

2021 Issue 1

From December 28 to December 31

China and EU reached Comprehensive Agreement on Investment; Henan Energy & Chemical deferred its private dollar bond repayment

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Date:

January 8, 2021

Headline: China and EU reached Comprehensive Agreement on Investment

After 35 rounds of negotiations, China and the EU finally reached agreement on a new investment treaty on December 30. The agreement covers four aspects including market-access commitments, fair competition rules, sustainable development and dispute settlements, according to the meeting minutes released by the EU. Over the first nine months of 2020, the total value of trade between China and the EU increased by 3% YoY and it made China become the EU's top trade partner, a position previously held by the US.

Regulation: NAFMII issued two guidelines on Panda Bonds

On December 2020, NAFMII issued the "Guidelines on Bond Issuance by Foreign Governmental Agency and International Development Institution Issuers (for Trial Implementation)", clearly stating the issuance procedure, disclosure requirements and intermediary regulation. Meanwhile, The NAFAMII also issued the "Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises (2020)". These two guidelines will help boost the development of Panda bond market with more comprehensive regulation.

Exchange Rate: RMB exchange rate adjusted

During the week, the RMB exchange rate continued to fluctuate slightly. As of December 31, the intermediate price of RMB exchange rate closed at 6.5249.

Interest Rate: China Government Bond yields declined; US Treasury yields moved within a narrow range

At the end of the year, China Government Bond yields declined as the central bank injected more liquidity to the market. US Treasury yields moved within a narrow range before New Year'. In terms of Treasury yield spreads, the yield spread between China and US 10-year note was 223.0bp, tightening by 3.5bp from last Friday and widening 95.8bp from the beginning of the year.

Chinese Offshore Bond Market

Primary Market: New issuance was dull

From December 28 to December 31, there were only 1 new issue, with issuance volume of approximately USD50 million.

Secondary Market: Return on Chinese dollar bonds continued to rise

As of December 31, the YTD return on Chinese USD corporate bond index increased by 7bp from last Friday to 5.88%, of which investment grade bond index was 5.76% and high-yield bond index was 6.47%, increasing by 4bp and 13bp respectively.

Rating Actions: Negative outlook on Kunming Construction & Chenming Paper
Risk Event: Henan Energy & Chemical repaid 50% principal of its USD62.5 million private bond and deferred the rest repayment

Panda Bond Market: No new issuance this week

Headline: China and EU reached Comprehensive Agreement on Investment

After 35 rounds of negotiations, China and the EU finally reached agreement in principle on the Comprehensive Agreement on Investment (“CIA”) on December 30. The agreement covers four aspects including market-access, investment environment, sustainable development and dispute settlements, according to the meeting minutes released by the EU. In particular, the EU might open up its markets such in electricity and new energy, while China might remove barriers in manufacturing and services sectors and entry of business visitors.

The EU’s market is important to China’s economic development. The total value of bilateral trade between China and the EU recorded USD705 billion in 2019, which accounted for 15.4% of China’s foreign trade. The EU is China’s top export partner with 17% of China’s exports to the EU. Meanwhile, China is the second largest import partner for the EU which accounted for 13% of China’s imports. Over the first nine months of 2020, the total value of trade between China and the EU increased by 3% YoY to EUR425.5 billion, mainly driven by a 4.5% increase in the EU’s imports from China while the export remained largely unchanged. China becomes the EU’s top trade partner, a position previously held by the US.

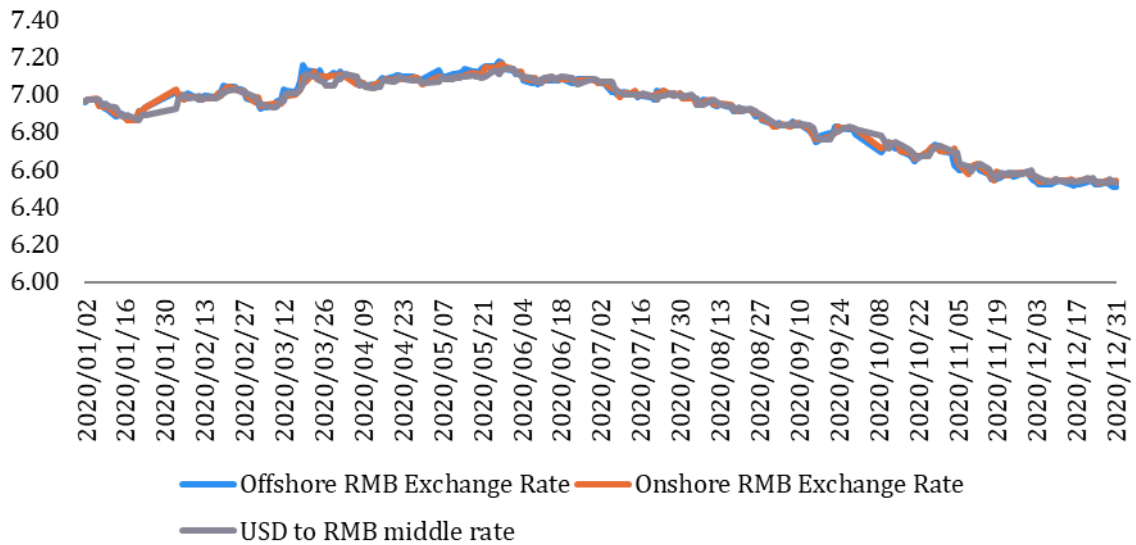
Regulation: NAFMII issued two guidelines on Panda Bonds

On December 28, the National Association of Financial Market Institutional Investors (“NAFMII”) issued the “Guidelines on Bond Issuance by Foreign Governmental Agency and International Development Institution Issuers (for Trial Implementation)”, clearly stating the issuance procedure, disclosure requirements and intermediary regulation. Meanwhile, NAFAMII also issued the “Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises (2020)”. These two guidelines will help boost the development of Panda bond market with more comprehensive regulation.

Exchange Rate: RMB exchange rate adjusted

During the week, the RMB exchange rate continued to fluctuate slightly. As of December 31, the intermediate price of RMB exchange rate closed at 6.5249, down 84bp from last Friday; the onshore RMB exchange rate closed at 6.5398, up 157bp; the offshore RMB exchange rate closed at 6.5030, down 166bp.

Figure 1 : RMB exchange rate

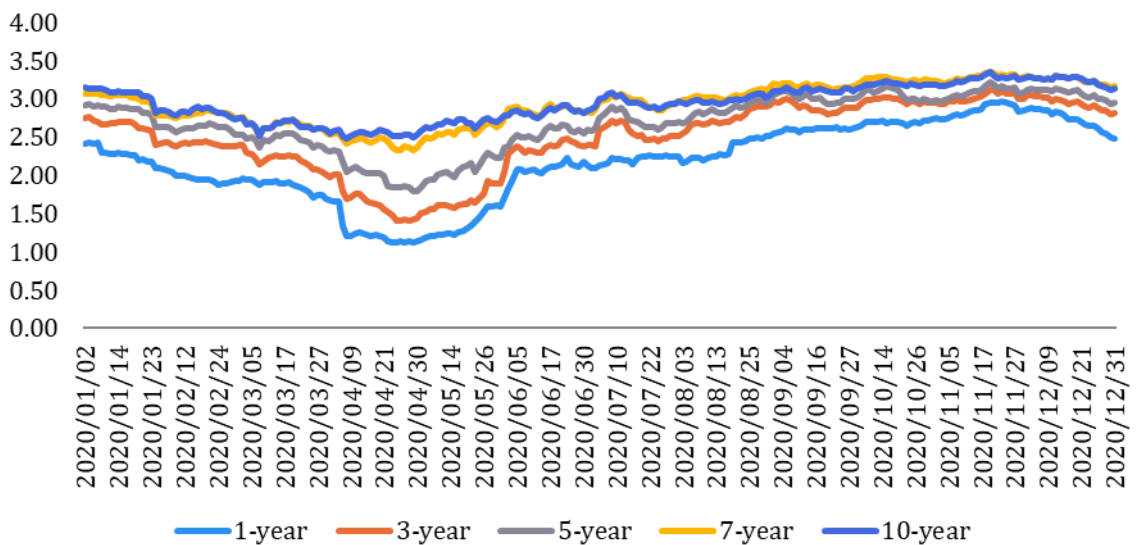


Sources: Eastmoney, CCX research

Interest Rate: China Government Bond yields declined; US Treasury yields moved within a narrow range

At the end of the year, the central bank injected more liquidity to the market, resulting in improved market sentiment and decrease in China Government Bond yields. As of December 31, the 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yields decreased from last Friday, closing at 2.4739%, 2.8174%, 2.9512%, 3.1699% and 3.1429%.

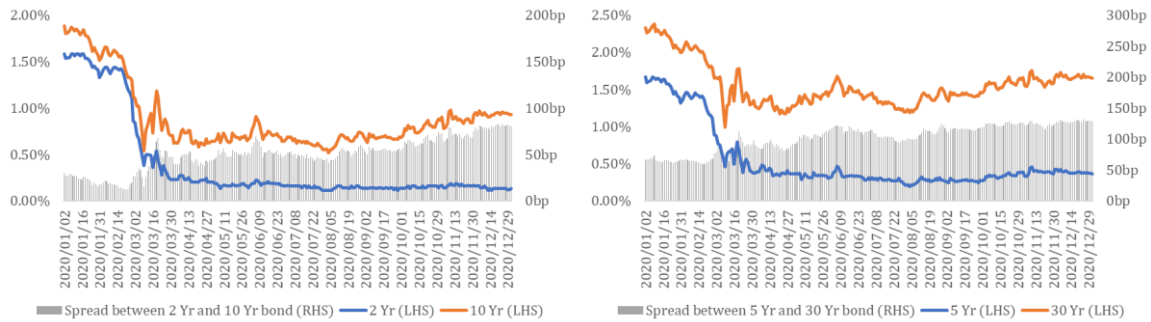
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

US Treasury yields moved within a narrow range before New Year. As of December 31, 2-mat flatted at 0.13% as compared to last Friday; while 5-year, 10-year and 30-year Treasury yields closed at 0.36%, 0.93% and 1.65%, decreasing by 1bp from last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year tightened by 1bp to 80bp from last Friday, while the spread between the 5-year and 30-year remained unchanged at 129bp from last Friday.

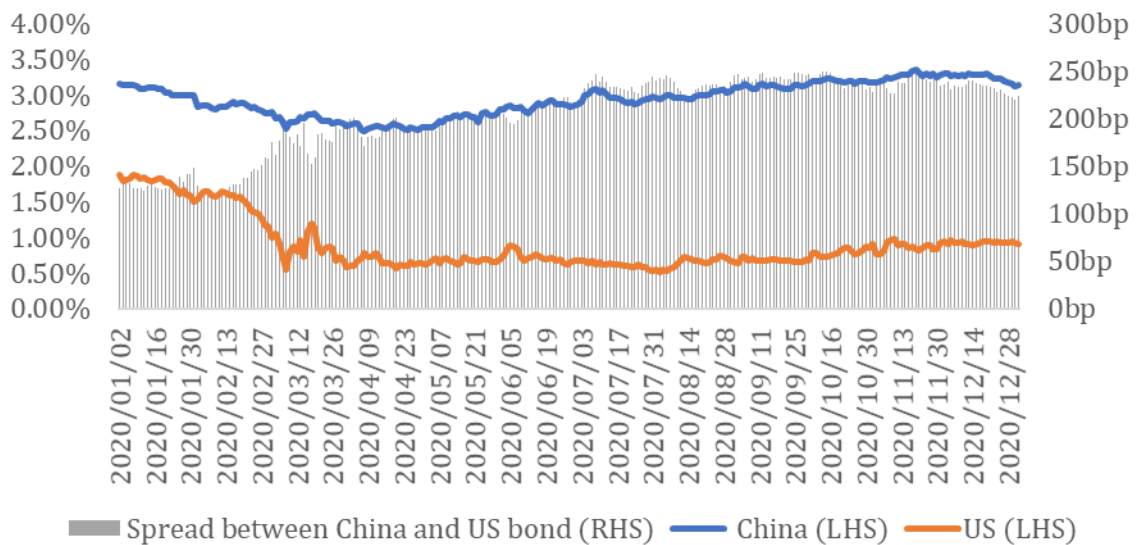
Figure 3 : US Treasury yields and yield spreads



Sources: The Federal Reserve, CCX research

As of December 31, the yield spread between China and US 10-year note was 223.0bp, tightening by 3.5bp from last Friday and widening 95.8bp 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: New issuance was dull

From December 28 to December 31, there were only 1 new issue, with issuance volume of approximately USD50 million.

Table 1 : New issuance of Chinese offshore bonds (20201228-20201231)

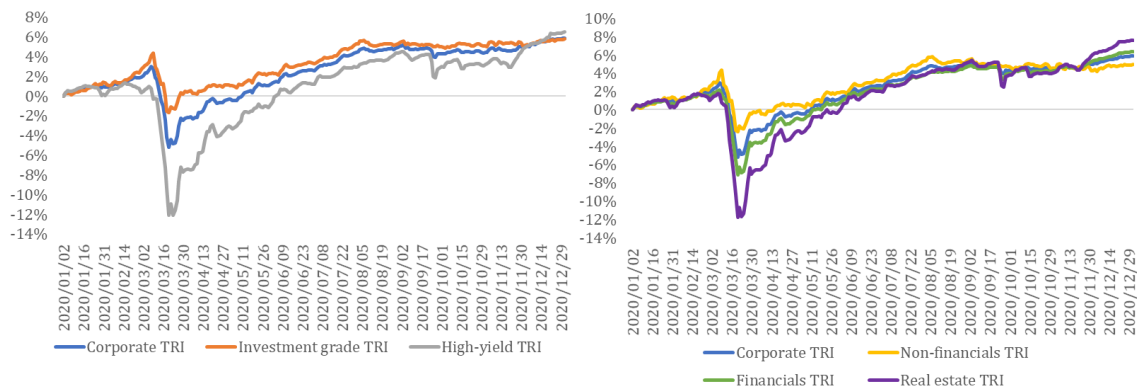
Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/12/28	China Ping An Insurance Overseas Holdings Ltd	SGD	66	0.85	2021/12/23	360D	Financials	Baa2/-/-	-/-/-

Sources: Bloomberg, CCX research

Secondary Market: Return on Chinese dollar bonds continued to rise

As of December 31, the YTD return¹ on Chinese USD corporate bond index increased by 7bp from last Friday to 5.88%, of which investment grade bond index was 5.76% and high-yield bond index was 6.47%, increasing by 4bp and 13bp respectively. In terms of sector indices, the non-financial, financial and real estate indices were 4.96%, 6.34% and 7.59%, increasing by 2bp, 10bp and 13bp from last Friday, respectively.

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

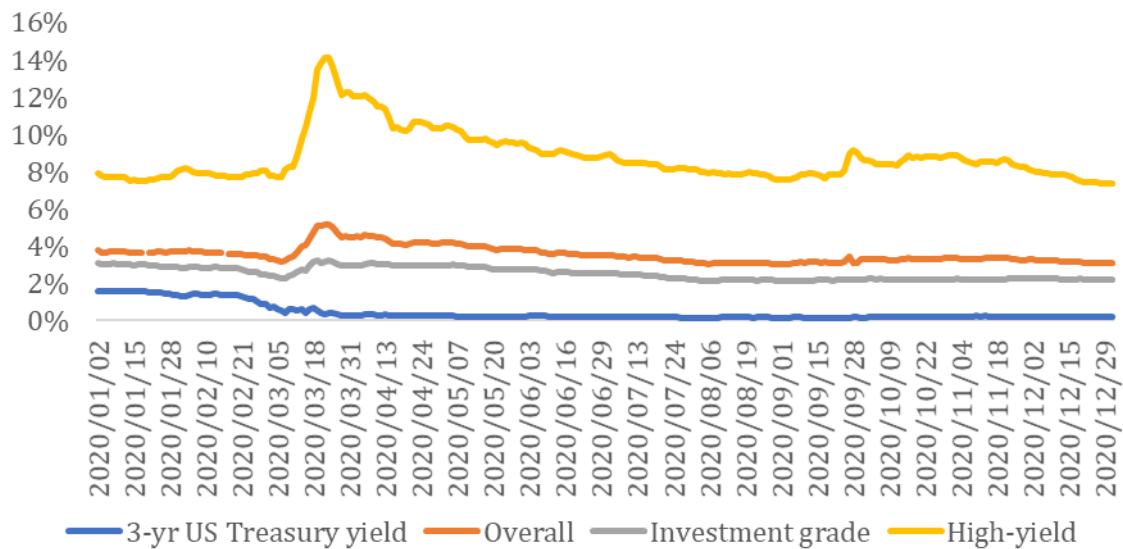


Sources: Bloomberg, CCX research

As of December 31, the yield-to-worst of Chinese dollar bonds decreased by 2bp to 3.08% from last Friday, of which investment grade bond index dropped by 2bp to 2.20%, while the high-yield bond index declined by 3bp to 7.37%.

¹ Year-to-date return measures the return since January 2, 2020.

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



Sources: Bloomberg, CCX research

Rating Actions: Negative outlook on Kunming Construction & Chenming Paper

From December 28 to December 31, the rating agencies took negative rating actions on 2 Chinese issuers.

Table 2 : Credit rating changes of cross-border bond market (20201228-20201231)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Upgrade	Kunming Municipal Urban Construction Investment & Development Co Ltd	Chengtou	Ba1	NEG	2020/12/28	Ba1	STABLE	2020/7/30	Moody's	Weaker-than-expected funding access
Domestic Rating:										
Downgrade	Shandong Chenming Paper Holdings Ltd	Materials	AA+	NEG	2020/12/30	AA+	Rating Watch Negative	2020/7/2	CCXI	High debt level with large reliance on external financing

Sources: Bloomberg, Wind, CCX research

Risk Event: Henan Energy & Chemical repaid 50% principal of its USD62.5 million private bond and deferred the rest repayment

On December 30, Henan Energy and Chemical Industry Group Co., Ltd. (“Henan Energy and Chemical”), the parent company of Yongcheng Coal and Electricity Group Co., Ltd, announced that all bondholders agreed to defer repayment on its USD62.5 million private bonds due on December 28 owing to its tight liquidity. It also said that 50% of the principal and the whole amount of accrued interest were paid, while the rest will be extended by 18 months with annual coupon rate of 6%. This bond was previously issued on a private basis (ISIN: XS1743334168), with tenor of 3 years and coupon rate at 6%.

Panda Bond Market: No new issuance this week

There were 24 issuers that issued 43 Panda Bonds in 2020, with a total issuance amount of RMB58.65 billion and an average coupon of 3.19%. The majority of them were issued in the China Interbank Market, and 60% of them were issued at a tenor of 3 years or above.

Table 3 : New issuance of Panda Bond in 2020 (20200101-20201231)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Veolia Environnement S.A.	0.75	4.45	2020/12/16	2023/12/16	3	PPN	China Interbank Market	China Chengxin
Veolia Environnement S.A.	0.75	4.45	2020/12/16	2023/12/16	3	PPN	China Interbank Market	China Chengxin
Hengan International Group Company Limited	0.35	2.10	2020/12/7	2020/12/30	0.06	SCP	China Interbank Market	China Chengxin
China Power International Development Limited	1.5	4.60	2020/11/18	2023/11/18	3	MTN	China Interbank Market	Golden Credit Rating
China Power International Development Limited	1.5	4.35	2020/11/5	2023/11/5	3	MTN	China Interbank Market	Golden Credit Rating
China Traditional Chinese Medicine Holdings Co. Limited	1	2.60	2020/9/14	2021/6/11	0.75	SCP	China Interbank Market	China Chengxin
Crédit Agricole S.A.	1	3.50	2020/9/11	2023/9/11	3	Commercial Bank Bond	China Interbank Market	China Chengxin
ANTA Sports Products Limited	1	3.95	2020/8/24	2023/8/24	3	MTN	China Interbank Market	Shanghai Brilliance Rating
Yuexiu Transport Infrastructure Limited	0.5	3.54	2020/8/14	2023/8/14	3	MTN	China Interbank Market	China Chengxin
China Everbright Water Limited	2	3.60	2020/8/5	2023/8/5	3	MTN	China Interbank Market	Shanghai Brilliance Rating
GLP China Holdings Limited	0.2	3.88	2020/7/30	2023/7/23	3	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating
China State Construction International Holdings Limited	2	3.48	2020/7/29	2023/7/29	3	Corporate Bond	Shanghai Exchange Market	China Chengxin / United Ratings
GLP China Holdings Limited	2	3.90	2020/7/23	2023/7/23	3	International Institutional Bond	China Interbank Market	Shanghai Brilliance Rating
BMW Finance N.V.	2.5	3.19	2020/7/16	2021/7/16	1	PPN	China Interbank Market	--
New Development Bank	2	3.00	2020/7/7	2025/7/7	5	International Institutional Bond	China Interbank Market	--
Veolia Environnement S.A.	0.75	3.85	2020/6/24	2023/6/24	3	PPN	China Interbank Market	China Chengxin
Veolia Environnement S.A.	0.75	3.85	2020/6/24	2023/6/24	3	PPN	China Interbank Market	China Chengxin
Asian Infrastructure Investment Bank	3	2.40	2020/6/15	2023/6/15	3	International Institutional Bond	China Interbank Market	--
China Everbright Greentech Limited	1	3.68	2020/6/12	2025/6/12	5	MTN	China Interbank Market	Lianhe Ratings

Sumitomo Mitsui Banking Corporation	1	3.20	2020/6/8	2023/6/8	3	PPN	China Interbank Market	S&P China
Daimler International Finance BV	3	3.25	2020/6/5	2023/6/5	3	PPN	China Interbank Market	China Chengxin
China Traditional Chinese Medicine Co. Limited	2.2	3.28	2020/6/5	2023/6/5	3	MTN	China Interbank Market	China Chengxin
Capital Environment Holdings Limited	1	3.10	2020/5/29	2025/5/29	5	Corporate Bond	Shanghai Exchange Market	China Chengxin
China Mengniu Dairy Company Limited	0.5	1.61	2020/5/29	2020/11/25	0.49	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	1.5	1.61	2020/5/29	2020/11/25	0.49	SCP	China Interbank Market	China Chengxin
China Power International Development Limited	0.5	2.00	2020/5/29	2021/2/23	0.74	SCP	China Interbank Market	China Chengxin
Beijing Enterprises Water Group Limited	1	4.00	2020/5/13	2025/5/13	5	MTN	China Interbank Market	Shanghai Brilliance Rating
Bank of China Group Investment Limited	1.5	2.70	2020/5/8	2023/5/8	3	MTN	China Interbank Market	China Chengxin / Lianhe Ratings
Beijing Enterprises Clean Energy Group Limited	0.9	5.50	2020/4/29	2023/4/29	3	Corporate Bond	Shenzhen Exchange Market	United Ratings
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	0.3	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 Rating
BMW Finance N.V.	2	3.35	2020/3/4	2023/3/4	3	PPN	China Interbank Market	--
BMW Finance N.V.	1.5	2.90	2020/3/4	2021/3/4	1	PPN	China Interbank Market	--
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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