

## Hong Kong, China

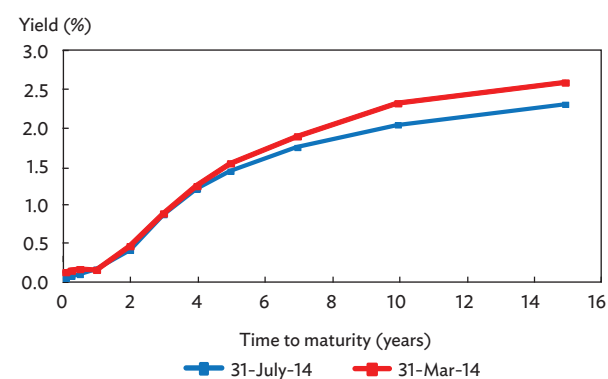
### Yield Movements

Between end-March and end-July, yields for Hong Kong, China's Exchange Fund Bills and Notes fell for most maturities. The drop in yields was most significant for the 5- through 15-year tenors, resulting in the downward shift from the belly through the end of the curve (**Figure 1**). Yields fell the most for the 15-year Exchange Fund Note (EFN), decreasing 28 basis points (bps), while yields at the short-end of the curve declined between 7 bps and 8 bps. The yield spread between 2- and 10-year EFNs narrowed to 162 bps at end-July from 185 bps at end-March.

The drop in yields at the longer-end of the curve followed the drop in United States (US) yields, as Hong Kong, China yields are highly correlated with US yields. This reflects Hong Kong, China's lack of independent monetary policy with its exchange rate pegged to the US\$.

Hong Kong, China's economic expansion slowed to 1.8% year-on-year (y-o-y) in 2Q14, after rising 2.6% in 1Q14, on account of weaker growth in consumption due to lower tourism receipts and reduced domestic demand. Growth in private consumption eased to 1.2% y-o-y in 2Q14, after gaining 1.5% in the previous quarter. Investments also contracted 5.6% y-o-y, compared with 3.0% annual growth in 1Q14. As a result, the government has revised downward its economic growth forecast for 2014 to a range of 2.0%–3.0% from 3.0%–4.0%. Also, the government noted that risks to growth have increased,

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



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

including uncertainty in developed economies and reduced domestic demand.

Consumer price inflation climbed to 4.0% y-o-y in July from 3.6% in June and 3.7% in May and April. However, the government expects consumer price inflation to remain subdued for the rest of the year.

### Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market declined 2.4% quarter-on-quarter (q-o-q) and 0.2% year-on-year (y-o-y) to reach HKD1,486 billion (US\$192 billion) at end-June (**Table 1**).

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	HKD	US\$	HKD	US\$	HKD	US\$	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>1,488</b>	<b>192</b>	<b>1,522</b>	<b>196</b>	<b>1,486</b>	<b>192</b>	<b>4.4</b>	<b>10.7</b>	<b>(2.4)</b>	<b>(0.2)</b>
Government	834	107	846	109	841	109	7.0	15.7	(0.5)	0.9
Exchange Fund Bills	682	88	683	88	684	88	6.5	16.0	0.1	0.4
Exchange Fund Notes	68	9	68	9	68	9	(0.4)	(0.9)	(0.4)	(0.9)
HKSAR Bonds	84	11	94	12	89	11	18.4	30.5	(5.3)	6.6
Corporate	655	84	677	87	645	83	1.3	4.9	(4.8)	(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.

At end-June, the stock of government bonds comprising Exchange Fund Bills, EFNs, and Hong Kong Special Administrative Region (HKSAR) bonds fell 0.5% q-o-q to reach HKD841 billion. This was largely driven by the decline in the size of outstanding HKSAR bonds as a result of less issuance by the Hong Kong Monetary Authority compared with 1Q14. However, on a y-o-y basis, government bonds slightly increased by 0.9%.

LCY corporate bonds outstanding fell 4.8% q-o-q and 1.6% y-o-y to reach HKD645 billion at end-June as companies preferred to raise funds via bank loans. In 2Q14, the three largest non-bank issuances came from Rexlot Holdings (HKD1.9 billion), China Ocean (HKD1.0 billion), and Wharf Finance (HKD0.57 billion) (**Table 2**).

Corporate bonds outstanding from the top 30 non-bank issuers in Hong Kong, China amounted to HKD110.8 billion at end-June, representing about 17% of total outstanding corporate bonds at end-June. The top 30 list of issuers was dominated by real estate firms (**Table 3**). HKMC remained the top issuer in Hong Kong, China with outstanding bonds of HKD13.1 billion. Next was CLP Power Hong Kong Financing with HKD10.4 billion of bonds outstanding, followed closely by Sun Hung Kai Properties with HKD10.3 billion. Among the list, there are 5 five state-owned companies and 11 Hong Kong Exchange-listed firms. Only

**Table 2: Notable LCY Corporate Bond Issuance in 2Q14**

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Rexlot Holdings		
5-year bond	4.50	1.90
China Ocean		
3-year bond	7.50	1.00
Wharf Finance		
10-year bond	4.25	0.20
10-year bond	4.10	0.18
10-year bond	3.90	0.20

LCY = local currency.

Source: Central Moneymarkets Unit (CMU) HKMA.

one state-owned company, the MTR Corporation, is listed.

## Policy, Institutional, and Regulatory Developments

### Hong Kong, China Announces Planned Sukuk Issuance

On 4 July, Hong Kong, China announced that it had selected HSBC, Standard Chartered Bank, CIMB, and National Bank of Abu Dhabi as underwriters for its debut *sukuk* (Islamic bond) issuance. The issuance is expected to be priced in September with a target size of between US\$500 million and US\$1.0 billion, and a tenor of 5 years. The structure to be used is expected to follow the *ijarah* (leasing) principle.

Table 3: Top 30 Nonbank 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	13.12	1.69	Yes	No	Finance
2.	CLP Power Hong Kong Financing	10.35	1.33	No	No	Electric
3.	Sun Hung Kai Properties (Capital Market)	10.31	1.33	No	No	Real Estate
4.	Wharf Finance	7.29	0.94	No	No	Diversified
5.	The Link Finance (Cayman) 2009	6.14	0.79	No	No	Finance
6.	MTR Corporation (C.I.)	5.75	0.74	Yes	Yes	Transportation
7.	HKCG (Finance)	5.60	0.72	No	No	Gas
8.	Swire Pacific	5.53	0.71	No	Yes	Diversified
9.	Hongkong Electric Finance	5.51	0.71	No	No	Electric
10.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
11.	Cheung Kong Bond Finance	4.62	0.60	No	Yes	Real Estate
12.	Urban Renewal Authority	4.60	0.59	Yes	No	Real Estate
13.	Kowloon-Canton Railway	4.40	0.57	Yes	No	Transportation
14.	Wheelock Finance	4.04	0.52	No	No	Diversified
15.	Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
16.	Airport Authority Hong Kong	2.80	0.36	Yes	No	Transportation
17.	Hysan (MTN)	2.43	0.31	No	No	Finance
18.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
19.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
20.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
21.	AIA Group	1.16	0.15	No	Yes	Insurance
22.	Dragon Drays	1.00	0.13	No	No	Diversified
23.	Swire Properties MTN Financing	0.80	0.10	No	No	Real Estate
24.	R-Reit International Finance	0.78	0.10	No	No	Real Estate
25.	Wing Tai Properties (Finance)	0.58	0.07	No	No	Real Estate
26.	HLP Finance	0.56	0.07	No	Yes	Real Estate
27.	CITIC Pacific	0.50	0.06	No	Yes	Diversified
28.	K. Wah International	0.45	0.06	No	Yes	Real Estate
29.	The Hongkong Land Notes Company	0.20	0.03	No	No	Finance
30.	Far East Horizon	0.09	0.01	No	Yes	Finance
<b>Total Top 30 Nonbank LCY Corporate Issuers</b>		<b>110.82</b>	<b>14.30</b>			
<b>Total LCY Corporate Bonds</b>		<b>644.73</b>	<b>83.19</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>17.2%</b>	<b>17.2%</b>			

LCY = local currency.

Notes:

1. Data as of end-June 2014.

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.