

## 2020 Issue 27

From July 20 to July 24

## EU agreed on recovery package; State Power Investment issued a billion dollar bond

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## Date:

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**Headline: EU agreed on recovery package**

EU leaders reached a deal on setting up a EUR750 billion recovery package. This implies that EU is going to execute the largest economic recovery package in the history. In the agreement, a total of EUR390 billion will be allocated as grants while the rest (EUR360 billion) will be in loans to support economic recovery. Meanwhile, member states also supported a budget of EUR1,074 billion from 2021 to 2027.

**Regulation: China plans to connect interbank and exchange bond markets**

On July 19, the PBoC and CSRC released a joint statement "Announcement No. 7 [2020] of the People's Bank of China and the China Securities Regulatory Commission" that it is agreed on interconnectivity cooperation between relevant infrastructure institutions in the interbank and the exchange bond markets.

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

This week, the RMB exchange rate continued to fluctuate around the threshold of "7". As of July 24, the intermediate price of RMB exchange rate closed at 6.9938.

**Interest Rate: China Government bond yields and US Treasury yields declined in general**

China government bond yields generally declined. The growing concerns over the pandemic in US, coupled with rising China-US tensions and worse-than-expected initial jobless claims, dragged US Treasury yields. As of July 24, the yield spread between China and US 10-year note was 227.2bp, tightening by 5.2bp from last Friday and widening by 100.1bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: Chinese offshore bond issuance declined; State Power Investment issued a billion dollar bond**

From July 20 to July 24, there were 8 new issues with a total issuance volume of USD3.25 billion, a 51.5% decrease from last week. State Power Investment was the largest issuer with USD1 billion issuance, accounting for 30.8% of the total issuance.

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

As of July 24, the YTD return on Chinese USD corporate bond index increased by 68bp from last Friday to 4.08%, of which investment grade bond index was 4.76% and high-yield bond index was 2.83%, increasing by 70bp and 65bp respectively.

**Rating Actions: CCXAP assigned first-time BBB<sub>g</sub>- to Changzhou Eastern New City, with stable outlook****Risk Event: China ZhengTong deferred payment on dollar loans****Panda Bond Market: GLP China issued a MTN**

On July 23, GLP China Holdings Limited 2020 Medium Term Note Series 1 was issued in the China Interbank Market, raising RMB2 billion at a coupon rate of 3.90% with a tenor of 3 years. Shanghai Brilliance Rating assigned AAA to both the bond and its issuer.

## Headline: EU agreed on recovery package

On Tuesday, EU leaders reached a deal on setting up a EUR750 billion recovery package. In the agreement, a total of EUR390 billion will be allocated as grants while the rest (EUR360 billion) will be in loans to support economic recovery. Meanwhile, member states also supported a budget of EUR1,074 billion from 2021 to 2027.

In May 2020, Germany and France suggested setting up a EUR500 billion fund to support member states to retrieve their economies amid the pandemic. The European Commission, based on this proposal, later increased the total funding to EUR750 billion. It proposed to distribute EUR500 billion in grants to countries whose economy was hurt hard; while the EUR250 billion left was provided in loans. Nonetheless, negotiations ran into a standstill as the proposal received strong opposition from members like Austria, Netherlands, Denmark and Sweden. After 4 days of negotiations, the European Commission finally agreed on the largest economic recovery package with the provision of budget allowance in upcoming few years.

## Regulation: China plans to connect interbank and exchange bond markets

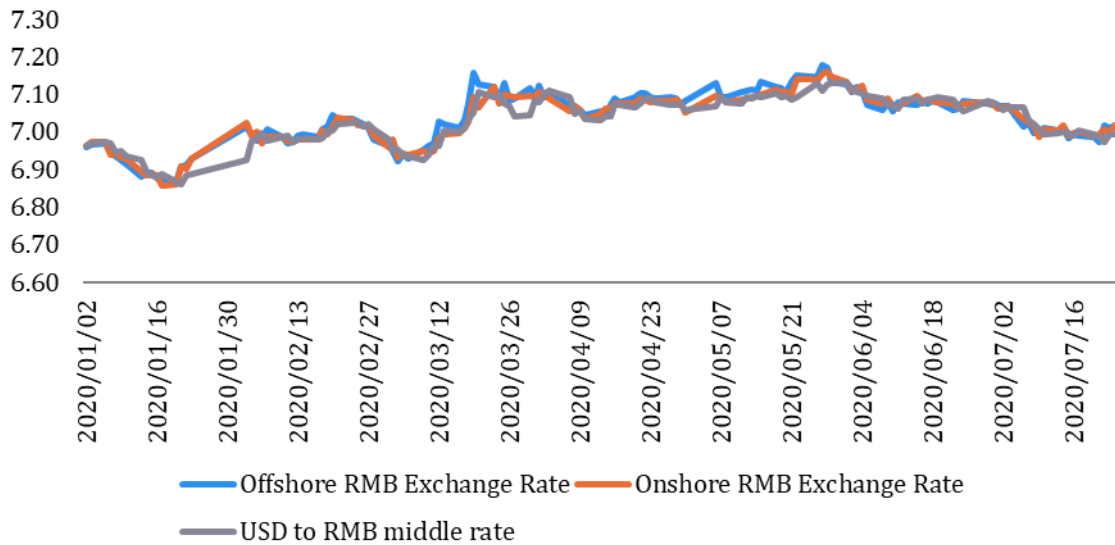
On July 19, the People's Bank of China (the "PBoC") and China Securities Regulatory Commission ("CSRC") released a joint statement "Announcement No. 7 [2020] of the People's Bank of China and the China Securities Regulatory Commission", stated that in order to favor bond investors, increase market operation efficiency and foster the high-quality development of the Chinese bond market, it is agreed on interconnectivity cooperation between relevant infrastructure institutions in the interbank and the exchange bond markets, which was a milestone on the development of Chinese bond markets. Interconnectivity refers to the mechanism where qualified investors in the interbank and the exchange bond markets trade bonds in the two markets through connections between relevant infrastructure institutions. Infrastructure institutions, such as bond registration, custody and settlement institutions in both bond markets, may jointly provide issuers and investors with bond issuance, registration, custody, clearing, settlement, interest payment and redemption services. The PBoC and CSRC will strengthen regulatory cooperation and coordination to jointly supervise and regulate bond issuance, registration, trading, custody, clearing, and settlement through interconnectivity.

As at the end of June, Chinese bond market had a custody balance of RMB107.8 trillion, ranked 2<sup>nd</sup> in the world in terms of market scale. Products include government bonds, municipal bonds, financial bonds, corporate bonds, interbank deposits and panda bonds. Specifically, foreign investors can gain convenience from procedures like account openings and transactions. It helps enhance the attractiveness of Chinese bonds to foreign investors and facilitate the internationalization of Renminbi.

## Exchange Rate: The RMB exchange rate fluctuated slightly

This week, the RMB exchange rate fluctuated slightly around the threshold of "7". Since the second quarter, the domestic economy has gradually recovered with marginal improvement in various economic indicators. The elasticity of the RMB exchange rate has increased and remained basically stable. As of July 24, the intermediate price of RMB exchange rate closed at 6.9938, down 105bp from last Friday; the onshore RMB exchange rate closed at 7.0162, up 160bp; the offshore RMB exchange rate closed at 7.0160, up 248bp.

Figure 1 : RMB exchange rate

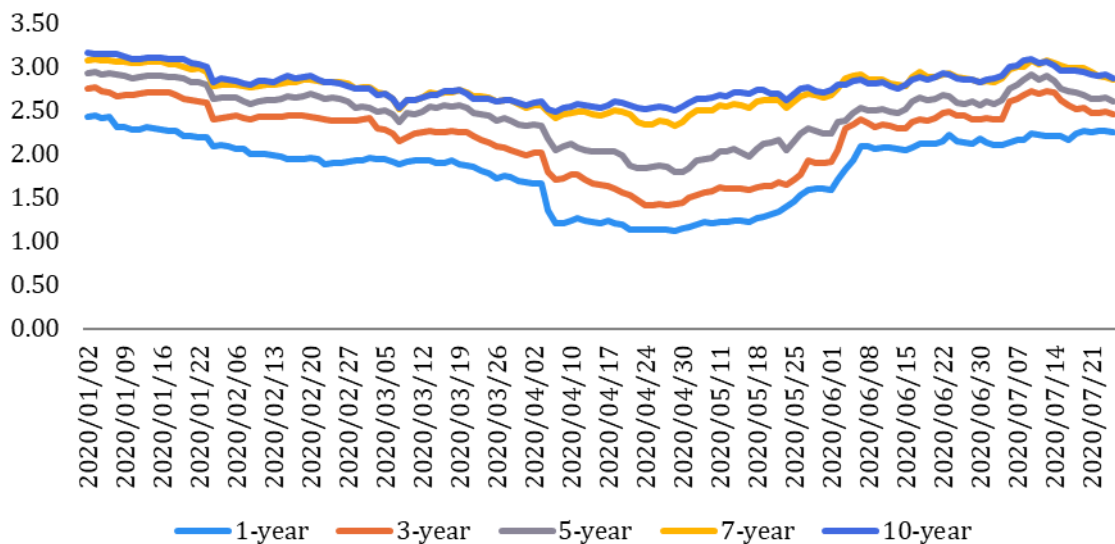


Sources: Eastmoney, CCX research

**Interest Rate: China Government bond yields and US Treasury yields declined in general**

This week, China Government Bond yields generally declined. As of July 24, the 3-year, 5-year, 7-year and 10-year Government Bond yield fluctuated downward from last Friday, closing at 2.4556%, 2.5999%, 2.8513% and 2.8612%, respectively; the 1-year Government Bond yield rose slightly, closing at 2.2446%.

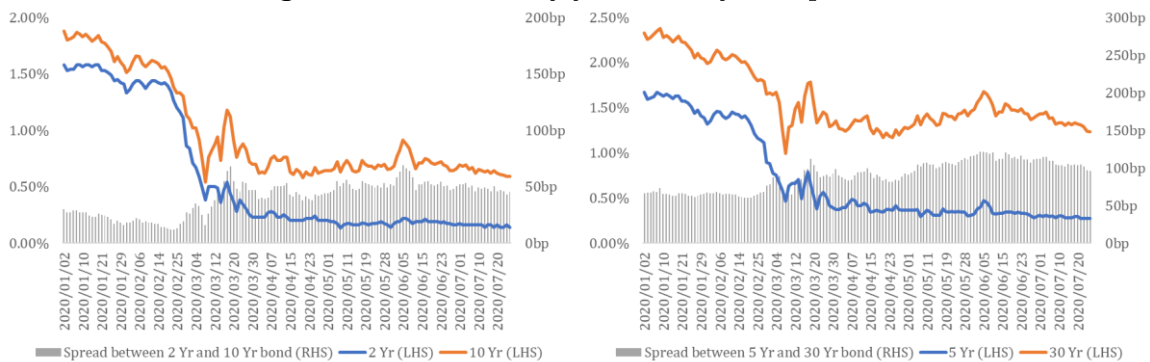
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

The growing concerns over the pandemic in US, coupled with rising China-US tensions from the close of China’s consulate general in Houston and China’s retaliation, damaged the market sentiment. In addition, US worse-than-expected initial jobless claims accounted for 1.416 million last week, resulting in a general decline of US Treasury yields. As of July 24, 2-year Treasury yield closed flat at 0.14% from last Friday. 5-year, 10-year and 30-year Treasury yields closed at 0.27%, 0.59% and 1.23%, decreasing by 2bp, 5bp and 10bp as compared to last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year tightened by 5bp to 45bp from last Friday while the spread between the 5-year and 30-year tightened by 8bp to 96bp.

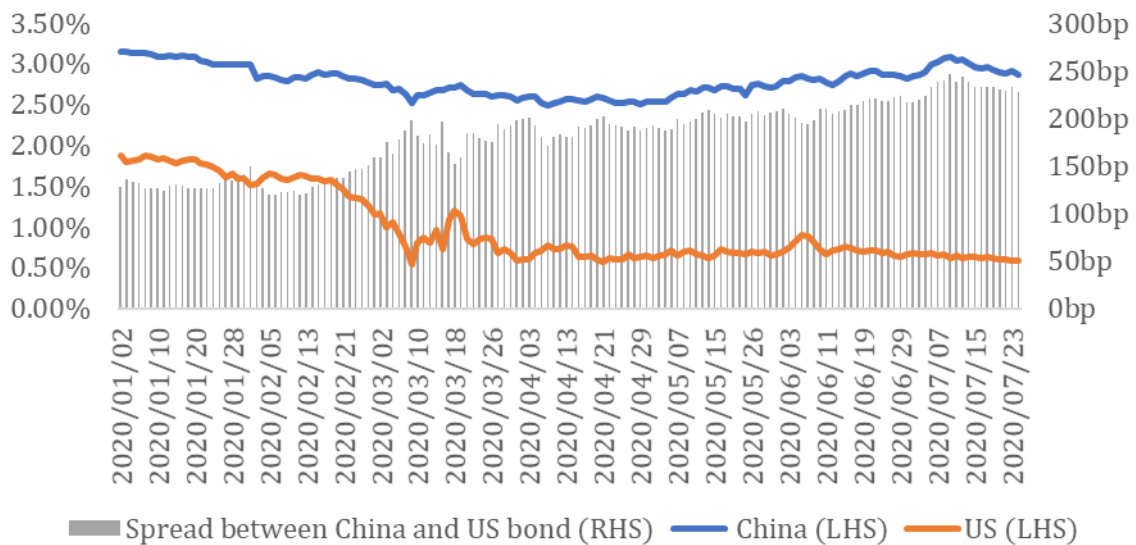
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of July 24, the yield spread between China and US 10-year note was 227.2bp, tightening by 5.2bp from last Friday and widening by 100.1bp 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 declined; State Power Investment Corporation issued a billion dollar bond

From July 20 to July 24, there were 8 new issues with a total issuance volume of USD3.25 billion, a 51.5% decrease from last week. State Power Investment Corporation Limited (“State Power Investment”) was the largest issuer with USD1 billion issuance, accounting for 30.8% of the total issuance.

**Table 1 : New issuance of Chinese offshore bonds (20200720-20200724)**

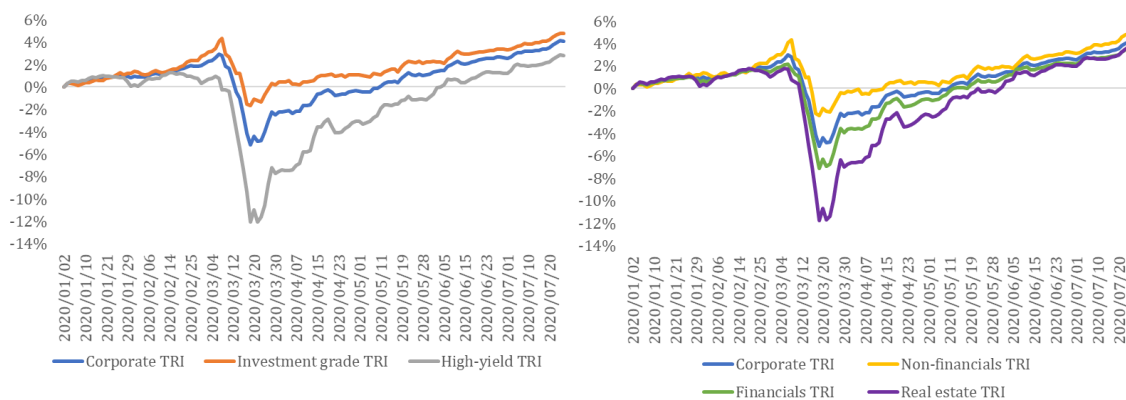
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/7/20	China Huarong Financial Leasing Co Ltd	USD	300	2.5	2021/7/21	363D	Financials	Baa1/BBB+/A-	-/-/A-
2020/7/20	Shanghai Pudong Development Bank Co Ltd/ Hong Kong	USD	500	3ML+85	2023/7/27	3	Banks	Baa2/BBB/BBB	Baa2/-/-
2020/7/21	ICBC International Holdings Ltd	USD	700	1.7	2025/7/28	0	Financials	A2/A-/	A2/-/-
2020/7/21	CMB International Capital Corporation Limited	USD	1	1	2021/7/28	365D	Financials	Baa1/BBB+/-	-/-/-
2020/7/22	State Power Investment Corp Ltd	USD	1,000	1.625	2025/7/27	5	Utilities	A2/A-/A	-/-/A
2020/7/23	Fantasia Holdings Group Co Ltd	USD	350	9.25	2023/7/28	3	Real Estate	B2/B/B+	-/-/-
2020/7/23	Jiangsu Century New City Investment Holding Group Co Ltd	USD	100	6.5	2021/7/29	364D	Chengtou	-/-/-	-/-/-
2020/7/23	Huzhou City Investment Development Group Co Ltd	USD	300	3.15	2023/7/30	3	Chengtou	Baa3/-/BBB	-/-/-

Sources: Bloomberg, CCX research

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

As of July 24, the YTD return<sup>1</sup> on Chinese USD corporate bond index increased by 68bp from last Friday to 4.08%, of which investment grade bond index was 4.76% and high-yield bond index was 2.83%, increasing by 70bp and 65bp respectively. In terms of sector indices, the return on non-financial, financial and real estate index were 4.84%, 3.54% and 3.63%, rising by 75bp, 64bp and 76bp from last Friday, respectively.

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



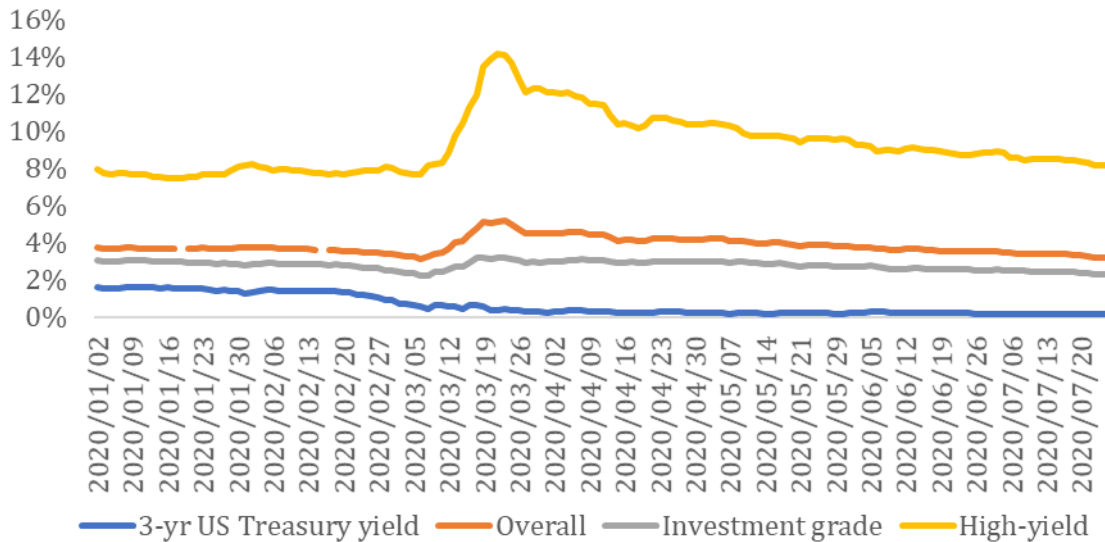
Sources: Bloomberg, CCX research

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



As of July 24, the yield-to-worst of Chinese dollar bonds decreased by 16bp to 3.20% from last Friday, of which investment grade bond index dropped by 11bp to 2.30%, while the high-yield bond index declined by 27bp to 8.13%.

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



Sources: Bloomberg, CCX research

### Rating Actions: CCXAP assigned first-time BBB<sub>g</sub>- to Changzhou Eastern New City, with stable outlook

On July 21, China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) assigned a first-time long-term credit rating of BBB<sub>g</sub>- to Changzhou Eastern New City Construction Group Co., Ltd (“Changzhou Eastern New City”), with stable outlook.

Table 2 : CCXAP’s rating action (20200720-20200724)

Date	Entity	Issuer Rating	Rating Rationale
2020/7/21	Changzhou Eastern New City	BBB <sub>g</sub> -	The rating of Changzhou Eastern New City reflects (1) the change in the its ultimate shareholder to the Changzhou Municipal Government; (2) the strong support received from the local government; and (3) its vital position in infrastructure construction and primary land consolidation in the Jiangsu Changzhou Economic Development Zone However, the rating is constrained by its (1) large capital expenditure pressure due to long cash collection periods and sizeable projects in the pipeline; and (2) high debt leverage and weak liquidity position.

Source: CCX research

From July 20 to July 24, the rating agencies took positive rating actions on 2 Chinese issuers; and negative rating actions on 4 Chinese issuers.

Table 3 : Credit rating changes of cross-border bond market (20200720-20200724)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
<b>International Rating:</b>										
Upgrade	CAR Inc	Consumer Discretionary	Caa1	Rating Watch Positive	2020/7/22	Caa1	NEG	2019/4/9	Moody's	Introduction of Jingtangshan BAIC as a key shareholder
Downgrade	Zheneng Jinjiang Environment Holding Co Ltd	Industrials	Ba3	NEG	2020/7/20	Ba3	Rating Watch Negative	2020/5/28	Moody's	Ongoing uncertainties over its refinancing of upcoming maturities
	Zijin Mining Group Co Ltd	Materials	BB+	STABLE	2020/7/20	BBB-	Rating Watch Negative	2020/6/16	Fitch	Increase in leverage due to acquisition
	China ZhengTong Auto Services Holdings Ltd	Consumer Discretionary	Caa3	NEG	2020/7/24	B3	NEG	2020/5/12	Moody's	Tight liquidity position
<b>Domestic Rating:</b>										
Upgrade	Liangshan Development Holding Group Co Ltd	Chengtou	AA+	STABLE	2020/7/24	AA	STABLE	2019/6/25	Lianhe	Good external environment, strong support and strong position in the region
Downgrade	Zhongrong Xinda Group Co Ltd	Materials	C	-	2020/7/21	BB	NEG	2019/5/29	Lianhe Ratings & United Ratings	Failed to pay interest on time

Sources: Bloomberg, Wind, CCX research

### Risk Event: China ZhengTong deferred payment on dollar loans

On July 21, China ZhengTong Auto Services Holdings Ltd. ("China ZhengTong") announced that it failed to repay the 3<sup>rd</sup> installment of 25% of the debt principal, which was originally scheduled due on July 20, 2020. Due to the pandemic, China ZhengTong proposed to revised the repayment date to January 19, 2021. On July 23, China ZhengTong announced that it acquired the consent from the creditor to defer the repayment date.

### Panda Bond Market: GLP China issued a MTN

On July 23, GLP China Holdings Limited 2020 Medium Term Note Series 1 was issued in the China Interbank Market, raising RMB2 billion at a coupon rate of 3.90% with a tenor of 3 years. Shanghai Brilliance Rating assigned AAA to both the bond and its issuer.

As of July 24, there were 20 issuers that issued 31 Panda Bonds in 2020, with a total issuance amount of RMB47.1 billion and an average coupon of 2.99%. 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 (20200101-20200724)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
GLP China Holdings Limited	2	3.90	2020/7/23	2023/7/23	3	International Institutional Bond	China Interbank Market	Shanghai Brilliance Rating
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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