

2022 Issue 34

From September 5 to September 9

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

Headline: Chinese reserve requirement ratio was lowered; the Fed's Beige Book showed modest US economic growth

On September 5, the People's Bank of China lowered the foreign exchange deposit reserve ratio of financial institutions by 2 percentage points since September 15, 2022. On September 7, the Fed released the Beige Book reporting that the economic growth outlook remained generally modest.

Exchange Rate: RMB exchange rate dropped, USD index fell

As of September 9, the RMB/USD middle rates closed at 6.9098, increasing by 181bp from last Friday. The USD index dropped by 0.5% to 109.003.

Interest Rate: China Government Bond yields increased; US Treasury yields rose

This week, China Government Bond yields increased. US Treasury yields rose amid Fed officials' hawkish speech and higher-than-expected US inflation data in August.

Chinese Offshore Bond Market

Primary Market: Chinese offshore bond issuance increased

From September 5 to September 9, there were 19 new issues with a total issued volume of USD2.8 billion, increasing by 96.8% from last week. Among them, the issuers were mainly Chengtou, which issued 12 bonds, with a total size of about USD1.9 billion.

Secondary Market: Return on Chinese USD bond increased

As of September 9, the YTD return on Chinese USD corporate bond index increased by 1bp to -10.74% compared with last Friday. The return on investment-grade bonds decreased by 10bp to -7.34%, and the return of high-yield bonds increased by 48bp to -23.31%. In terms of sector indices, the return on real estate bonds increased the most, increasing by 53bp from last Friday to -35.48%.

Rating Action: Several real estate companies were downgraded

From September 5 to September 9, rating agencies took negative action on 10 Chinese issuers, 7 of them were real estate companies.



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Headline: Chinese reserve requirement ratio was lowered; the Fed's Beige Book showed modest US economic growth

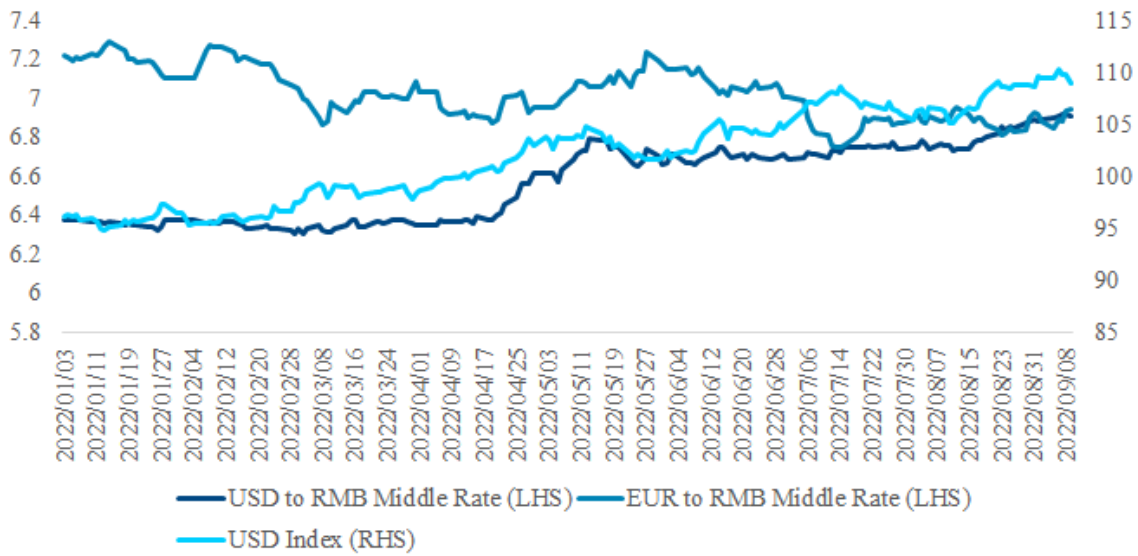
On September 5, the People's Bank of China released a notice that in order to improve the ability of financial institutions to use foreign exchange funds, the foreign exchange reserve requirement ratio of financial institutions will be lowered by 2 percentage points from 8% to 6% since September 15, 2022. The central bank lowered the foreign exchange deposit reserve ratio by 2%, which is equivalent to releasing about USD19 billion of foreign exchange liquidity to the market and enhancing the ability of financial institutions to provide foreign exchange loans. After the news was released, the exchange rates of the onshore and offshore RMB against the US dollar rose in a short-term, and the offshore RMB against the US dollar rose by more than 200 points in a short-term. This is the second cut since this year. On April, the central bank lowered the foreign exchange reserve requirement ratio of financial institutions from 9% to 8%, which is the first cut in history.

On September 7, the Federal Reserve released the Beige Book of its latest economic outlook survey. The Beige Book reported that the US economic growth was decelerating, and the economic growth outlook remained generally modest due to rising interest rates and labor and supply shortages. The price level was still high, and even if the Fed hopes to curb inflation by raising interest rates sharply, it is still difficult to lower the price level in the short term. The Beige Book shows that from mid-June to August, the price level of the 12 regions in the report was still at a high level, and 9 regions experienced a slowdown in price growth to a certain extent. The Beige Book also showed that the labor market remained tight, with labor shortages putting pressure on several industries. The Fed said labor shortages combined with ongoing supply chain disruptions hampered manufacturing, with wages rising in all regions, but at a slower pace than in early July. The Fed said the outlook for future US economic growth was generally modest, with companies expecting demand to weaken further in the next 6 to 12 months.

Exchange Rate: The RMB exchange rate dropped, USD index decreased

This week, the RMB exchange rate dopped. As of September 9, the RMB/USD and RMB/EUR middle rates closed at 6.9098 and 6.9459, increased by 181bp and 669bp from last Friday, respectively. The USD index dropped by 0.5% to 109.003.

Figure 1: RMB exchange rate

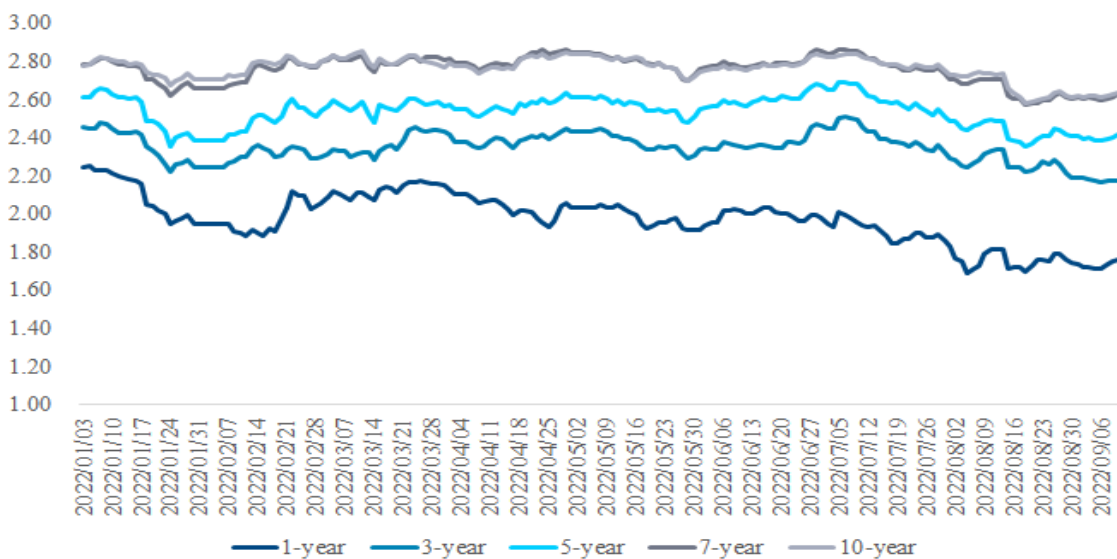


Sources: Wind, CCX research

Interest Rate: China Government Bond yields increased; US Treasury yields rose

The China Government Bond yields increased this week. As of September 9, the 1-year, 5-year, 7-year and 10-year China Government Bond yields rose 4bp, 2bp, 1bp and 1bp from last Friday to 1.7597%, 2.4184%, 2.6262% and 2.6350% respectively. The yield on the 3-year treasury bond fell slightly by 1bp from last Friday to 2.1779%.

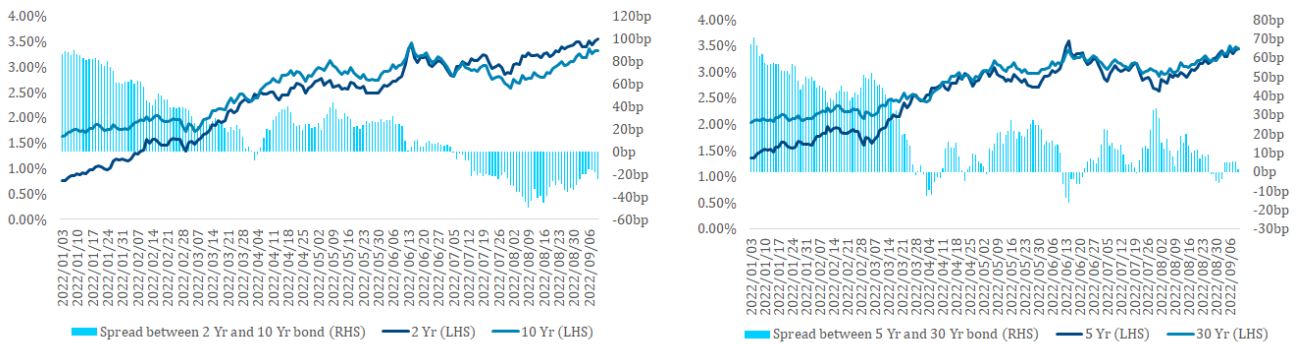
Figure 2: China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

US Treasury yields rose amid Fed officials' hawkish speech and higher-than-expected US inflation data in August. As of September 9, the yields of 2-year, 5-year, 10-year and 30-year US Treasury bonds were 3.5565%, 3.4352%, 3.3097% and 3.4474%, respectively, increasing by 17bp, 14bp, 12bp and 10bp from last Friday. In terms of US Treasury bond spreads, the 2-year and 10-year Treasury bond spreads widened by 5bp to -24.7bp from last Friday, while the 5-year and 30-year Treasury bond spreads narrowed by 4bp to 1.2bp from last Friday.

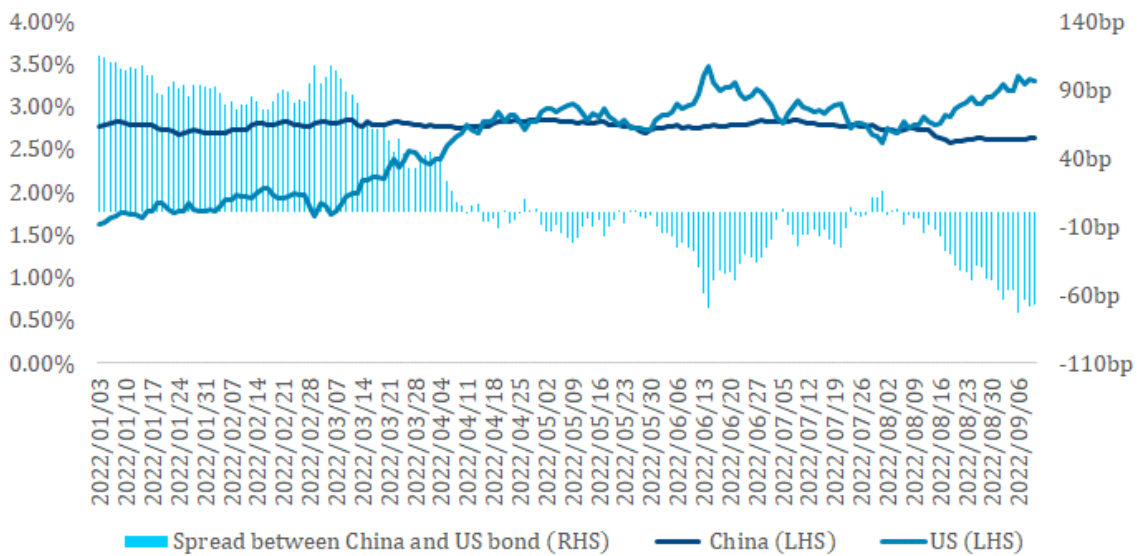
Figure 3: US Treasury yields and yield spreads



Sources: US Department of the Treasury, CCX research

As of September 9, the yield spread between China and US 10-year note was -67.5bp, widening by 10.8bp from last Friday and narrowing by 47.3bp 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

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Table 1: New issuance of Chinese offshore bonds (20220905-20220909)

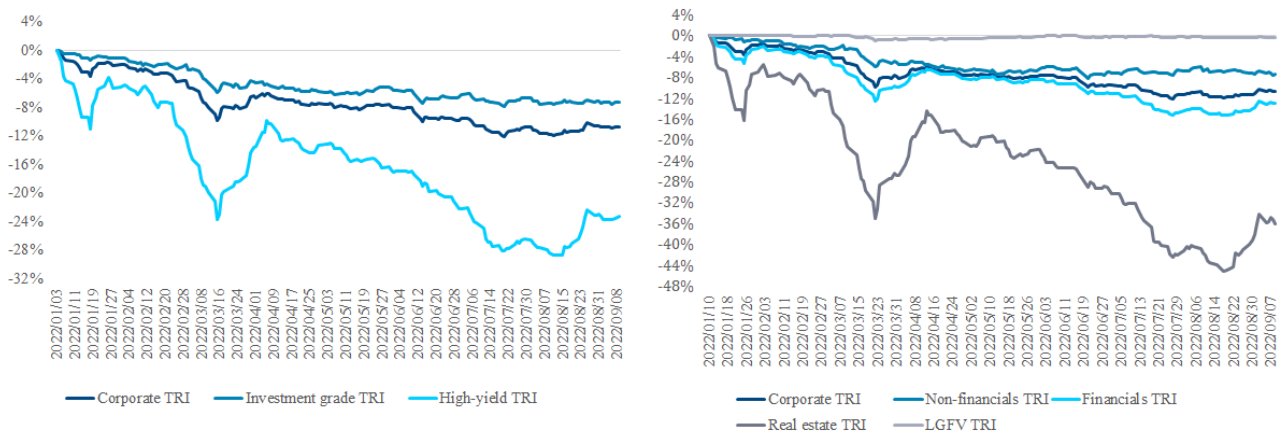
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2022/9/5	Tieling Public Assets Investment & Management Group Co Ltd	CNY	1,430	7.9	2025/9/6	3	Chengtou	-/-/-	-/-/-
2022/9/5	Zhengzhou Real Estate Group Co Ltd	USD	350	5.1	2025/9/13	3	Chengtou	-/-/BBB+	-/-/BBB+
2022/9/6	CITIC Securities International Co Ltd	CNY	34	4	2025/6/24	2.79	Financials	-/BBB+/-	-/-/-
2022/9/6	CITIC Securities International Co Ltd	USD	1	16.65	2023/1/24	0.34	Financials	-/BBB+/-	-/-/-
2022/9/6	CITIC Securities International Co Ltd	USD	1	26.25	2023/1/24	0.34	Financials	-/BBB+/-	-/-/-
2022/9/6	Ganzhou Urban Investment Holding Group Co Ltd	USD	250	6	2025/9/14	3	Chengtou	-/-/-	-/-/-
2022/9/6	Huatai Securities Co Ltd	CNY	5,000	2.85	2025/9/14	3	Financials	Baa1/-/-	-/BBB+/-
2022/9/6	Tianjin Binhai New Area Construction & Investment Group Co Ltd	USD	100	5.3	2025/9/9	3	Chengtou	Baa2/-/-	Baa2/-/-
2022/9/7	CITIC Securities International Co Ltd	USD	1	25.61	2023/1/25	0.34	Financials	-/BBB+/-	-/-/-
2022/9/7	ICBC International Holdings Ltd	CNY	270	2.95	2024/9/15	2	Financials	A2/A/-/-	-/-/-
2022/9/7	Suqian Economic Development Group Co Ltd	USD	145	6.5	2025/9/14	3	Chengtou	-/-/-	-/-/-
2022/9/7	Tianjin Binhai New Area Construction & Investment Group Co Ltd	USD	144	5.6	2025/9/14	3	Chengtou	Baa2/-/-	-/-/-
2022/9/8	Fuzhou Digital Economy Investment Group Co Ltd	USD	96	6	2025/8/16	2.92	Chengtou	-/-/-	-/-/-
2022/9/8	Ningbo Beilun Modern Service Industry Development Co Ltd	USD	400	5.45	2025/9/16	3	Chengtou	-/-/-	-/-/-
2022/9/8	Shaoxing Paojiang Venture Construction Development Co Ltd	CNY	800	4.2	2025/9/15	3	Chengtou	-/-/-	-/-/-
2022/9/8	Tianjin Binhai New Area Construction & Investment Group Co Ltd	USD	50	7	2023/9/15	1	Chengtou	Baa2/-/-	Baa2/-/-
2022/9/8	Zhangzhou Yuanshan Development Co Ltd	USD	22	5.29	2025/9/14	3	Chengtou	-/-/-	-/-/-
2022/9/9	CMB Financial Leasing Co Ltd	EUR	80	1.95	2023/9/13	1	Financials	A3/BBB+/-	-/-/-
2022/9/9	Jiangsu Tenghai Investment Holdings Group Co Ltd	EUR	46	3.5	2025/9/16	3	Chengtou	-/-/-	-/-/-

Sources: Bloomberg, CCX research

Secondary Market: Return on Chinese USD bond increased

As of September 9, the YTD return¹ on Chinese USD corporate bond index increased by 1bp to -10.74% from last Friday. The return on investment-grade bonds decreased by 10bp to -7.34%, and the return of high-yield bonds increased by 48bp to -23.31%. In terms of sector indices, the return on real estate bonds increased the most, increasing by 53bp from last Friday to -35.48%, and the returns on financial and Chengtou bonds were -12.98% and -0.24%, increasing by 10bp and 14bp from last Friday, respectively; The return on non-financial bonds fell 11bp from last Friday to -7.50%.

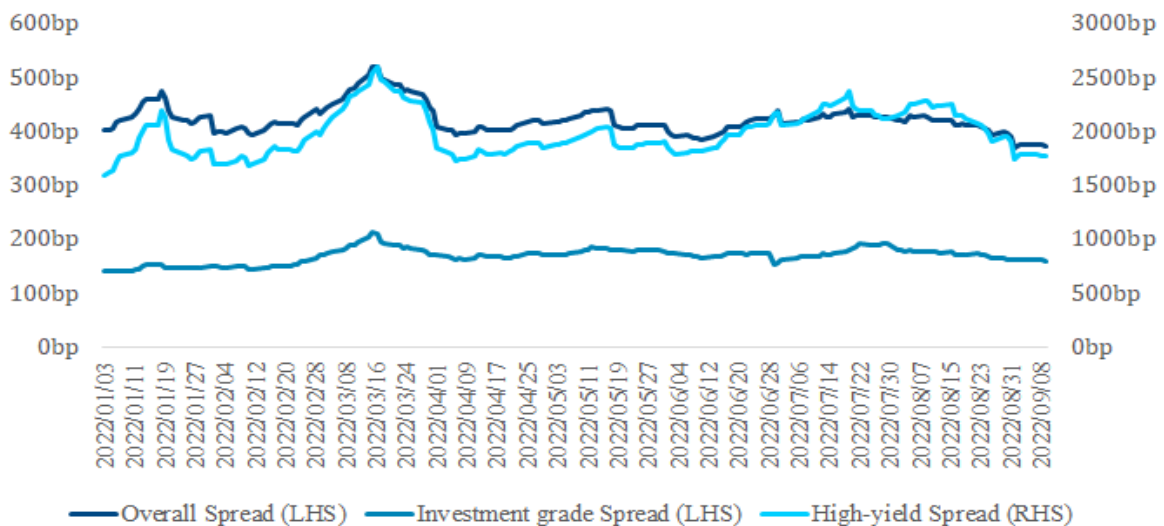
Figure 5: YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of September 9, the yield spread of Chinese dollar bonds decreased by 3.6bp to 371.0bp from last Friday, of which investment grade bond spread decreased by 4.2bp to 158.0bp while high-yield bond spread decreased by 7.8bp to 1770.5bp.

Figure 6: Yield Spreads of Bloomberg Barclays Chinese USD bond index



Sources: Bloomberg, CCX research

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

According to Bloomberg data, the 10 bonds with the largest yield increase from September 5 to September 9 are shown in the table below. Among them, the yield of offshore bonds of KWG Group Holdings Ltd changed the most.

Table 2: Chinese offshore bonds with largest yield increases (20220905-20220909)

Security Name	Obligor	Last Price (USD)	Years to Maturity	Yield to Convention	Yield Change
KWGPRO 6 09/15/22	KWG Group Holdings Ltd	33.93	0.0027	33,439.92	24,559.04
KWGPRO 5.2 09/21/22	KWG Group Holdings Ltd	33.54	0.0192	8,379.84	3,055.78
GRNLGR 5 ¼ 09/26/22	Greenland Holding Group Co Ltd	87.40	0.0329	437.40	244.20
CHINSC 7 ¾ 04/19/23	China SCE Group Holdings Limited	30.86	0.5941	361.24	135.56
GRNLGR 5.6 11/13/22	Greenland Holding Group Co Ltd	71.40	0.1643	260.71	112.56
DEXICN 9.95 12/03/22	Dexin China Holdings Co Ltd	57.81	0.2190	346.81	65.11
CIFIHG 11.581 PERP	CIFI Holdings Group Co Ltd	43.72	Perpetual	1,783.52	39.56
TPHL 6.6 03/02/23	Times China Holdings Ltd	26.65	0.4627	675.12	35.28
FUTLAN 4 ¾ 09/22/22	Future Land Development Holdings Limited	99.00	0.0219	84.24	31.96
REDPRO 8 03/23/23	Redco Properties Group Ltd	25.59	0.5202	573.55	31.77

Sources: Bloomberg, CCX research

Rating Action: Several real estate companies were downgraded

From September 5 to September 9, rating agencies took negative action on 10 Chinese issuers, 7 of them were real estate companies.

Table 3: Credit rating changes of cross-border bond market (20220905-20220909)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Downgrade	Gemdale Corporation	Real Estate	Ba2	NEG	2022/9/5	Ba2	STABLE	2022/5/12	Moody's	Weaker-than-expected contracted sales and weaker public market funding
	Landsea Green Management Limited	Real Estate	Caa1	NEG	2022/9/5	B3	NEG	2022/4/6	Moody's	Increased liquidity and default risk
	Bright Food (group) Co Ltd	Consumer Discretionary	Baa2	NEG	2022/9/5	Baa2	STABLE	2021/7/29	Moody's	Real estate business revenue and profitability weaken
	Sino-Ocean Group Holding Ltd	Real Estate	Ba2	NEG	2022/9/5	Ba1	NEG	2022/8/2	Moody's	Weakened standalone credit profile

China Huarong Asset Management Co., Ltd	Real Estate	Baa2	NEG	2022/9/6	Baa2	RWN	2022/8/19	Moody's	Financial metrics will remain under pressure over the next 12-18 months
Huijing Holdings Company Limited	Real Estate	CCC+	NEG	2022/9/7	B+	RWN	2022/7/22	Lianhe Global	Significant deterioration in liquidity conditions and significant increase in refinancing pressure
Henan Zhongyuan Financial Holding Co., Ltd	Financials	Ba2	NEG	2022/9/7	Ba2	STABLE	2021/7/7	Moody's	Asset quality of real estate exposures in Zhengzhou declined
CIFI Holdings (Group) Co. Ltd	Real Estate	BB-	NEG	2022/9/7	BB	NEG	2022/3/29	S&P	Weakening sales outlook amid waning property demand
Red Star Macalline Group Corporation Ltd	Real Estate	B	RWN	2022/9/9	BB	NEG	2022/3/14	Fitch	Weakening in the consolidated profile
China SCE Group Holdings Limited	Real Estate	B2	NEG	2022/9/9	B1	RWN	2022/8/3	Moody's	Weak contracted sales and sizable refinancing needs

Sources: Bloomberg, Wind, CCX research

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