



London RMB Business Quarterly

Issue 7: May 2020



With thanks to

Chief Editors:

Jin Mei, Chief Representative, Representative Office for Europe,
The People's Bank of China

Giles French, External Relations Director,
City of London Corporation

List of Contributors:

Agricultural Bank of China (London branch)

Bank of China (London branch)

Bank of Communications (London branch)

Bank of England

Bloomberg

China Central Depository and Clearing Co. Ltd.

China Construction Bank (London branch), UK RMB Clearing
Bank

China Financial Futures Exchange

Cross-border Interbank Payment System Co., Ltd.

EBS

HSBC

Industrial and Commercial Bank of China (London branch)

London Stock Exchange Group

National Association of Financial Market Institutional Investors

SWIFT

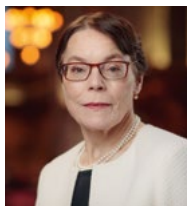
The People's Bank of China Representative Office for Europe

This report is jointly produced by the City of London Corporation and The People's Bank of China Representative Office for Europe. The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally-successful UK. This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice.

No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, the authors and distributors do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means without permission in writing from the monitoring group.

Contact: Sisi MU (+44 20 7601 6651 / london@pbc.gov.cn).

Foreword



Catherine McGuinness
Chair of Policy and Resources
City of London Corporation

The world is coming to terms with the unprecedented challenge posed by the spread of COVID-19. Now more than ever, the UK's global outlook and reach, and understanding of major partner markets, has significant value in connecting markets and supporting resilience. As we look ahead to global recovery, the depth and breadth of UK financial and professional services (FPS) expertise mean we will have a key role to play in supporting rebuilding and growth worldwide.

The London RMB Business Quarterly report supports the UK's position as a leading RMB hub outside Asia, providing an overview of the market for the Chinese currency in the UK. Whilst there has been a slowing of activity in the UK RMB offshore market during this turbulent period, the report demonstrates the UK's FPS sector's resilience, showing that the UK retains its position as the leading RMB trading hub outside Asia.



Giles French
External Relations Director,
City of London Corporation



Jin Mei
Chief Representative, Representative Office for Europe,
The People's Bank of China

We are very pleased with the partnership between the City of London Corporation and the People's Bank of China Representative Office for Europe on the London RMB Business Quarterly report. It highlights UK's influence as a leader in RMB offshore business and the PBoC's efforts to develop and sustain the RMB at home and abroad.

The City of London is home to nearly 40 Chinese financial and professional services firms which joined the UK's financial market to build their international presence. The RMB is an important global currency and it is natural, as home to the world's largest FX market, that the UK monitors its use and innovations closely.

With access to onshore RMB investments in China rapidly increasing, opportunities for new products and ways to manage currency exposure are also growing. This makes for exciting times for the City of London and international investors. In the seventh issue of the London RMB Business Quarterly we see that there

has been slow activity in the UK RMB offshore market which is correlated to the COVID-19 pandemic. The report also discusses the recent developments of RMB FX hedging and China's bond futures market, and new opportunities to bridge China's bond market between the UK and China.

The London RMB Business Quarterly report serves to contribute to the understanding of the UK's offshore market, providing the most recent data, policies and commentaries from market participants. In addition, it aims to promote the healthy and sustainable development of the UK's offshore RMB market by monitoring and providing feedback to regulatory bodies in both countries.

We would like to thank all our valued partners who have contributed to the seventh issue of the London RMB Business Quarterly report. Your contributions play a major part in the success of this quarterly report.

Market Overview



Since the January report, the development of London RMB offshore market has slowed slightly. This was reflected on the trading volumes of RMB foreign exchange, RMB clearing of the designated bank and the value of new dim sum bonds. These aspects of the RMB offshore market have shown an upward trend when compared to the same period of last year. But they indicated a downward trend when compared to the previous review period. RMB cross-border settlement between China and the UK, however, increased significantly alongside RMB payment from the UK to China in February. The slowdown was correlated to the outbreak of coronavirus.

London RMB Foreign Exchange Market

About 33% of all CNH spot trading on EBS took place during EMEA trading hours in February, this was down 1% from last November. The daily CNH FX trading volume in London averaged GBP66.3 billion in Q4 2019, down 19.9% QoQ and 14.3% YoY.

London RMB Bond Market

Between December 2019 and February 2020, 10 Dim Sum bonds were newly listed on the London Stock Exchange, with the value of RMB3.7 billion, a decrease of 59.8% compared with the three months ending November 2019 and up 284.3% same period last year. At the end of February, there were 116 Dim Sum bonds listed on the London Stock Exchange with an outstanding value of RMB37.6 billion, and an average coupon rate of 4.0%.



London RMB Credit Market

By the end of Q4 2019, the amount of RMB deposits was RMB54.96 billion, down 9.02% QoQ and 4.02% YoY. The outstanding amount of RMB loans in London was RMB53.85 billion, up 10.26% QoQ and 9.4 % YoY.

London RMB Clearing

Between December 2019 and February 2020, the total cumulative volume of RMB clearing bank in the UK was RMB2.78 trillion, down 7% since the last report, and up 32.8% YoY. The average daily RMB clearing volume stood at RMB47.92 billion. By the end of February 2020, the accumulative total RMB clearing volume climbed to RMB43.77 trillion.

RMB Cross-Border Settlement between China and UK

In 2019, total RMB cross-border settlement between China and the UK gained positive momentum being 77% higher YoY at RMB643.2 billion. In the first two months of 2020, settlement grew by 212.4% YoY, hitting RMB182 billion. Among them, cross-border RMB receipts was RMB91.2 billion while payments were RMB90.8 billion, almost striking a balance.

UK's Rank as Offshore RMB Centre

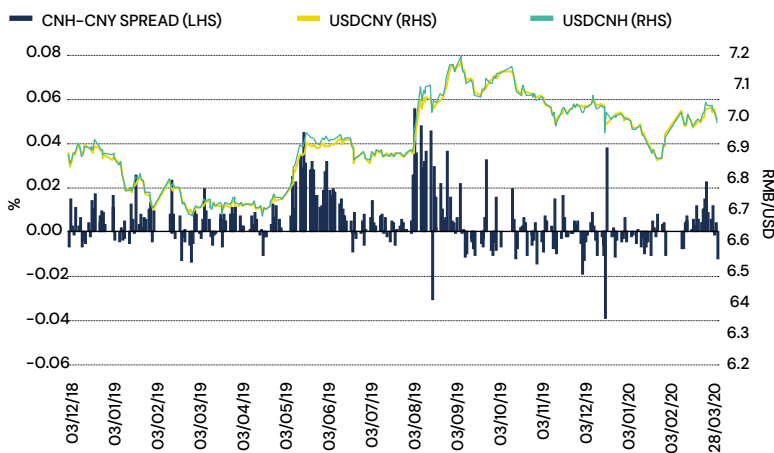
The UK remained the biggest RMB FX hub and payments centre outside of Greater China. In February, offshore RMB foreign exchange transactions in the UK composed 37.2% of the total, down 6.1% from last November.

RMB Exchange Rate

From 1st December 2019 to 28th February 2020, the average FX spot rate of USD/CNH in the offshore market was 6.9799, with the USD/CNY onshore rate 6.9770. The spread between onshore and offshore widened in the three months at +29 basis points, while the spread of our last review period was -9 basis points. In January, China and the United States completed phase one of their trade deal, and RMB appreciated against USD to 6.8600 level. In February 2020, the outbreak of COVID-19 pandemic sent many emerging market currencies, including the RMB, tumbling versus US dollar. Supported by PBoC's monetary policy and signs of the pandemic being under control in China, the RMB has shown relative resilience and calm. However, a grim economic outlook and likely global recession put the RMB under pressure. In this up-and-down session, USDCNH stuck around 7.00 at the end of February after Chinese government made great efforts to stabilize the economy.

The Onshore-Offshore Exchange Rate Differential

USDCNH-USDCNY FX Spot Rate



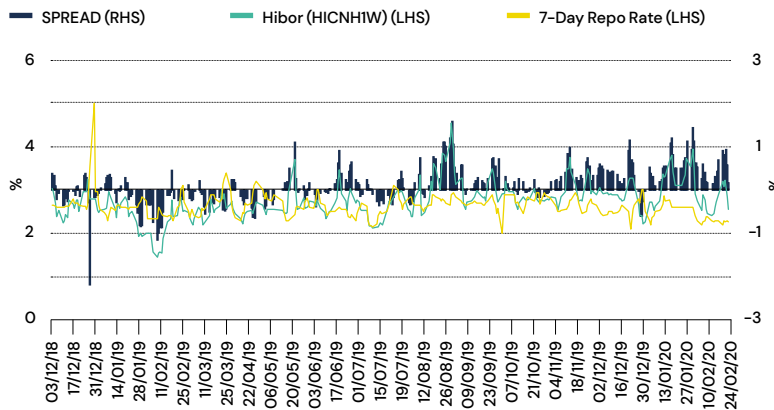
Source: Bloomberg, ABC

RMB Interest Rate

CNH money market rates slipped after PBoC injected liquidity via open market operation in December. At the end of December 2019, CNH 1Week HIBOR tumbled 57BPS from the end of November, to 2.40017%. After stepping into 2020, USD-CNH weakened because of the COVID-19 outbreak. Influenced by the CNH FX market, CNH interbank borrowing cost, i.e., HIBOR rose to highest since last August, where CNH overnight HIBOR reached the highest point 4.9355% at end of January and 1Week CNH HIBOR climbed to 3.7215%. In order to contain the financial impact of the COVID-19 outbreak and stabilize economic growth, the PBoC announced they will inject RMB1.2 trillion into its financial system to ensure reasonable and abundant liquidity in the banking system. By the end of February CNH HIBOR started declining rapidly, where 1Week HIBOR fallen to 2.5455%. Since the PBoC's measures impacted the onshore market first, 1Week offshore RMB HIBOR remained higher than onshore 1Week SHIBOR/Repo 7Day rate, recording the average spread 30.3BPS from 18th December to the end of February.

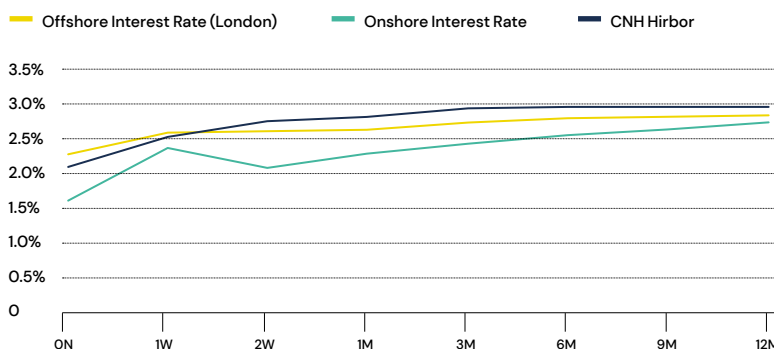
The Onshore-Offshore Interest Rate Spreads

CNH Hibor and 7-Day Repo Rate Spreads



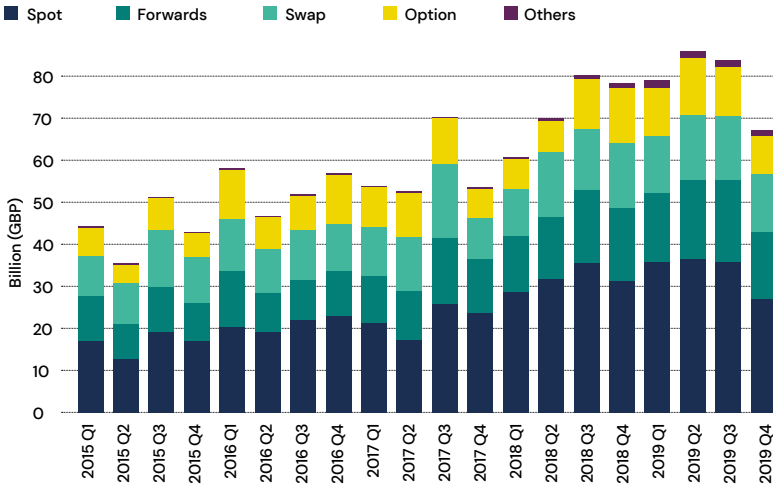
Source: Bloomberg, CCB

Term Structure of RMB-Offshore Interest Rate Spreads



Source: Bloomberg, CCB

Average Daily Turnover of RMB FX in London



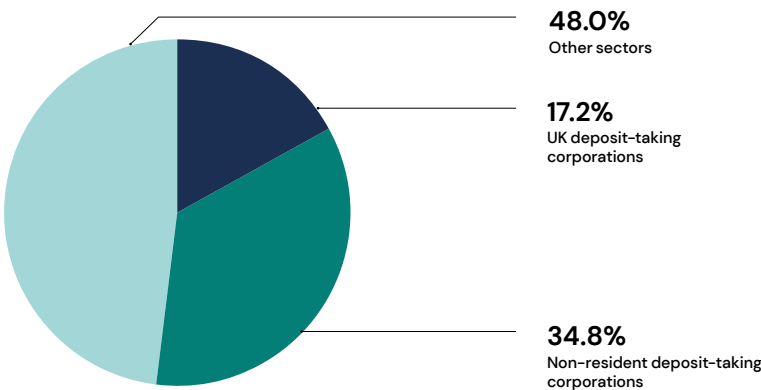
Source: Bank of England (BoE)

London RMB Foreign Exchange Market

Average daily trading volume of London’s offshore RMB registered at GBP66.3 billion in Q4, down 19.9% from the third quarter and 14.3% YoY. From the perspective of counterparty distribution, the average daily trading volume of UK deposit-taking corporations was GBP11.4 billion, accounting for 17.2%; the average daily trading volume of non-resident deposit taking corporations was GBP23.1 billion, accounting for 34.8%; other financial institutions traded GBP31.8 billion, accounting for 48%.

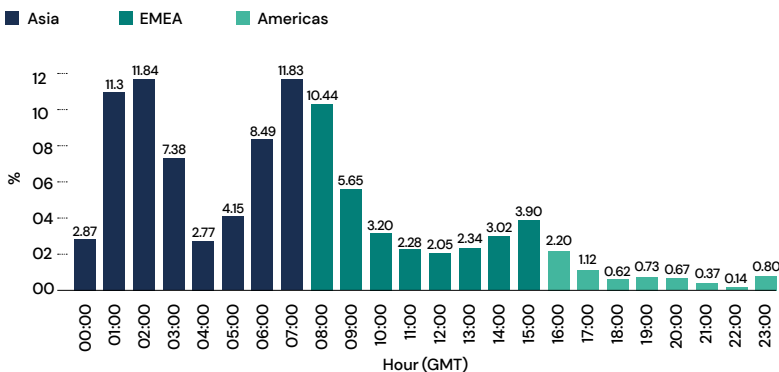
In February, the proportion of the offshore RMB FX trading in London market increased slightly from November. Trading data from EBS revealed that the proportion of spot CNH trading volume in EMEA trading hours was 33% in February, down 1% from November. Specifically, in February, Asia, EMEA and Americas trading hours registered 60%, 33% and 7% of total CNH spot trading volumes, compared with a distribution of 57%, 34% and 9% in November, and 63%, 29% and 8% a year ago.

RMB FX Turnover by Counterpart Sector



Source: Bank of England (BoE)

Spot CNH Volume Distribution by Hour on EBS



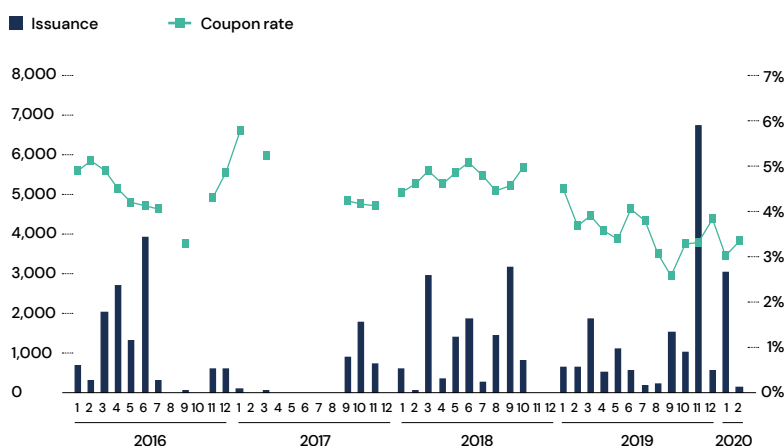
Source: EBS

London RMB Bond Market

Between December 2019 and February 2020, 10 Dim Sum bonds were newly listed on the London Stock Exchange, with a total issuance size of RMB3.7 billion, a decrease of 59.8% compared with the three months ending at last November, but up 284.3% YoY, and weighted average coupon rate of 3.2%. At the end of February 2020, there were 116 Dim Sum bonds listed on the London Stock Exchange with an outstanding value of RMB37.6 billion, and weighted average coupon rate of 4.0%.

Dim Sum Bond Issuance and Average Coupon Rate as of February 2020 on LSE

LHS: issuance mln RMB

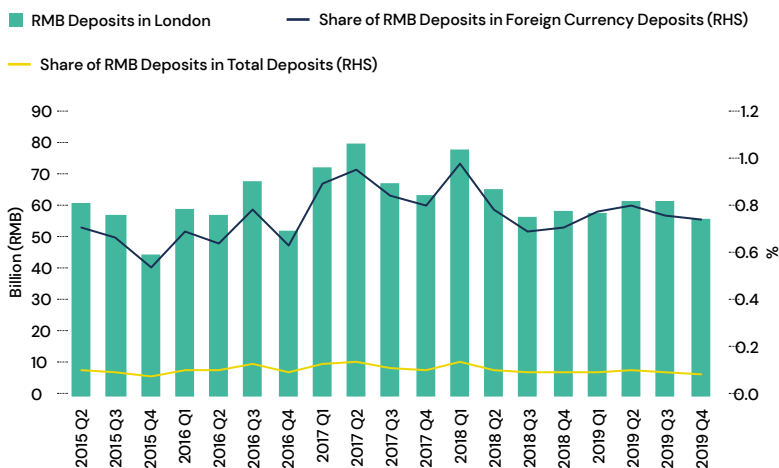


Source: LSE

London RMB Credit Market

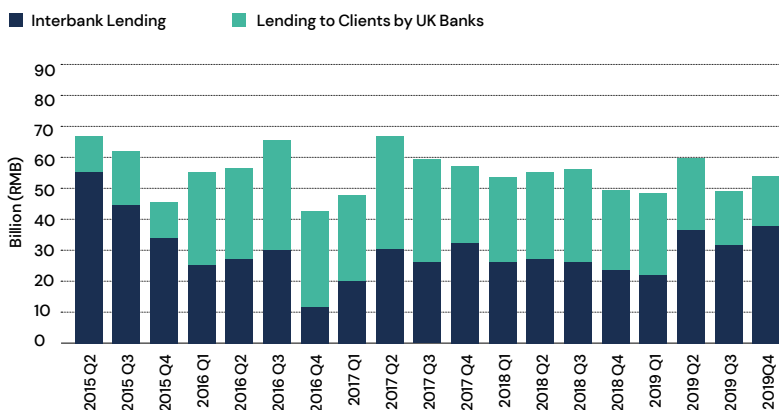
In Q4 2019, RMB deposits and loans in London offshore market diverged. At the end of Q4 2019, the balance of RMB deposits stood at RMB54.96 billion, down 9.02% QoQ and 4.02% YoY, while the balance of RMB loans was RMB53.85 billion, up 10.26% QoQ and 9.4% YoY.

RMB Deposits in London



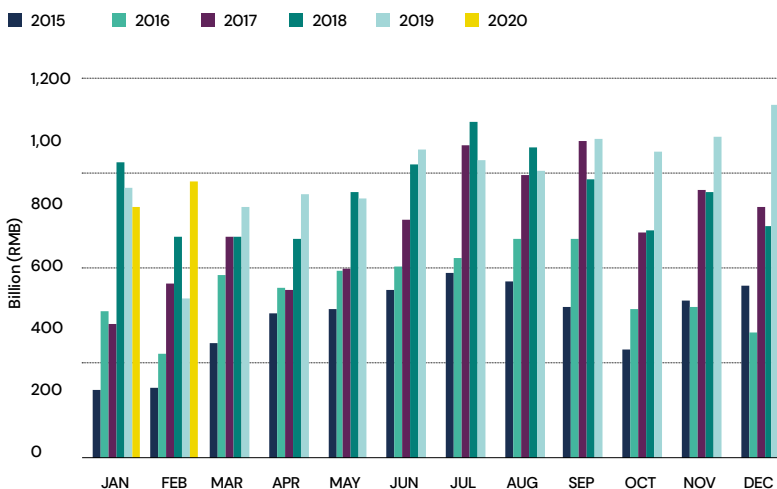
Source: Bank of England (BoE)

RMB Lending in London



Source: Bank of England (BoE)

RMB Clearing Volume of the Designated UK Clearing Bank



Source: CCB London Branch

London RMB Clearing

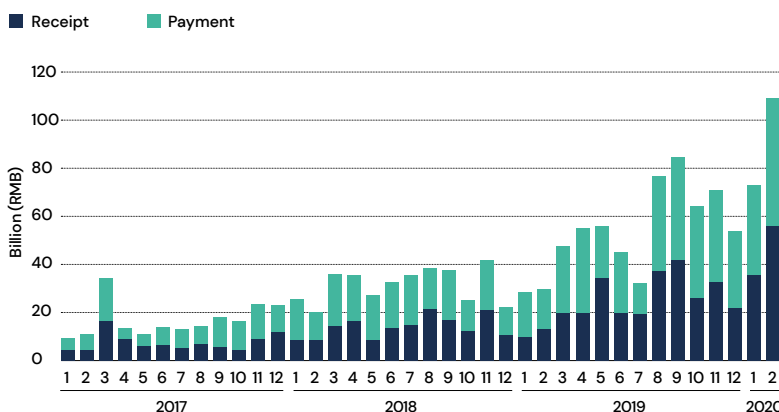
Between December 2019 to February 2020, total clearing volume was RMB2.78 trillion, down 7% from our last review period due to Chinese New Year holiday and the outbreak of Covid-19 in China. However, comparing with the same period of last year, it was a big rise of 32.9%. The daily average clearing volume RMB47.92 billion, and accumulated transaction counts stood at 27,804. By the end of February 2020, the cumulative total RMB clearing volume reached RMB43.77 trillion, since China Construction Bank (CCB) London Branch obtained its authorization to become the RMB clearing bank in the UK in June 2014, and it remains the largest clearing bank outside Asia. Since January 2020, CCB London branch has implemented its business continuity plan to ensure the stable and smooth RMB clearing service during COVID-19 outbreak in China. The bank set up a green channel to process urgent RMB cross border payments and receipts, and to facilitate the pandemic related global clearing including donations, purchase of personal protective equipment (PPE) and funds transfer among international health organisations etc.

China-UK RMB Cross-Border Settlement

In 2019, a considerable increase of 71% YoY occurred in cross-border RMB transaction, with the total amount reaching RMB643.2 billion. Among them, cross-border RMB receipts and payments were RMB294.7 billion and RMB348.5 billion respectively. RMB payments were higher than receipts, with a net inflow of RMB53.8 billion into the UK. Cross-border RMB receipts and payments of Sino-British bilateral goods trade stood at RMB88.2 billion, composing 14.8% of the total amount of receipts and payments this year.

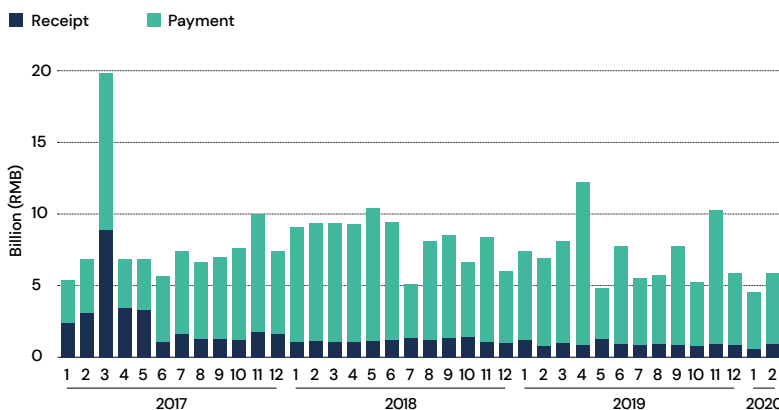
In the first two months of 2020, cross-border RMB transactions between China and the UK was on the upswing and maintained momentum, with the total amount hitting RMB182 billion, up 212.4% YoY. Among them, cross-border RMB receipts were about RMB91.2 billion while payments reached RMB90.8 billion, which mean a net outflow of RMB0.4 billion from UK to China. This reversed the trend of a net inflow from China to the UK since last August, almost striking a balance. Cross-border RMB receipts and payments of Sino-British bilateral goods trade totalled at RMB10.4 billion, making up 15.3% of the total amount of receipts and payments during the same period. Cross-border RMB receipts and payments of non-trade transfer and capital transfer hit RMB171.6 billion, up 291.7% YoY.

China-UK Cross-Border RMB Payment and Receipt



Source: PBoC

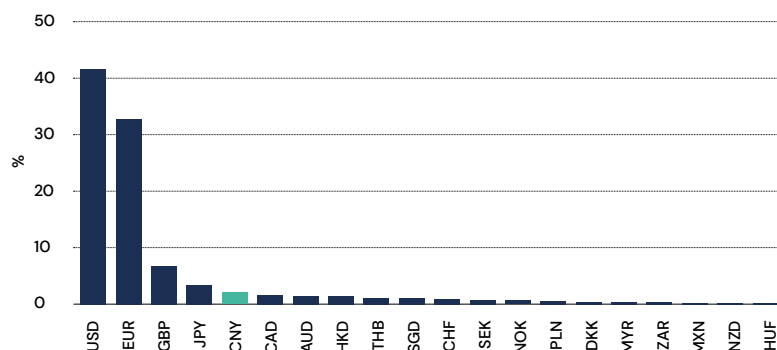
China-UK Cross-Border RMB Payment and Receipt Under Merchandise Trade



Source: PBoC

RMB's share as a global payments currency

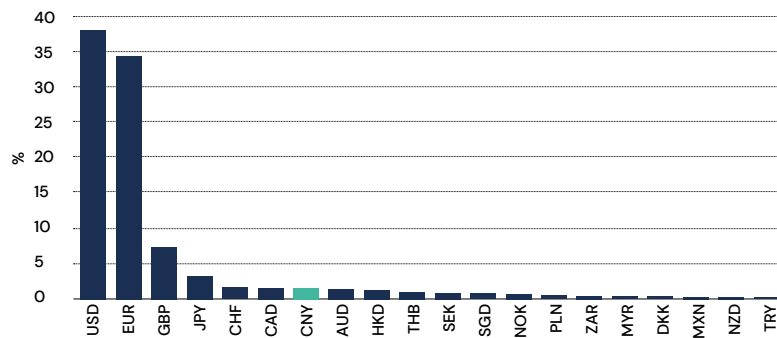
February 2020



Source: Watch – Powered by SWIFT BI

RMB's share as a global payments currency

February 2018



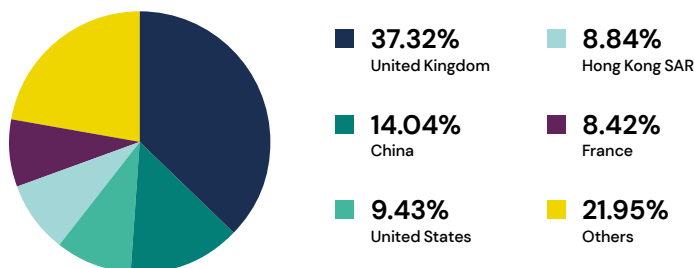
Source: Watch – Powered by SWIFT BI

The International Status of the London Offshore RMB Market

According to SWIFT, the RMB's share as a domestic and international payments currency (customer initiated and institutional payments) in February 2020 grew to 2.21%, up 0.28% from November. The RMB was still the fifth biggest global payment currency, and the UK maintained its position of having the biggest proportion of RMB payments outside greater China. The top three countries or regions doing FX transactions in RMB in February 2020 were the United Kingdom, China and the United States. The United Kingdom composed 37.3% of the total, down 6.1% from November.

Top Countries (Regions) FX Transaction in RMB

February 2020

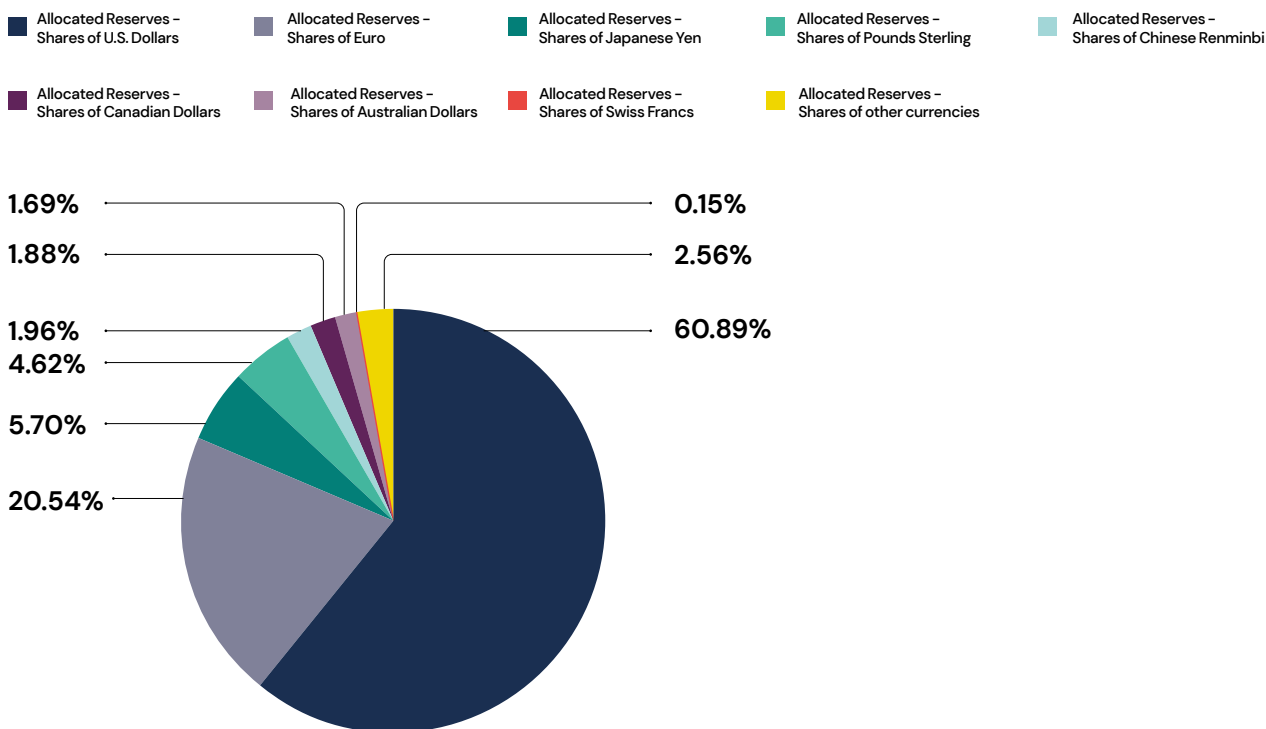


Source: Watch – Powered by SWIFT BI

RMB in Global Currency Reserves

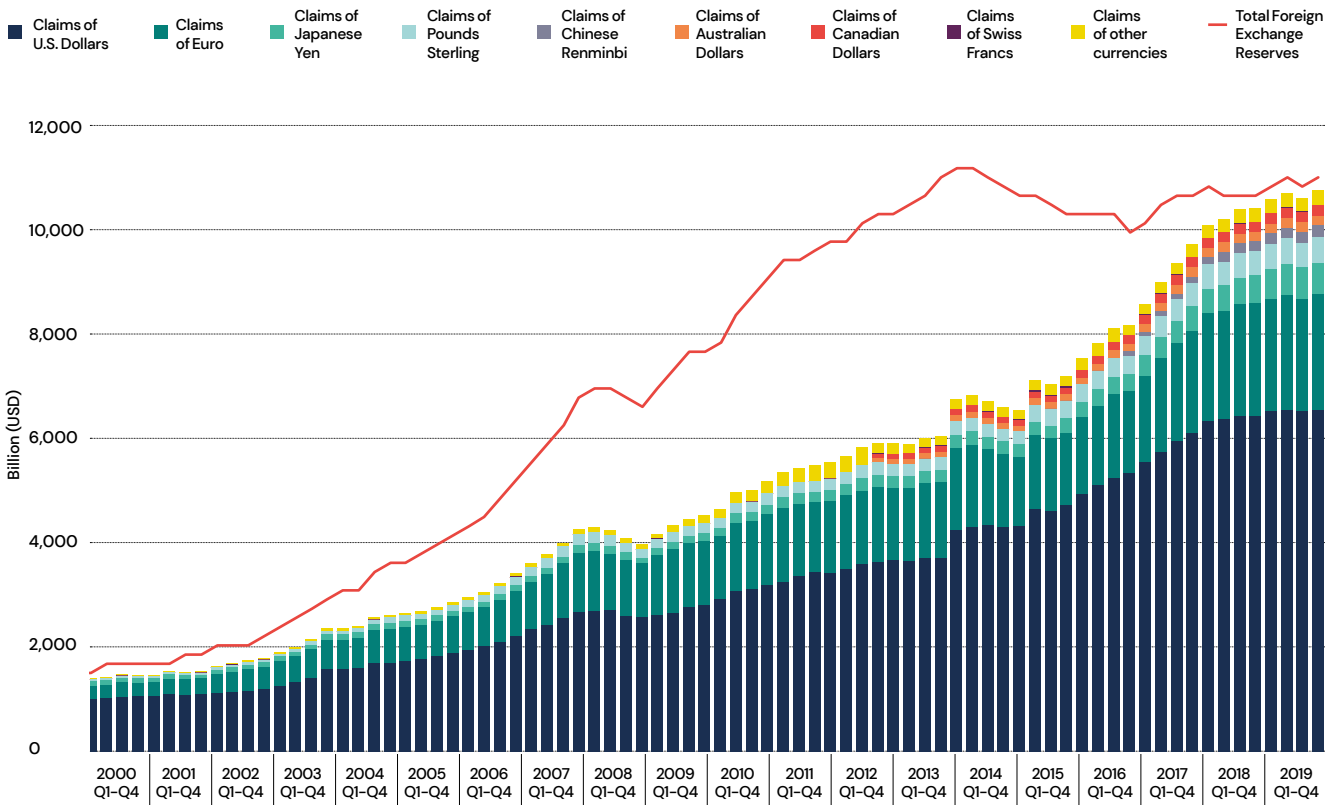
According to IMF, RMB accounted for 1.96% of global allocated foreign exchange reserves as of Q4 2019, slightly lower than 1.98% as of Q3 2019, but much higher than 1.07% as of Q4 2016 when RMB joined SDR basket. USD’s share of global allocated foreign exchange reserves continued to fall, down from 72.3% in Q1 2001 to 60.9% in Q4 2019. The share of Euro, JPY and GBP continued to rise, up from 17.7%, 5.5% and 2.8% in Q1 2001 to 20.5%, 5.7% and 4.6% in Q4 2019.

Allocated Reserves by Currency for 2019Q4



Source: International Monetary Fund

Official Foreign Exchange Reserves by Currency



Source: International Monetary Fund

Industry update

Renminbi Internationalisation Gathers Pace in the Capital Markets

HSBC

The Chinese renminbi has made great strides towards becoming a truly international currency when it was included in the International Monetary Fund's Special Drawing Rights in late 2016, alongside other major reserve currencies such as the Dollar, Euro, Yen, and the Pound Sterling.

The inclusion of Chinese bonds and equities in international indices in recent years is another major catalyst furthering the internationalisation of the renminbi. While China's bond and equities markets, both the second largest in the world, are opening ever wider to international investors and encouraging foreign investment, investors will naturally also demand more tools for risk hedging.

In order to satisfy this increasing demand from international investors to access a wider range of hedging tools for their Chinese investments, the People's Bank of China (PBoC) relaxed the FX hedging by issuing a circular named The Improvement of the Management of the RMB Purchase and Sale Business (in short Circular 159). This related to the further opening of the country's onshore FX market to international investors in the summer of 2018. While the implications of the circular were less apparent following the initial announcement, we are beginning to see market participants are gradually taking advantage of opportunities.

How significant is Circular 159, issued by the PBoC in June 2018 for foreign investors?

The overarching goal of Circular 159 is to promote using RMB in cross-border trade and also importantly investments into China. In essence, Circular 159 allows offshore investors to access onshore FX market via offshore counterparts instead of only relying on onshore banks if they want to tap the onshore FX market.

The policy was put in place to cater for the hedging needs of institutional investors in China, and provide them with greater flexibility to access the deep and liquid onshore market while transacting with their usual banks in offshore markets and operate in familiar international trading framework (including signing internationally-accepted documentation such as International Swaps and Derivatives Association (ISDA)). There are two distinctive characteristics of the Circular:

- First, it gives offshore investors easier route to access the onshore CNY FX market. Previously, these investors had to go to onshore market directly if they want to access onshore CNY FX. This not only allows international investors to eliminate basis risks especially for bond investors, but also to remove the price gap

between CNY and CNH. Financial institutions and corporates will be able to access these products as long as they can prove a real need for hedging instruments.

- Second, as Circular 159 opens the scope to allow offshore banks to offer onshore CNY FX products, overseas investors can utilise their existing ISDA agreement with foreign banks to trade CNY derivatives instead of signing a brand new China-version ISDA agreement with onshore banks. This in turn saves a lot of administrative work and time for both the international investors and offshore banks as most of them would already have their ISDA agreements in place. At the same time, international investors would be more comfortable to use their offshore counterparts as they can follow their familiar and usual practice and documentation.

Therefore, the policy now allows international investors who previously may not have had access to the onshore market and had to rely solely on offshore facilities/CNH FX market for their hedging needs to be able to hedge their renminbi exposure using either the offshore CNH or the onshore CNY.

How are CNH and CNY being affected by this development?

The new policy allows offshore investors to access both onshore and offshore markets for the FX hedging solution of their choice. When there is a big gap in two markets, offshore investors can switch their hedging from an expensive market to a cheaper market easily. This will help bring greater convergence between CNH and CNY.

An investor or a corporate would only need to prove they have a real need for activities, such as hedging, is in line with their asset holdings in the onshore market. As China continues to 'open up', investment channels to offshore investors, the related FX hedging activities will increase accordingly. This will narrow the gap between the onshore and offshore curves.

What impact is this having on the Renminbi as a transactional currency?

China has promoted the use of the renminbi as a trade, investment and reserve currency from the outset of the renminbi internationalisation process, and Circular 159 as an integral part of this policy. The renminbi is already widely used as a currency for cross-border transactions by many Asian corporates. We believe that this new policy is providing a strong push for further renminbi investments in China.

What products and channels does the Circular bring into scope?

While this policy covers a wide range of foreign exchange instruments, including spot, forwards, swaps, cross-currency swaps, and options; FX forwards and FX swaps are particularly relevant as these can now take advantage of the onshore interest rates.

The various channels that have been brought into scope by the Circular include the China Interbank Bond Market, the Bond Connect and Stock Connect schemes and the Renminbi Qualified Foreign Institutional Investor (RQFII) initiative.

What else signals the importance of Circular 159 and any example?

Circular 159 also introduces new rule allowing banks and companies to apply for centralisation of their groups' internal CNY FX flows and hedging which is very important and welcome especially by large banks and multinationals. Using HSBC as an example, the Bank has successfully registered with the PBoC to adopt a Chinese Yuan Foreign Exchange (CNY FX) centralisation model under which HSBC will use its Hong Kong entity (The Hongkong and Shanghai Banking Corporation Limited) as the internal hub for all its cross-border CNY FX trading globally. Under this setup, international investors no longer need to sign a new set of ISDA agreement with HSBC China but deal directly with the HSBC in their respective country as they would already have an existing ISDA agreement with the local HSBC entity which then in turn will trade with HSBC in Hong Kong. In other words, UK investors can rely on HSBC UK for onshore CNY FX service, while US asset managers can look to HSBC US for providing onshore CNY FX conversion and hedging solutions.

This model streamlines access to onshore CNY FX transactions and enables HSBC to further enhance its offering of CNY FX spot and hedging solutions to corporate and institutional clients worldwide. Among the benefits this change will deliver to clients, HSBC can now offer CNY FX solutions to its Bond Connect clients in their home markets.

Another client story is that an asset manager client in Germany immediately seized the opportunity to utilise this FX capability as the first German investor executing a bond trade in the Chinese capital market via Bond Connect. HSBC Germany enabled the settlement of the underlying transaction as well as the related FX through the global network of HSBC Group under this centralisation model.

What's new in 2020?

In the first part of 2020, despite the worldwide COVID-19 situation, China's capital markets have continued to attract inflows from international investors in contrast

to the fact that most if not nearly all emerging markets have been witnessing large outflows during the same period. This is a solid testimony of the attractiveness of China capital markets, exemplified by the relatively high yield in bonds but also the stability in the market amid turmoil.

At the same time, we continue to see progress in financial sector opening up and capital account liberalisation, specifically regulatory relaxations for further promoting risk management tools for Overseas Institutional Investors (OII) investing in the Chinese capital markets. Two key developments include:

State Administration of Foreign Exchange (SAFE) announced a new Circular in January to permit both bank type and non-bank OIIs more choices of entry channel to conduct FX derivatives. This includes trading directly with up to three domestic financial institutions and participating in Chinese Inter-bank FX Market (CIFXM) as member of China Foreign Exchange Trade System (CFETS) through Prime Brokerage Business. For bank type OIIs, they can further participate directly in CIFXM as member of CFETS. The Circular also simplifies and makes it easier for OIIs to conduct FX derivatives business to hedge their risks as a result of investment into CIBM. For example, based on the actual needs of FX risk management, OIIs can flexibly choose the trading mechanism, including extending maturity, reverse position closing out, gross or net settlement, etc.

PBOC, China Banking and Insurance Regulatory Commission (CBIRC), China Securities Regulatory Commission (CSRC), SAFE and Shanghai Municipal People's Government jointly issued Opinions with approval from the State Council in February with aims to boost financial asset allocation in RMB and risk management capabilities. Highlights include allowing foreign institutions to sign master agreements on derivatives with ISDA as legal documentation for Interest Rate Swap (IRS) market entry in addition to with National Association of Financial Market Institutional Investors (NAFMII), and China Securities and Futures Market (SAC) – the Chinese alternatives of ISDA. The short-term implication means that some foreign investors and asset managers interested in entering into CNY IRS market would have one of the biggest hurdles removed and hence prompt some pending demand as a result. In the longer term, it would further enhance foreign investors' interests to access China market. Furthermore, this relaxation on IRS market entry will pave the way for other China market/product for accepting internationally recognised documentation as well as legal practice, all of which would enhance attractiveness of China capital markets to foreign investors' community.

The opening up of China's capital markets will be a continuous and irreversible trend that foreign investors should not ignore.

Development and Outlook of the China Government Bond Futures Market

China Financial Futures Exchange (CFFEX)

Since 2013, the China Financial Futures Exchange (CFFEX)¹ has successively launched 5-year, 10-year and 2-year China government bond (CGB) futures. After nearly seven years of development, the CGB futures market continues to thrive. Seeing the growing scale and significance of China’s bond market in recent years, the CFFEX CGB futures product suite has become an indispensable hedging instrument and has played an increasingly important role in facilitating the healthy growth of the bond market in Mainland China.

1. An overview of the CGB futures market

In mainland China, the government bonds and related derivatives trading venues are under the regulatory oversight of two government bodies: the People’s Bank of China (PBOC) and the China Securities Regulatory Commission (CSRC). The China Interbank Market (CIBM) under the PBOC dominates the cash bond trading and nearly all the related OTC derivatives. The Shanghai Stock Exchange and Shenzhen Stock Exchange under the CSRC account for a small portion of CGB trading, which represents 0.3% of CGB trading volume in 2019. Also under the CSRC, CFFEX is the only trading venue that offers the CGB futures to domestic investors. Currently, foreign investors, including Qualified Foreign Institutional Investors (QFII), Renminbi Qualified Foreign Institutional Investor (RQFII) and those accessing through CIBM and Bond Connect programs, are not yet permitted to participate in CGB futures trading. However, as China’s bond market increases its representation to the global fixed income universe, foreign investors are keen to access the onshore CGB futures market for managing interest rate risk.

1.1 Trading volume and open interest

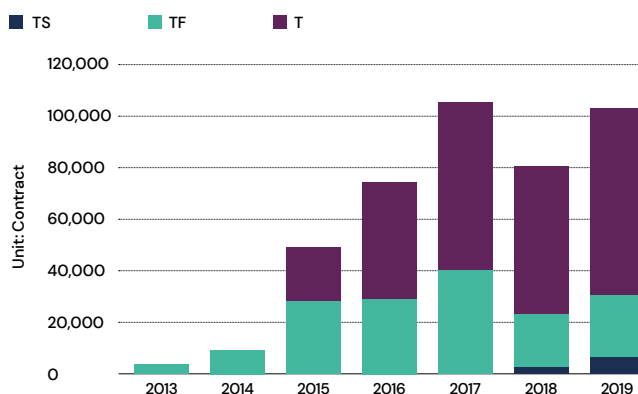
Though market size was limited following the launch of CGB futures, the trading volume and open interests have continued to grow. In September 2014, the daily open interest of CGB futures exceeded 10,000 contracts, and the market entered into a period of rapid growth. In December 2016, the open interest of CGB futures exceeded 100,000 contracts and an open interest record of 156,075 contracts was reached in October 2019. In 2019, the average daily trading volume of CGB futures was 53,400 contracts, and the average daily open interest was 103,100 contracts, which was respectively 12 times and 28 times the size in 2013.

In the government bond derivatives sector, the 10-year CGB futures contract is the benchmark product in most of the derivatives exchanges around the world, as is the case observed in CFFEX. After its launch in 2015, the

market scale of the 10-year CGB futures grew steadily, and its open interest quickly exceeded the 5-year CGB futures in October 2015, thus becoming the most active government bond futures in China. In 2019, the daily average trading volume of the 2-year, 5-year and 10-year CGB futures were 8,146, 7,370 and 37,894 contracts respectively, and the daily average open interests were 6,553, 24,088 and 72,446 contracts respectively.

Figure 1: Open interest of CGB futures

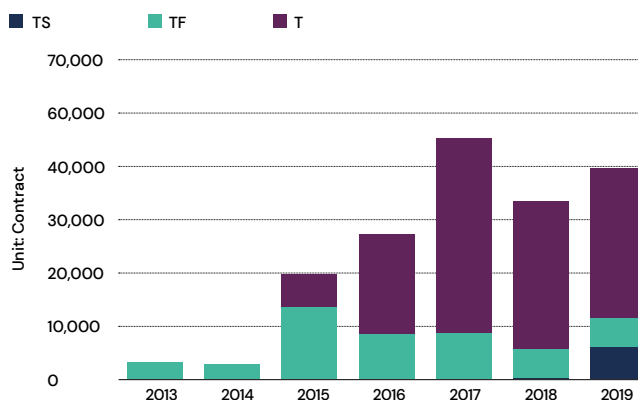
TS: 2-year CGB futures / TF: 5-year CGB futures / T: 10-year CGB futures



Source: CFFEX

Figure 2: Trading volume of CGB futures

TS: 2-year CGB futures / TF: 5-year CGB futures / T: 10-year CGB futures



Source: CFFEX

1. CFFEX, established with the approval of the State Council of the People’s Republic of China and the China Securities Regulatory Commission (CSRC), is a China based futures exchange providing trading and clearing services for futures and options covering a broad set of financial instruments, including the CGB futures, equity index futures and equity index options.
2. The most active contract is the contract with the highest open interest.
3. 3 month time window (February 15, 2020-May 15,2020).
4. 3 month time window (May 16, 2020-August 16,2020).

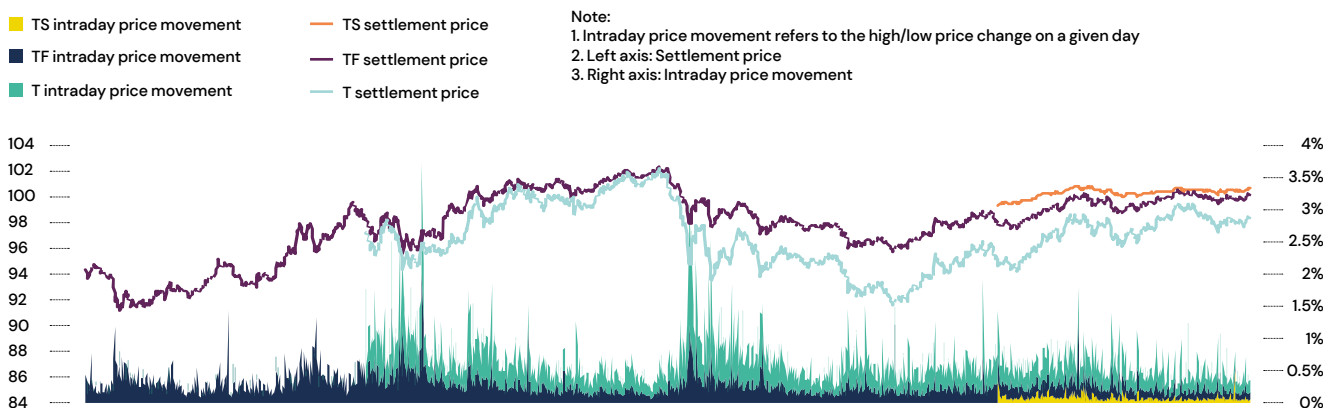
1.2 Market performance

The CGB cash market and futures market prices tend to move in tandem. As shown in Figure 3, influenced by the cash market, the CGB futures price experienced intense volatility in June 2015 and at the end of 2016, especially for the 10-year CGB futures due to its longer duration. From November 2016 to February 2017, the yield of 10-year CGBs increased by 40 basis points. In response to the price changes of CGB cash market, the price of the most active contract² of 10-year CGB futures declined from a high of nearly 101 points at the beginning of November 2016 to a low of nearly 93 points in February 2017. On the 19th of January 2018, the settlement price of the 10-year CGB futures' most active contract reached a historical low of 91.495 points. Since then, CGB futures prices started to rise and have gradually returned to previous levels.

1.3 Market liquidity

Thanks to the diversification of the investor base, as well as the introduction of liquidity-enhancing measures such as a market maker program, the liquidity of the CGB futures market has improved consistently. As shown in Figure 4, the introduction of the market maker program on the 16th of May 2019 was an important event that caused dramatic changes in the bid-ask spreads, especially for the previously illiquid 2-year CGB futures. Before the program³, the daily average bid-ask spreads of the most active contracts of 2-year CGB futures, 5-year CGB futures, and 10-year CGB futures were respectively 11.38 ticks, 1.24 ticks and 1 tick, but shortly after the launch of the program⁴, the daily average bid-ask spreads of 2-year CGB futures and 5-year CGB futures were reduced to 1.37 ticks, and 1.05 tick respectively. Although the bid-ask spread of 10-year CGB futures has not been significantly narrowed, its market depth has improved.

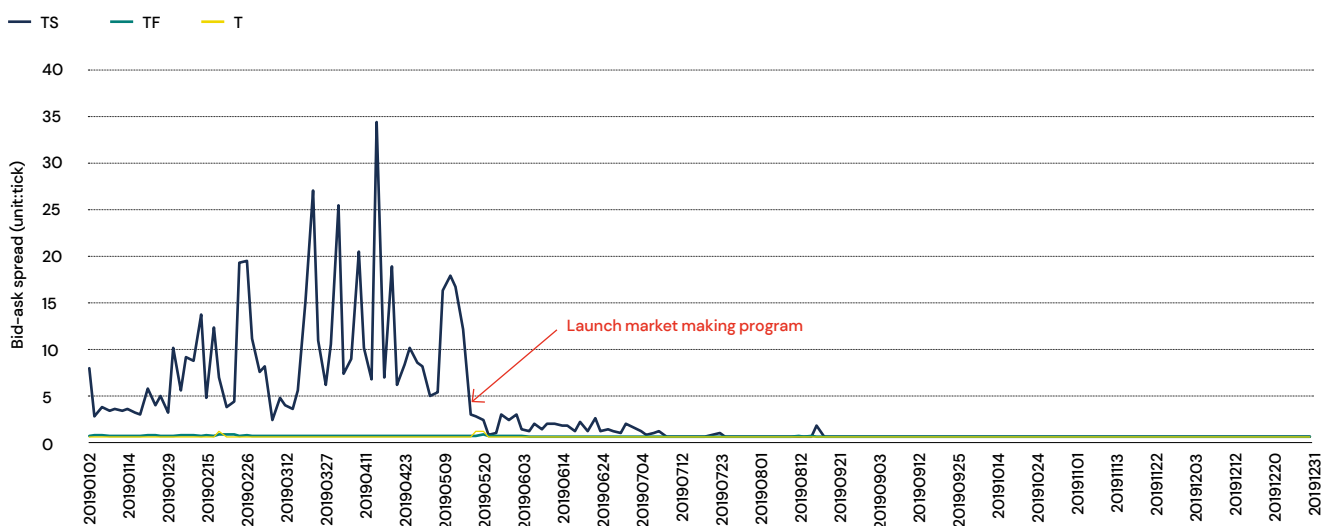
Figure 3: Price level of most active contracts of CGB futures since launching



Source: CFFEX

Figure 4: Historical bid-ask spread of most active contracts of CGB futures

TS: 2-year CGB futures / TF: 5-year CGB futures / T: 10-year CGB futures



Source: CFFEX

2. Recent developments in the CGB futures market

2.1 Introducing off-exchange trading facility to CGB futures

On the 17th of January 2019, CFFEX officially introduced the exchange of futures for physicals (EFP) facility⁵ to CGB futures trading, which was the first time an off-market trading mechanism was adopted in China's financial futures market. It offers the same flexibility and certainty of execution in the OTC market as well as the counterparty credit risk management of an exchange market.

2.2 Introducing a market maker program to CGB futures

In order to improve market liquidity, CFFEX launched a market maker program for CGB futures on the 16th of May 2019, and 8 financial institutions were selected as market makers. Following the introduction of the market maker program, the liquidity of 2-year, 5-year and 10-year CGB futures was significantly enhanced.

2.3 The two-year term included in the key term of CGB issuance and the liquidity of the two-year CGB futures expected to improve

The Ministry of Finance of the People's Republic of China (MoF) listed the 2-year CGB as a key term CGB in its issuance plan for 2020. Since the establishment of the key term CGB system for the issuance of CGBs in 2009, this is the first time that the MoF has added a new key term to the CGB issuance plan. In historical CGB issuance plans released by the MoF, the key terms of CGBs refer to 1-year, 3-year, 5-year, 7-year and 10-year terms. The MoF regards the key terms as benchmark points of the yield curve and therefore provides liquidity support operations for key term CGBs. In addition, the issues of key term CGBs are more regular and auctions are carried out on a monthly basis. Thus the inclusion of the 2-year CGB into the key term CGB family proclaims its importance. The inclusion will improve the stability and predictability of the issuance of the deliverable bonds of the two-year CGB futures in the long term, and thus help enhance the futures market liquidity.

2.4 Commercial banks and insurance companies receives regulatory approval to participate in the CGB futures market

After the consent of the State Council, the CSRC, the MoF, the PBOC, and the China Banking and Insurance Regulatory Commission issued a joint announcement, allowing commercial banks and insurance companies to participate in the CFFEX CGB futures market in a phased manner. Commercial banks and insurance companies are the major participants in the CGB cash market. Therefore, giving such institutional investors access to the CGB futures market will help fulfill their need to hedge against interest rate risks. Furthermore, their participation will promote the coordinated development of the CGB cash and futures markets, diversify the investor structure of the CGB futures market, and enhance the market liquidity.

5. Exchange of futures for physicals (EFP) facility refers to the transaction wherein, upon the mutual agreement of the parties thereto, one party is the buyer of an Exchange futures contract ("futures leg") and the seller of corresponding securities or related contracts ("physical leg"), and the other party is the corresponding seller of the Exchange futures contract and the buyer of corresponding securities or related contracts.

3. Next steps

3.1 Expanding the interest rate derivatives product suite

Currently, futures contracts are only offered on three maturity points of the CGB yield curve, including the 2-year, 5-year and 10-year term. Given investors' increasing interest in China's evolving fixed-income market, it is necessary to broaden exchange-traded interest rate derivatives products to meet the needs of interest rate risk management in the market. CFFEX has worked closely with market participants and the industry to introduce new products. The 30-year CGB futures mock trading went live on the 18th of December 2018, and options on CGB futures are in the pipeline.

3.2 CGB futures market opening up

Over the past few years, China's onshore bond market has made remarkable achievements in opening up to foreign investors. In April 2019, China bonds were included into the Bloomberg Barclays Global Aggregate Index, and in February 2020, were included into the J.P. Morgan EMBI Global Diversified Index, which further drove up the global demand for China bonds. Foreign investors currently are unable to hedge against the interest rate risks via CGB futures market. The opening up of the CGB futures market will allow foreign investor to trade interest rate derivatives in the regulated exchange, thus offering greater precision and flexibility to risk management. The possibility of managing interest rate risks using CFFEX CGB futures will encourage global fixed-income investors to hold China bonds for a longer period, and facilitate further opening up of China's bond market.

3.3 Improving the trading facilities

The CGB futures market is highly specialized where institutional investors who are active in the OTC market have demands to transact orders of significant sizes. As commercial banks and insurance companies join the CGB futures market, the demand to bring large orders to the market further increased. CFFEX is exploring the feasibility of introducing block trading and introducing combination orders to facilitate strategy trading. Block trading and combination orders will provide even more flexible and efficient channels for institutional investors to trade.

Building a Bridge of Bond Market between China and the UK

China Central Depository & Clearing Co., Ltd. (CCDC)

China now has the world’s second largest bond market, representing an enormous asset pool for RMB liquidity and risk management, as well as increased options for global investments. The opening up of China’s bond market has gathered pace over the last few years, enabling overseas investors to participate in the domestic market through various channels with no quota. As the financial infrastructure of China’s bond market, the China Central Depository & Clearing Co., Ltd. is committed to high-quality cross-border service for overseas customers to facilitate them investing in China. The recent establishment of a London representative office⁶ in 2019 marked a further step towards enhancing its global capacity of market services. The representative office will strive to build effective connection between financial market infrastructure (FMI) China and the UK, and enhance bilateral collaboration to achieve mutual benefits.

1. Opening up of China’s bond market has gathered pace.

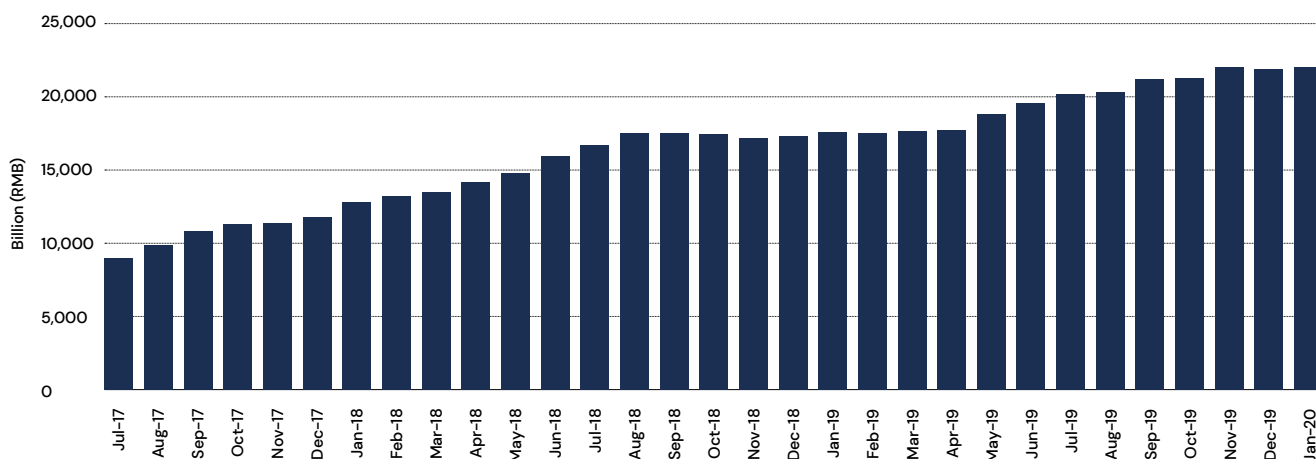
China’s bond market has been growing rapidly in recent years. The outstanding amount of bonds is over RMB90 trillion, of which over RMB50 trillion are high-grade bonds such as central government bonds (CGB), local government bonds and policy bank bonds, providing global investors with a sizeable asset pool for RMB liquidity and risk management. According to the Bank for International Settlements, China has surpassed Japan to become the world’s second largest bond market by stock, making itself an integral part of the

global financial market and a sought-after destination for keen investors across the globe.

At the same time, China has taken accelerated actions to open up its market to global financial institutions, including those from the UK by increasing market entry channels to available products as well as instruments for risk management and speculation. Now, multiple types of overseas investors can conveniently access China’s onshore bond market via various channels such as Global Connect (CIBM Direct), Hong Kong Bond Connect, QFII and RQFII. See with no limit on the investment amount, they can participate in multiple kinds of transactions, including cash bond trading, bond repo and bond forward, with tax exemption.

After the inclusion of China’s bonds into the Bloomberg-Barclays Global Aggregate Index and JP Morgan’s emerging markets indexes, overseas investors are increasing their holding of RMB bonds. According to the China Central Depository & Clearing Co., Ltd. (CCDC), as at the end of 2019, overseas institutions had issued more than RMB350 billion of Panda bonds. Over 1,600 overseas investors, including central banks, commercial banks, sovereign wealth funds and asset managers, were holding about RMB2.2 trillion of onshore RMB bonds, a year-on-year rise of 26%; In the secondary market, overseas investors were trading a growing variety and volume of products. In 2019, the total trading volume was over RMB5 trillion, up 70% year on year.

Figure 1 Overseas holding of onshore RMB bonds



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

6. The UK representative office was co-built by CCDC and China Banking Association.

2. CCDC stands as the major gateway for China bond market opening.

As a core FMI, the CCDC supports China's bond market with the entire spectrum of bond services encompassing issuance, registration, depository, settlement, redemption of bond and debt instruments etc. Over 80% of the outstanding market is under its depository, including all high grade bonds such as CGBs, local government bonds and policy bank bonds. CCDC is now the depository for about 90% of all foreign holding in the onshore bond market and is helping more than 1,100 overseas customers, proving itself as the de facto major gateway for opening-up. Riding on the tides of further market opening-up, the CCDC has strengthened its all-around efforts to refine its global service capacity.

Full services for market entry. In the primary market, the CCDC supports the issuance of panda bonds, providing services such as tender or book building issuance, registration, proceeds disbursement, and information disclosure. In the secondary market, the CCDC supports both Global Direct and the Bond Connect scheme with account management and DVP settlement services. Meanwhile the CCDC is working closely with Euroclear, Clearstream, NSD (Russia) and other global counterparts to create novel modes of market connection and cross-border service that ensures compatibility with the operational conventions and business continuity of overseas customers.

Pricing platform for RMB assets. The ChinaBond Government Bond Yield Curve, compiled daily by the CCDC, is updated on the official website of the People's Bank of China, Ministry of Finance, the Asian Development Bank and other official websites to provide dynamic RMB bond pricing information services to more than 200 international institutions including those in the United Kingdom. In 2016, the International Monetary Fund officially included the RMB in the SDR basket and it uses the CCDC's three-month Treasury bond yield as the RMB interest rate benchmark. The CCDC jointly released the Green Series Bond Index with the Luxembourg Exchange, collaborated iBoxx ChinaBond Index series with the IHS Markit, and launched the RMB Bond Index on the Singapore Exchange in order to meet the diversified investment demand of foreign investors.

Cross-border use of RMB assets is further facilitated. As the largest collateral manager in the world with more than RMB13 trillion under management, the CCDC spares no efforts to optimize its collateral management system and to explore cross-border business modes for RMB collateral usage in global trading system. The CCDC will continue making cross-border collaboration on collateral as the result of 'both sides agree to promote RMB bonds as common qualified collateral accepted by the UK market'-policy outcomes of the 10th China-UK Economic and Financial Dialogue.

3. Building a Bridge for Bond Market Connectivity between China and UK

In June 2019, the UK representative office that the CCDC co-built with the China Banking Association came into operation officially, as an important step towards improving global service capacity. By now the CCDC professionals have already started their work in London. London is an unparalleled location as it is an international hub for financial activities and investment decisions with significant agglomeration effect. Also, London is the largest offshore foreign exchange trading center and the largest offshore clearing center for RMB outside Asia. It sees rapid growth in RMB business and is home to many investors who trade in China's onshore market. In addition, according to the policy outcomes of the 10th China-UK Economic and Financial Dialogue, "both sides welcome progress made by the China-UK Bond Connect Working Group" and "agree to continue the feasibility study on China-UK bond market connect arrangement", which opened up new vistas for connectivity between the markets of the two countries.

The year of 2020 marks a fresh start for the work of the representative office. Going forward, based on its due functions and position, the representative office will create an extensive network by working closely with regulators, industrial associations, market participants and intermediaries. As a platform and channel for exchanges and interaction, it will help those who with limited knowledge of China's bond market learn about the market, appeal to those who are interested to invest by presenting the advantages of the market, as well as solve all kinds of problems for those who are entering or have already entered the market. At the same time, the representative office is also committed to finding a viable plan to enable convenient and efficient market connection and promoting the cross-border use of RMB assets. It will bring China's products and market to the UK and bring the UK's resources and services to China. Its goal is to be a bridge between the China and UK bond markets that enables reinforced information exchange as well as deep and well-rounded market connectivity.

CCB London Branch became the first direct CIPS participant in the UK and in the Europe

China Construction Bank London Branch
Cross- border Interbank Payment System Co., Ltd.

On 27th March 2020, the People's Bank of China (PBoC) officially approved the Cross-border Interbank Payment System (CIPS) direct participant qualification for China Construction Bank London Branch (CCB London). China Construction Bank London Branch is the first overseas direct participant of CIPS in the United Kingdom and Europe.

CIPS is now an important financial infrastructure for cross border RMB business in China. CIPS complies with Principles for Financial Market Infrastructures and other international regulatory requirements. They provide clearing and settlement services for RMB cross-border and offshore businesses and offers a full range of settlement modes including real time gross and regular net settlement. Additionally, CIPS operating time covers the financial markets in all time zones around the world and supports various clearing and settlement needs for all RMB trading, reaching more than 167 countries and regions globally.

China Construction Bank London Branch (CCB London) has been the sole RMB clearing bank in the UK since June 2014. Currently, there are 74 financial institutions around the world acting as the bank's clearing counterparties. The total accumulative clearing volume for CCB London stands at RMB45 trillion and

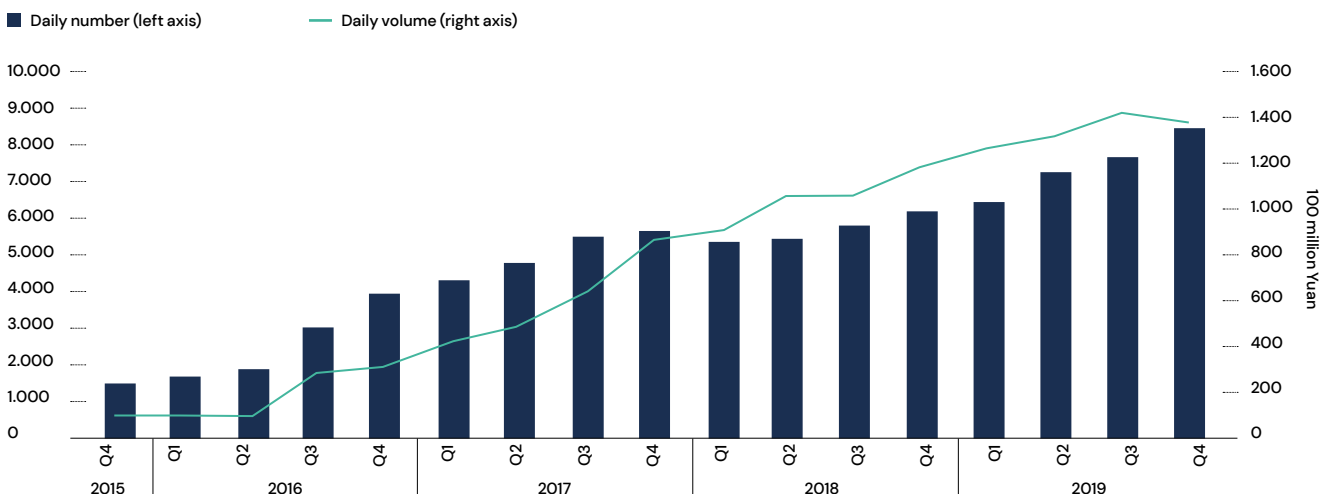
daily liquidity support up to RMB20 billion. As the largest RMB clearing bank outside Asia, CCB London is playing an important role to offer green channel for swift settlement for procurement of those crucial medical equipment including Personal Protective Equipment (PPE) during the global fight against Covid-19 virus.

With its exclusive direct membership of CIPS, it goes without saying that CCB London can further facilitate the cross border RMB business including strategic projects, urgent medical related payments between China and the UK, further reinforce London as a global RMB offshore centre, further promote RMB internationalisation and Belt & Road initiative around the world, and bring the Sino-UK financial and economic cooperation to the next level.

Brief Introduction on Cross-border Interbank Payment System (CIPS)

Cross-border Interbank Payment System (hereinafter referred to as the "CIPS") is a wholesale payment system authorized by the People's Bank of China (hereinafter referred to as the "PBOC"). Specializing in RMB cross-border payment clearing, CIPS takes efforts to provide reliable, efficient, convenient and low-cost clearing and settlement services. As one of the

Figure 1: CIPS system average daily transaction volume trend



Source: CIPS

important financial market infrastructures (FMIs) in China, CIPS has played a positive role in facilitating the global use of RMB, promoting two-way opening-up of China financial sector, as well as serving the Belt and Road Initiative (BRI) financing.

With growing demand for RMB in the cross-border transactions and the expanding scale of RMB cross-border business, it is imperative to put in place an RMB cross-border payment and clearing system. In 2012, the PBOC launched the construction of CIPS (phase 1). On 8th October 2015, CIPS (phase 1) was successfully put into operation, with 19 Direct Participants and 176 Indirect Participants. On 26th March, 2018, CIPS (phase 2) was launched on a pilot basis, with 10 Direct Participants. On 2nd May 2018, CIPS (phase 2) was in its full operation with other qualified Direct Participants. Compared to phase 1, phase 2 supports more settlement modes with financial market transactions and extends service hours (5×24 hours + 4 hours) can cover almost

all financial markets in every time zone and serve more types of Direct Participants.

The launch of CIPS was another milestone in the construction of China's financial market infrastructures, which marked the important progress in the development of China's modern payment system that integrated domestic and overseas payments of RMB. By the end of 2019, CIPS had 33 Direct Participants and 903 Indirect Participants (from 94 countries and regions) with an increase of 74% and 413% as compared to that in 2015, respectively. Through these Direct and Indirect Participants, the network of CIPS has reached 3000+ banking institutions over 167 countries and regions. In 2019, CIPS accumulatively processed 1.8843 million transactions of RMB cross-border payment with RMB33.93 trillion volume, an increase of 30.64% and 28.28% y-o-y respectively. Also, the daily numbers reached 7,537 transactions with RMB135.70billion volume.

Latest Policies and Major Events



On 18th December 2019, the People's Bank of China (PBoC) issued an announcement to further facilitate individual RMB cross-border remittance in Macao, raising the ceiling of Macao residents' remittance to their mainland RMB accounts under the same names from RMB50,000 to RMB80,000 per person per day.

On 19th December 2019, the China Banking and Insurance Regulatory Commission (CBIRC) released the Revised Implementation Rules on Administrative Licensing of Foreign-funded Banks. The Implementation Rules is in line with the Regulations on the Administration of Foreign-funded Banks, promoting the implementation of the opening up measures of the banking sector. It further delegates or adjusts the approval powers for the qualifications of some directors and senior executives of foreign-funded banks and for the opening of branches. It also further strengthens prudential supervision and makes clear to reserve

policy space for further streamlining of administration and delegation of powers in the specific areas such as the free trade zones.

On 20th December 2019, PBoC successfully issued 10 billion six-month RMB-denominated central bank bills in Hong Kong, with the bid-winning interest rate at 2.90%. The issue was well received by the market, with the total bid amount exceeding RMB29 billion, 2.9 times the issued amount. Subscribers included commercial banks, central banks, international financial organizations, funds and other offshore market investors from Europe, America and Asia.

On 20th December 2019, PBoC held a symposium on RMB internationalisation to review progress secured in RMB internationalization over the past ten years, exchange working experience, and make plans for cross-border RMB businesses at the next stage.



On 20th December 2019, CBIRC approved the establishment of a wealth management company in Shanghai jointly by Amundi Asset Management (55%) and Bank of China Wealth Management (45%). This is the first foreign-controlled wealth management company established in China, an important step to implement further opening-up of the financial sector.

From 2nd to 3rd January 2020, PBoC held its 2020 Work Conference in Beijing. The conference reviewed its main work in 2019, analysed current economic and financial situations, as well as, made arrangements for key tasks including, deepening of financial reform and opening in 2020. This review will advance RMB internationalisation in an active and prudent manner, push forward the reform of the foreign exchange administration system, and support pilot reform programmes of foreign exchange administration, especially in the pilot free trade zones (FTZs) and the free trade ports. The two-in-

one administrative framework of cross-border capital flow, namely macroprudential management plus micro regulation, will be improved.

On 13th January 2020, the State Administration of Foreign Exchange (SAFE) released the Circular of the State Administration of Foreign Exchange on the Improvement of Foreign Exchange Risk Management by Foreign Institutional Investors in the Interbank Bond Market (Circular), aiming to boost the opening up of foreign exchange markets. The Circular was designed to offer more foreign exchange hedging channels to foreign institutional investors in the interbank bond market. Foreign non-banking investors are allowed to enter the interbank foreign exchange market by dealing with domestic financial institutions over the counter or indirectly through becoming a prime broker; in addition to these two channels, foreign banking investors can access the interbank foreign exchange market directly.

Moreover, the business processes for foreign exchange derivatives transactions with foreign institutional investors are simplified and mechanisms for foreign exchange derivatives transactions are further improved, so as to optimize the collection of foreign exchange transaction information and reduce transaction costs of market players.

On 16th January 2020 (ET), China and the United States signed the Economic and Trade Agreement Between the Government of the People's Republic of China and the Government of the United States of America in Washington, D.C.

On 13th February 2020, PBoC approved Mastercard NUCC's Application for bankcard clearing institution preparations. Mastercard NUCC, a joint venture started by Mastercard in China, applied as a market entity to formally start preparing to create and operate a bank card clearing business in China. It will follow required procedures and apply to the PBoC for the start of business after preparations completed in a year.

On 13th February 2020, PBoC successfully issued two sets of RMB-denominated central bank bills in Hong Kong, including RMB20 billion three-month bills and RMB10 billion one-year bills, with the bid-winning interest rates at 2.55% and 2.60% respectively. The issue was well received by the market, with the total bid amount exceeding RMB83 billion, 2.8 times the issued amount. Subscribers included commercial banks, central banks, international financial organisations, funds and other offshore market investors from Europe, America and Asia.

On 14th February 2020, PBoC, CBIRC, China Securities Regulatory Commission (CSRC), SAFE and Shanghai Municipal People's Government Released the Opinions on Further Accelerating the Development of Shanghai as an International Financial Center and Providing Financial Support for the Integrated Development of the Yangtze River Delta Region. The Opinions provides 30 initiatives including advancing financial piloting in Lin-gang Special Area, accelerating the opening up of the financial industry in Shanghai at a higher level and financially supporting the integrated development of the Yangtze River Delta.

On 4th March 2020, PBoC, National Development and Reform Commission (NDRC), Minister of Finance (MOF), CBIRC, CSRC, SAFE jointly released the Work Plan for Coordinated Regulation of Financial Infrastructures in March. The coordinated regulation of financial infrastructures covers six types of facilities,

i.e. financial asset registration and custody systems, clearing and settlement systems (central counterparties engaged in centralized clearing businesses included), trading facilities, trading report repositories, major payment systems and basic credit reporting systems, as well as their operators.

On 16th March 2020, CSRC announced they would remove the foreign equity cap in securities companies from 1st April 2020. Qualified foreign investors can submit applications to establish new wholly-owned securities companies or change actual controllers in their existing joint ventures according to Chinese laws, regulations and applicable rules and service guides of the CSRC.

On 26th March 2020, PBoC successfully issued RMB10 billion worth of 6-month RMB-denominated central bank bills in Hong Kong, with a rate of 2.19%. In the context of increasing volatility of the global financial markets recently, this issue was well received by overseas investors, with the total bid amount exceeding RMB35 billion, 3.5 times the issued amount. Subscribers, including commercial banks, central banks, funds and other institutions from America, Europe and Asia as well as international financial organizations, actively participated in the subscription, demonstrating the strong attraction of RMB assets to overseas investors and reflecting the confidence of global investors in China's economy.

On 7th May 2020, China Banking and Insurance Regulatory Commission (CBIRC) announced that the regulator has approved China Pacific Insurance's application for its GDR issuance on the Shanghai - London Stock Connect.

On 7th May 2020, PBoC and SAFE issued the Regulations on Funds of Securities and Futures Investment by Foreign Institutional Investors (PBC & SAFE Announcement (2020) No. 2, hereinafter referred to as the Regulations), to standardise and simplify administrative requirements on the remittance and repatriation of funds as well as currency exchanges by foreign institutional investors, aiming to better facilitate foreign investors' participation in China's financial market. The Regulations will be officially implemented on 6th June 2020. The key points of the Regulations are as follows: Firstly, restrictions on investment quota of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (hereinafter referred to as Qualified Investors) are removed. Qualified Investors will no longer need to apply for any investment quota from SAFE. Instead, they shall entrust

their main custodians to make a registration with the SAFE. Secondly, Qualified Investors may choose currencies and the timing of inward remittance on their own decisions. Thirdly, the procedures for Qualified Investors' repatriation of securities investment income are significantly simplified, replacing special audit report on investment returns issued by a Chinese certified public accountant and tax clearance or tax filing certificates with Tax Commitment Letters signed by Qualified Investors. Fourthly, the limits on the number of custodians are scrapped. A single Qualified Investor may choose multiple domestic custodians, and appoint one custodian as the main custodian. Fifthly, foreign exchange risk and investment risk management mechanism for Qualified Investors' domestic securities investment are further improved. Lastly, the PBoC and the SAFE will strengthen the on-going and ex-post supervision. There before, the PBoC and SAFE announced to cancel the investment quota limitations of Qualified Investor on 10th September 2019, and released the Regulations draft for public comment in last December.

On 14th May 2020, PBoC issued two sets of RMB-denominated central bank bills in Hong Kong, including RMB20 billion three-month bills with a rate of 1.77% and RMB10 billion one-year bills with a rate of 1.78%. The issuance was well received by overseas investors, with the total bid amount exceeding RMB80 billion, nearly 2.7 times the issued amount. Subscribers included commercial banks, central banks, funds and other institutions from America, Europe and Asia as well as international financial organizations, demonstrating the strong attraction of RMB assets to overseas investors and reflecting the confidence of global investors in China's economy.

On 14th May 2020, Fitch (China) Bohua Credit Ratings Ltd., wholly owned by Fitch Ratings, received approval from Beijing Operation Office, PBoC and the National Association of Financial Market Institutional Investors (NAFMII) to rate financial institutions (including banks, non-bank financial institutions and insurers) and their securities, and structured finance bonds in China's interbank market. In January 2019, S&P Credit Rating (China) Co., Ltd. received first-of-its-kind approval to enter China domestic bond market.

On 14th May 2020, PBoC, CBRIC, CSRC and SAFE released the Opinions of Providing Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area. It proposed 26 specific measures across five areas, including promoting cross-

border trade and facilitating investment and financing in the Greater Bay Area, expanding the opening-up of the financial sector, enhancing the connectivity of financial markets and financial infrastructure, boosting the innovation of financial services in the Greater Bay Area, and preventing cross-border financial risks.

Appendix I

List of Dim Sum Bond (RMB Bond) Issuance in London

Issuer	Amount Issued (Rmb)	Coupon (%)	Issue Date	Maturity
FIRST ABU DHABI BANK P.J.S.C.	139,000,000	3.35	13/02/2020	13/02/2025
COMMONWEALTH BANK OF AUSTRALIA	200,000,000	3.26	22/01/2020	22/01/2025
QNB FINANCE LIMITED	500,000,000	4	21/01/2020	21/01/2030
EUROPEAN BANK FOR RECONSTRUCTION & DEVELOPMENT	1,000,000,000	2.6	15/01/2020	15/01/2023
EUROPEAN BANK FOR RECONSTRUCTION & DEVELOPMENT	1,000,000,000	2.6	15/01/2020	15/01/2023
QNB FINANCE LIMITED	135,000,000	3.91	14/01/2020	14/01/2025
QNB FINANCE LIMITED	219,000,000	3.89	10/01/2020	10/01/2025
NATWEST MARKETS PLC	35,000,000	3.48	31/12/2019	31/12/2024
FIRST ABU DHABI BANK P.J.S.C.	150,000,000	3.5	12/12/2019	12/12/2024
QNB FINANCE LIMITED	350,000,000	4.05	04/12/2019	04/12/2026
FIRST ABU DHABI BANK P.J.S.C.	240,000,000	3.5	29/11/2019	29/11/2024
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	200,000,000	3.21	21/11/2019	21/11/2024
FIRST ABU DHABI BANK P.J.S.C.	458,000,000	3.42	20/11/2019	20/11/2024
QNB FINANCE LIMITED	140,000,000	3.57	13/11/2019	13/11/2021
AGRICULTURAL DEVELOPMENT BANK OF CHINA	3,000,000,000	3.4	07/11/2019	06/11/2024
AGRICULTURAL DEVELOPMENT BANK OF CHINA	2,500,000,000	3.18	07/11/2019	06/11/2022
NATWEST MARKETS PLC	200,000,000	3.69	05/11/2019	05/11/2024
FIRST ABU DHABI BANK P.J.S.C.	845,000,000	3.22	23/10/2019	23/10/2024
QNB FINANCE LIMITED	165,000,000	3.6	22/10/2019	22/10/2024
EUROPEAN BANK FOR RECONSTRUCTION & DEVELOPMENT	490,000,000	2.44	19/09/2019	19/09/2022
FIRST ABU DHABI BANK P.J.S.C.	140,000,000	3.44	19/09/2019	19/09/2024
EUROPEAN BANK FOR RECONSTRUCTION & DEVELOPMENT	700,000,000	2.315	03/09/2019	03/09/2022
LLOYDS BANK PLC	200,000,000	3.31	03/09/2019	03/09/2024
COMMONWEALTH BANK OF AUSTRALIA	200,000,000	3.05	01/08/2019	01/08/2022
QNB FINANCE LIMITED	155,000,000	3.815	03/07/2019	03/07/2024
QNB FINANCE LIMITED	140,000,000	4.3	20/06/2019	20/06/2024
LLOYDS BANK PLC	70,000,000	3.45	19/06/2019	19/06/2022
WESTPAC BANKING CORPORATION	140,000,000	3.6	18/06/2019	18/06/2026
NATWEST MARKETS PLC	108,000,000	4.35	10/06/2019	10/06/2024
NATWEST MARKETS PLC	105,000,000	4.39	10/06/2019	10/06/2024
AGRICULTURAL DEVELOPMENT BANK OF CHINA	1,000,000,000	3.23	30/05/2019	29/05/2022
HITACHI CAPITAL (UK) PLC	100,000,000	3.65	08/05/2019	08/05/2023
QNB FINANCE LIMITED	200,000,000	3.8	25/04/2019	25/04/2022
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	150,000,000	3.535	24/04/2019	24/04/2023

Issuer	Amount Issued (Rmb)	Coupon (%)	Issue Date	Maturity
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	140,000,000	3.47	23/04/2019	23/04/2022
QNB FINANCE LIMITED	100,000,000	4.18	29/03/2019	28/03/2024
WESTPAC BANKING CORPORATION	150,000,000	3.68	27/03/2019	27/03/2024
FIRST ABU DHABI BANK P.J.S.C.	140,000,000	3.955	26/03/2019	26/03/2024
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	135,000,000	3.675	25/03/2019	25/03/2024
WESTPAC BANKING CORPORATION	150,000,000	3.67	22/03/2019	22/03/2024
NATWEST MARKETS PLC	40,000,000	4.62	20/03/2019	20/03/2024
FIRST ABU DHABI BANK P.J.S.C.	300,000,000	4	19/03/2019	19/03/2024
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	300,000,000	3.7	18/03/2019	18/03/2024
COMMONWEALTH BANK OF AUSTRALIA	250,000,000	3.805	11/03/2019	11/03/2024
COMMONWEALTH BANK OF AUSTRALIA	150,000,000	3.805	05/03/2019	05/03/2024
WESTPAC BANKING CORPORATION	150,000,000	3.76	04/03/2019	04/03/2024
QNB FINANCE LIMITED	135,000,000	3.925	28/02/2019	28/02/2021
FIRST ABU DHABI BANK P.J.S.C.	200,000,000	4.12	11/02/2019	11/02/2024
QNB FINANCE LIMITED	500,000,000	4.35	29/01/2019	29/01/2022
QNB FINANCE LIMITED	135,000,000	4.6	23/01/2019	23/01/2024
HITACHI CAPITAL (UK) PLC	200,000,000	4.75	29/10/2018	29/04/2022
WESTPAC BANKING CORPORATION	200,000,000	4.7	12/10/2018	12/10/2022
HITACHI CAPITAL (UK) PLC	600,000,000	4.6	27/09/2018	27/09/2021
ROYAL BANK OF CANADA	140,000,000	4.3	20/09/2018	20/09/2020
BANK OF MONTREAL	200,000,000	4.53	19/09/2018	19/09/2021
BANK OF MONTREAL	155,000,000	4.72	19/09/2018	19/09/2023
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	270,000,000	4.795	14/09/2018	14/09/2023
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	140,000,000	4.61	13/09/2018	13/09/2023
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	145,000,000	4.62	11/09/2018	11/09/2023
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	137,000,000	4.6	11/09/2018	11/09/2023
FIRST ABU DHABI BANK P.J.S.C.	650,000,000	4.5	10/09/2018	10/09/2021
ROYAL BANK OF CANADA	160,000,000	4.48	07/09/2018	07/09/2023
WESTPAC BANKING CORPORATION	190,000,000	4.6	07/09/2018	07/09/2023
WESTPAC BANKING CORPORATION	160,000,000	4.621	07/09/2018	07/09/2023
COMMONWEALTH BANK OF AUSTRALIA	80,000,000	4.52	07/09/2018	07/09/2023
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	140,000,000	4.6	04/09/2018	04/09/2023
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	140,000,000	4.3	24/08/2018	24/08/2021
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	138,000,000	4.63	24/08/2018	24/08/2023
WESTPAC BANKING CORPORATION	270,000,000	4.65	23/08/2018	23/08/2023
WESTPAC BANKING CORPORATION	140,000,000	4.35	15/08/2018	15/08/2023
WESTPAC BANKING CORPORATION	627,000,000	4.42	14/08/2018	14/08/2023
WESTPAC BANKING CORPORATION	140,000,000	4.51	01/08/2018	01/08/2028
ROYAL BANK OF CANADA	135,000,000	4.3	17/07/2018	17/07/2023
QNB FINANCE LIMITED	142,000,000	5.32	05/07/2018	06/07/2021
QNB FINANCE LIMITED	1,250,000,000	5.25	21/06/2018	21/06/2021
QNB FINANCE LIMITED	600,000,000	5.2	07/06/2018	07/06/2021

Issuer	Amount Issued (Rmb)	Coupon (%)	Issue Date	Maturity
FIRST ABU DHABI BANK P.J.S.C.	1,100,000,000	4.8	01/06/2018	01/06/2021
WESTPAC BANKING CORPORATION	200,000,000	4.77	30/05/2018	30/05/2023
CREDIT AGRICOLE CORP & INV BANK	200,000,000	4.72	29/05/2018	29/05/2023
QNB FINANCE LIMITED	1,000,000,000	5.1	14/05/2018	14/05/2021
COMMONWEALTH BANK OF AUSTRALIA	340,000,000	4.615	26/04/2018	26/04/2023
FIRST ABU DHABI BANK P.J.S.C.	900,000,000	4.8	29/03/2018	29/03/2021
QNB FINANCE LIMITED	200,000,000	5.5	20/03/2018	20/03/2021
HITACHI CAPITAL (UK) PLC	80,000,000	4.78	16/03/2018	16/04/2021
QNB FINANCE LIMITED	130,000,000	5.465	09/03/2018	09/03/2020
QNB FINANCE LIMITED	750,000,000	5.1	09/03/2018	08/03/2021
HITACHI CAPITAL (UK) PLC	50,000,000	4.6	27/02/2018	22/02/2022
COMMONWEALTH BANK OF AUSTRALIA	64,000,000	4.39	30/01/2018	30/01/2021
CREDIT AGRICOLE CORP & INV BANK	50,000,000	4.55	29/01/2018	29/01/2021
WESTPAC BANKING CORPORATION	500,000,000	4.35	19/01/2018	19/01/2021
FIRST ABU DHABI BANK P.J.S.C.	110,000,000	4.6	30/11/2017	30/11/2020
INTERNATIONAL FINANCE CORPORATION	19,000,000	3.9	13/11/2017	13/11/2020
HITACHI CAPITAL (UK) PLC	500,000,000	4.5	09/11/2017	09/10/2020
COMMONWEALTH BANK OF AUSTRALIA	1,500,000,000	4.2	26/10/2017	26/10/2020
HITACHI CAPITAL (UK) PLC	184,000,000	4.4	13/10/2017	13/10/2020
INTERNATIONAL FINANCE CORPORATION	75,000,000	3.91	11/10/2017	11/10/2022
ROYAL BANK OF CANADA	900,000,000	4.25	29/09/2017	29/09/2020
LLOYDS BANK PLC	30,000,000	5.23	31/03/2017	31/03/2022
COMMONWEALTH BANK OF AUSTRALIA	70,000,000	5.81	18/01/2017	18/01/2022
WESTPAC BANKING CORPORATION	65,000,000	4.8	15/12/2016	15/05/2020
COMMONWEALTH BANK OF AUSTRALIA	120,000,000	4.65	07/12/2016	07/12/2021
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	130,000,000	4.35	23/11/2016	23/11/2021
COMMONWEALTH BANK OF AUSTRALIA	90,000,000	4.06	02/11/2016	02/11/2021
COMMONWEALTH BANK OF AUSTRALIA	100,000,000	3.85	27/07/2016	27/07/2020
WESTPAC BANKING CORPORATION	130,000,000	4.19	12/05/2016	12/05/2021
WESTPAC BANKING CORPORATION	190,000,000	4.39	20/04/2016	20/04/2020
COMMONWEALTH BANK OF AUSTRALIA	180,000,000	5.07	07/03/2016	07/03/2021
CREDIT AGRICOLE CORP & INV BANK	125,000,000	4.1	05/08/2015	23/07/2020
CREDIT AGRICOLE CORP & INV BANK	50,000,000	4.2	05/08/2015	05/08/2020
AUSTRALIA & NEW ZEALAND BANKING GROUP LD	405,000,000	4	28/07/2015	28/07/2020
LLOYDS BANK PLC	100,000,000	4.4	24/07/2015	24/07/2020
LLOYDS BANK PLC	54,000,000	4.53	24/07/2015	24/07/2025
FIRST ABU DHABI BANK P.J.S.C.	200,000,000	4.79	17/03/2015	17/03/2020
CHINA DEVELOPMENT BANK	900,000,000	4.35	10/10/2014	19/09/2024
LLOYDS BANK PLC	200,000,000	4.62	17/01/2014	17/01/2024
LLOYDS BANK PLC	100,000,000	4.61	24/09/2012	24/09/2022

Appendix II

Summary of Bond Issuance by Oversea Issuers in China Interbank Bond Market

Type of issuer		Registration Amount (bn)	Issued Amount (bn)	Outstanding Amount (bn)	Issue Number
International Development Organization	ADB	2	2	0	2
	IFC	2	2	0	2
	NDB	13	6	6	3
Governments	ROK	3	3	0	1
	BC, CANADA	6	4	1	2
	POLAND	6	3	0	1
	HUNGARY	3	3	3	2
	UAE	3	2	2	1
	SAXONY GERMANY	6	-	0	0
	PHILIPPINE	7.46	3.96	3.96	2
	PORTUGAL	5	2	2	1
	AUSTRIA	7	-	-	
Financial Institutions	HSBC HK	1	1	0	1
	BOC HK	10	10	0	2
	STANDARD CHARTERED HK	2	1	0	1
	CHONG HING BANK	3	1.5	0	1
	NATIONAL BANK OF CANADA	5	3.5	0	1
	CITIC BANK INTERNATIONAL	3	3	3	1
	BANK OF MALAYA	6	3	3	3
	MIZUHO BANK	0.5	0.5	0.5	1
	BANK OF TOKYO-MITSUBISI UFJ	3	1	1	1
	ABC INTERNATIONAL	3	3	3	1
	CCB ASIA	6	-	-	-
	WING LUNG BANK	10	-	-	-
	ICBC ASIA	3	-	-	-
	UNITED OVERSEAS BANK	2	2	2	1
	CASSA DEPOSITI E PRESTITI S.P.A	5	1	1	1
CRÉDIT AGRICOLE	5	1	1	1	

Type of issuer	Registration Amount (bn)	Issued Amount (bn)	Outstanding Amount (bn)	Issue Number	
Non-financial Institutions	DAIMLER	95	60	31	25
	CHINA MERCHANTS HK	95	0.5	0	1
	CHINA RESOURCES LAND	95	20	18	7
	SMIC	95	9.6	4.5	7
	VEOLIA ENVIRONMENT	25	3.5	1.5	4
	CHINA RESOURCES CEMENT	13.5	3.5	3	2
	HENGAN INTERNATIONAL	8	3	0	2
	SINOTEC	12	6.5	4.5	4
	WHARF	20	6	2	2
	CNTHM	9.5	7.3	4.8	3
	CHINA MERCHANT PORT	10	4	2.5	2
	GLP	10	7.6	7.6	6
	JOY CITY	10	1	1	1
	CPCED	5	0.8	0.8	1
	CHINA JINMAO	16	8	8	3
	CHINA GAS	14.4	4.8	4.8	3
	HUARONG INTERNATIONAL	3	3	3	1
	COSCO	10	10	10	4
	BOC GROUP INVESTMENT	8	3.5	3.5	2
	KUNLUN ENERGY	10	-	0	0
	SHIMAO PROPERTIES	8	-	0	0
	LONGFOR PROPERTIES	8	2	2	2
	SUN HUNG KAI PROPERTIES	10	1.2	1.2	1
	COUNTRY GARDEN	9.5	-	0	0
	CHINA MENGNIU	15	3	2	3
	CHINA ORIENT INTERNATIONAL ASSET MANAGEMENT LIMITED	2.8	-	0	0
	CHINA WATER AFFAIRS GROUP LIMITED	3	0.2	0.2	1
	HANG LUNG PROPERTIES	10	1	1	1
	AIR LIQUIDE S.A	10	2.2	2.2	2
	YUEXIU TRANSPORT	2	2.5	2.5	2
TRAFIGURA GROUP	2.35	2.24	2.24	4	
BEWG	16.5	8	8	6	
WANT WANT CHINA	8	0.5	0	1	
BMW	20	9.5	9.5	3	
Total (RMB Bond)	582.51	257.4	173.8	139	
International Bank for Reconstruction and Development (IBRD)	18.63	4.65	4.65	1	
	(2 bn SDR)	(0.5 bn SDR)	(0.5 bn SDR)		
Standard Chartered HK	0.93	0.93	0	1	
	(100 M SDR)	(100 M SDR)	(100 M SDR)		
Total (RMB Equivalent)	602.07	262.98	173.8	141	

Appendix II

Currency swap between China and the UK

In June 2013, the PBoC and BoE signed a bilateral currency swap agreement of RMB200 billion/GBP20 billion. In October 2015, the PBoC and BoE renewed the swap agreement and increased the size to RMB350 billion/GBP35 billion, effective for three years. In November 2018, the PBoC and BoE renewed the swap agreement again and the scale remained unchanged, effective for three years.

Clearing bank

In March 2014, the PBoC and BoE signed a Memorandum of Understanding to establish RMB clearing arrangements in London. In June 2014, the PBoC authorized China Construction Bank (London) to serve as the RMB clearing bank in London. In July 2016, the PBoC approved the transfer of clearing functions from China Construction Bank (London) to China Construction Bank, London Branch. By the end of February 2020, Cross-Border Inter-Bank Payments System (CIPS) had 1104 indirect participating banks, adding 54 since our last report. Among them, 15 participating banks were from the UK, accounting for 1.36% of the total.

RQFII

In October 2013 China announced the RQFII program for UK with a quota of RMB80 billion. In a bid to deepen the reform and opening up of the financial market, China removed the investment quota limits under the RMB qualified foreign institutional investors (RQFII) on 10th September.



THE PEOPLE'S BANK OF CHINA
REPRESENTATIVE OFFICE FOR EUROPE

