

2019 Issue 25

From July 1 to July 5

Rising Japan-South Korea trade tension; lowering market expectation on Fed's interest rate cut in July

Authors

CCXI Overseas Business Department

Mia Zhu 010-66428877-570

llzhu@ccxi.com.cn

Lina Wang 010-66428877-451

jlwang@ccxi.com.cn

CCXAP

Vincent Tong 852-28607121

vincent_tong@ccxap.com

Jacky Lau 852-28607125

jacky_lau@ccxap.com

Other

Rong Tian 852-28607119

rong_tian@ccxap.com

Date: July 12, 2019

Headline: Rising Japan-South Korea trade tension

On July 1, Japan announced new restrictions on its exports to South Korea, which could strike a blow for the key Korean high-tech corporates such as Samsung and LG. South Korea requested Japan to withdraw its export restrictions. South Korea also stated that it will accuse Japan of violating WTO regulations and would adopt retaliatory actions in accordance with international and domestic laws, further tightening the relationships of both countries. In addition, some public opinion was worried that the trade restrictions of Japan may indicate its temptation of an alternation from "free trade" to protectionism, that could give more uncertainties to East Asia's trading and commercial activities.

Exchange Rate: RMB exchange rate remained stable

During the week, the RMB exchange rate decreased slightly, but was still considered as stable in general. As of July 5, the intermediate price of the RMB exchange rate closed at 6.8697, down 50bp 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. Additionally, the increase of foreign investment in China's bond market will enhance the stability of the RMB exchange rate.

Interest Rate: China Government Bonds yields declined, lowering market expectation on Fed's interest rate cut in July

The yields of China Government Bonds generally declined as the trend for policy easing and surge in market hedging sentiment continued. The market expecting the probability of Fed's interest rate cut in July declined as the US disclosed strong non-farm job data, resulting in a sharp increase in the Treasury yields last Friday, lifting 10-year Treasury yield to above 2% level. As of July 5, the yield spread between China and US 10-year note was 113.7bp, narrowing by 8.4bp from last Friday and expanding by 58.4bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: New issue volume cooled down, real estate companies were the largest issuers**

From July 1 to July 5, there are 7 new issues with a total issued volume of USD 2.1 billion. Real estate companies were the key issuers, with 4 issues and a total issued volume of USD 855 million, which accounted for 40.5% of the newly issued volume.

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

As of July 5, the YTD return on Chinese USD corporate bond index increased by 10bp over last week to 7.06%, of which investment grade bond index was 6.07% and high-yield bond index was 9.51%, increasing by 1 bp and by 29 bp respectively over last week.

Credit Event: Tewoo Group's asset management plan defaulted; controlling shareholder of Seazen has been detained

According to China Business Network, an asset management plan under a subsidiary of Tewoo Group Co., Ltd has been defaulted.

On July 3, Mr. Wang Zhenhua, the controlling shareholder and former chairman of board of director of Seazen, held in criminal custody for "personal reasons". Such incident caused a significant drop in the company's bond and stock prices.

Rating Action: CCKAP assigned first-time BBB_g+ to Deta's long-term credit rating and the proposed US dollar-denominated unsecured notes, with stable outlook**Panda Bond Market: No new issuance this week**

As of July 5, 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.

Headline: Rising Japan-South Korea trade tension

On July 1, Japan announced new restrictions on its exports to South Korea. The restrictions were divided into two phases. In phase one, effective July 4, Japan required exporters to obtain approval for exporting fluorinated polyimide, resist, or hydrogen fluoride, materials used to produce electronic products, including television and smartphone display. In phase two, effective late August, Japan will remove South Korea from its list of “white countries”. That means, any exports to South Korea that could be transferred to military use will be needed to obtain approvals from the Japanese government, which may include electronic components, sophisticated equipment and machineries. The restriction on exports from Japan has a huge impact on Korean electronic devices producers as Japan produces 90% of those materials. The approval may take about three months to obtain, if approved, however, the application is not guaranteed for a positive result. The new move could strike a blow against the key Korean high-tech corporates such as Samsung and LG and their production activities.

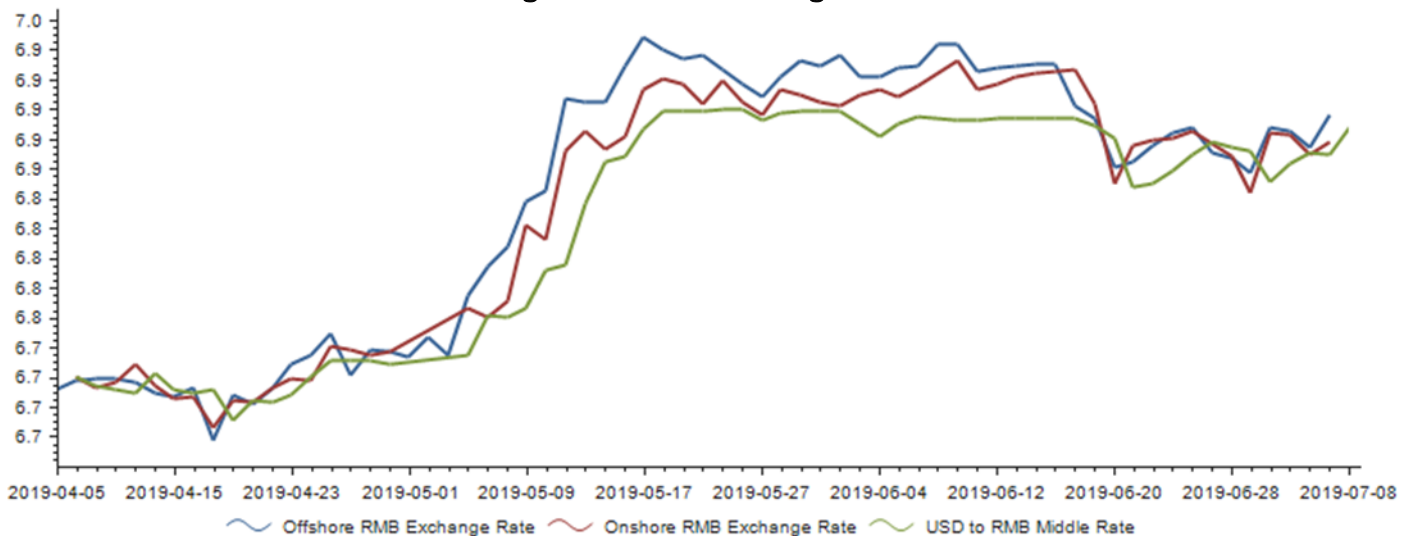
The dispute originally stemmed from argument over compensations for South Koreans forced to work for Japanese corporates during the Second World War. On October 30, 2018, South Korea’s top court ordered Japan’s Nippon Steel Corp (“Nippon Steel”) to compensate 4 former forced laborers. Nippon Steel was against to provide a compensation plan for the laborers before the deadline, such that the lawyers for the victims applied asset restrictions on Nippon Steel. On March 25, South Korea Daejeon’s court approved a seizure of Mitsubishi Heavy Industries Ltd.’s assets, further tightening the relationship of both countries. Such head-on dispute was the first time since the normalization of their relations in 1965.

South Korea requested Japan to withdraw its export restrictions. South Korea also stated that it will accuse Japan of violating World Trade Organization (“WTO”) regulations and would adopt retaliatory actions in accordance with international and domestic laws. Though, up to now, the dispute between Japan and South Korea is not seen to be intensified, the potential cross-fire of the two countries may exist if South Korea cannot find a resolution through the WTO. The prosecution may take at least eighteen months or longer for South Korea to obtain a conclusion, and this long period of time may lead to the country losing its patients and executing retaliatory actions sooner than expected. In addition, some public opinion was worried that the trade restrictions of Japan may indicate its temptation of an alternation from “free trade” to protectionism, that could give more uncertainties to East Asia’s trading and commercial activities.

Exchange Rate: RMB exchange rate remained stable

During the week, the RMB exchange rate decreased slightly, but was still considered as stable in general. As of July 5, the intermediate price of the RMB exchange rate closed at 6.8697, down 50bp from last Friday. Both onshore and offshore RMB exchange rate increased slightly, closing at 6.8781 and 6.8957, respectively. With weak economic data of the US and surging expectations for policy easing, the pressure for substantial RMB depreciation is further released. Additionally, the widening spread between China and foreign bond yields will support the RMB exchange rate, making RMB denominated assets more attractive for foreign investors. The increase of foreign investment in China's bond market will enhance the stability of the RMB exchange rate.

Figure 1 : RMB Exchange Rate

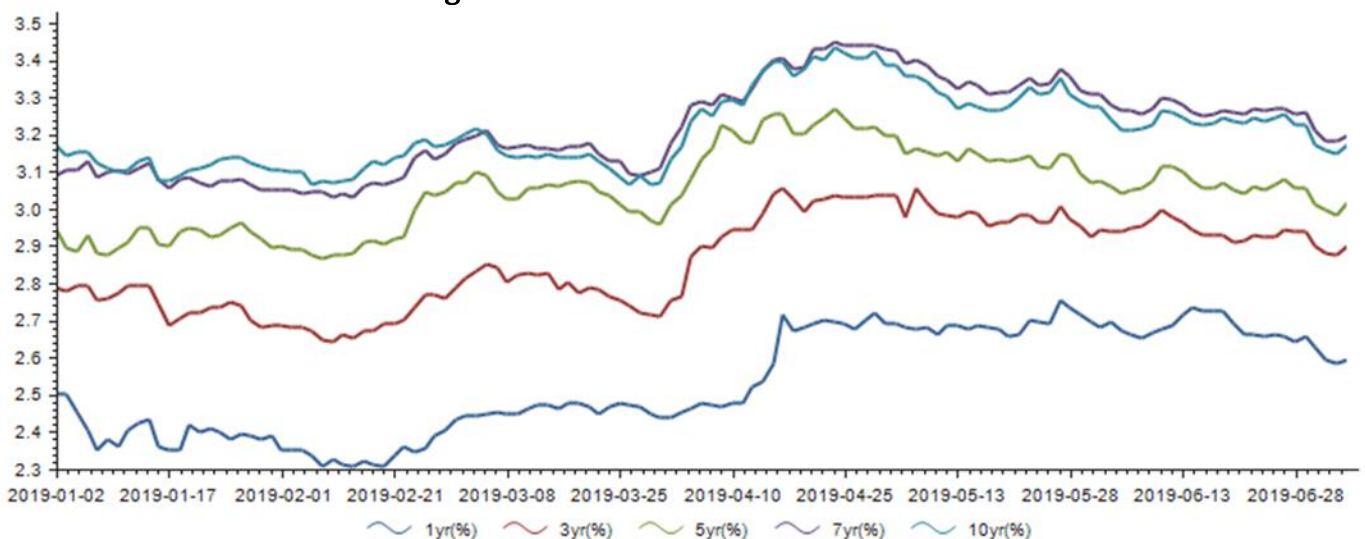


Sources: Eastmoney, CCX research

Interest Rate: China Government Bonds yields declined, lowering market expectation on Fed's interest rate cut in July

This week, the yields of China Government Bonds generally declined. The trend for global monetary easing and surge in market hedging sentiment are beneficial to the bond market. As of July 5, the maturity yields of 1-year, 3-year, 5-year, 7-year and 10-year Government Bonds declined slightly from last Friday, closing at 2.5957%, 2.9012%, 3.0182%, 3.1951% and 3.1705%, respectively. According to the latest data released by China Central Government Bond Registration and Settlement Corporation, the depository balance of bond by foreign institutions reached 1,645 billion Yuan at the end of June, marking a record high. With the widening spread between China and foreign bond yields, more foreign investors are expected to enter China's bond market.

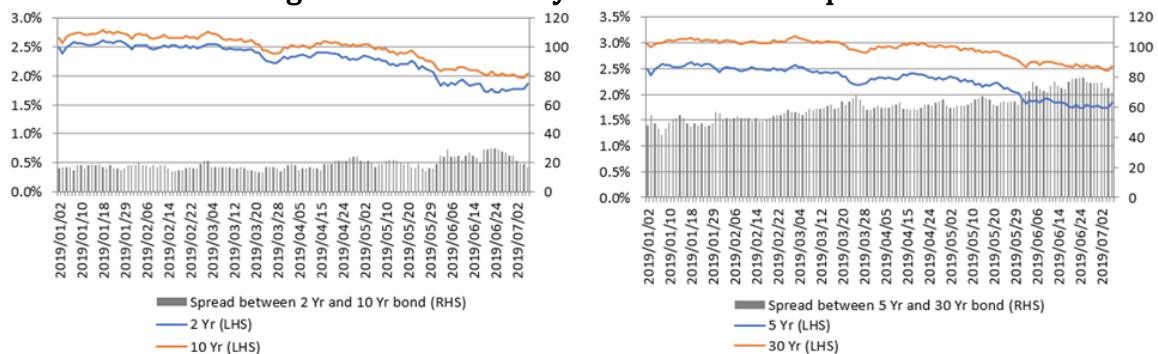
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

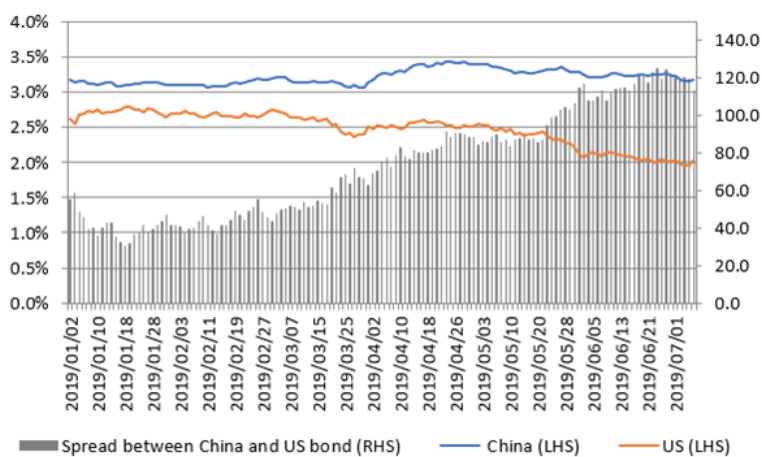
The market expecting the probability of the Fed’s interest rate cut in July declined as the US disclosed strong non-farm job data, resulting in a sharp increase in the Treasury yields last Friday, and lifting 10-year Treasury yield to above 2% level. As of July 5, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 1.87%, 1.84%, 2.04% and 2.54%, decreasing by 12bp, 8bp, 4bp and 2bp over last week, respectively. In terms of Treasury spreads, the spread between the 2-year and 10-year Treasury bonds decreased by 8bp to 17bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds decreased by 6bp to 70bp from last Friday. As of July 5, the yield spread between China and US 10-year note was 113.7bp, narrowing by 8.4bp from last Friday and expanding by 58.4bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

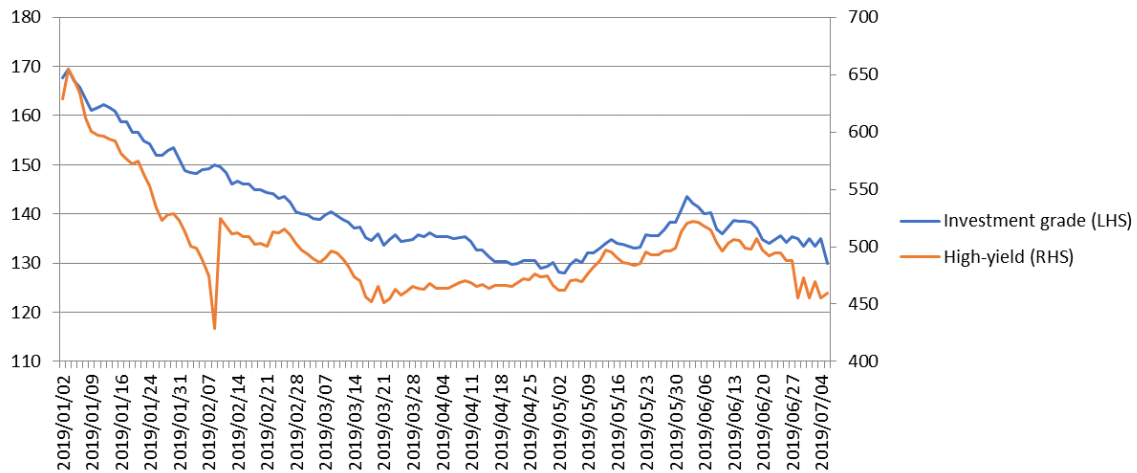
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond slightly narrowed, while the credit spread of the high-yield bond widened. As of July 5, investment-grade spreads slightly narrowed by 5.1bp to 130bp from last week, while high-yield spreads widened by 4.6bp to 460bp 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: New issue volume cooled down, real estate companies were the largest issuers

From July 1 to July 5, there are 7 new issues with a total issued volume of USD 2.1 billion. Real estate companies were the key issuers, with 4 issues and a total issued volume of USD 855 million, which accounted for 40.5% of the newly issued volume. The details are as follows:

Table 1 : New issuance of Chinese offshore bonds (20190701-20190705)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/7/2	Shandong Guohui Investment Co Ltd	USD	800	4.37	2022/7/9	3	Financials	Baa2/-/BBB+	-/-/BBB+e
2019/7/2	Tsinghua Tongfang Co Ltd	USD	300	6.8	2022/1/10	2.5	Technology	-/-/-	-/-/-
2019/7/3	Pingdingshan Tianan Coal Mining Co Ltd	USD	100	6.25	2020/7/9	364D	Energy	-/BB-/-	-/-/-
2019/7/4	Guangzhou R&F Properties Co Ltd	USD	450	8.125	2024/7/11	5	Real Estate	Ba3/B+/BB-	-/-/BB-
2019/7/4	DaFa Properties Group Ltd	USD	180	12.875	2021/7/11	2	Real Estate	B2/B-/-	B3/B-/-
2019/7/4	Taiyuan State-Owned Investment Group Co Ltd	USD	55	6.2	2022/7/9	3	Chengtou	-/-/-	-/-/-
2019/7/5	Jiayuan International Group Ltd	USD	225	13.75	2022/3/11	2.67	Real Estate	Caa1*+/-/-	-/-/-

Sources: Bloomberg, CCX research

On July 2, Yuzhou Properties Co Ltd announced tap bond offering, details are as follow:

Table 2 : Tap bond offering (20190701-20190705)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/7/2	Yuzhou Properties Co Ltd	USD	650 (reoffered 400)	6	2023/10/25	7	Real Estate	Ba3/BB-/BB-	B1-/BB-

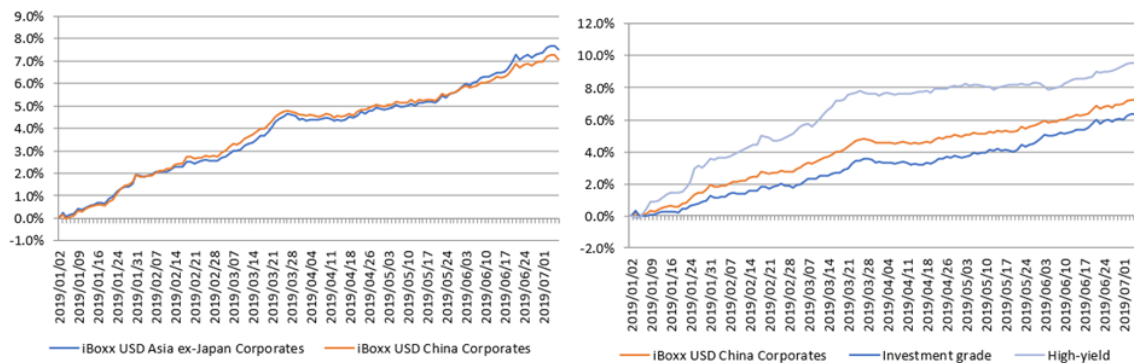
Sources: Bloomberg, CCX research

Recently, Tianjin Binhai New Area Construction & Investment Group Co Ltd, China National Bluestar Group Co Ltd and Guangzhou Development Zone Financial Holding Group Co Ltd planned to issue offshore bonds.

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

As of July 5, the YTD return on Chinese USD corporate bond index increased by 10bp over last week to 7.06%, of which investment grade bond index was 6.07% and high-yield bond index was 9.51%, increasing by 1 bp and by 29 bp respectively over last week.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

For the credit rating changes of cross-border bond market, Moody’s revised Shanghai Electric Group Corp’s outlook to negative from stable; Fitch and S&P add Seazen Holdings Co Ltd or Future Land Development Holdings Ltd into rating watch list negative. The details are as follows:

Table 3 : Credit rating changes of cross-border bond market (20190701-20190705)

Entity	Sector	Entity Rating	Latest Rating		Entity Rating	Last Rating		Rating Agency	Reason of Change
			Outlook	Date		Outlook	Date		
International Rating:									
Shanghai Electric Group Corp	Industrials	A2	NEG	2019/7/3	A2	STABLE	2018/8/21	Moody's	Facing challenges in business transformation; high debt leverage that need time to reduce
Seazen Holdings Co Ltd & Future Land Development Holdings Ltd	Real Estate	BB	Rating Watch Negative	2019/7/4	BB	STABLE	2019/4/15	Fitch	Possibility of a deterioration of both companies' business and financial risk after their chairman and founder, Mr. Wang Zhenhua, was held in criminal custody by Chinese police
Future Land Development Holdings Ltd	Real Estate	BB	Rating Watch Negative	2019/7/4	BB	STABLE	2019/3/20	S&P	Potential reputational damage and ensuing operational and financing impact on the company from the detention of the company's former chairman by Chinese police.

Sources: Bloomberg, CCX research

Credit Event: Tewoo Group's asset management plan defaulted; controlling shareholder of Seazen has been detained

According to China Business Network, an asset management plan under a subsidiary of Tewoo Group Co., Ltd. ("Tewoo Group") has been defaulted. The interest payment of the plan was due on June 21 but the company missed the payment schedule. After the news published, the USD bond prices of Tewoo Group dropped significantly. One of the company's perpetual bond price reached USD 39.15 as of July 5, down 25.4% WoW, which was its lowest level since it was listed. As of July 5, the Company had a total outstanding USD bond of 2.05 billion, of which USD 600 million was being due in the next 9 months. It is learned that Tewoo Group has established a committee to cope with its debt payment, which was led by ICBC, though the bank did not disclose any details.

On July 3, Mr. Wang Zhenhua, the controlling shareholder and former chairman of board of director of Seazen, held in criminal custody for "personal reasons". For this reason, the Company appointed Mr. Wang Xiaosong as the new chairman after an emergent board meeting. Such incident caused a significant drop in the company's bond and stock prices. CCXAP opines that the detention of Seazen's former chairman and change in leadership could adversely affect its reputation, and may create uncertainties to its business profile (including contracted sales and investment strategies) as well as the financial capability, which could weaken the company's credit profile.

Rating Action: CCXAP assigned first-time BBB_g+ to Deta's long-term credit rating and the proposed US dollar-denominated unsecured notes, with stable outlook

On July 5, CCXAP assigned BBB_g+ to Dalian Deta Holding Co., Ltd.'s ("Deta" or the "Company") long-term credit rating and the proposed US dollar-denominated unsecured notes, with a stable outlook.

Deta was established in 2004 with a registered capital of RMB 1 billion. The Company is wholly owned by the Administrative Committee of Dalian Jinpu New Area. Dalian Jinpu New Area is the 10th national-level new area in China, with a total GRP of RMB 244 billion in 2018, which accounted for one-third of the GRP of Dalian city. The Company is the largest state-owned entity in the Jinpu New Area that undertakes most of the infrastructure construction and public utility services in the area including supply of gas, heat and water, which generates a steady revenue and cash flow to the Company. However, the Company business profile is changing. As of the end of 2018, the Company has no developing infrastructure projects. This change gave some business uncertainties to the Company. In addition, given the Company's non-profit business nature, the overall profitability and cash generating capability were relatively weak. Yet, the Company's financial profile and liquidity would gradually improve as the ongoing progress of its debt swap program. CCXAP considers that in addition to the continuing governmental supports, the Company's revenue will increase along with the economic development of Jinpu New Area, which could strengthen its credit profile.

Panda Bond Market: No new issuance this week

As of July 5, 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.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20190705)

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

本文版权归中诚信国际信用评级有限公司、中国诚信(亚太)信用评级有限公司和/或其被许可人所有。本文件包含的所有信息受法律保护,未经中诚信国际事先书面许可,任何人不得复制、拷贝、重构、转让、传播、转售或进一步扩散,或为上述目的存储本文件包含的信息。

本文件中包含的信息由中诚信国际从其认为可靠、准确的渠道获得,因为可能存在人为或机械错误及其他因素影响,上述信息以提供时现状为准。特别地,中诚信国际对于其准确性、及时性、完整性、针对任何商业目的的可行性及合适性不作任何明示或暗示的陈述或担保。在任何情况下,中诚信国际不对任何人或任何实体就 a) 中诚信国际或其董事、经理、雇员、代理人获取、收集、编辑、分析、翻译、交流、发表、提交上述信息过程中可以控制或不能控制的错误、意外事件或其他情形引起的、或与上述错误、意外事件或其他情形有关的部分或全部损失或损害,或 b) 即使中诚信国际事先被通知该等损失的可能性,任何由使用或不能使用上述信息引起的直接或间接损失承担任何责任。

本文件所包含信息组成部分中信用级别、财务报告分析观察(如有)应该而且只能解释为一种意见,而不能解释为事实陈述或购买、出售、持有任何证券的建议。中诚信国际对上述信用级别、意见或信息的准确性、及时性、完整性、针对任何商业目的的可行性及合适性不作任何明示或暗示的担保。信息中的评级及其他意见只能作为信息使用者投资决策时考虑的一个因素。相应地,投资者购买、持有、出售证券时应该对每一只证券、每一个发行人、保证人、信用支持人作出,自己的研究和评估。



中诚信国际信用评级有限责任公司

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>