

# 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 31 August and 30 October (**Figure 1**). The largest shift in yields was seen in the 3-month tenor, which rose 43 basis points (bps). Other tenors that showed a strong rise were the 1-year and 2-year tenors. The 2-year tenor rose 33 bps, while the 1-year tenor rose 22 bps. The other remaining tenors rose between 4 bps and 16 bps. As a result, the 2-year versus 10-year yield spread narrowed from 50 bps to 34 bps between 31 August and 30 October.

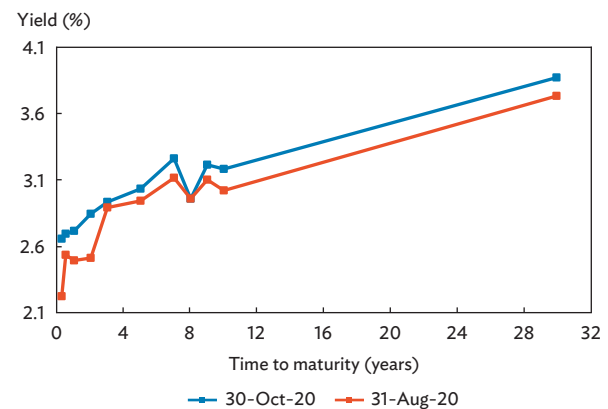
The PRC's yields rose as its economy continued to grow, following the successful containment of its coronavirus disease (COVID-19) outbreak. The PRC's gross domestic product (GDP) growth rate accelerated from 3.2% year-on-year (y-o-y) in the second quarter (Q2) of 2020 to 4.9% y-o-y in the third quarter (Q3) of 2020. Growth in all three major sectors of the PRC's economy accelerated in Q3 2020. The fastest y-o-y acceleration was in the tertiary sector (from 1.9% to 4.3%), followed by the secondary sector (from 4.7% to 6.0%). The primary sector's growth accelerated from 3.3% y-o-y to 3.9% y-o-y.

The PRC's industrial production growth momentum also continued. In September, industrial production growth rose to 6.9% y-o-y from 5.6% y-o-y in August. The PRC's industrial production was negative in Q1 2020 and had a growth rate of 3.9% in April. The PRC's inflation rate fell to 1.7% y-o-y in September from 2.4% y-o-y in August.

### Size and Composition

LCY bonds outstanding in the PRC rose 5.4% quarter-on-quarter (q-o-q) in Q3 2020, after expanding 5.6% q-o-q in Q2 2020, to reach CNY98.2 trillion (USD14.5 trillion) at the end of September. On a y-o-y basis, LCY bonds outstanding grew 19.9% y-o-y (**Table 1**).

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



Source: Based on data from Bloomberg LP.

**Government bonds.** The PRC's government bond market growth accelerated in Q3 2020 to 6.6% q-o-q from 5.4% q-o-q in Q2 2020 as the central government continued to fund its fiscal stimulus programs. The growth rate of Treasury bonds outstanding sped up to 8.7% q-o-q from 5.5% q-o-q during the same period.

While local governments continued to issue special bonds and received a quota increase in 2020 of CNY1.6 trillion compared with 2019, growth slowed slightly to 6.1% q-o-q in Q3 2020 from 6.2% q-o-q in Q2 2020 due to a high base effect. Growth in policy bank bonds accelerated to 5.0% q-o-q from 4.2% q-o-q in the same period.

**Corporate bonds.** The PRC's corporate bond market's growth slowed to 3.2% q-o-q in Q3 2020 from 5.9% q-o-q in Q2 2020. The slowdown in growth was largely due to the increased cost of funding as interest rates rose.

Rising interest rates led to a decline in commercial paper outstanding of 4.6% q-o-q in Q3 2020 (**Table 2**). Higher interest rates make the refinancing of short-term commercial paper more expensive. Other types of

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>81,916</b>	<b>11,459</b>	<b>93,187</b>	<b>13,189</b>	<b>98,178</b>	<b>14,457</b>	<b>3.6</b>	<b>14.9</b>	<b>5.4</b>	<b>19.9</b>
Government	52,913	7,402	58,867	8,332	62,747	9,240	3.5	12.9	6.6	18.6
Treasury Bonds and Other Government Bonds	15,963	2,233	17,775	2,516	19,327	2,846	3.2	11.2	8.7	21.1
Central Bank Bonds	14	2	15	2	15	2	250.0	-	0.0	7.1
Policy Bank Bonds	15,445	2,161	16,662	2,358	17,489	2,575	1.5	8.9	5.0	13.2
Local Government Bonds	21,491	3,006	24,415	3,456	25,915	3,816	5.1	17.3	6.1	20.6
Corporate	29,003	4,057	34,320	4,857	35,432	5,217	3.9	18.6	3.2	22.2
Policy Bank Bonds										
China Development Bank	8,665	1,212	9,138	1,293	9,415	1,386	1.0	8.6	3.0	8.7
Export-Import Bank of China	2,601	364	3,086	437	3,395	500	2.7	13.2	10.0	30.5
Agricultural Devt. Bank of China	4,179	585	4,438	628	4,679	689	1.9	7.0	5.4	12.0

- = not applicable, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third 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.

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

	Amount (CNY billion)			Growth Rate (%)			
	Q3 2019	Q2 2020	Q3 2020	Q3 2019		Q3 2020	
				q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	5,505	6,803	7,166	1.1	33.5	5.3	30.2
Enterprise Bonds	3,840	3,771	3,826	1.0	(3.2)	1.5	(0.3)
Listed Corporate Bonds	7,250	8,996	9,619	1.0	21.6	6.9	32.7
Commercial Paper	2,152	2,825	2,694	1.0	13.5	(4.6)	25.2
Medium-Term Notes	6,141	7,300	7,351	1.0	16.5	0.7	19.7
Asset-Backed Securities	2,081	2,406	2,519	1.1	54.9	4.7	21.1

( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, y-o-y = year-on-year.  
Source: CEIC.

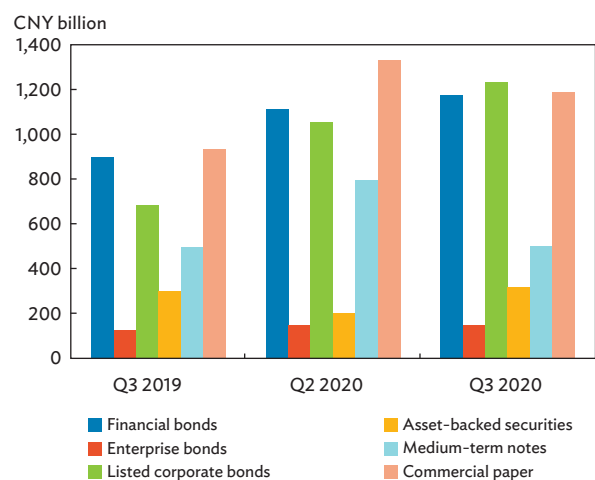
corporate bonds outstanding showed a q-o-q increase, with listed corporate bonds growing the fastest.

Issuance of commercial paper declined in Q3 2020, leading to a decline in commercial paper outstanding. Issuance of medium-term notes also declined during the quarter (**Figure 2**).

The PRC's LCY corporate bond market continued to be dominated by a few big issuers (**Table 3**). At the end of Q3 2020, the top 30 corporate bond issuers accounted for a combined CNY8.9 trillion of corporate bonds outstanding, or about 25.2% of the total market. Of the top 30, the 10 largest issuers accounted for an aggregate

CNY5.9 trillion. China Railway, the top issuer, had more than three times the outstanding amount of bonds as the second-largest issuer, Agricultural Bank of China. The top 30 issuers included 16 banks, which continued to generate funding to strengthen their capital bases, improve liquidity, and lengthen their maturity profiles amid ongoing uncertainty resulting from the COVID-19 pandemic.

**Table 4** lists the largest corporate bond issuances in Q3 2020. The top issuers consisted largely of financial institutions as they sought to improve their capital bases and liquidity in light of the ongoing economic impact of COVID-19.

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

CNY = Chinese yuan, Q2 = second quarter, Q3 = third quarter.  
Source: CEIC.

## Investor Profile

Among the major government bond categories, banks were the single-largest holder at the end of September (**Figure 3**), with banks holding about 66% of Treasury bonds, 57% of policy bank bonds, and 57% of local government bonds. The share of banks in local government bonds was a significant drop from its previous share of 88% in the same period a year ago.

## Liquidity

The volume of interest rate swaps rose 17.3% q-o-q in Q3 2020. The 7-day repurchase agreement remained the most used interest rate swap, comprising an 83.1% share of the total interest rate swap volume during the quarter (**Table 5**).

## Policy, Institutional, and Regulatory Developments

### The People's Republic of China Eases Foreign Capital Entry Rules

In September, the PRC streamlined the existing regulations for the Renminbi Qualified Foreign Institutional Investor program and the Qualified Foreign Institutional Investor program. The new rules combined the two existing regulations into one and also made application requirements easier and simplified procedures. The new regulations took effect on 1 November.

### The People's Republic of China Issues USD-Denominated Bonds

In October, the Government of the PRC issued USD6.0 billion worth of 3-year, 5-year, 10-year, and 30-year bonds. The bonds are the first USD-denominated bonds issued by the Government of the PRC since 1996 that are marketed to US investors under 144a Rules. The USD1.25 billion 3-year bond was issued with a coupon rate of 0.40%, while the USD2.25 billion 5-year bond was issued with a coupon rate of 0.55%. The USD2.0 billion 10-year bond was issued with a coupon rate of 1.2%, and the USD0.5 billion 30-year bond was issued with a coupon rate of 2.25%.

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	2,173.5	320.1	Yes	No	Transportation
2.	Agricultural Bank of China	645.1	95.0	Yes	Yes	Banking
3.	Bank of China	530.6	78.1	Yes	Yes	Banking
4.	Industrial and Commercial Bank of China	517.3	76.2	Yes	Yes	Banking
5.	Central Huijin Investment	449.0	66.1	Yes	No	Asset Management
6.	Bank of Communications	391.6	57.7	No	Yes	Banking
7.	Shanghai Pudong Development Bank	340.7	50.2	No	Yes	Banking
8.	China Construction Bank	307.1	45.2	Yes	Yes	Banking
9.	China National Petroleum	274.9	40.5	Yes	No	Energy
10.	Industrial Bank	273.2	40.2	No	Yes	Banking
11.	China Minsheng Banking	264.0	38.9	No	Yes	Banking
12.	State Grid Corporation of China	261.5	38.5	Yes	No	Public Utilities
13.	China CITIC Bank	223.0	32.8	No	Yes	Banking
14.	State Power Investment	193.6	28.5	Yes	No	Energy
15.	Ping An Bank	178.7	26.3	No	Yes	Banking
16.	Tianjin Infrastructure Construction and Investment Group	159.0	23.4	Yes	No	Industrial
17.	Postal Savings Bank of China	155.0	22.8	Yes	Yes	Banking
18.	PetroChina	153.0	22.5	Yes	Yes	Energy
19.	China Southern Power Grid	153.0	22.5	Yes	No	Energy
20.	Huaxia Bank	143.0	21.1	Yes	No	Banking
21.	China Everbright Bank	141.8	20.9	Yes	Yes	Banking
22.	China Merchants Bank	139.2	20.5	Yes	Yes	Banking
23.	Shaanxi Coal and Chemical Industry Group	132.5	19.5	Yes	No	Energy
24.	Datong Coal Mine Group	123.4	18.2	Yes	No	Coal
25.	China Three Gorges Corporation	106.0	15.6	Yes	No	Power
26.	CITIC Securities	105.2	15.5	Yes	Yes	Brokerage
27.	China Datang	105.1	15.5	Yes	Yes	Energy
28.	Bank of Beijing	102.9	15.2	No	Yes	Banking
29.	Shougang Group	100.0	14.7	Yes	No	Steel
30.	Bank of Ningbo	99.1	14.6	No	Yes	Banking
<b>Total Top 30 LCY Corporate Issuers</b>		<b>8,941.8</b>	<b>1,316.7</b>			
<b>Total LCY Corporate Bonds</b>		<b>35,431.7</b>	<b>5,217.5</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>25.2%</b>	<b>25.2%</b>			

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

Notes:

1. Data as of 30 September 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 Issuances in the Third Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)	Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China State Railway Group			Industrial Bank		
10-year bond	3.57	20	3-year bond	2.17	23
10-year bond	3.74	15	3-year bond	2.58	22
5-year bond	3.47	15	5-year bond	2.67	7
10-year bond	3.68	15	5-year bond	2.95	5
20-year bond	4.04	5	Shanghai Pudong Development Bank		
5-year bond	4.15	5	3-year bond	2.08	50
0-year bond	3.93	5	Bank of Communications		
Bank of China			3-year bond	3.18	50
10-year bond	4.20	15			
15-year bond	4.70	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

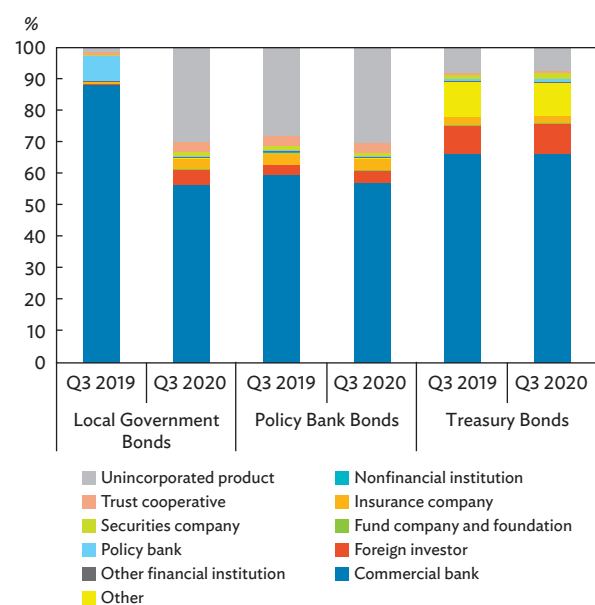
Q3 = third quarter.  
Source: CEIC.

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

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
	Q3 2020		q-o-q
7-Day Repo Rate (Deposit Institutions)	38,694.0	83.1	20.1
Overnight SHIBOR	35.0	0.1	(51.0)
3-Month SHIBOR	6,617.6	14.2	10.1
1-Year Lending Rate	518.5	1.1	(30.7)
5-Year Lending Rate	10.0	0.0	(45.8)
10-Year Treasury Yield	242.0	0.5	30.5
China Development Bank 10-Year Bond Yield	226.5	0.5	(11.2)
10-Year Bond Yield/10-Year Government Bond Yield	225.0	0.5	(11.2)
<b>Total</b>	<b>46,568.6</b>	<b>100.0</b>	<b>17.3</b>

( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q3 = third quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.

Note: Growth rate computed based on notional amounts.

Sources: AsianBondsOnline and ChinaMoney.