Former HKMA Official Plans Chinese Bond Fund for Institutions

Monday, June 01, 2015 11:30 am
by Bei Hu

(Bloomberg) -- A former head of Hong Kong Monetary Authority's direct investment division, which oversees more than $250 billion of foreign exchange reserves, plans to start his own Chinese bond funds.

Brummer & Partners has bought a stake in Edmund Ng's Hong Kong-based Eastfort Asset Management, the Stockholm-based hedge-fund firm overseeing $17 billion of assets said in a statement. Eastfort is waiting for approval from Hong Kong's Securities and Futures Commission to start operations.

Ng plans to start funds that invest in Chinese bonds traded both domestically and internationally in anticipation that global institutions will buy more yuan-denominated fixed income as the yuan becomes a reserve currency. Demand for Chinese bonds is also expected to be bolstered by market reforms, including allowing foreign investors wider access to the local market and interest-rate liberalization.

"Our vision is to set up a top yuan bond fund house for institutional investors," Ng, who left the de facto central bank in May, said in an interview.

The International Monetary Fund is likely to include the yuan in its Special Drawing Right basket of currencies this year, legitimatizing it as an international reserve currency, Bank of America-Merrill Lynch said in a March 25 report.

The yuan may be given a 13 percent weighting, putting it ahead of the pound and Japanese yen, the report said. Foreign central banks now hold as much as $80.5 billion of yuan-denominated onshore bonds, Merrill Lynch estimates. That compares to the $11.6 trillion of foreign-exchange holdings that IMF data showed countries held at the end of last year.

Currently, foreign investors can only buy yuan bonds traded in China if they directly receive a quota in the local interbank bond market or through a dollar or yuan qualified foreign institutional investors, or QFII, quota.

Regulators have expanded yuan-denominated QFII quotas to 920 billion yuan ($148 billion). They are also considering allowing international investors to buy bonds through the six-month-old link of the Hong Kong and Shanghai stock exchanges, the Shanghai bourse's President Huang Hongyuan said in January.

Ng expects bond issuers in China to become more diverse, with a range of credit profiles and risk premiums.

"Since the credit differentiation process has started and will continue in the next two to three years, there will be many opportunities for investors and fund managers," Ng said.

Before joining the HKMA in 2007, Ng spent almost 20 years at JPMorgan Chase & Co., rising to a managing director leading fixed-income and derivative trading in Asia outside of Japan, according to an official biography.

He helped the HKMA expand investments from government and agency bonds to emerging markets and developed markets credit, as well as the use of derivatives.

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