

CMBI Credit Commentary

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

- *Asian IG space overall tightened 1-4bps and flows skewed to better buying. LGFVs were two-way balanced and Yiwu names were more active due to YWSOAO's new issue mandate. SOE Perps/AT1s sectors were quiet this morning.*
- **China Economy** – *On the brink of deflation. CMBI revises down the forecast for China's CPI and PPI growth rates in 2023 from 1.4% and -1.6% to 0.8% and -2.3%. See below for comments from our economic research.*
- **DALWAN:** *Mixed news flows continue. Media reported that the freeze of Dalian Wanda Group's RMB735mn stake in Shanghai Wanda Small Loan frozen and DALWAN's RMB982mn stakes in Zhuhai Wanda, as well as the sales of 3 shopping malls for an undisclosed amount. DALWANs down 1.5 to 2.75pts this morning.*

❖ Trading desk comments 交易台市场观点

Last Friday, Asia ex JP IG space remained to be traded in a very narrow range. Flows were skewed to better buying. The recent new issues CKHH 28s/33s grinded 1bp tighter. KNBZMKs edged 1bp wider. In Chinese SOEs, HAOHUAs/SINOCHs were under better buying. HAOHUA 27s-30s edged 2-4bps tighter. TMT benchmarks TENCNT 25s/BABA 27s widened 1-4bps. The high beta TMTs continued to be under better buying. LENOVO/XIAOMI/MEITUA/WB tightened 5-7bps. In AMC space, HRINTHs were another 0.5-1.5pts higher (30-50bps tighter). In AT1s, Chinese bank AT1s were kept afloat by robust onshore demand from RMs. Whilst HSBC/STANLN AT1s were under small better selling from regional PBs on the day. Elsewhere, Thai/Korean AT1s such as WOORIB/OCBCSP Perps were better-offered. Chinese properties were largely firm. FUTLANs/FTLNHDs jumped 3.5-5.25pts. COGARs/SINOCEs were bid up 1-3pts across the curve. LNGFORs were traded up around 0.5-1.5pts. CHINSC 24s were traded up 1-2pts to close around 10pts higher WoW. DALWANs were among the exceptions to decline 0.5-1pt and closed 3-5pts lower WoW. In industrials, FOSUNs/ANTOILs gained 1.5-2.25pts. EHCARs were up 0.5-1pt. Macau gaming papers such as STCITY/WYNMAC 28s/29s were indicated 0.5-0.75pt higher. Indian names performed mixed. VEDLNs were marked up 0.5-1.5pts, GRNKENS gained 0.5-1pt. AZUPOEs, on the other hand, were traded down 2.75-3.25pts. In Indonesian space, INDYIJs moved 0.25pt higher. LPKRIJ 25s/LMRTSP 26s were bid up 0.25-0.3pt. Elsewhere, GLPCHIs were up 0.5pt.

The LGFV/Perp spaces had a typical quiet Friday session. The front end LGFVs and SOE Perps remained heavy although we were getting increasing interests from Chinese RM in the latter at $\geq 6\%$. Away from 23s, LGFVs were largely stable amid overall light two-way flows. In Shandong/Chongqing

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names, SHGUOH 24s/QDJZWD 25s were quoted down 0.125pt. CQNANA 26s were marked 0.125pt higher. HK Corp perps were mixed. NWDEVL Perps were marked 0.5-1.5pts higher. LIFUNG/FWDGRP Perps were down 0.5-1pt.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
FUTLAN 6 08/12/24	74.4	5.2	AZUPOE 5.65 12/24/24	82.1	-3.1
FTLNHD 4 1/2 05/02/26	48.2	4.5	SINOCE 6.946 PERP	14.2	-1.3
FTLNHD 4.8 12/15/24	70.9	4.3	NXPI 5.35 03/01/26	99.6	-1.1
FUTLAN 4.45 07/13/25	56.8	3.8	LIFUNG 5 1/4 PERP	49.5	-0.9
FTLNHD 4 5/8 10/15/25	56.3	3.4	DALWAN 6 7/8 07/23/23	90.0	-0.9

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.11%), Dow (+0.13%) and Nasdaq (+0.16%) slightly rose on Last Friday ahead of May CPI to be published this week. Markets expect the May CPI is +0.3% mom, retreated from +0.4% mom in Apr and there is c70% probability that the Fed will keep the 5.0% to 5.25% interest rate unchanged in Jun's meeting. The US treasury rallied higher on Last Friday, the 2/5/10/30 yield reached 4.59%/3.92%/3.75%/3.89%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Economy – On the brink of deflation

China's CPI growth remained close to zero in May amid weak consumer demand and tough supply competition. CPI in durables continued to decline as housing sales and durable consumption further weakened. Employment condition remained tough especially for the youth as housing rent continued to decrease. 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. China's PPI further declined as domestic economy weakened and overseas credit condition tightened. Chinese enterprises continued to reduce inventory and remained cautious on capex expansion. We revise down our forecast for China's CPI and PPI growth rates in 2023 from 1.4% and -1.6% to 0.8% and -2.3%. The deflation pressure indicates aggregate demand remains weak while supply-side competition is tough in most sectors. The deflation shadow will increase debt burden and hurt durable consumption and capex demand. China is likely to mildly cut LPRs and ease property policies to defy the deflation risk and boost the growth in next few months.

CPI growth remained low as consumer demand was weak. CPI rose 0.2% YoY in May after rising 0.1% YoY in April. Food inflation mildly rose as food CPI picked up 1% YoY in May after rising 0.4% in April. Energy sector continued with the deflation trend as fuel CPI further declined 11.1% YoY in May after dropping 10.4% YoY in April. Core CPI growth remained low at 0.6% YoY in May as overall consumption was weak. Breaking down sectors, CPI in telecom equipment, transport vehicle and home equipment & facility further declined in YoY perspective, as durable consumption remained weak. Employment condition especially for the youth remained tough as housing rent continued to decline in May. Medicines, medical services, travel services, recreational services and footwear experienced a mild reflation as demand recovered better in those sectors than other sectors.

PPI further declined as domestic economy weakened and overseas credit condition tightened. PPI further declined 4.6% YoY in May after dropping 3.6% YoY in April. Domestic economy weakened as housing sales, durable consumption, infrastructure investment and exports all deteriorated in May. Meanwhile, overseas credit condition tightened after the small & medium banks' turmoil in US. In addition, China increased imports of some

commodities like coal, adding downside pressure on the PPI. PPI in coal mining, oil & gas mining, ferrous metal and non-ferrous metal respectively fell 13.1%, 19.1%, 16.8%, and 8.4% after dropping 9.3%, 16.3%, 13.6% and 8.6% YoY in April. Meanwhile, prices of general equipment, auto and computer & telecom equipment respectively decreased 0.4%, 1.1% and 1.7% YoY in May. From the MoM perspective, PPI declined 0.9% in May after dropping 0.5% in April. Prices of liquor & beverage increased 0.3% MoM in May. However, prices of coal, ferrous metals, petroleum product and crude oil & gas declined by 5.2%, 4.2%, 3.3% and 2.1% MoM in May.

We revise down our forecast for 2023 CPI and PPI growth rates from 1.4% and -1.6% to 0.8% and -2.3%.

For one reason, domestic consumption, housing sales and business capex has been much weaker than our expectations. Private business confidence has recovered too slowly due to bearish outlook on demand, tough competition and high policy & geopolitical uncertainty. Therefore, employment condition has been unsatisfactory, delaying the recovery of consumer confidence and spending. For another reason, service inflation has been stickier than expected in advanced economies as their labor market has remained strong. The liquidity and credit tightening cycle has lasted longer than expected, with more downside pressure on commodity prices.

CPI and PPI may gradually improve from 2H23. China's CPI growth may remain low with mild pick-up in 2H23. Due to base effect and further economic recovery, the CPI growth should further rise in 2024. We expect the CPI growth to reach 2.4% in 2024. PPI may narrow its YoY declines in 2H23 and rebound in 2024. We expect the PPI to rise 1.7% in 2024.

China may mildly cut LPRs and ease property policies to defy deflation and boost growth. The deflation pressure indicates demand remains weak while supply competition is tough in most sectors. The deflation shadow will increase debt burden and hurt durable and capex demand. Looking forward, China may mildly cut LPRs and ease property policies to defy the deflation risk and boost the growth. The LPR cut should be mild as the PBOC is concerned about banks' NIMs and the MoF pay attention to banks' profit and dividend growth. The property policy easing should be moderate as the top leaders continue to try to guide more fiscal and credit resources into hard technology and high-end manufacturing, which is the key for Sino-US strategic competition.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	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)
HSBC Holdings PLC	USD	-	11NC10	T+310	Baa1/BBB/A-
Yiwu State-Owned Capital Operation	USD	-	-	-	Baa3/-/BBB



➤ **News and market color**

- Regarding onshore primary issuances, there were 74 credit bonds issued last Friday with an amount of RMB49bn. As for Month-to-date, 538 credit bonds were issued with a total amount of RMB530bn raised, representing a 44.6% yoy increase

[DALWAN] Media reported that the freeze of Dalian Wanda Group's RMB735mn stake in Shanghai Wanda Small Loan frozen and DALWAN's RMB982mn stakes in Zhuhai Wanda by courts, as well as sales of 3 shopping malls in Shanghai, Guangdong and Qinghai for an undisclosed amount

- **[DEXICN]** Dexin China scheme of arrangement sanctioned by Cayman court and has become effective
- **[EHOUSE]** E-House (China) Enterprise failed to repay USD300mn EHOUSE 7.6 06/10/23 event of default takes place
- **[FOSUNI]** Fosun International said its operation will not be affected by Nanjing Nangang participation in Shagang Litigation II
- **[KMCMIN]** Kunming Traffic Investment canceled proposed offering of up to RMB1bn 150-day bills to repay debts
- **[LNGFOR]** Longfor Group acquires four land plots for RMB2.03bn in May
- **[RONXIN]** Ronshine China missed payment on RONXIN 8.1 06/09/23

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