2024 Chinese Offshore Bond Investor Survey Report (Part One)

This 2024 Chinese offshore bond investor survey is based on the data and feedback collected from 30 Chinese offshore bond investors of which 23 are based in Hong Kong and 7 are based outside HK. The survey took place from January to March 2024. This survey includes 4 parts: General Questions, Views on Macroeconomy, Views on the Chinese Offshore Bond Market and the Investment Strategy in Chinese Offshore Bond market.

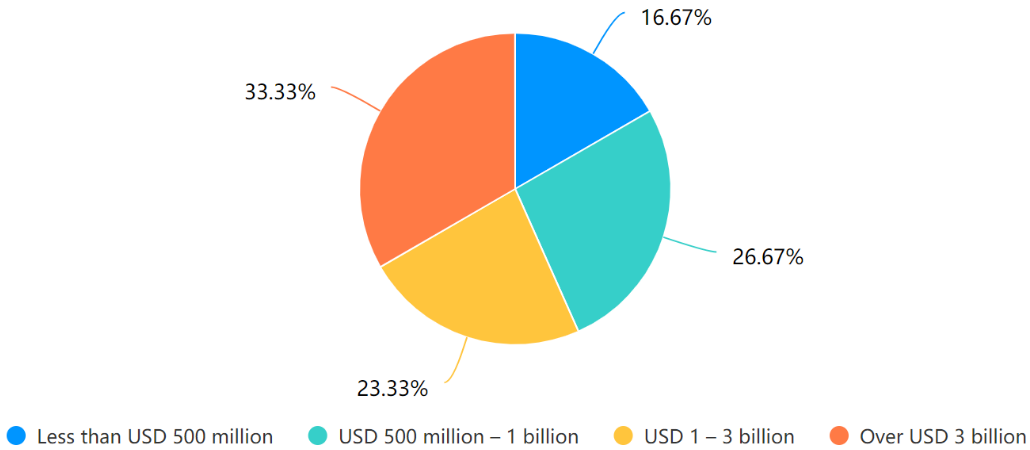
We have summarized the survey results in 2 different reports. This part one report concludes the survey results on General Questions, Views on Macroeconomy and Views on the Chinese Offshore USD Bond Market. Our part two report will cover the Investment Strategy in Chinese Offshore USD Bond market.

Part A: General Questions

Most of the survey respondents are pure asset management firms, accounting for 33.3% of the total respondents. The remaining respondents include banks (20%), prop desk of banks/securities firms (16.7%), asset management arm of a bank/securities firm (13.3%), insurance companies (6.7%), and others (10%).

33.3% of the respondents have over USD 3 billion assets under management (AUM) while 23.3% of them have USD 1-3 billion AUM. 26.7% of them have USD 500 million - 1 billion AUM. The remaining 16.7% have AUM less than USD 500 million (see Exhibit 1).

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



Source: Lianhe Global

96.7% and 53.3% of the respondents participate in investment grade and high-yield corporate bonds activity respectively. At the same time, 46.7% of them participate in sovereign and sub-sovereign bonds, 26.7% participate in structured products, 23.3% participate in distressed debts, and 3.3% of them participate in other investment tools.

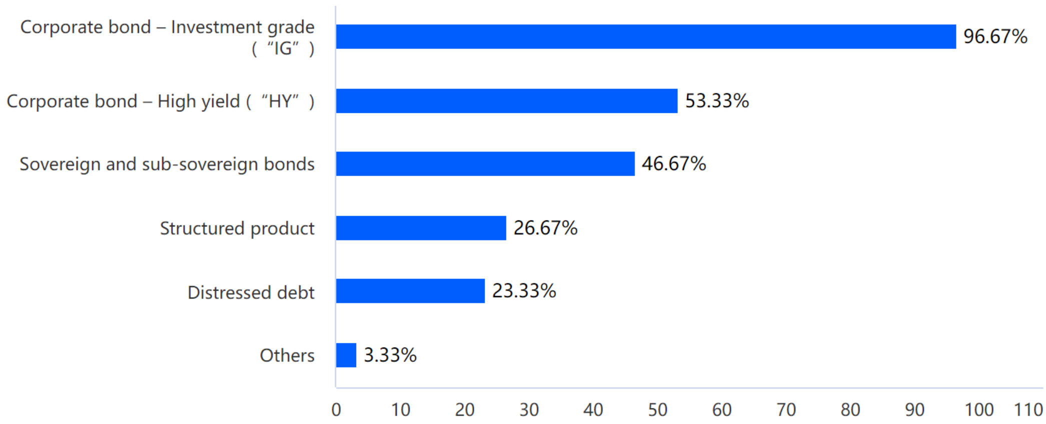
93.3% of the respondents primarily focus on Chinese offshore bonds. Half of the respondents' portfolios have a duration between 3 – 7 years (inclusive) and 40% have a duration of less than 3 years.

When it comes to the approximate allocation of the Chinese offshore bonds in respondents' investment portfolios, 53.3% of them allocated half or more of their portfolios.

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

EXHIBIT 2:

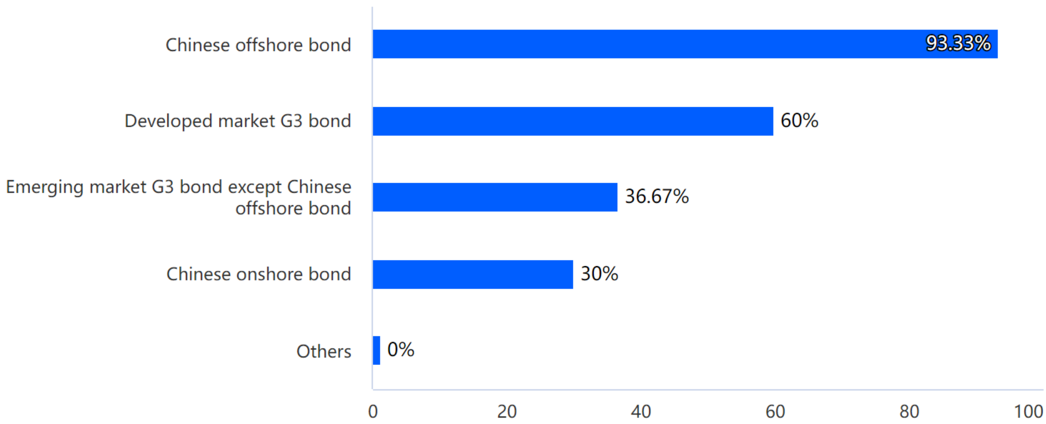
Which kind of bonds does your company focus on? (Multiple answers)



Source: Lianhe Global

EXHIBIT 3:

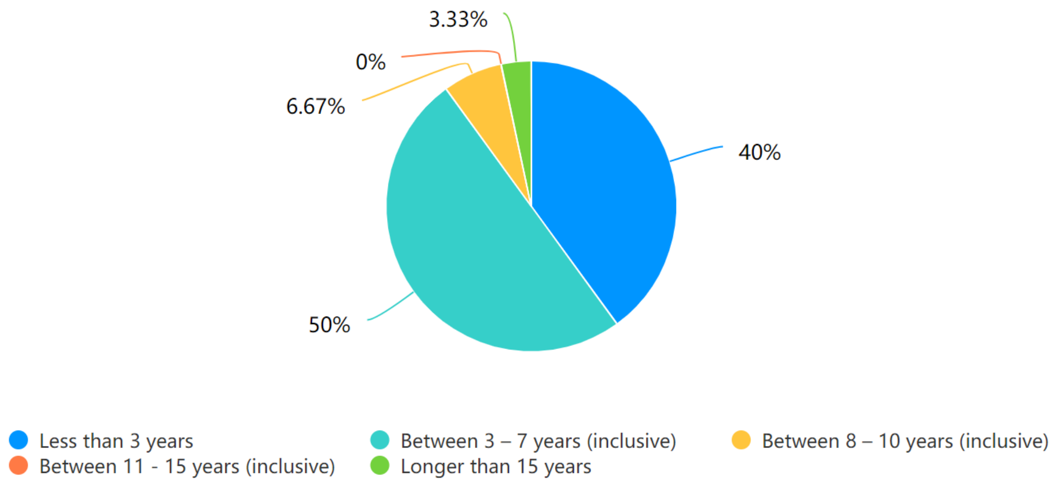
Which fixed income market is your primary focus? (Multiple answers)



Source: Lianhe Global

EXHIBIT 4:

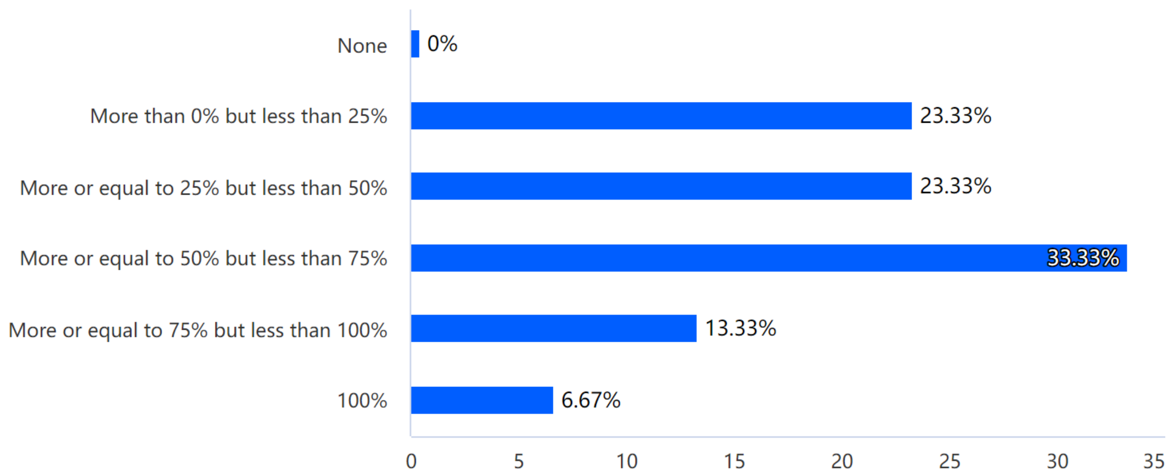
What is the general duration of your investment portfolio?



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

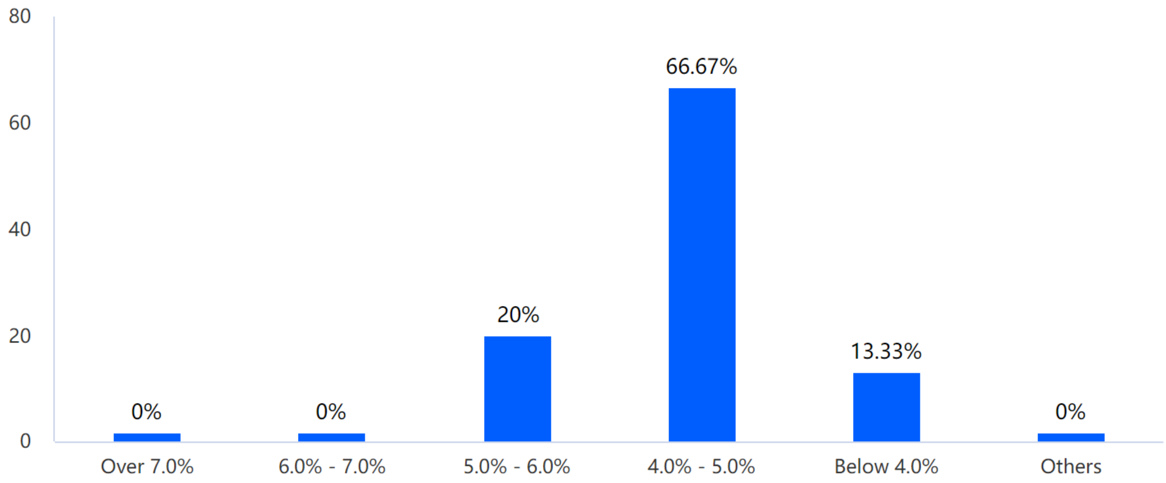
Most of the respondents (66.7%) believed that China's GDP growth rate would fall into the 4.0% to 5.0% range in 2024 while 20% of them believed in a more positive growth rate (5.0% to 6.0%). 13.3% of them believed that the grow rate would drop below 4.0%.

When it comes to respondents' expectations on the US Fed interest rate in 2024, all of them expected an interest rate cut. Half of them believed there would be a decrease of 75 to 100 basis points. 46.7% believed in a 25 to 50 basis points decrease.

A majority of the respondents (86.7%) thought the USD-CNY exchange rate would fluctuate between 6.8 to 7.2 in 2024 and 13.3% of the respondents thought it would be higher than 7.2 (see Exhibit 6-8 below).

EXHIBIT 6:

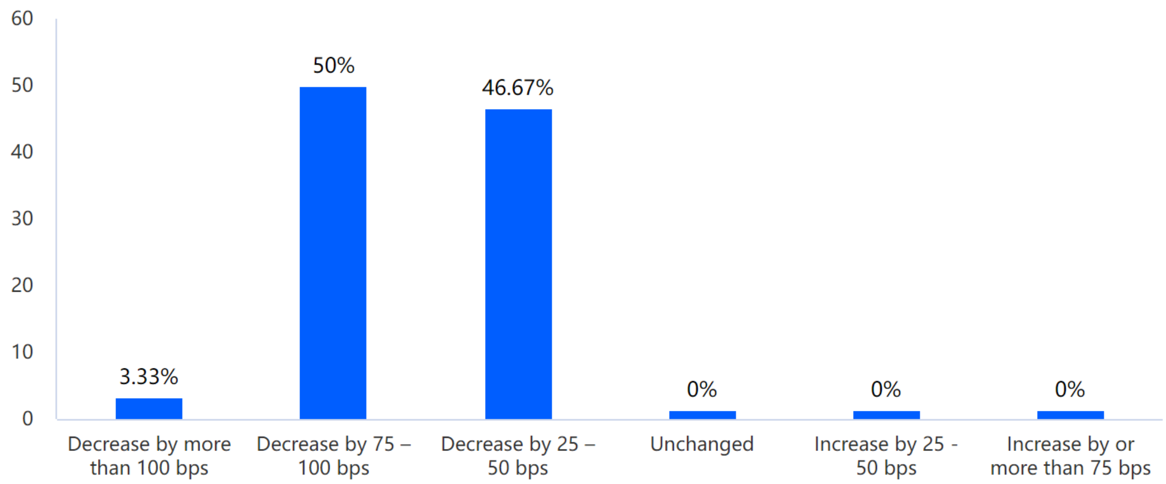
What is your expectation of China's year-on-year GDP growth rate in 2024?



Source: Lianhe Global

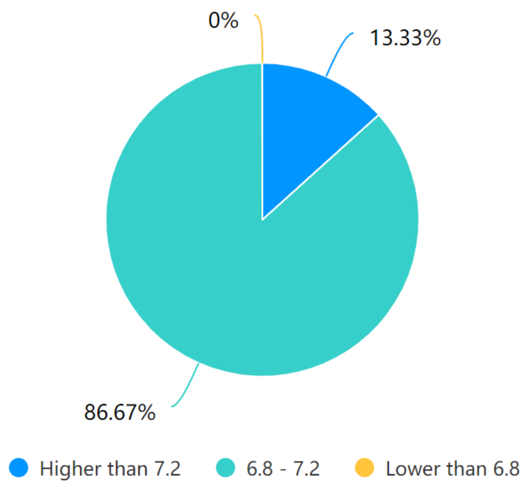
EXHIBIT 7:

What is your expectation on the US Fed interest rate in 2024?



Source: Lianhe Global

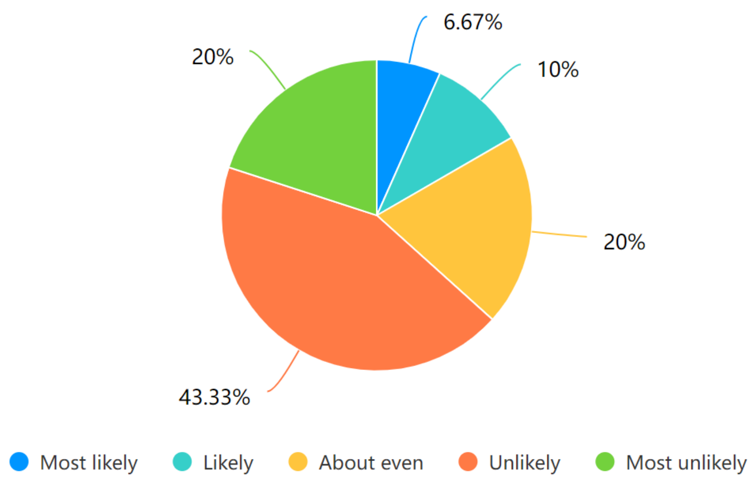
EXHIBIT 8:
What is your view regarding USD/CNY exchange rate in 2024?



Source: Lianhe Global

In terms of the likelihood of systemic default risks in the LIDC/LGFV sector in 2024, 63.3% of the respondents had an "unlikely" view. Only 16.7% had a "likely" view (see Exhibit 9 below).

EXHIBIT 9:
What is your view on the likelihood of systemic default risks in the LIDC/LGFV sector in 2024?



Source: Lianhe Global

Part C: Views on the Chinese Offshore Bond Market

The respondents were asked to provide their views on the following major market events that impacted and/or will impact the credit conditions of Chinese issuers in the selected sectors:

(1) Economic slowdown of China

(2) Outlook revised to negative on China sovereign by Moody's

(3) Cut in interest rate and reserve ratio requirements by People's Bank of China

(4) Continued Credit Crisis in China Property Sector

(5) US-China tensions on trade and Taiwan

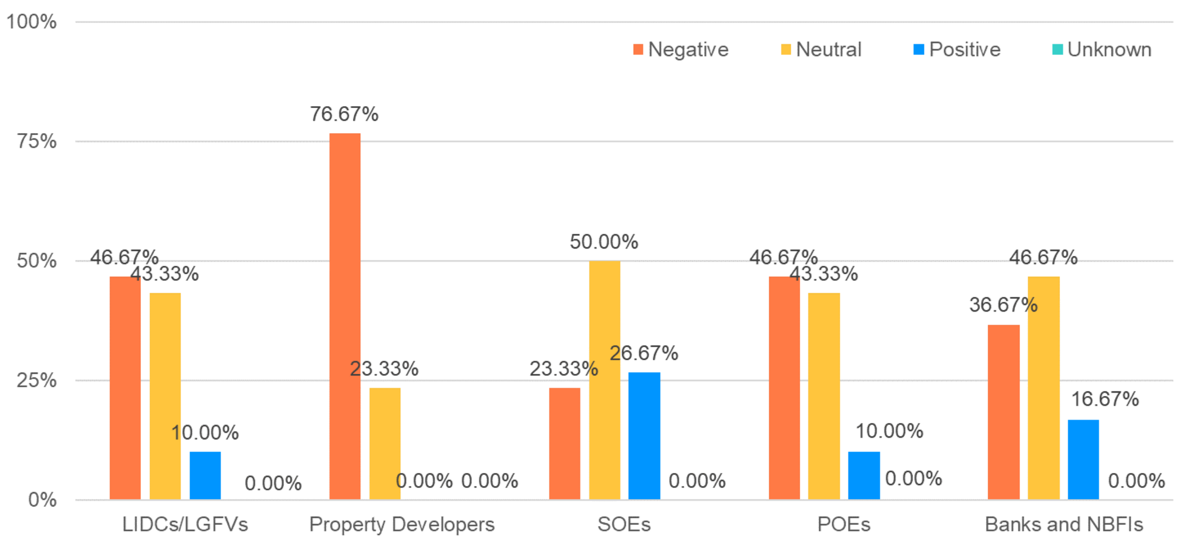
The selected sectors are: LIDCs/LGFVs*, Property Developers, SOEs**, POEs**, Banks and NBFIs*.

**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) economic slowdown of China, most of the respondents viewed that it would harm LIDCs/LGFVs, property developers and POEs. Some respondents (26.7%) believed that the Event would have a positive impact on SOEs. Only 36.7% of them expected a negative impact on banks and NBFIs (see Exhibit 10 below).

EXHIBIT 10:

Economic slowdown of China

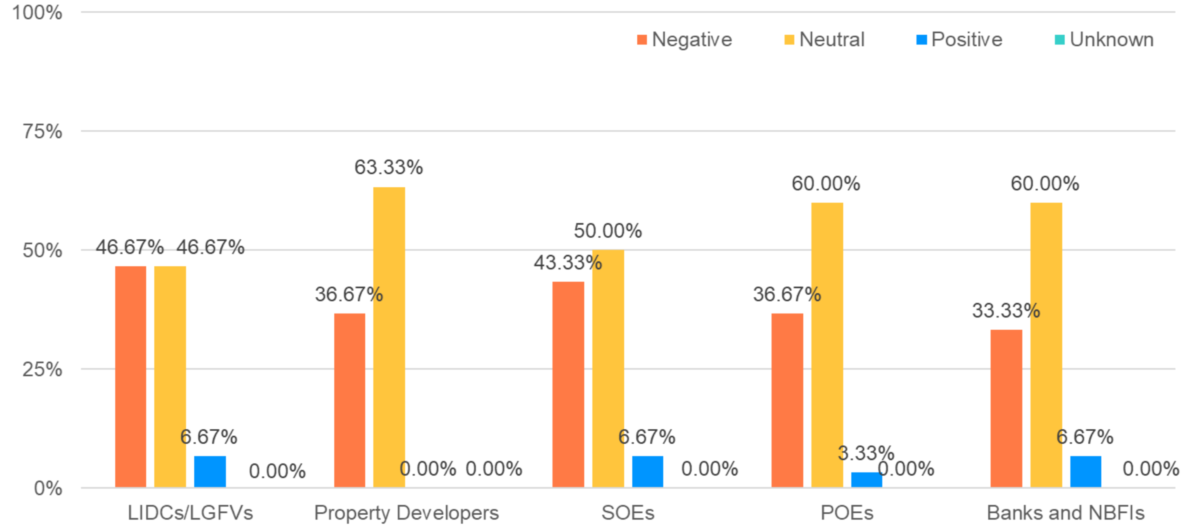


Source: Lianhe Global

Regarding the Market Event (2) outlook revised to negative on China sovereign by Moody's, the majority of the respondents believed that it would have a neutral effect on all sectors (see Exhibit 11 below).

EXHIBIT 11:

Outlook revised to negative on China sovereign by Moody's

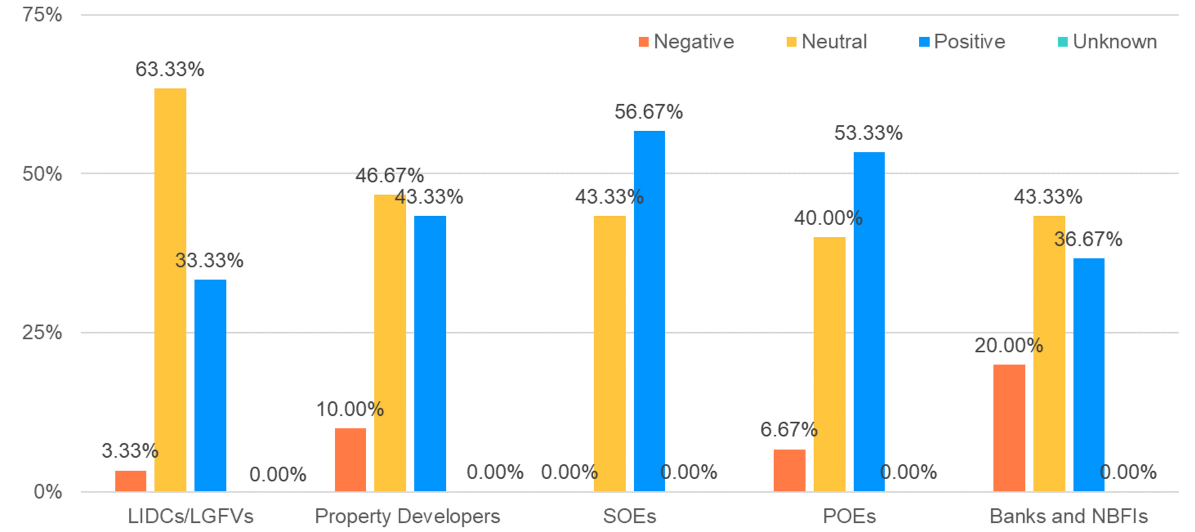


Source: Lianhe Global

Regarding the Market Event (3) cut in interest rate and reserve ratio requirements by People's Bank of China, many respondents believed it would have a positive impact on property developers, SOEs and POEs. 63.3% of the respondents believed that it would be neutral to the LIDC/LGFV sectors (see Exhibit 12 below).

EXHIBIT 12:

Cut in interest rate and reserve ratio requirements by People's Bank of China

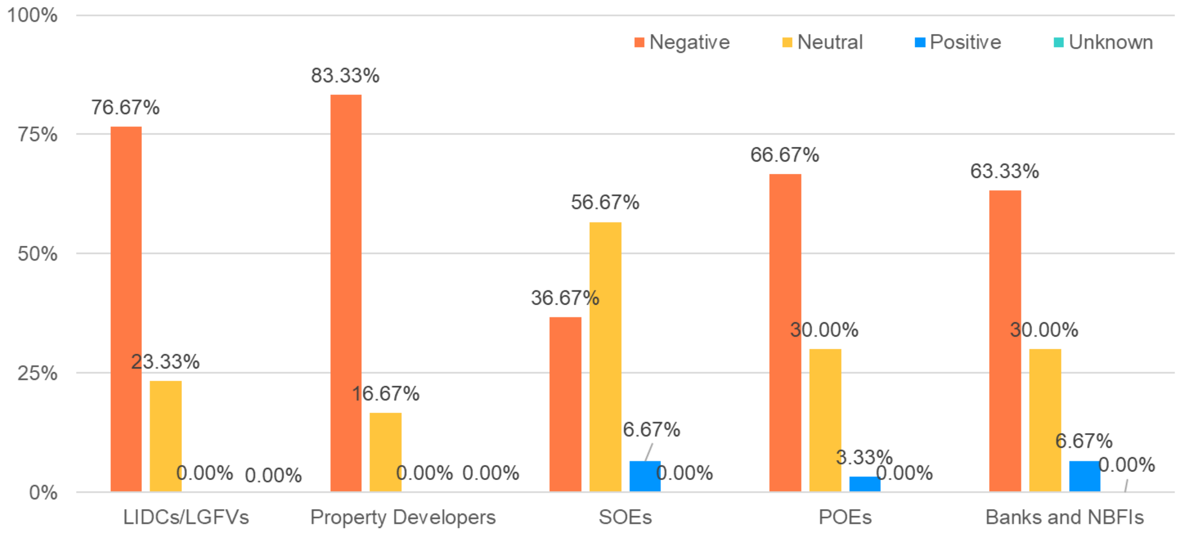


Source: Lianhe Global

Regarding the Market Event (4) continued credit crisis in China property sector, the majority of the respondents held a negative view for all sectors but SOEs. 56.7% of them believed it would have a neutral impact on SOEs (see Exhibit 13 below).

EXHIBIT 13:

Continued credit crisis in China property sector

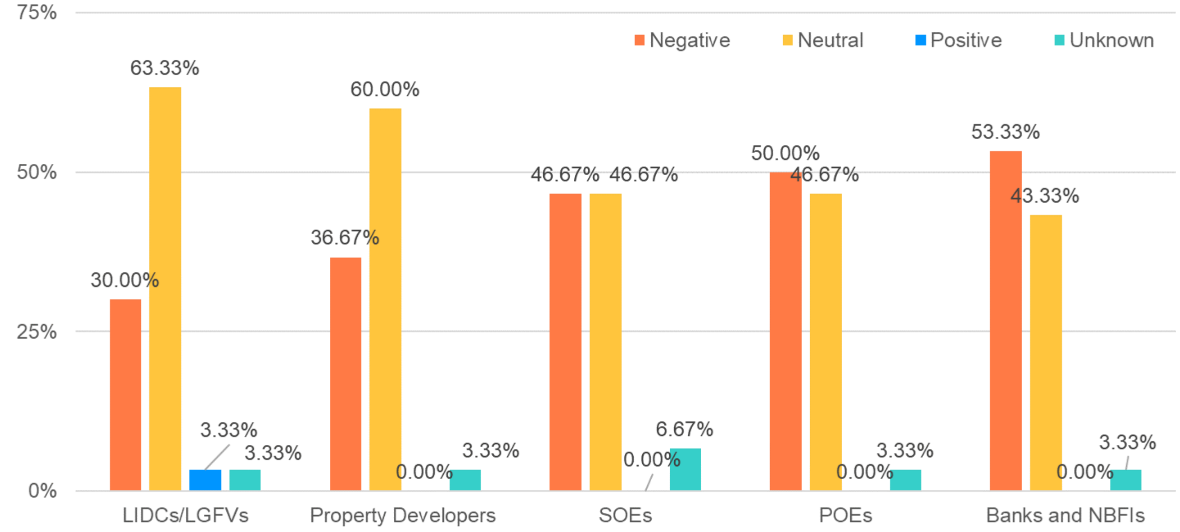


Source: Lianhe Global

Regarding the Market Event (5) US-China tensions on trade and Taiwan, about half of the respondents believed it would have negative impacts on SOEs, POEs, and Banks and NBFIs (see Exhibit 14 below). Over 60% of them believed in a neutral effect on LIDCs/LGFVs and property developers.

EXHIBIT 14:

US-China tensions on trades and Taiwan

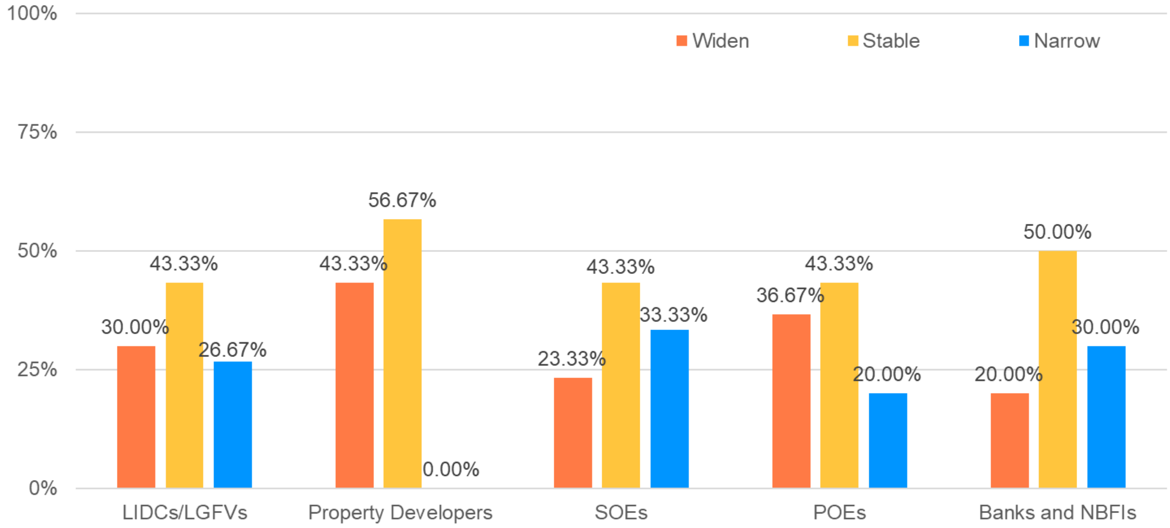


Source: Lianhe Global

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 all sectors for the next 12 months. Some of the respondents believed that the spread would widen for property developers (see Exhibit 15 below).

EXHIBIT 15:

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

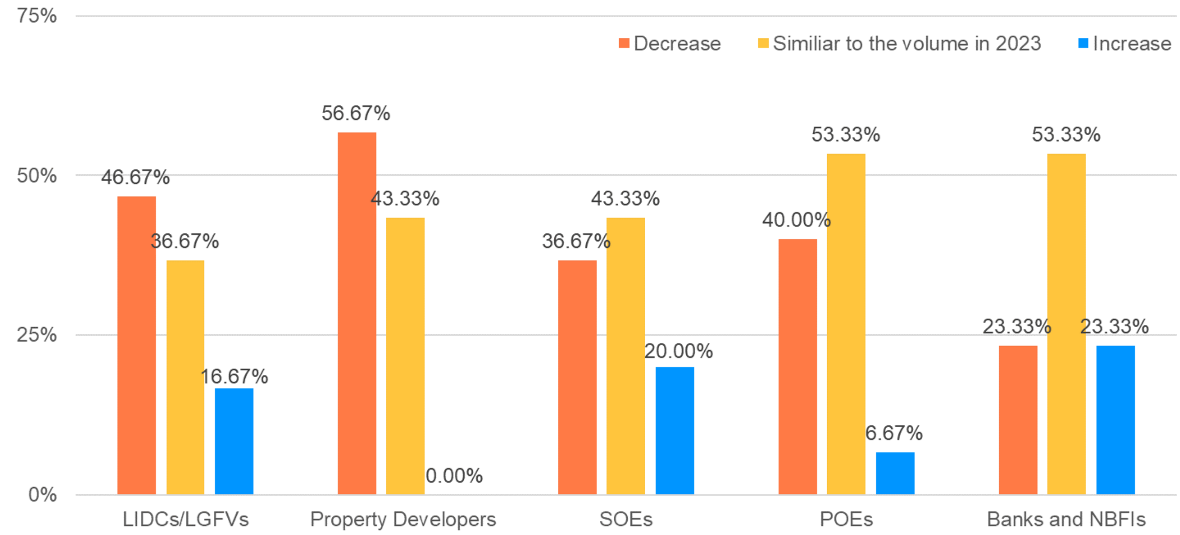


Source: Lianhe Global

2024 would still be a year with uncertainty in terms of new bond issuance. 46.7% and 56.7% of the respondents expected that the new issuance volume of Chinese offshore bonds in 2024 for LIDCs/LGFVs and property developers would decrease. The majority of them expected a similar issuance volume for SOEs, POEs, and Banks and NBFIs (see Exhibit 16 below).

EXHIBIT 16:

What is your expectation regarding the new issuance volume of Chinese offshore bonds in the sectors below for 2024 when compared with 2023?



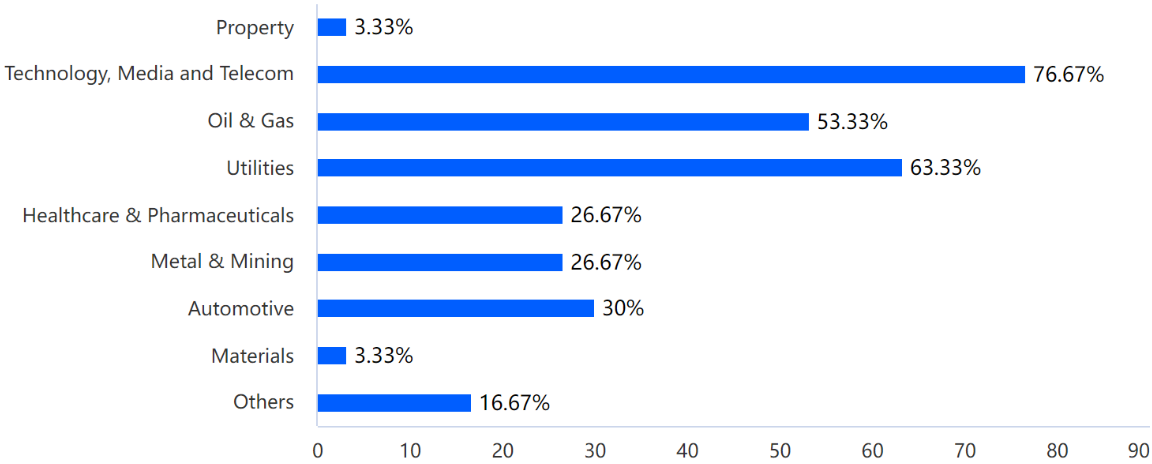
Source: Lianhe Global

In terms of other preferred sectors apart from investing in LIDC/LGFV and Financial sectors, we could see that Technology, Media and Telecom (76.7%), Utilities (63.3%) and Oil & Gas

(53.3%) are the top three preferred sectors to invest by respondents (see Exhibit 17 below). One of the respondents suggested the sector “cross border e-commerce”.

EXHIBIT 17:

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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