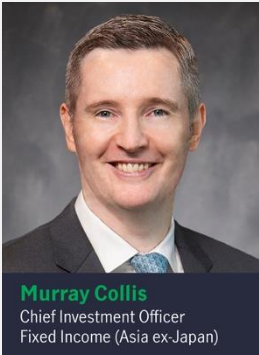
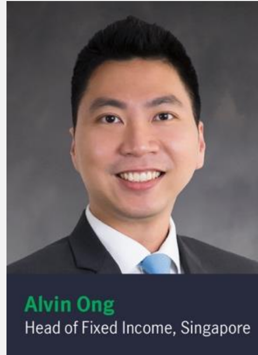
Manulife Investment Management

Investment Note

17 Nov 2022





China recently announced a raft of policy support measures to ease COVID-related curbs, bolster financing and the property sector. Murray Collis, Chief Investment Officer, Fixed Income, Asia (ex-Japan) and Alvin Ong, Head of Fixed Income, Singapore, see opportunities in Asian credits amid China's property market support. They view the latest measures positively, which point to China's economic reopening and eventual recovery of its property sector.

China's double pivot — A major shift in China's COVID and property sector policies

China recently announced a raft of policy support measures to ease COVID-related curbs, bolster financing support with a focus on the property sector. Here are the key measures announced:

1. Adjustments to Covid-related restrictions

On 11 November, China announced 20 measures to fine-tune its zero-COVID policy.[1] The seven-member Standing Committee of the Politburo of the Chinese Communist Party, China's top decision-making body, held a meeting to discuss measures aimed at improving the country's COVID controls.

Key announcements included:

- A shortening of the quarantine requirement for close contacts and inbound travellers to five days of quarantine and three days of home monitoring. This replaces seven days of quarantine and three days of home monitoring.
- A suspension of the 'circuit-breaking' mechanism for inbound flights.
- Restrictions on the unscientific approach of conducting two-to-three PCR tests per day.
- Local officials will be held accountable for unnecessary control measures, such as suspending face-to-face classes and production, implementing traffic controls, and introducing arbitrary lockdowns.

While the default "dynamic COVID-zero policy" remains essentially unchanged, the Standing Committee asked the government to fine-tune its approach to COVID-control policies in a more "scientific and precise" way.[2]

2. Financing support for the property sector

On 9 November, the National Association of Financial Market Institutional Investors (NAFMII), together with the PBoC, announced that a CNY250 billion funding facility ("the second arrow") would provide support for private corporate-bond financing.[3] This includes the purchase of property-developer bonds in both the primary and secondary markets. The CNY250 billion package, which can be increased if required, equates to roughly one-third of all private developers' outstanding onshore and offshore bonds maturing in the next 12 months. In total, property sector bailouts have added up to about

[1] Bloomberg, 11 November 2022.

[2] China Daily, 15 November 2022.

[3] Global Times, 9 November 2022.

CNY600 billion, which is close to meeting the short-term liquidity needs of the sector.

Also, on 11 November, the People's Bank of China (PBoC) and China Banking and Insurance Regulatory Commission (CBIRC) issued a notice with 16 measures that will support financing for the property sector.[4] The focus will be on developer loans to promote stability and the healthy development of the housing sector. In contrast to previous piecemeal announcements, the measures take a more comprehensive and concerted approach to addressing the financing needs of developers – the policies include guaranteed bond issuance, developer loans, trust loans, mortgages, and acquisition loans.

Regulators also called on financial institutions to support the extension of maturity dates for developer and trust loans. For loans due in the next six months, lenders have been asked to extend the repayment period by one year, while bond issuers and bondholders have been encouraged to reach agreements on repayment and loan extensions before the bonds mature. At the same time, banks are being encouraged to assume control of any high-quality developers' problem projects via acquisition loans. National and local asset-management companies have also been asked to collaborate with developers and banks to accelerate asset disposals.

An update on Asia's credit market

On 14 November, as risk sentiment improved on the back of the policy announcements, Asia USD investment-grade credit opened 5 to 25 basis points tighter in spread terms, while China's high-yield property sector bonds moved higher by as much as 5 to 15 cash points (depending on the issuer) and 0.5 to 1.5 points higher for distressed issuers.[5]

A more constructive outlook of China's property sector

We view the recently announced zero-COVID fine turning ("20 measures") and financing programs for property-sector developers ("16 measures" and "second arrow") to support our 2023 base case of economic reopening after March 2023, a bottoming of the property sales and investment; and a rebound in domestic demand to achieve improved GDP growth throughout 2023.

The "20 measures" fine-tuning of China's zero-COVID policy is positive as it signals an eventual economic reopening. While we have observed early signs that some of these measures have been implemented in a limited number of cities, the timing and extent of reopening will depend on COVID case numbers through the winter months. In the near term, a rebound in the macro economy will likely be limited as overall COVID-control policies remain strict. Meanwhile, we already see a rise in winter cases, with daily numbers breaching 20,000 for the first time since May, although most are without symptoms.

We view the announced "16 measures" and "second arrow" policies as positive, easing the onshore debt refinancing risk of Chinese developers, particularly among the privately owned enterprises (POEs). However, we note that policymakers are focusing on safeguarding onshore stakeholders, including onshore bondholders, homebuyers, and the banking system. Offshore bondholders will indirectly benefit from POEs having lower onshore refinancing risk, including bond and bank lending. Nevertheless, these measures can help the sector find a bottom over the next 12 to 18 months. To see a sustained recovery in China's real-estate sector, we will closely monitor the effective implementation of the announced measures and any recovery in physical market sales.

Overall, we view the latest policy announcements positively, as they should pave the way for economic reopening and an eventual recovery in the property sector from the second quarter of next year. That said, near-term market volatility should remain high as economic activity is expected to stay sub-par for another few quarters.

[4] Reuters, 14 November 2022.

[5] Bloomberg, 14 November 2022.

Opportunities in Asian credits amid China's property market support

While we continue to take a measured approach to investing in the China property space, the recent policy adjustments are viewed as constructive for the sector and the broader China credit universe as prospects for economic recovery improve entering 2023. Given the steep declines to property sector bonds this year, valuations are attractive for specific developers.

Manulife SGD Income Fund held 5.2% exposure in China property sector at the end of October. We have seen a strong rebound in performance since the beginning of November.[6]

Conclusion

Thanks to government policy support and an improving sentiment towards China's property sector, we believe the performance of the Manulife SGD Income Fund can potentially gain traction in the next few quarters.

Important Information

Manulife SGD Income Fund (the "Fund") is a sub-fund of the Manulife Funds, which is an open-ended, umbrella unit trust constituted in Singapore.

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This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

[6] Month-to-date performance as of 14 Nov 2022. Based on class C-QDis SGD. The class returned 3.49% on NAV-to-NAV basis and 0.39% on offer-to-bid basis. Since inception (18 November 2016), the class returned –0.50% on NAV-to-NAV basis and –1.01% on offer-to-bid basis (annualised with net income & dividends reinvested).