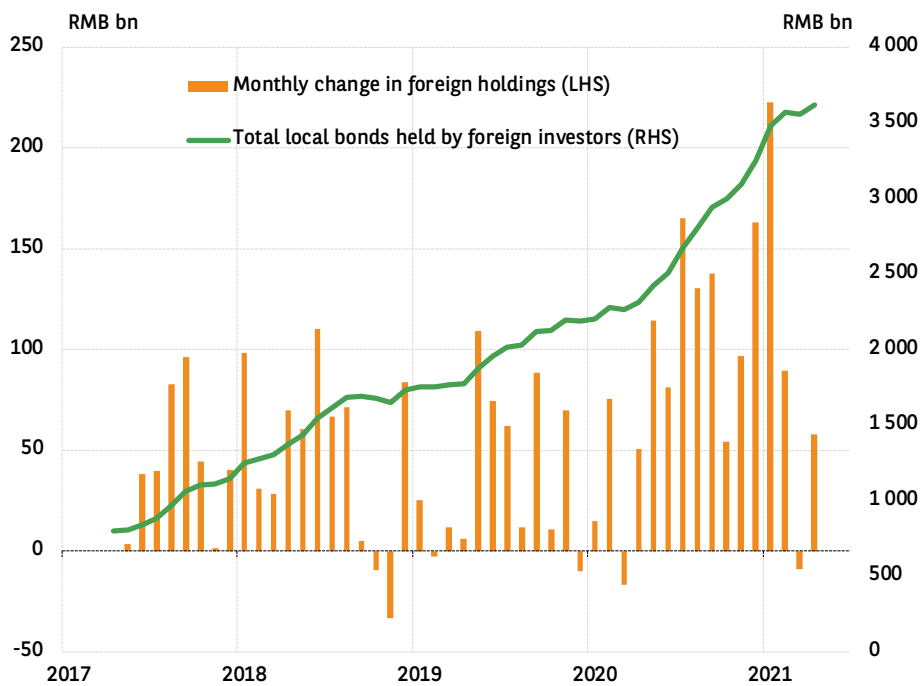


26 May 2021

CHINESE BOND MARKET: THE PARTICIPATION OF FOREIGN INVESTORS

Christine Peltier

Foreign holdings of Chinese local bonds



Source: CEIC

Foreign investors have significantly increased their purchases of Chinese local bonds since Q2 2020, targeting sovereign papers particularly. In fact, foreigners are currently holding only 3% of the total stock of Chinese local bonds, but 10% of the total stock of central government papers. Foreign investors' holdings of local bonds increased by RMB 120 bn per month in average from April 2020 to February 2021, against +RMB41 bn in the previous twelve months. This dynamic suddenly stopped last March. It should resume in the short term, yet without returning to the 2020 levels.

Several factors account for these recent foreign investment flows: the increase in local yields and the widening spreads with US Treasury yields (yields on Chinese ten-year sovereign bonds rose from 2.5% in April 2020 to 3.3% in December, and have remained close to this level since then), appreciation of the yuan against the USD since May 2020 (temporarily interrupted in March 2021), the inclusion of Chinese government securities in key global bond indexes and, more generally, the financial market opening process implemented by the authorities.

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