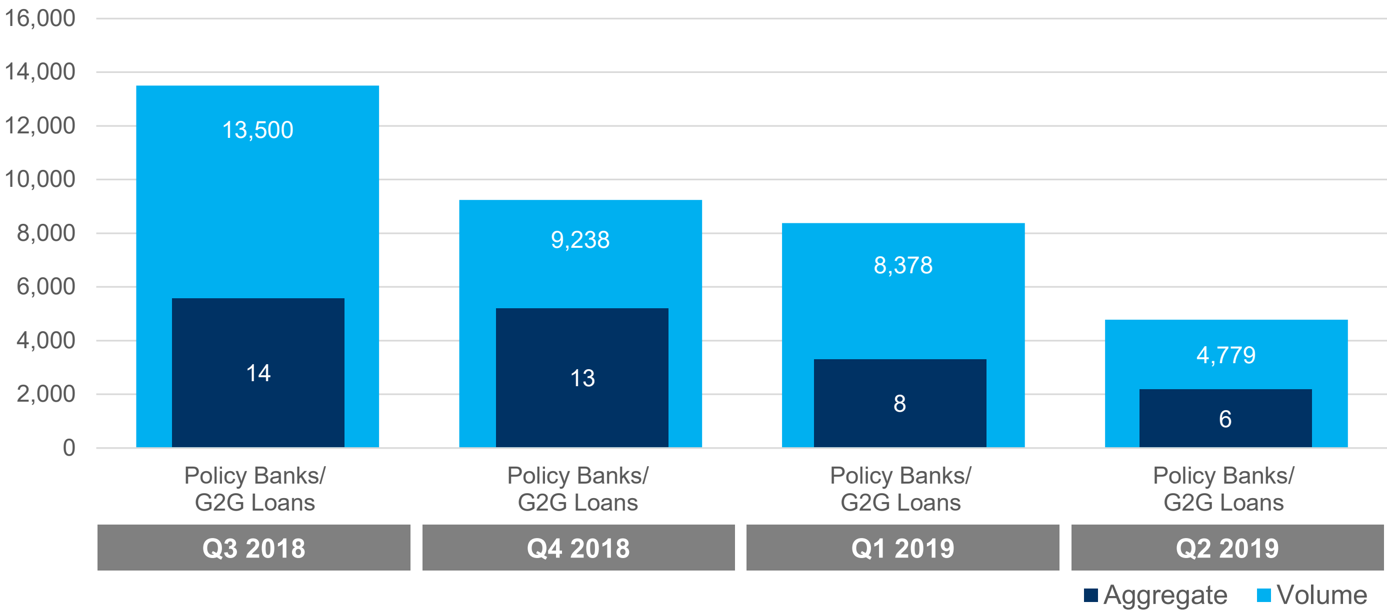
BRI Pulse

Structural Changes in BRI Financing

While several key changes resulting from BRF II have already been reported, we wanted this Pulse to set out some of the numbers associated with four major structural changes to funding the BRI which have already occurred during H1 2019 – demonstrating China's rapid shift away from bilateral loans to public market funding.

Sharp Reductions in Chinese Government Bilateral Loans

The table below sets out Chinese policy bank loans and G2G loans over the past four quarters. As shown, both volume and aggregate amounts have decreased, especially during 2019. Included in these totals are $5.2 billion of such loans to Pakistan to fund shortfalls in its balance of payments. To place this activity in an historical perspective, for full year 2016, aggregate amounts of committed loans averaged over $18 billion/quarter.



Increased Public Bond Issuance by BRI Countries

This trend began during 2018, however, we wanted to highlight two successful issuers already in 2019 and one country which is considering issuing to repay existing Chinese debt.

Uzbekistan – Initial Eurobond (February 2019) – In February Uzbekistan priced its inaugural US$1 billion dual-tranche bond offering. The 144A / Reg S offering was formed by a dual US$500 million 4.750% tranche due February 2024 and a US$500 million 5.375% due February 2029. There was strong demand which allowed Uzbekistan lower from initial price talk of 5.375% and 6.000% respectively. Fitch Ratings affirmed the "BB-" LT Int. Scale (local curr.) credit rating of Uzbekistan on May 10; the outlook is stable.

Sri Lanka (March and June 2019) – On 24 June, Sri Lanka completed an international placement of $ 2 billion euro bonds. This was its second issue of euro bonds in 2019; the first issue of $2.4 billion was on 7th March. The $4.4 billion issuance in 2019 represents the highest number by Sri Lanka in a single year. Yield on the $2 billion issue's five-year tranche was 6.35% compared to 6.85% in March 2019 while the yield on the 10-year tranche also improved by 30 basis points compared to the March issue, as the issue was heavily oversubscribed.

Montenegro (June 2019) – In June, Montenegro's Finance Minister announced that the country is considering a €300-500 million Eurobond issued later in 2019 to reduce public debt. In 2014, Montenegro accepted a $944 million CEXIM infrastructure loan.

Cross China/Europe Exchange Equity Issuance

We highlight two of these completed to date, the KraussMaffei (Germany) listing in Shanghai and China based Huatai Securities listing in London

In January, German machinery company KraussMaffei Group was listed on the Shanghai Stock Exchange. The listing took place through an asset injection via the transfer of ChemChina's stake in KraussMaffei to ChemChina's majority-owned subsidiary THY (Qingdao Tianhua Institute of Chemistry Engineering), which was already listed on the SSE. As part of the deal, THY has taken over ChemChina's production site in Sanming.

In June, Huatai Securities raised US$1.54 billion through the sale of global depository receipts (GDRs) to international investors, thus becoming the first issuer to list GDRs in London on the Shanghai Segment of London Stock Exchange. This was the first time that international investors have been granted access to China A-Shares on an exchange outside Greater China using international trading and settlement practices.

Asian Infrastructure – Early Steps in Securitisation

In July 2018, Clifford Capital, a Singapore Government backed infrastructure financier, launched Asia's first project finance securitisation, sourced from loans from DBS, HSBC, MUFG, SMBC and Standard Chartered. The portfolio consisted of 37 Infrastructure Loans spread across 16 Asian and Middle Eastern countries (out of a possible $40 billion portfolio). The notes were issued by Bayfront Infrastructure Capital, and structured as an Infrastructure Take-Out facility to enable institutional investors such as provident funds and insurer's access to quality infrastructure debt in Asia, enhancing the sustainability of infrastructure financing.

During October 2018, at the Asia Singapore Roundtable, a Global Infrastructure Facility (GIF) is a $100 million was discussed. This is an open platform that facilitates the preparation and structuring of complex infrastructure projects to enable mobilisation of private sector and institutional investor capital. Singapore and the World Bank are two of six funding partners. As of August 2018, the GIF had 11 active projects across Asia. These projects are designed to mobilise up to $8 billion in private financing when reaching financial close.

AIIB – initial issuance, initial securitisation? – In May, AIIB issued its first bond, a dollar-denominated $2.5 billion five-year issue with a coupon of 2.25%. The issue attracted orders of over $4.4 billion from over 90 investors across the globe representing 27 countries and included central banks, fund managers, insurers and pension investors. AIIB is likely to launch further issues later in 2019.

We also understand from private sources that AIIB might have completed its initial securitisation, collaborating with the Clifford Capital/Singapore based platform. The combination of the two clearly positions AIIB to become an increasing force in infrastructure finance and ESG investing in Asia.