

1Q2019 Chinese Offshore USD Bond Research Report

Overview of Chinese Offshore USD Bond Market

- The US Treasury yields declined rapidly in the first quarter of 2019 which to some extent reduced the issuance costs of Chinese offshore USD bonds. The implementation of monetary easing policies by the Chinese Government has made the Chinese Government bond yields generally lower in the first quarter of 2019. However, the decline of the Chinese Government bond yields was less than that of the US Treasury yields. The widening of the spread between the two and the appreciation of RMB against the US dollar in the first quarter of 2019 reduced the financing costs of Chinese offshore USD bonds and made them more attractive for investment.
- Since 2019, the National Development and Reform Commission (“NDRC”) has relaxed the regulations on Chinese offshore USD bonds issuance, including extending the expiry to the end of June 2019 on 90 companies’ offshore USD bonds issuance quota and speeding up the approval process of offshore USD bonds, which have stoked the issuance. As the regulations on Chinese property developers’ onshore issuance are still tight but with a large amount of the outstanding offshore USD bonds becoming due in 2019, the Chinese property developers have led the increase of Chinese offshore USD bonds issuance in the first quarter of 2019.
- The total issuance amount of Chinese offshore USD bonds recorded a one-year high of 4.78% increase to USD47.121 billion though the number of issuances declined by 15.82% to 133 in the first quarter of 2019. The Chinese property developers and financial institutions were the major issuers. However, both the issuance amount and number by Chinese Local Government Financing Vehicles (“LGFV”) declined.
- The financing costs of Chinese offshore USD bonds decreased in the first quarter of 2019. The average issuance coupon rate declined to 6.66% and over 52.69% (by issuance amount) of the newly-issued Chinese offshore USD bonds’ coupon rates were in the range of 4%-8%. And the coupon rates of Chinese offshore USD bonds issued by property developers were above 8%. The fixed-rate bonds were the major type of issuance.
- Institutional investors in Asia were the major buyers of Chinese offshore USD bonds in the first quarter of 2019. Most of the newly-issued Chinese offshore USD bonds were issued under RegS.
- The issuance tenors concentrated in 3 to 5 years. Among the new issuance, non-rated bonds accounted for 25.67% in terms of total issuance amount. For rated bonds, high-yield bonds accounted for 41.75% of the total issuance while investment-grade bonds accounted for 32.58%. Among the issuance of high-yield bonds, property developers remained as the major issuers. Issuers from different industries made up for the investment-grade bonds.

Outlook:

- The US Treasury yields are likely to continue to decline in the second quarter of 2019. The Chinese economy is likely to rebound in the second half of 2019 given the previously

announced stimulus tax incentive plans which are likely to increase inflationary pressure and in turn push up yields on the Chinese Government's bond in the second quarter of 2019. In this context, the spread between the two government bond yields is likely to widen, which will decrease the financing costs of Chinese offshore USD bonds. The RMB exchange rate against the US dollar is expected to gradually stabilize in the second quarter of 2019, which will further provide a strong incentive to issue Chinese offshore USD bonds.

- The State Administration of Foreign Exchange (“SAFE”) has simplified the procedures for Chinese companies to obtain offshore debt and USD bond issuance quota, which will promote the issuance of Chinese offshore USD bonds in the second quarter of 2019.
- As Chinese offshore USD bond issuers will face around USD50 billion bonds due in the second quarter of 2019, these issuers will be under great refinancing pressure. The issuers with weak credit profile are likely to face higher credit risk. Some issuers are likely to be downgraded in the second quarter of 2019.

For more details, please refer to the Chinese report:

《2019 年一季度中资美元债研究报告》

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