

### 2023 Issue 24 From Jun 19 to Jun 23

#### Chinese offshore bond new issuance was reduced; return on Chinese USD bond decreased

**Headline: China's central bank cut LPR by 10 basis points; Powell emphasized at the hearing that the rate hike was only "suspended" in June**

The People's Bank of China authorized the National Interbank Funding Center to announce that on June 20, 2023, 1-year LPR was 3.55%, 10 basis points lower than the previous value. At the congressional hearing of the House Financial Services Committee, Federal Reserve Chairman Powell emphasized that the Fed's decision last week was only a temporary move and did not mean that it had completed raising interest rates.

#### Exchange Rate: RMB continued to depreciate, USD index increased

This week, RMB continued to depreciate. As of June 23, the RMB/USD middle rate closed at 7.1795, increasing by 506bp from last Friday. The USD index increased by 0.6% to 102.903 from last Friday.

#### Interest Rate: Chinese Government Bond yield increased; US Treasury yields were mixed

This week, the China Government Bond yields increased. Influenced by Powell's speech at the hearing, US Treasury yields were mixed.

#### Chinese Offshore Bond Market

##### Primary Market: Chinese offshore bond new issuance was reduced

From June 19 to June 23, due to the public holiday in China, there were 8 new issues with total issued volume of USD710 million, decreasing by 69% from last week. Among them, Yiwu State-owned Capital Operation Co., Ltd. is the largest issuer with a total issued amount of USD400 million.

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

As of June 23, the YTD return on Chinese USD corporate bond index decreased by 30bp to 2.08% from last Friday, of which the return on investment-grade bonds decreased by 0.2bp to 3.41%, while the return on high-yield bonds decreased by 211bp to -6.15%.

##### Rating Action: CCXAP assigns long-term credit ratings to 4 entities

CCXAP assigns long-term credit rating to 4 entities, including SDZF, TCIG, CXRD and ZCAO.

##### Credit Event: Central China defaulted on offshore bond



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## Headline: China's central bank cut LPR by 10 basis points; Powell emphasized at the hearing that the rate hike was only "suspended" in June

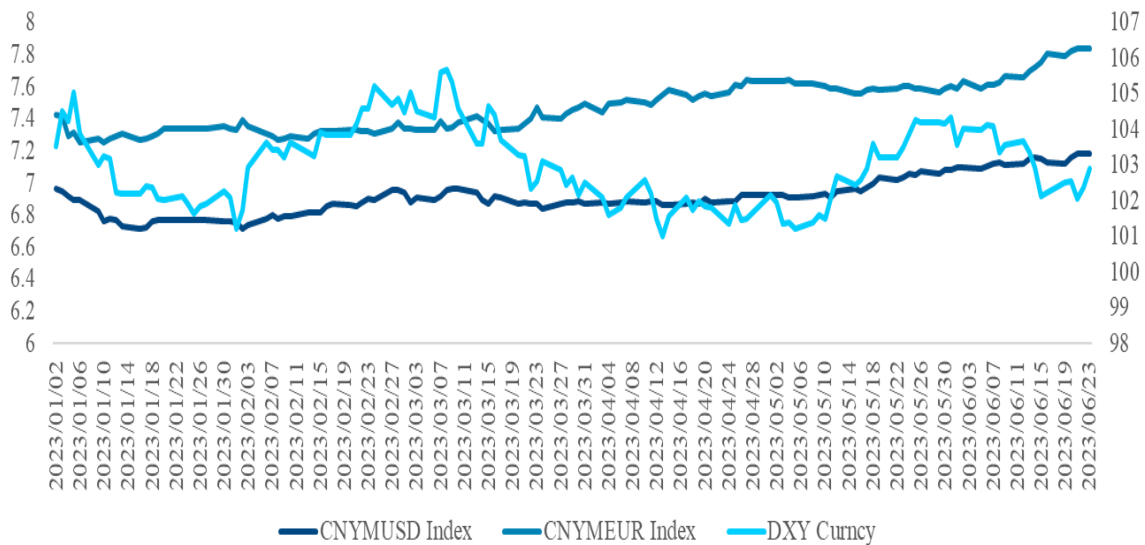
On June 20, the People's Bank of China authorized the National Interbank Funding Center to announce that on June 20, 2023, 1-year LPR was 3.55%, 10 basis points lower than the previous value; 5-year or above LPR was 4.2%, down 10 basis points from the previous value. This was the first decline in LPR since last August.

On June 21, at the Congressional hearing of the House of Representatives Financial Services Committee, Federal Reserve Chairman Powell emphasized that the Fed's decision last week was only a temporary move and did not mean that the rate hike had been completed. Inflation was still far above the Fed's target of 2%. There was still a long way to go to contain the inflation back to the 2% level, and the vast majority of FOMC members supported further interest rate hikes this year.

## Exchange Rate: RMB continued to depreciate, USD index increased

This week, RMB continued to depreciate. As of June 23, the RMB/USD middle rate closed at 7.1795, increasing by 506bp from last Friday; the RMB/EUR middle rate closed at 7.8396, increasing by 354bp from last Friday. The USD index increased by 0.6% to 102.093 from last Friday.

Figure 1: RMB exchange rate

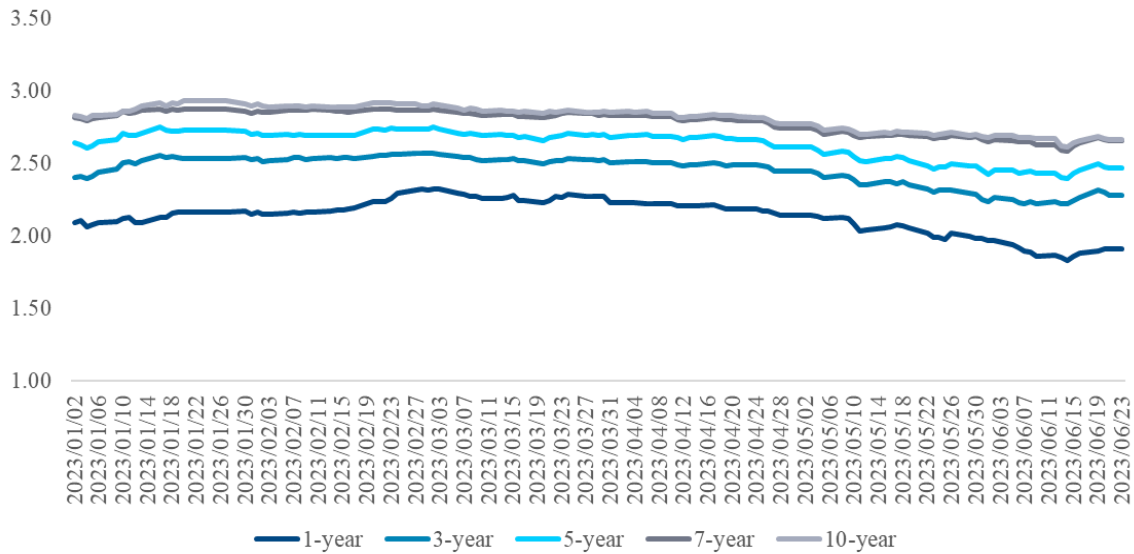


Sources: CCXAP research

## Interest Rate: Chinese Government Bond yield increased, US Treasury yields were mixed

This week, the China Government Bond yields increased. As of June 23, the 1-year, 3-year, 5-year, 7-year and 10-year China Government Bond yields were 1.9161%, 2.2799%, 2.4744%, 2.6613% and 2.6701% respectively, increasing by 3.4bp, 1.1bp, 2.0bp, 1.7bp and 0.8bp from last Friday.

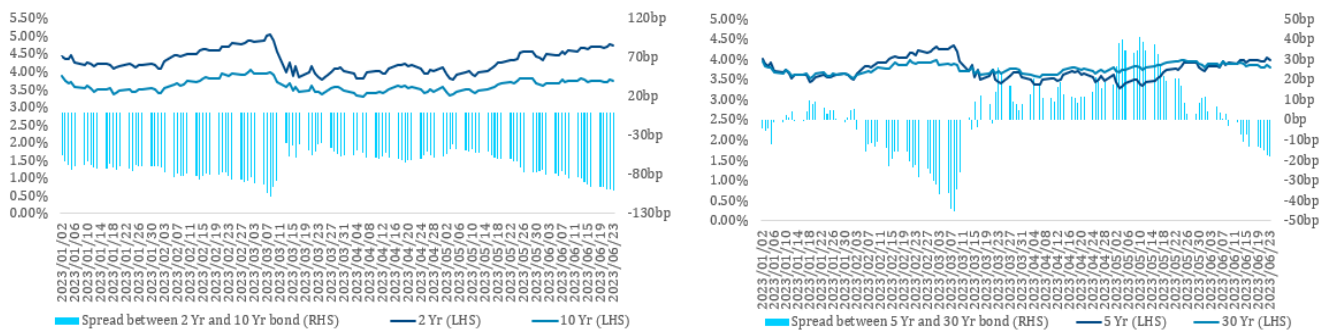
Figure 2: China Government Bond yields



Sources: CCXAP research

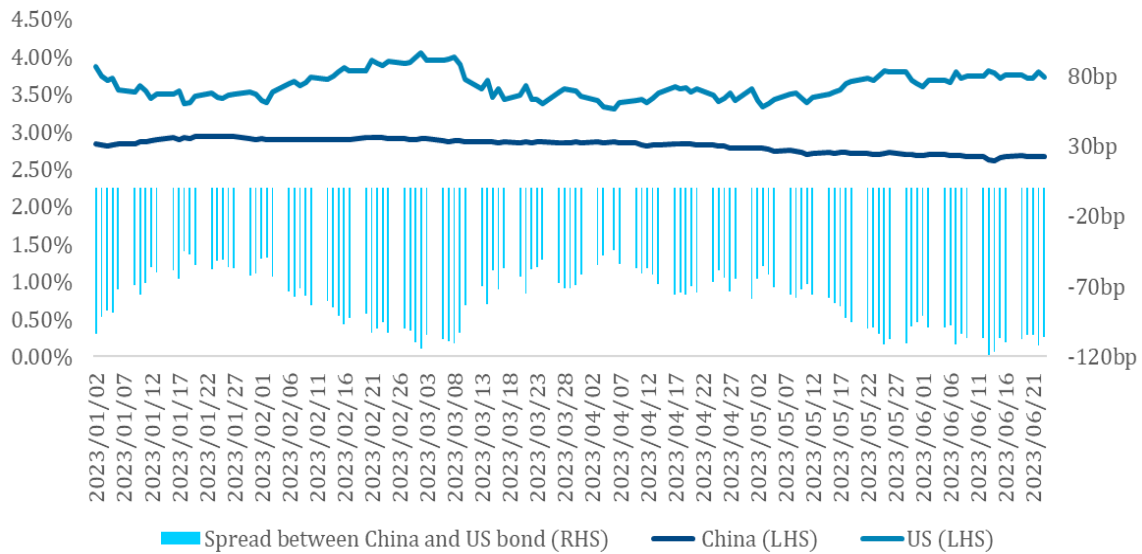
Influenced by Powell's speech at the hearing, US Treasury yields were mixed. As of June 23, 2-year, 5-year and Treasury yields were 4.7412 % and 3.991 % respectively, increasing by 2.7bp and 0.8bp from last Friday, while 10-year and 30-year US Treasury yields were 3.7347% and 3.8115%, decreasing by 2.7bp and 4.1bp respectively. In terms of US Treasury bond spreads, the spread between 2-year and 10-year Treasury bonds widened by 5bp to -100.7bp from last Friday, and the spread between 5-year and 30-year Treasury bonds narrowed by 5bp to -18bp from last Friday.

Figure 3: US Treasury yields and yield spreads



Sources: CCXAP research

As of June 21, the yield spread between China and US 10-year note was -106.5bp, decreasing by 3.4bp from last Friday and widening by 2.5bp from the beginning of the year.

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


Sources: CCXAP research

## Primary Market: Chinese offshore bond new issuance decreased

From June 19 to June 23, due to the public holiday in China, there were 8 new issues with total issued volume of USD710 million, decreasing by 69% from last Friday. Yiwu State-owned Capital Operation Co., Ltd. is the largest issuer with a total issued amount of USD400 million.

**Table 1: New issuance of Chinese offshore bonds (20230619-20230623)**

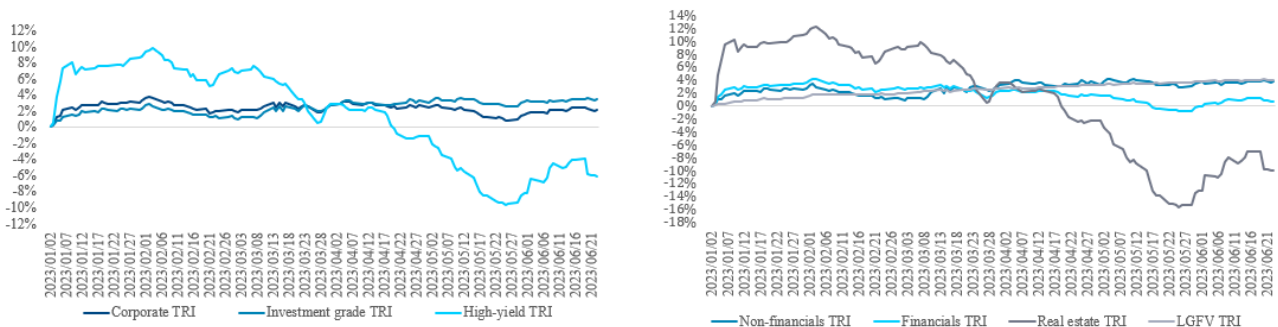
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2023/6/19	CMB Financial Leasing Co Ltd	USD	50	SOFR+70	2023/12/27	183D	Financials	A3/BBB+/-	-/-/-
2023/6/19	China Securities International Finance Holding Co Ltd	USD	0.6	5.5	2023/12/26	183D	Financials	-/-/-	-/-/-
2023/6/20	Bank of Communications Co Ltd/Hong Kong	USD	150	SOFR+65	2026/6/29	3	Financials	A2/A-/-	-
2023/6/20	China Securities International Finance Holding Co Ltd	HKD	10	5	2024/6/26	1	Financials	-/-/-	-/-/-
2023/6/20	Huatai International Financial Holdings Co Ltd	USD	11	0	2023/11/27	154D	Financials	-/BBB+/-	-/-/-
2023/6/20	Yiwu State-owned Capital Operation Co Ltd	USD	400	5.7	2026/6/27	3	Chengtou	Baa3/-/BBB	Baa3/-/BBB
2023/6/21	Goho Asset Management Co Ltd	USD	87.6	8.5	2024/6/25	364D	Financials	-/-/-	-/-/-
2023/6/21	Huatai International Financial Holdings Co Ltd	USD	10	5.5	2023/9/27	92D	Financials	-/BBB+/-	-/-/-

Sources: CCXAP research

## Secondary Market: Return on Chinese USD bond decreased

As of June 23, the YTD return<sup>1</sup> on Chinese USD corporate bond index decreased by 30bp to 2.08% from last Friday, of which the return on investment-grade bonds decreased by 0.2bp to 3.41%, while the return on high-yield bonds decreased by 211bp to -6.15%. In terms of sector indices, the return on non-financials, financials, real estate and Chengtou bonds were 3.75%, 0.76% and -10.05%, respectively, decreasing by 1bp, 51bp and 302bp from last Friday, while return on Chengtou bond increased by 1bp to 4.01%

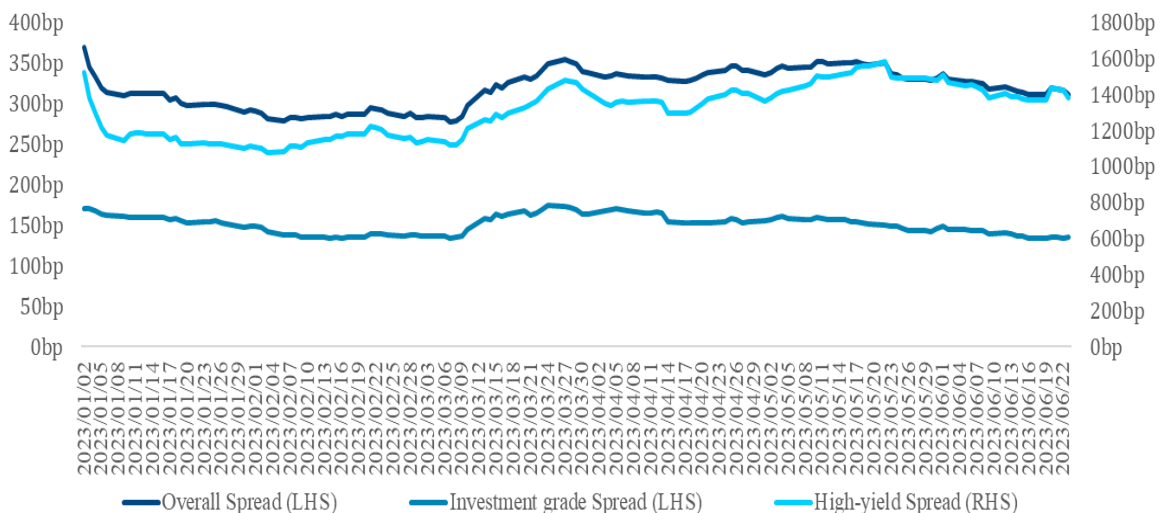
Figure 5: YTD return on Markit IBoxx Chinese USD bond index



Sources: CCXAP research

As of June 23, the yield spread of Chinese dollar bonds decreased by 1.1bp to 310.08bp from last Friday. The yield spread of investment-grade bonds increased slightly by 0.8bp to 134.59bp, and the spread of high-yield bonds increased by 9.0bp to 1378.39bp.

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



Sources: CCXAP research

<sup>1</sup> Year-to-date return measures the return since January 3, 2023

The 10 bonds with the largest yield increase from June 19 to June 23 are shown in the table below. Among them, Skyfame International Holdings Ltd changed the most.

**Table 2: Chinese offshore bonds with largest yield increases (20230619-20230623)**

Security Name	Obligor	Last Price (USD)	Years to Maturity	Yield to Convention	Yield Change
SKYFAM 13 12/16/23	Skyfame International Holdings Ltd	10.508	0.47	2175.13	6176.6
FOSUNI 6 ¾ 07/02/23	Fosun International Holdings Ltd	99.878	0.14	41.61	4384.2
DALWAN 6 7/8 07/23/23	Wanda Properties International Co. Limited	86.662	0.07	241.98	3668.4
AGILE 8 ¾ PERP	Agile Group Holdings Ltd	14.472	PERP	1471.42	3509.2
THSCPA 7.95 05/13/24	Tuspark Forward Ltd	19.939	0.88	347.69	2740.1
FWDINS 6.675 PERP	FWD Ltd	91.073	PERP	122.45	1362.9
AGILE 7 7/8 PERP	Agile Group Holdings Ltd	14.89	PERP	327.48	1139.1
CHGRAU 9.109 PERP	Baoxin Auto Finance I Ltd	51.03	PERP	305.82	1036.8
AGILE 5 ½ 04/21/25	Agile Group Holdings Ltd	31.766	1.81	87.83	681.3
OCTOWN 4 ½ PERP	Overseas Chinese Town Enterprise Co Ltd	99.815	PERP	14.28	618.9

Sources: CCXAP research

## Rating Action: CCXAP assigned long-term credit ratings to 4 entities

On June 19, China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub><sup>+</sup> to Zibo City Asset Operation Group Co., Ltd. (“ZCAO” or the “Company”), with stable outlook.

On June 20, CCXAP has assigned first time long-term credit rating of BBB<sub>g</sub><sup>-</sup> to Chengdu Xingdong Rural Development Group Co., Ltd. (“CXRD” or the “Company”), with stable outlook.

On June 21, CCXAP has assigned first time long-term credit rating of A<sub>g</sub><sup>-</sup> to Tongxiang City Construction Investment Group Co., Ltd. (“TCIG” or the “Company”), with stable outlook.

On June 23, CCXAP has assigned first-time long-term credit rating of BBB<sub>g</sub> to Shandong Zhengfang Holding Group Co., Ltd. (“SDZF” or the “Company”), with stable outlook.

**Table 3: Credit rating from CCXAP (20230619-20230623)**

Rating Date	Obligor	Entity Rating	Debt Rating	Rating Rationale
2023/06/19	ZCAO	BBB <sub>g</sub> <sup>+</sup>	-	The credit rating is underpinned by the company’s (1) high strategic importance as the urban developer and operator in Zibo City, with sufficient project reserves; (2) solid track record of receiving government payments; and (3) diversified funding sources. However, the Company’s rating is constrained by (1) medium exposure to commercial activities, with large capital expenditure needs; and (2) rapid debt growth and moderate asset liquidity
2023/06/20	CXRD	BBB <sub>g</sub> <sup>-</sup>	-	The credit rating is underpinned by the company’s (1) strategic role as the sole agricultural infrastructure constructor and service provider in Longquanyi District; (2) good sustainability of infrastructure construction business; and (3) track record of receiving government payments. However, the rating is constrained by the Company’s (1) moderate exposure to commercial activities; (2) high debt leverage and moderate assets liquidity; and (3) large reliance on non-standard financing.
2023/06/21	TCIG	A <sub>g</sub> <sup>-</sup>	A <sub>g</sub> <sup>-</sup>	The credit rating is underpinned by the company’s (1) most important position in the development of Tongxiang City; (2) high sustainability of public policy businesses; (3) good track record of receiving government payments; and (4) good access to multiple financing channels. However, the Company’s rating is

				constrained by its (1) medium exposure to commercial activities with manageable commercial risks; and (2) fast debt growth and moderate asset liquidity.
2023/06/23	SDZF	BBB <sub>g</sub>	-	The credit rating is underpinned by the company's (1) important role in the infrastructure construction of Zoucheng City, especially the Zoucheng Economic Development Zone ("Zoucheng EDZ"); (2) increasing importance in the provision of local public utility services; and (3) solid track record of government support. However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) increasing debt burden with large investment needs; and (3) large share of non-standard financing and unstable financing structure.

Sources: CCXAP research

From June 19 to June 23, rating agencies took 4 positive rating actions on Chinese issuers.

**Table 4: Credit rating changes of cross-border bond market (20230619-20230623)**

Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change	
		Entity Rating	Outlook	Date	Entity Rating	Outlook	Date			
<b>International Rating:</b>										
upgrade	Taizhou Huaxin Pharmaceutical Investment Co., Ltd.	Healthcare	BBB <sub>g</sub>	STABLE	2023/06/19	BBB <sub>g</sub> -	STABLE	2022/09/30	CCXI	Taizhou Medical Zone's enhanced economic and fiscal position in Taizhou City
	Jiaying Wenchuan City Investment Development Group Co., Ltd.	Chengtou	Baa2	STABLE	2023/06/20	Baa3	POS	2022/12/13	Moody's	Enhanced strategic importance in the city leads to a higher support willingness by the Jiaying government
	ENN Natural Gas Co., Ltd.	Utilities	BBB-	POS	2023/06/21	BBB-	STABLE	2022/06/21	Fitch	Strengthened financial profiles and a sustained deleveraging trend
	ENN Energy Holdings Limited	Utilities	BBB+	POS	2023/06/21	BBB+	STABLE	2022/06/21	Fitch	Strengthened financial profiles and a sustained deleveraging trend

Sources: CCXAP research

### Credit Event: Central China defaulted on offshore bond

On June 23, Henan Province's leading real estate company, Central China Real Estate Limited ("Central China") announced that the company is unable to pay the interest of the 7.75% USD300 million senior notes due in 2024 before the end of the grace period, and the company will suspend the payment to all foreign creditors, constituting an event of default.

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