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Bond Yields' Surge Misses China

Fall in government debt yields reflects a weak economy and a savings glut

BY JASON DOUGLAS

TOKYO—A rout in government bonds is pushing up borrowing costs around the world, causing consternation from Washington to Paris to Tokyo.

Beijing has the opposite challenge. Chinese government bond prices have risen this year, pulling down the yield on China's benchmark 10-year bond on Wednesday to as low as 1.7%. *Note*

That is more than 3 percentage points below the 5.3% yield on the equivalent U.S. Treasury note. It is also well below the yields on benchmark 10-year bonds from the U.K., France and even Japan, which for years was a poster child for ultralow rates.

"China is bucking the entire global trend," said Lynn Song, chief economist for China at investment bank ING.

Yields in many economies are testing decades-old highs as investors respond to soaring government debt and the inflationary cost of the war in Iran, which has driven energy prices higher.

Artificial intelligence, meanwhile, is fueling optimism about future economic growth, which can lead to higher yields. It is also sucking money away from government bonds toward the AI labs developing new models and "hyperscalers" building out data centers, adding further upward pressure on government bond yields.

Behind the topsy-turvy move in Chinese yields is a different set of issues. Exports are booming, but the rest of China's economy is in a funk, weighed down by feeble consumption and a multiyear property slump. Inflation has picked up, but isn't as big a problem as it is in the U.S. and elsewhere. *Note*

Just as surging bond yields can be a problem for economies, so too can low yields. Though high yields are a boon for savers looking for better returns, they push up the cost of borrowing for governments, companies and households. *Note*

Low yields, by contrast, reduce income for savers, forcing them to sock away more

cash to meet their goals, which can hit spending overall. They send a gloomy signal about economic growth that can sap businesses' desire to hire and invest. They can also trigger a scramble for better returns that pushes investors into riskier assets, undermining financial stability. *Note*

As recently as 2024, Chinese policymakers were so worried about low yields that they came up with a plan to sell government bonds to prod yields higher.

Rather than selling bonds, the People's Bank of China this year has been a net buyer. That suggests Beijing now sees lower borrowing costs as helpful for struggling parts of the economy.

"That tells you they are happy with bond yields being lower," said Julian Evans-Pritchard, head of China economics at Capital Economics.

Still, China's low bond yields are indicative of a shortage of investment opportunities for its huge hoard of savings. Even bigger buyers of Chinese bonds than households are the country's banks. As of August, Chinese banks owned 29 trillion yuan of bonds, around \$4.4 trillion, compared with less than half that sum in 2022.

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