

CMBI Credit Commentary

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

- *Markets focused on new HKINTLs, HKINTL'28/33 were actively traded at re-offer level T+35/40. TMTs and AMCs were mostly unchanged. For SOE Perp/LGFV, due/callable-23 bonds were two-way balanced and we saw buying interests on due/callable-25/26 bonds.*
- **FUTLAN/FTLNHD:** *Plans to issue up to RMB1.1bn corporate bonds in June. This issue plan will be in addition to the plan to issue CBICL-guaranteed MTN of RMB1.5-2bn. FUTLANs/FTLNHDs moved -0.5 to +2pts this morning. See below.*
- **China Economy** – *Weak PMIs confirm downside pressure for growth. CMBI maintains the forecast on China's GDP growth for 2023 at 5.7%. The 2Y CAGR of GDP is expected to slow from 4.6% in 1Q23 to 4% in 2Q23 before rebounding to 4.3% in 2H23. See below for comments from our economic research.*

❖ Trading desk comments 交易台市场观点

As the US debt ceiling concerns faded and market looked ahead to the Jun economic data and FOMC, the impact of the inverted yield curve only became more apparent, resulting in a mixed tone overall across the spaces. Asia ex JP IG spreads opened 1-3bps wider yesterday. The new EIBKOR 33s, priced at T+90, closed 5bps wider at T+95/+93. The other recent new issues such as CKHH/KNBZMK/BOCAVI 28s/33s were under better selling. In Chinese SOEs, HAOHUA 30s edged 3bps tighter to T+188/185 and its 25s-27s were also under better buying. TMT benchmarks BABA/BIDU/TENCNT closed 1-3bps tighter, but the high beta papers MEITUA/LENOVO 30s widened by 5bps. Chinese properties performed mixed. DALWANs/LNGFORs gained another 1.25-3.25pts across the curve. ROADKGs were also traded 1.5-3pts higher. AGILE/CENCHI 25s/26s were indicated 1.75-2.25pts higher. However, FUTLANs 25s/FTLNHD 26s 3.5pts to end at low-to-mid 40s. COGARD 25-31s stayed at around low-to-mid 30s. In industrials, FOSUNI 25s were marked 3pts higher. Macau gaming papers such as MPEL/SANLTD 27s/28s were marked 0.25pt higher. In Indian space, VEDLNs and GRNKENS were bid up another 0.25-0.5pt. Indonesian oil name MEDCIJs edged 0.75pt higher. Elsewhere, GLPCHIs lowered 0.75-1.5pts.

In LGFVs, the quality 2-5y papers continued to edge wider to high-5%. HZCONI priced a USD300mn bond at par to yield at 5.68%. The new 3Y HZCONI 5.68 '26 held up well at around 100, supported by bank demand amid the continued supply scarcity in the space. We reckon that the yield alignment towards onshore 1Y USD funding rate of around 5.7% (elevated recently) is a strong indicator of a bias towards lower rates over the horizon among investors, as they were willing to bet on future capital gains with around zero net carry at present especially through these high-coupon (new)

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issues. Similarly, the Big5 AT1s callable in 2-3y were resilient at mid-to-high-5%, as buying from NBRM was less sensitive to funding rates. BCHINA/ICBCAS/BOCOM Perps were indicated 0.125-0.25pt higher. Elsewhere in financials, bank T2s such as CINDBK/CCB 29s were traded 1-3bps wider amid mixed two-way flows. SOE Perps also recovered a bit, although demand was still relatively weak versus AT1s. Flows in Perps/AT1s were skewed to better selling, mainly from banks and prop desks in order to release some room for duration. '24 was traded down another 2.5pts and on verge of breaking 80 at close. On the other hand, SOE Perps that came out from leveraged accounts/AMs were fairly well bid at =<low-6%, thanks to short covering and some onshore accounts picking up bonds at 6% to high-5%. Elsewhere in the Perp space, NWDEVL Perps were traded 0.25-0.5pt higher. Property related names

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
LNGFOR 3.95 09/16/29	70.3	3.3	FUTLAN 4.45 07/13/25	48.2	-3.5
DALWAN 11 02/13/26	44.8	3.2	FTLNHD 4 1/2 05/02/26	40.5	-3.5
FOSUNI 5.95 10/19/25	76.3	2.9	ZENENT 12 1/2 04/23/24	38.8	-2.8
ROADKG 6 09/04/25	54.1	2.9	CENCHI 7 3/4 05/24/24	17.3	-1.7
ROADKG 7 PERP	30.8	2.5	GLPCHI 2.95 03/29/26	58.8	-1.4

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.61%), Dow (-0.41%) and Nasdaq (-0.63%) softened. The US House passed the debt ceiling bill to suspend the debt ceiling till 1 Jan'25. The bill needs Senate's vote and president's approval to take effect. China Caixin May manufacturing PMI was 50.9, higher than expectation of 50.3. Caixin manufacturing PMI mainly focuses on SMEs, compared the official PMI which focuses on SOEs and large corps. The US treasury slightly down yesterday, the 2/5/10/30 yield reached 4.40%/3.74%/3.64%/3.85%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ FUTLAN/FTLNHD: Plans to issue up to RMB1.1bn bonds in June

Seazen plans to issue two domestic corporate bonds of up to RMB1.1bn with credit enhancement in June. The issues will comprise of RMB400mn with guarantee from Jiangsu Credit Re-Guarantee Group and RMB700mn protected by CDS. As per our discussions with Seazen, it also plans to raise RMB1.5-2bn from CBICL-guaranteed MTN subsequent to the issuance of corporate bonds. These, if successfully go ahead, will help lengthen its maturity profile at manageable funding costs.

Seazen could provide assets to the guarantor and CDS providers for the credit enhancement. The proposed corporate bonds will be Seazen's first bonds with CDS protection. In 2H22, Seazen issued 2 CBICL-guaranteed bonds totaled RMB3bn.

We maintain our view that Seazen stands out from its peers in terms of its access to various funding channels. Recalled that Seazen refinanced FTLNHD 7.95 06/01/23 with another 364-day paper of USD100mn (FTLNHD 7.95 05/20/24) on 18 May'23. Meanwhile, its ownership of investment properties (IPs) also offer alternative liquidity sources in the form CBICL-guaranteed bonds, operating loans, CMBS and Commercial REIT. Please see our comment on Seazen for more discussions: [Seazen: Maturing IP portfolio is a key differentiator](#). FUTLANs/FTLNHDs moved -0.5 to +2pts post potential issuance news this morning.

Ask YTM (%)

Ask price

FUTLAN 6 08/12/24	49.9	63.6
FUTLAN 4.45 07/13/25	51.2	43.5
FTLNHD 7.95 05/20/24	18.7	90.9
FTLNHD 6.8 08/05/23	50.8	92.8
FTLNHD 4.8 12/15/24	45.2	58.4
FTLNHD 4 5/8 10/15/25	42.1	47.0
FTLNHD 4 1/2 05/02/26	43.7	38.6

Sources: Bloomberg.

➤ China Economy – Weak PMIs confirm downside pressure for growth

China's manufacturing activity further contracted, while service activity continued to expand yet with noticeable softness. New orders slid deeper into the contraction territory, pointing to further economic slowdown in near term. Deflation pressure increased as manufacturing ex-factory price extended declines and service price softened. Employment condition remained tough as private businesses were still cautious to expand capex. The weak data is negative for Chinese stocks, renminbi exchange rates and commodities which are sensitive to China factor. Looking forward, as the economy continues to weaken, the PBOC may mildly cut LPRs to boost demand in around July. The central bank may also encourage banks to expand credit supply especially to hard technologies and manufacturing sector. However, the possibility of fiscal stimulus on consumption is very low as the policymakers like to control resource to accomplish great tasks rather than letting the market decide resource allocation. The continuous recovery of service sector should provide some support to private SMEs and employment condition, paving the way for better recovery in 2H23. We maintain our forecast on China's GDP growth for 2023 at 5.7%. The 2Y CAGR of GDP is expected to slow from 4.6% in 1Q23 to 4% in 2Q23 before rebounding to 4.3% in 2H23.

Manufacturing activity further contracted as demand continued to weaken. China's PMI in manufacturing dropped to 48.8% in May from 49.2% in April, sliding deeper into the contraction territory. Demand in manufacturing softened as new order index dropped from 48.8% in April to 48.3% in May. Meanwhile, export order index and import index declined from 47.6% and 48.9% in April to 47.2% and 48.6% in May. By sector, food, alcoholic beverage & tea, medicine, special equipment, railway & other transport equipment and electrical equipment remained in the expansionary range, while chemical materials & products, non-metal mineral products and ferrous metals were very weak.

Service activity continued to expand, but the growth slowed. PMI in construction and service declined from 63.9% and 55.1% in April to 58.2% and 53.8% in May. Construction and service sectors continued to expand, but their growth slowed. New order indexes in construction and service sectors both declined to 49.5% in May from 53.5% and 56.4% respectively in April, pointing to a contraction of demand. By sector, the indexes in railway/ship/air transportation, telecom service, TV & broadcast, internet software and IT service remained above 60%, while those in capital market service, real estate and other business activity fell below 50%.

Deflation pressure increased as ex-factory price further declined. Ex-factory price index in manufacturing tumbled from 44.9% in April to 41.6% in May as the producer price index (PPI) may have extended YoY declines in May. The product inventory index and material inventory index in manufacturing respectively declined from 47.9% and 49.1% in April to 47.6% and 49.0% in May as businesses tried to keep their inventory low with bearish expectations about the demand prospect. Service price index also dropped from 50.1% in April to 47.8% in May as demand further weakened. Looking forward, we expect CPI to remain low and PPI to further decline in 2Q23 before gradual rebound in 2H23-2024.

Youth unemployment remains a top concern for China's policymakers. Employment index in manufacturing fell from 48.8% in April to 48.4% in May. Unemployment rate among youth and fresh graduates hit record high in April as job opportunities remained insufficient. Unemployment among those aged 16-24 increased from 19.6% in March to 20.4% in April, pointing to bleak prospects in China's job market amid weak economy as more students are graduating in recent months. The weak employment condition was mainly due to low confidence in

private business community as private enterprises accounted for over 80% in total urban employment in China. The employment condition will determine the pace of China's consumption recovery by affecting consumer income and confidence. China has to boost confidence in private business to improve the employment condition and consumption recovery.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Hong Kong SAR	500/750/1000	3/5/10yr	4.25%/4.0%/4.0%	T+30/35/40	-/AA-/AA-

➤ Offshore Asia New Issues (Pipeline)

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

➤ News and market color

- Regarding onshore primary issuances, there were 49 credit bonds issued yesterday with an amount of RMB34bn. In May'23, 1,108 credit bonds were issued with a total amount of RMB1,207bn raised, representing a 26.1% yoy increase
- **[ADANIG]** Media reported that Adani Green Energy board to meet in June to decide on proposed up to USD850mn share sale
- **[DALWAN]** Media reported that Dalian Wanda mulls sale of digital payments license for cRMB1bn; Fitch downgraded Wanda Commercial downgraded to BB-, Wanda HK to B+ and maintains RWN
- **[EHOUSE]** E-House (China) Enterprise further extends RSA expiration deadline to 16 June
- **[FUTLAN]** Media reported that Seazen Holdings aims to raise total of RMB1.1bn via two issues of credit-enhanced domestic bonds
- **[GLPCHI]** Media reported that GLP China has no imminent plans to issue notes after updating HKD20bn MTN programme
- **[JIAYUA]** Jiayuan submitted the appeal for Hong Kong winding up order granted at behest of HSBC, Oaktree n 30 May'23
- **[LMRTSP]** LMIRT announced not to pay June distribution for SGD120mn perps and SGD140mn perps
- **[MEDCIJ]** Medco Energi plans to pay USD65mn dividend for FY22
- **[REDPRO]** Redco Properties receives share trading resumption guidance from HKEx
- **[TLINVT]** Fitch downgraded Yinchuan Tonglian to B+ and rating remains on RWN
- **[TTMTIN]** Tata Motors commences tender offer for USD 250m 5.75% senior notes 2024

- **[VEDLN]** Vedanta Resources announced that it has paid all loans, bonds due in May and June, gross debt reduced USD3.3bn to USD6.4bn; Media reported it plans to raise USD200mn from Trafigura Group

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