Chinese business & finance

China opens up bond market in bid to woo foreign investors

Beijing seeks to reignite interest in onshore debt in face of economic slowdown

Overseas investors will be granted access to onshore exchange-based bond markets in Shanghai and Shenzhen starting from the end of June © AP

Hudson Lockett and **Cheng Leng** in Hong Kong MAY 27 2022

China will open up the final corner of its onshore bond market to foreign financial institutions as Beijing attempts to reignite global interest in renminbi debt in the face of a severe economic slowdown.

The People's Bank of China announced on Friday evening in Beijing that overseas investors will be granted access to onshore exchange-based bond markets in Shanghai and Shenzhen starting from June 30.

The central bank said the opening up of the markets, announced alongside a batch of other long-awaited reforms for the country's fixed-income markets, would "further facilitate investing by foreign institutional investors in the Chinese bond market and unify the cross-border management of funds".

The move comes after global investors dumped a record $35bn worth of renminbi-denominated bonds in the first four months of the year as Covid-19 lockdowns have pummelled the country's currency, pushing the renminbi down by more than 5 per cent against the dollar in 2022.

Rising yields on US Treasuries, spurred by Federal Reserve monetary policy, have also reduced appetite for Chinese government debt, which had become a reliable source of fixed-income returns as the ultra-loose monetary policy of western central banks all but erased yields elsewhere.

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China already allows more than 1,000 foreign institutional investors to trade directly in its centralised interbank bond market, which does not rely on exchanges to operate and accounts for about 90 per cent of the country's Rmb138tn ($20.6tn) worth of onshore debt. Offshore investors, which the PBoC said held about Rmb3.9tn of onshore bonds at the end of April, can also access the market through Hong Kong's bond connect scheme.

The reforms announced on Friday will open up the remaining 10 per cent of China's onshore market, as well as unify regulations across the interbank and exchange bond markets — ending a discrepancy that had been a source of frustration for many fixed-income investors.

"We're not talking about opening another huge market for foreign investors," said Bruce Pang, head of research at China Renaissance. "We're talking about opening up this one part of the market to the huge crowd of existing foreign investors."

Under the new regulations, foreign investors will be able to invest in the exchange bond market both directly and through the Bond Connect programme.

A senior bond investment manager with one European lender based in Shanghai said the move "won't necessarily bring massive investment inflows immediately". But he expressed relief that the new regulations had "finally landed to make our lives easier", anticipating that the reforms will help streamline procedures for global investors already operating in the onshore market.

Separately on Friday, Chinese and Hong Kong securities regulators announced that they will add exchange traded funds to the existing Hong Kong stock connect scheme, which facilitates offshore investment in China's onshore equities. The long-awaited move is likely to boost the country's global market integration and strengthen Hong Kong's ETF market.