

## Hong Kong, China

### Yield Movements

Hong Kong, China's local currency (LCY) bond yield curve shifted upward for all tenors between 1 September and 31 October (**Figure 1**). The rise in yields was much larger at the short-end and the very long-end of the curve, with yields rising an average of 48 basis points (bps) for tenors of 3 years or less and an average of 40 bps for the 10-year and 15-year tenors. Yields rose an average of 13 bps for the 5-year and 7-year tenors. As a result, the 2-year versus 10-year yield spread rose to 81 bps on 31 October from 75 bps on 1 September.

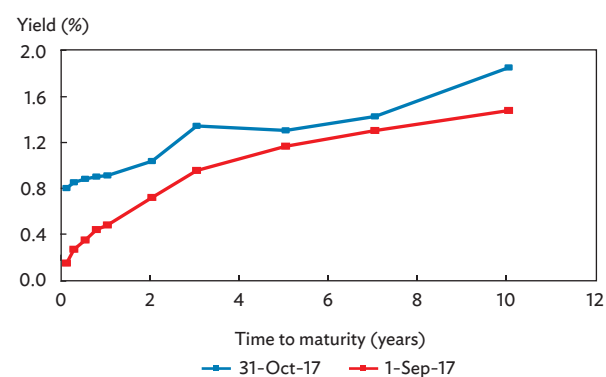
Hong Kong, China's government bond yield movements largely tracked rate movements in the United States (US) as the Hong Kong dollar is pegged to the US dollar.

Hong Kong, China's inflation has been relatively stable, largely due to a lack of cost pressures from both domestic and imported goods. The inflation rate fell to 1.4% year-on-year (y-o-y) in September from 1.9% y-o-y in August.

### Size and Composition

Hong Kong, China's outstanding LCY bonds rose 2.2% quarter-on-quarter (q-o-q) and 4.0% y-o-y to reach HKD1,904 billion (USD244 billion) at the end of the third quarter (Q3) of 2017 (**Table 1**). Growth accelerated from 0.6% q-o-q in the second quarter (Q2) of 2017.

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



Source: Based on data from Bloomberg LP.

The growth in outstanding bonds was largely driven by increases in Hong Kong, China's outstanding government bonds, which rose 3.7% q-o-q in Q3 2017 from 0.8% q-o-q in Q2 2017.

Among Hong Kong, China's government bonds, gains were noted in Exchange Fund Bills (EFBs). The q-o-q growth of 5.5% in EFBs was largely due to strong demand from financial institutions amid high interbank liquidity. The Hong Kong Monetary Authority issued additional EFBs in Q3 2017 beyond its original planned issuance in order to accommodate banks' liquidity.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2016		Q2 2017		Q3 2017		Q3 2016		Q3 2017	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>1,831</b>	<b>236</b>	<b>1,862</b>	<b>239</b>	<b>1,904</b>	<b>244</b>	<b>4.3</b>	<b>18.0</b>	<b>2.2</b>	<b>4.0</b>
Government	1,067	138	1,076	138	1,116	143	5.4	21.8	3.7	4.6
Exchange Fund Bills	911	117	923	118	974	125	6.0	28.0	5.5	6.9
Exchange Fund Notes	51	7	43	6	41	5	(4.1)	(16.9)	(5.1)	(20.3)
HKSAR Bonds	105	14	111	14	101	13	4.8	2.0	(8.5)	(3.8)
Corporate	764	98	786	101	788	101	2.9	13.1	0.2	3.2

( ) = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third 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.

Exchange Fund Notes (EFNs) and Hong Kong Special Administrative Region (HKSAR) bonds both registered q-o-q declines in Q3 2017. EFNs fell 5.1% q-o-q and HKSAR bonds fell 8.5% q-o-q. EFNs have declined owing to a lack of issuance as EFB issuance is now solely limited to the 2-year tenor.

HKSAR bonds declined in Q3 2017 as the government only issued a single 15-year HKSAR bond valued at HKD600 million under the Institutional Bond Issuance Programme.

The amount of corporate bonds outstanding rose 0.2% q-o-q and 3.2% y-o-y in Q3 2017. Hong Kong, China's top 30 nonbank issuers had outstanding LCY bonds amounting to HKD148.4 billion at the end of June, comprising 18.8% of total corporate bonds outstanding. A majority of the top 30 issuers were the financing vehicles of large Hong Kong, China-based companies (**Table 2**). The Hong Kong Mortgage Corporation remained the top issuer with outstanding bonds of HKD26.7 billion, followed by Sung Hung Kai Properties (Capital Market) with HKD12.4 billion and MTR Corporation (C.I.) with HKD10.0 billion. Among the top 30 nonbank issuers at the end of June, six were state-owned companies and six were Hong Kong Exchange-listed firms.

Among the top five nonbank issuances in Q3 2017, the majority came from the financing vehicles of a number of Hong Kong, China companies with the exception of MTR Corporation (**Table 3**).

## Ratings Update

S&P Global lowered Hong Kong, China's credit rating to AA+, citing Hong Kong, China's connections with the People's Republic of China as the reason for the downgrade.

## Policy, Institutional, and Regulatory Developments

### Hong Kong, China Includes US Dollar Bonds Issued by the People's Republic of China as Collateral for Renminbi Liquidity Facility

In November, the Hong Kong Monetary Authority declared that the USD-denominated bonds issued by the People's Republic of China in October will be allowable as collateral for the Renminbi Liquidity Facility that Hong Kong, China banks can tap as a source of renminbi liquidity.

Table 2: Top 30 Nonbank Corporate Issuers of Local Currency Corporate Bonds 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	26.7	3.4	Yes	No	Finance
2.	Sun Hung Kai Properties (Capital Market)	12.4	1.6	No	No	Real Estate
3.	MTR Corporation (C.I.)	10.0	1.3	Yes	Yes	Transportation
4.	Swire Pacific MTN Financing	8.9	1.1	No	No	Finance
5.	HKCG (Finance)	8.5	1.1	No	No	Finance
6.	CLP Power Hong Kong Financing	7.8	1.0	No	No	Finance
7.	The Link Finance (Cayman) 2009	7.8	1.0	No	No	Finance
8.	Hongkong Electric Finance	7.4	0.9	No	No	Finance
9.	NWD (MTN)	7.3	0.9	No	Yes	Finance
10.	Swire Properties MTN Financing	5.9	0.8	No	No	Finance
11.	Wharf Finance	5.7	0.7	No	No	Finance
12.	CK Property Finance (MTN)	4.2	0.5	No	No	Finance
13.	Vanke Real Estate (Hong Kong)	3.7	0.5	No	No	Real Estate
14.	Kowloon-Canton Railway	3.4	0.4	Yes	No	Transportation
15.	Urban Renewal Authority	2.8	0.4	Yes	No	Real Estate
16.	Cathay Pacific MTN Financing	2.4	0.3	No	Yes	Finance
17.	Leading Affluence	2.3	0.3	No	No	Real Estate
18.	Tencent Holdings	2.2	0.3	No	Yes	Communications
19.	Bohai International Capital	2.0	0.3	No	No	Iron and Steel
20.	China Energy Reserve and Chemicals Group Overseas	2.0	0.3	No	No	Oil
21.	Emperor International Holdings	1.9	0.2	No	Yes	Real Estate
22.	Hong Kong Science and Technology Parks	1.7	0.2	Yes	No	Real Estate
23.	Wheelock Finance	1.7	0.2	No	No	Finance
24.	Value Success International	1.5	0.2	No	No	Finance
25.	Cheung Kong Finance (MTN)	1.5	0.2	No	No	Finance
26.	Airport Authority Hong Kong	1.5	0.2	Yes	No	Transportation
27.	Hysan (MTN)	1.4	0.2	No	Yes	Real Estate
28.	Wharf Finance (No. 1)	1.3	0.2	No	No	Finance
29.	Nan Fung Treasury	1.3	0.2	No	No	Finance
30.	Henderson Land MTN	1.2	0.2	No	No	Finance
<b>Total Top 30 Nonbank LCY Corporate Issuers</b>		<b>148.4</b>	<b>19.0</b>			
<b>Total LCY Corporate Bonds</b>		<b>787.8</b>	<b>100.9</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>18.8%</b>	<b>18.8%</b>			

LCY = local currency.

Notes:

1. Data as of end-September 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 Third Quarter of 2017**

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
CK Property Finance (MTN)		
5-year bond	1.88	1.45
10-year bond	2.95	0.90
Sun Hung Kai Properties (Capital Market)		
7-year bond	2.55	0.35
7-year bond	2.55	0.30
7-year bond	2.50	0.30
10-year bond	2.68	0.38
10-year bond	2.70	0.36
10-year bond	2.65	0.30
10-year bond	2.70	0.30
MTR Corporation		
15-year bond	2.46	0.72
30-year bond	2.99	0.70
30-year bond	2.83	0.32
HKCD (Finance)		
10-year bond	2.65	0.70
Swire Properties MTN Financing		
7-year bond	2.55	0.20
8-year bond	2.60	0.20
10-year bond	2.65	0.20

HKD = Hong Kong dollar.

Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.