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CMBI Credit Commentary

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

- *New issue SKONKR'26 tightened 8.5bps. IG TMT widened 2-3bps. LGFV and AT1 were better selling. HRINTH down c1pt and GRWALL moved -0.25 to +0.5pt this morning. We expect Great Wall to publish the FY22 financials before end of Aug to avoid the technical default. See below.*
- ***KWGPRO:*** *A holistic debt restructuring appears inevitable. KWGPROs changed -1.5 to +0.25pt this morning after dropping 2.5-13.5pts yesterday. See below.*
- ***China Economy:*** *PMI indicates a slowdown in economic recovery. See below for comments from our economic research.*

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❖ Trading desk comments 交易台市场观点

On Tuesday, Asia ex JP IG space was largely stable despite overnight UST yield widened 10-15bps. Sentiment was firm post FRB being taken over by JPM. On the new issue front, Korea SK On priced the USD900mn 3Y bond SKONKR at T3+155. Away from the primary side, IG spread was unchanged to 2bps tighter with thin liquidity amid China Labor day holiday. The market remained cautious ahead of FOMC meeting. China SOE/TMT space was also firm. Benchmark TMTs such as TENCNT/BABA were under better buying on the belly, and subject to small selling on 10y papers. BBB names MEITUA/LENOVO were better-offered. In AMCs, GRWALL announced to delay the release of FY22 results last Sunday. GRWALLs were traded 0.5-1pts lower (10-40bps wider). We saw some opportunistic buyers on its front-end like GRWALL 24s/25s at wide. HRINTHs moved 0.25-0.5pt lower amid light flows. Elsewhere, HKAA/CKHH 28s/33s were under better buying from bank accounts/PBs. Chinese properties remained weak in general. COGARDs/CSCHCNs/CHINSCs were down 0.5-2pts. ROADKGs lowered 1.5-3pts. KWGPRO 24s slumped 8-13.5pts and rest of KWGPROs were traded down 2.5-7.5pts to close at low-teen, following the default news. AGILEs dropped 1-5pts. GRNLGRs were weighed down 0.25-1.75pts. SINOCEs are amongst the exceptions and were up 0.75-1.75pts. Elsewhere, GWFOOD 25s were traded 1-1.5pts higher. Industrials performed mixed. FOSUNIs/WESCHIs were marked down 0.5-1.25pts. CHNAARs were indicated 0.5pt higher. Macau gaming names such as MGMCHIs/SANLTDs /STCITYs were traded 0.5pt higher. Indian space was very quiet. VEDLNs were quoted 0.5pt lower. Indonesian names LPKRIJs/LMRTSPs were bid up 0.5-1pt.

The LGFV/Perp/Asia AT1 spaces had a quiet session with Chinese onshore accounts out on holiday and FOMC meeting on Wed. There were only sporadic onshore two-way flows on LGFVs. SHUGOHs/CQNANAs were indicated 0.125-0.25pt higher. The front end of LGFV space were still under better buying from onshore accounts. Sentiment is cautious as most of LGFV

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names were traded in YTD tight valuations. GSHIAV 24s/TLINVT 23s were marked around 0.25pt higher. Elsewhere, we saw some loose bonds coming out of SOE perps but were easily digested. HUADIA 3.375 Perp/SINOCH 3 Perp were marked 0.125pt higher. CTIH 6.4 Perp was traded 0.125pt higher while ZHONAN 26 was about 1pt higher. AT1s remained better bid despite the rate volatility.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
SINOCE 5.95 02/04/27	**28.8**	**1.8**
GWFOOD 2.349 10/29/25	**88.7**	**1.4**
ZHONAN 3 1/2 03/08/26	**81.5**	**0.9**
LPKRIJ 6 3/4 10/31/26	**73.1**	**0.9**
GJTLIJ 8.95 06/23/26	**82.0**	**0.9**

Top Underperformers	Price	Change
KWGPRO 7.4 03/05/24	**13.5**	**-13.4**
KWGPRO 5 7/8 11/10/24	**15.2**	**-8.0**
KWGPRO 5.95 08/10/25	**12.8**	**-7.7**
KWGPRO 6 08/14/26	**12.4**	**-6.2**
KWGPRO 6.3 02/13/26	**12.4**	**-5.7**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-1.16%), Dow (-1.08%) and Nasdaq (-1.08%) dragged by financial sector as worries about U.S. regional bank re-emerged. WTI/Brent crude oil price dropped c5% yesterday to five-week low level as USD71/75 per barrel due to the recession forecast. The U.S. treasury overall retreated yesterday, 2/5/10/30 yields reached 3.97%/3.46%/3.44%/3.72%, respectively.

❖ Desk analyst comments 分析员市场观点

➢ KWGPRO: A holistic restructuring appears inevitable

Over the long weekend, KWG surprised the market by announcing the default of RMB212mn bank and other borrowings. This triggered the cross default of other debts totaled RMB31.163bn. While we have been concerned of KWG's lumpy debt maturities in 2H23 and FY24, the default of a relatively small loans was "earlier" than our expectation, especially after the debut issuance of CBICL guaranteed onshore bonds of RMB700mn in late Jan'23. The inability of avoiding the small default reflected KWG's lack of progress in resuming/accessing funding channels. We do not think that there would be a quick fix to resolve this small default taking cues from its lumpy repayments over the coming months. KWG is facing amortization repayments (excl coupon) of exchanged bonds totaled USD405.5mn from May to Sep'23 (USD119.2mn in May'23, USD31.8mn in Jul'23, USD159.0mn in Aug'23 and USD95.5mn in Sep'23), in addition to the repayment of panda bonds of RMB8bn (cUSD1.2bn) due in Oct'23. It will also have to repay the final instalment of USD516.7mn of KWGPRO 6 01/14/24, one of its exchanged bonds, in Jan'24. Subsequent to the default news, we can envisage an even more challenging funding environment for KWG. The company could find more difficult even to issue another CBICL-guaranteed bonds with its IPs as collaterals. A more time-consuming and holistic debt restructuring is the most likely scenario for KWG.

➢ GRWALL: missed annual results publication again

China Great Wall Asset Management will not be able to publish its FY22 financials by 30 Apr. It did not state the expected publication date. Recalled that the company delayed the results publication for FY18, FY19 and FY21. For the first two delays, it released the results before end of Jun. For the FY21 results, it published before the end of grace period of its MTN program of 31 Aug.

We expect the company to publish the FY22 results before 31 Aug, the end of grace period, to avoid event of default. Great Wall is currently rated Baa1/Neg by Moody's, BBB/Stable by S&P, and A/NegWatch by Fitch. There is no immediate downgrade pressure due to the delay. Further deterioration of asset quality and capital ratios, on the other hand, could trigger downgrade by Moody's and Fitch as they already placed the company at negative outlook. In particular, the capital ratios as at Dec'22 vs regulatory requirements will be the one of the key metrics to watch for possible negative rating actions. The CET1, Tier 1 and total capital ratios was 9.44%, 12.46%, 15.94% respectively for FY21, compared with the minimum regulatory levels of 9%, 10% and 12.5%. We expect the ratios to deteriorate in FY22 amid the market fluctuation causing the fair value loss of financial assets as well as impairment loss.

Based on the management accounts of 9M22, the consolidated PBT and standalone PBT for 9M22 dropped c84% and c67% respectively compared to 9M21, yet there was no disclosure on the capital adequacy or asset quality ratios as of Sep'22. GRWALLs changed -0.25 to +0.25pt yesterday post the news and moved -0.25 to +0.5pt this morning.

Bond	Px	YTM/YTC (%)
GRWALL 4.375 05/25/23	99.95	5.04
GRWALL 3.125 07/31/24	94.90	7.49
GRWALL 4.25 04/28/25	94.33	7.37
GRWALL 2.875 11/23/26	85.52	7.60
GRWALL 3.875 08/31/27	86.42	7.61
GRWALL 2.375 08/18/30	67.36	8.46
GRWALL 3.95 Perp (callable 07/31/24)	93.84	9.29

Source: Bloomberg.

- **China Economy – PMI indicates a slowdown in economic recovery**

China's PMI in manufacturing declined to the contraction territory for the first time in four months as the factory activity started to cool down after three months of expansion. New order, export order and business expectations all declined in the manufacturing sector. However, service sector continued to see expansion with mild reflation as Chinese households spent more time and money on travel, catering, leisure and recreational service after China's reopening. China's reflation pressure remained low as ex-factory price index in manufacturing further declined in April. The employment condition remained weak as private business confidence was low. China has to maintain accommodative credit policy and pro-business stance to boost business sentiment and growth momentum.

Manufacturing activity contracted in April for the first time in four months since China's reopening. China's PMI in manufacturing dropped to 49.2% in April from 51.9% in March. For the first time in four months, it fell into the contraction territory, pointing to a slowdown of industrial output growth in April. Demand in manufacturing sharply slowed down as new order index dropped from 53.6% in March to 48.8% in April. Meanwhile, export order index and import index declined from 50.4% and 50.9% in March to 47.6% and 48.9% in April. By sector, business sentiment in agricultural product processing, food, beverage, liquor, general equipment, special equipment and electrical equipment was good while that in chemical fiber, rubber & plastic product and steel product was weak.

Service sector maintained resilient recovery. PMI in construction and service declined from 65.6% and 56.9% in March to 63.9% and 55.1% in April, still in the expansionary territory. Both new order and business sentiment further improved in construction. For service sector, both new order and business sentiment remained high as service consumption and activity continued to recover. In April, railway transportation, air transportation, accommodation, telecom service, TV, sports, cultural & recreational service all maintained strong recovery as their PMIs remained above 60%. However, real estate and residential service was weak as their business activity indexes were below 50%.

Reflation pressure was low as ex-factory price indexes further declined. Ex-factory price indexes in manufacturing fell from 48.6% in March to 44.9% in April, indicating a further decline of producer price index

(PPI). The inventory level in manufacturing further dropped in April as product inventory index and material inventory index respectively declined from 49.5% and 48.3% in March to 49.4% and 47.9% in April. The purchasing price index also decreased sharply as purchase demand remained weak. However, service sector saw a mild reflation as the ex-factory price index in service rose from 47.3% in March to 50.1% in April. Looking forward, the reflation pressure should be manageable in China as the GDP growth remains below the potential growth with negative output gap in the country. China has to maintain accommodative credit policy to boost the growth momentum.

Employment condition remained weak as China needs to boost private business sentiment. Employment index in manufacturing, construction and service fell to 48.8%, 48.3% and 48.2% in April from 49.7%, 51.3% and 48.8% in March. The employment condition for the youth and fresh grads was not good as the unemployment rates for the workers aged 16-24 further rose from 17.2% in 4Q22 to 18.3% in 1Q23. The weak employment condition was mainly due to low confidence in private business community as private enterprises accounted for over 80% in total employment in China. The employment condition will determine China's consumption recovery pace by influencing consumer income and confidence. China has to boost private business confidence to improve the employment condition and consumption recovery.

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➢ **Offshore Asia New Issues (Priced)**

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
SK On Co Ltd	900	3yr	5.375%	T+155	Aa3/-/-

➢ **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**

- Onshore primary issuances suspend during the Labor Holidays.
- **[ADEIN]** Media reported that Adani Group gets 12-18 month extension to repay due 2024 loans for USD6.5bn Ambuja Cements and ACC acquisition
- **[BUMIIJ]** Bumi Resources 1Q23 revenue up 30% yoy to USD454.9mn and cash down 13% to USD58.9mn from Dec'22
- **[HYDOO]** Guangdong – Hong Kong Greater Bay Area auditor identifies conditions that may cast doubt on group's ability to continue as a going concern
- **[JIAYUA]** Media reported that Jiayuan was ordered to be wound-up by HK court
- **[PTTGC]** PTT Global Chemical repurchases USD25.8mn of PTTGC 5.2 03/30/2052
- **[VEDLN]** Vedanta pledges 1.91% of its unit Hindustan Zinc for a INR11bn (cUSD134.5mn) loan

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