

CMBI Credit Commentary

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

- *Markets were overall quiet this morning. We saw PB punting interests on LZINVE 4.15 22 this morning after the news that Lanzhou government signed cooperation framework with China National I&G. Besides, there were active short coverings on SOEs like HUADIA/RLCONS/ICBCAS.*
- **CHINA AMCs:** *HRINTHs and CCAMCLs remain to be our preference. See below.*
- **CHINSC:** *Media reported that China SCE plans to issue RMB1-1.5bn (cUSD143-214mn) bonds guaranteed by CBIC. CHINSC'23/25 rallied ~6-8pts this morning. The issuance was still in preliminary stage and market appears to have over-reacted. See below.*

❖ Trading desk comments 交易台市场观点

Yesterday, IG was stable ahead of FOMC albeit flows were on the quieter side. Financials spreads were unchanged to 2-3bps tighter with T2s outperformed on RM buying. The 4%-handle yielding AT1s (callable 25-26s) were down another 0.125-0.25pts driven by dealers hitting each other in street as 2yr rates moved towards 4%, although support was generally found at ~4.8%-4.9% for these papers led by the resilient ICBCAS 3.2% Perp. Leasing/non-bank benchmarks were quoted 1-3bps tighter on the back of strong buying demand. AMCs were a touch lower, with light selling on the longer-end papers. TMTs performed mixed and stayed range-bound. BIDU/TENCNT tightened 2-5bps. IG property were unchanged to +0.25pt with RM adding frontend. China HY traded softer on the day. In industrials space, FOSUN curve were still better selling with 25s down 2.5pts, while front-end still relatively supportive. HONGQIs were marked 0.5-1pt lower amid temporary power cut flagged risk of hydropower shortage, as Hongqiao relocated its production base from Shandong to Yunnan. EHOUSE'24/AACTEC'31 were also around 2.5pts lower. In gaming space, STCITYs/SANLTDs closed 0.5-2pts higher. Property sector had a wait-and-see session prior to FOMC meeting. COGARDs were traded down 1-2pts amid S&P downgraded its long-term issuer credit rating to BB from BB+ and gave negative outlook. CIFIHG/AGILEs also 0.5-1.5pt lower. Elsewhere, GRNLGR 22-23s were 1-1.5pts higher. CHFOTNs were still traded at low-10s. LIHHK 24-25s were up 1-1.5pts. Away from China, Indian and Indonesian HYs went sideways. Renewable names slightly rebounded from lows, GRNKENS/AZUPOEs were unchanged to 0.5pt higher.

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Most investors in the SOE Perp/LGFV spaces remained on the sidelines ahead of FOMC meeting. In SOE space, we saw some clients trying to pick up 2-3y central SOE bullets. On client front, we saw some fund managers trying to pick up 2y-3y SOE bullets and T2 papers at ~4.8%-5.0% as absolute yield looked not bad to those who needed to deploy. We saw some market participants might even want to bet on a potential technical reversal in rates post-FOMC as priced-in expectations were fairly hawkish (+75bps/+50bps-75bps/+50bps into yearend). Elsewhere in LGFV space, flows were mainly two-way in front-end 22s papers in light of cash parking/ risk management needs. LZINVE 22s were traded up 1-1.5pts. We saw the name being actively traded among offshore RM/HF and onshore structured flows, and LZINVE 22s were now supported at ~90 level. GXFING'23/YWSOAO'23 were also sought after.

➤ Last trading day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CSCHCN 9 10/09/24	46.3	4.4	ZHLGHD 9 3/4 12/31/23	21.0	-3.3
GRNLGR 5.6 11/13/22	76.4	1.4	JIAYUA 12 10/30/22	12.5	-2.6
LIHHK 4 1/2 06/26/25	76.4	1.2	FOSUNI 5.95 10/19/25	36.7	-2.5
LIHHK 4 7/8 07/15/24	85.4	1.2	EHOUSE 7.6 06/10/23	26.1	-2.5
FOSUNI 5.95 01/29/23	80.8	1.2	FOSUNI 6.85 07/02/24	42.3	-2.3

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets closed lower on Tuesday. The S&P (-1.13%), Dow (-1.01%) and Nasdaq (-0.85%) down ahead of FOMC decision, the markets expects there is 80% probability of 75 bps hike and 20% for 100bps. PBOC published latest LPR yesterday and maintained 1-year/5-year at 3.65%/4.3% level. The mortgage rate for first house in 86 major cities has lowered to the floor level of 4.1% according to Beike Holdings data. Germany's PPI recorded a highest level as 45.8% yoy in August due to the surge of energy price. The U.S. treasury yields kept ascending yesterday, the yields curves bear flattened that 2/5/10/30 yield reaching 3.99%/3.75%/3.57%/3.59%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ Chinese AMCs: Another reality check

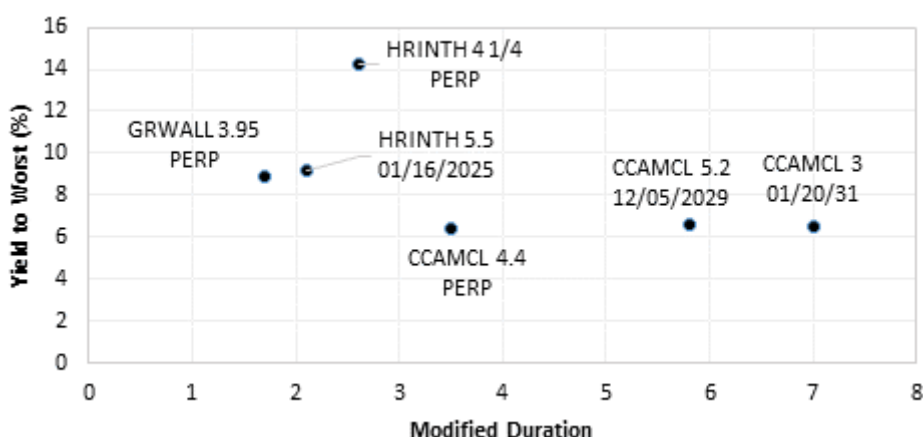
HRINTHs and CCAMCLs remain to be our preference

Chinese AMC papers have rebounded off the lows in early Jul'22 after the collateral damage of Great Wall's delay in publication of FY21 results. Nonetheless, the AMC benchmark papers are still 4-14pts below the levels in late Jun'22. We still see value in the sector given the proven government support and the sector's increasing strategic importance of the sector under the backdrop of the slowing Chinese economy, rising defaults and NPLs. Within the space, we prefer listed AMCs, i.e. Huarong and Cinda in view of the higher data transparency, and will continue to stay with shorter-tenor papers in a rising rate environment.

For better yield plays, we like HRINTHs and Huarong's improving credit story with better liquidity and access to funding channels after the 'bail-out' by the government last year. Our picks within the HRINTH curve are HRINTH 4.25% perps and HRINTH 5.5%'25 for lower cash price and better valuations.

For lower beta plays with stronger fundamentals, we prefer CCAMCLs and our picks are CCAMCL 5.2%'29, CCAMCL 3%'31 and CCAMCL 4.4% perps. For GRWALLs, we see trading value in the curve and our pick is GRWALL 3.95% perps as a short-tenor play.

Compared with [our recommendations in Jul'22](#), we replace CCAMCL 3.25%'27 with CCAMCL 5.2%'29 with higher YTW after the former's underperformance within the curve. For GRWALLs, we took away GRWALL 4.25%'25 as it looks less attractive compared with GRWALL 3.95 perps.



Summary of CMBI picks on Chinese AMC sector

	Ranking	Offer price	YTW	YTC	T-spread	Modified duration	Next call date
HRINTH 4 1/4 PERP	Subordinated	75.0	14.2%	13.7%	990.4	2.6	30/9/2025
HRINTH 5.5 01/16/2025	Sr Unsecured	91.8	9.2%	N/A	518.1	2.1	N/A
CCAMCL 5.2 12/05/2029	Sr Unsecured	91.6	6.6%	N/A	312.8	5.8	N/A
CCAMCL 3 01/20/31	Sr Unsecured	77.4	6.5%	6.5%	301.9	7	20/10/2030
CCAMCL 4.4 PERP	Jr Subordinated	92.4	6.4%	6.3%	260.8	3.5	3/11/2026
GRWALL 3.95 PERP	Sr Unsecured	90.8	8.9%	8.4%	462.7	1.7	31/7/2024

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➤ CHINSC: Preliminary discussions on issuance of CBIC-back onshore bonds

Media reported that China SCE plans to issue RMB1-1.5bn (cUSD143-214mn) bonds guaranteed by CBIC. We understand the discussions to issue CBIC-back onshore bonds is still very preliminary and even if the issuance will go ahead, the proceeds from the CBIC-back issuance will not be ready for funding the potential RMB2bn put of the onshore bonds (20Zhongjun03) on 21 Oct'22. The focus should be on the finalized put amount which we will find out after 13 Oct'22, the last day for holders to revoke the put. CHINSC'23/25 rallied ~6-8pts this morning. The market has over-reacted on the news in our view.

As reported previously, China SCE was in discussions with holders of 20Zhongjun03 not to exercise the put. As of 30 Jun'22, China SCE's bank deposit and cash was RMB18.1bn, including RMB3.6bn restricted cash, compared with RMB3.28bn debts in 2H22 if all holders of 20Zhongjun03 will exercise the put on 21 Oct'22.

There are signs of more developers (including those onshore rating below AA+) could be included for the CBIC-back insurance plan. This could be supportive for the market sentiment. However, the actual impact of CBIC-back issuance is somewhat constrained by CBIC's capital base, its limit on exposure to individual developers and availability of quality assets provided by developers as collaterals.

Onshore ABS	O/s amt (RMB mn)	Maturity	Puttable Date	Callable Date
21Zhongjun1C	10	20/12/2022		
21Zhongjun1B	960	20/12/2022		
21Zhongjun1A	310	20/12/2022		
Onshore Bonds				
19Zhongjun01	540	1/8/2023		
20Zhongjun02	506	1/7/2024		
20Zhongjun03	2,000	21/10/2025	21/10/2022	
Total onshore debts	4326			

Offshore Bonds	O/s amt (USD mn)	Maturity	Puttable Date	Callable Date
CHINSC 7.25% 04/19/2023	500	19/4/2023		
CHINSC 7.375% 04/09/2024	500	9/4/2024		
CHINSC 5.95% 09/29/2024	450	29/9/2024		29/9/2023
CHINSC 7% 05/02/2025	500	2/5/2025		2/5/2023
CHINSC 6% 02/04/2026	350	4/2/2026		4/2/2024
Total offshore debts	2,300			

Total maturities(inclu. putable)	Onshore (RMB mn)	Offshore (USD mn)
2H22	3280	0
1H23	0	500
2H23	540	0
After 2024	506	1800
Total	4326	2300

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

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Jiangsu Liyang High-tech Zone Holding Group Co., Ltd.	USD200	3yr	6.2%	6.2%	-/-/-
Tianjin Rail Transit Urban Development Co., Ltd.	USD107.8	364d	6.2%	6.2%	-/-/-

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

Issuer/Guarantor	Currency	Size (mn)	Tenor	IPG	Issue Rating (M/S/F)
Nanjing Pukou Economic Development Co.,Ltd. (SBLC by Beijing Bank)	USD	-	3yr	5.45%	-/-/-

➤ Market conditions and color

- Regarding onshore primary issuances, there were 98 credit bonds issued yesterday with an amount of RMB87bn. As for Month-to-date, 862 credit bonds were issued with a total amount of RMB846bn raised, representing a 11.6% yoy decrease
- **[CHFOTN]** China Fortune Land Development signed agreement to sell its Sanpu Witt Industrial Park to local state buyers and plans to sell Jiutong Xinsheng Park as well, the two parks are valued at RMB15bn(USD2.1bn)
- **[COGARD]** Country Garden Holdings has raised RMB1.5bn via an offering of CBIC-back 3-year MTN with a coupon rate of 3.2%; Moody's downgraded Country Garden's corporate family rating and senior unsecured rating to Ba2 from Ba1 and maintained negative outlook
- **[CSIPRO]** CSI Properties completed redemption of USD200mn 5.75% senior preps
- **[HENLND]** Henderson Land Development obtained HKD100mn bilateral loan from CCB Asia
- **[MEDCO]** Medco Energi expects its USD1.36bn acquisition of Corridor block will improve its cost efficiency by USD39mn per year
- **[SUNAC]** Media reported that Sunac offshore bondholder ad hoc group inclined to support objection to the winding-up filed by individual; The company considers a holistic domestic bond restructuring plan
- **[YUEXIU]** Yuexiu Property plans to issue up to RMB2.6bn(cUSD370mn) onshore bonds with 5-year and 7-year tranche

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