Market Summaries

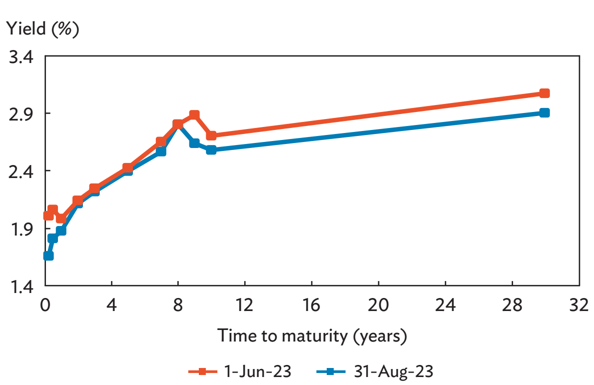
People's Republic of China

Yield Movements

Between 1 June and 31 August, local currency (LCY) government bond yields in the People's Republic of China (PRC) declined for most maturities after a series of interest rate cuts intended to spur economic growth (**Figure 1**). The People's Bank of China (PBOC) reduced the 7-day reverse repo rate by 10 basis points (bps) to 1.90% on 13 June, which was followed by a 10 bps reduction of the 1-year medium-term lending facility rate to 2.65% on 15 June. On 20 June, the PBOC reduced the 1-year loan prime rate and the 5-year loan prime rate by 10 bps each to 3.55% and 4.20%, respectively. On 15 August, the PBOC reduced again the 1-year medium-term lending rate by 15 bps to 2.50% and the 7-day reverse repo rate by 10 bps to 1.80%. It also reduced by 10 bps the 1-year loan prime rate to 3.45% on 21 August.

In addition, the PRC unveiled a series of property easing measures. These include an extension of some measures enacted last November 2022 to December 2024 in June, as well as a reduction in interest rates on existing mortgages and lower downpayments on home purchases in August. This was done to support the flagging property sector that has been hit by a number of defaults, with Sino-Ocean and Country Garden Holdings among the most recent.

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

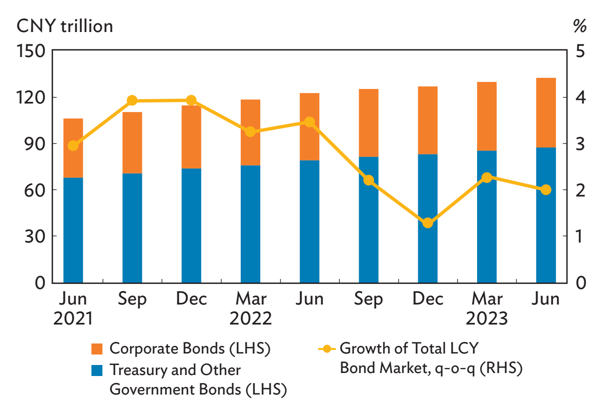


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The PRC's LCY bonds outstanding grew at a slightly slower pace as the government maintained its issuance levels in the second quarter (Q2) of 2023 to provide economic support (**Figure 2**). LCY bonds outstanding in the PRC grew 2.0% quarter-on-quarter (q-o-q) to CNY132.9 trillion at the end of Q2 2023. Government bonds outstanding grew 2.4% q-o-q to CNY87.9 trillion, with growth largely driven by local government bonds as local governments continued to issue to meet their targeted bond quotas by the end of the third quarter of 2023. Corporate bonds outstanding grew 1.2% q-o-q to CNY44.9 trillion.

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.

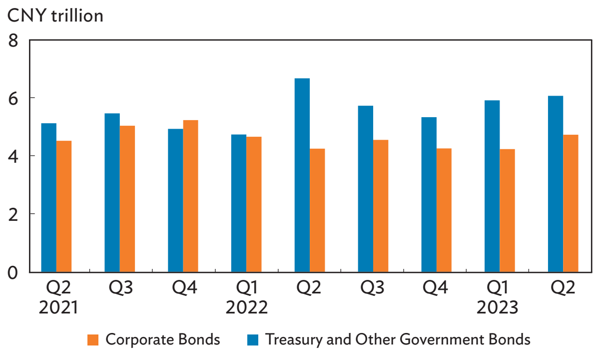
Source: CEIC Data Company.

LCY bond sales in the PRC totaled CNY10.8 trillion in Q2 2023, growing 6.5% q-o-q on increased issuance of both government and corporate bonds (Figure 3). Issuance of Treasury and other government bonds climbed 2.7% q-o-q in Q2 2023 after local governments received their new yearly bond quotas for full-year 2023. Issuance of corporate bonds gained as financial institutions replenished their capital and funding needs in Q2 2023.

Investor Profile

Commercial banks remained the largest investor group in the government bond market at the end of June (Figure 4). Commercial banks maintained their lead as the dominant holder of government bonds with a share of nearly 80.0% for all government bonds outstanding at the end of June. Commercial banks also held the largest share of local government bonds at the end of June with 78.8%.

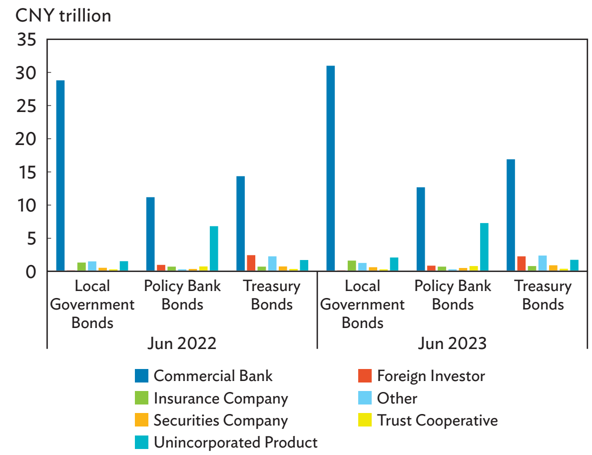
Figure 3: Composition of Local Currency Bond Issuance in the People's Republic of China



CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Source: CEIC Data Company.

Figure 4: Investor Profile of Local Government Bonds, Policy Bank Bonds, and Treasury Bonds



CNY = Chinese yuan.

Source: CEIC Data Company.