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From July 8 to July 12

Offshore investors favor RMB bonds; NDRC further regulated offshore bond registration of real estate enterprises

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Headline: Offshore investors favor RMB Bonds

By the end of June 2019, the total amount of Chinese bonds held by offshore institutions under CCDC increased for the seventh consecutive month and reached a record high of RMB 1,645.2 billion, up RMB 34.6 billion MoM. As of June 30, 2019, offshore institutions held RMB 309.0 billion of Chinese bonds under Shanghai Clearing House, with an increase of more than RMB 40 billion in a single month. Overall, the total amount of bonds held by foreign investors in the Interbank Market added up to about RMB 2 trillion. In addition, offshore institutions increased their China Government Bonds holdings by RMB 27.6 billion in June, the largest increase since 2019. Global investors are accelerating their access to the Chinese market.

Regulation: NDRC announced new regulations on offshore bond issuance registration of real estate enterprises

On July 12, NDRC announced a circular on the requirements on offshore bond issuance registration of real estate enterprises. To prevent and control foreign debt risks, the circular requests that offshore bonds issued by real estate enterprises can only be used to refinance medium- and long-term offshore bonds maturing within the next year, details of the offshore bonds to be replaced should be listed in the application materials, and clarify the use of funds in documents such as prospectus.

Exchange Rate: RMB exchange rate remained stable

During the week, the RMB exchange rate remained stable. As of July 12, the intermediate price of the RMB exchange rate closed at 6.8662, down 35bp from last Friday. With surging expectations for policy easing in the upcoming FOMC meeting, the foundation for strong US dollar is weakened, which would enhance the stability of the RMB exchange rate.

Interest Rate: China Government Bonds yields generally declined, US Treasury yields generally rose

The yields of China Government Bonds generally declined as the trend for policy easing and surge in market hedging sentiment continued. The Fed's minutes released on Wednesday showed that many policymakers believe more monetary stimulus will be needed, pushing Treasury yields lower. But Treasury yields boosted after the stronger-than-expected inflation data and weak demand at Treasury auction. As of July 12, the yield spread between China and US 10-year note was 103.1bp, narrowing by 10.6bp from last Friday and widening by 47.8bp from the beginning of the year.

Chinese Offshore Bond Market

Primary Market: New issue volume increased, real estate companies were the key issuers

From July 8 to July 12, there were 17 new issues with a total issued volume of USD 7.5 billion. Real estate companies were the key issuers, with 7 issues and a total issued volume of USD 3.3 billion, which accounted for 44.0% of the newly issued volume

Secondary Market: Returns on investment grade bonds and high-yield bonds were relatively stable

Rating Action: CCXAP placed the A_g+ rating of Seazen Holdings Co., Ltd. on rating watch

Panda Bond Market: BMW Finance issued two new bonds this week

On July 12, BMW Finance issued two new bonds (Private Placement Notes), in China Interbank Bond Market through bond connect. Respectively for the two consecutive bonds, their issuance scales are RMB 1.5 billion and RMB 2 billion, tenors are 1 year and 3 years, and the coupon rates are 3.30% and 3.98%.

Headline: Offshore investors favor RMB Bonds

By the end of June 2019, the total amount of Chinese bonds held by offshore institutions under China Central Depository & Clearing Co. (“CCDC”) increased for the seventh consecutive month and reached a record high of RMB 1,645.2 billion, up RMB 34.6 billion MoM. As of June 30, 2019, offshore institutions held RMB 309.0 billion of Chinese bonds under Shanghai Clearing House, with an increase of more than RMB 40 billion in a single month. Overall, the total amount of bonds held by foreign investors in the Interbank Market added up to about RMB 2 trillion. The data also showed that offshore institutions increased their China Government Bonds holdings by RMB 27.6 billion in June, the largest increase since 2019.

In recent years, RMB bonds have been very popular in the international market because foreign investors were easier to access to the Chinese bond market, and the spread of Treasury bonds between China and the United States widened. Currently, foreign investors can participate in the Chinese bond market through four channels: the Qualified Foreign Institutional Investor (“QFII”) scheme, the RMB Qualified Foreign Institutional Investor (“RQFII”) scheme, the China Interbank Bond Market (“CIBM”) Direct and the Bond Connect scheme. Over the past two years, a total of RMB 2 trillion has been traded through the Bond Connect, with net bond purchases exceeding RMB 500 billion in the first six months of this year. In addition, in the context of global monetary easing, many countries’ government bond yields have fallen into negative interest rate range, and the yield of nearly 3.2% of China’s 10-year Treasury bond has been attractive to foreign institutions. Global investors are accelerating their access to the Chinese market.

Regulation: NDRC announced new regulations on offshore bond issuance registration of real estate enterprises

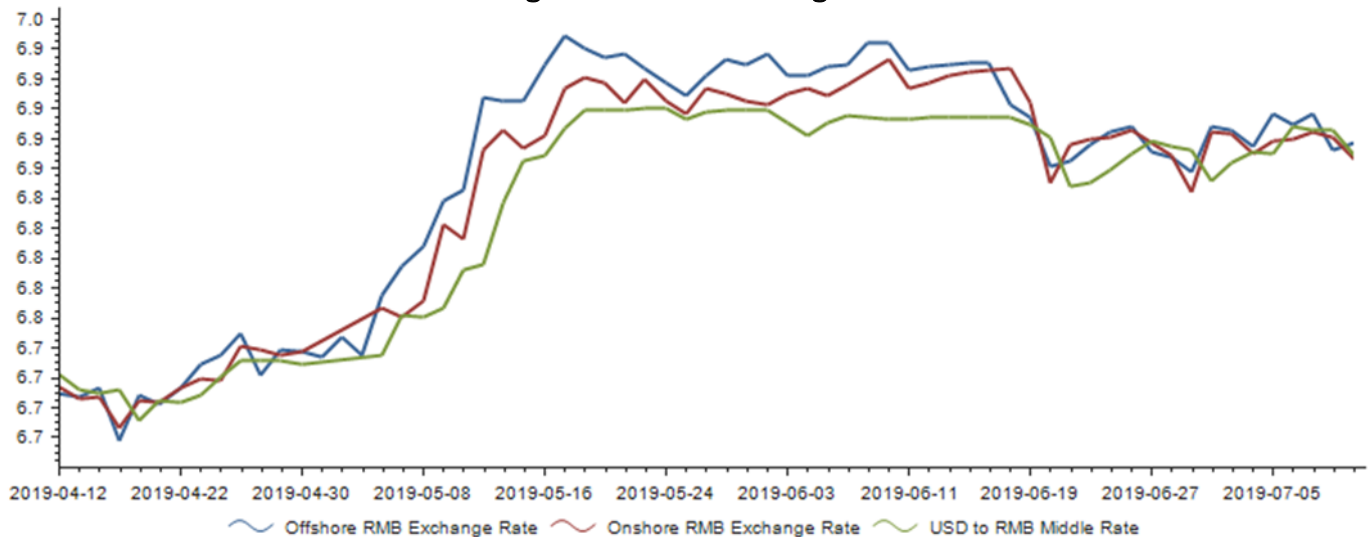
On July 12, the National Development and Reform Commission (“NDRC”) announced a circular on the requirements on offshore bond issuance registration of real estate enterprises (“Circular 778”). The circular calls for improving the registration management of offshore bond issuance by real estate enterprises, strengthening the market restraint mechanism, preventing the potential risks on offshore bond issuance of real estate enterprises, and promoting a steady and healthy development of the real estate market.

The key requirements of circular 778 include: (1) offshore bonds issued by real estate enterprises can only be used to refinance medium- and long-term offshore bonds maturing within the next year; (2) real estate enterprises should list the details of the offshore bonds to be replaced in the application materials for registration of offshore bonds, including the debt scale, tenors, and the registration status in NDRC, and submit the Letter of Commitment of Authenticity for offshore bonds issued by enterprises; (3) real estate enterprises should strengthen their information disclosure when issuing offshore bonds, and need to clarify the use of funds in documents such as prospectus; (4) real estate enterprises should formulate a bond issuing plan in order to prevent and control foreign debt risks.

Exchange Rate: RMB exchange rate remained stable

During the week, the RMB exchange rate remained stable. As of July 12, the intermediate price of the RMB exchange rate closed at 6.8662, down 35bp from last Friday. Both onshore and offshore RMB exchange rate increased slightly, closing at 6.8658 and 6.8789, respectively. With surging expectations for policy easing in the upcoming FOMC meeting, the foundation for strong US dollar is weakened, which would enhance the stability of the RMB exchange rate.

Figure 1 : RMB Exchange Rate

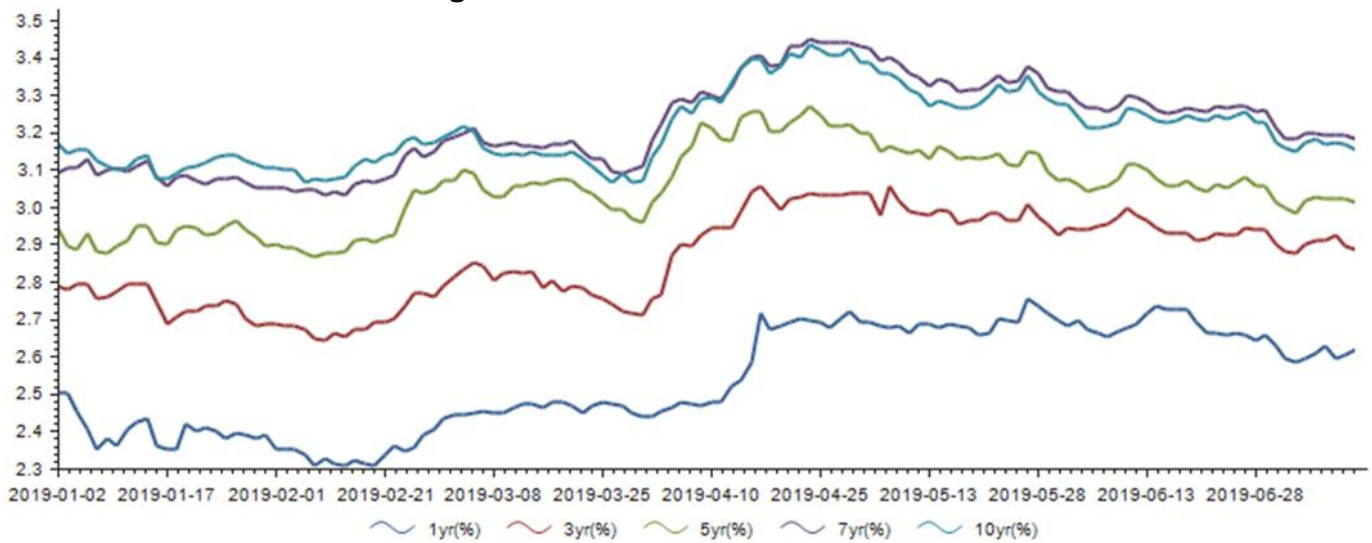


Sources: Eastmoney, CCX research

Interest Rate: China Government Bonds yields generally declined, US Treasury yields generally rose

This week, the yields of China Government Bonds generally declined. The trend for global monetary easing and surge in market hedging sentiment are beneficial to the bond market. As of July 12, the maturity yields of 3-year, 5-year, 7-year and 10-year Government Bonds declined slightly from last Friday, closing at 2.8876%, 3.0101%, 3.1799% and 3.1531%, respectively; the maturity yields of 1-year Government Bond closed at 2.6186%, up 2.29bp from last Friday.

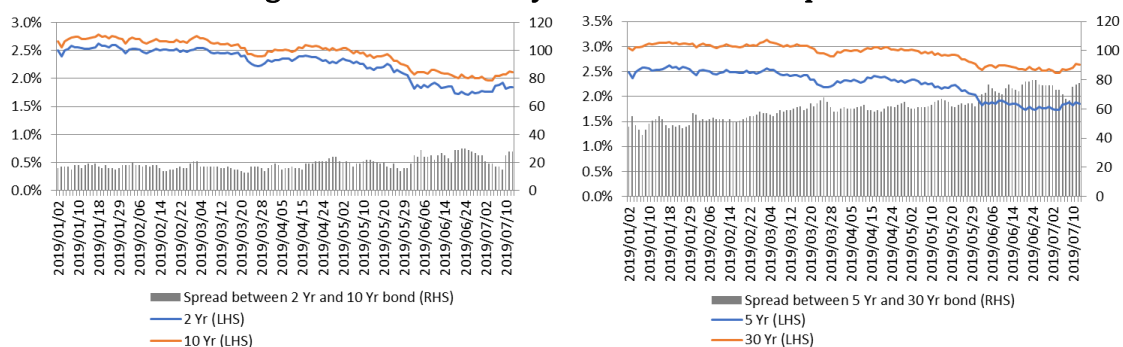
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

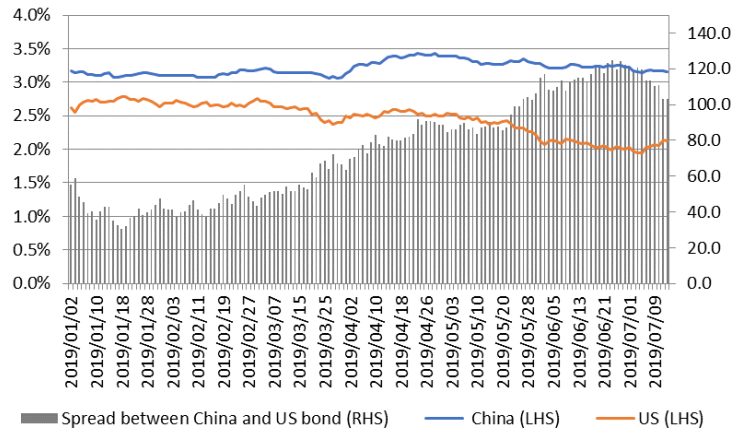
The Fed's minutes released on Wednesday showed that many policymakers believed more monetary stimulus will be needed, pushing Treasury yields lower. But, Treasury yields boosted after the stronger-than-expected inflation data and weak demand at Treasury auction. As of July 12, the yields on 2-year Treasury note traded at 1.84%, decreasing by 3bp over last Friday, the yields on 5-year, 10-year and 30-year Treasury note traded at 1.86%, 2.12% and 2.64%, increasing by 2bp, 8bp and 10bp over last Friday, respectively. In terms of Treasury spreads, the spread between the 2-year and 10-year Treasury bonds widened by 11bp to 28bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds widened by 8p to 78p from last Friday. As of July 12, the yield spread between China and US 10-year note was 103.1bp, narrowing by 10.6bp from last Friday and widening by 47.8bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

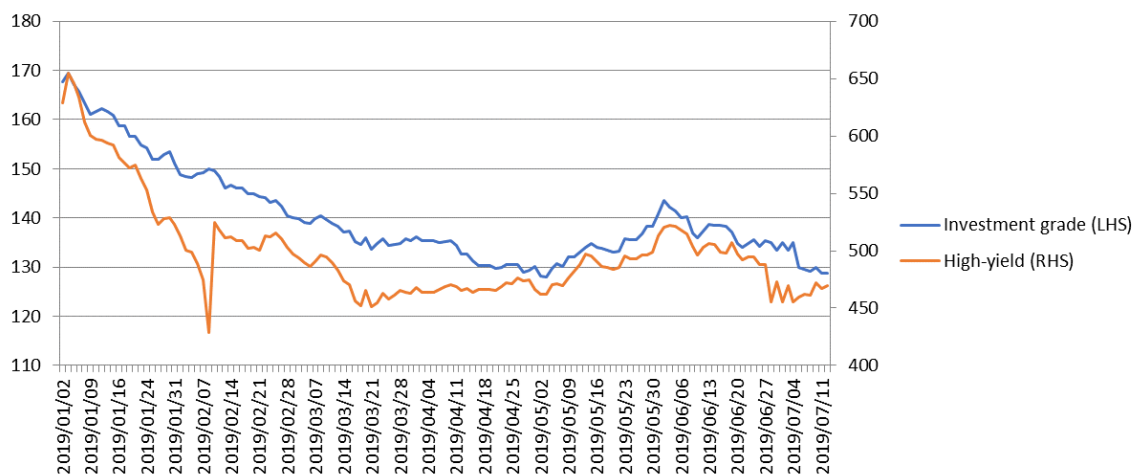
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond narrowed slightly, while the credit spread of the high-yield bond widened. As of July 12, investment-grade spreads slightly narrowed by 1.3bp to 129bp from last week, while high-yield spreads widened by 10.1bp to 470bp from last week.

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, real estate companies were the key issuers

From July 8 to July 12, there were 17 new issues with a total issued volume of USD 7.5 billion. Real estate companies were the key issuers, with 7 issues and a total issued volume of USD 3.3 billion, which accounted for 44.0% of the newly issued volume. The details are as follows:

Table 1 : New issuance of Chinese offshore bonds (20190708-20190712)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/7/8	Shimao Property Holdings Ltd	USD	1,000	5.6	2026/7/15	7	Real Estate	Ba2/BB+/BBB-	-/-/BBB-
2019/7/8	China Overseas Land & Investment Ltd	USD	450	3.45	2029/7/15	10	Real Estate	Baa1/BBB+/A-	-/BBB+/A-
2019/7/8	China Overseas Land & Investment Ltd	HKD	2,000	2.9	2025/1/15	5.5	Real Estate	Baa1/BBB+/A-	-/BBB+/A-
2019/7/8	Beijing Infrastructure Investment Co Ltd	USD	200	2.8	2022/7/15	3	Chengtou	A1/A+/A+	-/-/-
2019/7/8	Chong Hing Bank Ltd	USD	400	5.7	-	Perpetual	Banks	Baa1/-/BBB	Ba2/-/-
2019/7/9	Haitong International Securities Group Ltd	USD	700	3.375	2024/7/19	5	Financials	Baa2/BBB/-	Baa2/BBB/-
2019/7/9	Logan Property Holdings Co Ltd	USD	400	6.5	2023/7/16	4	Real Estate	Ba3/BB-/BB-	-/B+/-
2019/7/9	China National Bluestar Group Co Ltd	USD	700	3.375	2024/7/16	5	Materials	Baa2/BBB/A-	-/BBB/A-
2019/7/9	Times China Holdings Ltd	USD	400	6.75	2023/7/16	4	Real Estate	Ba3/BB-/BB-	B1/B+/BB-
2019/7/10	Greenland Hong Kong Holdings Ltd	USD	300	6	2021/7/17	2	Real Estate	Ba2/BB-/BB-	Ba3/-/-
2019/7/10	Bank of China Ltd/Hong Kong	EUR	49.22	0.44	2020/7/12	363D	Banks	A1/A/A	-/-/-
2019/7/10	China SCE Group Holdings Ltd	USD	500	7.25	2023/4/19	3.75	Real Estate	B1/B+/-	B2/-/-
2019/7/11	China Mengniu Dairy Co Ltd	USD	500	3	2024/7/18	5	Consumer Staples	Baa1/BBB+/-	-/-/-
2019/7/11	Chongqing Hechuan City Construction Investment Group Co Ltd	USD	300	6.3	2022/7/18	3	Chengtou	-/-/BB+	-/-/BB+e
2019/7/11	Peking University Resources Group Co Ltd	USD	350	8.45	2020/7/14	363D	Technology	-/-/-	-/-/-
2019/7/11	Guangzhou Development Zone Financial Holding Group Co Ltd	USD	500	3.75	2022/7/18	3	Chengtou	Baa1/-/BBB+	-/-/BBB+e
2019/7/11	Chengdu Airport Xingcheng Investment Group Co Ltd	USD	500	6.5	2022/7/18	3	Chengtou	-/-/BB	-/-/BBe

Sources: Bloomberg, CCX research

From July 8 to July 12, CIFI Holdings Group Co Ltd, Jiangsu Zhongnan Construction Group Co Ltd and Country Garden Holdings Co Ltd announced tap bond offering, details are as follow:

Table 2 : Tap bond offering (20190708-20190712)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/7/8	CIFI Holdings Group Co Ltd	USD	555 (reoffered 300)	6.55	2024/3/28	5	Real Estate	Ba3/BB/BB	-/BB-/BB
2019/7/11	Jiangsu Zhongnan Construction Group Co Ltd	USD	450 (reoffered 100)	10.875	2022/6/18	3	Real Estate	B2/B/-	-/-/-
2019/7/11	Country Garden Holdings Co Ltd	USD	1350 (reoffered 400)	7.25	2026/4/8	7	Real Estate	Ba1/BB+/BBB-	-/-/BBB-

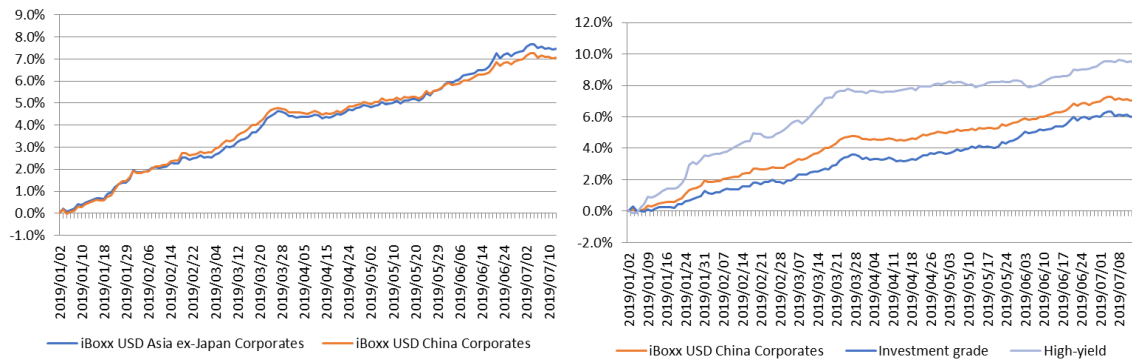
Sources: Bloomberg, CCX research

Recently, Dalian Deta Holding Co Ltd and China Jianyin Investment Limited planned to issue offshore bonds.

Secondary Market: Returns on investment grade bonds and high-yield bonds were relatively stable

As of July 12, the YTD return on Chinese USD corporate bond index decreased by 1bp over last week to 7.06%, of which investment grade bond index remained 6.06%, and high-yield bond index was 9.49%, decreasing by 1 bp over last week.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

For the credit rating changes of cross-border bond market, the rating agencies upgraded the rating/outlook of 1 Chinese entities, and downgraded 7 Chinese entities from July 8 to July 12. The details are as follows:

Table 3 : Credit rating changes of cross-border bond market (20190708-20190712)

Entity	Sector	Entity Rating	Latest Rating		Entity Rating	Last Rating		Rating Agency	Reason of Change
			Outlook	Date		Outlook	Date		
International Rating:									
Beijing Hongkun Weiye Real Estate Development Co Ltd	Real Estate	B	NEG	2019/7/8	B	STABLE	2018/8/20	Fitch	Deterioration in cash to short-term debt ratio
Zhongrui Industrial Group Ltd	Financials	B3	NEG	2019/7/8	B3	STABLE	2018/3/9	Moody's	Debt leverage will remain elevated; high level of short-term debt
Zhengzhou Metro Group Co Ltd	Chengtou	A	STABLE	2019/7/8	A-	STABLE	2018/11/30	Fitch	Increase in government's ability to provide support
Yihua Enterprise (Group) Co Ltd	Consumer Discretionary	Caa1	NEG	2019/7/8	B3	NEG	2019/1/31	Moody's	Heightened liquidity risk; high refinancing needs
China Wanda Group Co Ltd	Consumer Discretionary	B+	NEG	2019/7/11	B+	STABLE	2018/10/9	S&P	Large amount of short-term debt
Meinian Onehealth Healthcare Holdings Co Ltd	Health Care	Ba2	Rating Watch Negative	2019/7/12	Ba2	STABLE	2018/8/31	Moody's	Concern over its earnings trend
Shandong Ruyi Technology Group Co Ltd	Consumer Discretionary	B2	NEG	2019/7/12	B2	STABLE	2016/11/15	Moody's	Concern over its deleveraging trends
Local Rating:									
Seazen Holdings Co Ltd	Real Estate	AAA	Rating Watch	2019/7/11	AAA	STABLE	2019/4/25	CCXI	Increase in uncertainties of land acquisition; decline in security of pledged equity
Seazen Holdings Co Ltd	Real Estate	AAA	Rating Watch	2019/7/11	AAA	STABLE	2019/5/8	CCXR	Increase in uncertainties of land acquisition; decline in security of pledged equity

Sources: Bloomberg, CCX research

Rating Action: CCXAP placed the A_g+ rating of Seazen Holdings Co., Ltd. on rating watch

On July 12, CCXAP placed the A_g+ long-term credit rating and senior unsecured debt rating of Seazen Holdings Co., Ltd. (“Seazen” or the “Company”) on rating watch, reflecting that Seazen’s growing event risk exposure will cause uncertainties over its business profile and debt servicing capability.

According to a comprehensive communication with the Company, CCXAP notices that the Company has sufficient saleable resources for contracted sales in the second half of 2019 and its sizeable investment properties or inventories could be used as pledges for external financing, which could possibly bring a positive effect to its liquidity. Furthermore, the Company stated it would shift to more conservative investment strategies and explore funding sources. However, CCXAP expects the Company’s fixed expenditures and sizeable debts could exert pressures to its external funding. Moreover, CCXAP expects damage of the Company’s branding could lead to uncertainties over its business operation, including project development, land acquisition and joint venture partnership. CCXAP will continue to monitor subsequent influences in the Company’s operation and funding channels. Should the Company’s financing capability and business profile deteriorate, further rating actions will be taken.

Panda Bond Market: BMW Finance issued two new bonds this week

As of July 12, 13 issuers issued 20 Panda Bonds in 2019, with a total issuance amount of RMB 29.54 billion, and an average coupon of 3.74%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

On July 12, BMW Finance N.V. (“BMW Finance”) issued two new bonds (Private Placement Notes), in China Interbank Bond Market through Bond Connect. Respectively for the two consecutive bonds, their issuance scales are RMB 1.5 billion and RMB 2 billion, tenors are 1 year and 3 years, and the coupon rates are 3.30% and 3.98%. Until now, BMW Finance has issued a total of three Panda Bonds in 2019, all of which were PPN issued in China Interbank Bond Market. A total of RMB 6.5 billion was raised and the average coupon was 3.76%. On March 1, 2019, China Chengxin assigned a credit rating of AAA to BMW Finance, with a stable rating outlook.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20190712)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Bayerische Motoren Werke (BMW) Finance N.V.	1.5	3.30	2019/7/12	2020/7/12	1	PPN	China Interbank Market	China Chengxin
Bayerische Motoren Werke (BMW) Finance N.V.	2	3.98	2019/7/12	2022/7/12	3	PPN	China Interbank Market	China Chengxin
Malayan Banking Berhad	1	3.28	2019/6/21	2020/6/21	1	Financial Bond	China Interbank Market	China Chengxin
Malayan Banking Berhad	1	3.58	2019/6/21	2022/6/21	3	Financial Bond	China Interbank Market	China Chengxin
The Republic of Portugal	2	4.09	2019/6/3	2022/6/3	3	International Institutional Bond	China Interbank Market	Lianhe
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 N.V.	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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