

CMBI Credit Commentary

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% 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 SINHLD (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.

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