

## 2020 Issue 29

From August 3 to August 7

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## Date:

August 13, 2020

## Europe's economic showed a strong recovery; Chinese real estate issuers were active in offshore bond market

**Headline:** Europe's economy showed a strong recovery; US's labor market recovery was under pressure

IHS Markit Eurozone Manufacturing PMI rebounded to 51.8 in July, expanding for the first time in 18 months; while Services PMI increased to 54.7, ending its 4-month contraction. Meanwhile, US's labor market continued to recover with an unemployment rate of 10.2% in July. However, the uncertainties of US's new pandemic relief package, coupled with rebound of confirmed cases, could slow down the recovery of US's labor market.

**Exchange Rate:** The RMB exchange rate continued to drop

This week, the RMB exchange rate continued to fluctuate with a downward trend. As of August 7, the intermediate price of RMB exchange rate closed at 6.9408.

**Interest Rate:** Chinese Government Bond and US Treasury yields rose in general

This week, China Government Bond yields rose in general. US Treasury yields rose given optimism in the US's new pandemic relief deal and better than expected nonfarm payrolls in July. As of August 7, the yield spread between China and US 10-year note was 242.8bp, tightening by 1.0bp from last Friday and widening by 115.6bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market:** Chinese offshore bond new issuance reduced, Chinese real estate issuers were active

From August 3 to August 7, there were 19 new issues with a total issuance volume of USD4.76 billion, decreasing by around USD4 billion as compared to last week. Chinese real estate companies were the key issuers which raised USD1.9 billion via 9 tranches of bond, accounting for 40% of the total issuance volume.

**Secondary Market:** Chinese dollar bonds remained strong in the secondary market

As of August 7, the YTD return on Chinese USD corporate bond index increased by 24bp from last Friday to 4.70%, of which investment grade bond index was 5.44% and high-yield bond index was 3.33%, increasing by 18bp and 39bp respectively.

**Rating Actions:** Chinese issuers' credit quality diverged**Panda Bond Market:** Everbright Water issued a MTN

On August 5, Everbright Water 2020 Medium Term Note (Series 1) was issued in the China Interbank Market, raising RMB1 billion at a coupon rate of 3.60% with a tenor of 3 years. Shanghai Brilliance Rating assigned AAA to both the bond and its issuer.

## Headline: Europe’s economy showed a strong recovery; US’s labor market recovery was under pressure

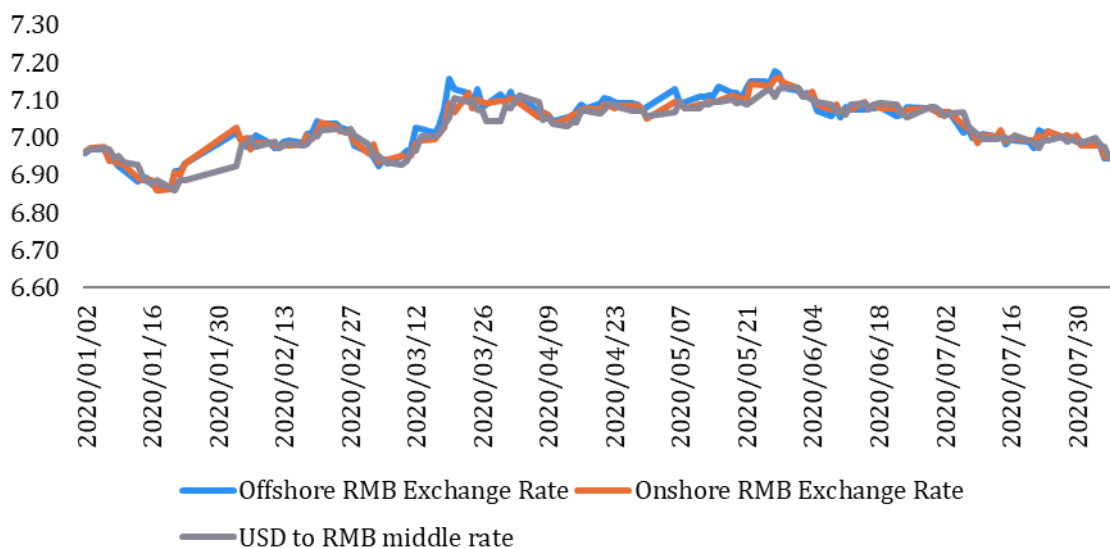
IHS Markit Eurozone Manufacturing PMI rebounded to 51.8 in July from 47.4 in June, expanding for the first time in 18 months. Apart from Netherland and Greece, rest of the countries in the Eurozone recorded an expansion for their manufacturing PMI last month. Meanwhile, Markit Eurozone Services PMI bounded back to 54.7 in July from 48.3 in June, ending its 4-month contraction and back above the neutral mark.

Despite that the US’s labor market continued to recover in July, the growth rate decelerated and the market was still under pressure due to a high unemployment rate. ADP Research Institute data showed that US’s private payrolls increased by just 167 thousand, well off the market estimate of 1.2 million. This was mainly because rebound of the pandemic depressed the labor market, of which some sectors, such as financial services, even recorded decrease in employment. The US unemployment rate dropped for the fourth consecutive month, to 10.2% in July, better than the market expectation of 10.5%. However, the unemployment rate was still at a historical high level. The uncertainties of US’s new pandemic relief package, coupled with rebound of confirmed cases, could slow down the recovery of US’s labor market.

### Exchange Rate: The RMB exchange rate continued to drop

This week, the RMB exchange rate continued to fluctuate with a downward trend. As of August 7, the intermediate price of RMB exchange rate closed at 6.9408, down 400bp from last Friday; the onshore RMB exchange rate closed at 6.9598, down 196bp; the offshore RMB exchange rate closed at 6.9674, down 229bp.

Figure 1 : RMB exchange rate

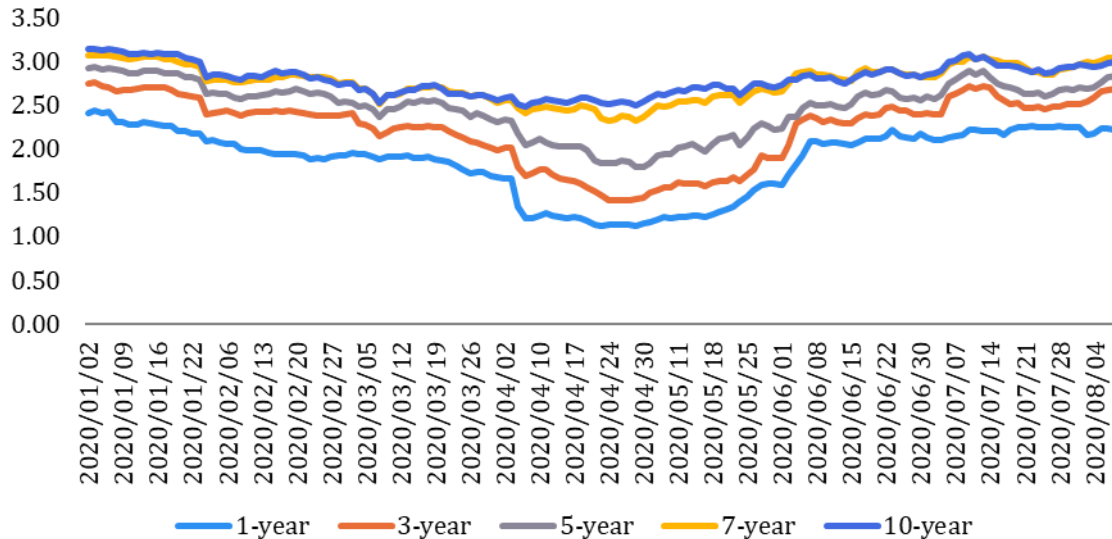


Sources: Eastmoney, CCX research

### Interest Rate: Chinese Government Bond and US Treasury yields rose in general

This week, China Government Bond yields rose in general. As of August 7, the 3-year, 5-year, 7-year and 10-year Government Bond yields increased from last Friday, closing at 2.6870%, 2.8311%, 3.0393 % and 2.9918%, respectively; the 1-year Government Bond yield declined slightly, closing at 2.2225%.

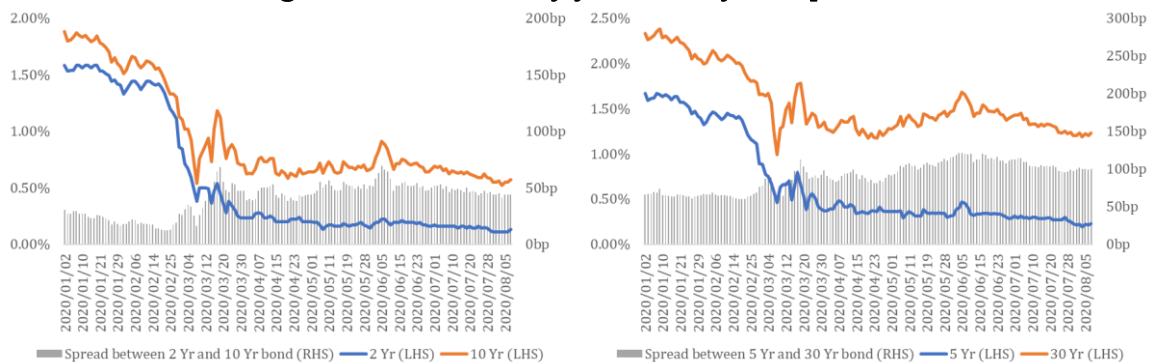
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

US Treasury yields rose given optimism in the US’s new pandemic relief deal and better than expected nonfarm payrolls in July. As of August 7, 2-year, 5-year, 10-year and 30-year Treasury yields closed at 0.13%, 0.23%, 0.57% and 1.23%, increasing by 2bp, 2bp, 2bp and 3bp from last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year was 44bp, the same as last Friday, while the spread between the 5-year and 30-year rose by 1bp to 100bp from last Friday.

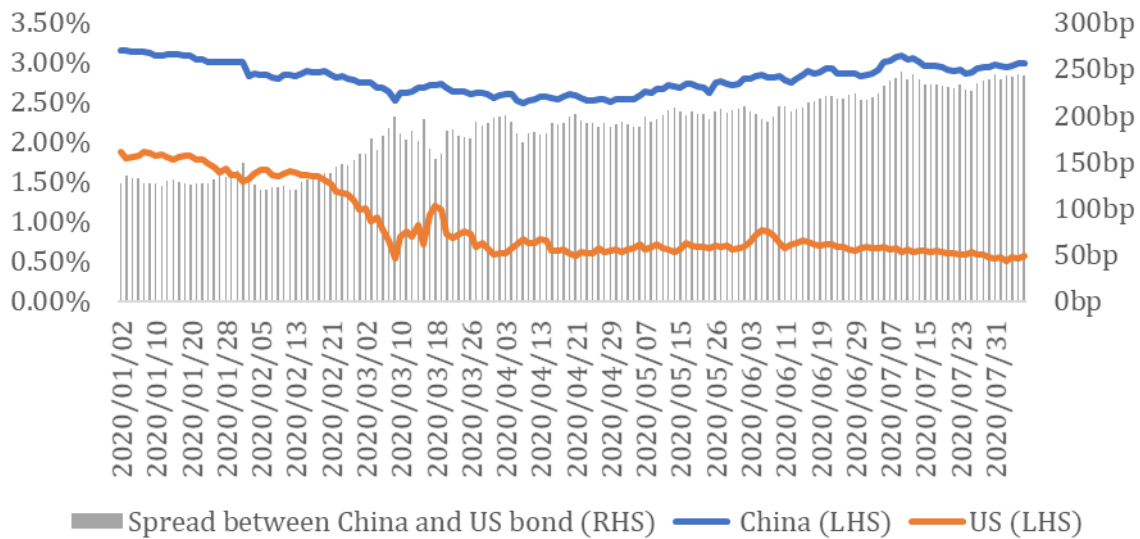
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of August 7, the yield spread between China and US 10-year note was 242.8bp, tightening by 1.0bp from last Friday and widening by 115.6bp 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 reduced, Chinese real estate issuers were active

From August 3 to August 7, there were 19 new issues with a total issuance volume of USD4.76 billion, decreasing by around USD4 billion as compared to last week. Chinese real estate companies were the key issuers which raised USD1.9 billion via 9 tranches of bond, accounting for 40% of the total issuance volume.

Table 1 : New issuance of Chinese offshore bonds (20200803-20200807)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/8/3	China International Capital Corp Ltd	USD	500	1.75	2023/8/10	3	Financials	Baa1/BBB/BBB+	-/-/BBB+
2020/8/3	CMB International Capital Corp Ltd	USD	3	0.75	2021/2/8	185D	Financials	Baa1/BBB+/-	-/-/-
2020/8/3	Huijing Holdings Co Ltd	USD	110	12.5	2021/8/5	364D	Real Estate	-/-/-	-/-/-
2020/8/3	KWG Group Holdings Ltd	USD	200	5.95	2025/8/10	5	Real Estate	B1/B+/BB-	-/-/BB-
2020/8/3	Powerlong Real Estate Holdings Ltd	USD	200	6.25	2024/8/10	4	Real Estate	B1/B+/-	B2/-/-
2020/8/3	Wuyi Mountains Ltd	USD	30	5	2022/6/9	1.85	Financials	-/-/-	-/-/-
2020/8/4	Yiwu State-owned Capital Operation Co Ltd	USD	500	3.15	2023/8/11	3	Chengtou	Baa3/-/BBB	Baa3/-/BBB
2020/8/5	Central China Real Estate Ltd	USD	300	7.25	2024/8/13	4	Real Estate	Ba3/B+/BB-	B1/-/BB-
2020/8/5	China South City Holdings Ltd	USD	200	11.5	2021/8/11	364D	Real Estate	-/B-/B	-/-/-
2020/8/5	CMB Financial Leasing Co Ltd	USD	800	1.875	2025/8/12	5	Financials	A3/BBB+/-	Baa1/-/-
2020/8/5	CMB Financial Leasing Co Ltd	USD	400	2.75	2030/8/12	10	Financials	A3/BBB+/-	Baa1/-/-
2020/8/5	CMB International Capital Corp Ltd	USD	20	0.88	2020/9/30	50D	Financials	Baa1/BBB+/-	-/-/-
2020/8/5	Industrial & Commercial Bank of China Ltd/Luxembourg	USD	100	3ML+75	2023/8/11	3	Banks	A1/A/A	-/-/-

2020/8/5	Seazen Group Ltd	USD	250	6	2024/8/12	4	Real Estate	Ba2/BB/BB	-/-/BB
2020/8/5	Yuzhou Group Holdings Co Ltd	USD	300	7.85	2026/8/12	6	Real Estate	Ba3/-/BB-	B1/-/BB-
2020/8/5	Zhongtai Securities Co Ltd	USD	300	3.85	2023/8/12	3	Financials	Baa3/BBB-/-	-/-/-
2020/8/6	Beijing Capital Land Ltd	USD	200	4.5	2021/8/9	363D	Real Estate	Ba3/BB+/BB	-/-/-
2020/8/6	Qingdao China Prosperity State-owned Capital Operation Group Co Ltd	USD	200	3.35	2023/8/13	3	Chengtou	-/-/BBB	-/-/BBB
2020/8/7	Zhenro Properties Group Ltd	CNY	1,000	7.4	2021/8/12	363D	Real Estate	B1/B/B+	-/-/-

Sources: Bloomberg, CCX research

On August 7, Beijing Properties Holdings Ltd and E-House China Enterprise Holdings Ltd announced tap bond offering.

Table 2 : Tap bond offering (20200803-20200807)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/8/7	Beijing Properties Holdings Ltd	USD	750 (reoffered 150)	5.95	2020/2/27	3	Industrials	-/-/-	-/-/-
2020/8/7	E-House China Enterprise Holdings Ltd	USD	300 (reoffered 100)	7.625	2022/4/18	2.5	Real Estate	-/-/BB-	-/-/BB-

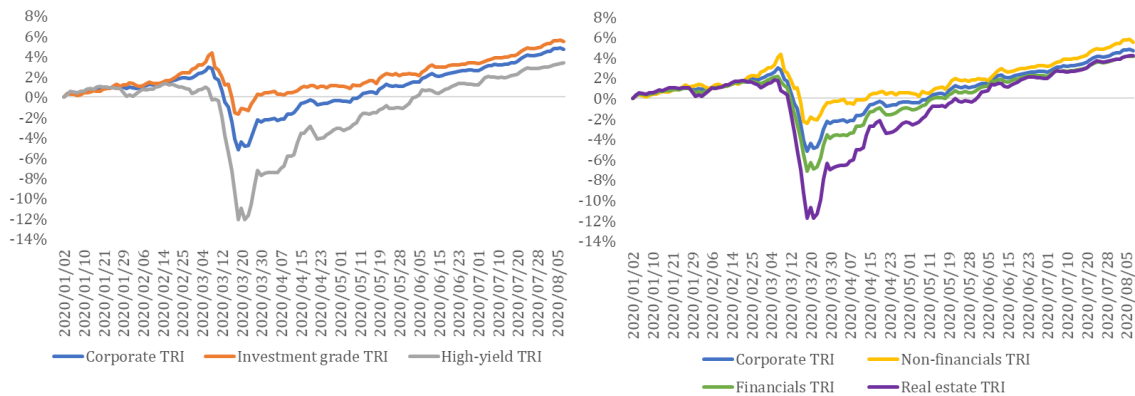
Sources: Bloomberg, CCX research

Recently, Shandong Guohui Investment Co Ltd planned to issue offshore bonds.

### Secondary Market: Chinese dollar bonds remained strong in the secondary market

As of August 7, the YTD return<sup>1</sup> on Chinese USD corporate bond index increased by 24bp from last Friday to 4.70%, of which investment grade bond index was 5.44% and high-yield bond index was 3.33%, increasing by 18bp and 39bp respectively. In terms of sector indices, the return on non-financial, financial and real estate index were 5.55%, 4.08% and 4.21%, rising by 19bp, 28bp and 39bp from last Friday, respectively.

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



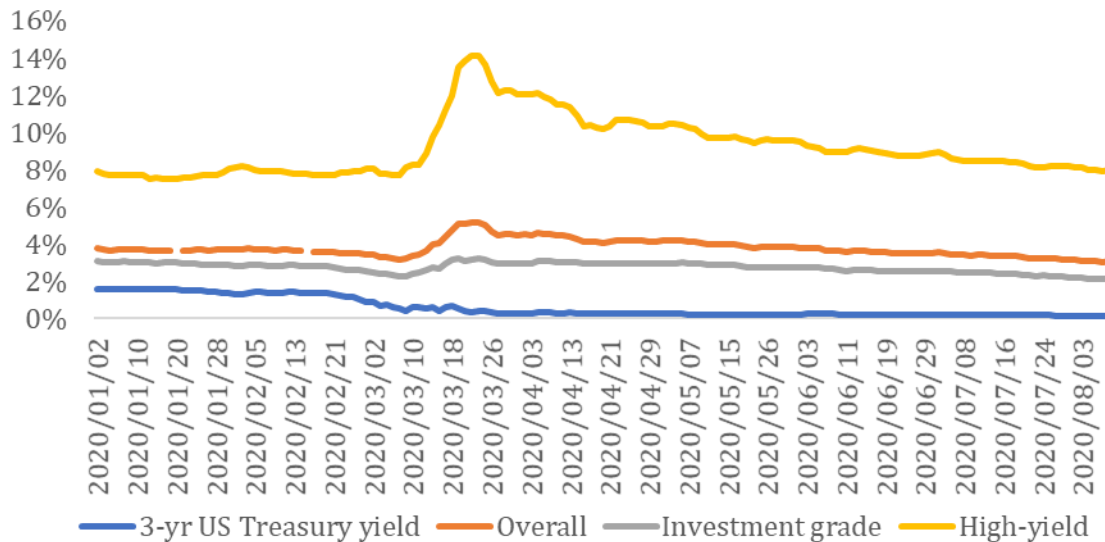
Sources: Bloomberg, CCX research

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



As of August 7, the yield-to-worst of Chinese dollar bonds decreased by 7bp to 3.07% from last Friday, of which investment grade bond index dropped by 6bp to 2.15%, while the high-yield bond index declined by 20bp to 7.94%.

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



Sources: Bloomberg, CCX research

### Rating Actions: Chinese issuers' credit quality diverged

From August 3 to August 7, the rating agencies took positive rating actions on 2 Chinese issuers; and negative rating action on 1 Chinese issuer.

Table 3 : Credit rating changes of cross-border bond market (20200803-20200807)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change	
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date			
<b>International Rating:</b>											
Upgrade	Gansu Provincial Highway Tourism Investment Group Co Ltd	Aviation Investment	Chengtou	BBB+	STABLE	2020/8/5	BBB	STABLE	2019/8/6	Fitch	Stronger role in and large-scale debt-optimization program
	SF Holding Co Ltd	Industrials		A-	STABLE	2020/8/7	A-	NEG	2019/4/23	S&P	Convertible bond conversion
Downgrade	China Guangfa Bank Co Ltd	Banks		BBB-	NEG	2020/8/3	BBB-	STABLE	2020/1/3	S&P	Mounting capital pressure

Sources: Bloomberg, Wind, CCX research

### Panda Bond Market: Everbright Water issued a MTN

On August 5, China Everbright Water Limited (“Everbright Water”) 2020 Medium Term Note (Series 1) was issued in the China Interbank Market, raising RMB1 billion at a coupon rate of 3.60% with a tenor of 3 years. Shanghai Brilliance Rating assigned AAA to both the bond and its issuer.

As of August 7, there were 22 issuers that issued 34 Panda Bonds in 2020, with a total issuance amount of RMB50.3 billion and an average coupon of 3.05%. 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 (20200101-20200807)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
China Everbright Water Limited	2	3.60	2020/8/5	2023/8/5	3	MTN	China Interbank Market	Shanghai Brilliance Rating
GLP China Holdings Limited	0.2	3.88	2020/7/30	2023/7/23	3	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating
China State Construction International Holdings Limited	2	3.48	2020/7/29	2023/7/29	3	Corporate Bond	Shanghai Exchange Market	China Chengxin / United Ratings
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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