

## CMBI Credit Commentary

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

- *Dip buying interest this morning in China HY property benchmark names like COGARD CIFIHG (+2-4pts) after mortgage rate cut headline. IG space was relatively quiet while we will see better buying interest in recent new issues such as XINAOG/INDUBK.*
- **China Policy:** *PBOC announced mortgage rate cut for first-time homebuyers by 20bps but we believe the cut is will unlikely to reverse the weakened trend of property sales. Additionally, media reported that Chinese regulator supports the uses of CRMW for developers to facilitate their access to bond markets. See below.*
- **Macau Gaming:** *The Macau government is considering cut of gaming tax of up to 5% in a bid to attract more foreign players. There are also talks on China's National Immigration Administration's plan to stop granting visas for Chinese who visited Macau over 3 times in each of the past 3 years to visit Macau. See below.*

#### ❖ Trading desk comments 交易台市场观点

Last Friday, Chinese HY property space were skewed to better selling and generally fell 1-3pts. COGARD was traded down 1-2pts and CIFIHG down 1-3pts. SUNAC curve down around 1pt, after the company announced on Thursday that it failed to cure the missed coupon by the expiration of the grace period. Other underperformers include SHIMAO (-0.5-1pt) and LOGPH (-0.5pt). The Macau gaming sector continued to perform weak.

Chinese IG market rebounded with recovering market sentiment. In TMT sector, we saw benchmark names like BABA/TENCNT tightened 3-6bps. In financial sector, CCAMCL/HRINTH also tightened around 3-6bps.

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### ➤ Yesterday's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
LVGEM 12 03/10/23	62.5	2.3	FTLNHD 4 5/8 10/15/25	51.1	-4.7
AGILE 5 1/8 08/14/22	70.2	2.2	FTLNHD 4.8 12/15/24	57.7	-4.3
HADIL 2.15 01/14/26	80.5	1.0	KAISAG 11 1/4 04/16/25	16.1	-3.9
FTHDGR 10 7/8 01/09/23	16.0	0.9	FTLNHD 6.8 08/05/23	63.6	-3.9
RONXIN 6 3/4 08/05/24	16.1	0.9	TPHL 5.55 06/04/24	43.4	-3.7

### ❖ Macro News Recap 宏观新闻回顾

**Macro** – U.S. stocks closed higher last Friday, following the detailed and smoothing comments on near-term rates hikes from Federal Reserve Chairman Jerome Powell. The S&P (+2.39%), Nasdaq (+3.82%), and Dow (+1.47%) closed higher. Powell confirmed the case for 50 basis point rate hikes at the next two policy meetings in June and July "if the economy performs about as expected". Besides, he reiterated his view that a 75 basis point hike isn't being 'actively considered'. Treasury yield curve moved upwards, with the 2/5/10/30 yield reaching 2.04/2.89/2.93/3.10% respectively.

### ❖ Desk analyst comments 分析员市场观点

#### ➤ Chinese properties: Incremental supportive measures on sector

##### 20bps cut in first home mortgage unlikely to reverse trend of weakened sales

On 14 May, PBOC announced to cut the mortgage rate floor for first-time homebuyers by 20bps. With the 5-yr LPR at 4.6%, the new minimum mortgage rate for first home will be 4.4%. We believe that the cut is mildly positive to the sentiment but will unlikely to reverse the weakened trend of property sales given the slowing economic growth and continued lock-down. We also believe that a more drastic relaxation of monetary policy is unlikely given the concerns of capital outflow and further weakening of RMB amid the US Fed tightening. CMBI's house view is the room for a mild cut in LPR (10-20bps) is possible.

	New mortgage rate	Previous mortgage rate
First home mortgage rate	LPR-20bps	No less than LPR
Second home mortgage rate	No less than LPR+60bps	No less than LPR+60bps

##### Contract sales declined 47.0% yoy in 4M22

36 developers under our radar showed significant drop in contract sales in April (-23.6% mom from Mar'22) and 4M22 sales declined 47.0% yoy. Among these developers, we see distressed names recorded significant sales deterioration in 4M22, including SINHLA (RMB1.3bn, -96% yoy) and DAFAPG (RMB2.9bn, -82% yoy). Outperformers include YUEXIU (RMB26.4bn, -20% yoy), CRHZCH (RMB76.3bn, -25% yoy) and SINOCE (RMB21.9bn, -28% yoy).

### **CRMW helps improve access to onshore bond market**

Additionally, media reported that Chinese regulator supports the uses of CRMW (a local version of CDS in brief) for developers to facilitate their access to bond markets. As reported, the regulators selected Country Garden, Longfor and Media Real Estate to spearhead the initiatives. We believe that CRMW will help improve some higher credit quality developers' access to onshore bond markets but will take time for these initiative to have a widespread impact of the sector's access to the capital markets. In fact, CRMW was first introduced in 2018. Up to now, outstanding CRMW covers less than 1% of outstanding onshore bonds.

### **➤ Macau gaming: The good news come with bad news**

As media reported, the Macau government is considering cut of gaming tax of up to 5% pct. pts in a bid to attract more foreign players. Recalled that Macau's gaming tax rate is 40%, including up to 5% for social causes and other purposes. The Chief Executive of Macau can exempt the gaming tax of up to 5% as attracting foreign players can be deemed to be in the public interests. Any cuts on gaming tax will directly be translated into higher profit and operating cash flow of gaming operators.

The consideration of tax cut to encourage the promotion to foreign players is coincidental with mainland China's clampdown on cross-border gaming activities. There are talks on China's National Immigration Administration (NIA)'s plan to stop granting visas for Chinese who visited Macau over 3 times in each of the past 3 years to visit Macau. We do not have the detailed figures on the repeated visitation to Macau. A gauge to the impact to Macau could be that NIA has stopped around 90k travelers from leaving China for cross border gaming activities. The tourist visitation to Macau in 2019 (pre-pandemics) is 39.4mn. The impact appears to be manageable.

Separately, the Macau government may scrap the plan to tie the ownership of satellite casinos to one of the concessionaires. That said, the ban for satellite casinos to share gaming revenue with concessionaires will stay. The scrap of ownership plan will not change our view that the bill on "Regime for the Exploitation of games of chance", if implemented, will speed up the phasing out satellite casinos well ahead of the proposed 3-year grace period. In Macau gaming sector, SJM will be most affected by earlier than expected phasing out of satellite casinos as 18 satellite casinos in Macau, 14 of them are operated under SJM. As per our previous discussions with SJM, it expects the timeline for the implementation of the bill to be end of 2022 after the second and final reading. So far, Dragon Group and Emperor, altogether operating 4 satellite casinos under SJM, have indicated that they might cease operations after Jun'22 facing the tightening regulatory environment.

### **➤ China Policy – Severe credit shrinkage amid lockdowns**

China's new credit plummeted in April as the lockdowns caused an economic recession with a severe shrinkage in credit demand. The credit condition indicated a deterioration in property market, investor sentiment as well as consumer & business confidence in April. The PBOC's cut in minimum mortgage rate for first-time homebuyers indicates further credit loosening to boost housing demand. It is possible to see a mild LPR cut, but aggressive cuts are unlikely amid the US Fed tightening. China's economic policy has already seen its bottom with a shift from tightening last year to loosening this year. But the magnitude of China's policy easing has been below expectations. Moreover, China's pandemic control policy has not relaxed and the US Fed's tightening cycle has not reached its peak. Those factors explain why the Chinese stock market has continued to slump after three important meetings have signaled to loosen economic policies since last December. But China's policy direction is clear and Chinese stocks' valuation is relatively low. After China gets ready for reopening and US inflation begins to drop noticeably, the Chinese market may gradually usher in a rally.

- New credit dropped by the most since 2017. Total social financing and new renminbi loans respectively plummeted 51% and 56.1% YoY in April after rising 37.7% and 14.7% YoY in March. The YoY growth of outstanding social financing and renminbi loans respectively decelerated from 10.6% and 11.4% in end-1Q22 to 10.2% and 10.9% in end-April.
- Property market condition deteriorated with sharp declines in related credit. New mortgage loans turned negative in April as property sales further fell sharply after the lockdowns. Off-balance-sheet financing remained negative amid property market stress and investors' risk aversion.
- Investor, consumer and business confidence weakened. As the investors' flight to quality offset the effect of credit shrinkage, China's M2 growth accelerated from 9.7% in end-1Q22 to 10.5% in end-April. Consumer confidence weakened as new consumer credit turned negative in April. Business capital expenditure demand also declined as new medium & long term loans to enterprises sharply dropped by 59.8% amid the lockdowns.
- China may further loosen credit condition for property sector. The PBOC announced on Saturday (14 May) to lower the mortgage rate floor for first-time homebuyers by 20bps, indicating further credit loosening to boost housing demand. In China, mortgage contract rates are generally pegged to the 5Y loan prime rate (LPR). The PBOC cut the minimum mortgage rate from the 5Y LPR to 20bps below the 5Y LPR. With the 5Y LPR at 4.6%, the new minimum mortgage rate should be 4.4%.
- It is possible to see a mild cut in LPRs but aggressive cuts are unlikely. The China's economy is in face of weak demand amid lockdowns. A cut in LPRs will reduce interest rates on both new loans and outstanding loans and could boost demand and confidence. But the PBOC seems concerned about exchange rate fluctuation and capital outflow risks amid the US Fed tightening. The shift of renminbi from strengthening to weakening provides some room for a mild cut (eg. 10-20bp cut) in LPRs. But the possibility of aggressive cuts in LPRs should be still low in the short term.
- Policy cycle, business cycle and market cycle. There is a saying in the Chinese market that the bottom of the policy comes first, then the bottom of the market and finally the bottom of the economy. China's economic policy has already seen its bottom with a shift from tightening last year to loosening this year. But the magnitude of policy loosening has been below expectations. Moreover, China's pandemic control policy has not relaxed and the US Fed's tightening policy has not reached its peak. Due to these factors, investors expects a U-shaped recovery instead of a V-shaped recovery in China economy in future. This explains why the Chinese stock market has continued to slump after three important meetings have signaled to loosen economic policies since last December. But China's policy direction is clear and Chinese stocks' valuation is relatively low. After China gets ready for reopening and US inflation begins to drop noticeably, the Chinese market may finally usher in a rally.

Please see CMBI research team's full report [here](#).

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

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
BOC Aviation	USD300	5	4.334	4.334	-/-/-

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

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

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 18 credit bonds issued yesterday with an amount of RMB23bn. As for Month-to-date, 248 credit bonds were issued with a total amount of RMB265bn raised, representing a 6.1% yoy decrease.
- **[CNMDHL]** China Modern Dairy to hold EGM on 8 June to consider Aiyangniu Technology 75% stake acquisition for RMB287.8mn (USD45.2mn)
- **[DEXICN]** Dexin China announced it obtained agreement from auditor Elite Partners CPA on unaudited FY21 annual results; recommends RMB0.0875 per share final dividend
- **[FUTLAN]** Seazen's ratings downgraded to Ba2/Ba3; ratings placed on review for downgrade -Moody's
- **[FWDGRP]** said it will not redeem a US\$750m bond at the first call date on June 15
- **[GRNLGR]** Two public rental apartment buildings in Greenland's Pacific Park project in New York were sold on May 16, for a total contract amount of USD315mn.
- **[LOGPH]** Replaced E&Y with UniTax as the company's auditor. Logan's shares remain suspended from trading. We expect debt restructuring plan to be released soon.
- **[JIAYUA]** Sun Hung Kai & Co (86.HK) acquires security interest in 1.036 billion shares of Jiayuan International (2768.HK)
- **[PWRLNG]** Powerlong's ratings downgraded to B3/Caa1; outlook changed to negative - Moody's
- **[SJMHL]** SJM CFR downgraded to Ba3; ratings remain on review for downgrade - Moody's
- **[SUNAC]** Sunac Services pays HKD17.37mn for share repurchase

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