

CMBI Credit Commentary

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

- *Risk aversion prevails this morning alongside global equity sell-off. CIFIHG notable underperformer down 2-4pt. SINOCE/COGARD/CHINSC/PWRLNG/ROADKG/TPHL down 1-2pt. Non-property HONGQI/WESCHI down 2pt. TMT further widened by 4-9bp.*
- **China Policy:** *CMBI Economist expects a moderate interest rate cut in March/April, with policy easing signal. This is after sharp decline in new credit due to weak housing and capex demand in Feb'22. Covid resurgence also adds risk to achieve 5.5% GDP growth target. See below.*
- **ZHPRHK:** *Zhenro obtained the requisite consent (>75%) for the perps and secured tender of over 85% (i.e. the minimum acceptance level) of ZHPRHK'22s for the exchange offer. See below.*

❖ Trading desk comments 交易台市场观点

Both HY and IG market continued to plunge last Friday. CIFIHG/COGARD and down 5-8pt. CHINSC also dropped for a similar level. Other names like CENCHI/SUNAC/KWGPRO/TPHL/KAISAG down another 2-3pt while AGILE/SHIMAO basically flat. Other than property space, FOSUNI/HRINTH dropped 1-2pts.

In IG market, benchmark spread generally widened amid weak macro sentiment. TMT space were hurt by heightened delisting risk by US regulator, BABA'31 spread widened 15bps and weaker name like XIAOMI's spread widened even more (30bps). In SOE sector, HAOHUA'30 widened 12bps and recent new issue CHALUM'27 also widened 8bps.

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➤ Yesterday's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
SUNSHI 7 1/2 02/17/25	14.0	6.5	GRNLHK 10.21 PERP	76.2	-26.3
SUNSHI 7 7/8 09/04/24	13.4	5.9	JIAYUA 13 3/4 02/18/23	40.8	-18.6
CHIGRA 8 5/8 04/08/22	80.6	5.0	JINKE 6.85 05/28/24	40.5	-16.1
ROADKG 7 7/8 02/01/23	72.5	3.6	REDSUN 9.95 04/11/22	50.4	-6.0
WESCHI 4.95 07/08/26	86.1	3.5	CENCHI 7.65 08/27/23	39.3	-5.0

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stock indexes fell sharply as Russia-Ukraine situation escalated. Russia launched a barrage of airstrikes at a military base that had served as a hub for Western arms shipments near the Polish border, killing at least 35 people and wounding at least 134. The S&P (-1.30%), Dow (-0.69%), Nasdaq (-2.18%) closed lower. Treasury yield curve shift upward except 10-year treasury, with 1/5/10/30Yr yield being 1.22%/1.96%/2.00%/2.36%.

➤ Desk analyst comments 分析员市场观点

➤ China Policy - China needs interest rate cut to boost growth

China's new credit sharply declined in February due to weak housing & capex demand. The odds of interest rate cut is rising as China has to stabilize real estate market to achieve the difficult target of GDP growth at 5.5% this year. But the PBOC seems reluctant to launch aggressive rate cuts. We expect a moderate rate cut with policy easing signal should partially boost market sentiment.

- **New credit sharply declined due to weak housing & capex demand.** Total social financing dropped 31% in February after rising 19% in January. The holiday factor could not explain the whole story. More important factor was the weak demand for housing, durables and capital expenditure in the real sector. New medium & long (M&L) term loans to households turned negative for first time in February as banks received more repayment than making new loans. New M&L loans to enterprises dropped 54.1% YoY in February as enterprises' capex demand remained weak. Therefore, the YoY growth of outstanding social financing and M2 supply respectively slowed from 10.5% and 9.8% in January to 10.2% and 9.2% in February.
- **The odds of interest rate cut in March-April is rising.** There are three reasons for a possible cut in LPRs in March-April. First, housing demand was much weaker than expected, further increasing developers' cash flow pressure. If housing market cannot stabilize, it is very difficult to achieve the 5.5% GDP growth target. Second, renminbi exchange rates were stronger than expected, despite a shrinkage of Sino-US interest rate spread. Export growth should slow amid a high base last year and a recession risk in Europe. Third, market sentiment was very bad as the Russia-Ukraine war and decoupling threat from the US caused severe confidence shock.
- **The PBOC seems reluctant to launch significant rate cuts.** The property market stress calls for significant interest cuts. But the PBOC seems reluctant to do so for four reasons. First, after aggressive credit loosening & housing price inflation in 2H2015-2016, the top leader criticized the

policy and China has shifted the policy philosophy from demand stimulus to supply-side restructuring in recent years. Rate cut is considered as a signal for massive stimulus. Second, the PBOC is still worried about the Sino-US interest rate spread amid a divergence of two countries' monetary policies. The central bank is not sure renminbi has become a safe-haven currency. Thirdly, the PBOC also pays attention to banks' net interest margin as deposit rates are hard to decline due to severe competition. Last, officials have different views on the effectiveness of rate cuts versus alternative policy tools like credit policy window guidance & structural loosening.

- **A possible moderate cut with policy easing signal should partially boost market sentiment in 2Q22.** A possible moderate cut of interest rates would send a policy easing signal and be positive to the market sentiment. We believe China's monetary policy still has some room for further loosening. The central bank should be more decisive in policy easing and stabilize the economy as soon as possible before the Fed sharply raises its interest rates. In fact, economic fundamental is more important than interest rate spread or net interest margin for financial market stability.

Please see [the full report](#).

➤ **Zhenro: Updates on exchange offer and consents**

Zhenro obtained the requisite consent (>75%) for the perps and secured the tender of over 85% (i.e. the minimum acceptance level) of ZHPRHK'22s for the exchange offer. At the same time, Zhenro further extended the early consent deadline for longer-dated ZHPRHKs to 18 Mar'22 from 11 Mar'22. Recalled that Zhenro extended the early consent deadline to 11 Mar'22 from 4 Mar'22 on 7 Mar'22 after it had obtained the requisite consent to carve out the non-payment of the perps and ZHPRHK'22s to trigger cross-default of other ZHPRHKs.

Based on the revised consent terms, we expect the ZHPRHK perps to be traded largely flat to ZHPRHK'22s. The perps will have essentially same terms as those of ZHPRHK'22s although the perps will be structurally subordinated to the subsidiary guarantees of other ZHPRHKs. The successful completion of exchange offer and consent solicitation give Zhenro some breathing room to deal with the liquidity issues through pushing back maturities to next March and carve-out of cross-default. Nonetheless, we believe that Zhenro can notably improve its liquidity only if there are material progresses in asset disposals, introduction of investors (COC threshold lower 30% from 45%) or more policy relaxation. If these do not happen, more asset liability management exercises are possible. In the near-term, we should monitor if there are any accounting issues for its FY21 results.

➤ **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)
CICC Hong Kong	USD	Benchmark	3 yr	T3+135	Baa1/BBB+/BBB+
BOCOM Hong Kong	USD	Benchmark	3 yr	T3+85	A2/A-/A

➤ **Onshore China conditions and color**

- Regarding onshore primary issuances, there were 83 credit bonds issued last Friday with an amount of RMB 63bn. As for Month-to-date, 716 credit bonds were issued with a total amount of RMB745bn raised, representing a 10.4% yoy decrease.
- **[COGARD]** Country Garden further repurchases USD 1.6mn of 4.75% senior notes due July 2022, USD 8mn of 4.75% senior notes due January 2023 from open market
- **[DALWAN]** Media reported Dalian Wanda mall unit to delay Hong Kong IPO due to market volatility. The company later rebuked the news.
- **[LOGPH]** Media reported Logan sweetened the extension proposal for two onshore bonds totaling RMB 3.5bn puttable and due in March
- **[YANGOG]** Fujian Yango Group misses principal, interest payments due in February under USD notes due 2022 and 2024

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