

CMBI Credit Commentary

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

- *XINAOG'27 further tightened to +170/167 with global RM buying interest. HY performed weak with benchmark names like COGARD/CIFIHG/FTLNHD down 3pts*
- **China Policy:** *CMBI research expects RMB to depreciate against USD in 2Q22-3Q22 before rebounding in 4Q22, which would pave the way for further policy easing including possible loan prime rate cut in the next few months. See below*
- **VEDLN:** *Principal amount of USD468.375mn of 6.375%'22 were tendered by 11 May'22 (the early tender deadline), vs maximum acceptance amount of USD500mn. As written before, we prefer short-dated VEDLN'22 and 23s and VEDLN 13.875%'24 which is secured by the stakes in VED*

❖ Trading desk comments 交易台市场观点

IG: XINAOG 27 new issue further up to +170. Offer side ~+167 now ie. 4.50%. It seems to us global RM funds topping up as they do like the name whilst Chinese accts not fond of 5y nowadays, and most would likely have already taken profit yesterday.

HY: weak sentiment prevails, benchmark names COGARD, CIFI, Future Land etc down 3pts. Previous consensus longs COGARD 23/24 felt tough as investors are getting nervous after the Fuzhou escrow account freeze news.

LGFV: rumours of USD bond maturity extension from Guangxi Liuzhou LZDTID 7 5/22/22 USD180mn (in some other versions Guizhou Zunyi ZYRDBG 4.6 6/22 USD81mn back by BOCHON SBLC and/or Gansu Lanzhou LZINVE 4.15 11/22 USD300mn). Chatters from onshore first but now all over the place. Other than short interests in weaker LGFV names' 22 papers, also heard some punting on the said LZDTID (9 days to maturity) from onshore but overall cautious tone amid increasing concern of how the 'LGFV faith' may be dampened should any extension/ credit event occur.

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➤ Yesterday's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
ZHHFGR 4 1/4 PERP	95.4	1.6	COGARD 8 01/27/24	71.5	-4.5
JIAYUA 13 3/4 02/18/23	39.5	1.3	DALWAN 7 1/4 01/29/24	78.7	-4.2
ZENENT 12 1/2 09/13/22	64.5	1.1	CHINSC 7 05/02/25	54.6	-4.2
JIAYUA 11 02/17/24	33.4	1.0	COGARD 6 1/2 04/08/24	69.6	-4.0
BEIENT 6 3/8 05/12/41	117.1	0.8	TPHL 6 3/4 07/08/25	38.8	-3.8

❖ Macro News Recap 宏观新闻回顾

Macro – U.S. stocks closed mixed yesterday, as investors continue to shed risk assets in markets around the world on renewed concerns of central bank tightening and surging inflation. The S&P (-0.13%), Nasdaq (+0.06%), and Dow (-0.33%) closed mixed. Slowing growth in Europe, where Britain's economy contracted in March and looks likely to slip into recession over the coming months, added to investor woes. Bond price outperformed amid retreat in risk asset. Treasury yield curved moved downwards, with the 2/5/10/30 yield reaching 2.56/2.81/2.84/3.00% respectively.

❖ Desk analyst comments 分析员市场观点

➤ China Policy – To overcome the fear of floating

Recent renminbi depreciation is China's pro-growth signal as it would boost exports and provide room for domestic policy easing. Renminbi may slump in 2Q22-3Q22 with US\$/RMB spot rates possibly over 7 again, and a rebound from 4Q22 with a shift of relative strength in the two largest economies. Renminbi depreciation would pave the way for further policy easing including possible loan prime rate cut in the next few months.

- **China has to overcome the fear of floating to support growth with independent monetary policy.** China faces the traditional policy trilemma that one can only choose two from the three options of free capital flow, independent monetary policy and fixed exchange rates. Amid the Fed tightening, fixed exchange rates imply strong renminbi and leave no room for domestic policy easing. But China's economy slumped sharply in April and the country faced increasing pressure to loosen its monetary policy. Therefore, it had to make exchange rates more flexible to support growth with independent monetary policy.
- **Renminbi may slump in 2Q-3Q22 and rebound from 4Q22.** From March to September, China economy is weaker than the US economy as there should be further divergence of monetary policy in the two largest economies. Meanwhile, the Biden administration faces the pressure of mid-term elections and may use pressure on China as a means to boost the people's support for Democratic Party. Those factors point to a further weakening of renminbi in the next few months. It is possible to see US\$/RMB spot rates to rise to above 7 again after almost three years. In August 2019, US\$/RMB rose above 7 with the peak at 7.18 after a round of depreciation amid the Sino-US trade war. The wind may change after 3Q22 as China economy gradually rebounds and US economy slows with rising recession risk.

- **Renminbi depreciation paves the way for further policy easing in next few months.** The renminbi depreciation would provide room for further policy easing ahead. We expect addition liquidity easing and possible LPR cut in next few months. Broad credit growth would moderately rebound. China would tackle Covid first and then gradually resume economy.
- **Exchange rates have some influence on renminbi internationalization, but there are factors that are more important.** Exchange rates reflect economic fundamentals. It is positive economic prospect to support confidence about renminbi and its wide use. In addition, Chinese companies' bargaining power in global supply chain, renminbi's convertibility freedom, China's financial market competitiveness and openness and the yield and safety of renminbi assets are also important factors for renminbi internationalization.

Please see CMBI research team's full report [here](#)

➤ Offshore Asia New Issues (Priced)

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
No Offshore Asia New Issues Priced Today					

➤ Offshore Asia New Issues (Pipeline)

Issuer	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 credit bonds issued yesterday with an amount of RMB0bn. As for Month-to-date, 235 credit bonds were issued with a total amount of RMB245bn raised, representing a 2.9% yoy increase.
- **[FRESHK]** to redeem all USD300mn perps on 14 June
- **[FRETAI]** Future Retail bankruptcy hearing adjourned again, to 6 June, also at company request
- **[GRNLGR]** Greenland Holding and Greenland HK downgraded to B2; ratings placed on review for downgrade - Moody's
- **[GWFOOD]** repurchases USD26.2mn offshore bonds

- **[GZRFPR]** R&F hit by USD10mn recovery suit in HK from Temasek-backed Seatown over USD550mn defaulted private bonds
- **[JINKE]** Jinke downgraded to B+ by S&P

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