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Fixed Income



SMART MARKETS™ - CHINESE BONDS: RECENT TRENDS

28TH AUGUST 2024

Leveraging Smart Markets™, the advanced analytics platform powered by Mosaic Smart Data & Euroclear, this paper analyses the most recently traded Chinese Bonds by European investors, identifying key trends in terms of Country of Risk, Issuers, Counterparties, Currency and Tenor activity.

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CHINESE BONDS: MAIN ISSUERS

Chinese government/SSA bonds are issued by various institutions across the country. The Smart Markets™ advanced analytics platform allows users to break down the flow by Issuers and detect which were the most traded over a specific period of time, as shown below (Notional is expressed in USD equivalent):

Country of Risk	Issuer	Current	Comparison	Abs Change	% Change
China	AGRICULTURAL BANK OF CHINA LIMITED	4.83 B	547.66 M	4.29 B	782.6 %
	ASIAN INFRASTRUCTURE INVESTMENT BANK	4.82 B	18.27 B	-13.45 B	-73.6 %
	CHINA DEVELOPMENT BANK FINANCIAL LEASING	1.74 B	2.50 B	-762.39 M	-30.5 %
	CNAC (HK) FINBRIDGE COMPANY LIMITED	16.24 B	25.15 B	-8.91 B	-35.4 %
	KUNMING RAIL TRANSIT GROUP CO., LTD.	1.21 B	270.84 M	943.79 M	348.5 %
	MINISTRY OF FINANCE OF THE PEOPLE'S REPU	13.35 B	27.19 B	-13.85 B	-50.9 %
	SHAOXING SHANGYU STATE-OWNED CAPITAL INV	1.71 B	130.64 M	1.58 B	>999 %
	THE CENTRAL PEOPLE'S GOVERNMENT OF THE P	505.77 M	1.93 B	-1.43 B	-73.8 %
	THE PEOPLE'S BANK OF CHINA	3.42 B	1.51 B	1.91 B	126.7 %
	Total	47.84 B	77.51 B	-29.67 B	-38.3 %

The table above represents the total turnover of Chinese bonds that have been settled through Euroclear year-to-date (1st Jan – 26th Aug 2024).

The most traded issuers this year are:

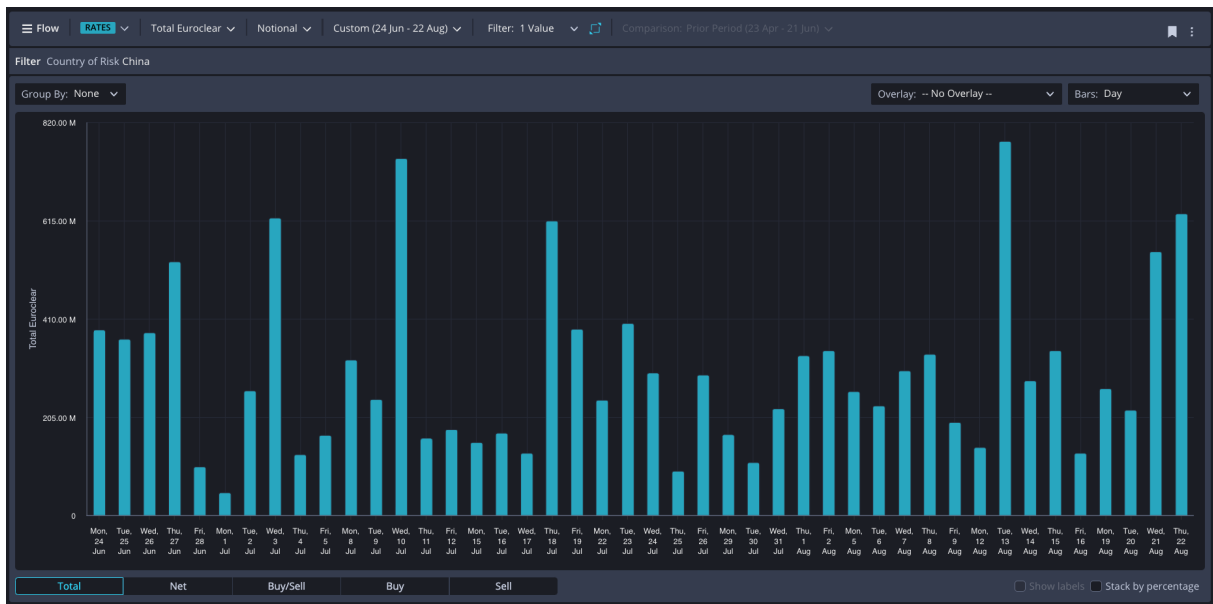
- **CNAC (HK) Finbridge Company** for 16.24 billion USD.
- **Chinese Ministry of Finance** for 13.35 billion USD.
- **Agricultural Bank of China** for 4.83 billion USD.

Among the most traded Issuers, those whose traded amount has increased compared to the same period of 2023 are:

- **Agricultural Bank of China** with a 4.29 billion USD increase.
- **The People's Bank of China** with a 1.91 billion USD increase.
- **Shaoxing Shangyu State Owned capital** with a 1.58 billion USD increase.

Leveraging the Smart Markets™ *Flow* view we can also analyse the Chinese bonds' flow from a time series perspective and appreciate the evolution over time of the trading activity on Chinese bonds.

In the following chart, we can appreciate the change in traded amount for Chinese bonds in the last two months. Specifically, we can notice three peaks in August, on the 13th, on the 21st and on the 22nd, which seems to define a new trend in increased turnover in China's rates space (Notional expressed in USD equivalent).

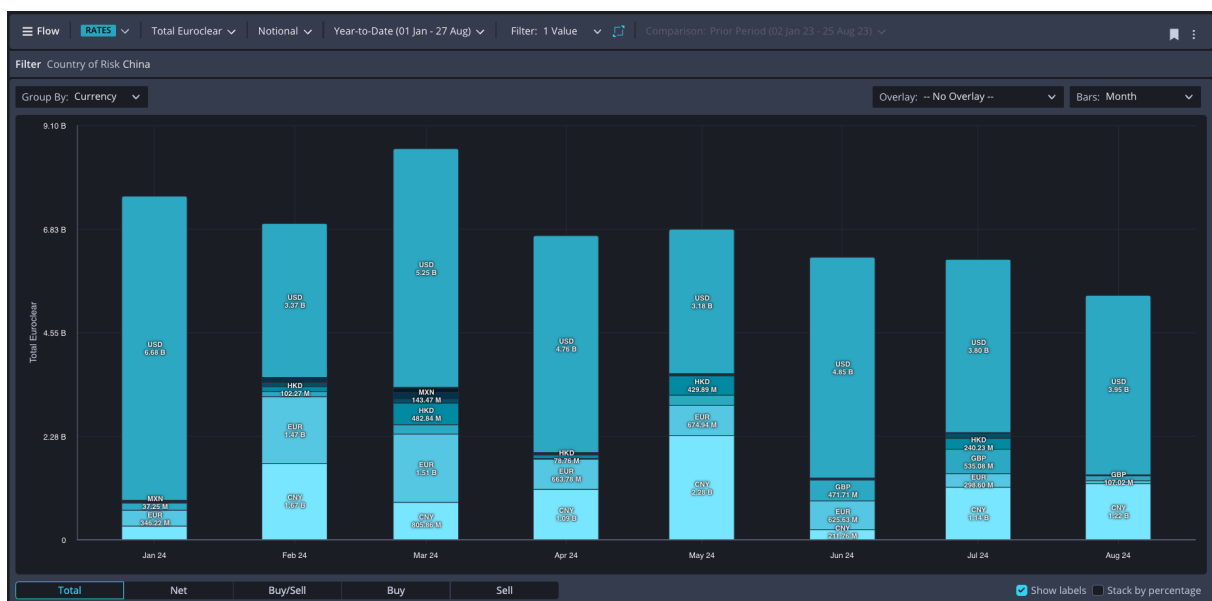


CHINESE BONDS: BREAKDOWN BY CURRENCIES

Analysing the same time series group on a longer period, on a year-to-date basis, and aggregating the data by issuance currency and on monthly bars, we can appreciate the breakdown by currency of Chinese bonds' turnover traded by European and international investors.

It's interesting to see that the most relevant currency is USD (about 66% of the overall flow), followed by CNY (16%), EUR (10%) and GBP (3.4%).

The data below is normalised in USD.



The main takeaways from this chart are:

- January was the month where USD had the biggest volume of this year, counting 6.68 Bln USD, which was 89% of the total traded in that period.
- CNY experienced its biggest volume in May with 2.28 Bln USD traded, which was 33.4% of the total. The same month in 2024 saw the lowest traded amount of USD: 3.18 Bln USD, which was 46.7% of the total traded.

- EUR, which reached its peak in February with 1.47 Bln USD traded, has slowly decreased its turnover in Chinese bonds. In July the traded amount in rates was 298 million USD, which represent only 4% of volume that month.

MOST TRADED CHINESE BONDS

Leveraging the Smart Markets™ Grid functionalities, we can analyse the most traded Chinese securities on a year-to-date basis by Notional, but also overlaying the overall traded risk (DV01) of the period for each bond:

Year-to-Date (01 Jan - 26 Aug) ▾		Filter: CHINA RATES ▾		Comparison: Prior Period (02 Jan 23 - 25 Aug 23) ▾				
Group By: ISIN ▾		and then: Instrument Name ▾		and then: Issuer ▾		and then: None ▾		Edit columns
ISIN	Instrument Name	Issuer	Total Euroclear Notional-Total				Total Euroclear DV01-Total	
			Current ↓	Comparison	Abs Change	% Change	Current	
XS2226808165	CNAC (HK) FINBRIDGE COMPANY LI 3.0% 22SEP30	CNAC (HK) FINBRIDGE COMPANY LIM...	4.97 B	9.58 B	-4.61 B	-48.1 %	2.75 M	
XS2011969735	CNAC (HK) FINBRIDGE COMPANY LI 3.875% 19JUN29	CNAC (HK) FINBRIDGE COMPANY LIM...	3.95 B	3.47 B	481.56 M	13.9 %	1.85 M	
XS1788513734	CNAC (HK) FINBRIDGE COMPANY LI 5.125% 14MAR28	CNAC (HK) FINBRIDGE COMPANY LIM...	3.80 B	3.66 B	141.36 M	3.9 %	1.50 M	
XS2210100439	CHINA DEVELOPMENT BANK FINANCI 2.875% 28SE...	CHINA DEVELOPMENT BANK FINANCI...	1.74 B	2.50 B	-762.39 M	-30.5 %	1.08 M	
XS2734113991	SHAOXING SHANGYU STATE-OWNED C 5.6% 30JAN27	SHAOXING SHANGYU STATE-OWNED ...	1.57 B	-	-	-	464 K	
HK0000993110	THE PEOPLE'S BANK OF CHINA 2.79% 24FEB25	THE PEOPLE'S BANK OF CHINA	1.54 B	-	-	-	152 K	
HK0000789559	MINISTRY OF FINANCE OF THE PEO 0.625% 17NOV33	MINISTRY OF FINANCE OF THE PEOP...	1.45 B	1.37 B	88.93 M	6.5 %	1.24 M	

- **CNAC (HK) FINBRIDGE COMPANY LI 3.0% 22SEP30**: 4.97 Bln USD turnover in the period between 1st Jan 2024 and 25th Aug 2024, which corresponds to 2.75 Mln USD of DV01.
- **CNAC (HK) FINBRIDGE COMPANY LI 3.875% 19JUN29**: 3.95 Bln USD turnover in the period between 1st Jan 2024 and 25th Aug 2024, which corresponds to 1.85 Mln USD of DV01.
- **CNAC (HK) FINBRIDGE COMPANY LI 5.125% 14MAR28**: 3.80 Bln USD turnover in the period between 1st Jan 2024 and 25th Aug 2024, which corresponds to 1.50 Mln USD of DV01.
- **CHINA DEVELOPMENT BANK FINANCI 2.875% 28SEP30**: 1.74 Bln USD turnover in the period between 1st Jan 2024 and 25th Aug 2024, which corresponds to 1.08 Mln USD of DV01.
- **SHAOXING SHANGYU STATE-OWNED C 5.6% 30JAN27**: 1.57 Bln USD turnover in the period between 1st Jan 2024 and 25th Aug 2024, which corresponds to 464 K USD of DV01.
- **THE PEOPLE'S BANK OF CHINA 2.79% 24FEB25**: 1.54 Bln USD turnover in the period between 1st Jan 2024 and 25th Aug 2024, which corresponds to 152 K USD of DV01.

The first three bonds by turnover are from CNAC (HK) FINBRIDGE, while the other two are new issues by SHAOXING SHANGYU and THE PEOPLE'S BANK OF CHINA. The latter was also amongst the issuers which has increased its traded volume this year.

Drilling down into the most traded bond this month, CNAC (HK) FINBRIDGE COMPANY LI 3.0% 22SEP30 (XS2226808165), the Smart Markets™ platform allows us to see the turnover history and its relative VWAP on a time series chart:



For CNAC (HK) FINBRIDGE COMPANY LI 3.0% 22SEP30 (XS2226808165), the most traded Chinese bond chart over the last month, we notice an average volume of the period, which is around 45 million USD traded daily, with a spike on the 19th of August: in that day the total traded amount on that bond was 167 million USD.

The price has been quite stable during this period, around 90 USD, with a last price observable of 90.41 USD, representing a slight increase from the previous day.

CHINESE BONDS: TENOR ANALYSIS

Leveraging the Smart Markets™ *Tenor view* to analyse the distribution across tenor buckets operated by European and international investors, we can understand the risk allocation for Chinese bonds among maturities:



Grouping by issuers allows us to understand which entities tend to issue longer debt, and which issuers are more liquid on the secondary market in each part of the yield curve.

- The tenor buckets with the higher traded notional are 2Y and 5Y, with 10 billion USD traded for each bucket.
- The Agricultural Bank of China and the People's Bank of China tend to have shorter maturities, especially 0Y and 2Y.
 - Agricultural Bank of China 0Y bonds were traded by 3.10 Bln USD, while 2Y bonds were traded by 1.73 Bln USD this year.
 - The People's Bank of China 0Y bonds were traded by 1.81 Bln USD, while 2Y bonds were traded by 1.60 Bln USD this year.
- Investors tend to prefer CNAC (HK) FINBRIDGE middle to long maturities. The most traded buckets for this issuer were 5Y for 6.84 Bln USD, and 7Y for 3.62 Bln USD.
- The Ministry of Finance bonds are traded across the whole curve. The preferred bucket by European investors is 7Y with a turnover of 3.38 Bln USD.

Looking at a tenor view from a risk perspective:



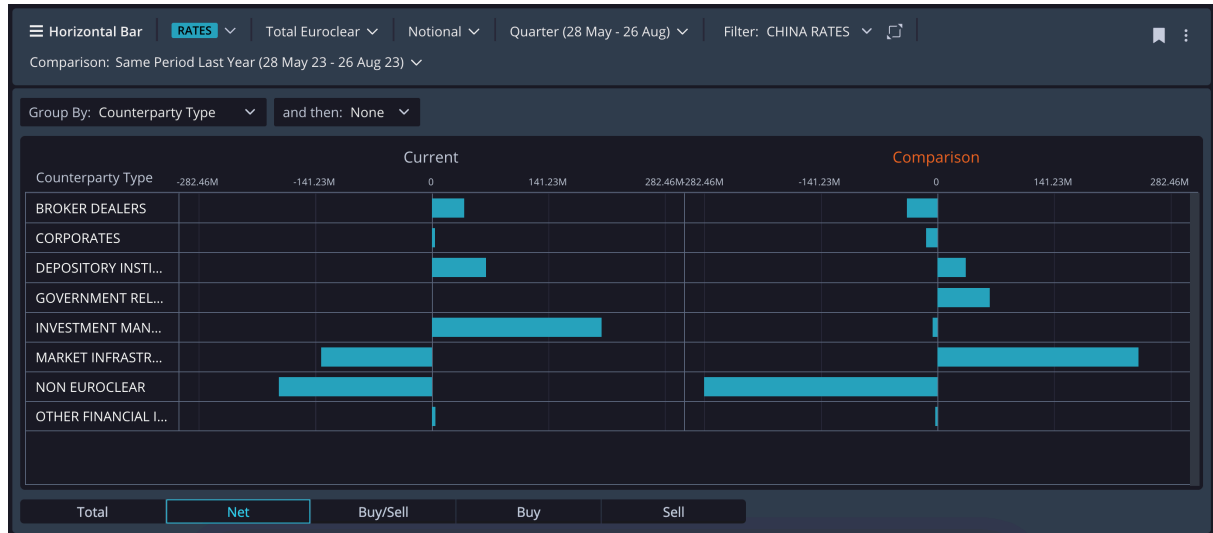
We can infer from the above chart the Chinese turnover on a risk (DV01) basis lies within 5 year and 7 year tenor buckets.

- The highest turnover on 5Y and 7Y buckets is represented by 1-5k ticket sizes: 1.78 M for 5Y bonds and 1.63 M for 7Y bonds.
- The largest sizes (25-100k USD per ticket) are in 10Y and 30Y bonds.

CHINESE BONDS: BREAKDOWN BY COUNTERPARTY TYPES

Thanks to Euroclear's categorisation, the Smart Markets™ platform allows users to observe which were the main European and international investor types trading Chinese bonds over a specific time period.

Leveraging the Smart Markets™ *Horizontal Bar* chart and grouping by *Counterparty Type*, we can understand which are the main net buyer or seller investor types for Chinese bonds.



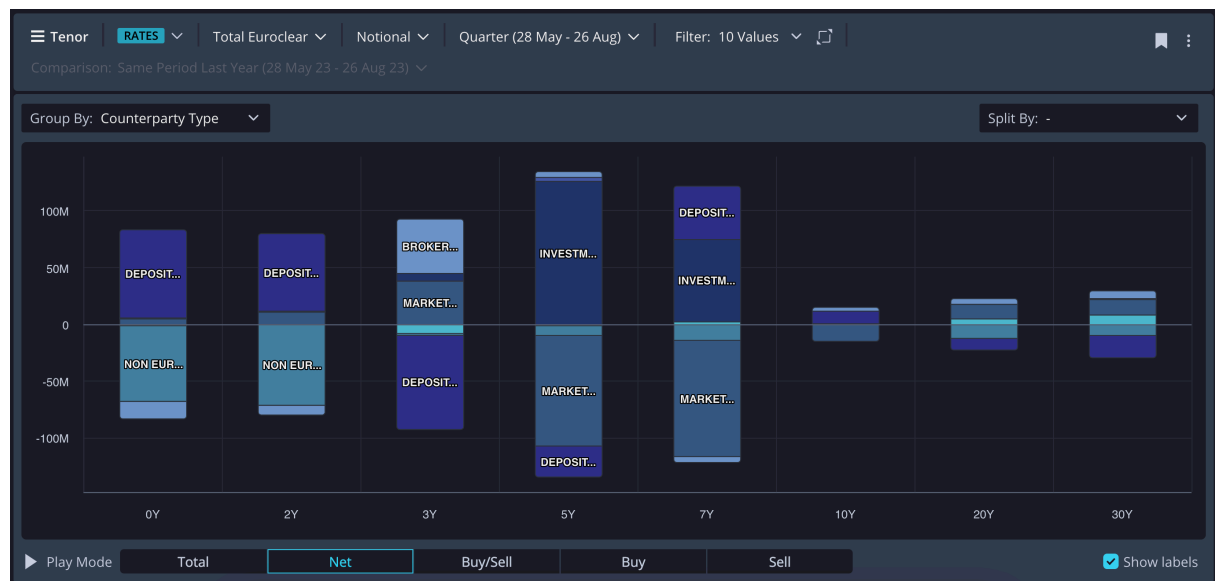
Investor types are defined as follows:

- **Broker dealers** includes securities brokers, investment banks and capital market desks.
- **Depository institutions** includes institutions involved in deposit banking or closely related functions.
- **Market infrastructure** is made up of a lot of medium sized players who have custodian businesses (mix of buy and sell side).
- **Non Euroclear** indicates the other side of cross border trades where one party has settled the trade outside of Euroclear.
- **Corporates** includes companies producing goods or non-financial services.
- **Investment managers** Includes all asset managers, wealth managers, fund managers, ETFs, mortgage lenders, CDOs, CLOs.

The key highlights from this graph are:

- **Broker dealers** were mainly net sellers of Chinese bonds in this quarter last year, and are now net buyers with a net positive activity of 40M USD in Europe.
- **Investment managers** were slightly net sellers in the quarter 28th of May to 26th of August 2023. In the same quarter this year they are mainly net buyers with a net position of more than 200 M USD, indicating their appetite for Chinese bonds increasing in 2024.
- **Market infrastructure** firms on the opposite side, were net buyers of Chinese bonds, and they are now net sellers, with a net position of -134 M USD the past quarter.
- **Investors outside the Euroclear network** are keeping their net selling position from 2023 to 2024 in the period that runs from 28th of May to 26th of August. Their net selling position has decreased from -265 M USD to -185 M USD registered the past quarter.

Breaking down Chinese bonds' flow by investor type and by tenor buckets, we can appreciate which are the preferred maturities amongst each investor type:



- **Depository institutions** are more active in shorter tenors, with a net buying exposure of 77.92 M USD in 0Y and 68.81 M USD in 2Y bonds, and a net selling exposure of -83.50 M USD in 3Y bonds.
- **Investment managers** are mainly net buyers (as seen above), especially in 5Y and 7Y maturities bonds, with a net position of 125.91 M USD and 72.73 M USD respectively.
- **Market infrastructure** firms are mainly net sellers in 5Y bonds for -97.36 M USD, and in 7Y bonds for -102.53 M USD.
- **Investors outside the Euroclear network** are the main sellers to depository institutions for short tenor buckets, with a net selling exposure of -67.25 M USD in 0Y bonds and -70.56 M USD in 2Y bonds.

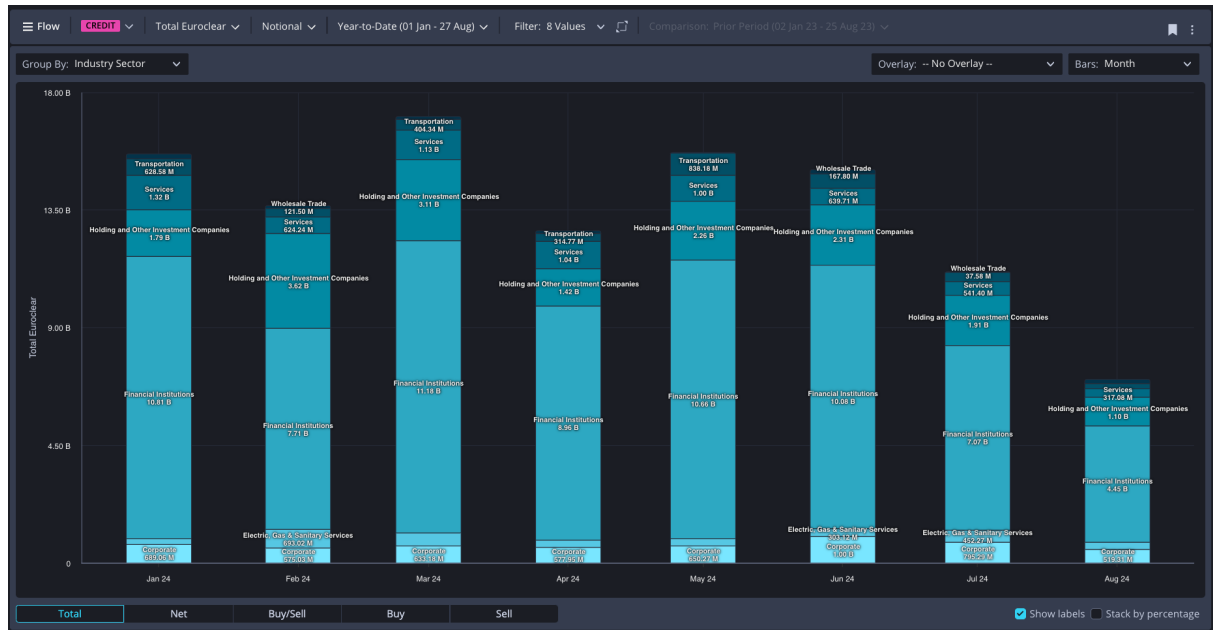
CHINESE CORPORATE BONDS: AN OVERVIEW

Switching from a rates (government bonds and SSAs) perspective to credit, we can investigate which are the most traded Chinese corporate bonds and issuers.

- The Chinese corporates bonds that have been traded the most by European and international investors belong to the financial sector. The most traded institutions this year are **STATE GRID OVERSEAS INVESTMENT (BVI)**, with a volume of **11.94 Bln USD**, **INDUSTRIAL & COMMERCIAL BANK OF CHINA** with a volume of **8.65 Bln USD** and the **BANK OF COMMUNICATIONS** with a volume of **4.68 Bln USD**.
- The total traded volume for **financial services** this year was **70.93 Bln USD**.
- The other main sectors where European and international investors show their appetite for Chinese corporations were Holding and Other Investment Companies, with a total turnover of 17.52 Bln USD, Services with a total turnover of 6.61 Bln USD and Corporates with a total turnover of 5.44 Bln USD.

Issuer	Industry Sector	Current	Comparison	Abs Change	% Change
STATE GRID OVERSEAS INVESTMENT (BVI) LIM	Financial Institutions	11.94 B	4.33 B	7.61 B	176 %
INDUSTRIAL & COMMERCIAL BANK OF CHINA LI	Financial Institutions	8.65 B	13.59 B	-4.94 B	-36.4 %
BANK OF COMMUNICATIONS CO LTD	Financial Institutions	4.68 B	4.62 B	60.52 M	1.3 %
BANK OF CHINA LIMITED	Financial Institutions	4.01 B	4.39 B	-380.40 M	-8.7 %
CFLD (CAYMAN) INVESTMENT LTD.	Financial Institutions	3.07 B	3.69 B	-623.01 M	-16.9 %
THE EXPORT-IMPORT BANK OF CHINA	Financial Institutions	2.66 B	11.72 B	-9.06 B	-77.3 %
CHINA CONSTRUCTION BANK CORPORATION	Financial Institutions	2.33 B	5.25 B	-2.92 B	-55.6 %
CHINA HUANENG GROUP (HONG KONG) TREASURY	Electric, Gas & Sanitary Servic...	2.31 B	2.86 B	-545.04 M	-19.1 %
HAITONG INTERNATIONAL FINANCE HOLDINGS L	Holding and Other Investme...	2.30 B	-	-	-
SHUI ON DEVELOPMENT (HOLDING) LIMITED	Financial Institutions	2.14 B	2.64 B	-490.76 M	-18.6 %
SUNNY EXPRESS ENTERPRISES CORP.	Services	2.09 B	2.50 B	-400.81 M	-16.1 %

Leveraging the Smart Markets™ time series functionality, we can appreciate the evolution of the turnover of the main Chinese corporate bonds, grouped by Issuer Sectors, year-to-date:



- **Financial institutions'** bonds have always been the most traded overall, with an apparent decrease last month but with some trading days left. The peak for financial institutions was in March with 11.18 Bln USD which represented 61% of the total turnover.
- **Holding and other investment companies** sector had its peak in February with a turnover of 3.92 Bln USD, which that month was almost the half of financial institutions' corporate bonds.
- **Services** sector seems to be undergoing a decreasing trend since March, which was the second highest month for turnover in 2024 (after January), with a total traded volume of 1.13 Bln USD. The lowest for this sector was in July with a 541M USD turnover.
- **Corporates** securities registered a stable trend, with a 620 M USD average turnover per month until May 2024. In June we noticed a peak in corporates' volume with a total turnover of 1 Bln USD.