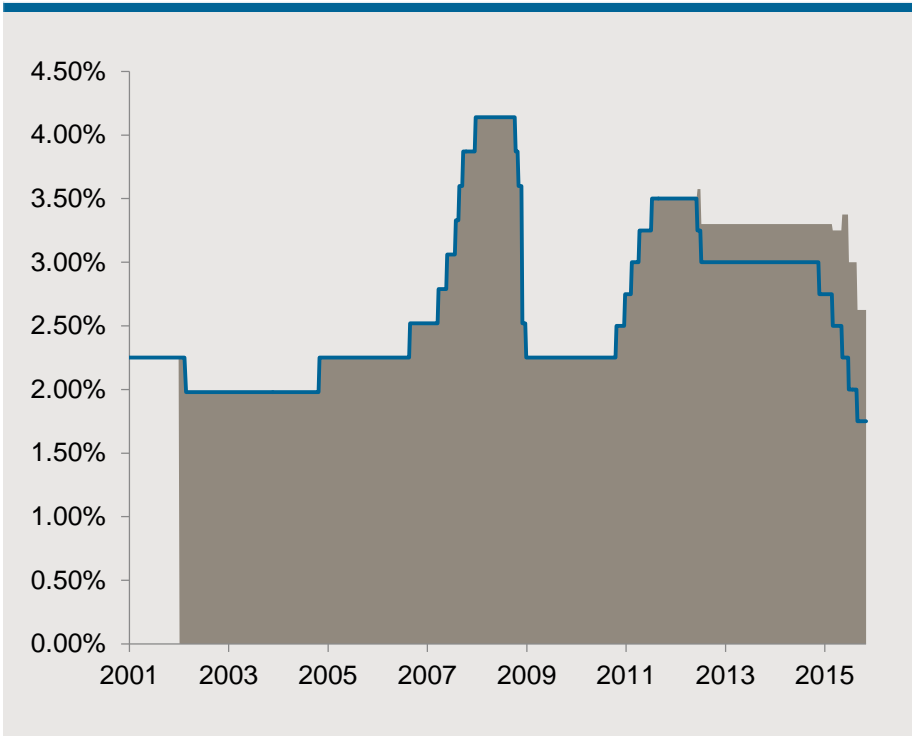

Chinese Interest Rate Liberalization

2015 ACT Asia Conference, Hong Kong (2 September)

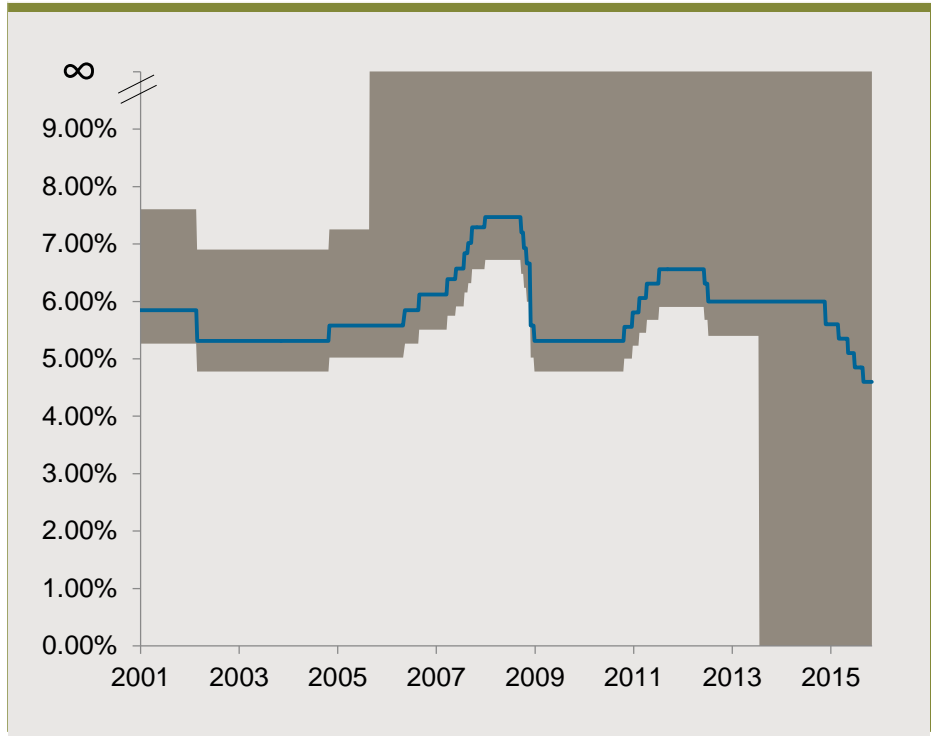
Mr. Aidan Shevlin, CFA, Head of Asia Pacific Liquidity Fund Management, J.P. Morgan Asset Management

The People's Bank of China (PBoC) prescribed deposit and lending rates have created vast distortions; subsidising borrowers and limiting credit to private enterprises

PBoC 1-year Deposit Rate, Ceiling & Floor (%)



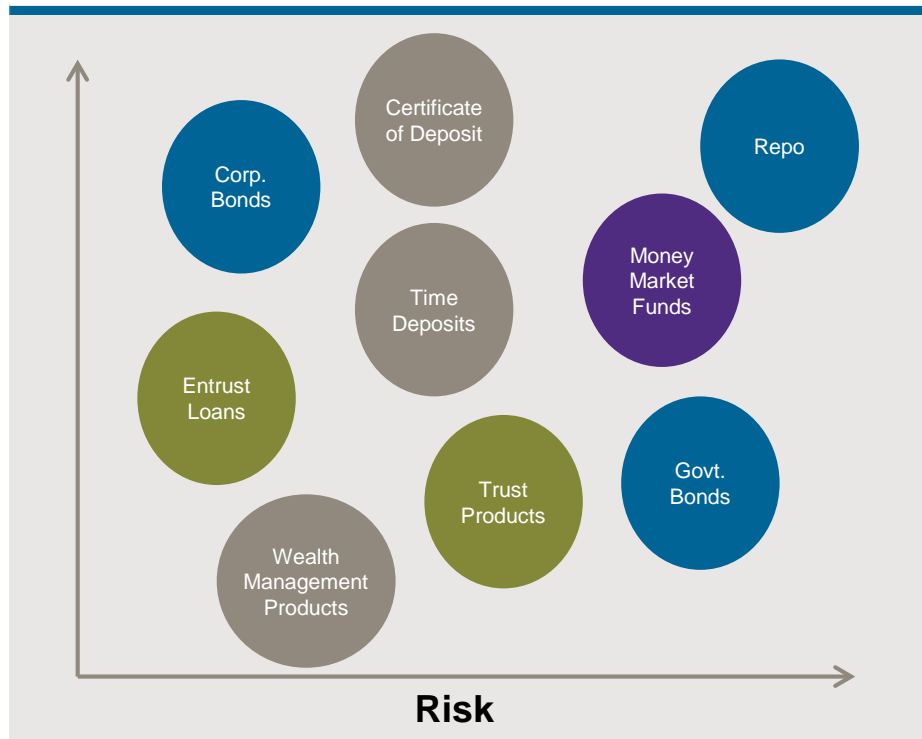
PBoC 1-year Lending Rate, Ceiling & Floor (%)



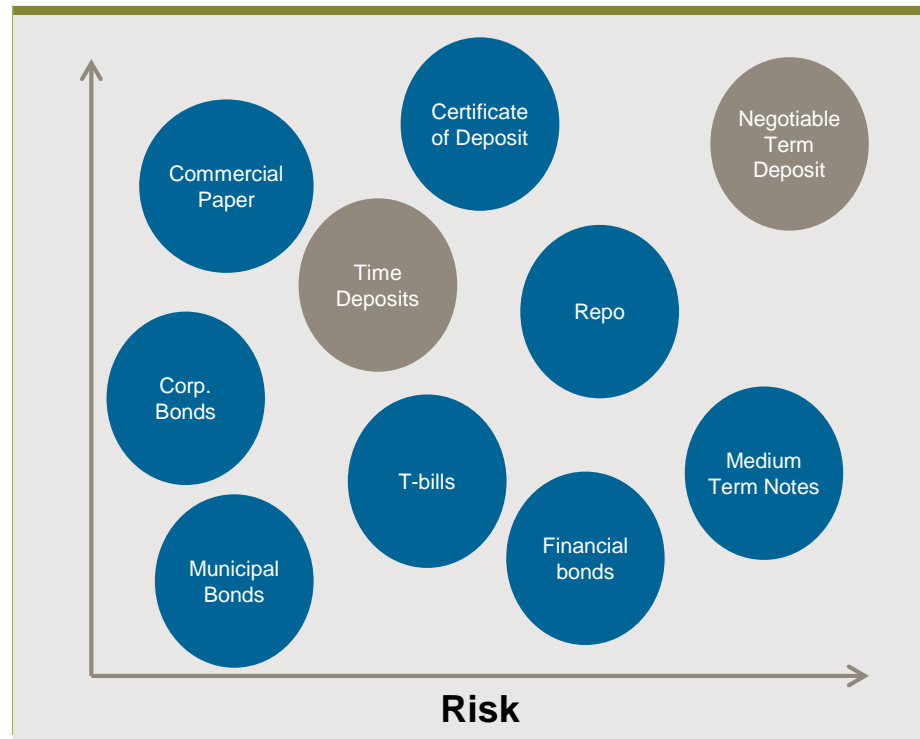
Source: The People's Bank of China and J.P. Morgan Asset Management; as of 25 August 2015.

The range of available instruments for investing short term cash has expanded dramatically for both retail and institutional investors

Retail & corporate investment options



Institutional investment options



Instrument group colour key: Blue = Interbank & stock exchange; Green = Trust Products; Grey = Banks; Purple = Money market funds

Source: J.P. Morgan Asset Management and Standard Chartered; as of 31 December 2014.

Chinese government, PBoC & regulators remain committed to interest rate liberalization – a key structural reform

Entity	Policy Change	Potential Impact
Government	<ul style="list-style-type: none">■ Deposit Protection Guarantee introduced in May 2015■ Bankruptcy Legislation	<ul style="list-style-type: none">■ Removes implicit government guarantee■ Introduce concept of risk■ Allow banks to default
PBoC	<ul style="list-style-type: none">■ Credible benchmark target rate■ Remove credit & loan quotas■ Reform reserve requirement ratio	<ul style="list-style-type: none">■ Market driven interest rates■ Effective price signal transmission■ Re-evaluation of counterparty risk
Regulators	<ul style="list-style-type: none">■ Harmonise regulations■ Broaden access to markets■ Encourage wholesale issuance	<ul style="list-style-type: none">■ Increased competition & innovation■ Improved supervision & transparency■ Better depth, breadth & liquidity of markets

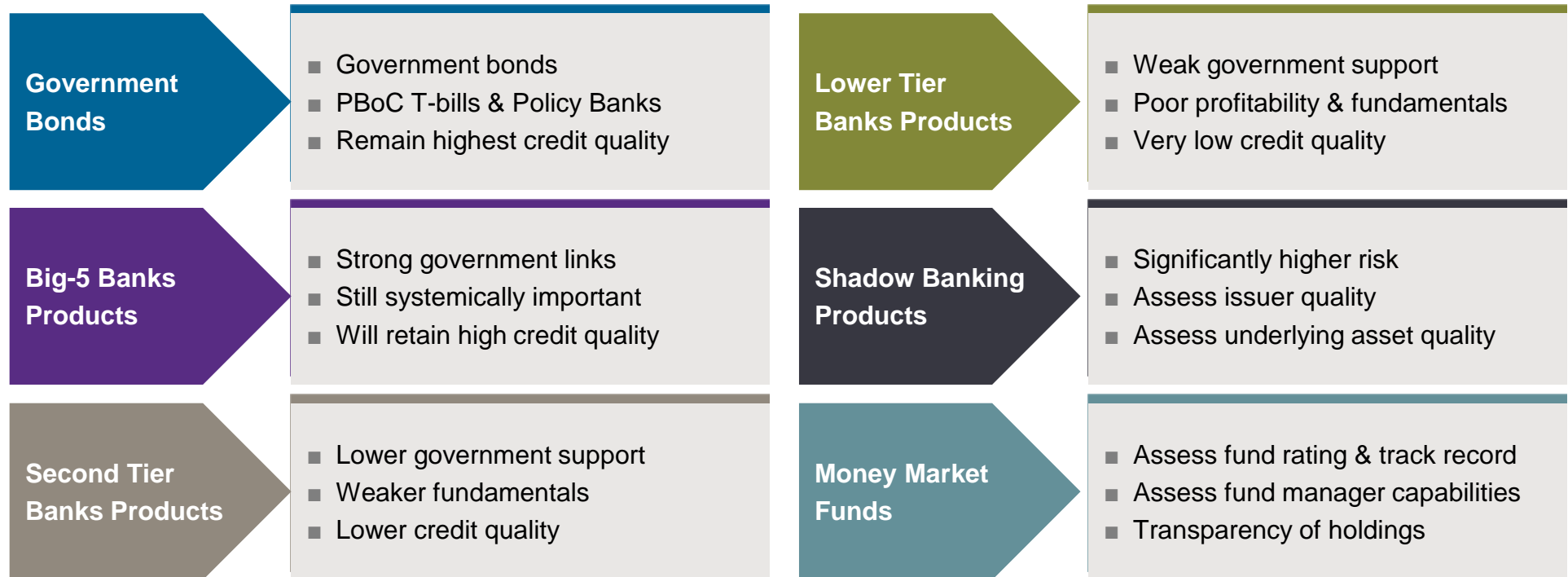
The consequences of full interest rate liberalization will be momentous.

Interest rates will likely increase but so will uncertainty and instability....

Source: J.P. Morgan Asset Management; as of 31 December 2014.

Removal of implicit government support requires the re-evaluation of counterparty risks and investment policies

Impact on Different Asset Classes



Source: J.P. Morgan Asset Management and Standard Chartered; as of 31 December 2014.

IMPORTANT INFORMATION

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