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RMB rate showed signs of stabilizing; 10-year US Treasury yield fell to bottom since 2017

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Headline: The Fed kept patient and insufficiently dovish; the Euro Zone's economic recovery may miss expectations

On May 23, the Federal Reserve (the "Fed") and the European Central Bank (the "ECB") announced the April meeting minutes, releasing important market signals. The Fed's policy was insufficiently dovish. According to the minutes, the Fed emphasized that patient approach will be appropriate for a period of time, and interest rates will remain steady even if the economy improves. In addition, some Fed officials deemed that the US economy still faced downside risks from the softer inflation readings, but the Fed's forecast argued that the decline in inflation may be temporary. The ECB announced the minutes of the April monetary policy meeting, showing weakened European loans in accordance with the slowdown in economic growth since last September. The ECB's confidence in economic recovery in the second half year declined. The data was still in line with the baseline scenario.

Exchange Rate: RMB rate showed signs of stabilizing

During the week, the RMB exchange rate showed signs of stabilizing. On May 24, the intermediate price of the RMB exchange rate rose by 134bp from last Friday, closing at 6.8993. The fluctuation of the RMB exchange rate was within two basis points for four consecutive trading days, indicating that the Central Bank's measures of stabilizing RMB were getting effective.

Interest Rate: China Government Bond yields rose slightly, 10-year US Treasury yield fell to bottom since 2017

With the stabilization of the RMB exchange rate and the signs of slowdown in the US economy, the US dollar index fell, and the yield of China Government Bonds generally fluctuated with an upward trend. On the other hand, the heating up trade tension as well as weak data on the US Manufacturing PMI and durable goods orders in May caused the investor became risk-averse and the US Treasury yields continued to decline. 10-year Treasury yield ever plummeted to 2.29% this week, which was at its lowest level since October 2017. As of May 24, the interest rate spread between China and US 10-year bonds was 99.2bp, increased by 11.7bp and 60.4bp, comparing with that of last Friday and the beginning of 2019, respectively.

Chinese Offshore Bond Market**Primary Market: Newly issued volume increased and financial institutions were the largest issuers**

From May 20 to May 24, there are 13 new issues with a total issued volume of approximately USD 5.2 billion, of which 60.6% of the issued volume was issued by financial institutions. China Huarong Asset Management Co Ltd issued 3 tranches of bond with multi-maturities, a total amount of approximately USD 1.9 billion, representing the largest issuer in the week.

Secondary market: Returns on Chinese dollar bonds rose, while the investment grade bonds outperformed the high-yield bonds

As of May 24, the YTD return on Chinese USD corporate bond index increased by 14bp over last week to 5.43%, of which investment grade bond index was 4.29% and high-yield bond index was 8.21%, increasing by 18bp and 6bp respectively over last week.

Panda Bond Market: CITIC Pacific, Trafigura and Philippines newly issued 3 Panda Bonds this week

As of May 24, 11 issuers issued 15 Panda Bonds in 2019, with a total issued volume of RMB 20.04 billion, and an average coupon of 3.77%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years. On May 20, three new bonds were issued by CITIC Pacific Limited, Trafigura Private Trading Enterprise Limited, and the Republic of the Philippines. The tenors of these bonds are all 3 years, and the credit ratings for issuers and the bonds, if applicable, are all AAA.

Headline: The Fed kept patient and insufficiently dovish; the Euro Zone's economic recovery may miss expectations

On May 23, the Federal Reserve (the "Fed") and the European Central Bank (the "ECB") announced the April meeting minutes, releasing important market signals. The Fed's policy was insufficiently dovish, and the Euro Zone's economic recovery in the second half of 2019 may be below market expectations.

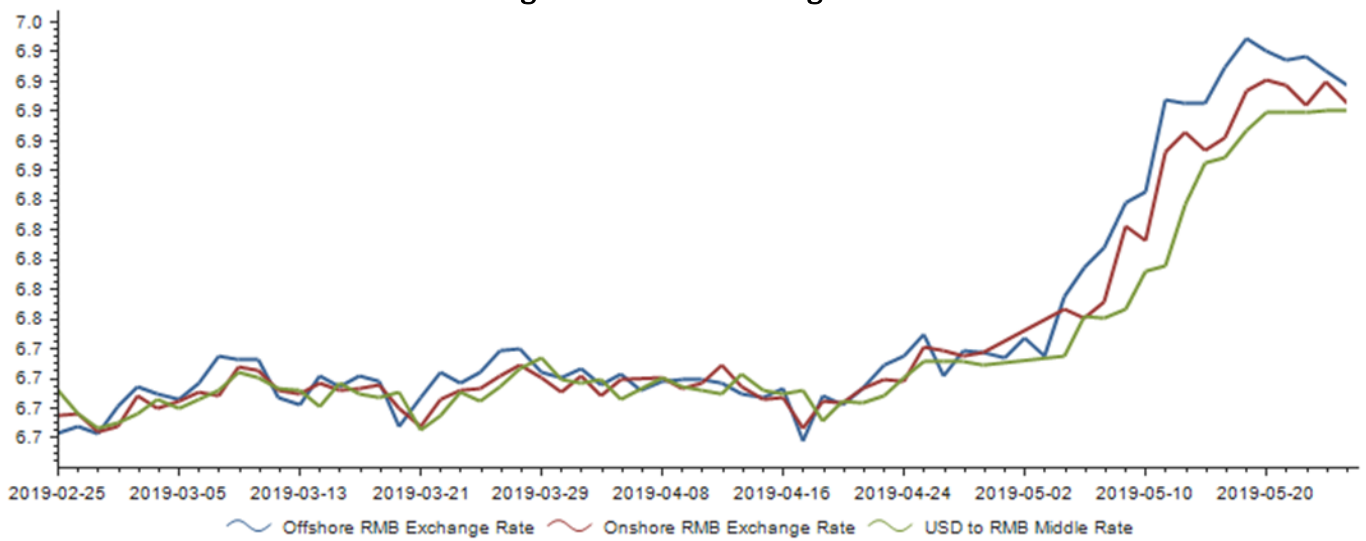
The latest minutes of the Fed meeting showed less dovish than expected. According to the minutes, the Fed emphasized that patient approach will be appropriate for a period of time, and interest rates will remain steady even if the economy improves. In addition, some Fed officials deemed that the US economy still faced downside risks from the softer inflation readings, but the Fed's forecast argued that the decline in inflation may be temporary. The minutes also demonstrated some Fed officials' belief in the respite of risks faced by economic outlook, including global economy and Brexit. Some policymakers expressed that monetary policy needed to be tightened if economy developed as expected. In early May, the participants had faith in robust US labor markets, improvement in consumer and financial conditions, or diminished downside risks, as compared to that of 2018Q4, would support the growth. The prices of federal-funds futures suggested that the market slightly cooled down about the expectation of Fed's 2019 rate cut.

The ECB announced the minutes of the April monetary policy meeting, showing weakened European loans in accordance with the slowdown in economic growth since last September. The ECB's confidence in economic recovery in the second half year declined. But the data is still in line with the baseline scenario. It was disturbing that inflation fell below the target and the ECB may consider to mitigate the side effects of negative interest rates. Some officials believed that targeted longer-term refinancing operations (TLTRO) could be used as an alternative. TLTRO will be decided at the forthcoming meeting and the growth of TLTRO will be based on the transmission of banks. The ECB's April meeting minutes urged to analyze the negative interest rates' impact on banks' earnings. The slowdown signs of global economy and trade continued. The Euro Zone's economic recovery in the second half of 2019 may miss market expectations.

Exchange Rate: RMB rate showed signs of stabilizing

During the week, the RMB exchange rate showed signs of stabilizing. On May 24, the intermediate price of the RMB exchange rate rose by 134bp from last Friday, closing at 6.8993. Both the onshore and offshore RMB exchange rates declined slightly, closing at 6.9050 and 6.9169, respectively. The fluctuation of the RMB exchange rate was within two basis points for four consecutive trading days, indicating that the Central Bank's measures of stabilizing RMB were getting effective. The policy tools of stabilizing RMB coupled with the support from economic fundamentals have relieved the pressure for further substantial depreciation of RMB.

Figure 1 : RMB Exchange Rate

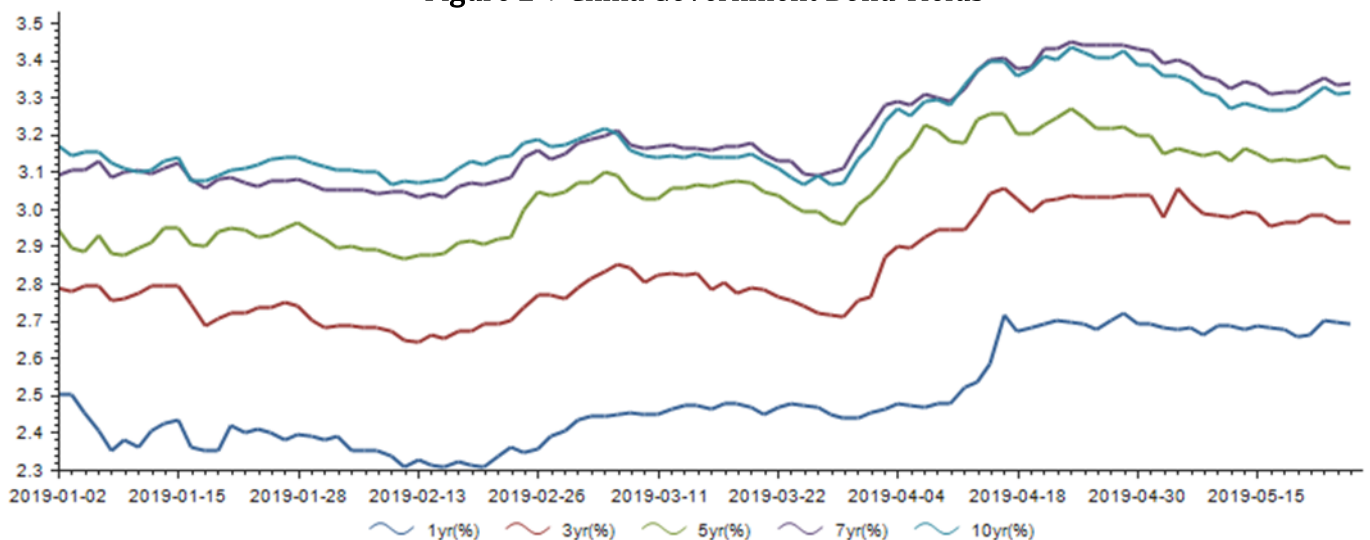


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond yields rose slightly, 10-year US Treasury yield fell to bottom since 2017

During the week, with the stabilization of the RMB exchange rate and the signs of slowdown in the US economy, the US dollar index fell, and the yield of China Government Bonds generally fluctuated with an upward trend. As of May 24, the maturity yields of 1-year, 3-year, 7-year and 10-year Government Bonds were 2.6912%, 2.6950%, 3.3362% and 3.3125%, respectively, up slightly by 1.37bp, 0.31bp, 2.24bp and 4.6bp from last Friday; while the maturity yield of five-year Government Bonds was 3.1112%, down 2.32bp from last Friday.

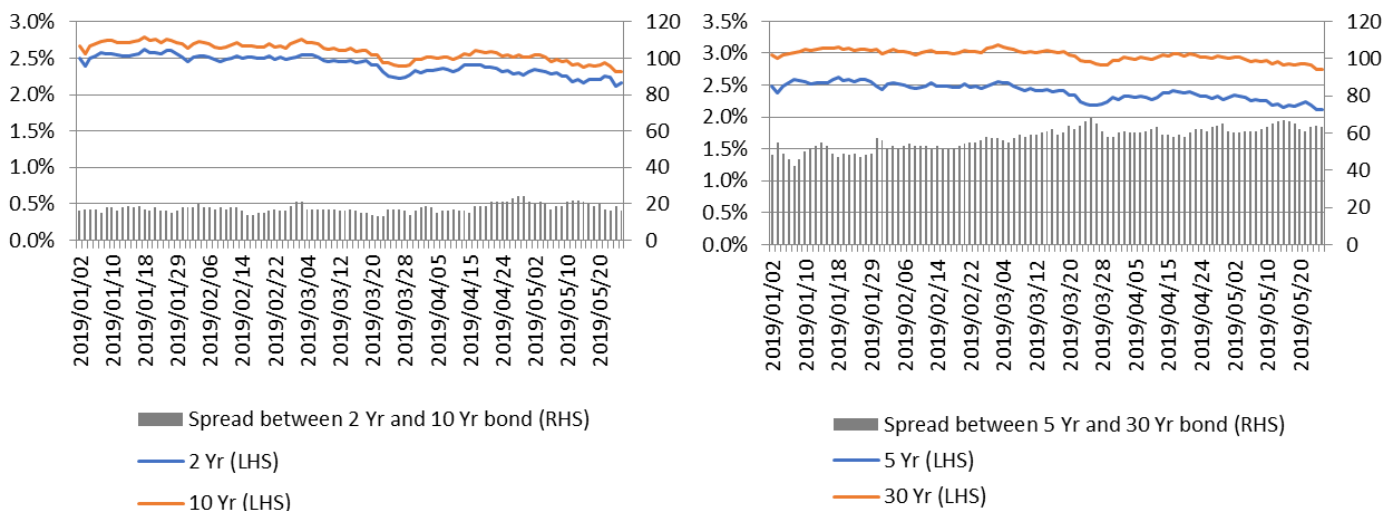
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

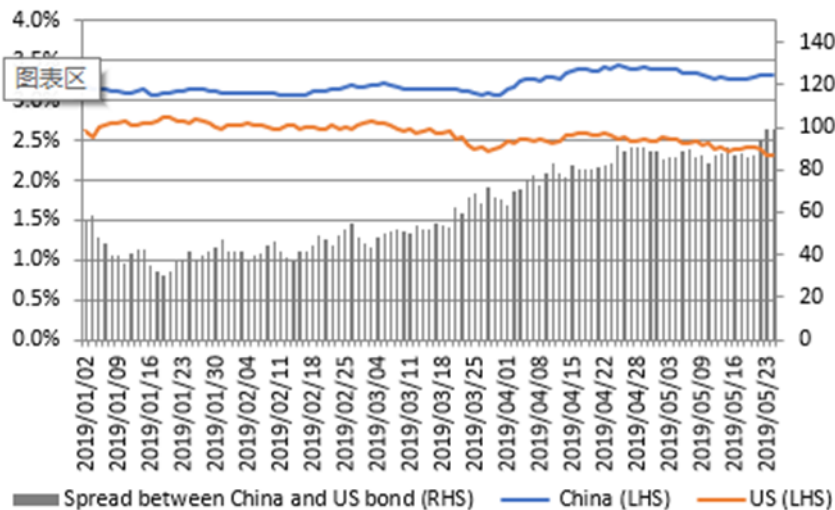
US-China trade dispute kept adding uncertainties to the market and rising investors' concerns. Additionally, the US Manufacturing PMI and durable goods orders in May missed the market expectations. Driven by risk-averse atmosphere of investors, US Treasury yields continued to decline. 10-year Treasury yield ever plummeted to 2.29% this week, which was at its lowest level since October 2017. As of May 24, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 2.16%, 2.12%, 2.32% and 2.75%, dropping by 4bp, 5bp, 7bp and 7bp over last Friday, respectively. The US yield curve between 3-month and 10-year rates has inverted again since last Thursday. The yield spread between 2-year and 10-year bond decreased by 3bp to 16bp, and the yield spread between 5-year and 30-year bond also narrowed by 2bp to 63bp last week. As of May 24, the yield spread between China and US 10-year bonds was 99.2bp, increased by 11.7bp and 60.4bp, comparing with that of last Friday and the beginning of 2019, respectively.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

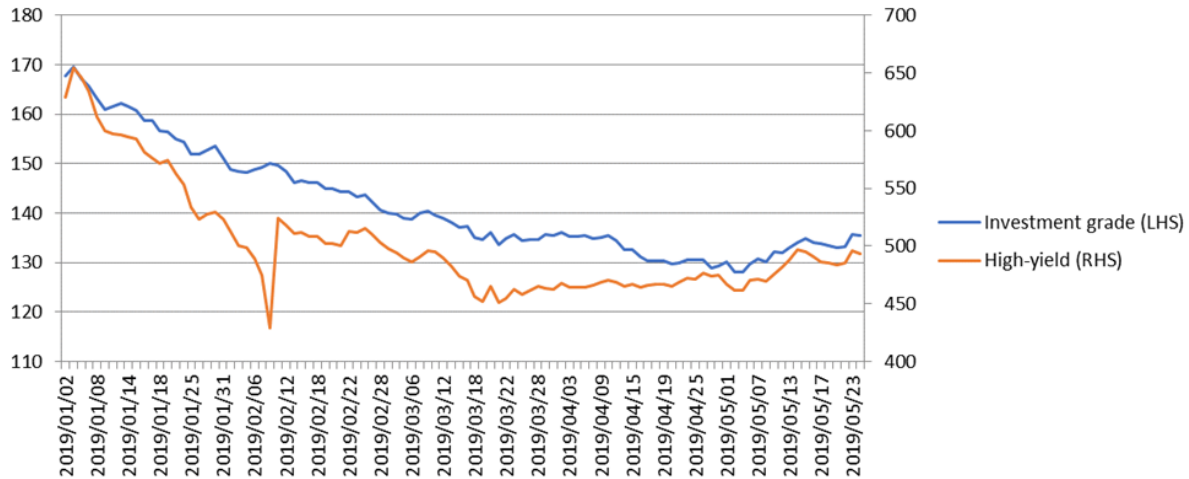
Figure 4 : Spread between China and US 10-year bond



Sources: Bloomberg, ChinaBond.com.cn, CCX research

The credit spread of Barclays Asia USD high-yield bond slightly widened. As of May 24, the credit spread of investment grade index reduced by 1.6bp to 135bp and the credit spread of high-yield index increased by 6.9bp to 493bp.

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



Sources: Bloomberg, CCX research

Chinese Offshore Bond Market

Primary Market: Newly issued volume increased and financial institutions were the largest issuers

From May 20 to May 24, there are 13 new issues with a total issued volume of approximately USD 5.2 billion, of which 60.6% of the issued volume was issued by financial institutions. China Huarong Asset Management Co Ltd issued 3 tranches of bond with multi-maturities, a total amount of approximately USD 1.9 billion, representing the largest issuer this week.

Table 1 : New issuance of Chinese offshore bonds (20190520-20190524)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/5/20	Guotai Junan International Holdings Ltd	HKD	290	2.8	2020/5/26	364D	Financials	Baa2/BBB+/-	-/-/-
2019/5/21	China Huadian Corp Ltd	USD	500	4	-	Perpetual	Energy	A2/A-/A	A2/-/-
2019/5/21	Shandong Gold Group Co Ltd	USD	100	5.3	-	Perpetual	Materials	-/BBB/-	-/-/-
2019/5/22	ICBC International Holdings Ltd	USD	700	3.25	2022/5/30	3	Financials	A2/A-/A	-/-/-
2019/5/22	Kaisa Group Holdings Ltd	USD	400	11.5	2023/1/30	3.7	Real Estate	B1/B/B	B2/-/B
2019/5/22	AVIC International Leasing Co Ltd	USD	450	3.5	2022/5/31	3	Financials	-/-/A-	-/-/A-e
2019/5/22	Yiwu State-owned Capital Operation Co Ltd	USD	600	4.5	2022/5/30	3	Real Estate	Baa3/-/BBB	-/-/BBBe
2019/5/22	Pingxiang Urban Construction Investment Development Co Ltd	USD	300	4.95	2022/4/29	2.9	Industrials	-/-/-	-/-/-
2019/5/22	China Logistics Property Holdings Co Ltd	HKD	1,109	6.95	2024/6/25	5	Industrials	B3/-/B-	-/-/-
2019/5/23	China Huarong Asset Management Co Ltd	USD	300	3.375	2022/5/29	3	Financials	A3/BBB+/A	Baa1/-/A
2019/5/23	China Huarong Asset Management Co Ltd	USD	900	3.75	2024/5/29	5	Financials	A3/BBB+/A	Baa1/-/A
2019/5/23	China Huarong Asset Management Co Ltd	USD	700	4.5	2029/5/29	10	Financials	A3/BBB+/A	Baa1/-/A
2019/5/24	Haitong International Securities Group Ltd	USD	50	3.5	2020/5/28	364D	Financials	Baa2/BBB/-	-/-/-

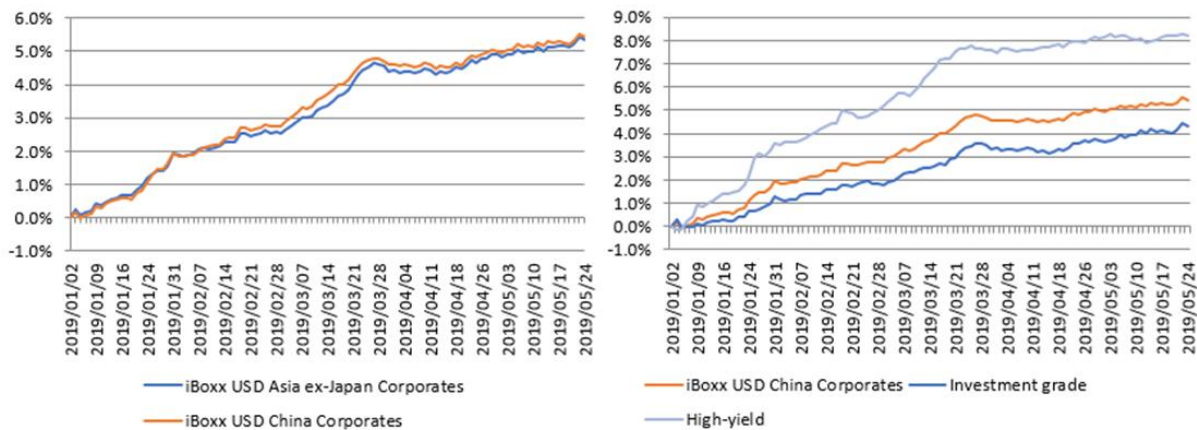
Sources: Bloomberg, CCX research

Recently, C C Land Holdings Limited, Jiangsu Hanrui Investment Holdings Co., Ltd., Chongqing Nan'an District Urban Construction & Development (Group) Co., Ltd. and Nanjing Yangzi State-Owned Assets Investment Group Co., Ltd. planned to issue offshore bonds.

Secondary market: Returns on Chinese dollar bonds rose, while the investment grade bonds outperformed the high-yield bonds

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Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

On May 21, S&P changed the rating of Dr. Peng Telecom & Media Group Co., Ltd. to B- from B, and the outlook was negative. On May 23, Moody's upgraded Yanzhou Coal Mining Company Limited's corporate family rating to Ba2 from Ba3, outlook stable. Next day, Fitch upgraded the rating on Shenzhen Expressway Company Limited to BBB from BBB- with stable outlook. The details are as follows:

Table 2 : Credit rating change(s) in Chinese offshore bond market (20190520-20190524)

Entity	Sector	Entity Rating	Latest Rating Outlook	Date	Entity Rating	Last Rating Outlook	Date	Rating Agency	Reason of Change
Dr. Peng Telecom & Media Group Co., Ltd.	Communications	B-	NEG	2019/5/21	B	NEG	2019/5/14	S&P	Refinancing risk elevated
Yanzhou Coal Mining Company Limited	Energy	Ba2	STABLE	2019/5/23	Ba3	POS	2019/1/25	Moody's	Improved credit metrics
Shenzhen Expressway Company Limited	Industrials	BBB	STABLE	2019/5/24	BBB-	STABLE	2018/5/28	Fitch	Robust expressway portfolio

Sources: Bloomberg, CCX research

Panda Bond Market: CITIC Pacific, Trafigura and Philippines newly issued 3 Panda Bonds this week

As of May 24, 11 issuers issued 15 Panda Bonds in 2019, with a total issued volume of RMB 20.04 billion, and an average coupon of 3.77%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years. On May 20, three new bonds were issued by CITIC Pacific Limited (“CITIC Pacific”), Trafigura Private Trading Enterprise Limited (“Trafigura”), and the Republic of the Philippines (“Philippines”). The tenors of these bonds are all 3 years, and the credit ratings for issuers and the bonds, if applicable, are all AAA.

CITIC Pacific issued RMB 1 billion Panda Bond in the Shanghai Stock Exchange, with coupon rate at 3.90%. The funds raised are intended to be used in the relevant businesses of the countries along the Gulf Cooperation Council (“GCC”) , Southeast Asian countries, Australia, Europe and other BRI countries. China Chengxin Securities Rating Co., Ltd., assigned AAA rating to both the issuer and the bond. CITIC Pacific has issued 2 Panda Bonds, with a total issued volume of RMB 2 billion and an average coupon rate of 4.40%. On March 25, 1992, CITIC Pacific was incorporated in the British Virgin Islands. CITIC Pacific is indirectly controlled by China CITIC Group. As an investment holding company, CITIC Pacific has strong shareholder background and is one of the most important overseas investment platforms. Its business profile diversified into the industries of special steel, energy, real estate, automobile, food and consumer goods trade, infrastructure, etc. Its businesses operate globally, including Mainland China, Hong Kong, Macao, Taiwan, Japan, Singapore and Southeast Asia.

Trafigura issued RMB 0.54 billion Panda Bond in the Interbank Market, with coupon rate at 5.49%. China Lianhe Credit Rating Co., Ltd assigned AAA rating to the issuer. Trafigura has issued 4 Panda Bonds, with a total issued volume of RMB 2.24 billion and an average coupon rate of 6.173%. In 1993, Trafigura was incorporated in the British Virgin Islands. It is a private (non-listed) multinational commodity trading company in Singapore that trades on basic metals and energy (including oil). Trafigura is the largest private metal trader and the second largest private oil trader in the world.

Philippines issued RMB 2.5 billion Panda Bond in the Interbank Market under the arrangement of “Bond Connect”, with coupon rate at 3.58%. China Lianhe Credit Rating Co., Ltd assigned AAA rating to both the issuer and the bond. Philippines has issued 2 Panda Bonds, with a total issued volume of RMB 3.96 billion and an average coupon rate of 4.29%.

Table 3 : New issuance of Panda Bond in 2019 (20190101-20190524)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Republic of the Philippines	2.5	3.58	2019/5/20	2022/5/20	3	International Institutional Bond	China Interbank Market	Lianhe
Trafigura Private Trading Enterprise Limited	0.54	5.49	2019/5/20	2022/5/20	3	PPN	China Interbank Market	Lianhe
CITIC Pacific Limited	1	3.9	2019/5/20	2022/5/20	3	Corporate Bond	Shanghai Stock Exchange	China Chengxin
Semiconductor Manufacturing International Corp.	1	3.1	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	0.5	3.05	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Co. Ltd	1	3.35	2019/4/19	2019/12/30	0.7	SCP	China Interbank Market	China Chengxin
GLP China Holdings Limited	3.3	4.35	2019/3/18	2028/3/18	9	Corporate Bond	Shenzhen Stock	Shanghai

							Exchange	Brilliance
United Overseas Bank Ltd	2	3.49	2019/3/14	2022/3/14	3	Commercial Bank Bond	China Interbank Market	China Chengxin
Bayerische Motoren Werke (BMW) Finance NV	3	4	2019/3/8	2022/3/8	3	PPN	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	1.5	3.57	2019/3/4	2022/3/4	3	MTN	China Interbank Market	China Chengxin/China Bond Rating
New Development Bank	2	3	2019/2/26	2022/2/26	3	International Institutional Bond	China Interbank Market	China Chengxin/Lianhe
New Development Bank	1	3.32	2019/2/26	2024/2/26	5	International Institutional Bond	China Interbank Market	China Chengxin/Lianhe
China Everbright Water Ltd	0.7	3.89	2019/1/21	2024/1/21	5	Corporate Bond	Shanghai Stock Exchange	Shanghai Brilliance
Beijing Enterprises Water Group Ltd	1	3.95	2019/1/11	2026/1/11	7	MTN	China Interbank Market	Shanghai Brilliance / Dagong
Beijing Enterprises Water Group Ltd	1	4.49	2019/1/11	2029/1/11	10	MTN	China Interbank Market	Shanghai Brilliance / Dagong

Sources: Bloomberg, CCX research

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