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**DOUG KRIZNER, BLOOMBERG:**

Let's take a look at what's happening in credit's markets. Not just in China, but more broadly across the APAC region with Annisa Lee, Executive Vice President also Head of APAC Credit Research at PIMCO. Annisa joins us from our studios in Hong Kong. Nice of you to stop by. Thanks so much.

**ANNISA LEE, PIMCO:**

Yeah, thanks for having me.

**KRIZNER:**

Last week, the news was Moody's. The sovereign debt downgrade may- or at least the warning about the potential for a downgrade, the change in outlook, may have not been that surprising to many people. Were you surprised about the move on the part of Moody's to put a couple of the big banks under the microscope in China?

**LEE:**

Not really a surprise move because the credit ratings of the banks are basically linked to the sovereign rating. So if there is a downgrade, in terms of either ratings or outlook in China sovereign, the major banks will also be having the same rating action.

**PAUL ALLEN, BLOOMBERG:**

So more broadly, how is your credit outlook for China in 2024, in this environment of very sedate animal spirits?

**LEE:**

Hmm, I guess for next year the government probably would be focusing more on growth as we can see the comments during the Politburo meeting. So our baseline is that for next year's GDP growth would be around 4.5%, and this basically would require some easing both in terms of fiscal measures and also monetary. So we think that you know, the government probably sees the importance of getting growth back on track and will want to stabilize growth given that this year, 5% should have been able to be achieved.

**KRIZNER:**

Yeah, but to go back to Moody's assessment, and mounting debt property issues. Those are the big drags. I mean what can the government do other than borrow more to create funding to kind of stimulate? Is there another path to a recovery and growth other than taking on more debt?

**LEE:**

I think the government has been trying to do monitoring measures to cut rates, to boost credit demand. But I guess the effect may not be that material. So I guess going into next year, fiscal probably would be a way for them to actually boost growth. Which means that it is likely that the government would need to incur more borrowings but I guess the good thing is that this is coming from the central government and we think that different aspects of industry could actually benefit from this.

**ALLEN:**

Well, we got the China work conference coming up. Do you anticipate any new policy coming out of that?

**LEE:**

I think the market right now expects that there will be more easing to be announced, but no one actually can put into very very concrete expectations what that would be. So I guess we need to hope for it, but I guess given that growth is the key focus right now. We should be expecting some material easing coming up over the next few months.

**KRIZNER:**

We thought we were going to be talking about liquidation of China Evergrande. That didn't happen although maybe there is still the possibility it could occur. When you look at the potential for default, put the property sector aside for the moment. We know that that is extremely vulnerable as an industry, Is there the potential for other types of defaults in the China credit space?

**LEE:**

Yeah, I think the majority of defaults have already happened, given that there's not too many China property names being left. So if I actually look at the non-China property space, there could be still some defaults coming up from some non-China names, but within the Chinese names on the high yield side, there could be some, but I think it will be just idiosyncratic, rather than there will be a set to wide sort of defaults.

**ALLEN:**

What about local government financing vehicles, though? Do you see anything in that space that gives you concern that something bad might be about to happen?

**LEE:**

Local government vehicle bonds definitely is a concern, but given that the government this year has been very supportive to make sure that there's no defaults coming out from that space and banks are willing to land, and you can actually see that the reason bond issuances coming up from these LGFEs have been quite- fully subscribed. So I think over the next one year probably the space will actually be safe, but I think longer term, this could be a potential concern.

**KRIZNER:**

So Annisa, if we can agree that the Chinese economy needs a little bit of stimulus, is it within the realm of possibility for the PBOC to follow the playbook, let's say of the Fed or the European Central Bank and do some quantitative easing to take some of this bad property debt, put it on the Central Bank’s balance sheet? Do you think that that's at all possible as a way of stimulating the economy?

**LEE:**

I'm not an economist, but I think there's a low likelihood of having a massive easing from what we have seen back after the GFC, because I think the government also wanted to make sure that the system is not going to re-leverage because they have actually spent a lot of time over the past years to deliver the system.

**ALLEN:**

I just want to get some clarification on something else that you see. You see the consumption downgrade in China continues to be a theme, but at the same time you're quite optimistic about Macau gaming. How do you square that circle?

**LEE:**

Well, I guess you need to travel, right? And you can actually choose to travel overseas or you can actually choose to travel domestically. So I think Macau is definitely close to a lot of Chinese people, given the close proximity. And also I think Macau right now is not just giving people a place to gamble, but it's really an experience. Which I think a lot of Chinese people would love to have as compared to maybe traveling overseas, which is a lot more expensive. So I guess this consumption downgrade may not necessarily mean that people were actually not visiting Macau.

**KRIZNER:**

Very quickly in about 20 seconds, are there markets or credit spaces away from China that you like in the APAC at the moment?

**LEE:**

Yeah, I guess given the that we expect there will be more newborn issuances coming next year with the Fed stabilizing rates, we do like the Indonesian Quasi-Sovereigns, some of the selective Chinese and also in Indonesian High Yield names, and some Australian names like transportation and industrial read, and also Japanese banks.

**KRIZNER:**

Wow, Japanese banks, Indonesia, and Australia. Thank you, Annisa. Annisa Lee from PIMCO, joining us here on Daybreak Asia.