

## 2020 Issue 11

From March 30 to April 3

## US employment slumped amid the epidemic, Chinese IT companies issued onshore and offshore bonds

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## Date:

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**Headline: US employment slumped amid the pandemic, and economy may enter recession**

The US March nonfarm payrolls reduced by 701,000, significantly lower than the market expectation of 100,000 jobs losses. In addition, US unemployment rate rose from 3.5% in February to 4.4% in March, which was the largest over-the-month increase since 1975. However, the March nonfarm payrolls may underestimate the adverse impacts of coronavirus as the data reference period was before the tightening control on coronavirus prevention. It is expected that unless the coronavirus figures show downward trend, the labor market could get worse and the US economy may enter recession.

**Exchange Rate: Intermediate price of RMB rose**

Affected by the pandemic, the intermediate price of RMB exchange rate rose. As of April 3, the intermediate price of the RMB exchange rate closed at 7.1104.

**Interest Rate: Chinese Government Bond and US Treasury yields declined**

Amid the global monetary easing tide, China Government Bond yields declined as the PBoC announced to cut the reserve requirement ratio and the interest rate on excess reserves for financial institutions with the central bank. US Treasury yields dropped as the US coronavirus crisis deepened and economic data showed a worse-than-expected impact. As of April 3, the yield spread between China and US 10-year note was 200.2bp, widening by 6.7bp from last Friday and 73.0bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: New issuance slightly rebounded, Baidu priced USD1 billion senior notes**

From March 30 to April 3, there were 9 new issues with a total issued volume of USD1.426 billion, increasing by 62.6% as compared to last week. Baidu Inc was the largest issuers that priced 2 tranches senior notes with a total volume of USD1 billion.

**Secondary Market: Chinese dollar bonds slightly fluctuated in the secondary market**

Chinese dollar bonds slightly fluctuated in the secondary market. As of April 3, the YTD return on Chinese USD corporate bond index increased by 9bp from last Friday to -2.14%. The return of sector indices diverged, of which the non-financial index rose, while the financial and real estate indices dropped.

**Rating Actions: Rating agencies takes a series of negative actions on Chinese corporates amid ongoing epidemic****Risk Event: MIE Holdings warned of USD bond interest payment uncertainty, Luckin Coffee engaged in financial fraud****Panda Bond Market: Xiaomi and NDB issued 2 epidemic prevention and control debts**

On April 3, Xiaomi issued 2020 Private Placement Note (Series I) (epidemic prevention and control debt) in the interbank market, which is the first IT company to debut in the Panda Bond Market. Xiaomi raised RMB1 billion at a coupon rate of 2.78% with a tenor of 365 days. CCXI assigned the credit rating of AAA to the issuer. On the same day, New Development Bank 2020 Renminbi Bond (Series I) (Coronavirus Combating Bond) (Bond Connect) was also issued in the interbank market, raising RMB5 billion at a coupon rate of 2.43% with a tenor of 3 years.

## Headline: US employment slumped amid the pandemic, and economy may enter recession

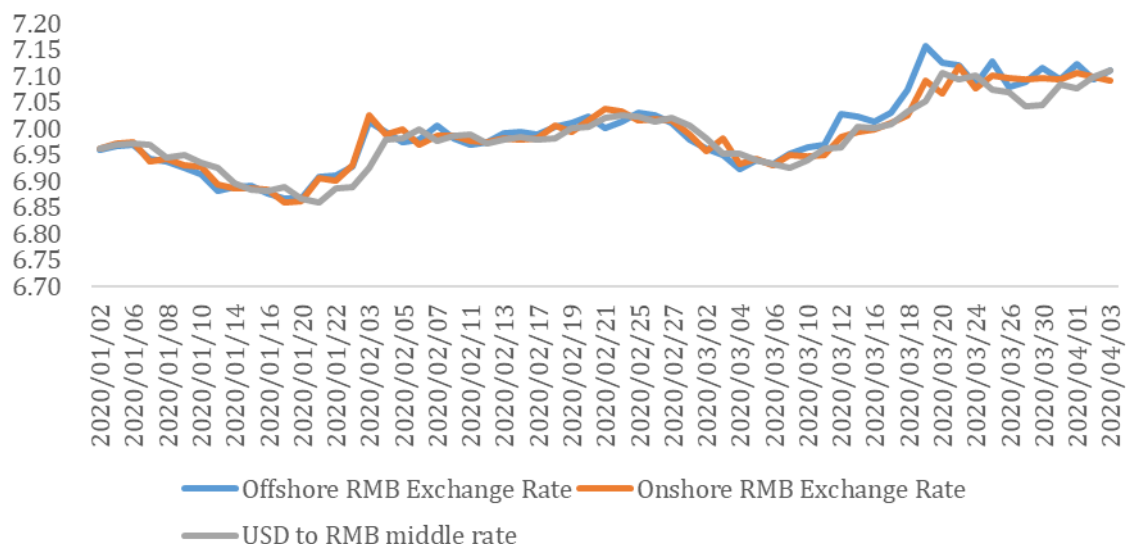
On April 3, the data from US Department of Labor showed that the US have ended a 113-month job creation streak. The March nonfarm payrolls reduced by 701,000, significantly lower than the market expectation of 100,000 jobs losses. This was the first decline in payroll growth since September 2010, and came close to the May 2009 financial crisis peak of 800,000. In addition, US unemployment rate rose from 3.5% in February to 4.4% in March, which was the largest over-the-month increase since 1975. Following last week's record high initial job claims, the weak nonfarm payrolls indicated that US employment faced a serious shock amid the pandemic.

The household survey reference period is generally the calendar week that contains the 12th day of the month, in this case March 8 through March 14. However, majority of the US economic activities started slowing down since the US government declared national emergency on March 13, so the March employment data may underestimate the adverse impacts of coronavirus. According to WHO, as of April 7, the US recorded the highest number infection cases (333,811) and deaths (9,559) in the world, and has not yet seen the turning point of the pandemic. It is expected that unless the coronavirus figures show downward trend, the labor market could get worse and the US economy may enter recession.

## Exchange Rate: Intermediate price of RMB rose

During the week, affected by the pandemic, the intermediate price of RMB exchange rate rose. As of April 3, the intermediate price of the RMB exchange rate closed at 7.1104, up 677bp from last Friday. Onshore RMB exchange rate declined 25bp, closing at 7.0903; offshore RMB exchange rate closed at 7.1118, up 242 from last Friday.

Figure 1 : RMB exchange rate

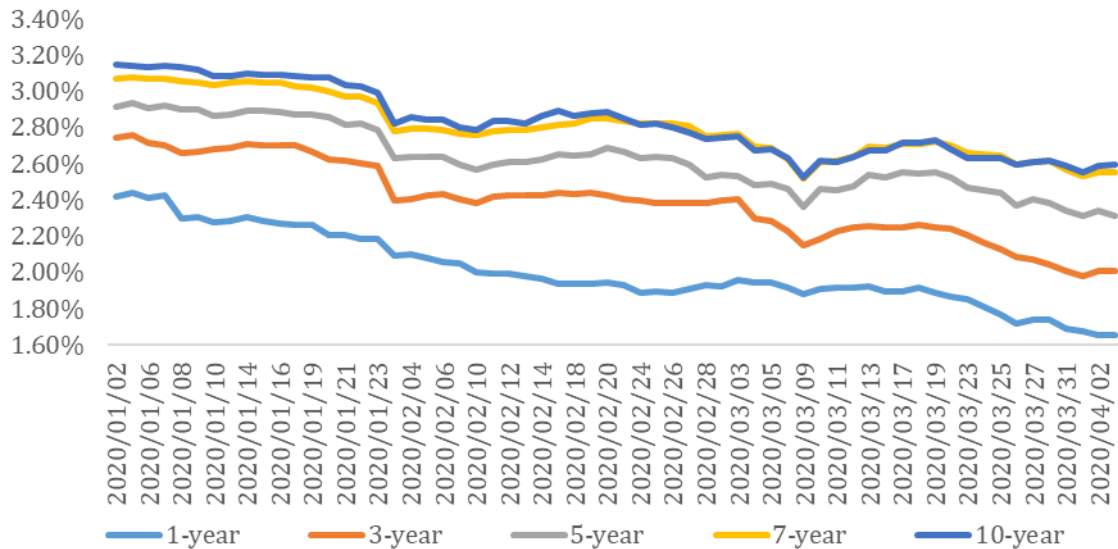


Sources: Eastmoney, CCX research

### Interest Rate: Chinese Government Bond and US Treasury yields declined

Amid the outbreak of coronavirus and global monetary easing tide, China Government Bond yields declined as the People’s Bank of China (“PBoC”) announced to cut the reserve requirement ratio and the interest rate on excess reserves for financial institutions with the central bank. As of April 3, the 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yields declined from last Friday, closing at 1.6548%, 2.0076%, 2.3142%, 2.5546% and 2.5965% respectively.

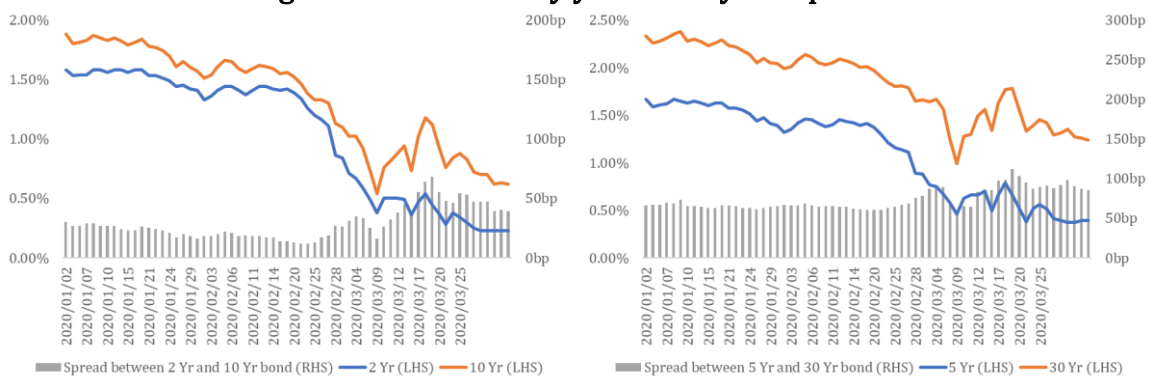
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

US Treasury yields dropped as the US coronavirus crisis deepened and economic data showed a worse-than-expected impact. For example, US March non-farm payrolls fell by 701,000, much lower than the market expectation of 100,000 jobs losses. As of April 3, 2-year, 5-year, 10-year and 30-year Treasury yields closed at 0.23%, 0.39%, 0.62% and 1.24%, decreasing by 2bp, 2bp, 10bp and 5bp over last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year decreased by 8bp to 39bp from last Friday, while the spread between the 5-year and 30-year decreased by 3bp to 85bp.

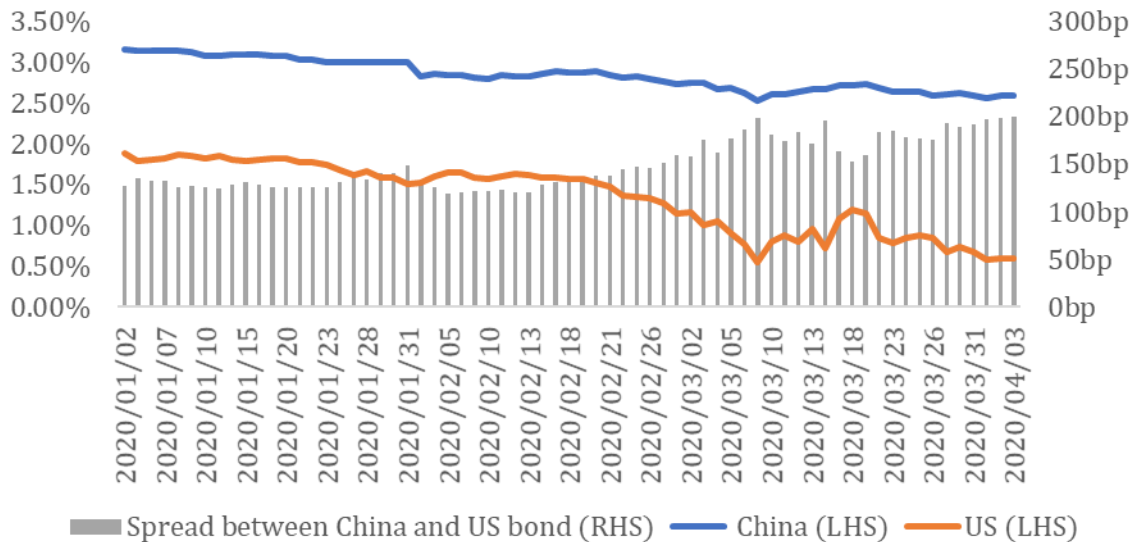
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of April 3, the yield spread between China and US 10-year note was 200.2bp, widening by 6.7bp from last Friday and 73.0bp 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: New issuance slightly rebounded, Baidu priced USD1 billion senior notes

From March 30 to April 3, there were 9 new issues with a total issued volume of USD1.426 billion, increasing by 62.6% as compared to last week. Baidu Inc was the largest issuers that priced 2 tranches senior notes with a total volume of USD1 billion.

Table 1 : New issuance of Chinese offshore bonds (20200330-20200403)

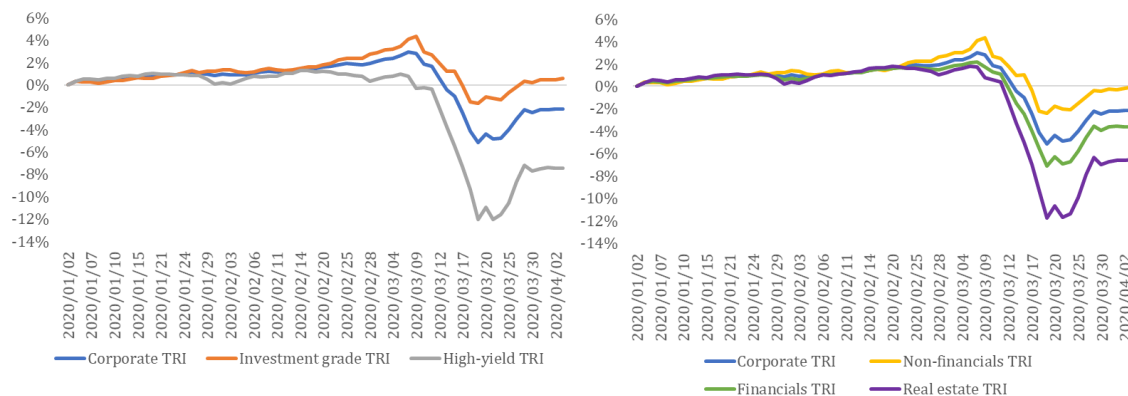
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/3/30	Industrial & Commercial Bank of China Ltd	GBP	250	0	2020/8/3	124D	Banks	A1/A/A	-/-/-
2020/3/31	Guizhou Shuanglong Airport Development and Investment Group Co Ltd	USD	26	4	2023/3/22	3	Chengtou	-/-/-	-/-/-
2020/4/1	Baidu Inc	USD	600	3.075	2025/4/7	5	Communications	A3/-/A	A3/-/A
2020/4/1	Baidu Inc	USD	400	3.425	2030/4/7	10	Communications	A3/-/A	A3/-/A
2020/4/1	China Industrial Securities International Financial Group Ltd	USD	8	11	2021/4/9	1	Financials	-/-/-	-/-/-
2020/4/1	China Industrial Securities International Financial Group Ltd	USD	13	11	2021/4/9	1	Financials	-/-/-	-/-/-
2020/4/1	China Industrial Securities International Financial Group Ltd	USD	15	11	2021/4/9	1	Financials	-/-/-	-/-/-
2020/4/1	China Industrial Securities International Financial Group Ltd	USD	15	11	2021/4/9	1	Financials	-/-/-	-/-/-
2020/4/1	Neijiang Investment Holding Group Co Ltd	USD	40	3.8	2023/4/8	3	Chengtou	-/-/-	-/-/-

Sources: Bloomberg, CCX research

## Secondary Market: Chinese dollar bonds slightly fluctuated in the secondary market

Chinese dollar bonds slightly fluctuated in the secondary market. As of April 3, the YTD return<sup>1</sup> on Chinese USD corporate bond index increased by 9bp from last Friday to -2.14%, of which investment grade bond index was 0.57% and high-yield bond index was -7.48%, increasing by 26bp and decreasing by 25bp respectively. The return of sector indices diverged. The return on non-financial index rose by 30bp over last Friday to -0.10%, while the financial index dropped by 6bp to 3.60% and the real estate index dropped by 17bp to 6.56%.

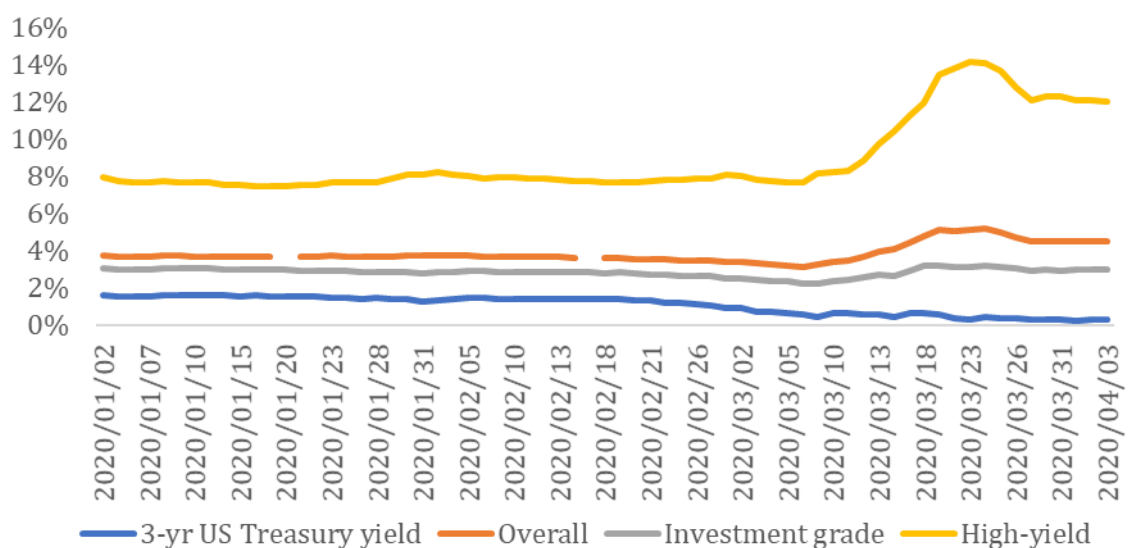
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of April 3, the yield-to-worst of Chinese dollar bonds increased by 2bp to 4.49% from last Friday, of which investment grade bond index rose by 3bp to 2.98%, while the high-yield bond index declined by 6bp to 12.02%.

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



Sources: Bloomberg, CCX research

<sup>1</sup> Year-to-date return measures the return since January 2, 2020.

## Rating Actions: Rating agencies takes a series of negative actions on Chinese corporates amid ongoing epidemic

From March 30 to April 3, the rating agencies took positive rating action on 1 Chinese issuer; and negative rating actions on 22 Chinese issuers.

**Table 2 : Credit rating changes of cross-border bond market (20200330-20200403)**

	Entity			Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change	
					Entity Rating	Outlook	Date	Entity Rating	Outlook	Date			
<b>International Rating:</b>													
Upgrade	Yida Ltd	China	Holdings	Real Estate	CC	-	2020/3/31	RD	-	2020/3/31	Fitch	Completion of exchange offer	
	Yida Ltd	China	Holdings	Real Estate	CCC-	-	2020/4/1	SD	-	2020/3/27	S&P	Completion of exchange offer	
	Yida Ltd	China	Holdings	Real Estate	RD	-	2020/3/31	C	-	2020/2/27	Fitch	Distressed debt exchange	
Downgrade	Anhui Holding Group Co Ltd		Transportation	Industrials	Baa1	NEG	2020/3/31	Baa1	STABLE	2019/9/12	Moody's	Weaker operating and financial performance	
	Guangxi Communications Investment Group Co Ltd			Industrials	Baa2	NEG	2020/3/31	Baa2	STABLE	2019/8/29	Moody's		
	Guangzhou Communications Investment Group Co Ltd			Industrials	Baa2	NEG	2020/3/31	Baa2	STABLE	2019/9/11	Moody's		
	Qilu Development Group Co Ltd		Transportation	Industrials	A3	NEG	2020/3/31	A3	STABLE	2019/11/1	Moody's		
	Shandong Group Co Ltd		Hi-Speed	Industrials	A3	NEG	2020/3/31	A3	STABLE	2019/9/26	Moody's		
	Shenzhen Expressway Co Ltd			Industrials	Baa2	NEG	2020/3/31	Baa2	STABLE	2019/10/23	Moody's		
	Shenzhen International Holdings Ltd			Industrials	Baa2	NEG	2020/3/31	Baa2	STABLE	2019/3/13	Moody's		
	Greentown Holdings Ltd		China	Real Estate	Ba3	STABLE	2020/3/31	Ba3	Positive	2019/9/9	Moody's		Stabilized credit metrics given both debt and revenue growth
	361 International Ltd		Degrees	Consumer Discretionary	B+	NEG	2020/3/31	BB-	NEG	2019/3/19	S&P		Weak consumer spending
	China Property Holdings Ltd		Logistics	Industrials	Caa1	NEG	2020/3/31	B3	NEG	2019/9/23	Moody's		Uncertainty over debt refinancing
Maoye International Holdings Ltd			Consumer Discretionary	B-	STABLE	2020/3/31	B	STABLE	2019/5/10	S&P	Limited liquidity cushion		
Chongqing Urban Construction & Development Group Co Ltd		Nan'an	Chengtou	BBB	NEG	2020/4/1	BBB	STABLE	2019/8/14	S&P	Weakening credit profile of the Nan'an government		
China Automotive Group Co Ltd		Grand Services	Consumer Discretionary	B+	NEG	2020/4/1	BB-	NEG	2019/11/10	Fitch	Deterioration in liquidity		

Agile Group Holdings Ltd	Real Estate	Ba2	NEG	2020/4/2	Ba2	STABLE	2019/9/27	Moody's	Weakened credit metrics
China FAW Group Co Ltd	Consumer Discretionary	A	NEG	2020/4/3	A	STABLE	2019/11/14	S&P	Challenging industry conditions and COVID-19 uncertainty
Beijing Automotive Group Co Ltd	Consumer Discretionary	BBB+	Rating Watch Negative	2020/4/3	BBB+	NEG	2019/7/29	S&P	
BAIC Motor Corp Ltd									
Zhejiang Geely Holding Group Co Ltd	Consumer Discretionary	BBB-	Rating Watch Negative	2020/4/3	BBB-	STABLE	2019/9/18	S&P	
Geely Automobile Holdings Ltd									High debt leverage and increased liquidity risk
Guangzhou R&F Properties Co Ltd	Real Estate	Ba3	Rating Watch Negative	2020/4/3	Ba3	STABLE	2019/9/6	Moody's	
R&F Properties HK Co Ltd	Real Estate	B1	Rating Watch Negative	2020/4/3	B1	STABLE	2019/4/4	Moody's	Weakened parental support and potential deterioration in standalone credit quality

Sources: Bloomberg, Wind, CCX research

## Risk Event: MIE Holdings warned of USD bond interest payment uncertainty, Luckin Coffee engaged in financial fraud

On April 1, MIE Holdings Corporation (“MIE Holdings” or the “Company”) announced that the Company sustained intensified liquidity pressure given low prices of oil and gas and high borrowing costs. Therefore, the interest payment of the Company’s USD248 million senior notes due 2022 was subject to uncertainties. As scheduled, the Company needs to pay interest of around USD17 million on April 12, 2020.

On April 2, Luckin Coffee has found that fabricated sales from 2019Q2 to 2019Q4 amounted to RMB2.2 billion. Luckin Coffee could potentially record a significant amount of cash outflow because of the penalties from the US Securities and Exchange Commission and lawsuits from investors. According to Bloomberg, as of April 3, Luckin Coffee has USD460 million outstanding convertible bond. This bond included a put option with an exercise date on January 15, 2023.

## Panda Bond Market: Xiaomi and NDB issued 2 epidemic prevention and control debts

On April 3, Xiaomi Corporation (“Xiaomi”) issued 2020 Private Placement Note (Series I) (epidemic prevention and control debt) in the interbank market, which is the first IT company to debut in the Panda Bond Market. Xiaomi raised RMB1 billion at a coupon rate of 2.78% with a tenor of 365 days. CCXI assigned the credit rating of AAA to the issuer. On the same day, New Development Bank (“NDB”) 2020 Renminbi Bond (Series I) (Coronavirus Combating Bond) (Bond Connect) was also issued in the interbank market, raising RMB5 billion at a coupon rate of 2.43% with a tenor of 3 years.

As of April 3, there were 8 issuers that issued 12 Panda Bonds in 2020, with a total issuance volume of RMB19 billion and an average coupon of 2.91%. These bonds were mostly short-/medium-term and were issued in the interbank market.

**Table 3 : New issuance of Panda Bond in 2020 (20200101-20200403)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
New Development Bank	5	2.43	2020/4/3	2023/4/3	3	International Institutional Bond	China Interbank Market	--
Xiaomi Corporation	1	2.78	2020/4/3	2021/4/3	1	PPN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	0.5	2.60	2020/3/19	2020/12/11	0.74	PPN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	0.5	2.60	2020/3/19	2020/12/11	0.74	MTN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	1	2.65	2020/3/16	2020/12/10	0.74	PPN	China Interbank Market	China Chengxin
China Gas Holdings Ltd.	1	3.38	2020/3/10	2025/3/10	5	MTN	China Interbank Market	Lianhe Ratings
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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