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From October 7 to October 11

US-China trade talks achieved substantial progress; US Treasury yields surged

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Headline: US-China trade talks achieved substantial phase one deal

On October 11, US and China announced to reach a substantial phase one deal in trade talks. US announced to postpone increasing tariffs of 30% on USD 250 billion worth of Chinese goods, which was previously scheduled to go into effect on October 15. Meanwhile, as part of the incomplete agreement, China may purchase USD 40-50 billion worth of American agricultural products annually.

Exchange Rate: Onshore and offshore RMB exchange rate declined

Both onshore and offshore RMB exchange rate declined, closing at 7.1000 and 7.0881 respectively, down 381bp and 531bp from September 30.

Interest Rate: China Government Bonds yields diverged; US Treasury yields surged

The yields of China Government Bonds moved in different directions. The yield of short-term Government Bond declined, while that of medium- to long-term Government Bond fluctuated upward. US Treasury yields surged because of US-China trade optimism. As of October 11, the yield spread between China and US 10-year note was 142.7bp, narrowing by 18.5bp from last Friday and widening by 87.4bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: New issuance rose, banks and utilities were the key issuers**

From October 7 to October 11, there were 13 new issues with a total issued volume of USD 3.9 billion, of which banks and utilities were the key issuers. China Three Gorges Corp, issued 2 dollar bonds with an aggregate volume of USD 850 million.

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

As of October 11, the YTD return on Chinese USD corporate bond index dropped by 35bp over last week to 8.48%, of which investment grade bond index was 8.07%, decreasing by 69bp over last week, and high-yield bond index was 9.71%, increasing by 35bp over the same period.

Panda Bond Market: SMIC issued a new SCP this week

On October 11, SMIC issued RMB 1.5 billion SCP in Interbank Market, with a tenor of 75 days at a coupon rate of 2.50%. China Chengxin assigned a credit rating of AAA to SMIC.

Headline: US-China trade talks achieved substantial phase one deal

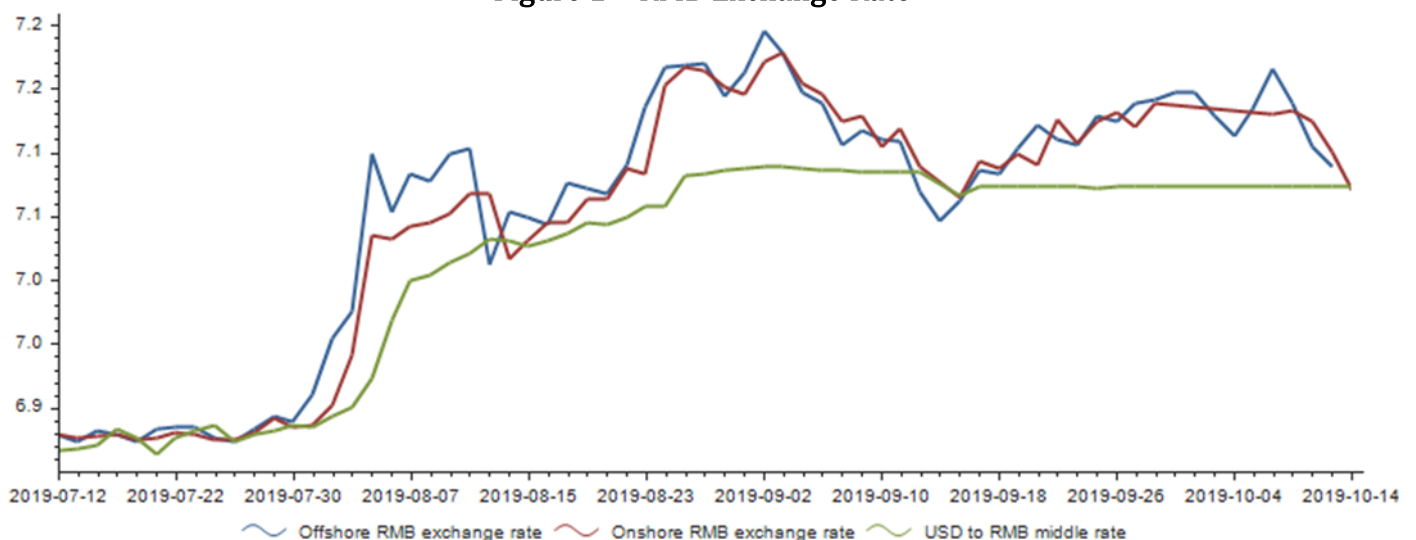
On October 10-11, the 13th round of high-level economic and trade consultations between China and US was held in Washington. US and China announced to reach a substantial phase one deal. US President Donald Trump said that it will take three to five weeks to finalize the agreement and the two sides may sign the first part of the agreement during the APEC summit. After signing the first phase, "phase two will start almost immediately". China stated that the two countries' negotiating teams discussed the economic and trade issues of common concern and achieved substantial progress in areas including agriculture, intellectual property rights protection, exchange rate, financial services, expansion of trade cooperation, technology transfer and dispute settlement.

In addition, US announced to postpone increasing tariffs of 30% on USD 250 billion worth of Chinese goods, which was previously scheduled to go into effect on October 15. Meanwhile, as part of the Phase 1 deal, China may purchase USD 40-50 billion worth of American agricultural products annually, doubling the amount of USD 24 billion in 2017. Markets were up in an immediate response to the progress in US-China trade talks, but many analysts still cautioned.

Exchange Rate: Onshore and offshore RMB exchange rate declined

During the week, the intermediate price of the RMB exchange rate revealed a steady trend, while both onshore and offshore RMB exchange rate declined. As of October 12, the intermediate price of the RMB exchange rate closed at 7.0727, basically the same as the closing price before the Golden Week holiday (September 30). Both onshore and offshore RMB exchange rate fell, closing at 7.1000 and 7.0881, down 381bp and 531bp from September 30 respectively. According to the data released by the State Administration of Foreign Exchange, China's foreign exchange reserves had reached about USD3.1 trillion by the end of September 2019, an increase of USD19.7 billion or 0.6% from the beginning of the year. In September, the supply and demand of foreign exchange market in China through major channels were steady and orderly. The positive changes taken place in China's foreign exchange market have further strengthened the expectations of foreign market players.

Figure 1 : RMB Exchange Rate

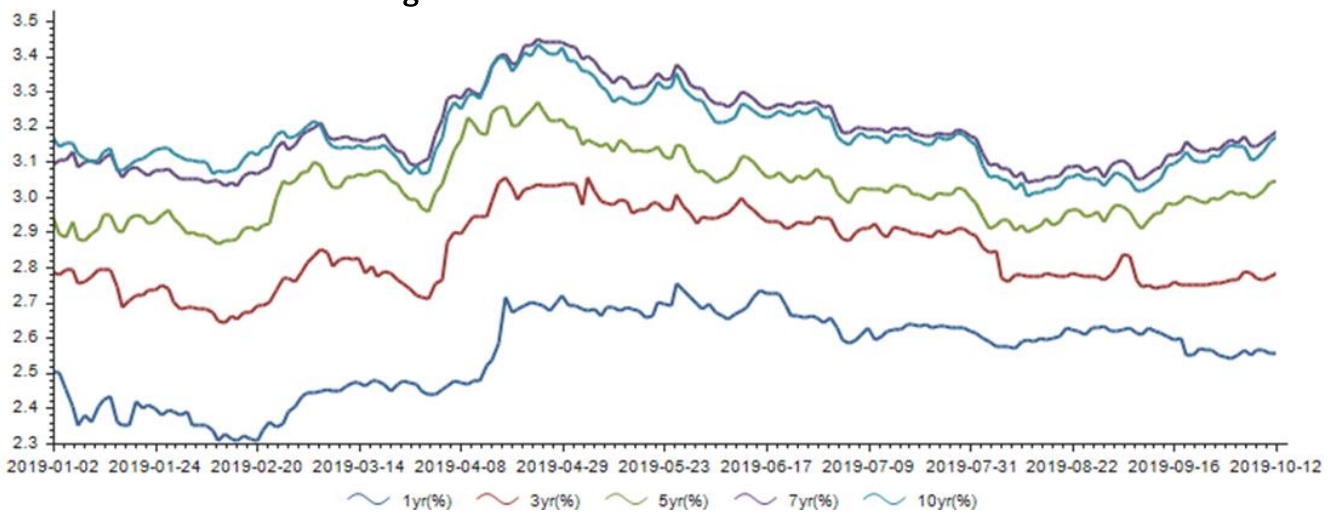


Sources: Eastmoney, CCX research

Interest Rate: China Government Bonds yields diverged; US Treasury yields surged

During the week, the yields of China Government Bonds moved in different directions. The yield of short-term Government Bond fluctuated downward, while that of medium- to long-term Government Bond fluctuated upward. As of October 12, the maturity yields of 5-year, 7-year and 10-year Government Bonds rose from September 30, closing at 3.0466%, 3.1844% and 3.1716%, respectively; the maturity yields of 1-year and 3-year Government Bonds declined, closing at 2.5546% and 2.7832%. According to the data released by the Central Depository and Settlement Corporation, by the end of September, RMB1.24 trillion of Government Bonds was held by foreign institutions, an increase of RMB53.25 billion in the month, marking a 13-month high.

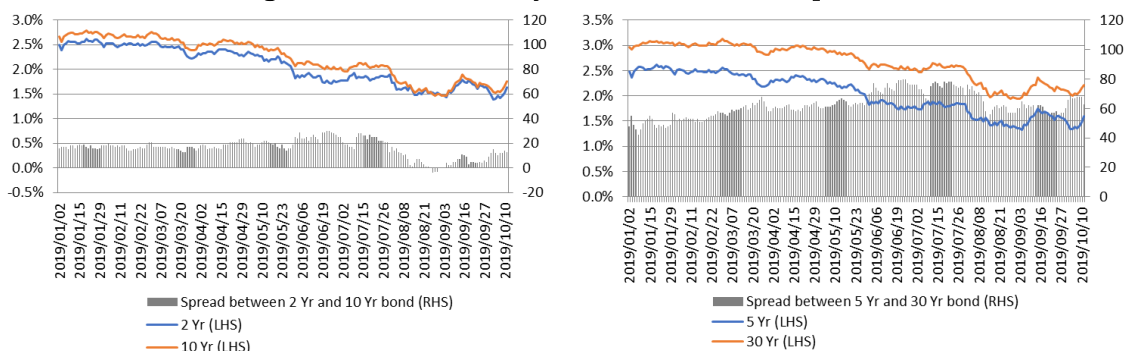
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

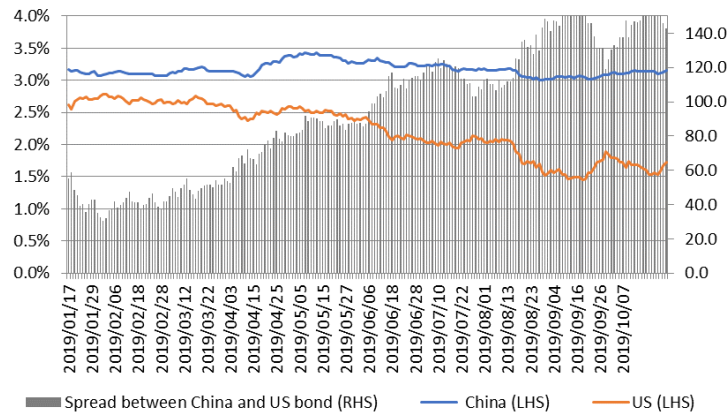
Market sentiment was underpinned by US-China trade optimism and US Treasury yields surged. As of October 11, the 2-year, 5-year, 10-year and 30-year Treasury yields closed at 1.63%, 1.59%, 1.76% and 2.22%, increasing by 23bp, 25bp, 24bp and 21bp over last Friday. In terms of Treasury yield spreads, the spread between the 2-year and 10-year widened by 1bp to 13bp from last Friday, while the spread between the 5-year and 30-year narrowed by 4bp to 63bp from last Friday. As of October 11, the yield spread between China and US 10-year note was 142.7bp, narrowing by 18.5bp from last Friday and widening by 87.4bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

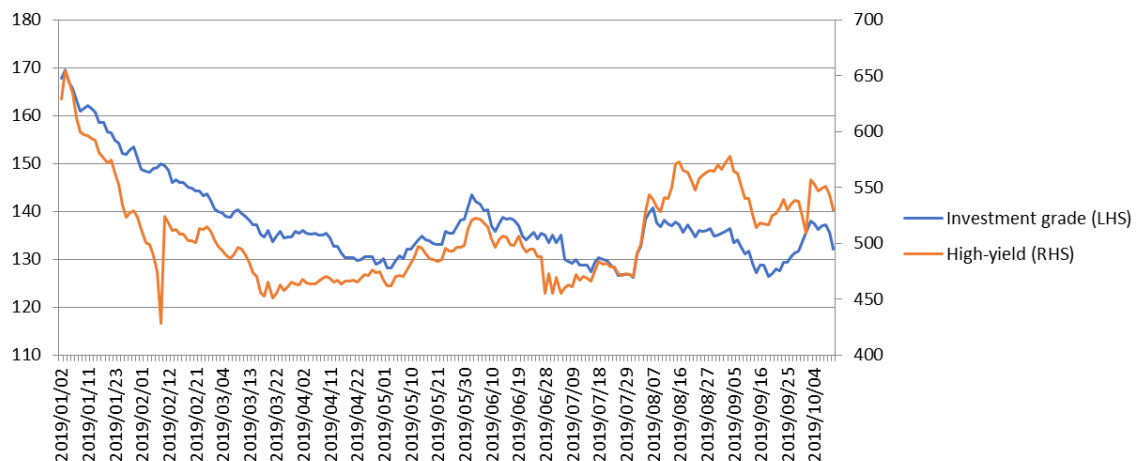
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond narrowed. As of October 11, investment-grade bond spreads narrowed by 5.3bp to 132bp from last week, and high-yield spreads narrowed by 22.7bp to 530bp 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, banks and utilities were the key issuers

From October 7 to October 11, there were 13 new issues with a total issued volume of USD 3.9 billion, of which banks and utilities were the key issuers. China Three Gorges Corp, issued 2 dollar bonds with an aggregate volume of USD 850 million.

Table 1 : New issuance of Chinese offshore bonds (20191007-20191011)

| Pricing date | Obligor | Currency | Amount (million) | Coupon (%) | Maturity | Tenor | Industry | Issuer Rating | Issue Rating |
|--------------|---|----------|------------------|------------|------------|-------|-------------|-----------------------------|-----------------------------|
| 2019/10/9 | Bank of China Ltd/Macau | CNY | 2,000 | 3.15 | 2021/10/16 | 2 | Banks | A1/A/A | A1/A/A |
| 2019/10/9 | Bank of China Ltd/Macau | EUR | 300 | 0 | 2021/10/16 | 2 | Banks | A1/A/A | A1/A/A |
| 2019/10/9 | Bank of China Ltd/Macau | USD | 350 | SOFR+95 | 2022/10/17 | 3 | Banks | A1/A/A | A1/A/A |
| 2019/10/9 | China Three Gorges Corp | USD | 500 | 2.3 | 2024/10/16 | 5 | Utilities | A1/A/A+ | A1/-/A+e |
| 2019/10/9 | China Three Gorges Corp | USD | 350 | 3.2 | 2049/10/16 | 30 | Utilities | A1/A/A+ | A1/-/A+e |
| 2019/10/10 | E-House China Enterprise Holdings Ltd | USD | 200 | 7.625 | 2022/4/18 | 2.5 | Real Estate | -/BB-/BB+ (Lianhe Global) | -/BB-/BB+ (Lianhe Global) |
| 2019/10/10 | Industrial & Commercial Bank of China Ltd/Dubai DIFC | USD | 500 | 3ML+66 | 2022/10/17 | 3 | Banks | A1/A/A | -/A/- |
| 2019/10/10 | Industrial & Commercial Bank of China Ltd/Dubai DIFC | USD | 500 | 3ML+77 | 2024/10/17 | 5 | Banks | A1/A/A | -/A/- |
| 2019/10/10 | Shandong Shipping Corp | USD | 200 | 5.9 | 2022/10/17 | 3 | Industrials | -/-/- | -/-/- |
| 2019/10/10 | Yancheng High-tech Zone Investment Group Co Ltd | USD | 115 | 7.5 | 2020/10/13 | 364D | Chengtou | -/-/- | -/-/- |
| 2019/10/10 | Yancheng Oriental Investment & Development Group Co Ltd | USD | 360 | 7 | 2022/10/17 | 3 | Chengtou | -/-/BB-/BB+ (Lianhe Global) | -/-/BB-/BB+ (Lianhe Global) |
| 2019/10/11 | Industrial & Commercial Bank of China Ltd/Luxembourg | EUR | 30 | 0 | 2022/10/18 | 3 | Banks | A1/A/A | -/-/- |
| 2019/10/11 | Jiayuan International Group Ltd | USD | 200 | 13.75 | 2023/2/18 | 3.3 | Real Estate | B2/B/- | B3/-/- |

Sources: Bloomberg, CCX research

From October 8 to October 9, Tus-Holdings Co Ltd and Ronshine China Holdings Ltd announced tap bond offering.

Table 2 : Tap bond offering (20191007-20191011)

| Pricing date | Obligor | Currency | Amount (million) | Coupon (%) | Maturity | Tenor | Industry | Issuer Rating | Issue Rating |
|--------------|-----------------------------|----------|---------------------|------------|------------|-------|-------------|------------------------|-----------------------|
| 2019/10/8 | Tus-Holdings Co Ltd | USD | 400 (reoffered 50) | 7.95 | 2021/8/15 | 3 | Industrials | -/-/- | -/-/- |
| 2019/10/9 | Ronshine China Holdings Ltd | USD | 700 (reoffered 265) | 8.75 | 2022/10/25 | 3.5 | Real Estate | B1/B+/BB-/BB(Pengyuan) | B2/-/BB-/BB(Pengyuan) |

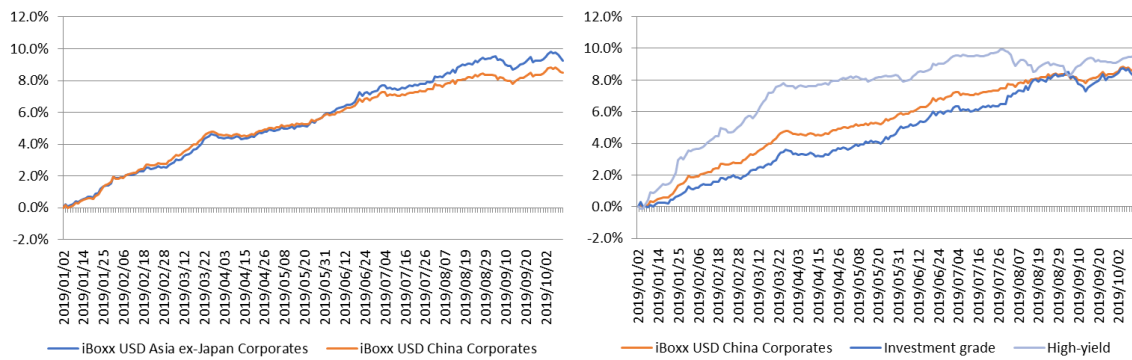
Sources: Bloomberg, CCX research

Recently, China Huarong Financial Leasing Co Ltd, China National Travel Service Group Corp Ltd and China Construction Bank Hong Kong Branch planned to issue offshore bonds.

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

As of October 11, the YTD return on Chinese USD corporate bond index dropped by 35bp over last week to 8.48%, of which investment grade bond index was 8.07%, decreasing by 69bp over last week, and high-yield bond index was 9.71%, increasing by 35bp 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 took positive rating actions to 5 Chinese issuers; and negative rating action to 4 Chinese issuers from October 7 to October 11.

Table 3 : Credit rating changes of cross-border bond market (20191007-20191011)

| | Entity | Sector | Latest Rating | | Date | Last Rating | | Rating Agency | Reason of Change | |
|------------------------------|--|------------------------|---------------|-----------------------|------------|---------------|-----------------------|---------------|------------------|---|
| | | | Entity Rating | Outlook | | Entity Rating | Outlook | | | |
| International Rating: | | | | | | | | | | |
| Upgrade | Zhuzhou City Construction Development Group Co Ltd | Chengtou | BBB- | STABLE | 2019/10/9 | BBB- | NEG | 2018/10/10 | Fitch | Higher expectation of Zhuzhou's ability to provide support |
| | New China Life Insurance Co Ltd | Financials | A2 | POS | 2019/10/10 | A2 | STABLE | 2019/2/18 | Moody's | Improvement in long-term profitability and capital generation |
| | Golden Eagle Retail Group Ltd | Consumer Discretionary | BB | POS | 2019/10/10 | BB | STABLE | 2018/4/12 | S&P | Steady cash flow and low debt leverage |
| | Greenland Holding Group Co Ltd | Real Estate | BB | POS | 2019/10/11 | BB | STABLE | 2018/9/27 | S&P | Better cash flow management |
| | Greenland Hong Kong Holdings Ltd | Real Estate | BB- | POS | 2019/10/11 | BB- | STABLE | 2018/9/27 | S&P | Better cash flow management |
| Downgrade | Seazen Holdings Co Ltd, Future Land Development Holdings Ltd | Real Estate | Ba2 | NEG | 2019/10/9 | Ba2 | Rating Watch Negative | 2019/7/15 | Moody's | Risks in operations and funding access |
| | Hangzhou Hikvision Digital Technology Co Ltd | Technology | A- | Rating Watch Negative | 2019/10/9 | A- | STABLE | 2018/11/27 | S&P | US trade restriction |
| | Shandong Ruyi Technology Group Co Ltd | Consumer Discretionary | B3 | Rating Watch Negative | 2019/10/10 | B2 | NEG | 2019/7/12 | Moody's | Weak liquidity and elevating leverage |

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: SMIC issued a new SCP this week

As of October 11, there were 16 issuers that issued 28 Panda Bonds in 2019, with a total issuance amount of RMB 42.54 billion, and an average coupon of 3.63%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

On October 11, Semiconductor Manufacturing International Corp. (“SMIC”) issued RMB 1.5 billion Super & Short-term Commercial Paper (“SCP”) in Interbank Market, with a tenor of 75 days at a coupon rate of 2.50%. China Chengxin assigned a credit rating of AAA to SMIC.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20191004)

| Issuer | Amount (RMB billion) | Coupon (%) | Issue date | Maturity | Tenor | Bond Type | Issue Market | Local Rating Agency |
|---|----------------------|------------|------------|------------|-------|----------------------------------|-------------------------|----------------------------------|
| Semiconductor Manufacturing International Corp. | 1.5 | 2.50 | 2019/10/11 | 2019/12/25 | 0.21 | SCP | China Interbank Market | China Chengxin |
| 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 | China Interbank | China |

| | | | | | | Institutional Bond | Market | Chengxin/ Lianhe China Chengxin/ Lianhe |
|--|-----|------|-----------|-----------|----|-------------------------------------|----------------------------|---|
| New Development Bank | 1 | 3.32 | 2019/2/26 | 2024/2/26 | 5 | International Institutional Bond | China Interbank Market | 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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