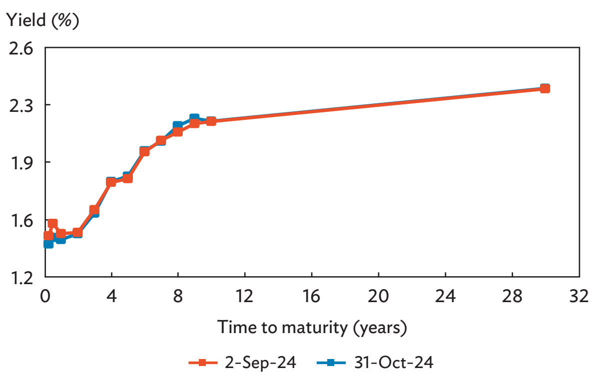
Market Summaries

People's Republic of China

Yield Movements

The People's Republic of China's (PRC) local currency (LCY) government bond yield curve rose for most tenors between 2 September and 31 October on expectations of an increased bond supply as the government enacted stimulus measures. Bond yields in the PRC rose an average of 1.4 basis points (bps) during the review period for most tenors at the longer end (4 years or longer) (**Figure 1**). All maturities of 3 years or less and the 7-year bond saw an average decline of 3.5 bps in the same period. The decline in the yield curve at the shorter end of the curve was supported by the People's Bank of China's (PBOC) aggressive monetary policy easing as it reduced a number of key rates.[11] Other easing measures were announced such as cuts in the reserve requirement ratio by 50 bps on 27 September. Support measures for the property sector and the stock market were announced on 23 September. The Government of the PRC, on 12 October and 18 October, also announced targeted measures such as additional quotas for local governments, more special sovereign bond issuances, and a recapitalization plan for state-owned banks. As a result, yields rose at the longer end of the curve over the prospects of an increased bond supply and a widening fiscal deficit as the government seeks to support the domestic economy. Gross domestic product growth fell to 4.6% year-on-year (y-o-y) in the third quarter (Q3) of 2024 from 4.7% y-o-y in the second quarter (Q2), both of which were down from the first quarter's 5.3% y-o-y growth rate. Consumer price inflation remained low, slightly easing from 0.6% y-o-y in August to 0.4% y-o-y in September and 0.3% y-o-y in October in another indication of weak domestic demand.

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

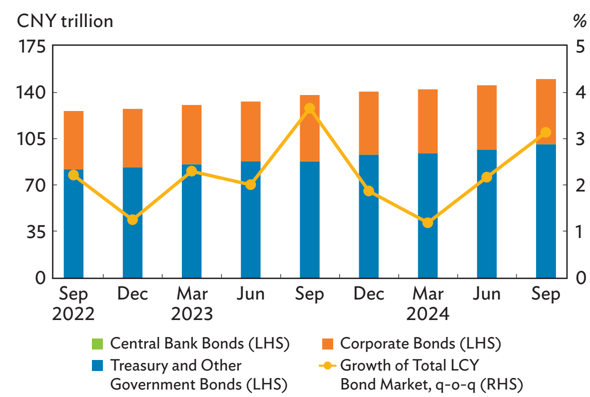


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

LCY bonds outstanding in the PRC grew at an accelerated pace in Q3 2024 on increased government bond issuance to reach CNY149.7 trillion at the end of September. Total LCY bonds outstanding grew 3.1% quarter-on-quarter (q-o-q) in Q3 2024, up from Q2 2024's 2.2% q-o-q growth (**Figure 2**). This was driven by accelerated growth in government bonds to 4.2% q-o-q in Q3 2024 from 2.8% q-o-q in Q2 2024.

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.

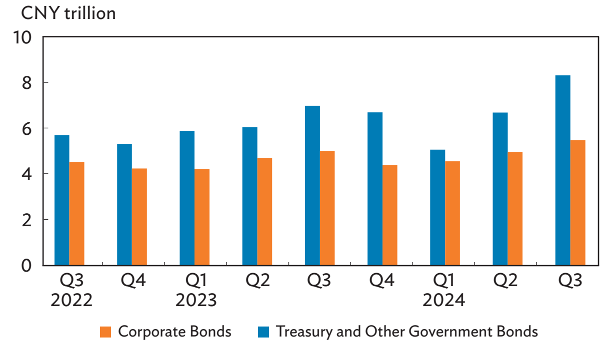
This market summary was written by Russ Jason Lo, consultant, Economic Research and Development Impact Department, ADB, Manila.

[11] On 25 September, the PBOC reduced the 1-year medium-term lending facility rate by 30 bps to 2.00%. On 27 September, it reduced the 7-day repurchase rate by 20 bps to 1.50%. On 21 October, the 1-year and 5-year loan prime rates were lowered by 25 bps each to 3.10% and 3.60%, respectively.

Corporate bonds also saw their growth rate inch up to 1.1% q-o-q, from 0.9% q-o-q in the previous quarter, over reduced funding costs.

Total bond sales in the PRC for Q3 2024 tallied CNY13.9 trillion, with q-o-q growth slightly down to 18.5% from the prior quarter's 21.3% due to a high base effect (Figure 3). While the PRC's government bonds showed healthy growth of 24.5% q-o-q in Q3 2024, this was down from the previous quarter's 32.2% q-o-q expansion. Both the central government and local governments continued to issue bonds to help support the domestic economy during the quarter. Corporate bond issuance growth was relatively stable at 10.4% q-o-q in Q3 2024 compared with 9.2% q-o-q in Q2 2024.

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

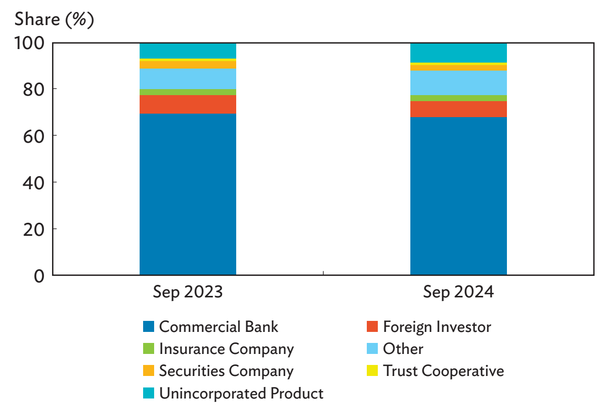


CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Source: CEIC Data Company.

Investor Profile

The PRC's investor profile remained roughly the same at the end of September from a year earlier in terms of the respective shares of investor groups (Figure 4). Commercial banks remained the largest investor in the PRC's Treasury bond market with a share of 68.1% at the end of September, roughly the same as their 69.6% share a year earlier. Due to a high concentration of holdings among banking institutions, the PRC had emerging East Asia's second-highest score in the Herfindahl–Hirschman Index in Q3 2024, indicating relatively less diversity in its investor profile.[12]

Figure 4: Investor Profile of Treasury Bonds

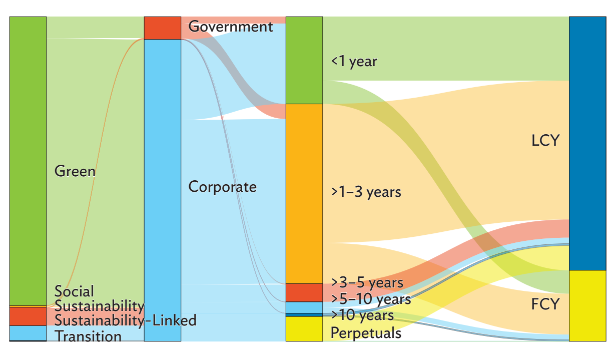


Source: CEIC Data Company.

Sustainable Bond Market

The private sector is a significant issuer of sustainable bonds in the PRC, mostly in the form of shorter-term instruments. The PRC has the largest sustainable bond market in the region, with a size of USD356.3 billion at the end of September, representing 39.9% of the emerging East Asian total. In contrast with the general bond market, the public sector is not an active participant in the sustainable bond market of the PRC, accounting for only 7.0% of bonds outstanding (**Figure 5**). Due to limited public sector participation, sustainable bonds in the PRC tend to be shorter-term instruments, with 87.8% of the PRC's sustainable bonds having tenors of 5 years or less. LCY financing also dominates the PRC's sustainable bond market, with a 78.1% share of the total.

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



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

[12] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China; Hong Kong, China; and the Republic of Korea. 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 LCY bond market and is calculated by summing the squared share of each investor group in the bond market.