

## 2019 Issue 29

From July 29 to August 2

## Fed's rate cut was less than expected, RMB exchange rate slumped

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**Headline: Fed's rate cut was less than expected, Sino-US friction arouses prospects for rate cut**

On July 31, the Fed decided to lower the target range for the federal funds rate to 2%-2.25% for the first time since the 2008 financial crisis and conclude the runoff of securities portfolio effective from August 1. Fed Chairman Jerome Powell, on his speech, said the rate cut was mid-cycle policy adjustment rather than the beginning of a series of rate cuts. The hawkish expression caused the market to plummet unusually.

On August 1, US President Donald Trump proposed placing 10% tariffs on another USD 300 billion worth of Chinese goods from September 1. The escalated Sino-US trade friction aroused the possibility of the Fed to cut interest rates.

**Exchange Rate: Onshore and offshore RMB depreciated sharply**

Due to the hawkish comments of the Fed after the interest rate cut and the resurging trade frictions between China and the US, both onshore and offshore RMB depreciated sharply, closing at 6.9416 and 6.9760 respectively.

**Interest Rate: China and US Government Bonds yields plummeted**

The yields of China and US Government Bonds declined under the circumstance of policy interest rate cut and surging market hedging sentiment. As of August 2, the yield spread between China and US 10-year note was 124.6bp, rising by 15.0bp from last Friday and widening by 69.3bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: New issuance cooled down, China Petrochemical Corp was the key issuer**

From July 29 to August 2, there were 14 new issues with a total issued volume of USD 3.6 billion. China Petrochemical Corp was the key issuer, which issued 3 bonds with a total issued volume of USD 2.0 billion.

**Secondary Market: Returns on investment grade bonds rose notably and return on high yield bonds fell**

As of August 2, the YTD return on Chinese USD corporate bond index increased by 36bp over last week to 7.69%, of which investment grade bond index was 6.95%, increasing by 62 bp over last week, while high-yield bond index was 9.62%, dropping by 18 bp over the same period.

**Panda Bond Market: Successful issuance of first Panda Bond by Italian institution**

On August 1, "2019 Renminbi Bonds of Cassa depositi e prestiti S.p.A. (Series 1)" was successfully issued. The rating service is provided by CCXI. CDP is the first Italian issuer, as well as the first European NPI in the Panda Bond market. CDP raised RMB 1 billion through this bond, with a tenor of 3 years and coupon rate of 4.5%. CCXI assigned a local scale credit rating of AAA to CDP with a rating outlook of stable, and a credit rating of AAA to the bond.

## Headline: Fed's rate cut was less than expected, Sino-US friction arouses prospects for rate cut

On July 31, the Fed made three decisions to implement the monetary policy stance. Firstly, the Fed decided to lower the target range for the federal funds rate by 25bp to 2%-2.25% for the first time since the 2008 financial crisis. Secondly, the interest rate on excess reserves was set forth to be 2.10% from the previous rate of 2.35%. Thirdly, the Fed announced plans to end the reduction of its asset portfolio in advance, effective from August 1. (the Federal Open Market Committee in March indicated to conclude the runoff of securities portfolio at the end of September and reinvest the due mortgage-backed securities in bonds). Fed Chairman Jerome Powell, on his speech, said the rate cut was in light of the implications of low inflation, slowdown in US growth and declined business fixed investment, slack global economics and increase in uncertainties of Sino-US trade friction. He said the rate cut was mid-cycle policy adjustment rather than the beginning of a series of rate cuts. The hawkish expression caused the market to plummet unusually.

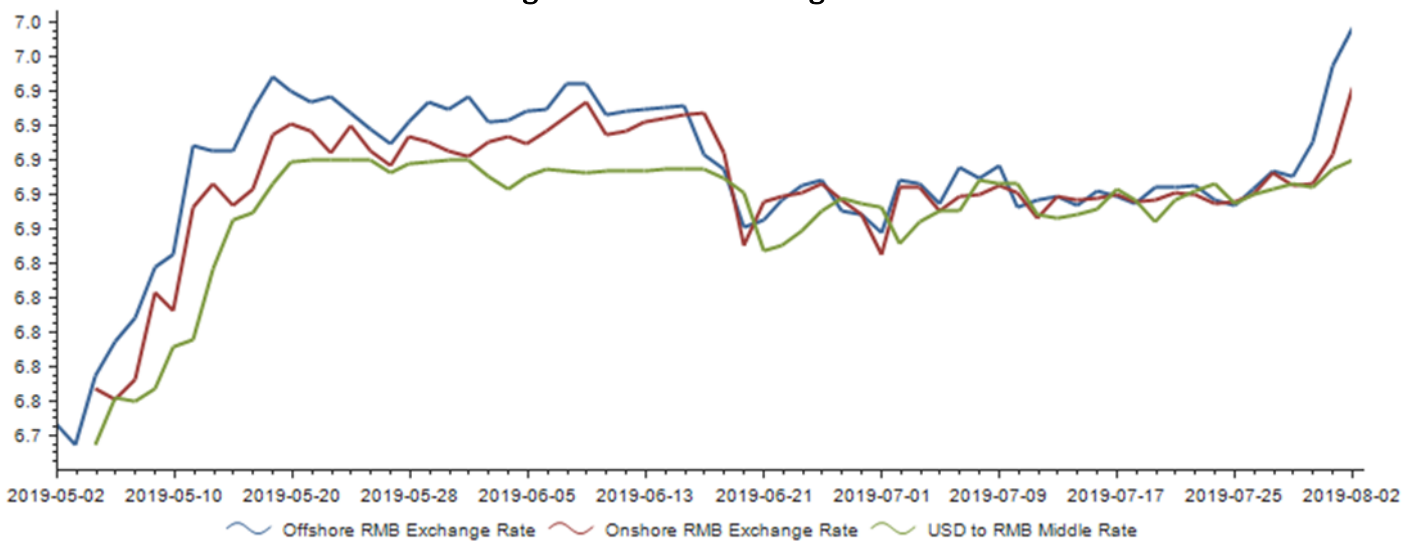
Less than four hours after the rate cut by the Fed, four central banks announced reductions in interest rates: United Arab Emirates, Bahrain and Saudi Arabia followed to cut the interest rates by 25bp, while Central Bank of Brazil slashed interest rates by 50 bp to 6%, which was beyond the market expectation's 25bp cut. The Hong Kong Monetary Authority ("HKMA") also announced on August 1 that the base rate was adjusted downward by 25 bp to 2.50%. Since 2019, nearly 20 central banks, including India, Egypt, Malaysia, New Zealand, Philippines, and Australia, have announced interest rate cuts. The Fed's reduction on interest rates may result in a synchronized global response.

On August 1, US President Donald Trump proposed placing new 10% tariffs on another USD 300 billion worth of Chinese goods from September 1. The escalated Sino-US trade friction aroused the possibility of the Fed to cut interest rates again.

## Exchange Rate: Onshore and offshore RMB depreciated sharply

Due to the hawkish comments of the Federal Reserve after the interest rate cut and the resurging trade frictions between China and the United States, both onshore and offshore RMB depreciated sharply. As of August 2, the intermediate price of the RMB exchange rate closed at 6.8996, up 200bp from last Friday. Onshore and offshore RMB exchange rate spiked, closing at 6.9416 and 6.9760, respectively. The Fed released hawkish signals after the rate resolution, indicating the rate cut does not mean a new round of easing, but a mid-cycle policy adjustment. The US dollar strengthened after the meeting, and the dollar index soared to a two-year high. Both onshore and offshore RMB depreciated substantially after the market opening on August 1. In addition, Trump ratcheted up the trade war on August 1, slapping 10% tariffs on another \$300 billion worth of Chinese goods. This move will further increase the short-term fluctuations of the RMB exchange rate.

Figure 1 : RMB Exchange Rate

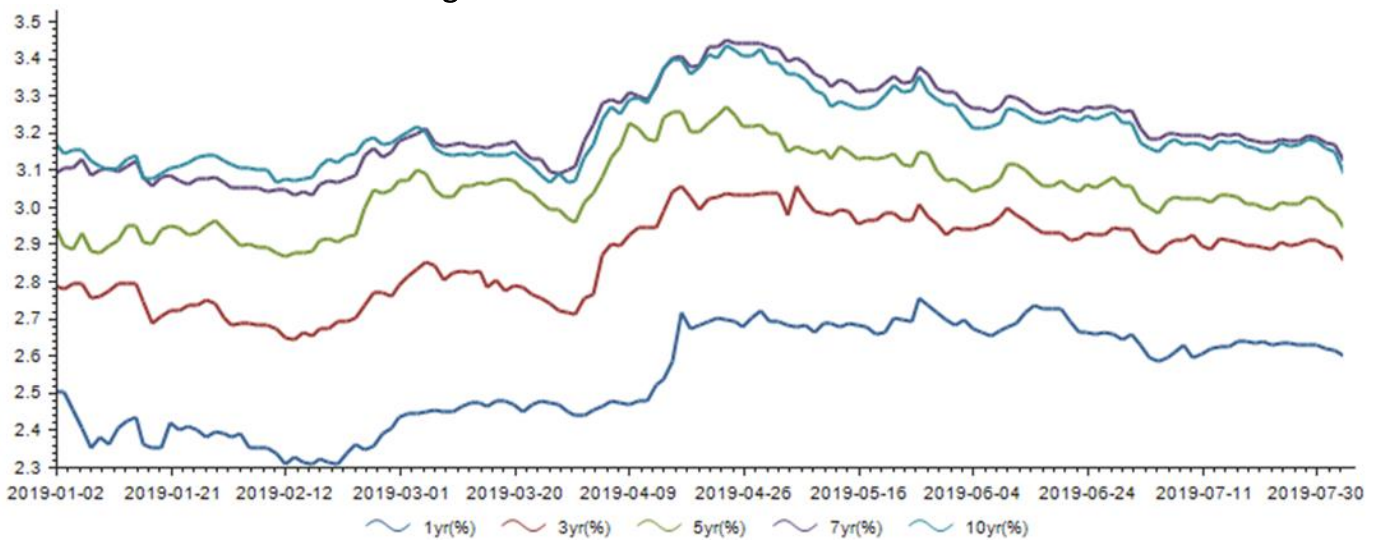


Sources: Eastmoney, CCX research

### Interest Rate: China and US Government Bonds yields plummeted

This week, the yields of China Government Bonds declined under the circumstance of policy interest rate cut and surging market hedging sentiment. As of August 2, the maturity yields of 1-year, 3-year, 5-year, 7-year, and 10-year Government Bonds declined from last Friday, closing at 2.5973%, 2.8583%, 2.9427%, 3.1229% and 3.0914%, respectively.

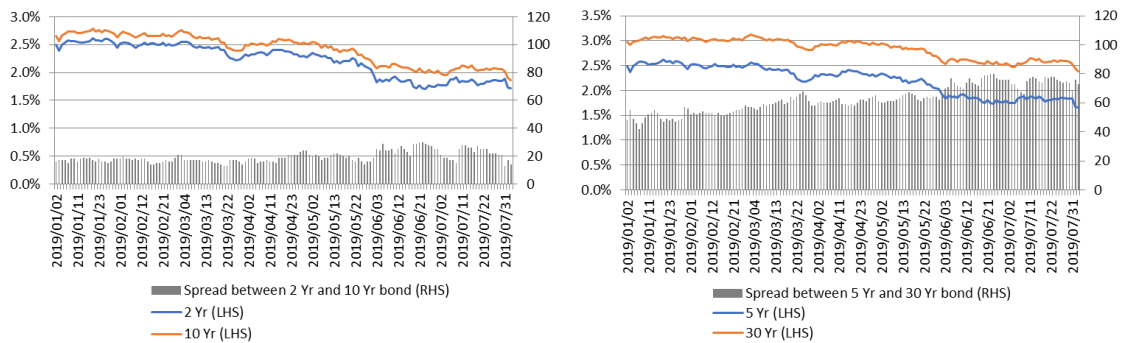
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

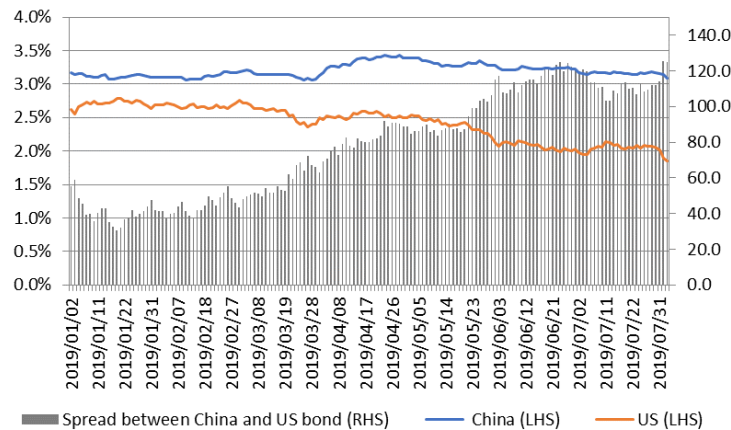
On Wednesday, the Fed decided to lower the target range for the federal funds rate to 2%-2.25% for the first time since the 2008 financial crisis. On Thursday, US President Donald Trump proposed placing new 10% tariffs on another \$300 billion worth of Chinese goods, which decreased US Treasury yields sharply. As of August 2, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 1.72%, 1.66%, 1.86% and 2.39%, decreasing by 14bp, 19bp, 22bp and 20bp over last Friday, respectively. In terms of Treasury spreads, the spread between the 2-year and 10-year Treasury bonds narrowed by 8bp to 14bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds narrowed by 1bp to 73bp from last Friday. As of August 2, the yield spread between China and US 10-year note was 124.6bp, rising by 15.0bp from last Friday and widening by 69.3bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

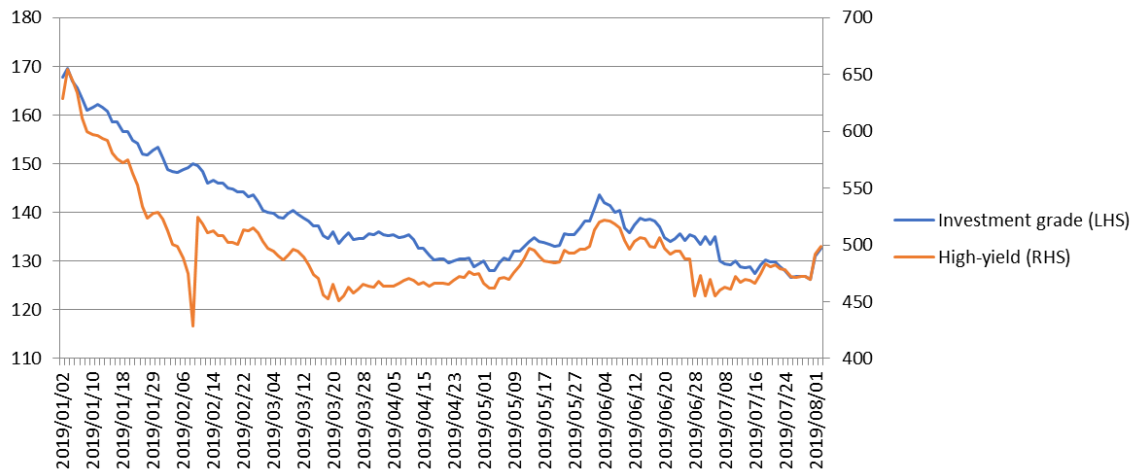
Figure 4 : Spread between China and US 10-year bond



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

Affected by the Sino-US trade friction, the credit spread of Barclays Asia USD investment bond and high-yield bond widened. As of August 2, investment-grade bond spreads slightly increased by 5.8bp to 133bp from last week, and high-yield spreads increased by 27.9bp to 499bp 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 issuance cooled down, China Petrochemical Corp was the key issuer

From July 29 to August 2, there were 14 new issues with a total issued volume of USD 3.6 billion. China Petrochemical Corp was the key issuer, which issued 3 bonds with a total issued volume of USD 2.0 billion (with order books over USD 4.3 billion), contributing 55.87% of total issuance this week.

Table 1 : New issuance of Chinese offshore bonds (20190729-20190802)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/7/29	Guotai Junan International Holdings Ltd	HKD	200	2.2	2020/8/3	364D	Financials	Baa2/BBB+/-	-/-
2019/7/29	Hong Yang Group Co Ltd	USD	100	11.5	2021/8/1	2	Real Estate	-/B/B	-/-
2019/7/29	Sino-Ocean Group Holding Ltd	USD	600	4.75	2029/8/5	10	Real Estate	Baa3/-/BBB-	Baa3/-/BBB-
2019/7/29	Zhejiang Changxing Financial Holdings Group Co Ltd	CNY	621	5.5	2020/7/30	364D	Financials	-/-	-/-
2019/7/30	Dexin China Holdings Co Ltd	USD	200	12.875	2021/8/6	2	Real Estate	B2/B/-	B3/-
2019/7/30	Guotai Junan International Holdings Ltd	HKD	200	2.9	2020/8/4	364D	Financials	Baa2/BBB+/-	-/-
2019/8/1	Central China Real Estate Ltd	USD	300	6.875	2022/8/8	3	Real Estate	Ba3/B+/BB-	-/-/BB-e
2019/8/1	China International Capital Corp Hong Kong Ltd	USD	25	3.14	2020/8/6	364D	Financials	-/BBB/BBB+	-/-
2019/8/1	China Petrochemical Corp	USD	800	2.5	2024/8/8	5	Energy	A1/A+/-	-/-
2019/8/1	China Petrochemical Corp	USD	700	2.95	2029/8/8	10	Energy	A1/A+/-	-/-
2019/8/1	China Petrochemical Corp	USD	500	3.68	2049/8/8	30	Energy	A1/A+/-	-/-
2019/8/1	Guotai Junan International Holdings Ltd	HKD	200	2.5	2020/8/5	363D	Financials	Baa2/BBB+/-	-/-
2019/8/1	Shandong Chenming Paper Holdings Ltd	USD	163	9	2022/4/28	3	Materials	-/-	-/-
2019/8/1	Wuyi Mountains Ltd	USD	25	7	2020/8/2	1	Financials	-/-	-/-

Sources: Bloomberg, CCX research

From July 29 to August 2, China Aoyuan Group Ltd announced tap bond offering.

**Table 2 : Tap bond offering (20190729-20190802)**

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/7/30	China Aoyuan Group Ltd	USD	475 (reoffered 250)	7.95	2023/2/19	4	Real Estate	B1/B+/BB-	B2/B/BB-

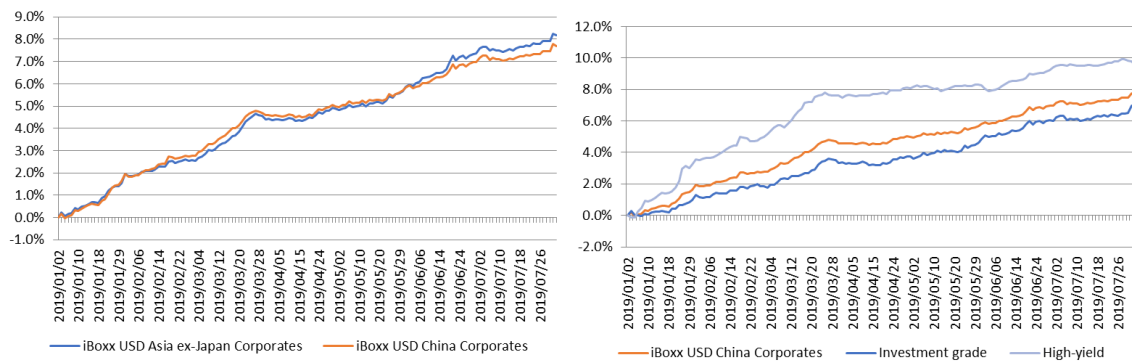
Sources: Bloomberg, CCX research

Recently, Tibet Financial Leasing Ltd planned to issue offshore bonds.

### Secondary Market: Returns on investment grade bonds rose notably and return on high yield bonds fell

As of August 2, the YTD return on Chinese USD corporate bond index increased by 36bp over last week to 7.69%, of which investment grade bond index was 6.95%, increasing by 62 bp over last week, while high-yield bond index was 9.62%, dropping by 18 bp over the same period.

**Figure 6 : YTD return on Chinese USD bond index**



Sources: Bloomberg, CCX research

For the credit rating changes of cross-border bond market, the rating agencies upgraded the rating/outlook of 1 Chinese entity and downgraded 3 Chinese entities from July 29 to August 2.

**Table 3 : Credit rating changes of cross-border bond market (20190729-20190802)**

Entity	Sector	Latest Rating			Last Rating			Rating Agency	Reason of Change
		Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
Beijing Automotive Group Co Ltd	Consumer Discretionary	BBB+	NEG	2019/7/29	BBB+	STABLE	2018/8/30	S&P	Incremental debt from the Daimler acquisition
Beijing Automotive Group Co Ltd	Consumer Discretionary	Baa2	NEG	2019/7/29	Baa2	STABLE	2018/9/18	Moody's	More time needed to reduce its leverage due to the to-be-

Zoomlion Heavy Industry Science and Technology Co Ltd	Industrials	B	POS	2019/7/31	B-	STABLE	2018/8/9	Fitch	completed investment in Daimler Significant improvement in leverage metrics
Guangzhou City Construction Investment Group Co Ltd	Chengtou	A3	NEG	2019/8/1	A3	STABLE	2018/9/17	Moody's	Higher-than-expected leverage after the consolidation of Guangzhou Industrial Fund Management Co. Ltd.

Sources: Bloomberg, Wind, CCX research

## Panda Bond Market: Successful issuance of first Panda Bond by Italian institution

As of August 2, there were 14 issuers that issued 22 Panda Bonds in 2019, with a total issuance amount of RMB 32.54 billion, and an average coupon of 3.74%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

On August 1, “2019 Renminbi Bonds of Cassa depositi e prestiti S.p.A. (Series 1)” was successfully issued. The rating service is provided by China Chengxin International Credit Rating Co., Ltd. (“CCXI”). Cassa depositi e prestiti S.p.A. (“CDP”) is the first Italian issuer, as well as the first European National Promotional Institution (“NPI”) in the Panda Bond market. CDP raised RMB 1 billion through this bond, with a tenor of 3 years and coupon rate of 4.5%.

CDP, established in 1850, is the only NPI in Italy recognized by the Italian Government and the European Union, aiming to promote the medium/long-term development of Italian economy. CDP is the entry point for funding under the Juncker Plan in Italy and its investments mainly distributed to public entities, infrastructure, industrial enterprises and strategic assets. The CDP Group has total assets of more than EUR 400 billion and net profit of more than EUR 4 billion, which is one of the largest institutions in Italy ranked by assets. CCXI assigned a local scale credit rating of AAA to CDP with a rating outlook of stable, and a credit rating of AAA to the bond.

**Table 4 : New issuance of Panda Bond in 2019 (20190101-20190802)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Cassa depositi e prestiti S.p.A.	1	4.50	2019/8/1	2022/8/1	3	Financial Bond	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	2	3.10	2019/7/25	2020/4/20	0.76	SCP	China Interbank Market	China Chengxin
Bayerische Motoren Werke (BMW) Finance N.V.	1.5	3.30	2019/7/12	2020/7/12	1	PPN	China Interbank Market	China Chengxin
Bayerische Motoren Werke (BMW) Finance N.V.	2	3.98	2019/7/12	2022/7/12	3	PPN	China Interbank Market	China Chengxin
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 Corp.	International	1	3.10	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing Corp.	International	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 N.V.		3	4.00	2019/3/8	2022/3/8	3	PPN	China Interbank Market	China Chengxin
Semiconductor Manufacturing Corp.	International	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 Group Ltd	Water	1	3.95	2019/1/11	2026/1/11	7	MTN	China Interbank Market	Shanghai Brilliance / Dagong
Beijing Enterprises Group Ltd	Water	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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