China Bonds Slide Most Since August as Bets on Easing Unravel
2021-10-11 09:10:42.546 GMT

By Tania Chen
(Bloomberg) -- China's government bond yields jumped by the most in two months as the prospect of further monetary easing diminished and as fixed-income assets slid worldwide.
Bonds fell after the central bank withdrew a net 190 billion yuan ($29.5 billion) of short-term funds from the banking system Monday after draining the most since January on Friday. The likelihood of a rate cut in the near term is low and the timing of a reduction in the reserve requirement ratio is uncertain, state-backed China Securities Journal said.
China's benchmark 10-year yields climbed five basis points to 2.95% on Monday, the highest close since July.
The jump in 10-year yields sent them out of the 10-basis-point range where they had been since the start of August, suggesting traders are giving up bets on aggressive monetary easing. The selloff also followed losses in other global bond markets amid a surge in inflation expectations due to rising energy prices and central-bank progress toward normalization.
The selloff is far from over, analysts at Guotai Junan Securities Co. led by Qin Han in Shanghai wrote in a research note. "All the factors, apart from weak economic growth, are negative for the bond market. The adjustment in China's bond yields in the fourth quarter may be more drastic than expected."
The nation's 10-year yield will climb to 3.20% this quarter, which means bonds will erase all the gains they have made in 2021, the analysts said. Further losses will be driven by an increase in debt issuance and bets that China-U.S. tensions will ease, according to Guotai Junan, which is China's third-largest brokerage by total assets.
Rising volatility in the nation's debt market may test overseas demand for yuan assets. Global funds boosted purchases of Chinese government debt to an eight-month high in September, according to official data released Monday.

--With assistance from Chester Yung and Tian Chen.

To contact the reporter on this story:
Tania Chen in Hong Kong at tchen154@bloomberg.net
To contact the editors responsible for this story:

Tian Chen at tchen259@bloomberg.net
Nicholas Reynolds, Tan Hwee Ann

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