Riding the Wave of Portfolio Inflows into Mainland China

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Hong Kong as an Ideal Platform to Go into China

- **QFII**
  - Invest in onshore equity & bond markets after opening onshore accounts

- **RQFII**
  - Extension of QFII to allow RMB

- **Mutual Recognition of Funds**
  - Chinese and HK investment funds can be distributed to each other’s public after streamlined approval

- **Bond Connect**
  - International investors can trade and clear China bonds using HK

### Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA)
- Preferential trade & investment policies

### Shanghai-HK Stock Connect
- International investors can trade Shanghai stocks through HKEX and Chinese investors can trade HK stocks through SSE

### Shenzhen-HK Stock Connect
- Extension of Stock Connect to cover SZSE

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**On-boarding**
- No direct account
- Don’t need Chinese legal documentation

**Trading**
- International trading practices and facilities

**Settlement**
- Nominee holding
- Maintain beneficial ownership rights
- Continue to use offshore custodians
Connects: Preferred Channel to Access China’s Capital Markets

- Average daily turnover of Northbound trading (RMB billion)
  - Captured over 65% of foreign holdings in A-shares
  - RMB42bn

- Average daily turnover of Bond Connect (RMB billion)
  - Captured over 60% of the overall trading turnover by foreign investors
  - RMB18bn

Source: HKEX, BCCL, Bloomberg
Continuous Improvement to the Connects

Major Enhancement

**Stock Connect**
- New arrangement for CNY conversion and hedging

**Bond Connect**
- Expansion of settlement cycle
- DvP settlement
- Block trade functionality
- Additional electronic trading platform

What’s next?

**Stock Connect**
- ETF

**Bond Connect**
- Expansion of tradable product scope
- Launch of Southbound trading
Under-allocation of Chinese Assets despite Increasing Foreign Participation

- Foreign holdings in China's Interbank Bond Market: 2.57%
- Foreign holdings in A-shares: 3.24%

Source: PBOC, CCDC, SHCH, BCCL (as of Sep 2019)
## Index Inclusion of A-shares and RMB bonds: The Beginning

### A-shares

<table>
<thead>
<tr>
<th>Index</th>
<th>Inclusion Factor</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI Emerging Markets Index</td>
<td>20%</td>
<td>In the future, China A-shares could exceed 16% of the index upon full inclusion</td>
</tr>
<tr>
<td>FTSE Emerging Index</td>
<td>25%</td>
<td>In the future, China A-shares could exceed 27% of the index after foreign ownership limit and free float adjustment</td>
</tr>
<tr>
<td>S&amp;P Dow Jones</td>
<td>25%</td>
<td></td>
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### RMB bonds

<table>
<thead>
<tr>
<th>Index</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomberg Barclays Global Aggregate Index</td>
<td>Inclusion of over 360 Chinese securities over 20 months</td>
</tr>
<tr>
<td>JPMorgan Government Bond Index Emerging Markets (GBI-EM) Global Diversified Index</td>
<td>1% addition per month over 10 months</td>
</tr>
<tr>
<td>FTSE Russell World Government Bond Index</td>
<td>On the watchlist</td>
</tr>
<tr>
<td></td>
<td>Next review in March 2020</td>
</tr>
</tbody>
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### Inclusion Timeline

- **Nov 2019**: China A-shares: 3.83%
- **Mar 2020**: China A-shares: 5.62%
- **Sep 2019**: China A-shares: 5.48% (S&P EM BMI)
- **Nov 2020**: China CNY Bonds: 6.03%
- **Nov 2020**: China CNY Bonds: 10%

Source: HKEX, Bloomberg, JPMorgan, MSCI, FTSE Russell
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