

## CMBI Credit Commentary

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

- *The tone in China IG space turned more cautious after sell-off in US rates on Friday night. TMT names marked 6-8bps wider this morning. However, not much papers coming out and we saw some “absolute yield” dip buying interests.*
- *LGFV/SOE space held on rather well this morning despite 25-30bps surge in rates overnight. We saw some selling in SOE perps and longer-dated LGFVs but onshore buying interest continued to be robust. Some papers saw 25-30bps tightened in spread terms in some prints.*
- *China social financing rebounded sharply in May as business bill financing increased amid liquidity easing and governments accelerated their bond issuance. The recent liquidity easing, LPR cut and credit supply loosening should support further rebound of credit growth in next several months. See below.*

#### ❖ Trading desk comments 交易平台市场观点

Last Friday, Chinese IG space was strong and the tone continued to be constructive. In TMT sector, BABA widened 5-7bps (after previously tightening 10-15bps) on CSRC clarification that Ant Financial IPO will not resume. SINOCE down 1.5-2pts and saw some selling pressure from funds offloading. In Financials, we saw some two way trading on AMC names.

For LGFV/SOE Perps, spreads generally tightened 10-25bps, despite surging Treasury yields. Flow wise, we saw active two-ways in new issued CNSHAN'25. We saw most non-bank participants were happy to take profit off 20c while onshore banks rushing to top up in secondary.

Chinese HY property space was mixed amid weak sentiment, and benchmark names were generally down 0.5-1pt under selling pressure. Among high-quality names, COGARD fell around 2-3pts, after Fitch placed its rating on Negative watch. CIFIHG bonds down 3-5pts on the day. CHINSC lost 1-4.5pts across the curve. PWRLNG was down 0.5pt in the morning partly due to refinancing concerns, but ended largely unchanged. Macau gaming sector was weak, with MGMCHI down 1-2pts.

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### ➤ Last Trading Day's Top Movers

| Top Performers        | Price | Change | Top Underperformers   | Price | Change |
|-----------------------|-------|--------|-----------------------|-------|--------|
| MOLAND 11.95 03/04/24 | 19.7  | 1.8    | CHINSC 7 1/4 04/19/23 | 47.2  | -7.4   |
| SINHLD 8 1/2 01/24/22 | 3.8   | 1.4    | CHINSC 7 3/8 04/09/24 | 35.2  | -4.3   |
| REDPRO 9.9 02/17/24   | 23.7  | 1.2    | CIFIHG 4 3/8 04/12/27 | 65.5  | -3.4   |
| ROADKG 6.7 09/30/24   | 73.3  | 1.2    | CIFIHG 4.8 05/17/28   | 64.7  | -3.4   |
| LOGPH 7 1/2 08/25/22  | 26.2  | 1.1    | CIFIHG 5 1/4 05/13/26 | 68.9  | -3.3   |

### ➤ Macro News Recap 宏观新闻回顾

**Macro** - U.S. stocks ended with a steep loss last week. The S&P (-2.91%), Nasdaq (-3.52%), and Dow (-2.73%) all closed lower. The declines contributed to the worst drop in global shares last week since October 2020. US May CPI printed much higher than expectation on Friday and presented a 8.6% sharp jump from a year earlier, adding to a slate of troubling inflation data globally. The benchmark 10yr UST yield climbed to 3.15% the highest level since 2007. Short-end UST yields also rallied as much as 15-20bps on the back of higher rate hike expectation. Treasury curve bear-flattened, with the 2/5/10/30yr yield further advancing to 3.06/3.25/3.15/3.20% respectively.

### ❖ Desk analyst comments 分析员市场观点

#### ➤ China Policy – In the liquidity & credit easing cycle

Total social financing rebounded sharply in May as business bill financing increased amid liquidity easing and governments accelerated their bond issuance amid policy guidance. New mortgage loans and medium-to-long-term corporate loans mildly improved yet remained low as housing demand and capital expenditure were still weak. The recent liquidity easing, LPR cut and credit supply loosening should support further rebound of credit growth in next several months. Chinese stock market should outperform advanced markets in the short term as the country is in the liquidity & credit easing cycle with economic resumption while developed countries are still in the monetary tightening cycle with high inflation. The divergence of monetary policy may not disappear until China completes its economic resumption or developed countries get their inflation under control.

- **New credit rebounded sharply amid delay effect, liquidity easing and faster government bond issuance.** Total social financing jumped 42.9% YoY in May after dropping 51% YoY in April. The sharp rebound of new credit was thanks to three factors. First, economic activities and issuance of some new loans were delayed to May due to lockdowns in April. Second, liquidity easing and central bank's guidance to banks to expand their credit supply supported a strong YoY growth of bill discounting financing at 363.5% in May. Therefore, new renminbi loans grew 26% YoY in May after declining 56.1% YoY in April. Third, state council required governments to accelerate their bond issuance to support the growth as government bond financing jumped 58.2% YoY in May. The YoY growth of outstanding social financing and M2 supply respectively accelerated from 10.2% and 10.5% at end-April to 10.5% and 11.1% at end-May.
- **New mortgage loans and long-term corporate loans mildly improved as housing and capex demand remained weak.** New mortgage loans turned positive in May from the negative in April, but remained 76.3% lower than the amount in last May. The trend of new mortgage loans was in line with housing market performance as housing sales remained weak with mild shrinkage in YoY declines. New medium to long-term loans to corporates dropped 15% YoY in May after decreasing 59.8% YoY in April, as infrastructure investment rebounded yet business capex remained weak.

- **PBOC will focus on reviving credit supply.** RRR and policy rates have additional room to lower, but the room should be limited as liquidity condition became ample and LPRs dropped to new lows. Banks' 7D repo rates dropped from 2.1% in late March to 1.6% in early June, slightly higher than the trough of 1.4% in April 2020. 1Y and 5Y LPRs were lowered to 3.7% and 4.45%, respectively. The PBOC will focus on reviving banks' credit supply to stabilize housing market and boost economic growth.
- **Chinese stock market should outperform advanced markets in the short term.** China has led advanced economies in the latest cycle. China tightened its policy last year and the economy entered the second slump from 2H22. As the economy collapsed in 2Q22 due to lockdowns, China launched the liquidity & credit easing cycle again. However, most developed countries were in the monetary tightening cycle as they reopened their economies and faced high inflation. The divergence of monetary policy may not disappear until China completes its economic resumption or developed countries get their inflation under control.
- **Which sectors are our favorites?** In the near term, sectors related to reopening including Consumer Discretionary, Hard-Tech and Healthcare might outperform the market. As credit expansion restarts, Consumer Discretionary and some Capital Goods may see better performance than other sectors. Internet sector may also benefit from regulatory policy easing and economic resumption.

Click [here](#) for full report.

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

| Issuer/Guarantor                         | Size (mn) | Tenor | Coupon | Yield | Issue Rating<br>(M/S/F) |
|--|-----------|-------|--------|-------|-------------------------|
| No Offshore Asia New Issues Priced Today |           |       |        |       |                         |

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

| Issuer/ Guarantor                          | Currency | Size (mn) | Tenor | IPG | Issue Rating<br>(M/S/F) |
|--|----------|-----------|-------|-----|-------------------------|
| No Offshore Asia New Issues Pipeline Today |          |           |       |     |                         |

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 55 credit bonds issued yesterday with an amount of RMB55bn.
- Macau government reduces quarantine period to “10+7” days starting 15 June. The current quarantine period is “14+7”.
- **[EDU]** New Oriental Education & Technology repurchases total of USD240.01mn of 2.125% bonds due 2025 so far
- **[FUTLAN]** Seazen Group repays USD400mn 6.45% senior notes due 2022 in full before maturity
- **[HAIKONG]** Hong Kong Airline engages PwC, Latham & Watkins to advise on restructuring
- **[JINGRU]** Jingrui Holdings resigning auditor PwC requires further clarification with respect to nature of RMB4.91bn bank deposits
- **[KAISAG]** Kaisa unit plans to sell up to 5.27% stake in Pacific Shuanglin Bio-pharmacy (000403 CH)
- **[KIJAIJ]** S&P placed Jababeka’s B- ratings on CreditWatch Negative on increasing refinancing risks on 2023 notes
- **[SHNSUN]** Shinsun Holdings (Group) signed an agreement to sell 50% of properties projects company in Jiaying for RMB92.5mn
- **[SSHGHK]** Sansheng Holdings (Group) amends interest payment dates of 12.50% senior notes due 2022 to 10 November 2022
- **[WHEELK]** Wheelock and Company pays around HKD2.78bn to boost shareholding in Wharf to 63.58%

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