



Barclays RMB Bond Strategy

Developing a taste for dim sum

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For institutional and professional investors only. For information only. This document contains limited information about the strategy. Further details are available on request.

Developing a taste for dim sum

Global appetite for offshore Renminbi or 'dim sum' bonds has been growing rapidly as more companies look to raise capital in the Chinese currency and investors tap into the Chinese growth story.

'Dim Sum' Bonds are Renminbi (RMB) denominated corporate bonds issued in Hong Kong. The onshore RMB market (also known as CNY - Chinese Yuan or simply Yuan) is heavily regulated and mainly available to mainland residents and offshore investors with QFII (Qualified Foreign Institutional Investor) licenses. These licenses, which are difficult and costly to obtain, are generally held by large investment groups, so they can buy A shares in China's mainland stock exchanges.

The offshore market in Hong Kong (also known as the CNH market – the H being a reference to Hong Kong) is more widely open to foreign investors. The most often cited reasons for investing in the RMB Bond market are that it is an attractive way to access China's dynamic growth and gain exposure to the widely expected appreciation of the RMB, as China's trade surplus keeps pressure on the currency. There is now however more debate surrounding the market's outlook following slower Chinese growth and weakness in the Renminbi over the summer.

In this article we outline recent developments in the market, issues investors are facing, a summary of the Barclays RMB Strategy and our outlook.

Brief market outline

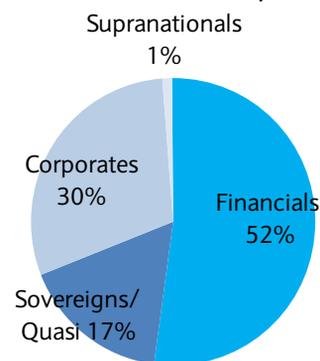
Development of the offshore RMB denominated corporate bond market is being encouraged by Chinese policymakers' desire to internationalise the RMB. Growth has been rapid, Barclays estimates existing bond issues with longer than a year to maturity total about CNY320bn (aprox. US\$50bn)* of which about CNY124bn (USD18bn)* has been new issuance, this year to the end of Sept 2012. Chinese companies accessing the market are looking for new investors and sources of funding, most are in the financial sector, which comprises about 52% of the market. Non-Chinese companies investing in China are also major participants, as they can minimise currency risk by matching liabilities with assets. McDonalds was the first in August 2010 and the range of companies has expanded steadily, with some of the largest being widely recognised brands such as Ford, Bosch and Volkswagen.

The typical bond offering is around CNY350-450m (US\$55-70m), most often with a tenor of two years,* although longer dated paper is also issued, for example Export-Import Bank of China has issued 15 year tenor bonds. Much of the paper issued fits into the high-yield category and is not rated by external agencies, although as the market develops more issues are being rated.

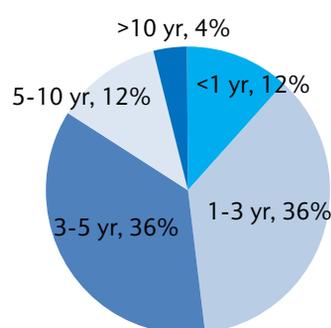
Issues facing investors

In 2011 the yields in the offshore market were low as demand from investors looking to get exposure to offshore RMB was very strong. However over the past year, while the market has continued to grow in size, performance in the market has been disappointing.

CNH Issuance - issuer profile



CNH Issuance - tenor



Source: Barclays

This has been a function of a number of issues, including low liquidity. There has also been a tightening of the differential between onshore and offshore interest rates, with increased arbitrage between the offshore and onshore markets, the yields in the offshore market have risen. Additionally the slowdown in China's economic growth and consequent worries about over investment and excess supply are affecting a number of business sectors (for instance property development).

There is now more debate surrounding the outlook for China; will it achieve a 'soft' or 'hard' landing and whether the Renminbi is no longer a one-way bet, with some suggesting the currency will be allowed to weaken to help the export sector. More recently the currency has again appreciated to new highs against the US\$ and others think it is unlikely that policy makers will want the currency to depreciate, as it may spark greater tension with the US around trade policy.

Performance of the Barclays RMB Bond Strategy and outlook

When launched last year (May 2011), the Barclays RMB Bond Strategy maintained a cautious approach, taking into account the developing market and the need to generate a strong track record. The focus was to buy high grade multinational credits, maintaining low duration. Owing to this strategy, the strategy managed to avoid huge losses during the rapid sell-off in September 2011, which was a result of global macro-economic concerns.

Recent data from China should allay any fears of a hard landing for now. The Q3 GDP growth and better-than-expected September releases lead us to believe that economic growth is stabilising on the back of the more accommodative monetary conditions. This has led to improving export orders, increasing infrastructure investment, and recovering property market activities. All of which should support employment and reduce pressure for more policy easing ahead of the leadership transition.

As yields have risen we have become increasingly comfortable in taking selective exposure to Chinese corporates, including some high yield credits, providing yield pickup for the strategy. However, the strategy is not positioned over aggressively and maintains low exposure to each individual high yield credit.

Barclays RMB Bond Strategy - Key facts	
Annualised performance **	2.21%
Annualised volatility**	3.66%
Launch date	11 May 2011
Classification	Emerging Markets Fixed Income
Base currency of investments	RMB
Liquidity	Daily
Top 5 holdings	Shanghai Baosteel Group Corp Export-Import Bank of Korea Industrial and Commercial Bank of China Macau Ltd Rainbow Days Ltd Tesco PLC
Strategy AUM***	USD 15.8 Million
Av. yield***	3.36%
Av. duration in years***	1.84

*Sources Barclays Cross Asset Research - CNH Market Primer Sept 2012, Bloomberg, Financial Times

**Strategy return calculated as total return net of fees in USD

Annualised performance & risk since inception (May 11 – Oct 12)

To be in line with standard monthly return statistical calculations, all annualised risk statistics are calculated using full calendar month returns.

***Source Barclays as of 31 October 2012

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