

2022 Issue 20

From May 30 to June 03

Fed began to shrink balance sheet; Chinese offshore bond issuance and return on Chinese USD bond decreased

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Date: June 8, 2022

Headline: Fed began to shrink balance sheet

On June 1, the Fed officially began its balance sheet reduction plan for the first time since 2017. As of May 30, the scale of the Fed's balance sheet reached USD8.9 trillion, more than double the pre-pandemic level. The Fed will reduce its balance sheet by USD47.5 billion in June, including USD30 billion in Treasuries and USD17.5 billion in MBS. The runoff scale will increase to USD95 billion (USD60 billion in Treasuries and USD35 billion in MBS) in three months. By the end of 2023, the scale of the Fed's balance sheet is expected to be reduced by nearly USD1.5 trillion to USD7.5 trillion. The Fed will not buy new bonds after maturity of the bonds.

Exchange Rate: RMB exchange rate fluctuated downward

This week, the RMB exchange rate fluctuated downward. As of June 3, the RMB mid-point rate closed at 6.7095, decreased by 292bp compared with exchange rate on last Friday.

Interest Rate: China Government Bond yields fluctuated upward; US Treasury yields increased

This week, China Government Bond yields fluctuated upward. The 1-year China Government Bond yield increased by 4.31bp compared with yield on last Friday. U.S. nonfarm payrolls data in May was better than expectation, pushing US Treasury yields up. As of June 3, the yield spread between China and US 10-year note was -17.3bp, narrowing by 13.3bp from last Friday and narrowing by 132.1bp from the beginning of the year.

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

From May 30 to June 3, there were 24 new issues with a total issued volume of USD2.3 billion, decreased by 51.5% from last week. Among them, Chengtou companies were the main issuers, which issued 9 bonds with total amount of USD1.32 billion.

Secondary Market: Return on Chinese USD bond decreased

As of June 3, the YTD return on Chinese USD corporate bond index decreased by 44bp from last Friday to -8.09%. The return on investment-grade bonds decreased by 44bp to -5.64%, and the return on high-yield bonds decreased by 44bp to -16.89%. In terms of sector indices, the returns on real estate bonds decreased the most, decreasing by 92bp from last Friday to -25.27%.

Rating Action: Several real estate companies were downgraded due to liquidity problems

Credit event: Yuzhou Group defaulted on USD bonds; Zhongliang Holdings announced an exchange offer

Panda Bond Market**No Panda Bond Issuance This Week**

Issuer Analysis: Luso International Banking Limited

Headline: Fed began to shrink balance sheet

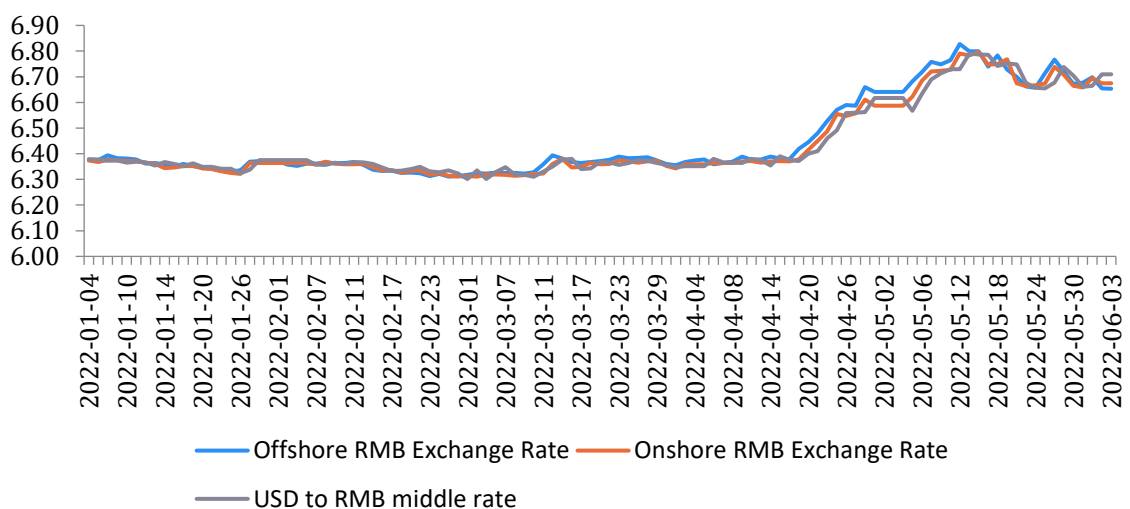
On June 1, the Fed officially began its balance sheet reduction plan for the first time since 2017. As of May 30, the size of the Fed's balance sheet reached USD8.9 trillion, more than double the pre-pandemic level. The Fed will reduce its balance sheet by USD47.5 billion in June, including USD30 billion in Treasuries and USD17.5 billion in MBS (mortgage-backed securities). The runoff scale will increase to USD95 billion (USD60 billion in Treasuries and USD35 billion in MBS) in three months. By the end of 2023, the size of the Fed's balance sheet is expected to be reduced by nearly USD1.5 trillion to USD7.5 trillion. The Fed will not buy new bonds after maturity of the bonds.

Compared with previous balance-sheet reduction from 2017 to 2019, both the speed and scale of this round far exceeded the previous one. Previous round started in September 2017 after the Fed raised interest rates for the first time in December 2015. During this period, the Fed had always maintained a stable balance sheet scale. As to this time, the Fed began to shrink its balance sheet in June just after the first interest rate hike in March, with nearly no time gap. In addition, the monthly reduction scale of USD95 billion after 3 months will be nearly double the monthly reduction scale of USD50 billion in the previous round. The FRB/US model predicts that the size of balance sheet would be reduced by about USD2.5 trillion over the next few years, which would be roughly equivalent to half the pump priming size since March, 2020. However, this estimate is associated with considerable uncertainty.

Exchange Rate: The RMB exchange rate fluctuated downward

This week, the RMB exchange rate fluctuated downward. As of June 3, the RMB mid-point rate closed at 6.7095, declined by 292bp from last Friday; the onshore RMB exchange rate decreased by 331bp to 6.6750 from last Friday; the offshore RMB exchange rate decreased by 667bp to 6.6537 from last Friday.

Figure 1 : RMB exchange rate

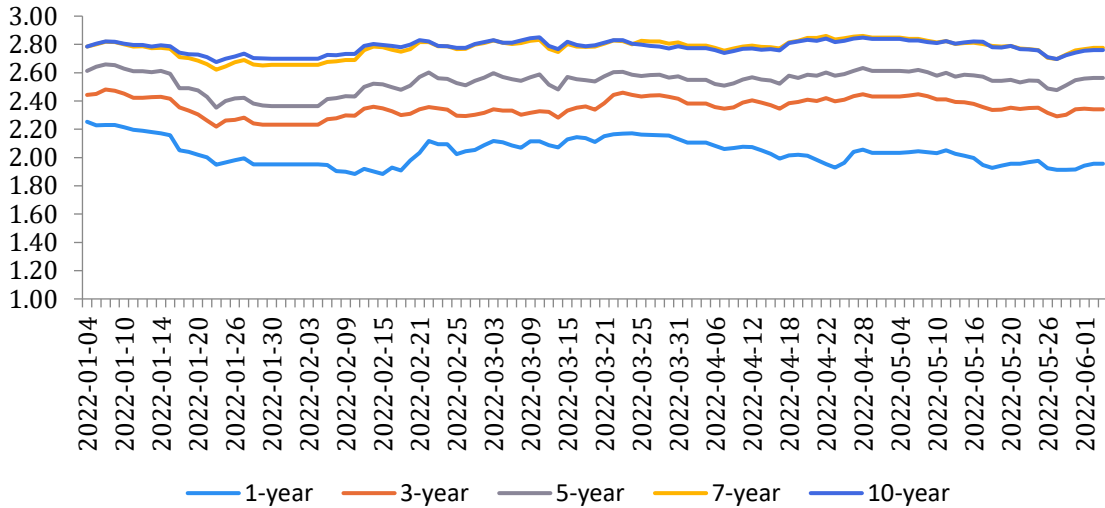


Sources: Wind, CCX research

Interest Rate: China Government Bond yields fluctuated upward; US Treasury yields increased

The China Government Bond yields fluctuated upward this week. As of June 3, the 1-year, 3-year, 5-year, 7-year, and 10-year China Government Bond yields increased by 4.31bp, 5.08bp, 8.63bp, 7.94bp, and 6.27bp from last Friday and closed at 1.9564%, 2.3413%, 2.5630%, 2.7748%, and 2.7601%.

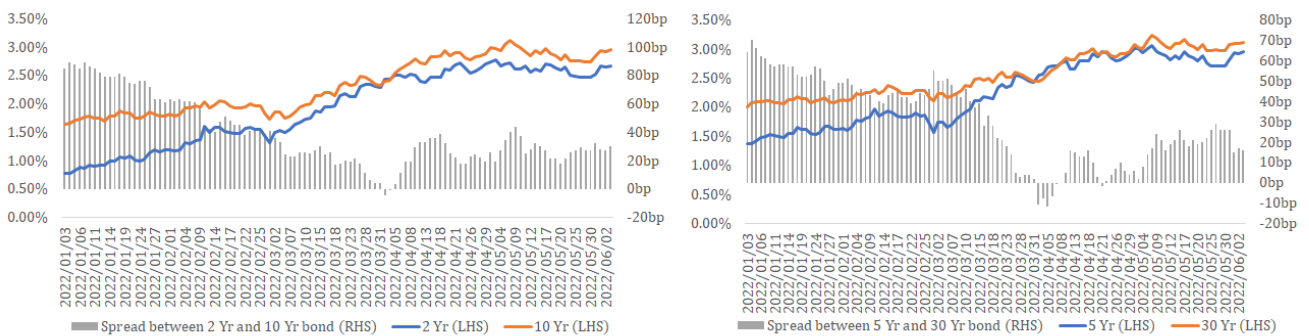
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

US nonfarm payrolls data in May was better than expectation, pushing US Treasury yields up. As of June 3, the 2-year, 5-year, 10-year and 30-year yields were 2.66%, 2.95%, 2.96% and 3.11%, increasing by 19bp, 24bp, 22bp and 14bp from last Friday, respectively. In terms of US Treasury bond spreads, the 2-year and 10-year Treasury bond spreads widened by 3bp to 30bp from last Friday, while the 5-year and 30-year Treasury bond spreads narrowed by 10bp to 16bp from last Friday.

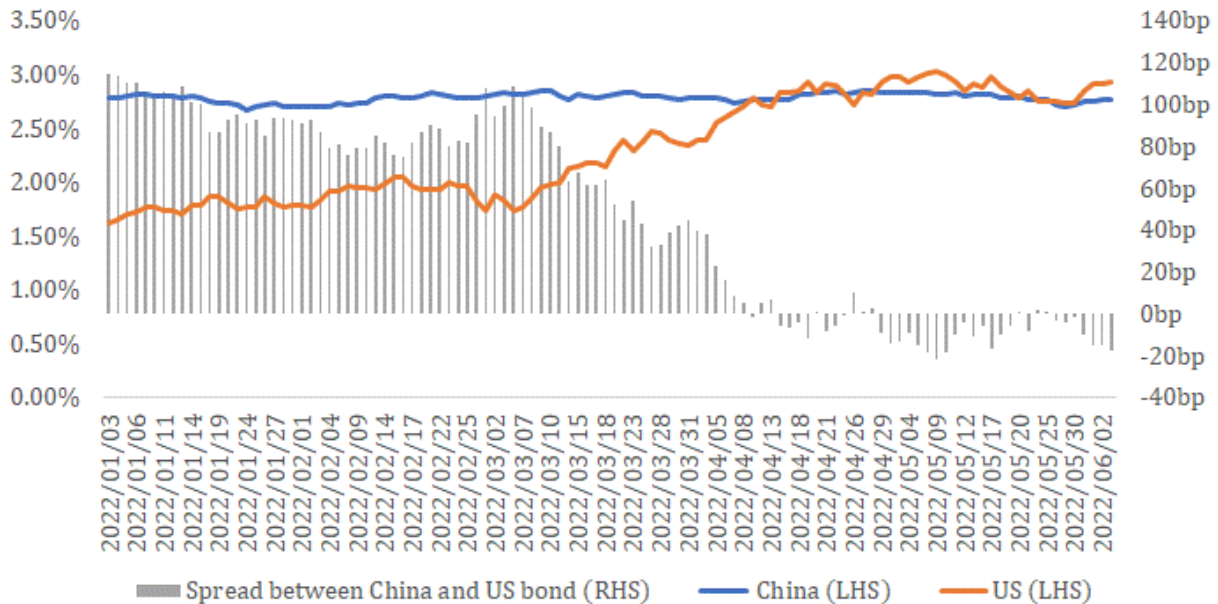
Figure 3 : US Treasury yields and yield spreads



Sources: US Department of the Treasury, CCX research

As of June 3, the yield spread between China and US 10-year note was -17.3bp, narrowing by 13.3bp from last Friday and narrowing by 132.1bp 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 decreased

From May 30 to June 3, there were 24 new issues with a total issued volume of USD2.3 billion, decreasing by 51.5% from last week. Among them, Chengtuo companies were the main issuers, which issued 9 bonds with total amount of USD1.32 billion.

Table 1 : New issuance of Chinese offshore bonds (20220530-20220603)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2022/5/30	Bank of China Ltd/Macau	USD	6	3.2	2024/3/18	2	Banks	A1/A/A	-/-/-
2022/5/30	CITIC Securities International	USD	5	17.91	2022/10/17	126D	Financials	-/BBB+/-	-/-/-
2022/5/30	Huatai International Financial Holding Co. Ltd	USD	30	0	2022/8/31	90D	Financials	-/BBB+/-	-/-/-
2022/5/30	Seazen Group Ltd	USD	100	7.95	2023/6/1	364D	Real Estate	Ba2/BB+/BB	-/-/-
2022/5/30	Taiyuan State-Owned Investment Group Co Ltd	USD	160	4.55	2025/6/7	3	Chengtou	-/-/-	-/-/-
2022/5/30	Wuxi Chengkai Industrial Development Group Co Ltd	EUR	160	2.25	2025/6/6	3	Chengtou	-/-/-	-/-/-
2022/5/31	Bank of China Ltd/Macau	CNY	13	3.4	2025/6/23	3.05	Banks	A1/A/A	-/-/-
2022/5/31	Bank of China Ltd/Macau	USD	6	3.9	2025/6/8	3	Banks	A1/A/A	-/-/-
2022/5/31	Chengdu Jianjiang Investment Group Co Ltd	USD	100	4.5	2025/6/7	3	Chengtou	-/-/-	-/-/-

2022/5/31	CITIC Securities International	USD	10	0	2023/6/5	362D	Financials	-/BBB+/-	-/-
2022/5/31	Haitong International Securities Group Ltd	HKD	1,700	2.1	2023/1/9	215D	Financials	Baa2/BBB/-	-/-
2022/5/31	Hefei Industry Investment Hold	USD	500	3.9	2025/6/8	3	Chengtou	-/BBB	-/BBB
2022/5/31	Huzhou Wuxing State-owned Capital Investment Development Co Ltd	USD	105	5.45	2025/6/8	3	Chengtou	-/-	-/-
2022/5/31	Jiangsu Sheyang Rice Group Co	EUR	38	1.7	2023/6/6	364D	Chengtou	-/-	-/-
2022/5/31	Xinhu Zhongbao Co Ltd	USD	150	11	2025/6/6	3	Real Estate	-/B/B-	-/-
2022/5/31	Zhuhai Huafa Group Co., Ltd	USD	100	4.25	-	Perpetual	Chengtou	-/BBB	-/-
2022/6/1	China Vanke Co. Ltd	CNY	510	3.55	2025/6/8	3	Real Estate	Baa1/BBB+/BBB+	-/BBB/-
2022/6/1	CITIC Securities International	USD	10	0	2023/6/6	362D	Financials	-/BBB+/-	-/-
2022/6/1	Haitong International Securities Group Ltd	HKD	100	2	2023/1/10	215D	Financials	Baa2/BBB/-	-/-
2022/6/1	Taizhou Xintai Group Co Ltd	USD	48	3.85	2025/6/9	3	Chengtou	-/-	-/-
2022/6/1	Wuhan Jiangxia Agriculture Group Co Ltd	EUR	93	2.3	2025/5/7	2.92	Chengtou	-/-	-/-
2022/6/1	Ying Li International Real Estate Ltd	USD	56	4	2023/5/31	357D	Real Estate	-/-	-/-
2022/6/2	CNCB Hong Kong Investment Ltd	USD	200	2.95	2023/6/8	364D	Financials	-/BBB/BBB	-/-
2022/6/2	Huatai International Financial Holding Co. Ltd	USD	100	2.86	2023/6/8	363D	Financials	-/BBB+/-	-/-

Sources: Bloomberg, CCX research

On May 31, Chongqing Nan'an Urban Construction & Development Group Co Ltd and Zhuhai Huafa Group Co Ltd announced tap bond offering.

Table 2 : Tap bond offering (20220530-20220603)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2022/5/31	Chongqing Nan'an Urban Construction & Development Group Co Ltd	USD	300 (reoffered 40)	4.98	2025/5/6	3	Chengtou	-/BBB	-/BBB
2022/5/31	Zhuhai Huafa Group Co Ltd	USD	350 (reoffered 100)	4.25	-	Perpetual	Chengtou	-/BBB	-/BBB

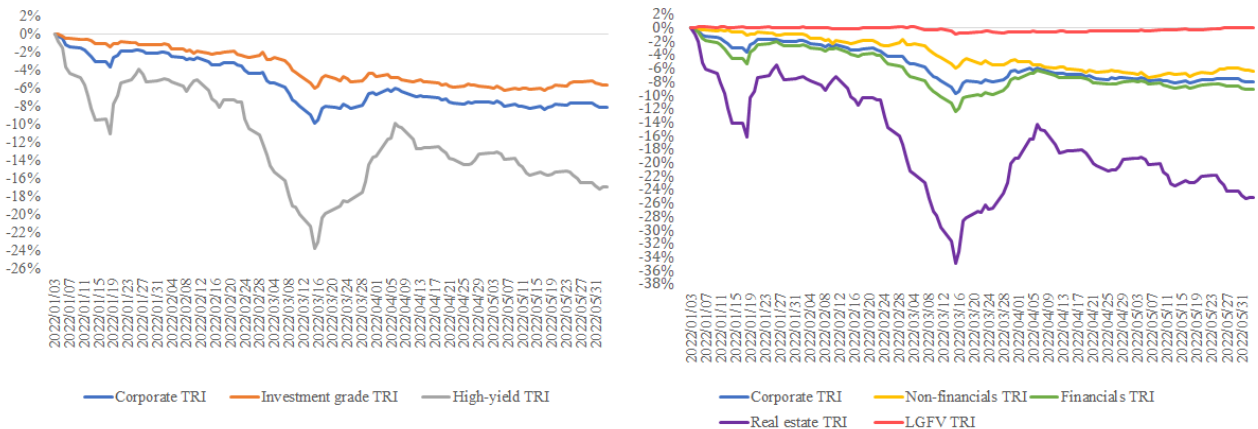
Sources: Bloomberg, CCX research

Secondary Market: Return on Chinese USD bond decreased

As of June 3, the YTD return¹ on Chinese USD corporate bond index decreased by 44bp from last Friday to -8.09%. The return on investment-grade bonds decreased by 44bp to -5.64%, and the return on high-yield bonds decreased by 44bp to -16.89%. In terms of sector indices, the return on real estate bonds decreased the most, decreasing by 92bp from last Friday to -25.27%. The returns on non-financial and financial bonds were -6.49% and -9.20%, decreasing by 46bp and 42bp from last Friday, respectively; while the return on Chengtou bonds increased by 3bp to -0.01%.

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

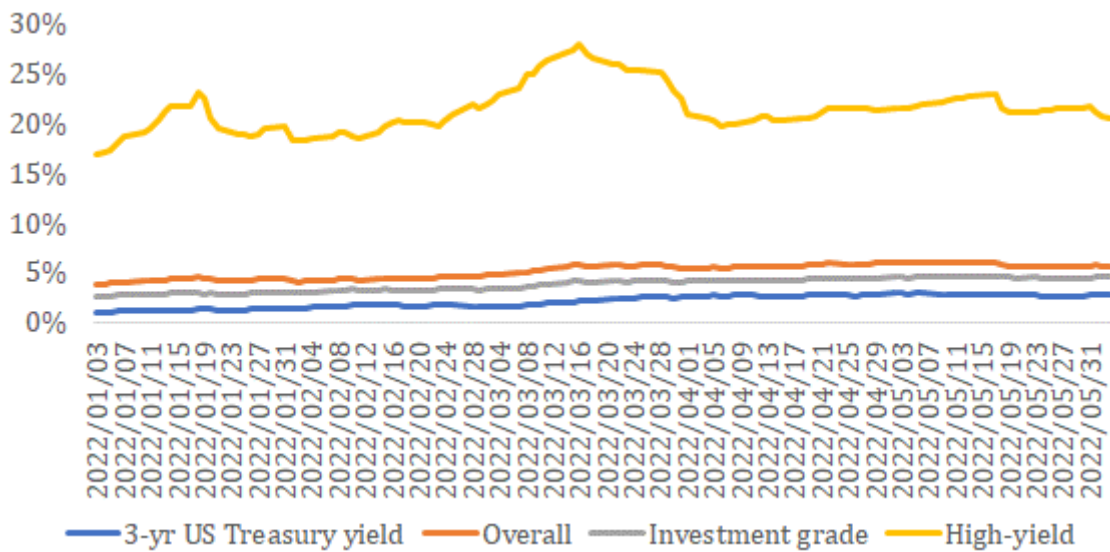
Figure 5 : YTD return on Marit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of June 3, the yield-to-worst of Chinese dollar bonds increased by 8bp to 5.65% from last Friday, of which investment grade bond index increased by 13bp to 4.54% while high-yield bond index decreased by 99bp to 20.51%.

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



Sources: Bloomberg, CCX research

Rating Action: Several real estate companies were downgraded due to liquidity problems

From May 30 to June 3, rating agencies took negative rating action on 7 Chinese issuers.

Table 3: Credit rating changes of cross-border bond market (20220530-2022603)

Entity	Sector	Entity Rating	Current Rating		Entity Rating	Previous Rating		Rating Agency	Reason of Change
			Outlook	Date		Outlook	Date		
International Rating:									
Greenland Hong Kong Holdings Ltd	Real Estate	B3	NEG	2022/5/30	B2	RWN	2022/5/12	Moody's	higher liquidity risk
Greenland Holding Group Co Ltd	Real Estate	Caa2	NEG	2022/5/30	B2	RWN	2022/5/12	Moody's	higher liquidity risk
Greenland Holding Group Co Ltd	Real Estate	CC	NEG	2022/5/30	B-	RWN	2022/5/23	S&P	distressed maturity extension
Country Garden Holdings Co. Ltd.	Real Estate	Baa3	RWN	2022/5/30	Baa3	NEG	2022/3/21	Moody's	credit metrics will weaken due to a sales decline, while its access to offshore funding will remain restricted
Jinke Properties Group Co Ltd	Real Estate	CCCg	NEG	2022/5/31	Bg	RWN	2022/5/24	CCXAP	deteriorated liquidity position and heightened refinancing risk
Goho Asset Management Co. Ltd	Financial	B2	NEG	2022/6/2	B1	Stable	2021/2/2	Moody's	weakened asset quality and weaker financial flexibility
eHi Car Services Ltd	Consumer Discretionary	B+	NEG	2022/6/2	B+	Stable	2021/9/23	Fitch	uncertainty of Covid-19 impact and longer receivables
Jinke Properties Group Co Ltd	Real Estate	CCC-	NEG	2022/6/2	B+	RWN	2021/5/23	Lianhe Global	deteriorating liquidity buffer
Yuzhou Group Holdings Co Ltd	Real Estate	Ca	NEG	2022/6/2	Caa2	NEG	2022/1/10	Moody's	weak recovery prospects for bondholders

Sources: Bloomberg, Wind, CCX research

Credit event: Yuzhou Group defaulted on USD bonds; Zhongliang Holdings announced an exchange offer

On May 31, Yuzhou Group Holdings Company Limited (“Yuzhou Group”) announced that it had missed the interest payments on several bonds after the expiration of the grace period. The outstanding interests on 6%, 8.375% and 9.95% US bonds were USD19.5 million, USD20.8175 million and USD8.90525 million, respectively. In addition, Yuzhou Group did not make the distribution on the

senior perpetual securities in the amount of USD8.0625 million. The total defaulted amount of four bonds was around USD57.28 million.

On June 1, Zhongliang Holdings Group Company Limited (“Zhongliang Holdings”) announced that the Company commenced the offer to exchange any or all of its USD27.628 million outstanding principal amount of the May 2022 Notes and its USD71.166 million outstanding principal amount of July 2022 Notes held by eligible holders. The purpose of the exchange offer is to improve its overall financial condition, extend its debt maturity profile, strengthen its balance sheet and improve cash flow management.

Panda Bond Market

No Panda Bond Issuance This Week

Table 4: New issuance of Panda Bond in the Year 2022 (20220103-20220603)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
China Everbright Greentech Limited	0.7	3.35	2022/5/27	2025/5/27	3	MTN	China Interbank Market	Lianhe Credit Rating
Asian Infrastructure Investment Bank	1.5	2.4	2022/5/26	2025/5/26	3	International Institution Bond	China Interbank Market	-
Yuexiu Transport Infrastructure	0.5	2.1	2022/5/23	2023/2/17	0.74	MTN	China Interbank Market	China Chengxin
New Development Bank	7	2.70	2022/5/20	2025/5/20	3	International Institution Bond	China Interbank Market	-
China Everbright Environment Group Limited	1.5	3.47	2022/4/20	2025/4/20	3	MTN	China Interbank Market	Lianhe Credit Rating
China Everbright Water Limited	1	3.10	2022/4/18	2022/4/18	3	MTN	China Interbank Market	Shanghai Brilliance Rating
China Everbright Greentech Limited	1.2	3.27	2022/4/8	2027/4/8	5	MTN	China Interbank Market	Lianhe Credit Rating
China Mengniu Dairy Company Limited	2.5	2.2	2022/3/22	2022/6/10	0.22	SCP	China Interbank Market	China Chengxin
China Traditional Chinese Medicine Holdings Co. Limited	1	2.32	2022/3/21	2022/10/17	0.58	SCP	China Interbank Market	China Chengxin
Yuexiu Transport Infrastructure	1	3.28	2022/3/18	2027/3/18	5	MTN	China Interbank Market	China Chengxin
Hengan International Group Co., Ltd	1.5	2.4	2022/3/18	2022/9/14	0.49	CP	China Interbank Market	China Chengxin
GLP China Holdings Limited	1	4.3	2022/3/7	2025/3/7	3	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating

Hengan International Group Co., Ltd	1	2.5	2022/3/3	2022/8/30	0.49	CP	China Interbank Market	China Chengxin
Hengan International Group Co., Ltd	1	2.5	2022/3/3	2022/8/30	0.49	CP	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	2.5	2.33	2022/2/24	2022/5/25	0.25	SCP	China Interbank Market	China Chengxin
BMW Finance N.V.	1.5	2.89	2022/2/21	2024/2/21	2	MTN	China Interbank Market	China Chengxin
BMW Finance N.V.	2.5	3.1	2022/2/21	2025/2/21	3	MTN	China Interbank Market	China Chengxin
China Traditional Chinese Medicine Co. Limited	1	2.4	2022/2/18	2022/11/15	0.74	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 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	2.97	2022/1/21	2027/1/21	5	MTN	China Interbank Market	Shanghai Brilliance Rating
Beijing Enterprises Water Group Limited	1	3.38	2022/1/21	2027/1/21	5	MTN	China Interbank Market	Shanghai Brilliance Rating
China Everbright Water Limited	1	2.50	2022/1/13	2022/6/12	0.41	SCP	China Interbank Market	Shanghai Brilliance Rating
Shenzhen International Holdings Limited	1	2.95	2022/1/10	2028/1/10	6	Corporate Bond	Shenzhen Exchange Market	Lianhe Credit Rating

Sources: Bloomberg, CCX research

Issuer Analysis: The Luso International Banking Limited

Issuer profile: The Luso International Banking Limited was incorporated in Macau in 1974. In 1985, it became a wholly-owned subsidiary of China's first Sino-foreign joint venture bank, Xiamen International Bank Co., Ltd, which indirectly holds shares through Xiamen International Investment Co., Ltd (a wholly-owned subsidiary). As of the end of 2021, the total share capital of the Luso International Banking Limited was 2.61 billion patacas, and shareholders' equity was 17.636 billion patacas. Xiamen International Bank has control over Luso International Banking Limited and incorporates it into the consolidated financial statements. Luso International Banking Limited has a long operating history in Macau. It has 13 branches in all major areas of Macau and representative offices, branches, and sub-branches in Zhuhai Hengqin, Guangzhou, Hangzhou, Dongguan, Foshan, and Huizhou, with 1,116 employees. The main business of Luso International Banking Limited includes corporate banking, retail banking, and financial market business. By the end of 2020, its assets, deposits, and loans ranked third in Macau. In 2020, affected by the COVID-19 epidemic and the reduction in deposit interest rates, Luso International Banking Limited took the initiative to

reduce the high-interest deposits and loan business, resulting in relatively slow growth in the business. In terms of finance, Luso International Banking Limited's annual operating income in 2021 was 3.584 billion patacas, a year-on-year increase of 5.10%; net profit was 1.960 billion patacas, a year-on-year increase of 4.54%; total assets were 238.244 billion patacas, a year-on-year increase of 6.21%; total liabilities were 220.608 billion patacas Yuan, a year-on-year increase of 5.07%. In terms of risk management system construction, Luso International Banking Limited has built a comprehensive risk management system, covering credit risk, market risk, operational risk, liquidity risk, etc. In July 2021, Luso International Banking Limited issued panda bonds in China's inter-bank bond market with an AAA rating.

Issuance history: The Luso International Banking Limited entered the Panda Bond Market in 2021 and issued a total of 1 bond, raising 1.5 billion RMB altogether. The international institution bond is issued in the Inter-bank Bond Market. The average coupon rate is 3.28% and the average spread is 70.88bp. The funds raised are mainly used to support domestic development and expand the banking business.

Table 5: Historical Issuance of the Luso International Banking 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	2021/7/27	2024/7/27	3	1.5	3.28	70.88	Support domestic development and expand the banking business	International Institution Bond	Inter-bank Market

Sources: Bloomberg, CCX research

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