People's Bank of China

China's central bank moves to address bond frenzy

Officials are increasingly uncomfortable with a rally pushing borrowing costs to lowest level in decades

The People's Bank of China said it would 'borrow sovereign bonds from primary traders in the open market in the near future' © Bloomberg

Cheng Leng in Hong Kong 14 HOURS AGO

China's central bank plans to intervene directly in bond markets in a sign of officials' growing discomfort with a rally that has pushed borrowing costs to the lowest level in two decades.

The People's Bank of China said on Monday it would "borrow sovereign bonds from primary traders in the open market in the near future".

The decision was made on "prudent observation and evaluations of current market situations" in order to "maintain the stable operation of the bond market".

The statement came as the yield on China's onshore 10-year government bond declined two basis points to 2.18 per cent, the lowest since Bloomberg started tracking the data in 2002.

Investors have piled into the bonds as they hunt for haven assets in a weak economy. Experts said the PBoC's statement indicated it was moving to cool the market rally by selling bonds to ease demand.

"The PBoC will become a regular and active trader on the secondary market of sovereign bonds going forward," said Zhang Ming, a senior fellow and the deputy director of the Institute of Finance and Banking under the Chinese Academy of Social Sciences, a state think-tank.

"The Chinese government is on track to significantly increase the sale of its sovereign bonds in the coming years," he added.

The yields on China's 10- and 30-year government bonds rose following the statement, to 2.2 per cent and 2.4 per cent respectively. Bond yields rise as prices fall.

Chinese regulators are alarmed by the frenzy for sovereign bonds. The PBoC has repeatedly warned that the market's excessive appetite risks a crisis similar to the collapse of Silicon Valley Bank in the US last year.

"Today's announcement means the PBoC would sell sovereign bonds soon on the open market," said Ming Ming, chief economist at Citic Securities. "A central bank sale would help stabilise the yield level at the longer end of the curve, and prevent rate risks."

PBoC governor Pan Gongsheng said two weeks ago at a forum that the bank was ready to trade sovereign bonds in the secondary market. He emphasised that the PBoC's upcoming trade of sovereign bonds was not equivalent to quantitative easing.

"Including government bond buying and selling into the monetary policy toolbox doesn't mean we'll do quantitative easing," said Pan. "It is meant to be a channel for base money injection and a tool for liquidity management."