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US imposed tariffs to all Mexican imports and withdrew GSP on Indian goods, 3-month Treasury yield exceeded 10-year yield by the largest margin since 2007

Headline: US imposed tariffs to all Mexican imports and withdrew GSP on Indian goods

On May 30, US President Donald Trump planned to impose a 5% tariff on all Mexican imports from June 10, until the illegal immigration problem is remedied. The relationship between the US and Mexico starting recovering after the US agreed on lifting the steel and aluminum tariffs on Mexico. But the treat could be a turning point of this relationship. On May 31, the first day of Indian Prime Minister Narendra Modi's second term, President Trump announced to withdraw GSP for India on June 5. The tough economic condition, coupled with the trade disputes, will challenge Modi's new government as well as the relationship between India and the US.

Exchange Rate: RMB rate showed signs of stabilizing

The RMB exchange rate continued its trend of stabilization. On May 31, the intermediate price of the RMB exchange rate remained basically the same as last Friday, closing at 6.8992. From the beginning of May, RMB has depreciated by 1706bp, marking a ten-month high. While the move of the intermediate RMB exchange rate was within 4bp during the past two weeks, revealing obvious signs of stabilization. The rapid depreciation of RMB may come to an end after the adjustment.

Interest Rate: China Government Bond yields declined slightly, 3-month Treasury yield exceeded 10-year yield by the largest margin since 2007

Amid rising uncertainty of economic environment and elevated tensions between China and the US, the global capital market continued the trend of fluctuations. A surge in market hedging sentiment and risk aversion led to the decline of China Government Bond yields as well as US Treasury yields. With that, the 10-year Treasury yield hit a 20-month low of 2.13%, and the yield curve inversion between 3-month and 10-year Treasury increased to 22bp, the largest inversion since 2007. As of May 31, the interest rate spread between China and US 10-year notes was 115.1bp, increasing by 15.8bp and 59.8bp as compared with that of last Friday and the beginning of 2019, respectively.

Chinese Offshore Bond Market

Primary Market: Newly issued volume reduced and Chengtou enterprises were the largest issuers

The newly issued volume declined. From May 27 to May 31, there are 6 new issues with a total issued volume of USD 2.4 billion, of which Chengtou enterprises, the key issuers, issued USD 1 billion in aggregate, accounting for 41.2% of the total volume.

Secondary market: Returns on Chinese dollar bonds rose, while the investment grade bonds outperformed the high-yield bonds

As of May 31, the YTD return on Chinese USD corporate bond index increased by 39bp over last week to 5.83%, of which investment grade bond index was 4.83% and high-yield bond index was 8.28%, increasing by 54bp and 7bp respectively over last week.

Panda Bond Market: No new issuance this week

As of May 31, 11 issuers issued 15 Panda Bonds in 2019, with a total issued volume of RMB 20.04 billion, and an average coupon of 3.77%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

Headline: US imposed tariffs to all Mexican imports and withdrew GSP on Indian goods

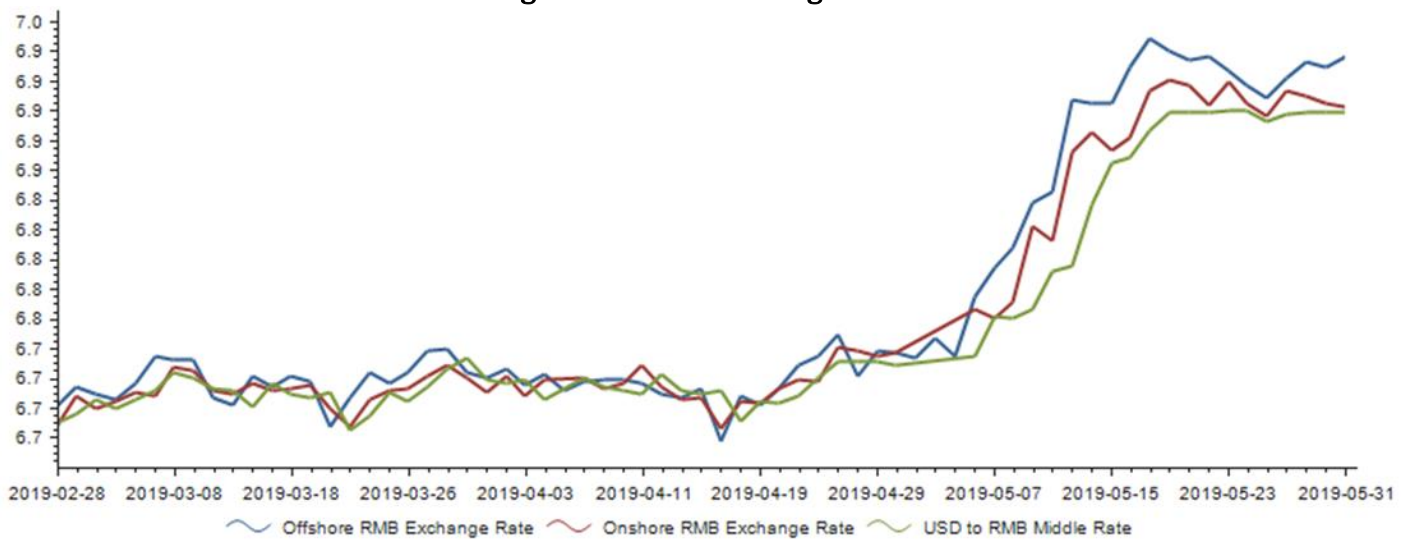
On May 30, US President Donald Trump planned to impose a 5% tariff on all Mexican imports from June 10, until the illegal immigration problem is remedied. The White House further explained that the US will increase the tariffs by 5% each month and tariffs of up to 25% will be added to the imports if Mexico does not take action to address the border crisis. The relationship between the US and Mexico starting recovering after the US agreed on lifting the steel and aluminum tariffs on Mexico. But the treat could be a turning point of this relationship.

On May 31, the first day of Indian Prime Minister Narendra Modi's second term, President Trump announced to withdraw Generalized System of Preferences ("GSP") for India on June 5, because India did not provide the US equitable and reasonable access to its markets. Indeed, President Trump had signaled the intention to withdraw the GSP on Indian goods in March, but not yet finalized the withdrawal date. GSP, which has to be generalized, non-discriminatory and non-reciprocal, is a preferential tariff system extended by 32 developed countries to developing countries, as such the beneficiaries can enjoy low/zero concessional tariffs. The objective of GSP is to support the industrialization and economic development of the developing counties by promoting exports from them into the developed countries. India was the largest beneficiary of the US's GSP in 2017 as it exported duty-free goods worth USD 5.4 billion to the US. During the fiscal year between 2017 and 2018, the US recorded a trade deficit of USD 26.7 billion with India. The growth of Indian economy hit the 5-year low and the unemployment rate climbed to the highest level for 45 years. The tough economic condition, coupled with the trade disputes, will challenge Modi's new government as well as the relationship between India and the US.

Exchange Rate: RMB rate showed signs of stabilizing

The RMB exchange rate continued its trend of stabilization this week. On May 31, the intermediate price of the RMB exchange rate remained basically the same as last Friday, closing at 6.8992. Both the onshore and offshore RMB exchange rates declined slightly, closing at 6.9020 and 6.9366, respectively. From the beginning of May, RMB has depreciated by 1706bp, marking a ten-month high. While the move of the intermediate RMB exchange rate was within 4bp during the past two weeks, revealing obvious signs of stabilization. The policy tools of the central bank coupled with the support from economic fundamentals have relieved the pressure for further substantial depreciation. The rapid depreciation of RMB may come to an end after the adjustment.

Figure 1 : RMB Exchange Rate

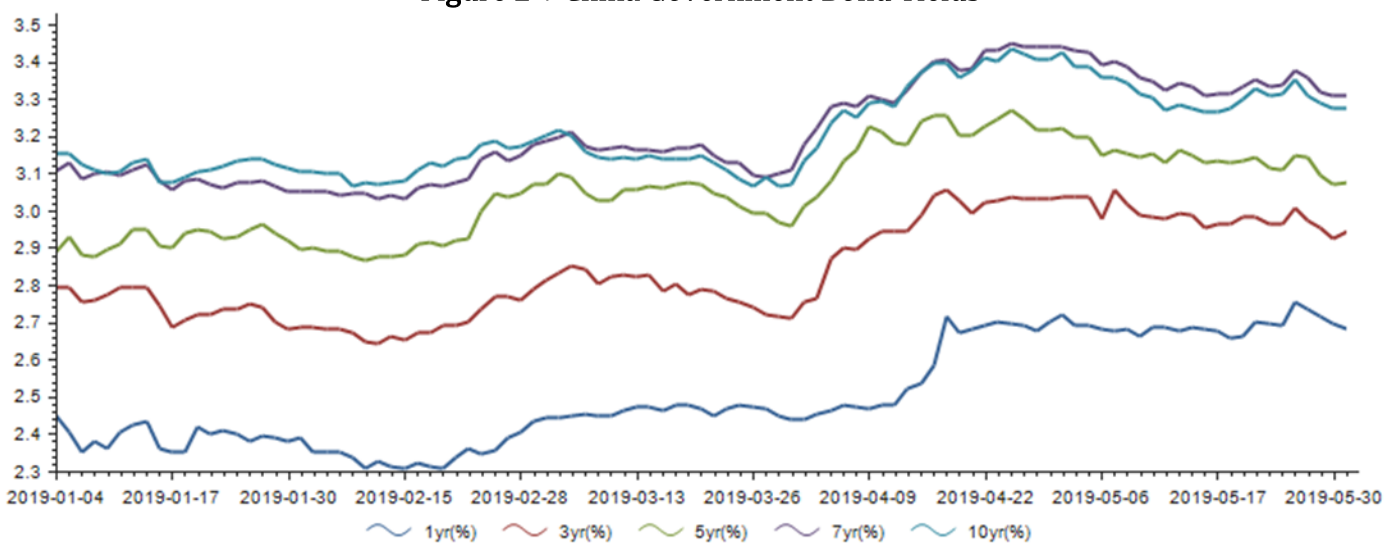


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond yields declined slightly, 3-month Treasury yield exceeded 10-year yield by the largest margin since 2007

Recently, amid rising uncertainty of economic environment and elevated tensions between China and the US, the global capital market continued the trend of fluctuations. A surge in market hedging sentiment and risk aversion led to the rise of the spot price of China Government Bonds, and the yield of China Government Bonds generally declined. As of May 31, the maturity yields of 1-year, 3-year, 5-year, 7-year and 10-year Government Bonds were 2.6790%, 2.9418%, 3.0731%, 3.3081% and 3.2751%, respectively, down slightly by 1.22bp, 2.32bp, 3.81bp, 2.81bp and 3.74bp from last Friday.

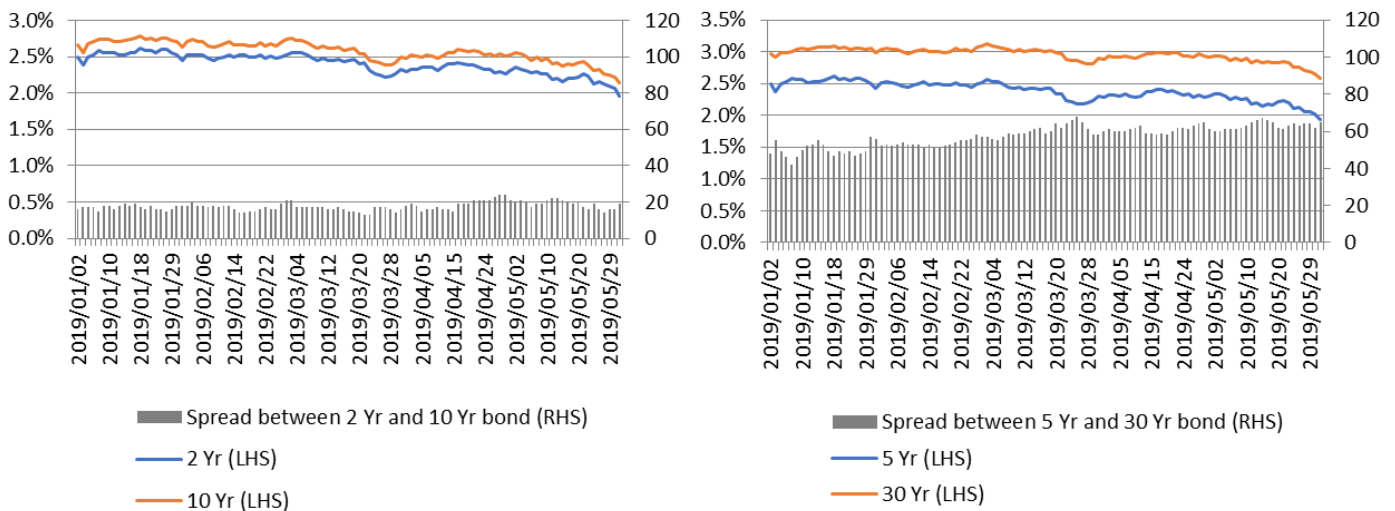
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

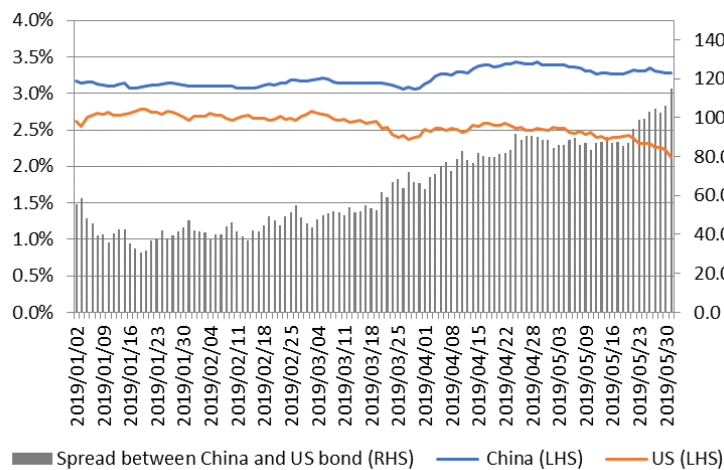
As the US threatened to impose tariffs to all Mexican imports, together with the uncertainties over US-Sino trade war, investors became more risk-averse which dragged down the Treasury yields. With that, the 10-year Treasury yield hit a 20-month low of 2.13%, and the yield curve inversion between 3-month and 10-year Treasury increased to 22bp, the largest inversion since 2007. As of May 31, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 1.95%, 1.93%, 2.14% and 2.58%, dropping by 21bp, 19bp, 18bp and 17bp over last Friday, respectively. The yield spread between 2-year and 10-year bond increased by 3bp to 19bp, and the yield spread between 5-year and 30-year bond increased by 2bp to 65bp. As of May 31, the yield spread between China and US 10-year notes was 115.1bp, increasing by 14.8bp and 59.8bp as compared with that of last Friday and the beginning of 2019, respectively.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

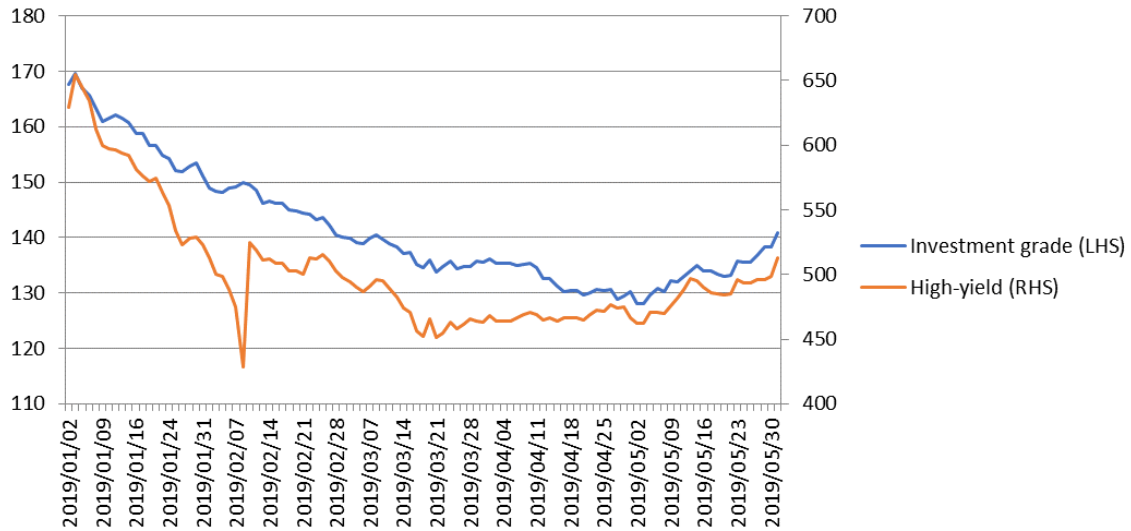
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD high-yield bond widened. As of May 31, the credit spread of investment grade index increased by 5.4bp to 141bp and the credit spread of high-yield index increased by 19.9bp to 513bp.

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



Sources: Bloomberg, CCX research

Chinese Offshore Bond Market

Primary Market: Newly issued volume reduced and Chengtou enterprises were the largest issuers

The newly issued volume declined. From May 27 to May 31, there are 6 new issues with a total issued volume of USD 2.4 billion, of which Chengtou enterprises, the key issuers, issued USD 1 billion in aggregate, accounting for 41.2% of the total volume.

Table 1 : New issuance of Chinese offshore bonds (20190527-20190531)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/5/27	Agile Group Holdings Ltd	USD	600	8.375	-	Perpetual	Real Estate	Ba2/BB/-	Ba3/-/-
2019/5/28	Chongqing Nan'an Urban Construction & Development Group Co Ltd	USD	500	4.66	2024/6/4	5	Industrials	-/BBB/BBB+	-/BBB/BBB+
2019/5/29	Bank of China Ltd/Macau	USD	200	2.5	2021/6/7	2	Banks	A1/A/A	-/-/-
2019/5/29	Nanjing Yangzi State-owned Assets Investment Group Co Ltd	USD	500	4.3	2024/6/5	5	Industrials	-/BBB+/A-	-/-/A-e
2019/5/30	C C Land Holdings Ltd	USD	250	6.35	2022/6/6	3	Real Estate	-/-/-	-/-/-
2019/5/30	Xinjiang Zhongtai Group Co Ltd	USD	380	7	2022/6/6	3	Materials	-/BB+/BB+	-/BB+/BB+e

Sources: Bloomberg, CCX research

RiseSun Real Estate Development Co Ltd and Sichuan Languang Development Co Ltd announced tap bond offering, details are as follow:

Table 2 : Tap bond offering (20190527-20190531)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/5/27	RiseSun Real Estate Development Co Ltd	USD	500 (reoffered 175)	8	2022/4/24	3	Real Estate	Ba3/BB-/-	B1/B+/-
2019/5/30	Sichuan Languang Development Co Ltd	USD	550 (reoffered 220)	12	2021/4/25	2	Real Estate	-/B+/-	-/B/-

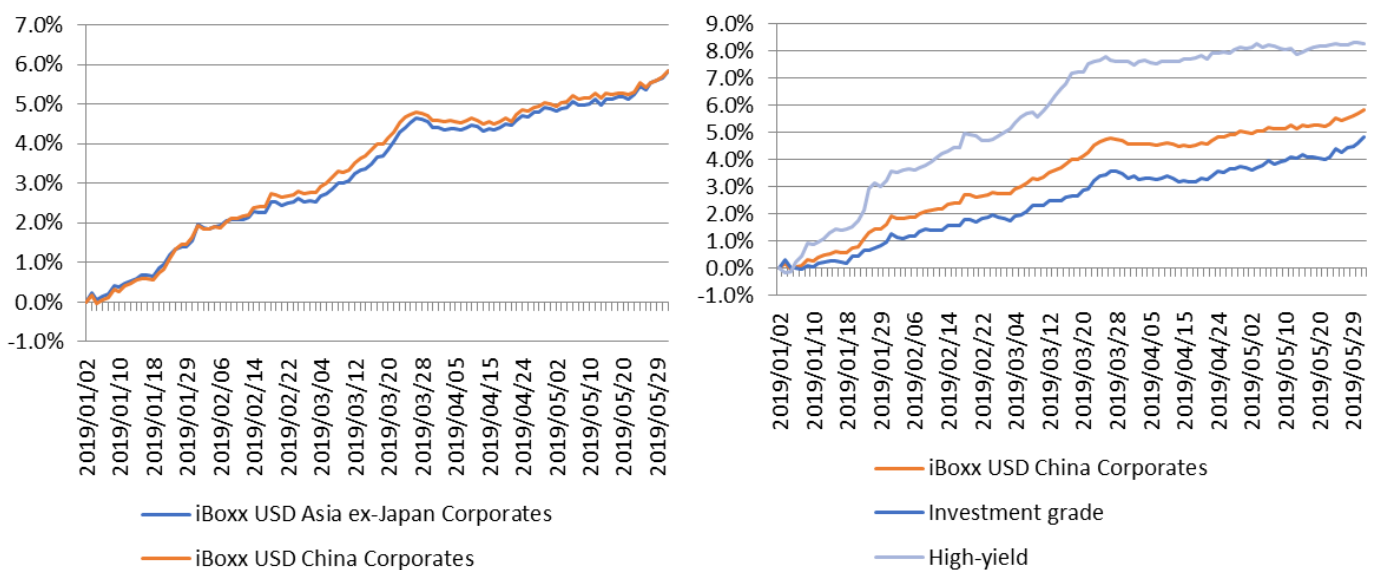
Sources: Bloomberg, CCX research

Recently, a couple of Chinese entities, such as Shaanxi Xixian New Area Qinhan New City Development and Construction Group Co Ltd, Ping An Real Estate Co Ltd and Guangdong Energy Group Co Ltd, planned to issue offshore bonds.

Secondary market: Returns on Chinese dollar bonds rose, while the investment grade bonds outperformed the high-yield bonds

As of May 31, the YTD return on Chinese USD corporate bond index increased by 39bp over last week to 5.83%, of which investment grade bond index was 4.83% and high-yield bond index was 8.28%, increasing by 54bp and 7bp respectively over last week.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

During May 27 and May 31, Moody’s upgraded the rating of Maoye International Holdings Ltd to B2, outlook stable; upgraded the rating of Shanghai Huayi Group Co to Baa3, outlook stable; placed Tianqi Lithium Corp’s Baa3 rating on the review for downgrade; upgraded the outlook of Yango Group Co Ltd’s B2 rating to positive; and downgraded the rating of Dr Peng Telecom & Media Group Co Ltd to Caa1, outlook negative. On May 29, S&P upgraded the outlook of Fosun International Ltd’s BB rating to positive. The details are as follows:

Table 3 : Credit rating changes in Chinese offshore bond market (20190527-20190531)

Entity	Sector	Entity Rating	Latest Rating Outlook	Date	Entity Rating	Last Rating Outlook	Date	Rating Agency	Reason of Change
Maoye International Holdings Ltd	Consumer Discretionary	B2	STABLE	2019/5/27	B3	POS	2018/9/10	Moody's	Improving financial metrics, liquidity problem alleviated
Shanghai Huayi Group Co	Materials	Baa3	STABLE	2019/5/27	Ba1	POS	2018/12/21	Moody's	Improving credit profile, strengthened market position, improved cost structure, and solid credit metrics
Tianqi Lithium Corp	Materials	Baa3	Rating for Downgrade	2019/5/29	Baa3	NEG	2018/12/14	Moody's	Weakening capital structure and declining financial flexibility
Fosun International Ltd	Financials	BB	POS	2019/5/29	BB	STABLE	2018/5/28	S&P	Improving liquidity and diversity of assets
Yango Group Co Ltd	Real Estate	B2	POS	2019/5/31	B2	STABLE	2018/10/5	Moody's	Strengthening credit metrics, improving debt maturity profile
Dr Peng Telecom & Media Group Co Ltd	Communications	Caa1	NEG	2019/5/31	B3	Rating for Downgrade	2019/5/10	Moody's	Decreasing ability to service its debt obligations with weakening in cash flow and liquidity

Sources: Bloomberg, CCX research

Panda Bond Market: No new issuance this week

As of May 31, 11 issuers issued 15 Panda Bonds in 2019, with a total issued volume of RMB 20.04 billion, and an average coupon of 3.77%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20190531)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Republic of the Philippines	2.5	3.58	2019/5/20	2022/5/20	3	International Institutional Bond	China Interbank Market	Lianhe
Trafigura Private Trading Enterprise Limited	0.54	5.49	2019/5/20	2022/5/20	3	PPN	China Interbank Market	Lianhe
CITIC Pacific Limited	1	3.90	2019/5/20	2022/5/20	3	Corporate Bond	Shanghai Stock Exchange	China Chengxin
Semiconductor Manufacturing International Corp.	1	3.10	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	0.5	3.05	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Co. Ltd	1	3.35	2019/4/19	2019/12/30	0.7	SCP	China Interbank Market	China Chengxin
GLP China Holdings Limited	3.3	4.35	2019/3/18	2028/3/18	9	Corporate Bond	Shenzhen Stock Exchange	Shanghai Brilliance
United Overseas Bank Ltd	2	3.49	2019/3/14	2022/3/14	3	Commercial Bank Bond	China Interbank Market	China Chengxin
Bayerische Motoren Werke (BMW) Finance NV	3	4.00	2019/3/8	2022/3/8	3	PPN	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	1.5	3.57	2019/3/4	2022/3/4	3	MTN	China Interbank Market	China Chengxin/China Bond

								Rating
New Development Bank	2	3.00	2019/2/26	2022/2/26	3	International Institutional Bond	China Interbank Market	China Chengxin/Lianhe
New Development Bank	1	3.32	2019/2/26	2024/2/26	5	International Institutional Bond	China Interbank Market	China Chengxin/Lianhe
China Everbright Water Ltd	0.7	3.89	2019/1/21	2024/1/21	5	Corporate Bond	Shanghai Stock Exchange	Shanghai Brilliance
Beijing Enterprises Water Group Ltd	1	3.95	2019/1/11	2026/1/11	7	MTN	China Interbank Market	Shanghai Brilliance / Dagong
Beijing Enterprises Water Group Ltd	1	4.49	2019/1/11	2029/1/11	10	MTN	China Interbank Market	Shanghai Brilliance / Dagong

Sources: Bloomberg, CCX research

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