

Chinese Dollar Bond Market Report

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2021Q3 Chinese Dollar Bond Market Report

2021Q3 Chinese Dollar Bond Market Recap

- **Chinese dollar bond issuance dropped significantly in 2021Q3, which was mainly due to the tightening of regulatory policies and fluctuations in investor risk appetite.** In 2021Q3, 132 Chinese issuers issued a total of 199 new bonds with a total issued volume of approximately USD50.1 billion, decreasing by 22.7% YoY and increasing by 9.8% quarter-on-quarter. Net financing amount decreased by 58.0% YoY to approximately USD16 billion. From January to September 2021, the issuance of Chinese dollar bond amounted to USD151.8 billion, a slight decrease of 5.0% YoY.
- **The issuance of Chinese real estate dollar bonds dramatically dropped with negative net financing amount, while the issuance of Chengtou dollar bonds increased.** In terms of sector distribution, real estate, Chengtou, financial institutions and industrial enterprises accounted for approximately 20.0%, 17.6%, 38.9% and 23.5% in 2021Q3, respectively.
- **Investment-grade issuers were reduced, and high-yield bond issuance remained small.** In 2021Q3, there were 62 investment-grade issuers with a total issued volume of USD35.4 billion, a decrease of 21.2% YoY and accounting for 70.6% of the new issuance. There were 28 high-yield issuers in 2021Q3, and the amount of new issuance was USD8.2 billion, decreasing by 42.9% YoY and accounting for approximately 16.3% of the new issuance.
- The average coupon rate of newly issued Chinese dollar bond dropped from 3.62% in 2021Q2 to 3.33% in 2021Q3. The average tenor of new issuance decreased from 3.99 years in 2020Q3 to 3.03 years in 2021Q3.
- **Real estate and financial bonds performed poorly due to regulations and credit events, and Chengtou bonds had a stable performance.** As of September 30, 2021, the Year-to-Date return on Chinese US dollar bonds was -2.71%, of which investment-grade bonds had a return of 0.79% and high-yield bonds had a return of -11.25%. In terms of sectors, as of September 30, 2021, real estate dollar bonds had the worst performance, with a Year-to-Date return of -14.16%.

Rating Actions and Credit Events

- **Real estate and Chengtou issuer were intensively downgraded.** In the third quarter of 2021, the three major international rating agencies took rating actions on 91 Chinese issuers, including 149 negative rating actions and 48 positive rating actions. The proportion of negative rating actions increased to 75.6% in 2021Q3.
- **Credit risks of weak companies continue to be exposed.** According to Bloomberg, in the first three quarters of 2021, eight Chinese companies defaulted in the offshore bond market, with a default amount of approximately US\$5.72 billion and the scale of defaults in the third quarter was approximately US\$1.59 billion.

Outlook

- **With the recent sharp decline in the price of Chinese dollar bonds in the high-yield real estate bond market, the investors' risk aversion increased, it is expected that the financing channels of some weak issuers will have little improvement, and credit risks may rise. As the Chinese real estate sector remains vulnerable, the new issuance of high-yield bonds are facing downward pressure. It is expected that the new issuance in primary market for Chinese dollar bonds will continue to fluctuate in the fourth quarter. In the secondary market, high-yield bonds face downside risks due to negative market sentiment in the real estate sector. Investment-grade bonds are expected to outperform high-yield bonds in the fourth quarter.**
- In the 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 problems. The impact of real estate regulations gradually emerges, and more real estate companies may experience credit incidents in the fourth quarter.
- The regional differentiation of LGFV bonds may become more pronounced. Given the constrained LGFV financing and increased debt repayment pressure, attention need to be paid to the spread of non-standard debt defaults and guarantee risks.

Introduction

In 2021Q3, although the US had not fully controlled the pandemic due to the Delta variant, the economy gradually recovered and the inflationary pressures continued to increase. The Fed's policy attitude started to be hawkish, releasing a clearer signal for reducing debt purchase. Expectations for interest rate hikes in the Market increased, while the US long-term Treasury yields fluctuated upward. The tightening of regulatory policies and risk of market volatility, coupled with the frequent occurrence of credit events by Chinese issuers, reduced the issuance of Chinese dollar bond in 2021Q3. Investors were concerned about the credit risks of Chinese issuers, and the bond prices in the secondary market continued to be under pressure, especially high-yield real estate bonds. The credit quality of Chinese issuers has further diverged. Against the backdrop of the "three red lines" policy of real estate industry and the concentrated management of loan by financial institutions, the financing environment was tightened. Meanwhile, the sales growth of real estate fell and the confidence of buyers declined. As a result, some real estate companies with weak fundamentals and high refinancing pressure faced increased default risk. Investor pessimism reached its peak, and high-yield bonds, which are dominated by real estate, suffered a sharp decrease. Meanwhile, the local governments were struggling to balance revenue and expenditures, and the scale of debt has continued to increase. In addition, with the implementation of China's "Circular 15" to control the local governments' hidden debts, the financing supervision of the Chengtuo sector was further standardized, and the credit risk of weak Chengtuo issuers has increased.

2021Q3 Chinese Dollar Bond Market Recap

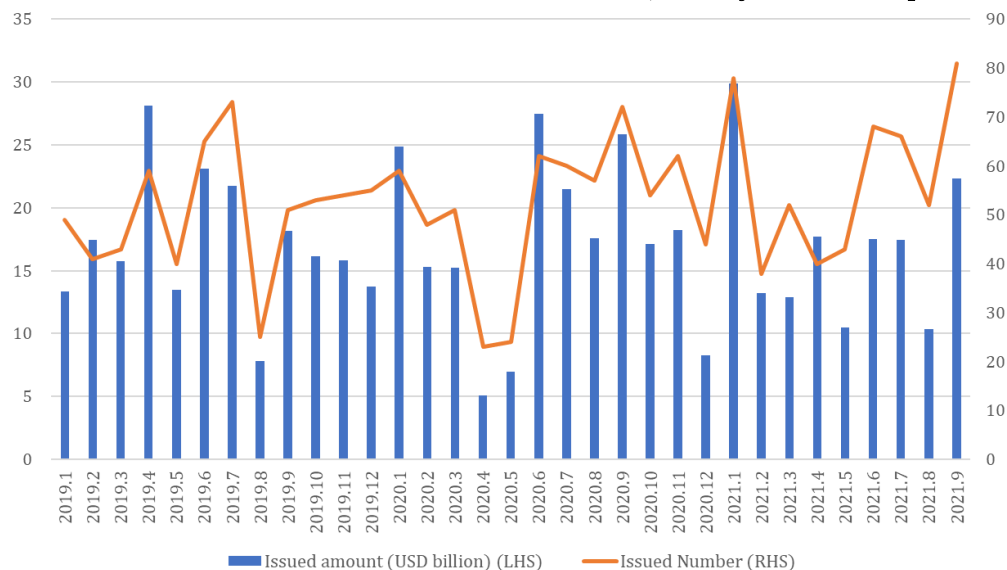
Primary Market

Chinese dollar bond issuance dropped significantly in 2021Q3, mainly due to the tightening of regulatory policies and fluctuations in investor risk appetite. Since 2021, the Chinese dollar bond market has been volatile, with the frequent occurrence of credit events, and will continue to ferment in 2021Q3. High-risk aversion environment has tightened offshore bond financing of the Chinese real estate industry, and investors are worried about the credit risk of real estate issuers. In 2021Q3, 132 Chinese issuers issued a total of 199 new bonds, with a total issued volume of approximately USD50.1 billion, decreasing by 22.7% year-on-year ("YoY") and increasing by 9.8% quarter-on-quarter. Net financing amount decreased by 58.0% YoY to approximately USD16 billion. From January to September 2021, the issuance of Chinese dollar bonds amounted to USD151.8 billion, a slight decrease of 5.0% YoY. In 2021Q3, the issuers mainly issued in small values, with the number of issuances reaching 199, which was the highest in a single quarter in recent years.

Affected by changes in investor sentiment and the structure of the issuer, the pace of issuance was volatile and the issuance was weak in the third quarter. In 2021Q3, investors'

risk appetite was further weakened due to bad news from real estate companies such as China Evergrande. New issuance of Chinese dollar bonds in July was the same as that in June. Due to weakened market sentiment, new issuance of Chinese dollar bonds, especially high-yield real estate bonds, declined in August. In August, the total issuance amounted to USD10.4 billion, a YoY decrease of 41.1%, and a month-on-month decrease of 40.8%. However, the amount of issuance rebounded in September, mainly driven by the financial sector, including the large-scale USD6.2 billion issuance by the Industrial and Commercial Bank of China (ICBC).

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



Source: Bloomberg, CCXAP Research

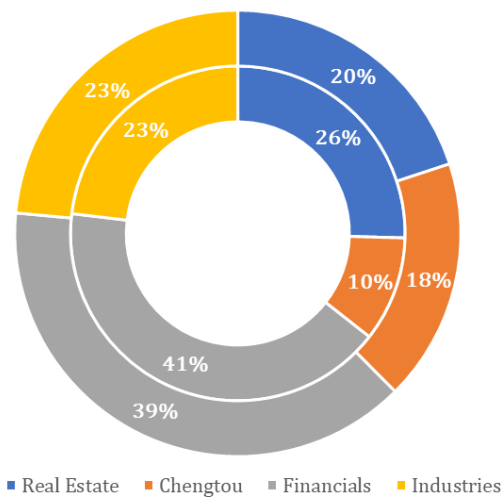
The issuance of Chinese real estate dollar bonds dramatically dropped with a negative net financing amount, while the issuance of Chengtou dollar bonds increased. From the perspective of sector distribution, real estate, Chengtou, financial institutions, and industrial enterprises accounted for approximately 20.0%, 17.6%, 38.9%, and 23.5% in 2021Q3, respectively. The new issuance amount of the financial sector was USD19.5 billion, dropping by 27.1% YoY. Among them, new issuances of banks were weak in July and August, but ICBC issued USD6.2 billion in September. The issuance amount of the industrial sector decreased by 21.3% YoY to USD11.8 billion.

The regulatory policy of Chengtou issuance has been tightened since the beginning of 2021, and domestic regulatory agencies have strengthened the management of the issuance quota and fund use. Therefore, in order to broaden financing channels, some Chengtou issuers sought opportunities to issue offshore bonds to substitute the onshore market. In 2021Q3, 44 Chengtou issuers issued a total amount of USD8.8 billion, representing 33.7% YoY growth. Among them, the new issuers were mainly in Zhejiang Province, with 11 issuers and USD2.6 billion issued. Meanwhile, 15 Chengtou companies made initial offerings, with an amount of USD2.5 billion, accounting for 27.8% of the total issuance of the Chengtou sector. At the administrative level, prefecture and district levels accounted for

52.3% and 44.3% in 2021Q3, respectively.

In the context of the debt supervision and tightening of financing policies. The operating and financing environment became difficult and the access to offshore financing of real estate issuers was severely hampered, of which the monthly issuance amount in 2021 hit a new low of USD1.1 billion in August. Moreover, the frequent occurrence of credit events has greatly increased investors' concerns about the credit risks of real estate issuers, resulting in a sharp decrease in the issuance of the real estate sector, which was dominated by high-yield issuers. In 2021Q3, 28 real estate issuers issued 36 bonds, with a total amount of USD10 billion, decreasing significantly by 39.4% YoY. There were 22 high-yield issuers with a total issuance amount of USD6.7 billion, a decrease of 51.7% YoY. High-yield real estate companies were under pressure. In addition, as a result of the long maturity of real estate dollar bonds and the stricter policies to limit the increase in debt, the net financing of the real estate sector dropped from USD7.9 billion in 2020Q3 to USD-410 million in 2021Q3. For the first time since 2018, negative net financing amount was recorded. The investor sentiment would not calm in the short term and real estate companies would have difficulties in rebuilding market confidence. Therefore, the industry's net financing amount may further hit a low point.

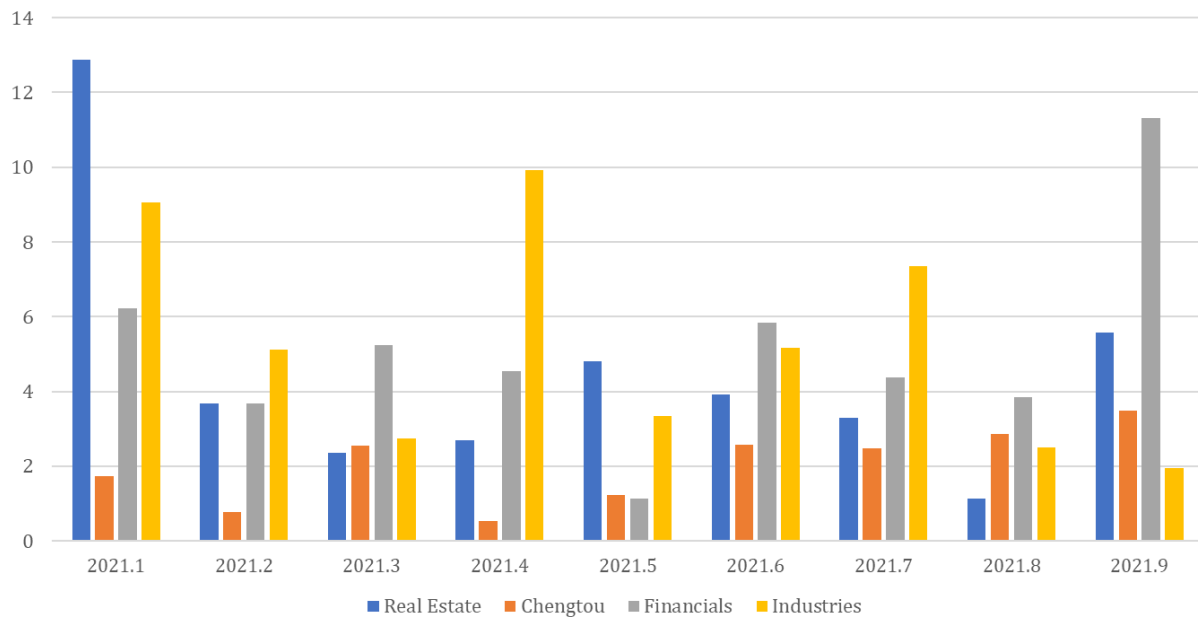
Exhibit 2: Sector distribution of Chinese dollar bonds in 2020Q3 and 2021Q3 (based on issuance amount)



Inner Circle is the statistics of 2020Q3; Outer Circle is the statistics of 2021Q3

Source: Bloomberg, CCXAP Research

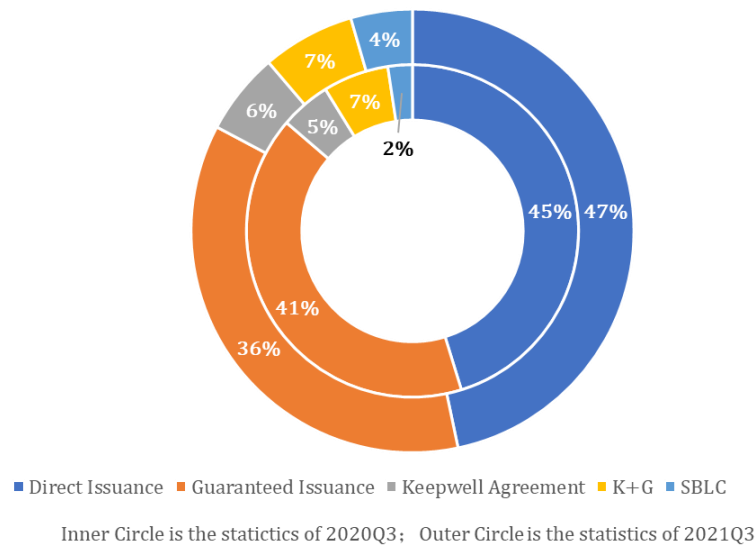
Exhibit 3: Sector distribution of Chinese dollar bonds from January to September 2021 (USD billion)



Source: Bloomberg, CCXAP Research

From the perspective of issuance structure, Chinese dollar bonds were mainly issued through direct and guaranteed issuance. In 2021Q3, the amounts of direct and guaranteed issuance were USD23.4 billion and USD18.1 billion, respectively, accounting for approximately 46.7% and 36.1% of the new issuance volume. Against the background of fluctuations in market risk appetite, companies with weaker 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 19 bonds issued through SBLC in 2021Q3, with a total issued volume of approximately USD2.3 billion, representing 46.0% YoY growth. Moreover, in 2021Q3, a total of USD6.4 billion of Chinese dollar bonds were issued through the keepwell agreement, decreasing by 13.1% YoY.

Exhibit 4: Issuance structure of Chinese dollar bonds in 2020Q3 and 2021Q3 (based on issuance amount)

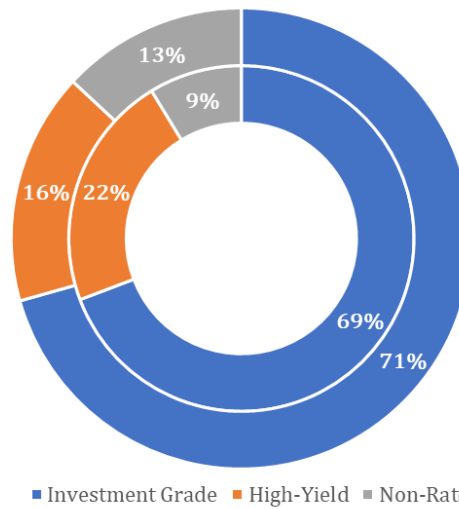


Source: Bloomberg, CCXAP Research

Investment-grade issuers were reduced, and high-yield bond issuance remained small. In 2021Q3, there were a total of 132 Chinese dollar bond issuers, 90 of which had been rated by the three international rating agencies.¹ In 2021Q3, there were 62 investment-grade issuers with a total issued volume of USD35.4 billion, a decrease of 21.2% YoY and accounting for 70.6% of the new issuance. The offshore market continued to fluctuate and investors preferred low risk. Therefore, investment-grade issuers had an advantage in issuance and their share has increased. There were 28 high-yield issuers in 2021Q3, and the amount of new issuance was USD8.2 billion, decreasing by 42.9% YoY and accounting for 16.3% of the new issuance. Most high-yield issuers were real estate companies. Due to the deleveraging process and the weakening of investor risk appetite, the issuance continued to be under pressure. Besides, there were 42 issuers with no ratings, of which 24 issuers were from Chengtou sector, accounting for the largest proportion. Chengtou issuers tend to issue bonds without ratings.

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

**Exhibit 5: Credit rating distribution of Chinese dollar bond issuers in 2020Q3 and 2021Q3
(based on issuance amount)**



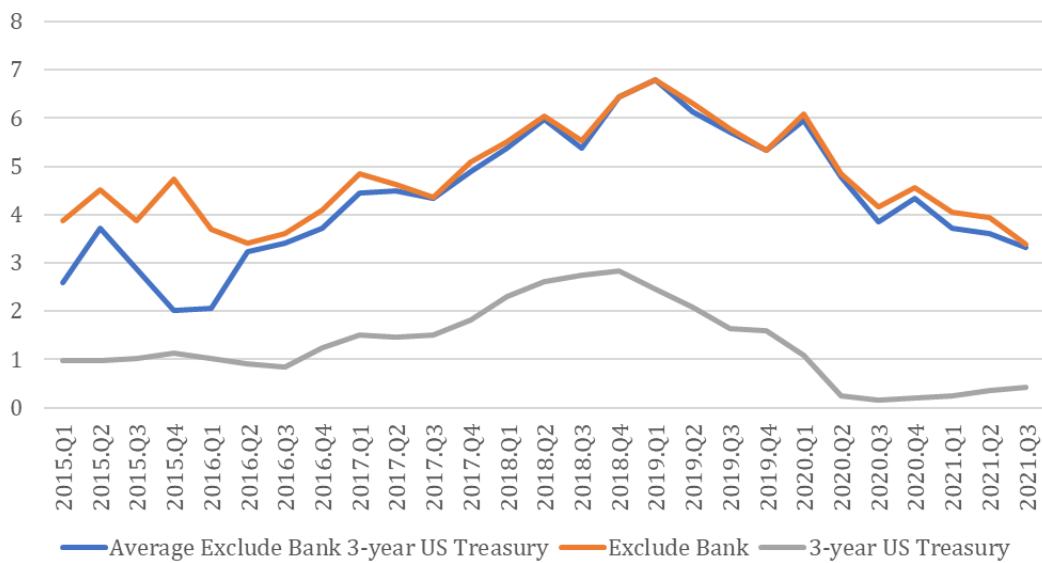
Inner Circle is the statistics of 2020Q3; Outer Circle is the statistics of 2021Q3

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 2021Q3. The issuance amount of high-yield USD bonds in 2021Q3 further decreased, and the average coupon rate of newly issued Chinese dollar bonds dropped from 3.62% in 2021Q2 to 3.33% in 2021Q3². In terms of industries, the financing of real estate issuers had become more difficult with higher issuance costs by reason of the negative news. The average coupon rate of real estate bonds was 9.16%, increasing by 52 basis points quarter-on-quarter, while that of Chengtou bonds was 3.21%, decreasing by 4 basis points quarter-on-quarter. Overall, the number of high-yield real estate issuers had decreased, while the proportion of Chengtou dollar bonds had increased, resulting in a decline in the coupon rate of Chinese dollar bonds.

² Only bonds with fixed coupon rates with no repurchase or resale clauses were counted.

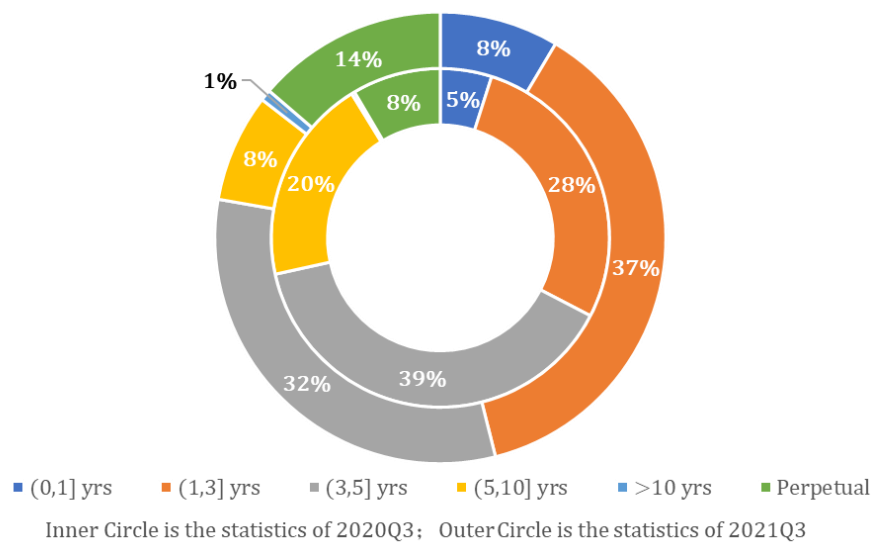
Exhibit 6: Average coupon rate of Chinese dollar bonds from 2015Q1 to 2021Q3 (%)



Source: Bloomberg, CCXAP Research

Mid and long-term Chinese dollar bonds were still dominant, with shorter average maturity. In 2021Q3, most Chinese dollar bonds were issued with maturities of 1 to 5 years, and the issuance volume was USD34.7 billion, accounting for 69.2% of the new issuance. The proportion of Chinese dollar bonds with maturities of more than 5 years decreased from 20.0% in 2020Q3 to 8.5% in 2021Q3. The average tenor of new issuance decreased from 3.99 years in 2020Q3 to 3.03 years in 2021Q3³. In addition, the proportion of perpetual bonds had increased, which was mainly due to the USD6.2 billion bond issued by ICBC.

Exhibit 7: Issued tenor of Chinese dollar bonds in 2020Q3 and 2021Q3 (based on issuance amount)

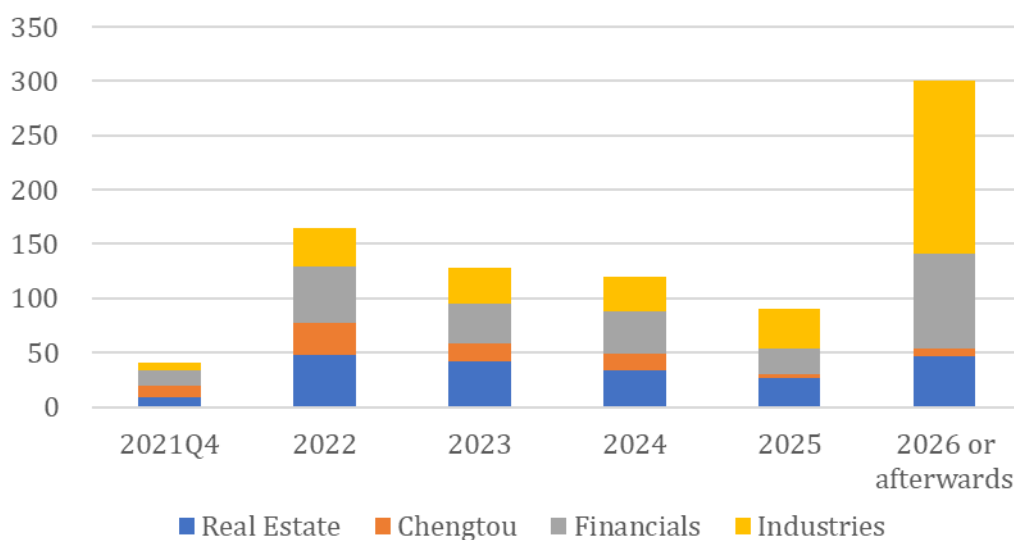


Source: Bloomberg, CCXAP Research

³ Only non-perpetual bonds were counted.

As of September 30, 2021, the outstanding amount of Chinese dollar bonds was USD846.3 billion. Among them, the outstanding amounts matured in 2021Q4, 2022, and 2023 were USD41.2 billion, USD165.0 billion, and USD128.5 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 2021Q1, 2022, and 2023 were USD8.8 billion, USD48.1 billion, and USD42.4 billion, respectively. In terms of Chengtou dollar bonds, approximately USD11.2 billion of bonds will mature in 2021Q4. In addition, the outstanding amounts matured in 2022 and 2023 were approximately USD29.0 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 September 2021 (USD billion)



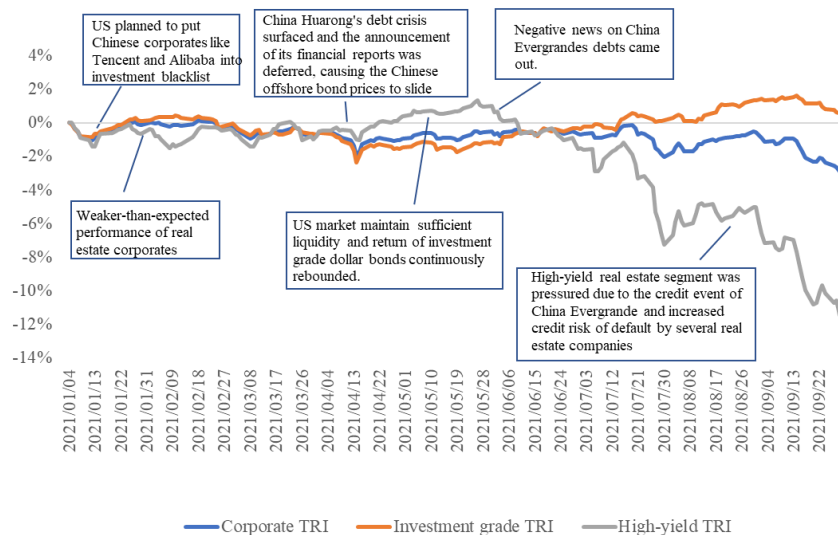
Source: Bloomberg, CCXAP Research

Secondary market

Real estate issuers witnessed frequent credit events, leading to the bond prices of high-yield real estate bonds plummeting. The secondary market for Chinese dollar bonds continued to fluctuate, and the performance of investment-grade bonds prevails over that of the high-yield ones. The haze on the real estate sector spread across the whole high-yield segment. Sources revealed in early 2021 that the United States intended to blacklist some Chinese-funded companies for investments, causing investors to pre-sell some Chinese-funded companies' US dollar bonds. Despite the subsequent recovery of market prices, the credit incidents of the China Fortune hindered market risk appetite and caused prices in the secondary market to fall. At the same time, under the COVID-19 pandemic and the regulation on the real estate market, as the operating performance of some real estate companies failed to meet market expectations, and their outstanding dollar bonds were

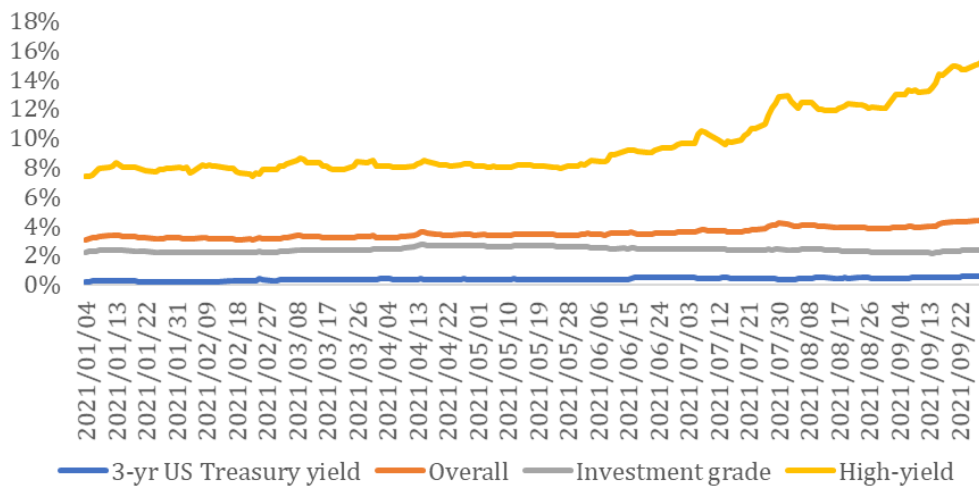
undersold. In April, China Huarong experienced a debt crisis, and the disclosure of its financial report was postponed, triggering off a slide in the price of Chinese dollar bonds. Benefited from abundant liquidity, investor sentiment had rebounded, and some oversold bonds had recovered their losses. Nonetheless, since the end of May and the beginning of June, many real estate issuers such as China Evergrande had successively experienced credit incidents. The prices of high-yield real estate bonds plummeted as a result. In September, the debt situation of China's real estate industry had become more severe, and the risk of debt default by real estate companies increased sharply. Offshore real estate dollar bonds suffered a wave of selling off. High-yield sector's rate of return was slashed. As of September 30, 2021, the Year-to-Date return on Chinese US dollar bonds was -2.71%, of which investment-grade bonds had a return of 0.79% and high-yield bonds had a return of -11.25%.

Exhibit 9: Markit iBoxx index's Chinese dollar bond rate of return in 2021Q1-2021Q3



Source: Bloomberg, CCXAP research

Yield spread between investment-grade and high-yield bonds continued to widen, and the rate of return for high-yield bonds hit a record high. In terms of yield, as of September 30, 2021, the worst yield of Chinese US dollar bonds was 4.43%, which was 137bp wider than the beginning of the year. Among them, high-yield bonds rose sharply, with the worst yield widening by 811bp to 15.46% from the beginning of the year, and the worst yield of investment-grade bonds by 15bp to 2.35% from the beginning of the year. According to historical data, the yield of high-yield bonds had been much higher than the medium level of 8.07% in the past 10 years, and also higher than the highest point of 14.10% in March 2020, surpassing the level amid US dollar bond sell-off triggered by the "dollar shortage".

Exhibit 10: Bloomberg Barclays index's Chinese dollar bond yield-to-worst rate in 2021Q1-2021Q3

Source: Bloomberg, CCXAP research

Real estate and financial bonds performed poorly due to regulations and credit events, and Chengtou bonds had a stable performance. In terms of sectors, as of September 30, 2021, real estate dollar bonds had the worst performance, with a Year-to-Date return of -14.16%, followed by financial (-5.27%), Chengtou (2.82%) and non-financial (1.48%). 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. However, as investor confidence rebounded, the return on Chengtou dollar bonds recorded 2.82%. In the financial sector, China Huarong announced in early April that it would postpone the publication of its 2020 results. In view of investors' concerns over China Huarong's solvency, the risk averse emotions extended to other AMCs and financial institutions, and the financial sector's return rate declined. The returns of investment-grade financial bonds were boosted by the good news of China Huarong, and the third quarter's rate of return recorded 1.88%. On the other hand, with the gradual recovery of global economic activities, risks in cyclical industries such as energy and raw materials had eased, and non-financial sectors that were under pressure in 2020 would rebound. The first three quarters of 2021 recorded a return rate of 1.30%.

For real estate, the entire real estate sector weakened in the 2021H1 due to China Fortune's default. Subsequently, negative sentiments on real estate companies put pressure on the performance of the real estate high-yield index, with a return rate of -2.55% in the second quarter; in the third quarter, China Evergrande's credit incident continued to ferment. At the same time, many real estate companies were facing the risk of default, and the performance of the real estate high-yield index fell further. From the perspective of the rating interval, high-yield bonds of the real estate sector, especially those with single-B rating or below, fluctuated the most. This is mainly due to the risk exposure of weak real estate companies, which had aroused concerns about the solvency of low-rated real estate companies.

Table 1: Chinese dollar bond rate of return in 2021Q3 (by industry)

Markit iBoxx Chinese dollar bond return index	Q1	Q2	Q3	Q1-Q3
Real Estate TRI	-1.26%	-1.54%	-12.08%	-14.20%
- Investment Grade TRI	-0.02%	0.96%	-1.15%	-0.14%
- High-Yield TRI	-1.71%	-2.55%	-16.69%	-19.81%
Financial TRI	-0.59%	-1.34%	-3.53%	-5.31%
- Investment Grade TRI	-0.24%	-1.33%	1.88%	0.16%
- High-Yield TRI	-1.03%	-1.38%	-10.92%	-12.75%
Non-Financial TRI	-1.03%	1.97%	0.14%	1.30%
- Investment Grade TRI	-1.22%	1.97%	0.16%	1.13%
- High-Yield TRI	1.53%	2.00%	-0.22%	3.72%
Chengtou TRI	-1.14%	2.04%	1.95%	2.82%
- Investment Grade TRI	-1.17%	1.47%	1.21%	1.50%
- High-Yield TRI	-1.06%	3.85%	4.01%	6.78%

Source: Bloomberg, CCXAP research

Table 2: Changes in real estate yields in 2021Q1-2021Q3 (by rating interval)

Rating Interval	Current (%)	1-Month Change (bp)	3-Month Change(bp)	Year-to-Date Change(bp)
Overall	12.8	275.6	639.5	879.2
- A+ to A-	2.1	33.1	23.3	23.2
- BBB+ to BBB-	3.5	37.1	77.6	47.5
- BB+ to BB-	9.4	191	453.3	612.2
- B+ to B-	31.8	1.1M	2.0M	2.8M
- CC+ to CC-	81.2	2.6M	-	-
- C+ to C-	173.1	4.9M	14.7M	19.3M
- N.A.	33.2	586.5	1.2M	1.0M

Note: Data refers to Bloomberg's CBBT pricing, the Bloomberg composite rating takes the median, and M represents 1000

Source: Bloomberg, CCXAP research

Rating Actions and Credit Events

Real estate and Chengtou issuer were intensively downgraded. In the third quarter of 2021, the three major international rating agencies took rating actions on 91 Chinese issuers⁴, including 149 negative rating actions and 48 positive rating actions⁵. The proportion of negative rating actions increased from 50.7% in 2020Q3 to 75.6% in 2021Q3.

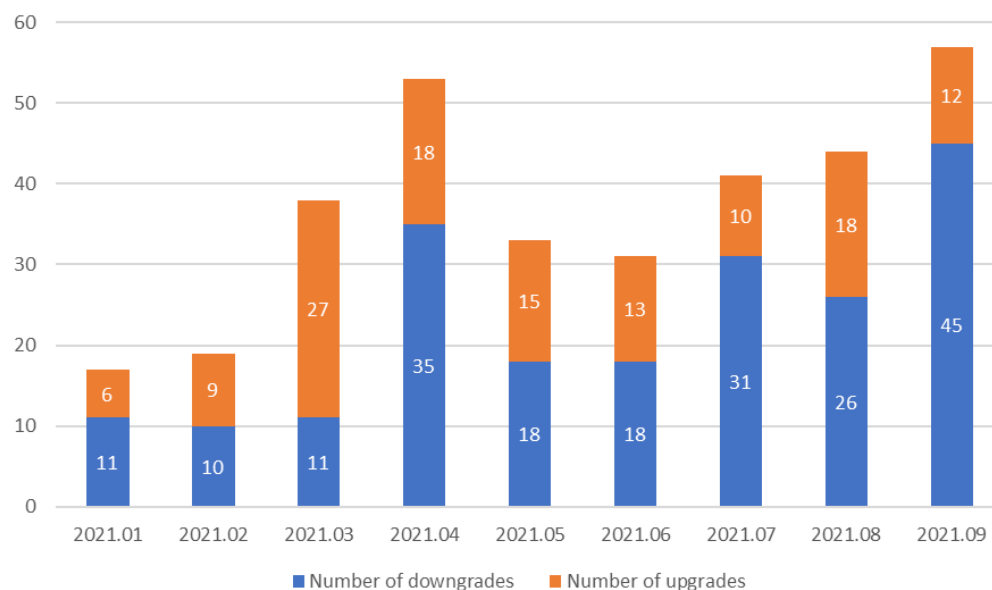
The main reason for the negative actions in 2021Q3 is the normalization of domestic real estate supervision, including the new "three red lines" regulations promulgated last year and the real estate loan control policy at the beginning of the year. Investors are concerned

⁴ 10 issuers have been both downgraded and upgraded

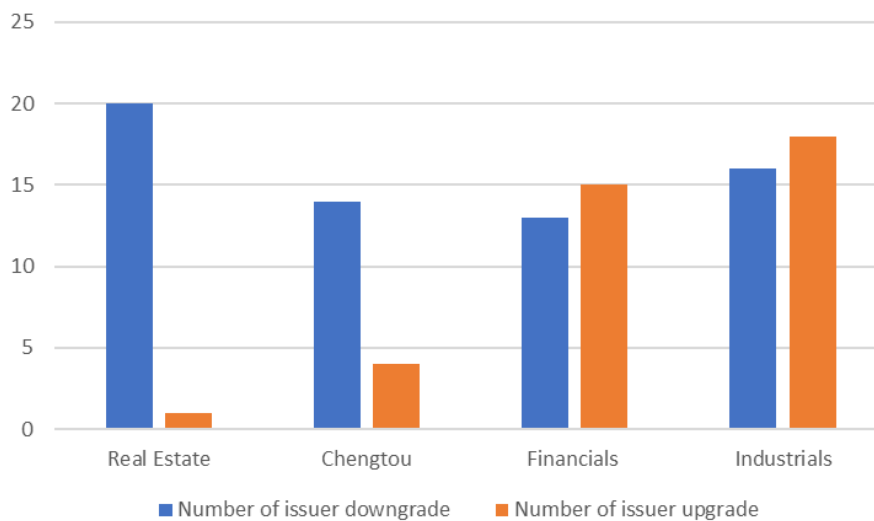
⁵ Rating actions include rating adjustment, outlook adjustment, and inclusion/removal from the watching list

about the credit risk of real estate enterprises. Volatility in the secondary market has intensified, and real estate companies has encountered difficulties in financing. Coupled with the impact of COVID-19 pandemic since 2020, some private issuers that had aggressively expanded previously had weakened their financial strength and encountered liquidity difficulties. In the third quarter of 2021, the real estate industry saw more negative rating actions. Twenty real estate issuers were downgraded, while only one was upgraded. More negative rating actions had been taken against Chengtou issuers due to the decline in the possibility of obtaining government support and the weakening of corporate financing capabilities. In 2021Q3, 14 Chengtou issuers were revised downwards, and 4 Chengtou issuers were revised upwards. In addition, financial companies (excluding banks) have divergent credit qualities, with 13 being downgraded and 10 being upgraded, respectively. The performance of industrial companies is similar, of which 16 companies had been downgraded and 18 companies had been upgraded. Among them, issuers whose ratings have been upgraded are relatively scattered, including industrial (5 companies), materials (5 companies), and utilities (3 companies). It is mainly because the financial situation of the company and its parent company had improved.

Exhibit 11: Rating actions by international rating agencies in 2021Q1-2021Q3 (by month)



Source: Bloomberg, CCXAP research

Exhibit 12: Issuer rating changes by international rating agencies in 2021Q3 (by industry)

Source: Bloomberg, CCXAP research

The credit risk of weak companies continues to be exposed. According to Bloomberg, in the first three quarters of 2021, eight Chinese companies defaulted in the offshore bond market with a default amount of approximately US\$5.72 billion, and the scale of defaults in the third quarter was approximately US\$1.59 billion. 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 have deteriorated. Cash collections lagged behind and financing channels were blocked. Eventually, the capital chain ruptures and the debt defaults. In the third quarter, 3 issuers defaulted on their debts, of which two defaulted for the first-time, namely Sunshine 100 China Holdings Co., Ltd. and Suning Appliance Group Co., Ltd. The liquidity situation of Sunshine 100 China continues to shrink, with a huge short-term debt and weak cash flow. Its performance in 2020 fell sharply, which eventually led to default. Radical expansion has caused Suning Appliance to be heavily in debt. But due to its poor liquidity, it eventually failed to repay its debts.

Table 3: Credit events of Chinese issuers in offshore market in 2021Q1-2021Q3

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. On February 26, China Fortune announced that it defaulted on principal and interest payments for its USD940 million debts due on July 31.
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.
Sunshine 100	On August 11, Sunshine 100 China Holdings Co., Ltd. ("Sunshine 100") announced that it failed to repay the USD200 million offshore debt due on August 11, which constituted a substantial default. The default triggered the company's cross-default clause for the USD220 million 13.0% senior green notes due in 2022.
Suning Appliance	On September 11, Suning Appliance Group Co., Ltd. ("Suning Appliance") announced that it failed to repay the USD600 million offshore debt due on September 11, which constituted a substantial default.
Fantasia	On October 4, Fantasia Holding Group Co., Ltd. ("Fantasia") announced that it failed to repay the US\$210 million offshore debt due on October 4, which constituted a substantial default.
Sinic	On October 11, Sinic Holdings (Group) Company Limited ("Sinic") announced that the company currently does not have sufficient financial resources to repay the USD240 million offshore debt due on October 18.
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.
Modern Land	On October 11, Modern Land China Co., Ltd. ("Modern Land") announced that it sought to redeem part of the senior notes due on October 25, 2021, with a coupon of 12.85%, and the remaining part of the maturity date will be extended by three months to improve liquidity and cash management, and to avoid any potential defaults.
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.
China Evergrande	Since June, the offshore bond prices of China Evergrande Group ("China Evergrande") and Evergrande Real Estate Group Co., Ltd. ("Evergrande Real Estate") fell sharply as affected by negative public opinion such as the late payment of commercial papers, the suspension of pre-sale permits on projects, and the bank's application for property preservation before litigation. According to sources, China Evergrande's EVERRE 8 1/4 03/23/22 USD debt should pay interest on September 23, 2021. Some bondholders indicated that they did not receive the interest payable. China Evergrande has

paid the USD83.5 million of interest on the US dollar bond was remitted to the trustee's account, which will be paid to the bondholders before the expiration of the grace period on October 23.

Source: Public information, CCXAP Research

Regulatory Actions: Southbound Trading under Bond Connect has been launched

On September 15, the People's Bank of China ("PBoC") and the Hong Kong Monetary Authority ("HKMA") jointly issued a notice approving the China Foreign Exchange Trade System ("National Interbank Funding Centre"), China Central Depository & Clearing Co Ltd, Interbank Market Clearing House Co Ltd, Qualified Domestic Institutional Investor, CIPS Co Ltd (a.k.a. "Basic Service Organizations in Mainland China"), Hong Kong Exchanges and Clearing Limited and Central Money Markets Unit of the Hong Kong Monetary Authority, custodian banks of Hong Kong (a.k.a. "Basic Service Organizations in Hong Kong") and relevant organizations, to launch the Southbound Trading under Bond Connect.

The so-called "Southbound Trading" refers to a mechanism by which mainland institutional investors can invest in the Hong Kong bond market through basic service organizations. According to the Notice, Southbound Trading will be launched on 24 September 2021. The People's Bank of China announced the "Notice on Developing the Interconnection of the Mainland and Hong Kong Bond Markets for Southbound Cooperation" on the same day, clarifying that the upper limit of the net outflow of "Southbound" cross-border funds does not exceed the annual and daily quota. At present, the total annual quota of Southbound Trading is RMB500 billion equivalent while the daily quota is RMB20 billion equivalent. PBoC also added that the annual and daily quotas are adjustable, depending on cross-border capital flows. On the first trading day, more than 40 mainland institutional investors and 11 Hong Kong market makers completed more than 150 bond transactions, with a transaction amount of approximately RMB4 billion, covering major bond varieties in the Hong Kong market.

Southbound Trading under Bond Connect is of paramount importance. Not only does it facilitate two-way opening-up of China's bond market and offer rooms of asset allocation in the international financial market for mainland investors, but is also conducive to the internationalization of Renminbi for pricing and reserve purposes. Moreover, this move helps consolidate Hong Kong's status in bond financing, strengthening its role as a bridgehead and hub between mainland China and the rest of the world. It helps Hong Kong integrate into the national development layout, thereby promoting the long-term prosperity and stability of Hong Kong. China Chengxin believes that the "Southbound Trading" will benefit the long-term development of the Chinese dollar bond market. Onshore investors can deploy Chinese offshore bonds through this move, thereby bringing vitality and liquidity to the Chinese dollar bond market. At present, Chinese dollar bonds account for more than 90% of the total size of the Hong Kong bond market. They are mainly real estate bonds, financial and LGFV bonds. Compared with the onshore credit bond market, Chinese dollar bonds are more attractive in terms of liquidity, risk premium, and variety.

Outlook

The COVID-19 pandemic continued in the third quarter of 2021. Countries have adopted a pandemic prevention strategy of coexisting with the virus. Major economies have shown recovery, but the future recovery process still has a certain degree of uncertainty. The Fed will announce and formally reduce its debt purchases as soon as November's meeting and will gradually reduce the scale of debt purchases to zero in 2022. In the context of inflationary pressures and the increasing possibility of the Fed tightening monetary policy, the yields of long-term US Treasury bonds may rise slightly. Meanwhile, as the US economy recovers, the US dollar exchange rate will also strengthen, and the cost advantage of overseas financing may shrink. The Chinese dollar bond market remains turbulent and risk events of Chinese enterprises have occurred frequently since 2021. With the recent sharp decline in the price of Chinese dollar bonds in high-yield real estate bond market, the investors' risk aversion increased, it is expected that the financing channels of some weakly real estate issuers will have little improvement and credit risk may rise. As the Chinese real estate sector remains vulnerable, new issuance of high-yield bonds faces downward pressure. It is expected that the primary market for Chinese dollar bonds will continue to fluctuate in the fourth quarter. 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. In the secondary market, high-yield bonds face downside risks due to negative market sentiment on the real estate sector. Investment-grade bonds are expected to outperform high-yield bonds in the fourth quarter. 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 weak investor confidence, some real estate companies with aggressive early-stage investment, poor internal control and relatively concentrated debt maturity may face liquidity issues, more real estate companies may experience credit incidents in the fourth quarter. At the same time, with the tightening of financing supervision and the conservativeness of investors, LGFV companies in areas with weaker qualifications may face greater refinancing pressures and higher requirements on debt and liquidity management. The regional differentiation of LGFV bonds may become more pronounced. It is necessary to pay attention to the spread of non-standard debt default and guarantee risks amid constrained LGFV financing and pressure on debt repayment.

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