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From August 24 to August 28

The Fed adjusted its monetary policy framework; Tencent Music issued USD bonds for first time

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Headline: The Fed adjusted its monetary policy framework; Japan's Prime Minister Shinzo Abe resigned on his own health reasons

On Thursday, the Fed Chairman Jerome Powell announced a major policy shift that the Fed seeks to achieve inflation that averages 2% over time, meaning that the central bank will allow inflation to run "moderately" above 2% for some time to achieve maximum employment. The policy shift may indicate that the Fed will keep its monetary easing policy for a longer time, with low interest rates. Japan's Prime Minister Shinzo Abe announced his resignation in the press conference on Friday, citing his recent health concerns. The next prime minister is expected to be elected on September 17.

Exchange Rate: The RMB exchange rate continued to decline

This week, the RMB exchange rate continued to fluctuate with a downward trend, with the intermediate price breaking the threshold of 6.9. As of August 28, the intermediate price of RMB exchange rate closed at 6.8891.

Interest Rate: Chinese Government Bond yields rose; Mid- to long-term US Treasury yields rose

China Government Bond yields rose this week, and may experience continuous adjustment in short run. Mid- to long-term US Treasury yields rose as the Fed Chairman Jerome Powell said to implement a new strategy incorporating a flexible form of long-term average inflation targeting for maximizing employment. As of August 28, the yield spread between China and US 10-year note was 234.6bp, tightening by 0.8bp from last Friday and widening by 107.5bp from the beginning of the year.

Chinese Offshore Bond Market

Primary Market: New issuance remained flat; Tencent Music issued USD bonds for first time

From August 24 to August 28, there were 13 new issues totaled USD3.2 billion, similar to the amount issued last week. Tencent Music issued two tranches of USD bond for first time with a total amount of RMB800 million.

Secondary Market: Returns on investment and non-investment grade bonds diverged, real estate bonds were strong

As of August 28, the YTD return on Chinese USD corporate bond index increased by 16bp from last Friday to 4.86%, of which investment grade bond index was 5.20%, decreasing by 10bp from last Friday, while high-yield bond index was 4.32%, increasing by 71bp from last Friday. In terms of sector indices, the return on real estate index was strong and increased by 70bp from last Friday to 5.07%.

Rating Actions: Three Chengtong companies' international ratings were upgraded

Panda Bond Market: ANTA issued a MTN this week

On August 24, ANTA Sports Products Limited 2020 Medium Term Note (Series 1) was issued in the China Interbank Market, raising RMB1 billion at a coupon rate of 3.95% with a tenor of 3 years.

Headline: The Fed adjusted its monetary policy framework; Japan’s Prime Minister Shinzo Abe resigned on his own health reasons

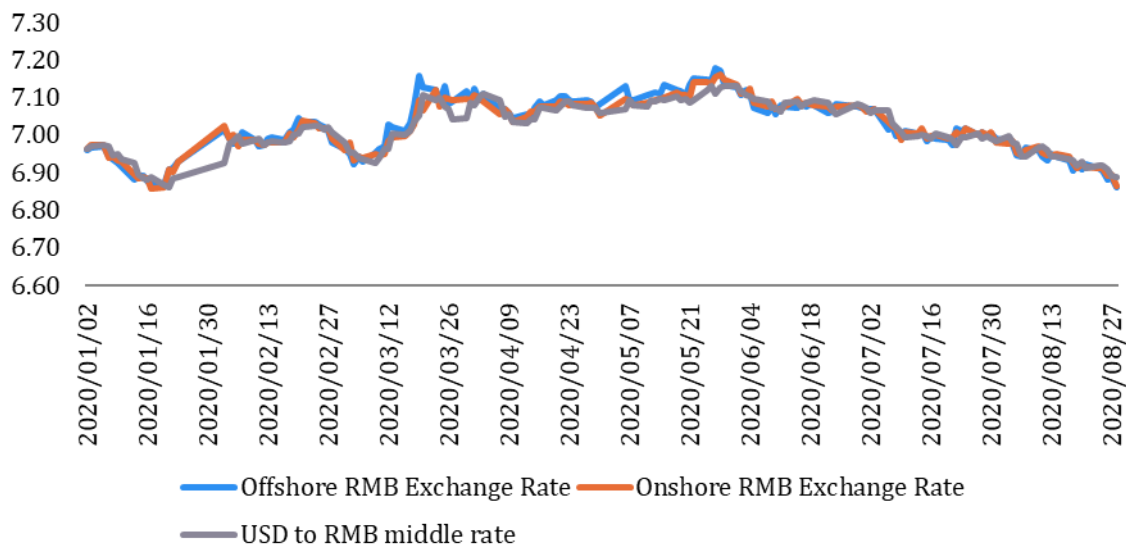
On Thursday, the Fed Chairman Jerome Powell announced a major policy shift that the Fed seeks to achieve inflation that averages 2% over time. That said, the Fed will allow inflation to run “moderately” above the Fed’s 2% goal for some time in order to achieve maximum employment and overcome challenges posed by the proximity of interest rates to the effective lower bound. Previously, the Fed officials did not predict an interest rate increase until after 2020. The policy shift may indicate that the Fed will keep its monetary easing policy for a longer time, with low interest rates. However, the effectiveness on the control of inflation and the impact on the financial stability are worth noting.

Japan’s Prime Minister Shinzo Abe announced his resignation in the press conference on Friday, citing his recent health concerns. According to Nikkei news, the Liberal Democratic Party will vote for the next leader by September 15, followed by a special session of parliament to elect the next prime minister in September 17. Former Defense Minister Shigeru Ishiba, Former Foreign Minister Fumio Kishida, and Chief Cabinet Secretary Yoshihide Suga are considered as the key candidates for the party's top post.

Exchange Rate: The RMB exchange rate continued to decline

This week, the RMB exchange rate continued to fluctuate with a downward trend, with the intermediate price breaking the threshold of 6.9. As of August 28, the intermediate price of RMB exchange rate closed at 6.8891, down 216bp from last Friday; the onshore RMB exchange rate closed at 6.8646, down 490bp; the offshore RMB exchange rate closed at 6.8595, down 617bp.

Figure 1 : RMB exchange rate

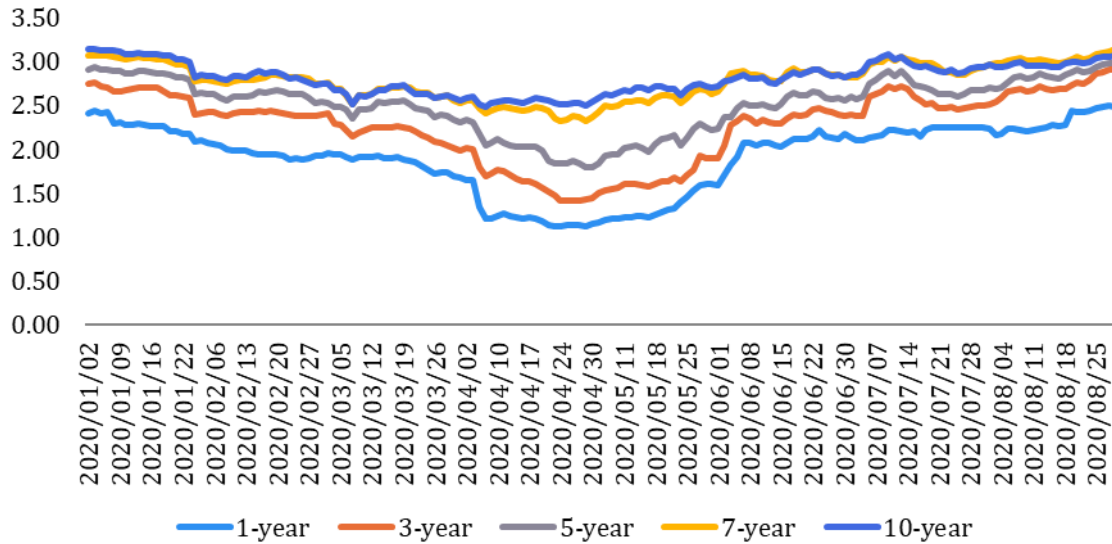


Sources: Eastmoney, CCX research

Interest Rate: Chinese Government Bond yields rose; Mid- and long-term US Treasury yields rose

This week, China Government Bond yields rose and may experience continuous adjustment in short run. As of August 28, 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yields increased from last Friday, closing at 2.4869%, 2.9077%, 2.9902%, 3.1387% and 3.0672%.

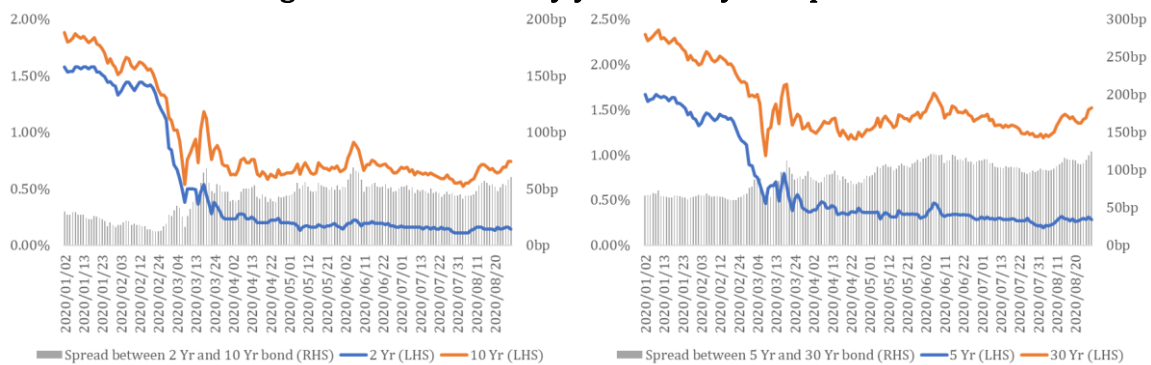
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

Mid- to long-term US Treasury yields rose as the Fed Chairman Jerome Powell said in the Jackson Hole Economic Symposium to implement a new strategy to achieve inflation that averages 2% over time for maximizing employment. As of August 28, 2-year Treasury yield closed at 0.14%, decreasing by 2bp from last Friday; while 5-year, 10-year and 30-year Treasury yields closed at 0.28%, 0.74% and 1.52%, increasing by 1bp, 10bp and 17bp as compared to last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year widened by 12bp to 60bp from last Friday while the spread between the 5-year and 30-year widened by 16bp to 124bp from last Friday.

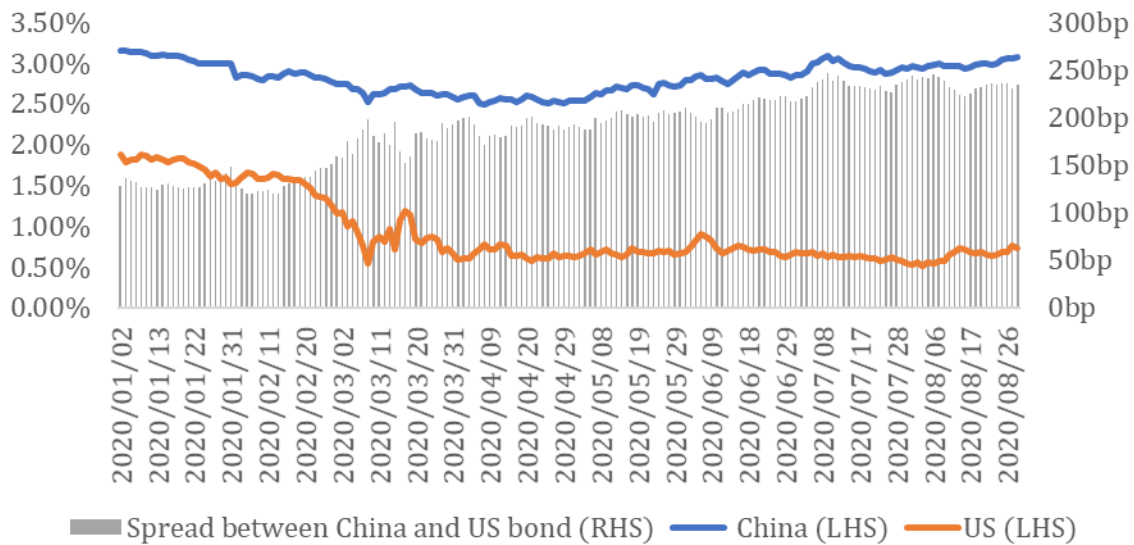
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of August 28, the yield spread between China and US 10-year note was 234.6bp, tightening by 0.8bp from last Friday and widening by 107.5bp 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: New issuance remained flat; Tencent Music issued USD bonds for first time

From August 24 to August 28, there were 13 new issues totaled USD3.2 billion, similar to the amount issued last week. Tencent Music Entertainment Group (“Tencent Music”) issued two tranches of USD bond for first time with a total amount of RMB800 million.

Table 1 : New issuance of Chinese offshore bonds (20200824-20200828)

| Pricing Date | Obligor | Currency | Amount (million) | Coupon (%) | Maturity | Tenor | Industry | Issuer Rating (Moody's/S&P/Fitch) | Issue Rating (Moody's/S&P/Fitch) |
|--------------|--|----------|------------------|------------|-----------|-------|------------------------|-----------------------------------|----------------------------------|
| 2020/8/24 | Industrial & Commercial Bank of China Ltd/London | USD | 100 | 3ML+75 | 2023/8/26 | 3 | Banks | A1/A/A | -/-/- |
| 2020/8/24 | Industrial & Commercial Bank of China Ltd/London | USD | 100 | 3ML+75 | 2023/8/27 | 3 | Banks | A1/A/A | -/-/- |
| 2020/8/24 | Jiangsu Kewei Holding Group Co Ltd | USD | 100 | 3.2 | 2023/8/27 | 3 | Chengtou | -/-/- | -/-/- |
| 2020/8/24 | Shandong Guohui Investment Co Ltd | USD | 400 | 3.15 | 2025/8/27 | 5 | Financials | Baa2/-/BBB+ | -/-/BBB+ |
| 2020/8/25 | Huangshan Tourism Group Co Ltd | EUR | 230 | 0.9 | 2025/8/31 | 5 | Consumer Discretionary | -/-/- | (P)A1/-/- |
| 2020/8/25 | Nanjing Lishui Economic and Technological Development Group Co Ltd | USD | 49 | 3.1 | 2021/8/26 | 364D | Chengtou | -/-/- | -/-/- |
| 2020/8/25 | Road King Infrastructure Ltd | USD | 300 | 6 | 2025/9/4 | 5 | Real Estate | Ba3/BB-/- | Ba3/-/- |
| 2020/8/25 | Shandong Commercial Group Co Ltd | USD | 180 | 7 | 2023/8/28 | 3 | Financials | -/-/- | -/-/- |

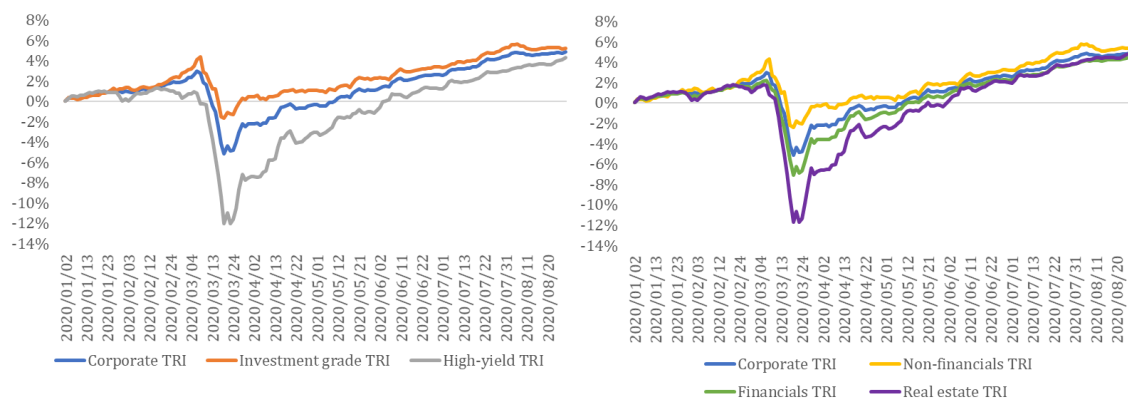
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|-----------|---|-----|-------|-------|----------|------|----------------|-------------|--------|
| 2020/8/26 | Guotai Junan International Holdings Ltd | HKD | 374.5 | 1.27 | 2021/3/2 | 181D | Financials | Baa2/BBB+/- | -/-/- |
| 2020/8/26 | Tencent Music Entertainment Group | USD | 300 | 1.375 | 2025/9/3 | 5 | Communications | A2/A/A | A2/A/A |
| 2020/8/26 | Tencent Music Entertainment Group | USD | 500 | 2 | 2030/9/3 | 10 | Communications | A2/A/A | A2/A/A |
| 2020/8/27 | ABC International Holdings Ltd | USD | 800 | 1.65 | 2025/9/3 | 5 | Financials | A2/A-/A | A2/-/- |
| 2020/8/27 | Guotai Junan International Holdings Ltd | HKD | 370 | 1.3 | 2021/3/3 | 181D | Financials | Baa2/BBB+/- | -/-/- |

Sources: Bloomberg, CCX research

Secondary Market: Returns on investment and non-investment grade bonds diverged, real estate bonds were strong

As of August 28, the YTD return¹ on Chinese USD corporate bond index increased by 16bp from last Friday to 4.86%, of which investment grade bond index was 5.20%, decreasing by 10bp from last Friday, while high-yield bond index was 4.32%, increasing by 71bp from last Friday. In terms of sector indices, the return on real estate index was strong and increased by 70bp from last Friday to 5.07%; the returns on non-financial and financial index were 5.14% and 4.59%, declining by 20bp and rising by 38bp from last Friday, respectively.

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

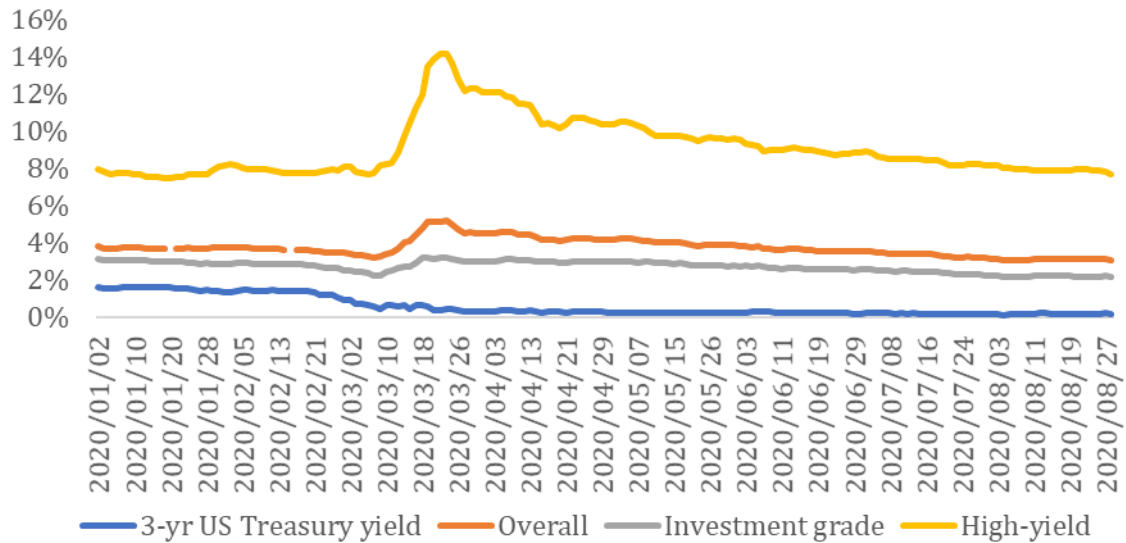


Sources: Bloomberg, CCX research

As of August 28, the yield-to-worst of Chinese dollar bonds decreased by 6bp to 3.05% from last Friday, of which investment grade bond index was flat at 2.16%, while the high-yield bond index decreased by 28bp to 7.66%.

¹ Year-to-date return measures the return since January 2, 2020.

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



Sources: Bloomberg, CCX research

Rating Actions: Three Chengtou companies’ international ratings were upgraded

From August 24 to August 28, the rating agencies took positive rating actions on 7 Chinese issuers; and negative rating action on 1 Chinese issuer. In particular, Fitch upgraded the credit ratings of three Chengtou companies located in Taizhou City and Zhangzhou City respectively.

Table 2 : Credit rating changes of cross-border bond market (20200824-20200828)

| | Entity | Sector | Current Rating | | | Previous Rating | | | Rating Agency | Reason of Change |
|------------------------------|---|------------------------|----------------|---------|-----------|-----------------|---------|------------|---------------|--|
| | | | Entity Rating | Outlook | Date | Entity Rating | Outlook | Date | | |
| International Rating: | | | | | | | | | | |
| | Taizhou City Construction Investment Development Group Co Ltd | Chengtou | BBB | STABLE | 2020/8/24 | BBB- | STABLE | 2019/10/21 | Fitch | Enhanced role in fund raising for local urban infrastructure |
| | Zhangzhou Jiulongjiang Group Co Ltd | Chengtou | BBB- | STABLE | 2020/8/25 | BB+ | STABLE | 2019/8/28 | Fitch | Stronger incentive for the government to support |
| Upgrade | Fujian Zhanglong Group Co Ltd | Chengtou | BBB- | STABLE | 2020/8/25 | BB+ | STABLE | 2019/11/28 | Fitch | Stronger incentive for the government to support |
| | Ronshine China Holdings Ltd | Real Estate | BB | POS | 2020/8/27 | BB | STABLE | 2019/8/7 | Pengyuan | Improved financial profile |
| | Powerlong Real Estate Holdings Ltd | Real Estate | B+ | POS | 2020/8/27 | B+ | STABLE | 2019/10/31 | S&P | Enhanced debt control |
| | JD.com Inc | Consumer Discretionary | Baa1 | STABLE | 2020/8/28 | Baa2 | POS | 2020/3/10 | Moody's | Consistently improving business and financial profiles |

Downgrade

| | | | | | | | | | |
|-------------------------------|------------|------|-----|-----------|------|--------|------------|---------|---|
| AAC Technologies Holdings Inc | Technology | Baa1 | NEG | 2020/8/27 | Baa1 | STABLE | 2019/11/29 | Moody's | Pressure of profitability and elevating debt leverage |
|-------------------------------|------------|------|-----|-----------|------|--------|------------|---------|---|

Domestic Rating:

Upgrade

| | | | | | | | | | |
|---|-------------|-----|--------|-----------|-----|--------|-----------|--------|---|
| Wuhan State-Owned Asset Management Ltd Co | Real Estate | AAA | STABLE | 2020/8/25 | AA+ | STABLE | 2019/7/26 | Dagong | Stronger anti-risk and debt-serving ability |
|---|-------------|-----|--------|-----------|-----|--------|-----------|--------|---|

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: ANTA issued a MTN this week

On August 24, ANTA Sports Products Limited (“ANTA”) 2020 Medium Term Note (Series 1) was issued in the China Interbank Market, raising RMB1 billion at a coupon rate of 3.95% with a tenor of 3 years. Shanghai Brilliance Rating assigned AAA to both the bond and its issuer.

As of August 28, there were 23 issuers that issued 36 Panda Bonds in 2020, with a total issuance amount of RMB51.8 billion and an average coupon of 3.09%. 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 3 : New issuance of Panda Bond in 2020 (20200101-20200828)

| Issuer | Amount (RMB billion) | Coupon (%) | Issue date | Maturity | Tenor | Bond Type | Issue Market | Local Rating Agency |
|---|----------------------|------------|------------|-----------|-------|----------------------------------|--------------------------|---------------------------------|
| ANTA Sports Products Limited | 1 | 3.95 | 2020/8/24 | 2023/8/24 | 3 | MTN | China Interbank Market | Shanghai Brilliance Rating |
| 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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