China’s outlook as a key investment and issuance hub

China’s opening of its capital markets has meant new opportunities for both foreign and Chinese investors and issuers. To capture these opportunities, corporates and institutional investors have been looking for better ways to position themselves and approach the market. At HSBC Qianhai, we are seeing a growing need for a refined China strategy, one that understands the current conditions and utilises partners with close ties to the financial community. Although China has no shortage of potential, realising this requires a thoughtful approach.

To this end, we conducted research to understand how global and Chinese institutional investors and issuers are currently viewing China’s onshore and offshore markets, as well as their priorities in the period ahead.

China’s onshore market is increasingly attractive

In recent years, China’s capital markets have seen increased participation from foreign investors and issuers. Whether it is the sectors they are prioritising or the channels they are using, China’s onshore market is dynamic and continues to attract the world’s largest foreign corporates and institutional investors.

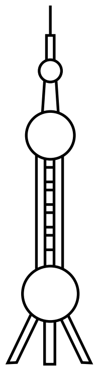
We are seeing this interest across a wide variety of activities. Regarding inflows, in 2020 foreign investors doubled their holdings of Chinese stocks to USD520 billion[1] from a year earlier. 78% of our survey respondents[2] in 2021 indicated plans to increase their allocations into China by an average of almost 25% over the coming year.

In terms of sectors, infrastructure is receiving the most investment across both debt and equity investors, signalling where current and future opportunities lie as well as aligning with the Chinese government’s growing emphasis on this sector for growth[3]. Besides infrastructure, logistics and transportation received the second-highest volume of investment from Asia Pacific, UK and European investors, while those from North America prioritised technology.

As interest in China’s capital markets has increased, authorities from mainland China and Hong Kong have been looking to expand access via various cross-border channels, most recently with the launch of the southbound leg of the Bond Connect[4]. Our research found that fixed-income and equity investors are projected to increase their usage of the Bond Connect and Stock Connect by 8.9 and 11.2 percentage points respectively over the coming 12 months.

However, despite the strong appetite for growth, foreign investors are still facing headwinds, lack of trust in local rating systems and controls on the outward remittance of funds being the top concerns cited among our fixed-income and equity respondents respectively.

Although foreign investment activity is accelerating, participation in mainland Chinese issuance opportunities remains nascent. Of those surveyed, many foreign corporates expressed interest but only a small minority of around 10% indicated plans to issue debt in the coming year. The main reasons are the lack of investor knowledge and low levels of comfort amongst these corporates.



USD520bn
A shares held by foreign investors

78%
investors plan to increase their Chinese investments in the coming months

“Foreign investors and issuers are increasing their activity in China’s onshore markets and looking to strengthen their connections with China’s investment community and financial institutions, a goal which HSBC Qianhai is well-positioned to support.”

Irene Ho, CEO, General Manager,
HSBC Qianhai

HSBC

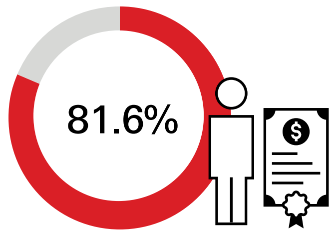
Domestic investors and issuers are active at home as well as see rising potential overseas

The momentum around Chinese investments abroad is increasing, with the top 200 Chinese institutional investors estimated to have collectively allocated USD1.1 trillion of their funds to overseas markets to date - a number that is forecast to reach almost USD1.2 trillion in 2022.

Notably, over half of investors are planning to increase their overseas allocations by an average of 14.5% over the next 12 months. This behaviour is motivated by several factors. The top reason is portfolio diversification, followed by the attractive valuation of overseas assets and the range of available asset classes. As far as where Chinese investors are allocating funds, logistics and transport, industrials and technology were among the top sectors indicated by our respondents.

Chinese issuers[5] are also active, but more so domestically than overseas. For example, 81.6% are either planning to raise capital at home in the coming year or have already done so within the past 12 months. While this shows dynamism, Chinese corporates are nevertheless looking for further support as they pursue issuance opportunities, including proactive recommendations, improved marketing and more effective issuance pricing.

Meanwhile, Chinese issuers, similar to their global counterparts, identified geopolitical risks and low information transparency as the top challenges to raising capital in the mainland.



Chinese issuers raising capital domestically

ESG is a common priority

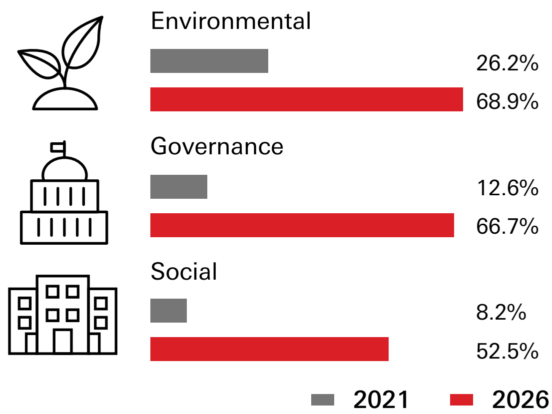
As ESG has grown in importance around the world, we wanted to explore the trends around foreign and Chinese investors and issuers. In particular, the rise of net-zero commitments has highlighted the importance of sustainable finance and ESG investing, which we found is a growing priority among our survey respondents.

For Chinese investors, the incorporation of ESG into their investment screening is set to increase significantly across all aspects. Indicating this, in 2021 26.2%, 12.6% and 8.2% of these investors had incorporated 'environmental', 'governance', and 'social' policies into their investment screening respectively, while by 2026 these numbers are projected to increase to 68.9%, 66.7% and 52.5% respectively.

Also noteworthy is that equity investors are adopting ESG more quickly than their fixed-income peers. As one example, although only 7.6% of equity investors have 'social' policies currently in place, by 2026 this number is expected to rise to 66.3% (compared to 38.5% for fixed-income). We see a similar trend with 'environmental' and 'governance' policy adoption.

> "The rise of ESG around the world is creating new opportunities for both foreign and Chinese investors and issuers. Given China's pledge to reach net-zero carbon emissions by 2060, HSBC Qianhai is ready to assist all customers on their ESG journeys and connect them with emerging opportunities."
>
> Justin Chan, Head of Markets and Securities Services, Greater China, Markets and Securities Services, HSBC

Domestic investors



Foreign investors are seeing ESG opportunities in China on the back of its continued efforts to open up its capital markets as well as the availability of data to assess investments[6]. This view is most prevalent among European and UK investors, with 48.5% targeting China for ESG-related investments.

For almost one in five foreign corporates, more ESG-related issuance guidance is one of their top priorities as they search for opportunities to raise capital in China. In contrast, only 4.7% of Chinese issuers are looking for such guidance.

Global and on-the-ground expertise combined for better access to opportunities

China continues to be an ideal destination for international investment and issuance due to sustained growth and increasingly accessible capital markets. Especially in the growing area of ESG, China presents significant investment opportunities that are only set to increase in the future. Foreign and Chinese investors and issuers are wise to keep a pulse on these developments and how they are evolving.

With on-the-ground expertise paired with a global network, HSBC Qianhai Securities is well-placed to facilitate access to growing investment opportunities in China. To learn more about these investment opportunities, please contact your Relationship Manager, or visit hsbcqh.com.cn.

1 www.bloomberg.com/news/articles/2021-04-06/china-s-epic-battle-with-capital-flows-is-more-intense-than-ever
2 From the top 200 fixed-income institutional investors and top 200 equity institutional investors by assets under management globally (excluding mainland China)
3 www.scmp.com/economy/china-economy/article/3149810/china-accelerates-infrastructure-investment-plan-evergrande
4 www.scmp.com/business/banking-finance/article/3148841/china-gives-nod-investors-buy-offshore-debt-hong-kong
5 From the top 500 corporates in mainland China by revenue
6 www.weforum.org/agenda/2020/12/green-wave-of-esg-investment-is-breaking-in-china