

Hong Kong, China

Yield Movements

The local currency (LCY) government bond yield curve of Hong Kong, China, which follows United States (US) interest rate movements as a matter of monetary policy, rose for all tenors between 31 October and 18 November except for the 1-month and 3-month tenors. The largest yield movements were in the belly of the curve, with the yield for the 5-year tenor rising 50 basis points (bps) and the 3-year yield rising 41 bps (**Figure 1**). The shorter end of the curve showed much smaller movements, with the yield for tenors of 1-year and below rising 6–7 bps. The exceptions were the yield for the 1-month tenor, which fell 8 bps, and the yield for the 3-month tenor, which fell by 4 bps. All remaining tenors rose an average of 27 bps. The 2-year versus 10-year yield spread widened from 59 bps on 31 October to 69 bps on 18 November.

Yields in Hong Kong, China faced upward pressure due to expectations of a United States (US) Federal Reserve rate hike in December. Yields were pressured further following the result of the US presidential elections, with local yields tracking a rise in US yields on the prospect of the new administration bolstering economic growth.

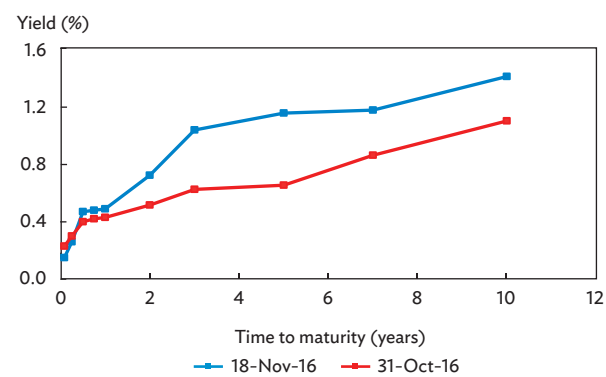
Inflation in Hong Kong, China has been steady and somewhat subdued. In September, inflation stood at 2.7% year-on-year (y-o-y), down from 4.3% y-o-y in August. The higher inflation rate in August was due to a low base effect driven by public rental subsidies offered by the government in 2015. The government has said that it does not expect a significant uptick in inflation in the future.

Hong Kong, China's gross domestic product grew 1.9% year-on-year (y-o-y) in the third quarter (Q3) of 2016, up from a 1.7% y-o-y expansion in the second quarter of 2016. The increase in the growth rate was driven by a recovery in investment and improved consumer spending.

Size and Composition

Outstanding LCY bonds in Hong Kong, China grew 6.4% quarter-on-quarter (q-o-q) and 20.4% year-on-year (y-o-y) to reach HKD1,867 billion (USD241 billion) at the

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



Source: Based on data from Bloomberg LP.

end of September (**Table 1**). Growth was driven mostly by increases in Exchange Fund Bills (EFBs) and corporate bonds.

EFBs rose 6.0% q-o-q and 28.0% y-o-y on higher issuances by the Hong Kong Monetary Authority (HKMA). In Q3 2016, total EFB issuance amounted to HKD698 billion from HKD618 billion in the prior quarter. The HKMA's strong issuance is in response to demand by banks for EFBs due to excess liquidity in the financial system.

Exchange Fund Notes (EFNs) continued to fall in Q3 2016, declining 4.1% q-o-q and 16.9% y-o-y, as the HKMA cancelled issuances of EFNs with tenors longer than 2 years, preferring instead to issue Hong Kong Special Administrative Region (HKSAR) bonds.

In Q3 2016, HKSAR bonds rose 4.8% q-o-q and 2.0% y-o-y to HKD105 billion. A total of HKD4.8 billion worth of bonds was issued in Q3 2016. An HKD1.2 billion 10-year bond and an HKD0.6 billion 15-year HKSAR bond were issued under the Institutional Bond Issuance Programme, while HKD3.0 billion worth of 3-year bonds was issued under the Retail Bond Issuance Programme.

The amount of corporate bonds outstanding rose 7.8% q-o-q and 18.5% y-o-y in Q3 2016 as issuers took advantage of lower Hong Kong dollar interest rates.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,551	200	1,755	226	1,867	241	1.9	2.9	6.4	20.4
Government	876	113	1,013	131	1,067	138	3.6	2.4	5.4	21.8
Exchange Fund Bills	712	92	859	111	911	117	3.2	4.1	6.0	28.0
Exchange Fund Notes	62	8	53	7	51	7	(3.4)	(9.9)	(4.1)	(16.9)
Government Bonds	103	13	101	13	105	14	11.4	(0.3)	4.8	2.0
Corporate	675	87	742	96	800	103	(0.3)	3.6	7.8	18.5

() = negative, HKD = Hong Kong dollar, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = first quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.

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 top 30 nonbank issuers in Hong Kong, China had outstanding LCY bonds amounting to HKD143.3 billion at the end of September, representing 17.9% of total corporate bonds outstanding. The top 30 list continued to be 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 HKD27.7 billion. It was followed by Sun Hung Kai Properties (Capital Market) with HKD9.7 billion of bonds outstanding and CLP Power Hong Kong Financing with HKD9.0 billion. Among the top 30 nonbank issuers at the end of September, 6 were state-owned companies and 9 were Hong Kong Exchange-listed firms.

The top five nonbank issuances in Q3 2016 came from Swire Pacific MTN Financing, Hong Kong Electric Finance, HKCG (Finance), Swire Properties MTN Financing, and CK Properties Finance (MTN) (**Table 3**).

Policy, Institutional, and Regulatory Developments

Hong Kong Monetary Authority Assigns Nine Offshore Renminbi Primary Liquidity Providers

On 27 October, the HKMA released the new list of offshore renminbi primary liquidity providers after expiration of the first set of liquidity providers. The list contains nine institutions: Agricultural Bank of China; Bank of Communications; Bank of China (Hong Kong, China); BNP Paribas; China Construction Bank (Asia); Citibank, N.A.; HSBC; Industrial and Commercial Bank of China (Asia); and Standard Chartered Bank (Hong Kong, China). The list adds two additional liquidity providers from the previous seven. The HKMA said that the expansion is part of efforts to strengthen the liquidity of the offshore renminbi bond market.

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	27.66	3.57	Yes	No	Finance
2.	Sun Hung Kai Properties (Capital Market)	9.65	1.24	No	No	Real Estate
3.	CLP Power Hong Kong Financing	8.96	1.15	No	No	Finance
4.	Swire Pacific	8.62	1.11	No	Yes	Diversified
5.	The Link Finance (Cayman) 2009	8.59	1.11	No	No	Finance
6.	Hongkong Electric Finance	8.59	1.11	No	No	Finance
7.	MTR Corporation (C.I.)	8.22	1.06	Yes	Yes	Transportation
8.	HKCG (Finance)	7.80	1.01	No	No	Finance
9.	Wharf Finance	6.13	0.79	No	No	Finance
10.	NWD (MTN)	5.50	0.71	No	Yes	Finance
11.	Swire Properties MTN Financing	4.34	0.56	No	No	Finance
12.	Wheelock Finance	4.04	0.52	No	No	Finance
13.	Bestgain Real Estate Lyra	3.65	0.47	No	No	Real Estate
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.	Tencent Holdings	2.20	0.28	No	Yes	Communications
19.	Bohai International Capital	2.00	0.26	No	No	Iron and Steel
20.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
21.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
22.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Finance
23.	Airport Authority Hong Kong	1.65	0.21	Yes	No	Transportation
24.	Chueng Kong Finance (MTN)	1.50	0.19	No	No	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.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
28.	Cheung Kong Bond Securities (02)	1.00	0.13	No	No	Finance
29.	Dragon Drays	1.00	0.13	No	No	Diversified
30.	K. Wah International Financial Services	1.00	0.13	No	Yes	Finance
Total Top 30 Nonbank LCY Corporate Issuers		143.26	18.47			
Total LCY Corporate Bonds		799.86	103.12			
Top 30 as % of Total LCY Corporate Bonds		17.9%	17.9%			

LCY = local currency.

Notes:

1. Data as of end-September 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 Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Swire Pacific MTN Financing		
5-year bond	2.05	0.50
5-year bond	1.99	0.50
5-year bond	1.95	0.30
10-year bond	2.59	0.14
12-year bond	2.60	0.30
Hong Kong Electric Finance		
12-year bond	2.55	0.35
14-year bond	2.57	0.47
15-year bond	2.56	0.50
20-year bond	2.90	0.30
HKCG (Finance)		
10-year bond	2.22	0.50
10-year bond	2.25	0.36
Swire Properties MTN Financing		
5-year bond	1.80	0.30
10-year bond	2.35	0.50
CK Properties Finance (MTN)		
10-year bond	2.29	0.75

HKD = Hong Kong dollar, Q3 = third quarter.

Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.