

CMBI Credit Commentary

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

- *Flows were overall heavy this morning as onshore USD funding cost rose. Due or callable 2023 SOE Perp/AT1 were better selling while there are buying interests on bonds with higher than 6% yield.*
- **SUNAC:** Amended RSA terms with majority AHG to encourage equity options election. SUNACs moved -0.5 to +0.25pt this morning. See below.
- **China Policy** – China may moderately ease credit policy to boost growth. See below for comments from our economic research.

❖ Trading desk comments 交易平台市场观点

Yesterday, Asia ex JP IG space had a quiet open to start and spreads remained largely unchanged. The recent new issues such as CKHH/HKAA 28s/33s were under small selling. The sentiment turned constructive post PBOC announced lower the 7D reverse repo rate by 10bps to 1.9%, and also spurred by media report about China's potential broad stimulus with property support. TMTs were under aggressive street lifting, boosted by the onshore rate cut. The benchmark TMTs TENCNT 30s/BABA 31s tightened 2-4bps, while high-beta TMTs such as LENOVO 30s tightened 5bps. In Chinese SOEs, HAOHUA/SINOPE 30s tightened for 3-5bps. In financials, the front-end of leasing papers were under active two-way interests, traded in a narrow range of 1-2bps. In AMCs, HRINTHs were traded 4-8bps tighter (around 0.25pt higher) and remained stable into close. The Chinese properties were firm. COGARDs moved 1-2pts higher across the curve. DALWANs bounced 1-1.5pts from the recent lows. ROADKG/FTLNHD 24-26s were quoted 0.75-1.5pts higher. AGILEs/GRNLGRs rose 0.5-0.75pt. In industrials, EHICARs/WESCHIs were indicated around 0.5pt higher. Macau gaming papers MPELs/SANLTDs drifted 0.5-1pt higher. Indian renewables such as GRNKENS/RPVINs were traded 0.25-0.5pt higher. VEDLNs 24-26s gained 0.25-0.75pt. Indonesian names LPKRIJs rose around 0.5pt. Elsewhere, GLPCHI 26s/GLPSP 25s moved 1.5pts higher.

The LGFV/Perp spaces had a quiet session ahead of CPI and FOMC, and closed on a cautiously constructive tone. In LGFVs, we saw some structured unwinding flows at low-yielding ($\leq 6\%$) papers. We deem these flows as a precautionary move for potentially higher funding costs after FOMC, and the loose bonds coming out were absorbed fairly well by RM buyers. Overall, the two-way flows in LGFVs continued to focus on the front-end 23s papers, and YWSOAO amid new issue mandate. Whilst those on high-beta/high-yielding names remained sporadic and PB-centric. The Chinese AT1s were largely stable despite small selling flows. ICBCAS 3.2 Perp lowered 0.125pt. Elsewhere, SOE Perps showed a bit more sign of bottoming around 6% to low-6%, as the prices gradually recovered a bit from the recent low-key bids. In HK Perps, senior FFL NWDEVL 4.8 Perp bounced 1.5-3pts. We saw some

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short squeeze among NWDEVL Perps. CKINF/BNKEA Perps were up 0.5-1pt.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
NWDEVL 4.8 PERP	59.5	3.0	JINKE 6.85 05/28/24	11.8	-1.9
COGARD 8 01/27/24	77.9	2.5	AACTEC 3 3/4 06/02/31	71.0	-1.6
COGARD 5 5/8 12/15/26	42.1	2.4	ORSECH 3 1/2 05/17/25	96.4	-1.3
COGARD 5 1/8 01/14/27	41.5	2.1	VEYONG 3 3/8 05/12/26	91.3	-1.1
COGARD 4.2 02/06/26	42.6	2.1	CITLTD 4.85 04/25/46	92.3	-1.0

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.69%), Dow (+0.43%) and Nasdaq (+0.83%) were led by tech sector to rally higher. The US May CPI was +4.0% yoy, lower than expectation of +4.1% yoy. The markets expect a 90% probability that the Fed will not lift interest rate in Jun'23 FOMC. China central bank cut SLF rate by 10bps. The total social financing of China in May was RMB1,560bn, lower than the expectation of RMB2,000bn. The US treasury rallied higher yesterday, the 2/5/10/30 yield reached 4.67%/4.01%/3.84%/3.94%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ SUNAC: Amended RSA terms with majority AHG to encourage equity options election

Sunac has signed an agreement with the majority AHG to amend certain RSA terms. The changes mainly related to the mandatory convertible bonds (MCB, convert into shares of Sunac China) and conversion to shares of Sunac Services. The conversion price of the MCB will be reduced, from HKD10 to HKD6 for upfront conversion and from HKD4.58 to HKD4 for ordinary conversion. Sunac will also relax the cap of the USD1.75bn of the MCB to not greater than USD2.2bn, as well as increase the percentage of MCB could be converted in upfront, ordinary and trigger conversions. Regarding conversion to the shares of Sunac Services, the minimum conversion price would be reduced from HKD17 to HKD13.5.

These five amendments are to attract more bondholders to choose the equity options in the RSA so that Sunac could lower its total debt level. In our opinion, the changes to the conversion price of MCB and Sunac Services mainly reflect the drop in share prices since the announcement of the RSA on 28 Mar. For Sunac Services, the closing price on the day before the RSA announcement was HKD3.16, while the yesterday close was HKD2.3. The magnitude of the adjustment in conversion price from HKD17 to HKD13.5 is slightly less than the drop in share price.

For the MCB, shares of Sunac China were under trading suspension until 13 Apr. The share price of Sunac China fell 69% since trading resumption compared with 40% downward adjustment of the conversion price of MCB. Admittedly, the share price of HKD4.58 may not be the fair price assumption for creditors in the restructuring negotiation. Please see our summary of the original RSA discussed in [our daily on 29 Mar](#). SUNACs moved -0.5 to +0.25pt this morning.

	RSA announcement on 28 Mar	RSA amendment on 13 Jun
Sunac China (1918.HK)		
Previous closing price (share under trading suspension until 13 Apr)	HKD4.58	HKD1.41

Conversion price	HKD10	HKD6
Previous close/conversion prices	45.8%	23.5%
Sunac Services (1516.HK)		
Previous closing price	HKD3.16	HKD2.3
Conversion price	HKD17	HKD13.5
Previous close/conversion prices	18.6%	17.0%
<i>Source: Company fillings.</i>		

➤ China Policy – China may moderately ease credit policy to boost growth

China's new credit weakened in May as economic activities and credit demand in private sector further slowed. Corporate loans in medium and long term remained strong as enterprises especially SOEs leveraged historically low loan rates for business operation, capex or financial arbitrage. Mortgage and consumer loans remained tepid with slight improvement as housing market and durable consumption were still weak. After the economy continued to weaken for three months, the PBOC guided banks to lower deposit rates and cut its 7D repo refinancing rates by 10bps, paving the way for possible LPR cut by 10bps on 20 June. It will point to further moderate easing of credit policy in China. We expect more cities may follow Qingdao to moderately lower down-payment ratios and mortgage rates for first and second home buyers. But the property policy easing should be moderate as top leaders still want to guide more credit resources into hard technology and high-end manufacturing industries which are keys for the Sino-US strategic competition.

Total social financing missed market expectations. Total social financing dropped significantly by 45.1% YoY (all in YoY terms unless otherwise specified) after growing 30.5% in April. Breaking down, new renminbi loans to real sector declined by 33.1% in May after growing 22.5% in April as credit demand in private sector weakened. Off-balance-sheet (OBS) financing remained negative. Gov't bond financing dropped by 47.4% in May after increasing by 16.3% in April as fiscal expenditure diminished. Corporate bond financing turned negative in May for the first time this year as corporate loans presented with much lower financing costs. The YoY growth of outstanding social financing slowed from 10% at end-April to 9.5% at end-May, with the growth of outstanding renminbi loans down from 11.7% to 11.3%.

New loans to households rebounded thanks to the base effect. New M&L term loans to households picked up 60.8% in May due to low base in the same period last year. Housing sales slightly improved especially in Tier-1 and Tier-2 cities. Short-term loans expanded moderately by 8.0% in May from a negative figure in April, indicating some level of recovery in individual business credit thanks to the continuous improvement of service activity.

New corporate loans softened with mixed information. New M&L term loans to enterprises grew 38.7% in May after increasing by 151.5% in April as SOEs and large manufacturers continued to leverage low loan rates to support their business operation and capex. New short-term loans to enterprises was weak as corporates replaced them with M&L loans, whose rates were also very low. Bill financing remained low as credit demand of SMEs was still weak.

China may moderately ease credit policy to boost growth. China's commercial banks were guided to lower deposit rates in the past few weeks, while PBOC lowered its 7D repo refinancing rates by 10bps yesterday, paving the way for possible LPR cut by around 10bps on 20 June. It indicates further moderate easing of credit policy to boost growth as China's economy has noticeably slowed with rising deflation pressure in recent three months. We expect more cities to follow Qingdao to moderately lower down-payment ratio and mortgage rates for the first and second home buyers. The property policy loosening should be mainly driven by local governments with fiscal difficulty and debt repayment pressure. The central ministries do not have a strong motivation to noticeably relax property policies as they are unwilling to take the risk of changing the fundamental

tone of “housing is for living, not for speculation”. Top leaders still target to guide more credit resources to hard technology and high-end manufacturing industries which are keys for Sino-US strategic competition. Therefore, the property policy loosening should be gradual and moderate.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
HSBC Holdings PLC	2000	11NC10	6.547%	T+280	Baa1/BBB/A-

➤ 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 114 credit bonds issued yesterday with an amount of RMB115bn. As for Month-to-date, 760 credit bonds were issued with a total amount of RMB730bn raised, representing a 49.2% yoy increase
- Media reported that China regulators consider developing onshore high-yield bond market to increase the number of financing channels
- **[ADEIN]** Media reported that Adani Group is discussing proposal to refinance up to USD3.8bn loan facility with banks
- **[BTSDf]** Health & Happiness to issue USD58.2mn 13.5% senior notes due 2026 to repay 2024 notes
- **[DALWAN]** Media reported that Dalian Wanda founder Wang Jianlin personally handling negotiations with lenders, investors amid liquidity crunch; Dajia Life Insurance plans a acquisition of three malls from Dalian Wanda for cRMB2bn
- **[FUTLAN]** Seazen announced to issue RMB1.1bn onshore bonds, RMB0.4bn tranche I is guaranteed by Jiangsu Credit Re Guarantee Group and RMB0.7bn tranche II is unsecured. [See our comments on 1 Jun'23](#)
- **[KMCMIN]** Kunming Traffic Investment announced to offer RMB640mn 150-day bills
- **[LNGFOR]** Fitch affirmed Longfor's BBB rating and revised rating outlook to stable from negative
- **[LSEAGN]** Landsea Green Management plans to raise cUSD25.5mn via disposal of shares in Landsea Homes Corp for debt repayment, general working capital
- **[PCORPM]** San Miguel's oil refining unit Petron schedule to offer up to USD50mn shelf-registration preferred shares to mid Jun

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