

CMBI Credit Commentary

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

- *Liquidity remains thin this morning, and dealers continue marking down prices. Some AT1s/PERP down by 2-3pt, and short-tenor '22 – '23 of CHINSC/PWRLNG/SHUION/HPDLF down 3-5pt. LOGPH curve up slightly, though its dollar price is already at high-single digit to low teens level.*
- **China Economy:** *China's economy showed a stronger-than-expected start to the year in 2M22. This has lowered policy easing expectation in the near-term. See below.*
- **HONGQI:** *proposed to issue up to RMB 1bn onshore notes (2yr, 3 yr) on 17 March. We see good buying opportunity of HONGQI 6.25 '24 at 84 (YTM~15%), and HONGQI 7.375 at 88 (YTM~11%) after recent fund flow driven sell-off. See below.*

❖ Trading desk comments 交易台市场观点

Massive sell-off in China HY property space with weak sentiment yesterday. SUNAC saw heavy sell flows and down 8-25pts after the company confined purchase of 7 of its onshore bonds to institutional investors only. This was a move seen from other distressed developers in the run up to their liability management. CENCHI/GRNLGR underperformed and closed 3-5pts down while GZRFPR/SHIMAO dropped 1-2pts for the day. Other property names including COGARD/CIFIHG/SHUION/YLLGSP/PWRLNG/FUTLAN were skewed to better selling and down 6-8pts. Industrial sector names like FOSUNI were also impacted and down 6-8pts.

IG market remained soft tone with heavy selling. TMT sector names like TENCNT/BABA continued to underperform and spreads widened 20-40bps. In financial sector, AT1 names were impacted and down 1-2pts. SOE sector names such as SINOPE widened 5-15bps for the day.

Glenn Ko, CFA 高志和
(852) 3657 6235
glencko@cmbi.com.hk

Polly Ng 吴宝玲
(852) 3657 6234
pollyng@cmbi.com.hk

James Wen 温展俊
(852) 3757 6291
jameswen@cmbi.com.hk

CMBI Fixed Income
fis@cmbi.com.hk

➤ **Yesterday's Top Movers**

Top Performers	Price	Change	Top Underperformers	Price	Change
GRNLGR 6 3/4 04/21/22	90.5	4.1	SUNAC 7 1/4 06/14/22	20.3	-25.0
HONGSL 9 7/8 08/27/22	23.7	2.2	SUNAC 7.95 08/08/22	17.0	-18.2
TPHL 5.3 04/20/22	80.3	1.7	JINKE 6.85 05/28/24	27.8	-12.7
TEWOOG 4 5/8 04/06/20	52.5	1.5	SUNAC 7.95 10/11/23	15.4	-11.1
FTLNHD 6 1/2 05/20/22	79.6	1.4	SUNAC 6 1/2 07/09/23	14.7	-10.9

➤ **Macro News Recap 宏观新闻回顾**

Macro – U.S. stocks climbed on Tuesday after a retreat in oil prices eased investors' concerns about inflation and the prospect that the Federal Reserve will move more aggressively to lift interest rates. The S&P (2.1%), Dow (1.8%), Nasdaq (2.9%) advanced for the day. Oil prices dropped back below USD 100, undoing much of the price surge since Russia-Ukraine crisis. The yield on the benchmark 10Y Treasury note rose to 2.15%. The 1/5/30Y yields were relatively stable at 1.28/2.10/2.49% respectively.

➤ **Desk analyst comments 分析员市场观点**

➤ **China Economy – Surprise growth dampens policy-easing expectations**

China's growth in 2M22 surprised the market. China's economy showed a stronger-than-expected start to the year. Fixed asset investment, retail sales and value added industrial output (VAIO) respectively rose 12.2%, 6.7% and 7.5% in 2M22, beating expectations. Gross floor area (GFA) for commodity buildings dropped 9.6% and property development investment rose 3.7%, better than market consensus. Power generation, coal production and auto output rebounded noticeably as exports and industrial output maintained strong growth.

But the stock market tumbled again after a quick rebounding. After the economic data was disclosed, both A share market and HK stock market quickly rebounded and then tumbled again. Investors felt the economic data did not match their sector and microscopic observations. Demand in most sectors was relatively weak and the spread of Omicron virus may slow China's growth in March. However, the surprise growth in 2M22 seems likely to lower the probability of interest rate cut in near term, as the PBOC did not lower the mid-term facility lending rates yesterday. This is definitely negative for the property sector in a stressed condition. Yesterday, even the strongest state-owned property developer saw its stocks fell to the lower limit.

Why did the Chinese offshore stocks slump sharply recently? Since the outbreak of the Russia-Ukraine war, the logic behind the market slump has continued to evolve. i) In the early stage, investors worried about the commodity inflation and supply chain disruptions. Commodity stocks rallied and tech stocks slumped. ii) Then the market paid attention to sanctions on Russia, short-term stagflation risk and medium-term recession risk. Financials & consumer discretionary dropped sharply. iii) In the past two weeks, the slump was caused by the panic about a possible financial decoupling between US and China. The US sanctions on Russia shocked the market and reminded those foreign investors in Chinese assets that a similar risk may also exist for them. In the short term, the US may use the threat of sanctions on Chinese companies as a leverage to pressure China to comply with US sanctions on Russia. In the medium term, the US may turn Taiwan into a pawn like Ukraine and undermine China's peaceful development. The US SEC's move to include five Chinese companies listed in US market into the temporary delisting list became the trigger for massive selling of Chinese offshore stocks by foreign investors. The concerns about the forced delisting of Chinese companies in US market and the Sino-US

financial decoupling rose sharply. There was a contagion of panic sales from Chinese stocks in US to HK stocks and from offshore markets to A share market. iv) In recent two days, the market started to concern about China's real estate market as the stocks of top leading developers started to tumble. Meanwhile, the market was filled with policy rumors that are bad for Internet companies and private hospitals, triggering a new round of selling.

When will the Chinese stocks see the bottom? The market has entered a stage driven by investors' extreme sentiment. The selling pressure of major investors should determine when the Chinese stocks see the bottom. There are four important factors related to the selling pressure. First is when the investors with a decision to leave the market complete the sell-off. Second is the dynamics of the Russia-Ukraine war and the negotiations between China and US. Third is about China's economic fundamental and policy dynamics. If China's economy could gradually stabilize with stronger policy support, the selling pressure should decline. Last is about the US Fed's attitude towards the monetary policy. After a severe slump, Chinese offshore stocks have a very cheap valuation and may see a retaliatory rebound in the short term. To see a sustainable upturn cycle, however, the market needs some changes in the above factors.

Please see [full note](#) from CMBI Equity Research

➤ **HONGQI – Our pick following fund flow driven market sell-off**

China Hongqiao proposed to issue up to RMB 1bn onshore notes (2yr, 3 yr) on 17 March. We see good buying opportunity of HONGQI 6.25 '24 at 84 (YTM~15%), and HONGQI 7.375 at 88 (YTM~11%) after recent fund flow driven sell-off.

Hongqiao's fundamental remains solid amid high aluminum price (current LME Aluminum price remains 21% higher than end-2021's level). Furthermore, the company already announced a positive profit alert expecting FY2021's net profit to rise by 60% yoy. For the rest of 2022, the company only has a bullet maturity of RMB7.6bn, which is very manageable in view of its strong cash flow. It also had a high cash balance of RMB 49.7bn as of Jun, 2021. We therefore rank HONGQI '23 and '24 highly on our buy list at current double digit YTM.

➤ **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					

➤ Onshore China conditions and color

- Regarding onshore primary issuances, there were 86 credit bonds issued yesterday with an amount of RMB99bn. As for Month-to-date, 940 credit bonds were issued with a total amount of RMB974bn raised, representing a 6.5% yoy decrease.
- **[DONFEN]** raises RMB 2bn via offering of three-year corporate bonds at 3% to repay debts, boosting working capital.
- **[EDU]** repurchases total USD 201.777mn of 2.125% bonds due 2025.
- **[LOGPH]** downgraded to Caa2/Caa3 on heightened refinancing and default risks; outlook negative - Moody's.
- **[SHIMAO]** Shimao-backed onshore ABN issuer signs agreement over deferred payment for 21Shangjunbaoli ABN001 notes.
- **[SUNAC]** restricts purchase of seven onshore bonds to only institutional investors following trading adjustment.

CMB International Securities Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

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