China’s negative yield bonds

Why in news?

There is rising demand for Chinese negative yield bonds amidst of COVID Pandemic.

What are negative-yield bonds?

- They are debt instruments which pays the investor a maturity amount lower than the purchase price of the bond.
- **Investors buy them** during times of stress and uncertainty to protect their capital from significant erosion.

Why is there a huge demand from investors across Europe?

- A 10-year and 15-year bond gives positive return in China whereas interest rates in Europe has dropped significantly.
- As against minus —0.15% yield on the 5-year bond issued by China, the yields offered in safe European bonds are much lower, between –0.5% and —0.75%.
- China is one country that is set to witness positive growth (GDP expanded by 4.9% in the third quarter of 2020) when large economies are facing a contraction in their GDP for 2020-21 in these challenging times.
- China demonstrated that it has controlled the spread of a second wave of Covid-19 cases when Europe, US and other parts of the world are still suffering.

What is the key factor driving this demand?

- After the pandemic global central banks injected massive amount of liquidity which shot up the prices of various assets including equities, debt and commodities.
- Investors wish to park their money in negative-yielding government debt for the purpose of hedging their risk portfolio in equities.

- The fresh wave of the Covid-19 pandemic can lead to further lockdown in the economies(new US government may impose), which can push interest rates down, yields reduces further, and leading to profits for investors.

Source: The Indian Express