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# Chinese Interest Rate Liberalization

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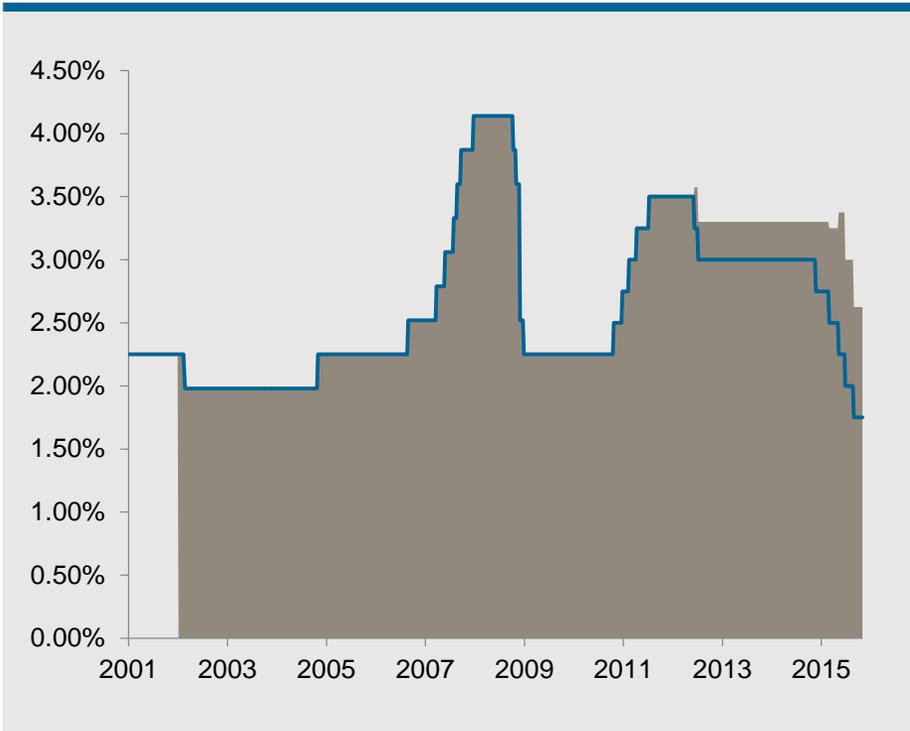
2015 ACT Asia Conference, Hong Kong (2 September)

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

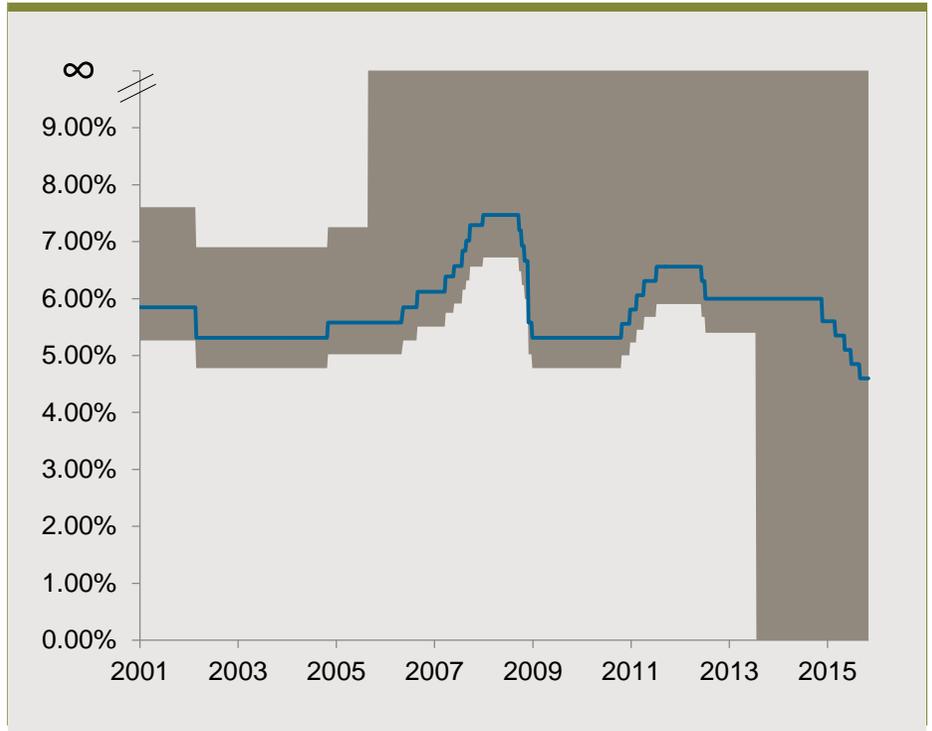
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# The People's Bank of China (PBoC) prescribed deposit and lending rates have created vast distortions; subsidising borrowers and limiting credit to private enterprises

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



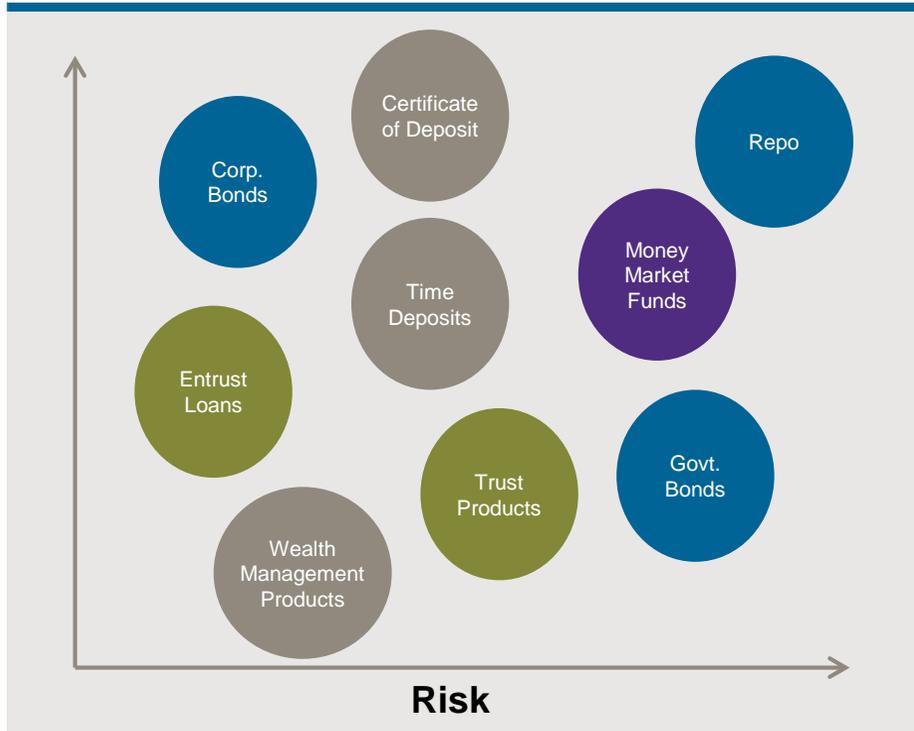
## PBoC 1-year Lending Rate, Ceiling & Floor (%)



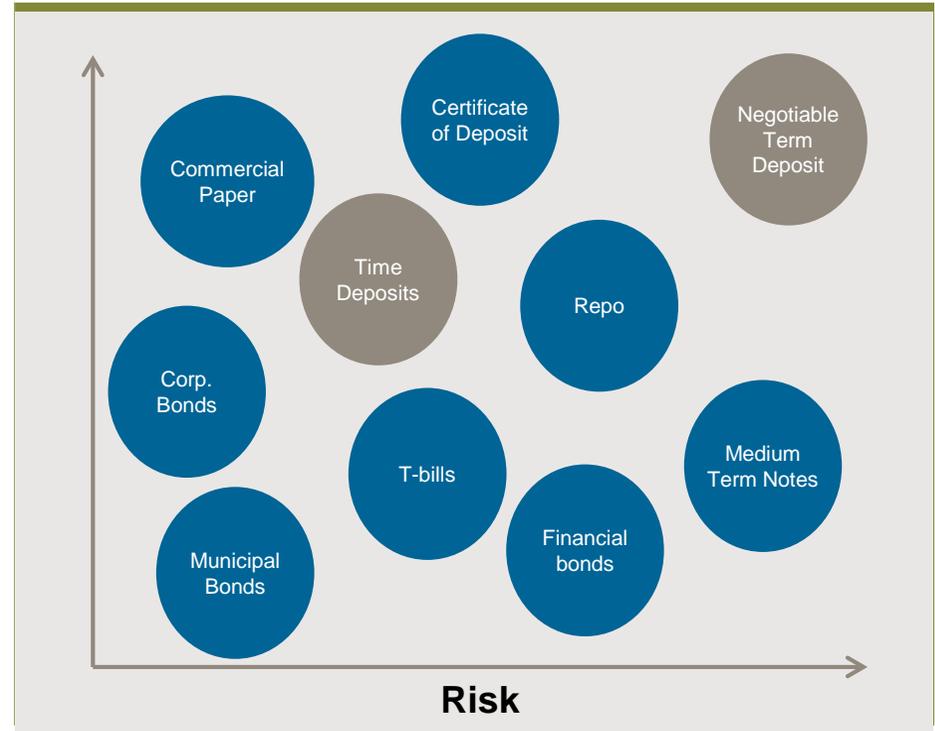
Source: The People's Bank of China and J.P. Morgan Asset Management; as of 25 August 2015.

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

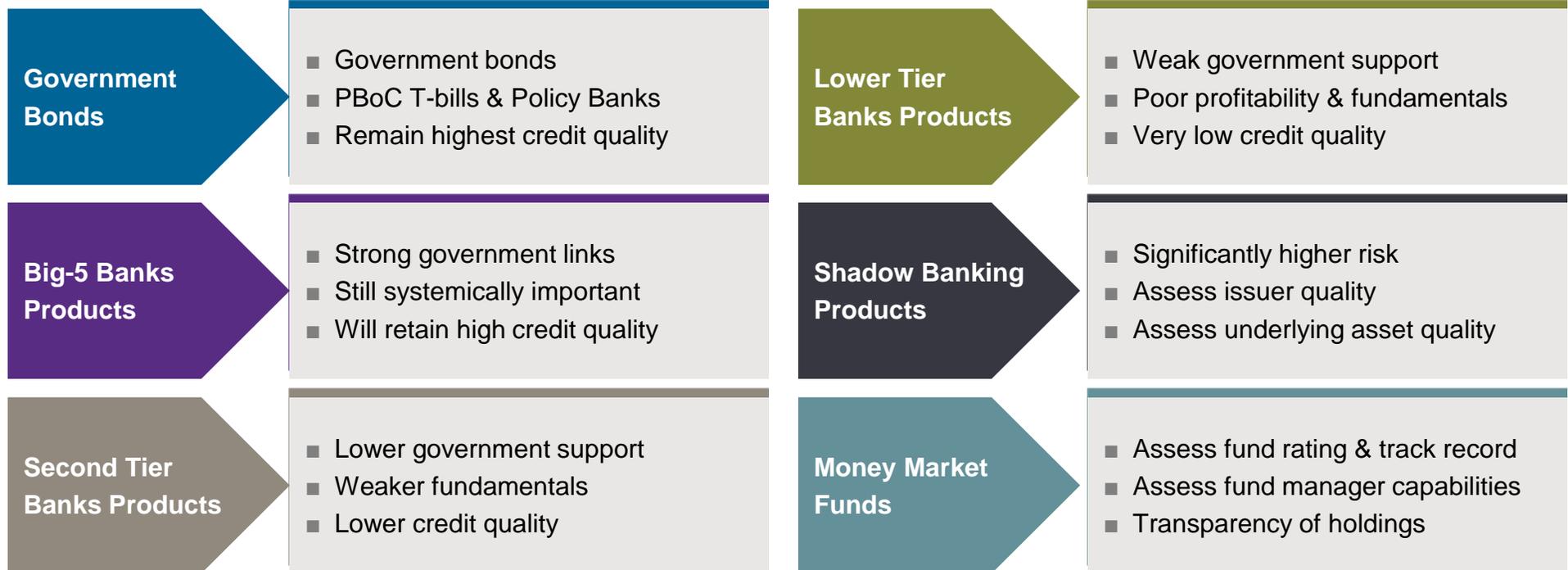
***The consequences of full interest rate liberalization will be momentous.***

***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.

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## IMPORTANT INFORMATION

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