

Chinese Offshore Bond Market Recap and Outlook in 2023



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The Fed's interest rate cut cycle is about to begin, and China's overseas debt market may recover in 2024

China's offshore bond market recap in 2023

- **New issuance of Chinese offshore bonds declined throughout the year, and net financing amount recorded negative values for two consecutive years.** In 2023, Chinese issuers issued a total of 847 overseas bonds, a year-on-year increase of 2 %; the outstanding amount was approximately US \$ 82.41 billion, a year-on-year decrease of 20.0 %; the net financing amount of Chinese overseas debt in 2023 was US \$ - 100.70 billion.
- **New issuance of Chinese real estate continued to stagnate, new issuance of industrial and Chengtou fell sharply, and new issuance by financial companies declined slightly.** Defaults by Chinese real estate companies still occurred from time to time, investor confidence continued to be weak, and the overseas financing of Chinese real estate companies continued to decline in 2022. The newly issued amount of overseas real estate bonds in 2023 was US \$ 3.71 billion, a year-on-year decrease of 0.7 %. At the same time, as financing policies for Chengtou companies tightened, the overseas outstanding amount of Chengtou institutions decreased by 28.1 % year-on-year to US \$29.99 billion, while the outstanding number of industrial enterprises dropped significantly by 64.8 % to US\$ 4.46 billion. The issuance scale of financial enterprises was stable. Overseas debt issued throughout the year amounted to US\$ 44.25 billion, a year-on-year decrease of 1.0 %.
- **The proportion of U.S. dollar bond issuance dropped significantly, while the proportion of RMB bond issuance increased significantly.** In 2023, the proportion of U.S. dollar bonds among the overseas debt issued by Chinese enterprises decreased significantly. In 2022, Chinese dollar bonds accounted for 84.0% of total overseas debt. In 2023, the proportion dropped to 58.9 %, and the outstanding amount decreased by 43.8% year-on-year, recording US\$48.58 billion. At the same time, the proportion of RMB-denominated overseas debt has increased significantly, and the total issuance of RMB-denominated overseas debt has increased from US\$ 8.95 billion in 2022 to US\$ 27.82 billion in 2023.
- **The impact of the Federal Reserve's interest rate hikes continued, and the coupon rates for Chinese overseas debt issuance continued to rise.** As the Federal Reserve raised interest rates four times during the year, with a cumulative increase of 100 basis points, the average coupon rate of Chinese overseas debt remained at a high of 5.31 %, an increase of 92 bp from last year. From the perspective of maturity, Chinese overseas bonds with maturities of 1 to 5 years were still the main issuance type, with an outstanding amount of US\$ 76.14 billion, accounting for 92.4 % of the new issuance volume in 2023.
- **The high-yield return index opened high and fluctuated sharply, showing an overall downward trend, but rebounded in the fourth quarter.** As of December 29 , 2023 , the total yield of Chinese overseas bonds is 3.93 % year-to-date, of which the yield of investment-grade bonds was 6.80 %, and the yield of high-yield bonds was -13.93 % . By sector, real estate overseas bonds have performed the worst, with a year-to-date return of -26.61 %.

Rating Adjustments and Credit Events

- **Negative rating actions increased, and industrial companies suffered intensive downgrades.** In 2023, the three major international rating agencies took rating actions on 326 Chinese issuers, including 230 negative rating actions and 30 positive rating actions, with negative rating actions

accounting for 88%. Rating actions have focused primarily on industrial companies. In 2023, the ratings or outlook of 83 industrial issuers were downgraded, and the ratings or outlook of 55 Chengtou issuers were downgraded. This is mainly due to Moody's downgrading of China's sovereign rating outlook in early December 2023. It also lowered the outlook for more than 100 Chinese enterprises.

- **The credit risk of real estate companies continued to be exposed.** According to Bloomberg data, 40 Chinese issuers defaulted on overseas debt in 2023, including those issued by 31 real estate companies, with a total default amount of US\$ 31.235 billion, which is similar to the default amount in 2022.

Outlook

- In 2024, as the level of inflation in the United States declined, the Federal Reserve no longer needs to raise interest rates and is expected to start cutting interest rates in the short term. At the same time, both the primary and secondary markets will recover as interest rates adjust. It is noteworthy to mention that 2024 is the peak period for Chinese overseas debt repayments, especially in the financial and Chengtou sectors. In the second half of 2023, policies related to Chengtou financing have been adjusted many times, and the scale of overseas bond issuance by Chengtou companies increased. However, attention needs to be paid to other factors, such as the actual effect of improving the credit quality of Chengtou companies and local finances. We expect that the overseas financing environment for Chengtou companies will not improve easily in the first half of 2024. At the same time, against the background that the State Council's plans to issue a white list for the credit quality restoration of real estate companies, the overseas financing needs of some real estate companies should increase in 2024. Starting from mid-2023, the central government has launched the fourth issuance of special refinancing bonds. Chengtou companies with different qualifications face credit differentiation risks. It is expected that new risk entities may be exposed in 2024.
- In terms of secondary market, there has been a sharp rebound in the fourth quarter when the Federal Reserve did not raise interest rates. If interest rates are cut in 2024, as scheduled, the secondary market may experience a larger rebound. However, we still need to pay attention to the possibility that the real estate sector will be affected by negative public opinion. The credit risks that may result and the state of affairs of the restoration of Chengtou companies' own debt problems in areas with weaker regional finances after the issuance of special refinancing bonds requires our attention.

Introduction

The performance of China's overseas debt market in 2023 was dismal. U.S. domestic inflation was completely under control in the fourth quarter. The Federal Reserve raised interest rates four times in the first three quarters of the year, totaling 100 basis points. Moreover, the U.S. federal funds rate was raised to a range of 5.25% to 5.5%. The rise in U.S. Treasury yields has led to the continued inversion of interest rate differentials between China and the United States. The cost of issuance of Chinese overseas debt continues to increase, the willingness of Chinese issuers to issue overseas debt continues to decline. On top of that, real estate defaults still occur from time to time, making it difficult to restore market confidence in Chinese overseas debt. As a result, the number of new issuances in the primary market of Chinese overseas debt has dropped significantly compared with before 2022, and net financing has recorded negative values for the second consecutive year. In 2023, Chinese issuers issued a total of 847 overseas bonds, a year-on-year increase of

2%; the outstanding amount was approximately US\$82.41 billion, a year-on-year decrease of 20.0%; the net financing amount of Chinese overseas debt in 2023 was -US\$69.39 billion. Although the central government introduced policy adjustments in the second half of the year to assist Chengtou enterprises in issuing bonds, government regulation has also raised the threshold for overseas bond issuance by Chengtou enterprises. It is necessary to pay close attention to whether the credit quality of Chengtou enterprises can be substantially improved after the issuance of special refinancing bonds, thereby meeting their own financing needs when the interest rate cut cycle approaches. In response to the weakness of real estate companies and the credit crisis, the state drafted a whitelist of 50 real estate companies at the end of last year and called on financial institutions to increase financing support. The specific effect of stimulating new overseas debt issuance by real estate companies still needs to be evaluated after the 2024 list is released. In the secondary market, affected by the real estate sector, the overall yield of Chinese overseas debt has declined, and high-yield bonds have dropped significantly. However, investment-grade bonds have remained stable and improved, with an annual of 6.88%. The Federal Reserve's decision to stop raising interest rates starting in September had a positive impact on bond markets, boosting fourth-quarter returns.

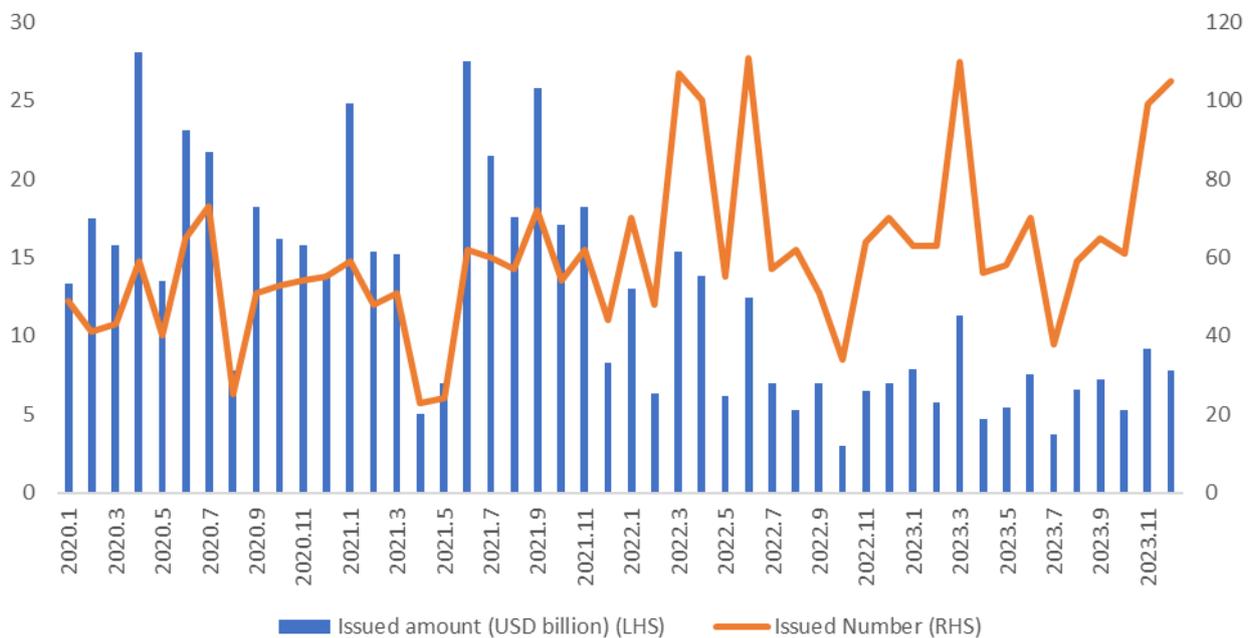
Review of China's offshore bond market

Primary market

New issuance of Chinese offshore bond decreased significantly throughout the year, and net financing became negative for the first time in the past decade. New issuance of offshore bonds in 2023 were mainly small issues. Throughout the year, Chinese issuers issued a total of 847 overseas bonds, a year-on-year increase of 2%. The outstanding amount was approximately US\$ 82.41 billion, a significant decrease of 20.0% year-on-year. The new issuance volume was significantly lower than the level before the start of the interest rate hike cycle in 2022, and the amount of single issuance has further declined. Since 2021, the credit risks of Chinese real estate companies have been exposed, and overseas financing of Chinese real estate companies has been blocked. The downward trend in 2022 has continued into 2023, and the scale of new issuance in the real estate sector has further shrunk. Due to the huge scale of overseas debts of real estate and Chengtou companies maturing, together with the financing market for real estate and Chengtou companies being highly restrictive, a sharp decline in overall net financing resulted. The net financing amount of Chinese overseas debt in 2023 has become negative for the second consecutive year, recording a value of - US\$ 69.39 billion.

On a monthly basis, due to the relaxation of epidemic policies at the end of 2022 and the emergence of liquidity risks in U.S. banks in March, the market believes that the Federal Reserve will end the interest rate hike cycle earlier in the face of the banking crisis. From January to March, new issuance of Chinese overseas bonds continued the upward trend in the last two months of 2022, with March being the month with the highest single-month issuance volume in the entire year. As the Federal Reserve announced at the end of March that it would still raise interest rates by 25 basis points, issuance costs remained high in the second quarter, which led to a decrease in the willingness of Chinese companies to issue overseas debt, and the amount of new issuance fell 22.03% from the previous quarter. In the third quarter, the Federal Reserve again raised interest rates by 25 basis points in July, and issuance costs further increased in the third quarter, further weakening the willingness of Chinese companies to issue overseas debt. In the single month of July, the scale of bond issuance entered a free-fall style decline of 50.31%. Although the scale of bond issuance rebounded in August and September, it was still far lower than the level in the first quarter. In the fourth quarter, the Federal Reserve held several interest rate meetings in a row, made the decision not to raise interest rates based on relatively stable CPI data, and stated that it may begin to cut interest rates in the short term. Chinese overseas debt issuance picked up again, with the amount of new issuance rising 63.58% from the previous quarter. In addition, the monthly issuance in October, November, and December showed an increasing trend.

Figure 1 : Chinese overseas bond issuance has shrunk since 2023, and the amount of a single issuance has decreased



Data source: Compiled by China Chengxin Asia Pacific

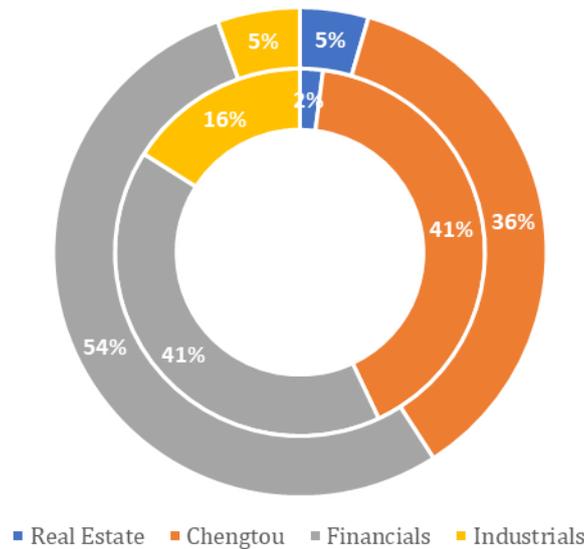
New issuance of Chinese real estate continued to stagnate, new issuance of industrial and Chengtou fell sharply, and new issuance of financial companies declined slightly. By Industry, real estate¹, Chengtou companies, financial institutions and industrial enterprises accounted for approximately 4.5%, 36.4%, 53.7% and 5.4% of new issuance in 2023, respectively. Among them, defaults by Chinese real estate companies still occur from time to time. In 2023, there were a total of 31 newly defaulted real estate companies, including Country Garden. The overseas financing of Chinese real estate companies continued the weak trend in 2022. The amount of new overseas debt issued by real estate was US\$ 3.71 billion, a year-on-year decrease of 1.0%. Furthermore, the overseas outstanding amount of Chengtou companies dropped significantly by 28% year-on-year to US\$ 29.99 billion, while the outstanding number of industrial enterprises dropped significantly by 65% to US\$ 4.46 billion.

In 2023, the new issuance of overseas bonds by Chengtou companies have cooled down, and new issuance by Chengtou companies have dropped significantly year-on-year. The total size of overseas debt issued by Chengtou companies in the whole year was US\$ 29.99 billion, a year-on-year decrease of 28%. The issuance of overseas bonds by Chengtou companies in 2023 has cooled down mainly due to the state strengthening the regulation of overseas bond issuance by Chengtou companies, plus the Federal Reserve continued to raise interest rates, pushing up financing costs. In the third quarter, as the central government issued special refinancing bonds, local governments were urged to accelerate the process of debt reduction. This issuance of special refinancing bonds is beneficial to Chengtou companies in regions with better credit qualifications. In the fourth quarter, due to the issuance of special refinancing bonds and the suspension of interest rate hikes by the Federal Reserve, the outstanding amount of Chengtou companies in the single quarter was US\$ 9.68 billion, an increase of 63.2% from the previous quarter, accounting for nearly 1/3 of the total issuance of Chengtou bonds in the entire year. Classified by administrative level, Chengtou issuers are mainly at the prefecture-level and district-county levels, and the outstanding amount account for 42.5% and 54.9% of the total Chengtou issuance in 2023, respectively. Given that domestic special refinancing bonds have

¹ Excludes bonds issued subsequent to exchange offer

accelerated the bond issuance of domestic Chengtou companies and improved credit and liquidity risks, coupled with the fact that the Federal Reserve is about to start an interest rate cut cycle, it is expected that new overseas debt issuance by Chengtou companies will continue to grow significantly in the first quarter of 2023.

Figure 2: Distribution of Chinese overseas debt by industry in 2022 and 2023



Inner Circle is the statistics of 2022; Outer Circle is the statistics of 2023

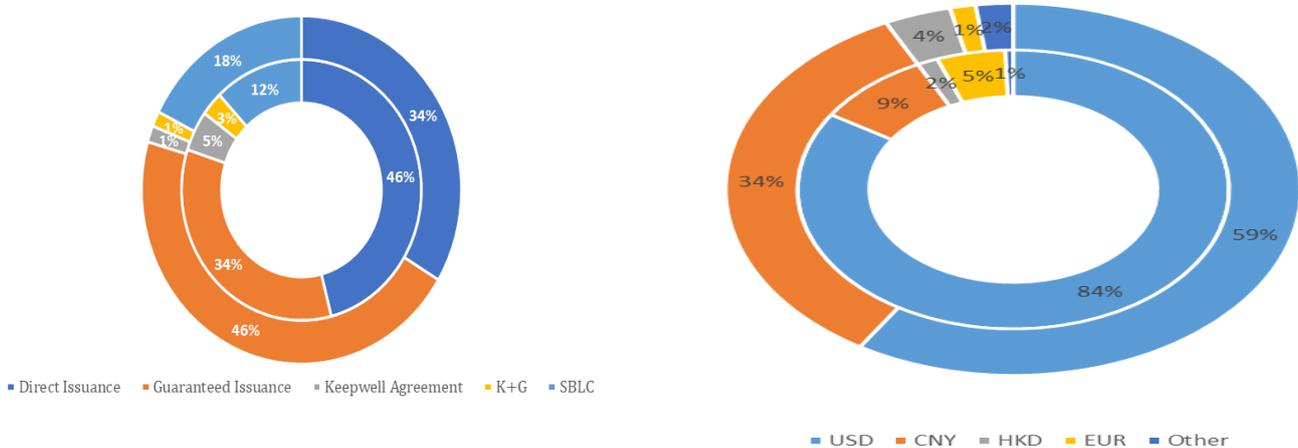
Data source: Compiled by China Chengxin Asia Pacific

The proportion of U.S. dollar bond issuance decreased significantly, while the proportion of RMB bond issuance increased. As the Federal Reserve continued to tighten monetary policy in 2023 and raised interest rates four times, the financing costs of U.S. dollar debt continued to be pushed up, and the proportion of U.S. dollar debt to the total overseas debt issued by Chinese enterprises dropped significantly in 2023. In 2022, the proportion of Chinese U.S. dollar bond to the total overseas debt was 84%, this ratio dropped to 58.9 % in 2023. The outstanding amount decreased by 43.8 % year-on-year, and the total dollar debt was US\$ 48.58 billion. The scale of overseas bonds denominated in RMB and Hong Kong dollars increased significantly, with US \$27.82 billion and US\$ 3.09 billion issued, respectively. As European central banks followed the Federal Reserve's monetary policy, financing costs increased, foreign debt denominated in euros fell sharply by 77.5 % , and its proportion dropped sharply from 5% in 2022 to 1% in 2023. In addition, the currency diversity of bond issuance in 2023 has improved compared with 2022. Chinese enterprises issued Thai baht bonds for the first time, with a scale of approximately RMB 200 million.

The cost of bond issuance continued to be high, and the proportion of direct issuance has dropped significantly. From the perspective of issuance structure, in 2023, Chinese overseas debt issuance was still dominated by direct issuance and guaranteed issuance, with outstanding amount of US\$ 28.50 billion and US\$ 38.81 billion, respectively, accounting for approximately 33.6% and 45.8% of new issuance. For the first time, direct issuance was less than guaranteed issuance. Against the background of high bond issuance costs, companies are seeking ways to reduce costs and improve credit quality, and the proportion of SBLC issuance and guaranteed issuance has both increased. In 2023, 148 bonds were issued through SBLC, with an issuance scale of approximately US\$ 9.63 billion, and their main issuers were district and county-level Chengtou issuers. The Postal Savings Bank of China, as the main certifying bank, providing standby letters of credit for 21 newly

issued overseas bonds. The effective guarantee provided by the certifying institution has also been fully recognized by the market. In addition, 3.39 billion in overseas debt were issued through keep well agreements in 2023, with the main issuers being CMB Financial Leasing Co., Ltd. and a number of Chengtou companies.

Figure 3 : Chinese overseas bond issuance structure and currency distribution in 2022 and 2023



Note: According to the outstanding amount and the credit rating of the entity; the inner circle is the data in 2022 , and the outer circle is the data in 2023

Data source: Compiled by China Chengxin Asia Pacific

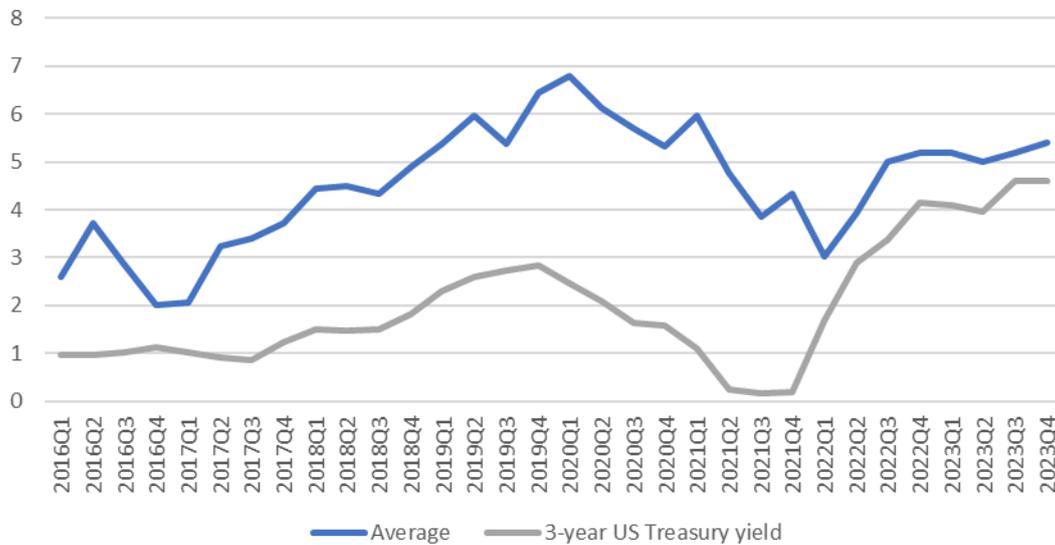
The impact of the Federal Reserve's interest rate hikes continues, and the coupon rates for Chinese overseas debt issuance continued to rise. In 2023, as the Federal Reserve raised interest rates a total of 4 times during the year, with a cumulative increase of 100 basis points, the U.S. federal funds rate was raised to the range of 5.25% - 5.5%. The U.S. Treasury yields rose overall. The average coupon rate of Chinese overseas debt² rose from 5.20% in the first quarter of 2023 to 5.40% in the fourth quarter of 2023. Looking at the whole year, the average coupon rate of Chinese overseas debt increased from 4.39% in 2022 to 5.31% in 2023. From an industry perspective, the average coupon rate on overseas debt of financial institutions increased from 4.02% in 2022 to 4.79% in 2023. Under the environment of the Federal Reserve raising interest rates, the average coupon rate of Chengtou's overseas debt still increased from 4.59% in 2022 to 5.53 % in 2023.

Short-term overseas debt has become a new trend, with the average issuance period declining. In 2023, Chinese offshore bonds with maturities of 1 to 5 years were still the main type of issuance, with an outstanding amount of US\$ 76.14 billion, accounting for 92.4% of new issuance in 2023. In addition, the 2 -year and 10 -year yields on U.S. Treasury bonds continued to invert in 2023, making long-term bonds less attractive. The amount of overseas debt issuance of more than 5 years remains at a low level, with a scale of only US\$ 6.27 billion, accounting for 7.6% of the new circulation. The average issuance maturity³ decreased slightly from 2.07 years in 2022 to 2.04 years in 2023.

² The statistical caliber is bonds with fixed coupon rates and no repurchase or putback clauses.

³ The statistical caliber does not include perpetual bonds

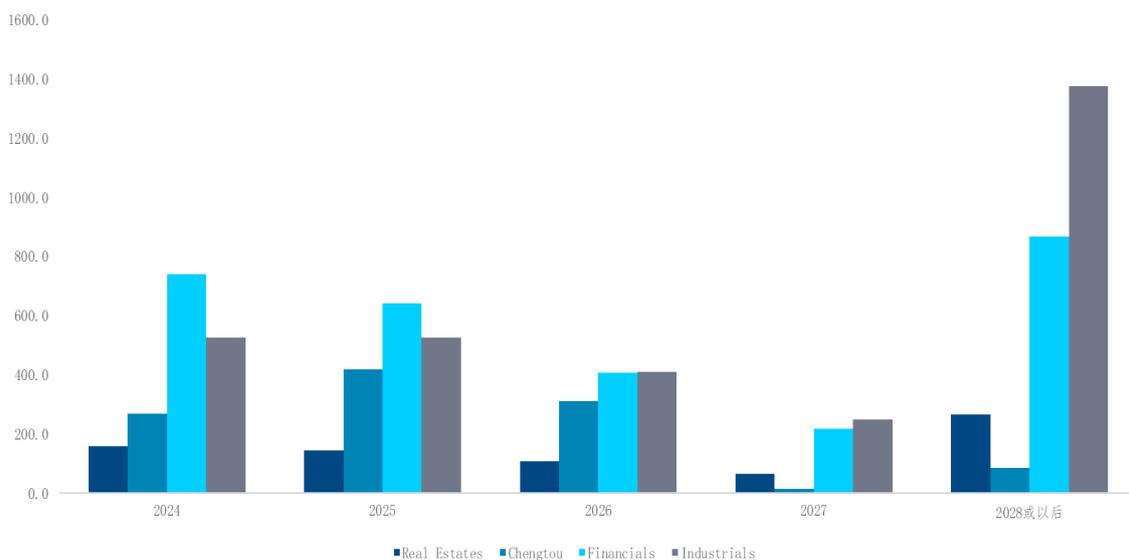
Figure 4: Average coupon rate of Chinese overseas debt issued from 2016Q1 to 2023Q4



Data source: Compiled by China Chengxin Asia Pacific

The maturities of existing bonds are evenly distributed, with nearly 60% maturing within 3 years. As of December 31, 2023, the total stock of Chinese overseas debt was US\$ 779.034 billion, of which debts due in 2024, 2025 and 2026 were US\$ 169.28 billion, US\$ 172.95 billion, and US\$ 123.03 billion, respectively. From an industry perspective, the next one to three years will be the peak maturity period for financial overseas debt, with amount due in 2024, 2025 and 2026 being US\$ 74.05 billion, US\$ 64.24 billion, and US\$ 40.66 billion, respectively. On the other hand, the next one to two years will be the peak maturity period for real estate overseas debt, with amount due in 2024 and 2025 being US\$ 15.90 billion and US\$ 14.39 billion, respectively. In terms of Chengtou overseas debt, the amount due in 2023, 2024 and 2025 being US\$ 26.80 billion, US\$ 41.70 billion, and US\$ 30.96 billion, respectively.

Figure 5 : Maturity distribution of existing Chinese overseas bonds as of the end of December 2023



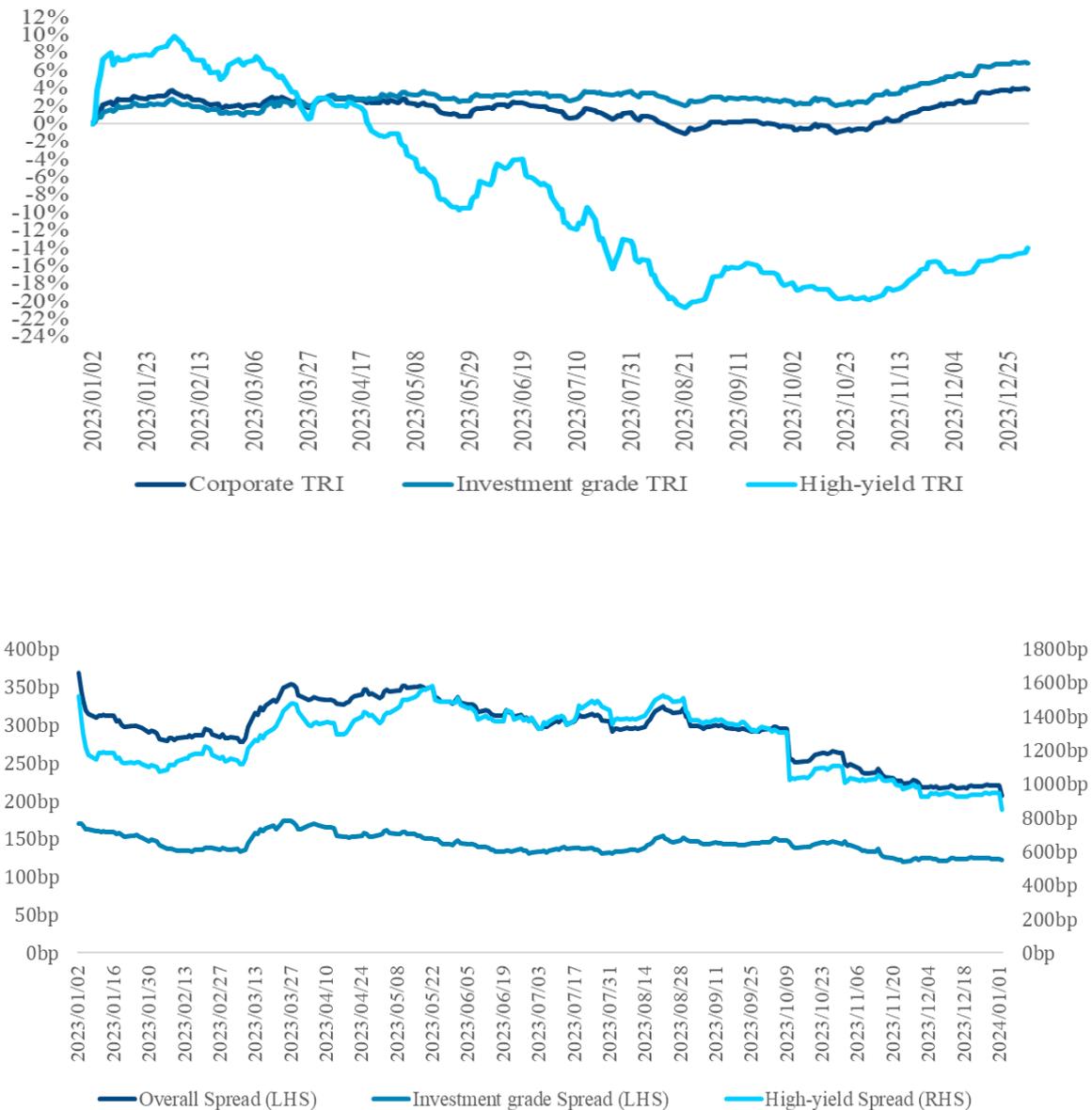
Data source: Compiled by China Chengxin Asia Pacific

Secondary market

The high-yield return index opened high and fluctuated sharply, showing an overall downward trend, but rebounded in the fourth quarter. In 2023, the overall performance of the Chinese overseas debt market showed an upward trend, especially in the fourth quarter, when there was a more significant rebound, but the high-yield return index was still negative. In the first half of 2023, as the market recovered due to the easing of the epidemic, consumption and investment expectations were good, and the three major yields, especially the return on high-yield bonds, rose sharply. But then, as the Federal Reserve raised interest rates, real estate companies experienced multiple credit and default events, the yields on overseas debt of high-yield real estate companies began to plummet, driving the entire high-yield sector to decline. In the first quarter, as market activity resumed after the epidemic was lifted, the three major sectors rebounded under the influence of better expectations. In mid-March, the liquidity crisis in the U.S. banking industry triggered panic, coupled with a great number of real estate companies with offshore debt, such as Rongsheng Real Estate and Yincheng International, encountered multiple defaults and credit events, high-yield returns began to fall sharply. On April 20, the yield turned from profit to loss, and recorded a yield of -0.21 %. In the second quarter, as real estate companies Hejing Futai (KWG Holdings) and CCRE Real Estate defaulted one after another, the market's expectations for a rapid rebound and prosperity of the real estate market after the epidemic hit rock bottom. This was reflected in the secondary overseas debt market. The high-yield return index has continued to decline since breaking through 0% at the end of April. It recorded -9.67 % on May 25, the lowest value in the second quarter. In the third quarter, the real estate market situation deteriorated, and many real estate companies defaulted. On August 13, 2023, Sino-Ocean Group materially defaulted. It was the real estate company with the highest foreign debt at that time, with foreign debt of 3.92 billion US dollars when it defaulted. On August 25, 2023, the high-yield return index hit its lowest value of the year, recording -20.09 %. The total return index also recorded a negative value for the first time in the third quarter, reaching -0.13 % on August 14. At the same time, the Federal Reserve raised interest rates four times in the first three quarters, by a total of 100 basis points, further putting pressure on the investment environment in the secondary foreign debt market. In the fourth quarter, based on relatively solid inflation data, the Federal Reserve chose not to raise interest rates at several consecutive interest rate meetings and indicated that it might cut interest rates in the short term. This series of information boosted sentiment in the investment market. There were rebounds of varying degrees in the fourth quarter for the three major Chinese foreign debt indexes. As of the end of the year, the total return index was 3.93 %, the investment-grade return index was 6.8 %, and the high-yield return index was -13.93 %, up nearly 7% in a single quarter.

In terms of spreads, as of December 31, 2023, the spreads of Chinese overseas bonds fell by 148.7bp to 219.90bp from the beginning of the year, of which the spreads of investment-grade bond fell by 46.2bp to 124.01bp, and the spreads of high-yield bond fell by 573.0bp to 946.73 bp.

Figure 6: Chinese overseas debt returns trend and worst-case yield situation in 2023



Data source: Compiled by China Chengxin Asia Pacific

The return rates on overseas debt were highly differentiated across industries, with the real estate industry performing the worst. By sector, as of December 31, 2023, real estate overseas bonds performed the worst, with a full-year return of -27.51%, followed by finance (0.93%), Chengtuo (7.55%) and non-financial (10.76%), the differentiation is large, with the return rates of the other three industries besides real estate all recorded positive values. In the real estate industry, due to high market sentiment after the epidemic was lifted, the real estate sector strengthened in the first quarter. Subsequently, many real estate companies made exchange offers or declared defaults, and the return rate in the second quarter was -18.04%. In the third quarter, credit events and defaults by real estate enterprises still occur from time to time. The market's expectations for the real estate industry's rapid recovery after the epidemic have been dashed, and the overall yield is still on a downward trend. In the fourth quarter, as the Federal Reserve stopped tightening fiscal policy, which stimulated the investment market, coupled with the State Council's plan to introduce a "white list of 50 real estate companies", attempting to use government credit to endorse some real estate companies with

good credit quality, driving the real estate sector to rebound. Under the market environment of macro recovery after the epidemic was lifted, the financial and non-financial sectors continued to show an upward trend, with significant recovery in the first and fourth quarters. In the Chengtuo sector, the central government has tightened the overseas bond issuance financing of Chengtuo companies and raised the threshold for issuance of bonds by Chengtuo companies. At the same time, the central government began to issue special refinancing bonds in the second half of the year, urging local Chengtuo companies to start discharging debt and resolving liquidity and credit risk. The performance of Chengtuo bonds is relatively stable compared to other industries, and the return rate of Chengtuo overseas debt has been positive for all four quarters.

Table 1: Return rates on Chinese overseas debt by industry in 2023

Markit iBoxx Chinese Overseas Debt Return Index	first quarter	second quarter	third quarter	fourth quarter	full year
Real Estate TRI	3.62%	-18.04%	-18.07%	4.19%	-27.51%
-Investment grade TRI	4.20%	-0.46%	-6.74%	3.98%	0.59%
-High Yield TRI	3.23%	-31.95%	-31.45%	3.30%	-50.26%
Financial TRI	2.41%	-2.60%	-2.00%	3.24%	0.93%
-Investment grade TRI	2.29%	0.63%	0.04%	3.09%	6.16%
-High Yield TRI	2.79%	-14.14%	-10.81%	3.90%	-18.22%
Non-financial TRI	6.25%	-0.11%	-1.16%	5.58%	10.76%
-Investment grade TRI	3.45%	-0.18%	-1.30%	5.60%	7.63%
-High Yield TRI	4.12%	1.77%	3.13%	4.97%	14.70%
Chengtou TRI	2.83%	1.25%	0.98%	2.29%	7.55%
-Investment grade TRI	2.79%	1.22%	1.08%	2.09%	7.36%
-High Yield TRI	3.06%	1.46%	0.33%	3.62%	8.70%

Data source: Compiled by China Chengxin Asia Pacific

Rating Adjustments and Credit Events

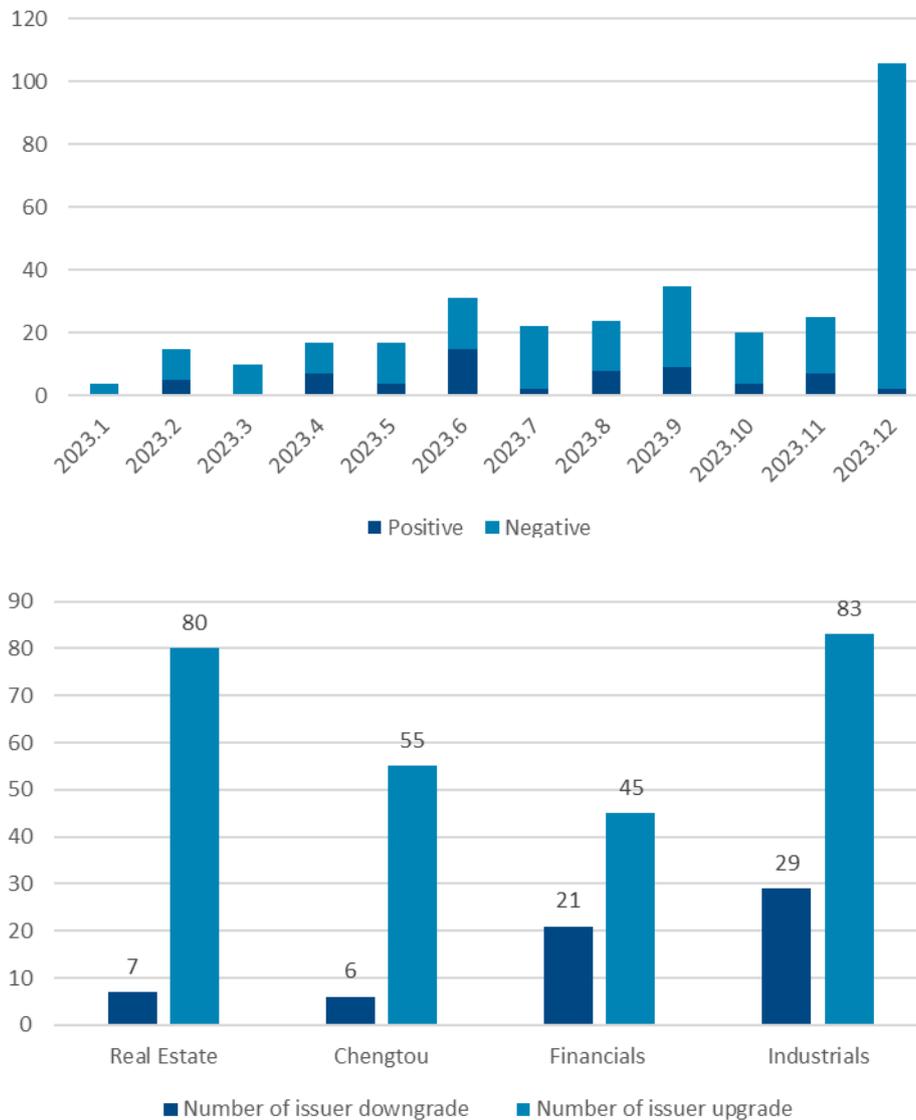
Negative rating actions increased, and industrial companies suffered intensive downgrades. In 2023, the three major international rating agencies took rating actions on 326 Chinese issuers⁴, including 263 negative rating actions and 63 positive rating actions⁵, with negative rating actions accounting for 81%. Against the background of economic downward pressure, the credit qualifications of Chinese issuers have deteriorated. In terms of industry distribution, rating actions are mainly concentrated in real estate and industry, mainly due to the issuer's default or the weakening of its own business and financial strength. 80 real estate issuers had had their ratings or outlooks downgraded in 2023, while only 7 received positive rating actions. The ratings of 45 companies in the financial sector were downgraded, nearly one-third of which were due Moody's intensive downgrade of the outlook for more than 110 Chinese companies after it lowered China's sovereign outlook on December 6. There are also many negative rating actions for Chengtuo issuers. The three major international rating agencies have taken negative rating actions on 55 Chengtuo companies. This is mainly due to the reduced possibility of issuers obtaining government support and the tight financing conditions in regions under economic downturn. These companies are located in places with weak economic fundamentals such as Gansu and Yunnan. In addition, in Moody's action on December 6, it lowered the outlook of dozens of Chengtuo companies, accounting for nearly one-third of the total Chengtuo companies. In addition, industrial companies accounted for the largest proportion of intensive downward revisions on December 6, with 46 companies having their outlooks downgraded, accounting for 55% of the total number of industrial companies that were downgraded throughout the year. This outlook downgrade was mainly a corresponding adjustment by Moody's

⁴ One issuer was rated both positively and negatively during the period

⁵ Rating actions include notch changes, outlook changes and watch list additions / removals

after it lowered China's sovereignty outlook. Most of the adjusted companies are Chinese government-related companies.

Figure 7: Monthly trends in the number and proportion of companies taking rating actions in 2023



Data source: Compiled by China Chengxin Asia Pacific

Moody's lowered China's sovereign outlook, and subsequently lowered the outlook of more than 110 Chinese companies. On February 5, Moody's issued consecutive reports, lowering the rating outlook of China, Hong Kong, and Macau from "stable" to "negative". Moody's said it was concerned about the potential cost of fiscal support provided by the central government to regional and local governments as well as state-owned enterprises. The report warned that China's economic growth was slowing, and its huge real estate industry was shrinking. At the same time, the rating outlook of a series of Chinese companies and banks has been downgraded. Moody's made adjustments to 9 insurance companies, 8 Chinese banks, 18 infrastructure-related central state-owned enterprises and their subsidiaries, 3 central enterprises, 4 local state-owned enterprises, 18 Chinese-funded enterprises and 55 Chengtuo companies. Among them, the outlook of 6 companies was revised from positive to stable; the outlook of 72 companies was revised from stable to negative; the outlook of 37 companies was included in negative observation, which will cause additional costs and negative impact on the operating and financing activities of these companies.

The credit risk of real estate companies continues to be exposed. According to CCXAP, 40 Chinese issuers defaulted on overseas debt in 2023, with a default amount of US \$ 33.920 billion, a year-on-year decrease of 11.95 %, and the number of new defaulters was 13, which is under certain control compared with 2022. The default causes of these defaulting entities have certain similarities, mainly due to weak sales in the real estate market, coupled with the impact of various adverse factors such as the financial environment and negative public opinion, which led to the obstruction of financing channels and deterioration of liquidity, eventually leading to default. In 2023, the defaulting entities are concentrated in the real estate industry. A total of 31 entities have defaulted on their debts, including 9 real estate companies such as Country Garden, Zhong Jun Group, Sino-Ocean Group, Fangyuan Real Estate, Times China, Sunac China and KWG Futai. The first default occurred in 2023.

Table 2: First defaults and credit events in overseas markets by Chinese issuers since 2023

Company abbreviation	Events of Default
Prosperous development	<p>On December 13, 2021, Rongsheng Real Estate Development Co., Ltd. ("Rongsheng Development") issued an announcement stating that due to a series of unfavorable factors such as the deterioration of the macroeconomic environment, policies, consumer sentiment, and the new crown epidemic, the company is reviewing its own financial affairs, status, and is committed to providing repayment funds for two existing overseas debts.</p> <p>On March 16, 2023, Rongsheng Development issued an announcement that payments related to RISSUN 9.5 03/16/23 and RISSUN 9.5 09/17/24 are hereby suspended. Financial and legal advisers have been appointed to explore the restructuring.</p>
KWG Pacific	<p>On April 28, 2023, KWG Group Holdings Limited ("KWG") announced that as of April 28, 2023, the total principal amount of RMB 212 million in interest-bearing bank and other loans owed by the group had not yet been paid. It was repaid according to its scheduled repayment date, thus triggering certain long-term interest-bearing bank and other borrowings of RMB 31.163 billion to be repaid on demand.</p> <p>On September 2, KWG Pacific issued an announcement that it would conduct an exchange offer and consent solicitation transaction for the company's overseas foreign debt.</p> <p>On September 13, KWG Pacific announced that the exchange offers and consent solicitation for KWGPRO 6 09/15/22, KWGPRO 5.2 09/21/22 and KWGPRO 7.875 09/01/23 will be held on the afternoon of September 9, 2023. Four o'clock expires. The Company would like to inform eligible holders that during the exchange expiration period, the principal amount of the two notes has been validly submitted for exchange and accepted in accordance with the exchange offer and consent solicitation respectively.</p>
Yincheng International	<p>On February 25, 2023, Yincheng International Holdings Co., Ltd. ("Yincheng International") announced its decision to accept an exchange offer for 11.8% senior notes due on March 16, 2023, with an outstanding principal of US\$165 million. .</p> <p>On March 9, Yincheng International announced that it had completed the exchange offer. As of the expiration date of the exchange, a total principal amount of US\$100 million had been effectively exchanged and submitted according to the exchange offer. The Company expects to issue approximately \$100 million in aggregate principal amount of new notes under the exchange offer.</p> <p>On September 1, Yincheng International announced an exchange offer for 12.5% senior notes due 2023 issued by the company. As of the date of this announcement, the outstanding principal amount of the existing notes is \$110 million. The exchange offer, if implemented, will improve the group's financial position, extend its debt maturities, strengthen its balance sheet and improve cash flow management.</p>
CCRE Real Estate	<p>On June 23, 2023, CCRE Real Estate Co., Ltd. ("CCRE Real Estate") announced that the market situation continued to deteriorate and it would completely stop overseas debt payments . CCRE failed to pay interest on the 7.75% senior notes due in 2024 before the end of the grace period on June 23, 2023. After careful consideration by the company, CCRE Real Estate has suspended payments to all overseas creditors to ensure fair</p>

	<p>treatment of all overseas creditors. Such failure to pay may result in the Group's creditors requiring accelerated debt repayment and/or taking action in accordance with the corresponding terms of the relevant financing arrangements.</p>
Greenland Holdings	<p>On May 27, 2023, Greenland Holdings Group Co., Ltd. ("Greenland Holdings") issued an announcement stating that due to the impact of the epidemic and industry headwinds, in order to improve the company's cash flow and liquidity, the issuer Greenland Global Investment Limited and the guarantor Greenland Holdings The Group is seeking consent from the holders of GRNLGR 6.75 06/25/22 to the proposed covenant amendments and waivers.</p> <p>On June 22, Greenland Holdings announced that it had paid GRNLGR 6.75 06/25/22 consent fees and non-qualified note holders related to the consent solicitation on June 21. The issuer, guarantor, trustee and agent have signed a supplementary agency agreement on the effective date of the amendment; the guarantor and the trustee have signed an amended and restated guarantee deed on the effective date of the amendment; the special resolution specified in the memorandum of consent has been implemented; the proposed amendments and exemptions will take effect immediately from the effective date of the amendment.</p> <p>On November 23, Greenland Holding Group Co., Ltd. issued an announcement stating that the company has 9 existing overseas debts, and the relevant consent solicitation and special resolutions have been formally adopted at the holders meeting on November 22, 2023. According to previous announcements, the relevant bonds include 5.6% of notes due in 2023, 6.25% of notes due in 2023, 5.9% of notes due in 2023, 6.125% of notes due in 2023, and 6.75% of notes due in 2023. notes, 6.75% notes due in 2023, 6.75% notes due in 2024, 7.25% notes due in 2025, and 5.875% guaranteed bonds due in 2024.</p>
Fangyuan Real Estate	<p>On August 2, Guangzhou Fangyuan Real Estate Development Co., Ltd. ("Fangyuan Real Estate") issued an announcement to initiate an exchange offer for GZFYRE 13.6 07/27/23. The company intends to refinance existing notes and improve its debt structure with a view to extending its debt maturities, strengthening its balance sheet and improving cash flow management.</p> <p>On August 21, Fangyuan Real Estate announced that in view of recent market conditions, the company has decided to terminate the exchange offer related to GZFYRE 13.6 07/27/23. All existing notes surrendered under the exchange offer will be returned to their respective holders. The announcement focuses on all efforts and funds to "guarantee the delivery of the building" and the payment of other funds is suspended.</p>
Zhongjun Group	<p>October 4, 2023, Zhongjun Group announced on the Hong Kong Stock Exchange that as of the date of this announcement, the company had not paid the due principal and interest totaling approximately US\$61 million in accordance with the syndicated loan agreement signed on March 22, 2021. . Nonpayment of the loan has resulted in an event of default on the company's offshore U.S. dollar senior notes. As of the date of this announcement, the Group continues to maintain normal business operations. The company will hire external consultants as soon as possible to assist the group in assessing its current capital structure and liquidity and exploring feasible comprehensive solutions.</p>
Country Garden	<p>On October 18, 2023, some investors stated that they had not yet received the "Country Garden 6.15% 20250917" coupon. It is understood that the note was listed on September 18, 2019, will mature on September 17, 2025, and interest will be paid on March 17 and September 17 every year. The interest rate of this bond is 6.15%. The current balance is US\$500 million, and the interest payable this time is approximately US\$15.375 million. The bond has a 30-day grace period for payment.</p> <p>Country Garden stated that due to the deep adjustment of the domestic real estate market, the company's sales continue to be under pressure. As mentioned in the previous announcement, the company does not expect to be able to fulfill all overseas debt repayment obligations as scheduled, and hopes to solve the current difficulties by seeking an overall solution. , only by maintaining ongoing operations can the group restore the value of all parties to the greatest extent.</p>

Zhengshang Industrial	On November 22, 2023, Zhengshang Industrial announced that the interest of US\$10 million under the 12.50% senior notes due in 2024 issued by the company will be due and payable on October 23, 2023. The company has 30 days. Interest is paid during the grace period, which expires on November 22, 2023. Due to unforeseen technical reasons, the company was unable to remit funds overseas in time to pay the interest. As of the date of this announcement, the interest has not been paid. Accordingly, an event of default has occurred under the terms of the 2024 Notes.
Ocean Group	On July 14, 2023, according to Debtwire citing multiple people familiar with the matter, as of this morning (July 14), Sino-Ocean Group has not paid a coupon of US\$7.02 million due on July 13, which belongs to 2025 520 million in overseas debt due on January 13, 2019. On August 14, Sino-Ocean Group announced that at the request of the issuer Sino-Ocean Real Estate Baocai I Co., Ltd., the payment was not made on or before August 13, 2023 (the last day of the 14-day grace period for interest payments). The interest on the note for the interest period from January 30, 2023 (inclusive) to July 30, 2023 (exclusive) (excluding this date) resulted in an event of default under the note (US\$20.94 million).
Company abbreviation	Credit events
Guangdong Harbor Holdings	On April 17, 2023, Guangdong Harbor Holdings Co., Ltd. ("Guangdong Harbor Holdings") issued an announcement regarding the exchange offer for the company's 12.0% senior notes due in 2023 and 13.85% senior notes due in 2023. The announcement stated that the company has not paid the interest payable on the October 2023 note due on October 12, 2023 and the interest payable on the May 2023 note due on November 23, 2023. On October 21, Guangdong Harbor Holdings Co., Ltd. issued an announcement regarding the results of the consent solicitation for 7.0% senior notes due in 2026. The Company is pleased to announce that it has received consent to solicit the necessary consents required to implement the amendments and exemptions.
Wanda Commercial Management	On November 21, 2023, Dalian Wanda Commercial Management Group announced that the 600 million overseas debt issued by its subsidiary Wanda Real Estate International Co., Ltd. will mature on January 29, 2024. This adjustment plan extends the bond maturity date from January 29, 2024 to December 29, 2024, and will be repaid in four installments during the extension period. The announcement shows that the issuer will convene a bondholder meeting on December 13, 2023 to review and vote on relevant special resolutions. On December 13, Wanda Commercial Management announced the results of the consent meeting, and the special resolution on "DALWAN 7.25 01/29/24" was officially passed.

Data source: public information, compiled by China Chengxin Asia Pacific

Regulatory developments: The Government issued guidance on bond issuance by Chengtou companies, and the central government plans to introduce a white list to resolve the credit crisis for some real estate companies.

At the end of September, the Government issued the "Guiding Opinions on Resolving Debt Risks of Financial Support Financing Platforms", proposing unprecedented strict and clear guidance. The document first proposes 12 key provinces: Statistics, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Guangxi, Chongqing, Guizhou, Yunnan, Gansu, Qinghai, and Ningxia as targets for strict supervision in the future. The document strengthens the debt management and control of general financing platforms, proposes an implementation framework for financing platform debt in key provinces, and standardizes the risk control mechanism of financing platforms. The document proposes to strictly control new additions, and all departments will coordinate to guide the scale of bond stock to match the level of financial resources. New bonds issued by the

12 provinces mentioned above require opinions from provincial governments; at the same time, new additions of foreign debt and free trade bonds must be strictly controlled. The guidance issued by the State Council, combined with the issuance of special refinancing bonds by the central government to urge local governments to convert bonds and reduce the proportion of non-standard financing, has further raised the credit quality threshold for Chengtou companies to issue overseas bonds. However, at the same time, a series of regulatory policies have helped to Developed regions resolve debt problems and improve the credit quality of enterprises. Combined with the start of the interest rate cut cycle by the Federal Reserve in 2024 and the decline in overseas financing costs, the scale of bond issuance by Chengtou companies is expected to increase in 2024.

On November 19, it was reported that the Government was drafting a whitelist of Chinese real estate developers, consisting of 50 state-owned and private real estate companies. The companies on the list will receive support from various aspects including credit, debt and equity financing. This list has expanded from the scope of systemically important high-quality real estate companies at the beginning of this year. The credit risk of the companies on the list and the decline in profitability caused by public opinion pressure will be significantly improved after the list is released. According to the monthly and mid-year annual reports of major real estate companies in 2023, it can be seen that the profitability data of major real estate companies, such as operating income and net profit, have not improved significantly compared with before the epidemic was lifted, and even Many companies have experienced a certain degree of decline. The weakness in earnings of real estate companies stems from the wait-and-see hesitation on the demand side and consumers' high sensitivity to the negative public opinion of the companies themselves. Therefore, after the 2024 list is released, the credit risks and public opinion pressure of companies on the white list should be greatly improved.

Outlook

As the Federal Reserve raises interest rates and uses quantitative tightening to curb soaring inflation, the level of inflation in the United States has been limited. The CPI data released in the three months of the fourth quarter of the United States all show that the Federal Reserve no longer needs to raise interest rates and can start cutting interest rates in the short term. At the same time, both the primary and secondary markets will recover as interest rates adjust. In particular, the scale of overseas debt issuance in US dollars and euro currencies is expected to recover in 2024. 2024 is the peak period for Chinese overseas debt repayments, especially in the financial and Chengtou sectors. In the second half of 2023, news of regulation continued to come from the Chengtou policy side. The issuance of overseas debt by Chengtou companies in a single month reached US\$ 4.26 billion in December, which was the highest in a single month throughout the year. However, it is necessary to pay attention to the impact of relevant policies on Chengtou companies and enterprises. Regarding the actual effect of improving local fiscal credit quality and the degree of supervision of the overseas refinancing environment of Chengtou enterprises, we expect that the overseas financing environment for Chengtou enterprises will still be difficult to see a significant improvement in the first half of 2024. At the same time, in the context of the State Council's plan to introduce a white list for the credit quality restoration of real estate companies, the overseas financing needs of some real estate companies should increase in 2024. Since mid- 2023, the central government has launched the fourth issuance of special refinancing bonds. Chengtou companies in different qualification areas are facing credit differentiation risks. It is expected that new risk entities may be exposed in 2024. In addition, given the large overseas maturity scale, we need to be alert to the possibility of overseas bond market risks being transmitted to the domestic market. The amount of Chinese-funded overseas debt maturities is still large in 2024, with 169.28 billion US dollars of bonds facing maturity. In an uncertain market environment, Chinese-funded enterprises need to face greater foreign currency repayment pressure.

In the secondary market, total market returns have rebounded by nearly 5% in the fourth quarter after the Federal Reserve stopped raising interest rates, of which high-yield stocks rebounded by 7% in a single quarter. If the Federal Reserve cuts interest rates as scheduled in 2024, the secondary market may experience a larger

rebound, and high-yield fluctuations are expected to be greater. However, we still need to pay attention to the credit risks that may be caused by the negative public opinion in the real estate sector and the repair of the debt problems of Chengtou companies in areas with weak local finance after the issuance of special refinancing bonds. The above-mentioned tail risks will have an impact on the secondary market high-yield index. cause greater negative impact.

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