Keynote Address at Bond Connect Anniversary Summit 2024

Ms Julia Leung
Chief Executive Officer

9 July 2024

Good morning, the Honourable Mr Paul Chan and Ms Zhang. It is my pleasure to attend the Bond Connect Anniversary Summit 2024.

Bond Connect has operated with great success for seven years since July 2017, which coincided with the 20th Anniversary of Hong Kong's handover. Looking back, Bond Connect created a new bridge across both the Mainland and Hong Kong capital markets by building on the successful implementation of Stock Connect, and it marked a significant breakthrough in the opening up of China's bond market.

Bond Connect also signifies a big stride across major asset classes – from equities to fixed income – for the Mainland and Hong Kong mutual market access, representing a milestone in deepening market connectivity.

Seven years on, Bond Connect has gained wide recognition from the industry, with rapid growth in trading volume, an increasing number of participating institutions and an expanding range of product offerings. The scheme has become the major channel for offshore investors to invest in Mainland bonds. Average daily trading volume of northbound Bond Connect hit a record high of RMB48.7 billion in January this year.

Bond Connect has continued to expand, in addition to the launch of enhancement measures. After the introduction of northbound trading at the initial stage, its southbound link was launched in 2021. Early this year, bonds under Bond Connect were included in the list of eligible collateral for the Hong Kong Monetary Authority's RMB Liquidity Facility. Also, the People's Bank of China (PBoC) has just announced that bonds under Bond Connect will become eligible as collateral for northbound Swap Connect transactions. These measures have enhanced the capital efficiency for offshore investors and increased their appetite for holding RMB assets. Hong Kong's Securities and Futures Commission (SFC) will provide guidance to financial infrastructure institutions (including OTC Clearing Hong Kong Limited) to take the preparatory work forward, and expects this measure to be implemented by the end of this year.

The Mainland's bond market has grown rapidly in recent years, up nearly four times in size compared to 10 years ago. It now ranks second globally, just behind the US. It is worth noting that the Mainland's bond market still has immense development potential, and there is significant room for foreign financial institutions to expand their participation.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

- According to the World Economic Forum, the size of the Mainland bond market is about 1.1 times its gross domestic product, lower than the ratios of developed economies such as the US (2.0 times) and Japan (2.3 times).
- Currently, the total value of onshore RMB bonds held by foreign financial institutions has exceeded RMB4 trillion, accounting for about 3% of the total. Treasury bonds account for roughly half of foreign investors' bond portfolios. Such proportion of foreign holdings is relatively low compared to other developed countries such as Japan (about 14%) and the UK (about 25%).
- Since the launch of northbound Bond Connect, cumulative net inflows have exceeded RMB2 trillion, outstripping the northbound net inflows of RMB1.8 trillion for Stock Connect since its launch.
- More than 800 foreign financial institutions have become investors under Bond Connect. Among them, nearly 90% are asset managers from more than 30 countries and regions, including the US, UK, Hong Kong, Japan, Singapore, Luxembourg, Canada and Germany.

Foreign investors' increased Mainland bond holdings have heightened the need for risk management, in which Hong Kong has a crucial role to play. Foreign investors can trade interest rate derivatives with their Mainland counterparts through Swap Connect, which is an effective tool for hedging onshore interest rate risks. Since its launch, the number of overseas participants has more than doubled in just one year. Average daily turnover more than tripled to over RMB13 billion in June this year. Local regulators are also actively working on the launch of China's Treasury bond futures in Hong Kong. It is hoped that we will complete the final stretch shortly.

Within the Asia-Pacific region, Hong Kong has long taken the lead in stock market development, while its fixed-income, currency and commodity (FICC) business has faced competition from other regional markets such as Singapore and Tokyo.

As the world's largest and most important offshore RMB business hub, Hong Kong's major advantage in the FICC business lies in its issuance of offshore RMB bonds. In the first quarter of 2024, the total value of Hong Kong's offshore RMB bond issuance increased by approximately 15% year-on-year.

In recent years, the Ministry of Finance and the PBoC have ramped up the size of their issuance of RMB Treasury bonds and central bank bills in Hong Kong, which has greatly boosted the development of the city's FICC business. For instance, the Ministry of Finance plans to issue RMB55 billion worth of Treasury bonds in six tranches in Hong Kong this year, up from RMB50 billion last year. The third tranche, with an amount of RMB9 billion, will be issued tomorrow.

FICC is a business that, by nature, requires economies of scale and agglomeration effects. Recently, the SFC has conducted a survey on the FICC business of global financial institutions in Hong Kong. It was found that the launch of Bond Connect has spurred the substantial growth of fixed-income business in Hong Kong as an FICC centre. In order to meet their business development needs in relation to Bond Connect, many international institutions have chosen to set up offices and deploy personnel here, thus building a good foundation for the development of the city's FICC business.

The survey also found that foreign institutions, particularly pension funds, sovereign wealth funds and central banks, have strong demand for China's Treasury bonds, and that they account for about 70% of the trading volume of such bonds among foreign investors. These foreign institutions also indicated their interest in buying more Chinese Treasury bonds.

For these reasons, we are hopeful that the Ministry of Finance will continue to expand the scale of bond issuance in Hong Kong, thereby enhancing the city's offshore RMB Treasury bond market. Moreover, the SFC is reviewing a number of measures and action plans with other regulators and relevant authorities, with a view to bolstering the development of Hong Kong's FICC business and further strengthening its position as an international financial centre.

Lastly, I wish today's Summit a great success.