

## CMBI Credit Commentary

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

- *Markets flows were active and skewed to sell. In Asian IG space, T2 widened 5-15bps with heavy sell on lower rated names. Korean IG names widened 10-15bps. For AT1, HSBC 8 rallied c1pt this morning after Swiss National Bank showed support to CS. LGFV were better offer while SOE perps were better buy.*
- *LPKRIJ: Raised tender cap and accepted USD120mn in tender offers. LPKRIJs were unchanged this morning. See below.*
- *China Economy – Recovery was underway. CMBI maintain China's GDP growth forecast at 5.4% for 2023. See below for comments from our economic research.*

#### ❖ Trading desk comments 交易台市场观点

Asia IG space opened 5-15bps tighter yesterday. Flows were balanced, though activities on front-end papers persisted to be cautious and rather illiquid. In China SOEs, long end of SINOPE/CNOOC/CHIOLI performed strong in light of the pull-back in UST 10y yields. HAOHUA tightened 10bps. In TMTs, benchmark names were also firm, though high beta tech names were better offered. TENCNT curve grinded 10bps tighter, with its 30s quoted at T+165. Financials space opened firm, as overnight risk and rate stabilized a bit. AMCs were stable to a touch weaker, with better selling on ORIEAS/CCAMCL/HRINTH. Bank T2s were initially traded in a better tone to tighten 10-25bps but closed 5-10bps wider as market turned to risk-off again amid headlines of CS debacle. The CS top holder Saudi National Bank ruled out investing more stakes. This triggered a wave of risk off selling. New BNKEA 27 was first traded 20bps tighter to T+230 under PBs/AMs buying but widened to T+245. CICCHK 26 once tightened 15-20bps to T+79/+77 from Tue close, but closed only 6bps tighter. We saw IG spreads roughly retrieved 5-15bps from the intra-day tight post CS headlines. China property space was mixed, with benchmark names performed relatively stable to a touch weaker. VNKRLs/YUEXIUs were unchanged with two-way interests. COGARDs/FUTLANs/FTLNHDs were traded 0.5-1pt higher. SINOCEs were marked down 0.5-1.5pts. GRNLGR 25-27s fell 2-4.5pts and rest stayed range-bound between mid-40s to low-50s. Industrial names FOSUNIs were 0.25pt higher. Fosun finally signed agreement to sell its stakes in Nangang. In Indian space, VEDLNs gained 0.5-1.5pts and renewables GRNKENS were also 0.5-1pt higher. Indonesian names LMRTSPs dropped 1-1.5pts.

In the Asia AT1/Perp/LGFV spaces, sentiment significantly deteriorated post CS headlines with the liquid recent issue HSBC 8 Perp under the spotlight. This papers were first squeezed aggressively higher overnight to open at mid-99, and went up to 100.5 given the PB demand and HF/RM short covering. The fresh CS woes renewed selloffs near day end. The HSBC AT1

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retraced to low-to-mid-99 in a flurry of selling out of London into regional PB buyers. Elsewhere in AT1 space, old HSBC and STANLN papers were largely better bid from regional PBs. Thai names such as BBLTB/KBANK perps were quoted 0.25-0.5pt higher. Whilst Chinese names remained roughly stable, though retraced a touch in light of small RM selling. In Perps, CTIH 6.4 Perp climbed to 101, thanks to RM buying that absorbed profit taking flows; otherwise SOE and HK senior names were better offered. Whilst FFL perps were flat with demand from PBs. LGFVs were under small better selling into the quarter end, led by structured products unwinding and RM trimming front-end positions.

#### ❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
AIA 4 1/2 03/16/46	93.2	3.2	GRNLGR 6 1/8 04/22/25	46.5	-4.5
TAISEM 4 1/2 04/22/52	97.4	2.6	GRNLGR 6 3/4 03/03/26	44.7	-3.8
AIA 4 7/8 03/11/44	98.4	2.3	GRNLGR 5.9 02/12/25	48.5	-2.2
SINOPE 4.6 09/12/48	96.0	2.3	BNKEA 5 7/8 PERP	94.0	-2.1
JMHLDS 2 1/2 04/09/31	86.1	2.2	LMRTSP 7 1/4 06/19/24	67.1	-2.0

#### ❖ Marco News Recap 宏观新闻回顾

**Macro** – U.S. stock markets were weak yesterday, S&P (-0.70%), Dow (-0.87%) and Nasdaq (+0.05%) were dragged by financial sector while the market sentiments stabilized a bit after Swiss National Bank said to provide liquidity to Credit Suisse. U.S Feb PPI is +4.4% yoy and lower than the market forecast of 5.2%. The U.S. treasury yields overall down yesterday, the 2/5/10/30 yields reached 3.93%/3.59%/3.51%/3.70%, respectively.

#### ❖ Desk analyst comments 分析员市场观点

##### ➤ LPKRIJ: Raised tender cap and accepted USD120mn in tender offers

Lippo Karawaci raised the tender cap to USD120mn from USD50mn for its LPKRIJ'25 and '26, it received USD242.3mn valid tender in total for the two bonds before the expiration deadline. It has accepted USD32.3mn for LPKRIJ'25 and USD87.7mn for LPKRIJ'26, at 87 and 77 respectively. It was the second tender offer of the company YTD.

In Jan'23, the company completed the tender offer of USD116.262mn and USD108.466mn for LPKRIJ'25 and '26 at 84 and 74, respectively. The two rounds of tender offer reduced USD debts by USD344.7mn in total, from USD822mn at 11 Jan when the first tender offer in 2023 was announced. In particular, the due for LPKRIJ'25 is lowered to USD237.1mn, 41% decrease from the USD405mn reported before the Jan'23 tender. This would help to alleviate the refinancing and cash flow pressure in 2024 to meet the due in Jan'25.

Recalled that Lippo Karawaci obtained IDR6tn (cUSD388mn) syndicated loan to refinance its USD notes due in 2025 and 2026, it used cUSD280mn in these two rounds of tender offer and cUSD96mn of credit facility is remaining.

Bond	Consideration	Amount (USDmn) accepted in tender	O/s amount (USDmn)	Current price (Ask)	YTM (Ask)
LPKRIJ 8.125 01/22/25	87	32.3	237.1	86.0	17.2
LPKRIJ 6.75 10/31/26	77	87.7	194.7	75.7	15.8
<b>Total</b>		<b>120</b>	<b>431.8</b>		

Source: Bloomberg, company announcement.

## ➤ China Economy – Recovery was underway

China's economy held a steady course on its way to recover in the first two months. Service activity, housing market and infrastructure investment all beat expectations while industrial output was below the consensus as exports slumped, SMEs were cautious on capacity & inventory expansion and rural migrant workers returned to city factories later than usual. We maintain China's GDP growth forecast at 5.4% for 2023 as retail sales and service consumption should be the most important drivers for economic resumption this year. We slightly revise up the FAI growth forecast for 2023 from 4.7% to 5% as housing market recovery should be better than expected. China's exports of goods are expected to drop 3.5% in 2023, but downside risk exists due to overseas recession and disinflation. The sharply inverted yield curve, recent failure of US Silicon Valley Bank and plunge of global banks' stock prices all indicate a recession may come soon. China has to maintain easing credit policy to boost domestic demand. The PBOC will keep money market rates moderately fluctuating around its repo refinancing rates in 2Q23 and may ease liquidity supply in 2H23 as domestic economic recovery slows with overseas recession.

### ■ China economy resumes as the recovery pace varies by sector

Industrial output was below expectations as the YoY growth of value added industrial output (VAIO) slowed from 3.6% in 2022 to 2.4% in 2M23. The sharp decline of exports, cautious attitude of small & medium manufacturers and late return of rural migrant workers after Chinese New Year holiday has hurt the industrial output.

Both service activity and housing market performance were much better than the consensus thanks to the rapid reopening and easing credit policy. The service output index rose 5.5% YoY in 2M23 after dropping 0.1% YoY in 2022. Housing sales and starts significantly improved as gross floor area (GFA) sold for commodity buildings and GFA started respectively dropped 3.6% and 9.4% YoY in 2M23 after plunging 24.3% and 39.4% YoY in 2022.

Retail sales slightly beat expectations by picking up 3.5% YoY in 2M23 after dropping 0.2% YoY in 2022. Spending on medicine, catering, petroleum products and food was very strong, while that on alcohol & tobacco, clothing, cosmetics, gold & jewelry, furniture and construction & decoration materials noticeably improved. However, retail sales in auto, communication equipment and cultural & office goods further deteriorated with sharp YoY declines.

Fixed asset investment (FAI) was better than expected as its YoY growth rose from 5.1% in 2022 to 5.5% in 2M23. Property development investment dropped 5.7% YoY in 2M23 after declining 10% in 2022. Infrastructure investment strongly picked up 12.2% YoY in 2M23 after rising 11.5% YoY in 2022. Manufacturing investment growth was solid with slight slowdown from 9.1% in 2022 to 8.1% in 2M23.

### ■ We maintain the GDP growth forecast for 2023 at 5.4% with retail sales and service GDP expected to grow 6.8% and 6.2% respectively

Retail sales and service consumption should be the most important drivers for China's economic resumption this year. Traffic flow and outgoing activity has resumed quickly after the reopening, supporting a strong recovery of consumption in transport, travel, catering, hotel, recreation, clothing & footwear and personal care. Catering revenue jumped 9.2% YoY in 2M23 after dropping 14.1% YoY in last December. Retail sales in alcohol & tobacco products, clothing & footwear and cosmetics respectively picked up 6.1%, 5.4% and 3.8% YoY in 2M23, compared to the YoY declines of 7.3%, 12.5% and 19.3% in last December.

The housing market recovery has been better than expected thanks to accommodative credit policy, confidence improvement and a release of postponed demand by the lockdowns. It should be positive for household durables like furniture and home appliance started to recover. Auto sales may also gradually rebound as economy further improves and producers start to stimulate demand by lowering prices. Electronic equipment may be the last sector to recover as consumer income and confidence further improves.

Urban employment condition and consumer confidence should gradually improve. The slight decline of urban surveyed unemployment rate in February compared to last December was because most SMEs were still cautious to expand employment and supply capacity while rural migrant workers returned to city factories later than usual. We note rural retail sales grew 4.5% YoY in 2M23, higher than the growth of urban retail sales at 3.4%.

■ **We slightly revise up the FAI growth forecast for 2023 from 4.7% to 5%**

Property development investment has recovered faster than expected. Its performance should be better than the market consensus (-3%~-5% YoY for 2023).

Infrastructure investment was also stronger than our expectations. By sector, FAI in public utility, railway transportation and public facility management jumped 25.4%, 17.8% and 11.2% YoY in 2M23, compared to the YoY increases of 19.3%, 1.8% and 10.1% in 2022. China is building its new energy supply system with huge investment in alternative power generation, thermal power facility as backup in emergency and smart grid. Meanwhile, the fixed investment in railway transportation and metro facility is recovering along with the significant improvement of traffic flow and mobility. However, the FAI in water conservancy and health & social welfare has sharply slowed down. **Looking forward, infrastructure investment growth may slow from 11.5% in 2022 to 8% in 2023 due to base effect as well as the policymaker's concern about local government contingent debt risk.**

Manufacturing investment growth was in line with expectations. By industry, the investment in raw chemical materials and non-ferrous metals boomed thanks to China's low energy cost and supply chain advantage. Auto, electrical equipment, computer & electronic equipment and special equipment also maintained strong FAI growth as China continued to consolidate the supply chain advantage and upgrade the factories with new technology and equipment in those sectors. **Looking forward, we expect the FAI growth in manufacturing may slow from 9.1% in 2022 to 6% in 2023 due to base effect and overseas recession. The investment in high-end equipment should remain strong this year.**

■ **We expect China exports of goods to drop 3.5% in 2023 due to overseas recession and disinflation**

Industrial delivery value for exports dropped 4.9% YoY in 2M23 after rising 5.5% YoY in 2022. The exports of goods rose 0.9% YoY in 2M23, down from the growth of 7% in 2022. With the price factor deducted, the exports volume should maintain YoY declines in the first two months.

Global economy will see a recession with disinflation in 2023 with the sharply inverted yield curves, the recent failure of few small banks in the US and plunge of global banks' stock prices as the early warning indicators.

We expect China exports of goods to drop 3.5% in 2023 after rising 7% in 2022. The YoY growth rates of exports for the four quarters are expected to be at -9%, -6%, -3% and 2.5%, respectively.

■ **China will maintain easing credit policy to support domestic demand resumption**

While the proactive fiscal policy is below expectations, China's credit policy should be very accommodative this year. The central bank has to maintain easing credit policy to relieve debt risk and boost the growth. Property developers, LGFVs and SMEs still face liquidity pressure, while China's GDP growth remains below the potential growth as the reflation is very mild.

The money market rate hike in the past two months was mainly because of a sharp increase of loan supply which pushed up liquidity demand while the PBOC became cautious on further liquidity loosening in face of strong new credit and better-than-expected housing market in 2M23. As money market rates rose to above the PBOC's repo refinancing rates, the additional upside room should be limited. We expect money market rates may mildly fluctuate around the repo refinancing rates in near term. As domestic recovery pace may slow with overseas recession after a few months, we expect the central bank may ease liquidity condition in 2H23.

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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)
Shengzhou Investment	USD	-	3yr	6.8%	-/-/-

➤ **News and market color**

- Regarding onshore primary issuances, there were 156 credit bonds issued yesterday with an amount of RMB126bn. As for Month-to-date, 1,194 credit bonds were issued with a total amount of RMB1,004bn raised, representing a 13.9% yoy increase
- **[CENCHI]** CCRE remitted funds to trustee to cure missed 13 Feb USD coupon within grace period
- **[LOGPH]** Media reported that Logan's working draft term-out proposal for USD3.62bn offshore debt includes amortization and the average life of notes is no more than 5.25 years
- **[LZDCID]** Guangxi Liuzhou Dongcheng Investment Development completes settlement of overdue RMB254.74m payment to China Industrial International Trust
- **[MONMIN]** Mongolian Mining Corp repurchased USD26.16m of 9.25% senior notes due 2024 from open market
- **[SHIMAO]** Shimao unit got one year extension for RMB970mn notes due 16 Mar'23
- **[VEDLN]** Vedanta Resources repaid USD 100mn loan from Standard Chartered; its unit repaid USD150mn facility from Barclays. Meanwhile, Media reported that Vedanta Resources is seeking to raise up to USD1bn from credit funds, including Ares SSG Capital, Davidson Kempner, and Farallon Capital for debt repayments
- **[YUZHOU]** Yuzhou Group expects revenue down 1.2% yoy to RMB26.7bn and got USD1.75bn loss in FY22
- **[ZGCHGI]** Media reported that Jiangsu Liyang High-tech Zone is asking the holders of ZGCHGI 6.2 09/27/25 to refrain from exercising a put option and expects to complete USD bond security registration soon

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