

## 2019 Issue 49

From December 23 to December 27

## Trilateral Summit released positive signals; China and US Treasury yields dropped

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Date: January 3, 2020

**Headline: China–Japan–South Korea Trilateral Summit released positive signals**

On December 24, the leaders of China, Japan, and Republic of Korea held the 8th Trilateral Summit in Chengdu, China. The Trilateral Cooperation Vision for the Next Decade reaffirmed the commitment to sign RCEP agreement. It also stated that the negotiations on the Trilateral Free Trade Agreement would be speeded up and closer cooperation would be carried out to achieve the denuclearization in the Korean Peninsula. At the same time, the leaders of Japan and South Korea had discussions in the issues, such as the restoration of bilateral relations, in the summit. This suggests that the trade friction between Japan and South Korea, which has lasted for nearly half a year, showed signs of easing.

**Exchange Rate: RMB exchange rate declined**

During this week, the RMB exchange rate fluctuated with a downward trend. The intermediate price, onshore and offshore RMB exchange rate all fell below the threshold of 7.

**Interest Rate: China and US Treasury yields dropped**

China Government Bond yields dropped driven by market easing sentiment. The number of initial jobless claims announced last week was slightly worse than expected, coupled with the light market trading volume during the Christmas holiday. As a result, US Treasury yields dropped slightly. As of December 27, the yield spread between China and US 10-year note was 125.4bp, narrowing by 1.0bp from last Friday but widening by 70.1bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: Affected by Christmas holiday, new issuance was relatively low**

Affected by the Christmas holiday, there was a relatively low new issuance in the Chinese offshore bond market. From December 23 to December 27, there were 2 new issues with a total issued volume of USD0.4 billion.

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

As of December 27, the YTD return on Chinese USD corporate bond index rose by 22bp over last week to 9.88%, of which investment grade bond index was 9.13% and high-yield bond index was 11.82%, increasing by 22bp and 23bp over last week, respectively.

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

## Headline: China–Japan–South Korea Trilateral Summit released positive signals

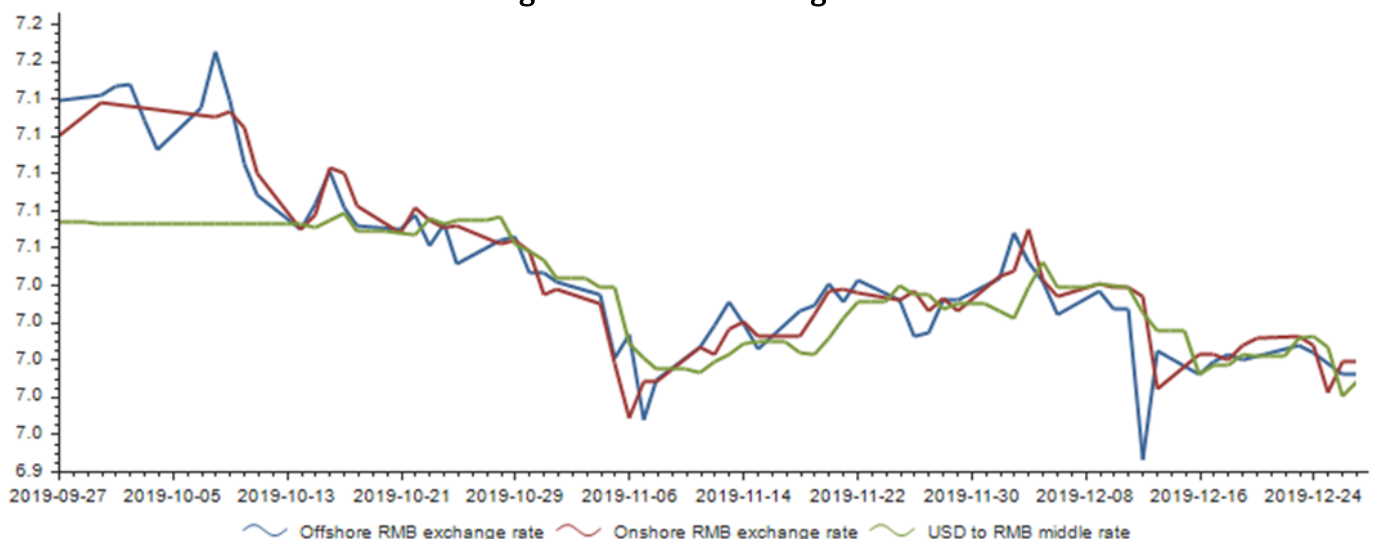
On December 24, the leaders of China, Japan, and Republic of Korea held the 8<sup>th</sup> Trilateral Summit in Chengdu, China. The Trilateral Cooperation Vision for the Next Decade released after the meeting has affirmed the next-step of trilateral cooperation. Firstly, the document reaffirmed that China, Japan and Republic of Korea would promote the signing of the Regional Comprehensive Economic Partnership (“RCEP”) in 2020 as scheduled in 2019 ASEAN Summit. The document also stated that the three countries would speed up in the negotiations on the Trilateral Free Trade Agreement, have a closer cooperation on the denuclearization of the Korean Peninsula, and make a joint effort to tackle issues such as marine plastic litter and ageing population. The first Trilateral Summit was held in 1999. As this year marks the 20<sup>th</sup> anniversary of cooperation, the three countries chart a blueprint for cooperation in the next 10 year.

During the Summit, Chinese Premier Li Keqiang held talks with Japanese Prime Minister Shinzo Abe, and Li expressed that China is willing to open up its service sector. President of the Republic of Korea Moon Jae-in and Prime Minister of Japan Shinzo Abe had discussions in the issues, such as the restoration of bilateral relations, in the summit. This suggests that the trade friction between Japan and South Korea, which has lasted for nearly half a year, showed signs of easing.

## Exchange Rate: RMB exchange rate declined

During this week, the RMB exchange rate fluctuated with a downward trend. The intermediate price, onshore and offshore RMB exchange rate all fell below the threshold of 7. As of December 27, the intermediate price of the RMB exchange rate closed at 6.9879, down 141bp from last Friday. Onshore and offshore RMB exchange rate declined by 123bp and 97bp, closing at 6.9992 and 6.9918, respectively. It is expected that the RMB exchange rate will continue to fluctuate within a wider range recently.

Figure 1 : RMB Exchange Rate

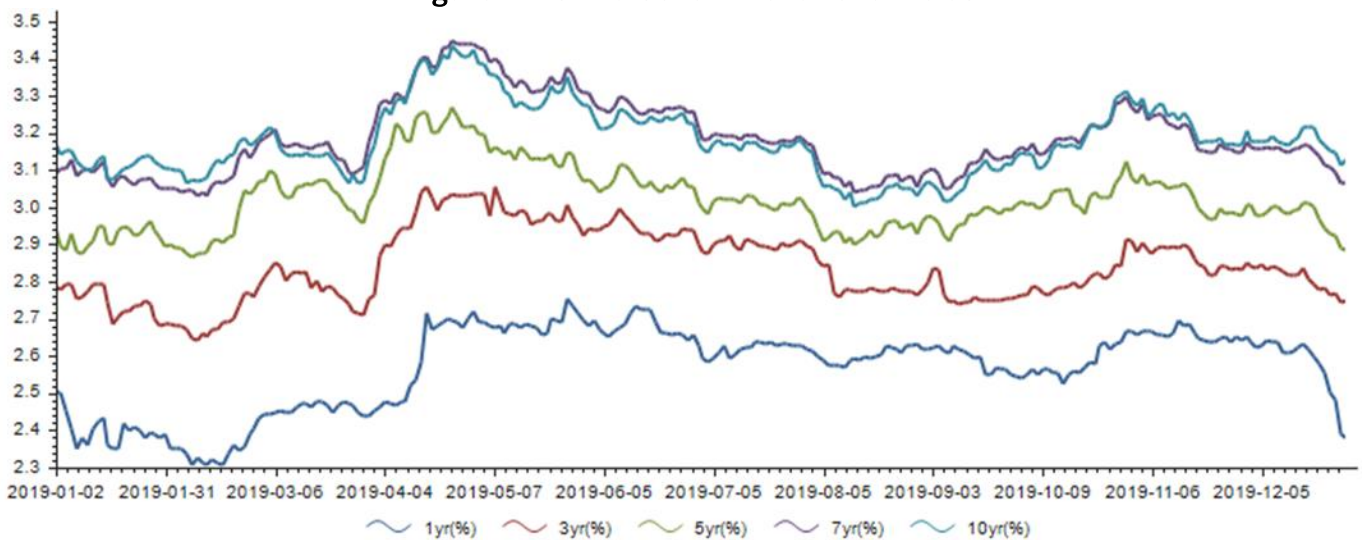


Sources: Eastmoney, CCX research

## Interest Rate: China and US Treasury yields dropped

During the week, affected by the market easing sentiment, the China Government Bond yields revealed a downward trend. As of December 27, the 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yields declined from last Friday, closing at 2.3788%, 2.7486%, 2.8851%, 3.0663% and 3.1292%, respectively. The central bank has launched open market operations for several consecutive days, which shows the intention to ensure market liquidity. In the next stage, the policy goal is expected to reduce social financing cost put forward by the Central Economic Working Conference. The signal of policy and market expectation indicate that rate cut is on the way.

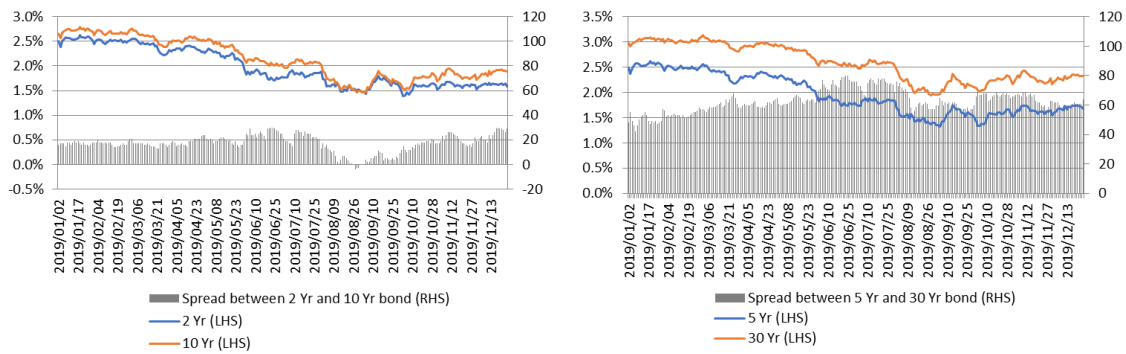
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

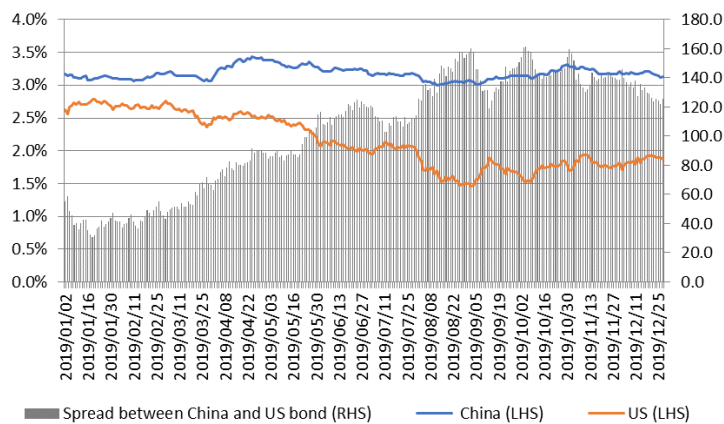
The number of initial jobless claims announced last week was slightly worse than expected, coupled with the thin market trading during this week, US Treasury yields dropped slightly. As of December 27, the 2-year, 5-year, 10-year and 30-year Treasury yields closed at 1.59%, 1.68%, 1.88% and 2.32%, decreasing by 4bp, 5bp, 4bp and 2bp over last Friday. In terms of Treasury yield spreads, the spread between the 2-year and 10-year was stable at 29bp, while the spread between the 5-year and 30-year widened by 3bp to 64bp from last Friday. As of December 27, the yield spread between China and US 10-year note was 125.4bp, narrowing by 1.0bp from last Friday but widening by 70.1bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

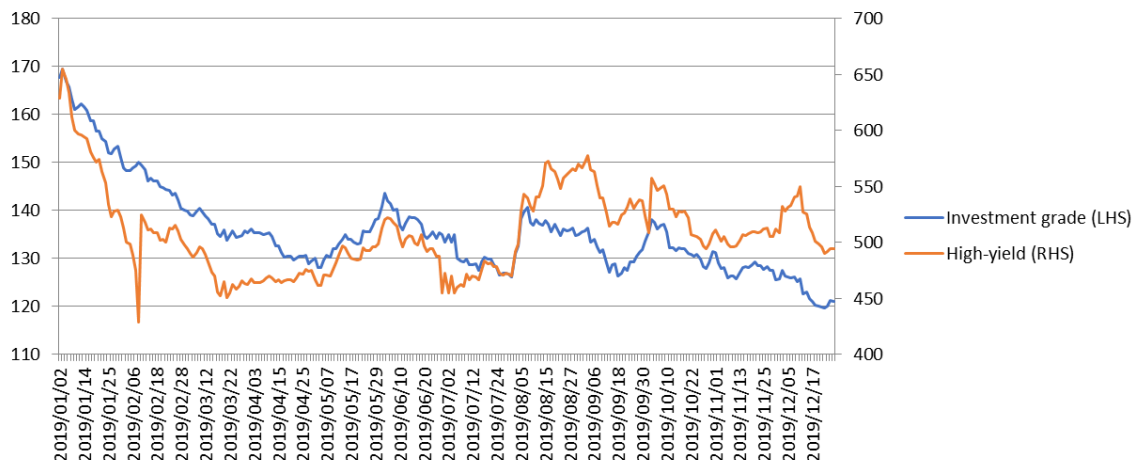
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond was relatively stable. As of December 27, investment-grade bond spreads widened by 1.2bp to 121bp from last week, and high-yield spreads narrowed by 1.2bp to 494bp 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: Affected by Christmas holiday, new issuance was relatively low

Affected by the Christmas holiday, there was a relatively low new issuance in the Chinese offshore bond market. From December 23 to December 27, there were 2 new issues with a total issued volume of USD0.4 billion.

**Table 1 : New issuance of Chinese offshore bonds (20191223-20191227)**

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2019/12/23	Zhengzhou Zhongrui Industrial Group Co Ltd	USD	70	12	2022/1/2	2	Financials	B3/-/-	-/-/-
2019/12/23	Industrial Securities (Hong Kong) Financial Holdings Limited	USD	295	2.9	2022/12/30	3	Financials	-/-/-	A1/-/-

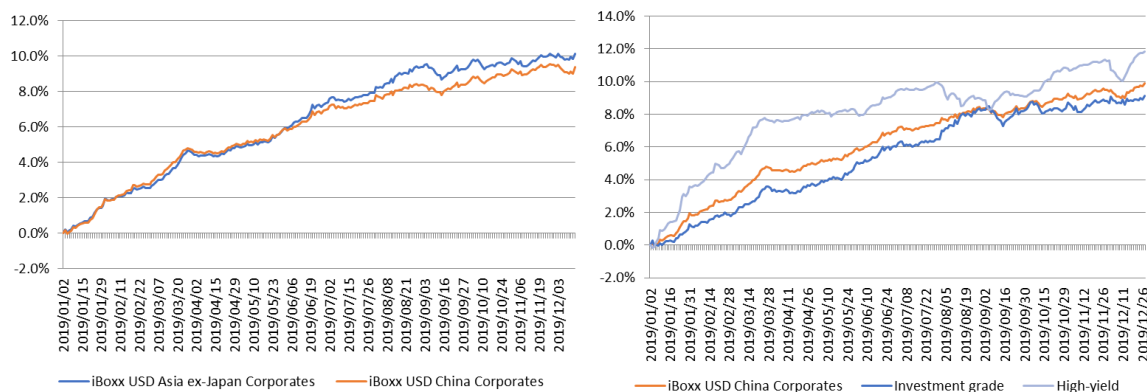
Sources: Bloomberg, CCX research

Recently, Shandong Iron & Steel Group Co Ltd planned to issue offshore bonds.

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

As of December 27, the YTD return on Chinese USD corporate bond index rose by 22bp over last week to 9.88%, of which investment grade bond index was 9.13% and high-yield bond index was 11.82%, increasing by 22bp and 23bp over last week, respectively.

**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 issuer; and negative rating action on 3 Chinese issuers from December 23 to December 27.

**Table 2 : Credit rating changes of cross-border bond market (20191223-20191227)**

	Entity	Sector	Entity Rating	Latest Rating		Entity Rating	Last Rating		Rating Agency	Reason of Change
				Outlook	Date		Outlook	Date		
<b>International Rating:</b>										
Upgrade	Pactera Technology International Ltd	Technology	CCC+	Rating Watch Positive	2019/12/23	CCC+	NEG	2018/2/13	S&P	Potential acquisition by China Electronics Corp.
Downgrade	Tianqi Lithium Corporation	Materials	B1	NEG	2019/12/23	Ba3	NEG	2019/9/4	Moody's	Smaller-than-expected proceeds from rights issue
	China Orient Asset Management Co Ltd	Financials	BBB+	STABLE	2019/12/26	BBB+	POS	2018/12/11	S&P	Leverage for its core distressed asset management unit is likely to remain at a moderate level
	Dongxing Securities Co Ltd	Financials	BBB	STABLE	2019/12/26	BBB	POS	2019/7/10	S&P	Leverage for its core distressed asset management unit is likely to remain at a moderate level

Sources: Bloomberg, Wind, CCX research

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

As of December 27, there were 21 issuers that issued 39 Panda Bonds in 2019, with a total issuance amount of RMB58.34 billion and an average coupon of 3.68%. These bonds were mostly issued in the Interbank Market and with tenor mainly on 3 years.

**Table 3 : New issuance of Panda Bond in 2019 (20190101-20191227)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Veolia Environment Group	0.75	3.70	2019/12/17	2020/12/17	1	PPN	China Interbank Market	China Chengxin
Veolia Environment Group	0.75	3.70	2019/12/17	2020/12/17	1	PPN	China Interbank Market	China Chengxin
Beijing Enterprises Clean Energy Group Limited	0.5	5.99	2019/12/6	2022/12/6	3	Corporate Bond	Shenzhen Stock Exchange	Lianhe
Crédit Agricole S.A.	1	3.40	2019/12/5	2022/12/5	3	Financial Bond	China Interbank Market	China Chengxin
Yuexiu Transport Infrastructure Limited	1	3.58	2019/12/2	2022/12/2	3	MTN	China Interbank Market	China Chengxin
China Mengniu Dairy Co. Ltd	1	3.67	2019/11/22	2022/11/22	3	MTN	China Interbank Market	China Chengxin
Daimler AG	2	3.68	2019/11/13	2021/11/13	2	PPN	China Interbank Market	China Bond Rating
Daimler AG	3	4.04	2019/11/13	2022/11/13	3	PPN	China Interbank Market	China Bond Rating
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.	2.8	3.19	2019/10/14	2020/7/9	0.74	SCP	China Interbank Market	China Chengxin

Semiconductor Manufacturing International Corp.	1.5	2.50	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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