China Onshore Credit Bond Monthly

Long awaited Securities Law revision to boost credit bond primary issuance

Credit Analysis

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Global Emerging Markets | Corporate Credit
Asia | China

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LGFV – local government financing vehicle

POE – private enterprise

SOE – state-owned enterprise

SME – small-to-medium enterprise

March 6, Quantifying direct impact to onshore default trend from recent SOE events

Looser issuance criteria positive to credit bond financing

The recently amended Securities Law has considerably relaxed issuance criteria for enterprise bonds and exchange corporate bonds: (1) **issuance regime changed from approval based to registration based**, which will greatly shorten the time required to prepare for a bond issuance; and (2) **elimination of earlier stringent restrictions on issuers' operating size and leverage trend**, which will help expand the issuer universe and increase the potential bond issuance size of existing issuers. These changes have almost removed all regulatory constraints for bond issuance from the supply perspective. The supply reform also echoes well with Beijing's long-term plan to revive capital market direct financing capability while reducing the reliance on bank loans.

Together with the timely supportive measures by the government since the COVID-19 outbreak, **easier access for Chinese issuers to tap the onshore credit bond financing has already bolstered primary issuance in recent weeks**. Weekly average new supply of enterprise bond and corporate bond together surged to RMB1tr+ in the last four weeks vs RMB601bn during same period a year ago and RMB561bn in FY19. However in the long term, whether this will translate into more robust bond issuance and easier credit bond financing should still hinge on investor demand.

Feb gross supply stable while net supply picked up mildly

In Feb, credit bond gross supply was stable at RMB853bn mildly down MoM but largely distorted by COVID-19. Net supply edged up slightly to RMB459bn vs RMB445bn in Jan. While SOEs continued to dominate in onshore bond financing access, it is encouraging to see further recovery in POEs which posted the first positive reading since April-19 (RMB32bn in Feb vs -RMB4bn in Jan). Similarly, property developers also saw improving funding access led by AAA-rated issuers (RMB16bn vs RMB6bn). On primary funding costs, it is noteworthy to highlight the continued declines across all-rating bonds.

Default rate rebounded to 1.76% in Feb

Feb onshore default rate by amount rebounded to 1.76% from 1.37% in Jan driven by PKU, a central SOE conglomerate, which defaulted on all of its outstanding onshore bonds totaling RMB35bn. The event drove up SOE default rate to a record of 0.66% in Feb from 0.15% while POE default rate eased to 6.48% from 6.64% on declining POE defaults. However, the default rate by the count of defaulted issuers has actually eased to 1.10% in Feb vs 1.12 in Jan and since last peak at 1.67% in July-19.

Offshore RV widened for HY

Compared to last month, both onshore and offshore IG and HY yields declined in Feb. Onshore credit saw larger degree of yield decline in Feb especially of HY bonds. Without hedging, it remains cheaper for Chinese IG issuers to tap the offshore dollar market; but more expensive for HY issuers to do so. On a currency-hedged basis, both offshore IG and HY still offered relative value in Feb. On average, the pickup in yield for CNY bonds over USD bonds after hedging is -0.7% for SOE, -2.5% for LGFV, -6.3% for property, and -0.6% for financials.

Refer to important disclosures on page 19 to 21.

Special topic of the month

The long waited Securities Law revision

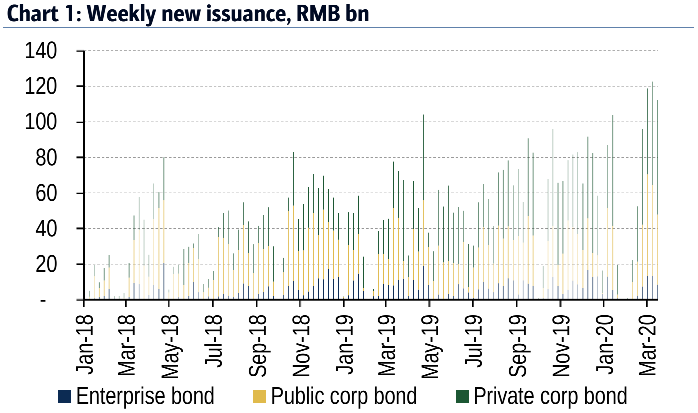
Following the implementation of the newly revised Securities Law from 1 March, the issuance criteria of onshore enterprise bonds and exchange corporate bonds have been loosened considerably. Two key changes: 1) **issuance regime changed from approval based to registration based**, which has greatly shortened the time required to prepare for a bond issuance; and (2) **elimination of earlier stringent restrictions on issuers' operating size and leverage trend**, which will expand the issuer universe and increase the potential bond issuance size of existing issuers. These changes have almost removed all regulatory constraints for bond issuance from the supply perspective.

Together with the timely supportive measures by the government since COVID-19 outbreak, **easier access for Chinese issuers to tap the onshore credit bond financing has already boosted primary issuance in recent weeks** (Chart 1 and Table 1). Weekly average new supply of enterprise bond and corporate bond together surged to RMB1tr+ in the last four weeks vs RMB601bn same period a year ago and RMB561bn for FY2019. In the long term, whether or not such resilience can sustain will largely hinge on investor demand and market sentiment. The supply reform also echoes well with Beijing's long-term plan to revive capital market direct financing capability while reducing reliance on bank loans.

Looking ahead, enterprise bond gross supply should accelerate on the back of simpler issuance terms, streamlined procedure and low base impact from previous years. While corporate bond issuance is expected to continue its healthy growth trend, we believe **more issuers would opt for public offering over private placement** because 1) the cap on issuers' bond outstanding ≤40% of net asset value was removed for the public offering corporate bond but remains in place for private placement corporate bonds; 2) public offering deals are available to a broader investor base and are generally subject to lower funding costs compared with private placement deals (Chart 2).

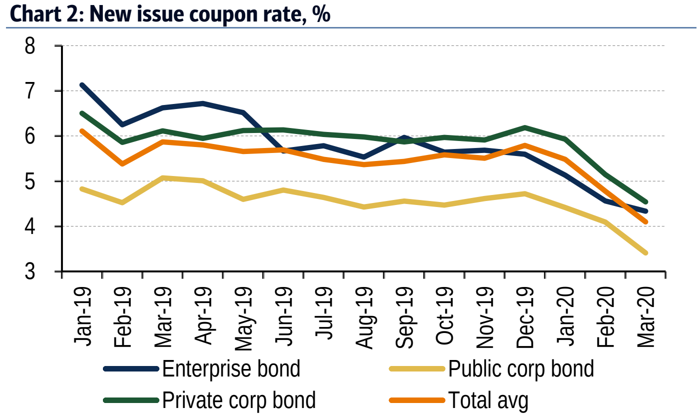
In term of beneficiaries, most type of enterprises should get supports from the looser issuance policies. State-owned enterprises/SOEs and local government funding vehicles/LGFVs may get benefit first given SOEs' strategic roles in uplifting growth and warranting social stability during economic downturns. Within private enterprises/POEs, the large sized AAA rated private issuers should see improving access to onshore bond financing before the small & medium-sized enterprises/SMEs. By industry, the positive effects may vary disproportionately as some sectors' access to onshore bond financing are still tightly restricted despite the removal of bond issuance constraints, particularly that of LGFVs and property developers – both are still on the negative approval list.

Chart 1: Weekly new issuance, RMB bn



Source: WIND

Chart 2: New issue coupon rate, %



Source: WIND

Table 1: Weekly new supply showing strong momentum in recent weeks

	Enterprise bonds			Public corp bond			Private corp bond		
	Amount, RMB bn	No of bonds	No of issuers	Amount, RMB bn	No of bonds	No of issuers	Amount, RMB bn	No of bonds	No of issuers
23-Feb-20	7.4	6	6	34.8	26	26	53.8	56	55
1-Mar-20	13.3	7	7	57.2	37	37	48.3	53	53
8-Mar-20	13.3	9	9	51.3	36	35	58.1	71	71
15-Mar-20	8.4	8	8	39.4	32	32	64.6	63	62
4 wks total	42.3	30	30	182.7	131	130	224.7	243	241
24-Feb-19	2.0	2	2	23.6	11	11	13.1	11	11
3-Mar-19	8.8	9	8	17.0	10	10	18.9	16	16
10-Mar-19	8.3	9	9	14.6	14	14	22.7	23	23
17-Mar-19	8.0	11	11	43.4	28	28	26.3	24	24
4 wks total	27.1	31	30	98.6	63	63	81.0	74	74

Source: WIND

New Securities Law took effect from 1 March 2020

On 1 March 2020, the New Securities Law came into effect after being approved by the State Council in late-December last year. On the same day, other related financial regulators, the National Development and Reform Commission/NDRC, the China Securities Regulatory Commission/CSRC, the Shanghai stock exchange and the Shenzhen stock exchange also released a slew of complementary documents to facilitate changes in bond issuance for their respective governance coverage. By function, NDRC governs enterprise bonds which are traded in the interbank market while CSRC overlooks corporate bonds trading in the two exchange markets.

Key major regulatory changes:

- **Issuance regime changed from approval-based to registration-based**, which has greatly shortened the time required to prepare for a bond issuance. Under the new system, enterprises bond issuers just need to register with the NDRC while ChinaBond and the National Association of financial Market Institutional Investor/NAFMII will be in charge of the reviewing efforts and approval from local governments or local NDRC bureau are no longer required. Similarly, corporate bond issuers now only need to register with the CSRC and the document reviewing process will be taken care of by the stock exchanges

  Between the two securities, the change could be **more impactful for enterprise bond than corporate bond** as the latter had been partially on a registration-based pilot program since 2015. One major difference between the previously launched trial and the latest revamp is that earlier the CSRC has already delegated the approvals rights of private placement corporate bonds and public corporate bonds sold to qualified investors (institutional clients and individuals with >RMB3mn financial assets) to the stock exchanges but preserved the approval rights of the remaining public corporate bonds offered to the general public investors. The uneven treatment back then was based on consideration that qualified investors should possess more professional experience in accessing and absorbing risks involved in credit bond investment. The recently amended Security Law has unified the issuance scheme for all type of corporate bonds regardless of their targeted investors.

- **Eliminate of earlier stringent restrictions on issuers' operating size and leverage trend**, which will expand the issuer universe and increase the potential bond issuance size of existing issuers: 1) for each bond security category, issuer's bond outstanding cannot exceed 40% of its net asset value; 2) minimum net asset requirements must be at least RMB30mn for joint stock limited companies and RMB60mn for limited liability companies; and 3) minimum requirement on bond duration of no less than one year. Instead, these stringent quantitative criteria were

replaced with much looser phrases with no specific requirement on issuers' financial health and size. Based on the latest rules, eligible issuers must be firms with smooth operations, reasonable balance sheet and healthy cash flow etc. Other than the abovementioned, some terms were kept unchanged for risk control concern, such as "average attributable profit over recent three years should be able to cover one year's interest payment". One key point to note is that the removal of the above quantitative constraint is only applicable to enterprise bonds and public offering corporate bonds but not for private placement corporate bonds (Oct 23, CSRC tightens privately-placed corporate bonds to rein in law quality leverage)

- **Other important revisions include** strengthening investor protection via higher information disclosure requirement from both issuers and related market participants, strengthening responsibilities of intermediaries; more stringent regulatory and law enforcement standards including significantly increasing penalty for those breached legal regulations; as well as greater engagement and collaboration between administrative and judicial departments etc.

Recent weekly new supply showing strong momentum

Based on March's first 18 days gross issuance data from WIND, we saw robust primary activities in both corporate bond and enterprises bond. In term of growth magnitude, robustness was more obvious in corporate bond than enterprise bond (Table 2) but if we look at the aggregated YTD gross supply by deal amount, enterprise bond issuance size was much smaller only one-tenth of the corporate bonds (Table 3).

Table 2: Gross issuance 1 March 2020 to 18 March 2020

	Enterprise bond + Corp bond new supply, RMB bn	Enterprise bond + Corp bond new supply, RMB bn	Enterprise bond + Corp bond new supply, %YoY
	1-18 Mar 2020	1-18 Mar 2019	
Enterprise bond	31.2	18.5	68%
Corp bond: public	140.0	65.9	113%
Corp bond: private	153.8	61.2	151%
Total	325.0	145.6	123%

Source: WIND

Table 3: Gross issuance YTD as of 18 March 2020

	Enterprise bond + Corp bond new supply, RMB bn	Anti-epidemic bond	Anti-epidemic bond , % of total	Enterprise bond + Corp bond new supply, RMB bn	Enterprise bond + Corp bond new supply, %YoY
	YTD to 18 Mar 2020			YTD to 18 Mar 2019	
Enterprise bond	59.7	-	-	63.0	-5%
Corp bond: public	281.0	42.0	15%	176.5	59%
Corp bond: private	373.3	23.5	6%	162.2	130%
Total	714.1	65.5	9%	401.7	78%

Source: WIND

9% of YTD corporate bond for anti-epidemic purpose

For publicly-sold corporate bond, the looser issuance criteria has certainly been a contributing factor driving up YTD issuance but it is noteworthy to highlight that the launch of anti-epidemic bond scheme has also played a supportive role. As of 18 March 2020, 15% of new bond issue of the publicly-distributed corporate bonds was reported for anti-epidemic purposes (Table 3). Recall in early February at the height of the COVID-19 crisis, the Chinese government rolled out a series of targeted contingency measures to strengthen financial support for virus prevention and maintaining stability in the broader economy and financial market.

Outlook: Overall stronger supply to help refinancing

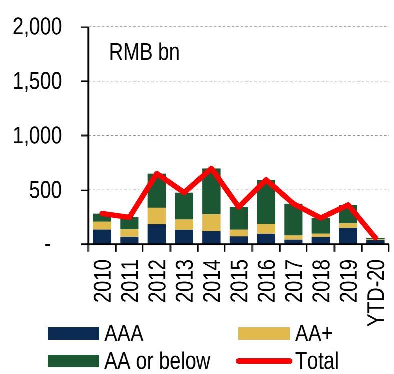
Looking ahead, easier access for Chinese issuers to tap the onshore credit bond financing has already boosted primary issuance over the past few weeks. Weekly average new supply of enterprise bond and corporate bond together surged to RMB1tn+ over the last four weeks, vs. RMB601bn same period a year ago and RMB561bn for FY19. However, in the long term, whether or not such resilience can sustain will have to depend on investor demand and market sentiment. The supply reform also echoes well with Beijing's long-term plan to revive capital market direct-financing capability while reducing the reliance on bank loans. Within "Total Social Financing", corporate bond financing is the second largest category after bank loans.

By security type, enterprise bond gross supply should accelerate on the back of simpler issuance terms, streamlined procedure and low base impact from previous years. While corporate bond issuance is expected to continue its healthy growth trend, we believe more issuers would opt for public offering over private placement, because 1) the cap on issuers' bond outstanding ≤40% of net asset value was removed for the public offering corporate bond but remains in place for private placement corporate bonds; and 2) public offering deals are available to a broader investor base and are generally subject to lower funding costs compared with private placement deals.

In term of beneficiaries, all type of enterprises should get support from the looser issuance policies. SOEs and LGFVs may benefit first given SOEs' strategic role in uplifting growth and warranting social stability during economic downturns. Within POEs, the large-sized AAA-rated private issuers should see improving access to onshore bond financing before SMEs. By industry, the positive impact may vary disproportionately as some sectors' access to onshore bond financing is still tightly restricted despite the removal of bond issuance constraints, e.g. LGFVs and property developers, both of which are still on the negative approval list.

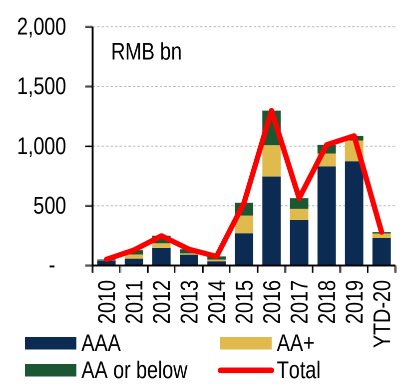
Under the New Securities Law, more risk-control responsibilities have been transferred from the hands of the regulators to the market participants. Thus, issuers would be entitled to greater flexibility over debt management and business expansion strategy, while investors would need to be more proactive in conducting due diligence, evaluating individual corporate credit fundamentals and understanding industry development.

Chart 3: Gross supply: Enterprise bond



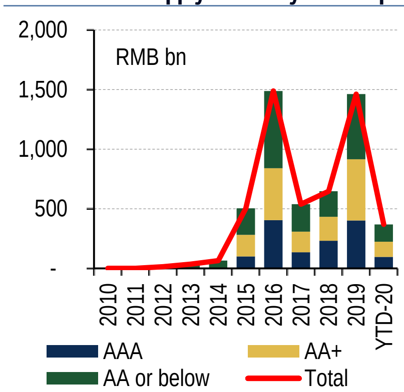
Source: WIND

Chart 4: Gross supply: Pubicly sold corp bond



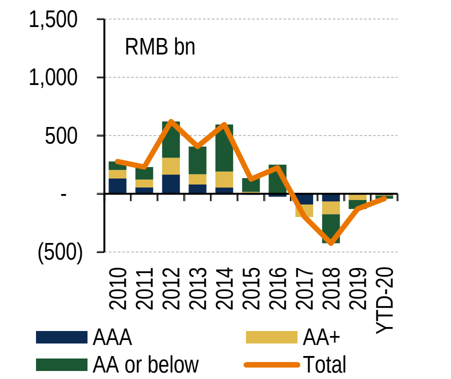
Source: WIND

Chart 5: Gross supply: Privately sold corp bond



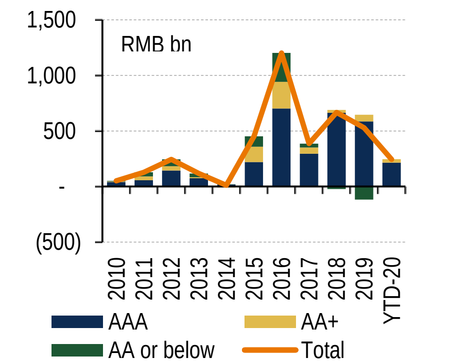
Source: WIND

Chart 6: Net supply: Enterprise bond



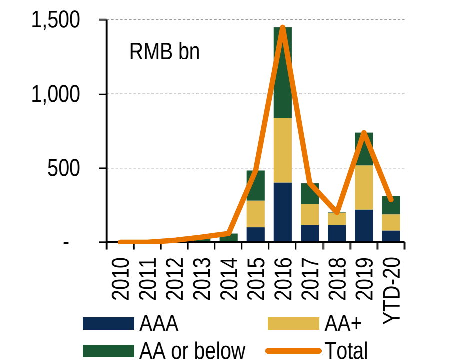
Source: WIND

Chart 7: Net supply: Publicly sold corp bond



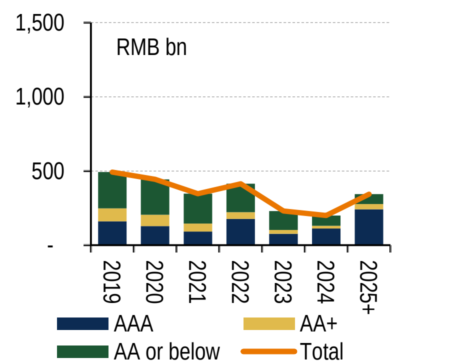
Source: WIND

Chart 8: Net supply: Privately sold corp bond



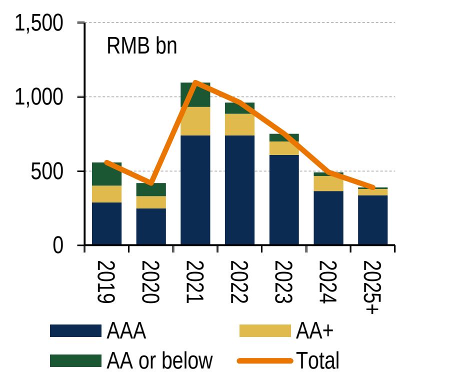
Source: WIND

Chart 9: Maturity: Enterprise bond



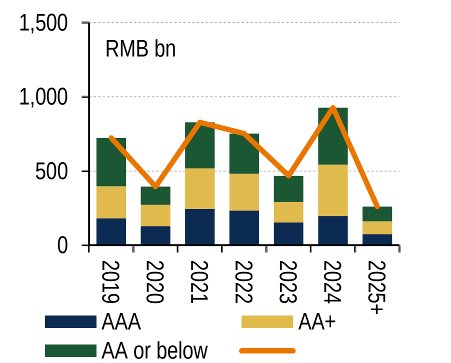
Source: WIND

Chart 10: Maturity: Publicly sold corp bond



Source: WIND

Chart 11: Maturity: Privately sold corp bond



Source: WIND

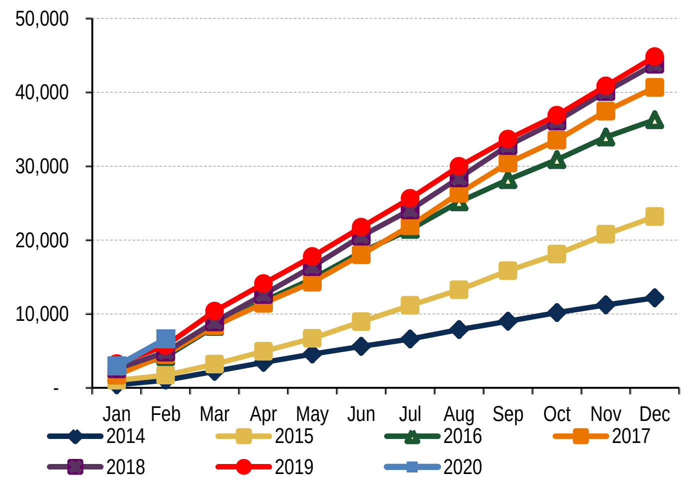
Supply

Stronger credit gross supply of RMB3.7trn in Feb

In February, onshore total fixed income gross supply grew strongly to RMB3.7trn (+25%MoM/ +50%YoY) driven by strong CDs issuance (+175%MoM/+55%YoY) offsetting weakness in LGBs (-44%MoM/+20%YoY) and non-financial corporate bond (-30%MoM/+40%YoY). In terms of net supply, Feb credit bonds edged up slightly to RMB459bn vs RMB445bn in Jan).

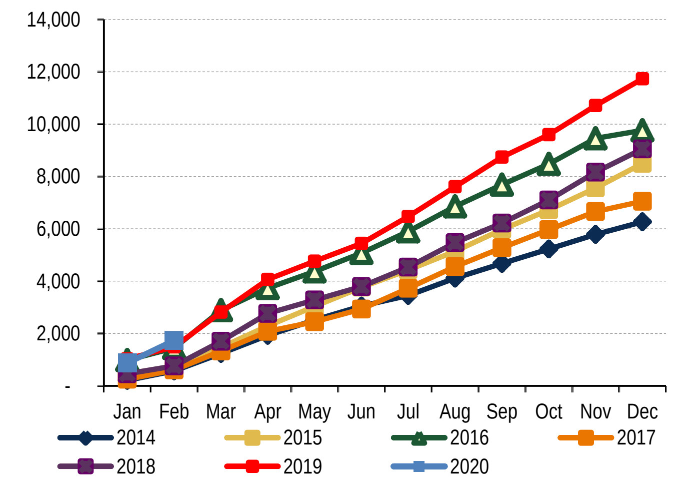
Note: "credit bonds" includes financial bonds (excluding policy bank bonds), exchange corporate bonds, enterprises bonds, medium-term notes (MTN), private placement notes (PPN) and commercial papers (CP), unless otherwise specified.

Chart 12: Cumulative fixed income supply, RMB bn



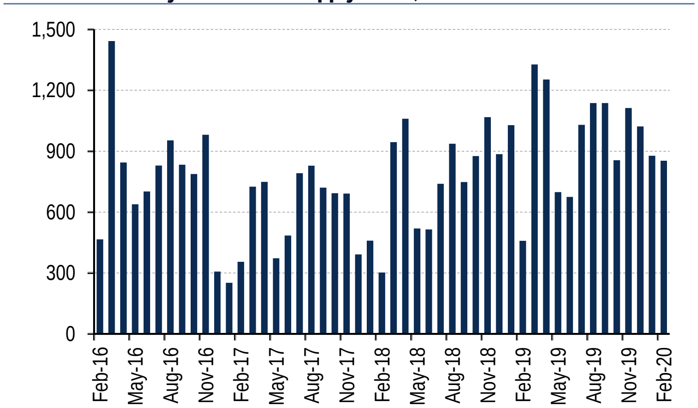
Source: Wind

Chart 13: Cumulative credit bond supply, RMB bn



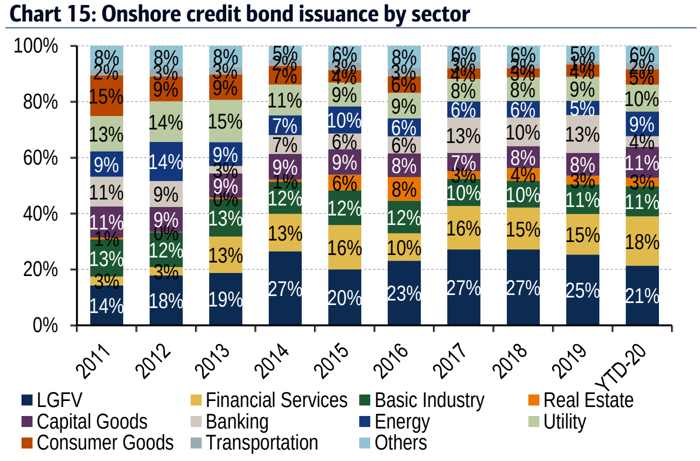
Source: Wind

Chart 14: Monthly credit bond supply trend, RMB bn



Source: Wind

Chart 15: Onshore credit bond issuance by sector



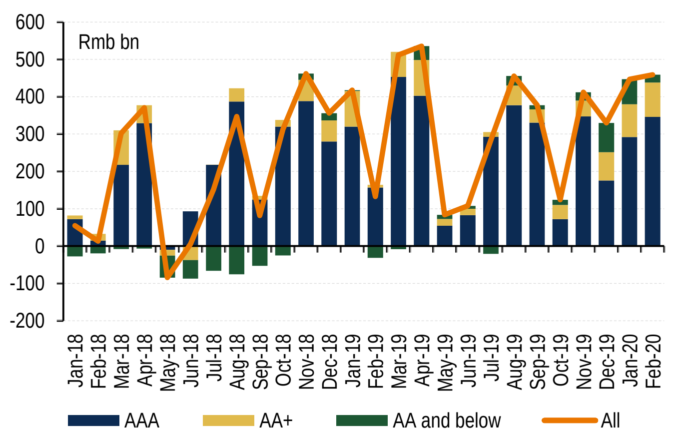
Source: Wind

Improving net supply for POEs and property developers

In February, onshore credit bonds' net supply slightly went up to RMB459bn from RMB445bn in Jan-20; still driven by the AAA-rating accounting for 75% of the monthly increase. Excluding financials, the overall trend was similar.

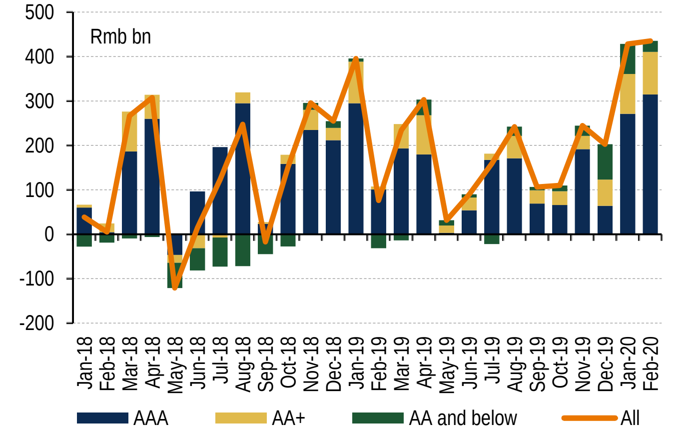
While SOE continued to dominate onshore bond financing access, it is encouraging to see further recovery in POE which posted the first positive reading since April last year (RMB32bn in Feb vs -RMB4bn in Jan). Similarly, property developers also saw improving funding access led by AAA-rated issuers (RMB16bn vs RMB6bn). It is noteworthy to highlight the further easing onshore funding costs across all ratings.

Chart 16: Monthly credit net supply



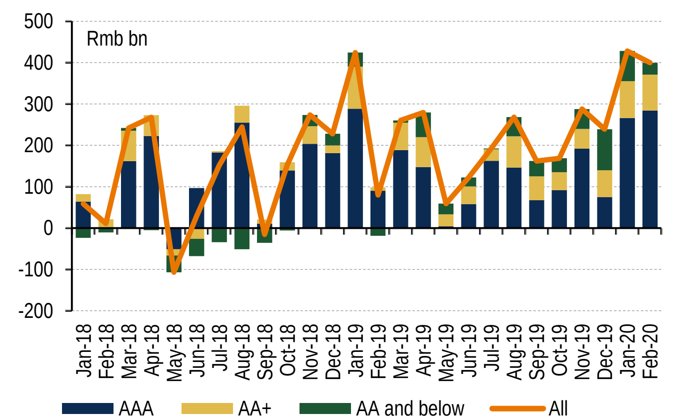
Source: Wind

Chart 17: Monthly credit net supply (ex-financials)



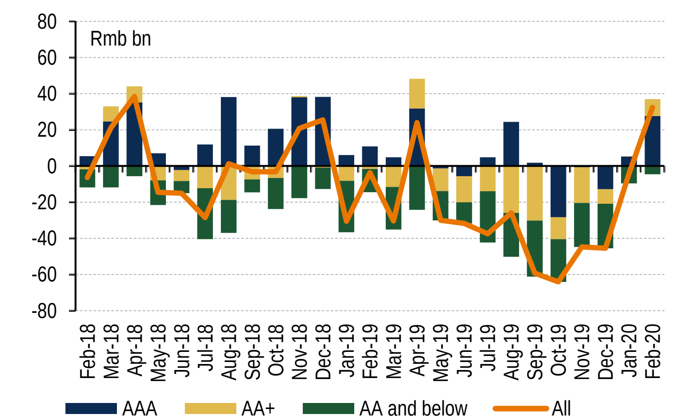
Source: Wind

Chart 18: Monthly credit net supply(ex-financials)– SOEs



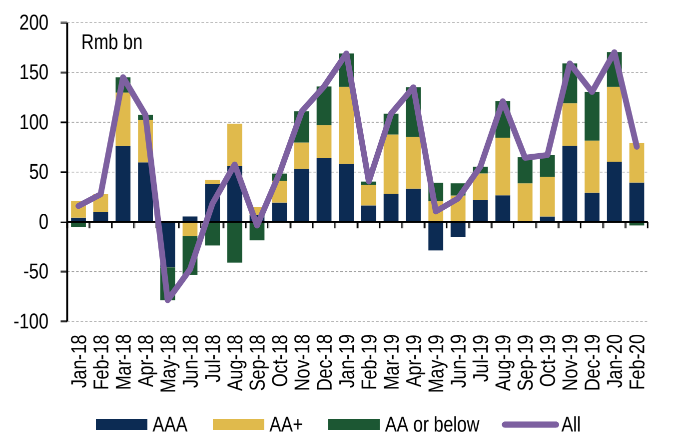
Source: Wind

Chart 19: Monthly credit net supply(ex-financials)– POEs



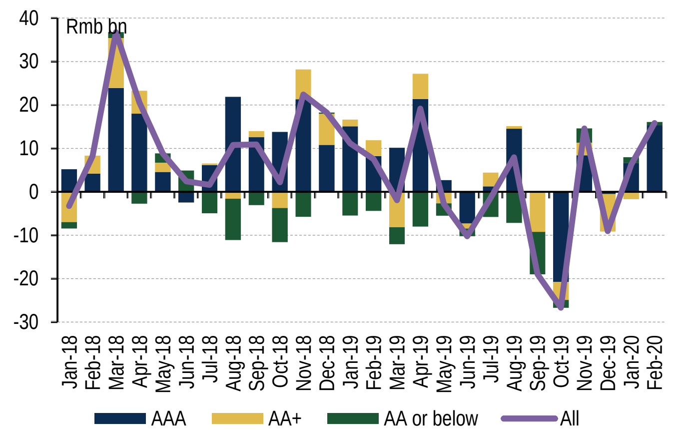
Source: WIND

Chart 20: Monthly credit net supply (ex-financials)– LGFV bonds



Source: Wind

Chart 21: Monthly credit net supply (ex-financials)– developer bonds

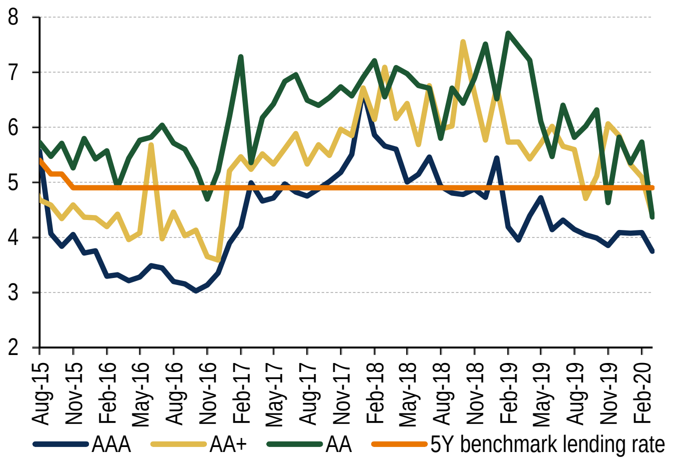


Source: Wind

Lower new funding costs across the board

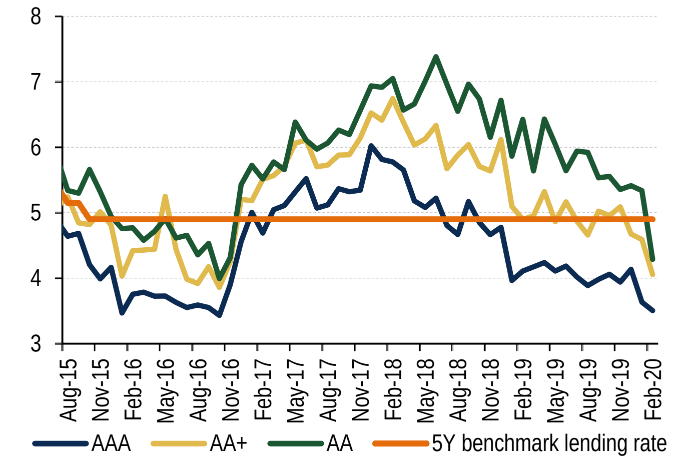
We saw strong signs of liquidity improvement due to the easing measures to support the recovery from the epidemic. The new issuance cost has declined substantially for both exchange corporate bonds and MTNs, especially in lower-rate category. Meanwhile, the new bond cancellation ratio declined to historical low of 1.8% since 2016. The overall cancellation rate has showed declining trend for the past two years.

Chart 22: New issue coupon rate (%) – Exchange corporate bonds



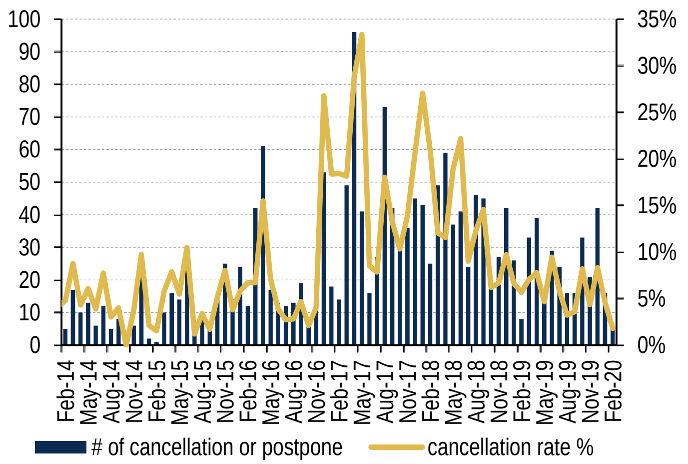
Source: Wind

Chart 23: New issue coupon rate (%) – Medium term notes (MTNs)



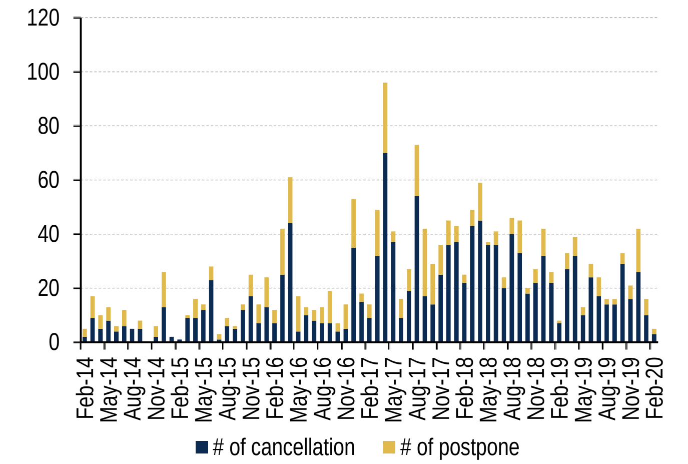
Source: Wind

Chart 24: New issuance cancellation trend



Source: Wind

Chart 25: Number of bond issuance cancelled or postponed



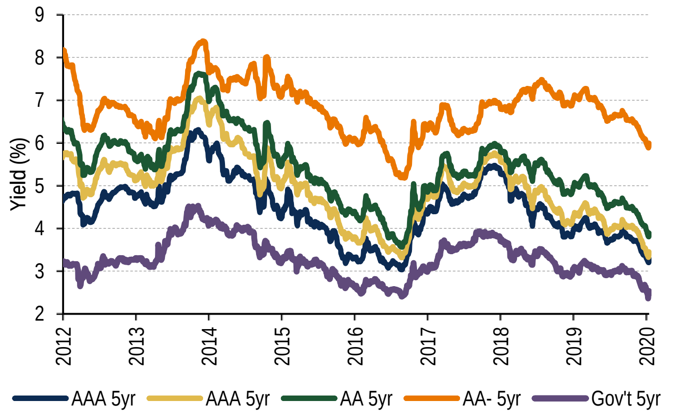
Source: Wind

Yields and spreads

Feb yields further declined while spread largely stable

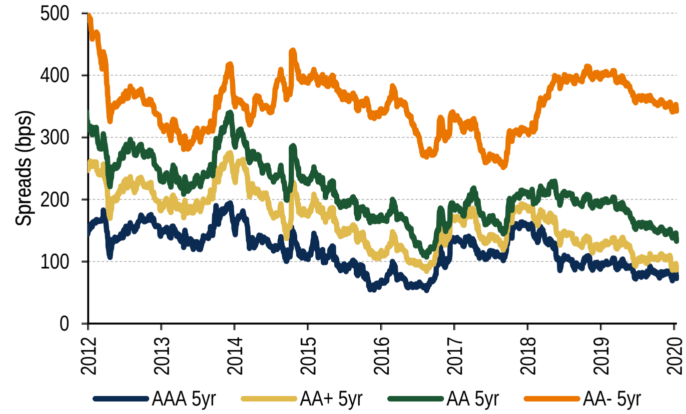
Amid further policy loosening, CGB 5yr yield narrowed by 26bp to 2.53% by end of Feb from 2.79% Jan-end. Both enterprise bond and corporate bond for the same duration also delivered lower yields across all rating. This has resulted in a broadly stable credit spread on a month on month comparison.

Chart 26: Five-year government and enterprise bond yields



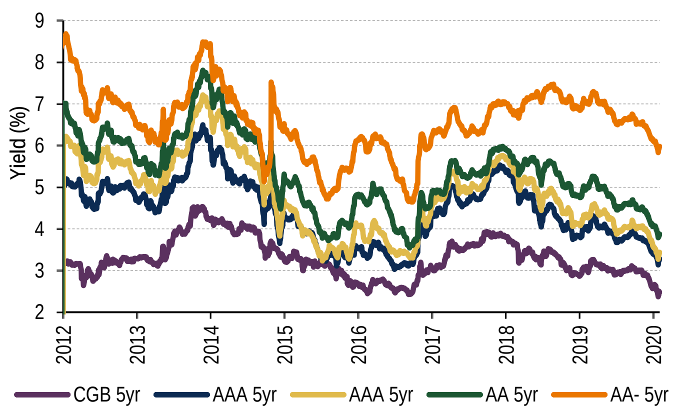
Source: WIND

Chart 27: Five-year enterprise bond spreads



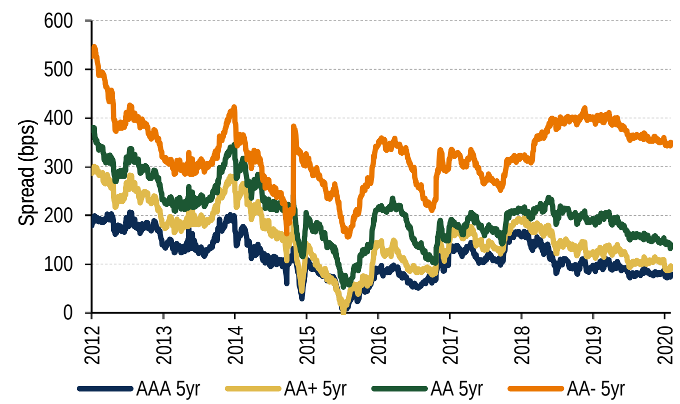
Source: WIND

Chart 28: Five year government and corporate bond yields



Source: Wind

Chart 29: Five year corporate bond spreads

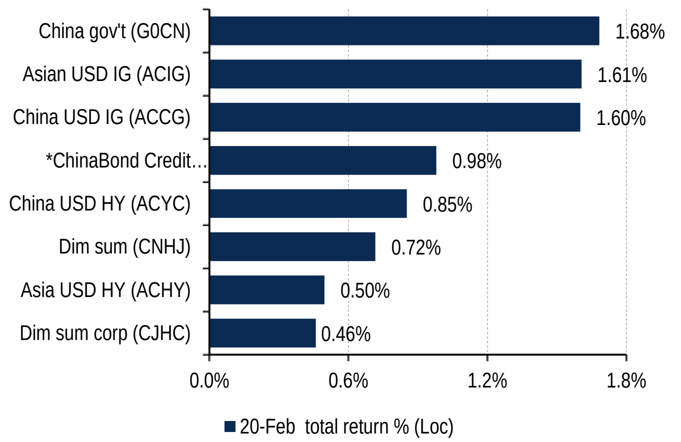


Source: Wind

Returns

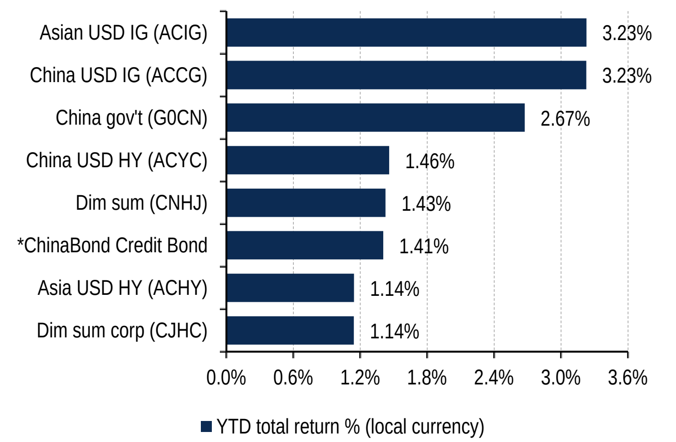
CGB led outperformance in Feb, followed by offshore IG

Chart 30: Feb returns summary



Source: Wind, ICE Data indices, LLC

Chart 31: YTD returns summary



Source: Wind, ICE Data indices, LLC

Onshore vs offshore valuations

HY saw rising relative value (RV) in Feb

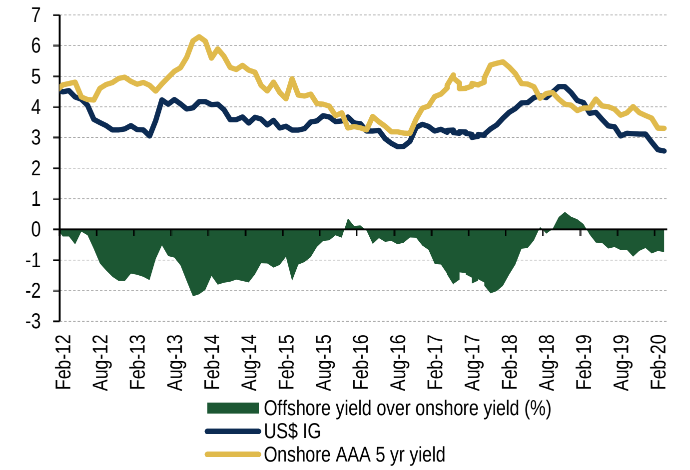
Compared to last month, both onshore and offshore IG and HY yields trend lower though yield decline was greater in onshore credit than offshore bond. For China IG, onshore IG (-33bps to 3.3%) saw larger sequential yield decline than offshore IG (-25 bps to 2.6%). For China HY, onshore HY saw yield declining more by 32bp to 3.37% versus offshore USD HY of 8.11% which was down by 5bps only.

Without hedging, it is cheaper for Chinese IG issuers to tap the offshore dollar market; but for HY, it continues to be more expensive to do so. On a currency-hedged basis, both offshore IG and HY still offer relative value versus their onshore peers. On a MoM basis, hedged RV of offshore over onshore for Chinese HY widened 6bps to 6.02%, while hedged RV for Chinese IG was down 5bps to 0.57% by the end of February.

Bond-to-bond comparison

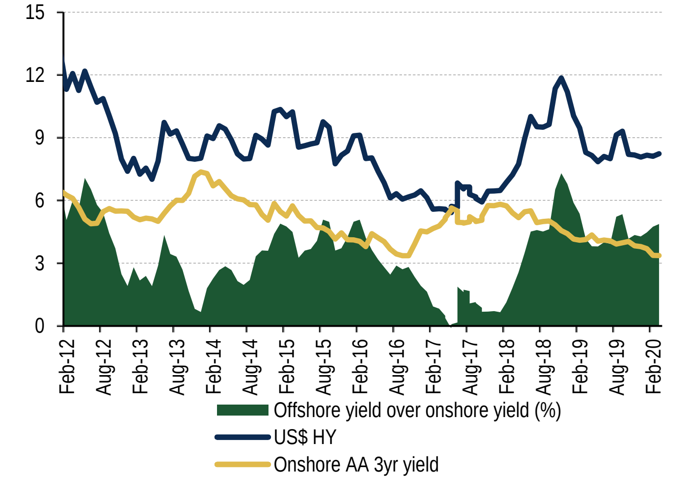
On a bond-to-bond basis, we compare onshore bond yields with corresponding USD bond yields for similar maturities, after factoring in hedging costs from major issuers of SOE, LGFV, property and financial sectors. Consistent with what we see on an aggregate basis, after hedging, USD bonds are cheaper than CNY bonds. Currently, on average, the pickups in yield for CNY bonds over USD bonds after hedging are: -0.7% for SOE, -2.5% for LGFV, -6.3% for the property sector, and -0.6% for financials. See Appendix: Relative value analysis: for details.

Chart 32: China onshore AAA yield vs. USD IG yield (unhedged)



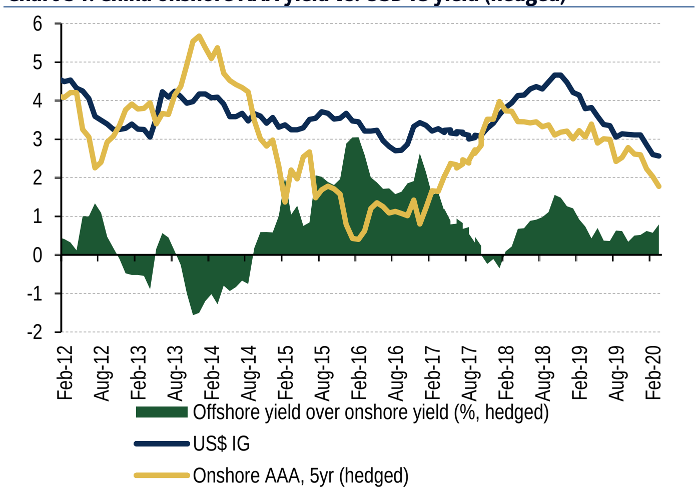
Source: BofA Global Research, Bloomberg, WIND

Chart 33: China onshore AA yield vs. USD HY yield (unhedged)



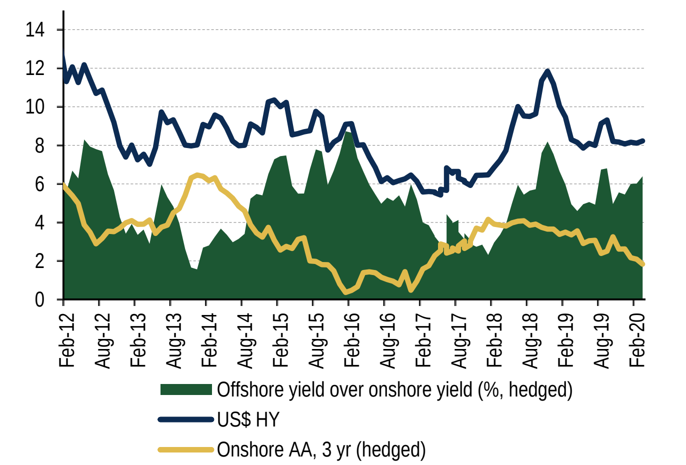
Source: China onshore AA yield vs. USD HY yield (unhedged)

Chart 34: China onshore AAA yield vs. USD IG yield (hedged)



Source: BofA Global Research, Bloomberg, WIND

Chart 35: China onshore AA yield vs. USD HY yield (hedged)



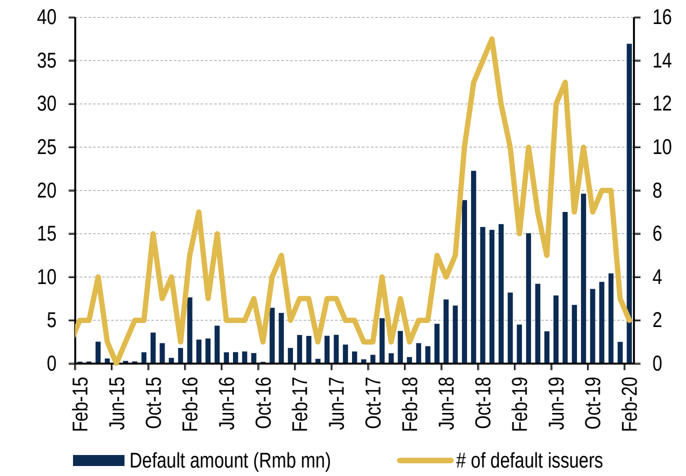
Source: BofA Global Research, Bloomberg, WIND

Default and credit events

Feb default rate rebounded to 1.76% driven by PKU

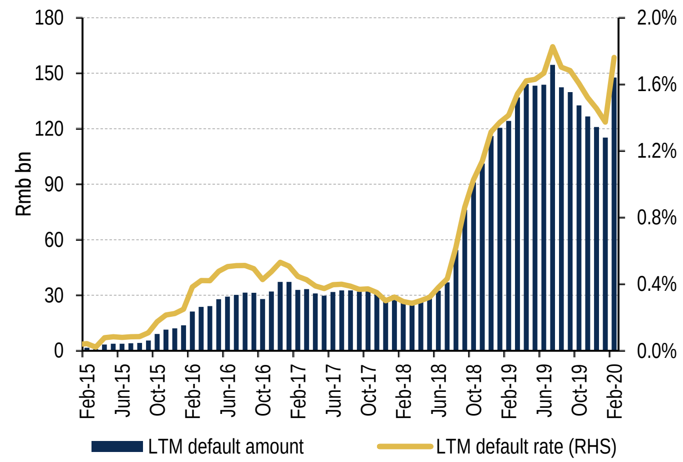
Feb onshore default rate by amount rebounded to 1.76% from 1.37% in Jan driven by PKU, a central SOE conglomerate which defaulted on all of its outstanding onshore bonds totaling RMB35bn. The event drove up SOE default rate to a record of 0.66% in Feb from 0.15% while POE default rate eased to 6.48% from 6.64% on declining POE defaults. However, the default rate by the count of defaulted issuers has actually eased to 1.10% in Feb vs 1.12 in Jan and since last peak at 1.67% in July-19. March 6, Quantifying direct impact to onshore default trend from recent SOE events

Chart 36: China onshore default monthly trend



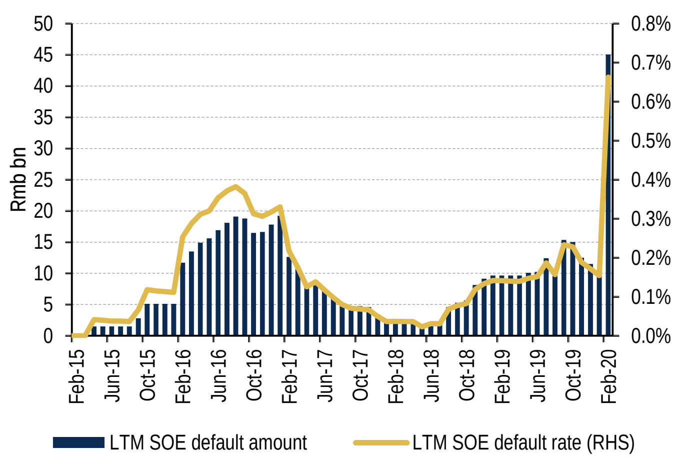
Source: WIND

Chart 37: Trailing 12-month default amount/rate



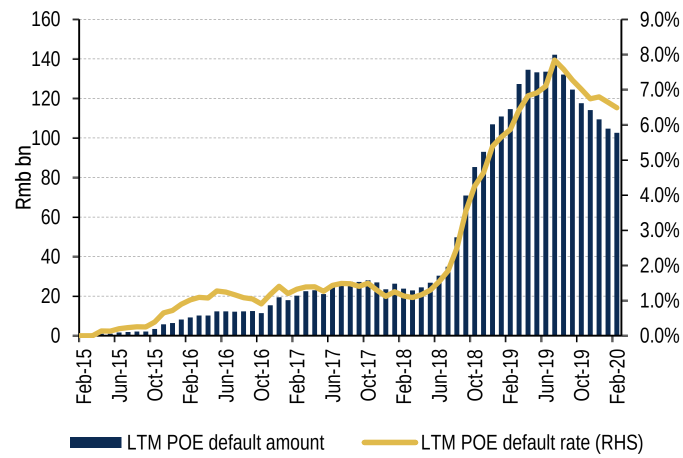
Source: WIND

Chart 38: Trailing 12-month default amount/rate-SOEs



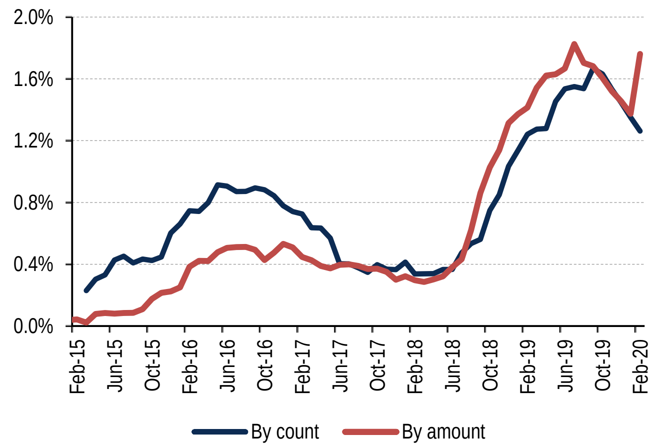
Source: WIND

Chart 39: Trailing 12-month default amount/rate-POEs



Source: WIND

Chart 40: Trailing 12-month default rate: by outstanding amount vs by default issuer count



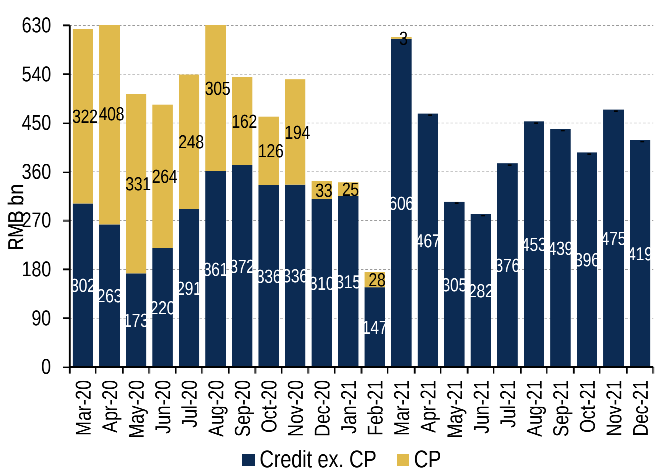
Source: Wind

Maturity and Put profile

Rm624bn of maturity and RMB144bn puttable in March

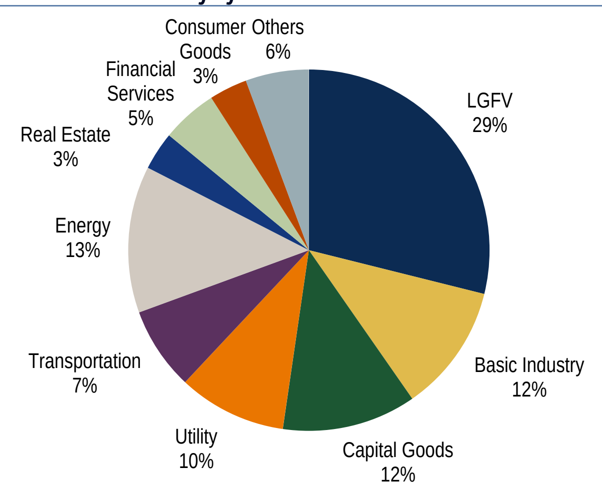
For March, we expect RMB624bn credit bonds (excluding financial bonds) redemptions (including RMB302bn from CPs). A breakdown by sector shows that LGFVs (29%), energy (13%), basic industry (12%), capital goods (12%) and utility (10%) are the major sectors with bonds coming due.

Chart 41: Non-financial credit bonds maturity schedule



Source: WIND

Chart 42: March maturity by sector

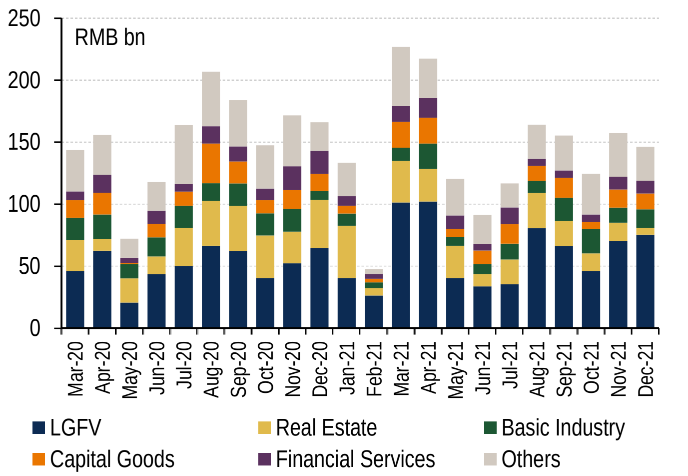


Source: Wind

39% of puttable amount was put back in February

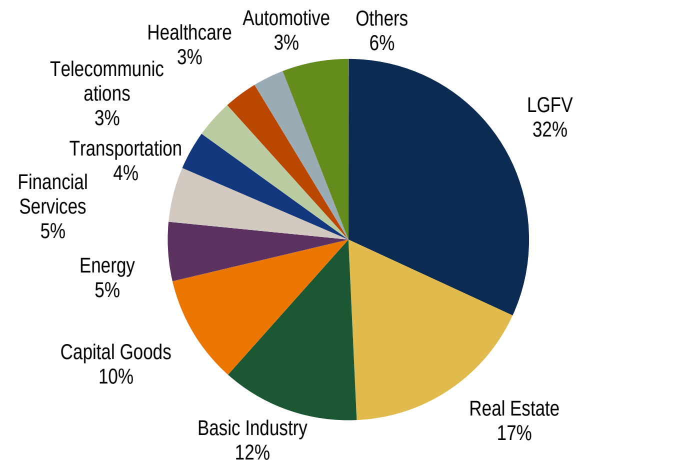
The amounts of bonds becoming puttable will rise to RMB144bn in March, above the 2019 monthly average of RMB69bn. For March 2020 puttable bonds, LGFV will again be the largest sector accounting for 32% of the total puttable amount, followed by real estate (17%), basic industry (12%), and capital goods (10%). For puttable bonds in February, 39% of bonds by amount were put back, down from the 47% last month, and the average coupon step-up decreased to 5bps in Feb from 27bps in previous month.

Chart 43: Non-financial credit bonds monthly puttable schedule



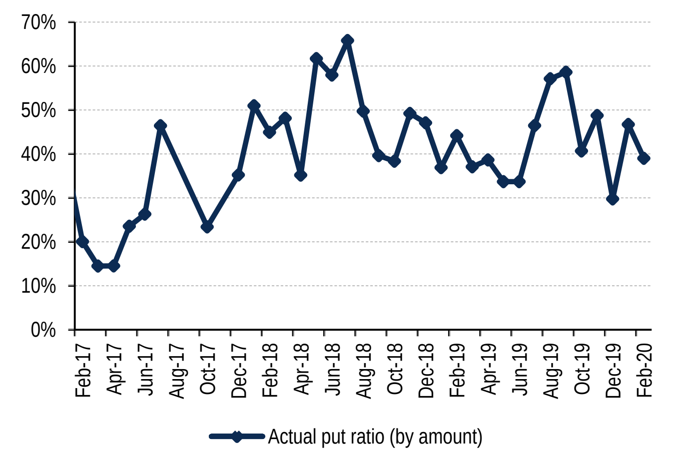
Source: WIND

Chart 44: Non-financial credit bonds March puttable schedule



Source: WIND

Chart 45: Historical put ratio



Source: Wind

Table 4: Puttable bond summary for February

	# of bond puttable	Amount puttable (CNY bn)	Put percentage (by amount)	Original Coupon (%)	Current Coupon (%)	Average coupon change (bps)
LGFV	12	7.1	49%	5.7	6.0	22
Basic Industry	8	3.6	60%	5.6	5.7	11
Real Estate	7	9.4	41%	6.7	6.2	-47
Financial Services	6	7.0	17%	6.6	6.2	-38
Capital Goods	5	3.9	46%	6.4	6.1	-30
Energy	5	7.3	38%	4.7	4.8	12
Tech & Electronics	5	2.6	26%	7.1	7.4	30
Healthcare	3	4.0	40%	5.4	6.1	73
Media	2	0.2	0%	7.1	8.3	120
Consumer Goods	2	0.5	22%	3.6	3.6	0
Services	2	1.4	43%	7.1	7.1	0
Utility	1	0.3	70%	7.0	7.0	0
Grand Total	58	47.2	39%	6.0	6.1	5

Source: Wind

Appendix: Relative value analysis

We calculate the relative value of CNY bonds vs. USD bonds by converting the CNY yield to the USD equivalent yield and comparing the yield pickup.

Rules of thumb for converting CNY bonds to USD and back

- USD equivalent coupon = CNY-linked coupon + $IRS rate – (ND) CCS rate

- CNY linked coupon = USD coupon - $IRS rate + (ND) CCS rate

Table 5: Relative values of CNY vs. USD bonds for China SOE sector

CNY Bond	USD Bond	Price (CNY bond)	Price (USD bond)	Yield (CNY)	Yield (USD)	+ IRS - ND CCS USD equivalent yield	adjusted yield Assume 10 bps per year *Adj Yield (USD)	CNY over USD Yield difference
CHGRID 5.14 12/08/21	CHGRID 2 1/8 05/18/21	103.85	100.98	2.81	1.27	1.30	1.33	-0.03
CHGRID 5.24 12/08/26	CHGRID 2 7/8 05/18/26	108.80	102.15	3.73	2.50	2.32	2.56	-0.23
CHGRID 4.99 04/17/22	CHGRID 2 3/4 05/04/22	103.81	102.46	3.07	1.56	1.56	1.56	0.00
CNPCCH 3.45 05/12/21	CNPCCH 4 1/2 04/28/21	100.91	103.37	2.62	1.39	0.51	1.39	-0.89
CNPCCH 4.9 11/22/22	CNPCCH 3.95 04/19/22	103.87	105.18	3.35	1.41	1.84	1.47	0.38
HAOHUA 5 04/12/21	HAOHUA 4 1/8 03/14/21	102.33	101.48	2.74	2.58	0.63	2.59	-1.96
HAOHUA 3.89 03/25/22	HAOHUA 3 1/2 07/19/22	101.71	97.72	3.00	4.54	1.50	4.51	-3.01
SDIC 3.68 07/11/26	SDIC 3 5/8 05/04/27	101.39	108.92	3.43	2.26	2.02	2.18	-0.16
SINOPC 4.9 06/01/22	SINOPC 3 1/8 04/24/23	104.30	102.16	2.85	2.39	1.34	2.30	-0.96
SINOPE 3.3 09/23/26	SINOPE 3 1/2 05/03/26	96.00	105.42	4.01	2.54	2.60	2.58	0.02
YANTZE 3.2 03/25/21	YANTZE 2.3 06/02/21	100.68	101.14	2.51	1.34	0.39	1.32	-0.92
YANTZE 4.15 05/11/26	YANTZE 3.15 06/02/26	100.32	101.08	4.09	2.96	2.68	2.95	-0.27
							Average	-0.67

Source: BofA Global Research, Bloomberg, Wind **Price based on 18 March 2020

Table 6: Relative values of CNY vs. USD bonds for China LGFV sector

CNY Bond	USD Bond	Price (CNY bond)	Price (USD bond)	Yield (CNY)	Yield (USD)	+ IRS - ND CCS USD equivalent yield	adjusted yield Assume 10 bps per year *Adj Yield (USD)	CNY over USD Yield difference
BEIJII 4.9 PERP	BEIJHK 2 3/4 09/26/20	100.88	100.62	2.56	1.53	0.45	1.52	-1.07
BJSTAT 5.7 12/16/21	BJSTAT 3 05/26/20	104.49	100.08	3.01	2.50	1.51	2.66	-1.15
BJSTAT 5.9 06/25/24	BJSTAT 4 1/8 05/26/25	108.76	108.20	3.64	2.43	2.20	2.34	-0.14
CDECST 5.35 03/15/22	CDECST 7 1/2 02/12/22	101.61	102.04	4.48	6.33	2.97	6.34	-3.37
CDECST 5.93 07/27/22	CDECST 7 1/2 02/12/22	100.68	102.04	5.60	6.33	4.09	6.38	-2.29
CDNFNA 4.57 11/28/23	CDNFNA 4.65 05/07/24	103.99	102.85	3.40	3.89	1.96	3.85	-1.90
CHDXCH 3.44 10/27/21	CHDXCH 3 1/4 11/29/21	100.82	99.21	2.90	3.73	1.40	3.72	-2.33
CHQENE 7 1/2 04/28/21	CHQENE 5 5/8 03/18/22	102.49	92.14	5.11	10.09	3.00	10.00	-7.01
CQNANA 5.1 11/09/20	CQNANA 3 5/8 07/19/21	100.84	99.78	3.69	3.79	1.57	3.72	-2.15
GSHIAV 4.3 12/09/20	GSHIAV 3 7/8 07/05/22	100.34	99.81	3.78	3.96	1.66	3.80	-2.14
GUAMET 3.4 03/28/21	GUAMET 3 3/8 12/03/20	100.67	101.28	2.72	1.52	0.61	1.55	-0.94
JIAPRO 5.65 03/20/23	JIAPRO 4.85 02/21/22	102.79	103.38	4.63	3.02	3.12	3.13	0.00
XJFINV 4.47 09/16/22	XJFINV 7 1/2 03/21/22	100.60	100.83	4.20	7.05	2.69	7.10	-4.40
XJJJTZ 7 01/23/22	XJJJTZ 7.8 04/11/22	101.78	99.84	5.94	7.88	4.43	7.86	-3.43
YCGXIV 7.1 06/28/21	YCGXIV 7 1/2 12/20/21	103.38	101.66	4.29	6.47	2.18	6.42	-4.24
YUNINV 3.64 07/04/21	YUNINV 6 1/4 03/05/22	100.64	103.85	3.11	4.17	1.00	4.10	-3.11
							Average	-2.48

Source: BofA Global Research, Bloomberg, Wind **Price based on 18 March 2020

Table 7: Relative values of CNY vs. USD bonds for China financial sector

CNY Bond	USD Bond	Price (CNY bond)	Price (USD bond)	Yield (CNY)	Yield (USD)	adjusted yield + IRS - ND CCS USD equivalent yield	Assume 10 bps per year *Adj Yield (USD)	CNY over USD Yield difference
SDBC 3.99 12/21/21	SDBC 1 7/8 11/03/21	101.98	101.04	2.81	1.22	1.31	1.23	0.07
SDBC 3.85 01/16/22	SDBC 2 5/8 01/24/22	102.45	103.03	2.46	0.95	0.95	0.95	0.00
SDBC 3.81 02/05/25	SDBC 4.07 08/12/24	103.83	110.67	2.95	1.53	1.48	1.58	-0.09
SDBC 3.05 08/25/26	SDBC 3 06/01/26	99.07	108.18	3.21	1.61	1.80	1.63	0.17
SDBC 3.65 12/13/26	SDBC 3 3/8 01/24/27	100.71	109.60	3.22	1.87	1.71	1.36	0.35
CCB 5.98 08/18/29	CCB 4 1/4 02/27/29	110.30	103.22	3.42	3.37	1.98	3.42	-1.44
ICBCAS 5.56 06/30/31	ICBCAS 4 7/8 09/21/25	99.97	104.93	5.48	3.87	4.07	3.95	0.12
CCAMCL 5 1/2 03/14/28	CCAMCL 4 3/4 02/08/28	110.11	104.07	3.96	4.14	2.55	4.15	-1.60
CCAMCL 4.6 09/24/25	CCAMCL 4 1/4 04/23/25	106.47	105.98	3.29	2.97	1.88	3.01	-1.13
HRAM 4.05 11/14/24	HRINTH 3 1/4 11/13/24	102.31	100.54	3.50	3.12	2.03	3.13	-1.10
HRAM 3.7 11/14/22	HRINTH 3 3/8 05/29/22	101.24	103.15	3.20	1.89	1.69	1.94	-0.25
HRAM 4.21 07/30/20	HRINTH 3 3/4 11/19/20	101.00	101.38	1.41	1.63	-0.71	1.60	-2.31
HRAM 3.39 03/04/21	HRINTH 3 1/4 06/03/21	100.12	101.66	3.26	1.84	1.14	1.82	-0.68
HRAM 3.54 11/22/21	HRINTH 3 5/8 11/22/21	100.72	103.09	3.09	1.73	1.58	1.73	-0.15
							Policy bank Average	0.10
							Bank Average	-0.66
							AMC Average	-1.03
							Overall Average	-0.57

Source: BofA Global Research, Bloomberg, Wind **Price based on 18 March 2020

Table 8: Relative values of CNY vs. USD bonds for China property sector

CNY Bond	USD Bond	Price (CNY bond)	Price (USD bond)	Yield (CNY)	Yield (USD)	adjusted yield + IRS - ND CCS USD equivalent yield	Assume 50 bps per year for HY 20 bps per year for IG *Adj Yield (USD)	CNY over USD Yield difference
LNGFOR 4.67 07/19/26	LNGFOR 3.95 09/16/29	99.51	87.64	4.79	5.65	3.35	4.63	-1.28
VANKE 3.55 09/26/24	VNKRLE 3 1/2 11/12/29	101.21	99.30	3.04	3.59	1.57	2.57	-1.00
VANKE 3.55 09/26/24	VNKRLE 3.15 05/12/25	101.21	102.01	3.04	2.73	1.57	2.61	-1.04
SINOCE 4.06 03/20/24	SINOCE 4 3/4 08/05/29	101.00	96.11	3.53	5.28	2.09	4.20	-2.11
CHIOLI 3 3/4 01/24/26	CHIOLI 3.05 11/27/29	99.30	99.02	3.94	3.17	2.50	2.01	0.50
CGREGC 4.98 11/20/23	COGARD 6.15 09/17/25	100.95	87.58	4.36	9.07	2.92	8.17	-5.26
CHFOHD 7.8 08/29/22	CHFOTN 8.6 04/08/24	100.41	88.64	7.01	12.24	5.51	11.44	-5.93
SMCONS 4.3 09/19/24	SHIMAO 5.6 07/15/26	101.75	86.40	3.54	8.42	2.07	7.52	-5.44
CCHRES 7 1/2 07/23/22	CENCHI 7.9 11/07/23	100.25	86.67	7.34	12.59	5.84	11.94	-6.10
XMZHJN 6.95 08/01/23	CHINSC 7 1/4 04/19/23	103.34	79.17	5.60	16.09	4.09	16.24	-12.15
GRNCH 4.34 11/29/26	GRNCH 4.55 11/10/20	101.97	96.23	4.10	10.88	2.69	13.93	-11.24
GZTIME 6.8 06/10/24	TPHL 6 3/4 07/16/23	104.82	93.79	5.48	8.95	4.04	9.40	-5.36
SZYKSC 5.09 11/18/24	LOGPH 6.9 06/09/24	101.96	82.83	4.28	12.24	2.81	12.49	-9.68
FTHDGR 7.8 11/29/22	FTHDGR 12 1/4 10/18/22	98.28	97.70	8.31	13.31	6.80	12.86	-6.06
PWRLNG 7.2 11/20/24	PWRLNG 7 1/8 11/08/22	102.10	89.15	6.47	12.06	5.01	13.06	-8.06
RXINGR 7.8 11/28/24	RONXIN 8.1 06/09/23	97.63	86.90	8.28	13.23	6.77	12.98	-6.21
EVERCN 6.8 05/06/24	EVERRE 10 1/2 04/11/24	99.21	73.42	9.61	20.46	8.11	19.51	-11.40
ZRRESH 7.16 09/18/23	ZHPRHK 9.15 05/06/23	100.73	86.69	6.84	14.60	5.40	14.80	-9.40
JNHUIG 7 1/2 11/29/23	JNHUIG 11 3/4 10/31/21	100.69	99.03	7.23	12.42	5.79	13.47	-7.68
JNGRUI 7 08/07/24	JINGRU 12 07/25/22	96.66	94.20	7.11	15.01	5.67	16.01	-10.33
							IG Average	-0.99
							BB Average	-5.54
							Solid B	-8.91
							High beta B	-8.45
							Overall Average	-6.26

Source: BofA Global Research, Bloomberg, Wind **Price based on 18 March 2020

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Disclosures

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