Eddie Yue: Unlocking value through China's resilience

Keynote speech by Mr Eddie Yue, Chief Executive of the Hong Kong Monetary Authority, at the Bond Connect Anniversary Summit 2025 on "Unlocking value through China's resilience", Hong Kong, 8 July 2025.

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Ladies and Gentlemen, good morning. It is an honour to join you today as we celebrate the 8th anniversary of the Bond Connect. The theme today, "Unlocking Value through China's Resilience," could not be more timely. The global capital markets are undergoing profound transformation, driven by a host of factors including increasing trade tensions, geopolitical and economic shifts, and changing investment appetite and patterns. These changes are reshaping the way capital flows across the world, creating both new opportunities and challenges for market participants. Now, let me first share some observations about the macro trends.

Macro trends:

The first trend is global diversification. Global capital markets have been on a roller-coaster driven by shifting policies and economic uncertainties. In light of these unpredictable swings, diversification stands out as the most essential investment strategy. Indeed we are now in a world of unprecedented choice and many more institutional investors are looking to further diversifying their portfolios. The strong investor response to the Hong Kong Government's recent issuance of HK$27 billion in green and infrastructure bonds is telling of the diversifying trend. This multi-currency issuance attracted participation from a wide spectrum of investors from more than 30 markets across Asia, Europe, Middle East, and the Americas, with total order at about 9 times of the issuance size. In particular, the 30-year HKD government bond was offered for the first time, further extending the HKD yield curve. The 20-year and 30-year RMB government bonds, which were first introduced last year, also received overwhelming support, doubling in issuance size from last year.

Against this backdrop of global trend for diversification, China's bond assets have emerged as a particularly compelling choice.

- First, China's bond market is the second largest in the world. Chinese bonds have the market depth and liquidity to become an increasingly important asset class among global investors.
- Secondly, China has a relatively low debt level, with the general government debt-to-GDP ratio at around 84%, which is much lower than some major advanced economies.[1]
- Thirdly, the low correlation between China's onshore market and major global markets, at just 0.1 over the past 10 years, makes China bonds a very good diversifier.[2]
- Fourthly, the risk-adjusted return of China bonds is relatively attractive. Onshore RMB bonds had an annualised volatility of around 1.3% over the past year, significantly lower than the volatility in other advanced markets during the same period.[3]

This combination of features of China's bond market as an attractive asset class for global investors seeking high-quality investments. In fact, according to a recent survey on central banks, over 30% of the respondents expect to increase their RMB holdings in the next five years.

The second trend is Mainland China's rapid wealth accumulation, particularly in institutional capital, which is creating new opportunities for their outbound investment. For example, China's national pension reserve fund grew to around USD 400 billion by the end of 2023.[4] Recent policy discussion also reaffirms that China encourages the national pension fund to cooperate with high-quality overseas investment managers to optimise its investment approach.[5] The new private pension scheme has already attracted over 60 million participants since its inception in 2022, with this rapidly growing pool of capital projected to reach nearly USD 1 trillion by 2030.[6] As Mainland institutional investors increasingly seek to diversify their portfolios and expand overseas asset allocation, there is significant potential for future growth in the Southbound Bond Connect, through Hong Kong's platform to invest overseas.

These two-way trends -- global investors' growing interest in RMB-denominated bonds and Mainland investors' expanding overseas allocations -- underscore the critical role of the Bond Connect as a gateway to facilitate cross-border capital flows between the Mainland and global financial markets. In a rapidly changing global financial landscape, the ability to adapt and innovate is key. Bond Connect exemplifies the power of collaboration and innovation in addressing the changing needs of investors, as it continues to evolve over the years.

Policy work:

In the past year, we have been working closely with relevant Mainland authorities, especially with the People's Bank of China, to step up efforts to enhance the Bond Connect and its ecosystem. I wish to take the opportunity to make the following three announcements:

- First, under the Northbound channel, investors can already use Bond Connect bonds as collateral for the Hong Kong Monetary Authority (HKMA)'s RMB Liquidity Facility, margin collateral for OTC Clearing Hong Kong Limited (OTCC) derivative transactions, and for conducting offshore RMB bond repurchase (repo) transactions. We are expanding the offshore RMB repo business to also support re-hypothecation and cross-currency repo, and the CMU OmniClear will enhance the operational arrangements accordingly. These enhancements will be implemented in late August 2025.
- Secondly, the Southbound Bond Connect investor scope is expanded to include securities firms, fund companies, insurance companies and wealth management companies, formally effective from today. This will open up more channels to meet the growing demand from Mainland investors, addressing their needs for diversified asset allocation. It will also bolster the development of Hong Kong's bond market by widening the investor base and enhancing market liquidity, hence increasing Hong Kong's attractiveness to bond issuers and global investors.
- Thirdly, further to the announcement in May 2025, 30-year interest rate swaps (IRS) contracts have already gone live early last week (on 30 June) under the

Swap Connect, and IRS contracts using the Loan Prime Rate (LPR) as reference rate will be launched in the coming months.

Besides, we have been working on strengthening Hong Kong's financial infrastructure to support greater efficiency in the Hong Kong and Mainland Chinese bond markets. For example, the recent signing of a MoU between CMU OmniClear and LCH could facilitate the wider use of CNH bonds as collateral in the international market. This highlights the unparalleled role of Hong Kong's infrastructure in supporting investment in CNH-denominated debt securities by investors from all over the world.

Looking ahead:

As investors navigate geopolitical changes and search for greater diversification, the Bond Connect will continue to serve as a key platform connecting China's bond market with the world. The HKMA will work closely with stakeholders to ensure that the platform will meet these changing needs -- by enhancing market liquidity (such as cross-border repo in the pipeline), strengthening risk management (with offshore CMOF bond futures under preparation), and further broadening the investment channels. The continuous development of Bond Connect will not only deepen market integration but also reinforce Hong Kong's unique role as a gateway between China and the international financial market. Thank you!

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[1] 2023 General Government Debt (IMF Global Debt Database, Dec 2024).

[2] Data source: Bloomberg.

[3] Data source: Bloomberg.

[4] 2023.

[5] 2025 UK-China Economic and Financial Dialogue: policy outcomes.

[6] China's Private Pension Market: A $988 Billion Opportunity (WSJ, November 2024).