CMBI Credit Commentary

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

- *Strong markets with two-way balance this morning. In TMT IG space, high beta names were slightly quieter than yesterday. For SOE Perp/LGFV/AT1, we continue to see many deployment needs from Chinese buyers.*

- ***China Macro Monitor - Still in the early stage of recovery.** China's economy may see a diagonal upward W-shaped resumption after reopening. 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.*

- ***ROADKG:** Road King has remitted funds for the full settlement of the ROADKG 7.875 02/01/23. ROADKGs changed -1 to +1.5pts this morning.*

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Cyrena Ng, CPA 吴蒨瑩
(852) 3900 0801
cyrenang@cmbi.com.hk

Jerry Wang 王世超
(852) 3761 8919
jerrywang@cmbi.com.hk

❖ Trading desk comments 交易台市场观点

Yesterday, Asia IG space Market continued to grind tighter in IG space as onshore back from CNY long holiday. On recent new issues, Korea bank senior papers grinded another 2-4bps tighter especially on WOORIB/ EIBKOR. In financials space, activities remained on the lower side, ahead of important macro data this week. We still saw two-way interests in China Bank T2s, where benchmarks like ICBCAS/CCB 29-32s grinded 2-8bps tighter. In AMCs, front end GRWALL/HRINTH 23-25s tightened 5-10bps. TMT beta names XIAOMI/ MEITUA/ HYUELE outperformed with spreads closed 1-5bps tighter, however, benchmarks BABA/TENCNT widened 3-5bps into the afternoon session, mainly on street pushing. Recent outperformer LENOVO 28s/32s closed 5bps wider at T+255/T+185 level. In IG properties, LNGFORs/VNKRLEs ended 3-9bps wider. In China HYs, property bonds opened firm but closed largely flat. COGARD 24s were traded up 4pts initially and closed 1.5-2.5pts higher around mid to high-80s. Rest of the COGARDs were marked up 0.5-1pt. CIFIHGs were up 1-2pts at low-30s level. SINOCEs/ROADKGs were traded 0.5-1.5pts higher. Elsewhere, CENCHIs/CHINSCs were up 0.5-1pt. In industrial space, FOSUNIs were up 0.5-1.5pts across the curve. In Macau gaming space, MPELs/ SANLTDs/ STCITYs slightly underperformed to be marked down 0.5-1pt. Away from China, Indian HYs continued to be weighed down despite Adani's 413-page rebuttal. Among Adani complex bonds, ADANIG 24s being the worst performer, notably plunged around 6pts to be bid at 72 level. ADSEZs/ ADGREGs/ ADTINs were marked down 2.5-5.5pts across the curve. Renewables GRNKEN/ RPVIN 25-28s were also traded down 1-2pts. Indonesian HYs LMRTSPs/ KIJAIJs slightly lowered 0.5-1pt.

In the LGFV/ AT1/ Perp space, market kicked off a strong start in the Year of the Rabbit. LGFV space opened on a firm tone, as onshore banks put cash into work, pushing bonds 0.5-1pts higher in general amid thin liquidity. Although some weaker names such as CQNANA felt the resistance here also.

CMBI Fixed Income
fis@cmbi.com.hk

Flow wise, demand was more focused on 1-2y papers where USD papers offered better yield value relative to onshore than in the longer end of the curve. SOE Perp space emerged very active two-way flows among offshore NBRM. As market expected 25bps hike in FFR (and hence SOFR/ repo rates) on Wed's FOMC, we saw leveraged holders switching out of tight c24/25 SOEs, into c23/c24 papers that offered a ~10-15bps yield pickup, whilst those who were still deploying were happy to absorb the loose bonds. Overall good volume flows churned the sector amid very competitive bid-ask spreads, which also signaled that these SOE Perps could be reaching their equilibrium level already at 5.1%-5.2%. Nonetheless, Chinese AT1 papers remained technically very resilient, with big-4 issues solid inside 5% whilst the likes of CINDBK remained sought after. Non-SOE Perp space was broadly stable to 0.25pt higher, as we saw a little bit of selling out of PBs but bids remained afloat. HYSAN/ NWDEVL Perps were up 0.5-2pts.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
COGARD 6 1/2 04/08/24	**84.0**	**2.5**
NWDEVL 6 1/4 PERP	**83.3**	**2.2**
NWDEVL 6.15 PERP	**97.0**	**2.0**
ROADKG 5.2 01/12/26	**82.1**	**1.9**
CIFIHG 6.45 11/07/24	**32.2**	**1.7**

Top Underperformers	Price	Change
ADANIG 4 3/8 09/08/24	**71.8**	**-5.7**
ADTIN 4 08/03/26	**79.4**	**-5.0**
ADSEZ 4.2 08/04/27	**75.2**	**-4.4**
ADGREG 6 1/4 12/10/24	**87.1**	**-4.0**
ADSEZ 3 3/8 07/24/24	**86.2**	**-3.9**

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets were weak yesterday, S&P (-1.30%), Dow (-0.77%) and Nasdaq (-1.96%) fell down after previous week's rebound, markets are cautious before Wednesday's interest rate hike and Friday's Jan'23 NFP data. China official Jan'23 PMI is 50.1, increase 3.1 from last month. South Korea's factory output fell 7.3% yoy in Dec'22 and was larger than expectation of -5.1% yoy. The U.S. treasury yields overall edged up on Monday and 2/5/10/30 yields moved to 4.25%/3.68%/3.55%/3.66%, respectively.

❖ Desk analyst comments 分析员市场观点

➢ China Macro Monitor – Still in the early stage of recovery

The significant increase in passengers and tourists during the CNY holiday indicates China's economy is on its way of recovery. However, we cannot use linear extrapolation to predict its recovery path in future. We believe China's economy may see a diagonal upward W-shaped resumption after reopening. Consumption and service activities firstly decline after the pandemic outbreak and then recover as people start to go out. The early stage of recovery is driven by restoration of mobility. Then the recovery momentum may slow as housing sales, large durable consumption & business capex may take longer to recover and overseas recession may impact China's manufacturing sector. As confidence & employment improve, the economy will brace for the late stage of recovery supported by durable consumption & capex. We maintain our forecast on China's GDP growth at 5.1% for 2023 and 4.7% for 2024. The risk for our forecast should be from the upside. China's liquidity & credit policy should remain accommodative unless housing sales or inflation significantly increases. The growth of outstanding social financing may gradually rebound amid credit policy loosening. We believe China will continue with the pro-business shift at least in next two years to restore business confidence & growth momentum.

China economy is in early stage of recovery driven by restoration of mobility. The mobility has gradually recovered in China as the country dismantled the zero-Covid policy. After being locked down for a long time, the Chinese people could not wait to go out. We saw significant YoY increases of passengers, tourists and moviegoers in the Chinese New Year holiday this year. Transportation, catering, travel, accommodation, recreation, clothing & footwear, cosmetics & personal care should benefit as people start to go out instead of staying at home. Supported by the resumption of those sectors, China economy will see the first round of recovery in 1H23. The GDP growth may rise from 2.9% in 4Q22 to 3.2% in 1Q23 and 6.9% in 2Q23. Based on our calculation, the recovery of above sectors should contribute over 1.5ppt to China's GDP growth this year.

Housing sales, durable consumption & business capex may take longer to recover. The Covid-19 pandemic, housing market slump and tech regulatory crackdown has severely hurt confidence, employment and income in the private sector. The number of domestic passengers and tourists during the Chinese New Year holiday was still about 40% and 11% respectively lower than their pre-pandemic levels. Meanwhile, there was a cyclical downgrade in consumption as the per capita consumption expenditure of travelers fell noticeably compared with the pre-pandemic level. That is why China's core CPI growth remained below 1% against the backdrop of high global inflation. The Chinese households and private business need some time to restore their confidence and regain growth momentum in the large expenditures. We believe housing sales, durable consumption & business capex may take longer to recover. Housing sales and related durable consumption may bottom out in 1H23 and improve in 2H23. Property development investment may see less YoY declines this year compared with last year.

China economy may see a diagonal upward W-shaped resumption after reopening. Consumption and service activities firstly decline after the pandemic outbreak and then recover as people start to go out. The restored mobility supports an early stage of recovery especially in transportation, catering, travel, accommodation, recreation, clothing, footwear, cosmetics & personal care. However, housing sales, large durable consumption & business capex may take longer to recover as household income & business confidence was severely damaged last year. In addition, overseas recession risk may bring downside pressure on China's exports, industrial output and manufacturing investment. China's recovery momentum may slow after the early stage of recovery. As confidence, employment & income gradually improve, the economy will move into the late stage of recovery supported by housing sales, durable consumption & business capex. We maintain our forecast on China's GDP growth at 5.1% for 2023 and 4.7% for 2024. The risk for our forecast lies in the upside.

Liquidity & credit policy should remain accommodative as housing market recovery is slow and reflation is mild. China's liquidity and credit policy should remain accommodative unless housing sales significantly rebounds or inflation sharply picks up. In the base scenario, China's housing market should see a gradual and slow recovery while the reflation pressure should be moderate. Therefore, the PBOC should maintain ample liquidity supply to facilitate credit revival. As liquidity demand noticeably rebounds amid more risk taking and higher credit demand, money market rates may mildly rise in 2023. However, the central bank will not seek liquidity tightening as China's GDP growth remains below potential growth and the reflation risk is manageable. It is possible to see additional RRR cut this year. The PBOC will maintain easing credit policy for manufacturing, service, private business and SMEs. The central bank will guide banks to roll over debt of property developers and local government financing vehicles. We see additional downside room for the down-payment ratios and contract rates of mortgage loans for first-home and second-home buyers.

China may continue with the pro-business shift in next two years. The pandemic, housing market slump, tech regulatory crackdown and Sino-US conflict make it more difficult for China to achieve its 2035 vision goal. The Chinese policymakers are very clear about this as they have quickly changed various policies with a pro-business shift after the 20th Party Congress. The new cabinet leaders try to return to the policy framework with the economic development as the priority. Again, GDP growth and attracting capital will be important KPIs for local government officials in next two years. We have seen a dismantling of zero-Covid policy, continuing rescue policy for property market, changing policy stance towards internet sector and greater efforts to improve ties with the US, EU & Australia. We believe China may continue with the pro-business shift in next two years to restore business confidence and growth momentum.

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➢ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Bank of New Zealand	850	5yr	4.846	T+118	A1/AA-/-

➢ Offshore Asia New Issues (Pipeline)

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

➢ News and market color

- Regarding onshore primary issuances, there were 13 credit bonds issued yesterday with an amount of RMB11bn. As for Month-to-date, 1,093 credit bonds were issued with a total amount of RMB940bn raised, representing a 44% yoy decrease

- **[ADANIG]** International Holding Company, an UAE-based investment firm, has invested USD400mn in Adani's FPO; Hindenburg says Adani's 'bloated' response ignores every key allegation

- **[CHIGRA]** China Grand Automotive Services forecasts RMB2.3-2.7bn net loss for FY22

- **[COGARD]** Country Garden plans to issue up to RMB2bn 3-year MTNs to fund project development and repay offshore USD bonds

- **[EVERRE]** Media reported that China Evergrande has over RMB21.4bn of assets subject to enforcement

- **[FUTLAN]** Seazen Holdings estimates 2022 net profits at RMB629.9mn to RMB3.78bn, representing 70%-95% yoy drop

- **[JD]** JD will close its e-commerce business in Thailand and Indonesia in Mar'23

- **[KAISAG]** Kaisa will strive to fulfill all the share trading resumption conditions and resume share trading on Hong Kong Stock Exchange in Mar'23 as it is finalizing the audit results

- **[RCBPM]** Rizal Commercial Banking's board has approved the issuance of foreign currency denominated senior notes

- **[RISSUN]** RiseSun Real Estate Development forecasts RMB19-25bn net loss for FY22

- **[ROADKG]** Road King has remitted funds for the full settlement of the ROADKG 7.875 02/01/23
- **[SAWSST]** Indonesia palm oil company Sawit Sumbermas redeemed SAWSST 7.75 01/23/23 at maturity
- **[SHIMAO]** Shanghai Shimao forecasts RMB3.84-5.76bn net loss for FY22, dropped from RMB961.02mn net profit for FY21
- **[VEDLN]** Vedanta's proposed acquisition of the bankrupt India-based power producer Meenakshi Energy is approved by the India's bankruptcy court

CMB International Global Markets Limited
Fixed Income Department
Tel: 852 3761 8867/ 852 3657 6291
fis@cmbi.com.hk
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