

## 2020 Issue 24

From June 29 to July 3

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**CCXI & CCXAP**

## Cross-border Bonds Weekly Report

### Global foreign reserves in Renminbi reached a record high; Weibo Corp issued 10-year USD bond

#### **Headline:** Global foreign exchange reserves in Renminbi reached a record high

In 2020Q1, the global foreign exchange reserves in RMB has risen for six consecutive quarters to USD0.22 trillion, according IMF's COFER released on Tuesday. Meanwhile, the share of assets denominated in RMB accounted for 2.02% of the total reserves, the highest level since the Renminbi was included in 2016Q4, indicating the accelerating internationalization of Renminbi.

#### **Exchange Rate:** RMB exchange rate fluctuated slightly

This week, the RMB exchange rate fluctuated slightly. As of July 3, the intermediate price of RMB exchange rate closed at 7.0638.

#### **Interest Rate:** Short-term China Government Bond and US Treasury yields dropped while medium- and long-term yields rose

China Government Bond yields fluctuated in different directions. Short-term bond yields declined, while medium- and long-term bond yields rose. US Treasury yields were volatile given the better-than-expected June nonfarm payrolls and worse-than-expected initial jobless claims. As of July 3, the yield spread between China and US 10-year note was 222.8bp, widening by 0.8bp from last Friday and widening by 95.7bp from the beginning of the year.

#### **Chinese Offshore Bond Market**

##### **Primary Market:** Chinese offshore bond new issuance dropped; Weibo Corp issued a 10-year USD750 million bond

From June 29 to July 3, there were 11 new issues with a total issuance volume of USD1.9 billion, decreasing by 22.9% as compared to last week. Weibo Corp issued a 10-year USD750 million bond which was the largest single issue in the week.

##### **Secondary Market:** Return on Chinese dollar bonds was flat

As of July 2, the YTD return on Chinese USD corporate bond index increased by 5bp from last Friday to 2.70%, of which investment grade bond index was 3.37% and high-yield bond index was 1.46%, decreasing by 1bp and increasing by 20bp, respectively.

##### **Rating Actions:** CCXAP assigned first-time BB<sub>g</sub> to Zunyi Transportation and Tourism, with stable outlook

**Risk Event:** Shandong Ruyi failed to repay interest of its Euro-denominated convertible bonds; Tahoe Group defaulted on onshore MTN

##### **Panda Bond Market:** No new issuance this week

## Headline: Global foreign exchange reserves in Renminbi reached a record high

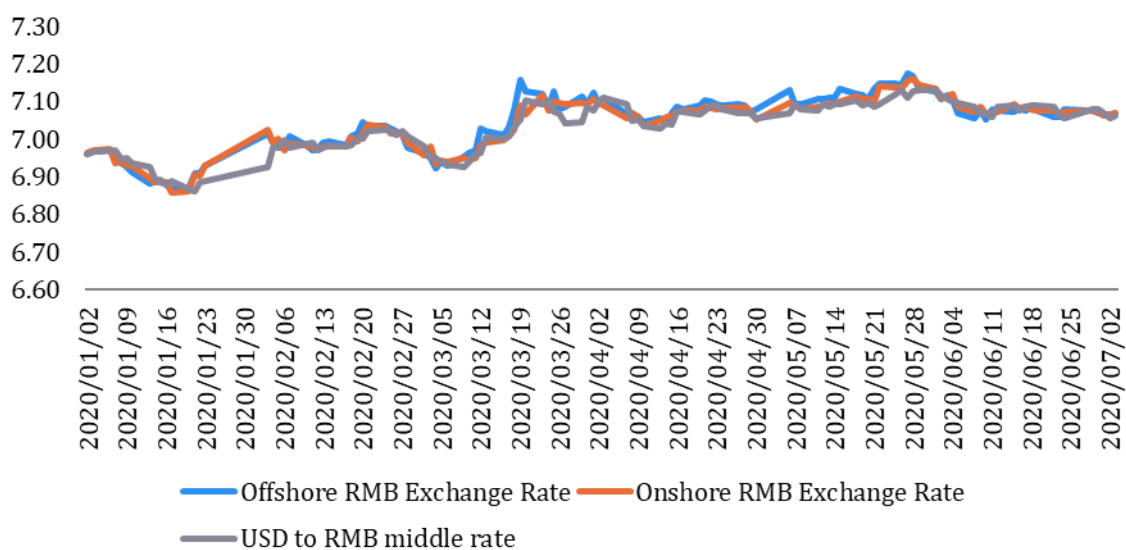
In 2020Q1, the global foreign exchange reserves in RMB has risen for six consecutive quarters to USD0.22 trillion, according IMF's Currency Composition of Official Foreign Exchange Reserves ("COFER") released on Tuesday. The share of assets denominated in RMB accounted for 2.02% of the total reserves, the highest level since the Renminbi was included in 2016Q4, higher than the shares of Australian dollars (1.55%) and Canadian dollars (1.78%). In addition, the share of US dollars holdings increased to 61.99%, as global central banks increased their reserves in USD assets amid the pandemic. Shares of euro and Japanese yen remained stable at 20% and 5.7% respectively.

The increase in use of renminbi as a reserve currency implied the rising interests on renminbi-denominated assets and the importance of Renminbi in global trade. Since the internationalization of Renminbi in 2009, the volume of offshore RMB transaction has went up steadily.

## Exchange Rate: RMB exchange rate fluctuated slightly

This week, the RMB exchange rate fluctuated slightly. As of July 3, the intermediate price of RMB exchange rate closed at 7.0638, up 83bp from last Wednesday; the onshore RMB exchange rate closed at 7.0680, down 64bp from last Wednesday; the offshore RMB exchange rate closed at 7.0687, down 122bp from last Friday.

Figure 1 : RMB exchange rate

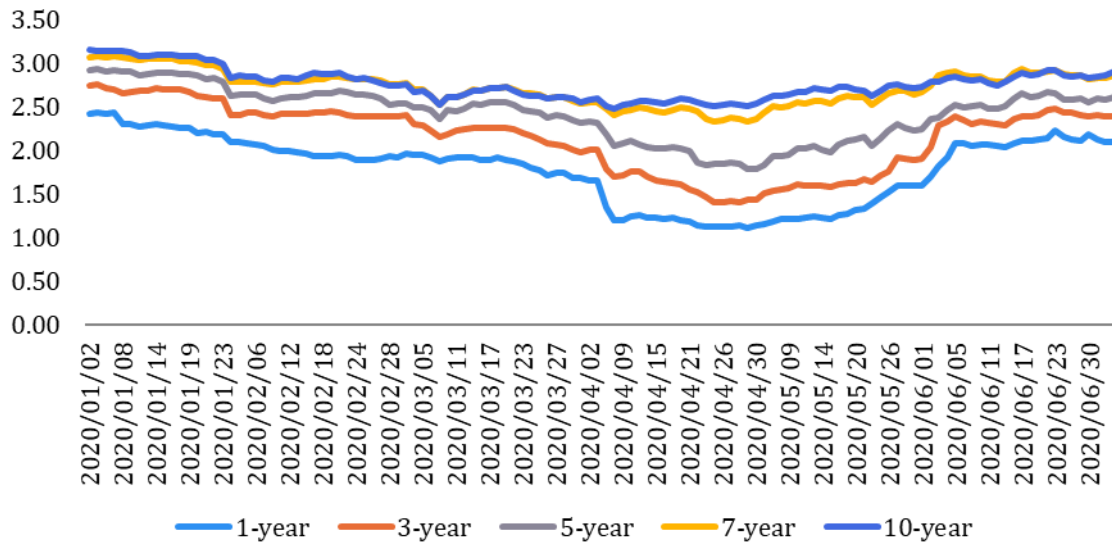


Sources: Eastmoney, CCX research

## Interest Rate: Short-term China Government Bond and US Treasury yields dropped while medium- and long-term yields rose

During the week, China Government Bond yields fluctuated in different directions. Short-term bond yields declined, while medium and long-term bond yields rose. As of July 3, the 1-year and 3-year Government Bond yield closed at 2.0976% and 2.3878%, declined as compared to that of June 28; 5-year, 7-year and 10-year Government Bond yield closed at 2.6084%, 2.8628% and 2.8974%, increased as compared to that of June 28.

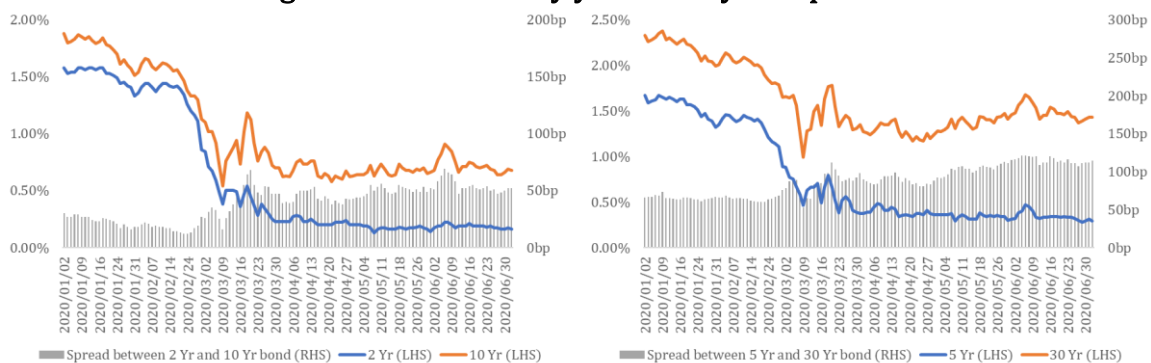
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

On Wednesday, the Fed released minutes from its June FOMC, stating that it may consider the approaches that cap or target interest rates along the yield curve. The US employment data diverged as the better-than-expected nonfarm payrolls dragged the June unemployment rate to 11.1%, but the initial jobless claims stayed high given a worse than expected decrease over the last week. Such that, US Treasury yields were volatile during the week. As of July 3, 2-year, 5-year Treasury yields closed at 0.16%, 0.29%, decreased by 1bp and 1bp from last Friday respectively; 10-year and 30-year Treasury yields closed at 0.68% and 1.43%, increased by 4bp and 6bp from last Friday respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year widened by 5bp to 52bp from last Friday, while the spread between the 5-year and 30-year widened by 7bp to 114bp from last Friday.

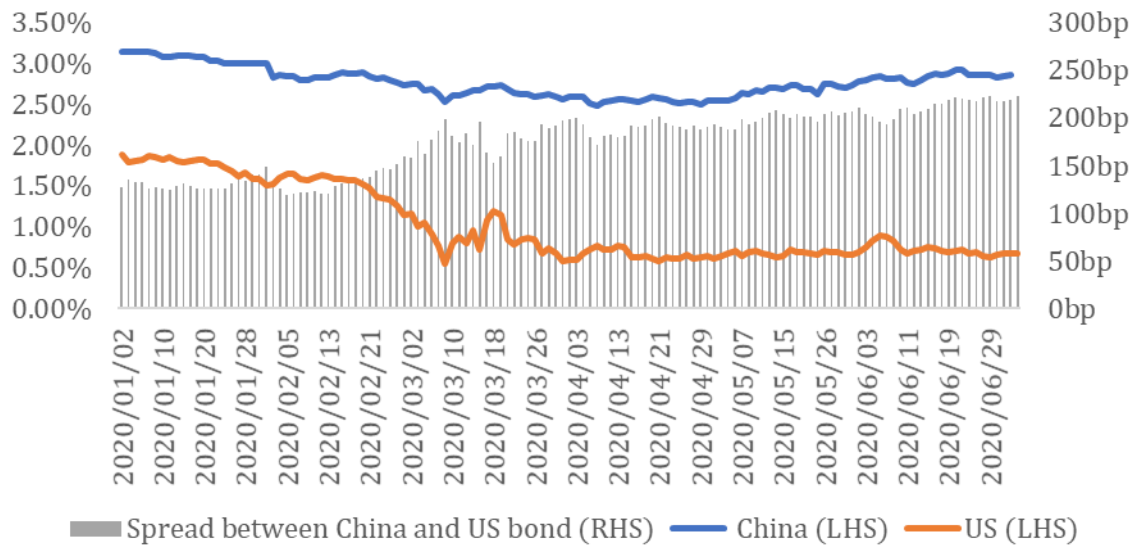
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of July 3, the yield spread between China and US 10-year note was 222.8bp, widening by 0.8bp from last Friday and widening by 95.7bp 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 dropped; Weibo Corp issued a 10-year USD750 million bond

From June 29 to July 3, there were 11 new issues with a total issuance volume of USD1.875 billion, decreasing by 22.9% as compared to last week. Weibo Corp issued a 10-year USD750 million bond which was the largest single issue in the week.

Table 1 : New issuance of Chinese offshore bonds (20200629-20200703)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/6/29	Golden Wheel Tiandi Holdings Co Ltd	USD	170	14.25	2023/1/9	2.5	Real Estate	B2/-/B-	B2/-/-
2020/6/29	Neijiang Investment Holding Group Co Ltd	USD	30	7	2022/7/7	2	Chengtou	-/-/-	-/-/-
2020/6/29	Neijiang Investment Holding Group Co Ltd	USD	70	2.8	2023/6/7	2.92	Chengtou	-/-/-	-/-/A
2020/6/29	Times China Holdings Ltd	USD	300	6.75	2025/7/8	5	Real Estate	Ba3/BB-/BB-	B1/B+/BB-e
2020/6/29	Xinyuan Real Estate Co Ltd	CNY	160	12	2022/6/29	2	Real Estate	-/B-/B-	-/-/-
2020/6/29	Zhejiang Changxing Financial Holdings Group Co Ltd	USD	160	5.5	2023/7/3	3	Financials	-/-/-	-/-/-
2020/6/30	CMB International Capital Corp Ltd	USD	20	1.1	2020/8/10	33D	Financials	Baa1/BBB+/-	-/-/-
2020/6/30	Neijiang Investment Holding Group Co Ltd	USD	75	4.5	2023/7/15	3	Chengtou	-/-/-	-/-/-
2020/6/30	Weibo Corp	USD	750	3.375	2030/7/8	10	Communications	Baa1/BBB/-	Baa1/-/-
2020/7/3	Guotai Junan International Holdings Ltd	HKD	600	0	2021/7/13	364D	Financials	Baa2/BBB+/-	-/-/-
2020/7/3	Guotai Junan International Holdings Ltd	USD	200	1.55	2020/12/22	165D	Financials	Baa2/BBB+/-	-/-/-

Sources: Bloomberg, CCX research

On July 3, Wuhan Dangdai Science & Technology Industries Group Co Ltd announced a tap bond offering.

**Table 2 : Tap bond offering (20200629-20200703)**

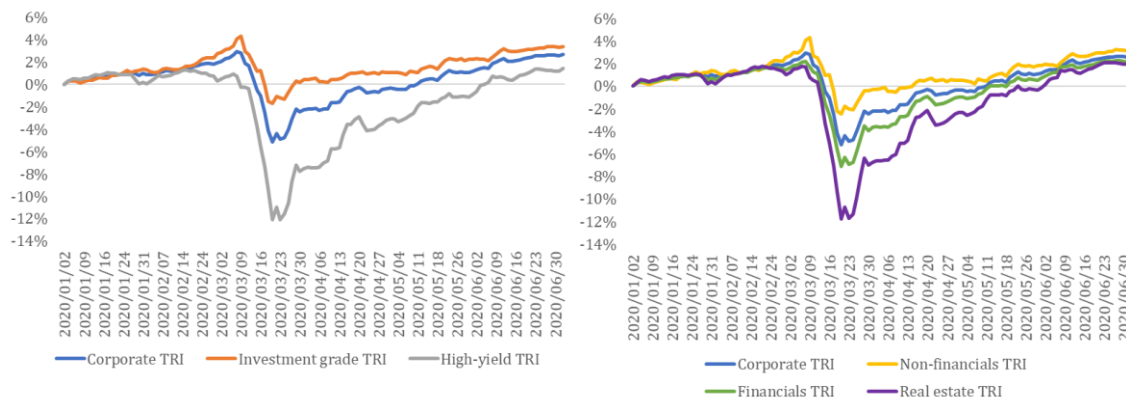
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/7/3	Wuhan Dangdai Science & Technology Industries Group Co Ltd	USD	284 (reoffered 200)	10.5	2023/1/16	3	Health Care	-/-/-	-/-/-

Sources: Bloomberg, CCX research

### Secondary Market: Return on Chinese dollar bonds was flat

As of July 2, the YTD return<sup>1</sup> on Chinese USD corporate bond index increased by 5bp from last Friday to 2.70%, of which investment grade bond index was 3.37% and high-yield bond index was 1.46%, decreasing by 1bp and increasing by 20bp, respectively. In terms of sector indices, the return on non-financial dropped by 4bp from last Friday to 3.20%; the return on financial and real estate indices increased by 12bp and 15bp to 2.35% and 2.20%, respectively.

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



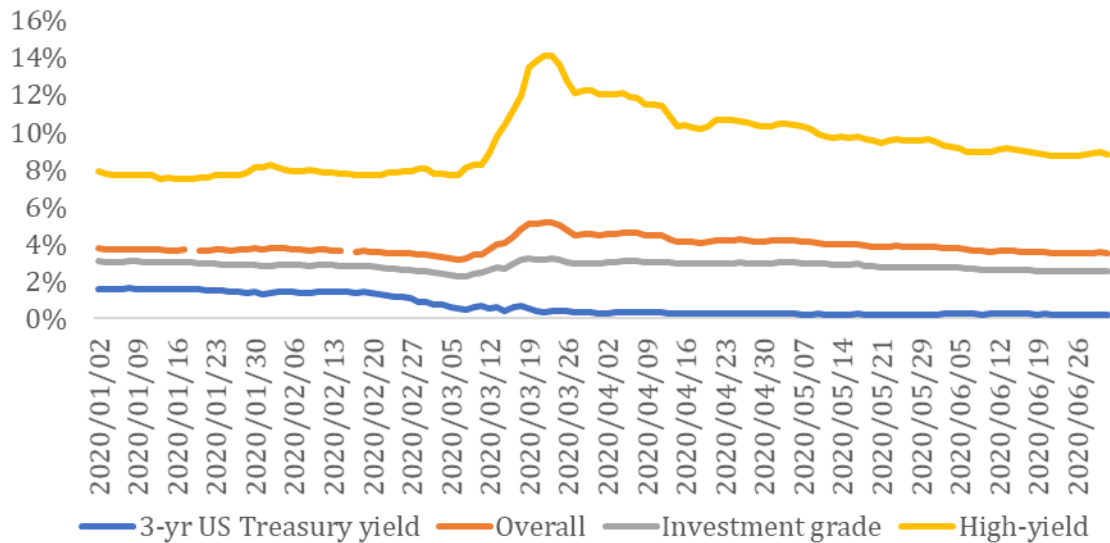
Sources: Bloomberg, CCX research

As of July 3, the yield-to-worst of Chinese dollar bonds was flat at 3.50% as compared with last Friday, of which investment grade bond index was even at 2.52%, while the high-yield bond index increased by 7bp to 8.82%.

<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: CCXAP assigned first-time BB<sub>g</sub> to Zunyi Transportation and Tourism, with stable outlook

On June 29, China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) assigned a first-time long-term credit rating BB<sub>g</sub> to Zunyi Transportation and Tourism Investment Group Co., Ltd (“Zunyi Transportation and Tourism”), with stable outlook.

Table 3 : CCXAP’s rating action (20200629-20200703)

Date	Entity	Issuer Rating	Rating Rationale
2020/6/29	Zunyi Transportation and Tourism	BB <sub>g</sub>	The rating on Zunyi Transportation and Tourism is underpinned by its (1) tight relationship with the Zunyi government; (2) good track record of receiving ongoing support; and (3) key role in major transportation and scenic area construction in Zunyi City. However, the rating is constrained by its (1) sizable capital expenditure pressure from projects in the pipeline; (2) relatively weak operating profitability; and (3) high debt leverage and weak liquidity position.

Source: CCX research

From June 29 to July 3, rating agencies took positive rating actions on 1 Chinese issuer and took negative rating actions on 4 Chinese issuers.

Table 4 : Credit rating changes of cross-border bond market (20200629-20200703)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
<b>International Rating:</b>										
Upgrade	Huzhou City Investment Development Group Co Ltd	Chengtou	BBB	STABLE	2020/7/1	BBB-	STABLE	2019/12/5	Fitch	A stronger incentive for the government to

Downgrade	Guangzhou R&F Properties Co Ltd	Real Estate	B+	STABLE	2020/7/2	BB-	STABLE	2019/12/19	Fitch	support the company Slow than expected deleveraging and weak liquidity
	Sunshine 100 China Holdings Ltd	Real Estate	CCC-	Rating Watch Negative	2020/7/3	CCC	Rating Watch Negative	2020/4/16	S&P	Uncertain repayment sources
<b>Domestic Rating:</b>										
Upgrade	Huzhou City Investment Development Group Co Ltd	Chengtou	AAA	STABLE	2020/6/29	AA+	STABLE	2019/6/26	CSCI Pengyuan	Material asset injection from its parent and the local government
Downgrade	Tahoe Group Co Ltd	Real Estate	BB <sup>2</sup>	NEG	2020/7/3	AA-	NEG	2020/5/12	Lianhe Ratings & United Ratings	Large amount of outstanding debts and doubts on business continuity
	Tahoe Group Co Ltd	Real Estate	BB	NEG	2020/7/3	AA-	NEG	2020/6/18	Golden Credit	High possibility that fail to repay its MTN, shrinking sales and a large number of frozen shares of controlling shareholders
	Shandong Chenming Paper Holdings Limited	Materials	AA+	Rating Watch Negative	2020/7/3	AA+	STABLE	2020/5/26	CCXI	Weakened financing ability given unexercised call option with increase in coupon rate

Sources: Bloomberg, Wind, CCX research

## Risk Event: Shandong Ruyi failed to repay interest of its Euro-denominated convertible bonds; Tahoe Group defaulted on onshore MTN

According to Bloomberg, Shandong Ruyi Technology Group Co., Ltd (“Shandong Ruyi”) was unable to pay an interest of EUR2.5 million on a Euro-denominated convertible bonds on June 22, as well as within the 5-day grace period. The convertible bond was issued by European Top Soho Sarl with a notional amount of EUR250 million. Shandong Ruyi holds 53.4% of shares on SMCP SA, a France-based company specialized in the apparel and accessories industry, through European Top Soho Sarl. Shandong Ruyi may lose its control over SMCP SA due to the default. Meanwhile, an interest payment of approximately USD10.4 million on its 6.95% USD300 million bond was due on July 5, with a grace period of 30 days.

On July 7, Tahoe Group Co Ltd (“Tahoe Group”) announced that it defaulted on its onshore MTN. According to Bloomberg’s data, Tahoe Group had 5 outstanding offshore senior notes with total amount of USD1.47 billion. In particular, interest payments of three tranches of them, amounting to approximately USD60 million in total, will be due on July 10 and July 17

<sup>2</sup> Lianhe Ratings, United Ratings and Golden Credit downgraded the credit rating of Tahoe Group Co Ltd to C on July 6, 2020

respectively. As of July 7, Tahoe Group disclosed the borrowings in past due of RMB27.065 billion.

### Panda Bond Market: No new issuance this week

As of July 3, there were 19 issuers that issued 28 Panda Bonds in 2020, with a total issuance amount of RMB40.6 billion and an average coupon of 2.95%. The majority of them were issued in the China Interbank Market. More than half of them were issued at a tenor of 3 years or above.

**Table 5 : New issuance of Panda Bond in 2020 (20200101-20200703)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Veolia Environnement S.A.	0.75	3.85	2020/6/24	2023/6/24	3	PPN	China Interbank Market	China Chengxin
Veolia Environnement S.A.	0.75	3.85	2020/6/24	2023/6/24	3	PPN	China Interbank Market	China Chengxin
Asian Infrastructure Investment Bank	3	2.40	2020/6/15	2023/6/15	3	International Institutional Bond	China Interbank Market	--
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 Chinese 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 Market	China Chengxin
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 / Lianhe Ratings
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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