

Nov 30th, 2011

NAFMII Weekly Newsletter



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Market News

I. Bond Market

Shanghai and Guangdong Issued Local Government Bond Successfully

The first issue of the local government bond issued through independent tendering in China finally "broke the ice" on November 15. The maturity of local government bonds issued by Shanghai included both 3-year and 5-year. As reported, the tender interest rate for 3-year local government bond was 3.10% and the oversubscription was 3.5 times, while these figures were 3.30% and 3.1 times for the 5-year bond respectively. These results are close to or lower than the valuation of the central government bond of the same term, revealing a robust demand from the institutional investors.

After Shanghai successfully piloted the issuance of the local government bond, Guangdong is the second province to "test the water" for issuing local government bond independently. The Department of Finance of Guangdong Province issued RMB6.9 billion worth of local government bond through independent tendering on November 18. The bonds also had two terms: 3 years and 5 years, and an amount of RMB3.45 billion for each term respectively. The tender interest rate was 3.08% for the 3-year bond and 3.29% for the 5-year bond. In addition, Zhejiang Province also announced on November 15 it would offer a fixed-rate local government bond of RMB6.7 billion through tendering on November 21.

Three Banks Approved to Issue Financial Bonds for Small & Micro Businesses

China Minsheng Banking Corporation, Shanghai Pudong Development Bank and Industrial Bank Co., Ltd. have recently won the regulatory approval from China Banking Regulatory Commission to issue a total of RMB 110 billion worth of financial bonds which will be specially used to extend loans to small and micro businesses. The small and micro enterprise loans of RMB 5 million and below to each borrower will not be covered in the evaluation of the loan-to-deposit ratio to enhance the enthusiasms of the banks to serve small and micro enterprises. The three banks will still have to obtain the approval from the People's Bank of China concerning the issuance of the special financial bonds, and determine the time, term, structure and price of the financial bonds after the central bank approves the issuance. News says other banks like Bank of Hangzhou and Shenzhen Development Bank have applied to offer special financial bonds of different amounts for small and micro enterprise loans of different to the watchdogs.



II. Real Estate Market

Construction of over 10 Million Indemnificatory and Comfortable Houses Have Started

The Ministry of Housing and Urban-Rural Development announced on November 10 that by the end of October, construction of over 10 million indemnificatory and comfortable houses in cities and towns nationwide had started, achieving the target set at the beginning of this year. However, experts note further work will have to be carried out despite the encouraging results. To date, the construction and management of indemnificatory houses have revealed a lot of problems, making it necessary to improve the system in time and strengthen management.

III. Comprehensive Media Intelligence

Central Bank: Private Lending Has Institutional Legitimacy

On November 10, relevant official of the central bank said in an interview that private lending is a beneficial and necessary supplement to the formal finance and has institutional legitimacy. The official stressed that related departments would improve relevant laws and regulations on next step, in order to guide the private capital to engage in fund lending activities in a compliant manner, encourage standardized and transparent operation of private lending, develop a multilevel credit market and satisfy diversified financing demand of the society.

The central bank also stressed that the private lending should be distinguished and managed in sorts. First, reasonable and legitimate private lending will be protected. Second, governments and financial supervision authorities in different regions should strengthen supervision and guidance of the lending activities carried out by institutions such as investment consulting companies and guarantee companies according to the law. Third, the police and judicial authorities will crack down illegal and criminal activities such as , illegal fundraising (e.g. taking deposits from the public illegally and fundraising fraud), relending a loan usuriously, financial pyramid, money laundering, and personal injury caused by collection by violence. Relevant departments are now doing research, piloting and optimizing the private lending track and monitoring system to provide more complete information for economic policy-making and macroeconomic control.



Central Bank: Two Kinds of Deposits Included in M2 Statistics since October

The People's Bank of China, the central bank, said on November 15 that the deposits saved by non-deposit-taking financial institutions at the deposit-taking financial institutions and the housing fund deposit had been included in the statistics of the broad money supply (M2) in October. The central bank explains that the money supply is the money stock in the entire society, and the general term of all the financial instruments acting as the means of circulation and payment at certain point of time. Different countries are revising and improving the statistical scope of the money supply amid the financial market development and the innovation of financial instruments. Since October this year, the central bank has taken into account the aforesaid kinds of deposits in the statistical scope of M2, considering these deposits have a large scale and a considerable influence on the money supply. Subject to the revised standard, the M2 balance was RMB81.68 trillion in October, 2011, representing an increase of 12.9% over the M2 balance of 72.35 trillion in October, 2010.



NAFMII NEWS

NAFMII signed Trilateral Memorandum of Understanding with Shenzhen Municipal Government and PBOC Shenzhen Branch

On November 8, 2011, NAFMII signed a trilateral memorandum of understanding with Shenzhen Municipal Government and PBOC Shenzhen Branch. Chen Yingchun, Vice Mayor of Shenzhen, attended the signing ceremony.

During the 11th Five-year Plan period, NAFMII, by joining the strengths of market members and based on innovations and development of the inter-bank bond market, carried out intensive cooperation with Shenzhen municipal government and PBOC Shenzhen branch, and made its due contributions in areas such as widening financing channels for enterprises in Shenzhen, supporting Shenzhen to accelerate economic transformation and industrial upgrading, optimizing financial ecosystems and supporting the development of private and high-tech enterprises in Shenzhen. By late October 2011, 27 enterprises registered in Shenzhen had accumulatively issued RMB 107.025 billion non-financial corporate debt financing instruments. Among them, 4 enterprises in strategic emerging industries registered and issued 17 debt financing instruments, raising RMB 52.73 billion, providing effective capital support for Shenzhen to improve its modern industry system and accelerate transition of economic development modes; 8 private enterprises issued accumulatively RMB 4.07 billion debt financing instruments in the inter-bank market, practically injecting financial resources into most dynamic economies so as to provide strong support for Shenzhen to enhance endogenous economic impetus. In addition, a group of high-tech enterprises, such as ZTE and Tefa Group, received financial support from the inter-bank market, playing an active role in helping Shenzhen promote the development of high-tech industries focusing on industries such as electronic information, digital equipment and fiber network.

NAFMII Holds NAFMII-GFMA Forum: Examining Global Financial Markets and Regulations

October 26, the National Association of Financial Market Institutional Investors (NAFMII) and the Global Financial Markets Association (GFMA) co-sponsored the NAFMII-GFMA Forum: Examining Global Financial Markets and Regulations in Beijing. Experts from supervisory authorities, self-regulatory organizations and financial institutions at home and abroad held in-depth discussions and probe into the regulatory policy trends in the international financial markets and the dynamics of heated issues of the financial markets as well as the influence of relevant influences on the Chinese financial market and the



Chinese financial institutions. Among those present at the forum were representatives from the People's Bank of China (PBOC), the China Securities Regulatory Commission (CSRC), the China Insurance Regulatory Commission (CIRC), other Chinese government organs, the Treasury Markets Association of Hong Kong (TMA), the Monetary Authority of Singapore (MAS), other international financial market regulators and several Chinese and foreign financial institutions.

After the international financial crisis, the international financial market has grown more complex and volatile. The regulatory policies in America, Europe and other major financial markets are now undergoing a lot of changes, and a host of business standards and practices of the financial markets are experiencing adjustments, which will change the Chinese financial institutions on the way to go global and expand the overseas business. NAFMII and GFMA have cosponsored the forum to better serve the members, back the members to meet the challenges in the international business expansion and effectively safeguard the overseas rights and interests of the members.

The forum focuses on the dynamics and regulatory changes of the global financial markets as well as their influence on the Chinese financial institutions, and held these themes in different forms like keynote speeches, presentations and panel discussions. The agenda includes the adjustments of the regulatory frameworks and policies in the American and European financial markets, the influence of these changes on the Chinese financial institutions, the opportunities and challenges facing by the Chinese financial institutions in the international market, the New Basel Capital Accord, the development of Renminbi offshore market, the development of the OTC financial derivatives market, the reform of the rating industry and the management of the financial market risks. The agenda were examined and discussed by the financial market experts from China Mainland, America, Europe, Hong Kong SAR, Singapore, and other countries and territories.

In the opening message, Secretary-General Shi Wenchao said, "different financial markets have different development stages, face different development tasks and encounter different problems. The tuning of the international financial sequence after the financial crisis should seek an appropriate balance between strengthening the global coordination and considering the particularities of different markets. Such tuning and balancing process will set to deliver far-reach influences on the global financial market environment and sequence, and in turn bring fundamental impacts on the development strategy and operating modes of the global financial institutions. Through our efforts, NAFMII is committed to building a bridge and facilitating the participation of the Chinese financial institutions in the overseas markets, and the understanding of the Chinese financial market by the international institutions. We are expecting to further deepen the exchange and discussion with Chinese and foreign market participants, and contribute our strengths to promoting the exchange and cooperation between the Chinese financial market and the international financial markets."



The representatives participating in the forum said that the forum has accurately focused on the concerns of the Chinese financial institutions when carrying out the domestic and overseas operations after the financial crisis, and the speeches of the honorable guests both provide the latest information and frontier opinions on the international regulatory policies and the financial market dynamics, and also enlighten the financial market participants in the analysis of hot issues. The forum has also provided an exchange and dialogue platform for the Chinese and foreign financial institutions that can help various financial institutions both at home and abroad deepen mutual understanding and further expand the space of cooperation.

Secretary-General Shi Wenchao Meets with Senior Officials of New Zealand Treasury

On the afternoon of November 16, Secretary-General Shi Wenchao met with Sian Roguski, director of the international department of the New Zealand Treasury, and Mark Blackmore, chief advisor of the New Zealand Treasury for macroeconomic and fiscal affairs.

Upon inquiry, Secretary-General Shi Wenchao briefed the major functions of NAFMII, and the work the organization has done in self-regulatory management of the interbank market, innovation promotion, member service and other aspects. Secretary-General Shi noted that New Zealand is an important country in the Asia-Pacific Region, the financial markets in New Zealand and China share similar characteristics, and NAFMII is willing to enhance exchange and communication with relevant institutions of New Zealand on problems relating to financial market development.

Sian Roguski extolled NAFMII's efforts to promote the development of the Chinese interbank market, and said she was willing to help build a bridge of communication between NAFMII and relevant organizations and institutions in the New Zealand financial markets, and jointly promote the exchange and cooperation between various organizations in the New Zealand financial market with NAFMII.



Weekly Monitoring Report on Debt Financing Instruments

I. Overview of the Issuance of Debt Financing

The total debt financing instruments of non-financial enterprises (CPs, MTNs, SMECN) issued this week (Oct 17th-Oct 23rd) reached 24.95 billion Yuan. By Oct 23rd, 2011, 1006 enterprises issued debt financing instruments, with the overall volume reaching 5.21905 trillion Yuan; the outstanding balance reached 2.755645 trillion Yuan.

11 MTN were issued in total this week with the amount reaching 22.9 billion Yuan. 18CPs were issued in total this week with total amount of 24.95 billion Yuan.

II. Status of Secondary Market Trading

This week (Oct 17th – Oct 23rd), 5 MTNs began to trade on the secondary market. The total volume of spot trading transactions in the inter-bank market was 1.2445trillion Yuan and the trading volume of the MTN reached 257.6 billion, accounting for 20.7% of the total spot bond transactions in the inter-bank market.

Meanwhile, 15 CPs began to trade on the secondary market this week. The trading volume of the CP on the secondary market was 140.8 billion Yuan, accounting for 11.3% of the total spot bond transactions in the inter-bank market.

Figure 1: Monthly issuance status of debt financing instruments of non-financial enterprises

(Jan 1st, 2008 –Oct 23rd, 2011)

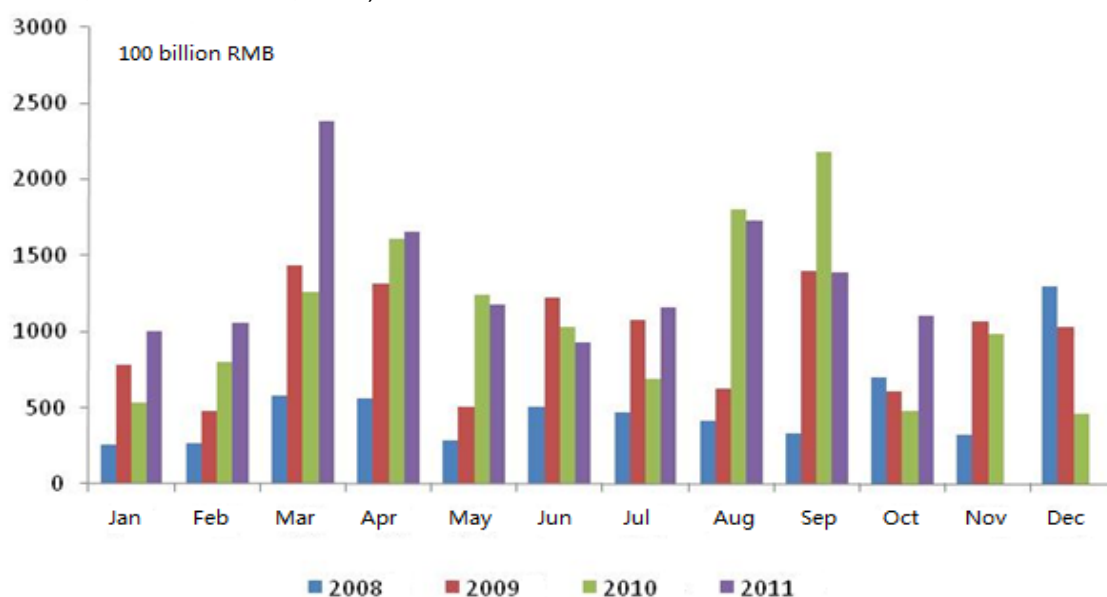




Figure 2: Outstanding balance of debt financing instruments of non-financial enterprises

(May 24th, 2005 – Oct 23rd, 2011)

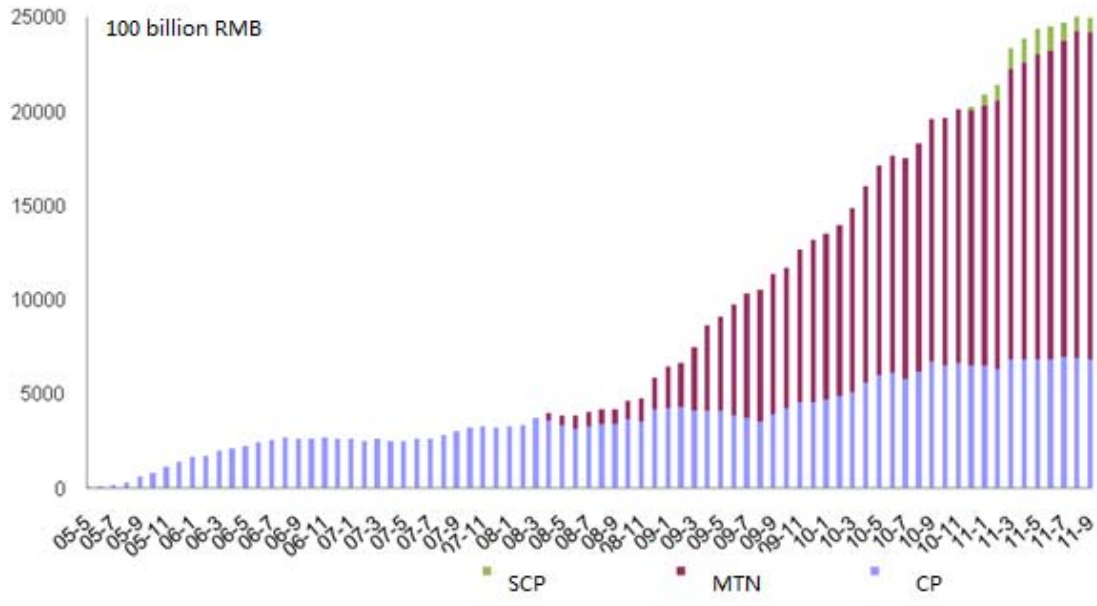


Figure 3: Yield curve for one-year CPs

(January 1st, 2007 – Oct 23rd, 2011)

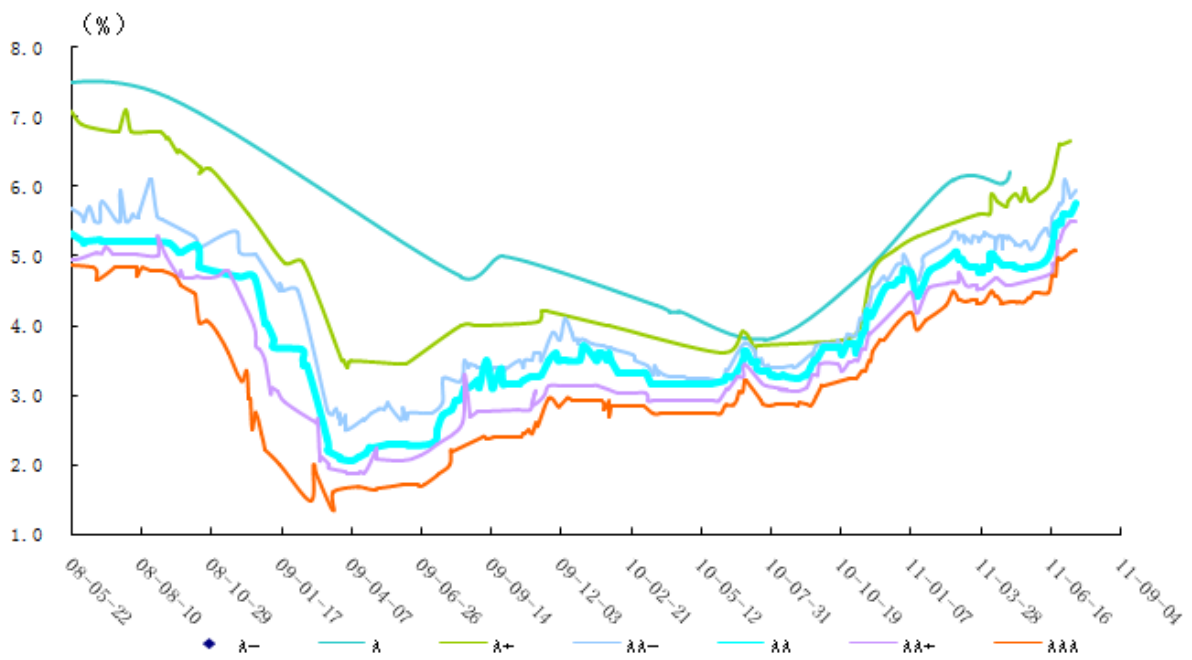
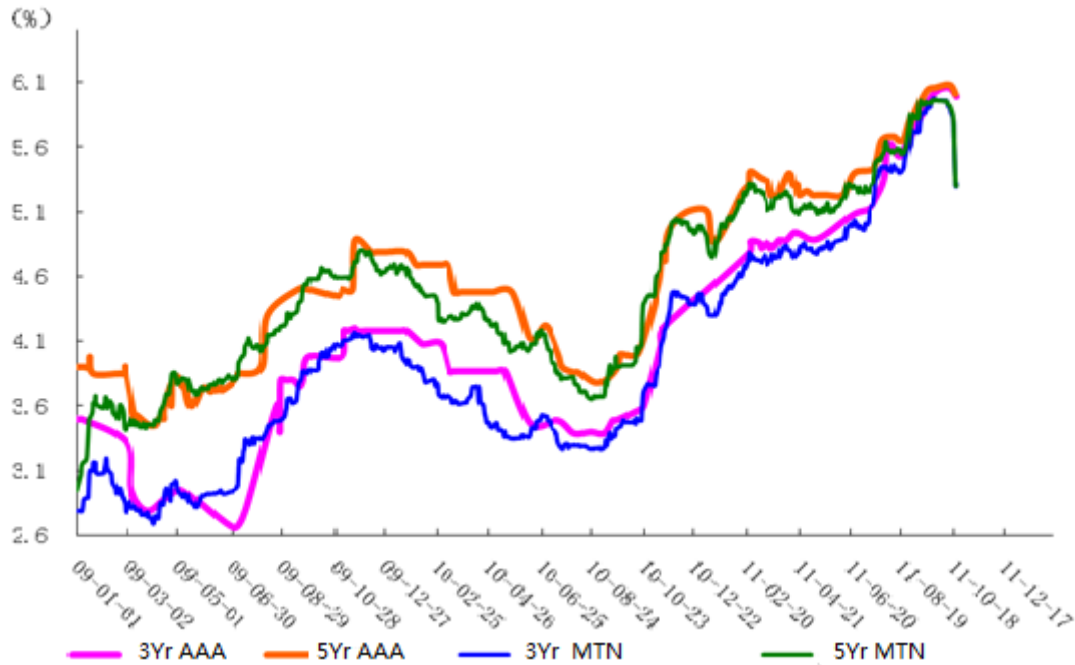




Figure 4: Yield curve for AAA-rated MTNs (three-year, five-year)
(January 1st, 2009 – Oct 23rd, 2011)



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