

CMBI Credit Commentary

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

We hope you found our commentaries and ideas helpful. We highly appreciate your support to us in Sell-Side Analysts of the polls of [“The Asset Asian G3 Bond Benchmark Review 2022”](#). Thank you for your time. Your support will mean a lot to us.

- *Market continued to be weak this morning. We saw quite some selling in short-end papers as AM trying to raise cash. Selling flows are particularly heavy in AMC space and names in weaker regions such as SHDOIS and CNSHAN.*
- **Chinese properties:** *media reported that rising number of house buyers refused to pay mortgage for the unfinished projects of developers. Banks may have to bail out some troubled projects. See below.*
- **PWRLNG:** *received requisite consent for its 4 bonds due from 2023-2026 to carve out cross-default trigger. See below.*

❖ Trading desk comments 交易平台市场观点

Yesterday Chinese IG market continued downward trend amid weak sentiment. TMT benchmark names like TENCNT traded 3-4bps wider. BABA spread also widened 2bps and we saw some dip buying interest. In financial sector, AT1 generally down 0.25-0.5pt and there were selling in short-call-date papers. In AMC space, GRWALL slightly rebounded 0.25pt but other names remain weak.

In LGFV/SOE space, tone remained very fragile in light of weakness in broader China credits. In early morning we saw surprisingly a bit of buying in the long end, but soon selling flows took over, led by 22s papers which marched quickly to north of 4%. Overall bid liquidity in the space remained extremely thin as demand remained very limited and conservative. As a result, whilst papers that banks still had lines managed to reprice towards buyers' updated targets in an orderly manner, high-beta names/ names from weaker regions (eg. Shandong/ Henan) could come down quickly upon a low-ball hit of not necessarily a large size. In terms of magnitude, would say the former dropped by ~0.25pts whilst the latter ~0.75pts. Overall sentiment was gloomy and anxious.

Another bloodbath day for property names. Higher dollar price names like COGARD/CIFIHG/SINOCE fell 3-7pts. There are also quite some selling flows for IG names such as LNGFOR/YUEXIU. YLLGSP/DALWAN also down 2-6pts. In industrial space, FOSUNI fell another 1-2pts.

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➤ **Last trading day's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
CHINSC 7 05/02/25	21.1	1.0	CENCHI 6 7/8 08/08/22	56.5	-13.9
WYNMAC 5 1/2 10/01/27	65.9	0.9	CENCHI 7 1/4 04/24/23	29.1	-9.2
GRNLGR 6 1/4 12/16/22	44.8	0.8	CPDEV 3.85 07/14/25	75.6	-9.2
CHGRAU 9.109 PERP	54.2	0.7	CPDEV 4.65 01/19/26	75.9	-8.8
WYNMAC 5 5/8 08/26/28	62.9	0.6	CIFIHG 5 3/8 PERP	31.4	-8.0

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stock market ended lower on Tuesday, as the market awaits for the second-quarter earnings season and a key inflation data report later this week. The S&P (-0.92%), Nasdaq (-0.95%), and Dow (-0.62%) ended down. The Euro traded at parity against the US Dollar for the first time in more than two decades. WTI shed more than 8% to settle under \$96 a barrel for the first time since early April. Treasury yield bull-flattened with the 2/5/10/30 yield retreating to 3.03/3.01/2.95/3.13% respectively.

❖ **Desk analyst comments 分析员市场观点**

➤ **Chinese Properties - Banks may have to bail out some troubled projects**

The property crisis finally turned into an alarming event after a rapidly rising number of house buyers refused to pay mortgage for the unfinished projects of developers. With so many developers under distress or default, we calculated the total GFA of construction halt could be as many as 630mn sqm or 6mn units (11% of total construction and 86% of 2021 completed GFA). If this goes further viral, we think it may again hurt the already-fragile primary sales market on the delivery risk. By then even high quality names like Longfor may be under huge stress as buyers may not be rational enough to tell. The short-term solution has to rely on the bailout by banks and local government based on our channel check. However, we think the banks will be selective to choose almost-finished projects so they can benefit most (that means mortgage >> costs to finish projects)

- What is new: [According the ifeng, over 50k primary house buyers have announced to reject paying mortgages as the projects they bought have halted construction for long and faced the risk of being never finished.](#) These troubled projects in the news are mainly developed by Evergrande, Sinic, Greenland and other defaulted names located in 12 cities including Zhengzhou, Wuhan and Changsha.
- What is the potential size of unfinished projects? The trigger point for such massive construction halt is due to pre-sales fund being used illegally by some developers, which then faced liquidity issue and debt default after big sales decline. Based on our calculation, 23 developers are defaulted among Top 100 names and they have recorded RMB6.3tn sales in 2020 and 2021 which are due to be delivered in 2022/2023. If we assume all these projects are into some troubles, this would mean there could be as many as 630mn sqm of GFA construction halted, which is 11% of total GFA under construction or 86% of 2021 completed GFA. Also, we think the unfinished GFA as % of sales is also getting much higher as we calculated completed GFA/new starts (3 years ago) ratio and see the huge decline from 100% (almost all delivered) to latest 48% in 2021 (the new low).
- What is the potential solution? As the event is spreading very quickly across the whole country, we think MOHURD, PBOC and local governments would step in to provide some bailout based on our channel check. The likely solution in the near term is that banks, as the only entity who has liquidity to support and could benefit, may provide bailout money to help finish the project, so that they can still get mortgage paid.

However, the bailout will be selective to achieve two objects: 1) social stability which means as many as possible house buyers could see their house finished. 2) Economically viable which means that banks may only select projects with the total mortgage payments >> the construction costs so they can cover much more than what they pay. For example, one project is short of RMB100mn cash to be finished and house owners owe banks RMB10bn for the mortgage. We think banks may have the motivation to provide bridge loans to help finish this project so they still get RMB900mn back and then try to recover RMB100mn from the developer.

- What is the sector implication: this may further hurt the sales sentiment especially for primary market. Even quality non-SOE developers like Longfor or CIFI may face buyers' concerns on home delivery given the overall low confidence. This could even push more demand into secondary market which has no delivery risk and we have indeed seen much more resilient secondary sales (positive YoY in consecutive 5 weeks) than primary market.

Please click [here](#) for the full report.

➤ PWRLNG - Requisite Consent Received

Powerlong announced that requisite consent has been obtained for its 4 bonds due from 2023-2026 to carve out cross-default trigger for the exchanged notes. Deadline of exchange offer for PWRLNG 4.0% 07/25/22 (o/s USD200mn) and PWRLNG 7.125% 11/18/22 (o/s USD300mn) is today so result will likely be out soon.

Please refer to our [daily on 4 July](#) for more details.

➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
China Development Bank HK Branch	RMB2500	5yr	2.95%	2.95%	-/A+/-
China Development Bank HK Branch	HKD3500	2yr	2.85%	2.85%	-/A+/-

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Fujian Zhanglong Group (Green Bond)	USD	-	2Y11M	5.3%	-/BBB-

➤ Market conditions and color

- Regarding onshore primary issuances, there were 52 credit bonds issued yesterday with an amount of RMB55bn. As for Month-to-date, 467 credit bonds were issued with a total amount of RMB521bn raised, representing a 2% yoy increase.

- **[CQNANA]** Chongqing Nan'an District Urban Construction & Development proposed to offer up to RMB4bn five-year corporate bonds. The company will have the option to adjust the coupon rate while the bondholders will have puttable options
- **[FRESHK]** Far East Horizon proposed to offer RMB1bn three-year MTNs to repay bank loans
- **[FTHDGR]** Fantasia Holdings announced that Deloitte has resigned the company's auditor
- **[GRWALL]** S&P placed the China Great Wall Asset Management's ratings on CreditWatch with negative implications. However, Fitch reports that the ratings on China Great Wall Asset Management (A/Stable) are not immediately affected by the delay in the publication of its annual report as its credit profile remains underpinned by the expectation that the Chinese sovereign (A+/Stable) will provide extraordinary support if needed
- **[JINKE]** Jinke Property decided to terminate its proposed share buyback of up to RMB1bn, and the fund planned for the buyback proposal will be preferentially used for daily operating expenses and debt repayment
- **[OLGPSP]** Olam Group fully completed the redemption of the SGD350mn 5.5% subordinated perpetual securities originally issued by Olam International but subsequently novated to Olam Group
- **[SHNSUN]** Shinsun Holdings signed an agreement to sell the target company to Agile Group for RMB339.73mn
- **[TPHL]** Media reported Times China informally proposed to large holders of "20Shidai10" (RMB500mn) and "20shidai12" (RMB1.1bn) delaying next month's put by one year by changing the structure to 4NP3 from the current 4NP2 with 10% principal upfront payment at the original put dates

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