

Market Summaries

People's Republic of China

Yield Movements

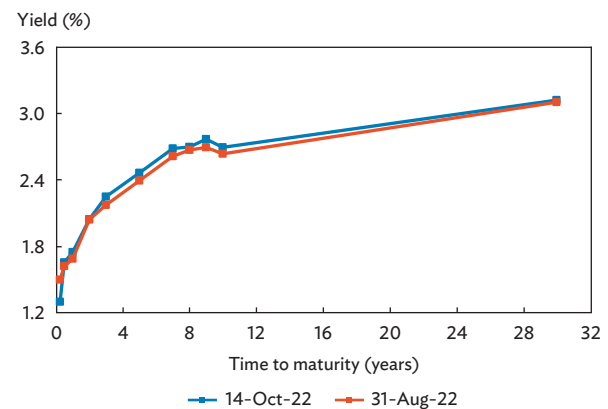
Between 31 August and 14 October, the People's Republic of China's (PRC) local currency (LCY) government bond yields rose for nearly all tenors (**Figure 1**). The rise, however, was marginal, with tenors of longer than 3 months rising between 0.2 and 8.0 basis points (bps). The spread of the 10-year over 2-year tenor rose slightly to 65 bps on 14 October from 59 bps on 31 August.

In contrast to other regional markets, the PRC's yield curve was only marginally changed during the review period, with many other emerging East Asian markets pressured by tightening monetary policy in the United States (US) and throughout the region. In contrast, external pressure on the PRC's yields was offset by persistent weakness in the domestic economy. The PRC's continued pandemic containment measures have led to concerns that they will continue to stifle the economy. However, there was some recovery in the third quarter (Q3) of 2022, with gross domestic product expanding 3.9% year-on-year (y-o-y) after a 0.4% y-o-y gain in the second quarter (Q2). All sectors grew, with secondary industry expanding the fastest at 5.2% y-o-y, followed by tertiary industry at 3.2% y-o-y and primary industry at 2.4% y-o-y. Economic growth, however, continued to fall below the full-year target of the government set at 5.5%. Inflation also continued to be muted in the PRC, with inflation easing to 2.1% y-o-y in October from 2.8% y-o-y in September and 2.5% y-o-y in August.

Size and Composition

The LCY bond market in the PRC grew to a size of CNY125.8 trillion (USD17.7 trillion) at the end of September (**Table 1**). Growth decelerated to 2.2% quarter-on-quarter (q-o-q) in Q3 2022 from 3.5% q-o-q in Q2 2022. While weaknesses were noted in both the government and corporate bond segments, the biggest contributor to slowing growth was softness in the government bond sector. On a y-o-y basis, however,

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



Source: Based on data from Bloomberg LP.

bond market growth reached 13.5% in Q3 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 September.

Government bonds. The share of government bonds as a percentage of total LCY bonds outstanding slightly increased to 65.1% at the end of September from 64.8% at the end of June. Total government bonds outstanding reached CNY81.9 trillion, with growth slowing to 2.8% q-o-q in Q3 2022 from 4.3% q-o-q in Q2 2022 as local government bond issuance weakened following the massive issuance spree in previous months in order to meet annual bond quotas.

Local government bonds outstanding grew only 0.8% q-o-q in Q3 2022 after expanding 7.5% q-o-q in Q2 2022. The growth of Treasury and other government bonds rose to 4.9% q-o-q from 3.1% q-o-q in the same period, while policy bank bonds gained 3.8% q-o-q in Q3 2022, up from 0.5% q-o-q growth in Q2 2022.

Corporate bonds. The PRC's corporate bond market growth moderated to 1.2% q-o-q from 2.0% q-o-q in

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q3 2021		Q2 2022		Q3 2022		Q3 2021		Q3 2022	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	110,784	17,190	123,050	18,368	125,779	17,676	3.9	12.8	2.2	13.5
Government	71,171	11,043	79,710	11,898	81,918	11,512	4.1	13.4	2.8	15.1
Treasury Bonds and Other Government Bonds	22,370	3,471	24,092	3,596	25,261	3,550	3.8	15.7	4.9	12.9
Central Bank Bonds	15	2	15	2	15	2	0.0	0.0	0.0	0.0
Policy Bank Bonds	19,253	2,987	20,213	3,017	20,984	2,949	3.2	10.1	3.8	9.0
Local Government Bonds	29,533	4,583	35,390	5,283	35,658	5,011	4.9	14.0	0.8	20.7
Corporate	39,613	6,146	43,340	6,469	43,861	6,164	3.7	11.8	1.2	10.7

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. 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.

Q2 2022. Corporate bond issuers remained cautious over domestic market conditions. Corporate bonds outstanding reached CNY43.9 trillion at the end of September, comprising roughly 76.7% of emerging East Asia's corporate bond total.

Among the different categories of corporate bonds, listed corporate bonds comprise the largest share of the market, hitting CNY12.5 trillion at the end of September on growth of 1.9% q-o-q and 9.1% y-o-y (**Table 2**). The fastest growth in the LCY corporate bond market came from financial bonds, which expanded 3.8% q-o-q to CNY10.0 trillion at the end of September. Medium-term notes also continued to grow, rising 3.1% q-o-q. The remaining bond types either posted declines or only marginal growth rates during Q3 2022.

Overall corporate bond issuance gained 7.2% q-o-q in Q3 2022, as corporates largely refinanced existing maturities. The fastest issuance came from listed corporate bonds, which gained 16.6% q-o-q, and medium-term notes, which gained 11.4% q-o-q (**Figure 2**).

At the end of September, the top 30 issuers of corporate bonds in the PRC had an outstanding bond stock of CNY12.5 trillion, representing 28.6% 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 Agricultural Bank of China with bonds outstanding of CNY900.0 billion. The top 30 list comprised 14 state-owned firms and 23 listed firms.

The largest corporate bond issuances in the PRC during Q3 2022 are listed in **Table 4**. Three banks and one state-owned institution had the largest aggregate issuance amounts. Banks continued to be major issuers of bonds as they beefed up their capital and funding for lending activities by issuing perpetual and subordinated debt. The State Grid Corporation issued only 5-year bonds during the quarter. Among the issuances in the list, the shortest-dated tenor was a 5-year bond, and the longest-dated tenor was a perpetual bond.

Investor Profile

Government bonds. At the end of September, banking institutions remained the largest investor group in the PRC's government bond market (**Figure 3**). The shares of bank holdings of Treasury bonds, policy bank bonds, and local government bonds stood at 86.4%, 65.3%, and 71.1%, respectively. However, all of these shares declined compared with the same month a year earlier except for policy bank bonds.

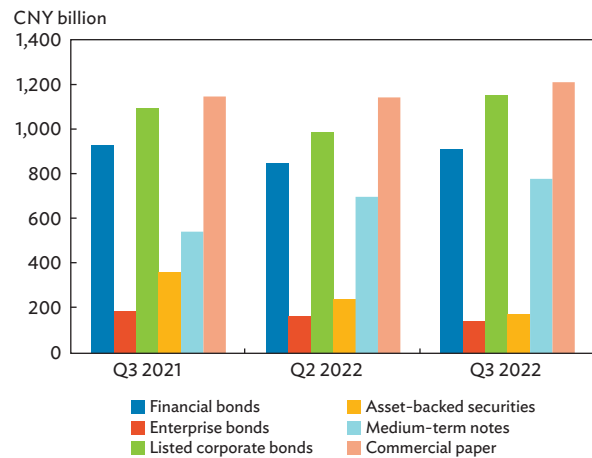
The PRC managed to attract net foreign bond inflows in July and August totaling USD0.8 billion. However, the inflows were marginal, especially compared to the USD15.8 billion of net outflows recorded in Q2 2022 as the US continued to tighten monetary policy, making the PRC's LCY bonds less attractive. In September, the PRC posted outflows of USD5.0 billion.

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
	Q3 2021	Q2 2022	Q3 2022	Q3 2021		Q3 2022	
				q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	8,448	9,671	10,038	1.1	24.2	3.8	18.8
Enterprise Bonds	3,897	3,961	3,991	1.0	3.3	0.8	2.4
Listed Corporate Bonds	11,464	12,282	12,511	1.0	27.4	1.9	9.1
Commercial Paper	2,249	2,840	2,613	1.0	(20.4)	(8.0)	16.2
Medium-Term Notes	7,693	8,549	8,811	1.0	5.4	3.1	14.5
Asset-Backed Securities	3,238	3,400	3,282	1.1	34.6	(3.5)	1.4

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

Figure 2: Corporate Bond Issuance in Key Sectors



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

Policy, Institutional, and Regulatory Developments

People's Bank of China Eases Foreign Borrowing Limits

In October, the People's Bank of China raised the ratio for the cross-border borrowing of firms and banks from 1.00 to 1.25. The move will allow companies to issue more foreign debt.

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	3,223.5	452.99	Yes	No	Transportation
2.	Agricultural Bank of China	900.0	126.48	Yes	Yes	Banking
3.	Industrial and Commercial Bank of China	881.0	123.81	Yes	Yes	Banking
4.	Bank of China	858.1	120.59	Yes	Yes	Banking
5.	China Construction Bank	603.0	84.74	Yes	No	Asset Management
6.	Bank of Communications	569.9	80.09	Yes	Yes	Banking
7.	Shanghai Pudong Development Bank	522.2	73.38	Yes	Yes	Banking
8.	Industrial Bank	407.6	57.28	No	Yes	Banking
9.	Central Huijin Investment	373.0	52.42	No	Yes	Banking
10.	China Citic Bank	355.0	49.89	No	Yes	Banking
11.	State Grid Corporation of China	293.0	41.17	No	Yes	Power
12.	China Minsheng Bank	280.3	39.38	Yes	No	Energy
13.	State Power Investment	260.1	36.55	Yes	No	Power
14.	China Everbright Bank	254.3	35.73	No	Yes	Banking
15.	Huaxia Bank	250.0	35.13	No	Yes	Banking
16.	Postal Savings Bank of China	240.0	33.73	Yes	Yes	Banking
17.	China Merchants Bank	217.8	30.61	Yes	Yes	Banking
18.	Shaanxi Coal and Chemical Industry Group	180.5	25.37	Yes	No	Coal
19.	Ping An Bank	180.0	25.30	No	Yes	Banking
20.	China National Petroleum	174.3	24.49	No	Yes	Banking
21.	China Merchants Securities	173.6	24.39	Yes	Yes	Brokerage
22.	Tianjin Infrastructure Investment Group	166.1	23.34	No	No	Holding Company
23.	China Southern Power Grid	159.3	22.39	No	Yes	Energy
24.	Bank of Beijing	155.9	21.91	No	Yes	Banking
25.	Huatai Securities	152.5	21.42	No	No	Brokerage
26.	CITIC Securities	149.8	21.05	Yes	Yes	Brokerage
27.	Shenwan Hongyuan Securities	145.2	20.40	No	Yes	Brokerage
28.	China Galaxy Securities	143.2	20.12	No	Yes	Brokerage
29.	Guotai Junan Securities	139.2	19.56	No	Yes	Brokerage
30.	GF Securities	136.8	19.22	No	Yes	Brokerage
Total Top 30 LCY Corporate Issuers		12,545.1	1,762.94			
Total LCY Corporate Bonds		43,861.36	6,163.8			
Top 30 as % of Total LCY Corporate Bonds		28.6%	28.6%			

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

Notes:

1. Data as of 30 September 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.

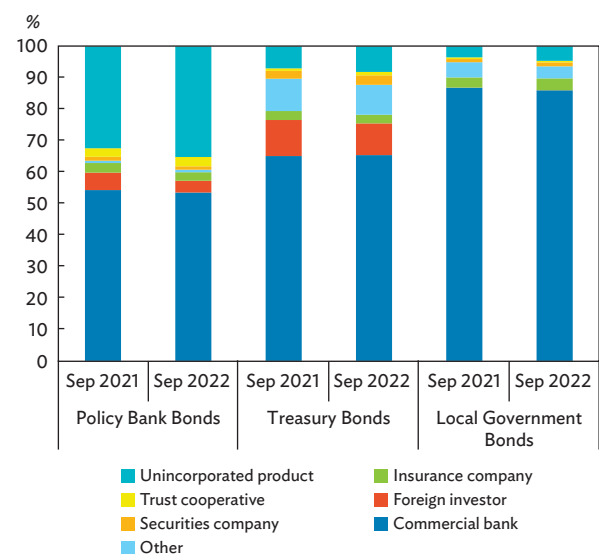
Table 4: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2022

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Agricultural Bank of China		
10-year bond	3.03	7.0
15-year bond	3.34	2.8
Perpetual bond	3.17	4.3
China Reform Holdings^a		
5-year bond	2.65	4.3
5-year bond	2.80	2.8
China Everbright Bank		
10-year bond	3.10	5.8
15-year bond	3.35	0.7
Industrial and Commercial Bank		
10-year bond	3.02	4.4
15-year bond	3.32	1.5
State Grid Corporation^a		
5-year bond	2.88	1.0
5-year bond	3.04	1.0
5-year bond	3.05	0.9
5-year bond	2.88	0.9
5-year bond	3.05	0.8
5-year bond	2.92	0.7
5-year bond	2.92	0.4
5-year bond	3.05	0.2

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

Source: CEIC Data Company.