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NAFMII Weekly Newsletter



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Market News

I. Bond Market

The Ministry of Finance About to Issue First Local Government Bonds on Behalf This Year

The Ministry of Finance announced the initial agency issuance plan for local government bonds on June 17. A total of 11 provincial administrative zones are included in the plan, which involves a total face value of RMB50.4 billion. The first local government bonds this year include two terms: 3 years and 5 years. Specifically, the Ministry of Finance invited the bid for the 5-year bonds involving a total value of RMB25.4 billion, and will offer the 3-year bonds totaling RMB25 billion through tendering on July 11. According to the announcement of the Ministry of Finance, Yunnan Province will make the biggest issue of RMB7.9 billion. The issue includes RMB3.9 billion worth of 3-year bonds and RMB4.0 billion worth of 5-year bonds. Next comes Shanxi Province, which plans to make an issue of RMB6.8 billion. The issue includes RMB3.4 billion worth of 3-year bonds and RMB3.4 billion worth of 5-year bonds. The issuing plans of other issuers are: Qingdao, RMB1.1 billion; Xiamen, RMB800 million; Xinjiang, RMB6.0 billion; Qinghai, RMB3.9 billion; Fujian, RMB4.7 billion; Chongqing, RMB5 billion; Shandong, RMB6.2 billion; Hainan, RMB2.9 billion; and Shanxi, RMB5.1 billion.

Bonds Issued in H1 Total RMB3.14 Trillion, Exceeding 60% of Full-year Scale of Last Year

On June 30, the bond issuance work in June and the first half of this year came to a good ending, after the tendering of four new bonds was completed. The data shown that in the first half of this year (as of the starting date of the issuance), RMB3.14 trillion worth of new bonds (excluding central bank bills, the same below) were issued, and the bonds financing scale realized a rapid growth. However, in the second quarter, the financing step on the bond market slowed down to some extent, as a result of the tightening fund supply. Restricted by the banks' credit scale control, enterprises have acted in one accord to seek direct financing this year. The financing scale of the bond market has seen a robust growth while the credit scale expansion decelerated. The statistical data of Wind, an information service provider, indicates that in the first six months of this year, the bond market witnessed the offering of 792 new bonds with a total face value of RMB3.14 trillion, growing 293 ones and RMB852.85 billion respectively. The consolidated value of the bonds issued in the first half of this year has already exceeded 60% of the full-year value of last year.



II. Real Estate Market

Two Ministries Stress Use of Land Transfer Income for Indemnificatory Housing

The Ministry of Finance and the Ministry of Housing and Urban-Rural Development have recently printed and distributed the Notice on Effectively Arranging the Funds for Indemnificatory Housing Projects and Accelerating the Budget Execution Progress (the Notice), reiterating that the public budget, the appreciation part of the housing provident fund and 10% of the land transfer income will act as the funding sources of indemnificatory houses. An industry executive explains that the Ministry of Finance has distributed several documents to instruct the fund arrangement for indemnificatory housing construction, but the government can only provide less than half of the fund demanded. The housing provident fund and the land transfer income will become two important funding sources for the indemnificatory houses. The Notice requires the income from the housing provident fund will be used for indemnificatory housing projects as specified. Different regions should pay the appreciation income from the housing provident fund after the loan risk reserve and management experiences are accrued to exclusively fund the building of low-rent houses and public renting houses. The land transfer income will also be used for the indemnificatory housing projects as specified.

III. Comprehensive Media Intelligence

The SAFE Guards against Hot Money Inflow on Large Scale

On June 17, the State Administration of Foreign Exchange (SAFE) published the Annual Report of the State Administration of Foreign Exchange 2010, saying that China does face the noncompliant inflow of hot money, the hot money inflow usually takes the form of scattered penetration, and no extensive inflow from international financial conglomerates has been found. The report points out that in recent years, the SAFE has found a batch of typical cases involving the illegal inflow of the hot money in the foreign exchange inspection. For example, more foreign exchange is collected by declaring higher processing fees in the processing trade, transit trade enterprises use the time difference between the exchange receipt and payment to expand the net foreign exchange inflow, shell companies falsely utilize foreign capital, and the foreign exchange capital is settled in violation of the law. The report says that in the next step, measures should be taken to maintain the severe crackdown on the inflow of illegal funds like hot money, and prevent the inflow and outflow of hot money on a large scale. The market mechanism should further play the fundamental role to prevent the continuous arbitrage space for hot money.



Strategic Emerging Industry Parks Granted Key Interest Subsidy Support

The Ministry of Finance has recently published the Measures for the Administration of Central Fiscal Interest Subsidy Funds for Capital Construction in order to strengthen the administration of the interest subsidy funds provided by the central finance and increase the benefits from the use of the fiscal funds. The Measures specify the key interest subsidy support for national hi-tech development zones in the western regions and national hi-tech development zones assembling strategic emerging industries and possessing strong independent innovation capacity. The capital construction projects under the Measures are in principle medium to large projects under construction at the central level funded by the capital construction loans as well as infrastructure projects in national hi-tech industry development zones established under the approval of the State Council.



NAFMII NEWS

NAFMII Holds First Meeting on Revision of NAFMII Master Agreement

On June 22, NAFMII held the first meeting of the working team for the revision of the definition document of the China Inter-bank Market Derivatives Transaction Master Agreement (also known as the NAFMII Master Agreement) in order to further improve it and fulfill the demand of the financial derivatives market for a standard agreement. The meeting was attended by more than 50 officials and experts from the People's Bank of China (PBOC), China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC), China Insurance Regulatory Commission (CIRC), the State Administration of Foreign Exchange (SAFE) and other government organs; the China Foreign Exchange Trading System, China Government Securities Depository Trust & Clearing Co., Ltd., Shanghai Clearing House, Shanghai Gold Exchange and other market intermediaries; and 28 Chinese and foreign market institutions like China Development Bank, HSBC, China Life Asset Management Co., Ltd., China International Capital Co., Ltd. and Global Law Office. The meeting was chaired by Shi Wenchao, Secretary-General of NAFMII.

The meeting determined the revision should meet four requirements: First, to serve the needs of developing the Chinese financial derivatives market; second, to serve the needs of the supervisory authorities to regulate the market; third, to serve the needs of RMB to "go out"; and fourth, to adhere to the Chinese characteristics and conform to the Chinese expression habits.

The Gold Coin Professional Committee Conducts Market Survey in South China

In mid-June, 2011, the Gold Coin Market Professional Committee of the NAFMII visited Hunan, Fujian, Guangdong and other regions to survey the local gold coin market. The committee visited Hunan Xiangzhonghui Gold Coin Distributor Co., Ltd., Changsha Cangjinge Coins Co., Ltd., Fujian Overseas Chinese Service Co., Ltd., Shenzhen Zhongquan Industry Co., Ltd. and other corporate members, surveyed some retail outlets and conducted business exchanges with relevant executives.

After the survey completed, the committee held the 2011 symposium on the gold coin market in the South China Region in Shenzhen, and the symposium was attended by the executives of the 18 members of the committee in the South China Region. The representatives of China Gold Coin Shenzhen Distributor Center, Guangdong Yuebao Gold Investment Co., Ltd., Zhejiang Golden Ox Industry & Trade Co., Ltd. and other corporate members gave keynote speeches, and the participants discussed several topics



in depth, including the performance evaluation and excellence evaluation, the sales of the giant panda coin, the coin market development and the business operation of the committee.

Consolidate the Achievements in Information Disclosure, and Promote Steady & Healthy Market Development

As a result of the concerted efforts by various market participants, the enterprises issuing debt financing instruments for non-financial enterprises on the interbank bond market and the credit enhancement institutions have completed the disclosure of the 2010 annual reports and the financial information for the first quarter of 2011. In the current round of information disclosure, compared to the same period last year, the proportion of the enterprises failing to disclose required information continued to fall, and most of the bond underwriters saw a decline in the percentage of enterprises they underwrote violate self-regulatory rules. This reflects the firm determination of different parties to consolidate the achievements of the information disclosure and the unremitting effort to actively disclose information.



Weekly Monitoring Report on Debt Financing Instruments

I. Overview of the Issuance of Debt Financing

The total debt financing instruments of non-financial enterprises (CP, MTN, SMECN) issued this week (Jun 27th – July 3rd) reached 12.5 billion Yuan. By July 3rd, 2011, 953 enterprises issued debt financing instruments, with the overall volume reaching 4.66625 trillion Yuan; the outstanding balance reached 2.573185 trillion Yuan.

7 MTNs were issued in total this week with the total amount reaching 5.5 billion Yuan. 12CPs were issued in total this week with total amount of 6.8 billion Yuan.

II. Status of Secondary Market Trading

This week (June 27th – July 3rd), 7 MTNs began to trade on the secondary market. The total volume of spot trading transactions in the inter-bank market was 1.5273 trillion yuan and the trading volume of the MTN reached 414.5 billion, accounting for 27.1% of the total spot bond transactions in the inter-bank market.

Meanwhile, 12 CPs began to trade on the secondary market this week. The trading volume of the CP on the secondary market was 121.5 billion Yuan, accounting for 8.0% of the total spot bond transactions in the inter-bank market.

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

(January 1st , 2008 –July 3rd , 2011)

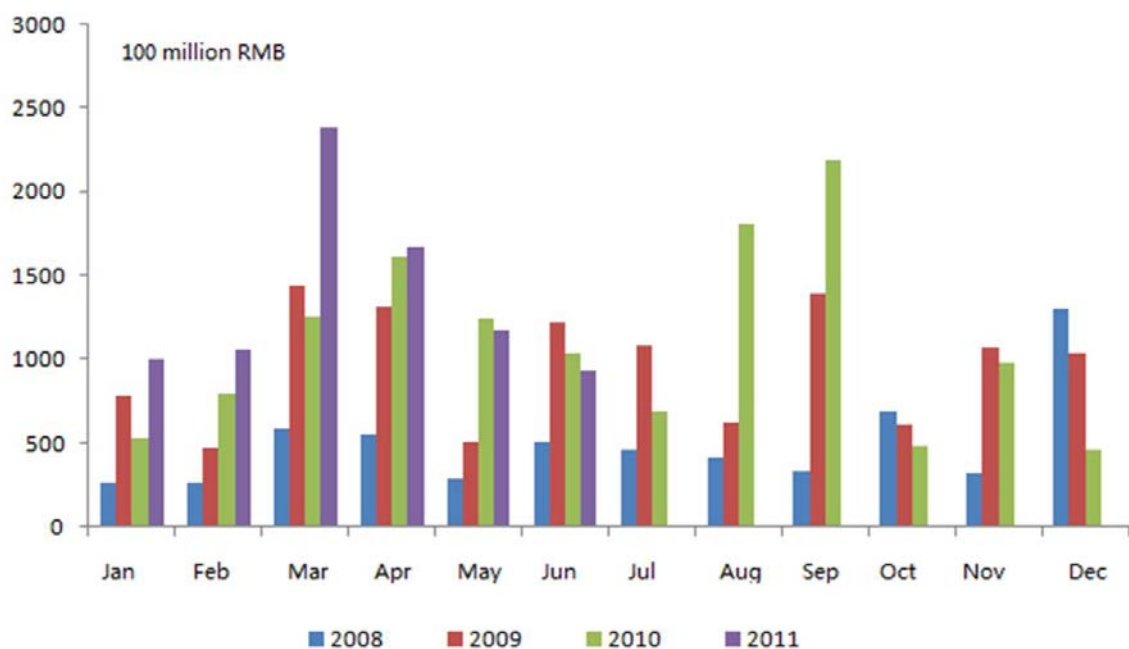




Figure 2: Outstanding balance of debt financing instruments of non-financial enterprises

(January 1st , 2008 –July 3rd , 2011)

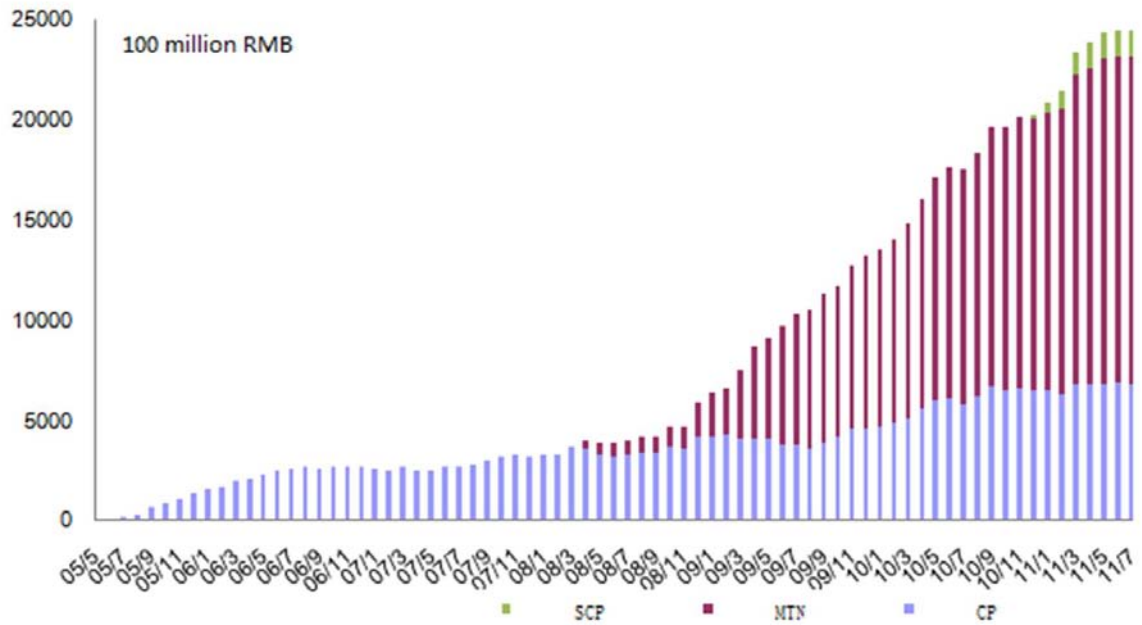


Figure 3: Yield curve for one-year CPs

(January 1st , 2008 –July 3rd , 2011)

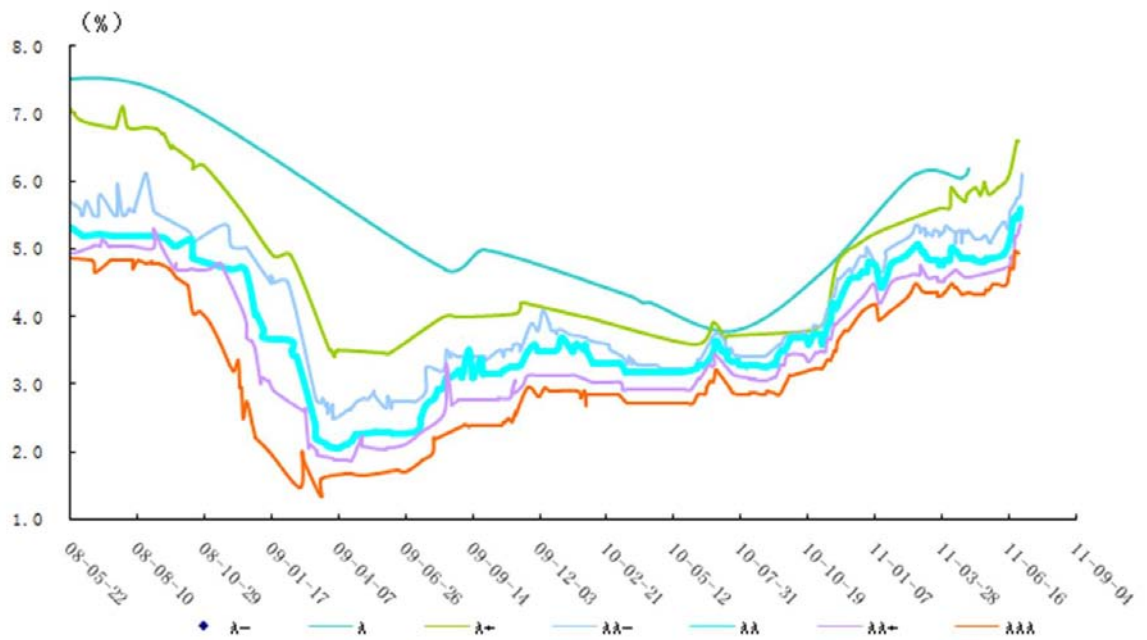
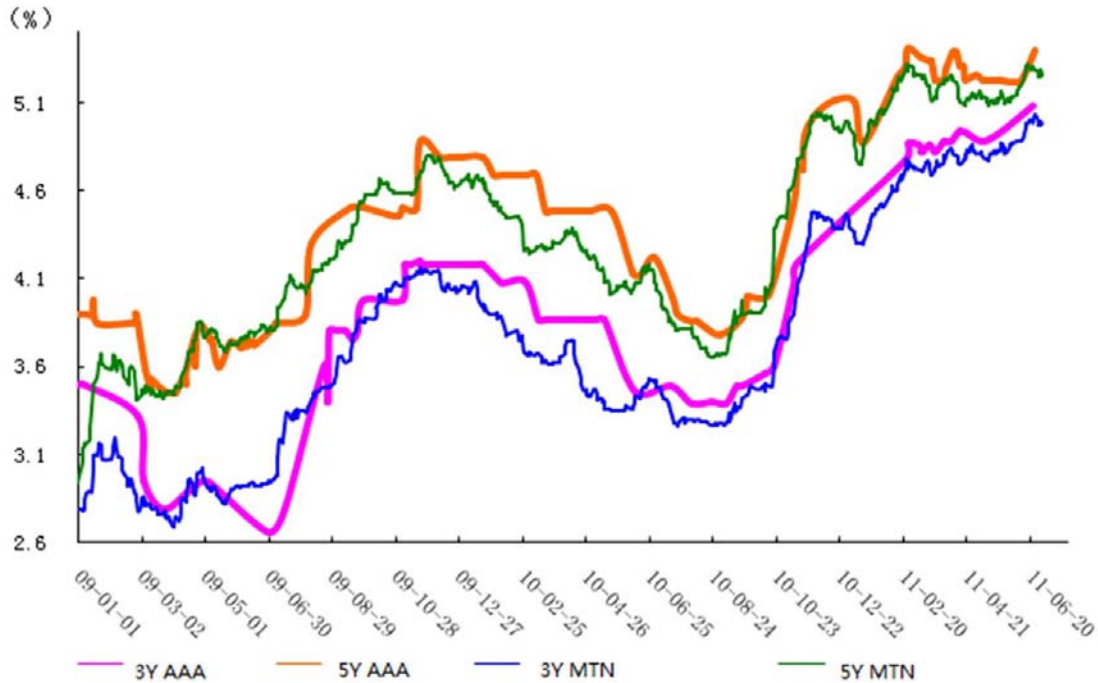




Figure 4: Yield curve for AAA-rated MTNs (three-year, five-year)
(January 1st , 2008 –July 3rd , 2011)



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