

CMBI Credit Commentary

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

- *Markets were stable this morning. AU/HK/TH Bank T2 and KR security houses were well bid. LGFVs remained active and were under better buying. Chinese property developers rebounded. DALWAN/VNKRLE rose 0.2-1.2pts.*
- **ZHOSHK:** *Preliminary agreement with Seres on EV distribution is slightly positive. Maintain buy on ZHOSHKs. ZHOSHKs were unchanged this morning. See below.*
- **China Economy** - *Credit slowdown nears its conclusion. See below for comments from CMBI economic research.*

❖ Trading desk comments 交易台市场观点

Yesterday, Asia IG space had a quiet session given US holiday. In KR/JP, DAESEC 29s tightened 5bps and DAESEC 25-27s were 3bps tighter. SKEIS 30/34s, however, were 1-2bps wider. In Chinese IGs, ZHOSHK 28s tightened another 7bps. Zhongsheng announced the preliminary agreement with Seres on EV distribution. See comments below. In financials, HRINTHs closed 1-4bps tighter post its investment plan. See our comments on [11 Nov '24](#). In EU AT1s, the papers callable in 2028-2031 such as BACR 8/BNP 8/INTNED 8 Perps were up 0.2-0.5pt. Meanwhile, the 6%-yielding IGs FRESHK 27-28s/BNKEA '34 were 2-4bps tighter on RM buying. In HK, CKHH/HKAA/AIA 30-34s were 1-3bps wider. HYSAN/NANFUN FFL Perps were down 0.3pt. Chinese properties were lackluster. DALWAN 25-26s dropped another 2.3-2.5pts after the decline of 4.6-6.3pts last week. ROADKG Perps were another 0.7-1.7pts lower. VNKRLE 27-29s/FTLNHD '25 were down 0.5-1.0pt. Outside properties, FOSUNI announced the new issue mandate of a 3.5NC2 USD bond and a concurrent partial tender offer for its o/s USD700mn FOSUNI '25 at 99.5. The maximum tender acceptance amount will be up-to the new issue size. FOSUNI 25-28s were unchanged yesterday and closed unchanged to 0.1pt higher this morning. WESCHI was 0.4pt higher as Ethiopian government relax the price control on cement. We understand the current selling price is about 60% discount to the black market price. EHICAR 26/27s were down 0.5-0.6pt. In India, UPLLIN 28/30/Perp declined 0.6-1.1pts following UPL's weaker 1H25 results resulting from pricing pressure. In Indonesia, MDLNIJ 25/27s lowered 0.4-0.9pt.

Both USD and CNH LGFVs remained better bid by Chinese RMs. We saw the LGFVs yielding mid-8%-to-11% were under better buying from global PBs. UECTED 7.5 '27/KNMIDI 9.8 '25 were 0.1-0.3pt higher. SHGUOH '26/JNUCGC '26/CONSON '26/GXCMIN '25 were also up 0.1-0.2pt. In SOE perps, CHPWCN 4.25/HUANEN 3.08 Perps were down 0.1pt. Meanwhile, CWAHK/MINMET 26s were up 0.3-1.0pt.

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Cyrena Ng, CPA 吴倩莹
(852) 3900 0801
cyrenang@cmbi.com.hk

Jerry Wang 王世超
(852) 3761 8919
jerrywang@cmbi.com.hk

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CWAHK 4.85 05/18/26	96.5	1.0	DALWAN 11 01/20/25	83.6	-2.5
SINOCH 6.3 11/12/40	110.3	1.0	DALWAN 11 02/13/26	73.7	-2.3
HAOHUA 4 3/4 06/19/49	91.6	0.8	ROADKG 7 3/4 PERP	15.0	-1.7
SINOPC 4 1/4 04/24/43	91.0	0.8	UPLIN 4 5/8 06/16/30	84.7	-1.1
HAOHUA 3.7 09/22/50	76.9	0.7	ROADKG 7.95 PERP	14.9	-1.1

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.10%), Dow (+0.69%) and Nasdaq (+0.06%) rallied higher on Monday. UST yields were unchanged on US holiday, 2/5/10/30 yield stayed at 4.26%/4.20%/4.30%/4.47%.

❖ Desk Analyst Comments 分析员市场观点

➤ ZHOSHK: Preliminary agreement with Seres on EV distribution is slightly positive

We view the potential EV distribution agreement with Seres slightly credit positive in the near-term given the government's promotion of EV sales. The sales of EVs, through optimizing sales network, will help sales volume growth at a manageable capex. That said, as we discussed before, 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. How the sales of EVs will affect the contributions of higher margin after-sale services over the medium term will need to be monitored. Since mid of last week, ZHOSHK 0 05/21/25 (CB) is about 1 pt higher, ZHOSHK 3 01/13/26 and ZHOSHK 5.98 01/30/28 were 20-30bps tighter, partly thanks to the talks of EV distribution agreement. Although we believe that the market may be over-excited on the preliminary agreement, we still consider ZHOSHKs good shorter-dated carry plays at current valuations, and hence maintain buy on ZHOSHKs.

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	114.5	72	5.1%
ZHOSHK 3 01/13/26	USD	450.0	3.0%	1/13/2026	96.9	157	5.8%
ZHOSHK 5.98 01/30/28	USD	600.0	5.98%	1/30/2028	99.4	218	6.2%

Source: Bloomberg.

Zhongsheng finally made an announcement on the preliminary agreement with Seres to explore the distribution of EVs manufactured by Seres after the share price moved c53% higher since last Fri. So far, there is no detail as to the time table, potential investments and distribution agreement. The market talks are Zhongsheng would have 40-50 stores to distribute Seres' AITO. Seres is a Chinese automobile manufacturer and AITO is a smart EV brand of Seres. AITO is the first brand under Harmony Intelligent Mobility Alliance collaboration model with Huawei providing solutions for product planning, design, marketing, and intelligent vehicle software and hardware. In 2023, the new car sales of Seres Group were 253,181 units, of which AITO accounted for 94,380 units. The new car sales of Zhongsheng in 2023 is 501,570 units.

As per our discussions with Zhongsheng, if the distribution agreement with Seres can be reached, the capex for EV stores should be negligible through conversion of existing stores. This is in line with Zhongsheng's strategy to optimize its store network instead of pursuing store network expansion.

➤ China Economy - Credit slowdown nears its conclusion

Credit growth remained subdued in Oct as the growth rates of outstanding social financing and RMB loans hit new lows. This trend serves as a leading indicator for the business cycle, suggesting the economy is not on a path of sustainable recovery. Government bond financing declined and corporate borrowings remained weak due to cautious capex expansion. However, long-term loans to households showed improvement with a rebound in housing sales following a recent policy shift towards significant easing. Additionally, the money supply picked up driven by the recovery in the housing market and a rally in the stock market over the past two months. We anticipate that the slowdown in credit is nearing its conclusion, as the recent policy changes are likely to enhance credit supply, boost government financing and stimulate sales in housing and durable goods. Nevertheless, ongoing deflationary pressure and a lack of confidence in the private sector may continue to weigh on credit growth. We project the PBOC may further ease liquidity and credit supply, potentially cutting RRR by 0.5-1ppt and lowering LPR & deposit rates by 20-40bps in 2025.

Social financing further contracted while M2 continued to recover. Outstanding social financing growth declined to 7.8% YoY (all in YoY terms unless otherwise specified) in Oct from 8% in Sep as social financing flow plunged 24.3% in Oct. Government bond financing was the major drag as it dropped 32.9% in Oct to RMB1.05tn after growing 54.8% to RMB1.54tn in Sep. New RMB loans to the real sector dropped 38.2% in Oct to RMB298bn, compared to RMB1.97tn in Sep. Corporate bond financing turned positive at RMB101bn in Oct from RMB-192bn in Sep, yet still below year-ago level. M1 supply narrowed its YoY decline partially thanks to the rebound of housing sales. M2 bounced up from 6.8% to 7.5%, as funds flowed from WMPs into deposits for equity investment and banks expanded lending to brokers, equity funds and insurance companies amid the support of the PBOC's special refinancing mechanism.

New loans further declined but M&L term loans to households notably rebounded. Growth of outstanding RMB loans edged down to 8% in Oct from 8.1%, hitting another historic low. New RMB loans dropped 32.3% to RMB500bn in Oct, following the 31.2% dip to RMB1.6tn in Sep. New short-term loans to households remained subdued but medium- and long-term loans saw a remarkable rebound of 55.6% to RMB110bn in Oct after dropping 58% to RMB230bn in Sep, as property sales in tier-1 cities were booming in Oct. New loans to the corporate sector markedly plunged by 74.8% in Oct to RMB130bn compared to RMB1.5tn in Sep, with negative short-term borrowing at -RMB190bn and medium- & long-term dropping 55.6%, as the effect of stimulus has yet to reach the corporate side. Bill financing picked up RMB169bn in Oct compared to RMB545.1bn in Aug.

Credit slowdown is nearing its conclusion. Recent policy developments suggest an important shift towards significant easing. The PBOC has eased liquidity condition and credit supply with abrupt RRR and interest rate cuts. Additionally, the MoF has initiated LG debt swaps to mitigate local fiscal distress. Municipal governments have also relaxed property policies. Credit slowdown is nearing its conclusion as the recent policy shift is expected to boost credit supply, increase government financing and stimulate sales in housing and durable goods. Nevertheless, the recent measures primarily focus on stabilizing the housing market and addressing local fiscal distress following the property slump. Policy support for consumers remains limited, as ongoing deflationary pressure and weakened confidence may continue to hinder credit expansion. The PBOC may further ease liquidity & credit supply with additional RRR cuts by 0.5-1ppt and LPR & deposit rate reductions by 20-40bps in 2025.

Click [here](#) for full report

➤ Offshore Asia New Issues (Priced)

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

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
China Everbright Bank HK Branch	USD	-	3yr	SOFR+105	-/BB-/-
Fosun International	USD	300	3.5NC2	8.875%	-/BB-/-
Westpac Banking Corp	USD	-	2yr/11NC10	T+50/150	Aa2/AA-/-
Westpac Banking Corp	USD	-	2yr	SOFR Equiv	Aa2/AA-/-

➤ News and market color

- Regarding onshore primary issuances, there were 66 credit bonds issued yesterday with an amount of RMB69bn. As for month-to-date, 480 credit bonds were issued with a total amount of RMB465bn raised, representing a 10.2% yoy decrease
- Media reported that China plans to lower homebuying taxes in tier-1 cities
- [CRHZCH]** China Resources Land announced to redeem USD1.05bn CRHZCH 3.375 PERP on 9 Dec'24
- [FOSUNI]** Fosun International announced 3.5NC2 new issue and concurrent partial tender offer to repurchase FOSUNI 5.95'25 at 99.5
- [LOGPH]** Logan Group's CSA longstop date further extended to 2 Dec'24
- [SMCPM]** San Miguel 9M24 revenue rose 11.2% yoy to USD20.1bn and EBITDA rose 8.9% yoy to USD2.9bn
- [VEDLN]** Media reported that Vedanta Limited plans to invest USD500mn in display glass unit
- [WESCHI]** Media reported that Ethiopia announced new policy for cement producers that manufacturers are now permitted to select their own distributors and retailers, allowing them to offer products to consumers at competitive prices.
- [YUEXIU]** Yuexiu Property signed two facility agreements totalling HKD3.5bn
- [ZHPRHK]** Media reported that Zhenro Properties Group eyes to reach consensus with creditors on new terms by 2024-end

Fixed Income Department

Tel: 852 3657 6235/ 852 3900 0801

fis@cmbi.com.hk

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