

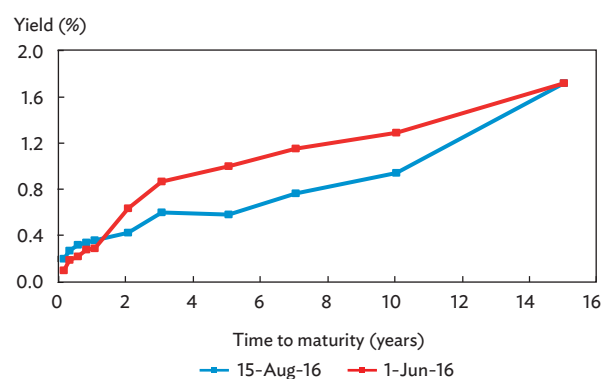
## Hong Kong, China

### Yield Movements

Hong Kong, China's Exchange Fund Bills and Notes yield curve, which generally tracks United States interest rate movements, shifted downward for most tenors between 1 June and 15 August. Yields for all tenors of 2 years or longer fell with the exception of the 15-year tenor, which remained unchanged. The largest decline was the yield for the 5-year tenor, which fell 42 basis points (bps). For tenors of 1 year or less, yields rose between 6 bps and 10 bps. The 2-year versus 10-year yield spread fell to 51 bps on 15 August from 65 bps on 1 June (**Figure 1**).

Hong Kong, China's economy somewhat stabilized in the second quarter (Q2) of 2016, with gross domestic product growing 1.7% year-on-year (y-o-y) after growing only 0.8% y-o-y in the prior quarter. The increase in economic growth in Q2 2016 was largely due to improvements in external demand. Domestic demand further weakened, with personal consumption expenditures rising 0.6% y-o-y in Q2 2016 versus 1.2% in the previous quarter. Exports of goods rose 2.0% y-o-y in Q2 2016 after a decline of 3.6% y-o-y in the prior quarter. The government's forecast for full-year 2016 remains unchanged at 1.0%–2.0%. Inflationary pressures remain subdued given low external inflation. Consumer price inflation continued its downward trend, with consumer prices rising 2.3% y-o-y in July from 2.4% y-o-y in June.

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



Source: Based on data from Bloomberg LP.

### Size and Composition

Hong Kong, China's local currency (LCY) bond market grew 6.6% quarter-on-quarter (q-o-q) and 15.2% y-o-y to reach HKD1,755 billion (USD226 billion) at the end of June (**Table 1**). The q-o-q growth was mostly driven by increases in Exchange Fund Bills (EFBs) and corporate bonds.

The outstanding amount of EFBs rose 7.3% q-o-q in Q2 2016 on a relatively high level of new issuance of HKD618 billion for the quarter.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2015		Q1 2016		Q2 2016		Q2 2015		Q2 2016	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>1,523</b>	<b>196</b>	<b>1,646</b>	<b>212</b>	<b>1,755</b>	<b>226</b>	(1.5)	2.0	6.6	15.2
Government	846	109	957	123	1,013	131	(1.3)	(0.4)	5.8	19.8
Exchange Fund Bills	689	89	800	103	859	111	0.4	0.7	7.3	24.6
Exchange Fund Notes	64	8	56	7	53	7	(4.1)	(5.9)	(5.3)	(16.3)
Government Bonds	93	12	101	13	101	13	(11.3)	(4.5)	0.0	8.5
Corporate	677	87	688	89	742	96	(1.6)	5.1	7.8	9.6

( ) = negative, HKD = Hong Kong dollar, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second 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.

The Hong Kong Monetary Authority (HKMA) issued EFBs in Q2 2016 to help mop up liquidity due to increased inflows into Hong Kong, China's stock market ahead of its linking with the Shenzhen Stock Exchange.

Exchange Fund Notes (EFNs) further declined in Q2 2016, falling 5.3% q-o-q and 16.3% y-o-y, as HKMA preferred instead to issue Hong Kong Special Administrative Region (HKSAR) government bonds. In Q2 2016, the amount of HKSAR government bonds was unchanged on a q-o-q basis but rose 8.5% y-o-y on increased issuance, including an HKD2.5 billion 5-year HKSAR government bond and an HKD1.2 billion 10-year HKSAR government bond under the Institutional Bond Programme. In addition, an HKD10.0 billion 3-year HKSAR government bond was issued under the Retail Bond Programme.

The amount of corporate bonds outstanding rose 7.8% q-o-q and 9.6% y-o-y in Q2 2016 as issuers took advantage of lower Hong Kong dollar interest rates.

The top 30 nonbank issuers in Hong Kong, China had outstanding LCY bonds amounting to HKD140.2 billion at the end of June, representing 18.9% 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 HKD29.39 billion. It was followed by the Link Finance (Cayman) 2009 with HKD8.9 billion of bonds outstanding and Sun Hung Kai Properties (Capital Market) with HKD8.85 billion. Among the top 30 nonbank issuers at the end of June, 6 were state-owned companies, and 8 were Hong Kong Exchange-listed firms.

The top 5 nonbank issuances in Q2 2016 came from Bestgain Real Estate Lyra, the Hong Kong Mortgage Corporation, Sun Hung Kai Properties (Capital Market), Hong Kong Electric Finance, and Swire Properties (**Table 3**).

## Policy, Institutional, and Regulatory Developments

### Hong Kong, China Issues Silver Bonds

On 10 August, Hong Kong, China issued HKD3 billion worth of Silver Bonds under the Retail Bond Issuance Programme. The bonds, which can only be subscribed to by Hong Kong, China residents aged 65 years or older, pay interest on a semiannual basis. The coupon is based on the average rate of consumer price inflation in Hong Kong, China for the past 6 months or 2%, whichever is higher.

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	29.39	3.79	Yes	No	Finance
2.	The Link Finance (Cayman) 2009	8.90	1.15	No	No	Finance
3.	Sun Hung Kai Properties (Capital Market)	8.85	1.14	No	No	Real Estate
4.	CLP Power Hong Kong Financing	8.46	1.09	No	No	Finance
5.	MTR Corporation (C.I.)	8.22	1.06	Yes	Yes	Transportation
6.	Hongkong Electric Finance	6.98	0.90	No	No	Finance
7.	HKCG (Finance)	6.94	0.89	No	No	Finance
8.	Swire Pacific	6.68	0.86	No	Yes	Diversified
9.	Wharf Finance	6.13	0.79	No	No	Finance
10.	NWD (MTN)	5.50	0.71	No	Yes	Finance
11.	Wheelock Finance	4.04	0.52	No	No	Finance
12.	Bestgain Real Estate Lyra	3.65	0.47	No	No	Real Estate
13.	Swire Properties MTN Financing	3.54	0.46	No	No	Finance
14.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
15.	Urban Renewal Authority	3.30	0.43	Yes	No	Real Estate
16.	Emperor International Holdings	2.75	0.35	No	Yes	Real Estate
17.	Yue Xiu Property	2.30	0.30	No	No	Real Estate
18.	Chueng Kong Finance (MTN)	2.21	0.28	No	No	Finance
19.	Tencent Holdings	2.20	0.28	No	Yes	Communications
20.	Airport Authority Hong Kong	2.05	0.26	Yes	No	Transportation
21.	Bohai International Capital	2.00	0.26	No	No	Iron and Steel
22.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
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	Finance
25.	Wharf Finance (No. 1)	1.44	0.19	No	No	Finance
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.	Cheung Kong Bond Securities (02)	1.00	0.13	No	No	Finance
30.	Dragon Drays	1.00	0.13	No	No	Diversified
<b>Total Top 30 Nonbank LCY Corporate Issuers</b>		<b>140.19</b>	<b>18.07</b>			
<b>Total LCY Corporate Bonds</b>		<b>742.00</b>	<b>95.63</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>18.9%</b>	<b>18.9%</b>			

LCY = local currency.

Notes:

1. Data as of end-June 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 Q2 2016**

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
The Hong Kong Mortgage Corporation		
1-year bond	0.92	2.00
1-year bond	0.81	0.74
1-year bond	0.92	0.68
1-year bond	0.80	0.50
1-year bond	0.92	0.50
2-year bond	1.21	1.00
3-year bond	1.44	1.00
Bestgain Real Estate Lyra		
3-year bond	2.50	3.65
Sun Hung Kai Properties (Capital Market)		
10-year bond	2.50	0.50
10-year bond	2.56	0.34
Swire Properties		
7-year bond	2.25	0.20
10-year bond	2.65	0.20
Hong Kong Electric Finance		
15-year bond	2.58	0.31

HKD = Hong Kong dollar, Q2 = second quarter.

Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.