

Market Summaries

People's Republic of China

Yield Movements

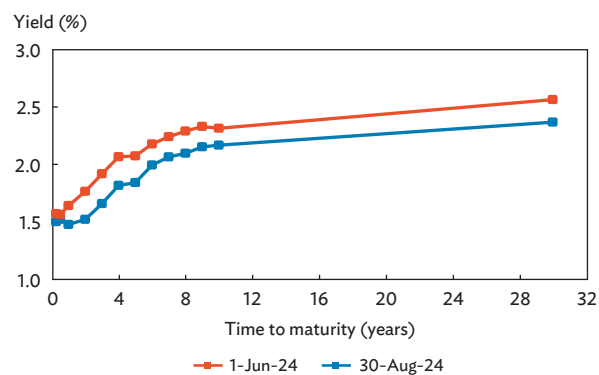
The People's Republic of China's (PRC) local currency (LCY) government bond yield curve experienced a bullish flattening between 1 June and 30 August as economic growth slowed and the central bank reduced key interest rates amid low inflation. The PRC's yield decline averaged 18 basis points (bps) across all maturities (Figure 1). The decline was largely due to softening economic growth, with the PRC's second quarter (Q2) gross domestic product growth rate falling to 4.7% year-on-year (y-o-y) from 5.3% y-o-y in the previous quarter. This, coupled with subdued inflation of 0.5% y-o-y in July (up slightly from 0.2% y-o-y in June), led to the People's Bank of China (PBOC) unexpectedly cutting a series of interest rates in July. The PBOC reduced by 10 bps each the 7-day repurchase rate, the 1-year loan prime rate, and the 5-year loan prime rate on 22 July. On 25 July, the PBOC lowered the 1-year medium-term lending facility rate by 20 bps to 2.3%. The PBOC has also recently expressed concern that rising government bond prices

are generating an asset bubble. In response, the central bank has discussed the importance of an upward sloping yield curve and considered discouraging or limiting further bond trades.

Local Currency Bond Market Size and Issuance

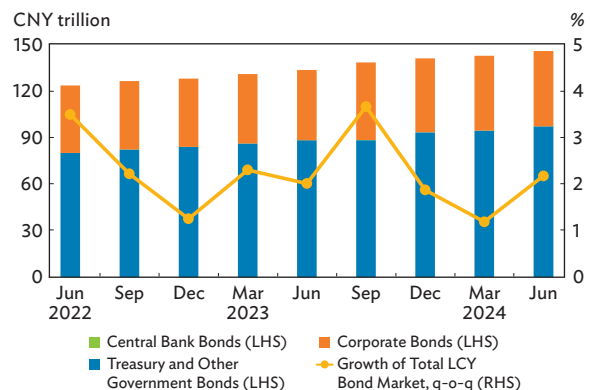
Growth in the PRC's LCY bond market accelerated in Q2 2024 on robust issuance by the government. Total LCY bonds outstanding grew 2.2% quarter-on-quarter (q-o-q) in Q2 2024, up from 1.2% q-o-q in the first quarter (Q1), to a reach size of CNY145.1 trillion (Figure 2). While both types of bonds grew in Q2 2024, gains in government bonds quickened to 2.8% q-o-q from 1.2% q-o-q in Q1 2024 as the government began issuing special long-term Treasury bonds to support the economy. In contrast, corporate bond market growth slowed to 0.9% q-o-q in Q2 2024 from 1.2% q-o-q in the previous quarter.

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



Source: Based on data from Bloomberg LP.

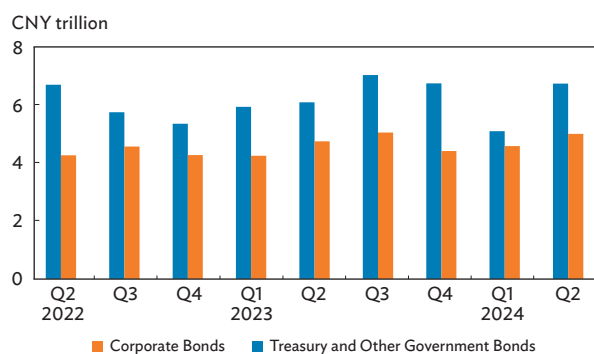
Figure 2: Composition of Local Currency Bonds Outstanding in the People's Republic of China



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

The PRC's LCY bond sales rose to CNY11.7 trillion in Q2 2024 due to robust government bond issuance (Figure 3). Government bond issuance rose 32.2% q-o-q in Q2 2024, after declining 24.4% q-o-q in Q1 2024, as the government began issuing special long-term Treasury bonds to support stimulus measures. While corporate bond issuance also grew in Q2 2024, it expanded at a slower pace compared to government bonds but at a faster rate than in the previous quarter, rising 9.2% as banks issued additional bonds to help shore up regulatory capital.

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



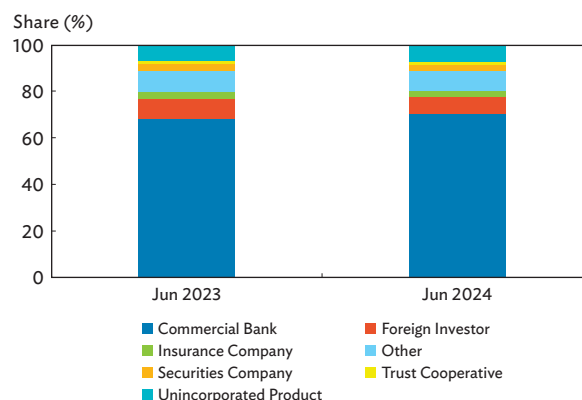
CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Source: CEIC Data Company.

Investor Profile

Commercial banks remained the largest holder of Treasury bonds in the PRC at the end of June.

Commercial banks shored up their holdings of Treasury bonds following an increase in bond prices, resulting in their holdings share to rising to 70.4% at the end of June from 68.5% a year earlier (Figure 4). This led to concerns of an asset bubble in the domestic bond market and, in response, the government sought to limit speculative activities.

Figure 4: Investor Profile of Treasury Bonds



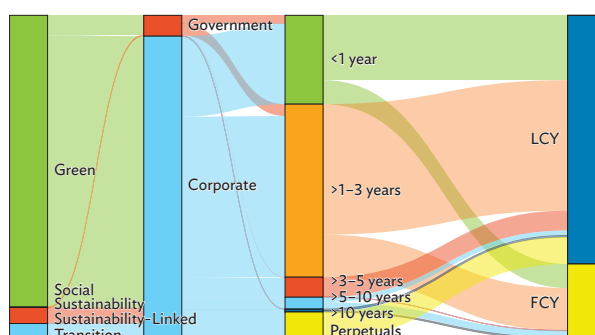
Source: CEIC Data Company.

Sustainable Bond Market

In the PRC, green bonds comprised 90.0% of total outstanding sustainable bonds at the end of June.

Corporate bonds comprise the bulk (93.6%) of the PRC's total sustainable bond market (Figure 5). Corporate issuers tend to issue shorter-tenors compared to the public sector. As a result, 87.0% of the PRC's outstanding sustainable bonds carried tenors of 5 years or less.

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



FCY = foreign currency, LCY = local currency.

Source: AsianBondsOnline calculations based on Bloomberg LP data.