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Cross-border Bonds Weekly Report

From March 16 to March 20

Global capital market turmoil intensified; Chinese dollar bond performance remained weak

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Headline: Global capital market turmoil intensified, resulting in monetary easing and fiscal stimulus

The global spread of coronavirus accelerated. From March 16 to March 23, both cumulative numbers of confirmed cases and deaths have doubled. According to Bank of America Merrill Lynch, from February 1 to March 20, there were 42 rate cuts made by global central banks. By contrast, there were 36 rate cuts in the two months after the Lehman crisis. Despite that global central banks have introduced monetary easing policies, the turmoil of global capital market stayed unabated. Monetary easing policy of the developed countries in Europe and the US has limited influence on their economies given their low interest rates. These governments have introduced more and large-scale fiscal stimulus plans to deal with economic risks.

Exchange Rate: RMB exchange rate continued to rise

Affected by growing risk aversion and market illiquidity, the RMB exchange rate continued to rise. As of March 20, the intermediate price of the RMB exchange rate closed at 7.1052

Interest Rate: China Government Bond yields fluctuated; US Treasury yields fell after rising

Risk aversion surged and market turmoil drove liquidity shortage, resulting in fluctuated China Government Bond yields. At the beginning of the week, investors expected the US government to launch economic stimulus packages, driving US treasury bond yields up. However, growing risk aversion from the pandemic and the expansion of Fed's asset purchase program caused US Treasury bond yields to fall. As of March 20, the yield spread between China and US 10-year note was 183.6bp, widening by 12.1bp from last Friday and widening by 56.5bp from the beginning of the year.

Chinese Offshore Bond Market

Primary Market: Chinese offshore bond new issuance stayed weak

From March 16 to March 20, there were 7 new issues with a total issued volume of USD782 million. China Construction Bank Asia Corp Ltd priced USD500 million AT1 perpetual bond.

Secondary Market: Chinese dollar bonds remained weak in secondary market

Affected by growing risk aversion and US dollar liquidity shortage, the return of Chinese dollar bonds declined while the yields boosted. As of March 20, the YTD return on Chinese USD corporate bond index dropped by 394bp from last Friday to -4.42%. In terms of sector indices, the return on real estate index recorded the largest fall, dropping by 739bp from last Friday to -10.70%.

Rating Action: The epidemic and liquidity squeeze led to the increase of credit risk of some issuers

Panda Bond Market: Hengan International issued 3 SCPs (epidemic prevention and control debt)

During this week, Hengan International issued 3 SCPs (epidemic prevention and control debt) in the Interbank Market, with a tenor of 270 days for all three bonds. Hengan International has issued 4 Panda Bonds since 2020. On March 16, Hengan International raised RMB1 billion via the 2020 SCP Series II at a coupon rate of 2.65%. On March 19, Hengan International issued the 2020 SCP Series III & IV. Both of them have the same issued volume of RMB0.5 billion and same coupon rate of 2.60%. China Chengxin assigned AAA to the issuer.

Headline: Global capital market turmoil intensified, resulting in monetary and fiscal easing among countries and fiscal stimulus

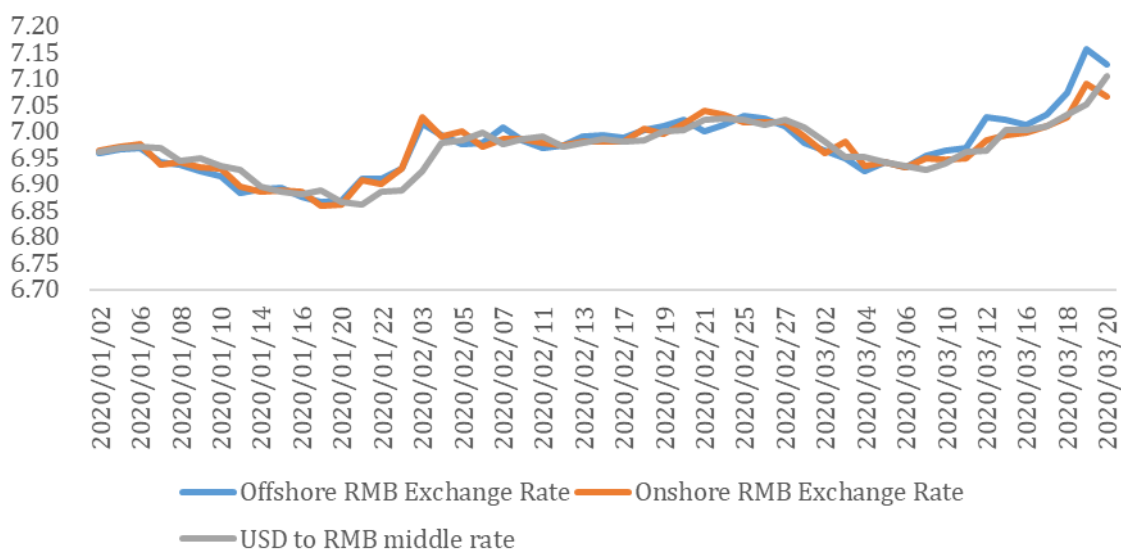
The global spread of coronavirus epidemic accelerated. According to World Health Organization, from March 16 to March 23, the cumulative number of confirmed cases increased from 167,515 to 332,930, and deaths increased from 6,606 to 14,509, both of which have doubled. Outside China, the three countries with the largest number of confirmed cases are Italy (59,138), US (31,573) and Spain (28,572).

According to Bank of America Merrill Lynch, from February 1 to March 20, there were 42 rate cuts made by global central banks. By contrast, there were 36 rate cuts in the two months after the Lehman crisis. Despite that global central banks have introduced monetary easing policies, the turmoil of global capital market stayed unabated. Monetary easing policy of the developed countries in Europe and the US has limited influence on their economies given their low interest rates. These governments have introduced more and large-scale fiscal stimulus plans to deal with economic risks. For example, US stock market triggered circuit breakers four times in 10 days. Compared with the four market crashes in history (the Great Depression in 1929, Black Monday in 1987, the dotcom bubble in 2000 and the financial crisis in 2008), the US stock crash during the past few weeks has exceeded the "great depression". The Fed cut interest rates to zero and announced the implementation of limitless QE (the fifth round), and both houses of Congress were discussing fiscal stimulus plan which could be over trillion US dollars.

Exchange Rate: RMB exchange rate continued to rise

During the week, affected by growing risk aversion and market illiquidity, currencies of most developing countries depreciated and the RMB exchange rate continued to rise after it broke the threshold of "7". As of March 20, the intermediate price of the RMB exchange rate closed at 7.1052, up 1,019bp from last Friday. Onshore and offshore RMB exchange rate rose 687bp and 1,142bp respectively, closing at 7.0061 and 7.1262.

Figure 1 : RMB exchange rate

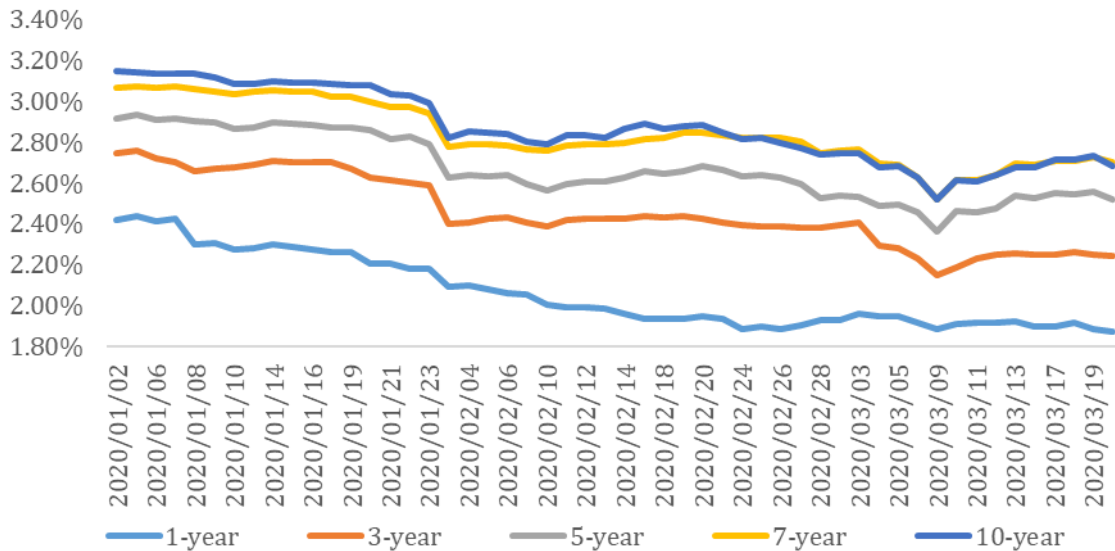


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond yields fluctuated; US Treasury yields fell after rising

Risk aversion surged and market turmoil drove liquidity shortage, resulting in fluctuated China Government Bond yields. The bond yields diverged as the short- and medium-term yields dropped while the long-term yields rose. As of March 20, 1-year, 3-year, and 5-year, Government Bond yields declined from last Friday, closing at 1.8682%, 2.2429%, and 2.5217%, while 7-year and 10-year Government Bond yields rose from last Friday, closing at 2.6999% and 2.6815%, respectively.

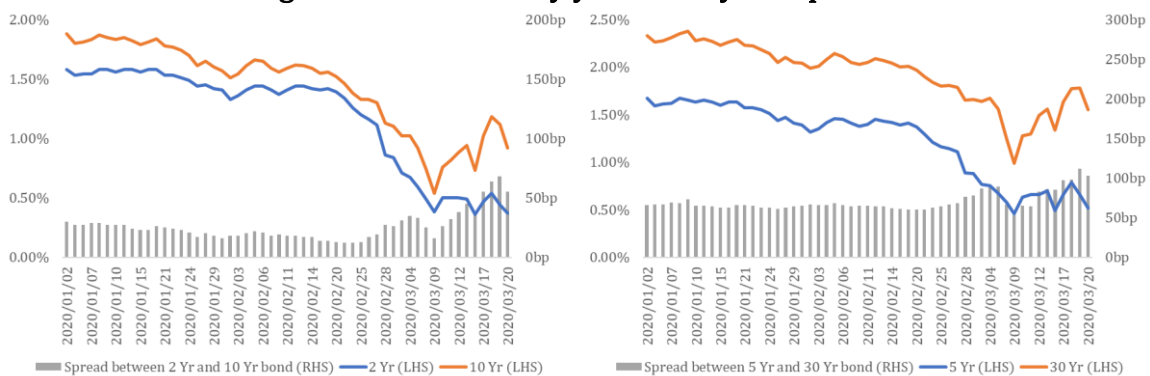
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

At the beginning of the week, investors expected the US government to launch economic stimulus packages, driving US treasury bond yields up. However, growing risk aversion from the pandemic and the expansion of Fed’s asset purchase program caused US Treasury bond yields to fall. As of March 20, 2-year, 5-year, 10-year and 30-year Treasury yields closed at 0.37%, 0.52%, 0.92% and 1.55%, decreasing by 12bp, 18bp, 2bp and 1bp over last Friday, respectively. US Treasury yield curve steepened. In terms of Treasury yield spreads, the spread between the 2-year and 10-year widened by 10bp to 55bp from last Friday, while the spread between the 5-year and 30-year widened by 17bp to 103bp from last Friday.

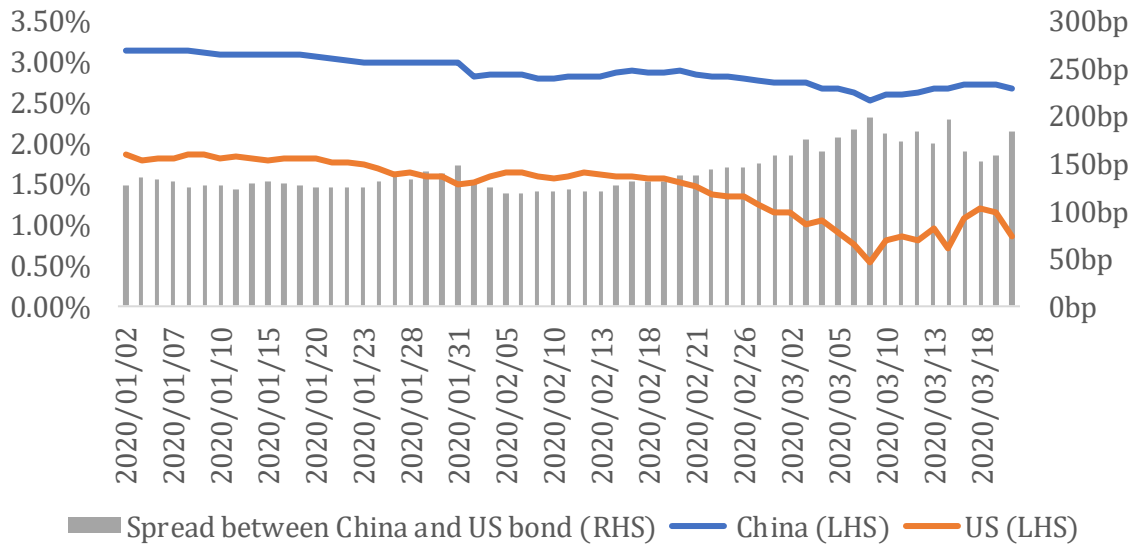
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of March 20, the yield spread between China and US 10-year note was 183.6bp, widening by 12.1bp from last Friday and widening by 56.5bp from the beginning of the year.

Figure 4 : Yield spread between China and US 10-year note



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

Chinese Offshore Bond Market

Primary Market: Chinese offshore bond new issuance stayed weak

From March 16 to March 20, there were 7 new issues with a total issued volume of USD782 million. China Construction Bank Asia Corp Ltd priced USD500 million AT1 perpetual bond.

Table 1 : New issuance of Chinese offshore bonds (20200316-20200320)

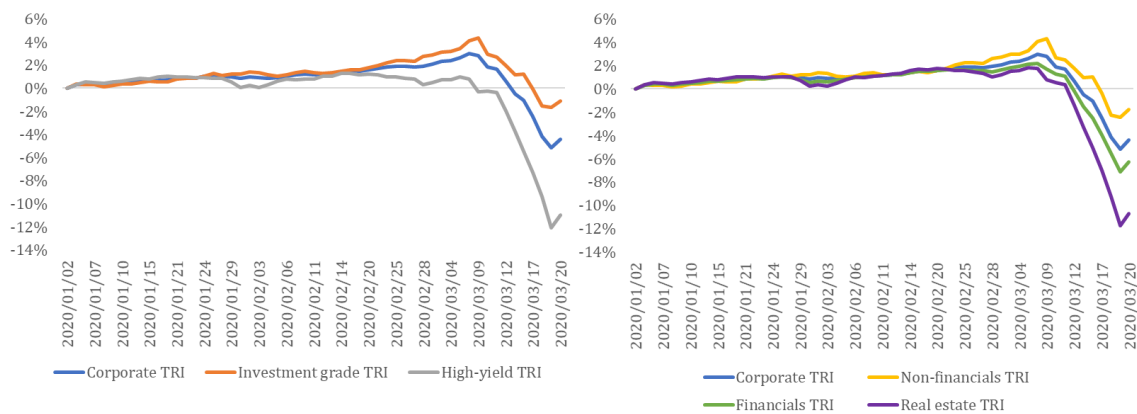
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/3/16	Xin Jiang Guang Hui Industry Investment Group Co Ltd	USD	59	9.5	2021/9/23	1.5	Consumer Discretionary	B2/B/-	B3/B/-
2020/3/18	Country Garden Holdings Co Ltd	MYR	295	5.25	2025/3/27	5	Real Estate	Ba1/BB+/BBB-	-/-/-
2020/3/18	Huatai International Financial Holdings Co Ltd	USD	25	3.6	2025/3/11	5	Financials	-/BBB/-	-/-/-
2020/3/19	China Construction Bank Asia Corp Ltd	USD	500	3.18	-	Perpetual	Banks	A1/-/A	-/-/-
2020/3/20	Agricultural Bank of China Ltd/Luxembourg	USD	30	0	2020/6/26	92D	Banks	A1/A/A	-/-/-
2020/3/20	China International Capital Corp Hong Kong Ltd	USD	20	3ML+180	2021/3/24	364D	Financials	Baa1/BBB/BBB+	-/-/-
2020/3/20	Taizhou Xinbinjiang Development Co Ltd	USD	81	6.32	2022/3/25	2	Chengtou	-/-/-	-/-/-

Sources: Bloomberg, CCX research

Secondary Market: Chinese dollar bonds remained weak in secondary market

Affected by growing risk aversion and US dollar liquidity shortage, the return of Chinese dollar bonds declined while the yields boosted. As of March 20, the YTD return¹ on Chinese USD corporate bond index dropped by 394bp from last Friday to -4.42%, of which investment grade bond index was -1.09% and high-yield bond index was -10.99%, decreasing by 228bp and 722bp respectively. In terms of sector indices, the return on real estate index recorded the largest fall, dropping by 739bp from last Friday to -10.70%, while the non-financial and financial indices were -1.80% and -6.30%, decreasing by 276bp and 479bp from last Friday, respectively.

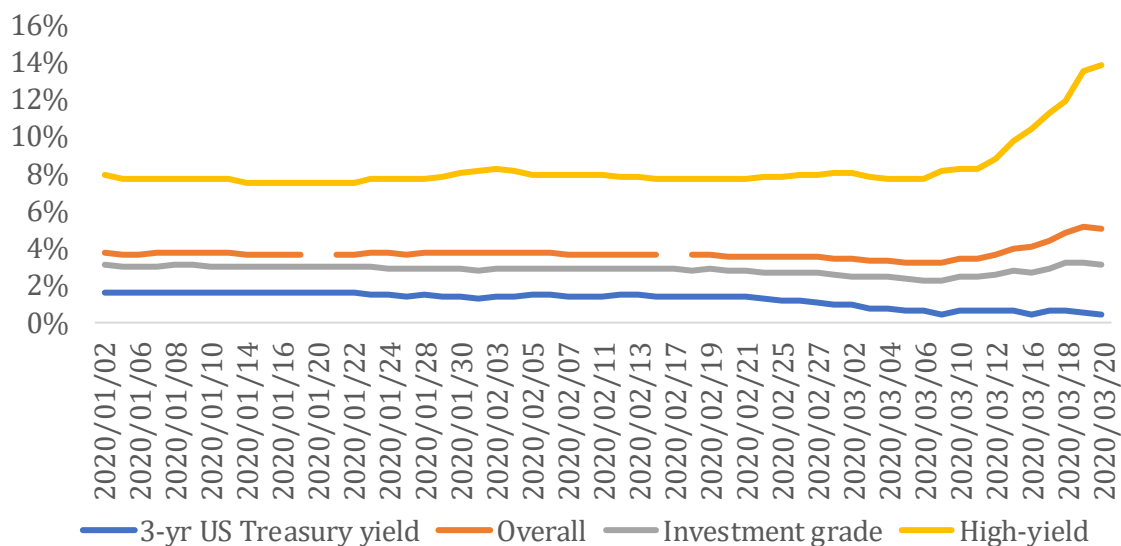
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of March 20, the yield to worst of Chinese dollar bonds rose by 109bp to 5.07% from last Friday, of which investment grade bond index rose by 39bp to 3.11%, while the high-yield bond index enlarged by 408bp to 13.82%.

Figure 6 : Yield to worst of Bloomberg Barclays Chinese USD bond index



Sources: Bloomberg, CCX research

¹ Year-to-date return measures the return since January 2, 2020.

Rating Actions: The epidemic and liquidity squeeze led to the increase of credit risk of some issuers

From March 16 to March 20, the rating agencies took positive rating action on 1 Chinese issuer; and negative rating actions on 8 Chinese issuers.

Table 2 : Credit rating changes of cross-border bond market (20200316-20200320)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Downgrade	Xinhu Zhongbao Co Ltd	Real Estate	B3	NEG	2020/3/17	B2	NEG	2019/9/25	Moody's	Elevated refinancing risk
	21Vianet Group Inc	Communications	B+	NEG	2020/3/17	B+	STABLE	2019/9/3	S&P	Rising leverage and shrinking liquidity buffer
	Hilong Holding Ltd	Energy	B+	Rating Watch Negative	2020/3/18	B+	STABLE	2019/4/10	Fitch	Increased pressure on liquidity position
	CITIC Resources Holdings Ltd	Energy	BB-	NEG	2020/3/18	BB-	STABLE	2019/5/21	S&P	Lower oil prices
	Oceanwide Holdings Co Ltd	Real Estate	CCC+	STABLE	2020/3/19	B-	STABLE	2019/7/19	Fitch	Refinancing uncertainties
	Guorui Properties Ltd	Real Estate	B-	NEG	2020/3/20	B-	STABLE	2019/3/28	Fitch	Sustained weak liquidity position
	China National Chemical Corp Ltd	Materials	BBB	NEG	2020/3/20	BBB	STABLE	2018/3/2	S&P	Earnings weakness
	China National Bluestar Group Co Ltd	Materials	BBB	NEG	2020/3/20	BBB	STABLE	2019/7/2	S&P	Weakening parent earnings
Domestic Rating:										
Upgrade	Jiaozuo Investment Group Co Ltd	Chengtou	AA+	STABLE	2020/3/19	AA	STABLE	2019/7/25	Dagong	Strong anti-risk ability

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: Hengan International issued 3 SCPs (epidemic prevention and control debt)

During this week, Hengan International Group Company Limited ("Hengan International") issued 3 SCPs (epidemic prevention and control debt) in the Interbank Market, with a tenor of 270 days for all three bonds. Hengan International has issued 4 Panda Bonds since 2020. On March 16, Hengan International raised RMB1 billion via the 2020 SCP Series II at a coupon rate of 2.65%. On March 19, Hengan International issued the 2020 SCP Series III & IV. Both of them have the same issued volume of RMB0.5 billion and same coupon rate of 2.60%. China Chengxin assigned AAA to the issuer.

As of March 20, there were 6 issuers that issued 10 Panda Bonds in 2020, with a total issuance volume of RMB13 billion and an average coupon of 2.97%. These bonds were mostly short-/medium-term and were issued in the Interbank Market.

Table 3 : New issuance of Panda Bond in 2020 (20200101-20200320)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Hengan International Group Company Limited	0.5	2.60	2020/3/19	2020/12/11	0.74	SCP	China Interbank Market	China Chengxin
Hengan International Group Company Limited	0.5	2.60	2020/3/19	2020/12/11	0.74	SCP	China Interbank Market	China Chengxin
Hengan International Group Company Limited	1	2.65	2020/3/16	2020/12/10	0.74	SCP	China Interbank Market	China Chengxin
China Gas Holdings Limited	1	3.38	2020/3/10	2025/3/10	5	MTN	China Interbank Market	China Lianhe
BMW Finance N.V.	2	3.35	2020/3/4	2023/3/4	3	PPN	China Interbank Market	China Chengxin
BMW Finance N.V.	1.5	2.90	2020/3/4	2021/3/4	1	PPN	China Interbank Market	China Chengxin
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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