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From June 3 to June 7

More central banks may turn to interest-rate cuts, the yields for China Government Bonds and US Treasury continued to decline

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Headline: Fed official released a signal for rate cut and more central banks may turn to interest-rate cuts

The Fed official released a signal to cut interest rate, with Australia cutting rates for the first time in three years and India cutting rates for the third time this year. In a speech in Chicago on June 3, James Bullard, President of the federal reserve bank of St. Louis, believes that the Fed should response to the downside risks. On June 4, the Reserve Bank of Australia cut interest rates by 25 basis points to 1.25%, the lowest level on record. On June 6, the Reserve Bank of India cut its policy rate by 25 basis points to 5.75% and changed its policy stance from neutral to accommodative. Amid rising trade tensions and a slowing global economic recovery, more central banks may cut interest rates.

Exchange Rate: Depreciation pressure on RMB is released

The RMB exchange rate continued its trend of stabilization this week. On June 6, the intermediate price of the RMB exchange rate closed at 6.8945, down 47bp from last Friday. During the past three weeks, the RMB exchange rate revealed obvious signs of stabilization, indicating that the policy tools of the central bank were getting effective. Amid surging expectations for policy easing of the Fed, the pressure for substantial RMB depreciation is further released.

Interest Rate: The yields of China Government Bonds and US Treasury generally declined

Given the uncertainty of the economic outlook, it is expected that more central banks will ease their monetary policies. In addition, the market expectations for Fed rate cuts rose sharply due to the interest rate cut signal from a Fed member and poor non-farm data released on Friday. As a result, investors became more risk-averse and the yields for China Government Bonds and US Treasury both declined. As of June 7, the yield spread between China and US 10-year note was 113.3 bp, narrowing by 1.8 bp from last Friday and expanding by 58 bp from the beginning of the year.

Chinese Offshore Bond Market

Primary Market: Newly issued volume rebounded and banks were the largest issuers

The newly issued volume rebounded. From June 3 to June 7, there are 10 new issues with a total issued volume of USD 2.9 billion, of which banks were the largest issuers.

Secondary Market: Returns on investment grade bonds rose and return on high-yield bonds fell sharply

As of June 7, the YTD return on Chinese USD corporate bond index increased by 6bp over last week to 5.88%, of which investment grade bond index was 5.05% and high-yield bond index was 7.98%, increasing by 22 bp and decreasing by 30 bp respectively over last week.

Panda Bond Market: The Republic of Portugal issued a new bond this week

As of June 7, 12 issuers issued 16 Panda Bonds in 2019, with a total issuance amount of RMB 24.04 billion, and an average coupon of 3.79%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years. On June 3, the Republic of Portugal 2019 Renminbi Bonds (Series 1) (Bond Connect) was issued in the inter-bank market. The RMB 2 billion Panda bond, will mature in 3 years with a coupon rate at 4.09%. It is the first time for the Republic of Portugal to raise funds through the Panda Bond market, net proceeds of which will be remitted abroad. In some cases, all or part of the RMB will be converted into euros, adding to the central government's financial resources to carry out various government activities, including potential projects of the Belt and Road Initiative in the near future. China Lianhe Credit Rating Co., Ltd assigned AAA to both the issuer and the bond.

Headline: Fed official released a signal for rate cut and more central banks may turn to interest-rate cuts

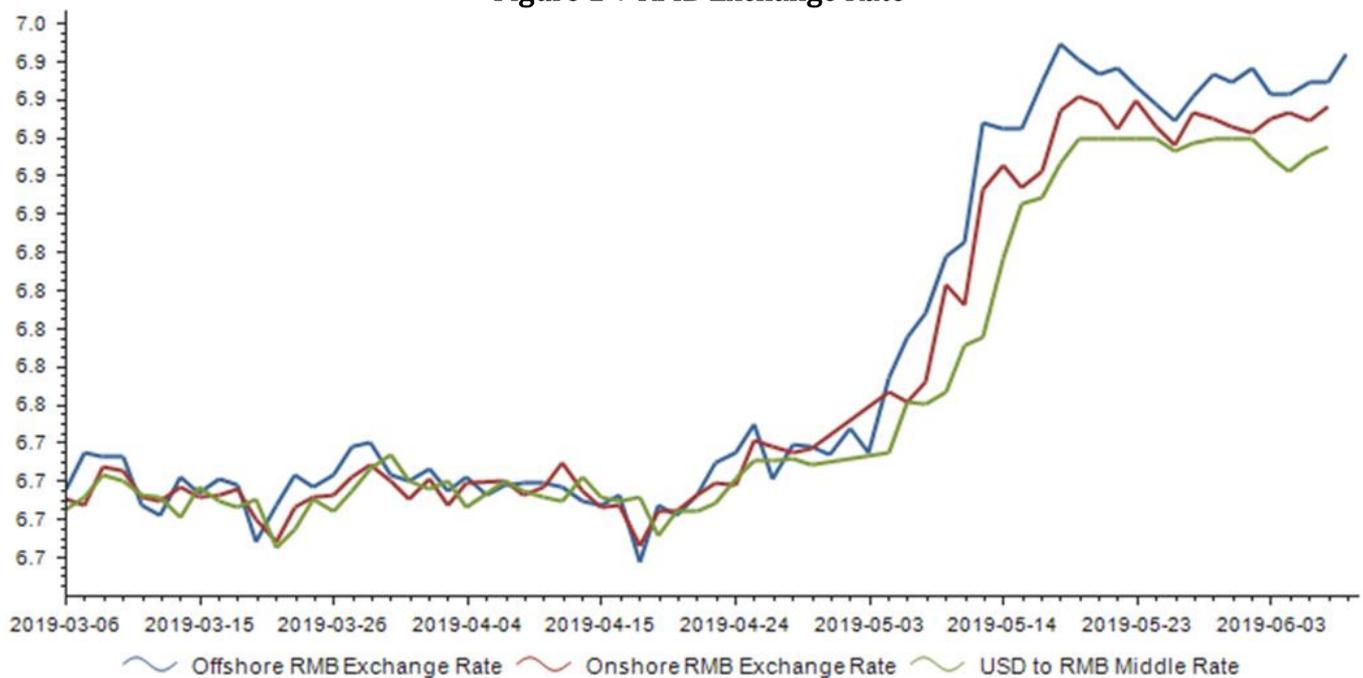
The Fed official released a signal to cut interest rate, with Australia cutting rates for the first time in three years and India cutting rates for the third time this year. In a speech in Chicago on June 3, James Bullard, President of the Federal Reserve Bank of St. Louis, who has a vote on monetary policy this year, said the Fed may soon need to cut interest rates to boost inflation and fend off the downside risks from trade wars. He made it clear that the signals from the Treasury yield curve seem to suggest that the current policy rate was "inappropriately high". Bullard is the first Fed official this year to believe that the Fed should respond to the downside risks. On June 4, the Reserve Bank of Australia cut interest rates for the first time since August 2016, reaching an all-time low of 1.25% after a 25 bp cut, in line with market expectations. In a statement, the Reserve Bank of Australia said that in the context of the reasonable global economic outlook but rising uncertainty about trade issues, interest rate adjustment was aimed at sustaining economic development, supporting employment growth, further utilizing idle capacity and increasing confidence in inflation. On June 6, the Reserve Bank of India cut its policy interest rate for the third time in 2019 by 25 bps to 5.75%, and adjusted its policy stance from neutral to accommodative to support India's slowest economic growth since 2014.

In the context of escalating trade conflict tensions and slowing global economic growth, recent data have provided support for more relaxed monetary policies. For example, at the beginning of June, global manufacturing was the weakest performance since 2012. The World Bank's latest Global Economic Outlook forecasted that global economic growth would slow to a weaker-than-expected 2.6% in 2019 and slightly rebound to 2.7% in 2020. In fact, since the beginning of the year, many central banks have eased downward pressure by cutting interest rates. Among the emerging market countries, India (February 7, April 4), Egypt (February 15), Malaysia (May 7) and the Philippines (May 9) have cut interest rates. For the developed countries, New Zealand (May 8) has cut interest rates by 25 basis points to 1.5%, reaching the lowest level in history. The timing of the Fed rate cut has caught the global attention, and more central banks may cut interest rates.

Exchange Rate: Depreciation pressure on RMB is released

The RMB exchange rate continued its trend of stabilization this week. As of June 6, the intermediate price of the RMB exchange rate closed at 6.8945, down 47bp from last Friday. The onshore and offshore RMB exchange rates fluctuated slightly, closing at 6.9161 and 6.9285, respectively. During the past three weeks, the RMB exchange rate revealed obvious signs of stabilization, indicating that the policy tools of the central bank were getting effective. The counter-cyclical measures have reduced the risk of unilateral fluctuation to a certain extent. Amid surging expectations for policy easing of the Fed, the pressure for substantial RMB depreciation is further released.

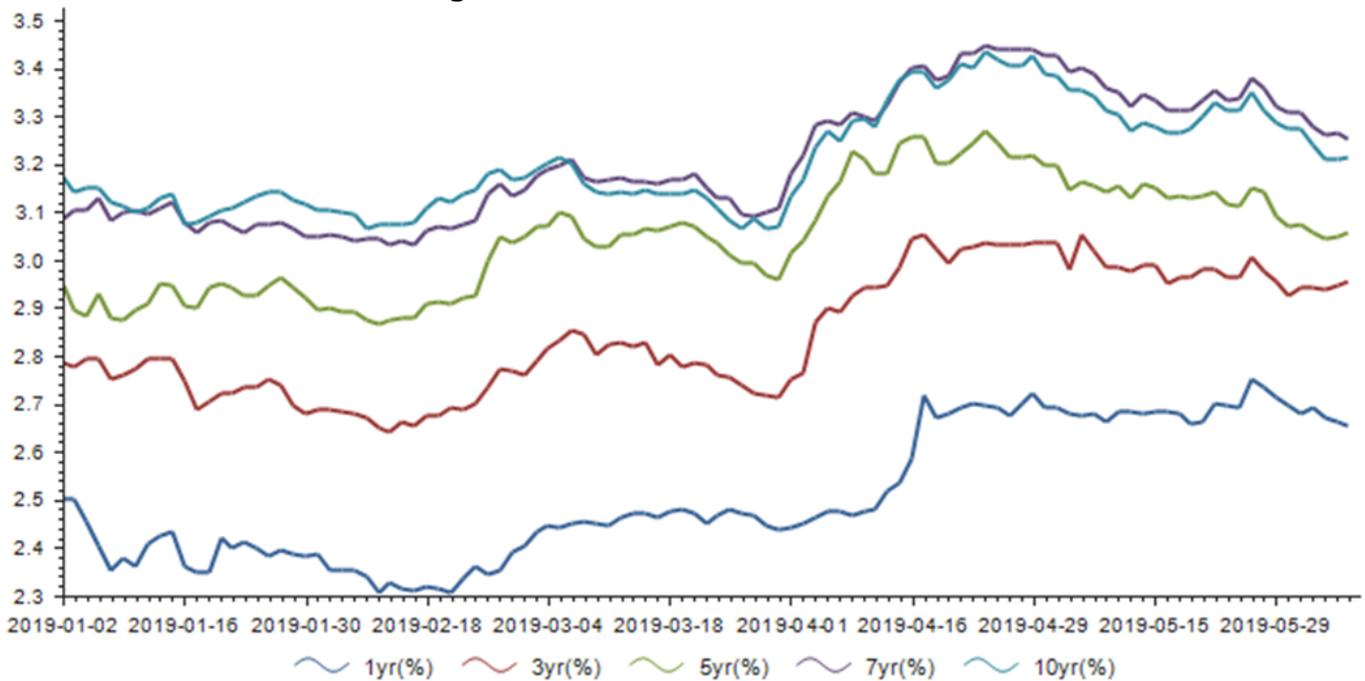
Figure 1 : RMB Exchange Rate



Interest Rate: China and US Treasury yields generally declined

Recently, amid rising uncertainty of economic environment and elevated tensions between China and the US, expectations for policy easing have been strengthened. The US Treasury yields dropped, driving the Government Bond yields to a 2016 low globally. A surge in market hedging sentiment and risk aversion led to the rise of the spot price of China Government Bonds, and the yield of China Government Bonds generally declined. As of June 6, the maturity yields of 1-year, 5-year, 7-year and 10-year Government Bonds declined slightly, closing at 2.6542%, 3.0565%, 3.2537% and 3.2136%, respectively; the maturity yields of 3-year Government Bond was 2.9533%, up 0.15bp from last Friday.

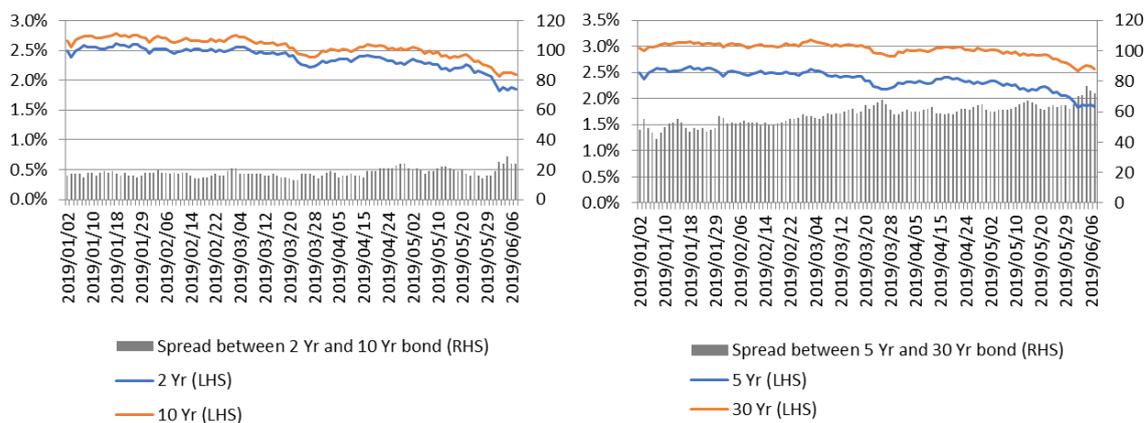
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

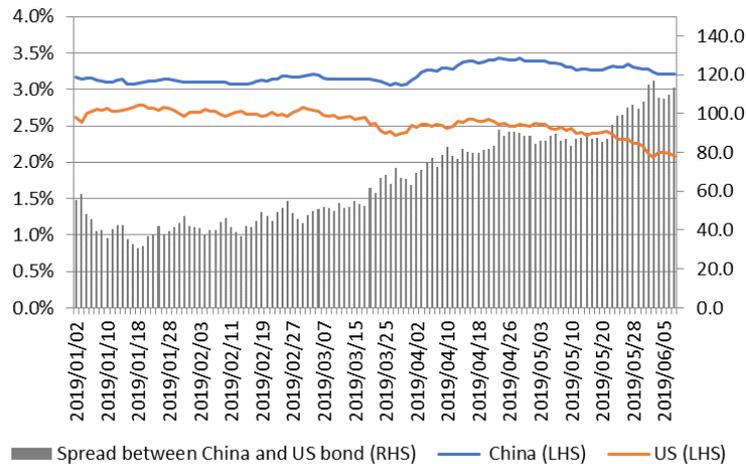
The Fed official released a signal of interest rate cut, and market expectations for Fed rate cuts rose sharply due to poor non-farm data released on Friday, leading to a downward trend in US Treasury yields. As of June 7, the 2-year yield was 1.85%, the 5-year yield was 1.85%, the 10-year yield was 2.09%, and the 30-year yield was 2.57%. They were 10 bp, 8 bp, 5 bp and 1 bp lower than that of last Friday, respectively. In terms of Treasury spreads, the spread between the 2-year and 10-year Treasury bonds increased by 5 bp to 24 bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds increased by 7 bp to 72 bp from last Friday. As of June 7, the yield spread between China and US 10-year note was 113.3 bp, narrowing by 1.8 bp from last Friday and expanding by 58 bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

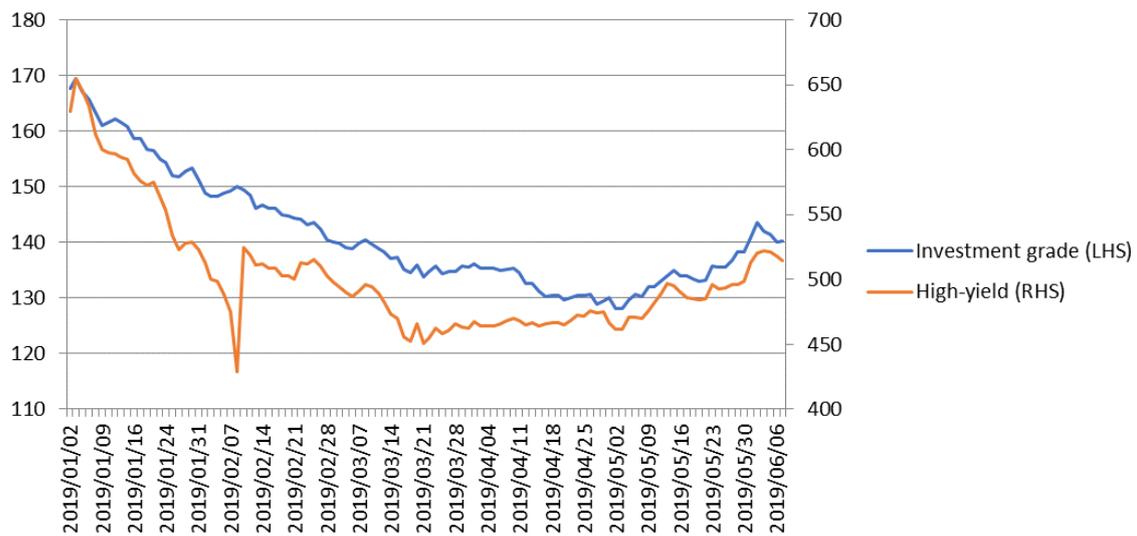
Figure 4 : Spread between China and US 10-year bond



Sources: Bloomberg, ChinaBond.com.cn, CCX research

The credit spread of Barclays Asia USD high-yield bond dropped, following an increase. As of June 7, investment-grade spreads narrowed by 0.5 bp to 140 bp from last week, while high-yield spreads widened by 1.9 bp to 515 bp from last week.

Figure 5 : Credit spread of investment grade bond and high-yield bond index



Sources: Bloomberg, CCX research

Chinese Offshore Bond Market

Primary Market: Newly issued volume rebounded and banks were the largest issuers

The newly issued volume rebounded. From June 3 to June 7, there are 10 new issues with a total issued volume of USD 2.9 billion, of which banks were the largest issuers.

Table 1 : New issuance of Chinese offshore bonds (20190603-20190607)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/6/3	Industrial & Commercial Bank of China Ltd/Luxembourg	USD	750	3ML+83	2024/6/11	5	Banks	A1/A/A	A1/-/-
2019/6/3	Industrial & Commercial Bank of China Ltd/Luxembourg	USD	750	3ML+72	2022/6/11	3	Banks	A1/A/A	A1/-/-
2019/6/3	CMB International Capital Corp Ltd	USD	40	2.83	2019/9/11	92D	Financials	Baa1/BBB+/-	-/-/-
2019/6/4	Guangdong Energy Group Co Ltd	USD	500	3	2024/6/12	5	Utilities	-/A-/A	-/A-/A
2019/6/4	Ping An Real Estate Co Ltd	USD	400	4	2022/6/12	3	Financials	-/-/-	-/-/-
2019/6/4	Xinhu Zhongbao Co Ltd	USD	110	11	2022/6/12	3	Real Estate	B2/B/B-	-/-/-
2019/6/5	China Vanke Co Ltd	CNY	505	3.85	2022/6/13	3	Real Estate	Baa1/BBB+/BB B+	-/-/-
2019/6/6	CITIC Securities International Co Ltd	USD	30	3ML+95	2020/6/4	357D	Financials	-/BBB+/-	-/-/-
2019/6/6	Gemdale Corp	USD	250	5.6	2022/6/14	3	Real Estate	Ba2/BB/-	Ba3/-/-
2019/6/7	China Construction Bank Corp/Tokyo	USD	40	0	2019/9/17	95D	Banks	A1/A/A	-/-/-

Sources: Bloomberg, CCX research

Shandong Commercial Group Co Ltd, China South City Holdings Ltd and Ronshine China Holdings Ltd announced tap bond offering, details are as follow:

Table 2 : Tap bond offering (20190603-20190607)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/6/3	Shandong Commercial Group Co Ltd	USD	300 (reoffered 180)	8.5	2021/12/31	3	Financials	-/-/-	-/-/-
2019/6/6	China South City Holdings Ltd	USD	260 (reoffered 60)	11.875	2021/3/27	3	Real Estate	-/B-/B	-/-/B
2019/6/6	Ronshine China Holdings Ltd	USD	435 (reoffered 235)	8.75	2022/10/25	4	Real Estate	B1/B/B+	B2/-/B+

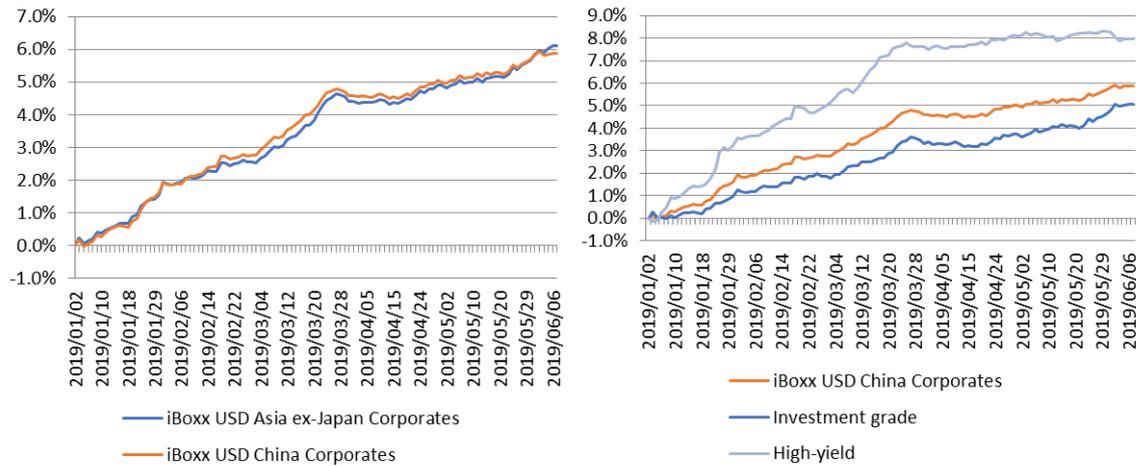
Sources: Bloomberg, CCX research

Recently, a couple of Chinese entities, such as Shanghai International Port (Group) Co Ltd and China National Chemical Corporation Limited, planned to issue offshore bonds.

Secondary Market: Returns on investment grade bonds rose and returns on high-yield bonds fell sharply

As of June 7, the YTD return on Chinese USD corporate bond index increased by 6bp over last week to 5.88%, of which investment grade bond index was 5.05% and high-yield bond index was 7.98%, increasing by 22 bp and decreasing by 30 bp respectively over last week.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

For the credit rating changes in Chinese offshore bond market, the rating agencies upgraded the rating/outlook of 7 Chinese entities from June 3 to June 7. The details are as follows:

Table 3 : Credit rating changes in Chinese offshore bond market (20190603-20190607)

Entity	Sector	Entity Rating	Latest Rating Outlook	Date	Entity Rating	Last Rating Outlook	Date	Rating Agency	Reason of Change
Bluefocus Intelligent Communications Group Co Ltd	Communications	B+	STABLE	2019/6/3	B+	NEG	2018/11/19	Fitch	Improved operating cash generation and a reduction in debt levels
Tahoe Group Co Ltd	Real Estate	B-	STABLE	2019/6/5	B-	NEG	2018/10/10	Fitch	Improvement in liquidity and leverage
Honghua Group Limited	Energy	B	STABLE	2019/6/5	B-	STABLE	2018/6/13	Fitch	Increased evidence of linkages with its controlling shareholder
Geely Automobile Holdings Limited	Consumer Discretionary	Baa3	STABLE	2019/6/5	Ba1	POS	2018/8/28	Moody's	Strengthening business profile and growing market share
Changsha Pilot Investment Holdings Group Co Ltd	Real Estate	AA+	STABLE	2019/6/5	AA	STABLE	2018/6/10	Dagong	Strong government support , strengthened debt repayment capability
Shanghai Huayi (Group) Co	Consumer Staples	BBB-	POS	2019/6/6	BBB-	STABLE	2017/9/29	S&P	Significant improved in financial leverage
Tongchuang Jiuding Investment Management Group Co Ltd	Financials	BB	STABLE	2019/6/6	BB	Developing	2018/8/31	S&P	Reduced liquidity risk
Jiangxi Railway Investment Group Corp	Industrials	AAA	STABLE	2019/6/6	AA+	STABLE	2018/2/22	CCXI	Increased investment in railways, strong government support

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: The Republic of Portugal issued a new bond this week

As of June 7, 12 issuers issued 16 Panda Bonds in 2019, with a total issuance amount of RMB 24.04 billion, and an average coupon of 3.79%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

On June 3, the Republic of Portugal 2019 Renminbi Bonds (Series 1) (Bond Connect) was issued in the inter-bank market. The RMB 2 billion Panda bond, will mature in 3 years with a coupon rate at 4.09%. It is the first time for the Republic of Portugal to raise funds through the Panda Bond market, net proceeds of which will be remitted abroad. In some cases, all or part of the RMB will be converted into euros, adding to the central government's financial resources to carry out various government activities, including potential projects of the Belt and Road Initiative in the near future. China Lianhe Credit Rating Co., Ltd assigned AAA to both the issuer and the bond.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20190607)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
The Republic of Portugal	2	4.09	2019/6/3	2022/6/3	3	International Institutional Bond	China Interbank Market	Lianhe
Republic of the Philippines	2.5	3.58	2019/5/20	2022/5/20	3	International Institutional Bond	China Interbank Market	Lianhe
Trafigura Private Trading Enterprise Limited	0.54	5.49	2019/5/20	2022/5/20	3	PPN	China Interbank Market	Lianhe
CITIC Pacific Limited	1	3.90	2019/5/20	2022/5/20	3	Corporate Bond	Shanghai Stock Exchange	China Chengxin
Semiconductor Manufacturing International Corp.	1	3.10	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	0.5	3.05	2019/4/29	2019/10/26	0.5	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Co. Ltd	1	3.35	2019/4/19	2019/12/30	0.7	SCP	China Interbank Market	China Chengxin
GLP China Holdings Limited	3.3	4.35	2019/3/18	2028/3/18	9	Corporate Bond	Shenzhen Stock Exchange	Shanghai Brilliance
United Overseas Bank Ltd	2	3.49	2019/3/14	2022/3/14	3	Commercial Bank Bond	China Interbank Market	China Chengxin
Bayerische Motoren Werke (BMW) Finance NV	3	4.00	2019/3/8	2022/3/8	3	PPN	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corp.	1.5	3.57	2019/3/4	2022/3/4	3	MTN	China Interbank Market	China Chengxin/China Bond Rating
New Development Bank	2	3.00	2019/2/26	2022/2/26	3	International Institutional Bond	China Interbank Market	China Chengxin/Lianhe
New Development Bank	1	3.32	2019/2/26	2024/2/26	5	International Institutional Bond	China Interbank Market	China Chengxin/Lianhe
China Everbright Water Ltd	0.7	3.89	2019/1/21	2024/1/21	5	Corporate Bond	Shanghai Stock Exchange	Shanghai Brilliance
Beijing Enterprises Water Group Ltd	1	3.95	2019/1/11	2026/1/11	7	MTN	China Interbank Market	Shanghai Brilliance / Dagong
Beijing Enterprises Water Group Ltd	1	4.49	2019/1/11	2029/1/11	10	MTN	China Interbank Market	Shanghai Brilliance / Dagong

Sources: Bloomberg, CCX research

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