

China's Bond Market Weekly

Issue 0 (Sample)

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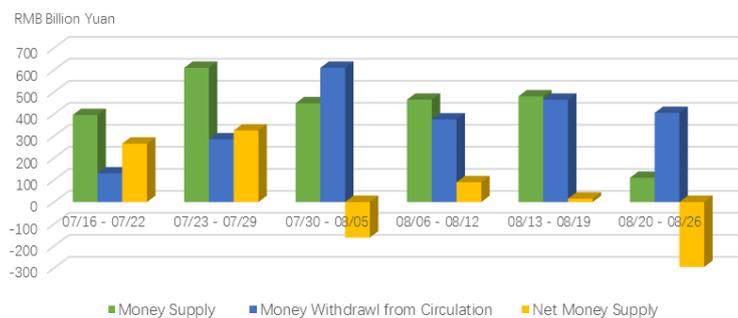
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◆ Macro-economy and Monetary Market

- With regard to the public operation of PBoC, last week, RMB 110.1 bn was put into the market, while 405 billion yuan RMB was withdrawn, resulting in a net money supply of minus RMB 295 bn, which indicates a contracted monetary policy. The negative net money supply shifted the public expectation of a loose monetary policy, with further tightening up projected.

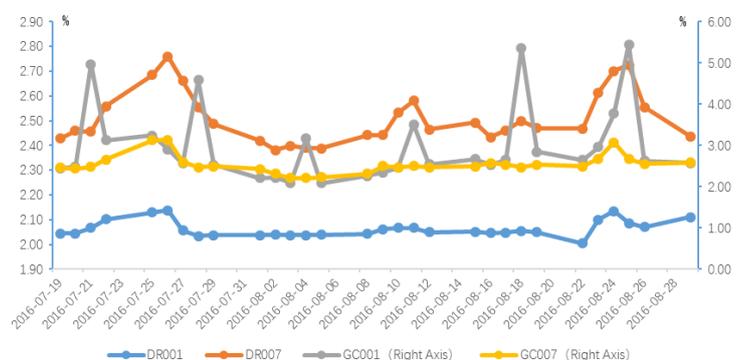
Figure 1: Money Supply



Source: Wind Info, compiled by United Ratings

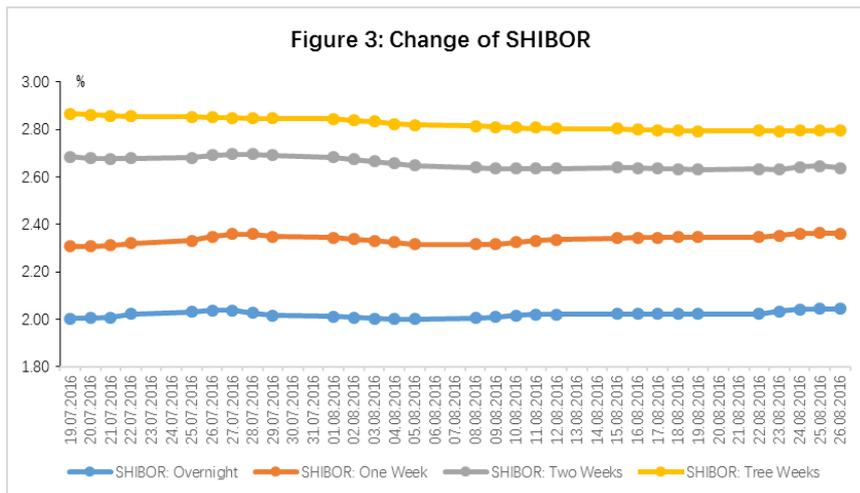
- Our analysis of money supply and demand in August indicates that funding in the interbank market has been in sufficient supply. Compared with the previous week, repo rate has edged upwards amid the volatility, whereas repo rate at the Shanghai Stock Exchange (SSE) has been in a general downward trajectory, which helps build up a relatively lax funding reserve and stabilize market expectations.

Figure 2: Interest Rates in Pincipal Monetary Markets



Source: Wind Info, compiled by United Ratings

- Indicators across the board have demonstrated a slight polarization last week, with SHIBOR overnight and SHIBOR one-week on a mild increase while SHIBOR two-week and SHIBOR three-week demonstrating a slight decline.



Source: Wind Info, compiled by United Ratings

◆ Market News and Analysis

- On August 24th, PBoC re-launched 14-day reverse repurchase since February, maintaining a tender rate at the previous level of 2.4%. The news reverberated across the bond market on the 23rd, with dominant contract of 10-year Treasury bond futures plunging by 0.5% on the day. 10-year Treasury bonds rate surged by 4bp, marking the biggest decline since April.
- PBoC re-launched 14-day reverse repo enquiry, favoring long-term supply over the near term. The move is essentially to deleverage the bond market by increasing the cost of funding while maintaining the overall balance of market fund supply. The policy is aligned in intent with the decision makers' recent move of imposing increasingly stringent finance regulatory requirements and postponing loose monetary policies.
- The very first green asset-backed securities successfully floated at the SSE. "Nong Yin Shui Ying - Goldwind Technology Wind Power Income-Right Green Asset-Backed Securities" — co-founded by Agricultural Bank of China and Goldwind Technology Limited — were officially listed at the exchange. It is known that the issuance totals RMB 1.275 bn for a term ranging from one to five years, with interest rates between 3.4% and 4.5%, marking a new low for issuing rate of asset-backed securities by a non-financial entity. The issuance reflects a high level of market recognition of eco-friendly products.
- Issuance of China's first mortgage REITs. Beijing Yintai Center's asset-backed scheme ("Yintai Center REITs"), with Hengtai Securities being the manager and distributor, Minsheng Bank being the custodian bank and trustee, recently took off, totaling RMB 7.5 bn in size. The issuance has become China's first mortgage REITs and the biggest single REITs scheme in China, ranking in the second place by the scale of corporate asset-backed securities ("corporate ABS").
- Bank of Hebei (BoH) facilitated the implementation of China's first primary road asset securitization program. BoH-led Handan Wushe road toll income right asset securitization program has been successfully launched. It is China's first primary road asset securitization program and Hebei Province's first corporate asset securitization program. The success of the program further widens the scope of infrastructures in the asset securitization market and serves as a model for future cases in the country.
- Detailed regulations on P2P online lending have been officially released, imposing a ban on asset securitization and other new requirements. On August 24, the China Banking Regulatory Commission (CBRC) called a press conference in respect of details on the Tentative Guideline on the Administration of Business Activities of Online Lending Information and Intermediary Agencies, where the title document was officially published. The regulatory document is co-published by the CBRC, the Ministry of Public Security, the Ministry of Industry and Information Technology and the Office for Internet Information. The regulatory requirements maintained the essential contents proposed in the draft for comments, including information agency, small-amount and dispersed [investment], and the negative list system. Compared with the draft for comments released in December last year, the new Tentative Guideline increased the negative list from 12 to 13, adding the ban on P2P credit transfer, prohibiting P2P from engaging in asset securitization businesses or credit transfers in the forms of packaged assets, securitized assets, trust assets and fund share.

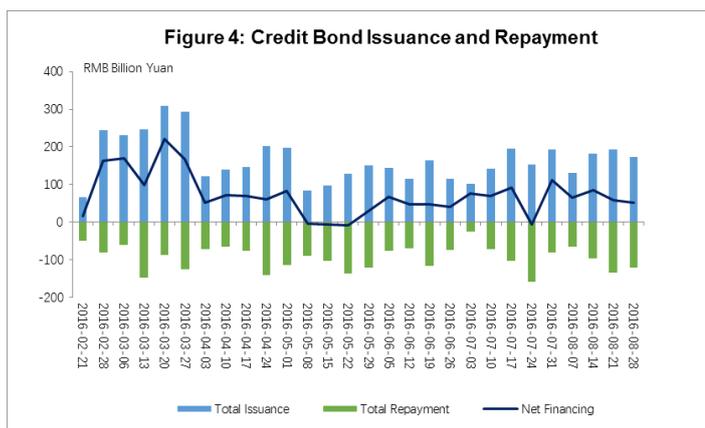
◆ **Primary Market Issuance**

◆ **Interest Rate Bond**

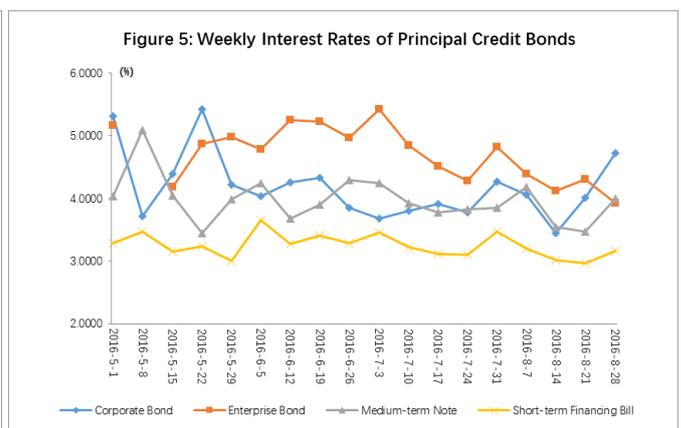
- Net financing on interest rate bonds surged last week. In the week, a total of RMB 250.275 bn of interest rate bonds were issued, down 2.66% from the previous week's RMB 257.114 bn. Net financing last week is at RMB 177.245 bn, increasing significantly by 248.61% from the previous week's RMB 50.844 bn. The issuances included two sovereign bonds for an amount of RMB 46.69 bn, repayment at RMB 21.53 bn, net financing RMB 25.16 bn—a significant increase on the previous week; 21 local government bonds, totaling RMB 144.585 bn, net financing at RMB 144.585 bn, with no local government bond repayments; 12 policy-driven bank bonds were issued for RMB 59 bn, raising a net RMB 59 bn, with no repayments. It can be seen from the statistics that the primary reason behind such surge in net financing on interest rate bonds last week was the visible decrease in repayments compared with the week before; in particular, there have been no repayments on both local government bonds and policy-driven bank bonds for the week.
- In terms of demand for new bond subscriptions, demand for tenders in the primary market has been lackluster last week. There have been 25 issues by tender last week—five more than in the week before—totaling the issuance to RMB 240.919 bn, an increase by 24.79% from the previous week's RMB 193.06 bn. There has been no visible difference between last and previous week's long-term subscription multipliers.

◆ **Credit Bond**

- Total issuance of main types of credit bonds in the primary market (enterprise bonds, corporate bonds, medium-term notes and short-term financing bills) is at RMB 171.988 bn last week, total repayment being RMB 120.788 bn, and net financing RMB 51.2 bn, all demonstrating a slight dip compared with the previous week. A total of 12 enterprise bonds were issued, of which seven have an AAA rating, two an AA+ rating and three are rated AA, totaling RMB 17.42 bn. 53 corporate bonds were issued, of which eight are rated AAA, 12 AA+, one AA-, and 10 AA, with the rest 22 having no ratings at all, and total issuance is RMB 45.488 bn. Altogether 29 medium-term notes were issued last week, five of which have an AAA rating, seven rated AA+, 17 received an AA rating, and the issuance totaled RMB 20.53 bn. 81 short-term financing bills were issued in total for RMB 88.55 bn, marking a new high since its record in the previous week; 24 of them are rated A-1, and the rest 57 have no ratings.
- Issuing rate on corporate bonds has continued to climb up since the previous week. Enterprise bonds, on the other hand, stayed in downward trajectory since a slight recovery the week before, arriving at a valley since May. Issuing rate of medium-term notes and short-term financing bonds ceased nudging downwards last week and somewhat bounced back from their previous week's performance.



Source: Wind, compiled by United Ratings



Source: Wind, compiled by United Ratings

◆ **Asset-backed Securities**

- Altogether four asset-backed securities were issued last week, totaling RMB 2.849 bn. See Table below for the list of products issued.

#	Short-name of Bond	Scale of Issue (Million Yuan)	Maturity (Year)	Bond Rating	Yield (%)	Basic Assets	Credit Agency
Huanbei04							
1	Huanbei04 Subordinated	1.23				Personal Consumption Loan	
	Huanbei04 Subprime	0.7	1.0219	AA-	4.6		
	Huanbei04 Prime	8.07	1.0219	AAA	3.16		
Huabei Installment							
2	Huabei Installment B Subordinated	0.595				Receivables	
	Huabei Installment B Subprime	0.315	0.5068	AA-	4.8		
	Huabei Installment B Prime	4.09	0.5068	AAA	3.4		
Huahui							
3	Huahui Subordinated	0.225				Right to fee income	
	Huahui05	1.1					
	Huahui04	1					
	Huahui03	0.9					
	Huahui02	0.8					
	Huahui01	0.7					
Rongyuan3							
4	Rongyuan3 Prime4	4.8941	1.011	AAA	3.28	Right to notes income	China Chenxin
	Rongyuan3 Prime3	1.9357	0.9918	AAA	3.28		
	Rongyuan3 Prime2	0.9684	0.9753	AAA	3.28		
	Rongyuan3 Prime1	0.969	0.9562	AAA	3.28		

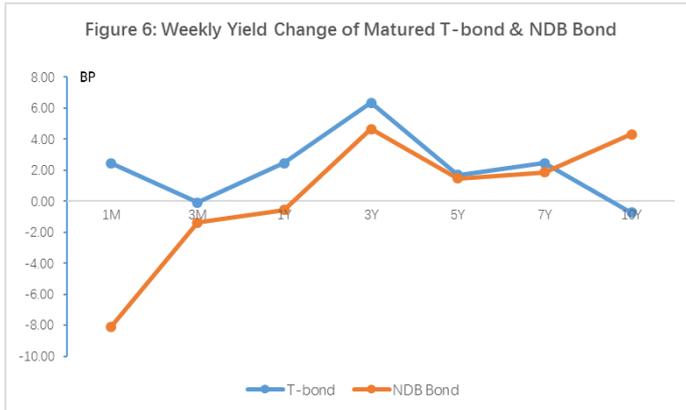
Source: Wind, compiled by United Ratings

- There have been four issuances in the exchange market last week and none in the interbank market. Basic assets are personal consumption loan, receivables, right to fee income and right to notes income, with one issuance each. China Chengxin was responsible for rating one issuance, with the rest not having any rating agencies.

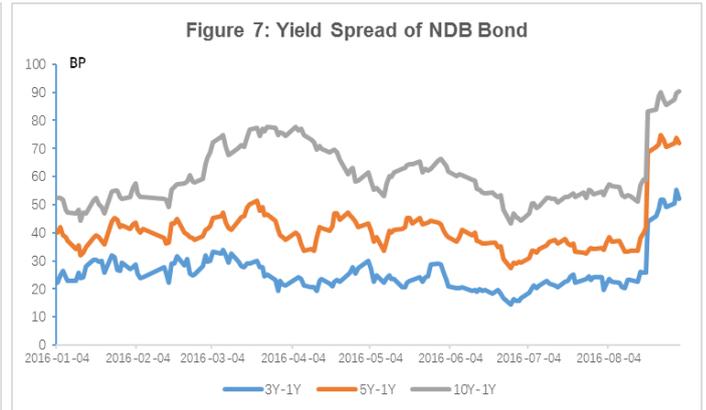
◆ **Secondary Market Trades**

◆ **Interest Rate Bond**

- Yield remained on the up last week. Treasury bonds yields have all risen, except for the 10-year variety, with the biggest margin of increase seen in the 3-year sovereign bond yield. For National Development Bank-issued bonds, yield on the short-term varieties has decreased, to the contrary of those on the long-term side (Figure 6). The increase in yield this week is mainly due to PBoC's launch on August 24 of the 14-day reverse repo enquiry and the subsequent actions on it. The move by PBoC has visibly shifted the term structure adopted in the open market, causing the yield on interest rate bonds to rise and driving the market into a state of prudence and observation, pending further developments.

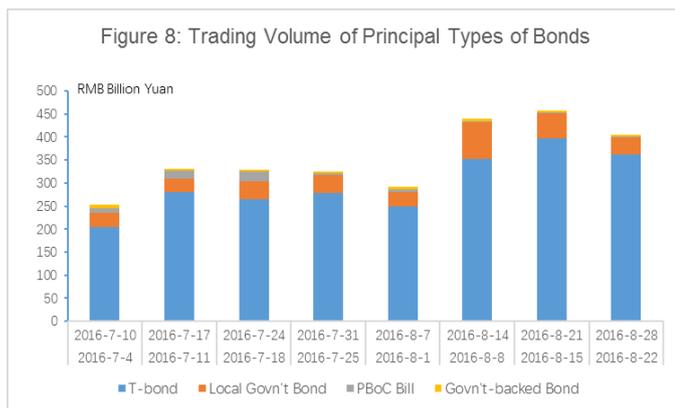


Source: Wind, compiled by United Ratings

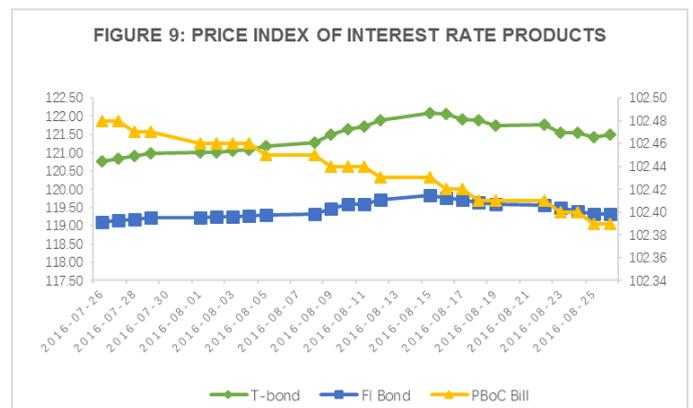


Source: Wind, compiled by United Ratings

- Last week, term spread rose for 10-year, 5-year, 3-year and 1-year National Development Bank (NDB) bonds, peaking for the year on Wednesday, before dipping back down on Thursday and Friday, impacted by PBoC's 14-day reverse repo enquiries (Figure 7).
- In terms of deals closed, interest rate bond deals decreased by 12% from the previous week, to RMB 404.509 bn, mainly the result of the plummeting local government bonds and PBoC bills (Figure 8). Interest rate product prices dropped across the board last week. See Figure 9 for details.



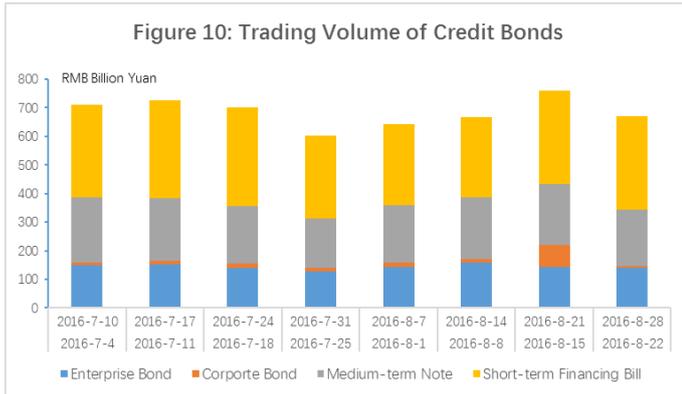
Source: Wind, compiled by United Ratings



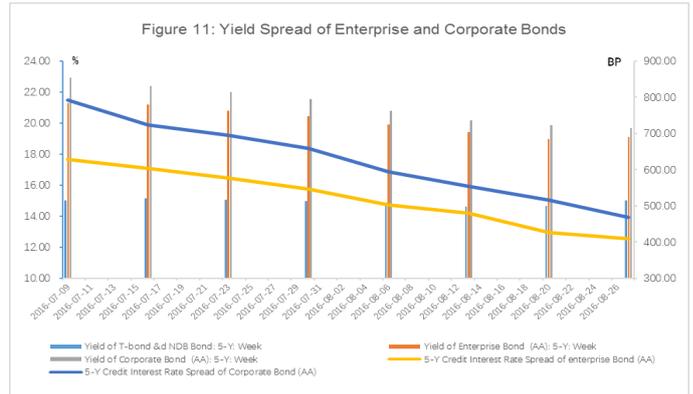
Source: Wind, compiled by United Ratings

◆ **Credit Bond**

- Total deals closed in the interbank bond market is RMB 2922.803 bn, a slight decrease from the week before. Turnover at exchanges continued to contract, to RMB 13.944 bn last week, close to the valley for weekly turnover of the year (June 6-10, 2016, at RMB 11.78 bn). See Figure 10 for details.

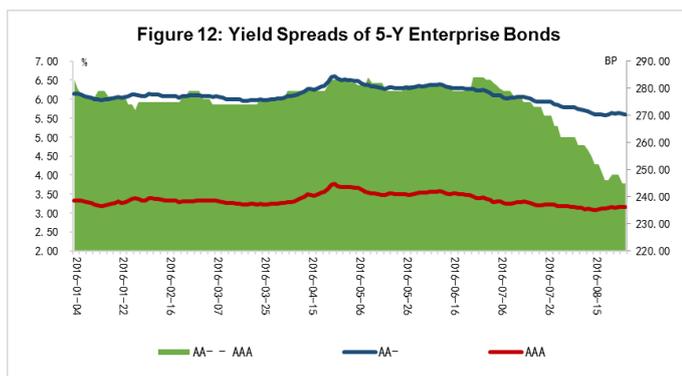


Source: Wind, compiled by United Ratings

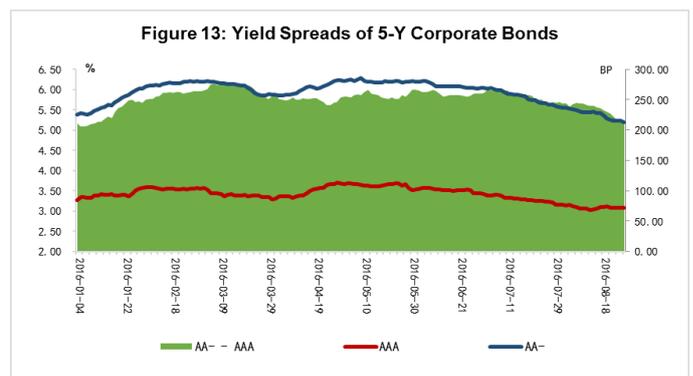


Source: Wind, compiled by United Ratings

- The average yield on corporate bonds rose for two consecutive weeks, by 52.2 bp on the previous week. The average yield on medium-term notes rose for two weeks in a row, rising by 10.04 bp on the previous week; but average yield on AA- medium-term notes dropped by 218.74 bp from the previous week. Short-term financing bills saw their average yield recover last week, after declining for two weeks, up by 11.56 bp from the previous week. Average yield on corporate bonds slumped for two consecutive weeks, down by 17.95 bp on the week before. Credit bond spread generally stayed in its downward trajectory, while same-class spread demonstrated a stable trend, with a mild dip compared with last week (Figures 11-13).



Source: Wind, compiled by United Ratings



Source: Wind, compiled by United Ratings

- **Ratings to watch:** a total of three bonds got their ratings downgraded last week, while three received an upgrade. Four entities received a downgrade while three entities got their ratings revised up.
- **Defaults to watch:** on August 22, Huazhu defaulted on its corporate bonds issued in 2013. It is a second for the company, since its first default on August 25, 2014.

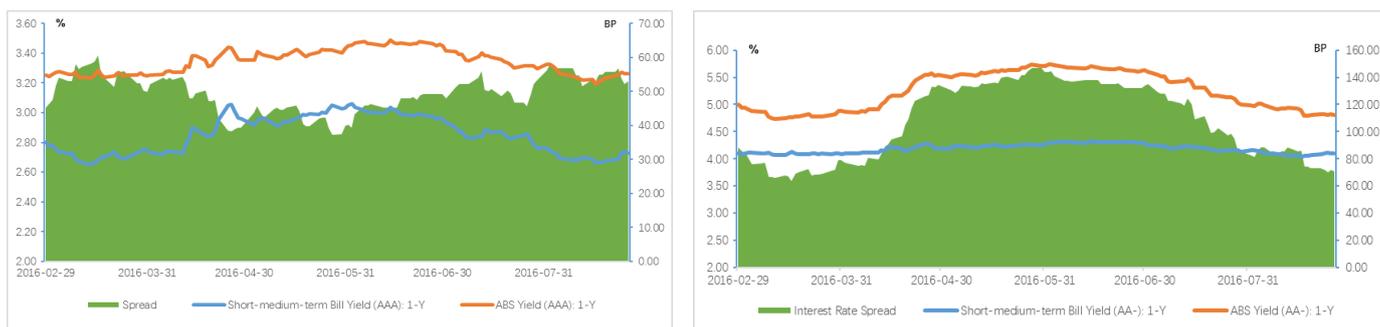
◆ **Asset-backed Securities**

● **Yield**

The yield to maturity for asset-backed securities with AAA, AA+, AA ratings is higher than that of medium-short term bills of the same class: for the current week, the average yield of AAA asset-backed securities is higher than that of medium-short term bills of the same class by around 54 bp, and the average yield of AA+ is higher by around 74 bp, and approx. 78 bp for securities with an AA rating. Yield spread of securities with an AAA rating has remained stable recently, whereas yield spread on AA+ and AA ratings is increasing.

Yield to maturity for AA- and A+ asset-backed securities is lower than that of medium-short term bills of the same class: for the last week, the average yield of AA- asset-backed securities is lower than that of medium-short term bills of the same class by around 72 bp, and the average yield of A+ is lower by around 226 bp. Yield spread of securities with an AA- and A+ rating has remained relatively stable recently.

Figure 14: Comparison of ABS Yield and Short-medium Term Bill Yield (AAA/AA-)



Source: Wind, compiled by United Ratings

● **Statistics on Outstanding Securities**

Bank credit balance dipped slightly in percentage terms, compared with the previous week, contributed mainly by the decrease in the ratio of personal mortgage loan asset-backed securities. The percentage of corporate credit balance increased slightly, primarily owing to the increase in small-cap loans, receivables, and fee-charging infrastructure asset-backed securities.

Basic Assets	Number of Project	Shares (%)	Amount of Issuance (RMB bn yuan)	Shares of Total Issuance (%)	Amount of Outstanding (RMB bn yuan)	Shares of Current Outstanding (%)
Bank's Claims	239	33.15	891.27	62.54	428.61	47.86
Personal Housing Mortgage Loan	22	3.05	97.76	6.86	72.90	8.14
Automobile Mortgage Loan	34	4.72	79.18	5.56	45.92	5.13
Credit Card Loan	3	0.42	23.68	1.66	3.88	0.43
Enterprise Loan	153	21.22	606.32	42.54	235.76	26.32
Non-performing Loan	4	0.55	4.07	0.29	3.90	0.44
Construction Machinery Loan	1	0.14	1.47	0.1	0.19	0.02
Special Railway Construction Loan	5	0.69	45.24	3.17	42.39	4.73
Consumer Loan	8	1.11	14.39	1.01	10.36	1.16
Leasehold Assets	9	1.25	19.18	1.35	13.30	1.49
Enterprise's Claims	482	66.85	533.95	37.46	467.00	52.14
Rent for Leasing	144	19.97	132.49	9.3	109.22	12.19
Infrastructure Charging	86	11.93	81.45	5.71	70.30	7.85
Ticket Revenue	5	0.69	7.05	0.49	6.24	0.7
Airline Ticket Revenue	4	0.55	9.20	0.65	9.20	1.03
REITs	8	1.11	25.59	1.8	25.43	2.84
Accounts Receivable	72	9.99	88.10	6.18	74.83	8.36
BT Repurchase Fund	5	0.69	7.12	0.5	4.10	0.46
Entrustment Loan	3	0.42	2.31	0.16	1.74	0.19
Small-cap Loan	47	6.52	38.64	2.71	33.94	3.79
Housing Common Reserve Fund Loan	9	1.25	6.68	0.47	6.18	0.69
Factoring Financing Claim	8	1.11	5.65	0.4	5.65	0.63
Shanty-area/Indemnificatory Housing	2	0.28	3.40	0.24	3.20	0.36
Stock Pledge Repurchase Claim	5	0.69	4.63	0.32	3.93	0.44
Securities Margin Trading Claim	8	1.11	5.67	0.4	5.61	0.63
Trust Beneficiary Right	43	5.96	73.37	5.15	66.27	7.4
Others	33	4.58	42.61	2.99	41.16	4.6
Total	706	100	1,413.03	100	896.05	100

Source: Wind, compiled by United Ratings