

## 2020 Issue 14

From April 20 to April 24

## US crude futures plunged below zero, Xiaomi Corp debuted in Chinese dollar bond market

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## Date:

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**Headline: US crude futures plunged below zero**

Given a weak oil demand from the pandemic and high crude inventory level, crude oil traders unwound their position to avoid taking delivery which exerted downward pressure on prices of the future contract. As of April 21, the WTI crude futures for May delivery closed at -USD37.63 per barrel, closing at a negative territory for the first time. The low level and drop in crude prices could exert pressure to both upstream and downstream segments of the oil industry.

**Exchange Rate: RMB exchange rate rose**

This week, the RMB exchange rate slightly increased. As of April 24, the intermediate price of the RMB exchange rate closed at 7.0803.

**Interest Rate: China Government Bond yields declined; US yield curve flattened**

China Government Bond yields demonstrated a downward trend as more measures announced to boost the economy. US Treasury yields fluctuated and the yield curve flattened because of the volatile crude prices and a new round of fiscal stimulus plan from the US government. As of April 24, the yield spread between China and US 10-year note was 190.9bp, slightly narrowing by 0.8bp from last Friday and widening by 63.8bp from the beginning of the year.

**Chinese Offshore Bond Market****Primary Market: Chinese offshore bond new issuance continued the rebound**

From April 20 to April 24, there were 8 new issues with a total issued volume of USD2.65 billion, increasing by 45% as compared to last week. After the first Panda Bond issued in the beginning of April, Xiaomi Corp marked its debut in Chinese dollar bond market this week, which helps diversify its funding channels.

**Secondary Market: Chinese dollar bonds market fluctuated**

Affected by the volatile crude prices, Chinese dollar bonds fluctuated in the secondary market. As of April 24, the YTD return on Chinese USD corporate bond index dropped by 24bp from last Friday to -0.65%. The bond return on different sectors diverged, of which the return on financial and real estate indices dropped while non-financial index slightly rose.

**Rating Actions: Rating agencies took negative actions on Chinese corporates amid adverse impacts from the pandemic and restricted refinancing capabilities****Panda Bond Market: China Mengniu issued SCP this week**

On April 24, China Mengniu raised RMB1.5 billion via SCP issued in the interbank market, at a coupon rate of 1.80%, with a tenor of 210 days. CXXI assigned AAA to the issuer.

## Headline: US crude futures plunged below zero

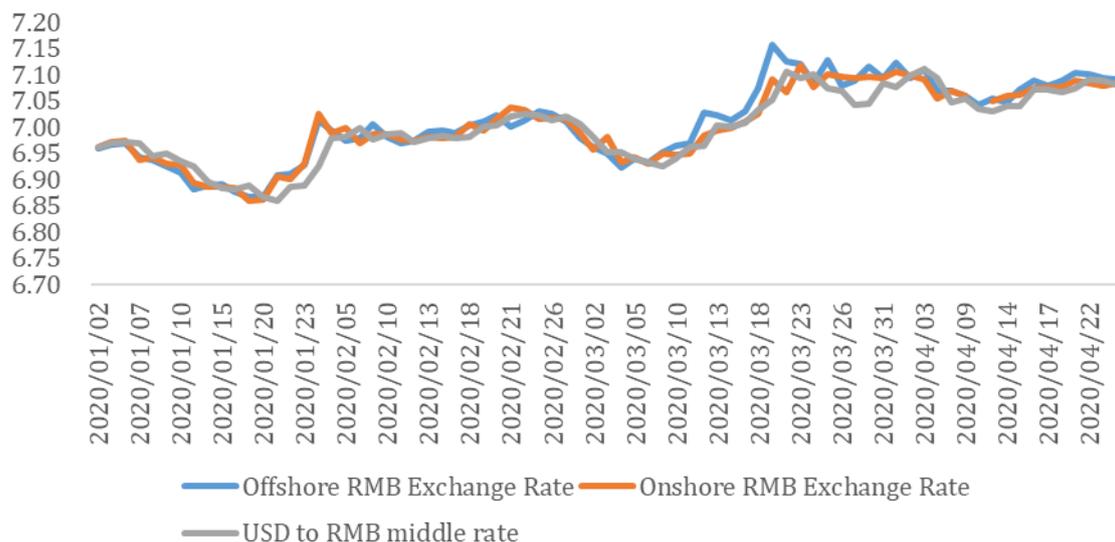
The US benchmark price for crude plunged below zero for the first time, sending stock markets into turmoil. The WTI crude futures for May delivery plunged by USD55.90, closing at -USD37.63 per barrel as of April 21. Given a weak oil demand from the pandemic and high crude inventory level, crude oil traders unwound their position to avoid taking delivery which exerted downward pressure on prices of the future contract. According to International Energy Agency, global oil demand is expected to fall by a record of 9.3 million barrels per day year-on-year in 2020. In addition, the demand in April is estimated to be 29 million barrels per day lower than a year ago, down to a level seen in 1995.

The drop in crude price exerted pressure to the exploration and production segments, the upstream sector of oil industry. The exploration cost, purchasing of equipment and leasing fee accounts for a large proportion of crude production cost. The oil companies have to continue the operation of oil wells as shutting down an oil well could be costly and technically difficult. For downstream segments, lower crude prices could reduce their production cost and improve profit margin. However, given a full capacity of oil tankers, the downstream segments could have issues on higher transportation fee and lack of spare shipping capacity.

## Exchange Rate: RMB exchange rate rose

This week, the RMB exchange rate slightly increased. As of April 24, the intermediate price of the RMB exchange rate closed at 7.0803, up 85bp from last Friday. Onshore and offshore RMB exchange rate rose 65bp and 127bp, closing at 7.0829 and 7.0908, respectively.

Figure 1 : RMB exchange rate

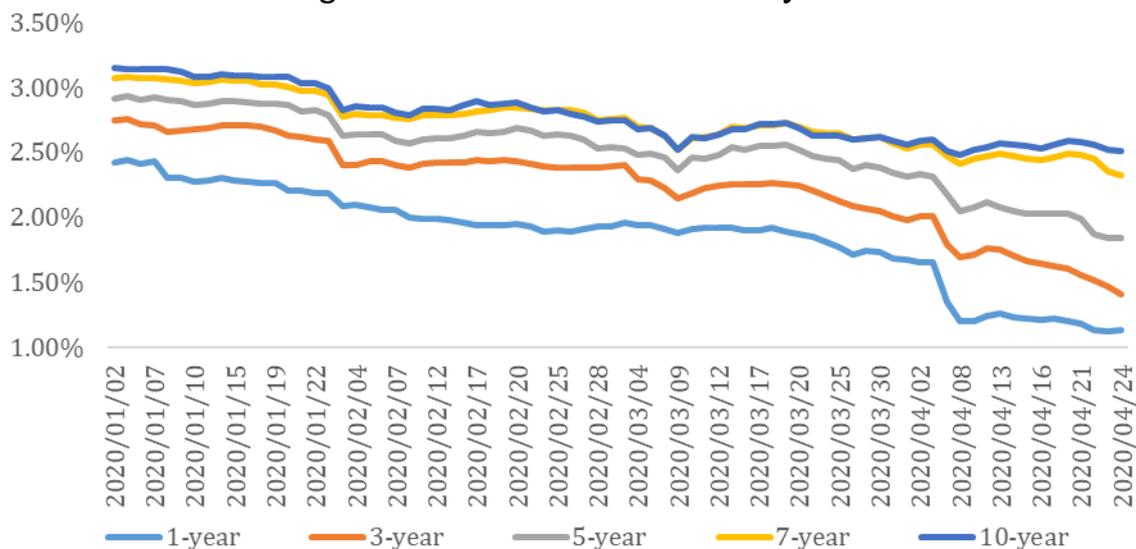


Sources: Eastmoney, CCX research

### Interest Rate: China Government Bond yields declined; US yield curve flattened

The People's Bank of China (the "PBoC") announced more measures to boost the economy amid the pandemic, which lowered China Government bond yields. On April 20, the PBoC cut the benchmark lending rate (LPR), of which 1-year rate dropped by 20bp to 3.85% and 5-year rate dropped by 10bp to 4.65. As of April 24, the 1-year, 3-year, 5-year, 7-year and 10-year China Government Bond yields declined from last Friday, closing at 1.1279%, 1.4082%, 1.8385%, 2.3273% and 2.5100%, respectively.

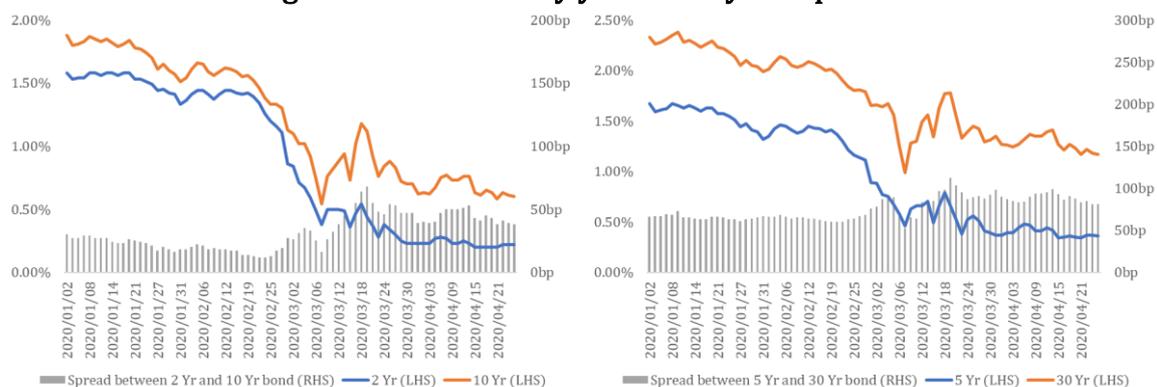
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

US Treasury yields fluctuated and the yield curve flattened because of the volatile crude prices and a new round of fiscal stimulus plan from the US government. As of April 24, 2-year Treasury yield increased by 2bp from last Friday to 0.22%; 5-year yield unchanged as compared to last Friday, closing at 0.36%; 10-year and 30-year yields closed at 0.60% and 1.17%, decreasing by 5bp and 10bp from last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year decreased by 7bp to 38bp from last Friday, while the spread between the 5-year and 30-year decreased by 10bp to 81bp.

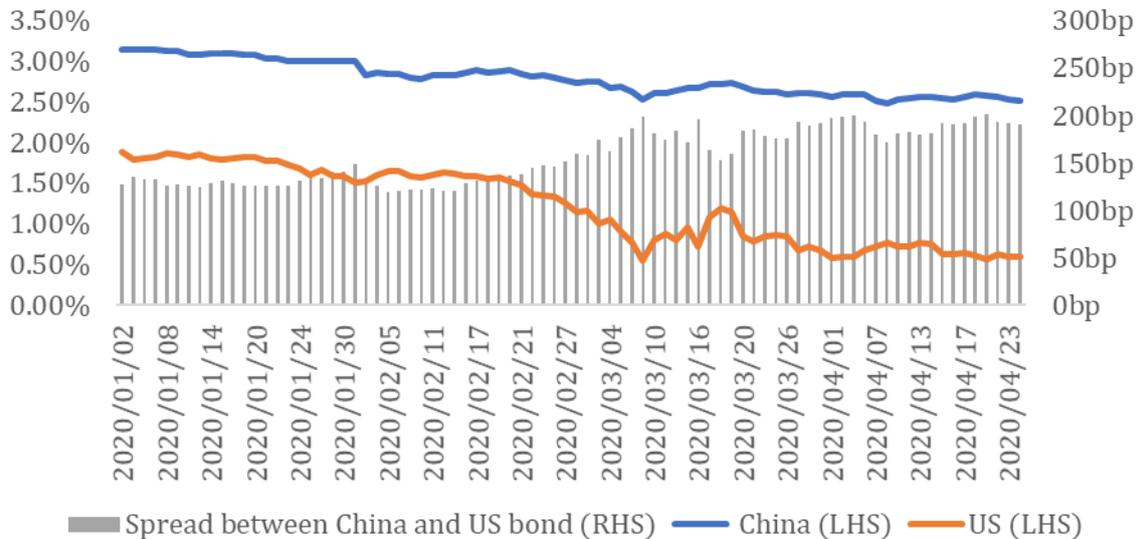
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of April 24, the yield spread between China and US 10-year note was 190.9bp, slightly narrowing by 0.8bp from last Friday and widening by 63.8bp from the beginning of the year.

Figure 4 : Yield spread between China and US 10-year note



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

## Chinese Offshore Bond Market

### Primary Market: Chinese offshore bond new issuance continued the rebound

From April 20 to April 24, there were 8 new issues with a total issued volume of USD2.65 billion, increasing by 45% as compared to last week. After the first Panda Bond issued in the beginning of April, Xiaomi Corp marked its debut in Chinese dollar bond market this week, which helps diversify its funding channels.

Table 1 : New issuance of Chinese offshore bonds (20200420-20200424)

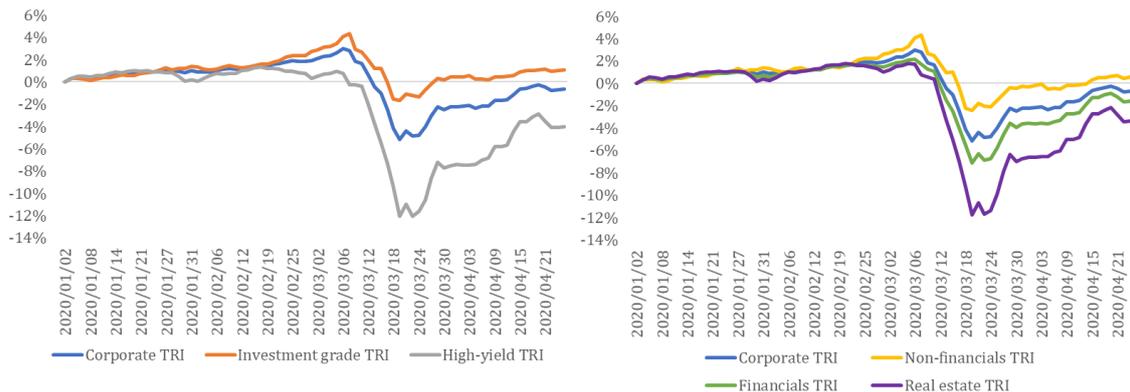
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/4/21	China Regenerative Medicine International Ltd	HKD	120	0	2023/4/21	3	Health Care	-/-/-	-/-/-
2020/4/22	BOC Aviation Ltd	USD	1,000	3.25	2025/4/29	5	Financials	-/A-/A-	-/-/-
2020/4/22	Qingdao City Construction Investment Group Co Ltd	USD	300	3.99	2023/4/27	3	Chengtou	-/-/BBB	-/-/BBBe
2020/4/22	Xiaomi Corp	USD	600	3.375	2030/4/29	10	Technology	Baa2/BBB-/BBB	Baa2/BBB-/BBBe
2020/4/22	Xinhu Zhongbao Co Ltd	USD	87	4.3	2023/3/27	2.9	Real Estate	B3/B/B-	-/-/-
2020/4/23	Haitong International Securities Group Ltd	USD	50	2.75	2021/4/28	364D	Financials	Baa2/BBB/-	-/-/-
2020/4/23	Kingsoft Corp Ltd	HKD	3,100	0.625	2025/4/29	5	Technology	-/-/-	-/-/-
2020/4/23	Pingdu State-owned Asset Management Co Ltd	USD	200	5.75	2023/4/28	3	Chengtou	-/-/-	-/-/-

Sources: Bloomberg, CCX research

## Secondary Market: Chinese dollar bonds market fluctuated

Affected by the volatile crude prices, Chinese dollar bonds fluctuated in the secondary market. As of April 24, the YTD return<sup>1</sup> on Chinese USD corporate bond index dropped by 24bp from last Friday to -0.65%, of which investment grade bond index was 1.07% and high-yield bond index was -4.01%, increasing by 6bp and falling by 86bp respectively. The bond return on different sectors diverged. The return on financial and real estate indices dropped by 49bp to 1.52% and 86bp to 3.27% respectively, while the non-financial index slightly rose by 10bp to 0.57%.

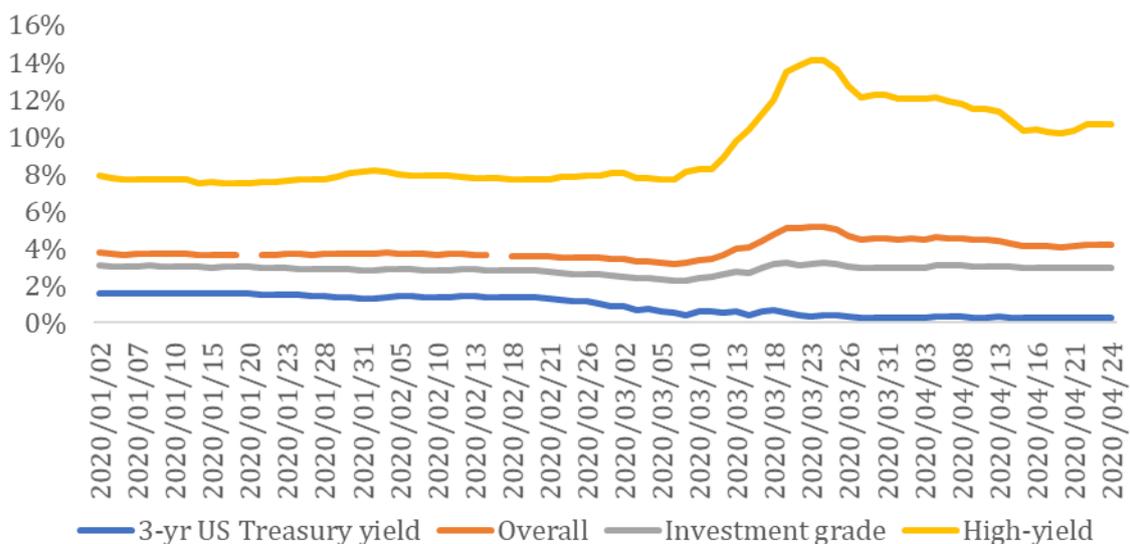
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of April 24, the yield-to-worst of Chinese dollar bonds increased by 9bp to 4.20% from last Friday, of which investment grade bond index increased by 1bp to 2.95%, while the high-yield bond index boosted by 42bp to 10.68%.

Figure 6 : Yield-to-worst of Bloomberg Barclays Chinese USD bond index



Sources: Bloomberg, CCX research

<sup>1</sup> Year-to-date return measures the return since January 2, 2020.

## Rating Actions: Rating agencies took negative actions on Chinese corporates amid adverse impacts from the pandemic and restricted refinancing capabilities

From April 20 to April 24, the rating agencies took negative rating actions on 11 Chinese issuers.

**Table 2 : Credit rating changes of cross-border bond market (20200420-20200424)**

Entity	Sector	Entity Rating	Current Rating		Date	Previous Rating		Rating Agency	Reason of Change	
			Outlook			Outlook				
<b>International Rating:</b>										
Concord New Energy Group Ltd	Utilities	BB-	NEG		2020/4/21	BB-	STABLE	2019/4/25	Fitch	Increasing uncertainty about refinancing of USD bonds
China Everbright Ltd	Financials	Baa2	Rating Watch Negative		2020/4/21	Baa2	STABLE	2019/12/6	Moody's	Increasing leverage and impact of the coronavirus outbreak
Union Life Insurance Co Ltd	Financials	Baa3	Rating Watch Negative		2020/4/22	Baa3	STABLE	2019/10/24	Moody's	Deterioration in credit quality
Golden Wheel Tiandi Holdings Co Ltd	Real Estate	B-	STABLE		2020/4/23	B	NEG	2019/9/17	Fitch	Deterioration in business profile
Fosun International Ltd	Consumer Discretionary	Ba2	Rating Watch Negative		2020/4/23	Ba2	STABLE	2019/7/16	Moody's	Coronavirus-led economic downturn
Century Sunshine Group Holdings Ltd	Materials	B-	Rating Watch Negative		2020/4/23	B	Rating Watch Negative	2020/1/10	Fitch	Poor liquidity management and uncertainties related to the upcoming redemption of bonds
Hilong Holding Ltd	Energy	B	NEG		2020/4/24	B+	Rating Watch Negative	2020/3/18	Fitch	Impact on earnings and cash flows from the steep decline in oil prices
Yangzhou Urban Construction State-owned Asset Holding Group Co Ltd	Chengtou	BBB-	NEG		2020/4/24	BBB-	STABLE	2018/9/11	S&P	Weakening government financial capacity
Yangzhou Economic & Technological Development Zone Development Corp	Chengtou	BB+	NEG		2020/4/24	BB+	STABLE	2019/6/14	S&P	
<b>Domestic Rating:</b>										
Zhongrong Xinda Group Co Ltd	Materials	A	NEG		2020/4/21	AA+	STABLE	2019/7/22	Lianhe Ratings	Partial repayment of interest and capital
Yihua Enterprise Group Co Ltd	Consumer Discretionary	A	Rating Watch Negative		2020/4/24	AA-	Rating Watch Negative	2019/12/20	CCXI	Tight liquidity and restricted refinancing capability

Sources: Bloomberg, Wind, CCX research

## Panda Bond Market: China Mengniu issued SCP this week

On April 24, China Mengniu Dairy Co. Ltd (“China Mengniu”) raised RMB1.5 billion via SCP issued in the interbank market, at a coupon rate of 1.80%, with a tenor of 210 days. CCXI assigned AAA to the issuer.

As of April 24, there were 9 issuers that issued 14 Panda Bonds in 2020, with a total issuance amount of RMB22 billion and an average coupon of 2.75%. These bonds were mostly medium term and were issued in the interbank market.

**Table 3 : New issuance of Panda Bond in 2020 (20200101-20200424)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
China Mengniu Dairy Co. Ltd	1.5	1.80	2020/4/24	2020/11/20	0.57	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corporation	1.5	1.85	2020/4/16	2022/8/5	0.30	SCP	China Interbank Market	China Chengxin
New Development Bank	5	2.43	2020/4/3	2023/4/3	3	International Institutional Bond	China Interbank Market	--
Xiaomi Corporation	1	2.78	2020/4/3	2021/4/3	1	PPN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	0.5	2.60	2020/3/19	2020/12/11	0.74	PPN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	0.5	2.60	2020/3/19	2020/12/11	0.74	MTN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	1	2.65	2020/3/16	2020/12/10	0.74	PPN	China Interbank Market	China Chengxin
China Gas Holdings Ltd.	1	3.38	2020/3/10	2025/3/10	5	MTN	China Interbank Market	Lianhe Ratings
BMW Finance N.V.	2	3.35	2020/3/4	2023/3/4	3	PPN	China Interbank Market	China Chengxin
BMW Finance N.V.	1.5	2.90	2020/3/4	2021/3/4	1	PPN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	1	2.85	2020/2/28	2020/11/24	0.74	SCP	China Interbank Market	China Chengxin
Semiconductor Manufacturing International Corporation	1.5	2.40	2020/1/13	2020/5/28	0.37	SCP	China Interbank Market	China Chengxin
Yuexiu Transport Infrastructure Limited	1	3.47	2020/1/10	2023/1/10	3	MTN	China Interbank Market	China Chengxin
Daimler International Finance BV	3	3.50	2020/1/9	2022/1/9	2	PPN	China Interbank Market	--

Sources: Bloomberg, CCX research

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