

Riding the Wave of Portfolio Inflows into Mainland China

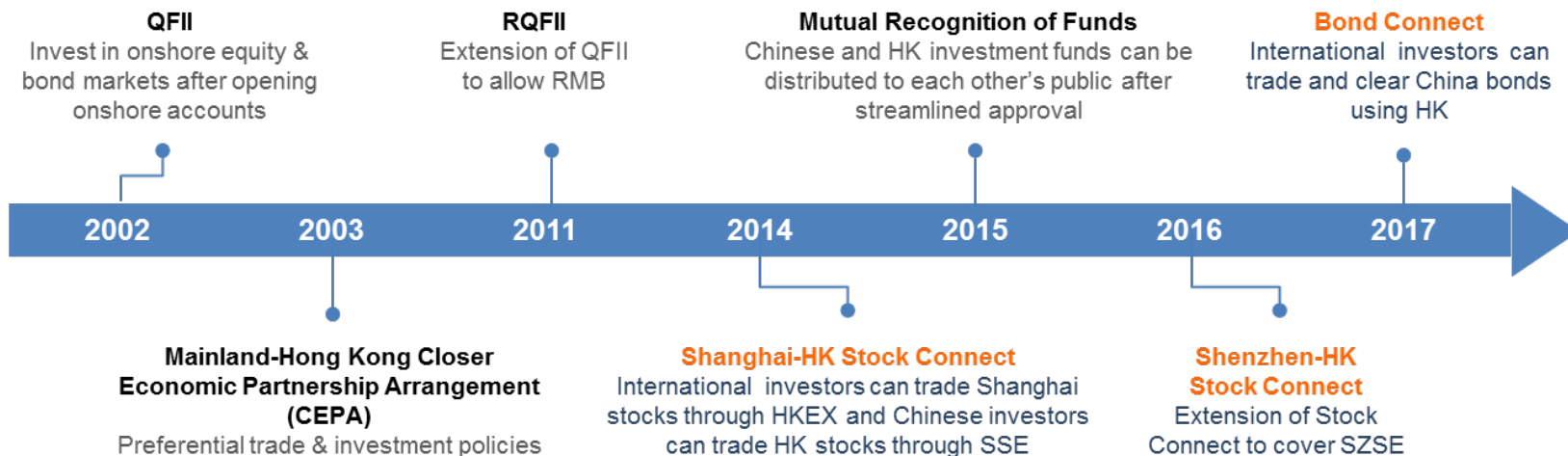
Howard Lee
Deputy Chief Executive
Hong Kong Monetary Authority

November 2019

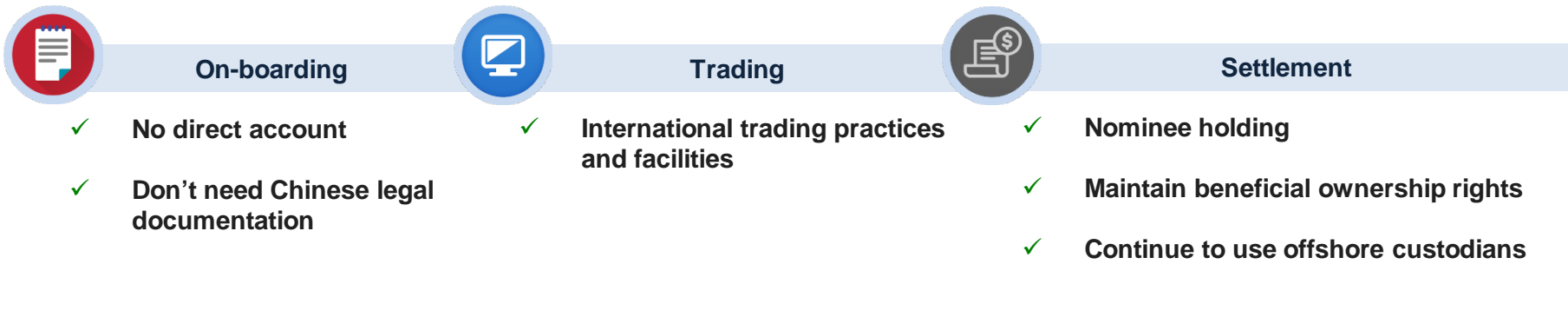




Hong Kong as an Ideal Platform to Go into China



滬港通 SHANGHAI CONNECT 深港通 SHENZHEN CONNECT 債券通 BOND CONNECT

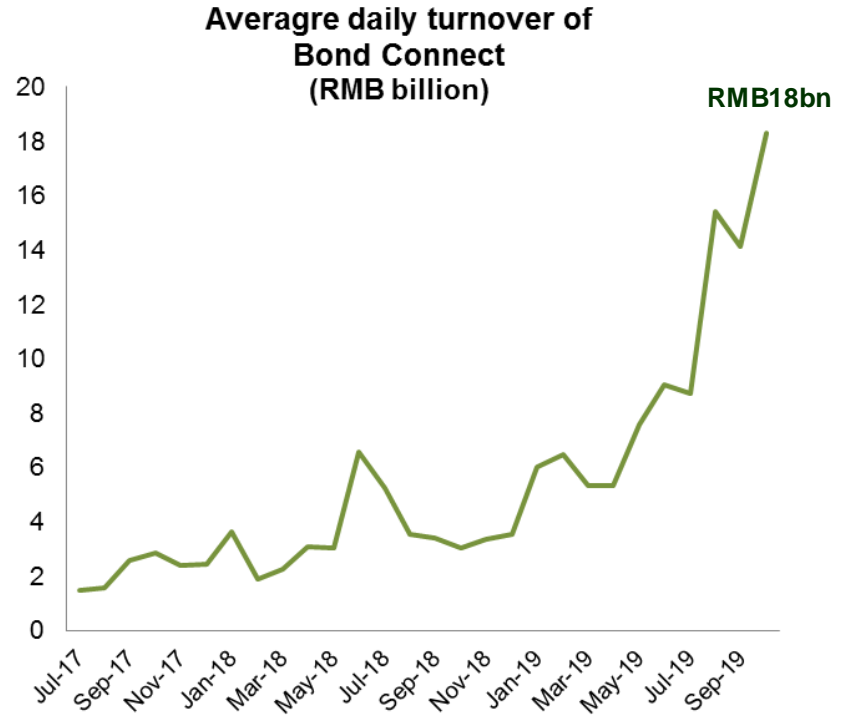
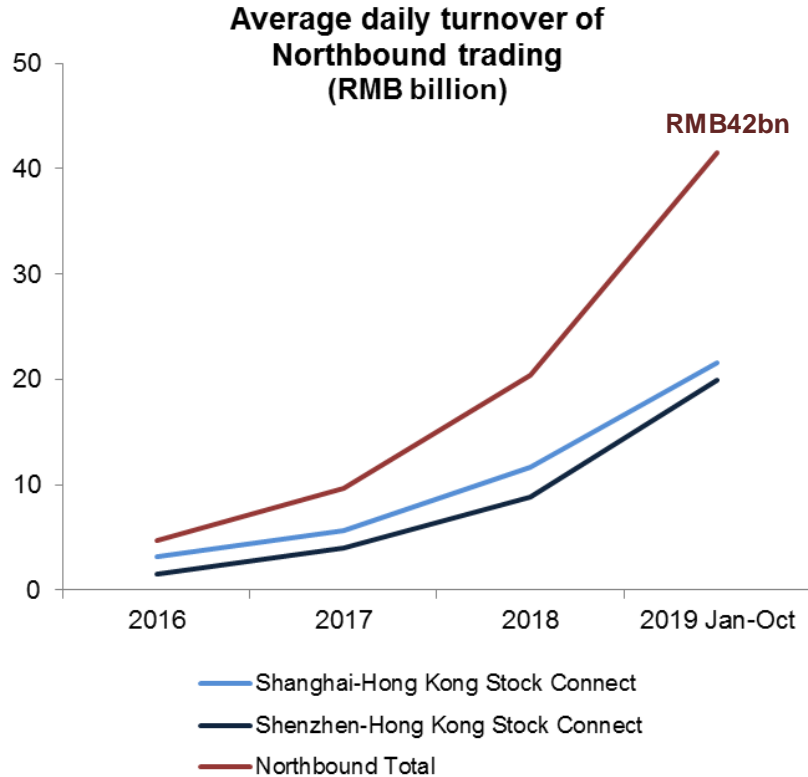




Connects: Preferred Channel to Access China's Capital Markets

滬港通 深港通
SHANGHAI CONNECT SHENZHEN CONNECT

債券通
BOND CONNECT



Captured over **65%** of foreign holdings in A-shares

Captured over **60%** of the overall trading turnover by foreign investors



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

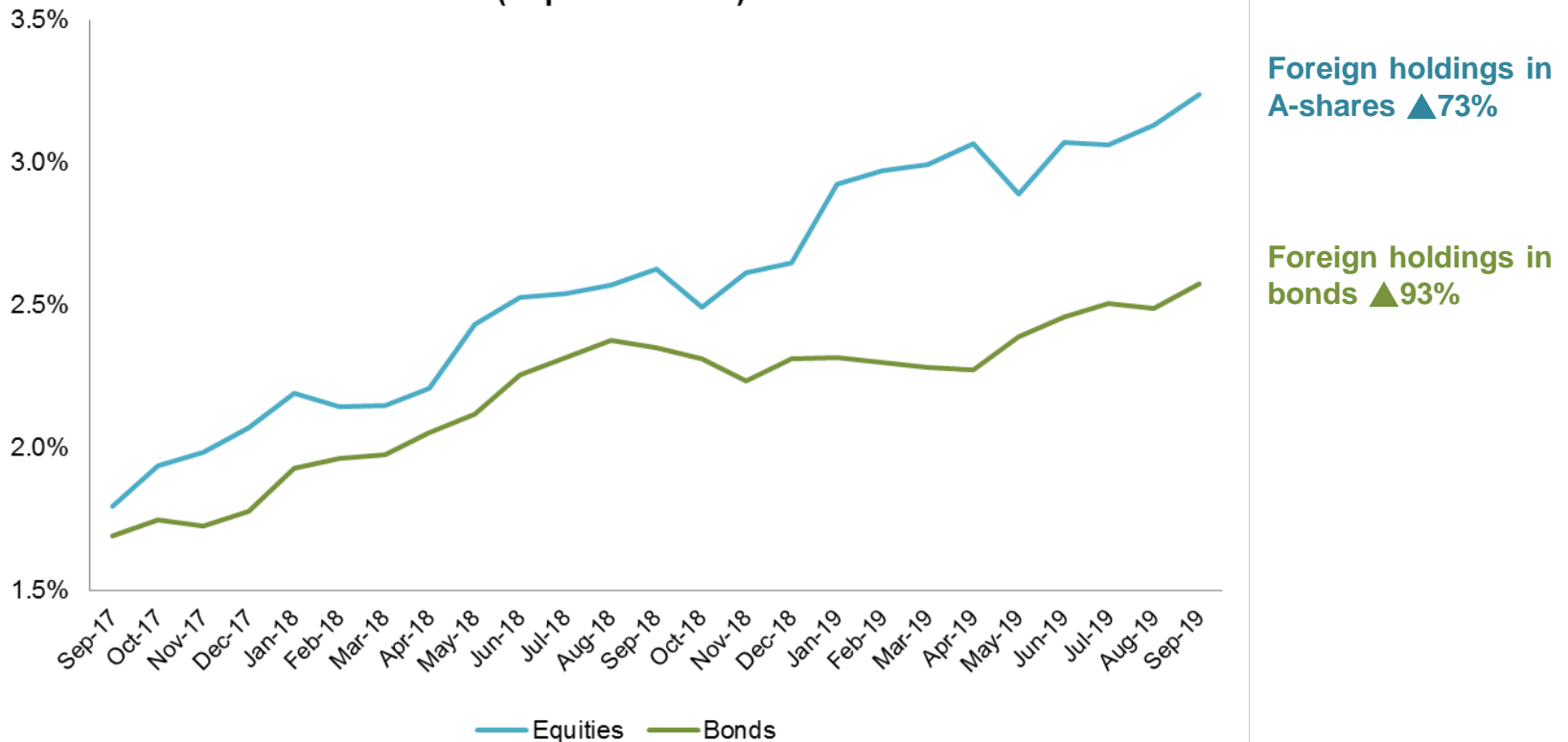
- Expansion of tradable product scope
- Launch of Southbound trading



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%**

Foreign Ownership of A-shares and Domestic Bonds (Sep 2017 - 2019)





Index Inclusion of A-shares and RMB bonds: The Beginning

A-shares

MSCI Emerging Markets Index

- Inclusion Factor: **20%**

Nov
2019

China A-shares:
3.83%

In the future, China A-shares could exceed 16% of the index upon full inclusion

FTSE Emerging Index

- Inclusion: **25%** of a security's investable market cap

Mar
2020

China A-shares:
5.62%

In the future, China A-shares could exceed 27% of the index after foreign ownership limit and free float adjustment

S&P Dow Jones

- Inclusion Factor: **25%**

Sep
2019

China A-shares:
5.48%
(S&P EM BMI)

RMB bonds

Bloomberg Barclays Global Aggregate Index

- Inclusion of over 360 Chinese securities over 20 months

Nov
2020

China CNY Bonds:
6.03%

JPMorgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified Index

- 1% addition per month over 10 months

Nov
2020

China CNY Bonds:
10%

FTSE Russell World Government Bond Index

- On the watchlist
- Next review in March 2020

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