



鵬元國際
PENGYUAN

中證信用集團公司 
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Day 2 - VIII Cbonds Emerging Markets Bond Conference

Theme Asian Bond Market

Time 9:30AM – 11:00, Around 1 – 1.5 hours

- Speakers & Topics**
- **Terry Zhang**, Head of Commercial Development, Pengyuan International
The onshore and offshore China markets and credit ratings

 - **Wenlu Hao**, Vice President of Fixed-income Department, Dawn Opus Asset Management
China's bond market structure and what are the factors could influence the YTM

 - **Levan Zolotarev**, Director General, Treasury and Portfolio Management, New Development Bank
Green bonds in Asia

 - **Suman Chowdhury**, President – Ratings, Acuite Ratings & Research
Bond markets and credit ratings in India

 - **Andreas Bickel**, Chief Investment Officer, Blackfort Capital
Are corporate high yields still attractive?

Terry Zhang, Head of Commercial Development, Pengyuan International
Topic: The onshore and offshore China markets and credit ratings

China Markets

A Bird View

Investors Connectivity

Issuers Connectivity

Credit Ratings

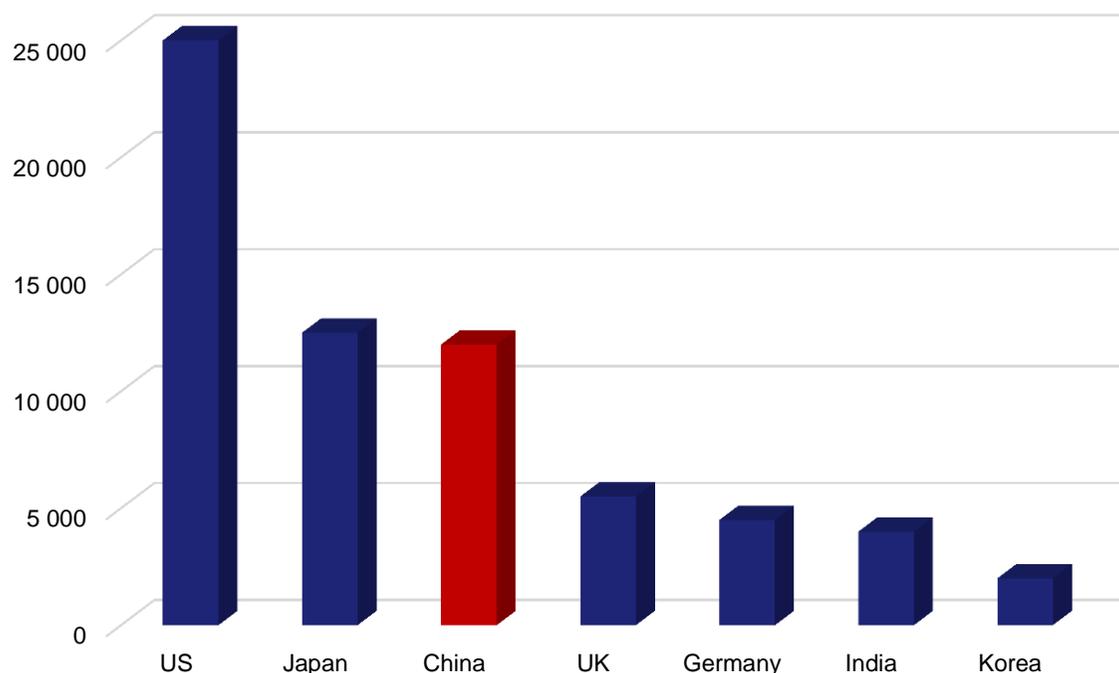
A Tale of Two Rating Scales: Apple to Orange

Crucial Role of Local / Regional Credit Rating Agencies

China Markets – A Bird View

A Large China Onshore Market

Major Bond Markets (Size bn USD)

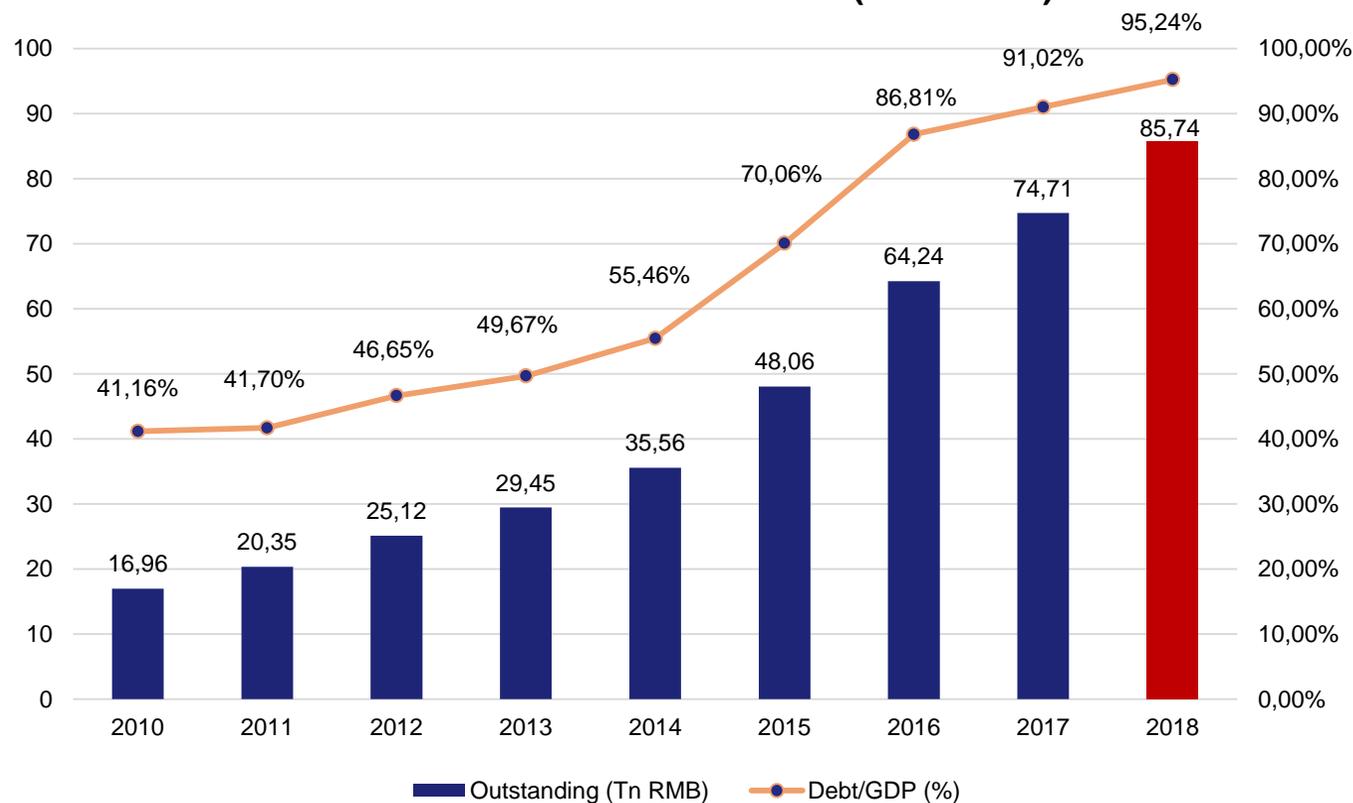


- China is a net creditor to the world, with about 3 trn USD worth of foreign reserve to support
- Third largest bond market in the world
- 85.74 trn RMB/11 trn USD
- Still a local currency market

China Markets – A Bird View

A Growing China Onshore Market

China's Onshore Bond Market (2010-2018)



- Third largest bond market in the world, with 85.74 tn RMB/11 tn USD
- Size is growing at **22.45%** between 2010 – 2018
- Debt/GDP is growing at **11%** between 2010 - 2018

China Markets – A Bird View

A Diversified & Changing China Onshore Market

China Bond Market Composition		
Rate Bonds	Government Bonds	18%
	Policy Bank Bonds	18%
	Local Government Bonds	20%
Credit Bonds	Corporate Bonds	13%
	Financial Bonds	7%
	Enterprise Bonds	7%
Money Markets	Certificate of Deposit	11%
	Commercial Papers	2%
	Others	4%
Total		100%

- Defaults first appear in 2014, and gradually rise over time. However, it's still as low as 0.5% in 2018.
- The markets are opening up from both issuer and investor perspective.

Investor Connectivity

In	Program	Year	Quota (bn)	Procedure	Timing	Restriction
	QFII (Qualified Foreign Institutional Investor)	2002	USD 80	PBoC Approval	12-18 Months	Lock-up Period
	RQFII (RMB Qualified Foreign Institutional Investors)	2011	USD 70 (471)	PBoC Approval	12-18Months	Lock-up Period
	CIBM (China Interbank Market)	2016	Unlimited	Filing	20 days – 2 Months	+/-10% deviation between in/out
	Bond Connect (North)	2017	Unlimited	Filing	2-4 Weeks	Offshore based, RMB to HKD everyday

Out	Program	Year
	QDII (Qualified Domestic Institutional Investor)	2007
	RQDII (RMB Qualified Domestic Institutional Investors)	2014
	Bond Connect (South) Pending	TBC

Investor Connectivity – Attractiveness

Attractions

Premium over the other major global markets

Large market with rich liquidity

Negatively correlated to risk assets

Diversification

Low default rate

Indices Inclusion

Inclusion into major EM indices.

Since 1st April 2019, **Bloomberg Barclays Global Aggregate Index** has start including China's government and policy bank bonds.

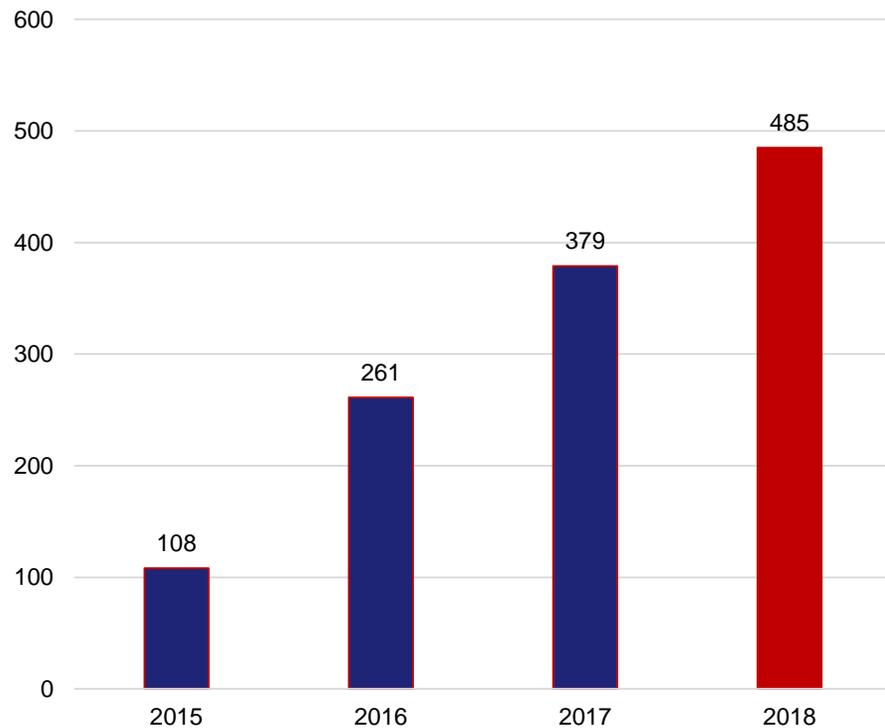
Upon full inclusion in 20 months, 364 securities will be included into the index, representing 6.06% of the index.

We expect the Depth and Width of China inclusion will continue, but a gradual one.

Issuer Connectivity – Chinese Offshore USD Bonds

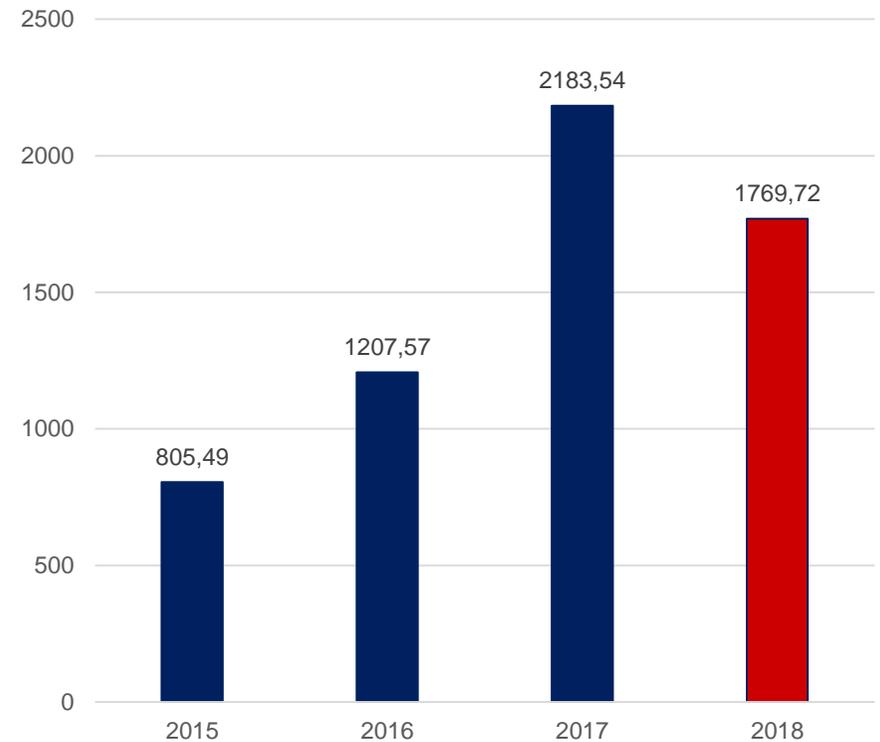
Number of Issues (2015-2018)

Unit: issues

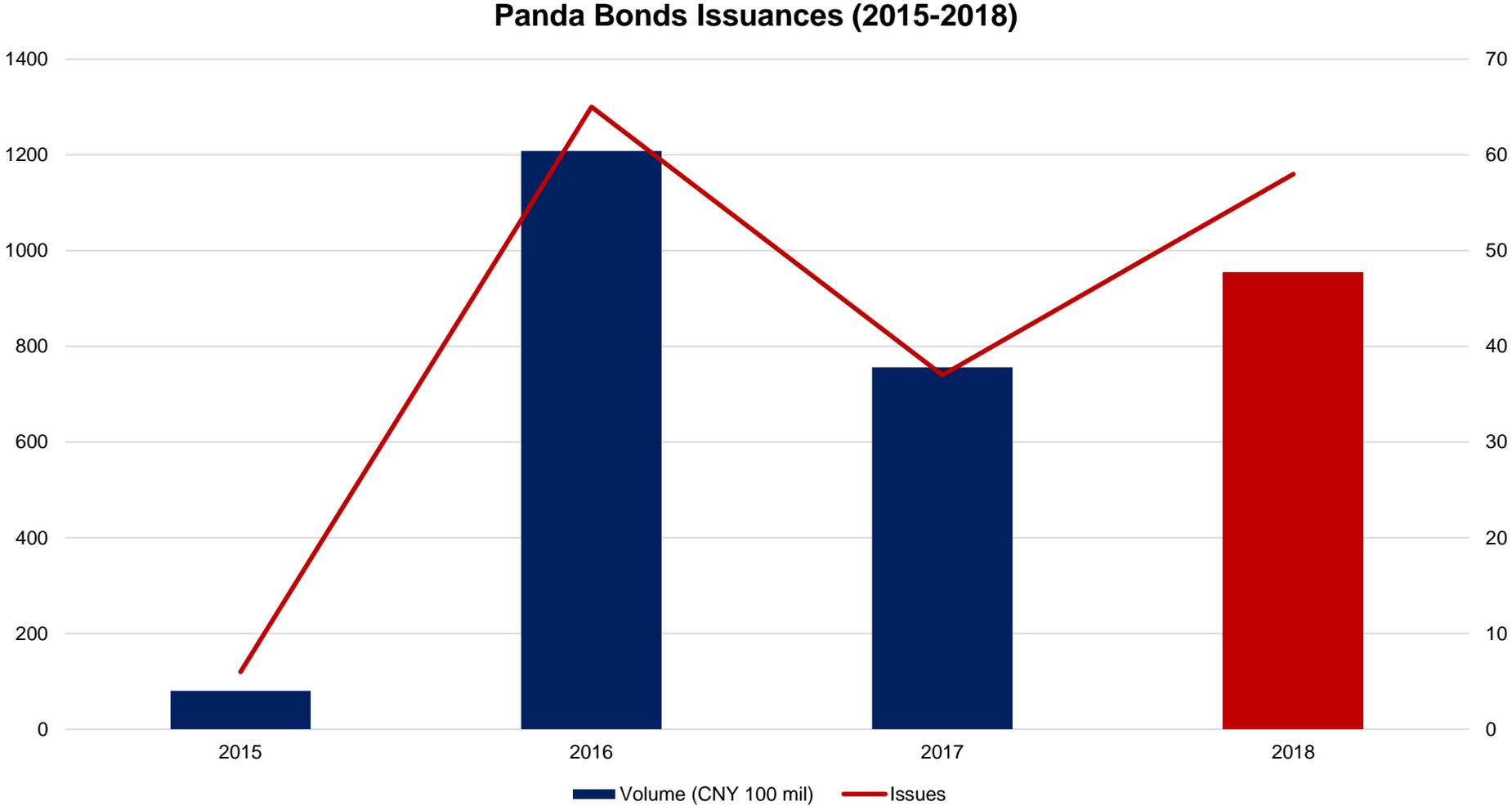


Size of Issues (2015-2018)

Unit: 100 Million USD

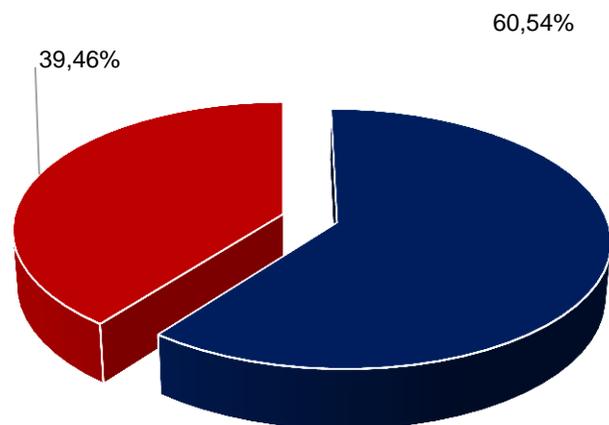


Issuer Connectivity – Panda Bonds



Issuer Connectivity – Panda Bonds

Issuance Venue for Panda Bonds



■ Interbank market ■ Exchange Market

Issuer	Year	Industry	Size (CNY Mil)	Coupon
 RUSAL	2017	Industrial	500	5.5%
 GLP	2019	Logistics	3,300	4.35%
 BEWG 北控水務	2017	Infrastructure	1,300	5%
	2016	Sovereign	3,300	3.4%
 DAIMLER	2018	Automobile	1,000	4.2%
 New Development Bank	2018	Super-national	2,000	3%

Terry Zhang, Head of Commercial Development, Pengyuan International
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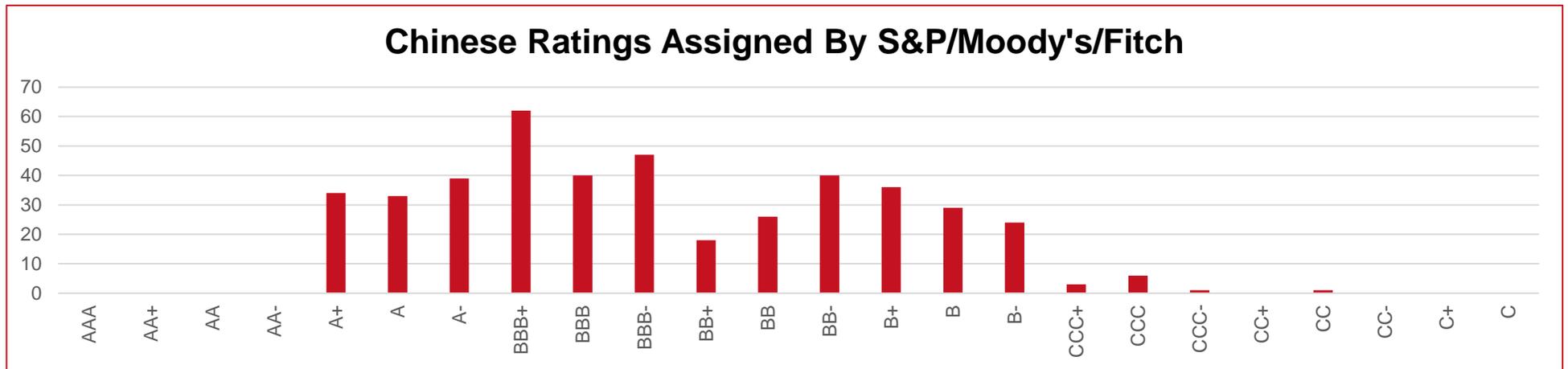
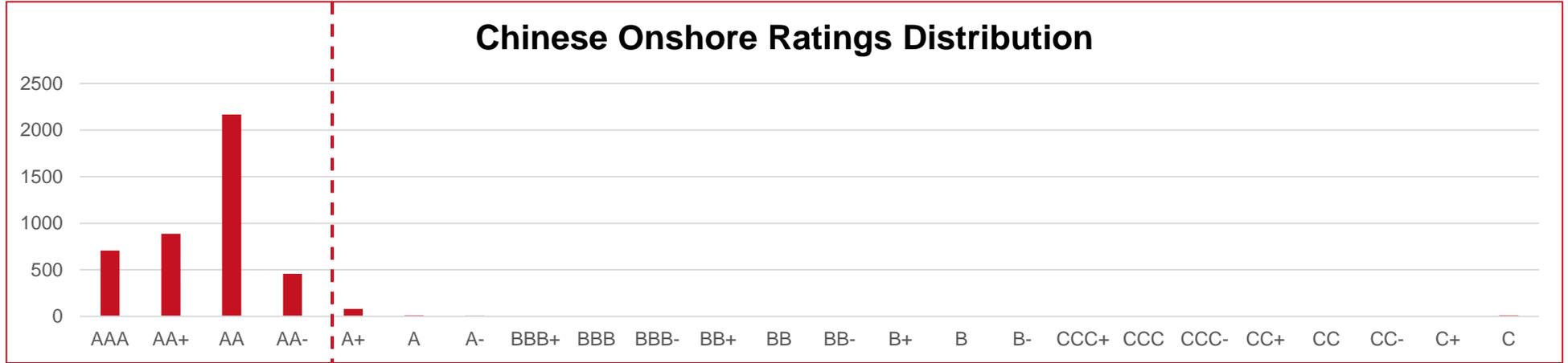
Issuers Connectivity

Credit Ratings

A Tale of Two Rating Scales: Apple to Orange

Crucial Role of Local / Regional Credit Rating Agencies

A Tale of Two Rating Scales: Apple to Orange



Source: Bloomberg, Wind, Pengyuan International

A Tale of Two Rating Scales: Apple to Orange

Issuer	Industry	China NSR	GSR
 苏州银行 BANK OF SUZHOU	Bank	AA+	Ba1 (S&P)
 China Hongqiao Group Limited 中國宏橋集團有限公司	Aluminium – Industrial	AA+	BB (Pengyuan Intl)
 GAZPROM	Oil & Gas – Industrial	AAA	Baa2 (Moody's)
 淮安市水利控股集团有限公司 Huai'an city water holding group co., ltd	Infrastructure	AA+	BBB- (Pengyuan Intl)
 DAIMLER	Automobile	AAA	A2 (Moody's)

A Tale of Two Rating Scales: Apple to Orange

- Factors driving such rating gaps in China:
 - Criteria and models are different
 - NSR is more historical data focused, with little or no projections
 - NSR doesn't consider sovereign risks
 - NSR uses smaller/domestic sample pools, while GSR uses bigger/global sample pools.
 - Fundamental differences in credit views, e.g. China is AA rated by Pengyuan, while A+ rated by U.S. CRAs. *

*Sovereign Ratings Criteria – Pengyuan International: <https://www.pyrating.com/Plugins/Pdfjs/pdfjs/web/viewer.html?file=/Upload/Reports/201808/20180803113409223230774.pdf>

*China Sovereign Rating Report – Pengyuan International: <https://www.pyrating.com/Plugins/Pdfjs/pdfjs/web/viewer.html?file=/Upload/Reports/201809/20180907195900331215336.pdf>

A Tale of Two Rating Scales: Apple to Orange

- **The perception of one being better than another is mis-guided, as they are accommodative to the respective markets**
 - Lack of Defaults cases to validate and calibrate ratings, so for both NSRs and GSRs
 - NSR is fully portable in domestic China capital market, while GSR is currently not.
 -
 - GSR is fully portable in international market, while NSR is not.
 - NSRs should NOT be compared to GSRs directly.

Crucial Role of Local / Regional Credit Rating Agencies

- **Are the National Scale Ratings and the Rating Agency in China relevant at all? Absolutely.**
 - The relative rankings can provide credit insights, if compared among NSRs
 - Fully satisfying onshore regulatory use, including issuance approval and buy-side risk requirements.
 - Rich information benefits, a typical report can be 20-30 pages or longer.
 - Thorough onsite-visit, normally last 2-3 days and it could be longer.
 - Some of the Chinese CRAs are going global, able to issue both NSR and GSR.
 - Last but not least, Data and information accumulated through practice over time.

Crucial Role of Local / Regional Credit Rating Agencies

Selected Key Economic Indicators of Chinese Provinces

	Level of Wealth		Growth Momentum		Dependent on Investment for Growth	
	GDP per capita (\$)	Disposable Income Per capita (\$)	GDP growth	Value-added by Industries	Fixed Asset Formation/GDP	Fixed Assets Investment/GDP
	2016	2016	2017Q1-Q3 YoY change	2017 Jan-Nov YoY change	2014 ~ 2016	2017Jan-Nov YoY change
Beijing	17,795	7,908	6.8%	5.6%	38%	+
Tianjin	17,321	5,130	6.0%	2.8%	67%	-
Hebei	6,483	2,970	6.7%	3.2%	58%	stable
Shanxi	5,349	2,868	7.2%	7.2%	73%	+
Neimonggu	10,849	3,632	5.0%	3.5%	75%	-
Liaoning	7,647	3,920	2.5%	2.4%	50%	stable
Jilin	8,110	3,006	5.7%	5.5%	70%	-
Heilongjiang	6,087	2,987	6.3%	2.2%	62%	stable
Shanghai	17,548	8,135	7.0%	8.0%	38%	+
Jiangsu	14,586	4,828	7.2%	7.5%	44%	+
Zhejiang	12,784	5,801	8.1%	8.4%	45%	stable
Anhui	5,956	3,011	8.3%	8.8%	52%	+
Fujian	11,247	4,156	7.9%	7.9%	58%	-
Jiangxi	6,082	3,028	9.0%	9.0%	50%	-
Shandong	10,348	3,716	7.5%	6.9%	55%	+
Henan	6,410	2,777	8.1%	8.1%	76%	+
Hubei	8,380	3,280	7.8%	7.4%	56%	-
Hunan	6,983	3,179	7.5%	7.1%	55%	+
Guangdong	11,143	4,561	7.6%	7.2%	42%	+
Guangxi	5,725	2,756	7.0%	7.0%	68%	-
Hainan	6,676	3,109	7.5%	2.5%	67%	+
Chongqing	8,807	3,317	10.0%	9.6%	54%	+
Sichuan	6,022	2,832	8.1%	8.4%	50%	stable
Guizhou	5,005	2,276	10.1%	9.3%	68%	+
Yunnan	4,681	2,517	9.0%	9.5%	93%	-
Xizang	5,297	2,053	10.1%	14.1%	105%	-
Shaanxi	7,680	2,841	8.1%	8.0%	67%	-
Gansu	4,162	2,209	3.6%	-1.7%	65%	+
Qinghai	6,554	2,605	7.0%	7.1%	136%	-
Ningxia	7,105	2,835	7.8%	8.6%	119%	+
Xinjiang	6,107	2,763	7.5%	6.3%	91%	-

Source: National and Provincial Statistics Bureau of China; Pengyuan International calculation

Crucial Role of Local / Regional Credit Rating Agencies

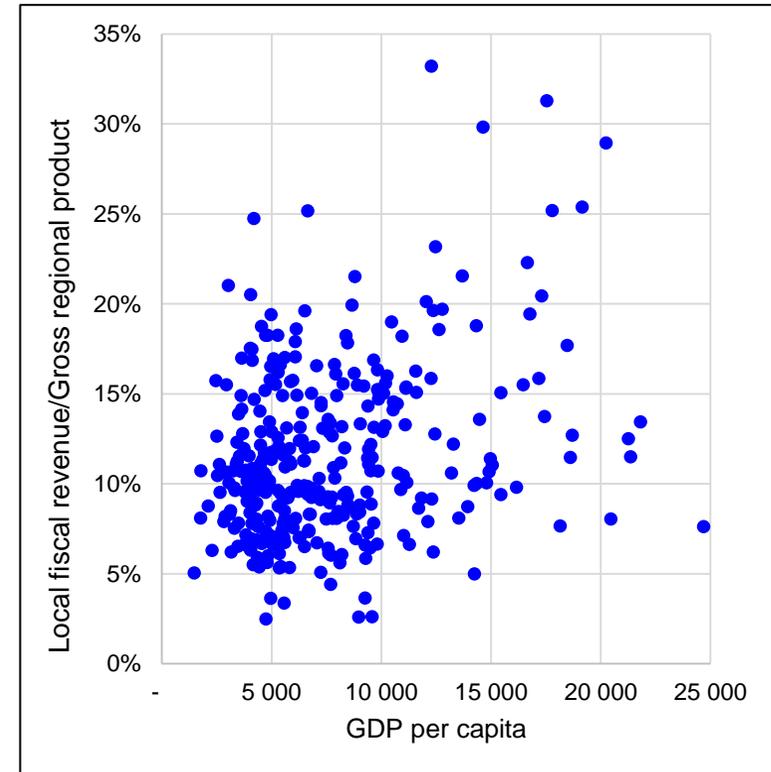
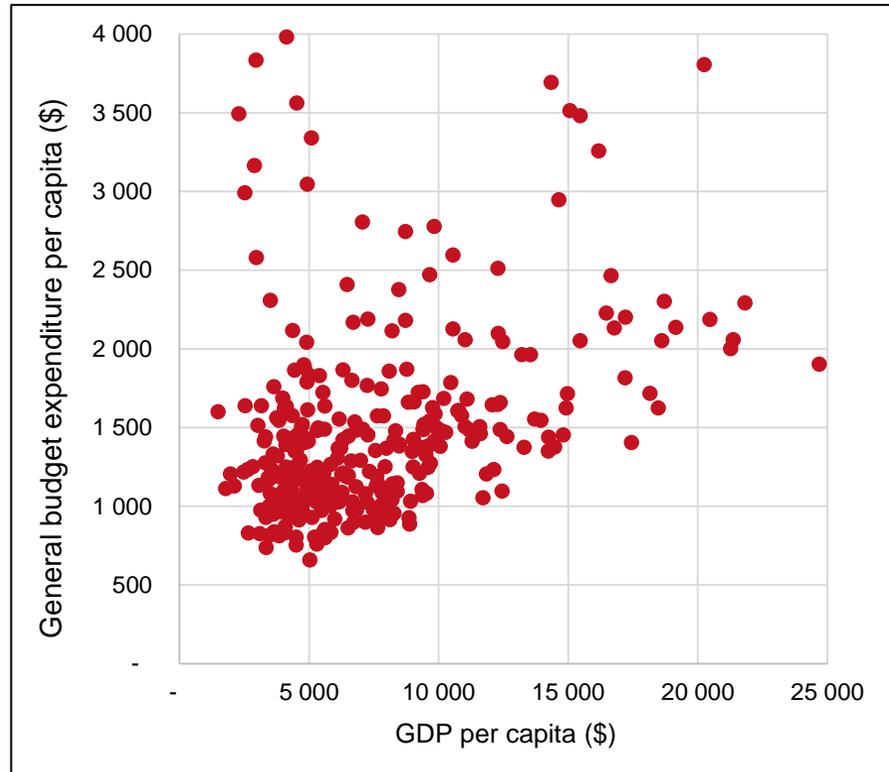
Selected Key Fiscal Indicators of Chinese Provinces

	General Budget Spending Gap/GDP	General Budget Performance*	Ranking of LGT Debt Burden (broad definition)*	M W CEPF Investment*	Fiscal deposit/general budget spending	Fiscal deposit	Fiscal deposit	LG FVs debt growth*
	2017 compared to 2016		2016	2017 Jan-Nov YoY change	2015/2016	2016/2015 YoY change	2017 end- Nov YoY change	2017
Beijing	-1.6%	+	6	-	23%	-4%	21%	11%
Tianjin	-3.0%	-	24	N.A.	12%	N.A.	N.A.	9%
Hebei	-1.7%	+	14	-	18%	10%	22%	11%
Shanxi	-2.2%	+	13	N.A.	24%	N.A.	N.A.	7%
Neimonggu	-0.8%	-	24	N.A.	15%	29%	N.A.	3%
Liaoning	-1.5%	+	30	N.A.	17%	N.A.	N.A.	0%
Jilin	-2.9%	-	17	N.A.	11%	N.A.	N.A.	10%
Heilongjiang	-1.8%	+	7	N.A.	20%	N.A.	N.A.	11%
Shanghai	0.0%	+	2	N.A.	44%	-10%	N.A.	3%
Jiangsu	-0.6%	-	19	N.A.	12%	28%	6%	13%
Zhejiang	-1.6%	+	19	stable	20%	N.A.	N.A.	15%
Anhui	-1.1%	-	14	-	13%	N.A.	N.A.	14%
Fujian	-1.7%	-	24	-	27%	N.A.	N.A.	8%
Jiangxi	-1.8%	-	17	N.A.	11%	N.A.	N.A.	11%
Shandong	-0.8%	+	8	N.A.	11%	N.A.	27%	5%
Henan	-1.4%	-	10	-	11%	N.A.	N.A.	12%
Hubei	-0.4%	+	9	-	20%	N.A.	N.A.	15%
Hunan	-1.7%	-	29	-	15%	N.A.	6%	13%
Guangdong	-2.1%	-	3	stable	42%	-4%	-19%	7%
Guangxi	-2.7%	-	23	N.A.	8%	N.A.	17%	13%
Hainan	-2.7%	+	4	-	23%	N.A.	N.A.	-21%
Chongqing	-1.6%	-	22	N.A.	8%	9%	N.A.	7%
Sichuan	-1.8%	+	21	N.A.	17%	8%	19%	9%
Guizhou	-1.1%	-	30	--	18%	N.A.	N.A.	4%
Yunnan	-3.5%	-	28	--	13%	-16%	32%	13%
Xizang	-6.8%	+	1	N.A.	15%	19%	76%	22%
Shaanxi	-2.3%	+	27	N.A.	21%	-23%	15%	10%
Gansu	-4.4%	-	4	+	7%	58%	24%	10%
Qinghai	-8.0%	-	12	--	12%	33%	6%	14%
Ningxia	-8.5%	+	16	N.A.	5%	95%	N.A.	-1%
Xinjiang	-3.9%	+	10	N.A.	14%	4%	11%	27%

Source: National and Provincial Statistics Bureau of China; Winds; Pengyuan International calculation

Crucial Role of Local / Regional Credit Rating Agencies

A glimpse of economic and fiscal data of prefectural level governments



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