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Authors

CCXI Overseas Business Department

Mia Zhu 010-66428877-570

llzhu@ccxi.com.cn

Lina Wang 010-66428877-451

jlwang@ccxi.com.cn

Christine 010-66428877-203

Zhang tzhang@ccxi.com.cn

CCXAP

Peter Chong 852-28607120

peter_chong@ccxap.com

Vincent Tong 852-28607121

vincent_tong@ccxap.com

Other

Rong Tian 852-28607119

rong_tian@ccxap.com

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RMB bonds have been included in the Bloomberg Barclays Global Composite Index; US Treasury yields rebounded

Headline: RMB bonds have been included in the Bloomberg Barclays Global Composite Index

From April 1st, RMB-denominated Chinese government bonds and policy bank bonds have been formally included into the world's major bond index, the "Bloomberg Barclays Global Composite Index". This is another important milestone for China's integration into the global financial system after the inclusion of the RMB in the IMF's "Special Drawing Rights basket of currencies". The inclusion of RMB-denominated bonds in the Bloomberg Index reflects the level of activity, growth potential and attractiveness of the Chinese bond market, as well as significant progress in the opening of China's financial markets.

Exchange Rate: RMB exchange rate on the decline

During the week, the RMB exchange rate continued its downward trend. As of April 4, the intermediate RMB exchange rate closed at 6.7055, down 280 basis points compared with last Friday. According to the recently released data by the International Monetary Fund (IMF), the proportion of RMB assets held by foreign central banks rose to 1.89% by the end of 2018, marking the highest since the IMF started to report RMB reserves in October 2016. RMB internationalization will help stabilize RMB exchange rate in longer term.

Interest Rate: 1D Shibor dropped, US Treasury yields rebounded

Money market liquidity was eased. In April 4, overnight Shibor closed at 1.417, down 106.9bp from last Friday, and 3M Shibor slightly decreased by 4.3bp, reaching 2.758. Overnight Hibor continued its fluctuating patterns with a pullback on Monday after the sharp rise last Friday, and closed at 1.8620. US Treasury yields rebounded. China announced that the manufacturing PMI in March was 50.5, and the US announced that the ISM manufacturing index in March was 55.3, both higher than expected. This triggered investors to reduce their US debt holdings and switch to riskier assets, resulting in a rebound in US Treasury yields. The credit spread of Barclays Asia USD high-yield bond was relatively stable.

Chinese Offshore Bond Market

Primary Market: New issuance continued to rebound; Tencent issued USD 6 billion bonds, a largest scale in history

The amount of newly issued offshore bonds continued to rebound. Tencent and real estate corporations were key issuers, which accounted for 77.7% of newly issued amount. Tencent issued USD 6 billion bonds, creating the largest issuance scale of Chinese dollar bond in history. There were 20 new bonds with a total amount of USD 9,530 million issued during the period from April 1 to 5.

Secondary market: Returns on investment grade bond and high-yield bond decreased

The returns on investment grade bond and high yield bond index decreased given low investor sentiment. As of April 5, the YTD return on Chinese USD corporate bond index was 4.56%, decreasing by 15bp, of which investment grade bond index was 3.30% and high-yield bond index was 7.59%, decreasing by 20bp and 2bp over last week, respectively.

Panda Bond Market: No new issuance in the Panda Bond market this week

As of April 4, the number of Panda Bonds issued in 2019 was 9, with 7 issuers and a total issuance scale of 15.5 billion Yuan. The tenors were mainly concentrated in three years and the average coupon was 3.78%.

Headline: RMB bonds have been included in the Bloomberg Barclays Global Composite Index

From April 1st, RMB-denominated Chinese government bonds and policy bank bonds have been formally included into the world's major bond index, the "Bloomberg Barclays Global Composite Index". This is another important milestone for China's integration into the global financial system after the inclusion of the RMB in the IMF's "Special Drawing Rights basket of currencies". Bloomberg said that the specific incorporation of Chinese bonds will be completed step by step within 20 months, with the first month adding 5% of the proportion to the index, followed by another 5% of the proportion each month. After being fully included in the "Bloomberg Barclays Global Composite Index", RMB bond assets will account for 6.03% of the total market value of the index, making it the fourth largest currency bond after the US dollar, euro and yen. The inclusion of RMB-denominated bonds in the Bloomberg Index reflects the level of activity, growth potential and attractiveness of the Chinese bond market, as well as significant progress in the opening of China's financial markets.

The inclusion of RMB-denominated bonds in the Bloomberg Index has far-reaching implications for the global capital market. In the short term, it will bring inflows of USD 250 billion to USD 500 billion to the Chinese market. In the long term, international institutional investors, central banks and the sovereign wealth fund will increase the size of the RMB bond holdings, which will further expand the scale of funds flowing into the Chinese bond market. In addition, the inclusion of RMB bonds in the Bloomberg Index will also trigger a rebalancing of the global asset market. On the one hand, considering the proportion of size of China's economy to the total output of world (33% of global GDP), China's bond market still has considerable investment space and huge potential. On the other hand, RMB-denominated Chinese government bonds and policy bank bonds have advantages of shorter maturities, a more stable yield growth prospect, and a lower overall correlation with euro and dollar-denominated bonds. In the case of increased international market volatility, the RMB-denominated bonds are increasingly popular since international investors regard it as a safe-haven asset.

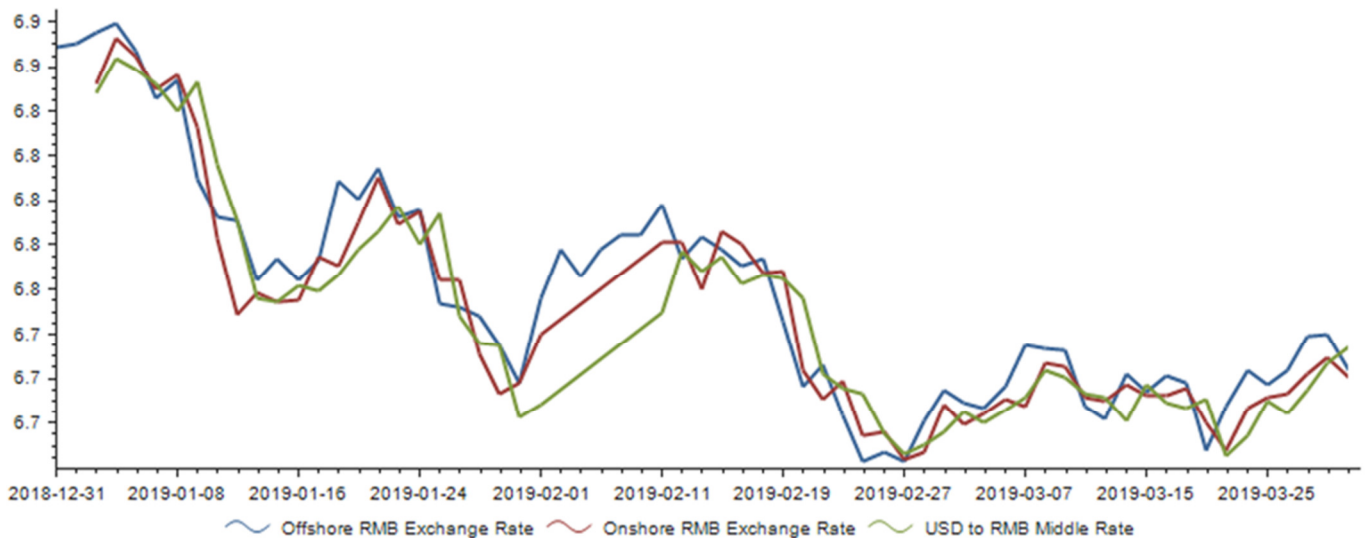
In the future, three factors will further increase the willingness of international investors to hold Chinese government bonds. First, China's continued market-oriented reforms and the opening of the capital market will provide more convenient channels for overseas investors to enter the Chinese bond market. Second, the inclusion of RMB-denominated bonds in the Bloomberg Index is only the beginning, and the other two of the world's three major bond indices suppliers – FTSE Russell and JP Morgan Chase are expected to include RMB bonds in their comprehensive index in the near future, and Chinese government bonds will be the first batch of bonds to be included. Third, the status of RMB-denominated assets in international reserve assets has risen. As China's capital market and international financial markets become more closely linked, RMB bonds have begun to be included in the global major bond market indexes. As the role of the RMB in the payment of commodities such as oil is becoming more and more important, the willingness of central banks to allocate RMB reserve assets will be further enhanced.

Exchange Rate: RMB exchange rate on the decline

During the week, the RMB exchange rate continued its downward trend. As of April 4, the intermediate RMB exchange rate closed at 6.7055, down 280 basis points compared with last Friday. According to the recently released data by the International Monetary Fund (IMF),

the proportion of RMB assets held by foreign central banks rose to 1.89% by the end of 2018, surpassing the Australian dollar (1.62%) and Canadian dollar (1.84%). It also marked the highest level since the IMF started to report RMB reserves in October 2016. With continuous innovation and development of China's exchange market, the central bank has basically withdrawn its daily intervention. RMB internationalization will help stabilize RMB exchange rate in longer term.

Figure 1 : RMB Exchange Rate

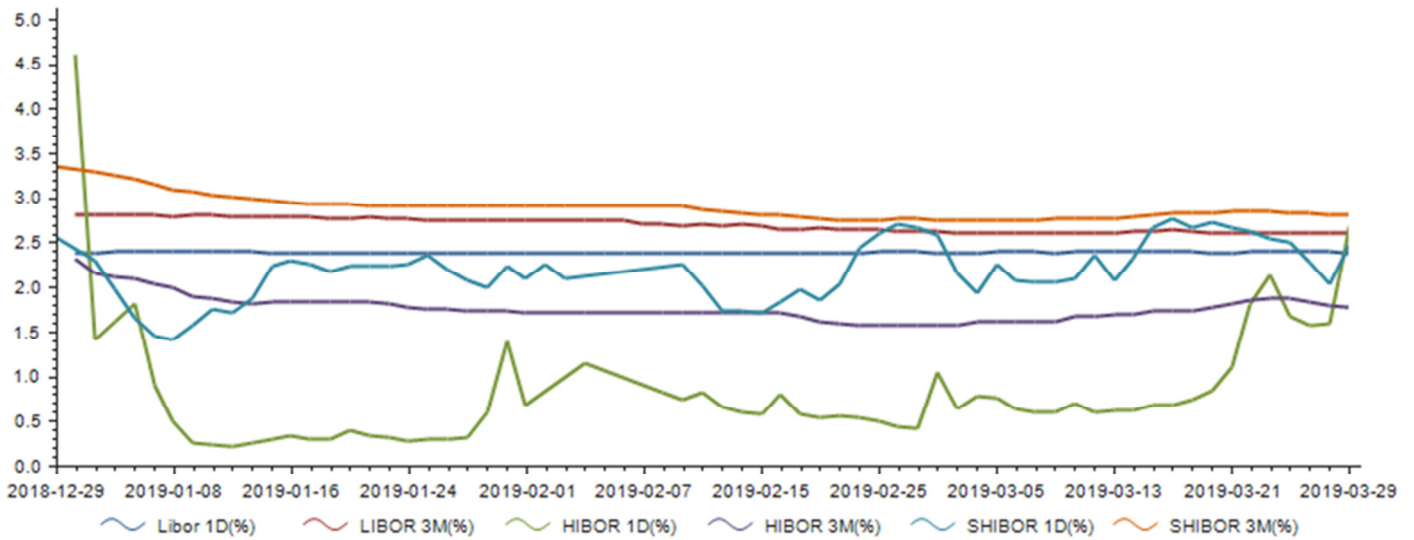


Sources: Eastmoney, CCX research

Interest Rate : 1D Shibor dropped, US Treasury yields rebounded

Money market liquidity was eased. In April 4, overnight Shibor closed at 1.417, down 106.9bp from last Friday, and 3M Shibor revealed a steady trend with a slight decrease of 4.3bp, reaching 2.758. Overnight Hibor continued its fluctuating patterns with a pullback on Monday after the sharp rise last Friday, and closed at 1.8620.

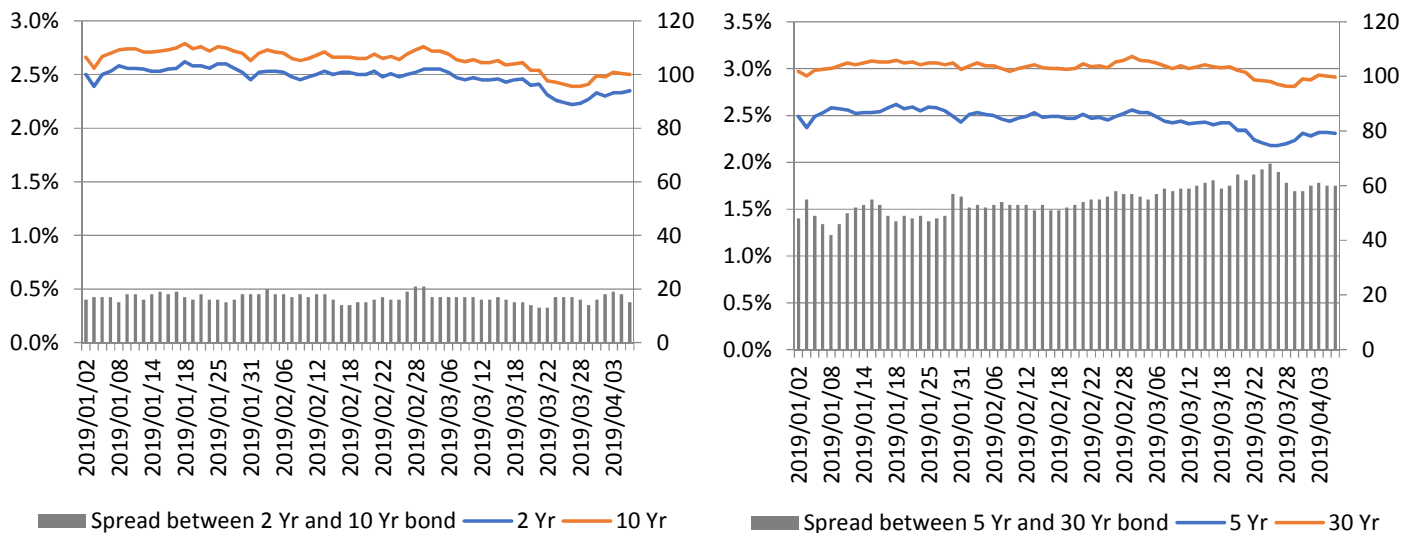
Figure 2 : Market Rate



Sources: Eastmoney, CCX research

US Treasury yields rebounded. China announced that the manufacturing PMI in March was 50.5, and the US announced that the ISM manufacturing index in March was 55.3, both higher than expected. This triggered investors to reduce their US debt holdings and switch to riskier assets, resulting in a rebound in US Treasury yields. As of April 5, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 2.35%, 2.31%, 2.50% and 2.91%, increasing by 8bp, 8bp, 9bp and 10bp over last week, respectively. The yield spread between 2-year and 10-year bond increased by 1bp to 15bp while the yield spread between 5-year and 30-year bond increased by 2bp to 60bp.

Figure 3 : US Treasury Yields and Yields Spread

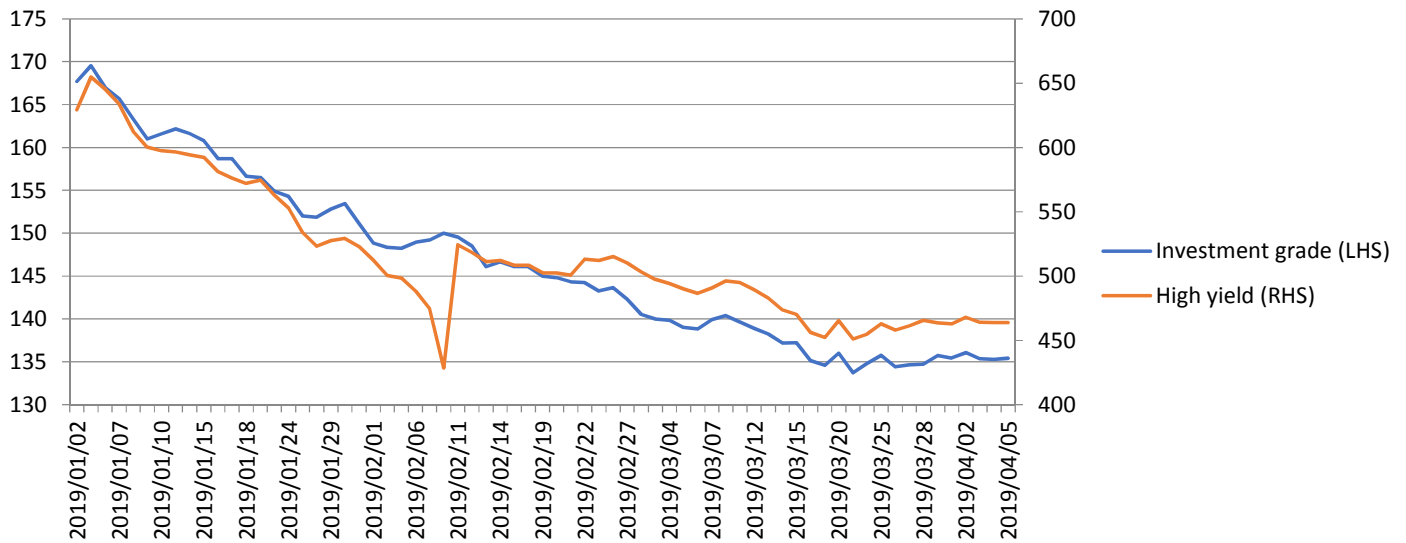


Sources: The Federal Reserve, CCX research

The credit spread of Barclays Asia USD high-yield bond was relatively stable. As of April 5,

the credit spread of investment grade index decreased by 0.3bp to 135bp while the credit spread of high-yield index increased by 0.3bp to 464bp.

Figure 4 : Credit spread of investment grade bond and high-yield bond index



Sources: Bloomberg, CCX research

Chinese Offshore Bond Market

Primary Market: New issuance continued to rebound; Tencent issued USD 6 billion bonds, a largest scale in history

The amount of newly issued offshore bonds continued to rebound, with the issuance scale increased by 51.7% from last week. Tencent and real estate corporations were key issuers, which accounted for 77.7% of newly issued amount. Tencent issued USD 6 billion bonds, creating the largest issuance scale of Chinese dollar bond in history. There were 20 new bonds with a total amount of USD 9,530 million issued during the period from April 1 to 5.

Table 1 : New issuance of Chinese offshore bonds (20190401-20190405)

| Pricing date | Obligor | Currency | Amount (million) | Coupon (%) | Maturity | Tenor | Industry | Issuer Rating | Issue Rating |
|--------------|--|----------|------------------|------------|------------|-------|-------------|---------------|--------------|
| 2019/4/1 | China SCE Group Holdings Ltd | USD | 350 | 7.375 | 2024/4/9 | 5.0 | Real Estate | B1/B+/- | B2/-/- |
| 2019/4/1 | Kaisa Group Holdings Ltd | USD | 350 | 11.25 | 2022/4/9 | 3.0 | Real Estate | -/-/- | -/-/- |
| 2019/4/1 | Jingrui Holdings Ltd | USD | 200 | 10.875 | 2021/10/4 | 2.5 | Real Estate | -/-/- | -/-/- |
| 2019/4/2 | China International Capital Corp Hong Kong Ltd | USD | 52 | 3.48 | 2020/4/8 | 363D | Financials | -/BBB/BBB+ | -/-/- |
| 2019/4/2 | China International Capital Corp Hong Kong Ltd | USD | 61 | 3.48 | 2020/4/8 | 362D | Financials | -/BBB/BBB+ | -/-/- |
| 2019/4/2 | Jiuquan Iron & Steel Group Co Ltd | USD | 300 | 7 | 2022/4/10 | 3.0 | Materials | -/-/BBB- | -/-/BBB-e |
| 2019/4/2 | Excellence Real Estate Holdings Co Ltd | USD | 100 | 7.2 | 2022/4/10 | 3.0 | Real Estate | -/-/- | -/-/- |
| 2019/4/2 | BOC Aviation Ltd | USD | 750 | 3.5 | 2024/10/10 | 5.5 | Financials | -/A-/A- | -/A-/A-e |
| 2019/4/3 | Haitong International Securities Group Ltd | HKD | 600 | 2.8 | 2020/4/8 | 364D | Financials | Baa2/BBB/- | -/-/- |

| | | | | | | | | | |
|----------|--|-----|-------|--------|------------|------|-------------|------------|-----------|
| 2019/4/3 | Bilibili Inc | USD | 430 | 1.375 | 2026/4/1 | 7.0 | Technology | -/- | -/- |
| 2019/4/3 | Future Land Development Holdings Ltd | USD | 200 | 6.15 | 2023/4/15 | 4.0 | Real Estate | Ba2/BB/BB | -/-/BBe |
| 2019/4/3 | Tencent Holdings Ltd | USD | 1,250 | 3.28 | 2024/4/11 | 5.0 | Technology | A1/A+/A+ | A1/A+/A+e |
| 2019/4/3 | Tencent Holdings Ltd | USD | 500 | 3.575 | 2026/4/11 | 7.0 | Technology | A1/A+/A+ | A1/A+/A+e |
| 2019/4/3 | Tencent Holdings Ltd | USD | 3,000 | 3.975 | 2029/4/11 | 10.0 | Technology | A1/A+/A+ | A1/A+/A+e |
| 2019/4/3 | Tencent Holdings Ltd | USD | 500 | 4.525 | 2049/4/11 | 30.0 | Technology | A1/A+/A+ | A1/A+/A+e |
| 2019/4/3 | Tencent Holdings Ltd | USD | 750 | 3ML+91 | 2024/4/11 | 5.0 | Technology | A1/A+/A+ | A1/A+/A+e |
| 2019/4/3 | Xinjiang Transportation Construction Investment Holding Co., Ltd | USD | 160 | 7.8 | 2022/4/11 | 3.0 | Financials | -/- | -/- |
| 2019/4/4 | Haitong International Securities Group Ltd | HKD | 600 | 2.65 | 2020/4/9 | 364D | Financials | Baa2/BBB/- | -/- |
| 2019/4/4 | Xinyuan Real Estate Co Ltd | USD | 200 | 14.2 | 2021/10/15 | 2.5 | Real Estate | -/B/B | -/-/Be |
| 2019/4/5 | Baozun Inc | USD | 225 | 1.625 | 2024/5/1 | 5.1 | Technology | -/- | -/- |

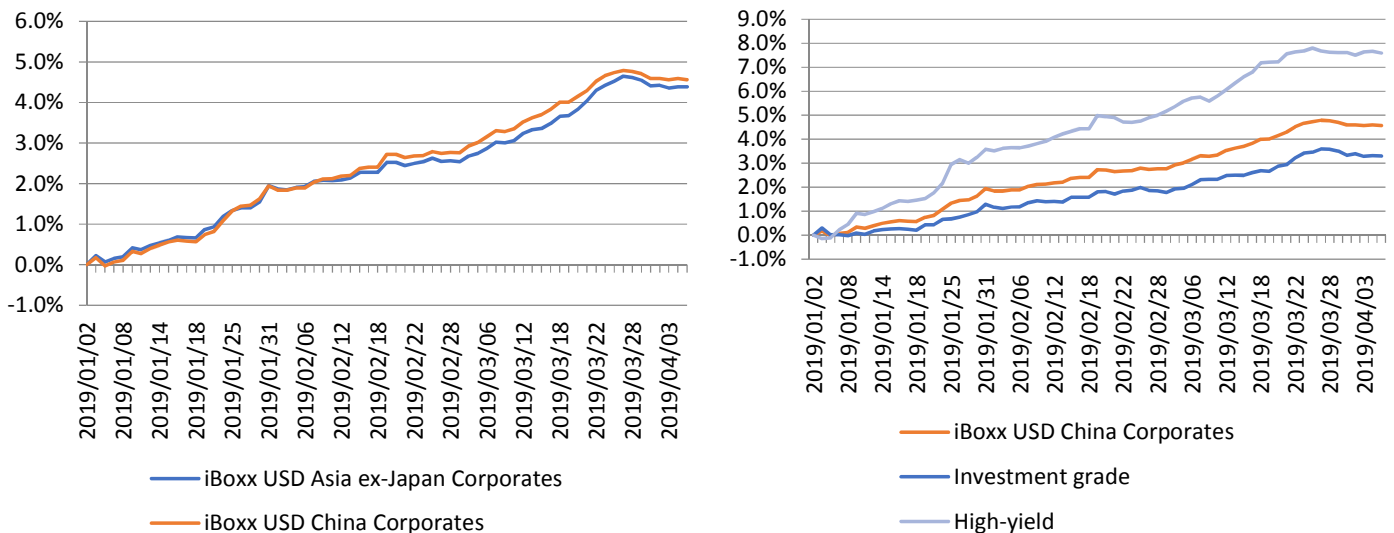
Sources: Bloomberg, CCX research

Recently, Risesun Real Estate Development Co Ltd has planned for offshore bond issuance.

Secondary market : Returns on investment grade bond and high-yield bond decreased

The returns on investment grade bond and high yield bond index decreased given low investor sentiment. As of April 5, the YTD return on Chinese USD corporate bond index was 4.56%, decreasing by 15bp, of which investment grade bond index was 3.30% and high-yield bond index was 7.59%, decreasing by 20bp and 2bp over last week, respectively.

Figure 5 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

Panda Bond Market : No new issuance in the Panda Bond market this week

As of March 29, the number of Panda Bonds issued in 2019 was 9, with 7 issuers and a total issuance scale of 15.5 billion Yuan. The tenors were mainly concentrated in three years and

the average coupon was 3.78%.

Table 3 : New issuance of Panda Bond in 2019 (20190101-20190329)

| Issuer | Amount (RMB million) | Coupon (%) | Issue date | Maturity | Tenor | Bond Type | Issue Market | Local Rating Agency |
|---|----------------------------|---------------|------------|-----------|-------|----------------|-------------------------|----------------------------------|
| GLP China Holdings Limited | 33 | 4.35 | 2019/3/18 | 2028/3/18 | 9 | Corporate Bond | Shenzhen Stock Exchange | Shanghai Brilliance |
| United Overseas Bank Ltd | 20 | 3.49 | 2019/3/14 | 2022/3/14 | 3 | Corporate Bond | China Interbank Market | China Chengxin |
| Bayerische Motoren Werke (BMW) Finance NV | 30 | 4 | 2019/3/8 | 2022/3/8 | 3 | MTN | China Interbank Market | China Chengxin |
| Semiconductor Manufacturing International Corp. | 15 | 3.57 | 2019/3/4 | 2022/3/4 | 3 | MTN | China Interbank Market | China Chengxin/China Bond Rating |
| New Development Bank | 20 | 3 | 2019/2/26 | 2022/2/26 | 3 | MTN | China Interbank Market | China Chengxin/Lianhe |
| New Development Bank | 10 | 3.32 | 2019/2/26 | 2024/2/26 | 5 | Corporate Bond | China Interbank Market | China Chengxin/Lianhe |
| China Everbright Water Ltd | 7 | 3.89 | 2019/1/21 | 2024/1/21 | 5 | MTN | Shanghai Stock Exchange | Shanghai Brilliance |
| Beijing Enterprises Water Group Ltd | 10 | 3.95 | 2019/1/11 | 2026/1/11 | 7 | Corporate Bond | China Interbank Market | Shanghai Brilliance /Dagong |
| Beijing Enterprises Water Group Ltd | 10 | 4.49 | 2019/1/11 | 2029/1/11 | 10 | MTN | China Interbank Market | Shanghai Brilliance /Dagong |

Sources: Bloomberg, CCX research

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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) 66428877
传真: (8610) 66426100
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) 66428877
Fax: (8610) 66426100
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>