



# CHINESE-HUNGARIAN PARTNERSHIP FOR DEVELOPING RMB BOND MARKETS

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## HUNGARY IS INTERESTED IN THE DEVELOPMENT OF THE CHINESE BOND MARKETS



Hungary was the first CEE sovereign to issue a Dim Sum bond with the Bank of China as the sole bookrunner in April 2016.

This issuance served to open again the dim sum market and was the first issuance in 2016.

ÁKK considers a future Panda bond to further diversify its investors base by using the fast developing Chinese bond markets.

# CHINESE BOND MARKET - MILESTONES



## 1. OCTOBER 2005

First Panda bonds were issued by IFC and ADB, which priced CNY1.13 billion and CNY1 billion Panda bonds respectively

## 2. AUGUST 2010

The regulators allowed foreign central banks, the clearing banks for RMB business and foreign participating banks of cross-border RMB settlement to access into the RMB-denominated bond market.

## 3. MARCH 2013

The regulators allowed Qualified Foreign Institutional Investor (QFII) to invest in the inter-bank bond market.

## 4. AUGUST 2014

The regulators allowed foreign institution to remit the proceeds raised by the RMB-denominated debt financing instruments in the onshore financial market to the offshore markets.

## 5. FEBRUARY 2016

PBOC announced that the inter-bank bond market will further open up to almost all foreign investors.

## **6. APRIL 2016**

***Hungary issues first ever CEE Dim Sum bond.***

## 7. OCTOBER 2016

RMB becomes part of SDR with a weight of 10,9%.

## 8. JANUARY/MARCH 2017

Barclays and Citigroup announced that they will incorporate Chinese onshore bonds in their respective EM indices if they meet certain criteria.

# CHINESE ONSHORE BOND MARKET – MAIN FIGURES

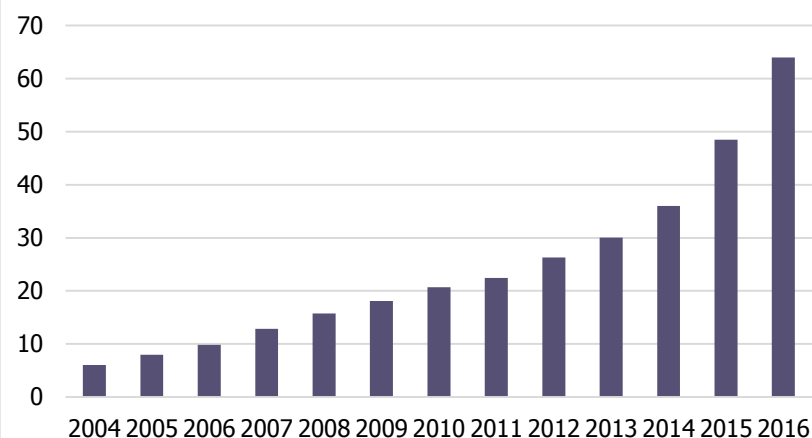
China's bond market is now the third largest in the world with RMB64 trillion bond outstanding by the end of 2016.

Both primary issuance volume and secondary trading volume soared significantly in the recent years.

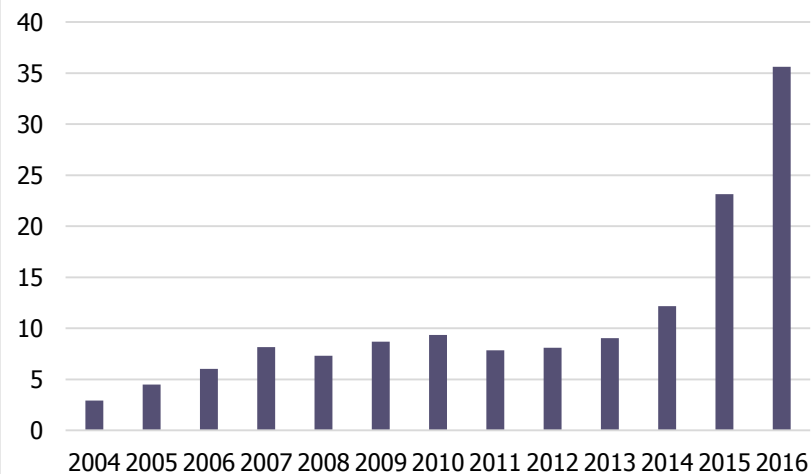
Borrowers are increasingly accessing domestic capital market, to diversify away from heavy reliance on bank loans.

Since the rules about local governments issuing bonds were relaxed, the municipal bond market has grown rapidly to nearly RMB11trn by the end of 2016.

Total Bond Outstanding (RMB trillion)



Bond Issuance (RMB trillion)

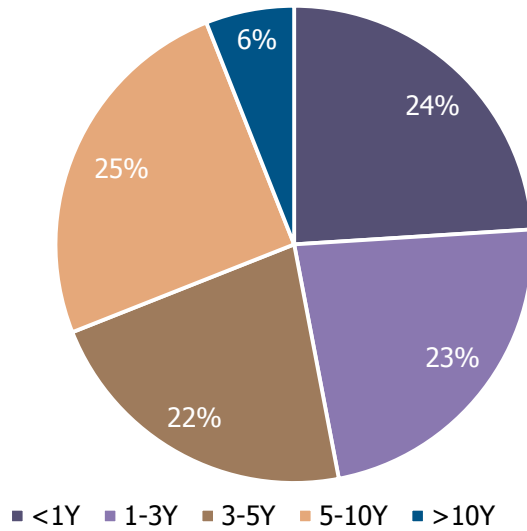


# CHINESE ONSHORE BOND MARKET – STRUCTURE

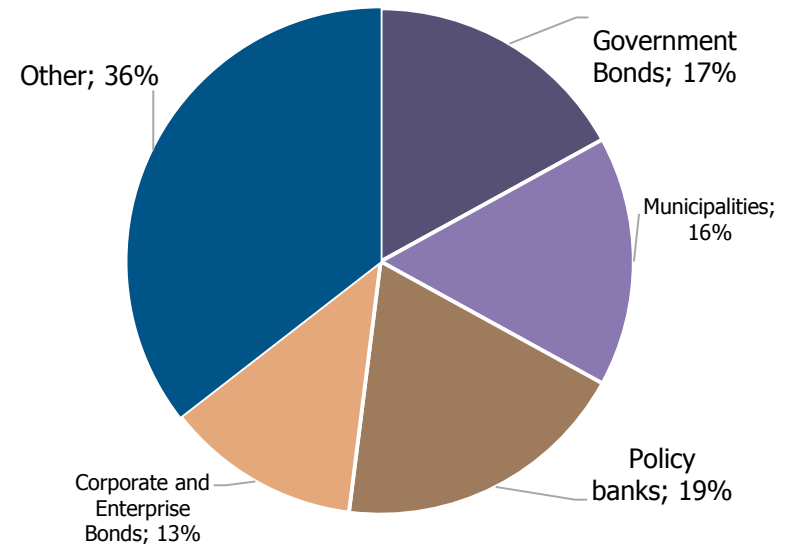
Maturities are relatively low; state-related bonds are dominant.

The proportion of government bonds is declining, while issuance of corporate bonds, municipal bonds and certificates of deposit (CDs) is on the rise.

**Onshore Bond Market – Outstanding Debt by Maturity at end of 2016**



**Onshore Bond Market – Outstanding Debt by Issuer Type at end of 2016**

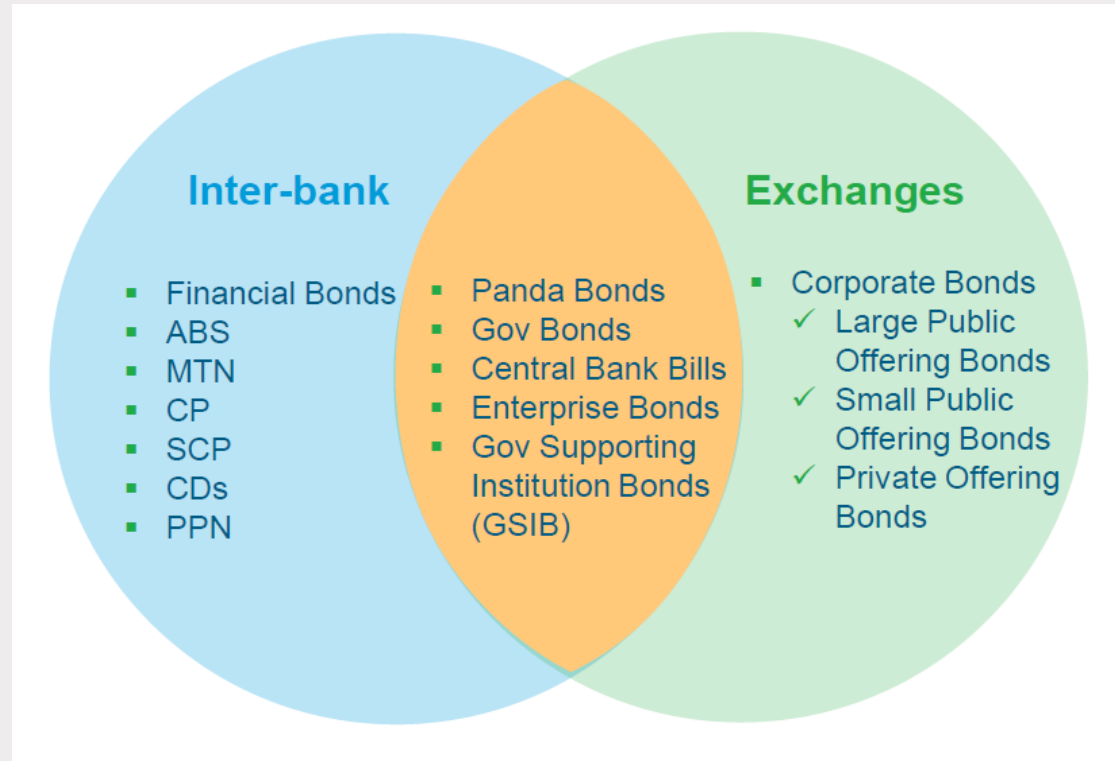


# CHINESE BOND MARKET – DUAL MARKET

## China has two sub-bondmarkets

- 1) The Inter-bank bond market, which is regulated by the People's Bank of China (PBOC) and National Association of Financial Market Institutional Investors (NAFMII)
- 2) The Exchange bond market, which is regulated by China Securities Regulatory Commission (CSRC)

The inter-bank market accounted for 79% of bond issuance in China's onshore bond market in 2016.



# CHINESE BOND MARKETS – DIM SUM VS PANDA

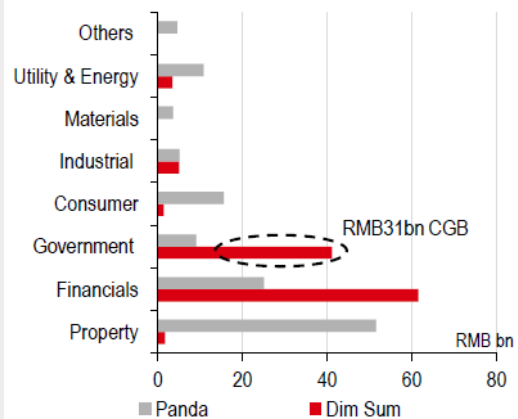
Documentation, investor protection, due diligence and authorization process is stricter on the onshore market. English law is viable in case of offshore market; in case of onshore market Chinese law is mandatory.

2016 saw CNH125bn of Panda issuance versus CNY113bn of Dim Sum issuance.

Since November 2016 onshore yields were on the rise which decreased the supply of Panda market.

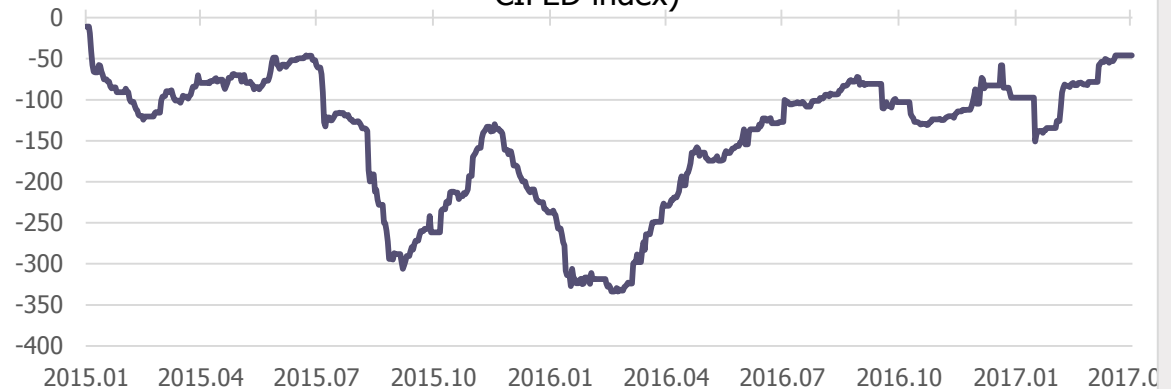
Main obstacles for future growth on Panda market: remaining controls on cross-border capital flows, different accounting principles and higher than previous onshore bond yields.

**Fig 42 Panda and Dim Sum bond issuance in 2016, breakdown by sector**



Source: Bloomberg, HSBC

**The difference between onshore and offshore yields (BOC CIFED index)**



Source: Bloomberg

Note: The BOC CIFED Index tracks the yield differentials between offshore and onshore RMB bonds. **A positive level indicates a higher yield condition onshore versus offshore.**

# PANDA BONDS – CONSIDERATIONS

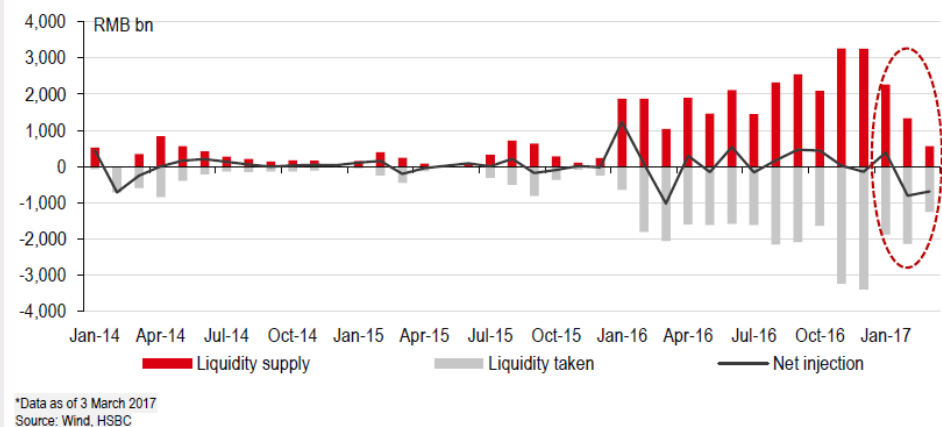
Issuers can choose to issue Panda bond either in the inter-bank market or the exchange market:

The **inter-bank market** has more diversified investors, with the commercial banks being the largest group of investors. Most of the existing Panda bonds have been issued in the inter-bank market.

On the **interbank market** price is market driven due to strong liquidity in the inter-bank market.

On the **exchange market** bond yields are higher to compensate the weaker market liquidity.

Fig 34 Net liquidity reduction via PBoC repo trading in 2017



But PBOC's monetary policy is important.

In 2017 PBOC:

limited the supply of liquidity and

lifted the rates in its open market operations.

## PBoC's liquidity support: rising rates

Rates	31 Dec 2016	16 March 2017	Change
<b>Reverse Repo</b>			
7 day	2.25%	2.45%	20bps
14 day	2.40%	2.60%	20bps
28 day	2.55%	2.75%	20bps
<b>Standing Lending Facility (SLF)*</b>			
Overnight	2.75%	3.30%	55bps
7 day	3.25%	3.45%	20bps
1 month	3.60%	3.80%	20bps
<b>Medium-term Lending Facility (MLF)</b>			
6 month	2.85%	3.05%	20bps
1 year	3.00%	3.20%	20bps

Source: PBOC, HSBC



# SUMMARY

Hungary was the first CEE sovereign to issue a Dim Sum bond in 2016.

Diversification is an important goal and the Chinese bond market provides a viable addition to the European and US capital markets in international financing.

A potential Panda bond could further open up this vast market for Hungarian debt management.

THANK YOU FOR YOUR ATTENTION!

