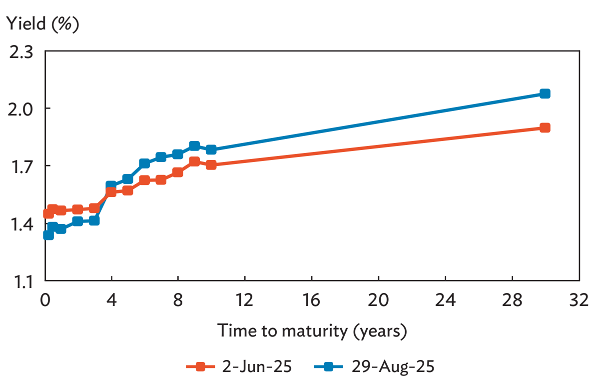
Market Summaries

People's Republic of China

Yield Movements

The People's Republic of China's (PRC) yield curve steepened between 2 June and 29 August. On average, bond yields declined by 9 basis points for tenors of 3 years or less, while they gained 9 basis points for tenors of 4 years or more (**Figure 1**). The steepening was due to improved sentiment, despite some weaker economic data, over easing tensions in the PRC–United States (US) trade dispute and continued government support measures. Investors rotating funds from bonds into stocks following the PRC–US trade pause extension also added upward pressure on long-term yields. Gains in the stock market were fueled by government calls to prioritize local chip makers and reports of an update to DeepSeek's AI model. Gross domestic product grew 5.2% year-on-year (y-o-y) in the second quarter (Q2) of 2025, slightly above the market expectation of a 5.1% y-o-y expansion but down from 5.4% y-o-y growth in the previous quarter. Retail sales growth declined to 3.7% y-o-y in July from 4.8% y-o-y in June, and industrial production also moderated to 5.7% y-o-y from 6.8% y-o-y during the same period. Despite the weakening, the *Asian Development Outlook July 2025* forecasts for the PRC remained unchanged from April at 4.7% for 2025 and 4.3% for 2026.

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

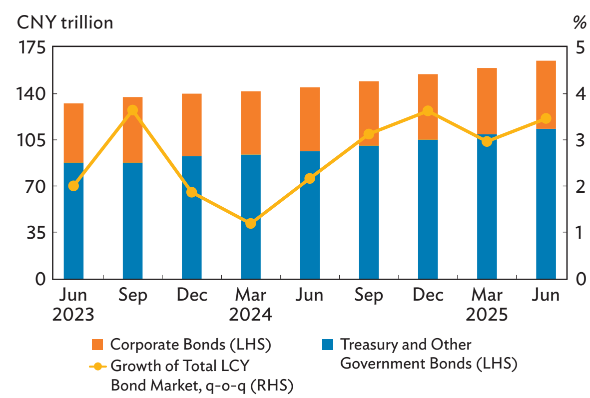


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The PRC's local currency (LCY) bond market grew to a size of CNY165.3 trillion at the end of June, supported by expansions in both the government and corporate segments. Total bond market growth accelerated to 3.5% quarter-on-quarter (q-o-q) in Q2 2025 from 3.0% q-o-q in the prior quarter, buoyed by increased issuance during the period amid government stimulus measures announced in March (e.g., raising the budget deficit limit from 3% in 2024 to 4% in 2025) (**Figure 2**). Outstanding government bonds rose 3.9% q-o-q to CNY 113.8 trillion, matching the previous quarter's

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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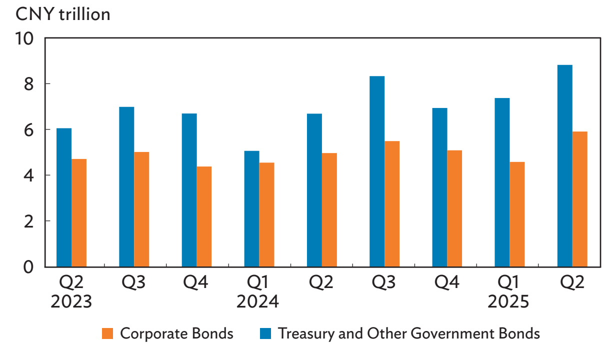
growth, as rising issuance was largely offset by the large volume of bond maturities—total maturities were up by CNY1.3 trillion over the previous quarter.

Meanwhile, the corporate bond segment's expansion accelerated to 2.5% q-o-q from 1.0% q-o-q in the previous quarter on increased issuance in both the financial and nonfinancial sectors as borrowing costs declined. The Government of the PRC has also been conscious of risks building up in the economy. In addition to strengthening banks and local government finances, a *Financial Times* article noted that lower-rated corporate issuances have fallen as the PRC seeks to limit credit risk. (The article also raised the possibility that ratings on new issues may be inflated.) In addition, the PRC is allowing more foreign companies to issue bonds to improve the credit profile of the bond market, while foreign companies will benefit through lower yuan borrowing costs. The issuance of panda bonds, a CNY-denominated debt securities issued by overseas entities in the PRC that serve as a vital financing channel for international institutions, rose by 24.8% q-o-q and 7.1% y-o-y in Q2 2025 to CNY49.6 billion. The increase was due to a combination of several factors, including continued government initiatives to boost panda bonds, lower borrowing costs versus the US dollar, and greater investor interest in CNY-denominated assets.

The PRC's bond issuance rebounded in Q2 2025, rising 23.2% q-o-q to CNY14.8 trillion. Government bond issuance growth strengthened to 19.7% q-o-q in Q2 2025 from 6.3% q-o-q in the prior quarter after the central government started issuing special Treasury bonds in March (**Figure 3**). The issuance of special Treasury bonds will be used to help fund government stimulus measures to support the economy. In addition, some of the debt raised will be used to help recapitalize state-owned banks. Corporate bond issuance was up due to increased capital-raising activities from banks amid economic uncertainty and stronger issuance from nonfinancials due to lower interest rates. Corporates have been shifting away from the issuance of G3 bonds over rising borrowing costs resulting from the wait-and-see stance of major advanced economy central banks.[18] G3 issuance in the PRC declined 13.7% q-o-q to USD26.9 billion in Q2 2025. There was a noticeable decline of 80.2% q-o-q in G3 currency bond issuance from real estate companies given the challenging environment in the property sector, specifically an increasing number of defaults. In contrast, intraregional issuance from the PRC surged to USD1.5 billion in Q2 2025 from USD0.1 billion in the previous quarter.[19]

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



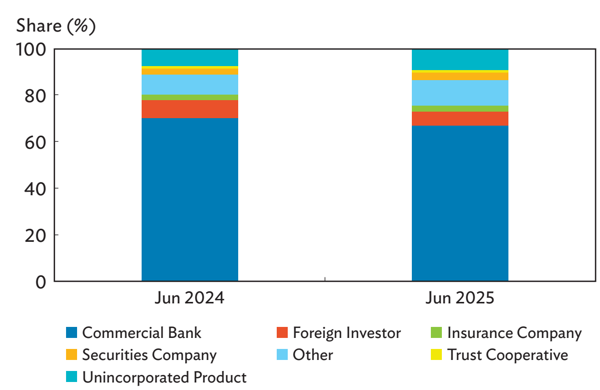
CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Source: CEIC Data Company.

Investor Profile

Banks continued to be the largest holding group of Treasury bonds at the end of June. However, there was a decline in banks' holdings share to 67.1% from 70.4% a year earlier (**Figure 4**). The decline was partly due to banks limiting additional investments in the bond market following calls for caution from the central bank over

Figure 4: Investor Profile of Treasury Bonds



Source: CEIC Data Company.

18 G3 currency bonds are denominated in either euros, Japanese yen, or United States dollars.

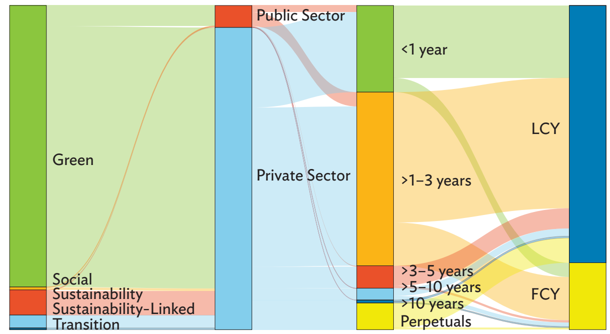
19 Intra-regional bond issuance is defined as emerging East Asian bond issuance denominated in a regional currency excluding the issuer's home currency.

potential interest rate risks. A report by Caixin noted that local regulators have spoken to some rural banks over their bond investments.

Sustainable Bond Market

The PRC continued to lead the green bond market in emerging East Asia.[20] Green bonds dominate the PRC's sustainable bond market with a share of 86.8% (**Figure 5**). S&P Global noted that the PRC's strong issuance of green bonds is consistent with market efforts to transition to a low-carbon environment. According to the International Energy Agency, the PRC accounted for 35% of global greenhouse gas emissions in 2023. In addition, while the PRC released regulator guidelines for the issuance of green bonds in 2016, guidelines for a pilot program for social and sustainable bonds were only released in 2021. However, the PRC's green bonds carry relatively short-term tenors, with the share of bonds with remaining tenors of 5 years or less at 87.5%; shorter maturities can pose a challenge to funding long-term projects.

Figure 5: Market Profile of Outstanding Sustainable Bonds in the People's Republic of China at the End of June 2025



FCY = foreign currency, LCY = local currency.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

[20] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.