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From August 26 to August 30

Chance of no-deal Brexit rose; 30-year US Treasury yield hit record low

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Headline: UK prime minister prorogued Parliament for 5 weeks and warned a new general election might be held earlier, rising chance of no-deal Brexit

On August 28, UK prime minister Boris Johnson announced to prorogue Parliament for 5 weeks until October 14, which would be the longest suspension of the British legislature since 1945. Despite Boris Johnson denied that he attempted to threaten lawmakers to reach a consensus before the Brexit deadline offered by the EU. This move, however, outraged many lawmakers as well as the public. In the meantime, opponents of Boris Johnson were planning to vote on a legislation to extend Brexit deadline until January 31, 2020. Boris Johnson warned that he would call a new general election earlier if the opponents had stopped his move.

Exchange Rate: The RMB exchange rate continued to fluctuate

The RMB exchange rate continued to fluctuate downward during the week. As of August 30, the intermediate price of the RMB exchange rate closed at 7.0879, up 307bp from last Friday.

Interest Rate: China Government Bond yields fluctuated slightly, 30-year US Treasury yield hit record low

The yields of China Government Bond have fluctuated under the circumstance of trade policy uncertainties and short-term disturbances in the market. During the week, the changes in Chinese Government Bond yields were all within 1bp. Concerns over global economic slowdown led US Treasury yields going downward. The 30-year US Treasury yield, in particular, dropped to under 2% and hit the record low during trading time. As of August 30, the yield spread between China and US 10-year note was 156.1bp, rising by 3.2bp from last Friday and widening by 100.8bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: Momentum of new issuance remained weak, while issues from Chengtou slightly increased**

From August 26 to August 30, there were 6 new issues with a total issued volume of USD 1.4 billion, of which 3 new issues came from Chengtou enterprises with a total issued volume of USD 581 million.

Secondary Market: Returns on investment grade bonds rose, while high yield bonds dropped significantly

As of August 30, the YTD return on Chinese USD corporate bond index slightly dropped by 1bp over last week to 8.36%, of which investment grade bond index was 8.29%, increasing by 12 bp over last week, and high-yield bond index was 8.87%, decreasing by 27 bp over the same period.

Risk event: US officials seeking to block Dr. Peng's trans-pacific undersea cable project, dragging down its USD bond price significantly**Panda Bond Market: No new issuance this week**

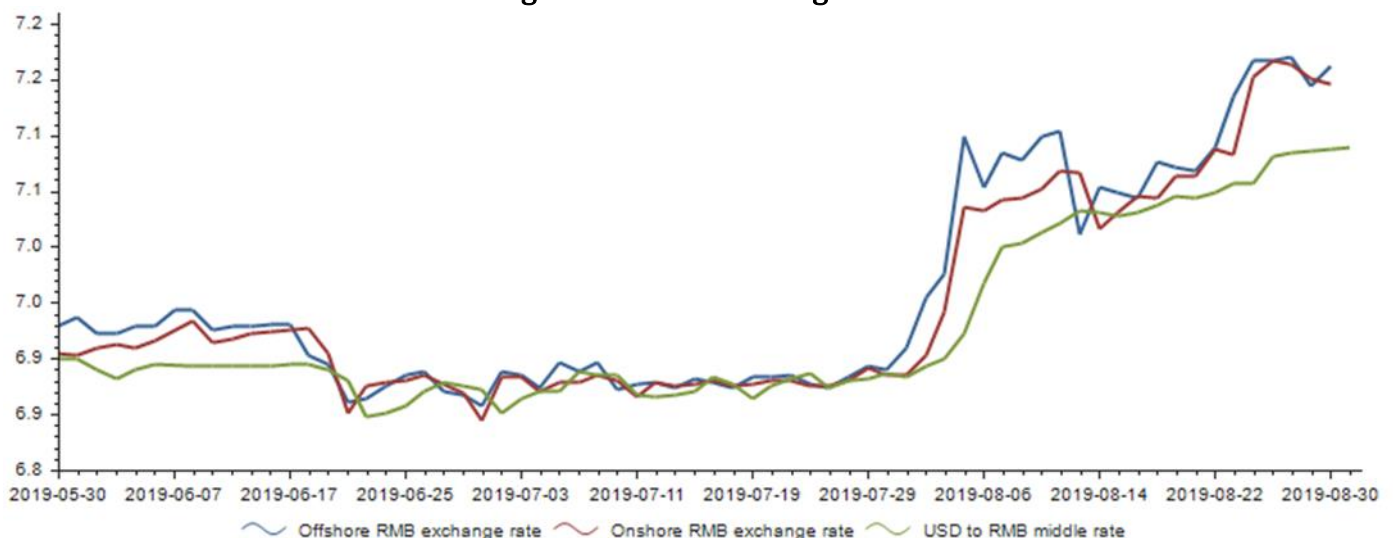
Headline: UK prime minister prorogued Parliament for 5 weeks and warned a new general election might be held earlier, chance of no-deal Brexit rose

On August 28, approved by British queen Elizabeth II, UK prime minister Boris Johnson announced to prorogue Parliament for 5 more weeks from early September to October 14, which would be the longest suspension of the British legislature since 1945. Boris Johnson denied that he attempted to threaten lawmakers to reach a consensus before the Brexit deadline offered by the EU. Prime Minister's Office also signified a new Brexit legislative plan to be coming out, which would allow lawmakers to vote on. The suspension, however, outraged many lawmakers as well as the public, who believed that the government was preparing for a no-deal Brexit. In the meantime, opponents of Boris Johnson were planning to vote on a legislation to block the prime minister from making good on his threat of a no-deal Brexit, and to extended Brexit deadline until January 31, 2020. However, Boris Johnson warned that he would call a new general election earlier if the opponents had stopped his move.

Exchange Rate: The RMB exchange rate continued to fluctuate

The RMB exchange rate continued to fluctuate downward during the week. As of August 30, the intermediate price of the RMB exchange rate closed at 7.0879, up 307bp from last Friday. Onshore and offshore RMB exchange rate closed at 7.1452 and 7.1618, respectively. The fluctuation of the RMB exchange rate has intensified in the short term. International Monetary Fund officials suggested that despite some pressure on the exchange rate due to the tightening external environment, China's foreign exchange reserves are still sufficient. There is no obvious sign of intervention on the RMB exchange rate, and the RMB exchange rate is in line with the economic fundamentals.

Figure 1 : RMB Exchange Rate

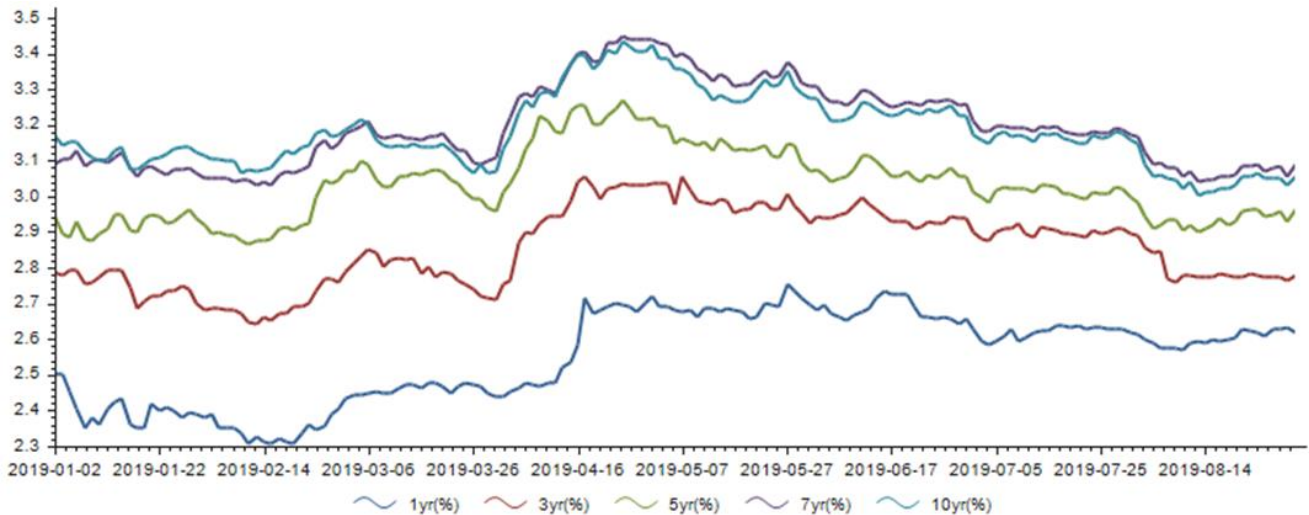


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond yields fluctuated slightly, 30-year US Treasury yield hit record low

The yields of China Government Bonds have fluctuated under the circumstance of trade policy uncertainties and short-term disturbances in the market. During the week, the changes in Chinese Government Bond yields were all within 1bp. As of August 30, the maturity yields of 1-year, 5-year, 7-year and 10-year Government Bonds decreased slightly from last Friday, closing at 2.6179%, 2.9627%, 3.0896% and 3.0573%, respectively; 3-year Government Bonds increased from last Friday, closing at 2.7798%.

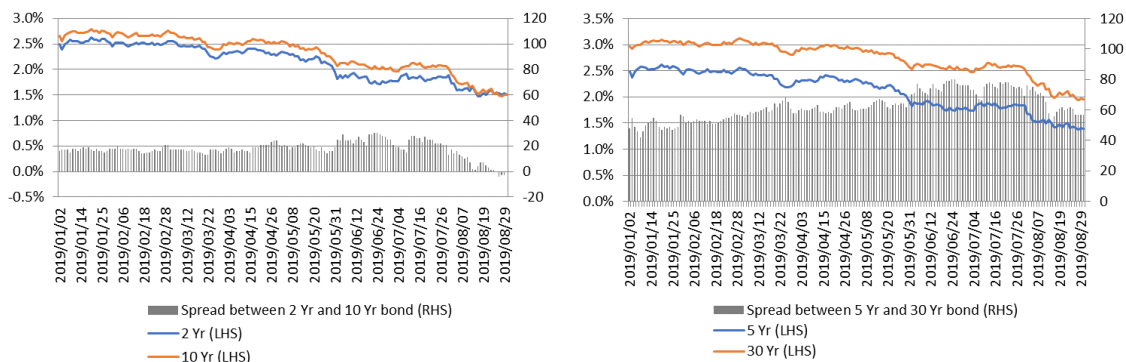
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

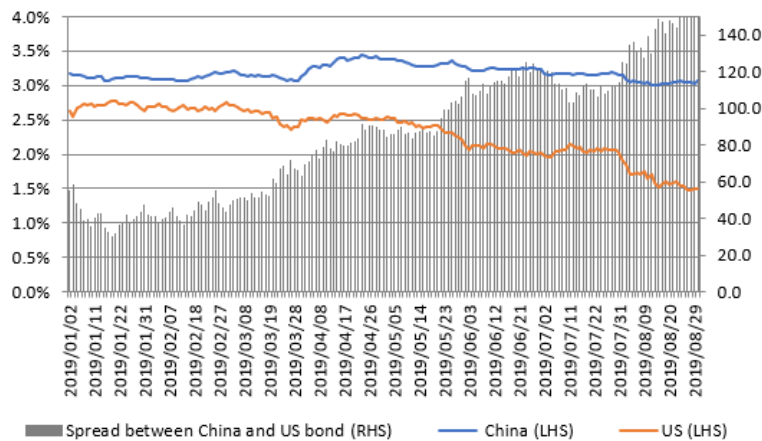
Concerns over global economic slowdown amid the ongoing China-US trade conflicts led US Treasury yields going downward. The 30-year US Treasury yield, in particular, dropped to under 2% and hit the record low during trading time. As of August 30, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 1.50%, 1.39%, 1.50% and 1.96%, decreasing by 1bp, 1bp, 2bp and 6bp over last Friday. In terms of Treasury spreads, the spread between the 2-year and 10-year Treasury bonds narrowed by 1bp to 0bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds narrowed by 5bp to 57bp from last Friday. As of August 30, the yield spread between China and US 10-year note was 156.1bp, rising by 3.2bp from last Friday and widening by 100.8bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

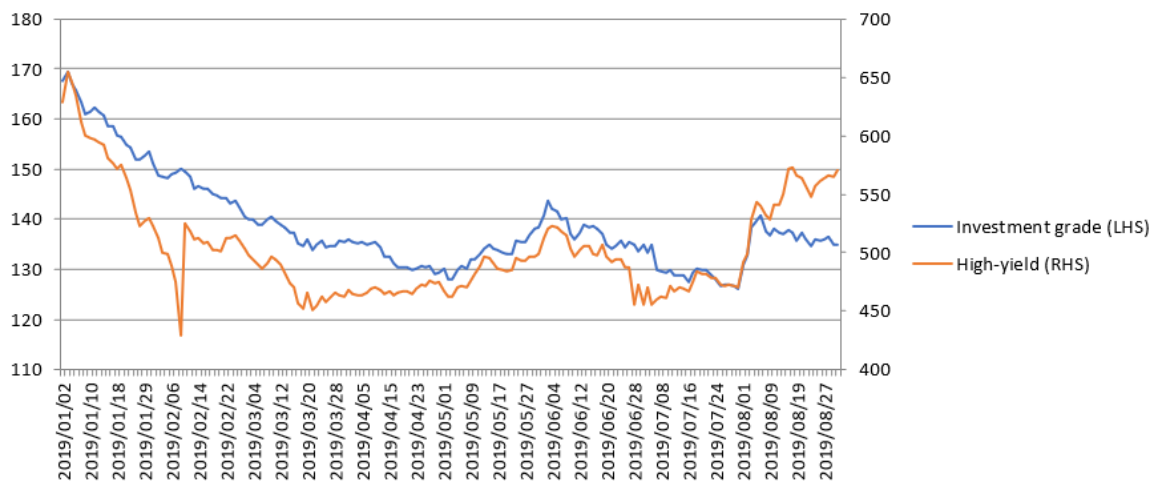
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond narrowed but high-yield bond widened. As of August 30, investment-grade bond spreads slightly decreased by 1.1bp to 135bp from last week, and high-yield spreads increased by 12.7bp to 570bp 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: Momentum of new issuance remained weak, while issues from Chengtou slightly increased

From August 26 to August 30, there were 6 new issues with a total issued volume of USD 1.4 billion, of which 3 new issues came from Chengtou enterprises with a total issued volume of USD 581 million.

Table 1 : New issuance of Chinese offshore bonds (20190826-20190830)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/8/26	China Industrial Securities International Brokerage Ltd	USD	200	5	2020/8/28	364D	Financials	-/-/-	-/-/-
2019/8/27	Chengdu Economic&Technological Development Zone Construction Development Co Ltd	USD	200	6.4	2022/9/3	3	Chengtou	-/-/-	-/-/-
2019/8/27	Tianjin Lingang Investment Holding Co Ltd	USD	81	8	2022/8/30	3	Chengtou	-/-/-	-/-/-
2019/8/29	Bank of Communications Financial Leasing Co Ltd	USD	400	3ML+117.5	2024/9/5	5	Financials	A2/A-/A	-/-/Ae
2019/8/29	Bank of Communications Financial Leasing Co Ltd	USD	200	2.625	2024/9/5	5	Financials	A2/A-/A	A3-/Ae
2019/8/29	Suzhou City Construction Investment Group Holding Co Ltd	USD	300	4.6	2022/9/5	3	Chengtou	-/-/-	-/-/-

Sources: Bloomberg, CCX research

On August 28, Times China Holdings Ltd announced tap bond offering.

Table 2 : Tap bond offering (20190826-20190830)

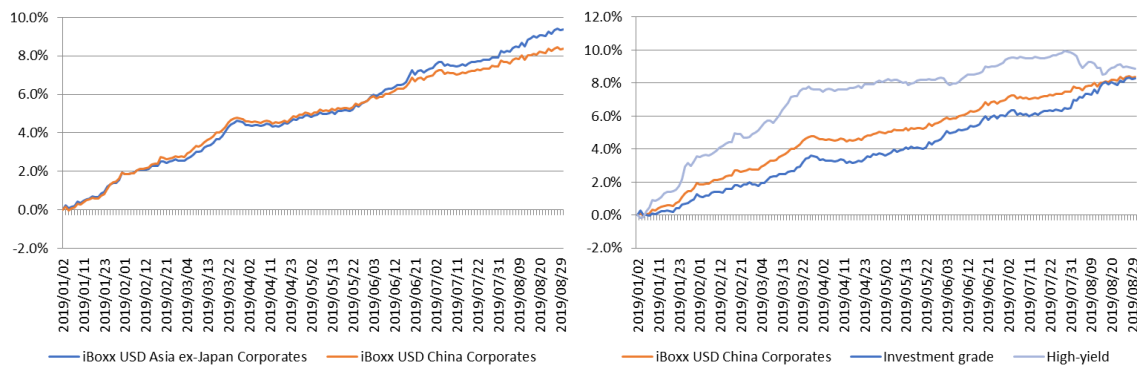
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/8/28	Times China Holdings Ltd	USD	500 (reoffered 100)	6.75	2023/7/16	4	Real Estate	Ba3/BB-/BB-	B1/B+/BB-

Sources: Bloomberg, CCX research

Secondary Market: Returns on investment grade bonds rose, while high yield bonds dropped significantly

As of August 30, the YTD return on Chinese USD corporate bond index slightly dropped by 1bp over last week to 8.36%, of which investment grade bond index was 8.29%, increasing by 12 bp over last week, and high-yield bond index was 8.87%, decreasing by 27 bp over the same period.

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 3 Chinese entities and downgraded 2 Chinese entities from August 26 to August 30.

Table 3 : Credit rating changes of cross-border bond market (20190826-20190830)

	Entity	Sector	Latest Rating			Last Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Upgrade	Logan Property Holdings Co Ltd	Real Estate	BB	STABLE	2019/8/28	BB-	POS	2019/6/25	S&P	Strong earnings growth and improving leverage
	China Oilfield Services Ltd	Energy	BBB+	STABLE	2019/8/29	BBB	POS	2018/5/17	S&P	Leverage improvement driven by stronger demand
	Country Garden Holdings Co Ltd	Real Estate	Ba1	POS	2019/8/30	Ba1	STABLE	2019/5/31	Moody's	Expected stronger credit metrics
Downgrade	Qinghai Provincial Investment Group Co Ltd	Materials	CCC-	NEG	2019/8/30	CCC+	Rating Watch Negative	2019/2/26	S&P	Delayed interest payment
	China Hongqiao Group Ltd	Industrials	BB-	NEG	2019/8/30	BB	STABLE	2019/4/15	Pengyuan	Higher leverage and lower liquidity

Sources: Bloomberg, Wind, CCX research

Risk Event: US officials seeking to block Dr. Peng’s trans-pacific undersea cable project, dragging down its USD bond price significantly

On August 29, US officials was seeking to block the undersea cable project between Los Angeles and Hong Kong over national-security concerns, reported by the Wall Street Journal. The project is backed by Alphabet Inc’s Google, Facebook Inc and a subsidiary of Dr. Peng Telecom & Media Group Co (“Dr. Peng”), a Chinese company. Dr. Peng’s USD Bond dropped significantly by 8.65 points to 71 on the same day. According to a temporary permit expiring in September this year, the undersea cable will be covered most of the 8,000-mile Pacific Light Cable Network across the seabed between the Chinese territory and Los Angeles. The work so far has been conducted under the temporary license. However, if the company fails to obtain the necessary license further to conduct business, the project will be indefinitely suspended. The cost of this project is expected to be at least USD 300 million, according to consultants who advise companies on subsea cable construction.

Panda Bond Market: No new issuance this week

As of August 30, there were 15 issuers that issued 25 Panda Bonds in 2019, with a total issuance amount of RMB 38.54 billion, and an average coupon of 3.71%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20190830)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
China Mengniu Dairy Co. Ltd	1	2.96	2019/8/23	2020/2/19	0.5	SCP	China Interbank Market	China Chengxin
Daimler AG	3	3.84	2019/8/12	2022/8/12	3	PPN	China Interbank Market	China Bond Rating
Daimler AG	2	3.53	2019/8/12	2021/8/12	2	PPN	China Interbank Market	China Bond Rating
Cassa depositi e prestiti S.p.A.	1	4.50	2019/8/1	2022/8/1	3	Financial Bond	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	2	3.10	2019/7/25	2020/4/20	0.76	SCP	China Interbank Market	China Chengxin
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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