

CMBI Credit Commentary

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

- *Markets were overall quiet this morning. Asian IG benchmarks were mostly unchanged, new issue MUFG tightened 10-12bps. SOE perps and LGFV were stable while AT1 slightly edged up. CHINSCs down 0.5pt by mid-day post investor meeting.*
- **China Economy** – *Weak inflation points to easing policy stance ahead. CMBI expects China CPI slightly rise from 2.2% in 2023 to 2.5% in 2024 and PPI drop 0.5% in 2023 before rising 1.6% in 2024. See below for comments from our economic research.*
- **China Policy** – *Credit expansion points to continuous economic recovery. See below for comments from our economic research.*

❖ Trading desk comments 交易台市场观点

Yesterday, Asia IG space was stable with very thin market liquidity. Overnight UST 2y yield climbed back to around 4%. IG spreads were unchanged to a touch wider across spaces. Sentiment remained rather cautious ahead of US CPI on Tue. New RECLIN 28s tightened 5bps to T+210. China SOEs were unchanged. TMT benchmark papers edged 1-3bps wider. BBB tech names LENOVO/XIOAMI were under better selling. In financials, bank T2s such as ICBCAS/CINDBK/UOBSP/OCBCSP were under better buying. China property space performed mixed. SINOCE 24s were marked down 2.5pts. Rest of SINOCEs were traded 1.5-3.5pts higher under some short covering. COGARDS/FUTLANs were unchanged to 1pt higher. On the other hand, GRNLGRs were marked down 0.5-4pts. CENCHIs/CIFIHGs moved 0.5-1.25pts lower. CHINSC 23s/24s were largely stable at current levels, while its 25s/26s were marked unchanged to 1pt lower at low-40s. Industrial names FOSUNIs/WESCHIs were up 0.25-1.25pt. Macau gaming papers such as SANLTDs/STCITYs were indicated 0.5pt higher. In India space, VEDLNs gained another 0.5-2pts. Renewables such as GRNKENS/RPVINs were up 0.5-1pt. In Indonesia space, semi-sovereign names PERTIJs/PLNIJs were traded 10-15bps tighter (0.5-2pts higher) with some Asia RMs chasing.

In the LGFV/Perp/Asia AT1 spaces, market had a slow start after Easter holiday with some clients still away. Flows were overall light and dominated by onshore accounts. We saw deployment demand from banks/AMs/other NBRMs remained solid in 'safe' low-yielding LGFVs/SOE Perps as clients started to prepare for maturities in Q2/Q3 ahead, although cash liquidity were slightly mixed among accounts. In terms of near-term maturities, we continued to see decent-sized interests in TLINVT 23 at around 97. Flows on this Gansu paper remained skewed to holding/adding/short covering before the Jun maturity. On AT1s, Chinese names especially the higher yielding names remained upbeat, despite rich levels of Big-5 bank papers.

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In non-Chinese AT1s, we saw prices remained largely afloat amid sporadic PB buying interests and thin offer liquidity.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
SINOCE 2.7 01/13/25	37.9	3.4	GRNLGR 6 3/4 06/25/24	44.2	-3.9
VEDLN 6 1/8 08/09/24	63.1	2.0	SINOCE 6 07/30/24	52.9	-2.4
PERTIJ 5 5/8 05/20/43	96.7	1.9	ROADKG 7 PERP	54.0	-1.8
PERTIJ 4.7 07/30/49	84.9	1.8	PCPDC 5 1/8 06/18/26	80.3	-1.5
PERTIJ 4.175 01/21/50	79.9	1.8	PINGIN 4 1/4 05/28/29	91.8	-1.7

❖ Marco News Recap 宏观新闻回顾

Macro – U.S. stock markets were mixed yesterday, S&P (+0.00%), Dow (+0.29%) and Nasdaq (-0.43%). Investors await for tonight CPI data which is the last series of economic data before May FOMC meeting. Currently, there is 74% estimated probability of 25bps hike in May. The U.S. treasury yield rose slightly yesterday, the 2/5/10/30 yields reached 4.03%/3.54%/3.43%/3.62%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Economy – Weak inflation points to easing policy stance ahead

China's consumer inflation slowed to 18-month low in March as food & energy prices retreated and domestic consumption recovery was in a gradual manner. The PPI further declined as global demand for goods dropped with a disinflation trend. Recent data showed China's economic resumption was still uneven in March as service activity strongly recovered but manufacturing performance was tepid amid weak exports. We expect China's inflation to remain low in 2Q23 and to pick up gradually in 2H23-1H24. CPI growth is expected to slightly rise from 2.2% in 2023 to 2.5% in 2024 and PPI is projected to drop 0.5% in 2023 before rising 1.6% in 2024. The weak inflation should point to easing macro policy stance this year as it indicates China's GDP growth remains below the potential growth with limited reflation risk. The priority for the Chinese policymakers is to restore confidence and growth momentum by maintaining easing macro policies and sending pro-business signals.

CPI growth hit 18-month low as food & energy prices retreated and consumer demand remained weak.

CPI increased 0.7% YoY in March, down from 1.0% last month. Core CPI rose 0.7% YoY in March after climbing 0.6% in February as durable consumption demand remained weak and supply-side competition was tough. Within the CPI basket, food inflation slowed from 2.6% in February to 2.4% in March, while fuel price dropped 0.1% after rising 0.7%. Among food items, prices of pork and fruit rose 9.6% and 11.5% YoY in March due to low bases last year; however, vegetable price dropped 11.1% YoY in March as supply improved with the temperature. Among non-food items, prices of home appliances, vehicles and telecom equipment respectively dropped 0.2%, 3.3% and 2.2% YoY, suggesting slow demand recovery and tough competition in some durables. Prices of service items, such as education and home service, continued to rise but at a slower pace. Housing rent dropped for the 11th consecutive month as the employment and income condition for the young remained unpleasant.

PPI further declined as overseas recession risk increased and disinflation accelerated.

PPI dropped 2.5% YoY in March after decreasing 1.4% YoY in February. PPI in coal mining, oil & gas mining, ferrous metals and non-ferrous metals respectively dropped 3.2%, 15.7%, 11.0% and 8% YoY in March as the overseas banking sector turmoil hit commodity prices in March by causing concerns about credit squeeze and economic recession. PPI in equipment was also weak as overseas capex and durable consumption slowed amid high

interest rates and economic uncertainty. From the MoM perspective, PPI of ferrous metals, computers & electronics and liquor & beverage rose 1.3%, 0.4% and 0.2%, while coal, paper products and crude oil & gas dropped 1.2%, 1.1% and 0.9%.

We maintain forecast for CPI growth at 2.2% and that for PPI growth at -0.5% in 2023. The CPI growth may remain low in March and April and then gradually climb as the economy continues to recover. We expect the CPI growth to reach 2.2% in 2023 and 2.5% in 2024. The PPI may further decline in April before gradually improving in 2H23. We expect the PPI to drop 0.5% in 2023 and rise 1.6% in 2024.

The weak inflation indicates easing policy stance ahead. China's economic recovery was still uneven. Passenger flow rapidly resumed after China's reopening, but consumer confidence remained weak. Service activity improved noticeably, but industrial output seemed tepid with weak exports. The weak inflation indicates China's GDP growth remains below the potential growth with limited reflation risk. The priority for the country is to restore confidence and growth momentum by maintaining easing macro policies and sending pro-business signals.

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➤ **China Policy – Credit expansion points to continuous economic recovery**

China's credit supply continued to expand at faster-than-expected rates as the policymakers adopted easing credit policy to boost confidence and growth momentum. Medium & long term loans to households significantly rebounded as housing market improved. Loans to enterprises continued to see rapid growth amid easing credit supply condition and strong credit demand from SOEs and LGFVs. China's economic recovery was still uneven as GDP growth remained below potential growth with limited reflation risk. The PBOC has to maintain "reasonable ample" liquidity supply and easing credit condition to support the growth. We expect outstanding credit growth may continue to improve, paving the way for further economic recovery in 2023-2024.

New credit beat expectations again in March following the RRR cut. Total social financing rose 15.5% YoY in March after growing 23.7% YoY in 2M23. The RRR cut in March indicates the PBOC's easing bias with the credit policy. New renminbi loans to real sector grew 22.3% YoY in March after rising 32.2% YoY in 2M23. Off-balance sheet (OBS) financing turned positive in March as banks' acceptance financing strongly recovered. However, corporate bond financing continued to decline as large SOEs turned to renminbi loans for financing as their borrowing rates from banks were lower than financing costs in the bond market. Banks had to compete fiercely for those high-quality borrowers as their credit supply significantly expanded while credit demand from private business, SMEs and households remained weak. Government bond financing also declined as local governments lacked enough high-quality projects for financing.

Mortgage loans improved while corporate loans continued to expand. For household sector, new medium & long term loans and short-term loans respectively rose 70% and 58.4% YoY in March after dropping 55.6% and 181.8% YoY in 2M23. Both housing market and service consumption recovered noticeably, supporting mortgage and consumer loans in March. Corporate loans continued to grow fast in March as new M&L term loans to enterprises rose 53.9% YoY in March after increasing 77% YoY in 2M23. Bill discount financing remained negative in March, indicating credit supply for SMEs was relatively tepid.

PBOC will maintain easing credit policy to boost confidence and growth momentum. China's economic recovery was still uneven. Passenger mobility, service activity and SOEs' sentiment rapidly rebounded. However, exports remained weak as the recent banking sector turmoil in US & Europe increased recession risk and accelerated disinflation trend. Private business confidence remained low as geopolitical, economic and policy uncertainty continued to exist. China's GDP growth was still below the potential growth as reflation risk was low. The policymakers will focus on boosting confidence and growth by maintaining easing macro policies

and continuing to send pro-business signals. The PBOC will maintain accommodative credit policy as credit growth may continue to improve this year.

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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)
Shangrao Investment Holdings International Company Limited	USD	-	3yr	7.9%	-/BBB-

➤ News and market color

- Regarding onshore primary issuances, there were 93 credit bonds issued yesterday with an amount of RMB99bn. As for Month-to-date, 535 credit bonds were issued with a total amount of RMB606bn raised, representing a 89.5% yoy increase
- **[CHINSC]** Media reported that China SCE said it paid latest coupon of CHINSC 7.375 04/09/24; it remains uncertain about whether it might be able to remit funds to redemption of CHINSC 7.25 04/19/23; the company plans to issue second CBICL-backed bonds
- **[CHJMAO]** China Jinmao unit plans to raise up to RMB2.5bn (cUSD363mn) via onshore bonds
- **[COGARD]** Media reported that Country Garden aims to issue RMB1.7bn CBICL-guaranteed bonds as soon as this month
- **[EHOUSE]** Media reported that E-house bondholders urged by legal advisor to block latest restructuring plan
- **[FUTLAN]** Seazen Holdings completes RMB1.18bn payment for onshore, offshore bonds in 1Q23
- **[GDPOLY]** Beijing Energy International obtains up to USD125mn loans
- **[VEDLN]** Media reported that Vedanta is in discussions with Farallon Capital Management for fundraising of at least USD1bn
- **[YANGOG]** Yango announced that it missed payment for overdue RMB44.85bn (cUSD6.5bn) debts so far

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