

## CCXI & CCXAP – Research & Commentary

---

### **Credit Bond Market After Policy Returns to Normal: Market Expansion Slows Down and Spread Divergence Intensifies**

Hong Kong, 18 January 2021 -- China Chengxin International Credit Rating Co., Ltd. (“CCXI”) issued a report titled “Credit Bond Market After Policy Returns to Normal: Market Expansion Slows Down and Spread Divergence Intensifies: Review of the Operation of the Credit Bond Market in 2020 and Outlook for 2021”, which has reviewed the operation of the credit bond market in 2020 and forecast the trends of issuance and interest rates of credit bonds in the next phase based on the macro economy, monetary policy and financing environment.

In the first half of 2020, to hedge against the impact of the pandemic, the macro leverage ratio was raised temporarily. In the second half of the year, as the economy gradually recovered, the temporary easing policy exited and the leverage ratio gradually stabilized. Against such backdrop, **the net financing amount of credit bonds increased by RMB1.1 trillion from 2019, exceeding the target proposed at the executive meeting of the State Council. The credit bond issue market was active throughout the year, with an issue volume of RMB15.19 trillion.** Seen from the performance of the secondary market, **the trading activity of credit bonds improved, and the yield witnessed a V-shaped movement, which was first down and then up.** The yield of credit bonds generally went up from the end of 2019, while credit spread was differentiated and deviated from the yield twice. **Looking into 2021, CCXI believes** that under leverage stabilizing policies, the credit bond market is expected to expand further, while the net financing amount is likely to fall significantly compared to that in 2020. **CCXI estimates that the net financing amount of credit bonds will be around RMB2.9 trillion in 2021.** Under the great pressure presented by mature bonds, **the issue volume of credit bonds** is expected to remain at a relatively high level, which **may be between RMB14.5 trillion and RMB15.4 trillion throughout 2021.** **In the secondary market, trend investment opportunities in the secondary market of credit bonds are unlikely to happen. However, the fluctuation of interest rates will present certain trading opportunities.** Regarding the investment strategy of credit bonds, as credit risk is likely to remain at a high level throughout the year and corporate bonds with weak qualification are faced with valuation fluctuation risk, **we suggest selecting quality corporate bonds and increasing return by extending their duration.**

The report has reviewed the operation of the credit bond market in 2020. According to the report, the primary market of credit bonds demonstrated the following characteristics in 2020. First, **both the issue volume and net financing amount of credit bonds increased substantially.** According to CCXI’s statistics, RMB15.19 trillion credit bonds were issued throughout 2020, a significant increase from 2019. Net financing amount went from high to low, and it totaled RMB4.35 trillion, exceeding the target of “guiding the net financing of corporate credit bonds to increase by RMB1 trillion from the previous year” proposed at the executive meeting of the State Council held in April. Second, **most of the bond funds flew into state-owned enterprises (SOEs).** The volume of bonds issued by SOEs accounted for 92%, and the proportion of the volume of bonds issued by local SOEs represented by infrastructure

investment SOEs had the most significant increase. The volume of bonds issued by private enterprises maintained a year-on-year growth, and the contraction of net financing amount clearly improved compared to that in 2019. Third, **issue volume varied widely from region to region**. Beijing, Jiangsu, Guangdong, Zhejiang and Shanghai took up the top five positions in terms of bond issue volume, while the issue volume of Hainan, Tibet, Ningxia, Heilongjiang and Qinghai was less than RMB30 billion in average, among which, Heilongjiang and Qinghai recorded a negative net financing amount. Fourth, **the issue volume of most industries was higher than expired volume**. However, the net financing amounts of the coal, nonferrous metal, building materials, pharmaceuticals and information technology industries were negative. Fifth, **most of the newly issued bonds had a medium to high grade**. The proportion of bonds with an AA or below continued to decrease. Sixth, the interest rates first fell and then rose. As at the end of 2020, the interest rates of major credit bond varieties generally went up from the end of 2019. **However, the average of issue costs was still lower than that in 2019.**

In terms of the trading of credit bonds, **the trading of credit bonds heated up in 2020. The transaction volume of credit bonds increased substantially year on year, and its proportion in the total transaction volume of bonds also improved.** The transaction amount of cash bonds totaled RMB195.87 trillion (excluding negotiable certificates of deposit), up 18.20% year on year, of which the transaction amount of credit bonds recorded RMB40.45 trillion, up 48.54% year on year, accounting for 21% of the total transaction amount of bonds, an increase of nearly 5 percentage points compared to that in 2019. **The yield of credit bonds witnessed a “V-shaped” movement. The yields of credit bonds of all terms, except long-term credit bonds, generally went up by 3bps to 35bps.** In terms of credit spread, the credit spread of AAA corporate bonds narrowed, while that of low and medium-grade corporate bonds expanded to a varying degree, **showing a differentiated development trend.** In terms of spread by grade, both the spread between AAA and AA+ bonds and that between AA and AA- bonds expanded compared to those at the end of 2019, while the spread between AA+ and AA bonds narrowed by 3bps, falling below the spread between AAA and AA+ bonds. **In terms of spread by industry, all industries, except pharmaceuticals, electronics, commercial and personal services and power industries, saw credit spread rise by 13bps to 70bps from the end of 2019.**

**Looking into the future, CCXI believes** that under leverage stabilizing policies, **the credit bond market is expected to expand in 2021**, however, the net financing amount is likely to fall substantially compared to that in 2020. **CCXI estimates that the net financing amount of credit bonds will be around RMB2.9 trillion.** Under high redemption pressure, the issue volume of credit bonds is likely to remain at a high level, **between RMB14.5 trillion and RMB15.4 trillion.** As the macro policy returns to normal, the monetary policy in 2021 will be much less easing than it was in 2020, so enterprises will still face the pressure of a rising bond issue cost. However, it's unlikely that the financing environment will be reversed totally, and the upward potential of issue cost is limited. The average of the interest rates of bonds is expected to be 4.6%-5.2%, and differentiation in issue cost will intensify, as bond issuers with weak qualification will face much higher pressure than those with quality qualification do.

In the secondary market, **in 2021, the recovery of fundamentals and a normal money supply may bring upward pressure on yields.** Besides, the pressure of making payment for bonds mature within the year is expected to remain very high, credit risk is expected to maintain

at a high level, and **an outbreak of a cluster of defaults will probably cause certain impact on market yields. The possible ebb of global liquidity will be bear news to the bond market.** However, it takes time to digest the impact of the pandemic on the economy, so **the macro policy will not be tightened drastically. In the meantime, economic operation shows high uncertainty, so the upward potential of yields is limited.** In terms of credit spread, with the “SOE belief” further shattered, in future, credit bond investors will pay more attention to entities’ credit fundamentals. In addition, as overall liquidity will not be as sufficient as that in 2020, **credit spread is expected to continue to expand on the whole, and the difference in credit spread among individual bonds will increase further.** The credit spread of AAA bonds is expected to exceed the 25% quantile and approach the median. The credit spread of AA+ and AA bonds is basically between the 25% quantile and the median and is close to the 25% quantile. In future it is likely to move close to the median. **The credit spread of AA-bonds may exceed its record high in 2014.** Overall, **trend investment opportunities in the secondary market of bonds are unlikely to happen in 2021. However, the fluctuation of interest rates will present certain trading opportunities.** Regarding the investment strategy of credit bonds, given that credit risk will remain at a relatively high level throughout the year and corporate bonds with weak qualification will face valuation fluctuation risk, **we suggest selecting quality corporate bonds and increasing return by extending their duration.**

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

本文版权归中诚信国际信用评级有限公司、中国诚信(亚太)信用评级有限公司和/或其被许可人所有。本文件包含的所有信息受法律保护, 未经中诚信国际事先书面许可, 任何人不得复制、拷贝、重构、转让、传播、转售或进一步扩散, 或为上述目的存储本文件包含的信息。

本文件中包含的信息由中诚信国际从其认为可靠、准确的渠道获得, 因为可能存在人为或机械错误及其他因素影响, 上述信息以提供时现状为准。特别地, 中诚信国际对于其准确性、及时性、完整性、针对任何商业目的的可行性及合适性不作任何明示或暗示的陈述或担保。在任何情况下, 中诚信国际不对任何人或任何实体就 a) 中诚信国际或其董事、经理、雇员、代理人获取、收集、编辑、分析、翻译、交流、发表、提交上述信息过程中可以控制或不能控制的错误、意外事件或其他情形引起的、或与上述错误、意外事件或其他情形有关的部分或全部损失或损害, 或 b) 即使中诚信国际事先被通知该等损失的可能性, 任何由使用或不能使用上述信息引起的直接或间接损失承担任何责任。

本文件所包含信息组成部分中信用级别、财务报告分析观察(如有)应该而且只能解释为一种意见, 而不能解释为事实陈述或购买、出售、持有任何证券的建议。中诚信国际对上述信用级别、意见或信息的准确性、及时性、完整性、针对任何商业目的的可行性及合适性不作任何明示或暗示的担保。信息中的评级及其他意见只能作为信息使用者投资决策时考虑的一个因素。相应地, 投资者购买、持有、出售证券时应该对每一只证券、每一个发行人、保证人、信用支持人作出自己的研究和评估。



**中诚信国际信用评级有限责任公司**

地址: 北京市东城区朝阳门内大街  
南竹竿胡同 2 号银河 SOHO6 号楼  
邮编: 100020  
电话: (8610) 6642 8877  
传真: (8610) 6642 6100  
网址: <http://www.ccxi.com.cn>

**China Chengxin International Credit Rating Co., Ltd**

Address: Building 6, Galaxy SOHO,  
No.2 Nanzhugan hutong, Chaoyangmennei Avenue,  
Dongcheng district, Beijing, 100020  
Tel: (8610) 6642 8877  
Fax: (8610) 6642 6100  
Website: <http://www.ccxi.com.cn>



**中国诚信(亚太)信用评级有限公司**

地址: 香港中环康乐广场 1 号  
怡和大厦 19 楼 1904-1909 室  
电话: (852) 2860 7111  
传真: (852) 2868 0656  
网址: <http://www.ccxap.com>

**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House, 1 Connaught Place,  
Central, Hong Kong  
Tel: (852) 2860 7111  
Fax: (852) 2868 0656  
Website: <http://www.ccxap.com>