

## 2019 Issue 35

From September 9 to September 13

## ECB cut rates and reintroduced QE; ICBC issued USD 3.2 billion green bonds

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**Headline: ECB cut rates and reintroduced QE; oil prices surged due to Saudi oil attack**

US-China trade optimism and stimulus package from ECB lifted value of risky assets. On September 11, President Trump announced to postpone increasing tariffs on USD 250 billion worth of Chinese imports to October 15. Meanwhile, China will exempt 16 US imports from its additional tariffs. On September 12, ECB announced interest rate cut and reintroduction of QE, releasing a dovish signal.

The Saudi oil attack on September 14 disrupted half of Saudi Arabia's oil capacity, Oil prices surged after markets reopened on Monday, as investors feared an increase in geopolitical risk and disruption of oil supply.

**Exchange Rate: Onshore and offshore RMB appreciation continued**

Onshore and offshore RMB continued to appreciate this week. As of September 12, onshore and offshore RMB exchange rate closed at 7.0788 and 7.0464 respectively, down 361bp and 372bp from last Friday.

**Interest Rate: China Government Bonds yields generally rose; US Treasury yields surged**

Due to short term market disturbance, the yields of China Government Bonds generally rose. US Treasury yields surged because of US-China trade optimism and better-than-expected US retail sales in August. As of September 13, the yield spread between China and US 10-year note was 119.2bp, narrowing by 26.5bp from last Friday and widening by 63.9bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: New issuance rose continuously, and ICBC Hong Kong branch issued USD 3.2 billion green bonds**

From September 9 to September 13, there were 19 new issues with a total issued volume of USD 6.8 billion. ICBC Hong Kong branch, the largest issuer this week, issued 5 green bonds, denominated in Chinese yuan, Hong Kong dollar and US dollar, with an aggregate volume of USD 3.2 billion.

**Secondary Market: Returns on investment grade bonds plunged; while returns on high yield bonds rebound**

As of September 13, the YTD return on Chinese USD corporate bond index dropped by 40bp over last week to 7.81%, of which investment grade bond index was 7.30%, decreasing by 95bp over last week, and high-yield bond index was 9.26%, increasing by 76bp over the same period.

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

## Headline: ECB cut rates and reintroduced QE; oil prices surged due to Saudi oil attack

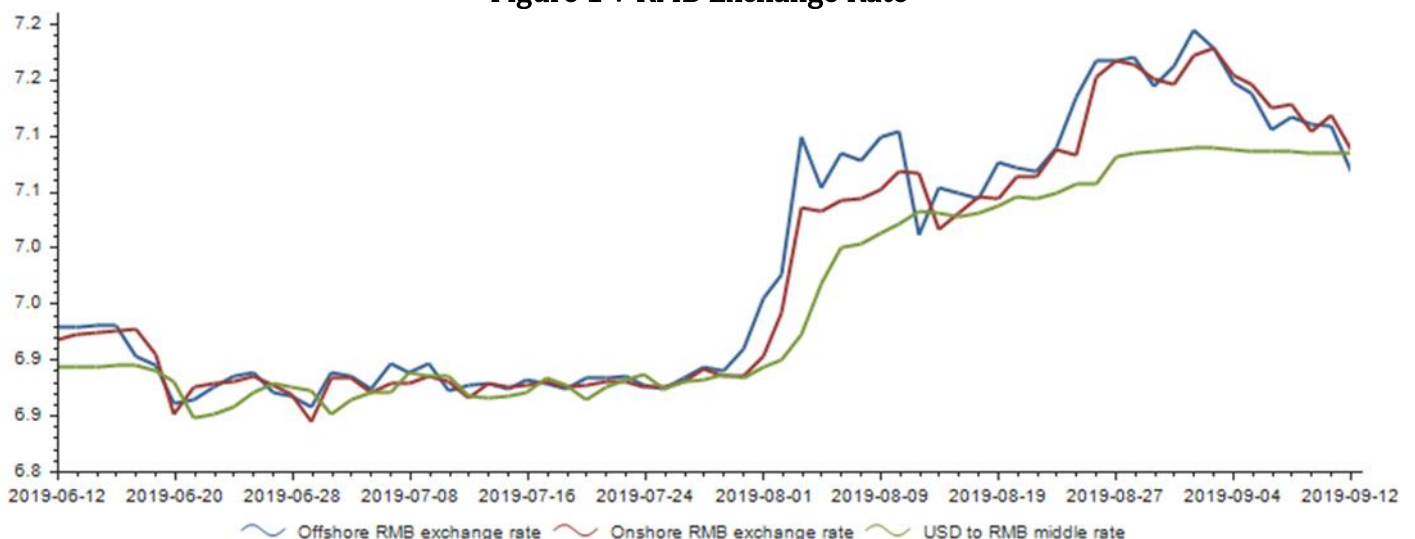
US-China trade optimism and stimulus package from European Central Bank (“ECB”) lifted value of risky assets. On September 11, US President Donald Trump announced to postpone increasing tariffs on USD 250 billion worth of Chinese imports from October 1 to October 15. Meanwhile, China will exempt 16 US imports from its additional tariffs. ECB released a stronger than expected dovish signal after the monetary policy meeting on September 12. ECB cut its deposit interest rate, its first rate cut since March, 2016, by 10bp to -0.5% and reintroduced bond purchases at a rate of EUR 20 billion a month from November 1.

The attack on Saudi Aramco’s oil-processing plant in Abqaiq and oilfield in Khurais on September 14 disrupted 5.7 million barrels a day of crude oil production (about half of Saudi Arabia’s oil capacity, or 5% of the daily global oil supply). This is the largest oil production disruption since Iraq’s invasion of Kuwait in 1990. President Trump authorized the use of Strategic Petroleum Reserve, if needed, to stabilize the energy supply. Yet, the oil prices surged on September 16 when markets reopened, of which Brent crude spiked 19% (the biggest single jump since 1991), as investors feared an increase in geopolitical risk and disruption of oil supply.

## Exchange Rate: Onshore and offshore RMB appreciation continued

During the week, the intermediate price of the RMB exchange rate revealed a steady trend, while onshore and offshore RMB continued to appreciate. On September 12, offshore RMB rose steadily against USD, breaking the threshold of 7.10 and 7.07, hitting the highest value of 7.0692 since August 23. The onshore RMB exchange rate also broke 7.08. As of September 12, the intermediate price of the RMB exchange rate closed at 7.0846. Both onshore and offshore RMB exchange rate fell substantially, closing at 7.0788 and 7.0464 respectively, down 361bp and 372bp from last Friday.

Figure 1 : RMB Exchange Rate

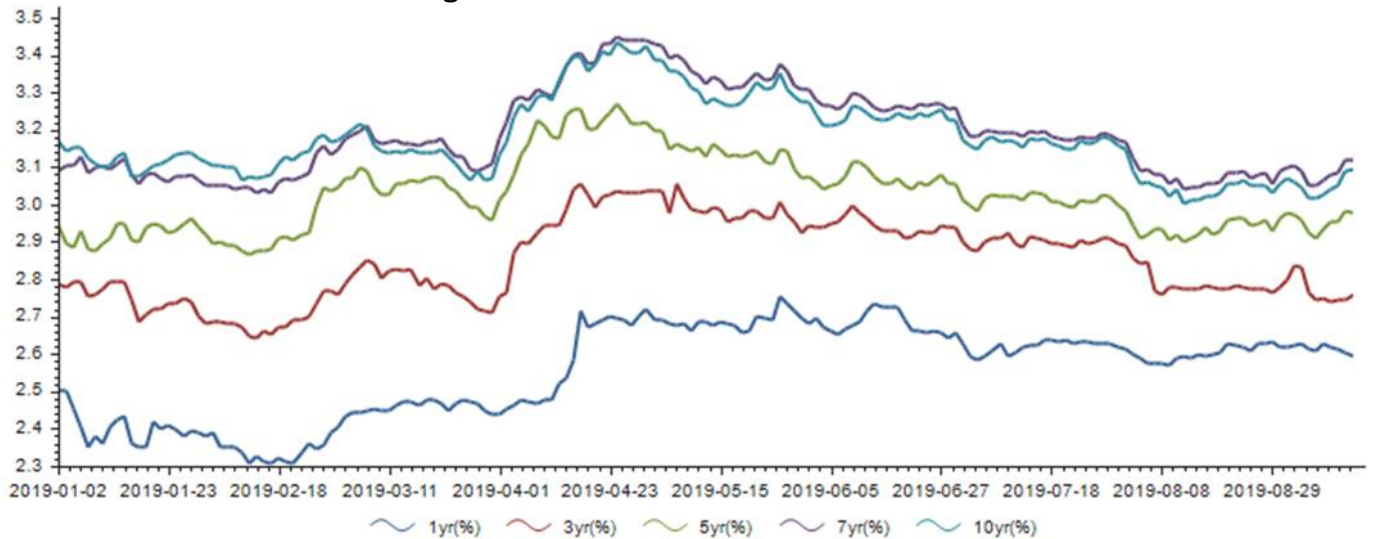


Sources: Eastmoney, CCX research

## Interest Rate: China Government Bonds yields generally rose; US Treasury yields surged

During the week, due to short term market disturbance, the yields of China Government Bonds generally rose. Trade policy uncertainties still persist. The surge in market hedging sentiment and the increasing investment by foreign institutions are beneficial to the bond market, thus the downward trend of China Government Bonds yields would possibly last within 2019. As of September 12, the maturity yields of 3-year, 5-year, 7-year and 10-year Government Bonds rose from last Friday, closing at 2.7454%, 2.9802%, 3.1170% and 3.0876%, respectively; the maturity yields of 1-year Government Bonds declined slightly, closing at 2.6012%.

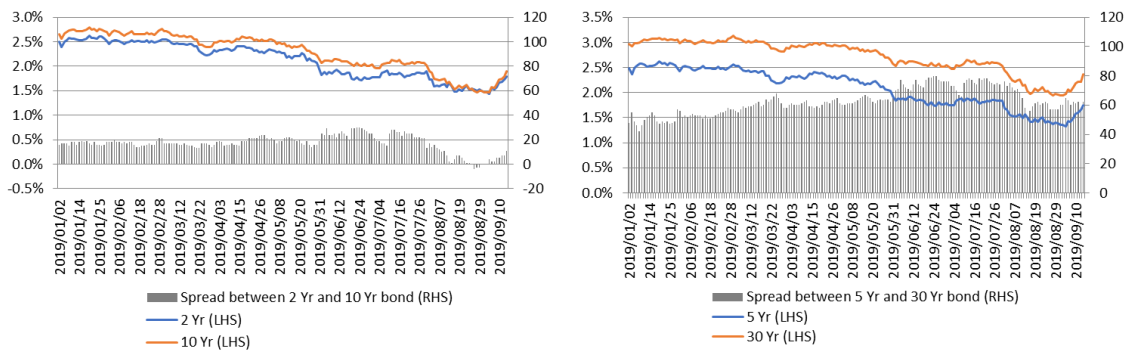
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

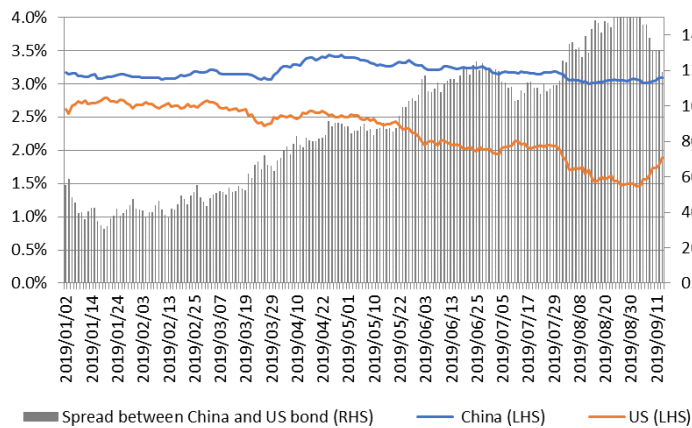
US Treasury yields surged due to US-China trade optimism and better-than-expected US retail sales in August. As of September 13, the yields on 2-year, 5-year, 10-year and 30-year Treasury note closed at 1.79%, 1.75%, 1.90% and 2.37%, increasing by 26bp, 33bp, 35bp and 35bp over last Friday. In terms of Treasury spreads, the spread between the 2-year and 10-year Treasury bonds widened by 9bp to 11bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds widened by 2bp to 62bp from last Friday. As of September 13, the yield spread between China and US 10-year note was 119.2bp, narrowing by 26.5bp from last Friday and widening by 63.9bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

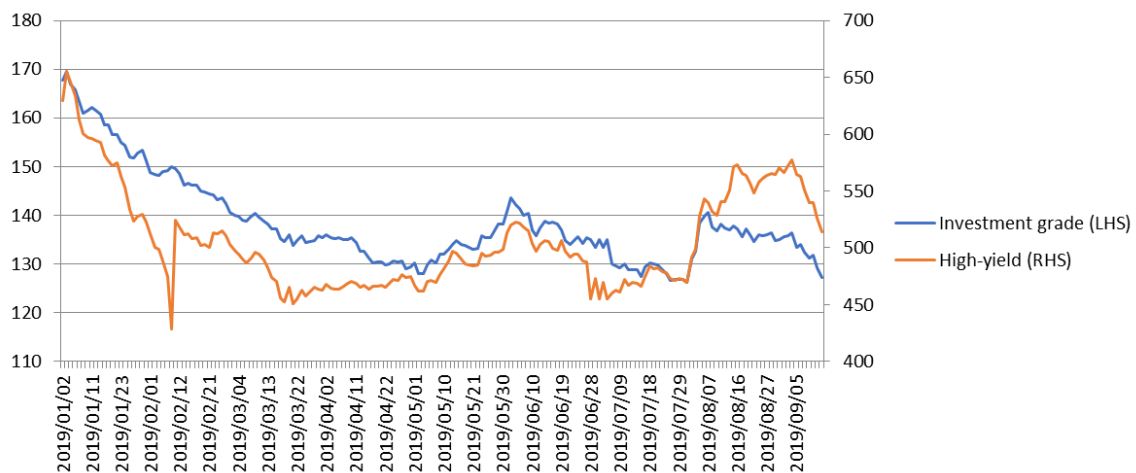
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond narrowed. As of September 13, investment-grade bond spreads narrowed by 6.8bp to 127bp from last week, and high-yield spreads narrowed by 48.6bp to 514bp 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 rose continuously, and ICBC Hong Kong branch issued USD 3.2 billion green bonds

From September 9 to September 13, there were 19 new issues with a total issued volume of USD 6.8 billion. ICBC Hong Kong branch, the largest issuer this week, issued 5 green bonds, denominated in Chinese yuan, Hong Kong dollar and US dollar, with an aggregate volume of USD 3.2 billion.

**Table 1 : New issuance of Chinese offshore bonds (20190909-20190913)**

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/9/9	Industrial & Commercial Bank of China Ltd/Hong Kong	CNY	1,000	3.1	2020/9/16	1	Banks	A1/A/A	A1/-/-
2019/9/9	Industrial & Commercial Bank of China Ltd/Hong Kong	HKD	4,000	2.2	2021/9/16	2	Banks	A1/A/A	A1/-/-
2019/9/9	Industrial & Commercial Bank of China Ltd/Hong Kong	USD	500	2.25	2022/9/16	3	Banks	A1/A/A	A1/-/-
2019/9/9	Industrial & Commercial Bank of China Ltd/Hong Kong	USD	1,000	3ML+67	2022/9/16	3	Banks	A1/A/A	A1/-/-
2019/9/9	Industrial & Commercial Bank of China Ltd/Hong Kong	USD	1,000	3ML+78	2024/9/16	5	Banks	A1/A/A	A1/-/-
2019/9/9	Longfor Group Holdings Ltd	USD	850	3.95	2029/9/16	10	Real Estate	Baa3/BBB/BBB	Baa3/BBB-/BBBe
2019/9/9	Tahoe Group Co Ltd	USD	100	11.25	2020/9/11	364D	Real Estate	B3/-/B-	-/-/CCC+e
2019/9/9	Tieling Public Assets Investment & Management Group Co Ltd	CNY	1,430	9.2	2022/9/12	3	Chengtou	-/-/-	-/-/-
2019/9/10	Country Garden Holdings Co Ltd	USD	500	6.15	2025/9/17	6	Real Estate	Ba1/BB+/BBB-	-/-/BBB-e
2019/9/10	Guangxi Communications Investment Group Co Ltd	USD	300	3.5	2022/9/17	3	Chengtou	Baa2/-/BBB	-/-/BBBe
2019/9/10	Shuifa Group Co Ltd	USD	400	4.15	2022/9/17	3	Industrials	Baa3/-/-	Baa3/-/-
2019/9/11	Changde Urban Construction and Investment Group Co Ltd	USD	200	5.8	2022/9/18	3	Chengtou	-/-/BB+	-/-/BB+e
2019/9/11	Tianjin Binhai New Area Construction & Investment Group Co Ltd	USD	300	5.875	2022/9/18	3	Chengtou	Baa2/-/BBB+	Baa2/-/BBB+e
2019/9/12	China Construction Bank Corp/Toronto	CAD	165	3M CDOR+70	2022/9/19	3	Banks	A1/A/A	-/A/-
2019/9/12	Chongqing Casin Group Co Ltd	USD	60	3.85	2022/9/18	3	Financials	-/-/-	-/-/-
2019/9/12	Huai An Traffic Holding Co Ltd	USD	300	6	2022/9/19	3	Chengtou	-/-/BB	-/-/BBe
2019/9/12	Orient Finance Holdings Hong Kong Ltd	USD	160	4.03	2020/9/15	363D	Financials	-/-/-	-/-/-
2019/9/12	BEST Inc	USD	175	1.75	2024/10/1	5	Industrials	-/-/-	-/-/-
2019/9/13	Bank of China Ltd/Sydney	USD	5.1	2.16	2019/12/20	91D	Banks	A1/A/A	-/-/-

Sources: Bloomberg, CCX research

On September 9, Wuhan Financial Holdings Group Co Ltd announced tap bond offering.

**Table 2 : Tap bond offering (20190909-20190913)**

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/9/9	Wuhan Financial Holdings Group Co Ltd	USD	442 (reoffered 300)	5.8	2021/12/27	3	Financials	-/-/-	-/-/-

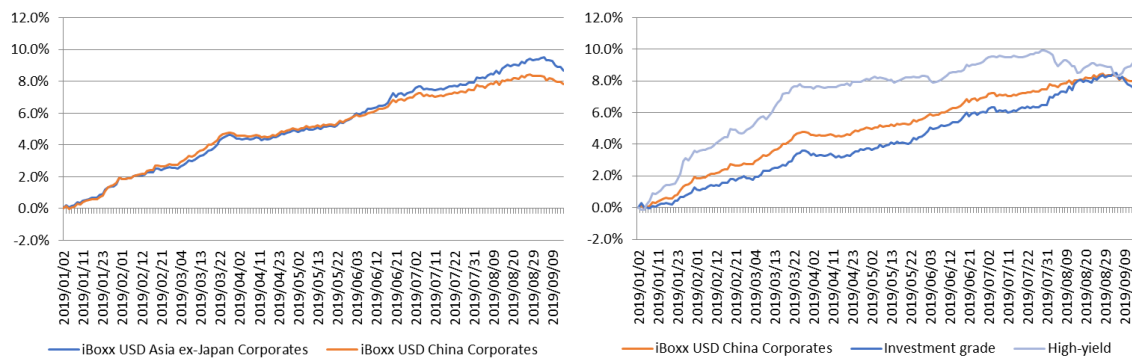
Sources: Bloomberg, CCX research

Recently, some Chinese entities, including Shandong Iron & Steel Group Co Ltd, Wuhan Metro Group Co Ltd and Zensun Group Ltd, planned to issue offshore bonds.

## Secondary Market: Returns on investment grade bonds plunged; while returns on high yield bonds rebound

As of September 13, the YTD return on Chinese USD corporate bond index dropped by 40bp over last week to 7.81%, of which investment grade bond index was 7.30%, decreasing by 95bp over last week, and high-yield bond index was 9.26%, increasing by 76bp 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 taken positive rating actions to 5 Chinese issuers; and negative rating action to 8 Chinese issuers from September 9 to September 13.

Table 3 : Credit rating changes of cross-border bond market (20190909-20190913)

	Entity	Sector	Entity Rating	Latest Rating		Last Rating		Rating Agency	Reason of Change	
				Outlook	Date	Entity Rating	Outlook			Date
<b>International Rating:</b>										
	Zhenro Properties Group Ltd	Real Estate	B+	STABLE	2019/9/10	B	POS	2019/5/6	Fitch	Lower leverage
	Hilong Holding Ltd	Energy	B1	Rating Watch Positive	2019/9/10	B1	STABLE	2019/7/30	Moody's	Strengthened business profile and improvement in debt leverage
Upgrade	Yango Group Co Ltd	Real Estate	B+	STABLE	2019/9/11	B	POS	2018/10/23	Fitch	Downgrade of its indirect parent, China Energy Engineering Corporation Limited
	Jiangsu Fangyang Group Co Ltd	Chengtou	BB	STABLE	2019/9/11	BB	Rating Watch Negative	2019/4/10	Fitch	Support from Lianyungang municipality
	ENN Ecological Holdings Co Ltd	Materials	BB	Rating Watch Positive	2019/9/12	BB	STABLE	2018/12/6	Fitch	Expectation of tighter linkage with the parent given the share transfer plan

Downgrade	Zhongrong Xinda Group Co Ltd	Materials	CCC	-	2019/9/10	B-	NEG	2018/12/20	Fitch	Deteriorating liquidity position and weak liquidity management
	Power Construction Corp of China Ltd	Industrials	BBB+	STABLE	2019/9/10	A-	STABLE	2018/9/19	Fitch	Lower scoring under Government-Related Entities Rating Criteria
	Kunming Iron & Steel Holdings Co Ltd	Materials	BBB-	STABLE	2019/9/10	BBB	Rating Watch Negative	2019/4/11	Fitch	Weaker creditworthiness of Yunnan province
	China Gezhouba Group Co Ltd	Industrials	BBB	STABLE	2019/9/10	BBB+	STABLE	2018/9/13	Fitch	Downgrade of its indirect parent, China Energy Engineering Corporation Limited
	China Energy Engineering Corp Ltd	Industrials	BBB+	STABLE	2019/9/10	A-	STABLE	2018/9/13	Fitch	Lower scoring under Government-Related Entities Rating Criteria
	Xinyuan Real Estate Co Ltd	Real Estate	B-	STABLE	2019/9/12	B	NEG	2018/8/20	S&P	Tight liquidity
	Yunnan Metropolitan Construction Investment Group Co Ltd	Chengtou	BBB	STABLE	2019/9/13	BBB+	Rating Watch Negative	2019/6/17	Fitch	Weaker creditworthiness of Yunnan province
	ENN Energy Holdings Ltd	Utilities	BBB+	Rating Watch Negative	2019/9/13	BBB+	STABLE	2019/4/29	S&P	Ownership reorganization

Sources: Bloomberg, Wind, CCX research

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

As of September 13, there were 16 issuers that issued 27 Panda Bonds in 2019, with a total issuance amount of RMB 41.04 billion, and an average coupon of 3.67%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

**Table 4 : New issuance of Panda Bond in 2019 (20190101-20190913)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
China Power International Development Limited	0.5	2.80	2019/9/3	2020/5/30	0.74	SCP	China Interbank Market	China Chengxin
China Power International Development Limited	2	3.55	2019/9/5	2022/9/5	3	MTN	China Interbank Market	China Chengxin
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 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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