2024 Chinese Offshore Bond Investor Survey Report (Part Two)

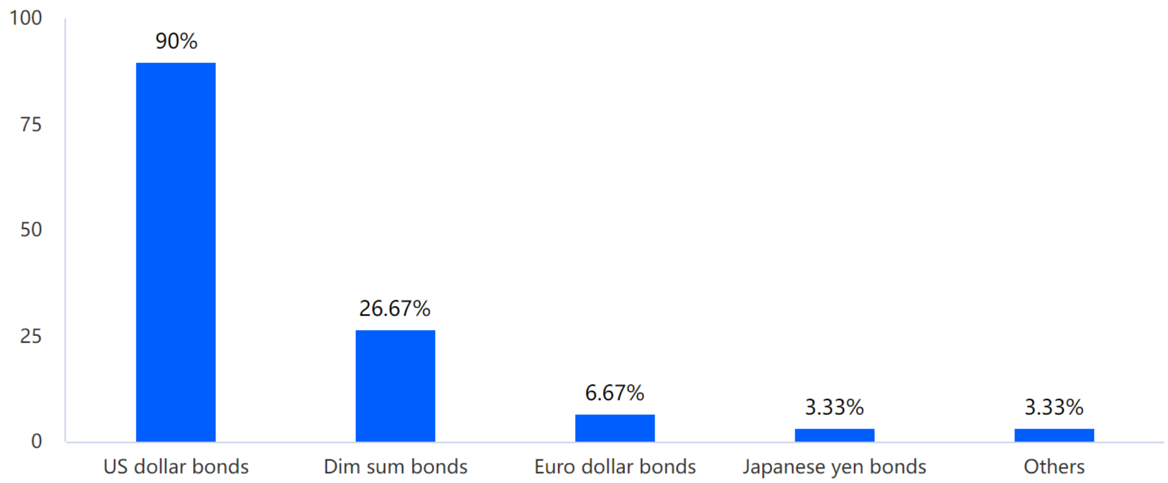
The 2024 Chinese offshore bond investor survey is based on the data and feedback collected from 30 Chinese offshore bond investors of which 23 are based in Hong Kong and 7 are based outside HK. The survey took place from January to March 2024. This survey includes 4 parts: General Questions, Views on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

We have published the first part of the survey results on the Views on the Macroeconomy, Views on the Chinese Offshore USD Bond Market in the **2024 Chinese Offshore Bond Investor Survey Report (Part One)**. In this report, we have summarized the survey results on the Views on the Investment Strategy in the Chinese Offshore Bond market.

Part D: Investment Strategy in the Chinese Offshore Bond Market

Respondents were asked about the type of Chinese offshore bonds they would primarily focus on. 90% of them chose US dollar bonds. Dim sum bonds would be the focus of 26.7% of the respondents. It is noted that some respondents also considered Euro dollar bonds (6.7%), and Japanese yen bonds (3.3%) (see Exhibit 1).

EXHIBIT 1:
In the following 12 months, which type of Chinese offshore bonds will you primarily focus on? (Multiple answers)

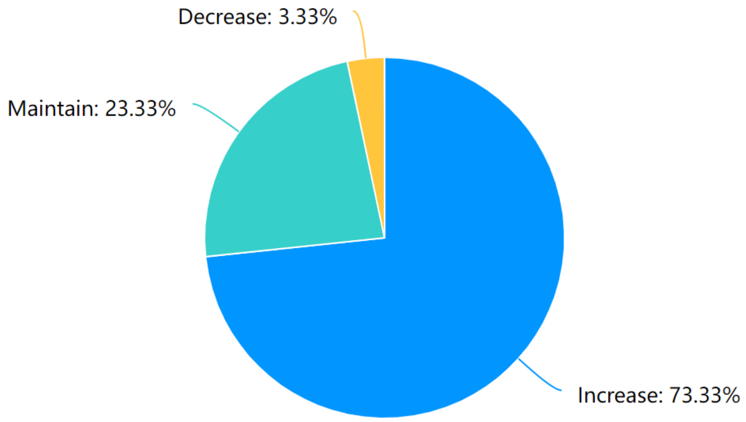


Source: Lianhe Global

Only one respondent planned to decrease their investment portfolios' current durations. 73.3% would increase the duration of their investment portfolio, and 23.3% of them would maintain the duration of their investment portfolio in the coming 12 months (see Exhibit 2 below).

EXHIBIT 2:

In the following 12 months, how will you adjust the duration of your investment portfolio?

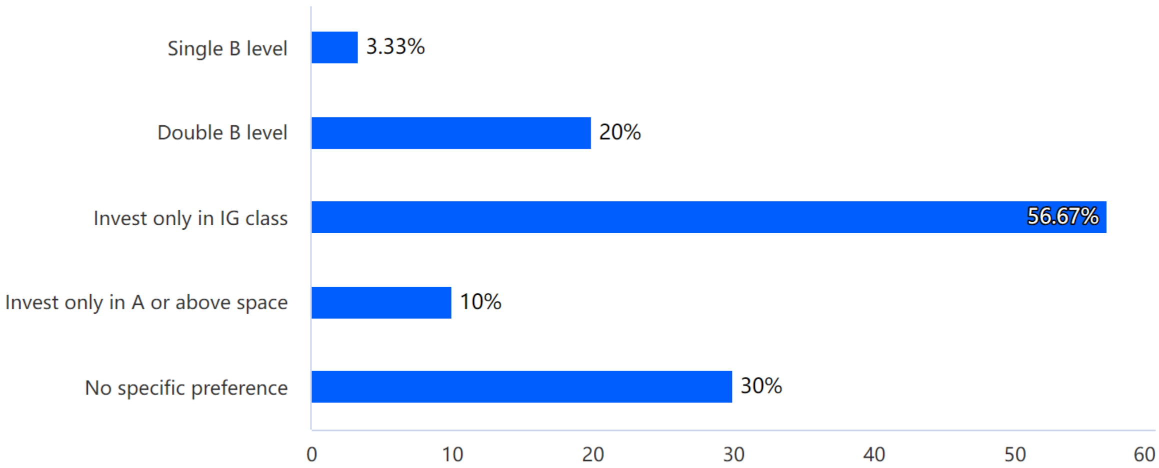


Source: Lianhe Global

Only one respondent would be willing to participate in single B level bonds in the coming 12 months. 20% of the respondents would participate in double B level bonds and at the same time 56.7% of the respondents would participate in investment grade (IG) bonds only. 30% of them have no specific preference in the coming 12 months (see Exhibit 3 below).

EXHIBIT 3:

In the following 12 months, do you have any investment preference in terms of the ratings? (Multiple answers)

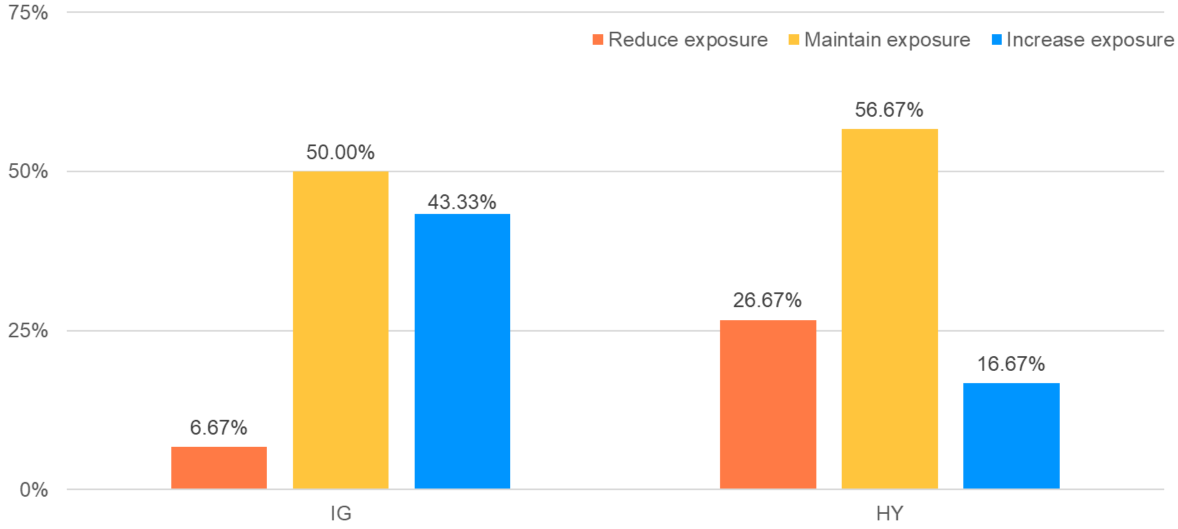


Source: Lianhe Global

The majority of the respondents intended to maintain their exposures in both IG and HY grade bonds in 2024. 43.3% of the respondents intended to increase their exposures in IG-grade bonds (see Exhibit 4 below).

EXHIBIT 4:

In the following 12 months, you will most likely:

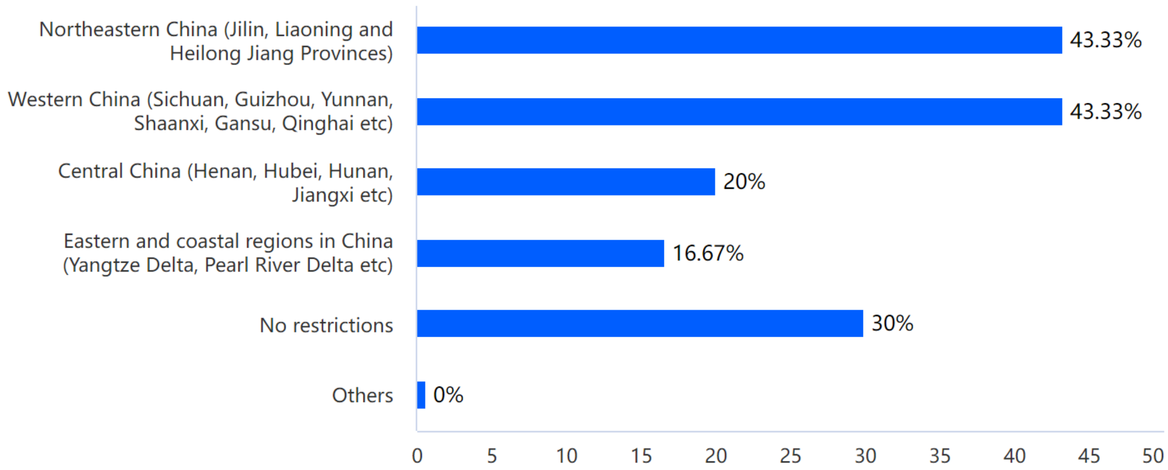


Source: Lianhe Global

Respondents said they would not invest in certain areas of China where the bond issuers are located: 43.3% of them would not consider both the Northeastern and Western regions. But many of them (30%) have no investment restrictions in terms of geographic locations (see Exhibit 5 below).

EXHIBIT 5:

In the following 12 months, are there any regions in China that you will not consider investing in? (Multiple answers)

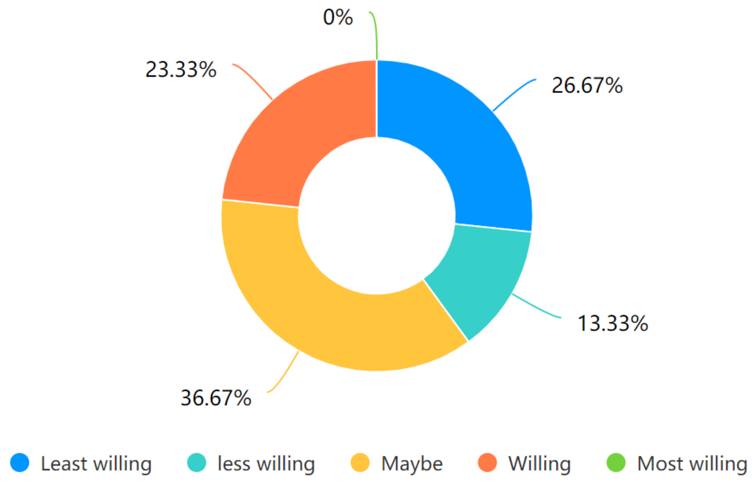


Source: Lianhe Global

Respondents were asked how willing they would invest in the LIDC/LGFV offshore bond backed by Standby Letters of Credit ("SBLCs"). Only 23.3% of respondents would be willing to. 40% of them would not be willing to. 36.7% held a neutral view about whether they would invest in these bonds (See Exhibit 6 below).

EXHIBIT 6:

LIDC/LGFV offshore bond issuance backed by Standby Letters of Credit ("SBLC") has become very common. How willing will you be to invest in these bonds backed by SBLC?

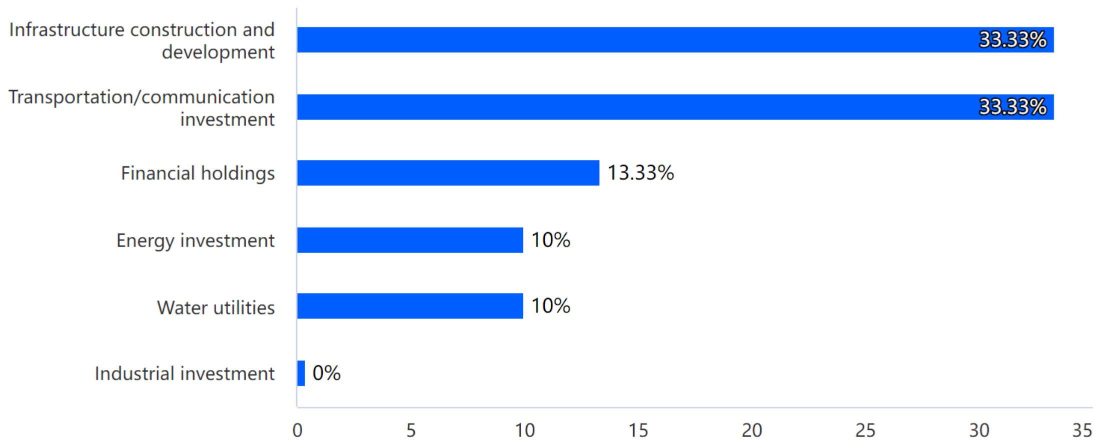


Source: Lianhe Global

Among major sub-sectors in the LIDC/LGFV sector, infrastructure construction and development (33.3%), transportation/communication investment (33.3%), and financial holdings (13.3%) are the top 3 preferred sub-sectors. No respondent was interested in industrial investment (See Exhibit 7 below).

EXHIBIT 7:

What is your top preferred sub-sector in the LIDC/LGFV sector?

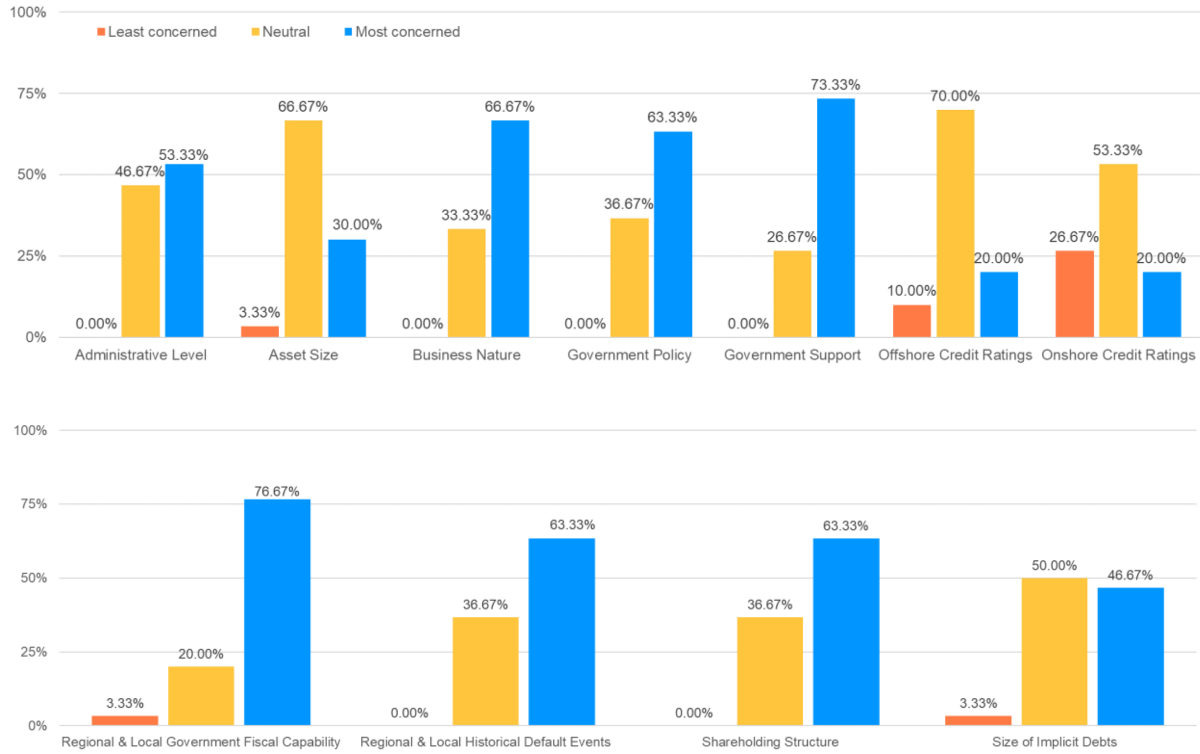


Source: Lianhe Global

In terms of the significant factors when investors consider investing in LIDC/LGFV bonds, the majority of respondents were concerned about administrative level, business nature, government policy, government support, regional & local government fiscal capability, regional & local historical default events, shareholder structure, and size of implicit debts. For the asset size of the LGFVs, more than half of the respondents did not consider it as a major factor. Most of them held a neutral view on offshore and onshore credit ratings (see Exhibit 8 below).

EXHIBIT 8:

How important are the following factors when you consider investing in the bonds of LIDC/LGFV companies?

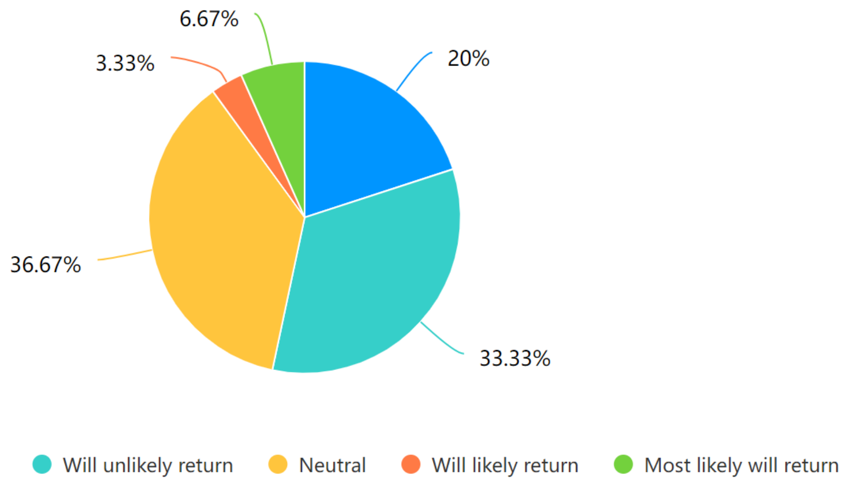


Source: Lianhe Global

Given the series of defaults in the property sector in 2021 and the continued crisis until today, respondents were asked if they would like to return to the China property bond market. Less than 10% of respondents would like to return to the market. More than half of them would not like to return to the market. 36.7% held a neutral view about whether they would come back to the market (See Exhibit 9 below).

EXHIBIT 9:

In light of the continued defaults in the Chinese property sector, some investors exit their positions in the China property bond market. What is the likelihood for you to return to the market?

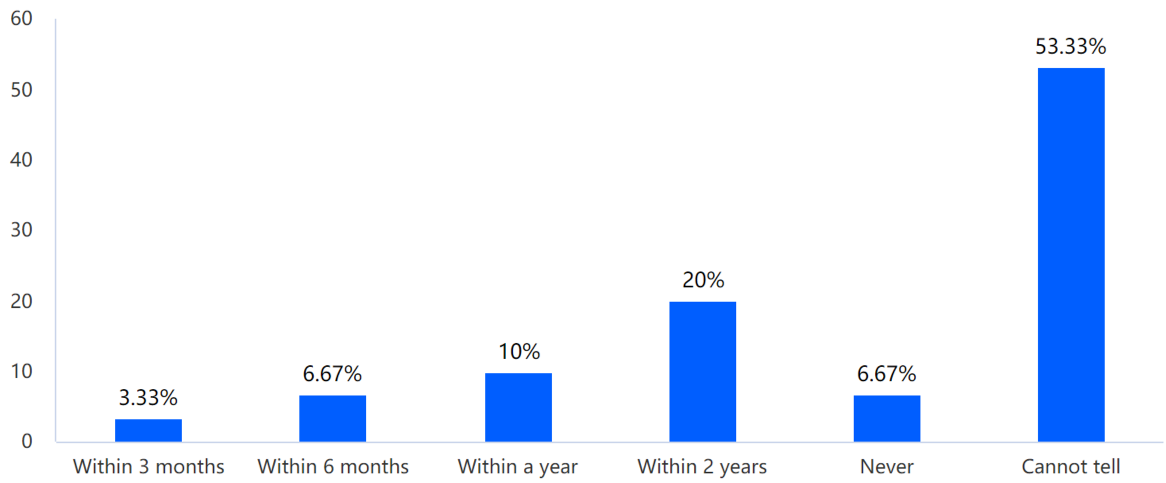


Source: Lianhe Global

Less than 10% of the respondents would see themselves returning to the China property bond market within 6 months. 20% of them would return to the market within 2 years. Note that quite a number of them (53.3%) are unsure about when to return (See Exhibit 10 below).

EXHIBIT 10:

When will you see yourself returning to the China property bond market?

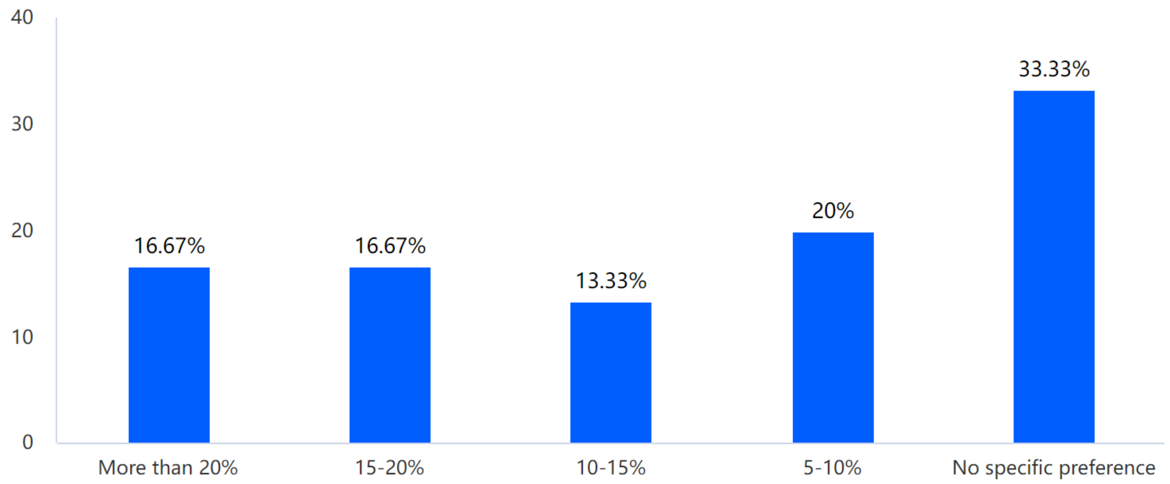


Source: Lianhe Global

46.7% of the respondents would expect a high annual return (more than 10%) for themselves on return to the China property bond market. A significant number of them had no specific preference for the required return (See Exhibit 11 below).

EXHIBIT 11:

What would be the expected annual return required for you to return to the China property bond market?



Source: Lianhe Global

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