

# Chinese Dollar Bond Market Report

## Authors

Jacky Lau 852-28607124  
[jacky\\_lau@ccxap.com](mailto:jacky_lau@ccxap.com)

Simon So 852-28607127  
[simon\\_so@ccxap.com](mailto:simon_so@ccxap.com)

George Wang 852-28607130  
[george\\_wang@ccxap.com](mailto:george_wang@ccxap.com)

## Other Contacts

Elle Hu 852-28607120  
[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

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## 2021H1 Chinese Dollar Bond Market Report

### 2021H1 Chinese Dollar Bond Market Recap

- **Chinese dollar bond issuance rebounded in 2021H1 but was still lower than the same period in 2019, mainly due to the tightening of regulatory policies and fluctuations in investor risk appetite.** In 2021H1, 201 Chinese issuers issued a total of 319 new issues with a total issued volume of approximately USD100.7 billion, increasing by 6.1% YoY, which was still lower than the USD111.3 billion in the same period of 2019.
- **The pace of issuance was volatile due to changes in investor sentiment and the structure of the issuer.** Real estate companies arranged their refinancing plans in advance, and the amount issued in January hit a new monthly high. However, affected by credit events such as China Huarong, Chongqing Energy, and China Fortune, the new issuance of Chinese dollar bonds was relatively weak in later months.
- **The issuance of Chinese real estate dollar bonds declined, while the issuance of Chengtou dollar bonds rebounded. The net increase in issuance was mainly contributed by the industrial sector.** In terms of sector distribution, real estate, Chengtou, financial institutions and industrial enterprises accounted for approximately 29.3%, 9.4%, 25.5% and 35.7% of the new issuance in 2021H1, respectively.
- **Investment grade issuers were active, and high-yield bond issuance remained small.** In 2021H1, there were 79 investment grade issuers with a total issued volume of USD60.5 billion, an increase of 7.5% YoY, accounting for 60.1% of the new issuance. There were 62 high-yield issuers in 2021H1, and the amount of new issuance was USD28.0 billion, accounting for approximately 27.8% of the new issuance.
- The average coupon rate of newly issued Chinese dollar bonds dropped from 3.83% in 2021Q1 to 3.69% in 2021Q2. The average tenor of new issuance increased from 3.70 years in 2020H2 to 3.88 years in 2021H1.
- **As US Treasury yields climbed, coupled with frequent credit events, the Chinese dollar bond secondary market continued to fluctuate. Investment grade bonds outperformed high-yield bonds.** The high-yield real estate sector depressed in 2021H1 due to frequent outbreak of credit events.

### Rating Actions and Credit Events

- **The credit quality of Chinese issuers continued to diverge, among which real estate companies being the most pronounced.** In 2021H1, the three major international rating agencies took rating actions on 120 Chinese issuers, of which 67 of were positive actions and 60 were negative actions. In terms of industry distribution, rating actions were mainly concentrated in the real estate industry.
- **Poor quality companies were continuously exposed to credit risk.** In the first half of 2021, six Chinese companies defaulted in the offshore bond market, with a total default amount of approximately USD3.9 billion, an increase from the USD3.2 billion in 2020H1.

### Outlook

- **Given the inflationary pressures and the increasing possibility of the Fed tightening the monetary policy, the US long-term Treasury yields may rise further. As the US economy gradually recovers, the US dollar exchange rate is expected to go strong and the cost advantage of offshore financing may fade.**
- **Due to the marginally tightened credit environment in China and the frequent credit incidents, investor risk appetites have become more cautious. It is anticipated that the financing channels of some weak quality issuers would have limited improvement in the second half of the year, thereby elevating the credit risk to a new level. Chinese dollar bond market will continue to fluctuate in the second half of 2021.**
- **As the regulation of the real estate market has become more stringent and normalized, it poses greater challenges to real estate companies in terms of capital raising, capital allocation, and operating capability. In face of slowing sales growth, narrowing profit margins, tightening financing channels and insufficient investor confidence, some real estate companies with aggressive early-stage investment, poor internal control and relatively concentrated debt maturity may face liquidity issues.**
- **At the same time, given the tightening financing supervision and increasingly conservative investors, regional differences will be more pronounced. Chengtou companies from regions of poor credit quality may face greater refinancing pressure and be demanded higher standard for debt and liquidity management.**

## Introduction

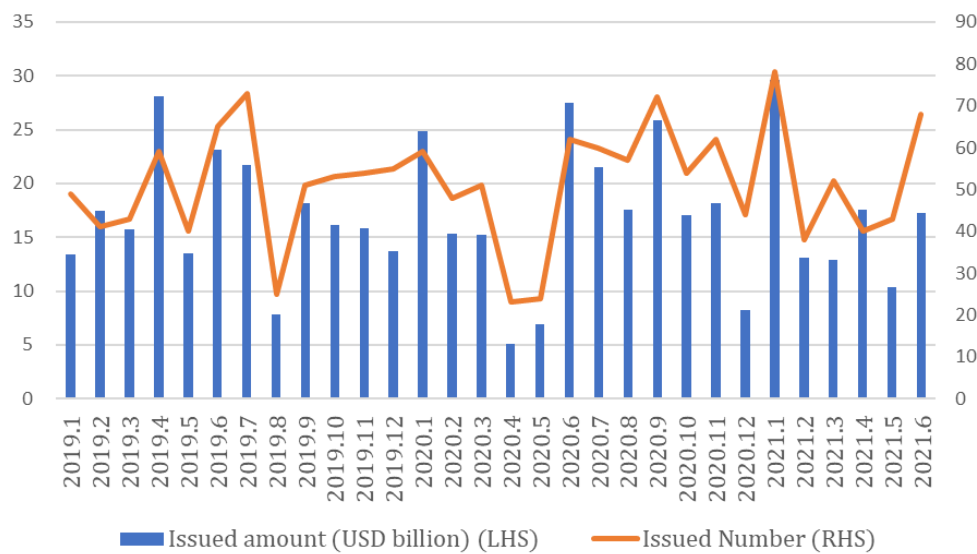
At the beginning of 2021, with the increase in the COVID-19 vaccination rate, the global economy gradually recovered, and investors' inflation expectations rose. However, impacted by the uneven vaccination progress and virus mutation, investors are worried and there were still uncertainties in global economic recovery from the pandemic. During this period, the US long-term Treasury yields fluctuated, of which the 10-year Treasury yield fell from its high in March. Considering the low base effect in 2020H1, the total issuance of Chinese dollar bonds rebounded from the same period last year. However, new issuances in 2021Q2 were relatively weak, and the secondary market index continued to drop, mainly due to the frequent occurrence of credit events of Chinese issuers. The credit quality of Chinese issuers has further diverged, especially in real estate companies whose financing environment is tightening. As a result, the credit risks of some real estate issuers were further exposed. Meanwhile, Local governments were struggling to balance revenue and expenditure, and the scale of debt has increased. In addition, the financing supervision of Chengtou sector was further standardized, the credit risks of weak Chengtou issuers increased.

## 2021H1 Chinese Dollar Bond Market Recap

### Primary Market

**Chinese dollar bond issuance rebounded in 2021H1 but was still lower than the same period in 2019, which was mainly due to the tightening of regulatory policies and fluctuations in investor risk appetite.** In 2021H1, 201 Chinese issuers issued a total of 319 new issues with a total issued volume of approximately USD100.7 billion, increasing by 6.1% YoY. Net financing amount increased by 23.8% YoY to USD35.8 billion. However, due to the tightening of offshore bond financing policies for Chinese real estate industry and the frequent occurrence of credit events, the investors' risk appetite fell. The issuance amount in 2021H1 was still lower than the USD111.3 billion in the same period of 2019.

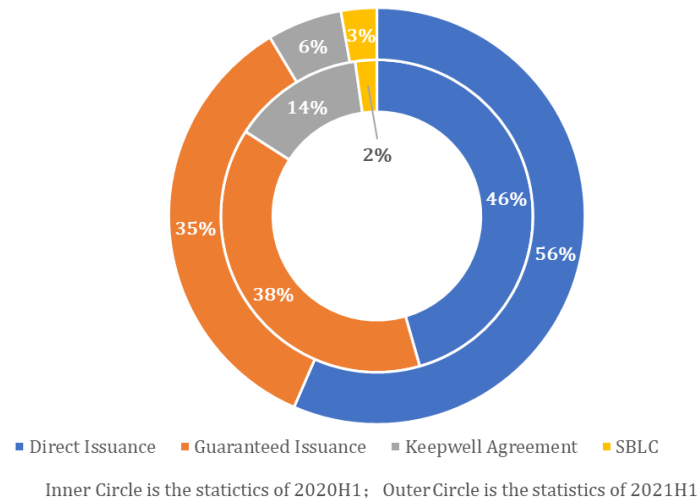
**The pace of issuance was volatile due to changes in investor sentiment and the structure of the issuer.** On a monthly basis, real estate companies arranged their refinancing plans in advance, and the amount issued in January hit a new monthly high. However, affected by credit events such as China Huarong, Chongqing Energy, and China Fortune, the new issuance of Chinese dollar bonds was relatively weak in later months. Although the amount of new issuance rebounded in April and June, driven by the issuance of large tech companies such as Tencent and Meituan (in April) and financial institutions such as CMB International and Huatai International (in June), the issuance of Chinese real estate high-yield USD bonds remained relatively small.

**Exhibit 1: New issuance of Chinese dollar bonds from January 2019 to June 2021**

Source: Bloomberg, CCXAP Research

In terms of issuance structure, Chinese dollar bonds were mainly issued through direct and guaranteed issuance. In 2021H1, the amounts of direct and guaranteed issuance were USD56.9 billion and USD35.1 billion, accounting for approximately 56.5% and 34.9% of the new issuance, respectively. In the context of market risk appetite fluctuations, companies with weak credit quality have adopted credit enhancement measures to provide guarantees for offshore bond repayments, and most of the issuers were district and county-level Chengtou issuers. There were 30 bonds issued through SBLC in 2021H1, with a total issued volume of approximately USD2.8 billion, representing 32.2% YoY growth. However, there are limitations of keepwell agreement compared with direct issuance and those through guarantee and SBLC. Investors need to focus more on the credit quality of issuers, bond terms and other details when investing in keepwell agreement bonds. In 2021H1, a total of USD5.9 billion of Chinese dollar bonds were issued through keepwell agreement, decreasing by 54.9% YoY.

**Exhibit 2: Issuance structure of Chinese dollar bonds in 2020H1 and 2021H1 (based on issuance amount)**

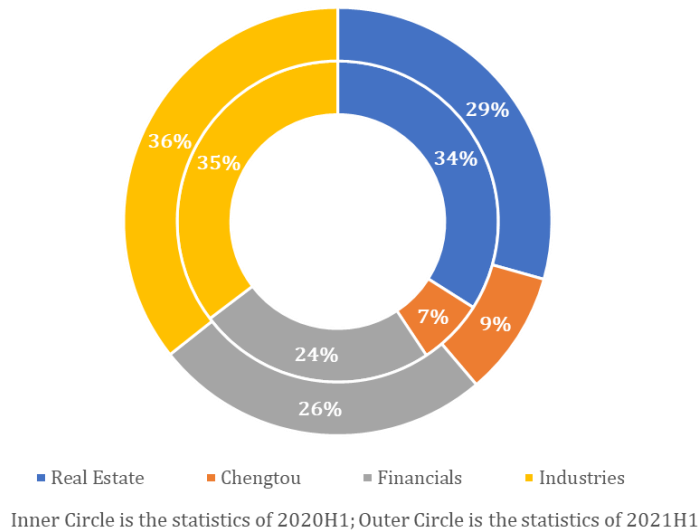


Source: Bloomberg, CCXAP Research

**The issuance of Chinese real estate dollar bonds declined, while the issuance of Chengtou dollar bonds rebounded. The net increase in issuance was mainly contributed by the industrial sector.** In terms of sector distribution, real estate, Chengtou, financial institutions and industrial enterprises accounted for approximately 29.3%, 9.4%, 25.5% and 35.7% of the new issuance in 2021H1, respectively. Among them, the new issuance amount of Chengtou dollar bonds was USD9.5 billion, increasing by 49.5% YoY, of which 25 Chengtou companies were initial offerings, with an issuance amount of approximately USD3.8 billion, accounting for 40.1% of the issuance amount in Chengtou sector. In addition, the new issuers were mainly in Jiangsu Province, and there were 10 issuers. The issuance amount of financial sector was USD 25.7 billion, representing 13.0% YoY growth. The issuance amount of industrial sector increased by 7.1% YoY to USD35.9 billion. Among them, consumer discretionary sector contributed the most, including large technology companies such as Alibaba and Meituan, with the total issuance amount of USD14.9 billion, a significant increase of 246.1% YoY.

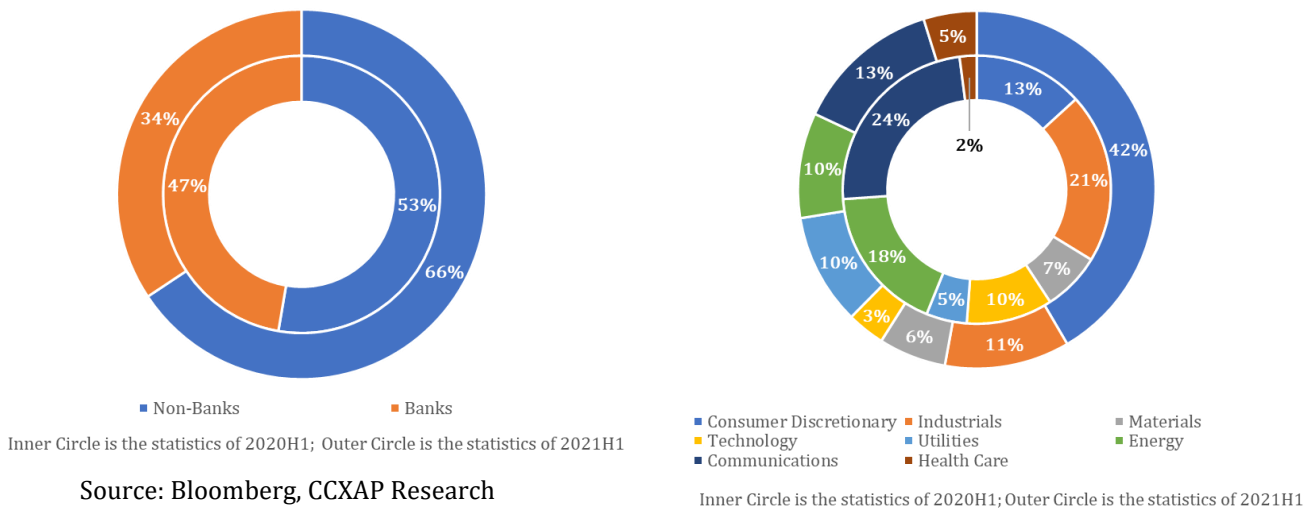
Real estate companies were the key issuers of Chinese dollar bonds. However, the growth of real estate corporate debt has been restricted because of the impact of debt supervision and tightening of financing policies in real estate industry. Moreover, the frequent occurrence of credit events in real estate companies has reduced investors' preference for issuers with lower credit quality, resulting in a decrease in the issuance of the real estate sector, which was dominated by high-yield issuers. In 2021H1, 60 real estate issuers issued 93 USD dollar bonds, with a total amount of 29.6 billion, decreasing by 8.4% YoY. There were 47 high-yield issuers issued a total amount of USD 23.0 billion, a decrease of 10.5% YoY. With a large number of matured bonds and a reduction in issuance, the net financing of the real estate sector has dropped from USD11.6 billion in 2020H1 to USD6.4 billion in 2021H1.

**Exhibit 3: Sector distribution of Chinese dollar bonds in 2020H1 and 2021H1 (based on issuance amount)**



Source: Bloomberg, CCXAP Research

**Exhibit 4: Sector distribution of USD bonds by Chinese financial and industrial sector in 2020H1 and 2021H1 (based on issuance amount)**



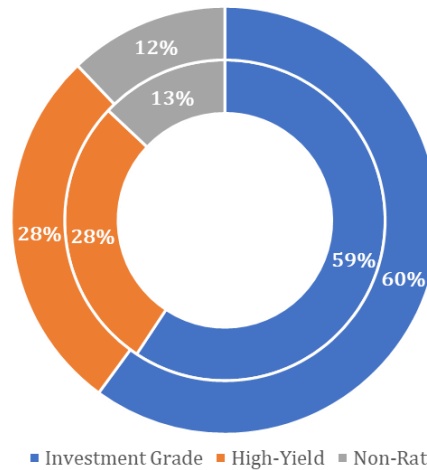
Source: Bloomberg, CCXAP Research

**Investment grade issuers were active, and high-yield bond issuance remained small.** In 2021H1, there were a total of 201 Chinese dollar bond issuers, of which 141 were rated by the three international rating agencies.<sup>1</sup> In 2021H1, there were 79 investment grade issuers with a total issued volume of USD60.5 billion, an increase of 7.5% YoY and accounting for 60.1% of new issuance. Offshore market fluctuated in 2021H1 and investors preferred low risk, which attracted investment grade issuers to issue dollar bonds. There were 62 high-yield issuers in 2021H1, and the amount of new issuance was USD28.0 billion,

<sup>1</sup>As of June 30, 2021, if there are differences among credit ratings of the three international rating agencies, the statistics shall be based on the highest rating.

accounting for approximately 27.8% of the new issuance, which was the same as in the same period in 2020, but lower than 39.2% in 2019. In addition, most high-yield issuers were real estate companies. Due to the deleveraging process and the weakening of investor risk appetite, the issuance of US dollar bond by real estate companies continued to be under pressure.

**Exhibit 5: Credit rating distribution of Chinese dollar bond issuers in 2020H1 and 2021H1 (based on issuance amount)**



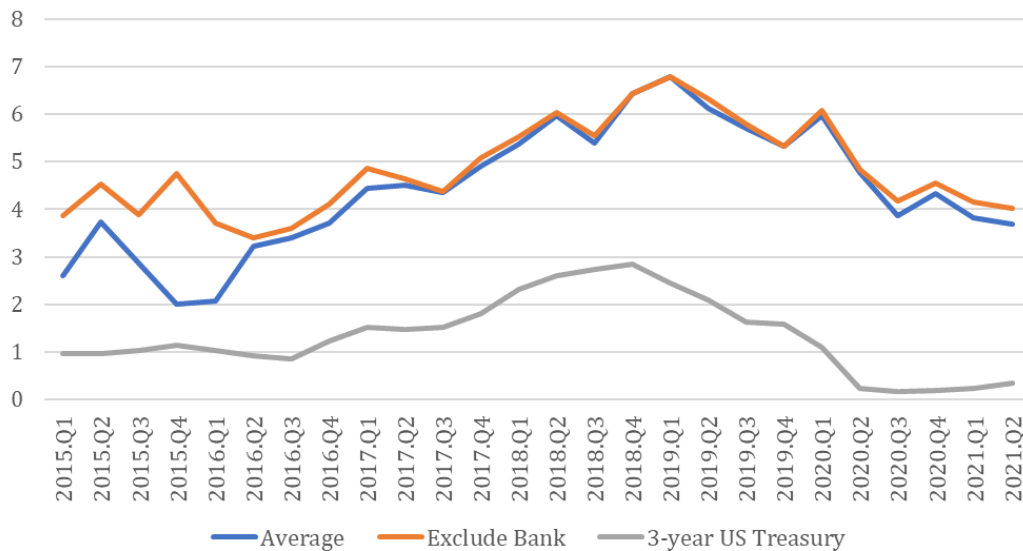
Inner Circle is the statistics of 2020H1; Outer Circle is the statistics of 2021H1

Source: Bloomberg, CCXAP Research

**The coupon rate of newly issued Chinese dollar bonds continued to fall as the number of Chinese real estate high-yield issuers reduced in 2021Q2.** The issuance amount of high-yield USD bonds in 2021Q2 decreased as compared with 2021Q1. As the number of high-yield issuance reduced, the average coupon rate of newly issued Chinese dollar bond dropped from 3.83% in 2021Q1 to 3.69% in 2021Q2<sup>2</sup>. In terms of industries, the average coupon rates of real estate and Chengtou dollar bonds were 8.87% and 3.22%, decreasing by 17 basis points and 19 basis points quarter-on-quarter, respectively.

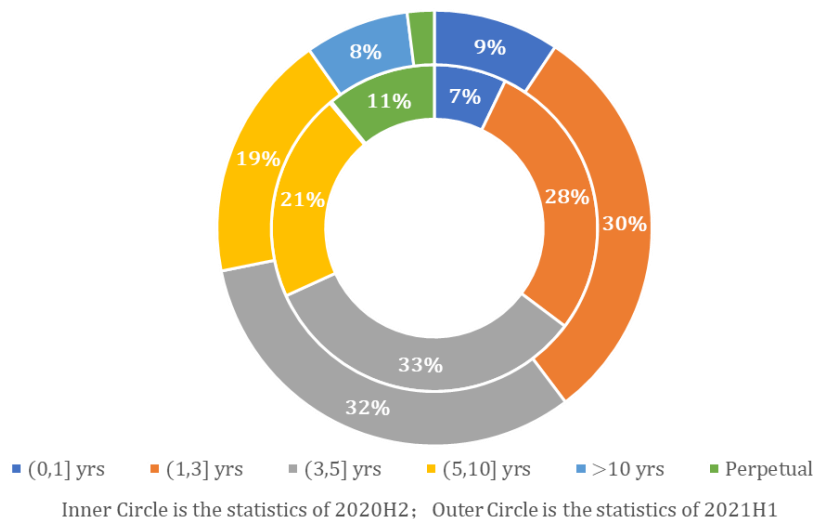
<sup>2</sup> Only bonds with fixed coupon rates with no repurchase or resale clauses were counted.



**Exhibit 6: Average coupon rate of Chinese dollar bonds from 2015Q1 to 2021Q2 (%)**

Source: Bloomberg, CCXAP Research

**Mid and long-term Chinese dollar bonds were still dominant, with average maturity increased.** In 2021H1, most of the Chinese dollar bonds were issued with maturities of 1 to 5 years, and the issuance volume of USD62.9 billion, accounting for 62.5% of new issuance. Besides, some Chinese issuers tried to issue long-term bonds under the low interest rate environment to improve their debt structure. The proportion of USD bonds issued with maturities of more than 5 years increased from 20.9% in 2020H2 to 26.1% in 2021H1. The average tenor of new issuance increased from 3.70 years in 2020H2 to 3.88 years in 2021H1<sup>3</sup>.

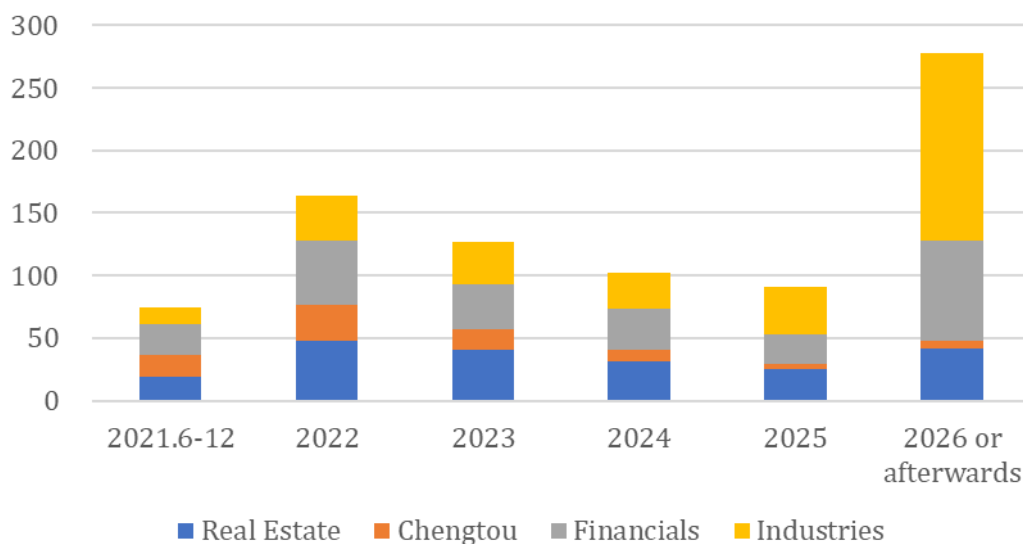
**Exhibit 7: Issued tenor of Chinese dollar bonds in 2020H2 and 2021H1 (based on issuance amount)**

Source: Bloomberg, CCXAP Research

<sup>3</sup> Only non-perpetual bonds were counted.

As of June 30, 2021, the outstanding amount of Chinese dollar bonds was USD835.9 billion. Among them, the outstanding amounts matured in the second half year of 2021, 2022 and 2023 were USD74.2 billion, USD164.1 billion and USD126.4 billion, respectively. In terms of industry, the next two to three years will be the peak period for the maturity of real estate dollar bonds, which will put pressure on real estate issuers to refinance. The outstanding amounts matured in the second half year of 2021, 2022 and 2023 were USD19.3 billion, USD48.2 billion and USD40.8 billion, respectively. In terms of Chengtou dollar bonds, approximately USD17.5 billion of bonds will mature in the second half year of 2021. In addition, the outstanding amounts matured in 2022 and 2023 were approximately USD28.6 billion and USD15.9 billion, respectively. Affected by the strict offshore bond financing policies of the real estate and Chengtou sectors, it is expected that the net financing of these industries may decrease in the future.

**Exhibit 8: Maturity distribution of outstanding Chinese dollar bonds as of the end of June 2021 (USD billion)**



Source: Bloomberg, CCXAP Research

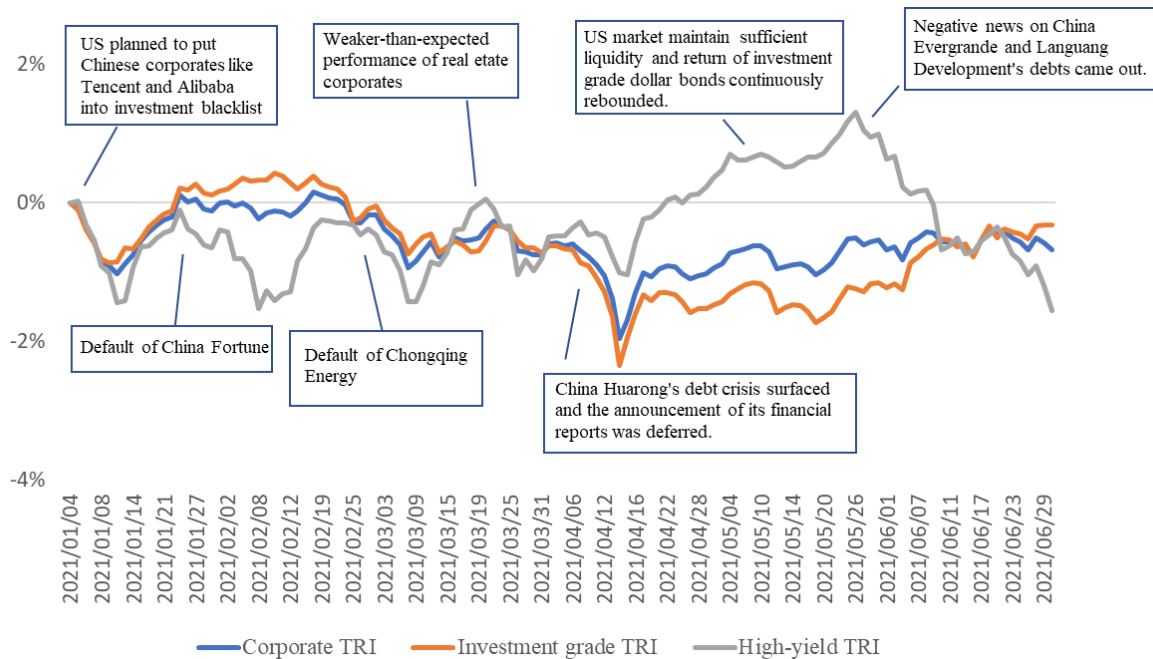
## Secondary Market

As US Treasury yields climbed along with frequent credit events, the Chinese dollar bond secondary market continued to fluctuate. Investment grade bonds outperformed high-yield bonds. In early 2021, market news revealed that the US intended to include more Chinese companies on the investment blacklist, causing some investors to sell bonds of some Chinese corporates in advance. Despite subsequent recovery of market prices, the credit incidents of China Fortune Land and Chongqing Energy Investment provoked risk averse temper again, leading to secondary market prices going down. Meanwhile, amid the influence of COVID-19 pandemic and the tightening of real estate market regulations, the operating performance of some real estate companies were worse than expected, resulting in their outstanding dollar bonds to be undersold. In April, as the China Huarong debt crisis



surfaced and the announcement of its financial reports postponed, a sharp drop in the price of Chinese dollar bonds was triggered. Benefiting from abundant liquidity, investor sentiment rebounded, and the prices of some oversold bonds recovered. Nonetheless, at the end of May and early June, real estate issuers such as China Evergrande and Languang Development successively experienced credit events, which exerted pressure on the prices of high-yield real estate bonds. As of June 30, 2021, the year-to-date (“YTD”) return<sup>4</sup> of the Chinese dollar bonds was -0.68%, of which investment grade bonds had a return of -0.32% and high-yield bonds had a return of -1.56%.

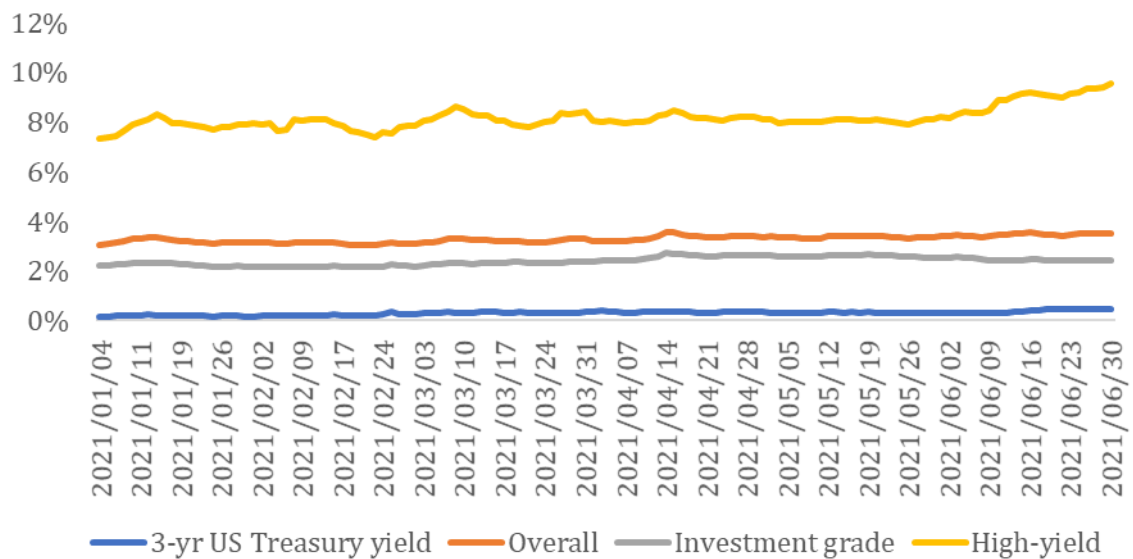
**Exhibit 9: YTD return of Markit iBoxx Chinese USD bond index in 2021H1**



Source: Bloomberg, CCXAP Research

In terms of yield, as of June 30, 2021, the yield to worst of Chinese dollar bonds was 3.53%, 47bp wider than at the beginning of the year. Among them, high-yield bonds rose sharply, with the yield to worst widening by 221bp to 9.56% from the beginning of the year and the yield to worst of investment grade bonds widening by 22bp to 2.42% from the beginning of the year.

<sup>4</sup> Year-to-date return measures the return since January 4, 2021

**Exhibit 10: Yield-to-worst of Bloomberg Barclays Chinese USD bond index in 2021H1**

Source: Bloomberg, CCXAP Research

**Divided real estate corporates attributed to industry policies and credit events, financial bonds performed poorly while Chengtou bonds performed better.** In terms of sectors, as of June 30, 2021, real estate USD bonds performed the worst with a year-to-date return rate of -2.47%, followed by financial (-1.85%), non-financial (1.23%) and Chengtou (0.93%). Troubled by the default of China Fortune Land, performance of the real estate sector went down in the first quarter. Since then, the negative public sentiments of some real estate companies continued to ferment and the performance of the real estate high-yield index continued to decline with a rate of return of -2.55% in the second quarter. In the Chengtou sector, affected by negative news of Chongqing Energy Investment and others, investors questioned about the validity of government support to weak state-owned enterprises, leading to a steep decline in the Chengtou dollar bond index in March. The index stabilized in the second quarter with a return rate of 2.04% as investor confidence gradually restored. For financials, China Huarong delayed the publication of its 2020 results in early April, arousing concerns about its declined solvency. The risk averse temper spread to other AMCs and financial institutions, resulting in the rate of return of financials bonds to diminish to a larger extent. On the other hand, with the gradual resumption of economic activities, the risks associated with cyclical industries such as energy and raw materials have eased. The performance of high-yield non-financial bonds that used to be under pressure in 2020 showed improvement this year.

Table 1: Returns of Chinese dollar bonds in 2021H1 (by industry)

Markit iBoxx USD Asia ex-Japan China Index Return	Q1	Q2	H1
<b>Real Estate TRI</b>	-1.26%	-1.54%	-2.47%
- Investment grade TRI	-0.02%	0.96%	1.02%
- High-Yield TRI	-1.71%	-2.55%	-3.82%
<b>Financials TRI</b>	-0.59%	-1.34%	-1.85%
- Investment grade TRI	-0.24%	-1.33%	-1.67%
- High-Yield TRI	-1.03%	-1.38%	-2.09%
<b>Non-Financials TRI</b>	-1.03%	1.97%	1.23%
- Investment grade TRI	-1.22%	1.97%	1.04%
- High-Yield TRI	1.53%	2.00%	3.93%
<b>Chengtou TRI</b>	-1.14%	2.04%	0.93%
- Investment grade TRI	-1.17%	1.47%	0.34%
- High-Yield TRI	-1.06%	3.85%	2.81%

Source: Bloomberg, CCXAP Research

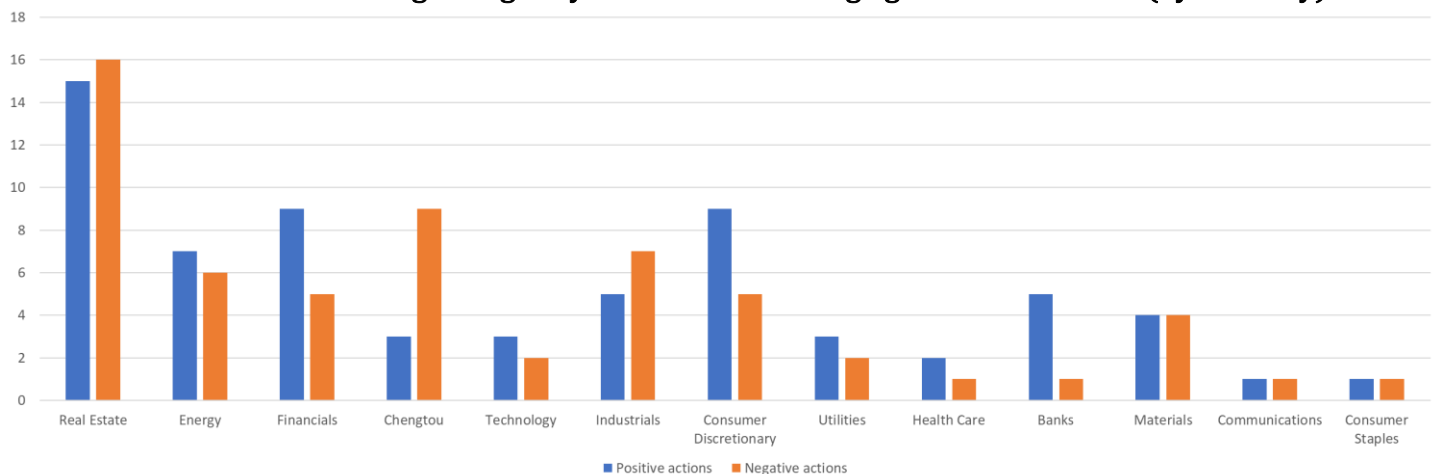
## Rating Actions and Credit Events

The credit quality of Chinese issuers continued to diverge, among which real estate companies being the most pronounced. In 2020H1, the three major international rating agencies took rating actions on 120 Chinese issuers, of which 67 were taken positive actions and 60 were negative actions. Among them, 29 of them had their issuer ratings upgraded and 37 of them had their issuer rating downgraded. Negative rating actions accounted for 53.9% of all rating actions, as compared with 91.1% in 2020H1. The proportion of negative ratings declined. In terms of industry distribution, rating actions were mainly concentrated in the real estate industry. It demonstrated a divergent trend as 15 real estate issuers received positive actions and 16 real estate issuers received negative actions. Furthermore, with the gradual revival of the economy, the prospects of the consumer discretionary market gradually improved, of which 9 consumer discretionary issuers were taken 14 positive actions.

Due to the increased concentration of the real estate industry, the competitive advantages of leading companies have become more pronounced. In addition, the introduction of the "Three Red Lines" financing policy has encouraged issuers to accelerate the process of deleveraging, and the operating and financing conditions of these issuers have improved. Therefore, rating agencies have taken positive actions on many real estate companies. On the other hand, under tightened supervision and the COVID-19 pandemic, while some real estate companies adopted aggressive investment strategies in the past, their operating conditions, profitability and liquidity have all come under significant pressure. This coupled with the fact that the increased volatility in the secondary bond market may affect subsequent financing capabilities, credit quality has become more divergent and individual real estate companies were subject to defaults. Market news revealed that the central bank intends to extend the monitoring scope of the "Three Red Lines" Policy to commercial papers on pilot real estate corporates, requiring relevant parties to report their commercial

papers details on a monthly basis. China Chengxin believes that such measure is mainly to prevent some real estate companies to deleverage through replacing interest-bearing debts with commercial papers, and to monitor the credit risk arisen from excessive commercial paper. That is, some real estate companies will face greater pressure to deleverage. In addition, it is reported that the regulatory authorities seek to limit the amount of land purchased by pilot real estate companies included in the "Three Red Lines" Policy to not more than 40% of their annual sales. This percentage limit includes land acquisitions via public auctions and mergers and acquisitions. China Chengxin conceives such measure useful in managing the investment expenditures of real estate companies and the associated credit risk. Yet, this will also lead to further divergence in credits quality of real estate corporates. In the context of slowing industry growth and deleveraging, for leading real estate companies with good land bank quality and sufficient scale, the impact of land acquisition restrictions on their credit may be relatively limited; however, for small and medium-sized real estate companies with relatively small business scale or concentrated layout, the measure may restrict their layout and growth strategies and will undermine their credit quality.

**Exhibit 11: Issuer rating changes by international rating agencies in 2021H1 (by industry)**



Source: Bloomberg, CCXAP Research

Due to the outbreak of the COVID-19 pandemic in 2020, national economic growth has slowed down. Local governments were struggling to balance revenue and expenditure, and the scale of debt has increased. Nonetheless, the relatively loose domestic credit environment has made the financing of Chengtou companies smoother. Since 2021, the Chengtou financing policies were marginally tightened, and some local state-owned enterprises and Chengtou companies have reported defaults on non-standard debts or credit incidents, further weakening investors' confidence on the possibility of government support. This has led to difficulties in refinancing and heightened credit risks for some Chengtou corporates. In 2021, the ratings of Chengtou companies were intensively downgraded. The three international rating agencies took 11 negative rating actions on 9 Chengtou issuers, mainly due to weak financial conditions in the region, weak corporate governance or limited financing channels. In terms of domestic ratings, in the first half of

2021, the number of downgraded Chengtou issuers increased. As there were more negative actions than positive actions, the credit quality of Chengtou issuers further diverged and the liquidity of weak issuers reduced. In terms of regional distribution, the main area of downgrade was in Guizhou, indicating that the credit risk of regions with weaker local financial resources and higher debt levels may increase.

In 2021, with initial results on COVID-19 pandemic prevention and control, the national economy and local government fiscal revenues have partly recovered. Under the requirement of "holding the bottom line of zero systematic risk", the local government's strict supervision policy on implicit debts is back to schedule. On July 11, the China Banking and Insurance Regulatory Commission issued Circular No. 15, a directive on precautions and resolutions in relations to implicit debt risks from local government. 《银行保险机构进一步做好地方政府隐性债务风险防范化解工作的指导意见》(银保监发[2021]15号). The purpose is to strengthen the management of incremental financing for financial institutions. Bancassurance is not allowed to provide additional working capital loans or the like, nor can they provide financing for their participation in local government's special bond projects. In addition, the circular also makes provisions for compliance with regulations to resolve implicit debts of local governments and to strengthen risk supervision and monitoring. As a supplement to the existing debt policy framework, Circular No. 15 is highly practical and has greater guiding significance. China Chengxin believes that in the short term, financing platforms may face increased liquidity risks, and inter-regional financing condition will further diverge. Regions of poor credit quality, especially the red and orange regions, require particular attention. However, in the long run, policy implementation has to strike a balance between stabilizing growth and preventing risks, and must firmly adhere to the bottom line of zero systemic risk. The formulation of Circular No.15 is relatively flexible, offering rooms for actual implementation. Consequently, in the long run, the actual impact of the policy on financial institutions debt may be relatively limited.

**Poor quality companies were continuously exposed to credit risk.** According to Bloomberg, in the first half of 2021, six Chinese companies defaulted in the offshore bond market, with a total default amount of approximately USD3.9 billion, an increase from the USD3.2 billion in 2020H1. In 2021H1, there were 5 newly defaulted entities. Among them, Macrolink Group, China Fortune and Oceanwide Holdings are engaged in real estate business, GCL New Energy is mainly engaged in photovoltaic power industry, and Tus-Holdings is a technology investment holding company. Although the defaulted entities come from different industries, the reasons for their default share certain commonalities. Usually, these companies have adopted high-leverage development strategies in the early stages of development, and their internal governance are weak. Under the torment of the COVID-19 pandemic and stricter industry regulatory policies, their operating conditions deteriorated. Cash collections lagged behind and financing channels were blocked. Eventually, capital chain ruptures and the debt defaulted.

**Table 2: Credit events of Chinese issuers in offshore market in 2021H1**

Enterprise	Credit events
Macrolink Group	According to Bloomberg, Macrolink Group Limited (“Macrolink Group”) defaulted on principal and interest payments for its USD210 million offshore bonds.
Tsinghua Unigroup	On January 29, Tsinghua Unigroup Co. Ltd. (“Tsinghua Unigroup”) announced that it defaulted on principal and interest payments for a total of USD2 billion notes.
GCL New Energy	On February 1, GCL New Energy Holdings Limited (“GCL New Energy”) announced that it was unable to repay the USD500 billion bills due on January 30.
China Fortune	On February 26, China Fortune Land Development Co., Ltd. (“China Fortune”) announced that it defaulted on principal and interest payments for its USD530 million debts due on February 28.
Oceanwide Holdings	On May 24, Oceanwide Holdings Co Ltd (“Oceanwide Holdings”) announced that it defaulted on principal and interest payments for its USD134 million debts due on May 23.
Tus-Holdings	On July 8, Tus-Holdings Co Ltd (“Tus-Holdings”) announced that it was unable to repay interest for its USD550 million debts due on June 18. It failed to complete the payment within the 7-day grace period, constituting a substantial default.
Enterprise	Credit events
HNA Group	On January 29, due to the failure of HNA Group Co., Ltd. (“HNA Group”) and its several subsidiaries to repay debts, their creditors applied to Hainan High People’s Court for HNA Group’s reorganization. HNA Group may expose to bankruptcy risk if it fails to restructure. As of March 31, HNA Group and its associates, Hainan Airlines Holdings Co., Ltd., had 2 outstanding USD bonds, with a total outstanding amount of USD241 million, which will be due on October 5 and October 29, 2021, respectively.
Chongqing Energy	On March 1, Chongqing Energy Investment Group Co., Ltd (“Chongqing Energy”) reported to the Debt Committee that it was unable to repay the bank’s acceptance bill of RMB685 million to Ping An Bank and RMB230 million credit of Zheshang Bank due on March 1. As of March 31, Chongqing Energy outstanding offshore bonds of USD500 million, with a coupon rate of 5.625%, which will be due on March 18, 2022.
China Huarong	On April 1, China Huarong Asset Management Co Ltd announced that it will postpone the publication of its 2020 annual results. The announcement stated that as related transactions were yet to be confirmed, auditors need more data and time to complete the review procedures for the 2020 annual results. On April 8, Bloomberg referred to informed sources that China Huarong is seeking to divest non-core assets as part of a broader plan to boost profitability to avoid debt restructuring or government capital injections. As of June 30, China Huarong had 32 tranches of USD bonds, totaling approximately USD20.51 billion.
Languang Development	On July 12, Sichuan Languang Development Co Ltd announced that the company’s 2019 first-phase medium-term notes were to be redeemed on July 11. As of the redemption date, the issuer failed to raise the full amount of repayment funds as agreed and repay the principal and interest in full on time, constituting a substantial default. As of June 30, Languang Development had 3 tranches of USD bonds, totaling approximately USD1.05 billion. The default of its domestic bonds triggered off the cross-default clauses of its dollar bonds.
China Evergrande	On June 7, China Evergrande Group issued a statement stating that there was a small amount of commercial bills that were not redeemed in time for individual project companies. The group attached great importance to it and arranged redemption. The company’s production and operation are fully normal and there has been no overdue in principal and interest payment on its loans since its establishment. As of June 29, China Evergrande’s interest-bearing liabilities were about RMB570 billion, a sharp decrease of about RMB300 billion from the peak of RMB870 billion last year. As of June 30, the company had 13 tranches of USD bonds outstanding with a total amount of USD19.24 billion and one tranche of HKD bond with a total amount of HKD2 billion.

Source: Public information, CCXAP Research



## Outlook

In 2021, the progress of vaccination continues to advance and major economies witnessed recovery. However, the emergence of COVID-19 variants has led to unsatisfactory efficacy of the vaccine, and the road to recovery is still full of uncertainties. Given the inflationary pressures and the increasing possibility of the Fed tightening the monetary policy, the US long-term Treasury yields may rise further. This coupled with the full reduction of the reserve requirement ratio of financial institutions by the People's Bank of China in early July, domestic bond yields may fall slightly in the short term, and the US-China yield spreads may narrow. As the US economy gradually recovers, the US dollar exchange rate is expected to go strong and the cost advantage of offshore financing may fade. On the other hand, due to the marginally tightened credit environment in China and the frequent credit incidents, investor risk appetites have become more cautious. It is anticipated that the financing channels of some weak quality issuers would have limited improvement in the second half of the year, thereby elevating the credit risk to a new level. Chinese dollar bond market will continue to fluctuate in the second half of 2021. Considering that the new net financing and refinancing needs will be the main driver of the new issuances of Chinese dollar bonds, we opine that the scale of issuance for the whole year of 2021 will be similar to that of 2020. As the regulation of the real estate market has become more stringent and normalized, it poses greater challenges to real estate companies in terms of capital raising, capital allocation and operating capability. Also, the total balance of non-standard financing such as real estate trusts shows a downward trend and the issuance of domestic and offshore bonds by some real estate companies of weak credit quality were confined to a certain extent, widening the divergence in credit quality. In face of slowing sales growth, narrowing profit margins, tightening financing channels and weak investor confidence, some real estate companies with aggressive early-stage investment, poor internal control and relatively concentrated debt maturity may face liquidity issues. At the same time, given the tightening financing supervision and increasingly conservative investors, regional differences will be more pronounced. Chengtuo companies from regions of poor credit quality may face greater refinancing pressure and be demanded higher standard for debt and liquidity management.

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### 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>