

## 2020 Issue 26

From July 13 to July 17

China's second quarter recovery beat the market;  
Chinese offshore bond issuance remained large

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## Date:

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**Headline: Major central banks kept interest rates unchanged; China's second quarter recovery beat the market**

This week, the Bank of Japan, the Bank of Canada, the Bank of Korea and the European Central Bank announced monetary policy decisions to maintain the current interest rates unchanged. Meanwhile, the National Bureau of Statistics of China stated that China's economy in the second quarter grew 3.2%, beating market expectation, and key indicators have gradually recovered.

**Exchange Rate: The RMB exchange rate fluctuated slightly**

This week, the RMB exchange rate fluctuated slightly around the threshold of "7". As of July 17, the intermediate price of RMB exchange rate closed at 7.0043.

**Interest Rate: China Government Bond yields generally declined; US Treasury yields fluctuated slightly**

This week, China Government Bond yields generally declined. Affected by the rebound of the pandemic, the deterioration of China-US relations, the worse-than-expected initial jobless claims, and the positive progress of vaccines, US Treasury yields fluctuated slightly. As of July 17, the yield spread between China and US 10-year note was 232.4bp, narrowing by 6.2bp from last Friday and widening by 105.3bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: Chinese offshore bond issuance remained large, banks were the key issuers**

From July 13 to July 17, there were 17 new issues with a total issuance volume of USD6.71 billion. Banks were the key issuers, which issued 4 bonds with issuance volume of USD2.25 billion, accounting for 33.5% of the total issuance volume.

**Secondary Market: Return on Chinese USD bonds continued to rise**

As of July 17, the YTD return on Chinese USD corporate bond index increased by 24bp from last Friday to 3.40%, of which investment grade bond index was 4.06% and high-yield bond index was 2.19%, increasing by 21bp and 31bp respectively.

**Rating Actions: CCXAP assigned first-time B<sub>g</sub>+ to Finland, with stable outlook****Panda Bond Market: BMV Finance issued a new PPN**

On July 16, BMW Finance N.V. 2020 Private Placement Notes Series 2 was successfully issued in the China Interbank Market, via Bond Connect, raising RMB2.5 billion at a coupon rate of 3.19% with a tenor of 1 years.

## Headline: Major central banks kept interest rates unchanged; China's second quarter recovery beat the market

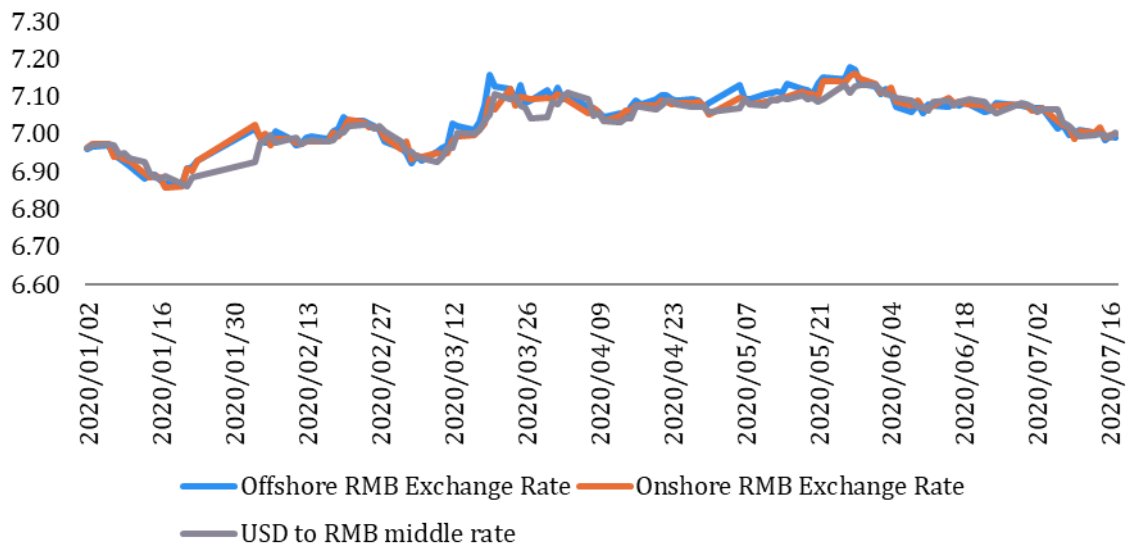
On Wednesday, the Bank of Japan and the Bank of Canada announced monetary policy decisions and economic outlook reports. The Bank of Japan decided to maintain its 10-year government bond yield at around 0.00% and its policy rate at -0.10%, as expected. The Bank of Japan stated that Japan's economy has been in an extremely severe situation and may shrink by 4.7% in fiscal 2020. The Bank of Canada announced to maintain its target for the overnight rate at 0.25% until inflation objective is achieved and will continue to adopt large-scale asset purchases of at least CAD5 billion per week of Government of Canada Bonds. On Thursday, the Bank of Korea and the European Central Bank announced monetary policy statements. The Bank of Korea kept its base rate at 0.50%. As the South Korean government has been curbing the overheating property market, it is expected to remain cautious about further interest rate cuts. The European Central Bank maintained the interest rate on the main refinancing operations and the deposit facility at 0.00% and -0.50%, respectively.

China's economy continued to recover, after shrank by 6.8% YoY in 2020Q1, according to data released by the National Bureau of Statistics of China on Thursday. The second quarter GDP turned positive with a YoY growth of 3.2%, beating the market expectation. The key indicators also showed positive signal of recovery. In the second quarter, the value-added output of industrial enterprises above the designated size grew by 4.4% following a drop of 8.4% in the first quarter; the value-added output of the service industry rose 1.9% following a 5.2% drop in the first quarter; and retail sales of consumer goods dropped by 3.9%, 15.1 percentage points higher than that of the drop in first quarter; fixed asset investment fell 3.1% in 2020H1, 13.0 percentage points higher than that of the drop in first quarter.

## Exchange Rate: The RMB exchange rate fluctuated slightly

This week, the RMB exchange rate fluctuated slightly around the threshold of "7", and the depreciation pressure of RMB has further released as China's economy gradually recovers and the US dollar index weakened. As of July 17, the intermediate price of RMB exchange rate closed at 7.0043, up 100bp from last Friday; the onshore RMB exchange rate closed at 7.0002, down 69bp; the offshore RMB exchange rate closed at 6.99125, down 198bp.

Figure 1 : RMB exchange rate

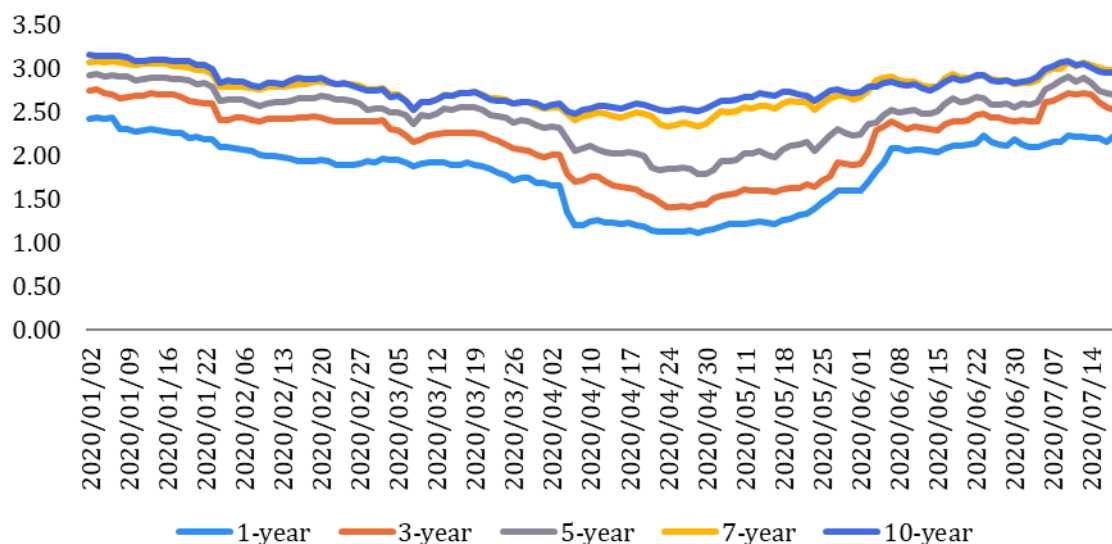


Sources: Eastmoney, CCX research

### Interest Rate: China Government Bond yields generally declined; US Treasury yields fluctuated slightly

This week, China Government Bond yields generally declined. As of July 17, the 3-year, 5-year, 7-year and 10-year Government Bond yield fluctuated downward from last Friday, closing at 2.5141%, 2.7022%, 2.9799% and 2.9507% respectively; the 1-year Government Bond yield rose slightly, closing at 2.2256%.

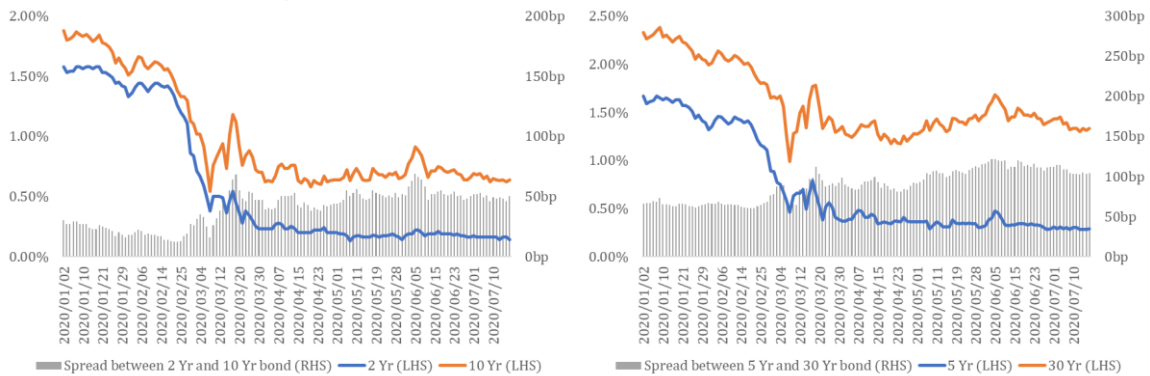
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

Affected by the rebound of the pandemic, the deterioration of China-US relations, the worse-than-expected initial jobless claims, and the positive progress of vaccines, US Treasury yields fluctuated slightly. As of July 17, 2-year, 5-year and 10-year Treasury yields closed at 0.14%, 0.29% and 0.64%, decreasing by 2bp, 1bp and 1bp as compared to last Friday, respectively. 30-year Treasury yield closed flat at 1.33%. In terms of Treasury yield spreads, the spread between the 2-year and 10-year widened by 1bp to 50bp from last Friday while the spread between the 5-year and 30-year widened by 1bp to 104bp.

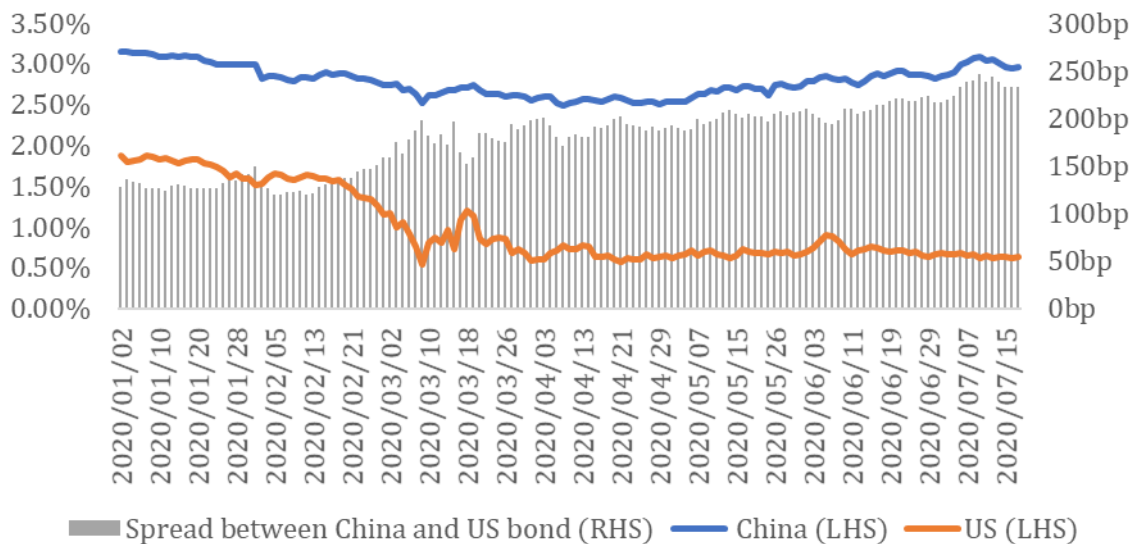
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of July 17, the yield spread between China and US 10-year note was 232.4bp, tightening by 6.2bp from last Friday and widening by 105.3bp 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 issuance remained large, banks were the key issuers

From July 13 to July 17, there were 17 new issues with a total issuance volume of USD6.71 billion. Banks were the key issuers, which issued 4 bonds with issuance volume of USD2.25 billion, accounting for 33.5% of the total issuance volume.

**Table 1 : New issuance of Chinese offshore bonds (20200713-20200717)**

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/7/13	Bank of Communications Co Ltd/Hong Kong	USD	650	3ML+80	2023/7/20	3	Banks	A2/A-/A	A2/-/-
2020/7/13	Bank of Communications Co Ltd/Hong Kong	USD	400	3ML+90	2025/7/20	5	Banks	A2/A-/A	A2/-/-
2020/7/13	CIFI Holdings Group Co Ltd	USD	300	5.95	2025/10/20	5.25	Real Estate	Ba3/BB/BB	-/BB-/BB
2020/7/13	Industrial & Commercial Bank of China Ltd/Hong Kong	USD	800	1	2023/7/20	3	Banks	A1/A/A	A1/-/-
2020/7/13	Industrial & Commercial Bank of China Ltd/Hong Kong	USD	800	1.2	2025/7/20	5	Banks	A1/A/A	A1/-/-
2020/7/13	RiseSun Real Estate Development Co Ltd	USD	250	9	2021/7/15	364D	Real Estate	Ba3/BB-/BB-	-/-/-
2020/7/13	Tongchuang Jiuding Investment Management Group Co Ltd	USD	300	9.5	2023/7/17	3	Financials	-/BB/-	-/-/-
2020/7/14	CCB Financial Leasing Corporation Limited	USD	500	1.99	2025/7/21	5	Financials	A1/A/A	A2/-/-
2020/7/14	Guiyang Transportation Investment Development Group Co Ltd	EUR	23	2.3	2021/7/15	363D	Chengtou	-/-/-	-/-/-
2020/7/14	Skyfame Realty Holdings Ltd	USD	875	13	2021/7/20	364D	Real Estate	-/-/B-	-/-/-
2020/7/14	Trip.com Group Ltd	USD	500	1.5	2027/7/1	6.95	Communications	-/-/-	-/-/-
2020/7/14	Yunnan Construction and Investment Holding Group Co Ltd	USD	500	5.1	2023/7/21	3	Chengtou	-/-/-	-/-/-
2020/7/15	Bright Food Group Co Ltd	EUR	800	1.75	2025/7/22	5	Consumer Staples	Baa2/BBB/A-	-/-/-
2020/7/15	Greenland Holding Group Co Ltd	USD	400	6.125	2023/4/22	2.75	Real Estate	Ba1/BB/BB-	Ba2/-/-
2020/7/15	Greenland Holding Group Co Ltd	USD	250	7.25	2025/1/22	4.5	Real Estate	Ba1/BB/BB-	Ba2/-/-
2020/7/16	CMB International Capital Corp Ltd	USD	1	0.9	2021/1/25	186D	Financials	Baa1/BBB+/-	-/-/-
2020/7/17	GF Global Capital Ltd/HK	USD	30	0	2021/7/16	360D	Financials	-/-/-	-/-/-

Sources: Bloomberg, CCX research

On July 16, Redsun Properties Group Ltd and Jiayuan International Group Ltd announced tap bond offering.

**Table 2 : Tap bond offering (20200713-20200717)**

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/7/16	Redsun Properties Group Ltd	USD	455 (reoffered 155)	9.7	2023/4/16	3.25	Real Estate	B2/B/B+	B3/-/B+
2020/7/16	Jiayuan International Group Ltd	USD	150 (reoffered 30)	11.75	2021/6/23	364D	Real Estate	B2/B/-	-/-/-

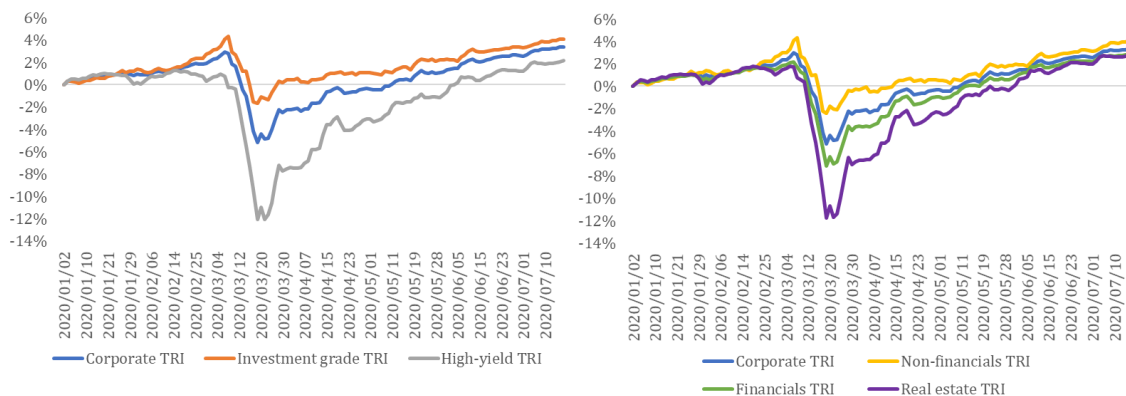
Sources: Bloomberg, CCX research

Recently, China Huarong Financial Leasing Co Ltd planned to issue offshore bond.

### Secondary Market: Return on Chinese USD bonds continued to rise

As of July 17, the YTD return<sup>1</sup> on Chinese USD corporate bond index increased by 24bp from last Friday to 3.40%, of which investment grade bond index was 4.06% and high-yield bond index was 2.19%, increasing by 21bp and 31bp respectively. In terms of sector indices, the return on non-financial, financial and real estate index were 4.09%, 2.90% and 2.87%, rising by 25bp, 24bp and 30bp from last Friday, respectively.

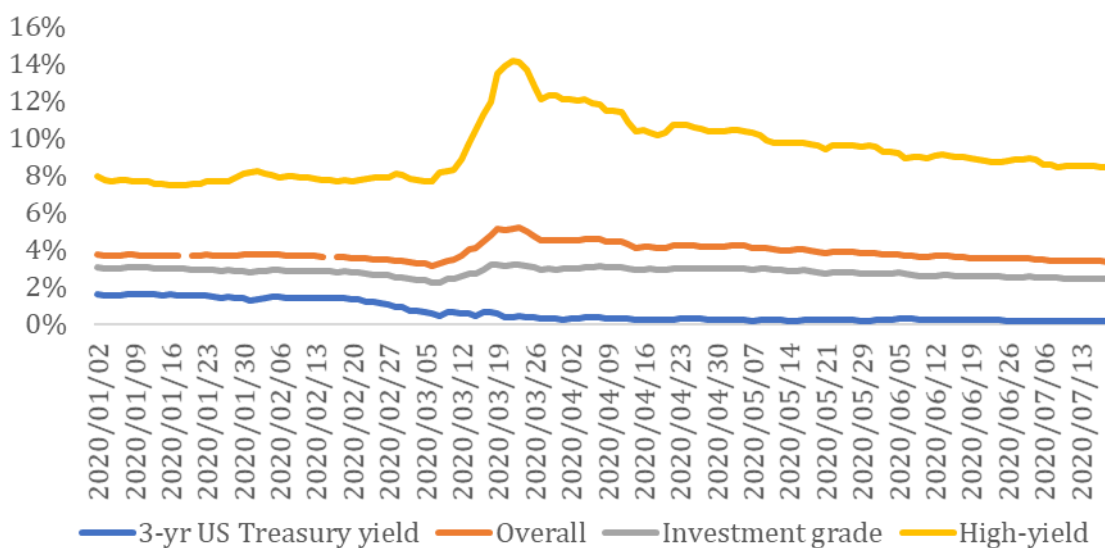
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of July 17, the yield-to-worst of Chinese dollar bonds decreased by 5bp to 3.36% from last Friday, of which investment grade bond index dropped by 5bp to 2.41%, while the high-yield bond index declined by 7bp to 8.40%.

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: CCXAP assigned first-time B<sub>g</sub>+ to Finland, with stable outlook

On July 15, China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) assigned a first-time long-term credit rating of B<sub>g</sub>+ to Guangzhou Finland Real Estate Development Co., Ltd (“Finland”), with stable outlook. On July 16, CCXAP affirmed the long-term credit rating of GCL Intelligent Energy Co., Ltd. (“GCL Intelligent Energy”) at BB<sub>g</sub>+ and revised rating outlook to stable from positive.

**Table 3 : CCXAP’s rating action (20200713-20200717)**

Date	Entity	Issuer Rating	Outlook	Rating Rationale
2020/7/15	Finland	B <sub>g</sub> +	Stable	The rating on Finland reflects its (1) good operating track record in property development in Guangzhou; and (2) low-cost land bank acquired through urban renewal projects. However, the rating is constrained by Finland’s (1) small operating scale with high geographic concentration; and (2) increase in debt burden and weakened liquidity position.
2020/7/16	GCL Intelligent Energy	BB <sub>g</sub> +	Stable	The rating outlook of GCL Intelligent Energy was revised to stable from positive, reflecting that (1) its modest liquidity profile constrains a rating uplift; and (2) the coronavirus outbreak undermines the overall economic conditions and electricity consumption growth in China.

Source: CCX research

From July 13 to July 17, the rating agencies took positive rating actions on 4 Chinese issuers; and negative rating actions on 2 Chinese issuers.

**Table 4 : Credit rating changes of cross-border bond market (20200713-20200717)**

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
<b>International Rating:</b>										
Upgrade	Semiconductor Manufacturing International Corp	Technology	BBB-	POS	2020/7/13	BBB-	STABLE	2014/9/17	S&P	Increasing financial resources and government support
	Yanzhou Coal Mining Co Ltd	Energy	BB-	Rating Watch positive	2020/7/15	BB-	STABLE	2020/1/23	Fitch	Parent’s merger announcement
Downgrade	Zijin Mining Group Co Ltd	Materials	BB+	STABLE	2020/7/14	BBB-	Rating Watch Negative	2020/6/16	S&P	Elevated leverage, weakened liquidity
<b>Domestic Rating:</b>										
Upgrade	Taiyuan Longcheng Development Investment Group Co Ltd	Chengtou	AAA	STABLE	2020/7/16	AA+	STABLE	12/31/2019	Shanghai Brilliance Rating	Improving regional environment, receiving strong support from shareholders, and diversifying funding channels

	Yancheng High-tech Zone Investment Group Corp Ltd	Chengtou	AA+	STABLE	2020/7/17	AA	STABLE	07/26/2019	CCXI	Rapid development of regional economy, regional monopoly of infrastructure business, strong government support and business diversification
Downgrade	Oceanwide Holdings Co Ltd	Real Estate	AA+	Rating Watch Negative	2020/7/14	AA+	STABLE	2020/6/23	Golden Credit	Postponed due diligence period for overseas project sales and increase in refinancing pressure

Sources: Bloomberg, Wind, CCX research

### Panda Bond Market: BMV Finance issued a new PPN

On July 16, BMW Finance N.V. 2020 Private Placement Notes Series 2 was successfully issued in the China Interbank Market, via Bond Connect, raising RMB2.5 billion at a coupon rate of 3.19% with a tenor of 1 years.

As of July 17, there were 19 issuers that issued 30 Panda Bonds in 2020, with a total issuance amount of RMB45.1 billion and an average coupon of 2.96%. 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 5 : New issuance of Panda Bond in 2020 (20200101-20200717)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
BMW Finance N.V.	2.5	3.19	2020/7/16	2021/7/16	1	PPN	China Interbank Market	--
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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