

**CMBI Credit Commentary****Fixed Income Daily Market Update 固定收益部市场日报****The Asset Asian G3 Bond Benchmark Review 2023**

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- *AMC sector was well bid this morning. CCAMCL/ORIEAS tightened c5bps, GRWALLs rose 0.25-0.5pt. BNKEA/NANYAN tightened 2-4bps. KR IGs were well sold. JP AT1s rose 0.1-0.25pt while CN AT1s were unchanged. LGFVs remained stable.*
- *HRINTH: Positive profit alert for a small subsidiary. HRINTHs were unchanged to 0.5pt higher this morning. See comments below.*
- *China Economy - Weak credit demand calls for easing policy. CMBI expects the PBOC to further cut LPRs and deposit rates by 10-20bps and RRR by 25bps in the remainder of this year. See comments below.*

**❖ Trading desk comments 交易台市场观点**

Yesterday, the flows in Asia IG space were mixed ahead of US PPI/CPI data release. In Chinese IGs, BABA/TENCNT/HAOHUA 28-31s were 1-2bps tighter. WB/XIAOMI 30s, on the other hand, were widened 1-2bps. In financials, Chinese AMCs remained firm. CCAMCL 27-30s tightened 1-2bps. GRWALL 7.15 Perp was 0.1pt higher. Huarong International Financial Holding, a small subsidiary of Huarong, announced positive profit alert for 1H24 results last evening. See below for our comments. In AT1s, BACR 9.625 Perp/HSBC 8 Perp/BAERVX 6.875 Perp were 0.1-0.3pt higher under buying from PBs/Prop desks. In JP/AU, RAKUTN 11.25 '27/RAKUTN 9.75 '29/RAKUTN 5.125 Perp/RAKUTN 6.25 Perp were another 0.2-0.4pt higher. SUMILF 5.875 Perp rose 0.5pt. QBEAU 5.25 Perp was up 0.3pt. In KR, KRKPSC 27/29 were 2-4bps wider. In HK, SWIRE '29/AIA '34/CKHH '34 were 1-2bps tighter. PINGIN 34s widened 5bps. NWDEVL Perps/27-31s lowered 0.3-0.9pt. In Chinese properties, SHUIONS were 0.2-0.3pt higher. On the other hand, FTLNHD/DALWAN 26s were down 0.2-0.4pt. VNKRLEs were 0.1-0.3pt lower. Moody's downgraded Vanke's corporate family rating one notch to B1 with a negative outlook. In Macau gaming, SANLTD/STCITY/WYNMAC 26-31s were 0.2-0.5pt higher. In India, VEDLN 26-28s were 0.3-0.4pt higher. ADSEZ '29/ADANEM '30/ADTIN '36 rebounded 0.2-0.3pt. In Indonesia, LMRTSP 8.096 Perp declined 1.8pts, the other LMRTSPs were unchanged.

The LGFVs/high-beta IG spaces were firm. KMLDHMs were unchanged to 0.1pt higher. Media reported KMLDHM is seeking to refinance a part of its non-standard debt with bank loans of RMB200mn-300mn (cUSD28.9mn-

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41.8mn). CPDEV 25/26 were up 0.1pt. ZHHFGR '25 was 0.3pt higher. CQNANA 4.5 '26, on the other hand, declined 0.6pt. In the high beta IG names, FRESHKs were unchanged to 0.1pt higher post 1H24 results with stable asset quality yet lower profitability. See our comments on 13 Aug '24. HUANEN '30/HNINTL '31 were up 0.2-0.3pt. The SOE perps were mixed. COFCHK 3.1 Perp/CHPWCN 3.45 Perp were up 0.2-0.3pt, CHPWCN 4.25 Perp/SPICPT 3.45 Perp were down 0.1-0.2pt.

#### ❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
EXIMCH 4 11/28/47	90.1	1.3	LMRTSP 8.096 PERP	54.5	-1.8
CHGDNU 4.8 09/11/48	94.3	1.1	NWDEVL 3 3/4 01/14/31	70.0	-0.9
CHGRID 4.85 05/07/44	100.8	0.9	CQNANA 4 1/2 08/17/26	96.6	-0.6
AIA 4 1/2 03/16/46	91.0	0.8	NWDEVL 5 1/4 PERP	85.0	-0.6
CNOOC 7 1/2 07/30/39	132.3	0.8	NWDEVL 4 1/8 PERP	64.0	-0.5

#### ❖ Marco News Recap 宏观新闻回顾

**Macro** – S&P (+1.68%), Dow (+1.04%) and Nasdaq (+2.43%) rebounded on Tuesday. US Jul'24 PPI was +2.2% yoy, lower than the expectation of +2.3% yoy. UST yield continued to retreat yesterday, 2/5/10/30 yield reached 3.93%/3.68%/3.85%/4.16%.

#### ❖ Desk analyst comments 分析员市场观点

##### ➤ HRINTH: Positive profit alert for a small subsidiary

Huarong International Financial Holdings (HIF) announced positive profit alert, citing the reversal of loan provisions and fair value gain of financial assets. HIF, engaged in offshore brokerage, securities dealing, asset management, loan financing, etc., is a 51%-owned subsidiary of Huarong. Recalled that Huarong announced the positive profit alert on 7 Aug'24. The positive profit alert of HIF is a reflection of the recovery of various operations of Huarong. That said, the impact of HIF's positive profit alert to Huarong should be immaterial as HIF only accounted for only 0.2% of HRINTH's revenue in FY23.

On 28 Jun'24, Huarong secured the EGM approval for the share transfer of financial Leasing to CITIC Group for RMB12bn (cUSD1.7bn). CITIC Group will pay Huarong in a lump sum payment within 10 business days after the approval from MOF and NFRA. We expect the proceeds from the disposal to be mainly used for refinancing.

Additionally, to clarify our comments on 8 Aug'24, Huarong also secured the EGM approval for dissolving the investment plans holding its investment stakes in 5 companies. This will enhance Huarong's flexibility to monetize these investments in an opportunistic manner, in our view. Based on our estimates, Huarong's stakes in these investments are worth RMB41.8bn (cUSD5.8bn). These, coupled with Huarong's remaining 19.92% stakes in financial leasing worth cRMB4bn (cUSD560mn), will offer alternative sources of liquidity for refinancing and potential bond repurchases.

As we wrote before, the conviction levels of HRINTHs are lower after the price rally since 2H23. That said, HRINTHs remain to be our top picks in the Chinese AMC universe in view of their better risk-return profiles. Within the HRINTH curve, we still like HRINTH 4.25 PERP as a shorter-dated and yield pick-up play. For dated bonds, we prefer HRINTH 3.875 11/13/29, HRINTH 3.375 02/24/30 and HRINTH 3.625 09/30/30 more and believe they are the more likely candidates for any repurchases in view of the potential monetization of Huarong's investments.

Company	Number of Shares	Shareholding %	Share px (last close)	Est. proceeds
Daqin Railway	424,671,935	2.42%	RMB6.86	RMB2,913mn
Kunlun Energy (stock code: 0135)	214,440,000	2.48%	HKD7.82	HKD1,677mn
China Power (stock code: 2380)	605,867,000	4.90%	HKD3.64	HKD 2,205mn
China Telecom (stock code: 0728)	1,206,336,000	1.32%	HKD4.28	HKD 5,163mn
Bank of China (stock code: 3988)	9,746,051,000	3.31%	HKD3.41	HKD 32,234mn

Source: Company filing.

### ➤ China Economy - Weak credit demand calls for easing policy

China's social financing flow marginally rebounded due to lower base and expanding government bond issuance. However, credit demand further weakened in the private sector as households cut housing purchase and discretionary consumption while businesses reduced capex amid deflation expectations and subdued confidence. New RMB loans to real sector registered a negative reading the first time since July 2005 with short-term loans to households and enterprises notably contracted. The weak credit demand in the private sector calls for further fiscal expansion and monetary policy easing. But the policymakers choose to seek a balance between multiple targets, restraining the policy room ahead. Looking forward, we expect the PBOC to further cut LPRs and deposit rates by 10-20bps and RRR by 25bps in the remainder of this year. We expect credit growth may see the trough around this year end as the US Fed's rate cut cycle may expand the PBOC's policy room next year.

**Social financing flow mildly rebounded amid lower base and expanding government bond issuance.** The growth of outstanding social financing (SF) edged up to 8.2% YoY (all in YoY terms unless otherwise specified) in July from 8.1% in June, as the SF flow rebounded by 43.6% to RMB770bn, after dropping 21.9% to RMB3.3tn in June. Government bond issuance has emerged as the cornerstone of social financing growth, as it increased by 68.2% and contributed nearly 90% of the SF flow in July. New RMB loans to real sector has become negative for the first time since July 2005 as credit demand has been extremely weak in the private sector. Corporate bond issuance surged 57.2% to RMB202.8bn, after dropping 6.6% to RMB210bn in June. Shadow financing continued to contract as new undiscounted banks' acceptance and trust loans dropped by RMB107.5bn and RMB2.6bn in July. The M1 supply further dropped 6.6% in July after decreasing 5% in June, as business activities were weak. M2 growth edged up to 6.3% in July from 6.2%. We expect both M1 and M2 growth should stay muted in the near term due to weak property sales and business activities.

**New loans further slumped as private sector accelerated deleveraging amid weak confidence.** Growth of outstanding RMB loans inched down to 8.7% in July from 8.8% in June, registering another historic low. The once again weaker-than-expected new RMB loans dropped 24.8% to RMB260bn in July, following the 30.2% dip to RMB2.13tn in June. New loans to households were negative as people cut housing purchase and discretionary consumption and repaid their debts amid concerns about economic uncertainty. New loans to the corporate sector further declined 45.3% to RMB130bn after dipping 28.5% to RMB1.63tn in June.

**Weak credit demand calls for easing policy.** Private sector has experienced a spontaneous deleveraging. Households have cut spending on home and consumption to repay their loans in advance amid deflation pressure and high real term interest rates. Businesses have reduced capex due to a lack of growth opportunities and overcapacity pressure. The credit demand weakness calls for fiscal expansion and easing monetary policy ahead. But the policymakers choose to seek a balance between multiple targets, which may restrain the policy room ahead. Looking forward, the PBOC may further cut LPRs and deposit rates by 10-20bps and RRR by 25bps in the remainder of this year. A possible weakening of the US dollar during the Fed's rate cut cycle may expand the PBOC's policy room next year as China's credit growth may gradually stabilize.

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### ➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Agricultural Bank of China	400	3yr	5.926%	SOFR+55	A1/-/-
Zhuji State-owned Assets Management Co., Ltd.	520	3yr	5.55%	5.55%	-/-/-

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

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Henan Investment Group Co., Ltd.	USD	-	3yr	5.7%	-/-/A

➤ **News and market color**

- Regarding onshore primary issuances, there were 94 credit bonds issued yesterday with an amount of RMB76bn. As for month-to-date, 755 credit bonds were issued with a total amount of RMB765bn raised, representing a 40.1% yoy increase
- [DALWAN]** Media reported that a PAG-led consortium has so far obtained RMB16bn (cUSD2.23bn) commitments from banks for its planned cRMB20bn loan to back the acquisition for a 60% stake in Newland Commercial Management
- [KMLHDM]** Media reported that Kunming Anju Group plans to partially refinance non-standard debt with cRMB200mn bank loans
- [MPEL]** Melco Resorts 2Q24 revenue rose 22.3% yoy to USD1.16bn and adj. property EBITDA rose 13.3% yoy to USD302.8mn
- [VEDLN]** Vedanta Limited board approved selling up to 2.6% stake in Hindustan Zinc unit via stock exchange
- [VNKRLE]** Moody's downgraded China Vanke's CFR to B1 with negative rating outlook
- [ZHHFGR]** Zhuhai Huafa Properties resold RMB188mn 22HuafashiyeMTN002B notes

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