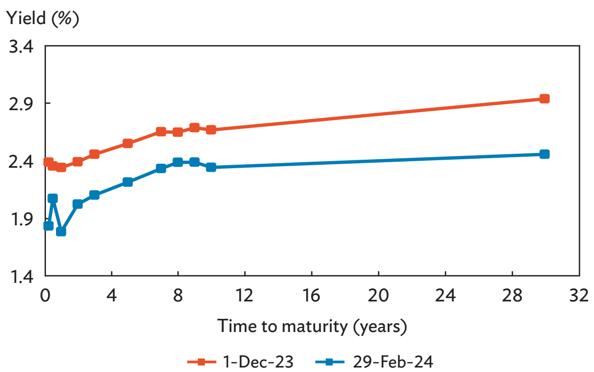
Market Summaries

People's Republic of China

Yield Movements

Local currency (LCY) government bond yields in the People's Republic of China (PRC) fell for all maturities between 1 December 2023 and 29 February 2024 due to expectations of monetary policy easing in the United States (US) and a slowdown in the domestic economy. The PRC's yields fell for all tenors by an average of 38 basis points (bps) on rising expectations that the US Federal Reserve would soon ease its monetary policy (**Figure 1**). Despite uncertainties over US monetary policy, yields continued to fall in January and February as the People's Bank of China eased monetary policy to help lower funding costs and support the economy. On 24 January, the People's Bank of China reduced the reserve requirement ratio of financial institutions by 50 bps. This was followed by a 25 bps reduction in the 5-year loan prime rate to 3.95% on 20 February. Yields were also depressed due to the persistence of deflation in the PRC, which dipped further to −0.8% year-on-year in January from −0.3% year-on-year in December.

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

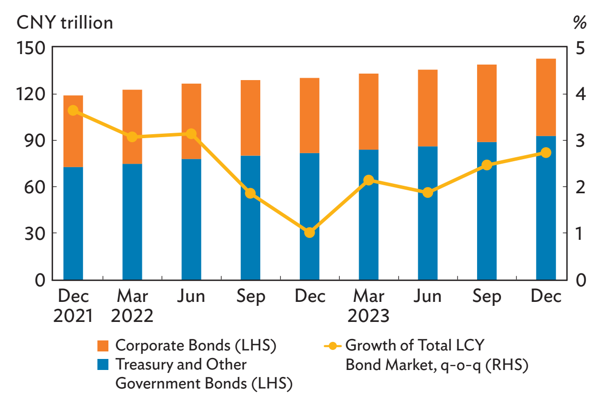


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The PRC's LCY bonds outstanding grew at an accelerated pace in the fourth quarter (Q4) of 2023 as the government sought to support the domestic economy. Total LCY bonds outstanding grew 2.7% quarter-on-quarter (q-o-q) in Q4 2023 to CNY142.7 trillion, up from 2.5% q-o-q in the third quarter (**Figure 2**). Despite a contraction in issuance during the quarter, outstanding government bonds rose 4.5% q-o-q, compared with 3.2% q-o-q in the third quarter of 2023, due to reduced maturities. In contrast, corporate bonds outstanding declined 0.4% q-o-q in Q4 2023 over weakened economic conditions.

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.

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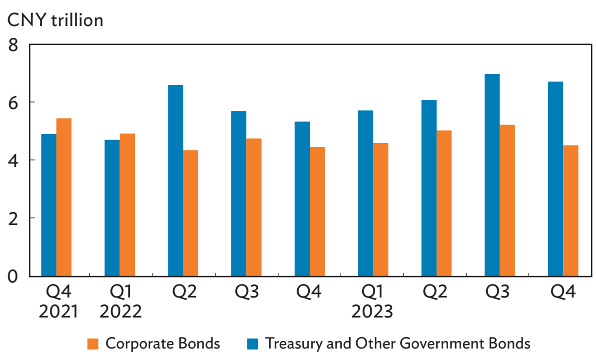
The PRC's LCY bond sales totaled CNY11.2 trillion in Q4 2023, a 7.9% q-o-q decline from the previous quarter on reduced sales from both government and corporate issuers (Figure 3). Government issuance declined 3.8% q-o-q in Q4 2023 largely due to a decline in local government bond issuance, which fell 16.2% q-o-q, and policy bank bonds, which fell 38.5% q-o-q. The decline in local government bonds was due to local governments having completed 2023 bond quotas at the end of September, although there was also some frontloading of 2024 issuance quotas in Q4 2023. Treasury bond issuance increased 18.0% q-o-q on increased fiscal spending. Heightened investor concerns over economic conditions and the property market led to a drop in corporate bond issuance of 13.4% q-o-q.

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



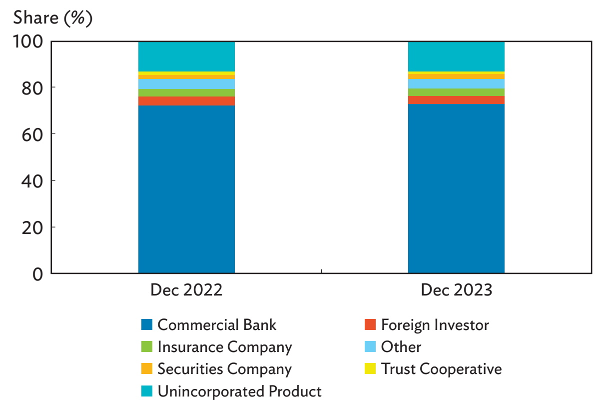
CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Source: CEIC Data Company.

Investor Profile

Commercial banks remained the largest holder of the PRC's LCY government bonds at the end of December 2023 (Figure 4). Commercial banks are the largest investor in the PRC's government bond market. Commercial banks had an overall share of 79.1% at the end of December and were also the dominant holder for all different government bond types, including an 85.1% share of local government bonds outstanding.

Figure 4: Investor Profile of Government Bonds



Note: Government bonds include bonds issued by local governments, policy banks, and the central government.

Source: CEIC Data Company.