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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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- *Markets sentiment was weak this morning. IG new issues ICBCAS Float'26 widened c10bps, ICBCAS 5.375'26 widened c15bps. LGFV new issues JINLIX'26 was firm while CONSON'26 down c0.5pt. IG space widened 1-3bps and flows continued to focus on front-end names.*

- ***GLPSP:** Updates after rating downgrade. GLPSPs were unchanged to down 0.3pt while GLPCHIs were unchanged to down 1pt this morning. See below.*

- ***China Economy – In a mild recovery cycle:** CMBI revises the forecast for GDP growth of China in 2023 from 5.1% to 5.2% and maintain the GDP growth forecast for 2024 at 4.8%. See below for comments from our economic research*

❖ Trading desk comments 交易台市场观点

Yesterday, overnight UST yield widened 6-12bps across the curve. On the primary front, new KEBHNB 28s tightened 6bps from RO to close at T+94. The recent new KDB 28s/33s tightened 1-2bps while its 3yr FRN and fixed rate bonds closed unchanged. Chinese SOE/TMT benchmarks were better bid. CNOOC '24/SINOCH '26 were 2-5bps tighter. We saw good buying demand in HAOHUA/TENCNT. The high beta TMTs MEITUA/XIAOMI 30s were unchanged to 4bps tighter. In financials, flows remained very active two-way in the front end of bank T2/leasing papers. BCHINA/ICBCAS/CDBFLC 25-30s tightened 1-2bps. AMCs were mixed. HRINTHs were traded unchanged to 0.5pts lower. CCAMCLs, on the other hand, tightened by 5-10bps. In Thai AT1s, BBLTB/KBANK AT1s were down 0.1pt. European AT1s were better-offered and HSBC/STANLN Perps lowered 0.3-0.5pt. HK Corp perps were quiet and CKINF 4.85 Perp/CKINF 4 Perp were down 0.4-1pt. Chinese properties drifted lower. GEMDAL '24 dropped another 3.5pts to close at high-teens. LNGFOR 27-32s dropped 1.9-4.4pts. FUTLANs/FTLNHDs fell 1.4-3.9pts. CHJMAO 29/CHJMAO 7.125 Perp lowered 2.5-2.8pts. VNKRLE 25-29s declined 1.3-2.5pts. COGARD failed to meet the USD15.4mn interest payment before the grace period ends on 18 Oct as expected. SHUION/YLLGSP 24-26s were 0.5-1pt lower. Last night, media reported SHUION was to redeem its originally USD500mn bond due on 12 Nov with internal cash. On the other hand, RDHGCL 24/ROADKG 26 were 0.4-1.4pts higher. Industrials performed mixed. ANTOIL '25/EHICAR '26 were 0.5-0.6pt higher while WESCHI '26 declined 0.9pt. In Macau gaming, MPEL/SANLTD/STCITY/WYNMAC 28-30s were 0.7-1.4pts lower. In Indian space, ADSEZs/ADTINs were 0.4-0.7pt lower. Indonesian SOEs PLNIJ/PERTIJs were 0.5pt lower.

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In the Perp/LGFV spaces, sentiment remained constructive despite higher rates. On the new issue front, CONSON priced USD210mn 3yr bond at par to yield 7%. We continued to see robust deployment flows from Chinese AMs in c24-c26 SOE perps at low-to-mid-6%, and to a lesser extent in several quality LGFV names such as JNHITE/HZCONI. Meanwhile, the selling flows were mostly driven by clients switching out very short dated LGFVs. In SOE perps, RLCONS 3.97 Perp/CHCOMU 3.65 Perp/CHSCOI 3.4 Perp were 0.1pt higher. There were also small selling flows in longer-dated c27 SOE perps. Elsewhere in Shandong names, SHDOIS/SHGUOH 24-25s were 0.1pt higher. JIMOTM 24/25 were bid 0.4pt higher. CPDEV 26/Perp were 1pt lower.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
RDHGCL 7.8 03/20/24	**59.0**	**1.4**
EHICAR 7 09/21/26	**62.8**	**0.6**
ANTOIL 8 3/4 01/26/25	**89.6**	**0.5**
EHICAR 7 3/4 11/14/24	**80.7**	**0.5**
ROADKG 5 1/8 07/26/26	**31.1**	**0.4**

Top Underperformers	Price	Change
LNGFOR 4 1/2 01/16/28	**48.1**	**-4.4**
FUTLAN 6 08/12/24	**49.1**	**-3.9**
LNGFOR 3.95 09/16/29	**40.3**	**-3.5**
GEMDAL 4.95 08/12/24	**18.5**	**-3.4**
CHJMAO 4 1/4 07/23/29	**59.9**	**-2.8**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-1.34%), Dow (-0.98%) and Nasdaq (-1.62%) retreated on Wednesday. China Sep unemployment rate was 5.0%, lower than the expectation of 5.2%. Euro-zone Sep CPI was +4.3% yoy, down from +5.2% in Aug and same with the expectation. Long-term UST yields rallied higher while short-term yields were unchanged yesterday, 2/5/10/30 yield reached 5.19%/4.92%/4.91%/5.00%, respectively.

❖ Desk analyst comments 分析员市场观点

➢ GLPSP：Updates after rating downgrade

GLP hosted an investor call yesterday after Fitch downgraded GLP Pte. Ltd. (GLP) two notches to BB on 16 Oct'23 and placed stable outlook on GLP. The downgrade is driven by GLP's delayed deleveraging via assets monetization.

As per GLP, debts subject to rating trigger is less than 1% GLP's total debts, i.e. debt of cUSD146mn being affected. Among its USD14.6bn debts, 56% (cUSD8.2bn) are fixed rate debts. GLP does not expect a material impact on financing costs because of the lost of IG status as relationship banks remain supportive. Indeed, it expects interest expense to decline in the course of deleveraging.

For GLP proposed USD10bn assets monetization plan in FY23, USD3.4bn has been executed and contracted YTD, cUSD3.5bn has entered an advanced stage of execution. Some assets monetization may be postponed into FY24 from 2H23 while the company does not provide specific amount of the assets. That said, we take some comfort that c50% of its GLP's capex plan is uncommitted and GLP will balance future capex with liquidity and leverage.

In 1H23, GLP's revenue rose 34% yoy to USD1.2bn while EBITDA down 47% yoy to USD788mn due to decline in the value of investment properties. As of Jun'23, GLP had USD2.5bn cash on hand and USD6.5bn/8.1bn short-term/long-term debts. The USD6.5bn short-term debts includes USD2.6bn due in 2H23 and USD3.9bn due in 1H24. GLP has fully addressed USD2.6bn debts due in 2H23 and is preparing the refinancing of USD3.9bn maturities in 1H24 through cash on hand, refinancing loans and proceeds monetization. The timely completion of asset monetization plan remains the key for its deleveraging and refinancing efforts.

➢ China Economy – In a mild recovery cycle

China's economy showed signs of bottoming out in 3Q23 as GDP, retail sales, industrial output and service activities came in above market expectation and continued its mild recovery. The improvement of social financing flow and alleviation of deflation showed similar implications. Property sector remained the major drag on the economy, but may narrow its YoY declines in next few months. The PBOC will maintain accommodative monetary policy with additional cuts in RRR, deposit rates and LPRs next year. The cabinet may mildly increase broad deficit ratio for 2024 and allow local governments to swap their hidden debts with special refinancing bonds. The latest policy easing cycle may become the strongest one since 2017. China's economy may gradually improve in next four quarters. We revise our forecast for GDP growth for 2023 from 5.1% to 5.2% and maintain the GDP growth forecast for 2024 at 4.8%.

GDP growth came in above market expectation as economy stabilized in 3Q. China's GDP rose 4.9% YoY (all on a YoY basis unless otherwise specified) in 3Q23 after growing 6.3% in 2Q23, higher than the market consensus. Meanwhile, the SA QoQ growth of GDP accelerated to 1.3% from 0.8%, and the 2Y CAGR of GDP edged up to 4.4% from 3.3%. In 3Q23, property sales & development investment remained sluggish while both exports and retail sales mildly rebounded from its trough in July. Infrastructure investment gradually softened as mounting LG debt limited its fiscal resource while manufacturing investment mildly picked up. The household saving rate reached its lowest since early 2022. Although the data shows a clear pattern of seasonality, it is far below the level in 3Q22 and almost below 4Q22. Economy in 3Q shows signs of bottoming out as illustrated in credit, trade and service output data, although aggregate demand remained soft domestically and internationally, which will weigh on the future growth. The 5% growth target for 2023 seems achievable as it only requires 4.4% growth in 4Q.

Property sector remained in deep contraction with continuous improvement in second-hand housing sale. The gross floor area (GFA) sold and the GFA started for commodity buildings respectively dropped 7.5% and 23.4% YoY (all in YoY terms unless specified) in 9M23 after decreasing 7.1% and 24.4% in 8M23. Property development investment further declined 9.1% in 9M23 after dropping 8.8% in 8M23. 30 major cities continued to see declining recovery ratio of commercial housing unit sales compared to the same period in 2019 in Sep, driven by the deterioration in tier-2 and 3 cities even though there is a huge rebound in tier-1 cities due to the loosening of property policy. However, when looking into the data in the first half of Oct, tier-1 and -2 cities further dropped with the lower policy momentum. The recovery ratio of second-hand housing unit sales in 11 major cities stayed unchanged in Sep but significantly improved in the first half of Oct, with divergent performance across cities. Breaking down the funding source for property development investment, deposit & advance payment and individual mortgage fund both further dropped 9.6% and 6.9% in 9M23 after falling 7.3% and 4.3% respectively in 8M23. Meanwhile, domestic loan fund declined 11.1% in 8M23 after dropping 12.8% in 7M23. Policymakers have loosened property policy and expanded credit supply to support the collapsing housing market, as we have seen the rebound in tier-1 cities recently and tier-2 cities earlier. However, the momentum from policy easing seems to fade away quickly after just one month or two. Moreover, the resurgence in sales in higher tier cities seems to deploy a crowding-out effect on the lower tier cities, especially the tier-3 cities where most of the assets of troubled property giants like Ever Grande and Country Garden located, which will further harm their revenues. Looking forward, housing sales may see tentative stabilization in October and November as stimulation carries on. However, the short-lived recovery may quickly dwindle without further and stronger policies support.

Retail sales continued to recover amid high energy price and robust summer demand. Retail sales came in above the market expectation by rising 5.5% in Sep after climbing 4.6% in Aug. Its 2Y CAGR dropped to 4% in Sep, down from 5% in Aug. Looking into the details, food, beverage, daily used goods, medicine and auto continued to surge with their 2Y CAGRs respectively rose from 6.3%, 3.3%, 2.5%, 6.4% and 8.2% in August to 8.4%, 6.4%, 3.1%, 6.9% and 8.4% in Sep, while catering service and petroleum product slowed down to 5.8% and 9.5% from 10.4% and 11.4%. Housing-related durables remained weak as furniture and home appliance respectively grew 0.5% and -2.3% YoY with their 2Y CAGR at -3.5% and -4.2%. Construction & decoration materials narrowed its YoY decline to 8.2% from 11.4%, but its 2Y CAGR remained negative at –8.2%. Recovery of telecom equip rebounded as the 2Y CAGR edged up to 3.1% in Sep from 1.7% in Aug. Looking forward, retail sales may maintain mild to moderate recovery as employment and confidence slowly improve. We maintain our forecast for the retail sales growth in 2023 at 7.5%.

Service activities and industrial output both stayed almost unchanged. Service output index and VAIO growth almost stayed flat as they respectively rose 6.9% and 4.5% in Sep after growing 6.8% and 4.5% in Aug, indicating a slowdown in recovery. In terms of 2Y CAGRs, VAIO increased to 5.4% from 4.4% in Aug while service output index decelerated to 4.1% from 4.3%. In the service sector, lodging and dining, information transmission, internet & IT service and transportation saw higher YoY growth and transportation, postal service, and telecom service showed good sentiment. In the manufacturing sector, auto sector continued to be the highlight in the economy with elevated 11.4% YoY growth in 9M23 amid strong export and domestic performance. Output in chemical products, rubber & plastic product, food production, ferrous & non-ferrous metal smelting & pressing, and electronic equipment saw robust growth while textile, nonmetal mineral products, medicine, non-metal product and general purpose equip remained weak as domestic and foreign demand remained weak. Looking forward, we may see a gradual recovery of service sector and VAIO as domestic consumer demand continues to improve and exports further narrow the declines.

FAI slightly recovered with strong recovery in manufacturing despite further weakening in property investment. FAI picked up 2.5% in Sep after rising 2% in Aug. Property sector remained sluggish as property development investment fell by 11.3% after declining 10.9% in Aug. The liquidity condition of most private developers remained restricted as some of them started to commit credit default and re-organize their foreign debt. We do not see any signs of substantial change in the trend of deterioration. The YoY growth of FAI in manufacturing further rebounded from 7.1% in Aug to 7.9% in Sep, the highest since the past 12 months. Looking forward, chemical product, auto and electrical material & equipment may maintain strong FAI growth as the energy transition and smart technology revolution boosts business capex in these sectors. However, most other manufacturing industries are likely to see a gradual slowdown in FAI due to continuous slowdown in demand growth as well as uncertainty in domestic policy and geopolitics. Infrastructure YoY growth mildly recovered at 6.8% in Sep from 6.2% as local government expanded the fiscal support amid an acceleration in local government bond issuance. The YoY growth of FAI in public utility, transportation, storage & post service, and railway transportation remained elevated while fixed investment in public facility management and health & social welfare remained weak. Looking forward, we expect infrastructure investment may continue to expand since the new trend in credit data showed that the government is picking up debt to offset the deficit of private credit demand. We maintain our forecast on the FAI growth in 2023 at 3.8%.

China needs continuous accommodative policy in 2024. China is likely to maintain 5% GDP growth target for 2024. However, the tumbling property market still casts a shadow on the economic growth and business & consumer confidence remains low. As the comparison base rises, it may become even more difficult to achieve the 5% growth target next year. Therefore, China needs continuous accommodative policy in 2024. The PBOC is likely to maintain easing monetary policy with additional cuts in RRR, deposit rates and LPRs and guide banks to further expand credit supply. The central bank may also use special lending facility to support policy banks to make special low cost loans to facilitate the inner-city renewal projects. Meanwhile, municipal governments may further loosen property policy to stabilize property sector. In addition, the cabinet may increase broad fiscal deficit from 6% of GDP in 2023 to 6.4% of GDP in 2024. Provincial governments will be allowed to issue special refinancing bonds within quotas to replace some matured hidden debts. We expect a mild recovery in China's economy with GDP growth expected to reach 5.2% in 2023 and 4.8% in 2024

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➢ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
ICBC Hong Kong	500	3yr	5.375%	T+45	A1/-/-
ICBC Singapore	1000	3yr	5.945%	SOFR+60	A1/-/-
Jinan Lixia Holdings	300	3yr	7.3%	7.3%	-/-/-
Qingdao Conson Development	210	3yr	7.0%	7.0%	-/-/-

➢ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Medco Energi	USD	-	5.5NC2	9.5%	B1/B+/B+

➢ News and market color

- Regarding onshore primary issuances, there were 108 credit bonds issued yesterday with an amount of RMB112bn. As for Month-to-date, 566 credit bonds were issued with a total amount of RMB597bn raised, representing a 3.9% yoy decrease

- Media reported that PBOC ordered state-owned banks to roll over LGFV loans with longer-dated loans at lower interest rates

- **[CHADEC]** Changde Urban Construction and Investment issued RMB800mn 3.75% three-year MTNs

- **[COGARD]** Country Garden expects that it is unable to meet all offshore obligations on time

- **[FRESHK]** Far East Horizon unit proposes to offer up to RMB1.5bn two-year corporate bonds to repay debts

- **[HYUELE]** SK Hynix denied report that it approached SoftBank on Kioxia merger

- **[LOGPH]** Media reported that Logan's bondholder AHG yet to agree to revised proposal reducing debt by 34%, further extending remaining paydown to 8 years

- **[PTTGC]** PTT Global Chemical announced that it has repurchased and cancelled cUSD160mn of long-term bonds due 2031,2032 and 2052

- **[SANLTD]** Sands China 3Q23 revenue rose 609.2% yoy to USD1.78bn, adjusted property EBITDA turned to positive as USD631mn

- **[SHARAO]** Shangrao City Construction Investment Development Group proposed to issue USD30mn 6.5% credit enhanced bonds due 2026

- **[SHUION]** Media reported that Shui On will redeem due-12 Nov USD500mn bonds with internal cash

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