**
SHUION 5 1/2 06/29/26	**58.5**	**1.7**
FOSUNI 5.95 10/19/25	**89.4**	**1.7**
MDLNIJ 3 06/30/25	**31.6**	**1.6**

Top Underperformers	Price	Change
PEAKRN 5.35 PERP	**87.0**	**-1.9**
NWDEVL 3 3/4 01/14/31	**71.5**	**-1.3**
CHGRID 4 3/8 05/22/43	**89.8**	**-1.1**
LIHHK 4 1/2 06/26/25	**88.5**	**-1.1**
NWDEVL 5 7/8 06/16/27	**88.2**	**-0.9**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.07%), Dow (+0.16%) and Nasdaq (-0.36%) were mixed on last Friday while three indexes all rallied higher in last week. US Dec'23 home sales was 3.78mn units, lower than the expectation of 3.82mn units. UST yields moved higher on Friday, 2/5/10/30 yield reached at 4.34%/4.04%/4.15%/4.38%, respectively.

❖ Desk analyst comments 分析员市场观点

➢ Key takeaways from marketing tours in HK, Singapore, SH and BJ

Over the past 3 weeks, we met 53 clients in HK, Singapore, Shanghai, Beijing, etc. They include London-based EM fast money (FM), Asia-dedicated real money (RMs), global RMs, global PBs, Chinese SOEs, Chinese PBs and banks, as well as China-based RMs. We believe that these samples present a good picture as to what onshore (i.e. mainland China-based) and offshore investors are thinking about the market.

Interestingly, onshore investors are more bearish on China. In our view, this partly reflects the close touch of onshore investors with the slowing Chinese economy and policy changes. This also reflects the relatively young generation of onshore investors which may be experiencing their first downturn in their careers.

In general, we believe that clients are relatively cautious on fundamental but valuation remains tight as the net redemption trend will likely continue. Hence, we expect the market volatility to remain high in 2024 depending on the pace of US rate cut and relative strength of USD which will affect the fund outflow, as well as economic fundamental of the region. We summarize the key takeaways of our tour as follows:-

Fund flow

- For offshore investors, fund outflow situation has been moderating in general. Most of the clients told us that their fund flow situation stabilized starting from 4Q23. They have yet to see meaningful fund inflow. We expect the fund flow situation to show more notable improvement only after the US rate cut materializes. Our house view is 150bps FFR cut in FY24 starting from May'24.

- For onshore investors, fund flow situation is quite different from their global counterparts. Onshore investors' interests in offshore USD bonds remain to be keen, reflecting the higher yield of USD bonds versus onshore bonds. Their keen interests also reflect the lacklustre performance of onshore capital markets, their cautious view on economic fundamental in China and concerns on longer-term depreciation of RMB.

- Onshore banks we met have sizeable incremental requirements to deploy funds for offshore investments through south-bound bond connect. Onshore RMs, on the other hand, have new QDII mandates to invest offshore but the approval of QDII is more stringent, and will likely take longer than 6 months to complete.

- In the near-term, onshore investors, especially banks with quota for south-bound bond connect, are keen to explore opportunities in dim sum (CNH) bonds to manage forex risk in anticipation of FFR cut and weaker USD. These could continue to support the performance of LGFVs' offshore bonds as onshore banks have been the anchor investors for the offshore bonds of LGFVs. Indeed, dim sum bonds experienced record high issuance in 2022 and 2023, with issuance amount of USD84.5bn and USD61.6bn, respectively, amid the sharp decline in USD bond issuance over the past 3 years.

Positioning

- Offshore investors remain underweight in China though a few of them has been reducing the underweighting after the outperformance of a few non-Chinese segments such as Thai IG, India HY and Indon HY. Additionally, the technical of Asia ex JP credits, including Chinese credits, remain strong as net redemption trend will likely continue over the coming 2-3 years.

- Onshore investors are still very much focused on Chinese credits. We experienced more probing questions on non-Chinese credits including papers of SE Asia banks and even European banks. That said, we believe that the process for onshore investors to invest meaningfully in non-Chinese credits will be long and the starting point will be SE Asia bank credits.

- Bank/FI are the most frequently discussed sectors as investors are comfortable with the fundamental and regulatory environment. The general view is that Chinese bank papers are expensive and the overall valuation of bank/FI in Asia is not too appealing. Nonetheless, the technical remains strong with net redemptions and the tight valuation is supported by the strong local demand and higher certainty on call and distribution.

- We still had lots of questions on Chinese properties and a couple of global RMs are still involved in the sector. Overall, the push-back on the sector remains strong.

- TMT is one of the few sectors without much push-back from investors we met. The consensus is that concerns on regulatory environment are moderating and incremental sanction risk is lower. The discussions are more on BBB-rated TMT credits such as Xiaomi and Meituan as some investors consider A-rated TMT expensive.

- Among offshore investors, Macau gaming sector is another sector without much push-back. Clients share our thoughts that the conviction is lower but the performance of Macau gaming bonds will be supported by improving credit fundamentals and a slew of expected positive rating actions expected.

- On LFGVs, onshore investors in general remains positive given their sanguine view on recent supportive policies on LGFV refinancing and the premium of USD bonds over the onshore bonds.

View on UST

- FFR cut and lower UST rates are market consensus. The differences are pace and magnitude of the rate cut. The consensus is FFR rate cut of 1-1.25% in 2024 vs our house view of 1.5%.

- Investors are keen to add duration, especially lifers prefer bonds with tenors of 10 years or longer. That said investors were reluctant to add duration when 10-yr UST rate is below 4%. They would be more comfortable to add long-dated papers if 10-yr UST rebounds to 4.2-4.3%.

➢ China Property Sector – Policy package to boost post-CNY sales but only ST effect on sector performance

A series of policies on both the demand and financing side have been rolled out recently including purchase limit relaxation in Guangzhou, MOHURD's financing coordination mechanism and PBOC/CBIRC's loosening on operational property loans. We believe the policy package should boost property sales after the CNY but only bring a ST positive effect on the sector's stock performance given the core issues causing fundamental challenges remain unresolved: 1) residents' purchasing power has not seen significant improvement, and 2) financial institutions' unchanged risk assessment standards make it difficult for developers to obtain incremental financing. Thus we think the key areas to watch are 1) macro economic recovery; and 2) whether regulators provide guidance on risk assessment standards for financial institutions or if there's innovation in financing cooperation methods for developers. For stocks, we think the relaxation in Guangzhou will benefit developers with larger scale of land acquisition in the city such as Poly Dev., COLI and CR Land. The policy of operational property loans may favour developers with a higher proportion of investment properties like CR Land, Longfor, CMSK, and Vanke in the short term, in our view.

What's new and our read:

- **Guangzhou further optimized real estate policies,** and key measures include: 1) remove purchase restriction of residential properties with GFA >120 sq.m. 2) assign an extra housing purchase quota for buyers who completed registration procedures of leasing/listing for sale for their old houses. 3) reiterate an increase in affordable housing supply to meet housing needs for first-time homebuyers. **Our read**: policy measures are stronger than expected and likely to effectively boost both primary and secondary property sales in Guangzhou post CNY as the pre-CNY period tends to be a low trading season. The policy reflects a highly positive stance indicating regulator's intention to boost market confidence. However, **it does not necessarily signify the market is entering a strong stimulus phase similar to the past** in our view, given residential properties with GFA>120 sq.m are associated with upgrading demands. Together with Guangzhou's emphasis on increasing the supply of affordable housing, this policy clearly signifies a further implementation of the "dual-track housing system", meaning that the mid-to-long-term trend of reducing supply of commercial housing remains unchanged. We think **other tier-1 cities may impose some relaxation policy but the measures may not be stronger than Guangzhou** as Guangzhou has relatively weaker sales performance in the past two years and accumulated the highest inventory among tier-1 cities. The GFA of sellable residential properties in GZ reached 11.5mn sq.m as of 27 Jan 2024, while Beijing, Shenzhen and Shanghai had 10.6mn, 5.14mn and 7.38mn sq.m. Therefore, policies of equivalent strength in other tier-1 cities could potentially fuel speculation sentiment which is not in line with regulatory expectations. We think the second piece of policy measure is likely to be followed in other tier-1 cities as it aims to fix the issue for buyers to purchase a new home when their old one has trouble in selling after the policy of "confirming home purchase quota based on property-owned rather than mortgage records"

- **MOHURD to establish real estate financing coordination mechanism** which urges local governments to build communication platforms between government, banks and developers to facilitate the resolution of difficulties in property project financing, with the first batch of project list to be released before the end of Jan 2024. **Our read**: from the details released by MOHURD we learned that the mechanism is intended to provide financing support for property projects rather than property developers, implying that the measure's underlying principle is to "ensure project delivery" rather than "rescue developers". While developers with project included in the list may receive some assistance but it is limited to the project level. Therefore, we think the mechanism may not significantly address liquidity constraints or alleviate debt pressure for developers as the market expected but it can effectively help the utilization of funding for "housing delivery".

- PBOC and CBIRC **jointly issued the "Notice on the Management of Operational Property Loans"** which allow developers who operate in a standardized manner and have promising development prospects to extend the utilization purpose of operational property loans to repay existing loans and public bonds. **Our read**: this could help certain developers obtain incremental funds but the amount is limited. Based on our channel check on banks, some of them did receive the related notice half a month ago, while at the implementation level, the loan purpose has only been extended to include repayment of existing loans related to "ensuring housing delivery" or "affordable housing". Currently they have not been instructed to adjust LTV, loan interest or project value assessment standards for operational property loan. Therefore, the policy impact in terms of incremental funding for developers is limited. We think it may bring some positive effects for developers with a high proportion of investment properties.

Our view. We believe the policy package should boost property sales after CNY but only bring ST positive impact on the property sector's stock performance given the core issues causing fundamental challenges remain unresolved: 1) key reason for challenging sales recovery is the lack of improvement in residents' purchasing power. 2) developers' difficulty on obtaining incremental financing is mainly due to unchanged risk preference of financial institutions. Thus we think the key areas to watch are 1) macro economic recovery; 2) whether regulators provide guidance on the execution of risk assessment standards for financial institutions or if there will be innovation in financing cooperation methods for developers. For stocks, we think the Guangzhou policy will benefit developers with larger scale of land acquisition in Guangzhou such as Poly Dev., COLI and CR Land. The policy of operational property loans may favour developers with a larger scale of investment properties like CR Land, Longfor, CMSK, and Vanke, in our view.

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➢ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
China Industrial Securities	300	3yr	6.255%	SOFT+90	-/-/BBB

➢ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Haichuan International Investment	USD	-	3yr	5.80%	-/-/-
Hyundai Capital Services	USD	-	3/5yr	T+145/155	Baa1/-/BBB+

➢ News and market color

- Regarding onshore primary issuances, there were 111 credit bonds issued yesterday with an amount of RMB83bn. As for Month-to-date, 1,637 credit bonds were issued with a total amount of RMB1,340bn raised, representing a 46.9% yoy increase

- Media reported that China Cinda, China Orient and Greatwall AMC will be merged by China Investment Corporation soon. The moves reflect the Chinese government continue to be supportive on the long-term developments of AMCs and reinforce our belief that the analysis of AMCs should be more on a top-down basis

- **[ADEIN]** Media reported that Adani group is in talks with PEs for up to USD 3bn fundraising plan

- **[CHALUM]** China Aluminum International Engineering expects to turn to cRMB2.5-2.8bn loss in 2023 from RMB112mn net profit in 2022
- **[EVERRE]** Hong Kong High Court ordered China Evergrande Group to be wound up
- **[GEMDAL]** Media reported that Gemdale fails to secure syndicated loan, it may get obtain individual loan from banks with similar amount compared to proposed syndicated loan
- **[JZCITY]** Bank of Jinzhou announced to receive USD444mn takeover offer from Liaoning Financial Holdings
- **[LMRTSP]** Fitch downgraded Lippo Malls Indonesia Retail Trust and its bonds to C
- **[SINOPE]** Sinopec FY23 oil and gas production rose 3.1% to 504mn barrels of oil equivalent

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