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From June 10 to June 14

## Rising expectation of Fed rate cut, more than USD 10 billion Chinese offshore bonds issued

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**Headline: Rising expectation of Fed rate cut, easing global monetary policy**

The weak US economic data released last week hinted at a weakening US economy. On June 19, the Fed announced the fed funds rate steady at 2.25%-2.50%, in line with the market expectation. Yet, changes in the wordings of the fed statement increased the market expectation of rate cut in July. Meanwhile, the global central banks would further ease monetary policy. On June 14, the Central Bank of the Russian Federation reduced its key rate. On June 20, the Bank of Japan and the Bank of England will announce their interest rate decisions.

**Regulation: NDRC further regulated the offshore bond issuance of entities owned by local governments**

The NDRC announced circular 666 on June 13, which promoted more restricted regulation on offshore bond issuance. Circular 666 imposes restrictions on offshore bond issuance, such as requesting the entities to release their business and finance honestly and well arrange their repayment plan. This circular regulates the offshore bond issuance, which helps prevent the offshore credit risk.

**Exchange Rate: RMB exchange rate further stabilized**

The RMB exchange rate continued its trend of stabilization this week. As of June 14, the intermediate price of the RMB exchange rate closed at 6.8937, down 8bp from last Friday. With weak economic data of the US and surging expectations for policy easing, the pressure for substantial RMB depreciation is further released.

**Interest Rate: China Government Bonds yields diverged, US Treasury yields fell following a rise**

Due to short-term liquidity disturbance this week, the yields of China Government Bonds of different maturities moved in different directions. On Monday, US President Trump announced that tariffs on Mexican imports would be suspended indefinitely, driving up US Treasury yields. But the May CPI data released on Wednesday failed to meet expectations and the expectation of interest rate cuts rose, leading to a decline in US Treasury yields. As for China-US spread, as of June 14, the yield spread of 10-year Treasury bond between China and US was 115 bp, 1.7 bp wider than last Friday and 59.7 bp wider than the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: Newly issued volume exceeded USD 10 billion, of which banks and property developers were the main issuers**

The newly issued volume boosted. From June 10 to June 14, there are 23 new issues with a total issued volume of USD 10.2 billion, a significant increase of 246% from last week, of which banks and property developers were the main issuers.

**Secondary Market: Returns on investment grade and high-yield bonds rose**

As of June 14, the YTD return on Chinese USD corporate bond index increased by 26 bp over last Friday to 6.27%, of which investment grade bond index was 5.37% and high-yield bond index was 8.53%, increasing by 16 bp and 47 bp respectively over last week.

**Rating Action: CCXAP affirmed the BBB<sub>g</sub>+ rating of Dezhou Deda City Construction Investment Operation Co., Ltd.**

On June 14, CCXAP affirmed the BBB<sub>g</sub>+ rating of Dezhou Deda City Construction Investment Operation Co., Ltd., outlook stable.

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

As of June 14, 12 issuers issued 16 Panda Bonds in 2019, with a total issuance amount of RMB 24.04 billion, and an average coupon of 3.79%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

## Headline: Rising expectation of Fed rate cut, easing global monetary policy

The weak US economic data released last week hinted at a weakening US economy, which increased the expectation of Fed rate cut. The economic data included that: (1) US consumer prices barely rose in May; (2) US initial jobless claims for state unemployment benefits rose 3,000 to 222,000. Despite that layoffs remain low, but the third straight weekly increase in claims suggested some softening in labor market condition; (3) US import prices fell by 0.3% MoM, the largest drop in 5 months, suggesting the latest indication of muted inflation.

On June 19, the Fed announced the fed funds rate steady at 2.25%-2.50%, in line with the market expectation. Yet, the Fed modified its statement, including removing the key word of “patient” and changing the description of economic outlook, as compared to the last statement, which implied rate cut. Such that, the market expectation of rate cut in July increased.

Meanwhile, the global central banks would further ease monetary policy. The Central Bank of the Russian Federation reduced the key rate from 7.75% to 7.50% on June 14, and hinted that 2 more rate cuts will be coming this year as inflation slowed and growth sputtered. The Bank of Japan was expected to keep its ultra-loose monetary policy unchanged on Thursday's meeting. In addition, the Bank of Japan may implement further easing monetary policy if the growing risks such as escalating trade war threaten the economy. On June 20, the Bank of Japan and the Bank of England will announce their interest rate decisions.

## Regulation: NDRC further regulated offshore bond issuance of entities owned by local governments

The National Development and Reform Commission (“NDRC”) announced the Circular on the registration requirements on offshore bond issuance of entities owned by local government (“circular 666”) on June 13, which promoted more restricted regulation on offshore bond issuance.

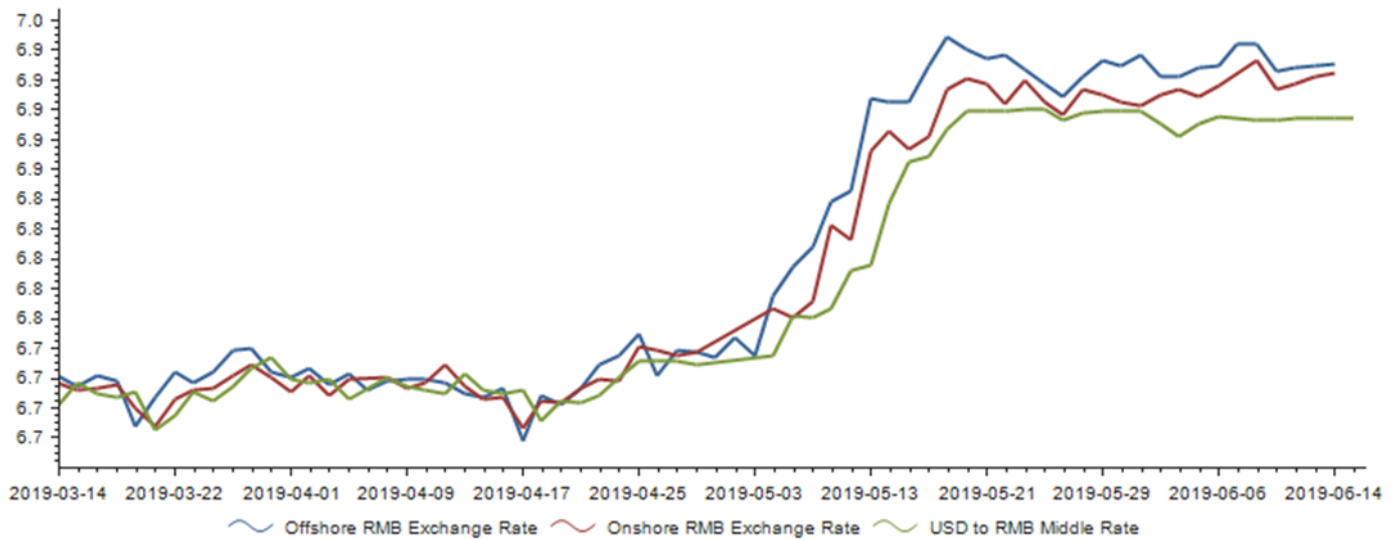
The key points of circular 666 include: (1) all entities should submit authenticity commitment for the registration; (2) the issuers have operated for at least 3 years; (3) the local governments or related departments should not promise to use the fiscal budget for repayment of debts issued by those entities, and should not guarantee the repayment; (4) the offshore bond issued by the local government financing vehicles should only be used for the repayment of medium- or long-term debt matured within a year.

To conclude, circular 666 imposes more restrictions on offshore bond issuance, as well as reinforces the requirements stated previously. In addition, circular 666 requests the entities to release their business and finance honestly and well arrange their repayment plan. This circular regulates the offshore bond issuance, which helps prevent the offshore credit risk.

## Exchange Rate: RMB exchange rate further stabilized

The RMB exchange rate continued its trend of stabilization this week. As of June 14, the intermediate price of the RMB exchange rate closed at 6.8937, down 8bp from last Friday. The onshore and offshore RMB exchange rates slightly increased, closing at 6.9236 and 6.9298, respectively. With weak economic data of the US and surging expectations for policy easing, the pressure for substantial RMB depreciation is further released.

Figure 1 : RMB Exchange Rate

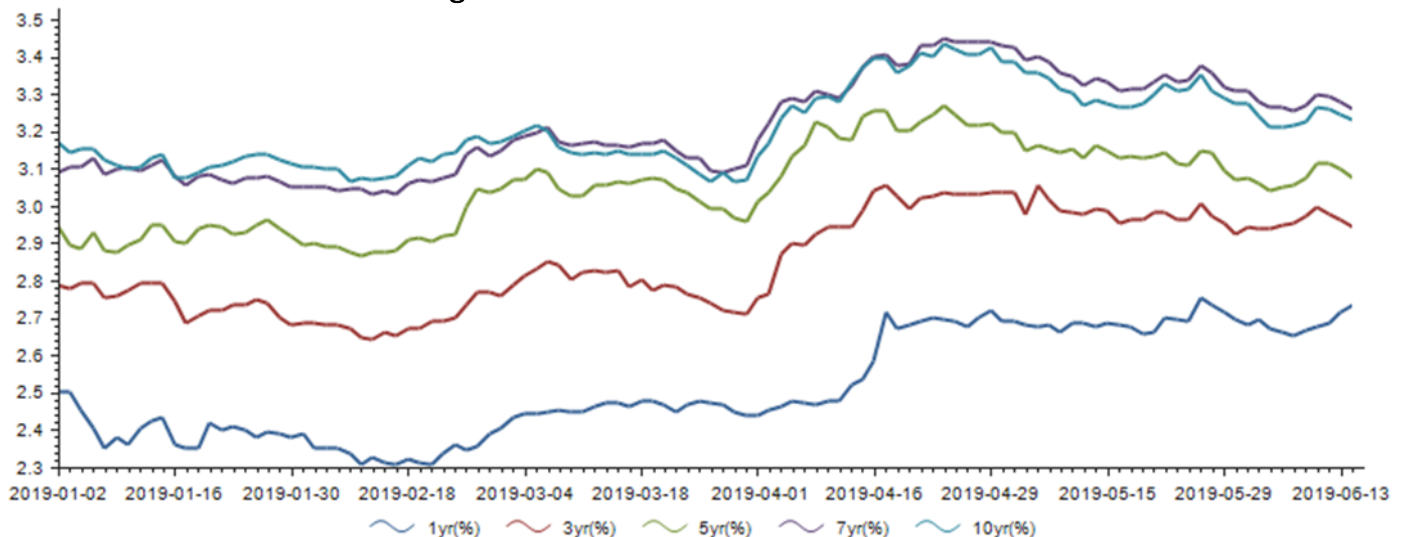


Sources: Eastmoney, CCX research

**Interest Rate: China Government Bonds yields diverged, US Treasury yields fell following a rise**

Due to short-term liquidity disturbance this week, the yields of China Government Bonds of different maturities moved in different directions. The moderate policy stance and surge in market hedging sentiment are beneficial to the bond market. It is expected that the downward trend of the yield will not change. As of June 14, the maturity yields of 5-year, 7-year and 10-year Government Bonds rose first and then fell, closing at 2.9415%, 3.2601% and 3.2302% respectively, up slightly from last Friday; the maturity yields of 3-year Government Bond declined slightly, closing at 3.0732%; the maturity yields of 1-year Government Bond rose 7.96bp to 2.7338%.

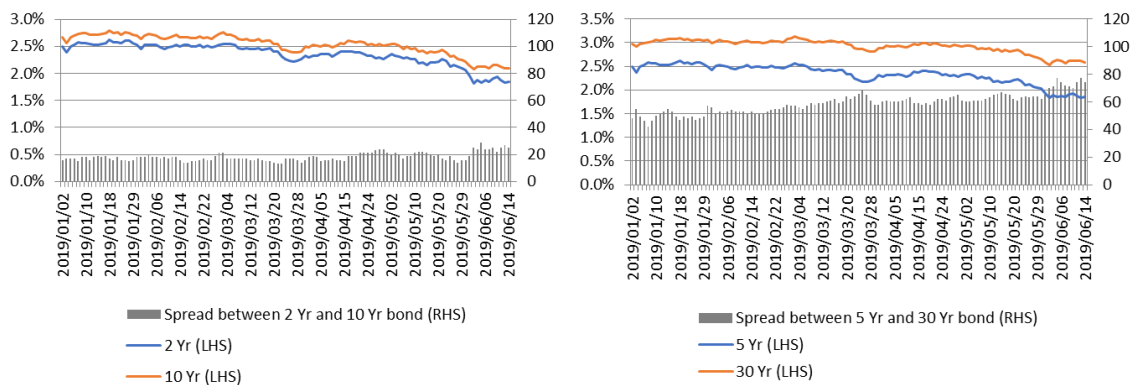
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

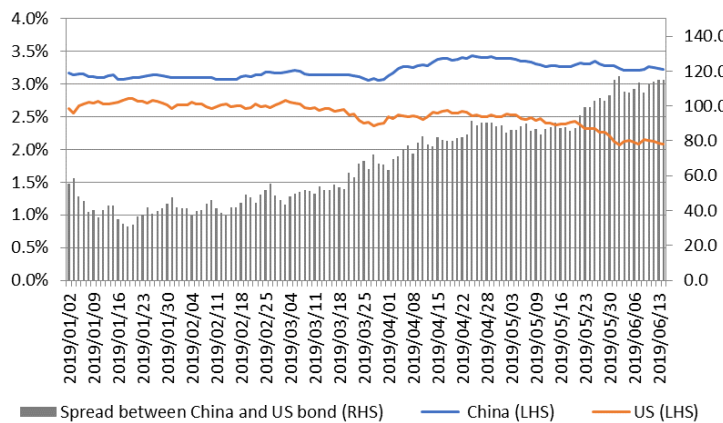
On Monday, US President Trump announced that tariffs on Mexican imports would be suspended indefinitely, driving up US Treasury yields. But the May CPI data released on Wednesday failed to meet expectations and the expectation of interest rate cuts rose, leading to a decline in US Treasury yields. As of June 14, the 2-year yield was 1.84%, down 1 bp from last Friday. The 5-year yield and 10-year yield remained at 1.85% and 2.09%. The 30-year yield was 2.59%, up 2 bp from last Friday. In terms of Treasury spreads, the spread between 2-year and 10-year US Treasury bonds increased by 1 bp to 25 bp compared with last Friday, and the spread between the 5-year and 30-year US Treasury bonds increased by 2 bp to 74 bp from last Friday. As for China-US spread, as of June 14, the spread of 10-year Treasury between China and US was 115 bp, 1.7 bp wider than last Friday and 59.7 bp wider than the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

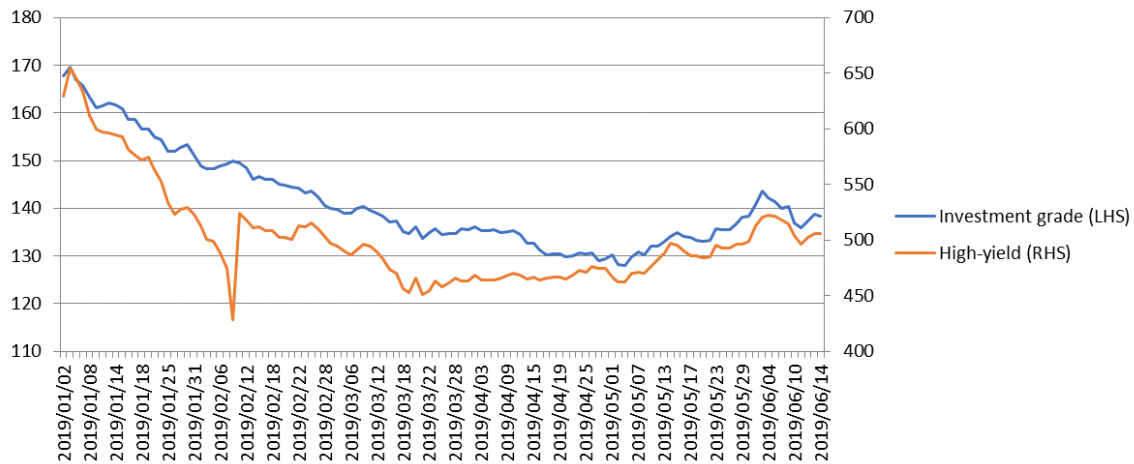
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD high-yield bond narrowed. As of June 14, investment-grade spreads narrowed by 1.9 bp to 138 bp from last week, while high-yield spreads narrowed by 9.3 bp to 506 bp from last week.

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 exceeded USD 10 billion, of which banks and property developers were the main issuers

The newly issued volume boosted. From June 10 to June 14, there are 23 new issues with a total issued volume of USD 10.2 billion, a significant increase of 246% from last week, of which banks and property developers were the main issuers.

Table 1 : New issuance of Chinese offshore bonds (20190610-20190614)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/6/10	Nanjing Jiangbei New Area Industrials Investment Group Ltd	USD	150	5.63	2020/6/15	364D	Chengtou	-/-/-	-/-/-
2019/6/11	Sunac China Holdings Ltd	USD	600	7.25	2022/6/14	3	Real Estate	Ba3/BB-/BB	B1/B+/BB
2019/6/11	Shanghai International Port Group Co Ltd	USD	400	2.875	2024/6/18	5	Industrials	A1/A+/-	A1/A+/-
2019/6/11	Shanghai International Port Group Co Ltd	USD	300	3.375	2029/6/18	10	Industrials	A1/A+/-	A1/A+/-
2019/6/11	Tus-Holdings Co Ltd	USD	550	6.95	2022/6/18	3	Financials	-/-/-	-/-/-
2019/6/11	Jiangsu Zhongnan Construction Group Co Ltd	USD	350	10.875	2022/6/18	3	Real Estate	B2/B/-	B3/B/-
2019/6/11	Yango Group Co Ltd	USD	300	10.25	2022/3/18	2.7	Real Estate	B2/B/B	B3/-/-
2019/6/12	Bright Food Group Co Ltd	EUR	500	1.375	2024/6/19	5	Consumer Staples	Baa2/BBB/A-	-/-/BBB+e
2019/6/12	China National Chemical Corp Ltd	USD	900	3.875	2029/6/19	10	Materials	Baa2/BBB/A-	-/-/A-e
2019/6/12	China National Chemical Corp Ltd	USD	900	3.375	2024/6/19	5	Materials	Baa2/BBB/A-	-/-/A-e
2019/6/12	China National Chemical Corp Ltd	USD	200	4.75	2049/6/19	30	Materials	Baa2/BBB/A-	-/-/A-e
2019/6/12	China National Chemical Corp Ltd	USD	300	3.125	2022/6/19	3	Materials	Baa2/BBB/A-	-/-/A-e
2019/6/12	Zhenro Properties Group Ltd	USD	200	10.25	-	Perpetual	Real Estate	B1/B/B	B2/-/-
2019/6/12	China Merchants Bank Co Ltd/London	USD	600	3ML+74	2022/6/19	3	Banks	A3/BBB+/BBB	A3/-/-
2019/6/12	Zhejiang Geely Holding Group Co Ltd	EUR	400	0	2024/6/19	5	Financials	-/BBB/-	-/-/-
2019/6/12	China Merchants Bank Co Ltd/Luxembourg	EUR	300	0.25	2022/6/19	3	Banks	A3/BBB+/BBB	A3/-/-
2019/6/13	Jinke Properties Group Co Ltd	USD	300	8.375	2021/6/20	2	Real Estate	B1/B+/-	B2/B/-
2019/6/13	Power Construction Corp of China	USD	300	3	2022/6/20	3	Industrials	Baa1/BBB+/A-	-/-/A-e

2019/6/13	Power Construction Corp of China	USD	500	4.3	-	Perpetual	Industrials	Baa1/BBB+/A-	-/-/BBB+e
2019/6/13	Guangzhou Rural Commercial Bank	USD	1,430	5.9	-	Perpetual	Banks	Baa2/BBB-/-	-/-/-
2019/6/13	Vcredit Holdings Ltd	USD	100	11	2021/6/20	2	Industrials	-/-/-	-/-/-
2019/6/14	China Jinmao Holdings Group Ltd	USD	250	4	2024/6/21	5	Real Estate	Baa3/BBB-/BBB-	-/-/-
2019/6/14	China Aoyuan Group Ltd	USD	200	7.35	2023/6/21	4	Real Estate	B1/B+/BB-	-/-/-

Sources: Bloomberg, CCX research

Guangzhou R&F Properties Co Ltd, Industrial & Commercial Bank of China Ltd/Sydney, Fujian Yango Group Co Ltd and Agile Group Holdings Ltd announced tap bond offering, details are as follow:

Table 2 : Tap bond offering (20190610-20190614)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/6/10	Guangzhou R&F Properties Co Ltd	USD	872 (reoffered 425)	8.125	2019/2/27	4	Real Estate	Ba3/B+/BB-	-/-/BB-
2019/6/12	Industrial & Commercial Bank of China Ltd/Sydney	AUD	8.232 (reoffered 5.52)	2.458	2024/8/13	5	Banks	A-/A/A	-/-/-
2019/6/14	Fujian Yango Group Co Ltd	USD	260 (reoffered 110)	11.875	2020/9/21	1.5	Real Estate	-/B/B-	-/B/B-
2019/6/14	Agile Group Holdings Ltd	USD	700 (reoffered 100)	8.375	-	Perpetual	Real Estate	Ba3/BB/-	Ba3/-/-

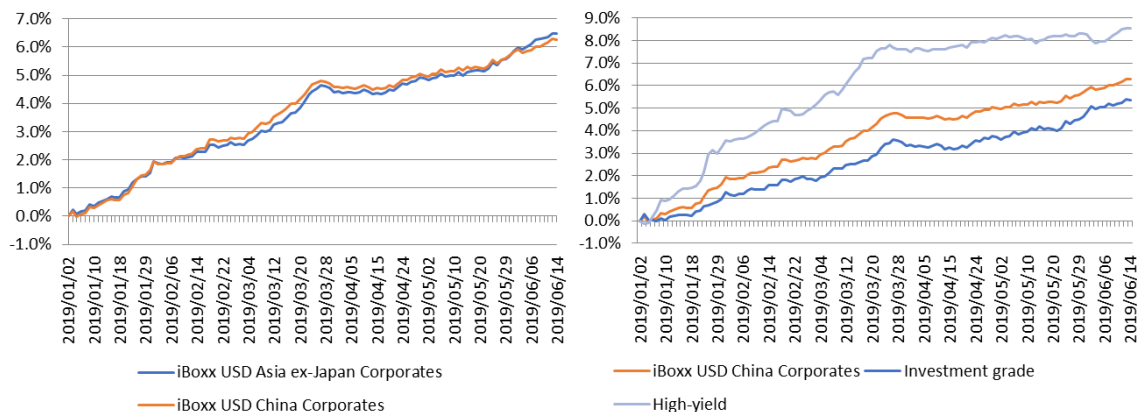
Sources: Bloomberg, CCX research

Recently, a couple of Chinese entities, such as Sichuan Railway Investment Group Co Ltd and Pingdingshan Tianan Coal Mining Co Ltd, planned to issue offshore bonds.

### Secondary Market: Returns on investment grade bonds and high-yield bonds rose

As of June 14, the YTD return on Chinese USD corporate bond index increased by 26 bp over last Friday to 6.27%, of which investment grade bond index was 5.37% and high-yield bond index was 8.53%, increasing by 16 bp and 47 bp respectively over last week.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

For the credit rating changes in Chinese offshore bond market, the rating agencies upgraded the rating/outlook of 4 Chinese entities and downgraded the rating/outlook of 4 Chinese entities from June 10 to June 14. The details are as follows:

**Table 3 : Credit rating changes in Chinese offshore bond market (20190610-20190614)**

Entity	Sector	Entity Rating	Latest Rating Outlook	Date	Entity Rating	Last Rating Outlook	Date	Rating Agency	Reason of Change
Power Construction Corp of China Ltd	Utilities	Baa1	NEG	2019/6/10	Baa1	STABLE	2018/11/26	Moody's	Higher-than-expected leverage
Zhuji State-owned Assets Management Co., Ltd	Chengtou	Baa3	NEG	2019/6/11	Baa3	STABLE	2018/11/22	Moody's	Increase in adjusted net debt
Envision Energy International Limited	Energy	BB+	NEG	2019/6/11	BBB-	Rating Watch Negative	2019/2/18	Fitch	Rising leverage
Changchun Urban Development & Investment Holdings (Group) Co., Ltd	Chengtou	BBB+	STABLE	2019/6/11	BBB	STABLE	2018/6/19	Fitch	Stronger government support
Shanghai Huayi (Group) Company	Materials	BBB-	POS	2019/6/11	BBB-	STABLE	2018/6/15	Fitch	Improving leverage metrics
Taizhou Traffic Industry Group Co Ltd	Chengtou	AA+	STABLE	2019/6/13	AA	STABLE	2018/7/13	Lianhe	Stronger government support; increase in revenue
Shandong Yuhuang Chemical Co Ltd	Materials	B-	NEG	2019/6/14	B+	NEG	2018/6/26	S&P	Weakened liquidity and capitalization
Taikang Life Insurance Co Ltd	Financials	A3	STABLE	2019/6/14	A3	NEG	2019/3/14	Moody's	Improved capitalization

Sources: Bloomberg, CCX research

## Rating Action: CCXAP affirmed the BBB<sub>g</sub>+ rating of Dezhou Deda City Construction Investment Operation Co., Ltd.

On June 14, CCXAP affirmed the BBB<sub>g</sub>+ rating of Dezhou Deda City Construction Investment Operation Co., Ltd., outlook stable.

DDCCIO is Dezhou Municipal Government's primary platform for providing various public services, including infrastructure construction and utility services. In 2018, Dezhou City's GDP grew by 6.7% YoY to RMB 338.0 billion, while the general budgetary revenue grew by 8.0% YoY to RMB 20.3 billion. Dezhou City demonstrated stable economic and financial growth in recent years, providing a favorable external environment for DDCCIO. In 2018, Dezhou Municipal Government adjusted the business scope of Local Government Financing Vehicles ("LGFVs") in the city. The government transferred the shares of 14 companies mainly occupying in gas services and urban construction to DDCCIO, and removed 10 subsidiaries (Dezhou Water Supply General Company, Dezhou House Construction Comprehensive Development Group and their subsidiaries) from the Company. The Company will not engage in the water supply, but will focus on the heating supply, gas supply and infrastructure construction after the transfer. Due to the shift in revenue composition and transformation of operation, DDCCIO's revenue dropped by 25.7% YoY to RMB 3,713.1 million in 2018, resulting volatile revenue and profitability as well as weakening credit metrics. As one of the key LGFVs in Dezhou City, DDCCIO continued to receive government supports. Dezhou Municipal Government injected assets of RMB 1.0 billion and provided subsidies of RMB 0.47 billion to the Company in 2018. CCXAP expects a clear positioning of businesses and sustained government supports will back the Company's credit profile.

## Panda Bond Market: No new issuance this week

As of June 14, 12 issuers issued 16 Panda Bonds in 2019, with a total issuance amount of RMB 24.04 billion, and an average coupon of 3.79%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

**Table 4 : New issuance of Panda Bond in 2019 (20190101-20190614)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
The Republic of Portugal	2	4.09	2019/6/3	2022/6/3	3	International Institutional Bond	China Interbank Market	Lianhe
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	3.90	2019/5/20	2022/5/20	3	Corporate Bond	Shanghai Stock Exchange	China Chengxin
Semiconductor Manufacturing International Corp.	1	3.10	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 Exchange	Shanghai 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	4.00	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	3.00	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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