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From May 6 to May 10

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Resurging US-China trade tensions weigh on global economic growth

Headline: Uncertainty in the persistence of trade frictions will become a major risk affecting global economic development

The 11th round of China-US high-level economic and trade consultation was held in Washington. During the negotiations, the US tariff on USD 200 billion of Chinese goods imported to the United States increased from 10% to 25%. As for the US move, China said it would have to take necessary counter-measures. At present, there are still differences between the two sides on the three core concerns of China: abolishing all tariff increases, trade procurement figures and the balance of text. CCXI believes that US-China trade frictions will be complex and lasting, US-China trade frictions will become the norm of US-China cooperative gaming, and the uncertainty of global trade and investment environment will become the main risk affecting global economic development.

Exchange Rate: RMB depreciated substantially

During the week, RMB depreciated substantially. On May 10, the intermediate price of the RMB exchange rate hit a record high of 6.7912, up 247 basis points from last Friday. Strong market anticipation of U.S. dollar coupled with rising external uncertainty may lead to RMB exchange rate to fluctuate further in the near term.

Interest Rate: Treasury bond yields generally fell in both U.S. and China

Recently, amid rising uncertainty of economic environment and elevated tensions between the U.S. and China, the global capital market fluctuated sharply. US President Trump said he would raise tariffs on USD 200 billion of Chinese goods imported to the United States from 10% to 25%. Furthermore, the short-term inversion of some yield curves triggered market fears of recession. Consequently, risk aversion increased in the market and Treasury bond yields generally fell.

Chinese Offshore Bond Market**Primary Market: New issue volume increased after Labor Day**

From May 6 to May 10, new issue volume increased after Labor Day, and 20 new bonds were issued by Chinese enterprises in offshore market, totaling about USD 2.198 billion.

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

The Chinese dollar bond market diverged. The returns on investment grade bond increased while returns on high-yield bond index decreased. As of May 10, the YTD return on Chinese USD corporate bond index was 5.15%, increasing by 10bp over last week, of which investment grade bond index was 3.95% and high-yield bond index was 8.03%, increasing by 24bp and decreasing by 22bp over last week, respectively.

Panda Bond Market: No new bonds issuance this week

As of May 10, the number of Panda Bonds issued in 2019 was 12, with 8 issuers, a total issuance scale of 18 billion Yuan, and an average coupon of 3.63%. Issued mostly in China's Interbank Market, tenor of these bonds varies, including three SCPs, four 3-year bonds, and five medium/long-term bonds.

Headline: Uncertainty in the persistence of trade frictions will become a major risk affecting global economic development

From 9 to 10 May, the 11th round of China-US high-level economic and trade consultation was held in Washington. During the negotiations, the US tariff on USD 200 billion of Chinese goods imported to the United States increased from 10% to 25%. As for the US move, China said it would have to take necessary counter-measures. At the same time, it reiterated once again that tariff imposition cannot solve the problem, and that cooperation and consultation are the right way, but they must respect each other. After 11th rounds of high-level economic and trade consultations, China and the United States have made substantial progress in strengthening intellectual property protection, expanding market access and promoting bilateral trade balance. However, there are still differences on China's core concerns, including the abolition of all tariffs, trade procurement figures and the balance of texts.

CCXI believes that the U.S. tariff escalation has a relatively limited impact on China's economy as a whole, but it has a certain impact on high-end manufacturing industries such as electromechanical, telecommunications and so on. In addition, trade frictions will increase the pressure of capital outflow and the volatility of the RMB exchange rate in the short term, and form depreciation pressure on the RMB. On the US side, the trade counter-measures taken by the Chinese government will have a negative impact on the US automotive, agriculture and energy sectors. The rise in protectionism will increase the tax burden on American enterprises and households and push up inflation. Despite the moderate policy stance adopted by the Fed, the rising trade frictions will continue to undermine market confidence and drag down U.S. economic growth.

Since the beginning of 2019, global financial markets have improved, boosted by the dovish signals of the Fed and optimism in the US-China trade negotiations. The rise in trade frictions between China and US has brought about considerable policy uncertainty, triggering turmoil in global capital markets and sharply weakening investor confidence. This week, major global market indices fell, with Asia-Pacific stock markets falling the most seriously. The Hang Seng Index fell 5.09% this week, leading the global decline, followed by Shenzhen Composite Index, Shanghai Composite Index, Nikkei 225 Index and Korea Composite Index. The S&P 500, the Dow Jones Industrial Index and the Nasdaq Index have smoothed gains in the past month. **CCXI believes that US-China trade frictions will be complex and lasting, and will become the norm of US-China cooperative gaming, and the uncertainty of global trade and investment environment will become one of the main risks affecting global economic development.** Trade friction will restrain the growth of investment besides causing the continuous fluctuation of capital markets, which will have a negative impact on the global economic trend. At the same time, countries with high dependence on exports are more affected. Asian economies in the US-China trade chain will bear the brunt and face the risk of regional trade recession and economic downturn.

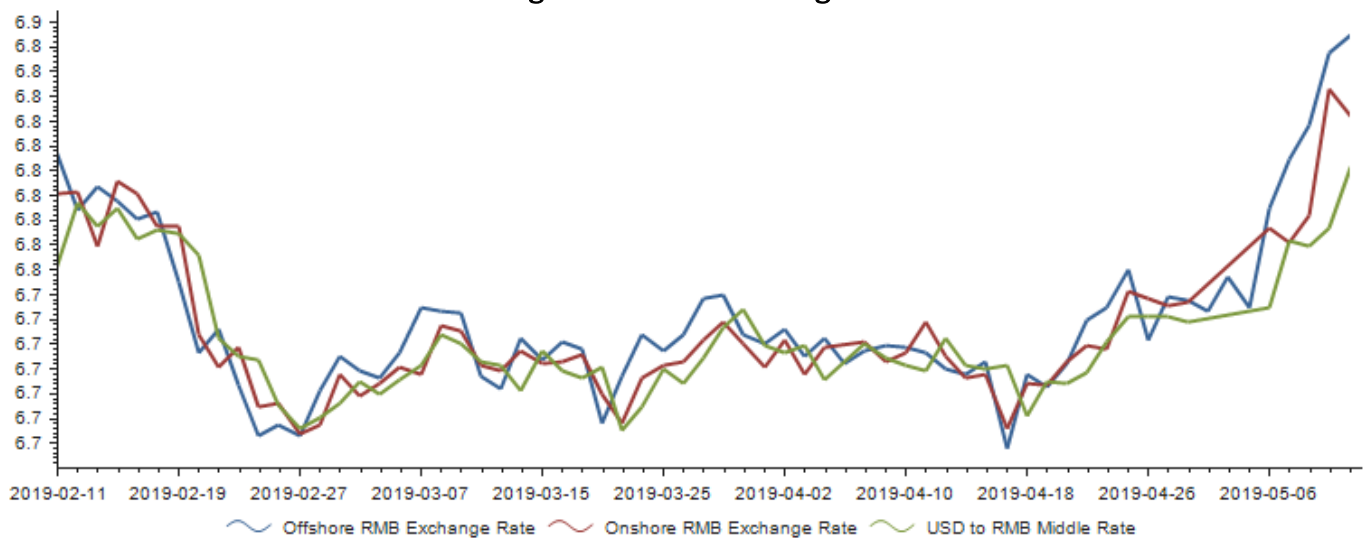
Generally speaking, although the current US-China trade conflict is further escalating, the impact of trade wars on China's exports and economic growth is relatively controllable, and the impact of short-term capital fluctuations on China is relatively limited. In 2019Q1, with the support of loose monetary policy and active fiscal policy, China's economic ability to absorb external risks increased, and the economy showed the characteristics of moderate and stable recovery. In the long run, the strategic game between China and US will be lasting. The uncertainty of the global trade and investment environment may become one of the main risks of global economic development. It will exert downward pressure on the

prospects of global economic growth. China should take active measures to stimulate domestic demand and adjust industrial structure to cope with the long-term impact of the trade war.

Exchange Rate: RMB depreciated substantially

During the week, RMB depreciated substantially. On May 10, the intermediate price of the RMB exchange rate hit a record high (since January 25) of 6.7912, up 247 basis points from last Friday. On the previous trading day, both on-shore and off-shore RMB exchange rate rose significantly, and off-shore RMB exchange rate even once broke the 6.86 threshold. It is noteworthy that the Dollar Index showed no sign of significant growth in the recent two trading days; it fluctuated slightly with a downward trend. Strong market anticipation of U.S. dollar coupled with rising external uncertainty may lead to further fluctuations of RMB exchange rate in the near term.

Figure 1 : RMB Exchange Rate

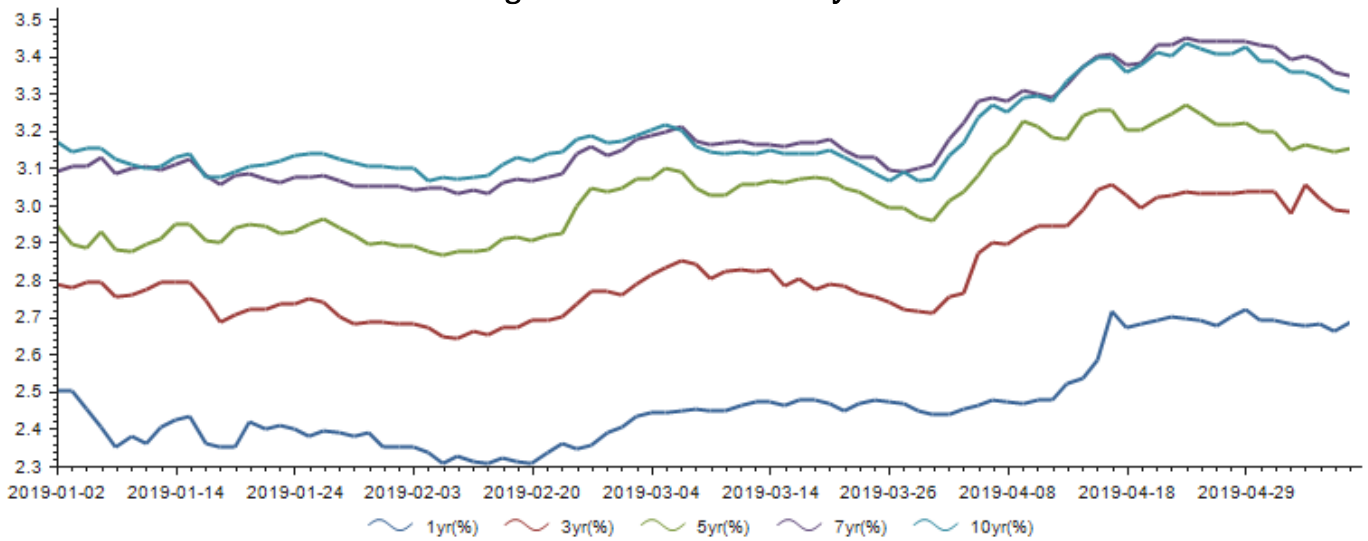


Sources: Eastmoney, CCX research

Interest Rate : Treasury bond yields generally fell in both U.S. and China

Recently, amid rising uncertainty of economic environment and elevated tensions between the U.S. and China, the global capital market fluctuated sharply with the Asia-Pacific stock market declined the most. A surge in market hedging sentiment and risk aversion led to the rise of the spot price of China's Treasury bonds, and the yield of bond market generally declined. As of May 10, the maturity yield of one-year Treasury bonds was 2.685%, down 0.52bp from last Sunday, and that of ten-year Treasury bonds was 3.3017%, down 8.52bp from last Sunday.

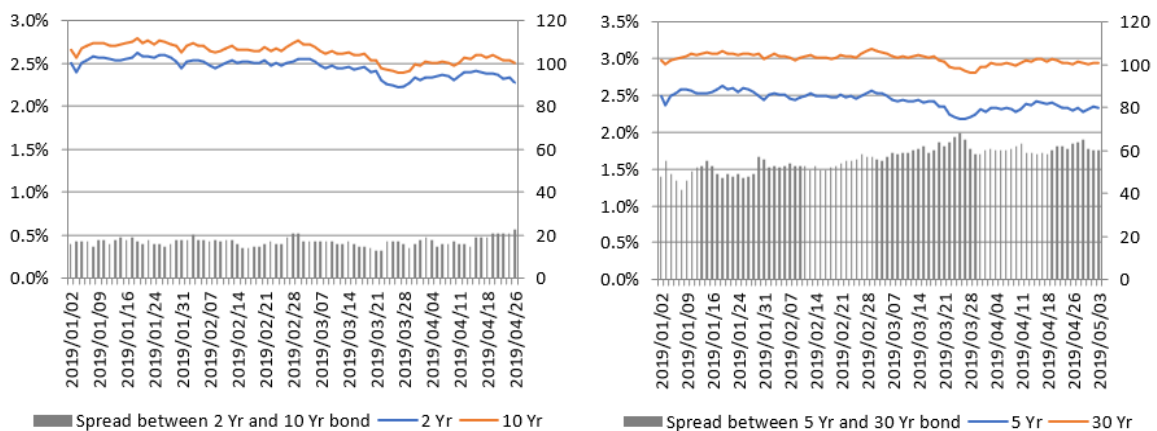
Figure 2 : China's Treasury Yields



Sources: Eastmoney, CCX research

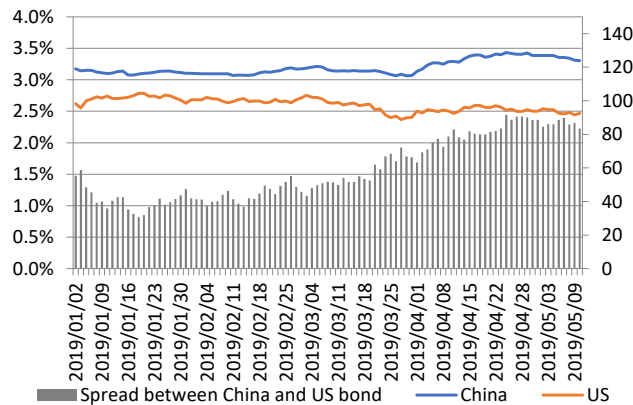
US President Trump said he would raise tariffs on USD 200 billion of Chinese goods imported to the United States from 10% to 25%. Furthermore, the short-term inversion of some yield curves triggered market fears of recession. Consequently, risk aversion increased in the market and Treasury bond yields generally fell. As of May 10, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 2.26%, 2.26%, 2.47% and 2.89%, decreasing by 7bp, 7bp, 7bp and 4bp over last Friday, respectively. Because of the upgrade of trade war between China and US, the yield curves of 3-month and 10-year Treasury bonds have been upside down, but the other main yield curves have not changed much. The yield spread between 2-year and 10-year bond was at 21bp, unchanged from last Friday, and the yield spread between 5-year and 30-year bond widened by 3bp to 63bp. As of May 10, the yield spread between China and US 10-year bond was 83bp, 28bp widened from the beginning of 2019. Influenced by the tense trade situation between China and US, the spread between China and US 10-year bond narrowed by 3bp to 83bp from last Friday.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

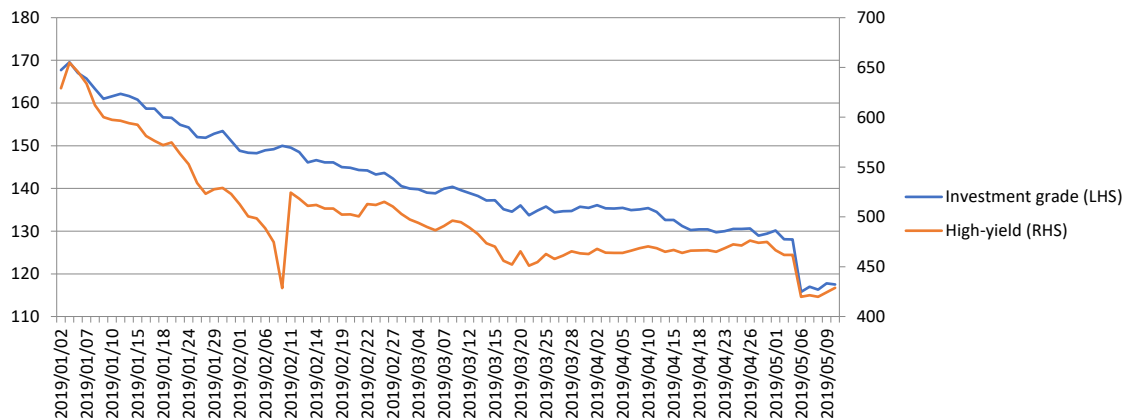
Figure 4 : Spread between China and US 10-year bond



Sources: The Federal Reserve, CCX research

The credit spread of Barclays Asia USD high-yield bond significantly narrowed. As of May 10, the credit spread of investment grade index reduced by 10.6bp to 118bp while the credit spread of high-yield index decreased by 33.2bp to 429bp.

Figure 5 : Credit spread of investment grade bond and high-yield bond index



Sources: Bloomberg, CCX research

Chinese Offshore Bond Market

Primary Market: New issue volume increased after Labor Day

From May 6 to May 10, new issue volume increased after Labor Day, and 20 new bonds were issued by Chinese enterprises in offshore market, totaling about USD 2.198 billion. Details are as follows:

Table 1 : New issuance of Chinese offshore bonds (20190506-20190510)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/5/6	Guotai Junan International Holdings Ltd	HKD	300	2.9	2020/5/12	364D	Financials	Baa2/BBB+/-	-/-/-
2019/5/6	Industrial & Commercial Bank of China	AUD	3	2.458	2024/8/13	5.3	Banks	A1/A/A	-/-/-

Ltd/Sydney										
2019/5/6	Industrial & Commercial Bank of China Ltd/Sydney	USD	1	3	2024/8/13	5.3	Banks	A1/A/A	-/-	-/-
2019/5/6	Industrial & Commercial Bank of China Ltd/Sydney	AUD	2	2.458	2024/8/13	5.3	Banks	A1/A/A	-/-	-/-
2019/5/7	Haitong International Securities Group Ltd	USD	63	3.5	2020/5/13	364D	Financials	Baa2/BBB/-	-/-	-/-
2019/5/7	Haitong International Securities Group Ltd	USD	25	3.4	2020/5/12	364D	Financials	Baa2/BBB/-	-/-	-/-
2019/5/7	Guotai Junan International Holdings Ltd	HKD	215	2.9	2020/5/13	364D	Financials	Baa2/BBB+/-	-/-	-/-
2019/5/7	Guotai Junan International Holdings Ltd	USD	44	3	2020/5/13	364D	Financials	Baa2/BBB+/-	-/-	-/-
2019/5/7	CAR Inc	USD	372	8.875	2022/5/10	3.0	Consumer Discretionary	B1/BB/-	B1/-	-/-
2019/5/8	CCB Financial Leasing Corp Ltd	USD	500	3.5	2024/5/16	5.0	Financials	A1/A/A	-/-	-/-
2019/5/8	CCB Financial Leasing Corp Ltd	USD	200	3.875	2029/5/16	10.0	Financials	A1/A/A	-/-	-/-
2019/5/8	Guotai Junan International Holdings Ltd	HKD	350	2.5	2020/5/14	364D	Financials	Baa2/BBB+/-	-/-	-/-
2019/5/8	Guotai Junan International Holdings Ltd	USD	20	2.75	2019/8/14	90D	Financials	Baa2/BBB+/-	-/-	-/-
2019/5/9	Haitong International Securities Group Ltd	USD	50	3.3	2020/5/14	364D	Financials	Baa2/BBB/-	-/-	-/-
2019/5/9	Haitong International Securities Group Ltd	USD	50	3.3	2020/5/21	364D	Financials	Baa2/BBB/-	-/-	-/-
2019/5/9	Haitong International Securities Group Ltd	HKD	300	2.6	2020/5/19	364D	Financials	Baa2/BBB/-	-/-	-/-
2019/5/9	Industrial & Commercial Bank of China Ltd/Singapore	USD	200	2.5	2021/5/17	2.0	Banks	A1/A/A	-/-	-/-
2019/5/10	Zhongrong International Trust Co Ltd	USD	301	7.6	2022/5/20	3.0	Financials	-/BB+/-	-/-	-/-
2019/5/10	Bank of China Ltd/Hong Kong	USD	100	2.9	2021/5/17	2.0	Banks	A1/A/A	-/-	-/-
2019/5/10	Bank of China Ltd/Hong Kong	USD	20	4.46	2020/7/27	1.2	Banks	A1/A/A	-/-	-/-

Sources: Bloomberg, CCX research

Last week, E-House China Enterprise Holdings Ltd and Yankuang Group Co Ltd announced tap bond offering, details are as follows:

Table 2 : Tap bond offering (20190506-20190510)

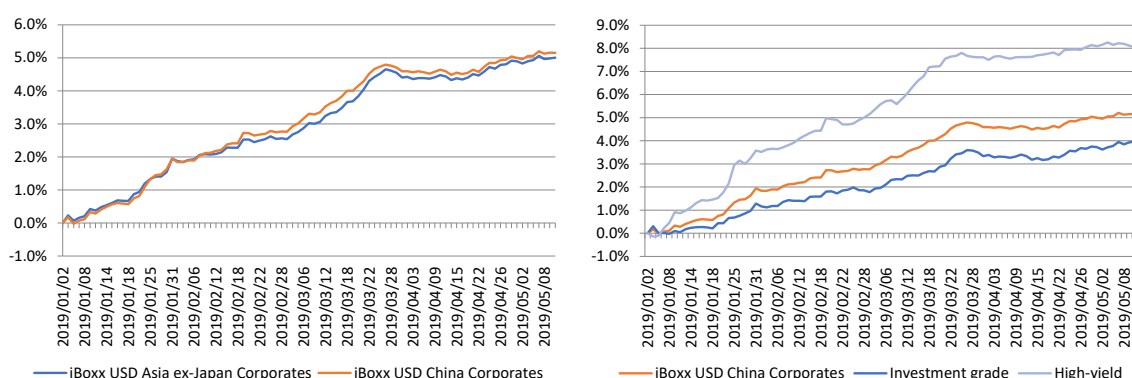
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/5/9	E-House China Enterprise Holdings Ltd	USD	300 (reoffered 100)	7.75	2021/2/28	2	Real Estate	-/BB/-	-/BB/-
2019/5/9	Yankuang Group Co Ltd	USD	715 (reoffered 500)	6	2022/1/30	3	Energy	-/BB/-	-/-

Sources: Bloomberg, CCX research

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

The Chinese dollar bond market diverged. The returns on investment grade bond increased while returns on high-yield bond index decreased. As of May 10, the YTD return on Chinese USD corporate bond index was 5.15%, increasing by 10bp over last week, of which investment grade bond index was 3.95% and high-yield bond index was 8.03%, increasing by 24bp and decreasing by 22bp over last week, respectively.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

Panda Bond Market : No new bonds issuance this week

As of May 10, the number of Panda Bonds issued in 2019 was 12, with 8 issuers, a total issuance scale of 18 billion Yuan, and an average coupon of 3.63%. Issued mostly in China's Interbank Market, tenor of these bonds varies, including three SCPs, four 3-year bonds, and five medium/long-term bonds.

Table 3 : New issuance of Panda Bond in 2019 (20190101-20190510)

Issuer	Amount	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Agency	Rating
Semiconductor Manufacturing Corp.	International	10	3.10	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing Corp.	International	5	3.05	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Co. Ltd		10	3.35	2019/4/19	2019/12/30	0.7	SCP	China Interbank Market	China Chengxin
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 Corp.	International	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	Water	10	3.95	2019/1/11	2026/1/11	7	Corporate Bond	China Interbank Market	Shanghai Brilliance /Dagong
Beijing Enterprises Water Group Ltd	Water	10	4.49	2019/1/11	2029/1/11	10	MTN	China Interbank Market	Shanghai Brilliance

Sources: Bloomberg, CCX research

Schedule : Change of credit rating (20190506-20190510)

Entity	Sector	Entity Rating	Latest Rating Outlook	Date	Entity Rating	Last Rating Outlook	Date	Rating Agency	Reason of Change
Logan Property Holdings Company Limited	Real Estate	BB-	POS	2019/5/7	BB-	STABLE	2018/5/14	Fitch	Financial profile improved
China Logistics Property Holdings	Industrials	B-	NEG	2019/5/8	B	NEG	2018/5/14	Fitch	Slow improvement of EBITDA interest cover
S. F. Holding Co., Ltd.	Consumer Discretionary	A-	NEG	2019/5/9	A- *-	NEG	2018/10/29	Fitch	Completed acquisition of DHL's DSC business
Dr. Peng Telecom & Media Group Co., Ltd.	Communications	B3 *-	NEG	2019/5/10	B2	NEG	2018/12/7	Moody's	Refinancing risk elevated
Maoye International Holdings Limited	Consumer Discretionary	B	STABLE	2019/5/10	B-	STABLE	2016/9/2	S&P	Refinancing risk decreased
eHi Car Services Limited	Consumer Discretionary	B	STABLE	2019/5/10	B+	NEG	2018/12/18	Fitch	Higher-than-expected leverage

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