

Hong Kong, China

Yield Movements

Hong Kong, China's yield movements from 2 March to 15 May closely tracked yield movements in the United States (US) (**Figure 1**). The yield curve shifted upward at the short-end and long-end, while shifting downward in the belly of the curve.

For tenors of 6 months or less, yields rose between 0.2 basis point (bp) and 4 bps. Yields rose between 13 bps and 26 bps for tenors of 7 years or more. In the belly of the curve, the 2-year through the 5-year tenors fell 4 bps and 15 bps. The 2-year versus 10-year spread rose to 137 bps on 15 May from 105 bps on 2 March.

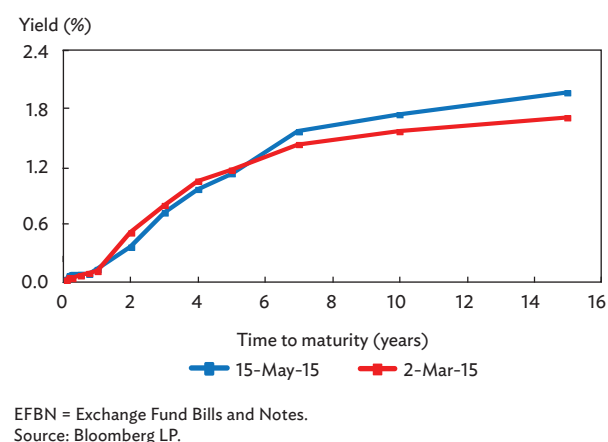
Hong Kong, China's yield curve movements closely follow those of the US due to Hong Kong, China's fixed exchange rate system. The US yield curve steepened recently following improved economic data in April and firmer oil prices.

Hong Kong, China's economy continued to slow in 1Q15, with gross domestic product (GDP) growth slowing to 2.1% year-on-year (y-o-y) from 2.4% y-o-y in 4Q14. Full-year 2014 GDP growth was 2.5%. While domestic demand remained stable in 1Q15, private consumption growth weakened to 3.5% y-o-y from 4.1% y-o-y in the previous quarter. The biggest drag came from weakening external demand amid slowing world economic growth. Exports of goods rose 0.4% y-o-y in 1Q15, down from 0.6% y-o-y in 4Q14, while exports of services fell 0.6% y-o-y in 1Q15, following a decline of 0.3% y-o-y in 4Q14. Inflation also remained subdued in 1Q15, with March inflation falling slightly to 4.5% y-o-y from 4.6% y-o-y in February. The average annual inflation rate in 1Q15 was 4.4% versus 5.0% in 4Q14.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market expanded 2.6% quarter-on-quarter (q-o-q) and 1.5% y-o-y to reach HKD1,545 billion (US\$199 billion) at end-March (**Table 1**). The higher rate of q-o-q versus y-o-y growth was mostly due to an increase in corporate bonds outstanding of 4.7% q-o-q.

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



Exchange Fund Notes outstanding declined while HKSAR bonds showed a dramatic increase, causing government bonds outstanding to rise 1.0% q-o-q and 1.4% y-o-y by end-March. Exchange Fund Notes fell 3.2% q-o-q and 2.3% y-o-y, while HKSAR bonds rose 8.2% q-o-q and 11.1% y-o-y.

The drop in Exchange Fund Notes and the rise in Hong Kong Special Administrative Region (HKSAR) bonds was due to recent regulatory measures taken by the Hong Kong Monetary Authority (HKMA) to align the yield curves of Exchange Fund securities and HKSAR bonds. The measures included replacing issuances of Exchange Fund Notes with tenors of 3 years or more with issuances of HKSAR bonds. In 1Q15, a total of HKD7.9 billion worth of HKSAR bonds were issued, up from HKD3.0 billion in 4Q14.

In 1Q15, the five largest nonbank issuances came from Hong Kong Mortgage Corporation (HKD2.3 billion), Bohai International (HKD2.0 billion), New World China Land (HKD0.8 billion), Swire Properties (HKD0.6 billion), Emperor International, and Eastern Creation (HKD0.3 billion each) (**Table 2**).

Corporate bonds outstanding from the top 30 nonbank issuers in Hong Kong, China amounted to HKD126 billion at end-March, representing 18.3% of total outstanding

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	HKD	US\$	HKD	US\$	HKD	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,522	196	1,506	194	1,545	199	0.9	6.8	2.6	1.5
Government	846	109	849	109	857	111	0.5	8.5	1.0	1.4
Exchange Fund Bills	683	88	684	88	686	89	0.1	6.8	0.3	0.4
Exchange Fund Notes	68	9	69	9	67	9	0.0	(0.9)	(3.2)	(2.3)
HKSAR Bonds	94	12	97	12	104	13	4.4	33.3	8.2	11.1
Corporate	677	87	657	85	688	89	1.3	4.7	4.7	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 1Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
The Hong Kong Mortgage Corporation		
30-year bond	3.15	0.50
30-year bond	3.00	0.50
3-year bond	1.45	0.50
2-year bond	0.80	0.38
2-year bond	0.92	0.24
5-year bond	1.60	0.20
Bohai International Capital		
5-year bond	6.15	2.00
New World China Land		
5-year bond	5.00	0.80
Swire Properties		
10-year bond	2.80	0.20
10-year bond	3.00	0.20
10-year bond	2.90	0.20
Emperor International Holdings		
5-year bond	5.00	0.30
Eastern Creation II Investment Holdings		
5-year bond	2.80	0.30

LCY = local currency.

Source: Central Moneymarkets Unit (CMU) HKMA.

corporate bonds at end-March. 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 HKD19.6 billion. Next was CLP Power Hong Kong Financing with HKD10.3 billion of bonds outstanding, followed by Sun Hung Kai Properties with HKD9.7 billion. Among the top 30, six were state-owned companies and 11 were Hong Kong Exchange-listed firms. Only one state-owned company, the MTR Corporation, is listed on the exchange.

Policy, Institutional, and Regulatory Developments

The PRC Issues Dimsum Bonds in Hong Kong, China

On 20 May, the People's Republic of China (PRC) successfully auctioned CNY12.0 billion worth of dimsum bonds in Hong Kong, China. The CNY 5.0 billion 3-year tranche was priced with a coupon of 2.8%, the CNY3.0 billion 5-year tranche carries a coupon of 3.0%, the CNY1.5 billion 7-year was priced at a coupon of 3.36%, the CNY1.5 billion 10-year tranche was priced at 3.39%, the CNY0.5 billion 15-year tranche was priced at 3.60%, and the CNY0.5 billion 30-year tranche was priced at 4.1%.

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 Corporation	19.62	2.53	Yes	No	Finance
2.	CLP Power Hong Kong Financing	10.30	1.33	No	No	Electric
3.	Sun Hung Kai Properties (Capital Market)	9.71	1.25	No	No	Real Estate
4.	Wharf Finance	7.22	0.93	No	No	Diversified
5.	The Link Finance (Cayman) 2009	6.79	0.88	No	No	Finance
6.	MTR Corporation (C.I.)	6.25	0.81	Yes	Yes	Transportation
7.	HKCG (Finance)	6.09	0.79	No	No	Gas
8.	Swire Pacific	5.93	0.76	No	Yes	Diversified
9.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
10.	Hongkong Electric Finance	5.01	0.65	No	No	Electric
11.	Urban Renewal Authority	4.60	0.59	Yes	No	Real Estate
12.	Cheung Kong Bond Finance	4.12	0.53	No	Yes	Real Estate
13.	Wheelock Finance	4.04	0.52	No	No	Diversified
14.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
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.	Yue Xiu Property	2.30	0.30	No	No	Real Estate
18.	Bohai International	2.00	0.26	No	No	Diversified
19.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
20.	Swire Properties MTN Financing	2.00	0.26	No	No	Real Estate
21.	Emperor International Holdings	1.95	0.25	No	Yes	Real Estate
22.	Hysan (MTN)	1.80	0.23	No	Yes	Real Estate
23.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
24.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
25.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
26.	Tencent Holdings	1.20	0.15	No	Yes	Communications
27.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
28.	Dragon Drays	1.00	0.13	No	No	Diversified
29.	K. Wah International	1.00	0.13	No	Yes	Real Estate
30.	Citic Limited	0.92	0.12	No	Yes	Diversified
Total Top 30 Nonbank LCY Corporate Issuers		125.96	16.25			
Total LCY Corporate Bonds		687.93	88.76			
Top 30 as % of Total LCY Corporate Bonds		18.3%	18.3%			

LCY = local currency.

Notes:

1. Data as of end-March 2015.

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.