17 Aug 2023

CMBI Credit Commentary

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

- *Markets remained weak this morning. IG space overall widened 0-2bps. In financials, T2s were better selling and HRINTH curve down amid selling flows. IG developers like CHIOLI/CHJMAO and LGFVs were better buying.*

- *China Economy – Economy further dipped amid weak confidence. CMBI expects China's GDP growth may mildly improve in next several quarters as it is expected to reach 5.1% in 2023 and 4.8% in 2024. See below for comments from our economic research.*

- *COGARD: Country Garden's unit announced a warning that there are significant uncertainties in repayments of its three bonds 19Bidi03, 20Bidi03 and 20Bidi04 totaled RMB4.77bn. COGARDs were unchanged due to lack of liquidity this morning.*

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❖ Trading desk comments 交易台市场观点

UST yields widened 5-7bps across the curve yesterday. Asia ex-JP IG space opened 2-5bps wider and closed on a softer tone. The recent new CHILOV 33s widened 6bps. TMT benchmarks such as BABA/TENCNT papers closed unchanged to 2bps wider with mixed two-way flows. In Chinese SOEs, HAOHUA 27s-30s edged 1-2bps wider. In financials, Chinese bank T2s were better offered. CCB curve widened 2-3bps with some block selling. Whilst BCHINA/ICBCAS 29s edged 2bps tighter. AMC space remained weak. HRINTH curve was traded another 0.5-1pt lower. CCAMCLs were traded 5-10bps wider. In Malaysian space, KNBZMK 28s were better sold. SG bank T2 papers were also under better selling. European AT1s such as HSBC/STANLN AT1s were quoted 0.25-0.5pt lower. Chinese properties performed mixed. DALWANs were traded 2.5-3pts higher. LNGFORs gained 1.5-2pts. COGARDs were marked 1-3pts higher to stay between high single-digits and low-teens. On the other hand, PINGRE 24-25s fell 2.5-7pts. ROADKG/AGILE 24-26s declined 2.5-4.5pts. CSCHCN/CHINSC 24s were quoted 2.25pts lower. Industrials were mixed. EHICAR 24s/26s gained 1-1.25pts. FOSUNI 26s/27s edged 0.75-1.25pts lower. Macau gaming papers such as SANLTDs/STCITYs were traded 0.5-1pt lower. Indian space was quiet. ADANIG/ADGREG 24s were indicated 0.5-1pt higher. Indonesian names MEDCIJs were marked 0.25-0.5pt lower. Elsewhere, MONMIN 24s were bid up 1.5pts.

In the Perp/LGFV spaces, papers prone to spillover from property space selloff remained weak. In perps, NWDEVL perps dropped 1.75-6.25pts. CPDEV/HYSAN perps were marked down 1-1.5pts. CKPH 3.8 Perp/CKINF 4.2 Perp were traded 0.75pt lower. ZHHFGR/BCDHGR were relatively resilient in prices despite flows remained under better selling. Meanwhile SOE perps were muted, despite some small cash raising selling in the front-end. On the other hand, LGFVs remained active, as an alternative space

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against the backdrop of weak property space. The high-yielding bonds (9% or above) remained sought after. Shandong names such as WFURCD/SHUGRP were better bid. Whereas papers yielding =<7% lacked steam due to richness against elevated hurdle costs. There were better buying flows in LGFVs from RMs, although there were also other RMs/Prop clients seizing the window to trim unwanted risks.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
COGARD 8 01/27/24	**12.2**	**3.1**
DALWAN 7 1/4 01/29/24	**44.4**	**3.0**
FTLNHD 4 1/2 05/02/26	**20.6**	**3.0**
DALWAN 11 02/13/26	**31.2**	**2.8**
FTLNHD 4.8 12/15/24	**31.1**	**2.7**

Top Underperformers	Price	Change
PINGRE 3 1/4 06/23/25	**77.6**	**-7.1**
NWDEVL 5 1/4 PERP	**70.7**	**-6.3**
ROADKG 6 09/04/25	**36.4**	**-4.3**
AGILE 5 1/2 05/17/26	**12.4**	**-4.1**
NWDEVL 4 1/8 07/18/29	**77.0**	**-3.5**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.76%), Dow (-0.52%) and Nasdaq (-1.15%) down amid markets worries about further interest rate hike as the Jul Fed meeting minute showed that the majority of policymaker committed to subdue inflation rate to 2% objective. US Jul new house construction increased 3.9% mom, rose from -11.7% in Jun and was higher than expectation of +2.7% mom. US treasury yields overall rallied higher yesterday, 2/5/10/30 yield reached at 4.97%/4.42%/4.28%/4.38%, respectively.

❖ Desk analyst comments 分析员市场观点

➢ China Economy – Economy further dipped amid weak confidence

Activity data in July showed a further weakening economy as GFA sold and started, retail sales, FAI, VAIO and service output index all fell short of expectation. Employment concerns are in the spotlight as release of youth unemployment rate was suspended abruptly. Household and private business confidence remains weak amid credit default from national developer giants, missed payments of trust products and local government debt concerns. The PBOC lowered MLF rate by 15bps recently, paving the way for further LPR cuts next week and indicating further monetary policy loosening in future. The central bank may also launch RRR cut and guide banks to increase credit supply in next several months. Meanwhile, more cities including tier-1 cities may further loosen property policy with continuous declines in down-payment ratios and mortgage rates for first-home and second-home buyers. With the recovery in service sector and continuous policy easing, China's GDP growth may mildly improve in next several quarters as it is expected to reach 5.1% in 2023 and 4.8% in 2024.

Property market further deteriorated and may gradually stabilize from September or October. The gross floor area (GFA) sold and the GFA started for commodity buildings respectively dropped 6.5% and 24.5% in 7M23 after decreasing 5.3% and 24.3% in 1H23. Property development investment further declined 8.5% in 7M23 after dropping 7.9% in 1H23. The continuous slump of housing starts indicates property development investment may further decrease. Property developers remained cautious to purchase land as their financing condition was still tough and their confidence was still low. The sluggish property market further exacerbated developer's revenue which may lead to rising default on debt in 2H23. Breaking down the funding source for property development investment, deposit & advance payment dropped 3.8% and individual mortgage fund dropped 1% in 7M23 after respectively felling 0.9% and rising 2.7% in 1H23. Meanwhile, domestic loan fund further declined 11.5% in 7M23 after dropping 11.1% in 1H23. Potential housing supply has shrunk more significantly than housing demand as the rebalance has started in most cities with excess supply. The significant shrinkage of land-related fiscal system increased local government contingent debt risk and brought downside pressure on local government expenditures. Looking forward, housing sales may see moderate improvement from September or October as policymakers continue to loosen property policy and credit supply and service business recovery improves employment condition. However, property development investment may remain weak with a YoY decline.

Retail sales remained weak as consumers were reluctant to consume especially for durables. The YoY growth of retail sales declined to 2.5% in July from 3.1% in June. Its 2Y CAGR dropped to 2.6% in July, down from 3.1% in June. Looking into the details, retail sales weakened almost across the board except catering service and petroleum product that mildly rebounded as their 2Y CAGRs respectively rose from 5.6% and 5.9% in June to 6.8% and 6.5% in July. Housing-related durables dipped again in July as home appliance, furniture and construction & decoration materials respectively narrowed to 0.6%, and dropped 3.2% and 9.5% in July after growth of 3.8%, -2.8% and -5.9% in terms of 2Y CAGRs. Staples sales showed mix signals as the 2Y CAGRs of food and medicine respectively dropped to 5.8%, and 5.7% in July from 7.2% and 9.2% in June while beverage and alcohol & tobacco product moderately rose to 3% and 7.4% in July from 2.7% and 7.3%. Recovery of auto sales and telecom equip eased up as the 2Y CAGR edged down to 3.9% and 3.9% in July from 6.1% and 6.6% in June. Newly-released retail services sales rose 20.3% YoY in 7M23 compared to 7.3% growth in goods sales, as service sector became the major contributor in consumption recovery. Looking forward, retail sales may gradually improve in next several quarters as the pro-growth policies start to kick in and boost the overall consumer confidence. We maintain our forecast for the retail sales growth in 2023 at 7.5%.

Service activity and industrial output missed market expectation in July. Service output index and VAIO growth both fell short of expectation and slowed down to 5.7% and 3.7% respectively in July from 6.8% and 4.4% in June. In terms of 2Y CAGRs, VAIO and service output index respectively dropped to 3.7% and 3.1% from 4.1% and 4% in June. In service sector, transportation, telecom service and internet & IT service had good sentiment while capital market service and real estate service were weak. In manufacturing sector, output in textile, medicine, nonmetal mineral product, metal product and general purpose equip was weak as exports sharply slowed and housing market activity and business capex remained sluggish. Output growth in chemical products, rubber & plastic product, non-ferrous metal, special purpose equip and electronic equip dwindled. However, output in ferrous metal, auto and public utility improved as related industries benefited from the energy transition revolution in the worldwide. Looking forward, the continuous recovery of service sector should support a gradual improvement of employment condition and consumer confidence. The service sector has absorbed over 60% of SMEs and urban employment in China.

FAI deteriorated sharply as property investment continued to free fall. The YoY growth of FAI dropped to 1.2% in July from 3.3% in June. Property sector continued to plunge as property development investment fell by 12.2% in July after declining 10.2% in June. After “lied flat” and stopped land purchasing due to a very slow recovery of property market, some private developers started to default on interest payment of domestic and foreign debt, marking an even worsening stage of the collapse of property sector. The YoY growth of FAI in manufacturing decelerated to 4.3% growth in July from 6% in June. Looking forward, chemical product, auto and electrical material & equipment may maintain strong FAI growth as the energy transition and smart technology revolution boosts business capex in those sectors. However, most other manufacturing industries are likely to see a gradual slowdown of FAI due to continuous slowdown in demand growth as well as uncertainty in domestic policy and geopolitics. Infrastructure YoY growth slowed notably to 5.3% in July from 11.7% as a result of shrinking land sales and tight fiscal conditions due to mounting debt of local government and LGFVs. The YoY growth of FAI in public utility, transportation, storage & post service, railway transportation and water conservancy remained elevated while fixed investment in public facility management and health & social welfare remained weak. Looking forward, we expect infrastructure investment may remain sluggish before the central government bails them out with trillions of Treasury note in pipeline. We cut our forecast for the FAI growth in 2023 from 5% to 4%.

China may continue to loosen monetary policy and property policy in next several quarters. Interest rate and down payment requirement of mortgage have been lowered and first-home purchase restrictions have been eased in tier-2 cities while government officials in tier-1 cities are discussing with developers with possible adjustment. PBOC delivered 15bp rate cut of MLF to 2.5% and 10bp cut of 7-day reverse repo rate to 1.8% yesterday to address the continuous deflation pressure and weakening economy in recent three months. The policymakers may further loosen credit supply with additional cuts in RRR, deposit rates and LPRs. Meanwhile, most cities may loosen property policy with continuous declines in down-payment ratios and mortgage rates for first-home and second-home buyers. In addition, credit and fiscal support for hard-technology and high-end manufacturing sectors may further increase. However, the current policy pace seems to fall behind the speed of downward spiral of economy and a more drastic and unconventional stimulation package is needed before it is too late to mend.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	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)
Continuum Green Energy	USD	450	3.5NC1.5	9.625%	-/B+/B+

- **News and market color**

- Regarding onshore primary issuances, there were 129 credit bonds issued yesterday with an amount of RMB122bn. As for Month-to-date, 1,019 credit bonds were issued with a total amount of RMB830bn raised, representing a 0.9% yoy decrease
- **[CHIGRA]** China Grand Automotive Services unit proposes to offer RMB1bn corporate bonds
- **[COGARD]** Country Garden's unit announced a warning that there are significant uncertainties in repayments of its three bonds 19Bidi03, 20Bidi03 and 20Bidi04 totaled RMB4.77bn
- **[JD]** JD.com 2Q23 revenue increased 7.6% yoy to USD39.6bn and Non-GAAP EBITDA rose 45% yoy to USD1.4bn
- **[SINOCL]** Sino-Ocean Capital said hearing for HK winding up petition to resume on 8 Nov
- **[YANGOG]** Yango Group was delisted from Shenzhen Stock Exchange

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