

CMBI Credit Commentary

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

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- *Markets became relatively active after 10bps rate decreasing of PBOC MLF and reverse repo this morning. Onshore buyers continued buying AT1 and SOE perps especially those yields at around 5%. We see buying flow on LGFV names from stronger regions.*
- ***China Policy:** New credit slumped again amid weak demand. See below for comments from our economic research.*
- *The National Bureau of Statistical of China published that 7M22's real estate investment was RMB7.95tn, decreased 6.4% yoy, commercial housing sales amount was RMB7.58tn, decreased 28.8% yoy.*

❖ Trading desk comments 交易平台市场观点

Last Friday, Chinese IG continued the constructive tone to close the week, as historically high treasury yields pushed all-in yield buyers to top up on IG carries. In financials space, Tier 2/Leasing outperformed with state bank T2 papers 3-10bps tighter. BCHINA tightened 5-7bps. CCB 2.45%'30 further tightened to be traded within +80bps spread, BOCO HK 31s/BOCAVI 24s also tighter and came down to +120/+145bps level respectively. AT1s were largely stable and afloat on back of solid RM/PB demand. TMT space had active flows skewed to better buying. TAISEM got lifted up on the street and price ended up 3pts. IG Property names were also traded 50c-2pts higher with higher quality names being chased. LNGFOR closed 1pt higher. SINOCE up 1-3pts amid a round of power buying on small AM/FM/Retail demand. China HY space opened marginally weaker but slightly recovered, and felt a touch softer in the lower-rated names at EOD. In property sector, COGARD squeezed up 1.5-4.5pts across the curve. YLLGSP curve notably ground up 3pts post strong 1H22 results. AGILE due-August notes were up around 0.5pt and closed stable at 97/98 level after redemption filing. On the other hand, GRNCH down 3pts. JIAYUA'22 down 7pts under selling pressure. Among industrials, EHICAR down 3pts.

In SOE Perp/LGFV space last Friday, market theme was pretty much the same deployment buying in the spaces although pace slowed down a bit into weekend. Among SOE benchmarks, CHGRID/HAOHUA were unchanged to 6-8bps tighter. Demand from Chinese fund managers in SOE perps remained resilient especially in infrastructure/ construction names RLCONS/ CHCOMU as market digested loose bonds. Whilst supply otherwise mainly came in C22s at 3%-handle, and was digested fairly easily as well. LGFVs consolidated to generally supportive tone with

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better buying in higher yielding names across 23s-25s. Longer tenor bonds showed some selling on CQLGST'24 and GZINFU'26. Sentiment had a boost late afternoon amid the lifting in the property space although many market participants were still looking for the driver behind.

➤ Last trading day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
COGARD 4 3/4 01/17/23	67.8	4.4	JIAYUA 12 10/30/22	19.1	-6.9
YLLGSP 6 3/4 04/23/23	92.1	3.4	GRNCH 2.3 01/27/25	92.3	-3.2
TAISEM 3 1/8 10/25/41	84.0	2.9	GRNCH 5.65 07/13/25	71.9	-3.0
SINOCE 3 1/4 05/05/26	21.9	2.8	EHICAR 7 09/21/26	47.6	-2.9
DOIDIJ 7 3/4 02/10/26	87.3	2.8	EHOUSE 7.6 06/10/23	25.6	-2.9

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock indexes continued rebounding last Friday as July's lower than expectation CPI boosted market sentiment. The S&P (+1.73%), Dow (+1.27%) and Nasdaq (+2.09%) rallied to monthly high points and recorded four consecutive weeks rise. The PBOC published Jul'22 financing data that M2 and M1 increased 12%, 6.7% yoy, respectively. China Banking and Insurance Regulatory Commission said on last Friday that relevant departments are under research about AMC reform scheme to reduce industry risk. The U.S. treasury yields downed slightly as the curve bull flattened with 2/5/10/30 yield reaching 3.25%/2.97%/2.84%/3.12%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Policy – New credit slumped again amid weak demand

China's new credit slumped again in July as real demand retreated amid weak confidence and seasonal factor. Property sales, consumption and business capex should have weakened as new mortgage, consumer credit and medium & long-term corporate loans all declined. The PBOC faced the condition like a liquidity trap as ample liquidity failed to spur strong credit expansion. The main reason is property market slump and strict control over local government contingent debt as the two sectors play an important role in China's credit creation. As economic resumption and credit recovery may be gradual, the central bank should maintain accommodative policy ahead. Since current liquidity is ample and consumer inflation will gradually rise, the possibility of RRR or LPR cut is relatively low.

New credit slumped as real demand retreated in July. Total social financing dropped 29.7% YoY in July after rising 19.2% YoY in 2Q22. Meanwhile, new renminbi loans to real sector and corporate bond financing respectively dropped 51.3% and 76.3% YoY after rising 4.1% and declining 3.7% in 1H22. New credit shrinkage indicated weakening of real demand in July as property market slumped and household consumption & business capex remained weak. Off-balance-sheet credit further shrunk as property market confidence deteriorated, while policymakers continued to control local government contingent debt and small business condition remained tough. Government bond financing seasonally declined MoM in July, yet higher than the amount in the same month last year. But it may decrease in 2H22 as local governments used up the quotas for this year.

New mortgage, consumer credit and long-term corporate loans all declined as housing market, consumption & business weakened. New medium to long-term loans to households dropped by 62.6% YoY to RMB148.6bn in July, as housing sales further slumped. New short-term loans to households turned negative

in July, indicating deterioration of consumption. Both the housing market slump and Covid-zero policy hurt consumer confidence. New medium & long-term loans to corporates decreased 29.9% YoY in July after rising 5.6% in 2Q22. Business capex softened amid uncertainty and weak confidence.

PBOC may maintain accommodative policy in face of the condition like a liquidity trap. Money market liquidity was easing as banks' 7D repo rates further declined from 1.55% in July to 1.35% in recent two weeks. But ample liquidity failed to spur strong credit expansion as property sector and local governments played an important role in China's credit creation. The weak credit expansion was mainly due to property market slump and strict control over local government contingent debt. As economic resumption and credit recovery may be gradual, the PBOC is likely to maintain accommodative policy in 2H22. Since current liquidity is ample and consumer inflation will gradually rise, the possibility of RRR or LPR cut is relatively low.

Implications of long-term economic transformation. The Chinese policymaker is committed to high-quality development with the ambition to shift the growth engine from property and infrastructure investment to tech innovation, green projects and consumption. This means the growth era for the two highly leveraged sectors will end, which is positive for China to control its high debt ratio in the medium to long term. However, the transformation of growth engine requires profound changes in China's financial system. Technology innovation and green development needs the support of active venture capitals and a developed capital market. To facilitate consumption growth, China needs substantially growing SMEs to provide high-quality employment, stable economic condition and policy environment to support consumer confidence.

Click [here](#) for full report.

➤ 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 51 credit bonds issued last Friday with an amount of RMB42bn. As for Month-to-date, 677 credit bonds were issued with a total amount of RMB719bn raised, representing a 11% yoy decrease
- The National Bureau of Statistical of China published that 7M22's real estate investment was RMB7.95tn, decreased 6.4% yoy, commercial housing sales amount was RMB7.58tn, decreased 28.8% yoy
- **[AZUPOE]** Azure Power announced on 12 Aug'22 that it will not be able to file its annual report by 16 Aug'22 which was extended from the original due date of 1 Aug'22
- **[CENCHI]** CENCHI expects to turn to loss about RMB5-6bn for 1H22 due to declining sales caused by continuing downturn of real estate industry; Media reported that China's Zhengzhou picked CENCHI-linked office project: Beilonghu Financial Island as bailout fund's first launch

- **[CSCHCN]** China South City redeemed first instalment of principal, interest of 9.0% senior notes due 12 April 2024 with a total amount of USD37.3mn
- **[FOSUNI]** Media reported that Fosun plans to sell the main tower of Guangzhou Fosun International Center to a LGFV. The south tower of Fosun International Center was sold to Mapletree with an amount of RMB4.3bn last year
- **[HAIDIL]** Haidilao expects 1H22 revenue to drop up to 17% yoy from RMB20.1bn to RMB16.7bn, profit turned to loss about RMB225-297mn due to suspension of business operation of certain restaurants in China caused by COVID-19
- **[HONGSL/REDSUN]** Fitch downgraded Hong Yang and Redsun from CC to C then subsequently withdrawn all the ratings
- **[LENOVO]** Lenovo completes acquisition of 80% in PCCW Lenovo Technology Solutions, 20% in PCCW Network Services on 12 Aug'22
- **[LNGFOR]** Media reported that Longfor will sign a HKD3.5bn(~cUSD447mn) syndicated loan agreement with state-owned and foreign lenders as soon as this week
- **[MOLAND]** The majority consenting creditors have consented to a further extension of the longstop date relating to the scheme of arrangement and the RSA to 26 Aug'22 from 12 Aug'22
- **[THSCPA]** Tus-Holdings announced on 12 Aug'22 that it doesn't have financial resources to pay interest and instalment of principal amount of THSCPA 7.95 05/13/24 and THSCPA 6.95 05/13/24 with total outstanding amount of USD902.5mn
- **[ZHLGHD]** Zhongliang Holdings expects 1H22 profit to drop up to 75% yoy from RMB1.38bn to RMB 0.35bn due to decrease in area of properties delivered

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