

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.

- *Markets overall stayed quiet with two way balanced this morning. Offshore buyer's interest shifted from LGFV to SOE perp and AT1. LGFV names with obvious regional diversity performed better.*
- *Indika completed the sale of its entire 69.8% stakes in Petrosea for cUSD147mn, we maintain Buy on INDYIJs in view of Indika's stronger cash, improving liquidity and progress in ESG. See below.*
- *Chinese properties: the politburo meeting showed more supportive tone but lack of details. We do not expect drastic and concrete supportive measures to come before 20th CPC National Congress in Oct/Nov'22. Selected IG and HY developers were lifted by the news of PBOC bail-out. VNKRL/SINOCE up 3.5-6pts while COGARD up 2-3pts. See below for comments on the sector and our economic research's comments on the politburo meeting.*

❖ Trading desk comments 交易平台市场观点

Yesterday, Chinese IG space was firmer after the well-expected 75bps rate hike and spreads slightly tightened 2-4bps. TMT sector saw some short covering, MEITUA/TENCNT tightened 3-8bps.. In financial sector, spreads remained unchanged as investors took some time to digest rate hikes. Heading into the afternoon, AT1s gained some further strength as a FT report came out saying PBoC was set to provide as much as RMB1tn of low-interest loans via commercial banks to help developers complete their stalled property projects. Chinese HY space closed the day flat with limited flows. CENCHI 23s/24s outperformed by posting further 5-8pts gains, boosted by investors' continued confidence that CCRE shall redeem its due-Aug bonds on time. CENCHI 6.875 08/08/22 up 6pts and marked at 95 level at EOD. Other than this ticker, benchmarks were unchanged as China credit space opened without much conviction. COGARD was up 3pt since the state support news spread on Monday and was up further 2pts on screen during yesterday afternoon. CIFIHG/SINOCE up 2.5-3.5pts since the chatter came out. In industrial sector, HONGQI up 0.5pt. Macau gaming names were broadly up 0.5-1pt after the city reported no new Covid cases for the first time in more than a month. WYNMAC up 2-2.5pt.

In LGFV/SOE space, market was quiet post-FOMC highlighted by the dovish interpretation of Powell's speech. Most clients stayed put, waiting for more signals (US GDP and PCE data). Short covering continued to dominate flows. NANYAN 6.5 PERP was particularly strong, up 98 in street and +1pt on the day. ICBCAS 3.2 PERP merely ground ~0.25pts higher.

PLEASE READ THE AUTHOR CERTIFICATION AND IMPORTANT DISCLOSURES ON LAST PAGE

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On Thursday morning, client interests were highly focused on front-end 22/c22 papers, with two-way better buying flows at high -3%. Then notably more offshore Chinese NBRM switched their cash deployment interests from LGFV to short-dated-to-call AT1 and quality SOE perp papers. Both spaces edged 0.25-0.375pts higher. SOE benchmarks saw firmer buying interests. HAOHUA was 2-4bps tighter across the curve. Meanwhile LGFVs remained mixed and differentiation was reflected more apparently in prices. High-quality names from the Jiangzhehu region were well supported by onshore banks, whilst weaker names (western/ northeast) remained heavy and saw some low ball hits. In the middle, names from Shandong/ Fujian showed technical-driven flows. Among other names, ZHAPIE/ ZHANLO gradually stabilized at low -5% as loose bonds drained.

➤ Last trading day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CENCHI 7 1/4 04/24/23	30.2	8.5	LASUDE 5 07/28/26	79.2	-9.4
CENCHI 7 3/4 05/24/24	23.3	7.3	LIHHK 4.8 06/18/26	78.5	-6.2
CENCHI 6 7/8 08/08/22	84.6	7.0	MINMET 4.95 07/22/26	95.0	-2.1
CENCHI 7.65 08/27/23	29.6	5.6	CINDBK 3 1/4 PERP	92.2	-1.9
CENCHI 7.9 11/07/23	29.6	5.5	FLY 7 10/15/24	58.4	-1.8

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock market continued rebounding yesterday though the U.S. published -0.9% GDP on an annualized basis. The powerful bounce of S&P (+1.21%), Dow (+1.03%) and Nasdaq (+0.92%) recently showed the markets have digested the interest rate lifting and second consecutive negative GDP rate. Chinese politburo held 2H22 economic meeting, aimed at stabilizing real estate market and expanding domestic demand. U.S. treasury yields fell around 10bps after the slipping GDP published. Yield curves bull steepened with 2/5/10/30 yield reaching 2.85%/2.69%/2.68%/3.02%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ Indika: completion of Petrosea sale, maintain Buy on INDYIJs

On 28 Jul'22, Indika completed the sale of its entire 69.8% stakes in Petrosea to CARA for cUSD147mn. Recalled that Indika obtained shareholders' approval on the sale in May'22. The sale is part of Indika's diversification strategy and implementation of sustainability of the business activities. Indika targets to generate 50% of its revenue from non-coal businesses and to achieve net-zero emission by 2025. In 1Q22, Indika's revenue and EBIT rose 58% and 400% yoy to USD 831mn and USD187mn, respectively, thanks to higher ASP of thermal coal (up 56.6% yoy to USD70.8/ton). On the back of stronger operating cash flow and liquidity, Indika completed the partial tender offer and repurchase of INDYIJ'24 and '25 totalled USD104.8mn in principal amount. We maintain Buy on INDYIJs in view of Indika's stronger cash, improving liquidity and progress in ESG.

➤ Chinese properties: More supportive tone from the government but lack of details

In our view, the key takeaways from the politburo meeting yesterday on the Chinese property sector are:- 1) the emphasis on stabilizing property market while reiterating "housing is for living in, not for speculation"; 2) local governments' responsibility of ensuring the delivery of housing projects; and 3) the importance of financial system stability and the needs to resolve the risk of smaller banks. The messages are consistent with recent

news flow such as the State Council's approval a real state fund to provide financial support to 12 developers and PBOC's USD148bn bail-out fund. We believe that these news flow will support the near-term market sentiment and there could be talks and discussions of more supportive measures. That said, there are limited details as to the usage of the funds, allocation of these funds among developers and timing of implementation. How these will benefit offshore USD bondholders remains unclear. Indeed, we do not expect drastic and concrete support measures to come before 20th CPC National Congress in Oct/Nov'22. Selected IG and HY developers were lifted by news of PBOC bail-out. VNKRL/SINOCE went up 3.5-6pts, HY names like COGARDS were up 2-3pts.

➤ **China Policy: Limited new stimulus in 2H22**

The politburo emphasized the multiple targets of epidemic control, growth stability and development security at the meeting yesterday as it suggested flexibility on the GDP growth target for 2022. This indicates that new policy stimulus may be limited in 2H22. The policymaker said to maintain zero-Covid policy, which may continue to influence the economic resumption progress in 2H22. The politburo vowed to stabilize property market while requiring local governments to take the responsibility of resolving the stalled projects. Looking forward, as China's economy is expected to resume in a gradual manner, we maintain the forecast for GDP growth at 3.5% in 2022 and 6.6% in 2023.

- **Policymaker suggests flexibility on the GDP growth target.** GDP growth is important, as it is a key for employment and social stability. However, it is not the only goal for the Chinese policymaker. The politburo emphasized the high-quality development at the meeting as it maintained the multiple targets of pandemic control, growth stability and development security. The Chinese policymaker realized it is impossible to achieve the 5.5% growth target as the politburo said to strive to achieve the best result. It required the provinces with large economies to take the lead while the provinces with better conditions should strive towards the expected targets. We maintained our conclusion in the report [“China Economy: In the resumption cycle with slowing pace in near term”](#) on 18 July that China had given up its growth target of 5.5% for 2022. The 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 not an easy task as the property market malaise and zero-Covid policy may continue to restrain economic resumption progress.
- **China will maintain zero-Covid policy with effort to speed up vaccine & medicine development.** The politburo vowed to maintain zero-Covid policy as it said China should do the cost benefit analysis from the political perspective. Under the zero-Covid policy, local governments must respond rapidly after the outbreak of the epidemic and resolutely control its spread. Therefore, the zero-Covid policy may continue to restrain economic resumption in 2H22. The politburo also required to accelerate the vaccine and medicine development.
- **More proactive attitude in expanding demand yet with limited new policies mentioned.** The politburo said to use government special bond fund well to support aggregate demand. It required monetary authority to maintain easing liquidity and facilitate more credit supply to business. The politburo also said to make a good use of policy banks' new credit and infrastructure investment fund. But all those mentioned policies are not new.
- **The policymaker vowed to stabilize property market and resolve the stalled housing projects.** The politburo vowed to stabilize property market while reiterating “housing is for living in, not for speculation”. It required local governments to shoulder the responsibility of ensuring the delivery of housing projects. The politburo also said to keep financial system stability while resolving the risk of some small banks.
- **More friendly attitude towards platform companies.** The politburo confirmed the target of completing the reform of the platform economy by the end of this year. Then the regulation of the sector will be

normalized and a slew of “green lit investment cases” will be launched. It indicates some platform companies will be encouraged to invest in new projects the authority allows.

Click [here](#) for full report.

➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Posco Holdings Inc(POHANG)	USD700	3yr	4.375%	T+160	Baa1/A-/-
Posco Holdings Inc(POHANG)	USD300	5yr	4.50%	T+185	Baa1/A-/-

➤ 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 62 credit bonds issued yesterday with an amount of RMB48bn. As for Month-to-date, 1371 credit bonds were issued with a total amount of RMB1306bn raised, representing a 11.9% yoy decrease
- The fresh public tender for Macau gaming rights will be launched on Friday (29 Jul'22) and run until 14 Sep'22. The new concession will start on 1 Jan'23
- [AVILC]** AVIC International Leasing raised RMB1.2bn via an offering of two-year MTNs with a coupon rate of 2.74% to repay interest-bearing debts
- [CNBG]** China National Bluestar proposed to offer RMB1.5bn two-year MTNs to repay interest-bearing debts
- [CNSHAN]** Shandong Hi-Speed Group raised RMB2bn via an offering of corporate bonds that consist of a RMB 1nb five-year tranche at a coupon rate of 2.78% and a RMB1bn 10-year tranche at a coupon rate of 3.64%
- [EVERRE]** Media reported China Evergrande put its Hong Kong headquarters - China Evergrande Centre - up for sale at HKD9bn
- [GEMDAL]** Gemdale's subsidiary Shenzhen Gemdale Building Materials will invest up to RMB1bn to buy the listed company's bonds on the secondary market. Some of Gemdale's directors and key executives bought RMB20mn of its bonds “18Jindi01”, “18Jindi07”, “21Jindi01”, “21Jindi03” and “21Jindi04” on the secondary market
- [HONGQI]** Shandong Hongqiao New Material, a subsidiary of China Hongqiao, proposed to offer up to RMB1bn three-year corporate bonds. The company will have the option to adjust the coupon rate while the bondholders will have puttable option
- [JINKE]** Jinke received approval to extend by one year its RMB1bn 5.58% bond due 2024 puttable 1 August (20 金科地产 MTN001)

- **[KWGPRO]** S&P downgraded KWG Group's long-term issuer credit rating to CCC from B- due to its escalating refinancing risk
- **[MIANYA]** Fitch assigned Mianyang Investment Holding's (MIANYA, BB/Stable) proposed US dollar senior unsecured offshore bonds a rating of 'BB'. The proposed bonds will be MIHC's direct obligation
- **[SHIMAO]** United Overseas Bank filed a suit at the Hong Kong High Court against Shimao Group and four of its units seeking an order that would require the defendants to unwind the transfer of assets within the property developer group that led to a substantial dilution of security backing a HKD10bn loan
- **[TQLTHI]** Tianqi Lithium paid off a loan with a principal of USD1.129bn, accrued interest and related expenses, the rest part of a USD 3.5bn syndicated loan
- **[YANORI]** Yancheng Oriental Investment & Development raised RMB100m via an offering of three-year MTNs with a coupon rate of 4.50% to repay interest-bearing debts
- **[YANTZE]** China Three Gorges Corp would issue USD300mn 3.625% guaranteed notes due 2025

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