

Index Research

Launch of China Aggregate Bond Index

SEPTEMBER 2020

Overview of the J.P. Morgan China Aggregate Bond Index Family

The J.P. Morgan China Aggregate (China Agg) Bond Index is a benchmark tracking local currency denominated fixed income instruments in China.

At the time of launch, the index is comprised of China government bonds (CGBs) and policy financial bonds (PFBs) from the three policy banks, namely China Development Bank, Agricultural Bank of China, and Export and Import Bank of China.



The J.P. Morgan China Aggregate Bond Index family consists of two series, Broad and Liquid



Comprehensive coverage of the Broad index series captures US \$3.1 trillion in market value



The China Agg Liquid Index tracks the most traded subset of the onshore bond market



China government bonds make up a smaller portion of the China Agg Liquid Index



Index yields of the Broad and Liquid series have closely tracked each other historically, although the yields in the Liquid series have been less than their Broad based counterparts



Duration of the Liquid series tend to be shorter compared to the Broad based indices



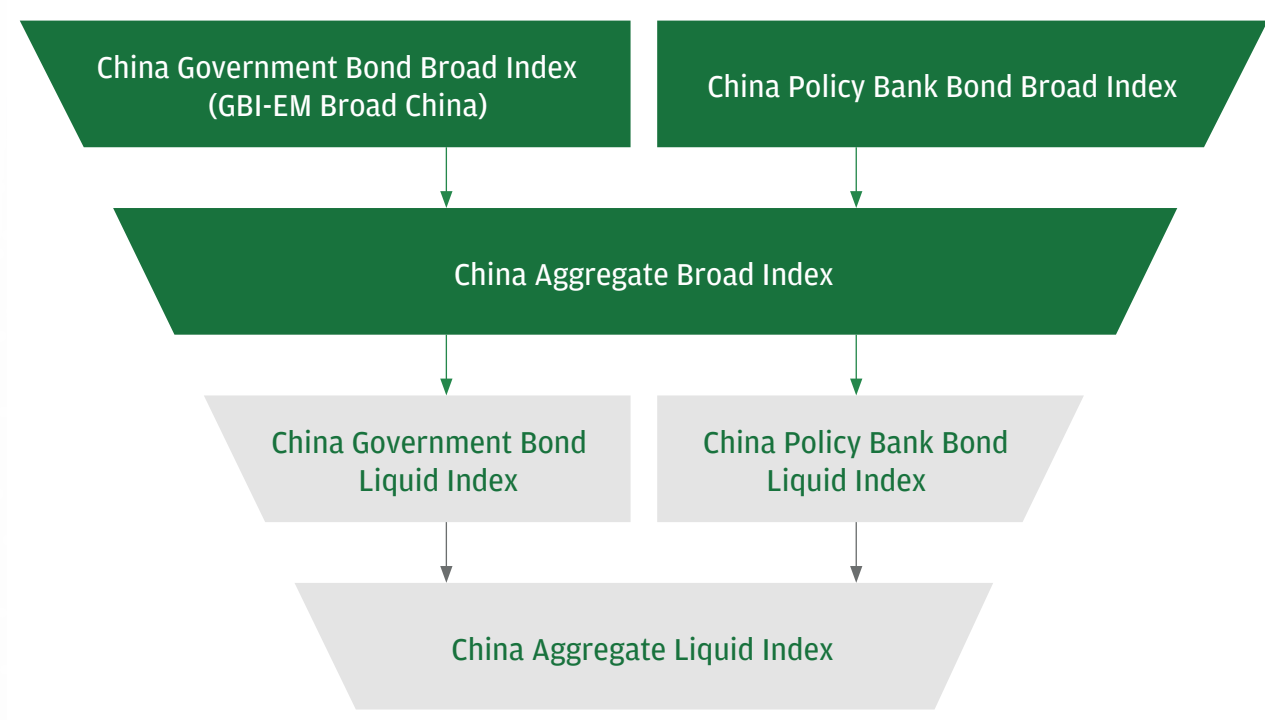
The J.P. Morgan China Aggregate Bond Index family was inceptioned on January 2008

Figure 1: J.P. Morgan China Aggregate Broad and Liquid Index Criteria Summary

| | China Aggregate Broad | China Aggregate Liquid |
|---------------------------|---|---|
| Minimum Issue Size | Government bonds: CN ¥7 billion Policy bank bonds: CN ¥3 billion | CN ¥50 billion |
| Instrument Type | Includes: Liquid, fixed-rate coupon bonds listed on the interbank market. Only senior bonds are eligible. Excludes: Floating-rate bonds, amortising bonds, capital securities, convertibles, inflation-linked, retail saving bonds and subordinated bonds. | |
| Remaining Maturity | Entry: securities must have minimum 2.5 years Exit: securities with less than 13 months remaining to maturity would be excluded from the index. | Entry: securities must have minimum 2.5 years and maximum 10 years remaining to maturity |
| Issuers | Government bonds: the Ministry of Finance Policy bank bonds: China Development Bank, Agricultural Development Bank of China, and Export-Import Bank of China | |
| Exchange | Securities must be listed on the China interbank market to be eligible | |
| Bloomberg Ticker | JALBCALC Index | JALBCLLC Index |

¹ Source: ChinaBond: <https://www.chinabond.com.cn/Channel/19012917#>

Figure 2: J.P. Morgan China Aggregate Broad and Liquid Index Family



Why China?



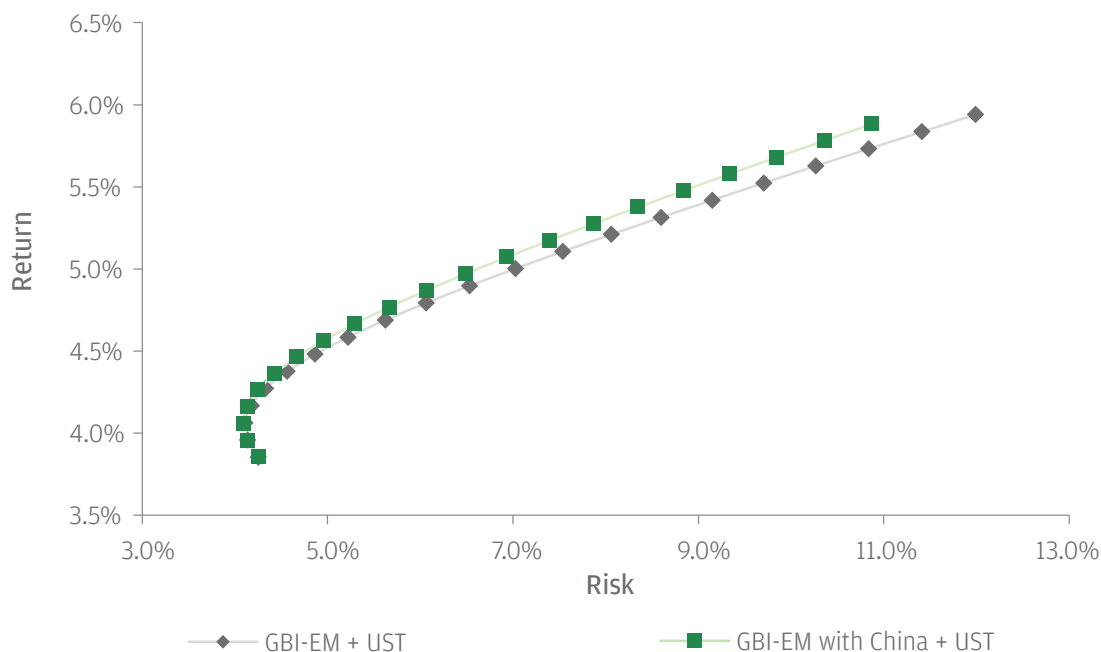
J.P. Morgan strategists noted three benefits China Government Bonds offer international investors

in [A Guide to China's Local Market](#):

- a. a return-volatility ratio commensurate with both a global cross-asset portfolio and a global government bond portfolio;
- b. real long-term yields that reasonably compensate for China's rising public debt and narrowing current account surplus, especially when compared to the G4 bond markets; and
- c. low cross-correlations with other DM and EM bond markets.

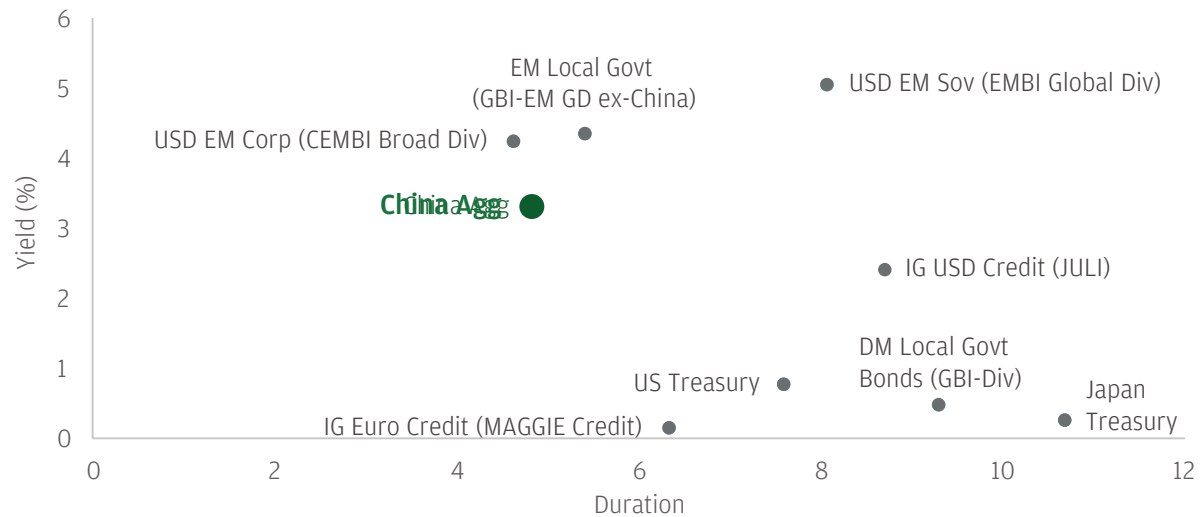
The result is that a 90 percent - 10 percent mix of GBI-EM and China bonds (instead of 100 percent GBI-EM) would have improved the efficient frontier of a UST + EM bond portfolio over the past decade.

Extract: Adding China bonds to GBI-EM would have improved the efficient frontier of a UST+ EM bond portfolio over the past decade.



Source: [A Guide to China's Local Market](#)

Figure 3: Onshore CNY bonds offer significant yield pick up for DM investors in an environment of record low yields



Data as of July 31, 2020. Source: J.P. Morgan

Figure 4: Onshore CNY bonds showed low cross-correlation with other EM and DM bond markets

| | China Agg | USD EM Sov (EMBI Global Div) | USD EM Corp (CEMBI Broad Div) | EM Local Ccy Govt (GBI-EM GD ex- China) | DM Local Ccy Govt (GBI-DM Div) | US Treasury | Japan Govt Bonds | EMU Govt Bonds | IG Euro Credit (MAGGIE Credit) | IG USD Credit (JULI) |
|---|-----------|------------------------------|-------------------------------|---|--------------------------------|-------------|------------------|----------------|--------------------------------|----------------------|
| China Agg | 1.00 | -0.17 | -0.14 | 0.08 | 0.17 | 0.18 | 0.23 | 0.08 | 0.04 | -0.02 |
| USD EM Sov (EMBI Global Div) | -0.17 | 1.00 | 0.96 | 0.70 | 0.20 | -0.03 | 0.30 | 0.41 | 0.69 | 0.80 |
| USD EM Corp (CEMBI Broad Div) | -0.14 | 0.96 | 1.00 | 0.67 | 0.10 | -0.14 | 0.24 | 0.33 | 0.69 | 0.80 |
| EM Local Ccy Govt (GBI-EM GD ex- China) | 0.08 | 0.70 | 0.67 | 1.00 | 0.43 | 0.29 | 0.36 | 0.48 | 0.54 | 0.70 |
| DM Local Ccy Govt (GBI-DM Div) | 0.17 | 0.20 | 0.10 | 0.43 | 1.00 | 0.86 | 0.66 | 0.83 | 0.63 | 0.56 |
| US Treasury | 0.18 | -0.03 | -0.14 | 0.29 | 0.86 | 1.00 | 0.46 | 0.51 | 0.27 | 0.37 |
| Japan Govt Bonds | 0.23 | 0.30 | 0.24 | 0.36 | 0.66 | 0.46 | 1.00 | 0.55 | 0.54 | 0.49 |
| EMU Govt Bonds | 0.08 | 0.41 | 0.33 | 0.48 | 0.83 | 0.51 | 0.55 | 1.00 | 0.82 | 0.58 |
| IG Euro Credit (MAGGIE Credit) | 0.04 | 0.69 | 0.69 | 0.54 | 0.63 | 0.27 | 0.54 | 0.82 | 1.00 | 0.82 |
| IG USD Credit (JULI) | -0.02 | 0.80 | 0.80 | 0.70 | 0.56 | 0.37 | 0.49 | 0.58 | 0.82 | 1.00 |

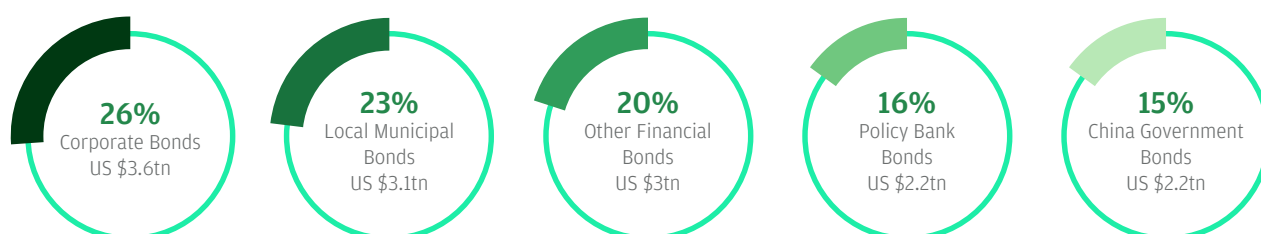
Source: Monthly local total return correlation, 2014- 2020, J.P. Morgan



These benefits arguably apply to Policy Financial Bonds as well since they are viewed by the market to share the sovereign credit rating and enjoy an implicit government guarantee

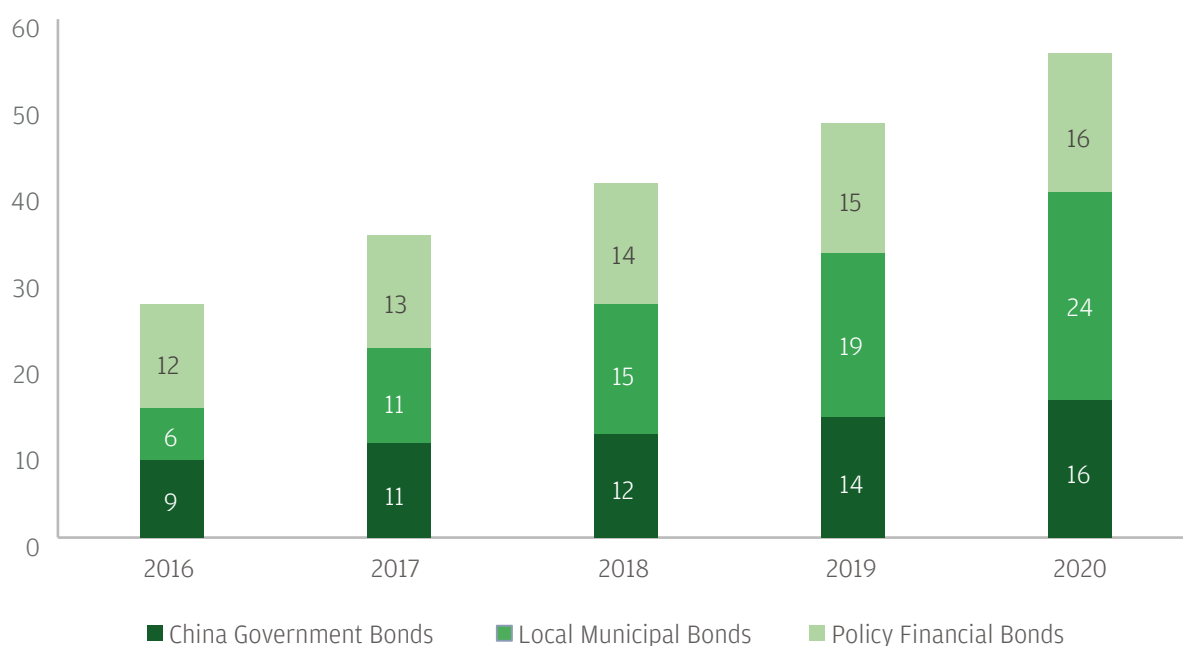
In addition, Policy Financial Bonds are more liquid than China Government bonds - PFBs are traded twice as much as CGBs in 2019 despite similar outstanding stock, according to CFETS interbank trade volume data.

Figure 5: Composition of the China onshore bond market by notional size, as of May 2020.



Source: PBoC, ChinaBond. Data as of May, 2020

Figure 6: China's onshore debt market has been increasing in size over the past years (CNY trillion).



Source: CFETS, J.P. Morgan, Bloomberg. Data: as of May of each year

How to access the J.P. Morgan China Aggregate Index Family

- ▶ **DataQuery on J.P. Morgan Markets:** Allows clients to view, manipulate, and download user-specific queries. The China Aggregate Index Family can be found in the product menu on DataQuery at Indices-> Emerging Markets Index-> Local Market Indices -> China Aggregate.
- ▶ **Bloomberg Page:** The China Aggregate Index Family is available on the JPM index homepage, JPMX<GO> under China Aggregate.
- ▶ **J.P. Morgan Markets:** Contains up to 3 months of downloadable files of daily and historical country and instrument returns, statistics, and compositions via J.P. Morgan Markets (www.jpmm.com)
- ▶ **Subscription:** We offer a variety of standardized files for aggregate and subindex permutations to suit your needs. Files are available via secure file transfer protocol (FTP) and e-mail subscription basis. If you do not have access to the J.P. Morgan Global Aggregate Index on Bloomberg and would like to gain access, please contact index.access@jpmorgan.com. For any other questions, please contact index.research@jpmorgan.com.

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