



## Upcoming Changes to Citi's Government Bond Indices

March 6, 2017

Citi Fixed Income Indices is pleased to announce the inclusion eligibility of Chinese onshore bonds to its emerging markets and regional government bond indices. We are also expanding the World Government Bond Index family with two new indices, the World Government Bond Index – Developed Markets (WGBI-DM) and the World Government Bond Index – Extended (WGBI-Extended), that will complement the existing World Government Bond Index (WGBI), which will remain unchanged.

### **China to Join Emerging Markets and Regional Government Bond Indices**

With the issuance by People's Bank of China of its guidelines in February 2016 on the further opening of the China Interbank Bond Market for eligible foreign institutional investors, we have been monitoring China's eligibility for inclusion in our indices.

After an extensive review which included consultations with market participants, we have concluded that China is eligible to join three existing government bond indices – the Emerging Markets Government Bond Index (EMGBI), Asian Government Bond Index (AGBI), and the Asia Pacific Government Bond Index (APGBI). Additionally, we are introducing two new related indices – EMGBI-Capped and AGBI-Capped – that are designed to limit individual market exposure by imposing a maximum country weight criterion. Given the size of the China market, its proportion in these indices will gradually increase to its full weight over a 3-month period<sup>1</sup>.

### **Emerging Market Government Bond Index (EMGBI)**

For a country to become eligible for inclusion into the EMGBI, the outstanding amount of a market's eligible issues must total at least USD 10 billion. Accessibility of markets and replicability of returns are additional requirements. China has met the entry criteria of the EMGBI and if it continues to meet these requirements for three consecutive months, it will join the EMGBI in February 2018. Typically, after a new market has met the entry requirements for three consecutive months, it will join the EMGBI at the end of the three months ("preparation period") that follow; for the China inclusion, we will extend the preparation period from three months to six months. Note that, based on our existing rules, any new market inclusion due in the month of January will be postponed by one month and the market will join the respective index in February; as such, if China continues to meet the entry criteria, an announcement will be made in June that it will join the EMGBI in the February 2018 index. In addition to the extension of the preparation period, given the size of the Chinese onshore market, its proportion will gradually increase to its full weight over a 3-month period<sup>1</sup>.

<sup>1</sup> Details on the gradual increase will be available in the June 2017 index announcement.



Announcements | March 6, 2017

Figure 1 shows the pro forma market weights by country of the EMGBI and EMGBI including China, March 2017 (Pricing as of February 28, 2017)

	Number of Issues	Market Value (in USD Billion)	Market Weight (%)		
			EMGBI	EMGBI including China	Difference
China	131	1,086.21	0.00	52.45	52.45
Mexico	16	129.30	13.13	6.24	-6.89
Indonesia	32	106.05	10.77	5.12	-5.65
Brazil	5	105.91	10.75	5.11	-5.64
Poland	18	99.73	10.13	4.82	-5.31
South Africa	15	87.28	8.86	4.21	-4.65
Thailand	27	83.02	8.43	4.01	-4.42
Turkey	18	66.33	6.74	3.20	-3.53
Malaysia	31	65.79	6.68	3.18	-3.50
Colombia	10	58.74	5.97	2.84	-3.13
Philippines	29	52.80	5.36	2.55	-2.81
Russia	15	46.77	4.75	2.26	-2.49
Hungary	14	37.84	3.84	1.83	-2.02
Chile	19	26.00	2.64	1.26	-1.39
Peru	9	19.19	1.95	0.93	-1.02

## Emerging Market Government Bond Index – Capped (EMGBI-Capped)

The Emerging Markets Government Bond Index – Capped (EMGBI-Capped) will be available starting with the February 2018 index. The EMGBI-Capped is designed to limit individual market exposure by imposing a maximum country weight of 10%. Similar to the EMGBI, China's proportion will gradually increase to its full capped weight over a 3-month period<sup>2</sup>.

Figure 2 shows the pro forma market weights by country of the EMGBI and EMGBI-Capped, March 2017 (Pricing as of February 28, 2017)

	Number of Issues	Market Value (in USD Billion)	Market Weight (%)		
			EMGBI	EMGBI-Capped	Difference
China	131	1,086.21	0.00	10.00	10.00
Mexico	16	129.30	13.13	10.00	-3.13
Indonesia	32	106.05	10.77	9.92	-0.85
Brazil	5	105.91	10.75	9.90	-0.85
Poland	18	99.73	10.13	9.33	-0.80
South Africa	15	87.28	8.86	8.16	-0.70
Thailand	27	83.02	8.43	7.76	-0.67
Turkey	18	66.33	6.74	6.20	-0.53
Malaysia	31	65.79	6.68	6.15	-0.53
Colombia	10	58.74	5.97	5.49	-0.47
Philippines	29	52.80	5.36	4.94	-0.42
Russia	15	46.77	4.75	4.37	-0.38
Hungary	14	37.84	3.84	3.54	-0.30
Chile	19	26.00	2.64	2.43	-0.21
Peru	9	19.19	1.95	1.79	-0.15

<sup>2</sup> Details on the gradual increase will be available in the June 2017 index announcement.



Announcements | March 6, 2017

## Asia Government Bond Index (AGBI)

For a country to become eligible for inclusion into the AGBI, the outstanding amount of a market's eligible issues must total at least USD 5 billion. Accessibility of markets and replicability of returns are additional requirements. China has met the entry criteria of the AGBI and if it continues to meet these requirements for three consecutive months, it will join the AGBI in February 2018. Typically, after a new market has met the entry requirements for three consecutive months, it will join the AGBI at the end of the three months ("preparation period") that follow; for the China inclusion, we will extend the preparation period from three months to six months. Note that, based on our existing rules, any new market inclusion due in the month of January will be postponed by one month and the market will join the respective index in February; as such, if China continues to meet the entry criteria, an announcement will be made in June that it will join the AGBI in the February 2018 index. In addition to the extension of the preparation period, given the size of the Chinese onshore market, its proportion will gradually increase to its full weight over a 3-month period<sup>3</sup>.

Figure 3 shows the pro forma market weights by country of the AGBI and AGBI including China, March 2017 (Pricing as of February 28, 2017)

	Number of Issues	Market Value (in USD Billion)	Market Weight (%)		
			AGBI	AGBI including China	Difference
China	131	1,086.21	0.00	56.56	56.56
Korea	37	453.77	54.39	23.63	-30.76
Indonesia	32	106.05	12.71	5.52	-7.19
Thailand	27	83.02	9.95	4.32	-5.63
Malaysia	31	65.79	7.88	3.43	-4.46
Singapore	19	62.62	7.51	3.26	-4.24
Philippines	29	52.80	6.33	2.75	-3.58
Hong Kong	35	10.32	1.24	0.54	-0.70

## Asian Government Bond Index – Capped (AGBI-Capped)

The Asian Government Bond Index – Capped (AGBI-Capped) will be available starting with the February 2018 index. The AGBI-Capped is designed to limit individual market exposure by imposing a maximum country weight of 20%. Similar to the AGBI, China's proportion will gradually increase to its full capped weight over a 3-month period<sup>3</sup>.

Figure 4 shows the pro forma market weights by country of the AGBI and AGBI-Capped, March 2017 (Pricing as of February 28, 2017)

	Number of Issues	Market Value (in USD Billion)	Market Weight (%)		
			AGBI	AGBI-Capped	Difference
China	131	1,086.21	0.00	20.00	20.00
Korea	37	453.77	54.39	20.00	-34.39
Indonesia	32	106.05	12.71	16.72	4.01
Thailand	27	83.02	9.95	13.09	3.14
Malaysia	31	65.79	7.88	10.37	2.49
Singapore	19	62.62	7.51	9.87	2.37
Philippines	29	52.80	6.33	8.32	2.00
Hong Kong	35	10.32	1.24	1.63	0.39

<sup>3</sup> Details on the gradual increase will be available in the June 2017 index announcement.



Announcements | March 6, 2017

## Asia Pacific Government Bond Index (APGBI)

The Asia Pacific Government Bond Index (APGBI) includes the AGBI markets with the addition of Australia and New Zealand; therefore, China will enter the APGBI in February 2018 with the same market values as it has in the AGBI; as noted previously, China's proportion will gradually increase to its full weight over a 3-month period<sup>4</sup>.

Figure 5 shows the pro forma market weights by country of the APGBI and APGBI including China, March 2017 (Pricing as of February 28, 2017)

	Number of Issues	Market Value (in USD Billion)	Market Weight (%)		
			APGBI	APGBI including China	Difference
China	131	1,086.21	0.00	47.33	47.33
Korea	37	453.77	37.55	19.77	-17.77
Australia	21	332.76	27.53	14.50	-13.03
Indonesia	32	106.05	8.78	4.62	-4.15
Thailand	27	83.02	6.87	3.62	-3.25
Malaysia	31	65.79	5.44	2.87	-2.58
Singapore	19	62.62	5.18	2.73	-2.45
Philippines	29	52.80	4.37	2.30	-2.07
New Zealand	8	41.43	3.43	1.81	-1.62
Hong Kong	35	10.32	0.85	0.45	-0.40

## Asian Government Extended Bond Index (AGBI Extended)

There will be no changes to the existing Asian Government Extended Bond Index. The market weight of China will reflect the full market values and will not be adjusted during the three-month period when the weight of China is gradually increased in the AGBI and AGBI-Capped.

## Creation of New WGBI-Related Indices

Following our periodic review, we have also determined the need for the expansion of our long-standing World Government Bond Index family to better serve our global investor base with the creation of two new indices. The World Government Bond Index – Developed Markets (WGBI-DM) will exclude emerging markets based on classifications defined by the International Monetary Fund and the World Bank. The World Government Bond Index – Extended (WGBI-Extended) will comprise 26 markets, adding China, Korea, and Israel to the WGBI constituents. The WGBI remains unchanged with 23 markets.

### World Government Bond Index – Developed Markets (WGBI-DM)

The WGBI-DM will be available in July 2017. It excludes any markets in the WGBI that are classified as emerging markets. Citi Fixed Income Indices classifies a country to be “emerging” if it is defined by the International Monetary Fund (IMF) World Economic Outlook to be among “emerging and developing economies”<sup>5</sup> or if it is defined by the World Bank (WB) to be among “low-income economies” or “lower middle-income economies” or “upper-middle-income economies.”<sup>6</sup>

As of March 2017, the WGBI-DM comprises 19 WGBI markets excluding Malaysia, Mexico, Poland, and South Africa.

<sup>4</sup> Details on the gradual increase will be available in the June 2017 index announcement.

<sup>5</sup> <http://www.imf.org/external/ns/cs.aspx?id=28>

<sup>6</sup> <http://data.worldbank.org/about/country-classifications/>



Announcements | March 6, 2017

Figure 6 shows the market weights by country and region of the WGBI and WGBI-DM, March 2017 (Pricing as of February 28, 2017)

	Number of Issues	Market Value (in USD Billion)	Market Weight (%)		
			WGBI	WGBI-DM	Difference
United States	241	6,958.13	34.80	35.48	0.68
EGBI	293	6,153.04	30.77	31.37	0.60
Japan	264	4,398.75	22.00	22.43	0.43
United Kingdom	41	1,132.97	5.67	5.78	0.11
Canada	32	335.31	1.68	1.71	0.03
Australia	21	332.76	1.66	1.70	0.03
Denmark	6	92.56	0.46	0.47	0.01
Sweden	7	70.77	0.35	0.36	0.01
Singapore	19	62.62	0.31	0.32	0.01
Norway	6	44.28	0.22	0.23	0.00
Switzerland	5	30.50	0.15	0.16	0.00
Mexico	16	129.30	0.65	0.00	-0.65
Poland	18	99.73	0.50	0.00	-0.50
South Africa	15	87.28	0.44	0.00	-0.44
Malaysia	31	65.79	0.33	0.00	-0.33

## World Government Bond Index – Extended (WGBI-Extended)

The WGBI-Extended will be available in July 2017. It includes any markets that meet the WGBI's size and credit criteria and is also a market already present in or is eligible to be in one of the four regional government bond indices, namely, Asia Pacific Government Bond Index (APGBI), Central Eastern Europe, Middle East, and Africa Government Bond Index (CEEMEAGBI), Emerging Markets Government Bond Index (EMGBI) and Latin American Government Bond Index (LATAMGBI). As of March 2017, China, Korea, and Israel met the size and credit criteria of the WGBI and if they continue to meet the size and credit criteria for three consecutive months and are part of or are eligible for one of the four regional government bond indices, they will join the new WGBI-Extended in July 2017. Similar to the WGBI, a new market considered for future inclusion that meets the entry requirements for three consecutive months will join the WGBI-Extended at the end of the three months that follow; note that, any new market inclusion due in the month of January will be postponed by one month.

Figure 7 shows the market weights by country and region of the WGBI and WGBI-Extended, March 2017 (Pricing as of February 28, 2017)

	Number of Issues	Market Value (in USD Billion)	Market Weight (%)		
			WGBI	WGBI-Extended	Difference
United States	241	6,958.13	34.80	32.23	-2.57
EGBI	293	6,153.04	30.77	28.50	-2.27
Japan	264	4,398.75	22.00	20.37	-1.63
United Kingdom	41	1,132.97	5.67	5.25	-0.42
China	131	1,086.21	0.00	5.03	5.03
Korea	37	453.77	0.00	2.10	2.10
Canada	32	335.31	1.68	1.55	-0.12
Australia	21	332.76	1.66	1.54	-0.12
Mexico	16	129.30	0.65	0.60	-0.05
Poland	18	99.73	0.50	0.46	-0.04
Denmark	6	92.56	0.46	0.43	-0.03



Announcements | March 6, 2017

Figure 7 shows the market weights by country and region of the WGBI and WGBI-Extended, March 2017 (Pricing as of February 28, 2017), continued

	Number of Issues	Market Value (in USD Billion)	Market Weight (%)		
			WGBI	WGBI-Extended	Difference
South Africa	15	87.28	0.44	0.40	-0.03
Sweden	7	70.77	0.35	0.33	-0.03
Malaysia	31	65.79	0.33	0.30	-0.02
Singapore	19	62.62	0.31	0.29	-0.02
Israel	11	55.85	0.00	0.26	0.26
Norway	6	44.28	0.22	0.21	-0.02
Switzerland	5	30.50	0.15	0.14	-0.01

For details on the inclusion criteria of the WGBI, EMGBI, AGBI and APGBI, please refer to the Index Guide on our web site at [www.yieldbook.com/citi-indices](http://www.yieldbook.com/citi-indices).

Please contact us if you have any questions.

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