



NATIONAL ASSOCIATION OF FINANCIAL MARKET INSTITUTIONAL INVESTORS

2012 MAY

<http://www.nafmii.org.cn/Site/Home/EN>

INSIDE THIS ISSUE

MARKET NEWS 2

Bond Market

Macroeconomics

NAFMII NEWS 5

NAFMII RESEARCH 7

Market News

Bond market

- ◆ The Biggest Agriculture-related SME Collection Note Issued
- ◆ First Corporate Bond approved on B-share Market in 8 Years
- ◆ The Central Bank Starts reverse Repurchase in May

MACROECONOMY

- ◆ PMI Keeps Rising for Five Consecutive Months, Representing Obvious Signs of Stable Development for Manufacturing
- ◆ Zhou Xiaochuan Talks about Liberalization of Interest Rate and Exchange Rate

NAFMII NEWS

- ◆ Finance Serves the Real Economy to Promote Healthy Development of Private Enterprises
- ◆ Trading & Investment Management Senior Seminar (II) Held in Hong Kong
- ◆ NAFMII Holds Q1 2012 Analysis on Financial Market Operation Seminar

NAFMII RESEARCH

- ◆ China Bonds Market Development Report (2011)
- ◆ Assessment of China's Investment Efficiency and Selection of Future Optimization Routes

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Market News

Bond market

The Biggest Agriculture-related SME Collection Note Issued

As the lead underwriter, China Development Bank has successfully issued the first collective note for Beijing Agricultural product processing industry in 2012, the biggest agriculture-related SME collective note (SMECN) ever issued in China, raising RMB430 million for 7 small and medium enterprises specializing in the processing of agricultural products.

Organized by Beijing Municipal Commission of Rural Affairs, the collective note is jointly issued by seven small and medium enterprises engaged in agricultural product processing, including Huadu Group, Deqingyuan, Resources Asia-Pacific, etc, with a term of 3 years and an interest rate of 6.65%. The collective note has ranked first nationwide in several aspects. First, the note involves the largest issue amount. The issue amount of the note, up to RMB430 million, is the biggest of all the agriculture-related collection notes issued or approved so far. Second, the interest rate is the lowest. The issuing interest rate of the note is only 6.65%, which has created the lowest level in the market this year. Third, the note involves the broadest coverage of the industry. The issuers of the collection note cover the processing of basic agricultural products such as vegetables, meats and eggs.

First Corporate Bond approved on B-share Market in 8 Years

On May 4, Foshan Huaxin Packaging Co., Ltd., a company listed on the B-share market, secured a green light from the National Development and Reform Commission to offer a corporate bond. This is the first debtrefinancing project a company listed on the B-share market will implement, and also the first refinancing deal of the companies listed on the B-share market since the suspension of refinancing in 2004. The corporate bond, underwritten by Guangzhou Securities, will involve a financing size of RMB800 million. The approval of the corporate bond of the company will have an important significance for B-share companies to resolve their financing difficulty.

The Central Bank Starts reverse Repurchase in May

The People's Bank of China, the central bank, has recently started the reverse repo on the open operation market to bolster the liquidity of the banking sector. On May 3, the central bank conducted a reverse repurchase operation involving RMB65 billion through the interest rate tendering. The funds that fell mature last week reached RMB52 billion. Plus the funds under the reverse repurchase, the central bank released a total of RMB117 billion on the open operation market, a new high in 15 weeks.

Macroeconomy

PMI Keeps Rising for Five Consecutive Months, Representing Obvious Signs of Stable Development for Manufacturing

The future economic trend has attracted much attention, after China's GDP growth rate fell down quarter on quarter to 8.1% in the first quarter of this year. The Purchasing Manager's Index (PMI), an important barometer for economic operation, of the Chinese manufacturing industry in April was 53.3%, as published on May 1. The index has picked up for five consecutive months, and hit a new high in 13 months.

This indicates the manufacturing industry has gone stable and started a recovery on the whole. In April, the PMI of the absolute majority of the industries rebounded above 50%. The PMI of 16 industries among 21 manufacturing industries was higher than 50%. The indexes of textile and other industries staggered at the low level below 50% in the months before April, indicating the development trend of some industries suffering difficulties has also started changing for the better.

Production has steadily accelerated. This month, the production index arrived at 57.2%, a rise of 2 percentage points over the previous month, and the highest since January of last year. Accordingly, the finished product stock index went below 50% to 49.5%, a drop of 1.1 percentage points from one month ago, showing the accelerating production has not resulted into an overstock of finished products.

The export rose while remained stable. The international market demand has changed for the better, which has brought more export orders to China. The new export order index in the month came at 52.2%, a rise of 0.3 percentage points over the prior month, and has stayed above 50% for three months in succession. The PMI of the

export enterprises has kept stable above 50%. The index was 53.6%, came at par with the previous month, and still outperformed the average level of the national manufacturing industry. The new order index of the export enterprises continued remaining above 50%.

The price has steadily fallen down. The purchasing price index came at 54.8% in the month, representing a drop of 1.1 percentage points from a month earlier. The index kept rising in the four consecutive months, and fell down in April. This is a positive signal that the price level in the coming period is expected to be stable, which will help mitigate the inflation expectation, and leave a space for policy tuning.

Zhou Xiaochuan Talks about Liberalization of Interest Rate and Exchange Rate

Zhou Xiaochuan, Governor of the People's Bank of China, participated in the economic dialogue under the framework of the fourth round of the Sino-US strategic and economic dialogue on May 3. During the press release at the meeting, Governor Zhou replied the media about exchange rate and interest rate, and disclosed that China and the US both agree the exchange rate should be determined by market supply and demand.

In the opinion of Zhou, when China enjoyed a considerable trade surplus in the past, the exchange rate had the tendency of appreciation, and the market supply and demand also conveyed such a signal. However, the sovereignty debt crisis in some countries that broke out last August and September has affected the confidence in the global economy and the financial markets, the supply and demand in the Chinese foreign exchange market have also changed, and the exchange rate of Renminbi against the dollar have shown the fluctuation in two ways on the foreign exchange market. In the recent years, China has taken a series of measures to promote the economic rebalance, and the ratio of China's current account surplus to its GDP has fallen down to 2.8% in 2011. The US has also undertaken to reduce the ratio of its fiscal deficit to its GDP to below 3%. In reality, if the market proves there is still an imbalance, the market force will also play a role in correcting such imbalance.

As to the interest rate issue, Zhou Xiaochuan said the important price on the financial market should be determined by the market, which will help optimize the resource allocation, and develop the financial market. The interest rate liberalization is subject to the influence of multiple factors, and also a progressive process. China has promoted the interest rate liberalization for many years. In future, China will continue to proceed with the interest rate liberalization as the entire Chinese

economy and Chinese financial market move ahead, and the reform will evolve in the direction of multifaceted support and progressiveness. trilateral memorandum of understanding with Shenzhen Municipal Government and PBOC Shenzhen Branch. Chen Yingchun, Vice Mayor of Shenzhen, attended the signing ceremony.

NAFMII NEWS

Finance Serves the Real Economy to Promote Healthy Development of Private Enterprises

To implement the Twelfth Five-year Plan and the strategy of “supporting and guiding the development of the non-public economy” put forward by the central meeting on economic work, actively execute the strategy, support continuous development of private enterprises by promoting the development of the debt capital market, and boost the special service for members, NAFMII held a special seminar on April 17-18, 2012 in Jiangsu province. The seminar was attended by more than 50 private enterprise members of NAFMII. NAFMII Deputy Secretary-General Yang Nong attended the meeting, and delivered a summary speech.

The attendees held in-depth exchanges and heated discussions on topics including China's current macroeconomic situation and policy, diversified choices and strategy of financing channels, and how to broaden financing channels of private enterprises, expand their direct financing scale, increase their financing efficiency, and mitigate their financing difficulty.

The attendees unanimously thought that private enterprises have made obvious achievements with further deepening of reform and opening up. The healthy and continuously development of private enterprises would have not come true without financial service and support. At present, with rapid development and expansion of China's debt capital market as well as continuous innovation and enrichment of bond varieties, private enterprises have had more diversified financing channels, and direct debt financing has grown into an important way for them to raise funds. The constant promotion of short-term commercial paper (CP), medium term note (MTN), SME collection note (SMECN), private placement of debt financing instruments and other products is of positive and practical significance to optimize financing structure, reduce financing cost and mitigate financing difficulties of private enterprises.

Private enterprises have become an important element of China's national economy, noted NAFMII Deputy Secretary-General Yang

Nong in a summary. NAFMII will, based on the needs of financial market development and the real economy, further propel innovation of financial products, reinforce financing support to private enterprises, further exert the active function of finance in supporting private enterprises, and create a better financial environment to promote healthy and continuous development of private enterprises.

Trading & Investment Management Senior Seminar (II) Held in Hong Kong

Upon the invitation of the Treasury Markets Association of Hong Kong (TMA), NAFMII successfully held the Trading & Investment Management Senior Seminar (II) on April 17-23, 2012 in Hong Kong. The seminar was participated by 23 trainees from 15 institutions, including Bank of Beijing, Bank of Shanghai, Industrial Bank Co., Ltd., China Development Bank Securities, China Securities Co., Ltd., China Foreign Exchange Trading System and NAFMII. Liu Zhuoheng, Chairman of Members' Affair Committee of TMA, attended the seminar and delivered an opening address.

At the seminar, senior experts from HSBC, Standard Chartered Bank (Hong Kong), China CITIC Bank, Hang Seng Bank, City University of Hong Kong and other institutions covered topics on the development process of Hong Kong bond market, the introduction to bonds issuance, risk control measures for bonds trading and investment management, the evaluation mechanism for bond trading and investment management, and other contents, and discussed relevant questions with the trainees. During the seminar, TMA also took trainees to visit the Hong Kong Exchanges and Clearing Limited, and the trading rooms of BOC (Hong Kong) and HSBC to study the bond trading flow.

NAFMII Holds Q1 2012 Analysis on Financial Market Operation Seminar

On April 27, NAFMII held the Q1 2012 Analysis on Financial Market Operation Seminar. 22 financial institutions, including Agricultural Bank of China and Bank of Communications, attended the meeting. Experts present at the meeting discussed in depth on topics such as the movements in the international economic and financial atmosphere, macroeconomic trend and prospect, financial market operation, private lending and financial reform in Q1, 2012.

According to experts present at the meeting, internationally, major countries in the world will see general election in 2012, and the political

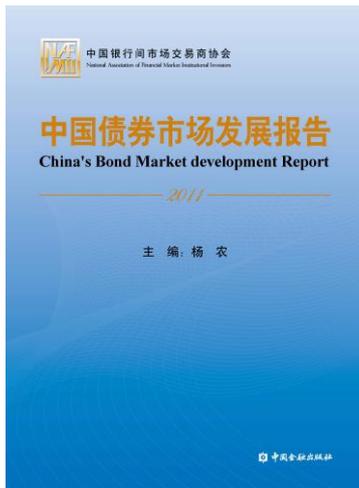
cycle will deliver far-reaching influences on economic operation; the American economy is slowly recovering, inflation is well controlled, but industrial output, the real estate industry, the unemployment rate and other real economic indicators still fail to meet expectations; and in Europe, the debt crisis has mitigated to some extent, but there are signs evident for economic depression, and Spain, Portugal and other countries are still facing the danger of another economic downturn. China's export will still come under pressure, considering the slow recovery of the American economy and the European debt crisis as a long-term issue.

Domestically, data on the credit structure in Q1 show that the medium-and-long-term loans of the Chinese enterprises dropped considerably, indicating the liquidity reduction has influenced investment demand of the enterprises to some extent; the phenomenon of deposit concentration on certain time points was obvious, and the wealth management products and deposits of commercial banks shifted in the two-way direction, which has impacted the liquidity; commercial banks should not be simply blamed for their rapid profit expansion, but the negative influence of the NPL ratio rise during the economic growth slowdown on the commercial banks should also be considered; and private lending has its advantages, but some of the activities gradually evolve into financial frauds, which must be handled according to the law. The experts all thought that China is now staying at a preliminary stage of a new round of system change and reform, which has influenced the economic growth rate to some extent, but will also lay a solid foundation for steady rapid development at next stage.

NAFMII RESEARCH

China Bonds Market Development Report (2011)

The bonds market is now developing very quickly. The market system is shaping and the market innovations kept emerging, investor types have got increasingly diversified, and the policy framework is turning better step by step. In this context, NAFMII has combed the market development achievements timely and systematically, analyzed the market operation status in an in-depth and comprehensive manner, scientifically and objectively reviewed experience and lessons, and prepared this report in collaboration with NAFMII members.



As the first complete annual report on the bonds market, the report starts with the macroeconomic trends at home and abroad as well as the global picture of the bonds market in 2011, and systematically combs the operating status, major characteristics, innovation results and development directions of the government bonds market, the financial bonds market, the corporate bonds market and the bonds derivatives market in sequence. Meanwhile, the report contains the features about the key areas and hotspots in the year, and covers the annual operation and development of the Chinese bonds market in the year in a comprehensive manner.

Assessment of China's Investment Efficiency and Selection of Future Optimization Routes

The Chinese economy has now stepped into a key period of growth pattern transition and structural adjustment. It can be forecast that investment will still play an essential role. However, the investment efficiency has emerged as an issue that can't be ignored, amid the constant expansion of China's investment scale and the gradual growth of the capital stock.

At present, the low investment efficiency in China is an outstanding problem, mainly evidenced by the fluctuating rise of the output rate of incremental capital, the failure to convert savings into investments in full amount, the falling rate of delivery and use of fixed assets, and the procyclical nature of investments and economic growth. The situation of inefficient expansion of investments has taken shape, which can be attributed to profound endogenous sources. First, the investment expansion violates the general law, and the marginal return of investments has stayed at the diminishing stage; second, the government-dominated investment mode in the long term has resulted in the investment inefficiency; third, the unreasonableness of the financing channels has inhibited the investment efficiency: The indirect financing has constituted an absolute majority, while the direct financing, which is more efficient, has developed slowly. The imbalance of the financing structure has reduced the efficiency of resource allocation, and expanded the financial market risk.

Judging from the trend of the future investment operation, the investment expansion will last for some period amid the existence of the investment inertia within the transitional period of the economic drives. However, as the demographic dividend is fading away, the continuous rise of the resource and environment costs will restrict the sustainability of the investment expansion. In future, potential risk will gradually emerge amid the investment expansion. Hence, the contradiction will emerge that it will be hard to reduce the investment scale, and imperative to prevent the risks created by the investment

expansion in future. To resolve this contradiction, the key is to increase the investment efficiency.

To enhance the investment efficiency, effectively prevent the negative effects of the investment expansion and promote the continuous prudential development of the economy, this report suggests taking the following measures in future: Adjust the development concepts at an appropriate time, and be wary of the long-term harms of excessive investment; change the government domination mode, and pay attention to exerting the market force; further optimize the financing structure, and vigorously develop direct financing; and integrate the efficiency enhancement into the economic structural adjustment, and promote the effective combination between investment and consumption.

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