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From June 17 to June 21

US-China trade dispute continued; Chinese dollar bond market remained hot

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Headline: The US blacklisted five Chinese tech firms; US-China trade dispute continued

On June 21, the US department of Commerce added five Chinese tech firms to its blacklist, including Higon and Sugon. The blacklisting, effective June 24, restricted them to import US electronic components and access to US technology. The new ban was viewed as another round of unilateral sanctions beyond Huawei from the US to Chinese corporations. Some analysts suggested that by adding more Chinese companies in the US's blacklist at this moment, the US could gain more bargain power before the G20 summit, where the top leader of the two largest economies would meet.

Exchange Rate: RMB spiked against USD

With the Federal Reserve releasing signal of interest rate cut on June 20, the RMB exchange rate continued to spike against US Dollar, and the onshore RMB once broke the 6.85 threshold. As of June 21, the intermediate price of the RMB exchange rate closed at 6.8472, down 465bp from last Friday. The interest rate cut benefited the emerging markets, which drove up the emerging markets currencies.

Interest Rate: China Government Bonds yields generally declined, the short- and medium-term US Treasury yields fell

The yields of China Government Bonds generally declined as the easing global monetary policy and surge in market hedging sentiment are beneficial to the bond market. On Wednesday, the Fed announced that the target range for its benchmark interest rate retained at 2.25% to 2.5%, but the central bank predicted two interest cuts in its set of economic prediction. This pushed the short- and medium-term US treasury yields falling. As for China-US spread, as of June 21, the spread of 10-year Treasury between China and US was 117.6bp, 2.7bp wider than last Friday and 62.3bp wider than the beginning of the year.

Chinese Offshore Bond Market**Primary Market: The issues remained large, Chengtuo companies were the key issuers**

From June 17 to June 21, there are 25 new issues with a total issued volume of USD 7.5 billion. Chengtuo companies were the key issuers in the market. There were 12 new issues from Chengtuo companies with a total issued volume of USD 3.2 billion, representing 42.5% of the total issue volume in last week.

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

As of June 21, the YTD return on Chinese USD corporate bond index increased by 41bp over last Friday to 6.68%, of which investment grade bond index was 5.77% and high-yield bond index was 8.95%, increasing by 41bp and 42bp respectively over last week.

Panda Bond Market: Malayan Banking Berhad issued 2 new bonds this week

As of June 21, 13 issuers issued 18 Panda Bonds in 2019, with a total issuance amount of RMB 26.04 billion, and an average coupon of 3.75%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years. On June 21, Malayan Bank Berhad issued two new Panda Bonds in the Interbank Market, namely 2019 Renminbi Bonds of Malayan Banking Berhad (Series 1) Type I and Type II. Tenor of the bonds are 1 year and 3 years respectively, and corresponding coupon rates are 3.28% and 3.58%. Malayan Bank Berhad raised a total fund of 2 billion RMB. China Chengxin International Credit Rating Co., Ltd assigned AAA to both the issuer and the bonds.

Headline: The US blacklisted five Chinese tech firms; US-China trade dispute continued

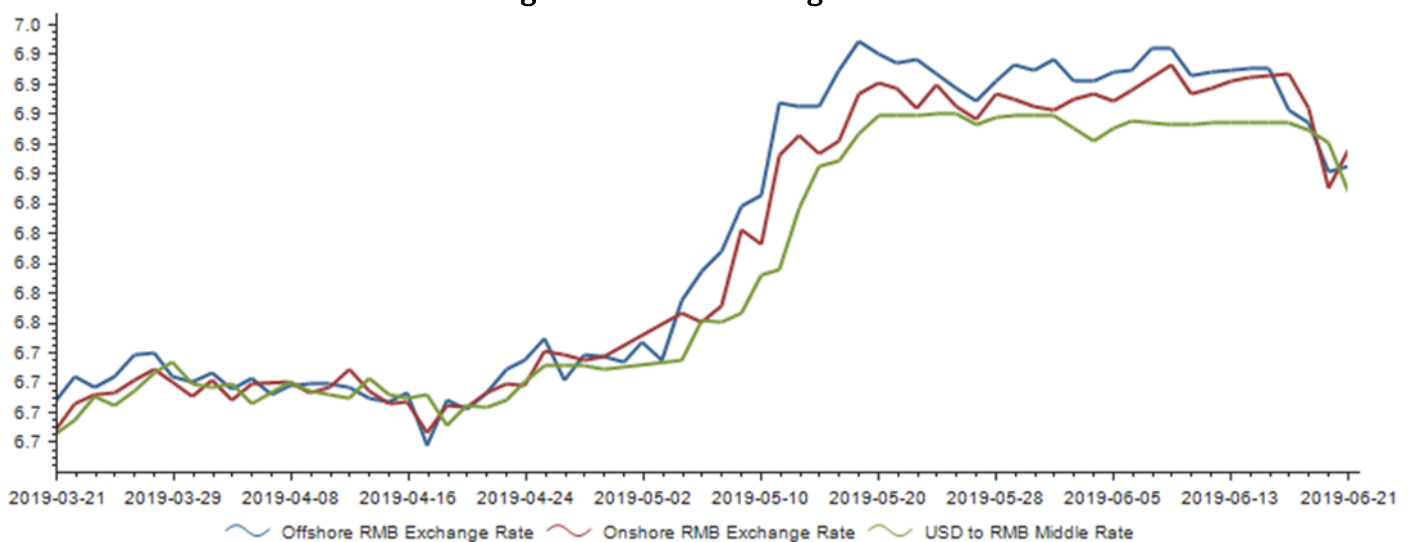
The US department of Commerce added five Chinese tech firms to its blacklist on June 21, restricting them to import US electronic components and access to US technology, effective June 24. The five barred firms included Higon, Chengdu Haiguang Integrated Circuit, Chengdu Haiguang Microelectronics Technology, Sugon, and Wuxi Jiangnan Institute of Computing Technology. All of them are carrying supercomputer-related businesses in China.

The new ban was viewed as another round of unilateral sanctions beyond Huawei from the US to Chinese corporations. The temptation of the US was to sever the supply chains of Chinese tech firms, and ultimately slowed down the technology development of China. Currently, the competition in advanced-technology development, especially in the area of supercomputer technology, between China and the US has obviously become tighter, amid increasing encouragement from both governments. Some analysts suggested that by adding more Chinese companies in the US’s blacklist at this moment, the US could gain more bargaining power in the G20 summit, where the top leader of the two largest economies would meet.

Exchange Rate: RMB spiked against USD

With the Federal Reserve releasing signal of interest rate cut on June 20, the RMB exchange rate continued to spike against US Dollar, and the onshore RMB once broke the 6.85 threshold. As of June 21, the intermediate price of the RMB exchange rate closed at 6.8472, down 465bp from last Friday. Both onshore and offshore RMB exchange rate fell sharply, closing at 6.8750 and 6.8645, respectively. The interest rate cut benefited the emerging markets, as it is expected that the capital would flow into the emerging markets, which drove up their currencies.

Figure 1 : RMB Exchange Rate

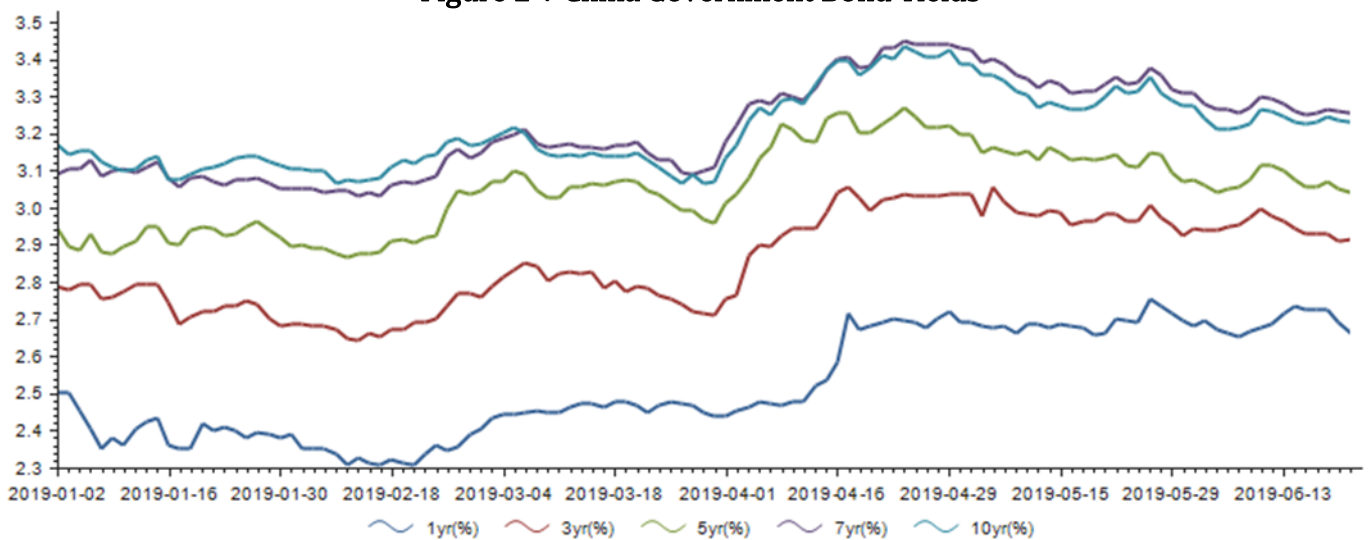


Sources: Eastmoney, CCX research

Interest Rate: China Government Bonds yields generally declined, the short- and- medium- term US Treasury yields fell

This week, the yields of China Government Bonds generally declined. The trend for easing global monetary policy and surge in market hedging sentiment are beneficial to the bond market. As of June 21, the maturity yields of 1-year, 3-year, 5-year, and 7-year Government Bonds declined slightly from last Friday, closing at 2.6608%, 2.9132%, 3.0410% and 3.2550%, respectively; the maturity yields of 10-year Government Bond closed at 3.2303%, which was basically the same as last Friday. According to the latest data released by China Central Government Bond Registration and Settlement Corporation, the depository balance of bond by foreign institutions increased consecutively in the previous 6 months. In May, the growth of the depository balance was RMB 76.6 billion MoM (RMB 57.9 billion more than that of April and the total depository balance reached RMB 1,610.6 billion at the end of May. It also makes China the second largest bond market after the United States.

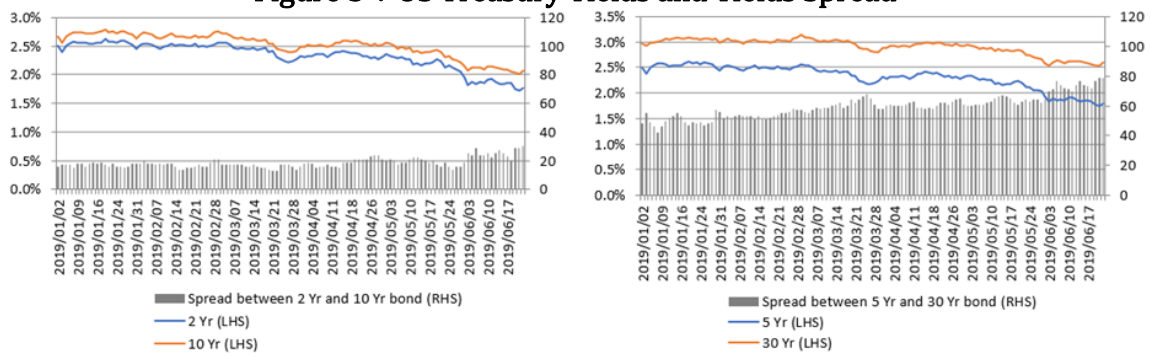
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

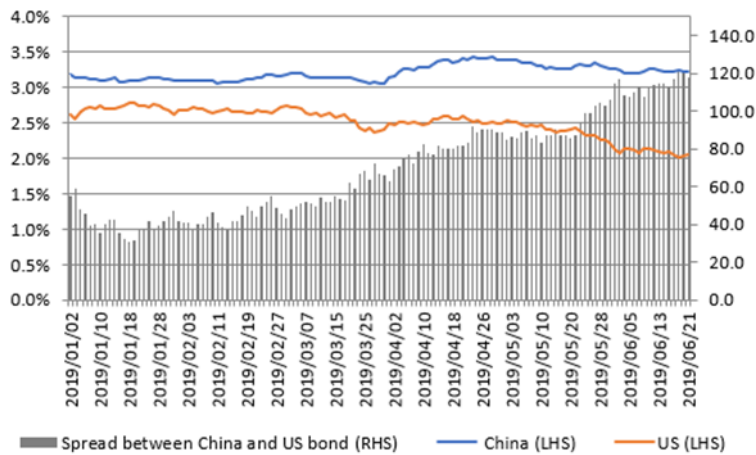
On Wednesday, the Fed announced that the target range for its benchmark interest rate retained at 2.25% to 2.5%, but the central bank predicted two interest cuts in its set of economic prediction. This pushed the short- and medium-term US treasury yields falling. As of June 21, the 2-year yield was 1.77%, the 5-year yield was 1.80% and 10-year yield was 2.07%, down 7bp, 5bp and 2bp respectively. The 30-year yield remained unchanged at 2.59%. In terms of Treasury spreads, the spread between 2-year and 10-year US Treasury bonds increased by 5 bp to 30 bp compared with last Friday, and the spread between the 5-year and 30-year US Treasury bonds increased by 5 bp to 79 bp from last Friday. As for China-US spread, as of June 21, the spread of 10-year Treasury between China and US was 117.6bp, 2.7bp wider than last Friday and 62.3bp wider than the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

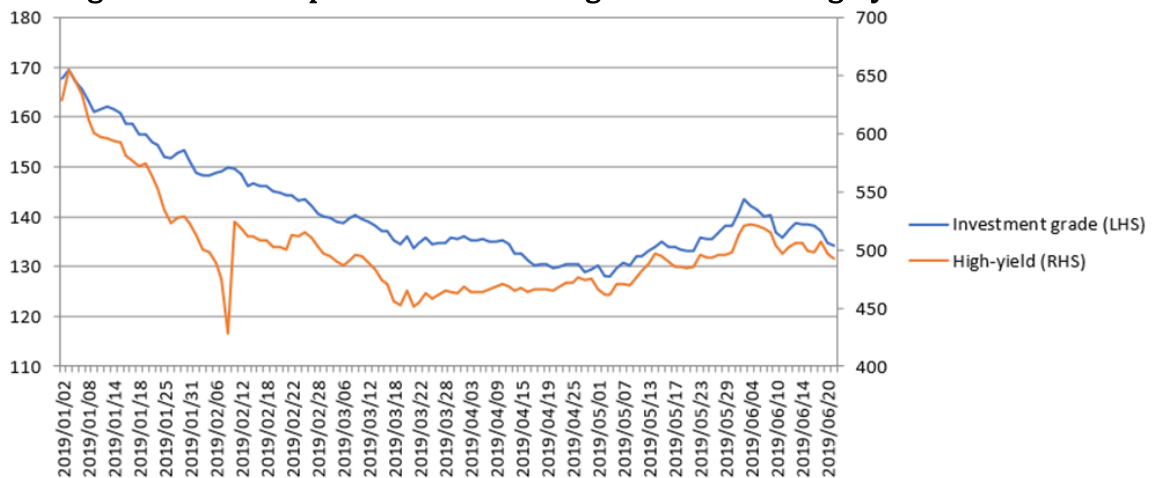
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD high-yield bond dropped, following an increase. As of June 7, investment-grade spreads narrowed by 0.5 bp to 140 bp from last week, while high-yield spreads widened by 1.9 bp to 515 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: The issues remained large, Chengtou companies were the key issuers

From June 17 to June 21, there are 25 new issues with a total issued volume of USD 7.5 billion. Chengtou companies were the key issuers in the market. There were 12 new issues from Chengtou companies with a total issued volume of USD 3.2 billion, representing 42.5% of the total issue volume in last week.

Table 1 : New issuance of Chinese offshore bonds (20190617-20190621)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/6/17	Xi'an Municipal Infrastructure Construction Investment Group Corp Ltd	USD	500	4	2022/6/24	3	Chengtou	-/-/BBB	-/-/BBB
2019/6/17	China Everbright Bank Co Ltd/Hong Kong	USD	500	3ML+79	2022/6/24	3	Banks	Baa2/-/BBB	-/-/BBB
2019/6/17	Landsea Green Group Co Ltd	USD	200	10.5	2022/6/20	3	Real Estate	B2/B/B	B3/B-/B
2019/6/18	Greenland Holding Group Co Ltd	USD	500	6.75	2022/6/25	3	Real Estate	Ba1/BB/BB-	-/-/-
2019/6/18	Mudanjiang City Investment Group Co Ltd	USD	100	8	2022/6/21	3	Chengtou	-/-/-	-/-/-
2019/6/18	Zunyi Road and Bridge Construction Group Ltd	USD	81	4.6	2022/6/20	3	Chengtou	-/-/-	-/-/-
2019/6/18	CITIC Securities International Co Ltd	USD	20	3ML+95	2020/6/16	358D	Financials	-/BBB+/-	-/-/-
2019/6/19	Peking University Founder Group Corp	USD	250	7.875	2021/6/24	2	Technology	-/-/-	-/-/-
2019/6/19	Zhangzhou Transportation Development Group Co Ltd	USD	500	6.5	2022/6/26	3	Chengtou	-/-/BB+	-/-/BB+e
2019/6/19	Yangzhou Economic & Technological Development Zone Development Corp	USD	300	5.5	2022/6/27	3	Chengtou	Ba1/BB+/-	-/-/-
2019/6/19	Huai'an Development Holding Co Ltd	USD	300	6.9	2022/6/25	3	Chengtou	-/-/BB-	-/-/BB-e
2019/6/19	Kunming Dianchi Investment Co Ltd	USD	300	6.6	2022/6/26	3	Chengtou	-/-/-	-/-/-
2019/6/19	Nanjing Lishui Economic and Technological Development Corp	USD	70	6.3	2022/6/24	3	Chengtou	-/-/-	-/-/-
2019/6/20	YY Inc	USD	425	0.75	2025/6/15	6	Communications	-/-/-	-/-/-
2019/6/20	YY Inc	USD	425	1.375	2026/6/15	7	Communications	-/-/-	-/-/-
2019/6/20	Hopson Development Holdings Ltd	USD	500	7.5	2022/6/27	3	Real Estate	B2/B/B+	-/-/B+
2019/6/20	China Construction Bank Corp/Tokyo	JPY	20,000	0.21	2022/6/24	3	Banks	A1/A/A	A1/-/-
2019/6/20	Kunming Traffic Investment Co Ltd	USD	300	6.2	2022/6/27	3	Chengtou	-/-/BBB-	-/-/BBB-e
2019/6/20	Sichuan Railway Investment Group Co Ltd	USD	300	3.8	2022/6/27	3	Chengtou	-/-/A-	-/-/A-e
2019/6/20	Liangshan Development Holding Group Co Ltd	USD	300	7	2022/6/27	3	Chengtou	-/-/BB+*-	-/-/BB+e
2019/6/20	New Hope Group Co Ltd	USD	50	5	2020/6/27	1	Consumer Staples	-/-/-	-/-/-
2019/6/20	Xinjiang Transportation Construction Investment Holding Co Ltd	USD	140	7.5	2022/6/27	3	Chengtou	-/-/-	-/-/-
2019/6/20	Yuzhou Properties Co Ltd	USD	200	5.5	2020/6/30	364D	Real Estate	Ba3/BB-/BB-	-/-/BB-e
2019/6/20	China Railway Construction Corp Ltd	USD	1,000	3.97	-	Perpetual	Consumer Discretionary	A3/A/-	Baa1/-/-
2019/6/21	Chongqing Casin Group Co Ltd	USD	65	4	2022/4/28	2.8	Financials	-/-/-	-/-/-

Sources: Bloomberg, CCX research

From June 17 to June 21, Zhuji State-owned Assets Management Co Ltd, Jiangsu Zhongnan Construction Group Co Ltd, Hong Kong JunFa Property Co Ltd and Hong Kong JunFa Property Co Ltd announced tap bond offering, details are as follow:

Table 2 : Tap bond offering (20190617-20190621)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/6/18	Zhuji State-owned Assets Management Co Ltd	USD	500 (reoffered 189)	7	2021/12/11	3	Chengtou	Baa3/-/-	Baa3/-/-
2019/6/18	Jiangsu Zhongnan Construction Group Co Ltd	USD	400 (reoffered 50)	10.875	2022/6/18	3	Real Estate	B2/B/-	B3/B/-
2019/6/20	Hong Kong JunFa Property Co Ltd	USD	211 (reoffered 111)	13	2021/4/4	3	Real Estate	-/-/B+	-/-/B+
2019/6/20	Jiangsu Fangyang Group Co Ltd	USD	280 (reoffered 180)	7.5	2021/12/11	3	Chengtou	-/-/BB*-	-/-/BB*-

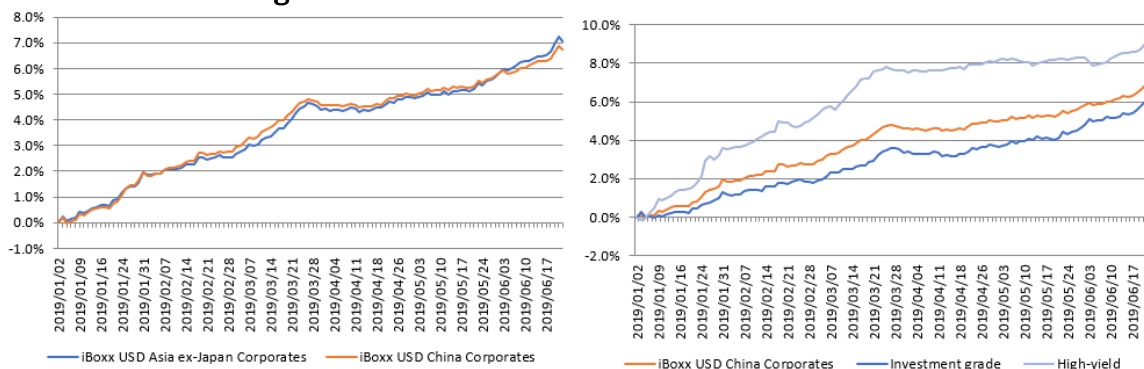
Sources: Bloomberg, CCX research

Recently, a couple of Chinese entities, such as Weibo Corp and Southern Energy Holdings Group Ltd, planned to issue offshore bonds.

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

As of June 21, the YTD return on Chinese USD corporate bond index increased by 41bp over last Friday to 6.68%, of which investment grade bond index was 5.77% and high-yield bond index was 8.95%, increasing by 41bp and 42bp 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, Moody's downgraded the rating and outlook of Tianqi Lithium Corp on June 18. The details are as follows:

Table 3 : Credit rating change in Chinese offshore bond market (20190617-20190621)

Entity	Sector	Entity Rating	Latest Rating Outlook	Date	Entity Rating	Last Rating Outlook	Date	Rating Agency	Reason of Change
Tianqi Lithium Corp	Materials	Ba2	NEG	2019/6/18	Baa3	Rating for Downgrade	2018/5/29	Moody's	Slower than expected deleveraging, weakened operating performance, less financial flexibility

Sources: Bloomberg, CCX research

Panda Bond Market: Malayan Banking Berhad issued 2 new bonds this week

As of June 21, 13 issuers issued 18 Panda Bonds in 2019, with a total issuance amount of RMB 26.04 billion, and an average coupon of 3.75%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

On June 21, Malayan Bank Berhad issued two new Panda Bonds in the Interbank Market, namely 2019 Renminbi Bonds of Malayan Banking Berhad (Series 1) Type I and Type II. Tenor of the bonds are 1 year and 3 years respectively, and corresponding coupon rates are 3.28% and 3.58%. Malayan Bank Berhad raised a total fund of 2 billion RMB. China Chengxin International Credit Rating Co., Ltd assigned AAA to both the issuer and the bonds.

In 1960, Malayan Banking Berhad was founded in Kuala Lumpur, Malaysia. It has grown into the largest listed company and financial group in Malaysia. It is one of the four major ASEAN banks and enjoys a vital place in Malaysia's domestic financial system. The proceeds from the issuance of these two bonds will be used for, but not limited to, supporting the issuer's working capital, its domestic and overseas "BRI" activities, and business in Asia regarding utilities, mining, oil, gas and petrochemical, etc.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20190621)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Malayan Banking Berhad	1	3.28	2019/6/21	2020/6/21	1	Financial Bond	China Interbank Market	China Chengxin
Malayan Banking Berhad	1	3.58	2019/6/21	2022/6/21	3	Financial Bond	China Interbank Market	China Chengxin
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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