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From March 2 to March 6

Fed made emergency rate cut; Treasury yields hit record low

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Headline: Fed made emergency rate cut; equity market and oil price crashed

On March 3, the US Federal Reserve slashed interest rates by 50bp in response to the coronavirus outbreak, which was the first emergency move since the 2008 financial crisis. As the oil production cuts collapsed with no deal, oil prices plunged and stock market crashed, of which US stock market hit the halt level. So far, the economic impacts of coronavirus have not reflected on data. The economic policy uncertainty index reached a high level, and the market also expected the Fed would further deliver interest rate cuts in the coming months.

Exchange Rate: RMB exchange rate continued to decline

Affected by the drop of confirmed cases of coronavirus in China and the Fed's interest rate cut, the RMB exchange rate continued to fall. As of March 6, the intermediate price of the RMB exchange rate closed at 6.9337.

Interest Rate: China Government Bond and US Treasury yields declined; US Treasury yields hit record low

Affected by the coronavirus outbreak and economic recession, investors shifted their capital to safe assets, leading to a drop in China Government Bond and US Treasury yields. US 10-year and 30-year Treasury yields hit historical lows of 0.71% and 1.22%, respectively. As of March 6, the yield spread between China and US 10-year note was 186.6bp, widening by 27.7bp from last Friday and 59.4bp from the beginning of the year.

Chinese Offshore Bond Market**Primary Market: New issues dropped, real estate companies were the key issuers**

From March 2 to March 6, there were 14 new issues with a total volume of USD3.24 billion, decreased by 68.0% from last week. Real estate companies were the key issuers, with an amount of USD1.46 billion in aggregate, representing 45.0% of total issues.

Secondary Market: Return on investment-grade and high-yield bonds surged

As of March 6, the YTD return on Chinese USD corporate bond index rose by 105bp over last week to 2.97%, of which investment-grade bond index was 4.07% and high-yield bond index was 0.77%, increasing by 135bp and 45bp over last week, respectively.

Risk Event: Macrolink Holding's onshore MTN defaulted**Panda Bond Market: BMW Finance issued 2 PPNS**

On March 4, the 2020 BMW Finance N.V. PPN Series I (Bond Connect) Tranche 1&2 were successfully issued in the Interbank Market. BMW Finance raised RMB1.5 billion at a coupon rate of 2.90% in the Tranche 1 bond with a tenor of 1 year, and RMB2 billion at a coupon rate of 3.35% in the Tranche 2 bond with a tenor of 3 years. China Chengxin International Credit Rating Co., Ltd. has assigned the credit rating of AAA to the issuer.

Headline: Fed made emergency rate cut; equity market and oil price crashed

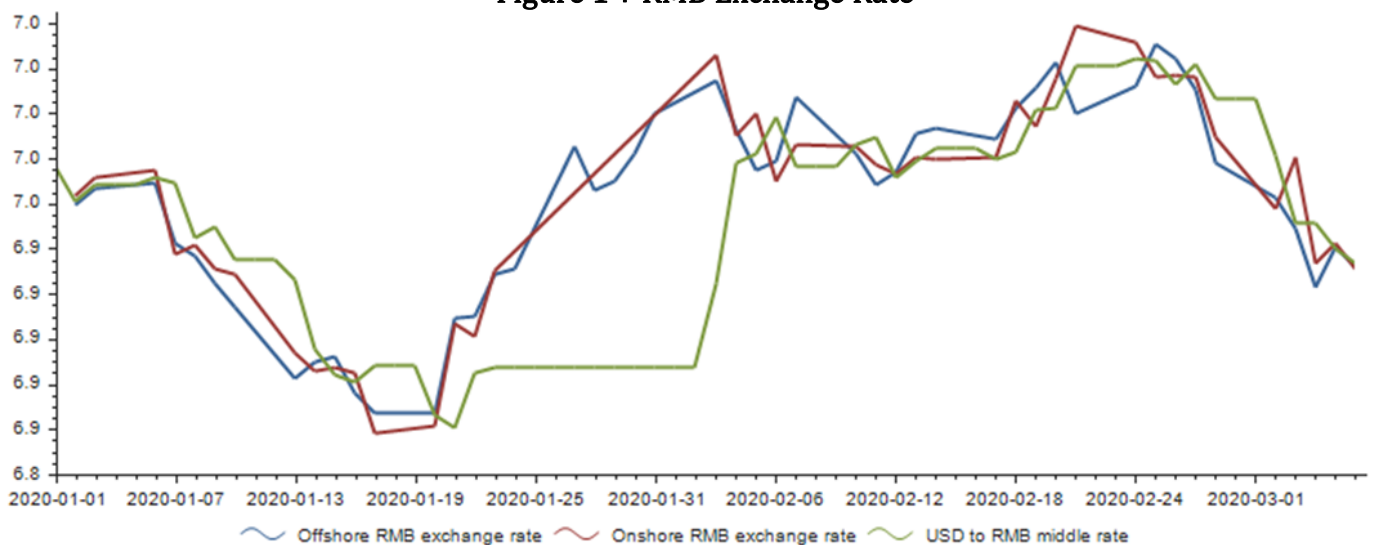
On March 3, the US Federal Reserve slashed interest rates by 50bp to a range of 1%-1.25% in response to the coronavirus outbreak. This was the first emergency rate move since the 2008 financial crisis. However, the rate cut was unable to get good feedback from the market given the high uncertainty in the US economy. On March 6, Russia and OPEC failed to reach an agreement on oil production cuts, causing 10% drop in oil prices. Brent crude crashed 31% and WTI crude plunged 27% after market open on March 9, as Saudi Arabia launched oil price war after the deal collapsed. On the same day, three major US stock indices slumped over 7%, triggering a trading halt. It was the first time ever since 1997. The market panic also pushed the US Treasury yield curve down to below 1%.

So far, the economic impacts of coronavirus have not reflected on data. The economic policy uncertainty index (“EPU”) reached a high level. Goldman Sachs expected that the Fed would further deliver interest rate cuts of 50bp on March 17-18 meeting and another 50bp on April 28-29 meeting, and the policy interest rate would drop to a range of 0%-0.25%.

Exchange Rate: RMB exchange rate continued to decline

During the week, affected by the drop of confirmed cases of coronavirus in China and the Fed's interest rate cut, the RMB exchange rate continued to fall after breaking the threshold of "7". As of March 6, the intermediate price of the RMB exchange rate closed at 6.9337, down 729bp from last Friday. Onshore and offshore RMB exchange rate declined 588bp and 462bp, closing at 6.9308 and 6.9321.

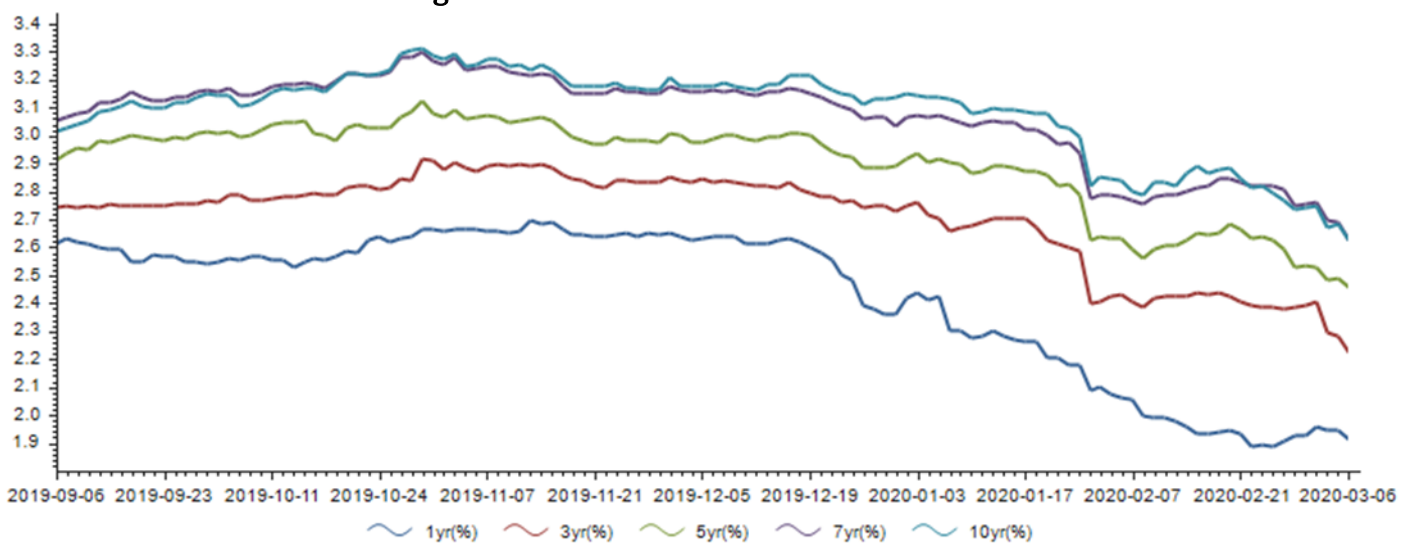
Figure 1 : RMB Exchange Rate



Interest Rate: China Government Bond and US Treasury yields declined; US Treasury yields hit record low

Affected by the spread of coronavirus and economic recession, the capital market experienced a sharp fluctuation and the global central banks generally adopt monetary easing policies. China Government Bond yields declined alongside the rise of risk aversion sentiment. As of March 6, 1-year, 3-year, 5-year, 7-year and 10-year Government Bond yield declined from last Friday, closing at 1.9130%, 2.2265%, 2.4575%, 2.6231% and 2.6280% respectively. According to the China Central Depository and Clearing Co Ltd, foreign investors enlarged their holding of Chinese onshore bonds by RMB65.717 billion (3.48% increase) during February, which is the 15th consecutive month of the increase in holdings. By the end of February, foreign investors held RMB1,951.602 billion of Chinese onshore bonds, a 29.03% year-over-year increase.

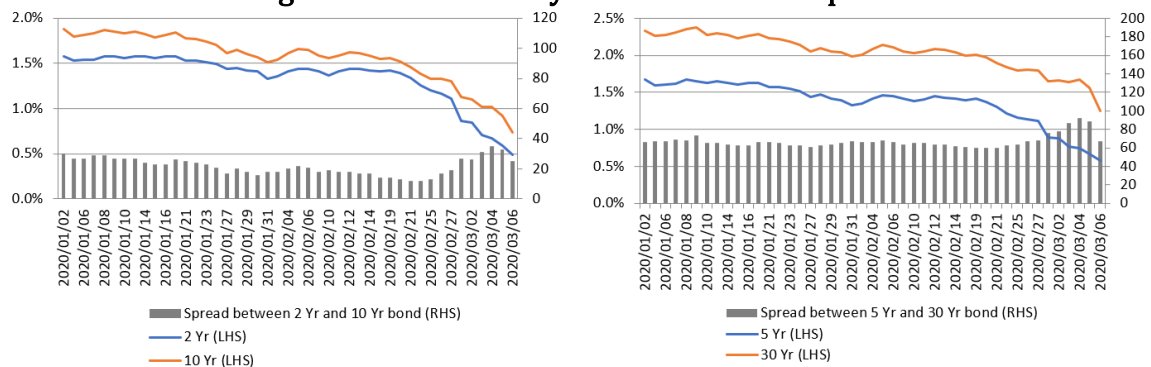
Figure 2 : China Government Bond Yields



Sources: Eastmoney, CCX research

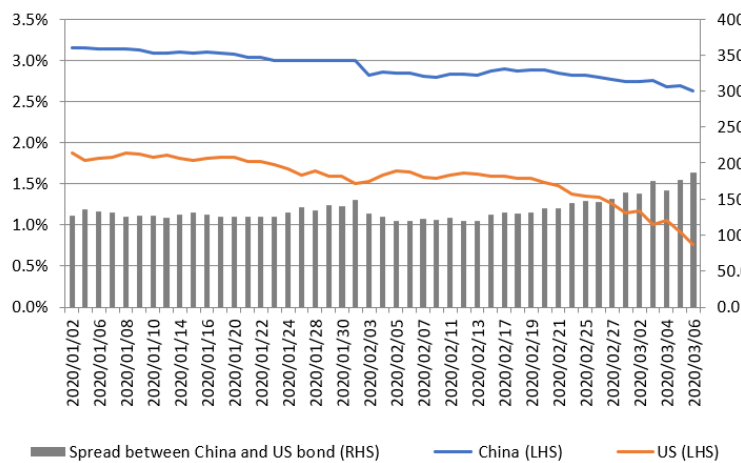
The global coronavirus outbreak sparked a series of sell-off on global equity markets. Capital flowed into safe assets leading to a significant drop in US Treasury bond yields. 10-year and 30-year Treasury yields hit historical lows of 0.71% and 1.22%, respectively. As of March 6, the 2-year, 5-year, 10-year and 30-year Treasury yields closed at 0.49%, 0.58%, 0.74% and 1.25%, decreasing by 37bp, 31bp, 39bp and 40bp, respectively, over last Friday. In terms of Treasury yield spreads, the spread between the 2-year and 10-year decreased by 2bp to 25bp, while the spread between the 5-year and 30-year decreased by 9bp to 67bp from last Friday. As of March 6, the yield spread between China and US 10-year note was 186.6bp, widening by 27.7bp from last Friday and 59.4bp from the beginning of the year.

Figure 3 : US Treasury Yields and Yields Spread



Sources: The Federal Reserve, CCX research

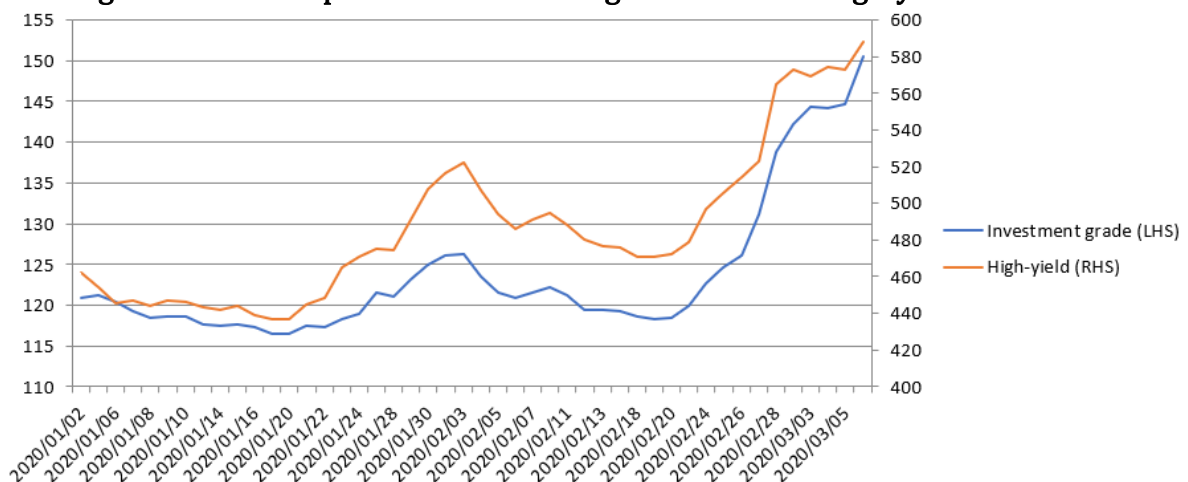
Figure 4 : Spread between China and US 10-year bond



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

The credit spread of Barclays Asia USD investment bond and high-yield bond widened. As of March 6, investment-grade bond spreads increased by 11.8bp to 151bp from last week, while high-yield spreads increased by 22.7bp to 588bp 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 issues dropped, real estate companies were the key issuers

From March 2 to March 6, there were 14 new issues with a total volume of USD3.24 billion, decreased by 68.0% from last week. Real estate companies were the key issuers, with an amount of USD1.46 billion in aggregate, representing 45.0% of total issues.

Table 1 : New issuance of Chinese offshore bonds (20200302-20200306)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2020/3/2	Bank of China Ltd/Hong Kong	EUR	19	0	2021/3/4	364D	Banks	A1/A/A	-/-
2020/3/3	Jian Jinggangshan Development Zone Jinluling Economic Development Co Ltd	USD	200	4	2023/3/10	3	Chengtou	-/-	-/-
2020/3/3	LVGEM China Real Estate Investment Co Ltd	USD	450	12	2023/3/10	3	Real Estate	B3/-/B	-/-/B
2020/3/4	Jingrui Holdings Ltd	USD	190	12.75	2022/3/11	2	Real Estate	B2/B/-	B3/-/-
2020/3/4	JY Grandmark Holdings Ltd	USD	150	7.5	2021/3/9	364D	Real Estate	-/-	-/-
2020/3/4	Sinic Holdings Group Co Ltd	USD	280	11.75	2021/3/10	364D	Real Estate	-/-	-/-
2020/3/5	Haitong Securities Co Ltd	USD	670	2.107	2025/3/12	5	Financials	-/BBB/-	-/BBB/-
2020/3/5	Huatai International Financial Holdings Co Ltd	USD	5	0	2021/11/15	1.7	Financials	-/BBB/-	-/-
2020/3/5	Industrial & Commercial Bank of China Ltd/Luxembourg	USD	150	3ML+50	2023/3/12	3	Banks	A1/A/A	-/-
2020/3/5	Metallurgical Corp of China Ltd	USD	400	3.25	-	Perpetual	Materials	Baa1/BBB+/BBB+	Baa2/-/-
2020/3/5	NIO Inc	USD	235	0	2021/3/5	359D	Consumer Discretionary	-/-	-/-
2020/3/5	Yango Group Co Ltd	USD	188	6.8	2021/3/11	364D	Real Estate	B1/B/B+	-/-
2020/3/6	Xi'an Aerospace High-Tech Industry Development Co Ltd	USD	100	6.5	2023/3/12	3	Chengtou	-/-	-/-
2020/3/6	Zensun Group Ltd	USD	200	12.5	2022/9/13	2.5	Real Estate	B1/-/-	B2/-/-

Sources: Bloomberg, CCX research

China National Chemical Corporation announced tap bond offering on March 3.

Table 2 : Tap bond offering of Chinese offshore bonds (20200302-20200306)

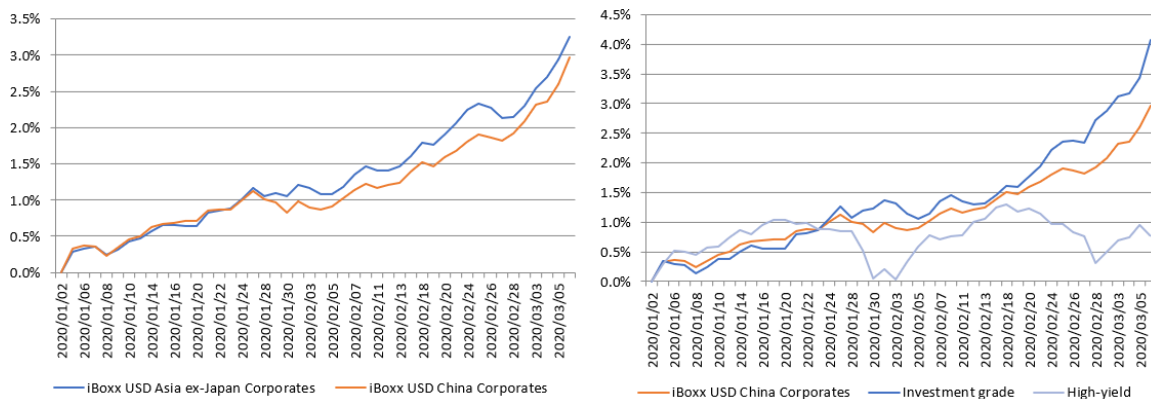
Pricing date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating	Issue Rating
2020/3/3	China National Chemical Corp	USD	1,100 (reoffered 200)	3.375	2024/6/19	5	Materials	Baa2/BBB/ A-	Baa2/-/A-

Sources: Bloomberg, CCX research

Secondary Market: Return on investment-grade and high-yield bonds surged

As of March 6, the YTD return on Chinese USD corporate bond index rose by 105bp over last week to 2.97%, of which investment-grade bond index was 4.07% and high-yield bond index was 0.77%, increasing by 135bp and 45bp over last week, respectively.

Figure 6 : YTD return on Chinese USD bond index



Sources: Bloomberg, CCX research

For the rating actions of cross-border bond market, the rating agencies took negative rating actions on 4 Chinese issuers from March 2 to March 6.

Table 3 : Credit rating changes of cross-border bond market (20200302-20200306)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
International Rating:										
Downgrade	Yida China Holdings Ltd	Real Estate	Caa2	NEG	2020/3/2	Caa1	NEG	2019/11/28	Moody's	Launch of a tender offer
	Oceanwide Holdings Co Ltd	Real Estate	CCC	Rating Watch Negative	2020/3/3	CCC+	NEG	2019/9/30	S&P	Asset sales delay amid coronavirus outbreak
Domestic Rating:										
Downgrade	Qinghai Provincial Investment Group Co Ltd	Materials	C	STABLE	2020/3/2	BBB	NEG	2019/6/27	CSCI Pengyuan	USD bond defaulted
	Macrolink Holding Co Ltd	Financials	A+	NEG	2020/3/5	AA	NEG	2020/1/21	Golden Credit	Tightened liquidity, profitability and cash from operations dropped

Sources: Bloomberg, Wind, CCX research

Risk Event: Macrolink Holding's onshore MTN defaulted

On March 6, Macrolink Holding Co Ltd ("Macrolink Holding" or the "Company") was unable to pay back the principal and interest on an onshore medium term note ("15新华联控MTN001") of approximately RMB1.0698 billion. The Company explained that its businesses including tourism, retail, hotel, food and beverage, as well as oil trading were hurt by the coronavirus outbreak, and its cash collection in the first 2 months of 2020 reduced by over RMB6 billion. According to Bloomberg, the Company had over RMB5 billion outstanding onshore bonds (excluding the defaulted bond on March 6) and USD208 million offshore bonds.

Panda Bond Market: BMW Finance issued 2 PPNs

On March 4, the 2020 BMW Finance N.V. (“BMW Finance”) PPN Series I (Bond Connect) Tranche 1&2 were successfully issued in the Interbank Market. BMW Finance raised RMB1.5 billion at a coupon rate of 2.90% in the Tranche 1 bond with a tenor of 1 year, and RMB2 billion at a coupon rate of 3.35% in the Tranche 2 bond with a tenor of 3 years. China Chengxin International Credit Rating Co., Ltd. has assigned the credit rating of AAA to the issuer.

As of March 6, there were 5 issuers that issued 6 Panda Bonds in 2020, with a total issuance volume of RMB10 billion and an average coupon of 3.07%. These bonds were mostly short-/medium-term bonds and were issued in the Interbank Market.

Table 4 : New issuance of Panda Bond in 2020 (20200101-20200306)

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
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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