China Offshore Bond Market 2026 Mid-Year Update: Divergent Performance Due to Cost Differences

Summary

The China offshore USD bond new issuance amount dropped significantly to USD37.8 billion in in the first half of 2026 ("1H2026"), representing a year-on-year ("y-o-y") decrease of 41.7% compared with the first half of 2025 ("1H2025"), owing to high financing costs of USD bonds. Meanwhile, the new issuance amount of China offshore RMB bonds reached USD57.1 billion in 1H2025, up by 32.3% y-o-y.

The new issuance amount of China local investment and development company ("LIDC") offshore bonds slumped by 67.2% y-o-y to USD7.8 billion in 1H2026, due to further tightening restrictions on LIDCs' financing activities.

The new issuance amount of real estate offshore bonds increased by 5.2% y-o-y to USD4.8 billion in 1H2026, as more large-scale property developers returned to offshore bond market after several years.

The new offshore bond issuance amount by industrial corporates reached USD27.9 billion in 1H2026, slightly lower than USD29.3 billion recorded in 1H2025. Driven by AI spending spree, new offshore bond issuances from Chinese technology companies accounted for approximately 30% of total issuance by industrial corporates.

Looking forward, as financing cost difference China offshore USD and RMB bonds may last longer, offshore RMB bond issuances are expected to increase further and account for a larger proportion in China offshore bond market. Although restrictive policies may further limit the new offshore bond issuance by LIDCs, active industrial corporates (especially technology companies) and Free Trade Zone bonds ("FTZ bonds") will support a steady trend of China offshore bond market in the second half of 2026 ("2H2026").

A) Overview of China Offshore Bond Market

USD and RMB Bond Issuances Showed Divergent Performance Due to Cost Differences

The China offshore USD bond new issuance decreased sharply to USD37.8 billion in 1H2026, a significant drop of 41.7% compared with USD52.7 billion in 1H2025 (EXHIBIT 1). Geopolitical conflicts in Middle East triggered global energy supply concerns, pushed oil price higher and revived worldwide inflation expectations. Against this backdrop, the Federal Reserve ("the Fed") maintained a cautious monetary stance by holding the benchmark interest rate steady at 3.50% to 3.75% in 1H2026. High interest rates raised corporate borrowing and refinancing costs for USD offshore bond issuers, forcing many to pivot to cheaper domestic or local-currency alternatives.

On the other hand, the China offshore RMB bond new issuance increased significantly by 32.3% y-o-y to USD57.1 billion in 1H2026, surpassing the USD bond new issuance over the same period. This is mainly attributed to lower financing cost of RMB bonds, with the cost advantage against USD bonds widened to 368 basis points (bps) in June 2026 from 281 bps in January 2026 (EXHIBT 2). In addition, offshore RMB bond issuances by the Chinese Ministry of Finance on a regular basis also contributed to the large increase and enhanced the yield curve for the China offshore RMB bond market.

Exhibit 1: Total Amount of China Offshore Bond New Issuance

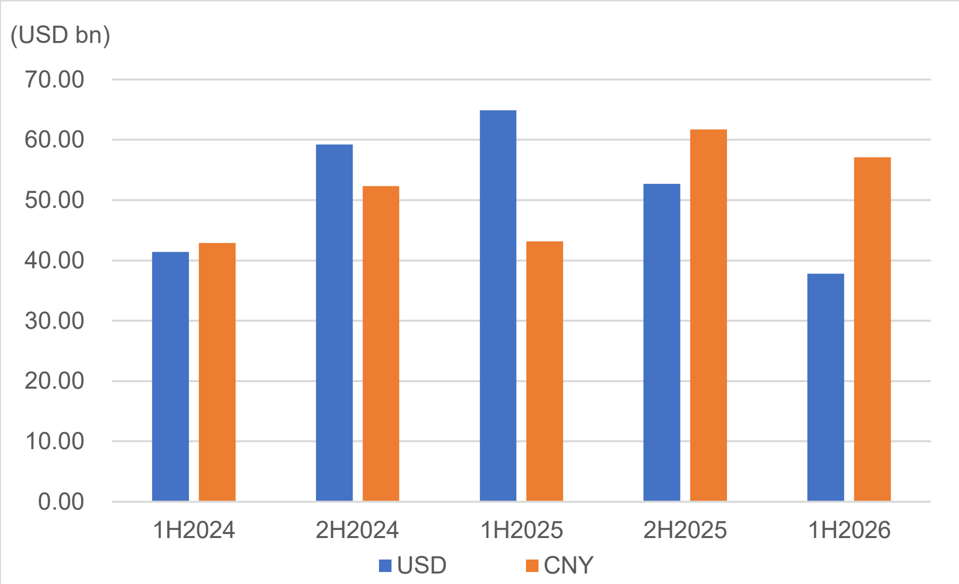
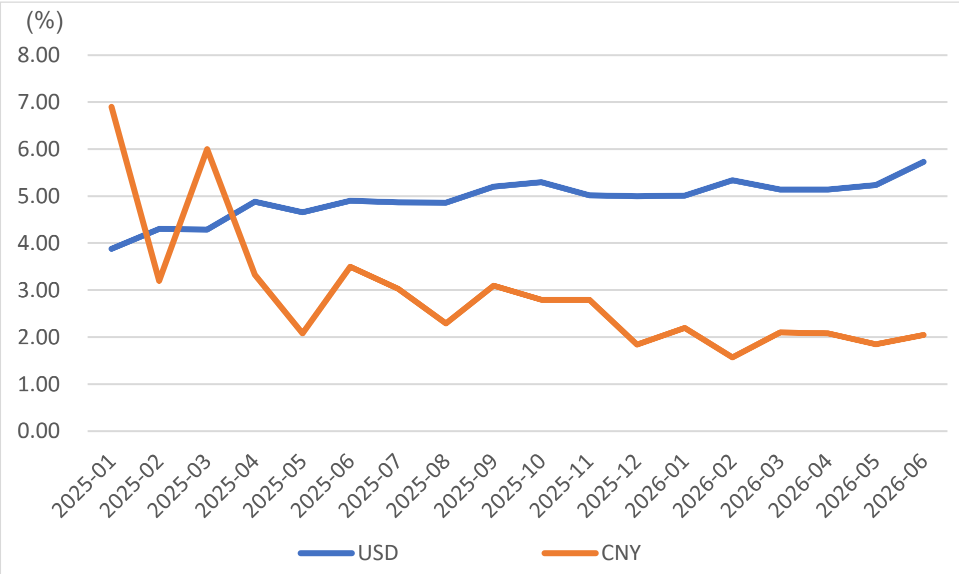


Exhibit 2: Median Monthly Coupon Rate of China Offshore Bond New Issuance

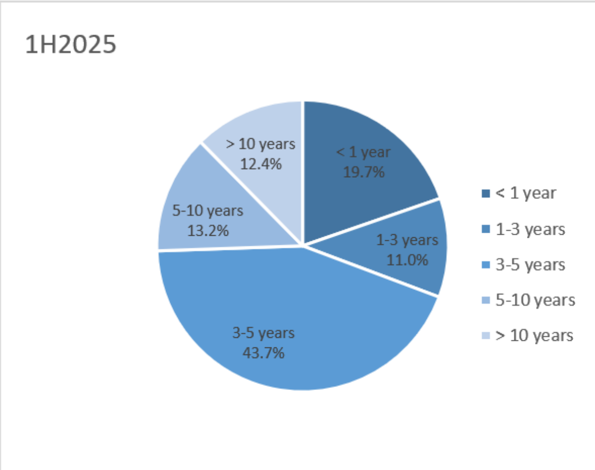


Longer Tenor Became More Attractive, Upcoming Maturity Peak in 2H2026 and 2027

As most of the new offshore bonds were issued for refinancing needs, the short tenor issuance (1-5 years) still dominated, with its contribution to the total new issuance reaching 63.6% in 1H2026 (EXHIBIT 3). However, the offshore bonds with longer tenor became more attractive, as the proportion of bonds with a maturity of more than 10 years (including perpetual bonds) increased to 15.6% in 1H2026, compared with 12.4% in 1H2025.

At end-June 2026, about USD444.4 billion of offshore USD bonds and USD165.0 billion of offshore RMB bonds will mature between July 2026 and 2031, respectively. Specifically, about USD56.1 billion of offshore USD bonds will mature in 2H2026, which was more than the new issuance amount in 1H2025. Furthermore, the maturing amounts reach USD117.4 billion and USD103.9 billion in 2027 and 2028, respectively.

Exhibit 3: Tenor Distribution of China Offshore Bond New Issuance in 1H2025 and 1H2026



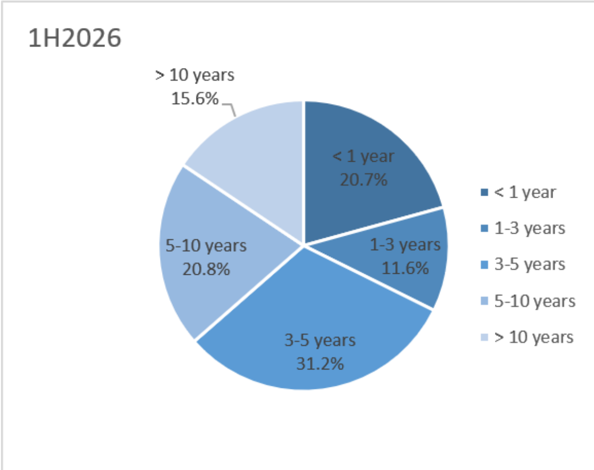
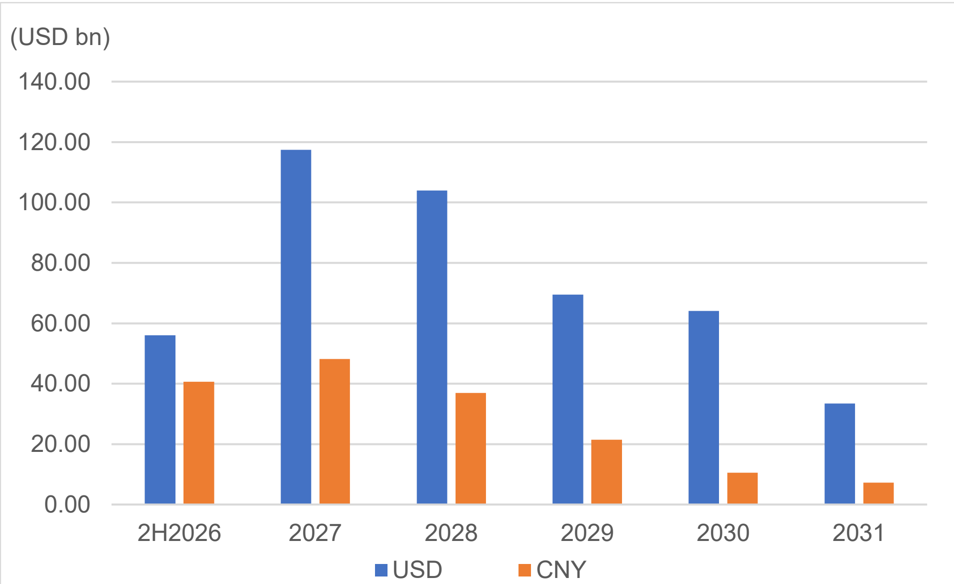


Exhibit 4: Maturity Profile of China Offshore Bond at end-June 2026

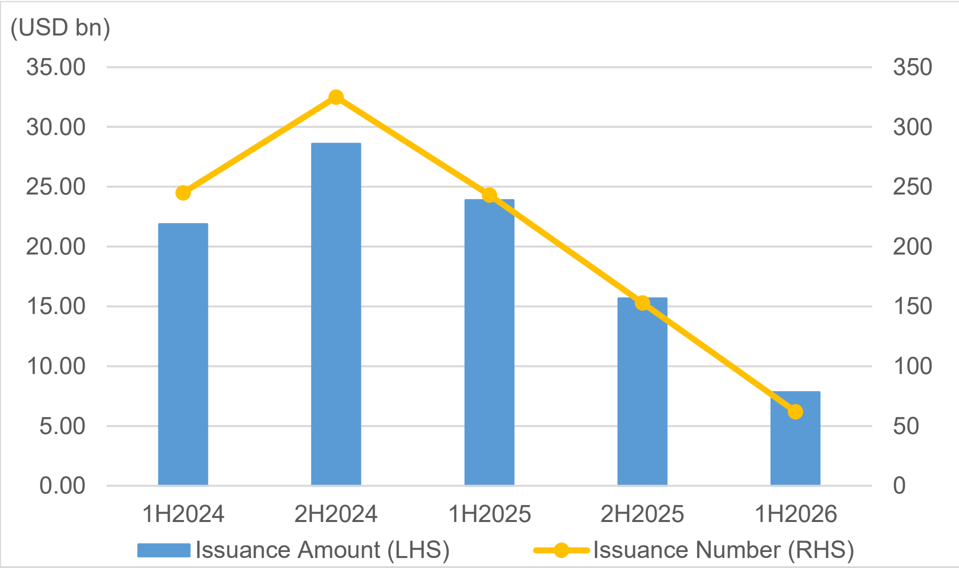


B) LIDCs

New Offshore Bond Issuance by LIDCs Slumped Amid Further Tightening Regulations

The new issuance of China LIDC offshore bonds (in all currencies) slumped by 67.2% y-o-y to USD7.8 billion in 1H2026 (EXHIBIT 5), compared with USD23.9 billion recorded in 1H2025. This is mainly attributed to further tightening regulations on new offshore debt raised by LIDCs, including tightening approvals for overseas borrowings, with the National Development and Reform Commission (NDRC) taking four to six months to approve quotas for offshore bonds and loans with tenors of one year or longer. In addition, some LIDCs tried to refinance their offshore bonds by issuing onshore bonds or refinance offshore USD bonds by issuing offshore RMB bonds.

Exhibit 5: Offshore LIDC Bond New Issuance Amount and Number of Issuances



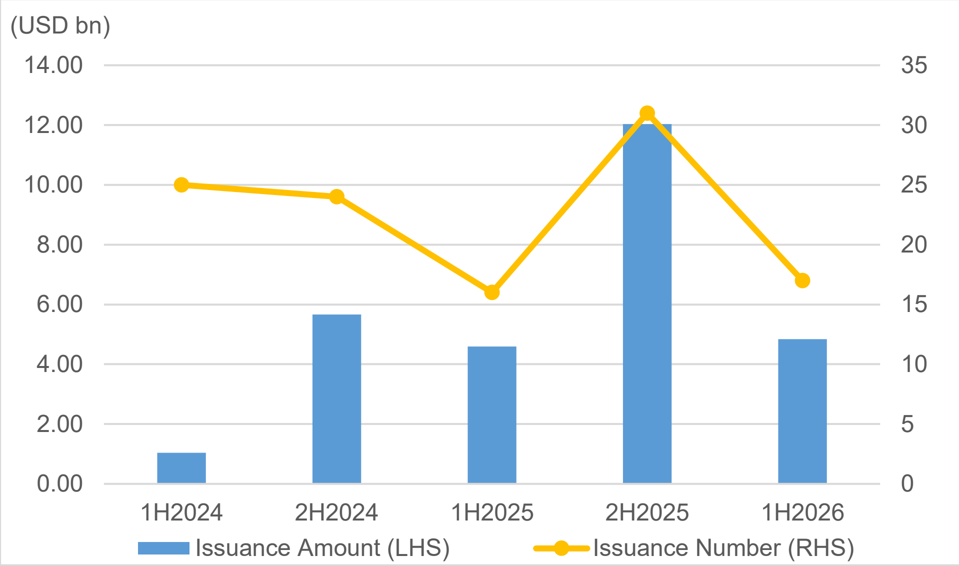
C) Real Estate

More Large-Scale Property Developers Returned to Offshore Bond Market Despite Continued Credit Events

The new issuance of real estate offshore bonds increased slightly to USD4.8 billion in 1H2026 (EXHIBIT 6), compared with USD4.6 billion recorded in 1H2025. More large-scale property developers, including Dalian Wanda Commercial Management Group Co., Ltd. and China Overseas Grand Oceans Group Limited (0081.HK), returned to offshore bond market after several years. These bond issuances may indicate a return of investors' interest on property developers, thus representing an improved access to funding channels by Chinese property developers.

Having said that, there were still some credit events (winding-up petition, interest payment deferral, etc.) by Chinese property developers in the offshore bond market. Property developers with weaker credit profiles and insufficient cash flows were still vulnerable to liquidity crunch.

Exhibit 6: Offshore Real Estate Bond New Issuance Amount and Number of Issuances

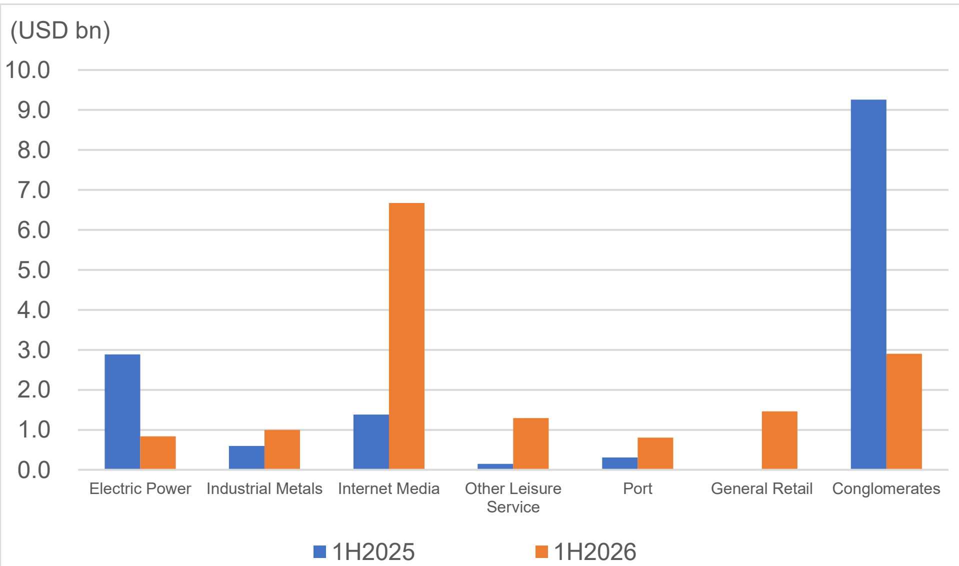


D) Industrial Corporates

Chinese Technology Companies Dominated Offshore Bond Issuances by Industrial Corporates

The new offshore bond issuance by industrials reached USD27.9 billion in 1H2026, slightly lower than USD29.3 billion recorded in 1H2025. Driven by AI spending spree, new bond issuances from internet media sub-sector (mainly Tencent and Kuaishou Technology) and general retail sub-sector (mainly JD.com) reached USD8.1 billion in 1H2026, accounting for approximately 30% of total issuance by industrial corporates. In addition, new issuance from other leisure service (mainly gaming companies from Macao) and industrial metals reached USD1.3 billion and USD1.0 billion in 1H2026, respectively.

Exhibit 7: Offshore Bond New Issuance by Industrial Sub-sectors



E) Outlook in 2H2026

Financing Cost Difference Between China Offshore USD and RMB Bonds is Likely to Last Longer

With inflation still above target, a resilient labour market and energy price volatility linked to the Middle East conflict, the Fed — now chaired by Kevin Warsh, who recently insisted that "prices are too high" — is widely expected to hold the benchmark rate steady through the end of 2026. On the other hand, the People's Bank of China has held the one-year and five-year loan prime rates at record lows of 3.0% and 3.5% for fourteen consecutive months. Ample liquidity and strong investor demand for RMB assets will also keep RMB yields depressed.

Diverging monetary policy between China and the US would likely make financing cost difference between China offshore USD and RMB bonds last longer. There might be more Chinese issuers refinancing onshore or through offshore RMB bonds instead of offshore USD bonds in 2H2026. In addition, authorities in both China's mainland and Hong Kong consistently collaborate to fortify Hong Kong's role as the premier offshore RMB hub. Recent strategies include supporting the development of Hong Kong's fixed income and currency market and offshore RMB business. Considering these factors, offshore RMB bond issuances are expected to increase further and account for a larger proportion in China offshore bond market in 2H2026 and beyond.

Divergent Outlooks for Different Sectors in China Offshore Bond Market

Recently, the NDRC asked selected Chinese bankers to avoid underwriting any offshore RMB bonds yielding more than 4% and any USD bonds yielding more than 5%. The goal is to cut down on higher-cost borrowing and excessive debt financing, especially among LIDCs. The further tightening policy environment will limit the new offshore bond issuance by LIDCs, while those LIDCs with successful transformation of business models to present themselves as market-driven platforms may have better access to offshore financing channels than traditional LIDCs with a high proportion of income and assets linked to public projects in the future.

On the other hand, new offshore bond issuances by industrial corporates are likely to remain active, as more technology companies are looking for offshore bond issuances to fund AI-related capital expenditures.

In addition, supportive polices for FTZ bonds will attract more issuers to participate in the FTZ bond market, contributing to the growth of overall offshore bond issuance. As a whole, we anticipate that the offshore bond issuance will maintain a steady trend in 2H2026.

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