Financial Market Report (2018)

In 2018, bond market issuance on the whole continued to grow, cash bond trading volumes increased, bond yield curves shifted downward, and the composition of market investors was further diversified; money market interest rates edged down, and repo transactions rose considerably; swap interest rates dropped; stock indexes fell throughout the year, and transactions on the Shanghai and Shenzhen Stock Exchanges shrank.

I. Bond market issuance continued to grow

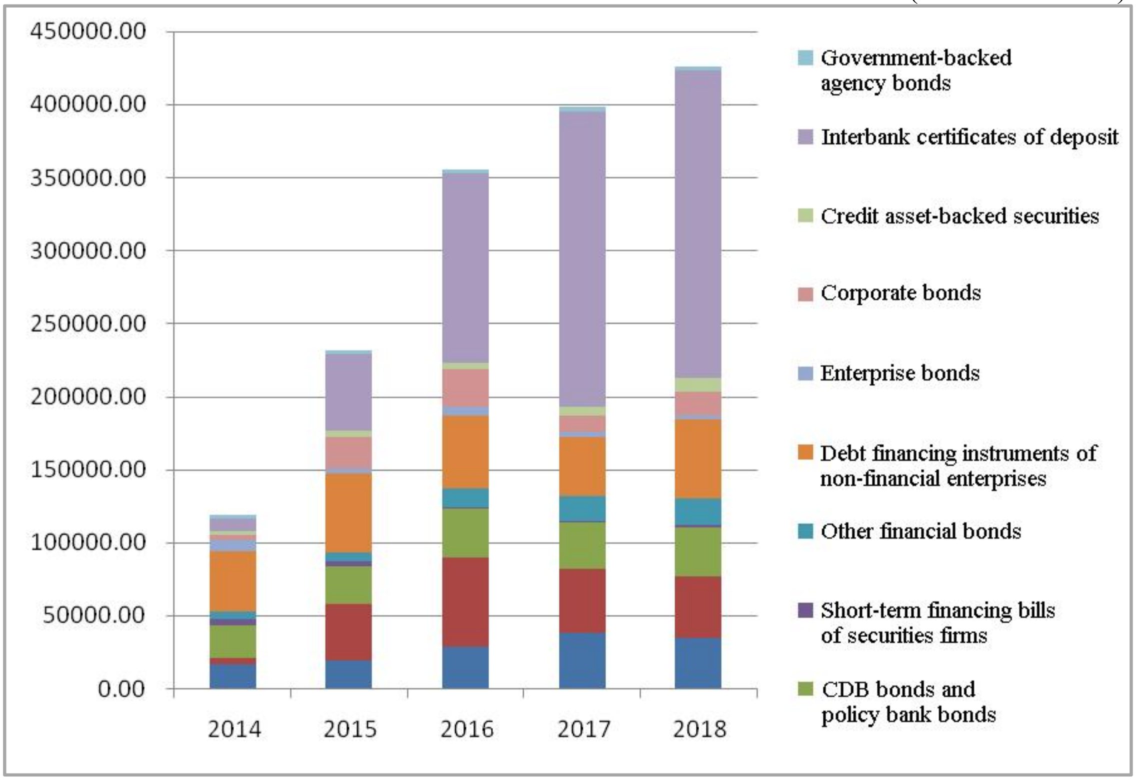
In 2018, the issuance of all types of bonds amounted to RMB 43.6 trillion, up by 6.8 percent year-on-year, with interbank bond market issuance posting RMB 37.8 trillion, up by 2.9 percent year-on-year. As of end-December 2018, outstanding bonds in custody totalled RMB 86.4 trillion, of which RMB 75.7 trillion was from the interbank bond market.

In 2018, the issuance of treasury bonds, local government bonds, financial bonds,[1] government-backed agency bonds, asset-backed securities, interbank certificates of deposit and corporate debentures reached RMB 3.5 trillion, 4.2 trillion, 5.3 trillion, 253 billion, 1.8 trillion, 21.1 trillion and 7.3 trillion, respectively.

[1] Financial bonds include financial bonds issued by the China Development Bank(CDB), policy bank bonds, ordinary financial bonds, Tier 2 capital bonds, capital replenishment bonds, short-term financing bills issued by securities firms and financial bonds issued on stock exchanges.

Figure 1: Change in Issuance of Major Types of Bonds in Recent Years

(RMB 100 million)



Sources: China Central Depository & Clearing Co., Ltd., Shanghai Clearing House, Shanghai Stock Exchange and Shenzhen Stock Exchange.

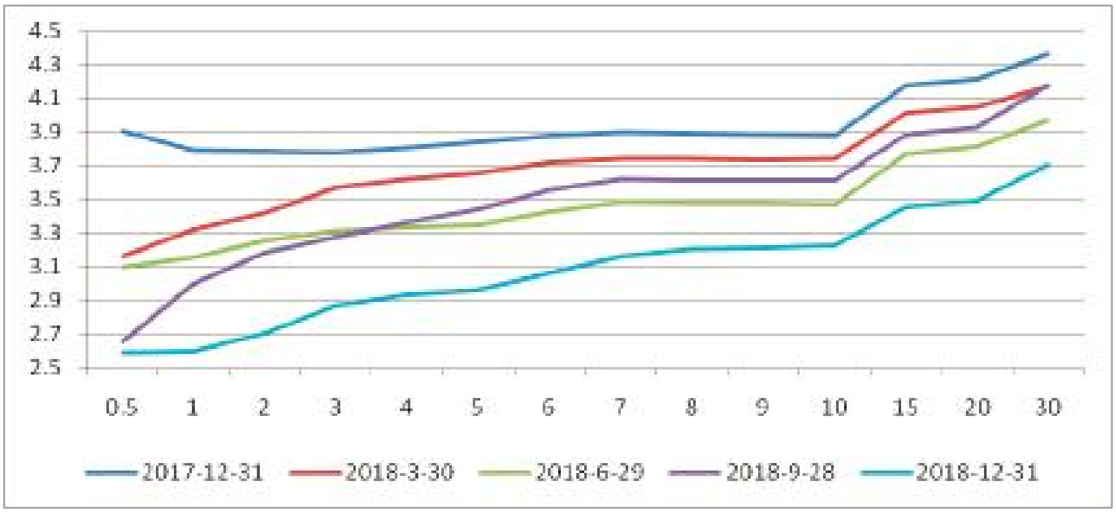
II. Interbank market trading volumes increased

In 2018, cash transactions on the bond market rose by 44.6 percent year-on-year to RMB 156.7 trillion. Specifically, the volume of cash trading on the interbank bond market posted RMB 150.7 trillion, with the daily average increasing by 47.2 percent year-on-year to RMB 602.9 billion; and cash transactions on the stock exchange bond market reached RMB 5.9 trillion, with the daily average rising by 7.1 percent year-on-year to RMB 24.4 billion.

In 2018, credit lending and repo transactions on the interbank market totalled RMB 862 trillion, increasing by 24 percent year-on-year.

Specifically, the cumulative turnover of interbank lending reached RMB 139.3 trillion, up by 76 percent year-on-year; pledged repos posted a cumulative turnover of RMB 708.7 trillion, up by 20.5 percent year-on-year; and outright repos recorded a cumulative turnover of RMB 14 trillion, down by 50.2 percent year-on-year.

Figure 2: Change in Interbank Market Treasury Bond Yield Curves in 2018



Source: China Central Depository & Clearing Co., Ltd.

III. Bond yields and money market interest rates went down

Bond yield curves overall shifted downward in 2018. At end-December, the yield on 1-year, 3-year, 5-year, 7-year and 10-year treasury bonds stood at 2.6 percent, 2.87 percent, 2.97 percent, 3.16 percent and 3.23 percent, down by 119bps, 91bps, 87bps, 74bps and 65bps year-on-year, respectively. At end-2018, the ChinaBond Treasury Bond Aggregate Index closed at 182.93, increasing by 14.91 year-on-year; and the ChinaBond New Composite Index (Full Price) closed at 117.54, increasing by 5.37 year-on-year.

In December 2018, the monthly weighted average interest rate for interbank lending was 2.57 percent, down by 34bps from the same period last year; and the monthly weighted average interest rate on pledged repos stood at 2.68 percent, down by 43bps from the same period last year.

IV. The number of investors further increased

As of end-2018, interbank bond market participants totalled 20,763, 1,834 more than a year before, of which there were 2,842 domestic entities with legal person status, 16,735 domestic non-legal person entities, and 1,186 foreign institutional investors, up by 177, 1,277 and 380 year-on-year, respectively.

At end-2018, outstanding bonds held by depository financial institutions on the interbank market posted RMB 43.43 trillion, accounting for 57.4 percent of the total, down by 0.7 percentage point from end-2017; outstanding bonds held by unincorporated institutional investors amounted to RMB 21.86 trillion, representing 28.9 percent of the total, up by 0.6 percentage point from end-2017. Corporate debentures held by depository financial institutions, non-bank financial institutions, and unincorporated institutional investors and other investors took up 21.6 percent, 7.5 percent and 70.9 percent of the total, respectively, with depository institutions holding slightly less compared with the previous year.

V. Interest rate derivatives

In 2018, interbank RMB interest rate derivatives trading posted a cumulative turnover of RMB 21.4 trillion, up by 48.6 percent year-on-year. Specifically, notional principal amounts of interest rate swaps totalled RMB 21.3 trillion, up by 48.0 percent year-on-year; bond forward transactions and standard bond forward transactions posted RMB 0.4 billion and 79.4 billion, respectively; notional principal amounts of credit risk mitigation warrants that had been created posted RMB 6.7 billion; and RMB 1.9 billion of credit default swaps was traded. The swap interest rates fell, with 1-year and 5-year FR007 closing at an average of 2.62 percent and 2.93 percent, respectively, at end-2018.

VI. Stock market indexes

At end-2018, the SSE Composite Index closed at 2,494, down by 813 points or 24.6 percent year-on-year, while the SZSE Component Index closed at 7,240, down by 3,800 points or 34.4 percent year-on-year. Turnover on the Shanghai and Shenzhen Stock Exchanges totalled RMB 90.3 trillion for the full year, down by 19.9 percent year-on-year.

Figure 3: Movements of Stock Trading on Shanghai Stock Exchange in 2018

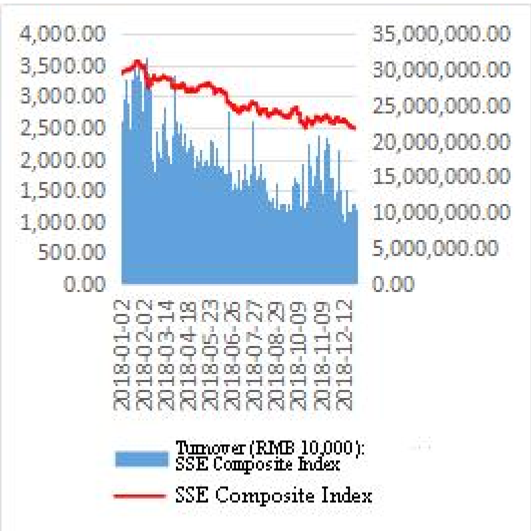
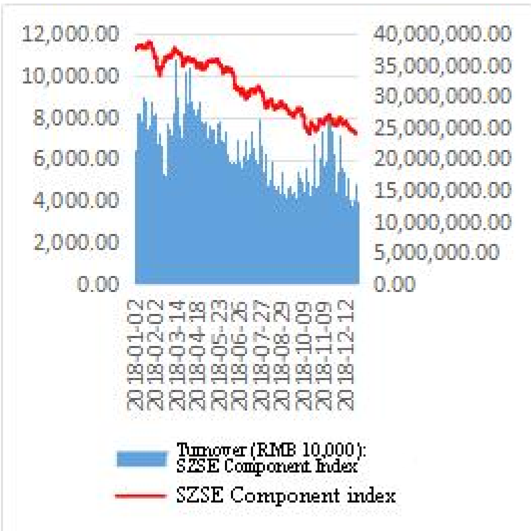


Figure 4: Movements of Stock Trading on Shenzhen Stock Exchange in 2018



Sources: Shanghai Stock Exchange and Shenzhen Stock Exchange.

(Sources: China Central Depository & Clearing Co., Ltd., National Interbank Funding Center, Shanghai Clearing House, Shanghai Stock Exchange and Shenzhen Stock Exchange)