

Hong Kong, China

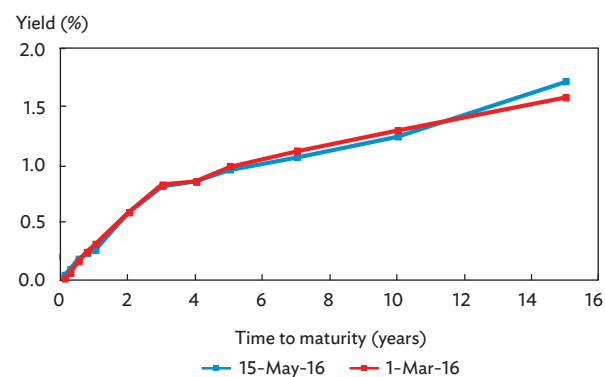
Yield Movements

Between 1 March and 15 May, Hong Kong, China's yield curve movements for Exchange Fund Bills and Notes mostly followed the movements of United States (US) Treasuries (**Figure 1**). Yields fell for all tenors during the review period except at the very short-end and very long-end of the curve. Yields fell between 1 basis point (bp) and 6 bps for all tenors between 9-months and 10-years, with the exception of the 2-year and 4-year tenors, which remained unchanged. For bonds with tenors of less than 9 months, yields rose 2–3 bps, while the 15-year tenor rose 14 bps.

The 2-year-versus-10-year spread fell to 66 bps on 15 May from 71 bps on 1 March.

Hong Kong, China's yields were also affected by the domestic economic slowdown. Hong Kong, China's gross domestic product grew only 0.8% year-on-year (y-o-y) in the first quarter (Q1) of 2016, down from 1.9% growth in the fourth quarter (Q4) of 2015. The slowdown in gross domestic product growth was driven by both domestic and external factors. Private consumption expenditure growth slowed to 1.1% in Q1 2016 from 2.7% in the previous quarter. Exports of goods and services also declined. Exports of goods fell 3.6% y-o-y in Q1 2016 after declining 0.5% in Q4 2015. Exports of services fell 4.9% y-o-y after falling 2.7% y-o-y in the previous quarter.

Figure 1: Hong Kong, China's Benchmark Yield Curve—Exchange Fund Bills and Notes



Source: Based on data from Bloomberg LP.

Inflation in Hong Kong, China softened in the first 4 months of the year. In April, consumer price inflation fell to 2.7% y-o-y from 2.9% y-o-y in March. The slowdown in inflation was driven by slower increases in private housing rental costs and food prices.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market rose 2.1% quarter-on-quarter (q-o-q) and 7.2% y-o-y to reach HKD1,657 billion (USD214 billion) at the end of March (**Table 1**). The q-o-q growth was

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,545	199	1,623	209	1,657	214	2.6	1.5	2.1	7.2
Government	857	111	927	120	957	123	1.0	1.4	3.2	11.7
Exchange Fund Bills	686	89	770	99	800	103	0.3	0.4	4.0	16.6
Exchange Fund Notes	67	9	59	8	56	7	(3.2)	(2.3)	(3.8)	(15.2)
Government Bonds	104	13	99	13	101	13	8.2	11.1	1.6	(3.7)
Corporate	688	89	696	90	700	90	4.7	1.6	0.5	1.7

() = negative, HKD = Hong Kong dollar, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.

2. Bloomberg LP end-of-period local currency-USD rates are used.

3. Growth rates are calculated from local currency base and do not include currency effects.

Sources: Hong Kong Monetary Authority and Bloomberg LP.

mostly driven by increases in Exchange Fund Bills (EFBs) and government bonds.

EFBs outstanding gained 4.0 q-o-q in Q1 2016 on increased issuance, which rose to HKD621 billion from HKD608 billion in Q4 2015. Despite this, q-o-q growth was down in Q1 2016 from 8.2% growth in the previous quarter due to maturing EFBs.

The Hong Kong Monetary Authority (HKMA) issued EFBs in greater quantities in Q1 2016 to help mop up liquidity as depositors exchanged renminbi for Hong Kong dollars. At the end of March, renminbi deposits had fallen to CNY759 billion from CNY851 billion at the end of December.

Exchange Fund Notes (EFNs) continued to decline in Q1 2016, falling 3.8% q-o-q and 15.2% y-o-y, as HKMA sought to align the EFB and EFN markets with the Hong Kong Special Administrative Region (HKSAR) Government bond market by replacing issuances of EFNs with tenors of 3 years or more with HKSAR bonds.

In Q1 2016, the amount of HKSAR Government bonds rose 1.6% q-o-q, but fell 3.7% y-o-y due to a decline in issuance. HKMA issued a HKD1 billion 10-year HKSAR Government bond and a HKD0.6 billion 15-year HKSAR Government bond under the Institutional Bond Programme in Q1 2016. It did not issue any bonds through the Retail Bond Programme during the quarter under review.

Total corporate bonds outstanding rose 0.5% q-o-q and 1.7% y-o-y in Q1 2016.

The top 30 nonbank issuers in Hong Kong, China had outstanding LCY bonds amounting to HKD123.5 billion at the end of March, representing 17.7% of total corporate bonds outstanding. The top 30 list of issuers was dominated by real estate firms and the financing vehicles of corporates (**Table 2**). The Hong Kong Mortgage Corporation remained the top issuer with outstanding bonds of HKD19.9 billion. Next was the Link Finance (Cayman) 2009 with HKD9.5 billion of bonds outstanding, followed by CLP Power Hong Kong Financing with HKD9.1 billion. Among the top 30, 6 were state-owned companies and 9 were Hong Kong Exchange-listed firms.

The five largest nonbank issuances in Q1 2016 came from the Hong Kong Mortgage Corporation, MTR Corporation, Hong Kong Electric Finance, China Oceanwide Institutional Finance, and Emperor International Holdings (**Table 3**).

Policy, Institutional, and Regulatory Developments

Tentative Schedule Released for Hong Kong Special Administrative Region Government Bond Issuance in April–September

On 9 March, the Hong Kong Monetary Authority released a tentative schedule for HKSAR Government bond issuance in April through September under the Institutional Bond Issuance Programme. A 3-year HKD4.0 billion bond was issued on 13 April, a 5-year HKD2.5 billion bond was issued on 11 May, a 10-year HKD1.2 billion bond will be issued on 29 June, and a 15-year HKD0.6 billion bond will be issued on 7 September.

Table 2: 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 (USD billion)			
1.	The Hong Kong Mortgage Corporation	19.87	2.56	Yes	No	Finance
2.	The Link Finance (Cayman) 2009	9.46	1.22	No	No	Finance
3.	CLP Power Hong Kong Financing	9.11	1.18	No	No	Finance
4.	MTR Corporation (C.I.)	7.32	0.94	Yes	Yes	Transportation
5.	Sun Hung Kai Properties (Capital Market)	7.22	0.93	No	No	Real Estate
6.	HKCG (Finance)	6.68	0.86	No	No	Finance
7.	Swire Pacific	6.42	0.83	No	Yes	Diversified
8.	Hongkong Electric Finance	5.75	0.74	No	No	Finance
9.	Wharf Finance	5.05	0.65	No	No	Finance
10.	NWD (MTN)	4.51	0.58	No	Yes	Finance
11.	Wheelock Finance	4.04	0.52	No	No	Finance
12.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
13.	Urban Renewal Authority	3.30	0.43	Yes	No	Real Estate
14.	Swire Properties MTN Financing	3.00	0.39	No	No	Finance
15.	Emperor International Holdings	2.60	0.34	No	Yes	Real Estate
16.	Yue Xiu Property	2.30	0.30	No	No	Real Estate
17.	Chueng Kong Finance (MTN)	2.21	0.28	No	No	Finance
18.	Airport Authority Hong Kong	2.20	0.28	Yes	No	Transportation
19.	Tencent Holdings	2.20	0.28	No	Yes	Communications
20.	Bohai International Capital	2.00	0.26	No	No	Iron and Steel
21.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
22.	Hong Kong Science and Technology Parks	1.95	0.25	Yes	No	Real Estate
23.	Cathay Pacific MTN Financing	1.71	0.22	No	Yes	Finance
24.	Wharf Finance (No. 1)	1.70	0.22	No	No	Finance
25.	Hysan (MTN)	1.65	0.21	No	Yes	Real Estate
26.	Nan Fung Treasury	1.40	0.18	No	No	Real Estate
27.	Henderson Land MTN	1.31	0.17	No	Yes	Finance
28.	Cheung Kong Bond Securities (02)	1.19	0.15	No	No	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		699.62	90.27			
Top 30 as % of Total LCY Corporate Bonds		17.7%	17.7%			

LCY = local currency.

Notes:

1. Data as of end-March 2016.

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.

Table 3: Notable Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
The Hong Kong Mortgage Corporation		
3-year bond	0.00	0.78
MTR Corporation (C.I.)		
25-year bond	2.95	0.40
30-year bond	3.00	0.70
35-year bond	3.00	0.20
35-year bond	3.00	0.60
Hong Kong Electric Finance		
15-year bond	2.80	0.60
15-year bond	3.00	0.50
China Oceanwide International Finance		
3-year bond	8.50	0.50
Emperor International Holdings		
5-year bond	4.40	0.50
The Hong Kong Mortgage Corporation		
3-year bond	1.25	0.78

HKD = Hong Kong dollar, Q1 = first quarter.

Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.