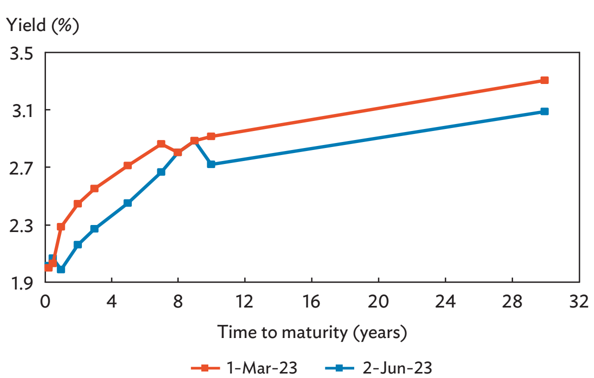
Market Summaries

People's Republic of China

Yield Movements

Between 1 March and 2 June, local currency (LCY) government bond yields in the People's Republic of China (PRC) fell for all maturities except tenors of less than 1 year, which rose slightly, and the 8-year and 9-year tenors, which were unchanged (Figure 1). Yields for all remaining tenors showed a strong decline, particularly longer tenors, over economic growth concerns in the PRC. While sentiment was initially positive in 2023, concerns that the growth momentum may be fading have since risen. Gross domestic product growth accelerated in the first quarter (Q1) of 2023 to 4.5% year-on-year (y-o-y) from 2.9% y-o-y in the fourth quarter (Q4) of 2022. But concerns over the sustainability of the economic recovery increased after industrial production and retail sales growth in April came in lower than expected. Declining yields were also influenced by the People's Bank of China's cut in the reserve requirement ratio for financial institutions by 25 basis points, effective 27 March, to support economic growth. The government also announced that it would develop measures to boost the property sector. In June, the central bank reduced by 10 basis points each the 7-day reverse repurchase rate and the 1-year medium-term lending facility rate.

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



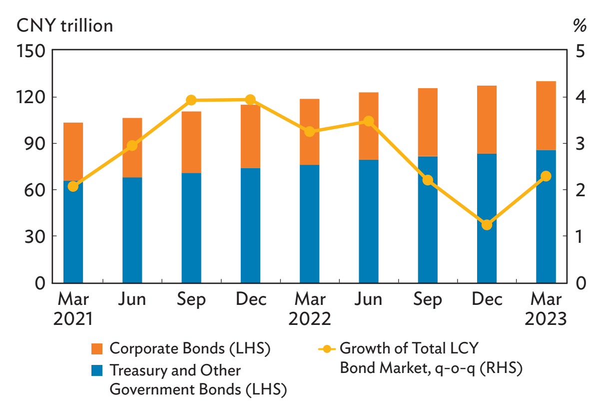
Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The PRC continued to dominate the LCY bond market in emerging East Asia. LCY bonds outstanding in the PRC reached CNY130.3 trillion (USD19.0 trillion) at the end of March, representing 79.8% of the regional bond market. Growth quickened to 2.3% quarter-on-quarter (q-o-q) in Q1 2023 from 1.3% q-o-q in Q4 2022 as issuance rebounded during the quarter (**Figure 2**). Much of the growth came from Treasury and other government bonds, which were buoyed by the frontloading of local governments' annual bond quotas at the start of the year. Treasury and other government bonds accounted for a 65.9% share of the PRC's overall LCY bond market at the end of March, while corporate bonds had a 34.1% share. As a share of regional markets, the PRC's bonds outstanding comprised 84.8% of Treasury and other government bonds and 76.0% of corporate bonds at the end of March.

LCY bond sales in the PRC totaled CNY10.1 trillion in Q1 2023, accounting for 63.1% of emerging East Asia's issuance total during the quarter. Issuance of Treasury

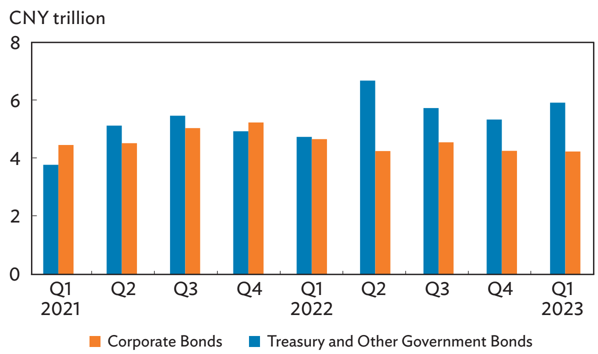
Figure 2: Composition of Local Currency Bonds Outstanding in the People's Republic of China



CNY = Chinese yuan, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.
Source: CEIC Data Company.

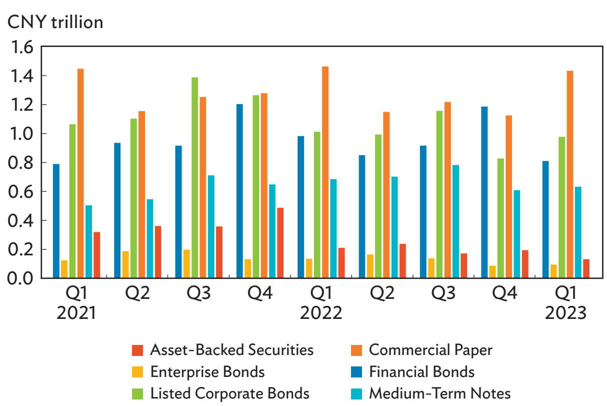
and other government bonds climbed 10.8% q-o-q in Q1 2023, after contracting 6.8% q-o-q in Q4 2022, to reach CNY5.9 trillion (**Figure 3**). In line with measures to prop up the economy, the bond quota for issuing local government bonds in 2023 was announced at the start of the year; local governments were authorized to issue bonds amounting to CNY3.8 trillion beginning in January. Meanwhile, corporate bond issuance contracted at a slower pace of 0.6% q-o-q in Q1 2023 versus 6.5% q-o-q in the prior quarter. Among corporate bond types, commercial paper posted the largest uptick during the quarter, rising 27.2% q-o-q from a 7.6% q-o-q decline in Q4 2022 (**Figure 4**). Issuance of listed corporate enterprise bonds and medium-term notes accelerated in Q1 2023 versus Q4 2023, while issuance of financial bonds and asset-backed securities slowed during the same period. The largest corporate bond issuances during the quarter came from the Bank of Communications, Industrial Bank, and Agricultural Bank of China. Most corporate bond issuances in Q1 2023 were from financial institutions as they beefed up funding for their lending activities.

Figure 3: Composition of Local Currency Bond Issuance in the People's Republic of China



CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Source: CEIC Data Company.

Figure 4: Corporate Bond Issuance Breakdown

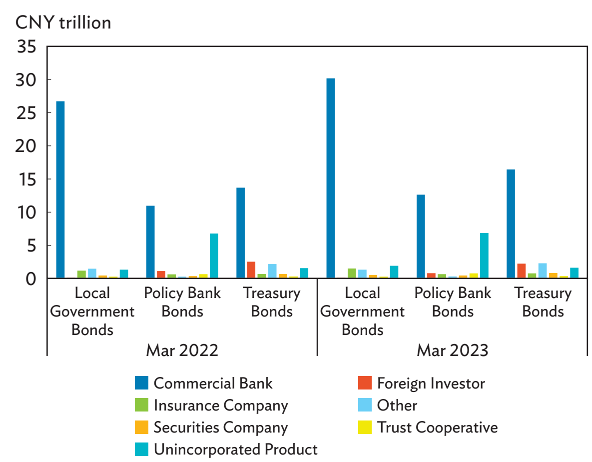


CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Source: CEIC Data Company.

Investor Profile

Among domestic investors, commercial banks remained the largest holder of government bonds at the end of March (Figure 5). Commercial banks were the largest holder of government bonds at the end of March with a total share of 73.1%, slightly higher than their share of 71.1% a year earlier. Commercial banks also held the largest share of local government bonds at the end of March with 85.7%.

Figure 5: Investor Profile of Local Government Bonds, Policy Bank Bonds, and Treasury Bonds



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