

Hong Kong, China

Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) steepened dramatically between end-May and end-July (**Figure 1**), with yields rising between 3 basis points (bps) and 15 bps on tenors of 3-years or less, and between 41 bps and 84 bps on longer-dated tenors. The rise in yields was prompted by statements from United States (US) Federal Reserve Chairman Ben Bernanke in May that the pace of bond purchases could be tapered later in 2013 and halted in 2014 should economic data support such action.

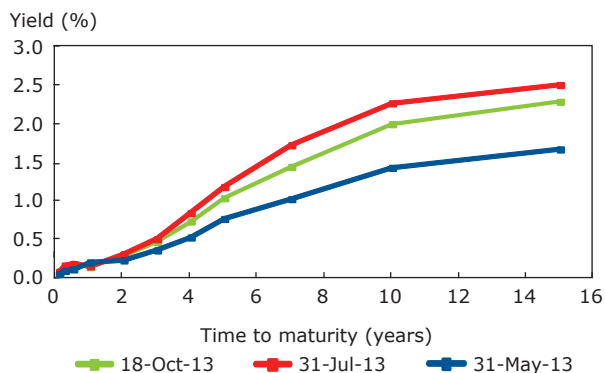
Between end-July and mid-October, yields fell between 1 bp and 4 bps on tenors of 3-years or less, and between 10 bps and 28 bps on longer-dated tenors. The declines were driven by statements of the US Federal Reserve Bank in mid-September that the tapering of its bond-buying program was not imminent and by the resolution in mid-October of the dispute in the US Congress over raising the federal government's debt ceiling. Hong Kong, China's bond yields track closely with yield changes in the US Treasury market as Hong Kong, China does not have an independent monetary policy and pegs its currency to the US dollar.

The rise in yields also reflected improvements in Hong Kong, China's economy as well as rising inflation. Specifically, Hong Kong, China's economic growth accelerated to 3.3% year-on-year (y-o-y) in 2Q13 from 2.8% y-o-y in 1Q13. Growth in 2Q13 was supported mostly by domestic demand, with private consumption adding 2.9 percentage points to GDP growth. In June, retail sales rose 14.7% y-o-y from 12.8% in May.

The government now expects GDP growth for 2013 to be between 2.5% and 3.5%, compared with an original forecast of 1.5%–3.5%.

Inflation has since come down from July's 6.9% y-o-y rise. August's inflation was 4.5% and September's inflation was 4.6%. July's 6.9%

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



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

inflation was driven by a low base effect in 2012 due to the government's subsidy of public housing rentals for the month. Inflation rose slightly in September from August due to higher food prices. The government expects further upside risks to inflation to be contained as the feed-through effect of housing rents in late 2012 passes and imported inflation continues to be subdued.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market grew 0.8% quarter-on-quarter (q-o-q) to reach HKD1.5 trillion (US\$194 billion) at end-September (**Table 1**). On a y-o-y basis, LCY bonds outstanding rose 10.1% in 3Q13.

Total LCY government bonds outstanding rose 0.5% q-o-q and 16.2% y-o-y at end-September. 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 reached HKD838 billion at end-September. Most of the growth in government bonds in 3Q13 could be attributed to growth in HKSAR bonds, which

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q12		2Q13		3Q13		3Q12		3Q13	
	HKD	US\$	HKD	US\$	HKD	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,364	176	1,488	192	1,501	194	1.4	3.3	0.8	10.1
Government	721	93	834	107	838	108	0.1	3.4	0.5	16.2
Exchange Fund Bills	588	76	682	88	682	88	0.1	0.5	0.1	16.0
Exchange Fund Notes	69	9	68	9	68	8.8	0.0	(0.9)	0.0	(0.9)
HKSAR Bonds	64.0	8.2	84	11	87	11	0.0	50.6	4.2	35.9
Corporate	643	83	655	84	663	86	3.0	3.3	1.3	3.2

() = negative, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, 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 an LCY base and do not include currency effects.

Sources: Hong Kong Monetary Authority and Bloomberg LP.

expanded 4.2% q-o-q to HKD87 billion from HKD84 billion at end-June. On the other hand, the stock of EFNs remained unchanged on a q-o-q basis at HKD68 billion, while EFBs rose a marginal 0.1%.

Under the Institutional Bond Issuance Programme, HKD2 billion of 5-year HKSAR bonds were issued in July, HKD1.5 billion of 10-year HKSAR bonds were issued in August, and HKD3.5 billion of 2-year bonds were issued in September.

The amount of LCY corporate bonds outstanding rose to HKD663 billion at end-September, reflecting growth of 1.3% q-o-q and 3.2% y-o-y. The top 27 non-bank corporate issuers in Hong Kong, China accounted for about 16% of total corporate bonds outstanding in 3Q13 (**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 HKD13.8 billion at end-September. CLP Power Hong Kong Financing Ltd. was the next largest issuer with outstanding bonds of HKD10.4 billion. Sun Hung Kai Properties (Capital Market) Ltd. was the third largest issuer with outstanding bonds of HKD10 billion.

Real estate firms dominated the list of the top 27 non-bank corporate issuers in 3Q13, accounting for nine of the 27 issuers. Five state-owned companies were included on the list, while 22 were privately owned. Among the companies in Table 2, eight are listed on the Hong Kong Exchange. **Table 3** presents some notable issuances from non-bank institutions in 3Q13.

Policy, Institutional, and Regulatory Developments

Malaysia and Hong Kong, China Agree to Strengthen Financial Cooperation

On 28 August, the Hong Kong Monetary Authority (HKMA) and Bank Negara Malaysia (BNM) held a meeting in Kuala Lumpur to discuss bilateral economic and financial issues. Following the meeting, the two central banks agreed to help strengthen economic cooperation by promoting trade and investment. Among the areas discussed were offshore renminbi business development and the internationalization of Islamic finance.

Table 2: Top 27 Non-Bank Corporate Issuers in Hong Kong, China

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (HKD billion)	LCY Bonds (US\$ billion)			
1. The Hong Kong Mortgage Corporate Ltd.	13.83	1.78	Yes	No	Finance
2. CLP Power Hong Kong Financing Ltd.	10.43	1.34	No	No	Electric
3. Sun Hung Kai Properties (Capital Market) Ltd.	10.01	1.29	No	No	Real Estate
4. MTR Corporation (C.I.) Ltd.	6.35	0.82	Yes	Yes	Transportation
5. Wharf Finance Ltd.	6.24	0.80	No	No	Diversified
6. The Link Finance (Cayman) 2009 Ltd.	6.14	0.79	No	No	Finance
7. HKCG (Finance) Limited	5.60	0.72	No	No	Gas
8. Hongkong Electric Finance Ltd.	5.51	0.71	No	No	Electric
9. Swire Pacific Ltd.	4.83	0.62	No	Yes	Diversified
10. Kowloon-Canton Railway Corporation	4.80	0.62	Yes	No	Transportation
11. Cheung Kong Bond Finance Ltd.	4.62	0.60	No	Yes	Real Estate
12. Urban Renewal Authority	3.90	0.50	Yes	No	Real Estate
13. Wheelock Finance Ltd.	3.74	0.48	No	No	Diversified
14. NWD (MTN) Ltd.	3.50	0.45	No	Yes	Real Estate
15. Airport Authority Hong Kong	3.30	0.43	Yes	No	Transportation
16. Yue Xiu Enterprises (Holdings) Ltd.	3.00	0.39	No	No	Diversified
17. Hysan (MTN) Ltd.	2.43	0.31	No	No	Finance
18. Henderson Land MTN Ltd.	1.83	0.24	No	Yes	Finance
19. Cathay Pacific MTN Financing Ltd.	1.70	0.22	No	Yes	Airlines
20. Nan Fung Treasury Ltd.	1.31	0.17	No	No	Real Estate
21. Dragon Drays Ltd.	1.00	0.13	No	No	Diversified
22. Swire Properties MTN Financing Ltd.	0.80	0.10	No	No	Real Estate
23. R-Reit International Finance Ltd., BVI	0.78	0.10	No	No	Real Estate
24. Wing Tai Properties (Finance) Ltd., BVI	0.58	0.07	No	No	Real Estate
25. HLP Finance Ltd.	0.56	0.07	No	Yes	Real Estate
26. CITIC Pacific Ltd.	0.50	0.06	No	Yes	Diversified
27. The Hongkong Land Notes Company Ltd.	0.20	0.03	No	No	Finance
Total Top 27 Non-Bank LCY Corporate Issuers	107.45	13.85			
Total LCY Corporate Bonds	663.44	85.54			
Top 27 as % of Total LCY Corporate Bonds	16.20%	16.20%			

LCY = local currency.

Notes:

1. Data as of end-September 2013.

2. 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.**Table 3: Notable LCY Corporate Bond Issuance in 3Q13**

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
NWD (MTN) Ltd.		
10-year bond	6.00	2.00
10-year bond	5.90	1.15
10-year bond	5.90	0.35
Swire Pacific MTN Financing Ltd.		
10-year bond	4.00	0.52
10-year bond	4.00	0.23
The Hong Kong Mortgage Corporation		
2-year bond	0.39	0.50

LCY = local currency.

Source: Central Moneymarkets Unit (CMU) HKMA.