

China Construction Machinery & HDT

China Local Government Bond Tracker

As a major source of fund to finance the infrastructure spending in China, the local government bond has been playing an important role and the progress of issuance provides good indication to the end demand for infrastructure related segments such as construction machinery, heavy-duty truck (HDT) and building materials. We introduce the China Local Government Bond Tracker to keep track of the high frequency data of special bond issuance. Preliminary data shows that the special bond issuance amount (new issue & refinancing) increased by 30% YoY in 1-19 Oct 2021, suggesting a moderate improvement.

- Special bond new issue amount dropped 30% in 9M21.** Early this year, the local government special bond new issue quota is set at RMB3.65trn (versus RMB3.75trn / RMB2.15trn in 2020/2019). In 2020, the new issue amounted to RMB3.6trn, marked a record high. In early 2021, due to the less pressure to support the economy through the scale-up of local government bonds, the new issue amount dropped 55% YoY to only RMB1trn in 1H21. In Jul, the Politburo meeting delivered a clear message about “maintaining a reasonable progress of local government bond issuance”, which suggested a speed-up of bond issuance. In 9M21 the new issue amounted to RMB2.37trn, with the YoY decline narrowed to 30%. Still, it accounted for only 63% of the full year quota.
- Special bond issue amount increased 30% YoY in 1-19 Oct 2021.** According to the preliminary data from the Ministry of Finance, the bond issue amount (new issue + refinancing) was RMB140bn during the period, up 30% YoY (due to low base) but down 65% MoM (due to National Day holiday in early Oct). The coupon rate ranged from 2.49% to 3.57%. Jiangxi, Jiangsu and Tianjin accounted for ~74% of the total issuance.

Special bond issuance between 1st and 19th Oct (regional breakdown)

Province	Principal amount	% of total
	RMB bn	
Jiangxi	49.7	35.6%
Jiangsu	27.1	19.4%
Tianjin	26.3	18.9%
Shandong	17.3	12.4%
Hubei	16.0	11.4%
Sichuan	2.3	1.6%
Inner Mongolia	0.9	0.6%
Total	139.6	100.0%

Source: Ministry of Finance, CMBIS

- Stock implication.** We expect the gradual improvement of bond issuance will lend support to the demand for construction machinery and HDT in 1Q22E. Maintain **BUY** on key names such as **SANY Heavy (600031 CH)**, **Weichai Power (2338 HK / 000338 CH)**, **Zoomlion (1157 HK / 000157 CH)** and **Zhejiang Dingli (603338 CH)**.

OUTPERFORM
(Maintain)

China Capital Goods

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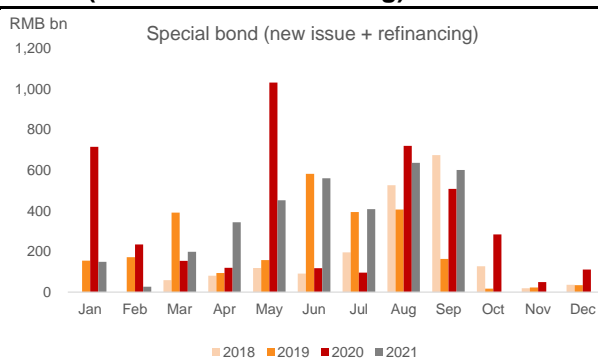
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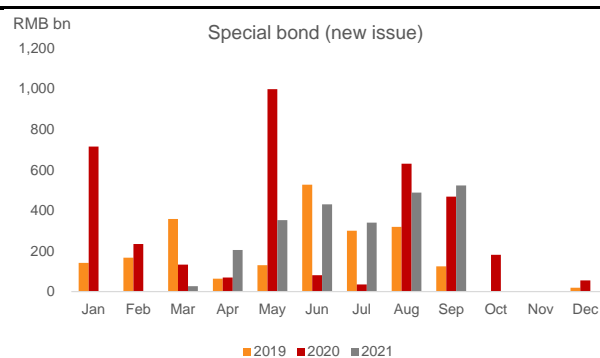
Figure 1: Special bond new issue between 1st and 19th Oct 2021

Bond code	Province	Date of issuance	Maturity	Principal amount	Coupon rate
			Years		
2171045	Jiangsu	19/10/2021	7	4.1	3.11
2171048	Jiangsu	19/10/2021	15	3.0	3.49
2171047	Jiangsu	19/10/2021	15	17.4	3.49
2171046	Jiangsu	19/10/2021	10	2.6	3.13
2171016	Jiangxi	19/10/2021	10	6.9	3.23
2171017	Jiangxi	19/10/2021	15	15.7	3.59
2171018	Jiangxi	19/10/2021	20	4.3	3.63
2171019	Jiangxi	19/10/2021	30	10.3	3.67
2171015	Jiangxi	19/10/2021	7	9.1	3.21
2171014	Jiangxi	19/10/2021	5	3.4	3.07
2171035	Shandong	18/10/2021	30	1.8	3.65
2171033	Shandong	18/10/2021	15	3.1	3.58
2171034	Shandong	18/10/2021	20	5.7	3.61
2171032	Shandong	18/10/2021	10	2.5	3.21
2171036	Shandong	18/10/2021	7	4.2	3.19
2171030	Sichuan	15/10/2021	20	2.3	3.59
2171003	Inner Mongolia	14/10/2021	5	0.9	3.03
2171024	Tianjin	13/10/2021	15	11.5	3.55
2171025	Tianjin	13/10/2021	15	0.9	3.55
2171022	Tianjin	13/10/2021	5	0.6	2.91
2171021	Tianjin	13/10/2021	3	1.9	2.71
2171026	Tianjin	13/10/2021	20	3.2	3.57
2171027	Tianjin	13/10/2021	30	3.0	3.61
2171023	Tianjin	13/10/2021	10	5.2	3.18
2171006	Hubei	12/10/2021	3	4.9	2.69
2171005	Hubei	12/10/2021	2	4.2	2.67
2171008	Hubei	12/10/2021	7	1.8	3.13
2171009	Hubei	12/10/2021	10	1.8	3.16
2171007	Hubei	12/10/2021	5	3.2	2.99
2171004	Hubei	12/10/2021	1	0.1	2.49
Total				139.6	

Source: Ministry of Finance, CMBIS

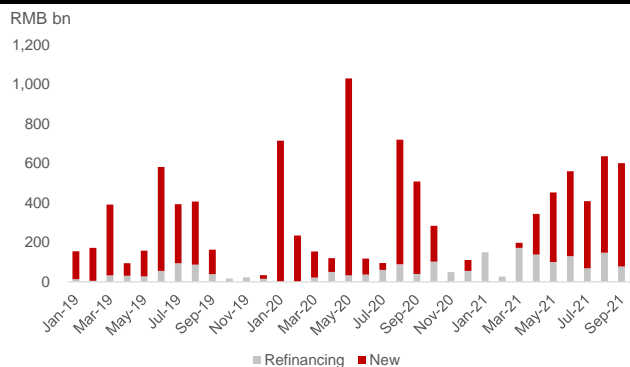
Figure 2: Monthly local gov't special bond issue amount (new issue + refinancing)

Source: Ministry of Finance, Wind, CMBIS

Figure 3: Monthly local gov't special bond new issue amount on the rise

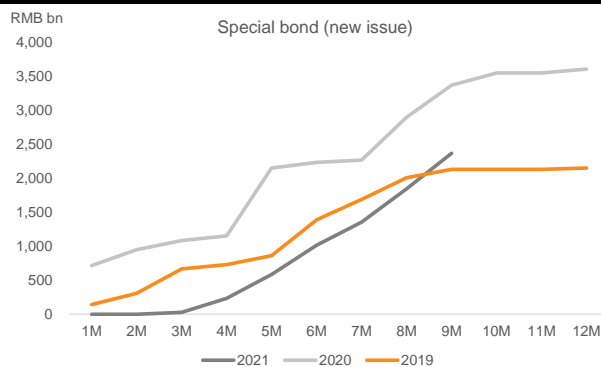
Source: Ministry of Finance, Wind, CMBIS

Figure 4: Monthly special bond issuance (new issue vs refinancing)



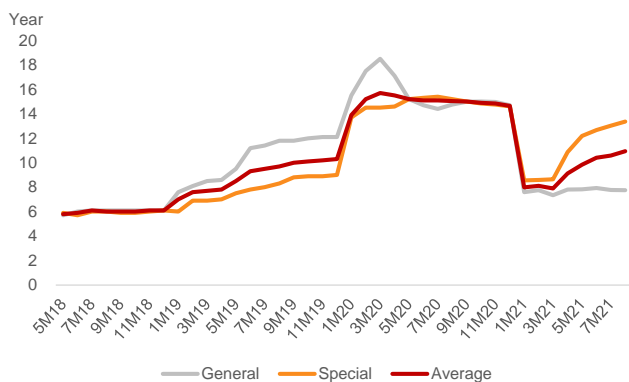
Source: Ministry of Finance, Wind, CMBIS

Figure 5: Local gov't special bond new issue amount (YTD)



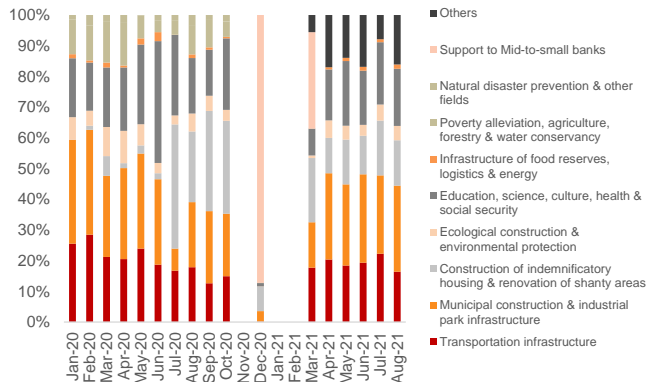
Source: Ministry of Finance, Wind, CMBIS

Figure 6: Average maturity of special bonds (YTD)



Source: Ministry of Finance, CMBIS

Figure 7: Use of proceeds from the newly issued local gov't bonds (incl. general and special bond)



Note: There were no newly issued bonds in Nov 2020 and Jan-Feb 2021.

Source: Ministry of Finance, CMBIS

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