

## 2022 Issue 6

From February 14 to February 18

## Chinese offshore bond issuance increased; return on Chinese USD bond dropped

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Date: February 23, 2022

**Headline: US national debts reached USD30 trillion**

The report of US Department of the Treasury showed that US national debts in early February reached USD30 trillion, hitting record high for the first time. On February 15, US Department of the Treasury released Treasury International Capital (TIC) data showing that overseas investors held US Treasury bonds of USD7,739.4 billion as of December 2021, slightly increased by USD5.8 billion month on month and grew significantly by USD668.7 billion on a year-over-year basis. Among the 34 countries and regions, 24 of them reduced their holdings of US Treasury bonds month-on-month.

**Exchange Rate: RMB exchange rate dropped greatly**

This week, the RMB exchange rate dropped greatly. As of February 18, the RMB mid-point rate closed at 6.3343, declined by 338bp compared with last Friday.

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

This week, China Government Bond yields generally rose. The 3-year China Government Bond yields dropped by 377bp compared with last Friday. US Treasury yields decreased due to the elevated risk aversion caused by the tense relation between Russia and Ukraine. As of February 18, the yield spread between China and US 10-year note was 86.9bp, widening by 1.7bp from last Friday and narrowing by 27.9bp from the beginning of the year.

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

From February 14 to February 18, there were 26 new issues with a total issued volume of USD 3.7 billion. Among them, Beijing State-owned Capital Operation Management Co Ltd was the largest issuer, which issued bonds with a total amount of USD 1.13 billion

**Secondary Market: Return on Chinese USD bond dropped; Real estate bond had the biggest drop**

As of February 18, the YTD return on Chinese USD corporate bond index decreased by 59bp from last Friday to -3.16%. The return on investment-grade bonds decreased by 11bp to -1.93%, and the return on high-yield bond decreased by 227bp to -7.31%. In terms of sector indices, real estate bonds had the biggest drop, which decreased by 309bp from last Friday to -10.44%

**Rating Action: CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+ to Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd., with stable outlook; and assigns BBB<sub>g</sub>+ rating to its existing USD bonds**

**Rating Action: Yango defaulted on two offshore bonds**

**Panda Bond Market: China-TCM issued a new SCP this week**

On February 16, the first series of 2022 China Traditional Chinese Medicine Co. Limited Medium Term Note was issued in the China Interbank Market, raising RMB1 billion, with a tenor of 270 days, at a coupon rate of 2.40%. CCXI assigned AAA to the issuer.

**Issuer Analysis: The Republic of Korea**

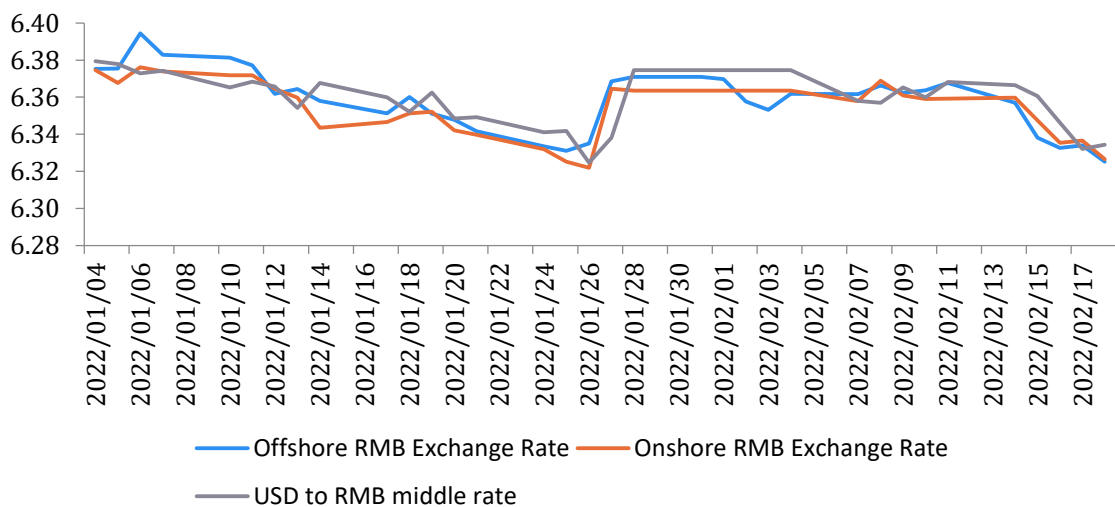
## Headline: US national debts reached USD30 trillion

The report of US Department of the Treasury showed that US national debts in early February reached USD30 trillion, hitting record high for the first time. As of February 16, the data has increased to USD30.034 trillion. On February 15, US Department of the Treasury released Treasury International Capital (TIC) data showing that overseas investors held US Treasury bonds of USD7,739.4 billion as of December 2021, slightly increased by USD5.8 billion month on month and grew significantly by USD668.7 billion on a year-over-year basis. Among the 34 countries and regions, 24 of them reduced their holdings of US Treasury bonds month-on-month. Among the top ten oversea holders of US Treasury bond, China, Japan, Luxembourg, Switzerland, the Cayman Islands and Brazil reduced their holdings of US Treasury bond in December, with Japan reducing the largest amount, reaching USD23 billion. Belgium increased its holdings of US bonds month-on-month by USD46.8 billion to USD271.7 billion.

## Exchange Rate: RMB exchange rate dropped greatly

This week, the RMB exchange rate dropped greatly. As of February 18, the RMB mid-point rate closed at 6.3343, decreased by 338bp compared with last Friday; the onshore RMB exchange rate decreased by 327bp to 6.3265 compared with last Friday; the offshore RMB exchange rate decreased by 424bp to 6.3253 compared with last Friday. RMB has returned to its highest value since the beginning of the year.

Figure 1 : RMB exchange rate

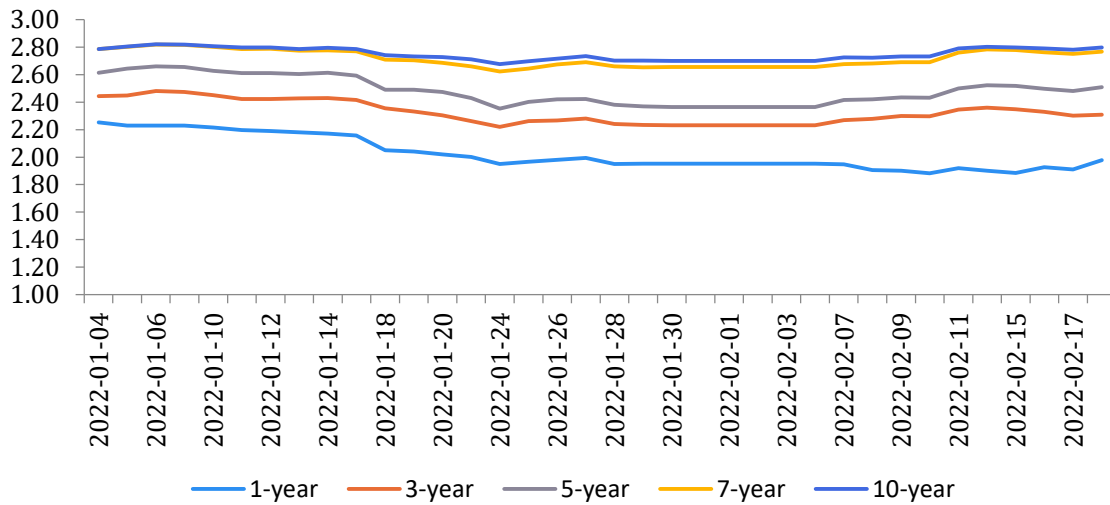


Sources: Wind, CCX research

## Interest Rate: China Government Bond yields generally rose; US treasury yields decreased

The China Government Bond yields generally rose this week. As of February 18, the 1-year, 5-year, 7-year, and 10-year China Government Bond yields fluctuated upward since last Friday, closed at 1.9781%, 2.5086%, 2.7669%, and 2.7975% respectively. The 3-year China Government Bond yields dropped by 377bp to 2.3088%. This week, the open market operations by the central bank net withdraw 150 billion yuan in full scale.

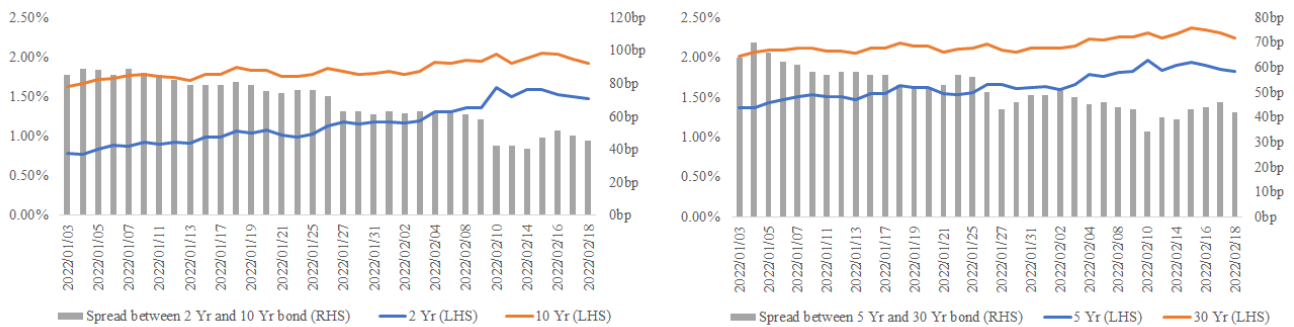
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

US Treasury yields decreased due to the elevated risk aversion caused by the tense relation between Russia and Ukraine. As of February 18, 2-year and 5-year Treasury yields closed at 1.47% and 1.82%, decreasing by 3bp and 2bp from last Friday respectively. 10-year and 30-year Treasury yields flattened at 1.92%, and 2.24% respectively. In terms of Treasury yield spreads, spread between the 2-year and 10-year widened by 3bp to 45bp, and spread between the 5-year and 30-year widened by 2bp to 42bp, from last Friday.

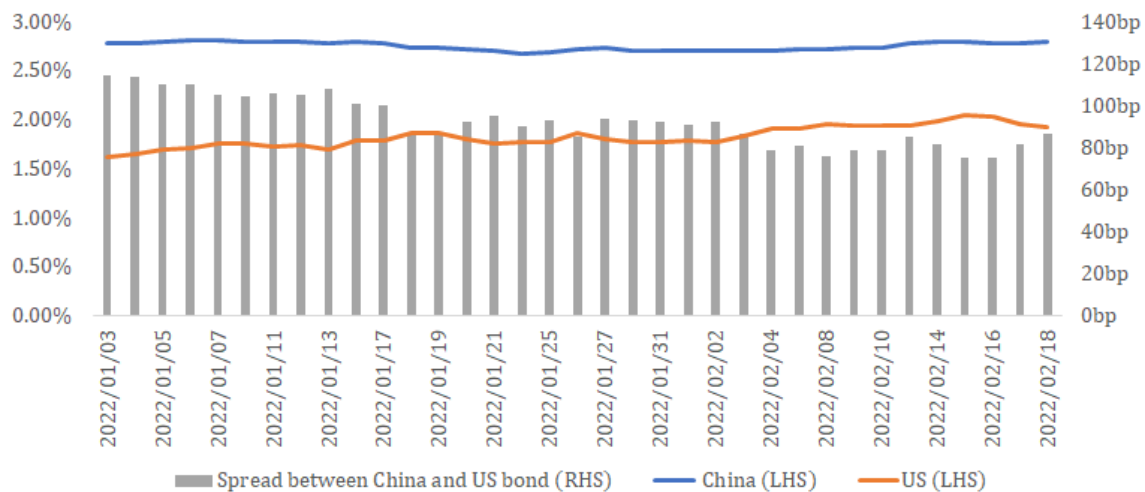
Figure 3 : US Treasury yields and yield spreads



Sources: US Department of the Treasury, CCX research

As of February 18, the yield spread between China and US 10-year note was 86.9bp, widening by 1.7bp from last Friday and narrowing by 27.9bp 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 increased

From February 14 to February 28, there were 26 new issues with a total issued volume of USD3.7 billion, increased by 86.3% from last week. Among them, Beijing State-owned Capital Operation Management Co Ltd was the largest issuer, issuing a Euro bond of EUR1 billion.

Table 1 : New issuance of Chinese offshore bonds(20220214-20220218)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2022/2/14	Bank of China Ltd/Macau	USD	1	3.5	2024/10/10	2.65	Financials	A1/A/A	-/-
2022/2/14	Industrial & Commercial Bank of China Ltd/Sydney	AUD	3	2.75	2027/5/24	5.24	Financials	A1/A/A	-/-
2022/2/15	Agricultural Bank of China Ltd/Macao	MOP	1,000	1.15	2023/8/22	1.49	Materials	A1/A/A	A1/-
2022/2/15	Bank of China Ltd/Macau	USD	4	4	2024/1/25	1.93	Banks	A1/A/A	-/-
2022/2/15	Bank of China Ltd/Macau	USD	3	2.05	2024/9/2	2.54	Banks	A1/A/A	-/-
2022/2/15	Bank of China Ltd/Macau	USD	3	5	2024/11/13	2.74	Financials	A1/A/A	-/-
2022/2/15	Bank of China Ltd/Macau	USD	3	2.5	2026/8/19	4.5	Chengtou	A1/A/A	-/-
2022/2/15	CITIC Securities International Co Ltd	USD	2	0	2022/9/19	213D	Consumer Discretionary	-/BBB+/-	-/-
2022/2/15	CITIC Securities International Co Ltd	USD	7	0	2022/9/19	213D	Banks	-/BBB+/-	-/-
2022/2/15	CITIC Securities International Co Ltd	USD	10	0	2022/9/19	213D	Banks	-/BBB+/-	-/-
2022/2/16	Aluminum Corp of China	USD	600	2.95	2027/2/24	5	Banks	-/-A-	-/-A-
2022/2/16	Bank of China Ltd/Macau	USD	5	3.5	2024/5/16	2.23	Banks	A1/A/A	-/-
2022/2/16	Bank of China Ltd/Macau	USD	7	2.25	2024/7/9	2.38	Banks	A1/A/A	-/-
2022/2/16	Beijing State-owned Capital Operation Management Co Ltd	EUR	1,000	1.21	2025/2/23	3	Banks	A1/A+/A+	A1/A+/-
2022/2/16	Huaibei City Construction Investment Holding Group Co Ltd	USD	150	2.9	2025/2/23	3	Banks	-/-	-/-
2022/2/16	Midea Group Co Ltd	USD	450	2.88	2027/2/24	5	Chengtou	A3/A/A	-/A/A
2022/2/17	Bank of China Ltd/Macau	USD	4	2.2	2024/8/25	2.5	Financials	A1/A/A	-/-
2022/2/17	Bank of China Ltd/Macau	USD	18	2.2	2024/8/25	2.51	Financials	A1/A/A	-/-

2022/2/17	Bank of China Ltd/Macau	USD	3	2.13	2025/1/27	2.93	Banks	A1/A/A	-/-
2022/2/17	Bank of China Ltd/Hong Kong	USD	550	2	2025/2/24	3	Banks	A1/A/A	A1/A/A
2022/2/17	Bank of China Ltd/Hong Kong	USD	450	2.38	2027/2/24	5	Banks	A1/A/A	A1/A/A
2022/2/18	Bank of China Ltd/Macau	USD	4	1.65	2024/9/24	2.58	Banks	A1/A/A	-/-
2022/2/18	Bank of China Ltd/Macau	USD	3	2.4	2026/9/23	4.58	Banks	A1/A/A	-/-
2022/2/18	Danyang Investment Group Co Ltd	USD	50	2.5	2025/2/25	3	Chengtou	-/-	-/-
2022/2/18	Guotai Junan International Holdings Ltd	USD	50	1.29	2022/8/24	181D	Financials	Baa2/BBB+/-	-/-
2022/2/18	Huatai International Financial Holdings Co Ltd	USD	72	0	2023/2/22	365D	Financials	-/-	-/-

Sources: Bloomberg, CCX research

On February 17, Greentown China Holdings Limited announced tap bond offering.

Table 2: Tap bond offering (20220214-20220218)

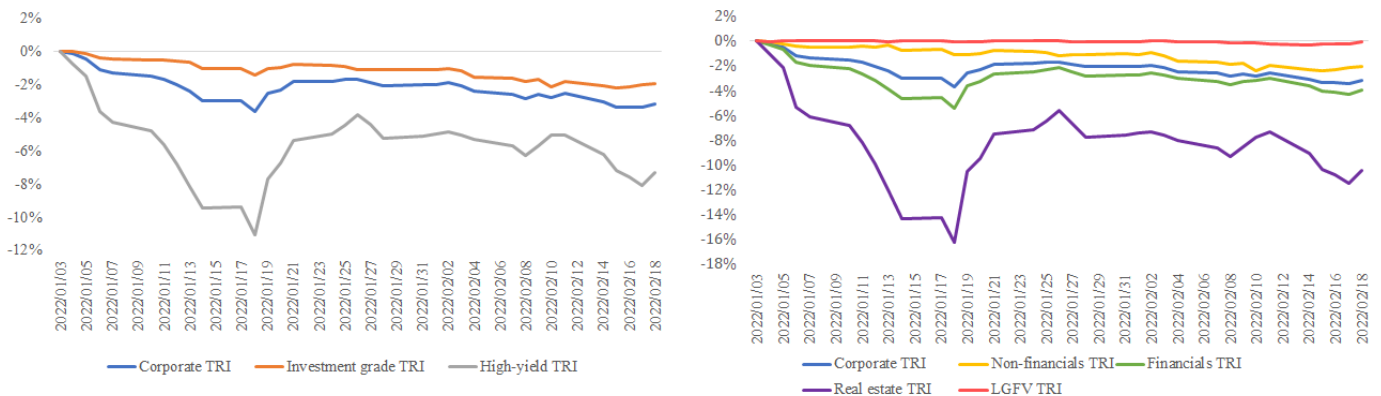
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/ Fitch)	Issue Rating (Moody's/S&P/ Fitch)
2022/2/17	Greentown China Holdings Limited	USD	450 (reoffer 150)	4.7	2025/4/29	4.5	real estate	Ba3/BB-/-	Ba3/-/-

Sources: Bloomberg, CCX research

### Secondary Market: Return on Chinese USD bond dropped

As of February 18, the YTD return<sup>1</sup> on Chinese USD corporate bond index decreased by 59bp from last Friday to -3.16%. The return on investment-grade bonds decreased by 11bp to -1.93%, and the return on high-yield bonds decreased by 227bp to -7.31%. In terms of sector indices, real estate bonds had the biggest drop, which decreased by 309bp from last Friday to -10.44%. The returns on financial and non-financial bonds were -3.95% and -2.02%, decreased by 95bp and 7bp from last Friday, respectively. The return on Chengtou bonds increased 15bp to -0.07%..

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



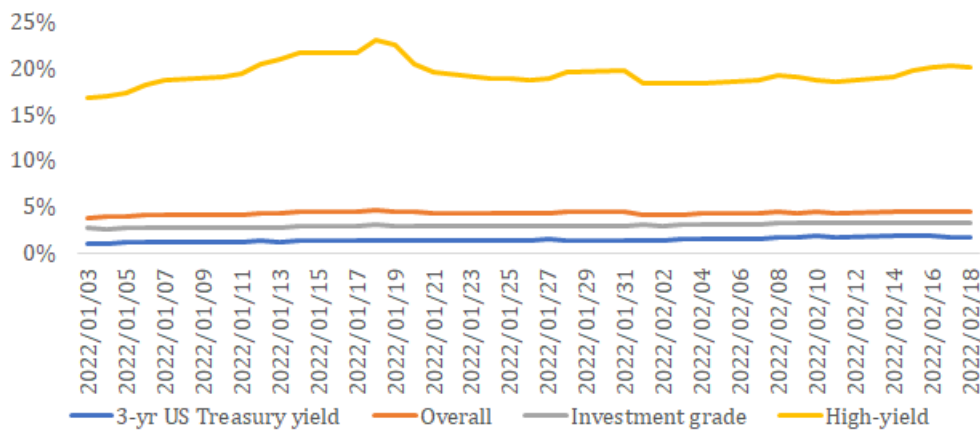
Sources: Bloomberg, CCX research

As of February 18, the yield-to-worst of Chinese dollar bonds increased by 14bp to 4.43%

<sup>1</sup> Year-to-date return measures the return since January 3, 2022

from last Friday, of which investment grade bond index increased by 5bp to 3.22%. High-yield bond index increased by 148bp to 20.03%.

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



Sources: Bloomberg, CCX research

**Rating Action: CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+ to Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd., with stable outlook; and assigns BBB<sub>g</sub>+ rating to its existing USD bonds**

On February 17, 2022, China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") first assigned a long-term credit rating of BBB<sub>g</sub>+ to Chongqing Nan'an District Urban Construction Development (Group) Co., Ltd. ("CQNA") with the stable rating outlook. At the same time, CCXAP assigned a senior unsecured rating of BBB<sub>g</sub>+ to CQNA's existing USD bonds.

Table 3 : Rating Action of CCXAP (20210214-20210218)

Date	Entity	Issuer Rating	Issue Rating	Rating Rationale
2022/2/17	CQNA	BBB <sub>g</sub> +	BBB <sub>g</sub> +	The credit rating is underpinned by the Company's (1) dominant position in public policy projects in Nan'an District; and (2) diversified financing channels. However, the rating is constrained by the Company's (1) large capital expenditure and relatively high debt leverage; (2) moderate asset quality; and (3) relatively weak liquidity position.

Sources: CCX research

From February 14 to February 18, rating agencies took negative rating action on 6 Chinese issuers.

Table 4: Credit rating changes of cross-border bond market (20220214-20210218)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
<b>International Rating:</b>										
Downgrade	Zhenro Properties Group Ltd	Real Estate	B3	NEG	2022/2/14	B1	STABLE	2019/4/9	Moody's	Elevated refinancing risk and credit default risk
	Logan Group Co Ltd	Real Estate	Ba3	RWN	2022/2/14	Ba2	STABLE	2021/2/5	Moody's	Weakened funding



									access and inadequate internal control over its contingent liabilities
Zhenro Properties Group Ltd	Real Estate	B	RWN	2022/2/15	B+	STABLE	2021/11/19	Fitch	Limited progress in addressing large capital market maturities in 2022
eHi Car Services Limited	Consumer Discretionary	B+	NEG	2022/2/15	B+	STABLE	2021/9/24	S&P	Unpredictable operational environment
Logan Group Co Ltd	Real Estate	BB-	NEG	2022/2/17	BB	RWN	2022/1/27	S&P	Previously nreported guaranteed debt and reduced liquidity buffer
Times China Holdings Ltd	Real Estate	B1	NEG	2022/2/17	B2	NEG	2021/10/22	Moody's	Reduced liquidity buffer
Zhongliang Holdings Group Company Limited	Real Estate	B2	NEG	2022/2/18	B1	STABLE	2021/10/18	Moody's	Heightened refinancing risks

**Domestic Rating:**

Downgrade									Delayed interest payment on overseas bonds, and real estate sales declined significantly
	Yango Group Co Ltd	Real Estate	BB	RWN	2022/2/18	B1	RWN	2021/10/18	CCXI

Sources: Bloomberg, Wind, CCX research

**Credit event: Yango defaulted on two offshore bonds**

On February 18, Yango Group Co., Ltd (“Yango”) announced that due to the adverse influence of the macroeconomic, industry, and financing environment, the Company's liquidity was tense, and it failed to repay the interests on two offshore bonds of USD27.2625 million within the 30-day grace period (i.e. February 15, 2022), which constitutes an event of default. It may trigger the relevant terms of domestic bonds and other products.

**Panda Bond Market: China-TCM issued a new SCP this week**

On February 16, the first series of 2022 China Traditional Chinese Medicine Co. Limited Medium Term Note was issued in the China Interbank Market, raising RMB 1 billion, with a tenor of 270 days, at a coupon rate of 2.40%. CCXI assigned AAA to the issuer.

**Table 5 : New issuance of Panda Bond in the Year 2022 (20220103-20220218)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
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China Traditional Chinese Medicine Co. Limited	1	2.4	2022/2/16	2022/11/15	0.75	SCP	China Interbank Market	China Chengxin
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: The Republic of Korea

**Issuer profile:** The Majority land of the Republic of Korea is located south of the 38th parallel on the Korean Peninsula, covering an area of approximately 38,000 square miles, a quarter of which is suitable for farming. South Korea has a population of about 51 million, and the capital, Seoul, is the country's largest and most populous city with a population of about 10 million. From the perspective of CCXI, South Korea's economy is relatively large. In 2020, South Korea became the tenth largest economy in the world, with a total GDP of about USD1.63 trillion and a per capita GDP of more than USD 30,000. South Korea has significant capital and technological advantages in products such as semiconductors, chemicals and machinery. South Korea maintains a long-term fiscal surplus, which gives the government plenty fiscal space for counter-cyclical measures. Although the deficit ratio has increased significantly in 2020, the debt level is still relatively low, and a sound fiscal position can be maintained under prudent fiscal management. South Korea's long-term current account surplus and sufficient foreign exchange reserves support its strong external repayment strength. At the same time, attention should be paid to the evolving geopolitical risks on the Korean peninsula and the potential impact of South Korea's still large and rising household debt on its sovereign credit risk.

**Issuance history:** The Republic of Korea is one of the earlier issuers in the Panda Bond Market. It entered the panda bond market at the end of 2015 and issued a total of 1 bond, raising RMB3 billion. The term of the bond is 3 years and the duration is from December 16, 2015 to December 16, 2018. The bond has now matured. The financing cost of this issuance is relatively low, with a coupon rate of 3.00% and a spread of 27bp. Regarding the usage of proceeds, The Republic of Korea claimed that the net proceeds from bond sales was classified into the foreign exchange balancing fund established and managed in accordance



with the Korea Foreign Exchange Transactions Act, and was mainly used for asset operations in China's capital market, transferring funds into Korea when necessary, and to provide liquidity to the Korean RMB market.

**Table 6: Historical Issuance of the Republic of Korea in the Panda Bond Market**

No.	Issue date	Maturity	Tenor	Amount (RMB billion)	Coupon (%)	Spread (BP)	Usage of Proceeds	Bond Type	Issue Market
1	2015/12/16	2018/12/16	3	3	3.00	27	The net proceeds from bond sales be classified into the foreign exchange balancing fund established and managed in accordance with the Korea Foreign Exchange Transactions Act; mainly used for asset operations in China's capital market, transferring funds into Korea when necessary, and to provide liquidity to the Korean RMB market.	International Institution Bond	China Interbank Market

Sources: Bloomberg, CCX research

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