

CMBI Credit Commentary

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

- *China HY property market further rose along with equity market. SUNAC/TPHL up 3-4pts while COGARD/LOGPH/SHIMAO up 2-3pts. However, ZHPRHK 6.5% 2022 down 10pts to 37 level and RONXIN 10.5% 2022 also plunged 15pts to 50s. See below.*
- *Media reported that policy-makers asked big-4 national AMCs to support developers. We believe that the policy objectives are to ensure timely project deliveries. The “support” will be piecemeal and towards large nationwide developers such as Agile, Evergrande, Shimao, Sunac, etc., in our view. See below.*
- *Media also reported that the new nationwide rules on escrow account will be implemented. We believe that developers with stronger contract sales in FY21 and smaller maturities in FY22 will benefit more from the ease on escrow account, including Country Garden, CIFI, Dafa, Seazen, Shimao and Sunac. See below.*

❖ Trading desk comments 交易台市场观点

Yesterday, China HY property sector continued to trade up, especially post the headline that Chinese AMCs will move to support stressed property developers. Names such as CIFIHG/COGARD/LOGPH/SUNAC/ROADKG were skewed to better buying and up 2-4pts. ZHPRHK curve saw heavy street selling in the afternoon, ZHPRHK perps fell around 15pts but recovered slightly near the end of day. New issue STDCTY 5NC2 notes traded up around 0.5pts from reoffer.

IG market sentiment remained stable with benchmark spread slightly tighter. TMT names like BABA/BIDU spread narrowed 1-2bps. SOE names like HAOHUA/SINOPE saw light two way flows and spread widened 0.5bps for the day. This morning we saw most IG bonds bid price were quoted 1-2bps wider post CPI surged and UST 10Y yield exceeding 2%.

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➤ **Yesterday's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
SHIMAO 4 3/4 07/03/22	69.7	4.7	ZHPRHK 6 1/2 09/01/22	40.6	-10.2
SUNAC 7.95 08/08/22	76.8	3.9	ZHPRHK 7.1 09/10/24	35.6	-6.8
SUNAC 7 1/4 06/14/22	82.6	3.9	ZHPRHK 9.15 05/06/23	40.1	-6.4
SUNAC 6.8 10/20/24	61.3	3.8	ZHPRHK 6.7 08/04/26	34.1	-5.7
SUNAC 6.65 08/03/24	61.4	3.6	ZHPRHK 6.63 01/07/26	34.9	-5.2

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stock indexes sharply declined yesterday after higher than CPI report. January CPI increased 7.5% yoy /0.6% mom, exceeding market expectation of 7.2%/0.4%. The S&P (-1.81%), Nasdaq (-2.10%), and Dow (-1.47%) ended much lower. U.S. Treasury yield curve was also pushed higher due to higher rate hike expectation. Benchmark 10Y US Treasury yield exceeded 2% for the first time since 2019. The 1/5/10/30Y yields gained 23 /14 /9 /5 bps to 1.14 /1.82 /2.03 /2.30% respectively.

➤ **Desk analyst comments 分析员市场观点**

➤ **Chinese properties: from (A)MCs to (Z)henro**

There are 3 major news flow/talks on the Chinese property sector over the past 1-2 days, 2 (AMCs's support of developers and relaxation of escrow accounts) positive and 1 negative (rumours on Zhenro's maturity extension). Overall, we believe that the news of AMCs' support and relaxation of escrow account will improve the market sentiment while rumours on Zhenro will speed up the flattening of credit curves as we argued in our Asia HY corps outlook. We prefer belly part of the credit curves given the better risk and profile.

AMCs to provide liquidity bids for assets and distressed debts

Media reported that policy-makers asked big-4 national AMCs to support developers. There is limited information as to the forms, scale and timing of support. We believe that the policy objectives are to ensure timely project deliveries and avoid systemic risk in onshore financial system. Hence, the focuses of big-4 will be on project acquisitions or funding stalled projects, as well as acquisitions of distressed debts instead of acquisitions of shareholdings. The support will be piecemeal, and will be towards large nationwide developers such as **Agile, Evergrande, Shimao, Sunac**, etc., in our view. Additionally, cash inflow from the support of big-4 will likely be prioritized for home deliveries and settlement of construction expenses.

We believe that the support of AMCs will improve the market sentiment on the Chinese property sector, albeit this may not be a game-changer for the sector. The piecemeal support at project levels mean the improvement in liquidity could be a lengthy process. To us, AMCs will play the role of providing liquidity bids for developers' assets and distressed debts when the market is short of bidders. This can help speed up asset sales and free up loan quota from banks for the sector. We shall monitor if more local AMCs will be involved going forward, such that smaller developers will be benefitted from the "support" AMCs.

Escrow accounts relaxation positive but tempered by slowing sales

Media also reported that the new nationwide rules on escrow account will be implemented and cash in excess of construction costs can be utilized by developers. One of the key drivers for liquidity crunch many developers facing is overly tight escrow account policies by different local governments. These new rules compared favourably with those of previously reported in Jan'22 given the latest rules will be nationwide, and there will be a clear guidance that the restricted cash level should not exceed the construction costs. For ballpark estimations, restricted case should be 30-40% of total cash. Recalled that the relaxation reported in Jan'21 was localized

and could be marginal in certain localities. The new rules, if implemented, will normalize the restricted cash level and improve liquidity of developers. The benefit is somewhat tempered by the slowing sales in recent months, reflected the slow mortgage approval process, concerns of uncompleted flats and, to some extent, the upward trend of property price reversed. For the 43 developers with available figures, their sales in Jan'22 declined by an average 47% yoy. Nonetheless, we believe that developers with stronger contract sales in FY21 and smaller maturities in FY22 could benefit from the ease on escrow account. These include **Country Garden, CIFI, Dafa, Seazen, Shimao and Sunac**. See [our comments on 20 Jan'22](#).

Zhenro rumours could speed up credit curve flattening in the sector

There are talks/chatters on Zhenro' potential maturity extension. ZHPRHK'22s down 15-25pts and the perps down 10pts this morning further to the 30pts decline yesterday. Recalled that Zhenro announced the call of its perps on 4 Jan'22. Since the call is irrevocable, as we believe that cancellation of the call is an event of default though we are not sure if there is a grace period for call redemption. We shall monitor if there will be any spill-over impact to other near-term maturities such as AGILE6.7% '22, REDPRO 8%'22, REDSUN 9.95%'22, RONXIN 10.5%'22, TPHL 5.75%'22, etc. As discussed, we expect credit curves to flatten and prefer belly parts of the curves for Chinese HY properties. Please read our [Asia High Yield Corps Outlook 2022](#) for more details.

<https://www.cmbi.com/article/6356.html?lang=en>

➤ Offshore Asia New Issues (Priced)

Issuer	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Citic Pacific Ltd	300	10yr	3.5%	T+175	A3/BBB+/-
	700	5yr	2.875%	T+122.5	

➤ Offshore Asia New Issues (Pipeline)

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

➤ Onshore China conditions and color

- Regarding onshore primary issuances, there were 25 credit bonds issued yesterday with an amount of RMB34bn. As for Month-to-date, 54 credit bonds were issued with a total amount of RMB69bn raised, representing a 84.4% yoy decrease.
- **[SJMHO]** Moody's downgraded SJM's CFR to Ba2 from Ba1; ratings remain on review for further downgrade
- **[BUMIJ]** Bumi Resources plans to raise USD 175m via private placement

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