CMB INTERNATIONAL 招银国际

Fixed Income
Credit Commentary

18 Oct 2024

CMBI Credit Commentary

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

- *Asian IG space tightened 1-3 with better buying flows this morning. New NBHSDC'27 and WHMTR'27 were under better selling and dropped c0.5pt. AT1 and long duration names retreated a bit. DALWANs dropped c0.5pt.*

- ***MOHURD press conference:*** *Additional RMB1.8tn loans to white-listed projects by end-2024. See below for comments.*

- ***China Policy*** *- Cautiously optimistic after disappointment. See below for comments from CMBI economic research.*

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❖ Trading desk comments 交易台市场观点

Yesterday, the new SEKIS 30/34 both tightened 15bps from the ROs. HYUELEs/LGENSOs closed 1-2bps tighter. DFHOLD '26 tightened 2bps. SHNHAN '34 tightened 4bps. Meanwhile KRKPSC 29s tightened 3bps. In financials, the front end of HRINTHs closed 2-6bps tighter. FRESHK 25-27s were 4-7bps tighter (0.2pt higher), FRESHK 28s closed 3bps tighter (0.1pt higher). AIAs tightened 1-3bps on PB buying. ASAMLIs/NIPLIFs were up 0.1-0.2pt. Meanwhile ZURNVX priced a USD500mn 30.5NC10.5 bond at par to yield 5.505%. The new ZURNVX 5.5 '55 closed 0.3pt higher from RO. In EU AT1s, the recent new INTNED 7.25 Perp/CMZB 7.5 Perp were 0.2-0.3pt higher. In HK, NWDEVLs were up 0.1-0.4pt. Chinese properties were soft. MOHURD's press conference did not provide much excitement. See comments below. VNKRLE 25/27/29 dropped 2.0-2.3pts. LNGFOR 27/28/29/32 declined 0.8-1.3pts. FTLNHD/FUTLAN 24-26s were down 0.3-0.6pt. Outside properties, EHICAR '27 declined 0.8pt. MPELs/SANLTDs were 0.2-0.4pt lower. Away from China, GLPCHI '26/GLPSP '25 were 0.7-0.9pt higher, GLPSP Perps were 0.6-0.7pt lower. See our comments on 17 Oct '24. In Indonesia, LPKRIJ '26 was 0.4pt higher post Fitch's one-notch upgrade. In India, MUTHIN priced a USD400mn 4.5-yr bond at 99.996 to yield 6.375% and the new MUTHIN '29 rose 0.3pt from RO. ADGREG '42 was down another 0.2pt and closed 0.5pt lower WTD.

In LGFVs, WHMTR priced a USD400mn 3-yr bond at 99.662 to yield CT3+68 (4.572%). NBHSDC priced a USD150mn 3-yr bond at par to yield 4.65%. The sentiment remained very upbeat. CPDEVs/BCDHGRs remained sought after by RMs and closed unchanged to 0.1pt higher. The CNH ZHHFGR 6 Perp was 0.2pt higher. YTGFIH 5.6 '27/CONSON 6.1 '27 rose another 0.1pt. CDCOMM 4.75 '27/CQLGST 4.5 '27 were 0.2-0.3pt higher. HNYUZI/HZFYCT/BJAFHO 26s were up 0.1pt. In SOE perps, the new CHPWCN 4.6 Perp and the old CHPWCN 4.25 Perp were both 0.1pt higher. HUADIA 3.375 Perp was down 0.1pt..

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
GLPCHI 2.95 03/29/26	**91.3**	**0.9**	VNKRLE 3.975 11/09/27	**66.1**	**-2.3**
GLPSP 3 7/8 06/04/25	**97.5**	**0.7**	VNKRLE 3 1/2 11/12/29	**62.2**	**-2.2**
HRINTH 4.95 11/07/47	**87.1**	**0.5**	VNKRLE 3.15 05/12/25	**89.5**	**-2.0**
LPKRIJ 6 3/4 10/31/26	**99.4**	**0.4**	MUFG 4.153 03/07/39	**92.5**	**-1.6**
NWDEVL 8 5/8 02/08/28	**94.8**	**0.4**	LNGFOR 3.85 01/13/32	**69.5**	**-1.3**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.02%), Dow (+0.37%) and Nasdaq (+0.04%) were mixed on Thursday. The latest US initial jobless claim was +241k as expected. US Sep'24 retail sales rose +0.4% mom, higher than the expectation of +0.3% mom. China 3Q24 GDP rose 4.6% yoy, higher than the expectation of +4.5% yoy. UST yield moved higher yesterday, 2/5/10/30 yield reached 3.96%/3.90%/4.09%/4.39%.

❖ Desk Analyst Comments 分析员市场观点

➢ MOHURD press conference: Additional RMB1.8tn loans to white-listed projects by end-2024

The Ministry of Housing and Urban-Rural Development (MOHURD), MoF, Ministry of Natural Resources, PBOC and NFRA held a press conference yesterday to introduce measures to promote stable development of real estate markets. New policies mentioned:

- Additional 1mn housing units of urban villages will be renovated through monetized resettlement and other means. The cash compensation will allow individuals being affected to buy properties in the private sector. This represents a demand equivalent to 8-9% of LTM residential properties of c808mn sqm.
- Increase the loans to white-listed projects to RMB4tn from current RMB2.2tn by end-2024
- Target to have 4.5mn young people and new citizens to live in affordable housings by end-2024

Policies mentioned in the press conference which were announced previously/executed to stimulate the housing demand:

- Local governments will have the autonomy to adjust or cancel the home purchase restrictions
- Lower the housing accumulation fund loan by 0.25%
- Align the down payment ratio for first and second home to 15%
- Lower the rate on existing mortgage loan
- Lower the tax on buying new home after selling old home

These policies are aiming at lowering the housing inventory level as well as ensuring the timely deliveries and completion of housing projects. According to NFRA, loans approved for white-listed projects amounted to RMB2.2tn as of 16 Oct'24. Therefore, loans to be approved in coming 2.5 months for white-listed projects would be at least RMB1.8tn with the target of RMB4tn by the end of 2024.

As major state-owned banks would be receiving capital injection by the Chinese government, we expect these banks to be more active in extending loans to distressed developers with projects on the whitelist in order to fulfil the policy goals. Other banks will continue to focus on SOEs and non-distressed developers.

Hence, we believe that the announced supportive policies will have limited impact on the asset quality and profitability on non state-owned banks. For state-owned banks with capital injections, we believe that the impact of more lenient lending to the property sector on their capital adequacy to be contained. There are talks on capital injection into major state-owned banks up to a total of RMB1tn. As of Jun'24, all six state-owned banks had capital buffers against their respective regulatory minimum requirements. See Table 1.

Table 1: CET1 ratio of state-owned banks

Jun'24	CET1 ratio (%)	Regulatory requirement (%)	Buffer (%)
BOC	12.03	9.0	3.03
CCB	14.01	9.0	5.01
ICBC	13.84	9.0	4.84
ABC	11.13	8.5	2.63
BOCOM	10.30	8.5	1.80
PSBC	9.28	8.0	1.28

Source: Company filling, CMBI Research.

- **China Policy - Cautiously optimistic after disappointment**

The housing policy briefing disappointed investors yesterday (17 Oct) with no sign of aggressive stimulus. The referred policies will have a moderate boost on the housing market yet should be not enough to revive property sector as well as the economy. We are cautiously optimistic about the policy outlook in the medium term as top leaders target to stabilize the property market and boost the economy. China may continue to loosen liquidity condition, credit supply, fiscal policy and property policy. The latest policy moves centre on stabilizing housing market and relieving local fiscal distress, which should benefit property, financials, LGFVs, SOEs and government suppliers first and then technology sector and consumer goods & services in an indirect way. The policy stimulus should provide some support to RMB exchange rates by alleviating economic slowdown and deflation pressure. We expect US$/RMB to reach 7.05 at end-2024 and 7 at end-2025.

Housing policy briefing has disappointed investors without aggressive stimulus. The ministries announced three key policies at the briefing. Firstly, large cities will renovate 1 million houses in run-down downtown districts ("urban villages"), with money compensation to related residents who could buy new apartments. Our property sector analysts estimated total money compensation might reach RMB1.3tn or 1% of GDP. This might help reduce house supply by 85 mn s.q. or 11% of estimated new house sales in 2024. However, the policy seems much weaker than in 2015-2018 when the shantytown renovation program completed 6.1 mn units and RMB1.57tn of investments (including money compensation to residents) per year. In 2015-2018, about 2.7 mn units were resettled through monetary compensation each year, reducing residential inventory by 200-250 mn s.q. annually. The current plan for urban village redevelopment involves a smaller scale with an unclear timeline. It should have a smaller effect on the housing supply-demand dynamics and household consumption as the money transfer to targeted residents is much less. While the previous shantytown renovation covered cities of various sizes, current redevelopment program will primarily focus on 35 large cities, with a relatively greater impact on tier one and core tier two cities. Secondly, the ministries will expand the "white list" of eligible unfinished housing projects with the loan supply target to related developers at RMB4tn at end-2024. The "whitelist" loan program was initiated in late January 2024 and total loans under the program reached RMB2.23tn as of 16 October. Under the new policy, the monthly loan issuance will rise from the previous rate of RMB248bn to RMB708bn. It should help improve developers' financing condition, facilitate the timely completion of housing projects and moderately boost new housing market sentiment especially in higher tier cities. Thirdly, the MoF encourages local governments to use special bond funding to acquire excess residential projects or lands from developers to transit them into subsidized houses. But this is not a political mandate as the MoF emphasizes the acquisition of residential properties through special bonds should be decided independently by local governments on a voluntary basis with the principles of legal compliance, market orientation and profit break-even. By our estimation, the average loan-to-value ratio for residential housing projects on banks' balance sheet stands at 70%. Developers have little interest in selling the projects at more than 30% discount, while acquisitions at less than 30% discount make it difficult to break even for local governments. The acquisition amount should be limited if both local governments and banks are reluctant to carry losses.

Cautiously optimistic about policy outlook in medium term. Chinese top leaders have promised to stop property declines, boost stock market and revive the economy at the politburo meeting last month. If the current policies are not strong enough to achieve these targets, the policymakers are likely to launch additional stimulus. Therefore, we are cautiously optimistic about the policy outlook in the medium term. For the market, surprises often come after despair. Looking forward, China might launch the following additional stimulus policies. Firstly, the PBOC might further loosen liquidity and credit supply with additional RRR and LPR cuts. 3M Shibor continued to decline from 2.15% in 1Q24 to 1.95% in 2Q24 and 1.85% in 3Q24, and might further drop to 1.6% by end-2025. RRR and LPRs might respectively decline by 50bps and 20-30bps by end-2025. Secondly, the PBOC might further loosen second-home mortgage supply. Thirdly, the central ministries might expand the urban village renovation program with more cash compensation to targeted residents. Fourthly, the central bank might further expand the “white list” program to guide banks to increase loan supply to developers. Fifthly, the central ministries might require local governments to purchase more unsold housing projects. Lastly, the MoF might raise general fiscal deficit and local government special bond quota respectively from RMB4.06tn or 3% of GDP and RMB3.9tn or 2.9% of GDP in 2024 to RMB5.06tn or 3.8% of GDP and RMB4.9tn or 3.7% of GDP in 2025.

Implications for the market. The current policy focus centres on stabilising housing market and relieving local fiscal distress after the property bubble burst. While liquidity and credit loosening is a systematic positive news for all Chinese stocks, fiscal loosening and other policies might benefit property, construction services, financials, LGFVs, SOEs and government suppliers most. Technology sector and consumer goods and services will also benefit from the policies with some time lag as stabilizing housing market and relieving local fiscal distress should help boost consumption and alleviate deflation. The policy stimulus should provide some support to RMB exchange rates by alleviating economic slowdown and deflation pressure. The US nominal GDP growth has more downside room than China and the US Fed is likely to cut policy rate more significantly than the PBOC. Therefore, US-Sino interest rate differentials may mildly decline and RMB might mildly rebound against US dollar. We expect US$/RMB to reach 7.05 at end-2024 and 7 at end-2025.

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➢ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Ningbo Haishu Development	150	3yr	4.65%	4.65%	-/-/-
Wuhan Metro Group	400	3yr	4.45%	T+68	A3/-/A

➢ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Jinjiang Port Group	USD	-	3yr	6.5%	-/-/-

➢ News and market color

- Regarding onshore primary issuances, there were 115 credit bonds issued yesterday with an amount of RMB90bn. As for month-to-date, 559 credit bonds were issued with a total amount of RMB504bn raised, representing a 4.4% yoy increase

- HKMA reduced the countercyclical capital buffer (CCyB) ratio for Hong Kong to 0.5% from 1%

- **[CIFIHG]** Media reported that CIFI Group Co Ltd mulls holistic restructuring of onshore bonds; seeks extended grace period for recast due-2027 RMB notes

- **[DALWAN]** Media reported that Dalian Wanda Commercial Management exited Chengdu Wanda Commercial Plaza Investment

- **[GLPSP]** GLP Capital Partners completed sale of 13 logistics assets to BTG Pactual for BRL1.77bn (cUSD310mn)

- **[GWFOOD]** Fitch affirmed Wens Foodstuff's BB rating and changed rating outlook to stable

- **[WB]** Fitch assigned Weibo BBB rating with stable rating outlook

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