



BOCHK Asset Management Limited

Internationalisation of the RMB
-opportunities and impact on investments

3 July 2013



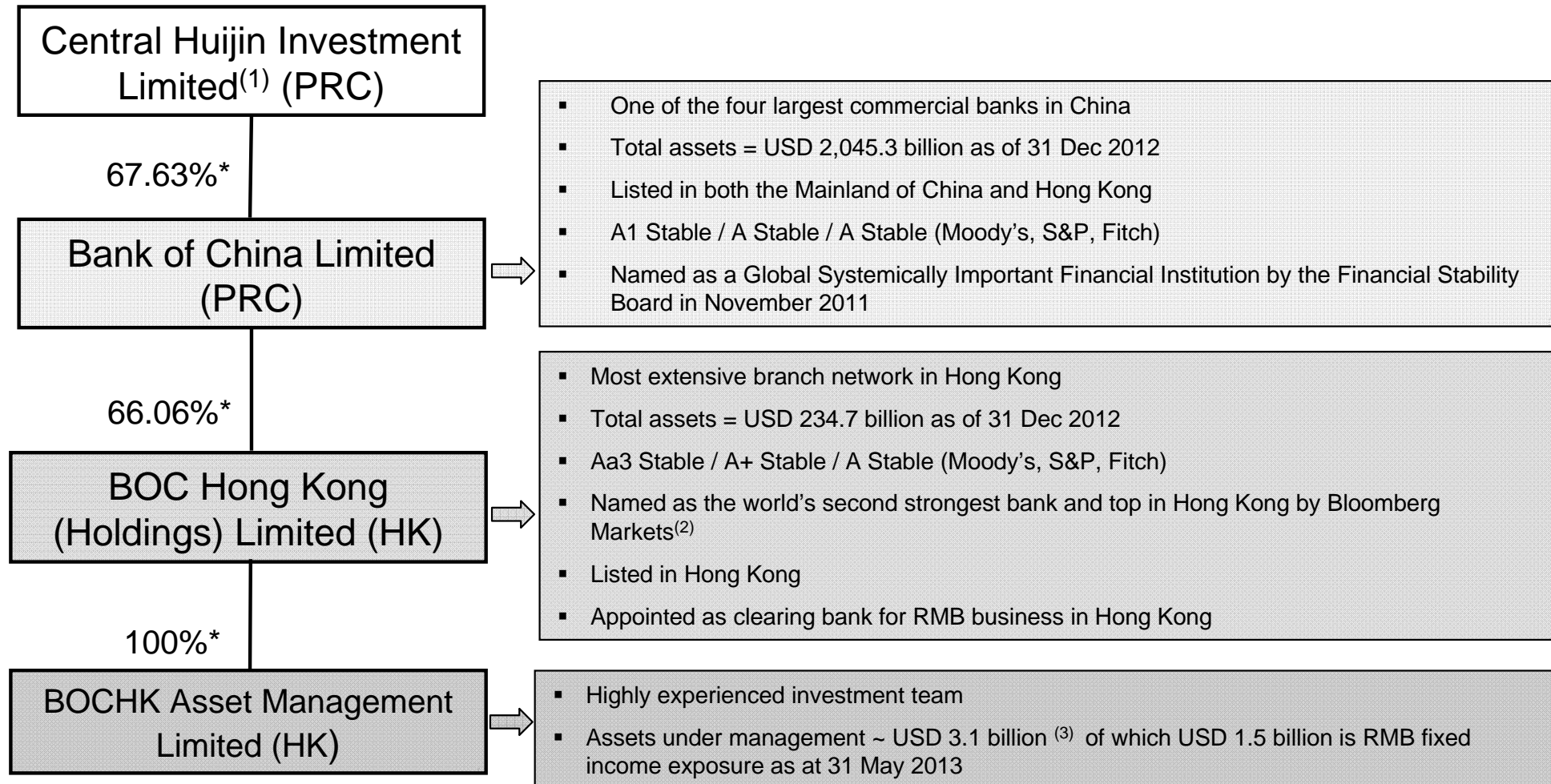
中銀香港資產管理有限公司
BOCHK ASSET MANAGEMENT LIMITED

Contents

1. Introduction to BOCHK Asset Management Limited	03
2. Internationalisation of the RMB	06
3. Offshore RMB Bond Market	11
4. Investment Case	17

Introduction to BOCHK Asset Management Limited

Organisation Overview



⁽¹⁾ Acting on behalf of the PRC Government and previously known as Central SAFE Investments Ltd.

⁽²⁾ Source: Bloomberg, June 2011

⁽³⁾ In addition, USD 4.8 billion in advisory assets

*Including direct and indirect holdings

Source: BOC Hong Kong (Holdings) Limited and Bank of China Limited

Clientele

	INSTITUTIONAL	SOVEREIGN	PRIVATE
PARTNERS	<p>BOC Group Life Assurance</p> <p>One of HK's largest Pension Schemes</p> <p>Well-known Charity in Hong Kong</p> <p>Chinese Insurance Company</p> <p>Sal Oppenheim</p> <p>Fubon Group</p>	<p>Asian Government</p> <p>The World Bank</p>	<p>Local Banks</p> <p>Swiss Private Bank</p> <p>Taiwanese Security Firms</p>
SERVICES	<p>Segregated Mandates:</p> <ul style="list-style-type: none">•RMB Cash and Bonds•Asian Bonds•Global Bonds•Global Balanced•Hong Kong/China Equities	<p>Investment Consultancy</p> <p>BOCHK – World Bank Emerging Markets Bond Fund</p>	<p>Public and Private Funds:</p> <ul style="list-style-type: none">•RMB Bonds•Asian Bonds•Global Balanced•Hong Kong/China Equities

Internationalisation of the RMB

Overview of the RMB

- A three stage process for developing RMB as a global currency for:
 1. Trading
 2. Investment
 3. Reserve

- Progress has been remarkably rapid
 - Nearly 14% of China's USD 3.9 trillion foreign trade was settled in RMB in 2012 (close to zero two years ago)
 - The respective percentages for Japan, Europe and US are 30%, 50-60% and 80-90%
 - More and more countries are starting to settle transactions with China in RMB (e.g. Japan and Australia)

- The development of the offshore RMB bond market , has made the RMB bond a new fixed income asset class
 - Market inefficiencies lead to attractive investment opportunities

- RMB is increasingly being recognised as a major reserve currency
 - e.g. Australia has pledged to invest 5% of its reserves in Chinese Government bonds

Rationale for RMB Internationalisation

- USD 1.2 trillion of China's USD 3.4 trillion foreign exchange reserves are invested in US Treasuries (i.e. one third of the reserves)
- Actual exposure to US Treasuries is much larger when taking into account investments made by state owned enterprises, such as banks and insurance companies
- RMB internationalisation is a solution for reducing concentration and systemic risks associated with the over-reliance on the USD, especially after the global financial crisis of 2008
- RMB internationalisation will also enhance the economic and political status of China globally

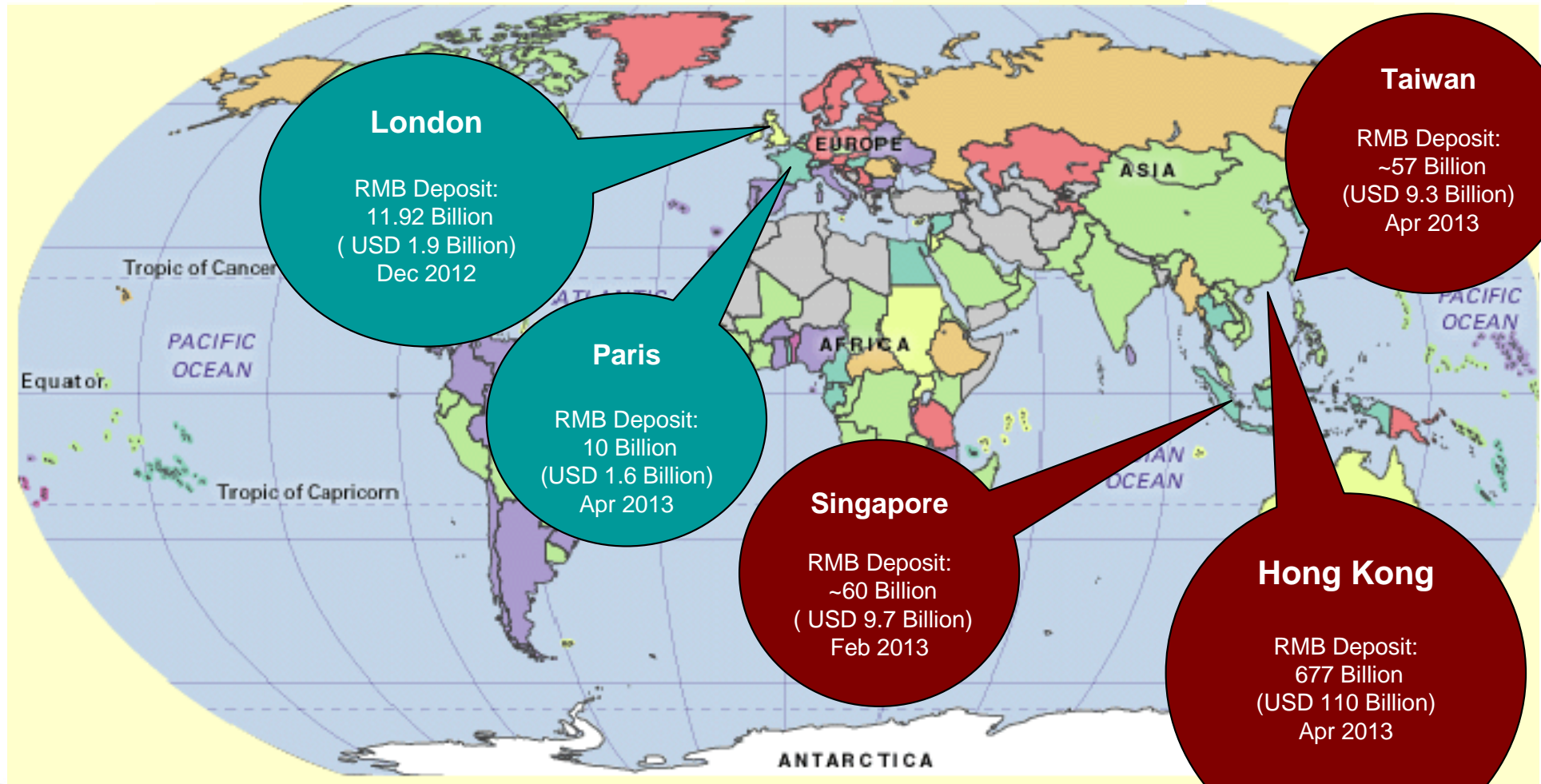
Implications of RMB Internationalisation

- RMB is fast becoming a major trading currency
 - 21 countries have established currency swap agreements with China in just over two years
 - Daily RMB/USD foreign exchange transactions in Hong Kong is approximately USD10 billion

- Energy and commodities prices may eventually be dually quoted in USD and RMB
 - Cross-border mergers and acquisitions (e.g. HKEx taking over LME)
 - Geopolitical implications

- A global offshore RMB Bond Market is being developed with the establishment of offshore RMB clearing centres globally
 - FTSE BOCHK Offshore RMB Bond Index Series (to be launched in September 2013)
 - Sovereigns, international banks and corporations issuing offshore RMB Bonds in Hong Kong, Singapore, Taiwan and London

RMB Offshore Deposits Globally

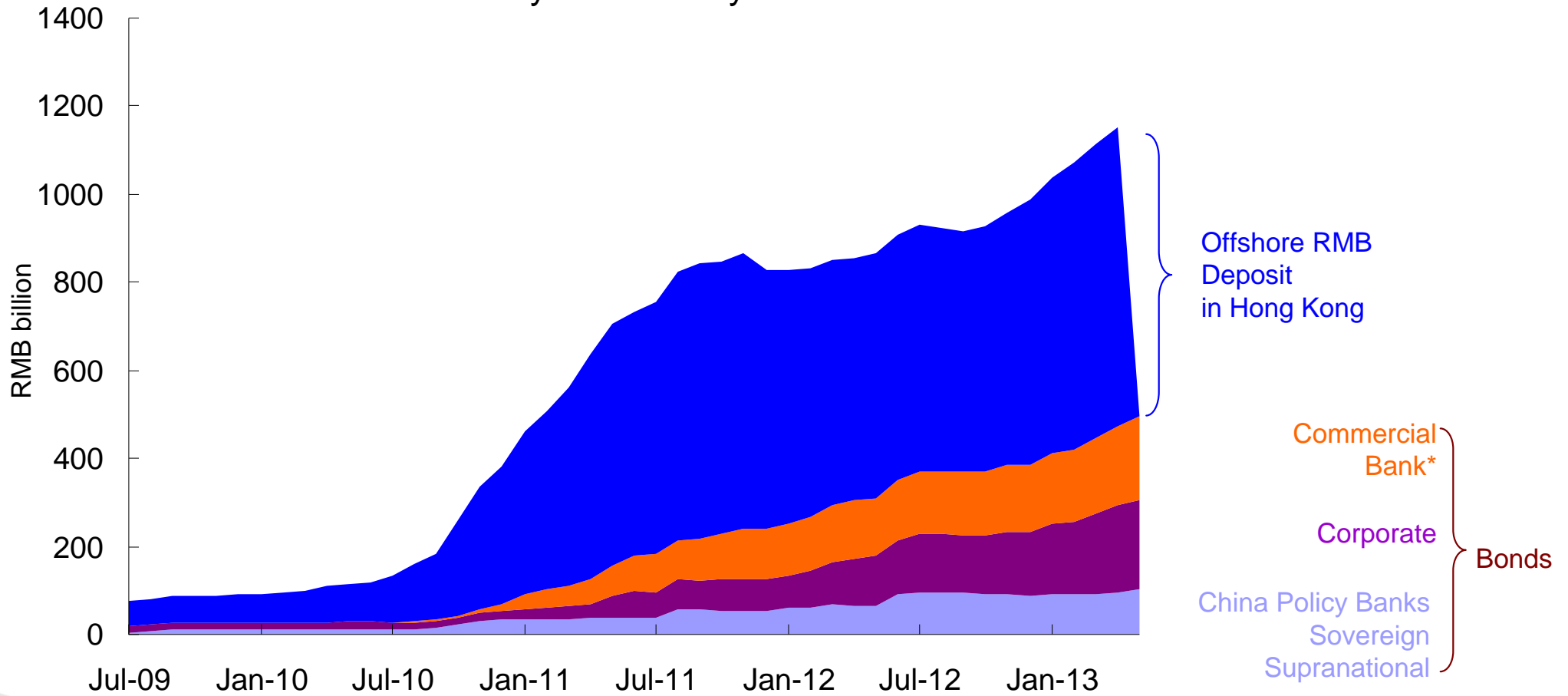


■ Offshore RMB Clearing Centres

Offshore RMB Bond Market

Offshore RMB Bonds Rising Supply & Demand

July 2009 – May 2013



Note: Newest offshore RMB deposit data is for April 2013. Newest bonds' data are for May 2013.

Offshore RMB Bonds A New Asset Class

	Market Capitalization CNH billion (USD billion equivalent*)	Number of Outstanding Issues	Number of Outstanding Issuers
31-May-2013	497 (80)	1093	200
31-Dec-2012	405 (65)	821	171
30-Jun-2012	366 (59)	749	143
31-Dec-2011	244 (39)	433	115
30-Jun-2011	152 (24)	203	79
31-Dec-2010	65 (10)	50	24

* based on an exchange rate USD 1 = CNH 6.150

**Growth rate since
December 2010**

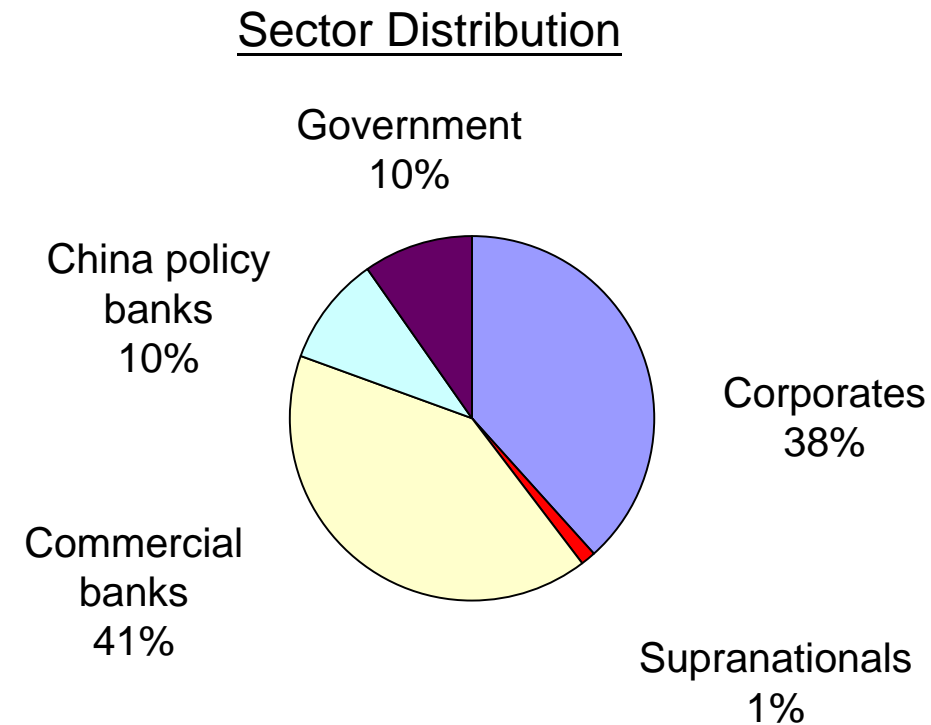
665%

2086%

733%

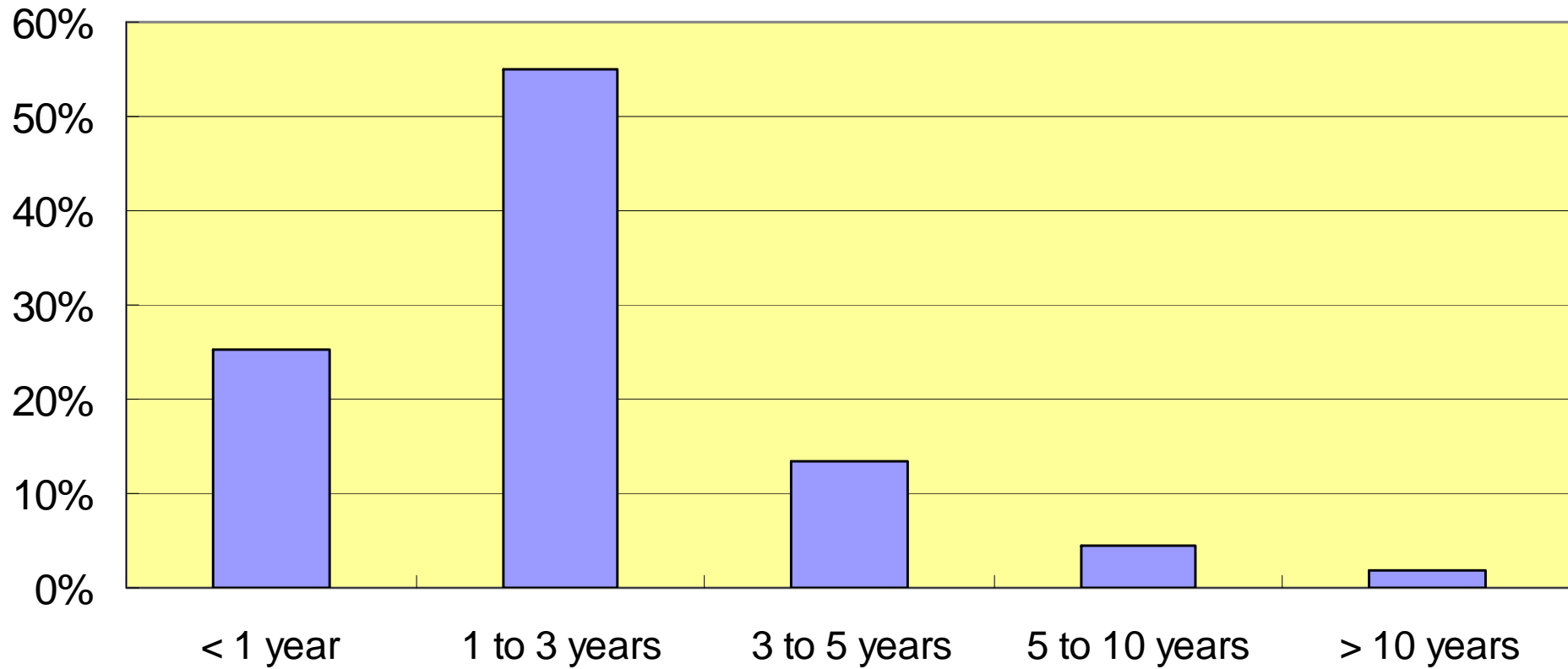
Offshore RMB Bond Market – Sector Profile

- Total market size = RMB 497 billion (i.e. USD 80 billion)
 - 1093 issues
 - 200 issuers



BOCHK Offshore RMB Bond Index – Duration Profile

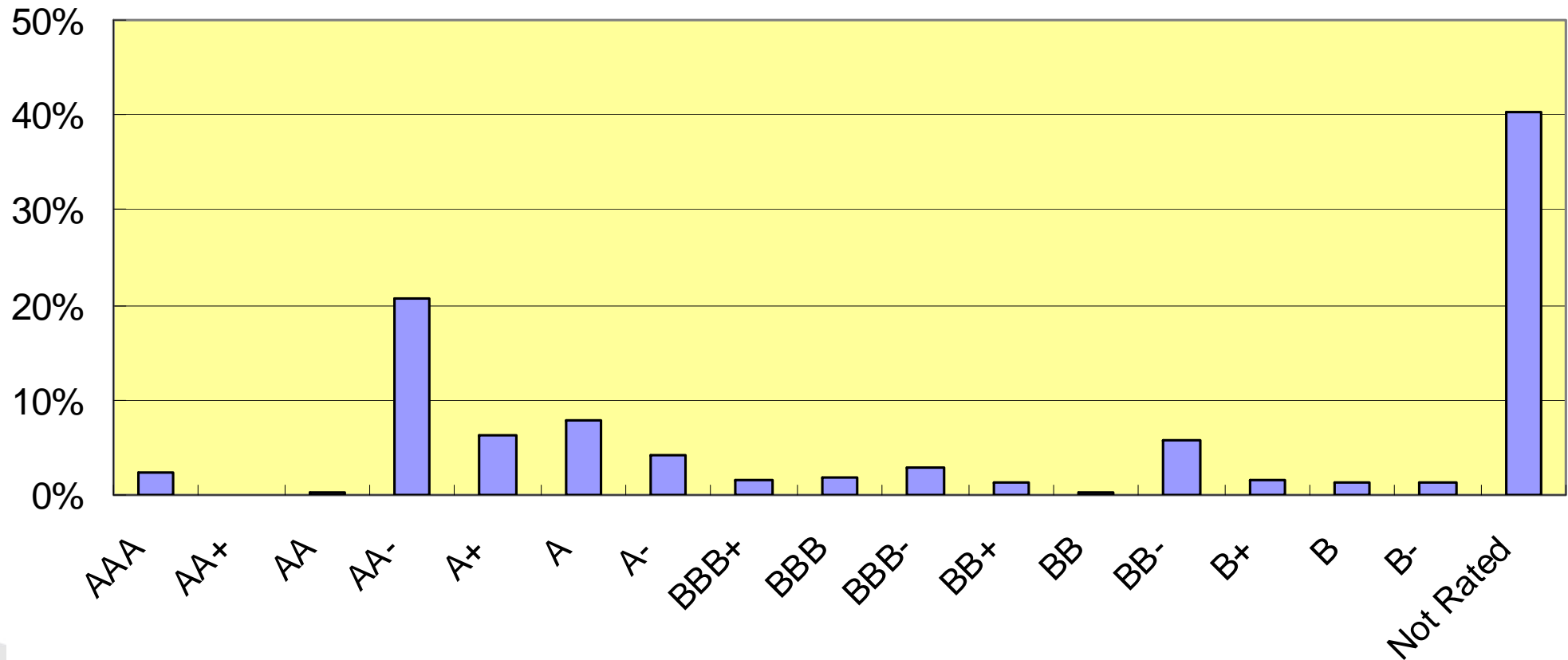
Breakdown by Remaining Maturity of Outstanding Bonds
(market capitalization)



BOCHK Offshore RMB Bond Index – Credit Profile

Breakdown by Issue Credit Rating* (market capitalization)

* The highest of Moody's, S&P or Fitch ratings



Investment Case

Correlation Matrix: Onshore RMB vs. Other Currencies (USD Terms)

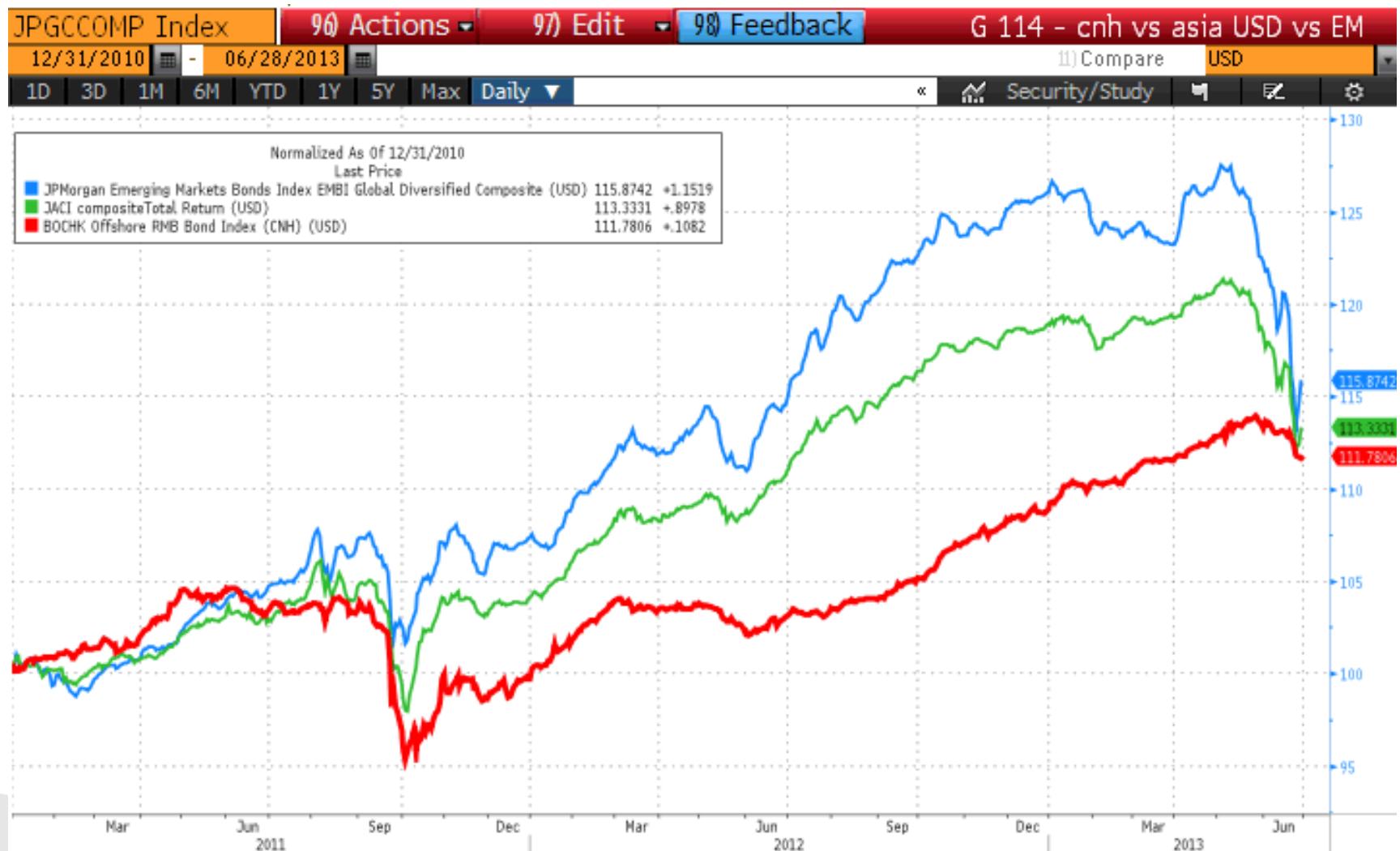
Asset Class		Chinese RMB	Asia EM	Global EM	Europe EM	EUR	GBP	Latam EM
Represented by		CNY/USD	JPM Emerging Local Markets ELMI Plus Asia	JPM Emerging Local Markets ELMI Plus Composite	JPM Emerging Local Markets ELMI Plus Europe	EUR/USD	GBP/USD	JPM Emerging Local Markets ELMI Plus Latin
Chinese RMB	CNY/USD	1.00						
Asia EM	JPM Emerging Local Markets ELMI Plus Asia	0.26	1.00					
Global EM	JPM Emerging Local Markets ELMI Plus Composite	0.18	0.79	1.00				
Europe EM	JPM Emerging Local Markets ELMI Plus Europe	0.17	0.70	0.96	1.00			
EUR	EUR/USD	0.08	0.40	0.63	0.65	1.00		
GBP	GBP/USD	0.08	0.37	0.53	0.50	0.63	1.00	
Latam EM	JPM Emerging Local Markets ELMI Plus Latin	0.05	0.47	0.72	0.55	0.47	0.44	1.00
Volatility (p.a., %)		1.91	3.78	8.53	14.67	11.74	10.91	10.36

Correlation Matrix: Offshore RMB Bonds vs. Other Bonds (USD Terms)

Asset Class		Offshore RMB Bonds	Global EM	Asian USD	UK Corp	EU Corp	Germany Govt.	US Corp	Global Govt.
Represented by		BOCHK Offshore RMB Bond Index (USD)	JPM EM Markets Bonds Index BMBI Global Div. Composite	JACI Composite Total Return	BofA Merrill Lynch Sterling Corporate Index	BofA Merrill Lynch Euro Corporate Euroland Issuers Index	Barclays Germany Govt All Bonds TR	BofA Merrill Lynch US Corporate & High Yield Index	Citigroup WGBI All Maturities
Offshore RMB Bonds	BOCHK Offshore RMB Bond Index (USD)	1.00							
Global EM	JPM EM Markets Bonds Index BMBI Global Div. Composite	0.35	1.00						
Asian USD	JACI Composite Total Return	0.34	0.67	1.00					
UK Corp	BofA Merrill Lynch Sterling Corporate Index	0.29	0.31	0.37	1.00				
EU Corp	BofA Merrill Lynch Euro Corporate Euroland Issuers Index	0.29	0.19	0.41	0.58	1.00			
Germany Govt.	Barclays Germany Govt All Bonds TR	0.20	0.30	0.31	0.22	-0.06	1.00		
US Corp	BofA Merrill Lynch US Corporate & High Yield Index	0.19	0.17	0.31	0.53	0.79	0.04	1.00	
Global Govt.	Citigroup WGBI All Maturities	0.11	0.12	0.25	0.59	0.66	0.21	0.68	1.00
Volatility (p.a., %)		3.64	3.49	3.98	7.90	9.29	3.56	7.66	4.88

Market Comparison: CNH Bonds vs. Asian USD Bonds & EM Bonds

31 Dec 2010 to 28 Jun 2013 (USD terms)



Investment Opportunities

We systematically compare relative values across the three distinct RMB markets

- What happens in one market will affect valuation of the other two markets

BOND ISSUER	ONSHORE RMB (CNY)			OFFSHORE RMB (CNH)			CNH HEDGED USD		
	MATURITY	RATING	MARKET YIELD p.a. (1)	MATURITY	RATING	MARKET YIELD p.a. (2)	MATURITY	RATING	MARKET YIELD p.a. (3)
Sinochem	2014/5/6	AAA (Chengxin, a local rating agency)	5.8%	2014/1/18	NA	2.8%	2020/11/12	Baa1/BBB	5.4%
China Shanshui Cement	2014/3/28	AAA (Chengxin, a local rating agency)	3.6%	2017/7/22	BB- (S&P)	4.4%	2016/5/25	BB- (S&P)	8.7%

Source (1): WIND as of 31 May 2013; after 10% withholding tax

Source (2): Bloomberg as of 31 May 2013

Source (3): Bloomberg as of 31 May 2013, including a CNH hedging income of +1.94% p.a.

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Thank you