CMBI Credit Commentary

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

- *This morning, secondary PKX/DAESEC/HANFGI/NHSECS widened 2-4bps ahead of new DAEINT/DAESEC/NHSECS USD issuance. The recent new issues TENCNT 36/46 widened 1bp. NWDEVL 6.25 Perp edged 0.7pt higher. SOFTBK 28 gained 0.4pt. EHICAR 26/LNGFOR 29 lost 0.3-0.4pt.*

- ***CHEDUC:** We view the valuation of the new CHEDUC 29 as unattractive. The new CHEDUC 29 widened 5bps from RO at T+190 this morning. See below.*

- ***China economy:** Demand side further deteriorated. CMBI views May's data pointed to a more pronounced K-shaped economy, with export- and AI-linked production still cushioning growth while domestic demand weakened further. See comments from CMBI economic research below.*

❖ **Trading desk comments 交易台市场观点**

Yesterday, the new WLISRC 7.875 06/23/36 was 0.5pt lower from RO at 99.493. See our comments yesterday. The new KORGAS 29-31s widened 3-4bps from ROs. The new HYNMTR 28-29s tightened 2-3bps from T+55 and T+70, respectively, while HYNMTR 31-33s closed around RO levels. The new MITCO 31s tightened 5bps from RO at T+47, while MITCO 36s leaked to 1bp wider. In the secondary IG space, Taiwanese lifers closed unchanged to 2bps wider amid better selling in CATLIF 39-41s. We saw balanced two-way flows in HAOHUA 27-28s and light better selling in front-end TENCNT/TAISEM/MEITUA. They closed 2bps tighter to 1bp wider. ZHOSHK 28 was down 0.1pt. In HK, NDPAPE 14 Perp lost 0.5pt. Nine Dragons Paper obtained a three-year syndicated loan of RMB2bn (cUSD295.4mn), and commenced tender offer for USD400mn NDPAPE 14 Perp at 107. LASUDE 26 edged 0.2pt higher. See our comments on Lai Sun Development on 15 Jun'26. FAEACO 12.814 Perp was 0.1pt firmer. In Chinese properties, VNKRLE 27-19/FUTLAN 28/FTLNHD 27-29 were 0.1pt lower to 0.1pt higher. In JP, NOMURA 7 Perp edged 0.2pt higher. SOFTBKs were 0.5pt lower to 0.1pt higher. In SE Asian space, VEDLN 28-33s traded 0.1pt lower to 0.1pt higher. GLPSPs/GLPCHI were down 0.1-0.4pt. PTTGC Perps lost 0.2pt. In AT1 space, HSBC 7 Perp edged 0.8pt higher and STANLN 7 Perp gained 0.2pt. On the other hand, BACR 4.375 Perp and ACAFP 4.75 Perp leaked 0.5pt.

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
HSBC 7 PERP	**102.8**	**0.8**	KZOKZ 5 3/4 04/19/47	**96.0**	**-0.7**
CNPCCH 5.95 04/28/41	**109.7**	**0.8**	PMBROV 11 1/2 02/18/30	**85.8**	**-0.6**
HAOHUA 4 3/4 06/19/49	**90.7**	**0.7**	NDPAPE 14 PERP	**104.7**	**-0.5**
XIAOMI 4.1 07/14/51	**77.9**	**0.6**	ACAFP 4 3/4 PERP	**97.1**	**-0.5**
BABA 4.4 12/06/57	**82.4**	**0.6**	BACR 4 3/8 PERP	**96.5**	**-0.5**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.57%), Dow (+0.64%) and Nasdaq (-1.15%) were mixed on Tuesday. UST yield were lower on Tuesday. 2/5/10/30 year yield was at 4.05%/4.16%/4.43%/4.93%.

❖ Desk Analyst Comments 分析员市场观点

➢ CHEDUC: We view the valuation of the new CHEDUC 29 as unattractive

Yesterday, China Education Group (CEG, -/BBB/-) priced its 3yr USD senior unsecured bond (-/BBB/-) at T+190bps (6.008% yield), tightened 30bps from IPT at T+220bps. The issue size is USD200mn on an order book of over USD800mn. Taking cues of the valuations of Chinese BBB-rated peers with similar tenor, i.e. CNMDHL 30 (-/BBB/-, YTW 5.2%), we view the new CHEDUC 5.625 06/24/29 at 6.0% yield as unattractive on a risk-adjusted basis, considering its weaker trading liquidity due to smaller issue size, and it is more vulnerable to shift in policy direction. Within the Chinese BBB-rated universe, we like ZHOSHK 28 (-/BBB-/-, YTW of 8.4%) for more attractive risk-adjusted return profile. We also consider CNMDHL 30 (-/BBB/-, YTW of 5.2%) of as a yield pick-up play over CHMEDA 30. Moreover, we like MEITUA 30-31 and XIAOMI 30-31 among Chinese TMT BBB-rated players.

Proceeds from the new issue will be used to repay offshore debts, fund capex and working capital. Under the bond terms, change of control put at 101 applies. CEG may redeem all of the bonds at any time on or after 24 May'29 by giving not less than 15 nor more than 30 days' notice (1-month par call).

As per CEG, it is the largest listed private higher education group in China in terms of revenue, EBITDA and student enrolment. CEG focuses on private higher education and secondary vocational education, operating schools across 8 provinces and/or municipalities in China (such as Guangdong, Shandong, Henan and Sichuan), as well as in Australia and the UK. The operating environment for segments CEG is focusing is relatively more favorable than that of pre-school/compulsory education and after-school tutoring which are under more policy scrutiny and restrictions. There are also higher barriers to entry to the education industry, such as regulatory requirements and approval process and high initial capital required. CEG is listed in HK, Yu Guo and Xie Ketao hold aggregate stakes of 62.84% in CEG and the remaining 37.16% are owned by public shareholders.

In FY25, CEG's revenue increased by 11.9% yoy to RMB7.4bn, comprising of 89% from higher education, 7% from secondary vocational education and 4% from international education. Its adj. EBITDA increased 10.5% yoy to RMB4.2bn at a margin of 56.6%. The ASP per full-time student rose 4.4% yoy to RMB26.1k from RMB24.4k in FY24. During FY25, CEG generated operating cash flow of RMB3.9bn, more than sufficient to cover the capex of RMB3.0bn. As of Dec'25, CEG had cash and cash equivalent of RMB5.8bn, and total debt of RMB10.2bn.

- **China economy: Demand side further deteriorated**

May's data pointed to a more pronounced K-shaped economy, with export- and AI-linked production still cushioning growth while domestic demand weakened further. Industrial production picked up modestly supported by export-delivered value and output in AI hardware. Retail sales retreated showing the first decline since Covid, while property sales and FAI contracted further. CPI came in below expectations, mainly driven by energy rather than demand-led pricing power, as core CPI softened. Credit growth also remained weak, as TSF growth slowed to a record low and new RMB lending was mainly supported by bill financing, while household and medium- to long-term corporate loans contracted. Looking ahead, policy support is likely to remain calibrated and largely structural to supply side in the near term, with room for policy easing preserved for 2H26 should momentum deteriorate further. We expect China's GDP growth to slow from 5.0% in 1Q26 to 4.6% in 2Q26 and full-year growth to moderate to 4.7%. We expect the K-shaped divergence to persist, which should also drive equity divergence, with AI infrastructure, competitive exporters and industrial champions benefiting from anti-involution campaign likely to outperform, while property-chain, low-end consumption and domestic cyclical sectors may continue to lag.

Property downturn deepened despite earlier signs of stabilization. New home sales fell by 13.1% in and 9.5% in value terms, both worse than April. Construction activity remained deeply depressed, with new starts down 24.6% in May, completions fell 19.9% and developer funding faded 21.5%, suggesting weak sales are still feeding back into developer cash flow and construction decisions. Home-price data also deteriorated, with new and existing home prices falling 0.20% and 0.26% MoM, respectively, although tier-1 cities remained resilient as existing home prices rose 0.35% MoM, in sharp contrast with widening declines in lower-tier cities. The key message is that China's property market is becoming increasingly bifurcated: top-tier cities may benefit from population inflows, better income prospects and AI-related wealth effects, but the national market remains constrained by excess supply, weak household expectations and developer balance-sheet stress. Policy therefore needs to move beyond broad easing toward faster inventory absorption, stronger completion financing and more effective local implementation; otherwise, property will continue to weigh on durable consumption, local fiscal revenue, construction demand and private-sector credit appetite.

Consumption slipped into contraction in May. Retail sales fell 0.6% YoY, the first negative reading since late-2022 reopening and below market expectations of 0.1%, while real retail sales likely declined by around 1.8% after adjusting for CPI. The weakness was broad-based but concentrated in discretionary and policy-sensitive categories: auto sales dropped 16.1%, home appliances fell 15.6%, furniture declined 8.7%, and communication appliances slowed sharply to 0.7%, reflecting the payback from earlier trade-in subsidies, weaker household confidence and higher prices for energy and electronics. Catering growth also moderated to 0.6% from 2.2%, suggesting services demand is not providing a strong offset to goods weakness. Overall, May's retail data suggest consumption remains constrained by the property downturn, weak income expectations and fading policy support. A durable recovery would likely require more income- and confidence-oriented stimulus, but we see limited scope for such a policy shift in the near term.

FAI contraction deepened in May. Fixed asset investment fell 10.7%, worsening from -8.0% in April, with YTD growth dropping to -4.1% versus consensus of -2.3%. The weakness was broad-based: property investment remained the largest drag at -24.3%, infrastructure investment unexpectedly plunged to -10.8% from -3.7%, while manufacturing investment stayed in contraction at -4.2%, showing limited support from strong exports. Within manufacturing, auto investment remained weak at -7.9% and electrical machinery investment fell back into contraction at -2.3%, likely reflecting the continued impact of anti-involution policies in EVs, batteries and solar, while transport equipment was the main bright spot, rising 21.4% on resilient shipbuilding and aerospace demand. The sharp infrastructure slowdown is consistent with fading fiscal support, as spending moderated across both the general budget and government funds. We see limited scope for a near-term inflection as government bond financing continued to disappoint.

Manufacturing output recovered mildly but remained uneven. Industrial production rose to 4.5% YoY in May from 4.1% in April, beating market expectations of 4.4%. The rebound was supported by export-delivered value, which stayed elevated at 10.1%, and AI-related production, with integrated circuit output rising 22.9%. However, the recovery was narrow: construction-linked materials remained weak, with crude steel and cement output down 2.7% and 8.1%, while autos, PCs and smartphones contracted by 3.2%, 19.4% and 8.8%, respectively. Overall, May's production data suggest external demand and selected AI-related sectors are still cushioning manufacturing activities, but weak domestic demand, property drag and supply disruptions continue to limit a broader industrial recovery.

May's inflation data pointed to softening domestic demand. CPI stayed flat at 1.2% YoY in May, below market expectations of 1.3–1.4%, as the headline was supported mainly by energy prices, while food remained a separate drag, with food CPI at -1.7% and pork prices down 16.1%. Core CPI edged down to 1.1% YoY from 1.2%, with services CPI also moderating to 0.8%, suggesting underlying consumer demand and pricing power remained soft. Durable goods remained tepid as autos and home appliances continued to drop despite some support from consumer electronics. By contrast, PPI rose sharply to 3.9% YoY from 2.8%, in line with consensus, but the acceleration was concentrated in upstream sectors, oil-related industries, non-ferrous metals and AI/electronics-related materials, while downstream consumer-goods PPI remained negative, implying margin pressure for mid- and downstream producers rather than healthy demand-led reflation.

Credit data reinforced the weak demand picture. New TSF dropped 11.5% to RMB2.03trn in May, below consensus of RMB2.32trn. Government net financing further dropped 16.1% to RMB1.2trn, indicating weakening fiscal support. Outstanding TSF growth slowed to a record-low of 7.7% YoY; new RMB loans dropped 16.1% to RMB520bn, above market expectations of RMB450bn. More importantly, loan composition remained poor, as household loans contracted by RMB141bn in both short-term and medium- to long-term loans. The medium- to long-term corporate loans fell to -RMB20bn, while the headline corporate loan improvement was largely supported by RMB557bn of bill financing. Liquidity remained ample compared to weak credit demand, as M1 growth rose to 5.5% YoY from 5.0%, while M2 stayed at 8.6% YoY.

The recovery remains increasingly K-shaped. On the positive side, export-oriented production and selected AI-linked sectors are still providing a floor to activity. However, the weaker side of the economy is broadening: retail sales fell into contraction, property investment and sales deteriorated further, infrastructure investment weakened sharply, and credit growth slowed to a record low despite ample liquidity. This divergence suggests China is not facing a classic cyclical recovery, but a segmented expansion led by external demand, upstream price effects and strategic manufacturing, while household demand, property-related activity and private-sector risk appetite remain impaired. Policy support will likely remain limited and largely structural on the supply side, as fiscal spending has moderated room for further monetary easing which appears limited, with more forceful easing likely preserved for 2H26 should economy momentum weaken further. Looking ahead, we expect China's GDP growth to slow from 5.0% in 1Q26 to 4.6% in 2Q26, with full-year growth moderating to 4.7%. The same K-shaped pattern should also be reflected in equity performance, as sectors linked to AI infrastructure, competitive exporters and industrial leaders benefiting from the anti-involution campaign may continue to outperform, while property-chain, low-end consumption and domestically oriented cyclical sectors are likely to lag.

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Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
China Education Group	200	3yr	5.625%	T+190	-/BBB/-
HDFC Bank	750	5yr	5.067%	T+90	Baa3/BBB/-
Republic of the Philippines	550/ 1650	5.5yr/ 10yr	4.625%/ 5.325%	T+55/ T+92.5	Baa2/BBB+/BBB

Offshore Asia New Issues (Pipeline)

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

News and market color

- Regarding onshore primary issuances, there were 144 credit bonds issued yesterday with an amount of RMB155bn. As for month-to-date, 1,130 credit bonds were issued with a total amount of RMB1,301bn raised, representing a 43.8% yoy increase
- **[BHP/RIOLN]** BHP, Rio Tinto look to India, Southeast Asia for growth as Chinese market stagnates
- **[CHJMAO]** China Jinmao to acquire the remaining 51% of Tianjin residential project for RMB884.2mn
- **[HYUELE]** SK Hynix reportedly plans shareholder returns of up to USD66bn after US listing
- **[LGELEC]** LG Electronics expected to generate KRW1tn (cUSD660.4mn) in initial revenue from chiller products in 2027
- **[LIHHK]** Lifestyle Int'l secured HKD6.4bn facility to help refinance HKD6.8bn loan due 18 Jun'26
- **[VEDLN]** Vedanta Resources is looking to price up to USD3.6bn 144A/Reg S notes as early as 24 Jun'26
- **[YUZHOU]** Yuzhou to raise USD34mn in sale-and-leaseback deal to sell six offices on the 58th floor of Hong Kong's The Center office tower

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