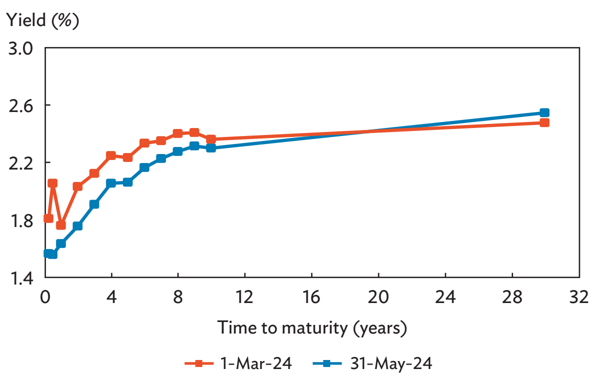
Market Summaries

People's Republic of China

Yield Movements

Local currency (LCY) government bond yields in the People's Republic of China (PRC) fell for nearly all maturities between 1 March and 31 May amid continued weakness in the domestic economy as well as low inflation. The PRC's yields experienced a decline, averaging 19 basis points across all maturities that declined. However, the 30-year tenor bucked this trend and saw a 7 basis points increase during the same period, driven by concerns about economic growth despite a higher growth rate of 5.3% year-on-year (y-o-y) in the first quarter (Q1) of 2024 compared to the previous quarter (5.2% y-o-y) (**Figure 1**). Other economic indicators, however, present a different picture. Retail sales fell from 5.1% y-o-y in January–February to 3.1% y-o-y in March, and further to 2.3% y-o-y in April. Weak demand has also dampened inflation, with consumer price inflation hovering near zero at 0.3% y-o-y in April and 0.1% y-o-y in March. Producer price inflation has been in deflation since October 2022. On the other hand, the rise in yields at the long-end of the curve is due to expectations of increased government debt as the government seeks to stimulate the economy. The government announced the planned issuance of CNY1.0 trillion worth of long-term special Treasury bonds as part of its measures to mitigate the impact of weakness in the property market and the economic slowdown. In April, Fitch Ratings revised the PRC's outlook to negative due to economic uncertainties and rising government debt.

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

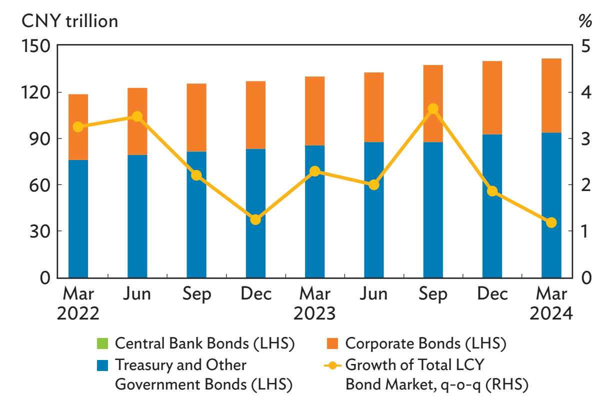


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The PRC's LCY bonds outstanding grew at a slower quarterly pace in Q1 2024 as government issuance contracted. Total LCY bonds outstanding grew 1.2% quarter-on-quarter (q-o-q) in Q1 2024, down from 1.9% q-o-q in Q4 2023 (**Figure 2**). Growth in government bonds slowed to 1.2% q-o-q in Q1 2024 from 5.7% q-o-q in the previous quarter due to reduced issuance during the period. In contrast, corporate bond growth reached 1.2% q-o-q in Q1 2024, up from –4.9% q-o-q in Q4 2023, on easing measures by the PRC government.

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.

This market summary was written by Russ Jason Lo, consultant, Economic Research and Development Impact Department, ADB, Manila.

The PRC's LCY bond sales reached CNY9.6 trillion in Q1 2024, a 13.3% q-o-q decline from the previous quarter due to reduced issuance from government entities (**Figure 3**)**.** Overall government issuance declined 24.4% q-o-q in Q1 2024, largely due to a high base effect as efforts by the government to enact stimulus measures led to frontloading of some 2024 issuance quotas in the preceding quarter. Corporate bond issuance, however, rose 3.8% q-o-q in Q1 2024 after a contraction of 12.6% q-o-q in the prior quarter, buoyed by lower borrowing costs following easing measures by the government.

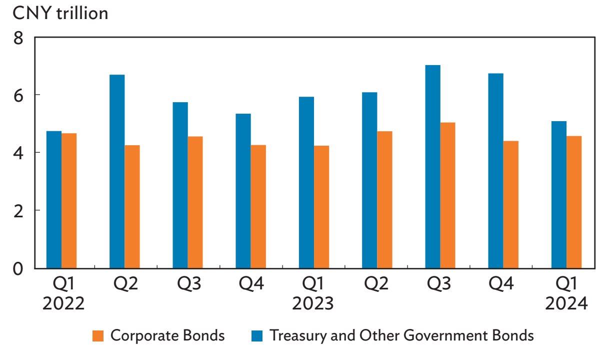
Investor Profile

Commercial banks remained the largest holder of government bonds at the end of March 2024. Commercial banks are the largest investor in the PRC's government bond market, with an overall holdings share of 73.2% at the end of March 2024 (**Figure 4**). Commercial banks are also the dominant holder among all different government bond types, including local government bonds with an 84.8% holdings share.

Sustainable Bond Market

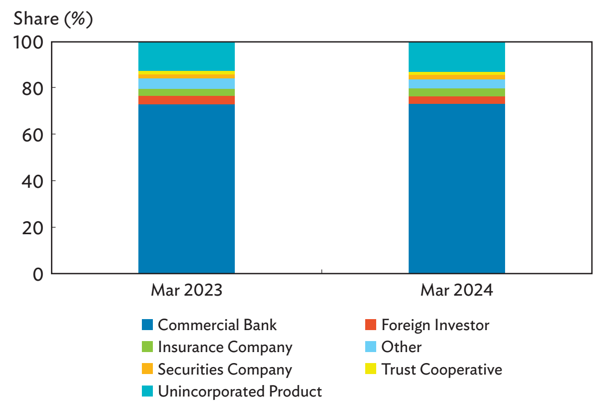
Sustainable bonds in the PRC are mainly green bond instruments, issued by the private sector, and carry shorter-term tenors. The sustainable bond market in the PRC reached a size of USD345.2 billion at the end of March, growing 16.7% from the same period last year. Green bonds comprised 90.4% of total outstanding sustainable bonds at the end of March (**Figure 5**). The majority of sustainable bonds outstanding were issued by private companies, with corporate bonds making up 93.9% of the PRC's sustainable bond market. Corporate issuers tend to issue shorter-tenors compared to the public sector. As a result, 87.1% of the PRC's outstanding sustainable bonds carried tenors of 5 years or less.

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



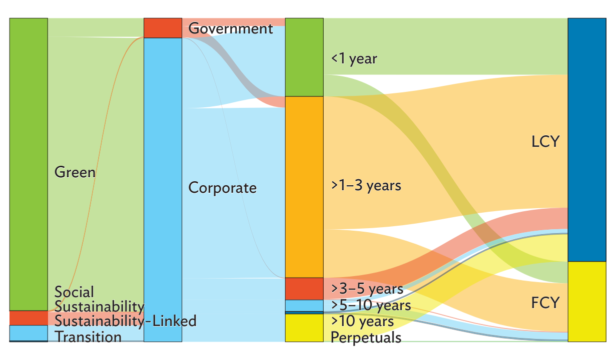
CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Source: CEIC Data Company.

Figure 4: Investor Profile of Government Bonds



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

Figure 5: Market Profile of Outstanding Sustainable Bonds in the People's Republic of China at the End of March 2024



FCY = foreign currency, LCY = local currency.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.