CMBI Credit Commentary

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

- *This morning, Asia IG spreads were 10-15bps tighter post Trump raised tariff rate on China to 125% from 104% while announced 90-day pause on reciprocal tariffs on most trading partners. PETMK/MTRC 35-55s tightened 10bps. MYLIFE/NIPLIF 54-55s were up 1.0-1.7pts. RAKUTN Perp/27-29s were 2.2-3.2pts higher.*

- *MEITUA: Switch to MEITUA 3.05 10/28/30 and MEITUA 0 04/27/28 (CB). MEITUAs down 0.1-2.4pts post the US's announcement of reciprocal tariff, and were unchanged to +1.4pts this morning. See below.*

- ***China Economy:** China's policy options in Trade War 2.0. CMBI expects a comprehensive deal - perhaps involving domestic demand stimulus, overcapacity reduction, increased purchases of US goods and fentanyl cooperation - remains an option, although mutual distrust and unclear US objectives complicate this path. See below for comments from CMBI economic research.*

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❖ Trading desk comments 交易台市场观点

Yesterday, the credit spreads of Asia IGs were 5-15bps wider. We saw 80% of the enquiries were checking for bids. HYUELE/HYNMTR 29-33s widened 5-10bps. PETMK/MTRC/AIA 35-55s closed 1-4bps wider. In Chinese TMTs, BABA/TENCNT 30-54s widened 4-12bps. Fitch downgraded Alibaba and Tencent one notch to A from A+, following Fitch's 1-notch downgrade of China to A. MEITUA 28-29s widened 9-15bps despite Fitch upgraded Meituan one notch to BBB+. See comments below. The long end of CNOOC/SINOPE 41-51s were 0.3-0.4pt higher (unchanged in spreads). EU AT1s were under one-way selling. BNP/INTNED/HSBC Perps were down 0.8-2.5pts. In JP, insurance hybrids such as MYLIFE/NIPLIF 51-55s and SUMILF Perps lowered 1.3-3.0pts. SOFTBK Perp declined 0.6pt. RAKUTN Perps/27-29s dropped 1.0-3.5pts. In Chinese properties, VNKRLE 27-29s/LNGFOR 27-32s/FTLNHD 25s/DALWAN 26s lowered 0.3-1.8pts. Outside properties, WESCHI 26s decreased 0.9pt, closed 7.3pts lower WTD. MPEL/SANLTD/WYNMAC 26-30s declined 0.6-3.3pts, closed 1.6-7.6pts lower WTD. In Indonesia and India, MEDCIJ 27-29s were up another 0.2-0.3pt, closed 5.0-6.2pts lower WTD. See our comments on 9 Apr '25. The long end of PERTIJ/ICBPIJ 42-52s were 3.5-3.8pts lower (5-10bp wider). ADGREGs/ARENRJs/ADANEMs/ADSEZs retreated 0.5-1.2pts, closed 4.4-7.7pts lower WTD. Elsewhere, PTTGC 31-52s closed unchanged to 1.2pts lower (4-13bps wider), Fitch downgraded PTT Global Chemical one notch to BBB-. GLPSP 25s were up 0.3pt.

In LGFVs, the below-10% yielding papers were heavily offered by offshore investors, whilst the 11% or above yielding papers continued to be sought after mainly by onshore investors. There were buying interests on CNH

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papers such as BEIPRO/ZOUCAO 27-28s. In SOE perps, CHSCOI Perp was up 0.1pt. HUANEN Perp was down 0.1pt.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change
CNOOC 4 7/8 04/30/44	**95.9**	**0.4**
TAISEM 4 1/2 04/22/52	**87.7**	**0.4**
SINOPE 3.1 01/08/51	**71.1**	**0.3**
MEDCIJ 6 3/8 01/30/27	**96.2**	**0.3**
GLPSP 3 7/8 06/04/25	**97.2**	**0.3**

Top Underperformers	Price	Change
PERTIJ 6 1/2 11/07/48	**96.4**	**-3.8**
PERTIJ 6 05/03/42	**91.5**	**-3.8**
PERTIJ 6.45 05/30/44	**96.3**	**-3.8**
PERTIJ 4.7 07/30/49	**75.1**	**-3.8**
ICBPIJ 4.745 06/09/51	**74.1**	**-3.8**

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+9.52%), Dow (+7.87%) and Nasdaq (+12.16%) were higher on Wednesday. China announced 84% reciprocal tariff rate on US goods effective on 10 Apr'25, following US raises tariffs on Chinese goods to 104%. EU approved 25% retaliatory tariffs on a range of US goods worth EUR21bn, effective on 15 Apr'25. US drops the country-specific reciprocal tariffs down to a universal 10% rate for all trading partners except China, tariff rate on China jumps to 125% from 104% effective immediately. The existing tariffs on Canada and Mexico are unaffected. UST yield was higher on Wednesday, 2/5/10/30 yield at 3.91%/4.06%/4.34%/4.72%.

❖ Desk Analyst Comments 分析员市场观点

➢ MEITUA: One notch upgrade by the three rating agencies post release of strong FY24 results

We recommend investors to switch from MEITUA 2.125 10/28/25 to MEITUA 3.05 10/28/30 after the recent price and UST movements. We prefer MEITUA 3.05 10/28/30 more in view of its higher yield, lower cash price and higher coupon. We are more comfortable to add duration at current UST level and believe that the current level offers a better cushion against potential volatility, especially under the backdrop of economic slowdown, if not recession, of the US. At the same time, we also recommend investors to switch to MEITUA 0 04/27/28 (CB) from MEITUA 0 04/27/27 (CB). MEITUA 0 04/27/28 (CB) will be first puttable one year from now and offers YTP of 5.0% at 96.2 in view of the higher YTP and lower cash price. We continue to like the credit story of Meituan which has a solid operating profile and strong liquidity position. We also consider MEITUAs as domestic consumption plays which should demonstrate defensiveness against the impact of trade war.

All three rating agencies upgraded Meituan by one notch over the past few days, i.e. upgraded to Baa1/Stable, A-/Stable and BBB+/Positive by Moody's, S&P and Fitch, respectively. The rating upgrades came after Meituan released strong FY24 results and against the backdrop of sovereign rating and other A-rated TMT peers being downgraded by Fitch.

As of Dec'24, Meituan had unrestricted cash and cash equivalent of RMB70.8bn. Along with the short-term treasury investments of RMB97.4bn, Meituan's net cash position (unrestricted cash and short term investments minus total debts) further increased to RMB106.7bn as of Dec'24. MEITUA 0 04/27/27 of USD1,484mn and MEITUA 2.125 10/28/25 of USD750mn will be puttable in Apr'25 and due in Oct'25, respectively. We expect Meituan can comfortably fund the redemptions with its sizeable net cash position.

Table 1: Meituan's outstanding bonds

Security name	Amt o/s (USDmn)	Ask px	YTM/YTP	Z-spread (bps)	First put date	Put px
MEITUA 0 04/27/27	1,480	100.1	-	-	04/27/25	100.37
MEITUA 0 04/27/28	1,500	96.2	5.0%	-	04/27/26	101.28
MEITUA 2.125 10/28/25	750	98.6	4.8%	63	-	-
MEITUA 4.5 04/02/28	1,200	98.6	5.0%	138	-	-
MEITUA 4.625 10/02/29	1,300	97.6	5.2%	160	-	-
MEITUA 3.05 10/28/30	1,250	89.7	5.2%	155	-	-

Source: Bloomberg

➢ **China Economy: China's policy options in Trade War 2.0**

As China and the US start to play the chicken game before negotiations, things could get worse before getting better. The Sino-US conflict could first escalate as China shows its willingness to retaliate with counter-tariffs, export controls on critical materials, cut in investments to the US, technology transfer restrictions and RMB depreciation in a controlled manner, while the US might launch targeted financial sanctions and delist Chinese companies from the US stock market. In terms of economic impact, a trade war is more akin to a pandemic instead of a financial crisis as they are both supply shocks. The impact of trade war on economic growth should be smaller than the lockdown during the pandemic, as the former mainly affects cross-border trades, investment and supply chain activities while the latter affects both cross-border and domestic activities. However, the impact of the trade war might last longer than the pandemic as a war destroys mutual trust and sows the seeds of hatred between countries. To offset the trade war shock, China may lower RRR & LPRs and launch additional fiscal stimulus to boost the stock market, housing market and consumer demand. China will continue to promote self-reliance in key technologies to reduce vulnerability to external pressure. China will diversify its trading partners by strengthening trade and investment ties with non-US economies. Despite the hard-line stance, China will keep the door open for talks. A comprehensive deal - perhaps involving domestic demand stimulus, overcapacity reduction, increased purchases of US goods and fentanyl cooperation - remains an option, although mutual distrust and unclear US objectives complicate this path.

Retaliatory tariffs. China has shown its willingness to hit back by announcing an 84% tariff on all US products following Trump's recent escalation of tariffs on Chinese goods to 104%. The Ministry of Commerce stated that if the US insisted on going its own way, China would fight to the end. China's response was harsher than expected and increased fire sales in the global market last Friday (4 Apr) as investors' optimism about possible Sino-US negotiations faded while investors' concern about an escalation of Sino-US conflict increased. If Sino-US tensions escalate, China could further raise tariffs on US politically sensitive sectors like agriculture, energy, automotive, aerospace and consumer goods to maximize pressure on Trump. Hardship in farm states, oil-rich states and the Rust Belt could undermine support for Trump's tariffs. The tariffs would expose the US to the stagflation risk in the near term and recession risk in the future by disrupting supply chains, raising costs, undermining confidence, curbing business investment and reducing consumer demand. The tariffs would hurt China's economic growth and add deflationary pressure by reducing overseas demand, dampening manufacturing investments, increasing unemployment risks, undermining confidence and curbing household consumption.

Export controls on critical materials. China could leverage its dominance in critical supply chains to control exports of strategic materials or products in retaliation in Trump's Trade War 2.0. China placed export restrictions on rare earth elements last Friday as part of its broad response to Trump's tariffs. If the US-China trade conflict escalates, China could expand its restriction list to include rare earths, semiconductor inputs and pharmaceuticals, where the US substitutes are years away. Export controls could disrupt the supply of key products and undermine market confidence in the US. But they would also hurt the profits of Chinese companies and accelerate the decoupling of the US and China by forcing US companies to look elsewhere.

Controlled RMB depreciation. The US-China conflict will put downward pressure on China's exports and renminbi. Renminbi depreciation may partially offset the impact of tariffs on export volumes as Chinese exporters may lower export prices in US dollars to maintain market share. For the most part, Chinese policymakers are reluctant to let the renminbi depreciate as they see its stability as part of financial system stability and a symbol of economic strength. By seeking a balance between boosting exports and market stability, China may prefer a controlled RMB depreciation in Trump's trade war 2.0. Only in extreme cases could China use renminbi depreciation as leverage to pressure the US, as the latter politicalises exchange rates. Looking ahead, US$/RMB could rise moderately if the Sino-US conflict escalates and fall again if their conflict eases or China launches aggressive fiscal stimulus. We expect US$/RMB to reach 7.45 at end-2025. Renminbi depreciation is negative for offshore Chinese equities, emerging market currencies and commodities.

Boosting domestic demand especially consumer demand. Regardless of the outcome of the US-China trade war, China needs to consume more and produce less, strategically boosting consumption. As the trade war causes the stock market to plunge, hurts business and consumer confidence, and adds deflationary pressure, China may further cut RRR and LPRs in 2Q25 to boost market sentiment. Meanwhile, China might launch additional fiscal stimulus especially targeting consumption, but the timing is uncertain as the policymakers might view the fiscal and consumption stimulus plan as a bargaining chip in negotiations with the US, which means the policy plan will not be implemented unless the two sides reach a primary consensus. China's policy easing will provide some support to the stock market, housing market and consumer confidence, but cannot fully offset the negative impact of the trade war in the short term. **Diversifying trade partners by strengthening ties with non-US economies.** Trump's trade war 1.0 in 2018-2019 mainly focused on China, while his trade war 2.0 targets almost all trade partners. Trump's fire against the world creates a good opportunity for China to strengthen trade and investment ties with non-US economies. Although Trump may try to negotiate with other countries to include poison pill provisions against China, it is not easy for him to succeed. Firstly, Trump has no credibility as he could renege on previous promises at a moment's notice. Secondly, China has become the largest trading partner of more than 100 countries through its continuous opening up and supply chain upgrading. China has forged close trade, investment and supply-chain links with East Asia, Southeast Asia, the Middle East and Europe, making it difficult for these regions to completely cut off ties with China. Finally, Trump's call for no trade surplus with the US is difficult for other economies because the US has excess demand with low savings rates and high fiscal deficit while other economies have excess supply with high savings rates. The US share in China's total merchandise exports and China's share of US total goods imports respectively declined from 19.2% and 21.2% in 2018 to 14.6% and 13.1% in 2024. At the same time, China's trade relations with Southeast Asia, Mexico, Latin America and the Middle East increased.

Investment and technology decoupling. As the two countries start to play the chicken game, the conflict could escalate from trade to cross-border investments. The US could add Chinese companies on the sanction list or delisting list while China could instruct its SOEs to reduce investments in the US. China could also block technology transfers, as suggested by its reluctance to approve a TikTok algorithm sale, leveraging its market access as a bargaining chip. The investment decoupling will hurt business and investor confidence, slow technology spill-over and reduce long-term returns on investments.

Diplomatic negotiations. Despite the hard line, China has left the door open to talks, urging the US to lift tariffs and expressing a willingness to negotiate. A comprehensive deal - perhaps involving domestic demand stimulus, overcapacity reduction, increased purchases of US goods and cooperation on fentanyl - remains an option, although mutual distrust and unclear US objectives complicate this path.

Long-term self-reliance on key technologies. China could double down on technological innovation and industrial self-sufficiency. This would include heavy investments in semiconductors, robotics, smart appliances and other high-tech sectors targeted by US restrictions, aiming to reduce vulnerability to external pressure over time.

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

Issuer/Guarantor	Size (USD mn)	Tenor	Coupon	Priced	Issue Rating (M/S/F)
Chongqing Nan'an Urban Construction & Development	93.255	3yr	5.25%	5.25%	Unrated
Xianjin Industry Investment/ Hefei Industry Investment	500	3yr	4.75%	4.75%	-/-/BBB

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

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
Coastal Emerald Limited/Shandong Hi-Speed Group Co	USD	-	3yr	5.2%	A3/-/A-

➢ **News and market color**

- Regarding onshore primary issuances, there were 106 credit bonds issued yesterday with an amount of RMB96bn. As for month-to-date, 393 credit bonds were issued with a total amount of RMB396bn raised, representing a 3.3% yoy decrease

- China passenger car sales rise 14% yoy in Mar'25 helped by government subsidies

- India's central bank cut its policy rate for a second consecutive time by 25bps to 6%, and signal room for more cuts ahead

- **[BABA]** Fitch downgraded Alibaba to A from A+ following China sovereign downgrade to A from A+, outlook stable

- **[HYUELE]** SK Hynix becomes world's largest memory chip supplier by revenue in 1Q25 with 36% of market shares in the DRAM market, according to Counterpoint Technology Market Research

- **[SHFLIN]** Shriram Finance raises INR17.15bn (cUSD199mn) through issuance of non-convertible debentures

- **[TENCNT]** Fitch downgraded Tencent to A from A+ following China sovereign downgrade to A from A+, outlook stable

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