

Hong Kong, China

Yield Movements

The local currency (LCY) government bond yield curve of Hong Kong, China rose for all tenors between 1 June and 15 August (**Figure 1**). The yield curve also steepened, with longer-dated tenors rising at a much faster pace than yields with tenors of 1 year or less. Yields rose between 18 basis points (bps) and 26 bps for tenors longer than 1 year and between 4 bps and 12 bps for tenors of 1 year or less. As a result, the 2-year versus 10-year yield spread rose 6 bps from 68 bps to 75 bps between 1 June and 15 August.

The rise in Hong Kong, China's government bond yields tracked United States (US) interest rate movements due to the pegging of the Hong Kong dollar to the US dollar. On average, the US yield curve shifted upward by 7 bps from 1 June to 15 August, excluding the yield for the 30-year tenor, which fell 1 bp.

Better economic growth in Hong Kong, China also helped push yields up. Hong Kong, China's gross domestic product (GDP) rose 3.8% year-on-year (y-o-y) in the second quarter (Q2) of 2017 after a 4.3% y-o-y rise in the previous quarter. On a seasonally adjusted and quarter-on-quarter (q-o-q) basis, GDP growth accelerated to 1.0% in Q2 2017 from 0.7% in the first quarter (Q1) of 2017.

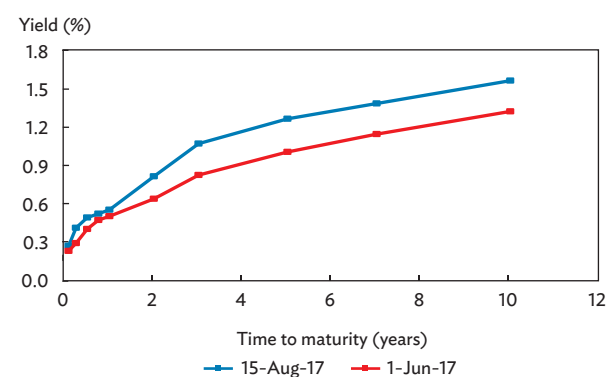
Hong Kong, China's GDP growth in Q2 2017 was driven by gains in domestic consumption, investment, and trade. Domestic consumption rose 5.3% y-o-y and investment rose 8.0%. Exports of goods also rose 5.6% y-o-y. Much of the growth in trade was due to demand from Asia, while trade demand from the US showed modest gains.

Hong Kong, China's inflation rate was also relatively stable at 2.0% y-o-y in July compared with 1.9% y-o-y in June.

Size and Composition

The outstanding LCY bonds of Hong Kong, China grew at a slower pace of 0.6% q-o-q in Q2 2017 versus 1.1% q-o-q in Q1 2017 to reach a total of HKD1,862 billion at the end of June (**Table 1**). On a y-o-y basis, LCY bonds rose 6.1%.

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



Source: Based on data from Bloomberg LP.

The growth in government bonds came mostly from Exchange Fund Bills (EFBs) and Hong Kong Special Administrative Region (HKSAR) bonds. EFBs grew 0.4% q-o-q and 7.4% y-o-y in Q2 2017, while HKSAR bonds grew 7.5% q-o-q and 10.2% y-o-y.

Exchange Fund Notes (EFNs) fell 6.5% q-o-q and 19.5% y-o-y as Hong Kong, China sought to align the EFB and EFN market with the HKSAR bond market by replacing longer-dated EFNs with HKSAR bond issuances. Currently, only 2-year HKSAR bonds are being issued.

The large rise in HKSAR bonds was due to increased issuances under both the Institutional and Retail Issuance Programmes. A total of HKD7.7 billion worth of HKSAR bonds was issued under the Institutional Bond Issuance Programme, including a HKD4.0 billion 3-year bond, a HKD2.5 billion 5-year bond, and a HKD1.2 billion 10-year bond. Under the Retail Bond Issuance, a HKD3.0 billion 3-year bond was issued.

The amount of corporate bonds outstanding rose 0.2% q-o-q and 5.9% y-o-y in Q2 2017. Hong Kong, China's top 30 nonbank issuers had outstanding LCY bonds amounting to HKD141 billion at the end of June, comprising 18.0% of total corporate bonds outstanding. A majority of the top 30 issuers comprised the financing vehicles of large Hong Kong, China companies (**Table 2**).

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2016		Q1 2017		Q2 2017		Q2 2016		Q2 2017	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,755	226	1,851.90	238	1,862	239	6.6	15.2	0.6	6.1
Government	1,013	131	1,068	137	1,076	138	5.8	19.8	0.8	6.3
Exchange Fund Bills	859	111	919	118	923	118	7.3	24.6	0.4	7.4
Exchange Fund Notes	53	7	46	6	43	6	(5.3)	(16.3)	(6.5)	(19.5)
HKSAR Bonds	101	13	103	13	111	14	0.0	8.5	7.5	10.2
Corporate	742	96	784	101	786	101	7.8	9.6	0.2	5.9

() = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, 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 LCY-USD rates are used.

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

Sources: Hong Kong Monetary Authority and Bloomberg LP.

The Hong Kong Mortgage Corporation remained the top issuer with outstanding bonds of HKD26.3 billion, followed by Sun Hung Kai Properties (Capital Market) with HKD10.1 billion of bonds outstanding and MTR Corporation (C.I.) with HKD8.9 billion. Among the top 30 nonbank issuers at the end of June, six were state-owned companies and eight were Hong Kong Exchange-listed firms.

Among the top five nonbank issuances in Q2 2017, the majority came from real estate-related entities, with the exception of MTR Corporation and Future Days. The remaining companies on the list are CK Property Finance (MTN), Sun Hung Kai Properties, and Swire Pacific MTN (Table 3).

Policy, Institutional, and Regulatory Developments

Hong Kong, China's Renminbi Quota for Institutional Investors Increased

In July, the Hong Kong Monetary Authority announced that the People's Republic of China's State Council approved an increase in Hong Kong, China's Renminbi Qualified Foreign Institutional Investor quota from CNY270 billion to CNY500 billion.

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	26.26	3.36	Yes	No	Finance
2.	Sun Hung Kai Properties (Capital Market)	10.11	1.29	No	No	Real Estate
3.	MTR Corporation (C.I.)	8.92	1.14	Yes	Yes	Transportation
4.	Swire Pacific	8.92	1.14	No	Yes	Diversified
5.	CLP Power Hong Kong Financing	7.81	1.00	No	No	Finance
6.	HKCG (Finance)	7.80	1.00	No	No	Finance
7.	The Link Finance (Cayman) 2009	7.79	1.00	No	No	Finance
8.	Hongkong Electric Finance	7.69	0.99	No	No	Finance
9.	NWD (MTN)	7.35	0.94	No	Yes	Finance
10.	Wharf Finance	5.73	0.73	No	No	Finance
11.	Swire Properties MTN Financing	5.70	0.73	No	No	Finance
12.	Vanke Real Estate (Hong Kong)	3.65	0.47	No	No	Real Estate
13.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
14.	Urban Renewal Authority	2.80	0.36	Yes	No	Real Estate
15.	Cathay Pacific MTN Financing	2.37	0.30	No	Yes	Finance
16.	Leading Affluence	2.30	0.29	No	No	Real Estate
17.	Tencent Holdings	2.20	0.28	No	Yes	Communications
18.	Bohai International Capital	2.00	0.26	No	No	Iron and Steel
19.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
20.	Wheelock Finance	2.00	0.26	No	No	Finance
21.	Emperor International Holdings	1.90	0.24	No	Yes	Real Estate
22.	CK Property Finance (MTN)	1.85	0.24	No	No	Finance
23.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
24.	Cheung Kong Finance (MTN)	1.50	0.19	No	No	Finance
25.	Airport Authority Hong Kong	1.45	0.19	Yes	No	Transportation
26.	Hysan (MTN)	1.40	0.18	No	Yes	Real Estate
27.	Wharf Finance (No. 1)	1.33	0.17	No	No	Finance
28.	Henderson Land MTN	1.19	0.15	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		141.10	18.07			
Total LCY Corporate Bonds		785.97	100.67			
Top 30 as % of Total LCY Corporate Bonds		17.95%	17.95%			

LCY = local currency.

Notes:

1. Data as of end-June 2017.

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 the Second Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
MTR Corporation		
5-year bond	1.88	0.80
10-year bond	2.95	0.63
CK Property Finance (MTN)		
10-year bond	3.00	1.10
Sun Hung Kai Properties		
10-year bond	2.68	0.46
10-year bond	2.70	0.51
Future Days		
10-year bond	3.30	0.70
Swire Pacific MTN		
10-year bond	2.70	0.30

HKD = Hong Kong dollar.

Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.