

## 2020 Issue 21

From June 8 to June 12

## Fed implied hard to imagine a V-shaped recovery; Chinese offshore bond new issuance rebounded

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#### Date:

June 18, 2020

### Headline: Fed implied hard to imagine a V-shaped recovery

On Tuesday, the US National Bureau of Economic Research reported that the 128-month economic expansion ended in February 2020, and the US economy has since entered a recession. On Thursday, the Fed announced to maintaining the target range for the federal funds rate at 0%-0.25% and predicted that the US economy will shrink by 6.5% in 2020. Fed's dovish stance undermined the prospects of a V-shaped economic recovery.

### Exchange Rate: Intermediate price of RMB exchange rate declined

This week, the RMB exchange rate declined as the depreciation pressure of RMB gradually released. As of June 12, the intermediate price of RMB exchange rate closed at 7.0865.

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

China Government bond yields decreased with rising expectation for monetary easing policies. The market worried about the second wave of pandemic in the US, driving down US Treasury yields. As of June 12, the yield spread between China and US 10-year note was 204.2bp, widening by 8.9bp from last Friday and widening by 77.0bp from the beginning of the year.

### Chinese Offshore Bond Market

#### Primary Market: Chinese offshore bond new issuance rebounded, real estate developers were the key issuers

From June 8 to June 12, there were 19 new issues with a total issued volume of USD4.281 billion, significantly increasing by 135.7% as compared to last week. Real estate developers were the key issuers this week, which newly issued 6 bonds with a total issued volume of USD1.91 billion, accounting for 44.6% of total issuance.

#### Secondary Market: Return on Chinese dollar bonds continued to rise, while non-financial bonds recorded the biggest increase

As of June 12, the YTD return on Chinese USD corporate bond index increased by 65bp from last Friday to 2.09%, of which investment grade bond index was 2.97% and high-yield bond index was 0.41%, increasing by 86bp and 23bp, respectively. In terms of sector indices, the return on non-financial index recorded the biggest increase, rose by 92bp to 2.68%.

#### Rating Actions: CCXAP assigned BB<sub>g</sub>+ to Ronshine China's proposed US dollar-denominated notes

Risk Event: Yihua Group defaulted on interest payments of its USD senior notes

### Panda Bond Market: SMBC and Everbright Greentech issued 2 Panda Bonds

On June 8, SMBC issued 2020 Private Placement Note Series I in the China Interbank Market, which was the first Panda Bond issued by SMBC. SMBC raised RMB1billion, at a coupon rate of 3.20% with a tenor of 3 years. On June 12, Everbright Greentech issued 2020 Medium Term Note Series I in the China Interbank Market. Everbright Greentech raised RMB1 billion, at a coupon rate of 3.68% with a tenor of 5 years.

## Headline: The Fed implied hard to imagine a V-shaped recovery

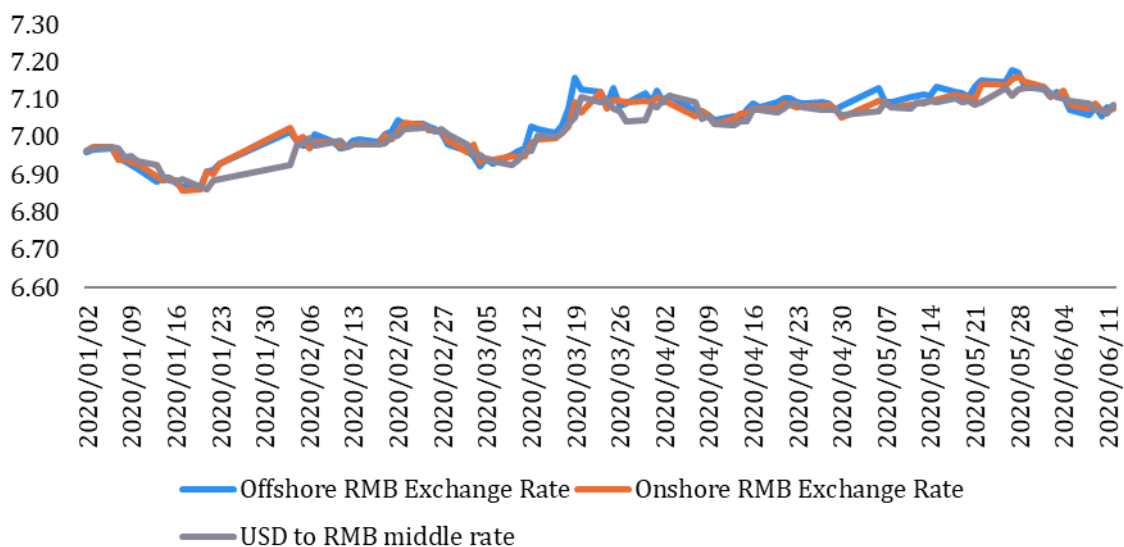
On Tuesday, the Business Cycle Dating Committee of the National Bureau of Economic Research ("NBER") reported that February 2020 marked the end of the economic expansion that began in June 2009, indicating the US officially entered an economic recession. This economic expansion lasted 128 months, the longest in the history of US business cycles dating back to 1854.

On Thursday, the US Department of Labor announced that the number of initial jobless claims until June 6 was 1.542 million, falling for the 10<sup>th</sup> consecutive week. On the same day, the Fed announced to maintain the target range for the federal funds rate at 0%-0.25% and predicted that the US economy will shrink by 6.5% in 2020. "The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. The Federal Reserve is committed to using its full range of tools to support the US economy in this challenging time, thereby promoting its maximum employment and price stability goals.", the FOMC statement said. The Fed's dovish stance undermined the prospects of a V-shaped economic recovery, which hit the recent optimistic market sentiment. Combined with concerns about the second wave of the pandemic, the US and global stock markets fell sharply again this week.

## Exchange Rate: Intermediate price of RMB exchange rate declined

This week, the RMB exchange rate declined as the depreciation pressure of RMB gradually released. The continuous recovery of China's economy would also support the RMB exchange rate. As of June 12, the intermediate price of RMB exchange rate closed at 7.0865, down 100bp from last Friday; the onshore RMB exchange rate closed at 7.0745, down 121bp from last Friday. The offshore RMB exchange rate was volatile affected by the fluctuations of capital market, up 53bp to 7.0760.

Figure 1 : RMB exchange rate

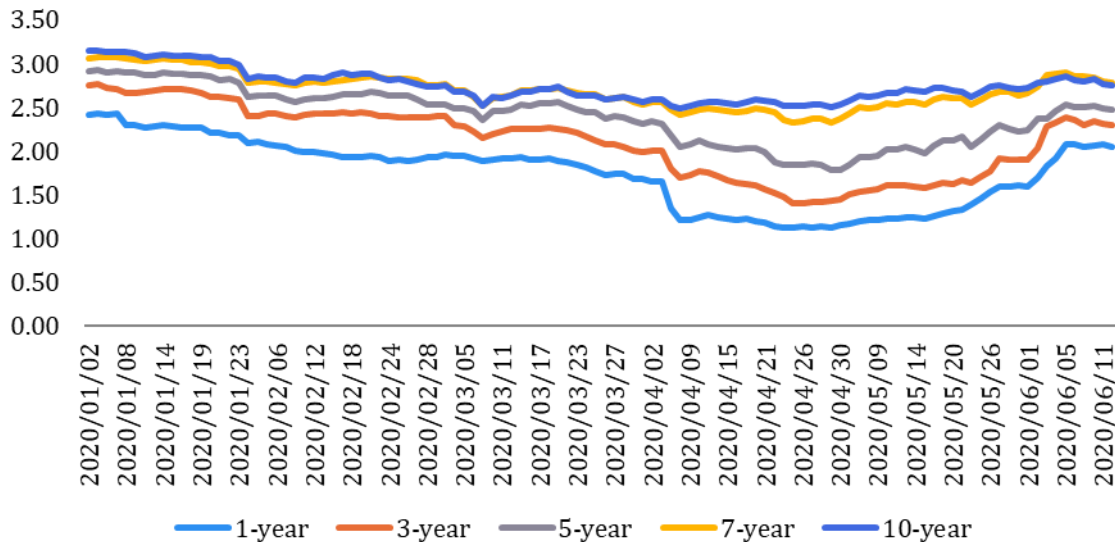


Sources: Eastmoney, CCX research

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

During the week, China Government Bond yields decreased with rising expectation for monetary easing policies. As of June 12, the 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yields declined from last Friday, closing at 2.0504%, 2.2931%, 2.4690%, 2.7850% and 2.7451%, respectively.

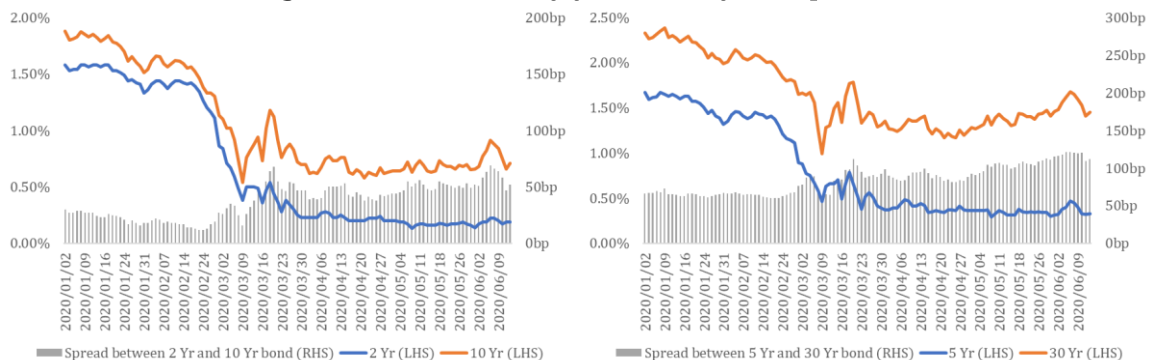
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

The market worried about the second wave of pandemic in the US, driving down US Treasury yields. As of June 12, 2-year, 5-year, 10-year and 30-year Treasury yields closed at 0.19%, 0.33%, 0.71% and 1.45%, decreasing by 3bp, 14bp, 20bp and 23bp from last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year tightened by 17bp to 52bp from last Friday, while the spread between the 5-year and 30-year tightened by 9bp to 112bp from last Friday.

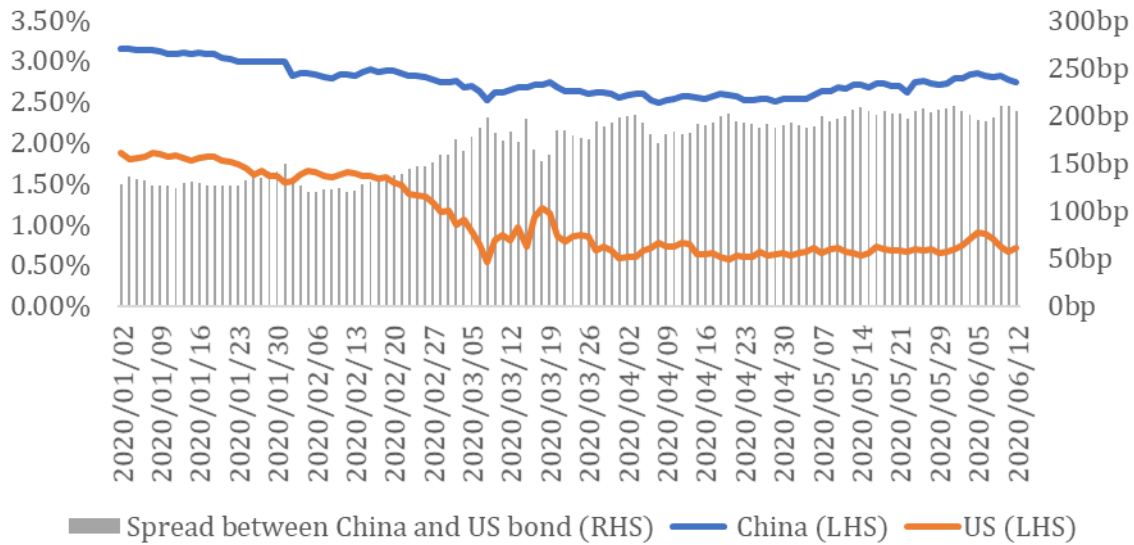
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of June 12, the yield spread between China and US 10-year note was 204.2bp, widening by 8.9bp from last Friday and widening by 77.0bp 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, real estate developers were the key issuers

From June 8 to June 12, there were 19 new issues with a total issued volume of USD4.281 billion, significantly increasing by 135.7% as compared to last week. Real estate developers were the key issuers this week, which newly issued 6 bonds with a total issued volume of USD1.91 billion, accounting for 44.6% of total issuance.

Table 1 : New issuance of Chinese offshore bonds (20200608-20200612)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/6/8	Central China Real Estate Ltd	USD	400	7.65	2023/8/27	3.2	Real Estate	Ba3/B+/BB-	-/-/BB-
2020/6/8	Greenland Holding Group Co Ltd	USD	500	6.25	2022/12/16	2.5	Real Estate	Ba1/BB/BB-	Ba2/-/-
2020/6/9	China Fortune Land Development Co Ltd	USD	300	6.92	2022/6/16	2	Real Estate	Ba3/-/BB-	Ba3/-/-
2020/6/9	Guotai Junan International Holdings Ltd	HKD	829	2.53	2021/6/15	364D	Financials	Baa2/BBB+/-	-/-/-
2020/6/9	Ronshine China Holdings Ltd	USD	250	7.35	2023/12/15	3.5	Real Estate	B1/B+/BB- /BB <sub>e</sub> +(CCXAP)	-/-/BB- /BB <sub>e</sub> +(CCXAP)
2020/6/9	Shanghai Construction Group Co Ltd	USD	600	2.25	2025/6/16	5	Industrials	Baa2/BBB/BBB+	-/-/-
2020/6/9	Wuyi Mountains Ltd	USD	50	0	2022/6/9	2	Financials	-/-/-	-/-/-
2020/6/10	China Development Bank Financial Leasing Co Ltd	HKD	530	1.7	2021/1/19	217D	Financials	A1/A/A+	-/-/-
2020/6/10	China Development Bank Financial Leasing Co Ltd	HKD	300	1.65	2021/6/9	357D	Financials	A1/A/A+	-/-/-
2020/6/10	China Mengniu Dairy Co Ltd	USD	500	1.875	2025/6/17	5	Consumer Staples	Baa1/BBB+/-	-/-/-

2020/6/10	China Mengniu Dairy Co Ltd	USD	300	2.5	2030/6/17	10	Consumer Staples	Baa1/BBB+/-	-/-/-
2020/6/10	Guotai Junan International Holdings Ltd	HKD	500	2.5	2021/6/16	364D	Financials	Baa2/BBB+/-	-/-/-
2020/6/10	Industrial & Commercial Bank of China Ltd/Dubai DIFC	USD	100	3ML+60	2023/6/16	3	Banks	A1/A/A	-/-/-
2020/6/10	Radiance Group Co Ltd	USD	250	8.8	2023/9/17	3.25	Real Estate	-/B/B	-/-/B
2020/6/10	Zhengzhou Airport Economy Zone Xinggang Investment Group Co Ltd	USD	300	3.4	2023/6/17	3	Chengtou	-/-/BBB+	-/-/BBB+
2020/6/11	Changxing Communications Investment Group Co Ltd	USD	110	4.1	2023/6/18	3	Chengtou	-/-/-	-/-/-
2020/6/11	Sinic Holdings Group Co Ltd	USD	210	10.5	2022/6/18	2	Real Estate	B2/B/B+	-/-/B+e
2020/6/12	China Development Bank Financial Leasing Co Ltd	HKD	250	1.6	2021/6/15	361D	Financials	A1/A/A+	-/-/-
2020/6/12	Industrial & Commercial Bank of China Ltd/Hong Kong	USD	100	3ML+60	2023/6/16	3	Banks	A1/A/A	-/-/-

Sources: Bloomberg, CCX research

Powerlong Real Estate Holdings Ltd and Tianjin State-Owned Capital Investment & Management Co Ltd announced tap bond offering on June 10 and June 11 respectively.

**Table 2 : Tap bond offering (20200608-20200612)**

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/6/10	Powerlong Real Estate Holdings Ltd	USD	420 (reoffered 250)	6.95	2023/7/23	4	Real Estate	B1/B+/-	B2/-/-
2020/6/11	Tianjin State-Owned Capital Investment & Management Co Ltd	USD	281 (reoffered 240)	1.55	2029/12/17	10	Financials	-/-/-	-/-/-
2020/6/11	Tianjin State-Owned Capital Investment & Management Co Ltd	USD	240 (reoffered 60)	1.6	2039/12/17	20	Financials	-/-/-	-/-/-

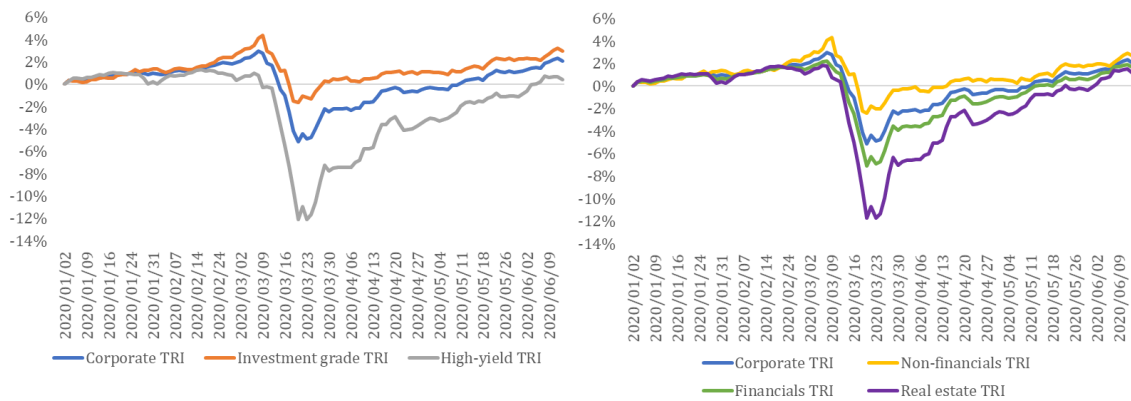
Sources: Bloomberg, CCX research

## Secondary Market: Return on Chinese dollar bonds continued to rise, while non-financial bonds recorded the biggest increase

Return on Chinese dollar bonds continued to rise. As of June 12, the YTD return<sup>1</sup> on Chinese USD corporate bond index increased by 65bp from last Friday to 2.09%, of which investment grade bond index was 2.97% and high-yield bond index was 0.41%, increasing by 86bp and 23bp, respectively. In terms of sector indices, the return on non-financial index recorded the biggest increase, rising by 92bp to 2.68%; while the financial and real estate indices were 1.66% and 1.17%, increasing by 46bp and 38bp from last Friday, respectively.

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

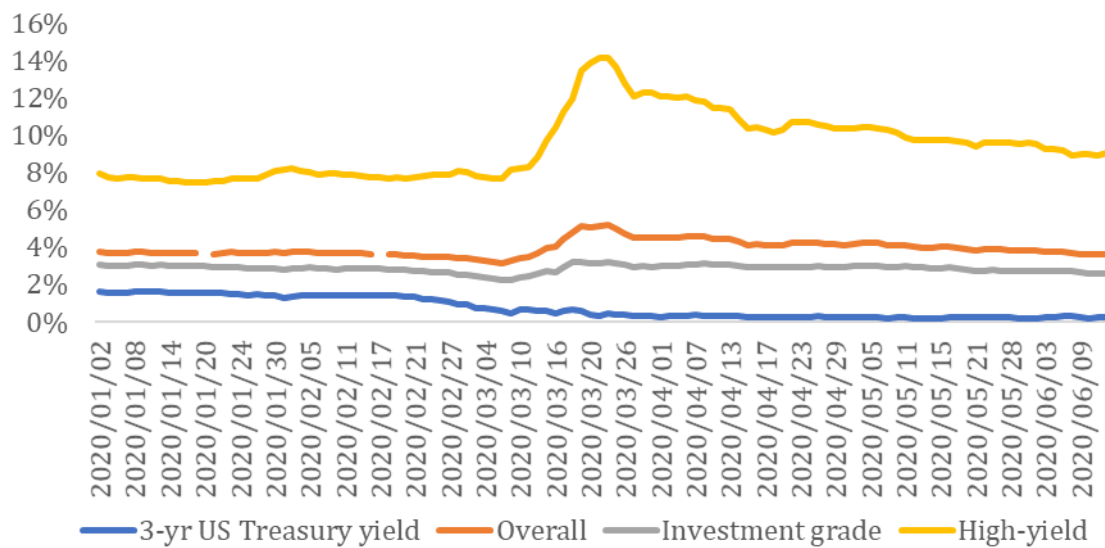
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of June 12, the yield-to-worst of Chinese dollar bonds decreased by 12bp to 3.64% from last Friday, of which investment grade bond index declined by 15bp to 2.60%, while the high-yield bond index declined by 10bp to 9.06%.

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



Sources: Bloomberg, CCX research

### Rating Actions: CCXAP assigned BB<sub>g</sub>+ to Ronshine China’s proposed US dollar-denominated notes

On June 9, China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) assigned BB<sub>g</sub>+ to the proposed US dollar-denominated senior notes to be issued by Ronshine China Holdings Limited (“Ronshine China”).

Table 3 : CCXAP's rating action (20200608-20200612)

Date	Entity	Issue Rating	Rating Rationale
2020/6/9	Ronshine China	BB <sub>g</sub> +	The rating of the proposed notes is equal to Ronshine China's long-term credit rating as first-time assigned by CCXAP on 21 May 2020. Despite Ronshine China's status as a holding company with no material operations, its diversified business profile (with revenue and cash flow generation across its large number of operating subsidiaries) can help mitigate structural subordination risks.

Source: CCX research

From June 8 to June 12, the rating agencies took positive rating actions on 4 Chinese issuers and took negative rating actions on 5 Chinese issuers.

Table 4 : Credit rating changes of cross-border bond market (20200608-20200612)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
<b>International Rating:</b>										
Upgrade	Dongfeng Motor Group Co Ltd	Consumer Discretionary	A2	STABLE	2020/6/12	A2	Rating Watch Negative	2020/3/26	Moody's	Stable credit metrics at levels that are appropriate for its current standalone credit profile
	Geely Automobile Holdings Ltd	Consumer Discretionary	Baa3	STABLE	2020/6/12	Baa3	Rating Watch Negative	2020/3/26	Moody's	Growing scale with disciplined financial management
Downgrade	Hilong Holding Ltd	Energy	CC	-	2020/6/9	B	Rating Watch Negative	2020/5/20	Fitch	High refinancing risk
	Hilong Holding Ltd	Energy	B3	Rating Watch Negative	2020/6/9	B2	NEG	2020/5/15	Moody's	Heightened refinancing risk
	21Vianet Group Inc	Communications	B	STABLE	2020/6/9	B+	NEG	2020/3/17	S&P	Weakening parental support
	Zijin Mining Group Co Ltd	Materials	Baa3	Rating Watch Negative	2020/6/10	Baa3	STABLE	2018/7/20	Moody's	Concerns over its acquisitive strategy and the expected weakening in its financial metrics
	Zijin Mining Group Co Ltd	Materials	BBB-	Rating Watch Negative	2020/6/11	BBB-	NEG	2020/3/27	S&P	Proposed Julong Copper acquisition
	Beijing Haidian District State-Owned Assets Investment Group Co Ltd	Chengtou	BBB-	STABLE	2020/6/11	BBB	STABLE	2019/9/5	S&P	Elevated debt
	Beijing Automotive Group Co Ltd	Consumer Discretionary	Baa3	STABLE	2020/6/12	Baa2	Rating Watch Negative	2020/3/26	Moody's	Expectation of high leverage
<b>Domestic Rating:</b>										

	Taizhou Group Co Ltd	Xintai	Chengtou	AA+	STABLE	2020/6/8	AA	STABLE	2020/3/26	Lianhe Ratings	Strong government support, further enhanced capital strength, and improved debt structure
Upgrade	Shanxi Co Ltd	Securities	Financials	AAA	STABLE	2020/6/11	AA+	STABLE	2019/6/20	CCXI	Strong shareholder strength, outstanding regional competitive advantages, and smooth financing channels

Sources: Bloomberg, Wind, CCX research

### Risk Event: Yihua Group defaulted on interest payments of its USD senior notes

According to Bloomberg, on June 2, the bond trustee Mellon Bank of New York notified investors that Yihua Enterprise (Group) Co., Ltd. ("Yihua Group") was in default as it failed to pay the interest of its USD250 million 8.5% senior notes within the 30-day grace period, which was originally scheduled due April 23.

### Panda Bond Market: SMBC and Everbright Greentech issued 2 Panda Bonds

On June 8, Sumitomo Mitsui Banking Corporation ("SMBC") issued 2020 Private Placement Note Series I in the China Interbank Market, which was the first Panda Bond issued by SMBC. SMBC raised RMB1 billion, at a coupon rate of 3.20% with a tenor of 3 years. On June 12, China Everbright Greentech Limited ("Everbright Greentech") issued 2020 Medium Term Note Series I in the China Interbank Market. Everbright Greentech raised RMB1 billion, at a coupon rate of 3.68% with a tenor of 5 years. Lianhe Ratings assigned AAA to both the bond and the issuer.

As of June 12, there were 17 issuers that issued 25 Panda Bonds in 2020, with a total issuance amount of RMB36.1 billion and an average coupon of 2.90%. The majority of them were issued in the China Interbank Market. About half of them were issued at a tenor of 3 years or above.

Table 5 : New issuance of Panda Bond in 2020 (20200101-2020612)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
China Everbright Greentech Limited	1	3.68	2020/6/12	2025/6/12	5	MTN	China Interbank Market	Lianhe Ratings
Sumitomo Mitsui Banking Corporation	1	3.20	2020/6/8	2023/6/8	3	PPN	China Interbank Market	--
Daimler International Finance BV	3	3.25	2020/6/5	2023/6/5	3	PPN	China Interbank Market	--
China Traditional Medicine Co. Limited	2.2	3.28	2020/6/5	2023/6/5	3	MTN	China Interbank Market	China Chengxin
Capital Environment Holdings Limited	1	3.10	2020/5/29	2025/5/29	5	Corporate Bond	Shanghai Exchange	China Chengxin



								Market	
China Mengniu Dairy Company Limited	0.5	1.61	2020/5/29	2020/11/25	0.49	SCP	China Interbank Market	China Chengxin	
China Mengniu Dairy Company Limited	1.5	1.61	2020/5/29	2020/11/25	0.49	SCP	China Interbank Market	China Chengxin	
China Power International Development Limited	0.5	2.00	2020/5/29	2021/2/23	0.74	SCP	China Interbank Market	China Chengxin	
Beijing Enterprises Water Group Limited	1	4.00	2020/5/13	2025/5/13	5	MTN	China Interbank Market	Shanghai Brilliance Rating	
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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