

Hong Kong, China

Yield Movements

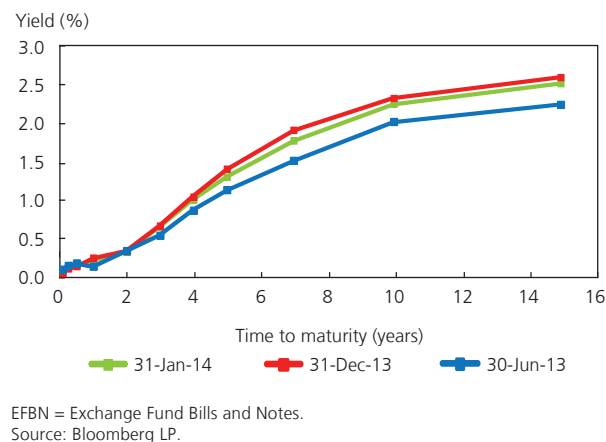
Between end-June and end-December, yields for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) fell at the shorter-end and rose at the longer-end of the curve, with the exception of the 2-year Exchange Fund Note (EFN), resulting in the steepening of the yield curve (**Figure 1**). The rise in yields partly reflects uncertainty over the United States (US) Federal Reserve's tapering measures.

After the Federal Reserve meetings in December and January, which announced the winding down of its monthly asset purchase program to US\$75 billion in January and US\$65 billion in February, the EFBN yield curve flattened. Yields rose between 1 basis point (bp) and 3 bps from the 1-month Exchange Fund Bill (EFB) through the 6-month EFB, and fell between 1 bp and 14 bps for the 1-year maturity through the end of the curve. As a result, the yield spread between the 2- and 10-year tenors narrowed slightly to 191 bps at end-January from 197 bps at end-December.

Yield movements in Hong Kong, China and the US are highly correlated as Hong Kong, China's currency is pegged to the US dollar. The drop in long-term yields partly reflects concerns over slower economic growth. In 3Q13, gross domestic product (GDP) growth in Hong Kong, China eased to 2.9% year-on-year (y-o-y) from 3.2% in the previous quarter. Domestic consumption and investment continued to drive growth, although at much slower pace than in 2Q13. Growth in private consumption moderated to 2.8% y-o-y in 3Q13, while investment growth slowed to 2.2%. For full-year 2013, the government estimates that GDP growth reached 3.0%.

Consumer price inflation was relatively tame in 2013, averaging 4.0% compared with 4.7% in 2012. The government expects inflationary pressures to remain contained in 2014, given the low level of imported inflation and slower increases in rental prices in certain areas.

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



Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market rose 0.5% quarter-on-quarter (q-o-q) and 9.2% y-o-y to reach HKD1,503 billion (US\$194 billion) at end-December (**Table 1**).

At end-December, the stock of government bonds—comprising EFBs, EFNs, and HKSAR bonds—grew 0.4% q-o-q and 16.1% y-o-y to reach HKD841 billion. Growth in government bonds was largely driven by HKSAR bonds, which are issued under the HKMA's Institutional Bond Issuance Program. In November, the government raised HKD3 billion from the sale of 3-year HKSAR bonds.

LCY corporate bonds outstanding grew marginally by 0.5% q-o-q and 1.6% y-o-y to reach HKD661 billion at end-December. In 4Q13, the three largest issuances came from the Airport Authority of Hong Kong (HKD0.5 billion), Hong Kong Mortgage Corporation (HKMC) (HKD0.4 billion), and Wharf Finance (HKD0.3 billion) (**Table 2**).

Corporate bonds outstanding from the top 27 non-bank issuers in Hong Kong, China amounted to HKD106.6 billion at end-December, representing about

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

	Outstanding Amount (billion)						Growth Rate (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	HKD	US\$	HKD	US\$	HKD	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,376	177	1,496	193	1,503	194	0.9	5.1	0.5	9.2
Government	724	93	838	108	841	108	0.5	3.0	0.4	16.1
Exchange Fund Bills	589	76	682	88	683	88	0.1	0.4	0.1	16.0
Exchange Fund Notes	69	9	68	9	68	8.8	(0.4)	(0.9)	(0.4)	(0.9)
HKSAR Bonds	67	9	87	11	90	12	4.7	39.6	3.4	34.3
Corporate	651	84	658	85	661	85	1.3	7.6	0.5	1.6

() = 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 LCY base and do not include currency effects.

Sources: Hong Kong Monetary Authority and Bloomberg LP.

Table 2: Notable LCY Corporate Bond Issuance in 4Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Airport Authority of Hong Kong		
2-year bonds	0.90	0.50
The Hong Kong Mortgage Corporation		
2-year bonds	Floating	0.43
Wharf Finance		
5-year bonds	3.00	0.30

LCY = local currency.

Source: Central Moneymarkets Unit (CMU) HKMA.

16% of total outstanding corporate bonds at the end of 4Q13. The top 27 list of issuers was dominated by real estate firms (**Table 3**). As was the case in the previous quarter, HKMC remained the top issuer in Hong Kong, China with outstanding bonds of HKD13.4 billion. Next was CLP Power Hong Kong Financing with HKD10.0 billion of bonds outstanding, followed closely by Sun Hung Kai Properties' HKD9.9 billion of bonds

outstanding. Among the list, there are five state-owned companies and eight Hong Kong Exchange-listed firms, only one state-owned company, the MTR Corporation, is listed.

Policy, Institutional, and Regulatory Developments

Hong Kong, China and Malaysia to Promote Offshore Renminbi Business

On 3 December, Hong Kong, China and Malaysia conducted the first meeting of the Hong Kong–Malaysia Private Sector Dialogue on Offshore Renminbi Business. The purpose of the dialogue is to jointly develop the offshore renminbi business. During the dialogue, both economies agreed to expand cooperation between banks in Hong Kong, China and Malaysia. They also agreed to promote awareness about the use of the renminbi in trade settlement and promote the development of the renminbi *sukuk* (Islamic bond) market.

Table 3: 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	13.42	1.73	Yes	No	Finance
2. CLP Power Hong Kong Financing	10.01	1.29	No	No	Electric
3. Sun Hung Kai Properties (Capital Market)	9.93	1.28	No	No	Real Estate
4. MTR Corporation (C.I.)	6.73	0.87	Yes	Yes	Transportation
5. Wharf Finance	6.14	0.79	No	No	Diversified
6. The Link Finance (Cayman) 2009	5.75	0.74	No	No	Finance
7. HKCG (Finance)	5.60	0.72	No	No	Gas
8. Hongkong Electric Finance	5.51	0.71	No	No	Electric
9. Swire Pacific	4.83	0.62	No	Yes	Diversified
10. Kowloon-Canton Railway	4.80	0.62	Yes	No	Transportation
11. Cheung Kong Bond Finance	4.62	0.60	No	Yes	Real Estate
12. Urban Renewal Authority	3.90	0.50	Yes	No	Real Estate
13. Wheelock Finance	3.74	0.48	No	No	Diversified
14. NWD (MTN)	3.50	0.45	No	Yes	Real Estate
15. Airport Authority Hong Kong	3.50	0.45	Yes	No	Transportation
16. Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
17. Hysan (MTN)	2.43	0.31	No	No	Finance
18. Henderson Land MTN	1.83	0.24	No	Yes	Finance
19. Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
20. Nan Fung Treasury	1.31	0.17	No	No	Real Estate
21. Dragon Drays	1.00	0.13	No	No	Diversified
22. Swire Properties MTN Financing	0.80	0.10	No	No	Real Estate
23. R-Reit International Finance	0.78	0.10	No	No	Real Estate
24. Wing Tai Properties (Finance)	0.58	0.07	No	No	Real Estate
25. HLP Finance	0.56	0.07	No	Yes	Real Estate
26. CITIC Pacific	0.50	0.06	No	Yes	Diversified
27. The Hongkong Land Notes Company	0.20	0.03	No	No	Finance
Total Top 27 Non-Bank LCY Corporate Issuers	106.63	13.75			
Total LCY Corporate Bonds	661.47	85.31			
Top 27 as % of Total LCY Corporate Bonds	16.12%	16.12%			

LCY = local currency.

Notes:

1. Data as of end-December 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.