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CMB INTERNATIONAL

Fixed Income
Credit Commentary

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CMBI Credit Commentary

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

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- *China AMCs were overall lower this morning due to Huarong's downgrade on last Friday. HRINTHs down 0.5-3pts while dip buyers showed, CCAMCL/ ORIEAS /GRWALL perps notably down 0.5-1.5pts on spillover effect.*

- ***China Policy:** PBOC lowered one-year LPR by 5bps to 3.65%, five-year LPR by 15bps to 4.30% this morning. And there are other policy response to recent economic retreat. See below for comments from our economic research.*

- *Chinese property rallied a lot last week due to government-backed onshore bond issuance news despite many issuers announced profit warning. CIFIHG/SINOCE/COGARD climbed 9-11pts higher and LNGFOR/FUTLAN bounced 4-8pts.*

❖ Trading desk comments 交易台市场观点

Last Friday, China IG space had a quiet day. In financials space, Cash traded AT1 grinned marginally higher at 5-10bps, in an already tight range. In AMC sector, HRINTHs cash prices were traded 2-3pts lower, while Moody's placed its ratings under review for downgrade at EOD. GRWALL/ CCAMCL were mostly unchanged. TMT benchmark papers saw street lifting. IG property firmed up 0.25-0.5pt with front-end being bought. China HY space opened slow and had a calmer session as well. Property space saw BB names better bid and broadly quoted at 1-3pts higher. COGARD/CIFIHG curves were up 3.5-6pts on the front end and belly, mainly on short covering and selective buying from RM. COGARD 31 was now back to $34 level, a monthly high. ROADKG/ DALWAN up 1-2pts. XINHUZ 11%' 23/ 25 both resumed its losses and were traded back at 100.2/ 99.5 level respectively. After the potential SUNAC offshore restructuring talks spread, SUNACs were traded up 1.5-2.5pts and brought back to $10. Industrial/ gaming sectors were up 50c-1pt on FM/ Chinese demand. SANLTD/STCITY down 2.5-4pts. In Ex-China HY space, AZUPOE 24/26 were traded at low-80s/70s level respectively, after plunging 9-12pts post investor call. KIJAIJ '23 down 3.5pts.

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Generally, consolidation theme emerged in LGFV/SOE Perp spaces after last week's rally, as clouds gathered above outlooks to USD rates and RMB FX following mixed US economic data and Fed official talks. Sentiment softened accordingly with cross-border flows slowing down the pace of deployment, after having bought a decent amount of bonds for the past two weeks. Meanwhile offshore AM and prop desks were happy to take profit off previously bought positions if valuation suited - ie. <mid-4%, where bids were left supported largely by dealer shorts. As such, SOE perps retraced by 0.1-0.2pts led by c25/26s papers, whilst c23/24s hanged in well to a touch weaker as there was still support at 4%-4.5% from switching demand into shorter duration/ defensive line items. Flows was skewed to client selling in the morning and then consolidation in the street afternoon, as more clients sidelined ahead of weekend, amid a spike in yield driven by Bund weakness from stronger European price data. In LGFV space, sentiment remained largely afloat thanks to the yield gap of offshore USD over onshore CNY bonds. Investors generally preferred front-end papers even from weaker/ high-beta names, while remained very cautious towards longer dated papers if at all looking. Overall, USD rates and RMB FX outlooks shall be the primary drivers of technical.

➢ **Last trading day's Top Movers**

Top Performers	Price	Change
XINHUZ 11 06/06/25	**99.5**	**19.7**
CIFIHG 5 1/2 01/23/23	**71.8**	**6.2**
XINHUZ 11 03/27/23	**100.2**	**5.1**
COGARD 6 1/2 04/08/24	**42.5**	**5.0**
CIFIHG 6.45 11/07/24	**36.6**	**4.6**

Top Underperformers	Price	Change
AZUPOE 5.65 12/24/24	**92.0**	**-11.6**
RISSUN 9 1/2 03/16/23	**22.1**	**-4.9**
STCITY 6 1/2 01/15/28	**59.0**	**-3.8**
STCITY 5 01/15/29	**56.8**	**-3.6**
HRINTH 4 7/8 11/22/26	**83.5**	**-2.9**

➢ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stock indexes downed on Friday with weak market sentiment. The S&P (-1.29%), Dow (-0.86%) and Nasdaq (-1.95%) closed lower by week as markets are still worry about the relatively high inflation which may leads to a sharp interest rate hike in Sep'22. China lowered benchmark lending rates on Monday morning, one-year LPR downed by 5bps to 3.65% and five-year LPR decreased 15bps to 4.30% in response to weak credit increment of Jul'22. The U.S. treasury yields edged higher on last Friday as the curve bear steepened with 2/5/10/30 yield reaching 3.25%/3.11%/2.98%/3.22%, respectively.

❖ **Desk analyst comments 分析员市场观点**

➢ **China Policy – Policy response to recent economic retreat**

In response to the economic retreat in July-August, China may further lower LPRs, allow local governments to use part of special bond quota for next year and guide policy banks to expand special loans to infrastructure projects and presold housing projects in delay. Mortgage rates have additional mild room to decrease if housing sales remain weak in next two months. After the recent slowdown, China's growth may gradually rise in future and the economy should be in a gradual resumption in 2H22-1H23. Property market has seen the worst period and will slowly recover especially in high tier cities as China will maintain easing liquidity and credit policy. Meanwhile, local governments have not had sufficient fiscal resource to execute the zero-Covid policy as consumption and service business may improve in a gradual manner. Renminbi may further weaken against the US dollar in near term as renminbi loan rates further decline while the US dollar rates further increase. But the currency may rebound against the US dollar in 2023 when China economy further resumes while the US economy faces recession risks.

PBOC may lower LPRs after the recent MLF rate reduction. The slump of new credit in July indicated consumption, housing market and business capex was very weak. On 15 August, the People's Bank of China (PBOC) surprised the market by lowering both medium term lending facility (MLF) rate and seven-day repo refinancing rate by 10bps. This move should pave the way for loan prime rate (LPR) cut as LPR is generally linked to MLF rate. It is possible to see a 10bp cut in LPR on 22 August. The LPR cut will ease investors' concern about possible fine-tuning of liquidity condition in the context of a rebound in consumer inflation. It will confirm that liquidity and credit policy should remain accommodative at least in the short term.

China will use part of 2023 government special bond quota to support infrastructure investment. China uses both incremental quotas and outstanding ceilings to control local government special bond financing. In the first seven months of 2022, local governments' special bond financing reached RMB3.5trn as they nearly used up total full-year quota of RMB3.65trn. China will adopt two methods to avoid the fiscal cliff effect on infrastructure investment. First, local governments will be allowed to use part of their quotas next year. They have additional room of RMB1.5trn from August to December to increase their current special debt level to the special debt ceilings. Second, policy banks will increase their special loans to infrastructure and other projects. The cabinet made it clear in July that China would set up RMB300bn special refinancing quota and increase policy banks' new credit by RMB800bn to support infrastructure investment. If the economy performs worse than expected in next two months, China may further increase policy banks' loan quota. But these policies are short term stimulus as they are at the cost of less space for infrastructure investment in 2023-2024.

Policy banks are guided to provide special loans to presold housing projects in delivery delay. According to Xinhua News Agency, China's policy banks will offer special loans to ensure presold projects in delay can be delivered to buyers. The help will be extended only to presold projects facing difficulties with delivery. Developers, banks, construction suppliers and homebuyers have complicated credit-liability relationship in those projects. Most developers are insolvent or cannot get new financing from banks who are cautious to expand exposure to property sector especially to those projects in delay. Local governments have no money to solve the problem as land market plunges, economy slows and contingent debt expansion is restrained. As the problem threatens social and political stability before the 20th Party Congress, the policymakers urge policy banks to provide special loans to those projects. We are of the view that the special loans may have low interest rates and flexible maturities and can be used as capital to support additional debt financing from commercial banks. The policymakers rely on two mechanisms to control possible moral hazard problem for special loans to those projects. First, project developers or local government vehicles as borrowers should repay the special loans. Second, those projects receiving special loan support will face strict audit investigations and related stakeholders in guilty will see legal punishment. Due to the lack of statistics on the suspended projects and the incentive problem, it is difficult to estimate how many special loans policy banks will issue.

Mortgage rates have mild room to decline for first and second home buyers. After the first round of mortgage policy loosening, housing sales rebounded in June, but fell again in July and August. Some cities have begun to relax mortgage loans recently for first and second home buyers to stimulate the demand. In July, mainstream mortgage rates reached 4.35% for first home buyers and 5.07% for second home buyers in 103 largest cities. 74 cities saw their first-home and second-home mortgage rates as low as the lower limits of 4.25% and 5.05%, respectively. China has additional room to relax its mortgage loan policy if the housing demand remains weak in next two months. At present, mortgage rates for first and second home buyers are higher than interest rates of some unsecured consumer loans and individual business loans secured by housing. This reflects the intension of the policy framework to curb credit flow to property sector and encourage credit flow to consumption and small & micro business. As the situation changes, so does the policy. If housing sales remain weak in next two months, mortgage rates have further mild room to decrease for first and second home buyers.

China's growth may slowly rise in future as resumption should continue in 2H22-1H23. China's growth should gradually rise in future after the recent slowdown. First, property market has seen the worst period and will slowly recover. China will maintain easing liquidity and credit policy to stabilize property market. The confidence shock in the presale housing market may gradually fade out after August. Second, local governments have not had sufficient fiscal resource to execute the zero-Covid policy as economy has slumped and land revenue has shrunk. It is likely to see a gradual resumption of consumption and service business in 2H22-1H23.

Renminbi may weaken this year and rebound next year. China economy remains weaker than expected while the US economy performs better than consensus in 3Q22. The Sino-US interest rate spreads remain low as renminbi may further weaken in near term. But the two largest economies may see opposite changes of their business cycle in 2023. China economy should see further resumption while the US economy may face the recession risk. The Sino-US interest spreads and renminbi exchange rates may rebound next year.

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➢ Offshore Asia New Issues (Priced)

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

➢ Market conditions and color

- Regarding onshore primary issuances, there were 48 credit bonds issued yesterday with an amount of RMB46bn. As for Month-to-date, 1069 credit bonds were issued with a total amount of RMB1073bn raised, representing a 15.9% yoy decrease

- **[AGILE]** Agile expects profit drops from RMB5.3bn to RMB2.3-2.6bn in 1H22, decreasing 53.8% yoy, citing operating difficulties in real estate industry

- **[CIFIHG]** CIFI Holdings expects profit drops from RMB5.4bn to RMB1.5-2.2bn in 1H22, decreasing around 65.5% yoy due to decline in properties delivery

- **[CSIPTY]** CSI Properties announced to redeem all of CSIPTY 5.75 PERP on 20 Sep'22, of which the outstanding balance is USD200mn

- **[FTHDGR]** Media reported that Fantasia nears finalizing a restructuring framework for its USD bonds with no notional haircut, but with large equity swap(30-50% of the total outstanding principal) and the remainder paid off in 5-7 years

- **[FTLNHD]** Seazen Group expects profit drops from RMB2.9bn to RMB1.7-1.8bn in 1H22, decreasing around 40.0% yoy

- **[HRINTH]** Moody's has placed Baa2 long-term and P-2 short-term issuer ratings of Huarong AMC's ratings under review for downgrade

- **[JIAYUA]** Jiayuan international group requested to halt the trading of its share and debt securities on 22 Aug'22, pending the release of an announcement in relation to an inside information of the company

- **[KIJAIJ]** S&P downgraded the long-term issuer rating of Kawasan Industri Jababeka from B- to CCC and placed negative outlook

- **[LNGFOR]** Media reported that Longfor had appointed several banks to arrange a HKD3.5bn syndicated loan

- **[LOGPH]** Logan Group expects to get a RMB500-800mn net loss for 1H22, turning from 1H21's RMB6.5bn profit

- **[MGMCHI]** MGM China announced to inject MOP4.8bn into MGM Grand Paradise in order to comply with the Revised Gaming Law and Revised Tender Regulation in Macau

- **[SINOCE]** Sino-Ocean recorded RMB880mn loss for 1H22, decreased from 1H21's RMB10.1bn profit mainly due to renminbi depreciation

- **[TPHL]** Times China expects 1H22 profit drops to RMB10-30mn, decreasing 98-99% yoy

- **[YUZHOU]** Yuzhou Group expects 1H22 profit drops from RMB857mn to RMB55-65mn, decreasing ~93.0% yoy due to severe slowdown in real estate market

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