

## CCXI & CCXAP – Research & Commentary

---

### Yield of 10-year Government Bonds might Fluctuate Around 2.9%-3.0%

Hong Kong, 22 October 2021 -- A report titled “Stable Monetary Policy was More Effective and Accurate, Yield might Rise in Rest of the Year -- Review and Outlook of Monetary Policy and Interest Rate bonds in Q1-Q3 of 2021” has been recently published by the Research Institute of China Chengxin International Credit Rating Co. Ltd. (“CCXI Research Institute”). The report notes that as the monetary policy retains its domestic orientation and puts stability first and greater importance is given to the effectiveness and precision of policy operations. **The 10-year China Government Bond (CGB) yield shows upside room in Q4, expected to fluctuate around 2.9%-3.0%. Looking into 2022Q1, the yield may stage a bumpy downturn amid the downward economic pressure coupled by limited liquidity disruption factors.**

**The report summarizes three characteristics of monetary policy and interest rate bond market operations in the first three quarters. First, the monetary policy remained prudent in general, and PBOC attached greater importance to the effectiveness and precision of policy operations.** In January and February, the monetary policy was in a transition from “easy” to “prudent” that started in 2020H2. PBOC marginally tightened its operations, leading to a net liquidity withdrawal of over RMB500 billion from open markets, a higher level than expected. From March to May, the monetary policy stayed prudent and neutral. With its operations more prudent and precise, PBOC started to create an operational mechanism to offer a fixed number of reverse repos daily. The monetary policy stayed prudent from June to September. Given liquidity and other disturbance factors, PBOC stepped up its OMOs and injected a net amount of RMB290 billion into market. **Second, the issuance of CGBs and local government bonds continued to decline year-on-year (YoY), compared with a YoY increase in policy bank bond issuance.** Due to weaker-than-expected issuance of new special-purpose government bonds in 2021H1 and the high comparison base in 2020Q3 resulting from issuance of pandemic-related CGBs and surge in local government bonds, the interest rate bond issuance in 2021Q1-Q3 dipped by 0.43% YoY to RMB1.48 trillion. Specifically, CGB issuance shrank 1.99% YoY to RMB4.71 trillion, policy bank bonds increased 2.18% to RMB4.47 trillion and local government bonds declined 1.12% YoY to RMB5.62 trillion. **Third, the 10-year CGB yield made an upward start followed by a pullback, showing a notable downtrend since March.** The yield remained range-bound early this year amid COVID-19 resurgence and tight interbank liquidity, among other favorable and unfavorable factors. Later the yield staged a bumpy upturn amid tightening liquidity and rising commodity prices. Starting from late February, the bond yields trended downwards in general as the liquidity situation stabilized, coupled by slow issuance of local government bonds and the interbank liquidity relaxed by PBOC’s prudent operations. In July and early August, PBOC’s 0.5 pct cut in the required reserve ratio (RRR), a move beyond market expectations, further pushed the yield lower. Starting from mid- and late August, bond market yields remained range-bound without a clear direction of movements amid marginally slowing economic recovery and weak financing demand from real-sector activities as shown by macro data, coupled by faster pace of local government bond issuance.

**Looking into the policy trends in the rest of the year, the monetary policy will remain prudent in general and attach greater importance to the effectiveness and precision of policy operations.** The report holds that overseas environment has limited impact on China's monetary policy. In the context of weak demand for real-sector financing and heavy downward on the national economy, China's monetary policy will retain its domestic orientation and put stability first. It will continue to emphasize structural precise targeting while ensuring an appropriate total size, and put serving the real economy higher on the priority list. In selecting monetary policy tools, the report holds that PBOC will remain focused on the precision and effectiveness of policy operations and keep liquidity reasonably sufficient using such tools as TMLF and CRA while flexibly conducting reverse repos in open market. However, it is still possible to see a further RRR reduction triggered by worse-than-expected economic downturn and much more stressed business activities.

**The report forecasts continued supply pressure on interest rate bonds in Q4.** According to the report forecasts, the interest rate bond issues in the year may total RMB18.77 trillion. Specifically, the annual CGB issuance may reach RMB6.73 trillion, with RMB2.02 trillion to be issued in the rest of the year. The annual issuance of policy bank bonds may be RMB5.23 trillion, with a remainder of RMB0.76 trillion to be issued. The annual issuance of local government bonds may amount to RMB6.81 trillion, with a remainder of RMB1.8 trillion to be issued, if only the new bonds and the refinancing bonds earmarked for repaying matured bonds are considered. As for breakdown of local government bonds, NDRC called for "accelerating the issuance and use of the RMB3.65 trillion special-purpose local government bonds for the year" in September 16. Given the RMB3.65 trillion target, another RMB1.28 trillion of special-purpose local government bonds should be issued by the end of the year. Meanwhile, the issuance of local government bonds earmarked for bond refinancing is estimated to be RMB2.34 trillion this year, including RMB0.39 trillion to be issued in Q4.

**The report forecasts that the 10-year CGB yield will fluctuate around 2.9%-3.0% in Q4 with upside room, but may undergo a bumpy decline in 2022Q1.** The bond market yield trends may still be shaped mainly by domestic factors in 2021Q4 and 2022Q1, showing range-bound volatility. Liquidity may be under pressure to marginally tighten in Q4. Meanwhile, the current yield is relatively low, and the major tailwinds are still needed for the 10-year CGB yield to further move lower. Without any fundamentals or policy changes beyond expectations, the yield will likely move slightly higher in Q4, yet with limited upside room as the economic growth is softening. Q4 may see the yield fluctuating around a mildly higher level of 2.9%-3.0% when compared with Q3. In 2022Q1, the yield is expected to be in a bumpy downturn as the national economy may remain under downward pressure with limited liquidity disruption factors. The yield is projected to move around a lower level of 2.8%-2.9% in 2022Q1 when compared to 2021Q4.

*To obtain the full report, please call our Customer Service Hotline +852-2860 7111.*

#### Copyright

Copyright © 2021 China Chengxin (Asia Pacific) Credit Ratings Company Limited, China Chengxin (Asia Pacific) Credit Ratings Company Limited and/or their affiliates (collectively, "CCX"). All rights reserved. All information contained herein is protected by law. None of such information may be copied or otherwise reproduced, repackaged, further transmitted, transferred, redaction, interception, resold or redistributed, or stored for subsequent use for any such purpose, by any person without CCX's prior written consent.

#### Important Information

All information contained herein is obtained by CCX from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "as is" without warranty of any kind. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any commercial purpose of such information is given or made by CCX in any form or manner whatsoever.

To the extent permitted by law, CCX and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (a) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, or any contingency within or beyond the control of, CCX or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; or (b) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCX or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.



#### 中诚信国际信用评级有限责任公司

地址：北京市东城区朝阳门内大街  
南竹竿胡同2号银河SOHO6号楼  
邮编：100020  
电话：(8610) 6642 8877  
传真：(8610) 6642 6100  
网址：<http://www.ccxi.com.cn>

#### China Chengxin International Credit Rating Co., Ltd

Address: Building 6, Galaxy SOHO,  
No.2 Nanzhugan hutong, Chaoyangmennei Avenue,  
Dongcheng district, Beijing, 100020  
Tel: (8610) 6642 8877  
Fax: (8610) 6642 6100  
Website: <http://www.ccxi.com.cn>



#### 中国诚信(亚太)信用评级有限公司

地址：香港中环康乐广场1号  
怡和大厦19楼1904-1909室  
电话：(852) 2860 7111  
传真：(852) 2868 0656  
网址：<http://www.ccxap.com>

#### China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House, 1 Connaught Place,  
Central, Hong Kong  
Tel: (852) 2860 7111  
Fax: (852) 2868 0656  
Website: <http://www.ccxap.com>