

# INVESTING IN ONSHORE RMB BONDS

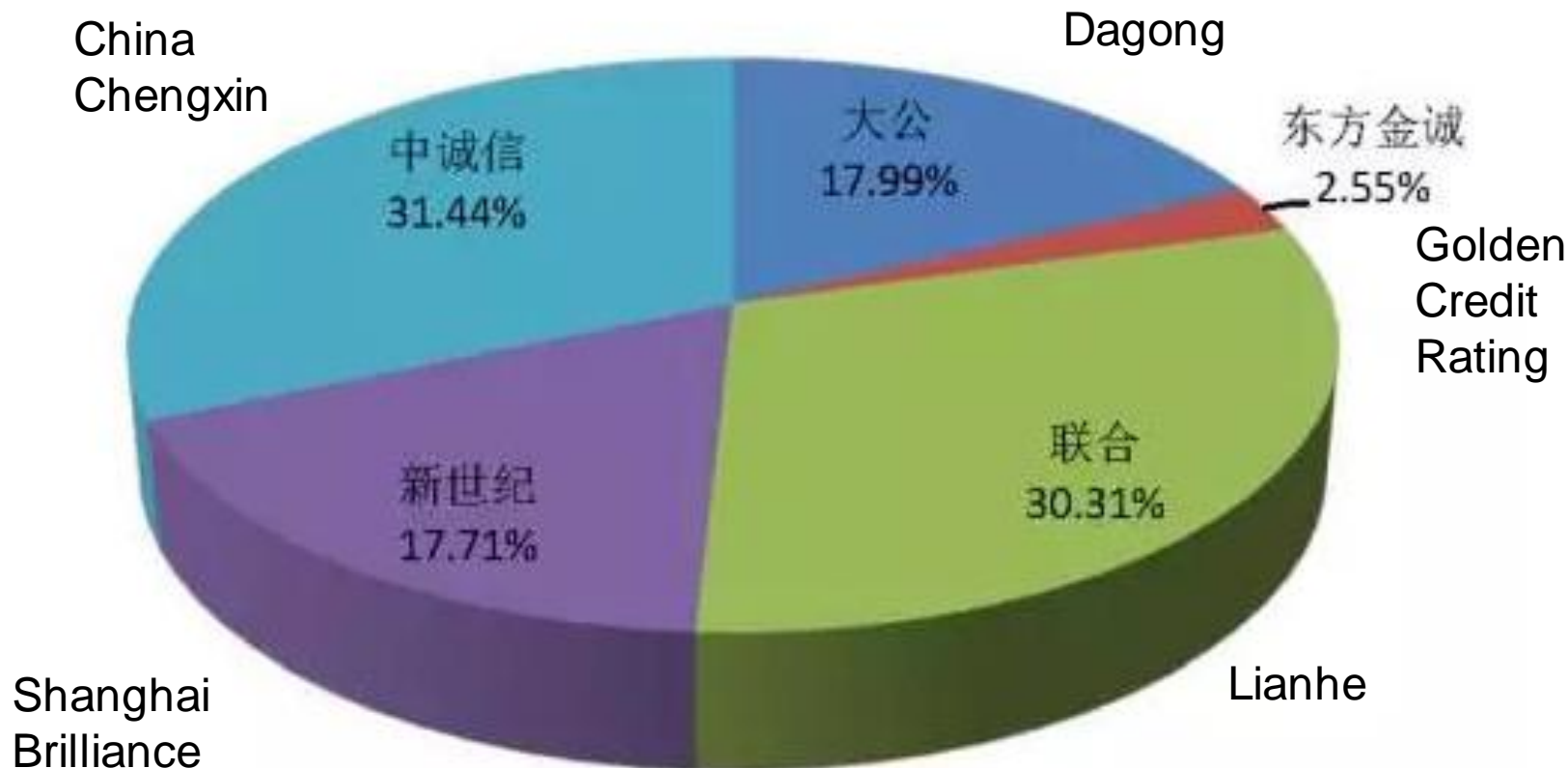


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# CNY BONDS IN PERSPECTIVE

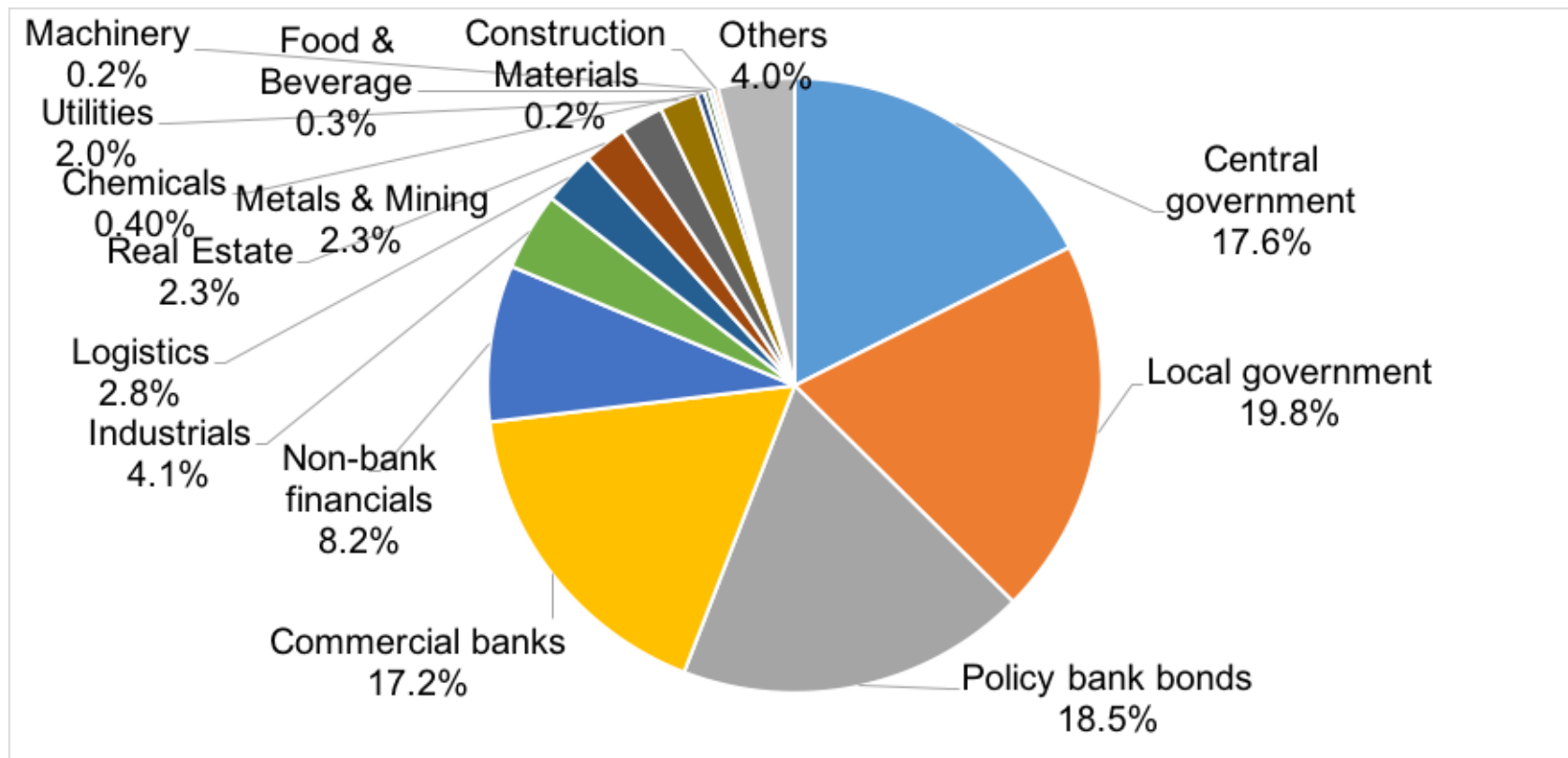
Outstanding:	>USD10.7trn (3 <sup>rd</sup> largest after the US and Japan)
Maturity profile:	~70% by 2022 and ~37% by 2018
Foreign holding:	~ 2%
Major investors:	Chinese commercial banks, Chinese insurers , Chinese funds
Access:	China Interbank Bond Market (CIBM), Exchanges, Bond Connect
Main rating agencies:	Top 4: China Chengxin, Lianhe, Dagong, Shanghai Brilliance

# ONSHORE CREDIT RATING MARKET SHARE (AS OF AUG 2017)



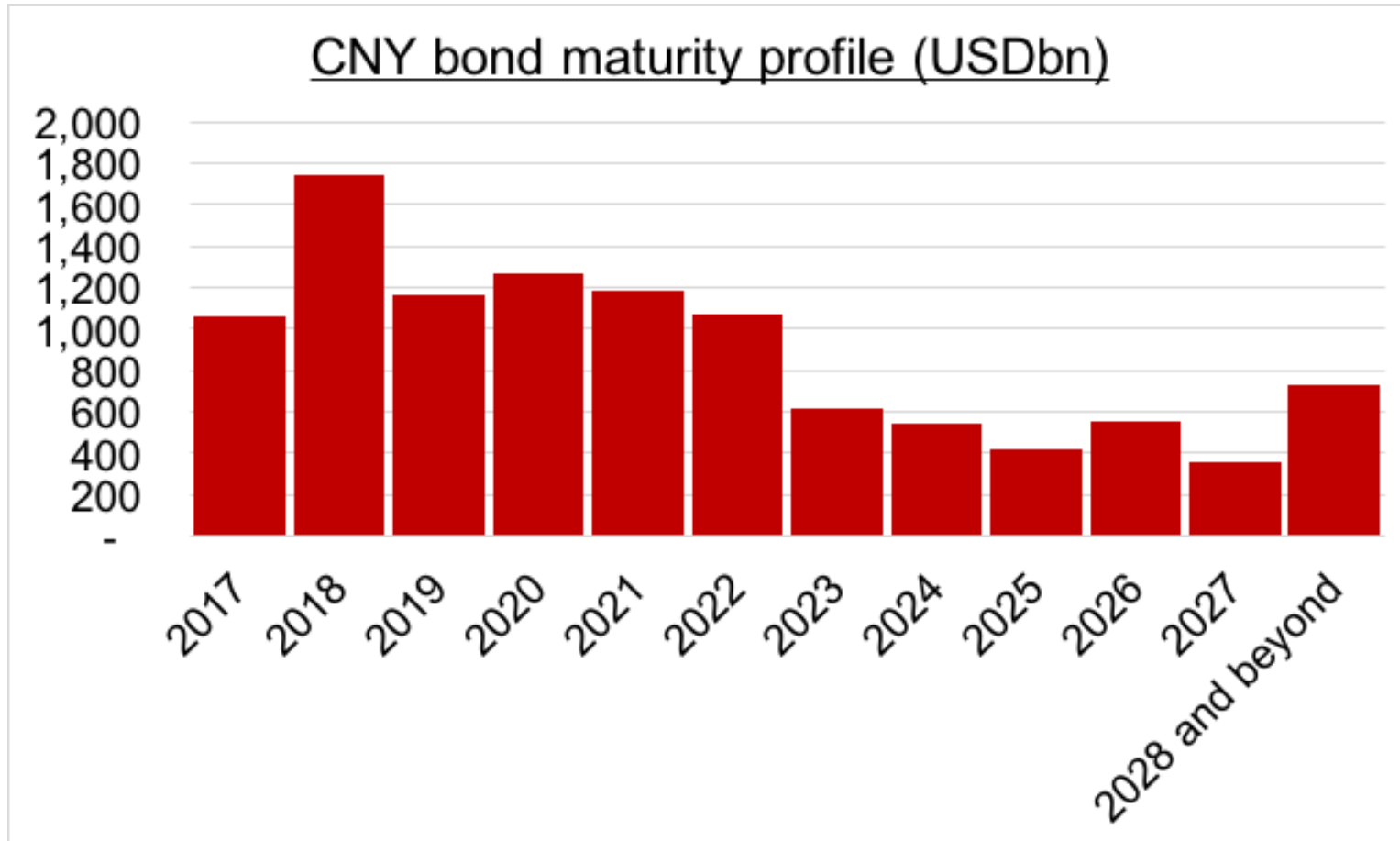
Source: WIND

# WHO ISSUED CNY BONDS?



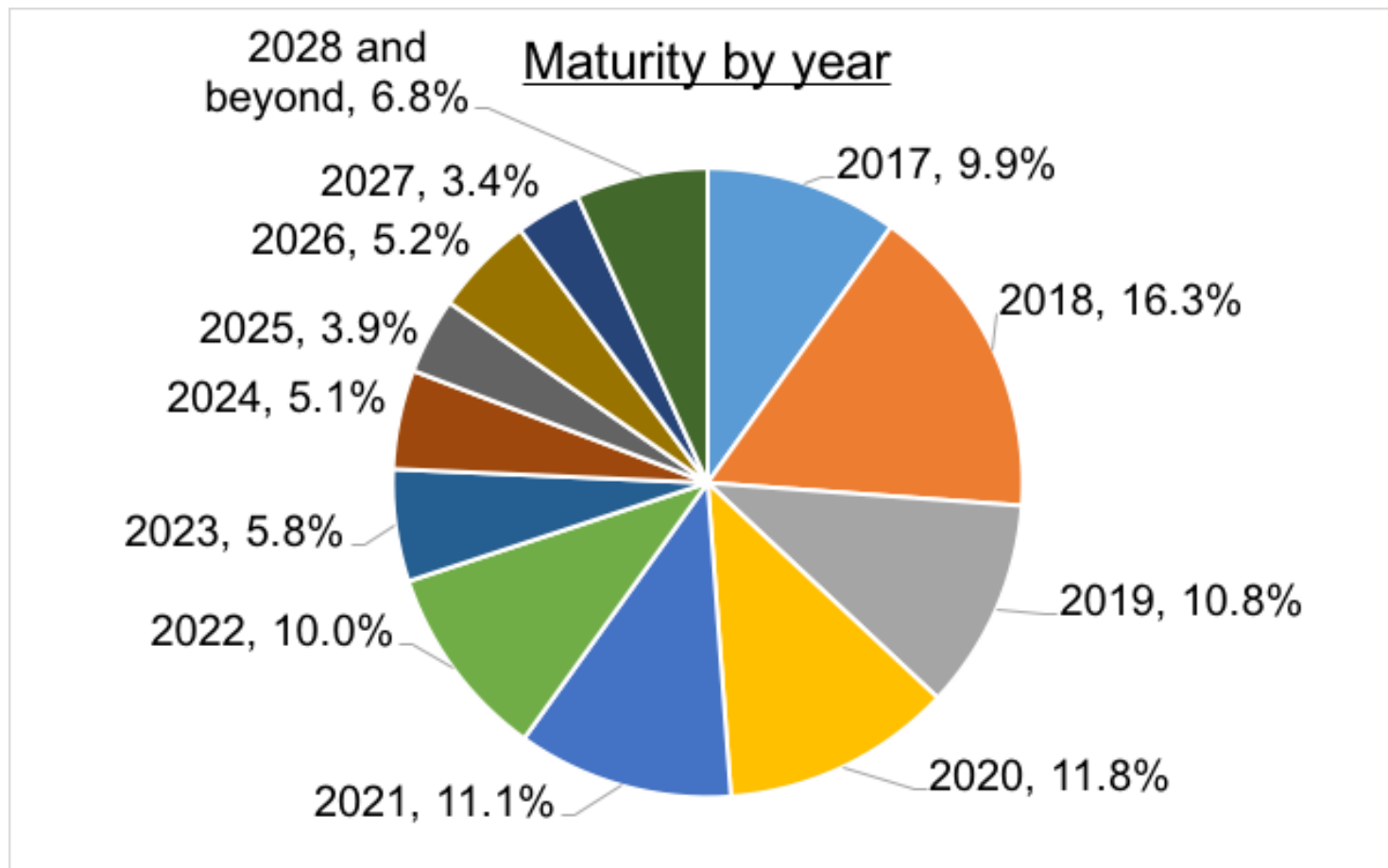
Source: Bloomberg, Bondcritic

# CNY BOND MATURITY PROFILE



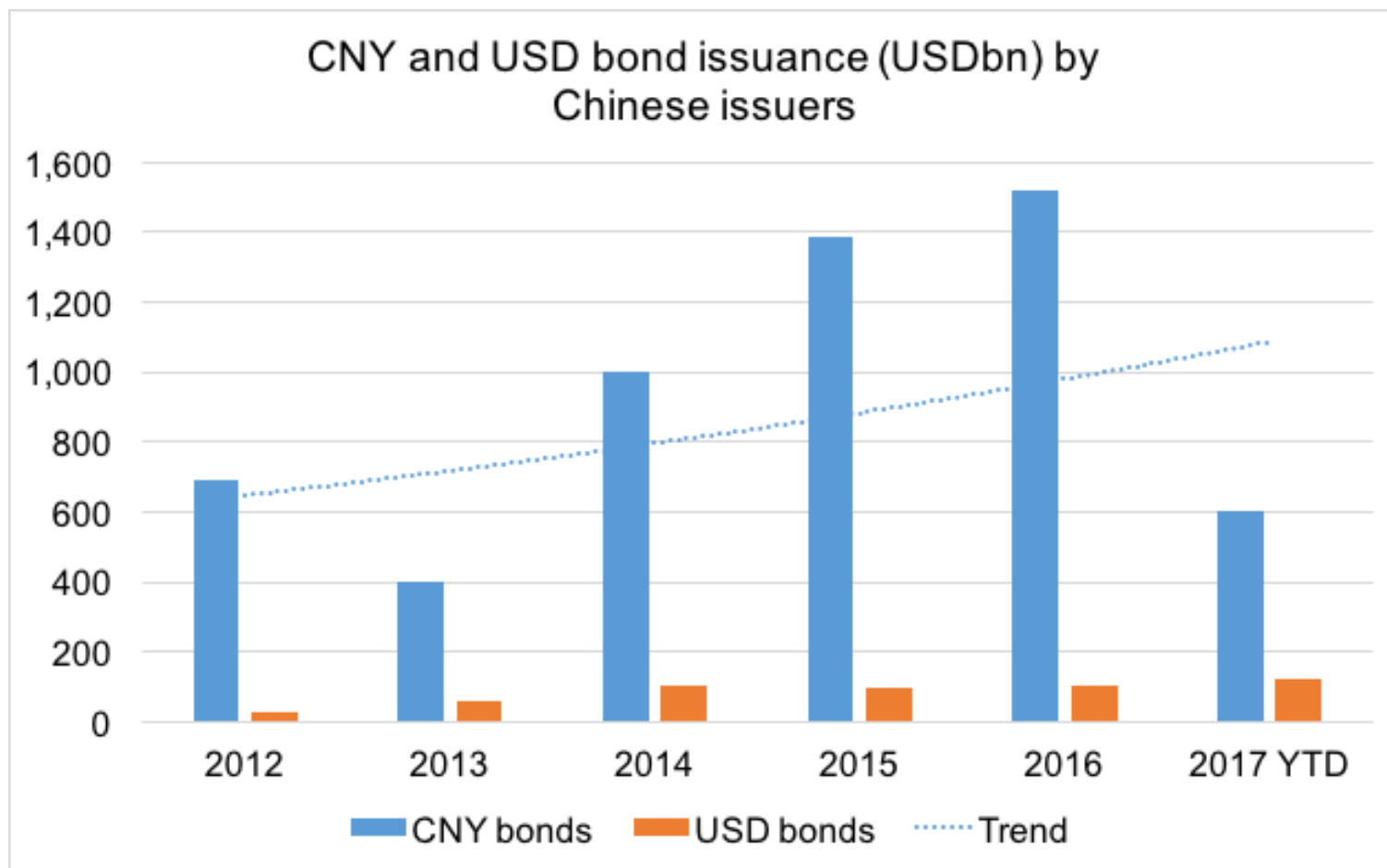
Source: Bloomberg, Bondcritic

# MATURITY BY YEAR (% OF OUTSTANDING)



Source: Bloomberg, Bondcritic

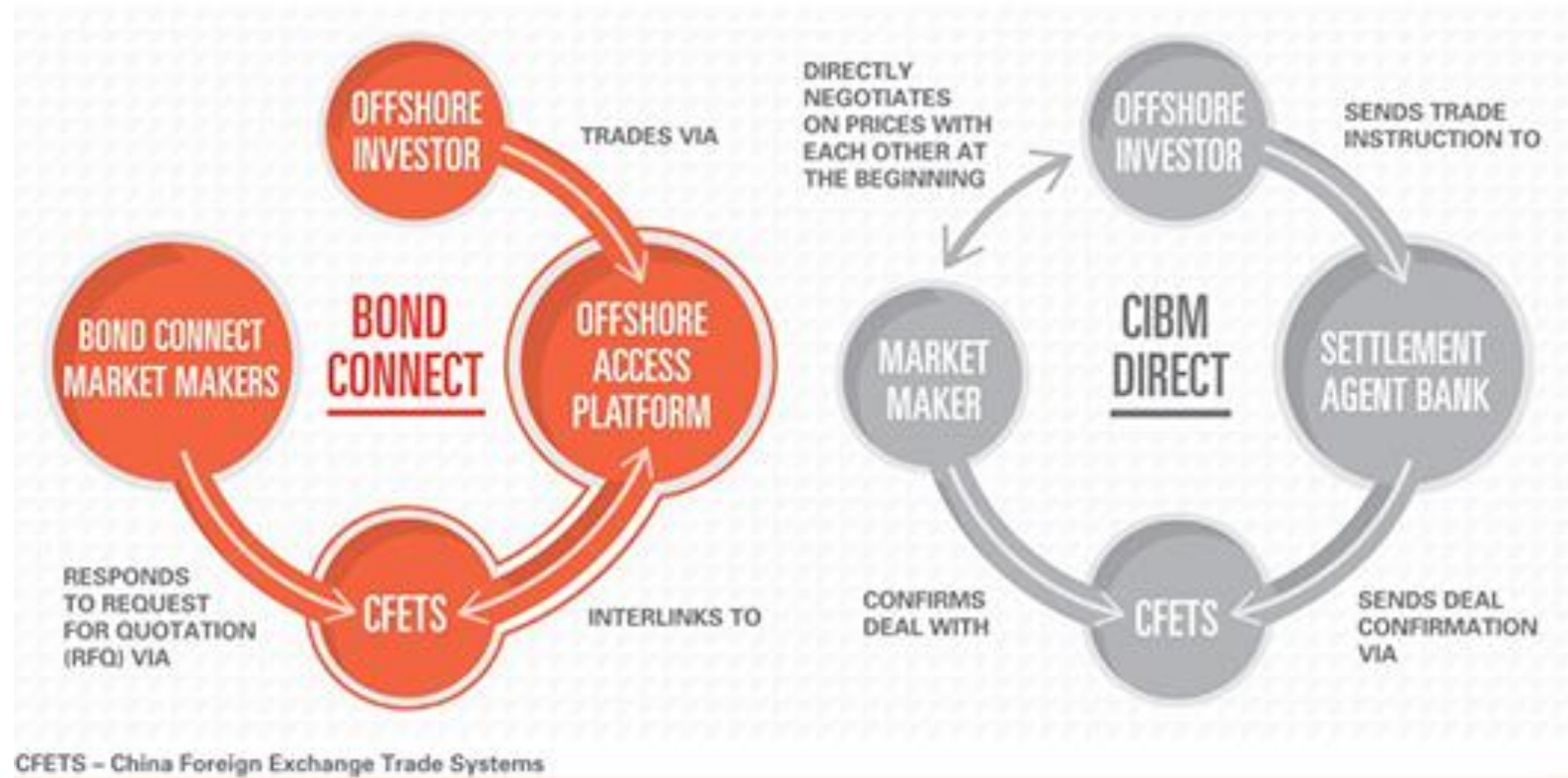
# NEW ISSUES



Source: Bloomberg, Bondcritic

# BOND CONNECT

## ▶ TRADING PROCESS



Source: HSBC, CFETS

# REWARDS

## ❖ Diversification

- ❖ Credit risk
- ❖ Investor's base
- ❖ Currency

## ❖ Higher yield over USD bonds

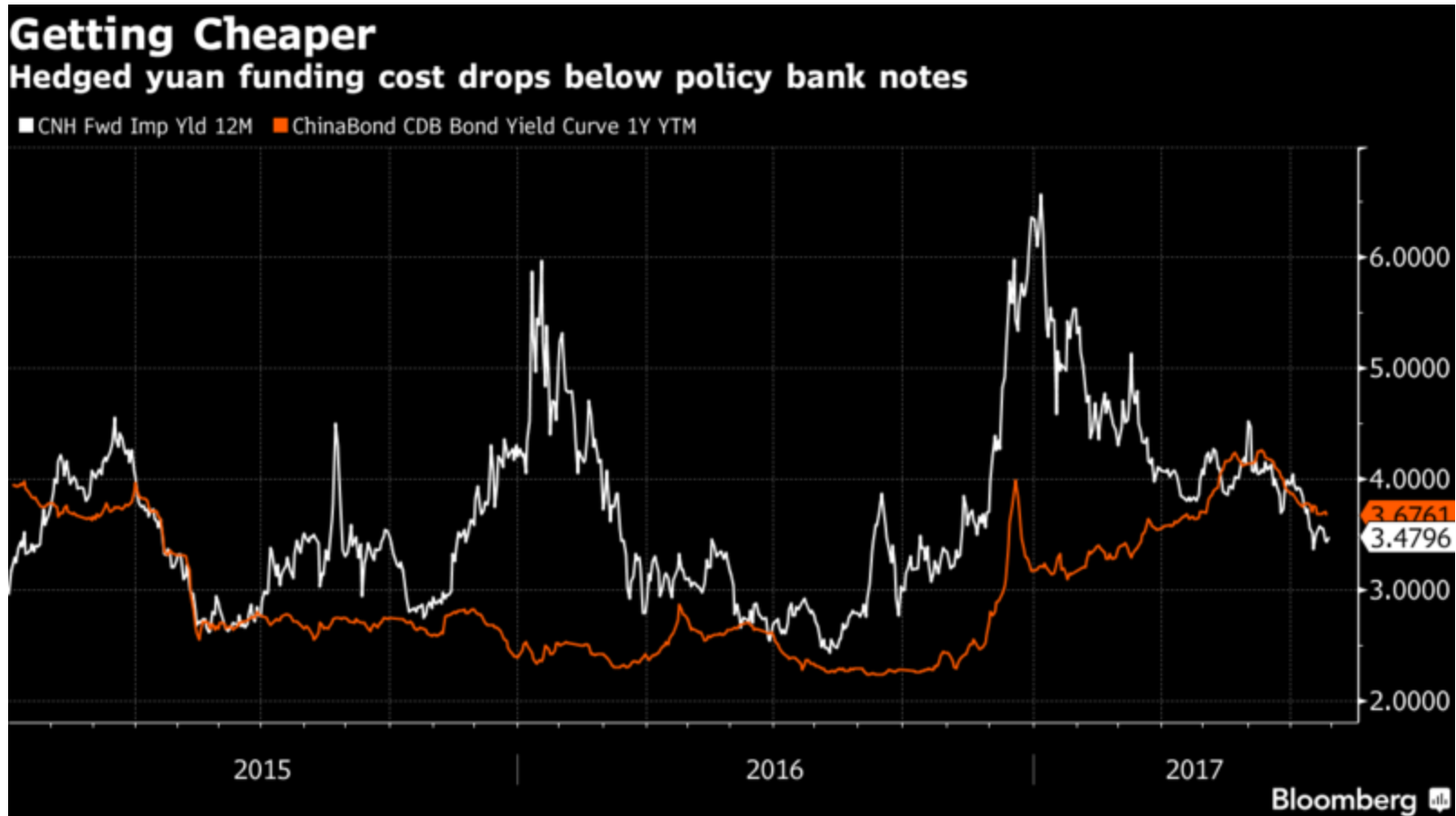
## ❖ Less volatility

## ❖ RMB's short-term stability and long-term appreciation

## ❖ Relationship with Chinese issuers

## ❖ Alternative way to lend onshore

# CHEAPER TO HEDGE AGAINST CNY AND BUY ONSHORE BONDS

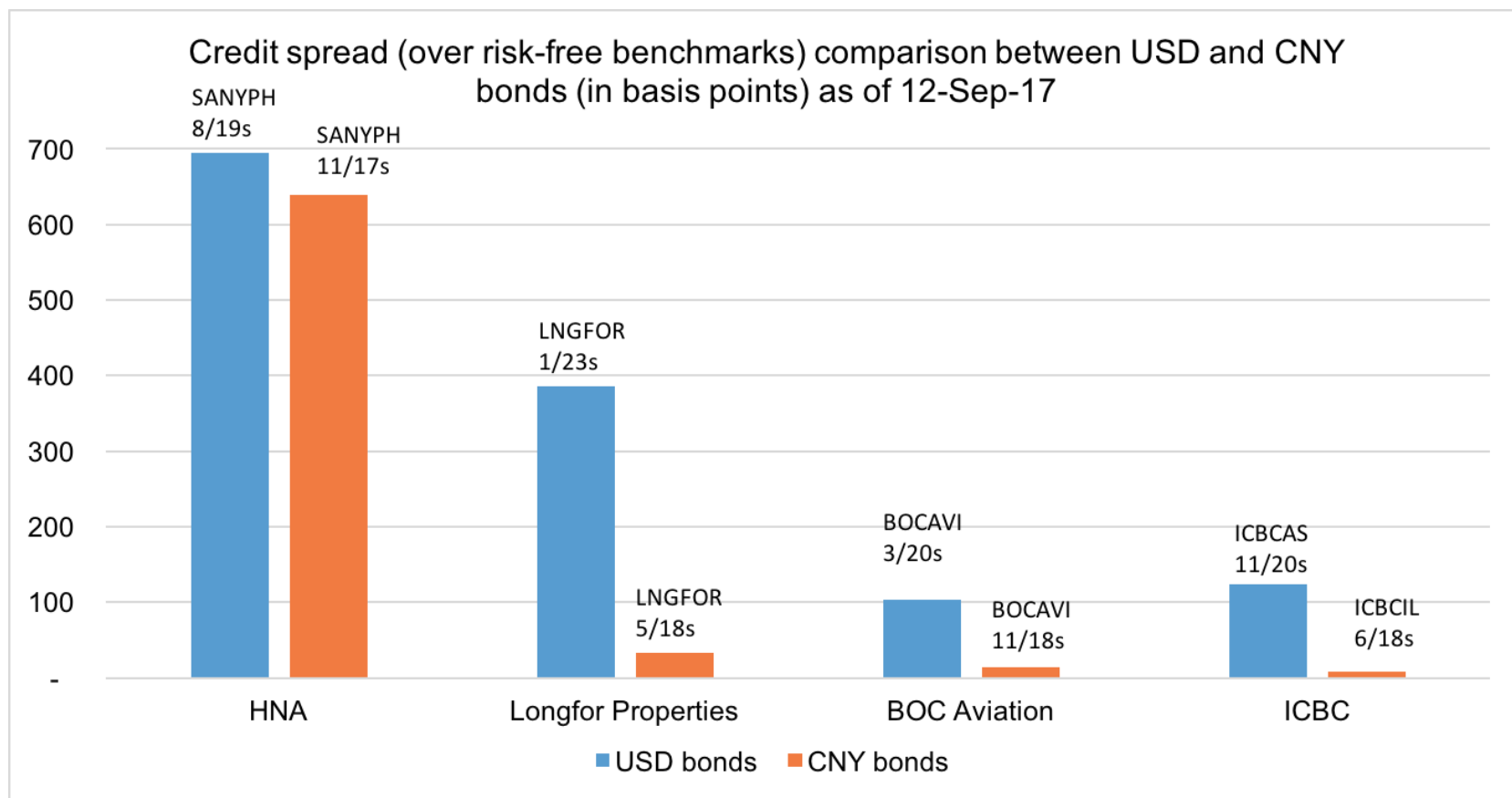


Source: Bloomberg

# **RISKS**

- ❖ **Different credit culture**
  - ❖ Research quality
  - ❖ Different analysis methodology
  - ❖ Questionable onshore rating practice
- ❖ **High regulatory risk**
- ❖ **Lack of transparency**
- ❖ **Poor information quality**
- ❖ **High operational risk**
- ❖ **Cultural differences**
- ❖ **Small compensation for credit risk**

# CREDIT RISK COMPENSATION



Source: Chinabond.com.cn, Philip Securities, Bondcritic

# MATURING DEBT RATED AA (BY ONSHORE AGENCIES) OR LOWER

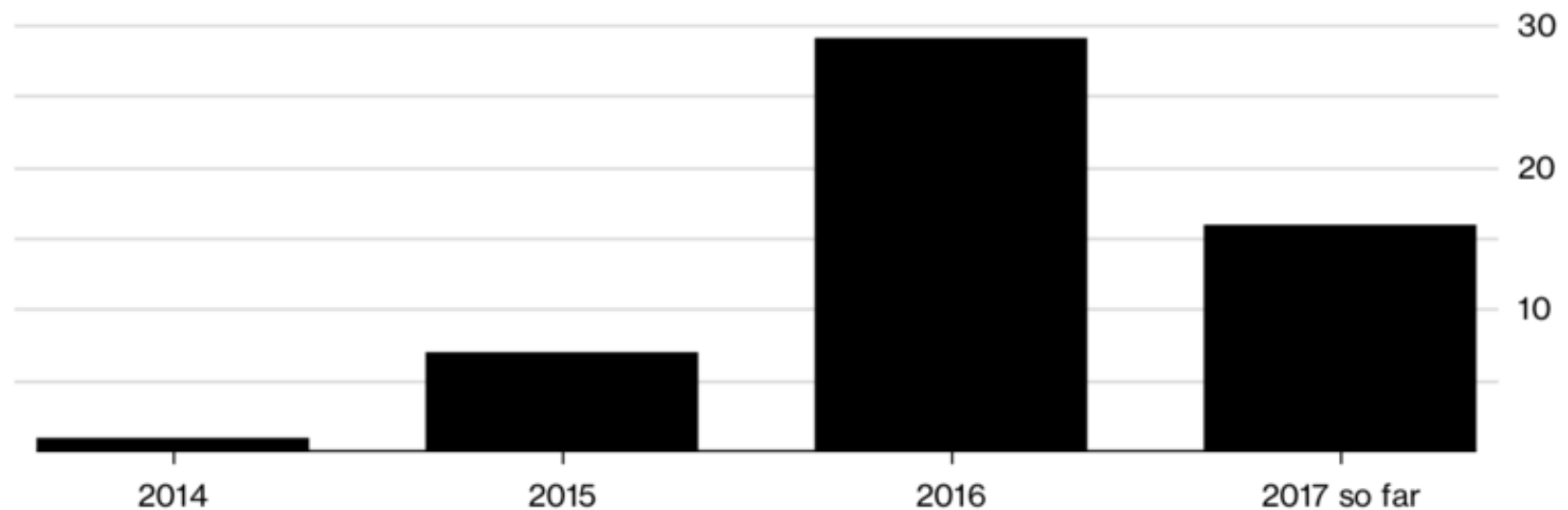


Source: Bloomberg

# DEFAULT HISTORY (TILL 30-JULY)

## Rising Defaults

Number of nonpayments in China's onshore bond market

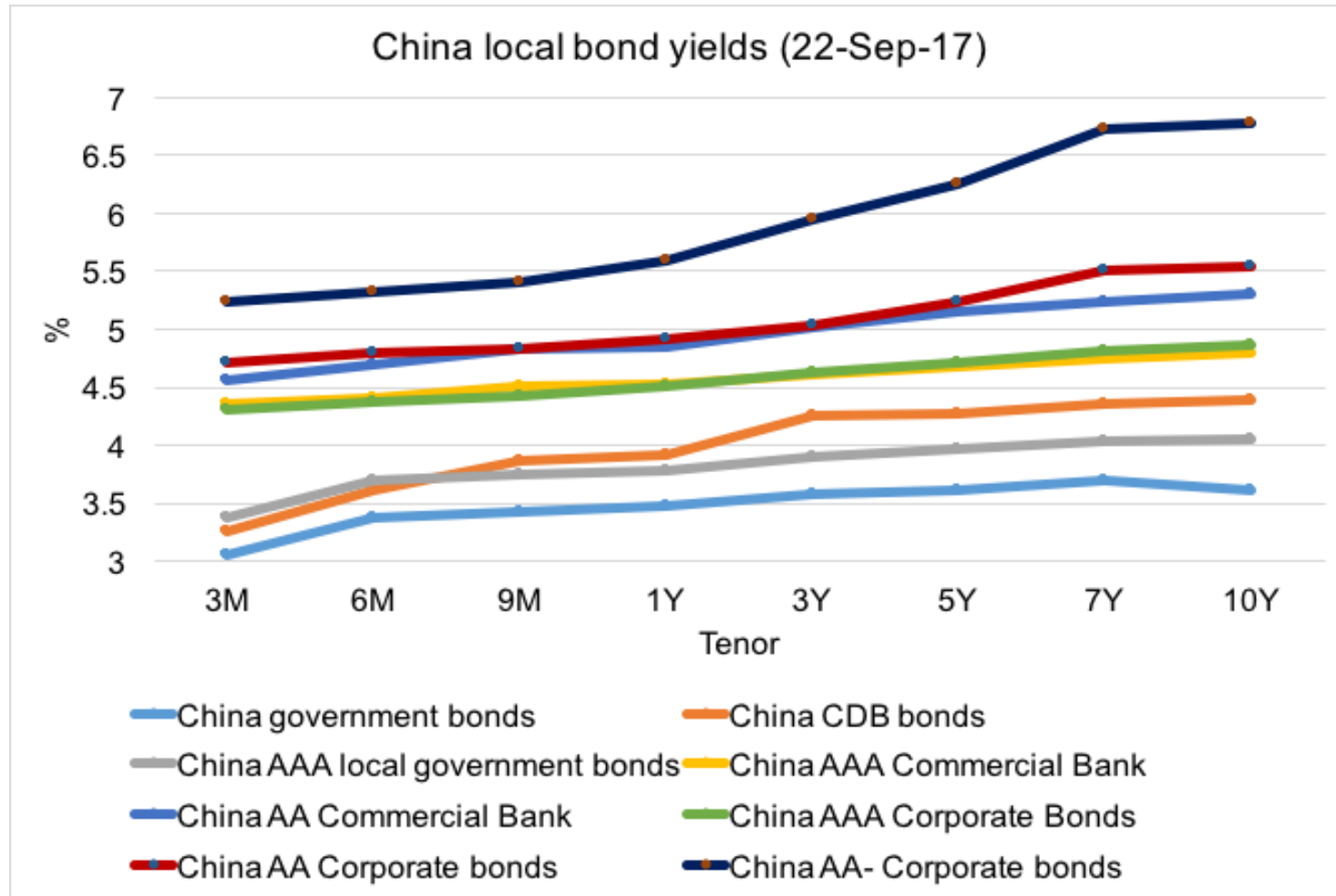


Source: Bloomberg

**Bloomberg**

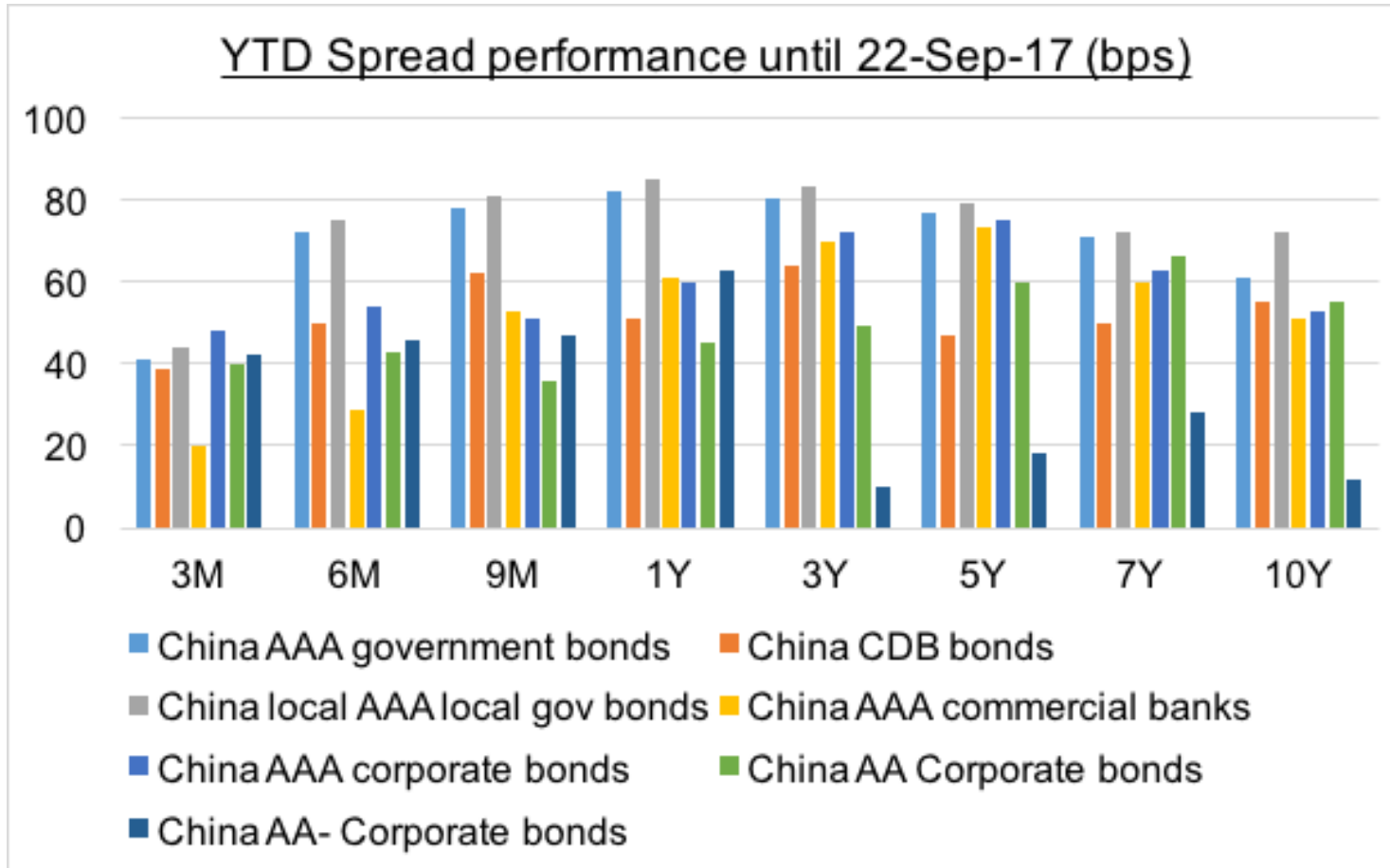
Source: Bloomberg

# YIELD CURVES



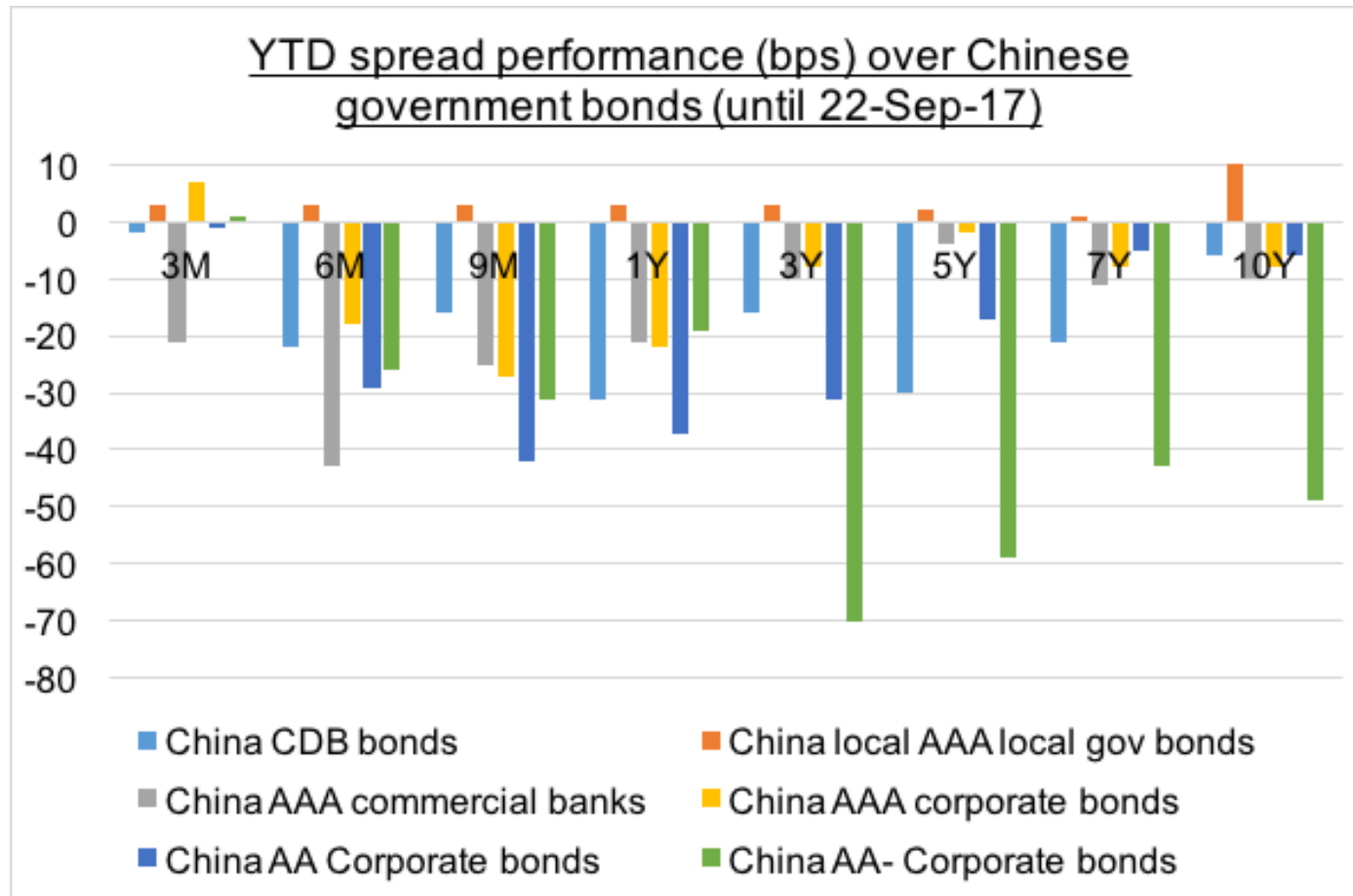
Source: *Chinabond.com.cn, Bondcritic*

# YIELD PERFORMANCE



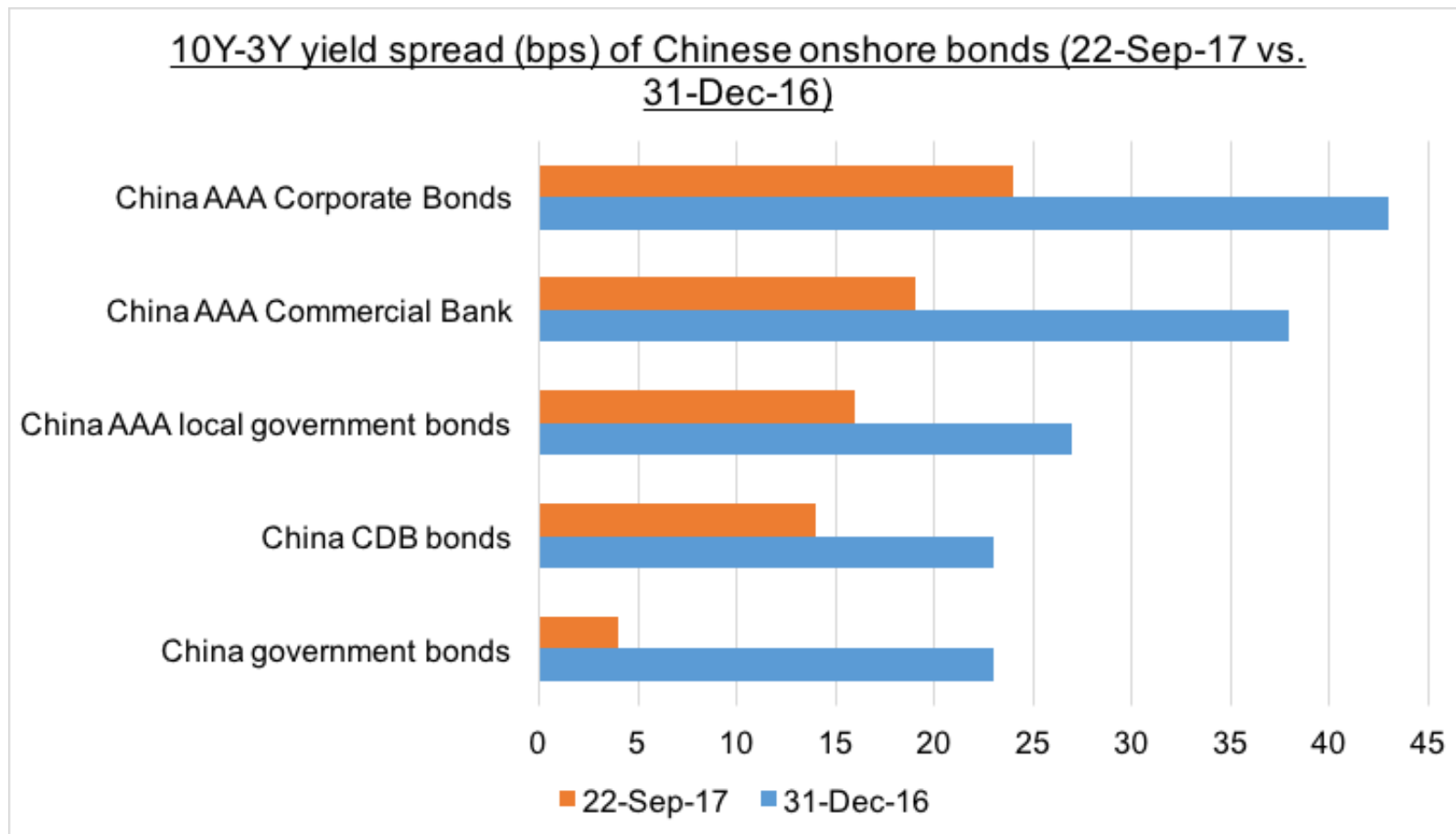
Source: *Chinabond.com.cn, Bondcritic*

# SPREAD PERFORMANCE



Source: *Chinabond.com.cn, Bondcritic*

# FLATTENING YIELD CURVE



Source: [Chinabond.com.cn](http://Chinabond.com.cn), *Bondcritic*

# Q&A