

## 2020 Issue 25

From July 6 to July 10

## UK still exposed to no-deal Brexit; Chinese real estate dollar bonds showed a strong supply

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## Date:

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**Headline: UK still exposed to no-deal Brexit**

EU chief negotiator Michel Barnier met UK chief negotiator David Frost for a new round discussion on Brexit on Wednesday. Michel Barnier stated that there were significant divergences between the EU and the UK. German Chancellor Angela Merkel said that the EU should prepare for no-deal Brexit. The UK GDP expanded by 1.8% MoM in May as lockdown restrictions began to ease, but far below the market expectation of 5.5%.

**Exchange Rate: RMB appreciated against USD**

The Chinese economy continued to recover with effective control of the pandemic. At the same time, the continuous inflow of foreign capital and weaker US dollar supported the appreciation of RMB exchange rate. As of July 10, the intermediate price of RMB exchange rate closed at 6.9943, breaking the threshold of 7.

**Interest Rate: China Government Bond yields fluctuated upward; US Treasury yields diverged**

The domestic economy recovery boosted the risk appetite, resulting an increase in China Government Bond yields. As the number of daily confirmed cases spiked to record high, US Treasury yields dropped amid growing concerns over the pandemic in the US. The yields slightly rebounded late this week after positive vaccine news. As of July 10, the yield spread between China and US 10-year note was 238.6bp, widening by 15.8bp from last Friday and 111.4bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: Chinese real estate dollar bonds showed a strong supply**

From July 6 to July 10, there were 20 new issues with a total issuance volume of USD7.28 million, boosted by 288% as compared to that of last week. The real estate companies were the key issuers, which raised USD3.35 billion via 9 bonds, accounting for 46% of the total issuance volume.

**Secondary Market: Return on Chinese USD bonds rose**

As of July 10, the YTD return on Chinese USD corporate bond index increased by 45bp from last Thursday to 3.16%, of which investment grade bond index was 3.85% and high-yield bond index was 1.88%, increasing by 47bp and 41bp respectively.

**Rating Actions: Credit rating agencies downgraded the ratings of Tahoe Group****Risk Event: Century Sunshine defaulted on its SGD subordinated notes****Panda Bond Market: NDB issued a new Panda Bond**

On July 7, 2020 New Development Bank Renminbi Bond (Series II) was successfully issued in the China Interbank Market via Bond Connect, raising RMB2 billion at a coupon rate of 3.00% with a tenor of 5 years.

## Headline: UK still exposed to no-deal Brexit

EU chief negotiator Michel Barnier met UK chief negotiator David Frost for a new round discussion on Brexit on Wednesday. “This week’s discussions confirm that significant divergences remain between the EU and the UK,” said Michel Barnier. German Chancellor Angela Merkel stated that Germany will continue to push to seal a new partnership agreement with the UK by the end of the year, but the EU should prepare for no-deal Brexit.

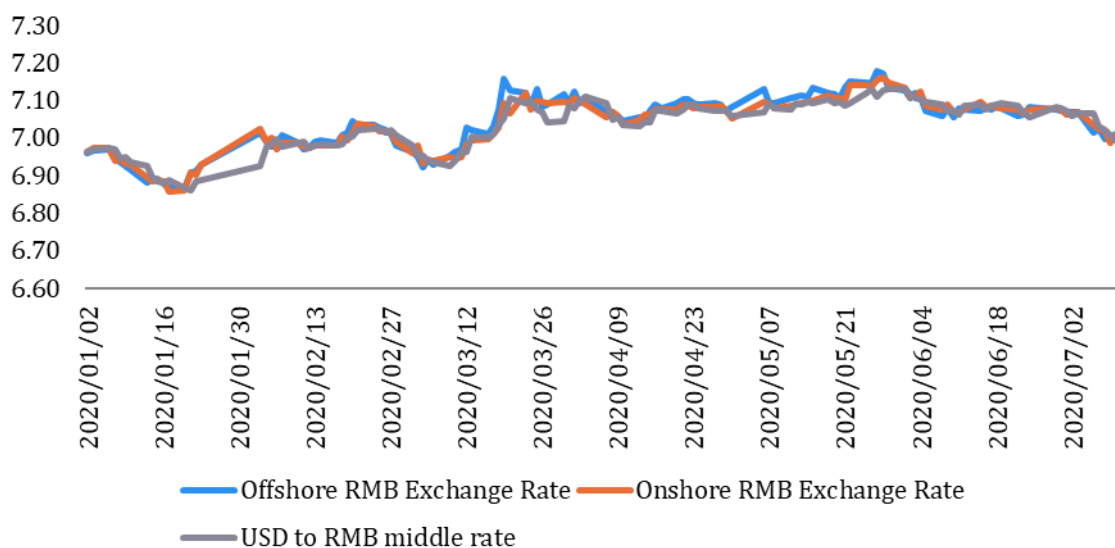
The communication from European Commission pointed out that the UK made the choice on not extending the transition period, meaning that these inevitable disruptions will occur as of January 1 2021, and risk compounding the pressure that businesses are already under due to the COVID-19 outbreak. It also claimed that negotiation so far have shown little progress and discussions have now been intensified over the summer. The EU warned that there could be business barriers in 2021 and transport and logistics operators could be affected even if a zero-tariff, zero-quota EU-UK trade agreement is put in place.

Meanwhile, the UK was still subject to uncertainties amid the pandemic. The UK GDP expanded by 1.8% MoM in May as lockdown restrictions began to ease, but far below the market expectation of 5.5%. On Thursday, UK Finance Minister Rishi Sunak unveiled GBP30 billion stimulus packages to stem unemployment and help economy recover.

## Exchange Rate: RMB appreciated against USD

Recently, the Chinese economy continued to recover with effective control of the pandemic. At the same time, the continuous inflow of foreign capital and weaker US dollar supported the appreciation of RMB exchange rate. As of July 10, the intermediate price of RMB exchange rate broke the threshold of 7 and closed at 6.9943, down 695bp from last Friday. The onshore RMB exchange rate closed at 7.0071, down 609bp from last Friday; while the offshore RMB exchange rate closed at 7.0111, down 576bp.

Figure 1 : RMB exchange rate

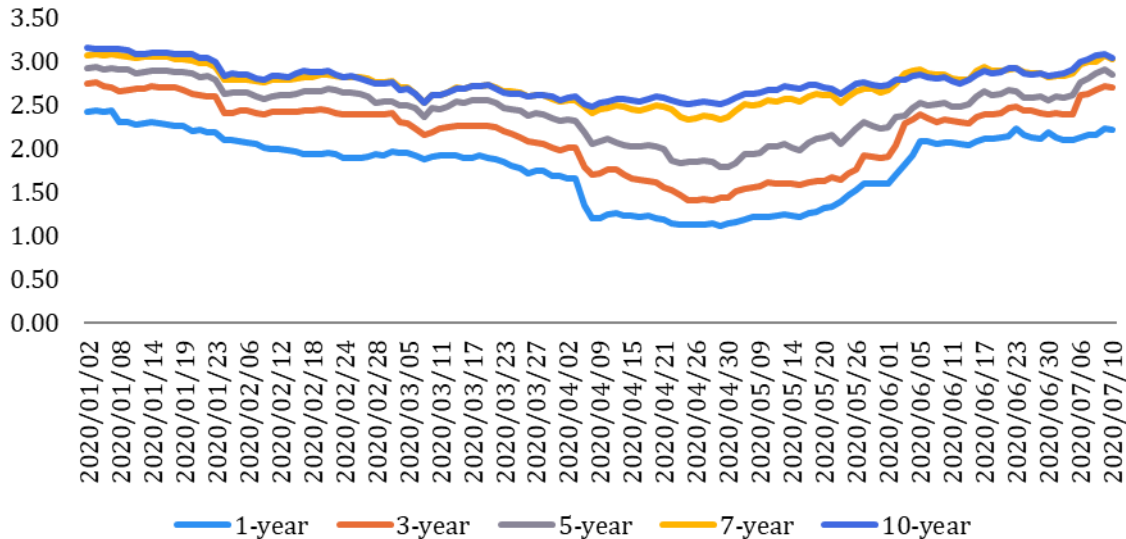


Sources: Eastmoney, CCX research

### Interest Rate: China Government Bond yields fluctuated upward; US Treasury yields diverged

Recently, the domestic economy recovery boosted the risk appetite, resulting an increase in China Government Bond yields. As of July 10, the 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yield rose from last Friday, closing at 2.2165%, 2.6894%, 2.8423%, 3.0209% and 3.0305%, respectively.

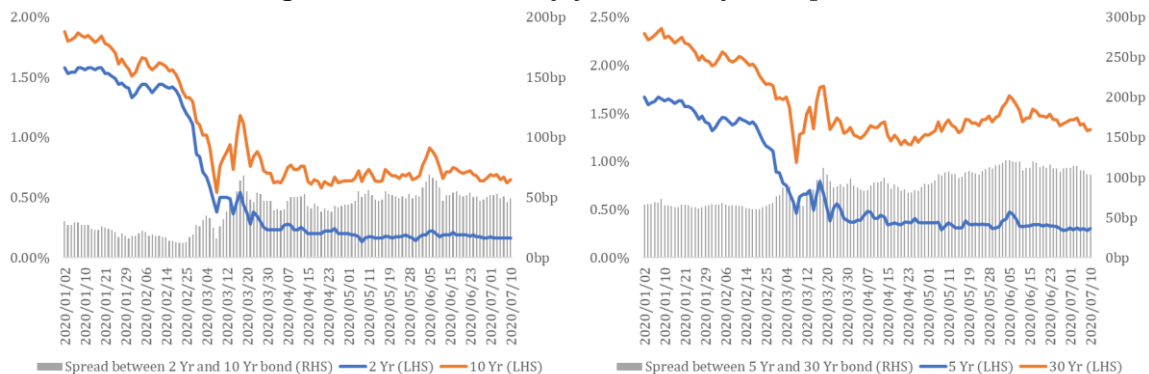
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

As the number of daily confirmed cases spiked to record high, US Treasury yields dropped amid growing concerns over the pandemic in the US. The yields slightly rebounded late this week after positive vaccine news. As of July 10, 2-year Treasury yield closed flat at 0.16% as compared to last Thursday; 5-year yield rose by 1bp to 0.30%; 10-year and 30-year Treasury yields closed at 0.65% and 1.33%, decreasing by 3bp and 10bp, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year tightened by 3bp to 49bp from last Thursday, while the spread between the 5-year and 30-year tightened by 11bp to 103bp

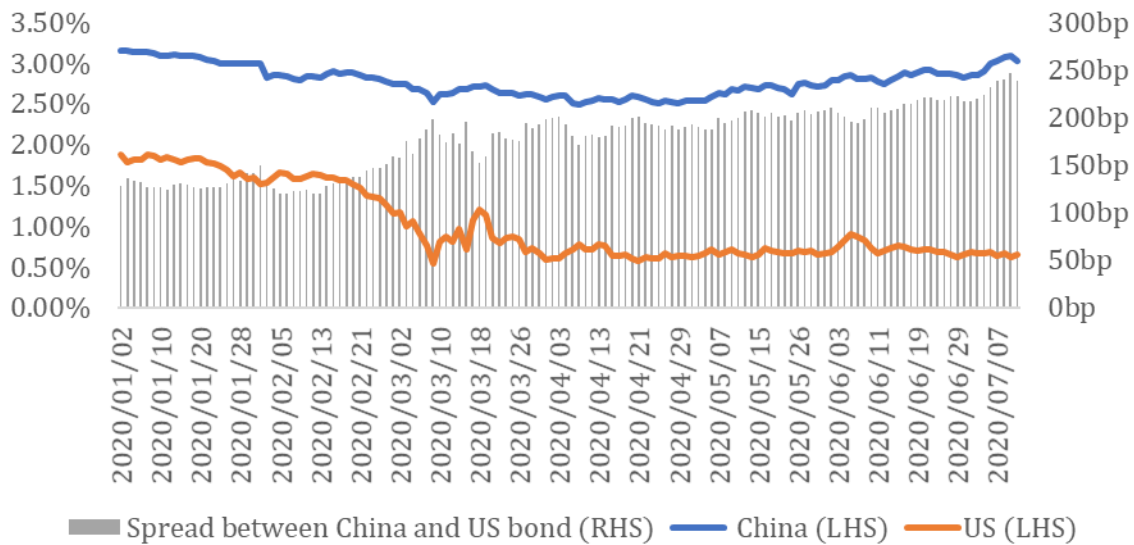
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of July 10, the yield spread between China and US 10-year note was 238.6bp, widening by 15.8bp from last Friday and 111.4bp 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 real estate dollar bonds showed a strong supply

From July 6 to July 10, there were 20 new issues with a total issuance volume of USD7.28 million, boosted by 288% as compared to that of last week. The real estate companies were the key issuers, which raised USD3.35 billion via 9 bonds, accounting for 46% of the total issuance volume.

Table 1 : New issuance of Chinese offshore bonds (20200706-20200710)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/7/6	Modern Land China Co Ltd	USD	250	11.5	2022/11/13	2.34	Real Estate	B2/-/B	B3/-/B
2020/7/6	Shanghai International Port Group Co Ltd	USD	300	1.5	2025/7/13	5	Industrials	A1/A+/-	A1/A+/-
2020/7/6	Shanghai International Port Group Co Ltd	USD	700	2.375	2030/7/13	10	Industrials	A1/A+/-	A1/A+/-
2020/7/6	Shimao Group Holdings Ltd	USD	300	4.6	2030/7/13	10	Real Estate	Ba1/BB+/BBB-	-/-/BBB-
2020/7/6	Sunac China Holdings Ltd	USD	600	6.5	2023/7/9	3	Real Estate	Ba3/BB-/BB	B1/B+/BB
2020/7/6	Sunac China Holdings Ltd	USD	400	7	2025/7/9	5	Real Estate	Ba3/BB-/BB	B1/B+/BB
2020/7/7	Bank of Communications Financial Leasing Co Ltd	USD	350	1.75	2023/7/14	3	Financials	A2/A-/A	A3/-/-
2020/7/7	Bank of Communications Financial Leasing Co Ltd	USD	450	3ML+170	2025/7/14	5	Financials	A2/A-/A	A3/-/-
2020/7/7	CMB International Capital Corp Ltd	USD	20	1	2020/8/14	31D	Financials	Baa1/BBB+/-	-/-/-
2020/7/7	Greentown China Holdings Ltd	USD	300	5.65	2025/7/13	5	Real Estate	Ba3/BB-/	Ba3/-/-
2020/7/7	TCL Technology Group Corp	USD	300	1.875	2025/7/14	5	Technology	-/-/-	A1/-/-

2020/7/8	ABC International Holdings Ltd	USD	450	1.5	2023/7/15	3	Financials	A2/A-/A	A2/-/-
2020/7/8	Kaisa Group Holdings Ltd	USD	400	9.75	2023/9/28	3.2	Real Estate	B1/B/B	B2/-/B
2020/7/8	Kaisa Group Holdings Ltd	USD	300	11.25	2025/4/16	4.75	Real Estate	B1/B/B	B2/-/B
2020/7/8	Overseas Chinese Town Enterprises Co Ltd	USD	500	4.5	-	Perpetual	Real Estate	-/-/-	-/-/-
2020/7/8	Yango Group Co Ltd	USD	300	7.5	2024/4/15	3.75	Real Estate	B1/B/B+	B2/-/-
2020/7/9	Hangzhou Finance And Investment Group Co Ltd	USD	260	3.2	2025/7/16	5	Financials	-/BBB/BBB+	-/-/BBB+
2020/7/9	Shandong Energy Group Co Ltd	USD	100	4.2	2023/7/15	3	Energy	-/BB/-	-/-/-
2020/7/9	Yankuang Group Co Ltd	USD	400	4	2023/7/16	3	Energy	Ba1/BB/-	Ba1/-/-
2020/7/9	ZhongAn Online P&C Insurance Co Ltd	USD	600	3.125	2025/7/16	5	Financials	Baa1/-/-	-/-/-

Sources: Bloomberg, CCX research

During this week, Yinchuan Tonglian Capital Investment Operation Co Ltd announced tap bond offering.

Table 2 : Tap bond offering (20200706-20200710)

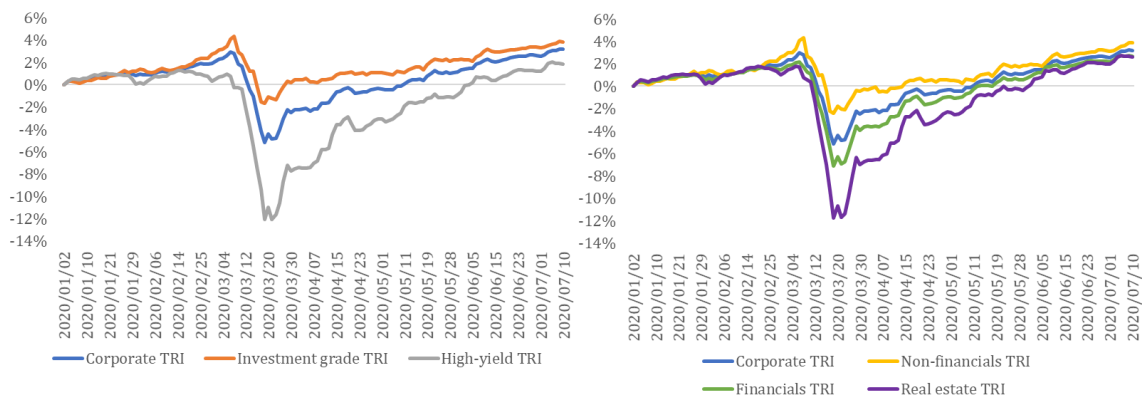
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/7/6	Yinchuan Tonglian Capital Investment Operation Co Ltd	USD	300 (reoffered 40)	4.45	2023/6/10	3	Chengtou	Baa3/-/BBB	-/-/BBB

Sources: Bloomberg, CCX research

### Secondary Market: Return on Chinese USD bonds rose

As of July 10, the YTD return<sup>1</sup> on Chinese USD corporate bond index increased by 45bp from last Thursday to 3.16%, of which investment grade bond index was 3.85% and high-yield bond index was 1.88%, increasing by 47bp and 41bp respectively. In terms of sector indices, the return on non-financial index recorded the largest rally, rising by 65bp from last Thursday to 3.84%, while the financial and real estate indices were 2.67% and 2.57%, increasing by 31bp and 37bp, respectively.

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

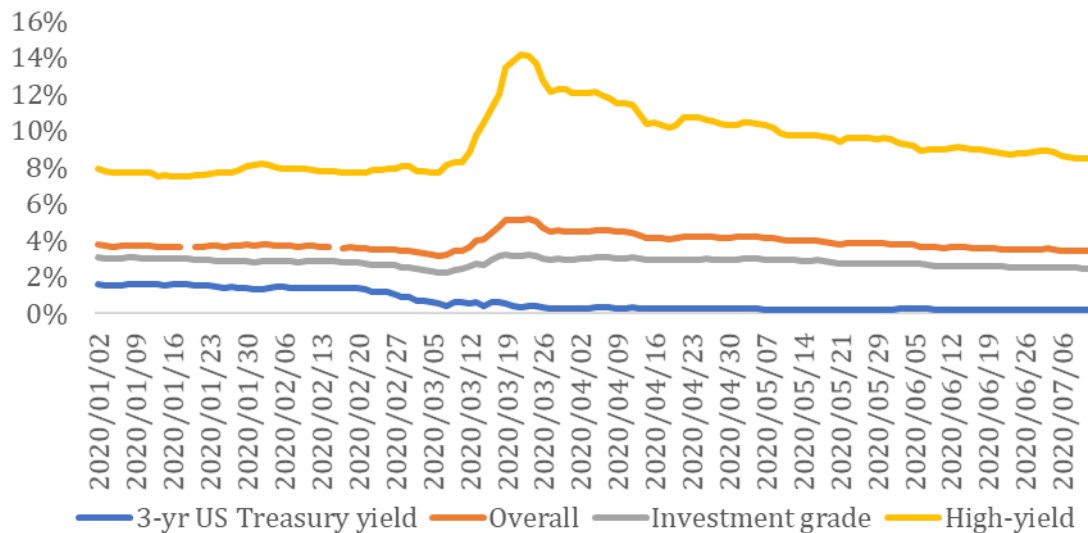


Sources: Bloomberg, CCX research

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

As of July 10, the yield-to-worst of Chinese dollar bonds decreased by 9bp to 3.41% from last Thursday, of which investment grade bond index dropped by 6bp to 2.46%, while the high-yield bond index declined by 34bp to 8.47%.

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



Sources: Bloomberg, CCX research

### Rating Actions: Credit rating agencies downgraded the ratings of Tahoe Group

From July 6 to July 10, the rating agencies took positive rating actions on 3 Chinese issuers; and negative rating actions on 2 Chinese issuers.

Table 3 : Credit rating changes of cross-border bond market (20200706-20200710)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
<b>International Rating:</b>										
Upgrade	Radiance Group Co Ltd	Real Estate	BB	STABLE	2020/7/7	BB-	POS	2020/1/16	Lianhe Global	Improved market position and financial leverage
	CAR Inc	Consumer Discretionary	CCC	Rating Watch Positive	2020/7/8	CCC	NEG	2020/4/27	S&P	Potential acquisition by stated-owned SAIC Motor
	Tingyi Cayman Islands Holding Corp	Consumer Staples	Baa1	POS	2020/7/10	Baa1	STABLE	2020/4/29	Moody's	Prudent financial policy
Downgrade	Tahoe Group Co Ltd	Real Estate	RD	-	2020/7/8	CC	-	2020/5/14	Fitch	Missed payment
	Guangzhou Finance Holdings Group Co Ltd	Financials	BBB+	NEG	2020/7/8	BBB+	STABLE	2019/12/4	S&P	Local government's eroding creditworthiness
	Tahoe Group Co Ltd	Real Estate	Caa3	NEG	2020/7/10	Caa1	NEG	2020/4/3	Moody's	Tightening liquidity position and elevated refinancing risk
<b>Domestic Rating:</b>										

Downgrade	Tahoe Group Co Ltd	Real Estate	C	-	2020/7/6	BB	NEG	2020/7/3	Lianhe Ratings & United Ratings	Onshore MTN defaults
	Tahoe Group Co Ltd	Real Estate	C	-	2020/7/6	BB	NEG	2020/7/3	Golden Credit	Onshore MTN defaults

Sources: Bloomberg, Wind, CCX research

### Risk Event: Century Sunshine defaulted on its SGD subordinated notes

On 3 July, Century Sunshine Group Holdings Limited (“Century Sunshine” or the “Company”) announced that it defaulted on its SGD101.75 million subordinated notes. The slower orders and longer receivable collection cycles led to a material reduction in the Company’s profitability and liquidity amid the pandemic. In addition, the Company failed to refinance for the notes, resulting in the default.

### Panda Bond Market: NDB issued a new Panda Bond this week

On July 7, 2020 New Development Bank Renminbi Bond (Series II) was successfully issued in the China Interbank Market, via Bond Connect, raising RMB2 billion at a coupon rate of 3.00% with a tenor of 5 years.

As of July 10, there were 19 issuers that issued 29 Panda Bonds in 2020, with a total issuance amount of RMB42.6 billion and an average coupon of 2.95%. The majority of them were issued in the China Interbank Market. More than half of them were issued at a tenor of 3 years or above.

**Table 4 : New issuance of Panda Bond in 2020 (20200101-20200710)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
New Development Bank	2	3.00	2020/7/7	2025/7/7	5	International Institutional Bond	China Interbank Market	--
Veolia Environnement S.A.	0.75	3.85	2020/6/24	2023/6/24	3	PPN	China Interbank Market	China Chengxin
Veolia Environnement S.A.	0.75	3.85	2020/6/24	2023/6/24	3	PPN	China Interbank Market	China Chengxin
Asian Infrastructure Investment Bank	3	2.40	2020/6/15	2023/6/15	3	International Institutional Bond	China Interbank Market	--
China Everbright Greentech Limited	1	3.68	2020/6/12	2025/6/12	5	MTN	China Interbank Market	Lianhe Ratings
Sumitomo Mitsui Banking Corporation	1	3.20	2020/6/8	2023/6/8	3	PPN	China Interbank Market	--
Daimler International Finance BV	3	3.25	2020/6/5	2023/6/5	3	PPN	China Interbank Market	--
China Traditional Chinese Medicine Co. Limited	2.2	3.28	2020/6/5	2023/6/5	3	MTN	China Interbank Market	China Chengxin

Capital Environment Holdings Limited	1	3.10	2020/5/29	2025/5/29	5	Corporate Bond	Shanghai Exchange Market	China Chengxin
China Mengniu Dairy Company Limited	0.5	1.61	2020/5/29	2020/11/25	0.49	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	1.5	1.61	2020/5/29	2020/11/25	0.49	SCP	China Interbank Market	China Chengxin
China Power International Development Limited	0.5	2.00	2020/5/29	2021/2/23	0.74	SCP	China Interbank Market	China Chengxin
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	China Chengxin / Lianhe Ratings
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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