

Market Summaries

People's Republic of China

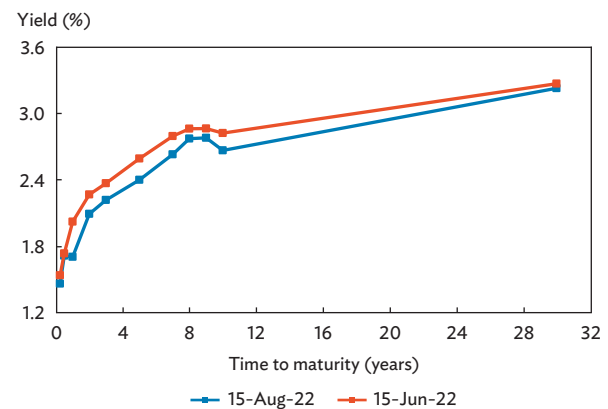
Yield Movements

Between 15 June and 15 August, local currency (LCY) government bond yields in the People's Republic of China (PRC) fell for all tenors (**Figure 1**). Bond yields fell the most for the 1-year through 7-year tenors, declining an average of 20 basis points (bps), and for the 10-year tenor, which fell 16 bps. The remaining tenors fell 2–9 bps. The spread of the 10-year over 2-year tenor rose slightly by 2 bps between 15 June and 15 August.

The PRC was the sole market in the region whose entire yield curve declined, driven by economic weakness in the domestic economy. The PRC's gross domestic product barely changed in the second quarter (Q2) of 2022, gaining only 0.4% year-on-year (y-o-y) after a 4.8% y-o-y expansion in the first quarter (Q1) of 2022. Among the major sectors, only primary industry had any appreciable growth, gaining 4.4% y-o-y. In contrast, output in secondary industry grew only 0.9% y-o-y, while tertiary industry contracted 0.4% y-o-y. The weak economic growth for Q2 2022 was driven by coronavirus disease (COVID-19) control measures instituted in several cities and the resulting supply chain disruptions. In the city of Shanghai, COVID-19 quarantine protocols were eased starting 1 June.

Some economic measures improved during the review period but remained weak. Industrial production growth rates improved to 3.8% y-o-y in July and 3.9% y-o-y in June, after COVID-19 restrictions were eased, versus 0.7% y-o-y in May. However, fixed-asset investment continued to decline, with the January–July growth rate falling to 5.7% y-o-y from the January–June rate of 6.1% y-o-y. The growth rate has been continuously declining since the start of the year. Retail sales growth also moderated to 2.7% y-o-y in July after rising 3.1% y-o-y in June. The economic outlook for the PRC continued to remain negative. In July, the government announced that it was unlikely to meet its 5.5% growth target for the year. In addition, in August,

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



Source: Based on data from Bloomberg LP.

some government officials announced that the 5.5% growth target would now serve more as guidance, with no penalties assessed should the target be missed. Consumer price inflation also continued to be muted in the PRC.

The softening outlook pushed the government to enact a slew of fiscal measures that were announced on 31 May. The measures provide support for industries such as value-added tax rebates, tax reductions for qualified industries, and a deferral on the payment of social security premiums. On 15 August, the central bank reduced by 10 bps its 7-day reverse repurchase rate to 2.10% and the 1-year medium-term lending facility to 2.75%. A week after, on 22 August, the People's Bank of China reduced the 1-year loan prime rate by 5 bps to 3.65% and the 5-year loan prime rate by 15 bps to 4.30%.

Size and Composition

The LCY bond market in the PRC grew to a size of CNY123.1 trillion (USD18.4 trillion) at the end of June (**Table 1**). Overall growth slightly rose 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 2021		Q1 2022		Q2 2022		Q2 2021		Q2 2022	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	106,590	16,507	118,908	18,755	123,050	18,368	3.0	14.4	3.5	15.4
Government	68,384	10,591	76,404	12,051	79,710	11,898	3.3	16.2	4.3	16.6
Treasury Bonds and Other Government Bonds	21,548	3,337	23,359	3,684	24,092	3,596	2.5	21.2	3.1	11.8
Central Bank Bonds	15	2	15	2	15	2	0.0	0.0	0.0	0.0
Policy Bank Bonds	18,658	2,890	20,107	3,171	20,213	3,017	1.5	12.0	0.5	8.3
Local Government Bonds	28,163	4,362	32,922	5,193	35,390	5,283	5.2	15.4	7.5	25.7
Corporate	38,207	5,917	42,504	6,704	43,340	6,469	2.3	11.3	2.0	13.4

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. Other government 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.

3.5% quarter-on-quarter (q-o-q) in Q2 2022 from 3.3% q-o-q in Q1 2022. Growth was capped by the weak performance of the corporate bond sector. On a y-o-y basis, bond market growth inched up to 15.4% in Q2 2022 from 14.9% in Q1 2022. The PRC remained the largest LCY bond market in emerging East Asia, accounting for 80.2% of the region's aggregate bond stock at the end of June.

Government bonds. The share of government bonds as a percentage of total LCY bonds outstanding slightly increased to 64.8% at the end of June from 64.3% at the end of March. Total government bonds outstanding reached CNY79.7 trillion, following an acceleration in growth to 4.3% q-o-q in Q2 2022 from 2.7% q-o-q in Q1 2022 on increased government bond issuance. Government bond issuance growth soared to 40.9% q-o-q in Q2 2022, rebounding from Q1 2022's 4.0% decline, driven by a resurgence in local government bond issuance.

Local government bond issuance grew by a massive 86.2% q-o-q as local governments were pushed to completely utilize the granted 2022 special bond quota of CNY3.5 trillion by the end of June to help stimulate the PRC economy. In addition, the funding obtained must already be allocated for infrastructure projects or spent by August 2022. This led local government bonds outstanding to grow 7.5% q-o-q in Q2 2022, the highest growth rate among all government bond types.

Treasury and other government bonds grew a respectable 3.1% q-o-q to CNY24.1 trillion at the end of Q2 2022,

driven by 16.3% q-o-q growth in Treasury bond issuance. Policy bank bonds only grew 0.5% q-o-q to CNY20.2 trillion; they were issued only to maintain existing bond stocks, with issuance growing 5.2% q-o-q.

Corporate bonds. The PRC's corporate bond market's performance was lackluster in Q2 2022, with growth slowing to 2.0% q-o-q from 4.2% q-o-q in Q1 2022. The negative outlook for the PRC economy and continuously declining funding rates made corporates more cautious to issue in Q2 2022. Corporate bonds outstanding reached CNY43.3 trillion at the end of June, comprising roughly 76.6% of emerging East Asia's corporate bond market.

Among the different categories of corporate bonds, listed corporate bonds accounted for the largest share, reaching CNY12.3 trillion at the end of June on growth of 1.7% q-o-q and 11.8% y-o-y (**Table 2**). However, the fastest growth came from financial bonds, which were the second-largest corporate bond type, growing 4.2% q-o-q to CNY9.7 trillion. Medium-term notes were the second-fastest-growing segment, rising 3.4% q-o-q. Outstanding commercial paper (-1.6%) and asset-back securities (-1.2%) posted q-o-q declines in Q2 2022.

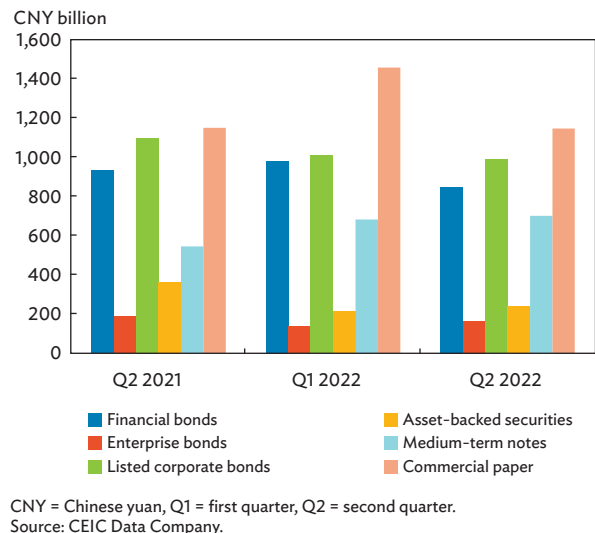
The negative domestic economic environment extended corporates hesitancy to issue bonds, with issuance falling 8.8% q-o-q in Q2 2022 after falling 11.0% q-o-q in Q1 2022. Some major corporate bond types experienced declining q-o-q issuance in Q2 2022, including financial bonds, listed corporate bonds, and commercial paper (**Figure 2**).

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
	Q2 2021	Q1 2022	Q2 2022	Q2 2021		Q2 2022	
				q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	8,038	9,281	9,671	1.0	18.2	4.2	20.3
Enterprise Bonds	3,808	3,930	3,961	1.0	1.0	0.8	4.0
Listed Corporate Bonds	10,986	12,079	12,282	1.0	22.1	1.7	11.8
Commercial Paper	2,279	2,886	2,840	1.0	(19.3)	(1.6)	24.6
Medium-Term Notes	7,457	8,268	8,549	1.0	2.1	3.4	14.6
Asset-Backed Securities	3,075	3,441	3,400	1.0	27.8	(1.2)	10.6

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

Figure 2: Corporate Bond Issuance in Key Sectors



At the end of June, the top 30 issuers of corporate bonds in the PRC had an outstanding bond stock of CNY12.4 trillion, representing 28.7% of the corporate bond total (Table 3). State-owned China Railway continued to account for the largest amount of bonds outstanding at CNY3.2 trillion. Next was Bank of China with bonds outstanding of CNY888.1 billion and a 2.0% share of the corporate total. The top 30 list comprised 16 state-owned firms and 21 listed firms.

The largest corporate bond issuances in the PRC for Q2 2022 are listed in Table 4. Three banks and two state-owned institutions made up the largest issuances.

Banks continued to be major issuers of bonds as they beefed up their capital and funding for lending activities, while China State Railway issued bonds for infrastructure development. The State Grid Corporation issued largely short-term bonds during the quarter. Among the issuances in the list, the shortest-dated tenor was a 135-day bond and the longest-dated tenors were two perpetual bonds.

Investor Profile

Government bonds. At the end of June, banking institutions remained the largest investor group in the PRC's government bond market (Figure 3). The shares of banks' holdings for Treasury bonds, policy bank bonds, and local government bonds stood at 54.8%, 65.8%, and 86.3%, respectively, at the end of the review period. However, the respective shares for policy bank bonds and local government bonds declined compared with the same period a year earlier.

Continued outflows from the PRC bond market in Q2 2022 caused the foreign holdings share to slip as declining domestic interest rates narrowed the interest rate differential with the US, making bonds less attractive. The foreign holdings share of policy bank bonds dipped to 4.2% in Q2 2022 from 5.5% in Q2 2021. For Treasury bonds, the foreign holdings share fell to 10.7% from 11.1% over the same period. The foreign holdings share of local government bonds remained very small (0.03%). Local government bonds were largely held by commercial banks, which accounted for over 80% share.

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	3,211.5	506.55	Yes	No	Transportation
2.	Bank of China	888.1	140.08	Yes	Yes	Banking
3.	Industrial and Commercial Bank of China	841.0	132.65	Yes	Yes	Banking
4.	Agricultural Bank of China	800.0	126.18	Yes	Yes	Banking
5.	China Construction Bank	563.0	88.80	Yes	No	Asset Management
6.	Bank of Communications	549.7	86.70	Yes	Yes	Banking
7.	Shanghai Pudong Development Bank	522.2	82.37	Yes	Yes	Banking
8.	Industrial Bank	407.6	64.29	No	Yes	Banking
9.	Central Huijin Investment	386.0	60.88	No	Yes	Banking
10.	State Grid Corporation of China	372.0	58.68	No	Yes	Power
11.	China Citic Bank	325.0	51.26	No	Yes	Banking
12.	China Minsheng Bank	295.0	46.53	Yes	No	Energy
13.	State Power Investment	260.0	41.01	Yes	No	Power
14.	China Merchants Bank	257.2	40.57	Yes	Yes	Banking
15.	Postal Savings Bank of China	240.0	37.85	Yes	Yes	Coal
16.	China Everbright Bank	221.2	34.89	No	Yes	Banking
17.	Huaxia Bank	220.0	34.70	No	Yes	Banking
18.	China National Petroleum	185.3	29.23	No	Yes	Banking
19.	China Southern Power Grid	180.5	28.47	No	Yes	Banking
20.	Ping An Bank	180.0	28.39	No	Yes	Banking
21.	Shaanxi Coal and Chemical Industry Group	175.0	27.60	No	Yes	Brokerage
22.	Tianjin Infrastructure Investment Group	167.3	26.38	Yes	Yes	Brokerage
23.	CITIC Securities	157.9	24.90	Yes	No	Public Utilities
24.	China Merchants Securities	156.7	24.71	Yes	Yes	Brokerage
25.	Bank of Beijing	155.9	24.59	No	Yes	Banking
26.	Huatai Securities	153.5	24.20	No	No	Brokerage
27.	Guotai Junan Securities	142.8	22.52	No	Yes	Brokerage
28.	Shenwan Hongyuan Securities	141.7	22.35	Yes	No	Brokerage
29.	China Chengtong Holdings	135.4	21.36	Yes	No	Holding Company
30.	China Guangfa Bank	135.0	21.29	No	No	Banking
Total Top 30 LCY Corporate Issuers		12,426.2	1,854.9			
Total LCY Corporate Bonds		43,339.8	6,469.3			
Top 30 as % of Total LCY Corporate Bonds		28.7%	28.7%			

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

Notes:

1. Data as of 30 June 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.

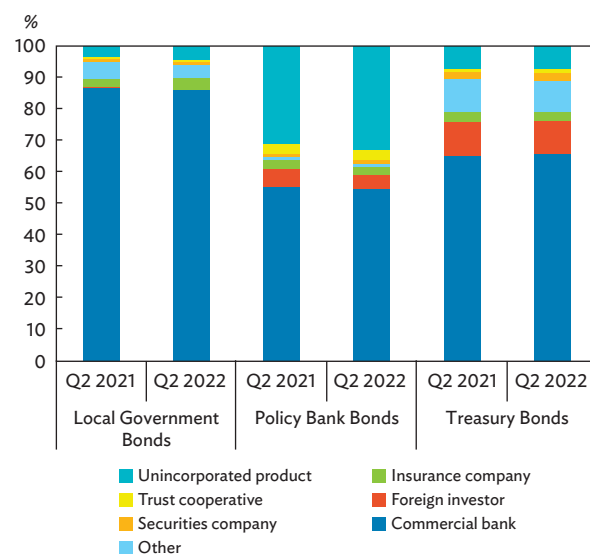
Table 4: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2022

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Bank of China^a		
3-year bond	2.75	35
3-year bond	2.75	5
Perpetual bond	3.65	30
Perpetual bond	3.65	20
State Grid Corporation^a		
135-day bond	2.00	5
280-day bond	2.00	14
345-day bond	2.04	5
345-day bond	2.04	2
345-day bond	2.04	2
345-day bond	2.00	9
345-day bond	2.00	3
345-day bond	2.00	9
345-day bond	2.04	9
345-day bond	2.00	10
345-day bond	2.04	9
345-day bond	2.04	3
China Construction Bank		
3-year bond	2.60	10
10-year bond	3.45	45
15-year bond	3.65	15
Industrial and Commercial Bank of China		
3-year bond	2.60	10
10-year bond	3.50	45
15-year bond	3.74	5
China State Railway Group^a		
5-year bond	2.97	10
10-year bond	3.25	10
10-year bond	3.22	8
20-year bond	3.46	10
30-year bond	3.53	12
30-year bond	3.56	10

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

Policy, Institutional, and Regulatory Developments

The Government Unveiled 33 Stimulus Measures to Spur the Domestic Economy

In May, the Government of the PRC announced a package of 33 stimulus measures meant to shore up the domestic economy and provide support to companies in the wake of quarantine measures meant to contain COVID-19. The measures include an expansion of companies covered by a value-added tax rebate, deferral of payments of social security premiums, an expansion of tax relief measures, a deferral of contributions to the housing provident fund, and boosted infrastructure spending, among others.