

**CMBI Credit Commentary****Fixed Income Daily Market Update 固定收益部市场日报**

- *Markets were quiet this morning. Asian IG space was 1-3bps wider. AMCs/TMTs widened with few flows. HK real estate names retreated amid rumor that HSBC will lift the lock-in rate cap for H-mortgages by 0.5%, NWDEVL perps down 4-6.5pts.*
  - **China AMCs:** *Repayment matters more than reporting. We prefer **HRINTH 3.75 05/29/24**, **HRINTH 5.5 01/16/25** and **HRINTH 4.25 Perp (callable 09/30/25)**, **GRWALL 3.95 Perp (callable 07/31/24)** and **CCAMCL 4.4 Perp (callable 03/11/26)**. See below.*
  - **China Economy** – *China braces for mild reflation with credit. CMBI maintains forecast on CPI growth at 0.6% for 2023 and 2% for 2024. The PPI is expected to drop 2.7% in 2023 and rise 1.3% in 2024. See below for comments from our economic research.*
- ❖ **Trading desk comments 交易平台市场观点**

Last Friday, Asia ex-JP IG space was quiet with black rainstorm disrupted activities in HK. Chinese TMT/SOE benchmarks such as TENCNT 30s/BABA 31s were unchanged to 2bps wider. The high-beta TMTs such as XIAOMI/WB 30s widened 5-8bps. In financials, HRINTH 29s/30s were marked 0.125pt lower. GRWALL 30s were traded 20bps wider. S&P affirmed the rating on China Great Wall AMC at BBB with a negative rating outlook. HK IG papers such as HKAA/HKLS 33s tightened 8-10bps. HK Corp perps such as CKPH 3.5 Perp/CKPH 3.8 Perp were indicated 0.2-0.5pt higher. HK/Chinese properties performed mixed. YLLGSP/HPDLF 24s were up 0.25-1.25pts. CHJMAO 26s/29s moved 1-1.75pts higher. VNKRLs were traded up 0.75-1.5pts. GRNLGRs were 0.5-1.5pts higher. On the other hand, FUTLANs/FTLNHDs were marked 0.75-1pt lower. On Friday night, S&P downgraded the rating on Seazen one notch to 'B+' and lowered its senior notes' rating by one notch to 'B'. CHINSCs were traded down 1.75pts. Media reported that China SCE was still in roll-over talks with lenders of an originally USD388mn amortizing syndicated facility due Sep'24, before a 15% amortization comes due on 30 Sep. CSCHCNs/ROAKGs were marked down 0.5-0.8pt. In industrials, FOSUNI 24s/WESCHI 26s/EHICAR 26s were bid up 0.3-0.8pt. Macau gaming papers such as SANLTDs/WYNNMACs were down 0.3-0.5pt. In Indian space, VEDLNs lowered 0.5pt. Indonesian names MEDCIJs/LMRTSPs were marked 0.25-0.75pt higher. Elsewhere, GLPCHI '24 was down 1pt.

The LGFV/Perp space were largely stable. LGFV flows were quiet and balanced two-way. The higher-yielding Shandong/Chongqing names performed a bit mixed. CQLGST 24s were traded up 0.15-0.2pt to close 0.5pt higher over the past week. SHDOIS 24s/CQNANA 24s/SHGUOH 25s were bid up 0.125pt. CPDEV 26/Perp were marked 0.25-0.55pt higher. On the other hand, KMRLGP 3.9 '24 was quoted down 0.5pt. GZINFU/YWSOAO

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26s were marked 0.1-0.15pt lower amid two-way active flows. ZHONAN 25s/FRESHK 26s were traded 0.15-0.2pt higher. SUNSHG 26s were quoted 0.75pt higher to close at low-90s. SOE perps such as HUANEN 3.08 Perp/CNGB 3.1 Perp were bid up 0.1-0.2pt.

#### ❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CHJMAO 4 1/4 07/23/29	73.9	1.7	CHINSC 7 3/8 04/09/24	19.6	-1.7
GRNLGR 5.9 02/12/25	14.3	1.6	PRUFIN 4 7/8 PERP	85.4	-1.4
VNKRLE 3.15 05/12/25	88.7	1.5	GLPCHI 4.974 02/26/24	86.9	-0.9
YLLGSP 6.8 02/27/24	96.7	1.3	FTLNHD 4.8 12/15/24	49.1	-0.8
GLPCHI 2.95 03/29/26	58.2	1.1	AGILE 5 1/2 05/17/26	12.2	-0.7

#### ❖ Marco News Recap 宏观新闻回顾

**Macro** – S&P (+0.14%), Dow (+0.22%) and Nasdaq (+0.09%) rebounded on Friday. China Aug CPI/PPI was +0.1%/-3.0% yoy, increased from -0.3%/-4.4% yoy in Jul and was same with the expectation. US treasury yield movements were mixed that short-term yields rallied higher while long-term yields retreated, 2/5/10/30 yield reached at 4.98%/4.39%/4.26%/4.33%, respectively.

#### ❖ Desk analyst comments 分析员市场观点

##### ➤ China AMCs: Repayment matters more than reporting

We continue to take a top-down approach in analyzing the Chinese AMC sector in view of the strategic importance of the sector in maintaining the stability of Chinese financial system and the demonstrated support from the Chinese government for Huarong in times of distress. We expect strong government support to the sector continues.

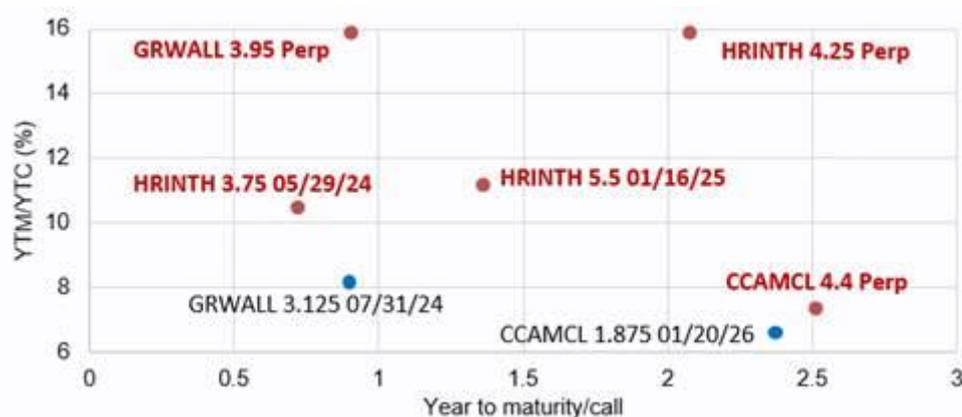
Over the past 7-8 weeks, Chinese AMC papers have been volatile given the collateral damage from 1) the increasing likelihood of debt restructuring of Country Garden; and 2) the failure of Great Wall to file its FY22 annual report before the end of grace period.

HRINTHs remain to be the higher beta plays of the sector, fell 3-11pts while CCAMCLs/GRWALLs/ORIEASs fell up to 4pts before recovered half of the lost ground over the past 2 weeks. We expect to see more negative headlines such as negative rating actions, deterioration of asset quality, capital adequacy, further delay in financial reporting, etc., the current valuations of China AMCs papers offer more downside cushion. Additionally, we prefer to stick with shorter-tenor papers in view of the “higher for longer” rates outlook.

Under these backdrops, we prefer Huarong seniors and perps for the better risk-return profile. Within the HRINTH curve, our preferences are **HRINTH 3.75 05/29/24**, **HRINTH 5.5 01/16/25** and **HRINTH 4.25 Perp (callable 09/30/25)**. Meanwhile, we see better value in **GRWALL 3.95 Perp (callable 07/31/24)** after the recent price correction resulting from the delay in filing FY22 results. We prefer the perps over seniors given yield pickup of 771bps over GRWALL 3.125 07/31/24.

For lower beta plays, we prefer **CCAMCL 4.4 Perp (callable 03/11/26)** which is 4pts below the level in late Jul'23, and offers 81bps yield pick-up over CCAMCL 1.875 01/20/26.

#### Chart 1: YTM/YTC of our picks



Source: Bloomberg.

**Table 1: Summary of our picks**

	Ask Price	Ask YTM/YTC	Year to maturity/call	First call date	Coupon reset	Step-up (bps)	Amt o/s (USDmn)
CCAMCL 4.4 Perp	92.1	7.4%	2.5	03/11/26	5yr UST+3.232%	N/A	1,700
GRWALL 3.95 Perp	91.0	15.9%	0.9	07/31/24	5yr UST+7.145%	500	400
HRINTH 4.25 Perp	81.0	15.9%	2.1	09/30/25	5yr UST+6.979%	300	250
HRINTH 3.75 05/29/24	95.4	10.5%	0.7	N/A	N/A	N/A	900
HRINTH 5.5 01/16/25	93.0	11.2%	1.4	N/A	N/A	N/A	1,400

Source: Bloomberg.

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### ➤ China Economy – China braces for mild reflation with credit

China's CPI growth returned to positive at 0.1% from contraction as we expected. The rebound of CPI was mainly caused by the resurgence of services and energy prices. The demand in durables was still worryingly weak as CPI growth in durables further deteriorated. Core CPI remained unchanged. China's PPI narrowed its YoY declines thanks to rallying raw material prices especially in mining and energy sector. Looking forward, we see a mild reflation in both CPI and PPI with continuous credit loosening, gradual demand improvement and alleviation of the de-stocking. We maintain forecast on CPI growth at 0.6% for 2023 and 2% for 2024. The PPI is expected to drop 2.7% in 2023 and rise 1.3% in 2024. The shrinkage of producer deflation points to a gradual improvement of industrial earnings ahead. But the low consumer inflation with continuous deflation in the industry indicates most sectors will still face tough competition with over-capacity pressure.

**CPI growth rebounded back to positive as services and energy prices rallied.** CPI picked up 0.1% YoY in August after dropping 0.3% in July. The positive CPI growth is mainly driven by the services and energy sector. Services CPI growth accelerated to 1.3% in August from 1.2% in July although its MoM growth slowed. Energy price rebounded as vehicle fuel narrowed its YoY decline from 13.2% to 4.5% and public utility price returned to positive at 0.3% after dropping 0.1%. The YoY growth of food CPI remained unchanged in August while its MoM growth rose to 0.5% from -1% in July as pork price notably increased 11.4% MoM. Core CPI growth remained unchanged at 0.8%. Demand in durables, which had the greatest impact on production output, was still alarmingly fragile as CPI in transport vehicles, home appliances and telecom equipment further declined. But CPI growth in travel continued to grow at historic high during the first summer holiday following the pandemic came to an end.

Employment condition remained challenging with slight improvement as housing rent slightly declined. Medicines, medical service, home service, recreational services and apparel kept the reflation trend as demand in these sectors continued to recover.

**PPI narrowed its decline due to the rebound of commodity prices.** PPI declined 3% YoY in August after dropping 4.4% YoY in July, which has been in contraction for 11 months. The decline of PPI in coal mining, oil & gas mining, ferrous metal respectively narrowed to 16.2%, 10.6% and 6.6% after dropping 19.1%, 21.5% and 10.6% in July while non-ferrous metal rebounded to positive growth at 1.4% from -1% YoY growth to 1.4%. From the MoM perspective, PPI returned to positive growth at 0.2% in August after dipping 0.2% in July. Prices of crude oil & gas and petroleum significantly increased 5.6% and 5.4% MoM in August. However, prices of non-metal mineral products, coal, paper products and computers & electronics declined by 1.2%, 0.8%, 0.7% and 0.4% MoM in August. The moving trend of PPI growth is highly related to the inventory cycle as the shrinkage of PPI decline indicates an alleviation of de-stocking in most industries.

**We see a mild reflation in CPI and PPI with continuous credit loosening, gradual demand improvement and slowdown of de-stocking effect ahead.** The recent policy moves indicate a more pro-growth policy stance. We see additional monetary policy loosening, credit supply boost and property policy stimulus in future. Domestic demand may gradually stabilize with mild improvement. The de-stocking effect may gradually alleviate with demand improvement and commodity price rebound. China will brace for mild reflation with a moderate rise in CPI growth and gradual shrinkage of PPI decline in next 2-3 quarters. We maintain the forecast for CPI growth at 0.6% in 2023 and 2% in 2024. The PPI is projected to drop 2.7% in 2023 before rising 1.3% in 2024.

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#### ➤ Offshore Asia New Issues (Priced)

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

#### ➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Bangkok Bank	USD	-	5/10yr	-	-/-/-
Bank of China Dubai Branch	USD	-	3yr	SOFR+105	A1/A/A
Export-Import Bank of Korea	USD	-	2/5/10yr	T+75/105/120	Aa2/AA/AA-
FWD Group	USD	-	10yr	-	Baa2/-/BBB
Tianjin Rail Transit Urban Development	USD	-	364d	7.6%	-/-/-

#### ➤ News and market color

- Regarding onshore primary issuances, there were 48 credit bonds issued yesterday with an amount of RMB38bn. As for Month-to-date, 419 credit bonds were issued with a total amount of RMB355bn raised, representing a 15.7% yoy decrease
- Chinese tier-2 city Dalian, Shenyang and Nanjing relaxed the restrictions on home purchase

- **[AZUPOE]** Azure Power lenders mostly approved to further deferred FY22/23 results to end-Oct/Dec; the company's NYSE delisting appeal is in Oct
- **[BABA]** Media reported that Alibaba delays supermarket unit Freshippo IPO due to a lower-than-expected valuation; Alibaba announced that Daniel Zhang stepped down from his role as CEO of the company's cloud business. Eddie Wu was scheduled to take over as Alibaba CEO and also replace Zhang as CEO of Cloud Intelligence Group; Alibaba planned to spin off and list the cloud business by May'24
- **[CQLGST]** Chongqing International Logistics Hub Park Construction issued RMB257mn three-year corporate bonds at 4.16% coupon to repay debts
- **[DALWAN]** Media reported that Dalian Wanda has made payment of RMB3.8bn 9 Sep'23 put notes
- **[FUTLAN]** S&P downgraded Seazen long-term issuer credit rating to B+ and maintained negative outlook; Its outstanding senior unsecured notes were also downgraded to B from B+
- **[GEMDAL]** Media reported that Gemdale is working with CICC on plan to issue domestic guaranteed notes
- **[GRWALL]** S&P affirmed China Great Wall Asset Management and subsidiary BBB rating and maintained negative outlook
- **[LIFUNG]** Moody's affirmed Li & Fung's Ba1 ratings and changed outlook to negative from stable
- **[SHARAO]** Fitch affirmed Shangrao City Construction at BB+ and placed stable outlook
- **[SHYUCD]** Fitch affirmed Shangyu Urban Construction at BBB- and placed stable outlook
- **[ZHESTA]** Zhenjiang State-Owned Investment proposed to offer up to RMB500mn two-year corporate bonds to repay debts

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