

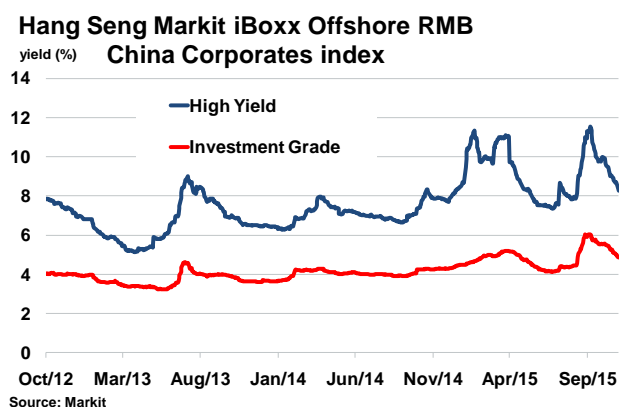
## Offshore RMB bonds rally post summer volatility

After seeing risk escalate in Aug/Sep, offshore RMB bonds have since rallied, but bond yields have yet to return to mid year levels.

- Offshore RMB IG and HY bond yields fallen 121bps and 325bps from Aug/Sep highs
- Hang Seng [Markit iBoxx](#) Offshore RMB China Corporates Investment Grade Bond index yield 70bps higher than in June
- Spreads in the HY real estate sector remain elevated compared to mid year levels

China's focus on remaining [monetarily](#) and fiscally accommodative, coupled with improved macro data, has seen Chinese corporate credit risk fall after this mid years tumultuous market volatility.

### Offshore renminbi bonds



As worries about China's growth escalated in August and September, so did yields on offshore RMB corporate bonds issued by domestic issuers.

According to the Hang Seng Markit iBoxx Offshore RMB China Corporates Investment Grade Bond index, investment grade (IG) bond yields climbed to 6.05% towards the end of August; the highest yield since records began on the index in 2011. But as fears were brushed aside, yields subsequently fell

to 4.86% as of November 2<sup>nd</sup>, representing a 121bps tightening. However, yields still remain 70bps above those seen in June's relatively calmer markets, suggesting room for further yield compression as investor sentiment improves.

Similarly, high yield (HY) bonds, as represented by the Hang Seng Markit iBoxx Offshore RMB China Corporates High Yield Bond index saw yields rise above 11% in September. This was similar to the levels seen at the beginning of the year, when a default in property developer [Kaisa sparked fears of contagion](#) within the sector. This comes as no surprise as 66% of the Hang Seng Markit iBoxx Offshore RMB China Corporates High Yield Bond index is made up of real estate bonds.

Improving market sentiment since September has seen HY bond yields fall 325bps, but remains 91bps higher than in June.

### HY real estate

The real estate sector makes up a sizable chunk of the offshore RMB HY market and remains compelling to investors due to its importance to China's economy.

| Offshore RMB Real Estate bonds | Spread vs benchmark |                   |                  | % tightening needed to reach 19 June level |
|--------------------------------|---------------------|-------------------|------------------|--|
|                                | 19 June 2015        | 07 September 2015 | 02 November 2015 |  |
| CHICIT 5.35 07/03/17           | 238                 | 638               | 398              | -40%                                       |
| LAIF 6.875 04/25/18            | 512                 | 944               | 648              | -21%                                       |
| SHUIO 6.875 02/26/17           | 427                 | 1054              | 540              | -21%                                       |
| CENTRPL 5.75 02/17/17          | 259                 | 678               | 304              | -15%                                       |
| LONGPRO 6.75 05/28/18          | 327                 | 638               | 372              | -12%                                       |
| GOLDWHE 11.25 04/25/16         | 956                 | 1765              | 1082             | -12%                                       |
| GEMDAAS 6.5 03/04/17           | 374                 | 687               | 418              | -11%                                       |
| FUTULAN 9.75 04/23/16          | 552                 | 1075              | 597              | -7%  |
| GRECHIN 5.625 05/13/16         | 303                 | 790               | 323              | -6%  |

Even post the summer rally, certain real estate credits have yet to return to the levels seen in calmer markets in June.

Using the constituents of the Hang Seng [Markit iBoxx](#) Offshore RMB China Corporates High Yield Bond index, China City Construction's 5.35% bond maturing in 2017 has seen its benchmark spread fall 240bps over the past two months, but current spreads would have to tighten a further 40% to reach the June 19<sup>th</sup> level. It's a similar story with Lai Fung Holdings' 8.875% 2018 bond and Shui On Development's 6.875% 2017 bond, whose bond spread would have to fall 21% to reach mid year levels, according to [Markit's bond pricing service](#).

The real estate sector remains [well supported by policy makers](#) in China. Yields are also high enough to entice investors. In fact, [onshore demand](#) has picked up significantly recently due to market reforms, squeezing offshore supply, which has the potential to compress yields further.

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