

Market Summaries

People's Republic of China

Yield Movements

The People's Republic of China's (PRC) yield curve for local currency (LCY) bonds shifted upward between 1 March and 8 May with the exception of the 6-month and 4-year tenors (**Figure 1**). The PRC's yield curve shifted upward by an average of 19 basis points (bps) with the largest gain seen for the 3-year tenor, which rose 35 bps. The 2-year versus 10-year yield spread fell from 59 bps on 1 March to 49 bps on 8 May.

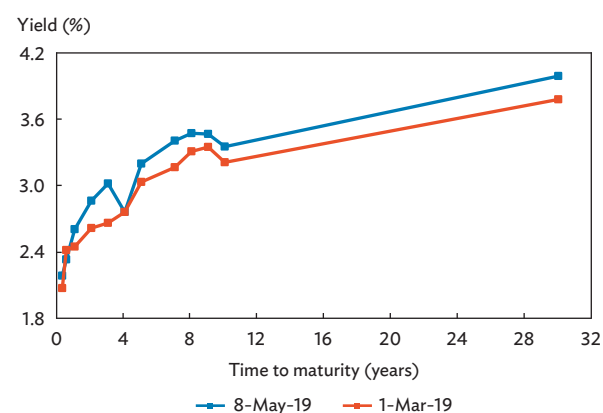
From 1 January to 31 March, the PRC's yields largely trended downward over expectations that the domestic economy would weaken and that the People's Bank of China (PBOC) would ease liquidity conditions. The PRC reduced the reserve requirement ratio of banks on 4 January and markets had been anticipating a possible reserve requirement ratio cut in April.

However, the PRC's yields trended upward in April as the anticipated reserve requirement ratio cut failed to materialize. In addition, economic indicators showed better-than-expected economic growth. The PRC reported a gross domestic product (GDP) growth rate of 6.4% year-on-year (y-o-y) in the first quarter (Q1) of 2019, the same rate as in the fourth quarter (Q4) of 2018. Industrial production was also strong in Q1 2019, with growth of 6.5% y-o-y in January–March, up from 5.3% y-o-y in January–February. In March, industrial production grew 8.5% y-o-y.

Inflation in the PRC generally trended upward in the first 4 months of the year, with the inflation rates for March and April at 2.3% y-o-y and 2.5% y-o-y, respectively, versus 1.7% y-o-y and 1.5% y-o-y for January and February, respectively. Rising inflation in the PRC was mostly due to supply-side factors such as the impact of an outbreak of swine flu on pork prices.

Yields trended downward in May, following the release of weaker-than-expected economic indicators in April as well as ongoing uncertainties regarding the PRC's trade

Figure 1: The People's Republic of China's Benchmark Yield Curve—Local Currency Government Bonds



Source: Based on data from Bloomberg LP.

dispute with the United States (US). Industrial production grew 5.4% y-o-y in April versus an earlier estimate of 6.5% y-o-y. Retail sales growth fell to 7.2% y-o-y in April from 8.7% y-o-y in March.

The PBOC announced on 5 May a targeted reserve requirement ratio reduction for small county-level rural commercial banks. By doing so, the PBOC indicated a preference for more targeted adjustments in increasing liquidity and boosting lending, as opposed to broader easing measures. In contrast, the central government has opted for wider measures, such as during the National People's Congress in March when it adopted an increase in the budget deficit target as well as some tax reductions. In addition, the central government plans to use local government special bonds to help boost infrastructure investment at the municipal level.

Size and Composition

LCY bonds outstanding in the PRC rose 3.0% quarter-on-quarter (q-o-q) in Q1 2019, a deceleration from 3.4% q-o-q growth in Q4 2018. On a y-o-y basis, LCY bonds outstanding grew 16.7% (**Table 1**).

Table 1: Size and Composition of the Local Currency Bond Market in the People's Republic of China

	Outstanding Amount (billion)						Growth Rates (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	65,152	10,382	73,770	10,725	76,012	11,325	1.3	38.4	3.0	16.7
Government	42,263	6,735	47,883	6,961	49,061	7,309	0.7	71.0	2.5	16.1
Treasury Bonds and Other Government Bonds	13,459	2,145	14,922	2,169	14,882	2,217	(0.6)	11.1	(0.3)	10.6
Central Bank Bonds	0	0	0	0	2	0	0.0	0.0	0.0	0.0
Policy Bank Bonds	13,600	2,167	14,517	2,110	14,776	2,201	1.1	7.9	1.8	8.6
Local Government Bonds	15,204	2,423	18,444	2,681	19,401	2,890	1.4	35.0	5.2	27.6
Corporate	22,889	3,647	25,887	3,763	26,951	4,015	2.3	2.3	4.1	17.8
Policy Bank Bonds										
China Development Bank	7,571	1,206	8,147	1,184	8,328	1,241	0.4	5.4	2.2	10.0
Export-Import Bank of China	2,329	371	2,397	348	2,444	364	1.4	6.4	1.9	4.9
Agricultural Devt. Bank of China	3,700	590	3,973	578	4,005	597	2.3	14.6	0.8	8.2

(-) = negative, CNY = Chinese yuan, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:

1. Calculated using data from national sources.
 2. Treasury bonds include savings bonds and local government bonds.
 3. Bloomberg LP end-of-period LCY-USD rates are used.
 4. Growth rates are calculated from an LCY base and do not include currency effects.
- Sources: CEIC and Bloomberg LP.

Government bonds. The PRC's government bonds outstanding grew 2.5% q-o-q in Q1 2019, up from 2.2% q-o-q in Q4 2018. The slightly higher q-o-q growth rate was largely due to increases in local government bonds, which expanded 5.2% q-o-q in Q1 2019 after growth of less than 1.0% in Q4 2018. (Local governments had reached most of their annual issuance quotas during the third quarter of 2018.)

To provide economic stimulus to the domestic economy, the Government of the PRC frontloaded local government bond issuance and established an annual quota of CNY1.39 trillion at the start of 2019, which was to be realized mostly in the form of special bonds. At the National People's Congress in March, the central government announced that it had raised the local government issuance quota to CNY3.08 trillion, of which CNY2.15 trillion would be in the form of special bonds.

In contrast, Treasury bonds outstanding contracted 0.3% q-o-q in Q1 2019 on reduced issuance. The PRC also reported CNY1.5 trillion in central bank bonds outstanding at the end of March as a result of the central bank bond swap facility launched in February 2019, which allowed banks to swap their holdings of perpetual bank bonds for central bank bonds in order to improve liquidity.

Corporate bonds. The PRC's corporate bonds outstanding grew 4.1% q-o-q in Q1 2019, down from 5.9% q-o-q growth in Q4 2018. The slower corporate bond growth was largely due to uncertainties over the PRC's economy. Yields largely trended downward over the course of Q1 2019 in anticipation of lower funding costs. As a result, nearly all major bond categories posted lower q-o-q growth in Q1 2019, with the exception of commercial paper due to its short-term nature (**Table 2**). Outstanding commercial paper grew 14.1% q-o-q in Q1 2019 after rising 3.5% q-o-q in Q4 2018

Issuance for all major corporate bond types fell in Q1 2019 compared with Q4 2018, similar to the performance of corporate bonds outstanding during the same period (**Figure 2**).

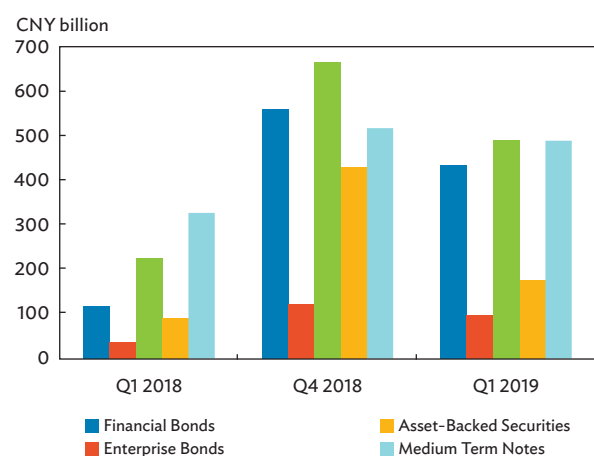
The PRC's LCY corporate bond market continued to be dominated by a few big issuers (**Table 3**). At the end of Q1 2019, the top 30 corporate bond issuers accounted for CNY7.7 trillion worth of corporate bonds outstanding, or about 28.5% of the total market. Of the top 30, the 10 largest issuers accounted for CNY4.8 trillion. China Railway, the top issuer, had more than four times the outstanding amount of bonds as Bank of China, the second-largest issuer. The top 30 issuers included 14 banks, which continued to generate funding to

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
	Q1 2018	Q4 2018	Q1 2019	Q1 2018		Q1 2019	
				q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	3,687	4,531	4,744	1.0	24.7	4.7	28.7
Enterprise Bonds	4,387	3,929	3,872	1.0	(1.9)	(1.5)	(11.7)
Listed Corporated Bonds	5,440	6,393	6,608	1.0	25.5	3.4	21.5
Commercial Papers	1,765	1,963	2,240	1.2	(7.2)	14.1	26.9
Medium Term Notes	4,868	5,520	5,813	1.0	7.7	5.3	19.4
Asset-Backed Securities	1,002	1,706	1,728	1.0	50.8	1.3	72.4

() = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, SOE = state-owned enterprise, y-o-y = year-on-year.
Sources: CEIC.

Figure 2: Corporate Bond Issuance in Key Sectors



CNY = Chinese yuan, Q1 = first quarter, Q4 = fourth quarter.
Sources: CEIC.

strengthen their capital bases, improve liquidity, and lengthen their maturity profiles.

Table 4 lists the largest corporate bond issuances in Q1 2019. The top issuers consisted largely of banks and state-owned enterprises.

Investor Profile

Treasury bonds. Banks were the single-largest holder of Treasury bonds at the end of March (**Figure 3**), but with a slightly smaller share compared with a year earlier (60.4% versus 61.2%). In contrast, the share held by funds institutions rose to 5.8% from 5.4% during the same period.

Liquidity

The volume of interest rate swaps fell 24.0% q-o-q in Q1 2019. The 7-day repurchase rate remained the most used interest rate swap, comprising a 75.8% share of the total interest rate swap volume during the quarter (**Table 5**).

Policy, Institutional, and Regulatory Developments

National People's Congress Annual Session Held in March

On 5 March, the Government of the PRC held its annual session of the National People's Congress. During the meeting, the government adjusted its annual GDP target for 2019 to 6.0%–6.5%, down from its previous target of 6.5%. According to Premier Li Keqiang, the lower growth target takes into account economic challenges such as the ongoing trade dispute with the US and credit risks in the domestic economy. The inflation target was set at 3.0% y-o-y for full-year 2019.

To meet the GDP growth target, Premier Li Keqiang said the government would utilize fiscal measures. A budget deficit target of 2.8% of GDP was set for 2019, up from the previous year's 2.6% target, reflecting an increase in planned infrastructure spending and a reduction in taxes. The government said that it would cut business and personal taxes by CNY1.3 trillion, up from the previous year's CNY1.1 trillion tax reduction. The government also announced that the value-added tax rate would be reduced from 16% to 13% for manufacturing firms and

Table 3: Top 30 Issuers of Local Currency Corporate Bonds in the People's Republic of China

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (CNY billion)	LCY Bonds (USD billion)			
1.	China Railway	1,765.5	263.0	Yes	No	Transportation
2.	Bank of China	439.7	65.5	Yes	Yes	Banking
3.	Agricultural Bank of China	418.2	62.3	Yes	Yes	Banking
4.	Industrial and Commercial Bank of China	412.0	61.4	Yes	Yes	Banking
5.	China Construction Bank	343.4	51.2	Yes	Yes	Banking
6.	State Grid Corporation of China	327.2	48.7	Yes	No	Public Utilities
7.	Central Huijin Investment	320.0	47.7	Yes	No	Asset Management
8.	China National Petroleum	290.0	43.2	Yes	No	Energy
9.	China CITIC Bank	267.6	39.9	No	Yes	Banking
10.	Bank of Communications	265.9	39.6	No	Yes	Banking
11.	China Minsheng Banking	265.3	39.5	No	Yes	Banking
12.	Shanghai Pudong Development Bank	260.8	38.8	No	Yes	Banking
13.	Industrial Bank	205.3	30.6	No	Yes	Banking
14.	China Everbright Bank	173.4	25.8	Yes	Yes	Banking
15.	State Power Investment	163.8	24.4	Yes	No	Energy
16.	Tianjin Infrastructure Construction and Investment Group	161.5	24.1	Yes	No	Industrial
17.	China Merchants Bank	143.9	21.4	Yes	Yes	Banking
18.	CITIC Securities	138.0	20.6	Yes	Yes	Brokerage
19.	Huaxia Bank	133.4	19.9	Yes	No	Banking
20.	Ping An Bank	126.7	18.9	No	Yes	Banking
21.	PetroChina	125.0	18.6	Yes	Yes	Energy
22.	Datong Coal Mine Group	120.8	18.0	Yes	No	Coal
23.	China Souther Power Grid	113.5	16.9	Yes	No	Energy
24.	China Datang	105.5	15.7	Yes	Yes	Energy
25.	China Life Insurance	103.0	15.3	Yes	Yes	Insurance
26.	China Merchants Securities	102.1	15.2	No	Yes	Brokerage
27.	China Cinda Asset Management	100.0	14.9	Yes	Yes	Asset Management
28.	GF Securities	98.0	14.6	No	Yes	Brokerage
29.	Dalian Wanda Commercial Properties	93.0	13.9	No	Yes	Real Estate
30.	Bank of Beijing	93.0	13.8	Yes	Yes	Banking
Total Top 30 LCY Corporate Issuers		7,675.3	1,143.5			
Total LCY Corporate Bonds		26,951.5	4,015.4			
Top 30 as % of Total LCY Corporate Bonds		28.5%	28.5%			

CNY = Chinese yuan, LCY = local currency, USD = United States dollar.

Notes:

1. Data as of 31 March 2019.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Agricultural Bank of China		
10-year bond	4.28	50
15-year bond	4.53	10
Industrial and Commercial Bank of China		
10-year bond	4.26	45
15-year bond	4.51	10
Shanghai Pudong Development Bank		
3-year bond	3.50	50
Bank of China		
1-year bond	3.00	7
1-year bond	3.00	8
3-year bond	3.42	10
3-year bond	3.40	10
5-year bond	3.67	2
5-year bond	3.76	5
China Southern Power Grid		
3-year bond	3.65	5
3-year bond	3.53	5
5-year bond	3.76	5
5-year bond	3.73	5

CNY = Chinese yuan.

Source: Based on data from Bloomberg LP.

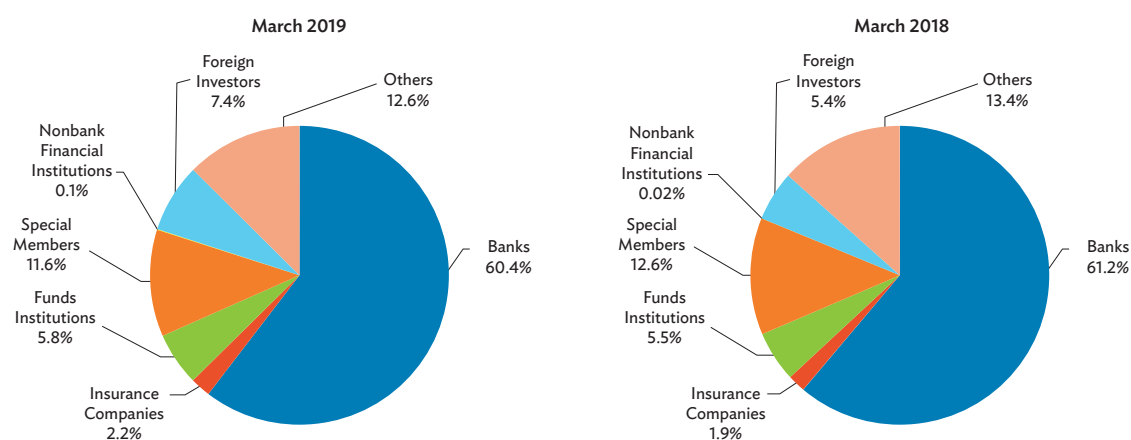
Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the First Quarter of 2019

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
7-Day Repo Rate	2,839.3	74.1	(26.1)
Overnight SHIBOR	16.1	0.4	46.4
3-Month SHIBOR	915.9	23.9	(14.6)
1-Year Lending Rate	1.3	0.03	292.4
Loan Interest Rate 1 Year	1.8	0.05	(73.0)
3-Year Lending Rate	0.0	-	(100.0)
5-Year Lending Rate	0.0	-	(100.0)
Depository Institution 7-Day Repo Rate	1.7	0.04	3,260.0
10-Year Bond Yield	10.3	0.3	(56.2)
10-Year Treasury Yield	40.5	1.1	(47.9)
3-Year AAA Short-Term Notes/ Government Debt	0.0	-	(100.0)
10-Year Bond Yield/10-Year Government Bond Yield	0.9	0.02	840.0
Loan Interest Rate—1 Year * 1.1	1.4	0.04	(34.8)
Loan Interest Rate—1 Year * 1.05	0.4	0.01	-
Loan Interest Rate—1 Year * 1.35	0.0	-	(100.0)
Loan Interest Rate—5 Year * 1.05	0.04	0.001	(94.4)
Total	3,829.5	100.0	(24.0)

() = negative, - = not applicable, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.

Note: Growth rate computed based on notional amounts.

Sources: AsianBondsOnline and ChinaMoney.

Figure 3: Local Currency Treasury Bonds Investor Profile


Source: Bloomberg LP.

from 10% to 9% for transport and construction firms. The threshold for the application for the value-added system and the contribution rate for government pensions were also adjusted.

PBOC Reduces Reserve Requirement Ratio for Rural Banks

On 5 May, the PBOC announced that it would reduce the reserve requirement ratios for certain small and medium-sized banks that meet specified criteria. The PBOC said that rural commercial banks with a presence in rural counties and total assets of less than CNY10 billion will have their reserve requirement ratios set at 8%, the same level as credit cooperatives. The PBOC estimates that roughly 1,000 rural commercial banks will qualify for the reduced reserve requirement ratios and that a total of CNY280 billion will be released into the banking system.

PBOC Issues Bills in Hong Kong, China

On 15 May, the PBOC issued CNY20 billion worth of central bank bills in Hong Kong, China. By tenor, the PBOC issued CNY10 billion worth of 3-month bills with an average rate of 2.87%. The PBOC also issued CNY10 billion worth of 1-year bills with an average rate of 2.96%.