Fixed Income
Credit Commentary

21 Feb 2025

CMBI Credit Commentary

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

- *The new WSTPNZ 4.938 '30 tightened 4bps from RO this morning. BABA 27-31s tightened 2-4bps. TENCNT/HAOHUA 28-30s tightened 1-2bps. NWDEVLs were unchanged to 1.4pts higher. LGFVs were firm.*

- ***BNKEA:*** *Capital remained ample as at Dec'24 despite CRE headwinds. BNKEA 30-34s tightened 4-5bps and BNKEA 5.825 Perp up 0.2pts yesterday. BNKEAs were unchanged to 1bp tighter this morning. In HK bank space, we prefer CHIYBKs for better risk-adjusted return profiles. See below.*

- ***China Economy:*** *US$/RMB outlook in Trump 2.0 era. CMBI expects Trump 2.0 shock will have a smaller impact on RMB than Trump 1.0 shock. See below for comments from CMBI economic research.*

❖ Trading desk comments 交易台市场观点

Yesterday, on primary, the DAESEC 5.25 '28 closed 1bp tighter from RO amid mixed flows. DAESEC 26-27s were 1bp wider on small selling. ORIX 35s widened 2bps. Chinese IGs were mixed. BABA/MEITUA 30-31s were 1-3bps wider, while WB/LENOVO 28-32s tightened 1-3bps. In financials, WSTPNZ priced a 5-yr bond at CT5+60. ANZNZ/ASBBNK/MQGAU/ NAB/CBAAU 27-34s were unchanged to 2bps wider. KDB/KHFC/SUMIBK Float 30s were 1-2bps tighter on better buying from banks accounts. AT1s were firm on PB buying. The new BACR 7.625 Perp and SUMIBK 6.45 Perp rebounded 0.4pt and 0.1pt, respectively. In HK banks, NANYAN 34s tightened 3bps despite profit taking. BNKEA 30-34s tightened 4-5bps. BNKEA 5.825 Perp (callable on 21 Oct '25) was up 0.2pt. See comments below. In HK corps, NWDEVL 27-31s/Perps rose another 1.5-6.1pts and closed 2.9-10.1ps higher WTD. LIFUNG Perp/LASUDE 26s were up 0.5-0.9pt. Chinese properties were mixed. LNGFOR 27-32s declined another 0.4-0.6pt and closed 1.6-2.5pts lower WTD. DALWAN 26s were down 0.4pt, while SHUION 26s were up 0.7pt. Elsewhere, SMCGL Perps were unchanged to 0.1pt higher following the USD100mn tap on SMCGL 8.125 Perp. See comments on 20 Feb '25.

The demand remained robust in CNH LGFVs. AMs/security houses swept up offers in mid-to-high-3% yielding names. There were two-way flows on Shandong names such as ZBTECH 6.95 27s/JZHDIN 7 27s/JNFZSI 6.5 28s. In SOE perps, HUANEN/CHPWCN Perps were up 0.1pt.

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❖ Last Trading Day's Top Movers

Top Performers	Price	Change
NWDEVL 6.15 Perp	**49.3**	**6.1**
NWDEVL 5 7/8 06/16/27	**71.9**	**3.8**
NWDEVL 4 3/4 01/23/27	**72.9**	**3.8**
NWDEVL 5 1/4 Perp	**33.8**	**3.6**
NWDEVL 8 5/8 02/08/28	**67.4**	**2.7**

Top Underperformers	Price	Change
LNGFOR 3.85 01/13/32	**67.6**	**-0.6**
LNGFOR 3.95 09/16/29	**76.1**	**-0.6**
VNKRLE 3 1/2 11/12/29	**62.3**	**-0.5**
CIFIHG 6.45 11/07/24	**11.4**	**-0.4**
LNGFOR 4 1/2 01/16/28	**83.8**	**-0.4**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (-0.43%), Dow (-1.01%) and Nasdaq (-0.47%) were weak on Thursday. US latest initial jobless claims was +219k, higher than the expectation of +215k. Long-term UST yield retreated on Thursday, 2/5/10/30 yield at 4.28%/4.34%/4.50%/4.74%.

❖ Desk Analyst Comments 分析员市场观点

➢ BNKEA: Capital remained ample as at Dec'24 despite CRE headwinds

Bank of East Asia (BEA)'s FY24 net interest income and net interest margin (NIM) dropped slightly as a result of lower interest rate. Non-interest income rose by 15% yoy to HKD4.5bn. The pre-provision operating profit stood at HKD11.3bn in FY24 and impairment losses on loan and advances also stayed at HKD5.2bn. The operating profit after impairment rose 13% to HKD5.7bn in FY24, due to lower impairment loss on associates. ROAA and ROAE in FY24 both increased compared to FY23. See Table 1.

We view BEA's asset quality worsened slightly as of Dec'24. The impaired loan ratio at group level increased slightly by 3bps to 2.72% as of Dec'24, and the impaired loan ratio of mainland China business increased to 2.80% from 2.68%. We note BEA's effort to alleviate risk stemming from commercial real estates (CRE). As of Dec'24, BEA's CRE loan exposure in Hong Kong and mainland China reduced to 16.4% from 21.8% as of Dec'23 as a % of total loans. The coverage by collateral on CRE loans also increased compared to the levels as of Dec'23, i.e. % of HK property development loans covered by collateral increased to 63% as of Dec'24 from 59% as of Dec'23 while the collateral coverage for HK property investment loans stood at 92%; % of the mainland China property development and property investment loans covered by collateral were increased to 52% and 71%, respectively, as of Dec'24 from 43% and 68% as of Dec'23.

BEA was also cautious on the RWA growth in FY24. Its total assets grew 2% yoy, while RWA only grew 0.7% yoy and the loan growth was almost muted. Along with the higher net profit in FY24, BEA's CET1 ratios increased by 35bps to 17.7% from 17.3% as of Dec'23, and its capital was ample with 10.4 pct pt buffer above the regulatory requirement. At the same time, its liquidity coverage ratio and net stable funding ratio was 204.6% and 126.2% as of Dec'24, respectively, higher than the regulatory minimum of 100%.

BEA's NIM may continue to narrow in 2025 owing to the rate cut expectations on the Fed and PBOC. Furthermore, we expect that BEA's asset quality continues to be under pressure facing the CRE headwinds, particularly in Hong Kong. That said, BEA has been lowering its exposure to CRE in Hong Kong and mainland China from 25.2% of total loans as of Dec'22 to the current level of 16.4%.

Among BNKEAs, BNKEA 4 05/29/30 (T2) of USD600mn and BNKEA 5.825 Perp (AT1) of USD650mn will be first callable in May'25 and Oct'25, respectively. We envisage BEA to call the AT1 and T2 on the first call dates in view of the current capitalization as well as its track records of call despite the calls could lead to higher funding costs based on the higher rate environment. In HK bank space, we prefer CHIYBKs for better risk-adjusted return profiles.

Table 1: Financial highlights

HKDmn	FY23	FY24	Change
Total assets	860,361	877,759	2%
Total loans	526,984	527,829	-
Net interest income	16,874	16,529	-2%
Non-interest income	3,872	4,450	15%
Pre-provision operating profit (PPOP)	11,314	11,345	-
Impairment losses on loans and advances	5,164	5,152	-
Operating profit after impairment	5,099	5,752	13%
NIM	2.14%	2.09%	-5bps
Cost-to-income ratio	45.50%	45.90%	+40bps
ROAA	0.40%	0.50%	+10bps
ROAE	3.60%	4.00%	+40bps
Impaired loan ratio	2.69%	2.72%	+3bps
CRE loans to total loans	21.8%	16.4%	-5.4 pct pt
CET 1 ratio	17.31%	17.66%	+35bps

Source: Company filling, CMBI Research

Table 2: Bond profiles of BNKEA

Security name	ISIN	Amt o/s (USD mn)	Ask px	YTM/YTC	Mod duration	Maturity	First call date	Instrument
BNKEA 5.825 Perp	XS2222027364	650	99.6	6.4%	0.6	-	10/21/25	AT1
BNKEA 6 5/8 03/13/27	XS2775732451	500	101.1	5.6%	1.0	03/13/27	03/13/26	Non-preferred
BNKEA 6 3/4 03/15/27	XS2592797398	500	101.2	5.6%	1.0	03/15/27	03/15/26	Non-preferred
BNKEA 5 1/8 07/07/28	XS2381248835	250	99.0	5.6%	2.2	07/07/28	07/07/27	Non-preferred
BNKEA 4 05/29/30	XS2168040744	600	99.6	5.5%	0.3	05/29/30	05/29/25	T2
BNKEA 4 7/8 04/22/32	XS2423359459	500	96.8	6.5%	1.0	04/22/32	04/22/27	T2
BNKEA 6 3/4 06/27/34	XS2813323685	650	101.0	6.5%	3.7	06/27/34	06/27/29	T2

Source: Bloomberg.

➢ China Economy: US$/RMB outlook in Trump 2.0 era

We expect US$/RMB to reach 7.48/7.33/7.55 at end of 2025/2026/2027. US$/RMB will be driven by factors including Trump's tariff policies, global economic and monetary policy divergence, China's economic prospect and global geopolitical risk dynamics. Trump's tariff threat may be just a bargaining leverage in the short term as lowering inflation and reducing illegal immigrants are his priorities in 1H25. The tariffs may escalate in 2H25 and de-escalate again with possible trade deals with major trade partners in 2026. US economic advantage over Europe and Japan might expand in 2025 due to tariff shock and narrow again in 2026 as high interest rates, strong US dollar, trade barriers and reduced immigrants will ultimately hurt the US economy. China's economy will continue to recover in 2025 before slowing again in the medium term, and China will not seek RMB depreciation to boost its exports as policymakers consider stable RMB exchange rates as a part of financial stability and a symbol of economic upturn, in our view. Trump 2.0 shock will have a smaller impact on RMB than Trump 1.0 shock.

US$/RMB forecasts and key assumptions. We expect US$/RMB spot rates to reach 7.48 at end-2025, 7.33 at end-2026 and 7.55 at end-2027, compared to the market consensus of 7.45/7.35 for 2025/2026 in a Bloomberg survey. US$/RMB rates move in tandem with the US-Sino interest rate differentials, which reflect the divergence of economic fundamentals and monetary policies between the two countries. In the next two years, US$/RMB rates will be mainly influenced by factors including the evolution of Trump's tariff policies, global economic and monetary policy divergences, China’s economic prospect and geopolitical risk dynamics. Key assumptions for our forecasts include: i) Trump’s tariff policies will escalate in 2025 and de-escalate in 2026; ii) US economic advantage over Europe and Japan will widen this year but may narrow next year; iii) China’s economy may gradually recover in 2025-2026; iv) geopolitical risks may mildly decline.

Trump’s tariff policy outlook. Lowering inflation and reducing illegal immigrants should be Trump's priorities in 1H25. Political polls show that living costs and community security are the most important concerns for US voters. From the economic perspective, lowering inflation is a prerequisite for lowering government financing costs, stimulating business investments and pushing forward the tax cut agenda. Massive tariff increases conflict with the disinflation goal as 10% across-border tariffs are expected to push up US PCE inflation by about 0.5ppts. As inflation remains above 2% in 1H25, Trump’s tariff threat may be just a bargaining leverage instead of a real plan. To address the immigration issue, Trump has used the tariffs to threaten Canada and Mexico for better cooperation, which is why we have seen tariffs targeting these two countries first since Trump took office. As Trump’s policies may bring additional uncertainty for US inflation outlook, the Fed may continue to pause rate cuts in 1H25. High interest rates, strong US dollar and Trump's policy uncertainty may increase US stock market volatility and result in tightening effects on its economy. US inflation may slow down in 2H25 as the Fed may take the opportunity to cut rates and Trump might escalate tariffs against China. The tariff and immigration policies may weaken US economic growth and hurt its business interest as Trump may choose to reach a deal with China in 2026.

Dynamics of US economic advantage over Europe and Japan. US economy may outperform the Eurozone and Japan in 2025 as Trump’s domestic tax cuts and deregulation policies will likely boost the US economy and inflation while his tariff policies could suppress economic growth and inflation in Europe, Japan and other trading partners. The interest rate differentials between the US and other economies may increase, which is positive for US dollar and negative for other currencies including RMB. 2026 might see a different trend as the US economic advantage over Europe might weaken. Elevated inflation, high interest rates, strong dollar, trade barriers, immigrant outflow and policy uncertainty may ultimately slow US economic growth. Meanwhile, Eurozone economy may improve thanks to a lower base, substantial rate cuts and the resolution of the Russia-Ukraine war. US dollar may weaken while other currencies including RMB might rebound.

China’s economic prospect. China’s economy was in a downturn cycle in 2022-2023 due to the pandemic shock, aggressive property deleveraging and hawkish regulation over private entrepreneurship, but may continue to recover in 2025. Since 2023, there has been a dramatic reversal in the zero-Covid policy, property policy and regulatory policy, supporting a cyclical recovery of the economy. However, China’s economic recovery has remained weak with lingering deflation pressure due to aftermath of the property bubble burst, sluggish confidence in the private sector and persistent geopolitical risks. The economy may continue to recover in 2025 as both fiscal and monetary policies should remain expansionary. Housing markets in higher-tier cities may gradually stabilize and durable consumption is expected to further rebound. The economy might face slowdown pressure again in 2026 as the effects of domestic policy stimulus diminish and the effects of Trump’s tariffs increase. In the medium term, China’s economy may continue to face downward pressure due to structural factors including continued decline of working-age population, weakening of market-oriented incentive and persisted geopolitical risks.

Geopolitical risks. Geopolitical risks may decline in 2025-2026 as Trump will end the value-oriented diplomacy and alliance-centered approach in Biden era and accelerate the US’s strategic contraction overseas. Trump may push for an end to the Russo-Ukrainian War, and the dawn of peace between Russia and Ukraine will boost the euro and, indirectly benefiting RMB. Sino-US relations may alternate between phases of improvement and deterioration, and the pattern of strategic confrontation is difficult to change. In 2027, the US may once again hype up geopolitical risks in the Taiwan Strait around China's political reshuffle, which may exacerbate capital outflows and downward pressure on RMB.

China's FX rate policy. Looking back, for most of the periods, RMB depreciation is not preferable in the eyes of Chinese policymakers. They regard the stability of RMB as a part of financial stability and a symbol of China’s economic upturn. In addition, China intends to maintain stable Sino-US relationship in the Trump 2.0 era. As the US politicises RMB exchange rates, China is reluctant to let the depreciation of RMB worsen the Sino-US relationship. Only in a few periods with intense confrontation between China and US, China may be willing to allow sharp RMB depreciation as a tool to put pressure on the US. China basically adopts a managed floating exchange rate regime. In the medium to long term, the PBOC allows market supply and demand to play a decisive role and use the exchange rate flexibility as an automatic stabiliser to absorb external shocks and rebalance the economy. In the short term, however, the central bank attempts to ease the fluctuations of RMB exchange rate to reduce overshooting risks. Since 2017, the FX position in PBOC’s balance sheet has remained stable, indicating minimal direct interventions through FX purchase or sales. Instead, the central bank has guided market expectations by central parity rate fixings, verbal interventions or window guidance for large state-owned banks to influence the market. In practice, these measures have only affected short-term fluctuations but have limited impact on long-term trends for RMB exchange rates.

The impact of Trump 2.0 on RMB should be smaller than that of Trump 1.0. While Trump’s tariff policies in 2025 will exert downward pressure on RMB, the impact of “Trump 2.0” will be much smaller than that of “Trump 1.0”. Firstly, China is better prepared and more experienced to deal with Trump’s tariffs as many large companies have established production bases overseas with diversified supplies. Secondly, US dollar is in a rate-cut cycle in Trump 2.0 era while it was in a rate-hiking cycle in 2018. Thirdly, US dollar interest rates and asset valuation are much higher as opposed to RMB interest rates and Chinese asset valuation, which has fully reflected the gap in economic fundamentals. Lastly, the market abhors uncertainty and unpredictability. Having already experienced “Trump 1.0,” the market should react more mildly in Trump 2.0 era. After the trade war in Trump 1.0 era, US weighted average tariff rate on Chinese goods increased from 3.1% in 2017 to 19.3% in 2019, leading to a 9.5% rise in US$/RMB in 2018-2019. In Trump 2.0 era with a possible 20%-30% tariff, US$/RMB is expected to rise 4%-6%, in our view.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Ninghai State-owned Asset Investment Holding Group	110	3yr	4.9%	4.9%	Unrated
Westpac New Zealand	750	5yr	4.938%	T+60	A1/AA-/-
Xiangtan Zhenxiang State-Owned Assets Management Investment Co	19	18M	4.9%	4.9%	Unrated

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

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Zibo Zichuan Finance Holding Co	USD	-	3yr	6.9%	Unrated

- **News and market color**

- Regarding onshore primary issuances, there were 107 credit bonds issued yesterday with an amount of RMB74bn. As for month-to-date, 804 credit bonds were issued with a total amount of RMB708bn raised, representing a 59.8% yoy increase

- Macau Jan'25 visitors rise 27% yoy to 3.65mn
- **[BABA]** Alibaba 3Q25 adjusted EBITDA rises 4% yoy to RMB62.1bn (cUSD8.5bn)
- **[IQ]** iQIYI issues convertible bonds IQ 4.625 03/15/30 of USD350mn, net proceeds of USD344.8mn to be used for debt repayment and general corporate purposes
- **[JD]** JD.com is following Meituan to offer social security benefits to food delivery riders
- **[LENOVO]** Lenovo 3Q25 revenue rises 20% yoy to USD18.8bn
- **[SINOCE]** Moody's withdrew Sino-Ocean's Ca rating due to insufficient information
- **[YUZHOU]** Moody's withdrew Yuzhou's Ca rating due to insufficient information. Yuzhou received approval from a majority of its creditors to extend the long-stop date of its proposed offshore debt restructuring by six months to 31 Aug'25 from 28 Feb'25

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