

2023 Issue 32 From August 14 to August 18

Chinese offshore bond new issuance decreased; Return on Chinese USD bond decreased

Headline: China's MLF and reverse repurchase rates were lowered by 15bp and 10bp respectively; Fed warned high inflation risk

On August 15, the People's Bank of China conducted a one-year MLF operation of RMB401 billion with the interest rate of 2.5%, which was 2.65% before. Most Federal Reserve officials still regarded high inflation as an ongoing threat that could require further interest rate increases, and only two supported keeping the interest rates unchanged.

Exchange Rate: RMB depreciated, USD index increased

This week, RMB depreciated. As of August 18, the RMB/USD middle rate closed at 7.2006, increasing by 419bp from last Friday. The USD index increased by 0.5% to 103.375 from last Friday.

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

This week, the China Government Bond yields decreased. Influenced by retail sales data and Fed Reserve minutes in July, US Treasury yields increased.

Chinese Offshore Bond Market

Primary Market: Chinese offshore bond new issuance decreased

From August 14 to August 18, there were 15 new issues with total issued volume of USD650 million, decreasing by 78% from last week. Among them, financial companies are the largest issuer with a total issued amount of USD560 million.

Secondary Market: Return on Chinese USD bond decreased

As of August 18, the YTD return on Chinese USD corporate bond index decreased by 92bp to -0.76% from last Friday, of which the return on investment-grade bonds decreased by 76bp to 2.34%, while the return on high-yield bonds decreased by 202bp to -20.23%.

Rating Action: CCXAP assigns long-term credit ratings to 2 entities

CCXAP assigns long-term credit rating to 2 entities, including UETD Construction & Development State-owned Capital Investment Operation (Group) Co., Ltd. and Jiangsu Furu Donghai Development Group Co., Ltd..

Credit Event: Sino-Ocean Group failed to pay interest payment; rollover plan for three USD notes got approved



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Headline: China's MLF and reverse repurchase rates were lowered by 15bp and 10bp respectively; Fed warned high inflation risk

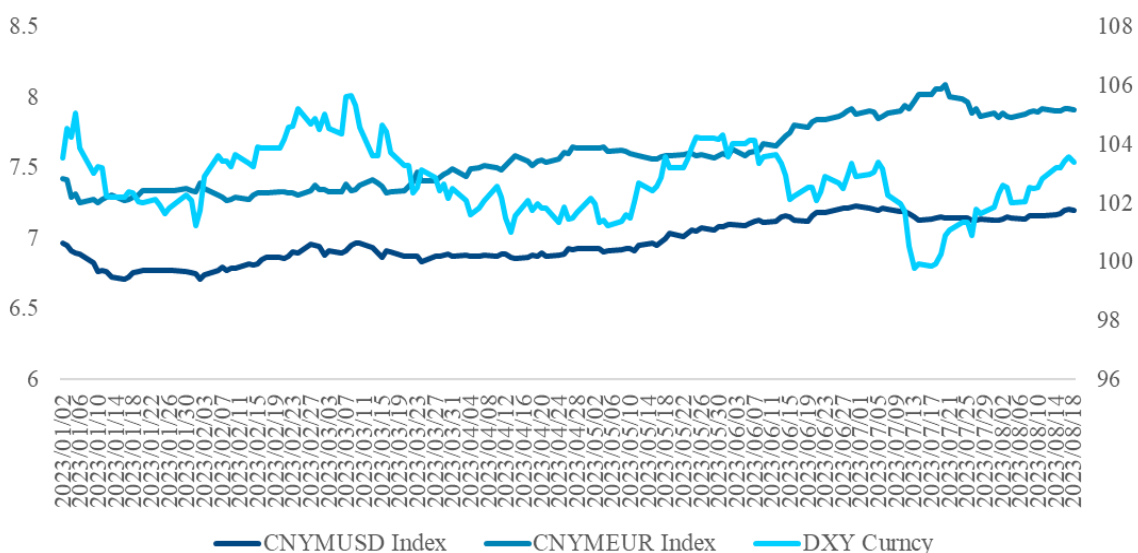
On August 15, the People's Bank of China announced that in order to hedge the impact of factors such as the peak of taxation periods, and to maintain a reasonable and abundant liquidity of the banking system, it launched an open market reverse repurchase operation of RMB204 billion and medium-term lending facilities (MLF) of RMB401 billion to fully meets the needs of financial institutions. The one-year MLF interest rate was reduced from 2.65% to 2.5%, and the 7-day reverse repurchase rate was reduced from 1.90% to 1.8%.

On August 16, the Minutes of the Federal Reserve's Conference showed that at the recent Federal Reserve Conference, the Federal Reserve's decision makers warned that inflation and high upward risks may force them to raise interest rates further. Almost all decision makers believed that in July, it is suitable to raise 25 basis points, except for two supported the maintenance rate. The minutes show that Fed officials believed that policy decision depends on future data, and data in the next few months is valuable to judge the degree of tightening. Federal staffs no longer expected that the economy will continue to decline this year, and the inflation will inflate to 2.2%; the participants emphasized that the inflation is highly unacceptable, and being alert to bank credit tightening.

Exchange Rate: RMB depreciated, USD index increased

This week, RMB depreciated. As of August 18, the RMB/USD middle rate closed at 7.2006, increasing by 419bp from last Friday; the RMB/EUR middle rate closed at 7.9087, decreasing by 84bp from last Friday. The USD index increased by 0.5% to 103.375 from last Friday.

Figure 1: RMB exchange rate

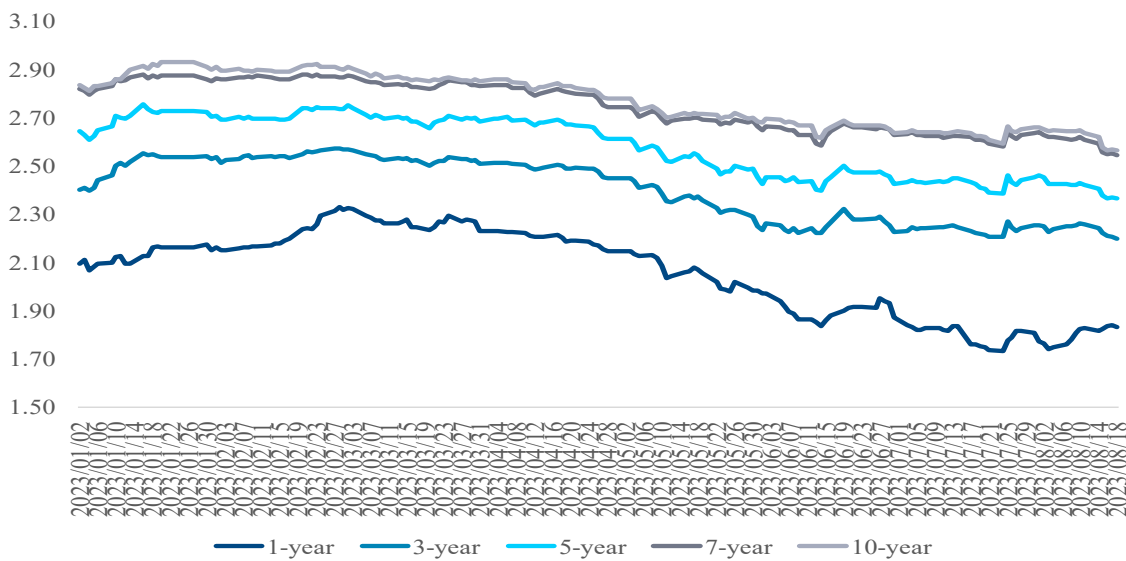


Sources: CCXAP research

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

This week, the China Government Bond yields decreased. As of August 18, the 1-year, 3-year, 5-year, 7-year and 10-year China Government Bond yields were 1.8323%, 2.1984%, 2.3657%, 2.5454% and 2.5639%. The 1-year increased by 0.2bp, while the 3-year, 5-year, 7-year and 10-year decreased by 5.9bp, 5.6bp, 6.4bp and 7.4bp respectively from last Friday.

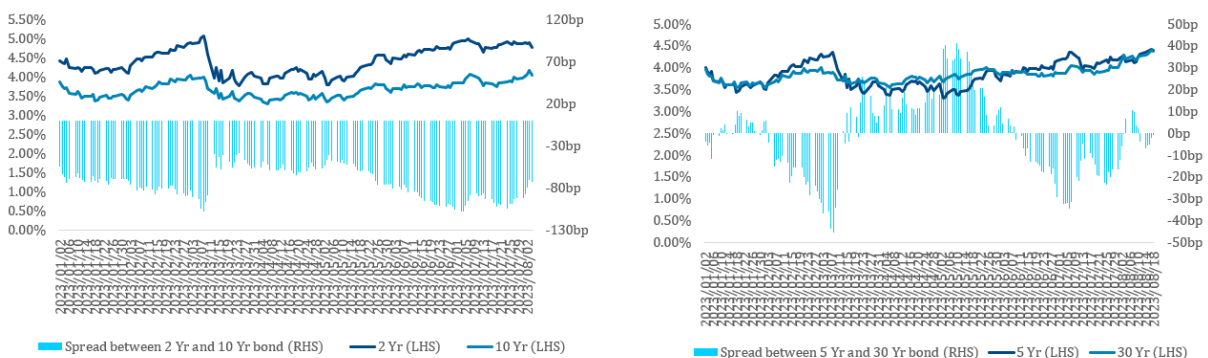
Figure 2: China Government Bond yields



Sources: CCXAP research

Influenced by retail sales data and Fed minutes in July, US Treasury yields increased. As of August 18, 2-year, 5-year, 10-year and 30-year Treasury yields were 4.9426%, 4.3854%, 4.2546% and 4.3751%, increasing by 4.8bp, 8.4bp, 10.2bp and 11.4bp respectively from last Friday; In terms of US Treasury bond spreads, the spread between 2-year and 10-year Treasury bonds decreased by 5.5bp to -68.8bp from last Friday, and the spread between 5-year and 30-year Treasury bonds decreased by 3bp to -1.0bp from last Friday.

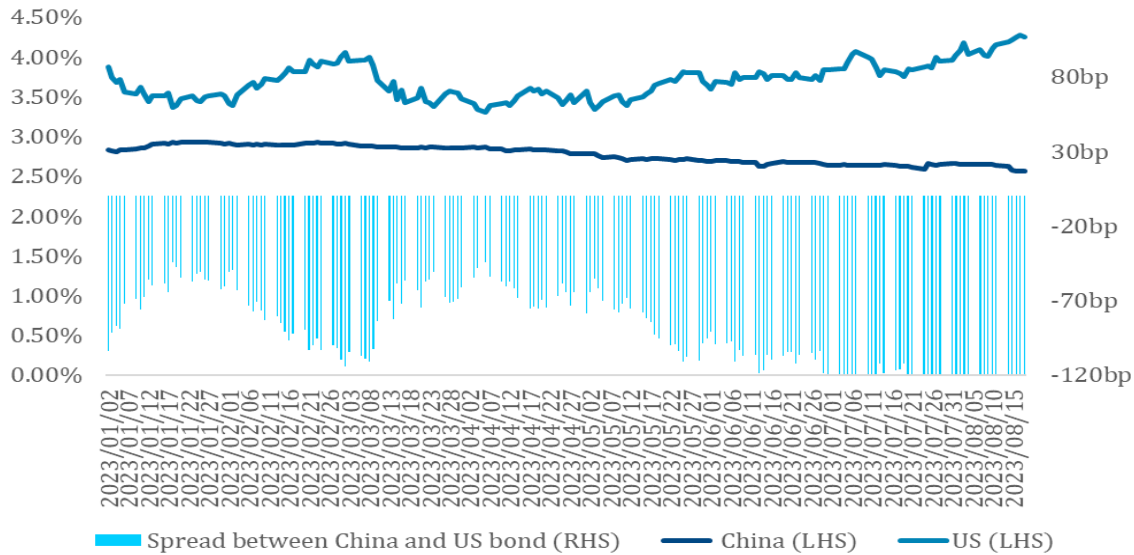
Figure 3: US Treasury yields and yield spreads



Sources: CCXAP research

As of August 18, the yield spread between China and US 10-year note was -169.1bp, widening by 17.7bp from last Friday and by 65.12bp 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 August 14 to August 18, there were 15 new issues with total issued volume of USD6.5 billion, decreasing by 78% from last week. Among them, financial companies were the largest issuer with a total issued amount of USD5.6 billion.

Table 1: New issuance of Chinese offshore bonds (20230814-20230818)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2023/8/14	Binzhou State-owned Capital Investment Operation Group Co Ltd	USD	50	7.5	2026/4/20	2.7	Financials	-/-/-	-/-/-
2023/8/14	CITIC Securities International Co Ltd	CNY	35	0	2027/6/23	3.9	Financials	-/BBB+/-	-/-/-
2023/8/14	CITIC Securities International Co Ltd	USD	10	0	2024/2/20	183D	Financials	-/BBB+/-	-/-/-
2023/8/14	CITIC Securities International Co Ltd	USD	4.4	0	2024/10/22	1.2	Financials	-/BBB+/-	-/-/-
2023/8/14	Huatai International Financial Holdings Co Ltd	USD	10	6	2023/11/21	0.3	Financials	-/-/-	-/-/-
2023/8/15	Guotai Junan International Holdings Ltd	USD	100	0	2024/2/16	182D	Financials	Baa2/BBB+/-	-/-/-
2023/8/15	Huatai International Finance Ltd	HKD	29	5.5	2024/2/22	184D	Financials	-/-/-	-/-/-
2023/8/15	Huatai International Finance Ltd	USD	45	6.05	2023/11/22	92D	Financials	-/-/-	-/-/-
2023/8/15	Huatai International Finance Ltd	USD	5.8	6.1	2024/2/22	184D	Financials	-/-/-	-/-/-

2023/8/15	Zhuhai Rural Commercial Bank Co Ltd	CNY	500	3.5	2026/8/22	3	Financials	-/-/-	-/-/-
2023/8/16	China Securities International Investment Co Ltd	USD	3	6.05	2024/8/16	1	Financials	-/-/-	-/-/-
2023/8/16	CITIC Securities International	CNY	30	0	2023/10/17	57D	Financials	-/BBB+/-	-/-/-
2023/8/16	CITIC Securities International	CNY	30	0	2024/4/3	226D	Financials	-/BBB+/-	-/-/-
2023/8/16	CMB International Leasing Management Ltd	USD	300	SOFR+100	2026/8/23	3	Financials	-/BBB+/-	A3/-/-
2023/8/16	Suqian Yufeng Industrial Investment Development Management Group Co Ltd	CNY	200	3.98	2026/8/23	3	Chengtou	-/-/-	-/-/-

Sources: CCXAP research

On 14 August, Binzhou State-owned Capital Investment Operation Group Co.,Ltd. announced USD bond reoffering.

Table 2: New issuance of additional Chinese offshore bonds (20230814-20230818)

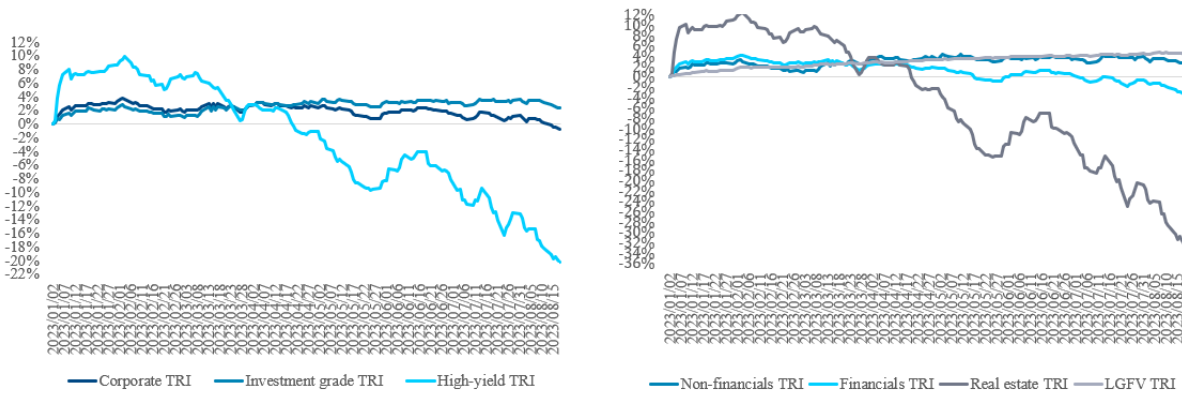
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2023/8/14	Binzhou State-owned Capital Investment Operation Group Co Ltd	USD	100 (reoffered 50)	7.5	2026/4/20	3	Chengtou	-/-/-	-/-/-

Secondary Market: Return on Chinese USD bond decreased

As of August 18, the YTD return¹ on Chinese USD corporate bond index decreased by 92bp to -0.76% from last Friday, of which the return on investment-grade bonds decreased by 76bp to 2.34%, while the return on high-yield bonds decreased by 202bp to -20.23%. In terms of sector indices, the return on non-financials, financials, and real estate bonds were 2.60%, -3.33% and -32.20%. The non-financials, financials and real estate sector decreased by 50bp, 120bp and 344bp respectively from last Friday, while Chengtou sector decreased by 27bp to 4.38% from last Friday.

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

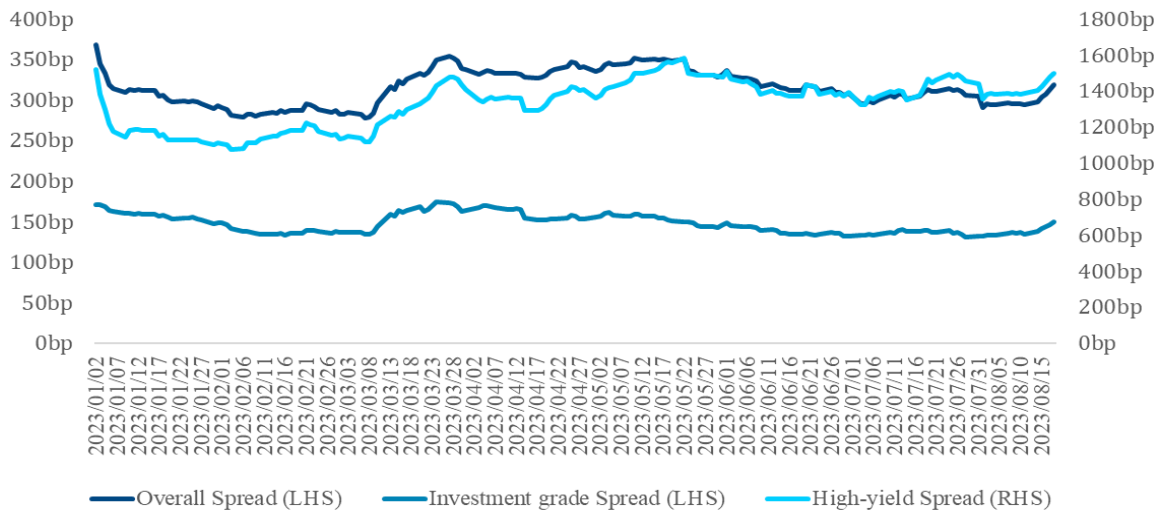
Figure 5: YTD return on Markit IBoxx Chinese USD bond index



Sources: CCXAP research

As of August 18, the yield spread of Chinese dollar bonds increased by 24.3bp to 318.46bp from last Friday. The yield spread of investment-grade bonds increased by 15.4bp to 149.92bp, and the spread of high-yield bonds increased by 110.3bp to 1498.89bp.

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



Sources: CCXAP research

The 10 bonds with the largest yield increase from August 14 to August 18 are shown in the table below. Among them, Agile Group Holdings Ltd changed the most.

Table 2: Chinese offshore bonds with largest yield increases (20230814-20230818)

Security Name	Obligor	Last Price (USD)	Years to Maturity	Yield to Convention	Yield Change
AGILE 8 % PERP	Agile Group Holdings Ltd	6.162	PERP	3521.51	169.5M
SKYFAM 13 12/16/23	Skyfame International Holdings Ltd	10.508	0.333	2357.14	15.9M
AGILE 7 ¾ PERP	Agile Group Holdings Ltd	5.996	PERP	255.02	8.8M
ROADKG 7 ¾ PERP	RKPF Overseas 2019 E Ltd	19.326	PERP	184.55	5.6M

AGILE 5 ½ 04/21/25	Agile Group Holdings Ltd	14.105	1.700	175.22	5.1M
AGILE 6.05 10/13/25	Agile Group Holdings Ltd	11.904	2.186	150.67	4.3M
AGILE 7 ⅞ PERP	Agile Group Holdings Ltd	6.432	PERP	592.78	4.1M
CSCHCN 9 06/26/24	China South City Holdings Ltd	45.337	0.869	142.33	4.1M
CSCHCN 9 04/12/24	China South City Holdings Ltd	50.695	0.661	156.70	4.0M
SINOCE 6 07/30/24	Sino-Ocean Land Treasure Finance Ltd	13.114	0.964	403.04	3.0M

Sources: CCXAP research

Rating Action: CCXAP assigned long-term credit ratings to 2 entities

On August 14, CCXAP assigns first time long-term credit rating of BBB_g to UETD Construction & Development State-owned Capital Investment Operation (Group) Co., Ltd. (“UCDI” or the “Company”), with stable outlook.

On August 17, CCXAP assigns first time long-term credit rating of BBB_{g-} to Jiangsu Furu Donghai Development Group Co., Ltd. (“FDDG” or the “Company”), with stable outlook.

Table 3: Credit rating from CCXAP (20230814-20230818)

Rating Date	Obligor	Entity Rating	Debt Rating	Rating Rationale
2023/08/14	UCDI	BBB _g	BBB _g	The credit rating is underpinned by the Company’s (1) key position in the state-owned assets operation and infrastructure construction of Urumqi ETDZ; (2) good track record of receiving government support; and (3) good access to multiple financing channels. However, the rating is constrained by the Company’s (1) high exposure to commercial activities with large capital expenditure; and (2) high debt leverage and moderate asset liquidity.
2023/08/17	FDDG	BBB _{g-}	BBB _{g-}	The credit rating is underpinned by (1) the Donghai County Government’s relatively strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support. However, the rating is constrained by the Company’s (1) medium business risk to commercial activities; (2) certain exposure to non-standard financing; and (3) medium level of contingent risk.

Sources: CCXAP research

From August 14 to August 18, rating agencies took 2 negative rating actions on Chinese issuers.

Table 4: Credit rating changes of cross-border bond market (20230814-20230818)

Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change	
		Entity Rating	Outlook	Date	Entity Rating	Outlook	Date			
International Rating:										
Downgrade	Country Garden Services	Real Estate	Ba1	NEG	2023/08/14	Baa3	Stable	2023/04/28	Moody's	Concerns over CGS' increased contagion risks to Country Garden Holdings Co., Ltd. and the two entities' common controlling shareholder and brand name
	Kunming Rail Transit Group Co., Ltd. (KRT)	Chengtou	Ba1	NEG	2023/08/18	Baa3	Watchlist	2023/06/29	Moody's	Continued diminishing access to funding alongside further deterioration in the

										regional funding environment. And the lack of significant government support
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Sources: CCXAP research

Credit Event: Sino-Ocean Group failed to pay interest payment; rollover plan for three USD notes got approved

On August 14, Sino-Ocean Group Holdings Co., Ltd. (“Sino-Ocean Group”) announced the failure of interest payment of the 6% guaranteed notes maturing in 2024 (referred to as “2024 notes”). The interest is USD20.94 million for the period from January 30, 2023 (including the date) to July 30, 2023 (excluding that day) with the end of payment limit on August 13, 2023. The failure resulted in the defaulted incident of the 2024 notes. On August 17, the Sino-Ocean Group issued an announcement that the rollover plan for three USD notes that will mature in 2024, 2027 and 2029 respectively officially got approved, including the two-month extension of the interest payment and a default exemption.

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