

## 2020 Issue 15

From April 27 to May 1

## US and European economic data shrank in the first quarter, China and US Treasury yields fluctuated

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## Date:

May 8, 2020

**Headline: US and European economic data shrank in the first quarter**

This week, US and Europe released economic data of the first quarter, which highlighted huge impacts of the pandemic on major global economies. US first-quarter GDP shrank 4.8% QoQ, worse than the expectation of 4% decline. This is the lowest level of GDP growth since the fourth quarter of 2008, and indicated the end of the longest period of economic expansion in history. The first-quarter GDP of Eurozone decreased by 3.8% QoQ, the lowest level since 1995.

**Exchange Rate: RMB exchange rate declined**

The RMB exchange rate remained volatile. As of April 30, the intermediate price of the RMB exchange rate closed at 7.0571, down 232bp from last Friday.

**Interest Rate: China Government Bond and US Treasury yields fluctuated**

China Government Bond yields slightly fluctuated and the yields of different maturities diverged. Influenced by the optimistic sentiment about reopening the economy, the FOMC statement and market concerns about the deterioration of China-US relations, US Treasury bond yields fluctuated. As of May 1, the yield spread between China and US 10-year note was 192.6bp, widening by 1.7bp from last Friday and 65.5bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: Chinese offshore bond new issuance fell**

Due to Labor Day holiday, Chinese offshore bond new issuance fell. From April 26 to May 1, there were 7 new issues with a total issued volume of USD1.93 billion, decreasing by 27.3% as compared to last week.

**Secondary Market: High-yield Chinese dollar bonds rebounded**

Chinese dollar bonds fluctuated in the secondary market, of which high-yield Chinese dollar bonds rebounded. As of May 1, the YTD return on Chinese USD corporate bond index rose by 29bp from last Friday to -0.35%, of which high-yield bond index was -3.09%, increasing by 92bp. The bond return on different sectors diverged. The return on financial and real estate indices rose, while the non-financial index dropped slightly.

**Rating Actions: Rating agencies took negative actions on Chinese corporates amid adverse impacts from the pandemic and heightened leverage****Panda Bond Market: BECE issued a corporate bond this week**

On April 29, BECE issued RMB0.9 billion corporate bond in the Shenzhen Exchange Market, at a coupon rate of 5.50% with a tenor of 3 years. United Ratings assigned AA+ to the bond and the issuer.

## Headline: US and European economic data shrank in the first quarter

This week, US and Europe released economic data of the first quarter, which highlighted huge impacts of the pandemic on major global economies.

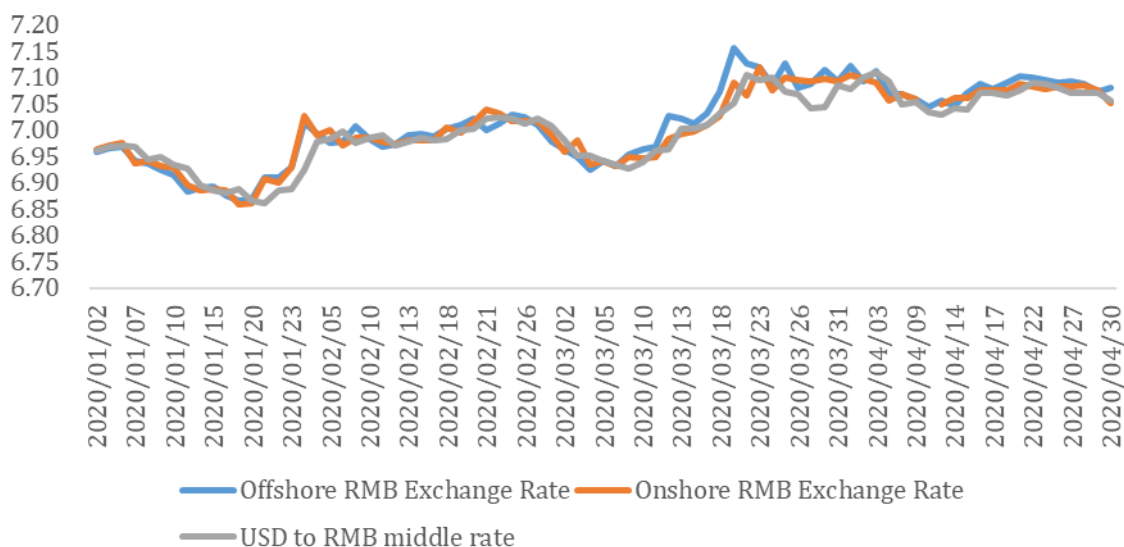
On Wednesday, the US Department of Commerce announced gross domestic product ("GDP") for the first quarter of 2020. US first-quarter GDP shrank 4.8% quarter-over-quarter ("QoQ"), far below the previous 2.1% growth and expectation of 4% decline. This is the lowest growth since the fourth quarter of 2008, and indicated the end of the longest period of economic expansion in history. GDP may shrink further in the second quarter, as the blockade have been implemented since mid-March.

On Thursday, the Eurozone released first-quarter GDP data, decreasing by 3.8% QoQ, the lowest level since 1995. In the first quarter, GDP of major European economies fell to a negative number, and unemployment soared. France's GDP in the first quarter recorded its worst performance since World War II, decreasing by 5.8% QoQ, which was worse than the market's expectation of 3.5% decline. Italy's GDP in the first quarter recorded its biggest contraction since 1995, decreasing by 4.7% QoQ, but slightly better than the market's expectation of 5.0% decline. In addition, the number of unemployed in Germany rose by 373,000 in April, much higher than the market expectation of 76,000. Christine Lagarde, President of the European Central Bank, said the Eurozone could be on course for a 15% collapse in GDP in the second quarter under the unfavorable situation.

## Exchange Rate: RMB exchange rate declined

This week, the RMB exchange rate remained volatile. As of April 30, the intermediate price of the RMB exchange rate closed at 7.0571, down 232bp from last Friday. Onshore and offshore RMB exchange rate dropped 310bp and 98bp, closing at 7.0519 and 7.0810, respectively.

Figure 1 : RMB exchange rate

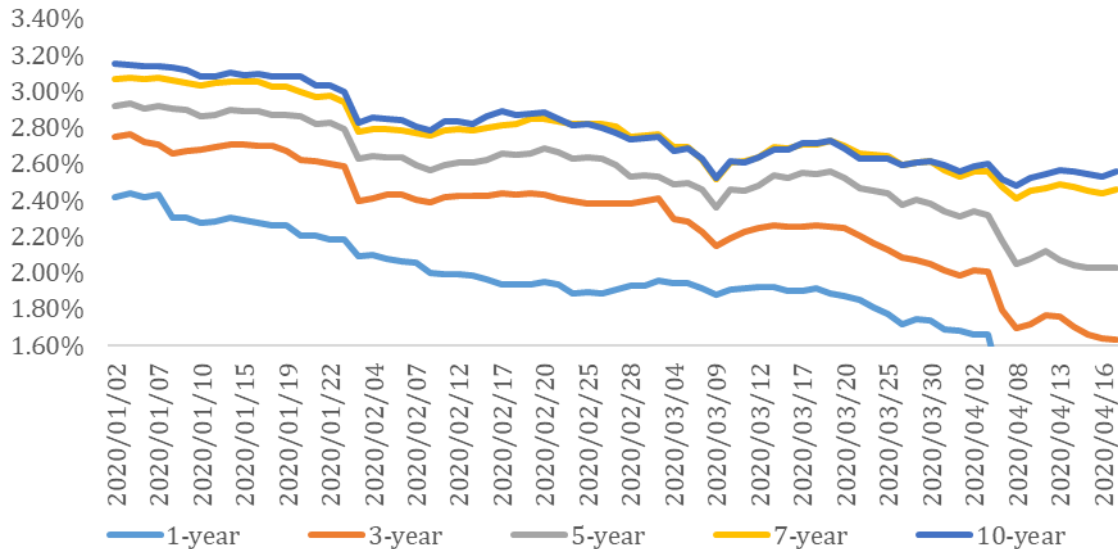


Sources: Eastmoney, CCX research

### Interest Rate: China Government Bond and US Treasury yields fluctuated

China Government Bond yields slightly fluctuated and the yields of different maturities diverged. As of April 30, 1-year, 5-year, 7-year and 10-year yields increased from last Friday, closing at 1.1465%, 1.4395%, 2.3639% and 2.5380%; while 3-year yield dropped from last Friday, closing at 1.7886%.

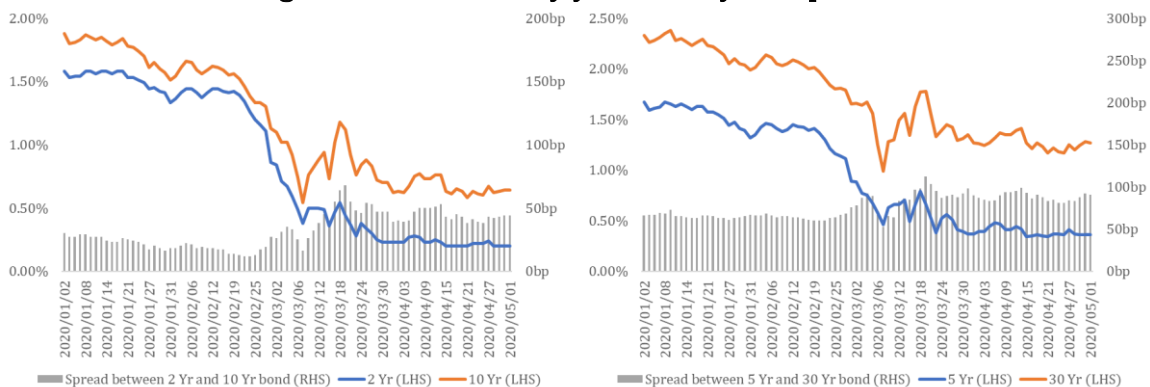
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

Influenced by the optimistic sentiment about reopening the economy, the FOMC statement and market concerns about the deterioration of China-US relations, US Treasury bond yields fluctuated. As of May 1, 2-year Treasury yield decreased by 2bp from last Friday to 0.20%; 5-year yield unchanged as compared to last Friday, closing at 0.36%; 10-year and 30-year yields closed at 0.64% and 1.27%, increasing by 4bp and 10bp from last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year increased by 6bp to 44bp from last Friday, while the spread between the 5-year and 30-year increased by 10bp to 91bp.

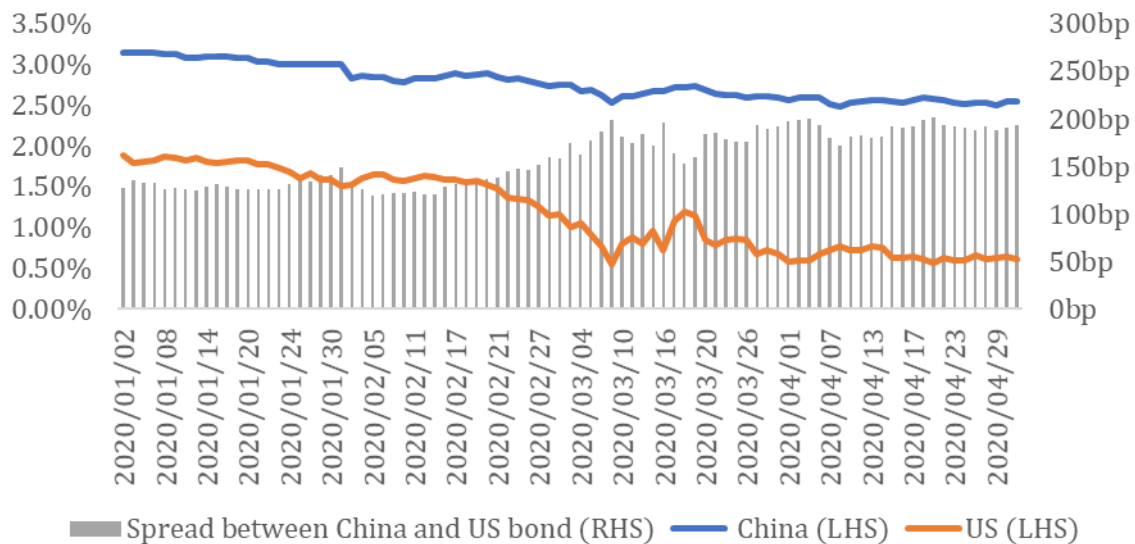
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of May 1, the yield spread between China and US 10-year note was 192.6bp, widening by 1.7bp from last Friday and 65.5bp 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: Chinese offshore bond new issuance fell

Due to Labor Day holiday, Chinese offshore bond new issuance fell. From April 27 to May 1, there were 7 new issues with a total issued volume of USD1.93 billion, decreasing by 27.3% as compared to last week.

Table 1 : New issuance of Chinese offshore bonds (20200427-20200501)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/4/27	Times China Holdings Ltd	USD	200	6	2021/5/5	364D	Real Estate	Ba3/BB-/BB-	-/-/-
2020/4/27	Country Garden Services Holdings Co Ltd	HKD	3,875	0	2021/5/18	363D	Real Estate	-/-/BBB-	-/-/-
2020/4/27	Honghe Development Group Co Ltd	USD	108	7	2023/5/8	3	Industrials	-/-/-	-/-/-
2020/4/27	China Development Bank Financial Leasing Co Ltd	HKD	550	1.85	2021/2/8	276D	Financials	A1/A/A+	-/-/-
2020/4/28	GOME Retail Holdings Ltd	USD	200	5	2023/4/28	3	Consumer Discretionary	-/-/-	-/-/-
2020/4/29	Shuifa Group Co Ltd	USD	350	4.3	2023/5/8	3	Industrials	Baa3/-/-	Baa3/-/-
2020/4/29	Nan Hai Corp Ltd	USD	500	3.5	2022/5/8	2	Real Estate	-/-/-	-/BBB+/-

Sources: Bloomberg, CCX research

Shandong Shipping Corp announced tap bond offering on April 29.

**Table 2 : Tap bond offering (20200427-20200501)**

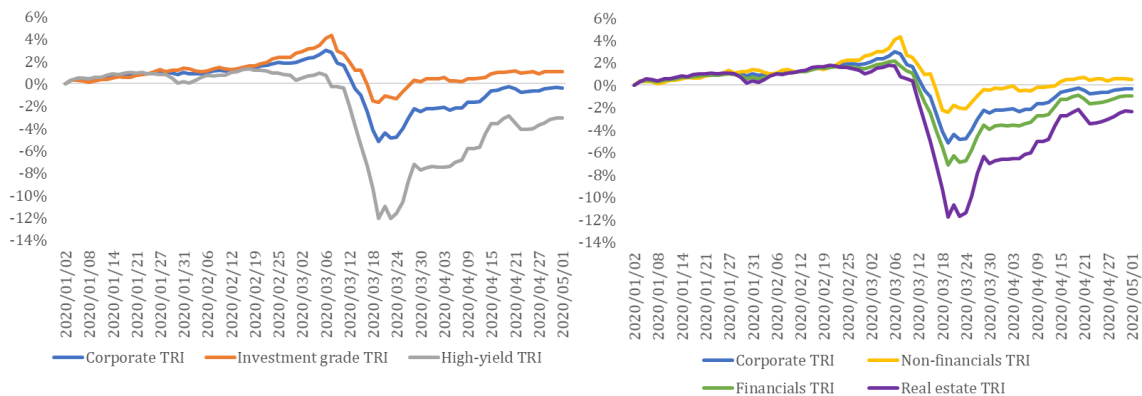
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/4/29	Shandong Shipping Corp	USD	240 (reoffered 40)	5.9	2022/10/17	3	Industrials	-/-	-/-

Sources: Bloomberg, CCX research

### Secondary Market: High-yield Chinese dollar bonds rebounded

Chinese dollar bonds fluctuated in the secondary market, of which high-yield Chinese dollar bonds rebounded. As of May 1, the YTD return<sup>1</sup> on Chinese USD corporate bond index rose by 29bp from last Friday to -0.35%, of which investment grade bond index was 1.05%, decreasing slightly by 2bp, and high-yield bond index was -3.09%, increasing by 92bp. The bond return on different sectors diverged. The return on financial and real estate indices rose by 54bp to -0.98% and 92bp to -2.36% respectively, while the non-financial index dropped slightly by 5bp to 0.53%.

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

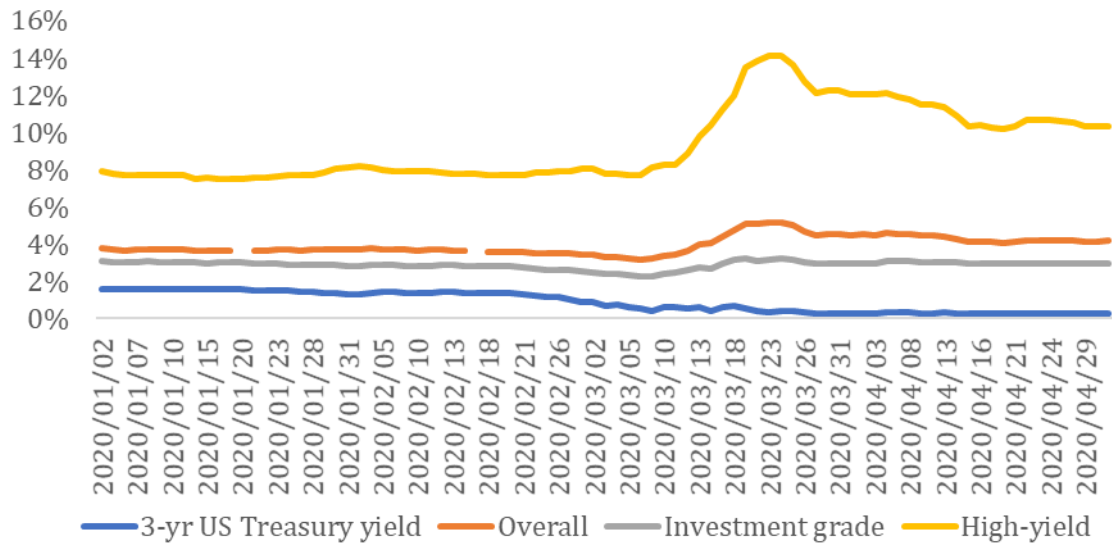


Sources: Bloomberg, CCX research

As of May 1, the yield-to-worst of Chinese dollar bonds decreased by 4bp to 4.16% from last Friday, of which investment grade bond index increased slightly by 1bp to 2.96%, while the high-yield bond index dropped by 36bp to 10.31%.

<sup>1</sup> Year-to-date return measures the return since January 2, 2020.

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



Sources: Bloomberg, CCX research

### Rating Actions: Rating agencies took negative actions on Chinese corporates amid adverse impacts from the pandemic and heightened leverage

From April 27 to May 1, the rating agencies took positive rating action on 1 Chinese issuers and negative rating actions on 15 Chinese issuers.

Table 3 : Credit rating changes of cross-border bond market (20200427-20200501)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change	
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date			
<b>International Rating:</b>											
	Sunshine Insurance Corporation Limited	Life									
	Sunshine and Insurance Limited	Property and Casualty Company	Financials	A-	NEG	2020/4/27	A-	STABLE	2020/1/23	Fitch	Coronavirus risk
Downgrade	CAR Inc.	Consumer Discretionary		CCC	NEG	2020/4/27	B-	Rating Watch Negative	2020/4/7	S&P	Deteriorating liquidity
	New China Insurance Limited	Life Company	Financials	A	NEG	2020/4/27	A	STABLE	2020/2/17	Fitch	Coronavirus risk
	China Group Ltd	Hongqiao	Materials	B+	STABLE	2020/4/27	B+	POS	2020/4/9	S&P	Weaker demand
	China National Travel Service Group Ltd		Consumer Discretionary	A-	NEG	2020/4/27	A-	STABLE	2019/10/7	S&P	Significant impact of COVID-19 on the company's operations and the uncertainty

China Travel Service Holdings Hong Kong Ltd										surrounding a recovery
Guangxi Dongcheng Investment & Development Co Ltd.	Liuzhou Chengtuo	BB	NEG	2020/4/28	BB	STABLE	2019/8/20	S&P		Wobbling government creditworthiness
China International Engineering Corp Ltd	Aluminum Industrials	BB	STABLE	2020/4/28	BB+	STABLE	2019/8/6	S&P		Continuing high leverage
GCL New Energy Holdings Limited	Energy	Caa1	NEG	2020/4/28	B3	NEG	2019/11/28	Moody's		Accelerating pressure on its liquidity and rising refinancing risks
Concord New Energy Group Ltd	Energy	B+	NEG	2020/4/28	BB-	NEG	2018/9/20	S&P		Rising leverage
Tahoe Group Co Ltd	Real Estate	B-	Rating Watch Negative	2020/4/29	B-	STABLE	2019/6/5	Fitch		Uncertainty for refinancing
Taikang Life Insurance Co Ltd	Financials	A-	NEG	2020/4/29	A-	STABLE	2019/9/30	Fitch		Coronavirus Risk
Taikang Insurance Group Inc										
Fosun International Ltd	Industrials	BB	STABLE	2020/4/29	BB	POS	2019/10/30	S&P		Higher leverage

**Domestic Rating:**

Upgrade	JIC Leasing Co Ltd	Financials	AAA	STABLE	2020/4/29	AA+	STABLE	2019/7/17	CCXI	Strong shareholder background, good profitability and strengthening capital position
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Sources: Bloomberg, Wind, CCX research

**Panda Bond Market: BECE issued a corporate bond this week**

On April 29, BECE issued RMB0.9 billion corporate bond in the Shenzhen Exchange Market, at a coupon rate of 5.50% with a tenor of 3 years. United Ratings assigned AA+ to the bond and the issuer.

As of May 1, there were 10 issuers that issued 15 Panda Bonds in 2020, with a total issuance amount of RMB22.9 billion and an average coupon of 2.94%. These bonds were mostly medium term and they were all issued in China's Interbank Market, except the one of BECE

Table 4 : New issuance of Panda Bond in 2020 (20200101-20200501)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Beijing Enterprises Clean Energy Group Limited	0.9	5.50	2020/4/29	2023/4/29	3	Corporate Bond	Shenzhen Exchange Market	United Ratings
China Mengniu Dairy Co. Ltd	1.5	1.80	2020/4/24	2020/11/20	0.57	SCP	China Interbank Market	--
Semiconductor Manufacturing International Corporation	1.5	1.85	2020/4/16	2022/8/5	0.30	SCP	China Interbank Market	China Chengxin
New Development Bank	5	2.43	2020/4/3	2023/4/3	3	International Institutional Bond	China Interbank Market	--
Xiaomi Corporation	1	2.78	2020/4/3	2021/4/3	1	PPN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	0.5	2.60	2020/3/19	2020/12/11	0.74	PPN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	0.5	2.60	2020/3/19	2020/12/11	0.74	MTN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	1	2.65	2020/3/16	2020/12/10	0.74	PPN	China Interbank Market	China Chengxin
China Gas Holdings Ltd.	1	3.38	2020/3/10	2025/3/10	5	MTN	China Interbank Market	Lianhe Rating
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



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