

2023 Issue 12

From March 27 to March 31

Chinese offshore bond new issuance was weak; return on Chinese USD bond increased

Headline: China's official manufacturing PMI reached 51.9 in March, US core PCE hit 1.5-year low in February

China's official manufacturing PMI reached 51.9% in March. US PCE price index rose by 5% in February, the lowest since September 2021

Exchange Rate: RMB depreciated, USD index decreased slightly

This week, RMB depreciated. As of March 31, the RMB/USD middle rate closed at 6.8717, increasing by 343bp from last Friday. The USD index slightly decreased by 0.6% to 102.506 from last Friday.

Interest Rate: Chinese Government Bond yields decreased; US Treasury yields increased

This week, the China Government Bond yields decreased. US Treasury yields rose as US core PCE fell behind expectations, hitting the lowest in the past one and half years.

Chinese Offshore Bond Market

Primary Market: Chinese offshore bond new issuance was weak

From March 27 to March 31, there were 13 new issues with total issued volume of USD1.2 billion, decreasing by 14.83% from last week. Among them, Chengtuo companies were the main issuers, who issued bonds with a total size of about USD956 million.

Secondary Market: Return on Chinese USD bond increased

As of March 31, the YTD return on Chinese USD corporate bond index increased by 17bp to 2.69% from last Friday, of which the return on investment-grade bonds increased by 4bp to 2.65%, while the return on high-yield bonds increased by 90bp to 2.91%.

Rating Action: CCXAP assigns long-term credit ratings to three entities

CCXAP assigned long-term credit ratings to QFXD, NECD and QDRH.



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Headline: China's official manufacturing PMI reached 51.9 in March, US core PCE hit 1.5-year low in February

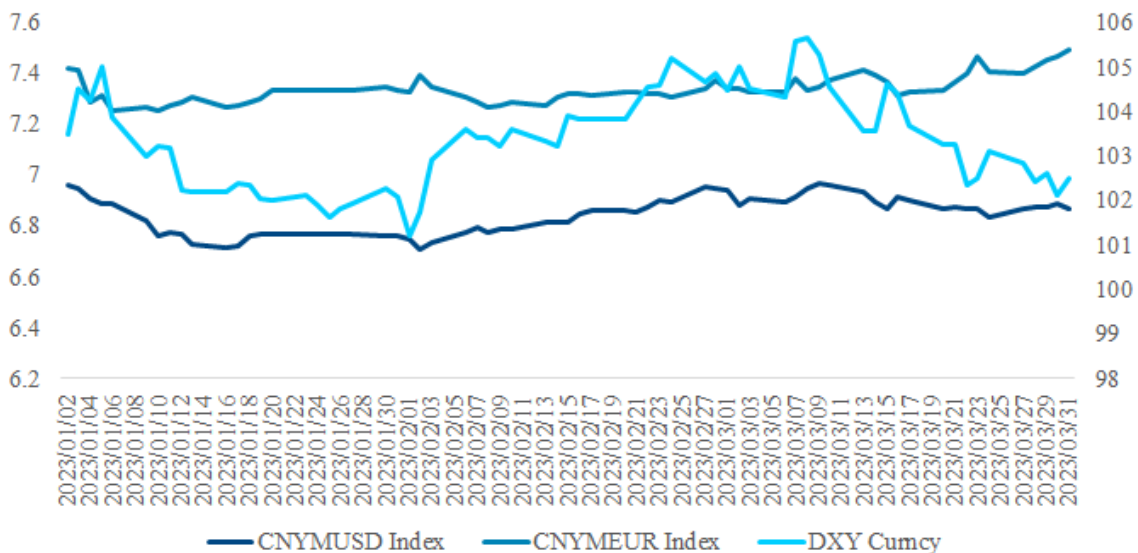
On March 31, the National Bureau of Statistics released data, official manufacturing PMI reached 51.9% in March, 0.7% lower than previous month, second highest point in the past two years. The non-manufacturing PMI was 58.2%, an increase of 1.9 percentage points from the previous month, highest point in recent years. Comprehensive PMI output index reached 57.0%, 0.6 percentage points higher than the previous month. The three major indexes have been in the expansion range for three consecutive months, and China's economic development is still recovering.

On March 31, the US Department of Commerce announced the PCE price index for February. The PCE price index in US rose by 5% in February, lower than the expected value of 5.1% and the previous value of 5.4%, the lowest since September 2021. After excluding volatile food and energy prices, core PCE price index rose by 4.6% in February, not only lower than expected and previous value of 4.7%, but also lowest value since October 2021. The core PCE price index rose by 0.3% in February, with expected value of 0.4% and previous value of 0.6%.

Exchange Rate: RMB depreciated, USD index decreased slightly

This week, RMB depreciated. As of March 31, the RMB/USD middle rate closed at 6.8717, increasing by 343bp from last Friday; the RMB/EUR middle rate closed at 7.4945, increasing by 876bp from last Friday. The USD index slightly decreased by 0.6% to 102.506 from last Friday.

Figure 1: RMB exchange rate

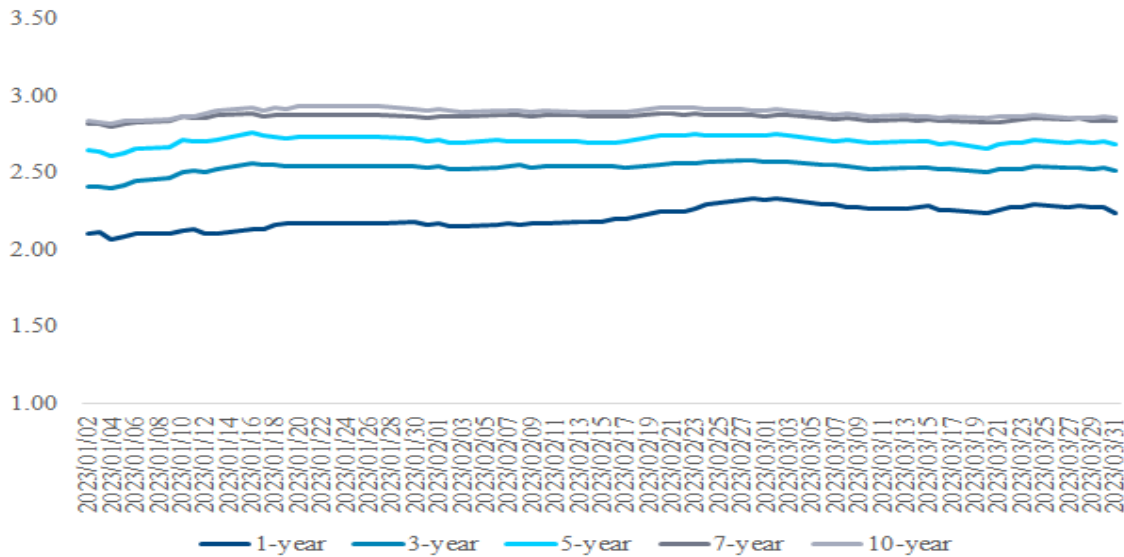


Sources: CCXAP research

Interest Rate: Chinese Government Bond yields decreased; US Treasury yields increased

This week, the China Government Bond yields decreased. As of March 31, the 1-year, 3-years, 5-years, 7-years and 10-years China Government Bond yields were 2.2328%, 2.5089%, 2.6837%, 2.8304% and 2.8528% respectively, decreasing by 6bp, 3bp, 2bp, 2bp and 1bp from last Friday.

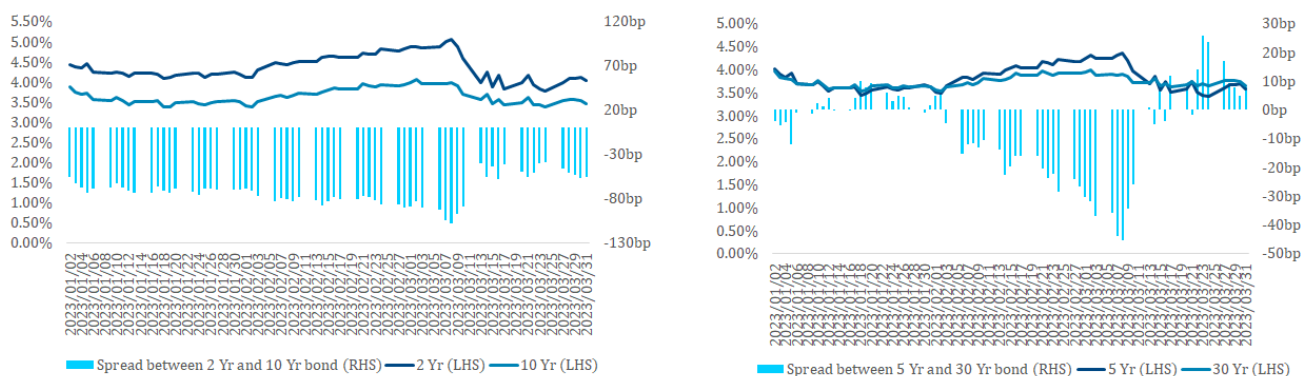
Figure 2: China Government Bond yields



Sources: CCXAP research

US Treasury yields rose as US core PCE fell behind expectations, hitting the lowest in the past one and half years. As of March 31, 2-year, 5-year, 10-year and 30-year US Treasury yields were 4.0253%, 3.5733%, 3.4676% and 3.6499%, increasing by 26bp, 17bp, 9bp and 1bp from last Friday, respectively. In terms of US Treasury bond spreads, the spread between 2-year and 10-year Treasury bonds widened by 17bp to -55.8bp from last Friday, and the spread between 5-year and 30-year Treasury bonds narrowed by 16bp to 7.66bp from last Friday.

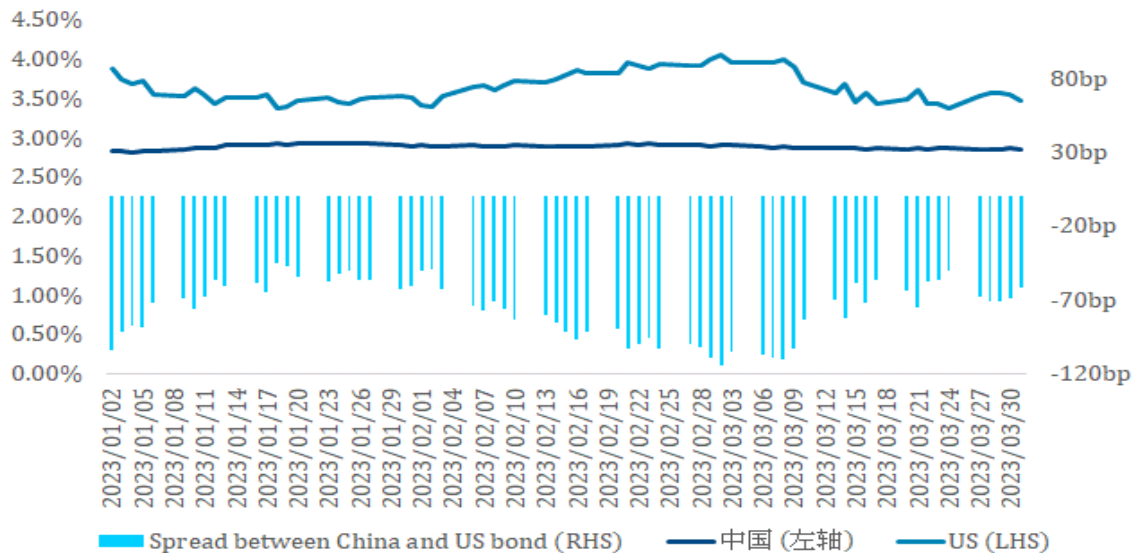
Figure 3: US Treasury yields and yield spreads



Sources: CCXAP research

As of March 31, the yield spread between China and US 10-year note was -61.5bp, widening by 10.6bp from last Friday and narrowing by 42.5bp from the beginning of the year.

Figure 4: Yield spread between China and US 10-year note



Sources: CCXAP research

Chinese Offshore Bond Market

Primary Market: Chinese offshore bond issuance was weak

From March 27 to March 31, there were 13 new issues with total issued volume of USD1.2 billion, decreasing by 14.83% from last week. Among them, Chengtou companies were the main issuers, who issued bonds with a total size of about USD956 million.

Table 1: New issuance of Chinese offshore bonds (20230327-20230331)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor (year)	Industry	Issuer Rating (Moody's/S&P / Fitch)	Issue Rating (Moody's/S&P / Fitch)
2023/3/27	Gaomi Huarong Industrial Development Co Ltd	USD	10.1	7.5	2026/3/29	3	Chengtou	Baa3/-/BBB-	-/-/-
2023/3/27	Huzhou Wuxing Industrial Investment Development Group Cp Ltd	EUR	97	6.2	2024/3/27	1	Chengtou	-/-/-	-/-/-
2023/3/28	AVIC International Leasing Co Ltd	CNY	1100	3.75	2026/3/31	3	Financials	Baa1/-/A-	-/-/-
2023/3/28	Chengdu Longteng Water Conservancy Development Co Ltd	CNY	529.7	5	2026/3/31	3	Chengtou	-/-/-	-/-/-
2023/3/29	Chengdu Aerotropolis City Development Group Co Ltd	CNY	1200	4.5	2026/4/3	3	Chengtou	-/-/BB+	-/-/-
2023/3/29	Ganzhou Nankang Development Investment Holding Group Co Ltd	CNY	430	5	2026/3/31	3	Chengtou	-/-/-	-/-/-
2023/3/30	Chengdu Aerotropolis City Development Group Co Ltd	USD	175	6.9	2026/4/11	3	Chengtou	-/-/BB+	-/-/-
2023/3/30	Chuzhou Economic And Technological Development General Corp	CNY	300	4.48	2026/4/4	3	Chengtou	-/-/-	-/-/-
2023/3/30	Jiangsu Fuxuan Industrial Co Ltd	EUR	56	4.6	2026/4/6	3	Chengtou	-/-/-	-/-/-

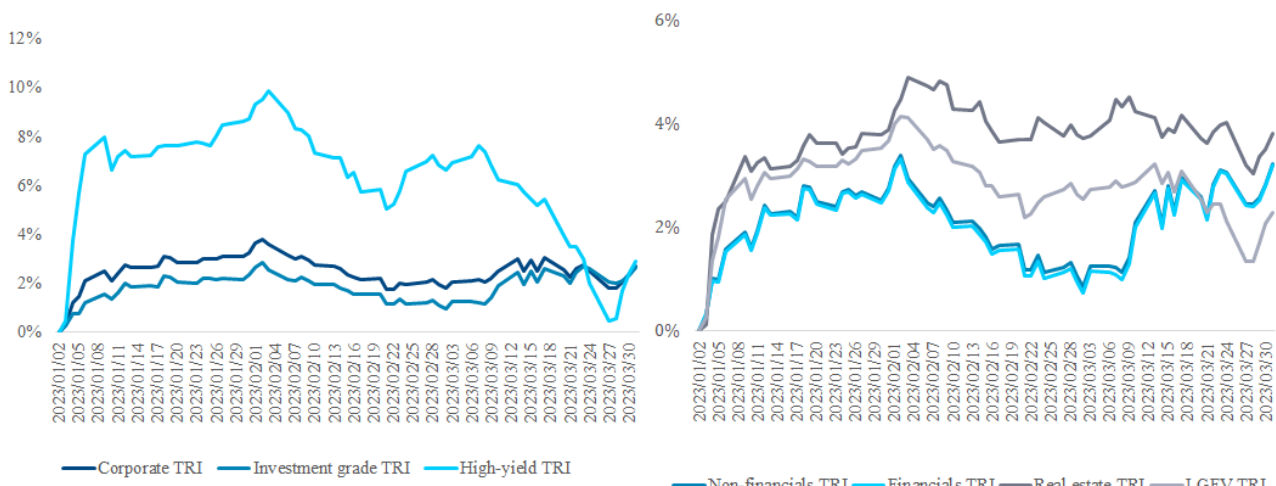
2023/3/30	Liling Lujiang Investment Holding Group Co Ltd	CNY	320	5	2026/4/4	3	Chengtou	-/-	-/-
2023/3/30	Sichuan Liquor Group Co Ltd	CNY	405	3.8	2026/4/6	3	Consumer Staples	-/-	-/-
2023/3/30	Tianjin Teda Co Ltd	USD	50	6.5	2024/4/2	364D	Materials	-/-	-/-
2023/3/31	Guangzhou Development District Holding Group Co Ltd	CNY	1370	3.98	2026/4/6	3	Chengtou	Baa1-/BBB+	-/-

Sources: CCXAP research

Secondary Market: Return on Chinese USD bond increased

As of March 31, the YTD return¹ on Chinese USD corporate bond index increased by 17bp to 2.69% from last Friday, of which the return on investment-grade bonds increased by 4bp to 2.65%, while the return on high-yield bonds increased by 90bp to 2.91%. In terms of sector indices, the return on real estate bonds decreased by 20bp from last Friday to 3.81%; the return on Chengtou, financial and non-financial bonds were 2.29%, 3.18% and 3.21%, respectively, increasing by 18bp, 16bp and 15bp from last Friday, respectively.

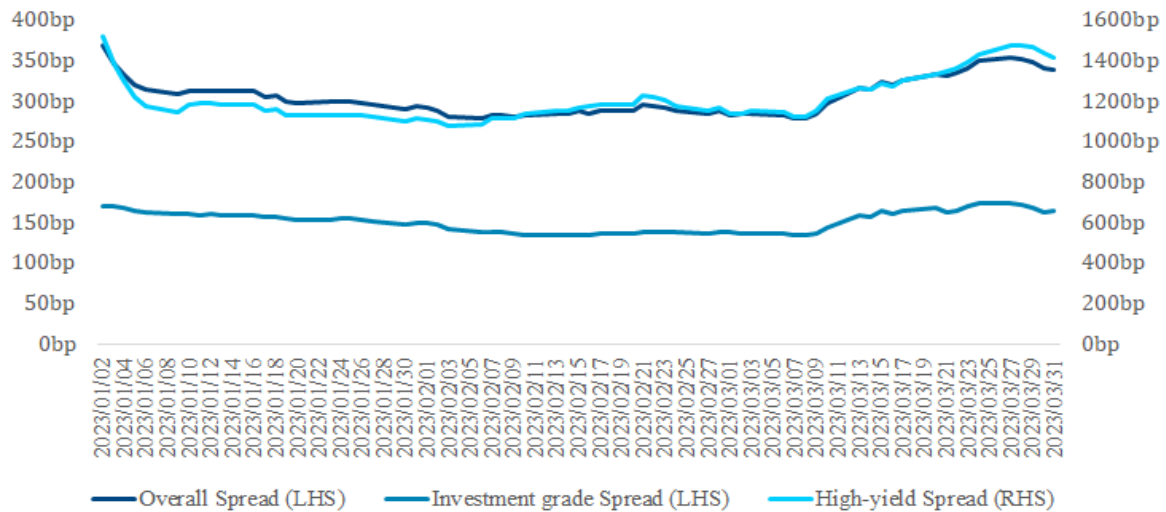
Figure 5: YTD return on Markit IBoxx Chinese USD bond index



Sources: CCXAP research

As of March 31, the yield spread of Chinese dollar bonds decreased by 11.9bp to 337.09bp from last Friday. The yield spread of investment-grade bonds decreased by 10.6bp to 163.17 bp, and the spread of high-yield bonds decreased by 21.4bp to 1408.14bp.

¹ Year-to-date return measures the return since January 3, 2023

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


Sources: CCXAP research

The 10 bonds with the largest yield increase from March 27 to March 31 are shown in the table below. Among them, Sino-Ocean Capital Holding Ltd changed the most.

Table 2: Chinese offshore bonds with largest yield increases (20230327-20230331)

Security Name	Obligor	Last Price (USD)	Years to Maturity	Yield to Convention	Yield Change
SINOCL 6 ¼ 06/22/23	Sino-Ocean Capital Holding Ltd	36.81	0.219	772.135	6148
KWGPRO 7 ½ 08/30/24	KWG Group Holdings Limited	34.834	1.410	169.368	2203.5
CHINSC 7 ¼ 04/19/23	China SCE Group Holdings Limited	97.045	0.044	77.883	2029.9
GRNLGR 6 ¾ 09/26/25	Greenland Holding Group Co Ltd	34.675	2.483	65.428	1628.1
KWGPRO 7.4 03/05/24	KWG Group Holdings Limited	34.071	0.923	175.957	1589.3
KWGPRO 6 01/14/24	KWG Group Holdings Limited	48.039	0.783	183.052	1436.1
AGILE 8 ¾ PERP	Agile Group Holdings Limited	33.561	PERP	271.494	1332.4
GRNLGR 5 ½ 07/03/26	Greenland Holding Group Co Ltd	34.174	3.250	49.52	1141
GRNLGR 6 ¾ 04/22/25	Greenland Holding Group Co Ltd	40.54	2.053	65.687	934.7
AGILE 7 ¾ PERP	Agile Group Holdings Limited	34.75	PERP	114.713	743.5

Sources: CCXAP research

Rating Action: CCXAP assigns long-term credit ratings to three entities

On March 27, China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g- to Qufu Xingda Investment Development Co., Ltd. (“QFXD”), with stable outlook.

On March 27, CCXAP has assigned a first-time long-term credit rating of BBB_g- to Zhejiang Huzhou Nanxun Economic Construction Development Co., Ltd. (“NECD”), with stable outlook.

On March 31, CCXAP has assigned a first-time long-term credit rating of BBB_g+ to Qingdao Ronghui Fortune Investment Holding Group Co., Ltd. (“QDRH”), with stable outlook.

Table 3: Credit rating from CCXAP (20230327-20230331)

Rating Date	Obligor	Entity Rating	Debt Rating	Rating Rational
2023/03/27	QFXD	BBB _g -	-	The credit rating is underpinned by the Company’s (1) full ownership and ultimate control by Qufu City Government; (2) sole entity undertaking public infrastructure construction projects within Qufu City; and (3) solid track record of government support. However, the Company’s rating is constrained by (1) higher business risk in property segment; and (2) ongoing debt growth with certain capital expenditure pressure; and (3) concentrated financing channels with limited bank facilities.
2023/03/27	NECD	BBB _g -	-	The credit rating is underpinned by the Company’s (1) important role in infrastructure construction in Nanxun Economic and Technological Development Zone; (2) good access to diversified funding channels; and (3) good track record of receiving ongoing government payments. However, the rating is constrained by the Company’s increasing debt burden and moderate asset liquidity.
2023/03/31	QDRH	BBB _g +	-	The credit rating is underpinned by the Company’s (1) key role in the industrial and urban development in Shibe District; (2) good track record of government support such as receiving shantytown assets and equity transfer; and (3) good access to diversified funding sources. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; and (2) increasing short-term debt burden.

Sources: CCXAP research

From March 27 to March 31, international rating agencies took 2 negative actions on Chinese issuers.

Table 4: Credit rating changes of cross-border bond market (20230327-20230331)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Downgrade	Sino-Ocean Group Holding Limited	Real Estate	B+	NEG	2023/3/31	BB	NEG	2022/11/14	Fitch	Reduction in financial flexibility
	AAC Technologies Holdings Inc	Technology	Baa3	STABLE	2023/3/31	Baa2	NEG	2022/5/17	Moody's	Its profitability and leverage are not likely to improve over the next 12-18 months

Sources: CCXAP research

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