

CMBI Credit Commentary

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

- *Asian IG space tightened 1-2bps this morning. New issues KOLAH0'25 were 5bps tighter and ANZs tightened c2bps. LGFVs were under better selling. Moody's placed Huarong review for downgrade, HRINTHs down 0.5 to 1pt. See below.*
- **PINGRE:** *Total size of liquidity support is not disclosed, though impact should be cushion. See below.*
- **Economic Perspectives: Macro Insights – US\$/RMB outlook amid economic asynchronicity.** *CMBI expects US\$/RMB rates to reach 7.2 at end-2023 and 7.0 at end-2024. See below for comments from our economic research.*

❖ Trading desk comments 交易台市场观点

Yesterday, UST 10yr yield widened 10bps to 4.54%. On the new issue front, INDKOR 28s tightened 2bps to close around T+75. The recent new BBLTB 28/33s tightened 1-3bps. In Chinese financials, the front end of AMCs were traded a firmer. HRINTH 24-27s were traded 0.25-0.5pt higher, while the longer-dated papers were unchanged. Moody's has placed the ratings of China Huarong Huarong AMC under review for downgrade. See below for comments. GRWALL 24-25s were unchanged to 0.2pt higher while CCAMCLs were stable. Chinese bank T2s were firm. We continued to see active two-way flows on BCHINA 5 '24/CCB 4.25 '29. In Chinese SOEs, HAOHUAs edged 1-3bps wider. TMT benchmarks were 2bps wider. In the high beta TMTs, LENOVO/WB 30s closed 2-6bps tighter with active buying flows. In HK IGs, CKHH/HKLSP 33s were 1-2bps wider. HK Corp perps such as NWDEVL/CKPH Perps declined 0.5-0.75pt. HK/Chinese properties remained weak, despite that SHUION 25s and DALWAN 24s/25s were among the exceptions to close 0.5pt higher. PINGRE 24-26s were traded 2.5-7.5pts lower given the CSRC inquiry on the default of project loans. See below for comments. VNKRL/FUTLAN/FTLNHD 24-27s were down another 0.75-1.25pts. COGARDS/SINOCEs/ CHINSCs were 0.5-1pt lower. Industrials performed mixed. EHICAR 24s were up 0.5pt. Whilst AACTEC 26s/31s were down 0.5pt. In Macau gaming sector, MPELs/SANLTDs were 0.5-1pt lower. In Indian space, VEDLN 24-26s were up 0.5-0.75pt. Indonesian names LMRTSP 24s/26s were up 0.5pt.

The LGFV/Perp space had a fairly quiet session to start the week, as onshore accounts already looked forward to the National Day & Mid-Autumn long holiday starting from this Friday. Flow-wise, there were some small better selling flows in high-beta LGFVs but the bids in GSHIAV/KMRLGP 24s remained supportive. Meanwhile the client demand continued to focus in the front-end cash-parking papers across LGFVs and SOE perps. The Shandong/Chongqing higher-yielding papers remained well-bids. SHUGRP 24s/SHGUOH 26s/CQNANA 26s were up 0.2-0.4pt. In SOE perps, CHALUM

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4.1 Perp/HUANEN 3.08 Perp/SINOCH 3 Perp were up 0.125pt. Elsewhere, ZHONAN 25s/26s were up 0.75-1pt. FRESHK 26s were up 0.2pt to close at 84.5, the recent high.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
ZHONAN 3 1/8 07/16/25	88.8	1.0	PINGRE 3.45 07/29/26	58.1	-7.4
SDGOLD 2.8 08/25/26	90.0	0.9	PINGRE 3 1/4 06/23/25	62.1	-5.7
ZHONAN 3 1/2 03/08/26	86.0	0.7	PINGRE 2 3/4 07/29/24	76.1	-2.7
VEDLN 8.95 03/11/25	73.7	0.7	CNOOC 3.3 09/30/49	65.2	-1.8
LMRTSP 7 1/2 02/09/26	56.6	0.6	CHGRID 4.85 05/07/44	90.7	-1.7

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+0.40%), Dow (+0.13%) and Nasdaq (+0.45%) rebounded on Monday. Russia relaxed export ban on low-quality diesel, marine fuel. WTI/Brent crude oil prices reached USD89.7/91.8 per barrel. The UST yields rallied higher yesterday and 10yr yield rose to the highest level since 2007, 2/5/10/30 yield reached at 5.09%/4.62%/4.55%/4.67%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ HRINTH: A negative rating actions ignore the positives of sizeable bond repurchases

Moody's placed China Huarong's Baa3 rating review for downgrade yesterday. The agency views the large net loss in 1H23 is a key driver of the negative rating action, and expects the elevated impairment losses will continue to strain Huarong's profitability over the next 12-18 months. The latest rating ignore the sizeable bond repurchased recently announced.

Last week, Huarong disclosed the repurchases and cancellation of USD bonds of cUSD579mn equivalent (announced cUSD288mn on 19 Sep, USD291mn on 21 Sep). The focus of the repurchases were on longer-dated bonds with lower cash prices, and these demonstrated Huarong's confidence on its near-term liquidity ahead of the maturity of HRINTH 2.125 09/30/23 (o/s USD600mn) on 30 Sep'23. We also believe that the repurchase these longer-dated bonds at decent discounts will translate into an exceptional profit of cUSD150mn (cRMB1.1bn) according to our estimate by using respective average bond prices in past three months, compared with net loss of RMB6bn in 1H23 and total equity of RMB39bn as at Jun'23. The repurchases at discount would cut debt and help improve its capital adequacy.

As we discussed in our [comments on China AMCs on 8 Sep](#) published after China AMCs (except Great Wall) released their 1H23 financials, we expected to see more negative headlines such as negative rating actions and these are largely priced in current valuations of China AMCs. Please also refer to our [comments on Huarong's buy back on 20 Sep](#) and [22 Sep](#). HRINTHs have been our top picks of the sector. We also like **GRWALL 3.95 Perp (callable 07/31/24)** after the recent price correction and **CCAMCL 4.4 Perp (callable 03/11/26)** as a low beta play.

➤ PINGRE: Total size of liquidity support is not disclosed, though impact should be cushion

On 21 Sep, CSRC questioned Ping An Real Estate (PARE)'s failure in disclosure of defaulted project loan of cRMB200mn in its filing for public offering of corporate bonds. In the press release yesterday, PARE mentioned

that it did not expect the need to incur further cash outflow or losses resulting from the default of the project loan.

To illustrate, the defaulted loan was related to a JV project with Zhenro in Zhengzhou. Zhenro and PARE own 51% and 49% equity interests of the project, respectively. PARE provided a letter of liquidity support, on a pro-rata basis, for the project loan of RMB250mn, out of which RMB200mn was overdue. As per the judgment issued by Henan High People's Court in July, PARE is liable for any pro-rata (49%) shortfall after auction of the pledged land. Recalled that the land parcel was acquired through auction at cRMB473mn in 2019, implying an initial LTV of c50% (or c43% on the overdue amount). As per PARE, the current value of the land should well exceed the overdue amount of cRMB200mn. Hence, PARE does not expect to have further cash outflow to bridge the shortfall and losses after the sale of collateral.

The key areas of concern **are** whether the judgement of Henan High People's Court will set a precedent, and how large is the size of liquidity support in relation to the JV with "distressed partner". PARE does not consider the letter of liquidity support to be a loan guarantee, hence the total size of its liquidity support is not disclosed. We understand the LTV for construction is on a case by case basis. However, if the implied LTV of its Zhengzhou JV (c50%) offer a good gauge, we believe that risk of cash outflow resulting from the "obligations" of providing attributable liquidity support should be cushioned.

As of Jun'23, PARE had RMB10.1bn cash on hand and faced RMB17.8bn short-term debt including RMB3bn onshore bonds will be due in Sep'23 and Oct'23. The CSRC's inquiry letter may cause delays to PARE's proposed onshore bonds issuance totaled RMB18bn. We expect more disclosure regarding the details of liquidity support for projects with distressed JV partners and shall provide updates on these. PINGREs retreated 3.5 to 7.5pts yesterday and move another 1 to 1.5pts lower this morning.

Maturity	Onshore bonds (RMB mn)	Offshore bonds (USD mn)
2023	3,000	-
2024	7,887	300
2025	5,000	500
2026 and after	3,027	300
Total	18,914	1,100

Source: Bloomberg, Wind.

➤ Macro Insights – US\$/RMB outlook amid economic asynchronicity

US\$/RMB rates change in tandem with US-Sino interest rate differentials as the two variables both reflect economic asynchronicity in the two largest economies. The latest cycle with strong US dollar and weak renminbi was due to stronger economy in the US than in Europe and China and higher geopolitical risks after the Russia-Ukraine war. Looking forward, renminbi may remain weak in near term before mild appreciation in 2024. Next year, US-Sino interest rate differentials may shrink as US nominal GDP growth gradually declines and China's nominal GDP growth slowly rebounds. US\$/RMB rates are expected to reach 7.2 at end-2023 and 7.0 at end-2024.

Factors influencing US dollar index: the dynamics in the relative strength of US economy and risk aversion sentiment in global market. When the US economy performs better than other economies, US dollar tends to appreciate. When risk aversion sentiment rises, US dollar tends to strengthen. Since EUR/US\$ rate is the largest component in US dollar index, economic asynchronicity between US and Eurozone and geopolitical risks related to Europe has a significant influence on US dollar index.

Factors influencing US\$/RMB rate: US-Sino economic asynchronicity and geopolitical risks especially related to China. US\$/RMB rates have a stronger correlation with US-Sino short-term interest rate differentials than

with long-term ones. US-Sino tensions especially over Chinese Taiwan issue could noticeably weaken renminbi while strengthening US dollar.

The latest cycle with strong US dollar & weak renminbi: stronger economy in the US than in Europe & China, higher geopolitical risks after the Russia-Ukraine war and increasing concerns about geopolitical tensions in Taiwan Strait.

Outlook for US dollar & RMB rates ahead: As the US economy and inflation remains resilient or sticky in near term, US dollar may remain strong in next several weeks. However, the dollar may weaken in 2024 when the US economy and inflation gradually slows. If the Russia-Ukraine war could end in 2024, market sentiment for Eurozone economy and the Euro would be significantly boosted. Renminbi may remain weak in near term before mild appreciation in 2024. Possible weakening of US dollar and a gradual recovery of China's economy should provide some support to renminbi.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Korea Land & Housing Corp	700	2yr	5.75%	CT2+75	Aa2/AA/-

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
No Offshore Asia New Issues Pipeline Today					

➤ News and market color

- Regarding onshore primary issuances, there were 119 credit bonds issued yesterday with an amount of RMB75bn. As for Month-to-date, 1,551 credit bonds were issued with a total amount of RMB1,440bn raised, representing a 23.1% yoy increase
- [CHFOTN]** Media reported that CFLD remitted funds for third, 1.64% installment on domestic bonds out of asset sale pool
- [CHIGRA]** Fitch downgraded China Grand Auto to CCC
- [COGARD]** Media reported that Country Garden Holdings has selected Houlihan Lokey and CICC as financial advisors to assist on a holistic offshore debt restructuring
- [DALWAN]** Dalian Wanda Commercial Management schedules interest payment for RMB2bn 5.5% coupon 20Wanda02 bonds on 9 Oct
- [EVERRE]** Media reported that China Evergrande ex-CEO Xia Haijun, former CFO Pan Darong were detained by Chinese authorities
- [FUTLAN]** Seazen Holdings lowered proposed new share offering size to up to RMB4.5bn from up to RMB8bn

- **[INDYIJ]** Media reported that Indika Energy signed agreement to sell coal unit Multi Tambangjaya for USD218mn
- **[NIO]** NIO closed offering of USD500mn convertible senior notes due 2029, USD500mn convertible senior notes due 2030; the company clarified that it has no other reportable capital raising activity in recent
- **[RISSUN]** RiseSun Real Estate Development extended expiration deadline to 28 Sep for consent solicitation of notes due in 2023, 2024
- **[SDEXPR]** Shandong Hi-Speed Group issued RMB2bn three-year MTNs with 3.07% coupon to repay debts
- **[VNKRLE]** Vanke announced to exercise the call option on its RMB381mn 3.5% due-2025 notes in Nov'23

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