

China's onshore bond market - the second largest bond market in the world - continues to grow as investors seek to capture attractive yields offered by China bonds. A broadening array of ETFs are presenting individual investors with opportunities to access this emerging asset class. Read on to learn the fundamentals of China bonds!

A Fast-Growing and Diversified Market

Total outstanding amount of China's onshore bonds, 2021

RMB 130 tn

2012-2021 CAGR

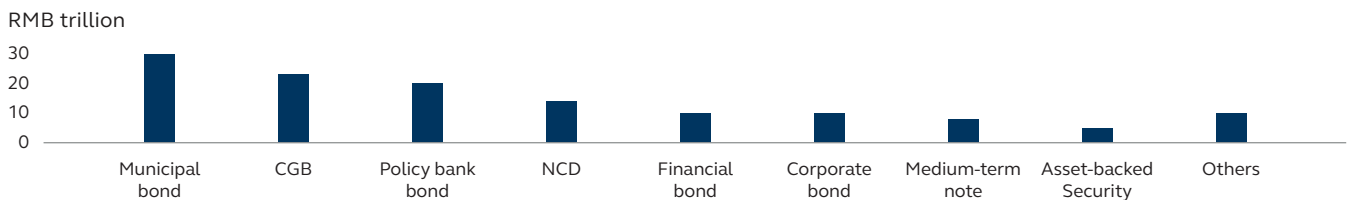
19.6%

Top 3 most traded bond types

Trading value for the full year of 2021, (RMB trillion)



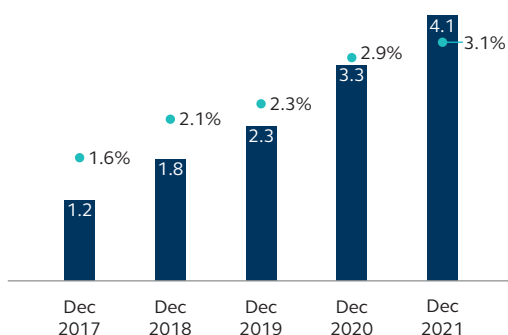
Composition of the outstanding value of China's onshore bonds by bond type, 2021



Market Opening-up and Internationalisation

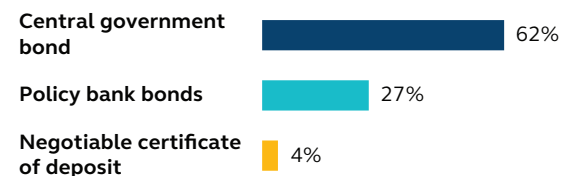
The opening up of market access channels, coupled with the inclusion of China bonds into global indices since April 2019, has unleashed significant inflows into China bonds. However, the foreign share of China bonds remains low...

Foreign ownership in China's onshore bonds



Top 3 foreign-owned China bond types

Total foreign holdings, 2021 (%)



Total foreign holdings of China bonds: RMB 3.97 trillion

■ Foreign ownership in China's onshore bonds (RMB trillion)
● As % of total outstanding amount of China's onshore bonds

Source: Wind, Shanghai Clearing House and China Central Depository & Clearing.

Risk-return Profile

China bonds offer an attractive yield premium and a higher return-to-volatility ratio than bonds in other major markets.

Risk-return profile of selected bond indices¹

	China	Europe	United States	Global
10-year return (A)	63%	48%	43%	27%
10-year annualised return volatility (B)	3.2%	3.0%	3.3%	4.5%
Return-to-volatility ratio [(A)/(B)]	19.6	16.2	13.2	6

CGB yields vs. US Treasury yields²

Nominal 10-year yield (%)

CGB yields **2.8%** US Treasury yields **2.3%**

Diversification Benefits

The low correlations between China bonds with other major bond markets provide portfolio diversification benefits for investors.

Correlation of returns between China bonds and other major bond markets³

	China	Global	United States	Europe	United Kingdom
China	-	0.2	0.0	0.0	0.2
Global	0.2	-	0.6	0.4	0.8
United States	0.0	0.6	-	0.9	0.4
Europe	0.0	0.4	0.5	-	-
United Kingdom	0.2	0.8	0.4	-	-



Opportunities in ETFs

With attractive yields and great resilience during market volatility, China bonds can bring diversification benefits and a relatively stable source of income to investors. For individual investors looking to tap the potential of China bonds, the Hong Kong ETF market has one of the most diverse China bond ETF suite among global exchanges.

Benefits of investing in Hong Kong-listed China bond ETFs:

Reduced transaction cost with trading tariff and stamp duty waiver

Trade in the Asian timezone to optimise intra-day price discovery

A liquid market with HK\$12.4 Bn AUM in China bond ETFs

Transparent underlying holdings and prices

- 10-year annualised return volatility is calculated as the standard deviation of daily returns times the square root of 252 (the assumed number of trading days in a year). China: Bloomberg Barclays China Aggregate Index (USD unhedged); Global: Bloomberg Barclays Global Aggregate Index (USD unhedged); United States: Bloomberg Barclays US Aggregate Index (USD unhedged); Europe: Bloomberg Barclays Euro Aggregate Index (USD unhedged).
- Source: China: China Bond 10-year Government Bond Yield (<https://yield.chinabond.com.cn/>, as of 31 March 2022). United States: US 10-yr Treasury Bond (US Department of the Treasury, as of 31 March 2022.)
- Source: Bloomberg, from 2011 to 2021, with United Kingdom: Bloomberg Barclays UK Aggregate Index (USD unhedged). Please refer to footnote 1 for other indices.

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