

# Hong Kong, China

## Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) shifted downward for maturities of 3-years or less between end-September and end-December as yields at the shorter-end of the curve fell between 13 basis points (bps) and 18 bps (**Figure 1**). Meanwhile, the yield for the 10-year maturity fell 14 bps. Yields were unchanged for all remaining tenors. The fall in yields along some parts of the curve reflected the United States (US) maintaining a relatively accommodative monetary stance.

Yields rose for all tenors between end-December and end-January. Yields rose 6 bps–8 bps for tenors of 1-year or less, with the exception of the 1-month tenor. Yields rose 9 bps–37 bps for tenors between 2 years and 7 years. Meanwhile, yields rose between 60 bps and 64 bps for tenors of 10-years or longer.

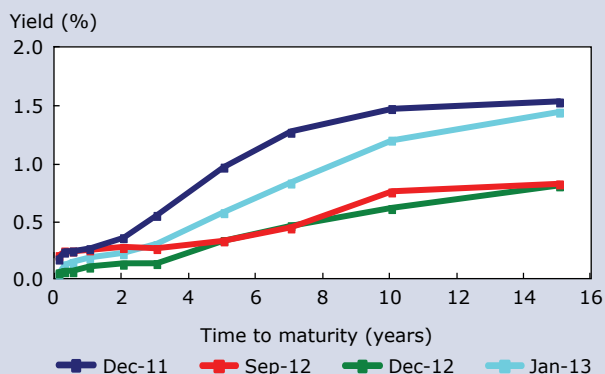
Hong Kong, China's economic performance improved in certain areas in recent months. For example, export growth was 14.4% year-on-year (y-o-y) in December and 10.5% in November, reversing October's 2.8% decline, as demand from the rest of Asia and the US improved. However, gross domestic product (GDP) growth remained weak at 1.3% in 4Q12 following 1.2% growth in 3Q12.

Inflation stabilized in December at 3.7% y-o-y, the same rate as in November. The Government of the Special Administrative Region of Hong Kong, China has stated that it expects inflationary pressures to be contained given domestic and international conditions, although it remains concerned over property prices.

## Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market grew 5.1% y-o-y to HKD1.4 trillion

**Figure 1: Hong Kong, China's Benchmark Yield Curve—EFBNs**



EFBN = Exchange Fund Bills and Notes.  
Source: Bloomberg LP.

(US\$178 billion) at end-December (**Table 1**). On a quarter-on-quarter (q-o-q) basis, LCY bonds outstanding rose 0.9% in 4Q12.

Total LCY government bonds outstanding rose 3.0% y-o-y and 0.5% q-o-q as of end-December. Government bonds include Exchange Fund Bills (EFBs), Exchange Fund Notes (EFNs), and bonds issued under the Institutional Bond Issuance Programme (HKSAR Bonds).

The amount of LCY government bonds outstanding at end-December reached HKD724 billion. Most of the growth in government bonds in 4Q12 could be attributed to growth in HKSAR Bonds, which expanded 39.6% y-o-y to HKD67 billion from HKD48 billion at end-December 2011. In November, HKD3 billion in 3-year HKSAR Bonds were issued. On the other hand, the stock of EFNs declined slightly by 0.9% y-o-y to HKD69 billion, while EFBs grew slightly by 0.4% y-o-y to HKD589 billion.

The amount of LCY corporate bonds outstanding rose to HKD651 billion at end-December, reflecting growth of 7.6% y-o-y and 1.3% q-o-q. The top 28 non-bank corporate issuers in Hong Kong, China accounted for 16% of total corporate bonds

Table 1: Size and Composition of the LCY Bond Market in Hong Kong, China

	Outstanding Amount (billion)						Growth Rate (%)									
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12		Nov-12		Dec-12	
	HKD	US\$	HKD	US\$	HKD	US\$	HKD	US\$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	1,364	176	1,367	176	1,373	177	1,376	178	1.2	3.3	0.2	0.4	0.2	0.4	0.9	5.1
Government	720	93	721	93	724	93	724	93	0.0	3.3	0.1	0.4	0.04	0.5	3.0	
Exchange Fund Bills	587	76	588	76	589	76	589	76	0.0	0.4	0.1	0.1	(0.0)	0.2	0.4	
Exchange Fund Notes	69	9	69	9	68	9	69	9	0.0	(0.9)	0.0	(0.9)	0.4	(0.4)	(0.9)	
HKSAR Bonds	64	8	64	8	67	9	67	9	0.0	50.6	0.0	4.7	0.0	4.7	39.6	
Corporate	643	83	646	83	649	84	651	84	2.6	3.3	0.4	0.4	0.4	1.3	7.6	

( ) = negative, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.

2. Bloomberg LP end-of-period LCY-US\$ rates are used.

3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Hong Kong Monetary Authority and Bloomberg LP.

outstanding as of end-December (**Table 2**). Hong Kong, China's top corporate issuer of LCY bonds remained the state-owned Hong Kong Mortgage Corporation (HKMC) with outstanding bonds valued at HKD16 billion at end-December. CLP Power Hong Kong Financing Ltd. was the next largest issuer with outstanding bonds of HKD11.7 billion. Sun Hung Kai Properties (Capital Market) Ltd. was the third largest issuer with outstanding bonds of HKD11.5 billion.

Financial firms dominated the list of the top 28 non-bank corporate issuers in 4Q12, accounting for nine of the 28 issuers. Six state-owned companies were included on the list, while 20 were privately owned. Among the companies included in Table 2, eight are listed on the Hong Kong Exchange.

## Policy, Institutional, and Regulatory Developments

### HKMA Revises Rules on CNH

On 15 January, the Hong Kong Monetary Authority (HKMA) released two new regulations making it easier for banks to hold offshore renminbi (CNH). The first one allows banks to include renminbi currency futures as part of the calculation of a bank's net open position. The second one shortens the notice period from two business days to one business day for banks seeking to tap the HKMA renminbi liquidity facility.

### DBS Launches Renminbi Index

On 16 January, DBS Bank Ltd. (Hong Kong, China) launched a DBS Renminbi Index for VVinning Enterprises (DRIVE). The index measures actual usage and acceptance of the renminbi among enterprises in Hong Kong, China, and gauges sentiment for the expanded use of the renminbi as a global currency. The index is based on a survey along four dimensions: (i) actual business performance in the last 12 months and expectations for the next 12 months, (ii) past and future demand for renminbi in business operations, (iii) use of renminbi in trade settlement, and (iv) ease of access to renminbi financing. The initial index value in 4Q12 was 54.9; future updates are to be released quarterly.

**Table 2: Top 28 Non-Bank Corporate Issuers in Hong Kong, China**

Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed Company	Type of Industry
	LCY Bonds (HKD billion)	LCY Bonds (US\$ billion)				
1. Hong Kong Mortgage Corporation	15.99	2.06	Yes	No	No	Finance
2. CLP Power Hong Kong Financing Ltd.	11.73	1.51	No	Yes	No	Electric
3. Sun Hung Kai Properties (Capital Market) Ltd.	11.51	1.49	No	Yes	No	Real Estate
4. MTR Corporation (C.I.) Ltd.	6.90	0.89	Yes	No	Yes	Transportation
5. Kowloon-Canton Railway Corporation	6.30	0.81	Yes	No	No	Transportation
6. Swire Pacific MTN Financing Ltd.	5.68	0.73	No	Yes	Yes	Diversified
7. HKCG (Finance) Limited	5.60	0.72	No	Yes	No	Gas
8. The Link Finance (Cayman) 2009 Ltd.	5.29	0.68	No	Yes	No	Finance
9. Hongkong Electric Finance Ltd.	4.81	0.62	No	Yes	No	Electric
10. Wharf Finance Ltd.	3.68	0.48	No	Yes	No	Diversified
11. Wheelock Finance Ltd.	3.44	0.44	No	Yes	No	Diversified
12. Airport Authority Hong Kong	2.85	0.37	Yes	No	No	Transportation
13. Urban Renewal Authority	2.50	0.32	Yes	No	No	Property Development
14. Cheung Kong Bond Finance Ltd.	2.45	0.32	No	Yes	Yes	Finance
15. Hysan (MTN) Ltd.	2.43	0.31	No	Yes	No	Finance
16. Cheung Kong Finance (MTN) Ltd.	2.21	0.28	No	Yes	No	Finance
17. Yue Xiu Enterprises (Holdings) Ltd.	2.00	0.26	No	Yes	No	Diversified
18. Henderson Land MTN Ltd.	1.83	0.24	No	Yes	Yes	Finance
19. Cathay Pacific MTN Financing Ltd.	1.70	0.22	No	Yes	Yes	Airlines
20. Wharf Finance (No.1) Ltd.	1.44	0.19	No	Yes	No	Diversified
21. Dragon Drays Ltd.	1.00	0.13	No	Yes	No	Diversified
22. Swire Properties MTN Financing Ltd.	0.80	0.10	No	No	Yes	Diversified
23. Nan Fung Treasury Ltd.	1.21	0.16	No	Yes	No	Real Estate
24. Wharf Finance (BVI) Ltd.	0.45	0.06	No	Yes	No	Diversified
25. HLP Finance Ltd.	0.41	0.05	No	No	Yes	Real Estate
26. Bauhinia MBS Ltd.	0.26	0.03	Yes	No	No	Finance
27. Cheung Kong Infrastructure Finance (BVI) Ltd.	0.26	0.03	No	Yes	Yes	Finance
28. The Hongkong Land Notes Company Ltd.	0.20	0.03	No	Yes	No	Finance
<b>Total Top 28 Non-Bank LCY Corporate Issuers</b>	<b>104.91</b>	<b>13.54</b>				
<b>Total LCY Corporate Bonds</b>	<b>651.41</b>	<b>84.05</b>				
<b>Top 28 as % of Total LCY Corporate Bonds</b>	<b>16.1%</b>	<b>16.1%</b>				

LCY = local currency.

Notes:

1. Data as of 31 December 2012.

2. Based on Central Money Markets Unit data on tradeable non-bank debt securities issued and outstanding.

3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Hong Kong Monetary Authority data.