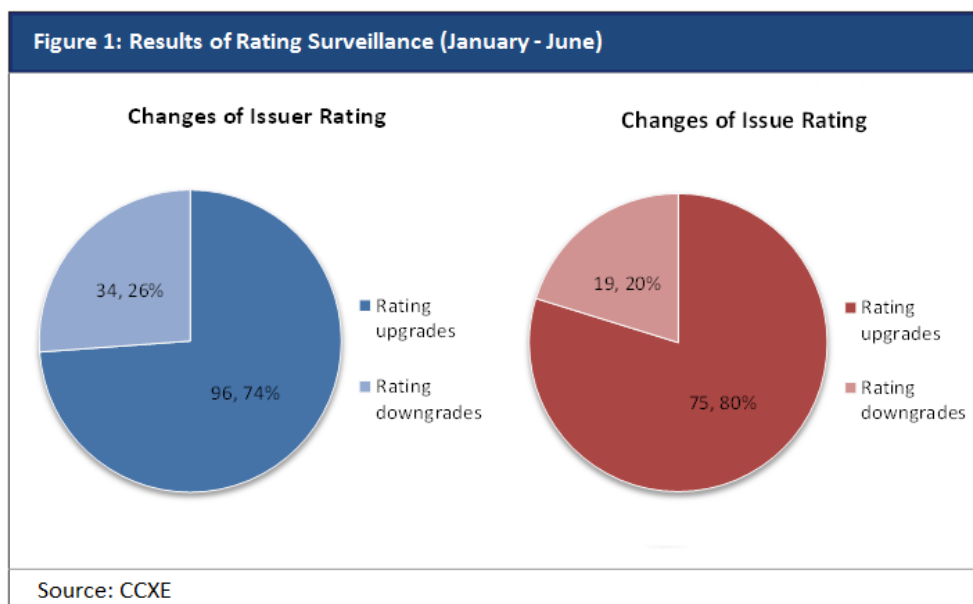


Credit Risk in China's Bond Market

Summary

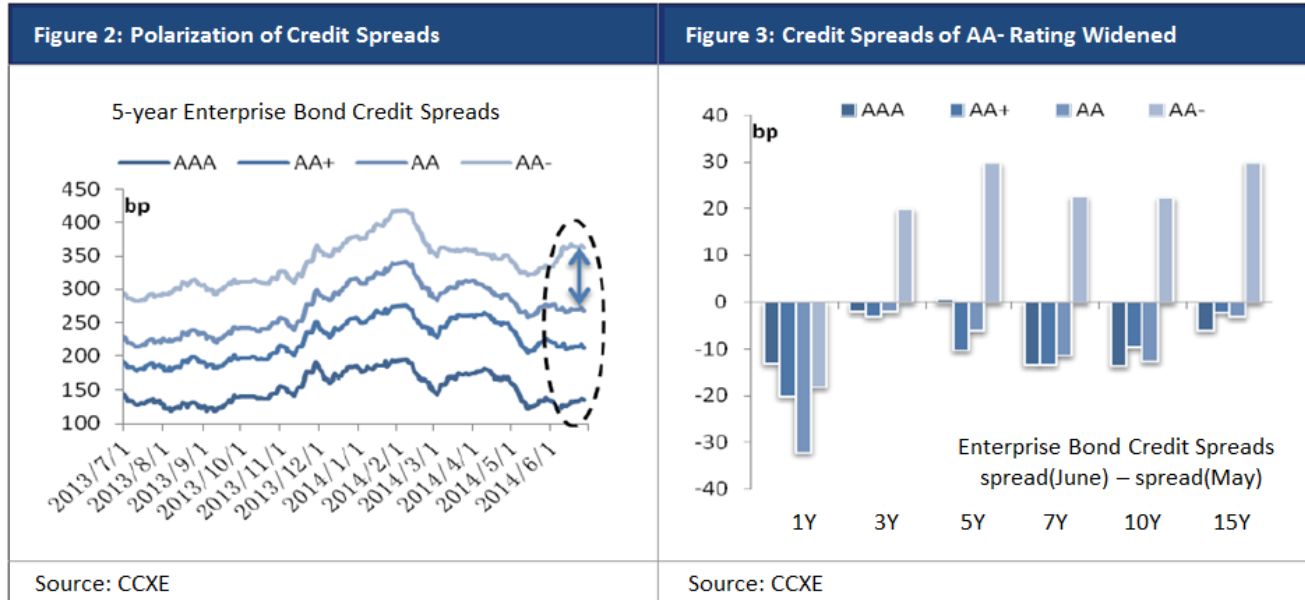
- Rating migration was dominated by rating upgrades, while for some corporate bonds rating downgrades were observed in two consecutive years;
- Credit spread of AA- rating widened, leading to polarization of spreads;
- The number of newly issued credit bonds decreased, and issuance rates also fell but with limited downside;
- Trading volume of enterprise bond remained large, and downward shifting of yield curve slowed;
- With improved macro statistics, money market performed stable in midyear.

1. Rating Migration



As on July 2, most results of rating surveillance on corporate bonds have been released. Although the proportion of upgrades out of total rating changes achieved 80%, the downgrade percentage exceeded previous years. Some corporate bonds with downgraded rating last year suffered further deterioration in ratings this year.

2. Credit Spreads



From the credit spread trends of different ratings, it was observed that the credit spreads of AA+ and AA remained stable, with a small slide at the beginning of June. At the same time, the credit spread of AAA and AA- moved in the opposite direction, demonstrating a mild increase for 5-year AAA and a sharp climb for AA- of all tenors. Hence, the credit spreads among different ratings varied, with widening spread between mid and low ratings and narrowing spread between mid and high ratings.

3. Bond Issuance

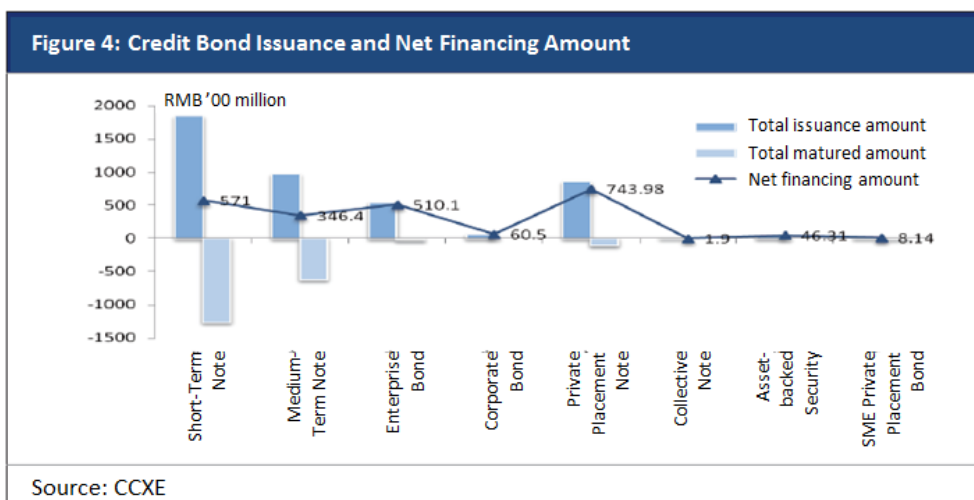
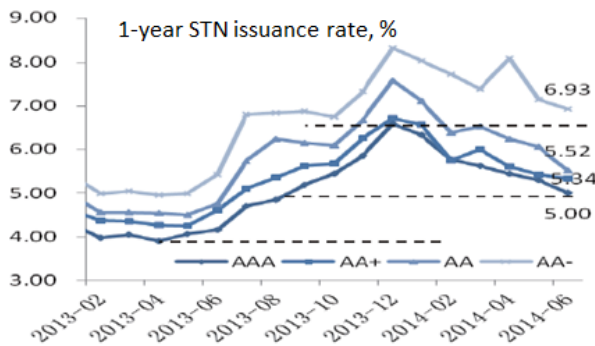


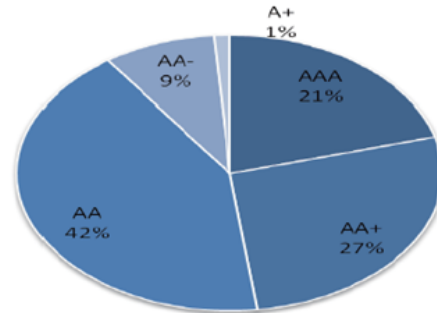
Figure 5: Downward Trend of Issuance Rates*



Source: CCXE

Figure 6: Bond Issuance in June

Rating Distribution of New Issued Bonds



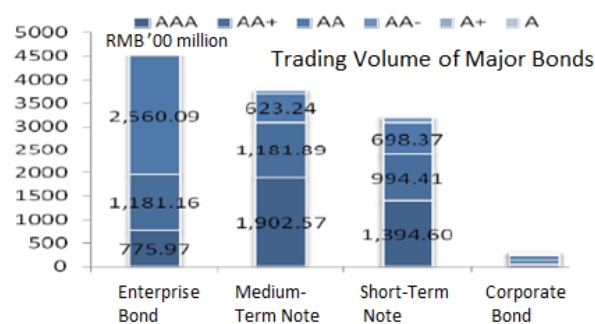
Source: CCXE

* Issuance rate is the average rate of bonds issued in the month.

After a massive issuance for three months, credit bond issuance calmed in June, especially for bonds with medium to long tenors. The proportion of AA bond issuance rebounded, and the number of AA+ bond also increased. Cost of financing fell back to the levels of November 2013, but the downside is limited.

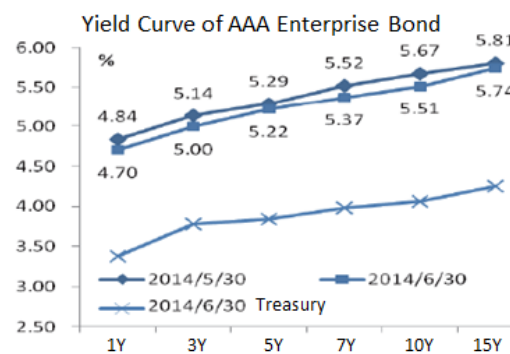
4. Market Trading

Figure 7: Trading Volume of Enterprise Bond Remained Large



Source: CCXE

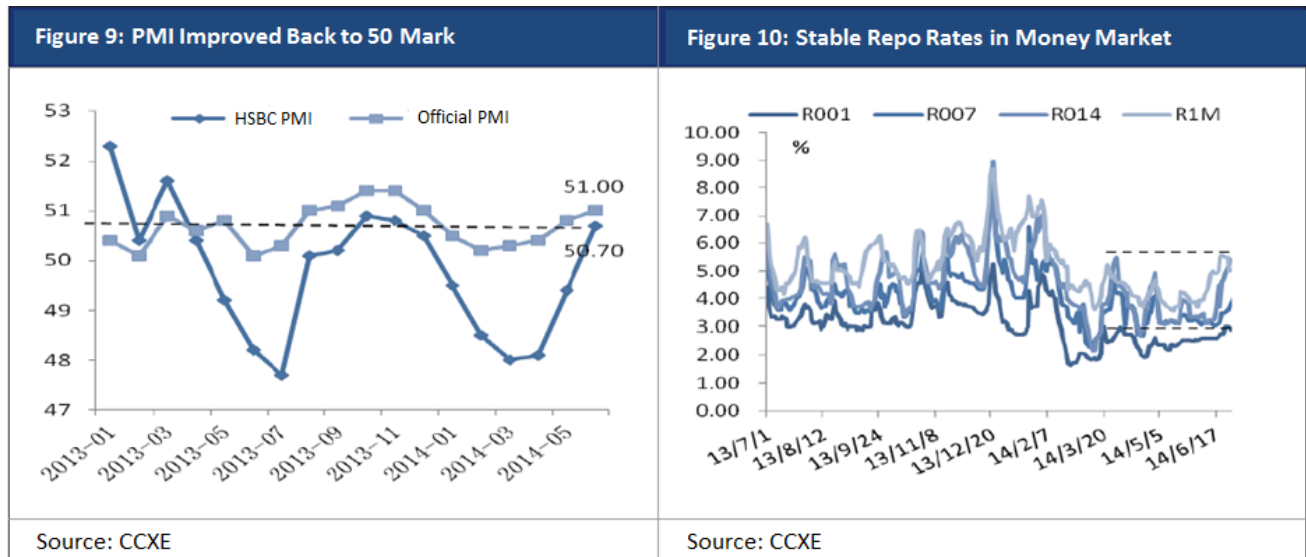
Figure 8: Downward Shifting of Yield Curve Slowed



Source: CCXE

The total trading volume of enterprise bond was above RMB450 billion in June. The trading volume of medium-term note declined by RMB200 billion to RMB320 billion, while that of short-term note fluctuated slightly. Enterprise bond yield curve continued to shift downwards, but with a slowing pace. The changes of 5-year and 15-year rates were within 10 bps, while the changes of other tenors ranged from 14 to 16 bps. Meanwhile, treasury yield curve also went down except for 1-year and 15-year rates.

5. Macro Economy



In June, HSBC PMI and the official PMI were 50.7 and 51.0 respectively, topping the 50 mark and reaching their peaks in 2014. Fluctuations in money market kept steady, and no significant increase in repo rates was observed. The improvement reflected mini-stimulus since the second quarter, and further economic recovery is expected.

Appendix

Table 1: Credit Spread at Bond Issue (June)

Bond	Rating	AAA			AA+			AA-		
	Tenor	Mean	Min	Max	Mean	Min	Max	Mean	Min	Max
Enterprise Bond	5-year	—	—	—	248	248	248	—	—	—
	7-year	252	252	252	296	240	454	334	252	464
Medium-Term Note	3-year	114	111	117	202	144	261	270	224	386
	5-year	182	131	245	250	165	316	295	219	366
Short-Term Note	1-year	167	135	201	200	164	311	219	173	355

Source: CCXE

Table 2: Monthly Movements of Credit Spreads

Bond	Rating	AAA			AA+			AA			AA-		
	Tenor	Cur	Last	Chg	Cur	Last	Chg	Cur	Last	Chg	Cur	Last	Chg
Enterprise Bond	1-year	135	148	-13	181	201	-20	201	233	-32	269	287	-18
	3-year	126	128	-2	193	196	-3	234	236	-2	313	293	20
	5-year	136	135	1	212	222	-10	268	274	-6	363	333	30
	7-year	138	151	-13	225	238	-13	285	296	-11	380	357	23
	10-year	146	160	-14	239	249	-10	297	310	-13	404	382	22
	15-year	150	156	-6	244	246	-2	302	305	-3	408	378	30
Short-/ Medium-Term Note	1-year	137	148	-11	168	185	-17	193	223	-30	304	333	-29
	3-year	128	131	-3	179	179	0	226	226	0	356	352	4
	5-year	143	143	0	197	206	-9	261	267	-6	406	405	1

Source: CCXE

This report is written based on the information from the Chinese report “图说债市信用风险” of China Chengxin International.

Important Information

All information and material published in this document belong to China Chengxin (Asia Pacific) Credit Ratings Company Limited (CCXAP) and are subject to change without CCXAP's prior notice. The information obtained by CCXAP in the document considers reliable. However, all information and material are provided on an "AS IS" and "AS AVAILABLE" basis and CCXAP does not guarantee the accuracy, adequacy, completeness and timeliness of any information included in this document.

None of the information may be used, including without limitation reproducing, amending, sending, distributing, transferring, lending, translating, or adapting the information, for subsequent use without CCXAP's prior written permission. CCXAP is not liable for any damage, loss or expenses, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with this website or use thereof in inability to use by any party, or in connection with any failure of performance, error, omission, interruption, defect, delay in operation or transmission, computer virus or line or system failure, even if CCXAP, or representatives thereof, are advised of the possibility of such damage, losses or expenses. None of the information in this document makes any recommendation to buy, sell and hold any security or credit and should not be used as the advice on investments.

版權所有

本文件的全部內容及資料均屬中國誠信(亞太)信用評級有限公司(簡稱“中誠信亞太”),如有變更,恕不另行通知。本文件上提供的資訊全部都是中誠信亞太從其相信是準確和可靠的來源獲得的。但所有信息及相關材料是在“按原樣”及“按可以獲得”的狀況下提供的,中誠信亞太不就文件及所包含的任何相關信息和材料作出關於準確性、妥善性、完整性和及時性的保證。

所有資訊均受版權法保護,未經中誠信亞太事先書面許可,任何人不得以任何形式、方法對其全部或部份進行複製或翻印、修改、傳送、傳播、散佈、翻譯,或改編以便其後用於此類用途。中誠信亞太對任何人或者任何實體由於使用本文件所在信息所致的任何直接、間接、特殊、偶然性、相因而生的損失或損害不予負責;或對任何性能故障、錯誤、遺漏、中斷、缺陷、操作或傳輸延誤、計算機病毒或線路系統故障等帶來的損失或損害不予負責,即使被告知此類損害的可能性。文件中所載任何信息均非推薦買入、賣出或持有任何證券或其他財務債務,也不應被當做投資建議使用。