

## 2019 Issue 32

From August 19 to August 23

## Sino-US trade friction escalates, Chinese offshore bond issuance cooled down

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**Headline: Sino-US trade friction escalates, Powell's speech did not signal rate cut**

On August 23, China announced countermeasures that it will slap additional tariffs on USD 75 billion worth of US imports and reinstitute tariffs on vehicles and auto parts. Then Trump announced on Twitter that the US would raise its existing tariffs on USD 550 billion worth of Chinese imports and ordered American companies to leave China. Sino-US trade tensions escalate.

On the other hand, Powell did not signal rate cut in his speech at the annual symposium in Jackson Hole, showing a relatively neutral stance. But he mentioned three challenges threatened the economy and promised that the Fed would act as appropriate to sustain the expansion, with a strong labor market and stable inflation.

**Exchange Rate: The RMB exchange rate continued to fluctuate**

The RMB exchange rate continued to fluctuate during the week. As of August 23, the intermediate price of the RMB exchange rate closed at 7.0572, up 258bp from last Friday. In the short term, the RMB exchange rate will vary with the market condition and strength of USD.

**Interest Rate: China Government Bonds yields generally increased, while US Treasury yields fluctuated**

During the week, the yields of China Government Bond generally increased due to tightening of capital in the short term. In the context of the downturn in the global economic cycle, external factors will continue to support the bond market. Affected by market sentiment, US Treasury yields fluctuated. As of August 23, the yield spread between China and US 10-year note was 152.9bp, rising by 6.1bp from last Friday and widening by 97.6bp from the beginning of the year.

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

From August 19 to August 23, there were 5 new issues with a total issued volume of USD 465.1 million, decreasing by USD 1.2 billion compared with last week, of which financial institutions were the key issuers.

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

As of August 23, the YTD return on Chinese USD corporate bond index increased by 27bp over last week to 8.36%, of which investment grade bond index was 8.17%, increasing by 11 bp over last week, and high-yield bond index was 9.14%, rising by 60 bp over the same period.

**Rating Action: CCXAP assigns Changchun Urban Development & Investment Holdings (Group) Co., Ltd. long-term credit rating at A<sub>g</sub>+, with stable outlook****Panda Bond Market: China Mengniu issued one new SCP**

On August 23, China Mengniu successfully issued 2019 China Mengniu Dairy Co. Ltd Super & Short-term Commercial Paper in China's Interbank Market, with a tenor of 180 days and coupon rates at 2.96%, raising a capital of RMB 1 billion. China Mengniu has raised a total of RMB 2 billion since 2019 through the Panda Bond Market. China Chengxin International assigned a credit rating of AAA to the issuer.

## Headline: Sino-US trade friction escalates, Powell's speech did not signal rate cut

Last week, US announced to place 5% or 10% tariffs on USD 75 billion worth of Chinese goods. China announced countermeasures this week that (1) it will slap additional tariffs of 5% or 10% on USD 75 billion worth of US imports, covering 5,078 US products, in two batches starting on September 1 and December 15, respectively; (2) reinstitute tariffs of 25% on vehicles and 5% on auto parts from December 15. The Customs Tariff Commission of the State Council will continue to evaluate the applications of lifting tariffed US imports, and the resumption of tariffs on cars and auto parts will be included in the third batch of applicable tariff elimination range.

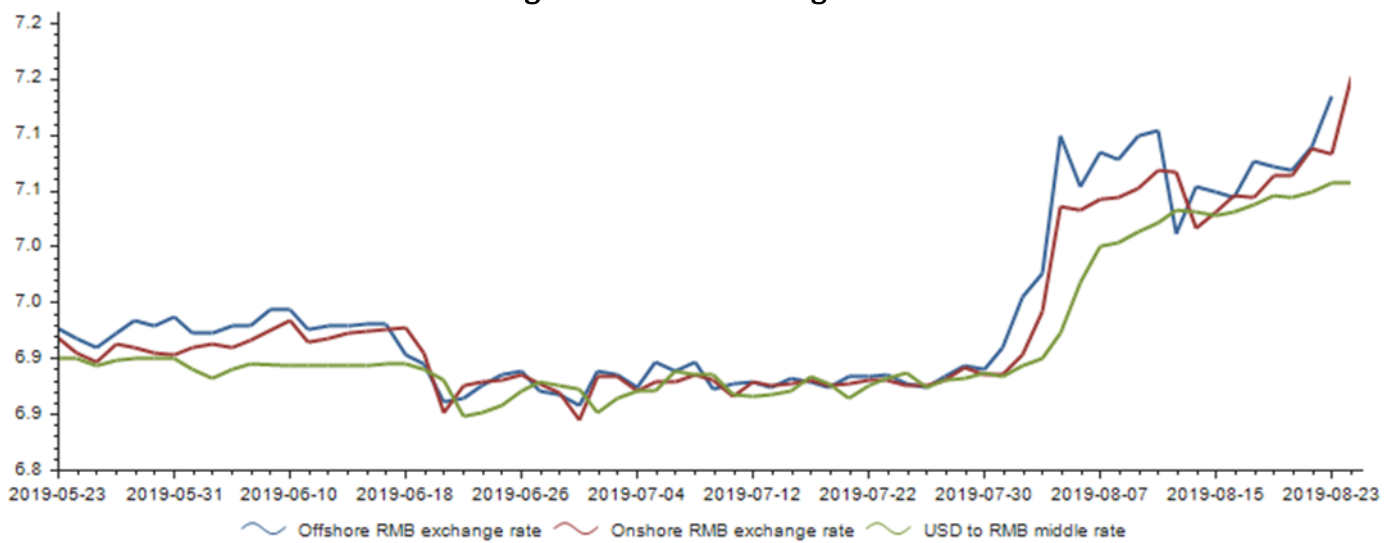
On August 23, US President Donald Trump announced on Twitter that the US would (1) raise its existing tariffs on USD 250 billion worth of Chinese imports to 30% from the current 25% beginning on October 1; (2) increase in planned tariffs on the remaining USD 300 billion worth of Chinese goods to 15% from 10% beginning on September 1. At the same time, Trump announced that "Our great American companies are hereby ordered to immediately start looking for an alternative to China including bringing your companies home and making your products in the USA." Sino-US trade tensions escalate.

On August 23, Jerome Powell, the Chair of the Federal Reserve, delivered opening remarks at the "Challenges for Monetary Policy" symposium in Jackson Hole. This was the first public speech by Powell after the rate cut by the Fed in July and the inversion of 2-year and 10-year Treasury yield curve for the first time since 2007, drawing close attention of the market. In his discussion, Powell firstly broke Fed policy into three eras from 1950, and then explained current monetary policies and main problems. Powell's speech showed a relatively neutral stance, not signaling rate cut. He said that the US economy has continued to perform well overall, driven by consumer spending. Meanwhile, there were three factors that are weighing on this favorable outlook: slowing global growth, trade policy uncertainty, and muted inflation. He promised that the Fed would act as appropriate to sustain the expansion, with a strong labor market and stable inflation.

## Exchange Rate: The RMB exchange rate continued to fluctuate

The RMB exchange rate continued to fluctuate during the week. As of August 23, the intermediate price of the RMB exchange rate closed at 7.0572, up 258bp from last Friday. Onshore and offshore RMB exchange rate closed at 7.0825 and 7.1351, respectively. The onshore RMB depreciated more than 100bp on August 22, closing at a record low since 2008. In the short term, the RMB exchange rate will vary with the market condition and strength of USD. According to the State Administration of Foreign Exchange, the cross-border capital flows are generally stable in August. Foreign exchange market entities are becoming more adaptive and rational regarding fluctuations of the RMB exchange rate.

Figure 1 : RMB Exchange Rate

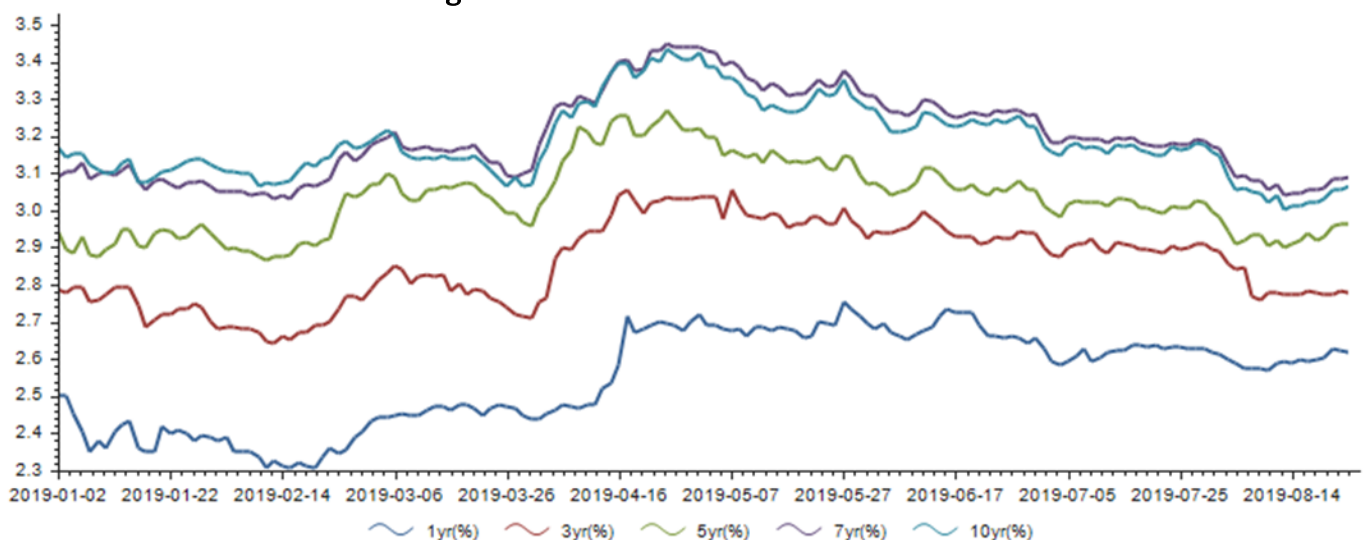


Sources: Eastmoney, CCX research

### Interest Rate: China Government Bonds yields generally increased, while US Treasury yields fluctuated

The yields of China Government Bonds keep fluctuating under the circumstance of trade policy uncertainties and short-term disturbances in the market. During the week, the yields of China Government Bond generally increased due to tightening of capital in the short term. In the context of the downturn in the global economic cycle, external factors will continue to support the bond market. As of August 23, the maturity yields of 1-year, 5-year, 7-year and 10-year Government Bonds increased slightly from last Friday, closing at 2.6195%, 2.9634%, 3.0898% and 3.0644%, respectively; 3-year Government Bonds declined from last Friday, closing at 2.7785%.

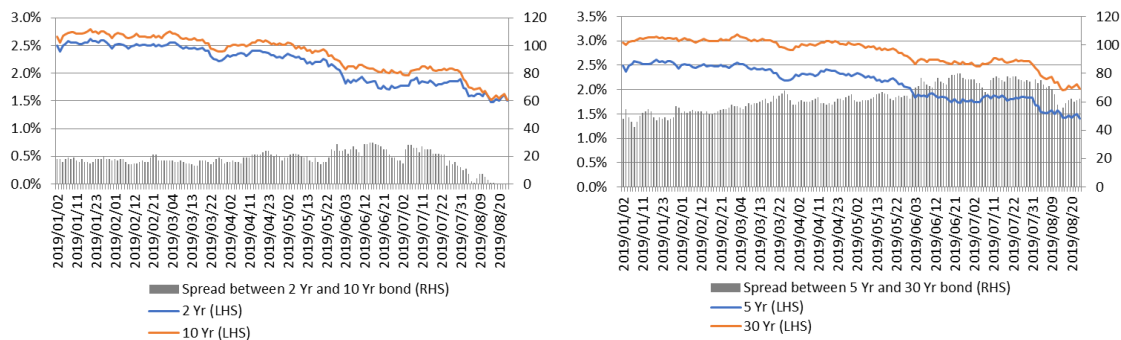
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

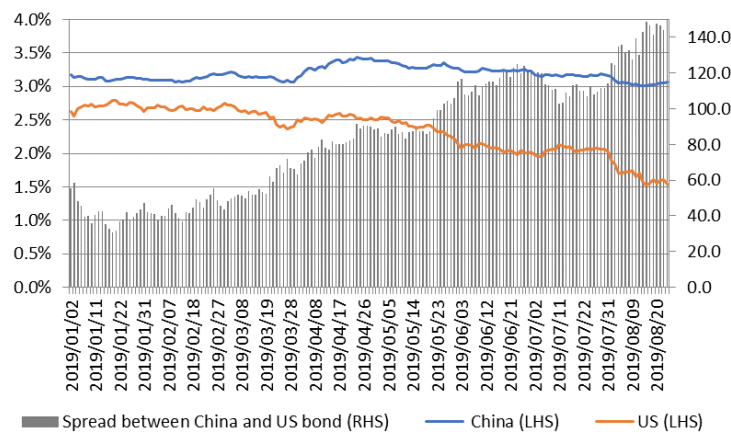
Affected by change of market expectation to rate cut and Sino-US trade friction, US Treasury yields fluctuated. 2-year and 10-year yield spread inverted once again. As of August 23, the yields on 2-year and 30-year Treasury note slightly increased, while the yields on 5-year and 10-year Treasury note continued the downward trend. 2-year and 30-year Treasury note traded at 1.51% and 2.02%, growing by 3bp and 1bp over last Friday. 5-year and 10-year Treasury note traded at 1.40% and 1.52%, declining by 2bp and 3bp over last Friday, respectively. In terms of Treasury spreads, the spread between the 2-year and 10-year Treasury bonds narrowed by 6bp to 1bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds widened by 3bp to 62bp from last Friday. As of August 23, the yield spread between China and US 10-year note was 152.9bp, rising by 6.1bp from last Friday and widening by 97.6bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

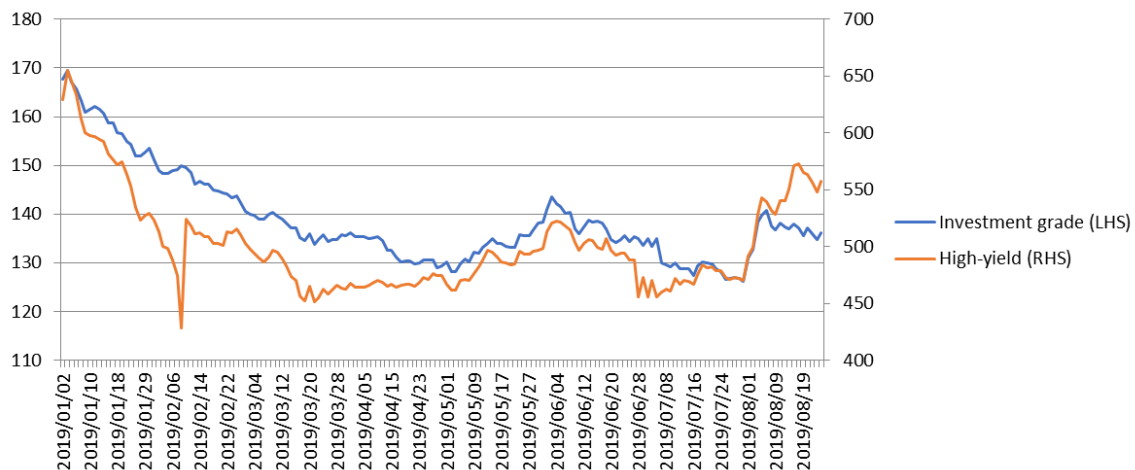
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond narrowed. As of August 23, investment-grade bond spreads slightly decreased by 1.1bp to 136bp from last week, and high-yield spreads decreased by 15.6bp to 557bp 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 19 to August 23, there were 5 new issues with a total issued volume of USD 465.1 million, decreasing by USD 1.2 billion compared with last week, of which financial institutions were the key issuers.

Table 1 : New issuance of Chinese offshore bonds (20190819-20190823)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/8/19	Agricultural Bank of China Ltd/Sydney	AUD	15	0	2019/11/21	92D	Banks	A1/A/A	-/-/-
2019/8/20	Tibet Financial Leasing Co Ltd	USD	27	7.8	2022/8/23	3	Financials	Ba2/-/-	Ba2/-/-
2019/8/21	Guotai Junan International Holdings Ltd	HKD	200	2.3	2020/8/25	363D	Financials	Baa2/BBB+/-	-/-/-
2019/8/21	Yanlord Land Group Ltd	USD	400	6.8	2024/2/27	4.5	Real Estate	Ba3/-/-	Ba3/-/-
2019/8/23	XingHe Holdings Berhad	MYR	10	1	2022/8/23	3	Consumer Staples	-/-/-	-/-/-

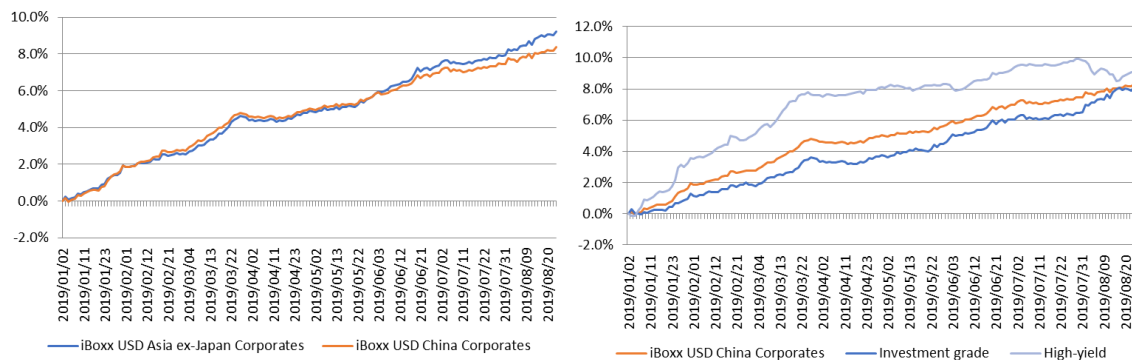
Sources: Bloomberg, CCX research

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

As of August 23, the YTD return on Chinese USD corporate bond index increased by 27bp over last week to 8.36%, of which investment grade bond index was 8.17%, increasing by 11 bp over last week, and high-yield bond index was 9.14%, rising by 60 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 3 Chinese entities and downgraded 2 Chinese entities from August 19 to August 23.

Table 2 : Credit rating changes of cross-border bond market (20190819-20190823)

	Entity	Sector	Latest Rating			Last Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
<b>International Rating:</b>										
Upgrade	Ronshine China Holdings Ltd	Real Estate	BB-	STABLE	2019/8/18	B+	STABLE	2019/7/19	Fitch	Sustained improvement in financial profile
	JD.com Inc	Consumer Discretionary	BBB	STABLE	2019/8/20	BBB-	POS	2019/1/15	S&P	Improving profitability
	Guangxi Communications Investment Group Co Ltd	Chengtou	Baa2	STABLE	2019/8/22	Baa3	STABLE	2018/9/12	Moody's	Merger with Guangxi Railway Investment Group Co., Ltd.
Downgrade	Yestar Healthcare Holdings Co Ltd	Consumer Discretionary	Ba3	NEG	2019/8/21	Ba3	STABLE	2016/10/12	Moody's	Rising working capital needs
	Tianjin Binhai New Area Construction & Investment Group Co Ltd	Chengtou	BBB-	NEG	2019/8/22	BBB	NEG	2019/7/5	S&P	Binhai's debt burden to remain high

Sources: Bloomberg, Wind, CCX research

### Rating Action: CCXAP assigns Changchun Urban Development & Investment Holdings (Group) Co., Ltd. long-term credit rating at A<sub>g</sub>+, with stable outlook

On August 23, CCXAP assigned the long-term credit rating of Changchun Urban Development & Investment Holdings (Group) Co., Ltd. (“CCDG” or the “Company”) at A<sub>g</sub>+. The rating outlook is stable.

CCDG was established in September 2013 by State-owned Assets Supervision and Administration Commission of Changchun Municipal Government (“Changchun SASAC”). Changchun SASAC held 100% of the Company’s share, and the Changchun Municipal

Government was its ultimate shareholder. The Company has a monopoly position in water supply, and is a main sewage treatment provider in Changchun City. The Company also has sustainable infrastructure construction and indemnificatory apartment development businesses. As the largest state-owned enterprise of Changchun SASAC, CCDG received strong support from its shareholder. From 2013 to 2019Q1, Changchun SASAC injected cash of RMB 1,122 million and equities of RMB 2,900 million to the Company. Apart from the public businesses, CCDG diversifies its business profile to building material sales and financial services segments, which helps strengthen its income sources and diversify its business risk. The rating is constrained by the Company's capital expenditure pressure from sizeable number of projects in the pipeline. Also, CCDG has a low operating profit due to its public welfare businesses. Along with development of the Company's projects, its total debts and leverage increased, which pressured its credit metrics. Yet, in addition to a strong support from Changchun SASAC, the Company's relatively strong financing ability and smooth funding channels helps support its credit profile and reduce its credit risk.

### Panda Bond Market: China Mengniu issued one new SCP

As of August 23, there were 15 issuers that issued 25 Panda Bonds in 2019, with a total issuance amount of RMB 38.54 billion, and an average coupon of 3.71%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

On August 23, China Mengniu Dairy Co. Ltd ("China Mengniu") successfully issued 2019 China Mengniu Dairy Co. Ltd Super & Short-term Commercial Paper (Series 2) in China's Interbank Market, with a tenor of 180 days and coupon rates at 2.96%, raising a capital of RMB 1 billion. China Mengniu has raised a total of RMB 2 billion since 2019 through the Panda Bond Market. China Chengxin International assigned a credit rating of AAA to the issuer.

**Table 3 : New issuance of Panda Bond in 2019 (20190101-20190823)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
China Mengniu Dairy Co. Ltd	1	2.96	2019/8/23	2020/2/19	0.5	SCP	China Interbank Market	China Chengxin
Daimler AG	3	3.84	2019/8/12	2022/8/12	3	PPN	China Interbank Market	China Bond Rating
Daimler AG	2	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	China

								Exchange	Chengxin
Semiconductor Manufacturing International Corp.	International	1	3.10	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International 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 International 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 Water Group Ltd	Water	1	3.95	2019/1/11	2026/1/11	7	MTN	China Interbank Market	Shanghai Brilliance / Dagong
Beijing Enterprises Water 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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