

Market Bulletin

Monday 5 August, 2013 (Issue 11)

Highlights

- PBC Pumps Liquidity through Reverse Repos
- Outstanding Local Government Debt Totals RMB 9.7 Trillion
- Numbers in Bond & Money Markets Drop in June
- Profit Growth for Listed Banks Estimated to Slow to 8%
- China's VAT Reform Expands Nationwide
- Loan Balance of Microfinance Companies Exceeds RMB 700 billion
- Top Securities Regulator Vows to Strengthen Law Enforcement
- CITIC Securities Completes Deals with CLSA
- SZSE's First Bond ETF Adopts T+0
- More QFII and RQFII Quotas Approved in July

Key Indices



Market Review

From 29 July to 2 August, major Shenzhen indices continued upward trend. Shenzhen Component Index closed at 7961.5 points after gaining 1.5%. SME Index rose 0.9% to 4825.3 points. ChiNext Index jumped 2.6% to close at 1188.9 points. Total turnover for stocks and funds on SZSE valued at US\$ 81.4 bn, or a 14.1% decrease from the week before.

All sector indices were higher than previous week. Sector indices with the biggest gains were Culture & Media, Real Estate, and Farming, Forestry and Aquaculture. Top 3 gainers were Leyard Optoelectronic (300296), Eagle Electronic Technology (002579) and Xinmin Textile (002127). Shenzhen Aisidi (002416), New Culture Media Group (300336) and Dvision Video Communications (300167) were the Top 3 decliners. The most active stocks for the last week were Huayi Brothers (300027), China Vanke (000002) and Hong Yuan Securities (000562).

Market News

PBC Pumps Liquidity through Reverse Repos

People's Bank of China (PBC) issued RMB 17 bn (US\$ 2.8 bn) in 7-day reverse-repo agreements on 30 July and added another RMB 34 bn (US\$ 5.5 bn) in 14-day reverse-repo on Thursday. With the RMB 85 bn (US\$ 13.8 bn) in bonds which matured last week, a net volume of RMB 136 bn (US\$ 22.0 bn) was injected into the money market.

Outstanding Local Government Debt Totals RMB 9.7 Trillion

According to China Banking Regulatory Commission (CBRC), the outstanding loans via local government financing vehicles stood at RMB 9.7 tril (US\$ 1.6 tril) by the end of June 2013, with a y-o-y growth rate of 6.2%. China's National Audit Office (NAO) announced on 28 July to conduct an audit of all government debt at the request of the State Council.

Numbers in Bond & Money Markets Drop in June

Data released by PBC on 31 July show that the trading volume of the interbank lending market totaled RMB 1.6 tril (US\$ 259.3 bn), down 59.3% m-o-m. The total amount of bond issuance registered RMB 534.2 bn (US\$ 86.6 bn), decreasing 43.3% m-o-m. The trading volumes of bonds through the interbank market and through stock exchanges were RMB 1.2 tril (US\$ 194.5 bn) and RMB 126.6 bn (US\$ 20.5 bn), falling 49% and 7.4% m-o-m respectively.

Profit Growth for Listed Banks Estimated to Slow to 8%

China Banking Association (CBA) recently predicts that the net interest income and operating revenue of listed Chinese banks will grow at a slower pace of 10% this year, while net profit growth is estimated to slow to 8% in 2013, with a background of the removal of the lending

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Market at a Glance

SZSE Market Statistics (02 August, 2013)	
No. of Listed Companies	1537
Market Cap.(US\$ Bn)	1297.7
Free-float Market Cap.(US\$ Bn)	893.3
Average P/E Ratio	25.48
For the Year of 2013	
Turnover Value(US\$ Bn)	2614.4
-Stock	2111.4
-Main Board	828.0
-SME Board	875.7
-ChiNext	407.7
-Fund	57.9
-Bond	445.1
Daily Turnover Ratio(%)	1.61
Total Fund Raised by Equity (US\$ Bn)	18.2
No. of IPO	0

*Currency ratio used : 1 USD=6.17 CNY

rate floor in July.

China's VAT Reform Expands Nationwide

China's value added tax (VAT) reform expanded nationwide on 1 August. In an effort to avoid double taxation for businesses, the Chinese government introduced a pilot plan in Shanghai last year to replace the business tax in transport and some service sectors with a value-added duty, which is charged only on the added value of each link in the production chain. The government decided in April to spread the practice nationwide starting August and more industries will be included in due time.

For the first half of this year, China's tax revenues totaled RMB 5.9 tril (US\$ 961.1 bn), registering a 7.9% y-o-y growth. But it increased slower than the 2012 rate of 9.8%.

Loan Balance of Microfinance Companies Exceeds RMB 700 billion

According to PBC, outstanding loans of microfinance companies nationwide exceeded RMB 700 bn, almost 10 times of that of 2009. By the end of June, a total of 7,086 microfinance companies have been established, marking a 34.5% y-o-y increase. The newly added outstanding loans of microfinance firms reached RMB 112.1 bn for the first half of 2013. Jiangsu becomes the largest microfinance cluster with 529 registered companies.

Top Securities Regulator Vows to Strengthen Law Enforcement

Xiao Gang, Chairman of the CSRC, vowed to strengthen law enforcement and crack down on financial crimes as part of the effort to revamp the capital market, in a signed article published on *Qiushi Journal (Issue 15, 2013)*. According to Xiao, the number of financial irregularity cases rose 40% y-o-y in the first half of 2013, with more than half of the cases involving insider trading. Xiao also mentioned that the CSRC would lower the market entry threshold, switch its regulatory focus from ex ante case review to ex post supervision and law enforcement.

CITIC Securities Completes Deals with CLSA

CITIC Securities completed the purchase of the remaining 80.1% stake in CLSA with US\$ 842 million on 31 July. Along with the 19.9% stake acquired last time, CITICS has obtained whole ownership of CLSA, becoming the first Chinese securities firm acquiring a foreign competitor. The purchase marked a solid step in CITIC Securities' internationalization process.

SZSE's First Bond ETF Adopts T+0

Harvest CSI Gilt-Edged Medium Term Treasury Bond ETF, SZSE's first bond ETF, debuts on 5 August. It adopts the T+0 trading mechanism. The treasury bond is open to institutional and retail investors, and transaction levy and trading unit flow fees are exempted for the new product.

QFII News

More QFII and RQFII Quotas Approved in July

According to the data released by State Administration of Foreign Exchange (SAFE), QFII Quota increased US\$ 1.49 bn to reach US\$ 45 bn on 26 July. SAFE also issued RMB 17 bn (US\$ 2.8 bn) of RQFII quota in late July. The total RQFII quota increased to RMB 122 bn (US\$ 19.8) by the end of July.

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