

Hong Kong, China

Yield Movements

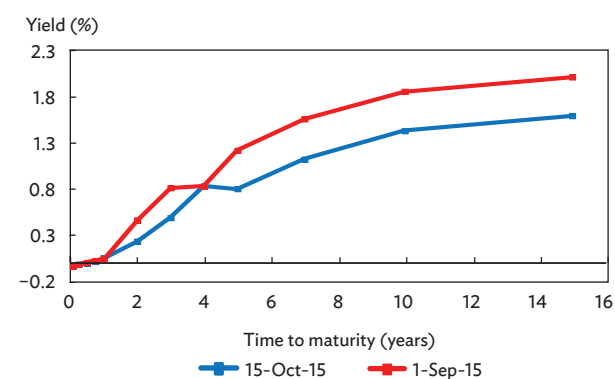
Hong Kong, China's yield curve movements between 1 September and 15 October mostly followed those of the United States (US) (**Figure 1**). Yields fell for most tenors, particularly at the long-end of the curve, with yields from the 2-year tenor falling between 23 basis points (bps) and 44 bps, with the exception of the 4-year tenor, which remained unchanged. At the short-end, yields for the 6-month and 9-month tenor fell 1 bp each, while for tenors of 1 year it gained 1 bp.

The 2-year-versus-10-year spread fell to 119 bps on 15 October from 138 bps on 1 September.

Hong Kong, China's yield curve changes track those of the US due to Hong Kong, China's fixed exchange rate system. The US government bond yield curve fell for all tenors following the Federal Reserve's decision to hold interest rates during its September 17 meeting.

Yields were also partly dragged down by consumer prices as inflation remained subdued. Consumer price inflation slowed to 2.4% year-on-year (y-o-y) in August and fell further to 2.0% y-o-y in September. The government has indicated that it expects inflation to remain soft given low import prices and the lack of domestic price pressures.

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



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

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market rose 1.3% quarter-on-quarter (q-o-q) and 2.4% y-o-y to reach HKD1,543 billion (US\$199 billion) at the end of September (**Table 1**). The q-o-q growth was mostly driven by increases in Exchange Fund Bills (EFBs) and Hong Kong Special Administrative Region (HKSAR) bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	HKD	US\$	HKD	US\$	HKD	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,507	194	1,523	196	1,543	199	0.9	0.7	1.3	2.4
Government	856	110	846	109	876	113	0.8	2.2	3.6	2.4
Exchange Fund Bills	684	88	689	89	712	92	(0.1)	0.2	3.2	4.1
Exchange Fund Notes	68	9	64	8	62	8	0.9	0.0	(3.4)	(9.9)
HKSAR Bonds	104	13	93	12	103	13	6.7	19.0	11.4	(0.3)
Corporate	651	84	677	87	666	86	1.1	(1.1)	(1.6)	2.4

() = 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.

EFBs outstanding rose 3.2% q-o-q, due to increased issuance in 3Q15 by the Hong Kong Monetary Authority (HKMA) in order to siphon off excess liquidity as investors converted offshore renminbi assets to Hong Kong dollar assets following the depreciation of the renminbi in August.

Exchange Fund Notes (EFNs) continued to decline, falling 3.4% q-o-q and 9.9% y-o-y, as the HKMA sought to align the EFB and EFN markets with HKSAR bonds by replacing issuances of EFNs with tenors of 3 years or more with HKSAR bonds.

In 3Q15, the amount of HKSAR bonds rose 11.4% q-o-q due to a HKD10 billion issuance of 3-year bonds under the Retail Bond Issuance Programme.

The five largest nonbank issuances in 3Q15 came from Tencent Holdings (HKD1.0 billion), Swire Pacific (HKD0.8 billion), The Link Finance (Cayman 2009) (HKD0.5 billion), Swire Properties (HKD0.2 billion), and Hong Kong Mortgage Corporation (HKD0.1 billion) (**Table 2**).

Total corporate bonds outstanding fell 1.6% q-o-q in 3Q15 amid a lack of LCY corporate bond issuances given a lack of funding needs this year.

The top 30 nonbank issuers in Hong Kong, China had outstanding bonds amounting to HKD123.5 billion at the end of September, representing 18.5% of total outstanding corporate bonds. The top 30 list was dominated by real estate firms (**Table 3**). The Hong Kong Mortgage Corporation remained the top issuer in Hong Kong, China

Table 2: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Tencent Holdings		
3-year bond	2.30	1.00
Swire Pacific		
7-year bond	2.85	0.61
10-year bond	3.35	0.15
The Link Finance (Cayman) 2009		
7-year bond	2.67	0.53
Swire Properties		
10-year bond	3.10	0.20
The Hong Kong Mortgage Corporation		
3-year bond	1.25	0.12

LCY = local currency.

Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.

with outstanding bonds of HKD19.9 billion. Next was CLP Power Hong Kong Financing with HKD9.5 billion of bonds outstanding, followed by Sun Hung Kai Properties with HKD9.1 billion. Among the top 30, six were state-owned companies and 11 were Hong Kong Exchange-listed firms. Only one state-owned company, MTR Corporation, was listed on the Hong Kong Exchange.

Policy, Institutional, and Regulatory Developments

Hong Kong, China Issues Fifth iBond Series

On 7 August, the Government of the Special Administrative Region of Hong Kong, China issued HKD10 billion worth of inflation-linked bonds (iBonds), marking the government's fifth issuance of iBonds. Total tenders reached HKD35.7 billion.

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	19.87	2.56	Yes	No	Finance
2.	CLP Power Hong Kong Financing	9.46	1.22	No	No	Electric
3.	Sun Hung Kai Properties (Capital Market)	9.11	1.18	No	No	Real Estate
4.	The Link Finance (Cayman) 2009	7.32	0.94	No	No	Finance
5.	Wharf Finance	7.22	0.93	No	No	Diversified
6.	Swire Pacific	6.68	0.86	No	Yes	Diversified
7.	HKCG (Finance)	6.42	0.83	No	No	Gas
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	2.60	0.34	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.	Swire Properties MTN Financing	2.20	0.28	No	No	Real Estate
19.	Tencent Holdings	2.20	0.28	No	Yes	Communications
20.	Bohai International	2.00	0.26	No	No	Diversified
21.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
22.	Emperor International Holdings	1.95	0.25	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.	Cheung Kong Holdings	1.65	0.21	No	Yes	Real Estate
26.	Hysan (MTN)	1.40	0.18	No	Yes	Real Estate
27.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
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
Total Top 30 Nonbank LCY Corporate Issuers		123.51	15.94			
Total LCY Corporate Bonds		666.42	85.99			
Top 30 as % of Total LCY Corporate Bonds		18.5%	18.5%			

LCY = local currency.

Notes:

1. Data as of end-September 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.