

China's Dagong Lowers U.S. Credit Rating on Fed Monetary Policy

By Joshua Fellman and Ye Xie - Nov 9, 2010

China's Dagong Global Credit Rating Co. reduced its credit rating for the U.S. to A+ from AA, citing a deteriorating intent and ability to repay debt obligations after the Federal Reserve announced more monetary easing.

The credit outlook for the U.S. is "negative," as the Fed's plan to buy government debt will erode the value of the [dollar](#) and "entirely encroaches" on the interests of creditors, analysts at Dagong, one of China's three largest ratings companies, said in a [statement](#). The U.S. is rated Aaa and AAA by Moody's Investors Service and Standard Poor's Corp., the highest credit ratings of the New York-based companies.

The downgrade came before a meeting of leaders of the Group of 20 nations this week in Seoul and as the U.S. steps up pressure for China to let the yuan strengthen to help reduce the U.S. trade deficit. China countered the criticism by saying U.S. economic policies threaten the stability of developing nations.

"The general market perception is that there's a risk that the Chinese rating agency is playing a bit more political game than providing independent analysis," said [Ian Lyngen](#), a government bond strategist in Stamford, Connecticut, at CRT Capital Group LLC, in a telephone interview. "I don't think it has the same ramification as a downgrade by mainstream rating agencies such as S&P and Moody's. That said, the reasons that the credit rating of the U.S. may come under pressure are obvious to most people."

'Some Justification'

The privately owned Dagong, founded in Beijing in 1994, is the only one of China's three largest ratings companies that doesn't have a foreign partner. The company, seeking to become an alternative to S&P, Moody's and Fitch Ratings, gave China's debt a higher rating than that of the U.S. and Japan in the nation's first sovereign ranking in July, citing widening deficits in the developed world.

"Sovereign ratings have become Dagong's business focus as its market share in corporate ratings is much smaller than its peers with foreign partners," said Shi Lei, the head of fixed-income research in Shenzhen at Ping An Securities Co., a subsidiary of China's second-largest insurer. "Its downgrading of the U.S. rating has some justification as printing money to help with the fiscal deficit is even worse than keeping a high deficit."

[Yields](#) on benchmark 10-year U.S. Treasury notes rose 11 basis points yesterday as bidding declined at a \$24 billion sale of new securities. The yield on the 2.625 percent Treasury due in August 2020 fell four basis points today to 2.62 percent. A basis point is 0.01 percentage point.

'Serious Defects'

The downgrade for the U.S. "reflects its deteriorating debt repayment capability and drastic decline of the

government's intention of debt repayment," analysts Lu Sinan and Du Mingyan wrote in the statement. "The serious defects in the U.S. economic development and management model will lead to the long-term recession of its national economy, fundamentally lowering the national solvency."

Chinese central bank adviser [Xia Bin](#) said Nov. 4 that the Fed's \$600 billion of planned Treasury debt purchases is "uncontrolled" money printing, and Vice Finance Minister [Zhu Guangyao](#) said yesterday that the program could "shock" emerging markets by flooding them with capital.

"Many countries are worried about the impact of the policy on their economies," Vice Foreign Minister [Cui Tiankai](#) said at a press briefing in Beijing Nov. 5. "It would be appropriate for someone to step forward and give us an explanation, otherwise international confidence in the recovery and growth of the global economy might be hurt."

Global ratings methodology is "irrational," Dagong Chairman [Guan Jianzhong](#) said in July, and "cannot truly reflect repayment ability."

In September, the Securities and Exchange Commission turned down Dagong's application to become a Nationally Recognized Statistical Rating Organization in the U.S.

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