招銀国际 CMB INTERNATIONAL

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CMBI Credit Commentary

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

We hope you found our commentaries and ideas helpful. We highly appreciate your support to us in Sell-Side Analysts of the polls of "The Asset Asian G3 Bond Benchmark Review 2022". Thank you for your time. Your support will mean a lot to us.

- *Selling flows continued this morning, especially for LGFV in weak region. However, we started to see some low ball bids from onshore account on selective names. AT1 space still heavy, names like BCHINA down another 0.5pt. Macau gaming is +/-0.5 pt on the back of operations suspension extended for another 5days.*

- ***CSCHCN:** entered into an equity transfer agreement with SZCDG to sell CSC's 50% stakes in its property management operations to SZCDG for HKD1.46bn. The recent funding exercises, coupled with cash on hand and new facilities should offer adequate liquidity for CSC's to meet both onshore and offshore bond maturities in 2H22.* *See below.*

- ***China Economy:** China reported low GDP growth for 2Q22. We expect a gradual resumption of China economy in 2H22-1H23. The resumption pace should be much slower than in 2Q20-2H20 due to the zero-Covid policy, weak confidence, housing market correction and downside risks of global economy.* *See below.*

❖ Trading desk comments 交易台市场观点

Last Friday Chinese IG market continued its weak trend. Selling in AT1 space intensified in morning as RM/retail trimming risks amid rising funding costs and bank credit concerns in the past few sessions, despite of a drop in front end rates overnight. Spread were generally unchanged for SOE names. TMT names like TENCNT/XIAOMI tightened 3-5bps.

In LGFV space, Friday was another weak session particularly in the morning amid/ after selling in Chinese AT1s. Flows largely followed the same theme as Henan/ Shandong names were subject to heavy selling from hedge building and global RM who accelerated the offloading of risks in the regions. Meanwhile, Chinese AM continued to trim exposure in non-core LGFV holdings (mainly 3yr Fitch BBB- names). The same applied to SOE perps callable beyond 1-2y and issued by relatively less core entities.

In HY space, China property sector were mixed on Friday. YLLGSP/CENCHI/CHINSC up 1-5pts but CSCHCN/CIFIHG/LOGPH marked down 0.5-3pts. In industrial space, WESCHI down 0.5-1pt.

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Last trading day's Top Movers

Top Performers	Price	Change
YLLGSP 6 3/4 04/23/23	89.3	4.2
CENCHI 7.65 08/27/23	25.0	2.7
LOGPH 7 PERP	11.5	2.5
KWGPRO 5.2 09/21/22	23.0	2.3
CENCHI 7 1/2 07/14/25	19.4	2.2

Top Underperformers	Price	Change
CSCHCN 11.95 02/09/23	50.6	-3.2
LOGPH 4 1/2 01/13/28	14.0	-3.2
CIFIHG 6.55 03/28/24	45.8	-3.0
COGARD 5 5/8 01/14/30	31.8	-2.6
CSCHCN 7 1/4 11/20/22	60.9	-2.5

Macro News Recap 宏观新闻回顾

Macro – U.S. stock market ended higher on Friday, as the market eased bets on a jumbo Fed rate hike later this month and reacted to a strong June retail sales that underscored the strength of the American consumer. The S&P (+1.92%), Nasdaq (+1.79%), and Dow (+2.15%) closed higher. June retail sales rose 1% to a collective USD680.6bn. Fed Governor Christopher Waller and St. Louis Fed President James Bullard both indicated their preference for a 75 basis point rate hike, showing some soothing remarks. Treasury yield bull-flattened with the 2/5/10/30 yield reaching 3.12/3.05/2.92/3.10% respectively, making the inversion of 2s10s at the steepest since December of 2000.

Desk analyst comments 分析员市场观点

CSCHCN: Further financial support from SZCDG

China South City (CSC) entered into an equity transfer agreement with SZCDG which is the largest shareholder and wholly owned by SZ SASAC to sell CSC's 50% stakes in its property management operations to SZCDG for HKD1.46bn (USD185mn). We take this agreement positively as this, in our view, is an immediate financial support SZCDG provides to CSC. As per the agreement, CSC will have the call option to buy back the 50% stakes in the property management operations and SZCDG will have the put option should the put triggering events including failure to meet 70% of performance guarantee for successive years. The performance guarantee (annual net profit of HKD264.5-298.1mn over the coming 3 years vs. HKD89.488mn in FY22) appears aggressive.

Over the past few months, we see CSC's progresses in securing new funding and asset monetization. In addition to the completion of equity injection of HKD1.9bn (cUSD240mn) from SZCDG in May'22, CSC completed the sales of logistic assets in Hefei and Zhengzhou for RMB1.7bn (cUSD250mn). The buyer is Shenzhen International Holdings (43.5% owned by Shenzhen SASAC). As disclosed in CSC's preliminary FY22 results, it also obtained new credit facilities of RMB4bn from Bank of Shanghai. We understand that CSC is working in collaboration with SZCDG on securing longer-term onshore credit facilities. The recent funding exercises (raised cUSD675mn including the sales of 50% stakes in property management operations), coupled with cash on hand and new facilities should offer adequate liquidity for CSC's to meet both onshore and offshore bond maturities in 2H22.

China Economy – In the resumption cycle with slowing pace in near term

China reported low GDP growth for 2Q22, indicating a possible revision of growth target this year and adding pressure to fine-tune its zero-Covid policy and maintain easing monetary policy in future. The resumption pace may slow in July and mildly improve from late August. China will see a gradual resumption of economy in 2H22-1H23 as the GDP growth is expected to rise from 4% in 3Q22 and 4.8% in 4Q22 to 5.2% in 1Q23 and 9.8% in

2Q23. The full-year growth may rise from 3.5% in 2022 to 6.6% in 2023. The resumption pace should be much slower than in 2Q20-2H20 due to the zero-Covid policy, weak confidence, housing market correction and downside risks of global economy.

- **China reported low GDP growth for 2Q22.** China's GDP slightly rose 0.4% YoY in 2Q22, down sharply from 4.8% YoY in 1Q22. The reported growth for 2Q22 is much lower than market consensus of 1.1%. The choice to report low growth sent two signals. First, China has given up its growth target of 5.5% for 2022 as it has become impossible to achieve the target after the Ukraine crisis and Shanghai lockdowns. New growth target in the policymaker's mind may be about 4%, indicating the GDP growth should rebound from 2.5% in 1H22 to 5.3% in 2H22. It is also a very difficult target as the property market stress and zero-Covid policy may continue to restrain the economic resumption progress. Second, the cabinet chose to expose the severity of slowdown in 2Q22, adding the pressure to fine-tune zero-Covid policy and maintain easing monetary policy in 2H22 to support the growth. To achieve growth of around 4%, China has to reopen its economy and stabilize the property market as soon as possible. Meanwhile, China has to maintain easing monetary policy and proactive fiscal policy in 2H22.

- **China cares about two things related to GDP growth.** One is employment, social stability and fiscal revenue. China has to achieve reasonable GDP growth to maintain employment stability, social stability and enough fiscal revenue (smooth operation of governments). Second is a much higher GDP growth than the US. The market consensus for US GDP growth in 2022 has declined from 3.5%-4% before the Ukraine crisis to less than 2% recently. From this perspective, China can accept a growth rate of above 3%.

- **Economic resumption accelerated in June.** After economic collapse in April, China loosened economic policy & zero-Covid policy from May and Shanghai reopened economy from June. Confidence, demand and supply chain activity gradually improved as stock market rebounded. The value added industrial output (VAIO) picked up 3.9% YoY in June after rising 0.7% YoY in May. Service output index turned to 1.3% growth in June from the YoY decline of 5.1% in May. Catering revenue improved as it dropped 4% YoY in June, compared to the YoY decline of 21.1% in May.

- **China's economy is in a resumption cycle in 2H22-1H23 with fluctuating resumption pace.** China may see a gradual economic resumption cycle in 2H22-1H23 amid supportive economic policy and a slowly easing of zero-Covid policy. But the resumption pace in the latest cycle will be much lower than that in the previous cycle in 2Q20-1H21. First, it will take some time for housing market to gradually recover from the hard landing. Second, it also takes some time for business and consumer confidence to slowly resume. Third, global economy is in the downturn cycle, which may slow China's economic resumption ahead.

- **Consumption improved yet consumer confidence remained weak.** Retail sales turned to YoY growth of 3.1% in June after dropping 6.7% in May. Discretionary consumer goods improved significantly thanks to reopening effect and release of postponed demand during the lockdowns. Retail sales of autos, communication equipment and home appliance respectively rose 13.9%, 6.6% and 3.2% in June after dropping 16%, 7.7% and 10.6% in May. However, durables related to housing market improved more slowly as retail sales of construction & decoration materials and furniture continued to decline by 4.9% and 6.6% in June, compared to the decrease of 7.8% and 12.2% in May. Performance of staples was mixed as the growth of food and beverage slowed from 12.3% and 7.7% in May to 9% and 1.9% in June, while medicines picked up 11.9% in June after rising 10.8% in May. Looking forward, consumption may gradually improve as two factors will continue to restrain consumer confidence. One is the zero-Covid policy and the other is the slump of housing market.

- **Housing sales rebounded, but land market and development investment further deteriorated.** Gross floor area (GFA) sold for commodity buildings dropped 18.3% YoY in June after dropping 31.8% YoY in

May. Average sales price for commodity buildings dropped 3.1% YoY in June, compared to the decrease of 8.7% YoY in May. We expect housing sales may further improve in 2H22-1H23, but the resumption pace may slow in July and accelerate from late August. Housing starts and land market activities further deteriorated, as property developers' confidence remained weak. GFA started for buildings and land area purchased respectively plummeted 45.1% YoY in June after dropping 41.8% YoY in May. Total funding source for property development investment dropped 23.6% in June after decreasing 37.7% in May. Property development investment further deteriorated as it dropped 9.4% in June after declining 7.8% in May. We expect property development may decline by 3%-4% in 2022.

- **Infrastructure & social service investments remained strong.** Total urban fixed asset investment (FAI) rose 5.8% YoY in June, up from 4.7% YoY in May. The YoY growth of FAI in manufacturing and infrastructure respective improved from 7.1% and 7.9% in May to 9.9% and 12% in June. Public utility, water conservancy management and health & social welfare services maintained strong FAI growth as their YoY growth rates reached 15.1%, 12.7% and 33.8% in 1H22. Looking forward, infrastructure & social service investments may maintain strong growth to support the GDP target.

➢ Offshore Asia New Issues (Priced)

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

➢ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Lenovo Group Ltd (Concurrent tender offer for LENOVO 4.75 2023)	USD				Baa2/BBB-/BBB

➢ Market conditions and color

- Regarding onshore primary issuances, there were 55 credit bonds issued last Friday with an amount of RMB42bn. As for Month-to-date, 656 credit bonds were issued with a total amount of RMB703bn raised, representing a 5% yoy decrease

- Due to the recent Covid-19 outbreak, Macau's authorities will extend the shutdown of casinos and most businesses in the gaming hub to Friday 22 July

- Media reported China Banking and Insurance Regulatory Commission (CBIRC) urged banks to extend loans to qualified real estate projects and meet developers financing needs where reasonable, since a growing number of home buyers across China threatened to stop making their mortgage payments for stalled property projects. Specifically, CBIRC urged banks to actively participate in the study of plans to fill the funding gap and strengthen communication with mortgage clients

- Indonesia removes palm oil export levy until 31 August to boost exports and ease high inventories, as data from the Indonesian Palm Oil Association showed that there were 7.23mn tones of crude palm oil in storage tanks at the end of May

- **[CCAMCL]** Cinda International expected to turn to loss for 1H22 due to share of losses from associated companies for around HKD36mn to HKD42mn

- **[CENCHI]** S&P lowered long-term issuer credit rating on Central China Real Estate to 'B-' from 'B' and placed the rating on CreditWatch with negative implications as CCRE faced high execution risk on its debt repayment plan for the upcoming maturities

- **[EVERRE]** Media reported China Evergrande resumed construction work at 59 existing projects in the Pearl River Delta region

- **[JINKE]** Jinke Property forecasted a net loss of RMB1.3bn-RMB1.8bn for the first half of 2022 due to negative impact from COVID-19, decrease in gross profit margin, and increase of financial expenses

- **[LPKRIJ]** Lippo Karawaci explores syndicated loan to refinance USD bond due 2025

- **[VNKRLE]** China Vanke proposed to offer RMB3bn three-year MTNs on 19-20 July

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