MARKETS

China's $3 Billion Bond Sale Defies Global Markets Slump

The country raises dollars as cheaply as Apple and Microsoft in the international bond market

By Manju Dalal

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China on Thursday sold $3 billion in U.S. dollar bonds, raising money as cheaply as some of America's strongest companies at a time of heightened tensions with its largest trading partner and in the midst of a global markets selloff.

The successful sale shows foreign investors remain confident in China's ability to repay debt, even though economic growth is slowing and the country is trying to keep a lid on corporate-debt levels. But because China is an infrequent issuer of U.S. dollar bonds, the new securities have a scarcity value that makes them attractive to investors. Beijing is also trying to defuse its trade conflict with the U.S., with Chinese leader Xi Jinpingpreparing to meet with President Trump in late November.

The sovereign bond sale—China's second U.S. dollar bond sale in a year and only its third since 2004—included securities maturing in five, 10 and 30 years. The offering drew strong interest from investors in Asia, Europe and other parts of the world, fetching orders in excess of $13 billion, according to a banker involved in the deal.

The demand enabled China to price its $1.5 billion in five-year bonds at a yield of 3.33%, just 0.3 percentage point above yields on comparable U.S. Treasury notes. The country sold $1 billion in 10-year bonds at a yield of 3.63%, versus the 3.18% yield on 10-year Treasurys.

China also sold its first 30-year dollar bonds in more than two decades, pricing a $500 million issue at a yield of 4.055%, or 0.7 percentage point above 30-year Treasurys.

Spreads on the bonds—the gap between yields on China's and U.S. debt—were roughly similar to recent trading in outstanding bonds of companies such as Apple Inc. and Microsoft Corp. , according to data from bond-trading platform MarketAxess. China didn't pay major credit-rating firms to rate its new bonds.

China's bond offering was launched earlier Thursday, shortly after markets across Asia opened sharply lower and experienced heavy selling in technology stocks and Chinese equities. By the close of trading in Asia, China's benchmark Shanghai Composite stock index had fallen 5.2% and its technology-heavy Shenzhen market had dropped 6.5%, their worst one-day declines since February 2016.

Credit-market conditions were also not ideal, with spreads widening earlier in the day in Asia following a U.S. market selloff overnight.

Earlier this week, an official from China's Finance Ministry met with potential investors in Hong Kong and held calls in English and Mandarin with a few hundred investors in Asia and Europe to discuss the merits of purchasing China's bonds.

Addressing the timing of the sale, the official said Beijing was confident the offering would be successful, according to two people who joined the briefing. The official also said the U.S.-China trade conflict wouldn’t have as large an impact on the Chinese economy as some in the market appeared to believe, the people said.

Bankers and analysts said China aimed to replicate the success of its 2017 dollar-bond sale, which drew orders exceeding $20 billion for the $2 billion in securities offered to investors all over the world. That strong demand enabled China to price its five- and 10-year securities last October at less than 0.3 percentage point above Treasury yields.

Since then, debt investors world-wide have been demanding higher returns for many assets that are perceived as riskier than U.S. government bonds, whose yields have also climbed following rate increases by the Federal Reserve.

China, whose sovereign rating from the world’s largest credit raters is three or four notches below that of the U.S., is generally seen as having very little default risk, thanks to its large stash of foreign reserves and trade surplus. The $3 billion bond sale was also relatively small, and there was no doubt it would attract buyers.

Still, declines in the values of Chinese stocks and other riskier assets this year reflect how growth is slowing for the world’s second-largest economy. China’s central bank has lowered the share of cash that banks must hold in reserve four times this year. Its stock market has lost about a fifth of its value this year, and the yuan has weakened by more than 9% against the U.S. dollar since mid-April.

One upshot of China’s successful bond sale is the expectation that the country’s relatively low borrowing costs could benefit Chinese companies that need to sell dollar bonds in the coming months.

China was able to replicate the success of last year’s dollar-bond sale. PHOTO: JASON LEE/REUTERS

Jean-Charles Sambor, deputy head of emerging-market fixed income at BNP Paribas Asset Management, said the latest bond sale would help state-owned Chinese issuers sell bonds more cheaply. He also doesn’t expect China to issue dollar bonds frequently. “China is not Saudi Arabia,” he said, adding that scarcity of China’s sovereign bonds makes it more likely that their yields will be relatively low and prices high.

China had hired 12 underwriters, including foreign banks, to drum up investor interest in the bonds. They include Deutsche Bank AG , Crédit Agricole Corporate & Investment Bank, HSBC Holdings PLC, JPMorgan Chase & Co., Goldman Sachs Group Inc. and Standard Chartered PLC, along with Bank of China Ltd. and other large Chinese lenders.

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