

2020 Issue 8

From March 9 to March 13

Fed cut interest rate to zero; Chinese dollar bonds slumped in secondary market

Authors

CCXI Overseas Business Department

Mia Zhu 010-66428877-570

llzhu@ccxi.com.cn

Lina Wang 010-66428877-451

jlwang@ccxi.com.cn

CCXAP

Jacky Lau 852-28607125

jacky_lau@ccxap.com

Vincent Tong 852-28607121

vincent_tong@ccxap.com

Other

Elle Hu 852-28607123

elle_hu@ccxap.com

Date: March 20, 2020

Headline: Fed cut interest rate to zero, US stock market halted for third time in two weeks

Since the Fed's emergency rate cut on March 3, more central banks, including BoE, ECB and BoC, adjusted their monetary policies to mitigate the influence of pandemic. The March Federal Open Market Committee meeting was originally scheduled to be held during March 17-18. However, the Fed announced an unexpected emergency rate cut and quantitative easing program on March 15, which further grew market anxiety. Three major US stock indices triggered a trading halt on March 16, which was the third time in two weeks.

Exchange Rate: RMB exchange rate broke the threshold of "7"

Affected by the global pandemic, risk aversion continued to rise. The intermediate price of the RMB exchange rate broke the threshold of "7", closing at 7.0033 on March 13.

Interest Rate: China Government Bond yields rose; US Treasury yields rebounded

China Government Bond yields slightly adjusted after the sharp decline, and rose volatily during this week. Affected by the collapse of oil prices and coronavirus fears, US Treasury yields continued to slump, of which 10-year and 30-year yields dropped to record lows of 0.32% and 0.70%, respectively. Investors expected the US government and the Fed will introduce economic stimulus plans, which boosted Treasury yields later this week. As of March 13, the yield spread between China and US 10-year note was 171.6bp, narrowing by 15.0bp from last Friday and widening by 44.4bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: New issuance stayed flat, Cinda HK issued USD2 billion bonds**

From March 9 to March 13, there were 12 new issues with a total issued volume of USD3.326 billion. China Cinda HK Holdings Co Ltd is the main issuer this week, which priced 4 tranches senior notes with a total issued volume of USD2 billion.

Secondary Market: Chinese dollar bonds slumped in secondary market

The return of Chinese dollar bonds tumbled while the yield boosted driven by growing risk aversion. As of March 13, the YTD return on Chinese USD corporate bond index dropped by 344bp from last Friday to -0.48%. In terms of sector indices, the return on real estate index recorded the largest fall, dropping by 503bp from last Friday to -3.31%.

Rating Action: CCXAP assigns first-time BBB_g+ to NNCIG, outlook stable**Credit Event: Shandong Ruyi postponed its MTN interest payment for 3 months****Panda Bond Market: China Gas Holdings issued an MTN (epidemic prevention and control debt)**

On March 10, China Gas Holdings Ltd. MTN Series I (epidemic prevention and control debt) was successfully issued in the Interbank Market. China Gas Holdings raised RMB1 billion at a coupon rate of 3.38% with a tenor of 5 years. Lianhe Ratings assigned the credit rating of AAA to the issuer and the bond.

Headline: Fed cut interest rate to zero, US stock market halted for third time in two weeks

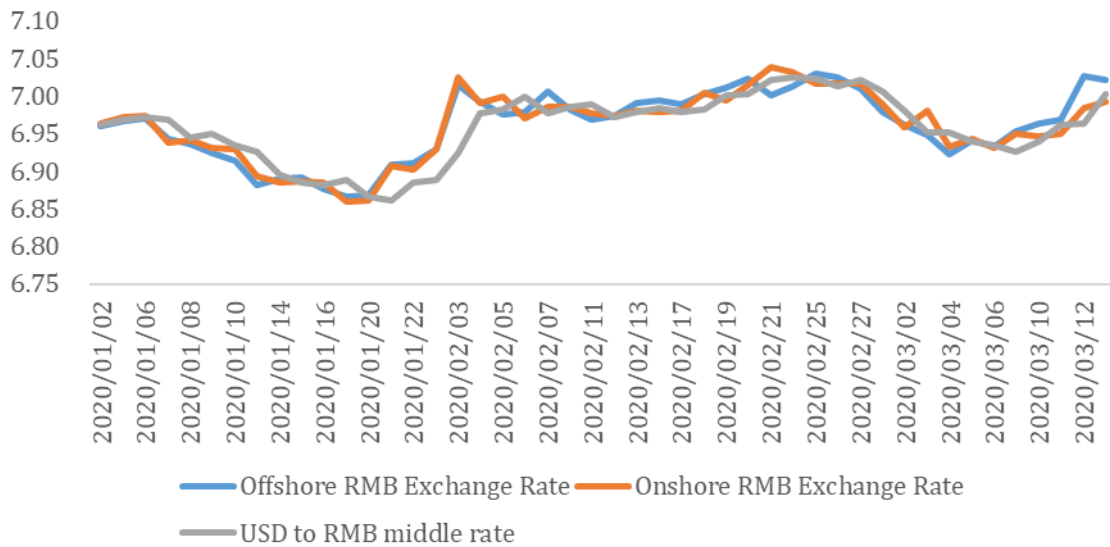
More central banks cut interest rates and imposed stimulus plans since the Fed's emergency rate cut on March 3, aiming to mitigate the influence of volatile financial markets and recession risk. During this week, central banks, including the Bank of England ("BoE"), the European Central Bank ("ECB") and the Bank of Canada ("BoC"), announced their new monetary policies. On March 10, the BoE delivered an 50bp emergency rate cut to 0.25%. On March 12, the ECB unexpectedly left its rates unchanged, but announced a temporary envelope of additional net asset purchases of EUR120 billion, additional longer-term refinancing operations and measures to support bank liquidity conditions. On March 13, US President Donald Trump declared a national emergency over coronavirus, which will free up as much as USD50 billion in financial resources to combat the coronavirus pandemic. On March 14, the BoC made its second emergency rate cut within 10 days, slashing its policy rate by 50bp to 0.75%.

The March Federal Open Market Committee meeting was originally scheduled to be held during March 17-18. However, on March 15, the Fed announced another emergency rate cut to lower the target range for the federal funds rate to 0%-0.25% from the previous 1%-1.25%. The Fed also slashed the interest rate on discount window loans by 125bp to 0.25% and offered discount window loans for periods up to 90 days. In addition, the Fed announced to launch a massive USD700 billion quantitative easing program. The unexpected monetary policy didn't calm investor nerves, but instead further grew market anxiety. Three major US stock indices triggered a trading halt on March 16, which was the third time in two weeks.

Exchange Rate: RMB exchange rate broke the threshold of "7"

During the week, affected by the global pandemic, risk aversion continued to rise, and the RMB exchange rate broke the threshold of "7" again. As of March 13, the intermediate price of the RMB exchange rate closed at 7.0033, up 696bp from last Friday. Onshore and offshore RMB exchange rate rose 618bp and 897bp respectively, closing at 6.9926 and 7.0218. The coronavirus fears coupled with the liquidity pressure led to a sharp rise in the dollar index. With quantitative easing policies from the Federal Reserve, the depreciation pressure of RMB has slightly released. If the global pandemic is basically under control, the RMB exchange rate is expected to fall as China's economic fundamentals stabilize.

Figure 1 : RMB exchange rate

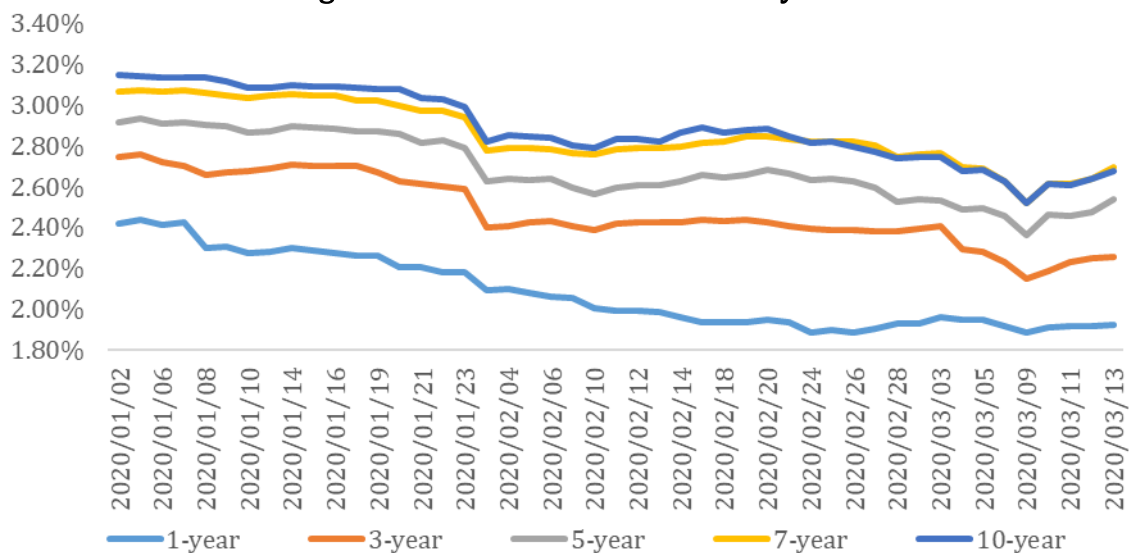


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond yields rose; US Treasury yields rebounded

China Government Bond yields slightly adjusted after the sharp decline, and rose volatily during this week. As of March 13, the 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yield declined from last Friday, closing at 1.9234%, 2.2572%, 2.5381%, 2.6950% and 2.6759% respectively.

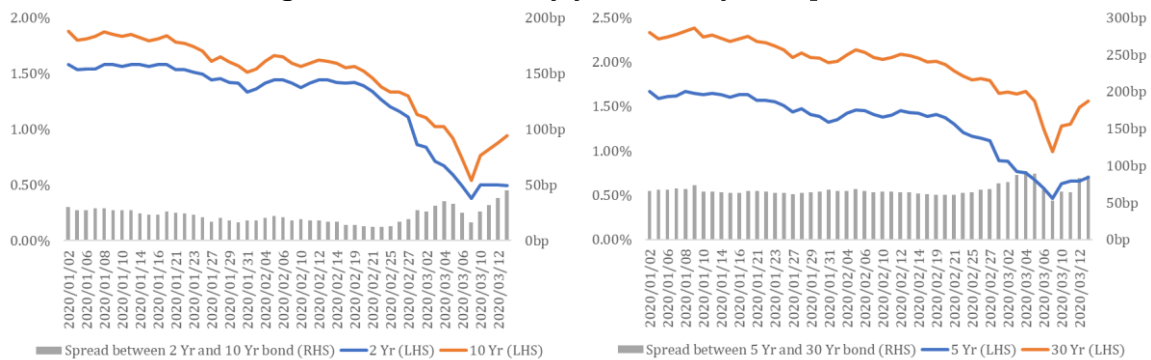
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

Affected by the collapse of oil prices and coronavirus fears, US Treasury yields continued to slump, of which 10-year and 30-year yields dropped to record lows of 0.32% and 0.70%, respectively. Investors expected the US government and the Fed will introduce economic stimulus plans, which boosted Treasury yields later this week. As of March 13, 2-year yield closed at 0.49%, unchanged from last Friday. 5-year, 10-year and 30-year Treasury yields closed at 0.70%, 0.94% and 1.56%, increasing by 12bp, 20bp and 31bp over last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year widened by 20bp to 45bp from last Friday, while the spread between the 5-year and 30-year widened by 19bp to 86bp from last Friday.

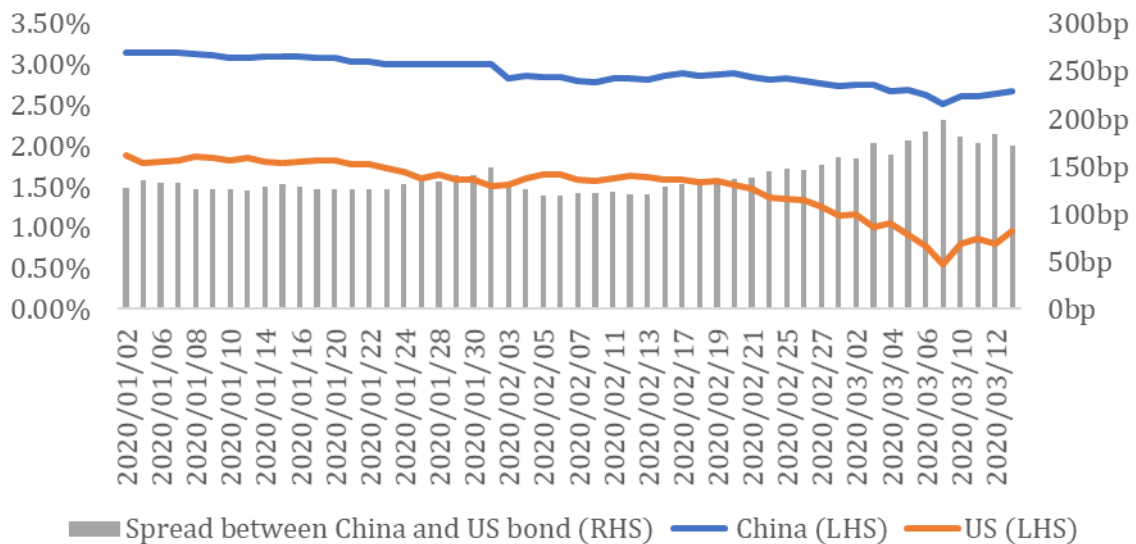
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of March 13, the yield spread between China and US 10-year note was 171.6bp, narrowing by 15.0bp from last Friday and widening by 44.4bp from the beginning of the year.

Figure 4 : Yield spread between China and US 10-year note



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

Chinese Offshore Bond Market

Primary Market: New issuance stayed flat, Cinda HK issued USD2 billion bonds

From March 9 to March 13, there were 12 new issues with a total issued volume of USD3.326 billion. China Cinda HK Holdings Co Ltd is the main issuer this week, which priced 4 tranches senior notes with a total issued volume of USD2 billion.

Table 1 : New issuance of Chinese offshore bonds (20200309-20200313)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/3/9	Tieling Public Assets Investment & Management Group Co Ltd	CNY	1,050	9.3	2023/3/11	3	Chengtou	-/-/-	-/-/-
2020/3/10	Huzhou Economic Development Group Co Ltd	USD	200	4.5	2023/3/17	3	Chengtou	-/-/-	-/-/-
2020/3/11	Beijing Capital Group Co Ltd	USD	300	2.8	2023/3/18	3	Real Estate	Baa3/BBB-/BBB	-/-/BBB
2020/3/11	China Cinda HK Holdings Co Ltd	USD	700	2	2023/3/18	3	Financials	A3/A-/A	A3/-/Ae
2020/3/11	China Cinda HK Holdings Co Ltd	USD	500	2.5	2025/3/18	5	Financials	A3/A-/A	A3/-/Ae
2020/3/11	China Cinda HK Holdings Co Ltd	USD	300	3	2027/3/18	7	Financials	A3/A-/A	A3/-/Ae
2020/3/11	China Cinda HK Holdings Co Ltd	USD	500	3.125	2030/3/18	10	Financials	A3/A-/A	A3/-/Ae
2020/3/11	Guotai Junan International Holdings Ltd	HKD	250	1.5	2021/3/17	364D	Financials	Baa2/BBB+/-	-/-/-
2020/3/11	Huafa Industrial Co Ltd Zhuhai	USD	100	4.4	2021/3/16	364D	Real Estate	-/-/-	-/-/-
2020/3/12	China Construction Bank Corp/Astana	CNY	1,000	2.95	2022/3/19	2	Banks	A1/A/A	-/-/-
2020/3/13	Tianfeng Securities Co Ltd	USD	100	4.3	2022/12/9	3	Financials	-/-/-	-/-/-
2020/3/13	Yibin State-owned Assets Management Co Ltd	USD	300	4.6	2023/3/20	3	Consumer Staples	-/-/-	-/-/-

Sources: Bloomberg, CCX research

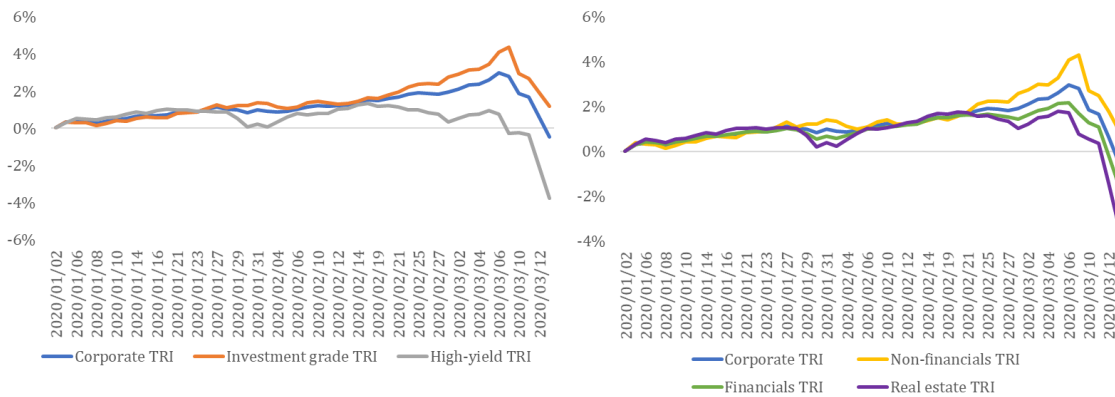
Recently, Jiangsu Zhongnan Construction Group Co Ltd planned to issue offshore bonds.

Secondary Market: Chinese dollar bonds slumped in secondary market

The return of Chinese dollar bonds tumbled while the yield boosted driven by growing risk aversion. As of March 13, the YTD return¹ on Chinese USD corporate bond index dropped by 344bp from last Friday to -0.48%, of which investment grade bond index was 1.18% and high-yield bond index was -3.76%, decreasing by 289bp and 453bp respectively. In terms of sector indices, the return on real estate index recorded the largest fall, dropping by 503bp from last Friday to -3.31%, while the non-financial and financial indices were 0.96% and -1.51%, decreasing by 310bp and 368bp from last Friday, respectively.

¹ Year-to-date return measures the return since January 2, 2020.

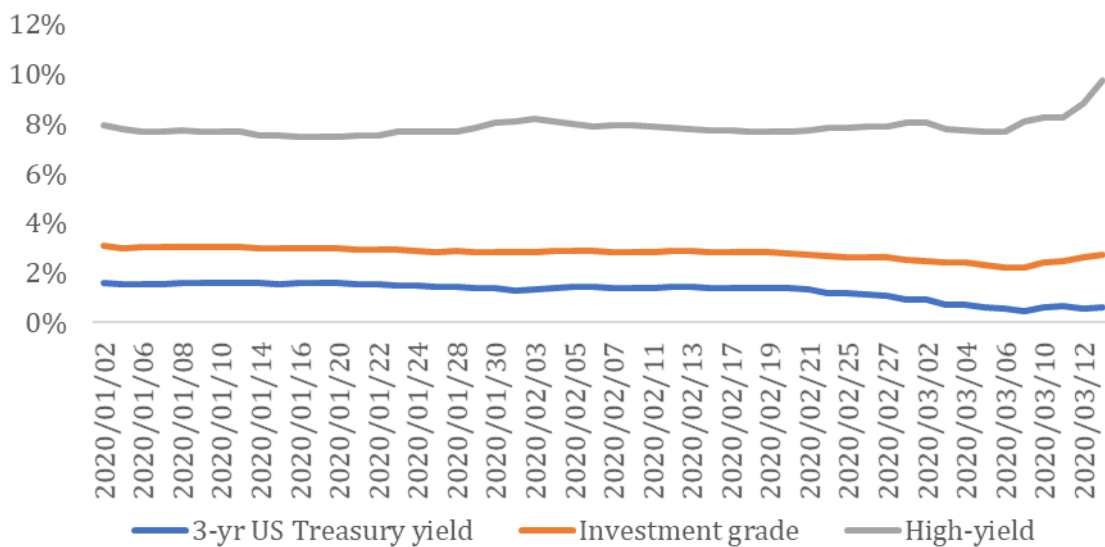
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of March 13, the yield to worst of investment grade bond index rose by 49bp from last Friday to 2.72%, while the high-yield bond index enlarged by 205bp to 9.74%.

Figure 6 : Yield to worst of Bloomberg Barclays Chinese USD bond index



Sources: Bloomberg, CCX research

Rating Action: CCXAP assigns first-time BBB_g+ to NNCIG, outlook stable

On March 13, China Chengxin (Asia Pacific) Credit Ratings (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g+ to Nanning Communications Investment Group Co., Ltd. (“NNCIG” or the “Company”). The rating outlook is stable.

NNCIG is a wholly-owned subsidiary of State-owned Assets Supervision and Administration Commission of Nanning Municipal Government and a key infrastructure investment and financing company in Nanning City. The Company reported total assets of RMB39.7 billion and net assets of RMB13.5 billion as of 30 September 2019. In 2018, the Company generated revenue of RMB1.6 billion and net profit of RMB67.0 million. Nanning City is the provincial capital of Guangxi Zhuang Autonomous Region (the “Province”) and the core of Beibu Gulf Economic Zone. IN 2018, Nanning City reported gross regional product (“GRP”) of RMB434.1 billion, contributing the largest proportion of the Province’s GRP (22.1%). NNCIG is a crucial infrastructure constructor in Nanning City, and is in charge of the construction of the City’s roads, parking lots, transportation hubs, and water conservancy infrastructures. Given its close relationship with the local government, the Company was assigned to take charge of city operating, including transportation, hydropower, and Liquefied Natural Gas and fuel oil supply. Overall, NNCIG has a strategic important role in Nanning City. However, CCXAP recognized that NNCIG has a relatively weak operating profitability and relies heavily on government subsidies. In addition, the Company has a funding gap for its infrastructure construction business and may be under capital expenditure pressure over the next two years. But we believe such risk could be mitigated by the fiscal allocations of the municipal government.

On the other hand, CCXAP expects that the coronavirus outbreak will cause disruption in economic activities in 2020Q1. The deficiency of public medical facilities, logistics systems, and transportation networks became more apparent with the onset of the contagious epidemic. To solve these problems, local government financing vehicles will play an indispensable role in the improvement of urban infrastructures in the future. NNCIG’s policy function to construct infrastructures could be strengthened.

For the credit rating changes of cross-border bond market, the rating agencies took positive rating action on 1 Chinese issuers; and negative rating actions on 5 Chinese issuers from March 9 to March 13.

Table 2 : Credit rating changes of cross-border bond market (20200309-20200313)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Downgrade	Xinjiang Zhongtai Group Co Ltd	Materials	BB+	NEG	2020/3/9	BB+	STABLE	2019/12/3	S&P	Consistently lower interest coverage
	Yuexiu Real Estate Investment Trust	Real Estate	Baa3	NEG	2020/3/11	Baa3	STABLE	2019/8/30	Moody's	Lower rental income in 2020 and weaker credit metrics
	Yuexiu Real Estate Investment Trust	Real Estate	BBB-	NEG	2020/3/11	BBB-	STABLE	2019/6/19	S&P	Slow deleveraging
	China Wanda Group Co Ltd	Consumer Discretionary	B3	NEG	2020/3/13	B3	Rating Watch Negative	2020/2/28	Moody's	Elevated refinancing risk
Domestic Rating:										
Upgrade	Sichuan Languang Development Co Ltd	Real Estate	AAA	STABLE	2020/3/11	AA+	STABLE	2019/4/25	Dagong	Expanded and diversified contracted sales, sufficient land bank, improving profitability, and broader financing channels
Downgrade	Macrolink Holding Co Ltd	Financials	C	-	2020/3/9	AA+	NEG	2020/1/23	Dagong	Onshore bond defaults
	Macrolink Holding Co Ltd	Financials	C	-	2020/3/9	A+	NEG	2020/3/6	Golden Credit	Onshore bond defaults
	Shandong Ruyi Technology Group Co Ltd	Consumer Discretionary	AA-	NEG	2020/3/11	AA+	Rating Watch	2019/11/26	Dagong	Increase in legal and financial risks, weaker refinancing capability

Sources: Bloomberg, Wind, CCX research

Credit Event: Shandong Ruyi postponed its MTN interest payment for 3 months

On March 17, Shandong Ruyi Technology Group Co Ltd (“Shandong Ruyi” or the “Company”) announced that the Company missed the interest payment of its onshore medium-term note (“19如意科技MTN001”), which was scheduled to pay on March 16, 2020. After meeting with the bondholders, the debtholders agree the Company to pay the interest over-the-counter, and postpone the interest payment for 3 months to June 15, 2020. According to Bloomberg, Shandong Ruyi has USD300 million outstanding senior note, due in 2022, listed on the Singapore Exchange. The note has a coupon rate of 6.95% and the upcoming coupon payment date is July 5, 2020.

Panda Bond Market: China Gas Holdings issued an MTN (epidemic prevention and control debt)

On March 10, China Gas Holdings Ltd. ("China Gas Holdings") MTN Series I (epidemic prevention and control debt) was successfully issued in the Interbank Market. China Gas Holdings raised RMB1 billion at a coupon rate of 3.38% with a tenor of 5 years. Lianhe Ratings assigned the credit rating of AAA to the issuer and the bond.

As of March 13, there were 6 issuers that issued 7 Panda Bonds in 2020, with a total issuance volume of RMB11 billion and an average coupon of 3.12%. These bonds were mostly short-/medium-term and were issued in the Interbank Market.

Table 3 : New issuance of Panda Bond in 2020 (20200101-20200313)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
China Gas Holdings Ltd.	1	3.38	2020/3/10	2025/3/10	5	MTN	China Interbank Market	Lianhe Ratings
BMW Finance N.V.	2	3.35	2020/3/4	2023/3/4	3	PPN	China Interbank Market	China Chengxin
BMW Finance N.V.	1.5	2.90	2020/3/4	2021/3/4	1	PPN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	1	2.85	2020/2/28	2020/11/24	0.74	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corporation	1.5	2.40	2020/1/13	2020/5/28	0.37	SCP	China Interbank Market	China Chengxin
Yuexiu Transport Infrastructure Limited	1	3.47	2020/1/10	2023/1/10	3	MTN	China Interbank Market	China Chengxin
Daimler International Finance BV	3	3.50	2020/1/9	2022/1/9	2	PPN	China Interbank Market	--

Sources: Bloomberg, CCX research

本文版权归中诚信国际信用评级有限公司、中国诚信(亚太)信用评级有限公司和/或其被许可人所有。本文件包含的所有信息受法律保护,未经中诚信国际事先书面许可,任何人不得复制、拷贝、重构、转让、传播、转售或进一步扩散,或为上述目的存储本文件包含的信息。

本文件中包含的信息由中诚信国际从其认为可靠、准确的渠道获得,因为可能存在人为或机械错误及其他因素影响,上述信息以提供时现状为准。特别地,中诚信国际对于其准确性、及时性、完整性、针对任何商业目的的可行性及合适性不作任何明示或暗示的陈述或担保。在任何情况下,中诚信国际不对任何人或任何实体就 a) 中诚信国际或其董事、经理、雇员、代理人获取、收集、编辑、分析、翻译、交流、发表、提交上述信息过程中可以控制或不能控制的错误、意外事件或其他情形引起的、或与上述错误、意外事件或其他情形有关的部分或全部损失或损害,或 b) 即使中诚信国际事先被通知该等损失的可能性,任何由使用或不能使用上述信息引起的直接或间接损失承担任何责任。

本文件所包含信息组成部分中信用级别、财务报告分析观察(如有)应该而且只能解释为一种意见,而不能解释为事实陈述或购买、出售、持有任何证券的建议。中诚信国际对上述信用级别、意见或信息的准确性、及时性、完整性、针对任何商业目的的可行性及合适性不作任何明示或暗示的担保。信息中的评级及其他意见只能作为信息使用者投资决策时考虑的一个因素。相应地,投资者购买、持有、出售证券时应该对每一只证券、每一个发行人、保证人、信用支持人作出,自己的研究和评估。



中诚信国际信用评级有限责任公司

地址：北京市东城区朝阳门内大街
南竹竿胡同 2 号银河 SOHO6 号楼
邮编：100020
电话：(8610) 6642 8877
传真：(8610) 6642 6100
网址：<http://www.ccxi.com.cn>

China Chengxin International Credit Rating Co., Ltd
Address: Building 6, Galaxy SOHO,
No.2 Nanzhugan hutong, Chaoyangmennei Avenue,
Dongcheng district, Beijing, 100020
Tel: (8610) 6642 8877
Fax: (8610) 6642 6100
Website: <http://www.ccxi.com.cn>



中国诚信(亚太)信用评级有限公司

地址：香港中环康乐广场 1 号
怡和大厦 8 楼 805-808 室
电话：(852) 2860 7111
传真：(852) 2868 0656
网址：<http://www.ccxap.com>

China Chengxin (Asia Pacific) Credit Ratings Company Limited
Address: Suites 805-808, Jardine House, 1 Connaught Place,
Central, Hong Kong
Tel: (852) 2860 7111
Fax: (852) 2868 0656
Website: <http://www.ccxap.com>