

CMBI Credit Commentary

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

- *Market sentiment was upbeat this morning with balanced two-way flows. We saw buying interests on high grade SOEs and LGFV bonds due 2024-26 from real money accounts for year-beginning deployment.*
- **China Economy:** *Going through the darkness before dawn. CMBI expects the GDP growth to rebound from 2.7% in 2022 to 5.1% in 2023. See below for comments from our economic research.*
- **FWDINS:** *FWD Limited not to exercise the call option of its USD200mn FWDINS 5.5 PERP on the first call day of 1 Feb'23. The perps were stable and traded at 85 this morning.*

❖ Trading desk comments 交易台市场观点

With the Fed already signalling an end to rate hikes coming, market expects more re-steepening on UST curves in 2023. With market spotlight on a new BOJ chief this year, speculation on changes to monetary policy are likely to be front and center in the weeks ahead. The ECB has committed itself to continue 50bps rate hikes, while the Fed is expected to slow. Last Friday, China IG space stood firm amid limited trading flows across all sectors on the last trading day of 2022. Financials space was mixed with AMCs underperformed while bank T2s like CCBs were robust with the RM support. HRINTHs/GRWALLs closed 6-8bps wider on the day. Elsewhere, selective names like CHOHIN 5.5 Perp/CHINEV 3.8 Perp were marked 1-2pts lower with less liquid flows. TMTs slightly outperformed with beta names tightened 3-5bps. TENCNT/BIDU 10-year papers tightened 12-18bps and BABA curve were 4-8bps tighter. IG properties were relatively stable. China HY space was quiet. China's Manufacturing PMI fell to weaker-than-expected 47 in December, indicating a contraction in activity. In properties, SINOCE 26-29s were traded up 2.5-4.5pts to close at mid-50s. SINOCE 6.876 Perp was marked 7.5pts higher to mid-30s. Sino-Ocean Group issued RMB1.303bn (USD187mn) REITs product with a coupon rate of 5%. SINOCEs have been outperforming lately after Sino-Ocean Group obtained a total tentative credit lines of RMB50bn from ICBC, and also announced to sell its entire 50% stake in the Taikoo Li Chengdu to project partner Swire Properties for RMB5.55bn, earlier on 15 Dec. COGARD 24-25s were up 1-3pts after it issued RMB1bn 4.3% domestic bonds with 3-year term guaranteed by CBIC. CHINSC 24s and 26s outperformed again by popping up 2.5/3.5pts respectively, amid news that China SCE, Sino-Ocean and other 10 property names entered into strategic cooperation agreements with Ming Sheng Bank. CHJMAOs/FUTLANs/FTLNHDs were unchanged to 1pt higher. GRNLGRs/KWGPROs outperformed by popping up 1-2pts on two-way flows between Chinese accounts and HFs. GRNLHK was traded up 7pts under PB demand. In industrial space, FOSUNIs/ANTOILs moved up 0.5-1pt. In Macau gaming

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space, MGMCHIs/STCITYs/WYNMACs were slightly up 1pt. In India HYs, AZUPOE/GRNLEN/RPVIN curves were unchanged to 1pt higher. VEDLNs printed 0.5pt lower. Indonesia HYs were more quiet. INDYIJ/ LPKRIJ 25s were under light better selling.

In the LGFV/SOE Perp/AT1 space, market was mixed. LGFVs were rather muted. Quality names like SHGUOH/BEIPRO edged 0.5pt higher. Weaker names were unchanged, though GSHIAV was also traded up 0.5pt. Elsewhere, we saw two way flows on XXKGDC/CQLGST. In SOE Perp space, HAOHUA were under better selling. Benchmarks CHGRID/CNOOC widened 4-6bps. AT1 benchmarks like BCHINA/ICBCAS tightened 2-3bps under better buying flows. Overall, short to call AT1s were still favored by some AM accounts with cash parking demands remained robust.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
GRNLHK 10.21 PERP	61.5	7.0	CHOHIN 5 1/2 PERP	89.3	-2.1
CHOHIN 5.7 PERP	95.8	5.3	GRNLGR 5.6 11/13/24	44.6	-1.7
SINOCE 4 3/4 08/05/29	55.6	4.0	HRINTH 4 1/4 PERP	75.2	-1.6
SINOCE 3 1/4 05/05/26	56.7	3.9	CHINEV 3.8 PERP	97.1	-1.4
CHINSC 7 3/8 04/09/24	49.7	3.6	JD 4 1/8 01/14/50	73.3	-1.4

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets slightly down on last trading day of 2022, the S&P (-0.25%), Dow (-0.22%) and Nasdaq (-0.11%) were all weak in 2022 with annual decreases of -19.44%, -8.78% and -33.1%, respectively. China NBS published Dec'22 PMI as 47.0, lowered 1.0 than last month and was below 50 for three consecutive months. The U.S. treasury yields overall edged up on last Friday and 2/5/10/30 yields reached 4.41%/3.99%/3.88%/3.97%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Economy – Going through the darkness before dawn

China's PMI sharply declined in December to the lowest since February 2020 as the virus outbreak after reopening prompted people to stay home and businesses to close. Output, new orders and employment all contracted, while the delivery times of suppliers increased due to temporary supply disruptions. We believe China is going through the darkness before dawn after reopening as the pandemic may have peaked in most cities recently. Population mobility and outdoor activities should gradually improve from January, pointing to the first wave of resumption in some consumer goods and services ahead. China's reflation pressure after reopening should be moderate as domestic demand resumption is gradual, overseas demand softens and the pandemic has limited impact on the labor participation. China will maintain easing monetary policy and proactive fiscal policy in 2023. Meanwhile, new leaders will take efforts to stabilize property market and boost business confidence. We expect the GDP growth to rebound from 2.7% in 2022 to 5.1% in 2023.

PMI slumped to the lowest since February 2020. PMI in manufacturing and service respectively dropped from 48% and 45.1% in November to 47% and 39.4% in December, the lowest since February 2020. The indexes in retail trade, road transportation, accommodation, catering and inhabitant service dropped to below 35% in December as those sectors are quite sensitive to population mobility. PMI in food and medicine remained above 50% because of stable demand in those staple sectors. PMI in construction slowed from 55.4% in November to 54.4% in December, yet still above 50% thanks to strong growth of infrastructure investment. PMI in air transportation rebounded to above 60% in December as the number of flights increased noticeably after

reopening. PMI in telecom service, internet service and financial service also remained above 50% as demand in those sectors was relatively stable. Looking forward, PMI in most service sectors will gradually rebound along with the improvement of population mobility and confidence.

Overseas and domestic demand deteriorated. New order index significantly dropped from 46.4% in November to 43.9% in December. Both overseas demand and domestic consumption deteriorated with downside pressure on most manufacturing industries. The export order index and import index respectively decreased from 46.7% and 47.1% in November to 44.2% and 43.7% in December. The sharp decline of population mobility also cooled down service activity. New order index in service slumped from 41.4% in November to 37.4% in December. However, new order index in construction and steel product rose from 46.9% and 34.5% in November to 48.8% and 38.9% in December, indicating less downside pressure in those sectors.

Material cost rebounded with temporary supply disruptions. Material cost index in manufacturing & construction reached 51.6% and 51.2% in December, up from 50.7% and 48.7% in November. Steel product sector saw a significant rise of material cost index from 38% in November to 59.8% in December. The increase of material costs may be due to two causes. First, China's reopening boosted the sentiment and demand prospect in commodity market. Second, the virus outbreak after reopening caused temporary supply disruptions, as some workers had to stay at home after being infected. However, we believe China's reflation pressure after reopening should be moderate. For one thing, the resumption of domestic demand especially in housing and durables should be gradual without overheating risk. Overseas demand should significantly decline as the recession is coming. For another thing, the pandemic has very limited impact on the labor participation in China due to high unemployment pressure. The employment index in manufacturing and service significantly dropped from 47.4% and 45.2% in November to 44.8% and 42.4% in December, the lowest since February 2020. We note the ex-factory price indexes in both manufacturing and service remained weak in December. We expect China's CPI to increase 2.2% in 2023 after rising 2% in 2022. The PPI is expected to drop 0.5% in 2023 after increasing 4.3% in 2022.

China economy is in a gradual resumption in 2023-2024. China economy is bracing for a gradual resumption while overseas economy is moving from stagflation into a recession. China's new leaders are trying to reopen economy, stabilize property market and restore market confidence as soon as possible with a pro-business stance. China's monetary policy remains accommodative with ample liquidity supply and easing credit policy. The PBOC may further cut RRR & LPRs for 1-2 times. US/RMB rates may decline from 6.9 at end-2022 to 6.65 at end-2023. Fiscal policy will be more proactive with broad deficit ratio up from 5.8% in 2022 to 6.2% in 2023 and policy banks' special loans & SOEs' debt continue to expand. We expect China's GDP growth would rise from 2.7% in 2022 to 5.1% in 2023. Health care, transportation, catering, travel, hotel & recreation services should see a rapid recovery, while durables & housing market may have a gradual resumption.

Click [here](#) for full report.

➤ 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)
Commonwealth Bank of Australia/NY	USD	-	2/2yr	T+90/SOFR	Aa3/AA-/A+
Export-Import Bank Korea	USD	-	3/5/10yr	-	-/-/-
Hong Kong SAR	USD	-	-	-	-/AA+/AA-
POSCO	USD	-	3/5/10yr	-	-
Sumitomo Mitsui Financial Group Inc	USD	-	3/5/7/10yr	T+150/180/205/220	A1/A-

➤ News and market color

- Regarding onshore primary issuances, there were 53 credit bonds issued last Friday with an amount of RMB31bn. In Dec'22, 1,427 credit bonds were issued with a total amount of RMB1,309bn raised, representing a 30.2% yoy decrease
- Macau gaming revenue for Dec'22 drops 56.3% yoy to MOP3.48bn, total gaming revenue for FY22 down 51.4% yoy to MOP42.2bn
- **[AZUPOE]** Azure files unaudited annual results for Azure Power Solar Energy, Azure Power Energy, restricted group entities
- **[CAPG]** China Aoyuan signs contractual arrangements to extend maturity of existing onshore financing arrangements for over RMB27bn in principal amount; in talks for proposed standstill arrangement in respect of material offshore indebtedness
- **[CENCHI]** Media reported Central China remitted funds to cure missed interest payment on its USD300mn 7.75% bond due May'24 within grace period
- **[CHFOTN]** China Fortune Land Development shareholders approve proposal on debt restructuring via debt-to-equity swap with stakes in subsidiaries; The company's unit signed supplementary agreement to sell subsidiary for RMB650mn
- **[FWDINS]** FWD Limited not to exercise call option of its USD 200mn FWDINS 5.5 PERP on the first call day of 1 Feb'23
- **[HTSC]** Huatai Securities proposed to raise up to RMB28bn via rights issue

- **[NANJBK]** Bank of Nanjing received CBIRC approval over acquisition of 10% stake in Nanjing BNP Consumer Finance from Suning
- **[RPVIN]** Renew Power in talks with Torrent to sell 1.1GW projects at an enterprise value of about USD1.2bn
- **[SKYFAM]** Skyfame Realty to sell 73.73% stake in holding company of Chongqing Skyfame Linxifu project to Datang Group Holdings for around RMB542.1mn
- **[SUNKWP]** Sunkwan Properties has not paid outstanding principal of USD160.2mn, interest on SUNKWP 13.5 01/02/23; The company to sell Hangzhou property development project for RMB33.45mn
- **[TPHL]** Times China expects to suspend payment under offshore debts; engages CICC, Sidley Austin to pursue holistic management of offshore debts
- **[YESTAR]** Yestar Healthcare did not to redeem any of the USD197.86mn notes YESTAR 9.5 12/30/26; The company to sell IVD products distribution business units for RMB574.75mn
- **[YLLGSP]** Yanlord announced that its unit has repurchased and cancelled an aggregate principal amount of USD19.6mn of its USD350mn YLLGSP 6.75 04/23/23
- **[ZHPRHK]** Zhenro property signed strategic cooperation agreement with Ningbo Bank

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