

CMBI Credit Commentary

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

- *Rates surged overnight with 2y/5y US yields reached 2.74%/3.05% this morning yet selling interest was minimal against the prevailing strong deployment backdrop. LGFV/SOE space remained constructive and whether potentially further rate climbing may change the current 'asset shortage' momentum in the spaces remains to be seen.*
- *Asian Bond new issuance down significantly amid weak market sentiment. Assuming the current run-rate continues, i.e. a negative net issuance of USD30bn, this represents the first shrink in Asia ex-JP USD bond space since 2008.*
- **AACTEC:** *proposed A-share listing of subsidiary AAC Optics with listing application accepted by Shanghai Stock Exchange (SSE) on 6 Jun 2022. The IPO is still conditional upon approval of SSE and CSRC which can take 6 months to 1 year. We are cautious on long-end AACTEC.*

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❖ Trading desk comments 交易台市场观点

Yesterday, Chinese IG space was strong. In SOE sector, HAOHUA tightened 10-15bps. TMT benchmark names tightened 5-7bps. MEITUA curve tightened as much as 15-20bps. Financial space was stable. Front-end ICBC papers saw firm buying interest from Fast money accounts. We saw better seller on NANYAN/CIMWLB. AMC names some inquiries on the front end. We saw INDOIS'27 at 101 level, compared to benchmark treasuries yield surging overnight. In LGFV, and tone was overall very constructive, and we saw most buying up to this point remained confined to quality names.

Chinese HY property space was mixed amid weak sentiment. CSCHCN notes rebounded 2-7pts on Monday morning and ended at 1-3pts higher at EoD, after losing 12-20pts due to GRNLGR's spillover effect given they are both state-backed peers. GRNLGR slightly up 1-2pts, after early votes were in favor of its consent solicitation to extend the maturity of its 6.75% due-25 June notes. CENCHI' 22s and 23s curve was up 1-3 pts. On the flipside, AGILE/TPHL/ZHRPHK down 0.5-1pts.

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➤ Last trading day's Top Movers

Top Performers	Price	Change
FTHDGR 10 7/8 01/09/23	11.9	2.6
FTHDGR 12 1/4 10/18/22	11.4	1.7
MOLAND 11.95 03/04/24	19.6	1.6
CENCHI 7.9 11/07/23	53.5	1.5
REDSUN 9.7 04/16/23	19.5	1.5

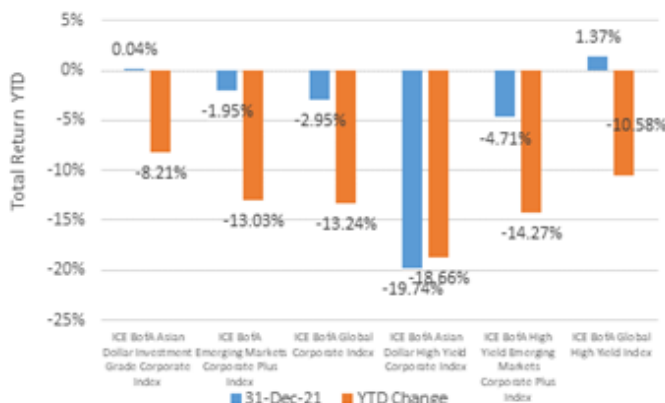
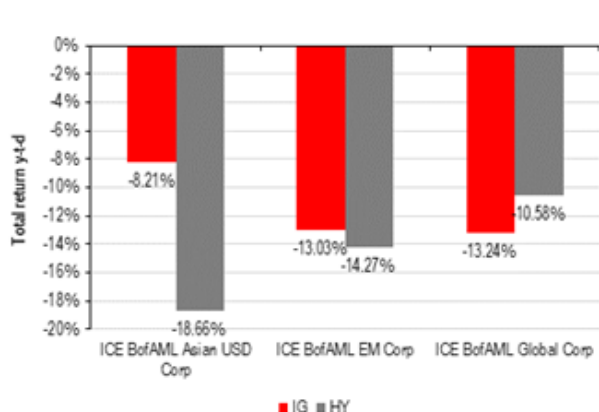
Top Underperformers	Price	Change
AGILE 8 3/8 PERP	22.3	-2.2
LOGPH 5 1/4 10/19/25	21.2	-1.4
SINHL 8 1/2 01/24/22	2.6	-1.3
SHIMAO 4 3/4 07/03/22	20.3	-1.3
HRINTH 4 5/8 06/03/26	94.6	-1.3

➤ Macro News Recap 宏观新闻回顾

Macro – U.S. stocks rebounded slightly, Treasury rallied overnight. The S&P (+0.31%), Nasdaq (+0.40%), and Dow (+0.05%) closed higher. Stocks in Asia traded mixed Tuesday as a jump in Treasury yields fueled concerns that rising borrowing costs will weigh on earnings and induce a recession. Treasury yields jumped sharply, with the 2/5/10/30 yield advancing to 2.73/3.03/3.04/3.19% respectively.

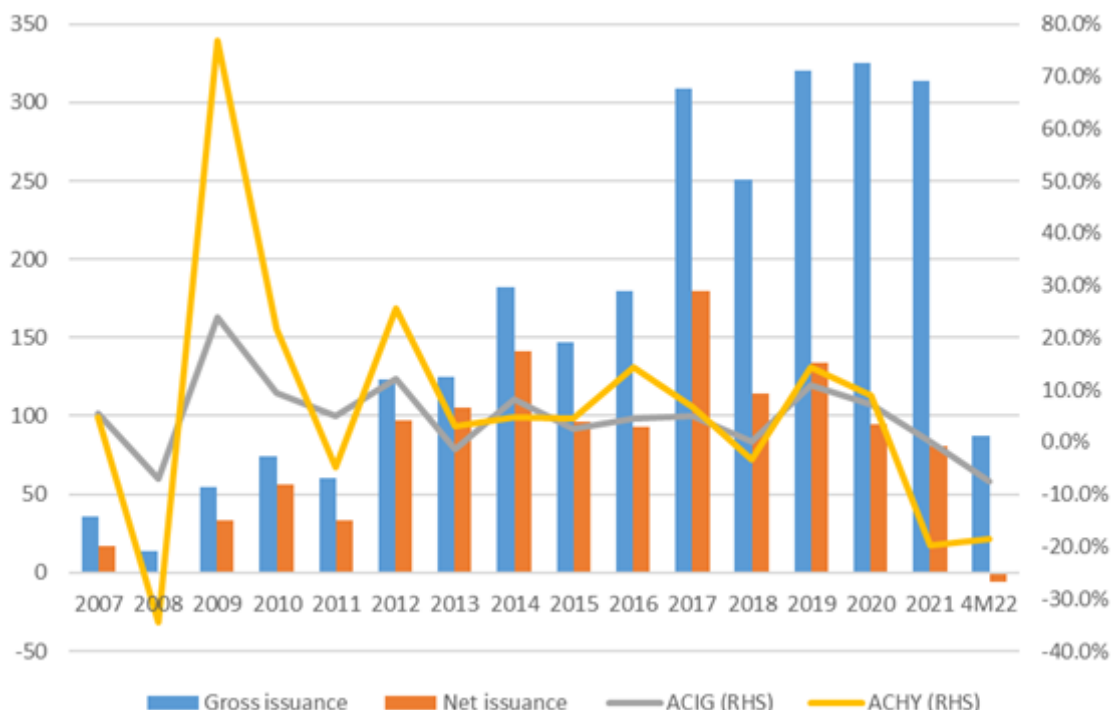
❖ Desk analyst comments 分析员市场观点

➤ Asian Bond new issuance down significantly amid weak market sentiment



Sources: ICE BOFA, Bloomberg

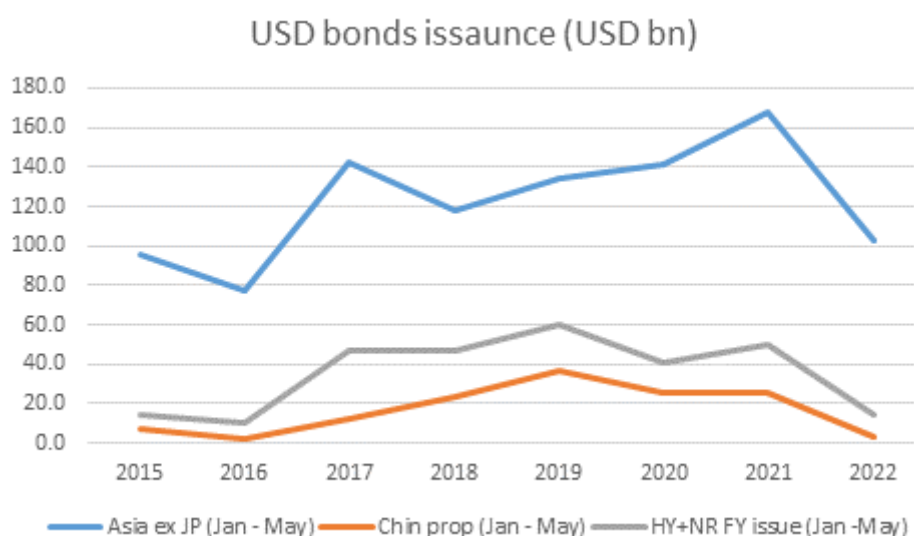
YTD, Asian IG and HY corps returned -8.2% and -18.7% under the backdrop of rising interest and default rates, fund outflow, geopolitical and regulatory risk. Asia HY is a notable underperformer within the EM space. YTD, the negative return of 18.7% of Asia HY corps is already largely in line with the negative return of 19.7% for the full year of 2021. As we have been arguing, supply and demand come hand in hand. A large new amount of new issuance can only come when the market sentiment is strong, i.e. the stronger market sentiment, the larger will be the investors' appetite (demand) and the larger will be the issuance amount (supply), and vice versa. See chart below.



Sources: Bloomberg, Dealogic, CMBI

As investors are more risk-averse in view of the weak market sentiment, USD bond issuance in Asia ex-JP dropped 39% yoy to USD102.3bn in the first 5 month of 2022. The issuance amount is the lowest in the first 5 months of a calendar year since 2018, another year Asia ex JP bonds performance weakly. The drop of IG issuance (25% yoy to USD88.3bn) is more “moderate”. HY & non-rated (NR) issuance, on the other hand, posted a massive decline of 72% yoy to USD14.0bn. The HY & NR issuance for the first 5 months of 2022 is the lowest since 2016.

A key driver for the drop in issuance from HY & NR is the substantially lower issuance from the HY & NR Chinese properties, which fell 91% yoy to USD1.6bn. Over the past 5 years, issuance from HY & NR Chinese properties accounted for an average of 36% of HY & NR gross issuance in Asia ex JP. Consequently, the weighting HY & NR decline to 12% of the total issuance in 5M22 from the peak of 52% in 5M19. Over the past 2 years, LGFV has been a sector gaining more investors’ interests. The issuance amount for the 5M22 was USD12.6bn, increased 102% yoy. LFGV accounted for 12% of Asia ex JP USD bond issuance in 5M22, increased significantly from c2% from 5M20.



Given the rising interest rate and a gloomy economic outlook, we expect the market sentiment to remain weak and new issuance will be suppressed. We also expect the issuance from Chinese properties to continue to be small in view of rising default rate, uncertainties on refinancing and significantly weakened sales. Assuming the current run-rate continues, i.e. full year issuance will be cUSD190bn, compared with scheduled redemptions of cUSD220mn, implying a negative net issuance of USD30bn. This represents the first shrink in Asia ex-JP USD bond space since 2008.

➤ **AACTEC: listing application of subsidiary AAC Optics (A-share IPO) accepted by SSE**

AAC Technology proposed A share listing of subsidiary AAC Optics with listing application accepted by Shanghai Stock Exchange (SSE) on 6 Jun 2022. The IPO is still conditional upon approval of SSE and CSRC which can take 6 months to 1 year. We are cautious on long-end AACTEC '31 and only recommend Buy on short-end AACTEC '24 and '26.

AAC Technology has a contingent settlement provision of RMB 1.7bn in which the company has to repay pre-IPO strategic investors if the AAC Optics A-share IPO does not take place by Oct 2023. As of Dec, 2021, AAC Technology has RMB 6bn cash on hand, against RMB 12.3bn total debt (incl. above contingent settlement provision), we believe the company can meet its debt obligation next 2 years (i.e. AACTEC '24). But the intensive smartphone component competition and increasing cost headwind will pressure its IG rating, we hence are cautious on AACTEC '31 at 78 cash price, YTM~7.1%.

➤ **Offshore Asia New Issues (Priced)**

Issuer/Guarantor	Size (mn)	Tenor	Coupon	Yield	Issue Rating (M/S/F)
Qingdao Jimo District Urban Tourism Development & Investment	USD110	3	4.5	4.5	-/-/BBB-
Liyuan International (SBLC by Zheshang bank)	USD62	3	3.8	3.8	-/-/-
China Construction Bank Corp Singapore Branch	SGD350	3	2.85	2.85	A1/-/-

➤ **Offshore Asia New Issues (Pipeline)**

Issuer/Guarantor	Currency	Size (mn)	Tenor	FPG/IPG	Issue Rating (M/S/F)
Shandong Guohui Investment	USD	-	-	-	-/-/-
China Construction Bank Corporation Singapore Branch	USD	-	2	3.05	-/-/-
Korea Electric Power Corp	USD	-	3	T+120	-/-/-
Korea Electric Power Corp	USD	-	5	T+145	-/-/-
Chang Development International	USD	-	3	5.2	-/-/-

➤ **Market conditions and color**

- Regarding onshore primary issuances, there were 82 credit bonds issued yesterday with an amount of RMB87bn.
- **[AACTEC]** AAC Technologies unit AAC Optics (Changzhou) A-share listing application accepted by Shanghai Stock Exchange
- **[AGILE]** Agile Group Holdings: Chuang's China sells USD5mn of 5.125% senior notes due 2022 for USD 4.01m
- **[KIJAIJ]** Jababeka's outlook revised to negative, B- affirmed; National Rating downgraded – Fitch
- **[PWRLNG]** Powerlong Commercial Management terminates agreement to acquire 24-storey office building in Shanghai for RMB867.7mn;
- **[RISSUN]** Risesun sounds out deferral of 23 July put on RMB1bn 7.22% due-2023 public bonds

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