CMBI Credit Commentary

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

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- *Market was fairly quiet ahead of tonight's CPI. IGs felt a touch firmer. Industrials space performed unchanged to 1pt lower. FOSUNIs were down 2-3pts by mid-day post the onshore chatters. Gaming sector extended another 0.5-1pt higher.*

- *COGARD: Country Garden plans to issue up to RMB1.5bn three years MTNs guaranteed by China Bond Insurance Corp, and backed by a letter of guarantee from two Foshan LGFVs.*

- *China Policy: China may further ease credit policy as credit demand remained weak. See below for comments from our economic research.*

❖ **Trading desk comments 交易台市场观点**

Last Friday and this Monday, IG space presented an uptick consolidation while benchmarks 1-2bps wider, with no big moves either way. Recent new issues continued to be sought-after, i.e. EIBKOR/KDB/KOWEPW, as firm macro generally kept to support credit spaces. Financials space felt a touch weaker. AMCs were unchanged, except GRWALL 23-25s moved 0.25pts higher with some buying flows. TMT sector was overall firm, but was traded off the tights on some profit taking flows, TENCNT/BABA levels were 3-5bps wider. IG property space was mostly unchanged, slightly underperforming in contrast with the equities rally. China HY was a touch stronger, as overall market was anticipating further policy support. COGARDs first had some selling flows, but closed up 1.5-3pts amid its plans to issue up-to RMB1.5bn three years MTNs guaranteed by CBICL. CIFIHG'26 was also up 2.5pts, while its other tranches were unchanged. Elsewhere, GRNLGR 22-23s plunged 6-9pts on the back of PBs' selling, with no verified news. GRNLGR 24-26s closed 4-6pts lower after the Mid-autumn holidays. CHINSCs remained unchanged despite its family/bonds rating were downgraded one notch to B2/B3, respectively. Industrial space was in line with other spaces, FOSUNI 23s were traded up 1pt to 92 level. Gaming space outperformed, as WYNMACs/MPELs noticeably picked up 2-5pts. WYNMAC 28-29s were traded back to low-70s level, recovered its losses weighed down by Covid concerns earlier last week. In Ex-China HY spaces, Indian power AZUPOE curve was up 1.5-3pts, taking their weekly gains further to 5-7pts. Indonesian space also emerged two–way to better buying flows, especially in BMRIIJ/LMRSTP papers.

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The SOE Perp/LGFV space were pretty much the same theme into long weekend in HK - Chinese money, among which many cross border flows, continued to pick up SOE perps and selective LGFVs at high-4% or above yield, whilst low-mid-4% papers (esp. AT1s) on the other hand continued to consolidate. We saw slightly more selling from non-Chinese asset managers in the LGFV space, amid a general tone to trim risk/raise cash ahead of the CPI print next Tues, as expectations for more aggressive Fed hikes into Dec continued to build up. Flow wise, there were two-way flows on Zhengzhou names, ZZREAL/ZHZHCC. LZINVE'22 remained stable though there was heated discussion about Lanzhou transportation had liquidity problems to pay staff's salaries. Rest of the space was unchanged to sideways. SOE perp papers' cash price were slightly lower following UST movement but flows were balanced. Short-end and perp papers were mostly light and peaceful.

➢ **Last trading day's Top Movers**

Top Performers	Price	Change
WYNMAC 4 7/8 10/01/24	**83.6**	**5.2**
WYNMAC 5 1/2 01/15/26	**81.2**	**5.1**
WYNMAC 5 1/2 10/01/27	**75.2**	**4.9**
MSFLCZ 3.15 03/10/24	**94.4**	**3.3**
COGARD 4.2 02/06/26	**45.8**	**3.2**

Top Underperformers	Price	Change
GRNLGR 5.6 11/13/22	**71.3**	**-9.2**
GRNLGR 5 3/4 09/26/22	**87.5**	**-8.0**
GRNLGR 6 1/8 04/22/23	**49.2**	**-7.3**
GRNLGR 6 3/4 06/25/23	**44.6**	**-7.1**
GRNLGR 5.9 02/12/23	**51.3**	**-6.0**

➢ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stock markets rallied higher on Monday. The S&P (+1.07%), Dow (+0.71%) and Nasdaq (+1.14%) recorded a four days rebound and reached two weeks high level as markets expect Aug'22 CPI will decrease to ~8.0%, as a result of commodities price fall recently. U.S. dollar index got 5 days consecutive decrease and descend to 108. The U.S. treasury yields rebounded yesterday and the curves bear steepened with 2/5/10/30 yield reaching 3.58%/3.47%/3.37%/3.53%, respectively.

❖ **Desk analyst comments 分析员市场观点**

➢ **China Policy – China may further ease credit policy as credit demand remained weak**

China's credit growth further slowed in August as real sector demand remained weak. But M2 continued to pick up as households cut consumption and home spending for more savings. M1 growth remained low as business activities were still weak. Housing market sentiment and consumer confidence remained low as new loans to households only mildly improved. The cabinet urged policy banks to increase special loans to meet possible gap for infrastructure financing as local governments used up most of this year's special bond quota. PBOC should maintain easing liquidity condition to spur credit supply. But ample liquidity is not enough to spur credit demand. The central bank may further loosen credit policy with moderate declines in mortgage rates if housing market remains weak in next two months. To gain additional room for credit loosening, China may have to keep exchange rates flexible and further lower deposit rates. Credit growth may slowly improve from 4Q22 thanks to possible further loosening of credit policy. The YoY growth rates of outstanding social financing and M2 are expected to reach 10.8% and 12.8% at end-2022, compared to 10.3% and 9% at end-2021.

Credit growth continued to slow as real demand remained weak. Outstanding social financing rose 10.5% YoY at end-August, down from 10.7% YoY at end-July. The YoY growth of outstanding renminbi loans slowed from 11% at end-July to 10.9% at end-August, as real sector demand remained weak. Social financing flow dropped 18.7% YoY in August after declining 29.7% YoY in July. Meanwhile, new renminbi loans rose 2.5% YoY, compared to the decline of 37.1% in July and the growth of 7.3% in 1H22. The slowdown of credit growth indicated real demand remained weak as property market continued to slump and consumer & business confidence was still low.

M2 further picked up as private sector was reluctant to spend and take risk. M2 growth accelerated from 12% at end-July to 12.2% YoY at end-August. Saving deposit especially in medium to long term increased strongly as households cut consumption and home purchase for more savings. Business was also reluctant to expand capex or take risk as M1 as % of M2 remained low. Most of M1 are demand deposits of corporate sector, which can reflect receipt activity and procurement propensity.

Housing market sentiment and consumer confidence remained low with slight improvement. Housing demand only mildly improved as new medium & long-term loans to households saw a less YoY decline of 37.6% in August after dropping 62.6% in July. Investors were still concerned about credit risk in property projects as outstanding trust loans continued to drop 27.4% YoY at end-August after decreasing 28.3% YoY at end-July. New short-term loans to households improved noticeably as it grew 28.5% YoY in August. But this does not mean a strong recovery of consumer confidence. It may be because some households used lower-cost individual business or consumer loans to refinance their mortgage loans.

China used policy bank loans to resolve the fiscal cliff issue. As local governments used up most of this year's special bond quotas in the first seven months, government bond financing dropped 68.7% YoY in August after rising 91.7% YoY in 7M22. To lower the fiscal cliff risk, the state council urged policy banks to increase their special loan quotas this year. Those special loans have long maturities and low interest rates as they would play an important role in supporting the infrastructure investment. New medium & long term loans to corporate sector jumped 41% YoY in August after respectively dropping 29.9% in July and 6% in 1H22. We guess the main support was from the policy bank loans.

Business capex & operation condition was still weak. Corporate bond financing continued to decline by 75.3% YoY in August after decreasing 76.3% YoY in July and rising 25.5% in 1H22. The YoY growth of outstanding corporate bond slowed from 10.1% at end-1H22 to 9.3% at end-July and 8% at end-August. Meanwhile, bill financing and new short-term loans to corporate respectively dropped 89.5% and 43.4% YoY in August, compared to the growth of 77.1% and 37.6% in July.

PBOC would maintain easing liquidity to boost credit supply. As China maintains zero-Covid policy and housing market recovers very slowly, the country's GDP growth should remain below potential growth in next few quarters. The PBOC has to maintain easing liquidity to boost credit supply. At present, China has easing liquidity condition as banks' 7D repo rates have been close to the lowest level in history.

PBOC may further loosen credit policy with moderate declines in mortgage rates if housing demand remains weak in golden September & silver October. The ample liquidity has failed to spur strong credit expansion as property sector and local governments play a key role in China's credit creation. Both housing and land sales have slumped sharply this year. Housing demand is the key for developers' liquidity & financing condition, governments' land revenue, some durable sales and fixed asset investment. If housing demand remains weak in next two months, the central bank may further loosen credit policy. It is possible to see further declines in mortgage rates especially for first-home and second-home buyers.

China has to keep exchange rates flexible and further lower deposit rates to gain room for credit loosening. China has to further cut loan rates to spur credit demand. This move will have two effects. One is downside pressure on renminbi. China has to keep exchange rates flexible and let renminbi go down in face of further shrinkage in Sino-US interest spreads. The depreciation risk has already lowered private borrowing in foreign currency as it may intensify capital outflow pressure in near term. The other is about banks' net interest margins. Loan rate cut especially for mortgage loans will squeeze banks' net interest margins, which may influence banking system stability and cabinet's revenue from banks' profit distribution. China may have to further low deposit rates to stabilize banks' NIMs. China has more reasons to do this, given the strong growth of saving deposit and low willingness of consumption.

Credit growth may slowly improve from 4Q22. Credit growth may further slow in September as government bond financing may further decline and credit demand remains weak. But it may slowly improve from 4Q22 with possible further loosening in credit policy. 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 12.8% at end-2022, compared to 10.3% and 9% at end-2021.

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➢ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Lianyunggang Port Group Co., Ltd.	USD60	3yr	6.0%	6.0%	-/-/BBB

➢ Offshore Asia New Issues (Pipeline)

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

➢ Market conditions and color

- Regarding onshore primary issuances, there were 35 credit bonds issued last Friday with an amount of RMB27bn. As for Month-to-date, 381 credit bonds were issued with a total amount of RMB443bn raised, representing a 4.7% yoy increase

- **[ABMMIJ]** ABM Investama has received majority approval from bondholder for its acquisition in Golden Energy Mines

- **[CHINSC]** Moody's downgraded China SCE Group's corporate family rating from to B2 from B1, outlook negative

- **[CIFIHG]** CIFI Holdings to sell Nanjing land site to controlling shareholders for RMB117.3mn

- **[COGARD]** Media reported that Country Garden plans to issue up-to RMB1.5bn three years notes guaranteed by China Bond Insurance Corp, and backed by a letter of guarantee from two Foshan LGFVs; the company spent RMB288mn (cUSD42mn) to repurchase onshore bonds to stabilize prices

- **[CPDEV]** Beijing Capital Group to sell 11% stake in First Capital Securities to Beijing State-owned Capital Operation and Management for cRMB3.755bn(cUSD547mn)

- **[CSCHCN]** The shareholders of China South City have approved to sell 50% stake of Shenzhen First Asia Pacific Property Management Company to Shenzhen SEZ Construction and Development Group for RMB1.3bn(cUSD186mn)

- **[FTLNHD]** Seazen Holdings issued 3.28% RMB1bn three-year MTN, fully guaranteed by China Bond Insurance Corp, to repay debts and fund project development

- **[MOLAND]** Modern Land announced to further extend the Longstop Date related to the scheme of arrangement and the RSA to 23 Sep'22

- **[ROADKG]** Road King Infrastructure redeems USD26.5m of 6.7% guaranteed senior notes due 2024

- **[RSMACA]** Fitch downgraded Red Star Macalline's issuer default rating to B from BB, rating watch negative

- **[SINOCE]** The bondholders of Sino-ocean unit's 20Yuanzi01 (o/s RMB1bn) allowed to withdraw registration for put option exercise on 13-23 Sep, the company increase the coupon rate to 5.3% from 4.7%

- **[YCINTL]** Yincheng International advances surplus funds of RMB1.937bn to project companies' non-controlling shareholders engaged in construction and property projects development

- **[ZENENT]** Zensun Enterprises remits USD36.4mn for repayment of outstanding 12.5% 2022 senior notes

- **[ZHPRHK]** The bondholders of 20Zhengrong02 (o/s RMB1bn) due 2025 agreed the proposals to postpone the interest payment of RMB57.5mn due 27 Jul'22 before 14 Feb'23 and give 50 days grace period to the issuer

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