

CMBI Credit Commentary

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

- *Market was weak with light flows this morning. New CKHH'30/34 widened 5bps. AMC, Bank T2 widened 2-5bps. Developers remained weak, LNGFOR/NWDEVL/VNKRLE were unchanged to 1pt lower.*
- **Aussie Banks:** *Prefer AT1s over T2s on APRA's proposal. See comments below.*
- **China Economy** - *Exports growth momentum continued. CMBI expects exports growth to slow from 4.5% in 2024 to 3.5% in 2025 while imports growth to rise from 2.2% in 2024 to 2.7% in 2025. See below for comments from CMBI economic research.*

❖ Trading desk comments 交易台市场观点

Yesterday, CKHH priced the 5.5-yr and 10-yr bonds at CT5+95 and CT10+115, respectively. The recent new NSINTW/CATLIF 34s widened 1bp. KRKPSC 27/29 were 20-30bps wider. Aussie bank AT1s are under spotlight. ANZ 6.75 Perp/MQGAU 6.125 Perp/WSTP 5 Perp rose 0.7-1.4pts following APRA proposed to replace Aussie bank AT1s with T2/CET1 capital. Other senior bonds such as MQGAU Float '27/WSTP Float '29 were unchanged to 2bps tighter. See below for comments. In EU AT1s, the recently issued BNP 7.375 Perp/INTNED 7.25 Perp were 0.2-0.4pt higher. In Chinese IGs, HAOHUA 28-30s were unchanged to 3bps wider. In financials, Chinese AMCs were mixed. CCAMCL 29-30s and GRWALL 26-30s were 2-8bps wider. GRWALL 7.15 Perp remained better bid and closed 0.1pt higher. In HK, LIFUNG '25/Perp were another 0.3-1.5pts lower. LIHHK '25 and '26 declined 0.3 and 1.4pts, respectively. HYSAN 4.85 Perp/HYSAN 4.1 Perp were 1.0-1.3pts lower. NWDEVLs were down another 0.5-1.3pts. Chinese properties remained lackluster. VNKRLE 25-29s dropped another 3.0-3.9pts and closed 4.8-6.9pts lower WTD. DALWAN 25/26, CHJMAO 26/29, and ROADKG 7.95 Perp/ROADKG 7 Perp were 0.6-1.4pts lower. PINGRE 25-26s and LNGFOR 28-29s were down 0.6-0.8pt. On the other hand, SHUION 25/26 were up 0.3-0.5pt. In industrials, FOSUNI 25-27s declined another 0.3-0.8pt and closed 0.8-1.4pts lower WTD. In Macau gaming, STCITYs/WYNMACs were down 0.1-0.3pt. In India, VEDLN priced the 5NC2 bond of USD900mn at par to yield 10.875%. VEDLN 26-28s were 0.1-0.7pt higher. AZUPOE 24/26 were up 0.1pt. See our comments on [10 Sep '24](#). Elsewhere, GLPSP Perps dropped 1.7-1.9pts and closed 2.9pts lower WTD. GLPCHI '26 was down 0.8pt.

In LGFVs, there were balanced two-way flows in decent size in both USD/CNH papers. WHMTR priced a USD300mn 3-yr bond at 99.914 to yield 4.281% (CT3+77). The new CQLGST 6.5 '27 was 0.4pt higher from RO at par. CQLGST 24-25s were unchanged to 0.1pt higher. On the other hand,

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CPDEV 25/26/Perp were 0.2-0.4pt lower. FRESHK 5.875 '28 was 0.1pt lower (10bps wider). HUANEN '30/HNINTL '31 were 0.2-0.4pt higher. In SOE perps, HUANEN 5.3 Perp/CHPWCN 4.25 Perp were up 0.1pt, SPICPT 3.45 Perp/SPICPF 3.38 Perp were down 0.1-0.2pt.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CHGDNU 4.8 09/11/48	97.5	1.9	VNKRLE 3 1/2 11/12/29	44.3	-3.9
MQGAU 6 1/8 PERP	101.4	1.4	VNKRLE 3.975 11/09/27	47.5	-3.8
WSTP 5 PERP	99.1	1.4	VNKRLE 3.15 05/12/25	77.7	-3.0
SINOPC 4 1/4 04/24/43	95.1	0.9	GLPSP 4.6 PERP	55.8	-1.9
NIPLIF 2 3/4 01/21/51	87.6	0.9	GLPSP 4 1/2 PERP	56.7	-1.7

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.45%), Dow (-0.23%) and Nasdaq (+0.84%) were mixed on Tuesday. China Aug'24 export/import rose 8.7%/0.5% yoy, compared with the expectation of +6.5%/+2.0% yoy. UST yield continued to retreat yesterday, 2/5/10/30 yield reached 3.59%/3.43%/3.65%/3.97%.

❖ Desk analyst comments 分析员市场观点

➤ Aussie Banks: Prefer AT1s over T2s on APRA's proposal

The proposal

Australian Prudential Regulation Authority (APRA) proposes to phase out the uses of AT1 capital instruments as the regulator considers AT1 not an effective capital in a going concern scenario. Recalled that in Nov'22, APRA said banks should not call AT1 or T2 and replace it with an instrument with a higher credit spread, i.e. uneconomic call, as it may create the expectation that the issuer will exercise a call option on other outstanding AT1 or T2 instruments. And in Sep'23, APRA said it has begun to explore options to improve the effectiveness of AT1 and expected to propose changes to the prudential standards in 2024.

In essence, the APRA's proposal will maintain the total capital and buffer ratios unchanged but will replace AT1 with T2 and CET1. To illustrate, the Advanced Banks (large and internationally active banks) will replace 1.5% AT1 with 0.25% CET 1 and 1.25% Tier 2, while smaller banks to fully replace AT1 with Tier 2. See Table 1. APRA is not proposing any changes to capital instruments for insurers at this time, as APRA's concerns for AT1 are less acute for insurers. APRA will monitor developments in the AT1 market for insurers and may review the approach to insurance capital instruments in due course.

Table 1: Minimum prudential capital requirements under APRA's proposed approach

Minimum capital requirements	Advanced banks		Standardized banks	
	Current	Proposed	Current	Proposed
CET 1 ratio	4.5%	6.0%	4.5%	4.5%
Capital conservation buffer	3.75%	2.5%	2.5%	2.5%
Countercyclical capital buffer	1.0%	1.0%	1.0%	1.0%
Additional buffer for D-SIB	1.0%	1.0%	-	-
AT1 ratio	1.5%	-	1.5%	-
Tier 1 ratio	11.75%	-	9.5%	-
Tier 2 ratio	2.0%	3.25%	2.0%	3.5%
Total capital ratio	13.75%	13.75%	11.5%	11.5%

Note: Advanced banks refers to Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, ING Bank (Australia) Limited, Macquarie Bank Limited, National Australia Bank Limited, and Westpac Banking Corporation.

Source: APRA.

Positive to AT1: Early redemptions prior to Jan'27 are more likely and new supply will dry out

Under APRA's proposal, the existing AT1 capital instruments would be treated as T2s until their first call dates starting from 1 Jan'27. The last call dates of outstanding AT1 of Aussie banks will be in 2032. Hence, Aussie AT1 will become a legacy product once the proposal approved. As AT1 will only be accounted as Tier 2 anyway by Jan'27, we can envisage Aussie banks will highly incentivized to refinance (call or even exchange) their AT1s asap either with T2s (especially in a falling rate environment) or with CET1 even if APRA would not expect to approve regulatory calls of these AT1 instruments at an earlier date than their first call dates.

Currently, there are three outstanding Aussie bank USD AT1s: ANZ 6.75 Perp (callable Jun'26), MQGAU 6.125 Perp (callable Mar'27) and WSTP 5 Perp (callable Sep'27) totaled USD3bn. While their valuations are not too appealing, we believe that the higher certainty of call, potential earlier redemption through exchange to other instruments (both Macquarie and Westpac will be highly incentivized to replace their AT1s prior to Jan'27) and lack of new supply will continue to support the performance of Aussie bank AT1s. In Aussie bank space, we believe AT1s offer better risk-return profile than T2s, and consider Aussie bank AT1s short-dated carry and low-beta plays.

Table 2: Bond profile of Aussie USD AT1

	Ask price	YTC (% ask)	First call date	Year to call	Amt o/s (USD mn)	Bond rating
ANZ 6.75 Perp	103.0	5.09	15 Jun'26	1.8	1,000	Baa2/BBB/BBB
MQGAU 6.125 Perp	101.9	5.42	8 Mar'27	2.5	750	Baa3/BBB/-
WSTP 5 Perp	99.5	5.27	21 Sep'27	3.0	1,250	Baa2/BBB/BBB

Source: Bloomberg.

Negative to T2: Potential downgrade risk and c29% increase in supply

Aussie bank T2s, on other hand, will face a quite different environment than that of AT1s. As discussed by APRA, T2 will be a more risky product without the cushion of AT1. Aussie bank T2s are exposed to rating downgrade risk. Additionally, as a major part of AT1s will likely be replaced with T2s, the new T2 supply from Aussie banks will increase notably over the coming years, especially from now to Jan'27 when AT1s will start to be treated as T2s. As per APRA, the additional T2 issuance will be AUD35.9bn from 2025 to 2032, equivalent to c29% of existing T2s totaled AUD125bn. A quick number crunching on data, c39% of existing T2s are in AUD and c47% are in USD. The remaining c14% are in EUR, HKD, SGD, etc. The less cushion for loss absorption and notable increase in supply over the coming years will be an overhang for the performance of Aussie bank T2s. Hence, we turn neutral from buy on ANZ 2.95 07/22/30 and WSTP 2.894 02/04/30.

The next step and future developments to monitor

A two-month discussion period on the proposal has commenced from Sep-Nov'24. APRA will provide an update on the consultation process in the late 2024. In 1H25, APRA will have consultation on specific changes to prudential standards, and the effective date for the new requirements and the start of transition will be in Jan'27.

Separately, the APRA's proposal is more "bold" than our expectation of fine tuning such as higher trigger levels. We shall monitor if APRA's move will have any bearings on other regulators. Recalled that Dutch Finance Ministry was reported to consider stricter capital and liquidity requirements including the abolition of AT1. See the comments in [our daily on 21 Mar'24](#).

➤ China Economy - Exports growth momentum continued

China's exports of goods came in above market expectations driven by exports to Europe and major emerging economies. Exports of vehicles and ships remained robust while tech products mildly moderated. Imports of goods dropped remarkably, especially the industrial-related commodities and intermediate goods, indicating the subdued domestic demand and economic activities. Looking ahead, China's exports may maintain moderate growth in the remainder of this year thanks to the low base effect, price advantage and front-loading effect amid tariffs expectations. But the growth may noticeably slow down in 1H25. We expect exports growth to slow from 4.5% in 2024 to 3.5% in 2025 while imports growth to rise from 2.2% in 2024 to 2.7% in 2025. The USD/RMB rate may reach 7.07 at end-2024 and 7.03 at end-2025.

Exports picked up driven by increased exports to Europe and emerging economies. China's exports of goods picked up 8.7% (all on a YoY basis unless specified) in Aug compared to 7% in July, better than market expectation of 7%. Exports to the EU grew considerably from 8% to 13.4% in Aug, with a marked improvement starting from the third quarter, while exports to the US and ASEAN moderated from 8.1% and 12.2% in July to 4.9% and 9% in Aug. Exports to emerging economies including India, Africa, Latin America and Russia notably accelerated to 14%, 4.5%, 19.7% and 10.4% in Aug from 8.6%, -7.9%, 13.8% and -2.8%. Exports to Japan and South Korea rebounded from -6% and 0.8% to 0.5% and 3.4% in Aug respectively.

Exports of vehicles and ships surged while tech products moderated. Exports of vehicles exports accelerated to 32.7% in Aug after slowing down to 13.8% in July, while ship rebounded to 60.6% in Aug from 54.8%. Exports of IT products mildly slowed down, as the two largest export categories, computers and integrated circuits moderated to 10.8% and 18.2% in Aug from 19.3% and 27.7%, while cell phones rose 17%. Discretionary consumption remained subdued as travel goods & bags, garment and toys dipped by 10.6%, 2.7% and 8.3% after dropping 11.8%, 4.4% and 3.9% in July. Property-related products including furniture and lamps declined by 4.5% and 7.6% compared to 5.5% and 6.6% drop in July, while home appliances continued to moderate, down from 17.2% to 12% in Aug. Steel products and aluminium notably rose 6.8% and 24.1% in Aug, up from -2.4% and 20.5% in July.

Imports dropped sharply. China's imports of goods dropped sharply to 0.5% in Aug after rising 7.2% in July, below market expectations of 2.5%. Energy products declined notably as the import volume of crude oil, coal dropped to 3.4% and -7% from 17.7% and -3.1% in July, while natural gas edged up to 8.3% from 5.3%. For raw materials, import volume of iron ore and copper ore both dropped 4.7% compared to 10% and 10.2% growth in July respectively. Intermediate goods including steel and copper products dropped 20.5% and 12.3% in volume while rubber and plastics in primary form dipped notably by 7.2% and 5.2% following 10.7% and -3.2% growth in July. Imports volume of agricultural products surged notably as grain and soybean increased 17.6% and 29.7% in Aug from 2.5% and 1.2%. The declining imports of industrial-related commodities and intermediate goods indicated a still-subdued domestic demand and economic activities.

China continued to experience external resilience while showing internal weakness. Exports continued to be one of the few tailwinds for economic recovery. We expect exports to maintain moderate growth in the remainder of the year thanks to the low base effect, price advantage and front-loading effect amid tariffs expectations. But exports may noticeably slow down in 1H25 as overseas demand for goods gradually softens. Exports growth is expected to decelerate from 4.5% in 2024 to 3.5% in 2025. Imports growth may mildly rise from 2.2% in 2024 to 2.7% in 2025. USD/RMB rate is expected to reach 7.07 at end-2024 and 7.03 at end-2025 as the US growth and inflation gradually decline while China's growth and inflation slowly improve.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
APA Infrastructure	750/500	10/20yr	5.125%/5.75%	T+165/182	Baa2/BBB/-
CK Hutchison	500/500	5.5/10yr	4.375%/4.75%	T+95/115	A2/A/A-
Marubeni Corporation	500	5yr	4.458%	T+97	Baa1/BBB+/-
Nissan Motor	400/300	3/5yr	5.3%/5.55%	T+185/215	Baa3/-/BBB-
Nissan Motor	300	3yr	7.425%	SOFR+205	Baa3/-/BBB-
Vedanta Resources	900	5NC2	10.875%	10.875%	-/B-/-
Wuhan Metro Group	300	3yr	4.25%	T+77	A3/-/A

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Jinan Lixia Holding Group	USD	-	3yr	6.4%	-/-/-

➤ News and market color

- Regarding onshore primary issuances, there were 114 credit bonds issued yesterday with an amount of RMB110bn. As for month-to-date, 497 credit bonds were issued with a total amount of RMB432bn raised, representing a 24.1% yoy increase
- [CAPG]** China Aoyuan announced holding period of China Aoyuan Schemes, Add Hero Schemes extended to 20 Mar'25
- [IDASAL]** MIND ID 1H24 revenue up 0.6% yoy to USD3.77bn and gross profit down 20.7% yoy to USD516mn
- [LVGEM]** LVGEM CFO Chan Kin Man resigned
- [MEITUA]** Meituan launched its food delivery app in Saudi Arabia
- [SINOCE]** Sino-Ocean announced holders representing over 75% of Class A Debt accede to RSA; base consent fee deadline extended to 24 Sep'24
- [WUECDE]** Fitch assigned Wuhan Financial Holdings first-time rating of BBB- with stable outlook

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