CMBI Credit Commentary

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

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- *Markets sentiment recovered this morning due to lower than expected U.S. CPI. AT1 and SOE perps were sought after by onshore buyers while buying flow may abates as the yields reaching 4%. XIAOMIs dropped 0.5pt to 75 level on the back of higher entry barrier in India.*

- ***LNGFOR:** Longer-dated LNGFORs were 1.5pts lower yesterday and rebounded 1-1.5pts this morning. We summarized the key takeaways of the investors' call last evening below.*

- *China's CPI gradually picks up as pork price moves into a reflation cycle and service inflation mildly rises amid gradual reopening and resumption. See below for our economic research's comments.*

❖ **Trading desk comments 交易台市场观点**

Yesterday, Chinese IG returned to a mixed day weighed down by the IG property sector. IG spreads were broadly 2-5bps tighter with Tier 2 (especially CCB) outperformed on RM buying. Financial sector was surprisingly active ahead of CPI. Tier 2 were sought after on front–end with spread 2-5bps tighter, CCB curve was actively trading two ways while BCHINA/ICBCAS also led the buying flows. Leasing was largely unchanged. TMT was mixed. TAISEM curve slightly rallied on FM covering, post headline on China completed military drills near Taiwan. XIAOMI/ HUAWEI widened 5-9bps on Wednesday. IG property emerged heavy selling post lunch on LNGFOR due to its 17% stock plunge, amid rumor on commercial paper default. LNGFOR curve was hit down 3-5pt. VNKRLE also down 1pt at first on FM hitting. But at EOD, LNGFORs closed unchanged to 1-2pt lower as Longfor denied the rumor and arranged a conference call at 6pm. VNKRLE closed 1pt lower and we saw buying interests on front-end. AT1/Perp unchanged to -0.25pt with local commercial bank paper underperformed but bonds were well absorbed as front-end yielding stuff are always in demand. In China HY space, COGARD down 1pt. CIFIHG/ROADKG down 1-2pts. GRNLGR rebounded 5pts on the front end, and generally up 2pts across the curve. As for non-China HY, AZUPOE was under pressure again after the announcement of delay in results reporting. AZUPOE' 24 ended down 4pts amid refinancing news.

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It was an upbeat day in LGFV/SOE space overall as onshore flows shopped for yield papers. LGFVs had structured flows, CQNANA 4.66%'24 traded firm at 96-handle whilst TSSTEE 22 climbed back to mid-99 only to be met with selling again. Meanwhile a few other weaker names also managed to move at 6%+ to structured product flows originating from onshore. On the other end of the credit curve, quality names continued to be picked up by Chinese RM north of 4%, as non-leveraged funds originating from banks could still bear <5% yield. Hence these quality papers managed to hang in here as credit differentiation in the space evolved to a 4%/5%-7%/8% rule of thumb. Likewise, >4% AT1s (amid short covering) and SOE perps were actively traded, where profit taking promptly emerged from earlier buyers once bids got inside 4%. More c22 SOE perps/ AT1s came out in size at mid-to-high-3% although these were digested fairly easily. For SOE perps, the names had been mostly unmoved by rates so far thanks to the robust deployment flows that kept them afloat at low-4%. Market awaited the Wednesday CPI print with rates at the higher side within the recent range.

➢ Last trading day's Top Movers

Top Performers	Price	Change
GRNLGR 5.6 11/13/22	51.5	5.0
IDASAL 6.757 11/15/48	97.7	3.8
GRNLGR 5 3/4 09/26/22	75.1	2.3
AIA 2.7 PERP	88.6	2.1
VEYONG 3 3/8 05/12/26	86.0	2.1

Top Underperformers	Price	Change
JIMOTM 2.9 12/14/24	91.2	-4.8
AZUPOE 5.65 12/24/24	90.5	-4.0
MSFLCZ 3.15 03/10/24	90.7	-3.7
KWGPRO 5.2 09/21/22	26.5	-3.4
CHINSC 7 3/8 04/09/24	15.1	-3.2

➢ Macro News Recap 宏观新闻回顾

Macro – U.S. stock market strongly bounced yesterday as U.S. July's CPI showed the inflation was decelerated, which increases the probability that the Fed slows down rate hike pace. The S&P (+2.1%), Dow (+1.6%) and Nasdaq (+2.9%) rebounded to a period high points and Nasdaq has entered into bull market technically. The U.S. July's CPI was published as 8.5% yoy, lower than market expectation of 8.7%, due mainly to slumping energy prices. It may slows down Fed's hike pace in next three FOMC of 2022 and the interest rate range will likely be 3.25%-3.5% by the end of 2022. The U.S. treasury yields were slightly lower, the curve bull steepened with 2/5/10/30 yield reaching 3.23%/2.93%/2.78%/3.04%, respectively.

❖ Desk analyst comments 分析员市场观点

➢ Takeaway of Longfor's business-update call on 10 Aug'22

Longfor held an investors' call last evening after its share price dropped 16.4% yesterday on the rumor of onshore CPs default. Its USD bonds (LNGFORs) were 1-2pts lower yesterday as a result. Its share price rebounded 4.55% to 21.85 and LNGFORs rebounded 0.5-1.5pts this morning subsequent after the company's denial of CPs default and other updates. We summarize the key takeaways from the call below:

No default on CPs: Longfor has stopped issuing CPs since 2H21. The current outstanding amount of CPs is RMB700mn.

ST debts only accounted for 10% of its total debts: It has no maturing debts before FYE22. It has been working on the refinancing plan for debts maturing next year. Its short-term debts only accounts for 10% of total debt and cash to short-term debt ratio is about 10x. Offshore debts account for less than 30% of its total debts and 80% of its offshore debts are hedged for FX risks.

Sales declined but out-performed peers: Its sales declined due mainly to the COVID lock-down in 1H22 but recovered since Jul'22. Its sales were RMB18.2bn in Jul'22, decreased 4% yoy. It expects contract sales to pick up given the government's supportive measures and its focuses on higher-tier cities.

Manageable land acquisitions and fast asset churn: In 7M22, the company acquired 20 new land parcels including 16 from the open market, with an attributable land premium of RMB16.8bn (equivalent to 24.7% of its attributable contract sales) and saleable resources of RMB60bn. In Jul'22, the company acquired 3 land parcels for attributable land premium of RMB2.6bn. Longfor also acquired the 50% stakes of Kai Tak project from KWG for HKD1.3bn. The new projects acquired are mainly in higher tier cities with better economic fundamental such as Chengdu, Beijing, Hefei and Hangzhou. Longfor managed to launch these projects for pre-sales 3-4 months after land acquisitions.

Stringent partners selection and no pressure for acquiring project stakes from JV partners: Many of Longfor's JV partners are local SOEs and local LGFVs. Additionally, cash withdrawal of JV partners are capped at attributable investments and expected profit, such that cash level at project levels is sufficient to complete the projects even if the JV partners are in distress. As per the JV partners' agreements, JV partners cannot pledged their project stakes for funding. The acquisition of Kai Tak project stakes from KWG is on the basis of mutual benefit after thorough discussions. The company is not under pressure to acquire project stakes from its JV partners.

➢ China Economy – CPI picks up with possible fine-tuning in liquidity condition

China's CPI gradually picks up as pork price moves into a reflation cycle and service inflation mildly rises amid gradual reopening and resumption. The consumer inflation may peak at 3.3% in September and reach a new high at 3.6% in early 2023. But producer inflation should significantly decline thanks to base effect, supply resumption, China's property investment correction and overseas recession risk. The divergence of consumer and producer inflation is positive for consumer goods and service sector. As consumer inflation moderately rises and housing sales gradually improves in higher tier cities, the PBOC may fine-tune the liquidity condition with mild increase in money market rates. There will be no new stimulus or easing policies ahead. But monetary policy should remain relatively accommodative as the growth is still below potential growth and the resumption remains unbalanced by different regions and sectors. The central bank should maintain easing credit policy to support the economic resumption process.

Food price jumped, energy price declined while core CPI remained weak. Consumer price index (CPI) picked up 2.7% YoY in July after rising 2.5% YoY in June, below expectations. From the MoM perspective, CPI rose 0.5% in July thanks to increases of pork, vegetables and some service items like air ticket, hotel charge, vehicle rental fee and tourism service price. But petroleum product price decreased as global oil prices slumped in July. Core CPI slightly rose 0.1% MoM in July, the same as June, as consumption remained weak.

PPI further slowed amid divergence for different commodities. The YoY growth of producer price index (PPI) slowed from 6.1% in June to 4.2% in July. From the MoM perspective, the PPI dropped 1.3% in July after seeing zero growth in June, as oil, non-ferrous metal, ferrous metal and coal prices declined. As global market was priced in gradual supply resumption and recession risk, both oil and non-ferrous metal prices experienced correction in July. Ferrous metal and construction material prices dropped as China's property development investment continued to shrink. Coal prices also declined as coal production continued to increase. Producer inflation in equipment sector remained tepid as business capex remained weak.

Consumer inflation on an uptrend in 2H22-1Q23. The YoY growth of CPI should rise to above 3% in September, decline in 4Q22 and increase again in 1Q23. We expect the CPI growth to reach 2.3% in 2022 and 2.7% in 2023. Firstly, food inflation will further rise as live hog sector sees a de-capacity and reflation cycle. Secondly, service inflation should mildly rise amid gradual resumption of service consumption. Thirdly, energy and grain inflation may experience some fluctuations with a gradual decline thanks to supply resumption and base effect.

Producer inflation in a slowdown in 2H22-1H23. The YoY growth of PPI will gradually decline in next 3-4 quarters due to decreases of commodity prices and the base effect. The PPI is expected to increase by 4.8% in 2022 before slightly dropping 1% in 2024. First, energy and metal prices should gradually decline as supply improves and demand softens. The supply improvement reflects global resumption progress from the pandemic shock and Russia-Ukraine war. The demand softening is because of Fed tightening, global recession risk and China property investment correction. Second, the base effect should cause a natural decline of the YoY growth rates of PPI.

Policy implications. The pick-up of CPI may cause some fine-tuning in the liquidity condition, but will not change monetary policy stance. After the recent threat of foreclosures from some homebuyers in the ceased housing projects, the central bank noticeably eased the liquidity condition. DR007 (banks' 7 day repo funding rate) further declined from above 1.5% in July to around 1.3% in August. As consumer inflation further climbs and housing sales may gradually improve in higher tier cities in next two months, the PBOC is likely to fine-tune the liquidity condition with possible mild increase of money market rates. Meanwhile, there will be no new stimulus or easing policies ahead. But monetary policy should remain prudent with easing bias, as the growth is still below potential growth and the resumption is unbalanced in different regions and various sectors.

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➢ **Offshore Asia New Issues (Priced)**

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Qingdao Jimo District Urban Development Investment Co., Ltd.	USD91	3yr	4.9%	6.0%	-/-/BBB-

➢ **Offshore Asia New Issues (Pipeline)**

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Huai An Traffic Holding Group Co., Ltd.	USD	62	3yr	6.1%	-/-/-
Shandong Shipping Corporation	USD		3yr	5.3%	-/-/-

➢ **Market conditions and color**

- Regarding onshore primary issuances, there were 103 credit bonds issued yesterday with an amount of RMB90bn. As for Month-to-date, 541 credit bonds were issued with a total amount of RMB587bn raised, representing a 0.4% yoy decrease

- **[APLNIJ]** Fitch affirmed Agung Podomoro's Long-term Issuer Default Rating (IDR) at CCC on its weak liquidity, in particular to cover interest payments and operating costs at the holding company

- **[AZUPOE]** Media reported that Azure Power seeks refinance its USD350mn 5.65% bonds due Dec'24 with an INR denominated loan of around INR20bn and Azure expected the loan to price around 8.5%

- **[BABA/SOFTBK]** Media reported that SoftBank plans to reduce its stake in Alibaba to 14.6% from 23.7% by selling US-listed shares currently valued at USD22.4bn

- **[GRNLGR]** Greenland lenders of USD300mn due-15 August loan agree to six-month extension; The Shanghai-listed and -government-backed developer will make an upfront payment of about 20% principal with the rest to be paid down with monthly instalments over the next six months

- **[GMEDAL]** Gemdale has failed to complete the resale of RMB1bn (cUSD148mn) 17Jindi02 bonds and has canceled them. The company had scheduled the put option exercise for 17Jindi02 bonds from 16-20 June and on 6 July

- **[RDHGCL]** Radiance Holdings and Radiance Group outlook revised to negative on slowing sales; S&P affirmed its rating at B+

- **[TPHL]** Media reported that Times China sounds out 18-month maturity extension for RMB1.1bn due 8 Sep'22 private bonds; Fitch upgraded Times China to CC after interest paid within grace period

- **[YGCZCH]** Shandong Energy raises RMB2.5bn via offering of five-year bonds to repay debts

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