

Top Biz News

Foreign firms may sell bonds

(China Daily/Agencies)
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Foreign companies may be able to sell bonds in China within a year as the government expands its domestic capital markets, according to China International Capital Corp (CICC), the No 2 underwriter of yuan debt this year.

"The first group of future international issuers is likely to be blue-chip companies," John Cheng, CICC's investment banking managing director, said in an interview on Tuesday.

Overseas "firms will increase their presence in China and they'll need to match their growing yuan assets with instruments in yuan, be it debt or equity," he said.

China is urging domestic companies to tap bond and equity markets for funding and reduce reliance on banks after regulators said record loan growth poses risks. Authorities will consider allowing sales of high-yield corporate bonds to provide new sources of funding, People's Bank of China Deputy Governor Hu Xiaolian said on Nov 18.

Outstanding corporate debt rose almost threefold to 2.1 trillion yuan at the end of October compared with 2006, Hu said at a forum in Beijing.

The government has encouraged a \$1.3 trillion credit boom this year to complement its monetary and fiscal stimulus plans, propelling the economy last quarter to its fastest pace of expansion in a year.

The government may need to rein in loan growth to "prevent the emergence of inflationary pressures and asset bubbles", the Organization for Economic Cooperation and Development said on Nov 20.

The five biggest banks - Industrial & Commercial Bank of China Ltd, China Construction Bank Corp, Bank of China Ltd, Agricultural Bank of China and Bank of Communications Ltd - extended a record 4.7 trillion yuan of loans in the first nine months. They submitted money raising plans to regulators after that record lending eroded their capital, people familiar with the matter said.

Domestic debt sales almost doubled to 1.8 trillion yuan this year, according to data compiled by Bloomberg. Beijing-based CICC underwrote 174 billion yuan of transactions, ranking second after ICBC, the world's biggest bank by market value.

Minor modifications to regulations would be required for foreign companies to be able to tap the market, Cheng said. Some "companies have expressed interest but no formal applications have been made", he said, declining to name any companies.

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Coca-Cola Co, the world's largest soft-drink maker, said on Nov 23 it plans to more than double bottling plants in China over the next decade, aiming to triple sales.

Inter IKEA Center Group, a developer of shopping malls that have an IKEA store as an anchor tenant, plans to invest as much as \$1.2 billion in the world's fastest-growing economy over the next five years, it said on Tuesday.

Coca-Cola Hong Kong-based spokesman Geoff Walsh wasn't available for immediate comment. Kastrup, Denmark-based Inter IKEA Center didn't respond to e-mails to its Shanghai office.

The Manila-based Asian Development Bank and the World Bank's International Finance Corp unit are among supra-nationals that have sold so-called panda bonds, or yuan-denominated notes issued by foreign entities in China, Bloomberg data show.

Domestic sales by overseas companies would probably differ from the panda market in that they wouldn't be coordinated by the Ministry of Finance, Cheng said.

HSBC Holdings Plc's China unit joined a group managing a bond sale for Bank of Shanghai Co, becoming the first foreign lender to participate in the underwriting of a yuan-denominated financial bond in China, it said.

the first foreign lender to participate in the underwriting of a yuan-denominated municipal bond in China, it said on Nov 17. A unit of the London-based bank sold yuan bonds in Hong Kong in June.

As China's corporate bond market develops, so will its fledgling derivatives market, according to Cheng.

"When you buy bonds in China now you cannot lay off different risk components," he said.

"In order to do this, domestic derivatives instruments are needed. For a full market to develop, you need these auxiliary tools."

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