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CMBI Credit Commentary

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

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- *Flows were light this morning. Long-end IGs were under better selling, PINGIN'34 widened 3bps. Chinese properties were firm, SOE developer CHIIOLI/CHJMAO/COGO moved -0.3 to 0.5pt and Non-SOE LNGFOR/FUTLAN/FTLNHD were unchanged to 2pts higher.*

- ***Chinese properties:*** The signal to prevent spiraling downward is more important. *See below.*

- ***China Economy - Growth slackened with bolstered policy support.*** *CMBI revises up the forecast for China's GDP growth from 4.8% to 5% for 2024. See below for comments from CMBI economic research.*

❖ Trading desk comments 交易台市场观点

Last Friday, the front end UST widened 4-5bps. In KR, DAESEC/HYNCRD 29s were unchanged to 2bps tighter. Chinese IGs were mixed with TMTs such as TENCNT '28/BIDU '27 widened 1-2bps under better selling. In financials, the recent new PINGIN 34s tightened 8bps to T+158. HRINTHs were 0.1-0.2pt higher (5-10bps tighter). There was profit taking on the front end of Chinese leasing and T2 bonds. CDBFLC '30/ICBCAS '27 widened 2-4bps. In EU AT1s, the long-dated-to-call papers such as BACR 9.625 Perp/INTNED 7.5 Perp/UBS 7.75 Perp were 0.1-0.3pt higher under better buying among RMs/PBs. In HK, CKHH 29/34 widened 1bp. NWDEVL's step-up perps NWDEVL 5.25 Perp/NWDEVL 4.125 Perp were 1.1-1.8pts higher under PB buying. NWDEVL 25-31s and FFL Perps were up 0.5-1.3pts. HYSAN 4.1 Perp/LIFUNG 5.25 Perp were 0.9-1.0pt higher. Chinese properties moved higher amid headlines of further supportive policies. See below for comments. FUTLAN/FTLNHD 25-26s were up 0.6-2.3pts on the issuance of its 5th CBICL-guaranteed onshore bonds and closed 7.8-8.7pts higher WoW. See our daily on 17 May'24. VNKRLE 25-29s increased 1.6-1.9pts and closed 10.1-13.1pts higher WoW. CHIOLI 34-43s were up 0.3-0.6pt. ROADKGs/GRNLGRs were 0.7-1.3pts higher. CHJMAO 24-26s, on the other hand, declined 0.2-0.3pt under profit taking. In industrials, WESCHI '26/HILOHO '24 moved 0.8-1.1pts higher. In Macau gaming, STCITYs/SANLTDs were up 0.3-0.5pt. In India, VEDLN '26 was 1.6pts higher while its 27-28s were up 0.3pt. In Indonesia, LPKRIJ/LMRTSP 24-26s were up 0.2-0.3pt. Medo Energi accepted to purchase USD148.8mn of its 26s on a prorated basis, and none of the 27s as tender offers oversubscribed. MEDCIJ hovered unchanged. MDLNIJ 25/27 were 0.8-1.0pt lower.

The LGFVs/high beta spaces were traded in a constructive tone. There were cash deploying flows from RMs in the front end of quality papers. SECGRP 24-25s were up 0.1pt. GZINFU/GZDZCD/HZCONI 25-26s were 0.1-0.2pt higher. Shandong names such as JMUDIV/QDJZWD/SHGUOH 25s were

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0.1pt higher. In the high–yielding LGFVs, CPDEV 25/26 were up 0.3-0.7pt. In the high beta names, ZHOSHK 26s were up 0.3pt. HUANEN ’31/HNINTL ‘30 were 0.4-0.7pt lower. SOE perps were mixed. HUADIA 3.375 Perp/RLCONS 3.97 Perp were up 0.1pt while CHPWCN 3.45 Perp/CHSCOI 4 Perp were down 0.1pt.

❖ Last Trading Day’s Top Movers

Top Performers	Price	Change
FTLNHD 4 1/2 05/02/26	**56.9**	**2.3**
FTLNHD 4 5/8 10/15/25	**68.0**	**2.2**
VNKRLE 3.975 11/09/27	**65.4**	**1.9**
VNKRLE 3.15 05/12/25	**84.2**	**1.8**
NWDEVL 5 1/4 PERP	**75.6**	**1.8**

Top Underperformers	Price	Change
GRNLHK 10.21 PERP	**18.4**	**-1.6**
MDLNIJ 5 04/30/27	**28.8**	**-1.0**
CNOOC 4 7/8 04/30/44	**95.9**	**-0.9**
MDLNIJ 5 06/30/25	**33.6**	**-0.8**
HUANEN 2.7 01/20/31	**87.0**	**-0.7**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.12%), Dow (+0.34%) and Nasdaq (-0.07%) were mixed on last Friday. China PBOC held 1/5yr LPR unchanged at 3.45%/3.95% as expected. Euro-zone Apr’24 CPI was +2.4%, in line with the expectation. UST yield rallied higher on Friday, 2/5/10/30 yield were 4.83%/4.44%/4.42%/4.56%.

❖ Desk analyst comments 分析员市场观点

➢ Chinese properties: The signal to prevent spiraling downward is more important

Last Friday, China government announced a series of supportive policies to stabilize the property market and resolve the higher inventory level. While there remains a high level of uncertainty as to the timing and details of implementation of these policies and concerns that size of the support is too small, we consider these policies are steps in the right direction. More importantly, the signal that the central government has a determined will and is coordinating policies to address the high inventory level is very clear, in our opinion. High inventory level, concerns of fire sales and uncompleted property projects are amongst the key drivers for weak property sales. Hence, “digesting” inventory by turning this into affordable rental housing for lower-income groups helps address one of the key obstacles in restoring homebuyer’s confidence.

Again, we do not expect the central government to bail out individual developers, the policy objective of the central government is to maintain social stability, i.e. the government will “bail out” home buyers through making sure of timely deliveries of pre-sold projects, as well as prevent systemic risk spillover to banking and financial system. As we discussed in our comment titled: LGFVs: Our thoughts on the plan to purchase unsold residential units dated 16 May’24, These policies are positive to the property sector in general. Nonetheless, the impact to individual developers in the near-term will vary. For developers already in default with high inventory levels, they may be pressured to sell the projects to local governments/LGFVs at deep discounts. These could affect the overall recovery value, especially from the offshore bondholders’ perspective.

The major relaxation policies are:-

1. PBOC announced to set relending loans of RMB300bn with an interest rate of 1.75% from 21 banks to support local SOEs to purchase completed but unsold commercial housing as affordable housing. The tenor of relending loans is 1yr and can be extended for four times. PBOC would publish formal documents related to the relending loans in the near term.

2. Cancelation of the lower limit of mortgage rates for first and second home buyers nation-wide while authorized local governments to set the lower limit of mortgage rates based on the local situations;
3. Lowering the mortgage rate of provident fund by 25bps. The current mortgage rate of provident fund for first and second home buyers are 2.35% -2.85% and 2.775% -3.325%, respectively;
4. Lowering the minimum down-payment ratio for buying first/second home by 5 percentage points to 15%/25% while local governments can determine the minimum down-payment ratios based on local situation.

Chinese property market remained weak although the mortgage rates have reached the lowest level since Aug'19 when LPR quotation mechanism was launched. In 4M24, the nationwide sales of newly built commercial buildings decreased 28.3% yoy to RMB2806.7bn while the GFA of commercial buildings for sale increased 15.7% yoy to 745.5mn sqm. On the other hand, the price of newly built commercial residential units of 58 out of 70 major cities recorded yoy declined in 4M24. We expect the recovery of Chinese real estate market to be slow in the near term given the weak outlook of income growth. As discussed, the latest supportive policies signal the central government's intention to stem the collateral damages resulting from property downturn. We expect to see more supportive measures from governments, including further LPR cut in 2H24 and further relaxation of purchase restrictions in higher tier cities.

➢ China Economy - Growth slackened with bolstered policy support

China's economy weakened in Apr as retail sales, service output and fixed asset investment notably moderated. Property slump and deflation pressure remained as the two major drags for the economy. However, industrial production prominently expanded as delivery value for exports noticeably picked up. The biggest boost to market sentiment has been a shift of China's policy stance towards the property sector in recent several weeks. Chinese policymakers became more aggressive in loosening property policies as most higher-tier cities removed the home purchase restrictions and the PBOC cut the mortgage rates and down-payment ratios in recent few weeks. The central bank also planned to provide special low-cost refinancing to state-owned banks which would support local SOEs to purchase unsold property projects from developers. Looking forward, China would be more aggressive in loosening the credit supply to boost property market and economic growth.

Property market was still mired in deep contraction as policymakers significantly loosened property policies. The gross floor area (GFA) sold for commercial building further deteriorated from -19.4% (all in YoY terms unless otherwise specified) in 1Q24 to -20.2% in 4M24, while the GFA started narrowed its YoY decline from 27.8% to 24.6%. Property development investment further declined 9.8% in 4M24 after dropping 9.5% in 1Q24. The recovery ratio of new housing sales in 30 major cities compared to the same period in 2018 & 2019 dipped to 48.8% in Apr and further plummeted to 40.1% in the first half of May. The recovery ratio of second-hand housing sales in 10 selective cities compared to 2019 further moderated to 86.4% in Apr from 101% in Mar. Prices in both new and second-hand housing further decreased in Apr. Funding source for property development continued to dwindle as cash deposits and mortgage funds stayed depressed. Looking forward, the GFA sold for commercial buildings is expected to drop 6% in 2024 after decreasing 8.5% in 2023.

Retail sales notably softened due to weak durable goods. Retail sales growth eased to 2.3% in Apr from 3.1% in Mar as sales of durables deteriorated. Auto sales further dropped 5.6% in Apr from -3.7% in Mar, mainly due to a new round of price wars and consumers postponing purchases to wait for the implementation of trade-in polices. Durable goods related to housing including furniture and construction materials stayed lethargic at 1.2% and -4.5%. Home appliance retail sales grew 4.5%, better than expectations. Food-related consumption continued to slow down as the growth rates of catering services, food and alcohol & tobacco products dropped to 4.4%, 8.5% and 8.4% from 6.9%, 11% and 9.4% in Mar. Clothing, cosmetics and cultural & office products contracted while medicine, daily used goods and telecom equip rebounded. Looking forward, consumption may mildly improve in 2024 especially in recreational, small-scale and self-pleasing consumption. We expect retail sales to grow 5.3% in 2024 after rising 7.2% in 2023.

Industrial output markedly expanded while service activity slowed. VAIO growth accelerated to 6.7% from 4.5% in Mar, higher than market expectation of 5.5%. The improvement was broad-based, especially in sectors with strong exports such as chemical products, rubber & plastic product, non-ferrous metals, autos, other transportation equipment and computer, telecom & electronic equipment, extending their rapid growth over 10%. The YoY growth of service output index mitigated to 3.5% in Apr from 5% in Mar due to much higher base last year. Looking forward, service and industrial output may moderately improve in 2024 thanks to a recovery in service consumption, an end of the de-stocking cycle and improvement in exports.

FAI growth scaled back as property and infrastructure investment slackened. FAI wound down to 3.6% in Apr from 4.7%. Property investment remained in deep contraction at 10.5% in Apr due to property sector slump. Infrastructure investment notably dropped to 5.9% in Apr from 8.6% in Mar, due to restrictions on new local government debt and slower-than-expected government bond issuance. We expect the infrastructure investment to pick up in the next several months as government bond issuance accelerated in May. Investment in manufacturing remained elevated, edging down to 9.3% from 10.3%, thanks to the continuous policy support on industrial upgrades and manufacturing advancement, even though the eroding profit margin and capacity utilization rate might weigh on future investment. Looking forward, we expect FAI to accelerate from 3% in 2023 to 4.2% in 2024, with growth in manufacturing, infrastructure, and property development respectively at 7.5%, 8% and -9% in 2024.

The economy may gradually recover thanks to base effect and policy support. The continuous property slump and persisted deflation pressure became the major drags from the demand side while industrial production and exports showed robust resilience. The Chinese policymakers have become aggressive in loosening property policies recently as most higher-tier cities removed the housing purchase restrictions and the PBOC cancelled the lower limits of mortgage rates and further reduced the down-payment ratios for mortgage loans. The central bank also planned to provide special low-cost refinancing to state-owned banks which would support local SOEs to purchase unsold property projects from developers and restructured those projects into affordable housing supply. Looking forward, China would be more aggressive in loosening the credit supply to boost property market and economic growth. We revise up our forecast for China's GDP growth from 4.8% to 5% for 2024.

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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)
China Cinda HK Holdings	USD	-	5yr	T+175	-/BBB+/A-
Kubota Credit Corp USA	USD	-	3yr	-	-/A/-

➢ News and market color

- Regarding onshore primary issuances, there were 34 credit bonds issued yesterday with an amount of RMB58bn. As for month-to-date, 405 credit bonds were issued with a total amount of RMB523bn raised, representing a 15.8% yoy increase
- **[ASLAU]** Perenti's CFO resigned from the company
- **[BTSDF]** H&H International 1Q24 revenue down 8.8% yoy to USD397.3mn
- **[CCAMCL]** China Cinda announced USD5bn MTN programme which is expected to be effective on 20 May'24
- **[COGARD]** Country Garden winding-up petition hearing adjourned to 11 Jun'24
- **[FUTLAN/FTLNHD]** Seazen Holdings' noteholders exercised RMB1bn put option of 22XinchengkongguMTN001
- **[HAIDIL]** Haidilao overseas chain Super Hi raised USD52.7mn in US IPO
- **[INDYIJ]** Indika Energy accepted to purchase additional USD0.5mn of notes due 2025, expects final settlement of tender offer on 20 May
- **[SAKAEI]** Fitch affirmed Saka Energi at B+ and placed stable outlook

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