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From February 24 to February 28

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CCXI & CCXAP

Cross-border Bonds Weekly Report

Global coronavirus outbreak hit the market; US 10-year Treasury yield hit record low

Headline: Global coronavirus outbreak hit the market

The coronavirus has been spreading around the world. On February 28, the WHO has upgraded the global risk of the coronavirus outbreak to "very high". The OECD lowered its forecast of global growth in 2020 to 2.4% from 2.9%, the forecast before the coronavirus outbreak, in its latest Economic Outlook. The probability of interest rate cut by the Federal Reserve has largely increased due to the severe epidemic.

Exchange Rate: RMB exchange rate declined slightly

As of February 28, the intermediate price of the RMB exchange rate closed at 7.0066, slightly decreased from last Friday.

Interest Rate: China Government Bond and US Treasury yields declined; US 10-year Treasury yield hit record low

The spread of coronavirus around the world has led to risk aversion, resulting in a decline in China Government Bond and US Treasury yields. US 10-year Treasury yield fell below 1.2% for the first time. As of February 28, the yield spread between China and US 10-year note was 158.9bp, widening by 21.3bp from last Friday and 31.8bp from the beginning of the year.

Chinese Offshore Bond Market

Primary Market: New issues of Chinese offshore bond increased significantly, banks and real estate companies were the key issuers

From February 24 to February 28, there were 26 new issues with a total volume of USD10.125 billion, increasing by 75.1% from last week. Banks and real estate companies were the key issuers, with an amount of USD6.73 billion in aggregate, representing 66.5% of total issues. Bank of China Ltd issued USD2.82 billion perpetual NC5 AT1 bond, which was the largest issue last week.

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

The returns on investment-grade and high-yield Chinese dollar bonds diverged due to the market risk aversion. As of February 28, the YTD return on Chinese USD corporate bond index rose by 24bp over last week to 1.92%, of which investment-grade bond index was 2.73% and high-yield bond index was 0.32%, increasing by 79bp and decreasing by 84bp over last week, respectively.

Panda Bond Market: Hengan International issued a SCP (epidemic prevention and control debt)

On February 28, the 2020 Hengan International Group Company Limited SCP Series I (epidemic prevention and control debt) was successfully issued in the Interbank Market. Hengan International issued RMB1 billion SCP, at a coupon rate of 2.85%, with a tenor of 270 days. China Chengxin International Credit Rating Co., Ltd. has assigned the credit rating of AAA to the issuer.

Headline: The global coronavirus outbreak hit the market

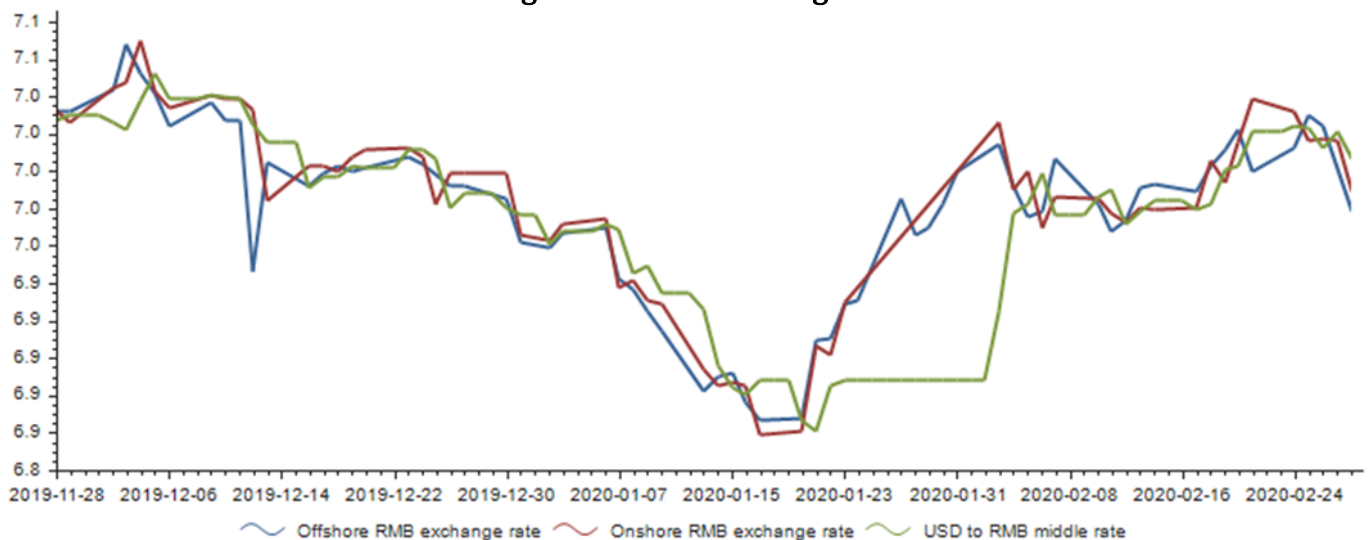
The coronavirus has been spreading around the world. On February 28, the World Health Organization (“WHO”) has upgraded the global risk of the coronavirus outbreak to “very high”. According to WHO, 8,774 cases were reported in 64 countries and regions outside China as of March 2. South Korea reported the highest number of infections outside mainland China, with 4,212 cumulative confirmed cases. Italy suffered the most severe epidemic in Europe, with its confirmed cases sharply increasing by 50% to around 1,700 cases over the weekend. The price of risk assets slumped due to the epidemic. The three major US stock indexes fell by more than 10% this week, the biggest weekly drop since the financial crisis in October 2008.

The Organization for Economic Cooperation and Development (“OECD”) lowered its forecast of global growth in 2020 to 2.4% from 2.9%, the forecast before the coronavirus outbreak, in its latest Economic Outlook. OECD also underlined that global growth could drop to 1.5% in 2020 on the assumption of a longer lasting and more intensive coronavirus outbreak. The probability of interest rate cut by the Federal Reserve has largely increased due to the severe epidemic. Goldman Sachs predicted that the Federal Reserve would cut the interest rate by 100bp in the first half of the year, with 50bp cut before March 18 and another 50bp cut in the second quarter. It also predicted that most other central banks in G10 (and some emerging markets) would also cut the interest rates.

Exchange Rate: RMB exchange rate declined slightly

During the week, the RMB exchange rate declined slightly. As of February 28, the intermediate price of the RMB exchange rate closed at 7.0066, down 144bp from last Friday. Onshore and offshore RMB exchange rate declined 49bp to 6.9896 and 22bp to 6.9793, respectively. Affected by the epidemic, the fluctuations of RMB exchange rate is expected to rise.

Figure 1 : RMB Exchange Rate

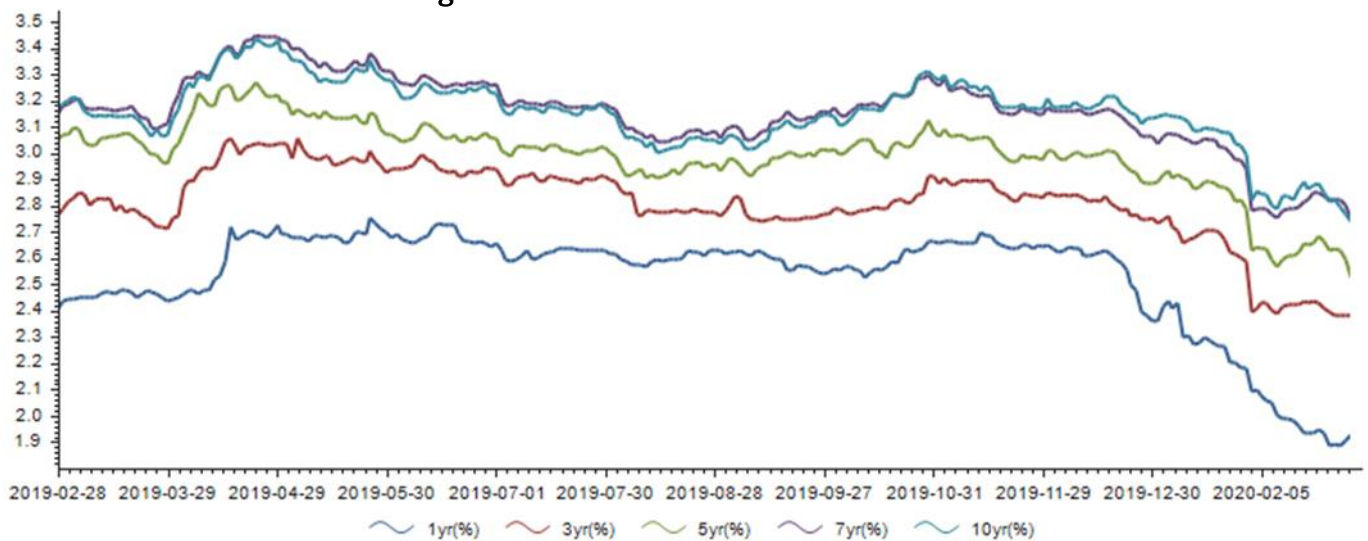


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond and US Treasury yields declined; US 10-year Treasury yield hit record low

China Government Bond yields declined as risk aversion sentiment continued to rise alongside the global spread of coronavirus. As of February 28, 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yields declined from last Friday, closing at 1.9291%, 2.3831%, 2.5266%, 2.7477% and 2.7376% respectively. Since February 28, JPMorgan Chase & Co has officially included Chinese government bonds in its benchmark emerging-market indexes. In recent years, the China's bond market has opened up gradually. By the end of January 2020, the size of China's bond market has reached RMB100.4 trillion, of which the scale of international investors holding bonds has exceeded RMB2.2 trillion, an increase of 22% year-on-year.

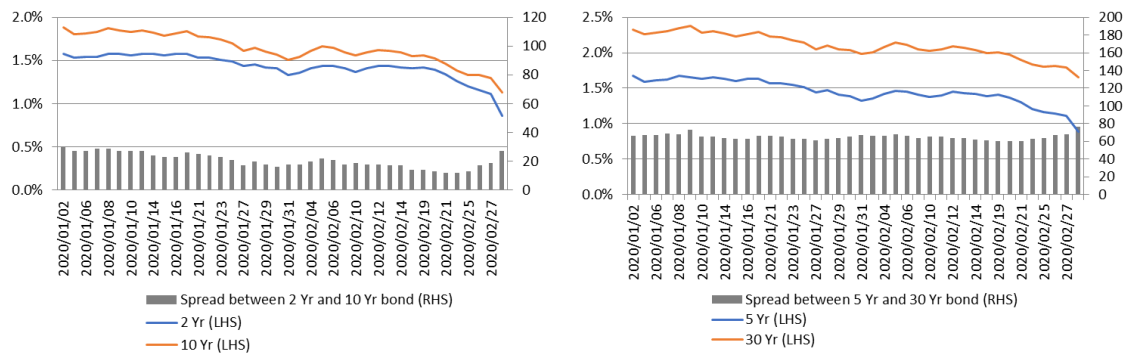
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

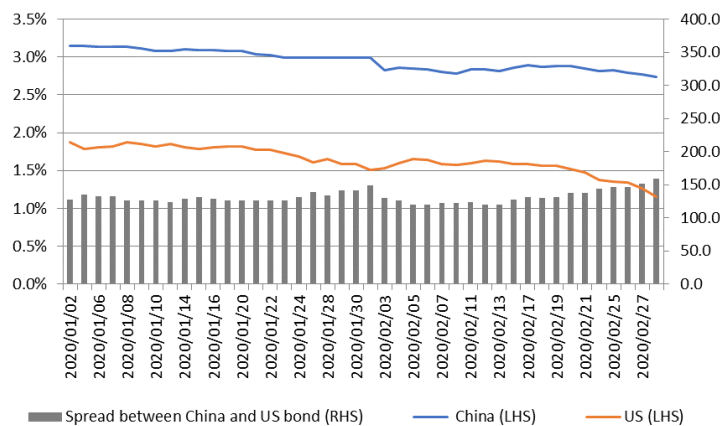
The coronavirus confirmed cases were reported in many counties and the US Centers for Disease Control and Prevention alerted to prepare for a possible coronavirus outbreak, triggering market panic. The US Treasury bond yields were driven down by risk aversion, of which 10-year yield fell below 1.2% for the first time, and further dropped to a new low of 1.116%. As of February 28, the 2-year, 5-year, 10-year and 30-year Treasury yields closed at 0.86%, 0.89%, 1.13% and 1.65%, decreasing by 48bp, 41bp, 33bp and 25bp, respectively, over last Friday. In terms of Treasury yield spreads, the spread between the 2-year and 10-year widened by 15bp to 27bp, while the spread between the 5-year and 30-year widened by 16bp to 76bp from last Friday. As of February 28, the yield spread between China and US 10-year note was 158.9bp, widening by 21.3bp from last Friday and 31.8bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

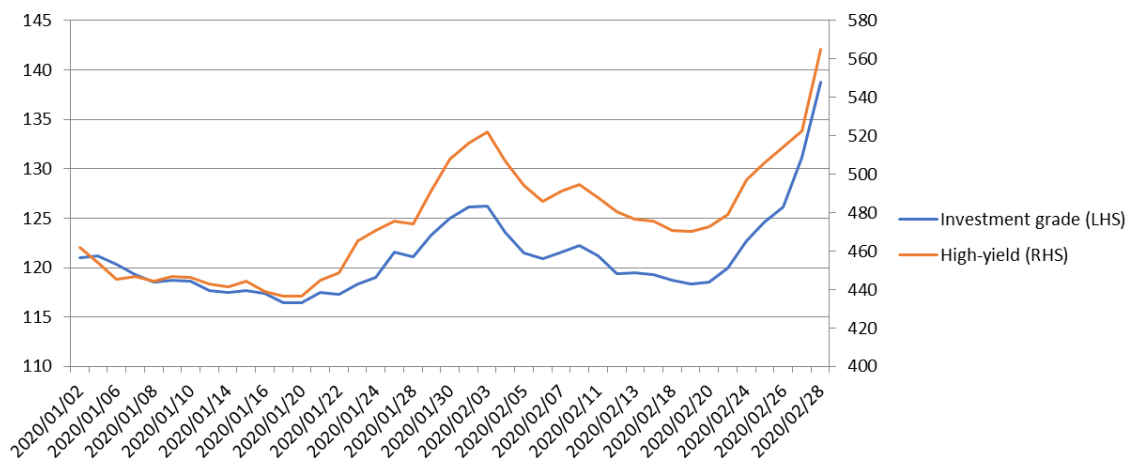
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond widened significantly. As of February 28, investment-grade bond spreads widened by 18.8bp to 139bp from last week, while high-yield spreads widened by 86.0bp to 565bp 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 increased significantly, banks and real estate companies were the key issuers

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Table 1 : New issuance of Chinese offshore bonds (20200224-20200228)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)	
2020/2/24	Bank of Communications Leasing Co Ltd	Financial	USD	300	3ML+83	2023/3/2	3	Financials	A2/A-/A	A3/-/A
2020/2/24	Bank of Communications Leasing Co Ltd	Financial	USD	500	3ML+95	2025/3/2	5	Financials	A2/A-/A	A3/-/A
2020/2/24	Beijing Properties Holdings Ltd	USD	600	5.95	2023/2/27	3	Industrials	-/-/-	-/-/-	
2020/2/24	China Overseas Land & Investment Ltd	USD	300	2.375	2025/3/2	5	Real Estate	Baa1/BBB+/A-	Baa1/-/A-	
2020/2/24	China Overseas Land & Investment Ltd	USD	500	2.75	2030/3/2	10	Real Estate	Baa1/BBB+/A-	Baa1/-/A-	
2020/2/24	China Overseas Land & Investment Ltd	USD	200	3.125	2035/3/2	15	Real Estate	Baa1/BBB+/A-	Baa1/-/A-	
2020/2/24	Country Garden Holdings Co Ltd	MYR	100	4.75	2021/3/3	1	Real Estate	Ba1/BB+/BBB-	-/-/-	
2020/2/24	Country Garden Holdings Co Ltd	MYR	100	5.7	2027/3/2	7	Real Estate	Ba1/BB+/BBB-	-/-/-	
2020/2/24	Greenland Holding Group Co Ltd	USD	300	6.75	2024/3/3	4	Real Estate	Ba1/BB/BB-	Ba2/-/-	
2020/2/24	Haitong International Securities Group Ltd	USD	45	3ML+85	2021/3/2	364D	Financials	Baa2/BBB/-	-/-/-	
2020/2/24	Hong Yang Group Co Ltd	USD	275	9.875	2022/8/27	2.5	Real Estate	-/B/B+	-/-/B+e	
2020/2/24	Zhenjiang State-owned Investment Holding Group Co Ltd	USD	150	6.6	2021/2/24	364D	Consumer Staples	-/-/-	-/-/-	
2020/2/25	Bank of Communications Hong Kong Ltd	USD	500	3.725	-	Perpetual	Banks	A2/A-/A	Ba2/-/BB+	
2020/2/25	China Minmetals Corp	USD	1,000	3.375	-	Perpetual	Materials	Baa1/BBB+/BBB+	Baa1/-/-	
2020/2/25	Haitong International Securities Group Ltd	USD	100	2.43	2020/11/27	269D	Financials	Baa2/BBB/-	-/-/-	
2020/2/26	Bank of China Ltd	USD	2,820	3.6	-	Perpetual	Banks	A1/A/A	Ba1/BB+/BB+	
2020/2/26	Modern Land China Co Ltd	USD	150	11.95	2024/3/4	4	Real Estate	B2/-/B	B3/-/Be	
2020/2/26	Xi'an Qujiang Culture Holding Co Ltd	USD	300	5.5	2023/3/4	3	Chengtou	-/-/-	-/-/-	
2020/2/27	Bank of China Ltd/Macau	HKD	4,000	1.95	2022/3/5	2	Banks	A1/A/A	A1/A/A	
2020/2/27	Bank of China Ltd/Macau	MOP	1,000	1.9	2022/3/5	2	Banks	A1/A/A	A1/A/A	
2020/2/27	Excellence Commercial Properties Co Ltd	USD	100	6.8	2023/3/4	3	Real Estate	-/-/-	-/-/-	
2020/2/27	Guangzhou R&F Properties Co Ltd	USD	400	8.625	2024/3/5	4	Real Estate	Ba3/B+/BB-	-/-/BB-	
2020/2/27	Road King Infrastructure Ltd	USD	300	5.9	2025/3/5	5	Real Estate	Ba3/BB/-	Ba3/-/-	
2020/2/27	Sichuan Languang Development Co Ltd	USD	200	9	2021/3/4	364D	Real Estate	B1/B+/-	-/-/-	
2020/2/27	Xinghe Holdings Bhd	MYR	1	1	2022/8/23	2.5	Consumer Staples	-/-/-	-/-/-	
2020/2/27	Zhejiang Geely Holding Group Co Ltd	USD	400	3	2025/3/5	5	Consumer Discretionary	-/BBB/-	-/BBB/-	

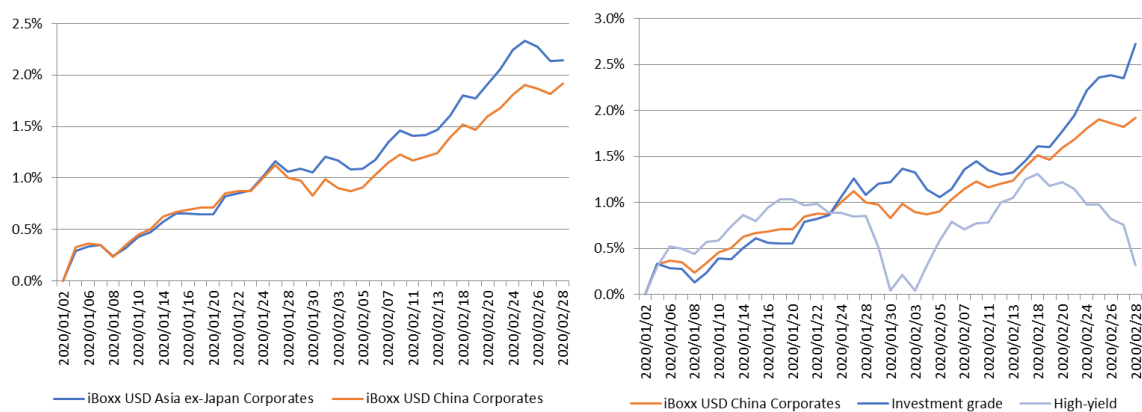
Sources: Bloomberg, CCX research

Recently, Shuifa Group Co Ltd and Sinic Holdings Group Co Ltd planned to issue offshore bonds.

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

The returns on investment-grade and high-yield Chinese dollar bonds diverged due to the market risk aversion. As of February 28, the YTD return on Chinese USD corporate bond index rose by 24bp over last week to 1.92%, of which investment-grade bond index was 2.73% and high-yield bond index was 0.32%, increasing by 79bp and decreasing by 84bp 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 negative rating actions on 7 Chinese issuers from February 24 to February 28.

Table 2 : Credit rating changes of cross-border bond market (20200224-20200228)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
	Yuexiu Transport Infrastructure Ltd	Industrials	BBB-	Rating Watch Negative	2020/2/24	BBB-	STABLE	2019/9/16	S&P	Sharp revenue decline
	Yuexiu Transport Infrastructure Ltd	Industrials	BBB-	Rating Watch Negative	2020/2/24	BBB-	STABLE	2019/9/16	Fitch	Chinese authorities' decision to suspend toll collections for the road network
Downgrade	Shenzhen International Holdings Ltd & Shenzhen Expressway Company Limited	Industrials	BBB	Rating Watch Negative	2020/2/24	BBB	STABLE	2019/5/24	Fitch	Increased revenue risk and heightened regulatory uncertainty
	CAR Inc	Consumer Discretionary	B1	NEG	2020/2/26	B1	STABLE	2019/4/23	Moody's	Weakening revenue trend
	Yida China Holdings Limited	Real Estate	CC	NEG	2020/2/26	CCC-	NEG	2019/12/6	S&P	Launch of a tender offer
	Yida China Holdings Limited	Real Estate	C	-	2020/2/27	CCC	-	2019/7/18	Fitch	Launch of a tender offer
	China Wanda Group Co Ltd	Consumer Discretionary	B3	Rating Watch Negative	2020/2/28	B1	NEG	2019/7/24	Moody's	Increasingly challenging operating environment
	Guangyang Antai Holdings Limited	Financials	B	STABLE	2020/2/28	B+	STABLE	2019/3/1	Fitch	Increased business risks

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: Hengan International issued a SCP (epidemic prevention and control debt)

On February 28, the 2020 Hengan International Group Company Limited ("Hengan International") SCP Series I (epidemic prevention and control debt) was successfully issued in the Interbank Market. Hengan International issued RMB1 billion SCP, at a coupon rate of 2.85%, with a tenor of 270 days. China Chengxin International Credit Rating Co., Ltd. has assigned the credit rating of AAA to the issuer. In 1998, Hengan International was incorporated at British Cayman Islands and listed on the main board of the Hong Kong Stock Exchange. Hengan International has a scale advantage and competitive market position in the household paper and maternal and child care products market, as it is the largest manufacturer among the Chinese-owned companies.

As of February 28, there were 4 issuers that issued 4 Panda Bonds in 2020, with a total issuance volume of RMB6.5 billion and an average coupon of 3.06%. These bonds were mostly short-/medium-term and were issued in the Interbank Market.

Table 3 : New issuance of Panda Bond in 2020 (20200101-20200228)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Hengan International Group Company Limited	1	2.85	2020/2/28	2020/11/24	0.74	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corporation	1.5	2.40	2020/1/13	2020/5/28	0.37	SCP	China Interbank Market	China Chengxin
Yuexiu Transport Infrastructure Limited	1	3.47	2020/1/10	2023/1/10	3	MTN	China Interbank Market	China Chengxin
Daimler International Finance BV	3	3.50	2020/1/9	2022/1/9	2	PPN	China Interbank Market	--

Sources: Bloomberg, CCX research

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