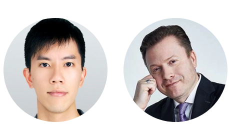
China's Bond Market Is a Sign of a Collapsing Economy, Says Kyle Bass

The Chinese economy is also mired in banking and real estate troubles, according to the hedge fund manager.

Kyle Bass, founder and chief investment officer of Hayman Capital Management and a founding member of the Committee on the Present Danger: China, in Washington on Sep. 26, 2019. Samira Bouaou/The Epoch Times



By Frank Fang and Jan Jekielek
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China's economic troubles are much more severe than what communist China is willing to admit, with the performance of its government bonds an indicator of the sputtering Chinese economy, according to Kyle Bass, founder and chief investment officer of Hayman Capital Management.

"We know that they're having an economic collapse," Bass said in an interview with EpochTV's "American Thought Leaders" program aired on Dec. 26. He pointed to the yields of China's sovereign 10-year and 30-year bonds, both sitting below 2 percent as of Jan. 6.

"Think about that. Think about what the Chinese bond market is telling you that the Chinese Communist Party won't tell you—telling you that China is in a recession," Bass said.

Bond yields and bond prices move in the opposite direction. Prices in China's bond market have been on the rise for a decade, but the increase took off about two years ago when China experienced a stock market downturn and a real estate crisis. The dual problems promoted a rush of capital into bank deposits and the debt market.

In late April, at a time when the 10-year bond yield was still above 2 percent, Bass said on social media platform X that economic, banking, and unemployment crises in China contributed to the collapse of the country's bond yields.

Bass said on "American Thought Leaders" that Chinese banks are insolvent and represent 350 percent of China's GDP.

"And almost 40 percent of bank assets in China are lent to domestic real estate. So if your real estate market is down 30 to 50 and your economy is three and a half times levered to your banks, and your banks are insolvent, you have a real problem," Bass said.

"Their problem is larger than ours was during the global financial crisis."

Bass noted that China would never reveal its banking troubles because it does not want to appear weak.

“But it’s easy to see the architecture of their economy, what they did wrong and what they’ve done wrong and what’s happening internally,” he said.

The ongoing real estate crisis has dampened consumer spending. According to data from China’s National Bureau of Statistics (NBS), retail sales increased by 3 percent in November from the same month in 2023, falling short of a Reuters poll’s prediction of 4.6 percent growth.

Some big Chinese real estate developers, including Country Garden and China Evergrande, have either collapsed or stopped funding new projects. NBS data show that property investment in China dropped by 10.4 percent in the first 11 months of 2024 from a year earlier.

Additionally, according to NBS data, new home prices in China dropped by 5.7 percent in November, the 17th consecutive month of declines.

Before the current real estate crisis, China experienced a property boom that lasted more than 10 years. However, according to Bass, that boom has resulted in its plummeting birth rate.

“[Chinese authorities] allowed real estate prices to get so high that no one can afford them coming out of university. Therefore, [China’s] birth rate collapses, which became a real problem,” Bass said. “It was because they allowed this rampant speculation in real estate, which basically was the Chinese miracle.”

According to NBS data, China’s birth rate fell by 5.7 percent in 2023 to 9.02 million babies born, marking the seventh straight year of decline. To avert the population crisis, Beijing abolished its decades-old one-child policy in 2021 and began encouraging families to have three babies.

Bass has been advocating for the United States to decouple from China, saying that while doing so would be difficult, it needs to be done.

“Our total imports in the U.S. are about $3.2 trillion; about $600 billion come from China. Our economy is about $30 trillion,” Bass said.

“Is it the end of the world if we have to find alternate supply chain deliveries from China? It’s not the end of the world.

“We’ve allowed that frog to boil over time, and now we’re in a very vulnerable situation,” he said, pointing to U.S. dependence on Chinese imports, such as rare earth metals and pharmaceutical ingredients.

“If you have an adversary that is marching down the road to war, you better figure it out quickly.”

Reuters contributed to this report.

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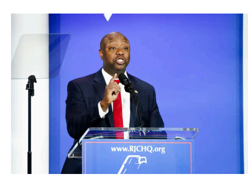

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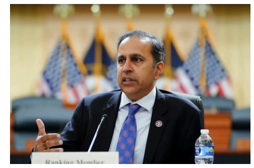

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