聯合評級國際
Lianhe Ratings Global

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1H 2019 Review and 2H 2019 Outlook on the Panda Bonds Market – Volume Notably Down, Cautiously Optimistic on 2H 2019

1H 2019 Review

- After four consecutive rate hikes in 2018, the U.S. Federal Reserve took a slight turn in the direction of its monetary policy in 1H 2019, with interest rates remained unchanged post the January and March meetings. There is also an expected interest rate cut in 2H 2019, which further widened the spreads between the Chinese and the U.S. government bonds, with those for 5-year and 10-year government bonds at 84.0 bps and 71.2 bps in 1H 2019, respectively. The widening spreads have led to a more pronounced advantage of offshore funding costs vis-à-vis onshore's, which in turn affected the attractiveness of the Panda Bonds market in China.

- There were 19 Panda Bonds issuances from 14 issuers in 1H 2019 with total issuance amount of over RMB27.5 billion, representing a decrease of 46.5% as compared with the corresponding period in 2018. The Interbank Bond Market remained to be the dominant market for issuances.

- The establishment of Bond Connect has drawn over 1,000 offshore investors as at end-June 2019, doubling the number as at end-2018. Issuances via Bond Connect accounted for 26% of the total number of issuances in 1H 2019, showing a notable increase from 16% in 1H 2018 and 19% in 2H 2018.

- Red-chip property companies have traditionally been key issuers in the Panda Bonds market. However, there were no issuance from Chinese property companies in 1H 2019, primarily due to the heightening scrutiny of means of financing in the Chinese property sector.

- In terms of issuer types, sovereigns/governments, financial institutions and non-financial corporates accounted for 16.3%, 48.3% and 35.4%, respectively, of the total issuance amount in 1H 2019. We saw a more diversified array of issuers from countries other than China, such as Portugal, The Philippines and Malaysia, coming to the market as a result of the One-Belt-One-Road ("OBOR") initiative. Approximately 26% of the number of issuances in 1H 2019 had a use of proceed towards OBOR projects, versus 10% in 1H 2018 and 4% in 2H 2018.

- In 1H 2019, the average issuance size decreased, primarily due to the tightening funding and regulatory requirements, and the average coupon rate also decreased, primarily due to decreasing onshore core rates compared to 1H and 2H 2018.

2H 2019 Outlook

- Against the backdrop of a potential interest rate cut in the U.S. and a potential slight rebounce of the Chinese economy with continuous monetary and tax stimulus packages, it is likely that there will be a continuous widening in funding cost spreads between onshore and offshore financings. The Panda Bonds market is expected to exhibit a cautious state in terms of issuance volume in 2H 2019.

- Regulatory measures in China may continue to affect the risk appetite of investors in putting their money into Panda Bonds. We expect preference will continue to be given towards higher-quality issuers.

- With an increased momentum of the OBOR initiative and the Bond Connect scheme, China's domestic bond markets will continue to be open to international issuers and investors, which will further promote the Panda Bonds market in the medium- to long-term.

For more details, please refer to the Chinese report:
《2019年上半年熊猫债券市场回顾与下半年展望》
http://www.lhratings.com/lock/research/16bfeb8567a

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