

CMBI Credit Commentary

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

- *Markets was active and flows skewed to better buying this morning. Last week's new issues widen 3-5 bps due to UST rates down. We saw demand on LGFV sector while weak region names were more on sell. SOE Perps and AT1 price also slightly edged up.*
- **China Policy** – *Further policy easing to boost growth. See below for comments from our economic research.*
- **Asia ex-JP USD bonds issuance:** *New issuance amount dropped 51.8% yoy in total and China LGFV issues decreased 2.3% yoy in 2022. See below.*

❖ Trading desk comments 交易台市场观点

Last Friday, China IG space performed relatively stable and broadly tightened 1.25bps. New issues EIBKORs/HKINTLs were unchanged on the day under balanced two ways after the rally. Financials space was largely unchanged, with AMCs continued to be squeezed under better buying from PBs. HRINTH/CCAMCL were traded 1-2pts higher across the curve. Bank capital papers CNBG/CMHI remained under better buying. T2s benchmark CCB 29-32s tightened another 3-12bps. In TMTs, benchmarks BABA/TENCNT showed a bit of profit taking but bonds are well absorbed and levels were unchanged while METIUA 25s/30s lowered for another 1pt. In IG properties, LNGFORs/GEMDALs were bid up 1.5-3pts. China HYs especially property bonds remained strong as on Thursday PBOC announced plans to lower the mortgage rate for 1st home purchases in some cities. SINOCES were traded 2-4.5pts higher. CHJMAOs/FUTLANs/FTLNHDs were up 1-2pts. High-beta names COGARDs/CSCHCNs were up 1-2.5pts except CSCHCN 9 12/11/24 was marked up 8.5pts to close at mid-70s in line with its other due-2024s. In late AM session, headline came out that China may ease 'Three red lines' to relax restrictions on developer borrowing. GRNLGRs jumped 2.5-8.5pts. CENCHIs were marked 4-6pts higher at mid-40s. AGILEs/ROADKGs were also traded 1-3pts higher to close between low-50s to mid-60s. In industrial space, FOSUNI 25-27s were traded up 3-6pts. Fosun International shall raise RMB6.7bn (USD972.2mn) by selling its stakes in four steel-related companies, in line with a series of non-core assets disposals to meet its near-term maturities. In Macau gaming space, SANLTDs/STCITYs were indicated 0.5-1.5pts higher. Ex-China HY was mixed. Indian HYs were rather muted except AZUPOEs/VEDLNs were up 0.5-1pt. Indian tighter renewable papers were still chased. In Indonesia, INDONs (BBB rated by S&P and Fitch) widened 1-2bps after some RM/HF started selling new issues. LMIRTs/LPKRIJs were up 1-1.5pts.

In the LGFV/ SOE PERPS/ AT1 market, market remained in risk on mode overall despite rates creeping up ahead of NFP amid Fed talks and strong ADP/ IJC data, as investors remained fond of duration given light exposure into the year. On new issue front, HKAA priced USD3bn offering in 4 tranches.

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HKAA 28/30/33 quickly rallied ~15-20bps before retracing around 5bps amid two-way flows which skewed to slightly better selling from regional clients. HKAA 33s were trading flat at T+105 level after a significant 20bps tightening on stronger demand again for the longer duration papers. LGFVs remained pretty much one-way buying from Chinese RM, with offer liquidity of non-high-beta names all but drained. Meanwhile AM/Prop/PB accounts with a higher risk appetite chased after weaker names that offered yield pick-up - such as TLINVT and CQNANA. Elsewhere, GXFING '23 was marked 2pts lower. In SOE Perps and Chinese AT1s space, we saw more offers coming out across the curve on back of higher rates and the fact that valuation had ground to fairly rich levels, especially when funding costs of the major investor base of the spaces were taken into account.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
PINGRE 3 1/4 06/23/25	78.8	10.1	GXFING 3.6 11/18/23	89.4	-2.1
CSCHCN 9 12/11/24	76.4	8.6	KNMIDI 5 1/2 10/09/23	93.0	-2.0
GRNLGR 6 3/4 09/26/25	52.7	8.3	JIAZHO 12 06/05/23	26.4	-1.7
GRNLGR 5 7/8 07/03/26	48.4	8.2	HRINT 3.8 04/27/25	93.0	-1.2
GRNLGR 6 3/4 03/03/26	50.4	7.3	FRESHK 2 5/8 03/03/24	93.0	-1.1

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stock markets rebounded last on Friday, S&P (+2.28%), Dow (+2.13%) and Nasdaq (+2.56%) rose up after Dec NFP data released. The U.S. Dec NFP data was +223k and higher than the expectation of 220k while lower than +263k of previous month. The unemployment rate surprisingly decreased to 3.5% from 3.7% of Nov'22. The U.S. treasury yields movement was divergent on last Friday that short term yields edged up while long term yields down. The 2/5/10/30 yields curves reached 4.24%/3.69%/3.55%/3.67%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Policy – Further policy easing to boost growth

China has sent signals of further credit loosening for property sector recently as housing demand remained weak. The policymakers encouraged households and private business to increase their borrowings in order to boost housing sales, consumption and capex. The central government allowed local government financing vehicles to roll over their debt for longer maturity periods and lower rates, which would lower default risks and credit spreads of LGFV bonds. The leaders showed pro-business and pragmatic attitude towards internet sector and private enterprises. Looking forward, China will maintain easing credit condition as housing market resumption should be gradual and the reflation pressure should be mild. A gradual resumption with easing liquidity and mild reflation should be quite positive for China's stock market especially when its valuation is attractive.

China has further loosened credit condition for property sector. China has sent signals of further credit loosening for property sector recently. The policymakers encouraged banks to expand credit supply to property developers in the whitelist (with unqualified opinions from auditors for three consecutive years, without default records and systematically important for financial & social stability). The central bank removed the mortgage rate floor for first-time homebuyers in cities where housing prices experienced YoY and MoM declines for at least three consecutive months. We expect a decline of mortgage rates for qualified homebuyers in most cities ahead. The policymakers may further ease mortgage policy for second-home buyers ahead to stimulate housing sales. Housing market condition should be an important driver for monetary policy dynamics. If housing sales remain weak, the central bank will continue to loosen credit policy, which is positive for the stock market.

China has encouraged households and private businesses to increase borrowings while allowing LGFVs to roll over their debt for longer periods with lower rates. Guo Shuqing, General Secretary of the PBOC and Chairman of China Banking & Insurance Regulation Committee, urged financial institutions to provide more financial services to households especially migrants in cities to boost their demand for housing, autos and services. He also called for stronger credit supply to private business in both manufacturing and service sectors in future. China will continue to loosen mortgage policy, consumer credit condition and business loan supply in future. Guo Shuqing also indicated to allow local government financing vehicles to roll over their matured debt for longer periods with lower rates. However, the Ministry of Finance vowed to control the increase of local government contingent debt in future. Those policies tend to reduce default risk & credit spreads of LGFV bonds.

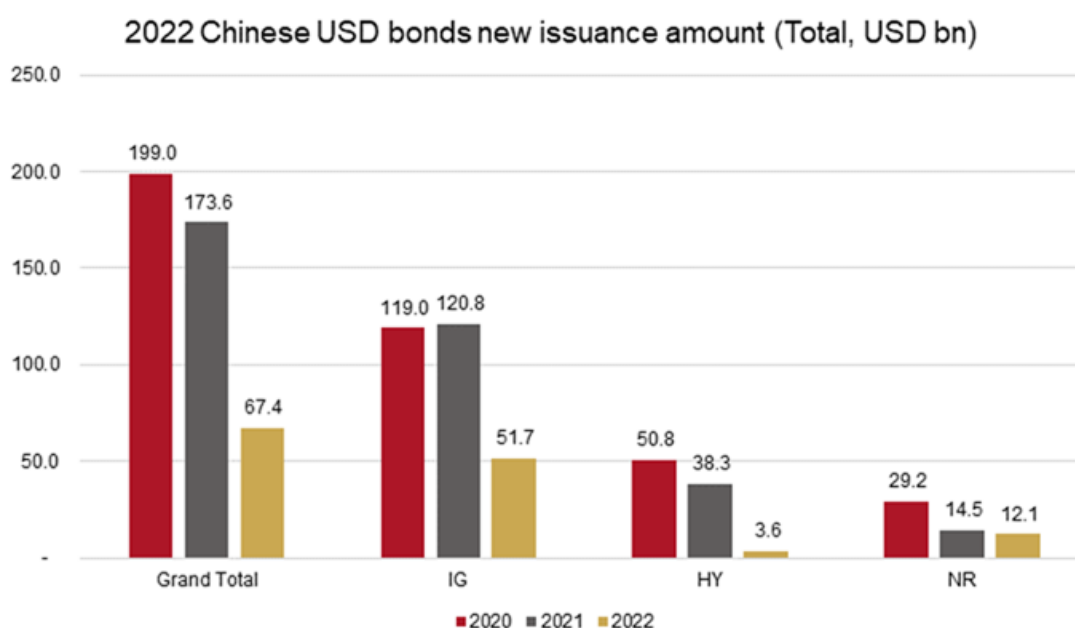
China has showed pro-business & pragmatic attitude towards internet sector and private enterprises. Guo Shuqing said the rectification of financial businesses of 14 online platforms is close to the end, indicating policy uncertainty declines for internet platform companies. Chinese policymakers started to encourage platform companies to take a lead in development, absorbing labor supply and global competition. Guo also vowed to facilitate credit policy was more in favor of private firms to support effective credit growth and to expand their access to capital market financing.

Positive implication for China's stock market. Looking forward, the housing market resumption should be gradual and the reflation pressure should be mild. China is likely to maintain easing liquidity condition and continue to loosen credit supply to boost the growth. A gradual economic resumption with mild reflation and easing liquidity should be quite positive for China's stock market especially when its valuation is attractive.

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➤ **Asia ex-JP USD bonds issuance: 51.8% yoy drop in total and China LGFV issues decreased 2.3% yoy in 2022**

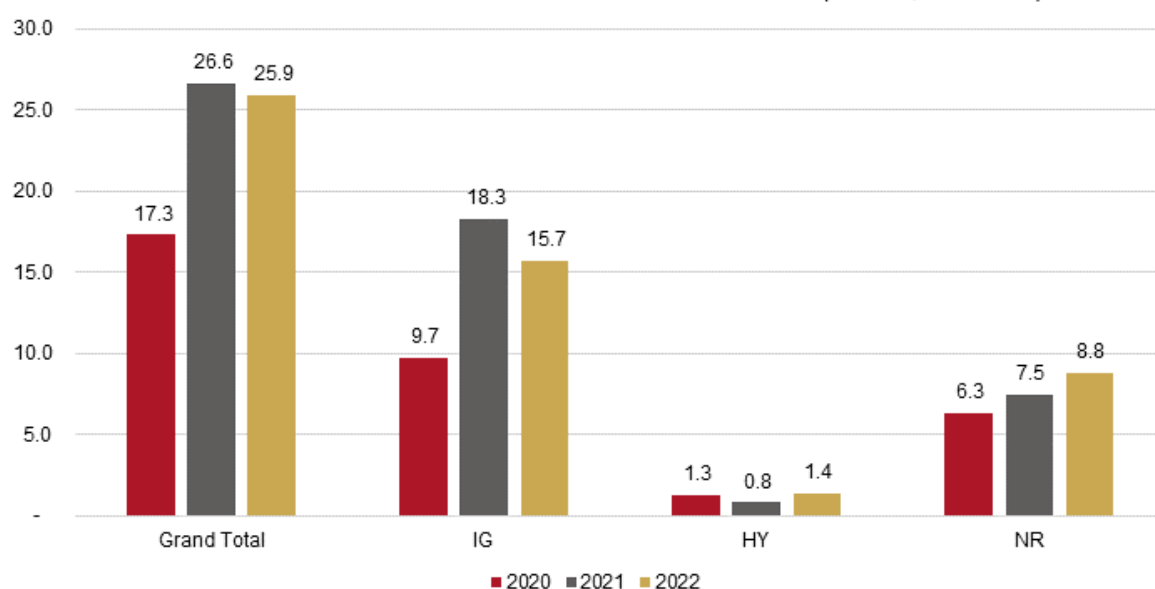
In 2022, the Asia ex-JP USD bond issuance dropped 51.8% yoy to USD165.1bn, the gross issuance amount was the lowest since 2014. In Dec'22, the issuance amount further shrank 82.5% yoy to mere USD1.1bn. In 2022, new issuance from China fell 61.2% yoy to USD67.4bn and was the largest decline among regions. Specifically, issuance of Chinese IG, HY and NR dropped 57.2%, 90.6% and 16.6% yoy to USD51.7bn, USD3.6bn and USD12.1bn, respectively.



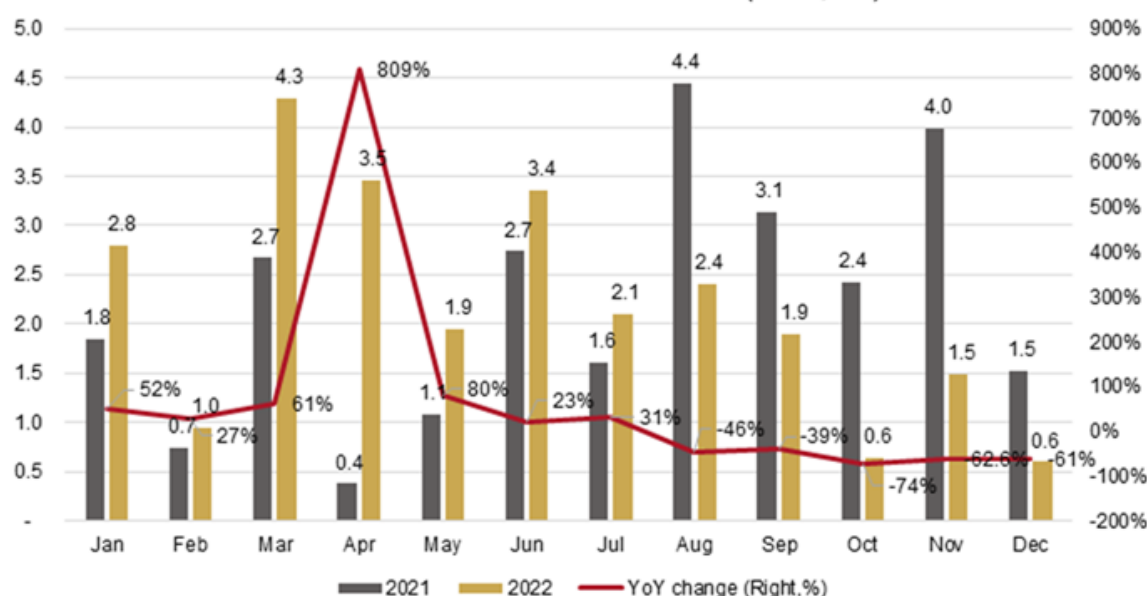
Source: Dealogic.

LGFV was the exceptional sector with yoy issuance growth until Nov'22 while finally recorded 2.3% yoy decrease in 2022 due to 60.2% yoy decline in Dec'22. During 2022, LGFV new issues amount was USD25.9bn. By credit ratings, IG, HY and NR issuances changed -14.2%, 69.5% and 17.3% to USD15.7bn, USD1.4bn and USD8.8bn, respectively. LGFV accounted for 38.4% of total issuance from China in 2022, increased from 15.3% in 2021. In Dec'22, the average yields of IG LGFV new issuance was 7.75%, rose from an average of 2.65% in Dec'21.

2022 Chinese USD bonds new issuance amount (LGFV, USD bn)



2021/2022 China LGFV issuance (USD, bn)



➤ 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)
Mongolia	USD	-	-	-	-/B/B
Philippines	USD	-	5.5/10.5yr	T+155/195	Baa2/BBB+/BBB
Philippines	USD	-	25yr	5.95%	Baa2/BBB+/BBB
POSCO	USD	-	3/5/10yr	T+225/255/295	Baa1/A/-
Sunny Optical Technology Group	USD	-	3.5yr	T+235	Baa1/-/-

➤ News and market color

- Regarding onshore primary issuances, there were 49 credit bonds issued on last Friday with an amount of RMB50bn. As for Month-to-date, 225 credit bonds were issued with a total amount of RMB208bn raised, representing a 15.8% yoy decrease
- Media reported that China plans to ease restrictions under 'three red lines' policy to allow developers to add more leverage to resolve their debt woes
- Jack Ma is to give up the control of Ant Group
- [AGILE]** Media reported that Agile says aims to cure missed 2 Jan coupon of its USD500mn AGILE 5.75 01/02/25 within 30-day grace period
- [HPDLF]** Hopson Development completed full redemption of USD250mn 8% CBs due 2023 at maturity
- [JIAYUA]** Jiayuan further extends exchange offer expiration deadline to 6 Feb'23 (9th extension)
- [LPKRIJ]** Media reported that Lippo Karawaci is working to secure a loan from Indonesian banks for a potential USD bond refinancing
- [MPEL]** S&P affirmed Melco Resort at BB- and removed it from CreditWatch with negative outlook
- [REDPRO]** Media reported that Redco nears hiring Haitong for offshore bond restructuring
- [RISSUN]** RiseSun Real Estate Development shareholders approved proposals on up to RMB3bn private placement
- [SANLTD]** S&P affirmed Sands China at BB+ and removed it from CreditWatch with negative outlook
- [SJM HOL]** Fitch affirmed SJM at BB- with negative outlook

- **[STCITY]** S&P affirmed Sands China at BB+ and removed it from CreditWatch with negative outlook

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