

### 2022 Issue 33

#### From August 29 to September 2

#### Chinese offshore bond issuance decreased; return on Chinese USD bond decreased

#### Headline: China PMI increased slightly; US nonfarm payrolls increased slightly more than expected

On August 31, in August, the manufacturing purchasing manager index (PMI) was 49.4%, an increase of 0.4 percentage points from the previous month. On September 2, the US Bureau of Labor Statistics released a report showed that the US non-farm payrolls increased by 315,000 in August, slightly higher than the expected 300,000, far lower than the 528,000 in July. The increase was the highest since December last year.

#### Exchange Rate: RMB exchange rate dropped, USD index rose

As of September 2, the RMB/USD middle rates closed at 6.8917, increasing by 431bp from last Friday. The USD index rose by 0.7% to 109.534.

#### Interest Rate: China Government Bond yields fluctuated downward; US Treasury yields increased

This week, China Government Bond yields fluctuated downward. US Treasury yields rose first and then fall amid reduced market bets on the Fed's raising interest rates by 75 basis points in September due to slower growth of US non-farm payrolls in August.

#### Chinese Offshore Bond Market

#### Primary Market: Chinese offshore bond issuance decreased

From August 29 to September 2, there were 18 new issues with a total issued volume of USD1.4 billion, decreasing by 36.8% from last week.

#### Secondary Market: Return on Chinese USD bond decreased

As of September 2, the YTD return on Chinese USD corporate bond index decreased by 53bp from last Friday to -10.75%. The return on investment-grade bonds decreased by 31bp to -7.24%, and the return on high-yield bonds decreased by 146bp to -23.79%.

#### Rating Action: CCXAP announced 3 issuers ratings

CCXAP assigns first-time long-term credit rating of BBB<sub>2</sub>- to SFEP, with stable outlook; long term credit rating of BBB<sub>2</sub>- to Lushang, with stable outlook; first-time long-term credit rating of A<sub>2</sub>+ to Lingang Group, with stable outlook.

#### Credit event: Zhenro Properties defaulted on USD bonds and KWG Group proposed an exchange offer



#### Authors

**George Wang**

852-2860 7130

[george\\_wang@ccxap.com](mailto:george_wang@ccxap.com)

**Peter Chong**

852-2860 7124

[peter\\_chong@ccxap.com](mailto:peter_chong@ccxap.com)

#### Other Contacts

**Elle Hu**

852-2860 7120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

## **Headline: China PMI increased slightly; US nonfarm payrolls increased slightly more than expected**

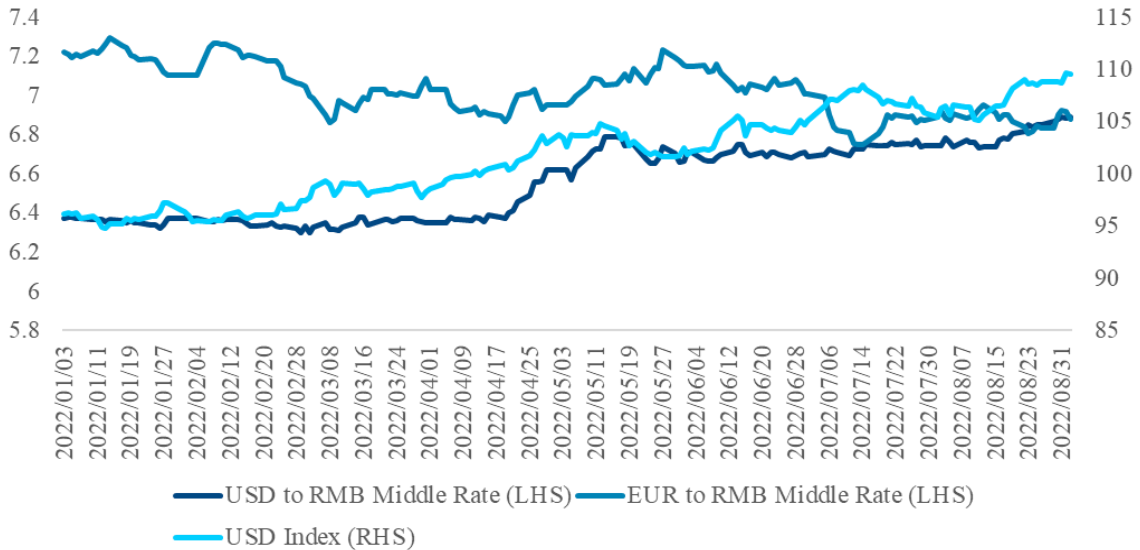
On August 31, the National Bureau of Statistics announced that in August, the manufacturing purchasing manager index (PMI) was 49.4%, an increase of 0.4 percentage points from the previous month; the non-manufacturing business activity index and the composite PMI output index were 52.6% and 51.7%, down 1.2 and 0.8 percentage points from the previous month respectively, continuing to be in the expansion range. In terms of sub-indices, the production index was 49.8%, the same as the previous month, and the new orders index was 49.2%, 0.7 percentage points higher than the previous month. Both indices continued to be in the contraction range, indicating that the recovery of manufacturing production and demand still needs to be strengthened. From the perspective of the industry, with the implementation of various policies and measures to promote consumption, the PMI of the consumer goods industry rose to 52.3%, 0.9 percentage points higher than the previous month. The PMIs of equipment manufacturing and high-tech manufacturing were 50.9% and 50.6%, respectively, down 0.3 and 0.9 percentage points from the previous month, and still higher than the critical point. The industry continued to expand, but at a slower pace.

On September 2, the US Bureau of Labor Statistics released a report showed that the US non-farm payrolls increased by 315,000 in August, slightly higher than the expected 300,000, far lower than the 528,000 in July. The increase was the highest since December last year and the employment rose for the 20<sup>th</sup> straight month. The unemployment rate unexpectedly rose to 3.7%, higher than market expectations of 3.5%, the first rise in seven months. The growth rate of hourly wages also declined. Average hourly wages in August increased by 0.3% month-on-month, lower than the market expectation of 0.4%, and the previous value was 0.5%; a year-on-year increase of 5.2%, lower than the market expectation of 5.3%, the previous value was 5.2%. Professional and business services continued to lead non-farm payroll growth, with 68,000 new jobs in August and a whopping 1.1 million in the past 12 months. It was followed by the health care and retail trade industries, which added 48,000 jobs and 44,000 jobs, respectively. However, the labor market in the leisure and hospitality industry dropped significantly, which added 31,000 jobs in August, down from 60,000 in July. Overall, the US job market showed signs of slowing again, with non-farm payrolls and wage gains both declining, but a larger-than-expected rise in the unemployment rate added to recession fears. Nevertheless, the US job market remains relatively strong and unlikely to deter the Fed's determination to continue tightening rapidly.

## **Exchange Rate: The RMB exchange rate dropped, USD index rose**

This week, the RMB exchange rate dopped. As of September 2, the RMB/USD and RMB/EUR middle rates closed at 6.8917 and 6.789, increased by 431bp and 457bp from last Friday, respectively. The USD index rose by 0.7% to 109.534.

**Figure 1: RMB exchange rate**

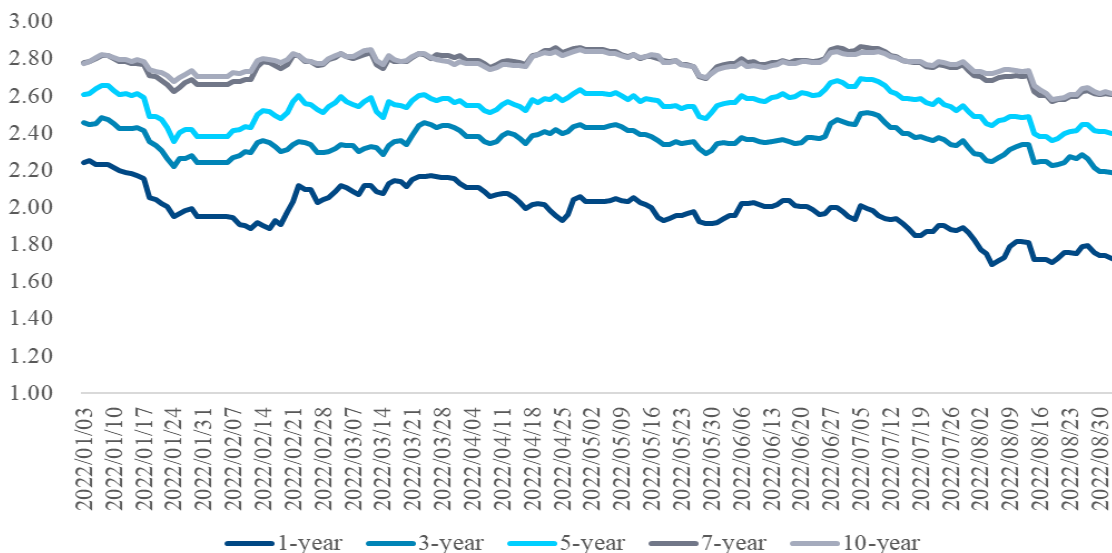


Sources: Wind, CCX research

### Interest Rate: China Government Bond yields fluctuated downward; US Treasury yields increased

The China Government Bond yields fluctuated downward this week. As of September 2, the 1-year, 3-year, 5-year, 7-year, and 10-year China Government Bond yields rose 7bp, 8bp, 4bp, 2bp, and 2bp from last Friday to 1.7193%, 2.1830%, 2.4024%, 2.6124%, and 2.6226%, respectively.

Figure 2: China Government Bond yields

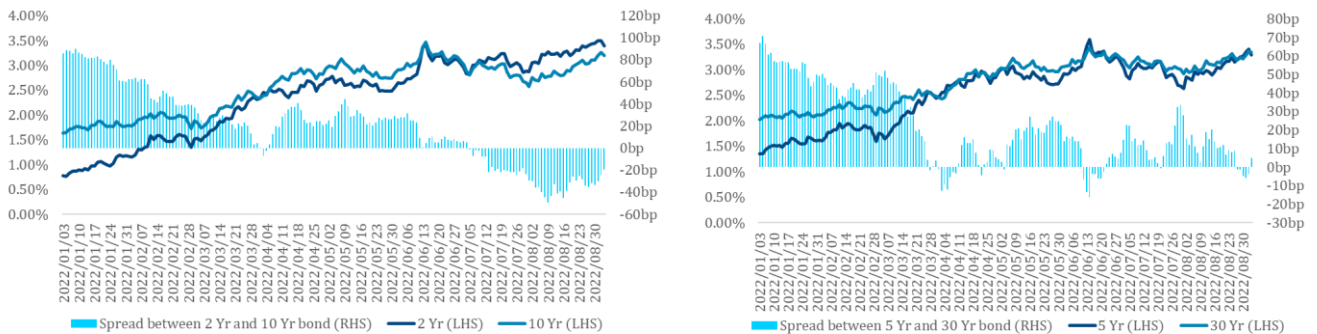


Sources: ChinaBond.com.cn, CCX research

US Treasury yields rose first and then fall amid reduced market bets on the Fed’s raising interest rates by 75 basis points in September due to slower growth of US non-farm payrolls in August. As of September 2, the 2-year yield dropped by 1bp to 3.3873%; 5-year, 10-year and 30-year yields were 3.2928%、3.1894% and 3.3435%, increasing by 9bp, 15bp and 15bp from last Friday, respectively. In terms of US Treasury bond

spreads, the 2-year and 10-year Treasury bond spreads narrowed by 16bp to -19.8bp from last Friday, while the 5-year and 30-year Treasury bond spreads widened by 4bp to 5.1bp from last Friday.

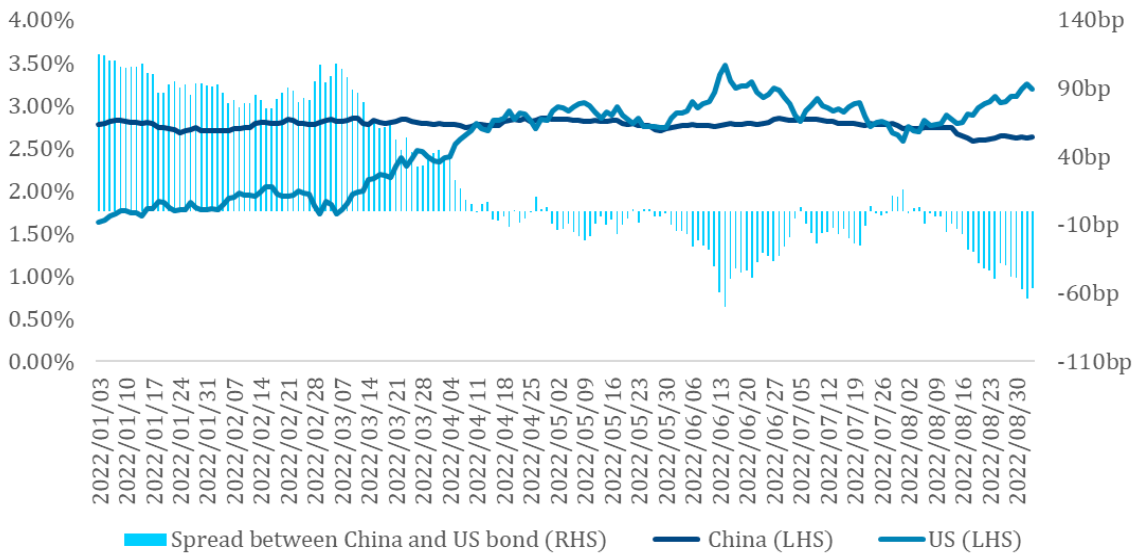
Figure 3: US Treasury yields and yield spreads



Sources: US Department of the Treasury, CCX research

As of September 2, the yield spread between China and US 10-year note was -56.7bp, widening by 16.9bp from last Friday and narrowing by 58.1bp 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 decreased

From August 29 to September 2, there were 18 new issues with a total issued volume of USD1.4 billion, decreasing by 36.8% from last week. Among them, iQIYI Inc was the largest issuer, which issued 1 bond with total amount of USD500 million.

**Table 1: New issuance of Chinese offshore bonds (20220829-20220902)**

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P/Fitch)	Issue Rating (Moody's/S&P/Fitch)
2022/8/29	CITIC Securities International Co Ltd	JPY	180	10	2023/3/15	184D	Financials	-/BBB+/-	-/-/-
2022/8/29	CITIC Securities International Co Ltd	USD	0.5	0	2022/10/12	30D	Financials	-/BBB+/-	-/-/-
2022/8/29	CITIC Securities International Co Ltd	USD	1	7.29	2023/3/15	184D	Financials	-/BBB+/-	-/-/-
2022/8/29	CITIC Securities International Co Ltd	USD	0.5	8.61	2023/9/14	1.0	Financials	-/BBB+/-	-/-/-
2022/8/30	CITIC Securities International Co Ltd	USD	0.5	10	2022/10/17	34D	Financials	-/BBB+/-	-/-/-
2022/8/30	CITIC Securities International Co Ltd	USD	0.3	10	2023/1/18	127D	Financials	-/BBB+/-	-/-/-
2022/8/30	CITIC Securities International Co Ltd	USD	0.5	22.11	2023/3/15	183D	Financials	-/BBB+/-	-/-/-
2022/8/30	iQIYI Inc	USD	500	6	2027/9/30	5	Communications	-/-/-	-/-/-
2022/8/31	Chongqing Fuling District The New Urban Development Group Co Ltd	USD	84	6	2025/9/6	3	Chengtou	-/-/-	-/-/-
2022/8/31	CITIC Securities International Co Ltd	USD	0.5	20	2022/12/16	93D	Financials	-/BBB+/-	-/-/-
2022/8/31	CITIC Securities International Co Ltd	USD	0.4	12	2023/1/19	127D	Financials	-/BBB+/-	-/-/-
2022/8/31	CNGR Advanced Material Co Ltd	USD	140	5.7	2025/9/5	3	Materials	-/-/-	-/-/-
2022/8/31	Xi'an Quijiang Cultural Finance Holdings Group Co Ltd	EUR	60	3.7	2025/9/6	3	Financials	-/-/-	-/-/-
2022/8/31	Zhenjiang Cultural Tourism Industry Group Co Ltd	USD	57.5	5.2	2025/9/8	3	Chengtou	-/-/-	-/-/-
2022/9/1	China International Capital Corp International Ltd	HKD	20	2.35	2023/9/6	364D	Financials	Baa1/BBB+/BBB+	-/-/-
2022/9/1	CNCB Hong Kong Investment Ltd	USD	300	4.213	2023/9/7	364D	Financials	-/-/-	-/-/-
2022/9/2	Jincheng State-Owned Capital Investment Operation Co Ltd	USD	200	6.9	2025/9/7	3	Chengtou	-/-/-	-/-/-
2022/9/2	Zhenjiang Transportation Industry Group Co Ltd	USD	57.5	5.2	2025/9/9	3	Chengtou	-/-/-	-/-/-

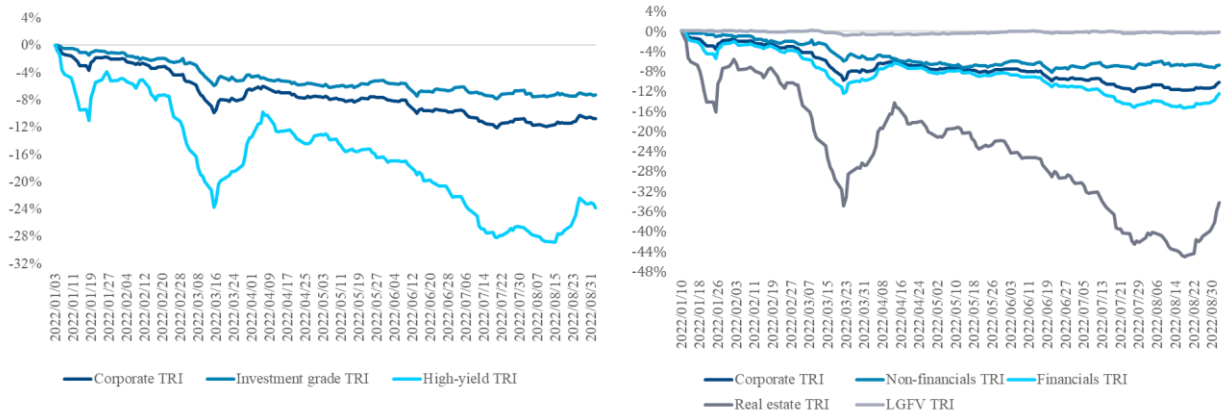
Sources: Bloomberg, CCX research

## Secondary Market: Return on Chinese USD bond decreased

As of September 2, the YTD return<sup>1</sup> on Chinese USD corporate bond index decreased by 53bp from last Friday to -10.75%. The return on investment-grade bonds decreased by 31bp to -7.24%, and the return on high-yield bonds decreased by 146bp to -23.79%. In terms of sector indices, the return on real estate bonds decreased the most, decreasing by 176bp from last Friday to -36.01%. The returns on non-financial, financial and Chengtou bonds were -7.39%, -13.08% and -0.39%, decreasing by 52bp, 53bp and 18bp, respectively.

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

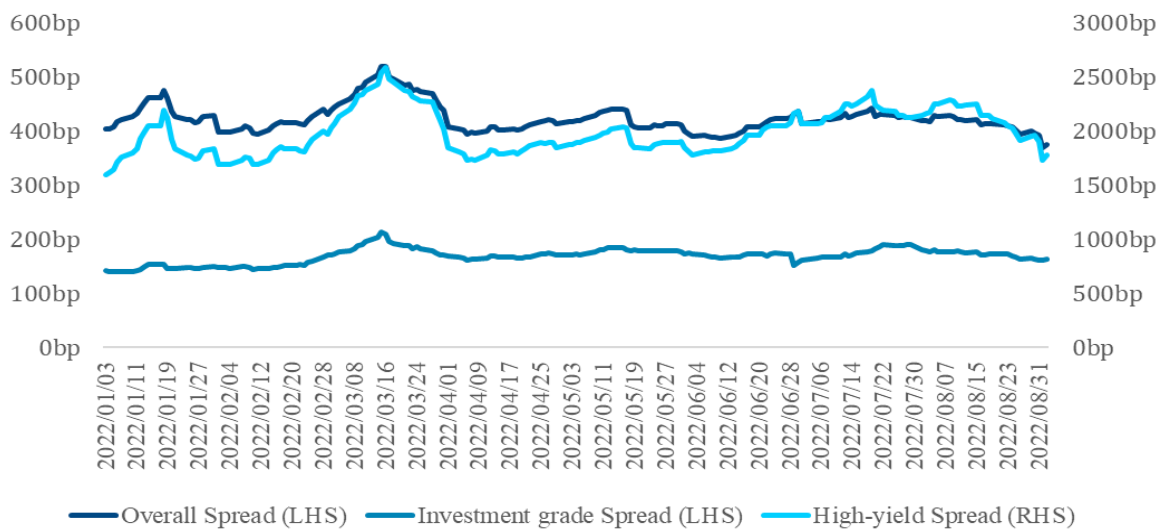
<sup>1</sup> Year-to-date return measures the return since January 3, 2022



Sources: Bloomberg, CCX research

As of September 2, the yield spread of Chinese dollar bonds decreased by 18.2bp to 374.6bp from last Friday, of which investment grade bond spread decreased by 1.3bp to 162.2bp while high-yield bond spread decreased by 129.8bp to 1778.3bp.

**Figure 6: Yield Spreads of Bloomberg Barclays Chinese USD bond index**



Sources: Bloomberg, CCX research

According to Bloomberg data, the 10 bonds with the largest yield increases from August 29 to September 2 are shown in the table below. Among them, the yield of offshore bonds of KWG Group Holdings Ltd changed the most.

**Table 2: Chinese offshore bonds with largest yield increases (20220829-20220902)**

Security Name	Obligor	Last Price (USD)	Years to Maturity	Yield to Convention	Yield Change
KWGPRO 6 09/15/22	KWG Group Holdings Ltd	32.62	0.02	8,941.60	331.1M
KWGPRO 5.2 09/21/22	KWG Group Holdings Ltd	31.38	0.04	5,587.73	100.3M
GRNLGR 6 ¾ 06/25/23	Greenland Holding Group Co Ltd	46.50	0.80	139.183	13.9M



AGILE 6 % PERP	Agile Group Holdings Ltd	26.27	Perpetual	613.625	9.1M
DEXICN 9.95 12/03/22	Dexin China Holdings Co Ltd	60.91	0.24	281.701	6.2M
CIFIHG 11.581 PERP	CIFI Holdings Group Co Ltd	44.85	Perpetual	1,743.96	5.4M
GRNLGR 5 % 09/26/22	Greenland Holding Group Co Ltd	91.69	0.05	193.198	4.8M
RDHGCL 7.8 03/20/24	Radiance Holdings Group Co Ltd	40.19	1.54	85.852	4.6M
CENCHI 7 % 04/24/23	Central China Real Estate Ltd	49.89	0.63	166.532	4.1M
CENCHI 7.65 08/27/23	Central China Real Estate Ltd	36.85	0.97	152.518	3.9M

Sources: Bloomberg, CCX research

### Rating Action: CCXAP announced 3 issuer rating

On August 30, China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB<sub>g</sub>- long-term credit rating of Chengdu Sino French Ecological Park Investment Development Co., Ltd. (“SFEP”), with stable outlook.

On August 31, CCXAP has assigned BBB<sub>g</sub>- long-term credit rating of Shandong Commercial Group Co. Ltd. (“Lushang”), with stable outlook.

On September 1, CCXAP has assigned a first-time A<sub>g</sub>+ long-term credit rating of Shanghai Lingang Economic Development (Group) Co., Ltd. (“Lingang Group”), with stable outlook.

**Table 3: Rating Action of CCXAP (20220829-20220902)**

Date	Entity	Issuer Rating	Rating Rationale
2022/8/30	SFEP	BBB <sub>g</sub> -	The credit rating is underpinned by the Company’s (1) monopolistic business position in Chengdu Sino-French Ecological Park; (2) good record of receiving government payments; and (3) reserves of park development-related infrastructure and public construction projects. However, the rating is constrained by the Company’s (1) small operating scale, geographically concentrated in the Sino-French Ecological Park; (2) high debt growth driven by a large number of construction projects; and (3) modest access to funding.
2022/8/30	Lushang	BBB <sub>g</sub> -	The credit rating is underpinned by the the Company’s (1) strong regional competitiveness in the retail sector; (2) reasonable product mix in pharmaceutical business, with extensive sales network; and (3) good access to both equity and debt capital markets. The rating also reflects that moderate support is available from the Shandong Provincial Government when necessary, which is based on the Company’s (1) strategic importance to shareholders; and (2) good track record of receiving ongoing support. However, the rating is also constrained by the Company’s (1) weakened retail performance due to the COVID-19 outbreak, economic downturns and intensified competitions; (2) heightened downward pressure on property sales along with slow destocking; and (3) high debt leverage and modest liquidity position.
2022/9/1	Lingang Group	A <sub>g</sub> +	The credit rating is underpinned by the Company’s (1) full ownership and direct management by the Shanghai Municipal Government; (2) strategic importance in the development of Shanghai City’s industrial parks; (3) solid government support through ongoing capital injection and subsidies; and (4) good access to low-cost and stable fundings. However, the Company’s rating is constrained by its (1) large exposure to industrial property development, which is typically subject to the volatilities of regional industrial investments; and (2) fast expansion on scale that exerts debt management pressure.

Sources: CCX research

From August 29 to September 2, rating agencies took negative action on 8 Chinese issuers.

**Table 4: Credit rating changes of cross-border bond market (20220829-20220902)**

Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
		Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
<b>International Rating:</b>									
Dalian Wanda Commercial Management Group Co Ltd	Real Estate	BB+	NEG	2022/8/29	BB+	STABLE	2020/8/12	S&P	Uncertainty over subsidiary listing
Wanda Commercial Properties (Hong Kong) Co Ltd	Real Estate	BB	NEG	2022/8/29	BB	STABLE	2020/8/12	S&P	Uncertainty over subsidiary listing
China Aluminum International Engineering Corp Ltd	Industrials	BB-	STABLE	2022/8/29	BB	STABLE	2021/3/16	S&P	Slow deleveraging prospects
Guangzhou Development District Group Limited	Financial	Baa1	NEG	2022/8/29	Baa1	STABLE	2019/7/3	Moody's	Elevated leverage owing to its debt-funded portfolio expansion
Radiance Holdings (Group) Co Ltd	Real Estate	B2	NEG	2022/8/31	B1	RWN	2022/8/4	Moody's	Contracted sales will decline more than expected
Kunming Rail Transit Group Co Ltd	Chengtou	BBB+	NEG	2022/9/1	BBB+	STABLE	2021/12/7	Fitch	Revision in Fitch's perception of Yunnan's credit profile
China Great Wall Asset Management Co Ltd	Financial	Baa1	NEG	2022/9/2	A3	RWN	2022/7/5	Moody's	Weakened profitability, capital position and asset quality
Lanzhou Construction Investment (Holding) Group Co Ltd	Chengtou	Caa1	NEG	2022/9/2	B3	NEG	2022/5/20	Moody's	Severe liquidity and refinancing risks

Sources: Bloomberg, Wind, CCX research

### **Credit event: Zhenro Properties defaulted on USD bonds and KWG Group proposed an exchange offer**

On August 30, Zhenro Properties Group Ltd (“Zhenro Properties”) announced that the Company has tight liquidity and it may not be in a position to meet repayment obligations of certain offshore indebtedness which will become due between August to October 2022 on time, including the September 2021 Notes, the February 2021 Notes, the March 2022 Notes and the March 2022 RMB Notes, which constituted an event of default.

On September 2, KWG Group Holdings Ltd (“KWG Group”) announced that, in order to improve overall financial condition, extend debt maturity profile, strengthen balance sheet and improve cash flow management, the Company proposed the offer to exchange for at least USD810 million, or 90%, of the aggregate outstanding principal amount of the September 2022 A Notes and the September 2022 B Notes, and at least USD560 million, or 80%, of the outstanding principal amount of the September 2023 Notes. It also solicited consents from Eligible Holders to certain proposed waivers and proposed amendments to the indenture governing the September 2023 Notes.





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Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong  
Website: [www.ccxap.com](http://www.ccxap.com)  
Email: [info@ccxap.com](mailto:info@ccxap.com)  
Tel: +852 2860 7111  
Fax: +852 2868 0656