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Authors

CCXI Overseas Business Department

Mia Zhu 010-66428877-570

llzhu@ccxi.com.cn

Lina Wang 010-66428877-451

jlwang@ccxi.com.cn

CCXAP

Na Yu 852-28607123

na_yu@ccxap.com

Jacky Lau 852-28607125

jacky_lau@ccxap.com

Other

Rong Tian 852-28607119

rong_tian@ccxap.com

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CCXI & CCXAP

Cross-border Bonds Weekly Report

Tension between the US and Iran escalated; US Treasury yields slid

Headline: Conflict between the US and Iran heightened the geo-political risk in Middle East

On January 3, the US killed Qassem Soleimani, the head of Iran's elite Quds Force, in an airstrike at Baghdad's international airport. Iran vowed to retaliate the US and abandon the 2015 nuclear deal. Conflict between the US and Iran lifted the geo-political risk in Middle East. Global stock market dropped while the risk-averse mode raised the crude and gold price.

Exchange Rate: RMB exchange rate declined

During this week, the RMB exchange rate fluctuated with a downward trend. As of January 3, the intermediate price of the RMB exchange rate closed at 6.9681.

Interest Rate: China Government Bond yields rebounded; US Treasury yields slid

This week, the People's Bank of China cut the reserve rate, within market expectation. The seesaw effect between the stock and bond markets dragged down the bond price, while the China Government Bond yields rebounded. The relatively weak ISM manufacturing PMI and escalating tension between the US and Iran decreased US Treasury yields. As of January 3, the yield spread between China and US 10-year note was 135.5bp, widening by 10.1bp from last Friday and 80.2bp from the beginning of 2019.

Chinese Offshore Bond Market

Primary Market: New issuance was relatively small due to the New Year holiday

There was a relatively low new issuance in the Chinese offshore bond market due to the New Year holiday. From December 30, 2019 to January 3, 2020, there were 5 new issues with a total issued volume of USD434 million.

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

As of January 3, 2020, the return on Chinese USD corporate bond index since 2019 rose by 61bp over last week to 10.5%, of which investment grade bond index was 9.57% and high-yield bond index was 12.81%, increasing by 43bp and 99bp over last week, respectively.

Rating Action: CCXAP assigns first-time BBBg+ long-term credit rating to SRIHG, with stable outlook; assigns first-time BBg+ long-term credit to Huafa, with stable outlook

Panda Bond Market: No new issuance this week

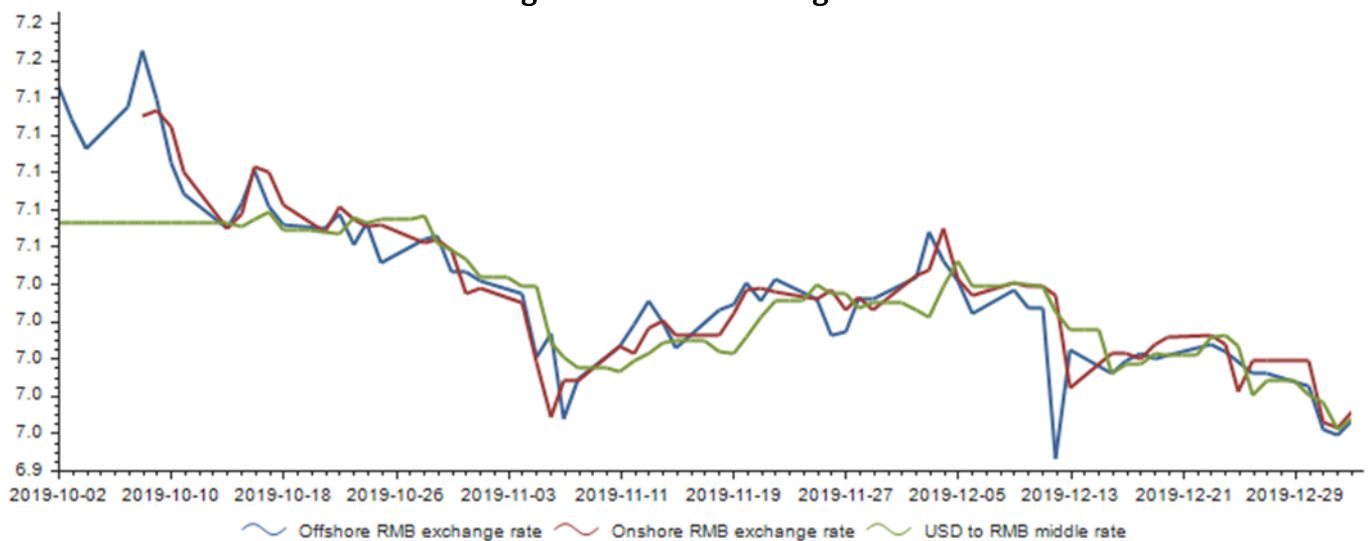
Headline: Conflict between the US and Iran heightened the geo-political risk in Middle East

On January 3, the US killed Qassem Soleimani, the head of Iran’s elite Quds Force, in an airstrike at Baghdad’s international airport. Ali Khamenei, Iran’s supreme leader, vowed to take revenge. Iran claimed she could close the Strait of Hormuz, and listed 53 US targets for retaliatory strikes. Later, a number of rockets were fired into the US embassy in Baghdad and military bases, and some of the US government’s websites were hacked by Iran Cyber Security Group Hackers. Hence, US sent about 3,500 additional troops to Middle East. President Trump warned Iran that the US identified 52 targets, some at a very high level and important to Iran and the Iranian culture, that it would “hit vert fast and very hard”. On January 5, 3 Americans killed in attack on Kenyan airfield by the terrorist organization al-Shabab. On the same day, Iran announced to abandon the 2015 nuclear deal. That said Iran would no longer abide by uranium enrichment limits. Conflict between the US and Iran heightened the geo-political risk in Middle East. Global stock market dropped while the risk-averse mode raised the crude and gold price.

Exchange Rate: RMB exchange rate declined

During this week, the RMB exchange rate fluctuated with a downward trend. As of January 3, the intermediate price of the RMB exchange rate closed at 6.9681, down 198bp from last Friday. Onshore and offshore RMB exchange rate declined 276bp and 251bp, closing at 6.9716 and 6.9667, respectively. It is expected that the RMB exchange rate will continue to fluctuate within a wider range recently.

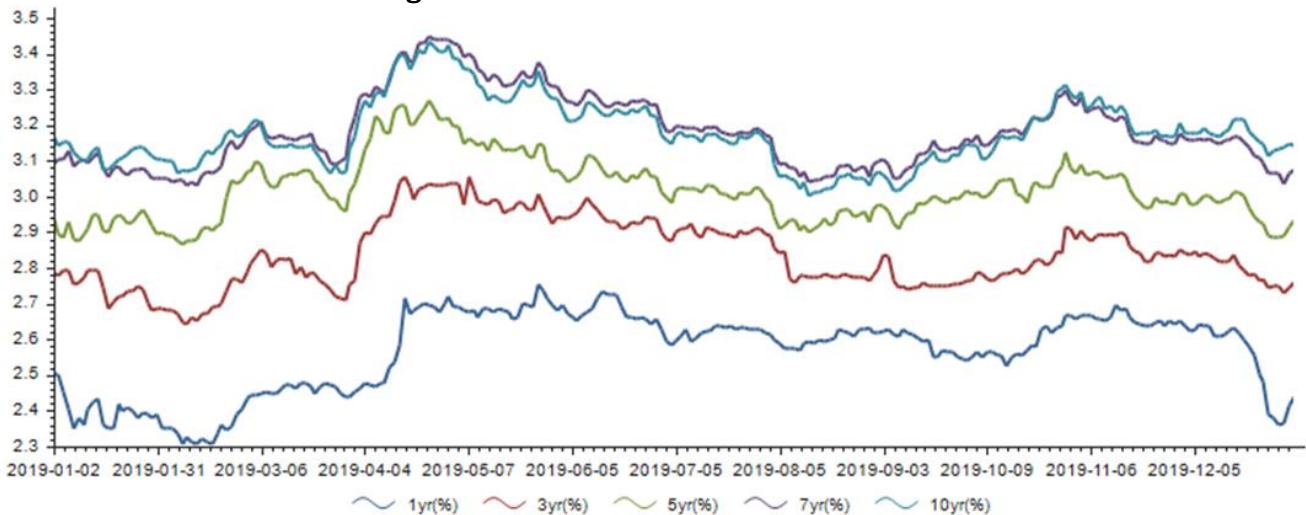
Figure 1 : RMB Exchange Rate



Interest Rate: China Government Bonds yields rebounded; US Treasury yields slid

This week, the People's Bank of China decided to cut the reserve requirement ratio by 0.5 percentage point to inject RMB800 billion into the market. The stock market reacted more actively against the news. The seesaw effect between the stock and bond markets dragged down the bond price, and the Government Bond yields rebounded. As of January 3, the 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yield rebounded from last Friday, closing at 2.4359%, 2.7595%, 2.9353%, 3.0753% and 3.1428% respectively. In 2019, the Government Bond yield as a whole saw a small increase, which was far less than that of 2018.

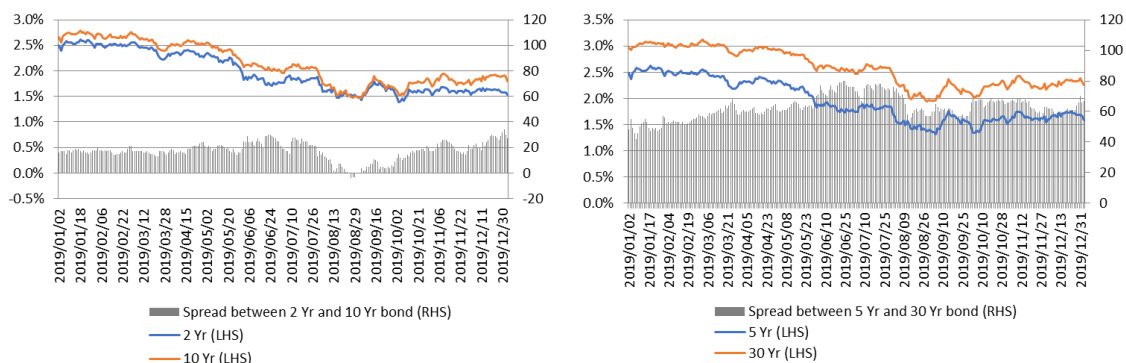
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

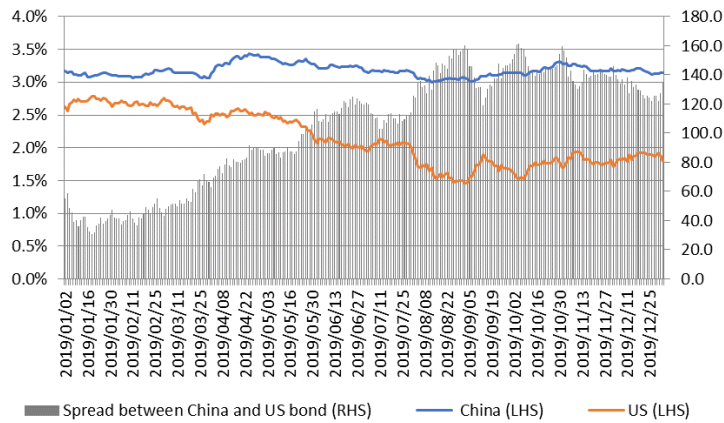
Weak US ISM Manufacturing PMI came in at 47.2 for December, lower than the market expectation of 49.0, or November's 48.1. In addition, traders moved capital into "safe-heaven" assets due to the escalating tension between the US and Iran. As a result, US Treasury yields dropped. As of January 3, the 2-year, 5-year, 10-year and 30-year Treasury yields closed at 1.53%, 1.59%, 1.80% and 2.26%, decreasing by 6bp, 9bp, 8bp and 6bp over last Friday. In terms of Treasury yield spreads, the spread between the 2-year and 10-year narrowed by 2bp to 27bp from last Friday, while the spread between the 5-year and 30-year widened by 3bp to 67bp from last Friday. As of January 3, the yield spread between China and US 10-year note was 135.5bp, widening by 10.1bp from last Friday and 80.2bp from the beginning of 2019.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

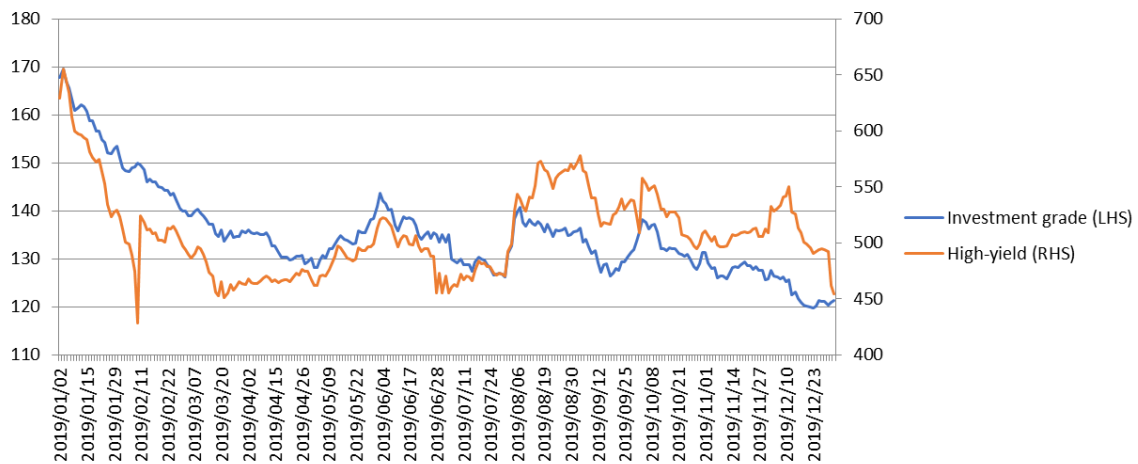
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond was relatively stable while the spread of high-yield bond decreased. As of January 3, investment-grade bond spreads rose by 0.1bp to 121bp from last week, and high-yield spreads decreased by 40.5bp to 454bp 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 was relatively small due to the New Year holiday

There was a relatively low new issuance in the Chinese offshore bond market due to the New Year holiday. From December 30, 2019 to January 3, 2020, there were 5 new issues with a total issued volume of USD434 million.

Table 1 : New issuance of Chinese offshore bonds (20191230-20200103)

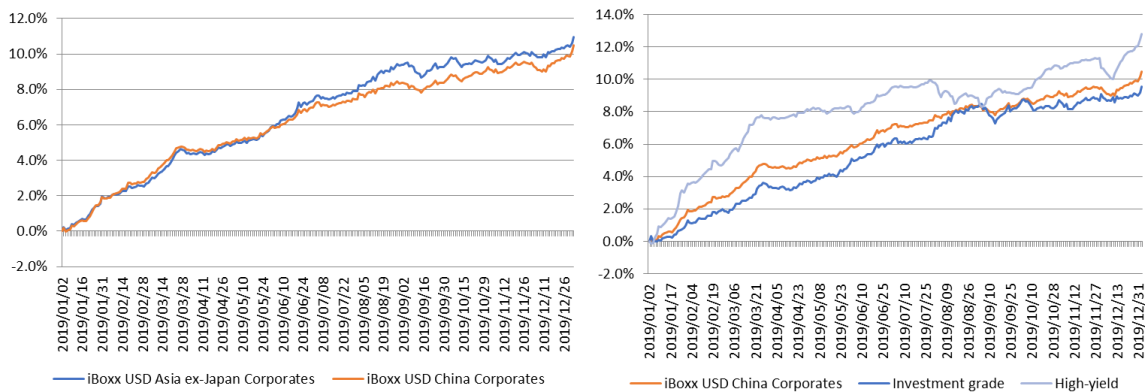
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2019/12/30	China International Capital Corp Hong Kong Ltd	HKD	116	2.85	2020/12/31	363D	Financials	Baa1/BBB/BBB+	-/-/-
2019/12/30	Shandong Iron & Steel Group Co Ltd	EUR	62	2	2020/12/2	330D	Materials	-/-/-	-/-/-
2019/12/31	Wuyi Mountains Ltd	USD	50	5.5	2020/9/30	272D	Financials	-/-/-	-/-/-
2020/1/3	Jiaozuo Investment Group Co Ltd	USD	100	6.5	2021/1/4	363D	Chengtou	-/-/-	-/-/-
2020/1/3	Jiangsu Shagang Group Co Ltd	USD	200	3.2	2023/1/10	3	Materials	-/-/-	-/-/-

Sources: Bloomberg, CCX research

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

As of January 3, 2020, the return on Chinese USD corporate bond index since 2019 rose by 61bp over last week to 10.5%, of which investment grade bond index was 9.57% and high-yield bond index was 12.81%, increasing by 43bp and 99bp over last week, respectively.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

On December 31, 2019, CCXI and CCXR removed Seazen Holdings Co Ltd’s ratings from the watch list.

Table 3 : Credit rating changes of cross-border bond market (20191230-20200103)

Entity	Sector	Entity Rating	Latest Rating		Entity Rating	Last Rating		Rating Agency	Reason of Change
			Outlook	Date		Outlook	Date		
Domestic Rating:									
Seazen Holdings Co Ltd	Real Estate	AAA	STABLE	2019/12/31	AAA	Rating Watch	2019/7/11	CCXI CCXR	Abatement of negative effects of controller's detention

Sources: Bloomberg, Wind, CCX research

Rating Action: CCXAP assigns first-time BBB_g+ long-term credit rating to SRIHG, with stable outlook; assigns first-time BB_g+ long-term credit to Huafa, with stable outlook

On December 31, 2019, CCXAP assigns first-time BBB_g+ long-term credit rating to Shangrao Investment Holding Group Co., Ltd. (“SRIHG”), with stable outlook. SRIHG, the largest stated-owned enterprise in Shangrao City, is mainly engaged in infrastructure construction, tourism, water supply & sewage treatment. As of March 31, 2019, SRIHG reported a total asset of RMB196.4 billion and net asset of RMB108.2 billion. In 2018, SRIHG generated a total revenue of RMB8.0 billion and net profit of RMB0.9 billion. SRIHG has a dominant position in public welfare and utility businesses in Shangrao City due to the support from Shangrao government. In addition, SRIHG diversifies its business portfolio into other businesses, such as tourism and high-way construction. As a result, SRIHG’s revenue demonstrated an upward trend. Yet, capital expenditure from its large scale of projects under development or planning, coupled with weak cash generation, boosted SRIHG’s debt burden and caused a relatively weak financial profile. However, considering SRIHG’s strategic importance to Shangrao City, we expect the government would continue to support the development of SRIHG.

On December 31, 2019, CCXAP assigns first-time BB_g+ long-term credit rating to Zhuhai Huafa Industrial Co., Ltd. (“Huafa”), with stable outlook. Founded in 1992, Huafa was listed on Shanghai Stock Exchange in 2004. Huafa develops residential properties in Zhuhai and gradually expands to other first-tier and second-tier cities including Guangzhou, Shanghai, Suzhou and Wuhan. Huafa’s total contracted sales increased at a CAGR of 27.6% in the past three years to RMB58.2 billion in 2018. As of 30 June 2019, Huafa’s capacity area of land bank on an attributable basis was 6.5 million sqm, which will be sufficient for its future development in the next three years. However, the debt burden of Huafa increased alongside its business expansion. Also, Huafa had a relatively weak liquidity position. Huafa is the sole property arm of Zhuhai Huafa Group Co., Ltd. (“Huafa Group”) and is vital to Huafa Group, because Huafa contributed about half of Huafa Group’s revenue and net profit in the past three years. Such that, we expect Huafa Group would continue to support Huafa.

Panda Bond Market: No new issuance this week

During the year of 2019, there were 21 issuers that issued 39 Panda Bonds, 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. As of January 3, there are no new issuance in 2020 yet.

Table 4 : Panda Bond Market in 2019

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 di Risparmio di Padova e Rovigo 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 Corp.	International	1	3.10	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing Corp.	International	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 Corp.	International	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	Water	1	3.95	2019/1/11	2026/1/11	7	MTN	China Interbank Market	Shanghai Brilliance / Dagong
Beijing Enterprises Water Group Ltd	Water	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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地址：北京市东城区朝阳门内大街
南竹竿胡同 2 号银河 SOHO6 号楼
邮编：100020
电话：(8610) 6642 8877
传真：(8610) 6642 6100
网址：<http://www.ccxi.com.cn>

China Chengxin International Credit Rating Co., Ltd
Address: Building 6, Galaxy SOHO,
No.2 Nanzhugan hutong, Chaoyangmennei Avenue,
Dongcheng district, Beijing, 100020
Tel: (8610) 6642 8877
Fax: (8610) 6642 6100
Website: <http://www.ccxi.com.cn>



中国诚信(亚太)信用评级有限公司

地址：香港中环康乐广场 1 号
怡和大厦 8 楼 805-808 室
电话：(852) 2860 7111
传真：(852) 2868 0656
网址：<http://www.ccxap.com>

China Chengxin (Asia Pacific) Credit Ratings Company Limited
Address: Suites 805-808, Jardine House, 1 Connaught Place,
Central, Hong Kong
Tel: (852) 2860 7111
Fax: (852) 2868 0656
Website: <http://www.ccxap.com>