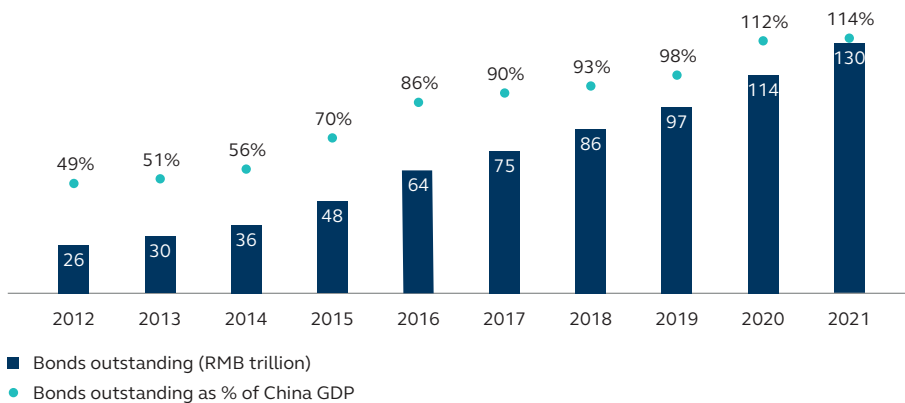


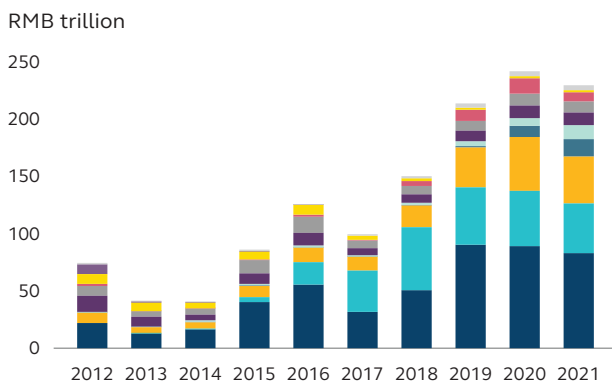
China's onshore bond market has grown rapidly over the past decade supported by China's market opening initiatives and financial reforms. Now the world's second largest, the onshore bond market continues to attract investor interest with its compelling risk-adjusted returns and diversification benefits.

Overview of China's onshore bond market

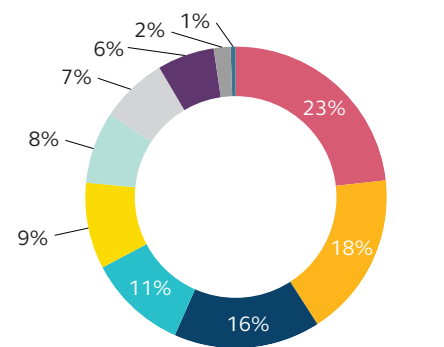
Growth of China's onshore bond market over the past decade



Trading value in China's onshore bond market by bond type (2012 – 2021)



Outstanding value of China's onshore bond market by bond type (2021)



- Policy Bank Bond
- Financial Bond
- Corporate/ Enterprise Bond
- Negotiable Certificate of Deposit
- Medium-term Note
- Central Bank Bill
- Central Government Bond
- Short-term Financing Bond
- Asset-backed Security
- Convertible Bond
- Municipal Bond
- Others

Source: Wind. Data as of 31 December 2021.

Market access channels for institutional investors

CIBM

The China Interbank Bond Market (CIBM) is regulated by the People's Bank of China (PBOC) and operated by the China Foreign Exchange Trade System (CFETS, or the National Interbank Trading Centre).

It is the main trading venue in China's onshore bond market in terms of total bonds outstanding. As of end-2020, bonds registered in the CIBM accounted for about 86% of total bonds outstanding¹.

On-exchange market

The on-exchange market on the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) is regulated by the China Securities Regulatory Commission (CSRC).

OTC market (commercial banks' counter market)

The OTC market is regulated by the PBOC. This is a market segment for general and retail investors to trade debt financing instruments issued and traded in the CIBM.

The types of bond traded in the OTC market are limited to CGBs, policy bank bonds and enterprise bonds.

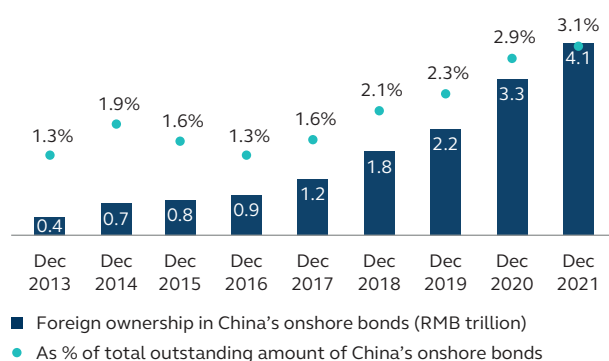


Increasing foreign participation

By the end of 2021, international investors held RMB 4.1 trillion of onshore bonds, representing 3.1% of the total amount of outstanding Chinese bonds.

Their total holdings have grown rapidly since the launch of CIBM Direct and Bond Connect in February 2016 and July 2017, respectively.

Foreign ownership in China's onshore bond market



Channels for international investors to enter China's onshore bond market

	QFII / RQFII	CIBM Direct	Bond Connect
Launch time	Dec 2002 / Dec 2011	Jul-2016	Jul 2017 (Northbound)
Applicable market segments	CIBM, on-exchange market	CIBM	CIBM
Quota limit	No quota limit since May-2020	No quota limit	No quota limit
Currency	Foreign currencies / RMB	Foreign currencies / RMB	RMB
Scope of investment	Cash bonds traded in CIBM and on-exchange market, mutual funds, asset-backed securities, bond forwards, interest rate swaps, forward rate agreements, bond lending and bond repos	Cash bonds traded on CIBM, bond lending, bond forwards, interest rate swap and forward rate agreements and bond repos	Cash bonds traded on CIBM
Eligible investors	Foreign institutional investors approved by CSRC who meet certain qualifications to invest in equities and bonds in onshore markets	Foreign institutional investors approved by PBOC, including sovereign institutions and other private investors	
Regulators	CSRC, PBOC, SAFE	PBOC, SAFE	PBOC

1. Source: Wind, China Central Depository and Clearing Co., Ltd, Shanghai Clearing House.



Inclusion into international indexes

Bloomberg Barclays Global Aggregate Index (GAI)

In March 2018, Bloomberg announced that it will add RMB-denominated CGBs and policy bank bonds to the GAI. Initial projections estimated that China's weight will be 5%-6% upon full inclusion. The inclusion started from April 2019 with a 20-month phase-in period and completed in November 2020.

JP Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified Index

In September 2019, JP Morgan stated that the bank will start a phased inclusion of CGBs into its benchmark emerging-market indices. China's weight will be capped at 10% of the GBI-EM global diversified and narrow diversified indices. The inclusion started from 28 February 2020 with a 10-month phase-in period and completed in December 2020.

FTSE World Government Bond Index (WGBI)

In March 2021, FTSE Russell confirmed that CGBs will be included into the WGBI. FTSE estimated that China's weight will be around 5.25%, based on the latest available data then. The inclusion has officially started from 29 October 2021, with a 36-month phase-in period.

Benefits of investing in China bonds

Risk-return profile of selected bond indices²

	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	6.0

CGB nominal yield rates³

10-year yield **2.8%** 5-year yield **2.6%** 2-year yield **2.3%**

Diversification benefits

Correlation of returns between China bonds and other major bond markets⁴

	China	Global	United States	Europe	United Kingdom
China	-	0.18	0.02	0.04	0.17
Global	0.18	-	0.60	0.44	0.75
United States	0.02	0.60	-	0.48	0.42
Europe	0.04	0.44	0.48	-	0.40
United Kingdom	0.17	0.75	0.42	0.40	-



2. 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). Observation period: 2011 – September 2021. Calculation based on the indexes detailed in footnote 4.

3. Source: <https://yield.chinabond.com.cn/>, as of 30 April 2022.

4. Source: Bloomberg, from 2011 to September 2021. 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); United Kingdom: Bloomberg Barclays UK Aggregate Index (USD unhedged).

Opportunities in Hong Kong-listed ETFs

With attractive yields and great resilience during market volatility, China bonds can bring diversification benefits and a relatively stable source of income to investment portfolios. For 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\$12.1 Bn AUM⁵ in China bond ETFs

Transparent with underlying holdings and prices

ETF vs bond mutual funds

Compared to mutual funds, ETFs are more liquid and have attractive cost-return profiles. Also, cost incentives in Hong Kong may promote the growth of a diverse range of fixed income and money market ETFs to better serve offshore investors and drive foreign participation in the onshore bond market.

Liquidity and transparency

ETFs are tradable in the secondary market and have daily disclosure of portfolio composition.

Price discovery

While bond mutual funds are usually not available for trading on exchanges, bond ETFs are listed and traded on exchanges. They contribute to the price discovery of the underlying bonds, whether under normal or volatile market conditions.

Product list

Stock code	Currency	Product name	Underlying index
2813 82813 9813	HKD RMB USD	ChinaAMC Bloomberg China Treasury + Policy Bank Bond Index ETF	Bloomberg China Treasury + Policy Bank Index
2817 82817 9817	HKD RMB USD	Premia China Treasury and Policy Bank Bond Long Duration ETF	ICE 10+ Year China Government & Policy Bank Index
2829 82829 9829	HKD RMB USD	iShares China Government Bond ETF	FTSE Chinese Government Bond Index
3001 83001 9001	HKD RMB USD	Premia China USD Property Bond ETF	ICE 1-5 Year USD China Senior Real Estate Corporate Constrained Index
3079 83079	HKD RMB	CICC Bloomberg China Treasury 1-10 Years ETF	Bloomberg China Treasury 1-10 Years Index
3080	HKD	Ping An of China CSI 5-10Y CGB ETF	CSI 5-10y Liquid CGB Index
3125 83125 9125	HKD RMB USD	iShares Short Duration China Policy Bank Bond ETF	FTSE Chinese Policy Bank Bond 6 Months-3 Years Index
3199 83199	HKD RMB	ICBC CSOP Bloomberg China Treasury + Policy Bank Bond Index ETF	Bloomberg China Treasury + Policy Bank Index

5. Source: HKEX. Data as of 30 April 2022.

Disclaimer

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