

CMBI Credit Commentary

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

The Asset Asian G3 Bond Benchmark Review 2023

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- *Buying flows were active this morning post rates rallied higher. Long-term IGs were well bid. LNGFOR announced the repurchases of USD bonds totaled USD622.5mn. LNGFORs moved c4pts higher since last Friday. See below.*
- *Macau Gaming: Moderating GGR recovery in Jun'24. See below.*
- *China Economy - PMI signals demand weakening. See below for comments from CMBI economic research.*

❖ Trading desk comments 交易平台市场观点

Last Friday, the new NOMURA Float 07/02/27 tightened 17bps from RO (SOFR+125). The new NOMURA 5.594 '27 and NOMURA 5.783 '34 tightened 2-4bps from their ROs (T+110 and T+150, respectively). KORGAS 29s tightened 6bps from RO (T+77). The recent issued CATLIF/BBLTB 34s were 1-2bps wider from last closes. LGENSO 27/29/34 widened 2-3bps. KRKPSC 29s widened 1bp. RECLINs/PTTGCs widened 1-4bps. FUKOKU Perp/NIPLIF '53 were 0.1-0.3pt lower. In Chinese IGs, the long-end of CNOOCs/SINOPCs were 1.7-1.8pts lower. BIDU/WB 30s were unchanged to 2bps wider. In financials, CCAMCL/ORIEAS 29s widened 1-3bps. EU AT1s were traded in mixed two-way flows. HSBC/BACR Perps moved 0.1pt lower to 0.2pt higher, SOCGEN 7.875 Perp/ BNP 8 Perp/ ACAFP 6.5 Perp were unchanged to 0.3pt lower amid political uncertainties. In HK, NWDEVLs were 0.3-0.5pt higher. Chinese properties were firm. LNGFOR 27/28/29/32 rose 3.6-4.3pts. Longfor announced the repurchases of longer-dated USD bonds totaled USD622.5mn. See comments below. VNKRL 25/27 were 0.5-1.3pts higher. FUTLAN/FTLNHD 24-26s were up 0.4-0.6pt. CSCHCNs were up 0.8-1.5pts. Outside properties, FOSUNI '25/EHICAR '27 were 0.3-0.4pt higher. MPELs/SANLTDs declined 0.2-0.7pt. In India, VEDLN 26-28s were up 0.3-0.4pt. In Indonesia, KIJAIJ '27/LMRTSP Perp were 0.4-1.2pts higher. GLPSP Perps were 0.8-1.7pts lower.

In LGFVs and high-beta IG spaces, the flows were largely driven by cash management demand and portfolio rebalancing on half end from AMs. CDCOMM '24/GDCOMM '27 were 0.2pt higher, while NJYZSO/GZGETH 27s were down 0.1pt. In SOE perps, CHSCOI 3.4 Perp/CHPWCN 3.45 Perp/HUADIA 3.375 Perp were up 0.1-0.2pt. CWAHK '26 was 0.3pt higher. ZHONAN '26 was down 0.1pt.

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❖ Last Trading Day's Top Movers

| Top Performers | Price | Change | Top Underperformers | Price | Change |
|-----------------------|-------|--------|-----------------------|-------|--------|
| LNGFOR 3 3/8 04/13/27 | 80.8 | 4.3 | TAISEM 4 1/2 04/22/52 | 91.5 | -1.8 |
| LNGFOR 3.95 09/16/29 | 73.3 | 4.2 | CNOOC 4 7/8 04/30/44 | 94.7 | -1.8 |
| LNGFOR 3.85 01/13/32 | 66.1 | 4.0 | SINOPC 4 1/4 04/24/43 | 87.4 | -1.8 |
| LNGFOR 4 1/2 01/16/28 | 79.1 | 3.6 | CNOOC 3.3 09/30/49 | 72.3 | -1.7 |
| CSCHCN 4 1/2 08/19/27 | 27.8 | 1.5 | GLPSP 4 1/2 PERP | 62.7 | -1.7 |

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.27%), Dow (+0.13%) and Nasdaq (+0.83%) were strong on Monday. US Jun'24 Markit manufacturing PMI was 51.6, lower than expectation of 51.7. UST yield rallied higher yesterday, 2/5/10/30 yield reached 4.77%/4.44%/4.48%/4.64%.

❖ Desk analyst comments 分析员市场观点

➤ LNGFOR: Repurchased USD622.5mn in total of LNGFOR'29 and LNGFOR'32

| | O/s amt (USDmn) | Repurchase amt (USDmn) | O/s amt after repurchase (USDmn) | Px (ask) | YTM (% ask) |
|-----------------------|--------------------|---------------------------|-------------------------------------|----------|-------------|
| LNGFOR 3.375 04/13/27 | 250 | - | 250 | 81.27 | 11.42 |
| LNGFOR 4.5 01/16/28 | 500 | - | 500 | 80.02 | 11.54 |
| LNGFOR 3.95 09/16/29 | 850 | 402.88 | 477.12 | 73.31 | 10.78 |
| LNGFOR 3.85 01/13/32 | 400 | 219.6 | 180.4 | 66.65 | 10.33 |
| Total | 2,000 | 622.48 | 1,377.52 | | |

Source: Bloomberg.

The size USD bond repurchases and track records of early loan repayments have once again demonstrated Longfor's adequate liquidity profile and prudent financial management. We continue to believe that Longfor would be a survivor of the sector given its manageable near-term maturities and robust non-development businesses. YTD, LNGFORs rebounded 24-28pts. Offered at mid 60-low 80, LNGFORs are trading at YTM of 10.3% to 11.5%, LNGFORs still offer balanced risk-return profiles, in our view. Hence we maintain buy on LNGFORs.

Longfor repurchased USD402.9mn of LNGFOR 3.95 09/16/29 and USD219.6mn of LNGFOR 3.85 01/13/32 in principal amounts, totaled USD622.5mn. These represent 31% of its outstanding USD bond. Given the sizeable amount of repurchases, we believe that the repurchases were conducted over a period of time. Since early Mar'24, LNGFORs rebounded 31-34pts. Assuming Longfor bought back the 2 bonds since early Mar'24, it has so far used cUSD350mn in total for the repurchases of LNGFOR 3.95 09/16/29 and LNGFOR 3.85 01/13/32 according to our estimation. As per Longfor, it will cancel the repurchased bonds.

So far, Longfor has only disclosed the repurchases of the 2 longer-dated bonds. Taking cues from its prudent financial management and track records of early repayment of maturing loans, we would not be surprised if Longfor has repurchased LNGFOR 3 3/8 04/13/27 and LNGFOR 4 1/2 01/16/28. Indeed, both LNGFOR 3 3/8 04/13/27 and LNGFOR 4 1/2 01/16/28 were traded at low cash prices of 40ish in early Mar'24. We believe that Longfor was also incentivized to repurchase the 2 shorter-dated bonds. As per the listing rules in HK, issuers will only be required to disclose the repurchases if the repurchased amount exceed 10% of the issue size.

Recalled that Longfor has early repaid HKD1.6bn (cUSD205m) of its HKD8.75bn syndicated unsecured bullet loan due 2 Jan'25 in the past few months. It targets to repay the remaining in 2H24. On 28 Jun'24, Longfor has early repaid the onshore CMBS of RMB2.65bn (cUSD365mn) originally due Jun'25.

During 1H24, Longfor has utilized onshore operating property loans to manage its maturity profile. The typical tenor of operating property loans is 10-15 years. Longfor has obtained over RMB20bn (cUSD2.75bn) new operating property loans during 1H24. YTD, Longfor has repaid RMB7.2bn (cUSD990mn) onshore bonds. In 2H24, it has RMB4.5bn (cUSD344mn) of onshore bonds will be due, while the next offshore bonds maturity will be in Apr'27 of USD250mn.

The usage of operating loans are less restrictive. NFRA allows property developers with on-track, promising operating performance to use the operating property loans to refinance property related loans and bonds of the company and its subsidiaries before the end of 2024. The ownership of a maturing IP portfolio helps strengthen Longfor to access to various funding channels.

➤ Macau gaming: Moderating GGR recovery in Jun'24

| MOP mn | 2022 | 2023 | 2024 | Cumulative GGR 2024 | Cumulative GGR 2024 growth rate | % of 2019 GGR |
|--------|-------|--------|--------|---------------------|---------------------------------|---------------|
| Jan | 6,344 | 11,580 | 19,337 | 19,337 | 67% | 78% |
| Feb | 7,759 | 10,324 | 18,486 | 37,823 | 73% | 75% |
| Mar | 3,672 | 12,738 | 19,503 | 57,326 | 65% | 75% |
| Apr | 2,677 | 14,722 | 18,545 | 75,871 | 54% | 76% |
| May | 3,341 | 15,565 | 20,188 | 96,059 | 48% | 76% |
| Jun | 2,477 | 15,207 | 17,694 | 113,753 | 42% | 76% |
| Jul | 398 | 16,662 | - | - | - | - |
| Aug | 2,189 | 17,213 | - | - | - | - |
| Sep | 2,962 | 14,937 | - | - | - | - |
| Oct | 3,899 | 19,501 | - | - | - | - |
| Nov | 2,999 | 16,043 | - | - | - | - |
| Dec | 3,482 | 18,564 | - | - | - | - |

Source: Macau DSEC.

In Jun'24, the gross gaming revenue (GGR) in Macau rose 16.4% yoy to MOP17.7bn. The cumulative GGR in 1H24 increased 41.9% yoy to MOP113.8bn, reaching 76.1% of the pre-pandemic level in 1H19. In May'24, Chinese government [relaxed the tourist visa](#) for mainland Chinese to Macau and increased the eligible cities for Individual Visit Scheme to HK and Macau to 59 from 51. On 28 Jun'24, Chinese government increased duty-free allowance travelers entering Chinese mainland from Hong Kong and Macau from RMB5k to RMB12k. These new policies could sustain recovery momentum of tourist arrivals of Macau, we expect Macau GGR recovery to remain solid in 2H24.

Macau gaming operators have resumed the access to capital market given their significantly improved operating performance and stronger sentiment in capital markets. Recalled that MGM China issued USD500mn MGMCHI 7.125'31 in mid-Jun'24 and Melco issued USD750mn MPEL 7.625'32 in Apr'24 to refinance their credit facilities. We expect the recovery of Macau gaming operators' operating performance to remain solid in 2H24. Within the sector, we continue to prefer **MPEL**, **STCITY/STDCTY** and **SJM** for better risk-return profiles. We also like MGMCHIs and long-dated WYNMACs which offer 40-50bps and c100bps yield pick-up over the bonds of their US parents. Meanwhile, we are neutral of SANLTDs on valuation.

| | Ask YTM (%) | Mod Duration | Ask price |
|--------|-------------|--------------|------------|
| MGMCHI | 6.3-7.0 | 0.9-4.1 | 95.8-100.9 |

| | | | |
|----------------------|----------------|----------------|-------------------|
| MPEL | 6.9-7.7 | 0.9-5.7 | 90.3-99.3 |
| SANLTD | 5.7-6.0 | 1.0-6.1 | 84.1-99.4 |
| SJMHOL | 7.1-7.6 | 1.5-3.1 | 91.6-96.2 |
| STCITY/STDCTY | 6.6-8.2 | 1.0-3.8 | 88.1-100.2 |
| WYNMAC | 3.7-7.4 | 1.4-4.6 | 90.6-103.3 |

Source: Bloomberg.

➤ China Economy - PMI signals demand weakening

China's manufacturing PMI in June continued in contraction amid broad-based weakening. Domestic and external demand softened while production moderated. Both service and construction indices dropped but remained in expansion. Deflation pressure increased since ex-factory price notably dripped into contraction while service and construction prices contracted further. Employment remained weak and the downward spiral continued. The PMI indicated economic weakening in June, calling for additional policy support. But we don't expect significant policy stimulus at the Third Plenary Session of the Party's Central Committee in July. It is more likely to see a gradual policy easing in the next two quarters. The PBOC just announced to borrow treasury bonds in open market operations for future sales to cool down the market rally after 10y Treasury yields reached record lows. Amid continued property slump and deflation pressure, a better policy option to prevent negative term spreads and financial system instability is to significantly lower short-term interest rates, rather than intervening in long-term interest rates. But with RMB exchange rate stability being a key focus for the PBOC, its policy autonomy seems to be lowered amid a strong US dollar. The central bank may cautiously seek a balance between multiple targets in 2H24 with possible mild cuts in RRR, deposit rates and LPRs.

Manufacturing activities stayed unchanged in contraction amid broad-based deterioration. China's manufacturing PMI in June stayed flat at 49.5%, contracting for two consecutive months and in-line with expectation. Most sub-indices worsened as a faster delivery time of suppliers indicated excessive supply capacity. Only production was in expansion, edging down to 50.6% from 50.8%. Both new order and export order indices remained weak at 49.5% and 48.3% from 49.6% and 48.3% in May, indicating both domestic and external demand were still subdued. Existing orders further dropped to 45% from 45.3%, squeezed by the expansion of production and contraction of new orders. Corporate procurement further receded as material purchase volume dipped to 48.1% from 49.3%. De-stocking sustained as raw materials inventory and finished goods inventory kept contracting, registering 47.6% and 48.3% in June compared to 47.8% and 46.5% in May. Breaking down by sector, new orders index of printing and cultural & recreational supplies, transportation equipment other than vehicles, and computers, communication & electronic equipment showed booming demand while chemical products and non-metallic mineral products remained in deep contraction. PMI of medium and small enterprises modestly rebounded but remained in contraction, edging up to 49.8% and 47.4% from 49.4% and 46.7%, while large enterprises minimally expanded, dropping to 50.1% from 50.7%.

Deflation pressure persisted in manufacturing and non-manufacturing activities. Ex-factory price index notably dipped to 47.9% from 50.4%, after a brief expansion in May. Material purchase price moderated to 51.7% from 56.9% as recent rallies of commodities price eased. Fierce competition in final consumption has limited the impact from cost-driven reflation, and we expect possible weaker-than-expected MoM growth of PPI. Meanwhile, service price index inched down to 47.4% from 47.5% while construction price dropped to 49% from 49.7%. Looking forward, China's deflation pressure might minimally improve as CPI gradually rebounds within the lower positive range and PPI narrows its YoY decline due to base effect, surging commodities prices and improving export activities.

Both service and construction indices dipped but remained in expansion. Non-manufacturing activities showed weak expansion as its PMI dropped to 50.5% from 51.1%, weaker than market expectation. PMI in services slowed down to 50.2% in June from 50.5% even with the Dragon Boat Festival holiday, indicating the weak demand in recreational services. New order index edged down to 47.1% from 47.4%. Breaking down by sector, activities in air freight, postal services, TV & broadcast, money market service and insurance reached above 55% while real estate and capital market services continued to contract. Construction PMI continued its

moderation from 54.4% to 52.3%, while we expect the acceleration of government bonds should boost infrastructure investment.

Employment kept deteriorating and the downward spiral continued. Employment index in manufacturing remained in deep contraction at 48.1% while employment in service and construction both dropped to 46.3% and 42.9% from 46.7% and 43.3%. The sluggish employment condition remained the major headwinds for economic recovery, especially for consumption, property purchase and private business sentiment.

Downside risk of economy requires further policy support. Official PMI in June showed an overall weakening in manufacturing, service, and construction sectors, posting downside risk on economic prospects, while Caixin manufacturing PMI recorded a 3-year peak of 51.8%. The divergence showed a robust recovery of small and medium coastal export enterprises of which the Caixin index mainly consists while official PMI contains a much larger sample size and reflects domestic conditions more accurately. We don't expect significant policy stimulus at the Third Plenary Session of the Party's Central Committee in July. It is more likely to see a gradual policy easing in the next two quarters. The PBOC just announced to borrow treasury bonds in open market operations for future sales to cool down the market rally after 10y treasury yields reached record lows. Amid continued property slump and deflation pressure, a better policy option to prevent negative term spreads and financial system instability is to significantly lower short-term interest rates, rather than intervening in long-term interest rates. But with RMB exchange rate stability being a key focus for the PBOC, its policy autonomy seems to be lowered amid a strong US dollar. The central bank may cautiously seek a balance between multiple targets in 2H24 with possible mild cuts in RRR, deposit rates and LPRs.

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➤ 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) |
|---------------------------------|----------|---------------|----------|-------------------------------|----------------------|
| ANZ Bank New Zealand Ltd | USD | 500 | 10NC5 | T+180 | A3/A/- |
| China Citic Bank London | USD | - | 3yr | SOFR+105 | -/A/- |
| China Merchants Bank Sydney | USD | - | 3yr | SOFR+105 | A2/-/- |
| Sumitomo Mitsui Financial Group | USD | - | 5/7/10yr | T+120-125/130-135 /140-145 | A1/A/- |
| Sumitomo Mitsui Financial Group | USD | - | 5yr | SOFR Equiv | A1/A/- |
| Sumitomo Mitsui Financial Group | USD | - | 20yr | T+145-150 | A2/BBB+/- |

➤ News and market color

- Regarding onshore primary issuances, there were 41 credit bonds issued yesterday with an amount of RMB35bn
- [BTSDf]** H&H International countersigns commitment letter for USD560mn refinancing facility

- **[FOSUNI]** Fosun International subsidiary signed agreement to sell 99.998% stake in KK Shinsetsu to YCH16 for JPY40.84bn (cUSD254mn)
- **[FRESHK]** Far East Horizon updated USD4bn MTN, Perp programme
- **[LPKRIJ]** The minority shareholder of Lippo Karawaci's unit Siloam International Hospitals plans to buy up to 45% stake of the hospital for cUSD1bn
- **[SKONKR]** SK On plans to take more cost-cutting measures including salaries freeze to become profitable
- **[YIDCHL]** Yida China received share trading resumption guidance from HKEx

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