

CMBI Credit Commentary

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

- *This morning, markets were weak ahead of CPI data. LGFVs/SOE perps better selling from offshore, while front-end papers relatively supported. We saw buying interests on new SYNGEN 5 04/19/26 at CT5 +15 level. GLPSP Perps plunged 4-8pts to mid-50s. GLPHCHIs down another 9pts.*
- **China Policy:** Credit growth gradually rebounds as China further eases policy. See below for comments from our economic research.
- **CIFIHG:** CIFI Group missed interests payment of CIFIHG 6.95 04/08/25 (o/s HKD2.55bn) due 8 Oct, event of default occurs. Fitch withdrawn CIFI Group's ratings. CIFIHGs down 0.5-1pt this morning.

❖ Trading desk comments 交易台市场观点

Yesterday, China IGs opened 3-5bps wider again as RM joined beta selling, and closed unchanged on the day despite the rebound in onshore equity market. Financials space extended the steady tone. Bank AT1s were very solid with core names marked 0-0.25pt higher on FM demand. ICBCAS 3.2 Perp kept to be sought-after by RM/street, and BOCHKL 5.9 Perp had two-way flows and remained well supported around par. Bank T2 names were marked 2-3bps wider amid two ways of non-China RM off-loading vs China RM adding. In TMTs, BABA/MEITUA 10yr benchmarks drifted further 3-8bps wider and swung around there throughout the day. IG property started to see RM/PB came in to seek quality front-end papers but still softened a bit on the recent momentum. VNKRLs/LNGFORs were marginally lower by 50c-1pt. China HYs calmed a little as property sector especially CBIC-back peers took a small break from the recent free-fall. CIFIHGs the battered bonds slightly rebounded 1-2pts, despite the unsettled CB missed payment. (The due-2025 CB problem was verified to be non-payment by Euro-Clear this morning.) CIFIHG'23, closed at 15/16 level and rest of the curve were still quoted at low-teens, amid CIFI's ratings were first downgraded and then withdrawn by Fitch. COGARDs dipped 0.5-1pt. Elsewhere, GLPCHIs were down 3-6pts. Beaten down names stuck at the current lower levels, AGILEs/GRNLGRs were 1.5-3pts lower. KWGPROs were also down 1-2pts amid its weaker profit margin were gaining attention. Away from properties, industrial space FOSUNIs notably dropped 1-5pts on PB/RM better selling and other industrials also closed a touch softer. In gaming space, MPELs/WYNMACs ended down 2-4pts. Away from China, India/ Indonesian HYs were more or less sideways with some active flows in Indian renewables, though the sector remained varied name by name. Indonesian HY MEDCIJs mildly gained by another 0.25-0.5pt, amid the energy giant Medco offered to buyback for up to USD250mn in aggregate purchase for its three offshore bonds.

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In the LGFV/SOE Perp spaces, sentiment remained very weak amid continuously heavy selling flows out of global RM, again mainly in high coupon/ high-yielding LGFVs. Front end 22s papers still managed to be digested by Chinese RM for cash management purpose, but >24s LGFVs were tough to move given so many alternatives at ~6% nowadays. Overall the LGFV 2-3y benchmarks still had very limited flows given curves quoted very flattish. We reckon these names that used to yield 6% (when stronger names were 4%) should indeed reprice towards 7%-9% before we can reasonably anticipate them to clear. In SOE Perps, HAOHUA 3.35 Perp remained heavy and was 1.5pts lower. Flow wise, pretty much like front-end HAOHUA bullets, we saw the market theme of in-house activities were about Chinese RM buying the dip, but in terms of depth the fire sale from foreign accounts seemed to remain overwhelming. Meanwhile, tone on the name certainly wasn't helped by chatters regarding reception of the Syngenta primary pricing. HAOHUA'30 basically down-printed at T+300 level. Elsewhere, market theme was panic selling led by HAOHUA/SINOCH/CNBG sellers amid weak bid liquidity, with most >1y papers having to head towards 6%+ before marginal buying would emerge beyond any short covering. New deal of Syngenta 3.5y with a size of USD500mn was priced at CT2+80 level.

➤ Last trading day's Top Movers

Top Performers	Price	Change
VEDLN 6 1/8 08/09/24	66.7	2.2
CIFIHG 5 1/2 01/23/23	15.7	2.2
GRNLGR 5.9 02/12/23	56.1	1.7
CIFIHG 4 3/8 04/12/27	11.4	1.4
CIFIHG 6.55 03/28/24	11.8	1.0

Top Underperformers	Price	Change
GLPCHI 2.95 03/29/26	72.8	-5.8
FOSUNI 6 3/4 07/02/23	51.7	-5.2
CHJMAO 4 1/4 07/23/29	66.3	-5.1
GLPCHI 2.6 02/09/24	84.8	-4.8
SINOCE 6.876 PERP	18.4	-3.6

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets slightly down yesterday. The S&P (-0.08%), Dow (-0.10%) and Nasdaq (-0.09%) turned down at the end of the day, showing that markets were cautious before tonight's CPI which was expected to be 8.1% yoy. U.S. September PPI was +8.5% yoy, decreasing 0.2% from previous +8.7% yoy while higher than market expectation of +8.4% yoy. The U.S. treasury yields slightly down yesterday and the 2/5/10/30 yields reached 4.28%/4.12%/3.91%/3.90%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Policy – Credit growth gradually rebounds as China further eases policy

China's credit growth rebounded in September thanks to further easing of credit policy. Policy banks increased low-cost special loans to infrastructure projects while the PBOC restarted pledged supplementary lending (PSL) to policy banks. Meanwhile, the central bank urged commercial banks to expand loan supply to real sector. M2 growth remained high as households reduced spending for more savings, while M1 growth was still low as business activities remained weak. Credit flow to property sector continued to decline, yet with less magnitude. China's GDP growth should remain below potential growth in next several months amid the zero-Covid policy and weak improvement in housing market. The PBOC has to maintain easing liquidity condition as money market rates may remain low with some mild increases. The credit policy should remain accommodative with possible further moderate declines in loan contract rates especially in mortgage rates. China may have to keep renminbi exchange rates flexible and lower deposit rates to facilitate further decline of loan rates. We expect credit growth may slowly improve in next several months. The YoY growth of outstanding social financing and M2 is expected to reach 10.8% and 12.5% at end-2022, compared to 10.3% and 9% at end-2021.

Credit growth rebounded amid further policy easing. Outstanding social financing rose 10.6% YoY at end-September, slightly up from 10.5% YoY at end-August. Meanwhile, the YoY growth of outstanding renminbi loans

to real sector rebounded from 10.8% to 11.1% as the PBOC urged banks to expand their loan supply. Social financing flow rose 21.6% YoY in September after dropping 18.7% YoY in August, with the growth of new renminbi loans to real sector up from 5% to 44.9%. The pick-up of credit growth was mainly due to further easing of credit policy. Policy banks sharply increased their special loans to infrastructure projects, while the PBOC urged commercial banks to expand credit supply to real sector.

M2 growth remained strong with slight slowdown, as private sector reduced spending for more savings.

M2 growth reached 12.1% at end-September, slightly down from 12.2% at end-August. But it was much higher than the growth in the same month last year, as households and business cut their expenditures for more savings. M1 mildly picked up 6.4% at end-September after rising 6.1% in August. However, the growth remained low, as business activities were still weak.

Credit flow to property sector continued to decline yet with less magnitude. Housing demand remained weak. New medium & long-term loans to households (mainly new mortgage loans) dropped 25.9% YoY in September after decreasing 37.6% YoY in August and 62.6% in July. Meanwhile, investors were still concerned about credit risk in property projects. Outstanding trust loans continued to drop 24.8% YoY at end-September after declining 27.4% YoY at end-August. From the MoM perspective, outstanding trust loans decreased by RMB19.2bn in September after dropping by RMB47.2bn in August.

Policy banks increased loan supply to support infrastructure investment and offset possible fiscal cliff effect. Local governments used up most of this year's special bond quotas in the first seven months. Government bond financing dropped 31.5% YoY in September after dropping 68.7% YoY in August. To offset the fiscal cliff risk, the policymakers urged policy banks to increase their special loans to infrastructure projects. New medium & long term loans to corporate sector jumped 94.1% YoY to RMB1.35trn in September after rising 41% YoY in August. They were also much higher than the amount in September 2020. The PBOC provided refinancing supply to policy banks through the PSL as policy banks' special loans have long maturities and low interest rates. Those special loans would play an important role in supporting China's infrastructure investment in next several months.

PBOC would maintain easing liquidity to boost credit supply. China's GDP growth should remain below potential growth in next few quarters as the country maintains zero-Covid policy and housing market recovers very slowly. The PBOC has to maintain easing liquidity condition to boost credit supply. We expect money market rates to remain low with some mild increases.

PBOC may further loosen credit policy with moderate downside room for mortgage rates. As housing market recovers very slowly, the central bank may further ease credit policy especially towards the property sector. We believe mortgage rates still have moderate downside room especially for first-home and second-home buyers. To facilitate further credit policy easing, China has to keep renminbi exchange rates flexible to absorb external shocks. Meanwhile, China may have to further lower deposit rates to alleviate banks' pressure in NIMs and asset quality. The weak consumption and strong savings is another reason for possible deposit rate cut in China.

Credit growth may slowly improve. Credit growth may gradually improve as liquidity and credit policy remain accommodative and credit demand slowly rebounds. In 4Q22, local governments may be allowed to use part of next year's special bond quota. We expect the YoY growth rates of outstanding social financing and M2 may respectively reach 10.8% and 12.5% at end-2022, compared to 10.3% and 9% at end-2021.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Syngenta Group Co., Ltd.	USD500	3.5yr	5.0%	T+80	Baa1/BBB+/A
Liupanshui Citizen Industrial Investment Group Co., Ltd.	USD100	364d	6.4%	6.4%	-/-/-

➤ Offshore Asia New Issues (Pipeline)

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

➤ News and market color

- Regarding onshore primary issuances, there were 73 credit bonds issued yesterday with an amount of RMB74bn. As for Month-to-date, 211 credit bonds were issued with a total amount of RMB228bn raised, representing a 20.1% yoy increase
- Suzhou government plans to purchase around 10k new houses within the city.
- [CHINSC]** China SCE remitted funds to trustee on 12 Oct for CHINSC 7.25 04/19/23 coupon due on 19 Oct for an early payment.
- [CIFIHG]** CIFI Group missed interests payment of CIFIHG 6.95 04/08/25 (o/s HKD2.55bn) due 8 Oct, event of default occurs; Fitch withdrawn CIFI Group 's ratings as the company chose to stop participating in the rating process
- [CNLOGI]** Fitch withdrawn China Logistics Property's ratings
- [HAOHUA]** ChemChina was added to US defense department's blacklist
- [HRINTH]** Huarong International Financial proposes to dispose non-performing assets with an outstanding principal and accrued interest of RMB5.1bn
- [HUAFAI]** Zhuhai Huafa Properties schedules 20Huafa05 bond (o/s RMB920mn) put option exercise on 17-19 Oct
- [HUANEN]** Huaneng HK announced to call all of its HUANEN 3.6 PERP (o/s USD500mn) on 30 Oct
- [INDYIJ]** Indika Energy unit repurchased USD29mn of 5.875% senior notes due 2024, the o/s amount is USD333.4mn
- [JIAYUA]** Jiayuan International's chairman was hit by a HK suit over his guarantee for the company's bonds which is about USD99.25mn and included in Jiayuan's current exchange offer
- [KIJAIJ]** Jababeka plans to launch exchange offer for USD300mn KIJAIJ 6.5% 10/05/23 in this week

- **[KWGPRO]** Media reported that KWG remitted funds to cover RMB485mn put on RMB1bn 20Hejing06 yesterday; The company scheduled the put option exercise for its RMB700mn 20Hejing08 corporate bonds from 17 Oct to 4 Nov
- **[SHIMAO]** Shimao Group to sell 45% of integrated mixed-use property development project in Nanjing for RMB1.75bn
- **[SKYFAM]** Skyfame Realty faces winding-up petition due to alleged non-repayment of senior notes in principal amount of USD22mn plus interest
- **[SOFTBK]** Softbank completed settlement of its offer to purchase a portion of its USD/EUR bonds, the total acceptance amount is cUSD2.27bn

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