

## CMBI Credit Commentary

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

- *Markets remained strong this morning. In IG space, Leasing names were traded 2-5bps tighter and we saw active buying flows on TMT names like BABA, TENCENT. LGFV names were overall better buying while TLINVT, GXFING were two-way balanced.*
- **COGARD:** *Progress in refinancing .... but more is needed. For short-dated COGARs, we prefer the CBs over COGARD 8 01/27/24. See below.*
- **China Economy – On its way to recover:** *The PMI indicates China economy is on its way to recover. CMBI maintains forecast on China's GDP growth at 5.1% for 2023 and 4.7% for 2024. See below for comments from our economic research.*

#### ❖ Trading desk comments 交易台市场观点

Yesterday, Asia IG performed mixed ahead of Wednesday FOMC. Financials space had a constructive day, with China leasing papers outperformed. BOCAVI/CMINLE/ICBCIL were under better buying across the curve. Bank T2s were roughly unchanged with CCBs merely tightened 1-3bps. AMCs had two-way flows. We saw more buyers on front end (20-30bps tighter) of HRINTH/CCAMCL, whilst these curves were under better selling on the long end. TMT benchmarks opened flat to a touch wider and ended roughly unchanged. BABA had two-ways with better buying 24s vs selling on 27s. TENCENT curve buying on 28s. BIDU notably tightened 10-20bps. In China IG properties, LNGFORs/VNKRLEs widened 5-15bps. In Ex-China IG space, spreads were largely unchanged to a touch tighter as recent new issues were still sought-after. WOORIB 28s tightened by 5bps and POHANG/HYUELE curves also edged 1-3bps tighter. SG financials also showed some strong buying flows on 30s/32s T2 papers. In China HYs, property bonds were marginally lower with mixed flows. SINOCEs/CHINSCs retraced to 0.5-1pt lower across the curve. COGARs were unchanged to 0.5pt higher on the day. Overnight, Country Garden's proposed issue of RMB2bn (USD296mn) 3Y MTNs accepted by NAFMII. ROADKGs maintained the recent upbeat to close 0.5-2.5pts higher across the notes and perps. AGILEs were also bid up 0.5-1pt whilst CENCHIs broadly down 0.5pt. Elsewhere, FOSUNI/HAIDIL 26-27s were down around 1pt. In Macau gaming names, MPELs/SANLTDs/STDCTYs pulled back 0.5-1pt. In Indian HYs, Adani complex USD bonds that fell 7-20pts post the short-seller report, broadly recovered 5pts on average amid Abu Dhabi's IHC USD400mn investment news yesterday. ADSEZs bounced 4.5-7pts across the curve with ADSEZ 27-29s marked at around 79/81 level. ADANIGs/ ADANEMs were up 4-6pts from the lows to close at mid-70s. Adani Enterprise announced that its INR200bn(USD 2.45bn) FPO was fully subscribed at close. Elsewhere, VEDLNs lowered 1-2pts on the day, while Indian renewables GRNKENS/RPVINs dipped down 0.5-1pt. Indonesian HYs were largely flat, FRIDPT curve were quoted down ~1pt.

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In the LGFV/ SOE/ AT1 space, market showed more balanced two-way flows. In LGFV space, we had a very strong day in terms of price actions, but more mixed in terms of flows. Technical backdrop remained robust thanks to the vast amount of cash among Chinese RM both on-and-off shore, who continued to deploy cash in bonds with yield pickup (6% or above) ahead of expected 25bps rate hike in the coming FOMC. We saw the cash deploying flows driving bonds 1.5-2pts higher from the staled BBG marks as dealers rushed to cover legacy shorts. That said, the fact that there were decent amount of prints also implied an improved offer side liquidity, with some holders happy to take profit off the sought-after issues. Moreover, we saw more holders trying to offload unwanted risks into the rally as well, in the likes of SHUGRP/ GSHIAV/ QDJZWD/JMUDIV/NNCOMM. Elsewhere, SOE Perps and AT1s remained afloat despite higher UST yields overnight, as occasional supply from switching flows would be well absorbed. SOEs were generally 5bps firmer as HAOHUA/SINOPE/YANTZE were sought-after by clients. HAOHUA curve grinded 2-8bps tighter. Non-SOE Perps were slightly better offered amid month-end rebalancing flows, but also remained fairly resilient thanks to mainly PB demand.

#### ❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
ADSEZ 4 3/8 07/03/29	79.5	7.1	VEDLN 13 7/8 01/21/24	89.4	-1.9
ADANEM 3.949 02/12/30	74.4	6.3	VEDLN 8.95 03/11/25	79.3	-1.3
ADSEZ 4 07/30/27	81.1	6.2	HAOHUA 4 3/4 06/19/49	80.5	-1.0
ADANEM 3.867 07/22/31	71.3	6.1	NWDEVL 3 3/4 01/14/31	82.0	-1.0
ADSEZ 4.2 08/04/27	81.3	6.1	FRIDPT 6.2 04/14/52	92.5	-1.0

#### ❖ Macro News Recap 宏观新闻回顾

**Macro** – U.S. stock markets rebounded on Tuesday, S&P (+1.46%), Dow (+1.09%) and Nasdaq (+1.67%) rose amid markets forecast of 25bps hike tonight. Euro-zone 4Q22 GDP recorded +0.1% compared with 3Q22, higher than the expectation of -0.1%. The U.S. consumer confidence index from The Conference Board unexpected down to 107.1 in Jan'23 from 109 in last month. The U.S. treasury yields slightly down yesterday and 2/5/10/30 yields moved to 4.21%/3.63%/3.52%/3.65%, respectively.

#### ❖ Desk analyst comments 分析员市场观点

##### ➤ COGARD: Progress in refinancing .... but more is needed

We note the progress of COGARD in accessing various funding channels over the past few months. Since Nov'22, it had raised USD1.1bn from 2 share placements. It had also raised RMB3.5bn (cUSD520mn) from onshore bond market, RMB2.5bn of these are guaranteed by CBICL, since Sep'22. These, coupled with loans from ICBC and Minsheng Bank, help the refinancing of syndicated loans of USD440mn due Dec'22 and full redemption of COGARD 4 ¾ 01/17/23 (o/s USD392mn prior to maturity). Additionally, COGARD recently secured the quota to issue onshore MTN of RMB20bn (cUSD3bn) over the coming 2 years.

Nonetheless, COGARD remains to have a hectic year in refinancing activities. While the only offshore bond maturities will be the CB (COGARD 4.5 12/05/23) of cUSD380mn, it has offshore loans maturities/amortization of USD1.3bn (cUSD100mn in 1H23 and USD1.2bn in 2H23) for the rest of the year. It also had onshore bond maturities/puts totaled USD3.4bn equivalent. The total bond maturities/puts, as well as offshore loan maturities/amortization for the rest of 2023 will be cUSD5.1bn. On top of these, COGARD will have to pay coupon of all outstanding onshore and offshore bonds totaled cUSD720mn. Hence, there remains a lot of work to be done on the refinancing requirements in 2023. The key for COGARD, like that for many other peers, is a significant recovery of contract sales. The prospect of sales recovery for COGARD could be more challenging in view of its larger exposure in lower tier cities.

Earlier of bond maturities or put (USD mn)	
2023	3,807.6
2024	2,506.4
2025	3,164.0
2026	2,868.7
2027	550.0
2028 and thereafter	2,150.0

COGARDs have performed well YTD, along the general market. For COGARDs, we will continue to take the “bond by bond” approach in view of the heavy refinancing requirements. Indeed, for short-dated COGARDs, we prefer the CBs over COGARD 8 01/27/24. For the CB COGARD 4.5 12/05/23, it will mature 53 days ahead of COGARD 8 01/27/24 with c1.5pts lower in cash price and roughly same YTM of 20.5%. For CB COGARD 4.95 07/28/26, it will be puttable on 28 Jan'24, 1 day after the maturity of COGARD 8 01/27/24. The cash price of the CB is c3.5pts lower and the YTP is c150bps higher than the YTM of COGARD 8 01/27/24.

### ➤ China Economy – On its way to recover

China's economic activities and business sentiment broadly improved in January as PMIs in manufacturing, construction and service all saw strong recoveries after economy reopening. Breaking down sectors, indexes in medicine, general equipment, railway transport equipment & aerospace equipment, transportation, logistics, catering, accommodation & financial service reached high or rebounded significantly in January. However, indexes in real estate sector remained weak. China exports may have temporarily improved in January before deteriorating again in future. The imports may gradually improve as domestic demand recovers after reopening. For most sectors, material price mildly rebounded, while ex-factory price continued with declines. The PMI indicates China economy is on its way to recover. We maintain our forecast on China's GDP growth at 5.1% for 2023 and 4.7% for 2024.

#### **PMI rebounded to the expansionary range with brighter economic prospects after economy reopening.**

PMI in manufacturing rose to 50.1% in January 2023 from 47.0% in December 2022 as it returned to the expansionary range. The index in medicine jumped to above 65% as demand increased sharply in the Covid wave. The indexes in general equipment and railway transport equipment & aerospace equipment rebounded to the expansionary range. For service sector, PMI jumped from 39.4% to 54% as people started to go out for travel, catering, recreation or social activities. The indexes in railway transportation, air transportation, post service, financial service, retail sale service, catering & accommodation reached high or increased strongly.

**Demand and sentiment improved broadly as economy reopening boosted business confidence.** New order indexes in manufacturing, construction and service rose from 43.9%, 48.8% and 37.4% last December to 50.9%, 57.4% and 51.6% this January. Business confidence rebounded as the sentiment indexes in the above three sectors increased from 51.9%, 61.5% and 52.3% to 55.6%, 68.2% and 64.3%, respectively.

**Exports may have temporarily improved with less YoY declines.** Export order index rose from 44.2% in December 2022 to 46.1% in January 2023, probably thanks to the supply chain improvement after reopening. However, overseas recession risk and disinflation trend are still there. China exports may deteriorate again after some temporary improvement. The import index climbed from 43.7% to 46.7%. We expect China's imports may gradually improve as domestic demand recovers after economy reopening.

**Material cost rebounded as sentiment improved in commodity market.** Material cost indexes in manufacturing, construction and service rose to 52.2%, 55.3% and 50.9% in January 2023 from 51.6%, 51.2% and 48.9% in December 2022. Sentiment improved in commodity market as investors expected the reopening would boost China's demand for most commodities in future. Material cost index in steel sector jumped to 66.6% in January as iron ore price has rebounded noticeably recently. However, aggregate demand should resume in a gradual manner with downside risk in overseas demand. Ex-factory price indexes in manufacturing and service reached 48.7% and 47.5% this January, compared to 49% and 47% last December. It indicates the reflation pressure is mild in China.

**Unemployment pressure eased.** Employment indexes in manufacturing, construction and service respectively improved from 44.8%, 45.7% and 42.4% in December 2022 to 47.7%, 53.1% and 45.5% in January. The employment condition may gradually improve in future, facilitating consumption recovery this year.

**China economy is still in early stage of recovery.** China economy is on its way to recover. It is still in early stage of recovery supported by restoration of mobility. As people start to go out, transportation, catering, travel, accommodation, recreation, clothing & footwear and personal care should rebound rapidly. However, housing sales, durable consumption & business capex may take longer to recover. China will maintain easing liquidity and credit policy as housing market resumption and reflation pressure are low. We maintain our forecast on China's GDP growth at 5.1% for 2023 and 4.7% for 2024.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	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)
Korea Housing Finance	USD	-	3/5yr	-	-/-/-

#### ➤ News and market color

- Regarding onshore primary issuances, there was 1 credit bonds issued yesterday with an amount of RMB1bn. As for Month-to-date, 1,095 credit bonds were issued with a total amount of RMB941bn raised, representing a 43.9% yoy decrease
- **[ADANIG]** Adani's USD2.45bn FPO was oversubscribed 1.12x by investors. Separately, Adani Power extended the validity of MoU for proposed signing of definitive agreements on Support Properties sale to AdaniConnex to 31 Mar'22
- **[CENCHI]** Henan government put 100 developers on a whitelist and will encourage more financial support to the developers, local developers including Central China Real Estate, Henan Zhenghong Property, Morsun, etc are on the list

- **[COGARD]** Country Garden proposed issue of RMB20bn MTNs was accepted by NAFMII
- **[EDU]** New Oriental Education's live streaming e-commerce platform is venturing into the food business. It plans to invest RMB17.5mn in a sausage production plant in Henan province
- **[FANHAI]** Oceanwide Holdings forecasts RMB7-10bn net loss for FY22
- **[FOSUNI]** Fosun repaid USD450mn bond due on 29 Jan
- **[KWGPRO]** KWG Group raised RMB700mn via 3-year MTNs guaranteed by CBICL
- **[JINKE]** Jinke Property forecasts RMB9.5-19bn net loss for FY22
- **[RISSUN]** Risesun fails to secure sufficient bondholder support to further extend two tranches of onshore notes due 2023. On the other hand, its application for up to RMB3bn private placement of new shares has been accepted by CSRC
- **[UPLLIN]** UPL reported 3Q23 EBITDA rose 14% yoy to INR30.4bn (cUSD372mn) mainly driven by robust revenue growth
- **[VEDLN]** Vedanta abandoned the plan to divest its Sterlite Copper facility in India, and has doubled the efforts to reopen the plant
- **[YANGOG]** Yango Group forecasts RMB8-11bn net loss for FY22

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