

## 2019 Issue 18

From May 13 to May 17

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Date: May 22, 2019

## US-Europe conflicts extended to diplomatic and national security issues; US Treasury yields fell

**Headline: US-Europe conflicts extended to diplomatic and national security issues**

Last week, the conflicts between the US and the European Union ("EU") extended from trading issues to diplomacy and national security issues. The global market was facing more uncertainties other than the US-China trade tensions and the increasing likelihood of a no-deal Brexit. Amid the changing global political and economic frame, Europe became one of the significant variables during this political structural change.

**Exchange Rate: RMB depreciated substantially**

During the week, RMB depreciated substantially. On May 17, the intermediate price of the RMB exchange rate rose by 947bp from last Friday to 6.8859, marking a new high since 2019. In the short run, strong market anticipation of US dollar coupled with rising external uncertainty may lead to further fluctuations of the RMB exchange rate.

**Interest Rate: China Government Bond and US Treasury yields fell**

Recently, amid rising uncertainty of economic environment and elevated tensions between the US and China, the spot price of China's Treasury bonds was on the rise, and the yield of bond market continued its downward trend. As of May 17, the maturity yield of ten-year Treasury bond of China was 3.6775%, down 3.52bp from last Friday. The US Treasury yields dropped as the surging demand on risk-free assets, due to the increasing trade tensions between the United States and China. As of May 17, the interest rate spread on 10 years government bond between China and the United States widened 4.1bp to 87.6bp comparing with that on last Friday. The spread increased 47.5bp as from the beginning of 2019.

**Chinese Offshore Bond Market****Primary Market: New issue volume increased and financial institutions were the largest issuers**

From May 13 to May 17, there were 13 new issue bonds with a total volume of approximately 4.0 billion, of which 57.3% of the volume was issued by financial institutions.

**Secondary market: Returns on Chinese dollar bonds are strong**

As of May 17, the YTD return on Chinese USD corporate bond index was 5.29%, increasing by 14bp over last week, of which investment grade bond index was 4.11% and high-yield bond index was 8.15%, increasing by 15bp and 11bp over last week, respectively.

**Panda Bond Market: No new bond issues this week**

As of May 17, the number of Panda Bonds issued in 2019 was 12, with 8 issuers and a total issue volume of 18 billion Yuan, and an average coupon rate at 3.63%. Panda Bond issuances were mostly in China's Interbank Market, with various tenors and different bonds types, including three SCPs, four 3-year bonds, and five medium/long-term bonds.

## Headline: US-Europe conflicts extended to diplomatic and national security issues

Last week, the conflicts between the US and the EU extended from trading issues to diplomacy and national security issues. The global market was facing more uncertainties other than the US-China trade tensions and the increasing likelihood of a no-deal Brexit. Amid the changing global political and economic frame, Europe became one of the significant variables during this political structural change.

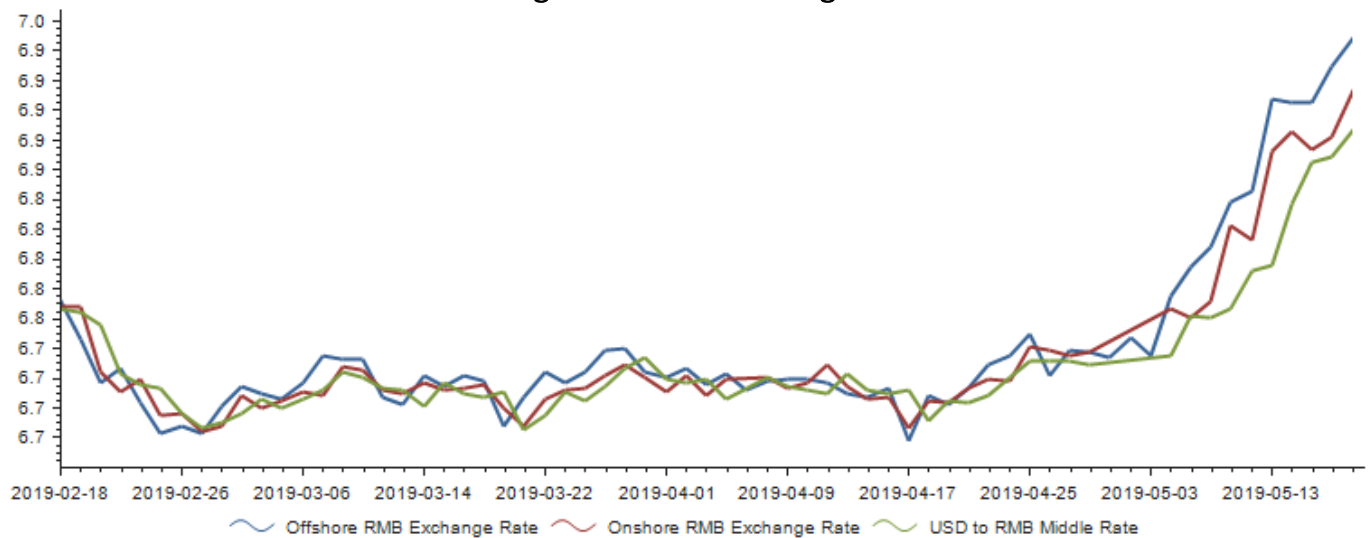
The US intended to attack the EU by increasing tariffs on the European-made vehicle imports. According to the data from the White House, the market share of the domestic vehicle producers in the US significantly dropped to 22% (equals to 3.7 million vehicles) in 2017 from 67% (equals to 10.5 million) in 1985. In the same period, the number of imported vehicles increased sharply from 4.6 million to 8.3 million, with a total worth of more than USD 191 billion. Thus, the US president Donald Trump planned to increase the tariffs on imported European-made vehicles by 25% for a national security reason. However, the US decided to delay the decision by up to six months last Friday.

In terms of diplomacy issues, the US and the EU did not reach a consensus on Iran and Venezuela affairs. May 13, the US Secretary Mike Pompeo paid a surprise visit to Brussels, where European Union foreign ministers were meeting to discuss the Iran nuclear accord. Mike Pompeo tried to persuade the EU members to abandon the deal with Iran. However, the EU finally rejected any “ultimatums” from Iran after the meeting, and declined the use of military force on Iran. At the same time, the EU restarted the payment mechanism with Iran, and the first transaction is expected to reach in the next month. In addition, the EU also discussed the solutions on the current crisis in Venezuela. The EU rejected any military solutions, and stressed the importance of solving the problem in a peaceful and democratic manner.

## Exchange Rate: RMB depreciated substantially

On May 17, the intermediate price of the RMB exchange rate rose by 947bp from last Friday to 6.8859, marking a new high since 2019. The onshore and offshore RMB exchange rates fell sharply, closing at 6.9138 and 6.9484, respectively. In the short run, strong market anticipation of US dollar coupled with rising external uncertainty may lead to further fluctuations of the RMB exchange rate. However, supported by economic fundamentals of China, the pressure for further substantial depreciation of RMB is relatively low.

Figure 1 : RMB Exchange Rate

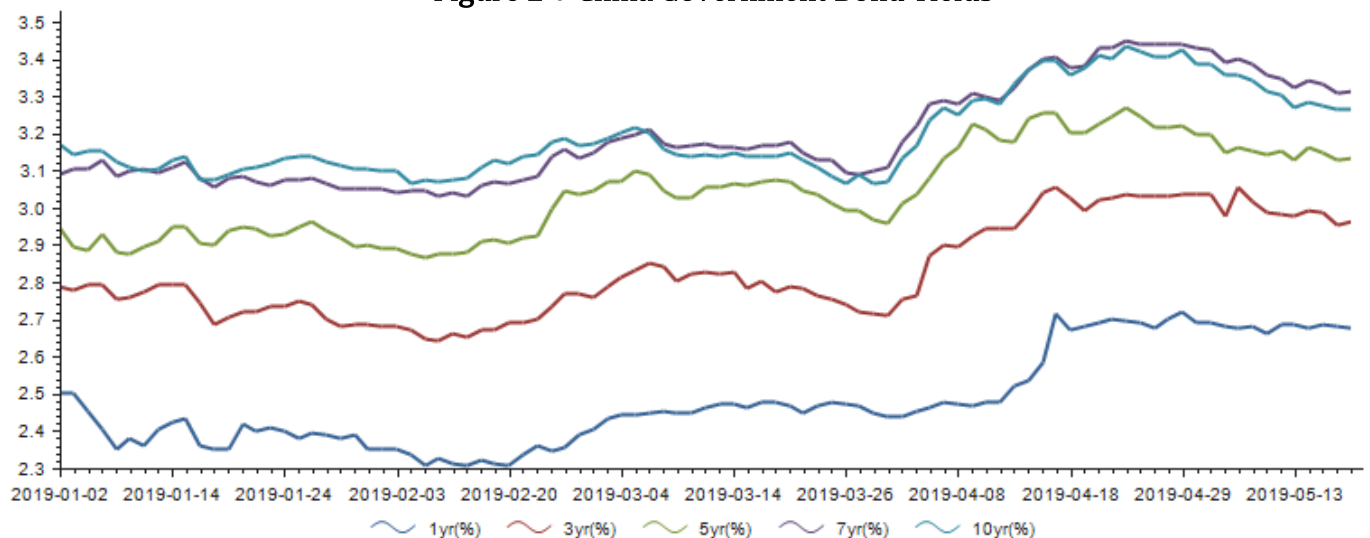


Sources: Eastmoney, CCX research

### Interest Rate : China Government Bond and US Treasury yields fell

Recently, amid rising uncertainty of economic environment and elevated tensions between the US and China, the spot price of China Government Bonds was on the rise, and the bond yields continued a downward trend. As of May 17, the maturity yield of one-year Treasury bond was 2.6775%, down 0.75bp from last Friday, and that of ten-year Treasury bond was 3.6775%, down 3.52bp from last Friday.

Figure 2 : China Government Bond Yields

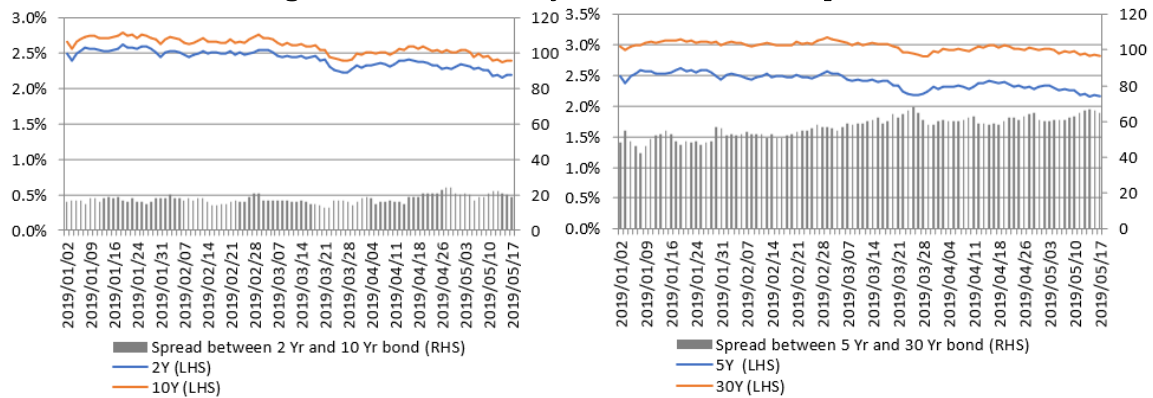


Sources: Eastmoney, CCX research

The US Treasury yields dropped as the surging demand of risk-free assets, after a Chinese state media suggested that a resumption in trade negotiations may not take place as soon as anticipated, adding more uncertainties to the ending time of the trade tensions between the

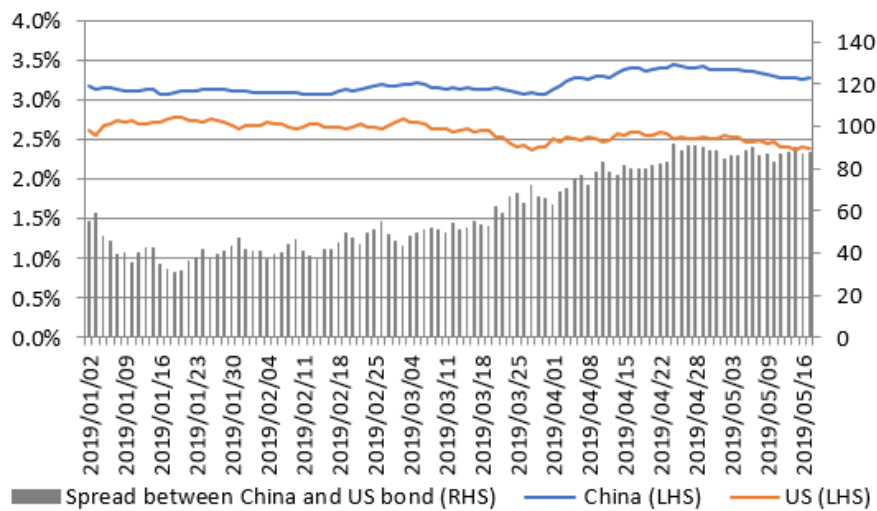
two largest economies. As of May 17, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 2.20%, 2.17%, 2.39% and 2.82%, decreasing by 6bp, 9bp, 8bp and 7bp over last Friday, respectively. The US yield curve between 3-month and 10-year rates inverted for the second time in the last week, while it backed to normal on last Thursday and Friday. The yield spread between 2-year and 10-year bond decreased by 2bp to 19bp, and the yield spread between 5-year and 30-year bond increased by 2bp to 65bp last week, respectively. As of May 17, the interest rate spread between China and US 10-year bonds was 87.6bp, increased by 4.1bp and 47.5bp, comparing with that on last Friday and the beginning of 2019, respectively.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

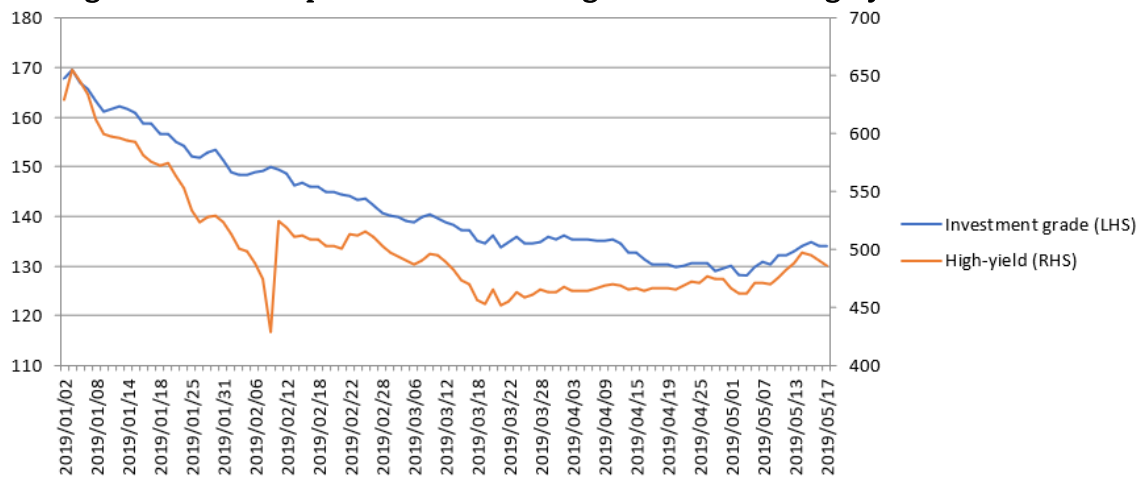
Figure 4 : Spread between China and US 10-year bond



Sources: Bloomberg, ChinaBond.com.cn, CCX research

The credit spread of Barclays Asia USD high-yield bond significantly widened. As of May 17, the credit spread of investment grade index reduced by 1.9bp to 134bp and the credit spread of high-yield index increased by 4.3bp to 486bp.

Figure 5 : Credit spread of investment grade bond and high-yield bond index



Sources: Bloomberg, CCX research

### Chinese Offshore Bond Market

#### Primary Market: New issue volume increased and financial institutions were the largest issuers

From May 13 to May 17, there are 13 new issues with a total issue volume of approximately USD 4.0 billion, of which 57.3% of the issue volume was issued by financial institutions.

Table 1 : New issuance of Chinese offshore bonds (20190513-20190517)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/5/14	State Development & Investment Corp Ltd	USD	500	3.25	2024/5/21	5	Financials	A2/A/A+	A2/-/A+
2019/5/14	State Development & Investment Corp Ltd	USD	500	3.75	2029/5/21	10	Financials	A2/A/A+	A2/-/A+
2019/5/15	Seazen Holdings Co Ltd	USD	300	6.5	2022/5/20	3	Real Estate	Ba2/-/BB	Ba2/-/BB
2019/5/15	Zhuzhou City Construction Development Group Co Ltd	USD	400	5.7	2022/5/24	3	Industrials	Ba1/-/BBB-	-/-/BBB-e
2019/5/15	Liuzhou Dongtong Investment Development Co Ltd	USD	140	7	2022/5/22	3	Real Estate	-/-/BB	-/-/BBe
2019/5/15	JinkoSolar Holding Co Ltd	USD	85	4.5	2024/6/1	5	Energy	-/-/-	-/-/-
2019/5/16	Shougang Group Co Ltd	USD	500	4	2024/5/23	5	Materials	-/-/A-	-/-/A-e
2019/5/16	China Ping An Insurance Overseas Holdings Ltd	USD	300	3.625	2024/5/28	5	Financials	Baa2/-/-	Baa2/-/-
2019/5/16	China Ping An Insurance Overseas Holdings Ltd	USD	300	4.25	2029/5/28	10	Financials	Baa2/-/-	Baa2/-/-
2019/5/16	Huatai Securities Co Ltd	USD	500	3.375	2022/5/23	3	Financials	Baa2/BBB/-	-/-/-
2019/5/16	CTI Capital Management Ltd	USD	150	4.745	2020/5/20	364D	Financials	-/-/-	-/-/-
2019/5/17	Oceanwide Holdings Co Ltd	USD	280	14.5	2021/5/23	2	Real Estate	-/CCC+/B-	-/-/B-e
2019/5/17	Haitong International Securities Group Ltd	USD	34	3.5	2020/5/27	364D	Financials	Baa2/BBB/-	-/-/-

Sources: Bloomberg, CCX research

On May 15, Zunyi Road & Bridge Construction Group Ltd announced a tap bond offering, details are as follows:

Table 2 : Tap bond offering (20190513-20190517)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/5/15	Zunyi Road & Bridge Construction Group Ltd	USD	418 (reoffered 78)	8	2022/2/1	3	Industrials	-/-/-	-/-/-

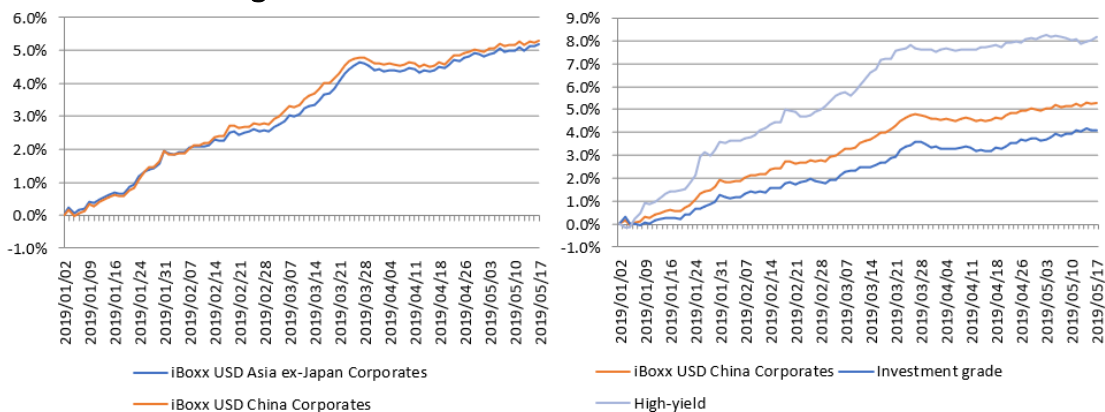
Sources: Bloomberg, CCX research

Recently, Pingxiang Urban Construction Investment Developing Company Limited planned to issue an offshore bond.

Secondary market : Returns on Chinese dollar bonds are strong

As of May 17, the YTD return on Chinese USD corporate bond index was 5.29%, increasing by 14bp over last week, of which investment grade bond index was 4.11% and high-yield bond index was 8.15%, increasing by 15bp and 11bp respectively over last week.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

On May 15, S&P changed the outlook of Shandong Ruyi Technology Group Co Ltd to negative from stable; Moody's placed a review for upgrade on Jiayuan International Group Limited's Caa1 corporate family rating, and the outlook was changed to rating under review from negative, details are as follows:

Table 3 : Credit rating change(s) in Chinese offshore bond market (20190513-20190517)

Entity	Sector	Entity Rating	Latest Rating Outlook	Date	Entity Rating	Last Rating Outlook	Date	Rating Agency	Reason of Change
Jiayuan International Group Limited	Real Estate	Caa1	Review for upgrade	2019/5/15	Caa1	Stable	2019/1/29	Moody's	Expected improvement in liquidity and operating performance
Shandong Ruyi Technology Group Co Ltd	Consumer Discretionary	B	Negative	2019/5/15	B	stable	2016/11/15	S&P	Uncertain Deleveraging plan, higher refinancing risk

Sources: Bloomberg, CCX research

## Panda Bond Market : No new bond issues this week

As of May 17, the number of Panda Bonds issued in 2019 was 12, with 8 issuers and a total issue volume of 18 billion Yuan, and an average coupon rate at 3.63%. Panda Bond issuances were mostly in China's Interbank Market, with various tenors and different bond types, including three SCPs, four 3-year bonds, and five medium/long-term bonds.

**Table 4 : New issuance of Panda Bond in 2019 (20190101-20190517)**

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

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