

Market Summaries

People's Republic of China

Yield Movements

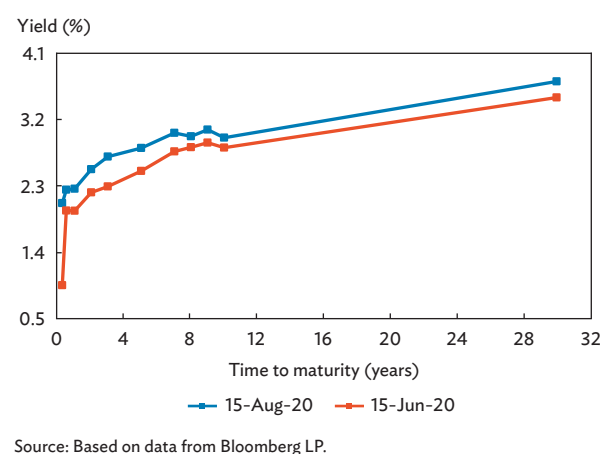
The People's Republic of China's (PRC) yield curve for local currency (LCY) bonds shifted upward between 15 June and 15 August (**Figure 1**). Yields rose more at the shorter-end of the curve, with tenors of 1 year or less rising by 56 basis points (bps). For tenors of between 2 years and 7 years, yields rose an average of 32 bps while yields rose an average of 17 bps for the remaining tenors. As a result, the spread for the 2-year versus 10-year yields fell to 42 bps from 60 bps between 15 June and 15 August.

Yields largely rose as economic data showed the PRC undergoing an economic recovery. The PRC's gross domestic product (GDP) grew 3.2% year-on-year (y-o-y) in the second quarter (Q2) of 2020 after a 6.8% y-o-y decline in the first quarter (Q1) of 2020. Among emerging East Asian economies, the PRC was only one of two markets that posted positive GDP growth in Q2 2020 and the only one that showed an improvement in GDP growth in the second quarter.

Industrial production in the PRC also showed improvement. After a 1.1% y-o-y decline in March, industrial production posted 4 months of positive growth, culminating in a 4.8% y-o-y expansion in July. Retail sales growth continued to be negative, but the declines have slowed. In March, retail sales declined 15.8% y-o-y, but in the succeeding months, the declines slowed, with a 1.8% y-o-y decline in June and a 1.1% y-o-y decline in July. Inflation also showed an uptick, with a 2.7% y-o-y inflation rate in July, up from 2.5% y-o-y in June. Producer prices also moved out of deflation, posting a 0.6% y-o-y increase in July after declining 0.1% in June.

Further contributing to the rise in yields was the People's Bank of China (PBOC) not engaging in broad-based monetary easing since it last adjusted its medium-term lending facility and other interest rates last April. However, fiscal stimulus measures are still ongoing as the central government targeted a higher budget deficit target in 2020 and directed local governments to issue more

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



bonds and ensure they are quickly utilized. The expected increased supply of bonds also put upward pressure on yields.

Size and Composition

The PRC's outstanding LCY bonds rose 5.6% quarter-on-quarter (q-o-q) in Q2 2020, after rising 4.9% q-o-q in Q1 2020, to reach CNY93.2 trillion (USD13.2 trillion). LCY bonds grew 17.9% y-o-y in Q1 2020 (**Table 1**).

Government bonds. Growth in the LCY government bond market in the PRC accelerated to 5.4% q-o-q in Q2 2020 from 3.5% q-o-q in Q1 2020. Growth was driven by an increase in Treasury bonds and other government bonds and in local government bonds. Treasury bonds and other governments rose 5.5% q-o-q after a decline of 0.9% in the previous quarter, while local government bonds outstanding grew 6.2% q-o-q, nearly the same pace as the 6.6% q-o-q growth in the previous quarter.

The rise in government bonds outstanding was due to the PRC's efforts to stabilize the economy through fiscal stimulus measures. The budget deficit is projected to

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	79,049	11,512	88,270	12,464	93,187	13,189	4.0	16.7	5.6	17.9
Government	51,135	7,447	55,852	7,886	58,867	8,332	4.2	15.9	5.4	15.1
Treasury Bonds and Other Government Bonds	15,461	2,252	16,850	2,379	17,775	2,516	3.9	11.7	5.49	15.0
Central Bank Bonds	4	1	19	3	15	2	166.7	-	(18.9)	275.0
Policy Bank Bonds	15,213	2,215	15,985	2,257	16,662	2,358	3.0	8.6	4.2	9.5
Local Government Bonds	20,457	2,979	22,999	3,247	24,415	3,456	5.4	25.7	6.2	19.3
Corporate	27,914	4,065	32,418	4,577	34,320	4,857	3.6	18.3	5.9	22.9
Policy Bank Bonds										
China Development Bank	8,580	1,250	8,875	1,253	9,138	1,293	3.0	10.8	3.0	6.5
Export-Import Bank of China	2,533	369	2,858	404	3,086	437	3.6	7.0	8.0	21.8
Agricultural Devt. Bank of China	4,100	597	4,252	600	4,438	628	2.4	5.3	4.4	8.2

(-) = negative, - = not applicable, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second 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 (%)			
	Q2 2019	Q1 2020	Q2 2020	Q2 2019		Q2 2020	
				q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	5,042	6,364	6,803	1.1	30.8	6.9	34.9
Enterprise Bonds	3,834	3,707	3,771	1.0	(8.8)	1.7	(1.6)
Listed Corporate Bonds	7,024	8,328	8,996	1.1	22.0	8.0	28.1
Commercial Paper	2,197	2,671	2,825	1.0	26.2	5.8	28.6
Medium-Term Notes	5,919	6,829	7,300	1.0	17.1	6.9	23.3
Asset-Backed Securities	1,924	2,388	2,406	1.1	65.3	0.8	25.0

(-) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, y-o-y = year-on-year.
Source: CEIC.

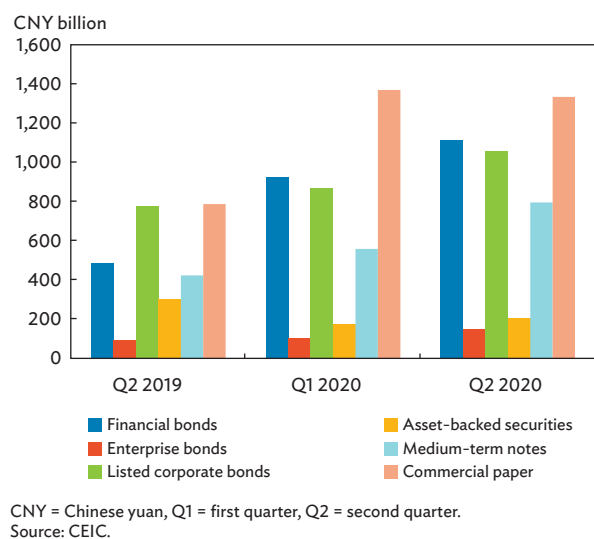
be at least CNY1.0 trillion higher in 2020 than in 2019, with the budget deficit expected to exceed 3.6% of GDP, up from 2.8%. In addition, the PRC announced that it will issue CNY1.0 trillion of special government bonds specifically earmarked for coronavirus disease (COVID-19) measures; these bonds are considered off-book and not counted as part of the government's budget. The PRC also set a target of CNY3.75 trillion for local government bond issuance in 2020, which is CNY1.6 trillion higher than last year.

Corporate bonds. The PRC's corporate bond market growth decelerated to 5.9% in Q2 2020 from 7.3% q-o-q in Q1 2020. Financial bonds grew the fastest, rising

6.9% q-o-q (**Table 2**). While growth slowed in Q2 2020, it was still relatively high as the PRC has sought to make issuances of bonds easier in 2020. In addition, better economic conditions in the PRC helped improve the environment for issuing corporate bonds as well.

As a result, issuance of all major corporate bond categories increased in Q2 2020, except for commercial paper, which fell 2.7% q-o-q (**Figure 2**).

The PRC's LCY corporate bond market continued to be dominated by a few big issuers (**Table 3**). At the end of Q2 2020, the top 30 corporate bond issuers accounted for a combined CNY9.4 trillion worth of corporate

Figure 2: Corporate Bond Issuance in Key Sectors

bonds outstanding, or about 27.4% of the total market. Of the top 30, the 10 largest issuers accounted for an aggregate CNY6.1 trillion. China Railway, the top issuer, had nearly four times the outstanding amount of bonds as Agricultural 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 given the ongoing uncertainty.

Table 4 lists the largest corporate bond issuances in Q2 2020. The top issuers consisted largely of financial institutions as they seek to improve their capital base and liquidity in light of the ongoing economic impact of COVID-19.

Investor Profile

Government bonds. Among the major government bond categories, banks were the single-largest holder at the end of June (**Figure 3**), with banks owning 72.7% of all outstanding government bonds. The concentration of bank ownership was the highest for local government bonds (87.9%), as banks have been asked by the central government to help support the funding efforts of local governments, followed by policy banks as the next largest holder of local government bonds. Unincorporated products are the second-largest holder of policy bank bonds after banks.⁶

Liquidity

The volume of interest rate swaps fell 10.2% q-o-q in Q2 2020. The 7-day repurchase 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

The People's Bank of China Issues Central Bank Bills in Hong Kong, China

In June and August, the PBOC issued renminbi-denominated bills in Hong Kong, China to help manage offshore liquidity and control the renminbi yield curve. The issuance comprised of (i) CNY10 billion 6-month central bank bills at a yield of 2.21% in June, and (ii) CNY20 billion 3-month central bank bills at a yield of 2.70%, and (iii) CNY10 billion of 1-year bills at a yield of 2.70% in August.

⁶ 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	2,243.5	317.5	Yes	No	Transportation
2.	Agricultural Bank of China	645.1	91.3	Yes	Yes	Banking
3.	Bank of China	530.6	75.1	Yes	Yes	Banking
4.	Industrial and Commercial Bank of China	517.6	73.3	Yes	Yes	Banking
5.	Central Huijin Investment	476.0	67.4	Yes	No	Asset Management
6.	Bank of Communications	391.6	55.4	No	Yes	Banking
7.	Shanghai Pudong Development Bank	353.7	50.1	No	Yes	Banking
8.	State Grid Corporation of China	352.5	49.9	Yes	No	Public Utilities
9.	China Construction Bank	307.1	43.5	Yes	Yes	Banking
10.	China National Petroleum	294.9	41.7	Yes	No	Energy
11.	Industrial Bank	273.4	38.7	No	Yes	Banking
12.	China Minsheng Banking	264.0	37.4	No	Yes	Banking
13.	China CITIC Bank	223.2	31.6	No	Yes	Banking
14.	State Power Investment	210.6	29.8	Yes	No	Energy
15.	Ping An Bank	193.7	27.4	No	Yes	Banking
16.	PetroChina	180.0	25.5	Yes	Yes	Energy
17.	Tianjin Infrastructure Construction and Investment Group	170.0	24.1	Yes	No	Industrial
18.	China Southern Power Grid	167.0	23.6	Yes	No	Energy
19.	Huaxia Bank	165.0	23.4	Yes	No	Banking
20.	China Everbright Bank	163.8	23.2	Yes	Yes	Banking
21.	Postal Savings Bank of China	155.0	21.9	Yes	Yes	Banking
22.	China Merchants Bank	151.4	21.4	Yes	Yes	Banking
23.	CITIC Securities	147.7	20.9	Yes	Yes	Brokerage
24.	Datong Coal Mine Group	139.4	19.7	Yes	No	Coal
25.	Shaanxi Coal and Chemical Industry Group	137.5	19.5	Yes	No	Energy
26.	China Three Gorges Corporation	114.0	16.1	Yes	No	Power
27.	Shougang Group	113.4	16.1	Yes	No	Steel
28.	China Datang	105.1	14.9	Yes	Yes	Energy
29.	China Cinda Asset Management	103.0	14.6	Yes	Yes	Asset Management
30.	Bank of Beijing	102.9	14.6	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		9,392.5	1,329.4			
Total LCY Corporate Bonds		34,319.6	4,857.4			
Top 30 as % of Total LCY Corporate Bonds		27.4%	27.4%			

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

Notes:

1. Data as of 30 June 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 Second Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)	Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China State Railway Group			Agricultural Bank of China		
1-year bond	1.64	15	3-year bond	1.99	20
1-year bond	1.74	10	10-year bond	3.10	40
5-year bond	3.07	20	Industrial Bank		
5-year bond	3.07	20	3-year bond	2.17	23
5-year bond	3.07	20	3-year bond	2.58	22
10-year bond	3.58	12	5-year bond	2.67	7
10-year bond	3.58	12	5-year bond	2.95	5
10-year bond	3.58	12	Shanghai Pudong Development Bank		
20-year bond	3.97	8	3-year bond	2.08	50
Central Huijin Investment					
3-year bond	2.15	15			
3-year bond	2.28	15			
3-year bond	2.92	15			
5-year bond	2.71	6			
5-year bond	3.29	6			
5-year bond	2.61	6			

CNY = Chinese yuan.

Source: Based on data from Bloomberg LP.

Figure 3: Local Currency Treasury Bonds and Policy Bank Bonds Investor Profile

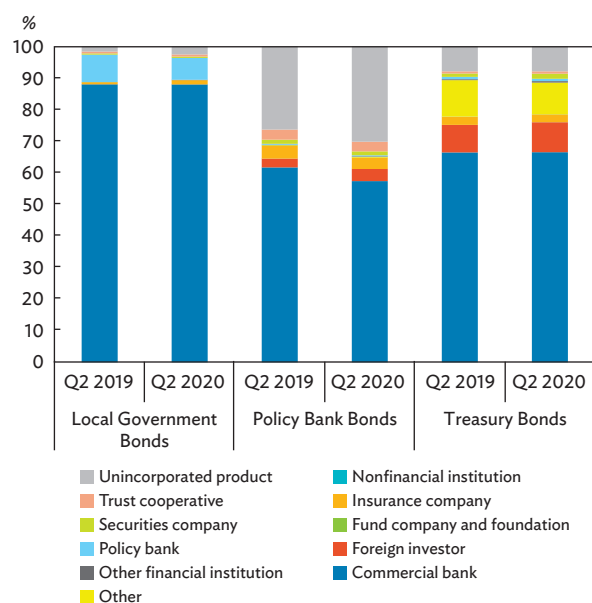
Q2 = second quarter.
Source: Bloomberg LP.

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

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
	Q2 2020		q-o-q
7-Day Repo Rate	2.0	0.0	0.0
7-Day Repo Rate (Deposit Institutions)	33,950.5	79.2	3.7
Overnight SHIBOR	234.0	0.5	170.5
3-Month SHIBOR	7,799.3	18.2	(45.2)
1-Year Lending Rate	728.5	1.7	77.8
5-Year Lending Rate	25.6	0.1	39.7
10-Year Treasury Yield	62.0	0.1	(61.1)
10-Year Bond Yield/10-Year Government Bond Yield	61.0	0.1	(34.1)
Total	42,862.9	100.0	(10.2)

() = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q2 = second quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.

Note: Growth rate computed based on notional amounts.

Sources: AsianBondsOnline and ChinaMoney.