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2013 CHINA FINANCIAL MARKET DEVELOPMENT REPORT

中国金融出版社

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PBC Shanghai Head Office
China Financial Market Development Report Committee

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责任校对：李俊英
责任印制：毛春明

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Division of Foreign Banking in International Department, PBC Shanghai Head Office

Translators (listed in alphabetical order):
CHEN Song CHEN Suyan LI Yuqing LIU Ziqun ZHANG Qin ZHENG Zhaoliang ZHOU Ping

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Part I Overview

In 2013, confronted with complicated international situation, China's economy centered upon accelerating the transformation of economic growth pattern with focus on improving the quality and efficiency of economic development, providing a concrete basis for financial market innovation and development. The size of trading on financial markets continued to grow, price movement gained momentum, market innovation was boosted, operation mechanism increasing by improve, the function of serving the real economy was enhanced continuously, and the opening up was pushed forward steadily.

1. Analysis of the macro environment for China's financial market development in 2013

1.1 International economic and financial developments

1.1.1 Growth in advanced economies recovered modestly, while that in emerging market economies slowed down

1.1.1.1 Advanced economies recovered modestly

In the U.S., economic recovery gained momentum amid a gradual decline in unemployment rate. The annualized quarter-on-quarter economic growth posted 1.1%, 2.5%, 2.8% and 3.2% respectively in 2013. Recovery in housing market, increase in private investment and improved conditions for industrial output have supported the momentum for economic recovery. The purchasing managers index (PMI) for manufacturing in the U.S. moved up persistently since May, reaching 59.1 as of December. Employment continued to improve, with the unemployment rate dropped to 6.7% in December, the lowest level since November 2008. In addition, inflation pressure was subdued, with the year-on-year growth of monthly consumer price indice (CPI) all below the 2% target range set by the U.S. Federal Reserve (Fed).

In the euro area, confidence in economic growth recovered somewhat. In 2013, some progress has been made in the European Banking Union. The European debt crisis eased temporarily, as Ireland became the first member country in the euro area to graduate from an international financial assistance program. Economic confidence recovered continuously, as the consumer confidence index rose persistently from -23.9 at the start of the year to -13.6 in December. Quarter-on-quarter real growth of gross domestic product (GDP) was 0.3% and 0.1% respectively in the second and third quarters, which makede an end of the negative growth seen in the previous six quarters in a row. However, the CPI in the euro area was lower compared with that in 2012. In particular, the year-on-year growth of CPI in July decelerated to 0.7%, the lowest in recent four years. Downside risks remained, as the unemployment rate was stubbornly high, staying above 12% throughout 2013.

In Japan, economy started to recover. Driven by proactive fiscal policy, accommodative monetary policy and substantial depreciation of the Japanese yen, the activity began to recover in Japan with the annualized quarter-on-quarter real GDP growth posting 4.1% and 3.8% respectively in the first and second quarters. In June, the year-on-year growth of CPI jumped into positive territory, putting an end to the persistent deflation observed since April 2012. In October, the Japanese government announced an increase in consumption tax effective in April 2014, which, however, may negatively affect Japanese economy, even though Japan unveiled at the same time a five-trillion-yen economic stimulus package to mitigate the negative impact of consumption tax hike. In Japan, there were voices persistently questioning the sustainability of current government's policy effects. Therefore, whether Japan's recovery would sustain remains to be seen. The International Monetary Fund (IMF) projected that the Japanese economy would slow down to 1.25% in 2014 from 2% in 2013.

1.1.1.2 Economic growth decelerated in most emerging market economies

As insufficient eternal demand and domestic structural imbalances did not see any fundamental changes, emerging market economies continued to slow down in 2013. The IMF revised down the growth of emerging market economies in 2013 to 4.5%, down 3 percentage points compared with 2010. The current account deficit of some major emerging market economies, such as India, Indonesia, South Africa and Turkey, widened somewhat.

1.1.1.3 Growth of global trade and foreign direct investment weakened

Due to an anemic economic recovery in the euro area and a slowdown in emerging market economies, growth of global trade and foreign direct investment remained sluggish. According to the World Trade Organization (WTO), global trade was expected to grow 2.5% in 2013, slightly higher than that in 2012. In particular, exports of developed countries increased by 1.5%, on a par with that in 2012, while imports dipped by 0.1%, lower than the 0.4% reported in the corresponding period of last year. Exports of developing countries jumped 3.6%, slightly higher than the 3.5% growth during the corresponding period of last year, while imports added 5.8%, faster than the 5.4% recorded in the same period of 2012. In addition, the United Nations Conference on Trade and Development (UNCTAD) expected that foreign direct investment would rise to $1.45 trillion in 2013, up 7.41% compared with the $1.35 trillion in 2012, which reversed the negative growth in 2012, but was still below the average annual growth of over 10% between late 1980 and years prior to the global financial crisis.

1.1.2 International financial market performance in 2013

Under easy monetary conditions, Eurodollar and euro lending rates stayed at low levels. Expectations of U.S. tapering drove up the yields on all countries' government bonds, with the full-year growth of yields on emerging market economies' government bonds higher than that on advanced economies' government bonds. Movements of major reserve currencies diverged, and some emerging market currencies depreciat substantially against the US dollar. Stock markets in advanced economies gained, whereas that in emerging market economies suffered losses. Price movements of agricultural products diverged and prices of precious metals dropped across the board.

1.1.2.1 Eurodollars and euro lending rates fell continuously

After completing Operation Twist at the end of 2012, the U.S. Fed built on $40 billion monthly mortgage-backed securities purchase program with buying an additional $45 billion long-term government bonds every month, that is, an $85 billion asset purchase program, and linked interest rate adjustment to economic indicators such as inflation and unemployment rate to keep federal funds rate at 0-0.25%. In the first quarter, the European Central Bank (ECB) continued to keep the rate on main refinancing operations, lending facility and deposit facility at historical low levels of 0.75%, 1.5% and 0 respectively. Then the ECB lowered its main refinancing rate and marginal lending facility rate two times in May and November respectively to 0.25% and 0.75%. Under easy monetary conditions, Eurodollar and euro lending rates stayed at low levels. 3-month dollar Libor fell from 0.30% at the start of the year to 0.246% at the year-end, while euro Libor remained below 0.15% before September, but rose a bit thereafter, closing at 0.266% at the year-end.

1.1.2.2 Yields on government bonds went up, with the full-year growth of yields in emerging market economies higher than that in advanced economies

On June 19 2013, Ben Bernake, Chairman of the U.S. Fed, proposed a plan for exit from quantitative easing policy, which pushed up considerably the yields on government bonds around the world. From June 19 to September 19 when the Fed announced to postpone the exit from quantitative easing, yields on five-year government bonds in the U.S., Germany, France and the U.K. jumped 2,686, 2,323, 2,013 and 4,695 basis points (bps) respectively. Although the yields retreated somewhat in the fourth quarter, they failed to return to the level at the beginning of the year. However, yield on five-year government bonds in Japan was not affected negatively by the U.S. tapering and remained broadly at 0.35%, reflecting its accommodative monetary policy and rebound in economy rebounded. Compared with advanced economies, spillover effects of U.S. tapering on emerging market economies were more notable. During the same period from June 19 to September 19, yields on five-year government bonds in India, Indonesia, Turkey, Thailand, Vietnam, and Malaysia jumped 10,840, 13,780, 13,600, 5,500, 7,240, and 2,520 bps respectively, far higher than that in advanced economies.

With regard to heavily-indebted countries in the euro area, yields on five-year bonds also went up for some time due to the U.S. tapering, but yields on five-year government bonds in Spain, Italy, Portugal and Ireland in general presented a downward trend, as debt crisis eased, economic confidence recovered and monetary policy was loosened.

1.1.2.3 Movements of major reserve currencies diverged and emerging market currencies depreciated against the U.S. dollar

In 2013, the U.S. dollar index dropped after a rise. It posted 74.756 at the beginning of the year, rising continuously to the peak of 84.259 in May, and then fluctuated downwards, closing at 80.338 at the year-end. With regard to the bilateral exchange rates versus the U.S. dollar, the euro and the British pound depreciated against the dollar in the first quarter by 2.8% and 6.5% respectively compared with the end of last year, but the euro and the pound fluctuated against the dollar, appreciating only 1.5% and 0.1% respectively compared with end-March. During the second half of the year, the euro and the pound appreciated faster against the dollar, closing at 1.38 dollars per euro and 1.66 dollars per pound as of end-December. As Japan adopted a quantitative easing monetary policy, the Japanese yen weakened persistently against the dollar since early 2013, depreciating 12.9% in half a year alone. In the second half of the year, the exchange rate of the Japanese yen vis-a-vis the dollar fluctuated, basically staying between 97 and 100 Japanese yen per dollar.

In the second quarter, expectations of the U.S. tapering triggered a reversal in global asset allocation, with sizable capital flows out of emerging market economies, which resulted in substantial currency depreciation against the dollar in major emerging market economies. As of end-December, the Indonesian Rupiah, Indian Rupee, Turkish Lira, Russian Ruble and Brazilian Real depreciated 23.15%, 12.47%, 17.95%, 6.67% and 12.12% respectively against the dollar compared with the beginning the year.

1.1.2.4 Stock markets in advanced economies gained whereas those in emerging market economies suffered losses

In 2013, stock markets in major advanced economies witnessed continuous gains supported by recovering economic fundamentals and easing monetary conditions. As of end-December, the Japanese TOPIX outperformed stock market indices in other advanced economies, jumping 41.52%. The U.S. Dow Jones Industrial Average, the U.K. FTSE100, the German DAX30 and the French CAC40 rose 23.51%, 13.48%, 22.70% and 16.54% respectively. However, compared with advanced economies, stock markets in emerging market economies were dwarfed, especially in the second quarter when they plunged on the expectation of the U.S. tapering. From May to end-August, stock markets in Indonesia and Thailand tumbled 9% and 17% respectively. As the Fed announced to delay exit from quantitative easing on September 19, stock markets in emerging market economies rallied from a low level, but still lagged behind advanced economies in terms of annual gains.

1.1.2.5 The price of most agricultural products dropped and that of precious metals also retreated across the board

As global rubber supply exceeded market demand, its price fell notably in 2013, witnessing a losing streak since February. As of end-December, it slashed 24.35% throughout the year. Likewise, as harvest increased the supply of wheat and soy beans, their prices moved downwards in 2013, shedding 18.23% and 8.6% respectively across the year. Cotton's price did not see any big slump as it did in 2012, as it fell after an increase, rising 14.16% in 2013. Due to climate change and diseases, there had been a production gap in cocoa around the globe for several years in a row. In 2013, cocoa's price continued to rise, jumping 19.43% throughout the year. In 2013, prices of metals traded on the London Metal Exchange (LME), such as aluminum, copper, lead, nickel, tin and zinc, declined across the board, losing 15.11%, 9.96%, 5.59%, 20.61%, 4.57% and 0.17% respectively. The price of the U.K. Brent Crude Oil experienced a rollercoaster, rising from $110.07 per barrel at the start of the year to $119.12 in early February, plunging to the lowest of $96.97 in mid-April followed by a rally, and as of the year-end returning almost to the level recorded at the beginning of the year. Prices of precious metals dropped persistently. At end-December, the price of spot gold and silver stood at $1,207.85 per ounce and $19.50 per ounce respectively, slashing 31.94% and 42.91% throughout the year.

1.2 Domestic macro economic and financial environment

In 2013, faced with complicated and constantly changing environment at home and abroad, China adhered to the general guideline of seeking progress when stability is ensured, continued to adopt proactive fiscal policy and prudent monetary policy while focusing on improving the quality and efficiency of growth, made tremendous efforts to deepen reform and opening up, expedited economic transformation and upgrading, and worked hard to secure safty net and improve people's livelihood. As a result, the national economy showed a development momentum featuring progress amid stability, which provided a stable macro environment for financial market development.

1.2.1 Economy progressed amid stability

In 2013, against the backdrop of continuous industrialization, urbanization and coordinated regional development, there remained many positive factors for achieving sustainable and sound economic growth. The Chinese economy stabilized and saw progress, with growth staying in a reasonable territory.

1.2.1.1 Economic growth was steady in general

First, GDP growth increased amid stability. In 2013, China's GDP rose by 7.7% on a year-on-year basis. Driven by economic restructuring and various reform measures, China's economic growth potential is being unleashed.

Second, growth of prices remained basically stable. In 2013, national summer grain production totaled 132 million tons, an increase of 1.96 million tons, or 1.5% over last year; meat production, including pork, beef, and mutton, reached 83.73 million tons, adding 1.8% year-on-year; the price of agricultural products remained stable thanks to good agricultural production. In 2013, the producer price index (PPI) dipped 1.9%, 0.2 percentage points higher than that in last year, while the CPI grew 2.6%, the same as the growth in 2012.

Third, aggregate demand kept in a trail of steady growth. Investment remained the major driving force for economic growth among the three big demands. In 2013, national fixed asset investment (excluding rural households) jumped 19.6% from a year earlier to 43.7 trillion yuan, down one percentage point compared with the growth in 2012. Growth of exports recovered a bit as global economic environment improved. In 2013, the total value of exports exceeded $2.2 trillion, surging 7.9% compared with last year, on a par with the growth in 2012. Consumption demand grew steadily. In 2013, social retail sales of consumer goods advanced 13.1% year-on-year, amounting to 23.8 trillion yuan.

1.2.1.2 Economic restructuring saw positive developments

In 2013, China's economic restructuring as well as transformation and upgrading achieved positive developments, as various reform measures were carried out gradually. First, upgrading of industrial structure sped up. In 2013, the value-added of the tertiary industry accounted for 46.1% of the GDP, up 0.8 percentage points compared with last year, surpassing the second industry for the first time. Modern service industry, high-tech industry and some new types of industries unitnessed a positive momentum. In particular, industries and enterprises that actively promoted transformation and upgrading as well as indigenous innovation displayed strong resilience and vitality.

Second, regional development was more balanced. In 2013, investment in east, central and west China gained 17.9%, 22.2% and 22.8% respectively compared with the prior year. The gap between west and central China and east China narrowed further, while coordination in regional development was improved gradually.

Third, urban and rural developments coordinated futher. In 2013, the per capita disposable income of urban residents grew 7% in real terms, while the per capital net income of rural residents rose 12.7% in real terms. Driven by the fast growth of rural residents' income, retail sales of consumer goods in rural areas went up 14.6% year-on-year, 1.7 percentage points higher than that in urban areas.

1.2.2 Financial environment was stable in general

In 2013, the People's Bank of China (PBC), in line with the overall arrangement of the State Council, continued to adopt prudent monetary policy, made adjustment more targeted and coordinated, conducted preemptive adjustment and fine-tuning in a timely and appropriate manner, found the right balance among stabilizing growth, restructuring, promoting reforms and preventing risks, and fostered a stable monetary and financial environment. In 2013, the PBC diversified approaches for monetary policy adjustment by adding standing lending facility (SLF) and short-term liquidity operations (SLO), and conducted adjustment more flexibly so as to promote reasonable and stable expectations among market players and push forward structural adjustment as well as transformation and upgrading.

1.2.2.1 Monetary conditions were neither too tight nor too loose

In 2013, liquidity in the banking system stayed at a reasonable and appropriate level, with credit aggregate growing rapidly in general and lending structure optimized somewhat. First, money supply grew fast. At end-December, outstanding broad money (M2) stood at 110.65 trillion yuan, a year-on-year increase of 13.6%; outstanding narrow money (M1) posted 33.73 trillion yuan, up 9.3% from a year earlier; and outstanding currency in circulation (M0) went up 7.1% year-on-year to 5.86 trillion yuan. Second, loans of financial institutions grew steadily. At end-December, outstanding RMB and foreign currency loans of all financial institutions registered 76.63 trillion yuan, rising 13.9% from last year. Outstanding RMB loans jumped 14.1% compared with last year, to 71.90 trillion yuan, while outstanding foreign currency loans amounted to $776.9 billion, gaining 13.7% compared with the prior year. Third, financial institutions saw a steady growth in deposits. At end-December, outstanding RMB and foreign currency deposits of all financial institutions (including foreign-funded financial institutions, the same below) added up to 107.05 trillion yuan, surging 13.5% year-on-year. Outstanding RMB deposits increased 13.8% from last year to 104.38 trillion yuan, while outstanding foreign currency deposits climbed 7.9% year-on-year, reaching $438.6 billion. Fourth, social financing continued to expand. According to preliminary statistics, social financing totaled 17.29 trillion yuan in 2013, 1.53 trillion yuan more than that during the same period of last year.

1.2.2.2 Financial reform continued to deepen

The Inter-Ministerial Joint Conference on Financial Regulatory Coordination was put in place. To further strengthen financial regulatory coordination to ensure sound performance of the financial sector, the State Council endorsed on August 15, 2013 the establishment of the Inter-Ministerial Joint Conference on Financial Regulatory Coordination led by the PBC. Members of the joint conference include the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), the China Insurance Regulatory Commission (CIRC) and the State Administration of Foreign Exchange (SAFE), and other relevant departments when necessary, such as the National Development and Reform Commission (NDRC) and the Ministry of Finance (MOF). Office of the joint conference is based in the PBC, responsible for day-to-day issues regarding financial regulatory coordination. This arrangement marks that China has made financial regulatory coordination institution-based, standardized and a day-to-day issue.

Market-based interest rate reform was advanced steadily. First, financial institutions' lending rates were liberalized across the board. On July 20, the lower limit on financial institutions' lending rates other than those on personal commercial mortgage loans was lifted, bill discount rates were liberalized, and in the mean time, there was no longer any upper limit on lending rates at rural credit cooperatives. Second, a self-regulatory mechanism for financial institutions to price market-based rates was put in place. On September 24, the meeting on the establishment of a self-regulatory pricing mechanism for market rates was convened. The mechanism aims to provide self-regulation on financial market rates, such as money market rates and credit market rates, which are set by financial institutions independently under the precondition of complying with national administrative rules and regulations on interest rates, in order to safeguard fair competition and promote regulated and sound financial market development. Third, centralized quote and publishing mechanism for the loan prime rate was established. On October 25, the loan prime rate (LPR) centralized quote and publishing mechanism formally entered into operation. On the basis of LPR quoted by panel banks independently, the authorized publisher calculates a weighted average of the quotes to produce the average LPR and release it to the general public. This mechanism will promote the smooth transition from the central bank-regulated pricing mechanism to a market-based one, strengthen financial institutions' autonomous pricing capacity, safeguard a fair pricing order on the credit market, improve the central bank's interest rate adjustment mechanism, and lay an institutional basis for furthering the market-based interest rate reform.

The RMB exchange rate regime was improved further. In 2013, the PBC continued to improve the RMB exchange rate regime in a self-initiated, controllable and gradual manner, focusing on making market supply the basis for adjustment with reference to a basket of currencies, in order to increase the RMB exchange rate flexibility and keep it basically stable at a reasonable and equilibrium level.

Reform of foreign exchange administration regime was deepened. First, RMB convertibility under the capital account was enhanced steadily. Foreign debt management was streamlined with powers delegated, while efforts were made to build up a foreign debt management framework centering upon foreign debt registration. Schemes of the Qualified Foreign Institutional Investors (QFII), RMB Qualified Foreign Institutional Investors (RQFII) and Qualified Domestic Institutional Investors (QDII) were promoted in a stable way, with relevant rules regarding RQFII quota management improved at the same time. Capital account information system was promoted extensively, the pilot program of small-value onshore lending against offshore guarantee was carried out, reform of cross-border guarantee in foreign exchange administration was pushed forward, and relevant procedures in foreign exchange management were simplified and specified. Second, trade and investment facilitation was further improved. Reform of foreign exchange management in service trade was expedited. In July, laws and regulations on foreign exchange management reform for service trade were released, announcing the reform effective on September 1, 2013. Facilitation policies for customs' special regulatory zones were rolled out to substantially streamline foreign exchange management procedures for current account transactions within the zone. Foreign exchange payments and receipts in cross-border e-commerce were launched on a trial basis in five places, including Beijing. Financial institutions' quotas of short-term foreign debt and foreign guarantee for financing purposes were increased by around

15%, with priorities given to central and western regions as well as small and medium-sized enterprises (SMEs). Authorization of personal currency exchange business was regulated and promoted, with support given to authorized personal currency exchange companies in the pilot sale of foreign currency traveler's cheques as an agent.

Financial opening up and innovation gained speed. In September, the State Council issued the *Overall Plan for China (Shanghai) Free Trade Pilot Zone*, clearly stipulating that conditions could be created for RMB capital account convertibility, financial market interest rate liberalization and RMB cross-border use in the pilot zone under the precondition of keeping risks under control. In December, the PBC published the *Opinions of the People's Bank of China on Providing Financial Support for the Development of China (Shanghai) Free Trade Pilot Zone*, adhered to the principle of promoting pilot program in a steady, proper and orderly way, while ensuring risks are controllable, and would promote reform agenda on a case-by-case basis and, whenever time is right, so as to ensure that the pilot reform could proceed in an orderly fashion.

1.2.2.3 Financial sector witnessed sound development

Financial sector in general developed in a steady and sound manner. Asset size of banking financial institutions expanded steadily amid persistently growing profitability. At end-2013, local and foreign currency-denominated assets of China's banking financial institutions totaled 151.4 trillion yuan, rising 13.3% year-on-year, while local and foreign currency liabilities jumped 13.0% from a year earlier to 141.2 trillion yuan. The full-year cumulative net profits of commercial banks added 14.5% compared with last year, reaching 1.42 trillion yuan. Outstanding non-performing loans (NPL) stood at 592.1 billion yuan, while the NPL ratio posted 1.0%. The weighted average core tier-one capital adequacy ratio of commercial banks (excluding foreign bank branches) was 9.95%, and weighted average capital adequacy ratio was 12.19%. The overall size of securities and futures institutions remained stable with improved profitability. According to data released by the Securities Association of China (SAC), as of end-2013, the total assets, net assets, and net capital of 115 securities companies were 2.08 trillion yuan,753.855 billion yuan and 520.458 billion yuan. The full-year operating revenue posted 159.241 billion yuan, and net profits were 44.021 billion yuan, with 104 companies making a profit, which took up 90.43% of the total. Total assets and the premium income of the insurance sector continued to grow steadily. In 2013, the cumulative premium income of the insurance sector registered 1.72 trillion yuan, in a year-on-year gain of 11.2%. Cumulative payments of claims and benefits surged 31.7% from last year to 621.29 billion yuan. Total assets of the insurance sector hit 8.29 trillion yuan, up 12.7% compared with the start of the year, while net assets went up 7% from the beginning of the year, reaching 847.465 billion yuan.

2. Major features of China's financial market performance in 2013

In 2013, China's financial market performance saw new economic circumstances, as major economies recovered in general, but there was some uncertainty in policies and development trends. China's economy still maintained growth and good prospects amid stability. During this process, financial market continued to keep steady growth momentum overall, and exhibited some patterns, including greater market volatility, faster market innovation, bigger progress in institution development and much stronger support for micro businesses and SMEs.

2.1 Trading size kept growing

In 2013, the overall size of trading on China's financial market continued to expand steadily. The turnover on all major sub-markets increased to varying degrees except for the decline in spot bond trade on bond market.

Trading volumes on money market, stock market, futures market and gold market continued to rise. In 2013, trading volume in money market, which included interbank funding, pledged repurchase agreements (repos) and outright repos, reached 193.68 trillion yuan, up 2.80% year-on-year. In 2013, trading on futures market reached 2.062 billion lots unilaterally, involving a total amount of 267.47 trillion yuan, adding 42.15% and 56.30% respectively compared with last year. Among it, trading of commodity futures hit 1.868 billion lots, totaling 126.47 trillion yuan, a year-on-year increase of 38.88% and 32.72% respectively. Trading of stock index and government bond futures was 194 million lots, with a total value of 141.01 trillion yuan, up 84.76% and 85.93% respectively from last year. In 2013, trading of gold products on the Shanghai Gold Exchange (SGE) reached 11.6 thousand tons cumulatively with a turnover of 3.21 trillion yuan, surging 82.90% and 42.60% respectively from a year earlier. In 2013, equity trading on both the Shanghai Stock Exchange and the Shenzhen Stock Exchange soared 49.0% compared with last year, totaling 46.88 trillion yuan. With regard to equity financing, funds raised through the A-share market on both exchanges amounted to 280.276 billion yuan, shedding 10.4% from the prior year.

Trading volume in the bond market declined somewhat, whereas size of bond custody continued to maintain a steady growth. Cumulative trading volume on the interbank bond market posted 41.61 trillion yuan, slashing 44.66% year-on-year, while total custody on the bond market hit 29.41 trillion yuan. Among it, total custody on the interbank bond market rose 11.61% year-on-year to 26.94 trillion yuan, accounting for 91.60% of total tradable bonds under custody.

2.2 Price momentum increased somewhat

Intraday money market rates made a record high, while the degree of interest rate fluctuations increased. Take the average daily rate of 7-day interbank funding for instance, it peaked at 12.25% on June 20, a record high that was 374 bps higher than the peak in 2012, with the full-year spread widening 335 bps year-on-year to 970 bps.

Bond price remained subdued at first and then went up amid bigger fluctuations throughout the year. From early 2013 to April, the interbank bond index measured by net price continued to edge up, started to fluctuate downwards since May, and dropped at a faster pace in mid-June, followed by a slight rebound. However, downward momentum amid fluctuations dominated the entire second half of the year. The index hit the highest of 116.811 points on May 20 and the lowest of 110.431 points on November 20, with the full-year spread being 6.38 points, much wider than 2.14 points in the corresponding period of last year.

Stock market tumbled amid somewhat bigger fluctuations compared with the same period of last year. In 2013, the A-share market continued the losing streak since 2011 by fluctuating downwards. Earlier in the year, the market witnessed a round of moderate gains with the Shanghai Composite Index and the Shenzhen Component Index peaking at 2,434.48 points and 10,057.97 points respectively in February. Afterwards, the indices retreated persistently and bottomed out at 1849.65 points and 7045.60 points on June 25, with the difference between the highest and lowest readings being 584.83 points and 3012.37 points respectively, higher than 518.61 points and 2917.42 points recorded in the same period of last year. At year-end, the Shanghai Composite Index and the Shenzhen Component Index closed at 2115.98 points and 8121.79 points respectively, losing 6.75% and 10.71% compared with the start of the year.

Gold price retreated from a high level. In 2013, gold price dropped continuously. Take Au99.99, the top performer in trading volume at the SGE, for example, as of end-December, its closing price was 236.46 yuan per gram, down 100.38 yuan per gram, or 29.80%, compared with the opening price of 336.84 yuan per gram on the first trading day of 2013, the first annual decrease in gold price since 2000. In terms of the range of gold price fluctuations, the spread between the highest and lowest gold prices was 126.66 in 2013, approximately three times that of 2012, which was 48.59.

Fluctuations bands of the central parity rate of the renminbi against major currencies widened substantially year-on-year. During the year, the central parity rate of CNY/MYR fluctuated by 626 bps, an increase of 317 bps from last year, HKD/CNY by 252 bps, up 93 bps year-on-year, JPY/CNY by 14214 bps, expanding 4,002 bps from a year earlier, EUR/CNY by 7,021 bps, 1,305 bps less than last year, GBP/CNY by 9,765 bps, up 3,687 bps from last year, AUD/CNY by 12,420 bps, rising 5,364 bps compared with the previous year, CNY/RUB by 6,865 bps, down 460 bps from a year earlier, and CAD/CNY by 6,768 bps, expanding 1,957 bps from the prior year.

2.3 Market innovation increased

2.3.1 Pilot program of credit asset securitization was further expanded

On July 2 2013, the State Council issued the *Guiding Opinions on Providing Financial Support for Economic Restructuring* as well as transformation and upgrading, requiring that efforts should be made to gradually promote the regulated development of credit asset securitization to mobilize funds for bolstering the development of micro businesses and economic restructuring. On August 28, the State Council held the meeting of the standing committee, deciding to further expand the pilot program of credit asset securitization on the basis of strictly controlling risks. Foreign financial market development history and domestic practices in credit asset securitization shows that credit asset securitization is the natural outcome of financial market development, which would promote the coordinated development of money market, credit market, bond market, stock market and the like, and improve financial market's efficiency in resource allocation. During the eight-year test run, fundamental institutions for credit asset securitization were established primarily, product issuance and trading proceeded stably, originators and investors became increasingly diversified, and steady progress was seen in all fronts with positive effects. Further expanding the pilot program of credit asset securitization is also an important reform measure that would encourage financial innovation and promote a multi-tiered capital market.

2.3.2 Number of financial products and means of transactions grew rapidly

In money market, first, the PBC launched interbank certificates of deposit, which are priced with reference to the Shanghai Interbank Offered Rate (Shibor). It has regulated the development of interbank certificates of deposit, expanded the financing channels available to banking depository financial institutions, and facilitated money market development. Second, the AliPay, an interbank payment company, partnered with a fund management company and launched Yu'E Bao, an innovative money market product, into which users could transfer the balance in the AliPay, and the money market fund would be purchased automatically.

In bond issuance market, structure of bond products was further improved, which better met the multi-tiered financing needs of different types of entities in real economy. Efforts were made to promote commercial banks to issue in the interbank bond market the first tier 2 capital bonds with a write-down clause. In case of a triggering event when banks would not remain as a going concern unless there is a write-down or recapitalization, the bond would see an immediate write-down or be converted into ordinary shares. The first SME exchangeable private placement bonds were issued. SMEs and micro businesses issue these bonds in a private way, repay principals with interest within the stipulated time, or exchange them for listed companies' shares held by the enterprise in accordance with agreed conditions. Issuers could enhance the creditworthiness of the bond through listed companies' shares that they hold. Wuhan Metro issued bonds with no specific maturities and the GD Power Development Co. Ltd. also issued its first medium-term perpetual renewalbe notes that could be renewed. The first micro loan company private placement bonds were issued on the Zhejiang Equities Exchange Centre, with funds raised mainly used to support agriculture, farmers and the rural area, and meet the financing needs of small and micro businesses with capitals less than 1 million yuan. The first non-listed securities company issued corporate bonds on the exchange market. On bond trading market, government bond exchange-traded funds (EFTs) were launched, first of its kind in China, bond hedging product made its debut, the first policy financial bond index fund was issued, pre-issuance of government bonds was kicked off on a trial basis, and the first Taobao internet bond fund was approved, providing more investment options for investors.

In stock market, first, stock pledged repos were made available. It expanded the scope of repos from less than 5% of tradable shares to all shareholders, and only requires the pledge of stocks without changing the ownership, which has broadened the scope of target clients. Second, securities lending was launched on a trial basis. Since 2012 when the pilot program of centralized securities lending & borrowing began, securities lending was officially launched on a trial basis on China's A-share market in 2013, which would improve the A-share market's one-sided pattern and play an active role in promoting stable capital market development in the long run.

In foreign exchange market, direct trading between the renminbi and the Australian dollar was initiated with market making available for direct trading of the Australian dollar. Throughout 2013, the CNY/AUD spot trade saw a turnover of 149.71 billion yuan, a year-on-year growth of 19.95 times, making the Australian dollar grow fastest among non-US dollar currencies, which has played a positive role in promoting bilateral trade and investment between China and Australia.

In futures market, first, futures products grew rapidly. In 2013, a total of eight new commodity futures were launched on China's commodity futures exchange, including coking coal, steam coal, petroleum asphalt, iron ore, eggs, japonica rice, fiberboard and plywood, bringing the total number of commodity futures to 38. Five-year government bonds were newly added to the financial futures exchange, after which two financial futures products were available for trading, which further improved the product series. Second, type of futures institutions was further diversified. Since 2013, according to the *Guidance on the Pilot Program of Allowing Futures Companies to Establish Subsidiaries with Risk Management Services as the Principal Business* issued by the China Futures Association in February, a total of 17 futures companies were given the green light to set up risk management subsidiaries as of the third quarter to offer primarily risk management services on a trial basis. Third, business innovation in the futures sector was steadily pushed forward. In line with the revised Administrative Rules on Securities Investment Funds Sale, futures companies could sell securities investment funds, starting from June 2013. China Futures became the first futures company that was qualified for selling funds as an agent. Following such innovative businesses as futures investment consultancy and asset management, funds sale was another example of innovation in the futures sector.

2.3.3 Market diversified

Development of regional private equity market was manifold. Regional equity market in general showed a fast growing momentum. It came after the *12th Five-Year Plan* for the financial sector proposed to accelerate the development of a multi-tiered capital market in China. As of end-2013, the number of regional equity markets that officially started operation in China exceeded 19, with the number of listed enterprises adding up to over 5,500, more than two times the total number of listed companies on the main board.

Nationwide equity transfer system was built up gradually. National Equities Exchange and Quotations Co. Ltd. was officially set up with the establishment of national SME equity exchange and quotation system. Starting to accept listing applications submitted by eligible enterprises from December 2013, the system highlighted the market-based concept. In the meantime, it is stipulated that enterprises listed on the system could apply to the stock exchange directly for listed trading when they meet conditions for stock listing, and enterprises engaged in non-public equity transfer on regional equity markets could apply for listing on the national SME equity exchange and quotation system and thus transfer equities publicly if they meet listing requirements.

Cross-market business grew fast. First, securities companies and funds could manage insurance funds as trustees. Second, business scope for cross-market investment with insurance funds was further broadened. In 2013, investment in financial market with insurance funds was expanded to securities lending and margin trading as well as domestic and overseas financial derivatives trading. With regard to the direction of flows, insurance funds could be invested in collective asset management schemes originated by securities companies, collective fund trust schemes by trust companies, and credit asset-backed securities and profit-secured wealth management products offered by commercial banks. Third, the market for trading products offered by different types of financial institutions took shape. In 2013, the quotation and service system for privately placed products among financial institutions was launched. The inter-financial institution product trading market will speed up the interconnectedness of the over-the-counter (OTC) market among securities companies. Going forward, securities companies could explore the interconnectedness of all types of OTC markets and get banking, securities and trust product markets connected.

Internet finance explored new business patterns. The cooperation between the internet companies and their counterparts in the financial sector is increasingly frequent, and internet securities products also made debut.

2.4 Operation mechanism was improved increasingly

2.4.1 Issuance institutions were strengthened

As of bond issuance, first, issue by tender was advocated. The PBC offered guidance to the Shanghai Clearing House (SCH) in developing bond open tender system, studied ways to lower the threshold for enterprises to access the tender system, guided financial bond issuers to issue by tender, and published the *Administrative Rules on Private Placement of Financial Bonds* (Document No. 23 of the PBC Financial Market Department in 2013). Second, the PBC offered guidance to the National Association of Financial Market Institutional Investors (NAFMII) in regulating the book-keeping and filing process in issuing non-financial enterprise debt financing instruments, and endorsed through file-keeping the *Guidelines on Book-Keeping and Filing in Issuing Non-Financial Enterprise Debt Financing Instruments*, which was submitted by the NAFMII. Third, the PBC took the lead in setting up an analysis group to monitor and analyze the interest rate differentials between the primary and secondary markets and turnover rates for new issues. Fourth, the NDRC issued a range of notices in 2013 to strengthen the function and role of issuers, intermediaries and the provincial development and reform commissions in the approval of enterprise bonds so as to tighten risk prevention. Fifth, the MOF released jointly with the PBC and the CSRC the notice on launching the pre-issuance of government bonds on a trial basis and chose the 7-year government bonds as the first batch of pilot bonds. Sixth, the PBC and relevant authorities jointly promoted the issuance of 30 billion yuan policy financial bonds by the China Development Bank (CDB) on the exchange market, which boosted the interconnectedness between the exchange and the OTC markets. Seventh, the CIRC unveiled relevant regulations to officially allow insurance group (or shareholding) companies to issue subordinated debts.

In stock issues, the fourth round of initial public offering (IPO) regime reform kicked off to explore autonomous rights issue by securities companies. In 2013, the CSRC published the *Opinions on Further Promoting Initial Public Offering Regime Reform and revised the Administrative Rules on Securities Issuance and Underwriting* to meet the requirements of IPO reform. This round of IPO regime reform witnessed fully market-based reform proposals regarding all parties involved in and the entire procedures of the IPO.

2.4.2 Market trading institutions were optimized

Regulation of bond market activity was further strengthened. The PBC published a range of rules and regulations to strengthen the regularity and regulation of interbank bond market activities. First, it was required that all bond transactions on the interbank market should be concluded via the system of the National Interbank Funding Center, and transactions could not be canceled or changed once done. Settlements of transaction on the interbank bond market were further regulated. All this had protected investors' legal rights and interests. Second, the settlement rule of delivery-versus-payment was enhanced on the interbank bond market. Market players were asked to further improve internal control mechanism, clarify job responsibilities, and standardize operational process to better prevent market risk and boost market efficiency. Third, guidance was offered to the NAFMII in issuing regularity guidance, self-regulation guidance and tables for information disclosure, and in regulating as well as constraining the book-keeping, filing, credit rating and information disclosure during the duration of non-financial enterprise debt financing instruments issued on the interbank bond market.

Efforts were made to regulate the OTC financial derivatives business of securities companies. The SAC spelt out regulations on business qualifications for securities companies to launch financial derivatives trading, management of counterparties, risk management and file-keeping in financial derivatives trading by securities companies, and information reporting requirements.

Differentiated treatment of merger and acquisition (M&A) was officially adopted. The CSRC announced in 2013 that, in line with the principle of merging after separation, one-vote veto and differentiated approval, the stock exchange, the securities regulatory bureau, the SAC and the financial adviser would evaluate respectively the compliance of listed companies, the professional capacity of intermediaries as well as the industrial policy and types of transactions, and based on the summary evaluation outcome, M&A applications would fall into three different approval channels, namely, exemption/fast, normal and prudential.

Regularity and regulation of cross-market products were tightened. With the sustained growth of cross-market products, relevant regulators strengthened regulation of cross-market products, clearly specifying prohibited behaviors of securities companies in conducting bank-securities cooperative business, which mainly included no fund pooling, and no investment in high-polluting, high energy-consuming and prohibited industries or for the purpose of transferring profits. At the same time, it was stressed that innovation should strictly safeguard the bottom line of no systemic or regional financial risks and attention should be given to potential risks in innovative businesses such as asset management.

2.4.3 Direction of investment by banks' wealth management products was regulated

The CBRC issued a notice on regulating the direction of investment by banks' wealth management products. First, each wealth management product created by commercial banks should be aligned with invested assets. Second, commercial banks should appropriately control the total amount of wealth management funds invested in non-standardized debt assets and the proportion was stipulated for investing wealth management funds in non-standardized debt assets, including credit assets, trust loans, entrusted claims, acceptance bills, letter of credit, receivable accounts, various asset's beneficiary right and equity financing with a repo clause.

2.4.4 Infrastructure development was reinforced

First, quotation on request was introduced in spot bond trading in the interbank bond market, which diversified market makers' means of market making, and would help further increase bond market liquidity. Second, local-foreign currency swap curve was unveiled on the interbank foreign exchange market, which further improved the benchmark system on the interbank foreign exchange market. The publishing of the curve would promote the liquidity in the currency swap market and enhance the role of market in price discovery. Third, transaction confirmation was introduced into the interbank foreign exchange market on a pilot basis, which effectively increased transaction efficiency and improved straight-through processing, and lowered institutions' operational risk.

2.5 Functions of supporting the real economy were enhanced continuously

2.5.1 Financial markets better met the financing needs of SMEs and micro businesses

Bill market continued its strong support for real economy. In 2013, enterprises issued cumulatively 20.3 trillion yuan of commercial bills of exchange, surging 13.3% year-on-year. End-of-period outstanding commercial bills of exchange stood at 9.0 trillion yuan, up 8.3% from last year. At year-end, balance of bill acceptance grew 0.78 trillion yuan compared with the start of the year, accounting for 4.5% of total social financing. In 2013, financial institutions discounted 45.7 trillion yuan of bills cumulatively, soaring 44.3% from a year earlier. Bill market continued to perform well in shoring up SMEs.

Issuance of financial bonds targeting small and micro businesses rose substantially. In 2013, relevant regulatory authorities stipulated that for banking financial institutions that were allowed to issue this special type of financial bonds, loans to small and micro businesses that were in line with these bonds were deductible from the numerator during the calculation of small and micro business-adjusted loan-to-deposit ratio. Supported by this policy, the issuance of financial bonds by commercial banks to raising funds for loans to small and micro businesses went up tremendously. In 2013, a total of 21 commercial banks issued this special type of financial bonds to the tune of 110 billion yuan to support specifically small and micro businesses.

Bond issues by small and micro businesses jumped markedly. In 2013, a total of 100 enterprises issued 35 issues of SME collective notes and regional promising SME collective notes on the interbank bond market, raising 6.639 billion yuan. The exchange market witnessed a total of 31.07 billion yuan in SME private placement bonds throughout the year, which effectively bolstered the operation and development of SMEs.

2.5.2 Futures market was given a bigger role in price discovery and risk management

First, continuous trading of major products on international futures market was launched. In 2013, the Shanghai Futures Exchange introduced continuous trading of gold, silver, copper, aluminum, zinc and lead. It would help make China's domestic commodity futures market more internationalized and provide the real economy with a better tool for discovering prices and managing risks.

Second, the support by futures market to national economy was expanded persistently both in depth and width. In 2013, a total 9 futures products were made available on China's futures market, covering several important aspects of China's economic development and people's lives, which enabled the futures market to effectively provide services to the real economy.

2.5.3 Bond market played a bigger role in improving people's livelihood

To effectively improve housing conditions for people living in difficulties, the Central Committee of the Communist Party of China (CPC) and the State Council always attach great importance to the development of social housing in urban areas and require the bond market to provide financial support for eligible development projects. In the light of relevant requirements, the PBC actively offered guidance to the interbank bond market in carrying out related requirements. As of end-2013, enterprises involved in social housing issued cumulatively 51.5 billion yuan of debt financing instruments on the interbank bond market, such as medium-term notes and asset-backed notes, supporting the construction of 297 thousand units of social housing. In 2013, the State Council unveiled opinions on speeding up the renovation of shanty towns. Authorities concerned also effectively beefed up financial support for renovating shanty towns according to relevant requirements. The NDRC announced that enterprises undertaking construction projects included in renovation programs and the annual plan of shanty town renovation could apply for issuing enterprise bonds to finance shanty town renovation projects. When approved, issuers could issue enterprise bonds and use raised funds which would not exceed 70% of the total investment in the project. Funds raised for a particular purpose must be used accordingly.

2.6 Opening up continued to proceed steadily

Investment and financial liberalization was launched on a pilot basis in the Shanghai Free Trade Zone. In 2013, the Shanghai Free Trade Zone was officially set up, becoming the pilot zone for a fresh round of reform in China facilitated by opening up. According to the guidelines of the CPC Central Committee and the State Council, the PBC published the overall opinion on financial market development, which mainly includes the following aspects: first, Chinese and foreign-funded enterprises, non-bank financial institutions and other economic agencies could borrow on domestic and foreign markets in stipulated form; second, attempts were made to introduce trading of international financial assets within the free trade zone, allowing eligible individuals, financial enterprises and non-financial enterprises within the free trade zone to invest in basic financial products available in the zone or overseas financial market, and hedge against risks in line with relevant regulations. Other regulatory authorities also announced their respective guiding opinions on financial market development, mainly including: financial institutions and individuals in the free trade zone could conduct investments and transactions on Shanghai-based securities and futures exchange according to relevant regulations; support was given to financial institutions in setting up agencies in the free trade zone and advancing business innovation in line with regulations.

Interbank bond market was opened up increasingly. With regard to inviting foreign participation, first, efforts were made to promote the issuance of non-financial enterprise debt financing instruments by overseas enterprises in domestic market. Guidance was offered to the NAFMII in launching the issuance of RMB debt financing instruments by overseas non-financial enterprises on the interbank bond market through institution innovation regarding bond issuance and management of funds raised. In December 2013, the Daimler AG had already registered with the NAFMII a 5-billion-yuan quota of RMB non-financial enterprise debt financing instruments. Second, type of overseas institutional investors was further diversified. In 2013, another 38 overseas institutions were granted access to China's interbank bond market, after which the number of overseas institutions making investments in China's interbank bond market totaled 138 for the time being. As the renminbi overtook the euro, becoming world's second largest trade financing currency, its status as an international reserve currency was improved gradually, and the demand of overseas institutions for investing in RMB bond market also grew continuously. Investment quota and scope for overseas funds continued to expand.

As of end-2013, China approved a total of 251 QFIIs, jumping 19.92% from a year earlier, with the cumulative authorized quota surging 10.44% year-on-year to about $49.51 billion; the number of approved RQFIIs soared 50% compared with last year, totaling 56, with the cumulative investment quota rising 15.62% from last year to about 157.5 billion yuan. With regard to going global, the Industrial and Commercial Bank of China issued 2 billion yuan of RMB bonds in London on a trial basis, becoming the first domestic financial institution to issue RMB bonds on an overseas market other than Hong Kong, which continuously expanded the frontier of the RMB bond market. As of end-2013, a total of 116 institutions were approved as QDIIs, adding 6.90% from last year, with the cumulative investment quota advancing 5.56% year-on-year to about $84.232 billion.

During the opening up of the securities sector, the share of foreign fund participation in securities companies through stock purchase was increased to 49%. Overseas M&A by futures companies made an important step. In July 2013, the Guang Fa Futures Hong Kong, a subsidiary wholly owned by the Guang Fa Futures, acquired a 100% stake in the British NCM Limited, a company held by Natixis (France), pioneering among futures firms owned by Chinese shareholders to conduct overseas M&A.

3. Outlook on China's financial market development in 2014

In 2014, the world economy will continue its slow recovery, but unstable and uncertain factors will remain. China will continue to adopt proactive fiscal policy and sound monetary policy. At this critical juncture when reforms dive into deep waters, the Third Plenary Session of 18th CPC Central Committee rolled out important arrangements. With regard to the financial sector that shoulders the important task of promoting economic transformation, the Third Plenary Session of 18th CPC Central Committee outlined the requirement of "improving financial market system", requiring that the future financial system should be able to help resolve structural conflicts in Chinese economy in a more market-based manner. Economic transformation makes it more urgent to transform financial system. During the first year of broadly deepening reform, previous reform and regulation measures will continue to be implemented, while new reform measures will also be announced one after another by adapting to economic development needs. Opening up drive represented by the establishment of the Shanghai Free Trade Zone will also continue to proceed.

Against this backdrop, in terms of development strategy, China's financial market will continue to center upon development, turn innovation into driving force, regard supporting real economic development as its mission, and make innovation of financial market institutions, organization, products and service patterns the center of development. Equal weight will be given to development and regulation with focus unchanged, which is to promote a financial market system that is fully functional, multi-tiered, transparent and regulated, sound and highly efficient, as well as open and inclusive.

In terms of development function, financial market will guide and support banking financial institutions to prop up key sectors, such as key infrastructure development, strategic emerging industries, science and technology as well as culture, modern service industry and new type of urbanization, through mobilizing credit stock and optimizing new credit, and scale down significant excess capacity while eliminating outdated capacity.

In terms of what and how to develop, China's financial market products, trading patterns, market players and the like will continue to witness innovation and growth. Market-based reform will further gain speed, covering pricing mechanism for financial products, market access and operation of financial institutions, regularity of market behaviors, and diversification of financial products. The development and refinement of a multi-tiered financial market system will promote the smooth flow of financial resources to different sectors of the economy, and further improve the efficiency in providing financial support for real economy.

Part II Money Market

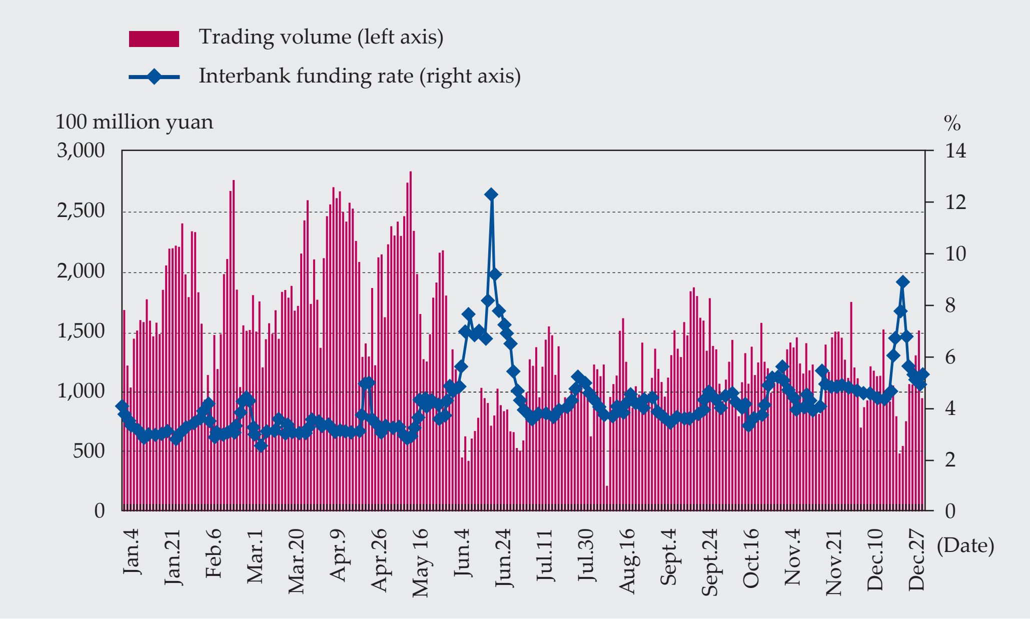
In 2013, the money market's scale maintained stable growth momentum with interest rate climbing up on the whole. In particular, the interbank funding market enjoyed stable performance and the trading of non-bank financial institutions grew increasingly brisker. Growth of the bond repo market decelerated and interest rate crawled up. The short-term financing bill market witnessed sound operation with continuously expanding issuance volume and declining spot transactions. The growth rate of bill acceptance businesses descended, featuring declining bill financing scale and substantially expanding electronic bill businesses.

1. Interbank funding market

1.1 Performance of interbank funding market

In 2013, the cumulative turnover of the interbank funding market reached 35.52 trillion yuan with an average daily turnover of 142.076 billion yuan, decreasing 23.70% as compared with 2012. The weighted average interbank funding rate[1] was 4.17%, 63 basis points (bps) higher than 2012. The maximum and minimum rates were 12.25% on June 20 and 2.55% on March 8, 374 bps and 39 bps higher than those of 2012 respectively. The annual

Figure 2.1 Turnover and Interest Rates of the Interbank Funding Market in 2013



Source: National Interbank Funding Center.

1 The funding rate mentioned in this part all refers to the typical 7-day rate unless indicated otherwise.

spread was 970 bps, 335 bps higher than that of 2012.

In terms of the movement of the interbank funding rate, the rate fluctuated upwards across the year with obvious seasonal characteristics. The interbank funding rate underwent a substantial increase at the middle of the year and year-end, while holiday seasons witnessed volatilities of the rate. On the whole, the rate experienced larger fluctuation range and greater fluctuation frequency as compared with the years before.

In 2013, most of the interbank funding transactions remained short-term. Transactions within 7 days took a lion's market share of 93.93%, 1.3 percentage points lower as compared with the previous year. In particular, overnight trading represented 81.54% of the overall market transactions, a modest decline of 4.71 percentage points as compared with 2012. The volume of transactions with a term of three months and plus posted 0.85% of the overall market transactions, up 0.16 percentage points over the previous year.

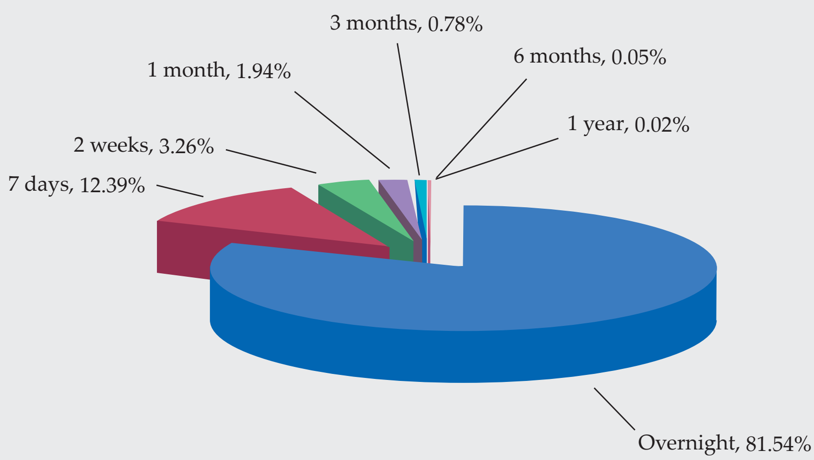
In 2013, banking institutions still dominated the interbank funding market. Specifically, joint-stock commercial banks, big-four state-owned commercial banks and urban commercial banks took up 38.88%, 11.02% and 11.80% of the overall market trading volume respectively. The above-mentioned institutions represented a market share of 87.95% accumulatively, down 3.24 percentage points as compared with the previous year. The trading volume of non-bank institutions represented 12.05% of the whole market. In particular, securities companies and finance companies of conglomerates were also active market participants, taking up a market share of 6.02% and 4.34% respectively.

1.2 Main features of interbank funding market performance

1.2.1 Interbank funding rate witnessed noticeably seasonal climb-up with wider fluctuation band

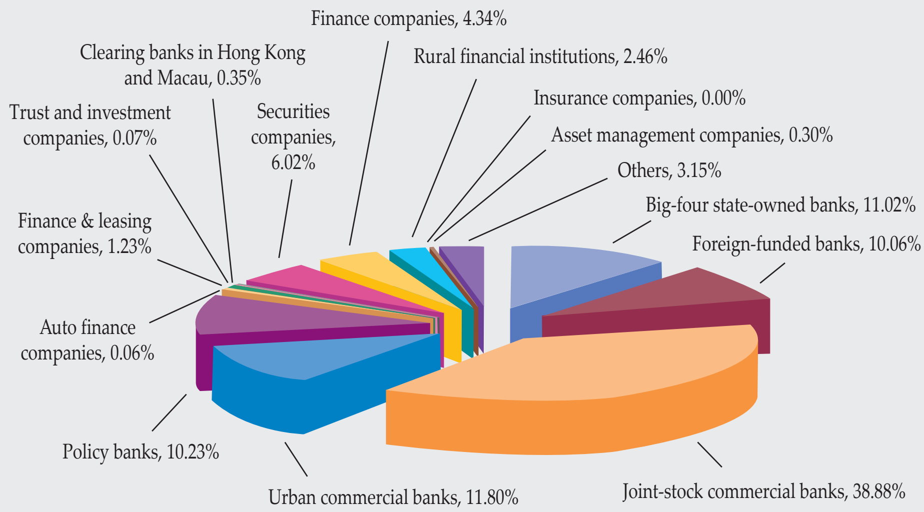
In recent years, due to the seasonal fluctuations of funds held by financial institutions and the

Figure 2.2 Terms of Interbank Funding Market Transactions in 2013



Source: National Interbank Funding Center.

Figure 2.3 Interbank Funding Market Participants in 2013



Note: "Others" includes Postal Savings Bank of China and China Bond Insurance Co., Ltd.
Source: National Interbank Funding Center.

short-term shocks of market liquidity during holiday seasons, the interbank funding rate was featured by obvious seasonal characteristics, i.e. the rate climbed up at the quarter-ends and fluctuated sharply before and after the holidays. In 2013, external shockings exerted noteworthy influence on the interbank funding rate, driving up its volatility band and frequency. The rate skyrocketed over 400 bps twice over the year and saw a volatility of over 100 bps on a frequent basis.

In June 2013, the cumulative effects of the exit expectation of the Fed's quantitative easing policies, supplementary payment of required reserves, payment of taxes and intensive issuance of regulatory policies, together with the lack of capabilities of financial institutions in liquidity risk control and assets and liabilities management drove up the interbank funding rate sharply. The 7-day interbank funding rate skyrocketed from 4.71% on June 3 to 12.25% on June 25, a wide increase of 754 bps, the largest increase since the adjustment of administrative rules on the interbank funding market in 2007. At the year-end, the added-up effects of growing demand for fund during the turning of the year, the centralized payment of required reserves and the intensified expectation for the exit of the Fed's quantitative easing policies pushed the 7-day weighted daily average funding rate to 8.84% on December 23 from 4.64% on December 17, up 420 bps. Moreover, seasonal climb-ups of the rate were also noticeably spotted on the eves of the Spring Festival and the May Day Holiday as well as at the end of October, when the rate sharply grew up by approximately 200 bps.

1.2.2 Trading volume saw a substantial decline

In 2013, the trading volume of the interbank funding market declined after an initial climb-up. The market enjoyed stable performance and brisk trading in the first five months of the year, with a monthly trading volume of 4 trillion yuan, leveling off with that of the same period of the previous year. In June, the short-term fluctuation of the market rate pushed down the monthly trading volume to 1.6 trillion yuan, which lingered around at a low level after a follow-up rebound. Generally speaking, the annual trading volume of the interbank funding market decreased by 23.94% year-on-year, the first decline since it started to expand acceleratingly eight years ago.

1.2.3 Fund flow redirected and the big-four state-owned commercial banks transformed into net borrowers

In 2013, fund flow of the interbank funding market was different as compared with the previous year. The big-four state-owned commercial banks transformed into net borrowers, while clearing banks in Hong Kong and Macao became net lenders. Specifically, policy banks, joint-stock commercial banks, clearing banks in Hong Kong and Macao, finance & leasing companies as well as asset management companies were market borrowers. The big-four state-owned commercial banks, urban commercial banks, rural financial institutions and other non-bank financial institutions composed market lenders.

In terms of the market lenders, policy banks were the largest lenders with a cumulative annual net lending of 5.64 trillion yuan, a year-on-year increase of 32.25%. Policy banks constituted a market share of 54.64%, up 17.67 percentage points over 2012. Joint-stock commercial banks were the second largest market lenders and contributed an annual net lending of 3.17 trillion yuan accumulatively, a sharp decline of 41.14% as compared with the previous year. The market share of joint-stock commercial banks dropped by 16.03 percentage points to 30.74% of the whole market.

As for the market borrowers, securities companies were the largest borrowers with an annual net borrowing of 4.01 trillion yuan,an increase of 10.56% over that of 2012, taking up a market share of 38.85%, 7.38 percentage points higher over 2012. Urban commercial banks and finance companies of conglomerates contributed a net borrowing of 3.12 trillion yuan and 2.26 trillion yuan respectively, representing 30.23% and 21.92% of the market respectively. Besides, the big-four state-owned commercial banks transformed into net borrowers with a cumulative annual net borrowing of 192.469 billion yuan, taking up a market share of 1.86%.

1.2.4 Non-bank financial institutions became more active market participants

In recent years, non-bank financial institutions were more actively involved in the interbank funding market with ever-increasingly brisker trading. In 2013, non-bank institutions contributed a cumulative trading volume of 8.56 trillion yuan, taking up a market share of 12.05%, a year-on-year increase of 3.24 percentage points. The trading volume of all the non-bank financial institutions witnessed a growth across the year. In particular, trading volume of securities companies and finance companies of conglomerates grew most dramatically, jumping from 4.11% and 3.69% in the pervious year to 6.02% and 4.34% in 2013 respectively, a growth of 1.91 and 0.65 percentage points respectively. Moreover, due to the China Insurance Regulatory Commission's (CIRC's) policy of expanding the investment channels of insurance funds, insurance companies started to take part in the interbank funding market and altogether contributed an annual trading volume of 2.521 billion yuan.

1.3 Outlook for interbank funding market

In recent years, against the backdrop of perplexing economic and financial situations both at home and abroad and growing uncertainty of global capital flow, with the acceleration of interest rate liberalization, financial institutions are faced up with ever-increasing challenges in liquidity management, calling for the market's function of liquidity management to be brought into full play. Moreover, with the expanding market size and diversified market participants, the market structure will undergo further optimization.

2. Bond repo market

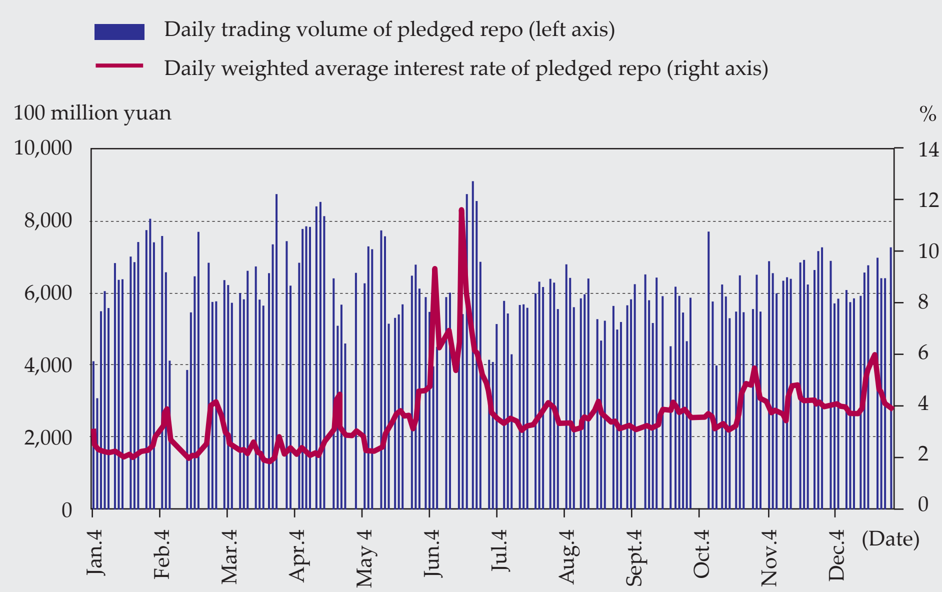
In 2013, the trading size of the bond repo market maintained growth momentum. Generally speaking, the market grew deceleratingly, average transaction terms prolonged and the repo rate climbed up. The importance of central bank bills as the underlying assets of bond repo transactions was diminishing. State-owned commercial banks and policy banks were net lenders of the market.

2.1 Performance of bond repo market

In 2013, the cumulative turnover of the repo transactions on the interbank bond market hit 158.16 trillion yuan, a year-on-year increase of 11.61%. In particular, the cumulative turnover of the pledged repo grew 11.24% to 151.98 trillion yuan while the cumulative turnover of the outright repo reached 6.19 trillion yuan, an increase of 21.42% over that of 2012.

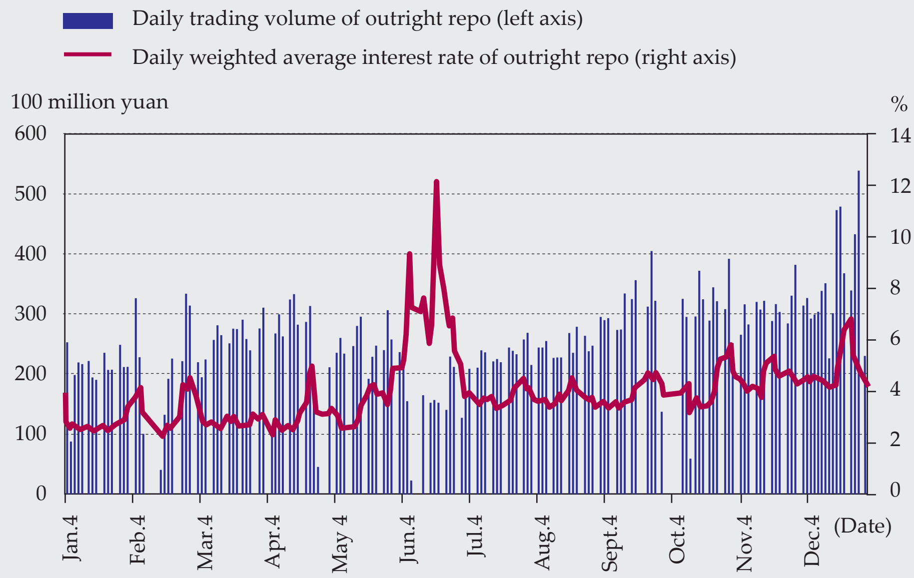
In 2013, the repo rate witnessed sharper fluctuation. The weighted average interest rate of the pledged repo climbed up 63 bps year-on-year to 3.54%. The maximum and minimum rates reached 11.57% on June 20 and 1.90% on March 25 respectively with an annual spread of 967 bps. The weighted average interest rate of the outright repo grew 75 bps from 2012 to 3.96% with an annual spread of 976 bps. In 2013, the interest rate of the

Figure 2.4 The Turnover and Interest Rates of the Pledged Repo in 2013



Source: www.chinamoney.com.cn.

Figure 2.5 The Turnover and Interest Rates of the Outright Repo in 2013



Source: www.chinamoney.com.cn.

pledged repo maintained the same movement trend with that of the outright repo. Generally speaking, the market rate was higher than that of 2012.

2.2 Main features of bond repo market

2.2.1 Growth of the market size of the bond repo market decelerated

In 2013, turnover of the interbank bond repo market increased by 11.61%, 30.87 percentage points lower than the growth rate of the previous year, the lowest growth rate since 2005.

2.2.2 Maturity of bond repo transactions lengthened

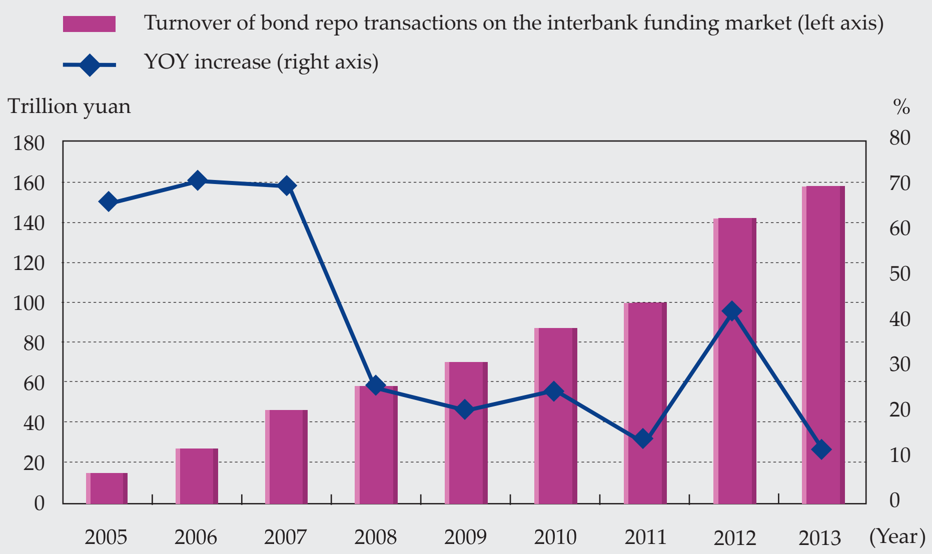
In terms of the term structure, less-than-7-day products accounted for 92.01% of the overall pledged repo transactions, 1.79 percentage points lower than that of 2012. Specifically, overnight products continued to trade briskly with an annual turnover of 120.17 trillion yuan, 79.07% of the total and 2.13 percentage points lower than that of 2012. 7-day products represented 12.94% of the total, up 0.34 percentage points over that of the previous year. 14-day-and-plus products saw a modest increase in market share, with the proportion of the turnover of 14-day products and 21-day-and-plus products posting 4.26% and 3.73% of the overall pledged repo transactions respectively, up 0.79 percentage points and 1 percentage point over that of 2012 respectively.

The maturity of outright repo transactions prolonged after shortening in the previous year. Less-than-7-day products took up 83.03% of the total outright repo transactions, declining by 4.31 percentage points over 2012.

2.2.3 Distribution of underlying assets for bond repo transactions underwent drastic change

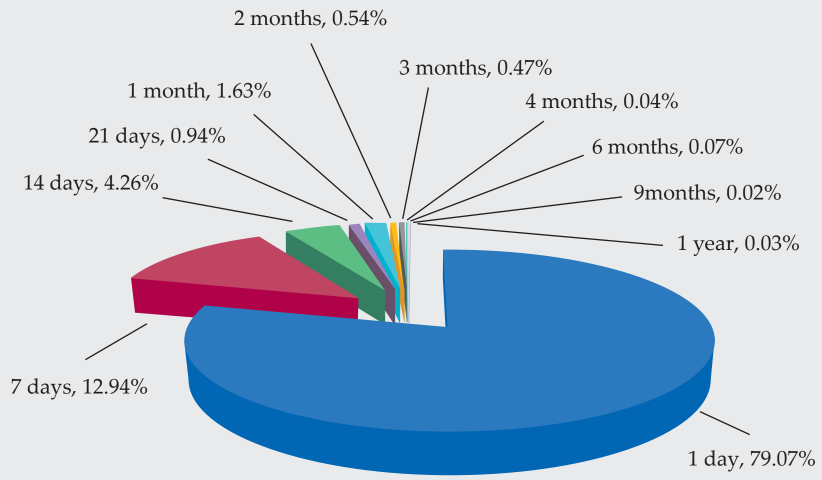
In 2013, treasury bonds, central bank bills and policy financial bonds accounted for 77.97% of

Figure 2.6 Market Size and Growth Rate of the Bond Repo Market, 2005—2013



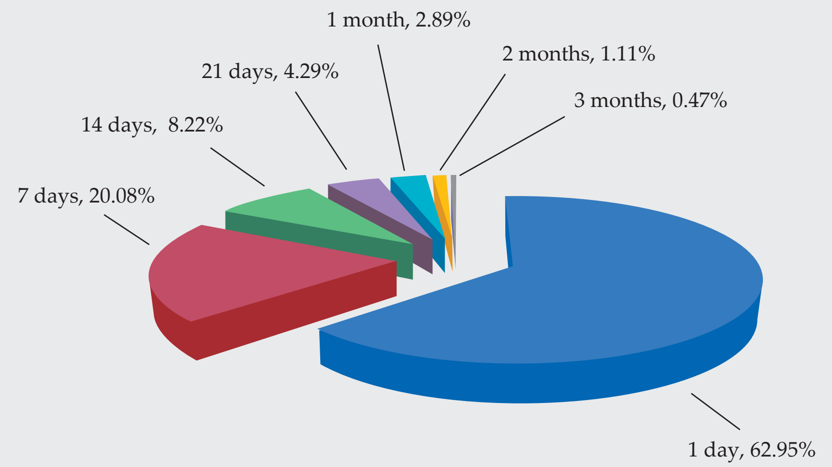
Source: www.chinamoney.com.cn.

Figure 2.7 Term Structure of Pledged Bond Repo Transactions in 2013



Source: www.chinamoney.com.cn.

Figure 2.8 Term Structure of Outright Bond Repo Transactions in 2013



Source: www.chinamoney.com.cn.

the underlying bonds for pledged repo, up 0.25 percentage points over that of 2012. Specifically, the proportion of central bank bills as underlying assets for repo transactions decreased drastically from 10.25% in 2012 to 4.11%, maintaining the declining trend that started from 2009, whereas the proportion of treasury bonds grew from 31.25% in the previous year to 37.70%, up 6.45 percentage points over 2012. Besides, the proportion of short-term financing bills, super short-term financing bills, mid-term notes, collection notes and corporate bonds increased to 16.66% altogether, 1.59 percentage points lower than that of 2012.

In 2013, the added-up proportion of treasury bonds, central bank bills and policy financial bonds for outright repo transactions decreased from 53.73% in 2012 to 45.16%. Specifically, the proportion of policy financial bonds and central bank bills as underlying bonds of outright repo transactions declined from 41.96% and 4.13% in 2012 to 36.05%, and 0.25%, down 5.91 and 3.88 percentage points over that of the previous year respectively, whereas that of short-term financing bills, super short-term financing bills, mid-term notes, collection notes and corporate bonds grew from 42.21% in 2012 to 49.28%, 7.07 percentage points higher than that of 2012. In particular, the trading volume of corporate bonds as underlying bonds for outright repo transactions witnessed a substantial increase, growing from 19.24% in 2012 to 24.83%, up 5.59 percentage points.

2.2.4 State-owned commercial banks and policy banks took a larger share in the repo market as net lenders

In terms of the fund flow of the repo market in 2013, the top three borrowers were urban commercial banks (including urban credit cooperatives), joint-stock commercial banks, rural commercial banks and rural cooperative banks with a turnover of repo transactions of 45.26 trillion yuan, 24.02 trillion yuan and 20.61 trillion yuan respectively and accounted for 28.62%, 15.19% and 13.03% of the market respectively.

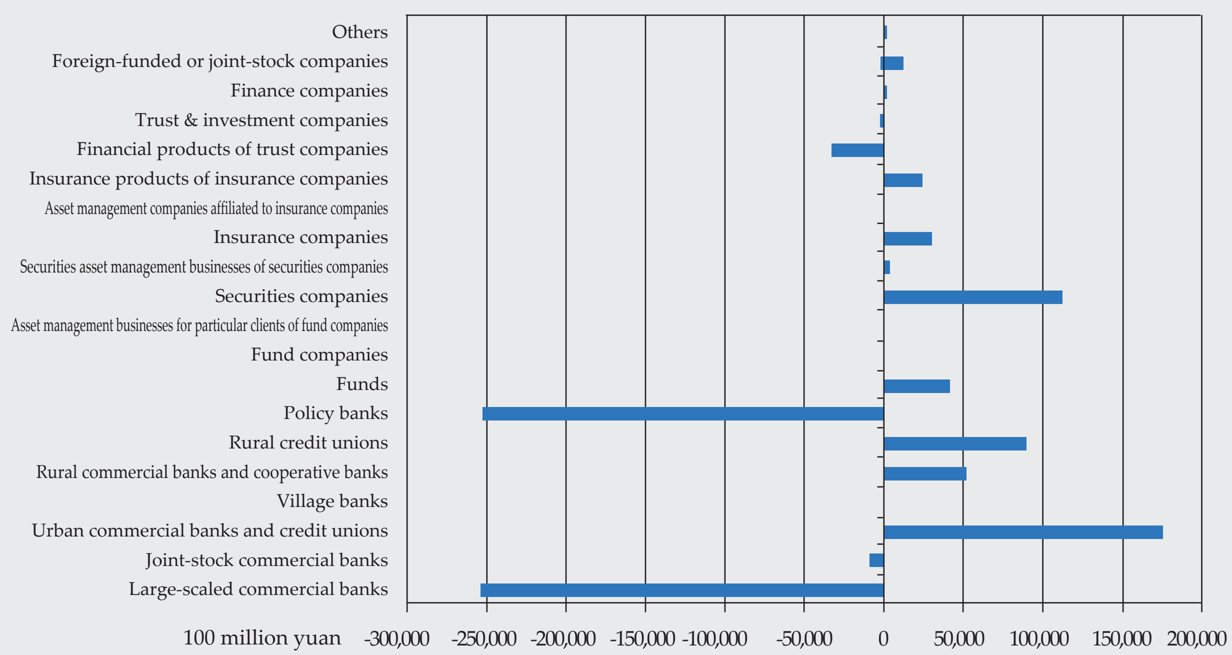
State-owned commercial banks, urban commercial banks (including urban credit unions) and policy banks were the top three lenders, which contributed a reverse repo turnover of 38.92 trillion yuan, 27.71 trillion yuan and 25.54 trillion yuan respectively, representing a market share of 24.61%, 17.52% and 16.14% respectively.

As for the net fund flow, the top three lenders were state-owned commercial banks, policy banks and the financial products of trust companies, which contributed a net lending of 25.34 trillion yuan, 25.26 trillion yuan and 3.25 trillion yuan respectively, whereas urban commercial banks (including urban credit unions), securities companies and rural credit unions made the top three market borrowers with a net borrowing of 17.56 trillion yuan, 11.30 trillion yuan and 8.99 trillion yuan respectively.

2.2.5 The repo rate and the interbank funding rate were highly synchronized

In 2013, the correlation coefficient between the daily weighted average rate of pledged repo and the interbank funding rate was 0.9946. The repo rate and the funding rate were highly synchronized in movement. In terms of the spread, the average spread of the two rates[1] was 7 bps, 2 bps higher than that of the previous year. The daily weighted average rate was lower than

Figure 2.9 Turnovers of Institutional Investors on the Bond Repo Market in 2013



Note: The numbers illustrated in the figure were net turnovers, which equal to the turnovers of repo transactions minus those of reverse repo transactions.

Source: www.chinamoney.com.cn.

1

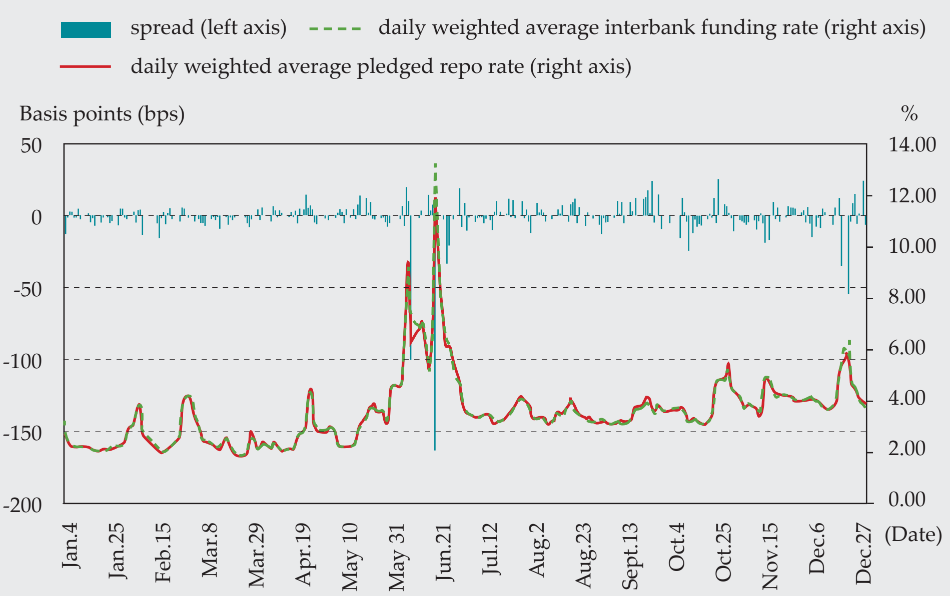
10bps in 81.60% of the 250 trading days across the year. The spread reached its annual maximum of 162 bps on June 20 when the money market rate witnessed sharp fluctuation.

2.3 Perspectives on the future development of the bond repo market

In recent years, the interbank bond repo market made great stride forward with expanding market size, diversifying market participants and enriched transactions and underlying bonds, playing an ever-increasingly important role in monetary policy adjustment, asset and liability management of financial institutions and financing channel expansion of market players. In 2013, the trading volume of bond repo transactions was 3.8 times that of spot trading on the interbank market and 14.5 times more than the trading volume of bond repo transaction in 2002. Moreover, the repo rate has become an important yardstick for the formation of the interbank funding rate and a key reference for short-term rate on the money market. For the year of 2013, the trading volume of interest rate swap transactions with the 7-day repo rate as the reference rate accounted for 65.32% of the whole. Besides, the development of the repo market helped optimize the central bank's monetary policy implementation and provided an important platform for open market operations. The PBC conducted a total of 29 repo transactions and 43 reverse repo transactions through open market operations across the year with a cumulative turnover of 2.91 trillion yuan.

Looking into 2014, with the acceleration of interest rate liberalization, the interbank bond repo market will play a bigger role in improving the functions of money market and facilitating the monetary policy operations of the PBC. The promulgation and implementation of *Master Agreement of Bond*

Figure 2.10 The Movement of the Repo Rate, the Funding Rate and the Spread in 2013



Source: www.chinamoney.com.cn.

Repo Transactions on the Interbank Market (2013 edition) will contribute to improving the trading mechanism of bond repo transactions, enhancing market liquidity and boosting credit risk management capabilities of market participants, laying a solid foundation for the regulated, sustainable and sound development of the bond repo market.

In the future, the PBC will take lead in promoting market innovation, enriching product portfolio and expanding the scope of bonds that could make the underlying assets for the repo transactions. Special efforts will be made in advancing the bond repo transactions with debenture bonds as underlying assets. Efforts will also be made in promoting the market expansion of outright repo transactions. Third-party repo transactions will be launched in due course based on in-depth investigation and institutional arrangements including the regulation, accounting and taxation of the outright repo transactions will also undergo improvement.

3. Short-term financing bill market

In 2013, the short-term financing bill market maintained stable and sound growth momentum and enjoyed good performance. On the primary market, the issuance volume continued to grow and the market stock continued to expand. The secondary market boasted stable operation with the turnover of spot trading going down and yield climbing up after an initial decline.

3.1 Performance of short-term financing bill market

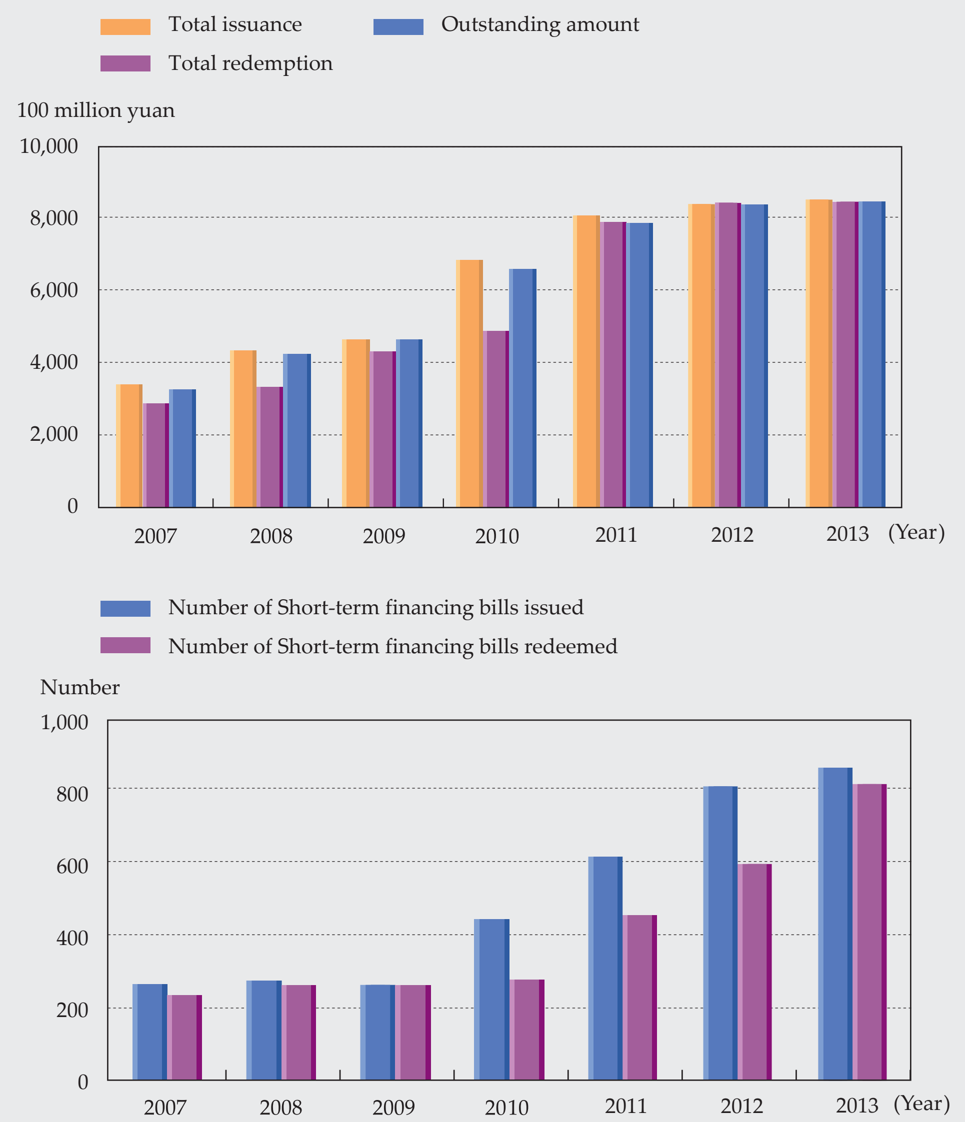
In 2013, non-financial enterprises issued cumulatively 1,077 short-term financing bills (including the super short-term financing bills issued by non-financial enterprises), a year-on-year increase of 15.3%, with the face value growing 13.24% year-on-year to 1,585.98 billion yuan. Over the year, a total of 1,474.457 billion yuan was redeemed, which gave an annual net issuance of 111.543 billion yuan. At end-2013, the outstanding short-term financing bills amounted to 1,297.3 billion yuan, a year-on-year increase of 11.09%. In 2013, the average issuance volume of each short-term financing bill hit 1.473 billion yuan, 45 million yuan less as compared with 2012, continuing the declining trend that started in 2010.

In 2013, securities companies issued a total of 134 short-term financing bills, 118 more than that of the previous year, with a cumulative issuance value of 299.59 billion yuan, 5.3 times that of 2012.

The operation of the secondary market of short-term financing bills remained stable with declining spot trading. In 2013, the annual spot trading volume of non-financial enterprises amounted to 4.89 trillion yuan and the average turnover ratio of spot short-term financing bills hit 390.48%, 471 percentage points lower than that of the previous year.

In 2013, yields of short-term financing bills on the secondary market experienced a V-shape trend and hit historic new high at the year-end. In the first half of the year, yields on the secondary market of short-term financing bills issued by non-financial enterprises followed a downward path, lingering at a low level in the second quarter after continuously declining in the first quarter. In the second half of June, price of short-term funds witnessed sharp fluctuation, pushing up the yields of short-term financing bills on the secondary market, which were substantially higher than those in the first half of the year in spite of a fast falling down at the start

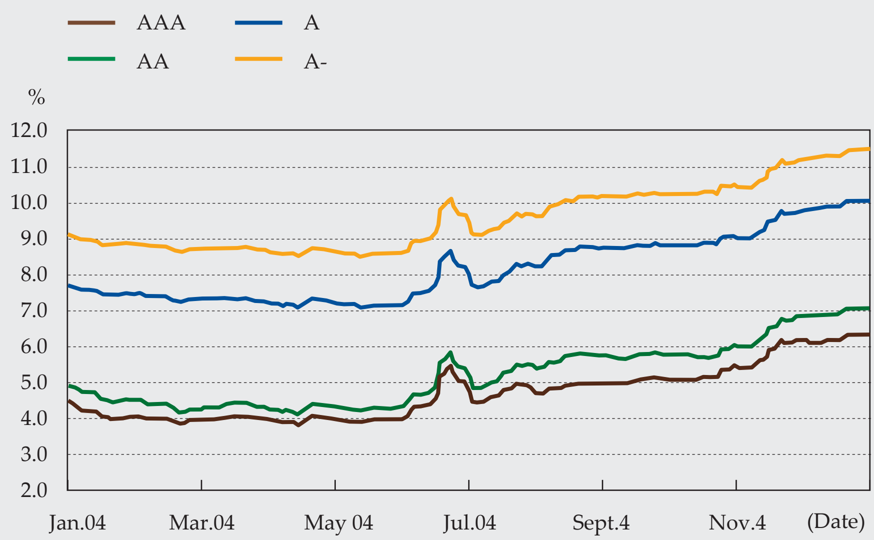
Figure 2.11 Issuance and Redemption of Short-Term Financing Bills



Source: National Association of Financial Market Institutional Investors (NAFMII).

of July. In the second half of the year, the yields continued to climb up and hit historic high at the year-end. On December 31 2013, the yields of one-year AAA, AA and A short-term financing bills issued by non-financial enterprises posted 6.3158%, 7.0558% and 10.0558% respectively, 184 bps, 216 bps and 238 bps higher than that at the start of the year respectively.

Figure 2.12 The Movement of Yields of One-year Short-term Financing Bills on the Secondary Market in 2013



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

Table 2.1 The Holdings of Short-term Financing Bills by Institutional Investor

Units: 100 million yuan, %

	Holding balance (2013)	Percentage	YoY change (over 2012)	Holding balance (2012)	Percentage	YoY change (over 2011)
Policy banks	458.80	3.54	2.66	446.90	3.77	50.37
Commercial banks	6,408.17	49.40	19.99	5,340.69	45.04	23.18
Nationwide commercial banks[1]	5,798.18	44.69	25.11	4,634.33	39.08	24.74
Foreign-funded banks	91.80	0.71	-35.98	143.40	1.21	94.31
Urban commercial banks	365.47	2.82	27.56	286.51	2.42	-29.87
Rural commercial banks	130.52	1.01	-48.63	254.06	2.14	111.72
Rural cooperative banks	19.00	0.15	-9.05	20.89	0.18	145.76
Non-bank institutions	834.29	6.43	13.64	734.15	6.19	-23.85
Credit unions	224.65	1.73	-3.14	231.94	1.96	2.40
Securities companies	199.47	1.54	-20.85	252.01	2.13	-32.28
Insurance institutions	345.48	2.66	75.80	196.52	1.66	-23.41
Funds	5,112.44	39.41	-1.78	5,204.96	43.89	99.36
Non-financial institutions	3.8	0.03	-82.65	21.90	0.18	-54.88

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

1 Nationwide commercial banks include state-owned and state-controlled commercial banks and joint-stock commercial banks. Specifically, state-owned and state-controlled commercial banks include Industrial and Commercial Banks of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, Postal Savings Bank of China and their branches. Joint-stock commercial banks include CITIC Bank, Everbright Bank, Huaxia Bank, China Guangfa Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank Co., Ltd., China Minsheng Banking Co., Ltd., Evergrowing Bank, China Zheshang Bank, China Bohai Bank and their branches.

3.2 Major features of the performance of short-term financing bill market

3.2.1 The short-term financing bill market witnessed stable development

In 2013, amid the ongoing recovery of the world economy, the Chinese economy maintained stable and sound development momentum, driving up the fund-raising demand of enterprises. As a result, both issuance amount and issued number of short-term financing bills witnessed a stable climb-up. In the second half of the year, despite that the spiraling-up fund price on the money market added up to the cost of bond issuance, issuance of short-term financing bills still enjoyed sound growth. A total of 712 non-financial enterprises cumulatively issued 1,077 short-term financing bills across the year, 143 more than that of the previous year. The cumulative issuance amount hit 1,585.98 billion yuan, up 121.48 billion yuan over 2012, while 982 short-term financing bills were redeemed altogether with a cumulative redemption amount of 1,474.457 billion yuan. As of end-2013, the outstanding amount of short-term financing bills issued by non-financial enterprises posted 1,297.32 billion yuan, a year-on-year increase of 111.543 billion yuan.

3.2.2 Credit ratings of issuers saw a general climb-up

In 2013, credit ratings of issuers of non-financial short-term financing bills saw a general climb-up with both the number of issuers ranked AA and plus and their issuance volume on the increase and the issuance amount going up by a small margin. In 2013, among the 712 non-financial short-term financing bill issuers, there were 476 issuers with credit ratings of AA and plus, taking up 66.85% of the total, up 8.84 percentage points over the previous year. The cumulative issuance volume of non-financial short-term financing bills by issuers ranked AA and plus hit 800, accounting for 74.28% of the total, 9.29 percentage points higher than that of 2012. Their cumulative issuance value represented 94.34% of the total, 2.38 percentage points higher than that of 2012.

3.2.3 Issuance of short-term financing bills by securities companies enjoyed rapid development

In 2013, issuance of short-term financing bills by securities companies enjoyed fast development with the scope of issuers expanding. When securities companies restarted the issuance of short-term financing bills in 2012, only 5 securities companies were granted market access, whereas the number of qualified issuers witnessed a substantial increase to 33 in 2013. Moreover, the issuance term became more flexible in 2013. Compared with the single maturity of 0.25 years in 2012, a total of 7 maturities could better meet the issuers' demands for short-term funds. There were altogether 134 short-term financing bills issued by securities companies across the year with a cumulative issuance value of 299.59 billion yuan, a year-on-year increase of 464.19%.

3.2.4 Commercial banks increase their holdings of short-term financing bills

In 2013, such institutions as commercial banks and insurance companies continued to increase their holdings of non-financial short-term financing bills, whereas the holdings of funds were declining. As of end-2013, the amount of non-financial short-term financing bills held by commercial banks and funds stood at 640.817 billion yuan and 511.244 billion yuan respectively, taking up 88.8% of the whole market cumulatively, making the two the most important institutional investors of non-financial short-term financing bills. Specifically, the percentage of holdings by commercial banks and funds posted 49.4% and 39.4% respectively, 4.36 percentage points higher and 4.49 percentage points lower as compared with the previous year respectively. Insurance institutions held a total of 34.548 billion yuan worth of non-financial short-term financing bills, a substantial year-on-year increase of over 70%, reflecting a further optimized investor structure.

3.3 Outlook for short-term financing bill market development

3.3.1 Market size will continue to grow steadily

The Conference on Economic Work of the Central Government, held at the end of 2013, emphasized the general principle of the economic work, i.e. Marching forward in a steady manner, indicating the continuous implementation of prudent monetary policy and proactive fiscal policy. It is foreseeable that the GDP growth of China will maintain at appropriate level in the near future. Therefore, the soaring fund-raising demand of enterprises will continue to drive the growth of the short-term financing bill market, which will, in turn, effectively meet the demand for short-term funds of the real economy.

3.3.2 The underwriting system will undergo further improvement

The short-term financing bill market has enjoyed rapid and healthy development since the market kicked off at the very beginning. With the deepening of the market's depth and breadth, regional enterprises, private enterprises and small and medium-sized enterprises (SMEs) became more actively involved in the market. The market development calls for further intensifying the construction of the underwriting team and boosting the quality of intermediary services so as to better meet the financing demands of different enterprises and support the development of real economy. On November 18, 2013, the NAFMII launched the layered mechanism of main underwriters in order to promote the professionalism and diversity of underwriting agencies and improve the underwriting system. It is predictable that with the scope for qualified main underwriters expanding, regional banks will be able to undertaking the underwriting businesses in designated area, which will bring the geographical advantage of regional banks into full play, expand the financing channels of regional enterprises, optimize the regional financial ecosystem and further promote the sound and stable development of the short-term financing bill market.

4. Bill market

In 2013, growth of bill acceptance of financial institutions nationwide decelerated, while bill discounting maintained rapid development momentum with the discounted bill balance dipping. The bill financing scale fell back in the second half of the year after crawling up in the first half of the year, pushing down the proportion of discounted bill balance to loans. The interbank discounting and repo transactions descended amid tightening liquidity on the interbank market. The interbank discounting rate fluctuated downwards in the first half of the year and tumbled at a high level in the second half of the year, climbing up quickly both in the mid of the year and at the year-end. The electronic commercial draft system enjoyed rapid development with substantially higher growth rate.

4.1 Performance of bill market

In 2013, growth of bill acceptance of financial institutions nationwide decelerated. 20.3 trillion yuan worth of commercial drafts were issued on China's bill market, a year-on-year increase of 13.3%. As of end-December, the balances of undue commercial drafts reached 9.0 trillion yuan, up 8.3% year-on-year. From January to August, bill acceptance balance continued to grow, hitting a historic new high of 9.6 trillion yuan at end-August. Since September, growth of bill acceptance business has been decelerating with its balance decreasing by a small margin, which was 0.7 trillion yuan more than that at the start of the year. Specifically, bank acceptance issued by SMEs took up 2/3 of the total, signaling the reinforced financing support for the real economy, especially the SMEs.

The bill financing business enjoyed brisk trading. The cumulative discount volume stood at 45.7 trillion yuan, a year-on-year increase of 44.3%, with its undue balance at the year-end amounting to 2 trillion yuan, 4.1% less as compared with that of the previous year. The bill financing balance grew amid great fluctuations, hitting the annual maximum of 2.4 trillion yuan at end-May in the first half of the year. Meanwhile, the proportion of discounted bill balance to loans rose from 3.24% at the end of the previous year to 3.58% at end-May. In the second half of the year, financial institutions reinforced efforts in making adjustment in credit aggregate and structure and the balance of discounted bills at year-end was 89.6 billion yuan less than that at the beginning of the year, accounting for 2.73% of outstanding loans.

The interest rate on the bill market climbed up after an initial decline, fluctuating at a high level after soaring in the middle of the year. The discount rate, interbank discount rate and repo rate tumbled downwards form January to April and stabilized upwards in May. In the mid and end of June, due to the cumulative effects of seasonal and periodical factors, the money market rate saw sharp fluctuations, driving up the bill market rate. In the second half of the year, under the guidance of the PBC's monetary policy, the money market rate was on a downward track, which was also felt on the bill market with the bill market rate declining and fluctuating at a high level. In December, the liquidity crunch once again drove up the bill market rate. On the whole, the bill market rate in the second half of the year was substantially higher than that in the first half of the year.

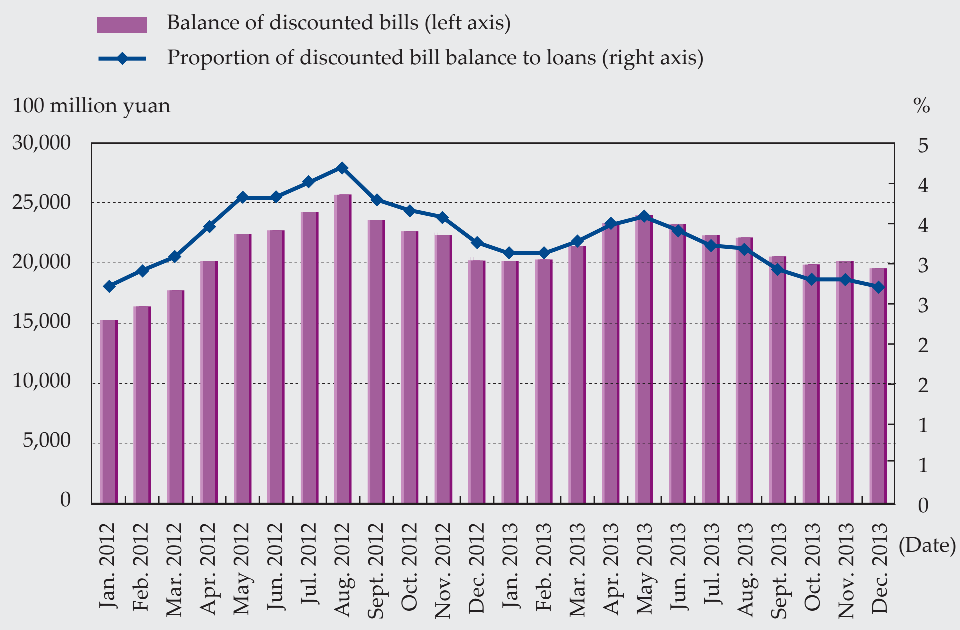
The electronic commercial draft business saw a dramatic increase over the previous year. As of end-September, there were altogether 359 institutions that have got access to the Electronic Commercial Draft System (ECDS), 18 more than that of 2012. A total of 2.429 million electronic commercial draft businesses were processed through the system with a value of 8.17 trillion yuan, a year-on-year increase of 90% and 95% respectively.

4.2 Main features of bill market performance

4.2.1 Discounted bill balance declined after an initial surge and its proportion to outstanding loans decreased

In 2013, against the backdrop of relatively sufficient credit injection, the nationwide discounted bill balance declined after an initial surge with its proportion to outstanding loans dropping. In the first five months of the year, liquidity and credit abundance on the market added up to the credit injection by commercial banks, pushing higher both the balance of discounted bills and credit injection. As of end-May, the amount of bill financing nationwide stood at 2.4 trillion yuan, 356.1 billion yuan more than that at the end of the previous year or a year-on-year increase of 17.4%, accounting for 3.58% of outstanding loans. From June to December, excessive credit injection and maturity mismatch of bank funds lead to liquidity crunch on the interbank market, pulling down the discounted bill balance. As of end-December, balance of discounted bills reached 1.99 trillion yuan, 346.9 billion yuan less as compared with that at end-May, while its proportion to loans dropped by 0.85 percentage points over the same period to 2.73%

Figure 2.13 Balance of Discounted Bills and Proportion of Discounted Bill Balance to Loans, 2012—2013



Source: www.chinacp.com.cn.

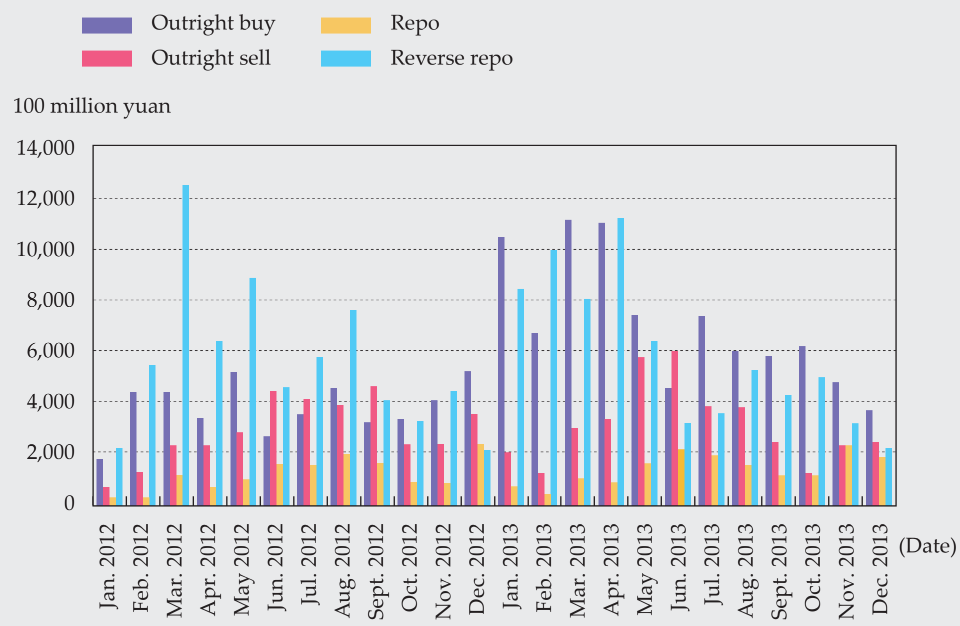
(See Figure 2.13).

4.2.2 Tightening funds on the interbank market pulled down the interbank discounting business

In 2013, the interbank discounting business witnessed brisk trading. According to the data on www.chinacp.com.cn, from January to April, the interbank discounting outright buy and sell value stood at 3.9 trillion yuan and 941.6 billion yuan respectively, a proportion of 4.14:1, signaling the strong demand for purchasing bills of commercial banks. From May to June, the increasingly tightening market liquidity encouraged the banks to sell bills for cash with the interbank discounting outright buy and sell value posting 1.18 trillion yuan and 1.16 trillion yuan respectively, forming a more or less equilibrium market structure. In the second half of the year, the funds on the interbank market remained tight yet balanced. Accordingly, commercial banks' willingness to conduct interbank discounting businesses waned. The interbank discounting outright buy and sell value amounted to 3.34 trillion yuan and 1.59 trillion yuan respectively, giving a cumulative value of 4.93 trillion yuan, 2.01 trillion yuan less or 28.96% lower than that in the first half of the year.

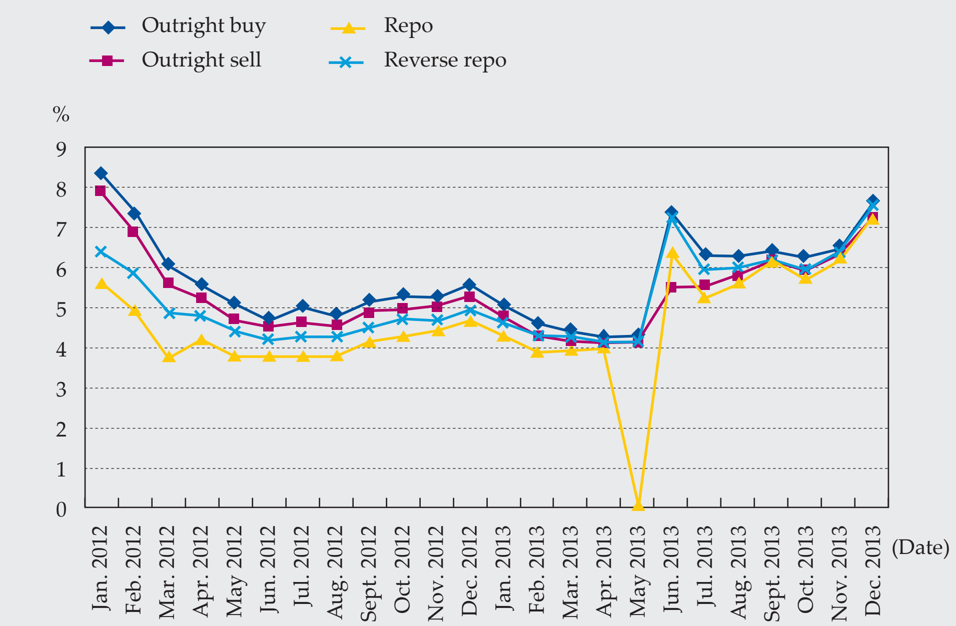
Liquidity crunch on the interbank market mulled the market's eagerness in bill repurchase transactions. In 2013, the quotation value of bill repurchase transactions on www.chinacp.com.cn hit 8.7 trillion yuan, taking up 41.8% of the total. Specifically, the quotation value of reverse repo transactions stood at 7 trillion yuan, accounting for 82.35% of quotation value of repo transactions, reflecting the market's passion in obtaining profits from bill repo transactions. In the second half of the year, since the liquidity on the interbank market was relatively tight, the bill repo quotation value declined 38.3% to 3.32 trillion yuan, 2.06

Figure 2.14 Monthly Quotation Value on www.chinacp.com.cn, 2012—2013



Source: www.chinacp.com.cn.

Figure 2.15 Monthly Quotation Rates on www.chinacp.com.cn, 2012—2013



Source: www.chinacp.com.cn.

trillion yuan less as compared with the first half of the year. In particular, the quotation value of reverse repo transactions dropped 49% to 2.39 trillion yuan (See Figure 2.14).

4.2.3 Interbank discounting rate was on a downward track in the first half of the year and fluctuated at a high level in the second half of the year

From January to May 2013, liquidity was abundant on the interbank market, pushing down the interbank discounting rate on a monthly basis, except for the Spring Festival when the rate surged temporarily. At end-May, the rate lingered around 4.4%, However, in the mid and late June, the interbank discounting rate rebounded forcefully to 8%~9% due the cumulative effects of such factors as payment of fiscal funds, rectification of the bond market and the rumors about bank defaults. In the second half of the year, with the alleviation of the liquidity hunger on the interbank market, the interbank discounting rate dipped yet fluctuated at a high level since the market liquidity still remained tightened. According to the data on wwww.chinacp.com.cn, the weighted average interbank discounting buy rate fluctuated with a narrow range of 6.20% to 6.35% from July to November, whereas in December, the rate surged again with the increasingly tightening market liquidity (See Figure 2.15).

4.2.4 Financial institutions were more willing to conduct electronic bill businesses

According to the data on www.chinacp.com.cn, the cumulative quotation value of electronic bills nationwide stood at 264.55 billion yuan in the first quarter, 2.62 times more than that of the previous quarter, taking up 4.2% of the total. In the second quarter, the quotation value of electronic bills increased by 28% quarter-on-quarter to 338.13 billion yuan and its market share rose to 5.78%. In the second half of the year when the interbank market was faced up with growing liquidity tight, the quotation value of electronic bills declined as compared with the previous quarter while its market share witnessed a gradual increase. The quotation value amounted to 274.86 billion yuan and 288.8 billion yuan respectively in the third and fourth quarter, representing 5.88% and 8.08% of the total respectively (See Table 2.2).

Table 2.2 Quarterly Quotations of Electronic Bills on www.chinacp.com.cn in 2013

Units: 100 million yuan

	Q1		Q2		Q3		Q4	
	Number	Value	Number	Value	Number	Value	Number	Value
Buy	396	2,035.5	481	2,217.88	419	1,501.82	647	2,478.19
Sell	137	355.01	390	1,045.33	397	1,099.75	165	337.69
Repo	6	24	9	61.12	4	26	6	15.1
Reverse Repo	22	231	17	57	23	121	14	57
Total	561	2,645.51	897	3,381.33	843	2,748.6	832	2,888

Sources: www.chinacp.com.cn.

4.2.5 Supervision on bill businesses was enhanced

In 2013, the China Banking Regulation Commission (CBRC) continued to strengthen its regulation on bill-related wealth management business and reinforced its examination on the malpractices in the bill businesses of rural credit unions, which effectively promoted the regulated and stable development of the bill market. In March, documents were promulgated by the CBRC in an attempt to regulate the wealth management products of commercial banks and guide the orderly development of the bill-related wealth management products. In May, the CBRC launched a new round of regulatory examination on the compliance of bill businesses, focusing on institutions with large amount of discounted assets and liabilities or with a large trading volume in selling after purchasing bills or selling repurchased bills, as well as commercial banks' counter parties involved in frequent bill transactions. The examination, in terms of the serious problems existing in bill businesses in recent years, will promote the regulated development of the bill market.

4.3 Outlook for bill market development

4.3.1 Diversified factors will influence the bill market

In 2014, the bill market operation will be influenced by diversified factors. Apart from the economic situations both at home and abroad and the monetary policy stance, such factors as adjustment of credit supply, regulation on the bill market, interest rate liberalization as well as the rectification of the interbank market will exert influence on the bill market rate and the choice of trading parties, which will, in turn, affect bill acceptance, discounting and interbank discounting. The effects of the above-mentioned factors, if combined together, will exacerbate bill market volatility.

4.3.2 Bill business is conducted in a professional and concentrated manner

In order to prevent against risks and promote processing efficiency of bill businesses, the regulatory authorities promulgated various documents in recent years, stipulating that commercial banks conduct bill businesses in a professional and concentrated manner through streamlined process. Conditions permitted, some commercial banks have set up bill market departments in charge of various bill businesses. As for small and medium-sized commercial banks that are lack of such institution arrangements, they tend to deposit their bills with big banks and entrust the big banks with the rights to taking care of the physical bills, obligation registry, funds clearing, bill checking regarding the transfer of bill obligations as well as agency collection, etc, in an effort to reduce bill business risks.

4.3.3 Bill market will become more electronically-based

Since the ECDS was launched four years ago, the system's following advantages were brought into full play: Firstly, the system prevents against operational risks, facilitates trading and promotes market efficiency. Secondly, the maturity of electronic bills has been prolonged to one year, helping stabilize the margin deposits with the banks. Thirdly, the PBC stepped up its support for electronic commercial drafts with preferential interbank discounting rates. Fourthly, the discounting rates of electronic bills were normally higher than those of paper-based bills. Therefore, more banks are inclined to conducting electronic bill businesses, contributing to the business's rapid development and growing market share. Moreover, in order to meet the demand for the professional and concentrated development of bill businesses, electronic systems of paper-based bills were set up by large-scaled commercial banks to realize the unified management of bill businesses and transmission of information, further boosting the electronically-based development of the bill market.

Box1 Analysis of Interest Rate Volatility on the Interbank Market in 2013

In 2013, China's monetary policy stance maintained prudent. Interest rate on the interbank market climbed up on the whole with greater volatility, attracting attention from both domestic and overseas markets.

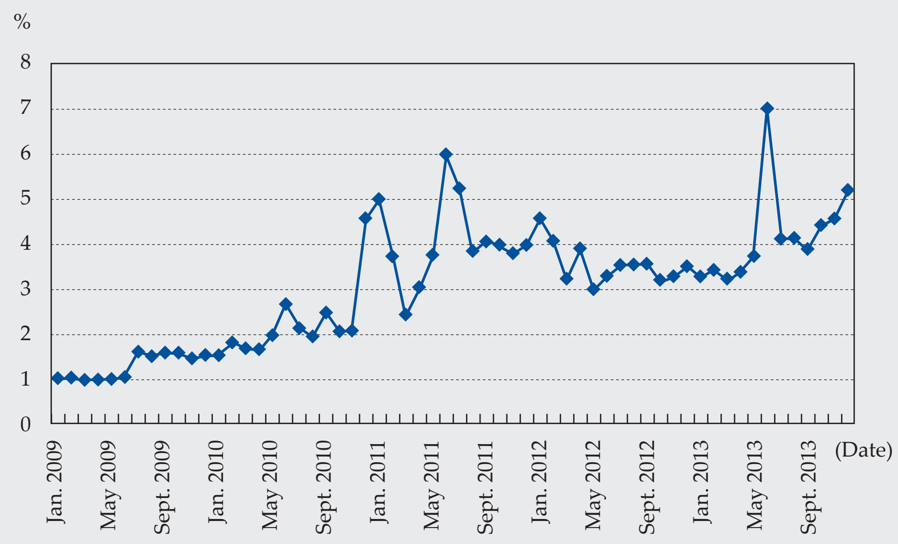
1. Movement of interest rate on the interbank market in 2013

With the advancement of interest rate liberalization, the interest rate on the interbank funding market continued to climb up with recurrent sharp fluctuations, pushing up the market's key rates on a continuous basis (See Figure 2.16). In 2013, the interbank funding rate leveled off in the first quarter of the year, soared up in the mid of the year and maintained on an upward track in the second half of the year with sharp and frequent volatilities. The 7-day monthly weighted average interbank funding rate increased form 3.27% in January to 5.17% in December. The rate witnessed sharp fluctuations of over 400 bps twice after June, i.e. skyrocketing from 4.71% on June 3 to 12.25% in June 20 and from 4.64% on December 17 to 8.84% on December 23. The rate also saw a volatility of 100 to 200 bps for ten times across the year. The rate rose from 3.72% on October 22 to 5.67% on October 30, up 195 bps.

2. Causes

Various reasons may lead to the continuous climb-up and sharper fluctuations of the interbank

Figure 2.16 Movement of Seven-Day Monthly Weighted Average Interest Rate, 2012—2013



Source: www.chinacp.com.cn.

funding rate, including advancement of interest rate liberalization, accelerated financial innovation, expansion of bond financing as well as the repeatedly changing capital flow on the global market under an open-up macro management framework. The main reasons, we believe, are as follows:

Firstly, the structural change of assets and liabilities of banks, the most important market players, may lead to greater volatility of market interest rate. Under the conventional financial system, which is dominated by commercial banks, financial assets are monotonously deposits and loans. In spite of maturity mismatch, commercial banks usually enjoy stable source of funds. Moreover, the required reserve system and ratios measuring liquidity and stability of the banking operation insure the sufficient liquidity provisions and hence safeguard against the market fluctuation resulting from liquidity crunch. In recent years, due to the deepening of market-based reform, acceleration of financial innovation and interest rate liberalization, commercial banks enjoyed fast expansion of assets and acceleration of off-the-balance-sheet financial innovation. Market size of wealth management products, trust products and other asset management businesses witnessed rapid growth. Investment in non-standardized and illiquid assets drains large amount of liquidity on the interbank market in a direct or indirect manner. Besides, compared with the conventional balance sheet businesses, the above-mentioned sources of funds are unstable and lack of liquidity provision mechanism, adding up to the financial institutions' sensitivity to market dynamics. In such cases, financial institutions tend to expand in market boom and are exposed to high liquidity risks when market risks accumulate. Moreover, since the liabilities structure and maturity structure of off-the-balance-sheet asset pool became more complex, short-term funds need to roll over to meet the requirement of mid and long-term assets. Therefore, fluctuation of interest rate becomes sharper when tightening liquidity permeates the market.

Secondly, local financing platforms and the financing demand of real estate developers pushed higher the key rates. Local governments have limited financing power under the current finance and taxation framework, while their demand for funds were swelling due to such factors as soft budget constraints, motivation and evaluation system of local officials and the repayment of local government debts by means of selling land. Local governments pay more attention to the availability rather than the price of the funds. As a result, large amount of funds flew to local government investment vehicles, also known as local financing platforms, and industries driven by government investment, pushing higher the market rates as a whole. Moreover, the real estate developers tend to increase the fund raising costs on a continuous basis amid spiraling real estate prices, squeezing out the funds that might otherwise flow to other industries or companies. As of end-December, the outstanding amount of real estate development loans hit 3.52 trillion yuan, a year-on-year growth of 16.3%, 6.1 percentage points higher than that at the end of the previous year, far exceeding the growth rate of mid and long-term industrial loans that stood at 4.2%. Under a given credit aggregate, the higher the interest rate, the more substantial the squeezing-out effects of local financing platforms and real estate developers to other industries and the higher financing cost of the real economy.

Thirdly, the asymmetry of market information exacerbates interest rate volatility. The interbank market is based on price inquiry. Market *participants, based on credit lines given to each other, make inquiries and negotiations regarding a transaction and confirm the deal when consensus is reached. This mechanism will conclude a large deal in an effective and rapid manner without incurring great volatility in market price, and hence becomes the main trading mode among financial institutions. The biggest drawback of this mechanism is the insufficiency and asymmetry of market information. In most cases, trading is made within a restricted scope, when some trading partners are rich in funds while others are starved with funds. In extreme cases, trading partners that are lack of funds have to give higher price to obtain money. The small and regional phenomenon, if seen as that of the whole market, will be misleading.*

Fourthly, rumors aggravate market panicking. In information era, the media often pays attention to extreme market events and makes excessive interpretation of an affair, amplifying market volatility. For example, when the money market experienced a sharp fluctuation in June 2013, the media coverage used such words as Money hunger attacks or How high on earth is the market rate? As a matter of fact, On June 20, the highest rate of 30% was the rate of an overnight pledged repo transaction with a trading volume of 812 million yuan, accounting for only 0.1% of the total trading volume of pledged repo transactions on that day. When liquidity tightening is exaggerated, lenders will be reluctant to lend money or will even borrow money, while borrowers will rush for money by all means, intensifying liquidity hunger on the market.

Generally speaking, with the advancement of interest rate liberalization, market rate becomes more sensitive to economic fundamentals due to the cumulative effects of various factors. The gradual adaptation of market conditions will bring about a market mechanism with continuous improvement.

Box 2 Interbank CDs Launched on the National Interbank Funding Market

On December 7 2013, the PBC promulgated Interim Rules on Management of Interbank CDs, which took effect on December 9.

1. Overview of *Interim Rules on Management of Interbank CDs*

Interbank CD is a money market instrument issued by deposit-taking legal entity financial institutions on the interbank funding market as book-entry fixed-term certificate of deposit. Issuers of interbank CDs incorporate policy banks, commercial banks, rural cooperative financial institutions as well as other financial institutions approved by the PBC. The investment and trading bodies consist of market players on the interbank funding market, funds as well as fund products. The issuance rate and value of interbank CDs are market-based. Specifically, the terms of fixed-rate CDs could be 1 month, 3months, 6 months, 9 months and 1year, theoretically no longer than 1year. The CDs are priced based on Shibor with the same maturity and of the corresponding period. Shibor also serves as the benchmark rate for floating-rate CDs, whose terms, in principle, are longer than 1year, including 1year, 2 years and 3 years. The outstanding amount of interbank CDs issued by a specific issuer cannot exceed its annual file-keeping quantum at any time of the year. Interbank CDs issued publicly are *tradable and could serve at the underlying assets of repo transactions, while directionally issued interbank CDs could only be circulated among the initial investors. Trading on the secondary market of interbank CDs could only be made through the electronic trade system of the interbank funding center. Moreover, the market-making mechanism is also applicable with interbank CDs. Interbank CDs are issued electronically on the national interbank funding market or to designated investors. The National Interbank Funding Center provides the issuance, trading and information services for interbank CDs, while Shanghai Clearing House is in charge of the registry, custody and settlement services for interbank CDs.*

2. Issuance and trading of interbank CDs

On December 12, 2013, the pioneering five deposit-taking financial institutions (China Development Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China Construction Bank) successfully issued an interbank CD through the platform of the National Interbank Funding Center respectively. As of the end of December 2013, a total of 10 deposit-taking financial institutions issued 34 billion yuan worth of interbank CDs (See Table 2.3), with the shortest and longest term of 1 month and 6 months respectively.

In December, six transactions were made on the secondary market with a trading value and face value of 59.31 million yuan and 60 million yuan respectively. In terms of the products, 13ABCCD001 and 13BCCD001 traded most briskly.

According to the yield curve of interbank CDs, volatility of yields of the most important maturities was substantial. In particular, the weekly change of Yield to Maturity of 1-month products[1] hit 62 bps, reflecting the supply and demand of the market. The quotation price and transaction price of interbank CDs were close to their valuation.

3. Significance of the launch of interbank CDs

The launch of interbank CDs on the national interbank market plays a positive role in expanding the financing channel of deposit-taking financial institutions and promoting the development of the money market. First, Banks' capabilities in liabilities and liquidity management are to be strengthened. Interbank CDs boast mid and long-term, large value and relatively narrower fluctuation of interest rate, which make them a stable source of funds for banks, meeting banks' demand for funds when faced up with deposit shortage or liquidity crunch. Interbank CDs also provide an effective tool for commercial banks to manage their liabilities in an active manner, contributing to the improvement of banks' liquidity management and the stable operation of the money market. Secondly, the market benchmark interest rate system based on Shibor quotations will undergo further improvement. The issuance rate of interbank CDs is market-based with Shibor of the corresponding period as reference rate. Since the term of interbank CDs is one month and plus, it will help boost money market transactions, optimize market structure, enhance Shibor's benchmark role in mid and long-term transactions and perfect the benchmark interest rate curve of the money market. Thirdly, interest rate liberalization will be further pushed forward. In light of international experiences, the establishment of the large-value CD market will do good to exploring the market-based reform of deposit interest rate. The issuance

1 Weekly change of Yield to Maturity equals to the yield on Friday minus that on Monday.

price and rate of interbank CDs are market-based, reflecting commercial banks' growing pricing capabilities and noteworthy progress in promoting free competition, reinforcing market-based management and strengthening market transparency, all of which lay a solid foundation for further exploration into the market-based reform of deposit interest rate.

Table 2.3 Issuance of Interbank CDs in 2013

Units: 100 million yuan, %

Issuer	Issuance Date	Issuance Mode	Term	Planned Issuance	Actual Issuance	Issuance Price (yuan)	Reference Yield	Coupon Type
China Development bank	Dec.12	Quoted Price	6M	30	30	97.45	5.25	Zero Coupon
Industrial and Commercial Bank of China Ltd.	Dec.12	Quoted Price	1M	30	30	99.5691	5.1	Zero Coupon
Agricultural Bank of China Ltd.	Dec.12	Quoted Price	3M	30	30	98.74	5.18	Zero Coupon
Bank of China Ltd.	Dec.12	Quoted Price	3M	50	50	98.734	5.2	Zero Coupon
China Construction Bank Co., Ltd.	Dec.12	Quoted Price	3M	50	50	98.734	5.2	Zero Coupon
Bank of Communications Ltd.	Dec.13	Quoted Price	3M	30	30	98.734	5.2	Zero Coupon
CITIC Bank Ltd	Dec.13	Quoted Price	3M	30	30	98.722	5.25	Zero Coupon
Shanghai Pudong Development Bank	Dec.13	Quoted Price	3M	30	30	98.722	5.25	Zero Coupon
Industrial Bank Co., Ltd.	Dec.13	Quoted Price	1M	30	30	99.5637	5.16	Zero Coupon
China Merchants Bank Ltd.	Dec.13	Quoted Price	3M	30	30	98.722	5.25	Zero Coupon

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

Part III Bond Market

In 2013, China's bond market regulatory efforts witnessed positive effects, and the bond market continued to support the real economy amid persistent improvement. In general, size of bond market continued to grow, and the issuance structure of corporate debenture bonds changed somewhat; bond price rose first and then remained subdued, while the general level of interest rate went up; bond product innovation and institution building continued to advance, market regulatory system was improved continuously, and the overall safety and resilience to systemic risks were enhanced persistently.

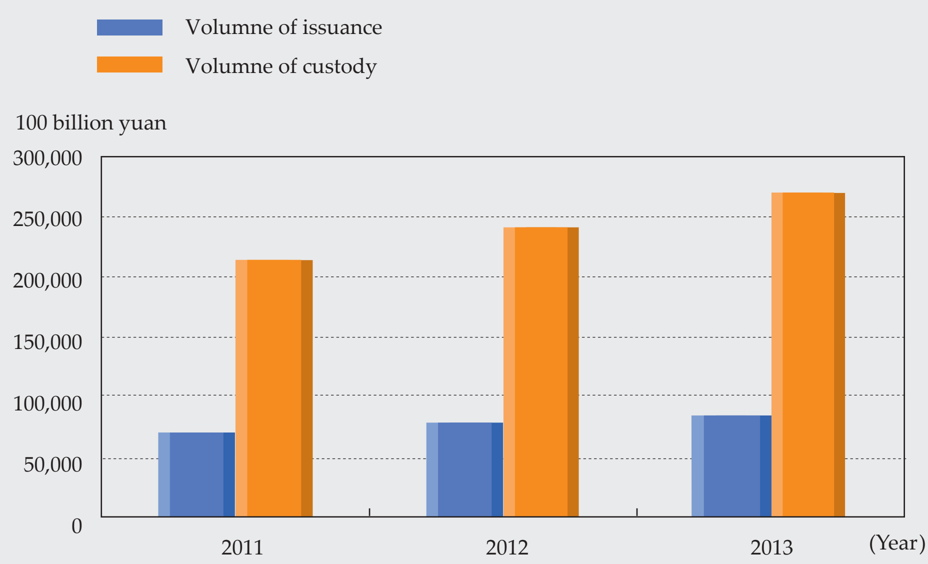
1. Overview of bond market performance[1]

1.1 Performance of bond issuance market

1.1.1 Bond issuance expanded slightly and market stock grew steadily

In 2013, bonds issued on national bond market totaled 8.81 trillion yuan, a gain of 916.3 billion yuan over last year, or 11.61%. Among it, the number of new bond issues registered with interbank bond market was 3140 with a total value of 8.40 trillion yuan, rising 8.78% year-on-year, and accounting for 95.37% of the total issuance. The number of corporate bonds, convertible bonds and privately-placed bonds by small and

Figure 3.1 Changes in the Size of Issuance and Custody on the Interbank Bond Market, 2011—2013



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

1 All data exclude interbank certificates of deposit.

medium-sized enterprises (SMEs) issued on the exchange stood at 331 in total with the value reaching 408.206 billion yuan, taking up 4.63% of the total.

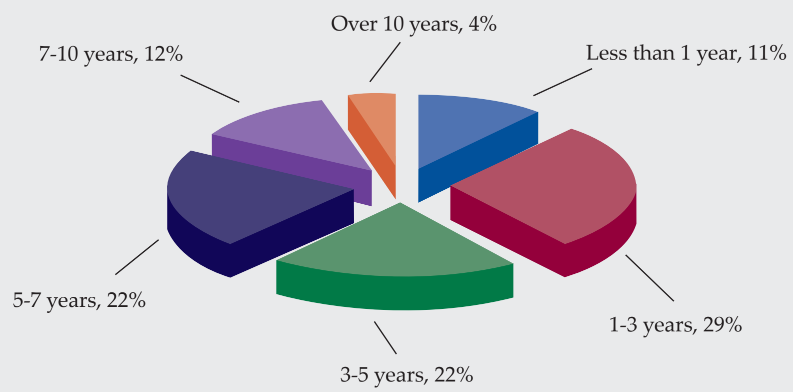
Breakdown by types of bonds, among the newly-issued bonds, enterprise bonds posted 475.23 billion yuan, slashing 26.88% year-on-year; policy bank bonds hit 207.603 billion yuan, a year-on-year decrease of 6.73%; commercial banks bonds lost 71.06% compared with last year, reaching 132.1 billion yuan; and book-entry treasuries jumped 11.15% from a year earlier to 1,323.64 billion yuan. Policy bank bonds and book-entry treasuries remained the bulk of bond issuance.

By end-2013, bond market custody nationwide reached 29.41 trillion yuan, adding 3.76 trillion yuan from the previous year, or 14.66%. Among it, bond custody on the interbank market went up 11.61% year-on-year to 26.94 trillion yuan, accounting for 91.61% of the total, while that on the exchange-traded market surged 58.96% compared with last year to 1.98 trillion yuan, comprising 6.73% of the total, and custody on the over-the-counter (OTC) market soared 59.28% from last year to 489.232 billion yuan as of end-December 2013, taking up 1.66% of the total.

1.1.2 Growth of the issuance size of debenture bonds decelerated

In 2013, the issuance of debenture bonds on the interbank bond market rose slightly by 1.34% from the previous year to 3.79 trillion yuan. Among it, enterprise bonds posted 475.23 billion yuan, a year-on-year loss of 26.88%; short-term financing bills and super short-term commercial paper stood at 1,585.98 billion yuan in total, surging 13.43% from 2012; medium-term notes hit 691.62 billion yuan, sliding 15.17% from last year; commercial bank bonds slumped 71.6% compared with the same period of last year to 132.1 billion yuan; privately-placed debt financing instruments rose 48.64% from a year earlier to 566.808 billion yuan; collective notes by regional promising SMEs added 110.02% over last year, totaling 6.122 billion

Figure 3.2 Term Structure of Bonds Issued on the China Central Depository and Clearing Company Limited in 2013



Note: each term is exclusive of the lower bound but inclusive of the upper bound.
Source: China Central Depository & Clearing Co., Ltd.

yuan; short-term financing bills by financial enterprises (securities companies, and securities and finance companies) posted 299.59 billion yuan, skyrocketing 434.03% year-on-year; asset-backed notes (ABNs) by non-financial enterprises sank 15.79% from last year to 4.8 billion yuan; credit asset-backed securities (ABS) totaled 14.498 billion yuan, shedding 24.73%; non-bank financial institution bonds registered 18.9 billion yuan; collective notes stood at 517 million yuan, tumbling 92.7% from the prior year. In addition, capital bonds, an innovative product added to the bond market in 2013, saw a total issuance of 1.5 billion yuan.

1.1.3 Share of medium and long-term and long-term bonds declined in the term structure of bond issuance, while that of short-term bonds increased

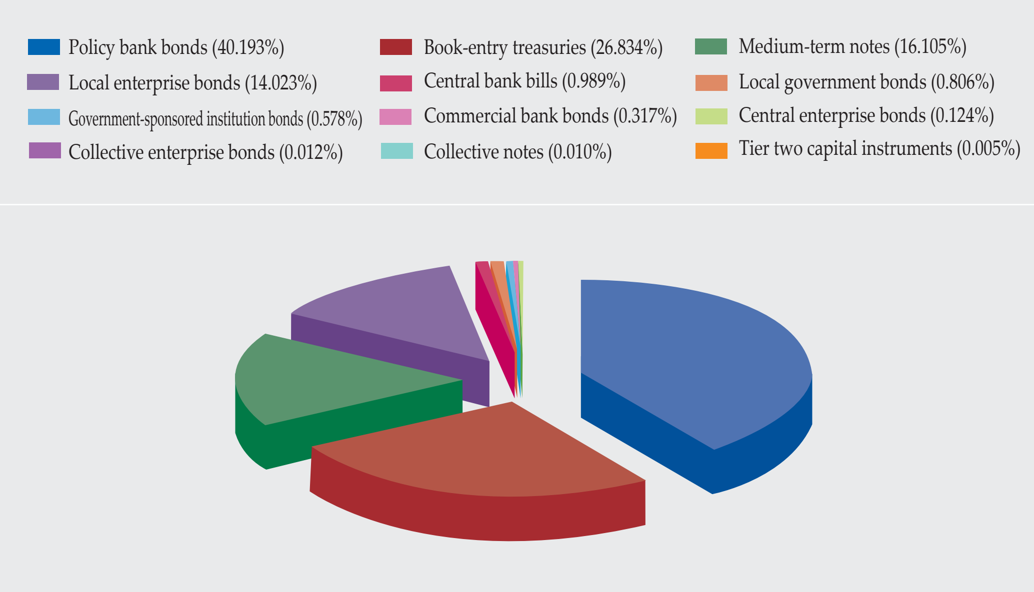
Term structure of new issues registered with the China Central Depository & Clearing Co., Ltd[1] showed that short-term (0-3 years) bonds accounted for 39.40% of the total issuance, up 14 percentage points over last year, while share of medium and long-term (3-10 years) and long-term (over 10 years) bonds stood at 56.30% and 4.30% respectively, dropping 10.01% and 4.23% respectively from last year.

1.2 Performance of bond trading market

1.2.1 Bond trading became less brisk

In 2013, settlement of spot bond trade on bond market added up to 42.62 trillion yuan, slashing 45.40% year-on-year. Volume of spot bond trade on the interbank bond market posted 41.61 trillion yuan, sinking 44.66% from last year. Settlement of spot bond trade on the exchange-traded market totaled 1.01 trillion yuan, jumping 71.39% compared with a year earlier. OTC trading gained 24.92% year-on-year, hitting 1.872 billion yuan.

Figure 3.3 Breakdown of Spot Bond Trade Registered with China Central Depository and Clearing Company Limited in 2013



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

1 The data disclosed by the Shanghai Clearing Housing do not contain information on breakdown by maturities.

Table 3.1 Comparison of Turnover Rate of Bonds Registered with China Central Depository and Clearing Company Limited in 2012 and 2013

Units: 100 million yuan, %

Types of bonds	2012	2013	YOY change
Book-entry treasuries	129.19	71.29	-57.90
Local government bonds	323.84	26.79	-297.05
Central bank bills	618.55	192.10	-426.44
Policy bank bonds	289.80	147.41	-142.38
Government-sponsored institution bonds	340.51	123.58	-216.93
Commercial bank bonds	59.24	22.72	-36.52
Capital instruments	—	26.67	—
Non-bank financial institution bonds	69.65	17.49	-52.15
Enterprise bonds	463.37	297.11	-166.26
Asset-backed securities	1.31	0.00	-1.31
Medium-term notes	620.67	324.37	-296.30
Collective notes	363.98	174.40	-189.58
Average turnover rate of bonds under the custody of China Central Depository & Clearing Co., Ltd.	298.19	118.66	-179.53

Sources: China Central Depository & Clearing Co., Ltd., China Foreign Exchange Trade System and Shanghai Clearing House.

Breakdown of spot bond trade by types of bonds showed that debenture bonds[1] took the lion's share of 49.90% with the settlement volume retreating 37.03% from a year earlier; settlement of policy bank bonds slid 42.57% from last year, but its share in total spot bond trade rose to 30.98%; settlement of central bank bills slashed 87.24% from last year and accounted for 2.51% of the total; and settlement of treasuries and local government bonds dropped 48.38% year-on-year, taking up 13.74% of the total.

In 2013, the annual turnover rate[2] of bonds registered with and under the custody of the China Central Depository and Clearing Co. Ltd. was 118.66%, down 179.53 percentage points from last year. By breakdown, such major products as medium-term notes and enterprise bonds were top performers in terms of liquidity, with their respective turnover rate being 324.37% and 297.11%, followed by central bank bills, collective notes, policy bank bonds, government-sponsored institution bonds, book-entry treasuries, local government bonds, capital instruments, commercial bank bonds and non-bank financial institution bonds, whose turnover rates were 192.10%, 174.40%, 147.41%, 123.58%, 71.29%, 26.79%, 26.67%, 22.72% and 17.49%.

1 Debenture bonds include enterprise bonds, medium-term notes, short-term financing bills, super short-term commercial paper, commercial bank bonds, non-bank financial institution bonds, asset-backed securities, collective notes, capital instruments, privately-placed financing instruments by non-financial enterprises, collective notes by regional promising SMEs,short-term financing bills by financial enterprises, asset-backed notes by non-financial enterprises, financial bonds by asset management companies, interbank certificates of deposit, and the like.

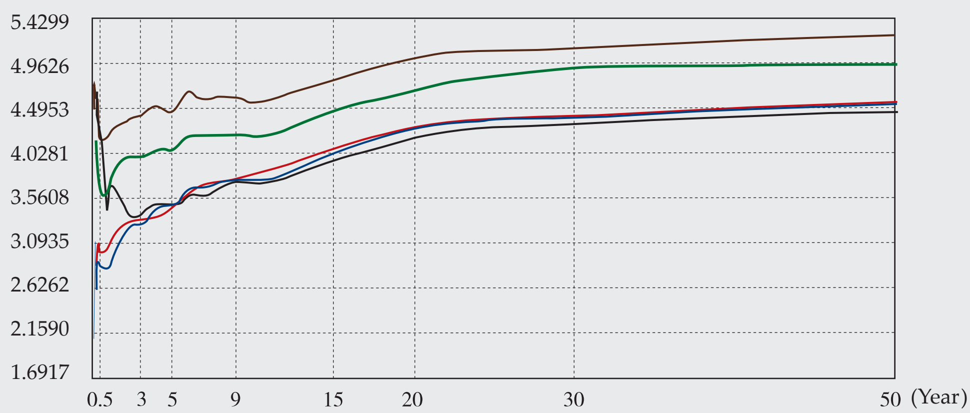
2 Turnover rate breakdown by types of bonds does not include data from the Shanghai Clearing House, as it does not break down data by bond type when disclosing clearing and settlement figures.

1.2.2 Bond market price index rose first but retreated later, while the yield curve went up after a decline

In 2013, the ChinaBond Index in general dropped substantially. Specifically speaking, bond market price index moved up slowly from January to May, but fluctuated downwards from June to December. As of end-December 2013, the ChinaBond Composite Index (Net Price Index) was 96.07 points, down 4.65% from 100.75 points at end-December 2012. the ChinaBond Composite Index (Wealth) was 145.89 points, dipping 0.5% compared with the 146.58 points at end-December 2012.

In 2013, bond yield curve dropped first and then increased. In the first quarter, the ChinaBond Yield Curve fluctuated amid correction, with yield on interbank fixed-rate treasury bonds and policy financial bonds respectively moving down 9.0 and 9.4 basis points (bps) on average, while yield on enterprise bonds (AAA) and short and medium-term notes (AAA) dropping on average 28.1 and 33.9 bps respectively. In the second quarter, the ChinaBond Yield Curve moved up markedly, as the average yield on interbank fixed-rate treasury bonds, policy financial bonds, enterprise bonds (AAA), and short and medium-term notes (AAA) jumped 39.1, 42.1, 49.2 and 53.6 bps respectively compared with the beginning of the quarter. In the third quarter, in the wake of exceptionally big fluctuations in money market rates in June, the yield curve flattened and moved up noticeably. In particular, the long-term end rose remarkably. Regardless of overnight yield, the yield on key-term interbank fixed-rate treasury bonds, policy bank bonds, enterprise bonds (AAA), and short and medium-term notes (AAA) climbed 29.2, 47.1, 28.0 and 26.0 bps respectively compared with the start of the quarter. In the fourth quarter, funding conditions continued to remain neutral, slightly

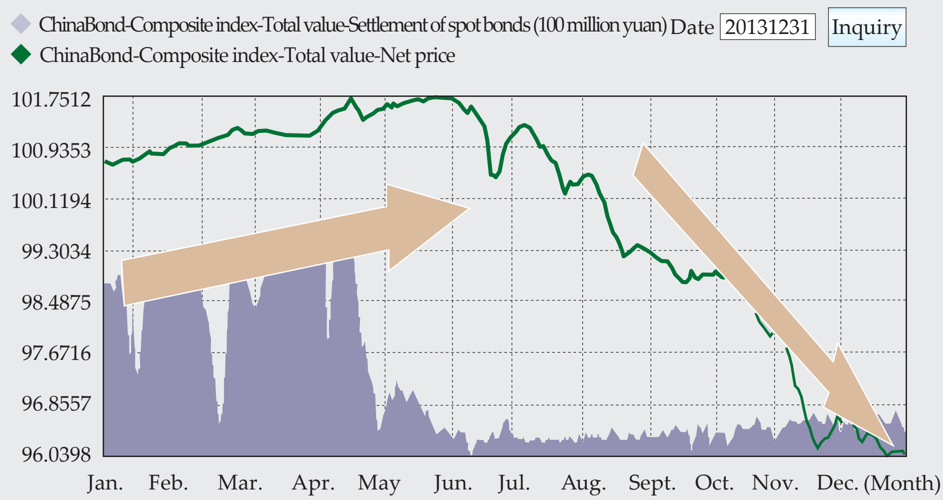
Figure 3.4 Yield Curves of Interbank Fixed-Rate Treasury Bonds in 2013



Color	Date	Remaining maturity (year)	Yield
Red	2013-01-04	0.0	1.9617
Blue	2013-03-29	0.0	2.1686
Black	2013-06-28	0.0	3.4574
Green	2013-09-30	0.0	2.2857
Brown	2013-12-31	0.0	1.8697

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

Figure 3.5 Movement of ChinaBond Composite Index (Net Price) in 2013



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

tilted toward a tightening, and fundamentals were also not in favor of bond market. Due to year-end funding strains, the ChinaBond Yield Curve showed an upward trend, with the average yield on interbank fixed-rate treasury bonds, policy financial bonds, enterprise bonds (AAA), and short and medium-term notes (AAA) adding 65.4, 97.1, 100.0 and 107.0 bps respectively compared with the beginning of the quarter.

1.2.3 Bond trading on the over-the-counter market dwindled

In 2013, the number of book-entry treasury bonds traded over-the-counter amounted to 101, losing 9 compared with 2012, covering key maturities from one year to ten years. The cumulative OTC trading of book-entry treasury bonds posted 1.391 billion yuan in 2013, down 7.17% from the same period of last year. OTC sale of savings treasury bonds stood at 216.961 billion yuan, almost on a par with last year.

2. Main features of bond market performance

2.1 Debenture bonds grew steadily amid diversifying means of issuance

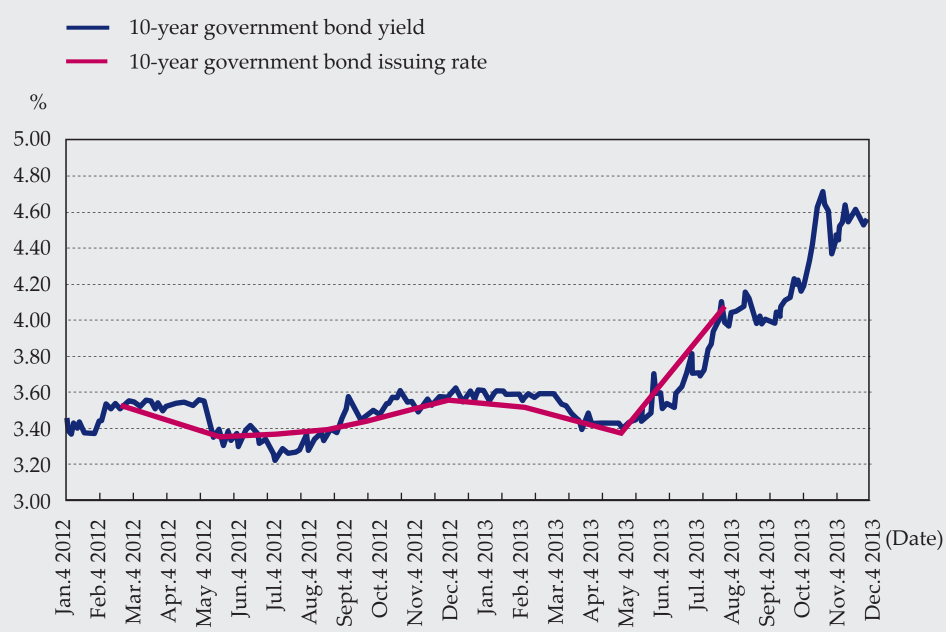
Corporate debenture bonds in general developed steadily. As of end-December 2013, issuance of corporate debenture bonds on national interbank bond market totaled 3.79 trillion yuan, a year-on-year increase of 1.34%, and accounted for 45.16% of total bond issues on interbank market, declining 8.56 percentage points from the same period of last year. Stock of corporate debenture bonds jumped 22.49% from a year earlier to 9.02 trillion yuan, taking up 31.53% of the total, a growth of 2.62 percentage points compared with the corresponding period of last year.

In particular, public placement corporate debenture bonds failed to maintain rapid growth, as the issuance of major products all dropped or only rose slightly. Issuance of enterprise bonds and medium-term notes plunged 26.60% and 17.98% year-on-year, whereas that of short-term financing bills went up 11.84% from last year. By contrast, private placement bonds developed fast. As issuance of private placement bonds could breach the limit stipulated in the Securities Law of the People's Republic of China, which requires that cumulative balance of public placement corporate bonds should be less than 40% of the company's net assets, and at the same time, issuers are not required to disclose to the market such documents as financial statements, direction of investment with funds raised and credit ratings, enterprises have been relatively active in issuing private placement bonds in recent two years. Private placement bonds on interbank bond market mainly refer to the private placement notes (PPNs) introduced by the National Association of Financial Market Institutional Investors (NAFMII). Since May 2011 when the first batch of PPNs was issued, its issuance has increased rapidly in recent two years. As of end-December 2013, the stock of PPN posted 938.128 billion yuan, and its issuance in 2013 accounted for 14.75% of the total corporate debenture bond issues on the interbank market during the year.

2.2 Bond issuing rate rose slightly

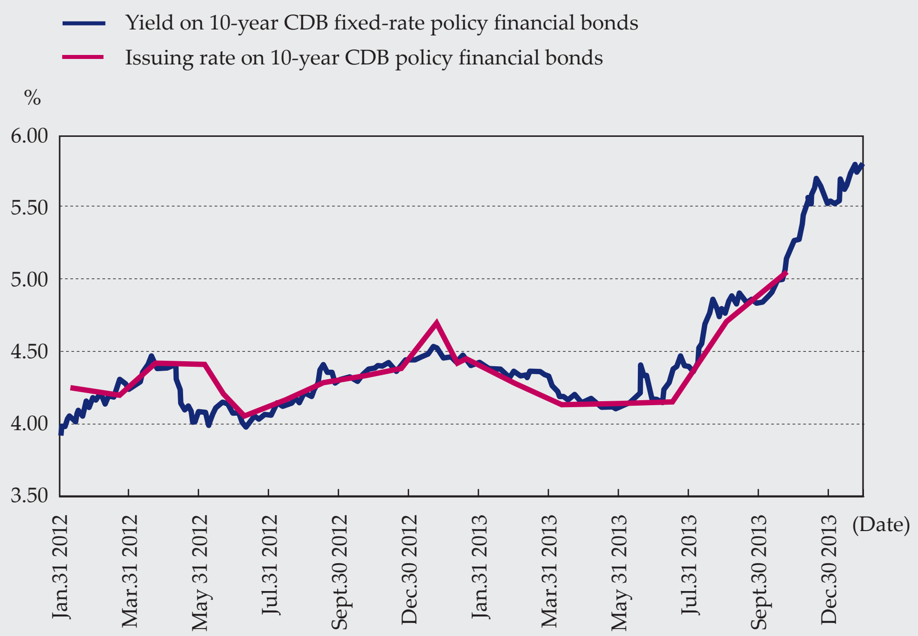
In the first half of 2013, bond issuing rate was stable, but the second half of the year saw issuing rate went up continuously, as bond investment demand weakened. Tender rates on all government bonds and policy financial bonds made a record high in November. Certain policy financial bond issues were postponed due to excessively high interest rate. Take the tender rate on 50-year government bonds for example, it jumped 107 bps from 4.24% in May to 5.31% in November, a new record high since the first issue of 50-year government bonds. The tender rate on

Figure 3.6 Movement of Issuing Rate and Yield on 10-Year Government Bonds, 2012—2013



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

Figure 3.7 Movement of Issuing Rate and Yield on 10-Year Policy Financial Bonds Issued by the China Development Bank, 2012—2013



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

10-year policy financial bonds issued by the China Development Bank (CDB) rose by 91 bps from 4.15% in April to 5.04% at end-October.

Issuing rate on corporate debenture bonds also saw a marked upward trend. Take the AAA 5-year medium-term notes for instance, its issuing rate was relatively stable in the first half of 2013, basically staying within the range of 4.5% to 5%, but went up persistently since the second half of the year, exceeding 6% in November and peaking at 6.4%, up 156 bps compared with the low level of 4.84% earlier in the year. The average issuing rate on AAA 5-year medium-term notes was 5.08% in 2013, 30 bps higher than 4.78% in 2012. In the meantime, issuing rate in general was higher than that in the secondary market, with certain spread still existing between the primary and secondary markets. Statistics showed that the average spread between primary and secondary market rates on AAA 5-year medium-term notes was 10 bps in 2013, narrowing by 5 bps compared with 2012.

The rise in issuing rate was attributable to several factors: first, market expectation of liquidity was cautious, which contributed to the erosion of bond investment demand; second, regulation on wealth management and interbank activities during the year led to the reduction of off-balance sheet activities at commercial banks; Third, in the process of interest rate liberalization, bond market lead interest rate climbed up naturally.

2.3 Bond index funds continued to develop

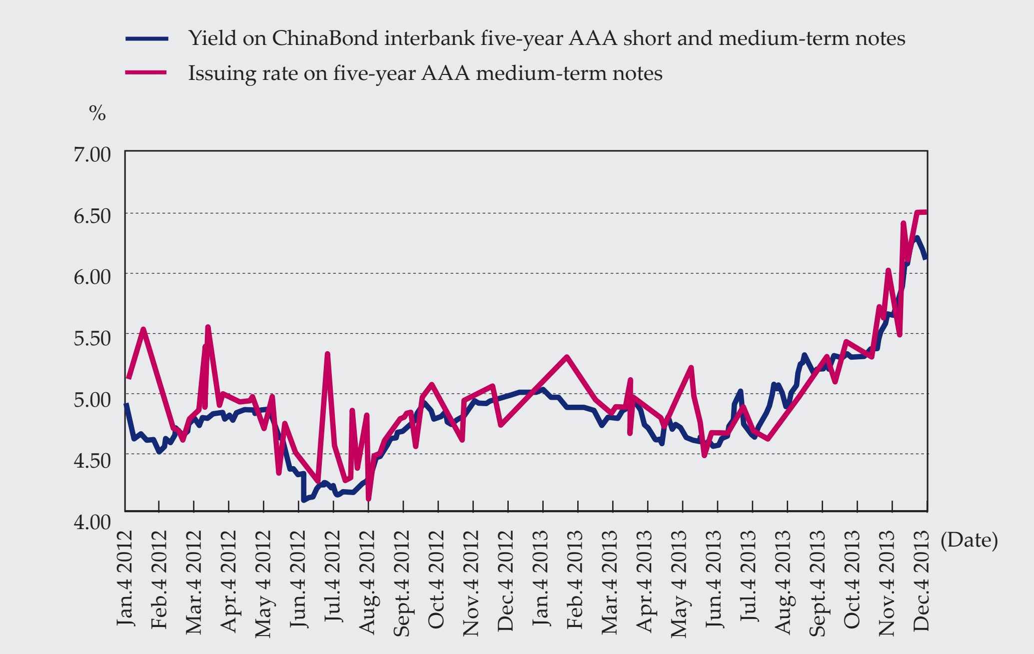
Since 2013, bond index funds developed rapidly, as its issuance size kept on increasing. According to statistics as of end-2013, 7 bond index funds were issued during the year with the value exceeding 22 billion yuan, nearly 23 times the issuance size in 2003. As the internationalization pace of domestic capital market quickens, accompanied by policies adopted by relevant regulators in recent years on increasing the investment quota of qualified foreign institutional investors (QFIIs) and RMB qualified foreign institutional investors (RQFIIs), bond index funds are expected to become an important type of investor in the market.

2.4 Bond market steadily performed its role in supporting real economy

In 2013, China's bond market development adhered to the guiding opinions of the 18th National Congress of the Communist Party of China (CPC), the Third Plenary Session of the 18th CPC Central Committee, the Central Economic Work Conference and the State Council on providing financial support for real economic growth, continued to play its role in and improve its capacity for providing services to the real economy, and played a bigger role in promoting economic restructuring as well as transformation and upgrading.

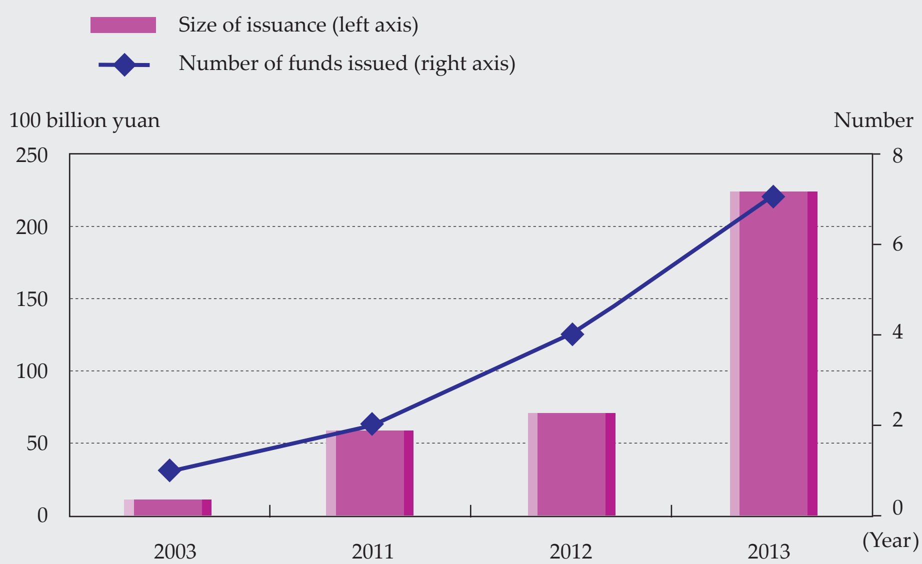
First, efforts were made to guide bond market to step up financial support for key areas in social and economic development, such as enterprises covered by national rejuvenation strategy, science and technology innovation, strategic emerging industries, and modern service industry. Throughout the year, a total of 1,233 enterprises issued 2,170 non-financial enterprise debt financing instruments on the interbank bond market, raising 2.88 trillion yuan, up 8.51% from last year. In particular, 321 enterprises from ten industries covered by national industrial revitalizing scheme issued 559 debt financing instruments, raising 777.29 billion yuan; 284 enterprises from strategic emerging industries issued 512 debt financing instruments, raising 895.32 billion yuan; and 320 enterprises from modern service industry issued 604 debt financing

Figure 3.8 Movement of Issuing Rate and Yield on Five-Year Medium-Term Notes, 2012—2013



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

Figure 3.9 Issuance of Bond Index Funds in 2013



Source: Wind Info.

instruments, raising 662.81 billion yuan.

Second, financial resources were consolidated to support the development of SMEs. In 2013, the interbank bond market continued to support the issuance of financial bonds by commercial banks specifically for providing loans to small and micro businesses, with 21 commercial banks issuing 110 billion yuan of financial bonds used specifically to prop up small and micro businesses. 100 enterprises completed 35 issues of SME collective notes and regional promising SME collective notes on the interbank bond market, raising 6.639 billion yuan. 31.07 billion yuan of SME private placement bonds were issued throughout the year on the exchange market, which effectively bolstered the operation of SMEs and met their financing needs.

Third, financial support was stepped up in areas that could benefit people's livelihood, including agriculture, farmers and rural areas, as well as social housing. In 2013, 93 agro-linked enterprises issued 137 agro-linked enterprise debt financial products on the interbank bond market, raising 133.28 billion yuan. Enterprises engaged in social housing development issued 51.5 billion yuan of such debt financing instruments as medium-term notes and asset-backed notes on the interbank bond market, which propped up the development of 148 projects involving 297 thousand units of social housing.

3. Product innovation on bond market

3.1 The first tier 2 capital bonds with a write-down clause was issued

In July 2013 and after the adoption of new capital rules for commercial banks, the Tianjin Binhai Rural Commercial Bank successfully issued the first 1.5 billion yuan of tier 2 capital bonds with a write-down clause and in line with new capital regulatory rules. Compared with previous subordinated bonds issued by commercial banks to replenish capitals, tier 2 capital bonds with a write-down clause do not carry any redemption clause in the bond issue document, but contain a trigger clause for write-downs and conversion to stocks under particular circumstances. It could be perceived as a way for commercial banks to replenish capitals.

In the *Measures for the Administration of Capitals at Commercial Banks (Provisional)* released in June 2012, the China Banking Regulatory Commission (CBRC) put forward higher regulatory requirements for bank capitals, among which the most important one was that subordinated bonds issued since 2013 must carry a write-down[1] or stock conversion clause; otherwise they would be regarded as ineligible capital instruments that could not be included in regulatory capital to increase capital adequacy ratio. Currently, faced with the least institutional barriers, tier 2 capital bonds with a write-down clause were launched first on the market. Big four banks, namely the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), the Bank of China (BOC) and the China Construction Bank (CCB), all disclosed their financial plans through new capital instruments. The introduction of tier 2 capital bonds with a write-down clause would not only replace previous commonly-used capital replenish instruments like the subordinated bonds to provide commercial banks with capital replenish channels after the adoption of new capital regulatory rules, but also improve the authenticity of commercial banks' capitals and encourage them to focus on day-to-day prudential operation in order to avert potential risks.

3.2 The first perpetual bonds and medium-term notes were issued

In October 2013, the first domestic perpetual bonds, Wuhan Metro Perpetual Bonds (2013), were issued. A perpetual bond, also known as a perpetual, is a bond with no set maturity. It is one of the developed debt financing instruments on the international market, but there were no such bonds issued on domestic market. With no maturity date, holders of perpetual bonds cannot get them redeemed, but can get interest payments as scheduled. Usually, they carry redemption clauses and conditions for interest adjustment. According to the notice issued by Wuhan Metro, the issuance size would not exceed 2.3 billion yuan with five annual interest payments as one cycle. At the end of every five years, the issuer could choose to either extend the bonds by another five years or redeem the bonds in full. In terms of coupon rate, Wuhan Metro perpetual bonds are floating rate bonds with annual simple interest rate. Annual coupon rate is calculated by adding basic interest spread to benchmark rate which is determined every five years. Wuhan Metro perpetual bonds carry a liquidity support clause, according to which, during the duration of the bonds, the ICBC would provide on certain conditions liquidity-supporting credit that are no less than the amount of principal and interest payment of the current bonds in the event of shortage of liquidity in the payment of principal and interest by Wuhan Metro.

1 A write-down clause refers to the case where, in the event of a trigger event, the issuer has the right to fully write down the principal of current issue and other tier 1 capital instruments already issued in an irrevocable manner and stop repaying any unpaid accrued interest since the second day after the trigger event takes place without the consent of bondholders. A trigger event refers to one of the following that occurs earlier: first, the CBRC concludes that the issuer won't remain viable without a write-down; second, relevant parties conclude that the issuer won't remain viable without capital injection from the public sector or support of equal effects.

In December 2013, the Guodian Power Development issued perpetual medium-term notes, first of its kind. Compared with traditional medium-term notes, perpetual medium-term notes also introduced many innovative arrangements similar to that of perpetual bonds in issuance clause, namely, medium-term notes have no maturity date and are only due at the agreed date of redemption by issuers in line with issuance clause. The call is an option for the Guodian Power Development on the fifth year and afterwards on each interest payment date. If the Guodian Power Development does not redeem the notes in the 5th year, the coupon for the 6th to 10th year will reset to the current benchmark rate plus initial spread and an additional 300 bps. Initial spread, once determined at times of issuance, will remain unchanged, and the coupon rate resets every five years. In addition, the medium-term notes also carry a deferred interest payment clause, agreed events for mandatory interest payments and restrictions regarding deferred interest. With the above innovative clauses, principals of this type of medium-term notes can qualify as equity for accounting purposes to increase the company's equity and lower its debt-to-asset ratio.

3.3 Several cases of SME bond financing innovation emerged

In April 2013, Standard Chartered (China) issued on the interbank bond market 5 billion yuan of 3-year RMB financial bonds to shore up loans to small and micro businesses, making it the first foreign-funded bank to issue small and micro business-supporting financial bonds on domestic market.

In October 2013, Wuhan Fuxing Biotechnology Pharmaceutical issued 256.5 million yuan of SME exchangeable private placement bonds, first of its kind on domestic market, with 10 million shares of Fuxing Xiaocheng and the yield as the guarantee for the exchange for stocks by bond holders and the repayments of principals and interest. SME exchangeable private placement bonds are those issued through private placement by SMEs and micro businesses that meet the requirements of the Ministry of Industry and Information Technology. Bond holders could with a certain period of time exchange them for stocks of listed companies according to pre-determined conditions. As an attempt to provide financial support for SMEs and promote innovation of debt-equity hybrids in a multi-tiered capital market, SME exchangeable private placement bonds would help mobilize shareholders' stock of listed companies' shares to provide new financing channels for shareholders of small and medium-sized listed companies.

Since 2013, innovation of debt financing products targeting SMEs never stopped, and issuers of small and micro business-supporting bonds continued to expand. All this would help give further play to bond market in bolstering SMEs, lowering enterprise financial cost and facilitate growth of real economy.

3.4 Innovation of bond fund products was promoted continuously

In March 2013, approved by the China Securities Regulatory Commission (CSRC), Guotai SSE 5-Year Government Bond Exchange-Traded Fund (ETF), first government bond ETF on domestic market, made its debut on the Shanghai Stock Exchange (SSE). Government bond ETF is a typical major investment tool for such institutional investors as insurers and banks to match cash flows, which provides remarkable convenience for institutional investors to conduct liability management or major asset allocation. Going forward, it is possible that a number of products based on the government bond ETF may grow active. Government bond ETF would get the exchange market connected with the interbank market by providing a bridge for the coordinated development of these two markets, and would play a positive role in promoting a regulated bond market and the long-term bond market development in China.

In October 2013, Guangfa ChinaBond Financial Bond Index Fund, first policy financial bond index fund in China, was issued. Guangfa ChinaBond Financial Bond Index Fund is a pure debt product, mainly tracking the ChinaBond 5-year (policy) financial bond index. Policy financial bond transactions are typically done between institutional investors on the interbank market with individual investors denied direct investment. Therefore, Guangfa ChinaBond Financial Bond Index Fund blazed a new trail for individual investors to invest policy financial bonds.

In August 2013, Guotai Taojin Internet Bond Fund was approved, becoming the first bond fund to be issued via the internet. The sale of Guotai Taojin Internet Bond Fund adopted a dual channel. In addition to direct sale by the fund company and agency sale by banks, agency sale could also be done through Taobao, but at a later time. It is an important innovation in the sale of bond fund and a good combination of the internet-oriented trend and current bond products. Only 15 days after the issuance, a notice was released on November 20, announcing the establishment of Guotai Taojin Internet Bond Fund, with fund units raised exceeding 1 billion and the number of subscribers surpassing 10 thousand, making the fund the only vanilla bond fund that exceeds 1 billion yuan since the fourth quarter of 2013, which reflected the potential demand for products targeting internet clients.

It may be noted that with the continuous innovation of bond fund products and means of issuance, China's bond market expanded both in depth and width, and thus would be able to provide more and more investment options for market participants.

4. Bond market institution and infrastructure development

4.1 Joint conference on inter-ministry financial regulatory coordination was put in place

To further strengthen financial regulatory coordination and safeguard sound financial sector performance, the State Council promulgated on August 15 2013 the *Reply of the State Council Regarding Approval of the Establishment of Joint Conference on Inter-Ministry Financial Regulator Coordination* (State Council Document No. 91 of 2013), endorsing the set-up of joint conference on inter-ministry financial regulatory coordination led by the People's Bank of China (PBC). Members of the joint conference led by the PBC include the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), the China Insurance Regulatory Commission (CIRC) and the State Administration of Foreign Exchange (SAFE), and other relevant departments when necessary, such as the National Development and Reform Commission (NDRC) and the Ministry of Finance (MOF). Office of the joint conference is based in the PBC, responsible for day-to-day issues regarding financial regulatory coordination. Major responsibilities and tasks of the joint conference on inter-ministry financial regulatory coordination include: coordination between monetary policy and financial regulatory policy; coordination between financial regulatory policy and laws and regulations; coordination between safeguarding financial stability and preventing as well as mitigating regional systemic financial risks; coordination of cross financial products and cross-market financial innovation; coordination of financial information sharing and financial sector integrated statistical system; and other tasks assigned by the State Council.

At present, China is at a critical juncture of economic transformation and financial reform. Establishing the regular joint conference on inter-ministry financial regulatory coordination is an important arrangement by the CPC Central Committee and the State Council regarding financial sector, a major way to improve financial regulatory regime, an inherent requirement for maintaining sound and highly efficient financial market performance under current sector-by-sector parallel regulatory arrangements, an effective way to safeguard financial innovation as well as coordinated and mutually enhancing financial market development and regulation, an urgent need for preventing systemic risks, and an action consistent with international consensus and actions in the aftermath of global financial crisis. It marks that China has made financial regulatory coordination institution-based, standardized and a day-to-day issue.

4.2 Pre-issuance of government bonds was kicked off on a trial basis

On March 25 2013, the MOF, the PBC and the CSRC issued the *Notice on Launching Pilot Pre-Issuance of Government Bonds* (hereinafter referred to as the *Pilot Notice*), stipulating inter alia that pre-issuance trading was allowed from four legal working days until one legal working day prior to the government bond tender date with performance guarantee. In principle, underlying government bonds should be delivered physically, but could resort to relevant rules of each market to address failure to deliver physical bonds. The MOF issued a circular on July 15, announcing to choose the 7-year book-entry treasuries for first pilot pre-issuance. 7-year book-entry treasuries pre-issuance trading could be conducted at places that meet the requirements of the *Pilot Notice*. The SSE unveiled on September 26 measures regarding the pilot pre-issuance of government bonds and then the pre-issuance of government bonds was launched on the SSE on a trial basis on October 10.

Price movement was stable on the first day of pre-issuance, investors actively participated in it, and the bid-ask spread was small. First pilot pre-issuance was only open to financial institutions and eligible professional investors. In particular, only members of government bond underwriting groups could see a net purchase, block trading was disallowed temporarily, the balance of purchase by individual investors should not exceed 6% of current planned issuance, and margins as performance guarantee were set at 10% temporarily. In addition, the first pilot pre-issuance also set limits on the range of quotations, size of net selling and so on. The government bond pre-issuance could lock in advance the bond price through active government bond forward transactions, and develop expectations of issuing rate so as to reduce the impact of issuance on the primary market on the secondary market.

4.3 Enterprise bond issuance was improved

In 2013, the NDRC released a range of notices aimed at streamlining the approval procedures for issuing enterprise bonds and enhancing risk prevention and management. First, the NDRC issued on April 19 the *Notice on Further Improving the Approval of Enterprise Bond Issuance*, categorizing enterprise bond issuance applications into three types, i.e. expedited and simplified approval, stringent approval, and approval appropriately controlling size and pace. Second, the NDRC promulgated in May the *Notice on Conducting Targeted Inspections of Some Enterprises Applying for Issuing Enterprise Bonds*, requiring that an all-round targeted inspection of some enterprise bond issues should be carried out in accordance with the financial inspection for initial public offering (IPO), consisting of three steps, i.e. self-inspection by issuers and intermediaries, second inspection and proportional random check. The NDRC released on August 28 the *Notice on Further Improving Enterprise Bond Issuance*, deciding to entrust the provincial development and reform commission with pre-approval of enterprise bonds which was currently conducted by the NDRC and clearly stipulating that the pre-approval should be done within 15 working days. Given that, the NDRC could adjust the issuance threshold in a dynamic way and properly control bond issuance size by taking into account national macroeconomic and financial developments and the requirements of macro control. The series of measures announced by the NDRC on improving the administration of enterprise bond issuance would improve the efficiency in approving enterprise bonds, strengthen the prevention of repayment risk, and promote a sustainable and healthy enterprise bond market.

4.4 Small and micro business financing was improved

To implement the *Guiding Opinion of the General Office of the State Council on Providing Financial Support for Economic Restructuring, Transformation and Upgrading*, expand small and micro business financing channels, and beef up support for small and micro businesses, the NDRC, the PBC, the CBRC and some other ministries unveiled a range of documents on stepping up services for small and micro businesses through the bond market.

The NDRC published in July 2013 the *Guiding Opinions on Supporting the Development of Small and Micro Businesses by Strengthening Financing Services to Small and Micro Businesses*, putting forward 11 measures covering such aspects as bond issuance, venture capital investment and guiding fund in a bid to ease funding difficulties faced by small and micro businesses. The guiding opinions encourage streamlining approval procedures, improving approval efficiency, and issuance of collective bonds by state-owned enterprises and local financing vehicles on a trial basis to enhance the creditworthiness of small and micro businesses. Moreover, the NDRC also mentioned for the first time in its documents that it would support bond issuance by eligible venture capital investment enterprises, equity investment enterprises and industrial investment funds.

The CBRC released on September 2013 the *Guiding Opinions on Further Improving Financial Services to Small and Micro Businesses*, mapping out a total of 15 specific measures, which mainly covers ensuring the growth of credits to small and micro businesses, improving relevant indicator monitoring and evaluation systems for small and micro businesses, boosting positive incentives for financial services targeting small and micro businesses, encouraging banking financial institutions to continuously innovate patterns of service to small and micro businesses, and pursuing manifold policy support to optimize the external financial environment for small and micro businesses. It is important for promoting the sustainable development of small and micro businesses, and facilitating industrial upgrading as well as economic transformation.

4.5 Investment direction of wealth management products was regulated

Since 2013, commercial banks' wealth management funds directly or indirectly invested in non-standardized debt assets via non-bank financial institutions and asset trading platforms grew rapidly. Some banks have problems in business operation, such as circumventing lending regulation and failing to isolate investment risks in time. To effectively prevent and control risks as well as promote the regulated and healthy development of relevant businesses, the CBRC published on March 25 the *Notice of the China Banking Regulatory Commission on Relevant Issues Regarding the Regulation of Investment Operation in Commercial Banks' Wealth Management Business* (the No. 8 CBRC Document in 2013, hereinafter referred to as the *No.8 document*) to regulate the investment operation of banks' wealth management business. Clearly specifying the requirements of investment direction of banks' wealth management funds and risk provisioning, the *No. 8 document* was an important measure to address risks related to growing bank-securities and bank-fund businesses, aiming to regulate the investment operation of banks' wealth management business as well as prevent and mitigate its risk.

Specifically speaking, the *No.8 document* clearly requires commercial banks to match every wealth management product with assets in which it is invested with regulatory focus on those invested in non-standardized debt assets. The *No.8 document* defines non-standardized debt assets as credit assets, trust loans, entrusted debt, acceptance bills, letters of credit, receivable accounts, various beneficiary's rights, equity financing with a repurchase clause, and so on, while instruments like bonds traded on the interbank and exchange markets are recognized as standardized debt assets. The CBRC required that commercial banks should properly control the sum of wealth management funds invested in non-standardized debt assets and adopted the principle of limit-based administration of this type of investment by clearly stipulating that commercial banks' wealth management funds invested in non-standardized debt assets should not exceed 35% of total wealth management funds and should be less than 4% of banks' total assets. With regard to investment in non-standardized debt assets that breached the above limits prior to the *No.8 document*, commercial banks were required to, in the light of proprietary loans and the requirements of the *Measures for the Administration of Capitals at Commercial Banks (Provisional)*, complete calculation of risk-weighted assets and capital provisioning before the end of 2013. Besides, the *No.8 document* also puts forward specific requirements regarding the information disclosure, risk management, quota management, approval of agency sale, guarantee or repurchase commitments related to commercial banks' wealth management products, as well as requirements for product supervision and penalties imposed by regulators.

4.6 Industry self-regulation was further intensified

AS China's bond market developed continuously both in depth and width, industry self-regulation also deepened. In 2013, the NAFMII published the *Guidelines on Book-Keeping and Filing in Issuing Non-Financial Enterprise Debt Financing Instruments*, the *Guidance on Self-Regulation on the Credit Ratings of Non-Financial Enterprise Debt Financing Instruments*, the *System of Tables for Information Disclosure during the Duration of Non-Financial Enterprise Debt Financing Instruments*, the *Charters for Meetings by Holders of Non-Financial Enterprise Debt Financing Instruments on the Interbank Bond Market*, and the *Guidelines on Self-Regulation on Brokerage on the Interbank Market*, which tightened self-regulation on the interbank market from several aspects, including debt financing instrument issuance, credit ratings, information disclosure, investor protection and brokerage. In particular, the *Guidelines on Book-Keeping and Filing in Issuing Non-Financial Enterprise Debt Financing Instruments* clarified basic principles and operational requirements for issuance through book-keeping and filing by targeting the book-runner, issuer, lead underwriter and members of the underwriting group that participate in the issuance through book-keeping and filing, and reviewing their institution building, on-site management and operations. The *Guidance on Self-Regulation on the Credit Ratings of Non-Financial Enterprise Debt Financing Instruments* targets credit ratings of Non-Financial Enterprise Debt Financing Instruments, puts forward requirements for credit rating agencies and professionals, and requires credit rating agencies to establish, improve and implement administrative institutions and working mechanisms for information management, rating quality control, management of conflict of interest and information disclosure. The *System of Tables for Information Disclosure during the Duration of Non-Financial Enterprise Debt Financing Instruments* matches with system of tables for registration documents in content and is consistent in format. These two systems combined formed the full set of institutions on information disclosure format for debt financing instrument market, which put in place a wide-ranging regulation on the information disclosure by relevant entities in every stage from issuance registration to repayment of principals and interest. The *Charters for Meetings by Holders of Non-Financial Enterprise Debt Financing Instruments on the Interbank Bond Market* clearly specified the dual function of holders' meeting, i.e. statutory deliberation procedures and general deliberation platform, put forward specific requirements for the holding of the meeting, notices, convening, claim registration, deliberation, voting, reply, information disclosure, record-keeping and file-keeping, set down prudent and reasonable regulations on basic mechanisms regarding triggers of the meeting, confirmation of right to attend, remit of attendees and entrusted issues, voting right and verification, and validity of the meeting and resolutions, and regulated from self-regulation perspective the rights and obligations of stakeholders in debt financing instruments regarding convening holders' meetings. The *Guidelines on Self-Regulation on Brokerage on the Interbank Market* set down wide-ranging regulations on interbank market brokerage through a total of 45 provisions contained in five parts, namely, the general rules, internal control and risk management, business standards, self-regulation standards, and supplementary rules. The introduction of these self-regulation documents was an adaptation to the need of interbank market development and was important in further promoting the regulated development of interbank market.

4.7 Credit asset securitization was promoted as a regular practice

On July 5 2013, the *State Council issued the Guiding Opinions on Providing Financial Support for Economic Restructuring, Transformation and Upgrading*, requiring among other things credit asset securitization should be promoted gradually as a regular practice, to mobilize funds to support the development of small and micro businesses as well as economic restructuring. The State Council decided at its standing meeting on August 28 to expand the scale of pilot credit asset securitization under the precondition of controlling the aggregate size. According to the meeting, high quality credit asset securitization products are eligible for listed trading on the exchange, riskier assets are excluded from the pilot program, no re-securitization is allowed, and credit asset securitization adopts unified issuance and custody registration. 2013 first batch of special securities backed by credit assets involving the Kaiyuan Railway was issued by the China Development Bank (CDB) on November 18 to the tune of 8 billion yuan, the first product issued as a way to implement the requirement of the State Council regarding expanding the pilot credit asset securitization. On December 31, the PBC released jointly with the CBRC the *Circular No. 21 of the People's Bank of China (2013)*, clarifying that the originator could decide flexibly specific means of risk retention in line with relevant requirements, which further boosted commercial banks' incentives to participate in the expanded asset securitization pilot.

Gradually developing credit asset securitization from a pilot program into a regular practice is a concrete measure to provide financial support for economic restructuring, transformation and upgrading, which could not only optimize effectively financial resource allocation, mobilize credit stock, expand the financing channel for enterprises related to agriculture, farmers, and rural areas as well as small and micro businesses, and promote urbanization in China, but also provides bigger room for commercial banks to conduct financial innovation in the face of such challenges as interest rate liberalization and mixed operation by unleashing trapped liquidity.

4.8 Institutions and regulations on financial bonds were improved

First, further set down requirements for the private placement of financial bonds. On September 26 2013, the PBC published the *Notice of the Financial Market Department of the People's Bank of China on Issues Related to Private Placement of Financial Bonds*, clarifying the definition and features of financial bond private placement as well as subscribers' qualifications, which met the demand of financial institutions for diversified bond issuance.

Second, promote cross-market bond issuance. The first batch of 12 billion yuan of CDB financial bonds were issued on the SSE on December 27 2013. The introduction of the exchange market in the issuance of CDB financial bonds would diversify investors in CDB financial bonds, explore diverse issuance channels for financial bonds, and make more products available to medium and small investors on the exchange market, which would help improve the status quo of the exchange market, i.e. inadequate depth and liquidity. Built upon increased circulation of bond products and higher mobility among investors, the interconnectedness of bond market infrastructure could be upgraded and improved.

Third, establish and improve the ex post supervision over financial bonds issued to provide loans to small and micro businesses. The PBC unveiled on December 31 2013 the *Circular of the People's Bank of China on Issues Related to the Ex Post Supervisory Administration of Financial Bonds Earmarked for Providing Loans to Small and Micro Businesses*, specifying requirements on the administration of the use of raised funds by financial bond issuers, the oversight exercised by lead underwriters over the use of raised funds and information disclosure, and monitoring and supervision of financial bonds earmarked for providing loans to small and micro businesses, which formed a relatively complete ex post supervision system capable of ensuring funds raised through financial bonds could be fully used for loans to small and micro businesses, thus further improving financial services for these businesses.

4.9 Investment in bond market with insurance funds was promoted

In June 2012, the CIRC released 13 new policies on insurance investment to solicit opinions, which paved the way for the insurance sector to access the securities, fund, banking, and trust sectors, and would improve the stability and sustainability of investment with insurance funds. The 13 new investment policies mainly include: allowing insurance institutions to launch securities lending and margin trading; allowing insurance institutions to take part in financial derivatives trading on both domestic and overseas markets; expanding the investment products and scope available for insurance funds to invest on overseas market; allowing fund and securities companies to be entrusted with insurance funds management; and allowing insurance institutions to invest in collective asset management schemes originated by securities companies, collective fund trust schemes offered by trust companies, and credit asset-backed securities as well as wealth management products with guaranteed returns originated by commercial banks.

At present, the CIRC has rolled out 10 new investment policies, including the *Interim Measures for Bond Investment with Insurance Funds*, the *Detailed Rules for Implementing the Interim Measures for the Administration of Overseas Investment*, the *Provisions for the Administration of Infrastructure Debt Investment Plans*, the *Notice on Investment in Relevant Financial Products with Insurance Funds*, the *Notice on Issues Related to Insurance Asset Management Companies*, the I*nterim Measures for Financial Derivatives Trading with Insurance Funds*, the *Provisions for Stock Index Futures Trading with Insurance Funds*, the *Notice on Issues Related to the Pilot Asset Management Business of Insurance Asset Management Companies*, the *Notice on Issues Related to Strengthening and Improving the Investment Management Capacity Building of Insurance Institutions*, and the *Notice on Issues Related to the Registration of Debt Investment Plans*. These new policies signified that reform and innovation of insurance fund use gradually materialized, and the bond market would be the dominant investment target during the market-based use of insurance funds.

4.10 Settlement of transactions on the interbank bond market was improved

To regulate transaction settlement on the interbank bond market, crack down on off-line connected trading, prevent profit transfer and further promote healthy market development, the PBC published on July 2 2013 the 8th Circular of 2013, requiring that transactions on the interbank bond market should be concluded through the trading system of the National Interbank Funding Center and could not be cancelled or changed once done, and that the China Central Depository and Clearing Co. Ltd. and the Shanghai Clearing House (hereinafter referred to as bond depository and clearing institutions) should not provide settlement for bond transactions done outside the trading system of the National Interbank Funding Center. Bond transactions mentioned by the Circular refer to spot trade, bond pledged repurchase agreement (repo), bond outright repo, bond forwards, bond lending and so on. The Circular also sets down stipulations on reports of changing hands without trading, applications for getting connected for bond trading and the opening of accounts, and the information reconciliation, sharing and monitoring between bond depository and clearing institutions. Afterwards, the National Interbank Funding Center and bond depository and clearing institutions all formulated according to the requirements of the Circular relevant business rules and contingency plans. All this would help avoid non-compliant bond transactions and settlements, protect the legal rights of market participants, and promote healthy and regulated market development.

4.11 The settlement approach of delivery-versus-payment was optimized

The PBC published on August 27 2013 the 12th Circular of 2013 (hereinafter referred to as the *Circular*), the focus of which was that delivery-versus-payment (DVP) would be applied broadly to bond transactions on the interbank bond market. The release of the *Circular* made the PBC's policy initiative more evident, which was years of persistent promotion and broad application of DVP to the interbank bond market. It would help boost market settlement efficiency, prevent risks, and promote sound and regulated market development. The *Circular* required bond depository and clearing institutions to provide via the link between their own bond business systems and the PBC's large-value payment system (hereinafter referred to as the payment system) DVP service to market players, put forward separate detailed rules on DVP business procedures for market players with clearing accounts in the payment system and those without any clearing accounts, and proposed six principles for bond depository and clearing institutions to follow when managing special accounts for bond settlement funds, including one account for one customer, exclusive ownership, no appropriation, no advance payment, zero-balance management and setting up an inquiry mechanism. It required bond depository and clearing institutions to sign DVP service or proxy agreements prior to offering DVP service, intensify daily business monitoring and reporting, and put in place and improve contingency mechanisms. It also asked the NAFMII to strengthen market players' self-regulation in the process of DVP settlement, and designated the business operation office of the PBC as the institution responsible for daily monitoring of special accounts for bond settlement funds. In addition, to ensure smooth transition, the Circular also set a 3-month phase-in period for DVP settlement.

After the *Circular* was released, to support DVP settlement and safeguard settlement security across the market, the National Interbank Funding Center and bond depository and clearing institutions all made active efforts. According to statistics, new members of DVP settlement stood at 2311 in 2013, two times that of 2012. As of end-2013, a total of 4,963 members of interbank settlement signed relevant agreements on DVP settlement, and could adopt DVP to settle bond transactions.

5. Outlook on bond market development

2013 was the year in which China's bond market regained confidence and explored development amid turbulence. Market overhaul and regulation at the start of the year, liquidity strains on the interbank market in the middle of the year, and bond issuing rate hike and price slump in the second half of the year not only tested the development of bond market, but also guided it towards healthier development. The Third Plenary Session of the 18th CPC Central Committee identified the overall objective of fully deepening reforms, and described in detail reform ideas in the *Decision of the Central Committee of the Communist Party of China on Several Major Issues Regarding Fully Deepening Reforms* (hereinafter referred to as the *Decision*), which highlighted the decisive role of the market in resource allocation. It clearly proposed that efforts should be made to improve the multi-tiered capital market system, develop and regulate bond market, and increase the share of direct financing, which was important in rebuilding confidence in the bond market and created new opportunities for China's bond market to achieve sustainable, health and regulated development in the future. In 2014, the bond market will continue to play a role in optimizing financial resource allocation, mobilize credit stock, optimize new credit, and give full play to financial services in supporting economic restructuring as well as industrial transformation and upgrading. With the development and regulation of bond market, China's bond market will see bigger progress in improving institutions, innovating products, diversifying investors, enhancing information transparency and improving efficiency, and the level of opening up and regulatory coordination will continue to rise.

5.1 Bond market size is expected to grow further

Currently, as China's economy is at a critical point of restructuring as well as industrial transformation and upgrading, stabilizing growth, adjusting structure, promoting reforms and preventing risks dominate current and future economic and financial work, and implementing the important requirement of the central government on sticking to providing financial services to the real economy will be the focus. The Decision proposed to develop and regulate bond market, increase the share of direct financing, and encourage financial innovation to diversify the level of financial market and products, which provided ideas and guidance for the bond market to expand size through product innovation. As a result, the bond market will play a more prominent role in China's economic restructuring as well as transformation and upgrading.

In 2014, guided by the general tone of adhering to seeking progress through stability proposed by the CPC Central Committee, the inherent momentum in China's economic development will grow stronger, and the macro economy in general will perform steadily. As market-based interest rate reform is accelerated and the new type of urbanization initiative gains speed noticeably, the bond market needs to play a more positive role in allocating financial resources. In 2014, China's bond market will seek regulated development on the basis of market needs, further enrich bond market product structure, facilitate the implementation of national new type of urbanization program, push forward industrial restructuring and upgrading by carrying out national industrial policies, expand credit asset securitization pilot to mobilize credit stock, boost diverse financing channels for areas related to people's livelihood like social housing development, and play a bigger role in propping up SMEs and micro businesses. As market size rises steadily, the bond market will promote sustainable and sound economic growth.

5.2 Yield curve and pricing will be improved on the bond market

Government bond yield curve is fundamental to market-based financial system performance. It is not only the benchmark for pricing other various types of financial assets, but also an important indicator that reflects economic and financial status quo and expectations. The Decision said in No. 12 that government bond yield curve should be improved to reflect market supply and demand, which highlighted the importance of government bond yield curve in financial resource allocation, and also the great importance that the central government had attached to developing a multi-tiered capital market system which includes the bond market. The improvement of government bond yield curve requires not only better techniques in compiling the curve, and more importantly, better bond market institutions and mechanisms, which would enable the bond market to fully act as the benchmark for pricing.

Going forward, the improvement of government bond yield curve that reflects market supply and demand will be accompanied by bond market reform and innovation to gradually sort out market pricing mechanism. Bond market environment will be further optimized, the issuance of government bonds will be refined persistently, government bond's maturity distribution will be more reasonable, the variety of investors will diversify continuously, bond market making will improve, liquidity in all submarkets including the government bond market will increase, cross-market trading mechanism will run more smoothly, and the efficiency of pricing in transactions will be boosted notably. The government bond yield curve compiling capacity will grow stronger, the curve will fit more accurately with the market, and curve compiling quality will be more reliable. The government bond yield curve will be applied more widely to pricing financial assets and valued as a better reference for identifying and measuring the risk of various assets.

5.3 Market making on the bond market will become more active with increased liquidity

In 2013, bond market trading was far less brisk. The full-year cumulative turnover rate was about 147%, down 158% from last year, far less than that on the bond market in developed countries like the U.S.. To let market play a decisive role in resource allocation, supporting mechanism for market marking on the bond market needs further improvement, bond market trading needs to be invigorated, liquidity on the bond market needs to be filled up, and price discovery mechanism needs to play a bigger role. Increased liquidity on the government bond market will lead to better pricing mechanism across the entire bond market. Continuous improvement of institutions on government bond issues, gradual launch of innovative issuance of government bonds such as additional issue and tap issue, and the indexing of government bond underwriter selection criteria to market making capacity will provide stronger incentives to government bond market makers in market making and make trading more brisk, which in turn will improve the effectiveness of market pricing and boost bond market liquidity.

5.4 Investors on the bond market will continue to diversify

Diverse qualified investors are the important cornerstone of deepening and developing bond market. After regulatory efforts and overhaul of dormant accounts, the number of investors on the bond market declined considerably, and the number of accounts opened by interbank bond market investors slashed nearly one third. At present, fund institutions constitute the biggest investor group. The shrinking of investors will exert certain impact on the dynamism of and the level of liquidity in the bond market. Therefore, after the improvement of bond market access mechanism, increasing the number of investors and diversifying the type of investors follow naturally in bond market reform and development. In the future, the expansion of bond market investor base will still hinge on the OTC market, and stick to a market-based development. Efforts will be made to open bond market to qualified institutional investors in a well-sequenced and gradual manner, and in the meantime, strengthen risk monitoring and management in the wake of easier access. Market constraints will be tightened, government endorsement and implicit guarantee will phase out, and investor protection arrangements will be improved, all of which would help enable more diversified investors to act as the cornerstone of increased liquidity and more dynamic innovation on the bond market.

5.5 Bond market opening up will continue to deepen

China has been promoting the openingup of bond market in an orderly way. Since the introduction of Pan-Asian Bond Index Fund to the interbank bond market in 2005, the number of overseas institutional investors on the interbank bond market had reached 111 as of end-2013, including overseas central banks, international financial institutions, sovereign wealth funds, RMB clearing banks in Hong Kong and Macau, overseas participating banks, overseas insurance institutions and RQFIIs. Meanwhile, the issuance of RMB bonds in Hong Kong by domestic institutions also made progress. The Decision proposed that efforts should be made to promote a two-way opening up of the capital market, increase the convertibility of cross-border capitals and financial transactions in an orderly fashion, as well as establish and improve the external debt and capital flow management system under the macro prudential management framework. Going forward, China is expected to see a fresh round of growth in overseas institutional investors, while market supervisory requirements will gradually converge with international standards, and the degree of opening up will rise markedly.

The future two-way opening up of the bond market will be coordinated with the strategy of promoting the international use of the renminbi and pushed forward steadily. With regard to the opening up of domestic bond market, the approval of QFII and RQFII is likely to be expedited, investment quota will be increased gradually, overseas institutions' investment channels on the domestic market will expand further, and the share of bond holding by overseas institutional investors is likely to rise persistently. Moreover, with the development of capital account liberalization, overseas institutional investors will step up their participation in China's bond market, and the demand environment on China's bond market will be improved. With regard to the building of offshore RMB market, the scope of domestic institutions issuing RMB bonds in Hong Kong will expand continuously, the number of financial institutions and non-financial enterprises issuing bonds overseas will climb persistently, size of bonds will grow steadily and market space will continue to expand.

5.6 Bond market institution building and regulatory coordination will continue to strengthen

Promoting a safe, efficient and open bond market requires unremitting efforts in advancing bond market institution building and infrastructure development. After years of hard work, China's bond market institution and infrastructure development has witnessed remarkable achievements, which has secured steady, transparent and efficient market performance. However, with the rapid bond market development, more types of market entities have entered the bond market, resulting in increasingly higher requirements for bond market administrative institutions and infrastructure. In particular, in the wake of global financial crisis in 2008, China learnt a lesson from the crisis and the Libor manipulation case, and will take drastic measures to strengthen market institutions and infrastructure development. The *Decision* also required that financial regulatory reform measures and soundness criteria should be implemented, regulatory coordination mechanism should be improved, and financial infrastructure development should be beefed up, to ensure safe and efficient financial market performance as well as overall stability. In 2013, the PBC, self-regulatory organizations and intermediaries launched a comprehensive overhaul of interbank bond market institutions from multiple aspects, including issuance, trading, custody, settlement, investors, intermediaries and information disclosure, which enabled a large number of comprehensive and systematic market institution innovations and regularity developments to be applied and implemented. The joint conference on inter-ministry financial regulatory coordination, which was put in place in 2013 and spearheaded by the PBC, will play a bigger role in future financial regulatory reform by persistently making regulatory coordination more standard- and institution-based. In addition, the ministerial corporate debenture bond coordination mechanism established in 2012 should also play a role in bond market regulation, coordination and cooperation among bond regulatory authorities should be enhanced, information disclosure criteria should be higher, and regulatory responsibility should be clearly specified. Going forward, the bond market will follow closely new trends in regulatory reform by international organizations. Efforts will be made to further promote market administrative institution building under the macro prudential management framework, improve market efficiency, and prevent systemic risks.

Part IV Stock Market

In 2013, China's stock market shrank in fundraising scale, among which the share of small and medium-sized enterprises (SMEs) dropped radically. Different boards diverged in performance, with Shanghai Stock Exchange (SSE) Composite Index and Shenzhen Stock Exchange (SZSE) Component Index moving downward amid fluctuation while Growth Enterprise Board (GEB) Index rising dramatically. Institutional investors grew further in number, stock transactions were much brisker, and margin trading and short selling increased significantly. With market system build-up achieving new progress, basic institutional reform deepening, and market innovation and opening-up going on steadily, the stock market was further strengthened both in framework and infrastructure.

1. Stock market performance

1.1 New share issue and financing

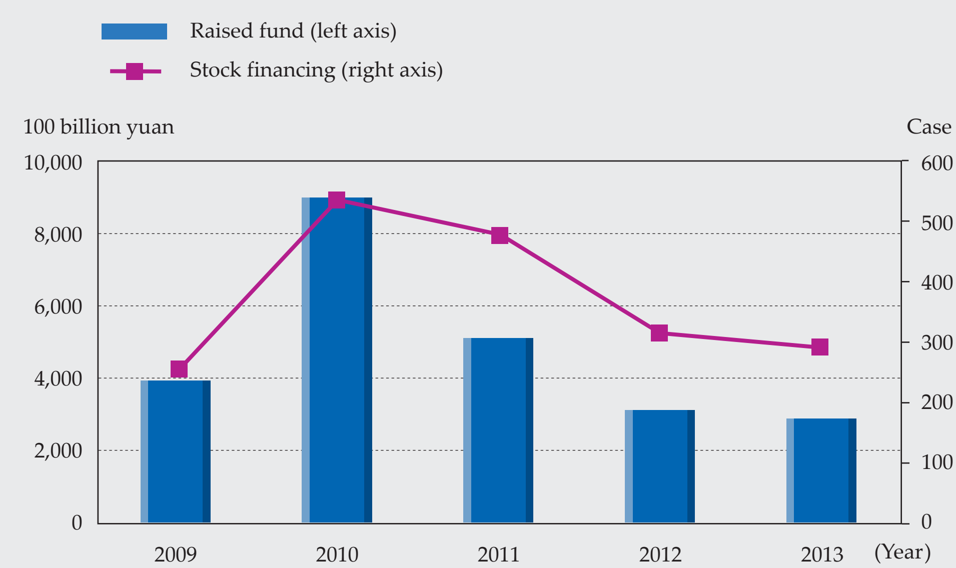
1.1.1 The fundraising scale shrank to some extent

In 2013, the fundraising scale of China's stock market shrank to some extent. There were 291 cases of stock financing in the year, with the raised fund registering 280.276 billion yuan, a decrease of 10.4% over the year before.

1.1.2 Additional offering became major way of financing

In terms of financing ways, with the suspension of Initial Public Offering (IPO), re-financing, such

Figure 4.1 Stock Trading in Recent Years

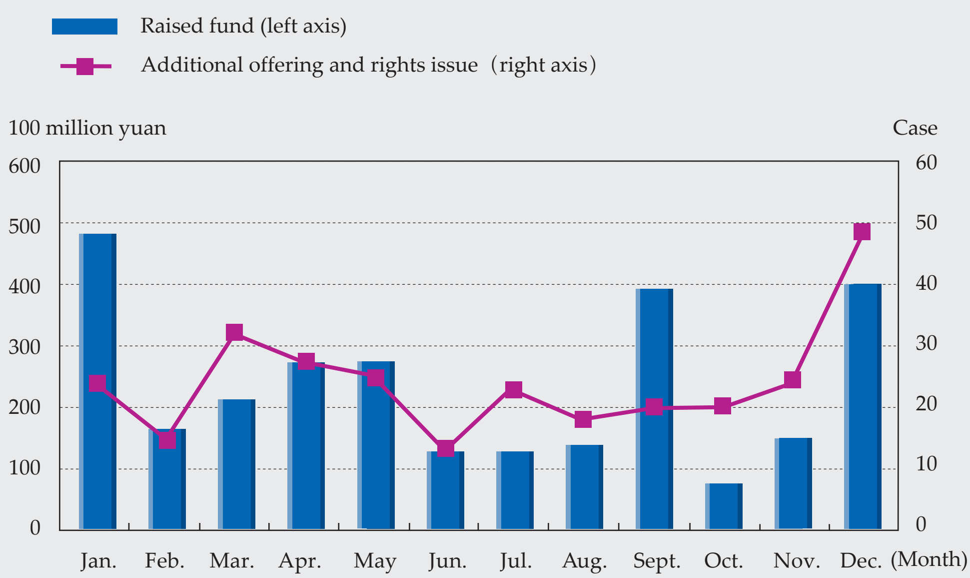


Sources: China Securities Regulatory Commission (CSRC) and Wind Info.

Figure 4.2 Financing Types on the Stock Market in Recent Years

Source: Wind Info.

Figure 4.3 Monthly Financing on the Stock Market in 2013



Sources: CSRC and Wind Info.

as additional offering and rights issue, became the only way out, of which additional offering increased significantly. The year of 2013 witnessed 276 cases of additional offering, an increase of 74.7% on a year-on-year basis. The fund raised through public and directional additional offering hit 232.701 billion yuan, accounting for 83% of the total, an increase of 18% on a year-on-year basis.

1.1.3 More fund was raised in the first half of the year

In terms of monthly value of fundraising, more fund was raised in the first half of the year. In particular, the peak of value was in January, with the fund hitting 48.091 billion yuan. The peak of cases was in December, with the number reaching 48.

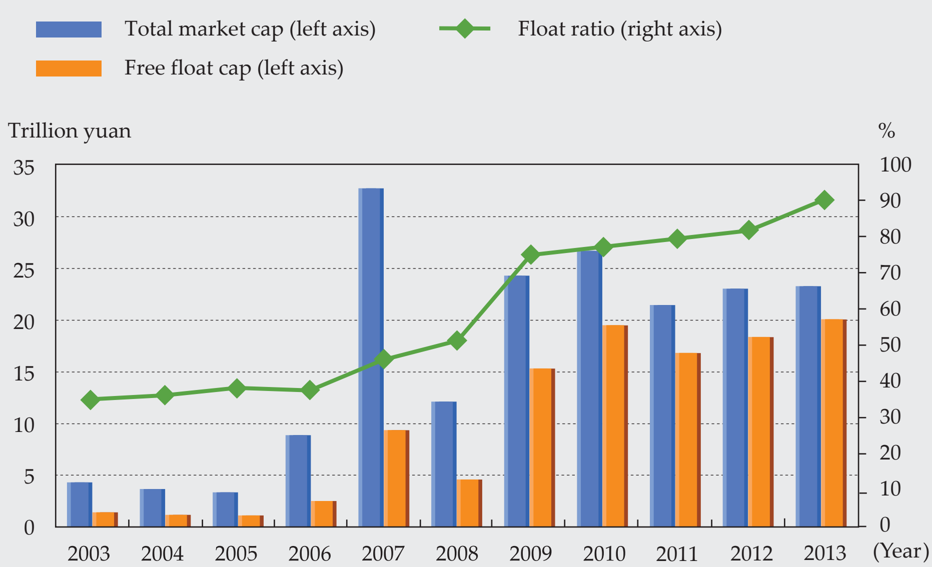
1.2 Stock index and trading

1.2.1 Stock market capitalization grew slightly and the banking industry maintained top position in scale

As of the end of 2013, there had been 2,489 companies listed on Shanghai and Shenzhen markets. The number of stock had reached 2,574, of which 2,468 were on the A-share market, and 106 on the B-share. The market capitalization (cap) registered 23.91 trillion yuan, a slight increase of 0.87 trillion yuan over the end of 2012. Free float cap registered 19.96 trillion yuan, an increase of 1.74 trillion yuan from end-2012. Issued equity shares totaled 4.06 trillion, of which float shares registered 3.67 trillion, with float ratio rising further from 81.6% as of end-2012 to 90.6% as of end-2013.

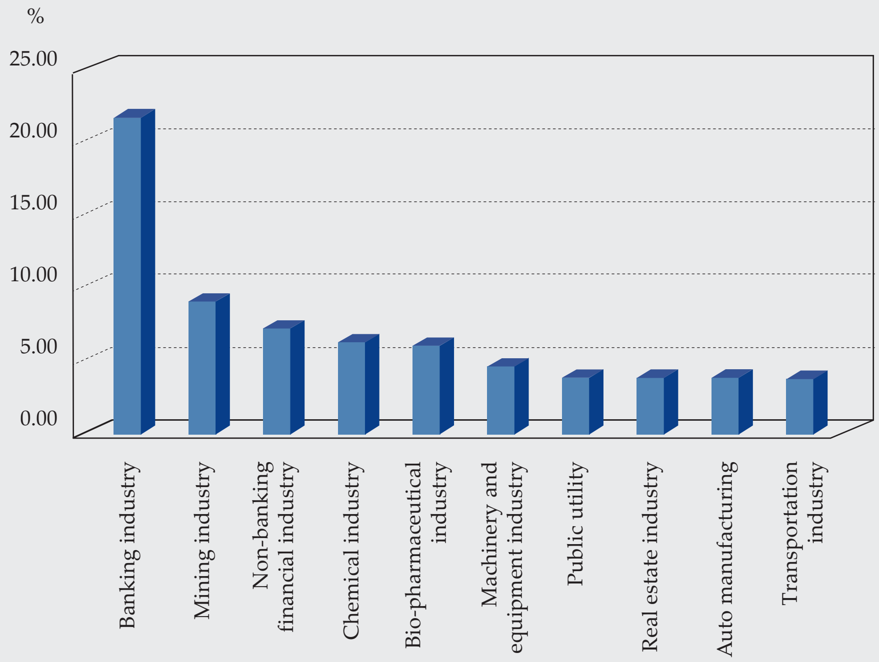
In terms of industry sector, banking industry continued to be the largest one on the stock market. As of the end of 2013, its market cap had accounted for 20.61% of the total. Other major industry sectors included mining (8.58%), non-banking financial industry (6.81%), chemistry (5.94%), Bio-pharmaceutical industry (5.76%), machinery (4.26%), public utility (3.67%), real estate (3.65%), auto manufacturing 93.58%) and

Figure 4.4 Growth of Stock Market Capitalization, 2003—2013



Sources: CSRC and Wind Info.

Figure 4.5 The Percentage of Top Ten Industry Sectors in Terms of Market Cap



Note: Sectors in this figure are primary sectors under the classification of Shenyin and Wanguo Securities.
Source: Wind Info.

transportation (3.50%).

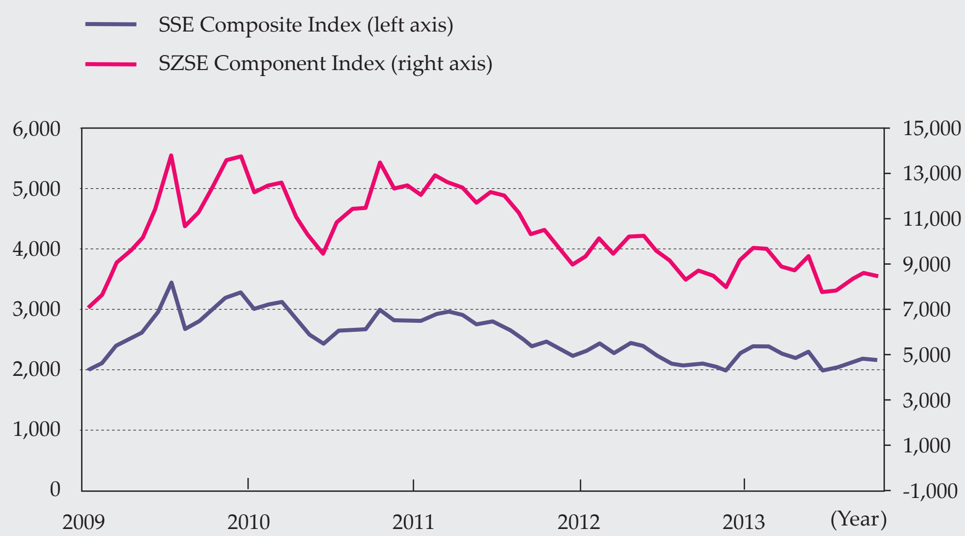
1.2.2 SSE Composite Index and SZSE Component Index moved downward amid fluctuation while GEB Index rose dramatically

In 2013, China's stock market moved downward amid fluctuation on the whole. In February, SSE Composite Index and SZSE Component Index reached the highest point of 2,434.48 and 10,057.97 respectively, and then moved all the way downward until reached the lowest point of 21,15.98 and 8,121.79 at the end of December, with the drop hitting 13.1% and 19.3% respectively. Compared with the end of 2012, SSE Composite Index and SZSE Component Index dropped 6.8% and 10.9% respectively. Different from the morbid performances of SSE Composite Index and SZSE Component Index, GEB Index has created new peak one after another since 2012. On October 10, 2013, GEB Index reached record high of 1,423.97 points, up 100% over the end of December 2012. At the end of 2013, the GEB Index closed at 1,304.44 points, up 82.7% on a year-on-year basis, which indicated that investors focused continuously on SMEs that were equipped with high and new technology.

1.2.3 Stock trading became very brisk, and turnover ratio rose significantly

The year of 2013 witnessed a significant growth of trading value, which was totally different from the morbid performance in the past two years.

Figure 4.6 Performances of SSE Composite Index and SZSE Component Index in Recent Years



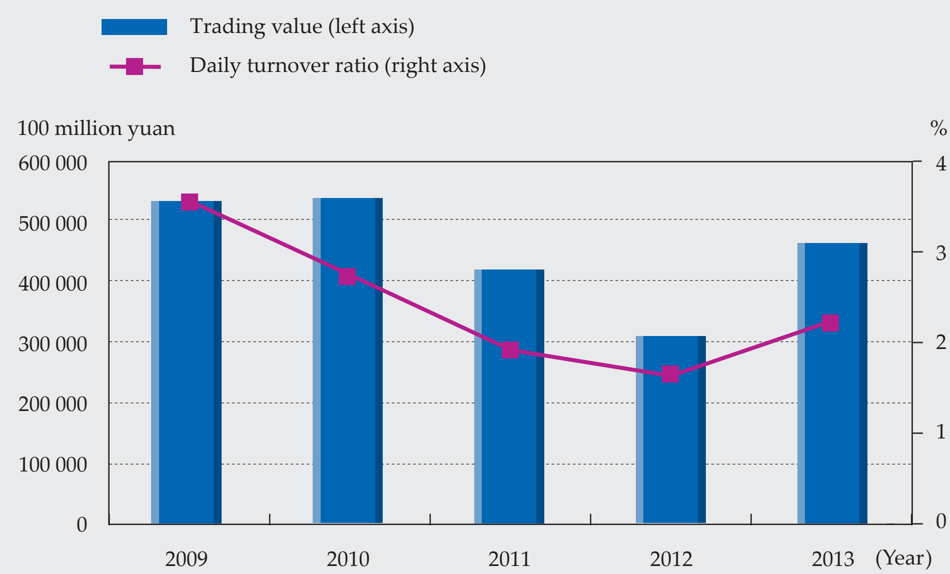
Sources: Wind Info.

Figure 4.7 Performance of GEB Index in Recent Years

Sources: Wind Info.

Throughout the year, the trading value hit 46.88 trillion yuan accumulatively, up 49% year on year. Turnover ratio picked up drastically, reaching 2.23% on a daily basis, up 36.4% over the year before. In particular, the GEB enjoyed the largest growth, with the trading value reaching 5.1 trillion yuan accumulatively, up 119.6% over the year before.

Figure 4.8 Stock Market Trading in Recent Years



Sources: Wind Info.

2. Main features of stock market performance

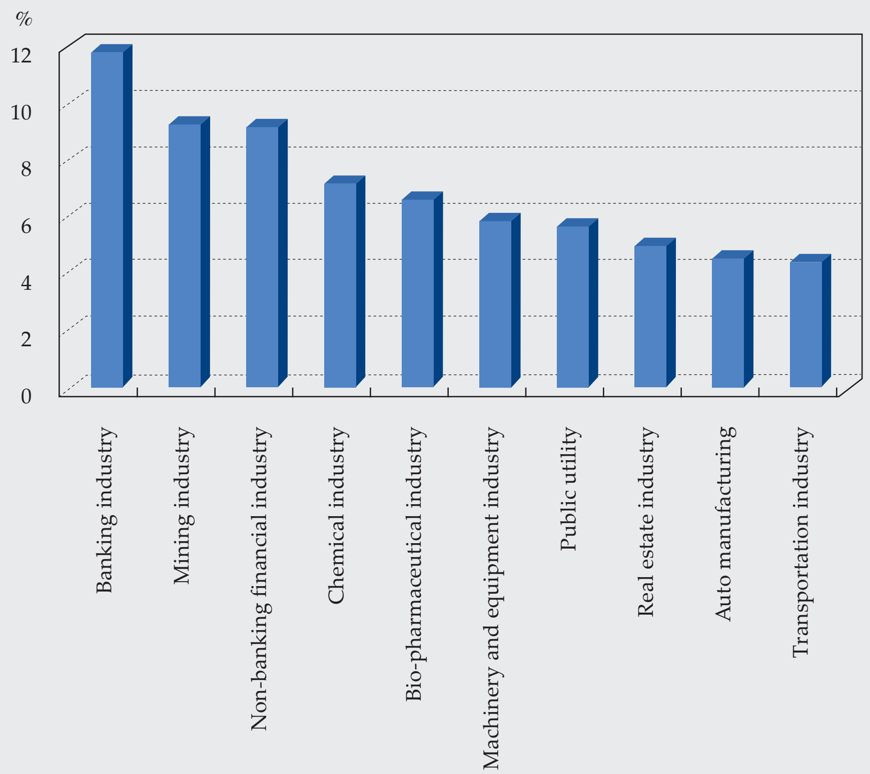
2.1 SME financing took up a much smaller share and the biggest drop happened to GEB

In 2013, the fundraising scale of SMEs and its share on the market declined dramatically compared with 2012. In 2013, fund raised on SME Board registered 53.663 billion yuan, a decrease of 23.430 billion yuan from 2012, down 30.4%. And the share dropped from 15.6% to 12.5%. Even bigger drop was on the GEB market. In 2013, fund raised on GEB market registered 7.872 billion yuan, a sharp decline of 29.169 billion yuan from 2012, down 78.8%. And the share dropped from 7.5% to less than 2%.

2.2 Financial service industry took up the largest share of trading, while non-ferrous metal industry suffered the biggest drop

In terms of trading, financial service industry replaced machinery and equipment industry and became the briskest sector, with its share of trading value rose from 9.5% in 2012 to 11.81% in 2013. The share of machinery and equipment industry in terms of trading value dropped slightly from 9.93% in 2012 to 9.24% in 2013, retreating to the second position from the top. In addition, brisk trading was also witnessed in the industry of information service, bio-pharmaceuticals, chemistry, equipment for transportation, real estate, construction, building materials, and electronic industry. At the same time, the non-ferrous metal, which accounted for 8.35% of total in terms of trading value in 2012, shrank to 4.4% in trading share, dropping from the third position to the tenth.

Figure 4.9 Top Ten Industries in Terms of Trading Value in 2013



Note: Sectors in this figure are primary sectors under the classification of Shenyin and Wanguo Securities.
Source: Wind Info.

2.3 Institutional Investors kept growing in number, and the balance of margin trading and short selling increased considerably

In 2013, institutional investors grew further in number on the stock market. As of the end-2013, both A share and B share accounts on Shanghai and Shenzhen markets had totaled 175 million, up 2.7% over end-2012. To be specific, A share accounts totaled 173 million, including 172 million natural person accounts, 93.4 thousand securities company accounts, 6,900 fund accounts, 21.9 thousand other institution's accounts (including social security fund, enterprise annuity, QFII, RQFII, insurance and trust) and 533.1 thousand ordinary institution accounts. In comparison with end-2012, institutional investors, including fund, enterprise annuity, QFII, RQFII, insurance and trust companies, enjoyed growth in account number, with the only exception of securities companies.

In 2013, with the expansion of refinancing and the launching of securities refinancing on a pilot basis, margin trading and short selling continued to grow significantly, which helped optimize the trading structure on the stock market to a further extent. The balance of margin trading and short selling on Shanghai and Shenzhen markets grew fast. As of the end of December, the balance had registered 346.5 billion yuan, 2.9 times more than 89.5 billion yuan as of end-2012.

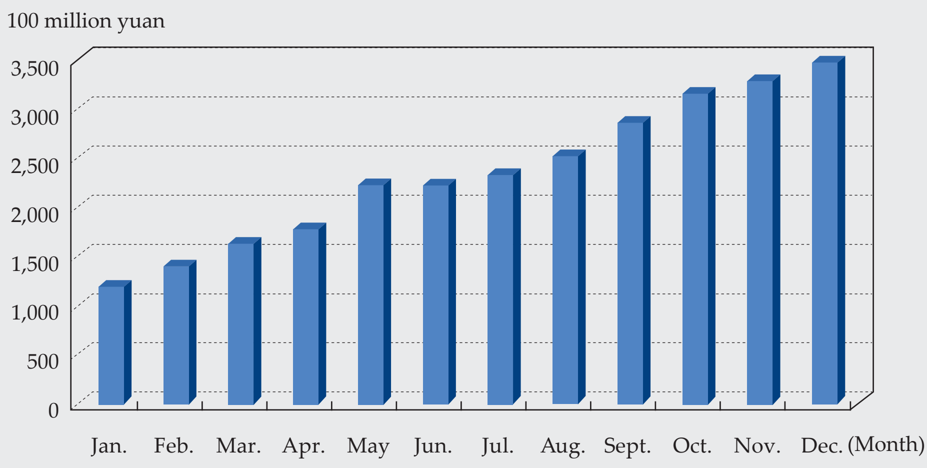
Table 4.1 Number of A-share Accounts Held by All Types of Investors

Unit: %

	December 2013	December 2012	Change rate
Natural person	171,978,413	167,485,115	2.68
Securities companies	93,425	97,141	-3.83
Fund	6,948	4,333	60.35
Other institutions	21,860	19,007	15.01
Including: Social security fund	230	196	17.35
Enterprise annuity	5,598	5,055	10.74
QFII	612	355	72.39
RQFII	156	50	212
Insurance	1,564	1,278	22.38
Trust	13,700	12,073	13.48
Ordinary institutions	533,107	508,632	4.81
Total	172,633,753	168,114,228	2.69

Source: Wind Info.

Figure 4.10 Monthly Balance of Bond Financing in 2013



Source: Wind Info.

3. Institution and infrastructure building

3.1 Market system building achieved new progress

3.1.1 The pilot program of share transfer system was expanded to the whole nation

In early 2013, National SME Share Transfer System was officially launched, which indicated that the share transfer of non-listed companies proceeded from pilot program within a limited scope to official operation at the national level. On July 20, the State Council routine meeting decided to expand the pilot program of National SME Share Transfer System to the whole nation, after which supporting rules were promulgated one after another, including the the *Business Rules of National SME Share Transfer System (for Trial Implementation)*, the *Detailed Rules of Investor Suitability Management for National SME Share Transfer System (for Trial Implementation)*, the *Detailed Rules of Information Disclosure for Companies Listed on National SME Share Transfer System (for Trial Implementation)*, and the *Detailed Rules of Chief Broker Management for National SME Share Transfer System (for Trial Implementation)*, etc. According to the *Business Rules of National SME Share Transfer System (for Trial Implementation)* and relevant rules, the investor threshold was greatly lowered. On December 14, the State Council released the *Decisions on Relevant Issues of National SME Share Transfer System*, specifying the function, the building of transfer board system, the simplification of administrative approval,

Table 4.2 Development of Regional Equity Markets in China

	Time of Establishment	Number of Listed Enterprises
Tianjin Equity Exchange	December 2008	412
Shijiazhuang Equity Trading Center	August 2010	30
Qilu Equity Custody and Trading Center	December 2010	252
Wuhan Equity Trading and Custody Center	September 2011	160
Straits Equity Trading Center	October 2011	302
Shanghai Equity Custody and Trading Center	February 2012	159
Shenzhen Qianhai Equity Trading Center	May 2012	2,706
Guangzhou Equity Trading Center	August 2012	556
Zhejiang Equity Trading Center	September 2012	634
Xinjiang Equity Trading Center	October 2012	270
Chongqing Equity Trading Center	October 2012	105
Liaoning Equity Trading Center	January 2013	57
Dalian Equity Trading Center	February 2013	33
Jilin Equity Exchange	June 2013	4
Jiangsu Equity Trading Center	July 2013	22
Qinghai Equity Trading Center	July 2013	90
Anhui Equity Custody and Trading Center	October 0213	22
Beijing Equity Trading Center	December 2013	50
Xiamen Cross-straits Equity Trading Center	December 2013	4

Source: Shenwan Research.

investor suitability management, supervision and coordination for National SME Share Transfer System. The introduction of National SME Share Transfer System was conducive to giving capital market more important role to play in supporting economic transformation, which indicated that progress was achieved in building up multi-level capital market.

3.1.2 Regional equity market developed rapidly

Since 2012 when it was advocated to develop regional equity market vigorously, the market enjoyed rapid development in China. According to incomplete statistics, by the end of 2013, there had been 19 regional equity markets officially in China, with the total number of listed enterprises hitting 5,868, about 2.35 times that of companies listed on China's main board. In particular, Tianjin Equity Exchange, which was established in September 2008, was the first one to get established. Shenzhen Qianhai Equity Trading Center was the one that boasted the largest number of listed enterprises, with the number totaling 2,706. In addition, other equity exchanges were in the process of preparation, such as the ones in Gansu, Fujian and Shanxi provinces.

In terms of development model and path, China's regional equity markets have four basic models, namely, "administration-oriented" model represented by Zhejiang Equity Trading Center, the model of "corporation-like operation with securities companies playing a leading role" represented by Shenzhen Qianhai Equity Trading Center, the model of "self-operation and national service" represented by Tianjin Equity Exchange, and "entrusted operation" model represented by Xiamen Cross-strait Equity Trading Center.

3.1.3 Inter-institution market formed initially

The Inter-institution private products pricing and service system, which was under the responsibility of CSRC mainly and operated by China Securities Capital Market Development Monitoring Center was officially launched in September 2013. This inter-institution market will speed up the inter-connection of OTC markets of securities companies. On the one hand, securities companies can trade products under the cooperation between themselves and other institutions on this platform, which makes up for liquidity insufficiency suffered by products issued jointly by banking and securities institutions or by securities and trust institutions. On the other hand, banking, trust and insurance institutions can trade their own products on the OTC market of securities companies, so as to enhance the product liquidity and satisfy the investor demand for choice diversity and trade flexibility. The build-up of inter-institution market will promote securities companies to expand the scope of pilot OTC trading, to design and trade new products on the OTC market so as to provide diversified service to support real economy and satisfy the demand of client in wealth management.

3.2 Market-oriented reform of basic institution deepened

3.2.1. The fourth round of IPO reform started

On November 30, 2013, the CSRC issued the *Opinions on Further Promoting IPO Institutional Reform*, thereby starting the fourth round of IPO reform. On December 13, the CSRC revised and released the *Measures on Securities Issuance and Underwriting Management*, to implement the request for IPO reform. After that, SSE and SZSE started implementation by releasing rules on on-line and off-line IPO, formation mechanism of opening price on the first day, trading mechanism during the early period of IPO. This round of IPO reform adhered to the management ideology that information disclosure should be at the core position, strengthened the efforts in information disclosure and verification, and protected the rights of minority investors in access to information, participation, supervision and compensation. Efforts were made to rationalize IPO, pricing and placement of shares in a market-oriented manner, to emphasize market discipline and encourage market participants to play their own role, which was conducive to sustaining sound development of capital market.

3.2.2 Securities refinancing was launched on a pilot basis

After practices of more than two years, margin trading and short selling has become an important instrument for stock trading strategy. Especially since the launch of refinancing in August 2012, margin trading and short selling has made great headways. At the end of February 2013, with the launch of securities refinancing on a pilot basis, significant changes have happened to A-share market both in market framework and in investment strategy. The launch of securities refinancing is conducive to improving market-pricing mechanism, thereby good for the stable development of capital market in the long run. Firstly, it might change the unilateral market pattern, and play a positive role in easing stock market volatility and boosting stable development. Secondly, it might change the predicament that the stock price is separated from fundamentals, promote reasonable pricing of shares and improve price discovery function of capital market. Thirdly, it helps safeguard the position of blue-chip market, hence further enhancing the stability of capital market. Fourthly, it helps discourage frauds in public listed companies and furtherenhance the stability in caputal market. Fifthly, it is good for lowering investment risks for investor, diversifying investment profits and cultivating long-term investors from the perspectives of risk management and earnings management.

3.2.3 Separated lanes for mergers and acquisitions were implemented

On September 13, 2013, the CSRC announced the plan of setting separated lanes for verifying mergers and acquisitions (M&A) of listed companies. According to the principle of division followed by inclusion, one vote down, and differing verification, securities exchanges, CSRC, Securities Association of China (SAC) and financial advisors shall carry out appraisals for listed companies from the perspectives of compliance, professional competence of intermediaries, and industry policy and trading type respectively. Based on the result of appraisals, the M&A appliers will be separated into three verifying lanes, namely exempt/fast, normal and cautious. In particular, qualified companies will go into the exempt/fast lane, and the programs not involving share issuance will not go for verification, but be approved by CSRC directly. Programs that go into normal lane shall be verified as the current procedure goes. Still some programs will go into cautious lane, for which verification might be strengthened with reference to a series of factors such as credit rating. Based on measures of appraising information disclosure of listed companies, and referring to the opinions of CSRS on daily supervision, SSE and SZSE completed appraisal for information disclosure and standardized operation of listed companies. SAC publicized the plan for assessing responsibility fulfillment of financial advisors. If the results of both appraisals are A, and the program is on the list of 9 major M&A industries specified by the Sate Council and Ministry of Industry and Information Technology (MIT), namely auto, steel, cement, ship, aluminum, rare earth, electronic information, pharmaceutical, and leading enterprises in industrializing agriculture, and if trading type belongs to the M&A of the same industry or between upstream and downstream industries, not backdoor listing, the program will go into exempt/fast lane. On October 8, the separated lanes for M&A started to be put into practice.

3.2.4 Trading mechanism was further improved

In July 2013, SZSE promulgated the *Trading Rules on Shenzhen Stock Exchange (Revised in 2013)*, which optimized and improved system for block trading. On the one hand, the threshold for block trading was lowered somewhat, with the lowest trading shares and value of A-share, B-share and fund lowered to 60% of the original standard. On the other hand, price formation mechanism for block trading was enriched, with two types of post-closing pricing added. One was using closing price on the day for pricing, the other was using weighted average price on the day for pricing. With the implementation of a series of policies, such as extending business time for block trading, lowering trading threshold, expanding volatility scope, etc., the block trading volume picked up further. Block trading system will become important channels for transferring shares released from trading restrictions, and will solve the problems of high cost and low liquidity faced by institutional investors in block trading, thereby enhancing the attractiveness of stock market to institutional investors and satisfying diversified trading requirements of institutional investors.

3.3 Market innovation continued

3.3.1 Institutional innovation enjoyed regulated development

In 2013, under the keynote of relaxing control and strengthening regulation, institutional innovation enjoyed regulated development. On the one hand, CSRC, CIRC and other regulators further relaxed control, changing from approval system to filing system for collective asset management products by securities companies, expanding investment targets for insurance fund, and allowing fund companies to set up subsidiaries for specific asset management. On the other hand, it was required that all relevant institutions should safeguard the bottom line of preventing systemic and regional financial risks, and pay attention to the risks of innovated business such as asset management. In July 2013, SAC released the *Notice of Relevant Issues on Cooperation between Securities Companies and Banks for Specific Asset Management*, specifying the forbidden activities in specific business of securities companies in cooperation with banks, so that related business was further standardized.

3.3.2 Product innovation was further expanded

In 2013, product line on the stock market was further enriched. On June 24, 9 securities companies including CITIC Securities, Haitong Securities and Guotai Junan Securities officially launched the business of stock collateral repo. On November 30, the State Council promulgated the *Guiding Opinions on Launching Preference Shares on a Pilot Basis*, deciding to launch preference shares on a pilot basis. On December 13, the CSRC solicited opinions publicly on the *Measures of Managing Preference Shares on a Pilot Basis (Exposure Draft)*. The launch of preference shares is conducive to expanding channels for enterprises to replenish capital, to speeding up the development of direct financing, and to promoting M&A of enterprises. Meanwhile, it will provide investors with more diversified investment channels, so as to promote the stable development of capital market.

3.4 Market opening-up was promoted in an orderly manner

3.4.1 Free trade zone expanded the opening-up of capital market on a pilot basis

In August 2013, the State Council officially approved the establishment of China (Shanghai) Pilot Free Trade Zone (FTZ). On September 29, Shanghai FTZ was officially established, becoming an experimental land in China for a new round of reform boosted by opening-up. On the day of establishment, the CSRC announced that efforts would be made to deepen capital market reform, expand opening-up, and strengthen financial support to the development of FTZ. Detailed measures included allowing qualified institutions and individuals in the FTZ to invest in domestic and overseas securities and futures market, supporting securities and futures companies to establish specific subsidiaries in the FTZ, supporting securities and futures companies in the FTZ to provide OTC trading services of commodities and financial derivatives for domestic clients, etc.

3.4.2 The number and quota of overseas and outbound investors increased

Since 2003, China has introduced policies of QFII, QDII and RQFII one after another. By the end of 2013, there had been 251 QFII institutions got approved, up 19.92% over end-2012, with the approved quota hitting 49.51 billion US dollar accumulatively, up 10.44% over end-2012. There had been 56 RQFII institutions got approved, up 50% over end-2012, with the investment quota registering 157.5 billion yuan accumulatively, up 15.62% over end-2012. As of end-2013, there had been 116 QDII institutions got approved, up 6.90% over end-2012, with the investment quota reaching 84.232 billion US dollar accumulatively, up 5.56% over end-2012. In terms of opening-up of securities industry, the "11 rules of innovation" allowed foreign equity participation in securities companies to increase to 49%. Meanwhile, foreign equity participation in futures companies was also expected to increase.

4. Outlook for stock market development

In 2014, continued efforts will be made to improve multi-level capital market system. On the one hand, job will be done to optimize institutional arrangements for stock market, strengthen main board market, develop SME board, reform GEB, speed up the improvement of National SME Share Transfer System, standardize the development of regional equity market, and explore the development of OTC market for securities companies, so as to form the multi-level capital market pattern that is in line with the demand of economic development. On the other hand, job will also be done to develop institutional framework that is conducive to market function and stable operation, to promote IPO reform so as to urge market participants to play their own role, and to improve the mechanism of letting the fittest survive and protecting the legitimate interests of minority investors, and to perfect the system for market trading and operation and for risk prevention and resolution.

Institutional investors are expected to increase in number. On the one hand, the new *Law of Fund* lowered the threshold for public fund participation, unified fund supervision, which is good for the development of asset management industry in China and for the expansion of asset management scale of fund, securities and insurance companies. On the other hand, Ministry of Finance, Ministry of Human Resources and Social Security, State Administration of Taxation jointly promulgated the *Notice on Issues concerning Individual Income Tax on Enterprise Annuities or*

Occupational Annuities, specifying the preferential policy of deferred individual income tax on enterprise annuities and occupational annuities, which was of great significance to speeding up the development of complementary endowment insurance and expanding the investment of old-age pension in the capital market.

Market innovation and opening-up will proceed. On the one hand, efforts will be made to upgrade the convenience of cross-border investment and financing for domestic and overseas institutions and individuals. Job will be done to develop cross-border and cross-market products, to explore diversified listing and trading mechanisms, to gradually relax the restrictions on foreign capital access to securities and futures industry, and to encourage domestic and overseas securities and futures institutions to "go abroad" in differing way. On the other hand, against the backdrop of developing Shanghai FTZ, efforts will be made to further open up capital market, to support qualified institutions and individuals in the FTZ to make cross-border investment in both directions, to provide financial institutions and enterprises in the FTZ with international trading platform and risk management instruments, so as to upgrade resource allocation efficiency of capital market both internally and externally.

Part V Foreign Exchange Market

China's interbank foreign exchange (FX) market witnessed significant growth in 2013. The USD/CNY central parity continued to appreciate at a faster pace, and the RMB also appreciated against non-USD currencies. The central parities of RMB against foreign currencies experienced somewhat larger fluctuations, and the deviation of trading prices relative to the central parities narrowed from the previous year. Transactions of RMB vs. non-USD currencies took up an increasing market share. In terms of market management, the State Administration of Foreign Exchange (SAFE) adjusted measures on comprehensive FX exposure management. In addition, the benchmark system was improved thanks to the introduction of currency swap curves in the interbank FX market. AUD/CNY direct trading was initiated based on corresponding market-making mechanism. Besides, the interbank FX market provided trading confirmation services on a trial basis, which added strength to the market. Looking forward, China's interbank FX market would continue to advance with efforts on market-based FX reform, further FX market opening-up as well as market infrastructure improvement.

1. FX market performance

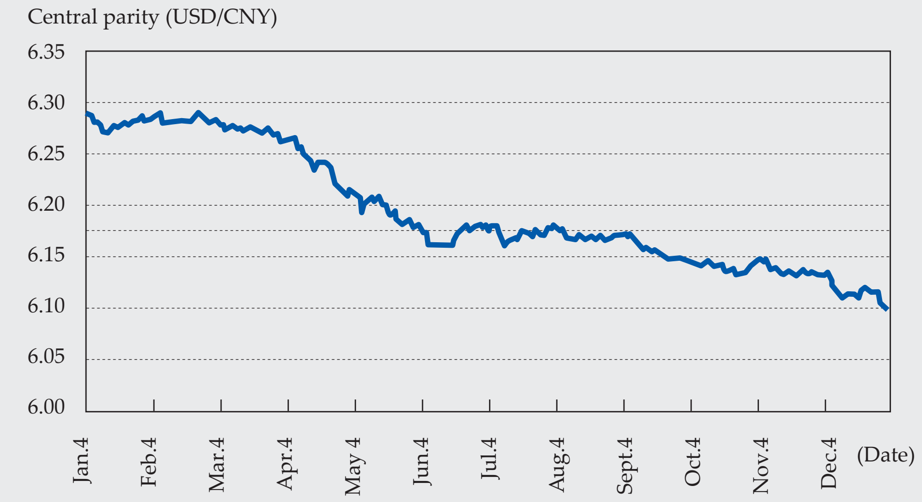
1.1 The RMB was generally on an appreciation trend

During the first half of 2013, the RMB value moved up markedly. At end-June, the USD/CNY central parity stood at 6.1787 yuan, appreciating 1,068bps or 1.7% compared with end-2012. According to BIS data, the real effective exchange rate of the RMB was 116.13 at end-June, indicating an appreciation of 5.6% compared with end-2012. In Q3, the RMB exchange rate fluctuation moderated with the USD/CNY central parity fluctuating within the range of 100bps above or below 6.17 yuan. Then the RMB appreciation accelerated during mid- and end-September, leading to a cumulative appreciation of 0.5% for Q3, 1.5% slower than Q2's pace. In Q4, the RMB value went up further by 0.8%. At end-2013, the USD/CNY central parity registered 6.0969 yuan, appreciating 1,886 bps or 3.1% year-on-year. And the USD/CNY central parity had cumulatively appreciated 35.7% since the RMB exchange rate regime reform in July 2005.

1.2 The central parities of RMB vs. non-USD currencies appreciated across the board

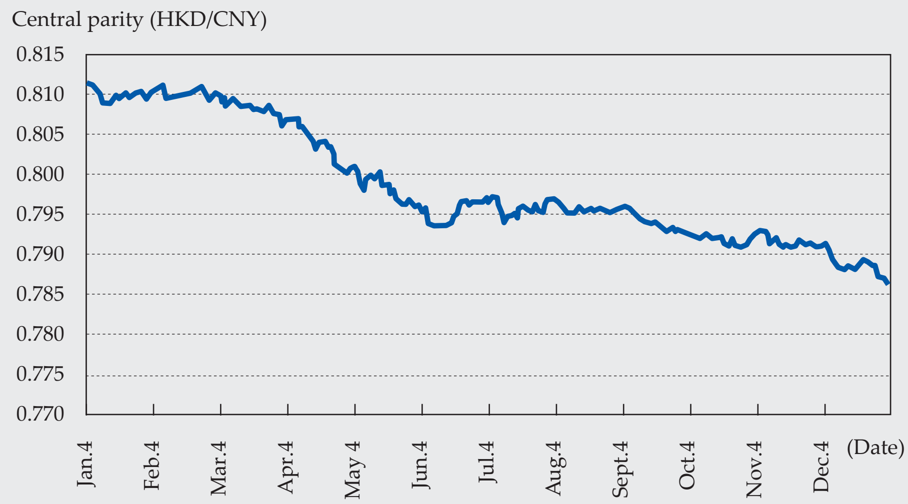
The CNY/non-USD central parities appreciated on a broad basis in 2013, with exceptional appreciation for certain currencies. As for the Hong Kong Dollar, the HKD/CNY central parity recorded 0.8115 yuan at the beginning of 2013, and closed at 0.7862 yuan at end-2013. The RMB traded 3.1% higher against the HKD across 2013. During the year, the HKD/CNY central parity fluctuated by 252bps, 93 bps larger than the previous year. From July 2005 of the RMB exchange rate regime reform till end-2013, the RMB had appreciated 35.3% against the Hong Kong dollar cumulatively.

Figure 5.1 Movements of USD/CNY Central Parity in 2013



Source: China Foreign Exchange Trade System.

Figure 5.2 Movements of HKD/CNY Central Parity in 2013



Source: China Foreign Exchange Trade System.

At end-2013, the JPY/CNY[1] central parity moved to 5.7771 yuan from 7.1769 yuan at the beginning of 2013, registering an appreciation of 26.4%. The JPY/CNY central parity fluctuated by 14,214 bps, widening 4,002 bps on the previous year. Since the exchange rate regime reform in July 2005, the cumulative JPY/CNY appreciation had reached 26.6% till end-2013.

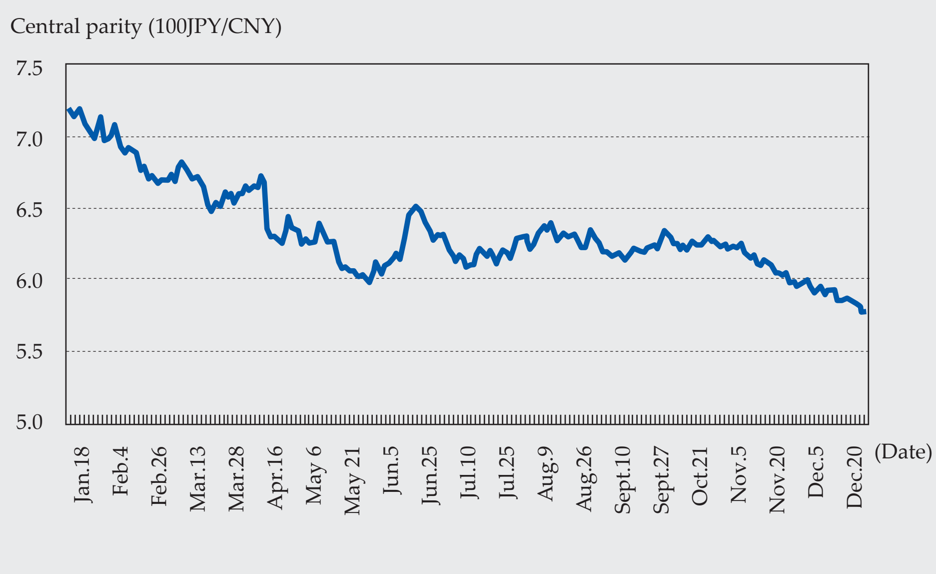
At end-2013, the EUR/CNY central parity closed at 8.4189 relative to 8.1983 at the beginning of 2013, indicating a 1.2% depreciation of the RMB. The EUR/CNY central parity fluctuated 7,021 bps across 2013, a drop of 1,305 bps year-on-year. Since the RMB exchange rate regime reform in July 2005, the RMB had appreciated 18.7% against the euro cumulatively till end-2013.

The GBP/CNY central parity opened at 10.1126 yuan at the beginning of 2013, and closed at 10.0556 yuan at year-end, an appreciation of 1% of the RMB. The GBP/CNY central parity fluctuated 9,765 bps across 2013, 3,687 bps more than the previous year.

The AUD/CNY central parity moved from 6.5790 yuan at the beginning of 2013 to the year-end 5.4301 yuan, with the RMB value up 20.4% against the Australian dollar. The AUD/CNY central parity fluctuated 12,420 bps across 2013, broadening 5,364 bps compared with 2012.

As for the CNY/MYR central parity, its opening and closing rates were 0.48566 ringgit and 0.54141 ringgit respectively for 2013, showing 10.8% RMB appreciation. The CNY/MYR central parity fluctuated 626 bps across 2013, up 317 bps year-on-year.

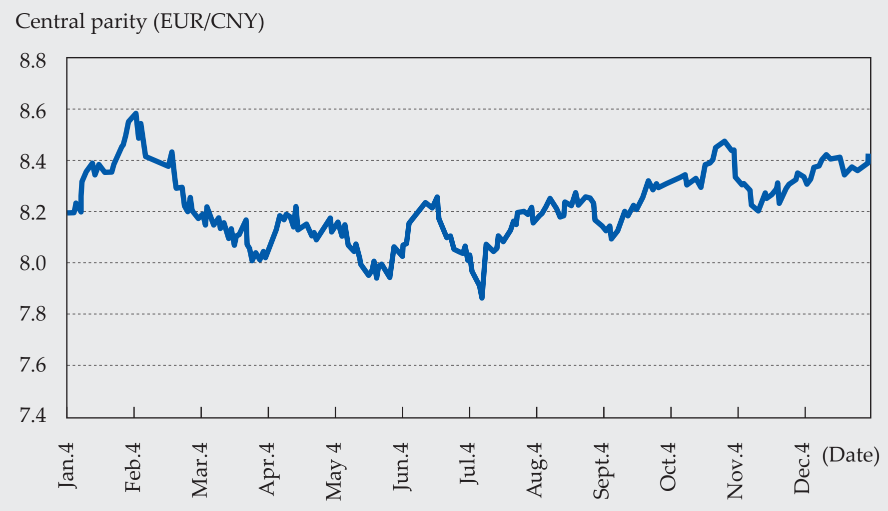
Figure 5.3 Movements of JPY/CNY Central Parity in 2013



Source: China Foreign Exchange Trade System.

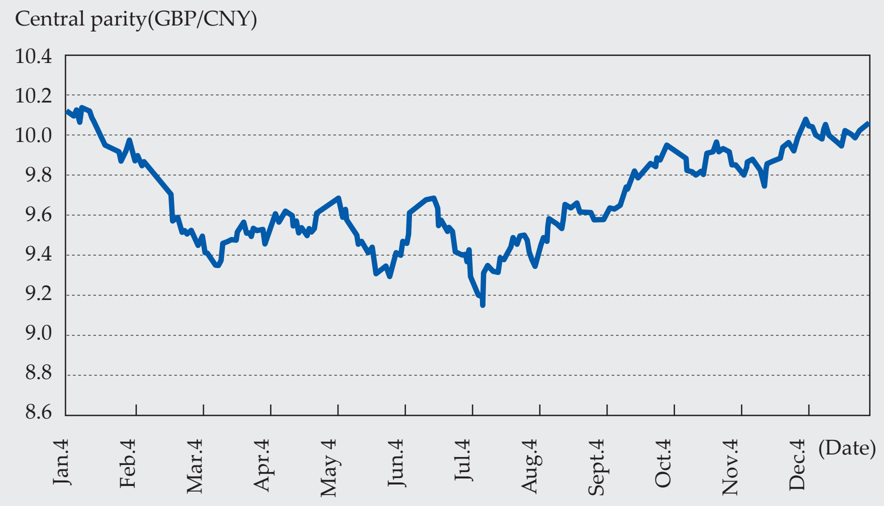
1 100 JPY vs. CNY.

Figure 5.4 Movements of EUR/CNY Central Parity in 2013



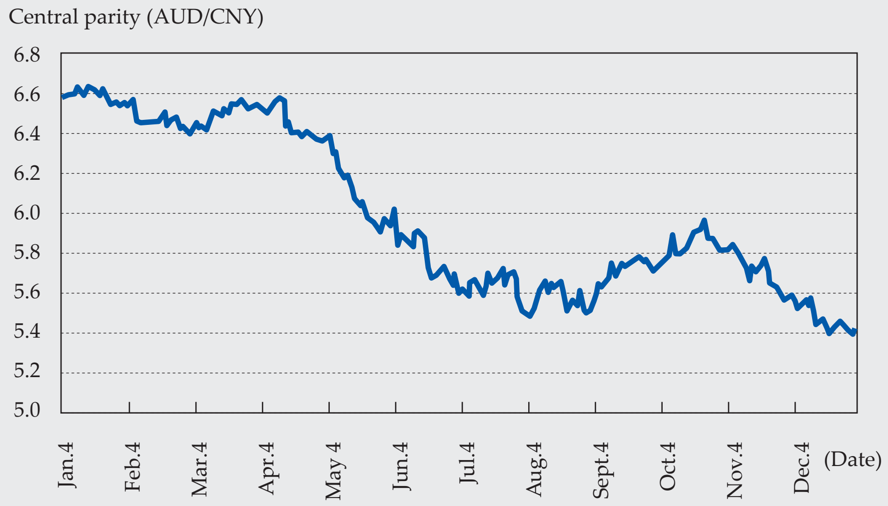
Source: China Foreign Exchange Trade System.

Figure 5.5 Movements of GBP/CNY Central Parity in 2013



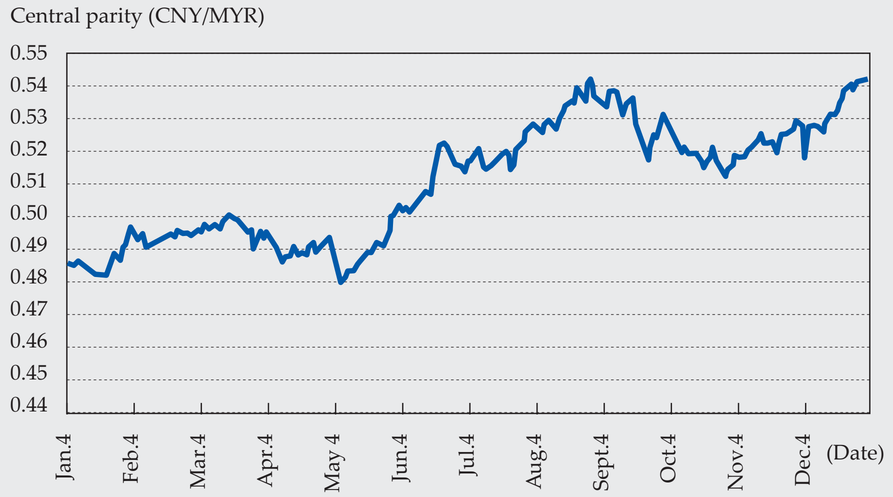
Source: China Foreign Exchange Trade System.

Figure 5.6 Movements of AUD/CNY Central Parity in 2013



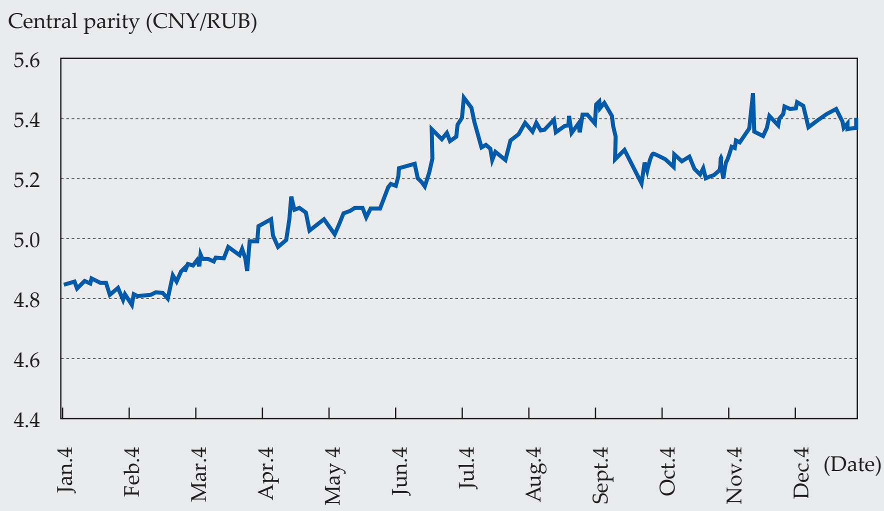
Source: China Foreign Exchange Trade System.

Figure 5.7 Movements of CNY/MYR Central Parity in 2013



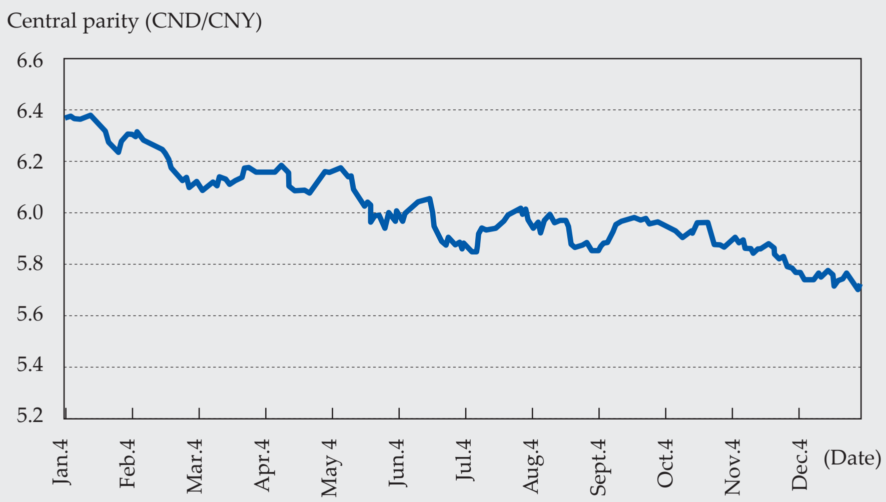
Source: China Foreign Exchange Trade System.

Figure 5.8 Movements of CNY/RUB Central Parity in 2013



Source: China Foreign Exchange Trade System.

Figure 5.9 Movements of CND/CNY Central Parity in 2013



Source: China Foreign Exchange Trade System.

The CNY/RUB central parity registered 4.8498 rubles at the beginning of 2013, and closed at 5.3985 rubles at year-end. The RMB appreciated 11.2% against ruble in 2013. The CNY/RUB central parity fluctuated 6,865 bps across the year, a decrease of 460 bps year-on-year.

In 2013, the CND/CNY central parity saw a change from 6.3658 yuan at the beginning of 2013 to 5.7259 yuan at year-end, indicating an appreciation of the RMB by 10.3%. The CND/CNY central parity fluctuated 6,768 bps across 2013, up 1,957 bps year-on-year.

1.3 The FX spot market maintained a rapid growth pace

In 2013, China's external sector grew rapidly, with imports & exports expanding 7.6% in terms of the US dollar, actually utilized FDI increased 5.3% year-on-year. Therefore, trading volume in the interbank FX spot market continued to increase at a fast pace which was even higher than the corresponding real economy growth pace. The total turnover reached US$4.1 trillion in 2013, up 20.2% year-on-year, an acceleration of 26.3 percentage points. Among those, the USD/CNY spot trading grew 21.4% to US$4.07 trillion.

2. Features of FX market performance

2.1 Currency movements diverged in global markets

Global economy witnessed tepid recovery in 2013, and monetary environment grew complicated. The US Federal Reserve System (FED) finally kicked off quantitative easing (QE) tapering with market expectation increasingly heating up. The European Central Bank (ECB) lowered interest rates twice within the year, which was conducive to the restoring of market confidence. In other areas, the Japanese government employed the QE policy, and some emerging economies suffered capital flow reverse due to slower economic growth and acute structural problems. Against such complicated backdrop, global FX markets performed differently. The US dollar hit a yearly high of more than 6% appreciation in general, with the euro appreciating against the US dollar by 4.2%, and the Japanese yen depreciating 17.6% against the US dollar in 2013. Certain emerging market currencies experienced dramatic depreciation against the US dollar. The depreciation of India rupee and Indonesian rupiah once exceeded 20%, while the biggest drop of Brazilian real, Korean won and Russian ruble was more than 16% and 8% respectively. China's economy, however, was stable in the first half of 2013, and began to gain traction from Q3. Therefore, China's economic growth rates were within a reasonable band across the year and the RMB generally appreciated as a result. In 2013, the USD/CNY central parity hit a record high, up 3.1% year-on-year. The central parities of JPY/CNY, AUD/CNY, CNY/RUB and CND/CNY were all appreciated over 10% in 2013.

2.2 Intra-day exchange rate fluctuation decelerated quarter-on-quarter

The intra-day USD/CNY fluctuation registered a relative low daily average reading of 53 bps in 2013, lower than the previous 3 years. The USD/CNY spot curve moved all the way below the central parity curve, indicating an appreciation of CNY spot. For the whole year, the deviation of the USD/CNY spot rate from the central parity was 7.7%, but the deviation became less and less on a quarterly basis, from Q1 9% to Q2 8.3%, Q3 6.9% and Q4 6.8%.

2.3 The currency structure kept improving in the FX market

Given the rapid growth of non-USD currency trading, the turnover involving US dollar further declined as a share of the market total. 2013 marked the fourth consecutive year of such falling, hitting 95.9%, 1.4 percentage points lower than in 2012. In contrast, non-USD currency trading totaled 1.9053 trillion yuan, up 84.9% year-on-year. Among those, the JPY/CNY direct trading recorded 1.27566 trillion yuan, up 67.8% year-on-year. The AUD/CNY direct trading reached 149.71 billion yuan, up 1,995.0% year-on-year. The EUR/CNY trading amounted to 284.56 billion yuan, up 172.0% year-on-year. Besides, spot trading of the RMB vs. Canadian dollar, Hong Kong dollar, Malaysia ringgit and Russian ruble also saw marked increase.

3. The interbank FX market institution building and product innovation

3.1 The SAFE adjusted measures on financial institutions' FX exposure management

On May 5, 2013, the SAFE issued The *Notice of Certain Issues regarding Strengthening FX Capital Inflow Management by the SAFE* (hereinafter referred to as "Notice"), in a bid to prevent risks derived from FX sales and purchases, step up efforts on FX capital inflow management. According to this Notice, the FX market was put under the framework of macro prudential management by taking banks' foreign currency lending into consideration as regards comprehensive FX exposure control, urging banks to achieve balanced development by comprehensively considering the term/currency match of their foreign currency lending. The market responded promptly, evidenced by a sharp drop of the incremental RMB counterpart of FX reserves, from a monthly average of 377.4 billion yuan for the previous 4 months to 66.9 billion yuan in May. Such slump was also observed in financial institutions' new foreign currency loans, from a monthly average of US$21.1 billion for the previous 4 months to US$5.8 billion in May, and ever since May, the foreign currency loans growth decelerated for 7 months in a row.

3.2 The interbank FX market introduced cross currency swap curves

On January 18, 2013, with the approval of the *SAFE General Administration Department on constructing cross currency swap curves and improving FX options implied volatility curves*, the China Foreign Exchange Trading System (CFETS) published the new cross currency swap curves on its website, in order to increase market liquidity and enhance price discovery functions of the market. The cross currency swap curves were built on price quotes by market makers for RMB/FX forwards and swaps, consisting of RMB fixed rates vs. USD Libor 3M and RMB Shibor 3M vs. USD Libor 3M, covering 5 key terms in the range of 1 year to 5 years. The introduction of the new curves was conducive to promoting market liquidity and enhancing price discovery functions. As a result, the benchmark system of the interbank FX market was further improved.

3.3 The AUD/CNY direct trading was launched

From April 10, 2013, the AUD/CNY trading was altered into a direct trading mode by introducing market makers specifically for AUD/CNY direct trading and changing its central parity formation mechanism, AUD/CNY trading was thus boosted and realized rapid growth. During the first half of 2013, the spot AUD/CNY trading reached 47.2 billion yuan, 21.3 times more than the previous year, boasting the highest growth rate among non-USD currencies. For the whole year, the turnover hit 149.71 billion yuan, registering a year-on-year increase of 1,995.0%. After the kick-off, market responded positively, praising that the AUD/CNY direct trading was conducive to promoting Sino-Australian bilateral trade and investments, meeting the economic agents' demand of reducing exchange costs. The corresponding market makers quoted actively and gave rise to the brisk trading. In the interbank market, the bid-ask spread narrowed for OTC spot AUD/CNY trading, so was the buy-sale margin at the banks' counter. The exchange costs of enterprises and individuals were also reduced.

3.4 The interbank FX market provided trading confirmation services on a trial basis

The interbank FX market started to provide trading confirmation services on a trial basis from April 8, 2013. Under such services, market members could conduct real-time trading confirmation by "one click" or "uploading documents" through the post-trade processing platform, covering a wide range of OTC-traded products of spot, swaps and forwards. Transactions subject to net-value clearing must conduct trading confirmation via this system. Specifically, transactions subject to bilateral clearing should complete trading confirmation before 11:30 AM the next trading day. And those using net-value clearing should complete trading confirmation before 18:30 PM the same trading day. The trading confirmation service effectively improved trading efficiency and STP processing level, also reduced operational risks.

4. Outlook for FX market

In 2013, the 3rd Plenary Session of the 18th CPC Party Committee was convened and passed the *Decision of the CCCPC on Several Major Issues Concerning Comprehensively Deepening Reforms* (hereinafter referred to as the Decision). According to the Decision, strategic arrangements were made for deepening reforms in all aspects, and requirements were put forward for improving financial market system and other issues concerning financial sector reform and development. In particular, as for the FX market, the Decision stipulated that efforts should be made to better the RMB exchange rate formation mechanism and to accelerate the process of capital account liberalization.

4.1 Steadily press ahead with the FX market reform

To that end, measures should be taken to further improve the market-based exchange rate formation mechanism, let the market supply & demand play a decisive role, enhance the allocation efficiency of domestic and external resources, so as to promote BOP balance. In addition, market-based exchange rate reform should be further pushed forward in line with China's market development levels as well as economic and financial situation. The following measures could be taken in this regard. First, to broaden the RMB exchange rate floating band in an orderly way, enhance the elasticity of two-way floating, in a bid to maintain the exchange rate basically stable at an adaptive and equilibrium level. Second, to let market forces play a bigger role, in order to establish the managed floating exchange rate system based on market supply and demand. Third, to diversity the FX market products, deepen the market width and depth, better matching the services to enterprises and individuals' needs. Fourth, to further enhance the capital allocation efficiency, reinforce the decisive role of the market in resource allocation, providing support for economic restructuring and development mode shift.

4.2 Accelerate the FX market opening-up

In response to market development needs, importance should be attached to further opening up the interbank FX market and allow more foreign-funded financial institutions to enter the market. Specifically, besides the existing RMB clearing banks in Hong Kong and Macao, efforts will be made to expand the market access to other RMB clearing banks and additional foreign institutions, so as to strengthen the guiding influence of domestic RMB exchange rate on overseas market. Furthermore, decisions could be made to add more foreign currencies to the group of directing trading against the RMB, on the back of USD/CNY, JPY/CNY and AUD/CNY direct trading, especially those currencies of emerging markets and neighboring countries.

4.3 Further improve the FX market infrastructure

To better serve national strategic plans of promoting cross-border RMB use and capital account liberalization, the CEFTS, capitalizing on domestic and external advanced systems and experiences, will consider innovation on FX market trading mechanism, market structure and trading mode, establish integrated service system, aiming to enhance market efficiency and satisfy market demand. Efforts will also be made to provide higher quality post-trade services such as electronic trading confirmation etc., expand served products and trading parties, and improve market members' STP and risk-prevention capacity.

Box2 Offshore RMB Market Performance and Analysis

The year of 2013 saw a rapidly expanding offshore RMB market driven by cross-border RMB trade and investment settlement. London and Singapore were granted RMB Qualified Institutional Investors (RQFII) quota and the permission of introducing local RMB clearing banks. Chinese Taipei formally kicked off RMB businesses and achieved rapid growth. In Hong Kong, measures were taken to optimize the arrangements for banks to borrow RMB capital from the Hong Kong Monetary Authority (HKMA), and introduce Hong Kong RMB interbank offered rate (Hibor). Therefore, RMB policies became more mature and RMB businesses maintained stable growth momentum. Given Hong Kong's dominant position in offshore RMB market and data limitation of other markets, we focused on Hong Kong RMB businesses in this Box.

1. Offshore RMB pool kept expanding and onshore/offshore RMB interest rate spread further widened

Hong Kong boasted the biggest RMB capital pool, exceeding 1 trillion yuan, more than the total of offshore RMB capital recorded at end-2012. According to the Chinese Taipei monetary authority, at end-2013, the balance of outstanding RMB deposits reached 182.6 billion yuan, more than 7 times that of end-2012. The Monetary Authority of Singapore (MAS) disclosed that the local outstanding RMB deposits surpassed 140 billion yuan at end-July of 2013, up 40% compared with end-2012. Latest data from the City of London report showed that, the outstanding RMB deposits registered 14.5 billion yuan in June 2013, much lower than the end-2012 level of 50 billion yuan. Among the total 14.5 billion yuan, corporate and interbank deposits accounted for 3.1 billion yuan and 11.4 billion yuan respectively.

1.1 The growth of Hong Kong RMB deposits accelerated and cross-border lending grew more active

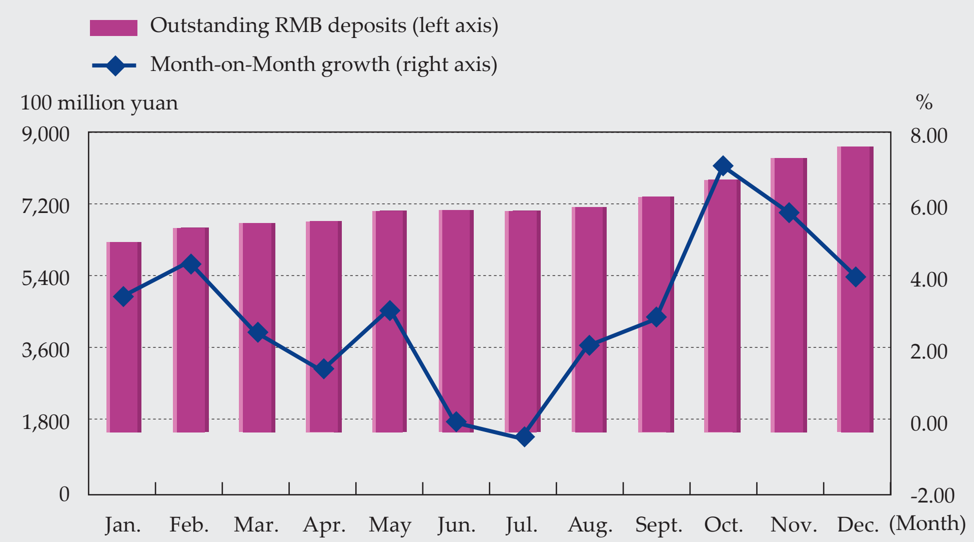
According to HKMA statistics, the outstanding RMB deposits hit 860.5 billion yuan at end-2013, up 257.5 billion yuan or 42.7% year-on-year, *representing a much higher yearly growth rate compared to 2012's 2.46% pace. Adding the outstanding RMB CDs of 192.5 billion yuan, the Hong Kong RMB pool exceeded 1 trillion yuan at end-2013. During January-May, 2013, affected by factors of accelerated RMB appreciation and improved China's foreign trade position, the RMB deposits in Hong Kong resumed growth trend. Entering the period of June-July, China's interbank market suffered liquidity crunch under the pressure of banks' withdrawing capital given mid-year evaluation, de-leveraging requirements by the regulatory body, and the decreasing RMB counterpart of FX reserves. Consequently, some domestic banks with branches registered in Hong Kong moved RMB capital back to the mainland through various channels, and RMB deposits in Hong Kong shrank to certain extent. Beginning from August, the RMB spot rate continued to appreciate, China's economic recovery gained traction, and Hong Kong's offshore RMB was more expensive than onshore RMB, mainland enterprises thus increased RMB deposits with Hong Kong banks by a large margin. As a result, RMB deposits in Hong Kong resumed growth momentum and continuously created new records.*

Cross-border lending between Hong Kong and the mainland, meanwhile, tended to be more active. Statistics of HKMA showed that, RMB lending to the mainland stood at 109.7 billion yuan at end-November 2013, an increase of 38.86% relative to 79 billion yuan at end-2012, indicating increasingly closer economic and financial ties between Hong Kong and the mainland. Besides, such increase was also attributed in part to the then tightened credit condition and elevated lending costs in the mainland.

1.2 The fluctuation of overnight interbank RMB lending rates in Hong Kong market moderated and onshore/offshore RMB interest rate spread widened

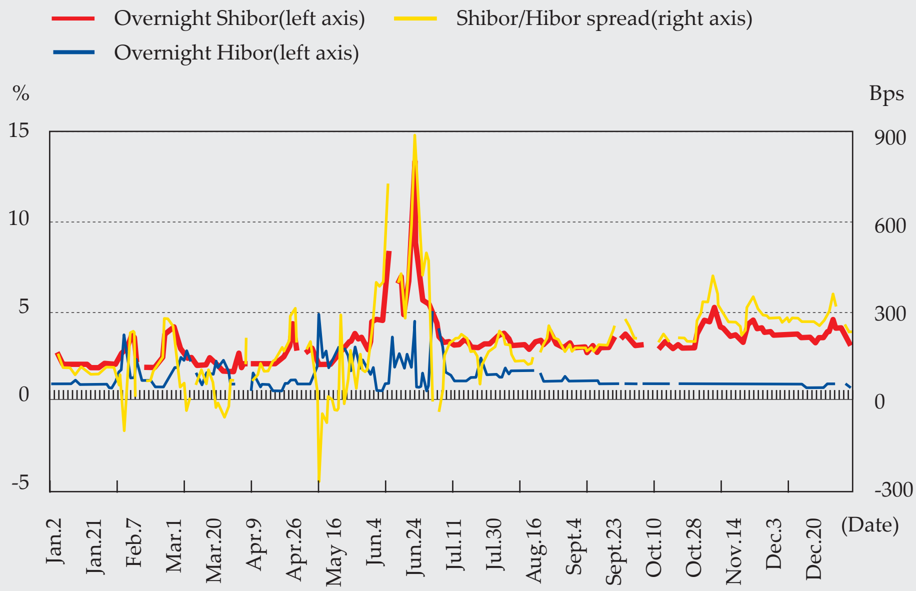
Hong Kong RMB deposit rate was in general lower

Figure 5.10 Change in Outstanding RMB Deposits with Hong Kong Institutions in 2013



Source: Hong Kong Monetary Authority.

Figure 5.11 Comparison of Overnight Shibor and Hibor in 2013



Source: Reuters.

than that in the mainland. Specifically, 1-year rate for deposits less than 100,000 yuan was 0.59%, much lower than in the mainland. During the first half of 2013, against the decelerated growth of RMB deposits, Hong Kong banks stepped up efforts to attract term deposits, and new large-volume term deposits enjoyed higher deposit rates. After August, RMB deposits was back on the upward trend and RMB capital pool continued to expand in Hong Kong, banks therefore gradually undid preferential measures, the rate for 1-year new large-volume term deposits as a whole declined a bit to 2.9%, somewhat lower than the 3% level at end-2012.

In June 2013, the Hong Kong Treasury Market Associations introduced RMB Hibor. As in the following graph (See figuar 5.11), before June 2013, the BOC Hong Kong's quotes for overnight interbank RMB lending were used as a proxy. Across 2013, the overnight interbank lending rates fluctuated by a large margin in China's interbank market. Hong Kong's market, however, was less affected by the short-term factors such as the holiday season liquidity shortage before National Day Holiday in the mainland. This was thanks to the improved arrangements for banks to borrow RMB from HKMA. With the expanding RMB pool after August, overnight Hibor remained at a low level. Hibor hit a yearly high of 4.93%, recording the biggest fluctuation band of 432 bps across the year, much lower than the level of 735 bps in 2012.

Except on several trading days, overnight Hibor was lower than Shibor. The daily average spread between Hibor and Shibor recorded 194 bps, almost twice the size of 99 bps in 2012. In June, the Hibor-Shibor spread rushed to the peak due to the de-leveraging requirements by the regulatory body *and liquidity crunch in China's interbank market. Following a sharp drop towards the end of June, the Hibor-Shibor spread was on an upward trend thereafter. The spread development indicated that, China's capital control exerted certain segregation effects on the onshore and offshore markets. The onshore rate mainly reflected the interbank capital supply and demand in the mainland, while the offshore rate was mainly determined by overseas market supply and demand in Hong Kong. Given the advantage of onshore market over offshore market in terms of capital scale, the hike of onshore rates could affect the movements of offshore rates. In the long run, the link between onshore and offshore RMB markets would grow closer, and the onshore/offshore interest rate spread would tend to become smaller.*

2. More overseas markets joined RMB bond issuance and Hong Kong's RMB bond secondary market became more active

Besides the two places of Hong Kong and London in 2012, two more places of Singapore and Chinese Taipei were added to the list of RMB bond issuance in 2013. The issue size in London and Singapore was both 2 billion yuan, and that in Chinese Taipei totaled 10.6 billion yuan.

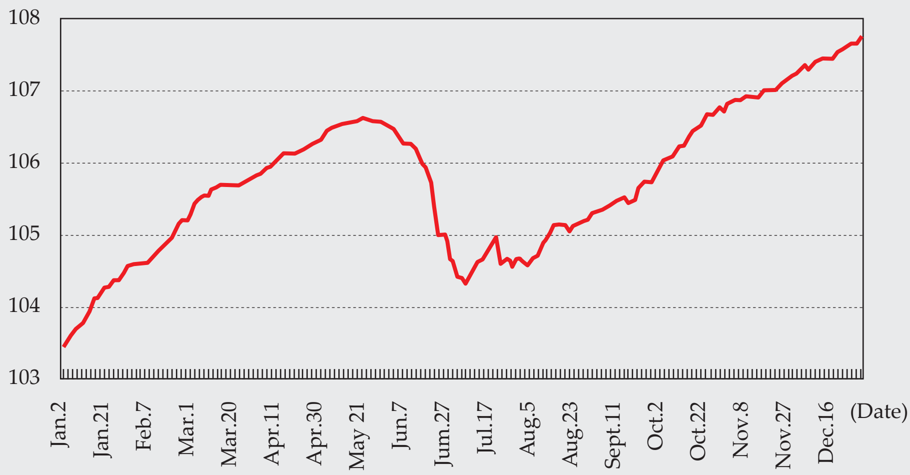
2.1 RMB bond issue size in Hong Kong shrank somewhat and interest rates tended to increase

Hong Kong saw a decreased size of RMB bond issuance in 2013. According to data of Thomson Reuters, RMB bond issuance in Hong Kong was down 9.7% to 94.455 billion yuan in 2013, and the trough was observed during July to October. The deceleration of RMB bond primary market growth in 2013 was caused by factors both in the demand and supply sides. From the perspective of market demand, although CNY spot remained on the appreciation trend, CNY forward had been reflecting a depreciation expectation across the year. That implied that, the RMB one-way appreciation was not sustainable in the mid- and long- term, so demand for dim-sum bonds dropped. Besides, with more investment channels available for overseas RMB capital flowing back, RMB capital was diverted from Hong Kong market through channels of RQFII, business lending, interbank borrowing as well as due to the rapid development of RMB businesses in other overseas markets such as Singapore, London and Chinese Taipei etc. In addition, under the expectation that US FED would taper off QE, market players started to sell emerging market bonds and revert capital back to the US market. From the perspective of market supply, investors cared more about issuers' credit ratings, and required higher bond yield, consequently the average RMB bond coupon in Hong Kong tended to go up. In 2013, the average issuing rate for RMB fixed-rate bonds in Hong Kong rose 42 bps to 4.25%, compared to the level of 3.83% at end-2012. With the rising financing costs, issuers were not so interested in issuing RMB bonds in Hong Kong market.

2.2 The RMB bond secondary market witnessed more brisk trading

The secondary market became more active for RMB bonds in Hong Kong. According to market estimates, the daily average turnover stood at about 1.5 billion yuan. In terms of market participants, banks, insurance firms and sovereign investment funds were major buyers of government securities, policy bank bonds, foreign government securities and bonds issued by international institutions. Banks, insurance firms and funds accounted for the major part of buying investment-level credit bonds. High-yield bonds, whereas, were mainly invested by funds and security firms. In Hong Kong's RMB bond secondary market, market-making fell short of serving the market, so it was a customer-driven market. There were few traded bonds using bilateral

Figure 5.12 Movements of FTSE-BOCHK Offshore RMB Bond Index in 2013



Source: Bloomberg.

quotes, only including government securities, policy bank bonds and a small part of high-rating credit bonds in large issue size. The bid-ask spread was wide, even that for government securities and policy bank bonds was as high as 30-50 bps. The RMB bond secondary market generally moved upward, take the FTSE-BOCHK Offshore RMB Bond Index for instance, the index recorded 107.74 at end-2013, representing a yearly yield of 4.14%.

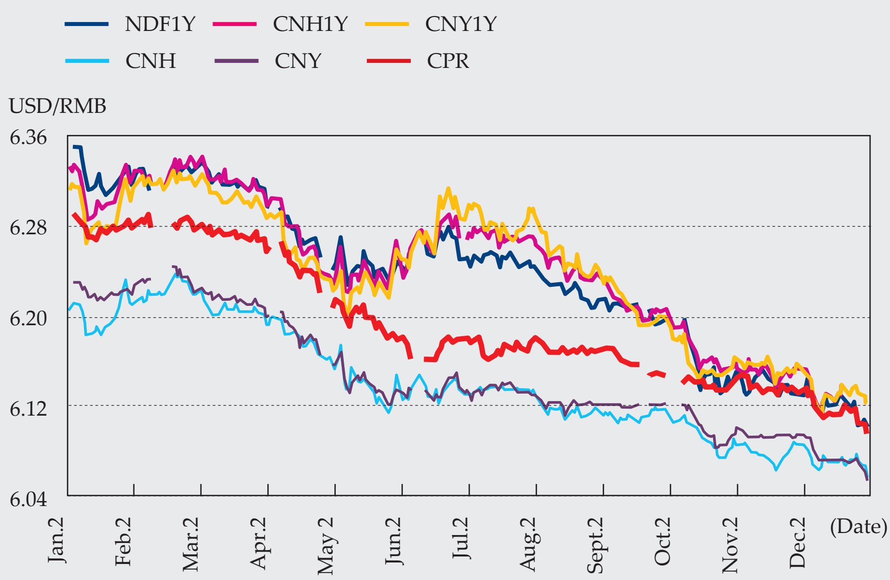
3. RMB/FX trading expanded markedly in offshore market and forward rates implied RMB depreciation in the future

In April 2013, BIS published the tri-annual survey results, showing that the average turnover of offshore RMB/FX trading amounted to US$114 billion, about 3.5 times that in 2010. The following were among the RMB offshore markets registering relatively high daily average FX turnover: Hong Kong SAR recorded US$49.47 billion, United Kingdom US$24.28 billion, Singapore US$23.86 billion, United States US$8.62 billion, Chinese Taipei US$2.57 billion, France US$1.19 billion, Australia US$0.92 billion, Japan US$0.68 billion and Germany US$0.49 billion. London witnessed rapidly growing RMB/FX trading despite a large drop in RMB deposits, thanks to its advantage as the largest global FX trading center. It seemed that RMB-related FX trading in London had little to do with its outstanding RMB deposits.

3.1 The deliverable RMB/FX trading gained more interests in Hong Kong and RMB spot rate experienced obvious appreciation

In 2013, the daily average turnover of USD/CNY futures on Hong Kong exchanges was 568 lots, valuing at US$56.85 million, almost twice the level of US$28.56 million in 2012. At end-2013, the open interest totaled 18,701 lots, up over four times compared with the 3,673 lots in 2012. The dramatic growth of USD/CNY futures in both turnover and open interest showed an increasingly brisk market,

Figure 5.13 Movements of RMB Exchange Rates on Hong Kong and mainland markets in 2013



Note: All rates presented were respective daily closing prices except CPR.
Source: Reuters.

but market participants were somewhat limited to those holding RMB investments and with an aim of hedging. So the market was yet developed. As for few speculators in the market, it was mainly due to limited RMB fluctuation and short history of the RMB futures market in Hong Kong.

The deliverable RMB/FX market in Hong Kong (CNH market) continued to move ahead. According to market estimates, the daily average of CNH spot was about US$3 billion, and the daily average of CNH forward was about US$7 billion. With the rapid growth of CNH forward market, RMB NDF market had shrunk markedly, turnover down to a low level.

In 2013, CNY and CNH were both stronger than the USD/CNY central parity rate (CPR) published by the CFETS, influenced by factors of China's steady economic recovery and market expectation of QE tapering by the FED. Compared with the CPR, the RMB spot trading prices were much lower (meaning appreciation), actually the CPR, CNY and CNH rates were all on the decline across the year, showing significant CNY spot appreciation. Looking at the CNY forward movements, the forward curve was all the way above the spot curve, implying RMB depreciation expectation. Even compared with the CPR, the CNY forward rates were generally higher, except on several trading days. Such movements told us that, after a continuous RMB appreciation for several years, the market expectation of RMB one-way appreciation no more continued. At year-end, the CNY forward curve moved towards the spot curve, indicating the appreciation expectation gaining strength.

3.2 Onshore/offshore RMB exchange rate spread widened while featuring strong positive correlation, and onshore RMB spot rates exerted influences on offshore ones

In 2013, the CNY spot curve and the CNH spot curve moved across each other, registering an average daily spread of 73 bps, higher than 2012's 50 bps. Under the restriction of floating band for CNY rates, there were several occasions when CNY rates almost hit the upper band in 2013. Therefore, the CNY rate was not completely subject to market forces, and the correlation between the CNY and CNH went down a bit.

We conducted statistical analyses on the link between and among CNY spot (CNY), CNH spot (CNH), 1-year CNY forward (CNY1Y), 1-year CNH forward (CNH1Y) and 1-year NDF (NDF1Y), and the respective daily closing prices were used. According to the analyses, the correlation coefficient for CNY and CNH was 0.987, a bit lower than 2012's 0.988, still highly positively correlated. The correlation coefficient for CNY1Y and CNH1Y rose to 0.94 in 2013, higher than 2012's 0.9, indicating a closer link between onshore and offshore forward markets. As for the forward market alone, the CNY/CNH correlation became the strongest in 2013, whereas in 2012 the CNH/NDF correlation marked the strongest. The weaker CNH/NDF correlation was mainly attributed to marked drop in NDF trading, despite that there were arbitrage channels between the two markets given smooth capital flow. Thus, the correlation between CNY and CNH stood out.

According to Granger causality test results, at the 99% confidence level, CNY spot Granger caused CNH spot. The daily average turnover of onshore RMB/FX spot market stood at US$15.8 billion, much higher than that in Hong Kong market, so it was the CNY spot that played the guiding role in the CNY/CNH relationship. However, CNH1Y Granger caused CNY1Y. CNY forward reflects market expectation on future RMB movements, while onshore forward rate is mainly determined by supply and demand derived from real foreign exchange purchases and sales without speculative forces. Therefore, efforts should be made to promote market participant diversification, in a bid to enhance market-based exchange rate formation mechanism. In terms of NDF market, its influence on other markets had been dwindling due to the shrinking trading size. At the 95% confidence level, there was no statistically important relationship between NDF1Y and CNY1Y, neither for NDF1Y/CNH1Y.

Table 5.1 Correlation Coefficients for Onshore and Offshore RMB Rates

	CNY	CNH	CNH1Y	CNY1Y	NDF1Y
CNY	1.000000	0.987282	—	—	—
CNH	0.987282	1.000000	—	—	—
CNH1Y	—	—	1.000000	0.984790	0.982661
CNY1Y	—	—	0.984790	1.000000	0.948580
NDF1Y	—	—	0.982661	0.948580	1.000000

Table 5.2 Granger Test Results

Null Hypothesis	Obs	F-Statistic	Probability
CNY1Y does not Granger Cause CNH1Y	231	2.13718	0.14516
CNH1Y does not Granger Cause CNY1Y		6.99323	0.00876
NDF1Y does not Granger Cause CNH1Y	253	1.19181	0.27602
CNH1Y does not Granger Cause NDF1Y		2.79428	0.09585
NDF1Y does not Granger Cause CNY1Y	231	3.62723	0.05810
CNY1Y does not Granger Cause NDF1Y		0.76597	0.38239
CNY does not Granger Cause CNH	231	12.2532	0.00056
CNH does not Granger Cause CNY		0.68055	0.41026

Part VI Gold Market

In 2013, the international gold price declined 28.55%. The increasing volatility of gold price stimulated market demand. Gold market scale expanded drastically, gold business of commercial banks continued to enjoy rapid development and domestic demand for physical gold remained strong. With the launch of Friday night market of Shanghai Gold Exchange (SGE) and continuous trading of Shanghai Futures Exchange (SHFE), the domestic gold market linked more closely with the overseas market. With the launch of products, such as gold ETF, inter-bank gold forward and gold swap, domestic gold market system was improved to a further extent.

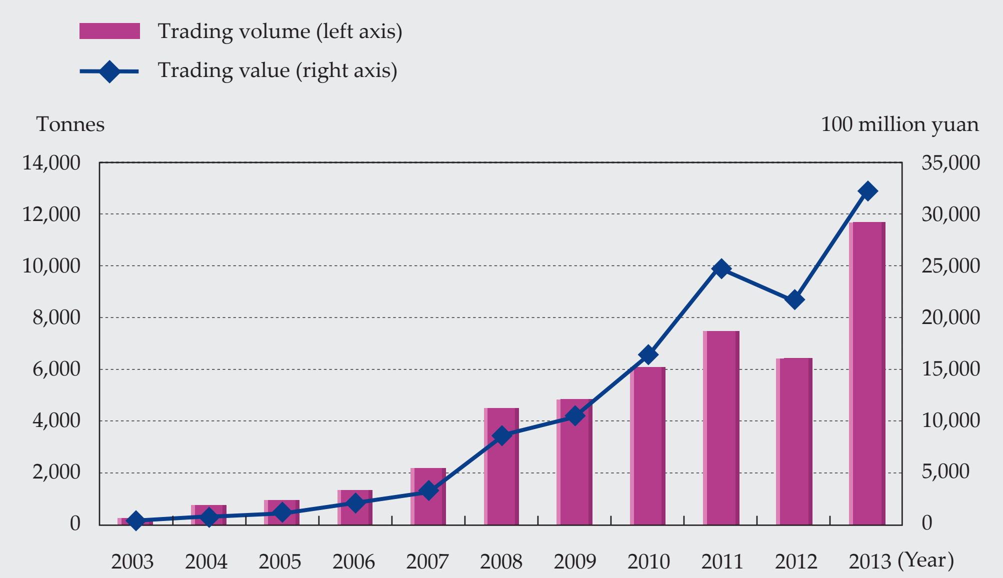
I. Gold market performance

1.1 SGE spot gold market performance

1.1.1 Spot gold price moved downward amid fluctuation and trading scale expanded dramatically

In 2013, gold price kept declining. At the end of the year, dominant contract on SGE Au99.99 closed at 236.46 yuan per gram, dropping 29.31% and representing the lowest point in the three years. In the year, the cumulative trading volume of gold on SGE registered 11,614.45 tonnes, an increase of 5,264.25 tonnes, up 82.90%, with the trading value hitting 3,213.384 billion yuan accumulatively, an increase of 1,062.75 billion yuan, up 42.42%. The average daily trading volume increased 86.76% year-on-year to 48.8 tonnes.

Figure 6.1 Gold Trading Volume and Value on SGE



Source: SGE.

1.1.2 Gold spot contract trading increased substantially and the share of deferred contracts declined

In 2013, the trading volume of gold spot contracts on SGE hit 4919.75 tonnes, up 131.55% over the year before, accounting for 42.36% of gold trading in total, up 8.9 percentage points year on year. In particular, gold spot dominant contract Au99.99 enjoyed rapid growth, with the trading volume hitting 3,188.48 tonnes accumulatively, an increase of 2,046.35 tonnes year on year, up 179.17%. The trading volume of gold deferred product Au (T+D) registered 6,694.7 tonnes, an increase of 2,469.15 tonnes year on year, up 58.43%, with the share of the total dropping from 66.54% in 2012 to 57.64%.

1.1.3 Fund clearing went smoothly and physical delivery safely

In 2013, the annual clearing on the SGE rose 546.3 billion yuan, increasing 48.43% year-on-year to 1,674.2 billion yuan. In particular, the clearing value of proprietary and agent businesses recorded 983.5 billion yuan and 690.7 billion yuan, up 40.45% and 61.49% respectively. The average daily fund clearing and stock value of membership deposit totaled more than 1,200 transactions and 30 billion yuan.

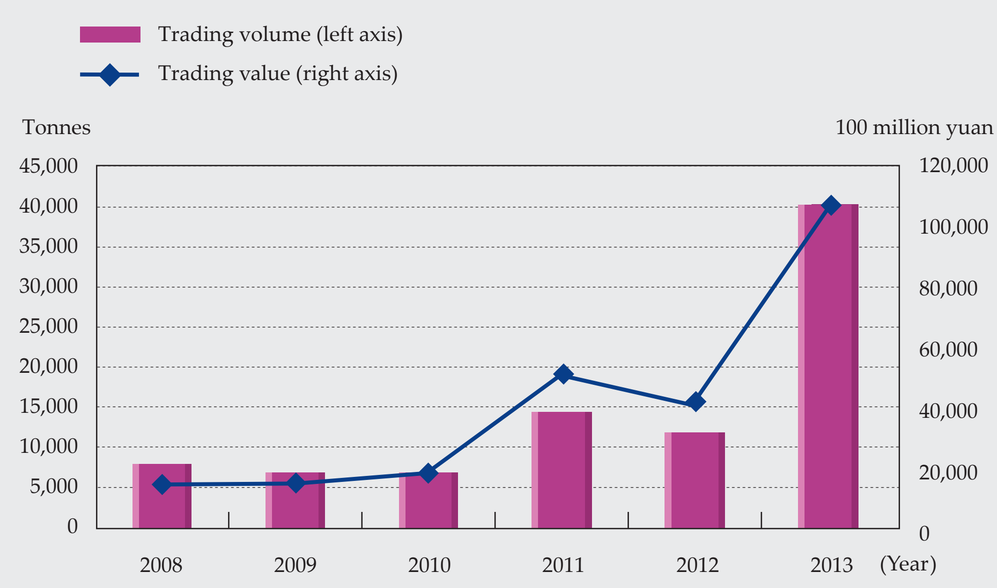
In 2013, physical gold delivery on SGE reached 2,196.96 tonnes, an increase of 1,058 tonnes over the year before, up 92.89%. SGE has always managed strictly on the quality of delivered gold. By the end of 2013, there had been 37 enterprises that were allowed to provide standard gold ingot and gold bullion under the authentication of SGE. SGE used 54 vaults in 34 regions throughout China. The use rate of designated vaults reached 73.97%, thereby satisfying the demand of real industries for physical gold.

1.2 SHFE gold futures market performance

1.2.1 Gold futures market grew rapidly in scale

According to bilateral statistics, the trading

Figure 6.2 Trading Volume and Value of Gold Futures on SHFE



Source: SGE.

volume of gold futures on SHFE registered 40.1756 million lots accumulatively in 2013 (40,175.6 tonnes), up 234% on a year-on-year basis. The trading value reached 10.71 trillion yuan accumulatively, up 165.31% over the year before, accounting for 8.86% of the total trading value of all products on SHFE, up 4.3 percentage points. After the launch of continuous trading of gold futures on Jul. 5th, the trading increased significantly, with the daily volume reaching 269.9 thousand lots, 2.73 times that before the launch. Since the launch of continuous trading, the trading volume of gold futures during continuous period has exceeded that during discontinuous period, and accounted for 68.49% of the total trading volume of gold futures.

1.2.2 Open interest of gold futures expanded

As of the end of 2013, the open interest of gold futures on SHFE had reached 171 thousand lots (170.99 tonnes), up 53.5% over December 2012. After the launch of continuous trading, the continuity of gold futures price on SHFE was improved because of expanding coverage of trading period, and the open interest of investors enhanced, with the daily open interest growing 23% compared with the figure before the launch.

1.2.3 Price discovery function of gold futures was enhanced

With the launch of continuous trading, the price linkage between domestic and international gold futures market and between domestic gold spot and futures market was strengthened, and the pricing efficiency of domestic gold futures improved. On the one hand, the price spread between domestic and international gold futures market shrank. In 2013, the average price spread between SGE gold futures and COMEX gold futures declined from 3.27 yuan per gram in 2012 to 2.43 yuan per gram, down 25.69%. On the other hand, the price spread between domestic gold spot and futures market shrank. The average price spread between SHFE gold futures and SGE Au (T+D) declined from 1.64 yuan per gram in 2012 to 1.40 yuan per gram, down 14.63%.

1.3 Commercial banks' gold business performance

1.3.1 Proprietary and agent gold business increased greatly

In 2013, the trading volume of proprietary and agent business by commercial banks on SGE totaled 7,008.17 tonnes, an increase of 3,419.63 tonnes over the year before, up 95.29%. The gold trading of commercial banks on SGE accounted for 60.30% of the total, up 3.79 percentage points on a year-on-year basis.

(1) Proprietary business. In 2013, the cumulative trading volume of commercial banks proprietary business on SGE registered 4,272.14 tonnes, an increase of 1,967.68 tonnes on a year-on-year basis, up 85.39%.

(2) Agent business. In 2013, the cumulative trading volume of commercial banks agent business on SGE registered 2,736.03 tonnes, an increase of 1,451.94 tonnes on a year-on-year basis, up 113.07%.

1.3.2 Domestic proprietary gold businesses maintained rapid growth

In 2013, the cumulative trading volume of domestic proprietary gold businesses of commercial banks reached 4,501.49 tonnes, an increase of 1,717.06 tonnes over the year before, up 61.6%. In particular, the business of physical gold, gold leasing and gold pledging enjoyed fast development.

Physical gold business grew rapidly. Physical gold business of commercial banks included proprietary branded gold, agent branded gold and gold accumulation (automatic gold investment plan). In 2013, the cumulative trading volume of physical gold business (including sales and repurchase) registered 521.77 tonnes, up 165.43%, with the value hitting 154.412 billion yuan, up 123.61% on a year-on-year basis. In particular, the trading volume of proprietary branded gold rose 57.34% year-on-year to 198.63 tonnes, the trading volume of agent branded gold increased 135.92% year-on-year to 24.89 tonnes, and the trading volume of gold accumulation (automatic investment plan of gold) rose 398.3% year-on-year to 298.24 tonnes.

Account gold business increased. In 2013, the cumulative trading volume of account gold registered 2,019.2 tonnes, an increase of 428.31 tonnes over the year before, up 26.92%, with the trading value hitting 559.6 billion yuan, up 3.8% year-on-year. In particular, the cumulative trading volume of RMB account gold reached 1,864.54 tonnes, up 27.79%, and its trading value hit 515.969 billion yuan, up 4.3% on a year-on-year basis.

Gold leasing business grew by a big margin. Gold leasing business included two parts, namely interbank gold lending among commercial banks and gold leasing between commercial banks and enterprise clients. In 2013, the cumulative trading volume of commercial bank gold leasing business reached 1,354.88 tonnes, up 160.6% over the year before, with the trading value hitting 375.072 billion yuan, up 111.79%. In particular, the trading volume of gold leasing hit 947.65 tonnes accumulatively, up 100.92% over the year before. Trading volume of gold lending hit 407.23 tonnes accumulatively, up 643.12% over the year before.

Gold pledging business enjoyed fast development. Gold pledging business belonged to financing gold business, which generally granted loans as per 70%~80% value of pledged gold. In 2013, commercial banks accepted 39.85 tonnes of pledged gold accumulatively, an increase of 4.37 times that of 2012.

Domestic gold derivatives business also achieved growth. Domestic OTC gold derivative business of commercial banks included gold forward and gold swap denominated in US dollar and RMB, and gold option denominated in US dollar. In 2013, cumulative trading volume of various domestic gold derivatives totaled 565.79 tonnes, an increase of 96.05 tonnes over 2012, up 20.45%. In particular, the cumulative trading volume of US dollar gold forward registered 9,919.9 thousand ounces (308.54 tonnes), down 25.49%, with the trading value hitting US$13.648 billion, down 39.78%. The cumulative trading volume of US dollar gold option reached 1,468.8 thousand ounces (45.69 tonnes), up 139%, with the trading value hitting US$2.039 billion, up 97.38%. The cumulative trading volume of US dollar gold swap reached 5,245.6 thousand ounces (163.16 tonnes). The cumulative trading volume of RMB gold forward was 29.76 tonnes, up 42.05%, with the trading value hitting 7.986 billion yuan, up 12.60%. The trading volume of RMB gold swap reached 18.63 tonnes accumulatively.

1.3.3 Offshore gold businesses grew by different degrees

At present, varieties of offshore gold business engaged by commercial banks mainly include gold spot, gold forward, gold swap, as well as small amount of gold option business. In 2013, there were 25 commercial banks participating in offshore gold trading. The cumulative trading volume of offshore gold business grew 80.39% year-on-year to 240.7672 million ounces (7,488.7 tonnes), with the turnover increasing 50.87% year-on-year to US$337.219 billion. In particular, the cumulative trading volume of offshore gold spot business increased 57.92% year-on-year to 110.6255 million ounces (3,440.84 tonnes), and that of offshore gold forward business increased 33.27% year-on-year to 40.841 million ounces (1,270.3 tonnes). The cumulative trading volume of offshore gold swap business and option business totaled 89.1980 million ounces (2,774.37 tonnes) and 102.6 thousand ounces (3.19 tonnes) respectively, growing 172.54% and 133.50%.

2. Analysis of gold price movement in 2013

2.1 Gold price moved downward with increasing volatility

In 2013, after consecutive growth of 12 years, international gold price plummeted for the first time. The movement of gold price in the year could be roughly divided into two stages. During the first stage, namely the beginning of 2013 to late June, international gold price fell sharply, and during the second stage, namely early July to the end of year, gold price went sideways in fluctuation.

At the beginning of 2013, international gold price opened at US$1,681.5 per ounce. Influenced by the expectation of Fed withdrawal from QE and weakening demand for risk hedging, the first two quarters of 2013 witnessed sharp drop of gold price, with the lowest point hitting US$1,192 per ounce at end-June. In early July, gold price rebounded weakly, rising slightly until reaching US$1,419.5 per ounce at end-August and then going down again. At the end of year, international gold price closed by US$1,201.5 per ounce, a drop of 28.55% from the beginning of the year, on a par with the price level in August 2010.

The year of 2013 witnessed increasing volatility of international gold price. The extreme spread (the spread between the highest and the lowest point) registered US$501.75 per ounce, an increase of

Figure 6.3 Gold Price Movement in 2013

Note: The data for the international gold price is the London morning fix and the data for domestic gold price is the closing price of Au99.99 on SGE.
Sources: London Bullion Market Association (LBMA) and SGE.

Figure 6.4 Spread between Domestic and International Gold Prices in 2013

Source: SGE.

US$250 per ounce over the year before, up 99.3%. Both the daily volatility band and frequency of international gold price increased.

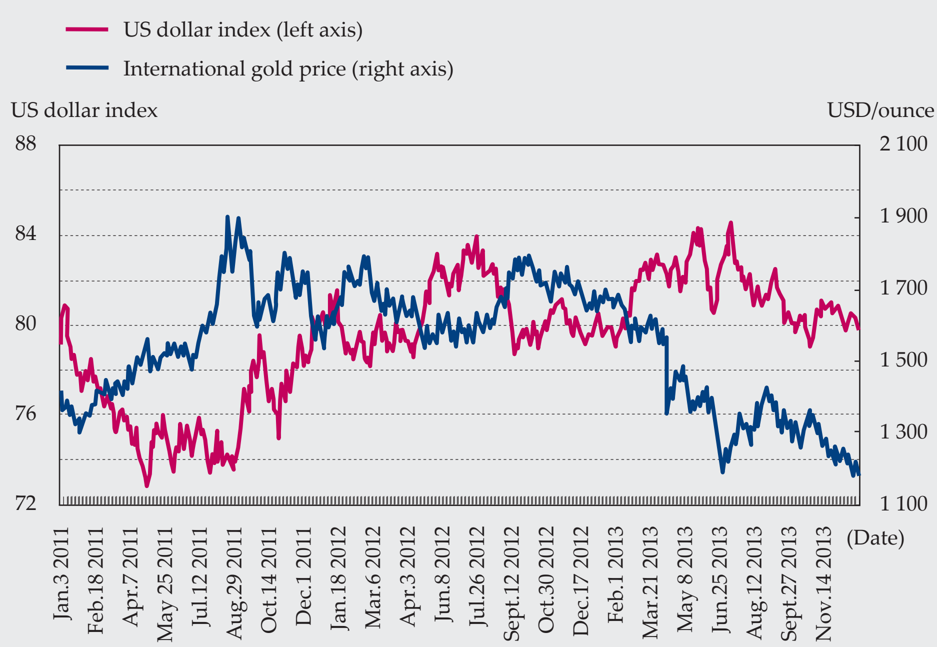
Domestic gold price moved basically in the same way as the international gold price, maintaining a downward trend. The SGE spot dominant contract opened at 334.99 yuan per gram at the beginning of the year and closed at 236.46 yuan per gram at the end of the year, a drop of 29.31%, with the peak at 340.8 yuan per gram and the bottom 235.84 yuan per gram. In 2013, the volatility of domestic gold price was as high as 99.15 yuan per gram, almost growing 1 time that of last year. In addition, following the international gold price volatility, domestic gold price was characterized by plunge during short period of time. In middle-April and end-June, the domestic gold price dropped 15.52% and 13.45% respectively within 5~7 trading days. In terms of price spread, the highest between domestic and international gold prices reached 10.23 yuan per gram and the average 3.32 yuan per gram. The average price spread rose 1.53 yuan per gram over the year before, up 85.47%. Of 238 trading days in the year, there were 237 days on which domestic prices were higher than international ones, with the average premium at 3.32 yuan per gram. There was only one trading day on which domestic gold price was lower than international one, with the spread at 0.75 yuan per gram.

2.2 Main factors influencing gold price movement

First of all, the prospect of QE withdrawal because of positive economic data of US economy led to gold price volatility. In 2013, indicators of US economy kept positive. In November, the unemployment rate dropped to 7.0%, and CPI recorded 1.2%, far away from the Fed target of 2%. In the third quarter, current account deficit reached US$94.8 billion, a record low in four years. The three rounds of quantitative easing (QE) in the past 5 years has pushed gold price to the peak. With the economic recovery of the US speeding up, strong market expectation was formed for QE exit, which became a major reason for suppressing gold price. In December, the U.S. initiated the measures to withdraw from QE eventually. The Fed announced that monthly bond purchasing would be cut from US$85 billion to US$75 billion since January 2014, and the following polices depended on economic statistics. Meanwhile, the Fed underlined the promise to maintain ultra-low interest rate in the long run. The uncertainty of US monetary policies in the future will also lead to volatility of market expectation, which will induce gold price volatility.

Second, the rising opportunity cost of gold investment led to declining gold demand globally. In 2013, Dow Jones Industrial Average (DJIA) and Standard & Poor's 500 Index (S&P 500 Index) reached record high one after another, and NASDAQ Index exceeded 4,000 points, representing the peak since September 2000. The high earnings on the stock market pushed up investor's risk appetite, hence the flowing of fund from the gold market to the stock market. According to World Gold Council (WGC), gold demand declined 21% on a year-on-year basis globally in the third quarter of 2013, hitting the lowest point of 868.5 tonnes in four years. In terms of gold investment demand, the year of 2013 witnessed continuous drop of open interest of gold ETF. By the end of the year, the open interest of SPDR, the largest gold ETF in the world, had registered 798.22 tonnes, a drop of 40.87% from the beginning of the year and a drop of 41.02% from 1,353.36 tonnes, the historic high in December 2012. In terms of gold consumption demand, due to import restriction policy, the gold demand in India dropped 32% in the third quarter. In terms of gold speculation demand, as of Dec. 6th, short position of COMEX gold speculation had reached the highest point in 7.5 years, while long position

Figure 6.5 Comparison of US Dollar Index with International Gold Price



Note: The data for US dollar index is the daily closing price and the data for international gold price is the London afternoon fix.
Sources: Reuters and LBMA.

the lowest point in 6 years, so large quantity of short position suppressed the rising trend of gold price. In terms of gold reserves, the year of 2013 witnessed an increase of 206.65 tonnes of official gold reserves globally, up 0.65% year on year, the slowest growth since 2009.

Third, the fact that US dollar index went strong periodically suppressed the rising of gold price. Since the third quarter of 2013, US dollar index has recovered slowly and steadily from about 70 points. In 2013, US dollar index touched the highest point of 84.753, a new high in three years. Meanwhile, gold price declined amid fluctuation after toughing the historic high in September 2011 (Figure 6.5). Since gold is the product denominated in US dollar, the rising of US dollar index will induce the declining of gold investment demand, which will then cause the drop of gold price.

3. Characteristics of gold market performance in 2013

3.1 Market activities were much brisker

In 2013, domestic and international gold price dropped nearly 30% accumulatively and the prices were much more volatile than in 2012. Influenced by the great volatility of gold price, activities generally tended to be brisk on major gold markets around the world. In 2013, the world biggest gold spot market London Gold Market and the biggest gold futures market COMEX market enjoyed a growth of 16.86% and 7.99% on a year-on-year basis in trading volume. Domestically, the gold market also changed from the declining trading volume in 2012 and enjoyed brisker activities. Compared with 2012, the trading volume of SGE grew around 80% and that of SHFE more than 2 times. Gold futures market in China has greatly surpassed that in Japan and in India, becoming the second largest gold futures market globally second only to COMEX in the US.

3.2 Demand for physical gold was strong domestically

Since 2013, gold price has declined on the whole, which stimulated the demand of the general public for physical gold to a great extent. Firstly, the demand for gold jewelry grew rapidly. According to China Gold Association, the gold consumption reached 1,176.4 tonnes domestically in 2013, surpassing India for the first time, which made China the largest nation of gold consumption globally. In particular, the domestic demand for gold jewelry registered 716.5 tonnes, up 42.52% over the year before. Secondly, investment demand for gold bullion continued to rise. In 2013, domestic demand for gold coin and bullion reached 375.73 tonnes, up 56.57% year on year. Thirdly, the sales of physical gold by commercial banks grew rapidly. In 2013, the cumulative sales of physical gold products of various types over the counters of commercial banks hit 393.99 tonnes, a growth of 1.46 times over the year before. Fourthly, the volume of vault entering and leaving of SGE physical gold grew significantly. In 2013, the volume totaled 4,394.94 tonnes, a growth of 1.87 times over the year before.

3.3 Gold financing business enjoyed rapid development

In 2013, the trading volume of commercial bank gold leasing, gold lending and gold pledging business grew by 1 time, 6.4 times and 4.4 times respectively over the year before. On the one hand, the rapid development of gold financing business reflected that against the backdrop of declining gold price and tight financing domestically, enterprises were more active to get financed through gold business. On the other hand, the rapid development of gold financing business also reflected that the physical gold liquidity improved continuously on domestic gold market. Maintaining rapid development momentum on the whole in recent years, gold financing business has got accepted by more and more financial institutions and legal person enterprises. In addition, the business growth will help form a mature interest rate curve for gold leasing, thereby pushing the development of derivatives such as gold forward.

3.4 Commercial banks got more active on gold market

According to the statistics from "gold market monitoring and analysis system" of the PBC Shanghai Head Office, by the end of 2013, there had been more than 170 banking financial institutions at home involved in gold business. The local branches of corporate banks and foreign banks participating in gold business grew in number each year. In terms of market trading of commercial banks, the year of 2013 witnessed trading volume of 7,008.17 tonnes on SGE, accounting for 60.3% of the total on SGE, an increase of 3.79 percentage points over the year before. In terms of OTC trading of commercial banks, the year of 2013 witnessed trading volume of 4,522.23 tonnes at home accumulatively, up 62.41% on a year-on-year basis. In terms of offshore gold business of commercial banks, the year of 2013 witnessed trading volume of 7,488.7 tonnes accumulatively, up 80% year on year. The position and role of commercial banks on gold market was enhanced continuously.

4. Market basic construction and product innovation

4.1 *Glossary of China OTC Gold Derivatives Trading* was released

In order to standardize OTC gold derivatives trading, safeguard legitimate rights and interests of market participants, boost sound and orderly development of OTC gold derivatives market, National Association of Financial Market Institutional Investors (NAFMII) drafted and formulated *Glossary of China OTC Gold Derivatives Trading (2013 Version)* (thereafter referred to as *Gold Glossary*), which has been filed with and approved by the PBC. *Gold Glossary* covered products of gold forward, swap, option, etc., and specified the general items and basic articles of OTC financial derivatives trading, such as trading confirmation, trading party, and market maker. *Gold Glossary* also explained terms related to the trading date, calculation, clearing and settlement of gold derivatives based on the features and practices of domestic market, and described the product type and structure of derivatives, such as gold forward, swap, and options. The release of *Gold Glossary* will be conducive to improving basic system of gold market, lowering trading cost, enhancing trading efficiency and speeding up innovation and development of the market.

4.2 SGE launched several innovated products

In 2013, SGE launched innovated products one after another, in order to protect investor interests and rights, and to further enhance the capability to serve the market. Firstly, interbank bilateral products such as gold forward and gold swap were launched, so as to satisfy the diversified market demand, to improve the building up of interbank bilateral trading market, to complement exchanges market. By the end of 2013, there had been 26 commercial banks participating in interbank gold bilateral transactions, satisfying the demand for interbank large-value transactions of gold. Secondly, Au99.5 gold spot contract was launched, which linked domestic spot contracts with international, alleviated the supply pressure on the domestic market to a certain extent, narrowed the spread between domestic and international gold price, and enhanced liquidity on the domestic gold market.

4.3 Gold ETF was traded on the market

Gold ETF was the first innovated product covering both gold and securities market in China, and it was also securitized fund product based on SGE physical gold contract. Different from SPDR, the biggest gold ETF internationally, domestic gold ETF realized real-time subscription and redemption in an innovative way. For SPDR gold ETF, only members of more than 10 gold depository trust companies were allowed to participate in subscription and redemption as chartered participants. But for domestic gold ETF, all investors were allowed to participate in subscription and redemption, and were under the protection of *Law of the People's Republic of China on Securities Investment Fund*, according to which, even if fund companies go bankrupt, there will be no loss to gold ETF assets, hence no credit risk of trading counterparty for bankruptcy clearing. Gold ETF provided investors with a new channel for investing gold, where investors could trade gold ETF as stock. By providing services for subscription and redemption of gold ETF, SGE realized the linkage between gold trading and securities market. In July and November 2013, three gold ETFs got launched on SSE and SZSE. By the end of 2013, the cumulative trading volume of the three gold ETFs had registered 14.61 tonnes, and the open interest totaled 1.8 tonnes.

4.4 Infrastructure construction of gold market was further strengthened

Firstly, the trading time of SGE and SHFE was extended further. On May 31st, 2013, SGE officially launched Friday night trading. The trading time was from 21:00pm on Friday to 2:30am on Saturday, and it was counted together with the daytime trading on the next Monday as a complete trading day, for which clearing was done after the market closed on Monday. On Jul. 5th, 2013, SHFE launched continuous trading for gold and silver products, under which night trading was introduced. The launch optimized the trading mechanism on gold market, and made up for the gap of trading time between domestic and international market. By making the trading time of SGE basically cover that of markets in Europe and the US, the launch enhanced the linkage between domestic and international gold market. Secondly, the 2.5-generation trading system was launch on SGE, which greatly improved the function of hardware system.

5. Outlook for gold market development

Efforts will be made to further improve gold market system. Job will be done to specify the role and function of gold market in financial system, so as to make the market promote the gold industry development. Gold leasing market will be developed proactively, so as to make interbank bilateral transactions brisker, and to facilitate the use and circulation of physical gold. Gold derivatives market will be developed steadily, so as to enhance the compliance and openness of the market, and to boost the formation of multi-level market system. Efforts will also be made to further improve gold market product system. Job will be done to enrich variety of gold transactions based on the demand of gold industry and market development, so as to satisfy the need of gold-using and gold-producing enterprises in financing and risk control, and to provide all-round financial service for gold industry. Attention will be paid to further increasing participants on gold market. Job will be done to guide more financial institutions to participate in gold market, so as to develop the market both in depth and in width. Efforts will be made to further improve infrastructure service of gold market. System building of gold market will be strengthened, with a view to providing investors with a safe, convenient and efficient trading platform. Lessons will be learned from international experience to establish and improve centralized clearing service system for gold market. Job will also be done to optimize gold account service, so as to guarantee investor interests and enhance clearing efficiency for physical gold. Efforts will also be made to establish and improve benchmark interest rate system for gold market, and strengthen information disclosure and self-discipline of gold market.

Part VII Futures Market

Product innovation accelerated in China's futures market in 2013. With eight new varieties of commodity futures introduced, treasury bond futures listed successfully and pilot after-hours trading launched, futures market witnessed marked rise in both transaction volume and turnover. Business scope was further expanded with more acquisitions and capital increase. Laws and regulations for futures market were further improved and market opening up took new steps forward. With its quality and efficiency on the rise, futures market became better able to serve the real economy.

1. Performance of futures market

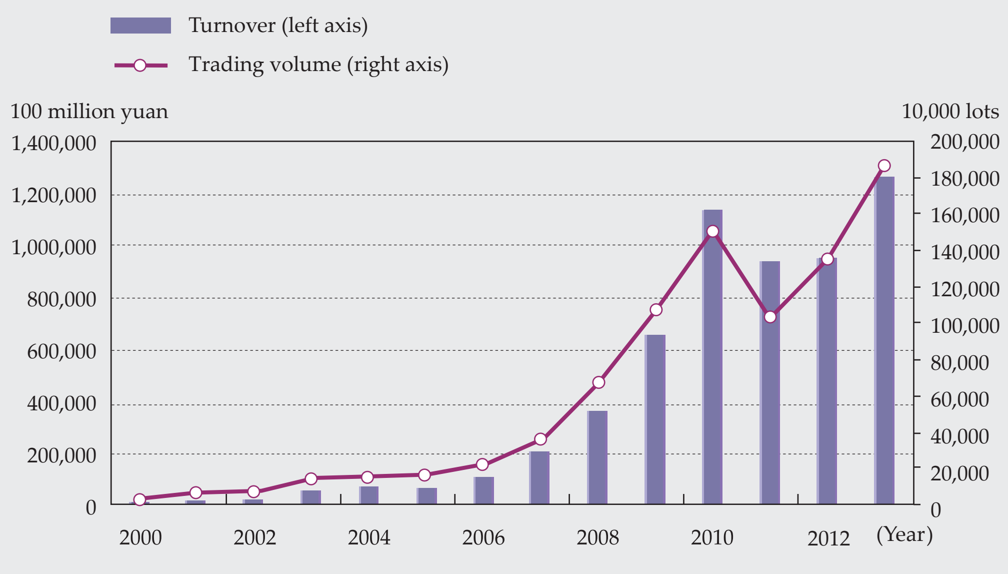
1.1 Performance of commodity futures market

1.1.1 Trading volume and turnover hit record high amid active market trading

The year 2013 witnessed robust trading activity on futures market with volume and turnover reaching record high to 1.868 billion lots and 126.47 trillion yuan, realizing rises of 38.86% and 32.73% year-on-year respectively.

By futures exchange, Shanghai Futures Exchange recorded 642 million lots in trading volume and 60.42 trillion yuan in turnover, up 75.86% and 35.47% year-on-year respectively, proportioned 34.39% and 47.77% of the

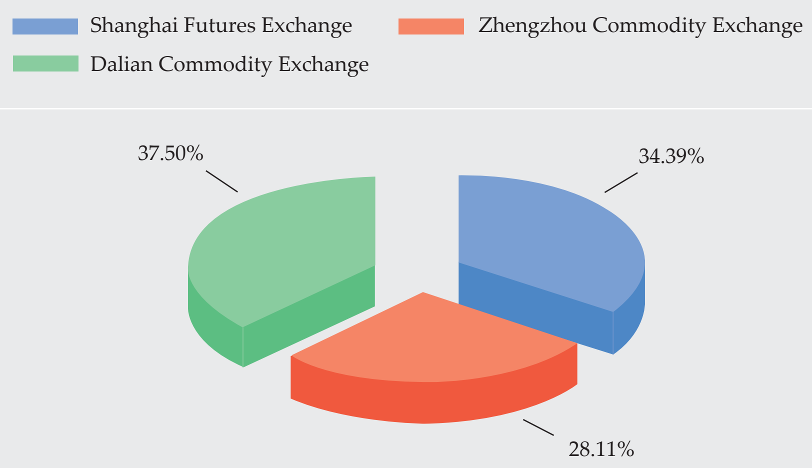
Figure 7.1 Trading Volume and Turnover of China Commodity Futures Market, 2000—2013



Source: China Futures Association.

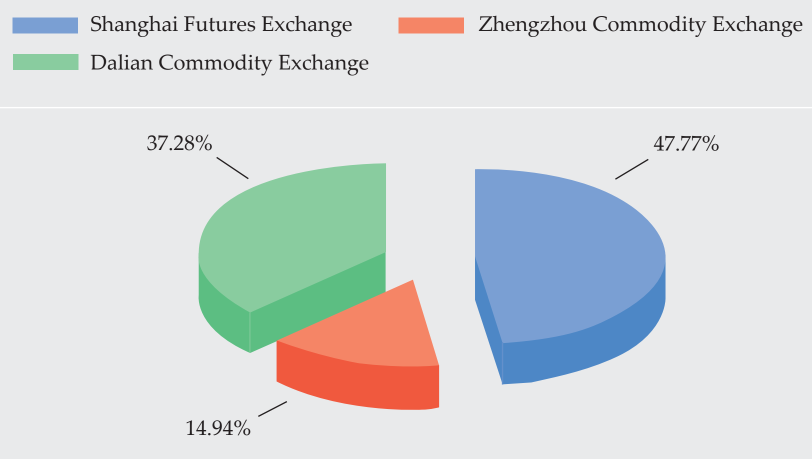
nationwide value. Zhengzhou Commodity Exchange realized volume and turnover to 525 million lots and 18.90 trillion yuan, rising 51.36% and 8.84% year-on-year respectively, accounting to 28.11% and 14.94% of the nation. Dalian Commodity Exchange registered volume and turnover of 701 million lots and 47.15 trillion yuan respectively, surging 10.66% and 41.51% year-on-year with shares of 37.50% and 37.28% of the nation.

Figure 7.2 Breakdown of Trading Volume by Commodity Futures Exchange in 2013



Source: China Futures Association.

Figure 7.3 Breakdown of Turnover by Commodity Futures Exchange in 2013



Source: China Futures Association.

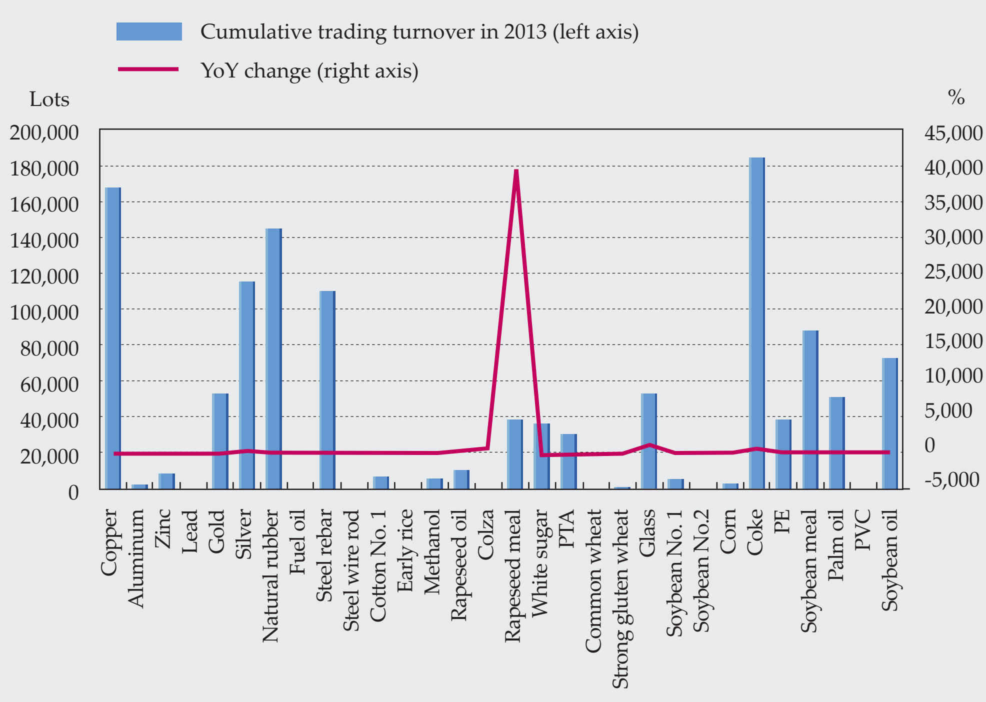
1.1.2 Active futures products showed significant divergence in trading and prices of most futures fluctuated downward

Regarding trading activity, steel rebar, soybean meal, glass, silver, rapeseed meal, coke, soybean oil, palm oil, PTA and natural rubber were rated top 10 product types in terms of commodity futures trading volume in 2013, with their volume to 1.521 billion lots accounting to 80.43% of total trading volume of commodity futures. In terms of turnover, the top 10 types registered coke, copper, natural rubber, silver, steel rebar, soybean meal, soybean oil, gold, glass and palm oil, the turnover of which reached 104.02 trillion yuan with a share of 82.25% of all types.

Trading volumes of active products displayed significant divergence in volume change year-on-year. Among precious and base metals, silver and gold rocketed in trading volume by 714.59% and 239.51% respectively while only a modest rise for steel rebar and copper. Among energy and chemical products, glass and coke soared by 1,053.29% and 250.31% respectively despite natural rubber and PTA lessened. Among agricultural products, trading volume of rapeseed meal recorded 379 times than that of last year with palm oil and soybean oil surged and soybean meal slightly lowered.

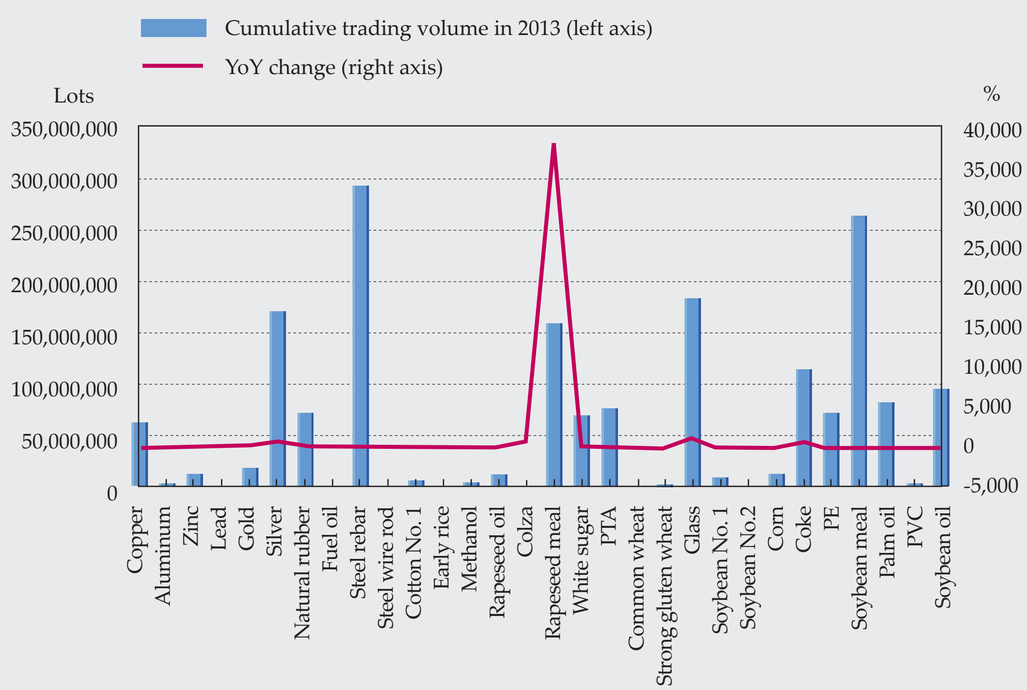
Most commodity futures, including precious and base metals, energy, chemical and agricultural products, experienced price decrease amid fluctuation in 2013.

Figure 7.4 Trading Turnover of Commodity Futures and YoY Change in 2013



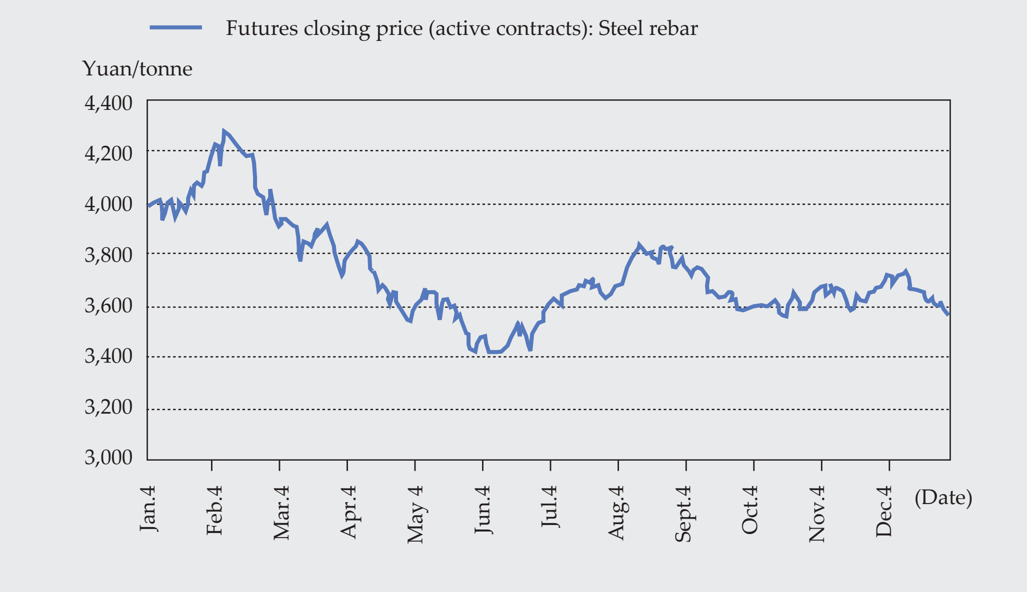
Source: China Futures Association.

Figure 7.5 Trading Volume of Commodity Futures and YoY Change in 2013



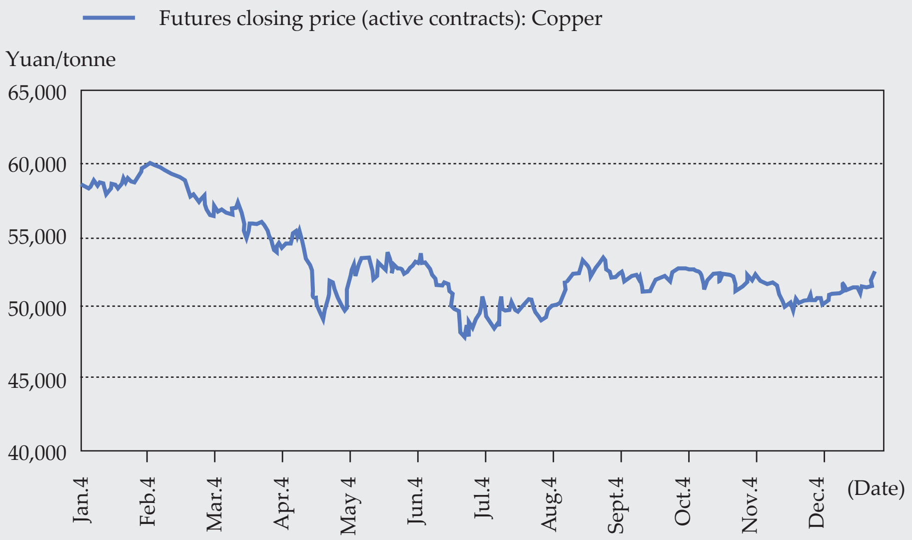
Source: China Futures Association.

Figure 7.6 Price Movement of Steel Rebar in 2013



Source: Wind Info.

Figure 7.7 Price Movement of Copper in 2013

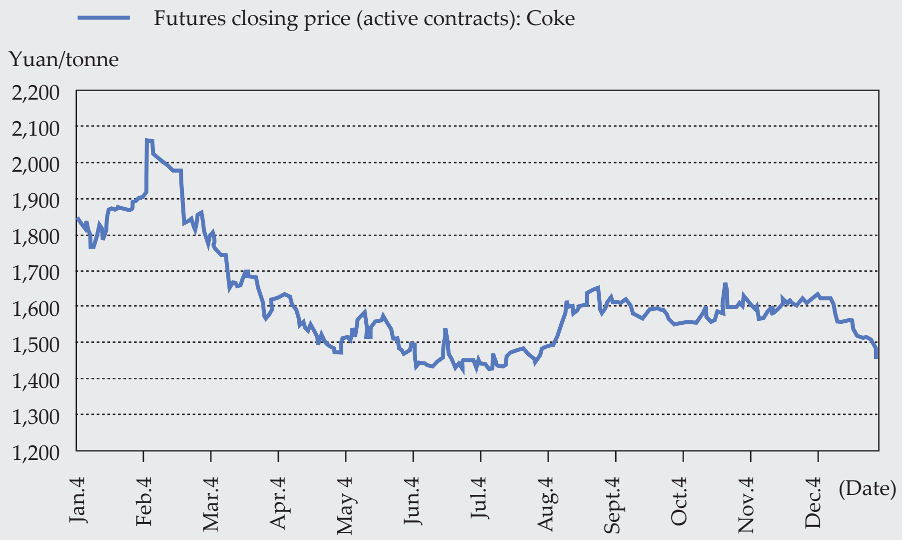


Source: Wind Info.

Figure 7.8 Price Movement of Natural Rubber in 2013

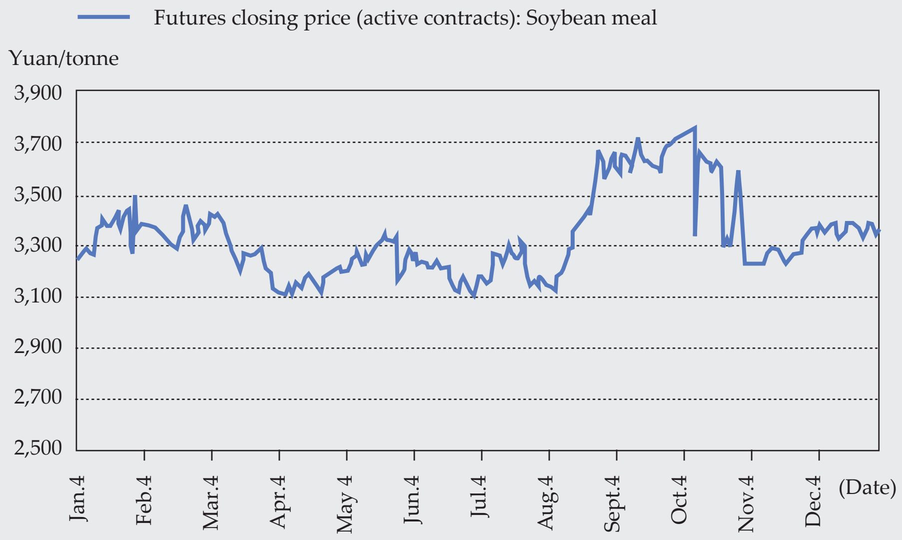
Source: Wind Info.

Figure 7.9 Price Movement of Coke in 2013



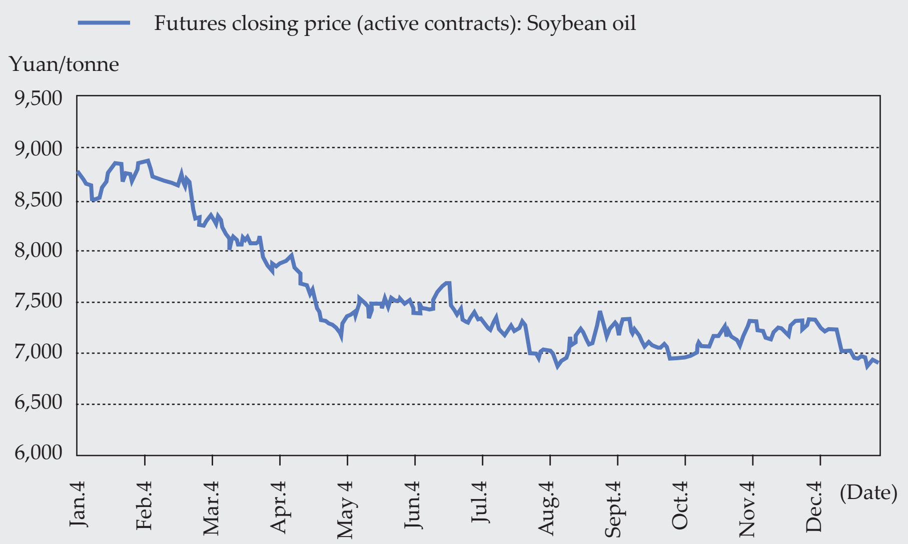
Source: Wind Info.

Figure 7.10 Price Movement of Soybean Meal in 2013



Source: Wind Info.

Figure 7.11 Price Movement of Soybean Oil in 2013



Source: Wind Info.

1.2 Performance of financial futures market

1.2.1 Stock index futures matured gradually with improved trade structure

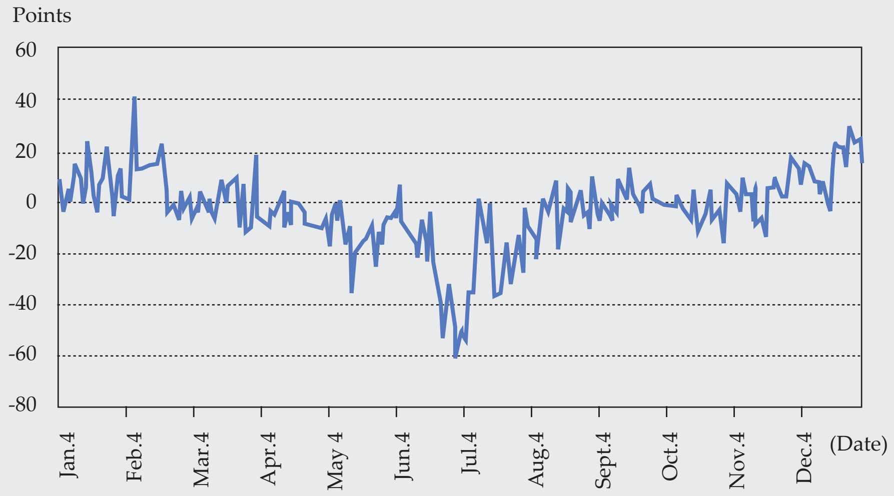
Due to enhanced participation of institutional investors, hedging and arbitraging investors, stock index futures market saw robust trading activity under the context of increasingly matured market operation, rational market performance, improved transaction structure and greater function in risk mitigation. Futures prices floated around spot prices without significant divergence. The correlation between these two prices recorded 99.56% with 95.85% for yield correlation. Trading days with basis rate within 1% accounted for 97.48% in the year.

Open position and turnover of stock index futures grew steadily, which underscored high market demand and the market's sound carrying capacity to ensure arbitrage and hedging transactions. By the end of 2013, accounts opening recorded 164.8 thousand with yearly trading volume and turnover to 193 million lots and 140.70 trillion yuan, up 83.91% and 85.52% respectively year-on-year.

Market operation quality was further improved with higher degree of maturity. Ratio between trading volume and holding volume dropped radically from 26 times during preliminary stage of the market to 5~8 times in 2013. Market depth was further strengthened, which was highlighted by the bid-ask 5 deep depth of dominant contracts rising by 1.84 times and 1.93 times respectively than those in 2010. Bid-ask spread narrowed year by year. In particular, the spread of dominant contracts decreased from 0.34 point in 2010 to 0.25 point in 2013, down 36%.

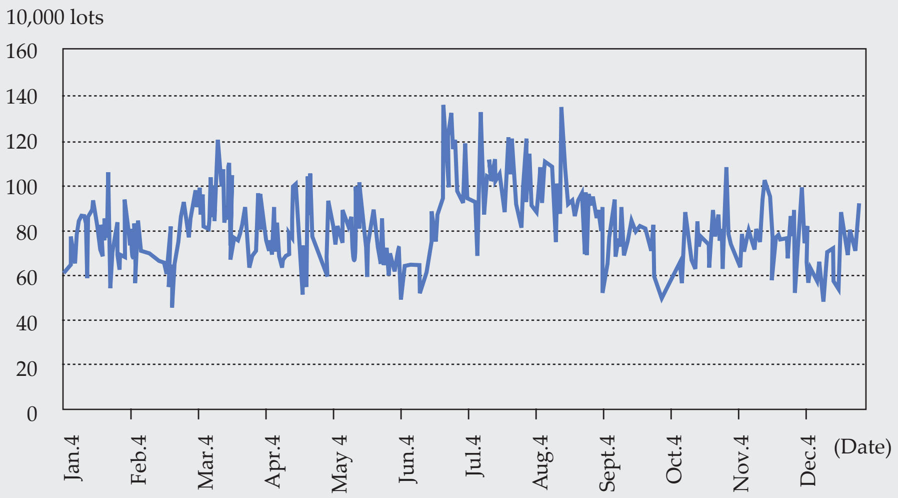
Transaction structure of the market realized new improvement with arbitrage and hedging transactions and their shares in open position

Figure 7.12 Daily Basis of CSI 300 Stock Index Futures in 2013



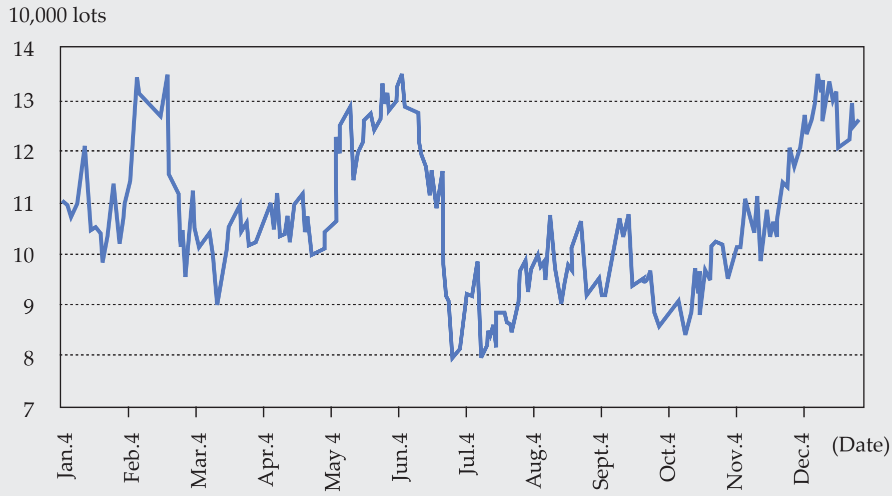
Source: Financial Innovation Lab, China Financial Futures Exchange.

Figure 7.13 Daily Trading Volume of CSI 300 Stock Index Futures in 2013



Source: Financial Innovation Lab, China Financial Futures Exchange.

Figure 7.14 Daily Open Position of CSI 300 Stock Index Futures in 2013



Source: Financial Innovation Lab, China Financial Futures Exchange.

growing steadily. The volume of hedging transactions and its share in open position surged by 138.71% and 117.54% respectively from those of 2010. After arbitrage transaction was introduced in 2012, its trading volume and its share in open position hiked by 237.89% and 392.71% year-on-year respectively in December 2013. Throughout the year, market prices and trading volume remained steady in both futures markets and spot markets at deliveries of stock index futures without occurrence of "expiration effect".

1.2.2 Treasury bond futures were listed and delivered stable and orderly performance

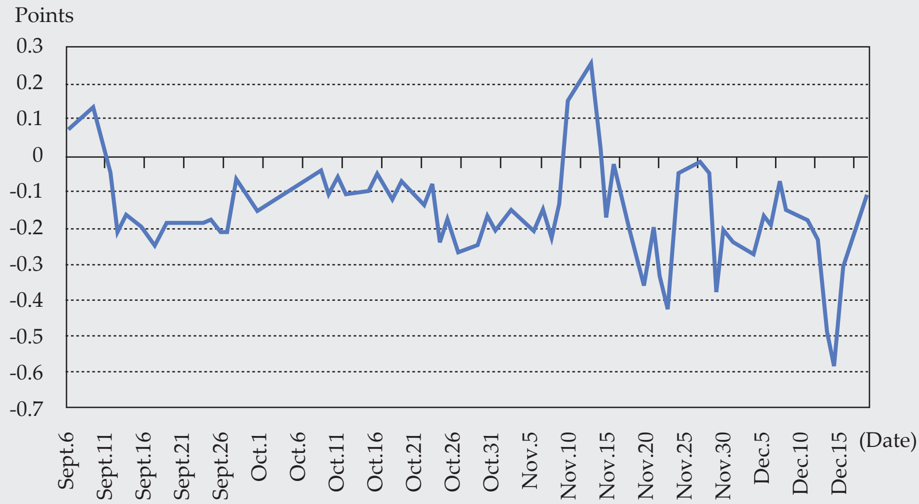
Since 5-year treasury bond future was listed on September 6, 2013, its market operation remained steady. On December 18, 2013, the treasury bond future successfully finished its first delivery, which marked a complete cycle. By the end of December, accumulative trading volume reported 328.8 thousand lots to 306.389 billion yuan. Its market function began to be exerted when a few treasury bond underwriting team members took advantage of treasury bond futures to hedge interest rate risk during their underwriting period, which enhanced market liquidity. Investors participated in the market in a rational manner highlighted by the facts that their traded open positions were mainly focused on near month contracts and that their traded open position structure was in line with international conventions. The linkage between future prices and spot prices remained reasonable with average closing basis close to matured international markets.

2. Features of futures market performance

2.1 Innovation in commodity futures varieties picked up pace and the system of products further improved

China's commodity futures market sped up its innovation in product type in 2013 with 8 new futures, close to the sum of previous five years, including coking coal, steam coal, bitumen, iron ore, egg, japonica rice, fiberboard and blockboard. Up till then, futures types reached 38 with improved product system. The new products

Figure 7.15 Daily Basis of 5-Year Treasury Bond Futures in 2013



Source: Financial Innovation Lab, China Financial Futures Exchange.

Table 7.1 Daily Average Basis of 5-Year Treasury Bond Futures

Time/Indicator		Basis (daily average)	Basis (maximum)	Basis (minimum)
2013	Dec.	-0.28	-0.07	-0.58
	Nov.	-0.13	0.25	-0.42
	Oct.	-0.15	-0.03	-0.34
	Sep.	-0.11	0.13	-0.25
2013		-0.18	0.25	-0.58

covered key national economic sectors, which enhanced the depth and breadth of futures market in serving national economy. The introduction of fiberboard and plywood futures filled the gap in forest industry on national futures market. Together with egg futures, these new types formed a new agricultural futures system covering agriculture, forest and animal husbandry. These products began to play an important role in serving farmers, rural areas and in agricultural industry and supporting peoples' productions and lives. Launching upstream futures types in succession, such as steam coal and iron ore, that had close relations to national basic industries, would help to promote relevant industries and to exert greater influence on pricing of strategic resources.

2.2 Treasury bond futures were successfully launched and gave a push to multi-layered capital market construction

Due to the maturing and regulating of China's futures market and to the success experiences in steady development of stock index futures, the 5-year treasury bond futures, a second financial futures, were listed on China Financial Futures Exchange on September 6, 2013. This marked an important achievement in building multi-level capital markets, a breakthrough in innovation on financial futures derivative market after stock index futures and a crucial measure to promote the reform of interest rate liberalization. Its introduction helped to beef up liquidity in the treasury bond spot market and some underwriters of treasury bond could take advantage of the future to hedge interest rate risk. Moreover, the new futures promoted the establishment of market-oriented pricing benchmarks and improved treasury bond issuing system so as to enhance the reform of interest rate liberalization and to optimize resources allocation. Besides, the new futures diversified risk management instruments, and provided more risk mitigation tools and asset allocation instruments for financial institutions. By these means, their innovation system improved and their capacity to serve real economy would be strengthened. The introduction of the treasury bond futures would also contribute to the construction would of multi-level capital markets and to the expansion in the width and depth of the market, which would consequently promote the reform and steady development of capital markets.

2.3 Futures companies strengthened capital and expanded business with enhanced service capability

2013 witnessed increasing acquisition, capital increase and share expansion among futures companies with strengthened capital profile. There were 6 acquisition cases and 5 futures companies publicizing capital injection, and their capital increased by 1.793 billion yuan. New steps were made in overseas acquisition. In July 2013, GF Futures (Hong Kong) Company, a wholly owned subsidiary of GF Futures Ltd., acquired 100% equity shares of British NCM Futures from Natixis, which marked the first case of overseas acquisition by a futures company with Chinese background. At the same time, business scope was further broadened. On March 16, 2013, China Securities Regulatory Commission (CSRC) released *Measures for the Sales of Securities Investment Funds* and its accommodative measures, clarifying that futures companies could participate in fund sales business since June 1. The engagement of futures companies in fund sales on behalf of other financial institutions could bring about new profit growth point, promote their asset management development and advance the transition to comprehensive financial service platforms. After the *Guidance for Pilot Program of Futures Companies' Subsidiaries Conducting Risk Management as Main Business*, released by China Futures Association, took effect in February 2013, 20 risk management subsidiaries of futures companies completed record filing, among which 13 companies launched new business, including warehouse receipt service, basis trading, cooperation hedging and pricing service etc. This new development gave futures companies a bigger role in innovation and market service as risk management intermediaries and promoted the integration of futures market and spot market, so as to better serve the real economy.

3. Institution and infrastructure building of futures market

3.1 Work started to develop a futures law

On December 10, 2013, the Financial and Economic Affairs Committee of the National People's

Congress established the team for amending the securities law and for drafting a futures law. At the same time, the Committee held the first plenary meeting, which marked the start of the formulation of a futures law. As an important basic system for capital markets, the law stood as the legal basis in solving grave problems relating to reforms and practices of futures market. A series of important systems will be clarified and improved, covering trading mechanism, market entity regulation, risk management and investor protection, etc. Besides, it needed accommodative opening policies and advanced cross-border supervisory and enforcement arrangement for China futures market to be a major international pricing center for commodities with risk management functions. The Futures Law could enhance the confidence of foreign institutional investors on legal environment for investment in China futures market. It would also become a legal basis for opening up policies in futures market and for cross-border supervision, which could support responding to asymmetric supervisory legal requirements.

3.2 The pilot project of after-hours trading was launched

Against the background of increasing opening up of China, the correlation between commodities futures market and international markets was further enhanced with higher degree and frequency of price fluctuations. Investors increasingly called for extending trading hours of futures market. In order to strengthen the market's capacity to serve investors, to fully exert market functions and to promote the continuity and authority of futures market prices, CSRC agreed to launch pilot after-hours trading on April 12, 2013. On July 5, gold and silver futures formally started after-hours trading with trading time from 21:00 to 2:30 of the second day from Monday to Friday. Since November 20th, futures types for continuous trading expanded from precious metals to non-ferrous metals such as copper, aluminum, zinc and lead. After the introduction, these products witnessed increasingly robust transactions with strengthened market liquidity. Investors could use night trading to adjust their positions in a timely manner so as to prevent overnight risk. As a result, the market's function of risk management was further strengthened with price discovering and risk mitigating functions enhanced.

3.3 The Shanghai International Energy Exchange was launched

On November 6, 2013, Shanghai Futures Exchange registered and established Shanghai International Energy Exchange in the China (Shanghai) Pilot Free Trade Zone with the aim of setting up an international crude oil futures platform and promoting crude oil listings through cross-ministries cooperation. The trading center took "international platform, net price transaction and bonded delivery" as its basic principle of construction. International platform referred to internationalization in trading, delivery and settlement with participation of investors home and abroad, including multi-national oil companies, crude oil trade agencies and investment banks etc. It was aimed to break through domestic dilemma of few market participants and limitation on crude oil circulation so as let the trading center play a role in crude oil pricing in China. Net price transaction meant that its trading prices of crude oil were deducted by tariffs and value added taxes. Bonded delivery was defined that physical delivery was dependent on bonded oil depot and that the prices for bonded spot trade were netted with taxes. All these measures could facilitate trading and settlement by international traders of spot and future crude oil. Further more, this platform would close the gap between domestic and international prices for oil resources at bonded oil depot and facilitate steady and convenient market deliveries. The establishment of Shanghai Energy Trading Center contributed to the construction of China crude oil futures market, which was an important measure to implement the national strategy to build Shanghai Free Trade Zone.

3.4 Risk-based regulation indicators for futures companies were revised

On February 21, 2013, CSRC released *Decision of the CSRC on Amending the Pilot Measures for the Administration of Risk-based Regulation Indicators of Futures Companies* and *Provisions on the Calculation Basis for the Risk Capital Reserves of Futures Companies*. Since July 1, 2013, in accordance with relevant regulations, futures companies should improve their management system of risk based regulation indicators with net capital as the core in order to ensure sound operation of the companies. Main contents of the revision were as follows. With an aim to meet the need of futures companies on business innovation, the concept of risk capital reserves was set up. The calculation basis for risk capital reserves was regulated according to different risk characteristics of business types. Under the presumption of risks under control, capital regulation on futures companies was relaxed. The benchmark percentage of risk capital reserves in total domestic equities of clients was lowered from 6% to 4%. Reflecting the policy principle of supporting competitive companies and limiting less competitive companies, the risk based regulation indicators, which was focused on net capital, were linked to categorized review results of companies. The higher the rating was, the lower the calculation standard that would be applied to. These measures would enhance the accuracy and effectiveness of regulation.

3.5 Rules and regulations for financial futures business were improved

In order to meet business requirements, China Financial Futures Exchange (CFFEX) made cross-the-board revision and improvement on business rules for stock index futures with an aim to strengthen product function and enhance market operation efficiency. Ten business regulations were revised, including *Trading Rules of CFFEX* and *Detailed Clearing Rules of CFFEX* etc., with two new rules formulated including *Detailed Trading Rules of CSI 300 Futures and Guidance on Membership Qualification Management on Futures Companies*. In order to satisfy the demand on product innovation, business rule system was established for treasury bond futures by completing the draft and implementation of *5-Year Treasury Bond Futures Contract and Detailed Trading Rules of 5-Year Treasury Bond Futures Contract* etc. In cooperation with China Securities Depository and Clearing Corporation Limited and China Central Depository and Clearing Corporation Limited, the Agreement on Delivery Business Operation & Memorandum was signed, which set a system basis for treasury bond futures listing for their steady market operation. In order to diversify member structure, *Membership Management Measures of CFFEX* and other rules were revised, lifting policy barriers in membership changes by futures companies and in membership access to non-futures companies. This also provided legal basis for proprietary trading non-futures companies, such as commercial banks, to access membership. In line with CSRC requirements, *Administration of Depository Banks Designated by the CFFEX* was released and implemented, regulating futures margin deposit business by banking institutions, which enhanced exchange's self-regulation function on depository banks.

4. Outlook for futures market

In 2014, product system of China futures market will be improved by listing strategic resources and agricultural futures products, by developing equity, interest rate and exchange rate financial derivatives and by promoting new trading instruments such as options, commodity index and carbon emission right etc. Listed products will be refined with their contract rules to be reviewed further to make a balance between new and existing products. Adjustments will be made to accommodate to real economy with enhancement on assessment, feedback and rectification system of the function of futures products. Opening up of futures market will be steadily promoted by introducing foreign investors in matured products on pilot, by increasing bonded delivery products of commodity futures and expanding experimental area scope. Futures industry will be further opened up by permitting foreign institutions holding shares of futures companies and supporting competitive and resilient futures companies conducting futures brokerage business overseas and establishing foreign subsidiaries. Basic system for futures market will be enhanced by promoting the formulation of a futures law. Investor suitability system on futures market will be strengthened with further cultivation of institutional investors. Diversified economic entities and financial institutions will be encouraged to engage in policy formulation on futures market in an orderly manner.

Part VIII Financial Derivatives Market

In 2013, China's financial derivatives market continued to grow in scale, and market transactions remained brisk. The trading volume of interest rate swap dropped, while market participants increased in number and reference rate became diversified; the trading of exchange rate derivatives maintained the good momentum of rapid growth, and swaps played further role in smoothing liquidity; the market for Credit Risk Mitigation (CRM) maintained stable, with market players growing in number.

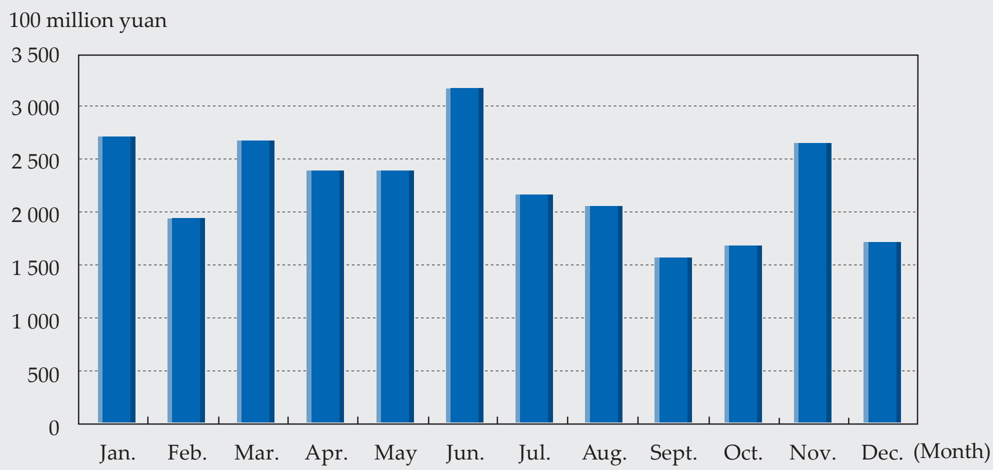
1. Performance and features of RMB interest rate derivatives market

1.1 Market performance

In 2013, the trading of interbank RMB interest rate derivatives amounted to 2.7 trillion yuan, down 6.0% year-on-year. In particular, 24,409 deals were transacted in interest rate swap, with notional principal amounting to 2.73 trillion yuan, 6.0% decrease in trading volume over last year. For bond forward and forward interest rate, both witnessed only 1 transaction, with trading value standing at 101 million yuan, and 50 million yuan respectively.

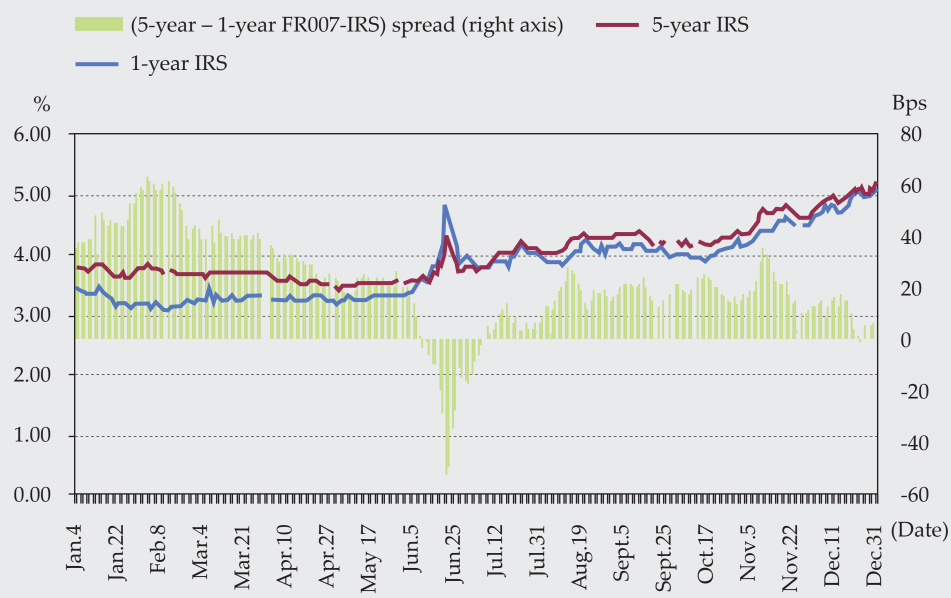
By end 2013, notional principal of uncovered interest rate swap registered 2.6 trillion yuan (one side), 9.3% higher over the end of last year. As for monthly distribution, January, March, June and November witnessed higher transaction, all above 200 billion yuan, and the number in June is the highest of the whole year, standing at 336.5 billion yuan.

Figure 8.1 Monthly Turnover of Interest Rate Swap in 2013



Source: China Foreign Exchange Trade System.

Figure 8.2 Movement and Interest Spread of the Fixed Rate for One-Year and Five-Year FR007-IRS in 2013



Source: China Foreign Exchange Trade System.

As for term structure, short-term transaction took the lion's share, with notional principal of products with maturity of or below 1 year reaching 2.1 trillion yuan, 75.6% of the total transaction, or 1% lower year-on-year. The proportion of products with maturity between 1~5 years and 5~10 years was 14.5% and 10.0% respectively. As for reference rate, swaps using FR007 (7-day fixed repo rate), overnight rate and 3-month Shibor as the reference rate are the most frequently traded products, with trading share reaching 65.3%, 21.0% and 12.2% respectively. By contrast, swaps linked to 6-month, 1-year, 3-year, 5-year or more than 5-year lending rates accounted for only 0.7%. Moreover, with the launch of 1-year LPR in October, it became the reference rate of interest rate swap, and 7 deals were linked with it, amounting to 420 million yuan, or 0.02% of the total.

The movement of interest rate swap was generally in line with money market rate, with rate curve becoming more flattened. Take the FR007-IRS as an example. Its price movement was generally in line with money market 7-day rate. In particular, it was low before June and then moved higher. In the first six months, the middle area of 1-year rate averaged at 3.3%, and then moved up to 4.1%~4.2%, as affected by liquidity crunch in June and tight money supply afterwards. As for the shape of rate curve, in June it became even inverted. Although it then returned to normal, it became more flattened in second half of the year. The spread between 5-year and 1-year rate dropped to 2 basis points at year-end from 35 basis points at the beginning of 2013.

1.2 Market features

1.2.1 Interest rate swap remained as the dominant product

In 2013, despite the decline in transaction volume over last year, the turnover of interest rate swap remained at historical high level. Moreover, its share among RMB interest rate derivatives was as high as over 99.9%. At the same time, interest rate swap still has great potential for further development. First, with respect to absolute volume, according to the statistics by BIS, in April 2013, the daily turnover of global interest rate derivatives averaged at US$2.3 trillion, while corresponding number in China was only 0.01 trillion yuan, less than seven out of ten thousand; With respect to market share, interest rate derivatives have been dominant products of OTC derivatives at international market, with notional principals accounting for 75%~80% of all derivatives. While in China, the scale of interest rate swap was about 10% of exchange rate derivatives, indicating great potential for further development.

1.2.2 Market participants grew steadily in number, with foreign banks playing dominant role

Market participants of interest rate swap grew steadily. By end-2013, the number of institutions that have been filed for trading reached 107, 14 over that at end-2012. A total of 76 institutions signed Function Use Commitment Letter, 13 more than that at end-2012.

In terms of trading volume, foreign-funded banks take the lion's share, making up 53.3% of the total. Domestic shareholding banks, city commercial banks, state-owned commercial banks, policy banks and security firms accounting for 23.7%, 9.8%, 5.0%, 4.1% and 4.0% respectively.

1.2.3 Float reference rate became diversified, and lending benchmark rate gained favor

In addition to Shibor and FR007, float reference rate for interest rate swap, such as lending rates of various maturities, became more widely used. This was mainly because of the growing demand for enterprises to lock lending cost. Moreover, 1-year lending benchmark rate (LPR) was launched in October, and soon became the reference rate of interest rate swap.

2. Performance and features of RMB exchange rate derivatives market

2.1 Market performance

In 2013, interbank RMB exchange rate derivatives market maintained rapid growth, with turnover reaching US$3.5 trillion, up 21.4% over last year. In particular, RMB/FX swaps registered a turnover of US$3.4 trillion, up 35.0% year-on-year; RMB/FX forwards recorded a turnover of US$32.37 billion, down 62.6% year-on-year; RMB/FX currency swaps and options reported a turnover of US$2.44 billion and US$21.75 billion respectively. The share of RMB exchange rate derivatives in RMB/FX market increased further to 45.9% from last year's 45.9%.

As affected by RMB appreciation expectation and liquidity conditions, the price of RMB exchange rate derivatives moved in two directions. In particular, at the beginning of this year, the 1-year RMB/USD swaps quoted 1200 points, it then dropped to 1000 points at the end of first quarter. At end-June, driven by tight liquidity, it rose to 1500 points, but started to decline since the fourth quarter. At year-end, the 1-year RMB/USD swaps quoted 450 points.

The RMB exchange rate derivatives market continued to grow in membership. By end-2012, for RMB/FX forward and RMB/FX swap market, there were 88 members, adding 8 members over last year. While for RMB/FX futures market, there were 33 members, adding 4 members over last year.

2.2 Market features

2.2.1 FX swap products increased the share in RMB/ FX derivatives

In 2013, the share of RMB/FX swaps in RMB/ FX derivatives transaction grew further, totaling 98.4%, up 2.1 percentage points over 2012. Meanwhile, RMB/ FX forward transaction went down year-on-year. This was partly due to the fact that following the administrative adjustment of commercial banks' cash positions, further decrease of forward market released the demand for swap market. In addition, the stronger linkage between domestic and foreign funds as well as tight liquidity highlighted the liquidity adjustment role of swap products.

2.2.2 Domestic and foreign funds conditions responded in a linked way and foreign currency interest rate went up

In 2013, the linkage between domestic and foreign funds became strengthened. Especially in June, money market interest rate became more volatile, various factors drove domestic currency interest rate up, and overnight and 1-week Shibor rose to as high as more than 10%. FX swap market responded swiftly to the change of domestic currency liquidity conditions, and FX swap curve moved upward. In the last ten days of June, 1-week, 1-month and 1-year swaps climbed to 135 points, 350 points and 1520 points respectively, significantly higher than normal levels. With the decline of money market interest rate, RMB exchange rate derivatives went down gradually. Besides, along with the rise of domestic currency interest rate, foreign currency interest rate also rose markedly. The implied USD interest rate of 1-month, 3-month, and 6-month swap rose from 1.28%, 1.27% and 1.42% to 3.60%, 3.73%and 4.11% at end-2013. The implied USD interest rate of interbank swap products all grew over 2 percentage points in 2013.

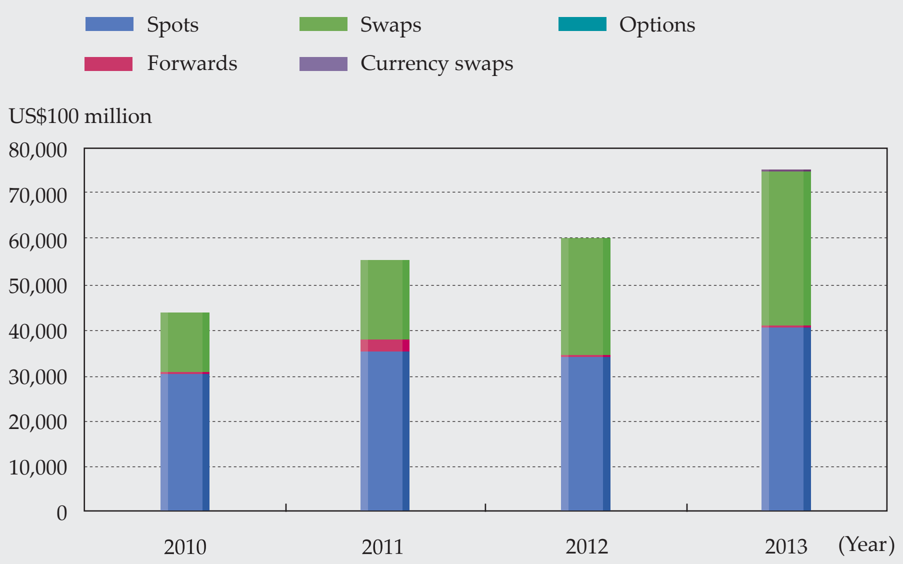
Table 8.1 Reference Rate and Turnover of Float Rate for Interest Rate Swap in 2013

Units: 100 million yuan, %

Reference rate	Turnover	Share
FR007	17,818.59	65.32
Shibor_O/N	5,738.15	21.04
Shibor_3M	3,337.90	12.24
1-year time deposit rate	178.18	0.65
1-year lending rate	156.56	0.57
3-year lending rate	31.95	0.12
LPR1Y	4.18	0.02
5-year lending rate	4.09339	0.02
Over 5-year lending rate	3.385	0.01
LIBOR	2.4	0.01
Others	2	0.01
Shibor_3M_5D	0.3	0
6-month lending rate	0.099	0

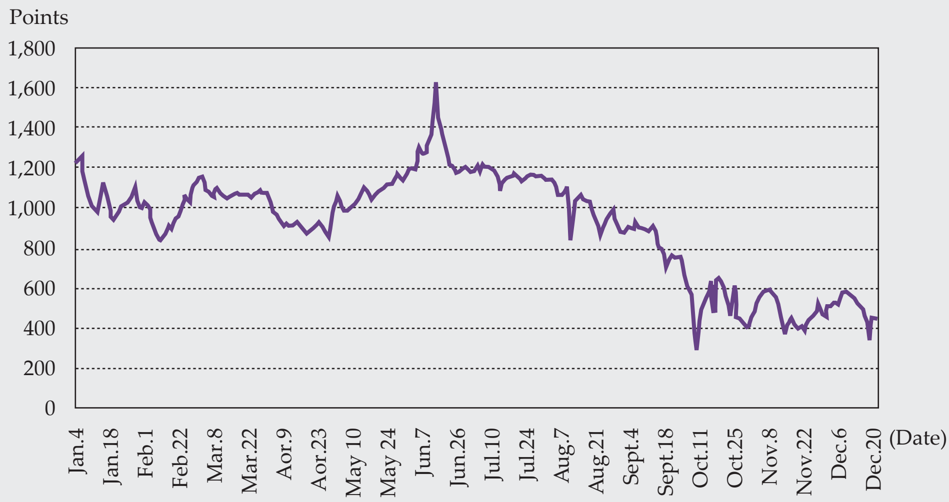
Source: China Foreign Exchange Trade System.

Figure 8.3 Turnover of RMB/FX Derivatives



Source: China Foreign Exchange Trade System.

Figure 8.4 Movement of One-Year RMB/USD Swap



Source: Financial Innovation Lab, China Financial Futures Exchange.

2.2.3 The exchange rate of derivatives implied depreciation expectation, and fluctuated in two opposite directions

In 2013, the RMB/USD exchange rate implied depreciation expectation, and fluctuated in two opposite directions. Measured against the middle rate, from the beginning of this year to February, the depreciation expectation implied in interbank 1-year swap declined from above 1% to 0.5%. From March to May, it remained relatively stable. Entering June, the depreciation sentiment heated up, and rose to the annual peak of 1.69% on June 20. Afterwards, it gradually moved downward until end-Sep. In the fourth quarter, the depreciation expectation was stable, and the implied expectation of one-year swaps weakened to about 0.03%.

2.2.4 FX Options became more active

In 2013, RMB/FX option market was active, with annual turnover reaching US$21.75 billion, a year-on-year growth of 551.0%. RMB/USD is the dominant product, and in terms of maturity, 1-year and 1-week products were more actively traded, with turnover standing at US$5.29 billion and US$7.61 billion respectively, accounting for 24.3% and 35.0% of total FX options. In addition, the turnover of 1-month and 3-month options was US$2.5 billion and US$1.52 billion. The share of put option was 46.5%, basically at the level of last year.

3. Performance and features of RMB credit derivatives market

3.1 Performance of credit risk mitigation (CRM) market

In 2013, CRM market was stable and steady, and both Credit Risk Mitigation Agreement (CBMA) and Credit Risk Mitigation Warrant (CRMW) came due smoothly.

By end-2013, 16 traders concluded 46 CRMA transactions, with notional principal totaling 3.94 billion yuan. The underlying debt instruments included short-term financing bills, medium-term notes, notes issued collectively by a group of small and medium-sized enterprises (SMEs), and bank loans. The maturity of CRMA ranged from 32 days to 2.21 years. The settlement methods in case of credit events included settlement in kind and in cash. In 2013, there was no new CRMA issued or transacted. Two CRMA transactions that were still in existence period would come due in the first and second quarter, with notional principal of 350 million yuan, and involving 3 traders. By end-2013, there were no CRMAs that were in existence period.

By end-2013, six CRMW issuers had registered and issued 9 CRMWs, with notional principal of 740 million yuan. The underlying instruments included short-term financial bills and medium-term note, maturing at about one year. Market participants concluded 6 CRMW transactions through trading system, with notional principal of 240 million yuan. In 2013, there was neither new CRMW issuance nor new CRMW transaction in the secondary market. Since the beginning of this year, only one CRMW that was still in existence period would become due in the third quarter, with nominal principal of 130 million yuan, involving one registered issuer and two traders.

3.2 Broader base of market participants

In 2013, CRM traders, core CRM traders, and CRMW issuers all experienced growth in number. By end-2013, 46 market participants, which consisted of 33 domestic and foreign commercial banks, 11 securities companies, 1 financial asset management company and 1 institution of other type, had been filed as CRM traders, adding one over end-2012. Twenty-six market participants, which were comprised of 24 domestic and foreign commercial banks and 2 securities companies, had been filed as CRM core traders, no change in number over end-2012. Thirty market participants, which included 22 domestic and foreign commercial banks, 7 securities companies and 1 institution of other type, had been filed as CRMW issuers, adding one over end-2012.

4. Performance and features of foreign currency derivatives market

4.1 Trade of foreign currency derivatives continued to grow rapidly

In 2013, the trading of interbank foreign currency derivatives continued to grow rapidly, with turnover reaching US$29.64 billion, up 26.1% year-on-year. In particular, foreign currency forwards registered a turnover of US$3.52 billion, increasing 31.0% year-on-year; foreign currency swaps reported a turnover of US$26.12 billion, increasing 25.5% year-on-year.

4.2 Turnover of different currency pairs became polarized

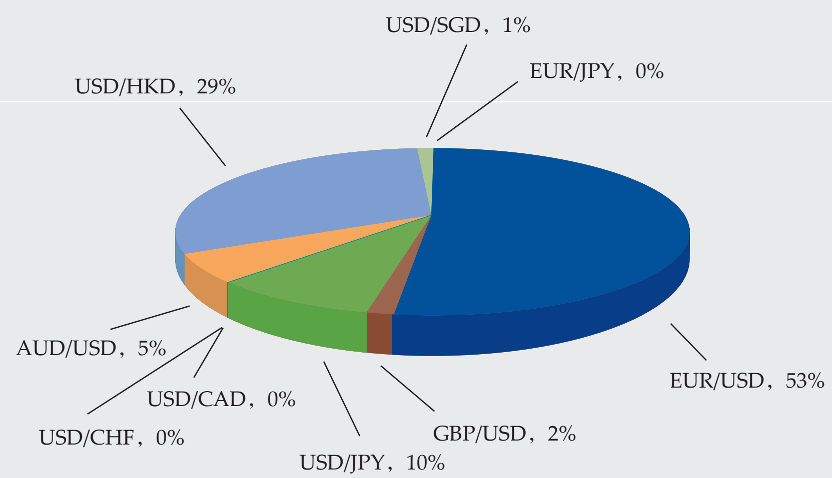
In 2013, EUR/USD and USD/HKD continued to be the most traded currency pairs, with annual turnover reaching US$15.57 billion and US$8.58 billion respectively, and the turnover of EUR/USD accounted for more than half of foreign currency derivatives transaction. The turnover of USD/JPY ranked third, registering US$ 3.08 billion. The above three currency pairs made up 91.9% of total foreign currency derivatives transaction, up 7 percentage points over 2012. The turnover of AUD/USD and USD/CAD declined in 2013.

5. Outlook for financial derivatives market

5.1 Continuous innovation will enrich product spectrum

The demand for risk management and business development by market participants raised higher requirement for derivatives. The construction of crude oil futures market, the study on the

Figure 8.5 Breakdown of Foreign Currency Pairs Turnover in 2013



Source: China Foreign Exchange Trade System.

innovation of commodities, such as iron ore and coal, the research and guide on the pilot carbon emission transaction, and the research on new trading tools such as commodities index future and options all have strong market demand. For the interbank market, current basic interest rate and exchange rate derivatives have made up relatively complete product spectrum. In the future, on the basis of activating current derivatives trading, the launch of new exchange rate, interest rate options and futures will be further analyzed to improve price discovery function and to meet risk management demand. In addition, as credit bond market expanded gradually, the depth and liquidity of credit derivatives was further guaranteed; thereafter, the market was expected to grow.

5.2 Infrastructure construction should be enhanced to ensure the efficiency and safety of market operation

Amid the expanding of market participants, rapid growing of turnover, and stronger demand of risk management, the efficiency and safety of derivatives market need the continuous improvement of OTC infrastructure. In 2012, the electronic confirmation and clearing of interest rate swap was launched at the interbank market, and was completed in 2013. In 2013, the launch of electronic confirmation of exchange rate derivatives helped promote the standard of market operation, reduced time lag, and provided convenience for financial institutions to lower operational, credit and legal risks.

In the future, interbank interest rate swap will use new trading system, adopt matched trading on bilateral credit and quota limit basis, support multiple trading strategy, achieve possible personalized trading, and adopt brand-new trading platform. Interest rate clearing agencies should become regular establishment, and effectively help institutions resolve issues like inadequate quota. In addition, with benchmark interest rate of money market becoming more volatile, the replacement risk of interest rate swap is more prominent. Therefore, services related to replacement risk are expected to be launched to help further improve risk management measures and guarantee the safety of market operation.

Box4 Shanghai Clearing House (SCH) Launched Central Counterparty Clearing Service for RMB Forward Freight Agreements (FFA)

In recent years, the rapid development of new financial market, represented by commodities and carbon emission right, not only meet the hedging needs of real economy, but make financial institutions quickly emerge as main liquidity provider. As a result, financial institutions play dominant role in expanding trading scale and improving price discovery function. The financializaton of commodities, which refers to price index based financial derivatives, has become new trend of international development. Spot-index based derivatives are mainly linked with specific market. For instance, forward freight contract is linked with the Baltic Dry Index (BDI), and iron ore futures and swap is linked with The Steel Index (TSI) by Platts. For futures-index based derivatives, the underlying index usually covers main futures product, for instance, some swaps and futures are linked with S&P GSCI (cover 24 futures products), and some are linked with DJ-UBSCI (cover 19 futures products)

SCH actively expand cross-market business, and innovatively launch the FFA central counterparty clearing business. As approved by the PBC, this business was launched on April 16, 2013 after 4 months of stable and steady trial operation, and was the first such service for financial derivatives of commodities. It signaled mainstream international OTC derivative was, for the first time, cleared in RMB, and this breakthrough not only provided great convenience for market participants, but explored a new route for RMB internationalization. This business also connects the construction for Shanghai international financial center and shipping center, help Shanghai seize the pricing right of international financial market, and better serve China's real economy.

Freight fluctuation is the common risk faced by market players of shipping industry. To illustrate, for the demand side, such as commodities purchasing companies, importers and exporters, if freight volatility is large, the transportation cost is hard to control and will affect their profitability. While for the supply side, volatile freight income change results in short-term liquidity pressure and long-term income uncertainty. As a freight risk management tool, FFA possesses both the hedging and price discovery function, and helps companies manage future freight risk. In particular, when shipping companies conduct leasing at the spot market, they can buy contracts in the opposite direction at the FFA market to lock cost and profit.

RMB FFA central counterparty clearing business is concluded domestically with the help of brokers. FFA products are denominated and cleared in RMB, and SCH provides central counterparty clearing service. Under standardized and professional risk management system, Renminbi FFA contract will be honored even in the case of counterparty default or bankruptcy. The first round of products include CTC, PTC and STC, and the agreement lasts one month, one quarter or one year. During the duration of the agreement, settlement is conducted every month. The main agreement clauses include product category, name of agreement, product abbreviation, agreement size, agreement price, lowest price fluctuation, agreement number, agreement tenor, receiving time of trading data, final trading date, final settlement date, and final settlement price etc. SCH adopts risk management measures such as position limit, margin, real-time monitoring, clearing funds, and risk reserves to prevent central counterparty clearing risks.

This business is actively received by the market. Three commercial banks has become clearing members, 3 FFA brokers of international renown have been attracted to this market, the number of market participants continue to grow, and business volume grows as well. By October 31,2013, 3,742 transactions had been conducted, totaling 210 million yuan, and this business takes on the accelerating development momentum.

Appendix I Highlights of Financial Market Development in 2013

On January 18, the People's Bank of China (PBC) announced the launch of Short-Term Liquidity Operations (SLOs), which, as a supplement to routine open market operations, shall be used on a discretionary basis to manage temporary fluctuations of liquidity in the banking system.

In January, the PBC introduced the Standing Lending Facility (SLF) to provide liquidity support to financial institutions.

On January 22, the PBC issued the *Notice on Strengthening Liquidity Management of Locally Incorporated Financial Institutions and Enabling Short-Term Central Bank Lending to Play an Effective Role in Supplying Liquidity* (PBC Document [2013] No.22). According to the Notice, PBC branches should attach great importance to the positive role of central bank lending in providing temporary liquidity support to locally incorporated financial institutions, guide them to use short-term central bank loans as a conventional vehicle to finance short-term liquidity shortages, and make effective use of the vehicle to meet reasonable demand for liquidity.

On January 25, the PBC and the Bank of China Taipei Branch signed the Agreement on RMB Clearing Business. According to the Agreement, financial institutions on both sides of the Taiwan Strait can settle cross-border RMB transactions for their clients via an agent bank or the clearing bank.

On January 25, the China Securities Regulatory Commission (CSRC) issued the *Interim Provisions on Gold Exchange-Traded Funds. Open-ended Gold Exchange Traded Securities Investment Funds*.

On January 25, the CSRC released the *Interim Provisions on Securities Investment Fund Custody Business Conducted by Non-Bank Financial Institutions (Consultation Draft)* to solicit public comments.

On February 1, the China Insurance Regulatory Commission (CIRC) released the Notice on Issues Concerning the Registration of Debt Investment Schemes, in a bid to further push ahead with the reform of the issuance of debt investment schemes.

On February 8, in accordance with relevant arrangements on strengthening bilateral financial services cooperation between the PBC and the Monetary Authority of Singapore (MAS), the PBC, upon review and assessment, authorized the Industrial and Commercial Bank of China (ICBC) Singapore Branch to act as the clearing bank for RMB business in Singapore.

On February 18, the CSRC issued the *Interim Provisions on the Management of Publicly Offered Securities Investment Funds by Asset Management Institutions.*

On February 20, the CSRC issued the *Interim Measures on the Administration of Private Securities Investment Funds (Consultation*

Draft) to seek public comments.

On February 26, the CSRC issued the *Administrative Rules for Asset Securitization Business of Securities Companies (Consultation Draft)* to seek public comments.

On March 3, the CSRC issued the *Interim Provisions on the Administration of Debt Financing Instruments of Securities Companies (Consultation Draft)* to seek public comments.

On March 6, the CSRC issued the *Measures for Pilot Securities Investment in China by RMB Qualified Foreign Institutional Investors* and *the Provisions on the Implementation of the Measures for Pilot Securities Investment in China by RMB Qualified Foreign Institutional Investors*.

On March 7, the PBC renewed the bilateral currency swap arrangement with the Monetary Authority of Singapore. The size of the swap facility was increased from 150 billion yuan, or US$30 billion, to 300 billion yuan, or US$60 billion. The agreement is effective for three years, and can be extended upon mutual consent. The old swap arrangement dated July 23, 2010 expires upon signature of the new arrangement.

On March 12, the CSRC approved the listing of coking coal futures on the Dalian Commodity Exchange (DCE).

On March 13, the PBC published the *Notice on Issues Concerning Investment in the Interbank Bond Market by Qualified Foreign Institutional Investors* (PBC Document [2013] No.69), allowing qualified foreign institutional investors (QFIIs) to apply to the PBC to invest in the interbank bond market.

On March 13, the Ministry of Finance (MOF), PBC and CSRC jointly issued the *Notice on Carrying out the Pilot Program of Pre-issuance of Treasury Bonds* (MOF Document [2013] No.28), formally launching the pilot program of pre-issuance of treasury bonds.

On March 15, the CSRC issued the *Interim Provisions on Securities Investment Fund Custody Business Conducted by Non-Bank Financial Institutions*, effective as of June 1, 2013.

On March 22, upon approval by the PBC, the Shanghai Gold Exchange (SGE) announced that the trial operation of interbank gold forward bilateral trading would be launched on March 25, 2013, in a move to implement relevant instructions in the *Opinions on Promoting Gold Market Development* (PBC Document [2010] No.211). Institutions authorized by the SGE to trade gold forwards bilaterally can do so on the trading platform of the China Foreign Exchange Trade System (CFETS), and conduct clearing and delivery through the SGE.

On March 26, authorized by the State Council, the PBC signed a bilateral currency swap agreement with the Banco Central do Brasil. The size of the swap facility is 190 billion yuan, or 60 billion reais. The agreement is valid for three years and can be extended upon mutual consent.

On March 26, the PBC and the South African Reserve Bank signed the *Agency Agreement for the People's Bank of China to Act on Behalf of the South African Reserve Bank to Invest in China's Interbank Bond Market*.

On April 2, the PBC and the Industrial and Commercial Bank of China Singapore Branch signed an RMB clearing agreement, allowing Chinese and Singaporean financial institutions to settle cross-border RMB transactions for their clients via the clearing bank as well as an agent bank. On the same day, the PBC and the MAS signed a Memorandum of Understanding on RMB business cooperation. The signing of the two documents will benefit the use of the RMB in cross-border trade by enterprises and financial institutions of both countries. It will further promote the liberalization and facilitation of trade and investment.

On April 2, the CSRC and the China Banking Regulatory Commission (CBRC) jointly issued the *Measures for the Administration of Securities Investment Fund Custody Business*, effective as of April 2, 2013.

On April 7, with the approval of the State Administration of Foreign Exchange (SAFE) (SAFE Reply [2013] No.36), the CFETS announced that it would start the trial operation of trade confirmation as of April 8, 2013.

On April 9, with the authorization of the PBC, the CFETS announced that the trading mode between the RMB and the Australian dollar would be improved and direct trading between the two currencies launched in the interbank foreign exchange market based on market-oriented principles. This is an important step taken by China and Australia to further promote bilateral trade relations. Direct trading between the RMB and the Australian dollar will contribute to the formation of a direct quote between the two currencies. This will help lower currency conversion cost for economic entities, facilitate the use of the RMB and the Australian dollar in bilateral trade and investment, strengthen financial cooperation, and enhance economic and financial ties between the two countries.

On April 12, the CSRC approved the pilot program of after-hours futures trading.

On April 25, the PBC published the *Notice on Issues Concerning the Implementation of the Measures for Pilot Securities Investment in China by RMB Qualified Foreign Institutional Investors* (PBC Document [2013] No.105).

On May 14, to further regulate market trading behavior and prevent risks, the CFETS published the *Notice on Issues Concerning Further Regulating the Administration of Related Party Transactions* (CFETS Announcement [2013] No.35), which bars bond trading between bond accounts under the same incorporated financial institution.

On May 17, in line with requirements of the PBC as well as regulations such as the *Measures for the Administration of Bond Transactions in the National Interbank Bond Market*, the Shanghai Clearing House (SCH) released the *Announcement on Issues Concerning Regulating the Monitoring of Bond Trading and Clearing* (SCH Announcement [2013] No.7), which lays down that bond trading and clearing behavior that is abnormal or contrary to regulation should be monitored and verified and that findings be reported without delay. The move aims to regulate frontline monitoring of bond trading and clearing businesses, safeguard their regular conduct, and prevent market risks.

On May 21, the CIRC promulgated the *Decision on Amending the Provisions on the Supervision of Insurance Brokerage Institutions* (CIRC Decree [2013] No.6) and the *Decision on Amending the Provisions on the Supervision of Specialized Insurance Agencies* (CIRC Decree [2013] No.7). On the same day, the CIRC published the *Notice on Further Clarifying Issues Concerning Market Access for Specialized Insurance Intermediaries* (CIRC Document [2013] No.44) to elaborate on relevant policies.

On May 24, the PBC and the Swiss Federal Department of Finance signed in Bern the *Memorandum of Understanding on the Establishment of a Financial Dialogue Mechanism Between the People's Bank of China and the Swiss Federal Department of Finance*.

On June 7, the CSRC and the CIRC jointly issued the *Interim Provisions for the Administration of the Sale of Securities Investment Funds by Insurance Institutions*, specifying regulatory requirements for engagement of insurance institutions in fund sales and the respective regulatory responsibilities of the two commissions. This will help regulate fund sales by insurance institutions so as to satisfy the increasingly diversified financial needs of investors.

On June 9, in order to regulate the administration of clients' cash reserves of payment institutions, prevent payment risks, and safeguard the rights and interests of clients, the PBC issued the *Measures for the Custody of Clients' Cash Reserves of Payment Institutions.*

On June 21, the PBC and the Nepal Rastra Bank signed in Kathmandu the *Agency Agreement for the People's Bank of China to Act on Behalf of the Nepal Rastra Bank to Invest in China's Interbank Bond Market.*

On June 22, in order to bolster bilateral economic and trade ties and maintain financial stability, the PBC and the Bank of England signed a bilateral currency swap agreement worth 200 billion yuan, or 20 billion pounds. The agreement is valid for three years and can be extended upon mutual consent.

On July 2, the PBC issued the Announcement [2013] No.8, requiring that all interbank bond transactions be conducted via the system provided by the National Interbank Funding Center and that no transaction can be revoked or changed once completed. The move aims to further regulate trading and settlement in the interbank market, safeguard the legitimate rights and interests of market participants, and promote healthy and regulated market development.

On July 3, the MOF, PBC and CSRC jointly issued the *Notice on Pilot Pre-issuance of Seven-Year Treasury Bonds* (MOF Document [2013] No.82), making seven-year book-entry treasury bonds the first to be pre-issued in the pilot program.

On July 5, the CSRC approved the launch of treasury bond futures trading on the China Financial Futures Exchange (CFFEX).

On July 9, the PBC issued the *Notice on Simplifying the Procedures of Cross-border RMB Business and Improving Relevant Policies* (PBC Document [2013] No.168). The Notice simplifies the procedures of cross-border RMB business under the current account, clarifies the procedures of cross-border clearing of transactions in the RMB account of a bankcard, and standardizes businesses such as offshore lending in RMB by domestic non-financial institutions (DNFIs) and issuance of offshore RMB-denominated bonds by DNFIs.

On July 19, the SGE issued the *Notice on Launching Subscription and Redemption of Gold ETF Spot Physical Contracts on the Shanghai Gold Exchange*. According to the Notice, filing of gold ETF account information shall start as of July 25, and subscription and redemption of gold spot contracts shall be launched as of July 29.

On July 20, the PBC decided to fully lift controls over loan interest rates offered by financial institutions. First, the lending-rate floor, which was 0.7 times the benchmark lending rates, was removed. Financial institutions can now determine their lending rates independently based on commercial principles. Second, controls over bill discount rates were removed. Financial institutions can price discounted bills as they see fit instead of having to set the rate some basis points above the central bank discount rate. Third, the lending-rate ceiling for rural credit cooperatives was removed. Fourth, the floating band for home loan rates remained unchanged in order to go on implementing strictly the differentiated mortgage policy and promote the sound development of the property market.

On July 25, the CIRC set up the Review Committee for the Entry of Domestic-funded Incorporated Insurance Institutions, in an effort to improve the insurance market entry and exit mechanisms and enhance the quality and transparency of the review process.

On August 5, to further strengthen credit risk management of insurance funds and regulate the use of external credit ratings, the CIRC issued the *Circular on Strengthening the Regulation of the Use of External Credit Ratings in Bond Investment by Insurance Funds.*
On August 15, the State Council, in the State Council Reply Letter [2013] No.91, gave approval to the establishment of the Joint Ministerial Meeting Mechanism for Financial Regulatory Coordination, which was to be led by the PBC and participated by the CBRC, CSRC, CIRC and SAFE.

On August 23, the CSRC approved the trading of steam coal futures on the Zhengzhou Commodity Exchange (ZCE).

On August 27, to prevent market risks, improve market efficiency, and promote sound and regulated development of the interbank bond market, the PBC issued the Announcement [2013] No.12, which strengthens requirements for Delivery Versus Payment (DVP) settlement in the interbank bond market.

On August 30, the CSRC approved the listing of five-year treasury bond futures contracts on the CFFEX. The trading would start from September 6, 2013.

On September 9, the PBC signed a bilateral local currency swap agreement with the Magyar Nemzeti Bank to strengthen bilateral financial cooperation, promote trade and investment, and safeguard regional financial stability. The size of the swap facility is 10 billion yuan, or 375 billion Hungarian forints. The agreement is valid for three years and can be extended upon mutual consent.

On September 11, the PBC and the Central Bank of Iceland renewed their bilateral currency swap agreement. The size of the new swap facility is 3.5 billion yuan, or 66 billion Icelandic krona. The agreement has a 3 year maturity and can be extended upon mutual consent.

On September 12, the PBC signed a bilateral local currency swap agreement with the Bank of Albania to strengthen bilateral financial cooperation, promote trade and investment, and safeguard regional financial stability. The size of the swap facility is 2 billion yuan, or 35.8 billion Albanian lek. The agreement is valid for three years and can be extended upon mutual consent.

On September 13, the CSRC approved the launch of iron ore futures trading on the DCE.

On September 16, the CSRC approved the listing of bitumen futures on the Shanghai Futures Exchange (SHFE).

On September 17, the PBC signed in Beijing a Memorandum of Cooperation on joint financing with the World Bank Group, in a move to further promote cooperation between China and the International Finance Corporation (IFC).

On September 24, the inaugural and first regular meeting of the self-regulatory pricing mechanism for market interest rates was convened in Beijing. The self-regulatory pricing mechanism for market interest rates is a mechanism among financial institutions for self-regulation and coordination of market pricing. It aims to apply, in compliance with relevant national regulations, self-regulatory management over interest rates that are independently determined by financial institutions in money, credit and other financial markets, so as to maintain market order for fair play and promote healthy market development. The meeting deliberated on and passed the *Guidelines for the Self-regulatory Pricing Mechanism for Market Interest Rates and the Rules for Centralized Quotation and Publishing of the Loan Prime Rate*, and elected the first chairman of the mechanism.

On September 27, the CSRC approved the listing of egg futures on the DCE.

On September 30, in accordance with the *Law of the People's Republic of China on the People's Bank of China*, the *Customs Law of the People's Republic of China* and the *Decision of the State Council on Establishing Administrative Licenses for the Administrative Examination and Approval Items Really Necessary to Be Retained*, the PBC formulated the *Measures for the Administration of Export and Import of Gold and Gold Products (Consultation Draft)* and released it to solicit public comments. The move aims to regulate and promote export and import of gold and gold products, and protect the legitimate rights and interests of the parties concerned.

On October 1, the PBC and Bank Indonesia renewed their bilateral currency swap agreement for the purpose of strengthening bilateral financial cooperation, enhancing bilateral economic and trade ties, and securing financial stability of the two countries. The size of the swap line is 100 billion yuan, or 175 trillion Indonesian rupiah. The agreement is effective for three years and can be extended upon mutual consent.

On October 9, the PBC and the European Central Bank signed a bilateral currency swap agreement worth 350 billion yuan, or 45 billion euros, in a move to boost bilateral economic and trade ties and ensure financial stability. The agreement is effective for three years and can be extended upon mutual consent.

On October 17, the first cross-Strait meeting on cooperation in insurance supervision was held in Taipei.

On October 18, the CSRC approved the trading of Japonica rice and late Indica rice futures on the ZCE.

On October 18, the CSRC approved the trading of fiberboard and plywood futures on the DCE.

On October 24, the PBC and the United States Federal Deposit Insurance Corporation signed the *Memorandum of Understanding Regarding Cooperation, Technical Assistance and Cross-Border Resolutions*. The move aims to enhance information sharing, dialogue and policy coordination between the two parties in areas such as financial services, depositor protection, cross-border financial institution resolution, crisis management and global financial stability policy deliberations.

On October 25, the Loan Prime Rate (LPR) centralized quotation and publishing mechanism formally entered into operation, a move aimed at further promoting market-oriented interest rates, improving the financial market benchmark interest rate systems, and guiding the pricing of credit market products.

On November 8, to regulate OTC gold derivatives trading behavior, safeguard the legitimate rights and interests of market participants, and promote the sound development of OTC gold derivatives market, the National Association of Financial Market Institutional Investors (NAFMII), jointly with its members, formulated the *Basic Terminology of OTC Gold Derivatives Transactions in China (2013) under the framework of the Master Agreement for Financial Derivatives Transactions in China's Interbank Market (2009)* .

On November 8, the CSRC and the CBRC jointly issued the *Guiding Opinions on Commercial Banks' Issuance of Corporate Bonds for Capital Replenishment*, which is aimed at broadening capital replenishment channels for commercial banks and meeting their demand for capital instrument innovation through the bond market.

On November 18, the PBC and Bank Negara Malaysia (BNM), on the occasion of the opening of the BNM Beijing Representative Office, signed a Memorandum of Understanding to establish a Cross-Border

Collateral Arrangement (CBCA), which will provide liquidity for financial institutions. The arrangement will help deepen bilateral financial cooperation, boost market confidence, and safeguard regional financial stability.

On November 18, in accordance with the *Measures for the Administration of Debt Financing Instruments of Non-Financial Enterprises in the Interbank Bond Market* (PBC Decree [2008] No.1) and self-regulatory rules such as the *Rules for Market Assessment of NAFMII Members Related to Lead Underwriting of Debt Financing Instruments of Non-Financial Enterprises* (NAFMII Announcement [2011] No.1), the NAFMII released the *Announcement of Launching the Pilot Mechanism of Categorizing Lead Underwriters of Non-Financial Enterprises' Debt Financing Instruments* (NAFMII Announcement [2013] No.20). The move is aimed at strengthening the administration of lead underwriters of non-financial enterprises' debt financing instruments and regulating lead underwriting of non-financial enterprises' debt financing instruments in the interbank bond market.

On November 22, upon approval by the PBC, the SGE announced that interbank gold swap bilateral trading would be launched on November 25, 2013, in a move to implement relevant instructions in the *Opinions on Promoting Gold Market Development* (PBC Document [2010] No.211). Institutions authorized by the SGE to trade gold swaps bilaterally can do so on the trading platform of the CFETS, and conduct clearing and delivery through the SGE.

On November 22, the CSRC signed with the Guernsey Financial Services Commission a Memorandum of Understanding on cooperation in the regulation and supervision of securities and futures.

On November 22, the SHFE launched the Shanghai International Energy Exchange.

On November 30, the CSRC issued the *Opinions on Further Promoting the Reform of the New Share Offering System*, an important step in gradually turning the offering of new shares from approval-based to registration-based.

On December 2, the PBC released the *Opinions on Financial Measures to Support the China (Shanghai) Pilot Free Trade Zone*, in an effort to promote the development of the real economy in the pilot free trade zone.

On December 8, to regulate the business of interbank certificates of deposit, broaden financing channels for depository financial institutions in the banking sector, and promote money market development, the PBC issued the *Provisional Rules on the Management of Interbank Certificates of Deposit*, effective from December 9, 2013.

On December 14, the State Council issued the *Decision on Issues Concerning the National Equities Exchange and Quotations System*, a significant step forward in the building of multi-layered capital market.

On December 20, the SGE issued the *Rules for Interbank Gold Bilateral Trading on the Shanghai Gold Exchange (Revised).*

On December 26, the PBC and the IFC signed in Beijing the *Agency Agreement for* *the People's Bank of China to Act on Behalf of the International Financial Corporation to Invest in China's Interbank Bond Market*. The signing of the agreement, reflecting the IFC's confidence in China's economy and financial market development, will help the IFC diversify its portfolio and strengthen liquidity management, and further enhance the cooperation between China and the World Bank Group.

On December 31, the PBC and the CBRC jointly issued the Announcement [2013] No.21, which concerns issues on asset securitization. The move aims to further regulate risk retention by originators of credit asset securitization, protect the legitimate rights and interests of investors, prevent risks, and promote sound and sustainable development of asset securitization business.

Appendix II China Financial Market Statistics

Table 1 Major Macroeconomic and Financial Indicators, 1998—2013 (Year-End Balance)

Item	1998	1999	2000	2001	2002	2003
GDP	84,402	89,677	99,215	109,655	120,333	135,823
Growth rate	7.8	7.6	8.4	8.3	9.1	10
Exports & imports (US$100 million)	3,239.3	3,607	4,743	5,097.7	6,208	8,512
Growth rate	-0.4	11.3	31.5	7.5	21.8	37.1
Exports (US$100 million)	1,837.6	1,949	2,492	2,661	3,256	4,384
Imports (US$100 million)	1,401.7	1,658	2,251	2,436.1	2,952	4,128
Foreign exchange reserves (US$100 million)	1,450.0	1,546.8	1,655.7	2,121.7	2,864	4,033
Foreign direct investment (US$100 million)	454.6	404	408	468.5	527	535
Fiscal revenue	9,876	11,444.1	13,380.1	16,371	18,914	21,691
Fiscal expenditure	10,798.2	13,187.7	15,879.4	18,844	22,012	24,607
Deficit/surplus	-922.2	-1,743.6	-2,499.3	-2,473	-3,098	-2,916
Money supply (M2)	104,499	119,898	134,610.3	158,301.9	185,007	221,222.8
Growth rate	15.3	14.7	12.3	17.6	16.9	19.6
Money supply (M1)	38,953.7	45,837.2	53,147.2	59,871.6	70,822	84,118.6
Growth rate	11.9	17.7	15.9	12.7	18.3	18.8
Money supply (M0)	11,204.2	13,455.5	14,652.7	15,688.8	17,278	19,746
Growth rate	10.1	20.1	8.9	7.1	10.1	14.3
Per capita disposable income of urban residents (yuan)	5,245	5,854	6,280	6,859.6	7,703	8,500
Real growth rate	5.8	9.3	6.4	8.5	13.4	9
Net income of rural residents (yuan)	2,163.6	2,210	2,253	2,366	2,475.6	2,622
Real growth rate	4.3	3.8	2.1	4.2	4.8	4.3
Total deposits with financial institutions	95,697.9	108,779	123,804.4	143,617.2	170,917.4	208,055.6
Growth rate	16.1	13.7	13.8	16.0	19.0	21.7
Total loans by financial institutions	86,524.1	93,734.3	99,371.1	112,314.7	131,293.9	158,996.2
Growth rate	15.5	8.3	6.0	13.0	16.9	21.1
CPI	-0.8	-1.4	0.4	0.7	-0.8	1.2

Note: Past data have been adjusted according to latest statistical releases.
Sources: National Bureau of Statistics of China, People's Bank of China and Ministry of Finance of the People's Republic of China.

Units: 100 million yuan, %

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
159,878	184,937	216,314	265,810	314,045	340,903	401,513	473,104	519,470	568,845
10.1	10.4	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.7
11,547	14,221	17,607	21,738	25,616	22,073	29,728	36,421	38,662	41,600
35.7	23.2	23.8	23.5	17.8	-13.9	34.7	22.5	6.2	7.6
5,934	7,620	9,690	12,205	14,307	12,016	15,778	18,986	20,487	22,096
5,614	6,601	7,915	9,561	11,326	10,059	13,962	17,435	18,184	19,504
6,099	8,189	10,663	15,282	19,460	23,992	28,473	31,811	33,116	38,213
606	603	694.7	747.7	924	900	1,057	1,160	1,117	1,176
26,355.9	31,628	38,760.2	51,304	61,330	68,518	83,102	103,874	117,254	129,143
28,360.8	33,708.1	40,222.7	49,565.4	62,593	76,300	89,874	109,248	125,953	139,744
-2,004.9	-2,080.1	-1,462.5	1,738.6	-1,263	-7,782	-6,772	-5,374	-8,699	-10,601
254,107	296,040.1	345,577.9	403,401.3	475,166.6	606,223.6	725,851.79	851,590.9	974,148.8	1,106,509.15
14.9	16.5	16.7	16.7	17.8	27.6	19.7	13.5	14.4	13.6
95969.7	107,279.9	126,028.1	152,519.2	166,217.1	220,004.5	266,621.54	289,847.7	308,664.2	337,260.63
14.1	11.8	17.5	21.0	9.0	32.4	21.2	7.9	6.5	9.3
21,468.3	24,032.8	27,072.6	30,334.3	34,218.96	38,245.97	44,628.17	50,748.46	54,659.77	58,558.31
8.7	11.9	12.6	12	12.8	11.8	16.7	13.8	7.7	7.1
9,422	10,493	11,759	13,786	15,781	17,175	19,109	21,810	24,565	26,955
7.7	9.6	10.4	12.2	8.4	9.8	7.8	8.4	12.6	9.7
2,936	3,255	3,587	4,140	4,761	5,153	5,919	6,977	7,917	8,896
6.8	6.2	7.4	9.5	8	8.5	10.9	11.4	13.5	9.3
241,424.3	300,208.6	348,015.6	401,051.4	478,444.2	612,005.1	733,382.03	826,701.35	943,102.27	1,070,587.72
16.0	24.3	15.9	15.2	19.3	27.9	19.8	12.7	14.1	13.5
178,197.8	206,838.5	238,279.8	277,746.5	320,048.7	425,622.6	509,225.95	581,892.5	672,874.61	766,327.3
12.1	16.1	15.2	16.6	15.2	33.0	19.6	14.3	15.6	13.9
3.9	1.8	1.5	4.8	5.9	-0.7	3.3	5.4	2.6	2.6

Table 2 Composition and Growth of RMB and Foreign Currency Deposits and Loans, 1998—2013 (Year-End Balance)

Item	1998	1999	2000	2001	2002	2003
Total deposits with financial institutions	95,697.9	108,778.9	123,804	143,617.2	170,917.4	208,055.6
YoY growth	16.1	13.7	13.8	16.0	19.0	21.7
Of which: Deposits of urban & rural residents	53,407.5	59,621.8	64,332.4	73,762.4	86,910.7	103,617.7
YoY growth	17.1	11.6	7.9	14.7	17.8	19.2
Corporate deposits	32,486.6	37,182.4	44,093.7	51,546.6	60,028.6	72,487.1
YoY growth	13.4	14.5	18.6	16.9	16.5	20.8
Total loans by financial institutions	86,524.1	93,734.3	99,371.1	112,314.7	131,293.9	158,996.2
YoY growth	15.5	8.3	6.0	13.0	16.9	21.1
Of which: Short-term loans	60,613.2	63,887.6	65,748.1	67,327.2	76,822.4	87,397.9
YoY growth	9.4	5.4	2.9	2.4	14.1	13.8
Medium- and long-term loans	20,717.8	23,968.3	27,931.2	39,238.1	51,731.6	67,251.7
YoY growth	33.9	15.7	16.5	40.5	31.8	30.0

Note: As of 2011, monetary aggregates have included deposits of housing provident fund centers and non-depository financial institutions' deposits with depository financial institutions.
Source: People's Bank of China.

Units: 100 million yuan, %

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
241,424.3	300,208.6	348,015.6	401,051.4	478,444.21	612,005.1	733,382.03	826,701.35	943,102.27	1,070,587.72
16.0	24.3	15.9	15.2	19.3	27.9	19.8	12.7	14.1	13.5
119,555.4	147,053.7	166,616.2	176,213.3	221,503.47	264,756.9	307,166.39	357,901.58	415,549.87	471,090.18
15.4	23.0	13.3	5.8	25.7	19.5	16.0	16.5	16.1	13.4
84,669.5	101,750.6	118,851.7	144,814.1	164,385.79	224,360	252,960.27	423,086.61	478,730.2	541,802.47
16.8	20.2	16.8	21.8	13.5	36.5	12.7	67.3	13.2	13.2
178,197.8	206,838.5	238,279.8	277,746.5	320,048.68	425,622.6	509,225.95	581,892.5	672,874.61	766,327.3
12.1	16.1	15.2	16.6	15.2	33.0	19.6	14.3	15.6	13.9
90,808.3	91,157.5	101,698.2	118,898	128,571.47	151,390.7	171,236.64	217,480.1	268,152.19	311,773.15
3.9	0.4	11.6	16.9	8.1	17.7	13.11	27	23.3	16.3
81,010.1	92,940.5	113,009.8	138,581	164,160.42	235,591.3	305,127.55	333,746.51	363,894.22	410,355.34
20.5	14.7	21.6	22.6	18.5	43.5	29.5	9.4	9	12.8

Table 3 Outstanding Loans, Outstanding Bonds, and Stock Market Capitalization as Percentage of GDP, 1997—2013

Units: 100 million yuan, %

Year	GDP	Outstanding loans	Outstanding loans /GDP	Outstanding bonds	Outstanding bonds /GDP	Stock market capitalization	Stock market capitalization /GDP
1997	78,793	74,914	95.1	985	1.3	17,529	22.2
1998	84,402	86,524	102.5	9,199	10.9	19,506	23.1
1999	89,677	93,734	104.5	12,879	14.4	26,471	29.5
2000	99,215	99,371	100.2	16,077	16.2	48,091	48.5
2001	109,655	112,315	102.4	18,932	17.3	43,502	39.7
2002	120,333	131,294	109.1	24,681	20.5	38,329	31.9
2003	135,823	158,996	117.1	36,550	26.9	42,458	31.3
2004	159,878	178,198	111.5	50,026	31.3	37,056	23.2
2005	184,937	206,839	111.8	70,633	38.2	32,430	17.5
2006	216,314	238,280	110.2	72,092	33.3	89,404	41.3
2007	265,810	277,747	104.5	115,032	43.3	327,140.9	123.1
2008	314,045	320,049	101.9	143,494	45.7	121,366.4	38.6
2009	340,903	425,623	124.9	164,753	48.3	243,939.12	71.6
2010	397,983	509,226	128	195,220	49.1	265,422.59	66.7
2011	471,564	581,893	123	214,798	45.6	214,758.1	45.5
2012	519,470	672,875	130	253,403	49	230,357.6	44..3
2013	568,845	766,327	135	289,169	51	239,077.2	42

Notes: 1. *Outstanding loans* refers to the outstanding amount of all RMB and foreign currency loans of financial institutions.
2. *Outstanding bonds* includes bonds in custody in the interbank market and on the stock exchange.
Sources: People's Bank of China, China Central Depository & Clearing Co., Ltd., China Securities Depository & Clearing Corp., Ltd. and China Securities Regulatory Commission.

Table 4 Composition of All-System Financing, 2010—2013

Units: 100 million yuan

Year	Financing aggregate	RMB loans	Foreign currency loans	Entrusted loans	Trust loans	Undiscounted bank acceptances	Net bond financing by enterprises	Domestic equity financing by non-financial enterprises	Others
2010	13.94	7.86	0.49	0.88	0.39	2.34	1.11	0.58	0.29
2011	12.83	7.47	0.57	1.3	0.2	1.03	1.37	0.44	0.45
2012	15.76	8.20	0.92	1.28	1.28	1.05	2.26	0.25	0
2013	17.29	8.89	0.58	2.54	1.84	0.78	1.8	0.22	0

Notes: 1. *Net bond financing by enterprises* excludes bonds issued by financial enterprises.
2. *Others* includes insurance claim payments, insurance companies' investment properties, etc..
Source: People's Bank of China.

Table 5 Interbank Funding and Bond Repo Trading, 1997—2013

Unit: 100 million yuan

Year	Interbank funding	Pledged repo trading	Outright repo trading
1997	8,298	310	—
1998	1,978	1,021	—
1999	3,291	3,957	—
2000	6,728	15,785	—
2001	8,082	40,133	—
2002	12,107	101,885	—
2003	24,113	117,203	—
2004	14,556	93,105	1,263
2005	12,783	156,784	2,223
2006	21,503	263,021	2,892
2007	106,466	440,672	7,253
2008	150,492	563,830	17,376
2009	193,505	677,007	25,891
2010	278,684	846,533	29,402
2011	334,412	966,650	27,885
2012	467,044	1,366,174	50,966
2013	355,190	1,519,757	61,882

Source: China Foreign Exchange Trade System.

Table 6 Change in Interbank Funding Market Participants, 1997—2013

Year	Banks	Securities companies	Insurance companies	Trust companies	Finance companies	Leasing companies	Rural credit unions	Urban credit cooperatives	Asset management companies	Auto finance companies	Others	Total
1997	59	0	0	0	0	0	0	0	0	0	37	96
1998	165	0	0	0	0	0	0	0	0	0	2	167
1999	187	7	0	0	0	0	99	0	0	0	3	296
2000	232	14	0	0	20	0	148	0	0	0	3	417
2001	246	18	0	0	25	0	198	0	0	0	3	490
2002	261	41	0	0	25	0	202	4	0	0	3	536
2003	289	56	0	0	32	0	229	10	0	0	1	617
2004	309	64	0	0	35	0	236	11	0	0	1	656
2005	323	66	0	0	38	0	239	12	0	0	1	679
2006	339	53	0	0	46	0	250	15	0	0	0	703
2007	326	56	0	3	49	0	267	16	0	0	0	717
2008	340	58	0	16	55	4	298	13	2	2	0	788
2009	348	65	6	26	68	6	320	9	3	3	0	854
2010	347	68	6	30	72	11	338	8	3	5	0	888
2011	347	70	7	38	77	11	369	7	4	6	1	937
2012	359	77	7	39	81	16	422	7	5	8	1	1,022
2013	368	82	9	45	98	16	482	7	5	9	1	1,122

Source: National Interbank Funding Center.

Table 7 Bill Market, 1998—2013

Unit: 1 trillion yuan

Year	Cumulative issuance of commercial bills	Cumulative value of discounted bills
1998	0.38	0.27
1999	0.51	0.25
2000	0.74	0.64
2001	1.28	1.55
2002	1.61	2.31
2003	2.77	4.44
2004	3.42	4.71
2005	4.45	6.75
2006	5.43	8.49
2007	5.87	10.11
2008	7.09	13.51
2009	10.27	23.16
2010	12.2	48.6
2011	15.1	25.0
2012	17.9	31.6
2013	20.3	45.7

Source: People's Bank of China.

Table 8 Bond Market Trading, 1997—2013

Units: 100 million yuan

Year	Inter-bank bond market				Stock exchange treasury bond market				OTC market	
	Spot trading	YoY change (%)	Repo trading	YoY change (%)	Treasury bond spot trading	YoY change (%)	Treasury bond repo trading	YoY change (%)	Turnover	YoY change (%)
1997	9.66	—	309.87	—	3,561.66	—	12,876.77	—	0	—
1998	33.19	243.58	1,021.48	229.65	6,059.9	70.1	15,540.86	20.69	0	—
1999	77.42	133.26	3,956.93	287.37	5,300.9	-12.5	12,890.44	-17.05	0	—
2000	682.45	781.49	15,784.94	298.92	4,157.5	-21.6	14,733.66	14.3	0	—
2001	839.33	22.99	40,133.3	154.25	4,815.6	15.8	15,487.63	5.12	0	—
2002	4,411.69	425.62	101,885.21	153.87	8,708.69	80.8	24,419.66	57.67	14.4	—
2003	30,848.43	599.24	117,203.41	15.03	5,756.16	-33.9	52,999.86	117.04	24.5	70.14
2004	25,041.15	-18.83	94,367.54	-19.48	2,966.5	-48.5	44,086.63	-16.82	62.2	153.88
2005	60,133.14	140.14	159,007.15	68.5	2,779.05	-6.3	23,261.2	-47.24	65.7	5.63
2006	102,558.6	70.55	265,912.71	67.23	1,540.7	-44.6	15,413.3	-33.74	42.8	-34.86
2007	156,038.21	52.15	447,924.95	68.45	1,267.32	-17.7	18,345.09	19.02	35.7	-16.59
2008	371,082.7	137.82	581,205.24	29.76	2,122.52	67.5	24,268.65	32.29	30.4	-14.85
2009	472,646.43	27.37	702,898.6	20.94	2,085.11	-1.76	35,475.87	46.18	62.8	106.58
2010	640,418.98	35.50	875,935.55	24.62	1,661.64	-20.31	65,877.79	85.7	41.7	-33.60
2011	636,422.9	-0.62	994,534.79	13.54	1,252.92	-24.6	199,588.41	202.97	27.89	-33.12
2012	751,952.83	18.15	1,417,140.3	42.49	881.43	-29.65	346,360.74	73.54	14.99	-46.25
2013	416,106.44	-44.66	1,581,639.6	11.61	804	8.74	597,243	72.43	18.72	24.88

Note: *Repo trading* includes pledged repo trading and outright repo trading.
Sources: China Central Depository & Clearing Co., Ltd., People's Bank of China and China Foreign Exchange Trade System.

Table 9 Bond Market in 2013

Units: 100 million yuan

Month	Interbank bond market			Stock exchange treasury bond market			OTC market	
	Spot trading	YoY change (%)	Interbank aggregate bond index	Treasury bond spot trading	YoY change (%)	Stock exchange treasury bond index	Turnover	YoY change (%)
Jan.	80,027.12	159.41	115.9316	73	17.51	136.12	0.81	97.56
Feb.	51,929.91	1.52	116.1352	62	-21.55	136.59	1.32	3.13
Mar.	84,974.23	27.83	116.1637	70	-21.56	136.96	2.01	36.73
Apr.	67,927.29	24.60	116.5648	77	23.40	137.39	1.78	169.70
May	26,891.64	-61.96	116.7674	58	-48.72	137.62	1.85	19.35
Jun.	11,839.17	-81.11	116.0279	69	-4.17	138.1	1.59	62.24
Jul.	12,851.60	-81.38	115.2174	82	-8.73	138.32	1.26	-36.04
Aug.	13,688.39	-81.80	113.9961	46	-38.44	138.65	3.44	132.43
Sep.	14,058.02	-79.05	113.5742	52	6.10	138.65	1.03	14.44
Oct	14,540.22	-74.93	112.4704	45	-26.81	138.87	1.52	52.00
Nov.	17,924.86	-75.40	111.0807	73	-1.32	139.16	1.07	-44.56
Dec.	19,454.00	-73.50	110.341	97	77.98	139.52	1.04	-22.96
Total	416,106.45	-44.66	—	804	-2.15	—	18.72	24.88

Note: *Interbank aggregate bond index* refers to the net price index.
Sources: People's Bank of China, China Central Depository & Clearing Co., Ltd., Shanghai Stock Exchange and China Foreign Exchange Trade System.

Table 10 Bond Market Issuance, 1998—2013

Unit: 100 million yuan

Year	Treasury bonds	Local government bond	Policy bank bonds	Central Bank bills	Non-policy financial bonds	Short-term financing bills	Super Short-term financing bills	Private debt financing instruments	Asset-backed securities	Others	Bonds of enterprises	Medium-term notes	Collective notes	Corporate bonds	Convertible bonds	Detachable convertible bonds	SME private placement bonds	Total
1998	4,274	0	1,930	0	0	0	0	0	0	0	0	0	0	0	0	0	—	6,204
1999	2,446	0	1,851	0	0	0	0	0	0	0	73	0	0	0	0	0	—	4,370
2000	2,720	0	1,645	0	0	0	0	0	0	0	50	0	0	0	0	0	—	4,415
2001	3,084	0	2,590	0	35	0	0	0	0	0	140	0	0	0	0	0	—	5,849
2002	4,461	0	3,175	1,938	45	0	0	0	0	0	325	0	0	0	0	0	—	9,944
2003	5,442	0	4,520	7,227	100	0	0	0	0	0	358	0	0	0	182	0	—	17,829
2004	4,809	0	4,348	17,037	775	0	0	0	0	0	326	0	0	0	213	0	—	27,508
2005	5,042	0	6,032	27,882	1,065	1,424	0	0	42	21	654	0	0	0	0	0	—	42,162
2006	6,933	0	8,980	36,574	570	2,920	0	0	116	9	995	0	0	0	111	0	—	57,208
2007	21,883	0	10,932	40,721	973	3,349	0	0	178	0	1,720	0	0	52	106	0	—	79,914
2008	7,246	0	10,809	42,960	974	4,332	0	0	302	0	2,367	1,737	0	288	56	633	—	71,704
2009	14,214	2,000	11,678	39,740	3,071	4,612	0	0	0	10	4,252	6,885	13	638	47	30	—	87,190
2010	15,878	2,000	13,193	46,608	980	6,742	150	0	0	1,090	3,627	4,924	47	603	717	0	—	96,559
2011	13,998	2,000	19,973	14,140	3,529	8,028	2,090	899	0	1,000	2,485	7,270	66	1,262	413	32	—	77,185
2012	13,562	2,500	21,400	0	5,016	8,359	5,822	3,813	250	1,500	6,474	8,432	100	1,550	72	0	77	78,927
2013	15,544	3,500	19,960	5,362	4,437	8,325	7,535	5,668	243	1,700	4,752	6,916	66	3,220	551	0	311	88,090

Notes: 1.Treasury bonds excludes certificate savings bonds.

2. Non-policy financial bonds includes bonds of commercial banks, bonds of non-bank financial institutions etc.
3. Asset-backed securities includes credit asset-backed securities and asset-backed notes of non-financial enterprises.
4. Collective notes includes those issued by promising regional SMEs.
5. Others includes government-sponsored agency bonds, government-backed bonds, bonds of international institutions etc.
6. Pre-2007 data on corporate bonds, convertible bonds and detachable convertible bonds come from the China Securities Depository & Clearing Corp., Ltd., and those from 2008 onwards come from the China Securities Regulatory Commission.

Sources: China Central Depository & Clearing Co., Ltd., China Securities Regulatory Commission, Shanghai Clearing House and China Securities Depository & Clearing Corp., Ltd.

Table 11 Bond Custody, 1997—2013

Unit: 100 million yuan

Year	Interbank bond custody													Exchange-traded bond custody							
	Treasury bonds	Local government bonds	Central bank bonds	Financial bonds	Bonds of enterprises	Short-term financing bills	Super Short-term financing bills	Private debt financing instruments	Asset-backed securities	Medium-term Notes	Collective Notes	Others	Total	Treasury bonds	Local government bonds	Bonds of enterprises	Corporate bonds	Convertible bonds	Detachable convertible bonds	SME private placement bonds	Total
1997	346	—	119	520	0	—	—	—	—	—	—	—	985	—	—	—	—	—	—	—	—
1998	4,265	—	119	4,815	0	—	—	—	—	—	—	—	9,199	—	—	—	—	—	—	—	—
1999	6,671	—	119	6,089	0	—	—	—	—	—	—	—	12,879	—	—	—	—	—	—	—	—
2000	8,876	—	—	7,201	0	—	—	—	—	—	—	—	16,077	—	—	—	—	—	—	—	—
2001	10,693	—	—	8,239	0	—	—	—	—	—	—	—	18,932	—	—	—	—	—	—	—	—
2002	13,498	—	1,488	9,695	0	—	—	—	—	—	—	—	24,681	—	—	—	—	—	—	—	—
2003	17,450	—	3,377	11,610	0	—	—	—	—	—	—	—	32,437	3,544	—	364	—	205	—	—	4,113
2004	19,686	—	11,208	14,408	25	—	—	—	—	—	—	—	45,327	3,967	—	397	—	335	—	—	4,699
2005	23,082	—	21,908	19,580	534	1,380	—	—	—	—	—	21.3	665,05.3	3,484	—	395	—	249	—	—	4,128
2006	24,020	—	18,139	22,916	1,636	1,429	—	—	137	—	—	30	68,307	3,132	—	532	—	121	—	—	3,785
2007	43,255	—	30,655	30,700	3,287	3,203	—	—	256	—	—	30	111,386	2,857	—	690	—	99	—	—	3,646
2008	45,232	—	42,370	39,400	5,624	4,203	—	—	472	1,672	—	30	139,003	2,574	—	420	437	139	921	—	4,491
2009	51,140	2,000	35,075	48,484	9,540	4,561	—	—	331	8,622	13	40	159,806	2,113	—	467	1,296	120	951	—	4,947
2010	57,573	4,000	37,100	55,800	12,897	6,530	150	—	170	13,536	55	1,130	188,941	1,977	0.02	447	2,117	787	951	—	6,279.02
2011	62,497	5,997	19,490	72,488	14,617	7,861	450	899	90	19,743	108	2,130	206,370	1,989	3.32	1,546	2,856	1,163	871	—	8,428.32
2012	68,856	6,497	11,640	89,928	19,550	8,327	3,531	4,502	326	23,972	188	3,630	240,947	1,782	3.3	3,230	5,340	1,255	752	94	12,456.3
2013	75,705	8,599	5,522	101,195	16,542	8,244	4,729	9,381	452	28,839	191	9,969	269,368	2,391	16.7	6,841	7,956	1,606	598	392	19,801

Notes: 1. Data on interbank bond custody come from the China Central Depository & Clearing Co., Ltd. and the Shanghai Clearing House. Data on stock exchange bond custody come from the China Securities Depository and Clearing Corp., Ltd..

2. Interbank bond custody data exclude OTC custody data.

3. *Financial bonds* includes bonds issued by policy banks, commercial banks and non-banking financial institutions as well as short-term financing bills issued by financial enterprises.

4. *Asset-backed securities* includes credit asset-backed securities and asset-backed notes of non-financial enterprises.

5. *Collective notes* includes those issued by promising regional SMEs.

6. *Others* includes government-sponsored agency bonds, government-backed bonds, foreign bonds etc..

7. All custody data are based on face value of bonds.

Sources: China Central Depository & Clearing Co., Ltd., China Securities Depository & Clearing Corp., Ltd. and Shanghai Clearing House.

Table 12 Issuance and Redemption of Treasury Bonds, 1998—2013

Unit: 100 million yuan

Year	Issuance	Redemption	End-period outstanding
1998	4,274	0	4,265
1999	2,446	0	6,671
2000	2,720	163	8,876
2001	3,084	360	10,693
2002	4,461	892	13,498
2003	5,442	735	20,994
2004	4,809	1,551	23,653
2005	5,042	2,121	26,566
2006	6,933	4,163	27,152
2007	21,883	4,090	46,112
2008	7,246	4,930	47,806
2009	14,214	7,570	53,253
2010	15,878	8,605	59,550
2011	13,998	8,578	64,486
2012	13,562	6,340	70,638
2013	15,544	6,606	78,096

Notes: 1. Treasury bonds covered in the table exclude certificate savings bonds.
2. *Redemption* includes redemption before maturity and at maturity.
3. *End-period outstanding* refers to the outstanding value of all treasury bonds in custody in the interbank market and on the stock exchange, excluding those in OTC custody.

Sources: People's Bank of China and China Central Depository & Clearing Co., Ltd..

Table 13 Number of Interbank Bond Market Participants, 2000—2013

Year	Banks	Securities companies	Funds	Insurance institutions	Non-banking institutions	Credit cooperatives	Others	Enterprises	Total
2000	159	2	32	11	7	102	2	0	315
2001	156	2	41	11	15	254	2	1	482
2002	182	25	78	20	52	423	2	32	814
2003	198	87	192	38	97	575	3	1,889	3,079
2004	231	95	361	63	117	665	11	2,755	4,298
2005	271	103	500	91	121	680	13	3,729	5,508
2006	295	107	613	104	136	711	23	4,450	6,439
2007	308	112	688	113	142	762	30	4,940	7,095
2008	341	117	1,053	128	154	801	24	5,681	8,299
2009	391	123	1,589	131	164	843	16	5,990	9,247
2010	445	123	2,170	135	175	869	19	6,299	10,235
2011	483	128	2,890	144	188	903	55	6,371	11,162
2012	557	133	3,991	154	192	916	97	6,375	12,415
2013	546	130	4,147	140	159	568	128	257	6,075

Note: *Funds* includes fund companies and non-incorporated entities such as securities investment funds, corporate annuities, social security fund, foundations, sector funds, insurance products, trust schemes, specific asset management portfolios of fund companies and asset management schemes of securities companies.

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

Table 14 Interbank Bond Market Settlement Agents, 2013

Serial number	Institution	Serial number	Institution
1	Industrial and Commercial Bank of China	24	Bank of Ningbo
2	Agricultural Bank of China	25	Fudian Bank
3	Bank of China	26	Harbin Bank
4	China Construction Bank	27	Jinshang Bank
5	Bank of Communications	28	Bank of Guiyang
6	China Merchants Bank	29	Bank of Xi'an
7	China CITIC Bank	30	Fujian Haixia Bank
8	China Everbright Bank	31	Qishang Bank
9	Industrial Bank	32	Qilu Bank
10	China Minsheng Banking Corp., Ltd.	33	Urumqi City Commercial Bank
11	Huaxia Bank	34	Bank of Dongguan
12	Shanghai Pudong Development Bank	35	Bank of Chengdu
13	Ping An Bank	36	Baoshang Bank
14	China Guangfa Bank	37	Bank of Changsha
15	Evergrowing Bank	38	Bank of Hebei
16	Bank of Beijing	39	Xiamen Bank
17	Bank of Shanghai	40	Bank of Qingdao
18	Bank of Nanjing	41	Shanghai Rural Commercial Bank
19	Bank of Tianjin	42	Changshu Rural Commercial Bank
20	Bank of Hangzhou	43	HSBC Bank (China) Co., Ltd.
21	Hankou Bank	44	Shunde Rural Commercial Bank
22	Bank of Dalian	45	Standard Chartered Bank (China) Ltd.
23	Bank of Chongqing		

Source: National Association of Financial Market Institutional Investors.

Table 15 Interbank Bond Market Makers

Industrial and Commercial Bank of China	Bank of Hangzhou
Agricultural Bank of China	Hankou Bank
Bank of China	CITIC Securities Co., Ltd.
China Construction Bank	Guotai Junan Securities Co., Ltd.
China Merchants Bank	JPMorgan Chase Bank (China) Co., Ltd.
China CITIC Bank	China Development Bank
China Everbright Bank	Bank of Communications
Industrial Bank	Citibank (China) Co., Ltd.
China Minsheng Banking Corp., Ltd.	Standard Chartered Bank (China) Ltd.
Evergrowing Bank	China International Capital Corp., Ltd.
Bank of Beijing	China Guangfa Bank
Bank of Shanghai	Shanghai Pudong Development Bank
Bank of Nanjing	

Source: National Association of Financial Market Institutional Investors.

Table 16 Participating Banks in Pilot OTC Bond Trading

Industrial and Commercial Bank of China	China Merchants Bank
Agricultural Bank of China	China Minsheng Banking Corp., Ltd.
Bank of China	Bank of Beijing
China Construction Bank	Bank of Nanjing

Source: People's Bank of China.

Table 17 OTC Trading of Book-Entry Treasury Bonds, 2013

Unit: 10,000 yuan

Bond code	Total face value traded	Bond code	Total face value traded	Bond code	Total face value traded
060001	4013.64	090010	2755.92	111706	23159.70
060006	3589.98	090012	310.10	100027	326.96
060013	4914.94	090013	80.14	100028	2150.38
060020	10038.52	090016	62.06	100031	537.64
0700002	2970.72	090017	173.88	100032	175.54
0700003	416.62	090018	1714.80	100033	129.08
0700004	2350.78	090023	56.74	100034	307.80
0700005	468.40	090024	1058.22	100035	16019.44
0700006	2791.98	090026	26.26	100038	125.42
0700008	444.18	090027	1086.42	100039	737.18
070001	608.26	090031	1096.58	100041	974.16
070003	303.34	090032	468.74	101702	935.00
070007	2347.94	091702	13898.22	101704	2535.36
070010	598.46	091704	6142.34	101706	5329.10
070014	1738.38	110003	157.58	101708	4406.00
070018	3328.76	110004	141.52	101710	17013.26
080001	1021.46	110006	247.16	101711	5031.88
080003	417.60	110007	1050.14	110002	805.10
080007	760.76	100002	313.64	120019	21883.14
080010	465.60	100005	85.02	120021	2534.34
080014	1207.04	100006	2971.74	121701	95346.40
080018	916.92	100007	1802.40	121702	24396.20
080022	448.22	100008	329.36	110008	473.98
080025	847.54	100010	853.84	110013	4836.78
100022	186.22	100012	1525.28	110014	256.84
100024	320.70	100013	457.34	110015	1238.00
100025	1863.60	100015	579.88	110017	2105.64
090001	387.66	100016	5954.24	110019	1131.64
090003	541.00	100017	271.30	110021	3220.34
090004	3743.94	100019	427.50	110022	92.66
090006	767.36	100020	2397.38	110024	800.94
090007	381.30	111705	36950.78	110025	12915.16

Table 17 OTC Trading of Book-Entry Treasury Bonds, 2013

Unit: 10,000 yuan

Bond code	Total face value traded	Bond code	Total face value traded	Bond code	Total face value traded
111702	48633.70	120005	1634.90	130003	10604.16
111703	36260.74	120007	859.88	130004	1880.00
130007	35226.28	120009	2323.68	130005	9416.26
130008	6480.00	120010	527.78	130013	10241.58
130011	9481.26	120011	18499.92	130014	14053.50
111711	25094.14	120014	1743.22	130015	3001.44
111712	10779.58	120015	7930.90	130017	2147.94
111714	37572.20	120016	360.92	130018	1356.92
111715	22174.72	120017	722.52	130020	631.16
111717	33124.52	121703	62484.20	130022	1813.60
111718	20877.92	121704	17380.92	130023	442.16
120001	458.10	121709	100948.20	131701	109410.86
120002	1961.46	121710	54576.18	131702	67617.80
120003	2001.18	121711	59108.66	131703	123956.76
131708	35462.78	121712	39696.30	131704	68635.90
131709	28410.66	121713	58546.98	131705	59926.64
131710	24325.98	121714	40467.34	131706	41919.28
090019	177.56	130001	7530.44	131707	56498.58
120004	591.52	130002	62893.80		

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

Table 18 Primary Dealers for Open Market Operations, 2013

Agricultural Bank of China	Bank of China
Industrial and Commercial Bank of China	Bank of Communications
China Construction Bank	China Development Bank
China Merchants Bank	China Everbright Bank
China Minsheng Banking Corp., Ltd.	Shanghai Pudong Development Bank
China CITIC Bank	Industrial Bank
Postal Savings Bank of China	China Guangfa Bank
Hankou Bank	Bank of Shanghai
Fujian Haixia Bank	Bank of Beijing
Fudian Bank	Bank of Nanjing
Bank of Hangzhou	Evergrowing Bank
Ping An Bank	Qishang Bank
Bank of Guangzhou	Harbin Bank
Bank of Jiangsu	Huishang Bank
Xiamen Bank	Bank of Hebei
Bank of Tianjin	Bank of Dalian
Bank of Guiyang	Bank of Luoyang
Bank of Changsha	Bank of Xi'an
Shanghai Rural Commercial Bank	Beijing Rural Commercial Bank
HSBC Bank (China) Co., Ltd.	Citibank (China) Co., Ltd.
Standard Chartered Bank (China) Ltd.	CITIC Securities Co., Ltd.
First Capital Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.
China International Capital Corp., Ltd.	BOC International (China) Ltd.
Guangzhou Rural Commercial Bank	Bank of Ningbo

Source: People's Bank of China.

Table 19 Stock Market Statistics, 1997—2013

Year	Number of listed companies	Listed share capital (100 million shares)	Market cap (100 million yuan)	Free-float Market cap (100 million yuan)	Total capital raised on the A-share market (100 million yuan)	Turnover (100 million yuan)	Average turnover ratio (%)		Average P/E ratio (%)		Investor accounts (10,000)
							Shanghai	Shenzhen	Shanghai	Shenzhen	
1997	745	1,942.7	17,529.2	5,204.4	—	30,721.8	701.8	817.4	39.9	39.9	3,480.3
1998	851	2,526.8	19,505.6	5,745.6	—	23,527.3	453.6	406.6	34.4	30.6	4,259.9
1999	949	3,089.0	26,471.2	8,214.0	—	31,319.6	471.5	424.5	38.1	36.3	4,810.6
2000	1,088	3,791.7	48,090.9	16,087.5	—	60,826.6	492.9	509.1	58.2	56.0	6,123.2
2001	1,160	5,218.0	43,522.2	15,228.8	—	38,305.2	269.3	227.9	37.7	39.8	6,898.7
2002	1,224	5,875.5	38,329.1	12,484.6	737.23	27,990.5	214.0	198.8	34.4	37.0	6,841.8
2003	1,287	6,428.5	42,457.7	13,178.5	665.07	32,115.3	250.8	214.2	36.5	36.2	6,981.2
2004	1,377	7,149.4	37,055.6	11,688.6	642.78	42,333.9	288.7	288.3	24.2	24.6	7,215.7
2005	1,381	7,629.5	32,430.3	10,630.5	339.03	31,663.1	274.4	320.6	16.3	16.4	7,336.1
2006	1,434	14,897.6	89,403.9	25,003.6	2,335.22	90,468.7	541.1	671.3	33.4	33.6	7,854.0
2007	1,550	22,416.9	327,140.9	93,064.4	7,791.57	460,556.2	927.2	1,062.1	59.2	72.1	9,280.6
2008	1,625	24,522.85	121,366.44	45,213.9	2,619.71	267,113.0	392.5	—	14.86	17.13	10,449.7
2009	1,718	26,162.85	243,939.12	151,258.7	3,894.53	535,986.7	—	—	28.73	46.01	12,037.7
2010	2,063	33,184.35	265,422.59	193,110.41	8,954.99	545,633.54	—	—	21.61	44.69	13,391.04
2011	2,342	36,095.52	214,758.10	164,921.3	5,073.07	421,649.72	—	—	13.4	23.11	14,050.37
2012	2,494	38,295.0	230,357.62	181,658.26	1,380.42	314,667.41	—	—	12.3	22.01	14,054.91
2013	2,489	40,569.08	239,077.19	199,579.54	2,802.76	468,728.6	—	—	10.99	27.76	13,247.15

Notes: 1. *Total capital raised on the A-share market* excludes capital raised by listed companies on the bond market via convertible bonds and detachable convertible bonds.
2. *Average turnover ratio* covers A shares and B shares.
3. *Average P/E ratio* refers to static P/E ratios.
4. *Investor accounts* is year-end valid accounts.
5. Some statistics have been adjusted according to latest CSRC releases.

Sources: China Securities Regulatory Commission, Shanghai Stock Exchange and Shenzhen Stock Exchange.

Table 20 Change in Stock Market Turnover and Indices, 1997—2013

Unit: 100 million yuan

Year	Turnover	Average daily turnover	SSE composite index				SZSE component index			
			Open	High	Low	Close	Open	High	Low	Close
1997	30,721.8	126.42	914.06	1,510.18	870.18	1,194.1	326.33	517.91	305.81	381.29
1998	23,527.3	97.1	1,200.95	1,422.98	1,043.02	1,146.7	382.85	441.04	317.1	343.85
1999	31,319.6	131.04	1,144.89	1,756.18	1,047.83	1,366.58	343.29	525.14	310.65	402.18
2000	60,826.6	254.5	1,368.69	2,125.72	1,361.21	2,073.48	402.71	654.37	414.69	635.73
2001	38,305.2	159.6	2,077.08	2245	1,515	1,645.97	636.62	664.85	439.36	475.94
2002	27,990.5	118.1	1,643.49	1,748.89	1,339.2	1,357.65	475.14	512.38	371.79	388.76
2003	32,115.3	133.25	1,347.43	1,649.6	1,307.4	1,497.04	386.61	449.42	350.74	378.63
2004	42,333.9	174.21	1,492.72	1,783.01	1,259.43	1,266.5	377.93	470.55	315.17	315.81
2005	31,663.1	130.84	1,260.78	1,328.53	998.23	1,161.06	313.81	333.27	237.18	278.75
2006	90,468.7	375.39	1,163.88	2,698.9	1,161.91	2,675.47	278.99	710.14	278.99	706.01
2007	460,556.2	1,903.12	2,728.19	6,092.06	2,612.54	5,261.56	555.26	1,567.74	547.89	1,447.02
2008	267,113.0	1,085.82	5,265	5,497.9	1,706.7	1,820.81	1,450.33	1,584.39	452.33	553.08
2009	535,986.7	2,196.67	1,849.02	3,478.01	1,844.09	3,277.139	560.09	1,234.12	560.1	1,201.34
2010	545,633.54	2,254.68	3,289.75	3,306.75	2,319.74	2,808.08	1,207.33	1,412.64	890.24	1,290.87
2011	421,649.72	1,728.06	2,825.33	3,067.46	2,134.02	2,199.42	1,298.59	1,316.19	828.83	866.65
2012	314,667.41	1,294.93	2,212.00	2,460.69	1,959.77	2,269.13	871.93	1,020.29	724.97	881.17
2013	468,728.6	1,969.45	2,289.51	2,434.48	1,950.01	2,115.98	887.37	1,106.27	815.89	1,057.67

Note: Some statistics have been adjusted according to latest CSRC releases.
Sources: China Securities Regulatory Commission, Shanghai Stock Exchange and Shenzhen Stock Exchange.

Table 21 Twenty-six Market Makers for RMB Trading in the Interbank Spot Foreign Exchange Market

Industrial and Commercial Bank of China	Agricultural Bank of China
Bank of China	China Construction Bank
Bank of Communications	China CITIC Bank
China Merchants Bank	China Everbright Bank
Huaxia Bank	China Guangfa Bank
Ping An Bank	Industrial Bank
China Minsheng Banking Corp., Ltd.	China Development Bank
Postal Savings Bank of China	Bank of Ningbo
BNP Paribas (China) Ltd.	Shanghai Pudong Development Bank
DBS Bank (China) Ltd.	Bank of America, Shanghai Branch
HSBC Bank (China) Co., Ltd.	Bank of Montreal (China) Co., Ltd.
Citibank (China) Co., Ltd.	Standard Chartered Bank (China) Ltd.
Royal Bank of Scotland (China) Co., Ltd.	JPMorgan Chase Bank (China) Co., Ltd.
Calyon (China) Ltd.	Sumitomo Mitsui Banking Corp. (China) Ltd.
Deutsche Bank (China) Co., Ltd.	Mizuho Bank (China), Ltd.
Bank of Tokyo-Mitsubishi UFJ (China), Ltd.	

Source: China Foreign Exchange Trade System.

Table 22 Foreign Exchange Market andForeign Exchange Reserves, 1994—2013

Units: US$100 million, yuan

Year	Foreign exchange reserves	USD100/CNY	EUR100/CNY	JPY/CNY	HKD100/CNY	GBP100/CNY	MYR/CNY100 (ringgit)	RUB/CNY100 (ruble)	AUD100/CNY	CAD100/CNY
1994	516.2	844.91	—	7.78	112.66	—	—	—	—	—
1995	735.97	831.79	—	8.0703	107.6	—	—	—	—	—
1996	1,050.49	829.92	—	7.1613	107.19	—	—	—	—	—
1997	1,398.9	827.98	—	6.3627	106.81	—	—	—	—	—
1998	1,449.59	827.87	—	7.1719	106.78	—	—	—	—	—
1999	1,546.75	827.93	—	8.0933	106.51	—	—	—	—	—
2000	1,655.74	827.81	—	7.2422	106.06	—	—	—	—	—
2001	2,121.65	827.66	—	6.3005	106.06	—	—	—	—	—
2002	2,864.07	827.73	863.6	6.9035	106.11	—	—	—	—	—
2003	4,032.51	827.69	1,033.83	7.7263	106.57	—	—	—	—	—
2004	6,099.32	827.65	1,126.27	7.9701	106.37	—	—	—	—	—
2005	8,188.72	807.02	957.97	6.8716	104.03	—	—	—	—	—
2006	10,663.44	780.87	1,026.65	6.563	100.467	1,532.32	—	—	—	—
2007	15,282.49	730.46	1,066.69	6.4064	93.638	1,458.07	—	—	—	—
2008	19,460.3	683.46	965.9	7.565	88.189	987.98	—	—	—	—
2009	23,992.0	682.82	979.71	7.3782	88.048	1097.8	—	—	—	—
2010	28,473.38	662.27	880.65	8.126	85.093	1,021.82	46.649	462.05	—	—
2011	31,811	630.09	816.25	8.1103	81.07	971.16	50.279	508.6	640.93	617.77
2012	33,116	628.55	831.76	7.3049	81.085	1,016.11	48.865	485.28	653.63	631.84
2013	38,213	609.69	841.89	5.7771	78.623	1,005.56	54.141	539.85	543.01	572.59

Note: Listed in the table are central parity rates on the last trading day of the year.
Sources: People’s Bank of China and State Administration of Foreign Exchange.

Table 23 Futures Market Trading, 1993—2013

Units: 100 million yuan, 10,000 lots

Year	Commodity futures market		Stock index futures market	
	Turnover	Trading volume	Turnover	Trading volume
1993	5,521.99	890.69	—	—
1994	31,601.41	12,110.72	—	—
1995	100,565.3	63,612.07	—	—
1996	84,119.16	34,256.77	—	—
1997	61,170.66	15,876.32	—	—
1998	36,967.24	10,445.57	—	—
1999	22,343.01	7,363.91	—	—
2000	16,082.29	5,461.07	—	—
2001	30,144.98	12,046.35	—	—
2002	39,490.16	13,943.26	—	—
2003	108,389.03	27,986.42	—	—
2004	146,935.31	30,569.76	—	—
2005	134,448.38	32,284.75	—	—
2006	210,046.34	44,947.41	—	—
2007	409,722.43	72,842.68	—	—
2008	719,141.94	136,388.71	—	—
2009	1305,107.20	215,742.98	—	—
2010	2269,852.69	304,194.19	821,397.94	9,147.66
2011	937,503.93	100,372.53	437,659.55	5,041.62
2012	952,862.59	134,546.42	758,406.78	10,506.18
2013	1,264,695.8	186,827.38	1,410,066.21	19,354.93

Notes: Futures trading volumes are single counted as of 2011. Data in the table exclude Exchange for Physical transactions.
Source: China Securities Regulatory Commission.

Table 24 Gold Market Trading, 2003—2013

Units: 100 million yuan, tonnes

Year	Turnover	Trading volume
2003	459.2	470.7
2004	731.0	665.3
2005	1,069.8	906.4
2006	1,947.5	1,249.6
2007	3,164.9	1,828.1
2008	8,683.9	4,457.6
2009	10,288.8	4,710.8
2010	16,157.8	6,051.5
2011	24,772.2	7,438.5
2012	21,506.3	6,350.2
2013	32,133.8	11,614.5

Source: Shanghai Gold Exchange.

Table 25 OTC Gold Businesses of Commercial Banks, 2007—2013

Business type		Account gold		Brand gold		Others							
Product (Units)		USD-denominated gold (10,000 oz, US$100 million)	RMB-denominated gold (tonne, 100 million yuan)	Proprietary (tonne, 100 million yuan)	Agent (tonne, 100 million yuan)	Gold lease (tonne, 100 million yuan)	Gold loan (tonne, 100 million yuan)	Gold accumulation (tonne, 100 million yuan)	Onshore USD gold forwards (10,000 oz, US$100 million)	Onshore USD gold options (10,000 oz, US$100 million)	Onshore USD gold swaps (10,000 oz, US$100 million)	Onshore RMB gold forwards (tonne, 100 million yuan)	Gold pledge (tonne, 100 million yuan)
2007	Trading volume	157.68	352.71	6.09	3.96	33.11	1.2	—	204.93	8.48	—	—	—
	Turnover	11.08	607.05	11.2	7.16	56.4	2.31	—	11.84	0.598	—	—	—
2008	Trading volume	293.09	1,332.55	33.12	4.13	73.99	11.4	—	574.85	6.28	—	—	—
	Turnover	25.37	2546.3	66.68	8.18	141.5	20.16	—	54.44	0.579	—	—	—
2009	Trading volume	579.96	1,381.16	40.73	3.43	91.29	7.56	0.542	162.06	2.29	—	—	—
	Turnover	57.34	2,923.48	89.9	7.64	191.98	15.09	1.3	15.98	0.223	—	—	—
2010	Trading volume	418.67	1,205.15	80.4	3.06	155.8	10.63	12.27	257.82	1.74	—	3.09	0.27
	Turnover	51.47	3,227.49	222.9	8.53	413.25	28.85	35.29	32.75	0.21	—	8.78	—
2011	Trading volume	447.2	1864.4	129.5	6.16	301.3	31.99	30.3	407.04	6.06	17.99	5.09	4.56
	Turnover	72.21	6,271.71	428.5	21.49	970.55	104.92	102.18	64.69	0.9	2.74	17.59	—
2012	Trading volume	424.35	1,458.89	126.2	10.55	465.01	54.8	59.85	1,331.5	61.46	49.93	20.95	7.426
	Turnover	70.71	4,947.18	443.7	41.2	1583.7	187.23	205.82	222.01	10.17	8.35	70.91	—
2013	Trading volume	497.26	1,864.54	198.63	24.89	947.65	407.23	298.24	991.99	146.88	524.56	29.76	39.85
	Turnover	70.39	5,159.69	618.25	87.76	2,656.29	1,094.43	838.09	136.48	20.39	75.63	79.86	78.96

Source: People s Bank of China Shanghai Head Office.

Table 26 Interest Rate Derivatives Trading, 2006—2013

Unit: 100 million yuan

Year	Interest rate swaps		Bond forwards		Forward rate agreements	
	Number of transactions	Notional principal amount	Number of transactions	Notional principal amount	Number of transactions	Notional principal amount
2006	103	355.7	398	664.5	—	—
2007	1,978	2,186.9	1,238	2,518.1	14	10.5
2008	4,040	4,121.5	1,327	5,005.5	137	113.6
2009	4,044	4,616.4	1,599	6,556.4	27	60
2010	11,643	15,003.4	967	3,183.4	20	33.5
2011	20,202	26,759.6	436	1,030.1	3	3.0
2012	20,945	29,021.4	56	166.1	3	2
2013	24,409	27,277.8	1	1.01	1	0.5

Source: China Foreign Exchange Trade System.