RMB15 Trillion Credit Bonds Are Expected to be Issued throughout the Year, and Mean Yield Is Likely to Fall Slightly in Q4

Hong Kong, 26 October 2020 -- China Chengxin International Credit Rating Co., Ltd. ("CCXI") has released a report titled "*RMB15 Trillion Credit Bonds Are Expected to be Issued Throughout the Year, and Mean Yield Is Likely to Fall Slightly in Q4--Q3 2020 Review and Outlook of the Credit Bond Market"*, which has reviewed the operation and performance of the credit bond market in Q3 2020 and forecast the issuance of credit bonds and the trend of yield in the next phase. **CCXI Research Institute holds that in Q3, as fundamentals were gradually recovering and monetary policy was tightened marginally, the secondary bond market remained under pressure, and yield continued upward, driving issuance cost to rise slightly. However, with debts due, bond issuance demand was high among stressed enterprises. In the meantime, with the implementation of the registration-based issuance system, the simpler bond issuance procedures made it more convenient for enterprises to issue bonds, so the primary market maintained a relatively high issue volume. Looking into Q4, CCXI Research Institute believes that refinancing demand is likely to drive up the issue volume of credit bonds, but bond issuance cost may rise easily and is unlikely to fall; however, guided by a prudent monetary policy, the room for rise of bond issuance cost is limited, and the average bond issuance cost of enterprises will not be higher than that in Q4 2019, which was about 4.5%. As tail enterprises' credit risks are being gradually exposed, in Q4 the credit spread of low-grade bonds will be under expanding pressure, while that of middle- and high-grade bonds is very likely to move in a narrow range at its current level. With the callback of the yield of T-bonds, the mean yield of 5-year AAA enterprise bonds will fall to around 3.8%.**

The report has reviewed the operation and performance of the credit bond market in Q3. **In the primary market, enterprises' enthusiasm for issuing bonds remained high in Q3**, with RMB3.75 trillion being issued, **a quarterly issue volume only second to that in Q2 2020.** Even though **the net financing scale in Q3 shrank significantly both year on year and quarter on quarter, the cumulative net financing amount of credit bonds in the first three quarters** already reached RMB3.83 trillion, **an increase of more than RMB600 billion from that in the whole year of 2019.** The pressure of achieving the goal of "guiding net financing of corporate credit bonds to increase by RMB1 trillion from the previous year" put forward at the executive meeting of the State Council is expected to be small. **In terms of issuance structure, with the implementation of the registration-based issuance system,** in Q3, the issue volume of publicly offered corporate bonds increased substantially year on year and quarter on quarter, while that of medium- and short-term notes was shrinking, indicating **the substitution effect of medium- and short-term notes with corporate bonds has started to show.** In this quarter, bond market funds still flowed mainly to state-owned enterprises. **Even though the bond issue scale by private enterprises continued to grow,** with due debts rising sharply, **private enterprises' net financing amount from issuance of bonds turned negative again. In terms of industry, in the first three quarters, all industrial sectors, except the information technology industry, had a positive net financing amount. By region, Beijing,**

Jiangsu, Guangdong, Shanghai and Zhejiang remained the top 5 in terms of bond issue volume. Distribution of industries and regions in bond issuance didn't change much compared with that in the first half of the year. **In terms of grade distribution, newly issued bonds were mostly high-grade bonds. Interest rates generally went up.** As of September 2020, interest rates of all term bond types, except 3-year AA+ corporate bonds, rose from Q2 2020.

In the secondary market, **trading of credit bonds remained active in Q3**. The trading volume increased significantly year on year, and its proportion in the total trading volume of bonds also rose. **In this quarter, the yield of credit bonds continued the upward trend, while credit spread narrowed,** deviating from the yield. That may be because the important reason driving up this round of interest rates lies in the restrained monetary easing pace in the context of the recovery of fundamentals, while "easier credit" continued under the policy of supporting enterprises in resuming production and work. Therefore, the yield of credit bonds didn't increase as much as that of interest rate bonds, thus driving credit spread to narrow. **In terms of spread by grade, in Q3, the spread of AAA and AA+ bonds fluctuated and narrowed on the whole**; the spread of AA+ and AA bonds fluctuated at a tight range; the spread of AA and AA- bonds basically maintained stable. **In terms of spread by industry,** all industries' spread narrowed at the end of Q2, and **most industries' spread recovered to the level before the pandemic.**

Regarding the outlook for Q4, CCXI Research Institute believes that **to achieve the goal of "guiding net financing of corporate credit bonds to increase by RMB1 trillion from the previous year" put forward at the executive meeting of the State Council, net financing amount only needs to reach around RMB400 billion in Q4.** In terms of maturity, among bonds that continue to mature, about RMB3 trillion will mature and be redeemed before maturity in Q4, and about RMB450 billion bonds will be put back. When it's estimated by the buy-back proportions of 30%, 50% and 70% respectively and the volume of mature ultra-short-term types is taken into account, **the issue volume of credit bonds in Q4 may be between RMB3.7 trillion and RMB3.9 trillion, and that throughout the year RMB15 trillion. In terms of issuance cost, the average bond issuance cost of enterprises since the beginning of 2020 was already down 80 bps from 2019.** Governor Yi Gang of the People's Bank of China recently revealed that as at the end of September, the financial sector had "already surrendered more than RMB1.1 trillion of profit to entities". **In Q4, with policies having less impetus to bring down enterprises' bond issuance cost, bond issuance cost is likely to go up easily and is unlikely to go down. However, guided by a prudent monetary policy, the room for rise of bond issuance cost is limited.** The average bond issuance cost of enterprises in Q4 2020 is expected to be no higher than that in the same period in 2019, which was about 4.5%.

In terms of yield, **in Q4, fundamentals and monetary policy are likely to have limited disturbance to the bond market, while overseas capital inflows will probably provide certain support to the Chinese bond market.** Moreover, from April to September, yield continued to rise from the lowest point. **The yield of 10-year T-bonds went up 70 bps in about half a year, a fast and large rise compared to that in previous rounds. Based on the trends, there is still time and room for temporary adjustment on the whole.** CCXI Research Institute believes that **there is still room for adjustment of bond market yield in Q4 and maintains the judgment that the mean yield of 10-year T-bonds will move around 3.0%.** In terms of credit spread, at the end of Q3, the credit spread of 5-year AAA, AA+, AA and AA- enterprise bonds already narrowed to the level before the pandemic. **Given that the volume**

of credit bonds that will be mature in Q4 is still huge and tail enterprises are under great refinancing pressure, credit risk is likely to rise marginally and the credit spread of low-grade bonds will be under expanding pressure. When economic fundamentals and the monetary policy environment remain largely unchanged, **the credit spread of medium- and high-grade bonds will probably fluctuate in a tight range around its current level.** With the callback of the yield of T-bonds, **the mean yield of 5-year AAA enterprise bonds is expected to fall to around 3.8%.**

To obtain the full report, please call our Customer Service Hotline +852-2860 7111.

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