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From September 16 to September 20

US Fed cut interest rates for second time; Zhongliang Holding issued its first USD bond

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Headline: US Fed cut interest rates for second time, as expected

This week, major central banks in the world released their interest rate policies. On September 18, the Federal Open Market Committee ("FOMC") decided to decrease its targeted federal fund rates to a range of 1.75% to 2.00% on a 7-3 vote, in line with market expectations. The US Fed cuts interest rate for the second time after the 2008 financial crisis.

The Fed said that US economy continued growing at a moderate rate and the labour market remained strong. It also reiterated that it will "act as appropriate" to sustain the expansion. Following US Fed policy release, seven central banks including Indonesia, Brazil and Saudi Arabia, lowered their interest rate accordingly, while the central banks of British and Japan did not change their interest rates. Norway and Argentina's central banks, conversely, raised their interest rate by a quarter percentage point after US Fed's decision.

Exchange Rate: The intermediate price of RMB revealed a steady trend

During the week, the intermediate price of the RMB exchange rate revealed a steady trend, closing at 7.0736 on September 20. The onshore and offshore RMB exchange rate continued to fluctuate, closing at 7.0901 and 7.1210 respectively.

Interest Rate: China Government Bonds yields fluctuated; US Treasury yields dropped significantly

During the week, due to short term market disturbance, the yields of China Government Bonds moved in different directions. US Treasury yields dropped significantly amid rising concerns over global recession, Fed's interest rate cut and the lowering chance of a breakthrough for the US-China trade tension. As of September 20, the yield spread between China and US 10-year note was 134.2bp, widening by 15bp from last Friday and widening by 78.9bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: Primary Market: New issuance slightly dropped, Zhongliang Holding issued its first USD bond**

From September 16 to September 20, there were 16 new issues with a total issued volume of USD 5.2 billion. Zhongliang Holding Group Co Ltd, a newly-listed Chinese estate real company, issued its first USD bond this week, with issuing yield at 12%.

Secondary Market: Returns on investment grade bonds rebounded and returns on high yield bonds slightly increase

As of September 20, the YTD return on Chinese USD corporate bond index rose by 43bp over last week to 8.24%, of which investment grade bond index was 7.93%, increasing by 63bp over last week, and high-yield bond index was 9.27%, slightly increasing by 1bp over the same period.

Panda Bond Market: No new issuance this week

Headline: US Fed cut interest rates for second time, as expected

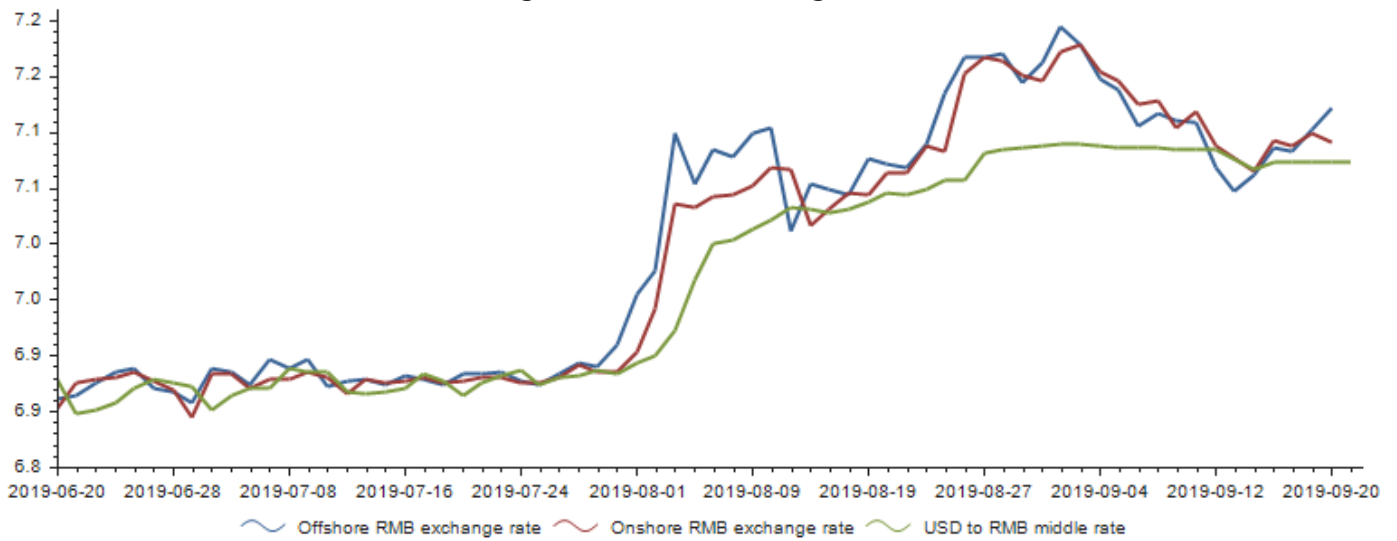
This week, major central banks in the world released their interest rate policies. On September 18, the FOMC decided to decrease its targeted federal fund rates to a range of 1.75% to 2.00% on a 7-3 vote, in line with market expectations. The US Fed cuts interest rate for the second time after the 2008 financial crisis. Meanwhile, the Fed also lowered the benchmark overnight lending rate 30bp to 1.7%, and lowered the excess reserve balances to 1.8%. The Fed said in its policy statement that US economy continued growing at a moderate rate and the labour market remained strong. The median FOMC members forecasted a 2.2% growth on US's GDP in 2019 and 2% in 2020; core inflation growth was expected 1.8% in 2019 and 1.9% in 2020, same as the projections in June. Unemployment rate remained low and the personal consumption expenditure was high; while corporates fixed investments and exports weakened.

The Fed reiterated that it will “act as appropriate” to sustain the expansion. Jerome Powell, the chairman of the Fed, said that the Fed will closely monitor the economic data and may use more easing policies during economic slowdown. Despite the cut of the interest rates, division remained among individual members. Three Fed regional presidents — Esther George of Kansas City, Eric Rosengren of Boston and James Bullard of St. Louis — each voted no for the cut. George and Rosengren have said they prefer to keep the funds rate steady while Bullard has advocated for a 50bp cut. Following US Fed policy release, seven central banks including Indonesia, Brazil and Saudi Arabia, lowered their interest rate accordingly, while the central banks of British and Japan did not change their interest rates. Norway and Argentina's central banks, conversely, raised their interest rate by a quarter percentage point after US Fed's decision. In spite of the interest rate cut from the Fed, the market did not response strongly for the policy changed. Some suggested that the effects of monetary policy on economy became limited.

Exchange Rate: The intermediate price of RMB revealed a steady trend

During the week, the intermediate price of the RMB exchange rate revealed a steady trend, while onshore and offshore RMB exchange rate continued to fluctuate. As of September 20, the intermediate price of the RMB exchange rate closed at 7.0736, down 116bp from last Thursday. Both onshore and offshore RMB exchange rate rose, closing at 7.0901 and 7.1210 respectively, up 19bp and 745bp from last Friday. As shown in the statistics of the State Administration of Foreign Exchange (SAFE), in August 2019, the supply and demand of the foreign exchange market stayed basically balanced. The deficit of foreign exchange settlement and sales by banks was narrowed to USD5.4 billion. On the other hand, the balance of foreign exchange reserves remained basically stable, reaching \$317.2 billion by the end of August, an increase of \$3.5 billion annually. Since the beginning of 2019, RMB depreciated against the US dollar while relatively strengthened against the basket of currencies, maintaining a stable position in the international monetary system.

Figure 1 : RMB Exchange Rate

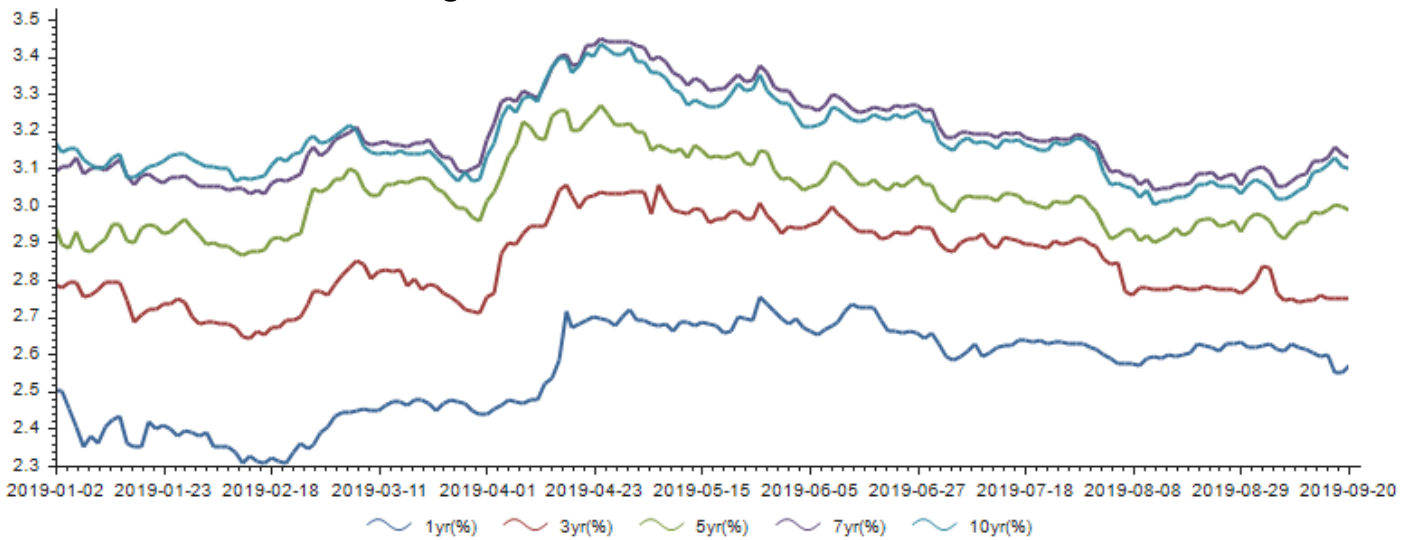


Sources: Eastmoney, CCX research

Interest Rate: China Government Bonds yields fluctuated; US Treasury yields dropped significantly

During the week, due to short-term market disturbance, the yields of China Government Bonds moved in different directions. As of September 20, the maturity yields of 3-year, 5-year, 7-year and 10-year Government Bonds rose from last Friday, closing at 2.7470%, 2.9894%, 3.1266% and 3.0980%, respectively; the maturity yields of 1-year Government Bonds declined, closing at 2.5718%.

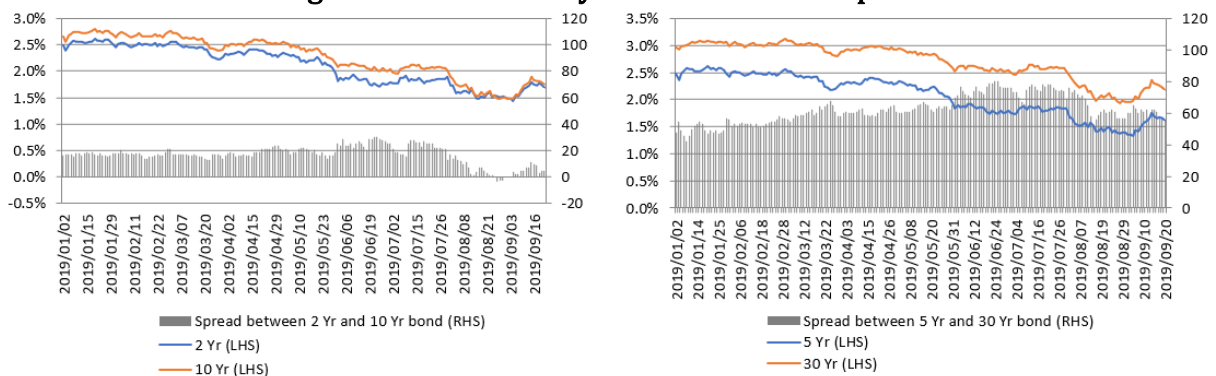
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

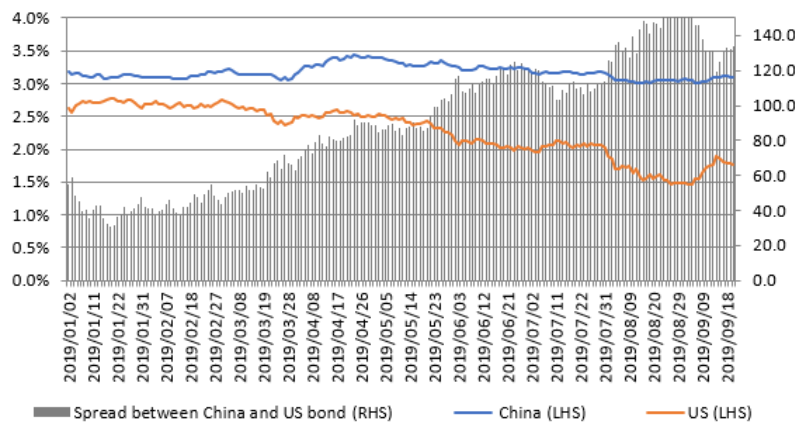
US Treasury yields dropped significantly amid rising concerns over global recession triggered by higher oil prices, Fed's interest rate cut and the cancellation of a planned visit to US farms of a Chinese trade delegation fading the chance of a breakthrough for the US-China trade tension. As of September 20, the yields on 2-year, 5-year, 10-year and 30-year Treasury note closed at 1.69%, 1.61%, 1.74% and 2.17%, decreasing by 10bp, 14bp, 16bp and 20bp over last Friday. In terms of Treasury spreads, the spread between the 2-year and 10-year Treasury bonds narrowed by 6bp to 5bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds narrowed by 6bp to 56bp from last Friday. As of September 20, the yield spread between China and US 10-year note was 134.2bp, widening by 15bp from last Friday and widening by 78.9bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

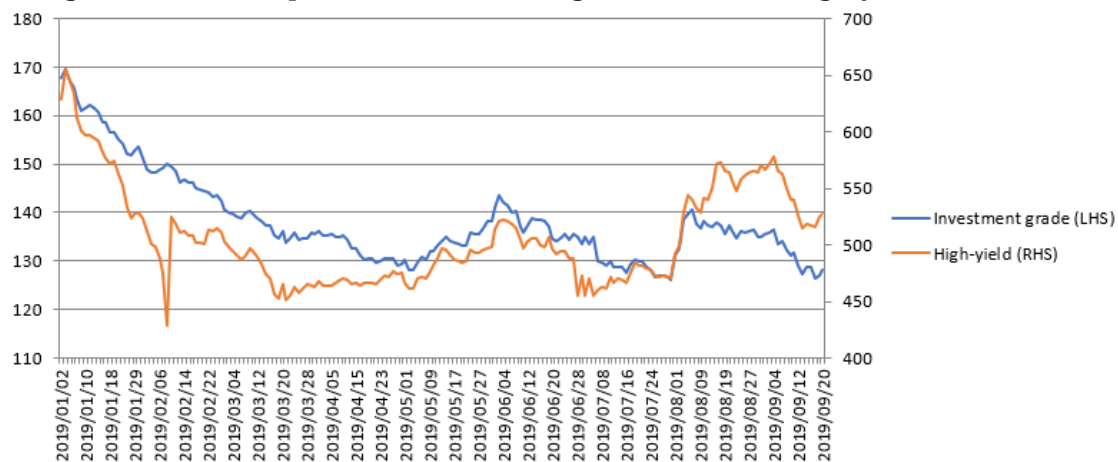
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond widened. As of September 20, investment-grade bond spreads slightly increased by 0.9bp to 128bp from last week, and high-yield spreads increased by 12.3bp to 527bp 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 slightly dropped, Zhongliang Holding issued its first USD bond

From September 16 to September 20, there were 16 new issues with a total issued volume of USD 5.2 billion. Zhongliang Holding Group Co Ltd, a newly-listed Chinese estate real company, issued its first USD bond this week, with issuing yield at 12%, 200bp higher compared to its average financing cost as of 30 June 2019.

Table 1 : New issuance of Chinese offshore bonds (20190916-20190920)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/9/16	Agricultural Bank of China Ltd/Singapore	USD	500	3ML+66	2022/9/23	3	Banks	A1/A/A	A1/-/
2019/9/17	Wuhan Metro Group Co Ltd	USD	300	2.96	2024/9/24	5	Chengtou	A3/-/A	-/-/Ae
2019/9/17	China Orient Asset Management International Holding Ltd	USD	500	3.5	2029/9/24	10	Financials	-/BBB+/A-	-/BBB+/A-e
2019/9/17	China Orient Asset Management International Holding Ltd	USD	400	2.875	2024/9/24	5	Financials	-/BBB+/A-	-/BBB+/A-e
2019/9/18	Jinjiang International Holding Co Ltd	EUR	500	1	2024/9/25	5	Consumer Discretionary	-/BBB/BBB+	-/BBB/BBB+e
2019/9/18	Shandong Iron & Steel Group Co Ltd	USD	500	6.85	2022/9/25	3	Materials	-/-/	-/-/
2019/9/18	China Logistics Property Holdings Co Ltd	USD	162	8.75	2021/9/25	2	Industrials	B3/-/B-	-/-/
2019/9/18	Fujian Yango Group Co Ltd	USD	152	12.5	2021/9/24	2	Real Estate	-/B/B-	-/-/
2019/9/18	Guotai Junan International Holdings Ltd	HKD	500	2.78	2020/3/25	182D	Financials	Baa2/BBB+/-	-/-/
2019/9/18	Jiande State-Owned Assets Management Co Ltd	USD	120	6	2022/9/25	3	Chengtou	-/-/	-/-/
2019/9/19	XiAn Qujiang Culture Holding Co Ltd	USD	200	6	2022/9/25	3	Chengtou	-/-/	-/-/
2019/9/19	Zhongliang Holdings Group Co Ltd	USD	300	11.5	2021/9/26	2	Real Estate	B1/B+/B+	-/-/B+e
2019/9/19	Hilong Holding Ltd	USD	200	8.25	2022/9/26	3	Energy	B1 *+/-/B+	-/-/B+e
2019/9/19	Chongqing International Logistics Hub Park Construction Co Ltd	USD	500	4.3	2024/9/26	5	Chengtou	-/-/BBB	-/-/BBBe
2019/9/19	Greenland Holding Group Co Ltd	USD	200	5.75	2022/9/26	3	Real Estate	Ba1/BB/BB-	-/-/
2019/9/19	Greenland Holding Group Co Ltd	USD	500	6.75	2023/9/26	4	Real Estate	Ba1/BB/BB-	-/-/

Sources: Bloomberg, CCX research

On September 17, ENN Ecological Holdings Co Ltd and Tahoe Group Co Ltd announced tap bond offering.

Table 2 : Tap bond offering (20190916-20190920)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/9/17	ENN Ecological Holdings Co Ltd	USD	500 (reoffered 250)	7.5	2021/2/27	2	Materials	Ba2/-/BB *+	-/-/BBe
2019/9/17	Tahoe Group Co Ltd	USD	200 (reoffered 100)	11.25	2020/9/11	364D	Financials	B3/-/B-	-/-/CCC+e

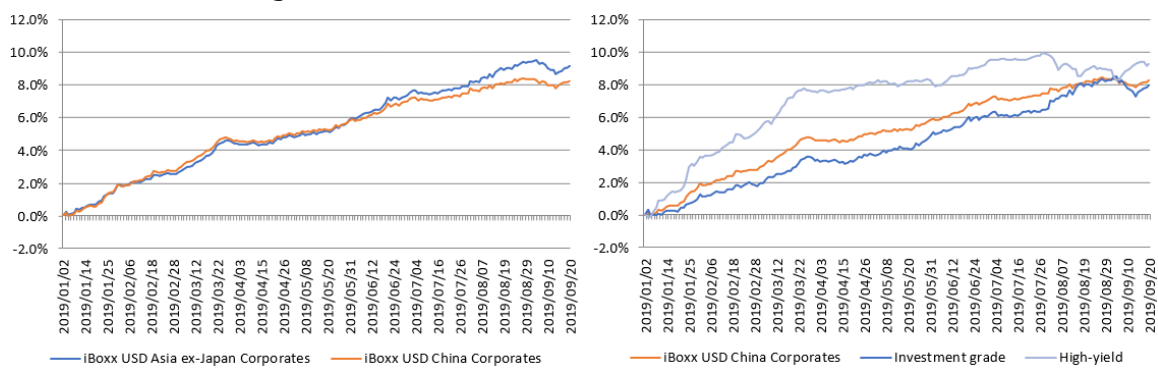
Sources: Bloomberg, CCX research

Recently, some Chinese entities, including Eternal Asia Supply Chain Management Ltd., Beijing Haiguo Xintai Investment Holding Centre and Shengzhou Investment Holding Co Ltd, planned to issue offshore bonds.

Secondary Market: Returns on investment grade bonds rebounded and returns on high yield bonds slightly increase

As of September 20, the YTD return on Chinese USD corporate bond index rose by 43bp over last week to 8.24%, of which investment grade bond index was 7.93%, increasing by 63bp over last week, and high-yield bond index was 9.27%, slightly increasing by 1bp 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 on 3 Chinese issuers; and negative rating action on 5 Chinese issuers from September 16 to September 20.

Table 3 : Credit rating changes of cross-border bond market ((20190916-20190920)

	Entity	Sector	Latest Rating			Last Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Upgrade	West China Cement Ltd	Materials	Ba2	STABLE	2019/9/16	Ba3	STABLE	2019/7/16	Moody's	Sustained improvement in WCC's capital structure
	Shanghai Huayi Group Co	Materials	BBB	STABLE	2019/9/19	BBB-	POS	2019/6/6	S&P	Expect to maintain sufficient buffer to absorb volatility in chemical prices over the next 24 months
	Jiangsu Zhongnan Construction Group Co Ltd	Financials	B	POS	2019/9/20	B	STABLE	2019/6/3	S&P	Growing business scale and improving leverage
Downgrade	Xinjiang Goldwind Science & Technology Co Ltd	Energy	Baa3	Rating Watch Negative	2019/9/16	Baa3	NEG	2018/8/7	Moody's	Heightened financial leverage with aggressive expansion
	China Evergrande Group, Hengda Real Estate Group Co Ltd, Tianji Holding Ltd	Real Estate	B1	STABLE	2019/9/16	B1	POS	2019/7/9	Moody's	Slower-than-expected growth in revenue and contracted sales, and the slower pace of deleveraging
	Golden Wheel Tiandi Holdings Company Limited	Real Estate	B	NEG	2019/9/17	B	STABLE	2018/9/17	Fitch	Deterioration in cash-to-short-term debt ratio
	Shandong Ruyi Technology Group Co Ltd	Consumer Discretionary	B-	Rating Watch Negative	2019/9/19	B	NEG	2019/5/15	S&P	Strained Liquidity
	SF Holding Co Ltd, SF Holding Investment Ltd	Industrials	A3	NEG	2019/9/20	A3	STABLE	2019/3/29	Moody's	Slowing economic growth, intensifying competition and heavy investment requirements will continue to pressure SF's financial profile
	China Evergrande Group, Hengda Real Estate Group Co Ltd, Tianji Holding Ltd	Real Estate	B+	STABLE	2019/9/20	B+	POS	2019/5/15	Fitch	The group's ability to cut debt will weaken due to flat contracted sales, higher payables stemming from heavier spending on non-property businesses and increased reliance on short-term debt

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: No new issuance this week

As of September 20, 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 (20190101-20190920)

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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