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From May 11 to May 15

Fed's balance sheet increased to near USD7 trillion; most of Chinese dollar bond indices turned positive

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Headline: Fed's balance sheet increased to near USD7 trillion, foreign ownership of Treasuries saw a record drop

On Wednesday, the Fed's data showed its balance sheet increased to a record high of USD6.98 trillion. There were some changes in the Fed's purchases, including increase in purchasing scale of mortgage-backed bonds and decrease in Treasuries. According to the US Department of Treasury, foreign ownership of Treasuries declined by USD256.6 billion in March, the biggest drop since 2002. As of May 16, the US national debt increased to USD25.2 trillion, around 117% of US GDP in 2019.

Exchange Rate: RMB exchange rate rose

Affected by the strong US dollar index, the interest rate spread between China and the US continued to widen, and the RMB exchange rate fluctuated upward. As of May 15, the intermediate price of the RMB exchange rate closed at 7.0936

Interest Rate: China Government Bond yields rose while US Treasury yields dropped

After the Labor Day holiday, the PBoC remained silent on monetary policy. Since the economic recovery led to a rise in loan demand and upward pressure on interest rates, China Government Bond yields fluctuated upward. US Treasury yields dropped as Jerome Powell, the Fed Chairman, warned of significant downside risk and economic data, including initial jobless claims and PPI, were worse than market expectations. As of May 15, the yield spread between China and US 10-year note was 203.9bp, widening by 10.5bp from last Friday and 76.8bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: Chinese offshore bond new issuance declined**

From May 11 to May 15, there were 9 new issues with a total issued volume of USD1,154 million, decreasing by 71.8% as compared to last week.

Secondary Market: Chinese dollar bonds continued to rebound, most of the indices turned positive

As of May 15, the YTD return on Chinese USD corporate bond index increased by 64bp from last Friday to 0.51%. In terms of sector indices, the return on real estate index recorded the largest rally, rising by 107bp from last Friday to -0.72%.

Rating Actions: More Chinese corporates faced increased leverage and refinancing risk**Panda Bond Market: BEWG issued MTN this week**

On May 13, BEWG issued 2020 Medium Term Note Series I in China Interbank Market. BEWG raised RMB1 billion, at a coupon rate of 4.00% with a tenor of 5 years. Shanghai Brilliance Rating assigned AAA to the bond and the issuer.

Headline: Fed’s balance sheet increased to near USD7 trillion, foreign ownership of Treasuries saw a record drop

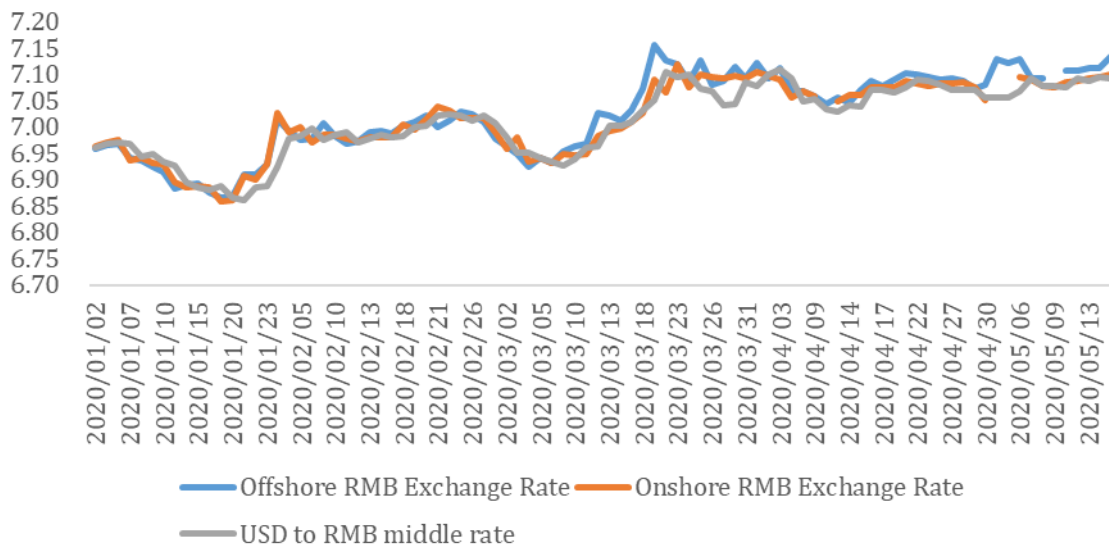
According to the data released by the Fed on Wednesday, its balance sheet increased to a record high of USD6.98 trillion. There were some changes in the Fed’s purchases, which its holdings of mortgage-backed bonds increased by USD178 billion, while holdings of Treasuries rose by USD37 billion. The Fed announced that it will purchase about USD6 billion in Treasuries every day next week. The scale of purchases dropped by around 90%, as compared that of USD75 billion in mid-March. The financial market is concerned about that the drop in purchasing scale could challenge the Treasury issuance, as the US Department of the Treasury planned to issue a sizeable scale of Treasuries of USD2,990 billion in the second quarter.

The US Department of Treasury released the Treasury International Capital Data for March on May 15. The data showed that foreign ownership of Treasuries declined by USD256.6 billion in March, the biggest drop since 2002. India and Saudi Arabia reduced their holdings by USD21 billion and USD25.3 billion, respectively. China’s holdings of Treasuries decreased by USD10.7 billion to USD1.08 trillion at end-March. As of May 16, the US national debt increased to USD25.2 trillion, around 117% of US GDP in 2019.

Exchange Rate: RMB exchange rate rose

This week, affected by the strong US dollar index, the interest rate spread between China and the US continued to widen, and the RMB exchange rate fluctuated upward. As of May 15, the intermediate price of the RMB exchange rate closed at 7.0936, up 148bp from last Friday; the onshore RMB exchange rate rose 203bp, to 7.0995; the offshore RMB exchange rate rose 422bp, to 7.1340.

Figure 1 : RMB exchange rate

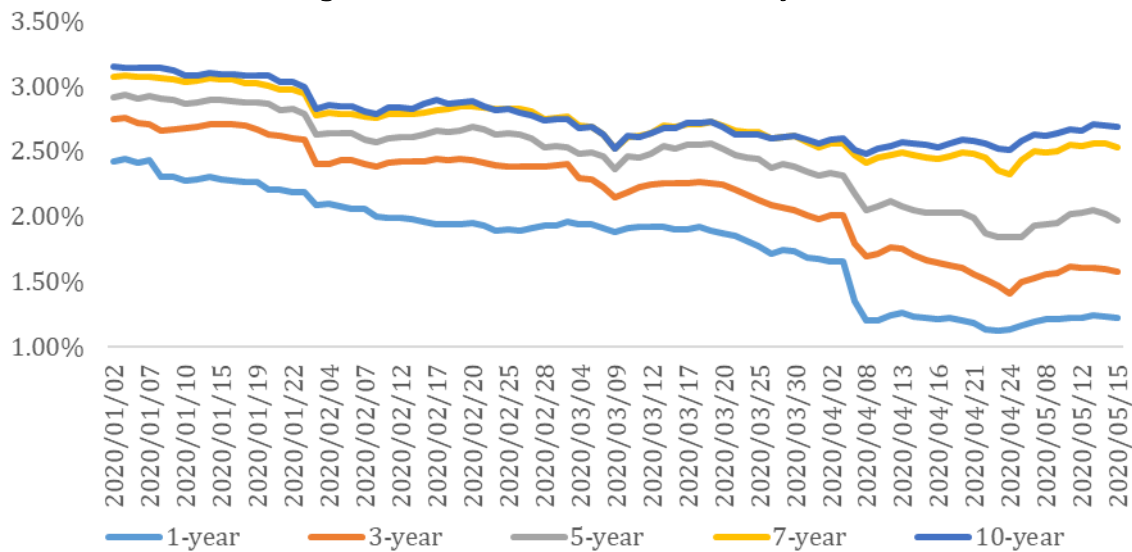


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond yields rose while US Treasury yields dropped

After the Labor Day holiday, the People’s Bank of China (“PBoC”) remained silent on monetary policy. The liquidity of domestic banks remained sufficient, with the overnight Shibor below 1%. The economic recovery led to a rise in loan demand and upward pressure on interest rates. At the same time, risk appetite picked up, resulting in upward fluctuation of China Government Bond yields. As of May 15, 1-year, 3-year, 5-year, 7-year and 10-year China Government Bond yields fluctuated upward from last Friday, closing at 1.2186%, 1.5800%, 1.9702%, 2.5281% and 2.6820%, respectively.

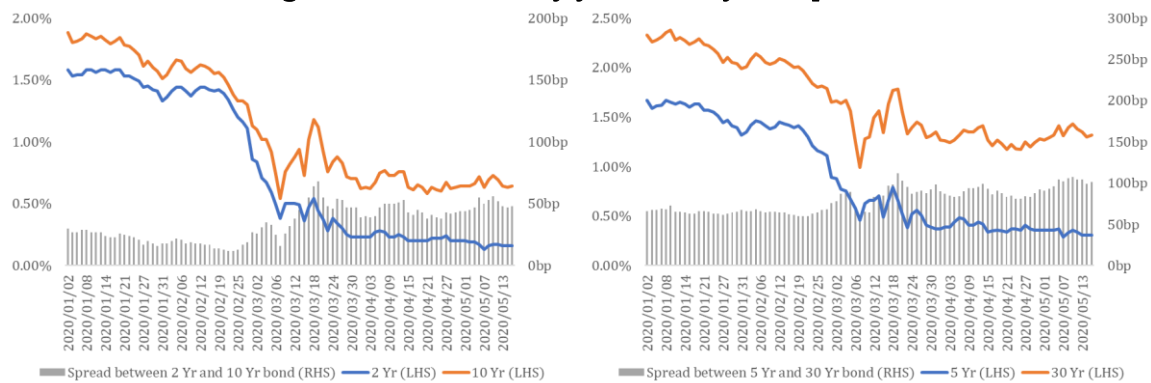
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

US Treasury yields dropped as Jerome Powell, the Fed Chairman, warned of significant downside risk and economic data, including initial jobless claims and PPI, were worse than market expectations. As of May 15, 2-year Treasury yield closed at 0.16%, unchanged from last Friday; 5-year, 10-year and 30-year Treasury yields closed at 0.31%, 0.64% and 1.32%, decreasing by 2bp, 5bp and 7bp from last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year decreased by 5bp to 48bp from last Friday, while the spread between the 5-year and 30-year decreased by 5bp to 101bp from last Friday.

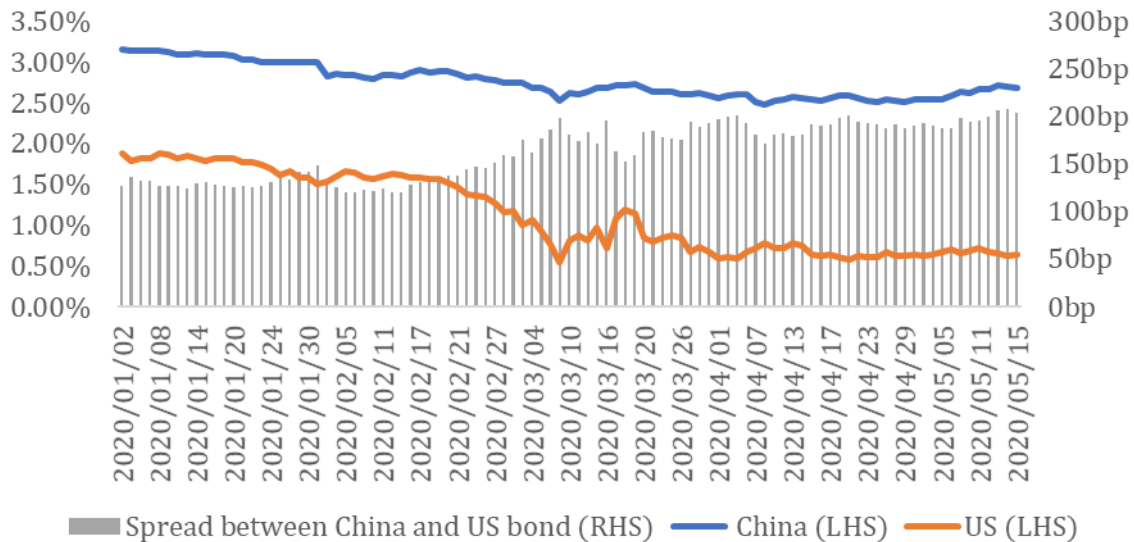
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of May 15, the yield spread between China and US 10-year note was 203.9bp, widening by 10.5bp from last Friday and 76.8bp 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 declined

From May 11 to May 15, there were 9 new issues with a total issued volume of USD1,154 million, decreasing by 71.8% as compared to last week.

Table 1 : New issuance of Chinese offshore bonds (20200511-20200515)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/5/11	Guotai Junan International Holdings Ltd	HKD	350	3	2021/5/13	364D	Financials	Baa2/BBB+/-	-/-/-
2020/5/12	CITIC Securities International Co Ltd	USD	122	2	2020/11/15	185D	Financials	-/BBB+/-	-/-/-
2020/5/12	Guotai Junan International Holdings Ltd	HKD	355	2.5	2020/11/19	184D	Financials	Baa2/BBB+/-	-/-/-
2020/5/12	Zhongsheng Group Holdings Ltd	HKD	4,560	0	2025/5/21	5	Consumer Discretionary	-/-/-	-/-/-
2020/5/14	Guotai Junan International Holdings Ltd	HKD	420	2.5	2020/11/22	184D	Financials	Baa2/BBB+/-	-/-/-
2020/5/14	Guotai Junan International Holdings Ltd	HKD	385	0	2021/2/22	277D	Financials	Baa2/BBB+/-	-/-/-
2020/5/14	Zhenro Properties Group Ltd	USD	200	8.35	2024/3/10	3.8	Real Estate	B1/B/B+	-/-/B+e
2020/5/15	CMB International Capital Corp Ltd	USD	10	1.73	2020/8/20	92D	Financials	Baa1/BBB+/-	-/-/-
2020/5/15	Guotai Junan International Holdings Ltd	HKD	300	2.1	2021/5/21	364D	Financials	Baa2/BBB+/-	-/-/-

Sources: Bloomberg, CCX research

Shinsun Real Estate Group Co Ltd announced tap bond offering on May 16.

Table 2 : Tap bond offering (20200511-20200515)

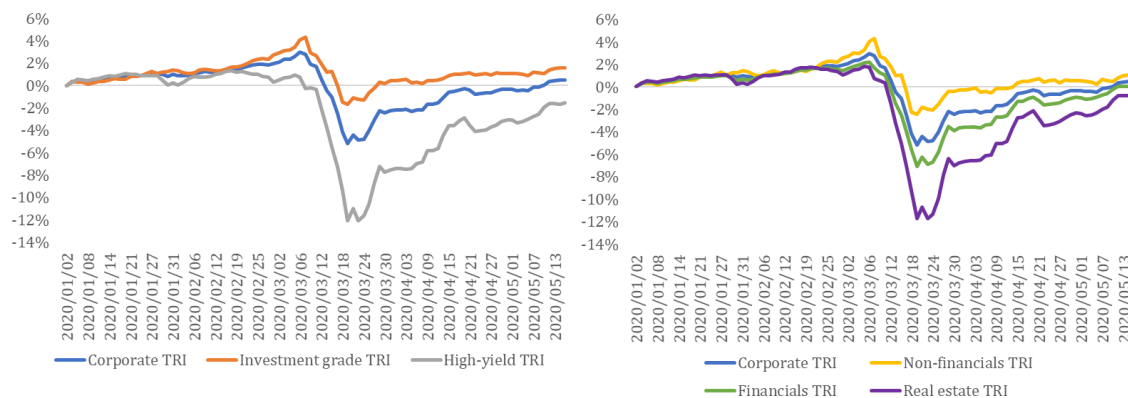
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/5/15	Shinsun Real Estate Group Co Ltd	USD	300 (reoffered 97)	12.5	2022/1/23	2	Real Estate	-/-/-	-/-/-

Sources: Bloomberg, CCX research

Secondary Market: Chinese dollar bonds continued to rebound, most of the indices turned positive

As of May 15, the YTD return¹ on Chinese USD corporate bond index increased by 64bp from last Friday to 0.51%, of which investment grade bond index was 1.58% and high-yield bond index was -1.54%, increasing by 46bp and 100bp respectively. In terms of sector indices, the return on real estate index recorded the largest rally, rising by 107bp from last Friday to -0.72%, while the non-financial and financial indices were 1.12% and 0.07%, increasing by 58bp and 68bp from last Friday, respectively.

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

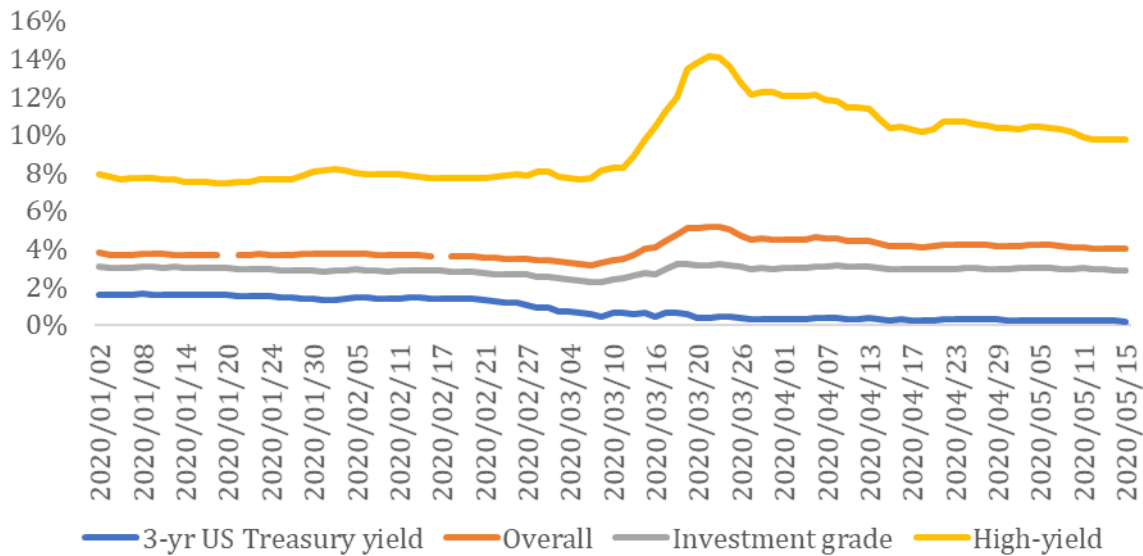


Sources: Bloomberg, CCX research

As of May 15, the yield-to-worst of Chinese dollar bonds decreased by 10bp to 4.00% from last Friday, of which investment grade bond index dropped by 9bp to 2.86%, while the high-yield bond index declined by 45bp to 9.71%.

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

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



Sources: Bloomberg, CCX research

Rating Actions: More Chinese corporates faced increased leverage and refinancing risk

From May 11 to May 15, the rating agencies took positive rating action on 1 Chinese issuer; and negative rating actions on 8 Chinese issuers.

Table 3 : Credit rating changes of cross-border bond market (20200511-20200515)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Upgrade	Zoomlion Industry Science and Technology Co Ltd	Heavy Industrials	B+	POS	2020/5/15	B	POS	2019/7/17	S&P	Resilient performance and deleveraging
	China Oil & Gas Group Ltd	Utilities	Ba2	NEG	2020/5/11	Ba2	STABLE	2019/7/16	Moody's	Weakened credit profile
Downgrade	Yihua Enterprise Group Co Ltd	Consumer Discretionary	SD	-	2020/5/11	CCC	NEG	2019/7/26	S&P	Missed interest payment
	Tahoe Group Co Ltd	Real Estate	CCC+		2020/5/11	B-	Rating Watch Negative	2020/4/29	Fitch	Refinancing uncertainties
	China Auto Holdings Ltd	ZhengTong Services Consumer Discretionary	B3	NEG	2020/5/12	B2	NEG	2020/3/27	Moody's	Weaker-than-expected 2019 operating performance and reduced financial flexibility
	Meinian Healthcare Co Ltd	Onehealth Holdings Health Care	BB-	STABLE	2020/5/12	BB	STABLE	2019/11/14	Fitch	High leverage
	Zhongyuan Management Co Ltd	Asset Financials	Baa3	NEG	2020/5/13	Baa3	STABLE	2019/10/18	Moody's	Coronavirus risk

	Tahoe Group Co Ltd	Real Estate	CC	-	2020/5/14	CCC+	-	2020/5/11	Fitch	Weakened funding access
	Hilong Holding Ltd	Energy	B2	NEG	2020/5/15	B1	STABLE	2020/3/23	Moody's	Weakened credit profile
	Century Sunshine Group Holdings Ltd	Materials	B3	NEG	2020/5/15	B2	STABLE	2019/12/23	Moody's	Heightened refinancing risk
Domestic Rating:										
Downgraded	Tahoe Group Co Ltd	Real Estate	AA-	NEG	2020/5/12	AA+	NEG	2020/4/28	Lianhe Ratings United Ratings	Exposure to contingent liabilities and tight liquidity

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: BEWG issued MTN this week

On May 13, Beijing Enterprises Water Group Limited (“BEWG”) issued 2020 Medium Term Note Series I in China Interbank Market. BEWG raised RMB1 billion, at a coupon rate of 4.00% with a tenor of 5 years. Shanghai Brilliance Rating assigned AAA to the bond and the issuer.

As of May 15, there were 12 issuers that issued 17 Panda Bonds in 2020, with a total issuance amount of RMB25.4 billion and an average coupon of 2.99%. These bonds were mostly medium term and they were all issued in China Interbank Market, except the one of BECE.

Table 4 : New issuance of Panda Bond in 2020 (20200101-20200515)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Beijing Enterprises Water Group Limited	1	4.00	2020/5/13	2025/5/13	5	MTN	China Interbank Market	Shanghai Brilliance Rating
Bank of China Group Investment Limited	1.5	2.70	2020/5/8	2023/5/8	3	MTN	China Interbank Market	CCXI
Beijing Enterprises Clean Energy Group Limited	0.9	5.50	2020/4/29	2023/4/29	3	Corporate Bond	Shenzhen Exchange Market	United Ratings
China Mengniu Dairy Co. Ltd	1.5	1.80	2020/4/24	2020/11/20	0.57	SCP	China Interbank Market	--
Semiconductor Manufacturing International Corporation	1.5	1.85	2020/4/16	2022/8/5	0.30	SCP	China Interbank Market	China Chengxin
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 Rating
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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