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From October 21 to October 25

EU agrees three-month Brexit “flexextension”; China Government Bond and US Treasury yields rose

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Date: October 31, 2019

Headline: EU agrees three-month Brexit “flexextension”

On October 22, the House of Commons passed Mr Johnson’s Brexit bill, but rejected his three-day Brexit legislation timetable. That said UK will fail to meet the original Brexit deadline (October 31). On October 28, Donald Tusk, the EU council president, announced that EU27 leaders approved a “flexextension” for 3 months until January 31 in 2020.

Exchange Rate: Onshore and offshore RMB exchange rate declined

Both onshore and offshore RMB exchange rate fell from the highs in this round of adjustment, closing at 7.0716 and 7.0511 respectively.

Interest Rate: China Government Bond and US Treasury yields rose

Given trade war optimism, risk appetite was back which lifted both Chinese Government Bond and US Treasury yields. As of October 25, the yield spread between China and US 10-year note was 144.3bp, widening by 1.0bp from last Friday and by 89.0bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: New issuance remained active, real estate and Chengtou companies were the key issuers**

From October 21 to October 25, there were 19 new issues with a total issued volume of USD 4.4 billion. Real estate and Chengtou companies were the key issuers.

Secondary Market: Returns on investment grade dropped, while returns on high yield bonds rose

As of October 25, the YTD return on Chinese USD corporate bond index increased by 12bp over last week to 8.90%, of which investment grade bond index was 8.26%, decreasing by 5bp over last week, and high-yield bond index was 10.61%, increasing by 47bp over the same period.

Panda Bond Market: BMW Finance issued 2 new PPNs this week

On October 21, BMW Finance issued 2 new PPNs in the interbank market, including RMB 2 billion 1-year PPN at a coupon rate of 3.37% and RMB 1 billion 2-year PPN at a coupon rate of 3.57%. CCXI assigned AAA issuer rating to BMW Finance.

Headline: EU agrees three-month Brexit “flexextension”

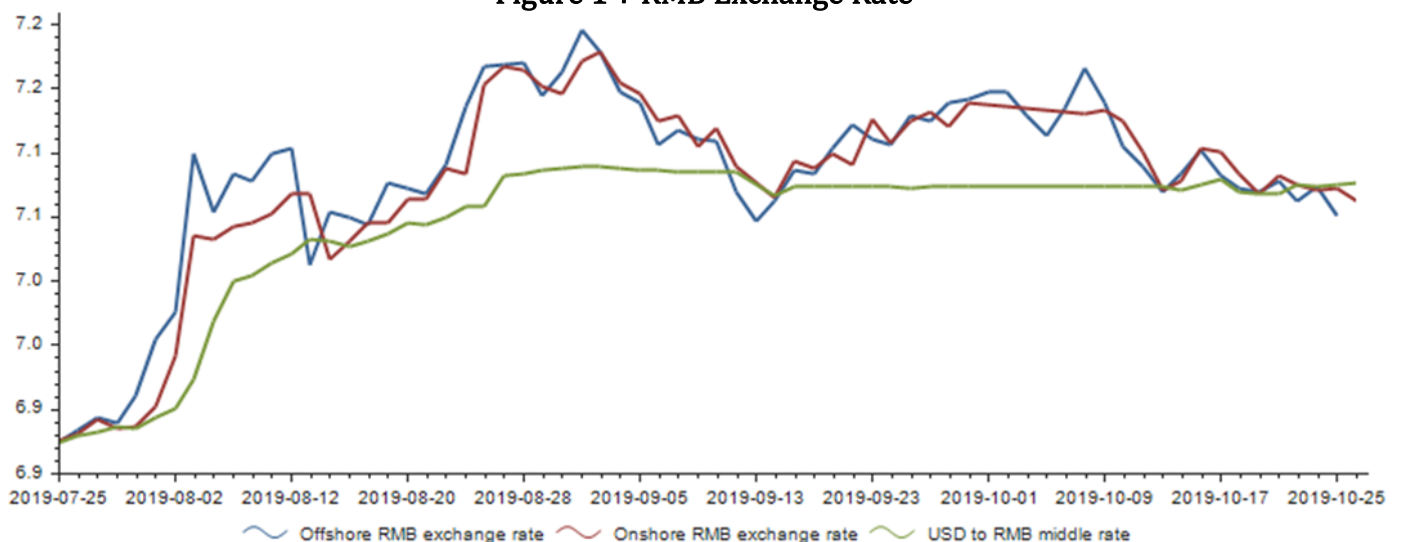
On October 22, the House of Commons passed Mr Johnson’s Brexit bill at 2nd reading by 329 votes to 299, but rejected his three-day Brexit legislation timetable. That said UK will fail to meet the original Brexit deadline (October 31). On October 28, Donald Tusk, the EU council president, announced that EU27 leaders approved a “flexextension” for 3 months until January 31 in 2020. After UK agrees to the extension, the EU expects to complete its own written sign-off within 24 hours. “Flexextension” means that the UK can leave as soon as the Parliament and European Parliament have ratified the new Brexit deal.

To break Brexit deadlock, British Prime Minister Boris Johnson asks to held a general election on December 12, aiming to secure a parliamentary majority. On October 28, however, Mr Johnson failed in third attempt to call early general election.

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 25, the intermediate price of the RMB exchange rate closed at 7.0749, a slight increase from last Friday. Onshore and offshore RMB exchange rate fell by 109bp and 210 bp from last Friday, closing at 7.0716 and 7.0511, respectively. Since September, the onshore and offshore RMB exchange rates have fallen from the highs in the current round of adjustment. The intermediate price is more stable than the onshore and offshore RMB. The intermediate rate plays the role of exchange rate stabilizer, which represents that the countercyclical adjustment of RMB exchange rate is strengthened. The dollar index has been weak recently due to a hike in the euro and sluggish US economic data.

Figure 1 : RMB Exchange Rate

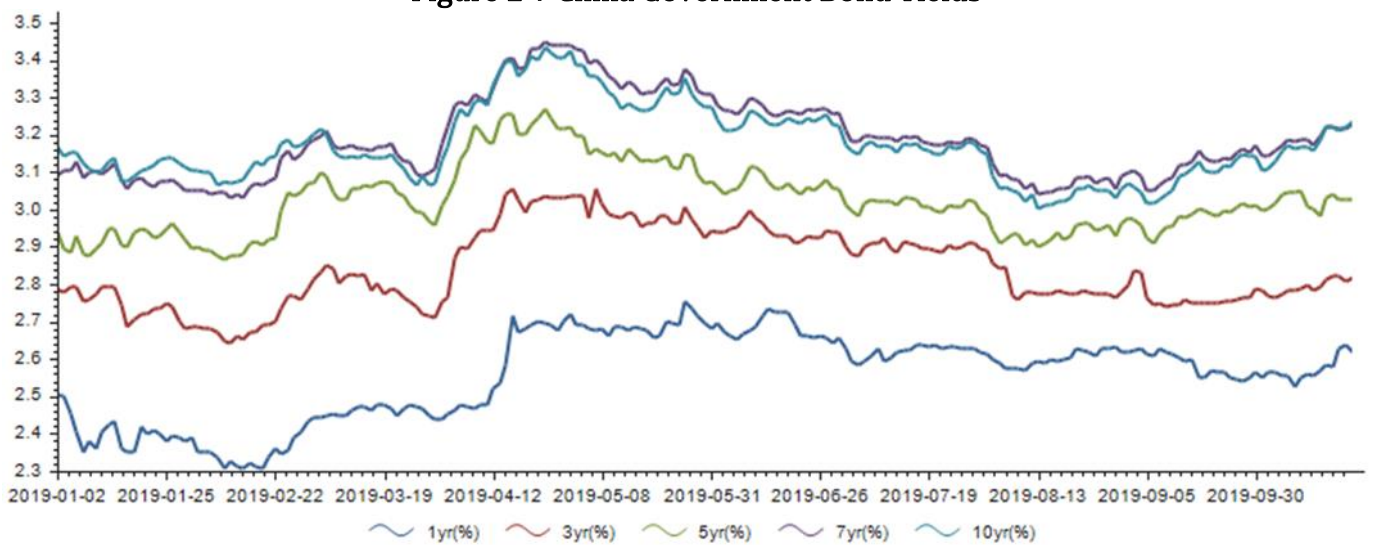


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond and US Treasury yields rose

During the week, the easing of China-US trade frictions and recovery of economic data led to the hike of risk asset prices. The yields of China Government Bonds were on the rise. The domestic economy growth met the expected target. Although the data of the third quarter was weak as a whole, there were signs of recovery in September with stronger infrastructure investment, and industrial and manufacturing production showed preliminary signs of stabilization. After the reduction of the reserve ratio, the central bank released a steady and neutral monetary policy signal to the market, breaking the expectation of further easing of monetary policy. As of October 25, the maturity yields of 1-year, 3-year, 5-year, 7-year and 10-year Government Bonds rose from last Friday, closing at 2.6204%, 2.8152%, 3.0273%, 3.2309% and 3.2372%, respectively.

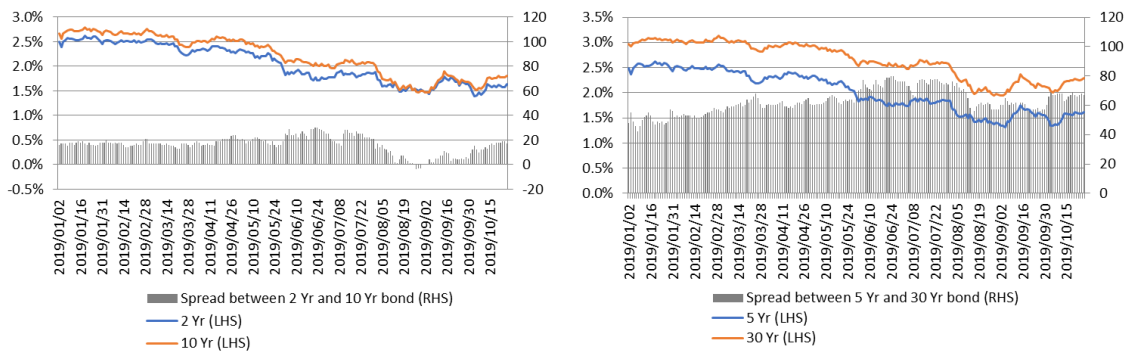
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

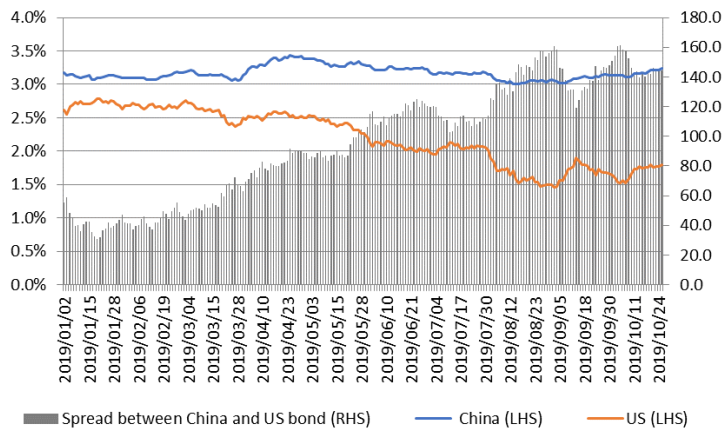
Investors expected that the Fed would not cut interest rate aggressively during the rest of 2019, as US and China are close to finalize "Phase 1" trade agreement, which lifted US Treasury yields. As of October 25, the 2-year, 5-year, 10-year and 30-year Treasury yields closed at 1.63%, 1.62%, 1.80% and 2.29%, increasing by 5bp, 6bp, 4bp and 4bp over last Friday. In terms of Treasury yield spreads, the spread between the 2-year and 10-year narrowed by 1bp to 17bp from last Friday, while the spread between the 5-year and 30-year narrowed by 2bp to 67bp from last Friday. As of October 25, the yield spread between China and US 10-year note was 144.3bp, widening by 1.0bp from last Friday and by 89.0bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

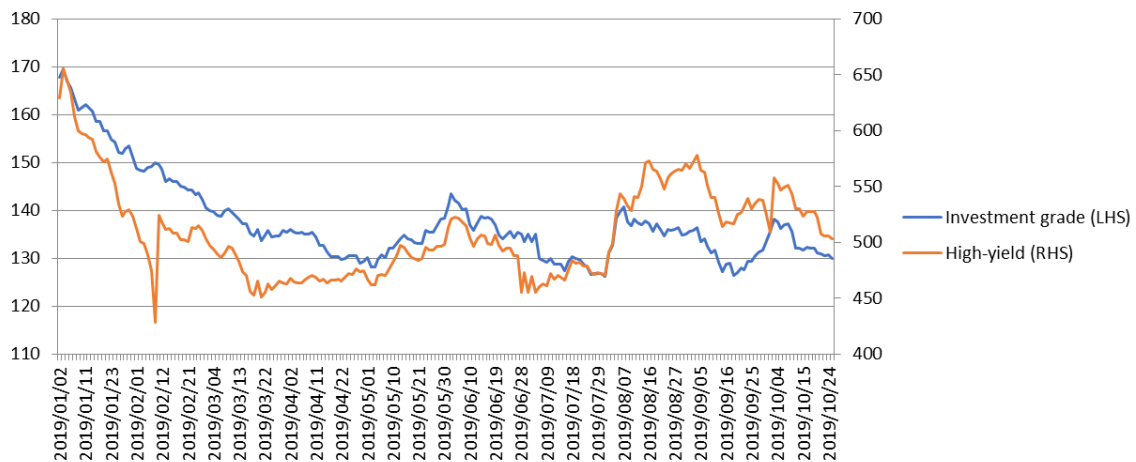
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond tightened. As of October 18, investment-grade bond spreads narrowed slightly by 2.2bp to 130bp from last week, and high-yield spreads narrowed by 24.6bp to 503bp 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 remained active, real estate and Chengtou companies were the key issuers

From October 21 to October 25, there were 19 new issues with a total issued volume of USD 4.4 billion. Real estate and Chengtou companies were the key issuers.

Table 1 : New issuance of Chinese offshore bonds (20191021-20191025)

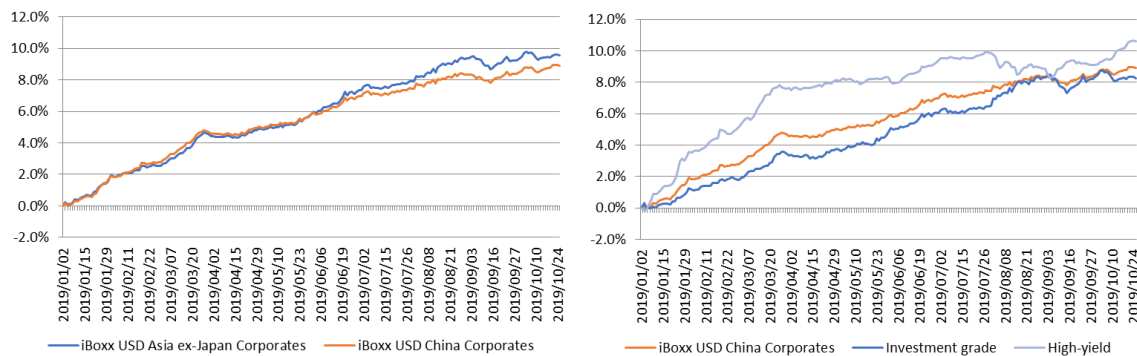
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2019/10/21	Bank of Communications Financial Leasing Co Ltd	USD	180	3ML+105	2022/10/25	3	Financials	A2/A-/A	-/-/A
2019/10/21	China Grand Automotive Services Group Co Ltd	USD	83	8.885	2021/7/25	1.75	Consumer Discretionary	B1/-/BB-	B1/-/BB-e
2019/10/21	China Grand Automotive Services Group Co Ltd	USD	78	8.625	2022/4/8	2.45	Consumer Discretionary	B1/-/BB-	-/-/BB-e
2019/10/21	China Huarong Financial Leasing Co Ltd	USD	300	3.25	2020/10/25	363D	Financials	-/BBB+/A-	-/-/-
2019/10/21	China Huarong Financial Leasing Co Ltd	USD	122	3ML+140	2020/10/22	364D	Financials	-/BBB+/A-	-/-/-
2019/10/21	Jiangsu Zhongguancun Holding Group International Co Ltd	USD	300	6.5	2022/10/28	3	Chengtou	-/-/-	-/-/-
2019/10/21	Nanjing Pukou Economic Development Co Ltd	USD	300	5.65	2022/10/28	3	Chengtou	Ba2/-/BB	Ba2/-/-
2019/10/22	Power Construction Corp of China Ltd	USD	300	3.55	-	Perpetual	Industrials	Baa1/BBB+/BBB+	Baa1/-/-
2019/10/23	China Huarong Financial Leasing Co Ltd	HKD	630	3	2020/10/27	365D	Financials	-/BBB+/A-	-/-/-
2019/10/23	Mianyang Investment Holding Group Co Ltd	USD	300	5.95	2022/10/30	3	Chengtou	-/-/BB	-/-/BB
2019/10/23	Rugao City Economic Trade Development Co	USD	150	6	2022/10/28	3	Chengtou	-/-/-	-/-/-
2019/10/23	Shanghai Huayi Group Co	USD	350	3	2024/10/30	5	Materials	Baa3/BBB/BBB-	Baa3/BBB/BBB-e
2019/10/23	Yuzhou Properties Co Ltd	USD	500	8.375	2024/10/30	5	Real Estate	Ba3/BB-/BB-/BB (Lianhe Global)	B1/-/BB-/BB (Lianhe Global)
2019/10/24	Agile Group Holdings Ltd	USD	500	7.875	-	Perpetual	Real Estate	Ba2/BB/-	Ba3/-/-
2019/10/24	China National Nuclear Power Co Ltd	CNY	1,000	3.97	2022/11/1	3	Utilities	-/-/-	-/-/-
2019/10/24	Radiance Group Co Ltd	USD	250	11.75	2021/10/31	2	Real Estate	-/B/B/BB- (Lianhe Global)	-/-/B/BB- (Lianhe Global)
2019/10/24	Shanghai Pudong Development Bank Co Ltd/London	USD	300	3ML+70	2022/10/29	3	Banks	Baa2/BBB/BBB	-/BBB/-
2019/10/25	Redsun Properties Group Ltd	USD	100	13	2021/10/30	2	Real Estate	-/B/B+/BB- (Lianhe Global)	-/-/B+e
2019/10/25	Chengdu Xiangcheng Investment Group Co Ltd	EUR	90	5.1	2020/10/29	364D	Industrials	-/-/-	-/-/-

Sources: Bloomberg, CCX research

Secondary Market: Returns on investment grade dropped, while returns on high yield bonds rose

As of October 25, the YTD return on Chinese USD corporate bond index increased by 12bp over last week to 8.90%, of which investment grade bond index was 8.26%, decreasing by 5bp over last week, and high-yield bond index was 10.61%, increasing by 47bp 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 on 1 Chinese issuers; and negative rating action on 2 Chinese issuers from October 21 to October 25.

Table 3 : Credit rating changes of cross-border bond market (20191021-20191025)

	Entity	Sector	Entity Rating	Latest Rating		Entity Rating	Last Rating		Rating Agency	Reason of Change
				Outlook	Date		Outlook	Date		
International Rating:										
Upgrade	Yingde Gases Group Co Ltd	Materials	BB	STABLE	2019/10/21	BB-	STABLE	2018/10/23	Fitch	Accelerating improvement in business mix and financial metrics
Downgrade	Guangyang Antai Holdings Ltd	Financials	B	STABLE	2019/10/22	B+	STABLE	2019/3/1	S&P	Tight liquidity position and high debt-to-EBITDA ratio
	Beijing Capital Land Ltd	Real Estate	BB	STABLE	2019/10/23	BB+	STABLE	2018/10/26	Fitch	The parent's and the company's standalone credit profile weakened

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: BMW Finance issued 2 new PPNs this week

On October 21, BMW Finance N.V. (“BMW Finance”) issued 2 new PPNs in the Interbank Market, including RMB 2 billion 1-year PPN at a coupon rate of 3.37% and RMB 1 billion 2-year PPN at a coupon rate of 3.57%. CCXI assigned AAA issuer rating to BMW Finance. BMW Finance has raised a total of RMB 9.5 billion through 5 PPNs in the Panda Bond market, at an average coupon rate of 3.64% since 2019.

As of October 25, there were 17 issuers that issued 31 Panda Bonds in 2019, with a total issuance amount of RMB 48.34 billion and an average coupon of 3.60%. These bonds were mostly issued in the Interbank Market and with tenor mainly on 3 years.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20191025)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
BMW Finance N.V.	2	3.37	2019/10/21	2020/10/21	1	PPN	China Interbank Market	China Chengxin
BMW Finance N.V.	1	3.57	2019/10/21	2021/10/21	2	PPN	China Interbank Market	China Chengxin
China Traditional Chinese Medicine Holdings Co., Ltd.	0.5	2.80	2019/10/14	2020/7/9	0.74	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	2	3.55	2019/10/11	2019/12/25	3	MTN	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
BMW Finance N.V.	1.5	3.30	2019/7/12	2020/7/12	1	PPN	China Interbank Market	China Chengxin
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
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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