# CCXI & CCXAP – Research & Commentary

## Bond Issuance Remains Relatively Stable Amid the Continued Financing Divergence and Risks Get Mitigated as Scheduled with Trends Difficult to See

Hong Kong, 5 August 2021 -- A report titled “Bond Issuance Remains Relatively Stable Amid the Continued Financing Divergence and Risks Get Mitigated as Scheduled with Trends Difficult to See: 2021 H1 Review and Outlook for the Next Stage of Debenture Market” (hereinafter referred to as “the Report”) has been recently published by the Research Institute of China Chengxin International Credit Rating Co. Ltd. (“CCXI Research Institute”). According to the Report, it is less likely that unexpected changes will happen to the policy fundamentals and fund supply in the second half of 2021. As risks are mitigated in an orderly manner under the guidance of policies, it is predicted that trends in the bond market are hard to spot. **Investors are recommended to lower their income expectations, shorten product duration, reduce leverage, and sell out products for reaping profits in good time. In the primary market, they may increase investment in innovative product varieties favored by policies such as carbon-neutral bonds and sustainability-linked bonds.**

**The Report summarizes the five major characteristics of the primary debenture market in the first half of the year. The first characteristic is about total volume.** With the macroeconomic policies returning to normal, the debenture market in the first half of the year continued its slowed expansion that started from the second half of last year. Though the total issuance amount remained stable, the net financing amount shrank sharply year on year. **The second characteristic is about the features of newly issued bonds.** Asset-backed securities (ABS) became the fastest-growing debenture product. The terms of bonds were still shorter than expected. Bonds due within three years accounted for about 90%. As the weakening of external ratings relied on the continued reform measures, the proportion of unrated bonds issued in the first half of the year to the total increased as a whole, while the credit rating level of rated bonds moved up further. **The third characteristic is about issuance costs.** Under the relatively stable funding environment, the coupon rates of debentures in the first half of the year were further concentrated between 3% and 6%. The issuance interest rates of bonds on different levels and of different types took on a volatile trend. In June, the issuance interest rates of bonds on different levels and of different types fell back somewhat from the end of last year, but the issuance costs of most bond types were still higher than the levels in the middle of last year. **The fourth characteristic is about bond issuers.** It could be seen that there was the remarkable financing divergence among different enterprises, industries, and regions. Funds in the bond market mainly flowed to state-owned enterprises (SOEs), while the net financing of private enterprises continued to be negative. Affected by risk events and compounded by the tightened financing policy, industries including real estate, steel, coal, non-ferrous metals, and automobile all saw the negative net financing. This was same to about half of regions. Specifically. Northeast, Henan, Tianjin, and other regions that had triggered material risk events or faced high debt pressure in the earlier stage saw their net financing of debentures contracted more significantly than other regions. **The fifth characteristic is about product**

**innovation.** Proceeding from the use of raised funds or the terms of bonds, major regulatory authorities launched a wide array of product varieties such as carbon-neutral bonds, rural revitalization bonds, equity contribution bonds, high-growth bonds, and sustainability-linked bonds **to channel funds towards key areas and weak links** and enable the bond market to serve the real economy with quality further assured.

**According to the Report, transactions in the secondary debenture market remained relatively active in the first half of the year**, with the proportion of trading volume in the total of spot bonds further increased. Specifically, **convertible bonds** surpassed medium-term notes, becoming the **most active variety** in the first half of the year. **The Report analyzes the debenture yield curve.** Different from the V-shaped trend throughout in the past year, **the curve firstly fluctuated for a while, then declined slowly from late February to May, and has rallied somewhat since June** in an environment where market expectations were relatively consistent, macro policies remained stable and continued, and liquidity was reasonably ample. **At the end of the first half of the year, the yields of major debentures broadly dropped compared to the end of last year. Specifically, short-term and mid-to-low-grade varieties experienced the sharpest fall.** According to the Report, though credit risks continued to be released in the first half of the year and defaulted bonds further grew in size compared to the same period of last year, **credit spreads shrank somewhat over the end of last year**, of which bonds rated AA+ and below witnessed a sharper fall than others. This is because these defaults didn't exceed expectations and **the resulting credit risks had a limited impact on the market**. By industries, the agriculture, forestry, animal husbandry & fishery industry and the automobile industry that saw their interest spreads expanded to different extents compared with the end of last year. Other industries all showed a narrowing trend as a whole.

**Looking ahead, the Report holds that the policies released in the middle of the year have kept their tone unchanged**. Assuming that the year-on-year growth rate of aggregate financing, the proportion of debentures in aggregate financing and the proportion of debenture put-back remain unchanged, **the debentures to be issued in the next five months are expected to amount to about RMB6.6 trillion**. Guided by the policy of helping entities in the real economy reduce their financing costs, **the coupon rate of debentures may be more likely to go down than up**. **However, the trend of financing divergence will continue.** The power and transportation industries are expected to maintain a relatively high level of bond issuance activity. The coal and steel industries may see their financing conditions improved, while the real estate industry is likely to face the financing contraction. Meanwhile, the financing divergence will emerge among urban construction investment enterprises in different regions. The Report believes that the policy fundamentals and fund supply will be to the benefit of the bond market in the second half of the year, but the benefit may be limited on the general market expectation. From the perspective of credit spreads, credit risks are expected to be phased out in an orderly manner within the year. As risky entities gradually withdraw from the bond market, there is still room for credit spreads of mid-to-high-grade bonds to narrow down and credit spreads of low-grade bonds may fluctuate around the median. Strategically, investors are recommended to lower their income expectations, think twice before any decision, and shorten product duration, reduce leverage, and sell out products for reaping profits in good time. In the primary market, they may increase investment in innovative product varieties favored by policies such as carbon-neutral bonds and sustainability-linked bonds.

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

**Important Information**

All information contained herein is obtained by CCX from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "as is" without warranty of any kind. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any commercial purpose of such information is given or made by CCX in any form or manner whatsoever.

To the extent permitted by law, CCX and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (a) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, or any contingency within or beyond the control of, CCX or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; or (b) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCX or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

CCX's credit ratings, assessments and other opinions contained herein are current opinions and are not statements of current or historical fact and do not constitute or provide investment or financial advice, and do not provide recommendations to purchase, sell, or hold particular securities. CCX's credit rating assessments and other opinions are not intended for use by retail investors when making an investment decision. Any person as investor will, with due care, make its own study and evaluation of each security, issuer, guarantor, and credit supporter that is under consideration for purchase, holding, or selling.

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