CMBI Credit Commentary

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

- *Markets were overall stable this morning. Asian IG space slightly tightened 1-2bps and buying flow mainly on 24-26s bonds. Recent new issue AT1 HSBC and CTIH up c0.25pt. For LGFV, short-end LGFV names were under better selling this morning.*

- ***China Policy** – Policy remains accommodative with flexibility in 2023. CMBI maintains our forecast on China's GDP growth in 2023 at 5.4%. See below for detailed comments from our economic research.*

- ***LPKRIJ**: Announced another tender of USD50mn for two USD bonds. LPKRIJs up c0.1pt this morning. See below.*

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❖ Trading desk comments 交易台市场观点

Last Friday, Asia IG space had another relatively quiet session with major focus stayed on new issues, as two Japanese issuers NORBK/SUMI priced 5y papers and both opened strongly, tightened 10-15bps. New SUMI 28s initially tightened 15bps to T+110, then retraced 5bps to close at around T+115 as we saw FM/AM/PB were quite happy to take profit at the squeezed levels. New HSBC 6NC5 Perp, priced at CT5+185, were traded around T+175 choice market for the whole day. On the secondary front, the market was rather muted. IG spreads were 2-3bps tighter. Korea space were firm with KBANK 28s tightened 3bps. Front end T2s were still being chased after as WOORIB 24 were lifted to 10bps tighter into T+100 area. In Chinese financials, AMCs were traded a bit heavy. We saw better selling on HRINTH curve. HRINTH/GRWALL 27-30s widened 10-20bps. In China SOEs, HAOHUA/SINOPE tightened 3-7bps amid active two-way flows. TMT benchmark 10y papers were stable. BBB tech names LENOVO/MEITUA curves widened 3-6bps across the curve. In IG properties, LNGFORs widened 5-10bps but VNKRLEs/YUEXIUs tightened 10-20bps. China HY space was relatively firm with non-property space outperformed. COGARDs edged up 0.5pt. CHINSCs were traded 0.5-1.5pts higher across the curve. YLLGSP/CSCHCN 24s were bid up 0.5pt. However, XINHUZs/ZENENTs were marked down 3.5-6.5pts. Macau gaming names such as MGMCHIs/STCITYs were marked 0.5-1pt higher. WYNMACs were traded up 0.5-1.5pts, post the issuance of CBs of USD600mn. This is Macau's first bond financing ever since Feb'22. Indian space had a strong day. The US equity boutique GQG Partners has bought shares a portfolio of Adani entities AEL/APSEZ/ATL/AGEL totaled INR154.46bn (USD1.87bn) in secondary market. ADSEZs/ADANEMs/ADANIGs gained 1-2.5pts. VEDLNs were bid up 0.5pt while renewables such as GRNKENs/RPVINs/POWFINs were 0.5-1pt higher. Indonesian names LMRTSPs/LPKRIJs gained 1-2pts. Elsewhere, GLPCHIs/GLPSPs were quoted down around 1pt.

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LGFV/Perp/Asia AT1 spaces were largely stable. On the recent new issues, dealers tried to trade New CTIH 6.4 Perp lower in light of USD2bn mega issue size, but holding power was stronger than expected. After more Chinese RMs stepped in to top up below par, the bond was quickly short-squeezed to 100.55, the high print where profit taking then began to emerge, and eventually stabilized at around 100.3 level amid balanced two-way flows. Away from primary side, AT1s were under better buying as rates retraced. AT1s closed 0.25pt higher with thin liquidity. HSBC 8 Perp recovered 0.5pt to 101 level again thanks to relentless buying demand from PBs. Perps performed mixed with the reset perps were still under better buying. ROADKG 7.75 Perp were up around 2pts and FAEACO Perp was sought-after by PBs. HYSAN 4.85 FFL Perp had dip buying interests at around mid-70s cash price level. On the other hand, LEEMAN/NWDEVL/REGH perps were marked down 0.5-1pt. Elsewhere, LGFVs were generally lackluster with sporadic flows. QDHTCO 24s pulled back around 0.25pt and were marked to 95.75 handle.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
LMRTSP 7 1/4 06/19/24	**71.6**	**2.1**
JD 4 1/8 01/14/50	**78.2**	**2.1**
ROADKG 7 3/4 PERP	**69.1**	**1.9**
SINOPE 4 7/8 05/17/42	**97.6**	**1.8**
CNOOC 5 05/02/42	**94.7**	**1.7**

Top Underperformers	Price	Change
ZENENT 12 1/2 04/23/24	**51.9**	**-6.6**
ZENENT 12 1/2 09/13/23	**51.9**	**-6.6**
XINHUZ 11 06/06/25	**70.9**	**-6.1**
XINHUZ 11 09/28/24	**91.0**	**-3.7**
FIRPAC 4 3/8 09/11/27	**93.6**	**-1.3**

❖ Marco News Recap 宏观新闻回顾

Macro – U.S. stock markets were strong last Friday, S&P (+1.61%), Dow (+1.17%) and Nasdaq (+1.97%) recorded another rebound and closed with rise by week. U.S. Markit service PMI increased to 50.6 from 46.8 in Jan'23. China Caixin service PMI was 55.0, rose from 52.9 in Jan'23. The U.S. treasury yields overall down on last Friday, the yield curves bull flattened and 2/5/10/30 yields reached 4.86%/4.26%/3.97%/3.90%, respectively.

❖ Desk analyst comments 分析员市场观点

➢ China Policy – Policy remains accommodative with flexibility in 2023

China's 5% growth target for 2023 released at the National People's Congress meeting may disappoint the market in near term. Investors think the target is conservative with the implication of limited policy stimulus ahead. However, investors may go too far in the pessimistic direction as the target was actually decided at the CEWC in mid-December. China's policy may be more flexible than the market expectation as new cabinet leaders have the ambition to restore the country's growth momentum amid uncertainty in global economy. They may face the pressure to further ease policy in 2H23 as the domestic economic recovery pace slows down and overseas recession risk increases. We maintain our forecast on China's GDP growth in 2023 at 5.4%. The proactive fiscal policy seems weaker than expected as broad deficit including general fiscal deficit and local government special bond financing dropped from 6.1% of GDP in 2022 to 5.9% of GDP in 2023. Monetary policy should remain accommodative with easing credit supply especially to manufacturing, SMEs and technology companies. Property policy seems conservative as Premier Li Keqiang reiterated housing is for living in, not for speculation, and warned to prevent property developers' from disorderly expansion to control financial system risks. China will pool more resources into hard technologies for breakthroughs and self-reliance as the US tries to cut more Chinese companies from global technology supply chains.

China confirms its 5% growth target for 2023, probably disappointing the market. Premier Li Keqiang confirmed China's GDP growth target for 2023 at "around 5%" in his working report. A low base with 3% growth last year and higher growth in market consensus at 5%-6% for this year makes investors believe the 5% growth target is too conservative and implies limited policy stimulus ahead. Therefore, the Chinese stock market may come under pressure in near term.

But investors may go too far in their pessimistic expectations about China's policy prospect. In fact, the growth target for 2023 was discussed in early December and decided by the party leaders at the central economic working conference (CEWC) in mid-December last year. At that time, the Chinese policymakers were not sure how long China would take to reopen its economy while investors were still worried about a global recession in 2023. The Chinese senior officials thought the 5% growth target was ambitious enough to send pro-growth signal to local governments and boost market confidence. However, China's reopening speed was much faster than expected. The market expectations on China economy improved after the CEWC, with the 2023 growth in consensus up from 4.5%-5% in early last December to 5%-6% in this February. Now the 5% growth target seemed conservative for the market. Why China has not raised its growth target based on the economy & market dynamics? For one thing, it is very rare to adjust the GDP growth target which is decided by the party leaders at the CEWC. This never happened in China in the past years. Take 2022 as an example, economy and financial market condition changed sharply after the Russia-Ukraine war in February, but China maintained its growth target at 5.5% at the NPC meeting and for the whole year even the growth was unlikely to achieve its target. For another thing, it may reflect the top leader's bottom-line thinking in making decisions. We believe China's policy will be very flexible this year as the new cabinet leaders have the ambition to resume China's growth with uncertainty in domestic economic recovery pace and overseas recession risk.

Employment stability is important for consumer confidence restoration. China increases the target for urban incremental employment from 11 million in 2022 to 12 million in 2023 as the policymakers consider employment stability as the key for consumer confidence restoration. China keeps the target for the surveyed unemployment rate at 5.5% in 2023, the same as in 2022. It is not difficult for the cabinet to achieve the employment targets in 2023 as the recovery of labor-intensive service businesses should help resume urban employment.

Proactive fiscal policy is a bit weaker than expected as broad deficit ratio was slightly below our forecast. China's general fiscal deficit mildly rose from 2.8% of GDP in 2022 to 3% of GDP in 2023, slightly below our forecast of 3.1%. Local government special bond quota mildly rose from RMB3.65trn in 2022 to RMB3.8trn in 2023. However, the policymakers added some quotas for eligible local governments under the balance ceilings last year as local governments' net financing with special bonds reached RMB4.04tn in 2022. According to the official budget, general fiscal revenue is planned to grow 6.7% in 2023 after rising 0.6% in 2022 thanks to economic recovery and base effect. General fiscal expenditure is planned to increase 5.6% in 2023, 0.5ppt lower than the growth of 6.1% in 2022, indicating a moderate expansion of fiscal expenditure. Government special fund revenue with over 85% from land sales is planned to slightly rise 0.4% in 2023 after dropping 20.6% in 2022 as the government expects a stabilization of land market this year. The cabinet will maintain some tax cut policies targeting manufacturing, SMEs, individual business and a few sectors in tough condition, but the total amount of tax cut & relief should be much lower than RMB4.2tn in 2022. General fiscal expenditure should focus on technology innovation, rural revitalization, regional coordinative development, education, social welfare and green development. The central government will not hand out cash to households as the Ministry of Finance said to encourage eligible municipal governments to provide subsidy to purchasers of green & smart home appliance, construction materials and energy saving products. The MoF said to accelerate the starts of key projects in the 14th 5Y Plan while warning local governments to pay attention to the project return and their contingent debt risk. The MoF indicated to expand the zero-tariff product list for Hainan free trade zone. To boost technology innovation, the MoF will launch a key project called Scientific & Tech Innovation for 2030 and increase support to key hard technologies this year.

Monetary should remain accommodative with easing credit supply. According to the development plan for 2023, the central bank will maintain "reasonable ample" liquidity condition to stabilize market expectations and control systematic risks. The growth rates of M2 and social financing balance will be basically in line with nominal GDP growth. The policymakers encourage banks to expand medium- to long-term loan supply to manufacturing and increase credit support to small business and small & medium special tech companies. The cabinet calls for declines of loan rates for businesses and consumers. The PBOC seems more cautious on further RRR & LPR cuts in near term due to recent strong new credit and better-than-expected recovery in housing sales. However, we do not think the central bank will tighten credit policy as the economy is still in the recovery process and the reflation pressure is mild. We cannot rule out the possibility of RRR and LPR cuts in 2H23 as China's recovery pace may slow and overseas recession risk may increase after a few months ahead.

Property policy seems more conservative than expected. Premier Li said to support housing upgrading demand while reiterating "housing is for living in not for speculating on". The premier also said to relieve financial system risk related to property developers by strengthening their balance sheets and preventing their disorderly expansion. This expression should be negative to the market as the authority used similar words in cracking down internet platforms and online tutors in 2021. In addition, the premier pledged to increase the supply of social housing including affordable rental housing to resolve the living issue for the youth in cities.

China will pool more resources to hard technologies for breakthroughs and self-reliance. According to the cabinet report, China will pool more resources to hard technologies for self-reliance as the US tries to cut more Chinese companies from global technology supply chains. The MoF will launch the science & tech innovation for 2030. China will accelerate the construction of hard tech infrastructure including in 5G, artificial intelligence and big data and support the development of digital economy. The country will also consolidate its leading position in areas such as electric vehicles and solar panels. The Chinese policymakers will also enhance credit and capital market financing support to Chinese tech companies.

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➢ LPKRIJ: Another tender of USD50mn

Lippo Karawaci announced another tender offer of LPKRIJ'25 and '26 for a maximum acceptance amount of USD50mn. The offer prices are 87 and 77 for LPKRIJ'25 and '26, respectively. The tender offer will expire on 13 Mar'23. This is the second tender offer of Lippo Karawaci YTD. In Jan'23, the company completed the tender offer of USD116.262mn and USD108.466mn for LPKRIJ'25 and '26 at 84 and 74, respectively. The tender offer should partly relieve its refinancing risk.

Name	O/S amount (USD mn)	Consideration	Maximum acceptance amount (USD mn)	Expiration time	Current price (Ask)	YTM (Ask)
LPKRIJ 8.125 01/22/25	274.14	87	50	13 Mar'23	85.7	17.4
LPKRIJ 6.75 10/31/26	308.56	77		13 Mar'23	74.7	16.2

Source: Bloomberg, company announcement.

➢ 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)
Commonwealth Bank of Australia	USD	-	3/3yr	T+95/FRN SOFR	Aa3/AA-/A+

➢ News and market color

- Regarding onshore primary issuances, there were 65 credit bonds issued last Friday with an amount of RMB67bn. As for Month-to-date, 260 credit bonds were issued with a total amount of RMB233bn raised, representing a 12.4% yoy increase

- **[ADEIN]** Media reported that Adani Group has around USD2bn in foreign currency bonds due for repayment next year

- **[CIFIHG]** CIFI remits funds for two March domestic-bond coupons totaled RMB111.2mn

- **[CSCHCN]** Media reported that China South City expects to close RMB3bn three-year syndicated loan before June

- **[FOSUNI]** Media reported Fosun is in preliminary talks to sell online travel agent Thomas Cook

- **[JD]** JD.com launched a RMB10bn (cUSD1.45bn) subsidy campaign to gain market share

- **[LASUDE]** Lai Sun Development to execute corporate guarantee for HKD668mn term loan facilities for project in Tai Po land lot

- **[YUEXIU]** Yuexiu Property signs HKD450mn three-year term loan facility agreement

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