

A Taste for Dim Sum: Analysing the Financial Diffusion in the New Offshore Renminbi Debt Securities Market

Tom Fong
Hong Kong Monetary Authority

Paul Mizen
University of Nottingham

and

Serafeim Tsoukas
University of Glasgow

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Summary

Periodically a major financial innovation creates a new product class that changes the financial landscape. Examples include junk bonds that enabled leveraged buyouts, securitization that stimulated off balance sheet growth in banks, and credit default swaps that offered pure trading in credit risk. Now new renminbi financial products are emerging as China opens its capital account, providing new opportunities for innovation in corporate finance that will promote financial stability and sustainable growth in China. This study illustrates the rapid growth in the use of these new products by Chinese and overseas firms. We use diffusion models to explore how participation in this market is influenced by greater depth and liquidity of the market, lower costs of issuance and greater expected appreciation of the renminbi against the US dollar. Understanding these offshore developments will help support smoother innovation in the onshore corporate bond market.