

## 2020 Issue 31

From August 17 to August 21

The Fed indicated concerns about economic recovery;  
Chinese offshore bond issuance rebounded

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## Date:

August 27, 2020

**Headline: The Fed indicated concerns about economic recovery**

The Fed said that, the rebound in consumer spending was strong given resumption in economic activities. But the reopening of economy led to resurgence of the coronavirus, which slowed consumer expenditures. While the S&P 500 index was little changed, the effect of renewed outbreaks was evident in the differentiated performance across S&P industry sectors. Also, smaller firms not well represented in the S&P 500 may be experiencing greater effects on their businesses due to the virus. In addition, the pace of employment gains, which was quite strong in May and June, could slow, and last week's US initial unemployment insurance claims rebounded to 1.106 million.

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

The RMB exchange rate continued to fluctuate with a downward trend. As of August 21, the intermediate price of RMB exchange rate closed at 6.9107, down 298bp from last Friday.

**Interest Rate: Chinese Government Bond yields rose; US Treasury yields fell**

This week, China Government Bond yields rose. US Treasury yields dropped due to the continued worries for the pandemic and the worse-than-expected initial jobless claims. As of August 21, the yield spread between China and US 10-year note was 235.4bp, widening by 12.7bp from last Friday and widening by 108.3bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: Chinese offshore bond issuance rebounded; financial institutions were the key issuers**

From August 17 to August 21, there were 11 new issues with a total issuance volume of USD3.33 billion, increasing significantly by 43.1% from last week. Financial institutions were the key issuers, with 6 tranches of bonds issued and about USD1.89 billion bond issuance in aggregate, accounting for 56.7% of the total issuance.

**Secondary Market: Return on Chinese dollar bond slightly fluctuated and real estate bond fell**

As of August 21, the YTD return on Chinese USD corporate bond index increased by 13bp from last Friday to 4.70%, of which investment grade bond index was 5.31%, increasing by 20bp from last Friday, while high-yield bond index flattened at 3.61%. In terms of sector indices, impacted by tightening regulation on real estate companies' financing, the return on real estate index declined by 6bp to 4.37%.

**Rating Actions: Chinese issuers' credit quality diverged****Panda Bond Market: No new issuance this week**

### Headline: The Fed indicated concerns about economic recovery

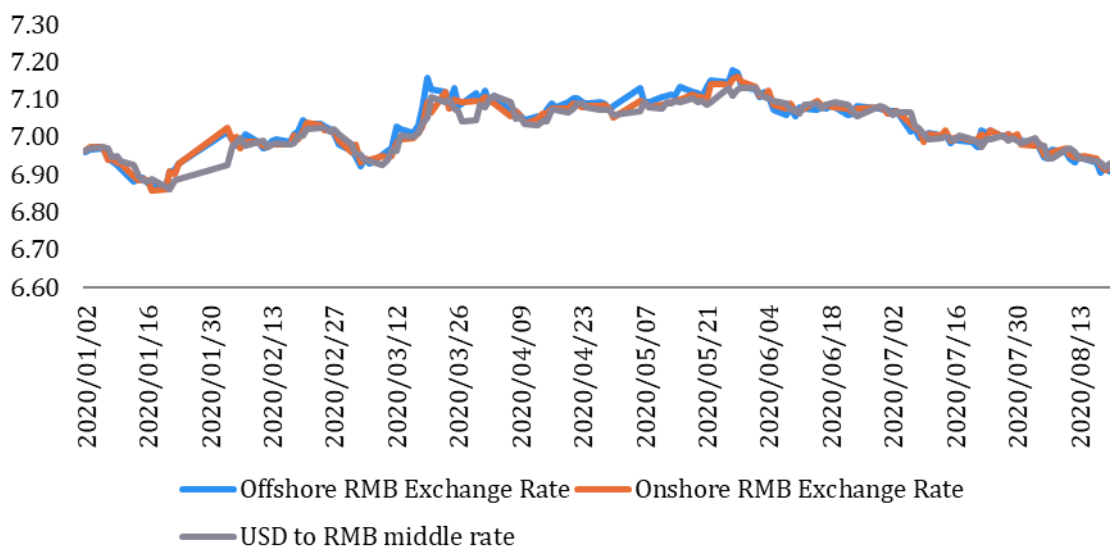
On August 19, the Fed released minutes of the Federal Open Market Committee’s July meeting. The Fed said that, the rebound in consumer spending was strong given resumption in economic activities, while household spending recovered about half of its previous decline. Consumer’s purchase of goods bounced back much more than their purchases of services, such as air travel, hotel accommodations, and restaurant meals, meals, which were disrupted significantly by social distancing and other effects of the virus. Despite that reopening of economy helped boost consumption, it also led to resurgence of the coronavirus, which slowed consumer expenditures and caused uncertain effects on the future course of the economy. While the S&P 500 index was little changed, the effect of renewed outbreaks was evident in the differentiated performance across S&P industry sectors. Share prices of banks—which faced earnings pressures from large loan loss provisions and compressed net interest margins—continued to underperform. Also, smaller firms not well represented in the S&P 500 may be experiencing greater effects on their businesses due to the virus.

The fed was concerned about the labor market. Many participants commented that the pace of employment gains, which was quite strong in May and June, could slow. The increasing number of virus cases led to delays in some business reopenings and to some reclosures as well. The initial unemployment insurance claims remained at an elevated level. Last week’s US initial unemployment claims climbed back above 1 million and reached 1.106 million, higher than the market expectation of 0.92 million.

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

This week, the RMB exchange rate continued to fluctuate with a downward trend. As of August 21, the intermediate price of RMB exchange rate closed at 6.9107, down 298bp from last Friday; the onshore RMB exchange rate closed at 6.9136, down 362bp; the offshore RMB exchange rate closed at 6.9212, down 209bp.

Figure 1 : RMB exchange rate

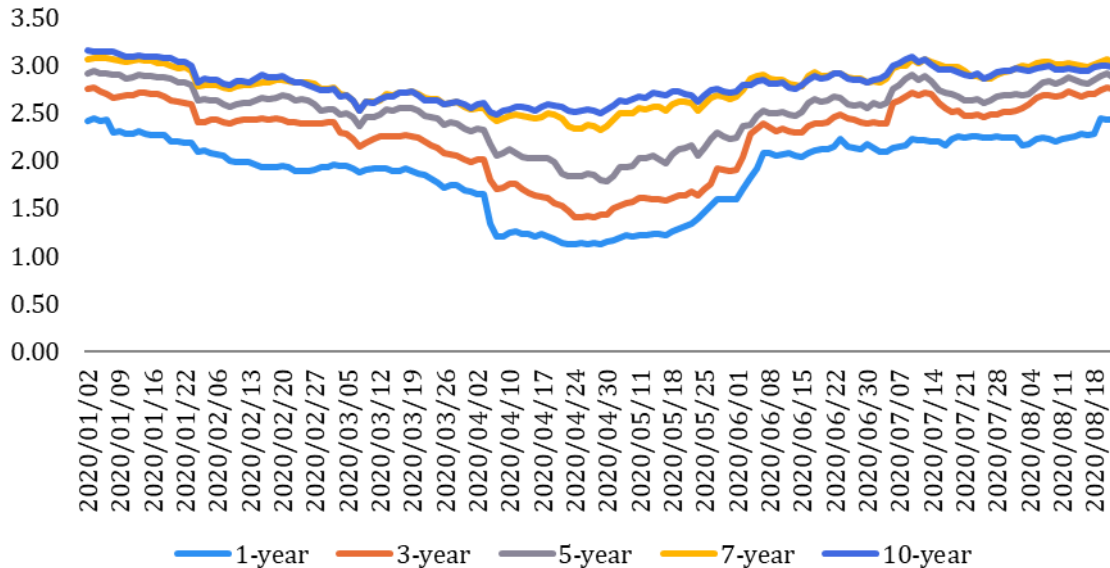


Sources: Eastmoney, CCX research

### Interest Rate: Chinese Government Bond yields rose; US Treasury yields fell

This week, China Government Bond yields rose and may experience continuous adjustment in short run. As of August 21, the 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yields increased from last Friday, closing at 2.4336%, 2.7518%, 2.8754%, 3.0291% and 2.9823%, respectively.

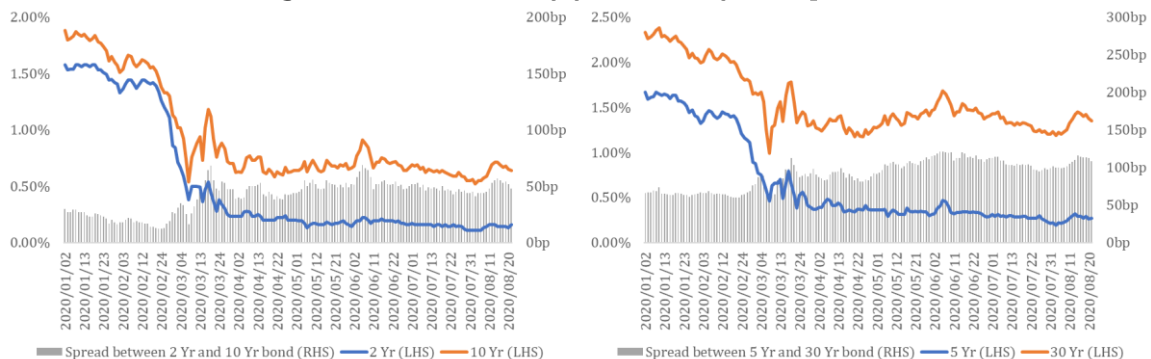
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

US Treasury yields dropped as pandemic worries persisted, despite decrease in new cases, and the worse-than-expected initial jobless claims rebounded to 1.106 million. As of August 21, 2-year Treasury yield closed at 0.16%, increasing by 2bp from last Friday; while 5-year, 10-year and 30-year Treasury yields closed at 0.27%, 0.64% and 1.35%, decreasing by 2bp, 7bp 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 9bp to 48bp from last Friday while the spread between the 5-year and 30-year tightened by 8bp to 108bp from last Friday.

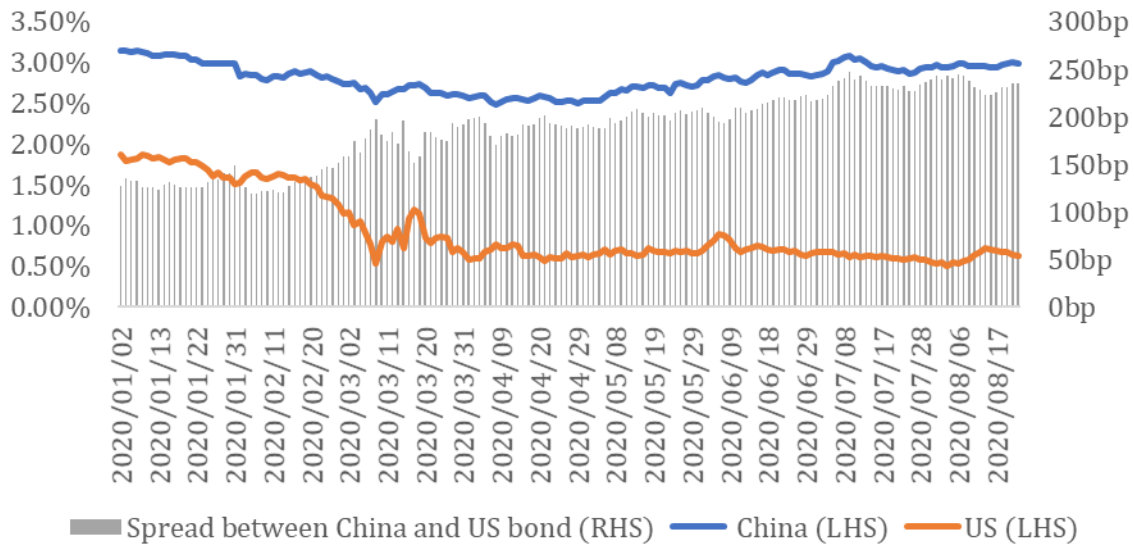
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of August 21, the yield spread between China and US 10-year note was 235.4bp, widening by 12.7bp from last Friday and widening by 108.3bp 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 rebounded; financial institutions were the key issuers

From August 17 to August 21, there were 11 new issues with a total issuance volume of USD3.33 billion, increasing significantly by 43.1% from last week. Financial institutions were the key issuers, with 6 tranches of bonds issued and about USD1.89 billion bond issuance in aggregate, accounting for 56.7% of the total issuance.

Table 1 : New issuance of Chinese offshore bonds (20200817-20200821)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/8/17	Shui On Land Ltd	USD	500	6.15	2024/8/24	4	Real Estate	-/-/-	-/-/-
2020/8/18	Guotai Junan International Holdings Ltd	USD	30	1.435	2021/8/24	364D	Financials	Baa2/BBB+/-	-/-/-
2020/8/18	ICBC Financial Leasing Co Ltd	USD	900	1.75	2025/8/25	5	Financials	A2/A/A	A2/A/-
2020/8/18	Yangzhou Urban Construction State-owned Asset Holding Group Co Ltd	USD	300	3.02	2023/8/24	3	Chengtou	-/BBB-/BBB	-/-/-
2020/8/18	Yibin State-owned Assets Management Co Ltd	USD	140	3.9	2023/8/21	3	Chengtou	-/-/-	-/-/-
2020/8/19	CMB International Capital Corp Ltd	USD	20	0.75	2020/9/8	14D	Financials	Baa1/BBB+/-	-/-/-
2020/8/20	China Jianyin Investment Ltd	USD	400	1.5	2025/8/27	5	Financials	A2/A/A+	A2/-/-
2020/8/20	China Jianyin Investment Ltd	USD	500	2.125	2030/8/27	10	Financials	A2/A/A+	A2/-/-
2020/8/20	Nanjing Jiangbei New Area	USD	200	3.7	2021/8/24	364D	Chengtou	-/-/BBB	-/-/-

Industrial Investment Group Co Ltd

2020/8/20	Overseas Chinese Town Enterprises Co Ltd	USD	300	4.5	-	Perpetual	Real Estate	-/-/-	-/-/-
2020/8/21	Guotai Junan International Holdings Ltd	HKD	281	1.8	2021/8/31	364D	Financials	Baa2/BBB+/-	-/-/-

Sources: Bloomberg, CCX research

On August 19 and August 20, China Huarong International Holdings Limited and Shaanxi Xixian New Area Airport New City Development & Construction Group Co Limited announced tap bond offerings, respectively.

**Table 2 : Tap bond offering (20200817-20200821)**

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/8/19	China Huarong International Holdings Ltd	USD	250 (reoffered 110)	3.25	2021/6/23	364D	Financials	-/BBB+/-	-/-/-
2020/8/20	Shaanxi Xixian New Area Airport New City Development & Construction Group Co Ltd	USD	142 (reoffered 92)	6.5	2023/5/25	3	Chengtou	-/-/-	-/-/-

Sources: Bloomberg, CCX research

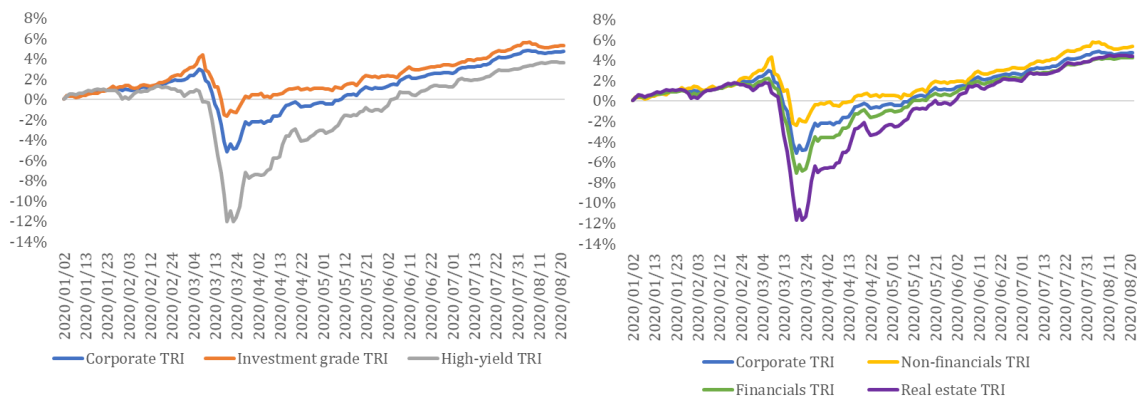
Recently, Chinese corporates, including Shandong Commercial Group Co, Ltd. and Huangshan Tourism Group Co., Ltd. planned to issue offshore bonds.

## Secondary Market: Return on Chinese dollar bond slightly fluctuated and real estate bond fell

As of August 21, the YTD return<sup>1</sup> on Chinese USD corporate bond index increased by 13bp from last Friday to 4.70%, of which investment grade bond index was 5.31%, increasing by 20bp from last Friday, while high-yield bond index flattened at 3.61%. In terms of sector indices, impacted by tightening regulation on real estate companies' financing, the return on real estate index declined by 6bp to 4.37%; the returns on non-financial and financial index were 5.34% and 4.21%, rising by 29bp and 4bp from last Friday, respectively.

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

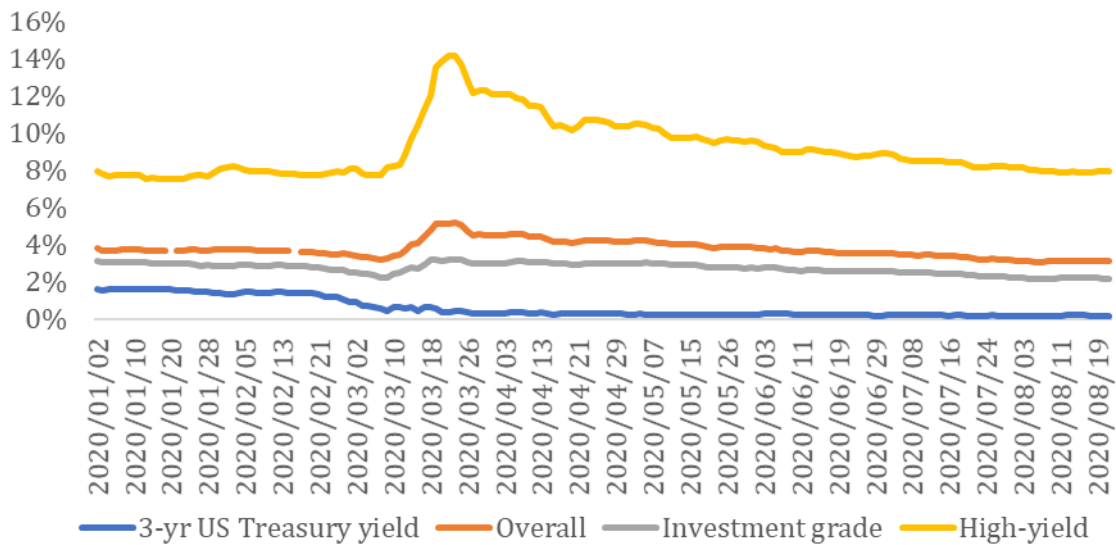
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of August 21, the yield-to-worst of Chinese dollar bonds increased by 1bp to 3.11% from last Friday, of which investment grade bond index fell by 3bp to 2.16%, while the high-yield bond index rose by 10bp 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 17 to August 21, the rating agencies took positive rating action on 1 Chinese issuer; and negative rating actions on 2 Chinese issuers.

Table 3 : Credit rating changes of cross-border bond market (20200817-20200821)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
<b>International Rating:</b>										
Upgrade	Xi'an Municipal Infrastructure Construction Investment Group Corp Ltd	Chengtou	BBB+	STABLE	2020/8/18	BBB	STABLE	2019/8/22	Fitch	Stronger incentive for the government to support the company
Downgrade	Beijing Haidian District State-Owned Assets Investment Group Co Ltd	Financials	BBB-	NEG	2020/8/19	BBB-	STABLE	2020/6/11	S&P	Weakening liquidity and capital structure
	Anton Oilfield Services Group/Hong Kong	Energy	B1	NEG	2020/8/20	B1	STABLE	2019/2/21	Moody's	Weakening earnings and liquidity

Sources: Bloomberg, Wind, CCX research

### Panda Bond Market: No new issuance this week

As of August 21, there were 22 issuers that issued 35 Panda Bonds in 2020, with a total issuance amount of RMB50.8 billion and an average coupon of 3.06%. The majority of them were issued in the China Interbank Market, and more than 60% of them were issued at a tenor of 3 years or above.

Table 4 : New issuance of Panda Bond in 2020 (20200101-20200821)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Yuexiu Transport Infrastructure Limited	0.5	3.54	2020/8/14	2023/8/14	3	MTN	China Interbank Market	China Chengxin
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	0.3	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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