Economics & Strategy

DBS Flash

Credit: China holds fast to its USD bond market

Strategy/Credit/Asia

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- *China's Ministry of Finance has announced its third consecutive offering of USD bonds, following previous offerings in 2018 and 2017*
- *This affirms the importance of the Chinese USD bond market…*
- *…notwithstanding elevated US-China trade tensions, the ascendancy of the onshore RMB bond market, and concerns of USD funding risks.*
- *Continuity in deepening the offshore USD bond market is helpful for Chinese credit, as is the provision of a sovereign curve benchmark.*

China's MOF readies record USD bond offering

China's Ministry of Finance (MOF) has announced that it will offer USD6bn of bonds, with four tenors being marketed. This marks the third annual consecutive offering of USD bonds since 2017. The move underscores the fact that China is still holding fast to its strategy of deepening the international USD bond market for Chinese credit.

2019 tensions for the USD bond market

Prospects for the Chinese USD bond market have been less sure amidst various developments in 2019. Chief among them was the sharp escalation in **US-China tensions**, which has raised questions over whether policy could move away from fostering closer financial links between the two economies.

In addition, the **onshore RMB bond market is closing the gap with the offshore USD market**, lessening its importance as an avenue to tap foreign financing. China has consistently introduced reforms to facilitate foreign investor access to its $13trn onshore RMB market (see table on next page), which culminated in the inclusion of onshore Chinese bonds in a major international bond index this year.

Date	Market Liberalisation Measures
3-Jul-17	Bond Connect introduced, allowing offshore investors from Hong Kong to invest in the China Interbank Bond Market (CIBM).
28-Jan-19	First foreign credit rating agency awarded licence to rate bonds in the onshore Chinese market.
1-Apr-19	Bloomberg Barclays Global Aggregate Index starts to include onshore government and policy banks' bonds.
10-Sep-19	China abolishes quotas for the USD QFII and RMB QFII schemes for foreign investors.
5-Nov-19	MOF issued Euro-denominated offshore bonds for the first time in 15 years.

Sources: Bloomberg, DBS

New regulations were rolled out in June 2019, limiting LGFVs (local government financing vehicles) and real estate developers to using offshore bond proceeds for refinancing only. While these are macro-prudential in nature, they could indicate **rising concerns of USD funding risks, which may presage additional restrictions**. When MOF announced in October that it will issue EUR-denominated bonds for the first time in 15 years, it begs the question of whether there is an intent to limit USD liabilities, or encourage firms to reduce USD funding risks.

Affirming continuity in the USD bond market

MOF's USD bond offering this week can be viewed as **affirming a continuation of Chinese policy to develop and deepen the offshore Chinese USD bond market**.

Issuance is guided to be up to USD6bn, which will be higher than the USD2bn and USD3bn offerings seen in 2017 and 2018 respectively. Furthermore, there will be two debut tenors (3y and 20y) on top of the usual 5y and 10y tenors, which will be helpful in forming a sovereign USD curve for Chinese credit issuance.

We view the 3y tenor to be particularly important. It will serve as a valuable yardstick for Chinese credit pricing, given that a large proportion of Chinese long-term corporate bonds are marketed at the 3y tenor.

Wider pricing does not reflect value

While the indicative pricing is wider compared to the earlier offerings, this is in line with the widening seen in current MOF USD bonds trading in the market. Trade uncertainty and a slowdown in Chinese growth have certainly induced a slight increase in the risk premium. That said, **this is a case where the (signalling) value of the USD bonds on offer far outweighs the price.**

2019 (indicative pricing over UST)	2018 (indicative pricing over UST)	2017 (indicative pricing over UST)
3y (+60bps)		
5y (+65bps)	5y (+50bps) Final: +30bps	5y (+30-40bps) Final: +15bps
10y (+70bps)	10y (+65bps) Final: +45bps	10y (+40-50bps) Final: +25bps
20y (+80bps)		
	30y (+90bps) Final: +70bps	

Sources: Bloomberg, DBS

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).