

CMBI Credit Commentary

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

- *Markets was rather muted. In IGs, recent new issues broadly tightened 3-5bps after BOJ. China AMCs were still under slightly better selling. We saw Chinese offshore accounts turned to show more rebalancing flows from cash parking, amid limited flows.*
- *New issues: WOORIB 4.875% 01/26/28 tightened by 20bps, and ASAMLI 6.9 PERP was up by 1-2pts by this morning.*
- **China Economy:** *In a gradual resumption in 2023-2024. CMBI expects the GDP growth to rebound from 3% in 2022 to 5.1% in 2023 and 4.7% in 2024. See our economic research below.*

❖ Trading desk comments 交易平台市场观点

Yesterday, IG space was still dominated by cash parking demand before CNY long holiday. On previous new issues, HKAA/HKINTL showed more balanced two way flows on 28s & 33s here and closed unchanged to 2bps tighter. In Korea IG, we saw RM buying flows on recent new issues. POHANG rallied another leg, tightening 10-20bps and HYUELE edged 5bps tighter into close. Financials space was mixed after Monday night news that PBOC shall channel RMB80bn (cUSD24bn) of loans at 1.75% through AMCs to support healthy developers' refinancing. CCAMCL/ORIEAS curves widened 10-15bps and HRINTH curve were down 1-2pts. T2 benchmark CCBs continued to march 2-5bps tighter. In TMTs, we saw better buying on 24-28s papers. BABA/TENCNT opened weaker but closed unchanged. BIDU/XIAOMI tightened 3-7bps. In IG properties, LNGFORs were up 0.5-1.5pts to close at high-80s. China HY activities picked up a bit, while sentiment in property sector was slightly stronger. DALWANs moved 0.25-0.5pt lower than last close. SINOCes popped up 1.5-2.5pts. FTLNHDs/ROAKDGs grinded 0.5-1.5pts higher. CIHINSCs were up 1-3pts under buying in the front end and the belly from PBs. FTHDGRs stayed roughly firm at 17/19 level after surging 4-6pts post launch of debt restructuring plan. GRNLGR 25s were marked down another 0.5-1.5pts at low-50s. KWGPROs printed 0.5pt higher post news on plan of issuing CBICL-guaranteed MTNs. Elsewhere, ZHONAN 25-26s were bid up 4pts to be indicated at high-80s, ZhongAn Online P&C Insurance's aggregate gross written premiums in 2022 rose to USD2.24bn. Industrials were roughly unchanged. Macau gaming names like MPELs/WYNMACs was traded 0.5-1pt higher. In Ex-China space, Indian HY VEDLNs were down 0.5-1.5pts. AZUPOEs were down 0.5-1pt after one notch downgrade by both Moody's/Fitch. GRNKENS were traded up 0.5-1pt. Greenko signed term sheet with six lenders for bridge loan to refinance USD435mn bonds due next month to refinance its 23s. In Indonesian HYs, LMRTSPs fell another 1.5-3pts and LPKRIJs were down 0.5-1pt.

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Cyrena Ng, CPA 吳蓓瑩
(852) 3900 0801
cyrenang@cmbi.com.hk

Jerry Wang 王世超
(852) 3761 8919
jerrywang@cmbi.com.hk

In the LGFV/SOE Perp/AT1 space, market activities were generally further slower and slightly shifted to a more defensive tone ahead of CN. Flows remained overall better buying in LGFVs, with deployment buyers taking quality names ~6% whilst names from Shandong also had decent buying interests at better yielding levels. On the other hand, we also saw some profit taking on quality BBB LGFVs here as clients switched into higher-beta names. LGFV 23s were chased after and price levels generally were unchanged to 0.125pt higher. SOE Perps and AT1s were generally quiet with the latter still better demanded in general.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
ZHONAN 3 1/2 03/08/26	89.7	3.6	CHGRAU 9.109 PERP	38.3	-6.4
ZHONAN 3 1/8 07/16/25	89.5	3.2	LMRTSP 7 1/4 06/19/24	79.7	-2.7
CHINSC 7 3/8 04/09/24	62.8	3.1	CHIOLI 3 1/8 03/02/35	73.3	-1.9
HPDLF 7 05/18/24	86.2	2.9	GRNLGR 6 1/8 04/22/25	51.7	-1.8
SINOCE 6.876 PERP	54.0	2.5	GRNLGR 6 3/4 09/26/25	51.6	-1.8

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets were weak yesterday, S&P (-0.20%), Dow (-1.14%) and Nasdaq (+0.14%) were divergent that energy and information technology sector rose while materials and communication services sector down. The U.S. treasury yields curve movement was divergent yesterday that short term yields down while long term yields edged up, 2/5/10/30 yields curves at 4.18%/3.60%/3.53%/3.64%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Economy – In a gradual resumption in 2023-2024

China's GDP growth reached 3% in 2022, higher than our forecast yet missing government's target of 5.5%. The zero covid policy, property market slump and regulatory crackdown over capitals severely hurt business confidence and economic activity. Looking forward, the policymakers will try their best to restore confidence and boost growth. We have already seen the reopening of economy, the loosening of property policy and the pro-business shift after the Party Congress. We expect additional measures ahead to boost confidence and support economic resumption this year. The monetary policy will remain accommodative and the fiscal policy should be more proactive. China economy will be in a gradual resumption in 2023-2024. The GDP growth is expected to rebound from 3% in 2022 to 5.1% in 2023 and 4.7% in 2024.

4Q22 GDP growth is better than expectations. China's GDP growth in 4Q22 reached 2.9%, much higher than our expectation of 1.8%. For 2022, the GDP growth was 3%, missing government's target of 5.5%. Due to zero covid policy in the first 11 months, consumption and service activity was weak. Retail sales dropped 0.2% in 2022 after rising 4.3% in 2020-2021 and service GDP growth decelerated from 5.1% in 2020-2021 to 2.3% in 2022. The property market slump also dragged down the economic growth as gross floor area of commodity buildings and property development investment respectively dropped 24.3% and 10% YoY in 2022. Exports of goods was strong in the first three quarters yet sharply deteriorated from 4Q22 amid overseas recession risk.

GDP growth is expected to rebound from 3% in 2022 to 5.1% in 2023 thanks to domestic demand resumption. China economy should be in a gradual resumption in 2023-2024 as the country reopens economy, stabilizes property market and seeks a pro-business shift. Household consumption and service activity will

gradually resume after reopening. We expect retail sales and service GDP to increase by 6.5% and 5.9% YoY, respectively, in 2023. Meanwhile, housing market sales may gradually stabilize in 2H23 with a mild decline for the whole year. Property development investment is expected to drop by 5% in 2023 after decreasing 10% in 2022. That points to a less negative contribution to the GDP growth. In addition, new leaders' pro-business shift may help boost private business confidence, which is positive for business capex. However, China exports may further deteriorate due to overseas recession, destocking and disinflation. We expect the exports of goods to drop by 3.5% in 2023 after rising 7% in 2022.

Household consumption may show a W-shaped upward trend after reopening. Due to zero covid policy and housing market slump, China's retail sales experienced sharp declines in 2022. Catering operation income dropped 6.3%, retail sales of clothing, cosmetics, home appliance, furniture, telecom equipment and construction & decoration materials respectively decreased 6.5%, 4.5%, 3.9%, 7.5%, 3.4% and 6.2% YoY last year. Looking forward, household consumption should see a W-shaped upward trend after reopening. At first, people will be worried about the infection with a decline of their mobility. As more and more people view the Omicron infection as a flu, people mobility will resume. Airline & railway transportation, caterings, hotels, tourism, apparel, cosmetics and medical product & service should recover rapidly, supporting the first wave of consumption recovery. As employment, income and confidence needs more time to resume, household consumption may slow again after the first wave of recovery. Then it will shift to the gradual resumption mode.

Housing sales is likely to stabilize in 2H23 with a mild decline for the whole year. China's housing market collapsed in 2022 due to the abrupt deleveraging especially for developers as well as zero covid policy. Gross floor area (GFA) sold and GFA started for commodity buildings respectively declined by 24.3% and 39.4% in 2022 after rising 1.9% and dropping 11.4% in 2021. Land area purchased decreased by 53.4% in 2022 after dropping 15.5% in 2021. As China reopens its economy and continues to loosen credit policy for the property sector, housing market may gradually resume in 2023. The reopening should facilitate a resumption of employment, income and confidence, which could support housing demand in the future. A decline of property developers' insolvency risk could improve homebuyers' confidence. In addition, easing credit policy should support housing market recovery. We expect the down payment ratio and contract rates of mortgage loans may further decline for first-home and second-home buyers. We believe Chinese government will not launch property tax in next two years. The resumption of China's property market in 2023 should be more gradual and slower than the previous cycles. The speculative demand has sharply declined. With an aging population and slower urbanization, housing demand in China has already peaked and is heading for a downward trend. Geographically, housing sales in tier-1 cities should be more robust than in tier-2 and other cities due to better supply-demand fundamentals. However, tier-3 and 4 cities may continue to see weak demand.

China should maintain accommodative monetary policy in 2023. China's monetary policy should remain accommodative as the growth is still below potential growth and reflation risk is low. As credit demand and risk appetite rebounds, liquidity demand may increase with a moderate rise of money market rates. However, liquidity condition should remain accommodative in 2023. RRR may be further cut once or twice more. Credit policy should stay easing especially for manufacturing, hard tech, service business & SMEs. The central bank may further cut LPRs moderately and guide banks to expand credit supply to property sector and LGFVs. We expect credit demand may recover gradually with the growth of new RMB loans and total social financing respectively up from 5.3% and 4.6% in 2022 to 11% and 10% in 2023. As saving propensity and risk aversion sentiment decline, M2 growth may slow from 11.8% at end-2022 to 11% at end-2023.

China's fiscal policy will be more proactive in 2023. Broad fiscal deficit including general fiscal deficit & local government special bond quota may increase by RMB800bn in 2023. Broad fiscal deficit ratio will rise from 5.8% in 2022 to 6.2% in 2023. China will expand policy bank credit and local government financing vehicles' financing as quasi-fiscal tools to boost the growth. Some tax reduction policies may extend into 2023, such as the purchase tax exemption on new energy vehicles, and value-added tax reduction for small & micro

businesses. Some new tax reduction schemes may be introduced, such as further reduction in individual income tax. The total scale of tax reduction may exceed RMB1.5trn in 2023. We expect general fiscal revenue and expenditure to respectively rise by 6.5% and 4.5%. Governments will spend more funds on education, technology, employment & social security, health care, agriculture and rural development next year.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Woori Bank	600	5yr	4.875%	4.955%	A1/A+/-
Asahi Mutual Life Insurance Company	375	Perp	6.9%	6.9%	-/-/BBB

➤ Offshore Asia New Issues (Pipeline)

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

➤ News and market color

- Regarding onshore primary issuances, there were 97 credit bonds issued yesterday with an amount of RMB65bn. As for Month-to-date, 955 credit bonds were issued with a total amount of RMB837bn raised, representing a 8.2% yoy decrease
- **[CFLD]** China Fortune Land has gained majority consent from offshore bondholders for its debt restructuring plan. Bondholders holding 94.2% of the company's outstanding notes attended the scheme meeting. Among those attended, 97.9% voted in favor of the restructuring plan
- **[CIFIHG]** CIFI to postpone CBICL-backed bond offering; expects to sign cooperation deal with another big bank this week
- **[COGARD]** Country Garden repaid the outstanding amount of the 4.75% senior notes due in Jan'23 in full with accrued interest at maturity
- **[EVERRE]** China Evergrande is in talks with creditors on offshore debts restructuring that includes two options. First option involves debts extension with 2% coupon over maximum 12 years. The second option is partial debt-to-equity swap involves the company, its vehicle (0708.HK) and property services (6666.HK) units via hybrid securities issuance such as convertible bonds, and maturity extension for a shorter time period with coupon in 6-7% range
- **[GRNKEN]** Greenko signed term sheet with six lenders for bridge loan to refinance GRNKEN 6 ¼ 02/21/23 due next month. The outstanding amount is USD435mn
- **[GRNLGR]** Greenland has cured the missed 25 Dec'22 coupon on its USD 479.78m 6.75% bonds. It also aims to cure the missed 3 Jan'23 coupon on its USD 599m 5.875% notes within the 30-day grace period
- **[KWGPRO]** KWG aims to cure the missed 13 Jan'23 and 14 Jan'23 coupons within grace period. Previously, the company cured a missed 10 Nov'22 coupon within the grace period, the first late payment on offshore bond

CMB International Global Markets Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

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