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From June 24 to June 28

US and China resume trade talk, 10-year US Treasury yield dropped below 2% again

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Headline: US and China resume trade talk, trade tensions ease

The US President Donald Trump and Chinese President Xi Jinping met in the G20 summit in Osaka on June 29, and agreed to resume trade talk. The US suggested that it will not impose any new tariffs to the Chinese exports and the US companies will be allowed to sell their equipment to Huawei, while China will buy US farm products. The meeting was ended in a better-than-expected result, suggesting the easing trade tensions.

Exchange Rate: RMB exchange rate stabilized

The RMB exchange rate demonstrated a stable trend this week. As of June 28, the intermediate price of the RMB exchange rate closed at 6.8747, marginally increasing by 275bp from last Friday. In June 2019, the market sentiment signaled a trend of recovering, and the RMB exchange rate rebound. On June 27, the People's Bank of China (the "PBOC") stated that the RMB exchange rate is generally stable with enhanced ability to respond to external shocks.

Interest Rate: China Government Bond yields remained stable, 10-year US Treasury yield dropped below 2% again

The yields of China Government Bond were generally stable, but the yields of different maturities moved in different directions. The weak economic data and intense relationship between the US and Iran dragged down the Treasury yields, of which the 10-year Treasury yield dropped below 2% again. As of June 28, the yield spread between China and US 10-year note was 122.0bp, widening by 4.4bp from last Friday and expanding by 66.7bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: The Chinese offshore bond market remained hot, while the Chengtou issues remained large**

From June 24 to June 28, there are 23 new issues with a total issued volume of USD 6.9 billion, of which financial institutions were the key issuers. The Chengtou issuers were active in the market, which issued 6 offshore bonds with the volume of USD 0.9 billion.

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

As of June 28, the YTD return on Chinese USD corporate bond index increased by 28bp over last week to 6.96%, of which investment grade bond index was 6.06% and high-yield bond index was 9.22%, increasing by 28 bp and by 27 bp respectively over last week.

Panda Bond Market: No new issuance this week

As of June 28, 13 issuers issued 18 Panda Bonds in 2019, with a total issuance amount of RMB 26.04 billion, and an average coupon of 3.75%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

Headline: US and China resume trade talk, trade tensions ease

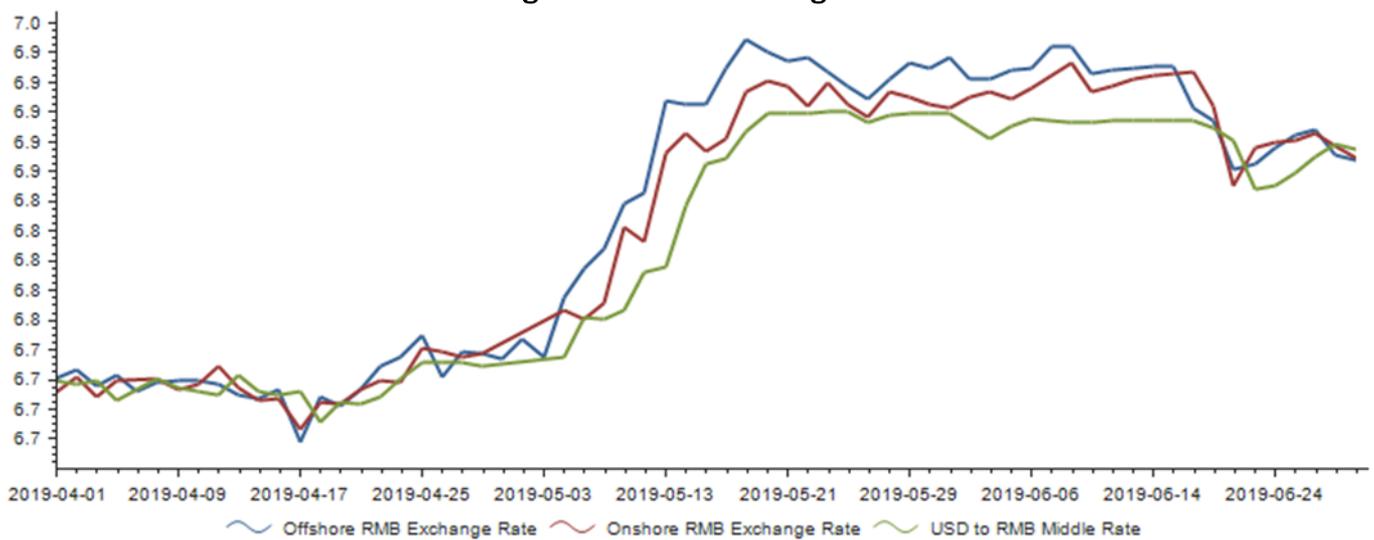
The 14th Group of 20 (“G20”) summit was held on June 28-June 29 in Osaka, Japan. This summit was deemed as the most important one since the 2009 G20 meeting in London as the globalization and multilateralism were under threat due to the rising protectionism and unilateralism. In addition, the Iran nuclear deal, situation in the Middle East and northeast Asia were some of the issues brought into the spotlight. The meeting between the US and Chinese presidents on Saturday was closely watched by the market, because it could decide whether the US and China will restart the negotiations on a trade deal or not. The US and China planned to end the trade war before, but they were failed to get a consensus since the US intensified the conflicts.

The US and China agree to restart the trade talk. Moreover, the US suggested that it will not impose any new tariffs to the Chinese exports and the US companies will be allowed to sell their equipment to Huawei, while China will buy US farm products. The meeting’s result was better than the market expectation, which strengthened the market sentiment in the short run. It is expected the US will hold the US 300 billion tariffs on the Chinese exports while China will not introduce any countermeasures, suggesting that the dispute will be unlikely to be intensified. Yet, the US and China did not set a deadline for the trade deal, which may imply disagreement in some key aspects of the deal. It is expected that the conflicts between the US and China may be continuous over the medium to long term.

Exchange Rate: RMB exchange rate stabilized

The RMB exchange rate demonstrated a stable trend this week. As of June 28, the intermediate price of the RMB exchange rate closed at 6.8747, marginally increasing by 275bp from last Friday. The onshore and offshore exchange rates fluctuated slightly, closing at 6.8683 and 6.8675. In the first half of 2019, the RMB exchange rate varied alongside the market sentiment. But in June 2019, the market sentiment signaled a trend of recovering, and the RMB exchange rate rebound. On June 27, the People’s Bank of China (the “PBOC”) stated that the RMB exchange rate is generally stable with enhanced ability to respond to external shocks. In addition, the PBOC said it will keep an eye on both domestic as well as international financial markets, and it will adopt countercyclical adjustment when appropriate and strike balance between monetary easing and tightening.

Figure 1 : RMB Exchange Rate

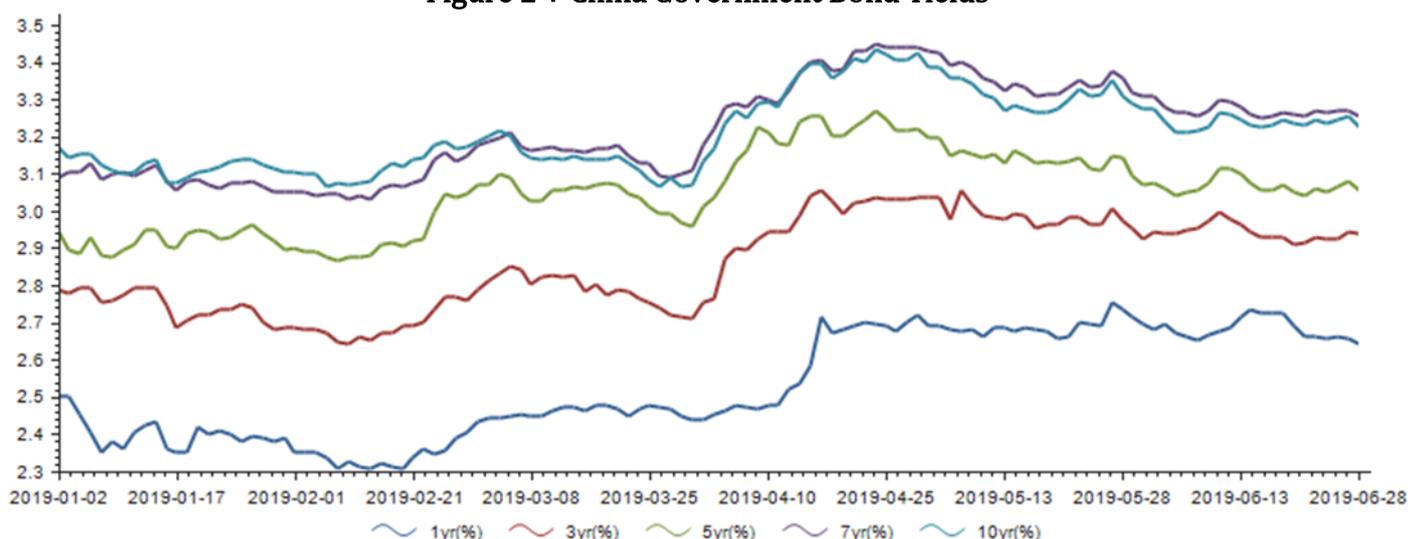


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond yields remained stable, 10-year US Treasury yield dropped below 2% again

The yields of China Government Bonds were generally stable, but the yields of different maturities moved in different directions. As of June 28, the maturity yields of 1-year and 10-year Government Bond declined slightly from last Friday, closing at 2.6429% and 3.2254%; the maturity yields of 3-year and 5-year Government Bond lightly increased to 2.9406% and 3.0570%. The maturity yield of 7-year Government Bond closed at 3.2550%, which was basically the same as last Friday.

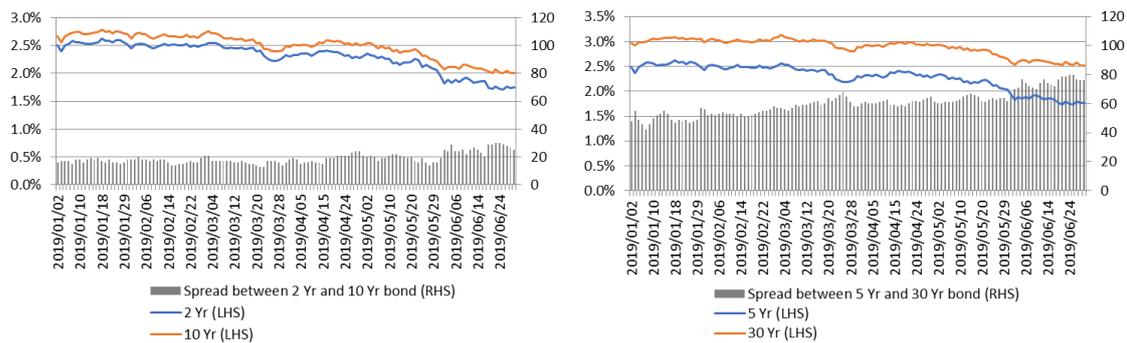
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

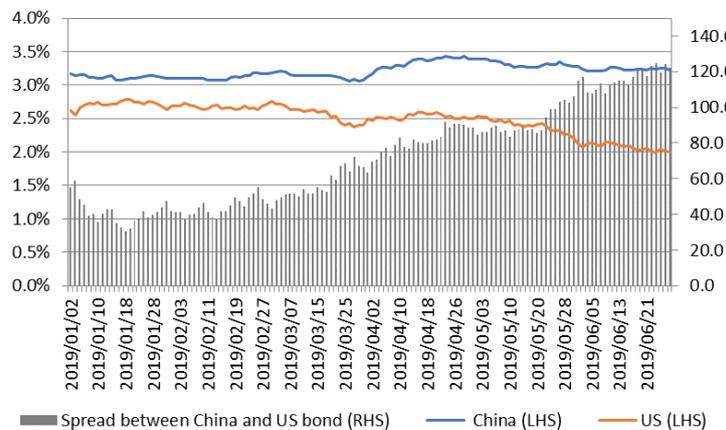
The US consumer confidence in June fell to an unexpected low of 121.5, the lowest level since September 2017. The weak economic data and intense relationship between the US and Iran dragged down the Treasury yields, of which the 10-year Treasury yield dropped below 2% again. As of June 28, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 1.75%, 1.76%, 2.00% and 2.52%, decreasing by 2bp, 4bp, 7bp and 7bp over last week, respectively. In terms of Treasury spreads, the spread between the 2-year and 10-year Treasury bonds decreased by 5bp to 25bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds decreased by 3bp to 76bp from last Friday. As of June 28, the yield spread between China and US 10-year note was 122.0bp, widening by 4.4bp from last Friday and expanding by 66.7bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

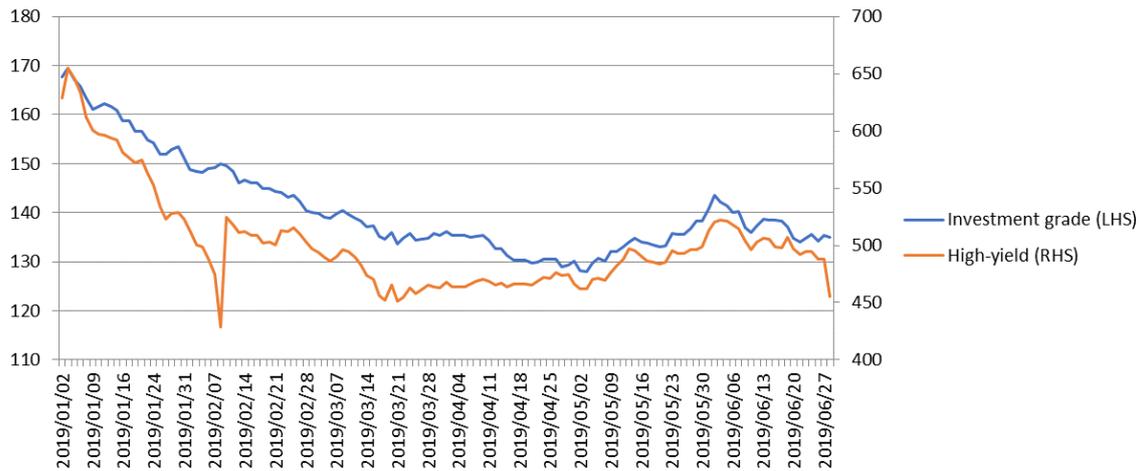
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond remained stable, while the credit spread of the high-yield bond narrowed. As of June 28, investment-grade spreads slightly widened by 0.9bp to 135bp from last week, while high-yield spreads narrowed by 36.7bp to 455bp 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: The Chinese offshore bond market remained hot, while the Chengtou issues remained large

From June 24 to June 28, there are 23 new issues with a total issued volume of USD 6.9 billion, of which financial institutions were the key issuers. The Chengtou issuers were active in the market, which issued 6 offshore bonds with the volume of USD 0.9 billion. The details are as follows:

Table 1 : New issuance of Chinese offshore bonds (20190624-20190628)

| Pricing date | Obligor | Currency | Amount (million) | Coupon (%) | Maturity | Tenor | Industry | Issuer Rating | Issue Rating |
|--------------|---|----------|------------------|------------|-----------|-------|-------------|---------------|--------------|
| 2019/6/24 | Chengdu Dongfang Guangyi Investment Co Ltd | USD | 170 | 7 | 2022/6/28 | 3 | Financials | -/-/- | -/-/- |
| 2019/6/24 | China General Nuclear Power Corp | USD | 600 | 2.75 | 2024/7/2 | 5 | Utilities | A2/A-/A | A2/-/A |
| 2019/6/24 | Fosun International Ltd | USD | 700 | 6.75 | 2023/7/2 | 4 | Financials | Ba2/BB/- | -/BB/- |
| 2019/6/24 | Luye Pharma Group Ltd | USD | 300 | 1.5 | 2024/7/9 | 5 | Health Care | -/-/- | -/-/- |
| 2019/6/24 | Shaanxi Xixian New Area Jinghe New City Development & Construction Group Co Ltd | USD | 100 | 7.75 | 2022/6/27 | 3 | Chengtou | -/-/- | -/-/- |
| 2019/6/24 | Zhongyuan Yuzi Investment Holdings Group Co Ltd | USD | 500 | 4.25 | 2024/6/28 | 5 | Financials | A3/-/A- | -/-/A-e |
| 2019/6/25 | China Vast Industrial Urban Development Co Ltd | USD | 180 | 13 | 2021/6/28 | 2 | Real Estate | -/B/- | -/B/- |
| 2019/6/25 | CMB Financial Leasing Co Ltd | USD | 900 | 3 | 2024/7/3 | 5 | Financials | A3/BBB+/- | Baa1/BBB+/- |
| 2019/6/25 | CMB Financial Leasing Co Ltd | USD | 100 | 3.625 | 2029/7/3 | 10 | Financials | A3/BBB+/- | Baa1/BBB+/- |
| 2019/6/25 | Qingdao Jiaozhou Bay Development Group Co Ltd | USD | 300 | 5.8 | 2022/6/28 | 3 | Chengtou | -/-/- | -/-/- |
| 2019/6/25 | Redsun Properties Group Ltd | USD | 250 | 10.5 | 2022/10/3 | 3.25 | Real Estate | -/B/B | -/-/B |
| 2019/6/25 | Shaanxi Xixian New Area Qinhan New City Development and Construction Group Co Ltd | USD | 92 | 7.5 | 2022/6/28 | 3 | Chengtou | -/-/- | -/-/- |
| 2019/6/25 | Zhuhai Huafa Group Co Ltd | USD | 300 | 4.25 | 2024/7/3 | 5 | Real Estate | -/-/BBB | -/-/BBBe |

| | | | | | | | | | |
|-----------|---|-----|-----|-------|-----------|-----|----------------|-------------|------------|
| 2019/6/26 | Gansu Provincial Highway Aviation Tourism Investment Group Co Ltd | USD | 300 | 3.875 | 2022/7/5 | 3 | Chengtou | -/BBB/BBB | -/BBB/BBBe |
| 2019/6/26 | Goho Financial Asset Management Co Ltd | USD | 100 | 9.5 | 2021/7/5 | 2 | Financials | B1/-/- | -/-/- |
| 2019/6/26 | Taizhou Xintai Group Co Ltd | USD | 100 | 6.9 | 2022/6/28 | 3 | Chengtou | -/-/- | -/-/- |
| 2019/6/26 | Weibo Corp | USD | 800 | 3.5 | 2024/7/5 | 5 | Communications | Baa1/BBB/- | Baa1/BBB/- |
| 2019/6/27 | Guotai Junan International Holdings Ltd | HKD | 49 | 1.75 | 2019/9/23 | 82D | Financials | Baa2/BBB+/- | -/-/- |
| 2019/6/27 | Qudian Inc | USD | 300 | 1 | 2026/7/1 | 7 | Financials | -/-/- | -/-/- |
| 2019/6/27 | Sunshine 100 China Holdings Ltd | USD | 200 | 11.5 | 2021/7/5 | 2 | Real Estate | -/CCC+/CCC+ | -/-/CCC+e |
| 2019/6/28 | Skyfame Realty Holdings Ltd | USD | 105 | 13 | 2022/7/8 | 3 | Real Estate | -/-/B- | -/-/B-e |
| 2019/6/28 | Tahoe Group Co Ltd | USD | 400 | 15 | 2022/7/10 | 3 | Real Estate | B3/-/B- | -/-/CCC+ |
| 2019/6/28 | Tianjin Jizhou New Town Construction Investment Co Ltd | USD | 70 | 4.8 | 2022/7/9 | 3 | Chengtou | -/-/- | -/-/- |

Sources: Bloomberg, CCX research

The Chinese issuers, including Kaisa Group Holdings Ltd, Jiangsu Hanrui Investment Holding Co Ltd and Xinhua Zhongbao Co Ltd, announced tap bond offering, details are as follow:

Table 2 : Tap bond offering (2019064-20190628)

| Pricing date | Obligor | Currency | Amount (million) | Coupon (%) | Maturity | Tenor | Industry | Issuer Rating | Issue Rating |
|--------------|---|----------|---------------------------|------------|-----------|-------|-------------|---------------|--------------|
| 2019/6/24 | Kaisa Group Holdings Ltd | USD | 550 (reoffered 200) | 11.25 | 2022/4/9 | 3 | Real Estate | B1/B/B | B2/-/- |
| 2019/6/24 | Kaisa Group Holdings Ltd | USD | 700 (reoffered 300) | 11.5 | 2023/1/30 | 3.7 | Real Estate | B1/B/B | B2/-/B |
| 2019/6/24 | Jiangsu Hanrui Investment Holding Co Ltd | USD | 490 (reoffered 210) | 7.95 | 2022/4/29 | 3 | Chengtou | -/-/B | -/-/- |
| 2019/6/24 | Xi'an Aviation City Construction & Development Group Co Ltd | USD | 78 (reoffered 23) | 7.25 | 2022/1/8 | 3 | Chengtou | -/-/- | -/-/- |
| 2019/6/25 | Xinhua Zhongbao Co Ltd | USD | 160 (reoffered 50) | 11 | 2022/6/12 | 3 | Real Estate | B2/B/B- | B3/-/B- |
| 2019/6/26 | Liuzhou Dongtong Investment Development Co Ltd | USD | 180 (reoffered 40) | 7 | 2022/5/22 | 3 | Chengtou | -/-/BB | -/-/BB |
| 2019/6/28 | Yango Group Co Ltd | USD | 310 (reoffered 60) | 9.5 | 2021/4/3 | 2 | Real Estate | B2/B/B | -/-/B- |
| 2019/6/28 | Macrolink Holding Co Ltd | USD | 208.4 (reoffered 40.4) | 9.5 | 2021/1/4 | 2 | Financials | -/-/- | -/-/- |

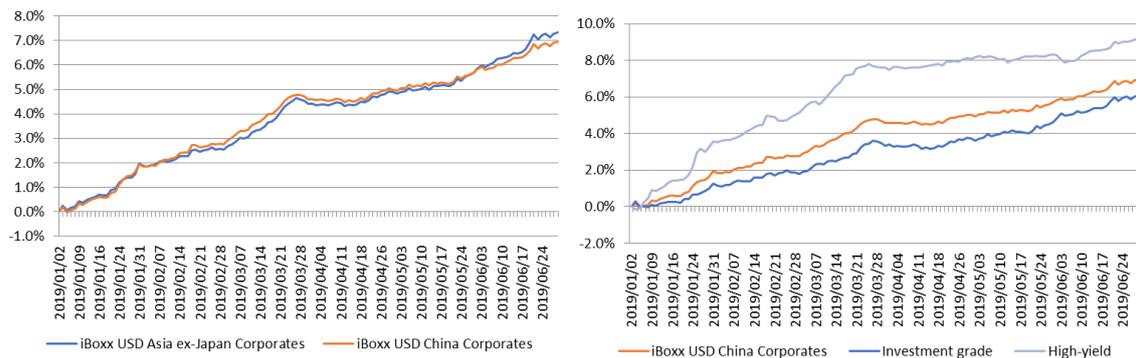
Sources: Bloomberg, CCX research

Recently, Chongqing Hechuan City Construction Investment (Group) Co Ltd, Tsinghua Tongfang Co Ltd and Shandong Guohui Investment Co Ltd planned to issue offshore bonds.

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

As of June 28, the YTD return on Chinese USD corporate bond index increased by 28bp over last week to 6.96%, of which investment grade bond index was 6.06% and high-yield bond index was 9.22%, increasing by 28 bp and by 27 bp respectively over last week.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

For the credit rating changes of cross-border bond market, the rating agencies upgraded the rating/outlook of 5 Chinese entities, and downgraded 2 Chinese entities from June 24 to June 28. The details are as follows:

Table 3 : Credit rating changes of cross-border bond market (20190624-20190628)

| Entity | Sector | Entity Rating | Latest Rating | | Entity Rating | Last Rating | | Rating Agency | Reason of Change |
|--|-------------|---------------|---------------|-----------|---------------|-------------|------------|----------------|--|
| | | | Outlook | Date | | Outlook | Date | | |
| International Rating: | | | | | | | | | |
| Shanghai Electric Power Co Ltd | Utilities | BBB | STABLE | 2019/6/25 | BBB | NEG | 2018/6/29 | S&P | Low likelihood of K-Electric acquisition |
| China Merchants Bank Co Ltd | Bank | BBB+ | STABLE | 2019/6/25 | BBB | STABLE | 2018/7/4 | Fitch | Growing systemic importance in retail franchise, consistent above-peer market share in retail deposits |
| Shandong Yuhuang Chemical Co Ltd | Materials | CCC+ | NEG | 2019/6/27 | B | NEG | 2019/1/28 | Fitch | Deteriorating liquidity position |
| Tahoe Group Co Ltd | Real Estate | B3 | STABLE | 2019/6/28 | B3 | NEG | 2018/11/13 | Moody's | Proactive liquidity management to address refinancing needs |
| Local Rating: | | | | | | | | | |
| Qinghai Provincial Investment Group Co Ltd | Financials | BBB | NEG | 2019/6/27 | AA- | NEG | 2019/3/5 | Pengyuan | Defaulted debts, intense pressure in debt repayment, disclaimer of opinion report |
| Guangxi Communications Investment Group Co Ltd | Chengtou | AAA | STABLE | 2019/6/27 | AA+ | STABLE | 2018/6/27 | Dagong | Improvement in business profile |
| Wuhan State-Owned Asset Management Ltd Co | Real Estate | AAA | STABLE | 2019/6/28 | AA+ | STABLE | 2018/6/28 | China Chengxin | Listing of its subsidiary Tianfeng Securities, capital injection |

Sources: Bloomberg, CCX research

Panda Bond Market: No new issuance this week

As of June 28, 13 issuers issued 18 Panda Bonds in 2019, with a total issuance amount of RMB 26.04 billion, and an average coupon of 3.75%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

Table 4 : New issuance of Panda Bond in 2019 (20190101-20190628)

| Issuer | Amount (RMB billion) | Coupon (%) | Issue date | Maturity | Tenor | Bond Type | Issue Market | Local Rating Agency |
|---|----------------------|------------|------------|------------|-------|----------------------------------|-------------------------|----------------------------------|
| Malayan Banking Berhad | 1 | 3.28 | 2019/6/21 | 2020/6/21 | 1 | Financial Bond | China Interbank Market | China Chengxin |
| Malayan Banking Berhad | 1 | 3.58 | 2019/6/21 | 2022/6/21 | 3 | Financial Bond | China Interbank Market | China Chengxin |
| 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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