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**DOUG KRIZNER, BLOOMBERG:**

Let's get to our guest. Anisa Lee is with us. She is executive VP and also the Head of Credit Research at PIMCO. She is in our studios in Hong Kong here on Daybreak Asia. Annisa, thank you so much for being with us.

**ANNISA LEE, PIMCO:**

Thanks for having me.

**KRIZNER:**

How bad is the situation in China right now if you were to look at the macro? Can we start there? What's your sense on how well the economy is performing or how weak it may be?

**LEE:**

Well, the economy definitely is not doing that well. But I think there's a lot of negative news being priced in in the current market. So what we see is that, you know, due to the weak economy we are seeing risk off mode, among bond investors. And that basically is quite not positive. But I guess you know, given some of the measures that the government has been announcing They definitely have acknowledged that they want to boost the economy and that would probably help. But I think they need to do a lot more, to have more broad-based easing measures. And do it more holistically in order to actually turn around the economy

**KRIZNER:**

I think about credit immediately just listening to what you're saying. And I'm thinking about companies like Evergrande which as we know, has been undergoing a lengthy debt restructuring process. How severe is this going to be when you look at just the debt being held right by the property developers alone and I think the total under distress is around 160 billion U.S. worth, I mean the number is pretty pretty large, and I'm wondering how you go about rectifying that issue? What's the prescription to kind of make it right again?

**LEE:**

Well the issue among these Chinese property developers is that they have raised a lot of debt over the past decade. And they have to actually repay it now, right? But then you know the offshore debt capital markets have been shut down. So they have to basically generate their own cash flow in order to actually repay this offshore and onshore debt. But then the housing demand is actually pretty weak. So I think it's still quite difficult for some of them to actually deal with their debt repayment obligations. And that's why you know in general we are still quite cautious on the sector and could see more defaults to come.

**KRIZNER:**

That I just want to point out to the 160 billion I think that is in the offshore market. And which is technically, I guess now that 160 billion represents the level of stress credit. You know for such a long time we talked to people who play the credit market and they were thinking that there was a de facto guarantee against default on the part of the government. That seems to have evaporated pretty dramatically. And was it wrong for people to think that the government was going to step in and ensure against a fault in many of these cases?

**LEE:**

I think previously what the market has been thinking is that given properties that count for like 25% of the country's GDP, and all along the sector has been highly regulated. And it has been having this easing and tightening cycle. And that's why you know the market basically expected that the government would help In terms of providing easing measures. But not to really save individual property developers. And I think this has always been our view, that you know the government might actually help in terms from sector level. But not go into individual property developers to extend or bail out.

**KRIZNER:**

The PBOC has been moving incredibly slow; methodical and very judicious in terms of the extent to which it's been providing a little bit more in liquidity. Do you think they're doing the right thing right now? Should they be more aggressive in easing credit?

**LEE:**

To some extent I think so I think the issue right now that they have been cutting rates But probably smaller to the extent than the market had expected. But I think more importantly is that the government needs to actually do more to stimulate the underlying economy, so that people can actually get jobs or they can basically get high income expectations. These probably are the most important drivers For people to basically trying to actually consider buying a property again.

**KRIZNER:**

Are you seeing any opportunity these days, in China credit?

**LEE:**

Yeah, I think you know, given this risk off mode, right? There's a lot of sell off you know, among the Chinese credits and there has been dislocations in some of the Chinese credits that we see value in. And I think you know, given the market has been very volatile. They've been very limited new bond issuances in the market and for those, which basically can issue bonds are those with more resilient credit profile, and they need to actually pay up new issue premiums. That we think is a good opportunity for us to actually invest into some of these bonds.

**KRIZNER:**

Are there themes there? Is it kind of happening in certain industries? Is there a commonality in the opportunities that you see?

**LEE:**

I think we see values in some of the Triple-B rated Chinese names, POE names like privately owned enterprises credits because I think in general, in investors eyes are quite risk off among Chinese credits. But some of these names, they have posted decent results That they have announced a week or two ago. And they are trading quite wide compared to the US peers, or even among you know the Asian peers of similar rated names. So we actually do see values in some of those names.

**KRIZNER:**

What about foreign capital? The degree to which it's not present at the moment? There are a lot of Western investors who are simply withdrawing funds out of China. Whether on the credit side, on the equity side I don't want to over generalize here But there has been a little bit of foreign capital leaving. Is this something that you think needs to be corrected on the part of the government, or there needs to be something done to restore confidence in markets almost independent of the government, that would allow foreign capital return? You know as I say that I'm wondering, “how can that be possible? If the government doesn't do anything to restore a level of confidence?”

**LEE:**

So I guess looking at the credit side, right? I think there's still demand of US dollar bonds issued by Chinese companies. However, we need to really do our credit work to pick the right names to own. Meaning like we need to actually find those companies that would be able to refinance their debt. Either via their own short assets. Or they have decent assets so that they can sell the assets and repay and redeem the US dollar bonds. So I would think there's still demand for investors like us to invest into US dollar bonds. That said, we need to be a lot more selective.

**KRIZNER:**

Yeah, I can't tell you the number of times In speaking with many economists on this program, that we've drawn parallels to what's happening in China and what Japan went through 30 years ago. And I'm curious to get your take on whether you believe whether the house view at PIMCO is, “Yes, there is a serious risk of prolonged deflation in China that you have to be worried about if you're playing in the credit space”?

**LEE:**

Well, I think for this year, there's a lot of economies already revising downwards the GDP growth, to below 5%, and I think the government actually also shows the intention that they don't want to have absolutely high GDP growth, but more a sustainable quality GDP growth going forward. So I guess this basically would mean that you know, we may need to see that this transition may not be the easiest one, that there could be some pain during this process. But we think that you know this Intention of having sustainable long-term quality GDP growth, would be positive In a long term for the country, given that I think for the past decade there's a lot of leverage being built up into the system.

**KRIZNER:**

Yeah, and something I think that banks are concerned about. What about the shadow banks, very quickly here? I mean is this something that has created more risk in the market or has a lot of that deleveraging been pulled out?

**LEE:**

Yeah, I think there's more the latter. That the government has actually done a very good job over the past few years to basically take out shadow banking activities, and what we are seeing right now probably is quite contained. And we don't really expect that this shadow banking would pose any systemic risk to the banking system.

**KRIZNER:**

Okay, Annisa Thank you so much for being with us, Annisa Lee, there. Executive VP also the Head of Credit Research at PIMCO, joining us from our studios in Hong Kong here on Daybreak Asia.