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From August 12 to August 16

US delays tariffs on some Chinese imports, yield spread between 2-year and 10-year US Treasury inverted

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Headline: US delays tariffs on some Chinese imports to prevent impact on holiday sales

On August 13, the United States Trade Representative's Office announced to postpone the tariffs to December 15 on some Chinese imports, including television, video game consoles, certain toys, computer monitors, and certain footwear and clothing. President Trump stated the postponement aimed to blunt tariffs' impact on holiday sales. This is the first time the president admits that the tariffs could had an impact on US consumers.

Exchange Rate: The RMB exchange rate continued to fluctuate

The RMB exchange rate continued to fluctuate during the week. As of August 16, the intermediate price of the RMB exchange rate closed at 7.0312, up 176bp from last Friday. The fluctuation of the RMB exchange rate has intensified in the short term after breaking the psychological threshold of 7.

Interest Rate: China Government Bonds yields fluctuate slightly, yield spread between 2-year and 10-year US Treasury inverted

The yields of China Government Bonds fluctuated slightly under the circumstance of trade policy uncertainties. The risk-aversion sentiment dragged down US Treasury yields, while the spread between 2-year and 10-year US Treasury inverted on Wednesday, implying a potential recession of US economy. As of August 16, the yield spread between China and US 10-year note was 146.8bp, rising by 19.1bp from last Friday and widening by 91.5bp from the beginning of the year.

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

From August 12 to August 16, there were 7 new issues with a total issued volume of USD 1.7 billion, of which financial institutions were the key issuers.

Secondary Market: Returns on investment grade bonds continued to rise, while return on high yield bonds fell significantly

As of August 16, the YTD return on Chinese USD corporate bond index increased by 27bp over last week to 8.09%, of which investment grade bond index was 8.06%, increasing by 76 bp over last week, while high-yield bond index was 8.54%, dropping by 74 bp over the same period.

Panda Bond Market: Daimler issued two new PPN through Bond Connect

On August 12, Daimler successfully issued 2019 Daimler AG Private Placement Note (Series 1 & 2) through Bond Connect in China's Interbank Market, raising a total of RMB 5 billion. Established in 1926, Daimler is the largest manufacturer of commercial vehicles, the second largest luxury car manufacturer and the second largest truck manufacturer in the world.

Headline: US delays tariffs on some Chinese imports to prevent impact on holiday sales

On August 13, senior Chinese trade officials had a “serious negotiation” with the US about the 10% tariffs on Chinese imports, effective September 1, in a telephone discussion. They have agreed to talk again in two weeks.

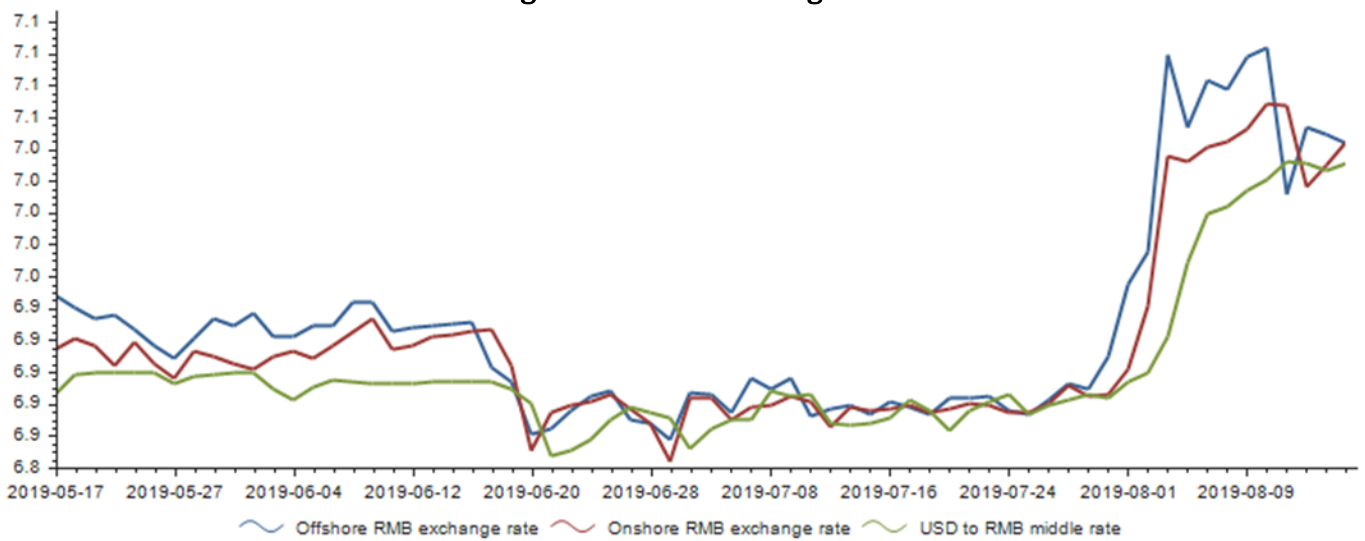
The United States Trade Representative’s Office announced to postpone the tariffs to December 15 on some Chinese imports, including television, video game consoles, certain toys, computer monitors, and certain footwear and clothing. The delay covered more than half (around USD 160 billion) of the USD 300 billion target list. The delay shows that the tariffs is damaging US economy. President Trump stated the postponement aimed to blunt tariffs’ impact on holiday sales. This is the first time the president admits that the tariffs could had an impact on US consumers.

On August 15, the Chinese government claimed that the tariffs imposed by the US were against the consensus reached at Argentina summit and Osaka summit, and China had no choice but to take necessary measures to retaliate. On August 16, President Trump announced to remove 44 categories of Chinese imports from the target list, including household furniture, baby items, internet modems and routers and chemical compounds used in the manufacture of plastics.

Exchange Rate: The RMB exchange rate continued to fluctuate

The RMB exchange rate continued to fluctuate during the week. As of August 16, the intermediate price of the RMB exchange rate closed at 7.0312, up 176bp from last Friday. Onshore and offshore RMB exchange rate closed at 7.0446 and 7.0441, respectively, of which the offshore RMB exchange rate declined substantially. The fluctuation of the RMB exchange rate has intensified in the short term after breaking the psychological threshold of 7. The PBOC states the RMB exchange rate is buoyed by the country’s sound fundamentals. In the long term, the RMB exchange rate will stay basically stable at a reasonable and balanced level.

Figure 1 : RMB Exchange Rate

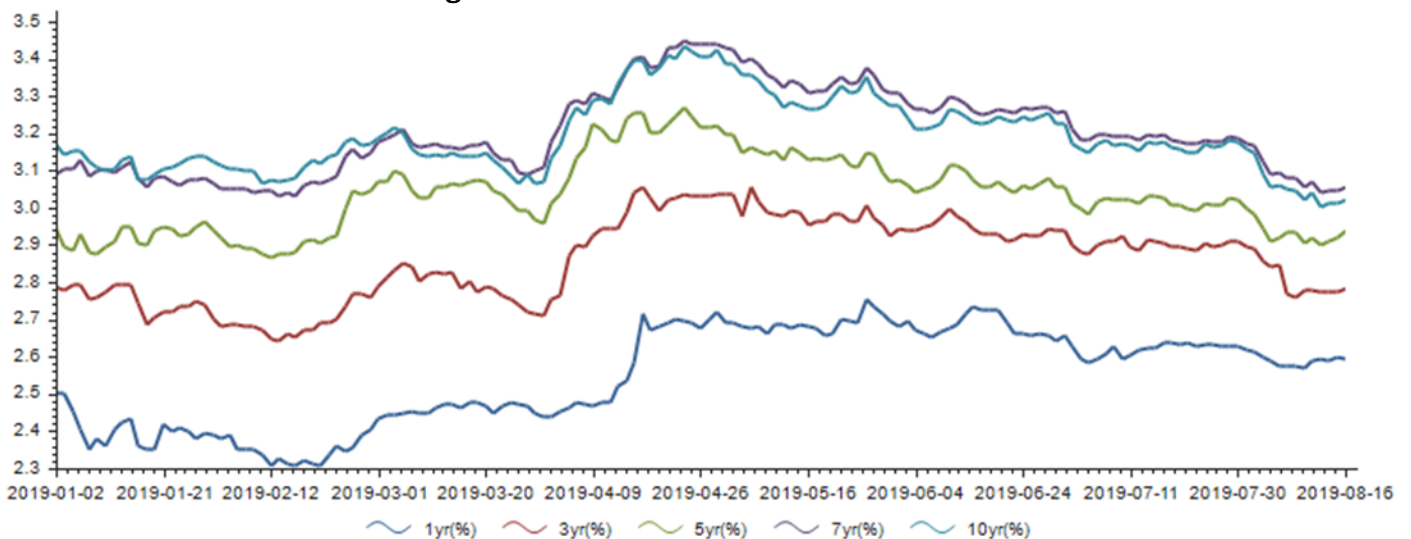


Sources: Eastmoney, CCX research

Interest Rate: China Government Bonds yields fluctuate slightly, yield spread between 2-year and 10-year US Treasury inverted

During the week, the yields of China Government Bonds fluctuated slightly under the circumstance of trade policy uncertainties and short-term disturbances in the market. As of August 16, the maturity yields of 1-year, 3-year, 5-year and 10-year Government Bonds increased slightly from last Friday, closing at 2.5949%, 2.7818%, 2.9369% and 3.0217%, respectively; 7-year Government Bonds declined from last Friday, closing at 3.0548.

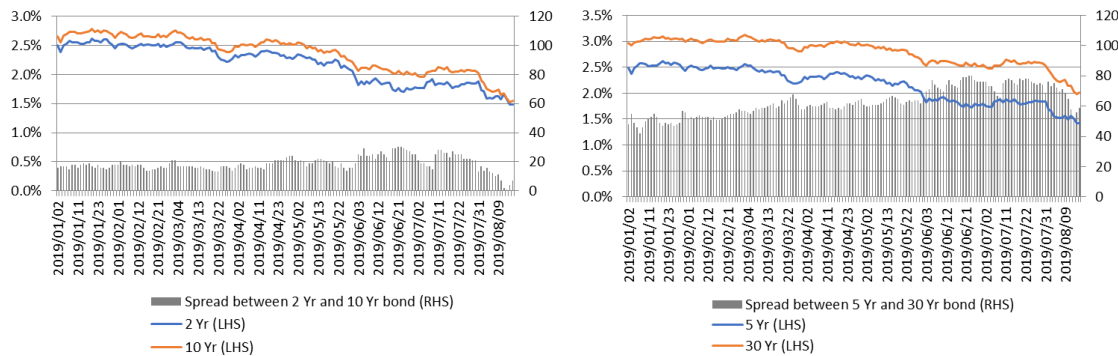
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

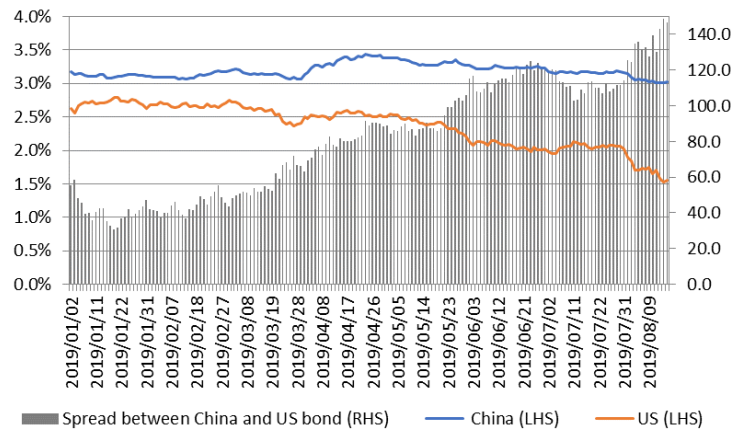
The US government announced to postpone tariffs on some Chinese imports on Tuesday. However, investors were still worried about slowdown of the global economy, dragging down US Treasury yields amid risk-aversion. The spread between 2-year and 10-year US Treasury inverted on Wednesday, implying a potential recession of US economy. As of August 16, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 1.48%, 1.42%, 1.55% and 2.01%, decreasing by 15bp, 15bp, 19bp and 22bp over last Friday, respectively. The US Treasury yield curve has flattened. The spread between the 2-year and 10-year Treasury bonds narrowed by 4bp to 7bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds narrowed by 10bp to 59bp from last Friday. As of August 16, the yield spread between China and US 10-year note was 146.8bp, rising by 19.1bp from last Friday and widening by 91.5bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

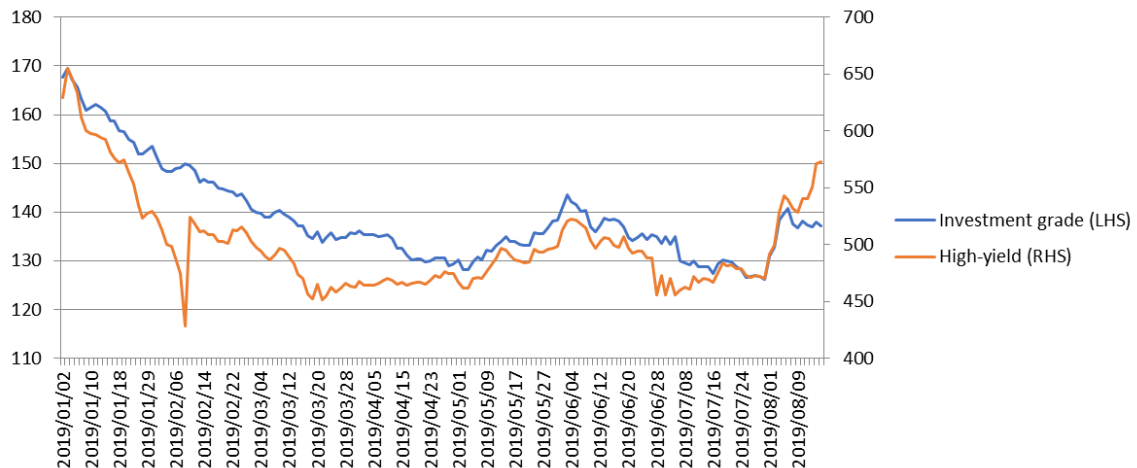
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond was relatively stable, while spread of high-yield bond widened. As of August 16, investment-grade bond spreads slightly increased by 0.4bp to 137bp from last week, and high-yield spreads increased by 44.5bp to 573bp 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, financial institutions were the key issuers

From August 12 to August 16, there were 7 new issues with a total issued volume of USD 1.7 billion, of which financial institutions were the key issuers.

Table 1 : New issuance of Chinese offshore bonds (20190812-20190816)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/8/13	Orient Securities Co Ltd/China	EUR	200	0.625	2022/8/20	3	Financials	Baa3/-/-	Baa3/-/-
2019/8/13	Orient Securities Co Ltd/China	USD	300	6ML+125	2022/8/20	3	Financials	Baa3/-/-	Baa3/-/-
2019/8/15	Guotai Junan International Holdings Ltd	USD	15	2.4	2019/11/20	92D	Financials	Baa2/BBB+/-	-/-/-
2019/8/15	Jiangxia Wuhan Agricultural Group Co Ltd	USD	68	4.3	2022/7/21	2.9	Financials	-/-/-	-/-/-
2019/8/15	Qingdao Jimo District Urban Development Investment Co Ltd	USD	300	4.9	2022/8/22	3	Chengtou	-/-/-	-/-/-
2019/8/15	Shandong Guohui Investment Co Ltd	USD	300	4.37	2022/8/22	3	Financials	Baa2/-/BBB+	-/-/BBB+
2019/8/16	Fujian Zhanglong Group Co Ltd	USD	500	5.875	2022/8/26	3	Chengtou	-/-/BB+	-/-/BB+e

Sources: Bloomberg, CCX research

From August 14, Zhenro Properties Group Ltd announced tap bond offering.

Table 2 : Tap bond offering (20190812-20190816)

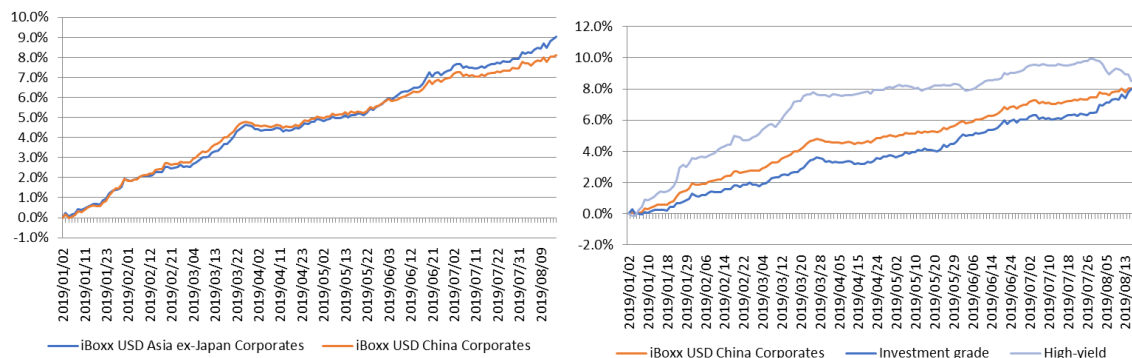
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/8/14	Zhenro Properties Group Ltd	USD	310 (reoffered 110)	9.15	2022/3/8	3	Real Estate	B1/B/B	B2/B/-

Sources: Bloomberg, CCX research

Secondary Market: Returns on investment grade bonds continued to rise, while return on high yield bonds fell significantly

As of August 16, the YTD return on Chinese USD corporate bond index increased by 27bp over last week to 8.09%, of which investment grade bond index was 8.06%, increasing by 76 bp over last week, while high-yield bond index was 8.54%, dropping by 74 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, Fitch upgraded the credit rating of Industrial Bank Co Ltd, and removed Yancheng Oriental Investment & Development Group Co Ltd from rating watch negative, on August 16.

Table 3 : Credit rating changes of cross-border bond market (20190812-20190816)

Entity	Sector	Entity Rating	Latest Rating		Entity Rating	Last Rating		Rating Agency	Reason of Change
			Outlook	Date		Outlook	Date		
Industrial Bank Co Ltd	Bank	BBB-	STABLE	2019/8/16	BB+	STABLE	2018/8/23	Fitch	Increased systemic importance
Yancheng Oriental Investment & Development Group Co Ltd	Chengtou	BB-	STABLE	2019/8/16	BB-	Rating Watch Negative	2019/4/10	Fitch	Strong incentive by the sponsor to provide extraordinary support

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: Daimler issued two new PPN through Bond Connect

As of August 16, there were 15 issuers that issued 24 Panda Bonds in 2019, with a total issuance amount of RMB 37.54 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 12, Daimler AG (“Daimler”) successfully issued 2019 Daimler AG Private Placement Note (Series 1 & 2) through Bond Connect in China’s Interbank Market. Respectively, tenor of the two bonds are 3 years and 2 years, and coupon rates at 3.84% and 3.53%, raising a total capital of RMB 5 billion. Incorporated in 1926, Daimler, formerly known as Daimler-Benz AG, merged with Chrysler Corporation in 1998 and was renamed Daimler AG in 2007. Daimler, headquartered in Stuttgart, Germany, is the largest manufacturer of commercial vehicles, the second largest luxury car manufacturer and the second largest truck manufacturer in the world. The company's four business units include Mercedes-Benz, Mercedes-Benz Light Commercial Vehicles, Daimler Trucks and Daimler Financial Services.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20190816)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Daimler AG	30	3.84	2019/8/12	2022/8/12	3	PPN	China Interbank Market	China Bond Rating
Daimler AG	20	3.53	2019/8/12	2021/8/12	2	PPN	China Interbank Market	China Bond Rating
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 Group Ltd	Enterprises	Water	1	3.95	2019/1/11	2026/1/11	7	MTN	China Interbank Market	Shanghai Brilliance / Dagong
Beijing Group Ltd	Enterprises	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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