

CMBI Credit Commentary

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

- *Markets were overall stable this morning. We saw some short coverings on high rated LGFV names. Onshore RM bought some 23 callable AT1 with higher than 7% YTC. SOE PERP retreated a bit due to profit taking from buyers.*
- **LNGFOR:** *Make-whole of LNGFOR'23 as communicated. We estimate that the make-whole price to be at c100.8. LNGFOR 27-32s were unchanged to down 1.5pts this morning after 20-30pts rebound since the resignation of the ex-chairperson. See below.*
- **China Economy:** *Inflation risk is low as pro-growth should be the priority. Maintain the CPI growth forecast for 2022 and 2023 at 2.1% and 2.3% and change the PPI growth forecast for 2022 and 2023 from 4% and 1% to 4.3% and 0.6%. See below for comments from our economic research.*

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

Cyrena Ng, CPA 吳蓓瑩
(852) 3900 0801
cyrenang@cmbi.com.hk

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

❖ Trading desk comments 交易台市场观点

Yesterday, China IG space had a bullish session across sectors with most bonds closed 5-10bps tighter. Financials space extended the positive tone with Perps outperforming. We saw AT1s benchmarks' short squeeze from yesterday continued, BCHINA/ICBCAS were up 0.25-0.5pt. BNKEA Perps were marked up 2-3pts to close at mid-70s. In AMCs, HRINTH/CCAMCL curve were up 1.5-2.5pts. CCAMCL 4.4 Perp jumped 4pts to be quoted at mid-80s, amid RM buying and HF covering. China T2s mostly held unchanged, while CCB curve tightened 3-5bps on the day. Elsewhere, Korea perps continued the rebound momentum. Korea financials SHINFN/WOORIB were up 0.5-1.5pts, while insurers KHLIIN/HLINSU Perps were traded 4.5-5pts higher. TMTs spreads were aggressively squeezed 15-25bps tighter in the morning but soon faded to 5-10bps tighter amid some RM selling again. BABA 27s/31s notably grinded 15bps tighter and looked more like sentiment trading as major short positions lifted during the day. IG properties had a nice rally as well with most bonds trading 3-5pts higher, as NAFMII has sounded out the bond-financing program of RMB250bn for non-SOE companies. VNKRL 23s were up 2-3pts at high-90s on this positive headline, and rest of VNKRLs were traded 4-8pts across the curve. LNGFOR '23 popped up 3.5pts and reached par after Longfor announced the make-whole. Longer-dated LNGFOR 27-32s were all traded up 11-13pts. China HY broadly rallied 4-6pts in the morning along with lift in properties' equities, boosted by NAFMII's bond financing plan. COGARDs/SINOCEs gained 2.5-5pts across the curve as we saw FM/retail adding. FUTLAN/FTLNHD 23-25s were up 4.5-7pts. Among beaten-down names, GRNLGRs were also traded 1-3pts higher. CENCHIs declined 1.5pts across the curve on the back of coupon. The company attributed the miss to the lockdown in Henan. Elsewhere, some HK names remained under better selling, NWDEVL/NANFUN/LIHHK were down 2-5pts. In industrial space,

FOSUNI up 0.5-1pt whilst FSHITZs/TSINGHs were down 2-2.5pts. In Ex-China HY, select renewables roughly continued to be well-bid. In India HYs, previously underperforming names VEDLNs/RPVINs bounced back 1-2pts. Indian industrials JSTLINs/RILINs were also up 1-2pts. ADANIG '24 was traded 1.5pts higher to close above 80 level. Indonesia HY APLNJ '24 retraced yesterday's gains by retreating 3.5pts.

In the LGFV/SOE Perp space, there was a round of short covering in the morning from prop desks and street, following the short squeeze in IG/SOE property papers after the overnight positive headlines. Several heavily shorted LGFVs such as GZINFU/CNSHAN bounced by around 2pts at one point, and a few c23-24 SOE Perps like HAOHUA '30 climbed ~1pt higher. The strength would nonetheless fade soon as RM, mainly offshore asset managers, took the chance to sell into the rally/ liquidity window bonds and also papers that didn't see any buying even during this big rally- such as several weaker SOE Perps and LGFVs. We saw CNOOC curve under better selling. Low-cash price papers like ZHHFGR were still better offered at mid-70s hurdle, as more sellers trying to de-risk on weaker names. Again, papers maturing beyond 1Q23 and without shorts could hardly find natural buyers as the general sentiment remained very cautious at best. Overall, we saw light activities ahead of CPI release.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
LNGFOR 4 1/2 01/16/28	51.5	12.6	BNKEA 4 7/8 04/22/32	78.9	-5.7
LNGFOR 3 3/8 04/13/27	53.4	12.1	NWDEVL 4 1/8 07/18/29	70.5	-4.9
LNGFOR 3.95 09/16/29	47.9	11.3	APLNJ 5.95 06/02/24	39.5	-3.3
LNGFOR 3.85 01/13/32	45.8	11.2	ZHONAN 3 1/8 07/16/25	73	-2.5
VNKRLE 3 1/2 11/12/29	63.6	10.2	TSINGH 5 3/8 01/31/23	35.6	-2.4

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets fell down yesterday, the S&P (-2.08%), Dow (-1.95%) and Nasdaq (-2.48%) were dragged by lower than expectation performance of big names like Disney and also affected by markets' cautious sentiment before tonight's CPI data. The U.S. treasury yields were overall down yesterday, the 2/5/10/30 yields reached 4.61%/4.27%/4.12%/4.31%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ LNGFOR: Make-whole of LNGFOR'23 as communicated

Longfor will make-whole LNGFOR 3.9 04/16/23. The early redemption of LNGFOR 3.9 04/16/23 have been well-flagged to the market. See our comments on Longfor on 8 Nov'22.

We came across questions on the rationale of purchases on longer-date bonds and at the same time making whole of LNGFOR 3.9 04/16/23 above par. To us, the make-whole demonstrates Longfor's confidence its liquidity and makes economic sense, especially after US treasury rate increased significantly. The discount rate (treasury rate+0.5%) for the make-whole will likely be over 5% compared with the coupon rate of 3.9%. We estimate that the make-whole price to be c100.8. If the bonds are not redeemed, Longfor will have to pay 101.95 (including the last coupon) on maturity date (16 Apr'23).

Regarding the purchases of LNGFORs, Longfor and its controlling shareholder altogether bought a total of USD37mn in principal amount of Longfor's USD bonds, mainly on the longer-dated LNGFORs. Out of these, only USD6mn were purchased by Longfor. We understand the bonds are yet to be cancelled. Longer-dated

LNGFORs have rebounded 20-30pts to high-40 to low 50 on the back of these purchases since the resignation of the ex-chairperson.

Indeed, Longfor has been actively pre-fund and has early repaid debt maturing in 2023. In addition to make-whole of the only USD bonds due 2023, it has pre-paid a total of HKD8.55bn (cUSD1.1bn) offshore syndicated loans since Aug'22. Longfor plans to repay another syndicated loans of HKD5.1bn (cUSD650mn) due Jan'23 before the end of 2022.

As discussed before, Longfor has a manageable offshore bond maturities as the next maturity will be USD250mn due Apr'27 after the make-whole. As for onshore debts, the company will have up to RMB9.67bn (including put) repayment/redemption requirements in 2023. We expect Longfor to refinance these onshore. The company is working on the issuance of CBICL-guaranteed bonds and MTNs. The chance of successful onshore refinancing is somewhat boosted by NAFMII's "second arrow" announcement. YTD, Longfor has issued onshore bonds of RMB6.5bn, including CBICL-guaranteed bonds of RMB1.5bn.

➤ **China Economy – Inflation risk is low as pro-growth should be the priority**

China's inflation was lower than expected in October. Energy & metal prices declined as overseas recession risk increased and domestic demand remained weak. Meanwhile, durables and housing rent saw deflation pressure as consumer confidence was low and the unemployment rate for the youth was high. The inflation risk should be low for China as its property market and individual consumption resume very slowly and overseas economy is likely to see a recession in 2023. We maintain the CPI growth forecast for 2022 and 2023 at 2.1% and 2.3% and change the PPI growth forecast for 2022 and 2023 from 4% and 1% to 4.3% and 0.6%, respectively. Pro-growth should be the priority for China as the country might have to reopen its economy and maintain easing macro policies next year.

CPI growth was below expectations as energy inflation declined and consumer demand remained weak.

Consumer price index (CPI) rose 2.1% YoY in October, down from 2.8% in September. The CPI growth was below expectations as energy & food inflation declined and consumer demand remained weak. The YoY growth of gasoline and public utility respectively declined from 19% and 2.5% in September to 12.4% and 0.5% in October. Food price index rose 7% YoY in October, down from 8.8% in the previous month. Core CPI growth remained low at 0.6% in October, the same as September. Housing rent further decreased 0.7% YoY in October after continuous declines in 2Q22 and 3Q22 as the unemployment rates remained high for the youth. Consumer demand for durables was weak as vehicle price index dropped 1.5% YoY and the price of communication equipment slightly rose 0.3% in October.

PPI sharply declined as commodity prices retreated amid weak Chinese economy and rising global recession risk.

Producer price index (PPI) dropped 1.3% YoY in October after rising 0.9% YoY in September. Energy and metal prices declined as demand softened and supply resumed amid property market slump and zero-Covid policy. In October, PPI in coal mining, ferrous metal and non-ferrous metal respectively dropped 16.5%, 21.1% and 7.8% YoY. Meanwhile, durable consumption remained weak. PPI in durable goods rose 0.2% YoY and the price in auto declined 0.3% YoY in October, compared to the YoY decrease of 0.6% and 0.2% in September. Business confidence and capital expenditure were also weak as the YoY growth of PPI in general equipment slowed from 0.4% in September to 0.1% in October.

China's inflation risk should remain low as property market & individual consumption resumes slowly and overseas recession rises in future.

Both CPI and PPI should see some fluctuations of their YoY growth rates in next few quarters due to changes of base effect and commodity inflation. The CPI growth may peak at around 2.8% in January, noticeably decline from March to July and mildly rebound in 3Q next year. The PPI growth may rebound in next three months, decline in 1H23 and rise again in 2H23. We maintain our forecast for the CPI growth at 2.1% in 2022 and 2.3% in 2023 and revise the forecast for the PPI growth in 2022 and 2023 respectively from 4% and 1% to 4.3% and 0.6%.

Policy implications. The inflation risk should remain low in China as pro-growth is still the priority for the country. The GDP growth remains far below the potential growth as property market and consumer demand resumes very slowly. China may have to gradually reopen its economy next year as the Omicron virus may spread widely during the Chinese New Year holiday in January as people travel and gather as a tradition. Meanwhile, China will maintain proactive fiscal policy and relatively easing monetary policy in 2023. The impact of reopening on labor participation and inflation should be limited as other Asian economies indicate. Both property market and consumption may gradually resume amid economy reopening and policy support.

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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)
Danyang Investment Group Co Ltd	USD	-	3yr	7.2%	-/-/-
Westpac Banking Corp	USD	-	2yr	T+105	Aa3/AA-/-
Westpac Banking Corp	USD	-	5yr	T+145	Aa3/AA-/-

➤ News and market color

- Regarding onshore primary issuances, there were 70 credit bonds issued yesterday with an amount of RMB113bn. As for Month-to-date, 437 credit bonds were issued with a total amount of RMB541bn raised, representing a 8.6% yoy decrease
- Korea bank chiefs promise cooperation to stabilize debt market in meeting with Financial Services Commission's chairman and the heads of 20 banks
- **[CENCHI]** [The delay of coupon is due to the lockdown of Henan](#). Central China is striving to cure the 7 Nov semi-annual coupon on its CENCHI 7.9 11/07/23 (o/s USD200mn) within 30 days grace period
- **[COGARD]** Fitch affirmed Country Garden at BB- and placed negative outlook; Ratings withdrawn for commercial reasons
- **[GRNLGR]** Media reported that Greenland sold LA residential tower THEA to Northland for USD 504mn, representing a 27% discount to the original ask price of USD695mn
- **[GZRFPR]** Guangzhou R&F received approval from bondholders to defer payment for eight onshore bonds
- **[HLBCNH]** Helenbergh China accepts USD268mn of 11.0% senior notes due 2023 for exchange; to issue new 10.33% notes

- **[JIAYUA]** Jiayuan International announced that the hearing of the winding-up petition against the company has been adjourned to 4 Jan'23
- **[JIAZHO]** Moody's downgraded Jiangsu Zhongnan's ratings to Ca and maintained negative outlook
- **[LNGFOR]** Longfor to redeem its due 2023 offshore bonds (o/s USD300mn) and the notes will be cancelled after repurchase
- **[MEDCIJ]** Medco Energi completed the up to USD250m tender offers for its due 25-27 notes. It paid USD250mn as the early tender offer consideration for the 2025 Notes with a price of 98pts and did not accept any due 26 and 27 Notes due to oversubscribe
- **[VEDLN]** Vedanta unit Serentica Renewables to receive USD400mn investment from KKR
- **[ZHPRHK]** Zhenro Properties onshore unit misses RMB1.05bn payment due 4 November on debt financing plan; The company announced that it may not be able to meet its repayment obligations when due or within the grace periods due to the current tight liquidity situation

CMB International Global Markets Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

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