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CMBI Credit Commentary

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

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The Asset Asian G3 Bond Benchmark Review 2023

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 2023". Thank you for your time. Your support will mean a lot to us.

- *Markets tended to risk-on this morning. In Asian IG space, new issues HKLSP'33 tightened 2bps, KORHIC'26 tightened 7bps. TMT and SOE names were under better buying.*

- ***Chinese properties:** Regulators extends loan relief; more stimulus awaits. See below.*

- ***China Economy – Deflation entrenched as demand remained weak.** CMBI maintains forecast on CPI growth in 2023 at 0.8% and lower the forecast for 2024 CPI growth from 2.4% to 2.1%. See below for comments from our economic research.*

❖ **Trading desk comments 交易台市场观点**

Asia IG space had a quiet session yesterday with spreads held roughly unchanged except for AMCs. HRINTH curve was traded around 1-3pts lower. GRWALLs were marked 10-25bps wider (around 0.25pt lower). The front-end of T2s/leasing papers were firm with balanced two-way flows. BCHINA 23s and CCBL/ICBCIL 25s grinded 3-6bps tighter. In Chinese SOEs, CNOOC/CHGDNU papers were better bid. In TMTs, benchmark papers such as BABA/BIDU 31s and TENCNT 30s edged 1-2bps tighter. In HK/Korea space, CKHH/NACF 28s tightened by 1-2bps. Chinese properties performed mixed. COGARD 24s fell around 7pts and the rest of COGARDs lowered 1-2pts. CSCHCN/GEMDAL 24s were traded 2-4pts lower. AGILEs/GRNLGRs declined 0.5-1.5pts. On the other hand, DALWAN 23s were bid up 4.75pts to close at 93.5. FUTLAN 25s/FTLNHD 26s were marked 2.5-5pts higher. SINOCE 24s/27s gained 1-2pts. PBOC & NFRA (previously CBIRC) jointly announced to extend two of the measures of the 16-point measures to Dec'24. See below for more comments. Industrials FOSUNI 25/WESCHI 26 were quoted 0.5-1pt lower. Macau gaming papers such as MPELs/SANLTDs/STICTYs were marked down 0.5-1pts. In Indian space, VEDLNs dropped 1.75-3.5pts. ADSEZs/ADTINs declined 0.5-1pt. Indonesian SOEs PERTIJs/PLNIJs were indicated 1-2pts lower. Elsewhere, GLPCHI 26 was bid up 1.25pts.

In the LGFV/Perp space, there were modest two-way flows. The sentiment was tepid in light of weaker-than-expected China CPI/PPI data and the mini-

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selloff in HRINTH. The front-end 23s/24s LGFV papers continued to widen towards low/mid-6%. The 25s and longer-tenor papers were largely stable. SHGUOH 25s and YWSOAO 25s were indicated 0.125pt lower. In HK Corp Perp space, NWDEVL/NANFUN/CKPH Perps were marked 0.5-1.5pts lower.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
DALWAN 6 7/8 07/23/23	**93.5**	**4.8**
FUTLAN 4.45 07/13/25	**42.5**	**4.7**
FTLNHD 4 1/2 05/02/26	**37.7**	**2.5**
CENCHI 7 1/4 04/24/23	**9.6**	**2.0**
SINOCE 5.95 02/04/27	**10.9**	**1.9**

Top Underperformers	Price	Change
COGARD 8 01/27/24	**49.5**	**-6.9**
COGARD 6 1/2 04/08/24	**39.4**	**-6.7**
CSCHCN 9 06/26/24	**64.4**	**-3.8**
HRINTH 4 7/8 11/22/26	**85.3**	**-3.1**
HRINTH 3 7/8 11/13/29	**73.6**	**-3.0**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.24%), Dow (+0.62%) and Nasdaq (+0.18%) rebounded yesterday, markets are focusing on this week's CPI and PPI which are expected to be +3.1%/2.7% yoy. US dollar index retreated to 101.6, the lowest level since 10 May'23. The US treasury yields overall dropped yesterday, the 2/5/10/30 yield reached 4.85%/4.25%/4.01%/4.05%, respectively.

❖ Desk analyst comments 分析员市场观点

➢ Chinese properties: Regulators extends loan relief; more stimulus awaits

In the joint statement issued by PBOC and National Financial Regulatory Administration (NFRA) yesterday, financial institutions will be encouraged to negotiate with the property developers to extend outstanding loans in order to accelerate the delivery of properties under construction. This is an extension of two of the measures in 16-point measures introduced by the regulators in Nov'22, to Dec'24 from Apr'23: (1) for the outstanding loans including property development loans and trust loans due by 31 Dec'24 will be given a one-year extension, without loan reclassification; (2) for the loan draw down before 31 Dec'24 supporting the project delivery, financial institutions are also allowed to maintain the current loan classification during the loan period. The regulators also said all remaining measures without specifying expiration date are effective for long term.

These policies come out after the release of Jun'23 home sales which fell sharply yoy. As discussed in our daily yesterday, the 35 developers under our radar reported contracted sales of RMB306.5bn in total in Jun'23, dropped 39.6% yoy compared with that of Jun'22. The 35 developers all reported yoy decline in contracted sales during the month. The fell in home sales in Jun signaled the end of the four-month rebound after reopening of China in Jan'23.

The two extensions could help give some breathing room for the property developers to ensure project deliveries. Nonetheless, the impact of the 16-point measures on the revival of the property markets may be limited as we repeatedly discussed that the property demand will likely remain weak under the backdrop of weak economy and expectation of lower property price. While we will not be surprised to see stimulus packages aiming at ensuring property deliveries and stemming the trigger of systemic risk, we do not expect the government to divert significant resources to support property developers.

➢ China Economy – Deflation entrenched as demand remained weak

China's CPI growth dropped further in June to a lower-than-expected 0% amid weak consumer demand and tough supply competition. CPI in durables continued to decline as housing sales and durable consumption further weakened. Healthcare, tourism, recreational service and social-activity-related items were the few bright spots in China's consumption recovery as CPI in those sectors continued to rebound despite easing momentum. China's PPI further declined as domestic economy weakened and commodity prices corrected amid expectations of additional Fed tightening. Chinese enterprises continued to reduce inventory and remained cautious on capex expansion. Looking forward, the deflation pressure may last longer than our expectations with negative output gap in most sectors. We maintain forecast on CPI growth in 2023 at 0.8% and lower the forecast for 2024 CPI growth from 2.4% to 2.1%. The forecast for China's PPI growth in 2023 and 2024 is lowered from -2.3% and 1.7% to -2.7% and 1.3%, respectively. The deflation will increase debt burden and hurt durable consumption and capex demand. China is likely to further loosen credit policy and property policy to boost the growth momentum in the second half year.

CPI growth became flat as consumer demand weakened. CPI stayed flat YoY in June after rising 0.2% YoY in May. The lower-than-expected CPI is mainly driven by the non-food variables while food CPI picked up 2.3% YoY in June after rising 1% in May. Energy sector continued with the deflation trend as fuel CPI further declined 17.6% YoY in June after dropping 11.1% YoY in May. Core CPI growth edged down to 0.4% YoY in June as overall consumption remained weak. Breaking down by sectors, CPI in transport vehicles and home appliances further declined as durable demand remained weak and supply competition was tough. But CPI in telecom equipment narrowed the YoY declines as the demand may have improved thanks to technology upgrade. Employment condition especially for the youth remained challenging as housing rent continued to decline in June. Medicines, medical services, travel services, recreational services and apparel experienced a mild reflation as demand in these sectors continued to recover although the momentum is fading.

PPI further declined due to weak domestic demand and expectations of additional Fed tightening. PPI further declined 5.4% YoY in June after dropping 4.6% YoY in May. The decline in PPI was largely resulted from sharp price declines across a wide range of raw materials. For one reason, domestic demand continued to weaken as housing market and durable consumption remained sluggish and fixed asset investment further slowed. For another, US core inflation remained high with strong labor market and service economy. The Fed may continue to tighten monetary policy, hurting the sentiment in commodity market. PPI in coal mining, oil & gas mining, ferrous metal and non-ferrous metal respectively fell 19.3%, 25.6%, 16%, and 7.2% after dropping 13.1%, 19.1%, 16.8%, and 8.4 YoY in May. From the MoM perspective, PPI declined 0.8% in June after dropping 0.9% in May. Prices of textile apparel and liquor & beverage increased 0.2% and 0.1% MoM in May. However, prices of coal, chemical materials & products, petroleum & other fuel processing and ferrous metals declined by 6.4%, 2.6%, 2.6% and 2.2% MoM in May.

Deflation pressure may last longer than our expectations. China's GDP growth may continue to run below the potential growth with negative output gap in most sectors into next year. Uncertainty in economy, policy and geopolitics should continue to restrain confidence in China's private business community. Private entrepreneurs absorb 80% of urban employment. Their weak confidence indicates employment condition may remain challenging, which is not good for consumption recovery. Meanwhile, overseas demand especially for goods may further slow down as the monetary tightening condition may last longer than expected due to sticky service inflation. Therefore, the reflation should be quite mild in China as we maintain the forecast for CPI growth in 2023 at 0.8% and lower that in 2024 from 2.4% to 2.1%. We cut the forecast for PPI growth in 2023 and 2024 from -2.3% and 1.7% to -2.7% and 1.3%, respectively.

China may further loosen credit policy and property policy to boost the growth. The deflation will hurt durable consumption and capex and increase debt burden for borrowers. China may further loosen credit policy to defy the deflation risk and boost growth momentum. We expect additional moderate cuts in deposit rates and LPRs in 2H23. The authority may guide banks to further expand their credit supply to real sector. Meanwhile, most cities may loosen property policy with declines of down-payment ratio and mortgage rates for first-home and second-home buyers. In addition, credit and fiscal support for hard-technology and high-end manufacturing sectors may further increase.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Doosan Enerbility (guaranteed by the Korea Development Bank)	300	3yr	5.5%	T+98	Aa2/-/-
Hongkong Land	400	10yr	5.25%	T+125	A2/A/-

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

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
CICC	USD	-	3yr	T+125	-/BBB+/-
Hangzhou Shangcheng District Urban Construction Investment Group	USD	-	364d	6.7%	-/-/BBB
Korea Hydro & Nuclear Power	USD	-	5yr	T+120	Aa2/AA/-

➢ **News and market color**

- Regarding onshore primary issuances, there were 71 credit bonds issued yesterday with an amount of RMB77bn. As for Month-to-date, 375 credit bonds were issued with a total amount of RMB324bn raised, representing a 19.7% yoy decrease
- **[AZUPOE]** Media reported that Azure Power asked onshore lenders for three more months to file audited financials
- **[DALWAN]** Dalian Wanda Commercial Management's cRMB5.1bn shareholding in Zhuhai Wanda Commercial Management frozen by Zhanjiang's court
- **[EHOUSE]** E-House (China) Enterprise delayed circular on HKD483mn rights issue to on or before 31 Aug
- **[GRNCH]** Greentown proposes to offer up to RMB1.5bn corporate bonds
- **[HLBCNH]** Helenbergh hit by HK winding up petition from offshore bond trustee
- **[SINOCE]** Media reported that CICC-led team is not aiming at Sino-Ocean’s debt restructuring but facilitating external shareholders’ grasp on operating conditions
- **[VEDLN]** Foxconn pulled out of USD19.5bn JV deal for semiconductor production with Vedanta
- **[XINHUZ]** Xinhu Zhongbao proposes to offer up to RMB700mn CBICL guaranteed three-year MTNs

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