

2023 Issue 21 From May 29 to Jun 02

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

Headline: China's manufacturing output growth rose to 11-month high; US ISM manufacturing index fell for seven consecutive months in May

China's Caixin Manufacturing PMI was 50.9 in May, up 1.4 percentage points from April and rising above the threshold, indicating that manufacturing production and business activity remains resilient. The US ISM manufacturing index was 46.9 in May, down from April and less than expected, having contracted for seven consecutive months, with the longest duration of contraction since 2009 and the price index falling at the fastest rate in nearly a year.

Exchange Rate: RMB depreciated, USD index decreased

This week, RMB depreciated. As of June 2, the RMB/USD middle rate closed at 7.0939, increasing by 179bp from last Friday. The USD index decreased by 0.2% to 104.015 from last Friday.

Interest Rate: Chinese Government Bond yields and US Treasury yields both decreased

This week, the China Government Bond yields decreased. Influenced by the contraction of the US ISM manufacturing sector, US Treasury yields declined.

Chinese Offshore Bond Market

Primary Market: Chinese offshore bond new issuance reduced

From May 29 to June 2 there were 13 new issues with total issued volume of USD1.32 billion, decreasing by 67.66% from last Friday. Chengtuo companies were the main issuers, with total issuance of about USD0.93 billion.

Secondary Market: Return on Chinese USD bond increased

As of June 2, the YTD return on Chinese USD corporate bond index increased by 90bp to 1.76% from last Friday, of which the return on investment-grade bonds increased by 56bp to 3.10%, while the return on high-yield bonds increased by 303bp to -6.49%.

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

CCXAP assigns long-term credit rating to 4 entities, including Zhejiang Xinchang Investment Development Co., Ltd., Yinchuan Tonglian Capital Investment Operation Group Co., Ltd., Changxing Urban Construction Investment Group Co., Ltd. and Jiangsu Yangjing Petrochemical Group Co., Ltd.



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Headline: China's manufacturing output growth rose to 11-month high; US ISM manufacturing index fell for seven consecutive months in May

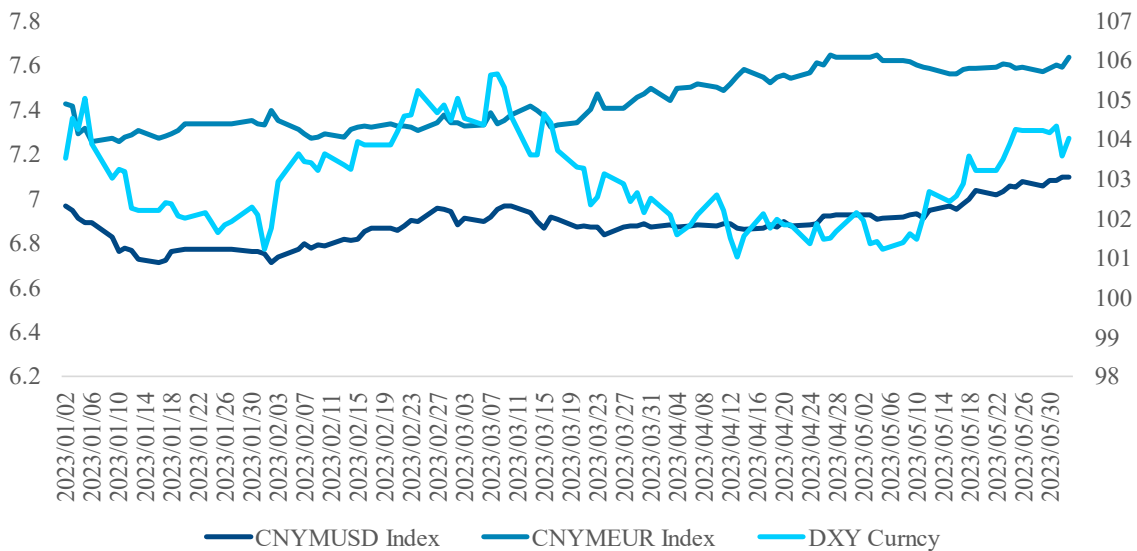
On June 1, according to data released by S&P Global, China's Caixin Manufacturing PMI stood at 50.9 in May, up 1.4% from April and rising above the threshold. This indicates that manufacturing production and operation activities remain resilient. The manufacturing production index rose to the highest since July 2022 in May, while the manufacturing new orders index rose above the threshold again, the second highest in the past two years and just below that in February 2023.

The US ISM manufacturing index stood at 46.9 in May, down from April and less than expected, having contracted for seven consecutive months, with the longest sustained contraction since 2009. Among them, the contraction of new orders accelerated, raw material costs fell at the fastest rate in nearly a year, and employment index hit the highest since August last year. The US Markit manufacturing PMI final value of 48.4 in May hit a new low in February.

Exchange Rate: RMB depreciated, USD index decreased

This week, RMB depreciated. As of June 2, the RMB/USD middle rate closed at 7.0939, increasing by 179bp from last Friday; the RMB/EUR middle rate closed at 7.6321, increasing by 433bp from last Friday. The USD index decreased by 0.2% to 104.015 from last Friday.

Figure 1: RMB exchange rate

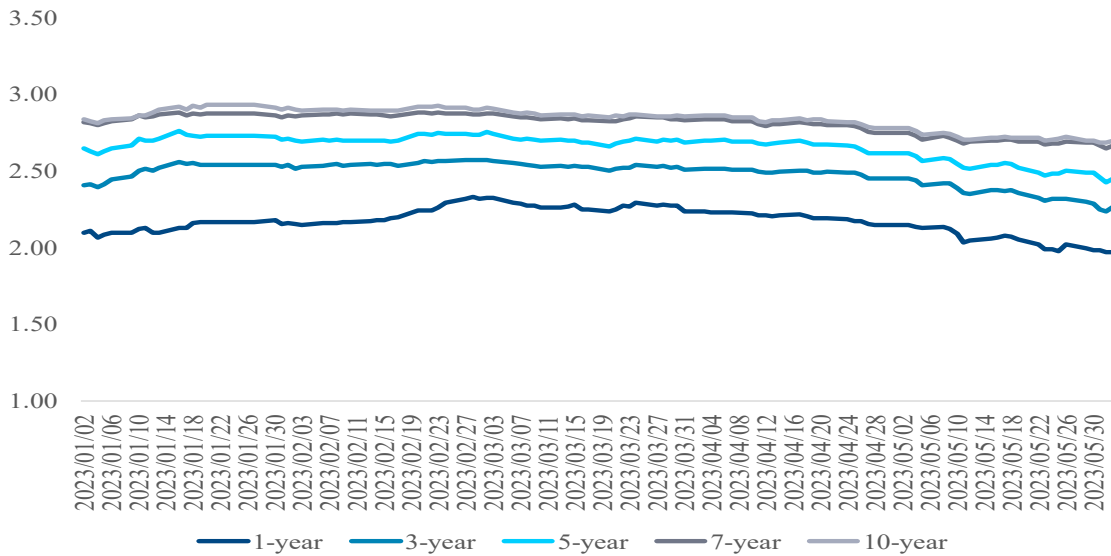


Sources: CCXAP research

Interest Rate: Chinese Government Bond yields and US Treasury yields both decreased

This week, the China Government Bond yields decreased. As of June 2, the 1-year, 3-year, 5-year, 7-year and 10-year China Government Bond yields were 1.9731%, 2.2646%, 2.4532%, 2.6637 and 2.6951% respectively, decreasing by 4.6bp, 5.6bp, 4.8bp, 2.9bp and 2.5bp from last Friday.

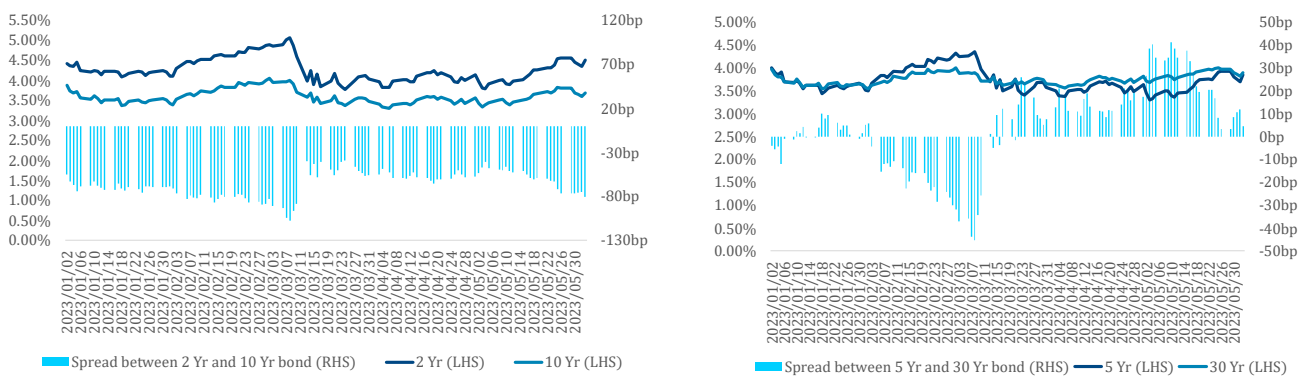
Figure 2: China Government Bond yields



Sources: CCXAP research

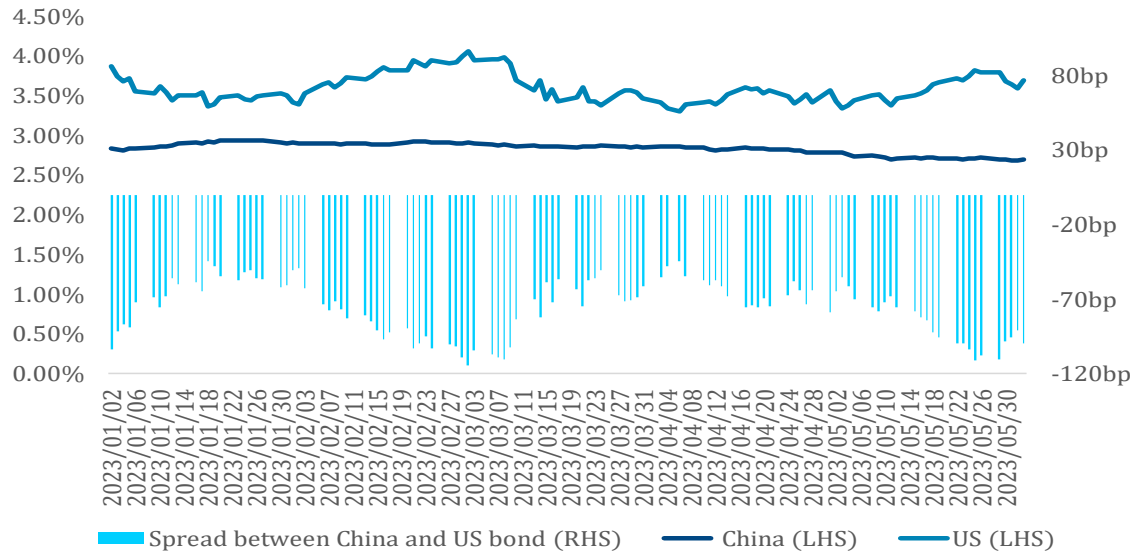
Influenced by the contraction of the US ISM manufacturing sector, US Treasury yields declined. As of June 2, 2-year, 5-year, 10-year and 30-year US Treasury yields were 4.4969%, 3.8437%, 3.6907% and 3.8877% respectively, decreasing by 6.5bp, 8.3bp, 10.8bp and 7.3bp from last Friday. In terms of US Treasury bond spreads, the spread between 2-year and 10-year Treasury bonds widened by 4bp to -80.6bp from last Friday, and the spread between 5-year and 30-year Treasury bonds widened by 1bp to 4.4bp from last Friday.

Figure 3: US Treasury yields and yield spreads



Sources: CCXAP research

As of June 2, the yield spread between China and US 10-year note was -99.6bp, narrowing by 8.2bp from last Friday and narrowing by 4.39bp 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 reduced

From May 29 to June 2, there were 13 new issues with total issued volume of USD1.32 billion, decreasing by 66.7% from last Friday. Chengtou companies were the main issuers, with total issuance of about USD931 million.

Table 1: New issuance of Chinese offshore bonds (20230529-20230602)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2023/5/29	Chongqing Dazu Industrial Development Group Co Ltd	CNY	286	4.5	2026/5/31	3	Chengtou	-/-/-	-/-/-
2023/5/29	China CITIC Bank	USD	200	5.936	2024/6/3	1	Financials	Baa2/BBB+/BBB	-/-/-
2023/5/29	Rugao Economic & Trade Development Co	CNY	625	3.9	2026/6/1	3	Chengtou	-/-/-	-/-/-
2023/5/29	Industrial & Commercial Bank of China Ltd	NZD	75	FRA+115	2026/6/2	3	Banks	-/A/A	-/-/-
2023/5/29	NanShan Group Corp	HKD	197	7.5	2024/5/23	358D	Materials	-/-/-	-/-/-
2023/5/30	Huzhou City Investment Development Group Co Ltd	USD	300	5.68	2026/6/6	3	Chengtou	Baa3/-/BBB	-/-/BBB
2023/5/30	Industrial & Commercial Bank of China Ltd	USD	25	SOFR+65	2025/6/5	2	Banks	-/A/A	-/-/-
2023/5/30	Industrial & Commercial Bank of China Ltd	USD	25	SOFR+65	2025/6/5	2	Banks	-/A/A	-/-/-
2023/6/1	Yinchuan Tonglian Capital Investment Operation Group Co Ltd	CNY	2120	3.9	2026/6/5	3	Chengtou	Ba2/-/B+	-/-/-
2023/6/1	Kunshan Guochuang Investment Group Co Ltd	CNY	1000	3.55	2026/6/6	3	Chengtou	-/-/-	-/-/-

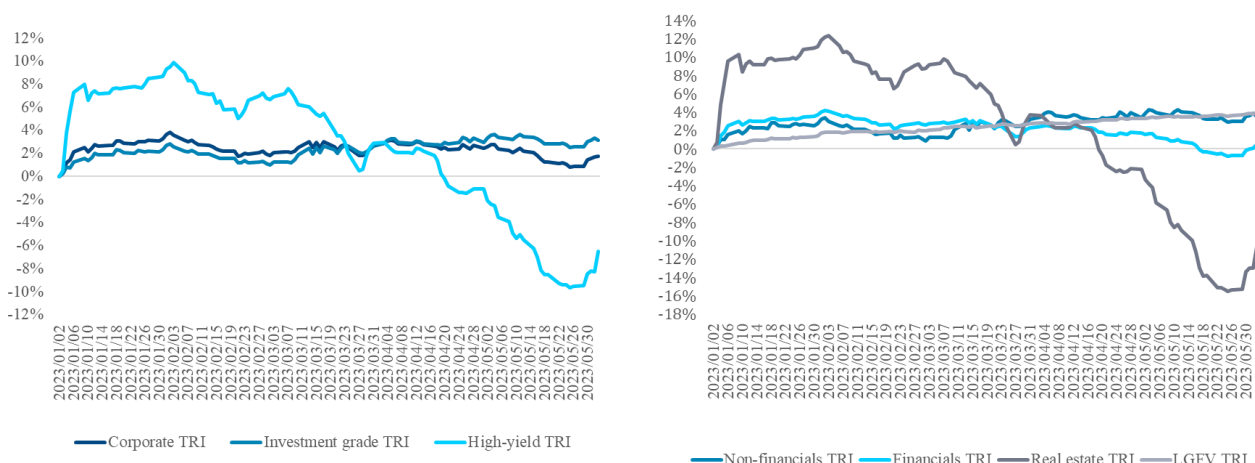
2023/6/1	Huatai International Financial Holdings Co Ltd	USD	15	5.88	2023/9/6	92D	Financials	-/-	-/-
2023/6/1	Huatai International Financial Holdings Co Ltd	USD	50	0	2024/6/6	1	Financials	-/-	-/-
2023/6/2	Anqing Shengtang Investment Holdings Group Co Ltd	CNY	440	3.43	2026/6/9	3	Chengtou	-/-	-A/-

Sources: CCXAP research

Secondary Market: Return on Chinese USD bond increased

As of June 2, the YTD return¹ on Chinese USD corporate bond index increased by 90bp to 1.76% from last Friday, of which the return on investment-grade bonds increased by 56bp to 3.10%, while the return on high-yield bonds increased by 303bp to -6.49%. In terms of sector indices, the return on non-financials, financials, real estate and Chengtoug bonds were 3.50%, 0.40%, -10.71% and 3.90%, respectively, increasing by 53bp, 119bp, 466bp and 28bp from last Friday.

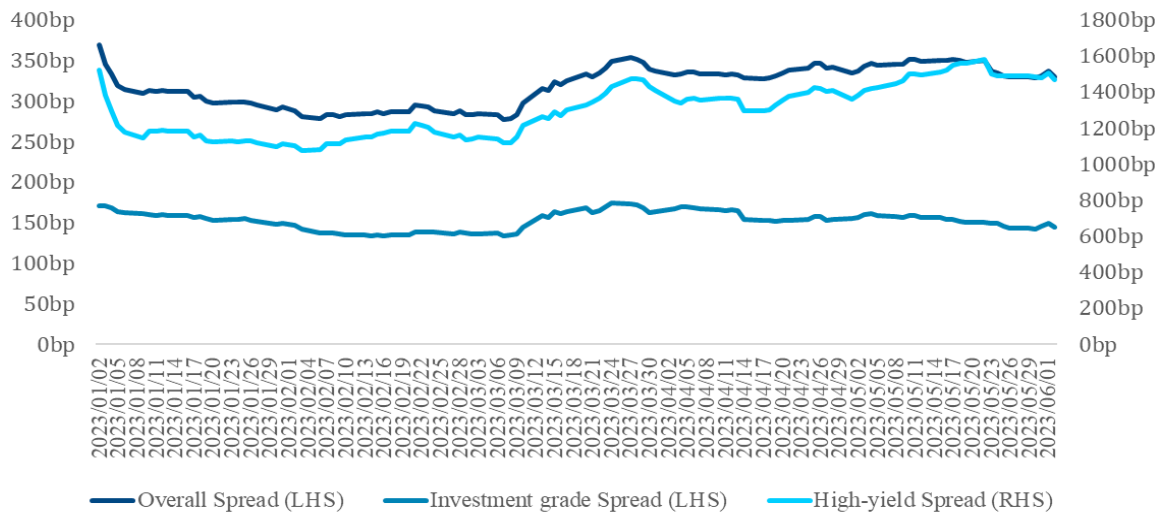
Figure 5: YTD return on Markit IBoxx Chinese USD bond index



Sources: CCXAP research

As of June 2, the yield spread of Chinese dollar bonds decreased by 0.9bp to 329.01bp from last Friday. The yield spread of investment-grade bonds increased by 1bp to 144.49bp, and the spread of high-yield bonds decreased by 20.6bp to 1467.55bp.

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 May 29 to June 2 are shown in the table below. Among them, Yinchuan Tonglian Capital Investment Operation Group Co Ltd changed the most.

Table 2: Chinese offshore bonds with largest yield increases (20230529-20230602)

Security Name	Obligor	Last Price (USD)	Years to Maturity	Yield to Convention	Yield Change
TLINVT 4.45 06/10/23	Yinchuan Tonglian Capital Investment Operation Group Co Ltd	99.125	0.01	82.132	21152.7
AGILE 8 ¾ PERP	Agile Group Holdings Ltd	13.514	PERP	1351.647	4475.2
AGILE 7 ¾ PERP	Agile Group Holdings Ltd	13.851	PERP	303.425	3148
CHGRAU 9.109 PERP	Grand Baoxin Auto Group Ltd	51.243	PERP	251.183	770.5
ROADKG 7 ¾ PERP	Road King Infrastructure Limited	31.425	PERP	115.807	612
ZZAIRI 3.4 06/17/23	Henan airport investment group co. ltd	99.734	0.03	11.947	376.8
CSCHCN 9 04/12/24	China South City Holdings Ltd	71.733	0.85	57.507	299.2
BCHINA Float 11/06/23	Bank of China Australia Ltd	101.753	0.42	101.7525	276.5
FOSUNI 5 ½ 08/17/23	Fosun International Holdings Ltd	94.714	0.19	33.516	208.7
CSCHCN 9 07/20/24	China South City Holdings Ltd	69.390	1.12	48.386	207.9

Sources: CCXAP research

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

On May 30, China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned Zhejiang Xinchang Investment Development Co., Ltd. (“ZXID”)’s long-term credit rating at BBB_g, with stable outlook.

On May 31, CCXAP has assigned Yinchuan Tonglian Capital Investment Operation Group Co., Ltd. (“YCTL”)’s long-term credit rating at BBB_g-, with stable outlook.

On May 31, CCXAP has assigned Changxing Urban Construction Investment Group Co., Ltd. (“CUCI”)’s long-term credit rating at BBB_g, with stable outlook.

On May 31, CCXAP has assigned Jiangsu Yangjing Petrochemical Group Co., Ltd. (“JYJP”)’s long-term credit rating at BBB_g-, with stable outlook.

Table 3: Credit rating from CCXAP (20230529-20230602)

Rating Date	Obligor	Entity Rating	Debt Rating	Rating Rational
2023/05/30	ZXID	BBB _g	-	The credit rating is underpinned by the Company’s (1) dominant strategic role as the largest state-owned enterprise in Xinchang County; (2) high sustainability for public policy projects; and (3) good track record of receiving government payments. However, the rating is constrained by Company’s (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset quality.
2023/05/31	YCTL	BBB _g -	-	The credit rating is underpinned by the Company’s (1) dominant role in local infrastructure construction projects; (2) sole public utility services provider with high sustainability; and (3) good track record of receiving government payments. However, the rating is constrained by Company’s (1) small reserves in public projects and high exposure to commercial activities; (2) mismatched debt structure with large debt maturities and refinancing pressure; and (3) moderate exposure to contingent risk.
2023/05/31	CUCI	BBB _g	-	The credit rating is underpinned by the Company’s (1) important role in undertaking public services in Changxing County; (2) sustainable public businesses given large projects in the pipeline; (3) good track record of receiving government payments; and (4) good access to funding. However, the rating is constrained by Company’s (1) moderate commercial exposure; (2) medium contingent liability risk from external guarantees provided to other local SOEs; and (3) relatively high debt leverage and moderate asset liquidity.
2023/05/31	JYJP	BBB _g -	-	The credit rating is underpinned by the Company’s (1) increasing importance along with the fast development of Xuwei New Area; (2) essential role in infrastructure construction of Petrochemical Industrial Base; and (3) solid track record of receiving government support. However, the rating is constrained by Company’s (1) medium risk exposure to commercial activities such as self-operated construction; and (2) high debt leverage with an increasing short-term debt burden.

Sources: CCXAP research

From May 29 to June 2, international rating agencies took 1 positive rating action and 6 negative rating actions on Chinese issuers.

Table 4: Credit rating changes of cross-border bond market (20230529-20230602)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
upgrade	Fosun International Ltd.	General Industry	BB-	STABLE	2023/5/29	BB-	NEG	2022/9/16	S&P	Company's diversified asset base and access to non-direct financing sources have eased the pressure on its capital structure
Downgrade	Yinchuan Tonglian Capital Investment Operation Group Co., Ltd.	Chengtou	B+	RWN	2023/5/31	BB-	RWN	2023/4/5	Fitch	Uncertainty over the execution of the repayment for the substantial upcoming debt maturity

Dalian Wanda Commercial Management Group Co., Ltd.	Real Estate	BB-	RWN	2023/5/31	BB+	RWN	2023/5/1	Fitch	Decline in liquidity of sister company Wanda Property Group Limited
Wanda Commercial Properties (Hong Kong) Co. Limited	Real Estate	B+	RWN	2023/5/31	BB	RWN	2023/5/1	Fitch	Decline in liquidity of sister company Wanda Property Group Limited
Tianjin Binhai New Area Construction & Investment Group Co., Ltd.	Chengtou	Baa2	Rating Under Review	2023/6/1	Baa2	STABLE	2022/6/21	Moody's	Concerns over the weakened ability of the Tianjin Municipal Government to support its local government financing vehicles
Tianjin Rail Transit Group Co., Ltd.	Chengtou	A3	Rating Under Review	2023/6/1	A3	STABLE	2022/10/17	Moody's	Concerns over the weakened ability of the Tianjin Municipal Government to support its local government financing vehicles
Kunming Rail Transit Group Co., Ltd.	Chengtou	Baa2	NEG	2023/6/2	Baa1	NEG	2022/9/27	Moody's	The ability of the Kunming Municipal Government to support its chengtou companies has weakened

Sources: CCXAP research

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