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# Bond market development in Asia

Recent developments and possible scenarios for  
China's bond market

March 2016

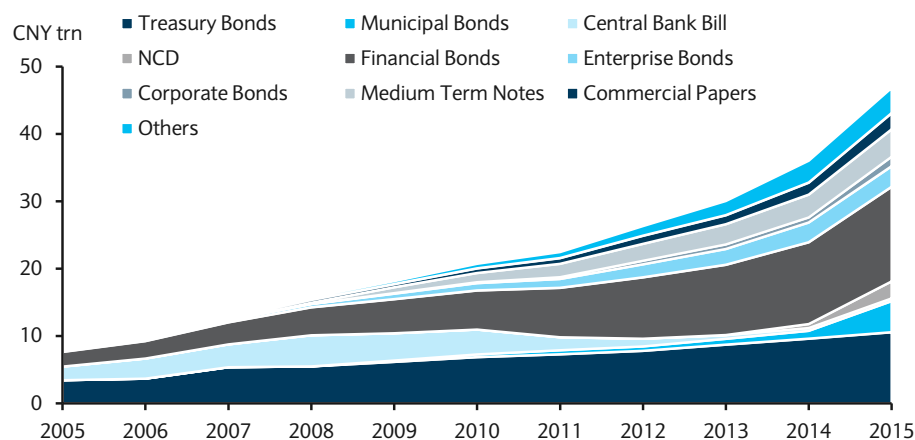
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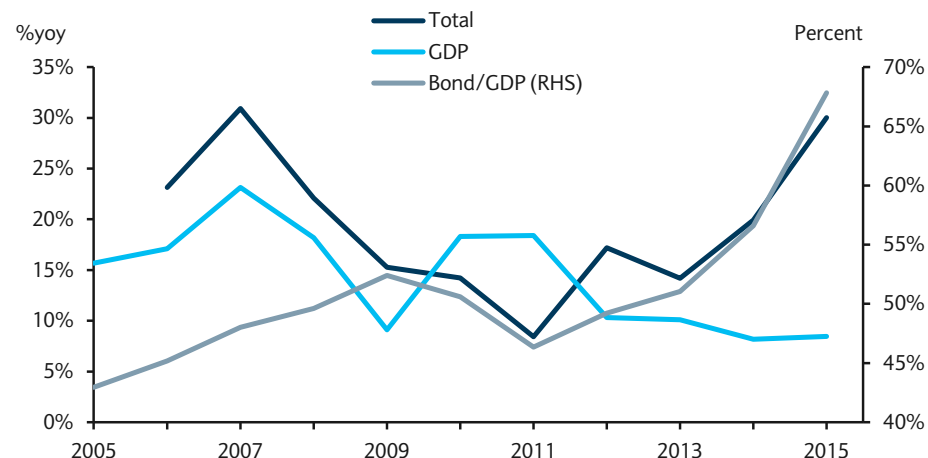
PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6.

# China bond market growth

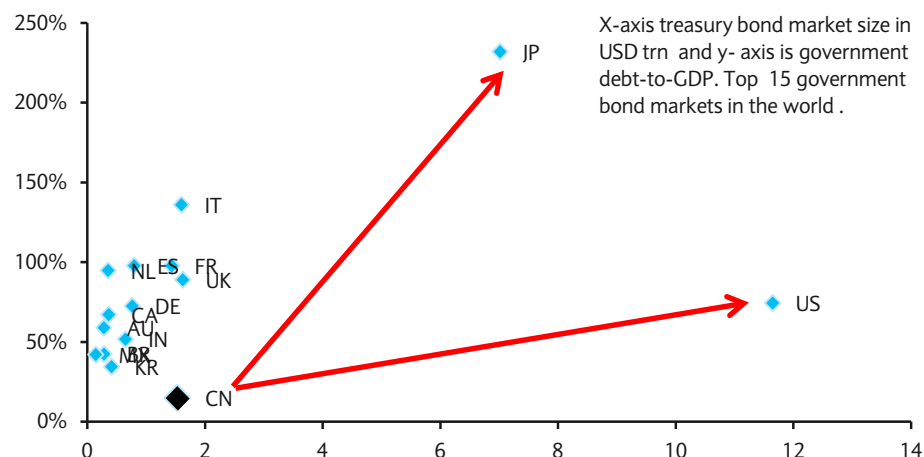
## Onshore bond market grew rapidly...



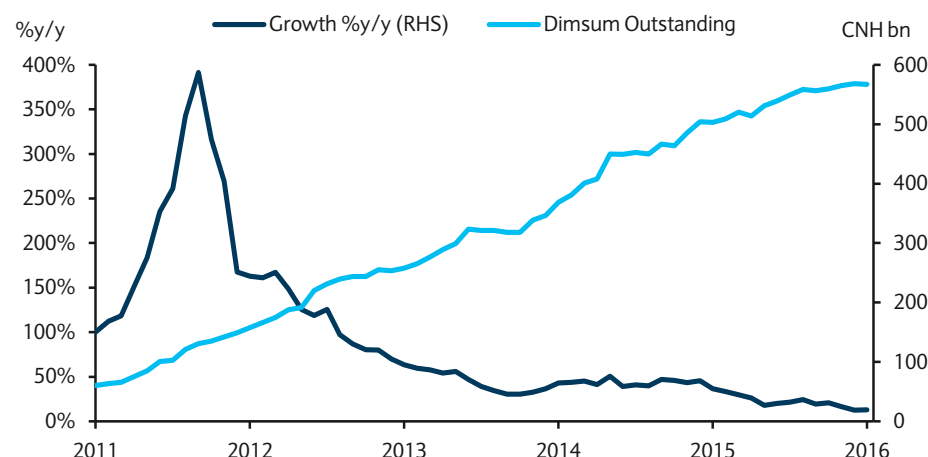
## ... driven not only by GDP growth but also some bond market development



## Potential for further growth remains high for the Chinese government bond market



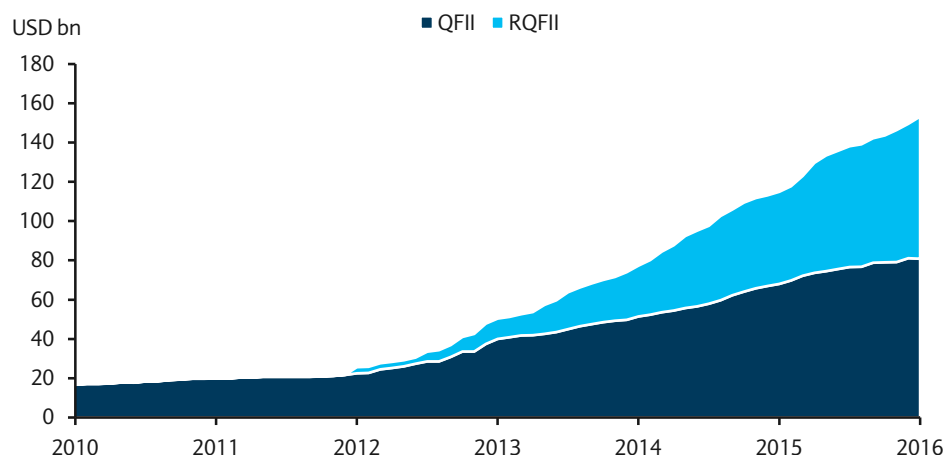
## Offshore RMB bond market growth comes off the boil



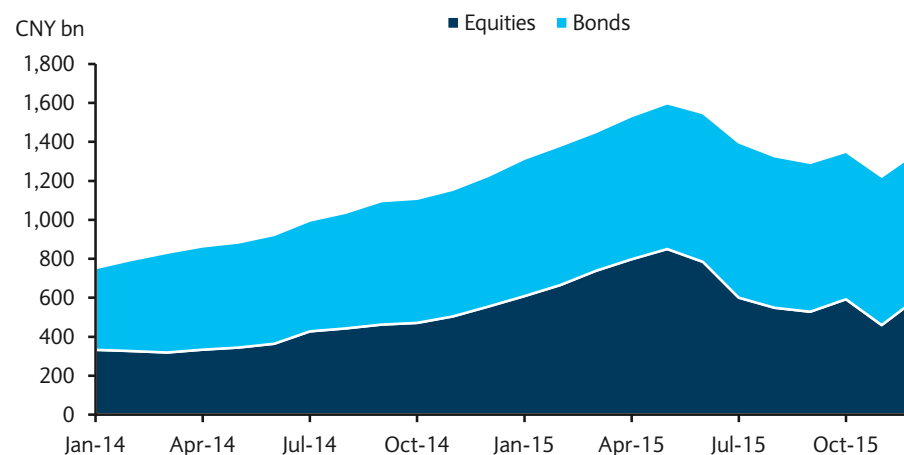
Source for all charts: Wind, Haver Analytics, Bloomberg, Barclays Research

# Onshore market gradually opening up to foreign investors

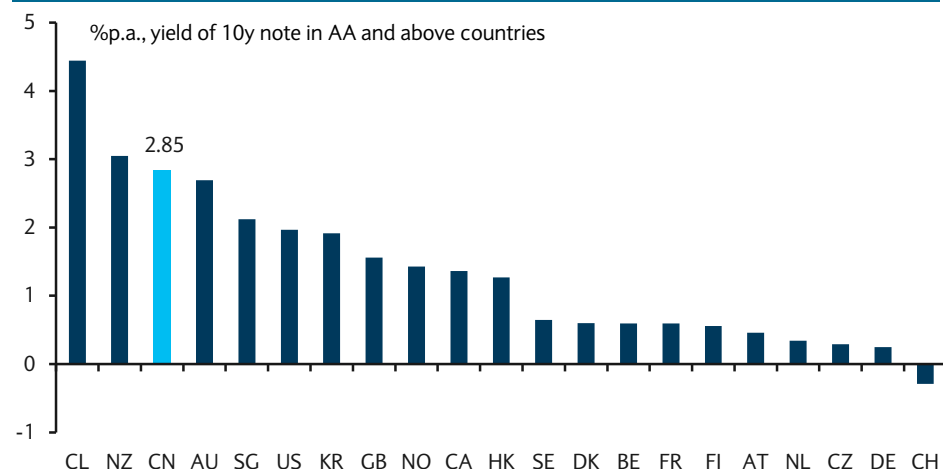
**China is opening the door for further foreign investment in domestic markets...**



**... although actual investment remains limited so far**



**Yields remain relatively high for its credit rating**



**Two scenarios of demand for RMB in global FX reserves after SDR inclusion**

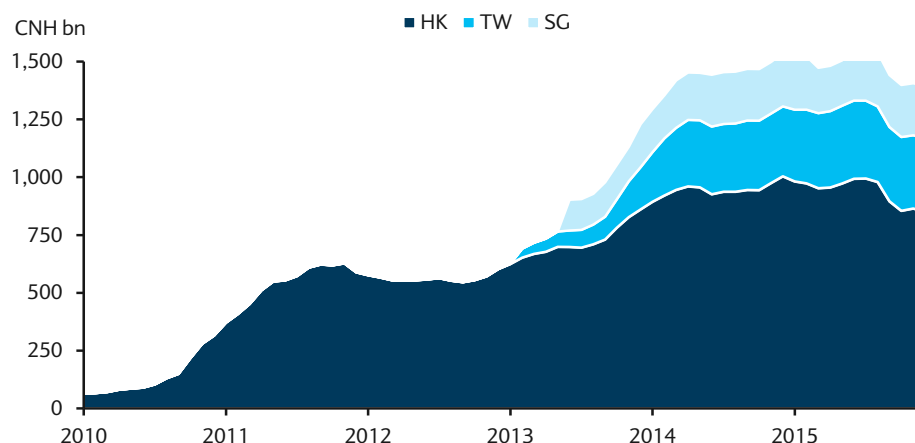
Year	Share of RMB in global FX reserves		RMB level (in USD bn)		
	(A)	(B)	(A)	(B)	Global FX reserves
2015	1.4%	1.4%	158	158	11460
2020	3.1%	4.6%	291	425	11943
2025	5.1%	10.9%	534	1142	12496
2030	8.4%	26.4%	980	3066	13112

Note: Global reserves excluding China grew 1.1% y/y over the past two years. We also expect a gradual decline in China's FX reserves due to SDR inclusion and capital outflows. Against this background we assume around 1% y/y growth in global reserves.

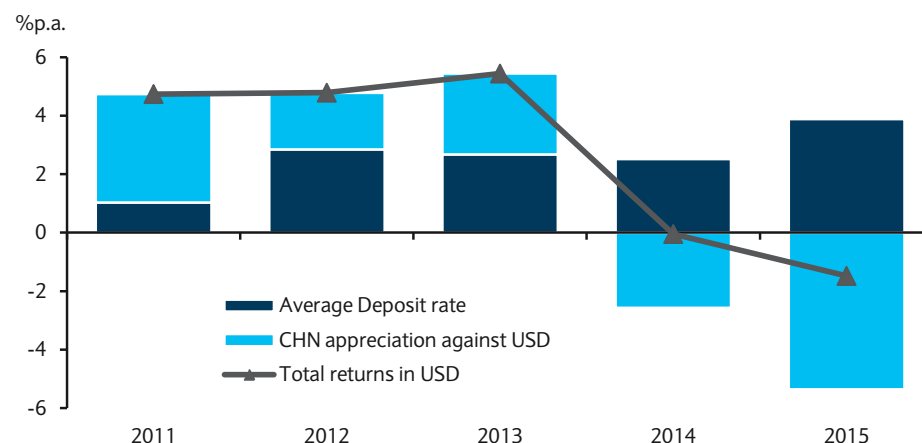
Source for all charts : Bloomberg, Haver Analytics, Barclays Research

# Two extreme scenarios: (1) Off-shore winds down

## Demand for CNH assets on the decline



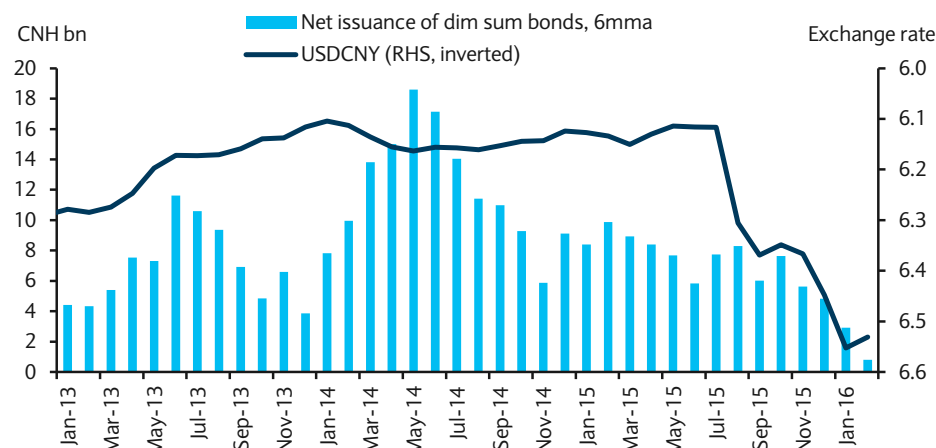
## RMB depreciation pushes returns into negative territory



## RMB weakness likely to continue...



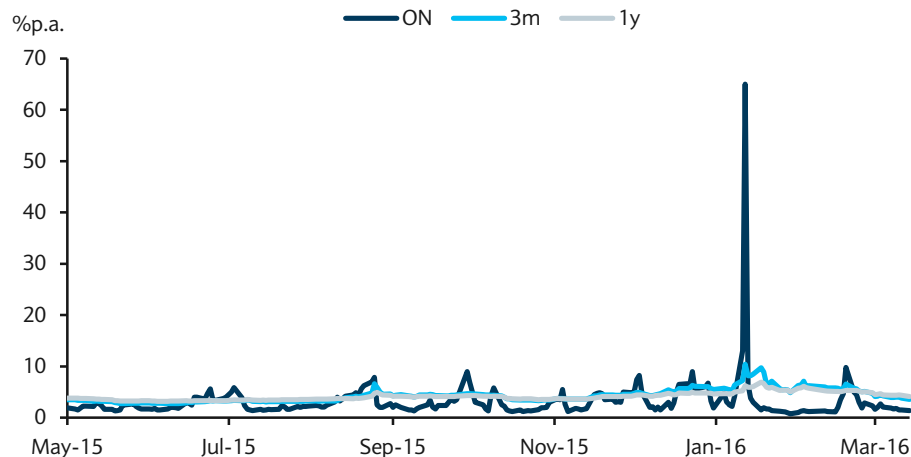
## ... resulting in an ongoing pull back of the dim sum market



Source for all charts : Infomax, Bloomberg, Barclays Research

# Two extreme scenarios: (2) Back on track

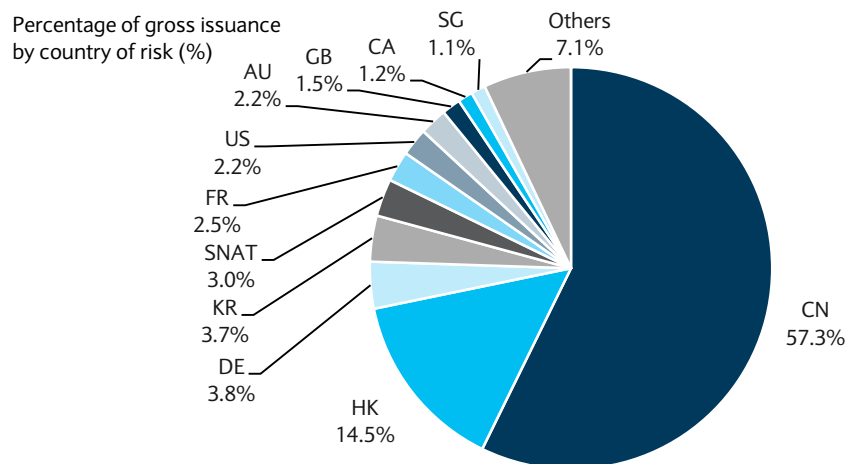
## CNH liquidity stabilization measures could have been more active



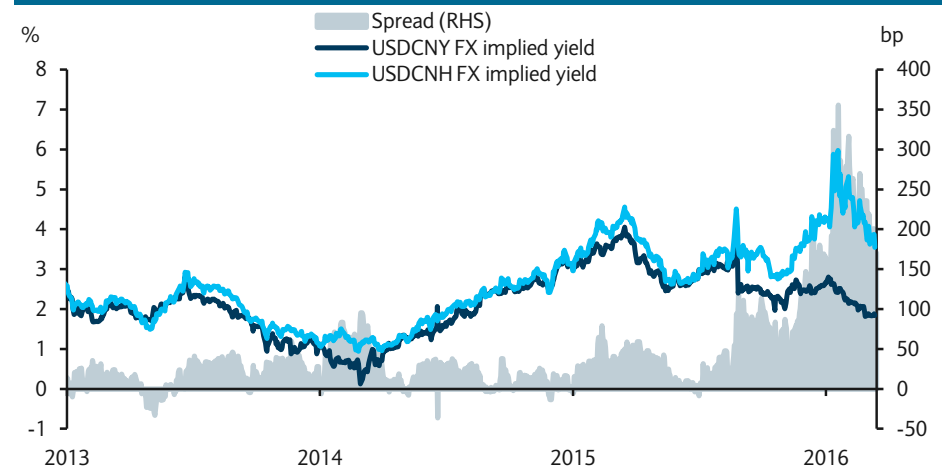
## USD strength takes a breather



## Wide range of funding needs still exist in the dim sum market...



## ... but FX hedging costs need to normalize



Source for all charts : Bloomberg, Barclays Research

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