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From February 17 to February 21

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CCXI & CCXAP

Cross-border Bonds Weekly Report

Net short positions in EUR against USD reached 8-month high; 30-year Treasury yield hit record low

Headline: The Fed and ECB released minutes from the previous meeting; net short positions in EUR against USD reached 8-month high

The Fed released minutes from its previous meeting on February 19 which stated that the current monetary policy was appropriate. In addition, as reserves approached durably ample levels, the need for sizable Treasury bill purchases and repo operations would diminish and such operations could be gradually scaled back or phased out. The ECB released minutes on February 20 which forecasted a positive but modest GDP growth. Net short positions in Euro against US dollars reached 8-month high on February 11.

Exchange Rate: RMB exchange rate breached the threshold of 7

Offshore and onshore RMB exchange rates depreciated against the US dollar, breaking through the major threshold of 7 again. As of February 21, the intermediate price of the RMB exchange rate closed at 7.0210.

Interest Rate: China Government Bond yields fluctuated slightly; 30-year Treasury yield hit record low

China Government Bond yields fluctuated after the plunge in the past few weeks. The Treasury yields lowered amid the heightened fears about the coronavirus, of which 30-year Treasury yield hit its record low. As of February 21, the yield spread between China and US 10-year note was 137.6bp, widening by 9.7bp from last Friday and 10.4bp from the beginning of the year.

Chinese Offshore Bond Market

Primary Market: New issues of Chinese offshore bond remained large, financial institutions were the key issuers

From February 17 to February 21, there were 19 new issues with a total volume of USD5.8 billion. Financial institutions were the key issuers that issued USD3.0 billion in total, representing 52.5% of total issues. China Huarong Asset Management Co Ltd issued 4 senior notes with a total volume of USD1.8 billion, while CITIC Ltd issued 2 senior notes with a total volume of USD1 billion.

Secondary Market: Return on investment grade bonds rose, while that of high-yield bonds fell

As of February 21, the YTD return on Chinese USD corporate bond index rose by 29bp over last week to 1.68%, of which investment grade bond index was 1.94% and high-yield bond index was 1.15%, increasing by 48bp and decreasing by 10bp over last week, respectively.

Credit Event: Founder Group was ordered to restructure, QPIG failed to pay dollar bonds

Panda Bond Market: No new issuance this week

Headline: The Fed and ECB released minutes from the previous meeting; net short positions in EUR against USD reached 8-month high

The Fed released minutes from its previous meeting on February 19. According to the minutes, the participants judged that the current stance of monetary policy was appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation returning to the Committee's symmetric 2% objective. In addition, maintaining the current stance of policy would give the Committee time for a fuller assessment of the ongoing effects on economic activity of last year's shift to a more accommodative policy stance and would also allow policymakers to accumulate further information bearing on the economic outlook. The minutes also added that the distribution of risks to the outlook for economic activity as somewhat more favorable than at the previous meeting, although a number of downside risks remained prominent. The participants acknowledged that the reserve balances had been back to the levels at or above those prevailing in early September 2019, and as reserves approached durably ample levels, the need for sizable Treasury bill purchases and repo operations would diminish and that such operations could be gradually scaled back or phased out.

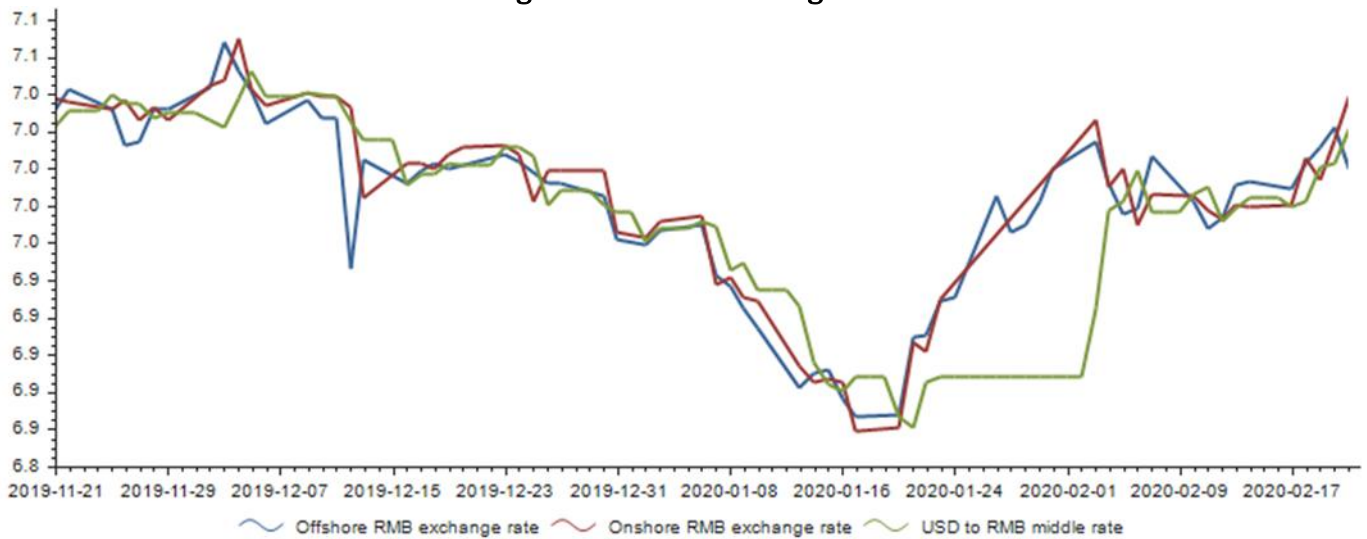
The European Central Bank ("ECB") released the January meeting minutes on February 20, which forecasted a positive but modest GDP growth. The minutes pointed out that while there might have been a bottoming-out in manufacturing, it was too soon to conclude that the slowdown in growth in the services sector had stopped. Also, higher housing prices could lead to fragilities in the financial system which might be insufficiently addressed by macroprudential policies. The minutes also added that business investment dynamics remained weak and had been slowing since early 2019.

Net short positions in Euro against US dollars reached 8-month high on February 11. Despite the ECB's upbeat tone on eurozone growth, the weak economic, political uncertainties, the outbreak of coronavirus and trade conflicts between the US and EU could potentially depress the EU. The relatively hawkish tone of the Fed could support the US dollar, while the Euro could depreciate.

Exchange Rate: RMB exchange rate breached the threshold of 7

Offshore and onshore RMB exchange rates depreciated against the US dollar, breaking through the major threshold of 7 again. As of February 21, the intermediate price of the RMB exchange rate closed at 7.0210, up 367bp from last Friday. Onshore and offshore RMB exchange rate rose 591bp and 69bp, closing at 7.0386 and 7.0003, respectively. In general, the impact of coronavirus epidemic on the RMB exchange rate would be temporary, which would not change the trend of the RMB exchange rate. The supply and demand of the foreign exchange market would stay basically balanced.

Figure 1 : RMB Exchange Rate

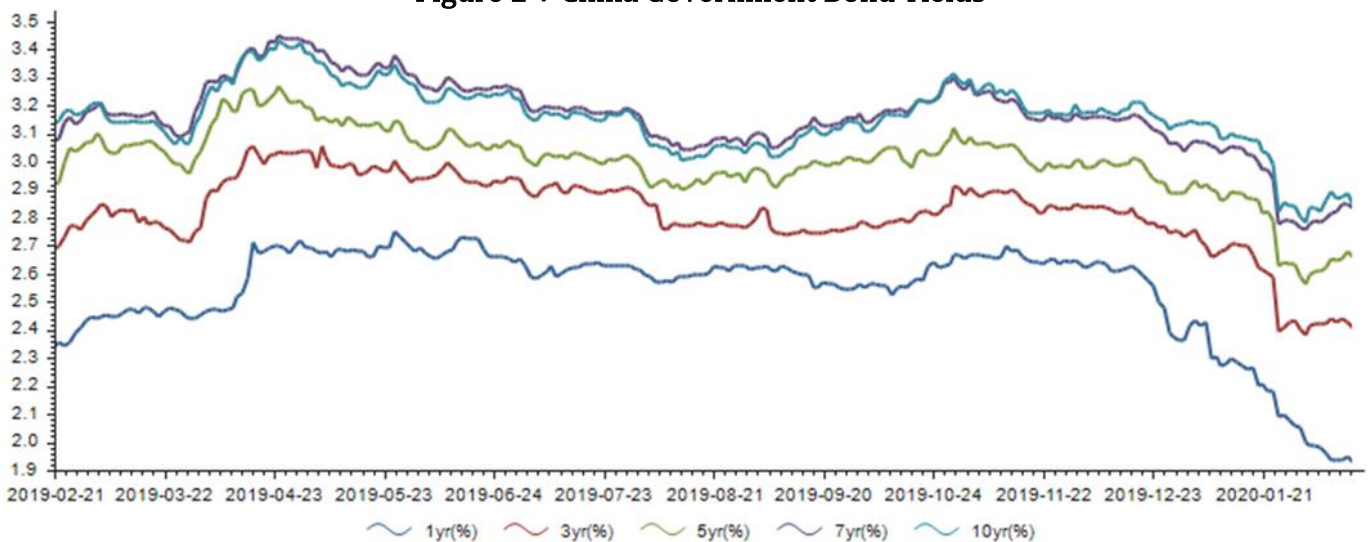


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond yields fluctuated slightly; 30-year Treasury yield hit record low

China Government Bond yields fluctuated slightly after the plunge in past few weeks. As of February 21, 1-year, 3-year and 10-year Government Bond yields declined from last Friday, closing at 1.9309%, 2.4068% and 2.8470% respectively; 5-year and 7-year Government Bond yields rose from last Friday, closing at 2.6634% and 2.8332% respectively.

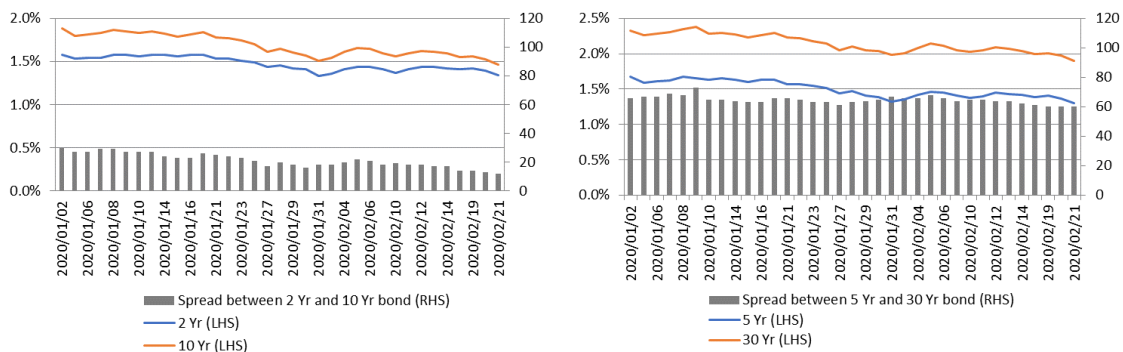
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

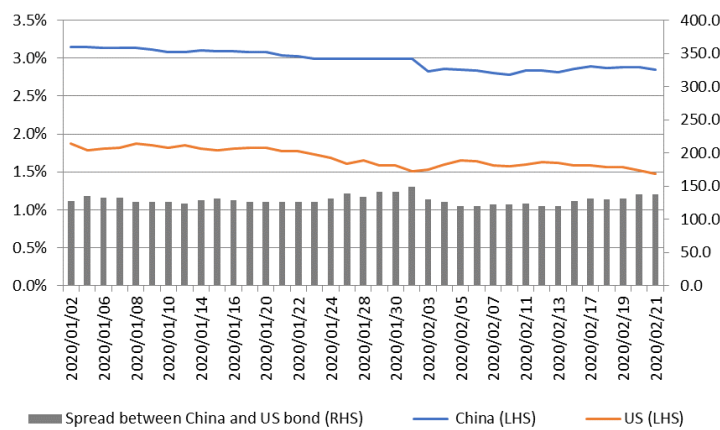
The coronavirus spread around the world and the Fed stated that the outbreak of coronavirus could be a new risk to global growth outlook. The fear of coronavirus boosted risk aversion and dragged down US Treasury yields significantly, of which 30-year Treasury yield hit its record low of 1.89%. As of February 21, the 2-year, 5-year, 10-year and 30-year Treasury yields closed at 1.34%, 1.30%, 1.46% and 1.90%, decreasing by 8bp, 12bp, 13bp and 14bp, respectively, over last Friday. In terms of Treasury yield spreads, the spread between the 2-year and 10-year narrowed by 5bp to 12bp, while the spread between the 5-year and 30-year narrowed by 2bp to 60bp from last Friday. As of February 21, the yield spread between China and US 10-year note was 137.6bp, widening by 9.7bp from last Friday and 10.4bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

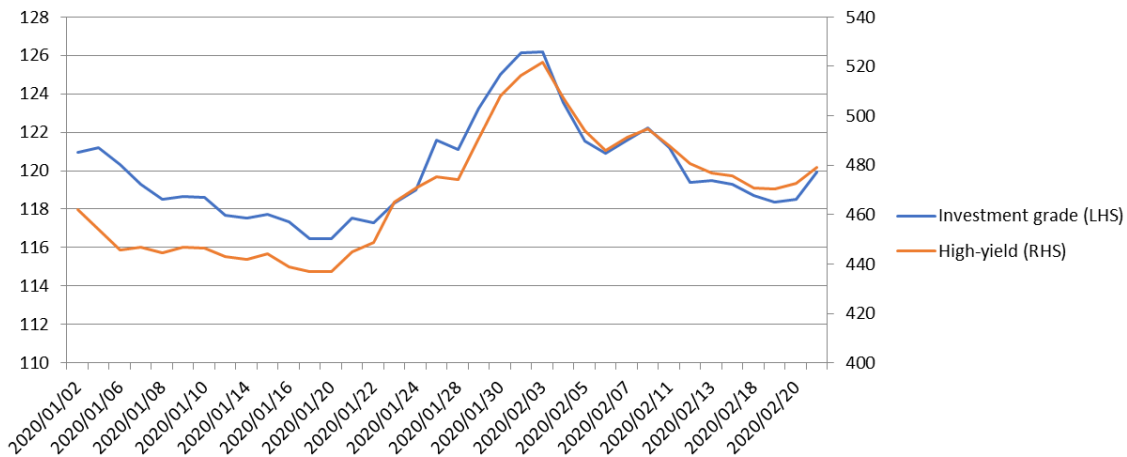
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond were generally stable. As of February 21, investment-grade bond spreads widened by 0.6bp to 120bp from last week, while high-yield spreads widened by 3.5bp to 476bp 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 issues of Chinese offshore bond remained large, financial institutions were the key issuers

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Table 1 : New issuance of Chinese offshore bonds (20200217-20200221)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/2/17	China Aoyuan Group Ltd	USD	188	4.8	2021/2/18	363D	Real Estate	B1/B+/BB-	-/-
2020/2/17	China Huarong Financial Leasing Co Ltd	USD	200	3.1	2021/2/18	363D	Financials	-/BBB+/A-	-/-
2020/2/17	Haitong International Securities Group Ltd	USD	31	3ML+85	2021/2/22	364D	Financials	Baa2/BBB/-	-/-
2020/2/18	CITIC Ltd	USD	300	2.45	2025/2/25	5	Financials	A3/BBB+/-	A3/BBB+/-
2020/2/18	CITIC Ltd	USD	700	2.85	2030/2/25	10	Financials	A3/BBB+/-	A3/BBB+/-
2020/2/18	Industrial & Commercial Bank of China Ltd/Sydney	AUD	500	3M BBSW+77	2023/2/24	3	Banks	A1/A/A	-/A/-
2020/2/18	Kunming Industrial Development & Investment Co Ltd	USD	300	6.1	2023/2/25	3	Chengtou	-/-	-/-
2020/2/18	Yango Group Co Ltd	USD	300	8.25	2023/11/25	3.75	Real Estate	B1/B/B+	B2/-
2020/2/19	China Huarong Asset Management Co Ltd	USD	400	2.5	2023/2/24	3	Financials	A3/BBB+/A	Baa1/-/A
2020/2/19	China Huarong Asset Management Co Ltd	USD	400	3ML+112.5	2023/2/24	3	Financials	A3/BBB+/A	Baa1/-/A
2020/2/19	China Huarong Asset Management Co Ltd	USD	300	3ML+125	2025/2/24	5	Financials	A3/BBB+/A	Baa1/-/A
2020/2/19	China Huarong Asset Management Co Ltd	USD	700	3.375	2030/2/24	10	Financials	A3/BBB+/A	Baa1/-/A

2020/2/19	China South City Holdings Ltd	USD	225	10.875	2022/6/26	2.33	Real Estate	-/B-/B	-/-/B
2020/2/19	CMB International Capital Corp Ltd	USD	3	2.5	2020/5/26	90D	Financials	Baa1/BBB+/-	-/-/
2020/2/19	CMB International Capital Corp Ltd	USD	5	2.6	2021/2/26	1	Financials	Baa1/BBB+/-	-/-/
2020/2/19	Modern Land China Co Ltd	USD	200	11.8	2022/2/26	2	Real Estate	B2-/B	B3-/B
2020/2/19	Zhenro Properties Group Ltd	USD	200	5.6	2021/2/28	363D	Real Estate	B1/B/B+	-/-/
2020/2/20	Semiconductor Manufacturing International Corp	USD	600	2.693	2025/2/27	5	Technology	Baa3/BBB-/-	Baa3-/
2020/2/20	Shui On Land Ltd	USD	400	5.5	2025/3/3	5	Real Estate	-/-/	-/-/

Sources: Bloomberg, CCX research

Kunming Municipal Urban Construction Investment & Development Co Ltd announced tap bond offering on February 20.

Table 2 : Tap bond offering of Chinese offshore bonds (20200217-20200221)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2020/2/20	Kunming Municipal Urban Construction Investment & Development Co Ltd	USD	500 (reoffered 200)	5.8	2022/10/17	3	Chengtou	Ba1-/BB+	Ba1-/BB+

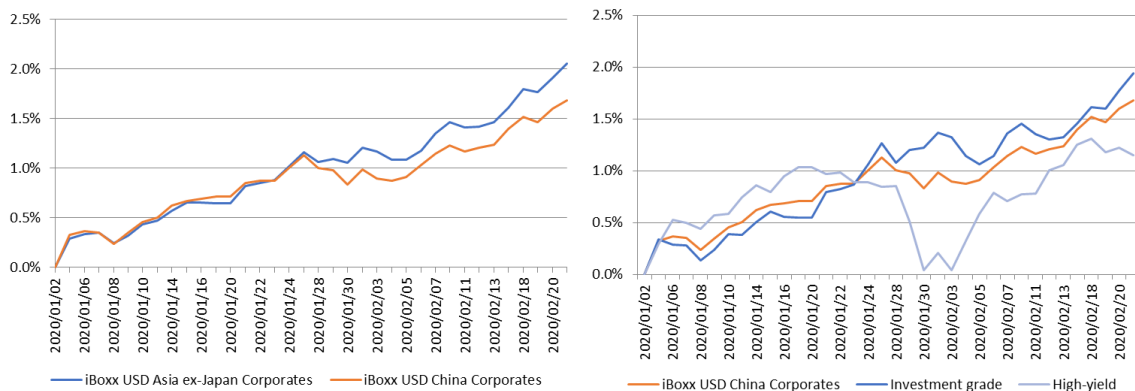
Sources: Bloomberg, CCX research

Recently, Bank of Communications (Hong Kong) Limited planned to issue offshore bonds.

Secondary Market: Return on investment grade bonds rose, while that of high-yield bonds fell

As of February 21, the YTD return on Chinese USD corporate bond index rose by 29bp over last week to 1.68%, of which investment grade bond index was 1.94% and high-yield bond index was 1.15%, increasing by 48bp and decreasing by 10bp over last week, respectively.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

For the rating actions of cross-border bond market, the rating agencies took positive rating actions on 2 Chinese entities and negative rating actions on 4 Chinese issuers from February 17 to February 21.

Table 3 : Rating actions of cross-border bond market (20200217-20200221)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Upgrade	Yanzhou Coal Mining Co Ltd	Energy	Ba1	STABLE	2020/2/19	Ba2	STABLE	2019/5/31	Moody's	Improved operating performance and financial profile
	Panda Green Energy Group Ltd	Energy	Caa1	STABLE	2020/2/20	Caa1	Uncertain	2020/2/4	Moody's	Reduced refinancing pressure following the new share issuance to Beijing Energy Holding Co Ltd
	Panda Green Energy Group Ltd	Energy	CCC-	POS	2020/2/21	SD	-	2020/1/21	S&P	New shareholder buys in which helps manage payment risk
Downgrade	GOME Retail Holdings Ltd	Consumer Discretionary	B+	Rating Watch Negative	2020/2/19	B+	NEG	2019/3/7	S&P	Potential negative impacts of the coronavirus on its profitability and debt leverage
	Beijing Energy Holding Co Ltd	Utilities	A3	NEG	2020/2/20	A3	STABLE	2019/3/14	Moody's	Subscription of a 32% stake in Panda Green Energy Group Limited
	Tunghsu Group Co Ltd	Technology	SD	-	2020/2/21	CCC-	Rating Watch Negative	2019/11/19	S&P	Onshore bond defaults
Domestic Rating:										
Downgrade	Peking University Founder Group Corp	Technology	B	NEG	2020/2/19	A	NEG	2019/12/2	Lianhe Ratings & United Ratings	Unable to repay debt obligations and potential restructuring of the Company
	Peking University Founder Group Corp	Technology	C	-	2020/2/21	B	NEG	2020/2/19	Lianhe Ratings & United Ratings	Onshore bond defaults

Sources: Bloomberg, Wind, CCX research

Credit Event: Founder Group was ordered to restructure, QPIG failed to pay dollar bonds

On February 18, Peking University Founder Group Company Limited (“Founder Group”) announced that, Founder Group was served notice from Beijing First Intermediate People’s Court (the “Court”) on February 14 and was notified that Bank of Beijing Co., Ltd applied to the Court for initiation of reorganization procedure against Founder Group, as Founder Group lacks of capability of paying its outstanding indebtedness but has reorganization value. On February 19, the Court has accepted the application to start the restructuring process. On February 21, Founder Group announced that it missed the repayment of “19 Founder SCP 002” due to its restructure. According to Bloomberg, Founder Group and its related companies had about USD3 billion outstanding offshore bond as of February 24.

On February 21, Qinghai Provincial Investment Group Co., Ltd. (“QPIG”) announced the default of its USD300 million bonds due February 22 2020. The default would trigger a cross-default of 2 dollar bonds due 2021 with a total outstanding amount of USD550 million. Before the default (on February 5), QPIG proposed tender offer for its dollar bonds holders to sell their bonds at 59% to 63% discounts and required the holders to reply by February 17. According to the Singapore Exchange, bondholders representing 54% of QPIG’s outstanding dollar bonds agreed the tender offer. Some of the bondholders rejected the offer due to the heavy discounts and a potential conflict of interest between QPIG and the offeror, Guozhen International Trade Consulting Co., Limited (QPIG’s subsidiaries).

Panda Bond Market: No new issuance this week

As of February 21, there were 3 issuers that issued 3 Panda Bonds in 2020, with a total issuance volume of RMB5.5 billion and an average coupon of 3.12%. These bonds were mostly medium term and were issued in the Interbank Market.

Table 4 : New issuance of Panda Bond in 2020 (20200101-20200221)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Semiconductor Manufacturing International Corporation	15	2.40	2020/1/13	2020/5/28	0.37	SCP	China Interbank Market	China Chengxin
Yuexiu Transport Infrastructure Limited	10	3.47	2020/1/10	2023/1/10	3	MTN	China Interbank Market	China Chengxin
Daimler International Finance BV	30	3.50	2020/1/9	2022/1/9	2	PPN	China Interbank Market	--

Sources: Bloomberg, CCX research

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