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From February 7 to February 11

Chinese offshore bond issuance was low; return on Chinese USD bond dropped

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Headline: US CPI in January up 7.5% YoY, hitting a 40-year high

On February 10, US Bureau of Labor Statistics released data showing that US consumer CPI in January surged by 7.5% YoY (7.3% growth in expectation), the biggest annual increase since March 1982 and higher than or equal to 5% for nine consecutive months. Since the main purpose of the Fed's upcoming rate hike is to curb inflation, the data has greatly increased the market's expectations for the Fed to raise interest rates, including the number of rate hikes this year and the magnitude of rate hike in March.

Exchange Rate: RMB exchange rate fluctuated slightly

This week, the RMB exchange rate continued to fluctuate slightly. As of February 11, the RMB mid-point rate closed at 6.3681, declined by 65bp since January 28.

Interest Rate: China Government Bond yields all dropped; US Treasury yields climbed

This week, China Government Bond yields generally rose, the 1-year China Government Bond yields continued the downward trend. The Labor Department in US reported that the CPI in January rose by 7.5% YoY, which was higher than the market expectation of 7.3%, hitting a record high and driving the US Treasury yields to climb. As of February 11, the yield spread between China and US 10-year note was 85.2bp, widening by 6.1bp from last Friday and narrowing by 29.5bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: Chinese offshore bond issuance was low**

From February 7 to February 11, new issuance was low after Chinese New Year. There were 6 new issues with a total issued volume of USD2.0 billion. Among them, CITIC Ltd was the largest issuer, which issued 2 bonds with a total amount of USD1.0 billion.

Secondary Market: Return on Chinese USD bond dropped

As of February 11, the YTD return on Chinese USD corporate bond index decreased by 14bp from last Friday to -2.57%. The return on investment-grade bond decreased by 26bp to -1.81%, and the return on high-yield bond increased by 28bp to -5.04%. In terms of sector indices, the return on real estate bonds increased the most, which increased by 65bp from last Friday to -7.35%.

Rating Action: Several real estate companies were downgraded**Panda Bond Market: No New Issuance This Week****Issuer Analysis: China Mengniu Dairy Company Limited**

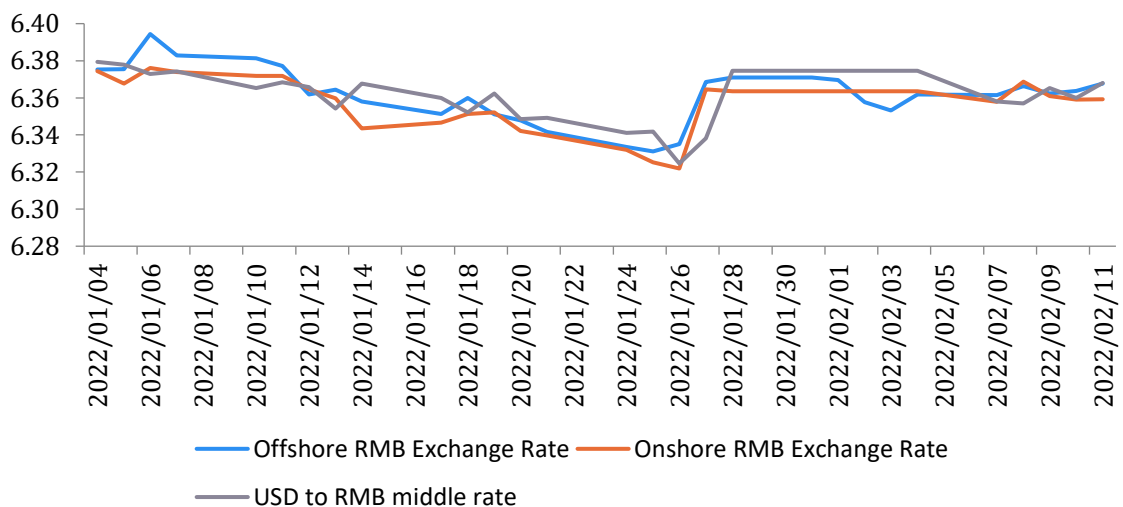
Headline: US CPI in January up 7.5% YoY, hitting a 40-year high

On February 10, US Bureau of Labor Statistics released data showing that US consumer price index ("CPI") in January surged by 7.5% year-on-year ("YoY") (7.3% growth in expectation), the biggest annual increase since March 1982 and higher than or equal to 5% for nine consecutive months. From a breakdown of the indicators, the main drivers of US inflation in January 2022 included energy, housing, and food. Among them, the housing cost, accounting for about one-third of the CPI, rose by 4.36% YoY, the highest since June 1991. Rental cost rose by 3.76% YoY, the highest since July 2019. In addition, the food cost rose by 7.0% over the same period. Since the main purpose of the Fed's upcoming rate hike is to curb inflation, the data has greatly increased the market's expectations for the Fed to raise interest rates, including the number of rate hikes this year and the magnitude of rate hike in March.

Exchange Rate: RMB exchange rate fluctuated slightly

This week, the RMB exchange rate continued to fluctuate slightly. As of February 11, the RMB mid-point rate closed at 6.3681, decreased by 65bp since January 28; the onshore RMB exchange rate decreased by 44bp to 6.3592 since January 28; the offshore RMB exchange rate increased by 58bp to 6.3676 compared with last Friday. The appreciation driver of RMB exchange rate may weaken. The volume of foreign exchange transactions in the inter-bank market decreased, and the increase in bilateral and multilateral exchange rates of the RMB tended to converge.

Figure 1 : RMB exchange rate

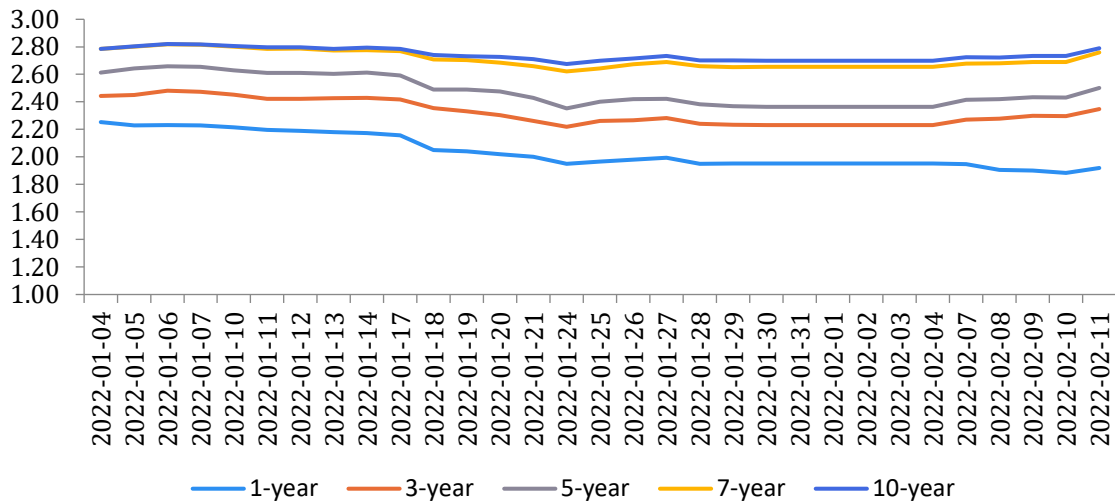


Sources: Wind, CCX research

Interest Rate: China Government Bond yields generally rose; US Treasury yields climbed

The China Government Bond yields generally rose this week. As of February 11, the 3-year, 5-year, 7-year, and 10-year China Government Bond yields fluctuated upward compared to January 30, closed at 2.3465%, 2.5001%, 2.7605% and 2.7891% respectively. The 1-year China Government Bond yields continued the downward trend since January 30 and dropped by 322bp to 1.9192%. The central bank continued to lower the short-term financing rate for booming economics.

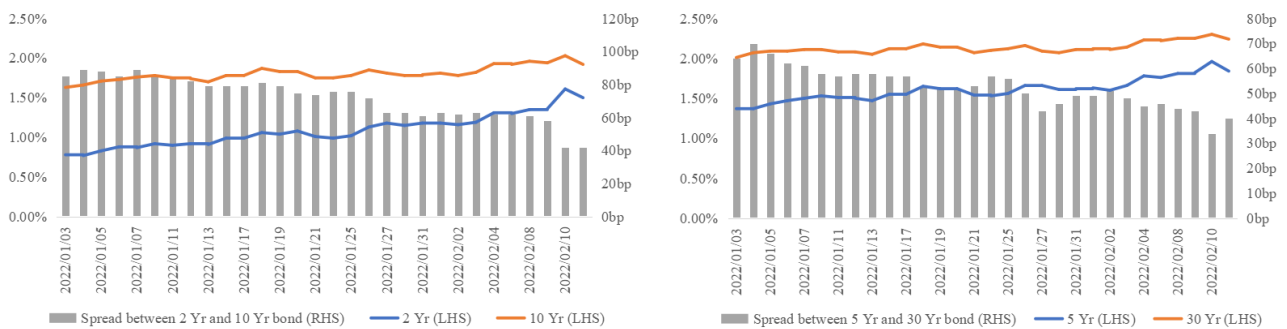
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

The Labor Department in US reported that the CPI for January rose by 7.5% YoY, which was higher than the market expectation of 7.3%, hitting a record high and driving the US Treasury yields to climb. As of February 11, 2-year, 5-year, and 30-year Treasury yields closed at 1.50%, 1.84%, and 2.24%, increasing by 19bp, 6bp, and 1bp from last Friday respectively. 10-year Treasury yield decreased slightly by 1bp to 1.92%. In terms of Treasury yield spreads, spread between the 2-year and 10-year narrowed by 20bp to 42bp, and spread between the 5-year and 30-year narrowed by 5bp to 40bp, from last Friday.

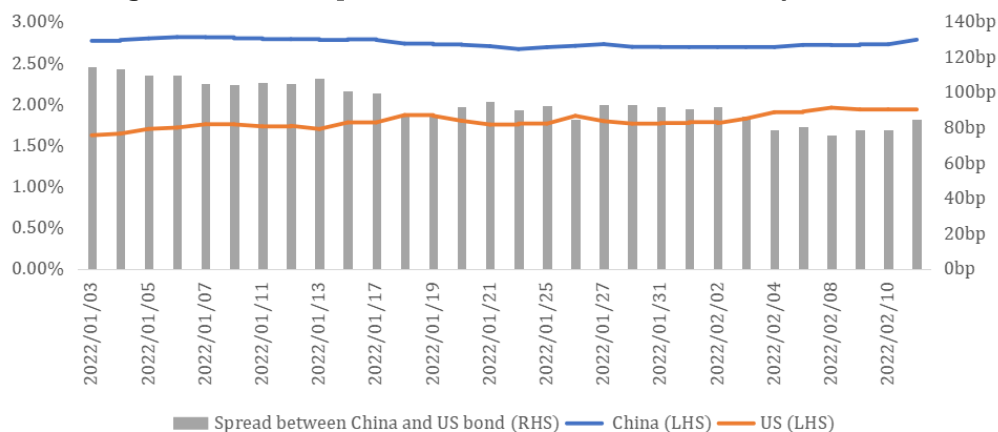
Figure 3 : US Treasury yields and yield spreads



Sources: US Department of the Treasury, CCX research

As of February 11, the yield spread between China and US 10-year note was 85.2bp, widening by 6.1bp from last Friday and narrowing by 29.5bp 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: Chinese offshore bond issuance was low

From February 7 to February 11, new issuance was dull after Chinese New Year. There were 6 new issues with a total issued volume of USD2.0 billion. Among them, CITIC Ltd was the largest issuer, which issued 2 bonds with a total amount of USD1.0 billion.

Table 1 : New issuance of Chinese offshore bonds (20220207-20220211)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2022/2/9	Bank of China Ltd/Hungary	USD	300	1.63	2024/2/16	2	Banks	A1/A/A	A1/A/A
2022/2/9	Bank of China Ltd/Johannesburg	USD	300	1.88	2025/2/16	3	Banks	A1/A/A	A1/A/A
2022/2/9	Haitong International Securities Group Ltd	HKD	1,025	1	2023/2/16	364D	Financials	Baa2/BBB/-	-/-/-
2022/2/10	Bank of China Ltd/Hong Kong	HKD	2,000	1.33	2024/2/17	2	Banks	Aa3/A+/A	Aa3/-/-
2022/2/10	CITIC Ltd	USD	700	2.88	2027/2/17	5	Financials	A3/BBB+/-	A3/BBB+/-
2022/2/10	CITIC Ltd	USD	300	3.5	2032/2/17	10	Financials	A3/BBB+/-	A3/BBB+/-

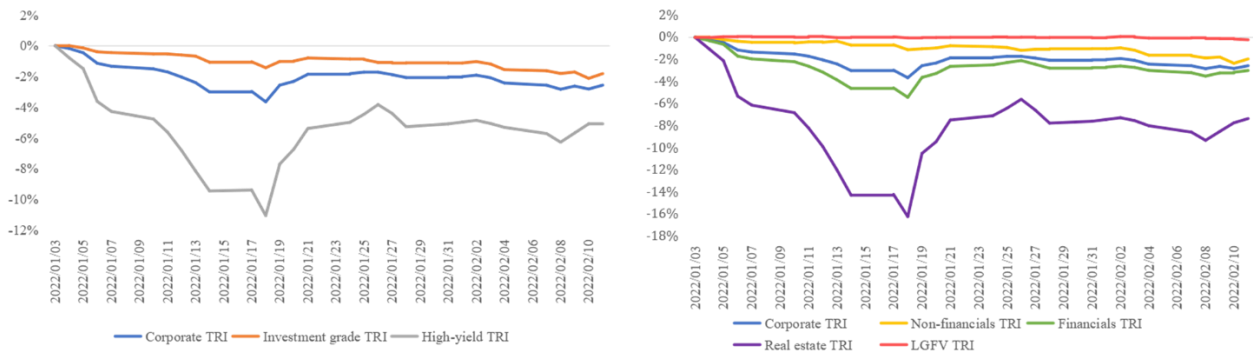
Sources: Bloomberg, CCX research

Secondary Market: Return on Chinese USD bond dropped

As of February 11, the YTD return¹ on Chinese USD corporate bond index decreased by 14bp from last Friday to -2.57%. The return on investment-grade bond decreased by 26bp to -1.81%, and the return on high-yield bond increased by 28bp to -5.04%. In terms of sector indices, the return on real estate bonds increased the most, which increased by 65bp from last Friday to -7.35%; the returns on financial, non-financial and Chengtou bonds were -3.00%, -1.95%, and -0.22%, decreased by 1bp, 34bp and 15bp from last Friday, respectively.

¹ Year-to-date return measures the return since January 3, 2022

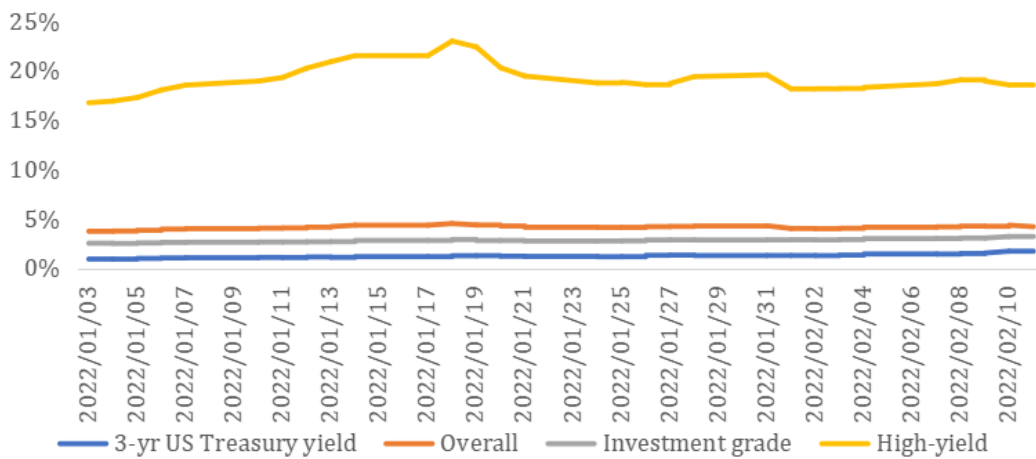
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of February 11, the yield-to-worst of Chinese dollar bonds increased by 5bp to 4.30% from last Friday, of which investment grade bond index increased by 8bp to 3.17%. High-yield bond index increased by 14bp to 18.55%.

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



Sources: Bloomberg, CCX research

Rating Action: Several real estate companies were downgraded

From February 7 to February 11, rating agencies took positive rating actions on 1 Chinese issuer, and took negative rating action on 6 Chinese issuers.

Table 2 : Credit rating changes of cross-border bond market (20220207-20210211)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Upgrade	AVIC International Holding Corp	Industrials	A	STABLE	2022/2/11	A-	UCO	2021/12/1	Fitch	Parent and Subsidiary criteria change
Downgrade	Logan Property Holdings Co Ltd	Real Estate	BB-	NEG	2022/2/8	BB	STABLE	2021/12/10	Fitch	Decline in financial transparency
	China Grand Automotive Services Group Co Ltd	Consumer Discretionary	B	RWN	2022/2/8	B+	NEG	2021/10/27	Fitch	Upcoming concentrated debt maturities and the impact on liquidity
	Yuzhou Group Holdings Co Ltd	Real Estate	RD		2022/2/9	C		2022/1/17	Fitch	Completion of exchange offer
	Sunac China Holdings Ltd	Real Estate	B1	NEG	2022/2/11	Ba3	STABLE	2021/10/19	Moody's	Constrained funding access and weakened operating cash flow
Domestic Rating:										
Downgrade	Yango Group Co Ltd	Real Estate	BBB	NEG	2022/2/6	AA	NEG	2022/1/26	Golden Credit	Significant decline in profitability and lack of effective guarantee for debt repayment
	Yango Group Co Ltd	Real Estate	BBB	NEG	2022/2/7	AA+	NEG	2022/1/21	DaGong	Significant decline in profitability and lack of effective guarantee for debt repayment
	Yunnan Health & Cultural Tourism Holding Group Co Ltd	Industrials	AA+	NEG	2022/2/11	AAA	NEG	2021/12/1	Lianhe	Tighter liquidity may further increase the financing pressure

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: No New Issuance This Week

Table 3 : New issuance of Panda Bond in the Year 2022 (20220103-20220211)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
New Development Bank	3	2.45	2022/1/27	2025/1/27	3	International Institution Bond	China Interbank Market	China Chengxin

China Mengniu Dairy Company Limited	2.5	2.35	2022/1/24	2022/4/22	0.24	SCP	China Interbank Market	China Chengxin
Beijing Enterprises Water Group Limited	1.5	3.38	2022/1/21	2026/1/21	5	MTN	China Interbank Market	Shanghai Brilliance Rating
Beijing Enterprises Water Group Limited	1	2.97	2022/1/21	2023/1/21	5	MTN	China Interbank Market	Shanghai Brilliance Rating
China Everbright Water Limited	1	2.50	2021/12/16	2022/6/12	0.4	SCP	China Interbank Market	Shanghai Brilliance Rating
Shenzhen International Holdings Limited	1	2.95	2022/1/10	2028/1/15	6	Corporate Bond	Shenzhen Exchange Market	Lianhe Credit Rating

Sources: Bloomberg, CCX research

Issuer Analysis: China Mengniu Dairy Company Limited

Issuer profile: In June 2002, China Mengniu Dairy Company Limited was incorporated in the Cayman Islands and the company is the direct controller is Mengniu Group. In June 2004, the company was successfully listed in Hong Kong (stock code: 2319.HK). As of the end of June 2021, COFCO and Arla Foods held a total of 23.26% of the issuer's shares, which were jointly held by the joint venture company COFCO Dairy Investment, of which COFCO was the largest shareholder and the remaining 76.74% of the shares were held by the public. The issuer and its subsidiaries manufacture and sell high-quality dairy products in China. With its main brand "Mengniu", the issuer has become one of the leading dairy producers in China, offering a wide range of products including liquid milk (such as UHT milk, milk beverages, yogurt and fresh milk), ice cream, milk powder and others products (such as cheese, etc.). The main business of the issuer is the production and sales of dairy products, which are mainly divided into four major sectors: liquid milk, ice cream, milk powder and other products. In recent years, the issuer's operating scale has continued to expand. From 2018 to 2020 and at the end of June 2021, the issuer's four major business segments achieved operating income of RMB68.98 billion, RMB79.03 billion, RMB76.04 billion and RMB45.91 billion. From the perspective of the issuer's income structure, the income from the liquid milk sector is the main source of income. From 2018 to 2020 and at the end of June 2021, the issuer's liquid milk product business income accounted for 86.10%, 85.89%, 89.11% and 85.93% of the total main business income respectively, and the proportion basically remained above 85%. The company's products have high market recognition, outstanding brand advantages, and prominent industry status; milk supply remains stable, with highlighted advantages in industrial chain integration; and sufficient capital reserve liquidity. At the same time, attention should be paid to food safety risks, goodwill and trademark impairment risks, and certain exchange rate fluctuation risks that may be related to the company.

Issuance history: China Mengniu Dairy Company Limited entered the Panda Bond market for the first time in April 2019 and is a relatively active issuer. From 2019 to 2021, it issued 3 bonds, 3bonds and 10 bonds respectively. So far, China Mengniu Dairy Company Limited has issued a total of 17 bonds in the China Interbank Market. Except for one 3-year medium-term

note, the rest are Super & Short-term Commercial Papers, raising a total of RMB24 billion, with an average coupon rate of 2.51%. The spread is 54bp. Usage of proceeds are mainly to supplement working capital.

Table 4: Historical Issuance of China Mengniu Dairy Company Limited in the Panda Bond Market

No.	Issue date	Maturity	Tenor	Amount (RMB billion)	Coupon (%)	Spread (BP)	Usage of Proceeds	Bond Type	Issue Market
1	2022/1/24	2022/4/22	0.24	2.5	2.35	55	to supplement working capital of subsidiaries	SCP	China Interbank Market
2	2021/9/28	2021/12/22	0.23	1.5	2.55	53	to supplement working capital of subsidiaries	SCP	China Interbank Market
3	2021/8/30	2021/11/19	0.22	2.5	2.55	47	to supplement working capital of subsidiaries	SCP	China Interbank Market
4	2021/8/30	2021/11/26	0.24	2.5	2.55	47	to supplement working capital of subsidiaries	SCP	China Interbank Market
5	2021/8/4	2021/10/29	0.24	0.5	2.50	71	to supplement working capital of subsidiaries (with up to 30% funding for Rural Vitalization purpose)	SCP	China Interbank Market
6	2021/7/27	2021/12/9	0.38	2	2.60	51	to supplement working capital of subsidiaries	SCP	China Interbank Market
7	2021/6/24	2021/9/17	0.23	1.2	2.50	53	to supplement working capital of subsidiaries	SCP	China Interbank Market
8	2021/6/22	2021/12/16	0.48	0.8	2.65	45	to supplement working capital of subsidiaries	SCP	China Interbank Market
9	2021/4/19	2021/6/25	0.18	1	2.50	64	to supplement working capital of subsidiaries	SCP	China Interbank Market
10	2021/4/8	2021/6/25	0.21	1	2.50	59	to supplement working capital of subsidiaries	SCP	China Interbank Market
11	2021/3/26	2021/6/24	0.25	2	2.50	50	to supplement working capital of subsidiaries	SCP	China Interbank Market

12	2020/5/29	2020/11/25	0.49	0.5	1.61	6	to supplement working capital of subsidiaries	SCP	China Interbank Market
13	2020/5/29	2020/11/25	0.49	1.5	1.61	6	to supplement working capital of subsidiaries	SCP	China Interbank Market
14	2020/4/24	2020/11/20	0.57	1.5	1.80	78	to supplement working capital of subsidiaries	SCP	China Interbank Market
15	2019/11/22	2022/11/22	3	1	3.67	85	to supplement working capital of subsidiaries	MTN	China Interbank Market
16	2019/8/23	2020/2/19	0.49	1	2.96	44	to supplement working capital of subsidiaries	SCP	China Interbank Market
17	2019/4/19	2019/12/30	0.70	1	3.35	69	to supplement working capital of subsidiaries	SCP	China Interbank Market

Sources: Bloomberg, CCX research

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