

# Market Summaries

## People's Republic of China

### Yield Movements

The People's Republic of China's (PRC) yield curve for local currency (LCY) bonds steepened between 28 February and 15 May, driven by a much larger decrease in yields at the shorter-end of the curve (**Figure 1**). Yields fell by an average of 70 basis points (bps) for tenors of 3 years or less. For tenors between 5 years and 10 years, yields fell an average of 29 bps. The yield for the 30-year tenor rose 9 bps. As a result, the 2-year versus 10-year yield spread rose from 50 bps to 117 bps during the review period.

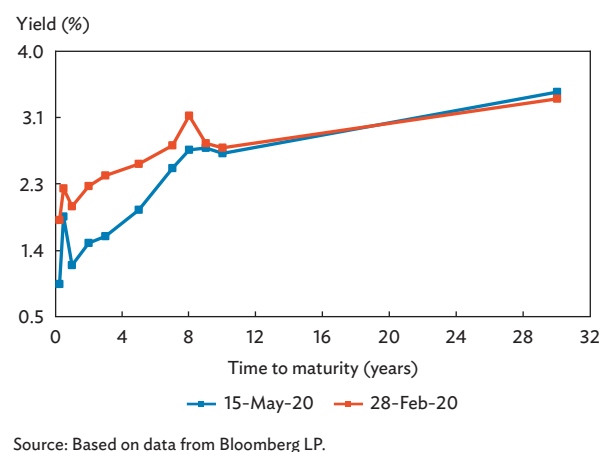
Yields in the PRC fell largely over the ongoing economic impact of the coronavirus disease (COVID-19), which has curtailed both consumer demand and manufacturing supply. In addition, the global impact of COVID-19 has negatively affected PRC exports. This led to the PRC's gross domestic product declining 6.8% year-on-year (y-o-y) in the first quarter (Q1) of 2020 after 6.0% y-o-y growth in the previous quarter. Exports in March also declined, falling 6.6% y-o-y. April exports staged a rebound, rising 3.5% y-o-y. However, the rise in exports was largely the result of production backlogs from previous orders that were not completed when quarantine measures were implemented. Inflation also softened, with the inflation rate coming in at 3.3% y-o-y in April versus 4.3% y-o-y in March.

As a result of the economic contraction, the PRC was forced to implement further monetary easing. On 29 March, the People's Bank of China (PBOC) reduced the 7-day repurchase rate by 20 bps to 2.20%. The PBOC also reduced the rate it charges on its medium-term lending facility by 20 bps to 2.95% on 15 April. On 19 April, it also reduced the rate on the 1-year loan prime rate by 20 bps to 3.85%.

### Size and Composition

The PRC's outstanding LCY bonds climbed 4.9% quarter-on-quarter (q-o-q) in Q1 2020, after gaining 2.8% q-o-q in the fourth quarter (Q4) of 2019, to reach CNY88.3 trillion

**Figure 1: The People's Republic of China's Benchmark Yield Curve—Local Currency Government Bonds**



(USD12.4 trillion). LCY bonds grew 16.1% y-o-y in Q1 2020 (**Table 1**).

**Government bonds.** The growth of government bonds outstanding in the PRC accelerated to 3.5% q-o-q in Q1 2020 after growth of 2.0% in the previous quarter. Growth was driven by an increase in local government bond issuance, which surged more than eightfold on a q-o-q basis to CNY1.6 trillion in Q1 2020, leading to a 6.6% q-o-q increase in local government bonds outstanding. The increase in issuance was driven both by a low base effect, as local governments had completed their bond issuance quotas before Q4 2019, and by the granting of the 2020 bond issuance quota totaling CNY1.8 trillion. Specifically, the State Council issued a directive on 17 March to accelerate bond issuance and the use of proceeds. Treasury bonds and other government bonds fell 0.9% q-o-q in Q1 2020, while policy bank bonds grew 1.8% q-o-q in the same period.

**Corporate bonds.** Growth in the PRC's corporate bond market accelerated in Q1 2020 to 7.3% q-o-q from 4.1% q-o-q in Q4 2019. The rise in corporate bonds was helped in part by regulations issued in March simplifying

**Table 1: Size and Composition of the Local Currency Bond Market in the People's Republic of China**

	Outstanding Amount (billion)						Growth Rates (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>76,012</b>	<b>11,325</b>	<b>84,185</b>	<b>12,090</b>	<b>88,270</b>	<b>12,464</b>	<b>3.0</b>	<b>16.7</b>	<b>4.9</b>	<b>16.1</b>
Government	49,061	7,309	53,986	7,753	55,852	7,886	2.5	16.1	3.5	13.8
Treasury Bonds and Other Government Bonds	14,882	2,217	16,698	2,398	16,850	2,379	(0.3)	10.6	0.9	13.2
Central Bank Bonds	2	0	22	3	19	3	-	-	(15.9)	1,133.3
Policy Bank Bonds	14,776	2,201	15,695	2,254	15,985	2,257	1.8	8.6	1.8	8.2
Local Government Bonds	19,401	2,890	21,571	3,098	22,999	3,247	5.2	27.6	6.6	18.5
Corporate	26,951	4,015	30,199	4,337	32,418	4,577	4.1	17.8	7.3	20.3
Policy Bank Bonds										
China Development Bank	8,328	1,241	8,704	1,250	8,875	1,253	2.2	10.0	2.0	6.6
Export-Import Bank of China	2,444	364	2,735	393	2,858	404	1.9	4.9	4.5	17.0
Agricultural Devt. Bank of China	4,005	597	4,256	611	4,252	600	0.8	8.2	(0.1)	6.2

(-) = negative, - = not applicable, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.  
Notes:

1. Calculated using data from national sources.
  2. Treasury bonds include savings bonds and local government bonds.
  3. Bloomberg LP end-of-period local currency-USD rates are used.
  4. Growth rates are calculated from local currency base and do not include currency effects.
- Sources: CEIC and Bloomberg LP.

**Table 2: Corporate Bonds Outstanding in Key Categories**

	Amount (CNY billion)			Growth Rate (%)			
	Q1 2019	Q4 2019	Q1 2020	Q1 2019		Q1 2020	
				q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	4,744	5,832	6,364	1.0	28.7	9.1	34.2
Enterprise Bonds	3,872	3,793	3,707	1.0	(11.7)	(2.3)	(4.3)
Listed Corporate Bonds	6,608	7,724	8,328	1.0	21.5	7.8	26.0
Commercial Paper	2,240	1,994	2,671	1.1	26.9	34.0	19.2
Medium-Term Notes	5,813	6,333	6,829	1.1	19.4	7.8	17.5
Asset-Backed Securities	1,728	2,416	2,388	1.0	72.4	(1.2)	38.2

(-) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, y-o-y = year-on-year.  
Source: CEIC.

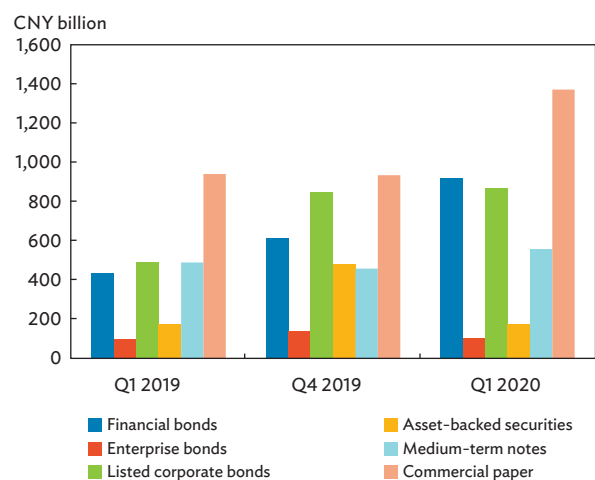
the issuance process for listed corporate bonds and enterprise bonds.

The new regulations led to strong growth in listed corporate bonds, which grew 7.8% q-o-q in Q1 2020 (**Table 2**). Increased financial uncertainty and expectations of further declines in interest rates led to commercial paper outstanding rising 34.0% q-o-q on a surge in issuance of 46.9% q-o-q (**Figure 2**). Issuance of financial bonds also rose 50.6% q-o-q in Q1 2020 as financial institutions sought to bolster their capital base and liquidity.

The PRC's LCY corporate bond market continued to be dominated by a few big issuers in Q1 2020 (**Table 3**).

At the end of March, the top 30 corporate bond issuers accounted for a combined CNY8.9 trillion worth of corporate bonds outstanding, representing 27.5% of the total corporate bond stock. Of the top 30, the 10 largest issuers accounted for an aggregate CNY5.7 trillion. China Railway, the top issuer, had four times the outstanding amount of bonds as Industrial and Commercial Bank of China, the second-largest issuer. The top 30 issuers included 15 banks, which continued to generate funding to strengthen their capital bases, improve liquidity, and lengthen their maturity profiles amid ongoing uncertainty.

**Table 4** lists the largest corporate bond issuances in the PRC in Q1 2020. The top issuers consisted largely of

**Figure 2: Corporate Bond Issuance in Key Sectors**

CNY = Chinese yuan, Q1 = first quarter, Q4 = fourth quarter.  
Source: *ChinaBond*.

financial institutions that sought to improve their capital bases and liquidity in light of the ongoing economic impact of COVID-19.

## Investor Profile

Among the major government bond categories (local government, Treasury, and policy bank bonds), banks were the single-largest holder at the end of March, with a 73.0% share of all outstanding government bonds (**Figure 3**). The concentration of banks' ownership of bonds was highest for local government bonds (87.9%), as banks were asked by the government to help support the funding efforts of local governments. Policy banks were the next largest holder of local government bonds. Unincorporated products were the second-largest holder of policy bank bonds after banks.<sup>12</sup>

## Liquidity

The volume of interest rate swaps fell 10.2% q-o-q in Q1 2020. The 7-day repurchase agreement remained the most used interest rate swap, comprising a 79.2% share of the total interest rate swap volume during the quarter (**Table 5**).

## Policy, Institutional, and Regulatory Developments

### National Development and Reform Commission Eases Bond Issuance Regulations

In March, the National Development and Reform Commission launched a registration-based system for the public issuance of enterprise and corporate bonds to replace the previous approval-based corporate and enterprise bond issuance system. Starting 1 March, the National Development and Reform Commission began registering the issuance of enterprise bonds if a firm's average distributable profits over the last 3 years were enough to cover 1 year of interest. The new system was expected to reduce the issuance period of enterprise bonds to 2 weeks from 2–6 months.

### People's Bank of China Reduces Reserve Requirement Ratios for Small Banks

In April, PBOC announced a reduction in the reserve requirement ratio for small banks by a total of 100 bps, a 50-bps cut each on 15 April and 15 May. The reductions released a total of around CNY400 billion into the domestic economy, which has been negatively impacted by the outbreak of COVID-19. The PBOC has stepped up its policy easing measures since February, cutting the benchmark leading rate and encouraging banks to offer cheap loans to firms hit hardest by the pandemic.

<sup>12</sup> Unincorporated products include banks' wealth management products, securities investment funds, trust funds, and insurance products.

Table 3: Top 30 Issuers of Local Currency Corporate Bonds in the People's Republic of China

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (CNY billion)	LCY Bonds (USD billion)			
1.	China Railway	2,098.5	296.3	Yes	No	Transportation
2.	Industrial and Commercial Bank of China	517.6	73.1	Yes	Yes	Banking
3.	Agricultural Bank of China	500.1	70.6	Yes	Yes	Banking
4.	Bank of China	491.2	69.4	Yes	Yes	Banking
5.	Central Huijin Investment	443.0	62.6	Yes	No	Asset Management
6.	State Grid Corporation of China	358.0	50.5	Yes	No	Public Utilities
7.	Bank of Communications	351.5	49.6	No	Yes	Banking
8.	Shanghai Pudong Development Bank	325.5	46.0	No	Yes	Banking
9.	China Construction Bank	307.1	43.4	Yes	Yes	Banking
10.	China CITIC Bank	291.8	41.2	No	Yes	Banking
11.	China National Petroleum	274.9	38.8	Yes	No	Energy
12.	China Minsheng Banking	234.0	33.0	No	Yes	Banking
13.	Industrial Bank	216.2	30.5	No	Yes	Banking
14.	State Power Investment	202.3	28.6	Yes	No	Energy
15.	PetroChina	195.0	27.5	Yes	Yes	Energy
16.	Tianjin Infrastructure Construction and Investment Group	171.0	24.1	Yes	No	Industrial
17.	China Merchants Bank	169.4	23.9	Yes	Yes	Banking
18.	China Southern Power Grid	167.0	23.6	Yes	No	Energy
19.	China Everbright Bank	164.2	23.2	Yes	Yes	Banking
20.	Ping An Bank	163.7	23.1	No	Yes	Banking
21.	Postal Savings Bank of China	155.0	21.9	Yes	Yes	Banking
22.	Huaxia Bank	155.0	21.9	Yes	No	Banking
23.	CITIC Securities	142.8	20.2	Yes	Yes	Brokerage
24.	Datong Coal Mine Group	135.3	19.1	Yes	No	Coal
25.	Bank of Beijing	132.9	18.8	No	Yes	Banking
26.	Shaanxi Coal and Chemical Industry Group	125.5	17.7	Yes	No	Energy
27.	China Cinda Asset Management	115.0	16.2	Yes	Yes	Asset Management
28.	Shougang Group	108.5	15.3	Yes	No	Steel
29.	China Datang	107.7	15.2	Yes	Yes	Energy
30.	China Three Gorges Corporation	105.0	14.8	Yes	No	Power
<b>Total Top 30 LCY Corporate Issuers</b>		<b>8,924.6</b>	<b>1,260.1</b>			
<b>Total LCY Corporate Bonds</b>		<b>32,417.6</b>	<b>4,577.3</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>27.5%</b>	<b>27.5%</b>			

CNY = Chinese yuan, LCY = local currency, USD = United States dollar.

Notes:

1. Data as of 31 March 2020.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

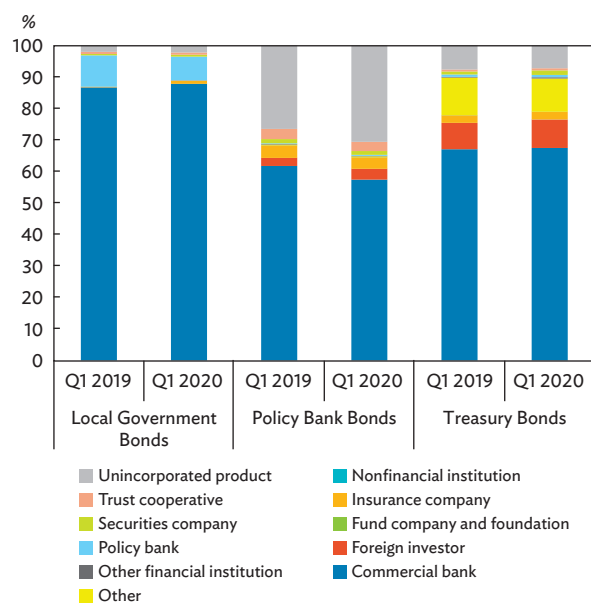
Table 4: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)	Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Central Huijin Investment			China Southern Power Grid		
3-year bond	3.15	15	3-year bond	3.30	5
3-year bond	2.75	15	3-year bond	3.30	5
5-year bond	3.55	6	3-year bond	2.94	4
5-year bond	3.02	6	3-year bond	2.90	4
Bank of Beijing			CITIC Securities		
3-year bond	2.85	30	3-year bond	2.95	2
5-year bond	3.10	10	3-year bond	3.02	2
China CITIC Bank			5-year bond		
3-year bond	2.75	30	5-year bond	3.20	2
			5-year bond	3.31	2

CNY = Chinese yuan.

Source: Based on data from Bloomberg LP.

Figure 3: Government Bonds Investor Profile



Q1 = first quarter.

Source: Bloomberg LP.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the First Quarter of 2020

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)	
			Q1 2020	q-o-q
7-Day Repo Rate	2.0	0.00	(100.0)	
7-Day Repo Rate (Deposit Institutions)	33,950.5	79.21	3.7	
Overnight SHIBOR	234.0	0.55	170.5	
3-Month SHIBOR	7,799.3	18.20	(45.2)	
1-Year Lending Rate	728.5	1.70	77.8	
5-Year Lending Rate	25.6	0.06	39.7	
10-Year Treasury Yield	62.0	0.14	(61.1)	
10-Year China Development Bank Bond/10-Year Government Bond Yield	61.0	0.14	(34.1)	
<b>Total</b>	<b>42,862.9</b>	<b>100.00</b>	<b>(10.2)</b>	

() = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.

Note: Growth rate computed based on notional amounts.

Sources: AsianBondsOnline and ChinaMoney.