16 Sep 2024

CMBI Credit Commentary

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

- *China TMTs were strong this morning. MEITUAs tightened c10bps post upgrade. LENOVOs tightened c5bps. BABA/TENCNT were unchanged to 1bps tighter. Short-term T2s were under better selling. Chinese properties were weak. VNKRLEs down 0.5-1.5pts, NWDEVL were unchanged to 0.4pt lower.*

- ***LMRTSP:** Continues to skip the distribution on the two SGD perps. See comments below.*

- ***China Economy** - Demand weakness & deflation pressure continue. Credit slump triggered possible policy easing. See below for comments from CMBI economic research.*

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❖ Trading desk comments 交易台市场观点

The tone of Asia IG space was constructive last Friday. CATLIF/NSINTW 34s closed unchanged to 2bps tighter. In JP insurance hybrids, MYLIFE '54 surged 1.1pts to 103. ASAMLI 6.9 Perp/SUMILF 5.875 Perp were up 0.2-0.3pt. In Chinese IGs, HAOHUA 29-30s were 1-2bps tighter. In the high beta TMTs, MEITUA/XIAOMI 30s were 3bps tighter. In financials, Chinese AMCs were traded in mixed two-way flows. ORIEASs were 1-2bps tighter but CCAMCLs were unchanged to 2bps wider. T2s were also mixed. NANYAN 34s closed 2bps tighter while BNKEA 32s widened 5bps. CHILOV '33/DAHSIN '31/KEBHNB '29/ANZ '28 were 1-3bps wider. In AT1s, the recent new HSBC 6.875 Perp/HSBC 6.95 Perp were up 0.5-0.6pt. INTNED 7.25 Perp/SOCGEN 8.5 Perp were 0.2-0.4pt higher. In HK, NWDEVL Perps/27-31s were up another 0.7-1.8pts, closed 0.9-3.0pts lower WoW. HYSANs/NANFUNs/LIHHKs were 0.3-0.7pt higher under PB buying. Chinese properties rebounded. VNKRLE 25-29s rose 2.6-3.0pts, closed 2.5-5.5pts lower WoW. LNGFOR 29-32s and SHUION 25-26s were 1.6-2.5pts higher. CHJMAO '29/YLLGSP '26 were up 1.5-1.8pts. FTLNHD/FUTLAN 24-26s were 0.5-1.5pts higher. Outside properties, WESCHI '26 was 2.8pts higher. FOSUNI 25-27s were 0.9-1.5pts higher, closed 0.8-1.0pts lower WoW. In Macau gaming, MPEL/STCITY 26-29s were up 0.2-0.4pt. In India, ADANEMs/ADSEZs/ADGREGs were 0.3-0.7pt lower. UPLLINs were up 0.3-0.5pt. After Friday close, Moody's upgraded Vedanta Resources two notches to Caa1, revised the outlook to stable from negative. VEDLNs were unchanged to 0.2pt higher this morning. See our comments on 12 Sep '24. Elsewhere, GLPCHI '26 and GLPSP '25/Perps were 0.7-1.4pts higher.

The flows were skewed to better buying in LGFVs. The new JIALIX '27 was 0.1pt higher from RO at par. GZDZCD/GZINFU 26s were up 0.2pt. ZHEBAR/CDCOMM 27s were up 0.1pt. HZCONI/WUXIND 26s were 0.1pt lower. TIANFS '26/SUNSHG '26 were down 0.1-0.2pt. In SOE perps, CHSCOI 4 Perp/CHCOMU 3.65 Perp were 0.1-0.2pt higher.

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change
VNKRLE 3.15 05/12/25	**79.7**	**3.0**
VNKRLE 3 1/2 11/12/29	**45.5**	**2.8**
WESCHI 4.95 07/08/26	**71.0**	**2.8**
VNKRLE 3.975 11/09/27	**49.5**	**2.6**
LNGFOR 3.85 01/13/32	**61.8**	**2.5**

Top Underperformers	Price	Change
ADSEZ 3.1 02/02/31	**83.0**	**-0.7**
ADSEZ 5 08/02/41	**83.9**	**-0.6**
SDGOLD 2.8 08/25/26	**94.5**	**-0.6**
ADSEZ 3.828 02/02/32	**85.1**	**-0.6**
ADSEZ 4 3/8 07/03/29	**92.9**	**-0.5**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.54%), Dow (+0.72%) and Nasdaq (+0.65%) rallied higher on last Friday. US Sep'24 University of Michigan consumer sentiment was 69.0, higher than the expectation of 68.3. China Aug'24 unemployment rate was 5.3%, higher than the expectation of 5.2%. UST yield retreated on Friday, 2/5/10/30 yield reached 3.57%/3.43%/3.66%/3.98%.

❖ Desk analyst comments 分析员市场观点

➢ LMRTSP: Continues to skip the distribution on the two SGD perps

Lippo Mall (LMIRT) elected not to pay the distribution on its two SGD perps. Counting the distribution scheduled to pay in Sep'24, the cumulative distribution of them amounted to cUSD25mn has been skipped since Mar'23. There are dividend stopper provisions under the terms of perpetual securities. LMIRT, 47.45% stakes owned by Lippo Karawaci, does not have cross default trigger to the latter.

The near-term refinancing pressure has notably alleviated after LMIRT redeemed USD125.9mn of LMRTSP 7.5 02/09/26 in the tender offer in Jul'24, financed by a secured IDR term loan facility of up to IDR4.5tn (cUSD274mn) with a final maturity in Nov'34. The outstanding amount of LMRTSP 7.5 02/09/26 reduced to USD22.6mn. After the tender offer, LMIRT's weighted average maturity of debt increased to 6.9 years from 5.5 years, and 83% of total borrowings will be due in 2028 and beyond. Over the coming 2-3 years, LMIRT will have terms loans of SGD24mn and SGD27.3mn maturing in 2025 and 2026, respectively, as well as the remaining USD22.6mn of LMRTSP 7.5 02/09/26 due in 2026. Moody's and Fitch upgraded LMIRT to B3 and CCC+ on improved liquidity profiles in Aug'24 and Jul'24 respectively.

These mitigate the concerns on its limited financial flexibility. As at Jun'24, LMIRT's aggregate leverage ratio of 44.96%, very close to the MAS regulated limit of 45%. There will be limited room for LMIRT to obtain incremental financing. We maintain neutral on LMRTSP 7.5 02/09/26. The trading liquidity LMRTSP 7.5 02/09/26 has been thin given the small outstanding amount.

	ISIN	o/s amt	Ask px	YTM/YTC (ask, %)
LMRTSP 7.5 02/09/26	XS2295115997	USD22.61mn	99.6	7.81
LMRTSP 6.475 Perp	SG74H800008	SGD140mn	47.4	340.47
LMRTSP 8.096 Perp	XS1632471352	SGD120mn	50.5	389.56
Total		cUSD222.8mn		

Source: Bloomberg.

➢ China Economy - Demand weakness & deflation pressure continue

Activities data in Aug revealed a broad-based deterioration, with all indicators falling short, despite already modest expectations. Housing sales and starts minimally improved in Aug, yet lost momentum again in early Sep. New and second-hand housing prices declined at an accelerated pace. Retail sales further softened dragged by durable goods including autos and furniture. Consumer confidence hit a historic low amid weak employment conditions. Industrial output moderated. FAI slowed down markedly, weighed by shrinking property construction and weaker infrastructure investments. Amid increasing pressure to meet growth targets and the deepening deflationary spiral, policymakers may implement new rounds of policy easing in 4Q24 including possible outstanding mortgage rate cuts. China's monetary policy may remain accommodative with additional cuts by 10-20bps in LPRs, refinancing rates and deposit rates in the remainder of the year, in our view. As the US Fed may start the rate cut cycle in September, a possible weakening of the US dollar may expand the PBOC's policy room heading into next year.

Housing market minimally improved in Aug but high-frequency data showed losing momentum in Sep. The gross floor area (GFA) sold for commercial buildings moderately declined 18% (YoY unless otherwise specified) in 8M24 YTD after dropping 18.6% in 7M24. The GFA started also saw less contraction of 22.5% in 8M24 after dropping 23.2% in 7M24. However, new home sales seem to lose momentum three months after the June policy easing as the recovery rate of new housing unit sales in 30 major cities compared to the same period in 2018 & 2019 dropped from 42.6% in Aug to 32.7% in first half of Sep, a historical low and broad deterioration across different tiers of cities. The recovery ratio of second-hand housing sales in 11 selective cities compared to 2019 also slowed down, moderating to 92.8% in first half of Sep from 97% in Aug. New and second-hand housing price are experiencing an accelerated decline in both YoY and MoM, across tiers of cities. Looking forward, we expect the new housing market would show limited improvement especially in lower-tier cities due to rigidity of price, elevated real interest rate and worsening income, while second-hand housing market should remain active. Due to high inventory and excessive supply, however, housing prices and investment activities should recover more slowly.

Retail sales fell short of expectation with consumer confidence reaching historic low. Retail sales growth came in below market expectations (2.76%) at 2.1%, down from 2.7% in July. Consumer confidence reached historic low at 82 in July, dragged by sub-index employment, which dipped to historic low at 71.6, all the way from 80.1 in Feb. Unemployment rate also edged up by 0.1% to 5.3% in Aug, one of the highest since Mar 2023. Consumer staples remained robust, especially the cereal, oil and foodstuffs that increased by 10.1% in Aug from 9.9% in July. Discretionary consumption remained weak as clothing, cosmetics and gold & silver jewelry declined by 1.6%, 6.1% and 12% respectively in Aug from -5.2%, -6.1% and -10.4%. Catering service also remained subdued, edging up to 3.3% from 3%. Durable goods especially autos remained a major drag to retail sales due to weak consumer income & confidence as well as deflation of price. Contraction of autos sales expanded to -7.3% in Aug after dipping 4.9% in July, the largest decline since Feb 2023. Property-related goods further softened as construction & decoration materials and furniture notably dropped 6.7% and 3.7% in Aug after dropping 2.1% and 1.1% in July, while home appliances rebounded 3.4% from -2.4%, possibly thanks to the trade-in programs. Telecom equip, on the other hand, extended its rally to 14.8% in Aug from 12.7%. Looking forward, retail sales may remain muted in the near term dragged by decreasing income, confidence weakness and deflation expectations. We revise down our forecast for retail sales growth for 2024 from 5.3% to 4.5%.

Industrial output notably slowed down. VAIO growth dropped to 4.5% in Aug from 5.1% in July, below market expectation of 4.77%. Mining and manufacturing notably moderated to 3.7% and 4.3% in Aug from 4.6% and 5.3%, while utility rose from 4% to 6.8% in Aug. Non-mental mineral product and non-ferrous metal further deteriorated to -5.5% and -2.1% in Aug from -2.9% and -1.5%, while chemical product, rubber & plastic product and ferrous metals smelting & pressing further moderated. Transport equip excluding auto and computer & electronic equip remained robust growth at 12% and 11.3%. The YoY growth of service output index inched down to 4.6% in Aug from 4.8%. Looking forward, service and industrial output may remain weak in next few months.

FAI slowed down markedly dragged by infrastructure investments despite acceleration in government bond financing. FAI slowed down to 3.4% YTD in 8M24 compared to 3.6% in 7M24, slightly below market expectation of 3.5%. Infrastructure investments notably diminished to 6.2% in Aug from 10.7% even though government bond issuance continued to pick up in Aug, possibly due to fiscal discipline adhered by the local government. Property development investments remained in a deep contraction at -10.2% in Aug from -10.8% while manufacturing edged down to 8% from 8.3%, as overcapacity pressure and earnings weakness started to restrain capex demand in some manufacturing industries. Breaking down by industries, investments in chemical material & product, non-ferrous metal and other transport equipment further accelerated; while electrical equip, electrical equipment and medicine slowed down. Looking forward, we expect FAI growth to slightly accelerate from 3% in 2023 to 3.6% in 2024, with investment growth rates in manufacturing, infrastructure, and property development respectively at 8%, 7.5% and -9.5% in 2024.

Weakening economy may trigger additional policy support. The activities data in Aug showed a broad-based deterioration across the economy, with further softening of confidence among households and private sector. Amid increasing pressure to meet growth targets and the deepening deflationary spiral, policymakers may implement new rounds of policy easing in 4Q24 including outstanding mortgage rate cuts. China's monetary policy may remain accommodative with additional cuts by 10-20bps in LPRs, refinancing rates and deposit rates in the remainder of the year, in our view. For next year, a possible weakening of the US dollar during the Fed's rate cut cycle may expand the PBOC's policy room as China's credit growth might gradually stabilize.

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- **China Economy - Credit slump triggered possible policy easing**

Credit growth has decelerated further as social financing flows returned to negative growth and growth of outstanding RMB loans hit another historic low. Government bond issuance remained the cornerstone of social financing (SF) growth while households and corporate sector continued their deleveraging in new RMB loans. M1 growth experienced another record decline. PBOC has unexpectedly signalled easing to the market following the release of credit data, pledging to "introduce incremental policy measures to further reduce corporate financing and household credit costs" and "prioritize gradual recovery of prices as key factors in steering monetary policy". Looking forward, the PBOC may further cut LPRs, refinancing rates and deposit rates by 10-20bps in the remainder of the year. Meanwhile, the central bank may guide banks to lower existing mortgage rates to relieve household debt burden and boost consumer demand in coming months.

Social financing flow edged down despite a further increase of government bond. The growth of outstanding social financing (SF) inched down to 8.1% YoY (all in YoY terms unless otherwise specified) in Aug from 8.2% in July, as the SF flow dropped 3.1% to RMB3tn after rising 43% to RM771bn in July. Government bond issuance remained the cornerstone of social financing growth, as it rose 37.6% to 1.62tn and contributed over 50% of the SF flow in Aug. New RMB loans to real sector rebounded from -RMB80bn drop in July, one of only three instances in history, to RMB1.04tn growth, but declined by 22.4% on YoY. Corporate bond issuance dropped 38.9% to RMB170.3bn, after rising 57.8% to RMB203bn in July. Shadow financing remained in contraction as new undiscounted banks' acceptance and entrust loans dropped 42% and 74% respectively. The M1 supply further dropped 7.3% in Aug after declining 6.6% in July. We may see a gradual recovery of M1 in upcoming months as the work of banning hidden interest payment has accomplished by 90% in June according to 2Q monetary report, but weak business activities and consumer spending still contain its further rebound. M2 remained flat at 6.3% in Aug. Looking forward, we expect M1, M2 and social financing growth should stay muted in the near term amid weaker property sales and economic activities.

New loans further slumped as private sector accelerated deleveraging amid weak confidence. Growth of outstanding RMB loans moderated to 8.5% in Aug from 8.7%, registering another historic low. The weaker-than-expected new RMB loans dropped 33.8% to RMB900bn in Aug, following the 24.8% dip to RMB260bn in July. New loans to households dropped by 51.6% to RMB190bn in Aug with 69% drop in short-term loan and 25%

drop in medium- and long-term loan, as household continued to cut spending and deleveraged their balance sheet. New loans to the corporate sector further declined 11.5% to RMB840bn after dipping 45% to RMB130bn in July, with primary increment driven by bill financing.

The PBOC has signaled easing to the market. Amid recent credit slump and accelerating deleveraging of private sector, PBOC has pledged to "introduce incremental policy measures to further reduce corporate financing and household credit costs" and "prioritize gradual recovery of prices as key factors in steering monetary policy", while unusually called on the fiscal authorities to enhance the effectiveness of fiscal policy. Looking forward, the PBOC may further cut LPRs, refinancing rates and deposit rates by 10-20bps in the remainder of the year. Meanwhile, the central bank may guide banks to lower existing mortgage rates in coming months.

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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)
NBN Co Ltd	USD	-	3/5yr	-	-/-/-

➢ **News and market color**

- Regarding onshore primary issuances, there were 97 credit bonds issued on last Friday with an amount of RMB76bn. As for month-to-date, 862 credit bonds were issued with a total amount of RMB749bn raised, representing a 22.4% yoy increase

- **[ADROIJ]** Moody's affirmed Adaro Indonesia's Ba1 ratings with stable rating outlook

- **[GRNCH]** Greentown accepted for repurchase USD73.4mn GRNCH 2.3'25 via tender offer

- **[MEITUA]** S&P upgraded Meituan to BBB+ with stable rating outlook

- **[UMQHTH]** Urumqi Gaoxin Investment and Development Group completed full redemption of outstanding RMB806.2mn 5.5% bonds due 2026

- **[VEDLN]** Moody's upgraded Vedanta Resources to Caa1 from Caa3 and changed rating outlook to stable from negative

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