

CMBI Credit Commentary

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

- *Markets continued to be active this morning post Fed chairman's dovish speech and China's unblock. We saw both onshore and offshore buyers reloading their positions and due 23-24 LGFVs/ due 24-25 SOE Perps were sought after.*
 - **China Economy:** *Growth further slowed, but may gradually pick up ahead. Revise down the GDP growth forecast for 2022 from 3.3% to 3% and maintain the forecast for 2023 and 2024 respectively at 4.9% and 4.5%. See below for comments from our economic research.*
 - **CSCHCN:** *Media reported that China South City signed strategic agreement with Shenzhen SEZ Construction and Development to receive RMB11bn (cUSD1.54bn) funding support. CSCHCNs up 4.5-7.5pts post the news.*
- ❖ **Trading desk comments 交易台市场观点**

Yesterday, China IG space consolidated to be firmer as benchmark IG spreads broadly tightened 10-30bps on signals that China softened its tone on Covid Zero policy. TMTs outperformed amid Chair Powell signaled a downshift in the pace of central bank tightening (merely 50bps) in December. BABA/TENCNT tightened 6-10bps, LENOVO/WB also notably closed ~20bps tighter. BBB- names MEITUA/XIAOMI were marked 2.5-5pts higher. Financials space continued the constructive tone, with bank capital bonds/leasing names further tightened 5-10bps. CCBs tightened 3-7bps. In AMCs, HRINTHs tightened 25bps and longer-end of CCAMCLs were traded up 1.5-3pts in bond price. IG properties were traded stable at the elevated levels. LNGFORs/CHJMAOs grounded ~1pt higher, amid Longfor announced that it issued the second tranche of CBIC-guaranteed MTN with size of RMB2bn. China HY was mixed, where quality names halted the upbeat whilst selective lower-rated names outperformed. COGARDs modestly retreated 2-4pts across the curve, despite it planned to issue of up to RMB1bn CBICL-back bonds which in turn backed by at least one Foshan LGFV in late December. FUTLANs/FTLNHDs slightly retraced 0.5-1pts after the 8-15pts rapid jump on Wednesday. On the other hand, CSCHCNs closed 4.5-7.5pts higher amid positive headline that Shenzhen SEZ Construction and Development will launch a RMB11bn equity investment fund to support China South City's prime projects. Beaten names CIFIHG/CHINSC 24-26s were further up 0.5-1.5pt. In response to the support measures by CSRC towards property sector and settlement of consent fees and the upfront payment of originally due-Nov'22 notes, GRNLGRs noticeably soared 7-11pts after resumption of trading. KWGPROs/PWRLNGs were also traded 3.5-7.5pts higher. Elsewhere, AGILEs still suffered the further losses of 2.6-6.5pts across the curve as it has chosen to defer the distribution on the AGILE 8.375 Perp due on 4 December. In industrial space, FOSUNIs 24-27s were up another 2-3pts. ANTOIL/CARINC/EHICAR 24-26s were also quoted 4-

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5pts higher under active better buying flows. In Macau gaming space, MPELs/WYNMACs kept the recent momentum to be bid up 2.5-4pts. Non-China credit space had a consolidation session. In Indian space, long-end of GRNKENs was 0.5-0.75pt lower on RM selling as bonds rallied quite a lot in the past weeks. VEDLNs continued to lag behind and were marked 0.25-0.5pt lower. Indonesian space continued to be supported by cash parking demands from global RMs though flows were overall light. Elsewhere, RAKUTN 10.25 24s was actively traded up 0.5pt to close at 100 level in street though flipping flow mildly faded there. SOFTBK curve was 0.25pt lower.

In the LGFV/SOE Perp/AT1 space, sentiment calmed down a touch from yesterday's euphoria but remained afloat. Flows were overall two-way with offshore/ global RM selling into onshore/ cross border buyers, as investors sought to seize the liquidity window to position for year-end/ start of next year. Again Chinese accounts continued to reload risks to avoid staying underweighted ahead of coming new year, whilst global accounts went on to offload risks into bids in light of YTD outflows. Among weaker names, we saw active two way flows on TLINVT 23. Meanwhile GZINFU 24 was squeezed ~1pt further higher to 93/94 level where we saw supply gradually emerging and marginal buyers taking their feet off the gas as the bond returned to pre-shock level. Otherwise, for selected quality high-beta LGFVs we saw demand from mid-7% onward. Elsewhere, demand in AT1s remained generally robust from AM and PB, whereas SOE Perps were largely stable. CHOHIN Perps were quoted 1.5-2pts higher, and HAOHUA/SINOPE tightened 3-5bps.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
GRNLGR 6 3/4 09/26/25	28.9	11.0	AGILE 5 1/2 04/21/25	37.7	-6.6
GRNLGR 6 3/4 03/03/26	28.0	9.7	COGARD 7 1/4 04/08/26	47.2	-5.1
GRNLGR 5 7/8 07/03/26	27.6	9.5	COGARD 2.7 07/12/26	45.2	-4.1
GRNLGR 5.6 11/13/24	31.7	8.8	AGILE 6.05 10/13/25	39.8	-4.1
CSCHCN 9 06/26/24	42.4	8.6	COGARD 5 1/8 01/17/25	49.2	-4.0

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets rebounded on Wednesday, the S&P (+3.09%), Dow (+2.18%) and Nasdaq (+4.41%) were boosted by Fed chairman's speech that the Fed may decelerate the interest rate hike pace since Dec. U.S. 3Q22 GDP increase 2.9% QoQ, is higher the expectation of +2.8%. U.S. ADP employment increased 127k in Nov, lower than the expectation of 200k. The U.S. treasury yields overall down yesterday and 2/5/10/30 yields were bull steepened to 4.38%/3.82%/3.68%/3.80%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Economy – Growth further slowed, but may gradually pick up ahead

China's economic activity and business sentiment further deteriorated in November as PMI dropped to the lowest level since this May. Housing market, retail sales and service output all weakened because of stricter lockdowns in cities and towns after the resurgence of Covid cases. Meanwhile, exports also slowed sharply as overseas recession increased. As the 4Q22 growth is much weaker than expected, we revise down the GDP growth forecast for 2022 from 3.3% to 3%. Lower base makes it less difficult for China to achieve its GDP growth target at around 5% in 2023. We maintain the forecast for 2023 and 2024 respectively at 4.9% and 4.5%. New cabinet leaders should focus on pro-growth with reopening of economy, easing macro policies and pro-business stance. China will see a gradual resumption with a mild reflation after the reopening of its economy.

Economic activity and business sentiment sharply deteriorated in November. China's PMI in manufacturing and service respectively decreased from 49.2% and 47% in October to 48% and 45.1% in November, which were the lowest levels since this May. New order and business sentiment all deteriorated. New order index in manufacturing & service dropped from 48.1% and 41.7% to 46.4% and 41.4%. Meanwhile, business sentiment index in the two sectors declined to 46.7% and 47.1% from 47.6% and 47.9%.

The deterioration of economy & business condition was due to domestic lockdowns and overseas recession risk. In face of the resurgence of Covid cases, most local governments tightened zero covid policy with stricter lockdowns. About 50% of the largest 40 cities saw a deterioration of traffic flow, passenger flow and customer flow in the past few weeks. Therefore, both retail sales and service output may have further declined in November. Small business was more vulnerable as the PMI of small enterprises dropped to the lowest level since March 2020. At the same time, overseas recession risk increased with an inverted yield curve in global bond market and downward pressure in earning forecast for stocks. Therefore, China's export order index experienced a noticeable decline from 47.6% in October to 46.7% in November.

We revise down the GDP growth forecast for 2022 from 3.3% to 3% and maintain the forecast for 2023 and 2024 respectively at 4.9% and 4.5%. As economic activity is much weaker than expected in 4Q22, we revise down the GDP growth forecast for 2022 from 3.3% to 3%. A lower base should make it less difficult for China to achieve its GDP growth target at around 5% in 2023. However, challenges are still there for 2023 as the resumption of housing market and durable consumption should be gradual while overseas economy is likely to see a recession. We maintain the GDP growth forecast for 2023 and 2024 respectively at 4.9% and 4.5%.

New cabinet leaders should focus on pro-growth with reopening of economy, easing macro policies and pro-business stance. We believe new cabinet leaders will focus on pro-growth in 2023. First, China has to reopen its economy. China has already adjusted its zero Covid policy recently. It may take a few months for people to adapt to the new stage, but not for long. After the Chinese New Year holiday, cities and towns may face the risk of large-scale spread of Covid virus as people travel, gather and visit each other in the season. China has to prepare for this scenario. Second, China will maintain easing macro policies. Monetary policy should remain prudent with easing bias. The PBOC will maintain easing liquidity and credit policy with additional RRR and LPR cuts. Credit policy should be accommodative especially for manufacturing, service, SMEs and LGFVs. The central bank may further loosen credit supply for property sector. Fiscal policy should be more proactive with a mild increase of broad deficit. China may extend its tax cut for new energy vehicle consumption and equipment capex, and strengthen fiscal support to newly strategic industries. Last, new cabinet leaders will adopt a pro-business stance. They may launch some reform and opening policies to boost the confidence in financial market and business community.

China may see a gradual resumption with a mild reflation after the reopening of its economy. After the reopening, demand for medicine, treatment & health care may increase as the Covid virus infects many people. Meanwhile, demand in transportation service, catering, hotel, tourism & recreational service may rebound rapidly. The resumption of capex, durable consumption and housing market may be gradual as it takes some time for employment, income and confidence to recover. China's service inflation may mildly rise in the reopening process as demand resumes faster than supply in some service sectors. However, the reflation risk should be low as the resumption of domestic capex & consumption should be slow, and overseas recession will cause disinflation pressure in commodities. The massive virus infection should have limited impact on China's labor participation as the virus becomes very weak and the unemployment pressure is high in the country. We expect China's CPI growth to mildly rise from 2% in 2022 to 2.3% in 2023.

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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)
Deyang Development Holding Group Co., Ltd.	USD	-	3yr	7.4%	-/-/BBB-

➤ News and market color

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- Regarding onshore primary issuances, there were 57 credit bonds issued yesterday with an amount of RMB48bn. As for Month-to-date, 1,341 credit bonds were issued with a total amount of RMB1,452bn raised, representing a 31.9% yoy decrease
- **[CNOOC]** CNOOC completes acquisition of another 5% participation interest in Búzios oilfield TOR surplus project for BRL10.3bn (cUSD1.9bn)
- **[CSCHCN]** Media reported that China South City signed strategic agreement with Shenzhen SEZ Construction and Development to receive RMB11bn (cUSD1.54bn) funding support
- **[LIFUNG]** Li & Fung completed settlement for LIFUNG 4.375 10/04/24 tender; USD103.71m remains outstanding
- **[MOLAND]** Modern Land (China) restructuring effective date conditions satisfied, paid RSA fee to consenting creditors
- **[POLHON]** Poly Property Group signed up to HKD400mn uncommitted short-term revolving credit facility agreement with Malayan Banking
- **[PWRLNG]** Shanghai Rural Commercial Bank signs strategic agreements with three developers including Powerlong to potentially offer RMB20bn financing support
- **[ROADKG]** Road King Infrastructure's shareholders approve 39.77% stake acquisition of Jasamarga Semarang Batang in SGM
- **[SANLTD]** Sands China to inject MOP4.8bn to Venetian Macau to allow group to enter concession contract for continuation of gaming business in Macao; The company signed further waiver extension, amendment request letter in connection with revolving unsecured credit facility
- **[SUNAC]** Media reported that Sunac China sold 89.68% stake in Oceanwide Construction Holding to China Huarong and CITIC Trust for more than RMB8.05bn

- **[SUNSHI]** Fujian Sunshine, affiliates including Yango Group in enforcements with claims totaling RMB893.67mn
- **[XINHUZ]** Xinhua Zhongbao plans private placement of new shares, representing up to 20% of the total equity of the company to up to 35 specified investors
- **[YLLGSP]** Yanlord Land HK repurchased USD20.95mn of YLLGSP 6.8 02/27/24, USD379.05mn remains outstanding

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