



# Market Strategy: Fixed Income

市场策略: 固定收益

Alex Bai 白舸

(852) 2509 7202

ge.bai@gtjas.com.hk

15 December 2020

## Table of Contents | 目录

Market Updates and Outlook | 市场更新及近期展望 2

China USD Corporate Bond Primary Market Overview | 中资美元债一级市场概览 3

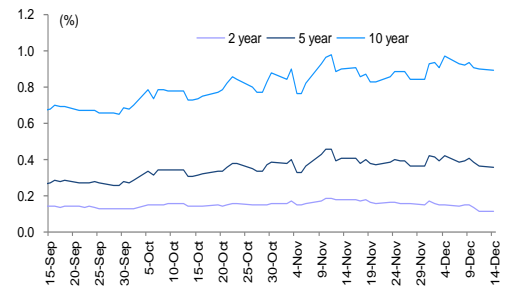
Summary of Debt Issues for Covered Companies | 覆盖公司发债概览 4

Secondary Market Overview and Credit Spread Monitor | 二级市场概览及息差监测 5

Monthly Feature | 月度专题 7

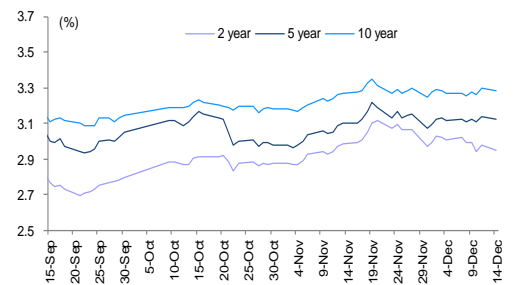
Data Monitor | 数据指标监测 8

U.S. Treasury Yield 美国国债收益率走势



Source: Bloomberg, Guotai Junan International.

China Government Bond Yield 中国国债收益率走势

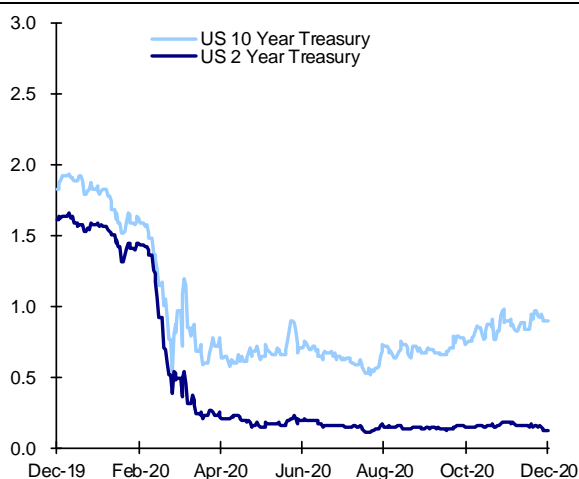


Source: Bloomberg, Guotai Junan International.

## Market Updates and Outlook | 市场更新及近期展望

- **The recovery of the U.S. economy slowed down, and the yields of U.S. long-term Treasury bonds rose.** As at December 14<sup>th</sup>, the 10-year U.S. Treasury yield increased by 7.5 bps to 0.893% from the beginning of November; the 2-year U.S. Treasury yield decrease by 3.8 bps to 0.115%; the spread between the 10-year and 2-year U.S. Treasury widened to 74.0 bps. In November, the U.S. ISM manufacturing PMI and non-manufacturing PMI both fell short of expectations. Nonfarm payrolls increased much slower in November, indicating that the recovery of the economy was still affected by the COVID-19 pandemic. On November 30<sup>th</sup>, Biden nominated former Federal Reserve Chairman Yellen as a candidate for Secretary of the Treasury. We expect that the U.S. fiscal policy will be more positive in the future. On December 7<sup>th</sup>, the U.K. began nationwide COVID-19 vaccinations. Russia, Italy, the Netherlands, Turkey and several other countries also announced their immunization schedules. The application of vaccines has been faster than expected, but is limited by production capacity; the short-term impact of the pandemic still exists. As the date for Biden to take over approaches, market expectations for fiscal stimulus rose. We expect that the market's risk appetite may continue to increase, and the yields of U.S. long-term Treasuries are expected to rise in the future.
- **China's central bank is considering the normalization of monetary policy resulting in China's government bond yields rose slightly.** As at December 14<sup>th</sup>, the 10-year Treasury bond yield increased by 7.9 bps to 3.285% from the beginning of November; the 2-year Treasury bond yield rose by 0.8 bps to 2.950%, and the 10-year and 2-year spread widened to 35.7 bps. The Chinese economy continued to recover as expected. In November, China's exports, manufacturing PMI and non-manufacturing PMI all hit new highs this year. In November, China's CPI fell sharply and turned negative. The decrease was largely driven by cyclical decline in pork prices, which was a short-term effect and may not affect China's monetary policy. China's central bank released the third quarter monetary policy report, announcing that monetary policy will be more flexible. The deputy governor of the central bank stated that the monetary policy in a special period cannot be long term, and guided the market to anticipate the normalization of monetary policy in the future. We believe that with the current trend of economic recovery unchanged, the central bank will still maintain prudent but flexible monetary policy. The current government bond yields have returned to pre-pandemic levels; the upside of China government bond yields is limited.

**U.S. Treasury Yield**



Source: Bloomberg, Guotai Junan International.

**China Government Bond Yield**

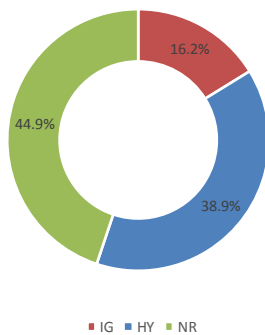


Source: Bloomberg, Guotai Junan International.

## China USD Bond Primary Market Overview | 中资美元债一级市场概览

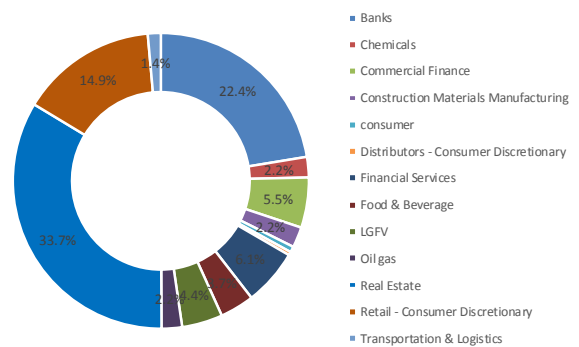
- **Supply in the primary market decreased, and unrated bonds accounted for the main share.** 45 Chinese-issued USD bonds were issued in November totaling an amount of US\$13.39 billion; among them, the amount of investment-grade bonds was US\$2.17 billion, accounting for 16.2%; the amount of high-yield bonds was US\$5.21 billion, accounting for 38.9%; and the amount of unrated bonds was US\$6.01 billion, accounting for 44.9%. Affected by domestic credit incidents, the scale of Chinese-issued USD bond issuance dropped sharply this month. The average coupon rate of investment-grade bonds in November was 2.42%, an increase of 15 bps from October. The average coupon rate of high-yield bonds in November was 8.73%, an increase of 193 bps from October.
- **Real estate was the major issuance industry this month.** Real estate, banking, and retail were the top three issuing industries, accounting for 33.7%, 22.4% and 14.9%, respectively. Benefiting from the continued low interest rate environment, the Bank of Communications issued US\$2.8 billion in unfixed maturity capital bonds in overseas markets with a final coupon rate of 3.8%. This is the first overseas perpetual bond issuance by a Chinese bank. Although domestic credit events affect the issuance of Chinese-issued USD bonds, it is expected that the primary market will still benefit from the China-U.S. interest rate spread and maintain a high number of bond issuances.

Issued Percentage by Rating in November



Source: Bloomberg, Guotai Junan International.

Issued Percentage by Industry in November



Source: Bloomberg, Guotai Junan International.

## Summary of Debt Issues for Covered Companies | 覆盖公司发债概览

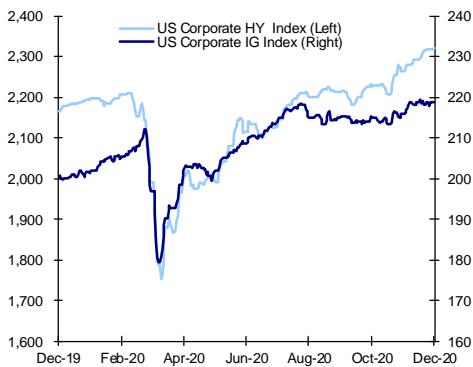
Stock Ticker	Company Name	Sector	Issuer Name	Issue Date	Debt Type	Debt Ticker	Cry	Principal Amount (in mn)	Duration (in years)	Maturity Date	Interest Rate (in % p.a.)	Use of Proceeds	Company's Debt ratios	Remarks
03883 HK	China Aoyuan	Property	China Aoyuan Group Limited	2020/11/18	Senior Note	XS258822233	USD	230.0	4.8 years	2025/8/18	5.980	Refinancing existing offshore debts	1H20: Net gearing: 220.2%	Steady growth in contracted sales will provide stable cash inflow. Debt structure is optimized and solvency risk is limited.
00832 HK	Central China Real Estate	Property	Central China Real Estate Ltd	2020/11/24	Senior Note	XS262030369	USD	300.0	3.5 years	2024/5/24	7.750	To refinance the existing medium to long term offshore indebtedness which will become due within one year.	1H20: Net gearing: 47.4%	Relatively safe gearing ratio in the property sector. Cash to short debt ratio at 1.64x as at 30 Jun. 2020. Default risk is low with healthy financial position.
PDD US	Pinduoduo Inc.	E-commerce	Pinduoduo Inc.	2020/12/1	MTN	US72304AC65	USD	1,750.0	5 years	2025/12/1	0.000	Capital replenishment	Net cash	Strengthen balance sheet, providing PDD flexibility to fund its growth strategies.

Notes: net gearing ratio = net debt / share holders equity

## Secondary Market Overview and Credit Spread Monitor | 二级市场概览及息差监测

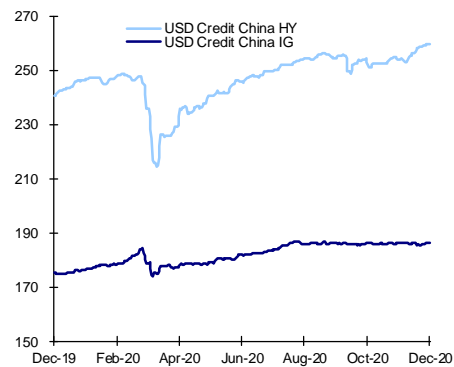
➤ **China investment-grade USD bonds were under pressure due to domestic credit events, and the high-yield USD bonds market rebounded significantly.** Since November, the yield on US investment-grade corporate bonds fell by 11 bps and spreads shrank by 13 bps. The yield on U.S. high-yield corporate bonds fell by 59 bps, and spreads shrank by 60 bps. The yield of China investment-grade USD bonds increased by 4 bps, and spreads increased by 3 bps. The yield of China high-yield USD bonds fell by 72 bps, and spreads shrank by 74 bps. According to the Bloomberg Barclays Index, the return of U.S. investment-grade corporate bonds was 1.22% since the beginning of November, and the return of high-yield corporate bonds was 2.88%. The return of China investment-grade USD bonds in November was 0.07%, and the return of China high-yield USD bonds was 2.04%. With the rapid progress of vaccine development, market risk appetite has risen, and high-yield bond spreads have shrunk significantly. Chinese investment-grade USD bonds were under pressure due to domestic credit events.

Bloomberg Barclays Index of U.S. Corporate Bond



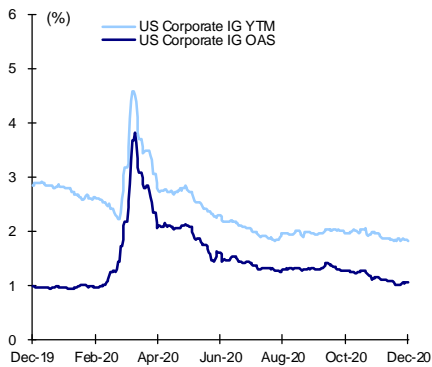
Source: Bloomberg, Guotai Junan International.

Bloomberg Barclays Index of China USD Bond



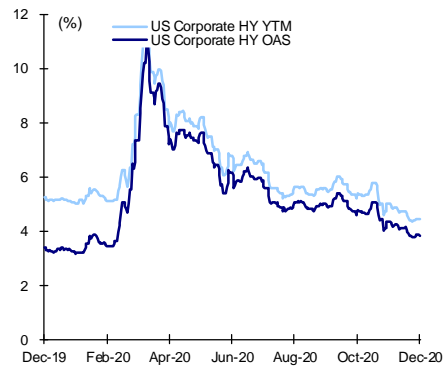
Source: Bloomberg, Guotai Junan International.

Yield and Spread of U.S. IG Corporate Bond



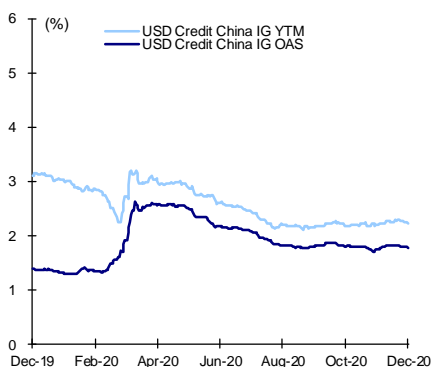
Source: Bloomberg, Guotai Junan International.

Yield and Spread of U.S. HY Corporate Bond



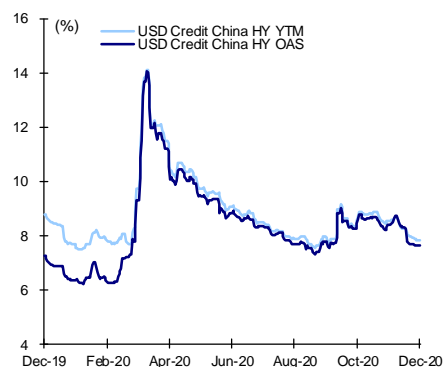
Source: Bloomberg, Guotai Junan International.

Yield and Spread of China USD IG Corporate Bond



Source: Bloomberg, Guotai Junan International.

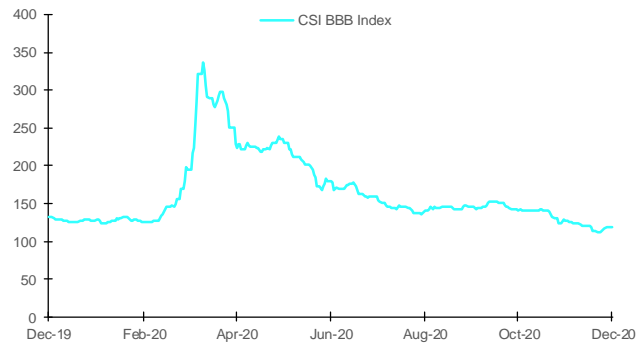
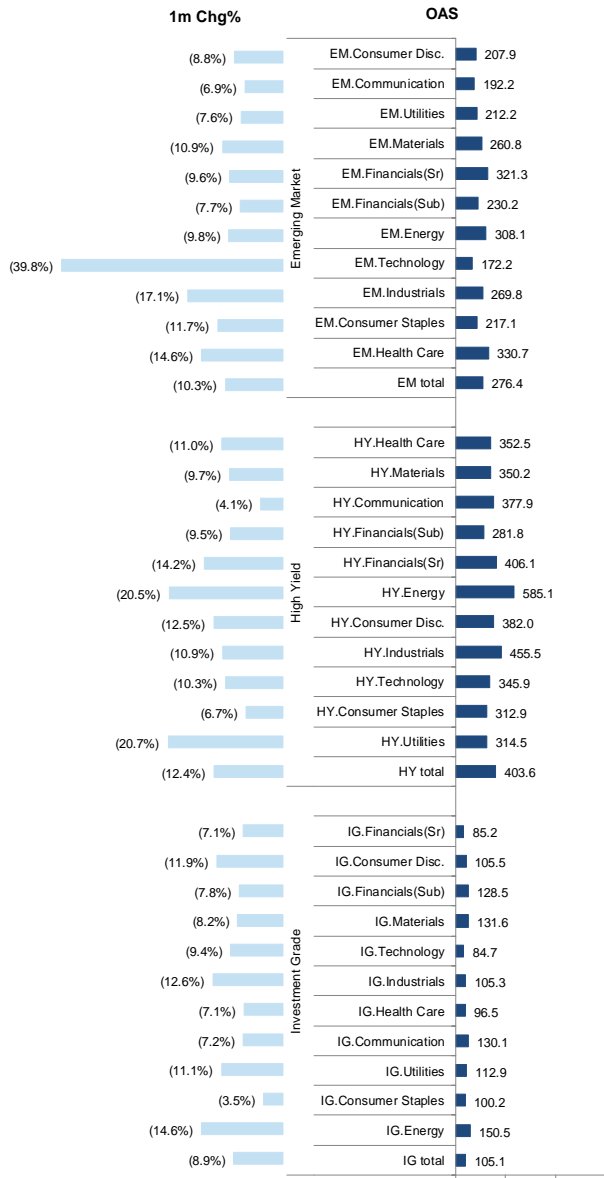
Yield and Spread of China USD HY Corporate Bond



Source: Bloomberg, Guotai Junan International.

Option-Adjusted Spread & 1-month Change % by Sector  
USD-Denominated Bonds

Credit Spread on U.S. Corporate Bonds (A, BBB, and High-yield) (in bps)



Source: Bloomberg, Guotai Junan International.  
Note: Emerging market countries include Argentine Republic, Bolivarian Republic of Venezuela, Federation of Malaysia, Federative Republic of Brazil, Republic of Colombia, Republic of Indonesia, Republic of Panama, Republic of Peru, Republic of South Africa, Republic of Turkey, Republic of the Philippines, Russian Federation, Ukraine, and United Mexican States.

Source: Bloomberg, Guotai Junan International.  
Note: CSI A Index = US Corp A - Treasury 10 Year Spread.  
CSI BBB Index = US Corp BBB/Baa - Treasury 10-Year Spread.  
CSI BARC Index = BarCap US Corp HY YTW - 10-Year Spread.

## Monthly Feature | 月度专题

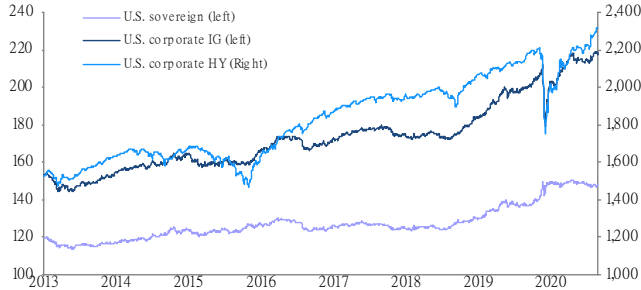
### Yulan Bonds Business was Officially Launched to Facilitate Overseas Financing of Chinese Domestic Enterprises “玉兰债”业务正式启动，便利中国境内企业海外融资

- **On December 8<sup>th</sup>, Shanghai Clearing House (SHCH) and Euroclear Bank jointly launched the Yulan Bond business, linking Chinese issuers with global investors.** It is an innovative business that serves Chinese domestic issuers to issue bonds to the international market through cross-border interconnection of financial infrastructure. Yulan bonds will be issued electronically through SHCH with international investors able to benefit from real-time multi-currency DVP settlement with any counterparty within Euroclear Bank's network. The two clearing houses will be interconnected to provide registration, custody, and settlement services for both Chinese issuers and overseas investors of the bonds. Yulan bonds will be denominated mainly in US dollars and euros.
- **Both global investors and Chinese issuers will benefit from the issuance of Yulan Bonds.** Under the current global low interest rate environment, bonds denominated in euros or dollars enable Chinese issuers to access a deeper liquidity pool in a cost efficient way. On the other hand, China's high-quality corporate bonds also provide more choices for international investors. The launch of the Yulan Bonds business will not only help broaden financing methods, but will also further promote the internationalization of China's financial institutions. It also marks that China will open up its financial markets more actively.
- **Yulan bonds have limited impact on the market in the short term.** Jin Jiang International and Shanghai Lingang may be the first issuers of Yulan Bonds. Although no specific information was disclosed, we expect that the scale will not be very large in the initial stage. Global Investors may take some time to accept this new product, and the liquidity of Yulan Bonds may be low in the short term. In the long run, with the development of Chinese underwriting institutions and the acceptance of global investors, Yulan Bonds may serve as an important supplement to Chinese companies' overseas financing methods.

Data Monitor | 数据指标监测

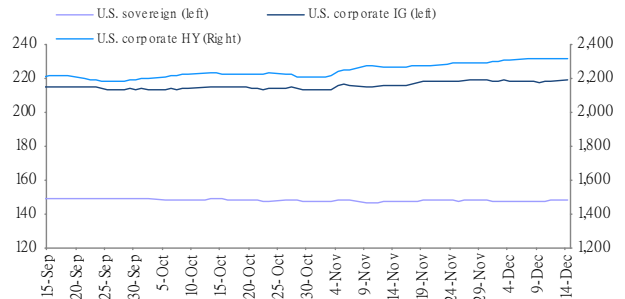
Selected Bond Market Indexes

Developed Market: U.S. Bond Index



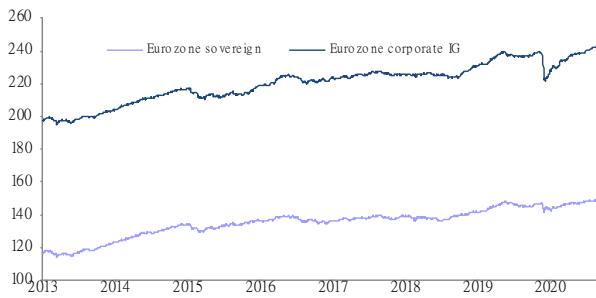
Source: Bloomberg, Guotai Junan International.

Developed Market: U.S. Bond Index



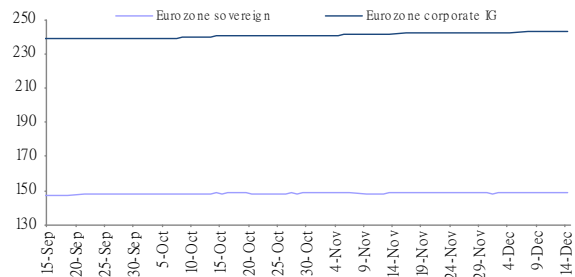
Source: Bloomberg, Guotai Junan International.

Developed Market: Eurozone Bond Index



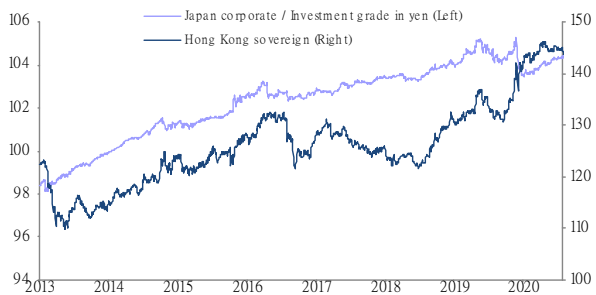
Source: Bloomberg, Guotai Junan International.

Developed Market: Eurozone Bond Index



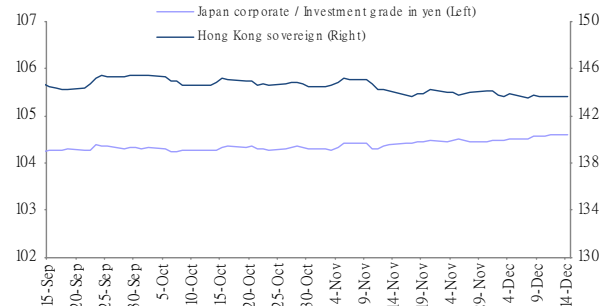
Source: Bloomberg, Guotai Junan International.

Developed Markets: Japan and Hong Kong Bond Index



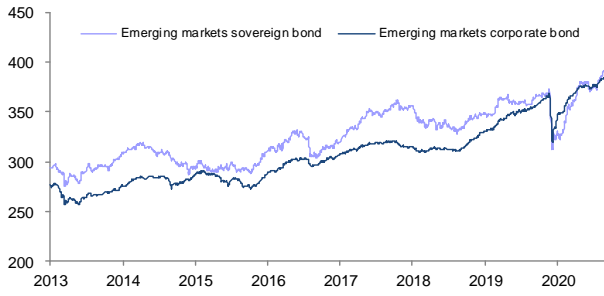
Source: Bloomberg, Guotai Junan International.

Developed Markets: Japan and Hong Kong Bond Index



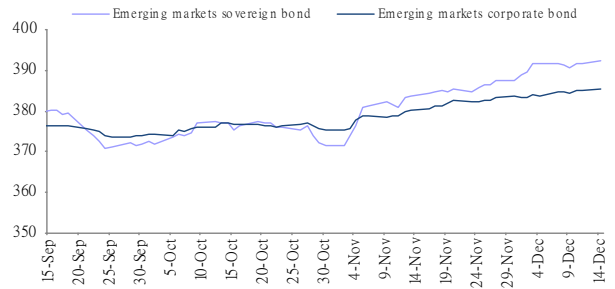
Source: Bloomberg, Guotai Junan International.

**Emerging Markets:  
Sovereign and Corporate Bond Indexes**



Source: Bloomberg, Guotai Junan International.

**Emerging Markets:  
Sovereign and Corporate Bond Indexes**



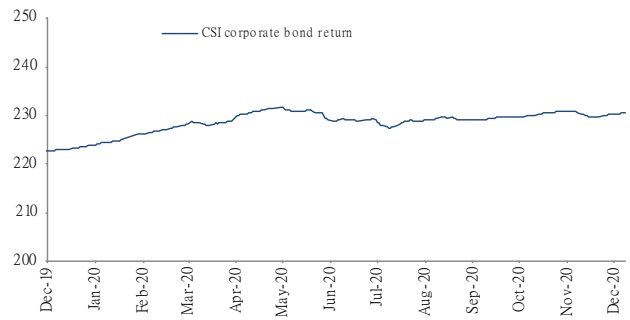
Source: Bloomberg, Guotai Junan International.

**China Bond Index: Government Bond**



Source: Bloomberg, Guotai Junan International.

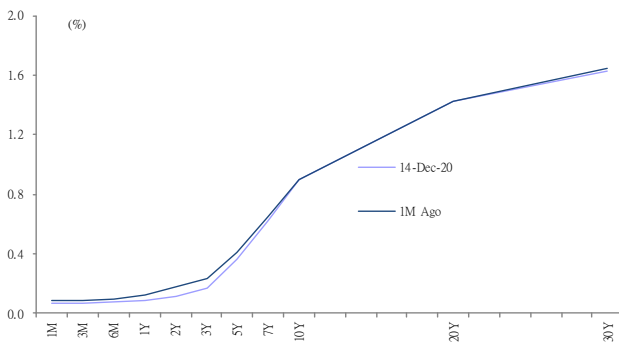
**China Bond Index: Corporate Bond**



Source: Wind, Guotai Junan International.

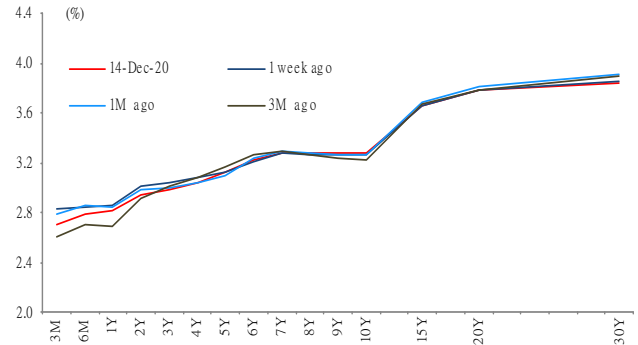
**Interest Rate Monitor**

**U.S. Treasury Yield Curve**



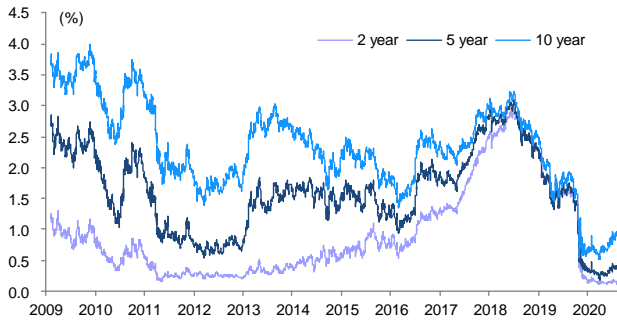
Source: Bloomberg, Guotai Junan International.

**China Government Bond Yield Curve**



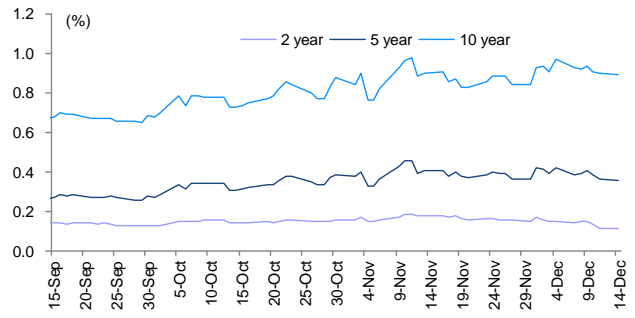
Source: Wind, Guotai Junan International.

**U.S. Treasury Note Yield**



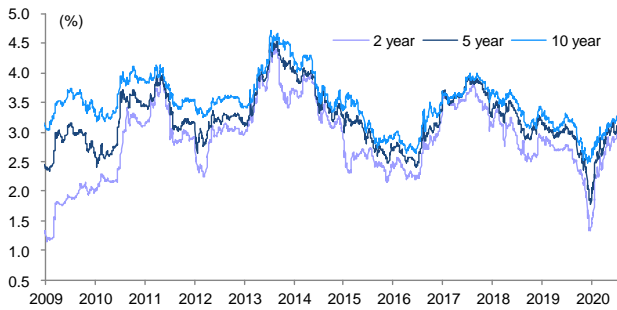
Source: Bloomberg, Guotai Junan International.

**U.S. Treasury Note Yield**



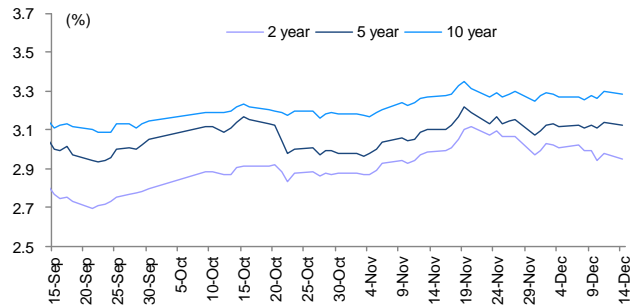
Source: Bloomberg, Guotai Junan International.

**China Government Bond Yield**



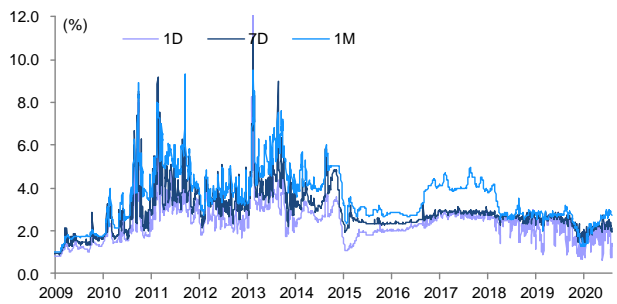
Source: Bloomberg, Guotai Junan International.

**China Government Bond Yield**



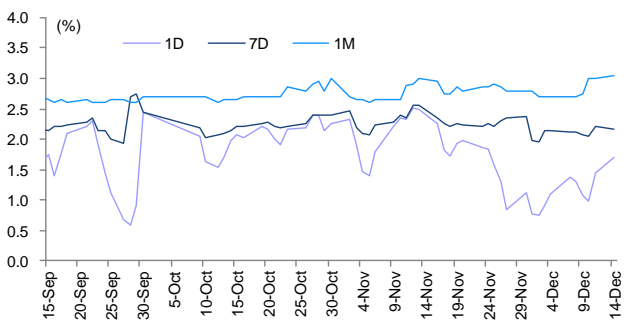
Source: Bloomberg, Guotai Junan International.

**China Money Market Rate: SHIBOR**



Source: Bloomberg, Guotai Junan International.

**China Money Market Rate: SHIBOR**



Source: Bloomberg, Guotai Junan International.

**Company Rating Definition**

The Benchmark: Hong Kong Hang Seng Index / NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

**Sector Rating Definition**

The Benchmark: Hong Kong Hang Seng Index / NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

**DISCLOSURE OF INTERESTS**

- (1) Except for SHENZHEN INTERNATIONAL (00152 HK), the Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for GUOTAI JUNAN I (01788 HK), JXR (01951 HK), JINSHANG BANK (02558 HK), HAITIAN ANTENNA (08227 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have had investment banking relationships with TSINGTAO BREWERY- H SHARES (00168 HK), SMI HOLDINGS GROUP (00198 HK), CHINA PETROLEUM & CHEMICAL- H SHARES (00386 HK), GOME ELECTRICAL APPLIANCES (00493 HK), CHINA OVERSEAS LAND & INVESTMENT (00688 HK), TONGCHENG-ELONG HOLDINGS LIMITED (00780 HK), CENTRAL CHINA REAL ESTATE (00832 HK), DONGJIANG ENVIRONMENTAL- H SHARES (00895 HK), LENOVO (00992 HK), MODERN LAND (01107 HK), CHINA MODERN DAIRY (01117 HK), POWERLONG REAL ESTATE (01238 HK), CHINA ZHONGWANG (01333 HK), FINANCIAL STREET PROPERTY (01502 HK), ZGC TEC LEASING (01601 HK), YUZHOU GROUP (01628 HK), CHINA SOUTH CITY (01668 HK), S-ENJOY SERVICE (01755 HK), COLOUR LIFE SERVICES (01778 HK), XIAOMI CORPORATION (01810 HK), CGN MEIYA POWER (01811 HK), XINYUAN PROPERTY MANAGEMENT (01895 HK), CHINA RISUN GROUP (01907 HK), BAIC MOTOR- H SHARES (01958 HK), REDSUN PROPERTIES (01996 HK), SHANGHAI JIN JIANG CAPITAL- H SHARES (02006 HK), CHINA GOLD INTERNATIONAL RESOURCES (02099 HK), SINIC HOLDINGS (02103 HK), BANK OF GANSU (02139 HK), CHINA MENGNIU DAIRY (02319 HK), ZENGAME (02660 HK), ZHONGLIANG HOLDINGS (02772 HK), BINHAI INVESTMENT (02886 HK), RONSHINE CHINA (03301 HK), A-LIVING (03319 HK), BANK OF COMMUNICATIONS- H SHARES (03328 HK), LOGAN GROUP (03380 HK), AOYUAN HEALTHY LIFE GROUP (03662 HK), MEITUAN DIANPING (03690 HK), HANSON PHARMACEUTICAL (03692 HK), HUIZHANG BANK- H SHARES (03698 HK), CHINA AOYUAN PROPERTY (03883 HK), GREENTOWN CHINA (03900 HK), ZHENRO PROPERTIES (06158 HK), FRIENDTIMES INC (06820 HK), JD.COM (09618 HK), POWERLONG COMMERCIAL MANAGEMENT (09909 HK) mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are making, or will make a market in the securities in respect of China Life Insurance- H shares (02628 HK) / Tencent (00700 HK) / China Mobile (00941 HK) / Hong Kong Exchanges and Clearing (00388 HK) / Galaxy Entertainment (00027 HK) / AIA (01299 HK) / Sands China (01928 HK) / AAC Technologies Holdings (02018 HK) / Sunny Optical Technology (02382 HK) / MEITUAN DIANPING (03690 HK) / CHINA TOWER CORPORATION- H shares (00788 HK) / XIAOMI CORPORATION (01810 HK) / Alibaba (09988 HK) / Netease (09999 HK) / JD.com (09618 HK) / Geely Automobile (00175 HK) / China Construction Bank- H shares (00939 HK) / Industrial and Commercial Bank of China- H shares (01398 HK) / BOC Hong Kong (02388 HK) / Bank of China- H shares (03988 HK) / HSBC (00005 HK) / Ping An Insurance- H shares (02318 HK) mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of any issuers mentioned in this Research Report. There is no officer of any issuers mentioned in this Research Report associated with Guotai Junan and its group companies.

**DISCLAIMER**

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2020 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.  
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.  
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtjai.com