Speakers Q&A

Q3: As in 2008, QE has again been used to stimulate international markets but what other measures are being used to reignite the markets? Do you anticipate them to be effective? Would the Chinese debt capital market and the Asian market as a whole benefit from this stimulated capital flow?

Domenico Nardelli
Treasurer
Asian Infrastructure Investment Bank (AIIB)

The US Fed 's direct purchase of multiple assets such as commercial paper and corporate bonds has provided a stimulating effect on credit assets. Credit spreads have gradually declined from the high level since late March. Except for QE, Central Banks globally have utilized plenty of instruments such as rate cuts and required reserve ratio cuts. ***For China, specifically, from the beginning of the year, the PBOC cut the required reserve ratio 3 times for medium and small banks, infusing trillions into the bond market. For bond markets, this ample liquidity led to stable and low funding levels. I expect the bond market here will maintain a bullish trend given the abundance of liquidity and China bond market to become increasingly attractive internationally.***

Alvin Cheng
Portfolio Manager
Fidelity International

There is certainly a limit of how QE can be effective, especially when expectation of investment return are gloomy. As such, we are expecting more fiscal policy for China and also many other countries.

Depending how sustained the virus impact will be, personal consumption is likely to be subdued given the uncertainties in the macro economy and job market. Government need to spend and this pump the profit and liquidity into real economy to close to the loop. However, specifically for China, the balance between government leverage and the strength of stimulus need to be carefully balanced.

The onshore debt market in China has already benefitted from the sufficient liquidity. In the rates market, 10-year government bond yield lowered by 50bps yesterday. In the corporate bond market, we are likely to see continuing by-fication. ***The leading players in its respective sector would benefit from both the flooded capital market liquidity, and also increasing market share after weaker competitor are being squeezed by the epidemic.*** For the weak and smaller ones, we are likely to see continuous liquidity pressure as the risk appetite remain at the safer side, and they are likely to have much less cash reserve to weather through this crisis.

Freddy Wong
Managing Director – Head of Asia Pacific Fixed Income
Invesco

The US Federal Reserve announced massive monetary policy response including large-scale asset purchases, zero rates, liquidity provisions and funding facilities. ***The introduction of primary and secondary market corporate credit facilities, which cover not only Investment Grade bonds but also fallen angels, are not even seen during the 2008 Global Financial Crisis. Other key global central banks and governments announced huge monetary and fiscal stimulus to the market as well.*** We expect these measures to ease the tight liquidity condition in the market and assure the normal functioning of financial market. The easier financial conditions could provide additional support for Asia/China credit market, but the negative impact brought by the health crisis will likely continue to put pressure on the company fundamentals in the near term.

Julio Callegari
Lead portfolio manager for Asia Local Rates and FX
JP Morgan Asset Management

QE is indeed back as a key part of monetary stimulus response. Not only QE is back but also it is also more intense (with Central Banks in Developed Markets acting more quickly than in 2008 crisis) and broader (with Central Banks from Emerging Markets also joining the effort from DM counterparties). ***In additional to QE, the stimulus on the fiscal side is in general larger when compared to the 2008 initial response, both in Developed and Emerging markets.*** These policy responses are already helping to mitigate the risks and support asset prices across the board and taking into account the deep recession in which the global economy is entering we reckon that policy makers will continue to add stimulus.

By avoiding an even deeper recession and increasing the odds of a recovery in second quarter of 2020, these policies should benefit risk assets in general, including the capital market in Asia. Within fixed income, High Yield credit in particular should benefit the most from this continued support from policy makers.

Q4: As the strictures placed on the markets due to Covid-19 are lifted, how quickly can we expect foreign capital flows into the China debt capital market to return to their pre-crisis levels?

Domenico Nardelli
Treasurer
Asian Infrastructure Investment Bank (AIIB)

We have to consider that Chinese debt capital markets have been absorbing foreign holdings since 2015 now. ***Even during the crisis period, capital inflows have not stopped. We are doing some research in the context of our possible RMB onshore funding activity, and according to CFETS, by the end of April 2020, 447 overseas institutional investors were registered though CIBM Direct scheme and 531 overseas institutional investors through the Bond Connect scheme, with 5 and 11 new accounts respectively over last month. I expect that this trend will continue.***

Terry Gao
Managing Director
Asia-Pacific International Public Finance
Fitch Ratings

Foreign capital flows will depend on various global factors including asset prices, return expectations, and exchange rates. Market stability will also be a key factor towards foreign capital flows, although timing may be less certain, in particular the pace of the recovery.

By March 2019, China's onshore bond market reached CNY103 trillion bond outstanding, second-largest in the world, behind US. Yet foreigners' holdings are still small – around 2% – when compared with developed markets such as Japan (12.1%) and the US (28%), as well as emerging markets like Indonesia (39%) and Malaysia (24%). By March 2020, overseas investors held CNY2.26 trillion in Chinese onshore debt, according to Bond Connect. ***The Chinese onshore market currently remains a relative closed market and dominated by domestic investors. We believe foreign investments will ultimately be decided by the level or risk and return opportunities.***

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Freddy Wong
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In the short-term, the foreign capital inflows into China debt capital market would be more event driven, as there are still uncertainty around the COVID19 development and a potential escalation on China US conflict. However, ***in the medium to longer term, we expect the foreign capital inflows to pick up significantly. Global index providers have increasingly included Chinese onshore bonds in their flagship indices, we expect more foreign investors to position into the China debt capital market for diversification and yield hunting purpose.***

Julio Callegari
Lead portfolio manager for Asia Local Rates and FX
JP Morgan Asset Management

We are seeing a typical response to economic crisis, with risk aversion sentiment leading to less appetitive for investments in Emerging Market assets, including in the local debt space. Since China is still opening its onshore debt market and the index inclusions are still ongoing, there should be no meaningful outflows (compared to typical EM countries) from China's market. Moreover, ***the relative attractiveness of China government bonds (which are already a good source of diversification due to low correlation with global bond markets) increased, on the back of a sharp drop in US Treasuries yield which led to widened rates differential in favor of China and the Renminbi's adjustment.***
Going forward, the pace of recovery of the global economy (which will also impact the medium-term view on global rates) and stance of US-China relationship will likely have huge influence on the normalization of capital inflows in the China debt market.
Further advances to facilitate the access and improve risk management would also help to attract more foreign investors. This includes, for example, easier access to local derivatives to hedge duration, more liquidity in secondary market, ratings by international agencies, to mention a few.