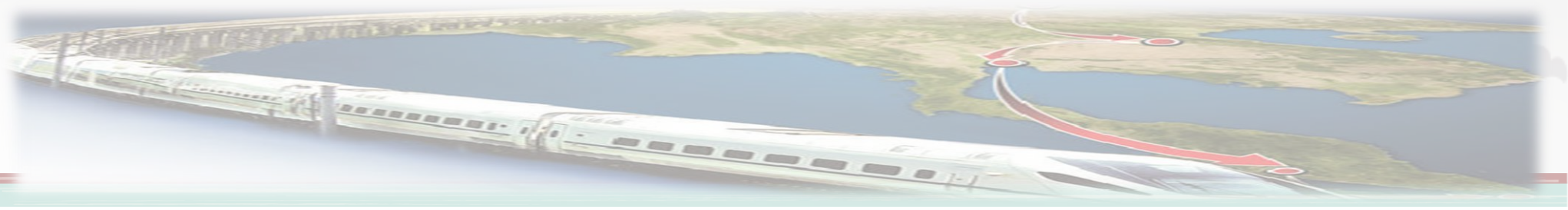




Chinese Firms' financing in international bond markets

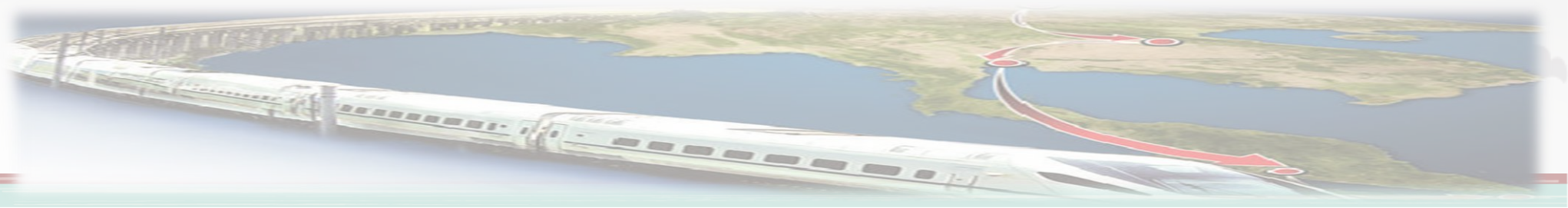
Prof Frank M Song

Center for China Financial Research, HKU



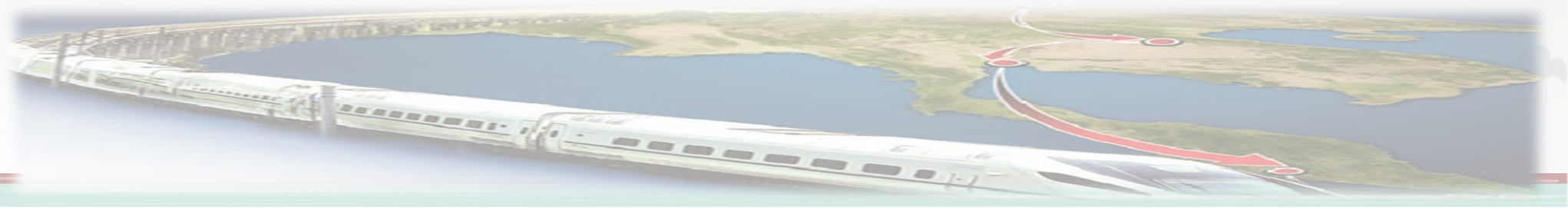
Increasing influence in the world economy

- China's export of manufacturing goods (Made in China)
- China's import of materials (Demand of China)
- China's consumption (Consumers from China)
- China's investment across the world (Invested by China)
- China's financial power (Financial Opening)



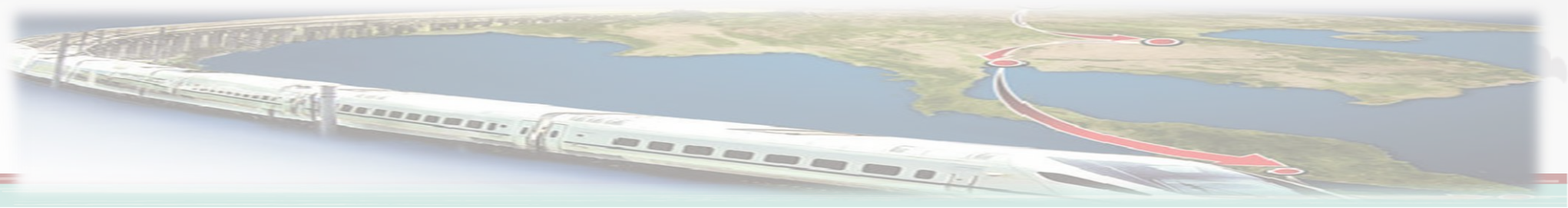
Chinese firms increasingly expand their business and investment globally

- China's ODI reached 1231.2 billion USD in 2014, exceeding FDI for the first time. China has been an economy with net capital outflow.
- M&As conducted by Chinese firms in Europe in 2014 was 30% more than 2013, promoting the demands for EUR bonds by Chinese firms.



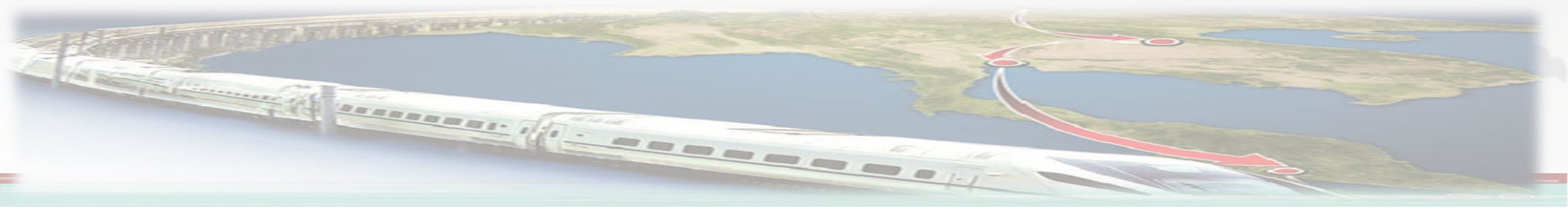
“One Belt, One Road” initiative creates more opportunities for Chinese firms outside Mainland China

- In the first 11 months of 2015, Chinese firms had invested 14 billion USD in 49 countries along the “One Belt, One Road”, with a year-to-year growth of 35%, and signed 2998 construction contracts whose value was up to 71.6 billion USD, with a year-to-year growth of 11.2%.

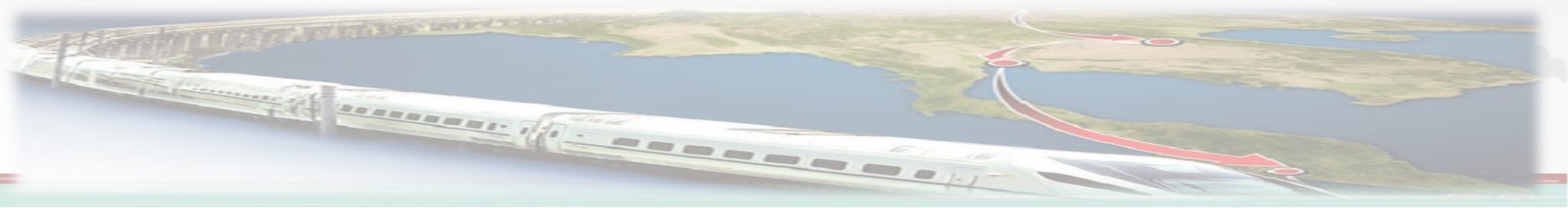


Capital account liberalization and RMB internationalization also promote Chinese firms' financing and investing across the world

- Policy restrictions for Chinese firms' financing abroad are being relaxed.
- 《国家发展改革委关于推进企业发行外债备案登记制管理改革的通知》：取消企业发行外债 的额度审批，改革创新外债管理方式，实行备案登记制管理；鼓励资信状况好、偿债能力强 的企业发行外债，募集资金根据实际需要自主在境内外使用，优先用于支持“一带一路”、京津冀协同发展、长江经济带与国际产能和装备制造合作等重大工程建设和重点领域投资。
- IMF has included RMB in SDR. There is more demand in global markets for RMB assets including RMB bonds.

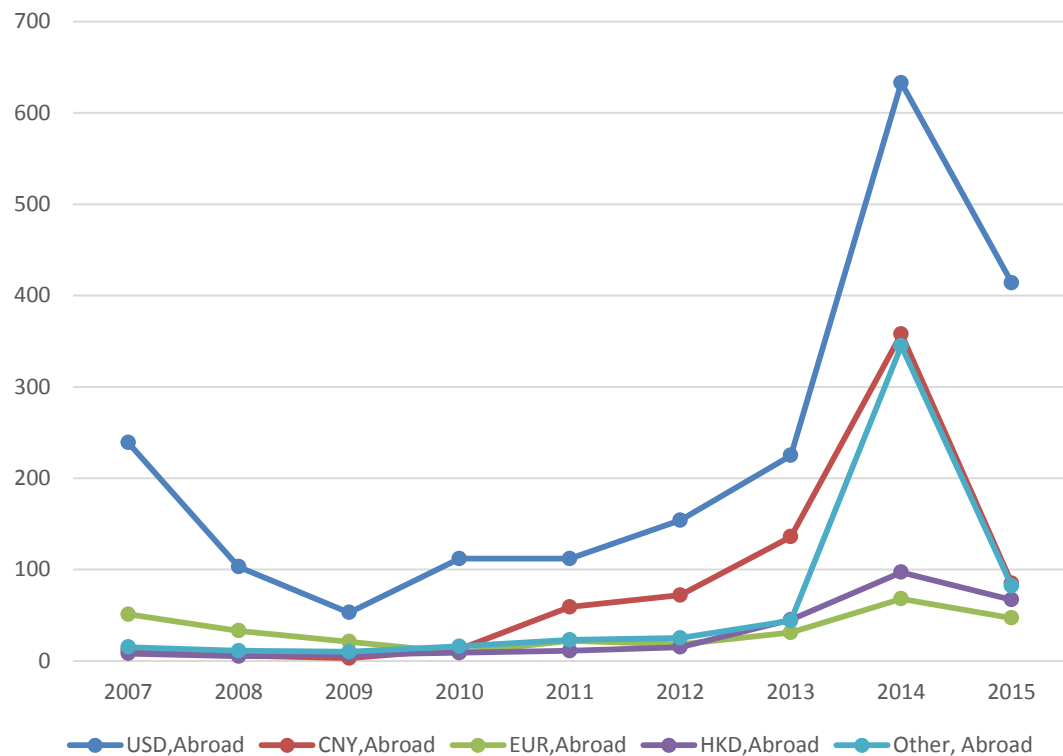


Bonds issued abroad by Chinese firms is a financial instrument linking China's development and the world economy, which is of increasing importance.



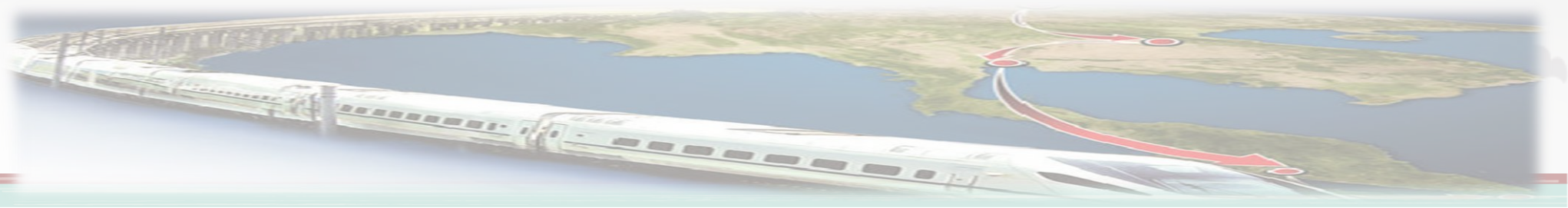
How many bonds issued abroad?

Number of Bonds Issued Abroad by Chinese Firms



Data Source: Bloomberg

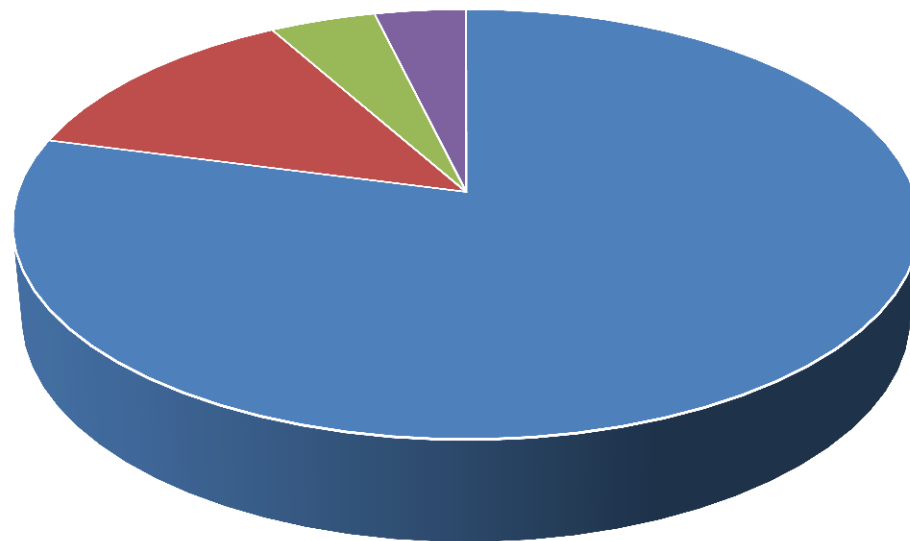
- Number of bonds issued abroad grows quickly since 2010
- 3925 Bonds in total:2007-2015
- USD bonds, 52%; RMB bonds, 19%; EUR bonds 7.7%; HKD bonds 6.7%, other bonds 14.6%
- RMB bonds issuing has taken the second largest proportion since 2010.
- Type of bonds are more and more diversified
- There is a decline in 2015



How many bonds issued abroad?

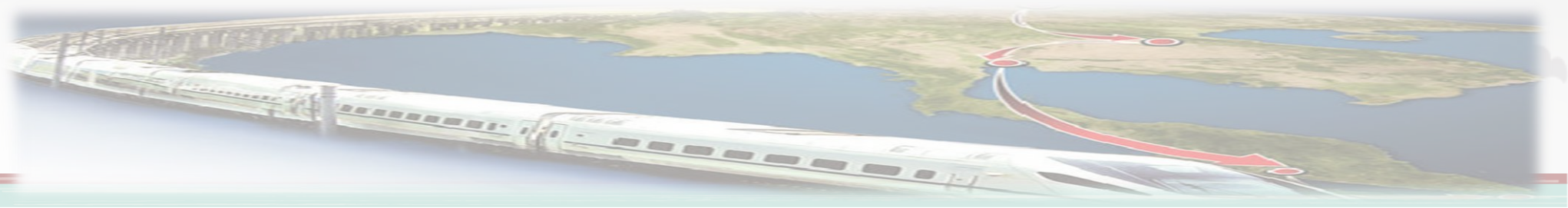
- 3997 billion in RMB in total
- USD bonds, 3162 billion in RMB; RMB bonds, 510 billion, which is 16% of USD bonds.
- USD bonds take about 80% of the total amount raised.

Total amount raised by bonds issued abroad: 2007-2015



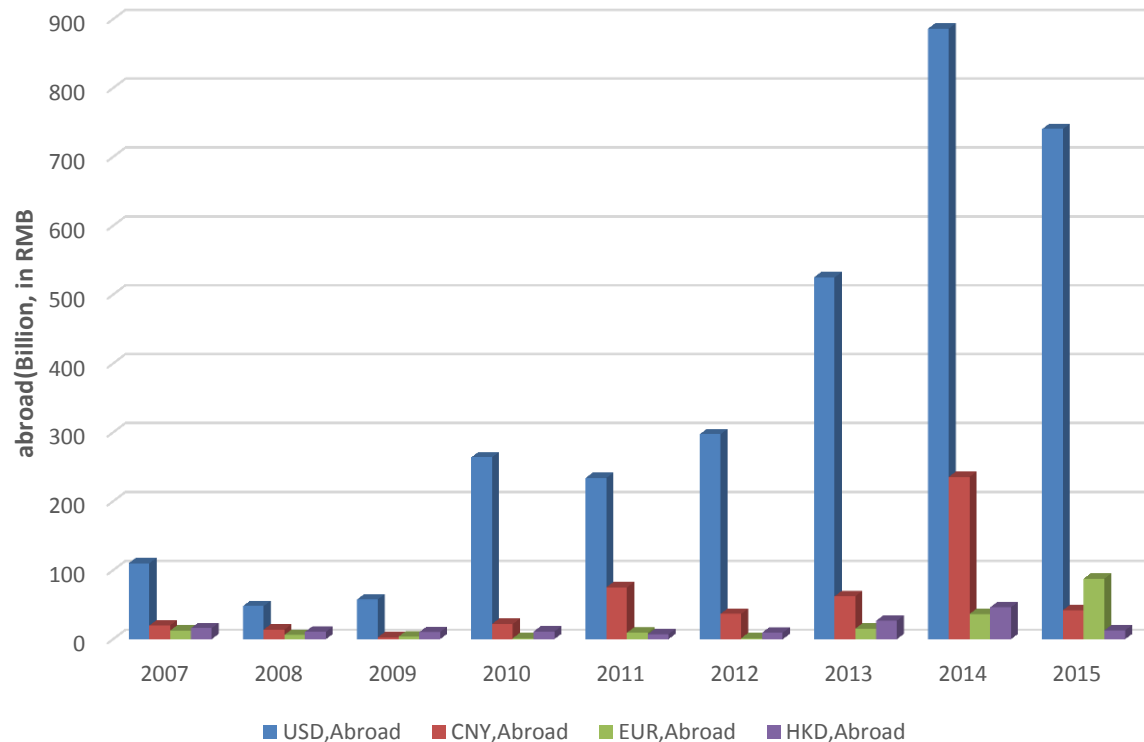
■ USD, Abroad ■ CNY, Abroad ■ EUR, Abroad ■ HKD, Abroad

Data Source: Bloomberg



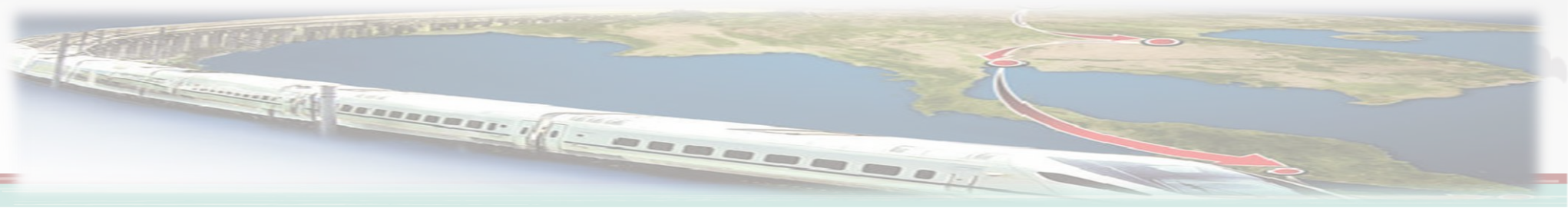
How many bonds issued abroad?

Amount Raised by Chinese firms through issuing bonds



- Amount raised by RMB bonds grows quickly since 2010, but with great volatility.
- Offshore RMB market is not stable.
- A big decline in 2015, except for EUR bonds

Data Source: Bloomberg



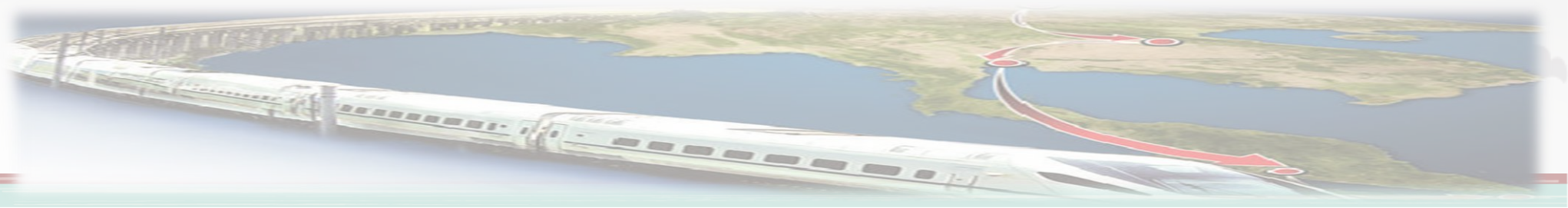
How many bonds issued abroad?

About 3997 billion in RMB in total raised by issuing bonds abroad, which is 17% of the amount raised by domestic bonds.

Amount raised by Chinese firms through different bonds (Billion, in RMB)

发行年	CNY,Domest	CNY,Abroad	USD,Abroad	EUR,Abroad	HKD,Abroad
2007	524.443	19.909	110.144	12.588	16.01
2008	841.595	13.907	47.935	6.077	10.751
2009	1530.788	2.716	57.668	3.77	10.321
2010	1449.667	22.037	263.859	1.519	11.063
2011	2303.756	75.181	233.747	9.461	7.235
2012	3307.266	36.723	297.31	1.54	9.373
2013	3108.381	62.305	524.956	15.383	26.812
2014	4031.594	235.387	886.219	36.461	46.332
2015	7224.069	42.052	740.474	87.836	12.84

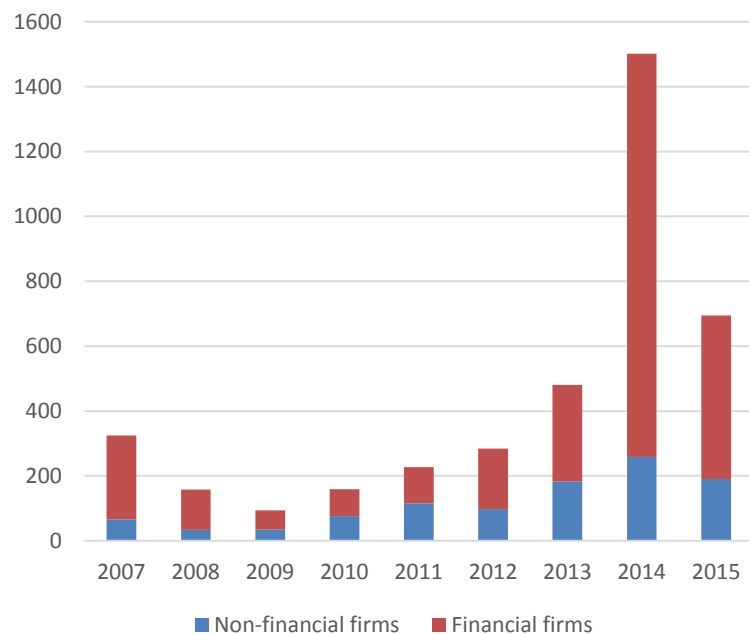
Data Source: Bloomberg



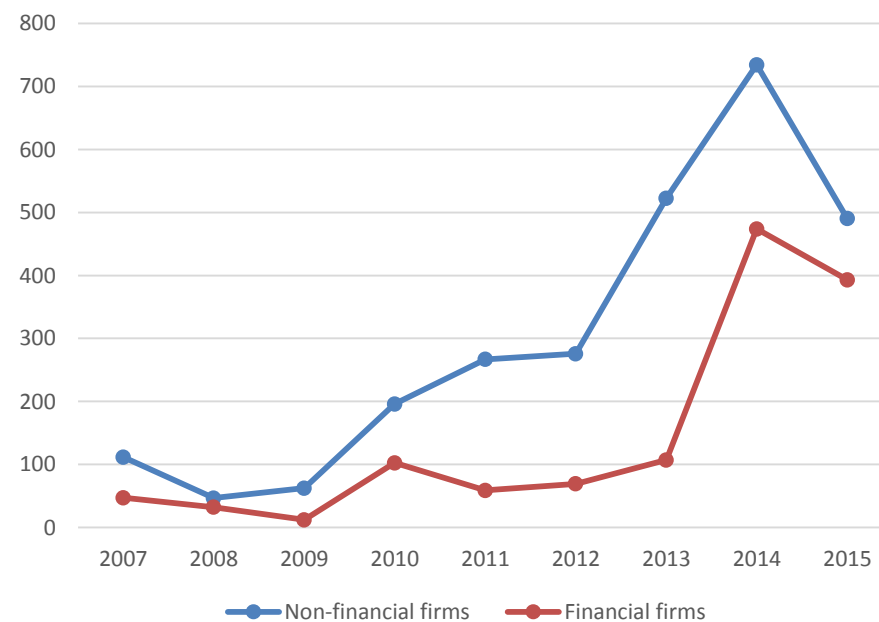
Who issues bonds abroad?

Financial firms issues more, while non-financial firms raise more money.

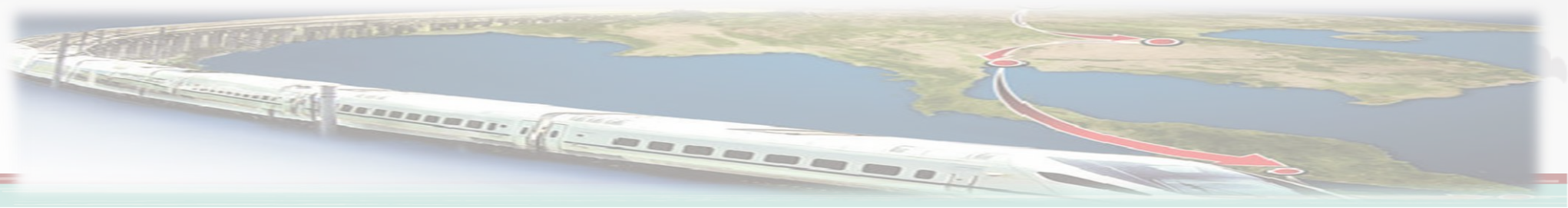
Number of bonds issued abroad



Amount Raised by issuing bonds abroad

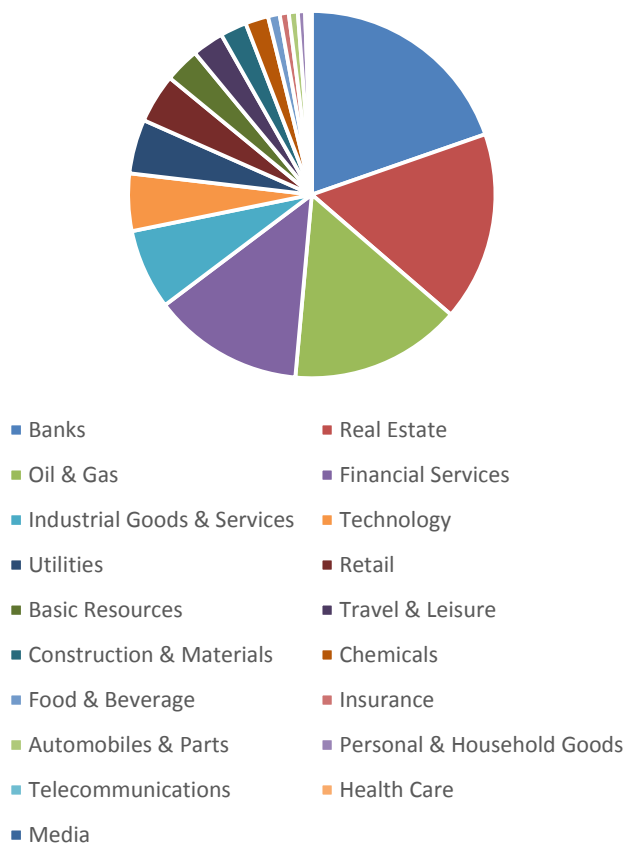


Data Source: Bloomberg

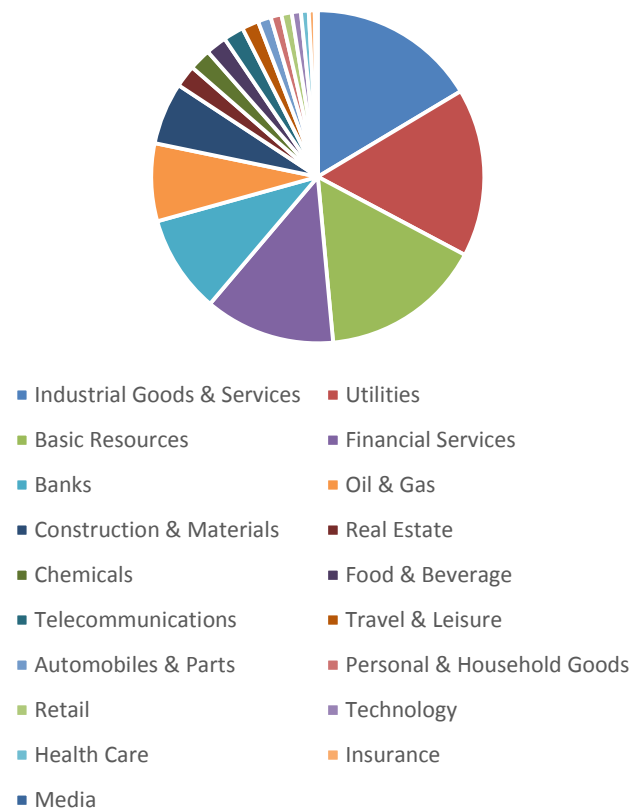


Who issues bonds abroad?

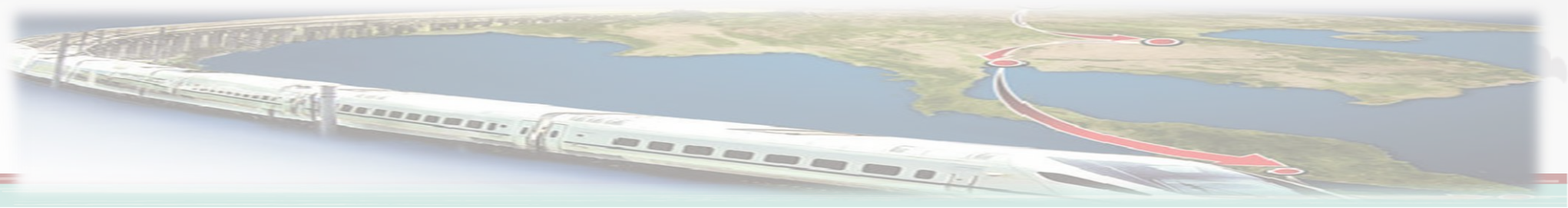
Amount Raised by issuing bonds abroad



Amount Raised by issuing domestic bonds



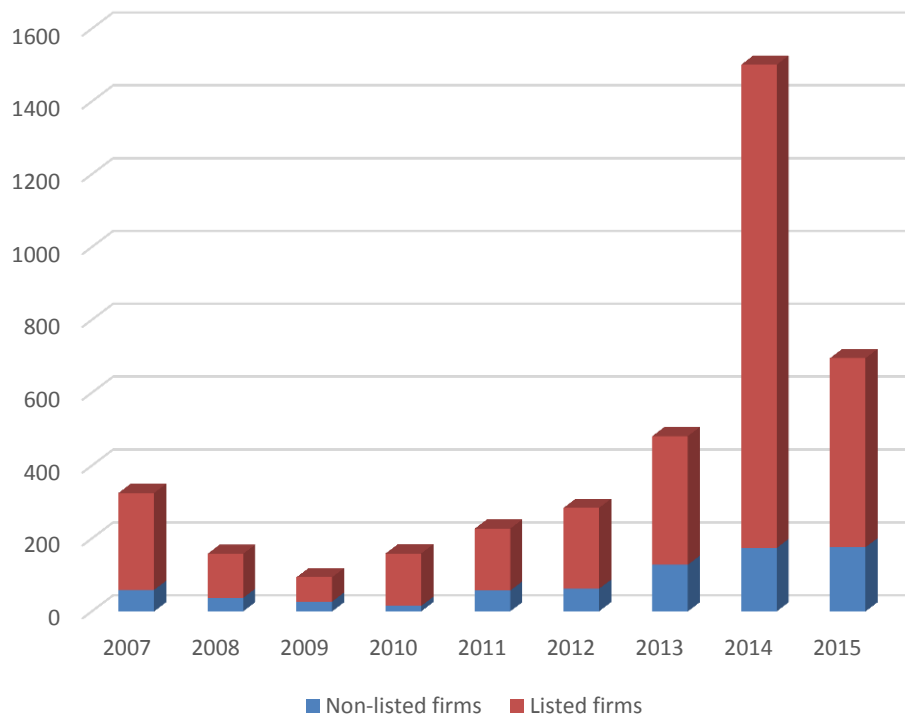
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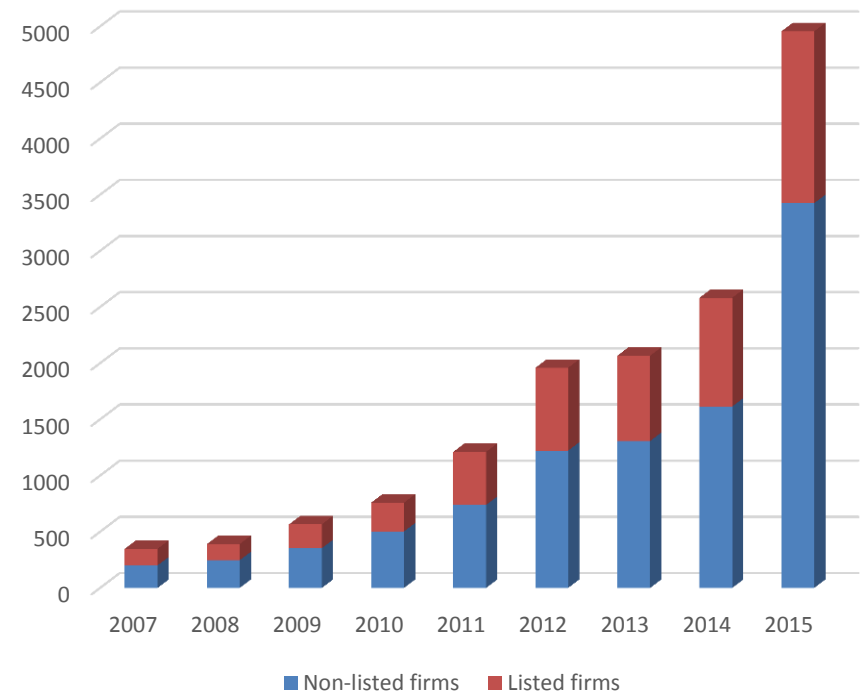
Who issues bonds abroad?

Listed firms issues more abroad; non-listed firms issue more in domestic

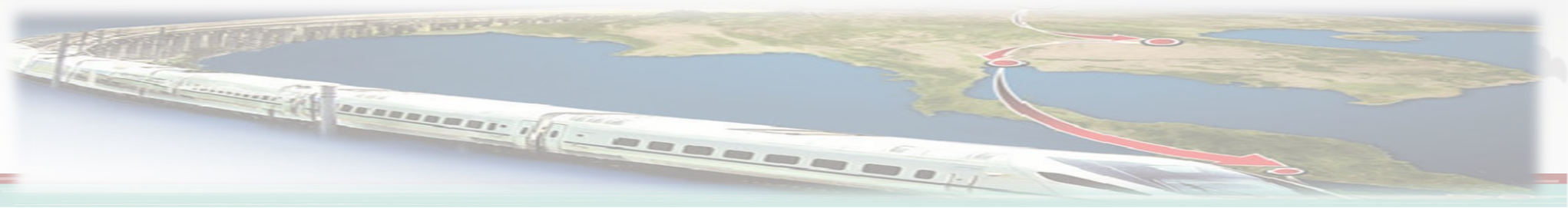
Number of bonds issued abroad



Number of domestic bonds



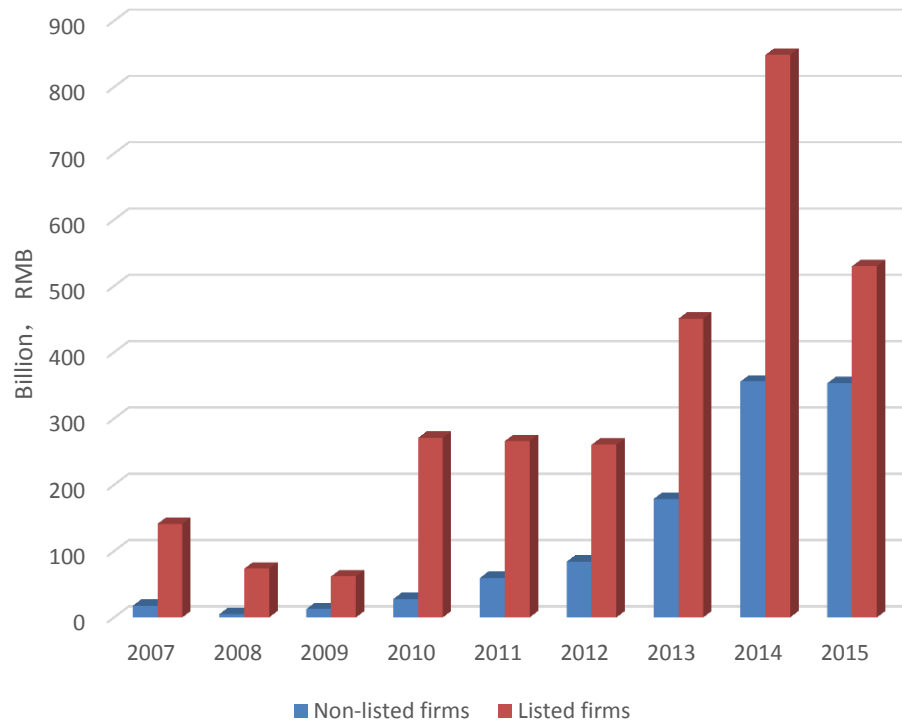
Data Source: Bloomberg



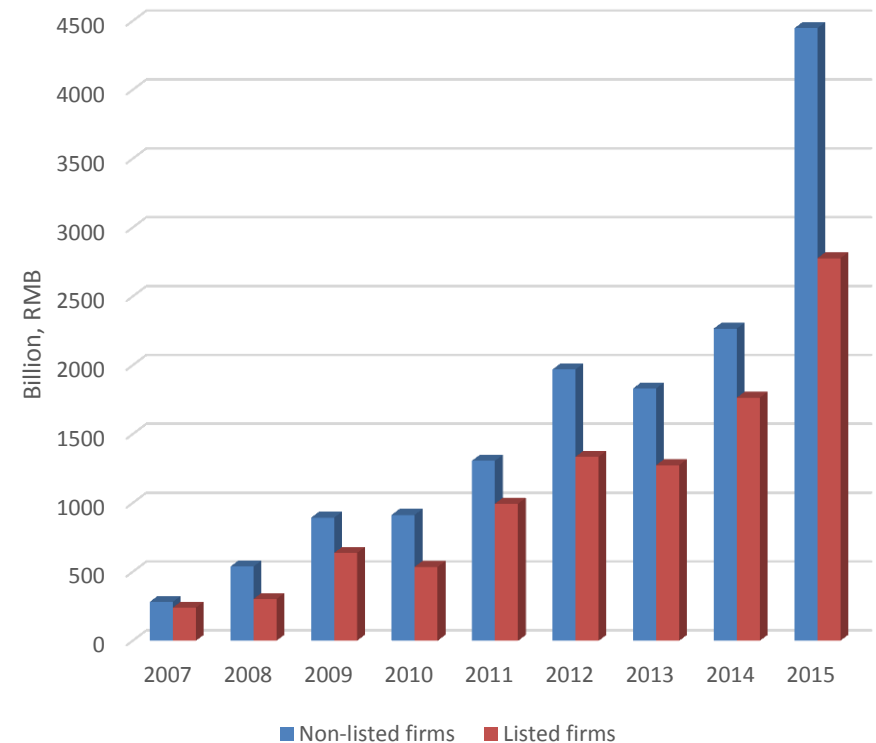
Who issues bonds abroad?

Listed firms raise more money abroad; non-listed firms raise more money in domestic

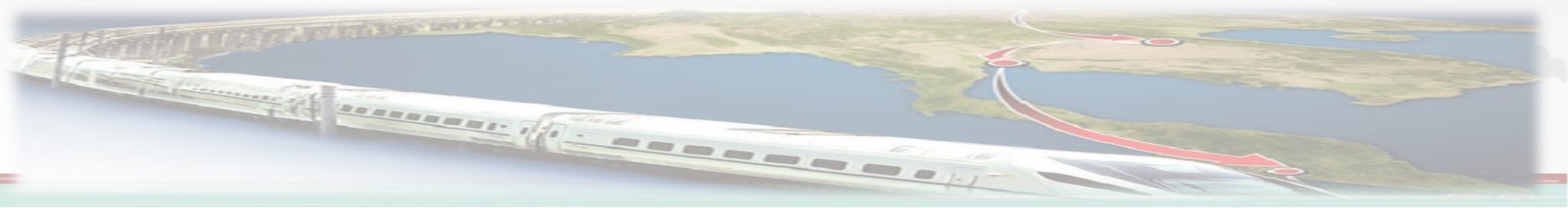
Amount raised by issuing bonds abroad



Amount Raised by domestic bonds

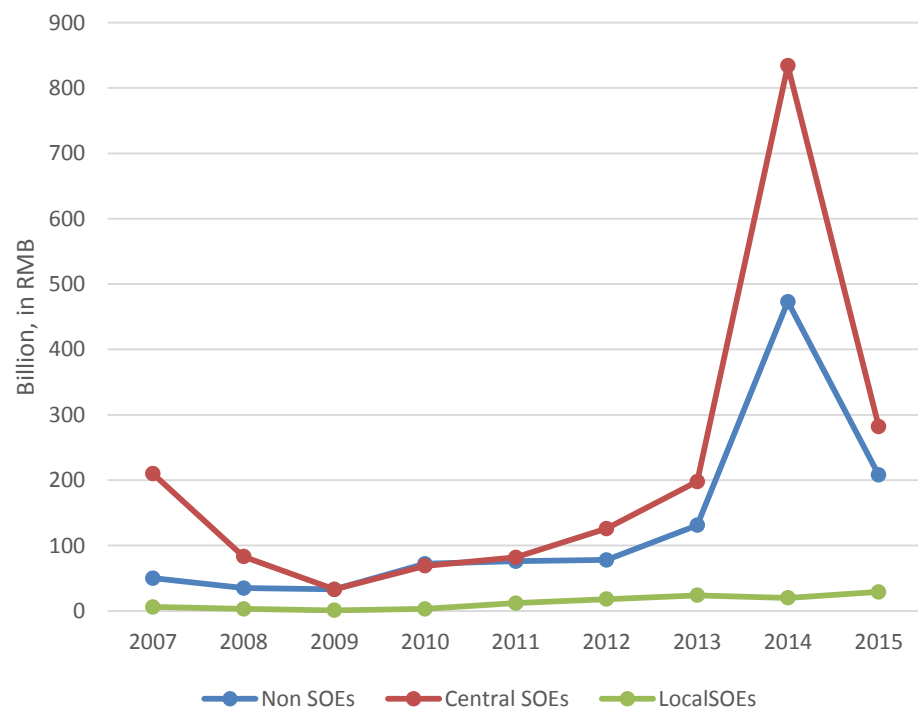


Data Source: Bloomberg

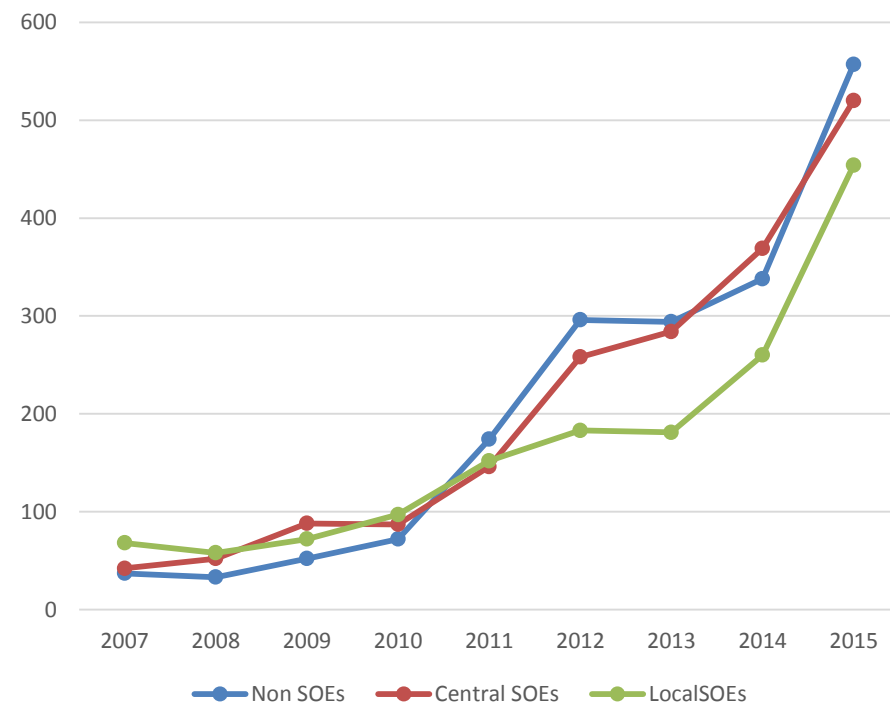


Who issues bonds abroad?

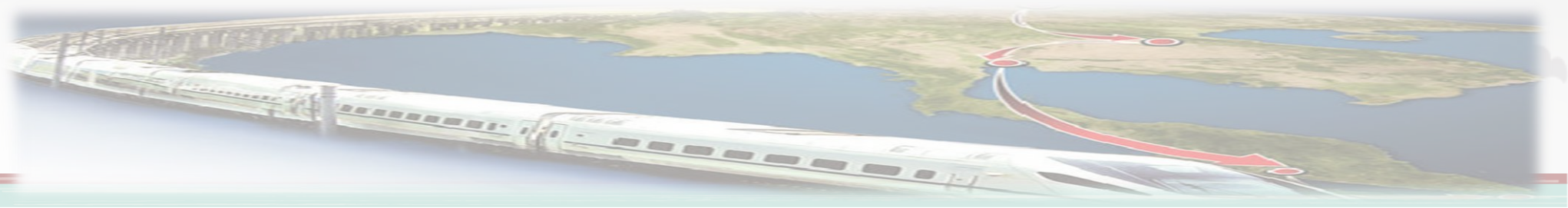
Number of bonds issued abroad by listed firms



Number of domestic bonds by listed firms

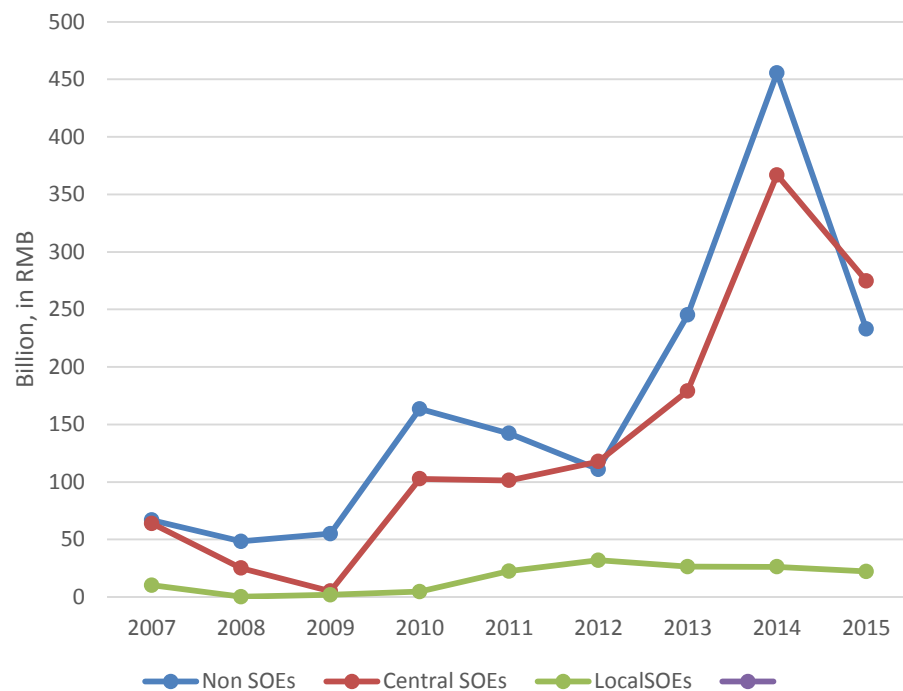


Data Source: Bloomberg

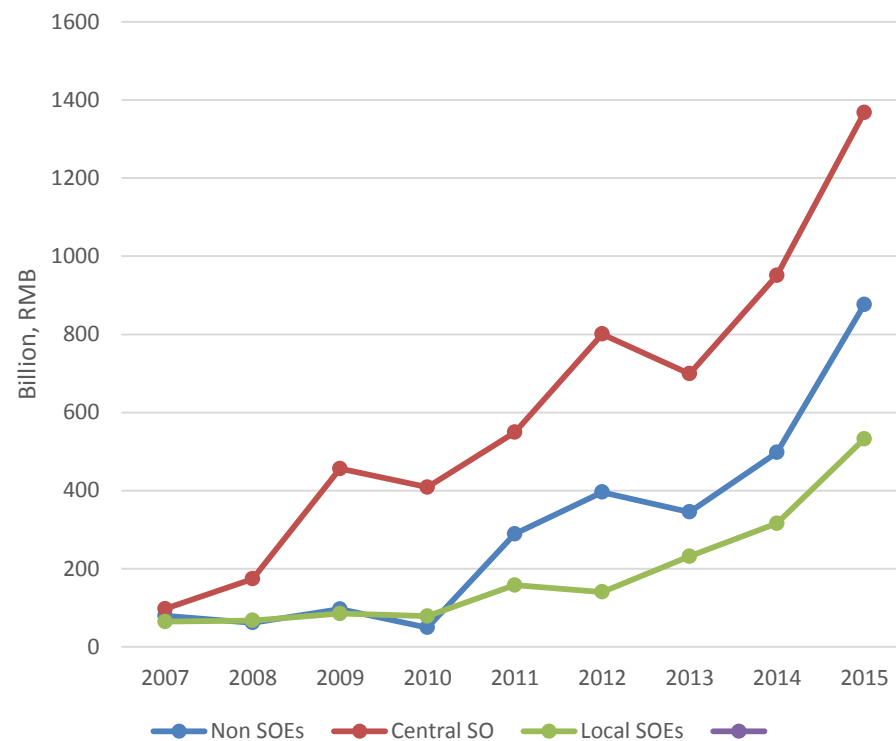


Who issues bonds abroad?

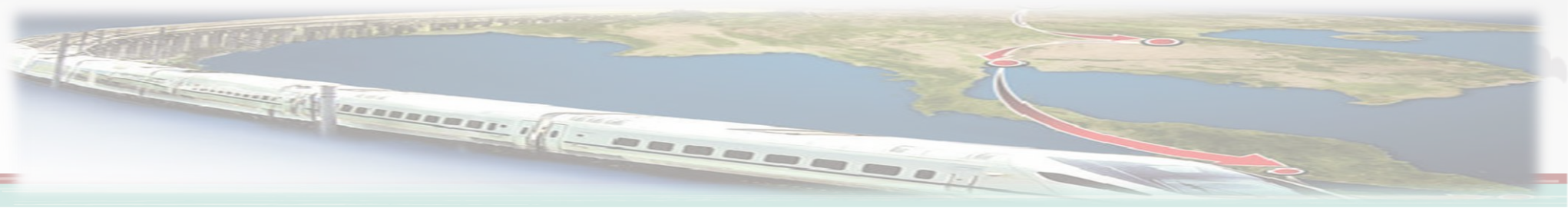
Amount raised by bonds issued abroad by listed firms



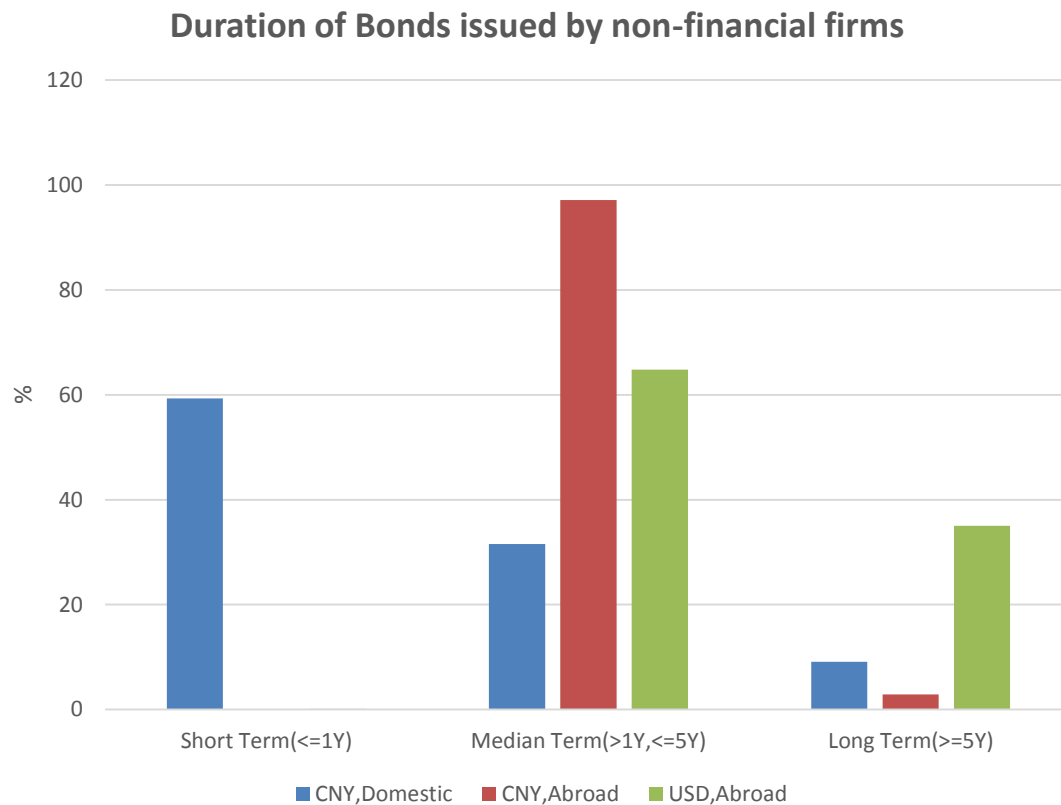
Amount raised by domestic bonds of listed firms



Data Source: Bloomberg

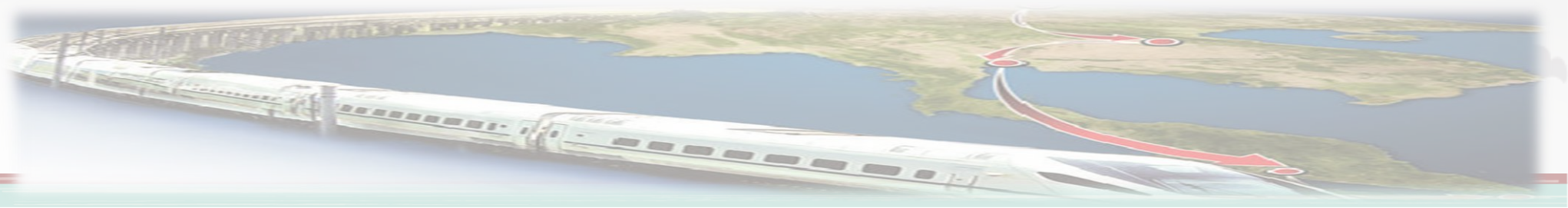


What are the characteristics of bonds issued abroad?

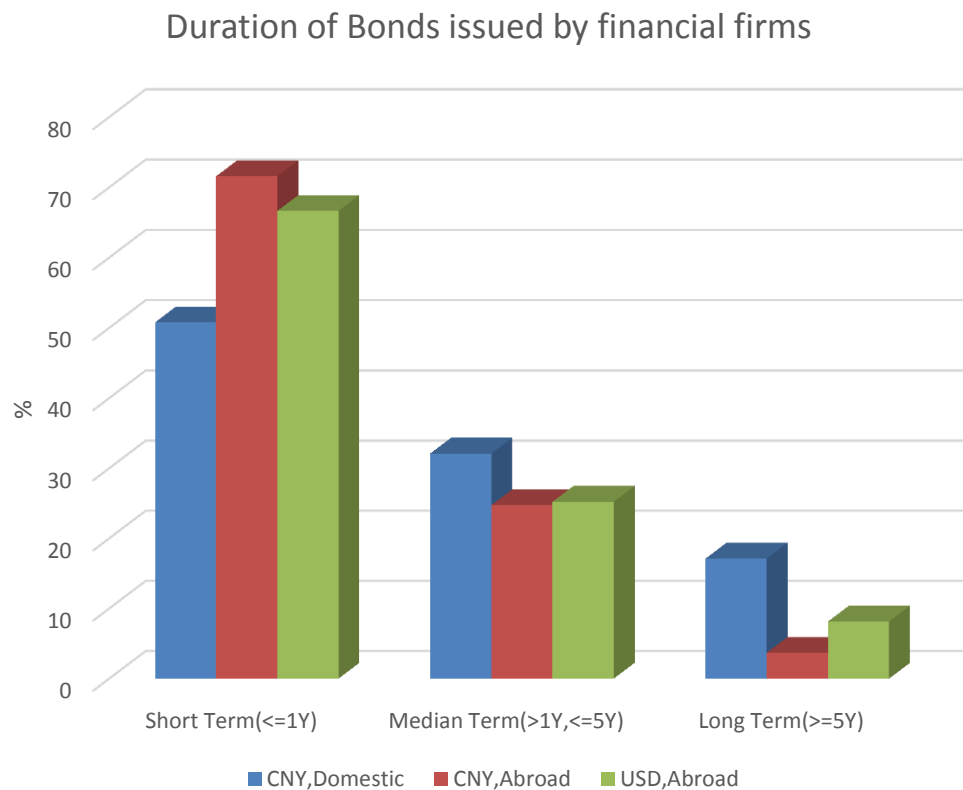


Data Source: Bloomberg

- Non-financial firms: more median-term and long-term bonds issued abroad; while more short term domestic bonds.
- Complementary
- Decrease term structure mismatch
- Increase currency mismatch

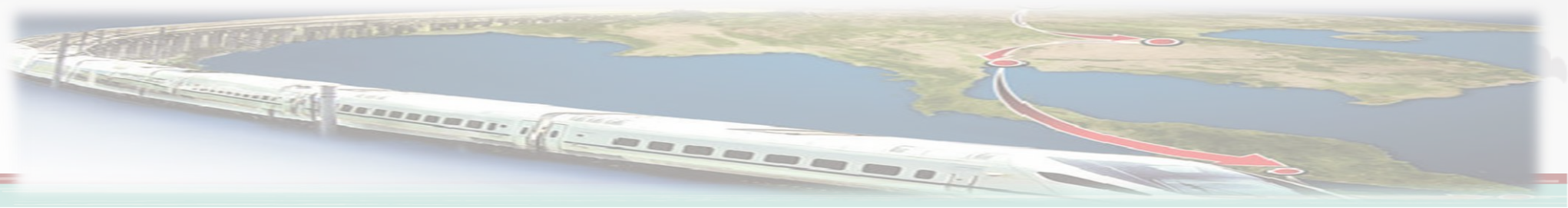


What are the characteristics of bonds issued abroad?



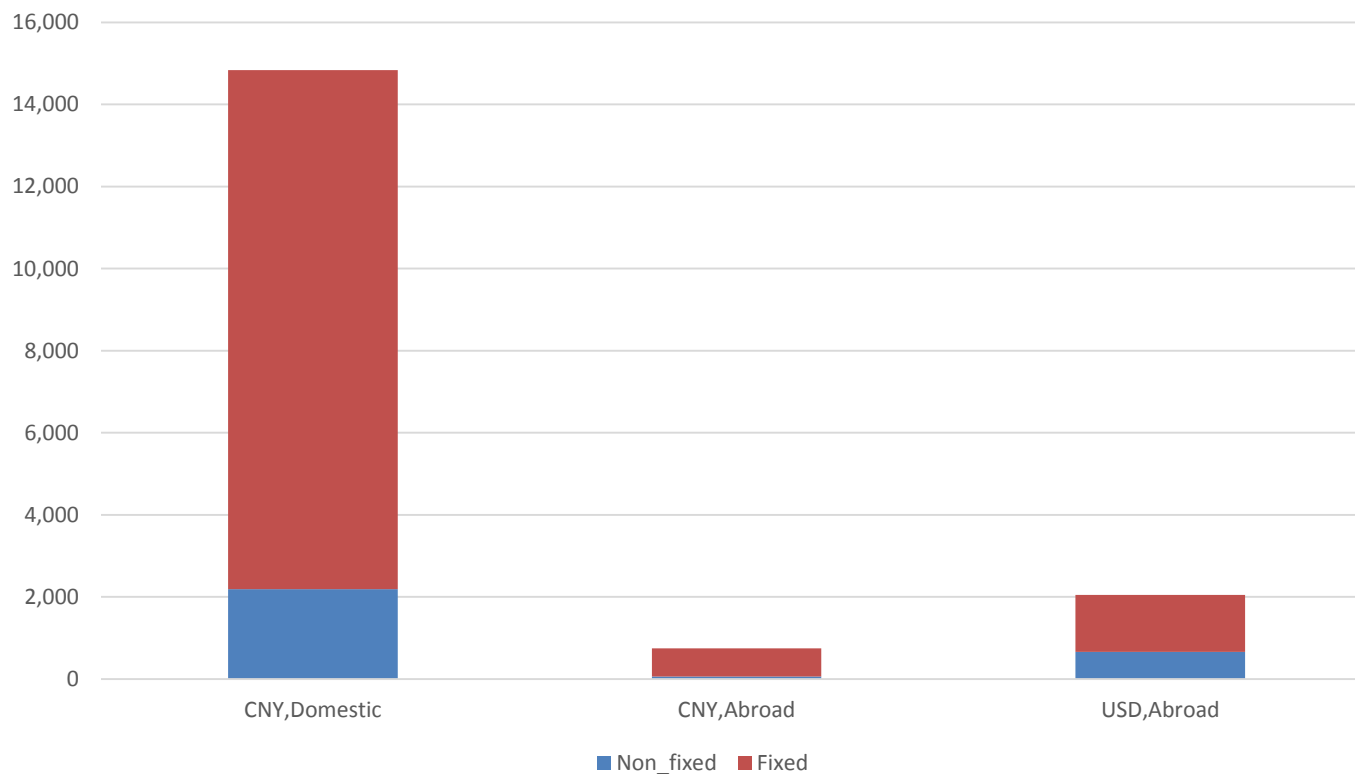
- Financial firms: more short-term bonds issued abroad, the same with domestic bonds
- Substitute
- Liquidity risk

Data Source: Bloomberg

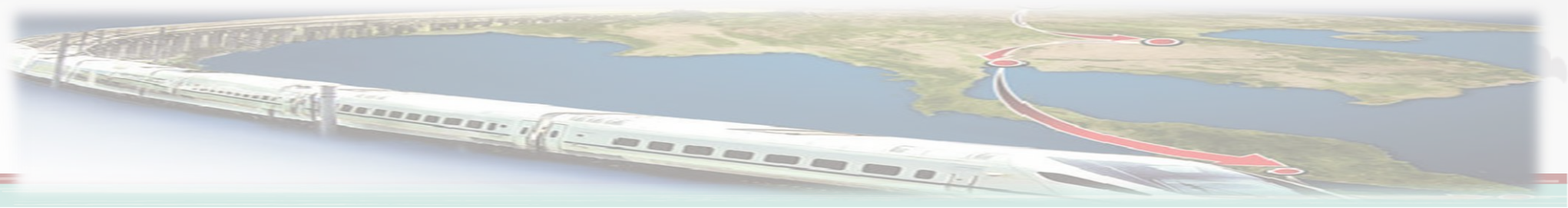


What are the characteristics of bonds issued abroad?

Bonds with fixed coupons and non-fixed coupons

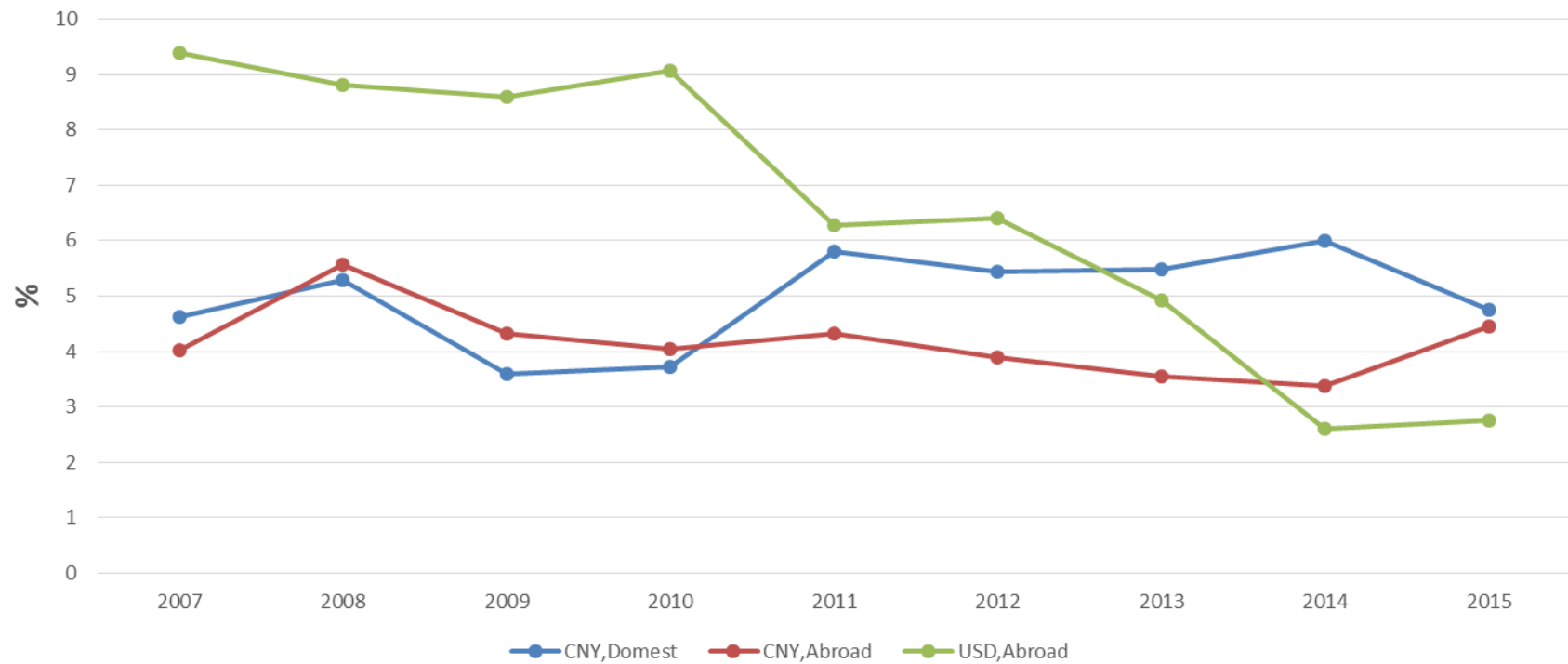


Data Source: Bloomberg

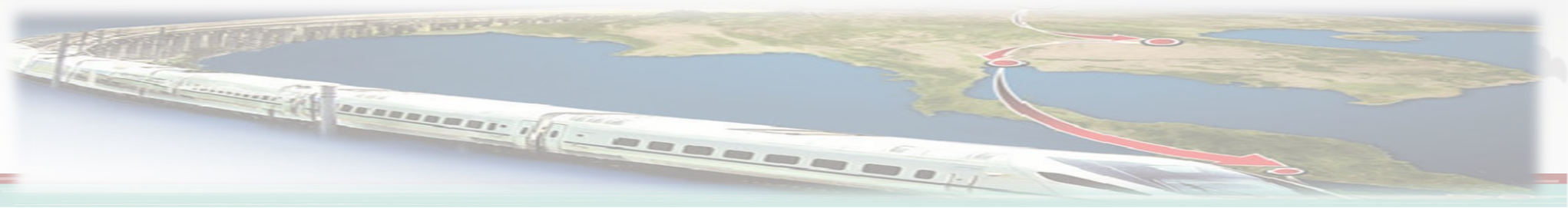


What are the characteristics of bonds issued abroad?

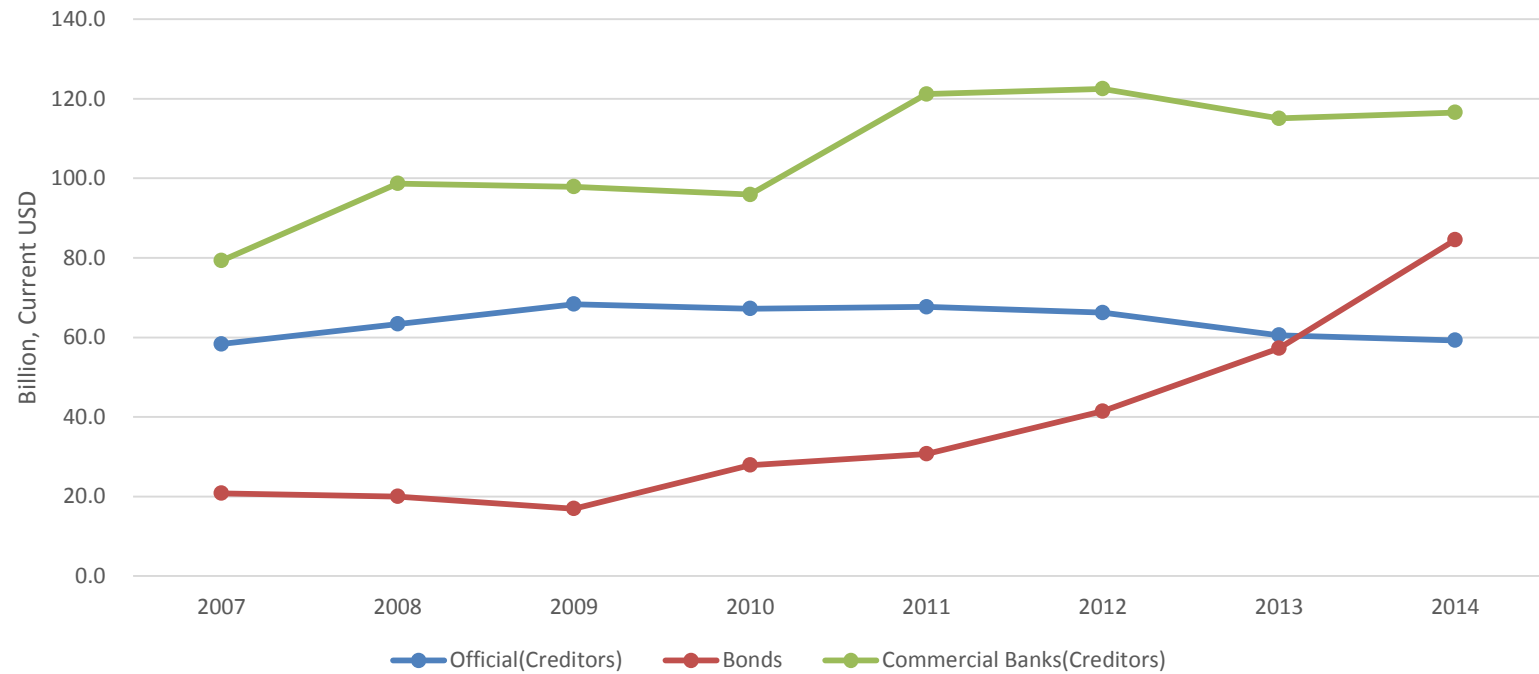
Mean coupons of different bonds



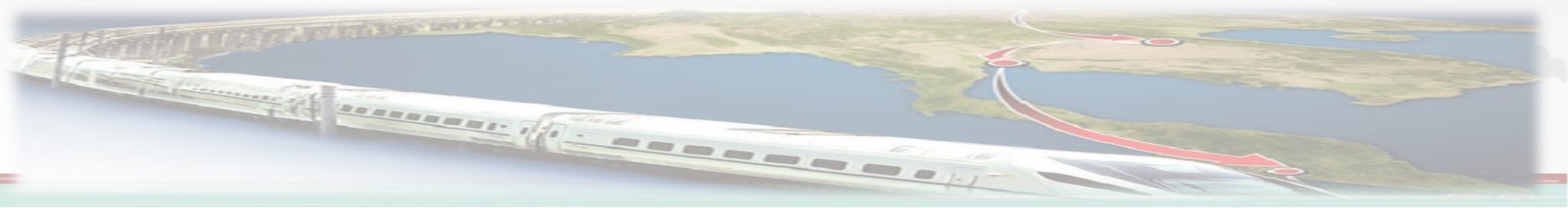
Data Source: Bloomberg



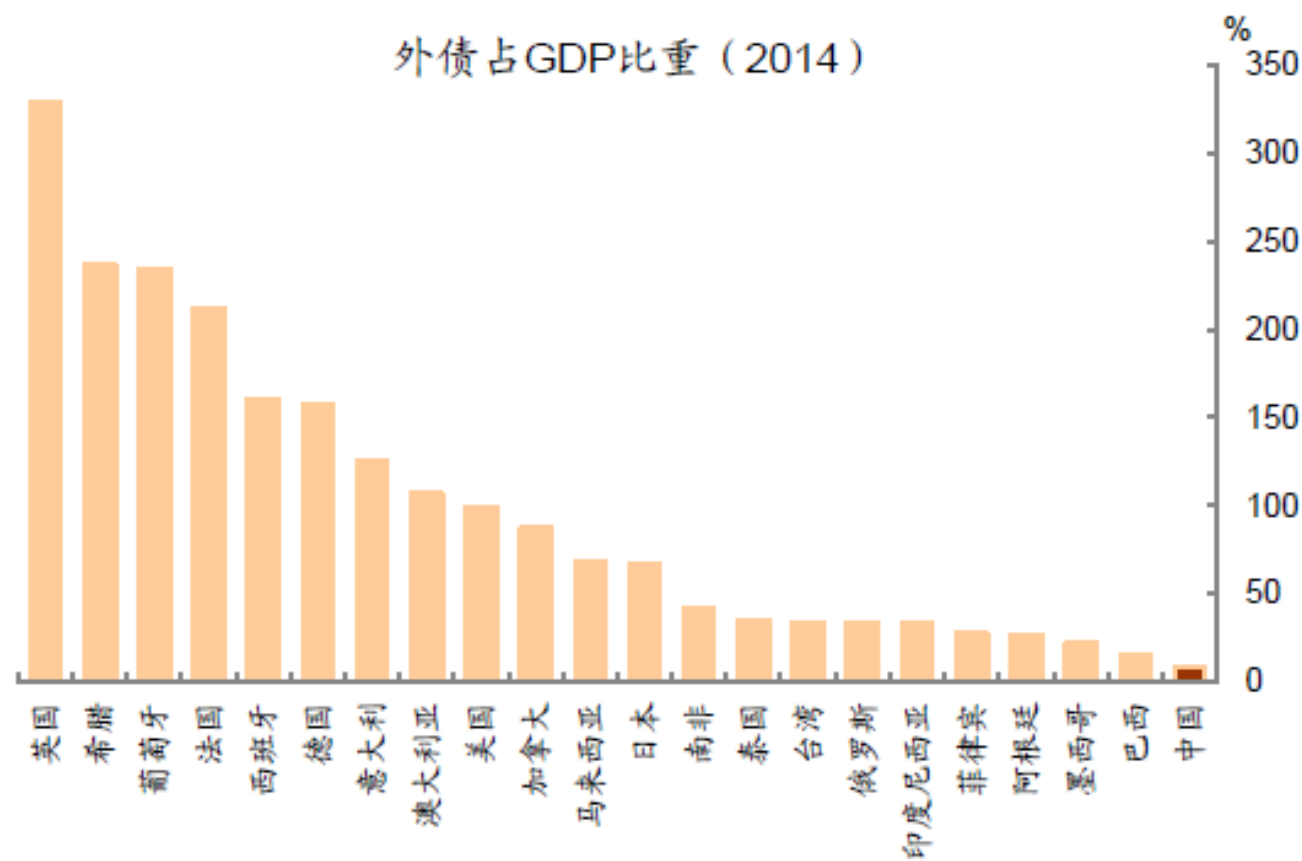
China's External Debts



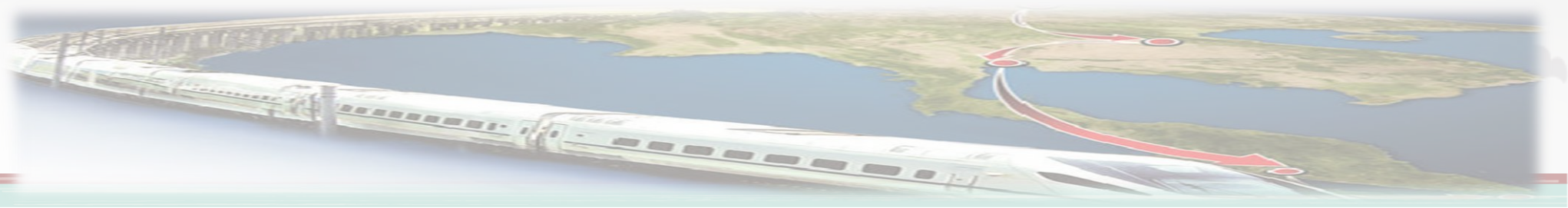
Data Source: Word Bank



Greater potential in debt financing

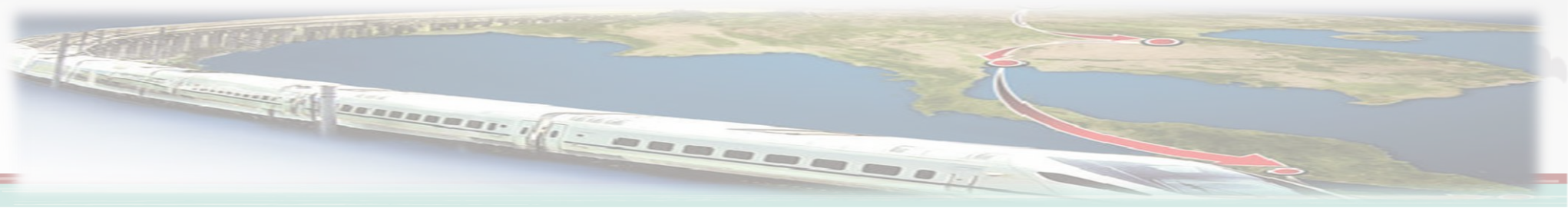


资料来源：世界银行，Haver Analytics，中金公司研究部



Conclusions

- Increasing demand for bond financing in international markets
- USD bonds are the majority of Chinese firms' international bonds, offshore RMB bonds grow quickly. Types of bonds are more and more diversified.
- International bond markets are complements for domestic markets: non-financial firms
 - Longer term structure
- International bond markets are substitutes for domestic markets: financial firms; financial constrained firms
- Great market potential for debt financing



Thanks!