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CXXI & CCXAP

Cross-border Bonds Weekly Report

US may fall into recession even April's unemployment data beat expectation; China Petrochemical Corp raised USD3 billion bonds

Headline: US may fall into recession even April's unemployment data beat expectation

The US Department of Labor released the unemployment rate of 14.7% in April, the worst since the monthly data collection began in 1948, despite that it was lower than the market expectation of 16%. Some interpretation is that the figure did not count workers who left the labor force. This may also indicate pessimistic views from unemployed people in finding jobs. Market expects the unemployment rate could rise to over 20% in May.

Exchange Rate: RMB exchange rate rose

During the Labor Day holiday, the liquidity in the offshore market was tightened due to overseas factors, leading to an increase of the RMB exchange rate. As of May 9, the intermediate price of the RMB exchange rate closed at 7.0788.

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

This week, China Government Bond yields rebounded. US Unemployment surged in April and the US Department of the Treasury announced issuance of 10-year and 30-year notes, leading US Treasury yields to diverge.

Chinese Offshore Bond Market

Primary Market: Chinese offshore bond issues rebounded; China Petrochemical Corp raised USD3 billion bonds

After the Labor Day, Chinese offshore bond new issuance rebounded. From May 4 to May 8, there were 11 new issues with a total issued volume of USD4.1 billion, increasing by 112.3% as compared to last week. Particularly, China Petrochemical Corp issued USD3 billion senior notes with tenor of 5, 10 and 30 years, representing the largest issues in the week.

Secondary Market: Return on Chinese dollar bonds continued to recover

As of May 8, the YTD return on Chinese USD corporate bond index rose by 23bp from last Friday to -0.13%, of which investment grade bond index was 1.12%, increasing slightly by 7bp, and high-yield bond index was -2.55%, increasing by 54bp. Particularly, return on financial and real estate sector indices rose noticeably, while the non-financial index increased slightly.

Rating Actions: CCXAP assigned first-time BB_g to China SCE, with stable outlook

Panda Bond Market: BOCGI issued MTN this week

On May 8, BOCGI issued 2020 Medium Term Note Series I in the China Interbank Market. BOCGI raised RMB1.5 billion, at a coupon rate of 2.70% with a tenor of 3 years. CCXI assigned AAA to the bond and the issuer.

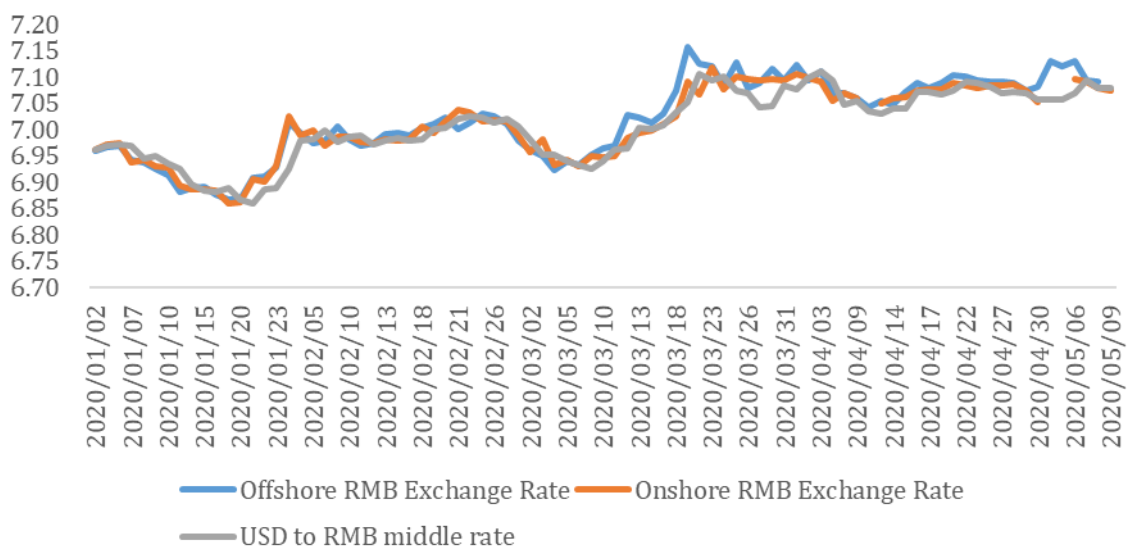
Headline: US may fall into recession even April's unemployment data beat expectation

Last Friday, the US Department of Labor released the unemployment data showing that the pandemic gave a big blow to the US employment market. The unemployment rate hit the worst since the monthly data collection began in 1948, climbing to 14.7%, as compared to the previous rate of 4.4%. This number was lower than the market expectation of 16%. Some interpretation is that the figure does not count workers who left the labor force. This may also indicate pessimistic views from unemployed people in finding jobs. Labor participation rate dropped 2.5 percentage points to 60.2%, the lowest since 1973. Market expects the unemployment rate could rise to over 20% in May. The decrease in nonfarm payrolls in April nearly wiped out the 22.4 million jobs created since November 2009.

Exchange Rate: RMB exchange rate rose

During the Labor Day holiday, the liquidity in the offshore market was tightened due to overseas factors, leading to an increase of the RMB exchange rate. As of May 9, the intermediate price of the RMB exchange rate closed at 7.0788, up 217bp from last Friday. The onshore RMB exchange rate rose 230bp to 7.0749; the offshore RMB exchange rate rose 108bp to 7.0918 on May 8.

Figure 1 : RMB exchange rate

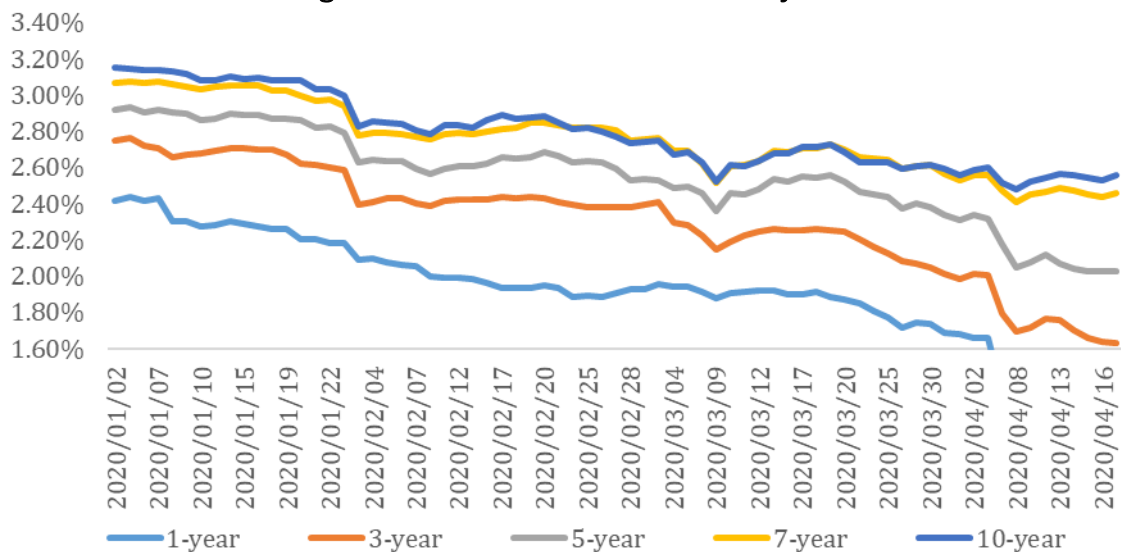


Sources: Eastmoney, CCX research

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

This week, China Government bond yields rebounded. As of May 9, the 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yield fluctuated upward from last Friday, closing at 1.2097%, 1.5641%, 1.9468%, 2.5004% and 2.6400% respectively. In April, overseas institutions increased their holdings of Chinese bonds by RMB43.3 billion, up 30.45% year-on-year. Influenced by the monetary easing, the interest rate spread of Chinese bonds and major overseas bonds has widened. Overseas institutions have increased their holdings of Chinese bonds for 17 consecutive months. Overseas institutions held RMB2,001.1 billion Chinese bonds, of which book-entry treasury bonds amounted to RMB1,394.8 billion and policy bank bonds amounted to RMB536.3 billion.

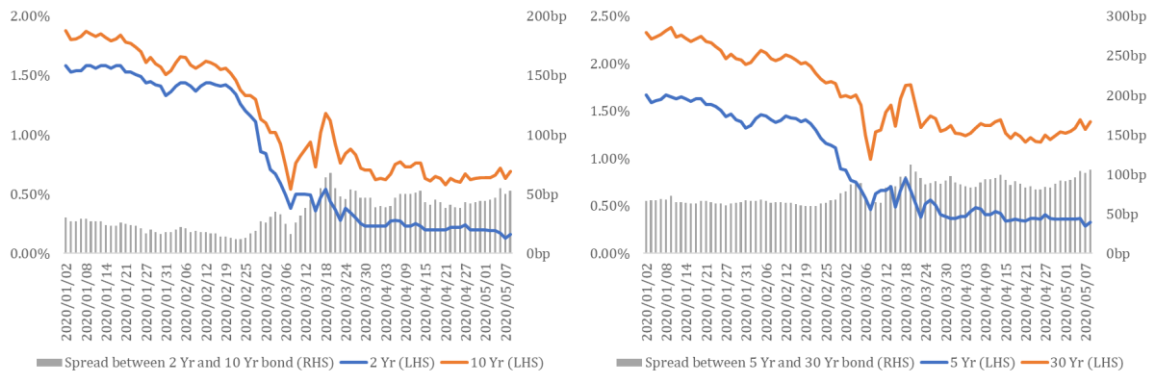
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

US Unemployment surged in April and the US Department of the Treasury announced issuance of 10-year and 30-year notes. As of May 8, 2-year and 5-year Treasury yields closed at 0.16% and 0.33%, decreasing by 4bp and 3bp from last Friday; 10-year and 30-year Treasury yields closed at 0.69% and 1.39%, increasing by 5bp and 12bp. In terms of Treasury yield spreads, the spread between the 2-year and 10-year increased by 9bp to 53bp from last Friday, while the spread between the 5-year and 30-year increased by 15bp to 106bp.

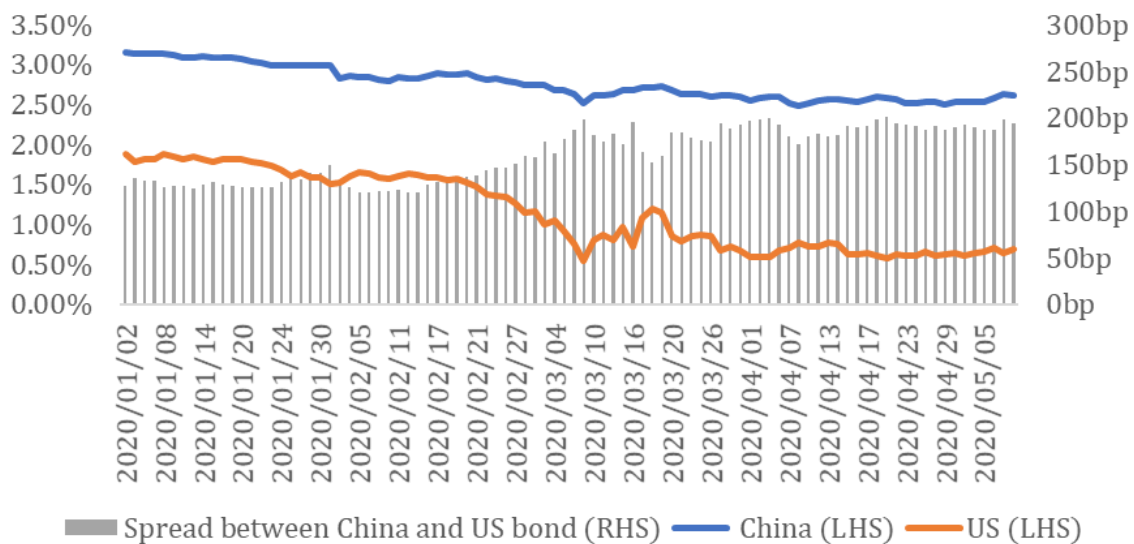
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of May 8, the yield spread between China and US 10-year note was 193.5bp, widening by 0.8bp from last Friday and 66.3bp 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 rebounded; China Petrochemical Corp raised USD3 billion bonds

After the Labor Day, Chinese offshore bond new issuance rebounded. From May 4 to May 8, there were 11 new issues with a total issued volume of USD4.1 billion, increasing by 112.3% as compared to last week. Particularly, China Petrochemical Corp issued USD3 billion senior notes with tenor of 5, 10 and 30 years, representing the largest issues in the week.

Table 1 : New issuance of Chinese offshore bonds (20200504-20200508)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/5/6	China Petrochemical Corp	USD	1,000	2.15	2025/5/13	5	Energy	A1/A+/-	A1/A+/-
2020/5/6	China Petrochemical Corp	USD	1,500	2.7	2030/5/13	10	Energy	A1/A+/-	A1/A+/-
2020/5/6	China Petrochemical Corp	USD	500	3.35	2050/5/13	30	Energy	A1/A+/-	A1/A+/-
2020/5/6	Guotai Junan International Holdings Ltd	HKD	283	2.9	2021/5/12	364D	Financials	Baa2/BBB+/-	-/-
2020/5/6	Huatai International Financial Holdings Co Ltd	USD	152	0	2023/5/8	3	Financials	-/BBB/-	-/-
2020/5/6	Weimob Inc	USD	150	1.5	2025/5/15	5	Communications	-/-	-/-
2020/5/7	AMTD International Inc	SGD	50	4.5	-	Perpetual	Financials	-/-	-/-
2020/5/7	AMTD International Inc	USD	200	7.25	-	Perpetual	Financials	-/-	-/-
2020/5/8	Guotai Junan International Holdings Ltd	HKD	350	2.5	2021/5/14	364D	Financials	Baa2/BBB+/-	-/-
2020/5/8	Guotai Junan International Holdings Ltd	HKD	200	2.9	2021/5/14	364D	Financials	Baa2/BBB+/-	-/-
2020/5/8	Huazhu Group Ltd	USD	450	3	2026/5/1	6	Consumer Discretionary	-/-	-/-

Sources: Bloomberg, CCX research

Lenovo Group Ltd announced tap bond offering on May 7.

Table 2 : Tap bond offering (20200504-20200508)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/5/7	Lenovo Group Ltd	USD	1,000 (reoffered 350)	5.875	2025/4/24	5	Technology	-/-	-/-

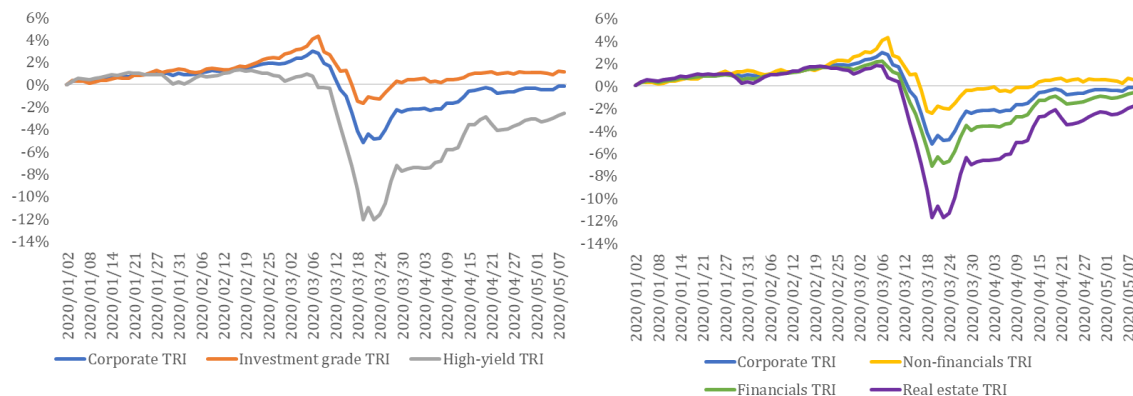
Sources: Bloomberg, CCX research

Secondary Market: Chinese dollar bonds continued to recover

As of May 8, the YTD return¹ on Chinese USD corporate bond index rose by 23bp from last Friday to -0.13%, of which investment grade bond index was 1.12%, increasing slightly by 7bp, and high-yield bond index was -2.55%, increasing by 54bp. Particularly, return on financial and real estate sector indices rose by 38bp to -0.61% and 57bp to -1.78% respectively, while the non-financial index increased slightly by 1bp to 0.54%.

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

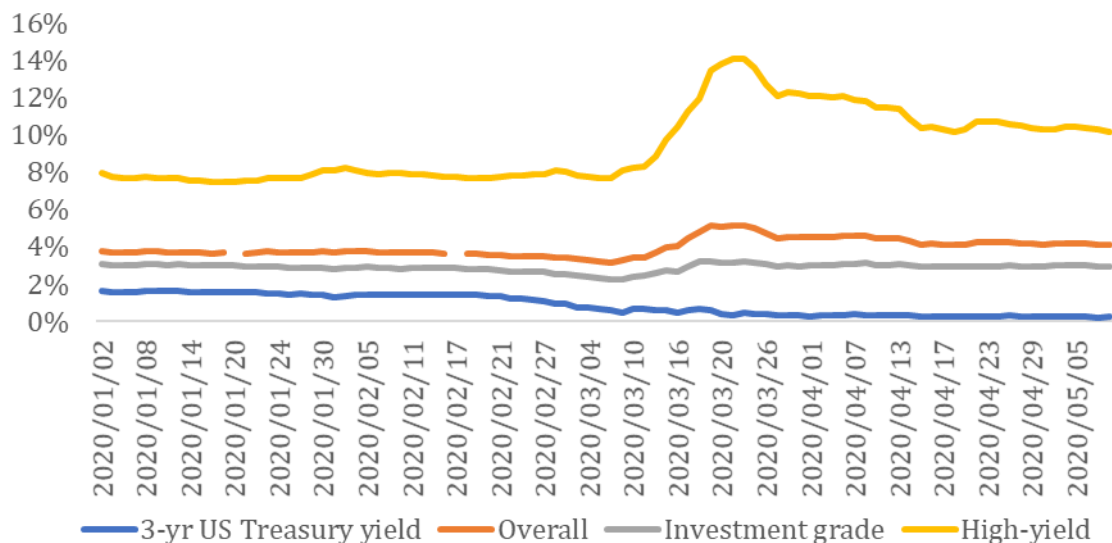
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of May 8, the yield-to-worst of Chinese dollar bonds decreased slightly by 7bp to 4.09% from last Friday, of which investment grade bond index dropped slightly by 1bp to 2.95%, while the high-yield bond index dropped by 16bp to 10.16%.

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



Sources: Bloomberg, CCX research

Rating Actions: CCXAP assigned first-time BB_g to China SCE, with stable outlook

China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) assigned a first-time long-term credit rating of BB_g to China SCE Group Holdings Limited (“China SCE” or the “Company”). The rating outlook is stable.

Established in 1996, China SCE is one of the fast-growing nationwide property developers in Mainland China which was listed on the main board of the Hong Kong Stock Exchange (Stock Code: 1966.HK) in February 2010. The Company started its business in Fujian Province and has gradually developed its nationwide business presence in Mainland China since 2013. As of 31 December 2019, China SCE reported total assets of RMB149.4 billion and total equity of

RMB30.3 billion. In 2019, the Company generated total revenue of RMB21.4 billion and net profits of RMB4.0 billion. The Company achieved fast contracted sales growth. Its contracted sales grew at a compound annual growth rate of 55.6% over the past three years to RMB80.5 billion in 2019. In particular, it retained a dominant market position in its home region of Fujian province. To support its business development, China SCE adopted a relatively active land acquisition strategy. Its attributable land cost represented about 78.1% of the attributable contracted sales. Meanwhile, the increasing project exposure in joint-venture and associates could lower its financial transparency. However, the Company has disciplined financial management and moderate debt leverage (net gearing ratio of 60.0% by the end of 2019). In addition, considering China SCE's good liquidity (cash to short-term debt ratio of 1.9x by the end of 2019) and access to offshore capital market, its refinancing risk is manageable.

CCXAP believe the impact of coronavirus outbreak on China's property market is negative. China SCE's total contracted sales in the first quarter of 2020 dropped 18% YoY. Nevertheless, the Company's business has gradually recovered after the pandemic was under control in China.

From May 4 to May 8, rating agencies took negative rating actions on 3 Chinese issuers. Yihua Enterprise Group Co Ltd was unable to pay its onshore coupon payable in full, leading to a rating downgrade from CCXI and Moody's.

Table 3 : Credit rating changes of cross-border bond market (20200504-20200508)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
	Ping An Property & Casualty Insurance Co of China Ltd	Financials	A-	NEG	2020/5/4	A-	STABLE	2019/9/24	S&P	Challenging capital market conditions and lower-for-longer interest rates
Downgrade	DaFa Properties Group Ltd	Real Estate	B	NEG	2020/5/6	B	STABLE	2019/6/18	S&P	Weaker profitability and revenue recognition ability
	Yihua Enterprise Group Co Ltd	Consumer Discretionary	Ca	NEG	2020/5/7	Caa1	NEG	2019/7/15	Moody's	Inability to pay in full the RMB65 million coupon payable on 6 May 2020
Domestic Rating:										
Downgrade	Yihua Enterprise Group Co Ltd	Consumer Discretionary	C	-	2020/5/7	A	Rating Watch Negative	2020/4/24	CCXI	Bond default

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: BOCGI issued MTN this week

On May 8, Bank of China Group Investment Limited (“BOCGI”) issued 2020 Medium Term Note Series I in the Chinese Interbank Market. BOCGI raised RMB1.5 billion, at a coupon rate of 2.70% with a tenor of 3 years. CXXI assigned AAA to the bond and the issuer.

As of May 8, there were 11 issuers that issued 16 Panda Bonds in 2020, with a total issuance amount of RMB24.4 billion and an average coupon of 2.92%. These bonds were mostly medium term and they were all issued in China Interbank Market, except the one of BECE.

Table 4 : New issuance of Panda Bond in 2020 (20200101-20200508)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Bank of China Group Investment Limited	1.5	2.70	2020/5/8	2023/5/8	3	MTN	China Interbank Market	China Chengxin
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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