

CMBI Credit Commentary

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

- *Markets remained weak this morning. IG names were overall wider, SINOPE'30 +5bps and HAOHUA'30 +30bps. We also saw selling flows on LGFVs and active names down 0.5-1pt.*
- **China Economy:** *Growth remains weak. Maintain the forecast for 2022 GDP growth at 3.5% and revise down the forecast for 2023 growth from 6% to 5.5%. Assume a gradual reopening of China economy from 1Q23 and easing monetary & fiscal policies in 2023. See below for comments from our economic research.*
- *PBOC lifted Macro-prudential Adjustment Parameter for Cross-border Financing of Companies to 1.25 from 1, increasing the upper limit of Chinese company's offshore financing amount.*

❖ Trading desk comments 交易台市场观点

Yesterday, China IG space opened quite pessimistic with TMTs notably underperforming in sympathy with China stocks and the yuan's free fall, where HSI hit the lowest level since May 2009. In view of this, TENCNT 29/31 marked at least 15bps wider on the bid side on the day. TMT benchmarks continued the losing streak since last week. TENCNT'30 touched T+270 level before close on Monday, which translated to 45bps WoW widening, marking the worst weekly performance for this ticker since 2020 liquidity crisis. Financials space continued the softening tone, with AMCs underperformed again. AMCs opened weakly with HRINTHs trading 1-5pts lower. CCAMCL 4.4 Perp got hit aggressively to 85 level (-3 pts) possibly due to some structure winding flow. T2s widened 5-10bps. IG property weakened again as LNGFORs were down 4-7pts. VNKRLs/YUEXIU down 1-4pts. China HYs had light volume given Singapore Holiday. GEMDAL's onshore and offshore bonds both dropped, despite the company clarified the negative headline that the extension on non-standard financing was from two other developers, and Gemdale unit was not concerned by this issue whatsoever. GEMDAL'24 still met bids 7pts lower than BBG were lagging behind to show on screen. COGARDs dipped 1-2pts at mid-10s and CIFIHG were unchanged. LVGEM outperformed, with PB buyers and level unchanged. HK Properties' fixed-for-life perps encountered some selling from FM, against the backdrop of aggressive rate hike outlook and weak local housing prices. NWDEV 6.25 Perp notably dropped to 47/52 level off the screen. CKINF 4.85 Perp/REGH 6.5 Perp were also down 5-7pts. In industrial space, FOSUNI 23s outperformed to close up 1pt with better buyers. Whilst we also saw HONGQI'23/ZOOMLI'22 coming out in small-sized but these quality papers had been supported quite well by firm dealers' bids. Gaming space continued to trend 0.5-1.5pts lower with MPELs/WYNMACs down 2-4.5pts.

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Away from China, bonds from Indian and Indonesian issuers were largely sideways. LMIRT notes were still traded stable at high-50s, since last Friday's announcement that the company obtained an up to USD47.3mn bridging loan for refinancing.

In the LGFV/SOE Perp/AT1/T2 space, flows were on the light side today with SG out but sentiment in the spaces remained very risk-off, in line with macro. Flow wise, long end lacked buying support, while short end buyers were selective on the A rated credits, or bottom fishing on NC23 perps. SOE Perps/AT1s were as much as 1pt lower in thin bid liquidity amid one-way selling flows, in particular chemical names continued to trade heavy as RM trimmed exposure. CNBG/HAOHUA widened 9-12bps. In fact, spread products priced upon CT10 like HAOHUA 3-year were all weakening. AT1s followed the sentiment to end 0.25~0.5pt lower again, and ICBCAS 3.2 Perp seemed like to be heading towards 90 cash price level. There were better selling in LGFV 25/26 papers. Meanwhile, we also saw more asset managers selling bonds in LGFV sector to raise cash as bids only had support by short covering. Elsewhere in T2s, there were inquiries over CIMWLB 27's call, which is one off on 22 Nov 2022. Nonetheless, as specified in the MTN OC indeed the call notice is ≥ 15 days and ≤ 30 days, meaning it has just begun.

➤ Last trading day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
FLY 7 10/15/24	78.3	4.0	REGH 6 1/2 PERP	55.8	-6.8
LVGEM 12 03/10/23	69.2	2.9	LNGFOR 4 1/2 01/16/28	44.0	-6.8
ZJXCID 3.6 11/10/24	96.8	1.7	LNGFOR 3.95 09/16/29	37.7	-5.9
CSCHCN 9 12/11/24	41.0	1.5	VNKRLE 3.975 11/09/27	66.7	-5.8
ZJXCID 3.9 02/04/24	98.6	1.4	CKINF 4.85 PERP	79.5	-5.0

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets got another rebound yesterday. The S&P (+1.19%), Dow (+1.34%) and Nasdaq (+0.86%) were overall up while China concept stocks slumped. S&P Global published October U.S. manufacturing PMI as 49.9, was lower than the expectation of 51 and the lowest level for more than two years. The U.S. treasury yields turned to up yesterday. The yield curves bear steepened that the 2/5/10/30 yields reached 4.50%/4.36%/4.25%/4.40%, respectively.

➤ Desk analyst comments 分析员市场观点

➤ China Economy – Growth remains weak

China GDP growth in 3Q22 beat expectations as housing market and consumption slowly resumed and exports of goods & infrastructure investment remained strong. However, the growth mildly slowed in September as local government officials tightened epidemic control measures before the 20th CPC congress meeting. Population mobility declined as the YoY growth of retail sales and service output index slowed. However, industrial output picked up thanks to base effect and supply chain resumption. Looking forward, we expect housing market and consumption may slowly improve amid easing credit policy and gradual loosening of epidemic control measures in next several quarters. Infrastructure investment growth should remain strong in next two quarters before a slowdown in 2023-2024. Exports should gradually slow in 2023 as overseas economy is likely to see a recession. We maintain our forecast for 2022 GDP growth at 3.5% and revise down the forecast for 2023 growth from 6% to 5.5%. We assume a gradual reopening of China economy from 1Q23 and easing monetary & fiscal policies in 2023.

China economy gradually resumed from the Shanghai lockdown. Total GDP grew 3.9% YoY in 3Q22, up from 0.4% in 2Q22. Both demand and supply resumed from the Shanghai lockdown in April. GDP in manufacturing, wholesale & retail trade, transportation, storage & post service, and hotel & catering respective grew 4%, 1.6%, 2.6% and 2.8% in 3Q22, compared to the corresponding declines of 0.3%, 1.8%, 3.5% and 5.3% in 2Q22. GDP in property sector dropped 4.2% in 3Q22 after decreasing 7% in 2Q22, as property sales saw less YoY declines. GDP in construction picked up 7.8% in 3Q22 after rising 3.6% in 2Q22, thanks to strong infrastructure investment.

But it remained weak amid zero-Covid policy and soft housing market. As Covid-19 cases rebounded in the past two months, local government officials tightened epidemic control measures before the 20th CPC congress. There was a noticeable decline of population mobility and economic activities in September. The YoY growth of retail sales and service output index respectively slowed from 5.4% and 1.8% in August to 2.5% and 1.3% in September. Meanwhile, housing market remained weak. Housing sales mildly improved with less YoY declines, but housing starts and land purchase continued with sharp YoY decreases.

We maintain our forecast for 2022 GDP growth at 3.5% and revise down the forecast for 2023 GDP growth from 6% to 5.5%. China may maintain zero-Covid policy in next two quarters as the weak confidence should continue to restrain economic growth. The 20th CPC congress meeting indicates China will focus on high-quality development, Sino-US technology competition and Taiwan issue in next five years. The importance of GDP growth in government officials' KPI is likely to further decline in future. We maintain our forecast for 2022 GDP growth at 3.5% and lower the forecast for 2023 growth from 6% to 5.5%. We assume China will gradually reopen its economy from 1Q23 and maintain easing monetary and fiscal policies in 2023.

Housing sales mildly improved but development investment activities continued with sharp declines. Gross floor area (GFA) sold for commodity buildings declined 16.4% YoY in September after dropping 22.2% YoY in August. However, average sales price (ASP) picked up 3% after rising 2.4%, probably due to higher contribution from high-quality projects and high-tier cities. Property developers continued to cut their expenditures as GFA for commodity buildings started and property development investment dropped by 44.5% and 12.1% in September after decreasing 45.2% and 13.8% in August. Total source of funds for property development continued with sharp YoY declines despite some mild improvement. Looking forward, we expect housing sales may gradually improve with less YoY declines thanks to easing credit policy and the base effect.

Infrastructure investment further picked up supported by easing credit supply. The YoY growth of fixed asset investment (FAI) in infrastructure accelerated from 15.4% in August to 16.3% in September. By sectors, public utility, water conservancy, public facility and health & social welfare respective grew 17.8%, 15.5%, 12.8% and 29.9% in 9M22, compared to the increases of 15.1%, 14.5%, 11.7% and 32.2% in 1H2022. The pick-up of infrastructure investment was mainly due to strong credit support. In 3Q22, the cabinet increased the quotas of policy banks' special loans by RMB600bn for this year, while the PBOC provided refinancing support to those special loans through the pledged supplementary lending (PSL). Meanwhile, the central bank also guided commercial banks to expand their credit supply to infrastructure projects. We expect infrastructure investment may remain strong in 1-2 quarters before a gradual slowdown in 2023-2024.

Consumer demand remained weak. As population mobility declined in September, catering sector deteriorated with its operation income down 1.7% YoY in September after rising 8.4% YoY in August. Retail sales of furniture and construction & decoration materials further declined 7.3% YoY and 8.1% YoY in September after dropping 8.1% YoY and 9.1% YoY in August, as housing sales remained weak. However, auto retail sales maintained high YoY growth at 19.4% in September, thanks to the stimulus policy and low base last year. Meanwhile, online retail sales of goods picked up 14.5% YoY after rising 12.8% YoY, while offline retail sales excluding autos further dropped 4.7% YoY after declining 0.6% YoY. By items, retail sales of alcohol & tobacco product, clothing and home appliance dropped 8.8%, 0.5% and 6.1% YoY in September, sharply down from the growth of 8%, 5.1% and 3.4% YoY in August. However, medicine and cultural & office products respectively grew 9.3% and 8.7% YoY in September, up from the YoY growth of 9.1% and 6.2% in August. Communication equipment also

improved as it increased 5.8% YoY in September after dropping 4.6% YoY in August. Looking forward, we expect retail sales may slowly improve in next several quarters thanks to a gradual easing of epidemic control measures.

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➤ Offshore Asia New Issues (Priced)

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
No Offshore Asia New Issues Priced Today					

➤ 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 82 credit bonds issued yesterday with an amount of RMB176bn. As for Month-to-date, 879 credit bonds were issued with a total amount of RMB1072bn raised, representing a 23.7% yoy increase
- PBOC lifted Macro-prudential Adjustment Parameter for Cross-border Financing of Companies to 1.25 from 1, increasing the upper limit of Chinese company's offshore financing amount
- [AVIILC]** AVIC International Leasing completed redemption of USD200mn AVIILC 3.425 PERP and the bonds will be delisted
- [CHIOLI]** China overseas Land recorded RMB17.5bn revenue in 9M22, a 59.5% yoy drop
- [CSCHCN]** China South City postpones payment of HKD0.3 per share dividend to before 31 Mar'23
- [DALWAN]** Media reported that Dalian Wanda Group obtained a three-year syndicated loan of cUSD500mn led by ICBC in late last week
- [GRNCH]** Media reported that Greentown China denied the rumor that key SOE shareholder CCCG has or intends to cut its stake or to restrict it from buying land
- [GRNLGR]** Greenland got RMB305.8bn revenue in 9M22, down 28.35% yoy; Net profit down 37.77% yoy to RMB13.4mn
- [JIAYUA]** Jiayuan International further delays circular on RMB879mn sale of Yancheng City property project
- [LSEAGN]** Landsea signed agreement to sell a Shanghai property for RMB102.5mn (cUSD14mn)
- [RISSUN]** Media reported that Rissun already obtained sufficient verbal consent for a coupon-default waiver on its two USD bonds RISSUN 9.5 03/16/23 (o/s USD200mn) and RISSUN 9.5 09/17/24 (o/s USD540mn)

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