

## 2019 Issue 16

From April 29 to May 3

## Likelihood of an interest rate cut decreased; the US Treasury yields rallied

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**Headline: Likelihood of an interest rate cut decreased as the Fed announced a neutral financial policy**

On May 1, the Federal Open Market Committee ("FOMC") decided to keep interest rates unchanged in an arrange between 2.25% and 2.5%, and at the same time cut the interest rate on excess reserves ("IOER") to 2.35% from 2.40%. The unchanged interest rate met the market expectations. However, Fed Chairmen Jerome Powell's did not signal a more dovish view as the market expected after the policy meeting, decreasing the likelihood of an interest rate cut in the year.

**Exchange Rate: RMB exchange rate fluctuated slightly**

During the week, the RMB exchange rate fluctuated slightly due to the Labor Day holiday. As of April 30, the intermediate price of the RMB exchange rate was 6.7286, down 21 basis points from last Friday. The offshore RMB exchange rate fluctuated with an upward trend, closing at 6.7343 on May 3. Additional attention should be paid to the policy stance of the Federal Reserve and the trend of Sino-US trade relations.

**Interest Rate: 1D Shibor fell sharply, the US Treasury yields rallied**

As overnight Shibor fell, money market liquidity was eased. During the week, overnight Shibor rose slightly and then fell sharply, closing at 1.7000 on April 29, down 96.1bp from last Friday. The Fed decided the interest rate remained unchanged, stating that the economy of the US continued on a healthy path, resulting in a rally of the US Treasury yields. As of May 3, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 2.33%, 2.33%, 2.54% and 2.93%, increasing by 5bp, 4bp, 3bp and 1bp over last week, respectively.

**Chinese Offshore Bond Market****Primary Market: New issue volume fell as affected by China's Labor Day**

There were only 2 new bonds issued last week, with a total volume of USD 253 million. The obligors included China International Capital Corp Hong Kong Ltd and China Huarong International Holdings Ltd.

**Secondary market: Returns on investment grade bond and high-yield bond continued to increase**

The returns on investment grade bond and high-yield bond index went up given a strong market sentiment. As of May 3, the YTD return on Chinese USD corporate bond index was 5.05%, increasing by 12bp over last week, of which investment grade bond index was 3.71% and high-yield bond index was 8.25%, increasing by 3bp and 32bp over last week, respectively.

**Panda Bond Market: SMIC issued two new bonds**

On April 29, Semiconductor Manufacturing International Corporation issued two SCPs consecutively on the same day in the Interbank Market valued at 0.5 billion RMB and 1 billion RMB, with coupon rates at 3.05% and 3.10% respectively. Duration of both bonds is 180 days (0.5 year). Funding were intended to supplement the working capital of its subsidiaries in Shanghai. China Chengxin International Co., Ltd assigned AAA to the issuer.

**Headline: Likelihood of an interest rate cut decreased as Fed announced a neutral financial policy**

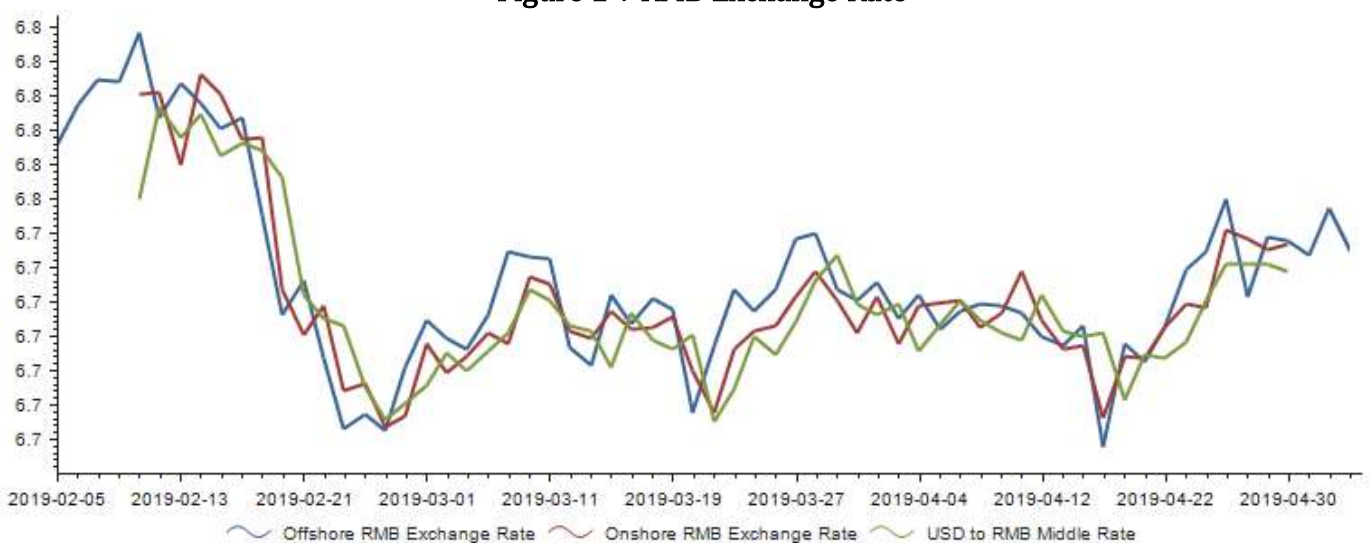
On May 1, the Federal Open Market Committee (“FOMC”) decided to keep interest rates unchanged in an arrange between 2.25% and 2.5%, and at the same time cut the interest rate on excess reserves (“IOER”) to 2.35% from 2.40%. The unchanged interest rate met the market expectations. However, Fed Chairmen Jerome Powell’s did not signal a more dovish view as the market expected after the policy meeting, decreasing the likelihood of an interest rate cut in the year.

“We do think our policy stance is appropriate right now. We don’t see a strong case for moving in either direction,” Powell said during a news conference after the central bank’s policy meeting. He also said that the economic data of China and Europe Zone have certain improvements, reducing some overseas market risks. And the lower IOER is only a technology adjustment, which did not indicate any policy changes. He expected the below-target inflation was temporary and it would move back to the Fed’s inflation target in the future. The Powell’s saying of “transitory” factors undermining the current inflation weakened the market expectation of a rate cut in the year, and resulted in a drop in the US stock market.

**Exchange Rate: RMB exchange rate fluctuated slightly**

During the week, the RMB exchange rate fluctuated slightly due to the Labor Day holiday. As of April 30, the intermediate price of the RMB exchange rate was 6.7286, down 21 basis points from last Friday. The offshore RMB exchange rate was on the rise, closing at 6.7343 on May 3. Since March 2019, the RMB exchange rate had revealed a relatively stable trend. Strong U.S. dollar was still under expectation as the revival of recent economic data, while other major currencies were under collective pressure. The risk of RMB devaluation was relatively controllable as China's GDP growth in the first quarter beat market expectations. Additional attention should be paid to the policy stance of the Federal Reserve and the trend of Sino-US trade relations.

**Figure 1 : RMB Exchange Rate**

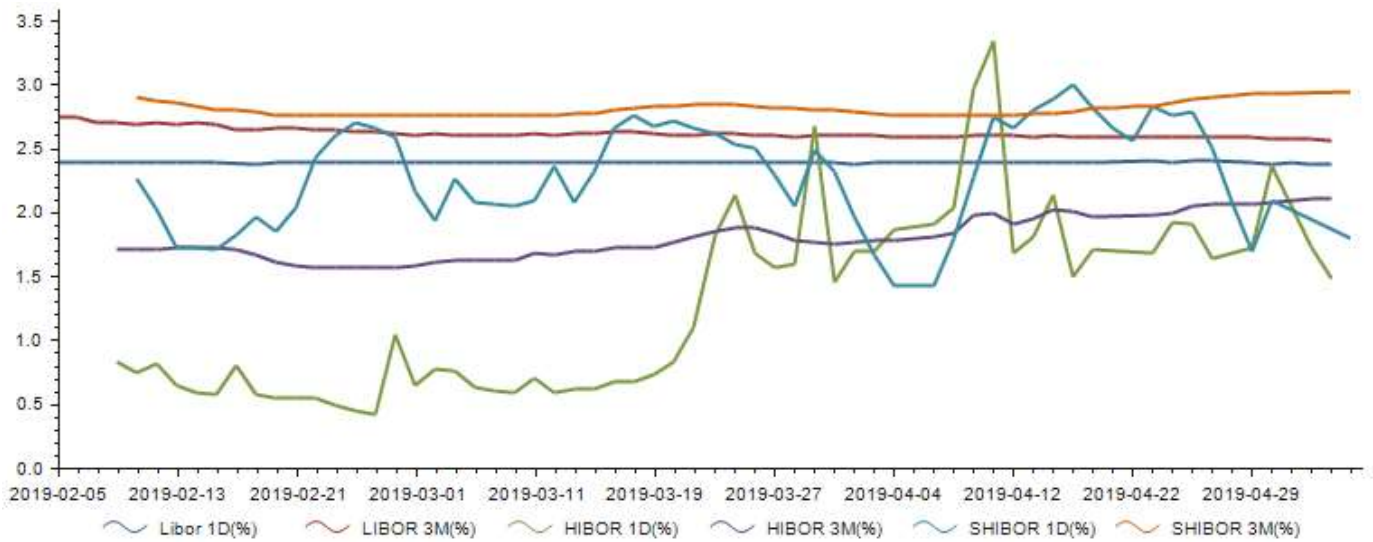


Sources: Eastmoney, CCX research

### Interest Rate : 1D Shibor declined, the US Treasury yields rallied

As overnight Shibor declined, money market liquidity was eased. During the week, overnight Shibor fluctuated on a downward path, closing at 1.7900 on May 5, down 28bp from last Sunday. 3M Shibor continued its steady upward trend, closing at 2.9350, up 2.6bp from last Sunday. Overnight Hibor remained fluctuating, closing at 1.4806 on May 3.

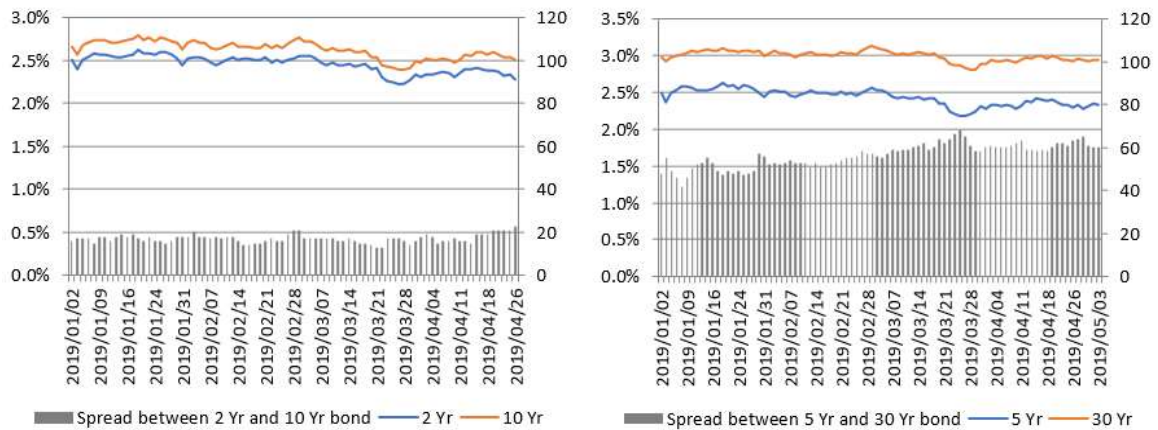
Figure 2 : Market Rate



Sources: Eastmoney, CCX research

The Fed decided the interest rate remained unchanged, stating that the economy of the US continued on a healthy path, job market remained strong, and inflation would move back to the targeted level of 2%. The Fed continued to project a patient approach to the interest rate adjustments amid global economic changes and moderate inflation level, in order to achieve its economic targets including job creation and inflation. As a result, the US Treasury yields rallied. As of May 3, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 2.33%, 2.33%, 2.54% and 2.93%, increasing by 5bp, 4bp, 3bp and 1bp over last week, respectively. The yield spread between 2-year and 10-year bond narrowed by 2bp to 21bp and the yield spread between 5-year and 30-year bond narrowed by 3bp to 60bp.

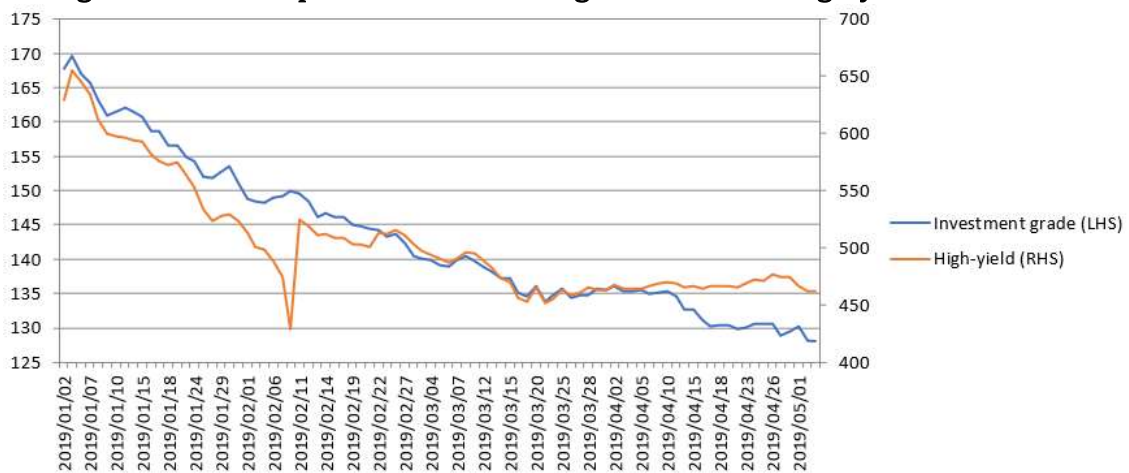
Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

The credit spread of Barclays Asia USD high-yield bond narrowed. As of May 3, the credit spread of investment grade index reduced by 2.4bp to 128bp while the credit spread of high-yield index decreased by 9.5bp to 462bp.

Figure 4 : Credit spread of investment grade bond and high-yield bond index



Sources: Bloomberg, CCX research

### Chinese Offshore Bond Market

#### Primary Market: New issue volume fell as affected by China's Labor Day

There were 2 new bonds issued last week, with a total volume of USD 253 million. The obligors included China International Capital Corp Hong Kong Ltd and China Huarong International Holdings Ltd, details are as follows:

Table 1 : New issuance of Chinese offshore bonds (20190429-20190503)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
4/29/2019	China International Capital Corp Hong Kong Ltd	USD	3	3.45	4/29/2020	363D	Financials	-/BBB/BBB+	-/-
4/30/2019	China Huarong International Holdings Ltd	USD	250	3ML+160	5/5/2020	364D	Financials	-/BBB+/-	-/-

Sources: Bloomberg, CCX research



Last week, Ronshine China Holdings Ltd announced tap bond offering, details are as follows:

**Table 2 : Tap bond offering (20190429-20190503)**

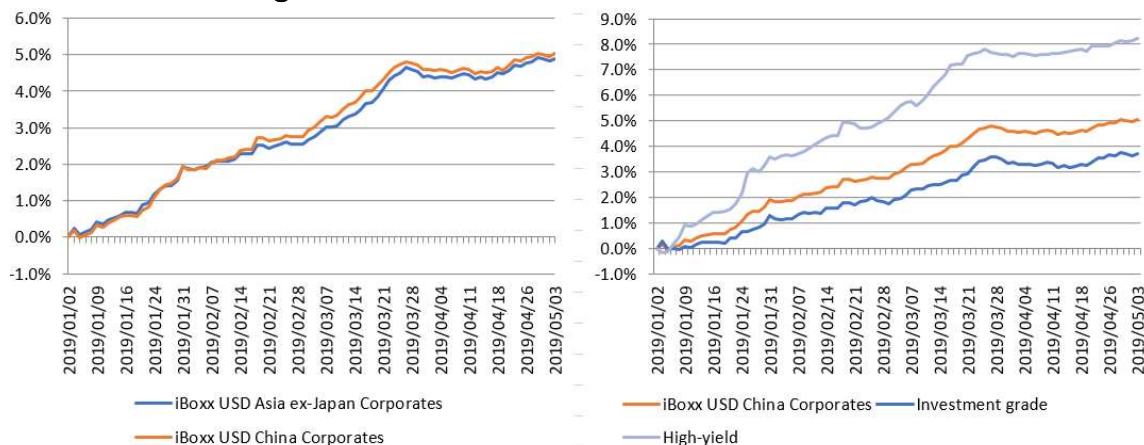
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
4/29/2019	Ronshine China Holdings Ltd	USD	500 (reoffered 200)	10.5	3/1/2022	3	Real Estate	B1/B/B+	-/-B+

Sources: Bloomberg, CCX research

**Secondary market : Returns on investment grade bond and high-yield bond continued to increase**

The returns on investment grade bond and high-yield bond index went up given a strong market sentiment. As of May 3, the YTD return on Chinese USD corporate bond index was 5.05%, increasing by 12bp over last week, of which investment grade bond index was 3.71% and high-yield bond index was 8.25%, increasing by 3bp and 32bp over last week, respectively.

**Figure 5 : YTD return on Chinese USD bond index**



Sources: Bloomberg, CCX research

**Panda Bond Market : SMIC issued two new bonds**

As of May 3, the number of Panda Bonds issued in 2019 was 12, with 8 issuers, a total issuance scale of 18 billion Yuan, and an average coupon of 3.63%. Issued mostly in China’s Interbank Market, tenor of these bonds varies, including three SCPs, four 3-year bonds, and five medium/long-term bonds.

On April 29, Semiconductor Manufacturing International Corporation (hereinafter referred to as “SMIC”) issued two SCPs consecutively on the same day in the Interbank Market valued at 0.5 billion RMB and 1 billion RMB, with coupon rates at 3.05% and 3.10% respectively. Duration of both bonds is 180 days (0.5 year). Funding were intended to supplement the working capital of its subsidiaries in Shanghai. China Chengxin International Co., Ltd assigned AAA to the issuer, SMIC.

Table 3 : New issuance of Panda Bond in 2019 (20190101-20190503)

Issuer	Amount	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Semiconductor Manufacturing International Corp.	10	3.10	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	5	3.05	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Co. Ltd	10	3.35	2019/4/19	2019/12/30	0.7	SCP	China Interbank Market	China Chengxin
GLP China Holdings Limited	33	4.35	2019/3/18	2028/3/18	9	Corporate Bond	Shenzhen Stock Exchange	Shanghai Brilliance
United Overseas Bank Ltd	20	3.49	2019/3/14	2022/3/14	3	Corporate Bond	China Interbank Market	China Chengxin
Bayerische Motoren Werke (BMW) Finance NV	30	4	2019/3/8	2022/3/8	3	MTN	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	15	3.57	2019/3/4	2022/3/4	3	MTN	China Interbank Market	China Chengxin/China Bond Rating
New Development Bank	20	3	2019/2/26	2022/2/26	3	MTN	China Interbank Market	China Chengxin/Lianhe
New Development Bank	10	3.32	2019/2/26	2024/2/26	5	Corporate Bond	China Interbank Market	China Chengxin/Lianhe
China Everbright Water Ltd	7	3.89	2019/1/21	2024/1/21	5	MTN	Shanghai Stock Exchange	Shanghai Brilliance
Beijing Enterprises Water Group Ltd	10	3.95	2019/1/11	2026/1/11	7	Corporate Bond	China Interbank Market	Shanghai Brilliance /Dagong
Beijing Enterprises Water Group Ltd	10	4.49	2019/1/11	2029/1/11	10	MTN	China Interbank Market	Shanghai Brilliance /Dagong

Sources: Bloomberg, CCX research

The latest two issuances made it the fourth time SMIC raising funds from the Panda Bond Market historically, and the third time in 2019. SMIC's total issuance scale is 4.5 billion yuan, type of bond includes MTN and SCP. Funding were used to supplement its subsidiaries in Shanghai, Beijing, Tianjin, etc. Historical issuance record of SMIC is as follows:

**Table 4 : Historical issuance of SMIC in the Panda Bond market (20160601-20190503)**

Issuer	Amount	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Semiconductor Manufacturing International Corp.	10	3.10	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	5	3.05	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	15	3.57	2019/2/28	2022/3/4	3	MTN	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	15	3.35	2016/6/1	2019/6/8	10	MTN	China Interbank Market	China Chengxin

Sources: Bloomberg, CCX research

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