

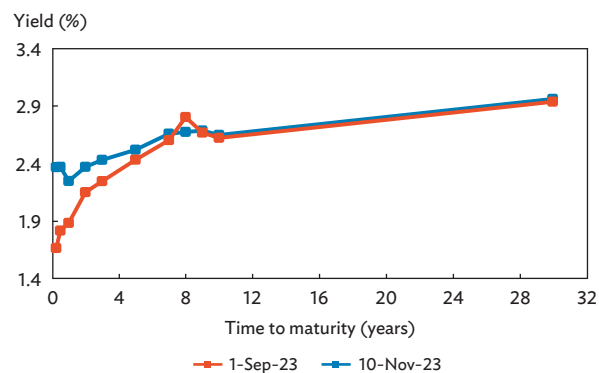
Market Summaries

People's Republic of China

Yield Movements

Between the review period of 1 September and 10 November, local currency (LCY) government bond yields in the People's Republic of China (PRC) rose for most maturities following cues from the United States Federal Reserve that it would leave policy rates elevated for an extended period (Figure 1). Yields rose more at the shorter-end, with the 2-year yield rising 22 basis points while the 10-year yield rose only 2 basis points, capped by nonexistent inflation of 0.0% year-on-year (y-o-y) from 0.1% y-o-y in September, as well as a decline in gross domestic product growth from 6.3% y-o-y in the second quarter of 2023 to 4.9% y-o-y in the third quarter (Q3), which was still higher than expected. Also dragging on the economic outlook were continued property market woes. Country Garden declared a default on 25 October, triggering a payout of its credit default swaps. Evergrande is also still in ongoing talks regarding the restructuring of its debt.

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

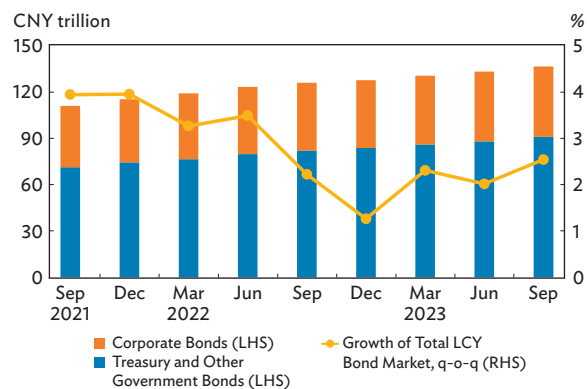


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

LCY bonds outstanding in the PRC posted a modest expansion in Q3 2023 as the government urged local governments to complete their bond quotas by September 2023 (Figure 2). Overall LCY bonds outstanding in the PRC rose 2.5% quarter-on-quarter (q-o-q) to CNY136.3 trillion at the end of September. By sector, government bonds outstanding grew 3.3% q-o-q to CNY90.8 trillion as local governments sought to completely utilize their bond quota by the end of September. Corporate bonds outstanding grew 1.1% q-o-q to CNY45.5 trillion.

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

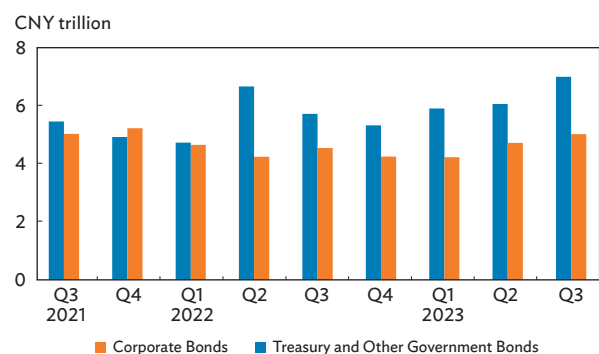


CNY = Chinese yuan, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Source: CEIC Data Company.

LCY bond sales in the PRC totaled CNY12.0 trillion in Q3 2023, growing 11.5% q-o-q largely due to local government bond issuance (Figure 3). Issuance of Treasury and other government bonds climbed 15.5% q-o-q in Q3 2023 to CNY7.0 trillion. Corporate bond issuance growth moderated to 6.5% q-o-q to CNY5.0 trillion from 11.8% q-o-q in the second quarter as bond defaults weighed on investor sentiment.

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



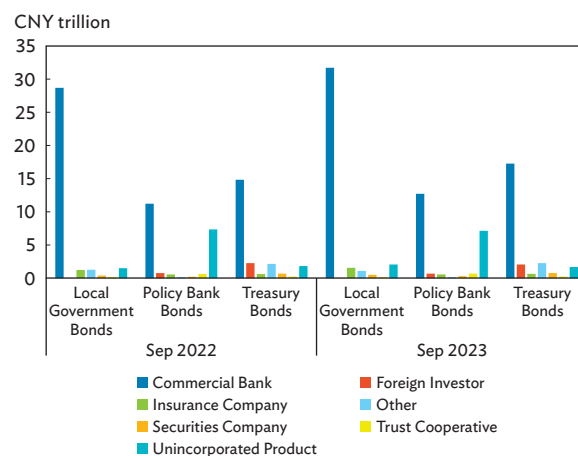
CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Source: CEIC Data Company.

Investor Profile

Commercial banks remained the largest holder of government bonds at the end of September (Figure 4). Commercial banks are the dominant investor in the PRC with such a high share that the PRC has the second-highest Herfindahl–Hirschman Index score in emerging East Asia.⁹ Commercial banks held nearly 80% of total government bonds outstanding at the end of September and were the most active in local government bond purchases with a share of 85.4%.

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



CNY = Chinese yuan.

Source: CEIC Data Company.

⁹ The Herfindahl–Hirschman Index is a commonly accepted measure of market concentration. In this case, the index was used to measure the investor profile diversification of the local currency bond market and is calculated by summing the squared share of each investor group in the bond market.