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Daily follow-up of the Evergrande saga & Chinese HY. Our first projections

IMF says China still has ability to address Evergrande situation: Tobias Adrian, Director of Monetary and Capital Markets Department at the IMF, said "China has the fiscal capacity and the legal and institutional tools to address the issues linked to China Evergrande's debt, but warned that "communication is not clear and the necessary steps were so far not being taken." The company has missed $277M in coupon payments on its offshore bonds so far and has another $573M is due before the end of the year. A disorderly default this month is almost certain unless it gets a cash windfall from new investors or from asset sales.

China property sector stalked with home sales falling sharply: Many REIT companies in China posted sales declines of 20-30% in September, a typically strong month. The sharp downturn could have serious consequences if sustained, as it could spill over into investment and construction, potentially hurting growth and employment.

A sell-off in bonds is taking place: There is a broad selloff in China property sector bonds, as a wave of developers are facing payment deadlines before year end and with Evergrande's fate looking bleak. Fears are mounting of a wider crisis in the sector and this is causing second round effects with upward pressure on emerging market yields (China's five-year CDS reached the highest level since Apr-20). Demand for Chinese dollar bonds fell in September as Evergrande's liquidity problems began to weigh on the broader offshore debt market.

However, let me rescue two potentially POSITIVE readings from all this misery of data coming out from the Chinese HY market, in what could represent our first assessment and projections in relation to this matter:

1. Even though demand for USD-denominated Chinese bonds (from other sectors than REIT or government agencies) has declined, there is still a considerable demand sufficient to avoid problems of access to liquidity for the rest of the issuers. Orders for bonds stood in September at 5.1x the issuance size, down from one-year high of 7.7x in August. Ex China, dollar bonds' subscription ratio fell to 4.7x in September from 6.9x in August. Indeed falling rend, but still pretty good figures.

2. All the stress that we are seeing in the Chinese HY market is not an "accident" as coincides with a highly concentrated debt repayment level in the last part of 2021 (5bn usd until December, or 2bn usd per month). It usually happens that debt assets suffer when there is such a concentration of amortizations, but once the end of the year has elapsed, amortizations will have a smoother and more manageable schedule (10bn usd for the whole of 2022, or 0.8bn per month), <u>so I expect a relaxation of pressure on the Chinese and Asian corporate debt market in early 2022.</u>

Best regards