

## 2021 Issue 19

From May 24 to May 28

## US proposed USD6 trillion budget plan; Chinese offshore bond issuance rebounded

## Authors

## CCXI Overseas Business Department

Mia Zhu 010-66428877-570

[llzhu@ccxi.com.cn](mailto:llzhu@ccxi.com.cn)

Lina Wang 010-66428877-451

[jlwang@ccxi.com.cn](mailto:jlwang@ccxi.com.cn)

## CCXAP

Simon So 852-28607127

[simon\\_so@ccxap.com](mailto:simon_so@ccxap.com)

Vincent Tong 852-28607125

[vincent\\_tong@ccxap.com](mailto:vincent_tong@ccxap.com)

## Other Contact

Elle Hu 852-28607120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

## Date:

June 2, 2021

**Headline: US proposed USD6 trillion budget plan**

On May 28, US President Biden sent a USD6 trillion budget plan of the fiscal year 2022 to the Congress, seeking to increase the federal spending in infrastructure, education and combating climate changes, in the period from Oct 1 this year to September 30, 2022. The total spending of Biden's budget plan is 35% higher comparing with the pre-COVID-19 pandemic level, and it is the highest budget spending for the US since World War II. The government estimates it will receive US\$4.17 trillion in revenue and create a USD1.84 trillion deficit for the fiscal year 2022.

**Exchange Rate: RMB exchange rate dropped**

The RMB exchange rate continued to drop and broke through the 6.4 level. As of May 28, the intermediate price of RMB exchange rate closed at 6.3858.

**Interest Rate: China Government Bond yields generally went up; US Treasury yields declined**

China Government Bond yields generally went up. The Fed reiterated its concern over inflation and would take actions to prevent the probable impact on the recovery of the US economy. US treasury yields dropped. As of May 28, the yield spread between China and US 10-year note was 148.8bp, widening by 2.2bp from last Friday and narrowing by 77.7bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: Chinese offshore bond issuance rebounded**

From May 24 to May 28, there were 20 new issues with a total issued volume of approximately USD6.7 billion, increasing by 196.4% from last week. Real estate companies were the major issuers, issuing 5 tranches of bond totaling USD2.1 billion.

**Secondary Market: Return on Chinese USD bonds increased, Chengtou bond outperformed**

As of May 28, the YTD return on Chinese USD corporate bond index rose by 31bp from last Friday to -0.56%. The return on investment-grade bond rose by 40bp to -1.18%, and the return on high-yield bond rose by 8bp to 0.94%. In terms of sector indices, the return on all sector increased and Chengtou bond outperformed.

**Rating Actions: Chinese issuers' credit quality diverged****Panda Bond Market: Hengan International issued 1 CP**

On May 25, Hengan International Group Company Limited issued the phrase one 2021 Commercial Paper in the China Interbank Market. Hengan International raised RMB1.0 billion at a coupon rate of 2.90%, with a tenor of 182 days. CCXI assigned AAA to the issuer.

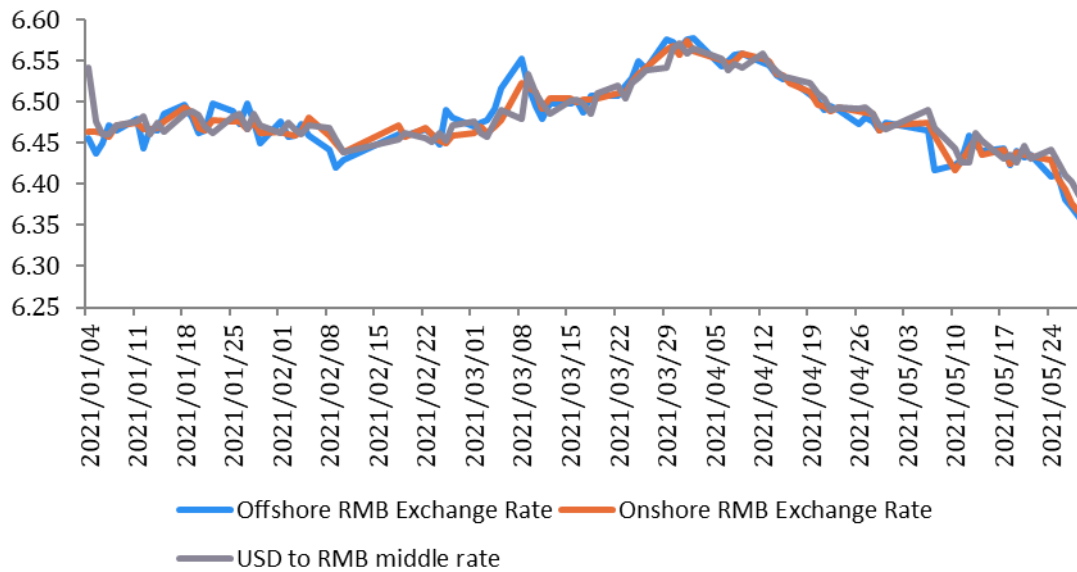
## Headline: US proposed USD6 trillion budget plan

On May 28, US President Biden sent a USD6 trillion budget plan of the fiscal year 2022 to the Congress, seeking to increase the federal spending in infrastructure, education and combating climate changes, in the period from Oct 1 this year to September 30, 2022. Biden's plan will ramp up the spending on education, health and human services and the environmental protection by 41%, 23% and 22% respectively, compared with the previous budget plan proposed by Donald Trump. Military expenditure will only have a mere increase of 1.7%. The total spending of Biden's budget plan is 35% higher comparing with the pre-COVID-19 pandemic level, and it is the highest budget spending since World War II. It is believed that the budget plan will elevate the US's debt scale drastically in the short-term. In the long-term, Biden may reduce the deficit by increasing taxation. The government estimates it will receive US\$4.17 trillion in revenue and create a USD1.84 trillion deficit for the fiscal year 2022. Such a deficit is lower than that of the fiscal year 2020 but is far higher than that of 2019 of USD984.0 billion. The government estimates a deficit of USD1.37 trillion in the fiscal year 2023. According to Reuters, Biden's administration suggests to raise the tax on corporates and the rich people to increase the revenue of government and in turn lower the deficit, however, it may still take around 15 years to digest the increased expenditure on the proposal in the best-case scenario.

## Exchange Rate: RMB exchange rate dropped

The RMB exchange rate continued to drop and broke the 6.4 level. As of May 28, the intermediate price of RMB exchange rate closed at 6.3858, down 442bp from last Friday; the onshore RMB exchange rate decreased by 683bp to 6.3654; the offshore RMB exchange rate decreased by 756bp to 6.3598. This round of RMB appreciation is mainly attributed to the increased expectation on the Fed's interest rate hike and the weakened dollar index. On May 31, central bank decided to raise the reserve requirement ratio for foreign currency deposits by 2 percentage points from 5% to 7%, effective from 15 June 2021. This will help reduce onshore liquidity by approximately USD20 billion, fostering a balanced development in onshore foreign exchange market.

Figure 1 : RMB exchange rate

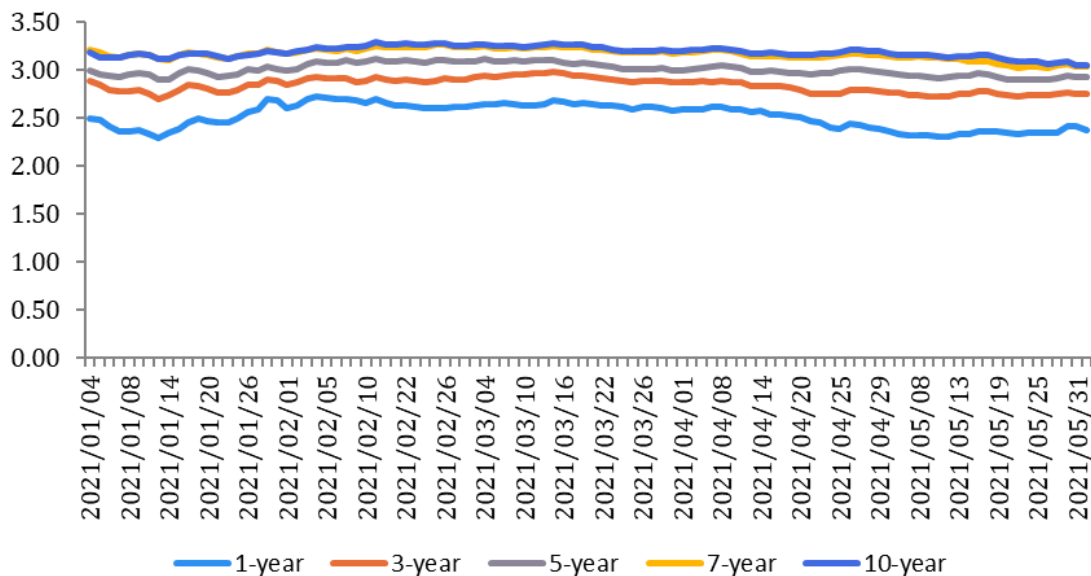


Sources: Wind, CCX research

**Interest Rate: China Government Bond yields generally went up; US Treasury yields declined**

China Government Bond yields generally went upward. As of May 28, the 1-year, 3-year, 5-year and 7-year Government Bond yields fluctuated upward from last Friday and closed at 2.4100%, 2.7648%, 2.9311% and 3.0585%, respectively. 10-year Government Bond yield fluctuated downward and closed at 3.0825%.

Figure 2 : China Government Bond yields

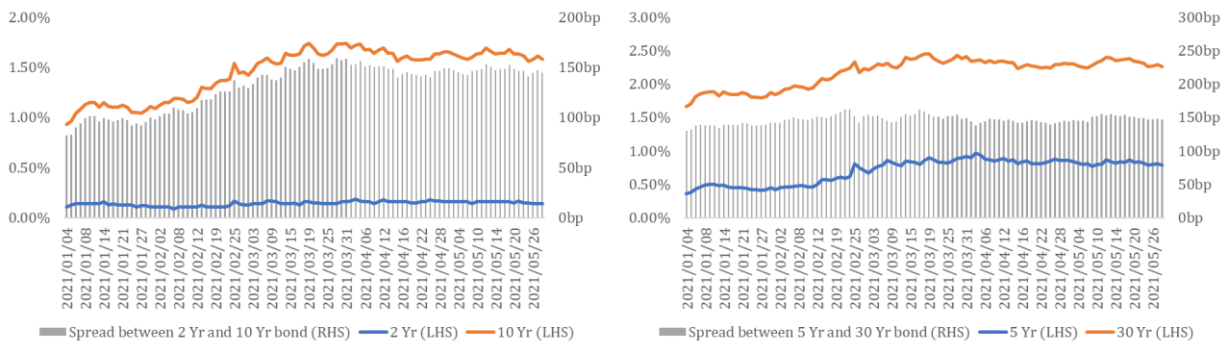


Sources: ChinaBond.com.cn, CCX research

The Fed reiterated its concern over inflation and would take actions to prevent the probable impact on the recovery of the US economy. US treasury yields dropped. As of May 28, the 2-

year Treasury yield closed at 0.14%, 5-year Treasury yield closed at 0.79%, 10-year Treasury yield closed at 1.58%, 30-year Treasury yield closed at 2.26%, decreasing by 3bp, 5bp, 5bp and 7bp from last Friday respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year narrowed by 2bp to 144bp, while the spread between the 5-year and 30-year narrowed by 2bp to 147bp.

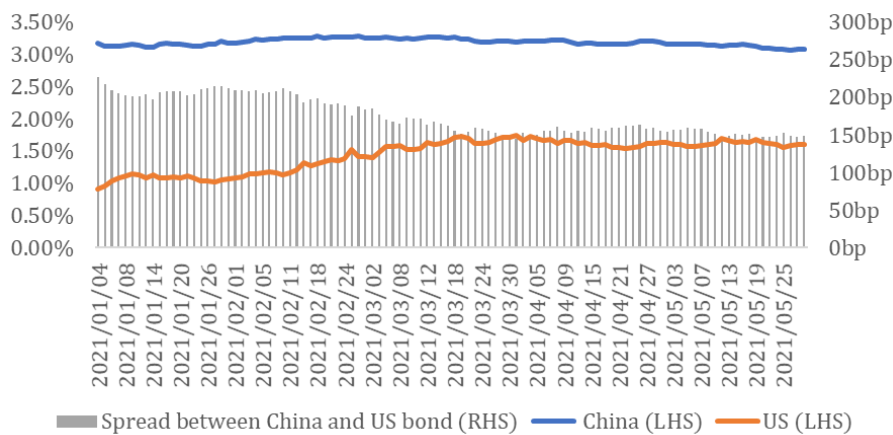
Figure 3 : US Treasury yields and yield spreads



Sources: US Department of the Treasury, CCX research

As of May 28, the yield spread between China and US 10-year note was 148.8bp, widening by 2.2bp from last Friday and narrowing by 77.7bp 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

From May 24 to May 28, there were 20 new issues with a total issued volume of approximately USD6.7 billion, increasing by 196.4% from last week. Real estate companies were the major issuers, issuing 5 tranches of bond totaling USD2.1 billion.

Table 1 : New issuance of Chinese offshore bonds (20210524-20210528)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2021/5/24	Country Garden Services Holdings Co Ltd	HKD	5,038	0	2022/6/1	363D	Real Estate	-/-/BBB-	-/-/-
2021/5/24	Guoren Property & Casualty Insurance Co Ltd	CNY	250	4.2	2023/6/1	2	Financials	Baa1/-/BBB+	-/-/BBB+
2021/5/24	Guoren Property & Casualty Insurance Co Ltd	USD	560	3.35	2026/6/1	5	Financials	Baa1/-/BBB+	-/-/BBB+
2021/5/24	Kaisa Group Holdings Ltd	USD	300	11.65	2026/6/1	5	Real Estate	B1/B/B	B2/-/B
2021/5/24	Weimob Inc	USD	300	0	2026/6/7	5	Technology	-/-/-	-/-/-
2021/5/25	AAC Technologies Holdings Inc	USD	300	2.625	2026/6/2	5	Technology	Baa2/-/-	Baa2/-/-
2021/5/25	AAC Technologies Holdings Inc	USD	350	3.75	2031/6/2	10	Technology	Baa2/-/-	Baa2/-/-
2021/5/25	Aluminum Corp of China	USD	800	2.125	2026/6/3	5	Materials	-/BBB+/A-	-/-/A-
2021/5/25	CMB International Capital Corp Ltd	USD	600	1.375	2024/6/2	3	Financials	Baa1/BBB+/-	Baa1/-/-
2021/5/25	Huatai International Financial Holdings Ltd	USD	100	0.6	2021/12/2	183D	Financials	-/BBB/-	-/-/-
2021/5/25	Jiangsu Shagang Group Co Ltd	USD	300	3.3	2024/6/1	3	Materials	-/BBB-/BBB-	-/-/BBB-
2021/5/25	Jinke Properties Group Co Ltd	USD	325	6.85	2024/5/28	3	Real Estate	B1/BB-/BBg+ (CCXAP)	-/B+/-/BBg+ (CCXAP)
2021/5/25	Jiujiang Municipal Development Group Co Ltd	USD	300	3.45	2024/6/1	3	Chengtou	-/-/BBB-	-/-/-
2021/5/27	Far East Horizon Ltd	USD	250	0	2026/6/15	5	Financials	-/BBB/-	-/-/-
2021/5/27	Greenland Hong Kong Holdings Ltd	USD	150	9.625	2022/6/3	364D	Real Estate	Ba2/BB-/	-/-/-
2021/5/27	Shandong Finance Investment Group Co Ltd	USD	500	2.4	2026/6/3	5	Financials	A2/-/A+	A2/-/A+
2021/5/27	Times China Holdings Ltd	USD	400	5.55	2024/6/4	3	Real Estate	Ba3/BB-/BB-	B1/-/BB-
2021/5/27	Yango Group Co Ltd	USD	290	7.875	2024/9/4	3.3	Real Estate	B1/-/B+/BBg (CCXAP)	-/-/B+/BBg (CCXAP)
2021/5/27	Zhuzhou Geckor Group Co Ltd	USD	50	3.5	2024/6/2	3	Chengtou	-/-/-	-/-/-
2021/5/28	Haitong Unitrust International Financial Leasing Co Ltd	USD	100	3	2024/6/3	3	Financials	-/-/-	-/-/-

Sources: Bloomberg, CCX research

On May 24, Fujian Yango Group Co Ltd announced tap bond offering.

Table 2 : Tap bond offering (20210524-20210528)

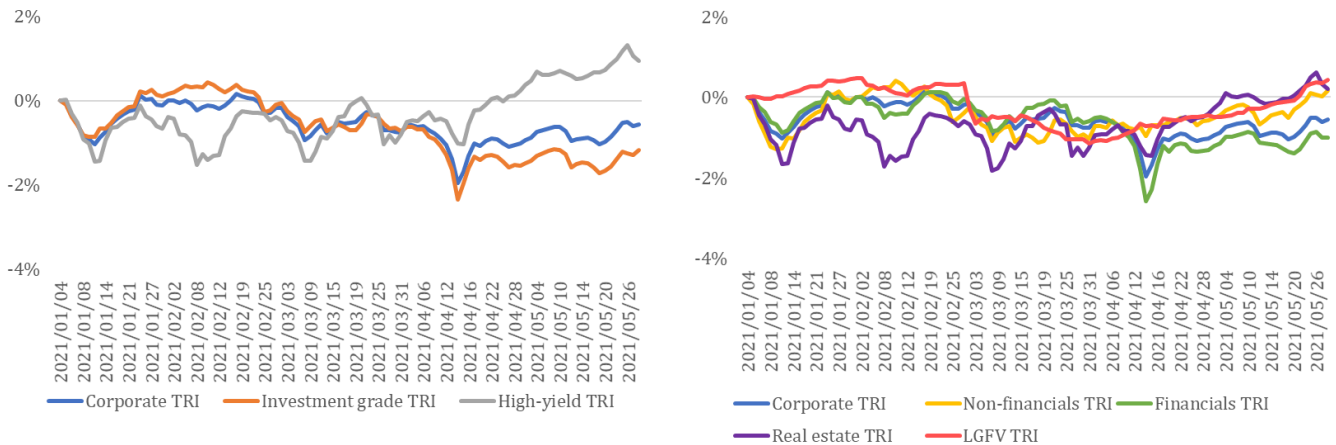
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2021/5/24	Fujian Yango Group Co Ltd	USD	300 (reoffered 125)	12	2024/3/19	3	Real Estate	-/B/-	-/B/-

Sources: Bloomberg, CCX research

## Secondary Market: Return on Chinese USD bonds increased, Chengtou bond outperformed

As of May 28, the YTD return<sup>1</sup> on Chinese USD corporate bond index rose by 31bp from last Friday to -0.56%. The return on investment-grade bond rose by 40bp to -1.18%, and the return on high-yield bond rose by 8bp to 0.94%. In terms of sector indices, the return on Chengtou bonds was the largest, increasing by 39bp to 0.43%. The returns on real estate, non-financial and financial bonds were 0.20%, 0.15% and -1.00%, increasing by 4bp, 35bp and 28bp from last Friday.

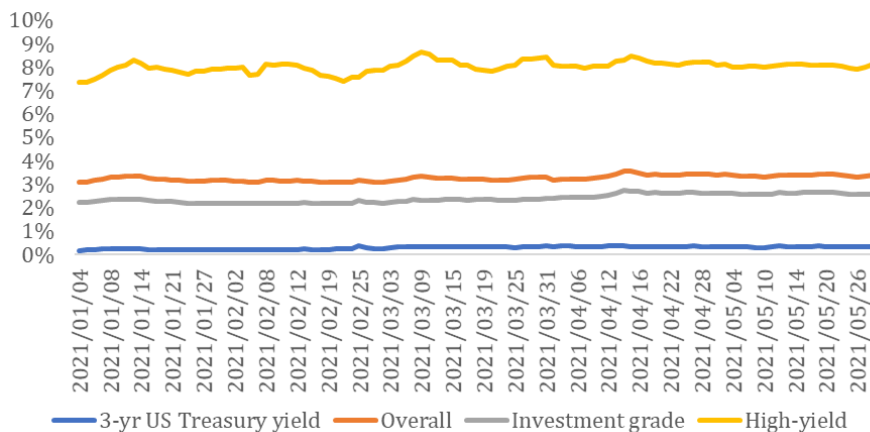
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of May 28, the yield-to-worst of Chinese dollar bonds fell by 5bp to 3.36% from last Friday, of which investment grade bond index fell by 10bp to 2.54% and high-yield bond index rose by 3bp to 8.10%.

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



Sources: Bloomberg, CCX research

<sup>1</sup> Year-to-date return measures the return since January 4, 2021

## Rating Actions: Chinese issuers' credit quality diverged

From May 24 to May 28, the rating agencies took positive rating actions on 8 Chinese issuer, and took negative rating actions on 6 Chinese issuers.

**Table 3 : Credit rating changes of cross-border bond market (20210524-20210528)**

Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change	
		Entity Rating	Outlook	Date	Entity Rating	Outlook	Date			
<b>International Rating:</b>										
China SCE Group Holdings Ltd	Real Estate	B1	POS	2021/5/25	B1	STABLE	2020/10/21	Moody's	Expectation of improving debt leverage and ongoing expansion	
Hilong Holding Ltd	Energy	Caa1	STABLE	2021/5/27	Caa3	NEG	2020/10/12	Moody's	Expectation of improving capital structure and liquidity and reduced refinancing risks	
Zhongrong International Holdings Ltd	Consumer Discretionary	BB-	STABLE	2021/5/26	BB-	NEG	2020/5/29	S&P	Alleviated liquidity risk and high growth in asset management business	
Zhongliang Holdings Group Co Ltd	Real Estate	B+	POS	2021/5/28	B+	STABLE	2020/7/28	Fitch	Improved contracted sales scale	
Zhenro Properties Group Limited	Real Estate	B+	POS	2021/5/28	B+	STABLE	2020/9/7	Fitch	Larger contracted sales scale	
Upgrade	China Hongqiao Group Ltd	Materials	BB	POS	2021/5/28	BB-	2020/6/25	Fitch	Strong financial position, consistent cash flow and favorable market conditions	
	CAR Inc	Consumer Discretionary	B3	STABLE	2021/5/28	Caa1	POS	2021/2/19	Moody's	Improved operations and access to funding
	Yingde Gases Group Co Ltd	Materials	Ba2	STABLE	2021/5/28	Ba3	STABLE	2020/10/19	Moody's	Improving operating scale, client diversification, proven business resilience and longer track record in prudent financial management
	China Hongqiao Group Ltd	Materials	BB+	STABLE	2021/5/28	BB	STABLE	2020/7/9	Lianhe Global	Leading market position, economies of scale, cost advantage and improving operating and

											financial performance
Downgrade	Pujiang International Group Ltd	Materials	B	NEG	2021/5/25	B	STABLE	2020/8/9	S&P		Debt-funded expansion
	Shanghai Electric Group Corp	Industrials	A-	STABLE	2021/5/26	A	NEG	2020/5/21	S&P		Heavy investments and weak margins
	Zhongyuan Asset Management Co Ltd	Financials	BB+	STABLE	2021/5/28	BBB-	NEG	2021/2/26	Fitch		Weakened standalone credit profile
	Wisdom Education International Holdings Co Ltd	Consumer Discretionary	Ba3	NEG	2021/5/28	Ba3	STABLE	2020/12/3	Moody's		Uncertainty related to the regulatory change
	Bright Scholar Education Holdings Ltd	Consumer Discretionary	Ba3	NEG	2021/5/28	Ba3	STABLE	2020/11/30	Moody's		Uncertainty related to the regulatory change
<b>Domestic Rating:</b>											
Downgrade	Oceanwide Holdings Co Ltd	Real Estate	A	NEG	2021/5/26	AA-	NEG	2021/5/18	Golden Credit		Weakened liquidity and large maturing debt

Sources: Bloomberg, Wind, CCX research

## Panda Bond Market: Hengan International issued 1 CP

On May 25, Hengan International Group Company Limited (“Hengan International”) issued phrase one 2021 Commercial Paper in the China Interbank Market. Hengan International raised RMB1.0 billion at a coupon rate of 2.90%, with a tenor of 182 days. CCXI assigned AAA to the issuer.

As of May 28, there were 12 issuers that issued 28 panda bonds with a total issued amount of RMB40.9 billion and an average coupon rate of 3.53%. About 70% of the bonds had a tenor of 3 years or above and the bonds were mainly issued in the China Interbank Market

**Table 4 : New issuance of Panda Bond in 2021 (20210101-20210528)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Hengan International Group Company Limited	1	2.90	2021/5/25	2021/11/23	0.5	CP	China Interbank Market	China Chengxin
Daimler International Finance BV	2	3.77	2021/5/21	2024/5/21	3	PPN	China Interbank Market	--
Daimler International Finance BV	2	3.60	2021/5/21	2023/5/21	2	PPN	China Interbank Market	--
Yuexiu Transport Infrastructure Limited	0.5	3.84	2021/5/13	2028/5/13	7	Corporate Bond	Shanghai Exchange Market	China Chengxin
Yuexiu Transport Infrastructure Limited	1	3.48	2021/5/13	2026/5/13	5	Corporate Bond	Shanghai Exchange Market	China Chengxin
Hengan International Group Company Limited	1	2.90	2021/4/26	2021/10/23	0.5	SCP	China Interbank Market	China Chengxin
Beijing Enterprises Water Group Limited	1.5	3.98	2021/4/23	2029/4/23	8	MTN	China Interbank Market	Shanghai Brilliance



								Rating
China Power International Development Limited	2	3.54	2021/4/23	2024/4/23	3	MTN	China Interbank Market	China Chengxin
GLP China Holdings Limited	1.5	4.40	2021/4/22	2026/4/22	5	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating
China Mengniu Dairy Company Limited	1	2.50	2021/4/19	2021/6/25	0.18	SCP	China Interbank Market	China Chengxin
Hengan International Group Company Limited	1	3.00	2021/4/15	2021/10/12	0.5	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	1	2.50	2021/4/8	2021/6/25	0.21	SCP	China Interbank Market	China Chengxin
Hengan International Group Company Limited	1	3.08	2021/3/26	2021/9/23	0.5	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	2	2.50	2021/3/26	2021/6/24	0.25	SCP	China Interbank Market	China Chengxin
New Development Bank	5	3.22	2021/3/25	2024/3/25	3	International Institution Bond	China Interbank Market	Lianhe Credit Rating
GLP China Holdings Limited	1.5	4.40	2021/3/25	2024/3/25	3	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating
Daimler International Finance BV	2	3.80	2021/3/19	2024/3/19	3	PPN	China Interbank Market	--
Daimler International Finance BV	2	3.70	2021/3/19	2023/3/19	2	PPN	China Interbank Market	--
Crédit Agricole S.A.	1	3.50	2021/3/18	2024/3/18	3	Financial Bond	China Interbank Market	S&P China
GLP China Holdings Limited	1.5	4.40	2021/3/18	2024/3/18	3	MTN	China Interbank Market	Shanghai Brilliance Rating
SIIC Environment Holdings Ltd.	1.5	3.89	2021/3/15	2026/3/15	5	Corporate Bond	Shanghai Exchange Market	China Chengxin
Asian Development Bank	2	3.20	2021/3/11	2026/3/11	5	International Institution Bond	China Interbank Market	--
GLP China Holdings Limited	1.7	4.37	2021/3/8	2024/3/8	3	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating
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	2026/1/28	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	Shanghai Brilliance Rating
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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地址：北京市东城区朝阳门内大街  
南竹竿胡同 2 号银河 SOHO6 号楼  
邮编：100020  
电话：(8610) 6642 8877  
传真：(8610) 6642 6100  
网址：<http://www.ccxi.com.cn>

China Chengxin International Credit Rating Co., Ltd  
Address: Building 6, Galaxy SOHO,  
No.2 Nanzhugan hutong, Chaoyangmennei Avenue,  
Dongcheng district, Beijing, 100020  
Tel: (8610) 6642 8877  
Fax: (8610) 6642 6100  
Website: <http://www.ccxi.com.cn>



### 中国诚信(亚太)信用评级有限公司

地址：香港中环康乐广场 1 号  
怡和大厦 19 楼 1904-1909 室  
电话：(852) 2860 7111  
传真：(852) 2868 0656  
网址：<http://www.ccxap.com>

China Chengxin (Asia Pacific) Credit Ratings Company Limited  
Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong  
Tel: (852) 2860 7111  
Fax: (852) 2868 0656  
Website: <http://www.ccxap.com>