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From June 28 to July 2

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New two-pillar plan to reform international taxation rules; Chinese real estate high-yield USD bonds depressed

Headline: New two-pillar plan to reform international taxation rules

The OECD announced that 130 countries and jurisdictions (out of 139 members), representing more than 90% of global GDP, joined the statement establishing a new framework for international tax reform, with a minimum corporate income tax rate of at least 15%. The OECD plans to finalize the remaining technical work on the two-pillar approach in October 2021, and implement in 2023.

Exchange Rate: RMB exchange rate fluctuated slightly

The RMB exchange rate fluctuated slightly. As of July 2, the intermediate price of RMB exchange rate closed at 6.4712.

Interest Rate: Chinese Government Bond yields diverged; US Treasury yields declined

Chinese Government Bond yields diverged. The expectation on Fed's rate hike weakened, as the labor force participation rate was still lower than pre-pandemic level and the unemployment rate rebounded slightly, driving the decline of US Treasury yields. As of July 2, the yield spread between China and US 10-year note was 165.7bp, widening by 9.8bp from last Friday and narrowing by 60.8bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: Chinese offshore bond issuance reduced**

From June 28 to July 2, there were 17 new issues with a total issued volume of USD4.47 billion, decreasing by 17.1% from last week. Chengtong companies were the key issuers that issued total amount of USD1.22 billion.

Secondary Market: Chinese real estate high-yield USD bonds depressed

Affected by the negative news, deepened risk aversion continued to hit Chinese real estate high-yield bonds. As of July 2, the YTD return on Chinese USD corporate bond index rose by 4bp from last Friday to -0.64%. The return on investment-grade bonds rose by 28bp to -0.25%, and the return on high-yield bonds fell by 56bp to -1.61%. The return on real estate bonds dropped by 60bp from last Friday to -2.51%.

Rating Actions: Chinese issuers' credit quality diverged**Panda Bond Market: No new issuance this week**

Headline: New two-pillar plan to reform international taxation rules

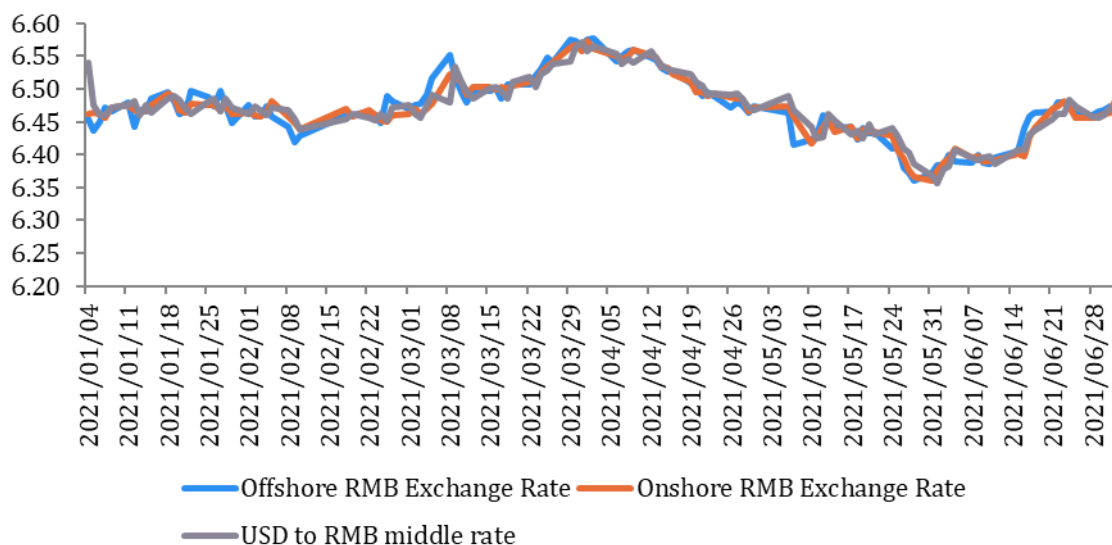
The Organization for Economic Co-operation and Development (“OECD”) announced that 130 countries and jurisdictions (out of 139 members), representing more than 90% of global GDP, joined the statement establishing a new framework for international tax reform, with a minimum corporate income tax rate of at least 15%. The OECD plans to finalize the remaining technical work on the two-pillar approach in October 2021, and implement in 2023.

For the two-pillar package, Pillar One aims to re-allocate some taxing rights over Multinational Enterprises (“MNEs”) from their home countries to the markets where they have business activities and earn profits, regardless of whether firms have a physical presence there. This will prevent MNEs, including digital companies, from transferring profits to low tax jurisdictions for reducing tax pressure. Pillar Two aims to introduce global minimum corporate tax to eliminate tax competition and protect countries’ tax bases.

Exchange Rate: RMB exchange rate fluctuated slightly

The RMB exchange rate fluctuated slightly. As of July 2, the intermediate price of RMB exchange rate closed at 6.4712, down 32bp from last Friday; the onshore RMB exchange rate increased by 272bp to 6.4825; the offshore RMB exchange rate increased by 103bp to 6.4718.

Figure 1 : RMB exchange rate

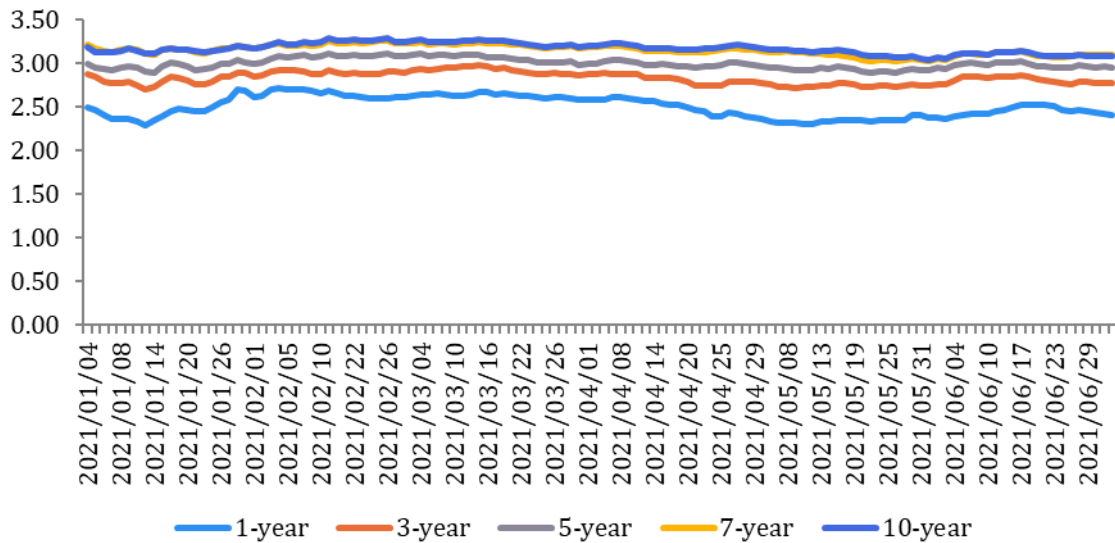


Sources: Wind, CCX research

Interest Rate: Chinese Government Bond yields diverged; US Treasury yields declined

Chinese Government Bond yields diverged. As of July 2, the 1-year, 5-year and 10-year Government Bond yields dropped to 2.3994, 2.9504 and 3.0803 from last Friday; while the 3-year and 7-year yields increased to 2.7722 and 3.0949, respectively.

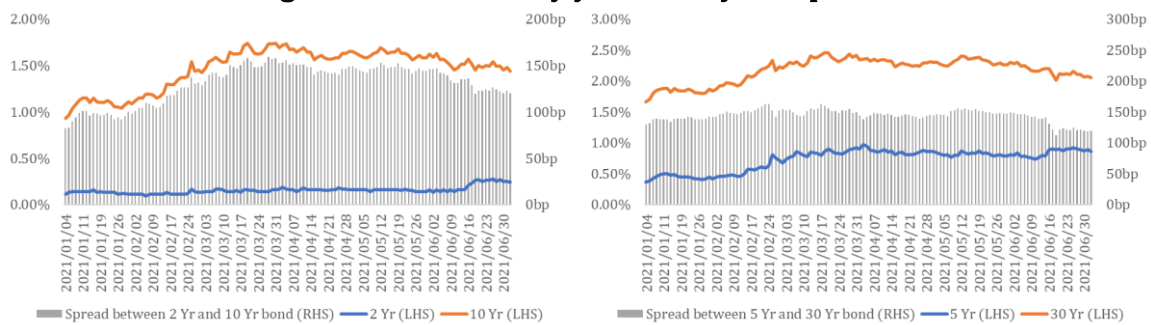
Figure 2 : China Government Bond yields



Sources: ChinaBond.com.cn, CCX research

The US nonfarm payrolls increased 850,000 in June, which was better than the market expectations. However, the expectation on rate hike weakened, as the labor force participation rate was still lower than pre-pandemic level and the unemployment rate rebounded slightly, driving the decline of US Treasury yields. As of July 2, the 2-year, 5-year, 10-year and 30-year Treasury yields closed at 0.24%, 0.86%, 1.44% and 2.05%, decreasing by 4bp, 6bp, 10bp and 11bp from last Friday, respectively. In terms of Treasury yield spreads, the spread between the 2-year and 10-year narrowed by 6bp to 120bp, while the spread between the 5-year and 30-year narrowed by 5bp to 119bp.

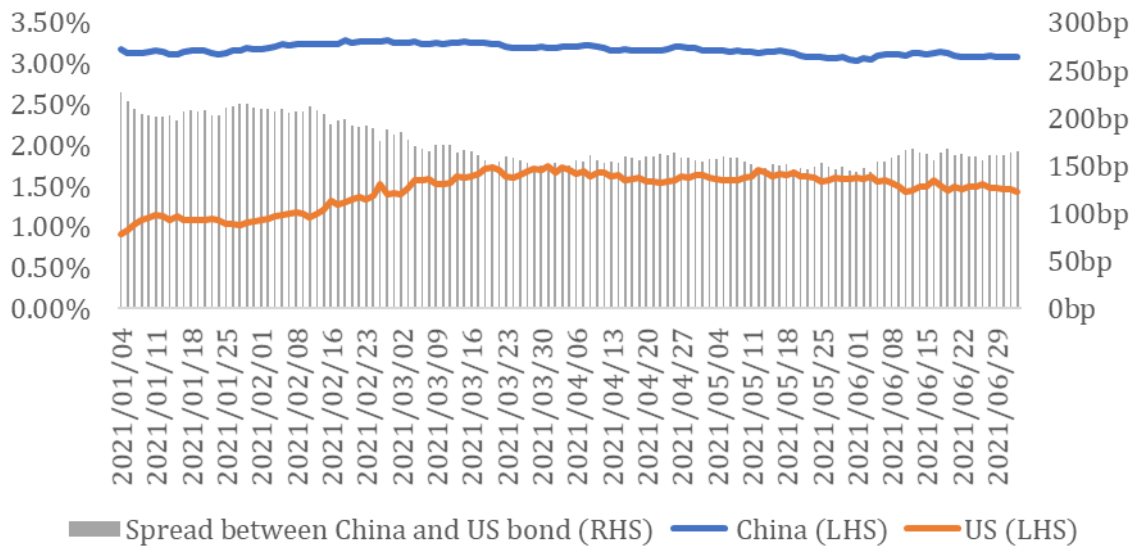
Figure 3 : US Treasury yields and yield spreads



Sources: US Department of the Treasury, CCX research

As of July 2, the yield spread between China and US 10-year note was 165.7bp, widening by 9.8bp from last Friday and narrowing by 60.8bp 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 issuance reduced

From June 28 to July 2, there were 17 new issues with a total issued volume of USD4.47 billion, decreasing by 17.1% from last week. Chengtou companies were the key issuers that issued total amount of USD1.22 billion.

Table 1 : New issuance of Chinese offshore bonds (20210628-20210702)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2021/6/28	CMB International Capital Corp Ltd	USD	5	0.52	2021/10/6	92D	Financials	Baa1/BBB+/-	-/-/-
2021/6/28	Linyi City Construction Investment Group Co Ltd	USD	300	2.6	2024/7/6	3	Chengtou	-/-/BBB-	-/-/BBB-
2021/6/28	Logan Group Co Ltd	USD	300	4.7	2026/7/6	5	Real Estate	Ba2/BB/BB	Ba3/-/BB
2021/6/28	Redco Properties Group Ltd	CNY	600	10.5	2023/1/6	1.5	Real Estate	-/B/B+	-/-/B+
2021/6/29	Bank of Communications Hong Kong Ltd	USD	1,000	2.304	2031/7/8	10	Banks	A2/A-/A	-/BBB/BBB+
2021/6/29	China National Bluestar Group Co Ltd	USD	400	3.1	-	Perpetual	Materials	Baa2/BBB/A-	Baa3/-/BBB
2021/6/29	Chongqing Nan'an Urban Construction&Development Group Co Ltd	USD	150	4.2	2024/7/7	3	Chengtou	-/BBB/BBB	-/BBB/-
2021/6/29	Kunming Public Rental Housing Development Construction Management Co Ltd	USD	100	5.5	2024/7/8	3	Chengtou	-/-/BB+	-/-/-
2021/6/29	Rudong Country Jinxin Transportation Engineering Construction Investment Co Ltd	USD	120	2.3	2024/7/6	3	Chengtou	-/-/-	-/-/-
2021/6/29	Rudong Country Jinxin	USD	100	13	2022/7/5	364D	Real Estate	-/-/-	-/-/-

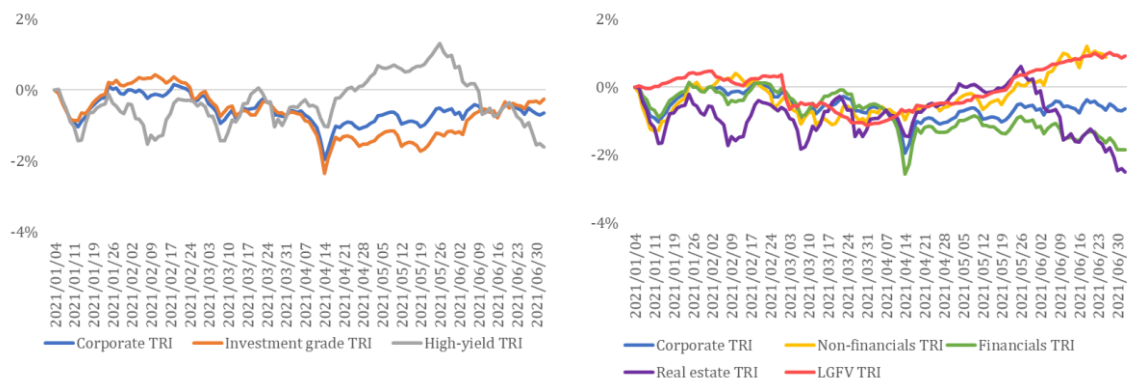
Transportation Engineering Construction Investment Co Ltd									
2021/6/29	Seazen Holdings Co Ltd	USD	300	4.625	2025/10/15	4.25	Real Estate	Ba1/BB+/BB+/	Ba1/-/BB+
2021/6/29	Sunshine 100 China Holdings Ltd	USD	220	13	2022/6/29	364D	Real Estate	-/CCC-/-	-/-/-
2021/6/29	West China Cement Ltd	USD	600	4.95	2026/7/8	5	Materials	Ba2/-/BB	Ba2/-/BB
2021/6/29	Wuhan Urban Construction Group Co Ltd	USD	500	2.25	2024/7/9	3	Chengtou	Baa2/-/BBB+	Baa2/-/BBB+
2021/6/29	Xuchang General Investment Co	USD	50	5	2024/7/7	3	Chengtou	-/-/-	-/-/-
2021/7/2	Bank of China Ltd/Hong Kong	CNY	1,500	2.8	2023/7/9	2	Banks	Aa3/A+/A	Aa3/-/-
2021/7/2	Millennium Pacific Group Holdings Ltd	HKD	20	4	2023/7/2	2	Technology	-/-/-	-/-/-

Sources: Bloomberg, CCX research

Secondary Market: Chinese real estate high-yield USD bonds depressed

Affected by the negative news, deepened risk aversion continued to hit Chinese real estate high-yield bonds. As of July 2, the YTD return¹ on Chinese USD corporate bond index rose by 4bp from last Friday to -0.64%. The return on investment-grade bonds rose by 28bp to -0.25%, and the return on high-yield bonds fell by 56bp to -1.61%. In terms of sector indices, the return on real estate bonds dropped the most, decreasing by 60bp from last Friday to -2.51%. The returns on financial bonds and Chengtou bonds were -1.86% and 0.92%, decreasing by 22bp and 3bp from last Friday, respectively. The return on non-financial bonds was 1.34%, increasing by 46bp from last Friday.

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

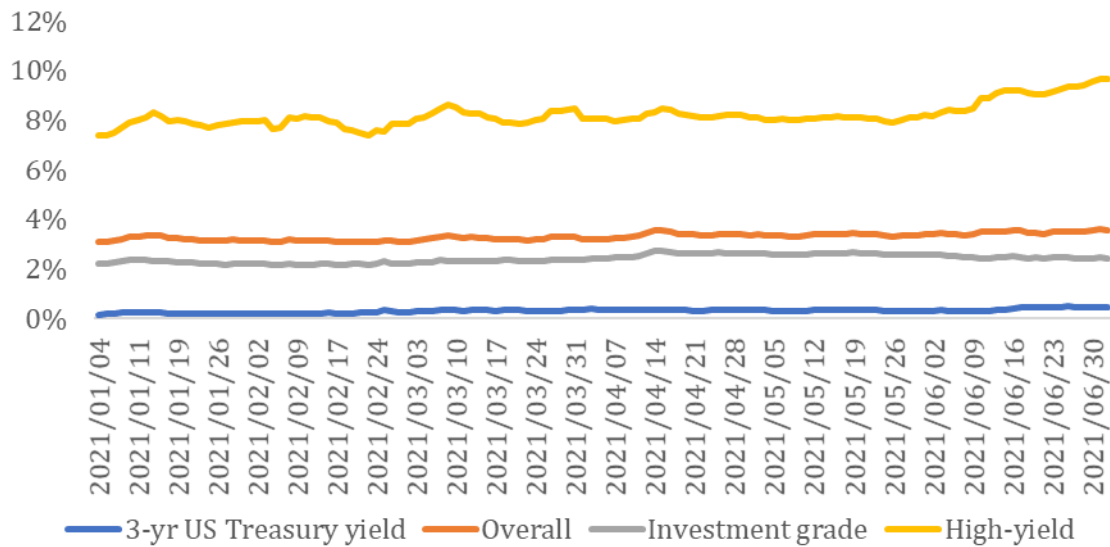


Sources: Bloomberg, CCX research

As of July 2, the yield-to-worst of Chinese dollar bonds rose by 6bp to 3.57% from last Friday, of which investment grade bond index decreased by 3bp to 2.41%, and high-yield bond index rose by 33bp to 9.65%.

¹ Year-to-date return measures the return since January 4, 2021

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



Sources: Bloomberg, CCX research

Rating Actions: Chinese issuers' credit quality diverged

From June 28 to July 2, the rating agencies took positive rating actions on 3 Chinese issuers, and took negative rating actions on 7 Chinese issuers.

Table 2 : Credit rating changes of cross-border bond market (20210628-20210702)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Upgrade	Zhongsheng Group Holdings Ltd	Consumer Discretionary	BBB-	POS	2021/6/29	BBB-	STABLE	2020/7/2	Fitch	Strengthened market position and improved financial profile
	Yanzhou Coal Mining Co Ltd	Materials	BB+	STABLE	2021/6/30	BB-	Rating Watch positive	2021/1/21	Fitch	Parent's enlarged operating scale, strengthened market position and modestly improved financial profile
	Zhongsheng Group Holdings Ltd	Consumer Discretionary	Baa3	POS	2021/7/2	Baa3	STABLE	2020/10/29	Moody's	Potential acquisition enhances business profile and increase strategic importance
	Zhejiang Provincial Energy Group Co Ltd	Utilities	A1	STABLE	2021/7/2	A2	STABLE	2021/3/31	Moody's	High strategic importance to the Zhejiang government

Downgrade	Yincheng International Holding Co Ltd	Real Estate	B2	NEG	2021/6/30	B2	STABLE	2020/9/23	Moody's	Weak credit metrics
	China Evergrande Group		B2	Rating		B1				Weakened funding
	Hengda Real Estate Group Co Ltd	Real Estate	B2	Watch	2021/6/30	B1	NEG	2021/6/10	Moody's	access and reduced
	Tianji Holding Ltd		B3	Negative		B2				liquidity buffer

Domestic Rating:

Downgrade	Jiangsu Nantong Sanjian Construction Group Co Ltd	Industrials	AA+	NEG	2021/6/28	AA+	STABLE	2020/6/28	Dagong	Hight debt level and greater short-term debt repayment pressure
	Beijing Hongkun Weiye Real Estate Development Co Ltd	Real Estate	AA	NEG	2021/6/28	AA	STABLE	2020/6/24	Lianhe Ratings	Decline of profitability, tight liquidity and weak credit metrics
	Sichuan Languang Development Co Ltd	Real Estate	BBB	NEG	2021/7/2	AA	NEG	2021/6/4	Golden Credit	Tight liquidity and weakened refinancing capacity

Sources: Bloomberg, Wind, CCX research

Panda Bond Market: No new issuance this week

As of July 2, there were 17 issuers that issued 37 panda bonds with a total issued amount of RMB57.9 billion and an average coupon rate of 3.47%. More than 60% of the bonds had a tenor of 3 years or above and nearly 80% of the bonds were issued in the China Interbank Market.

Table 3 : New issuance of Panda Bond in 2021 (20210101-20210702)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
Bank of China Group Investment Limited	2.5	3.64	2021/6/24	2024/6/24	3	MTN	China Interbank Market	China Chengxin / Lianhe Credit
China Mengniu Dairy Company Limited	1.2	2.50	2021/6/24	2021/9/17	0.23	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	0.8	2.65	2021/6/22	2021/12/16	0.48	SCP	China Interbank Market	China Chengxin
China Everbright Limited	4	3.70	2021/6/18	2024/6/18	3	MTN	China Interbank Market	China Chengxin
China Everbright Environment Group Limited	2	3.60	2021/6/15	2024/6/15	3	MTN	China Interbank Market	Lianhe Credit Rating
BMW Finance N.V.	1.5	3.03	2021/6/15	2022/6/15	1	CP	China Interbank Market	China Chengxin
BMW Finance N.V.	2	3.44	2021/6/15	2024/6/15	3	MTN	China Interbank Market	China Chengxin
GLP China Holdings Limited	2	4.30	2021/6/11	2026/6/11	5	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating
China Traditional Chinese Medicine Holdings Co. Limited	1	2.65	2021/5/31	2022/2/25	0.74	SCP	China Interbank Market	--

Hengan International Group Company Limited	1	2.90	2021/5/25	2021/11/23	0.5	CP	China Interbank Market	China Chengxin
Daimler International Finance BV	2	3.77	2021/5/21	2024/5/21	3	PPN	China Interbank Market	--
Daimler International Finance BV	2	3.60	2021/5/21	2023/5/21	2	PPN	China Interbank Market	--
Yuexiu Transport Infrastructure Limited	0.5	3.84	2021/5/13	2028/5/13	7	Corporate Bond	Shanghai Exchange Market	China Chengxin
Yuexiu Transport Infrastructure Limited	1	3.48	2021/5/13	2026/5/13	5	Corporate Bond	Shanghai Exchange Market	China Chengxin
Hengan International Group Company Limited	1	2.90	2021/4/26	2021/10/23	0.5	SCP	China Interbank Market	China Chengxin
Beijing Enterprises Water Group Limited	1.5	3.98	2021/4/23	2029/4/23	8	MTN	China Interbank Market	Shanghai Brilliance Rating
China Power International Development Limited	2	3.54	2021/4/23	2024/4/23	3	MTN	China Interbank Market	China Chengxin
GLP China Holdings Limited	1.5	4.40	2021/4/22	2026/4/22	5	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating
China Mengniu Dairy Company Limited	1	2.50	2021/4/19	2021/6/25	0.18	SCP	China Interbank Market	China Chengxin
Hengan International Group Company Limited	1	3.00	2021/4/15	2021/10/12	0.5	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	1	2.50	2021/4/8	2021/6/25	0.21	SCP	China Interbank Market	China Chengxin
Hengan International Group Company Limited	1	3.08	2021/3/26	2021/9/23	0.5	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	2	2.50	2021/3/26	2021/6/24	0.25	SCP	China Interbank Market	China Chengxin
New Development Bank	5	3.22	2021/3/25	2024/3/25	3	International Institution Bond	China Interbank Market	Lianhe Credit Rating
GLP China Holdings Limited	1.5	4.40	2021/3/25	2024/3/25	3	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating
Daimler International Finance BV	2	3.80	2021/3/19	2024/3/19	3	PPN	China Interbank Market	--
Daimler International Finance BV	2	3.70	2021/3/19	2023/3/19	2	PPN	China Interbank Market	--
Crédit Agricole S.A.	1	3.50	2021/3/18	2024/3/18	3	Financial Bond	China Interbank Market	S&P China
GLP China Holdings Limited	1.5	4.40	2021/3/18	2024/3/18	3	MTN	China Interbank Market	Shanghai Brilliance Rating
SIIC Environment Holdings Ltd.	1.5	3.89	2021/3/15	2026/3/15	5	Corporate Bond	Shanghai Exchange Market	China Chengxin
Asian Development Bank	2	3.20	2021/3/11	2026/3/11	5	International Institution Bond	China Interbank Market	--
GLP China Holdings Limited	1.7	4.37	2021/3/8	2024/3/8	3	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating

China Power International Development Limited	0.5	3.20	2021/2/8	2021/8/6	0.5	SCP	China Interbank Market	Golden Credit Rating
Yuexiu Transport Infrastructure Limited	1	3.78	2021/1/28	2026/1/28	5	MTN	China Interbank Market	China Chengxin
Yuexiu Transport Infrastructure Limited	1	3.63	2021/1/25	2026/1/25	5	Corporate Bond	Shanghai Exchange Market	China Chengxin
GLP China Holdings Limited	0.7	3.98	2021/1/25	2024/1/25	3	Corporate Bond	Shanghai Exchange Market	Shanghai Brilliance Rating
China Everbright Water Ltd	1	3.75	2021/1/15	2024/1/15	3	MTN	China Interbank Market	Shanghai Brilliance Rating

Sources: Bloomberg, CCX research

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