

## 2019 Issue 30

From August 5 to August 9

## Three countries cut interest rates more than expected, the Yuan broke through 7

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**Headline: Three countries cut interest rates more than expected, global monetary policy is further relaxed**

On August 7, the central banks of New Zealand, India and Thailand announced interest rate cuts of 50bp, 35bp and 25bp, which exceeded market expectations and further promoted the trend of global monetary relaxing. As the Fed cut interest rates early this month, global central banks accelerate relaxing their monetary policies. Global long-term interest rates fell to their lowest level, and global bond yields generally fell sharply.

**Exchange Rate: The Yuan fell beyond the psychological threshold of 7**

Due to the resurging trade frictions between China and the United States and elevated market uncertainties, the exchange rate of RMB fell sharply against the US dollar. As of August 9, the intermediate price of the RMB exchange rate closed at 7.0136, up 114bp from last Friday.

**Interest Rate: China and US Government Bonds yields continued to plummet**

The yields of China and US Government Bonds continued to decline under the circumstance of rising trade tensions and relaxing global monetary policies. As of August 9, the yield spread between China and US 10-year note was 127.7bp, rising by 3.1bp from last Friday and widening by 72.4bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: New issuance continued to cool down, financial institutions were the key issuers**

From August 5 to August 9, there were 5 new issues with a total issued volume of USD 0.8 billion. Financial institutions were the key issuers.

**Secondary Market: Returns on investment grade bonds rose notably and returns on high yield bonds continued to fall**

As of August 9, the YTD return on Chinese USD corporate bond index increased by 13bp over last week to 7.82%, of which investment grade bond index was 7.30%, increasing by 35bp over last week, while high-yield bond index was 9.29%, dropping by 33bp over the same period.

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

## Headline: Three countries cut interest rates more than expected, global monetary policy is further relaxed

On August 7, three central banks (New Zealand, India and Thailand) cut interest rates by more than expected, further promoting the trend of global monetary relaxing.

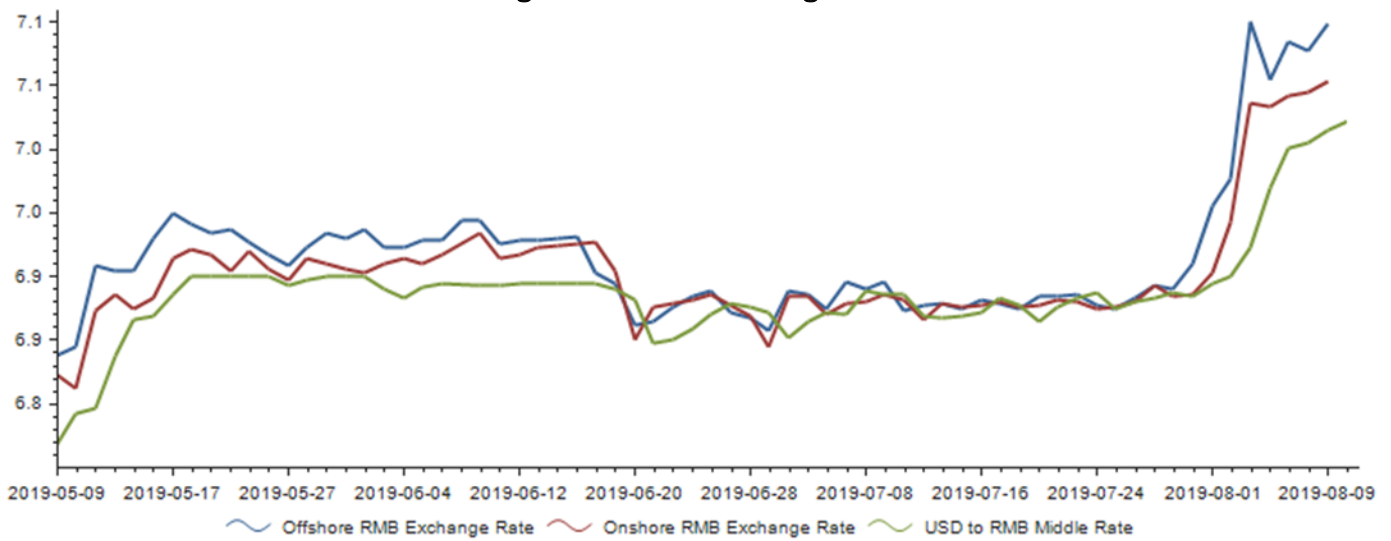
On August 7, the Reserve Bank of New Zealand took the lead in cutting interest rates, the second time this year, by lowering the benchmark interest rate by 50 bp (from 1.50% to 1.00%), nearly double of the expected level. The Reserve Bank of New Zealand cut interest rates by 25bp in May. Meanwhile, the Reserve Bank of New Zealand further lowered its economic growth forecast for 2020 to 2.7%. Subsequently, the Reserve Bank of India cut interest rates for the fourth time this year, by 35 bp, maintaining its "accommodative" monetary policy and cut its GDP growth forecast in 2019-2020 to 6.9%. Thailand, the third country to cut interest rates on that day, lowered its benchmark interest rate from 1.75% to 1.50%, its first-rate reduction in more than 4 years, in order to stimulate the economy, curb the rise of the baht, and cope with the surge in global risk. On the same day, the Reserve Bank of Australia decided to maintain the cash rate at its historic low of 1% and expected that its low interest rate would continue to help further reduce its unemployment rate and push its inflation rate close to the target level.

Weak domestic economic prospects, declining annual growth rates and expectations, low inflation, weakening business and consumer confidence, and interest rate cuts by the Fed have driven central banks to accelerate relaxing their monetary policies, and global long-term interest rates have fallen to the lowest level. Meanwhile, the interest rate cuts and global uncertainty have prompted investors to turn to safer assets, such as government bonds and gold. Global bond yields generally fell sharply. On Wednesday, 10-year US Treasury yields fell to their lowest levels since October 2016 and bond yields in Britain, New Zealand and the Netherlands hit historic lows this week.

## Exchange Rate: The Yuan fell beyond the psychological threshold of 7

Due to the resurging trade frictions between China and the United States and elevated market uncertainties, the exchange rate of RMB fell sharply against the US dollar, and the fluctuation of the RMB exchange rate has intensified in the short term. The Yuan weakened to beyond 7 per US dollar for the first time in 11 years. As of August 9, the intermediate price of the RMB exchange rate closed at 7.0136, up 114bp from last Friday. Onshore and offshore RMB exchange rate spiked, closing at 7.0520 and 7.0983, respectively. The PBOC states that the RMB exchange rate is affected by the market supply and demand as well as the dollar's movement in the short term. From the macro perspective, the RMB exchange rate is buoyed by the country's sound fundamentals, strong economic resilience, controllable financial risks, balanced cross-border capital movement and sufficient foreign exchange reserves. In the long term, the RMB exchange rate will stay relatively stable at a reasonable and balanced level.

Figure 1 : RMB Exchange Rate

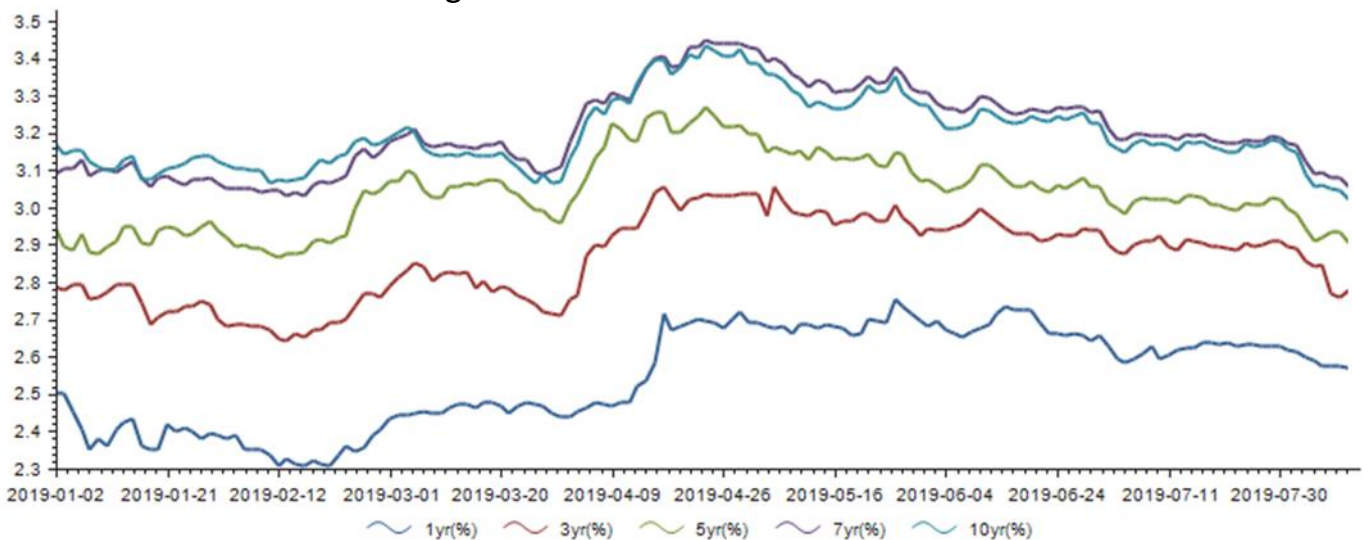


Sources: Eastmoney, CCX research

### Interest Rate: China and US Government Bonds yields continued to plummet

Recently, the yields of China Government Bonds declined under the circumstance of trade policy uncertainties and downward pressure for economic growth. The market hedging sentiment continues to rise. As of August 9, the maturity yields of 1-year, 3-year, 5-year, 7-year, and 10-year Government Bonds declined from last Friday, closing at 2.5694%, 2.7778%, 2.9061%, 3.0574% and 3.0216%, respectively.

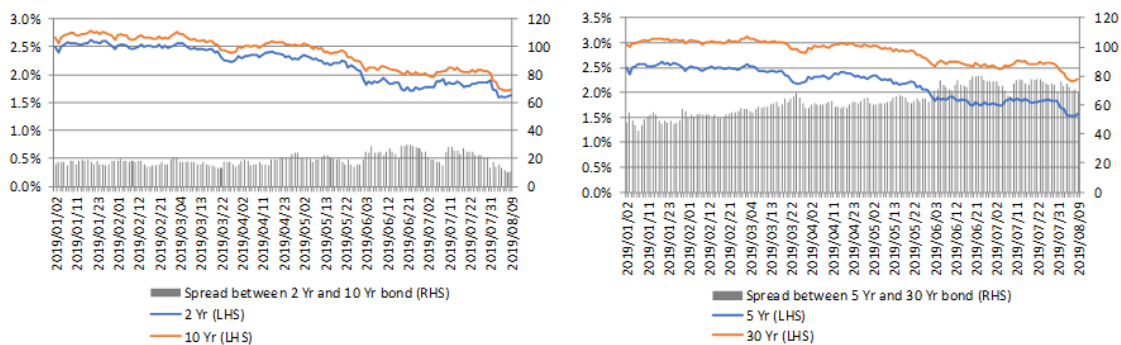
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

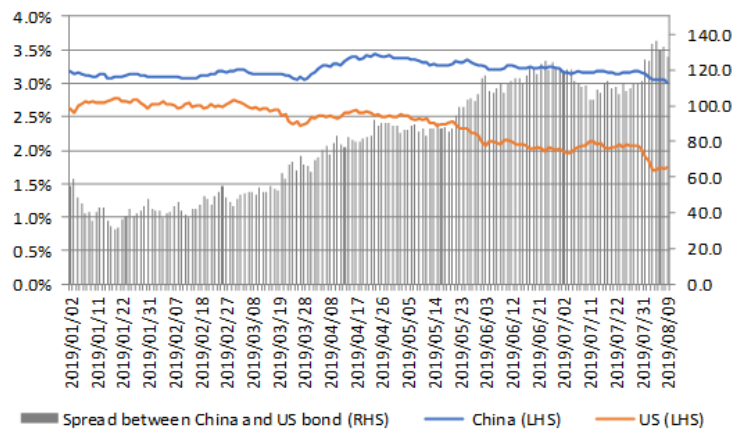
This week, trade tensions continued to rise and global central banks took turns to relax their monetary policies, causing US Treasury yields to decline, with the 10-year US Treasury yield once falling below 1.60%. As of August 9, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 1.63%, 1.57%, 1.74% and 2.26%, decreasing by 9bp, 9bp, 12bp and 13bp over last Friday, respectively. In terms of Treasury spreads, the US Treasury yield curves were flattening. The spread between the 2-year and 10-year Treasury bonds narrowed by 3bp to 11bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds narrowed by 4bp to 69bp from last Friday. As of August 9, the yield spread between China and US 10-year note was 127.7bp, rising by 3.1bp from last Friday and widening by 72.4bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

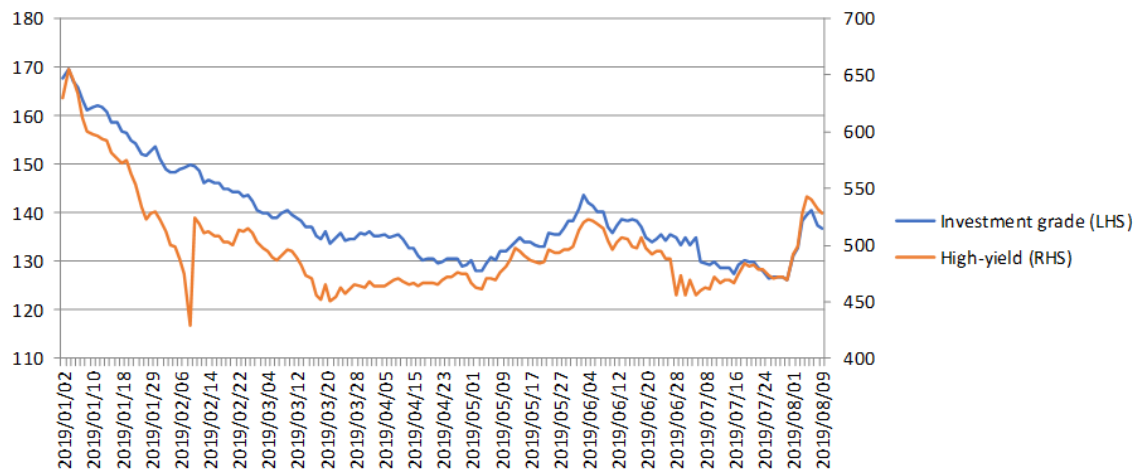
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond continued to widen. As of August 9, investment-grade bond spreads increased by 4.2bp to 137bp from last week, and high-yield spreads increased by 29.4bp to 528bp 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 continued to cool down, financial institutions were the key issuers

From August 5 to August 9, there were 5 new issues with a total issued volume of USD 0.8 billion. Financial institutions were the key issuers.

Table 1 : New issuance of Chinese offshore bonds (20190805-20190809)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/8/5	China International Capital Corp Hong Kong Ltd	CNY	30	2.9	2020/8/10	364D	Financials	-/BBB/BBB+	-/-/-
2019/8/7	Bank of China Ltd/Hong Kong	EUR	30.4	0	2021/8/12	2	Banks	A1/A/A	-/-/-
2019/8/8	Dongxing Securities Co Ltd	USD	400	3.25	2024/8/15	5	Financials	Baa2/BBB/BBB+	-/-/BBB+e
2019/8/8	Changde Economic Construction Investment Group Co Ltd	USD	200	6.6	2022/8/15	3	Chengtou	Ba1/-/-	Ba1/-/-
2019/8/9	Excellence Commercial Properties Co Ltd	USD	150	6.8	2022/8/15	3	Real Estate	-/-/-	-/-/-

Sources: Bloomberg, CCX research

On August 9, Fujian Yango Group Co Ltd announced tap bond offering.

**Table 2 : Tap bond offering (20190805-20190809)**

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/8/9	Fujian Yango Group Co Ltd	USD	340 (reoffered 80)	11.875	2020/9/21	1.5	Real Estate	-/B-/B-	-/B-/B-

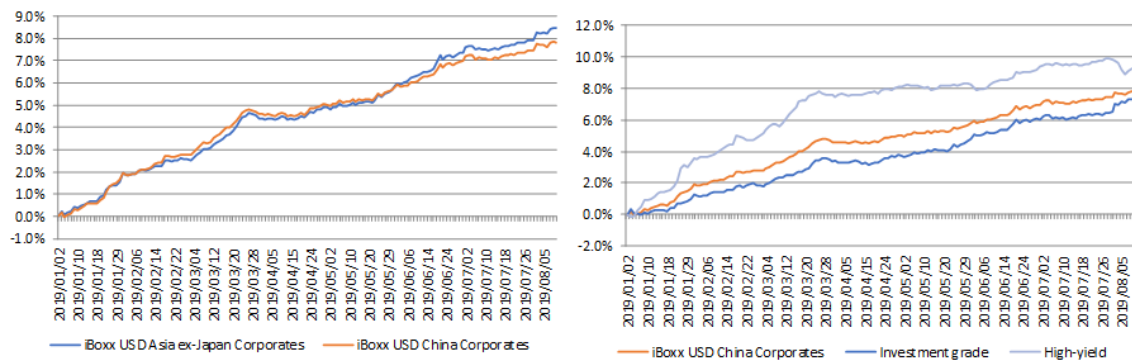
Sources: Bloomberg, CCX research

Recently, Orient Securities Co Ltd and Fujian Zhanglong Group Co Ltd planned to issue offshore bonds.

### Secondary Market: Returns on investment grade bonds rose notably and returns on high yield bonds continued to fall

As of August 9, the YTD return on Chinese USD corporate bond index increased by 13bp over last week to 7.82%, of which investment grade bond index was 7.30%, increasing by 35bp over last week, while high-yield bond index was 9.29%, dropping by 33bp 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 3 Chinese entities and downgraded 5 Chinese entities from August 5 to August 9.

**Table 3 : Credit rating changes of cross-border bond market (20190805-20190809)**

Entity	Sector	Latest Rating			Last Rating			Rating Agency	Reason of Change
		Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
China Aluminum Engineering Corp Ltd	Industrials	BB+	NEG	2019/8/6	BB+	STABLE	2014/2/17	S&P	Financial leverage to remain high

Southern Energy Holdings Group Ltd	Energy	B3	NEG	2019/8/7	B2	STABLE	2019/6/20	Moody's	Weakening fundraising capability
Dalian Wanda Commercial Management Group Co Ltd	Real Estate	BB	POS	2019/8/7	BB	STABLE	2017/9/27	S&P	Lower volatility in cash flow and leverage
Wanda Commercial Properties Hong Kong Co Ltd	Real Estate	BB-	POS	2019/8/7	BB-	STABLE	2017/9/27	S&P	Lower volatility in cash flow and leverage
Beijing Capital Group Co Ltd	Real Estate	BBB-	NEG	2019/8/8	BBB-	STABLE	2018/6/27	S&P	Elevated leverage
Beijing Capital Land Ltd	Real Estate	BB+	NEG	2019/8/8	BB+	STABLE	2018/6/28	S&P	Elevated leverage
Zhenjiang Transportation Industry Group Co Ltd	Chengtou	B+	NEG	2019/8/8	BB-	NEG	2018/9/11	S&P	Rising refinancing risk
Ronshine China Holdings Ltd	Real Estate	B+	STABLE	2019/8/9	B	POS	2019/4/9	S&P	Improving leverage and capital structure

Sources: Bloomberg, Wind, CCX research

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

As of August 9, 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.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20190809)

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 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 N.V.	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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