

CMBI Credit Commentary

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

- *Markets sentiment improved due to dovish FOMC meeting minute and upcoming China RRR cut. LGFVs were overall two way balanced while slightly skewed to better buy. We continued to see demands on high quality SOE Perps and some short squeezes in the sector.*
- **Asian AT1s Part III – Picks on EM AT1s:** *Our picks in Asian emerging markets are KBANK 5.275 PERP and KBTBTB 4.4 PERP. See below.*
- **China Policy:** *China signaled further policy easing to boost growth. We expect the GDP growth to reach 3.3% in 2022, 4.9% in 2023 and 4.5% in 2024. See below for comments from our economic research.*

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Cyrena Ng, CPA 吳蓓瑩
(852) 3900 0801
cyrenang@cmbi.com.hk

Jerry Wang 王世超
(852) 3761 8919
jerrywang@cmbi.com.hk

❖ Trading desk comments 交易台市场观点

Yesterday, China IG space went sideways to a touch firmer. After Wednesday close, the State Council stated that the central bank will use RRR and other monetary policy instruments at proper times, a clear signal for an imminent RRR cut. In financials, AMCs and bank capitals were mostly unchanged in levels. HRINTHs lowered 0.25pt. AT1s were largely muted meanwhile we saw some squaring off flows in CCB T2. TMTs were roughly stable with some buying in higher beta names at wider levels, though BABA long end closed unchanged despite the Ant Group headlines. IG properties had some positive headlines into the evening. Vanke received a total of RMB200bn quota on intended credit line (RMB100bn each) from Bank of Communications and from Bank of China. Market expects state-owned banks like Agricultural Bank/ICBC to announce the finalized strategic corporation with well-regarded names including Longfor/Country Garden. China HY space was mixed with properties unchanged to 1pt lower. COGARDs jumped 3.5-4.5pts across the curve. SINOCEs closed largely unchanged while its onshore bonds were traded higher, on chatters that it might get help from its parent China Life and local banks. Media reported that Sino Ocean planned to refinance its Dec ABS with a new one and was mulling a CBIC-back bond issuance. FUTLANs/FTLNHDs were 2-4.5pts lower post the one-notch downgrade to BB- by S&P on narrowing liquidity buffer. YLLGSP '26 was bid up 4.5pts. Overall, high cash price papers slightly lowered 0.5pt on the day, whilst low cash names were stable with some support from retail accounts. In Industrials, FOSUNIs were traded up 1-2pts on strong demand. FOSUNI 6.75 '23 were marked at 85 level, slightly catching up with other 23s. In Macau gaming, the space were broadly down 0.5pt with WYNMACs unchanged to -1pt lower. Ex-China HY had a stronger session under thin trading flows, ahead of Thanksgiving holiday in UST market. In Indian HYs, there were more demand on renewables such as GRNKEN 25/26 and ADANIG/ADGREG papers. VEDLNs gained 0.5-1.5pts after the Vedanta board approved USD800mn interim dividend, and confirmed the date of financial results to be on Dec 14th. Elsewhere, MONMIN '24 closed up 3pts to reach mid-60s, amid Mongolian Mining Corp repurchase on the open market.

The SOE Perp/LGFV space had a rather slow day. We continued to see leveraged deployment in quality SOE Perps c24/c25 but yields further tighten from ~6%, whilst there was some chasing in laggards CHSCOI/CNBG. Overall, SOEs were unchanged to 5bps tighter. In LGFVs, GZINFU 4.75 '24 ground ~1pt higher amid two-way flows from Chinese RM, whilst GZINFU 2.85 '26 remained stable. Otherwise LGFV space was generally stable with some cash-management driven two-way needs in 23s papers. TLINVT '23 was slightly weaker as Fitch downgraded the company by 1 notch from BB+ to BB whereas the impact on bond price was limited, around 50c lower. There were some short covering/bottom fishing interests on underperformer ZHHFGR, though the perp is still indicated at 75 level. Flow was at slow side except for inquiries on front end and high yield papers. As for new issues, BOCOM priced USD200mn 3y senior bonds at CT3+61bps (CT2+38bps) and it went 10bps wider on local accounts trimming before wrapping up 2-3bps wider on the day.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
YLLGSP 5 1/8 05/20/26	60.0	4.7	FTLNHD 4.8 12/15/24	46.3	-4.4
COGARD 7 1/4 04/08/26	29.3	4.6	FTLNHD 4 1/2 05/02/26	35.4	-2.5
COGARD 5.4 05/27/25	31.2	4.6	FTLNHD 4 5/8 10/15/25	41.5	-2.5
COGARD 6 1/2 04/08/24	38.3	4.5	FUTLAN 6 08/12/24	46.4	-2.4
COGARD 4.2 02/06/26	29.0	4.5	FUTLAN 4.45 07/13/25	39.6	-1.9

❖ Macro News Recap 宏观新闻回顾

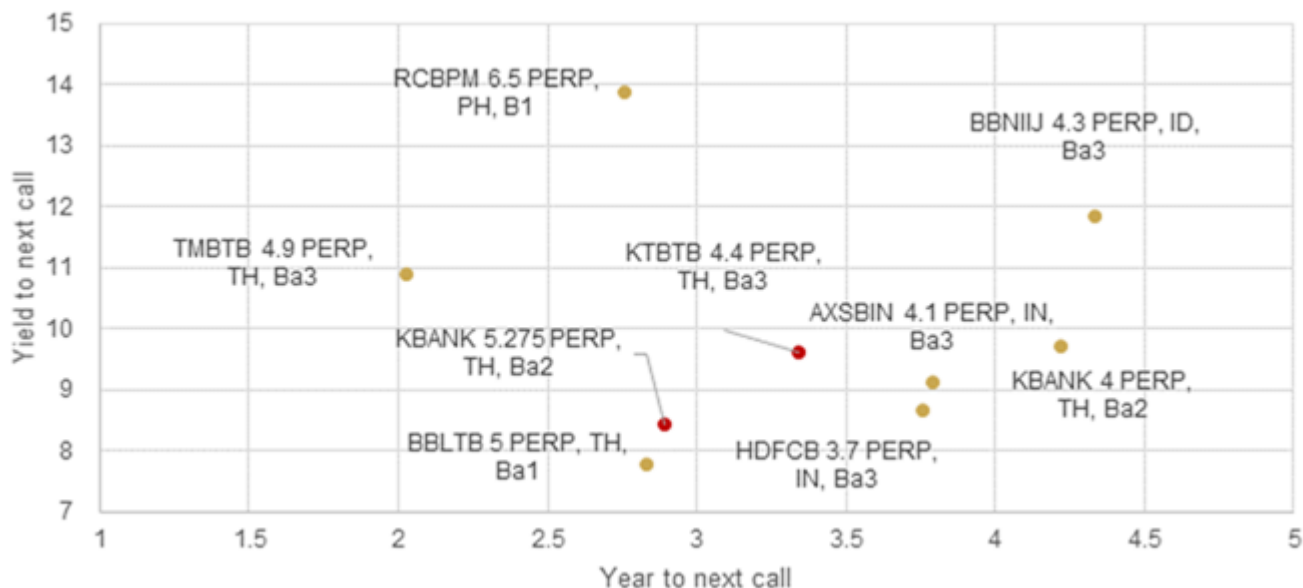
Macro – U.S. stock markets got another rebound yesterday, the S&P (+0.59%), Dow (+0.28%) and Nasdaq (+0.99%) were firm as the Fed published a dovish FOMC meeting minute showing majority attendees thought the interest rate hike may slow soon. U.S. latest weekly jobless claims increased 17k to 240k compared to last week and was higher than the expectation of 225k. Long term U.S. treasury yields were overall down yesterday, the yield curve bull flattened that 2/5/10/30 yields reached 4.46%/3.88%/3.71%/3.74%, respectively

❖ Desk analyst comments 分析员市场观点

➤ Asian AT1s Part III – Picks on EM AT1s

- In the third and last part of our trilogy on Asian AT1s, we turn our focus to AT1s in Asian emerging markets (EMs) including India, Indonesia, Philippines and Thailand. Compared with that of Chinese G-SIBs and Asian DMs, the return predictability of AT1s in Asian EMs are lower. Hence, our analytical approach in Asian EM AT1s will be more “bottom-up”.
- There were loss absorption and non-call incidents for INR capital papers of Yes Bank, Lakshmi Vilas Bank, Dhanlaxmi Bank and ICICI Bank. We notice Indian government’s differential treatments in loss absorption for private and public banks. In the case of IDBI Bank, its INR AT1 was called early in 2018 before possible loss absorption triggered by low level of CET 1 ratio.
- Under this backdrop, our picks are **KBANK 5.275 PERP** and **KTBTB 4.4 PERP** in view of their more balanced risk-return profile. As AT1 is a relatively new instrument to Asia EM banks, track record of call and distribution is relatively limited. Hence, we prefer AT1s issued by banks which are more remote to loss absorption given their ample capital buffers and comparatively more stable profitability throughout the cycles.

Chart 1: Asian EM AT1s YTC



Source: Bloomberg.

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➤ China Policy – China signaled further policy easing to boost growth

The state council held a meeting yesterday, indicating further policy easing to boost economic growth. The cabinet vowed to further cut the RRR to maintain ample liquidity condition. Banks were guided to lower outstanding loan rates or provide loan extension for micro business and expand bond financing to private enterprises. The central government promised more interest subsidies to enterprises as an incentive to expand their equipment capex. The state council also pledged to support the healthy development of internet platforms and housing market. We expect China to maintain easing macro policies and gradually reopen its economy in 2023. Meanwhile, the new cabinet team will adopt pro-business stance to boost the confidence. We expect the GDP growth to reach 3.3% in 2022, 4.9% in 2023 and 4.5% in 2024.

China will maintain prudent monetary policy with easing bias in 2023. The PBOC should provide ample liquidity supply as money market rates may remain at low levels with moderate increases in 2023. We expect further RRR cuts in next four quarters. The central bank will maintain easing credit policy especially to manufacturing, technology, service and SMEs. The loan prime rates have additional moderate room to decline. The PBOC will also loosen credit supply to property developers and further lower mortgage rates for first-home & second-home buyers. Banks are encouraged to extend their matured loans to SMEs, property developers and LGFVs.

Fiscal policy will remain proactive with possible higher broad deficit in 2023. Due to economic slowdown and property slump, both general fiscal revenue and land income were lower than the levels in the budget plan in 2022. Local governments relied on asset sales, trade credit and LGFV borrowing to meet the gap. Looking forward, broad deficit is expected to rise from 5.8% of GDP in 2022 to 6.1% of GDP in 2023. The government will provide more tax credit and interest subsidies to stimulate enterprises to increase equipment investment and R&D expenditures.

China may gradually reopen its economy in 2023. China has already started to adjust its zero-Covid policy. The policymakers target a smooth transition, but it is easier said than done. We see a risk of large-scale spread of Covid-19 virus or even out of control around the Chinese New Year holiday in January 2023 as people travel and gather as a tradition. China has to face the moment. In the reopening process, demand for medicine & health

care may increase noticeably. There will be a sharp resumption in air & railway transportation, travel, catering, hotel, sports, recreation, clothing and cosmetics. However, the resumption in housing market and durables may be gradual and slow. The impact of the reopening on China's labor participation and inflation should be limited as the virus becomes very weak and global economy sees a recession ahead.

New cabinet team will adopt pro-business stance to boost confidence in 2023. We expect the policy will be more friendly for property & internet sectors as the new policymakers focus on resuming confidence and boosting growth after taking office. They may set the GDP growth target at around 5% for 2023.

We maintain our forecast for China's GDP growth at 3.3% in 2022, 4.9% in 2023 and 4.5% in 2024. China has led the US in policy adjustments and business cycle. China's economy started to slow down from 2H21, experienced a hard landing in 2Q22 and slowly resumed from 2H22. It should remain in a gradual resumption in 2023-2024.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
LinJiang Investment and Development (BVI) Co., Ltd	USD300	3yr	7.1%	7.1%	-/-/-

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
China Reform Holdings Corporation LTD	USD	-	3yr	-	-/-/-

➤ News and market color

- Regarding onshore primary issuances, there were 73 credit bonds issued yesterday with an amount of RMB53bn. As for Month-to-date, 1024 credit bonds were issued with a total amount of RMB1134bn raised, representing a 33.6% yoy decrease
- CBICL provides guarantee for Longfor, Midea Real Estate, Radiance Group to offer RMB2bn, RMB1.5bn and RMB1.2bn MTNs
- Agricultural Bank of China signed strategic cooperation agreement with China Overseas Land and Investment, China Resources Land, Vanke, Longfor, Gemdale
- ICBC to signed strategic cooperation agreement with Longfor, Country Garden
- Bank of Communications signed agreements to provide RMB100bn (cUSD14.2bn) and RMB20bn (cUSD2.8bn) credit lines to Vanke and Midea Real Estate respectively
- Media reported that Macau could announce list of 'provisional winners' for gaming concessions in early December
- **[AGILE]** Agile Group completed HKD783mn share placement

- **[CHIOIL]** China Oil and Gas Group repurchases USD9mn of CHIOIL 5.5 01/25/23
- **[FOSUNI]** Media reported that Fosun International is planning a minority stake sale in Cainiao to raise up to USD1bn
- **[GRNCH]** Greentown China intends to purchase up to RMB3bn bonds and up to RMB2bn corporate bonds/ABS issued by Greentown Real Estate on secondary market
- **[HUKLFI]** Media reported that Heungkuk Life will receive fresh capital from largest shareholder to repay the repurchase agreement of local banks to redeem USD500mn perps
- **[MONMIN]** Mongolian Mining Corp repurchases USD6.38m of perpetual securities from open market for USD2.249m
- **[SINOCE]** Media reported that Sino-Ocean Group aims to refi RMB1.04bn due-26 Dec ABS with new ABS, or otherwise use internal cash; The company also applies for quota for CBICL-guaranteed bonds and has yet to get approval
- **[TLINVT]** Fitch downgraded Yinchuan Tonglian Capital Investment Operation to BB from BB+ and placed negative outlook
- **[VNRLE]** China Vanke to hold EGM on 12 Dec to consider issuance of up to RMB50bn (cUSD7.1bn) direct debt financing instruments; The company to receive up to RMB100bn intended credit line from Bank of China (cUSD14.2bn)

CMB International Global Markets Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

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