

CMBI Credit Commentary

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

- *Asian IG space remained stable with few trades this morning. On the other hand, front-end LGFV/SOE Perp were actively traded with two-way flows.*
- **KWGPRO&SINOCE:** *KWGPRO missed amortization payment of exchanged bonds as expected and SINOCE seeks for loans repayment deferral. KWGPRO moved -1.5 to +0.25pts and SINOCE lowered 0.25 to 0.75pt this morning. See below.*
- **China Economy** – *Inflation is too low as demand remains weak. CMBI cuts the forecast for 2023 CPI and PPI growth rates from 2.2% and -0.5% to 1.4% and -1.6%. See below for comments from our economic research.*

❖ Trading desk comments 交易台市场观点

Last Friday, Chinese SOEs such as HAOHUA/SINOPE curves closed unchanged to 3bps wider. TMT benchmarks TENCNT/BABA edged 2bps wider. In financials, AMC sector remained subdued. The long-end of HRINTHs were traded around 0.25pt lower (c10bps wider). Chinese properties remained weak. COGARDs were traded down another 0.25-2pts and closed around 5pts lower WoW. KWGPRO/SINOCE changed -1 to +1pt last Friday and overall slumped 5-15pts compared to the week before. CHINSC/CSCHCN 24s lowered 0.5-1pt. ROADKG 6 '25 and ROADKG 7.95 Perp dropped 3.5-5.5pts while the rest of ROADKGs ended largely stable. AGILE Perps were marked down 1.5-2pts. Industrials FOSUNI 24s-27s gained around 2pts and GLPCHI 26 closed 1pt lower. Macau gaming was down 0.25-0.5pt. Indian renewables RPVINS/GRNKENS were down 0.25-0.5pt. VEDLNs moved 1-2pts lower. Indonesian oil name MEDCIJs were down around 0.5pt.

LGFV/Perp/Asia AT1 spaces were traded in a softer tone. Flows were mixed skewed to small better selling. In LGFVs, there were more profit taking flows in 23/24 papers at rich yield levels. The bids in LGFVs remained generally supportive, as loose bonds were easily absorbed and recycled to RM buyers. Shandong/Chongqing curves remained active. CQNANA/QDHTCO 24-26s edged 0.125-0.5pt lower. SOE Perps and Chinese AT1s were under better selling from Chinese and global RM at mid-5%, yet again their bids remained firm given the thin supply. Meanwhile HSBC AT1s were better bid, thanks to regional PB demand. On the other hand, HK perps performed softly amid a sluggish macro sentiment, with PB better sellers. NWDEVL Perps were down 0.25-1pt.

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
FOSUNI 6.85 07/02/24	87.8	2.1	ROADKG 7.95 PERP	38.4	-5.5
ROADKG 6.7 09/30/24	85.2	1.0	ROADKG 6 09/04/25	55.5	-3.4
AGILE 5 3/4 01/02/25	35.6	1.0	DALWAN 7 1/4 01/29/24	62.0	-2.2
SHGUOH 3.15 08/27/25	93.7	1.0	COGARD 2.7 07/12/26	35.5	-2.0
GRNLGR 6 3/4 03/03/26	22.4	0.8	LASUDE 5 07/28/26	71.2	-2.0

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.16%), Dow (-0.03%) and Nasdaq (-0.35%) down amid worries about recession on last Friday. May'23 Michigan Consumer Sentiment down to six-month low as 57.7 and was lower than expectation of 63.0. The U.S. treasury overall rose yesterday, yield curve bear flattened and the 2/5/10/30 yields reached 3.98%/3.45%/3.46%/3.78%, respectively.

❖ Desk analyst comments 分析员市场观点

➤ KWGPRO: Missed amortization payment of USD119.2mn

KWG Group missed the amortization payment of USD119mn on KWGPRO 6 01/14/24 scheduled on 14 May'23. KWGPRO 6 01/14/24 is one of the 2 exchanged bonds issued after the exchange offer completed in Sep'22. The default on amortization payment is not a surprised to us. As we wrote in our daily on 3 May'23, we expect no quick fix to resolve the small default of RMB212mn as disclosed in KWG annual report and a holistic debt restructuring, taking cues from its lumpy repayments over the coming months. In addition to the USD119.2mn missed, KWG is facing another amortization repayments (excl coupon) of exchanged bonds totaled USD286.3mn from Jul to Sep'23 (USD31.8mn in Jul'23, USD159.0mn in Aug'23 and USD95.5mn in Sep'23). It will also require to repay panda bonds of RMB8bn (cUSD1.2bn) due in Oct'23 and the final instalment of USD516.7mn of KWGPRO 6 01/14/24. KWG could find the funding environment to be even more challenging, as evidenced by its suspension of the RMB1.2bn CBICL-guaranteed bond issuance plan initiated in Jan'23. That said, the cross default of the USD bonds should have been triggered when default of bank and other borrowings of RMB212mn was disclosed on 28 Apr'23. The incremental impact of the default of amortization payment should be contained.

➤ SINOCE: Media reported it is seeking deferral for 3 loans repayment due in Jun

Media reported that Sino-Ocean Group is seeking to defer the three loan repayments due 11 Jun'23 by 1 year. The deferral will include a loan principal, and two amortization payments on separate syndicated loans. In exchange for the deferral/refinancing, the company was reported to provide security over its shares in the nine offshore units which hold all of its projects, and China Life could provide a letter of support.

While Sino Ocean (excl 49% owned Sino Ocean Capital) will not have USD bond maturity until Jul'24, the coupon due for the USD bonds and perps in 2H23 totaled cUSD97.8mn should be closely monitored. As reported, most of lenders tended to agree with extension. Sino Ocean could face immediate liquidity problem should the refinancing talks with banks fail.

Separately, Sino-Ocean Capital further extended the consent deadline for its 6% notes due in Oct'23 to 18 May from 12 May. SINOCLs down 0.25-0.5pt last week and were unchanged this morning

➤ **China Economy – Inflation is too low as demand remains weak**

China faced deflation pressure as the CPI growth dropped to 0.1% while the PPI further declined 3.6% YoY in April. China's economic recovery was uneven as service consumption rapidly rebounded while housing sales and durable consumption remained weak. Pork prices continued to decline amid the de-capacity cycle, while commodity prices also corrected after the recent turmoil of small & medium banks in the US. Looking forward, the CPI may moderately pick up from May while the PPI growth should gradually rebound in 2H23. We cut our forecast for 2023 CPI and PPI growth rates from 2.2% and -0.5% to 1.4% and -1.6%. The deflation pressure is bad for China's economic recovery as it increases debt burden and encourages saving instead of consumption. The deflation pressure increases the possibility of additional monetary policy easing in future.

CPI growth dropped to the lowest since March 2021 as food & energy prices retreated and consumption remained weak. CPI rose merely 0.1% YoY in April after rising 0.7% YoY in March. Core CPI rose 0.7% YoY in April, the same as in March. Food inflation dropped from 2.4% in March to 0.4% in April, while fuel price further declined 10.4% YoY in April after dropping 6.4% YoY in March. As service consumption recovered rapidly, service price picked up 1% YoY in April. Prices of air tickets, hotel accommodation, tourism and transportation rental fees jumped sharply. Meanwhile, education and home service prices respectively rose 1.1% and 1.9%. However, housing rent inflation declined from 0.5% in March to 0.3% in April as employment condition among the youth remained weak. Home appliances, vehicles and telecom equipment remained in deflation condition with weak demand and over capacity as their prices respectively declined 1.2%, 4.0% and 2.3% YoY in April. From the MoM perspective, CPI dropped 0.1% in April after declining 0.3% in March. Food prices dropped 1% MoM while tourism price jumped 4.6% MoM in April. Prices in transportation rentals fees, air tickets and accommodation increased noticeably.

PPI further declined as capex demand was weak and commodity prices retreated after the recent bank turmoil in US. PPI declined 3.6% YoY in April after dropping 2.5% YoY in March. Domestic capex and durable consumption remained weak, while overseas demand faced downside pressure as the recent bank turmoil in US caused credit supply tightening. PPI in coal mining, oil & gas mining, ferrous metal and non-ferrous metal respectively dropped 9.3%, 16.3%, 13.6% and 8.6% YoY in April after dropping 3.2%, 15.7%, 11% and 8% YoY in March. Meanwhile, prices of general equipment, auto and computer & telecom equipment respectively decreased 0.1%, 1% and 0.7% YoY in April. From the MoM perspective, PPI declined 0.5% in April after staying flat in March. Prices of crude oil & gas, non-ferrous metals and textile apparel rose 0.5%, 0.2% and 0.1% MoM in April. However, prices of coal, petroleum product and paper products declined by 4%, 2.3% and 1.2% MoM in April.

We cut our forecast for CPI and PPI growth rates for 2023 from 2.2% and -0.5% to 1.4% and -1.6%. The CPI and PPI growth rates were far below our expectations in 1Q23, indicating a slow recovery in housing starts, durable consumption and business capex. Looking forward, the CPI should moderately pick up from May into the next four quarters. The CPI growth is expected to reach 1.4% in 2023 and 2.5% in 2024. The PPI may further decline in next two months before gradually rebounding in 2H23. We expect the PPI to drop 1.6% in 2023 before rising 1.8% in 2024.

Deflation pressure will harm economic recovery, as China should consider additional monetary policy easing ahead. The deflation pressure indicates that demand remains weak while supply competition is tough in most sectors. The deflation will increase debt burden and lower households' incentive to consume. The Chinese policymakers should consider additional monetary policy easing to boost the demand growth.

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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)
No Offshore Asia New Issues Pipeline Today					

➤ **News and market color**

- Regarding onshore primary issuances, there were 23 credit bonds issued yesterday with an amount of RMB67bn. As for Month-to-date, 239 credit bonds were issued with a total amount of RMB278bn raised, representing a 26.9% yoy increase
- **[ADANIG/ADTIN]** Adani Transmission board approved fundraising of up to INR85bn (cUSD1bn) via issuance of shares or other eligible securities; Adani Green Energy, Adani Transmission, and Adani Total Gas to be removed from ASM framework by both NSE, BSE effective 15 May; Adani Total Gas, Adani Transmission to be dropped from MSCI Global Standard Index
- **[ADEIN]** Adani Enterprises plans to raise INR125bn (cUSD1.5bn) via placement of shares or other securities; India Supreme Court offered regulator SEBI another three months to conclude its investigation of alleged legal violations against Adani Group
- **[AGILE]** Media reported Agile said it has cured missed 13 April coupon; plans to cure missed 21 April coupon this week; its unit resold RMB10.1mn puttable 21Panya01 bonds
- **[CAPG]** China Aoyuan Group to sell mixed-use development project 'One Central' for CAD50.3mn
- **[CENCHI]** Media reported that Central China Real Estate could be forced into liquidation by creditors over defaulted bills
- **[EVERRE]** China Evergrande controlling shareholder Hui Ka Yan subject to enforcement under enforcement notice in relation to arbitral award
- **[FOSUNI]** Fosun International got cHKD39.1mn via disposal of shares in New China Life Insurance
- **[KWGPRO]** KWG Group missed USD119.24mn redemption payment for 6.0% senior notes due 2024 and explores holistic solution; it plans to sell two units for cRMB750mn and three projects in Shanghai for cRMB426mn
- **[SINOCE]** Media reported that Sino-Ocean Group seeks effective 12-month roll of June loan payments; pays part of missed 31 March amorts
- **[SINOCL]** Sino Ocean Capital further extended consent solicitation deadline for 6% notes due 24 October 2023 to 18 May

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