

CMBI Credit Commentary

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

- *Markets were overall quiet and sentiment was modest ahead of Wednesday's FOMC. There were active flows from PB on LGFVs. FOSUNI'23s slightly rebounded ~0.5pt while we saw selling interests on its onshore bonds this morning.*
- **CHFOTN:** *China Fortune Land Development proposed RSA for its 11 offshore bonds (o/s cUSD5bn), it plans to issue three new bonds with 2.5% coupon and 8 years maturity to substitute the 11 bonds. Undue CHFOTNs were 0.5pt higher since last Friday's announcement. See below.*
- **China Economy:** *China's growth improved in August due to the base effect and improvement of domestic demand especially in autos, catering service and infrastructure investment. Maintaining the forecast on China's GDP growth at 3.5% for 2022 and 6% for 2023. See below for comments from our economic research.*

❖ Trading desk comments 交易台市场观点

Last Friday, IG space consolidated a constructive tone but the previously rally halted. Financials space was mixed. AT1s continued the weak tone on HF shorting and PB selling. CINDBKs/BNKEAs were traded 0.25-0.5pt lower, following UST yield heading higher. Front-end leasing/bank T2s remained well-bid with consistent RM demand. CCB 2.45%'30 was traded up to T+65bps level. TMT space went sideways. BIDU'28/TENCNT'29 tightened 2-4bps. BABA 27s/31s got hit to widen 2bps. China property space had a quiet session into weekend, despite volatility in FX/rates. Property benchmarks were unchanged to 50c higher with some momentum on select names. LNGFORs/ YUEXIUs/DALWANs were up 1-1.5pts. COGARDs were down 0.5-1pt on random better selling post lunch. CIFIHGs were unchanged to 0.5pt higher despite Moody's downgraded its corporate family/senior unsecured ratings, from Ba3 to B1/from B1 to B2 respectively. Elsewhere, KWGPROs/ROADKGs/AGILEs firmed up 1-2pts on PB/retail buying after KWG repaid the cUSD44mn of its 6% due-15 September notes remaining from the exchange offer. Non-property space was mixed. In industrials, AACTEC'31 was up 4pts. FOSUNIs continued to be hit by chatter on SASAC's review about FOSUN's exposure though this was dismissed by FOSUN International as rumor. FOSUNIs were down 3.5-5pts by EOD amid the rumor and S&P's downgrade by a notch, despite the Chinese conglomerate reiterated that a syndicate loan of at-least RMB10bn facility led by ICBC, was in the progress of being approved. Macau gaming sector dropped 0.5-1pt at close. Among ex-China HYs, India renewables were steady though VEDLN'25/GRNKEN'26 were down 1-2pts.

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Macro-wise, 2yr rates were heading towards 4%, DXY at 110 with RMB breaking 7.0 and other major currencies at multi-year/-decade low against the USD, and then we have FOMC next week as futures implied FFR to climb to ~4.25% (ie. +187.5bps) at year end. Against this backdrop, market turned to muteness in the spaces on the client front. Most activities in the spaces were in the street in AT1s and to a lesser extent SOE Perps in the morning when 2yr rates crept up towards ~3.9%, as a flurry of dealer hits into short covering bids resulted in the bonds correcting ~0.25-0.375pts lower. Among SOE benchmarks, CHGRIDs/HAOHUAs were 2-5bps tighter across the curve. Low-beta SOEs were harder to find support from locals given funding costs levels going up. Clients were still very defensive in spaces, not really adding risk. In LGFVs, flows were focused on cash-raising selling in the front end. We saw better yielding high-beta short -dated papers like YNPOWE/ ZYAMCL/ XIANGY/ SHUGRP still had demand, as LZINVE also attracted some opportunistic interests at around 88/89 level in the afternoon. Overall, it still looks like a rough road ahead unless in the unlikely event of a big dovish surprise/ hawk disappointment from FOMC. Hence market eyed how technicals may evolve post-Q3 end given the RMB FX backdrop. If the uncertainty in FX would result in more modest cross-border buying flows, then market could be prone to any rebalancing driven selling from offshore, and we might see more aggressive correction coming fast and hard, because credit spreads in LGFV/SOE Perps/ AT1s indeed tightened MTD as yields have risen slower than rates have.

➤ Last trading day's Top Movers

Top Performers	Price	Change
UNFILE 4.2 04/27/25	100.2	5.1
AACTEC 3 3/4 06/02/31	64.5	4.2
CSCHCN 9 12/11/24	42.8	1.9
ROADKG 7.95 PERP	33.8	1.7
ROADKG 6 09/04/25	54.8	1.6

Top Underperformers	Price	Change
FOSUNI 5 05/18/26	38.3	-4.7
FOSUNI 6 3/4 07/02/23	61.3	-4.6
FOSUNI 5.95 10/19/25	40.6	-4.3
FOSUNI 5.95 01/29/23	80.8	-4.1
FOSUNI 5.05 01/27/27	37.9	-4.1

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets closed lower on last Friday. The S&P (-0.72%), Dow (-0.45%) and Nasdaq (-0.90%) fell around 5% in last week amid the weak markets sentiment. The central banks of several major economies including the U.S., the U.K. and Japan will announce new decisions on interest rate in this week. PBOC released RMB12bn liquidity via reverse repo on 19 Sep, after a net RMB202bn liquidity recovery last week. The U.S. treasury yields down slightly yesterday, the 2/5/10/30 yield reaching 3.85%/3.62%/3.45%/3.52%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ CHFOTH: RSA for the USD bonds

For the restructuring proposal announced on 16 Sep, USD4.96bn bonds are proposed to exchange into 3 bonds with an extension of maturity of 8 years. All three bonds will carry 2.5% interest p.a..

46.7% of outstanding bonds will become New Bond 1, redemption of this portion will be via proceeds from assets disposal. For the remaining 53.3%, creditors will have an option to choose the % combination of New Bond 2 and New Bond 3. New Bond 2 carries mandatory Debt-to-Trust Unit Swap clause, with returns link to the performance of the onshore business portfolio; New Bond 3 does not carry such mandatory conversion.

Between New Bond 2 and New Bond 3, there will be an incentive for holders New bond 2 that for each USD1 of New Bond 2 principal, the holder will get USD1.33 worth of shares of the onshore business portfolio. We are following up with the company for more details on the debt restructuring and will provide updates.

Summary of key terms of debt restructuring

	O/s (USD mn)	Original coupon	Original maturity
CHFOTN 8.625 02/28/21	530	8.625%	02/28/21
CHFOTN 9 06/21/21	200	9.0%	06/21/21
CHFOTN 9 07/31/21	940	9.0%	07/31/21
CHFOTN 10.875 12/18/21	340	10.875%	12/18/21
CHFOTN 9 12/2021	60	9.0%	12/21
CHFOTN 7.125 04/08/22	350	7.125%	04/08/22
CHFOTN 6.92 06/16/22	300	6.92%	06/16/22
CHFOTN 8.75 09/28/22	330	8.75%	09/28/22
CHFOTN 6.9 01/13/23	500	6.9%	01/13/23
CHFOTN 8.6 04/08/24	650	8.6%	04/08/24
CHFOTN 8.05 01/13/25	760	8.05%	01/13/25
Existing Bonds Principal	4,960		

When Voting Requirement is satisfied:

Part I New Bond 1 in an aggregate amount equal to 46.7% of Existing Bonds Principal

Part II Combination of New Bond 2 and New Bond 3 in an aggregate amount equal to 53.3% of Existing Bonds Principal

When Voting Requirement is not satisfied:

Part I New Bond 1 in an aggregate amount equal to 46.7% of Existing Bonds Principal

Part II New Bond 2 in an aggregate amount equal to 53.3% of Existing Bonds Principal

Voting Requirement Creditors submit its valid vote by deadline

New Bond Terms

	Interest	Redemption upon specific asset sales	Mandatory Debt-to-Trust Unit Swap
New Bond 1	2.5% p.a.	Target to complete the sale of portfolio of RMB75bn by 31 Dec'23, in which cRMB57bn will be used for redemption.	To set up a Property Trust and use it to offset debt principal.
New Bond 2	2.5% p.a.	-	The return from the Trusts shall mirror the economic return of the onshore business portfolio, which estimated at RMB50bn in 2026 when it is expected to be listed.
New Bond 3	2.5% p.a.	-	Not subject to mandatory conversion.

➤ China Economy – Back to a gradual resumption

China's growth improved in August due to the base effect and improvement of domestic demand especially in autos, catering service and infrastructure investment. Housing demand moderately improved, but development investment and land sales further shrunk. Durable consumption further declined or slowed, while sales of staples picked up. The exports sharply slowed as overseas demand softened. We maintain our forecast on China's GDP growth at 3.5% for 2022 and 6% for 2023. Housing sales and household consumption may slowly resume in next several quarters as the liquidity and credit policy should remain

accommodative. The recent RMB depreciation and deposit rate cut is a signal for possible additional credit loosening in the future. We should pay close attention to China's attitude or reaction after the WHO may announce the end of the pandemic at some time in the future. The move of the WHO may prompt China to start considering its reopening plan in 2023.

China's growth picked up thanks to the base effect & domestic demand improvement. China's growth picked up again in August after a retreat in July. The YoY growth of value added industrial output (VAIO) and service output index accelerated from 3.8% and 0.6% in July to 4.2% and 1.8% in August. The base effect is one of the reasons. The 2Y CAGRs of service output index and retail sales decelerated from 5.6% and 3.6% last July to 4.4% and 1.5% last August, due to the spread of the Delta virus. The other reason is a moderate improvement of domestic demand especially in autos, infrastructure investment and catering service. Retail sales of autos and fixed asset investment (FAI) in infrastructure respectively picked up 15.9% and 15.4% YoY in August after rising 9.7% and 11.5% YoY in July. Meanwhile, operation income of catering service jumped 8.4% YoY, compared to the YoY decline of 1.5% in July.

Housing market & durable consumption remained weak and overseas demand sharply slowed. Housing demand slowly improved, but development investment activity further shrunk. Gross floor area (GFA) sold for commodity buildings declined 22.2% YoY in August after dropping 29.2% YoY in July; and the average sales price picked up 2.4% after rising 1.5% in July, probably due to more contribution from high-quality projects and high-tier cities. Property developers continued to cut their expenditures as GFA for commodity buildings started and property development investment slumped by 45.2% and 13.8% YoY in August after dropping 45.8% and 12.1% in July. The durable consumption was also sluggish as retail sales in furniture, construction & decoration materials, home appliance, communication equipment and cultural & office products further declined or slowed in August. Meanwhile, overseas demand slowed as the YoY growth of China's exports sharply decelerated from 18% in July to 7.1% in August. As the growth of export price index reached about 15% in recent few months, China's export volume should have seen a moderate YoY decline in August.

China economy may slowly improve in 2H22-2023. We expect the GDP growth may gradually rise to 4% in 3Q22, 4.6% in 4Q22, 4.8% in 1Q23 and 9.1% in 2Q23. We maintain our forecast on China's GDP growth at 3.5% for 2022 and 6% for 2023. China's housing sales and household consumption should slowly resume in next several quarters. China will maintain easing liquidity & credit policy as its GDP growth remains far below the potential growth and the inflation risk is manageable. There is great uncertainty about when China will adjust its zero-Covid policy. We should pay close attention to the attitude and reaction of Chinese policymakers after the WHO may announce the end of the pandemic at some time in the future. The move by the WHO may prompt China to start considering its economic reopening plan in 2023.

RMB depreciation & deposit rate cut is a signal for stronger policy support to the growth. By absorbing the shock of the Fed tightening, RMB depreciation could increase the autonomous space of China's monetary policy. The PBOC will not sacrifice its policy autonomy or FX reserves to change the trend of RMB exchange rates. It just want to make the depreciation process smooth to avoid possible "disorderly correction" or instability risk. The recent deposit rate cut by Chinese banks should also increase the room for loan rate policy in future, as the central bank also pays attention to banks' net interest margin in reducing loan rates. The policy move is also a response to the strong growth of saving deposits amid weak consumer confidence. By lowering deposit rates, the authority wants to boost households' propensity to spend. While banks are lowering their deposit rates based on T-bond rates and LPRs, the PBOC kept base deposit rates unchanged. This probably indicates an important change of China's deposit rate pricing in future. The deposit rates will be more market-oriented as they will be linked to bond rates and LPRs. China can adjust deposit rates more flexibly and frequently as needed in future.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Shaoxing Shangyu State-owned Capital Investment and Operation Co., Ltd.	USD300	3yr	5.2%	5.2%	-/-/BBB-
Hongkong Xiangyu Investment Co., Limited	USD300	3yr	5.7%	5.7%	-/-/-
Xi'an Weiyang Urban Construction Group Co., Ltd.(SBLC by Chengdu Bank)	USD77	3yr	5.3%	5.3%	-/-/-
Jiande City State Owned Assets Management Co.,Ltd.	USD36	3yr	6.4%	6.4%	-/-/-

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Licheng International Development Co., Ltd.	USD	-	3yr	6.6%	-/-/-

➤ Market conditions and color

- Regarding onshore primary issuances, there were 76 credit bonds issued on last Friday with an amount of RMB56bn. As for Month-to-date, 695 credit bonds were issued with a total amount of RMB700bn raised, representing a 21.3% yoy decrease
- Macau government announced that it has accepted seven bids in the public tender for the gaming concessions
- [ABMMIJ]** ABM Investama obtained USD320mn loan from Bank Mandiri to pay for the acquisition of a 30% stake in Golden Energy Mines, the total acquisition value is USD420mn
- [ADARO]** Adaro Energy announced its subsidiary has been granted a special mining business license by Indonesian government; The company extended stock buyback period to December and it has paid USD266.5mn for buyback
- [CHFOTN]** China Fortune Land Development proposed RSA for its 11 offshore bonds (o/s cUSD5bn), it plans to issue three new bonds with 2.5% coupon and 8 years maturity to substitute 11 bonds; The company has RMB57.6bn default debts and is involved in new lawsuits and arbitration cases with claims totaling RMB1.33bn up to now
- [CIFIHG]** CIFI Holdings has proposed to issue up to RMB1.2bn MTN guaranteed by CBICL to repay debts
- [COGARD]** Media reported that Country Garden's RMB1.5bn CBICL-guaranteed notes was 2.86x subscribed, enabling the deal size reached the ceiling of RMB1.5bn and coupon to be set at 3.2%
- [EVERRE]** Guangzhou Automobile Group denied a market report which said it will acquire China Evergrande New Energy Vehicle Group

- **[FOSUNI]** S&P downgraded Fosun International's long-term issuer credit rating to BB- from BB and gave negative outlook; The company denied the authenticity of meeting notes with a bank experts and clarified that its actual debt is about to RMB100bn and its total assets is RMB270bn
- **[LVGEM]** Fitch downgraded LVGEM's long-term foreign currency issuer default rating to CCC from B-
- **[RISSUN]** RiseSun Real Estate provided cRMB1.16bn to its subsidiaries
- **[ROADKG]** S&P withdrawn Road King's B+ long-term issuer credit rating at company's request
- **[TLINVT]** Moody's downgraded Ningxia LGFV Yinchuan Tonglian's CFR downgraded to Ba2 and changed outlook to negative
- **[YUNMET]** Yunnan H&C plans to redeem its RMB13bn outstanding bonds prior to debt restructuring

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