

### 2022 Issue 38 From October 3 to October 7

#### US September nonfarm payrolls beat expectations; return on Chinese USD bond decreased

##### Headline: China's Services PMI resumed contraction in September; US September nonfarm payrolls beat expectations

The China's Services PMI in September was 49.3, down 5.7 percentage points from August, falling below 50 for the first time since June. On October 7, the US Bureau of Labor Statistics announced that the US non-farm payrolls increased by 263,000 in September, the smallest monthly increase since April 2021, better than the expected 255,000, and the previous value was 315,000.

##### Exchange Rate: RMB was unchanged, USD index rose

This week, RMB was unchanged. As of October 7, the RMB/USD middle rate closed at 7.0998; the RMB/EUR middle rate closed at 6.9892. The USD index increased by 0.6% to 112.795.

##### Interest Rate: China Government Bond yields were unchanged; US Treasury yields rose

The China Government Bond yields were unchanged this week. The US non-farm payrolls data increased more than expected in September, weakening the market's expectations for the Fed to ease monetary policy, driving the US Treasury yields to increase.

#### Chinese Offshore Bond Market

##### Primary Market: No new issuance of Chinese offshore bond during the National Day holiday

From October 3 to October 7, there was no new issuance of Chinese-funded overseas bonds during the National Day holiday.

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

As of October 7, the YTD return on Chinese USD corporate bond index decreased by 37bp to -13.22% from last Friday. The return on investment-grade bonds decreased by 15bp to -9.15%, and the return on high-yield bonds decreased by 142bp to -28.78%. In terms of sector indices, the return on real estate bonds decreased the most, decreasing by 182bp from last Friday to -41.86%.

##### Rating Action: CCXAP announced 3 issuers ratings

October 7, CCXAP has assigned a first-time BBBg- long-term credit rating to JPCI, with stable outlook.

##### Credit event: Yida China and Hongkun Weiye defaulted on USD bonds and Sunkwan Weiye proposed consent solicitation



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## Headline: China's Services PMI resumed contraction in September; US September nonfarm payrolls beat expectations

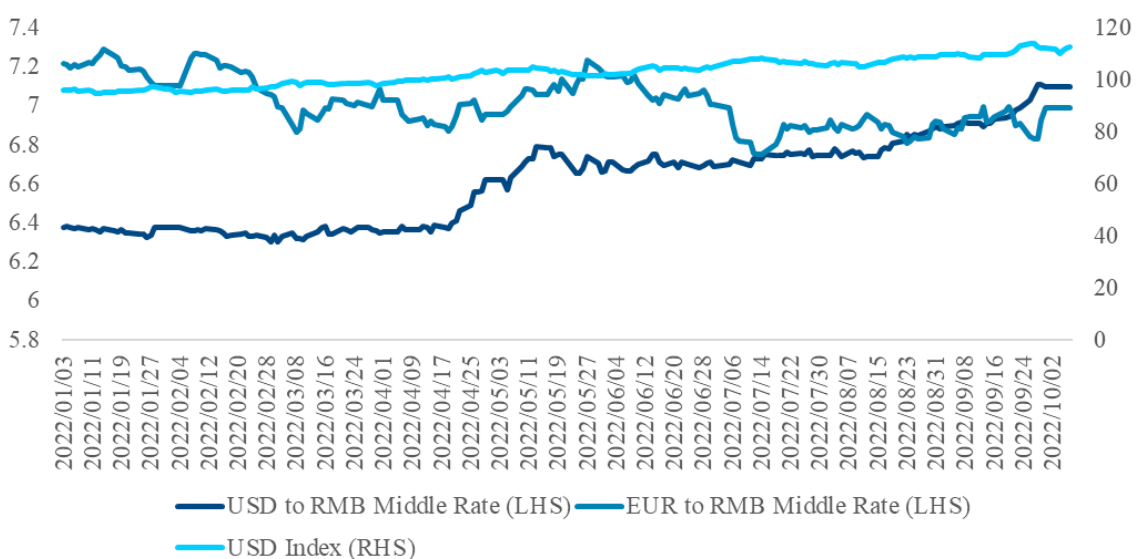
The Caixin China's Services PMI in September was 49.3, down 5.7 percentage points from August, falling below 50 for the first time since June. The service sector business activity index and new orders index fell in September, and the volume of new business dropped for the first time in four months, but with small amount. China's service sector employment continued to decline in September. Some companies have reduced their employment due to cost reductions or declining business needs, and some companies have not replenished their staff after resignation. The service sector input price index remained above 50, but falling the lowest level in three months. Optimism among entrepreneurs in service sector has weakened, with an index of business expectations falling to a six-month low in September, but still above the threshold. It is expected that the pandemic will be completely under control and market conditions will return to normal with recovering sales, supporting the confidence of the industry, but the uncertainties concerning the end of pandemic, weak liquidity, and weakening global economic growth have all caused concern to companies.

On October 7, the US Bureau of Labor Statistics announced that the US non-farm payrolls increased by 263,000 in September, the smallest monthly increase since April 2021, better than the expected 255,000, and the previous value was 315,000. The US unemployment rate was 3.5% in September, the lowest in 50 years, lower than the expected 3.7%, and the previous value of 3.7% in August. The latest non-farm payrolls data showed that the US labor market continued to grow at a moderate but steady pace, with the unemployment rate falling, and the labor market remained tight amid the Fed's aggressive rate hikes. The non-farm data means the Fed will continue to tighten monetary policy.

## Exchange Rate: RMB was unchanged, USD index rose

This week, RMB was unchanged. As of October 7, the RMB/USD middle rate closed at 7.0998; the RMB/EUR middle rate closed at 6.9892. The USD index increased by 0.6% to 112.795.

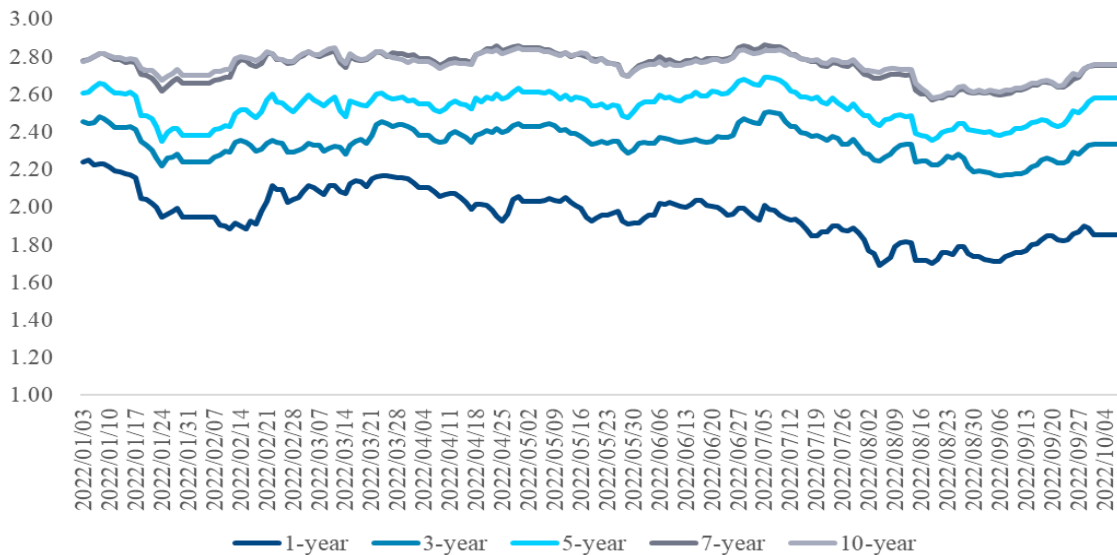
Figure 1: RMB exchange rate



## Interest Rate: China Government Bond yields were unchanged; US Treasury yields rose

The China Government Bond yields were unchanged this week. As of October 7, the 1-year, 3-year, 5-year, 7-year and 10-year China Government Bond yields were 1.8535%, 2.3341%, 2.5836%, 2.7551% and 2.7601%, respectively.

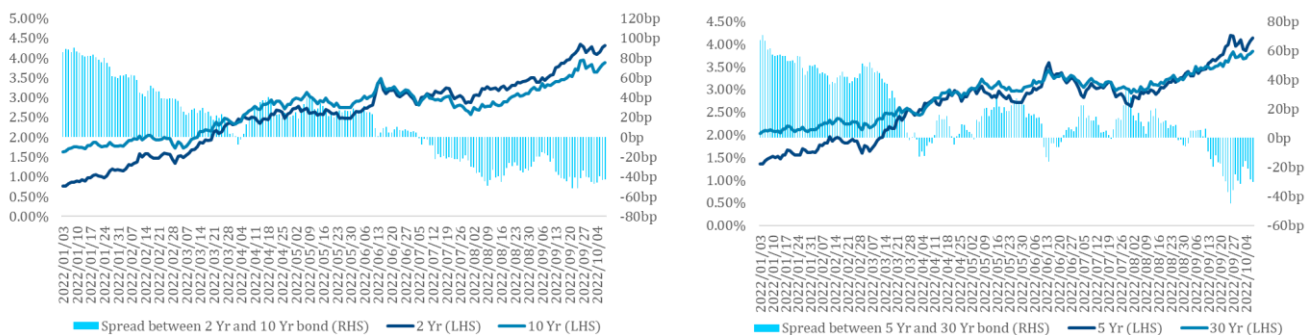
Figure 2: China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

The US non-farm payrolls data increased more than expected in September, weakening the market's expectations for the Fed to ease monetary policy, driving the US Treasury yields to increase. As of October 7, the yields of 2-year, 5-year, 10-year and 30-year US Treasury bonds were 4.3078%, 4.1423%, 3.8814% and 3.8417%, increasing by 3bp, 5bp, 5bp and 7bp from last Friday, respectively. In terms of US Treasury bond spreads, the 2-year and 10-year Treasury bond spread narrowed by 2bp to -42.6bp from last Friday, while the 5-year and 30-year Treasury bond spread narrowed by 1bp to -30.1bp from last Friday.

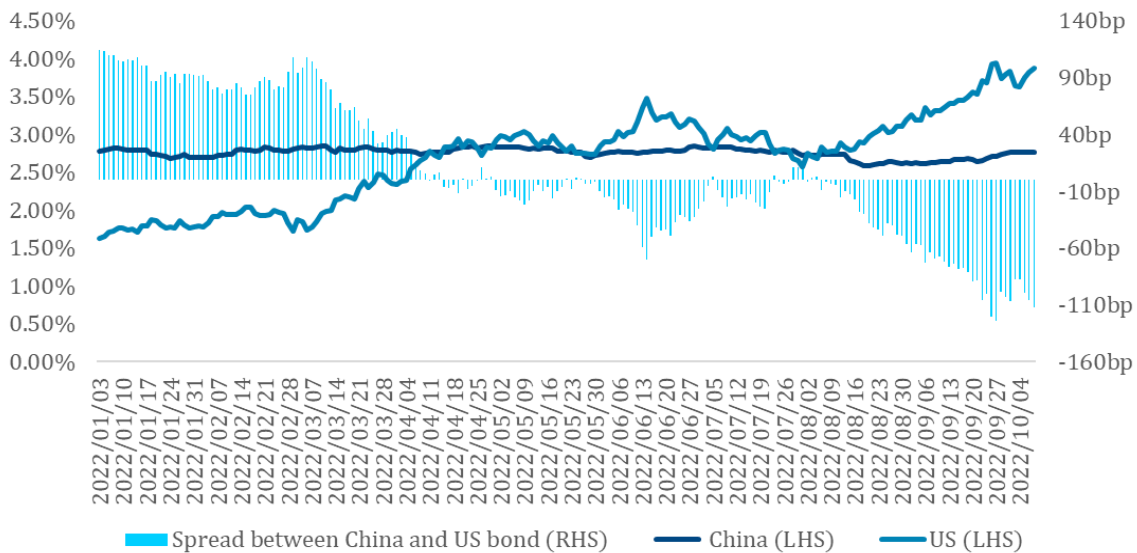
Figure 3: US Treasury yields and yield spreads



Sources: US Department of the Treasury, CCX research

As of October 7, the yield spread between China and US 10-year note was -112.1bp, widening by 5.3bp from last Friday and narrowing by 2.6bp 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: No new issuance of Chinese offshore bond during the National Day holiday

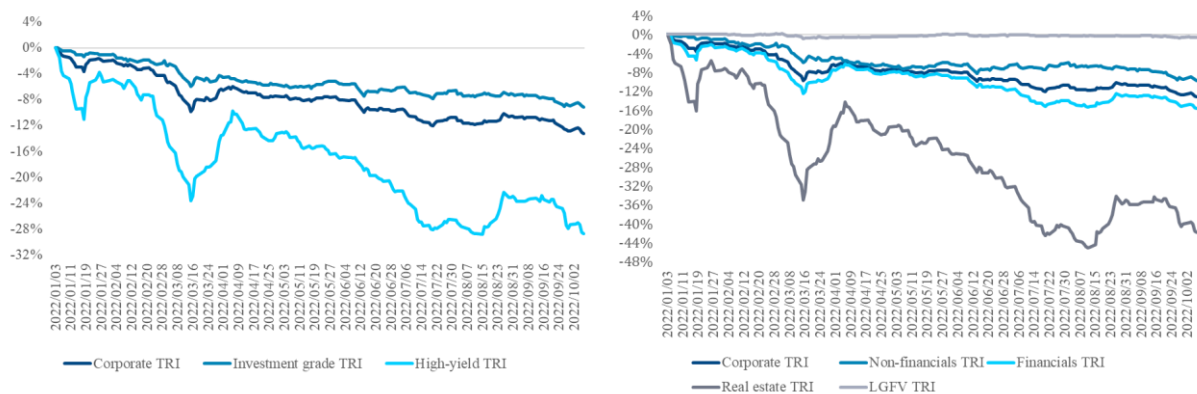
From October 3 to October 7, there was no new issuance of Chinese-funded overseas bonds during the National Day holiday.

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

As of October 7, the YTD return<sup>1</sup> on Chinese USD corporate bond index decreased by 37bp to -13.22% from last Friday. The return on investment-grade bonds decreased by 15bp to -9.15%, and the return on high-yield bonds decreased by 142bp to -28.78%. In terms of sector indices, the return on real estate bonds decreased the most, decreasing by 182bp from last Friday to -41.86%. The returns on non-financial, financial bonds were -9.76% and -15.63%, decreasing by 22bp and 48bp from last Friday, respectively. The returns on Chengtou bonds increased by 7bp to -0.66%.

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

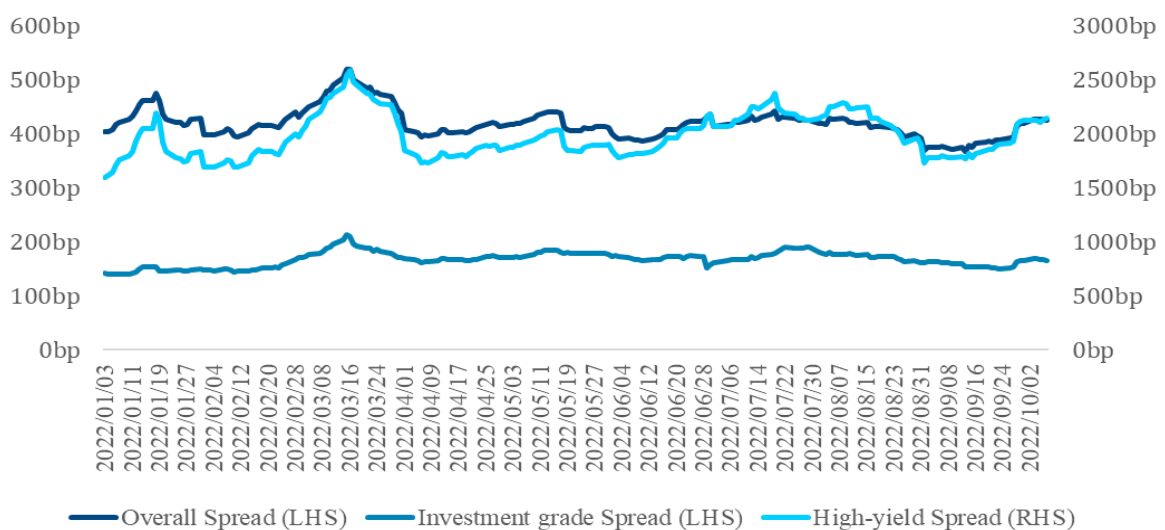
Figure 5: YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of October 7, the yield spread of Chinese dollar bonds increased by 4.6bp to 423.8bp from last Friday. The yield spread of investment-grade bonds decreased by 0.2bp to 164.2bp while that of high-yield bonds increased by 14.2bp to 2138.7bp.

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



Sources: Bloomberg, CCX research

According to Bloomberg data, the 10 bonds with the largest yield increase from October 3 to October 7 are shown in the table below. Among them, the yield of an offshore bond of CIFI Holdings (Group) Co Ltd changed the most.

Table 1: Chinese offshore bonds with largest yield increases (20221003-20221007)

| Security Name       | Obligor                      | Last Price (USD) | Years to Maturity | Yield to Convention | Yield Change |
|---------------------|------------------------------|------------------|-------------------|---------------------|--------------|
| CIFIHG 5 ½ 01/23/23 | CIFI Holdings (Group) Co Ltd | 23.7             | 0.3               | 1,141.1             | 73.3M        |

|                      |                                |      |                |         |       |
|----------------------|--------------------------------|------|----------------|---------|-------|
| TPHL 6.6 03/02/23    | Times China Holdings Ltd       | 25.7 | 0.4            | 1,053.4 | 17.0M |
| AGILE 6 ¾ PERP       | Agile Group Holdings Ltd       | 20.4 | Perpetual Bond | 994.3   | 7.1M  |
| CIFIHG 6.55 03/28/24 | CIFI Holdings (Group) Co Ltd   | 16.6 | 1.5            | 195.5   | 6.2M  |
| GRNLGR 6 ¾ 12/16/22  | Greenland Holdings Corp Ltd    | 52.5 | 0.2            | 534.3   | 5.7M  |
| CHINSC 7 ¾ 04/19/23  | China SCE Group Holdings Ltd   | 31.1 | 0.5            | 458.3   | 4.6M  |
| GRNLGR 5.6 11/13/22  | Greenland Holdings Corp Ltd    | 84.2 | 0.1            | 242.1   | 4.4M  |
| COGARD 4 ¾ 01/17/23  | Country Garden Holdings Co Ltd | 77.5 | 0.3            | 117.2   | 3.5M  |
| CIFIHG 6.45 11/07/24 | CIFI Holdings (Group) Co Ltd   | 14.9 | 2.1            | 144.2   | 3.4M  |
| TPHL 6 ¾ 07/16/23    | Times China Holdings Ltd       | 20.3 | 0.8            | 413.4   | 3.3M  |

Sources: Bloomberg, CCX research

**Rating Action: CCXAP has assigned a first-time BBB<sub>g</sub>- long-term credit rating to JPCI**

On October 7, China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB<sub>g</sub>- long-term credit rating to Jiangsu Pingling Construction Investment Group Co., Ltd. (“JPCI”), with stable outlook.

**Table 2: Rating Action of CCXAP (20221003-20221007)**

| Date      | Entity   | Issuer Rating      | Rating Rationale   |
|-----------|--|--------------------|--|
| 2022/10/7 | Jiangsu Pingling Construction Investment Group Co., Ltd. | BBB <sub>g</sub> - | The credit rating is underpinned by the Company’s (1) large investment portfolio that is aligned with the government policies and economic focus in Liyang City; and (2) relatively low debt leverage. The rating also reflects high likelihood of government support from the Liyang government when needed, which is based on the Company’s (1) direct and full ownership by the Liyang government; (2) high strategic position and clean functional role in Liyang City; and (3) solid track record of receiving ongoing government support, including subsidies, capital injections and asset transfers. However, the rating is constrained by the Company’s (1) high credit contagion risks in financial services; (2) unproven investment track record with relatively low asset liquidity; and (3) modest access to funding channels. |

Sources: CCX research

From October 3 to October 7, rating agencies took negative action on 2 Chinese issuers.

**Table 3: Credit rating changes of cross-border bond market (20221003-20221007)**

|                              | Entity                       | Sector      | Current Rating |         |           | Previous Rating |         |           | Rating Agency | Reason of Change  |
|------------------------------|------------------------------|-------------|----------------|---------|-----------|-----------------|---------|-----------|---------------|---|
|                              |                              |             | Entity Rating  | Outlook | Date      | Entity Rating   | Outlook | Date      |               |   |
| <b>International Rating:</b> |                              |             |                |         |           |                 |         |           |               |   |
| Downgrade                    | Road King Infrastructure Ltd | Real Estate | Ba3            | NEG     | 2022/10/3 | Ba3             | STABLE  | 2022/4/13 | Moody's       | Weaker-than-expected contracted sales amid difficult operating conditions |
|                              | CIFI Holdings (Group) Co Ltd | Real Estate | B3             | NEG     | 2022/10/6 | B1              | NEG     | 2022/9/15 | Moody's       | Elevated refinancing risks over the next 6-12 months                      |

Sources: Bloomberg, Wind, CCX research

**Credit event: Yida China and Hongkun Weiye defaulted on USD bonds and Sunkwan Weiye proposed consent solicitation**

On October 3, Yida China Holdings Ltd (“Yida China”) announced that the Company has not made payment of USD345 million on September 30. The non-payment may lead to holders demanding for acceleration of repayment under the senior notes.

On October 5, Sunkwan Properties Group Ltd (“Sunkwan Properties”) announced that the Company was conducting the Consent Solicitation to amend the provision in the indenture that requires the

Company to redeem the notes in the principal amount equal to USD12,564,666 and the accrued and unpaid interest on October 18, 2022 to postpone the date for such redemption, in accordance with the terms and subject to the conditions set forth in the Consent Solicitation Statement.

On October 6, Beijing Hongkun Weiye Real Estate Development Co Ltd (“Hongkun Weiye”) issued an announcement stating that it was involved in BJHKWY 14.75 10/08/22 (ISIN: XS2059534342). Pursuant to the terms of the notes, all outstanding principal amount on the notes together with the accrued and unpaid interest thereon are due and payable on the maturity date of October 8, 2022. Payment of the payable Amount are not expected to be made on the due date.



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