

The Standard Friday, February 10, 2006

# Markets

Post-it® Fax Note 7671

Date: Feb 10, '06	Pages: ONE
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## PBOC lists rules for interest rate swaps

China's central bank published rules Thursday permitting yuan interest rate swaps, the latest step in the liberalization of the country's financial markets.

Chinese banks have been awaiting the regulations so they can start hedging their exposure to changes in interest rates by exchanging one stream of interest income for another.

"The purpose of allowing interest rate swaps on a trial basis is to meet the demand from investors in the interbank debt market to manage risk and also to manage their asset-liability," the People's Bank of China said in a statement.

"The step is also an inevitable part of the process of speeding up market-oriented interest rate reforms," the bank said on its Web site.

China Everbright Bank and China Development Bank signed an agreement in October to swap interest rates on a notional principal of five billion yuan (HK\$4.8 billion), but they had been waiting for the central bank's rules and final approval.

Ralph Liu, Everbright Bank's chief investment officer, said this had not been given. He linked the new central bank rules to very significant.

"This allows domestic firms to actively manage their interest risks and better compete with overseas rivals," Liu told Reuters.

Under the deal, Everbright Bank agreed to exchange a 10-year fixed interest rate of 2.95 percent for a floating



The lender and China Development Bank have inked a deal to swap interest rates on a notional principal of five billion yuan. REUTERS

rate linked to the one-year yuan deposit rate, now at 2.25 percent. Everbright, China's sixth-largest commercial bank, last month became the country's first lender to offer fixed-rate mortgages.

Everbright plans to use the swap to hedge the risk from mismatch between those long-term mortgages and its mostly short-term deposits, Liu said.

In another liberalization move, the official *South China Morning Post* reported Thursday that the central bank would

set up a mechanism that would let it periodically adjust its rediscount rate, which has been fixed at 3.24 percent since March 2004.

Further steps would include adjusting benchmark lending rates and freeing up large-fund deposits, the paper quoted unidentified sources as saying.

The central bank said it would gradually expand the pilot interest rate swaps scheme to help banks' cash risk

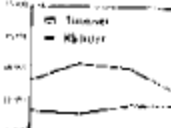
The reference rates for such swaps would be based on benchmark interbank bond market rates and the one-year bank deposit rate set by the central bank, it said.

The central bank said last August that China would launch interest rate derivatives as soon as possible, building on July's abolition of the yuan's rigid peg and move towards greater currency flexibility.

### SNAPSHOT

#### Hang Seng Index

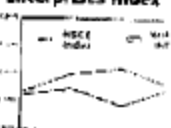
CLOSE: 10,433  
RANGE: 10,300-10,500



#### Hang Seng Sectors

Sector	Change	Close
Hang Seng All-Share	+0.1%	10,433
Property	+0.2%	10,450
Healthcare	+0.1%	10,400
Consumer Goods	+0.1%	10,350
Technology	+0.1%	10,300
Financials	+0.1%	10,250

#### Hang Seng China Enterprises Index



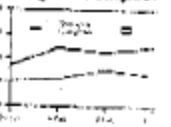
#### Top HSI Winners

Company	Change (%)
China Mobile	+1.2%
China Resources	+0.8%
China Resources	+0.7%
China Resources	+0.6%
China Resources	+0.5%

#### Top HSI Losers

Company	Change (%)
China Resources	-0.3%
China Resources	-0.4%
China Resources	-0.5%
China Resources	-0.6%
China Resources	-0.7%

#### Shanghai Composite



#### China Indexes

Index	Change (%)
Shanghai	+0.1%
Hang Seng	+0.1%
China Resources	+0.1%
China Resources	+0.1%

#### Lotte disappoints

Lotte, a South Korean conglomerate, reported a disappointing earnings report, leading to a decline in its stock price.

#### Regional Roundup

Region	Change (%)
Asia	+0.1%
Europe	+0.1%
US	+0.1%
Latin America	+0.1%
Africa	+0.1%
Oceania	+0.1%

TOTAL P. 01

## Auto rally steers otherwise listless trade

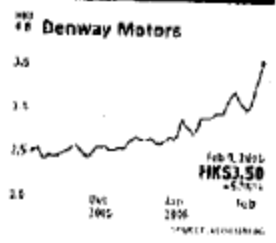
Hong Kong stocks edged up 0.26 percent Thursday as a rally in auto shares offset an otherwise listless trading day, while selling pressure continued on mainland Chinese stocks.

The benchmark Hang Seng index ended at 10,433.42, after recovering on a rise of 0.1 percent early on.

The China Enterprises Index of H shares fell 0.22 percent, adding to Wednesday's biggest one-day percentage drop since last August.

Tencent rose HK\$3.0 billion, down as Wednesday's HK\$34.8 billion, as the stock edged up 50 points or 0.1 percent to 15,420 on the Hang Seng.

"People are on the sidelines as some sectors are out of the market's bullish rhythm," said a broker.



"The Hang Seng will not be as good as we would like," Liu added, noting that property shares are still being shunned by investors on interest rate hike worries.

The Hang Seng charged up 6 percent in the first two weeks of the year, but has since given back almost half the gain.

As H shares remained under selling pressure for a second day, after a 21 percent surge from the start of the year, Liu said he has reduced his China play holdings by 70 percent.

Auto led the market up for the third consecutive day, as Denway Motors climbed 5.26 percent to HK\$3.50 and Dong Feng Group surged 4.81 percent to HK\$2.75. Geely Automobile Holdings advanced 2.86 percent to HK\$0.72.

China Ocean Shipping (Group) climbed 0.44 percent to HK\$1.10.

Pinus Port Authority sought increased access to European markets.

Among the day's biggest losers was Boustead Holdings, which plunged 12.18 percent to HK\$1.91 after warning of a loss in 2005 due to a substantial increase in rental expenses and less competition in domestic real estate.

The Link REIT rose for a second day, surging 9.3 percent, to HK\$16.35.

The Link is seeking to refinance HK\$12.5 billion of debt to reduce borrowing costs by extending the maturity, said bankers bidding to arrange the financing Wednesday.

CIIF Real Estate Investment Trust added 2.2 percent, to HK\$3.55. Pricer