

## CMBI Credit Commentary

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

- *Markets sentiment was relatively weak this morning. For Asian IG space, there were demands on long-date leasing names and SOE. In LGFV sector, due-25 IG names was also bid around 7% yield.*
- **Seazen - Loss of contact of vice chairman:** *The idiosyncratic news could create volatility of Seazen's USD bonds but should have limited impact to credit fundamentals. FUTLAN/FTLNHDs down 0.75-1.5pts by mid-day. See below.*
- **China Economy – Credit growth is expected to rebound in 2023 and mild deflation after reopening.** *See below for comments from our economic research.*

#### ❖ Trading desk comments 交易台市场观点

Last Friday, Asia IG space was softer with flows were skewed to better selling on the day as rates trending higher. New KDB 28N & 33N pair opened heavier to edge 1-2bps wider in the AM session, but closed back to unchanged. New WSTPNZ 28s announced IPG at T+105 level, and tightened in between T+101~T+104 area under active two-way flows. HYUELE/POHANG 28s widened by 4-6bps as selling pressure persisted from RM accounts. In Chinese financials, bank T2 beta names like ICBCAS/CINDBK 29s widened 2-4bps at around T+90 area. BOCAVI 24 widened 3bps but closed at T+87 level, which is 12bps tighter WoW. AMCs were also traded weaker to end 5-10bps wider. Benchmark TMTs BABA/TENCNT leaked 2-3bps wider. High beta BBB papers MEITUA 30s/LENOVO 32s led the widening to march 3-8bps wider on the day. In IG properties, LNGFORs were largely unchanged at current levels, despite S&P revised the outlook to stable from negative on Thursday. Over the weekend, media reported that Yuexiu planned to issue up to RMB9.4bn corporate bond for debt repayments. Chinese HY property space continued the recent down trend to be traded ~1pt lower, though selling flows was limited at current levels. COGARDs dropped another 1-2pts under FM/retail selling, after having lost ~1pt on Thursday. SINOCEs/ROADKGs lowered 0.5-1pt. AGILEs/CENCHIs/GRNLGRs were down 1-2pts. PWRLNGs were largely unchanged to 0.25pt higher. The company posted its application of RMB1.5bn 5Y CBICL-guaranteed MTN. Industrial names FOSUNIs/HONGQIs slipped 1-2pts lower, and WESCHI '26 was marked down around 2.25pts. Macau gaming names like MPELs/STCITYs were down 0.5-1.5pts. In India, Adani complex bonds experienced further weakness on negative headlines such as the exit of Norway's sovereign wealth fund and Moody's negative outlook. ADANIGs dropped ~3pts and ADSEZs/ADANEMs were marked 1-1.5pts lower. VEDLNs were quoted another 0.5-1pt lower, to end at 1-3pts lower WoW. In Indonesian HYs, LMRTSPs were traded down 5.5-7.5pts post Moody's downgraded Lippo Malls to Caa1 from B3 with negative outlook on the back

**Glenn Ko, CFA 高志和**  
 (852) 3657 6235  
 glennko@cmbi.com.hk

**Cyrena Ng, CPA 吳倩瑩**  
 (852) 3900 0801  
 cyrenang@cmbi.com.hk

**Jerry Wang 王世超**  
 (852) 3761 8919  
 jerrywang@cmbi.com.hk

of no concrete refinancing plans for its bank loan maturities due-23s/24s. LPKRIJs were also weighed down to 1-2pts.

In the LGFV/Perp/Asia AT1 space, market was mixed amid an overall cautious tone ahead of CPI print on Tuesday. LGFV space was roughly stable skewed to better selling, as rates drifted 6-8bps higher on Thursday night. Shandong names remained better bid on the day amid two-way balanced flows. QDHTCO '24/HKIQCL '25 were quoted 0.25pt higher at 96.25 and 95.45 level respectively. We also saw that FM/prop desks started to trim risks on some of the recent good performers but most clients stayed in a wait-and-see mode. Shorter-dated papers like GSHIAV 23s/CQLGST 24s were quoted 0.25pt lower to stay range-bound at low-90s. AT1/Perp names printed 0.125-0.25pt lower post rates movement, as flows were skewed to better selling through the day. ICBC 3.2 Perp was traded down 0.25pt to be traded at 94.75 level. SOE perps were under better selling from global RM accounts on the day as well.

#### ❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
CHNAAR 5 1/2 03/08/24	91.8	2.2	LMRTSP 7 1/2 02/09/26	60.5	-7.7
HRINTH 4 1/4 PERP	88.6	1.2	LMRTSP 7 1/4 06/19/24	70.9	-5.7
LVGEM 12 03/10/23	88.1	1.1	ADANIG 4 3/8 09/08/24	75.1	-2.8
GRNLGR 6 3/4 06/25/24	56.7	1.1	WESCHI 4.95 07/08/26	86.8	-2.2
YUEXIU 2.8 01/20/26	91.9	1.0	ZHHFGR 2.95 02/28/25	87.5	-2.1

#### ❖ Marco News Recap 宏观新闻回顾

**Macro** – U.S. stock markets rebounded on Last Friday, S&P (+0.22%), Dow (+0.50%) and Nasdaq (-0.61%) all closed lower by week due to markets' worry about Fed's interest hike pace. U.S. Feb consumer confidence index improves to 66.4 from 64.9 in Jan'23, the index is higher than expectation of 65. The U.S. treasury yields moved higher on last Friday, 2/5/10/30 yields reached 4.50%/3.93%/3.74%/3.83%, respectively.

#### ❖ Desk analyst comments 分析员市场观点

##### ➤ Seazen: Loss of contact of vice chairman

On 10 Feb'23, Seazen announced that it had been unable to contact Mr. Qu Dejun, the vice chairman. Seazen did not specify since when it has lost touch with Mr Qu Dejun and the reason of this. Media report that Mr Qu's last public appearance was in mid Jan'22 and he is involved in an investigation related to his previous role in DALWAN. The investigation is not related to Seazen. The idiosyncratic news could create volatility of Seazen's USD bonds but should have limited impact to credit fundamentals. FUTLAN/FTLNHDs down 0.75-1.5pts by mid-day.

##### ➤ China Policy – Credit growth is expected to rebound in 2023

China's new loans beat expectations in January as the authority required banks to front load credit supply and local governments & SOEs sought a good start amid the pro-growth shift this year. However, credit demand in households and SMEs remained weak as it may take longer for the private sectors to restore their confidence. To boost confidence and growth in the private sector, China has to continue to send market-friendly signals and maintain accommodative liquidity & credit policy this year. The PBOC may launch additional RRR and LPR

cuts to boost the credit growth. New RMB loans and total social financing are expected to increase by 12% and 10% in 2023 after rising 5% and 2.1% in 2022.

**New loans beat expectations in January as PBOC required banks to front load credit supply.** New RMB loans reached RMB4.9trn in January, much higher than RMB3.98trn in the same period last year. Total social financing dropped 3.2% YoY in January after dropping 36.1% in 4Q22. Specifically, new RMB loans to real sector rose 17.4% YoY in January. However, foreign currency loans continued to decline amid exchange rate uncertainty. Off-balance sheet (OBS) financing decreased by 22.2% YoY in January as risk aversion sentiment towards property projects remained. Corporate bond financing dropped 74.5% YoY in January after plunging 122.2% YoY in 4Q22 as the cautious sentiment in bond market remained.

**Credit demand in SOEs was strong while that in households and SMEs remained weak.** As Chinese policymakers shifted their focus from Covid control to economic growth, local governments and SOEs showed stronger willingness to increase debt for expansion. Credit demand in local government financing vehicles and SOEs seemed to rebound noticeably. New medium and long term loans to corporate sector increased by 66.7% YoY to RMB3.5trn in January as most of those loans should have been allocated to projects of local governments and SOEs. However, credit demand in the private sector remained weak as it should take longer for households and SMEs to restore their confidence. We note new loans to household sector dropped 69.5% YoY and bill discount financing was negative in January.

**Housing market and consumption may recover in a gradual manner.** Housing sales may have remained weak in January as new medium to long term loans to household sector dropped 69.9% YoY after decreasing 68.4% last December. Meanwhile, consumption mildly improved as new short-term loans to household sector declined 66.1% YoY in January after dropping 104.8% YoY last December. Looking forward, housing market and durable consumption may gradually improve. The economic reopening should boost employment, income and confidence, which is positive for housing market and durable consumption. In addition, credit policy should remain accommodative, which can facilitate the recovery of demand for housing and durables.

**Liquidity and credit policy should remain accommodative.** The pandemic and housing market slump severely hurt consumer confidence last year. It needs some time to resume employment, income and confidence. Both housing market and durable consumption may recover in a gradual manner. The GDP growth should remain below potential growth with the reflation risk under control in 2023. The liquidity and credit policy should remain accommodative this year. We expect the PBOC may cut the RRR for 50-100bps this year to meet higher liquidity demand due to rebounding risk appetite and credit demand. The central bank may also cut LPRs for 10-15bps to lower financing costs to households and private business. In 2022, many households repaid their mortgage loans in advance as mortgage rates were still quite high. Mortgage rates were even higher than the rates of individual business loans and consumer credit, which is unreasonable. This should increase the possibility for additional moderate cuts in 5Y LPRs. To alleviate banks' NIM pressure and boost consumption, the authority may also moderately lower deposit rates.

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## ➤ China Economy – Mild Reflation after Reopening

China's inflation in January was below expectations amid a mild reflation after reopening. The resumption in housing market, durable consumption and business capex should be in a gradual manner. Some manufacturing sectors may face deflation pressure amid overseas recession risk and destocking cycle. There will be no overheating risk in China's labor market as employment condition should improve very gradually. China's GDP growth remains far below its potential growth and the reflation should be mild. The priority for the country is to

boost confidence and growth especially in the private sector. Therefore, the liquidity and credit policy should remain accommodative in the country in 2023.

**CPI growth was slightly below expectations in January.** The YoY growth of consumer price index (CPI) rose from 1.8% in December to 2.1% in January, slightly below market expectations. From MoM perspective, CPI rose by 0.8% in January after having unchanged in December. By item, food prices increased by 2.8% MoM, up from the MoM growth of 2.3% in last December due to Chinese New Year holiday. Fresh vegetables and fruits prices rose sharply by 19.6% and 9.2%, respectively. Due to abundant supply of live pigs, however, pork price decreased 10.8% MoM in January. With rising global recession risk, energy prices continued to retreat as China's gasoline and diesel prices respectively fell by 2.4% and 2.6% MoM in January.

**Core CPI growth gradually rebounded after reopening.** Core CPI rose 1% YoY in January after climbing 0.7% YoY last December due to a reflation in some service sectors like transportation, recreation, tourism, house cleaning and vehicle repair & maintenance. In those service sectors, demand rebounded quickly while supply had constraints due to the labor shortage in CNY holiday as well as the capacity reduction after the pandemic. In January, air tickets, vehicle lease fees, movie tickets and tourism prices respectively increased by 20.3%, 13.0%, 10.7% and 9.3% MoM. Meanwhile, house cleaning, pet care, vehicle repair & maintenance and hair cut prices also increased by 3-6% in January.

**PPI continued to decline amid the disinflation trend in most commodities.** PPI dropped 0.8% YoY in January after decreasing by 0.7% last December. From MoM perspective, PPI continued to decline 0.4% in January after dropping 0.5% in the previous month. Commodity prices retreated as overseas policy rates and recession risk increased. In January, petroleum & coal processing price dropped by 3.2% MoM and raw chemical material & product price declined by 1.3% MoM. Meanwhile, ferrous metal price increased by 1.5% MoM after rising 0.4% MoM last December as China's reopening boosted sentiment in steel market. Medicine price rose by 0.6% MoM in January as people's demand increased after the pandemic wave.

**We expect CPI to rise 2.2% in 2023 after increasing 2% in 2022 and PPI to drop 0.5% in 2023 after rising 4.1% in 2022.** China's reflation after reopening should be mild. Firstly, housing sales and durable consumption should follow a gradual and slow resumption in future. Property sales volume may drop 7.5% in 2023 after declining 24.3% in 2022. Secondly, global economy faces recession risk and disinflation process as some Chinese manufacturing sectors with high dependence on exports may see deflation pressure. Thirdly, there is no overheating risk in China's labor market as unemployment pressure is still high. We note the housing rent in urban region continued to decline 0.6% YoY in January after dropping 0.7% YoY last December. It indicates the employment and wage condition of the youth is still not good. Looking forward, China's CPI growth may mildly climb from 2% in 2022 to 2.2% in 2023 and 2.5% in 2024 as pork and service prices gradually rebound. The PPI may continue to decline in 1H23 and noticeably rebound in 2H23. We expect the PPI to drop 0.2% in 2023 and to rise 1.6% in 2024 after increasing 4.1% in 2022.

**Liquidity and credit policy should remain accommodative in 2023.** China's GDP growth remains far below potential growth and the reflation is mild. The priority for the country is to boost the confidence and growth especially in the private sector. Therefore, the liquidity and credit policy should remain accommodative in 2023. It is possible to see additional moderate cuts in RRR and LPRs this year.

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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)
Huantaihu International	USD	-	3yr	7.5%	-/-/-
Chindata Group	USD	-	-	-	-/-/BBB-

## ➤ News and market color

- Regarding onshore primary issuances, there were 52 credit bonds issued on last Friday with an amount of RMB42bn. As for month-to-date, 287 credit bonds were issued with a total amount of RMB304bn raised, representing a 331.9% yoy increase
- [ADANIG]** Moody's changes outlook to negative from stable on four Adani companies and affirms ratings of eight
- [BABA]** Alibaba raised INR13.8bn (cUSD167mn) by selling remaining stake in Paytm, an Indian digital payments provider
- [CCAMCL]** China Cinda to form RMB3.2bn investment JV with Jiangsu Zhongnan Construction
- [CIFIHG]** CIFI blames delay of CBICL-guaranteed bonds on overdue-loan record on PBOC system; aims to table prelim offshore recast proposal end Feb
- [DEXICN]** Dexin China signed loan extension agreements to extend repayment due dates of RMB840m loans for one year
- [EVERRE]** Media reported China Evergrande sounded out 6-7 year bonds at discount for Scenery notes, and 8- or 12-year options for listed-co issued bonds with partial debt-to-equity swap
- [GEELY]** Geely's EV unit will raise USD750mn in pre-IPO funding round
- [JINGRU]** Jingrui Holdings expects to record up to RMB4.8bn (USD0.7bn) net loss for FY22
- [LINREI]** Link REIT seeks USD2.4bn via right issue at one unit for every five existing share held at subscription price of HKD44.2, a 29.6% discount to the closing share price of HKD62.8 on last Thursday
- [LMRTSP]** Moody's downgraded Lippo Malls to Caa1 and maintained negative outlook
- [RDHGCL]** Moody's downgraded Radiance's ratings to B3/Caa1 and maintained negative outlook
- [VNRLE]** China Vanke plans to raise up to RMB15bn (cUSD2.2bn) in a private placement
- [YUEXIU]** Yuexiu plans to issue up to RMB9.4bn (cUSD1.4bn) corporate bond for repayment of debts

CMB International Global Markets Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

[fis@cmbi.com.hk](mailto:fis@cmbi.com.hk)

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