



Bond Connect

Bond Connect is a new initiative for mutual access between Hong Kong and China bond markets through a cross-border platform that facilitates the efficient trading by overseas institutional investors in China bond market. Bond Connect northbound trading kicked off on July 3, while southbound trading will be explored at a later stage.

In June 2017, the depository balance of China's bond market amounted to roughly US\$10.1 trillion, and is ranked the third in the world after the U.S. (US\$24.2 trillion) and Japan (US\$11.3 trillion). The China interbank bond market accounts for over 90% of outstanding value of China's overall bond market and major products include various kind of bonds and commercial papers.

Qualified Foreign Institutional Investors (QFIs) and RMB Qualified Foreign Institutional Investors (RQFIs) were allowed to invest in China's bond market. With the liberalization of the interbank bond market in 2015, most foreign financial institutions and institutional investors are able to invest in the market without pre-approval requirements and individual quotas for medium-to-long term investments. The major benefit of Bond Connect is to allow foreign investors to trade onshore bonds more easily, with complete removal of quota as well as more efficient trading.

RMB depreciation in 2015 reduced foreign investors' appetite for RMB-denominated investment products. China's bond in general provides higher yield than bonds issued in developed countries. With the launch of northbound trading, RMB depreciation pressure could be slightly relieved. With stabilization of RMB, China's bond market is expected to receive a warm welcome by foreign investors. However, Hong Kong is only acting as a channel to let international funds to China's bond market without activation of southbound trading.