

Top-10 investment strategies for 2019:

#7 We like short-dated Chinese BBs for carry

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[#1 Bet on more rate hikes by the Fed](#)

[#2 Looking for USDSGD to hit 1.40](#)

[#3 Long Indonesian equities](#)

[#4 Support for high grade credit, especially BBB](#)

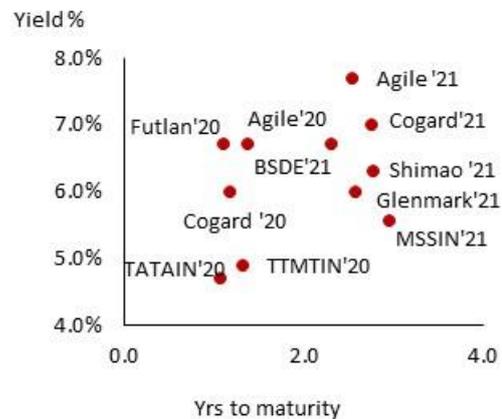
[#5 Bullish 10Y China govies](#)

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- Short-dated Chinese BB bonds offer meaningful yield pick-up over comparable Indian or Indonesian BBs, mainly due to greater supply / new issues.
- The key risk for the trade is refinancing concerns, which is manageable at least for the relatively larger sub-investment grade companies.
- Recent measures to loosen credit conditions (e.g. promotion of onshore AAA bonds, TMLF) improve access to funds for private sector Chinese credits.

In the credit space, we see short-dated bonds (1-2 years to maturity) from BB-rated Chinese issuers as offering value, with limited downside risk. Chinese HY bonds trade wider than comparable Indian or Indonesian bonds mainly due to weaker technicals (especially supply). The chart below illustrates the yield pick up offered for short-dated bonds.

Value in short-dated Chinese BB



Source: Bloomberg, DBS

The key risk with this trade is concern over refinancing. We believe default risk for BB issuers should remain low, especially given the loosening of credit conditions by authorities. Recent developments include the NDRC's support for onshore bonds rated AAA (local rating) and the introduction of the targeted medium term lending facility (TMLF). This indicates the authorities' intention to facilitate flow of credit to private companies and we believe this will be supportive of the credit quality of at least the larger sub-investment grade companies. Volatility should also be low given the short time to maturity.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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