2023 Chinese Offshore USD Bond Investor Survey Report (Part One)

This 2023 Chinese offshore USD bond investor survey is based on the data and feedback collected from 32 Chinese offshore USD bond investors of which 23 are based in Hong Kong and 9 are based outside HK. The survey took place in January and February 2023. This survey includes 4 parts: General Questions, Views on Macroeconomy, Views on Chinese Offshore USD Bond Market and the Investment Strategy in Chinese Offshore USD Bond market.

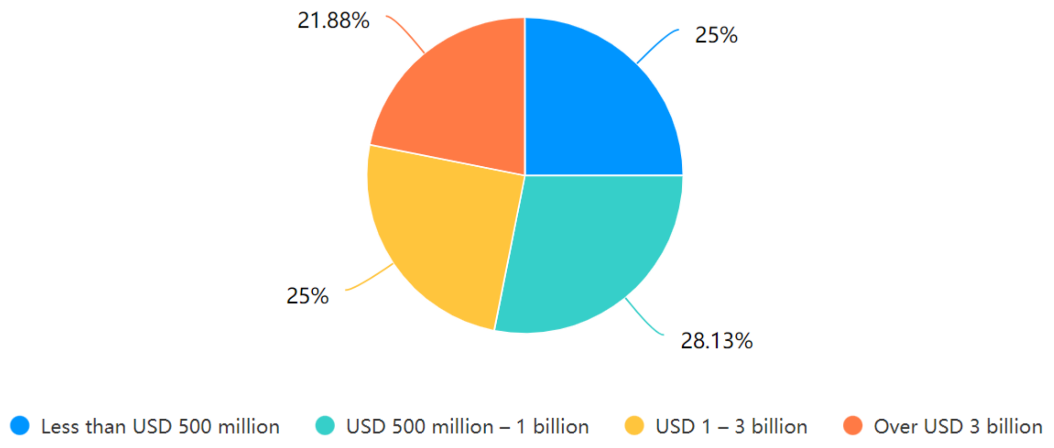
We have summarized the survey results in 2 different reports. This part one report concludes the survey results on General Questions, Views on Macroeconomy and Views on Chinese Offshore USD Bond Market. Our part two report will cover the Investment Strategy in Chinese Offshore USD Bond market.

Part A: General Questions

Most of the survey respondents are pure asset management firms or asset management arm of banks/securities firms, accounting for 40.6% and 28.1% of the total respondents, respectively. The remaining respondents include prop desk of banks/securities firms (18.8%) and banks (12.5%).

21.9% of the respondents have over USD 3 billion assets under management (AUM) while 25% of them have USD 1-3 billion and also 25% of them have less than USD 500 million. The remaining 28.1% have USD 500 million - 1 billion AUM (See Exhibit 1).

EXHIBIT 1:
What is the current asset under management (AUM) size of your company?



Source: Lianhe Global

87.5% and 75% of the respondents participate in investment grade and high-yield corporate bonds activity respectively. At the same time, 56.3% of them participate in sovereign and sub-sovereign bonds, 18.8% participate in distressed debts, and 18.8% participate in structured product. 3.13% of them participate in other investment tools.

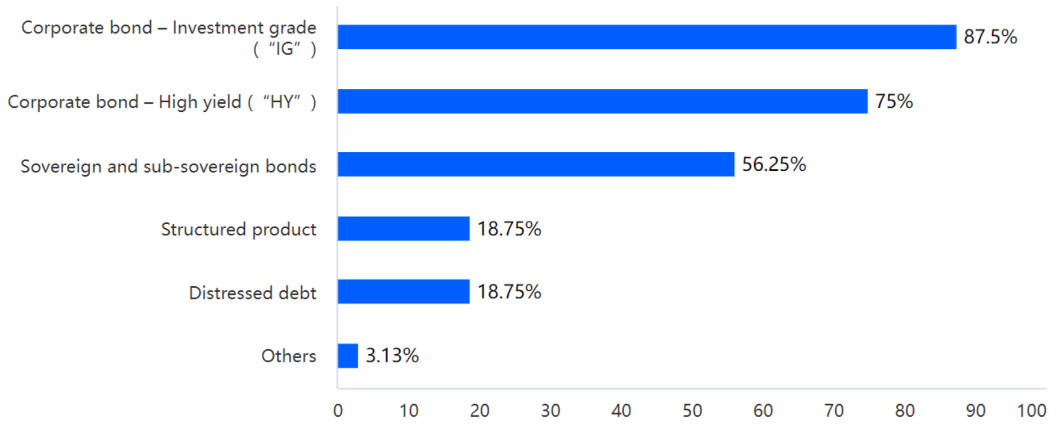
93.8% of the respondents primarily focus on USD-denominated offshore Chinese bonds. 68.8% of the respondents' portfolios have a duration of shorter than 3 years and 25% have a duration of between 3 to 7 years.

When it comes to the approximate allocation of the Chinese offshore bonds in respondents' investment portfolio, 59.4% of them allocated half or more of their portfolios. Only 9.4% allocated none of their portfolios in Chinese offshore bonds.

The charts below (Exhibit 2-5) illustrate the respondents' investment focus by bond type, market focus and portfolio duration.

EXHIBIT 2:

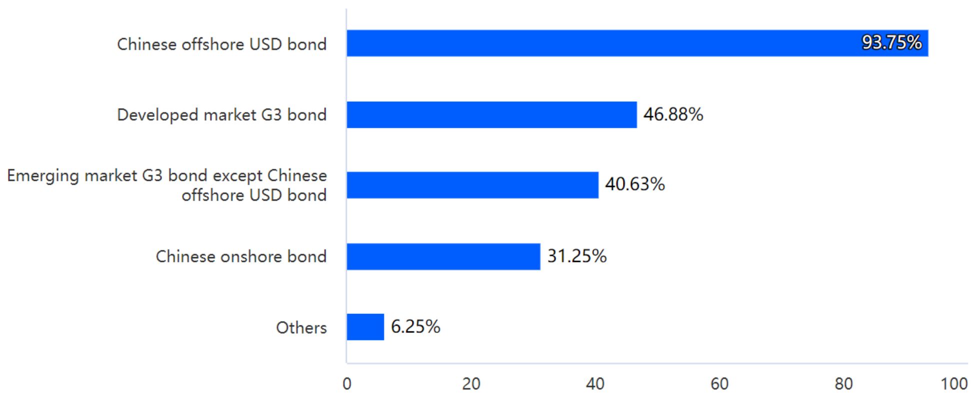
Which kind of bonds does your company focus on? (Multiple answers)



Source: Lianhe Global

EXHIBIT 3:

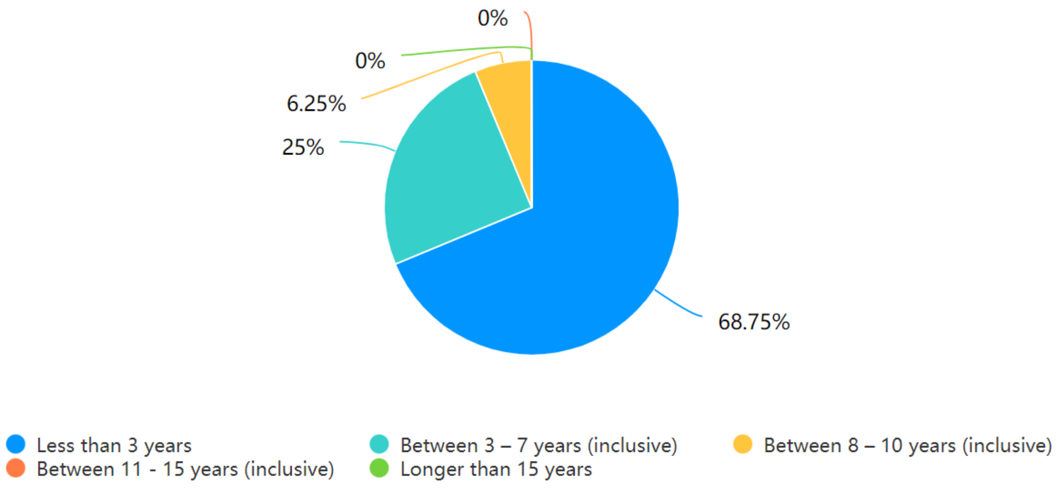
Which fixed income market is your primary focus? (Multiple answers)



Source: Lianhe Global

EXHIBIT 4:

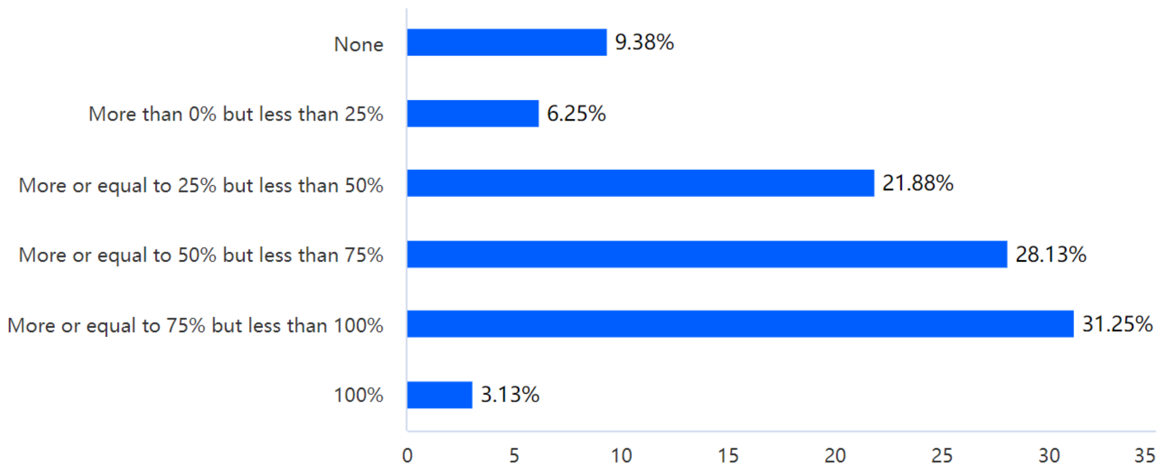
What is the general duration of your investment portfolio?



Source: Lianhe Global

EXHIBIT 5:

What is the approximate allocation of the Chinese offshore bonds in your investment portfolio?



Source: Lianhe Global

Part B: Views on Macroeconomy

Most of the respondents (53.1%) believed that China's GDP growth rate would fall into the 5.0% to 6.0% range in 2023 while 21.9% of them believed the growth rate would all into the 4.0% to 5.0% range. 18.8% of them believed that the grow rate would drop below 4.0%. Only 6.2% of them believed that China's GDP growth rate would be over 6.0% in 2023.

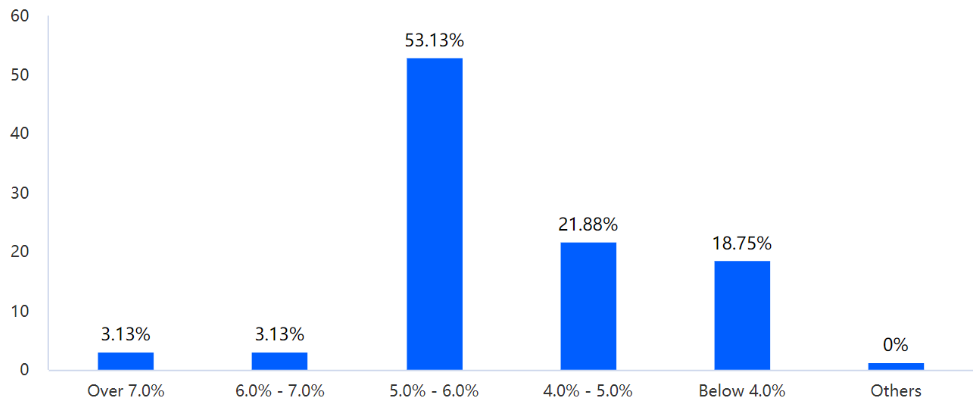
When it comes to respondents' expectation on the US Fed interest rate hike in 2023, 53.1% of them believed there would be an increase by 25 to 50 basis points. 28.1% believed in 75 to

100 basis points increase. Meanwhile, 15.6% of the respondents believed there would be an interest rate cut. One respondent expected an unchanged interest rate.

A majority of the respondents (87.5%) thought the USD-CNY exchange rate would fluctuate between 6.4 to 7.0 in 2023 and 9.4% of the respondents thought it would be lower than 6.4. One respondent expected that the exchange rate would reach higher than 7 (see Exhibit 6-8 below).

EXHIBIT 6:

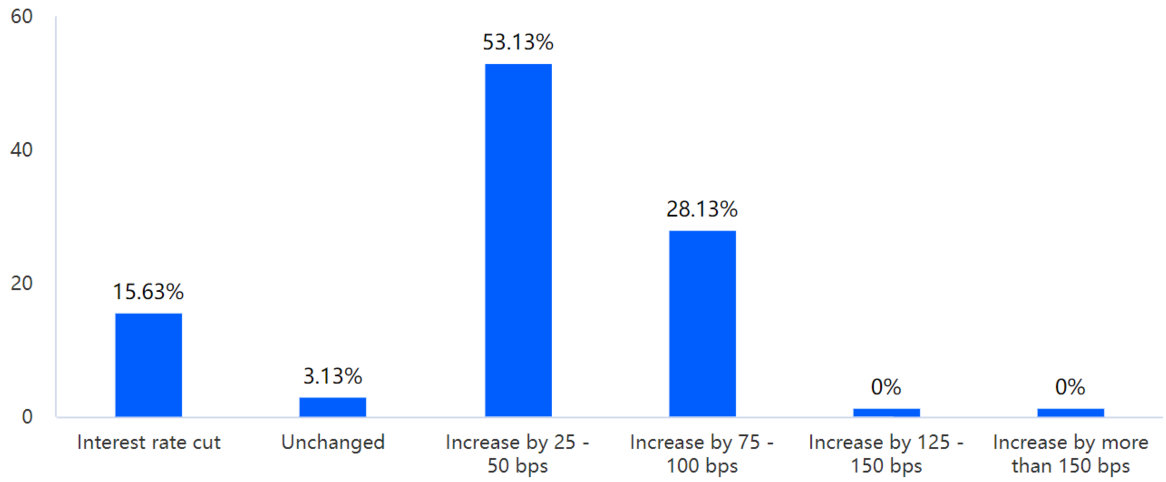
What is your expectation of China's year-on-year GDP growth rate in 2023?



Source: Lianhe Global

EXHIBIT 7:

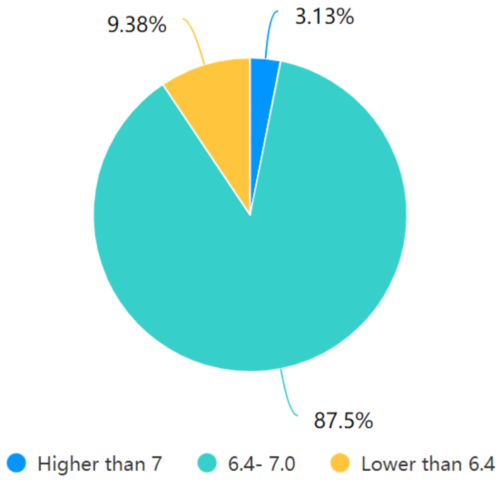
What is your expectation on the US Fed interest rate hike in 2023?



Source: Lianhe Global

EXHIBIT 8:

What is your view regarding USD/CNY exchange rate in 2023?

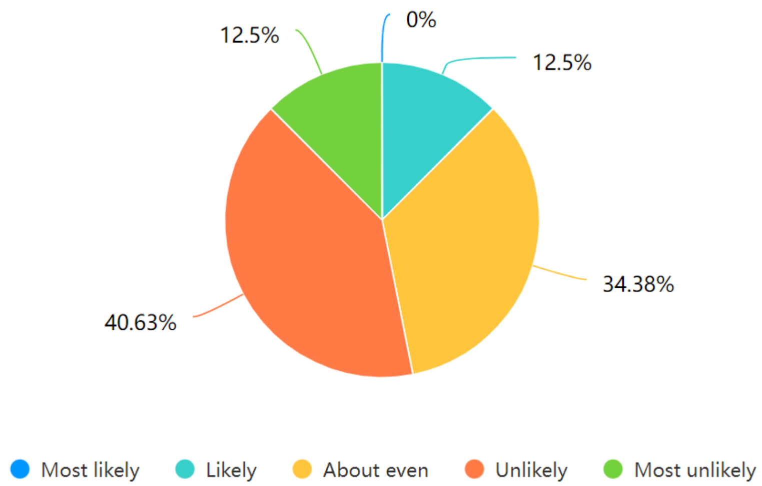


Source: Lianhe Global

In terms of the likelihood of the systemic default risks in the LIDC/LGFV sector in 2023, 53.1% of the respondents had an “unlikely” view. 34.4% had an “about even” view while 12.5% had a “likely” view (see Exhibit 9 below).

EXHIBIT 9:

What is your view on the likelihood of the systemic default risks in the LIDC/LGFV sector in 2023?



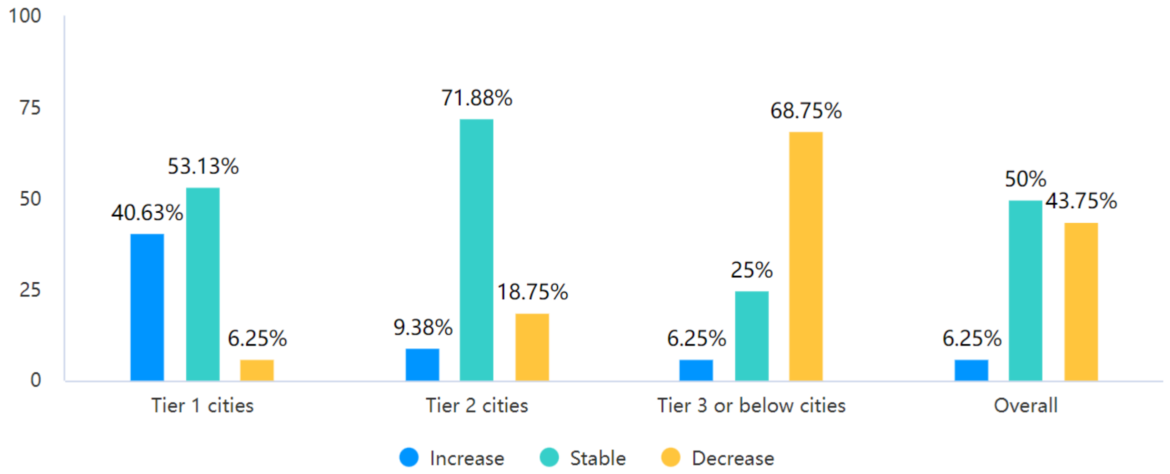
Source: Lianhe Global

In terms of home prices in different regions of China, 40.6% of the respondents believed that property price in tier 1 cities would increase, but a much smaller % of respondents believed that property price in tier 2 and tier 3 cities would increase. 68.8% of the respondents believed that property price in tier 3 cities would fall. In terms of the general trend of home prices, only

6.3% respondents believed that it would increase whilst 43.8% of them believed that the home prices would decrease (see Exhibit 10 below).

EXHIBIT 10:

What is your view on China's property price in the following 12 months when compared with 2022?

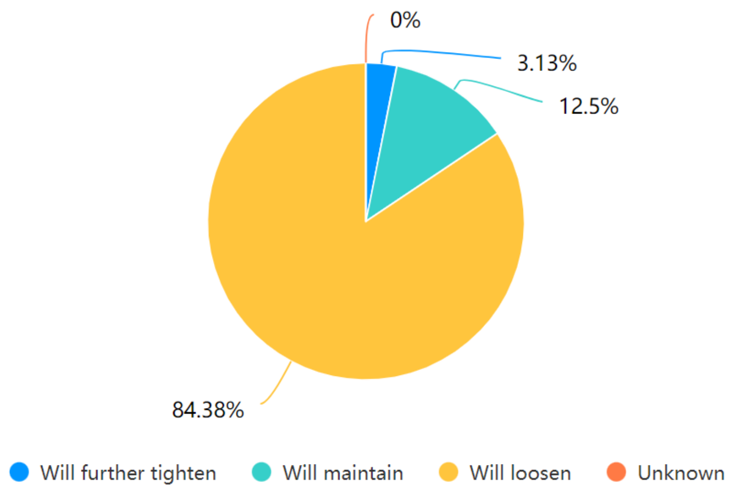


Source: Lianhe Global

In terms of the regulations in property market in China, most of the respondents (84.4%) believed that the government would loosen the current regulation (see Exhibit 11 below).

EXHIBIT 11:

What is your view on China's regulations on the property sector in 2023?



Source: Lianhe Global

Part C: Views on Chinese Offshore USD Bond Market

The respondents were asked to provide their views on the following market events which impacted the credit conditions of Chinese issuers on the selected sectors:

(1) the “4 Arrows” policy in the China property sector

(2) Border reopening / COVID-19 measure relaxation in China

(3) Rising Interest rate by the US Federal Reserve

(4) Potential recession in the US and Europe

(5) Russo-Ukrainian war

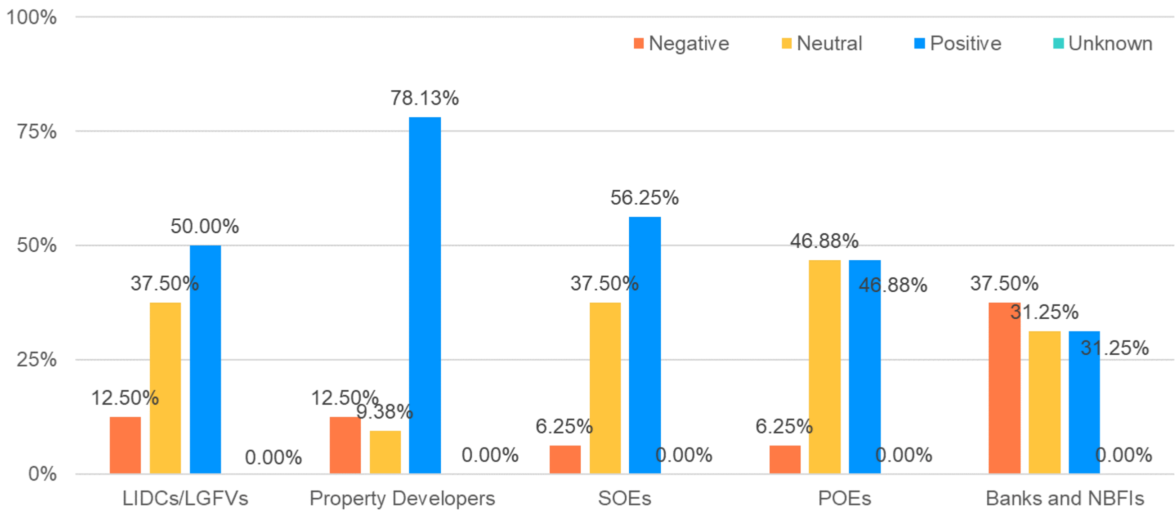
(6) Increasing US-China tensions on trades and Taiwan

The selected sectors are: LIDCs/LGFVs*, Property Developers, SOEs**, POEs**, Banks and NBFIs*.

**LIDCs refer to local investment and development companies, aka LGFVs local government financing vehicles; NBFIs refer to non-bank financial institutions.*
***SOEs refer to those state-owned enterprises other than LGFVs; POEs refer to those private-owned enterprises other than property developers mentioned.*

Regarding the Market Event (1) the “4 Arrows” policy in the China property sectors, most of the respondents viewed that it would have a positive impact on LIDCs/LGFVs, property developers, SOEs, and POEs. Some respondents (37.5%) believed that the Event would have a negative impact on banks and NBFIs (see Exhibit 12 below).

EXHIBIT 12:
The “4 Arrows” policy in the China property sector

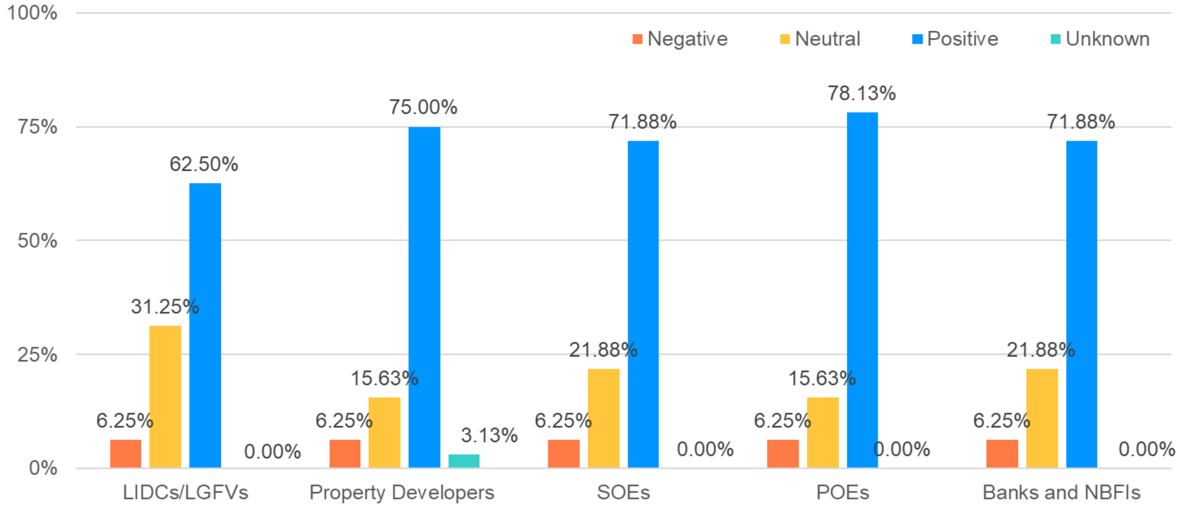


Source: Lianhe Global

Regarding the Market Event (2) border reopening / COVID-19 measure relaxation in China, a vast majority of the respondents believed that it would be positive on all sectors (see Exhibit 13 below).

EXHIBIT 13:

Border reopening / COVID-19 measure relaxation in China

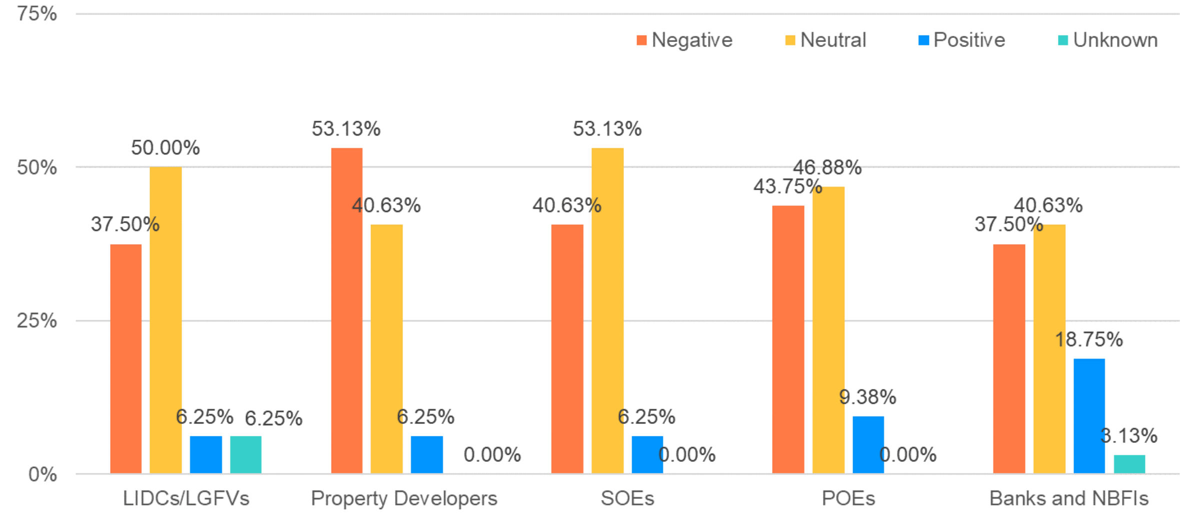


Source: Lianhe Global

Regarding the Market Event (3) rising Interest rate by the US Federal Reserve, most of the respondents believed it would have negative or neutral impacts across all sectors. 18.8% of the respondents believed that it would be positive for banks and NBFIs (see Exhibit 14 below).

EXHIBIT 14:

Rising Interest rate by the US Federal Reserve

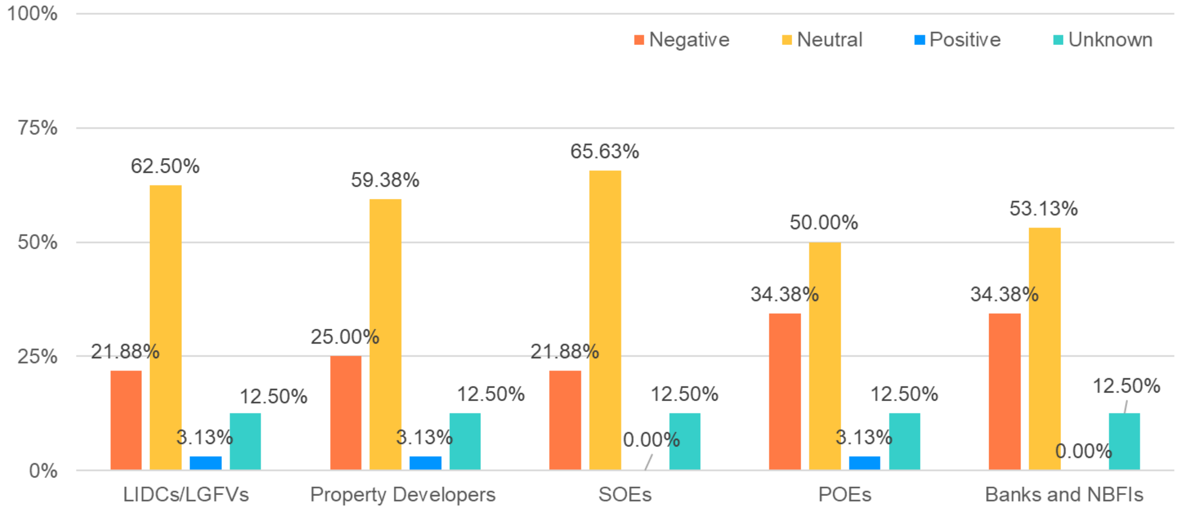


Source: Lianhe Global

Regarding the Market Event (4) potential recession in the US and Europe, more than half of the respondents held a neutral view for all sectors (see Exhibit 15 below). But 34.4% of them believed it would have a negative impact on POEs and banks and NBFIs.

EXHIBIT 15:

Potential recession in the US and Europe

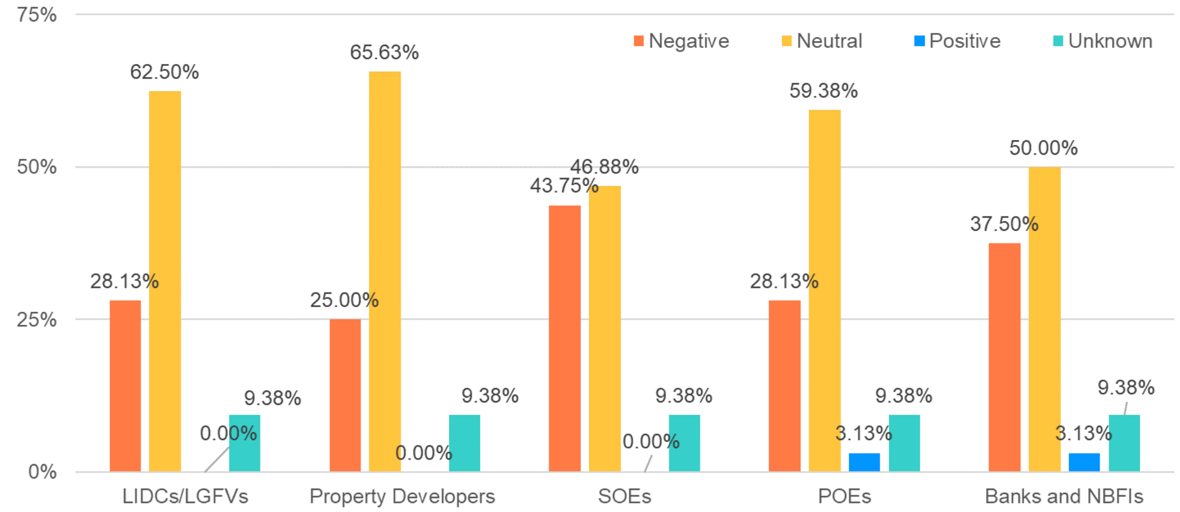


Source: Lianhe Global

Regarding the Market Event (5) Russo-Ukrainian war, most of the respondents believed it would have negative or neutral impacts across all sectors (see Exhibit 16 below).

EXHIBIT 16:

Russo-Ukrainian war

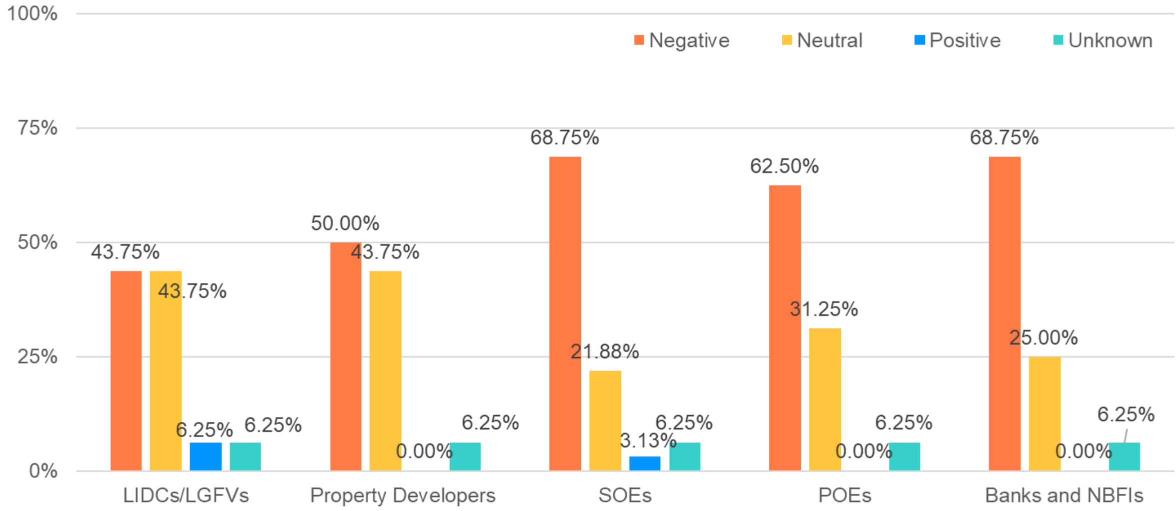


Source: Lianhe Global

Regarding the Market Event (6) increasing US-China tensions on trades and Taiwan, overall respondents kept a negative view on its impact in 2023 on all sectors. 43.8% of them believed that this would have a neutral impact on LIDCs/LGFVs and property developers (see Exhibit 17 below).

EXHIBIT 17:

Increasing US-China tensions on trades and Taiwan

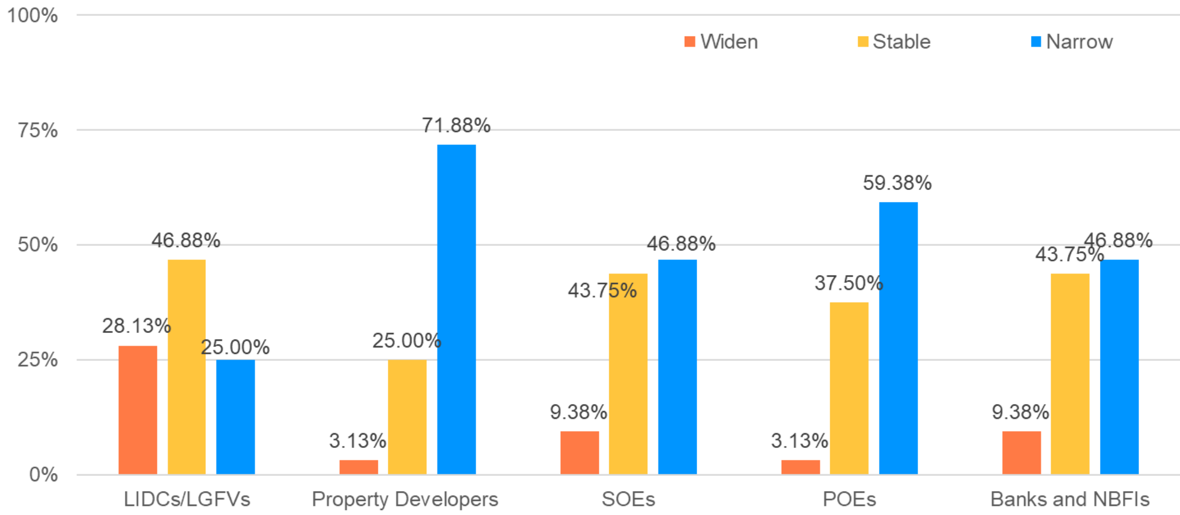


Source: Lianhe Global

Further, the respondents were asked about their expectations of the spread movements in the selected sectors. The majority expressed that the spread would remain stable for LIDCs/LGFVs for the next 12 months. Majority of the respondents believed that the spread would get narrower for property developers and POEs. 46.9% of the respondents believed that the spread would be narrower for SOEs, banks and NBFIs. (see Exhibit 18 below).

EXHIBIT 18:

What is your expectation of spread movements for Chinese offshore USD bonds for the sectors below in the following 12 months?

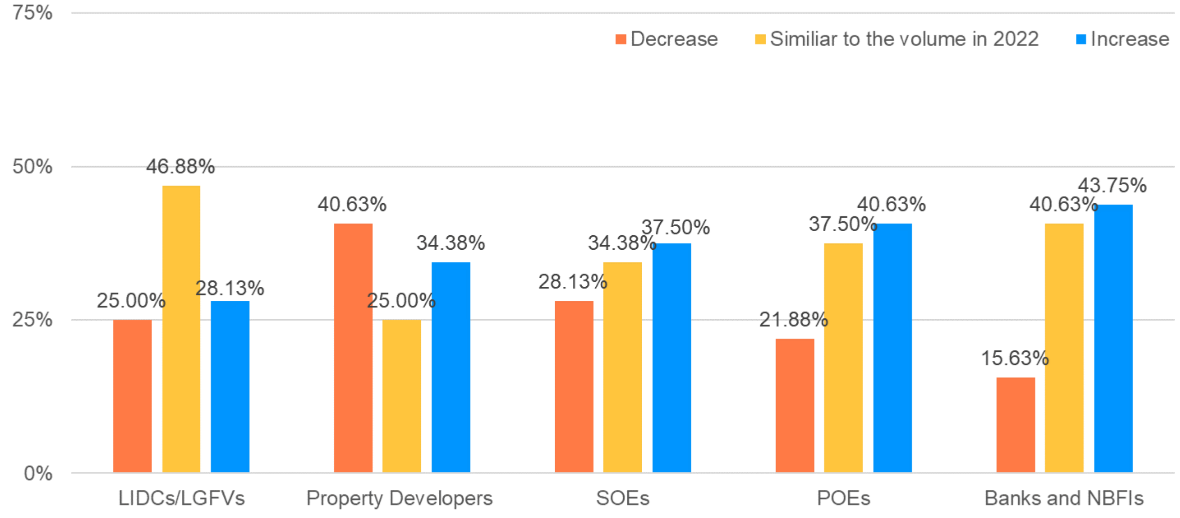


Source: Lianhe Global

2023 would be a year with uncertainty in terms of new bond issuance. 46.9% of the respondents expected that the new issuance volume of Chinese offshore USD bonds in 2023 for LIDCs/LGFVs would remain similar to the volume in 2022. 40.6% of them expected a drop in the issuance volume for property developers even with the "4 arrows" policy (see Exhibit 19 below).

EXHIBIT 19:

What is your expectation regarding the new issuance volume of Chinese offshore USD bonds in the sectors below for 2023 when compared with 2022?

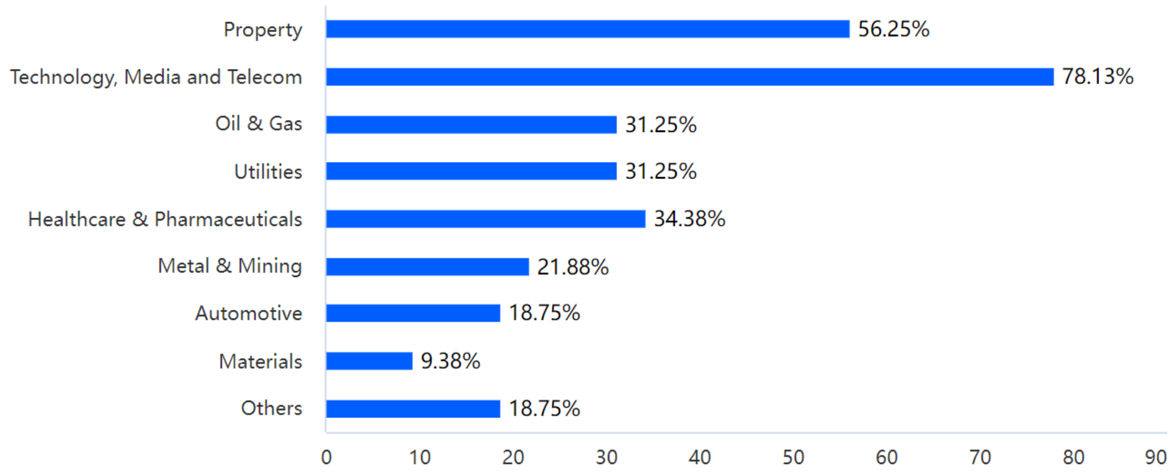


Source: Lianhe Global

In terms of other preferred sectors apart from investing in LIDC/LGFV and Financial sectors, we could see that Technology, Media and Telecom (78.1%), Property (56.3%) and Healthcare & Pharmaceuticals (34.4%) are the top three preferred sectors to invest by respondents. There are a significant number of them expressing interest in the Oil & Gas and Utilities sectors as well (see Exhibit 20 below).

EXHIBIT 20:

What are your top three preferred sectors apart from investing in the LIDC/LGFV, and Financial sectors? (Please select three sectors)



Source: Lianhe Global

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