

## Hong Kong, China

### Yield Movements

Hong Kong, China's yield movements between 1 June and 14 August mostly tracked yield movements in the United States (US) (**Figure 1**). Yields rose for most of Hong Kong, China's longer-dated tenors, despite only slightly better gross domestic product (GDP) growth in 2Q15 and benign inflation.

For tenors of 6 months or less, yield movements were unchanged. The 9-month and 1-year tenor fell 1 basis point (bp) and 4 bps, respectively. For the remaining tenors, yields rose between 2 bps and 18 bps.

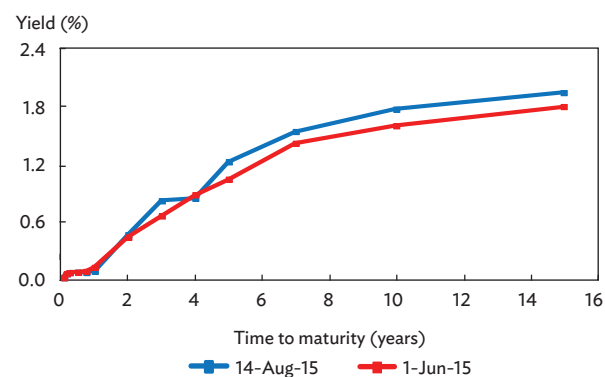
The largest movement came from the 5-year tenor, which rose 18 bps, followed by the 10-year, tenor which rose 17 bps. The 2-year-versus-10-year spread rose to 130 bps on 14 August from 115 bps on 1 June.

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 rose for nearly all tenors during the period under review, with the exception of the 30-year tenor, on increased prospects that the US Federal Reserve would raise interest rates following positive economic data.

Hong Kong, China's GDP grew 2.8% year-on-year (y-o-y) in 2Q15, up from revised 2.4% y-o-y growth in 1Q15. The faster GDP growth in 2Q15 was due to stronger household consumption, which rose 6.0% y-o-y compared with 5.3% y-o-y in the prior quarter. In addition, GDP growth was also helped by a decline in goods imports, which contracted 3.2% y-o-y in 2Q15 after rising 0.1% y-o-y in 1Q15. On the other hand, GDP growth was constrained by a weaker external environment, with exports of goods falling 3.6% y-o-y in 2Q15 after rising 0.4% in the previous quarter. Gross domestic capital formation expanded 6.5% y-o-y in 2Q15, after increasing 7.5% in 1Q15, while government expenditure growth slowed marginally to 3.3% y-o-y from 3.4%.

Inflation remained subdued between April and July. Consumer price inflation in Hong Kong, China slowed to 2.5% y-o-y in July from 3.1% y-o-y in June. In contrast,

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



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

average inflation for 1Q15 was 4.4% y-o-y. The government said that it expects inflation to remain subdued given weak growth in most developed economies.

### Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market fell 1.5% quarter-on-quarter (q-o-q) but rose 2.0% y-o-y to reach HKD1,523 billion (US\$196 billion) at end-June (**Table 1**). The q-o-q decline was due to declines in both government and corporate bonds outstanding, while on a y-o-y basis, growth in corporate bonds managed to offset the decline in government bonds.

Exchange Fund Bills (EFBs) outstanding rose 0.4% q-o-q, due to increased issuance in 2Q15, which rose 43.0% q-o-q. The much smaller q-o-q rise in EFBs outstanding was due to the issuance of shorter-dated tenors leading to larger proportion of the bonds maturing.

Exchange Fund Notes (EFNs) continued to decline, falling 4.1% q-o-q and 5.9% y-o-y, as the Hong Kong Monetary Authority sought to align the EFN market with Hong Kong Special Administrative Region (HKSAR) bonds by replacing issuances of EFNs with tenors of 3 years or more with HKSAR bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	HKD	US\$	HKD	US\$	HKD	US\$	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>1,493</b>	<b>193</b>	<b>1,545</b>	<b>199</b>	<b>1,523</b>	<b>196</b>	<b>(1.9)</b>	<b>0.3</b>	<b>(1.5)</b>	<b>2.0</b>
Government	849	110	857	111	846	109	0.4	1.8	(1.3)	(0.4)
Exchange Fund Bills	684	88	686	89	689	89	0.1	0.4	0.4	0.7
Exchange Fund Notes	68	9	67	9	64	8	(0.4)	(0.9)	(4.1)	(5.9)
HKSAR Bonds	97	13	104	13	93	12	3.2	16.2	(11.3)	(4.5)
Corporate	644	83	688	89	677	87	(4.9)	(1.7)	(1.6)	5.1

(-) = 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 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
The Hong Kong Mortgage Corporation		
1-year bond	0.44	2.00
2-year bond	0.44	0.50
3-year bond	1.34	0.40
China Energy Reserve and Chemicals Group Overseas		
7-year bond	6.30	2.00
Beijing Enterprises Water Capital Investment		
5-year bond	3.90	0.70
Swire Pacific		
7-year bond	2.50	0.40
HKCG (Finance)		
15-year bond	3.25	0.40
Hong Fat Ginseng Holdings		
3.5-year bond	6.00	0.13

LCY = local currency.

Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.

In 2Q15, however, the amount outstanding of HKSAR bonds declined, falling 11.3% q-o-q and 4.5% y-o-y due to a decline in the issuance of HKSAR bonds. In 2Q15, a total of HKD4.7 billion worth of HKSAR bonds were issued, down from HKD7.9 billion in the prior quarter.

The five largest nonbank issuances in 2Q15 came from the Hong Kong Mortgage Corporation (HKD2.9 billion), China Energy Reserve and Chemicals Group Overseas (HKD2.0 billion), Beijing Water Capital Investment (HKD0.7 billion), Swire Pacific (HKD0.4 billion), and HKCG (Finance) (HKD0.4 billion) (Table 2).

Total corporate bonds outstanding fell 1.6% q-o-q in 2Q15, with bond issuance falling 39.3% q-o-q. The decline in corporate bonds outstanding was due to

continued uncertainty regarding the US Federal Reserve's rate hike as well as rising interest rates.

The top 30 nonbank issuers in Hong Kong, China had outstanding bonds amounting to HKD121.2 billion at end-June, representing 17.9% of total outstanding corporate bonds at end-June. The top 30 list of issuers was dominated by real estate firms (Table 3). The Hong Kong Mortgage Corporation remained the top issuer in Hong Kong, China with outstanding bonds of HKD19.1 billion. Next was Sun Hung Kai Properties with HKD9.7 billion, followed by CLP Power Hong Kong Financing with HKD9.5 billion of bonds outstanding. 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, was not listed on the Hong Kong Exchange.

## Policy, Institutional, and Regulatory Developments

### Hong Kong, China Issues US\$-Denominated Sukuk

On 28 May, the Government of the Hong Kong Special Administrative Region of the People's Republic of China issued a US\$1.0 billion 5-year *sukuk* (Islamic bond). This was the second *sukuk* issued by the government, with the first taking place in September 2014. The bond was priced at a rate of 1.894%. The government said that the *sukuk* is based on the *wakalah* structure, in which one-third of the assets are based on units in a Hong Kong, China building and the remainder are in *shari'ah*-compliant commodities.

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	19.12	2.47	Yes	No	Finance
2.	Sun Hung Kai Properties (Capital Market)	9.71	1.25	No	No	Real Estate
3.	CLP Power Hong Kong Financing	9.46	1.22	No	No	Electric
4.	Wharf Finance	7.22	0.93	No	No	Diversified
5.	The Link Finance (Cayman) 2009	6.79	0.88	No	No	Finance
6.	HKCG (Finance)	6.42	0.83	No	No	Gas
7.	Swire Pacific	5.93	0.76	No	Yes	Diversified
8.	MTR Corporation (C.I.)	5.75	0.74	Yes	Yes	Transportation
9.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
10.	Hongkong Electric Finance	4.51	0.58	No	No	Electric
11.	Wheelock Finance	4.04	0.52	No	No	Diversified
12.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
13.	Urban Renewal Authority	3.30	0.43	Yes	No	Real Estate
14.	Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
15.	Airport Authority Hong Kong	2.80	0.36	Yes	No	Transportation
16.	Yue Xiu Property	2.30	0.30	No	No	Real Estate
17.	CK Hutchison Holdings	2.21	0.28	No	Yes	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.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
23.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
24.	Cheung Kong Holdings	1.65	0.21	No	Yes	Real Estate
25.	Hysan (MTN)	1.50	0.19	No	Yes	Real Estate
26.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
27.	Tencent Holdings	1.20	0.15	No	Yes	Communications
28.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
29.	Dragon Drays	1.00	0.13	No	No	Diversified
30.	K. Wah International	1.00	0.13	No	Yes	Real Estate
<b>Total Top 30 Nonbank LCY Corporate Issuers</b>		<b>121.18</b>	<b>15.64</b>			
<b>Total LCY Corporate Bonds</b>		<b>677.09</b>	<b>87.36</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>17.9%</b>	<b>17.9%</b>			

LCY = local currency.

Notes:

1. Data as of end-June 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.