

CMBI Credit Commentary

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

- *Market sentiment continued to be weak and quiet with UST rate climbing 10bps this morning. Flow remained better selling with only 22s/perps callable 22s digested at 3.5%/3.6%.*
- **GRWALL:** *60-day grace period till end of Aug to release FY21 annual report. Within Chinese AMC space, we prefer HRINTH for better valuation and demonstrated government support. For lower beta plays with stronger fundamental, we prefer CCAMCLs. See below.*
- **China Policy:** *Monetary Policy may remain accommodative with fine-tuning in 2H22. See below.*

❖ Trading desk comments 交易台市场观点

Yesterday, Chinese IG space was weak given the macro weakness. We saw balanced but limited flows as US market was closed for holiday on Monday. In Financials, AT1 sector was holding up which was 25c higher in price and unchanged in spread. In AMC sector, GRWALL'27 dropped 3-4.5pts. ORIEAS/CCAMCL spreads widened 5-15bps on spillover effect. SOE names like HAOHUA/SINOPE widened 5-10bps while UST 10y yield pulled back to below 3%. In TMT sector, TENCNT/XIAOMI widened 10-15bps.

As UST rates opened ~20bps lower from half end and back to May levels, LGFV 23s tested tighter at high-3% on back of the UST rally and slightly loosened liquidity at onshore banks. 26s at high-4% provide a better risk-reward profile on a hedged basis than 24s/25s at low-4%, now that 4% seems to be the minimum yield required for bonds maturing beyond 22s. Overall, liquidity remained thin in most bonds as two-way interests often ended up in a stalemate.

Chinese HY saw another weak day. Benchmark low/medium property names were 50c-1pt lower, and gaming names were 0.5-2pts lower. PWRLNG'22 continued the fall on exchange offer news and its cash price now settled at below c20s. KWGPRO also plunged 5-7pts on pessimistic sentiment incurred by PWRLNG/SHIMAO. CENCHI dipped 1pt on the short end. CHINSC/CIFIHG down 1-1.5pts. Among distressed names, AGILE/KAISAG up 1-1.5pts. Among other sectors, FOSUNI dropped 1-2pts on the short end.

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➤ **Last trading day's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
KMCONS 5.8 10/17/22	98.6	3.6	KWGPRO 5.2 09/21/22	36.2	-7.2
HRINTH 4 1/4 PERP	90.8	1.9	KWGPRO 6 09/15/22	32.5	-5.0
HRINTH 4 7/8 11/22/26	93.9	1.8	CHJMAO 4 7/8 PERP	75.4	-4.6
AGILE 7 7/8 PERP	22.0	1.5	GRWALL 3.95 PERP	90.3	-4.2
HRINTH 4 5/8 06/03/26	93.9	1.4	SINOCE 2.7 01/13/25	47.2	-3.5

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stocks was closed on Monday while Asian stocks look set for a steady start Tuesday as investors evaluate the possible scrapping of some US tariffs on Chinese consumer goods. S&P 500 and Nasdaq 100 contracts also gained. South Korea's inflation hits its fastest pace since late 1998 in June, keeping pressure on the Bank of Korea to go ahead with an outsized interest-rate hike next week. UST 10y yield is now at 2.88% on the last trading day.

❖ **Desk analyst comments 分析员市场观点**

➤ **GRWALL – Failure to Publish FY21 Financial Reports by 30 Jun'22**

China Great Wall Asset Management (keepwell provider of GRWALL 3.125% 22, 4.375% 23 and 3.875 27) failed to publish its FY21 financial report by 30 June due to “confirming valuation for certain operating projects”. The covenants for these 3 keepwell bonds required company to publish audited financial reports within 180 days after the end of each period but with a grace period of 60 days. Thus, events of default will be triggered only if company still fails to publish audited results by end of Aug. That said, GRWALL has been able to honor its payments, which is different from distressed situation that HRINTH was in last year. If, by any chance, company still fails to publish results by end of Aug, we expect GRWALL to look for a temporary waiver. We do not see this to have a huge impact on its liquidity in the near-term.

GRWALL curve down 1-4pts since last Thursday. We do not think the conviction for non-listed AMC names such as GRWALL and ORIEAS is higher due to their lower transparency. Within Chinese AMC space, we prefer HRINTH for better valuation (4-9%) and demonstrated government support. For lower beta plays with stronger fundamental, we prefer CCAMCLs.

➤ **China Policy – MP may remain accommodative with fine-tuning in 2H22**

Monetary easing has been the key for the recent rally of Chinese stocks. China's economy has started to resume with a loosening in both economic policy and Covid-zero policy. The most accommodative period for monetary policy may be over soon. But monetary policy should remain accommodative in 2H22 as GDP growth will still be below potential growth and core CPI growth is likely to remain low. The upside risk for CPI may be from the live hog, but it should be temporary. DR007, as an indicator for liquidity condition, has climbed recently as liquidity demand increased amid credit expansion and investors' risk-taking. We expect DR007 to remain below PBOC's 7D repo refinancing rates with gradual increases in 2H22. It is possible to see targeted RRR cut for small & medium or regional banks as they face stress amid unbalanced economic recovery. The possibility of further LPR cuts declines, but credit supply should remain accommodative. China will tolerate an increase of the debt to GDP ratio and a moderate depreciation of renminbi to support the growth in 2H22. Monetary policy prospect in 2023 depends on Covid-zero policy dynamics and economic resumption progress. We expect China to gradually shift towards a prudent monetary policy with structural or targeted easing in 2023.

- **Monetary policy should remain accommodative with mild fine-tuning in 2H22.** Liquidity condition will remain ample with possible mild adjustments. DR007 has climbed from its lowest level in mid-May recently because liquidity demand has increased amid investors' risk-taking and gradual recovery of credit expansion. We expect DR007 may see some gradual and mild increases in 2H22. But it should remain below PBOC's 7D repo refinancing rates for several months, implying ample liquidity condition. It is still possible to see further targeted RRR cut for small & medium regional banks. Those banks are important in supporting SMEs, individual businesses and undeveloped regions. But they have faced more severe stress as economy has resumed more slowly in lower-tier cities. The possibility of further LPR cut declines, but credit supply should remain accommodative as real demand remains weak.
- **Monetary policy condition depends on Covid-zero policy dynamics, economic resumption progress and inflation pressure.** China's economy has passed its worst in April and gradually resumed from May, thanks to reopening in Shanghai, economic policy easing and loosening Covid-zero policy. The economy should continue to recover as Chinese stocks have outperformed global markets and housing sales, auto demand and service activities have rebounded noticeably recently. China's GDP growth may reach 4% in 3Q22 and 4.8% in 4Q22, still below the potential growth. CPI may gradually pick up as grain, live hog and some service items rebound. The upside risk for CPI may be from live hog, which will see strong YoY growth in 3Q22 due to base effect. But core CPI growth should remain low because of weak consumer demand. Therefore, monetary policy should remain accommodative with some mild fine-tuning in 2H22.
- **Renminbi exchange rates should be more flexible to absorb external shocks and facilitate domestic policy independence.** The PBOC increased renminbi exchange rate flexibility in late April, causing a rapid depreciation of renminbi against US dollar. We considered this movement as a strong pro-growth signal from the Chinese policymakers. The central bank vowed in its 2Q22 MP report to further increase exchange rate flexibility to facilitate the independence of domestic monetary policy. USD/RMB generally moves along with US-China interest spreads and reflects dynamics of the two countries' gap in economic fundamentals. In the short term, US-China divergence in monetary policy may further increase as the US Fed will continue to sharply raise its policy rates. Renminbi has additional room to depreciate against US dollar in 2H22. In the medium term, however, China's economy is in the resumption cycle while the US economy will gradually slow down. Renminbi exchange rates have some support in 2023. We expect US\$/RMB may reach 6.8 at end-2022 and 6.6 at end-2023.

Monetary policy prospect in 2023. China's monetary policy prospect in 2023 basically depends on three key factors: 1) Covid-zero policy dynamics and domestic economic resumption progress; 2) global recession risk and its spillover effect on China; 3) commodity prices and domestic inflation. We expect China may gradually shift towards a prudent monetary policy with structural or targeted easing in 2023. First, China's economy is still in the resumption progress with GDP growth probably still below potential growth. Economic performance in some regions or sectors may remain weak, as the latest round of resumption seems more slowly than in 2Q20-1H21 and global economy faces recession risks. Second, the CPI growth may mildly rise yet should remain below 2.5% as domestic consumption remains tepid and commodity prices are expected to decline.

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➤ **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	FPG/IPG	Issue Rating (M/S/F)
Korea Gas Corp	USD	-	5	T+145	Aa2/AA/AA-
Guangxi Communications Investment Group	USD	-	3	4.6	-/BBB

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 56 credit bonds issued yesterday with an amount of RMB63bn. As for Month-to-date, 145 credit bonds were issued with a total amount of RMB149bn raised, representing a 3.1% yoy decrease.
- **[CSIPRO]** CSI Properties announces that it is considering undertaking another on-market repurchase programme
- **[GZRFPR]** Guangzhou R&F Properties announces that it has gained a waiver from the HKEX to delay the dispatch of the FY21 annual report to on or before 19 Aug and it is to hold a bondholders' meeting regarding its 16Fuli04 bonds this week
- **[SHIMAO]** GIC noteholder advisors Houlihan Lokey and Weil Gotshal to hold call on 5 Jul at 5pm HK time for all bondholders to expand group for restructuring talks
- **[YUEXIU]** Moody has affirmed Yuexiu Property Company's Baa3 issuer rating and the provisional (P)Baa3 senior unsecured rating on its MTN program

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