

## CMBI Credit Commentary

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

- *Market sentiment was weak compared to yesterday. In IG space, Korea names widened 2-5bps against new supply. We saw profit taking on LGFVs and SOE Perps with high cash prices but buying demand on higher-yielding names.*
- *Asia Credit Outlook 2024 - Value hunting in a shrinking space. See below.*
- *China Economy – PMI contraction indicates continuous policy easing in 2024. CMBI economic research maintains the forecast for GDP growth of China at 5.3% in 2023 and 4.8% in 2024. See below for detailed comments*

#### ❖ Trading desk comments 交易平台市场观点

This Tuesday, overnight UST widened 5-10bps. Asia IG space opened stable on the first trading day in 2024, with spread closed largely unchanged to a touch wider. In Chinese SOE/TMT benchmarks, HAOHUA curve was traded in active two way flows and closed unchanged to 2bps wider. TENCNT 30s widened 2-4bps. The high beta TMTs were mixed with better selling on MEITUA 30s vs better buying on XIAOMI 30-31s. In financials, the front end of Chinese bank T2s papers were traded heavily. ICBCAS/BCHINA 24s/25s were 1-4bps wider. The front-end Korean papers such as DFHOLD/KORHIC/POHANG 26s were under better selling. In AU space, the long-end financials such as WSTPs/MQGAUs/ANZs were traded in active two way flows and were unchanged to 3bps tighter. In HK Corp space, NWDEVL Perps were 2.6-3.4pts higher. BNKEA 5.875 Perp/CKPH 3.8 Perp were up 0.8-1.1pts. SHUION 25/26 were up 2.3-3.3pts. Chinese properties were firm. FUTLANs/FTLNHDs gained 1.1-5.5pts. DALWAN 24-26s were 2.7-3.1pts higher. GEMDAL '24/GRNCH '25 were up 1.5-2.3pts. ROADKGs were 0.5-2.2pts higher. VNKRLs/YLLGSPs were up 0.8-1.3pts. In industrials, FOSUNI 26-27s were up 0.7-2.3pts. Macau gaming names MPELs/SANLTDs/STCITYs/ WYNMACs were 1.2-2.1pts higher. In Indian space, UPLLIN 5.25 Perp was 2.2pts higher. Renewables GRNKENS/RPVINs were up 0.3-0.5pt. Indonesian name LMRTSP 24/26 were 1.1-4.4pts higher. The long-end of SOEs such as INDOIS/PLNIJ 49-50s were down 1.2-1.4pts. Elsewhere, GLPCHI 24/26 were up 1.8-2.0pts.

The LGFV/Perp spaces had a firm session to start 2024 while liquidity remained thin. The flows were overall constructive, as the higher-yielding names CPDEV/ZHHFGR remained sought after by RMs. CPDEV 25/26/Perp closed 0.7-1.4pts higher. The shorter-dated quality LGFVs such as GZGETH/HKIQCL/ZHANLO 24-25s were also sought after, supported by cash parking demand from RMs. GZGETH/ZHANLO 25s were up 0.2pt. In SOE perps, the short dated to call papers, especially those with yield pick-up,

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remained well bid. CHSCOI 3.4 Perp/CHCOMU 3.65 Perp/HUADIA 3.375 Perp were up 0.2pt. SUNSHG '26/ZHONAN '25 were up 0.2-0.5pt.

#### ❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
FUTLAN 6 08/12/24	61.2	5.5	TAISEM 1 3/8 09/28/30	80.9	-2.2
FTLNHD 4.8 12/15/24	61.2	5.5	KMRLGP 3.9 12/12/24	91.0	-1.8
LMRTSP 7 1/4 06/19/24	82.3	4.4	INDOIS 3.8 06/23/50	82.3	-1.4
NWDEVL 6 1/4 PERP	55.9	3.4	CHGRID 4 3/8 05/22/43	93.3	-1.4
SHUION 5 1/2 06/29/26	49.5	3.3	INDOIS 3.55 06/09/51	79.4	-1.4

#### ❖ Marco News Recap 宏观新闻回顾

**Macro** – S&P (-0.57%), Dow (+0.07%) and Nasdaq (-1.63%) were mixed on Tuesday. US Dec'23 Markit manufacturing PMI was 47.9, down from 49.4 in Nov'23 and lower than the expectation of 48.2. UST yield moved higher yesterday, 2/5/10/30 yield reached 4.33%/3.93%/3.95%/4.08%, respectively.

#### ❖ Desk analyst comments 分析员市场观点

##### ➤ Asia Credit Outlook 2024 - Value hunting in a shrinking space

#### Executive Summary

##### A roller-coaster ride in 2023

In 2023, Asia credit market started brightly on the expectations of “policy pivot” of the US Fed and strong recovery of China after re-opening. However, the strong start quickly reversed starting from Feb'23 given the rate hikes continued and recovery of China was well below expectation. Nonetheless, the Asia ex-JP credits staged a late comeback from Nov'23 after active rate cuts by the US FED in 2024 increasingly became the market consensus and China launched package measures to stabilize her economy. Overall, ACIG and ACHY returned 7.5% and 1.1% in 2023, reversed from the negative return of 10.5% and 19.9% in 2022, respectively.

##### Expectation of 150bps FFR cuts and “normalized” yield curve

CMBI economic research expects the US economy to come between a soft landing and a mild recession. The nominal and real GDP growth in the US will slow from 6.2% and 2.3% in 2023 to 3.1% and 0.8% (market consensus at 3.6% and 1%) in 2024, respectively. Hence, the US FED would start to cut FED Fund Rate (FFR) as early as May'24 and the full year rate cuts could reach 150bps (market consensus at 90-100bps) in 2024. CMBI economic research also expects the 10-year UST yield to lower from 4.5% at end-2023 to 3.9% (market consensus 3.74%) by the end of 2024. At the time of writing, 10-yr UST is already at 3.88% compared with our expectation of 3.9% by end of 2024. The yield curve should then be normalized, reversed the inverted sloping trend.

##### More favourable fund flow and technical to support the performance in 2024

With the “policy pivot” of the US FED, we expect more favourable fund flow environment to EMs and Asia ex JP given the weaker USD and more room for China to launch her stimulus packages with alleviated concerns on

further RMB depreciation and the resulting capital outflow. Additionally, we expect to see the net redemptions in Asia ex JP USD universe to continue, comparing gross issuance of cUSD120bn in 2023 with scheduled maturities of cUSD240bn in 2024 and cUSD230bn in 2025. Our belief is reinforced by the recent trend of repurchases and tender offers funded with lower-cost onshore funding alternatives. These should support the positive technical of our universe despite credit spread in our space is at the tighter end of the spectrum. Meanwhile, we continue to see opportunities of credit spread compression for laggards of sectors with stable or improving credit stories such as those in Macau gaming and TMT.

### Themes and picks

We envisage that 2024 will be a year for Asia ex JP credits to start with fund inflow to chase value plays in a shrinking “investable” space. The market will continue to be momentum driven with thin trading liquidity. As a result, market volatility could remain high, especially longer-end UST rates appear to overshoot from our year-end target. Hence, we recommend investors to add duration cautiously. We prefer to focus on belly part of the curve (5-7 years) as the inverted yield curve should gradually be “normalized”. We also prefer to add duration through corporate perps with high coupon step-up and bank capital papers. While overall valuation of Asia ex JP is not cheap, we see spread compression opportunities in various sectors with improving fundamentals. Under these backdrops, our themes for 2024 will center on: -

Theme	Picks
➤ <b>Duration and yield pick-up trades.</b>	
<ul style="list-style-type: none"> <li>▪ Corp perps with high coupon step-up</li> </ul>	LEEMAN 5.5 Perp NWDEVL 6.15 Perp NWDEVL 5.25 Perp NWDEVL 4.125 Perp PCORPM 5.95 Perp SMCGL 6.5 Perp SMCPM 5.5 Perp
<ul style="list-style-type: none"> <li>▪ Capital papers (AT1 and T2) of banks</li> </ul>	BBLTB 5 Perp BCHINA 3.6 Perp DBSSP 3.3 Perp ICBCAS 3.58 Perp KBANK 5.275 Perp RCBPM 6.5 Perp SHINFN 2.875 Perp ANZ 2.95 07/22/30 KBANK 3.343 10/02/31 SHINFN 3.34 02/05/30 WSTP 2.894 02/04/30
<ul style="list-style-type: none"> <li>▪ Leasing companies' majority-owned by state-owned banks or laggards</li> </ul>	FRESHK 2 5/8 03/03/24 FRESHK 3 3/8 02/18/25 CDBFLC 2 7/8 09/28/30 BCLMHK Float 09/05/24 BCLMHK Float 12/10/24 BCLMHK Float 03/02/25
➤ <b>China SOEs</b>	
<ul style="list-style-type: none"> <li>▪ Short-term bonds with high yields</li> <li>▪ Selectively add duration, prefer belly part (5-7 years) of the curve</li> </ul>	CNBG 3.1 Perp CNBG 3.375 07/16/24 SYNNVX 4.892 04/25/25 HAOHUA 3.875 06/19/29 HAOHUA 3 09/22/30
➤ <b>Consumption plays with improving or solid credit stories</b>	
<ul style="list-style-type: none"> <li>▪ Macau gaming, car rental and TMT</li> </ul>	MPELs SJMHOLs STCITYs/STDCTYs EHICAR 7.75 11/14/24 EHICAR 7 09/21/26 MEITUA 0 04/27/27(CB) MEITUA 0 04/27/28(CB) MEITUA 3.05 10/28/30 WB 3.375 07/08/30 XIAOMI 3.375 04/29/30 XIAOMI 0 12/17/27(CB)

➤ **Beneficiaries of supportive government policies**

▪ LGFVs from higher tier cities with stronger access to onshore funding	CCUDIHs CPDEVs GSHIAVs GXFINGs GZINFU KMRLGPs ZHHFGRs	CCAMCL 4.4 Perp GRWALL 3.95 Perp HRINTH 4.25 Perp HRINTH 4.5 05/29/29 HRINTH 4.25 11/07/27 HRINTH 4.75 04/27/27
▪ Chinese AMCs with demonstrated government support		

➤ **Survivors in Chinese properties**

▪ SOEs	CHJMAOs
▪ non-SOE survivors trading at distressed valuations	CSCHCNs DALWANS FUTLANs/FTLNHDs HPDLFs LNGFORs YLLGSPs
➤ T1/2 cities positioning	
➤ Ownership of high quality investment properties providing recurring rental income and access to alternative funding channels such as CMBS, CBICL-guaranteed bonds, operating loans, etc.	
➤ Manageable near-term maturities, especially offshore bond maturities	

➤ **Laggards in South East Asia space**

▪ Turned more neutral on commodity names in general	ADANIG 4 $\frac{3}{8}$ 09/08/24 INCLEN 4 $\frac{1}{2}$ 04/18/27 MEDCIJ 8.96 04/27/29
▪ Value in selected Indian renewables	

**Summary of recommendation**

Corporate Perps	Maintain Buy	LEEMAN 5.5 Perp NWDEVL 6.15 Perp NWDEVL 5.25 Perp NWDEVL 4.125 Perp
	Initiate Buy	PCORPM 5.95 Perp SMCGL 6.5 Perp SMCPM 5.5 Perp
	Chg. to Neutral	ROADKG 7.75 Perp UPLLIN 5.25 Perp
Bank AT1	Maintain Buy	BCHINA 3.6 Perp DBSSP 3.3 Perp ICBCAS 3.58 Perp KBANK 5.275 Perp
	Initiate Buy	BBLTB 5 Perp RCBPM 6.5 Perp SHINFN 2.875 Perp
Bank T2	Maintain Buy	ANZ 2.95 07/22/30 KBANK 3.343 10/02/31

		SHINFN 3.34 02/05/30 WSTP 2.894 02/04/30
Chinese Leasing	Maintain Buy	FRESHK 2 5/8 03/03/24 FRESHK 3 3/8 02/18/25 BCLMHK Float 09/05/24 BCLMHK Float 12/10/24 BCLMHK Float 03/02/25 CDBFLC 2 7/8 09/28/30
China SOE	Maintain Buy	CNBG 3.1 Perp CNBG 3.375 07/16/24 HAOHUA 3 09/22/30 HAOHUA 3.875 06/19/29 SYNNVX 4.892 04/25/25
Macau Gaming	Maintain Buy	MPELs SJMHOls STCITYs/STDCTYs
Car rental	Maintain Buy	EHICAR 7.75 11/14/24 EHICAR 7 09/21/26
Chinese TMT	Maintain Buy	MEITUA 0 04/27/27 (CB) MEITUA 0 04/27/28 (CB) WB 3.375 07/08/30 XIAOMI 3.375 04/29/30 XIAOMI 0 12/17/27 (CB)
	Initiate Buy	MEITUA 3.05 10/28/30 TENCNT 2.39 06/03/30
	Chg. to Neutral	PDD 0 12/01/25 (CB) XIAOMI 2.875 07/14/31
LGFV	Maintain Buy	CPDEVs CCUDIHs GSHIAVs GXFING GZINFUs KMRLGPs ZHHFGRs
Chinese AMC	Maintain Buy	CCAMCL 4.4 Perp GRWALL 3.95 Perp HRINTH 4.25 Perp HRINTH 4.5 05/29/29 HRINTH 4.25 11/07/27 HRINTH 4.75 04/27/27
Chinese Properties	Maintain Buy	CHJMAOs CSCHCNs DALWANs FUTLANs/FTLNHDs HPDLFs LNGFORs YLLGSPs
	Chg. to Neutral	VNKRLEs

SEA Commodities	Renewables and	Initiate Buy	ADANIG 4 ¾ 09/08/24
		Chg. to Neutral	INCLN 4 ½ 04/18/27
			MEDCIJ 8.96 04/27/29
			INDYIJ 8.25 10/22/25
			SAKAEI 4.45 05/05/24
			VEDLN 13.875 01/21/24
			VEDLN 8.95 03/11/25

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### ➤ China Economy – PMI contraction indicates continuous policy easing in 2024

China's manufacturing PMI contracted for the third consecutive month as it fell to the lowest point since June 2023. All sub-indexes worsened while headline PMI has contracted eight in the past nine months. New order, export order and existing order further contracted, signaling continuous deterioration on the demand side. Corporate procurement activities remained subdued as both material purchase volume and import order edged down. Raw materials and finished goods inventory further fell as the proactive de-stocking from enterprises continued. Ex-factory price index further dipped while manufacturing material purchase price rebounded, showing the intensified price competition from the production side albeit a higher input cost. Employment further crumbled in manufacturing and services. Service PMI remained in contraction while construction rebounded thanks to fiscal expansion. The weak economy indicates continuous easing macro policies ahead. Fiscal policy would be more expansionary with the broad fiscal deficit probably at over 8% in 2024. The PBOC may lower LPRs in January or February and cut RRR twice within 2024. We maintain our forecast for GDP growth at 5.3% in 2023 and 4.8% in 2024.

**The contraction of manufacturing activities accelerated due to the sluggish domestic and external demands.** China's manufacturing PMI came in below expectation once again and contracted to 49% in Dec from 49.4% in Nov. Production index dropped to 50.2% in Dec from 50.7% in Nov. The contraction of new order and export order further expanded, falling to 48.7% and 45.8% from 49.4% and 46.3% while existing orders remained in contraction at 44.5%, showing the further deterioration from the demand side, both domestically and externally. Material purchase volume and import order decreased from 49.6% and 47.3% to 49% and 46.4%, indicating a weakened corporate procurement activities. Both raw materials inventory and finished goods inventory edged down to 47.7% and 47.8% from 48% and 48.2%, as the proactive de-stocking from enterprises continued. Breaking down by sector, new order indexes in metal products, computers & electronic equipment and other transportation equipment reached above 50% while most industries indicated insufficient market demand. The PMI worsened in Dec across large, medium and small enterprises, while small and medium enterprises remained in contraction since April.

**Reflation still lacked momentum due to weak demand and tough supply competition.** Ex-factory price index further dipped to 47.7% from 48.2%, while manufacturing material purchase price rebounded from 50.7% to 51.5%, showing the intensified price competition from the production side albeit a higher input cost. Service price index moderately rebounded but stayed in contraction, while construction price continued to rebound. Looking forward, China's CPI and PPI still faced downward pressure in Dec but may gradually recover in 2024 thanks to the base effect, demand improvement and the easing of de-stocking cycle.

**Service sector remained in contraction while construction continued to expand.** Non-manufacturing PMI inched up to 50.4% from 50.2%. PMI in service stayed flat at 49.3%. Breaking down by sector, activities in postal service, TV & broadcast, money market service and insurance remained above 55% while water transportation, capital market service and real estate stayed in contraction, possibly indicating that people are retracting money from capital market to safer means of investment such as deposits in banks and insurance companies, indicating a change in risk appetite partly due to a pessimistic expectation. Construction PMI bounced to 56.9% from 55%

thanks to the continuing expansion of fiscal stimulus. Business sentiment indexes in construction and services both improved and remained in high expansion zones.

**Employment in manufacturing and service worsened again while employment in construction continued to improve.** Employment indexes in manufacturing and service further dropped to 47.9% and 46.3% from 48.1% and 46.7% in Nov. Employment in construction recovered to expansion at 51.7% from 48.2%. The still-weak employment condition will restrain the recovery momentum of household consumption and cast a shadow on future economic growth, in our view.

**The weak economy indicates continuous easing macro policies ahead.** The worsening manufacturing and service activities driven by subdued domestic demand, the distresses in property market and soft external demand all indicate a still-sluggish economy. While policymakers might still maintain the GDP growth target at 5% for 2024, the weak economy indicates continuous easing macro policies ahead. China may adopt more expansionary fiscal policy and further loosen monetary policy & property policy to boost growth. The broad fiscal deficit ratio may reach 8% of GDP in 2024. The PBOC may launch additional cuts in RRR, deposit rates and LPRs in 1H24. Municipal governments may further loosen property policy to stabilize the property sector. We maintain the GDP forecast for 2023 at 5.3% and that for 2024 at 4.8%.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
UETD Construction&Development State-owned Capital Investment Operation	74.5	3yr	7.5%	7.5%	-/-/-

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

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Export-Import Bank of Korea	USD	-	3/5/10yr	-	Aa2/AA/AA-
Hyundai Capital America	USD	-	3yr	-	-/-/-
SK Hynix	USD	-	3/5yr	-	Baa2/BBB-/BBB

#### ➤ News and market color

- Regarding onshore primary issuances, there were 60 credit bonds issued yesterday with an amount of RMB42bn.
- **[BIDU]** Baidu terminated cUSD3.6bn acquisition of JOYY's Chinese live streaming business which was proposed in Nov'20
- **[BUMAIJ]** Bukit Makmur Mandiri Utama raised a loan of up to USD750mn with an option to increase it to USD1bn from Bank Negara Indonesia
- **[DALWAN]** Media reported that Dalian Wanda Commercial Management sold four plazas in Shanghai, Guangzhou, Huzhou and Taicang to Zhonglian Qianyuan Real Estate Fund Management; Dalian Wanda Group sold Shanghai hotel for cUSD203-234mn

- **[INDYIJ]** Media reported that Indika Energy got USD300mn facility from Bank Mandiri and Bank Negara Indonesia
- **[LMRTSP]** Fitch downgraded LMIRT to C from CCC- on distressed debt exchange and taken off rating watch negative
- **[YUNAEN]** Yunnan Provincial Energy Investment proposes to offer RMB2bn three-year MTNs to repay debts

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