

CMBI Credit Commentary

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

- *Markets were overall stable this morning. There were short coverings in LGFV space and onshore RM showed buying interests on some due-2024 names with 10% yield. We saw profit taking on SOE perps when the yields narrowed below 6%. For AT1s, ICBCAS 3.2/3.58 were traded actively and up 0.25pt by mid-day.*
- **China Economy:** *Paving the way for a gradual resumption in 2023. Slightly revise down the forecast for 2022 GDP growth from 3.4% to 3.3% and revise up the forecast for 2023 GDP growth from 4.8% to 4.9%. See below for comments from our economic research.*
- **AGILE:** *Announced to raise around HKD783mn (cUSD100mn) via share placement. AGILEs rose 1.5-7pts this morning.*

❖ Trading desk comments 交易台市场观点

Yesterday, China IG space continued to show a constructive tone after Xi-Biden meeting, with flows more balanced on the frontend while long end still under better buying. Financials spreads were on average 5-10bps tighter, with AMC closed unchanged to 0.5pt higher. HRINTH was up 0.5-1pt and GRWALL/CCAMCL 23-24s were lifted by 0.5pt. T2s were quiet but bids stayed firm, CCB tightened 10bps. TMTs were another 5-10bps tighter though clients started evaluating the relative values, as TENCNT/TME/LENOVO sharply tightened 20-50bps through the recent rally. TAISEM curve notably tightened 5-20bps amid client buying and dealer short covering on 27s/32s, along with its equity rebounded after Buffet's Berkshire revealed stakes in its ADR and made headlines. IG properties opened strong but soon erased the gains on the day and ended unchanged to 1pt lower, as activities slowed down and prices settled at recent highs. DALWAN 23-24s were recorded 8-9pts higher to close at mid-90s, and SHUION '23 was traded up 11pts to reach low-80s. YUEXIU '31 was up 4.5pts. China HYs calmed down from the four-day consecutive rally since last Wednesday, while low cash price papers still had active flows. COGARDs opened 5pts higher on the back of share placement headline, but generally moved 1-2pts lower than last close, after rallying 20-30pts since Nov 7th last week. COGARD '23 was marked at low-90s and COGARD 24s were indicated at mid-40s. FTLNHDs/FUTLANs were up another 3-4pts to close between mid-50s to mid-60s. Selective HK property perps rebounded with HYSAN 4.1 Perp / CPDEV 5.75 Perp were up 5-6pts. Beaten down names was more sticky but seeing some demand amid recent sector optimism. AGILEs extended the recent rally with bullets up 6pts and perps up 3pts. AGILE '26 surged 18pts to be quoted at high-30s amid recent positive headlines. In industrial space, FOSUNI/CHIOIL 23s were up 0.5pt, HONGQI '24 was 6pts higher. In Macau gaming space, STDCTYs/SANLTDs were up 1-2pts. Ex-China HY showed a bit more consolidation session. Indian HY space was overall holding up well but market has been notably absent of material demand, while Indonesia HYs

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had net better buying. Indonesian quasi-sovereign papers like PLN1J kept to be under better buying amid some positive ESG sentiment.

The LGFV/SOE Perp/AT1 space had a stable morning session amid an upbeat sentiment, which turned more and more positive over the day and translated to a wave of buying flows in the afternoon. Flow wise, we saw onshore NBRM deploying cash in 23s papers/c23 perps and AM/structured flows picking up selected LGFVs at double-digit yields, on top of HF/Prop trying to cover shorts. AT1s were squeezed 0.5-1.5pts higher led by laggards DBSSP 3.3 PERP/ BOCOM 3.8 PERP, on back of positive movements in equities and rates. In SOEs, HAOHUA/SINOCHE curve were traded 30-40bps tighter. SOE perps generally climbed by 0.5pt amid thin liquidity despite some profit taking into the rally, whilst LGFVs bounced back by 0.5-1pts from previous beaten levels amid better buying flows, although many of those still felt driven by short covering. As investors reassessed the rates outlook it seemed that hurdle yields for quality names have come back to the 6%-7% range, whilst prop traders were happy to cover in-the-money shorts further tighter. On the other hand, high-beta names such as CQNANA still required ~10%+ sort of yield to gain buying traction, although several 23s high beta papers GXFING/ TLINVT/ XIANGY did enjoy a ~1pt boost after LZINVE's maturity. Selected LGFV belly names NBHSDC '24/SHYUCD '26 were marked down 3.5pts. Elsewhere in new issues, NJYZSO '25 was traded at around 98.5/99.5 level. New issue CICCHK 3yr was issued at T3+125 (Re-offer price) at night, which translated to T2+108 level on the trading side for the on-the-run benchmarks.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
AGILE 5 1/2 05/17/26	39.6	18.4	NWDEVL 4 1/2 05/19/30	70.3	-6.0
SHUION 5 3/4 11/12/23	82.7	10.7	NBHSDC 2.2 12/02/24	91.3	-3.5
DALWAN 7 1/4 01/29/24	67.4	8.0	SHYUCD 3.3 11/19/26	88.7	-3.3
DALWAN 6 7/8 07/23/23	78.3	7.9	COGARD 5 5/8 01/14/30	29.5	-2.2
AGILE 5 3/4 01/02/25	45.9	6.9	COGARD 4.8 08/06/30	28.4	-2.0

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets rebounded yesterday, the S&P (+0.87%), Dow (+0.17%) and Nasdaq (+1.45%) were boosted by lower than expectation U.S. PPI, which was published as +8.0% yoy and expected to be +8.3% yoy in Oct. The PPI improves markets' inflation outlook and the U.S. treasury yields also dropped down yesterday, the yield curves bull flattened and the 2/5/10/30 yields reached 4.37%/3.93%/3.80%/3.98%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Economy – Paving the way for a gradual resumption in 2023

China's economic growth declined in October, as local government tightened the zero-Covid policy and overseas economies slowed amid recession risks. China's housing market, retail sales, service activity and exports all weakened as we slightly revise down our forecast for 2022 GDP growth from 3.4% to 3.3%. However, we slightly revise up our forecast for 2023 GDP growth from 4.8% to 4.9% thanks to a lower base and faster reopening of economy. China will focus on growth in 2023 as "zero Covid" or peoples' health is the priority in 2022. The policymakers may set the GDP growth target at around 5% for 2023. The country will reopen its economy in 2023 and the impact of the reopening on labor participation & service inflation should be limited. China will maintain easing fiscal and monetary policy next year to support the growth. We expect strong credit support to manufacturing, hard technology, infrastructure sectors and SMEs and moderate credit easing for property sector. It is possible to see further moderate cuts in RRR and LPRs next year. Housing market and consumption should see a gradual resumption, while infrastructure investment may gradually slow and exports may see a YoY decline in 2023.

Economic growth declined in October with weakening in housing market, consumption & exports. China saw a decline of most economic activities in October due to stricter zero-Covid policy and faster slowdown in overseas economy. Most local governments tightened their zero-Covid policy around the 20th Party Congress meeting as the Covid-19 cases significantly rebounded. The traffic congestion index and subway passenger flow respectively dropped 5.8% and 16.3% YoY in October, compared to the YoY declines of 4.6% and 12.1% in September. Retail sales decreased 0.5% YoY after rising 2.5% YoY, and the YoY growth of service output index decelerated from 1.3% to 0.1%. Meanwhile, overseas economy has slowed with an increase of recession risk ahead. China's exports of goods declined 0.3% YoY in October after growing 5.7% YoY in September. With a deterioration in both domestic and overseas demand, the YoY growth of value added industrial output (VAI) decreased from 6.3% in September to 5% in October.

China's economy should see a gradual resumption with GDP growth up from 3.3% in 2022 to 4.9% in 2023. Due to the recent deterioration in both domestic and overseas demand, we slightly revise down our forecast for GDP growth in 2022 from 3.4% to 3.3%. With lower comparison base and faster reopening of economy, we slightly revise up our forecast for the GDP growth in 2023 from 4.8% to 4.9%.

Our GDP growth forecast is based on several assumptions. **Firstly**, China will focus on economic growth in 2023 as "zero Covid" or peoples' health is the priority in 2022. The Central Committee of Communist Party of China will hold its annual economic working conference in 3-4 weeks to set the GDP growth target and policy stance for 2023. We expect the GDP growth target for 2023 may be at around 5%. **Secondly**, China will reopen its economy in 2023. Some local governments have started to adjust the zero-Covid policy recently. It is possible to see large scale of virus spread during the Chinese New Year holiday next January when people travel and gather as a tradition. The impact of reopening on China's labor participation and service inflation should be very limited as the virus becomes weaker and less deadly. **Thirdly**, China will maintain proactive fiscal policy with higher broad deficit and prudent monetary policy with easing bias in 2023. Broad deficit including general fiscal deficit and local government special bond quota may increase by RMB600-800bn with broad deficit to GDP ratio slightly up from 5.8% in 2022 to 5.9%-6% in 2023. The PBOC would maintain ample liquidity condition with possible further RRR cut next year. We expect strong credit easing for manufacturing, hard technology, infrastructure sectors and SMEs. LPRs may see further moderate declines in 2023. Banks are encouraged to roll over matured debts of property developers and LGFVs. **Fourthly**, China will further moderately ease credit policy towards property sector as down-payment ratio and mortgage rates for 1st and 2nd home buyers may have additional moderate downside room next year. **Lastly**, the US is likely to see a moderate recession as we expect China's exports of goods to drop by 4% in 2023 after rising 8% in 2022.

Housing market & durable consumption weakened in October and may gradually resume in future. Due to stricter zero-Covid policy, gross floor area (GFA) sold for commodity buildings and property development investment respectively dropped 23.2% and 16% YoY in October after decreasing 16.4% and 12.1% YoY in September. Durable consumption also deteriorated as the confidence remained weak and consumers postponed shopping for the Single's Day. Retail sales of home appliance, furniture and construction & decoration materials respectively dropped 14.1%, 6.6% and 8.7% YoY in October after declining 6.1%, 7.3% and 8.1% YoY in September. Meanwhile, retail sales of communication equipment and cultural & office goods declined 8.9% and 2.1% YoY, compared to the YoY growth of 5.8% and 8.7%. For autos, its YoY growth decelerated from 14.2% in September to 3.9% in October. However, staples maintained relatively stable growth as retail sales of food, beverage & medicine rose 8.3%, 4.1% and 8.9% YoY in October. Looking forward, housing market and durable consumption would gradually resume as China may reopen its economy and further ease credit policy in 2023.

Infrastructure investment may gradually slow and manufacturing investment growth should remain stable in 2023. Fixed asset investment (FAI) in infrastructure slightly picked up 11.4% YoY in 10M22 after rising 11.2% YoY in 9M22, thanks to strong credit policy support to infrastructure projects. Meanwhile, FAI in health & social welfare maintained strong growth at 29.1% and investment in education rose 8.5%. For manufacturing, the FAI growth mildly slowed from 10.1% in 9M22 to 9.7% in 10M22 as business confidence declined amid

domestic policy uncertainty and overseas recession risks. Looking forward, we expect FAI in infrastructure may gradually slow in 2023 due to base effect and exhaustion of potential demand. Manufacturing investment may maintain stable growth thanks to equipment upgrading and strong policy support.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
China International Capital Corporation (International) Limited	USD650	3yr	5.42%	T3+125	-/-/BBB+

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Bank of China Limited, Paris Branch	USD	-	3yr	T+100	A1/A/A
Shangrao Investment Holding Group Co., Ltd.	USD	-	3yr	-	-/-/BBB-
Chanfa International (HK) Co., Limited (SBLC by Qingdao Bank)	USD	-	364d	7.5%	-/-/-

➤ News and market color

- Regarding onshore primary issuances, there were 70 credit bonds issued yesterday with an amount of RMB47bn. As for Month-to-date, 719 credit bonds were issued with a total amount of RMB857bn raised, representing a 22.7% yoy decrease
- Chinese New home prices in 58 out of 70 cities surveyed by the NBS reported a MoM drop in October. Based on the NBS data, Reuters's calculation showed average home prices across 70 major cities in China dropped 1.6% YoY in October
- **[AGILE]** Agile Group announced to raise around HKD783mn (cUSD100mn) via private share placement for refinancing, general corporate purposes
- **[CHIYBK]** Chiyu Bank announced to fully redeem its USD250mn AT1 CHIYBK 5.25 PERP
- **[GEMDAL]** S&P downgraded Gemdale to BB- on increasing contagion risk from JV partners then the rating was withdrawn on request
- **[GRNLGR]** S&P downgraded Greenland rating to SD on missed principal repayment
- **[JINKE]** Jinke Property received approval from bondholders to extend by five months the Oct installment payment on its RMB1bn 5.58% notes due 2023

- **[KWGPRO]** KWG remitted funds to Chinaclear to redeem RMB320mn bonds registered for Monday put on RMB700mn due-2025s
- **[LNGFOR]** Longfor has finished RMB20bn NAFMII MTNs registration
- **[MIDEAP]** Midea Real Estate's registration for public offering of RMB15bn MTNs accepted by NAFMII
- **[REDPRO]** Redco yet to cure missed 17 Aug coupon on REDPRO 9.9 02/17/24 despite self-set deadline expired on 15 Nov

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