

## CMBI Credit Commentary

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

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- *Markets were active this morning like previous days. AT1 and SOE perps with longer dated tenor and yields around 5% were well sought after by onshore buyers.*
- **Chinese property:** *Another piece of news on government support. COGARD 6.5% '24/ CIFIHG 6.45% '24/ LNGFOR 3.375%' 27 notably rallied 9-12pts while FUTLAN up 2-6pts at the time of writing. See below.*
- **China Economy:** *Growth slowed and may slowly pick up. The GDP growth is expected to rise from 3.5% in 2022 to 6.5% in 2023. See below for comments from our economic research.*

#### ❖ Trading desk comments 交易台市场观点

Yesterday, Chinese IG space embraced another strong session on the back of PBoC rate cut. Financials sector broadly tightened 2-3bps on light buying flows. AT1s were largely stable and afloat on back of solid RM/PB demand. TMT benchmark names were largely unchanged except LENOVO curve tightened 15-20bps. IG Property names showed a small rally post REDD reported regulators' plan to provide liquidity support for selective firms via guaranteed bonds. SINOCE/VNKRLE up 1.5-2.5pts with buying interests on front end. China HY space opened firm and turned into a short squeeze after headline of liquidity support boosted high-beta names. CIFIHG/COGARD jumped up 3-6pts with HFs/RMs looking to add. CENCHI/ROADKG still down 2-2.5pts. In Ex-China HY, VEDLN also rallied 2.5-5pts higher. India HY generally marched 50c-1pt except AZUPOE down 2-4pts again on further delay in filing FY22 report. LPKRIJ' 25/26 also up 3-4pts. Among industrials, FOSUNI down 1-1.5pts on retail selling.

In SOE Perp/LGFV space, the strength persisted in the spaces thanks to continued robust deployment demand from Chinese fund managers and structured products. Flow-wise, the majority of deployment was cross-border flows from onshore given the on-off-shore yield gap and the boost from surprise MLF rate cut. In SOE Perp space, papers not close to 4% climbed roughly one bid-ask interval, i.e. 20c-50c higher because buyers had to lift whatever still available amid light offer liquidity. Meanwhile, papers already close to 4% were largely stable and tried to consolidate at prevailing levels, such as in the cases of RLCONS 3.97 PERP/ ICBCAS 3.2 PERP. Elsewhere, LGFVs remained well bid overall although demand continued to be name-specific. CQNANA 4.66%'24 edged another

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~0.75pts on back of structured flows and were back to high-97 level. Buying flows emerged in a few other quality 24s at low-4% whilst a few mandates also extended to look at selected 26s at high-4%, mirroring the recent trends in AT1s and SOE perps. Overall, long-end started to show some more buying flows on good quality names as onshore investors indicated more dovish actions on rates.

### ➤ Last trading day's Top Movers

Top Performers	Price	Change
COGARD 8 01/27/24	41.4	6.3
CIFIHG 6.55 03/28/24	34.6	4.9
VEDLN 6 1/8 08/09/24	71.8	4.8
COGARD 4 3/4 01/17/23	71.8	4.1
RILIN 3 3/4 01/12/62	79.7	4.0

Top Underperformers	Price	Change
AZUPOE 5.65 12/24/24	91.5	-3.8
AACTEC 3 3/4 06/02/31	64.0	-3.3
ROADKG 7 PERP	23.5	-2.6
TAISEM 3 1/8 10/25/41	81.8	-2.2
RISSUN 9 1/2 03/16/23	28.0	-2.0

### ➤ Macro News Recap 宏观新闻回顾

**Macro** – U.S. stock indexes kept ascending trend yesterday pushed by tech companies Apple and Microsoft, etc. The S&P (+0.4%), Dow (+0.45%) and Nasdaq (+0.62%) rebounded strongly since June while were still lower than year beginning points. Crude oil price slumped on Monday, The prices of WTI and Brent crude closed at 88.04 and 93.47, decreased 4.4% and 4.77%, respectively. The crude oil price slump may further alleviates U.S. inflation and reduce the probability that the Fed takes hawkish interest hike in Sep'22. The U.S. treasury yields downed as the curve bull steepened with 2/5/10/30 yield reaching 3.20%/2.91%/2.79%/3.10%, respectively.

### ❖ Desk analyst comments 分析员市场观点

#### ➤ Chinese property: Another piece of news on government support

Media reported that Chinese regulators would provide liquidity support through RMB bonds guaranteed and underwritten by SOEs. The bonds would be collateralized with assets of developers. We understand that the regulators recently met 18 developers, including 12 in distress and 6 non-distressed. Recalled that there were 12 names mentioned in previous media reports on the government's plan to set up a real-estate fund to provide liquidity support. They are Aoyuan, Evergrande, Greenland, GZRF, Kaisa, Risesun, Ronshine, Shimaos, Sunac, Yango, Zhongliang and Zhongnan. We believe that the 6 non-distressed developers should include CIFI, COGARD, Longfor and Seazen. The news are positive to the market sentiment, and to the named developers. This morning, the equity and bond markets reacted positively to the news. At the time of writing, the stocks of CIFI, COGARD, Longfor and Seazen were up 11-16% while - COGARD/CIFIHG also further climbed up 3-7pts this morning after closing 2-6pts higher yesterday. COGARD 6.5% '24/ CIFIHG 6.45% '24/ LNGFOR 3.375% '27 notably rallied 9-12pts, FUTLAN were up 2-6pts.

We believe that a state-sponsored support is being contemplated by the government, to avoid a credit crisis in property sector, to spill over to the banking system and to affect the social stability. The latest NBS figures showed property sales and investments weakened considerably. See the [comments on NBS Jul data from our equity research](#). That said, there are limited details as to the size, timing and beneficiaries of the support. We noticed that the support mentioned would be in the form of guaranteed RMB bonds, and uses of proceeds would be flexible. The key questions to us will be: 1) how and will this plan benefit offshore USD bondholders; 2) will the bonds be issued onshore or offshore; and 3) will offshore creditors be even subordinated (legally and structurally) after the issuance of secured RMB bonds.

## ➤ China Economy – Growth slowed and may slowly pick up ahead

China's growth slowed in July amid the confidence shock in the pre-sale housing market and the resurgence of Covid-19 cases in some cities. Housing sales, development investment, consumption and service business all deteriorated. China will maintain easing liquidity and further loosen mortgage policy as housing market may slowly recover in future. Meanwhile, local governments do not have sufficient fiscal resources to execute zero-Covid policy. Household consumption may also gradually improve. Manufacturing investment may further slow in next few months before gradually stabilizing along with the economic resumption. Infrastructure investment may remain strong in 3Q22 before gradually slowing amid lack of new strong fiscal stimulus. China's economy should be in a gradual resumption process in 2H22-1H23 with challenges such as weak housing market, sluggish confidence and overseas recession risk. The GDP growth is expected to rise from 3.5% in 2022 to 6.5% in 2023.

**Growth slowed in July.** After a rapid resumption in June, China's growth slowed in July. The YoY growth of value added industrial output (VAIO) and service output index mitigated from 3.9% and 1.3% in June to 3.8% and 0.6% in July. One factor was the confidence shock in property market. As some homebuyers threatened to stop repaying their mortgage loans for unfinished housings, potential buyers, banks and developers became more cautious about the pre-sale housing market. Property sales and development investment deteriorated in July. Another factor was the resurgence of new Covid-19 cases with possible isolation policies in some cities, which influenced business expectation and consumer confidence. Growth of manufacturing fixed investment and retail sales decelerated in July. The export of goods maintained high growth in July due to China's price advantage, but investors were concerned about its sustainability as global recession risk increased. Infrastructure investment growth was also strong, but the upside room may be limited as local governments used up special bond quotas for this year and their land revenue sharply shrunk.

**Growth may gradually rise in future as resumption should continue in 2H22-1H23.** China's growth should gradually rise in future after the recent slowdown for two reasons. First, property market has seen the worst period and will recover slowly. Local governments have made commitments to the central government to solve the problem of unfinished buildings. Such risk in the pre-sale market should drop noticeably as potential homebuyers' confidence may gradually recover. Meanwhile, the PBOC will maintain easing liquidity and credit policy to stabilize property market and support the growth. Second, local governments do not have sufficient fiscal resources to execute the zero-Covid policy as economy has slumped and land revenue has shrunk. It is likely to see a gradual resumption of consumption and service business in 2H22-1H23.

**Housing market deteriorated in July, but may slowly recover ahead.** Gross floor area (GFA) sold for commodity buildings dropped 29.2% YoY in July after declining 18.3% YoY in June. High-frequency statistics indicates condition in high-tier cities was much better than in low-tier cities. Average sales price for commodity buildings continued to improve with the YoY growth turning positive in July, partially thanks to more sales contribution from high-quality projects or high-tier cities. Developers remained in stress condition as their land purchase, new starts and development investment further deteriorated. Total fund source for development investment dropped 25.4% in 7M22 after decreasing 25.3% in 1H22. Land area purchased, GFA for commodity buildings started and property development investment respectively slumped by 47.3%, 45.8% and 12.1% in July, compared to the decrease of 52.7%, 44.9% and 9.6% in June. The shock therapy of deleveraging in the property sector has caused a liquidity crisis for developers and a hard landing for housing sales and development investment. Housing prices have seen less declines as supply dropped even more significantly than demand. Looking forward, China is likely to maintain easing liquidity and further loosen mortgage policy to stabilize housing market. Housing sales may gradually recover from 3Q22. But property development investment and land market should improve more slowly as it may further deteriorate in 3Q22.

**Retail sales slowed and should gradually pick up in future.** Retail sales rose 2.7% YoY in July, down from 3.1% in June. Both housing market slump and the resurgence of Covid-19 cases influenced consumer confidence. The performance varied by sector. Items related to housing market remained weak as furniture

and construction & decoration materials respectively dropped 6.3% and 7.8% YoY in July after dropping 6.6% and 4.9% YoY in June. Auto and communication equipment moderately slowed as their YoY growth decelerated from 13.9% and 6.6% in June to 9.7% and 4.9% in July. But home appliance picked up 7.1% in July after rising 3.2% in June, as hot summer fueled demand for some house equipment. Catering, beverage, alcohol & tobacco and petroleum product all improved noticeably as out of home activities increased. Looking forward, retail sales may gradually resume in next four quarters amid continuing reopening and employment improvement.

**FAI slowed in manufacturing and picked up in infrastructure sector.** Total urban fixed asset investment (FAI) rose 3.6% YoY in July, down from 5.8% YoY in June. The YoY growth of manufacturing investment slowed from 9.9% in June to 7.6% in July as fixed investment inflation declined and business confidence remained weak. Infrastructure investment remained strong as its YoY growth reached 11.5% in July and 12% in June. Specifically, those sectors related to grain and energy supply security saw strong growth. Water conservancy and public utility (especially new energy production & supply) jumped 14.5% and 15.1% in 7M22 after rising 12.7% and 15.1% in 1H22. Public facility also picked up 11.7% in 7M22, compared to 10.9% in 1H22. However, transportation, storage & post service was weak as its YoY growth slowed from 4.6% in 1H22 to 4.3% in 7M22. Meanwhile, health & social welfare jumped 32.2%, and cultural, sport & recreational service only rose 6.9%. Looking forward, manufacturing investment may continue to slow down in next few months before gradually stabilizing along with the economic resumption progress. Infrastructure investment may remain strong in next 1-2 quarters before gradually slowing down amid lack of new strong fiscal stimulus.

Click [here](#) for full report.

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

Issuer/Guarantor	Size (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 (mn)	Tenor	IPG	Issue Rating (M/S/F)
No Offshore Asia New Issues Pipeline Today					

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 68 credit bonds issued yesterday with an amount of RMB60bn. As for Month-to-date, 751 credit bonds were issued with a total amount of RMB775bn raised, representing a 10.5% yoy decrease
- [CENCHI]** Media reported that CCRE expects to complete CB issuance to key investor Henan Railway no later than Oct'22
- [EVERRE]** FRC initiated an enquiry into the 2020 and 1H21 financial statements of Evergrande Property Services and the audit carried out by PwC on its 2020 annual accounts; The FRC also has extended the scope of an existing enquiry into the financial statements of China Evergrande and PwC for same accounting periods due to some questions related to restricted bank deposits, etc. founded by FRC

- **[HONHUA]** Fitch plans to withdrawn the rating of Honghua on or about 15 Sep'22 for commercial reasons
- **[PKFOUN]** Founder Technology announced that it added RMB765.98mn additional overdue debts due to tight liquidity
- **[POLYRE]** Poly Property Group announced that it has agreed to provide loans about RMB780mn to SZ China Merchants and Huizhou Baozhi
- **[REDSUN]** Redsun signed an agreement on 15 Aug'22 with Wuhan Dabenying and Guangzhou Merchants to sell its equity interest in Guangzhou land parcel for RMB856.8mn
- **[SKYFAM]** Skyfame Realty announced that the Bermuda court appointed persons from EY Bermuda and EY Hong Kong as the joint provisional liquidators for restructuring purposes, the Bermuda court also adjourned the hearing of the Petition to 28 Oct'22
- **[TLLGSP]** S&P's report said that it expects Yanlord will maintain an adequate level of liquidity due to its business model, prudent financial management
- **[ZHHFGR]** Zhuhai Huafa Properties opts to call RMB1bn extendable notes 19HuafashiyeMTN002 on 13 Sep'22
- **[ZHPRHK]** Zhenro Properties announced that it expects to turn to loss for 1H22 about RMB2.5-3bn from RMB1.17bn profit in 1H21 due to overall decline in Chinese real estate demand

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