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From July 22 to July 26

Probability of a no-deal Brexit increases, US Treasury yields rebound

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Headline: Johnson becomes British Prime Minister, probability of a no-deal Brexit increases

Boris Johnson won the Conservative Party leadership race with supports from around two thirds of voters on July 23, and has been appointed as the new British Prime Minister, after Theresa May, by Queen Elizabeth II on July 24. The appointment of Johnson, a Brexit backer, increases probability of a no-deal Brexit. Also, his policies could be fickle.

Exchange Rate: RMB exchange rate remained stable

During the week, the RMB exchange rate continued the stable trend. As of July 26, the intermediate price of the RMB exchange rate closed at 6.8796, up 161bp from last Friday.

Interest Rate: China Government Bonds yields revealed a steady trend, US Treasury yields rebound

The Chinese bond market is in the state of adjustment. The yields of different maturities moved in different directions, while the fluctuations were within 2bp. Mario Draghi, President of the European Central Bank, stated that the risk of a broad recession in Euro zone is pretty low, which reduced the expectation on the Fed's 50 basis point rate cut and increased US Treasury yields. As of July 26, the yield spread between China and US 10-year note was 109.6bp, narrowing by 0.5bp from last Friday and widening by 54.3bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: New issuance heated up, Shandong Hi-speed was the key issuer**

From July 22 to July 26, there were 15 new issues with a total issued volume of USD 5.1 billion, of which Shandong Hi-speed, this week's key issuer, issued 3 bonds with a total issued volume of USD 1.5 billion.

Secondary Market: Returns on Chinese USD corporate bonds increased

As of July 26, the YTD return on Chinese USD corporate bond index increased by 10bp over last week to 7.33%, of which investment grade bond index was 6.33% and high-yield bond index was 9.80%, increasing by 2 bp and by 27 bp respectively over last week.

Panda Bond Market: SMIC issued a new SCP this week

On July 25, SMIC issued 1 new SCP in Interbank Market, with a tenor of 270 days, and the coupon rate at 3.10%. SMIC raised RMB 2 billion to replenish the working capital of its subsidiary, SMI Shanghai. China Chengxin assigned a credit rating of AAA to SMIC, with a rating outlook of stable.

Headline: Johnson becomes British Prime Minister, probability of a no-deal Brexit increases

Boris Johnson, the ex-Foreign Secretary and former mayor of London, defeated his rival, Foreign Secretary Jeremy Hunt, in Conservative Party leadership race with supports from around two thirds of voters on July 23, and has been appointed as the new British Prime Minister, after Theresa May, by Queen Elizabeth II on July 24. Johnson said he will deliver Brexit and unite the country in his victor speech. Johnson also claimed he would not accept a compromise Brexit deal, and will prepare coming out of the EU on October 31 even though without an agreement.

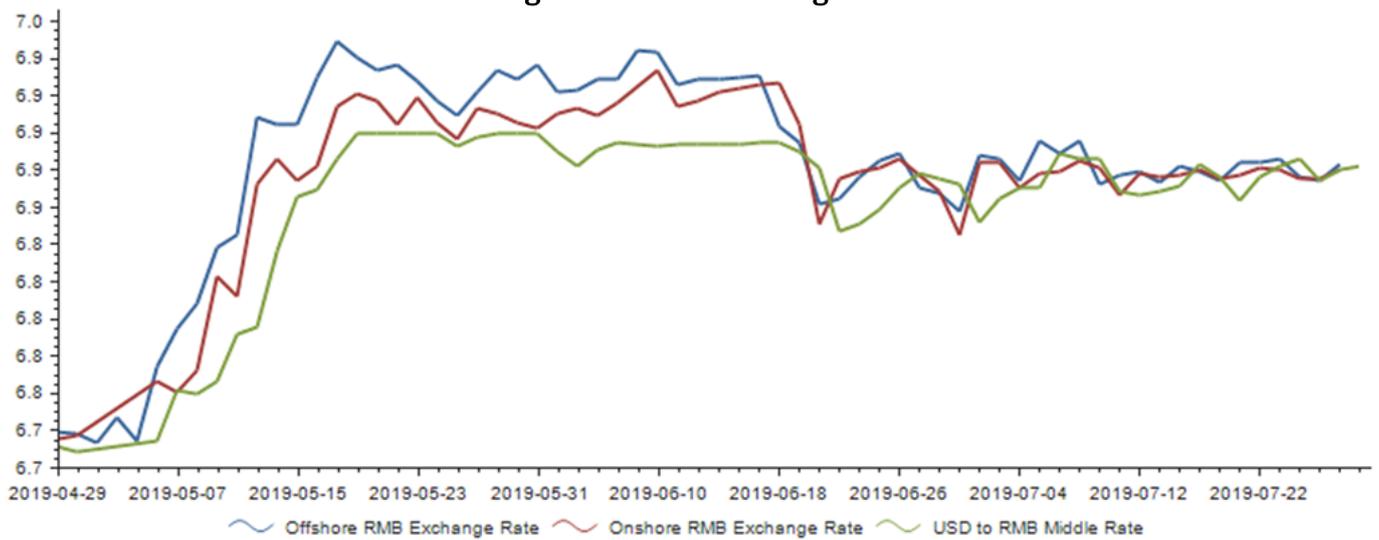
Johnson has repeated that British has to leave EU by October 31, no matter having an agreement or not. Johnson's strong stance on Brexit is one of the very key factors to win the race, because Conservative Party members believe that a strong leader can unite the UK and the Party again. Despite that Johnson would like to renegotiate the agreement with EU, but the EU says the otherwise. At the current stage, it will be difficult to come up with a new agreement for Brexit by the deadline, so the probability of no-deal Brexit could significantly increase.

Johnson has a fickle view on the key issues including immigration, climate and trade, and has been accused of opportunism and pragmatism because of his varying attitude toward EU, which cause uncertainties on his policies. However, it is expected that he will retain, or strengthen, the relationship between British and the US.

Exchange Rate: RMB exchange rate remained stable

During the week, the RMB exchange rate continued the stable trend. As of July 26, the intermediate price of the RMB exchange rate closed at 6.8796, up 161bp from last Friday. Onshore and offshore RMB exchange rate fluctuated slightly, closing at 6.8798 and 6.8826, respectively. Since mid-June, the RMB exchange rate has been relatively stable after a short period of fluctuations. Data released by the U.S. Department of Commerce on July 26 showed that the economic data of the US is mixed. Since real GDP growth in the second quarter beat expectations, the possibility of cutting interest rates by 25bp is on the rise.

Figure 1 : RMB Exchange Rate

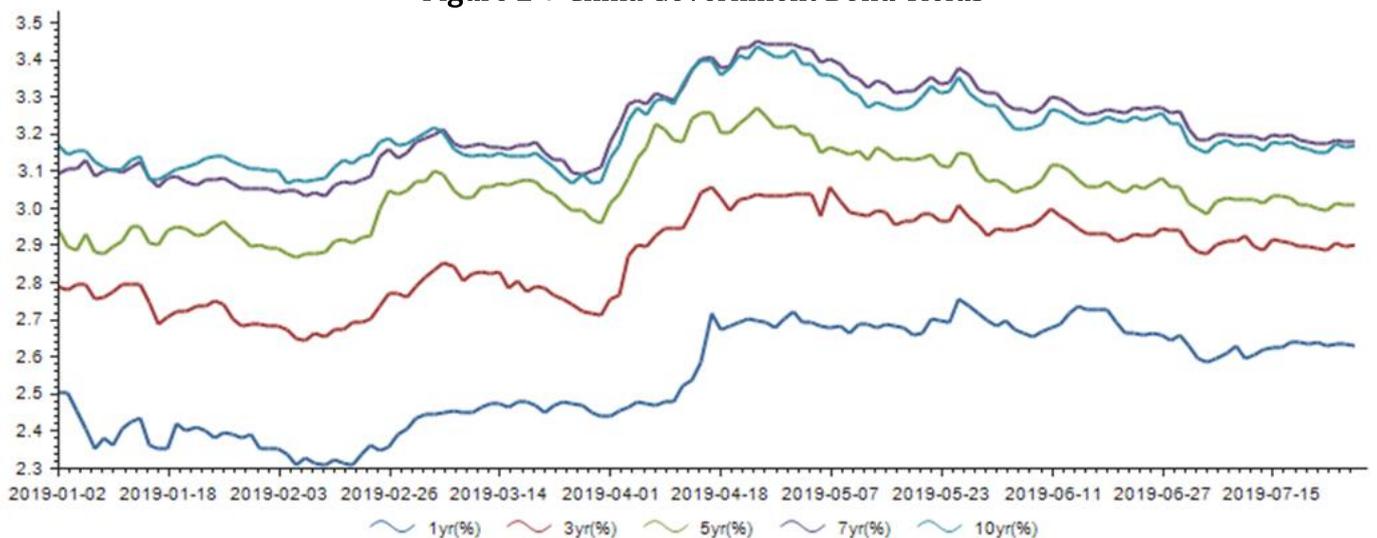


Sources: Eastmoney, CCX research

Interest Rate: China Government Bonds yields revealed a steady trend, US Treasury yields rebound

The bond market is in the state of adjustment. This week, the yields of China Government Bonds fluctuated within 2bp. The yields of different maturities moved in different directions. As of July 2, the maturity yields of 3-year, 7-year, and 10-year Government Bonds rose slightly from last Friday, closing at 2.9009%, 3.1751% and 3.1661%, respectively; the maturity yields of 1-year and 5-year declined slightly, closing at 2.6267% and 3.0081%, respectively.

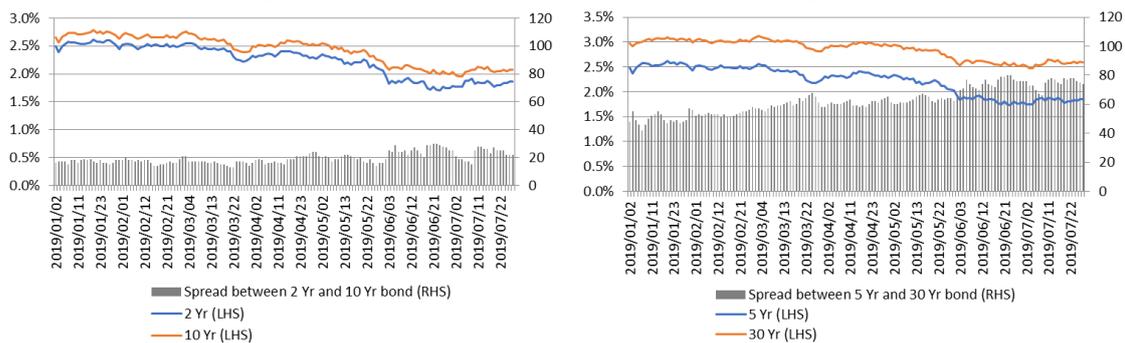
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

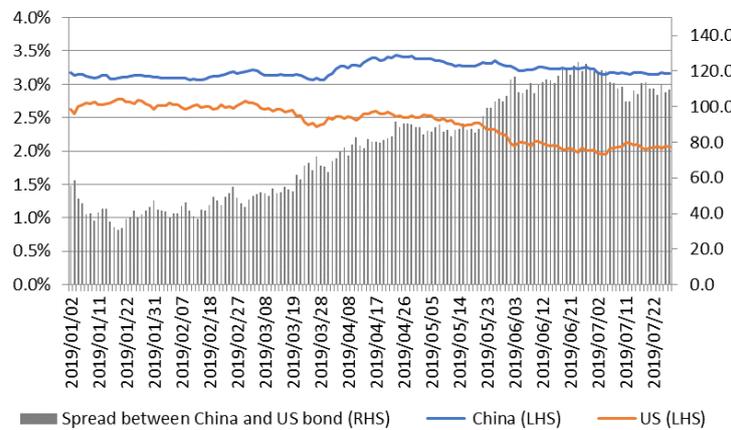
Mario Draghi, President of the European Central Bank, stated that the risk of a broad recession in Euro zone is pretty low, which reduced the expectation on the Fed's 50 basis point rate cut and increased US Treasury yields. As of July 26, the yields on 2-year, 5-year, 10-year and 30-year Treasury note traded at 1.86%, 1.85%, 2.08% and 2.59%, increasing by 6bp, 5bp, 3bp and 2bp over last Friday, respectively. In terms of Treasury spreads, the spread between the 2-year and 10-year Treasury bonds narrowed by 3bp to 22bp from last Friday, and the spread between the 5-year and 30-year Treasury bonds narrowed by 3bp to 74bp from last Friday. As of July 26, the yield spread between China and US 10-year note was 109.6bp, narrowing by 0.5bp from last Friday and widening by 54.3bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

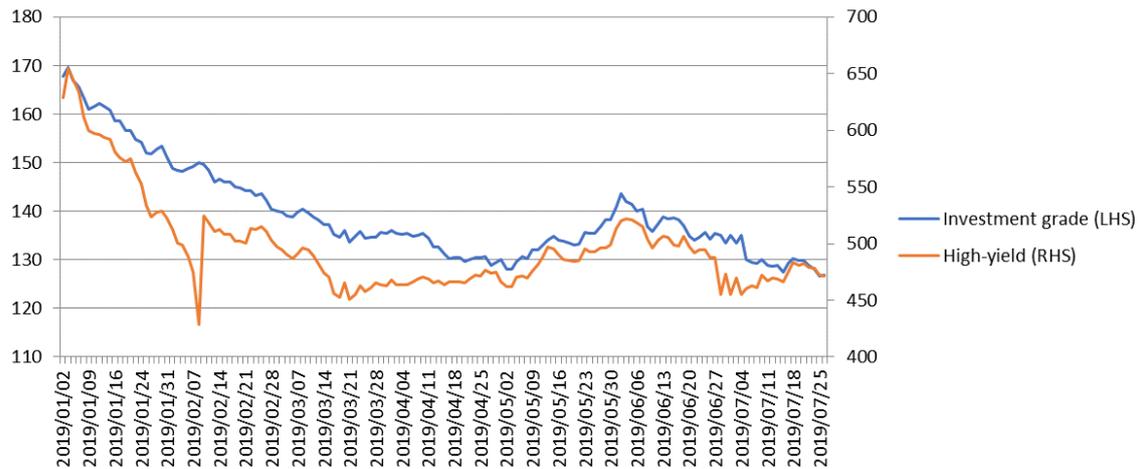
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond narrowed slightly. As of July 26, investment-grade bond spreads slightly decreased by 3.1bp to 127bp from last week, while high-yield spreads decreased by 10.1bp to 471bp 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: New issuance heated up, Shandong Hi-speed was the key issuer

From July 22 to July 26, there were 15 new issues with a total issued volume of USD 5.1 billion, of which Shandong Hi-speed Group Co Ltd (“Shandong Hi-speed”), this week’s key issuer, issued 3 bonds with a total issued volume of USD 1.5 billion.

Table 1 : New issuance of Chinese offshore bonds (20190722-20190726)

Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2019/7/22	Dalian Deta Holding Co Ltd	USD	300	5.95	2022/7/29	3	Chengtou	-/-/BBB-	-/-/BBB-e
2019/7/22	KWG Group Holdings Ltd	USD	300	7.4	2024/3/5	4.6	Real Estate	B1/B+/BB-	-/-/BB-
2019/7/22	Shandong Hi-Speed Group Co Ltd	USD	100	4.3	2029/7/25	10	Industrials	A3/-/A	-/-/-
2019/7/23	Agricultural Bank of China Ltd/Hong Kong	USD	1,000	3ML+68	2022/7/30	3	Banks	A1/A/A	A1/-/-
2019/7/24	Bright Scholar Education Holdings Ltd	USD	300	7.45	2022/7/31	3	Consumer Discretionary	Ba3/-/BB-	Ba3/-/BB-e
2019/7/24	China Great Wall AMC International Holdings Co Ltd	USD	200	3.125	2024/7/31	5	Financials	-/BBB+/A-	-/BBB+/A-e
2019/7/24	China Great Wall AMC International Holdings Co Ltd	USD	400	3.95	-	Perpetual	Financials	-/BBB+/A-	-/-/BBB+e
2019/7/24	Guotai Junan International Holdings Ltd	HKD	242	0	2020/1/30	184D	Financials	Baa2/BBB+/-	-/-/-
2019/7/24	Haitong UT Capital Group Co Ltd	USD	150	3.8	2022/7/31	3	Financials	-/-/-	-/-/-
2019/7/24	Industrial & Commercial Bank of China Ltd/London	GBP	600	1.5	2022/7/31	3	Banks	A1/A/A	A1/-/-
2019/7/25	China Guangdong Hong Kong Greater Bay Area Holdings Ltd	USD	10	2.2	2022/7/25	3	Financials	-/-/-	-/-/-
2019/7/25	GLP China Holdings Ltd	USD	15	4.98	2024/7/30	5	Industrials	-/BBB/-	-/-/-
2019/7/25	Honghua Group Ltd	USD	200	6.375	2022/8/1	3	Energy	B1/-/B	B1/-/Be
2019/7/25	Shandong Hi-Speed Group Co Ltd	USD	500	3.95	2022/8/1	3	Industrials	A3/-/A	Baa2/-/-
2019/7/25	Shandong Hi-Speed Group Co Ltd	USD	900	4.3	-	Perpetual	Industrials	A3/-/A	-/-/A-e

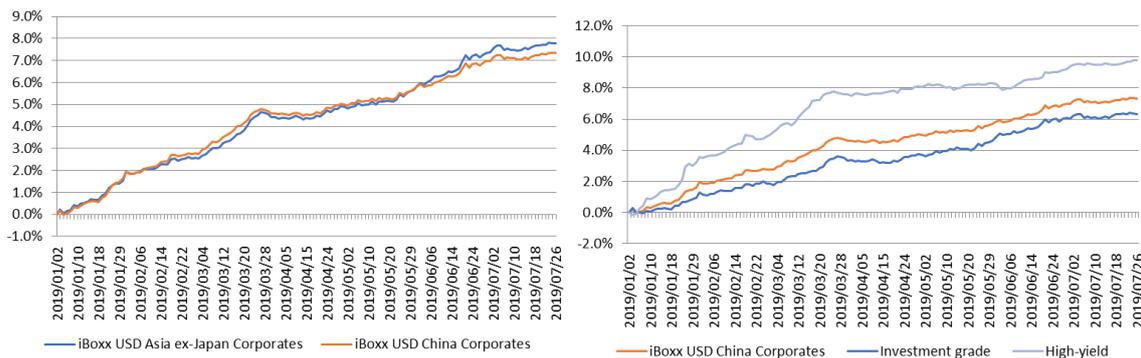
Sources: Bloomberg, CCX research

Recently, Changde Economic Development Investment Group Co Ltd, GCL Intelligent Energy Co Ltd and Sino-Ocean Group Holding Ltd planned to issue offshore bonds.

Secondary Market: Returns on Chinese USD corporate bonds increased

As of July 26, the YTD return on Chinese USD corporate bond index increased by 10bp over last week to 7.33%, of which investment grade bond index was 6.33% and high-yield bond index was 9.80%, increasing by 2 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 3 Chinese entities and downgraded 5 Chinese entities from July 22 to July 26.

Table 2 : Credit rating changes of cross-border bond market (20190722-20190726)

Entity	Sector	Entity Rating	Latest Rating		Entity Rating	Last Rating		Rating Agency	Reason of Change
			Outlook	Date		Outlook	Date		
Zhaojin Mining Industry Co Ltd	Materials	BB+	STABLE	2019/7/22	BB	Rating Watch Positive	2019/4/12	Fitch	Upgrade of creditworthiness of the Company's controlling shareholder, Zhaoyuan City
Shanghai Electric Power Co Ltd	Utilities	Baa2	STABLE	2019/7/22	Baa2	NEG	2018/7/20	Moody's	Improving performance in power generation, and the diminishing likelihood of its proposed acquisition of K-Electric in Pakistan
Honghua Group Ltd	Energy	B1	POS	2019/7/22	B2	STABLE	2019/3/18	Moody's	Extraordinary support from China Aerospace Science and Industry Corp Ltd
China Wanda Group Co Ltd	Consumer Discretionary	B1	NEG	2019/7/24	B1	STABLE	2018/10/9	Moody's	Weakening liquidity
Jiangsu Nantong Sanjian Construction Group Co Ltd	Industrials	Caa1	NEG	2019/7/25	B3	NEG	2018/10/30	Moody's	Uncertainty over the refinancing

China Energy Engineering Corp Ltd	Industrials	A3	NEG	2019/7/25	A3	STABLE	2018/7/16	Moody's	Higher-than-expected leverage and uncertainty around the Company's ability to deleverage
Yihua Enterprise Group Co Ltd	Consumer Discretionary	CCC	NEG	2019/7/26	B-	NEG	2019/4/17	S&P	Increase in refinancing risk
Local Rating:									
Zhongrong Xinda Group Co Ltd	Materials	AA+	STABLE	2019/7/22	AAA	Rating Watch	2019/4/4	Lianhe	Intensifying refinancing pressure; sizeable pledged asset and external guarantee; large investment expenditure

Sources: Bloomberg, CCX research

Panda Bond Market: SMIC issued a new SCP this week

As of July 26, there were 13 issuers that issued 21 Panda Bonds in 2019, with a total issuance amount of RMB 31.54 billion, and an average coupon of 3.71%. These bonds were mostly issued in the Interbank Market, with the tenor of 3 years.

On July 25, Semiconductor Manufacturing International Corporation (“SMIC”) issued 1 new Super & Short-term Commercial Paper (“SCP”) in Interbank Market, with a tenor of 270 days, and the coupon rate at 3.10%. SMIC raised RMB 2 billion to replenish the working capital of its subsidiary, Semiconductor Manufacturing International (Shanghai) Corporation (“SMI Shanghai”). China Chengxin assigned a credit rating of AAA to SMIC, with a rating outlook of stable.

Table 3 : New issuance of Panda Bond in 2019 (20190101-20190726)

Issuer	Amount (RMB in billions)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Semiconductor Manufacturing International Corp.	2	3.10	2019/7/25	2020/4/20	0.76	SCP	China Interbank Market	China Chengxin
Bayerische Motoren Werke (BMW) Finance N.V.	1.5	3.30	2019/7/12	2020/7/12	1	PPN	China Interbank Market	China Chengxin
Bayerische Motoren Werke (BMW) Finance N.V.	2	3.98	2019/7/12	2022/7/12	3	PPN	China Interbank Market	China Chengxin
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 N.V.	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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