NAFMII WEEKLY UPDATE

21 August - 25 August, 2017

Macro & Financial

Market News

Rolling issuance of special treasury bond will not affect the liquidity in the financial market and the banking system

The Ministry of Finance just announced a RMB600 billion placement of special bonds in the form of rolling issuance to relevant banks in a legal and compliant, proper and orderly manner, said Xu Zhong, director-general of the Research Bureau of the People’s Bank of China (PBC), in an interview with Financial News. Xu Zhong said the current rolling issuance of special bonds basically referred to the practice in 2007 and won't affect the liquidity in the financial market and the banking system.

First, the news release by the Ministry of Finance mentioned that PBC will launch open market operations to relevant banks at the same time. This means the fiscal policy and the monetary policy will be coordinated to maintain the stability of the financial market during the rolling issuance of special treasury bonds.

Second, the special treasury bonds are issued at market interest rate, and the interest rate of 7-year special bond is slightly lower than that of 10-year special bond, reflecting reasonable term premium, which consolidated the benchmarking status of the treasury bonds yield rate.

Third, the central bank has a large tool box for open market operations. According to Article 23 of the Law of People's Bank of China, PBC can "buy and sell treasury bonds in the open market". It is expected that the central bank will actuate the cash bond buyout tool on the day of issuance and buy the RMB600 billion special treasury bonds issued this time from financial institutions in the secondary bond market.

Fourth, the Ministry of Finance issued special bonds to relevant banks in the primary market, and the central bank bought special bonds in the secondary market on the same day, thus avoiding the crowding-out effect on the issuance in the primary market and the transaction in the secondary market. Generally speaking, the total sum of fiscal debts, PBC's balance sheet, relevant financial institutions’ balance sheet and liquidity in the banking system will all remain unchanged.

PBC News(Currently Available in Chinese)

Memorabilia of China's monetary policy in Q2 2017

On May 16, PBC and Hong Kong Monetary Authority jointly issued the *Joint*

Announcement of PBC and HKMA and Press Release on the Bond Connect Program between Mainland China and Hong Kong. According to the announcement, the China Foreign Exchange Trade System & National Interbank Funding Center, China Central Depository & Clearing Co., Ltd., Interbank Market Clearing House Co. Ltd., Hong Kong Exchanges and Clearing Limited and Hong Kong Central Moneymarkets Unit are allowed to build mutual bond market access between mainland china and Hong Kong SAR.

On May 19, PBC and the Reserve Bank of New Zealand renewed the bilateral currency swap agreement with an amount of RMB25 billion/NZD5 billion for a term of three years.

On May 23, PBC issued the *Measures for the RMB Cross-border Payment& Receipt Management System* to strengthen management of this system and ensure its secure, stable and effective operation.

On June 20, PBC officially launched the treasury bonds market making support mechanism to assist the Ministry of Finance and help improve the yield curve of treasury bonds.

On June 21, PBC issued the *Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong SAR*, followed by the press release on the above measures.

On June 30, PBC and HKMA signed the *Memorandum of Understanding on Strengthening Regulatory Cooperation under the Bond Connect Program.* According to the laws applicable in the mainland and Hong Kong and their respective statutory authority, the two sides established effective information exchange and execution assistance mechanism to strengthen regulatory cooperation and jointly combat cross-border violations, so as to guarantee the effective operation of the program.

PBC News(Currently Available in Chinese)