

CMBI Credit Commentary

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

- *Markets were quiet this morning. New issue CHILOV'33 was traded at par. IG benchmarks BABA/SINOCH widened 1-2bps and T2s were also better selling. Besides, we saw buying flows on short-term LGFVs.*
- **SINOCE:** *Consent solicitation meeting to be held on 17 Aug for SINOCE 6 07/30/24. SINOCE 6 07/30/24 rose 0.5pt and the rest of SINOCEs were unchanged to up 0.75pt this morning. See below.*
- **China Economy** – *Deflation bottomed with possible mild reflation. CMBI maintains forecast on CPI growth at 0.6% for 2023 and 2% for 2024. The PPI is expected to drop 2.7% in 2023 and rise 1.3% in 2024. See below for comments from our economic research.*

❖ Trading desk comments 交易平台市场观点

Asia ex-JP IG space had a quiet session given SG out for holiday. On new issue, China Life Insurance priced a USD2bn 10NC5 subordinated bond at par to yield 5.35% (CT5+123.2). The new CHILOV 33s opened strongly at \$100.4 with street lifting, but gave up all the gains with a wave of profit taking and closed at \$99.9/\$100. On secondary, Chinese SOE such as SINOPE/SINOCH 31s were unchanged to 1bp tighter. TMT benchmarks BABA/BIDU 31s edged 1-2bps wider. In HK space, HKLSP 33s also widened 2bps. HKLSP 23s/24s papers were under active buying interests with demand for cash parking. In AMC space, HRINTH curve was largely unchanged except the front-end HIRNTHs which were under some selling. AT1s performed mixed. Chinese AT1s were under some buying flows from Chinese RMs. In European AT1s, the recent new BNP 8.5 Perp was bid up another 0.25pt to close at 100.65/101, supported by buying flows from PBs while primary participants took profit. HSBC AT1 were better offered. Chinese properties performed mixed. SHUIONS gained 1-2pts. COGARDs were marked 0.75-1.25pts higher. On the other hand, DALWANs declined 2.25-3.25pts. FUTLANs/FTLNHDs dropped 1.25-2.25pts. Away from properties, GWFOOD '30 was traded 1.75pts higher. In industrials, FOSUNs/WESCHIs were quoted up 0.5-0.75pt. Macau gaming papers such as SANLTD 25-30s moved 0.5-1pt lower. In Indian space, VEDLN 24s/26s were indicated 0.5-0.75pt higher. Indonesian space was muted.

In the LGFV/Perp spaces, flows were overall on the light side. Market sentiment softened a touch ahead of Thursday evening's CPI print. There were small better selling flows from RMs in c24 and c23 SOE Perps. CHCOMU 3.425 Perp was quoted 0.15pt lower. CHPWCN 4.25 Perp was among the exception to be indicated 0.3pt higher. HK Corp perps remained better offered by PBs. NANFUN 5 Perp/LIFUNG 5.25 Perp/PEAKRN 5.35 Perp lowered 0.3-0.5pt. Meanwhile the front-end of high-yielding LGFVs still managed to find demand from Prop desks/AMs. Chongqing/Shandong

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names continued to be well-bid. CQNANA/CQLGST 24s were marked 0.125pt higher.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
SHUION 6.15 08/24/24	67.0	2.1	DALWAN 7 1/4 01/29/24	45.9	-3.2
CWAHK 4.85 05/18/26	88.4	2.1	DALWAN 11 02/13/26	31.8	-2.3
GWFOOD 3.258 10/29/30	79.4	1.7	FTLNHD 4 5/8 10/15/25	32.6	-2.1
SHUION 5 3/4 11/12/23	84.6	1.5	FUTLAN 6 08/12/24	54.5	-1.6
COGARD 7 1/4 04/08/26	9.5	1.3	FUTLAN 4.45 07/13/25	34.1	-1.4

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.70%), Dow (-0.54%) and Nasdaq (-1.17%) retreated before tonight's CPI data, market expectation of Jul's CPI is +3.3% yoy, higher than Jun's +3.0% yoy. The sticky inflation increases the probability of further interest rate hike. The US treasury yields slightly down on Wednesday, 2/5/10/30 yield reached at 4.79%/4.12%/4.00%/4.18%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ SINOCE: Consent solicitation meeting to be held on 17 Aug for SINOCE 6 07/30/24

Sino-Ocean updated on its consent solicitation on SINOCE 6 07/30/24. As of the electronic consent deadline on 9 Aug, more than 75% of the aggregate principal amount of the notes which are in favor of the extraordinary resolution are validly received, yet it is lower than the required threshold of 90% to be passed by way of electronic consent. The extraordinary resolution will then be tabled at the meeting on 17 Aug.

For the meeting, the quorum will be two or more persons holding or representing not less than 66% of the aggregate principal amount of the notes are present, and the extraordinary resolution will be passed if not less than 75% of the votes cast at the meeting are in favor of the extraordinary resolution. The approval threshold at the meeting is 75%, lower than the electronic consent of 90%. While Sino-Ocean has already obtained more than 75% in principal amount from electronic consent, the likelihood of passing the extraordinary resolution at the meeting should be high.

Recalled that Sino-Ocean proposed to defer the coupon payments of SINOCE 6 07/30/24 by two months, to 30 Sep from 30 July. By the time Sino-Ocean proposed the coupon payment deferral on 27 Jul, it had also proposed to adjust the repayment for principal and interest of an onshore bond 18Yuanyang01 of which the bondholders' meeting was scheduled on 27-29 Jul. We believe that paying offshore coupon will make the effort to persuade onshore bondholders to agree on the repayment adjustment more difficult. Hence, the company extends the coupon for 2 months to buy time to settle the onshore bond repayment adjustment.

For 18Yuanyang01, proposals of full repayment of principal and interest as scheduled on 2 Aug, granting a 30-day grace period regarding the payment of the principal of the bond, as well as an exemption of time requirement on the convening of the meeting and submitting of interim proposals were passed at the bondholders' meetings held from 27 Jul to 1 Aug. Further liability exercise after the 2 month extension of SINOCE 6 07/30/24 coupon is possible, in our view. SINOCE 6 07/30/24 rose 0.5pt and the rest of SINOCEs were unchanged to up 0.75pt this morning.

➤ China Economy – Deflation bottomed with possible mild reflation

China's CPI growth dropped further in July to -0.3% as consumer demand remained sluggish and food & energy prices dropped sharply. Core CPI mildly picked up as demand in service sector especially in travel, medical service and home service continued to recover. China's PPI narrowed its YoY declines thanks to base effect and MoM increases in some raw materials. Looking forward, the deflation may have been in the bottom as domestic demand gradually restores and overseas commodity prices rebound in 2H23. We maintain forecast on CPI growth at 0.6% for 2023 and 2% for 2024. The PPI is expected to drop 2.7% in 2023 and rise 1.3% in 2024. The deflation will increase debt burden and hurt durable consumption and capex demand. China is likely to further loosen credit policy and property policy in future.

CPI growth dipped into contraction as consumer demand was sluggish and food & energy prices dropped sharply. CPI dropped 0.3% YoY in July from 0% growth in June. The negative CPI is mainly driven by the food and energy sector. Food CPI declined 1.7% YoY in July after rising 2.3% in June as pork price dropped notably at 26% YoY in July from a 7.2% YoY decline in June. Fuel CPI slowed down on deflation trend and declined 13.2% YoY in July after dropping 17.6% YoY in June. Core CPI growth marginally increased to 0.8% YoY in July from 0.4% YoY led by a robust service sector reflation. Breaking down by sectors, CPI in transport vehicles, home appliances and telecom equipment further declined as durable demand remained weak and supply competition was tough. But CPI YoY growth in travel saw its biggest climb in years thanks to the release of pent-up demand in the first summer holiday following the pandemic. Employment condition especially for the youth remained challenging as housing rent continued to decline in July. Medicines, medical service, home service, recreational services and apparel experienced a mild reflation as demand in these sectors continued to recover.

PPI narrowed its declines due to base effect and restored demand in a number of raw materials. PPI declined 4.4% YoY in July after dropping 5.4% YoY in June, largely resulted from price rebound in a few raw materials. The decline of PPI in coal mining, oil & gas mining, ferrous metal and non-ferrous metal respectively slowed down to 19.1%, 21.5%, 10.6%, and 1% after dropping 19.3%, 25.6%, 16%, and 7.2% YoY in June. From the MoM perspective, PPI's drop narrowed to 0.2% in July after dipping 0.8% in June. Prices of crude oil & gas and non-ferrous metals increased 0.6% and 0.4% MoM in July. However, prices of non-metallic mineral products, coal, chemical materials & products, and paper products declined by 2%, 2%, 1.2% and 1.1% MoM in July.

Deflation pressure could be around the bottom as domestic demand gradually recovered from the trough in 2Q23. The July politburo meeting indicates a more pro-growth policy stance in the second half year. The policymakers changed the optimistic view on the economic outlook and signaled more active policy easing ahead. The weak private confidence is likely to restore gradually in 2H23 with the policies starting to work, which is positive for the recovery of goods and service consumption. Meanwhile, overseas commodity prices continued to rally in recent months as oil and metals price showed an upward momentum. Therefore, the reflation should be quite mild in China as we maintain the forecast for CPI growth in 2023 at 0.8% and lower than that in 2024 from 2.4% to 2.1%. We cut the forecast for PPI growth in 2023 and 2024 from -2.3% and 1.7% to -2.7% and 1.3%, respectively.

China may further loosen economic policies to boost growth momentum. The deflation will hurt durable consumption and capex and increase debt burden for borrowers. The PBOC may further cut RRR, deposit rates and LPRs and guide banks to increase credit supply to real sector and to roll over the debts of property developers and local government financing vehicles. Meanwhile, more cities will loosen property policies with removal of home purchase restrictions and reduction in down-payment ratios & mortgage rates for first-home and second-home buyers. We expect the YoY growth of total social financing balance to reach the bottom in 3Q23.

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➤ Offshore Asia New Issues (Priced)

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

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Linyi City Construction Investment Group Co., Ltd.	USD	-	3yr	7.6%	Baa3/-/-

➤ News and market color

- Regarding onshore primary issuances, there were 100 credit bonds issued yesterday with an amount of RMB86bn. As for Month-to-date, 546 credit bonds were issued with a total amount of RMB416bn raised, representing a 17.5% yoy decrease
- Media reported that officials of Chinese tier 1 cities will convene a meeting soon to discuss adjustment of real estate related policies
- **[COGARD]** Media reported that Yang Huiyan stepped down as chairperson of Country Garden's principal unit Zengcheng Country Garden Property Development
- **[CQLGST]** Chongqing International Logistics Hub Park Construction issued RMB1bn MTN at 4.4% coupon
- **[CSCHCN]** Media reported that China South City remitted funds to pay 5% amortization on USD225mn CSCHCN 9 10/09/24 due 9 Aug
- **[JIMOTM]** Fitch downgraded Jimo Tourism to BB+ and placed stable outlook
- **[REDSUN]** Redsun Properties Group plans to sell 34% stake of a project company in Guangzhou for RMB295mn
- **[SINOCE]** Sino-Ocean Group failed to receive enough consent in extraordinary resolution for SINOCE 6 07/30/24; the resolution will be considered at 17 Aug meeting
- **[WYNMAC]** Wynn Macau 2Q23 revenue rose 557% yoy to USD769.9mn and operating income turned to positive as USD112mn
- **[YUNAEN]** Fitch affirmed Yunnan Energy at BBB- and revised outlook to stable from negative

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