

# 2023H1 Chinese Offshore Bond Market Report



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11 August 2023

## New issuance of Chinese offshore bonds has dropped sharply, the refinancing risks of Chengtou and real estate developers are noteworthy

### 2023H1 Chinese Offshore Bond Market Recap

- **The new issuance of Chinese offshore bonds has dropped sharply, with negative net financing amount.** With the slow recovery of China's real economy and the continued interest rate hikes by the Federal Reserve, the Chinese offshore bond market remained sluggish in the first half of 2023. There were 381 new bonds issued in 2023H1, decreasing by 22.4% YoY, with a total issued volume of approximately USD41.7 billion, decreasing by 38.1% YoY. The net financing of Chinese offshore bonds was USD-30.8 billion.
- **The issuance scale of each sector has shrunk.** Industrial bonds experienced the largest decline, with an issuance amount of USD1.54 billion, a YoY decrease of 92.7%; real estate offshore bond issuance amount was USD1.52 billion, a YoY decrease of 51.4%; offshore bond issuance amount of financial institutions was USD14.21 billion, a YoY decrease of 47.4%. Against the backdrop of high interest rates and strict supervision by the Federal Reserve, the offshore financing channels of Chengtou have shrunk significantly. The issuance amount of offshore debt by Chengtou was USD6.74 billion, a YoY decrease of 39.7%.
- **SBLC issuances were mainly issued by district and county level Chengtou issuers.** In the first half of 2023, 76 bonds were issued via SBLC, with an issuance scale of approximately USD4.88 billion, accounting for 11.8% of the issuance scale in the first half of the year, with district and county level Chengtou issuers being the majority.
- **The number of high-yield issuances has decreased significantly, and the proportion of unrated issuances has increased.** In the first half of 2023, there were a total of 381 issuances of Chinese offshore bonds, of which 171 issuances received offshore ratings from the three major international rating agencies. Affected by factors such as the real estate default crisis, the sharp drop in land market revenue, and the tightening of bond issuance policy in free trade zones, the number of real estate and Chengtou issuers has decreased, resulting in a significant drop in the issuance amount of high-yield issuers. In addition, due to the large number of offshore bonds issued by Chengtou companies through SBLC, the number of unrated issuances has increased significantly.
- **The coupon rates of Chinese offshore bond issuances have remained high, and the average tenor has decreased slightly.** The average coupon rate of Chinese offshore bond in the first half of 2023 was at a relatively high level of 5.09%. However, the average coupon rate of Chinese offshore bonds has declined, from 5.18% in the first quarter to 4.98% in the second quarter. The tenors of Chinese offshore bonds are still mainly short to medium term. In 2023H1, the average tenor of Chinese offshore bonds dropped to 2.03 years from 2.06 years in the same period last year.
- **The overall return of Chinese offshore bonds is on an upward trend, with the real estate sector performing the worst.** In the first half of 2023, the total return index of Chinese offshore bonds was 1.6%, of which the return rate of investment-grade bonds was 3.2%, and the return rate of high-yield bonds was -8.2%. In terms of sectors, real estate offshore bonds performed the worst, with a return of -12.88% in the first half of the year.

### Rating Actions and Credit Events

- **Negative rating actions still accounted for the majority of rating actions, and the real estate industry has been intensively downgraded.** In the first half of 2023, the three major international rating agencies took rating actions on 109 Chinese issuers, including 73 negative rating actions and 36 positive rating actions, with negative rating actions accounting for 67%. Rating actions have been concentrated in the real estate sector, mainly due to issuer defaults or weakening of their own businesses and financial strength.

- **Continued credit risk exposure of real estate companies.** According to Bloomberg, in the first half of 2023, 12 Chinese issuers defaulted on offshore bonds, including 11 real estate companies, with a total default amount of USD3.933 billion, a sharp decrease from USD18.69 billion in the first half of 2022.

## Outlook

- During the year, with the Federal Reserve's interest rate hikes expected to slow down and the large maturities of Chinese offshore debts, it is expected that the issuance of US dollar bonds by Chinese companies will improve slightly in the second half of the year. In view of the current tightening of regulations on free trade zone bonds, the issuance of free trade zone bonds may be difficult to recover in the short term. In the short term, dim sum bond issuance may see a surge.
- At present, the profitability of most Chengtous is relatively weak. Affected by the unrepaired real estate industry, weak land market, and weak local fiscal revenue, the debt repayment pressure of Chengtou in weak regions has further increased, and the concentrated maturity pressure and refinancing risks of Chengtou shall be closely monitored. In addition, considering that in the second half of the year, more than USD14 billion outstanding offshore bonds of real estate companies will be due or sold back, the weak real estate companies may still face certain pressure in the short term, and it is necessary to pay attention to the cross-default risks triggered by overdue offshore debts of weak real estate companies.

## Introduction

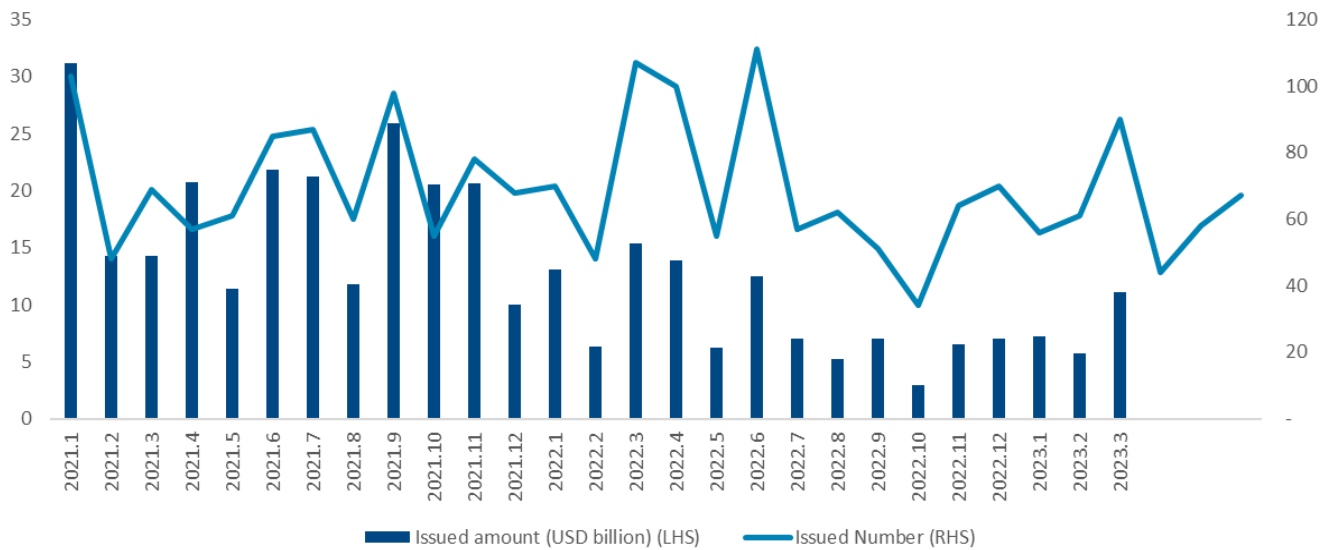
From January to July 2023, the Federal Reserve raised interest rates 4 times, with a total of 100 basis points, and the US federal funds rate rose to the range of 5.25%-5.50%. Overall economic data in the United States has been strong so far despite the Fed's continued interest rate hikes. Therefore, U.S. bond interest rates remain high, and the inversion in the interest rate gap between China and the United States continues to widen. At the same time, the domestic regulatory environment for foreign debt has also changed. At the beginning of the year, the National Development and Reform Commission officially promulgated the "Measures for the Review and Registration of Medium- and Long-term Foreign Debts of Enterprises" (Circular No. 56). Compared with the previous Document No. 2044, the new regulations place more emphasis on controlling foreign debt risks, raised the requirements for corporate information disclosure, and greatly increased the review time to 3 months. Due to the high cost of issuing overseas US dollar bonds, Chinese issuers are less willing to issue offshore debts. Meanwhile, Chinese regulatory agencies have tightened policies on offshore bond issuance. New issuance volume in the primary market of Chinese offshore debt has decreased, and the net financing amount has continued to be negative. In the first half of 2023, Chinese issuers issued a total of 381 offshore bonds, with an issuance amount of approximately USD41.66 billion, a significant decrease of 38.1% year-on-year ("YoY"). The net financing amount was -USD30.83 billion. In addition, affected by the window guidance of the free trade zone bond, the new issuance of free trade zone bonds has decreased significantly since June, and it is expected that the issuance of free trade zone bonds will be difficult to recover in the short term. Moreover, in view of the slowdown in the pace of interest rate hikes by the Federal Reserve and the large scale of Chinese offshore bonds maturing within the year, it is expected that the issuance of Chinese US dollar bonds may improve slightly in the second half of 2023.

## Chinese Dollar Bond Market Recap

### Primary Market

**The New issuance of Chinese offshore bonds decreased, and the net financing amount was negative.** Against the background of the slow recovery of the mainland's real economy and the continued interest rate hikes by the Federal Reserve, the Chinese offshore bond market remained sluggish in the first half of 2023. Chinese issuers issued a total of 381 offshore bonds, a YoY decrease of 22.4%; the issuance amount was approximately USD41.66 billion, a YoY decrease of 38.1%. Compared with the same period last year, the size of a single issuance was approximately USD110 million, a YoY decrease of 21.5%. The volume of new issuances is significantly lower than in the same period of the previous three years. Since 2022, the wave of defaults by Chinese real estate companies has continued, overseas financing of real estate companies has been blocked, and the scale of new issuances in the real estate sector has been significantly reduced. In the first half of 2023, the net financing amount of Chinese offshore debt was -USD 30.83 billion.

In the first half of the year, the issuance scale of each month has declined by varying degrees YoY. On a monthly basis in March, affected by the Spring Festival holiday and the negative public opinion in the European and American banking industries, the issuance scale dropped sharply in January and April. The issuance amount in January was approximately USD7.24 billion, and the issuance amount in April was USD5.71 billion, a YoY decrease of 44.5% and 67.3%, respectively. The number of offshore debt issuances from April to June fell from the high point in March, and the number of issuances from April to June fell by 36.5% YoY.

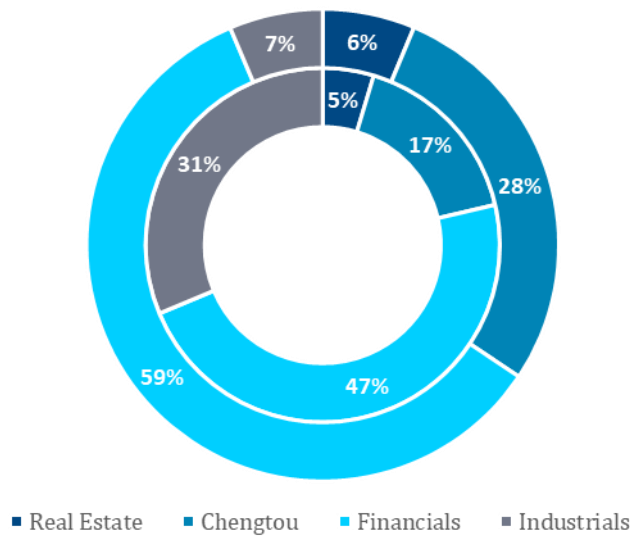
**Exhibit 1: In the first half of 2023, the issuance amount and number of Chinese-funded offshore bonds continued to decline YoY**


Source: CCXAP Research

**In the first half of 2023, the issuance scale of each sector has shrunk.** Classified by industry, real estate, Chengtou, financial institutions and industrial enterprises accounted for approximately 6.3%, 28.1%, 59.2% and 6.4% of new issuance in the first half of 2023, respectively. Industrial bonds saw the largest decline, with an issuance amount of USD1.54 billion, down 92.7%; real estate offshore bonds issuance was USD1.52 billion, down 51.4%; offshore bond issuances by financial institutions was USD14.21 billion, down 47.4%. Currently, under the background of high interest rates and strict supervision on free trade zone bonds, the overseas financing channels of Chengtou enterprises have been significantly reduced.

In the first half of 2023, changes in the market and regulatory environment for Chengtou offshore bonds deserve attention. During this period, against the background of a slow recovery in fundamentals and a weak land market, the debt pressure of Chengtou companies increased. Since April, the credit risk event of Chengtou debts has aroused market concerns. In May, the central bank's window guidance required banks to stop purchasing free trade zone bonds from issuers that do not conduct substantial business in the free trade zone. It aimed to curb the disorderly issuance of bonds by Chengtou platforms in weak areas of the free trade zone. As the main sector issuing bonds in the free trade zone, Chengtou may face narrowing financing channels as a result. Since June 17, no new issue of free trade zone bonds has been completed. In the context of tightening policies in the free trade zone bond and the inversion of treasury rates between China and the United States, the issuance of dim sum bonds may usher in a wave of rise in the short term.

Exhibit 2: Sector distribution of Chinese dollar bonds in 2022H1 and 2023H1



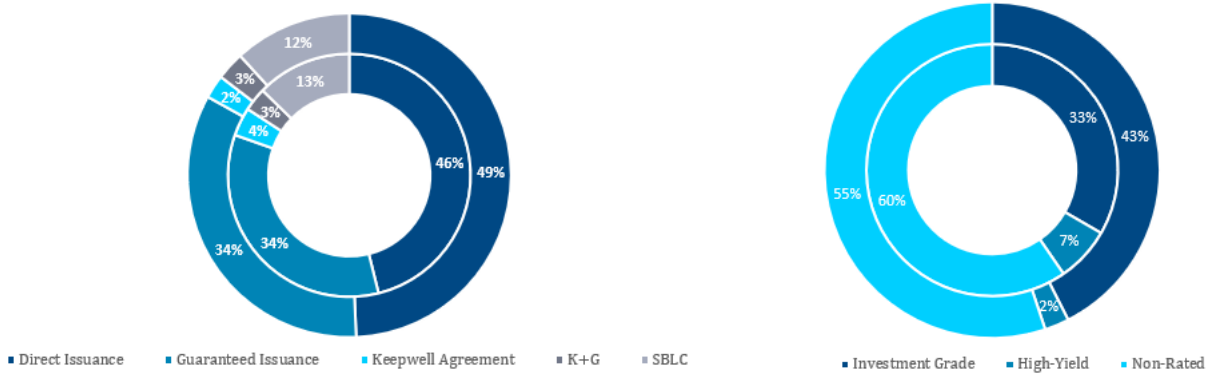
Remark: Based on issuance amount; Inner Circle is the statistics of 2021H1, Outer Circle is the statistics of 2022H1  
Source: CCXAP Research

**High-yield issuance has decreased significantly, and the proportion of unrated issuance has increased.** In the first half of 2023, a total of 381 Chinese-funded offshore bonds were issued, 171 of which received overseas ratings from the three major international rating agencies. In terms of investment-grade issuance, there were 162 investment-grade issuances in the first half of 2023, and the issuance amount decreased by 32.6% YoY to USD25.80 billion, accounting for approximately 61.9% of the new issuance volume. High-yield issuance has always been dominated by Chengtou and real estate issuers. Affected by factors such as the real estate default crisis, the sharp drop in land market income, and the central bank's tightening of bond issuance in free trade zones, the number of real estate and Chengtou issuers has decreased, resulting in a sharp decline in the issuance of high yield bonds. In the first half of 2023, there were only 9 high-yield issuances, with the issuance amount reduced to USD1.86 billion, accounting for only about 4.0% of the new issuance volume. In addition, as some Chengtou companies issued more offshore debts through bank standby letters of credit, the number of unrated issuances increased significantly. Among the Chinese-funded issuers in the first half of 2023, 210 Chinese-funded offshore bond issuers have not obtained public ratings from the three major international rating agencies. Among them, there are 128 Chengtou issuers, accounting for 60.9% of the total number of Chengtou issuers. In the future, it is necessary to continue to pay attention to the lack of ratings of Chengtou companies.

**SBLC issuance were mainly issued by district and county-level Chengtou issuers.** In the first half of 2023, the amounts of Chinese overseas direct issuance and guarantee issuance were USD19.97 billion and USD13.58 billion respectively, accounting for approximately 48.3% and 32.8% of new issuances. Similar to the same period last year, against the background of fluctuations in market risk appetite, some companies with weaker qualifications provided guarantees for bond repayment through credit enhancement measures, and SBLC issuance remained a certain proportion of the total issuance scale. In the first half of 2023, 76 bonds were issued through SBLC, with an issuance scale of approximately USD4.88 billion, accounting for 11.8% of the issuance scale in the first half of the year. They were mainly district and county-level Chengtou issuers. The banks that provide SBLC are mainly urban commercial banks, among which Bank of Nanjing, Bank of Shanghai and Bank of Hangzhou are more active. However, this also means that the domestic issuing banks' external guarantee performance risks increase. Once the issuer is unable to repay its debts, the certification agency needs to use domestic funds to compensate overseas investors. In addition, in the first half of 2023, 970 million offshore bonds were issued through keepwell agreements, with the main issuers being financial institutions and Chengtou issuers. However, compared with direct, guaranteed and SBLC issuances, keepwell agreements do not have mandatory legal effect, and their role in reducing the issuer's

financing costs is increasingly limited. Therefore, the issuance volume of keepwell agreements has been on a downward trend in recent years.

**Exhibit 3: Rating distribution and issuance structure in 2022H1 and 2023H1**

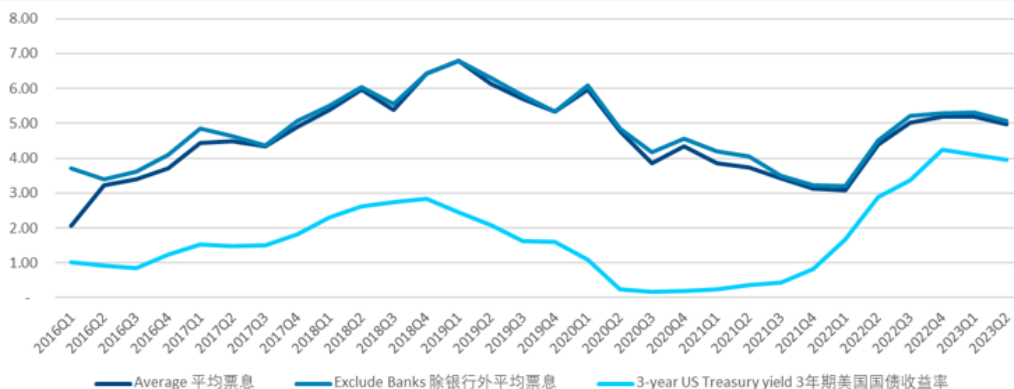


Remark: Based on issuance amount; Inner Circle is the statistics of 2022H1, Outer Circle is the statistics of 2023H1  
Source: CCXAP Research

**The Federal Reserve continues to raise interest rates, but at a slower pace, and the coupon rates of Chinese offshore debt issuances remain at high levels.** In the first half of 2023, the Federal Reserve continued last year’s trend of raising interest rates. As the Federal Reserve raised interest rates by 25 basis points in February, March, and May, as of June 30, the U.S. federal funds rate increased from 4.25% to 4.5% at the beginning of the year to the current level of 5%-5.25%, while U.S. Treasury yields also remained high. Therefore, the average coupon rate of Chinese offshore debts in the first half of 2023 is at a relatively high level of 5.09%. However, the average coupon rate on Chinese offshore debts fell from 5.18% in the first quarter to 4.98% in the second quarter. As the U.S. interest rate hike cycle is expected to end within this year, and the People’s Bank of China still maintains a proactive and prudent monetary policy, we expect there will be limited room for increases in the cost of Chinese offshore debt issuance.

**The tenors of Chinese offshore bonds are mainly short and medium term, with the average tenor declining slightly.** In the first half of 2023, Chinese offshore bonds with maturities of 1 to 5 years were still the mainstream, with an issuance amount of USD20.91 billion, accounting for 87.1% of new issuance in the first half of the year (2022: 79.3%). As the Federal Reserve is expected to end rate hikes this year, issuers generally prefer bonds with shorter maturities so that they can be refinanced at lower costs. Furthermore, the U.S. Treasury yield curve continues to invert, making long-term bonds less attractive. The issuance of offshore bonds with a maturity of more than 5 years was only USD3.1 billion, accounting for 12.9% of new issuance in the first half of the year. The average tenor of Chinese offshore bonds in 2023 fell to 2.03 years from 2.06 years in the same period last year.

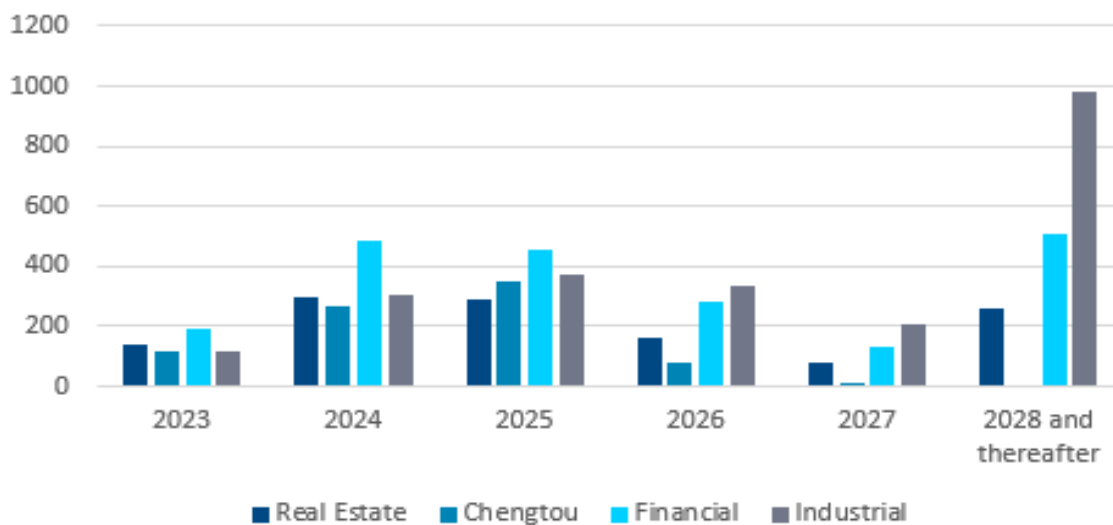
**Exhibit 4: Average coupon rate of Chinese dollar bonds from 2016Q1 to 2023Q2**



Source: CCXAP Research

As of June 30, 2023, the aggregate existing amount of Chinese-funded offshore bonds was USD644.67 billion. Among them, the scale due in the second half of 2023, 2024 and 2025 are USD57.20 billion, USD135.07 billion and USD146.40 billion, respectively. The next two to three years will be the peak maturity period for overseas real estate bonds. The maturities in the second half of 2023, 2024 and 2025 will be USD14.21 billion, USD29.65 billion and USD28.86 billion, respectively. In terms of Chengtou bonds, the maturities in the second half of 2023, 2024 and 2025 are USD11.77 billion, USD26.71 billion and USD34.97 billion, respectively. In light of the continued impact of the tightening of bond investment policies in the free trade zones, the net financing scale of Chengtou issuers may decline in the future.

**Exhibit 5: The maturity distribution of Chinese dollar bonds as of end of June 2023**



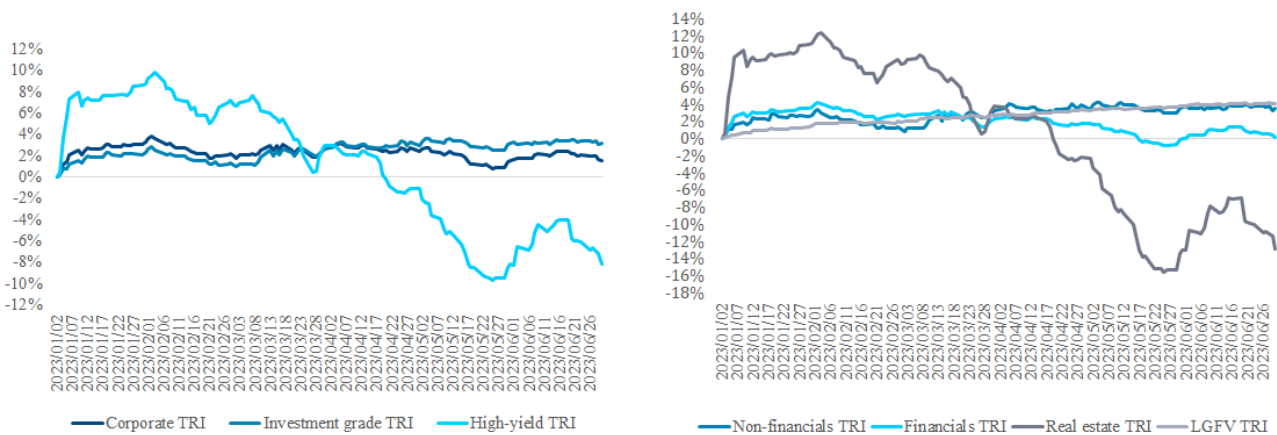
Source: Bloomberg, CCXAP Research

## Secondary Market

**The overall performance of the Chinese offshore market showed an upward trend, and the performance of high-yield bonds rose first and then fell.** In 2023 H1, the total index return of Chinese offshore bonds was 1.6%, of which investment-grade bonds were 3.2% and high-yield bonds were -8.2%. In 2023Q1, due to the relaxation of real estate policies and the rapid economic recovery after the epidemic, both investment-grade bonds and high-yield bonds rebounded significantly. In 2023Q2, affected by the continuous interest rate hikes by the Federal Reserve, coupled with continuous defaults in the real estate industry, the contracted sales of major real estate companies fell sharply in 2022, which is significantly lower than expected, resulting in a sharp decline of price for high-yield bonds. The prices for investment grade bonds remained stable.

In terms of interest rate spread, as of June 30, 2023, the interest rate spread of Chinese offshore bonds fell by 60.2bp from the beginning of the year to 308.33bp. The spread of investment grade bonds fell by 38.2bp to 132.08bp and the spread of high-yield bonds fell by 125.9bp to 1393.89 bp.



**Exhibit 6: YTD return and Yield Spreads of Chinese offshore bond index in 2023 H1**


Source: CCXAP Research

**The real estate sector performed the worst.** From a sector perspective, real estate offshore bonds performed the worst, with a return of -12.88% in the 2023H1, followed by financial (0.11%), non-financial (3.44%) and Chengtuo (3.98%). Affected by the Federal Reserve's interest rate hikes and the continuous defaults of real estate companies, the performance of bonds in the real estate sector fell sharply. The financial and non-financial sectors continued to rise, driven by policy support and restored investor confidence. For Chengtuo bonds, investors have confidence in the strong linkage between onshore and offshore bonds, and the performance of Chengtuo bonds was relatively stable compared with other industries.

**Table 1: Returns of Chinese dollar bonds in 2023 H1 (by industry)**

Markit iBoxx USD Asia ex-Japan China Index Return	Q1	Q2	H1
<b>Real Estate TRI</b>	3.71%	-15.92%	-12.88%
- Investment Grade TRI	4.14%	-0.16%	4.04%
- High-Yield TRI	3.44%	-28.40%	-26.09%
<b>Financials TRI</b>	2.29%	-2.25%	0.11%
- Investment Grade TRI	2.11%	0.81%	2.94%
- High-Yield TRI	2.83%	-12.59%	-10.11%
<b>Non-Financials TRI</b>	3.21%	0.22%	3.44%
- Investment Grade TRI	3.18%	0.15%	3.34%
- High-Yield TRI	3.81%	2.07%	5.96%
<b>Chengtou TRI</b>	2.71%	1.24%	3.98%
- Investment Grade TRI	2.68%	1.21%	3.93%
- High-Yield TRI	2.92%	1.38%	4.35%

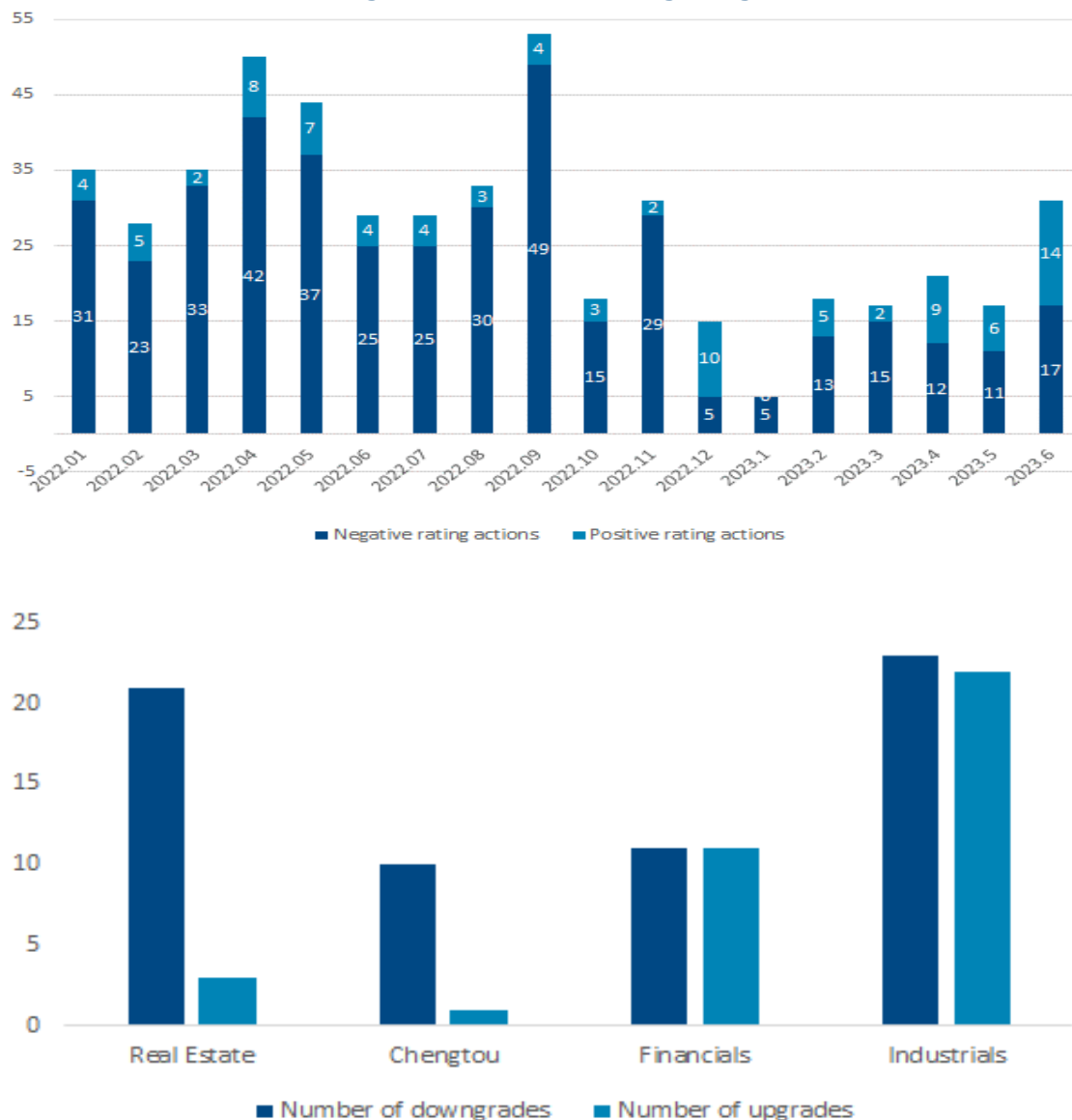
Source: CCXAP Research

## Rating Actions and Credit Events

**Negative rating actions still accounted for the majority of rating actions, and the real estate industry has been intensively downgraded.** In 2023H1, the three major international rating agencies took 109 rating actions on 77 Chinese issuers, including 73 negative rating actions and 36 positive rating actions, accounting for 67% of negative rating actions. In the context of economic downturn, the credit profiles of Chinese issuers continued to diverge. In 2023Q2, the number of positive actions for financial and industrial companies increased, and the credit margin improved, mainly due to the improving financial data and operating results of companies in 2022. In fact, some companies turned losses into profits, and the government's willingness to support these companies increased significantly. In terms of industry distribution, rating actions are mainly concentrated in the real estate industry, mainly due to default events or the weakening of its own operating and financial profile. In the 2023H1, 21 real estate issuers were downgraded, with only Longfor Group, Hopson Development and Greentown China receiving

positive ratings. The ratings of 11 companies from the financial sector were also downgraded. Due to the economic slowdown, increasing market fluctuation and the lack of confidence in the real estate industry, the profits of the four major AMC's (Cinda, Oriental, Great Wall, Huarong) and some Chinese securities companies were significantly lower than expected, and their leverage ratios continued to be limited. There have also been frequent negative rating actions against Chengtou issuers. The three major international rating agencies have taken 10 negative rating actions on Chengtou companies, mainly due to the reduced possibility of obtaining government support and the tightening financing policies. These Enterprises are mainly located in provinces like Yunnan, Jilin, and Shandong, where economic fundamentals are weak or local government support capacity has declined. In addition, the performance of industrial companies was divergent, with 23 companies receiving negative rating actions and 23 companies receiving positive rating actions. Issuers receiving positive rating actions were mainly distributed in the raw materials, construction and decoration industries, mainly due to changes in corporate debt structures. For these companies, their liquidity risks are reduced and their financial conditions are improved.

Exhibit 7: Rating actions and issuer rating changes in 2023H1



Source: CCXAP Research

**The Credit risk of real estate companies continues to be exposed.** According to Bloomberg, in 2023H1, 12 Chinese issuers defaulted on offshore bonds, with a total amount of USD3.9 billion, a sharp drop from the 2022H1. The reasons for the default of these defaulting parties share some commonality, mainly due to weak real estate market, coupled with the harsh financial environment, resulting in obstruction of financing channels and

deterioration of liquidity, which eventually led to default. In 2023H1, the new default issuers were concentrated in the real estate industry, with 6 issuers defaulted on their debts and 5 of which are real estate companies, including Huijing Holdings, Ronshine China, Yincheng International, KWG and CCRE.

**Table 2: Credit events of Chinese issuers in offshore market since 2023 H1**

Enterprise	Defaulted events
<b>Huijing Holdings</b>	On January 20, Huijing Holdings Co., Ltd. ("Huijing Holdings" or the "Company") announced that it has not yet repaid the USD107,600,000 12.50% coupon senior notes due in 2023. In July 2022, Huijing Holdings completed an exchange offer for the 12.50% senior notes due 2022 (ISIN: XS2364281506); exchange for the above outstanding notes. The notes were issued pursuant to the exchange offer and the related indenture was executed on July 21, 2022. According to the contract, Huijing Holdings must pay the interest on this note on January 21, 2023 (i.e., the original interest payment date). As of the announcement date, the company does not expect to make these payments on the original interest payment date.
<b>Ronshine China</b>	On January 26, Ronshine China Holdings Limited Co Ltd ("Ronshine China") announced that the 8.95% senior notes due 2023 (ISIN XS2031469732) in the aggregate principal amount of USD413,000,000 issued by the Company and listed on the Singapore Exchange Securities Trading Limited matured on 22 January 2023. The principal amount and the accrued and unpaid interest total USD431,481,750 became due and payable. As of the date of this announcement, the Company has not made such payment.
<b>Wuhan Dangdai</b>	On March 23, Wuhan Dangdai Science & Technology Industries (Group) Company Limited ("Wuhan Dangdai") announced that subsidiary cannot make the payment of the principal and interest of DANDAI903/07/23 on time. The note is issued on behalf of Dangdai International Investment, and Wuhan Dangdai Technology Industry Group Co., Ltd. provided guarantee for the notes. All outstanding principals (\$200 million) and accrued interests would mature on March 7 2023. Considering liquidity status, the company would not make the payment, such event constitutes default under the above Notes and Securities.
<b>Yincheng International</b>	On March 17, Yincheng International Holding Co., Ltd ("Yincheng International") announced the termination of the Exchange Offer. All Existing Notes previously tendered and not withdrawn will be returned to their respective holders. The Existing Notes matured on 7 March 2023. As of the date of this announcement, the Company has not paid the principal and interest on the Existing Notes due and payable on the maturity date. Failure to make such payments constitutes an event of default under the above Notes and Securities.
<b>KWG Group</b>	On May 14, KWG issued an announcement stating that 15% of the principal amount of the company's 6.0% senior notes due in January 2024, together with its accrued and unpaid interest, was due and unpaid on the mandatory redemption date. The amount involved is about USD119 million, which has constituted a breach of contract. At the same time, the company failed to pay its principal of RMB212 million in accordance with the scheduled repayment dates for interest-bearing bank and other loans, triggering cross-defaults on eight senior notes and other loans.
<b>CCRE</b>	On June 23, CCRE Real Estate announced that CCRE Real Estate failed to pay interest on the 7.75% senior notes due in 2024 (ISIN: XS2262030369) before the end of the grace period on June 23, 2023. After careful consideration by the company, CCRE suspended payment to all overseas creditors to ensure fair treatment of all overseas creditors. Such failure to pay may result in demands for accelerated repayment and/or actions by the group's creditors in accordance with the corresponding terms of the relevant financing arrangements.
Enterprise	Credit events
<b>Time China</b>	On November 7, Times China Holdings Co., Ltd. ("Times China Holdings") announced that in order to promote the overall management of offshore debt, the company will suspend payments on six overseas US dollar-denominated senior notes. As of the announcement date, Times China Holdings has not paid the relevant interest on the 6.6% senior notes due in 2023 and the 5.55% senior notes due in 2024. The grace periods for these senior notes are on December 30, 2022 and 2022 respectively. Expires January 3, 2023.
<b>Sino Ocean</b>	On March 21, according to Bloomberg, Sino-Ocean Group has told some holders of its bonds that it will not pay the postponed the interest payment in order to preserve cash. According to the relevant bond issuance documents, under certain conditions, Sino-Ocean Group can decide on its own to postpone the interest payment time. This interest due on the \$600 million 6.876% perpetual debt is \$20.6 million.  On March 29, Sino-Ocean Group has made the coupon payment originally due March 21 under its \$600 million 6.876% perpetual securities.

Source: Public information, CCXAP Research

**Chengtou companies in weak fiscal areas are under severe refinancing pressure, and liquidity risks are spreading within those areas.** Since the beginning of this year, due to factors such as lower-than-expected economic growth, sluggish real estate industry, and a continued sluggish land market, local fiscal revenue growth has been limited, and government repayments to Chengtou companies have also been subject to certain restrictions. Moreover, the external financing channels of Chengtou companies were further restricted, and refinancing continues to be under pressure. Superimposed on the continuous high maturity and resale scale of Chengtou bonds within the year, the debt rolling pressure of Chengtou companies has become more prominent. In addition, some Chengtou companies also faced liquidity risks, especially in regions with weak financial strength, heavy debt burdens and weak financial resources. Risk events such as non-standard financing defaults, overdue commercial bills, and technical bond defaults occurred frequently. The exposure of Chengtou's negative events has gradually become normalized. Follow-up attention needs to be paid to the mutual transmission and spread of Chengtou bonds risks in some weak areas, especially areas such as Guizhou, Shandong, and Yunnan.

## Regulation: China's NDRC issued management measures for the issuance of medium- and long-term offshore bonds

On January 10, 2023, NDRC published Order No. 56, "Administrative Measures for the Review and Registration of Medium and Long-term offshore Debts of Enterprises" ("the Measures"), which came into effect on February 10, 2023. Document No. 2044 was abolished at the same time. In terms of the offshore debt registration system, the record registration system has been converted to the review and registration system. This measure keeps pace with the times after some risks have been exposed, and reflects a strong spirit of standardization and risk prevention. Regulators not only have requirements on credit ratings, but also on qualifications (especially for district-level Chengtou issuers), revenue structure (construction revenue should be lower than 50%), guarantees (whether a letter of guarantee can be provided), and also stricter requirements on checking profits generated from invested projects.

### Outlook

With the Federal Reserve raising interest rates and quantitative tightening measures to curb soaring inflation, the inflation level in the United States has continued to decline. In June, the consumer price index rose by 3% YoY, with the YoY increase fell to the lowest level since March 2021. The price index increased by 3.2% YoY. Although the YoY growth rate has rebounded, it was still slightly lower than expected. With the Federal Reserve's slowing pace of interest rate hikes and the large scale of Chinese offshore bonds maturing within the year, it is expected that Chinese offshore bond issuance will improve slightly in the second half of the year.

At present, most Chengtou companies have weak profitability. At the same time, due to the unrecovered real estate industry, weak land market, and weak local fiscal revenue, some government projects are not able to receive payments in a timely manner, and Chengtou companies in weak regions have to repay domestic debts. Limited funding sources may further increase debt repayment pressure. Considering that the maturity and repurchase scale of onshore and offshore bonds in 2023 will exceed RMB4 trillion and USD20 billion, respectively, and the financing environment has not significantly improved due to the high pressure of repaying principal and interest, the probability of the lower-ranked Chengtou companies defaulting on their offshore bond increases. There has been an increase in refinancing risks of Chengtou companies. In addition, given the current tightening of regulations on free trade zone bonds, it is expected that the issuance of free trade zone bonds will be difficult to recover in the short term.

Although the demand-side market in the real estate industry is currently heating up, the probability of a significant improvement in the short term is small. In particular, the operating conditions of the lower-ranked real estate companies are still weak. Against this background, the financing and regulatory environment for some high-quality real estate companies is expected to further improve in the future, but private real estate companies with weak qualifications may still have liquidity problems. Considering that more than USD14 billion real estate offshore bonds will expire or be sold back in 2023H2, real estate companies may still face certain pressure in the short term. It is necessary to pay attention to the cross-default risks triggered by the maturing of offshore debts.

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