

Market Summaries

People's Republic of China

Yield Movements

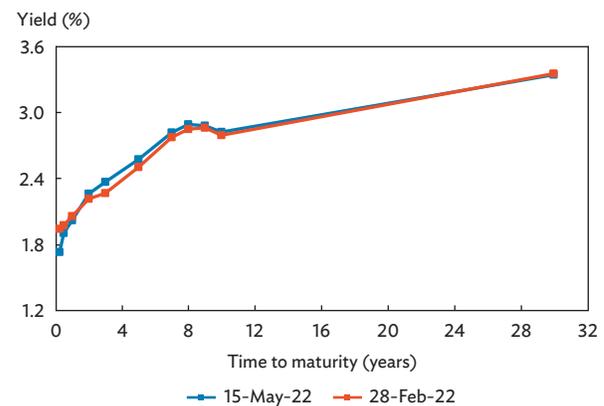
Between 28 February and 15 May, local currency (LCY) government bond yields in the People's Republic of China (PRC) were marginally changed (**Figure 1**). Bond yields fell for all maturities of 1 year or less, shedding an average of 11 basis points (bps), and for the 30-year tenor, which slipped by 1 bp. The largest decline in yields was seen for the 3-month maturity, which fell by 21 bps. In contrast, yields for maturities of 2 years through 10 years gained an average of 5 bps. The spread between the 2-year and 10-year tenors narrowed slightly to 56 bps on 15 May from 58 bps on 28 February.

Bucking the regional trend, the PRC was the sole market in emerging East Asia that saw only marginal upward movements for some maturities during the review period, with declines for some others. Yield divergence in the PRC was reflective of the overall weakness of its economic recovery. The lockdowns to contain the spread of the coronavirus disease (COVID-19) in several cities have resulted in supply chain disruptions that further exacerbate global inflationary pressure. The slowdown in the PRC economy is also contributing to the heightened uncertainty surrounding the global growth recovery.

To support the economy, the People's Bank of China (PBOC) has largely maintained an accommodative monetary stance. The PBOC was the sole central bank in the region to have reduced policy rates in 2022, a stark contrast to the tightening stances of some central banks in advanced economies and the region. On 16 January, the PBOC reduced by 10 bps the 1-year medium-term lending facility rate to 2.85%. The central bank also lowered the reserve requirement ratio by 25 bps in April and the 5-year loan prime rate by 15 bps in May. This largely influenced the decline in yields as well as capped gains across the yield curve.

Economic growth in the PRC rose to 4.8% year-on-year (y-o-y) in the first quarter (Q1) of 2022, up from 4.0% y-o-y in the fourth quarter (Q4) of 2021. Gross

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



Source: Based on data from Bloomberg LP.

domestic product growth, however, was lower compared to the 18.3% y-o-y growth recorded in Q1 2021. Other economic indicators also pointed to weaker growth, as unemployment in 31 major cities inched up to 6.0% in March from 5.4% in February. Consumer price inflation remained relatively low compared to global and other regional economies, recording a 2.1% y-o-y rise in May, the same rate as in April.

On 31 May, weaknesses in the domestic economy led the Government of the PRC to enact additional stimulus measures. Among these measures include tax rebates, expansion of Value Added Tax credits, deferral in social security premiums, and additional infrastructure spending and subsidies.

Size and Composition

The LCY bond market in the PRC continued to expand and reached a size of CNY118.9 trillion (USD18.8 trillion) at the end of March (**Table 1**). Overall growth moderated to 3.3% quarter on-quarter (q-o-q) in Q1 2022 from 3.9% q-o-q in Q4 2021. The slowing growth was largely influenced by weak issuance volume during the quarter.

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q1 2021		Q4 2021		Q1 2022		Q1 2021		Q1 2022	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	103,528	15,799	115,154	18,117	118,908	18,755	2.1	17.3	3.3	14.9
Government	66,198	10,102	74,373	11,701	76,404	12,051	1.6	18.5	2.7	15.4
Treasury Bonds and Other Government Bonds	21,032	3,210	23,420	3,685	23,359	3,684	0.5	24.8	(0.3)	11.1
Central Bank Bonds	15	2	15	2	15	2	0.0	(18.9)	0.0	0.0
Policy Bank Bonds	18,382	2,805	19,681	3,096	20,107	3,171	1.9	15.0	2.2	9.4
Local Government Bonds	26,769	4,085	31,257	4,918	32,922	5,193	2.4	16.4	5.3	23.0
Corporate	37,329	5,697	40,781	6,416	42,504	6,704	2.9	15.2	4.2	13.9

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. Treasury bonds include savings bonds and local government bonds.
2. Bloomberg LP end-of-period local currency-USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.

Sources: CEIC Data Company and Bloomberg LP.

On a y-o-y basis, however, bond market growth rose to 14.9% in Q1 2022. The PRC is home to the largest LCY bond market in emerging East Asia, accounting for nearly 80.0% of the region's aggregate bond stock at the end of March.

Government bonds. Government bonds accounted for 64.3% of the PRC's total bond stock at the end of March. Outstanding government bonds tallied CNY76.4 trillion (USD12.1 trillion) on growth of 2.7% q-o-q in Q1 2022, down from 4.5% q-o-q in Q4 2021. The tepid growth in government bonds stemmed from a slowdown in issuance of Treasury bonds during the quarter. The government's risk control policies resulted in a 0.3% q-o-q contraction in the stock of Treasury bonds at the end of March.

Growth in the government bond segment was largely driven by the 5.3% q-o-q growth in local government bonds, as the quota gets replenished at the start of the year. The special bond quota for 2022 was set at CNY3.7 trillion, the same volume as in 2021. Issuance of local government bonds swelled to 108.7% y-o-y as the government pushed local governments to tap this facility and frontload issuance to bolster economic recovery.

Policy bank bonds also contributed to the q-o-q growth but to a lesser extent. The stock of policy bank bonds grew 2.2% q-o-q to reach CNY20.1 trillion at the end of March.

Corporate bonds. The PRC's corporate bond market represented 76.4% of emerging East Asia's total corporate bond stock at the end of March. Corporate bond market growth picked up in Q1 2022, rising to 4.2% q-o-q

from 2.9% q-o-q in the prior quarter. The corporate bond market's size reached CNY42.5 trillion at the end of March.

Among the different categories of corporate bonds, listed corporate bonds accounted for the largest share, reaching CNY12.1 trillion at the end of March on growth of 2.8% q-o-q and 13.9% y-o-y (**Table 2**). Next were financial bonds at a size of CNY9.3 trillion on an expansion of 6.7% q-o-q and 19.8% y-o-y. The fastest growth, however, was seen in commercial paper, which expanded 19.9% q-o-q and 23.1% y-o-y on a softening interest rate outlook. In contrast, q-o-q contractions were recorded in the stocks of enterprise bonds and asset-backed securities at the end of March.

Amid the weakening growth outlook and COVID-19 lockdown measures, corporate bond issuance declined 11.0% q-o-q in Q1 2022. The issuance of financial bonds, listed corporate bonds, and asset-backed securities contracted in Q1 2022, falling 18.3% q-o-q, 20.0% q-o-q, and 56.6% q-o-q, respectively (**Figure 2**).

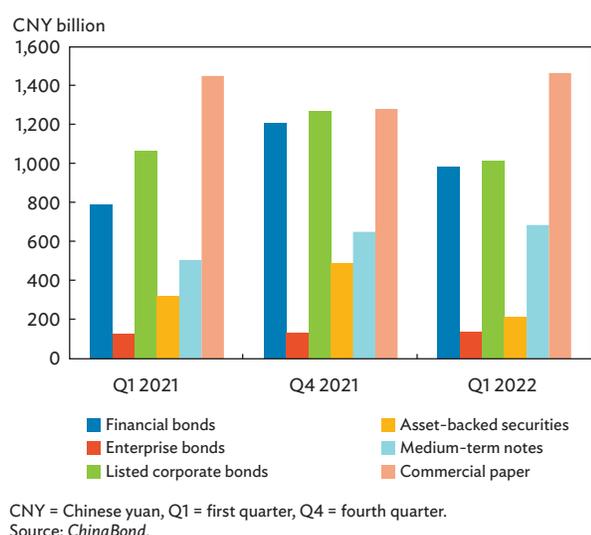
At the end of March, the top 30 issuers of corporate bonds in the PRC had an outstanding bond stock of CNY11.3 trillion, representing 26.6% of the corporate bond total (**Table 3**). State-owned China Railway continued to account for the largest amount of bonds outstanding at CNY3.0 trillion, representing 7.0% of the total corporate bond stock. Next was Industrial and Commercial Bank of China with bonds outstanding of CNY761.1 billion and a share of 1.8% of the corporate total. The top 30 list comprised 17 state-owned firms and 22 listed firms.

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
	Q1 2021	Q4 2021	Q1 2022	Q1 2021		Q1 2022	
				q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	7,746	8,701	9,281	1.0	21.7	6.7	19.8
Enterprise Bonds	3,860	3,931	3,930	1.0	4.1	(0.02)	1.8
Listed Corporate Bonds	10,603	11,752	12,079	1.0	27.3	2.8	13.9
Commercial Paper	2,344	2,407	2,886	1.1	(12.2)	19.9	23.1
Medium-Term Notes	7,382	7,971	8,268	1.0	8.1	3.7	12.0
Asset-Backed Securities	2,942	3,487	3,441	1.0	23.2	(1.3)	17.0

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

Figure 2: Corporate Bond Issuance in Key Sectors



The largest corporate bond issuances in the PRC for Q1 2022 are presented in **Table 4**. The largest bond issuers during the quarter came from four banking institutions and state-owned China Railway. Banking firms continued to be major issuers of bonds as they beefed up their capital for lending activities, while China Railway issued bonds for infrastructure development. Among the issuances in the list, the shortest dated was a 3-year bond and the longest dated was a 30-year bond.

Investor Profile

Government bonds. At the end of March, banking institutions remained the largest investor group in the PRC's government bond market (**Figure 3**). The share of bank holdings in policy bank bonds, Treasury bonds, and local government bonds were 54.1%, 65.0%, and 86.4%, respectively, at the end of the review period. However, all of these shares slipped compared with year earlier.

Despite the capital outflows recorded in the PRC bond market in Q1 2022, the foreign holdings share was little changed versus its level in Q1 2021. The foreign holdings share of policy bank bonds dipped 5.0% in Q1 2022 from 5.4% in Q1 2021, while it rose for Treasury bonds to 11.6% from 10.9% over the same period. The foreign holdings share of local government bonds remained very small.

Policy, Institutional, and Regulatory Developments

The People's Bank of China Allows Foreign Investors to Trade in the Exchange Market

In May, the PBOC announced that foreign investors would be allowed to trade in its smaller exchange market, effective 30 June. The move was made to further attract capital flows into the bond market, following substantial capital outflows in February and March. In addition, financial institutions will be allowed to trade bonds and invest in derivatives and other financial instruments permitted by the PBOC and the China Securities Regulatory Commission.

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	2,985.5	470.90	Yes	No	Transportation
2.	Industrial and Commercial Bank of China	761.1	120.05	Yes	Yes	Banking
3.	Bank of China	738.1	116.42	Yes	Yes	Banking
4.	Agricultural Bank of China	690.0	108.83	Yes	Yes	Banking
5.	Bank of Communications	519.2	81.90	Yes	Yes	Banking
6.	China Construction Bank	493.0	77.76	Yes	No	Asset Management
7.	Shanghai Pudong Development Bank	442.2	69.75	Yes	Yes	Banking
8.	Central Huijin Investment	387.0	61.04	No	Yes	Banking
9.	State Grid Corporation of China	353.0	55.68	No	Yes	Banking
10.	Industrial Bank	331.1	52.23	No	Yes	Banking
11.	China Citic Bank	315.0	49.68	No	Yes	Banking
12.	China Minsheng Bank	270.0	42.59	Yes	No	Energy
13.	China Merchants Bank	252.2	39.78	Yes	Yes	Banking
14.	State Power Investment	225.4	35.56	Yes	No	Power
15.	Huaxia Bank	220.0	34.70	No	Yes	Banking
16.	China Everbright Bank	215.9	34.05	No	Yes	Banking
17.	China National Petroleum	209.9	33.11	No	Yes	Banking
18.	Postal Savings Bank of China	190.0	29.97	Yes	Yes	Coal
19.	Ping An Bank	180.0	28.39	No	Yes	Banking
20.	CITIC Securities	166.1	26.20	Yes	No	Public Utilities
21.	China Southern Power Grid	164.6	25.96	No	Yes	Banking
22.	Huatai Securities	159.5	25.16	No	No	Brokerage
23.	Shaanxi Coal and Chemical Industry Group	148.0	23.34	No	Yes	Brokerage
24.	Guotai Junan Securities	134.7	21.24	No	Yes	Brokerage
25.	China Merchants Securities	133.4	21.04	Yes	Yes	Brokerage
26.	Tianjin Infrastructure Investment Group	131.9	20.81	Yes	Yes	Brokerage
27.	Bank of Beijing	127.9	20.17	No	Yes	Banking
28.	China Chengtong Holdings	120.6	19.02	Yes	No	Holding Company
29.	Shenwan Hongyuan Securities	141.5	22.32	Yes	No	Brokerage
30.	China Cinda Asset Management	117.0	18.45	Yes	Yes	Asset Management
Total Top 30 LCY Corporate Issuers		11,323.8	1,786.10			
Total LCY Corporate Bonds		42,504.2	6,704.1			
Top 30 as % of Total LCY Corporate Bonds		26.6%	26.6%			

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

Notes:

1. Data as of 31 March 2022.

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.

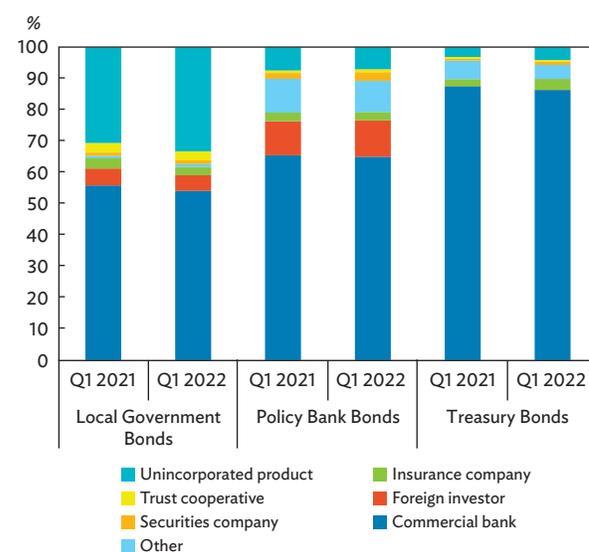
Table 4: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2022

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Industrial Bank of China ^a		
3-year bond	3.00	10
3-year bond	2.96	25
9-year bond	3.45	30
Bank of China		
3-year bond	2.60	30
10-year bond	3.25	30
Shanghai Pudong Development Bank ^a		
3-year bond	2.78	30
3-year bond	2.69	25
China State Railway Group		
3-year bond	3.26	10
5-year bond	2.85	10
10-year bond	3.34	10
30-year bond	3.63	10
Postal Savings Bank		
10-year bond	3.54	35
15-year bond	3.74	5

CNY = Chinese yuan.

^a Multiple issuance of the same tenor indicates issuance on different dates.

Source: Based on data from Bloomberg LP.

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

Q1 = first quarter.

Source: CEIC Data Company.