

2020 Issue 3

From January 13 to January 17

Turnaround on China-US trade friction; Chinese dollar-bond market remained hot

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Date: January 23, 2020

Headline: Turnaround on China-US trade friction

This week, there is a turnaround on China-US trade friction. On January 13, the US Treasury Department dropped the designation of China as currency manipulator. On January 15, the trade delegations of China and the US signed the phrase-one deal in Washington. The secretary of the US Treasury Department, Steven Mnuchin, said the China-US trade deal will help improve the US economic growth by around 50bp to 75bp; the IMF also changed its forecast on China's economic growth from 5.8% to 6.0% for 2020 given this positive signal.

Exchange Rate: RMB exchange rate was back to 6.8

Recently, the RMB exchange rate had a strong appreciation momentum against the US dollar, breaking through several major thresholds. As of January 17, the intermediate price of the RMB exchange rate closed at 6.8878.

Interest Rate: China Government Bond yields fluctuated slightly; US Treasury yields fell and rebounded in the latter half of the week

This week, China Government Bond yields fluctuated within 3bp. The US Treasury yields rebounded in the latter half of the week after run of economic data confirmed that the US economy is holding up well. As of January 17, the yield spread between China and US 10-year note was 126.2bp, decreasing by 0.1bp from last Friday and widening by 4.3bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: Chinese dollar-bond market remained hot; real estate corporates and banks were the key issuers**

From January 13 to January 17, there were 25 new issues with a total issued volume of USD8.8 billion, of which real estate companies and banks were the key issuers with a total issued volume of USD5.3 billion, accounting for 60.4% of total issues.

Secondary Market: Return on investment grade bonds and high-yield bonds kept rising

As of January 17, 2020, the YTD return on Chinese USD corporate bond index since 2019 rose by 28bp over last week to 10.92%, of which investment grade bond index was 9.80% and high-yield bond index was 13.64%, increasing by 18bp and 50bp over last week, respectively.

Risk Event: Qinghai Provincial Investment Group was unable to repay its USD bond interest on time**Panda Bond Market: SMIC issued 1 SCP this week**

On January 13, SMIC issued a SCP in China Interbank Market, at a coupon rate of 2.40%, with a tenor of 156days, raising RMB1.5 billion. CCXI assigned AAA to the issuer.

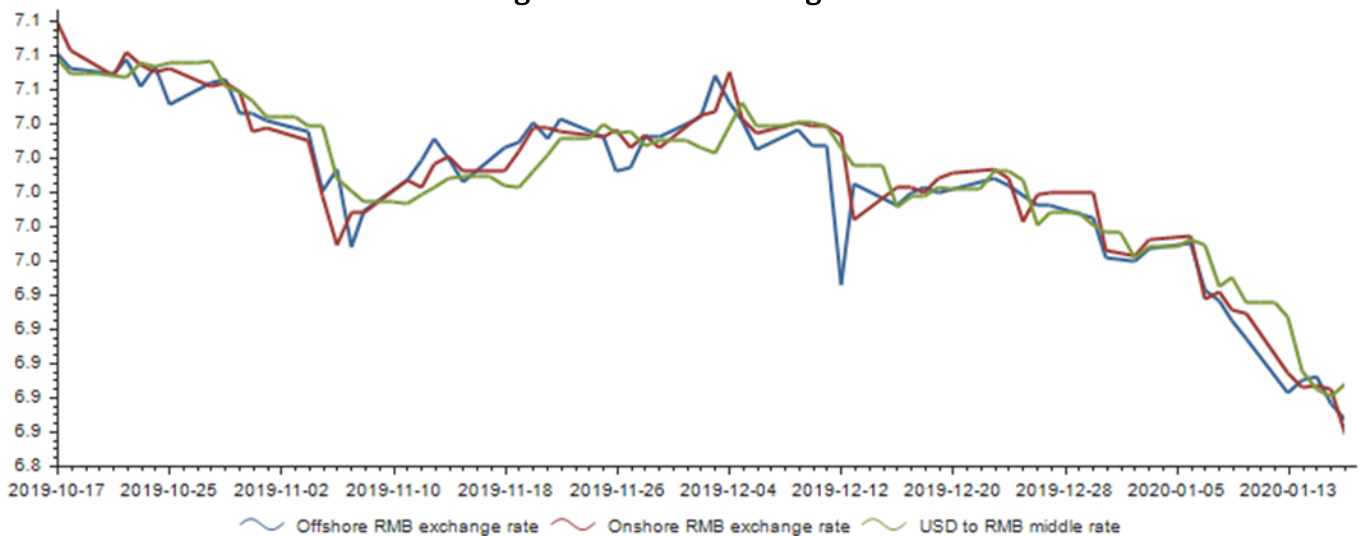
Headline: Turnaround on China-US trade friction

This week, there is a turnaround on China-US trade friction. On January 13, the US Treasury Department dropped the designation of China as currency manipulator which was firstly assigned by the US in August 2019. On January 15, the trade delegations of China and the US signed the phase-one deal in Washington. The deal covered a number of topics that both countries concerned including intellectual property, technology transfer, food and agricultural products, financial services, exchange rate and transparency. Meanwhile, the US government agreed to withdraw tariffs in phases on China's products. After that, the US president, Mr. Donald Trump, will go to Beijing to start the phase-two negotiation. The secretary of the US Treasury Department, Mr. Steven Mnuchin, said the China-US trade deal will help improve the US economic growth by around 50bp to 75bp; the IMF also changed its forecast on China's economic growth from 5.8% to 6.0% for 2020 given this positive signal.

Exchange Rate: RMB exchange rate was back to 6.8

Affected by the "phase one" trade agreement between China and the US and continuous inflow of foreign capital, the RMB exchange rate had a strong appreciation momentum against the US dollar, breaking through several major thresholds. As of January 17, the intermediate price of the RMB exchange rate closed at 6.8878, down 473bp from last Friday. Onshore and offshore RMB exchange rate declined 705bp and 475bp, closing at 6.8585 and 6.8668, respectively. Since 2020, the RMB exchange rate appreciated by over 1.7% against the US dollar.

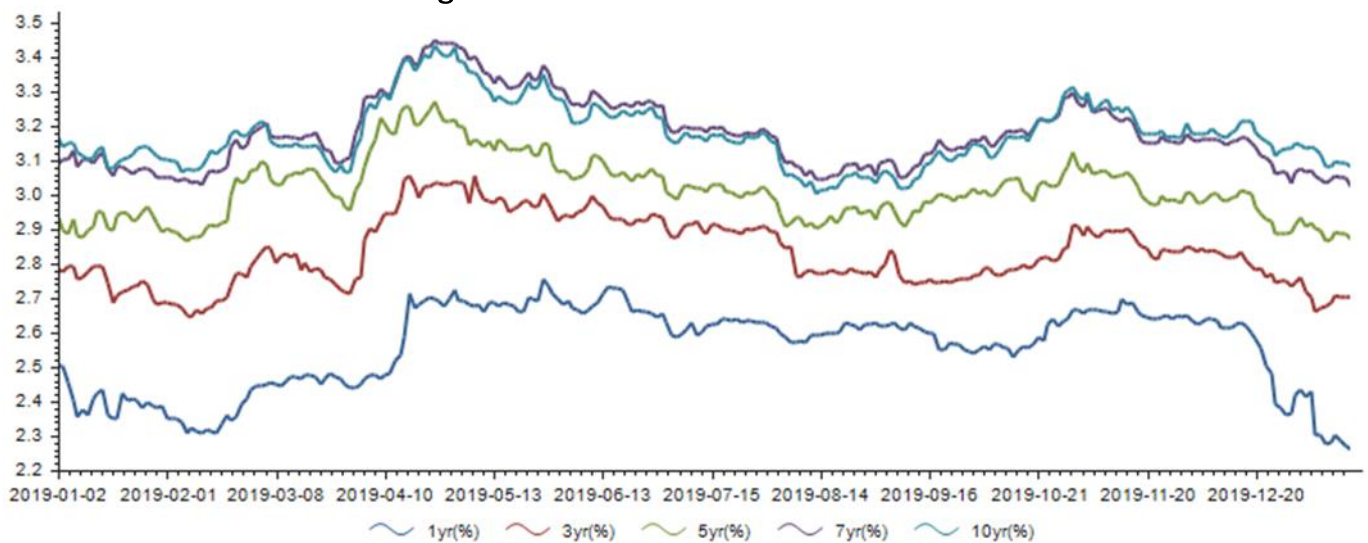
Figure 1 : RMB Exchange Rate



Interest Rate: China Government Bond yields fluctuated slightly; US Treasury yields fell and rebounded in the latter half of the week

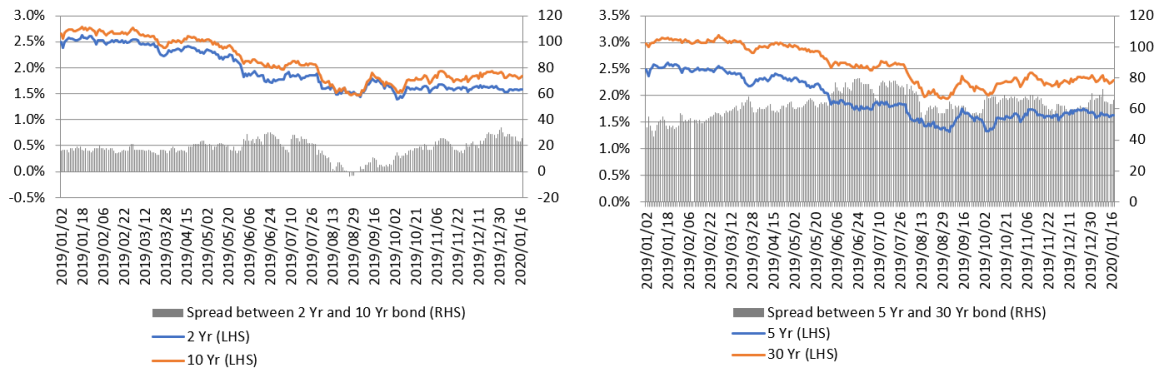
This week, China Government Bond yields fluctuated within 3bp. As of January 17, the 1-year 7-year Government Bond yields dropped from last Friday, closing at 2.2744%, 2.6776%, 2.8643%, 3.0326% and 3.0819%% respectively. The 3-year, 5-year and 10-year Government Bond yields rose from last Friday, closing at 2.7005%, 2.8697% and 3.0832%, respectively. In 2020, given the influence of short-term factors, downward pressure of China's economy remains. With stronger RMB exchange rate and the growth of capital inflow, there is more space for domestic monetary easing policy, which is beneficial to China's bond market. China Government Bond yields will continue its downward trend in the medium to long term.

Figure 2 : China Government Bond Yields



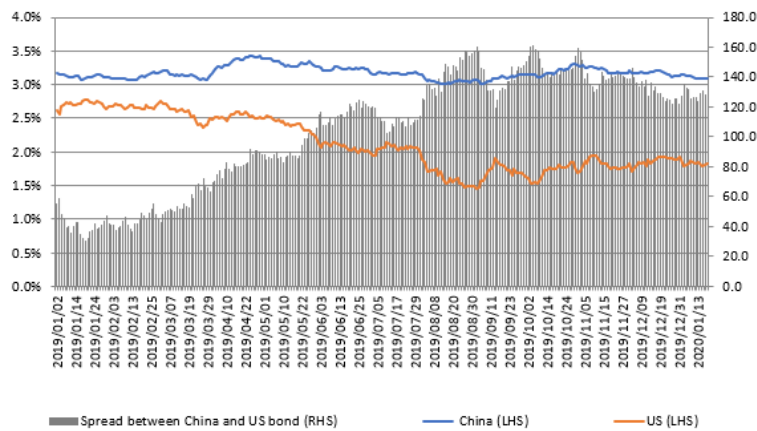
US Treasury yields dropped in light of disappointment in the detail of US-China trade deal. However, the yields rebounded in the latter half of the week after run of economic data (including favorable retail sales, initial unemployment claims and housing starts) confirmed that the US economy is holding up well. As of January 17, the 2-year, 10-year and 30-year Treasury yields closed at 1.58%, 1.84% and 2.29%, increasing by 2bp, 1bp and 1bp over last Friday. The 5-year Treasury yield unchanged from last Friday, closing at 1.63%. In terms of Treasury yield spreads, the spread between the 2-year and 10-year narrowed 1bp to 26bp, while the spread between the 5-year and 30-year widened by 1bp to 66bp from last Friday. As of January 17, the yield spread between China and US 10-year note was 126.2bp, decreasing by 0.1bp from last Friday and widening by 4.3bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

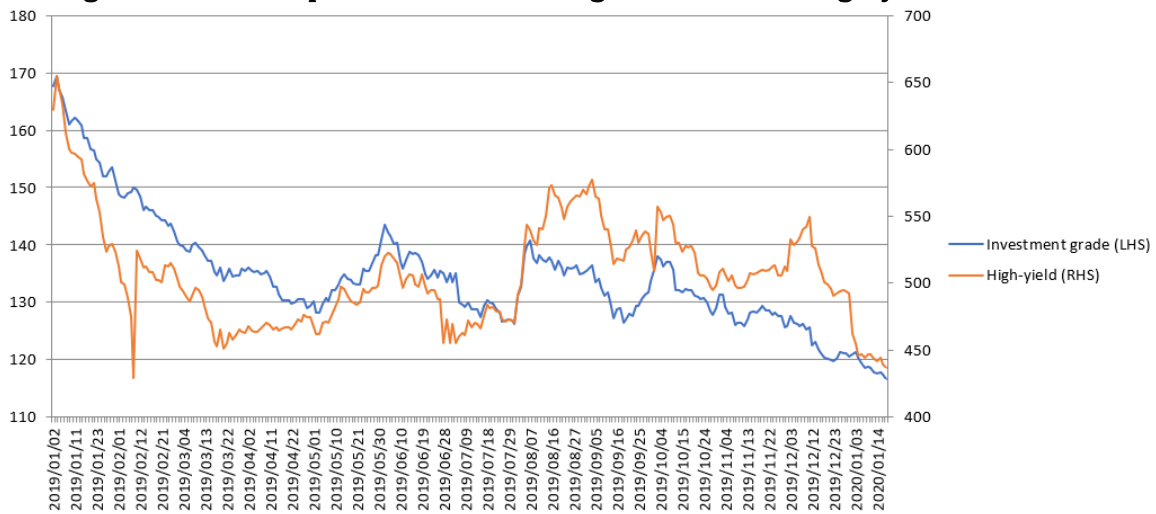
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond kept decreasing. As of January 17, investment-grade bond spreads narrowed by 2.1bp to 116bp from last week, while high-yield spreads narrowed by 9.7bp to 437bp 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: Chinese dollar-bond market remained hot; real estate corporates and banks were the key issuers

From January 13 to January 17, there were 25 new issues with a total issued volume of USD8.8 billion, of which real estate companies and banks were the key issuers with a total issued volume of USD5.3 billion, accounting for 60.4% of total issues.

Table 1 : New issuance of Chinese offshore bonds (20200113-20200117)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/1/13	ANTA Sports Products Ltd	EUR	1,000	0	2025/2/5	5	Consumer Discretionary	-/-	-/-
2020/1/13	BOC Aviation Ltd	USD	400	2.625	2025/1/17	5	Financials	-/A-/A-	-/A-/A-
2020/1/13	China Merchants Securities Co Ltd	USD	300	2.625	2023/1/21	3	Financials	Baa1/-/-	Baa1/-/-
2020/1/13	Metallurgical Corp of China Ltd	USD	600	3.5	-	Perpetual	Industrials	Baa1/BBB+/BBB+	-/-
2020/1/13	Redsun Properties Group Ltd	USD	300	9.7	2023/4/16	3.25	Real Estate	B2/B/B+	B3/-/B+
2020/1/13	Wuhan Dangdai Science & Technology Industries Group Co Ltd	USD	83.393	10.5	2023/1/16	3	Health Care	-/-	-/-
2020/1/15	Bank of Communications Co Ltd/Hong Kong	CNY	2,000	3.15	2022/1/22	2	Banks	A2/A-/A	-/A-/A
2020/1/15	Bank of Communications Co Ltd/Hong Kong	HKD	2,800	2.25	2022/1/22	2	Banks	A2/A-/A	-/A-/A
2020/1/15	Bank of Communications Co Ltd/Hong Kong	USD	1,300	3ML+58	2023/1/22	3	Banks	A2/A-/A	-/A-/Ae
2020/1/15	Bengbu Gaoxin Investment Group Co Ltd	USD	200	4.1	2023/1/21	3	Chengtou	-/-	-/-
2020/1/15	China International Capital Corp Hong Kong Ltd	USD	35	3ML+90	2021/1/20	364D	Financials	Baa1/BBB/BBB+	-/-
2020/1/15	Kaisa Group Holdings Ltd	USD	300	9.95	2025/7/23	5.5	Real Estate	B1/B/B	B2/-/B
2020/1/15	Landsea Green Properties Co Ltd	USD	200	10.75	2022/10/21	2.75	Real Estate	B2/B/B	B3/B-/B

2020/1/15	Seazen Holdings Co Ltd	USD	350	6.8	2023/8/5	3.5	Real Estate	Ba2/BB/BB	-/BB-/BB
2020/1/16	China Evergrande Group	USD	1,000	11.5	2023/1/22	3	Real Estate	B1/B+/B+	B2/B/-
2020/1/16	China Evergrande Group	USD	1,000	12	2024/1/22	4	Real Estate	B1/B+/B+	B2/B/-
2020/1/16	China ZhengTong Auto Services Holdings Ltd	USD	160	12	2022/1/21	2	Consumer Discretionary	B2/-/-	B2/-/-
2020/1/16	Guiyang Eco&Tech Development Zone Stated-owned Asset Investment Operation Co Ltd	EUR	23	2	2021/1/19	364D	Chengtou	-/-/-	-/-/-
2020/1/16	Industrial & Commercial Bank of China Ltd/Sydney	AUD	2,799	1.836	2025/4/23	5.25	Banks	A1/A/A	-/-/-
2020/1/16	Industrial & Commercial Bank of China Ltd/Sydney	AUD	5,986	1.836	2025/4/23	5.25	Banks	A1/A/A	-/-/-
2020/1/16	Rugao Economic & Trade Development Co	USD	160	5.95	2023/1/22	3	Chengtou	-/-/BB	-/-/BB
2020/1/16	Zhongguancun Development Group Co Ltd	USD	300	2.875	2023/2/3	3	Chengtou	-/-/A	-/-/A
2020/1/17	Industrial & Commercial Bank of China Ltd/Singapore	USD	100	3ML+58	2023/1/24	3	Banks	A1/A/A	-/-/-
2020/1/17	Industrial & Commercial Bank of China Ltd/Singapore	USD	100	3ML+58	2023/1/24	3	Banks	A1/A/A	-/-/-
2020/1/17	Wuyi Mountains Ltd	USD	100	6	2020/12/29	347D	Financials	-/-/-	-/-/-

Sources: Bloomberg, CCX research

From January 13 to January 17, there are 6 Chinese corporates that announced tap bond offering.

Table 2 : Tap bond offering (20200113-20200117)

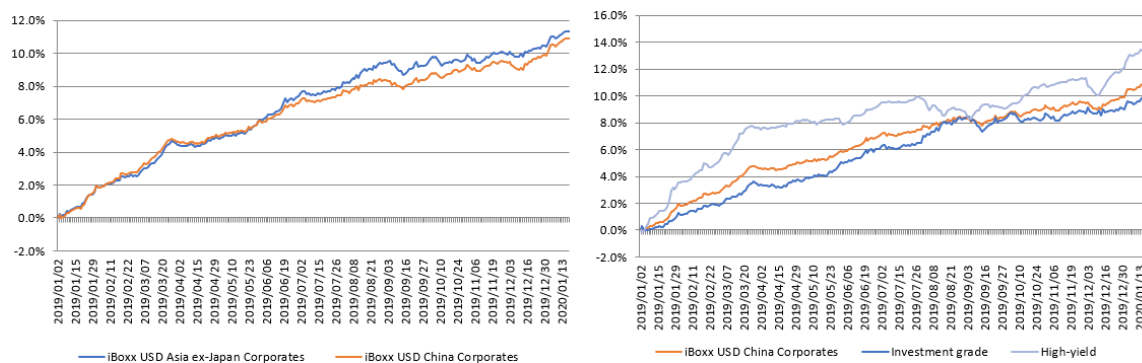
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2020/1/13	China South City Holdings Ltd	USD	350 (reoffered 200)	11.5	2022/2/12	2.17	Real Estate	-/B-/B	-/-/B
2020/1/13	Logan Property Holdings Co Ltd	USD	280 (reoffered 180)	6.9	2024/6/9	4.75	Real Estate	Ba3/BB/BB	-/BB/-
2020/1/13	Changsha Pilot Investment Holdings Group Co Ltd	USD	500 (reoffered 150)	3.8	2022/11/14	3	Chengtou	-/-/BBB	-/-/BBB
2020/1/14	Jincheng State-Owned Capital Investment Operation Co Ltd	USD	300 (reoffered 110)	6.5	2022/9/12	3	Chengtou	-/-/-	-/-/-
2020/1/14	HBIS Group Co Ltd	USD	500 (reoffered 200)	3.75	2022/12/18	3	Materials	-/-/BBB+	-/-/BBB+
2020/1/16	Jiayuan International Group Ltd	USD	267.5 (reoffered 30)	13.75	2023/2/18	3.34	Real Estate	B2/B/-	B3/B/-

Sources: Bloomberg, CCX research

Secondary Market: Return on investment grade bonds and high-yield bonds kept rising

As of January 17, 2020, the YTD return on Chinese USD corporate bond index since 2019 rose by 28bp over last week to 10.92%, of which investment grade bond index was 9.80% and high-yield bond index was 13.64%, increasing by 18bp and 50bp over last week, respectively.

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 took positive rating actions on 3 Chinese entities and negative rating actions on 3 Chinese issuers from January 13 to 17.

Table 3 : Credit rating changes of cross-border bond market (20200113-20200117)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Upgrade	Seazen Holdings Co Ltd, Seazen Group Ltd	Real Estate	Ba2	STABLE	2020/1/15	Ba2	NEG	2019/10/9	Moody's	Improving liquidity and regaining access to funding
Downgrad	Qinghai Provincial Investment Group Co Ltd	Materials	D	-	2020/1/14	CCC-	NEG	2019/8/30	S&P	US dollar bond default
	Landsea Green Properties Co Ltd	Real Estate	B	STABLE	2020/1/14	B	POS	2019/1/23	Fitch	Higher leverage
Domestic Rating:										
Upgrade	Yancheng Oriental Investment & Development Group Co Ltd	Chengtou	AA+	STABLE	2020/1/17	AA	STABLE	2019/9/25	SBCR	Greater importance in Yancheng and increase in capital strength
Downgrade	Tibet Financial Leasing Co Ltd	Financials	AA	STABLE	2020/1/14	AA+	Rating Watch Negative	2019/12/6	Lianhe Rating	Larger liquidity risk

Sources: Bloomberg, Wind, CCX research

Risk Event: Qinghai Provincial Investment Group was unable to repay its USD bond interest on time

On January 16, Qinghai Provincial Investment Group Co Ltd (“Qinghai Provincial Investment Group” or the “Company”) announced that it was unable to repay interest on its USD300 million bond on time, forming a default on its bond issued in 2017. The interest payment was due on January 10. According to Bloomberg’s data, the Company has three outstanding USD bonds, with a total amount of USD850 million. The default on this bond caused a selloff on the Company’s USD bonds. One of its USD bond prices (maturing on February 22) dropped 33% to 40.35 cents.

Panda Bond Market: SMIC issued 1 SCP this week

On January 13, Semiconductor Manufacturing International Corporation (“SMIC”) issued a SCP in China Interbank Market, at a coupon rate of 2.40%, with a tenor of 156days, raising RMB1.5 billion. CCXI assigned AAA to the issuer.

As of January 17, there were 3 issuers that issued 3 Panda Bonds in 2020, with a total issuance amount of RMB5.5 billion and an average coupon of 3.12%. These bonds were mostly medium term and were issued in the Interbank Market.

Table 4 : New issuance of Panda Bond in 2020 (20200101-20200117)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Semiconductor Manufacturing International Corporation	15	2.40	2020/1/13	2020/5/28	0.37	SCP	China Interbank Market	China Chengxin
Yuexiu Transport Infrastructure Limited	10	3.47	2020/1/10	2023/1/10	3	MTN	China Interbank Market	China Chengxin
Daimler International Finance BV	30	3.50	2020/1/9	2022/1/9	2	PPN	China Interbank Market	--

Sources: Bloomberg, CCX research

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