# CMBI Credit Commentary

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

- *Market flows skewed to better buying this morning. In Asian IG space, leasing names/SOE/TMT were well bid. LGFVs were stable with light flows on CNH LGFVs. DALWANs/VNRKLEs were unchanged to 1pt lower.*

- ***Macau gaming:*** *Moderating GGR growth in Oct'24. See comments below.*

- ***China Economy*** *- What might Trump 2.0 mean for China. See below for comment from CMBI economy research.*

❖ **Trading desk comments 交易台市场观点**

Last Friday, KRKPSC 27/29 widened 3-5bps. HYNMTR/HYUELE/LGENSO 27-31s closed unchanged to 2bps tighter. In Chinese IGs, BABA/TENCNT 30-31s were 1-2bps wider. HAOHUA 28-30s/MEITUA 28-29s were 2-3bps wider. In financials, the longer-dated-to-call MQGAU/WSTP/ANZ T2s were better sold and closed 1-3bps wider. EU AT1s were under better buying from AMs/PBs/prop desks. BNP 7.375/ACAFP 6.7/UBS 6.85/HBSC 6.875 Perps were 0.3-0.8pt higher. In insurance hybrids, ZURNVX '55/NIPLIF '54/FUKOKU Perp were up 0.1-0.2pt. In HK, NWDEVL Perps were 0.3-0.4pt lower. Chinese properties were mixed. ROADKG 28-30s/Perps dropped 3.3-6.1pts following its 9M24 results. FTLNHD/FUTLAN 25-26s lowered 1.6-2.6pts. DALWAN 26s declined 2.7pts, and its 24-25s were 0.9-1.0pts lower. See our comments on DALWAN's 3Q24 results on 1 Nov '24. VNKRLE 25-29s were down 0.4-1.0pt. On the other hand, LNGFOR 28-32s and SHUION/COGO 26s were up 0.2-0.5pt. Outside properties, HILOHO '24 declined another 2.0pts, closed 9.6pts lower WoW after the talks of creditors' push-back on restructuring plan over issues such as upfront cash repayment, coupon rate, etc. In Macau gaming, MPEL '25/SANLTD '30 were up 0.3pt. See our comments below. Outside China, GLPSP Perps were 0.5-0.6pt higher. In Indonesia, MDLNIJ 25/27 rose 0.4-1.1pts. In India, GRNKEN 25-28s were unchanged following the report of refinancing its due-25 USD bonds via INR debt facilities. See our comments on 1 Nov '24.

In LGFVs, YZHAJI priced a CNH1.5bn 3-yr bond at par to yield 3.6%. The recent new CDCOMM 28/29 and JNUCGC '27 were unchanged to 0.2pt higher. On the secondary, there were better buying flows on quality USD papers from offshore RMs and CNH papers were also better bid by onshore clients. WUXIMU '24/SYSTIO '25/CHDUIN '26/HNYUZI '26 were 0.2pt higher. DFINVH/LIANYU 25s were up 0.1-0.3pt. In SOE perps, HUANEN 5.3 Perp/CHPWCN 3.55 Perp were 0.1pt lower.

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## ❖ Last Trading Day's Top Movers

| Top Performers | Price | Change |
|---|---|---|
| MDLNIJ 5 06/30/25 | **46.5** | **1.1** |
| GLPSP 4.6 PERP | **59.2** | **0.6** |
| GLPSP 4 1/2 PERP | **60.2** | **0.5** |
| LNGFOR 4 1/2 01/16/28 | **85.2** | **0.5** |
| MDLNIJ 5 04/30/27 | **34.2** | **0.4** |

| Top Underperformers | Price | Change |
|---|---|---|
| ROADKG 5 1/8 01/26/30 | **39.5** | **-6.1** |
| ROADKG 6 03/04/29 | **43.2** | **-5.6** |
| ROADKG 5.9 09/05/28 | **46.8** | **-5.0** |
| ROADKG 6.7 03/30/28 | **53.9** | **-5.0** |
| ROADKG 5.2 07/12/29 | **41.9** | **-4.9** |

## ❖ Marco News Recap 宏观新闻回顾

**Macro** – S&P (+0.41%), Dow (+0.69%) and Nasdaq (+0.80%) edged higher on Friday. US Oct'24 NFP was +12km lower than the expectation of +106k. US Oct'24 unemployment rate was 4.1%, in line with the expectation. UST yield rallied higher on Friday, 2/5/10/30 yield reached 4.21%/4.22%/4.37%/4.57%.

## ❖ Desk Analyst Comments 分析员市场观点

### ➢ Macau gaming: Moderating GGR growth in Oct'24

**Table 1: Macau monthly GGR**

| 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 | 18,595 | 132,348 | 37% | 76% |
| Aug | 2,189 | 17,213 | 19,754 | 152,102 | 33% | 77% |
| Sep | 2,962 | 14,937 | 17,253 | 169,355 | 31% | 77% |
| Oct | 3,899 | 19,501 | 20,787 | 190,142 | 28% | 77% |
| Nov | 2,999 | 16,043 | - | - | - | - |
| Dec | 3,482 | 18,564 | - | - | - | - |

*Source: Macau DSEC.*

In Oct'24, the gross gaming revenue (GGR) in Macau rose 6.6% yoy to MOP20.8bn, compared to the 15.5% yoy GGR growth in Sep'24. The cumulative GGR in 10M24 increased 28.1% yoy to MOP190.1bn, reaching 77% of the pre-pandemic level in 10M19. During the 2024 National Day holidays, the Macau tourist arrivals increased 22.9% yoy to around 1mn and the average hotel occupancy rate improved to 94.5% from 88% in 2023 National Day holidays. We continue to expect that the GGR in 2024 to exceed Macau government's target of MOP216bn (i.e 18% yoy growth) in view of the current run-rate and supportive policies from mainland China.

As of last Friday, two Macau gaming operators have released their 3Q24 results. Sands China reported a weak quarterly result due to disruption of the Londoner Macau renovation while MGM China reported solid growth in 3Q24. That said, we expect the operating performance of Macau gaming operators to remain solid in 2H24. Besides, We expect them to be candidates for early redemption of their bonds given their improved financial conditions and resumed accesses to capital markets. YTD, Macau gaming operators have early redeemed USD100mn bonds via tender offer and USD212mn bonds via open market repurchases. Within the sector, SJMHOLs remain to be our top picks, followed by **MPEL**, **STCITY/STDCTY** for their better risk-return profiles.

We also like MGMCHIs and long-dated WYNMACs which offer 40-100bps and c90bps yield pick-up over the bonds of their US parents. Meanwhile, we are neutral of SANLTDs on valuation.

**Table 2: Macau gaming USD bond profile**

| | Ask YTM (%) | Mod Duration | Ask price |
|---|---|---|---|
| MGMCHI | 5.7-6.8 | 0.6-3.8 | 97.0-101.8 |
| **MPEL** | **6.2-7.3** | **0.6-4.2** | **92.3-101.8** |
| SANLTD | 5.2-5.6 | 0.7-5.9 | 86.8-100.0 |
| **SJMHOL** | **6.0-6.8** | **1.2-2.9** | **94.4-98.2** |
| **STCITY/STDCTY** | **6.0-7.6** | **0.7-3.6** | **90.7-100.8** |
| WYNMAC | 3.6-6.7 | 1.1-4.3 | 93.4-103.7 |

*Source: Bloomberg.*

## ➢ China Economy - What might Trump 2.0 mean for China

A Trump 2.0 era might mean more global trade tensions and less US commitment to the international order. Global economy will see more instability and divergence, with higher inflation and a stronger dollar in the US yet deflation pressure and weak currencies in major export countries especially those with a high trade surplus with the US. A possible China-US trade war 2.0 would lower China's annual GDP growth by 0.95-1.55ppt per our estimate, with additional deflation pressure. The trade tensions will accelerate Chinese enterprises' outward expansion to circumvent tariffs. Trump's "America First" doctrine with protectionism, nationalism and isolationism will undermine the US credibility and its partnerships globally, creating a good opportunity for China to enhance trade and investment ties with other countries. In response to Trump's trade war, China might retaliate with tariffs on targeted US goods and further loosen policies to boost domestic demand. The MoF may raise broad fiscal deficit, the housing ministry may further loosen property policies and the PBOC may launch additional cuts in RRR, LPRs and deposit rates.

**Higher US inflation and a stronger US dollar.** For the US economy, Trump 2.0 will bring an overheating effect in the short term and stagflation effect in the long term, pointing to a stronger US dollar and higher treasury yields. Trump 2.0 means higher inflation for the US as his large tax cuts will boost domestic demand and his aggressive tariffs and immigration policy may increase product prices and labor cost. In addition, Trump's discretion over monetary policy might erode the Fed's credibility, heighten the risk of runaway inflation and undermine the greenback's status as the dominant international currency. Trump 2.0 is positive for economic growth in the short term as the supportive effect of his tax cuts and deregulation policies should outweigh the negative impact of his tariffs and immigration policy within the next two years. In the long term, however, the balance of the two sides may change. The effect of tax cuts will diminish while the aggressive tariffs will hurt economic growth by generating inefficiency and uncertainty and the immigration policy will bring negative labor supply shock. A recent study by the Peterson Institute for International Economics showed that a large negative labor supply shock would increase inflation by 1.5ppts and shrink GDP by over 3ppts within three years.

**More instability and divergence in global economy.** With the "America First" doctrine, Trump is willing to destroy the current global trade, investment and supply chain networks in pursuit of trade balance and manufacturing revitalization in the US. His aggressive tariffs of 20% on all US imports and 60% on Chinese goods might cause a global trade war and endanger global economic stability. IMF estimates in its latest report that a trade war with Trump's tariffs and other countries' moderate tit-for-tat responses would wipe 0.8ppts and 1.3ppts respectively from world GDP growth in 2025 and 2026. Global economy will see more divergence as foreign trade and the manufacturing sector should be more vulnerable than the service sector. Trump focuses on trade imbalance and defence burden sharing in managing the US relations with other countries. China, Mexico, Canada, Germany and South Korea might be major targets in his trade protectionist moves. Those economies may face economic slowdown and deflationary pressure due to their high dependence on foreign trade and the manufacturing sector for growth. Trump's policies will cause a severe deglobalisation effect in global economy, which is negative for offshore trade and investment hubs like Hong Kong, Singapore, and Luxembourg. After

Trump's 2017 tax law, the US multinational companies repatriated over US$1tn overseas profits back to the US, followed by an increase in share buybacks, while most offshore hubs experienced sharp capital outflows.

**China-US trade war 2.0.** Trump may launch the trade war 2.0 against China and initiate to revoke China's permanent normal trade relations status. Actual tariff rates might be lower than 60% as Trump often uses utmost pressure as leverage for future bargaining. In our optimistic scenario, there would be no trade war. In our base scenario (30% tariffs on China, 10% tariffs on other partners and others levying 5% retaliatory tariffs on the US), the trade war would reduce the US imports, China's exports and China's GDP respectively by 8.2%, 6.3% and 1.9% within the next two years. In our pessimistic scenario (60% tariffs on China, 20% tariffs on other partners and others levying 10% retaliatory tariffs on the US), the trade war is expected to reduce US imports, China's exports and China's GDP by 14.1%, 10.5% and 3.1% respectively within the next two years. The trade war will hurt China economy through undermining foreign trade, FDI, capex and confidence. The China-US trade war 2.0 may accelerate Chinese enterprises' outward expansion to circumvent tariffs as China's ODI to ASEAN, Mexico and Hungary might continue to increase.

**The Taiwan question.** Trump is skeptical about the benefits of supporting Chinese Taipei. However, he may use it as leverage to make a gain from both sides of the Taiwan Strait. He might ask Taiwan to raise its defence budget to purchase more weapons from the US while asking Beijing to offer incentives on trade in exchange for the US reducing support for Taiwan. After he became the US president in 2016, Trump broke with past precedents by taking a congratulatory phone call from the then Taiwan leader Tsai Ing-wen. A few days later, Trump explained that he could use Taiwan as leverage against the Chinese mainland to secure concessions on trade and North Korea. Bob Woodward, an American journalist, wrote in his book *Fear: Trump in the White House* that Trump once asked his national security team in a meeting in 2018 what did the US get by maintaining a massive military presence on the Korean Peninsula and protecting Taiwan. In an interview with Bloomberg Businessweek published on 16 July 2024, Trump said Taiwan should pay the US for defence.

**Good opportunity for China to enhance ties with other countries.** Trump adopts the "America First" doctrine with a weaker commitment to the US ally system. He focuses on trade imbalance and defence burden sharing in foreign policy. In his view, a trade partner with a large surplus is stealing money and job opportunities from the US while an ally with small defence spending is a freeloader for the US. Trump openly criticized the EU, Germany and South Korea in his first term. His tariff plan in the second-term campaign targets not only China but also some US allies. Trump's foreign policy will seriously undermine US credibility and its partnerships globally. This creates a good opportunity for China to improve ties with the rest of the world. Trump places a relatively low priority on Southeast Asia and Latin America while China could continue to enhance trade and investment ties with those regions. The China-US trade war 2.0 will continue to push China for export diversification with an emphasis on Europe and emerging markets.

**China's possible policy responses.** If Trump launches a trade war 2.0 against China, the Chinese policymakers will retaliate with tariffs on US goods and further loosen policies to boost domestic demand. The MoF might raise broad deficit by another 2-3 trillion yuan with more emphasis on supporting households and consumption. The housing ministry and municipal governments may further loosen property policies. The PBOC may continue to loosen liquidity and credit supply with additional cuts in RRR by 0.5-1ppts and in LPRs and deposit rates by 20-40bps. The central bank could reduce support for RMB to let the currency depreciate more against the US dollar to partially offset the negative impact of Trump's tariffs. In 2018-2019, USD/RMB rose by 7% cumulatively as the US trade-weighted average tariff rate on imports from China rose from 2.7% in 2017 to 9.1% in 2019. Despite a possible higher tariff rate this time, market response might be much more moderate in the trade war 2.0 as the US Fed will continue to cut interest rates, China may expand its fiscal stimulus and Trump is more predictable for the market in his second term. USD/RMB might rise by 4%-6% to 7.42-7.56 in our base scenario (30% tariff on China) and by 8%-10% to 7.7-7.84 in our pessimistic scenario (60% tariff on China) at end-2025.

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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) |
|---|---|---|---|---|---|
| No Offshore Asia New Issues Pipeline Today | | | | | |

### ➢ News and market color

- Regarding onshore primary issuances, there were 67 credit bonds issued last Friday with an amount of RMB63bn. As for Month-to-date, 67 credit bonds were issued with a total amount of RMB63bn raised, representing a 15.4% yoy increase
- **[CISIFG]** China Industrial Securities redeemed USD217mn of USD300mn CISIFG 0'27 after bondholders exercise put option
- **[DALWAN]** DWCM's bondholders exercised put options on RMB2bn onshore 22DalianwandaMTN002
- **[KRKPSC]** Krakatau POSCO aims to reduce leverage to below 4.5x by end-2025
- **[MEDCIJ]** Medco Energi 9M24 revenue rose 6.8% yoy to USD1.78mn and EBITDA rose 4% yoy to USD979mn
- **[MONGOL]** Government of Mongolia repurchased USD34mn due 2026 bonds and USD26.8mn due 2027 bonds
- **[SINOCE]** Sino-Ocean Group further extends Third Further Extended Base Consent Fee Deadline to 18 Nov'24

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