

CMBI Credit Commentary

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

- *Two-way flows this morning. CN IGs were unchanged to 1bp wider and front-end leasing/TMT were better sold. KR space was firm, DAESECs tightened 5-10bps. AT1/SOE Perps rallied higher post rates down. VNKRLs rebounded 4-6pts, NWDEVLs rose 1.5-2pts.*
- *LGFVs: Our thoughts on the plan to purchase unsold residential units. See below.*
- *China Economy - Impact of US tariffs should be limited. See below for comments from CMBI economic research.*

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❖ Trading desk comments 交易台市场观点

On Tuesday, the new OCBCSP 34s opened 8bps tighter from the RO (T+103) and closed around 6bps tighter at T+97. In KR, HYNMTR/KOROIL/KORGAS/DAESEC/DFHOLD 26-29s were 1-3bps tighter. In JP, the insurance hybrids were under better buying from PBs. NIPLIF '54/SUMILF Perp were up 0.2-0.3pt. RAKUTN 11.25 '27 grinded 0.3pt higher. Chinese IGs were traded in a small range ahead of HK/KR holiday on Wed. HAOHUA 28-30s widened 3-4bps amid concerns on US's new tariffs. The long end of TENCNTs/BABAs closed unchanged to 3bps tighter under RM buying. In financials, the front end of Chinese bank T2s/leasing names/AMCs were under better buying. ICBCAS '26/BOCAVI '24/HRINTH '25 were 2-7bps tighter. The new PINGIN 34s were traded in mixed two-way flows and closed 1bp wider. In EU AT1s, the recent new long-dated-to-call papers such as NWG 8.125 Perp/SOCGEN 8.5 Perp were 0.2-0.3pt lower. The short-dated-to-call AT1s such as INTNED 3.875 Perp/BACR 4.375 Perp were down 0.1-0.2pt. In HK, NWDEVLs closed 0.2-0.6pt higher amid two-way flows among PBs. Chinese properties performed mixed. SHUION 24/26 moved 1.1-1.5pts higher. VNKRL 25-29s were up 0.5-1.3pts, following Vanke's announcement that it has secured RMB7.339bn (cUSD1.015bn) funding from three Chinese banks. However, AGILE 25-26s dropped 2.7-5.2pts after the default on coupon payment. LNGFOR 27-32s also declined 1.1-1.5pts. FUTLANs/FTLNHDs were down 0.2-0.7pt. In industrials, HILOHO '24/CHIOIL '26 were 0.3-0.5pt lower. In India, UPLLIN Perp increased 2.2pts and UPLLIN 28/30 were up 0.9-1.0pts. VEDLN 26-28s were up 0.4-0.6pt. Indonesian names were mixed. LPKRIJ 25/26 were 0.2-0.5pt higher and LMRTSP 24/26 were up 0.4-0.8pt. APLNIJ '24 was 0.9pt higher, while MDLNIJ '25 was 1.1pts lower.

In the LGFVs/SOE perps/high-beta spaces, sentiment was more constructive as cross-border RMs continued to deploy in quality LGFVs across USD and CNH papers, and also in the high-beta IG names. In the 5-6% LGFVs, GZDZCD/HZCONI 26s were 0.1-0.2pt higher. SHGUOH/QDJZWD 25s were

up 0.1-0.3pt. In the high yielding LGFVs, CPDEV '26 was up 0.3pt while BCDHGR '26 was down 0.1pt. In SOE perps, RLCONS 3.97 Perp was up 0.1pt while HUADIA 3.375 Perp was 0.1pt lower. In the high beta names, HUANEN '31/HNINTL '30 were 0.3-0.8pt higher.

❖ Last Trading Day's Top Movers

Top Performers	Price	Change	Top Underperformers	Price	Change
UPLLIN 5 1/4 PERP	74.1	2.2	AGILE 5 3/4 01/02/25	7.3	-5.2
SHUION 5 1/2 06/29/26	68.0	1.5	AGILE 6.05 10/13/25	6.3	-4.7
WFURCD 2.6 09/27/24	97.9	1.2	AGILE 5 1/2 04/21/25	6.2	-2.7
SHUION 6.15 08/24/24	94.5	1.1	AGILE 5 1/2 05/17/26	6.3	-2.7
UPLLIN 4 1/2 03/08/28	88.5	1.0	LNGFOR 4 1/2 01/16/28	73.8	-1.5

❖ Marco News Recap 宏观新闻回顾

Macro – S&P (+1.17%), Dow (+0.88%) and Nasdaq (+1.40%) reached historical high levels on Wednesday. US Apr'24 CPI was +3.4% yoy, in line with the expectation. US Apr'24 retail sales was unchanged yoy, compared with the expectation of +0.4% yoy. UST yield retreated yesterday, 2/5/10/30 yield were 4.73%/4.35%/4.36%/4.52%.

❖ Desk analyst comments 分析员市场观点

➤ LGFVs: Our thoughts on the plan to purchase unsold residential units

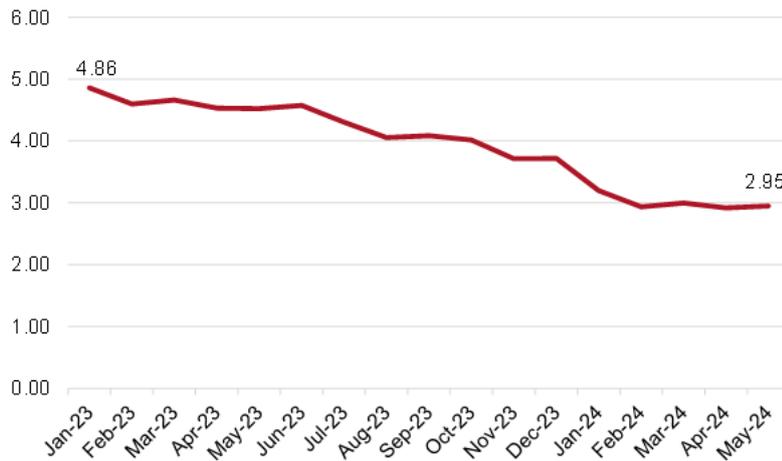
A move in the right direction to address high inventory level

Media reported Chinese government's plan to have local governments to purchase unsold residential units and convert these to affordable housings. While there remains a high level of uncertainty as to the timing and details of implementation, we believe that the reported plan helps address one of the key obstacles in restoring homebuyer's confidence, i.e. growing inventory level, through turning inventory into affordable rental housing to meet the demand from lower-income groups. As we discussed before, the Chinese property market is in a vicious cycle with falling price and higher inventory level. Ensuring timely deliveries of pre-sold projects, lower inventory level and stabilized property prices are keys to restore confidence on the property market.

How will the plan be implemented and what will be the sources of funding for local governments?

The plan in the brewing is not entirely new. Indeed, local governments of Fuzhou, Chongqing, Zhengzhou and Suzhou had acquired unsold residential units and convert these into social housings. On 14 May'24, the Housing and Urban-Rural Development Bureau of Linan District of Hangzhou offers to acquire completed residential units (and car parks) at market prices for social rental housings. Taking cues from the experience of Zhengzhou, the LGFVs there acquired unsold residential units at discounts, primarily funded with bank loans, and convert these units to social rental housings. The funding cost of these acquisitions is lower than the rental yield. We believe that opening up long-term and low-cost funding channels including onshore loan and bond markets for LGFVs are keys to the success of this plan.

Coupon rate movement of LGFV onshore bonds (%)



Source: Wind.

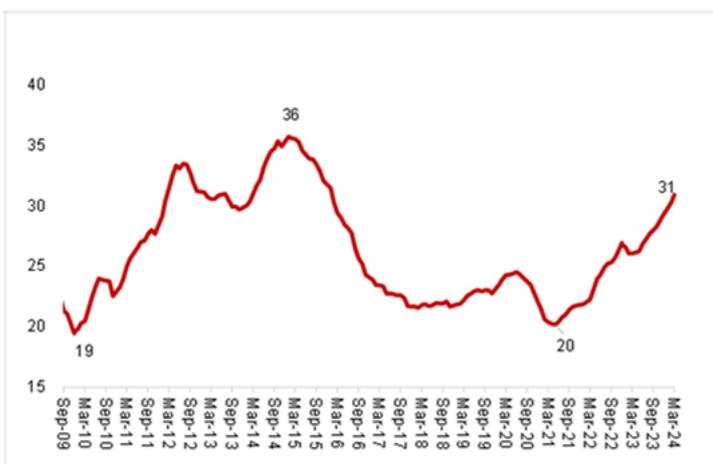
Impact to LGFVs: Neutral to positive

There may be concerns on the sources of funding for local governments and additional financial burden of LGFVs. However, as discussed before, we believe that LGFVs will only acquire projects at prevailing market prices under heavy regulatory scrutiny and LGFVs will be granted the access to long-term and low-cost funding channels in the acquisitions of unsold residential units. We also believe that these could open new and recurring income sources for LGFVs involved, as well as strengthen their strategic importance within their respective regions. In our opinion, LGFVs more likely to involve in the plan are those with experience in property and social housing sectors such as CPDEV and ZHHFGR.

Impact to the property developers: Mixed

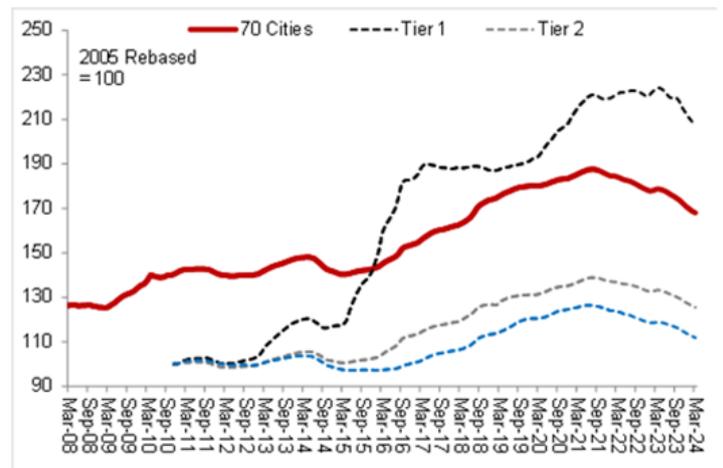
The move sent another signal that the Chinese government’s strong intention to stabilize the property market. The reported move is positive to developers in general. Nonetheless, the impact to individual developers in the near-term will vary. For developers already in default with a high inventory level, they may be pressured to sell projects to local governments/LGFVs at deep discounts. These could affect the overall recovery value, especially from offshore bondholders’ perspective.

General inventory month



Source: Wind.

NBS 70 cities ASP (2nd-hand) index



Source: Wind.

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➤ **China Economy - Impact of US tariffs should be limited**

US President Joe Biden on Tuesday unveiled steep tariff hikes on an array of Chinese imports. The tariffs are mostly symbolic with more political than economic impact in an election-year as both candidates are competing to be the tougher guy on China. The tariffs have very limited impact on US consumer inflation as the imports of related products from China were only 0.07% of the US GDP in 2023 and the US inflation was mainly driven by prices in the non-tradable sector. The tariffs may sharply reduce China's exports of related products to the US, but their impact on China's exports and economic growth should be quite slight, in our view. Those exports to the US only accounted for 0.5% of China's total exports and 0.1% of its nominal GDP in 2023. The tariffs will deteriorate the China-US relationship. China may retaliate with some symbolic moves instead of strong actions as the Chinese policymakers try hard to restore foreign business confidence and seek to avoid actions that could make China the centre of the US presidential campaign. The tariffs may have a mild negative impact on the RMB and Chinese stocks by signalling a possible escalation of China-US tensions.

The tariffs may sharply reduce China's exports of related products to the US. The new measures affect US\$18bn in Chinese imported goods including steel and aluminium, semiconductors, electric vehicles, batteries, critical minerals, solar cells, ship-to-shore cranes and medical products. The changes are staggered to take effect from 2024 to 2026 and are more targeted than the 60% flat tariff Trump has proposed. The US Trade Representative's Office said it anticipates the effective date for this year will be in approximately 90 days. The biggest jump is for EVs, with the tariff rate quadrupling, while other imports are seeing levies doubled or being imposed for the first time.

The tariffs are mostly symbolic in an election-year. Joe Biden has to compete with Donald Trump to be the tougher guy on China as a hawkish approach to trade with China seems popular with US voters. Trump pledged a 60% across-the-board tariff on Chinese goods and a 200% tariff on Chinese vehicles made in Mexico if elected. By raising tariffs on some goods from China, Biden tries to show his determination to bolster domestic manufacturing industries and protect blue-collar workers' interest. Domestic calculations are at play for the tariffs as National Economic Advisor Brainard said Biden's tariffs would help communities in Michigan and Pennsylvania. The two swing states are crucial to the 2024 election outcome.

The impact on US consumer inflation should be limited. The imports of those products from China were only 0.07% of the US GDP in 2023. Moreover, the inflation in the US has been mainly driven by service prices like housing rents.

The impact on China's exports and economy may be very slight. Related exports to the US only accounted for 0.5% of China's total exports and 0.1% of its nominal GDP in 2023. China's exports of certain medical products and steel & aluminum may see a negative impact as the US market accounts for 10%-20% of exports of those products. But we estimate the impact on the exports of other products should be quite small. The tariffs can hardly erode China's competitiveness in the supply chain of related products. China has controlled 80%-90% of the global solar supply chain and over 80% of certain segments of the EV battery supply chain; the cost of making a panel in China is 60% cheaper than in the US. In 2023, outbound shipments of completed solar panels to the US reached US\$13.15mn, only 0.03% of China's solar panel exports. China is expected to account for almost half of all new capacity coming online to manufacture certain legacy semiconductor wafers. We believe domestic capacity expansion, deflation pressure and cross-border price differentials will definitely stimulate China's exports in the next several years.

The tariffs will deteriorate the China-US relationship. China's Ministry of Commerce said Tuesday the tariff increase is being driven by US political considerations and it would take resolute measures to defend China's interests. China may retaliate with some symbolic moves instead of strong actions as the Chinese policymakers try hard to restore foreign business confidence and seek to avoid actions that could make China the centre of the US presidential campaign.

The tariffs may have mild negative impact on RMB exchange rates and Chinese stocks. Signaling a possible escalation of China-US tensions in the election-year, the tariffs may have some negative influence on investor sentiment in China's forex and stock markets. But the market may have already priced in part of the story in the election-year. Therefore, the influence should be mild, 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)
No Offshore Asia New Issues Priced Today					

➤ Offshore Asia New Issues (Pipeline)

Issuer/Guarantor	Currency	Size (USD mn)	Tenor	Pricing	Issue Rating (M/S/F)
ICBC HK Branch	USD	-	3yr	SOFR+95	A1/-/-

➤ News and market color

- Regarding onshore primary issuances, there were 32 credit bonds issued yesterday with an amount of RMB28bn. As for month-to-date, 251 credit bonds were issued with a total amount of RMB214bn raised, representing a 23.6% yoy decrease
- **[DALWAN]** Dalian Wanda Commercial Management Group's RMB1bn equity stake in Beijing Fengke Wanda Plaza frozen by court; The company's RMB16.2bn equity in Newland Commercial Management frozen by court
- **[RPVIN]** ReNew Energy signed MoU with Societe Generale referencing up to USD1bn of support over next 3 years, primarily including debt financing, advisory solutions
- **[SHIMAO]** Shanghai Shimao received delisting advance notice from Shanghai Stock Exchange
- **[SJMHOL]** Media reported that SJM Holdings plans to start a two-year renovation of Grand Lisboa around the end of 2024
- **[VEDLN]** Media reported that Vedanta Ltd's unit Vedanta Semiconductors privately placed USD300mn-equivalent INR bonds with Davidson Kempner, BlackRock, Varde, Broad Peak

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