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From February 22 to February 26

US Treasury yields surged; Chinese offshore bond new issuance picked up

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Headline: House passed USD1.9 trillion stimulus package, global debt reached 335% of world GDP

On February 27, the House passed the USD1.9 trillion stimulus plan. According to the report published by the IIF, the global debt increased by USD24 trillion in 2020 amid the pandemic, and reached USD281 trillion at end-2020, about 335% of the world GDP. IIF estimated that the global debt would raise USD19 trillion over the next one and half years, and exceed USD300 trillion for the first time by mid-2022.

Exchange Rate: RMB exchange rate rose slightly

The RMB exchange rate increased slightly. As of February 26, the intermediate price of RMB exchange rate closed at 6.4713.

Interest Rate: China Government Bond yields increased; US Treasury yields continued to climb

Mid-to-long term China Government Bond yields rose. The advancement of COVID-19 vaccination program coupled with fiscal stimulus plan accelerated US economic recovery and built inflation expectation. As a result, US Treasury yields surged and 10-year Treasury yield once passed 1.6%. As of February 26, the yield spread between China and US 10-year note was 188bp, tightening by 4.7bp from last Friday and 39.0bp from the beginning of the year.

Chinese Offshore Bond Market

Primary Market: Chinese offshore bond new issuance picked up

From February 22 to February 26, there were 16 new issues with a total issued volume of approximately USD5.12 billion. CDB Leasing was the largest issuer, issued 2 bonds that raised USD1 billion.

Secondary Market: Return on Chinese dollar bonds declined

As of February 26, the YTD return on Chinese USD corporate bond index decreased by 41bp from last Friday to -0.30%. The return on investment-grade bond declined by 49bp to -0.23%, and the return on high-yield bond also declined by 21bp to -0.46%.

Rating Actions: Rating agencies downgraded 4 Chinese issuers

Risk Event: CFLD defaulted on its USD530 million offshore bonds

Panda Bond Market: No New issuance this week

Headline: House passed USD1.9 trillion stimulus package, global debt reached 335% of world GDP

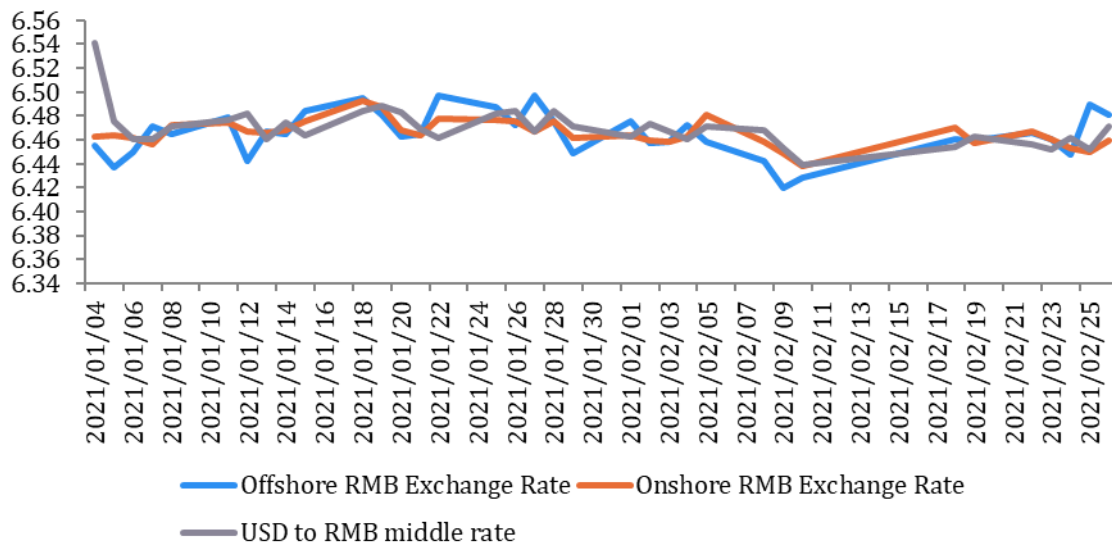
On February 27, the House passed the USD1.9 trillion stimulus plan and scheduled to vote in the Senate next week. President Biden also proposed to raise the minimum wage to USD15 per hour, but was rejected by the Senate since the bill did not fulfill the requirements of budget reconciliation.

According to the report published by the Institute of International Finance (“IIF”), the global debt increased by USD24 trillion in 2020 amid the pandemic, and reached USD281 trillion at end-2020. The debt-to-GDP ratio was about 335%, increasing by 35 percentage points from 2019. The increase in the ratio exceeded the rates during the financial crisis, which rose by 10 percentage points and 15 percentage points in 2008 and 2009, respectively. In 2020, global government debt increased by USD12 trillion, accounting for half of the rise. The debt of global firms, banks, and households rose by USD5.4 trillion, USD3.9 trillion and USD2.6 trillion, respectively. In terms of regions, the increase in debt in the European region was particularly pronounced, with the non-financial sector debt-to-GDP ratios rising by around 50 percentage points in France, Spain and Greece. IIF estimated that the global debt would raise USD19 trillion over the next one and half years, and exceed USD300 trillion for the first time by mid-2022.

Exchange Rate: RMB exchange rate rose slightly

This week, the RMB exchange rate increased slightly. As of February 26, the intermediate price of RMB exchange rate closed at 6.4713, up 89bp from last Friday; the onshore RMB exchange rate closed at 6.4590, up 15bp; the offshore RMB exchange rate closed at 6.4813, up 219bp.

Figure 1 : RMB exchange rate

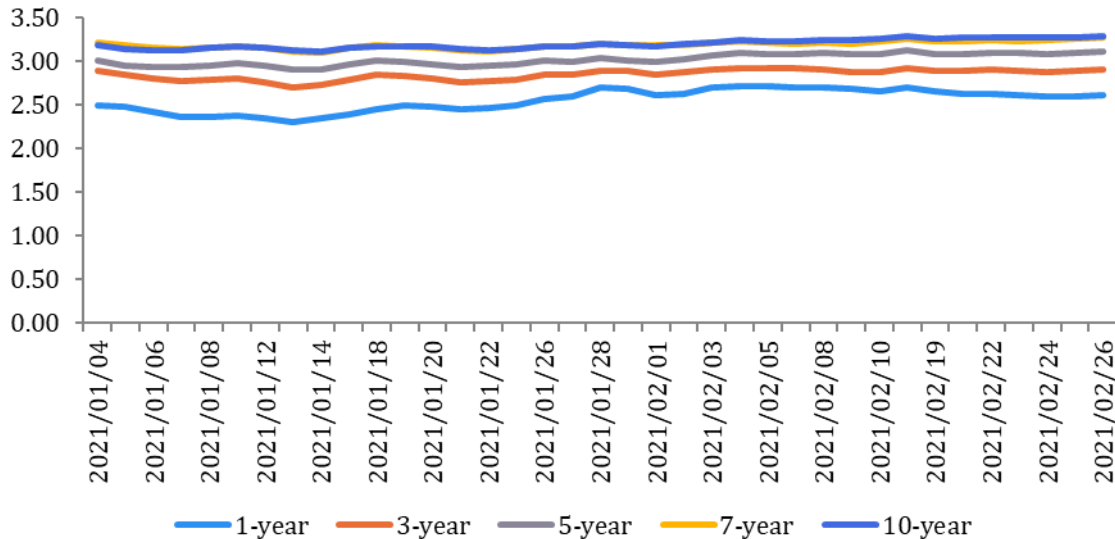


Sources: Wind, CCX research

Interest Rate: China Government Bond yields increased; US Treasury yields continued to climb

During the week, mid-to-long term China Government Bond yields rose, while 1-year Government Bond yield declined. As of February 26, the 3-year, 5-year, 7-year, and 10-year Government Bond yields increased from last Friday, closing at 2.9028%, 3.1050%, 3.2618% and 3.2798%; 1-year Government Bond yield declined from last Friday, closing at 2.6036%.

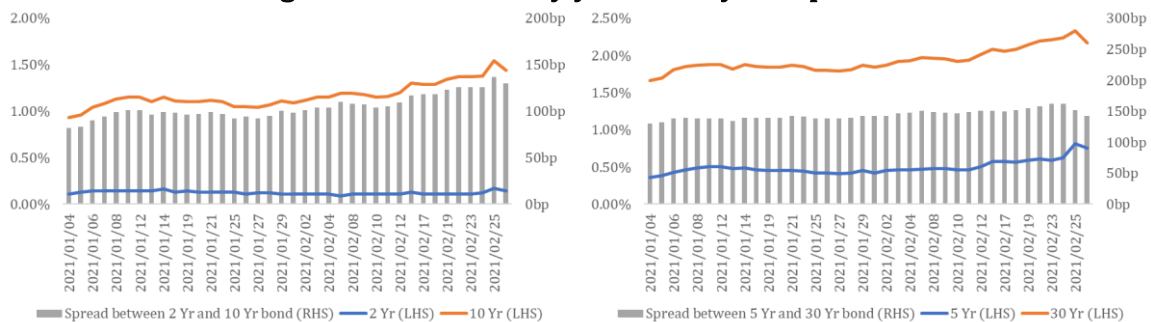
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

The advancement of COVID-19 vaccination program coupled with fiscal stimulus plan accelerated US economic recovery and built inflation expectation. As a result, US Treasury yields surged and 10-year Treasury yield once passed 1.6%. As of February 26, the 2-year, 5-year, 10-year and 30-year Treasury yields closed at 0.14%, 0.75%, 1.44% and 2.17%, increasing by 3bp, 16bp, 10bp and 3bp from last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year widened by 7bp to 130bp, while the spread between the 5-year and 30-year tightened by 13bp to 142bp from last Friday.

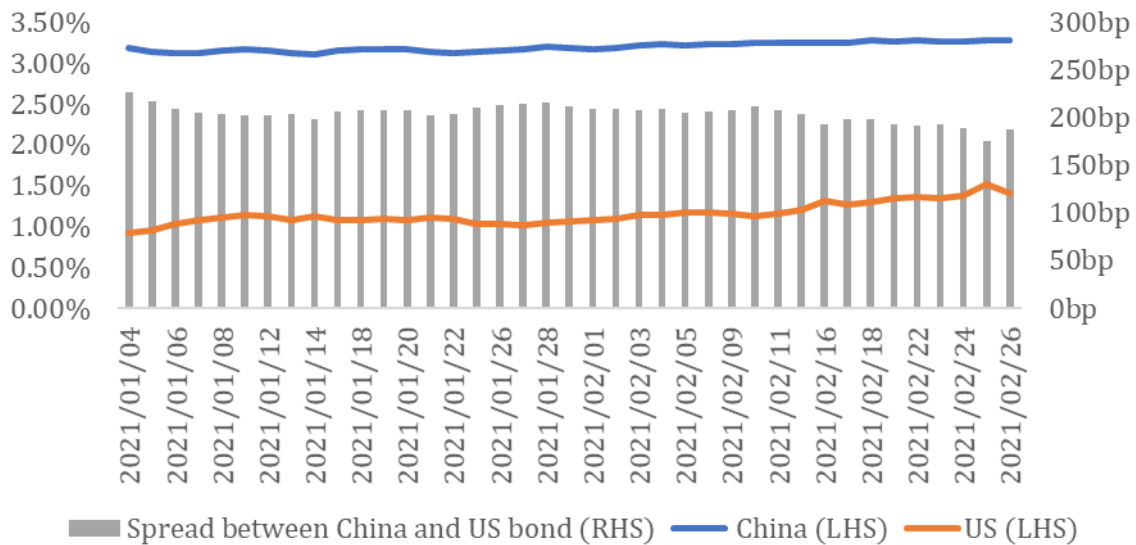
Figure 3 : US Treasury yields and yield spreads



Sources: US Department of the Treasury, CCX research

As of February 26, the yield spread between China and US 10-year note was 187.5bp, tightening by 4.7bp from last Friday and 39.0bp 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 picked up

From February 22 to February 26, there were 16 new issues with a total issued volume of approximately USD5.12 billion. China Development Bank Financial Leasing Co Ltd (“CDB Leasing”) was the largest issuer, issued 2 bonds that raised USD1 billion.

Table 1 : New issuance of Chinese offshore bonds (20210222-20210226)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2021/2/22	China Aoyuan Group Ltd	USD	350	5.88	2027/3/1	6	Real Estate	B1/B+/BB	-/-/BB
2021/2/22	Haitong International Securities Group Ltd	USD	100	0.9	2021/11/30	278D	Financials	Baa2/BBB/-	-/-/-
2021/2/22	Haitong International Securities Group Ltd	USD	100	0.9	2021/12/8	286D	Financials	Baa2/BBB/-	-/-/-
2021/2/22	Hope Education Group Co Ltd	USD	350	0	2026/3/2	5	Consumer Discretionary	-/-/-	-/-/-
2021/2/23	Agricultural Bank of China Ltd/Macao	HKD	3,000	0.66	2023/3/2	2	Banks	A1/A/A	A1/-/-
2021/2/23	Agricultural Bank Of China Ltd/Singapore	USD	300	0.75	2024/3/2	3	Banks	A1/A/A	A1/-/-
2021/2/23	Agricultural Bank Of China Ltd/Singapore	USD	300	1.25	2026/3/2	5	Banks	A1/A/A	A1/-/-
2021/2/24	Far East Horizon Ltd	USD	500	2.625	2024/3/3	3	Financials	-/BBB-/-	-/BBB-/-
2021/2/24	Guangzhou R&F Properties Co Ltd	USD	325	11.625	2024/9/3	3.5	Real Estate	B1/B/B+	-/-/B+
2021/2/24	Guotai Junan International Holdings Ltd	USD	400	2	2026/3/3	5	Financials	Baa2/BBB+/-	-/BBB+/-
2021/2/25	Bank of Communications Co Ltd/Luxembourg	EUR	50	3m€+50	2024/3/5	3	Banks	A2/A-/A	-/-/-
2021/2/25	China Development Bank	USD	500	1.375	2024/3/4	3	Financials	A1/A/A+	A2/-/A+

Financial Leasing Co Ltd									
2021/2/25	China Development Bank Financial Leasing Co Ltd	USD	500	2	2026/3/4	5	Financials	A1/A/A+	A2/-/A+
2021/2/25	Fantasia Holdings Group Co Ltd	USD	250	10.875	2024/3/2	3	Real Estate	B2/B/B+	-/-/B+
2021/2/25	Jiaozuo Investment Group Co Ltd	USD	100	5.6	2022/2/28	363D	Chengtou	-/-/-	-/-/-
2021/2/25	Qingdao China Prosperity State-owned Capital Operation Group Co Ltd	USD	600	2.98	2024/3/4	3	Financials	-/-/BBB	-/-/BBB

Sources: Bloomberg, CCX research

On February 25, Sunac China Holdings Ltd announced tap bond offering.

Table 2 : Tap bond offering (20210222-20210226)

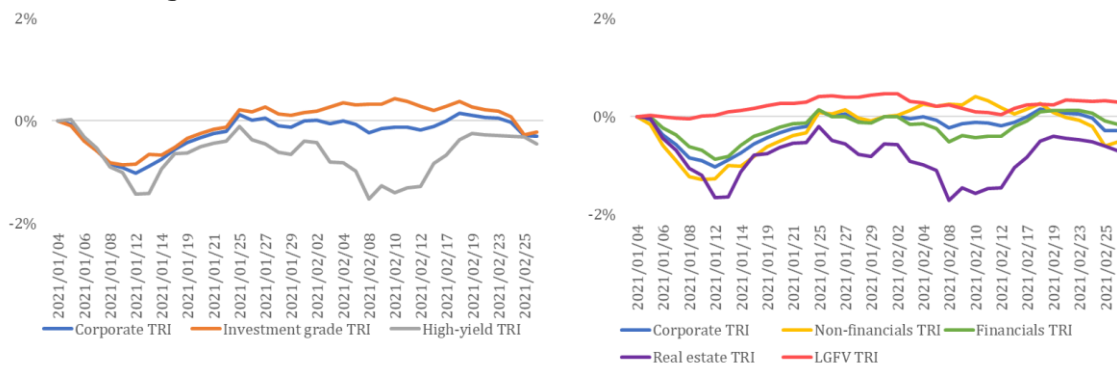
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2021/2/25	Sunac China Holdings Ltd	USD	942 (reoffered 342)	5.95	2024/4/26	3.25	Real Estate	Ba3/BB-/BB	B1/B+/BB
2021/2/25	Sunac China Holdings Ltd	USD	750 (reoffered 210)	6.5	2025/1/10	5	Real Estate	Ba3/BB-/BB	B1/B+/BB

Sources: Bloomberg, CCX research

Secondary Market: Return on Chinese dollar bonds declined

Affected by the increase in US Treasury yields, the return on Chinese dollar bonds declined. As of February 26, the YTD return¹ on Chinese USD corporate bond index decreased by 41bp from last Friday to -0.30%. The return on investment-grade bond declined by 49bp to -0.23%, and the return on high-yield bond declined by 21bp to -0.46%. In terms of sector indices, the return on non-financial index declined the most, dropping by 60bp to -0.51%. Returns on financials and real estate indices were -0.17% and -0.71%, decreasing by 29bp and 31bp, respectively. However, the return on Chengtuo index rose by 6bp to 0.30%.

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

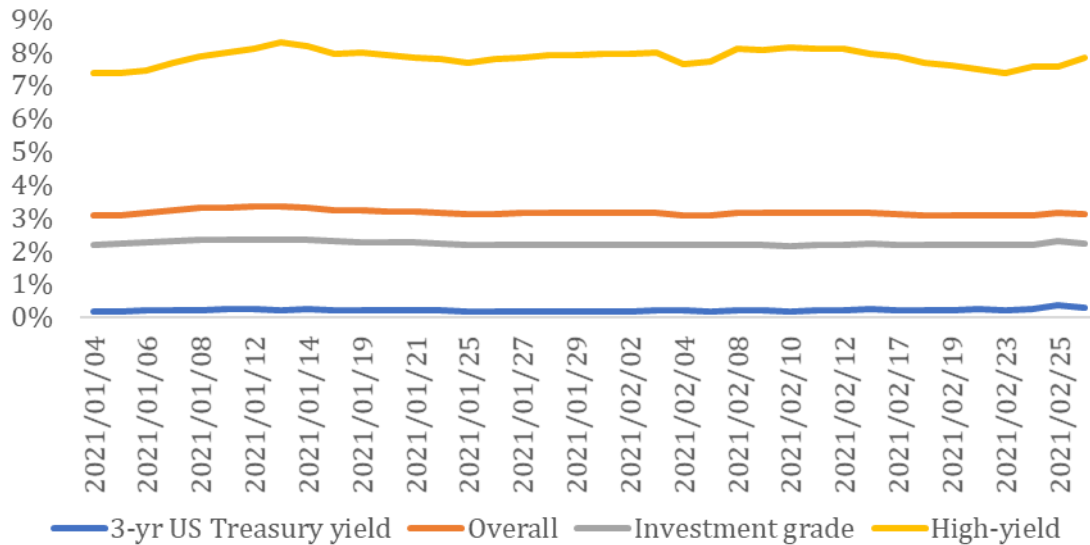


Sources: Bloomberg, CCX research

¹ Year-to-date return measures the return since January 4, 2021

As of February 26, the yield-to-worst of Chinese dollar bonds increased by 6bp to 3.12% from last Friday, of which investment grade and high-yield bond indices were 2.20% and 7.81%, increasing by 2bp and 23bp from last Friday, respectively.

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



Sources: Bloomberg, CCX research

Rating Actions: Rating agencies downgraded 4 Chinese issuers

From February 22 to February 26, the rating agencies took negative rating actions on 4 Chinese issuers.

Table 3 : Credit rating changes of cross-border bond market (20210222-20210226)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Downgrade	Zhongyuan Asset Management Co Ltd	Financials	BBB-	Negative	2021/2/26	BBB	STABLE	2020/8/28	Fitch	Restriction on onshore bond and decreased debts default implications for the province
Domestic Rating:										
Downgrade	HNA Group Co Ltd, Hainan Airlines Holding Co Ltd	Industrials	C	-	2021/2/23	BB	NEG	2021/2/1	Shanghai Brilliance Rating	Uncertainty of repayment and cross-default risk of MTNs
	Hainan Airlines Holding Co Ltd	Industrials	C	-	2021/2/23	BB	NEG	2021/2/2	CCXI	Unable to repay debt obligations
	China Fortune Land Development Co Ltd	Real Estate	B	Negative	2021/2/23	A	Rating Watch Negative	2021/2/3	Golden Credit	Uncertainty of repayment and cross-default risk of MTNs

Sources: Bloomberg, Wind, CCX research

Risk Event: CFLD defaulted on its USD530 million offshore bonds

On February 26, China Fortune Land Development Co Ltd (“CFLD”), announced that due to the liquidity issues, it failed to repay USD530 million offshore bonds due on February 28, 2021. As of February 26, CFLD had 9 outstanding offshore bonds of approximately USD4.6 billion and 17 onshore bonds of approximately RMB32.4 billion. In addition, CFLD appointed Admiralty Harbour Capital Limited as its financial adviser and Sidley Austin as its legal adviser to resolve its offshore debt issues.

Panda Bond Market: No New issuance this week

As of February 26, there were 4 issuers that issued 5 panda bonds with a total issued amount of RMB4.2 billion and an average coupon rate of 3.67%, with tenor of mostly 3 years or above. Issuance were mostly in the China Interbank Market.

Table 4 : New issuance of Panda Bond in 2021 (20210101-20210226)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
China Power International Development Limited	0.5	3.20	2021/2/8	2021/8/6	0.5	SCP	China Interbank Market	Golden Credit Rating
Yuexiu Transport Infrastructure Limited	1	3.78	2021/1/28	2026/28	5	MTN	China Interbank Market	China Chengxin
Yuexiu Transport Infrastructure Limited	1	3.63	2021/1/25	2026/1/25	5	Corporate Bond	Shanghai Exchange Market	China Chengxin
GLP China Holdings Limited	0.7	3.98	2021/1/25	2024/1/25	3	Corporate Bond	Shanghai Exchange Market	China Chengxin
China Everbright Water Ltd	1	3.75	2021/1/15	2024/1/15	3	MTN	China Interbank Market	Shanghai Brilliance Rating

Sources: Bloomberg, CCX research

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