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NAFMII Weekly Newsletter



Market News	2
NAFMII News	5
Weekly Monitor Report of Debt Financing Instruments	6

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Market News

I. Bond Market

Daily Clearing of China's Inter-bank Bond Market Exceeds One Trillion Yuan

Statistics from China Central Depository & Clearing Co., Ltd. shows that daily trading and clearing of the national inter-bank bond market exceeded 1 trillion yuan for the first time on June 30 to reach 1.04 trillion yuan, marking the highest single-day clearing level since the inter-bank bond market was established in 1997.

In recent years, the People's Bank of China has made great efforts to promote development of the inter-bank bond market with measures including innovation of service varieties, introduction of qualified foreign institutional investors and central banks to participate in bond trading, improvement of the clearing mechanism and enhancement of convenience and security of the bond clearing system. All these have contributed to prosperity of the bond market. As of June 30, China Central Depository & Clearing Co., Ltd. had settled 319,000 transactions, with clearing volume totaling 86 trillion yuan, representing an increase of 45% and 28.88% respectively over the same period in 2010.

Medium-term Note to be Incorporated into CSI 50 Bond Index

Recently, China Securities Index Company Limited released on its official website the "Notice on Incorporating Medium-term Note into CSI 50 Bond Index", indicating to include medium-note in CSI 50 Bond Index. After this change, proportion of credit note in the index will be increased from 20% to around 30% and that of financial debt will be reduced from 50% to about 40%.

The State Council: Properly Handle Local Government Debt and Study for Establishment of Debt Financing Mechanism

Premier Wen Jiabao chaired an executive meeting of the State Council on July 6th, which laid out measures for rectification of issues identified in the auditing of the 2010 central budget implementation. During the session, it has been brought forward that measures were needed to properly handle debt repayment and follow-up financing of projects under construction. This has been the first indication of the State Council's position on this issue, since release of the auditing results concerning local government debt prepared by



National Audit Office. Meanwhile, it's also been pointed out during the session that the large-scale local government debt formed in many years is now revealing potential risks, with many regions and industries lacking adequate solvency.

Ministry of Finance Issued This Year's First Local Government Bonds as Agents

Acting as agents of local governments, Ministry of Finance issued this year's first local government bonds on July 11, raising funds primarily for ensuring construction of indemnificatory housing. Despite market concerns on issues including principal repayment and interest payment of the bonds and possible increased local debt risks, experts believe the risks are generally controllable with strengthened management on individual project. Representing 1/4 of this year's total issuance of 200 billion yuan, this bond issuance totaled 50.4 billion (25.4 billion 5-year bonds and 25 billion 3-year bonds), involving 11 provinces and cities in both eastern and western regions of China, e.g. Yunnan, Shaanxi, Qingdao and etc. Funds raised will primarily used on projects for indemnificatory housing.

II. Comprehensive Media Intelligence

Wang Qishan: Take More Effective Measures to Alleviate Financing Difficulty for Small Business

CPC Central Committee Member and Vice Premier Wang Qishan inspected work in Shijiazhuang of Hebei Province on July 1-2, and chaired a seminar on financial services for small business. He stressed that survival and development of small business is directly related to employment growth, economic transformation and social stability. It is imperative to view the issue from a strategic and overall perspective, and make efforts to accelerate transformation of financial sector development, promote structural adjustment and innovation, and improve financial services for small business.

On the meeting, Wang Qishan pointed out that to ease the financing difficulties of small business, it is crucial to take measures to accelerated reform on financial institutional mechanism and innovation of organizational system, so as to give full play to market mechanism and policy support. Large banks should make real efforts to innovate financial products and strengthen financial services for small business. Medium and small financial institutions including city commercial banks, rural commercial banks, rural credit cooperatives, community banks, small credit companies should focus on local demands and better serve the local small business instead of blind growth and cross-regional expansion. In the mean time, small financial institutions should be developed to meet demands of small business. PBC, CBRC, CSRC and CIRC should also work together with governments at all levels for coordination and planning to create and protect a sound financial environment as well as pay adequate attention to conditions of the private



lending market.

China Amends Personal Income Tax Law, Raising Tax Threshold to 3,500 Yuan

On June 30, the 21st session of the 11th National People's Congress Standing Committee voted and passed a decision to amend personal income tax law. According to the amendment, for wages and salaries, monthly income is deducted by 3,500 yuan in cost to arrive at the taxable income. Progressive rates apply to wage and salary income ranging from 3% to 45%. The amended personal income tax law will come into force on September 1, 2011. Since the current personal income tax law was implemented in 1994, this has been the 3rd amendment to raise tax threshold, with tax exemption amount raised from 800 to 1,600 yuan in 2006 and from 1,600 to 2,000 in 2008. This year's amendment represents the biggest tax cut in history.



NAFMII NEWS

NAFMII Signed Memorandum of Understanding for Cooperation with Shandong Provincial Government and PBOC Jinan Branch

On July 6, 2011, National Association of Financial Market Institutional Investors (NAFMII) signed Memorandum of understanding for Cooperation with Shandong Provincial Government and Jinan Branch of the People's Bank of China (PBOC) in Jinan, Shandong Province. Mr. Wang Renyuan, member of the Standing Committee of CPC Shandong Provincial Committee and Executive Vice Governor of Shandong Provincial Government attended the ceremony and delivered a speech.

During the "11th Five-Year Plan" period, NAFMII, based on innovation and development of the inter-bank bond market, joined hands with Shandong Provincial Government and PBOC Jinan Branch, and made due efforts in areas such as broadening financing channels for enterprises in Shandong Province, boosting development of SMEs in Shandong Province, creating a sound financial eco-environment and supporting transformation of economic development. By June 30, 2011, 81 companies registered in Shandong had accumulatively issued non-financial corporate debt financing instruments totaling RMB158 billion. Among them, 34 SMEs in Shandong Province co-issued 6 SME collective notes, with RMB3.29 billion raised, 35% of total collective notes issued in that period, effectively injecting financial resources directly into the most dynamic SMEs. Another 11 agriculture-related enterprises in Shandong Province issued non-financial corporate debt financing instruments, with RMB4.05 billion raised, strongly supporting the solution of the issues concerning agriculture, farmers and rural areas in Shandong Province. Five Shandong enterprises in strategic emerging industries issued debt financing instruments to raise RMB40.83 billion, which provided effective financial support for the transformation of economic development of Shandong Province. In the first year of the "12th Five-Year Plan" period, NAFMII has been actively exploring new mechanism of cooperation for self-regulatory organizations with local governments and PBOC local branches via signing memorandum of cooperation. This represents not only specific measures required by the central government "to develop financial market and continue to encourage financial innovations", but also useful attempts for innovative management of the financial market.

Meanwhile, the Qingdao Municipal Government, PBOC Qingdao Central Branch, Weifang Municipal Government, PBOC Weifang Central Branch, Dongying Municipal Government, PBOC Dongying Central Branch have respectively signed "Regional Prime Debt Financing Cooperation Framework Agreement" with China Bond Insurance Co., Ltd. (CBIC) as the first projects under the framework of cooperation among the three parties in Shandong Province to experiment new ways to address the financing problem of SMEs by batch financing.



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 (Jul 4th – Jul 10th) reached 3.4 billion Yuan. By July 10th, 2011, 956 enterprises issued debt financing instruments, with the overall volume reaching 4.66965 trillion Yuan; the outstanding balance reached 2.565985 trillion Yuan.

1 MTN were issued in total this week with the amount reaching 300 million Yuan. 6 CPs were issued in total this week with total amount of 3.1 billion Yuan.

II. Status of Secondary Market Trading

This week (Jul 4th – Jul 10th), 1 MTN began to trade on the secondary market. The total volume of spot trading transactions in the inter-bank market was 1.5342 trillion yuan and the trading volume of the MTN reached 328.6 billion, accounting for 21.4% of the total spot bond transactions in the inter-bank market.

Meanwhile, 6 CPs began to trade on the secondary market this week. The trading volume of the CP on the secondary market was 143.6 billion Yuan, accounting for 9.4% 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 10th, 2011)

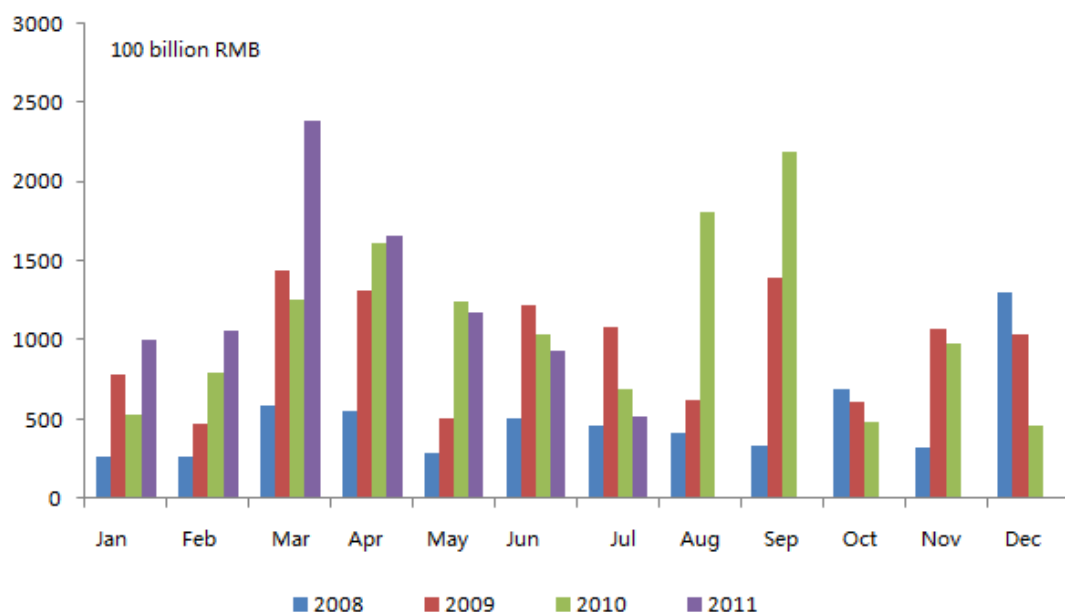




Figure 2: Outstanding balance of debt financing instruments of non-financial enterprises

(January 1st , 2008 –July 10th , 2011)

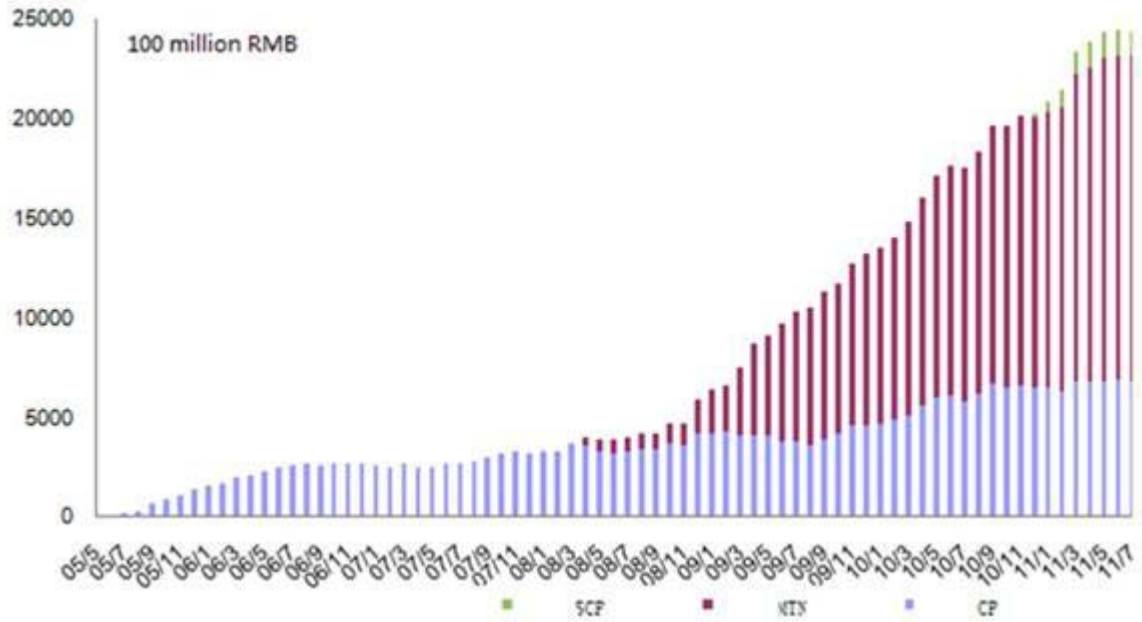


Figure 3: Yield curve for one-year CPs

(January 1st , 2008 –July 10th , 2011)

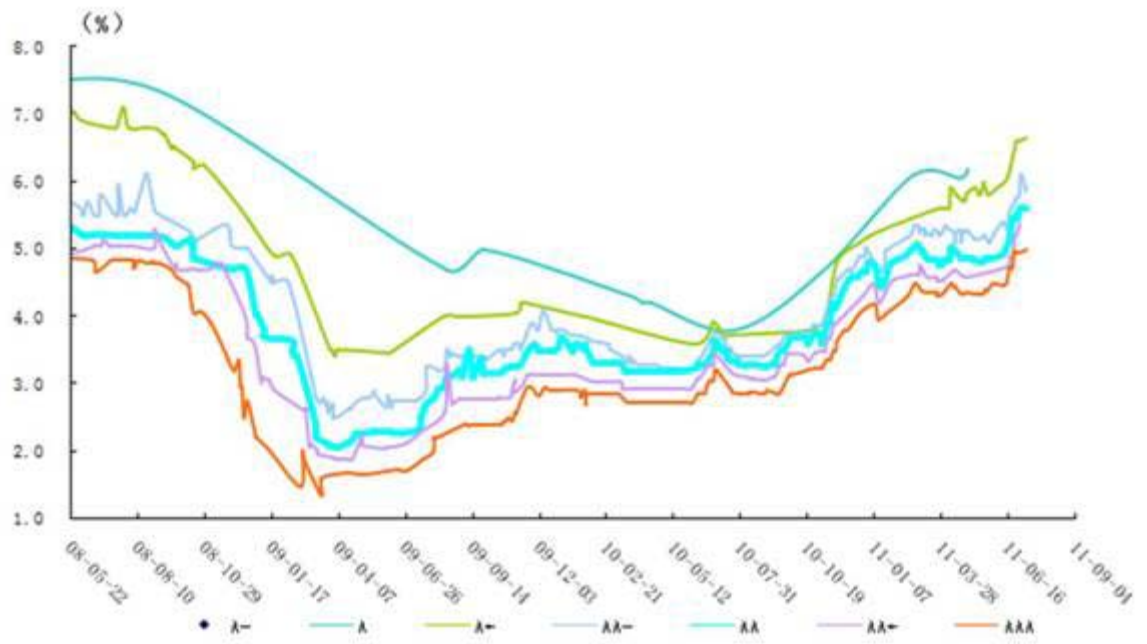
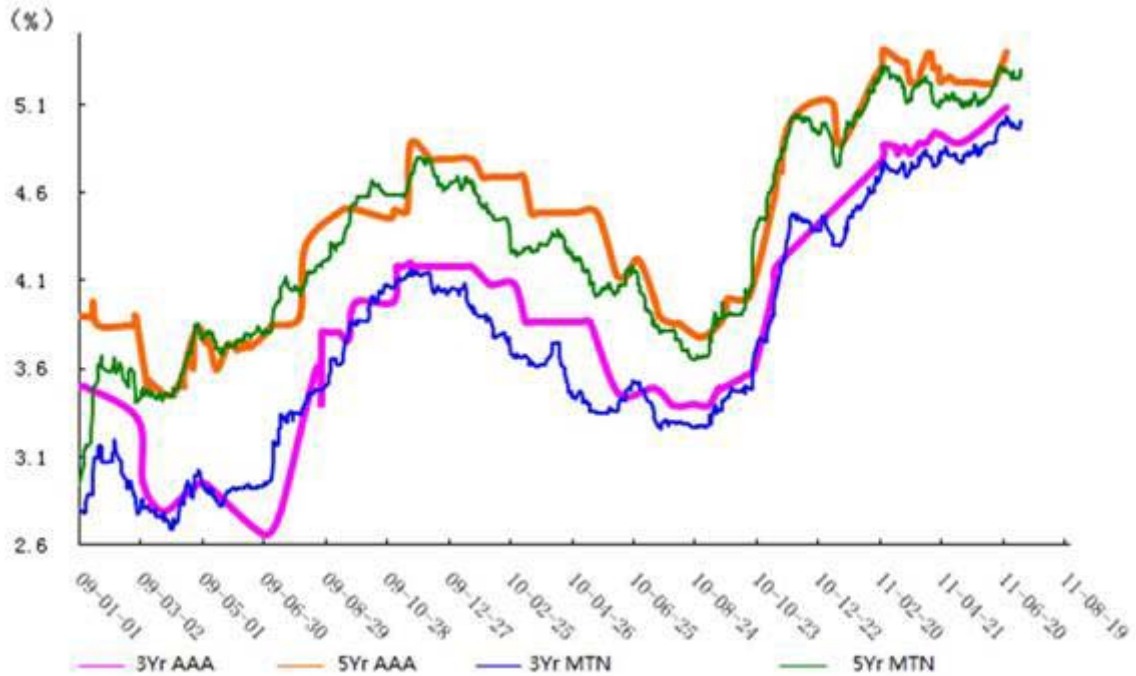




Figure 4: Yield curve for AAA-rated MTNs (three-year, five-year)
(January 1st , 2008 –July 10th , 2011)



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