

CMBI Credit Commentary

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

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- *Two-way flows in Chinese IG market. AT1s calmed down a bit as after the short-squeeze to a rich level last week. SOE Perps were sought after by RMs but sold by regional Chinese accounts. LGFV consolidated with two-way flows but slightly skewed to better selling this morning.*
- ***Modern Land & Evergrande:** Modern Land’s short delay in restructuring effective date will have immaterial impact on the implementation of the restructuring plan and our FV estimates of 57-83. **Evergrande**, on the other hand, delays in launching the restructuring plan. See below.*
- *China’s PMI declined in July indicating a slowdown of resumption momentum as property investment further declined and confidence deteriorated in housing market. See below for our economic research’s comments.*

❖ Trading desk comments 交易平台市场观点

Last Friday, Chinese IG market was quiet overall with spreads broadly 3-5bps tighter. In financial sector, AMC/Leasing were strong. In TMT sector, benchmarks 10yr spreads were generally 3bps wider. BABA’ 31 tightened 5bps amid the two-primary-listing headline. Chinese HY space presented another firm session last Friday. Market focus was Macau gaming sector as short squeeze finally emerged here with US being net buyers for the past two weeks. We saw its supply fully drained by RM and HF buyers for rotation and short covering. Macau gaming sector ended broadly 2-5pts higher, the market hanged in well at the highs. Previously beaten-down names STCITY rebounded 4-7pts. MGMCHI/WYNMAC up 2-5pts. The Chinese property space was unchanged to a touch lower as most investors still stalled, waiting for the implementation details on the reported state support measures. COGARD/CIFIHG down 0.5-1.5pts, and the theme was RM selling/HF resetting shorts as usual. Distressed sector saw a bit more selling. KWGPRO down 0.5-1pt after S&P downgraded KWG and its notes by two notches to CCC and CCC-. On the back of the news on remitting fund for repayment of USD bond due 8 Aug’22 and the company’s buy-back, CENCHI’ 22 traded firm at 95/96 level, after gaining 25pts last week.

In LGFV/SOE space, investors mostly sidelined with limited flows in short-dated LGFVs and high-grade SOE perps. Market was still gauging the inflation and contraction, as PCE in June printed to be 6.8% higher than a year earlier. Flow wise, we have some two-way trading with local bank ALM/RMs buying 22-24 papers versus some banks selling on the other

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side. Short covering speeded up and kept dominating the flows at the end of July. Chinese investors continued to park their cash on high-grade AT1s/ SOE Perp. AT1s from some selective bank names were slightly recovering from the previous Henan bank scandal. SOE space was 2-3bps tighter last Friday, with benchmarks seeing firm buying interest. Among liquid names, fund managers were chasing HAOHUA' 30s specifically.

➤ Last trading day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
STCITY 6 07/15/25	58.9	6.6	FIHUCN 5 02/26/28	97.4	-7.0
FOSUNI 6 3/4 07/02/23	73.9	6.1	BJHKWY 14 3/4 10/08/22	96.4	-5.0
STCITY 5 01/15/29	45.0	5.6	NANFUN 5 PERP	80.6	-3.2
MSFLCZ 3.15 03/10/24	94.9	5.5	LASUDE 5 07/28/26	76.7	-2.5
MPEL 4 7/8 06/06/25	76.1	4.9	CIMWLB 6 1/2 PERP	101.0	-2.3

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock market climbed to recent high points last Friday as Apple and Amazon published a positive outlook for the future. The S&P (+1.42%), Dow (+0.97%) and Nasdaq (+1.81%) led by TMT, bank and energy sectors. The U.S. June's PCE jumped to 6.8% on a yearly basis and exceeded market expectation of 6.7%, showing the inflation persisted. Chinese official PMI of July was 49 which means the prosperity of manufacturing was fall back from expanding. U.S. treasury yields bounced slightly while long term yields continued decreasing. Yield curves bear flattened with 2/5/10/30 yield reaching 2.89%/2.70%/2.67%/3.00%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ Modern Land: Short delay in restructuring effective date

Modern Land extended the longstop date of its debt restructuring plan to 5 Aug'22 from 31 Jul'22 in view of the expected restructuring effective date to 5 Aug'22. As we wrote in [our comments on 10 Jun'22](#), the proposed debt restructuring is a done deal. Modern Land secured the requisite consent for the debt restructuring plan by the RSA fee deadline on 24 Mar'22. Subsequent to this, Modern secured the rubber-stampings from courts, i.e the sanction from Cayman court on 5 Jul'22, and the Chapter 15 recognition from the US bankruptcy court on 18 Jul'22. Therefore, we consider the short extension of longstop date to have immaterial impact on the implementation of the restructuring plan and our FV estimates of 57-83.

➤ Evergrande: Delay in launching restructuring plan

Evergrande failed to deliver the restructuring offshore debt restructuring plan by end Jul'22 as previously communicated. Instead, Evergrande aims to announce a specific offshore restructuring plan within 2022, the scope and guiding principles of its offshore debts restructuring plan. Regarding the scope, the offshore restructuring will cover USD bonds issued by Evergrande, USD bonds issued by Scenery Journey and guaranteed by Tianji, as well as other offshore debts of Evergrande and those of its subsidiaries including guarantees, repurchase obligations and other contingent liabilities. On guiding principles, Evergrande will: 1) respect international restructuring principles; 2) treat all creditors fairly; and 3) provide appropriate credit enhancement through the arrangement of asset packages which will include its equity interests in China Evergrande New Energy Vehicle and Evergrande Property Services. Meanwhile, Evergrande's contract sales slumped 96.6% yoy to RMB12.3bn in 1H22 from RMB356.8bn in 1H21.

➤ **China Economy – Slowdown of resumption momentum**

China's PMI declined in July indicating a slowdown of resumption momentum as property investment further declined and confidence deteriorated in housing market. By sector, coking coal, steel products, capital market service, insurance and property experienced noticeable contraction. Transport service, hotel, catering, environmental protection & public facility management and cultural, sport & recreation service saw their business activity indexes above 55%. Looking forward, the growth momentum may pick up again from September as the recent liquidity & credit easing may boost confidence in the housing market and demand should seasonally improve after the summer season. China economy should remain in the resumption cycle in 2H22-1H23 with GDP growth up from 3.5% in 2022 to 6.6% in 2023.

■ **PMI declined as resumption momentum slowed in July.** PMI in manufacturing, construction and service respectively dropped from 50.2%, 56.6% and 54.3% in June to 49%, 59.2% and 52.8% in July. The gauge in manufacturing dropped to below 50% again, indicating a contraction of factory activity in July. By sector, textile, coking coal and steel product saw their PMIs below 50% as property investment further declined. For service sector, transportation service, hotel, catering, cultural & sport service saw the PMI above 55%, while capital market service, insurance, property and leasing & business service remained below 50%.

■ **Demand contracted as new order index dropped to below 50%.** New order index in manufacturing and service respectively declined to 48.5% and 49.5% in July from 50.4% and 53.7% in June, indicating a contraction of demand. Domestic demand softened as import index decreased from 49.2% in June to 46.9% in July. Overseas demand also contracted as new export order index declined from 49.5% in June to 47.4% in July.

■ **Manufacturers cut inventory investment as business expectations declined.** Product inventory index and material inventory index respectively dropped to 48% and 47.9% in July from 48.6% and 48.1% in June. Meanwhile, material purchase volume index dropped from 51.1% to 48.9%. Manufacturers compressed inventory investment and material purchase as demand softened and business expectations declined. Business expectation index in manufacturing dropped from 55.2% in June to 52% in July, even lower than 53.3% in April when there was lockdown in Shanghai.

■ **Material cost & ex-factory price declined sharply as demand softened and supply resumed.** Material cost index in manufacturing, construction and service respectively dropped from 52%, 48.7% and 53.3% in June to 40.4%, 45% and 49.2% in July. Ex-factory price index in the above three sectors decreased to 40.1%, 50.2% and 46.9% in July from 46.3%, 50.3% and 49.5% in June. By sector, coal, oil & gas and steel product experienced significant declines in the ex-factory prices.

■ **Unemployment pressure remained high as employment index was still below 50%.** Employment index in manufacturing, construction and service slightly declined from 48.7%, 48.3% and 46.6% in June to 48.6%, 47.7% and 46.6% in July.

■ **China economy will be in the resumption cycle in 2H22-1H23 with slowdown of momentum in July and possible pick-up from September.** China economy gradually resumed from the Ukraine crisis shock and Shanghai lockdowns in April. But the resumption momentum slowed in July due to resurgence of Omicron virus and confidence shock in the housing market. Looking forward, growth momentum may pick up again from September due to three reasons. First, China eased liquidity & credit policy after the confidence shock in the housing market, which will improve market expectations. Second, local governments may loosen the epidemic control policy after moderate tightening in July-August. Third, demand should seasonally improve after the tepid season in summer. China economy should be in a gradual resumption cycle in 2H22-1H23 with the GDP growth up from 3.5% in 2022 to 6.6% in 2023.

Click [here](#) for full report.

➤ **Offshore Asia New Issues (Priced)**

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Mianyang Investment Holding (Group)	-	3yr	-	6.70%	-/-/BB

➤ **Offshore Asia New Issues (Pipeline)**

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Suzhou City Construction Investment Group (Holding) Co. Ltd	USD	-	-	-	-/-/BBB-

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 39 credit bonds issued yesterday with an amount of RMB22bn. As for Month-to-date, 1,428 credit bonds were issued with a total amount of RMB1332bn raised, representing a 12.9% yoy decrease
- People's Bank of China will issue RMB200bn of loans at an interest rate of 1.75% per year to state commercial banks in an attempt to boost the country's debt-laden property sector
- Chinese regulators mull seizing undeveloped land from cash-strapped developers to help fund the completion of unfinished projects
- **[CENCHI]** Central China Real Estate repurchased USD27.325mn (5.47% of the aggregate principal amount) of its 6.875% senior notes due 8 Aug'22 in the open market
- **[COGARD]** Country Garden Real Estate's controlling shareholder bought RMB242.43mn of the company's domestic bonds "20Bidi01", "20Bidi03", "20Bidi04", "21Bidi01", "21Bidi02" and "21Bidi03" on the secondary market to maintain price stability. They also bought RMB59.99mn of its bonds "19Bidi02", "20Bidi01", "20Bidi02", "20Bidi03", "20Bidi04", "21Bidi01", "21Bidi02", "21Bidi03", and "21Bidi04" on the secondary market to maintain price stability
- **[CSCHCN]** China South City accepted the consents from the holders of its 11.5%, 10.875% and 7.25% senior notes due 2022, and 11.95%, 10.75% senior notes due 2023, and the company will make the payment of the Consent Fee on the Payment Date
- **[JINKE]** Jinke Property and its holding subsidiaries agreed to provide RMB1.1765bn guarantees to the listed company's six fully owned and holding subsidiaries for their funding
- **[POLHON]** Poly Property Group agreed to grant a RMB200mn unsecured, interest-free loan to SZ Baocheng for SZ Baocheng's production and operational needs
- **[RGETDC]** Rugao Economic and Trade Development proposes to offer RMB300mn one-year short-term bills

- **[SHDOIS]** Shandong Iron and Steel Group decided to exercise an option to call its "19LugangtieMTN004" extendable MTNs. The company also proposed to offer RMB1bn 2+N-year medium-term notes (MTNs)
- **[TPHL]** Media reported Times China obtained the requisite holder consent to defer by one year the August put on its RMB500mn 5.68% due-2024 bonds and RMB1.1bn 5.94% due-2024s
- **[YANGOG]** Yango Group proposed to provide a RMB159mn guarantee to its 51%-owned subsidiary Guangzhou Baiyao Xingguang Real Estate for its up to RMB313mn funding from Industrial Bank
- **[ZHLGHD]** Zhongliang Holdings missed payment of the remaining outstanding principal of USD12.574m and interest on its 9.5% senior notes due Jul'22.

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