

CCXI & CCXAP – Research & Commentary

Watch “Oversold” Industry Bonds amid Slowing Issuance and Active Trading in Secondary Market

Hong Kong, 8 February 2022 -- The Research Institute of China Chengxin International Credit Rating Co., Ltd. (“CCXI”) has recently issued a report entitled “Watch ‘Oversold’ Industry Bonds amid Slowing Issuance and Active Trading in Secondary Market -- 2021 Review and 2022 Outlook for Credit Bond Market”. The report reviews the performance of the credit bond market in 2021 and looks forward to the trends in primary and secondary markets for credit bonds in 2022. The report predicts that the issuance of credit bonds in 2022 will be between RMB16.3 trillion and RMB16.7 trillion. The issuance cost will decrease first and then increase. The secondary-market yield may move lower and the credit spreads will remain divergent. In terms of investment strategy, the report suggests that investors should seize the trend opportunities and particularly watch for the opportunities in possible interest rate decline in the case of RRR cut. The report also reminds investors to pay due attention to opportunities in “oversold” bonds in the sectors of coal, steel and real estate under relaxed regulatory curbs.

The report summarizes the characteristics of primary market performance of credit bonds in 2021. First, the credit bond issuance reached a new high but its growth slowed down, with net financing shrinking year-on-year. According to CCXI statistics, the total issuance of corporate credit bonds¹ in 2021 was RMB1.615 billion. Net financing amounted to RMB2.92 trillion, representing a year-on-year contraction of 32%. **Second, super and short term commercial papers are still the major instrument issued, tenors going markedly shorter and ratings moving higher overall.** The issuance scale of commercial papers, securitization products and mid-term notes were still the top three by issue size. The maturity mix of bond issuance still focused on short tenors, with three-year and shorter-term bonds accounting for nearly 70% of total. All short-term bonds increased year-on-year as a percentage of total, while perpetual bonds took up a smaller proportion. The ratings of newly issued bonds moved higher year-on-year overall. **Third, innovation accelerated to guide capital flows to key areas and weak links.** Regulatory authorities actively promoted the innovation of bond products. The bond issuance kept expanding under such themes as carbon neutrality, rural vitalization, sustainability-linkage, high growth, equity-funded and development of revolutionary base areas continued to grow. The total issuance of innovative bond products exceeded RMB460 billion in the year. **Fourth, coupon rates fluctuated downward.** Coupon rates of bonds showed an overall downtrend amid fluctuations. As of the end of 2021, the issue cost of main bond types with various issuer ratings generally declined, within a range of 38 bps to 158 bps. **Fifth, financing was divergent among issuer types, industries and regions.** Bond market funds still went mainly to state-owned enterprises, compared with weak net financing of private enterprises. Net financing was negative for real estate, chemicals, coal, steel, non-ferrous metals, light manufacturing, pharmaceuticals, information technology and automobile. Over 30% of regions saw negative net financing, with the western provinces such as Xinjiang,

¹According to Wind statistics, including super & short-term commercial paper, commercial papers, mid-term notes, project revenue notes, private placement notes, corporate bonds, government-backed institutional bonds, convertible bonds, exchangeable bonds and asset-back securities.

Ningxia and Qinghai, northeast China as well as Tianjin, Shanxi and Yunnan showing poor net financing from credit bonds.

The report summarizes the bond market characteristics in the secondary market in terms of trading volume, yield and spread trends of spot bonds. As for spot bond trading, the report shows a hot secondary market of credit bonds in 2021, with the trading volume totaling RMB42.93 trillion for the year, up 15.98% year-on-year, accounting for 23.08% of the total bond turnover. Convertible bonds were actively traded, surpassing medium-term notes to become No. 1 by trading volume in 2021. **As for yield trends,** the yield on credit bonds generally showed a bumpy downturn in 2021 amid reasonably abundant liquidity, lackluster economic performance and sporadic COVID-19 outbreaks, except for rises before and after the Chinese New Year, in June and from mid-August to early October due to mounting supply pressure in the bond market, weaker-than-expected credit easing by PBOC and impact of credit risk events. As of the end of 2021, the yields on medium-term and short-term notes with various ratings dropped by 39 bps to 82 bps. **As for spread trends,** the market risk was generally under control, the credit spread as a whole narrowed and spread for low ratings narrowed less than medium and high rating, showing divergent trends. When it comes to rating spread, the spread between ratings went divergent in 2021, narrowing between medium and high ratings while expanding between medium and low ratings. Except for agriculture, forestry, animal husbandry, fishery and automobile industries, the spread for other industries showed an overall narrowing trend.

Looking forward, in the primary market, the report predicts that the issuance of credit bonds in 2022 will be between RMB16.3 trillion and RMB16.7 trillion. In terms of issue cost, the report predicts that the coupon rates will not continue to rise in the first half of 2022. If there is a marginal tightening of monetary policy in the second half of the year, coupon rates may rise somewhat. In the secondary market, the report believes that the annual yield pivot may move down from 2021. In terms of credit spread, the AAA credit spread will be generally flat with or further narrow from the 2021 level, AA+ credit rating may remain unchanged from 2021 and credit spread for AA and AA- bonds is expected to expand. As for the yield on credit bonds, take medium-term and short-term notes as an example, the yield pivot will not be higher than 3.5% for AAA credit bonds, move between 3.7% and 3.8% for AA+, stay around 4.4-4.5% for AA and move around 6.8-7.0% for AA- credit bonds.

Finally, the report proposes the investment strategy for credit bonds in 2022. For the primary market, the report suggests investing in bonds in the primary market when interest rates pick up in the second half of the year to gain higher coupon income. In addition, the report suggests allocations to innovative instruments with higher spreads for higher coupon income. In the secondary market, the report suggests that investors should seize the trend opportunities and pay special attention to the opportunities in possible interest rate decline in the case of RRR cut in the year. As for industrial enterprises, the report suggests watching for opportunities in “oversold” bonds in the sectors of coal, steel and real estate under appropriately relaxed regulatory curbs against the backdrop of improved financing environment and marginal policy relaxation. As for the LGFVs, investors may cautiously invest in LGFV bonds issued by lower-tier issuers in regions with strong public finance to increase the marginal income, and also look for investment opportunities in regions with average local public finance but strong government willingness to service debts.

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

Copyright

Copyright © 2022 **China Chengxin (Asia Pacific) Credit Ratings Company Limited, China Chengxin (Asia Pacific) Credit Ratings Company Limited** and/or their affiliates (collectively, "CCX"). All rights reserved. All information contained herein is protected by law. None of such information may be copied or otherwise reproduced, repackaged, further transmitted, transferred, redaction, interception, resold or redistributed, or stored for subsequent use for any such purpose, by any person without CCX's prior written consent.

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>