

## Hong Kong, China

### Yield Movements

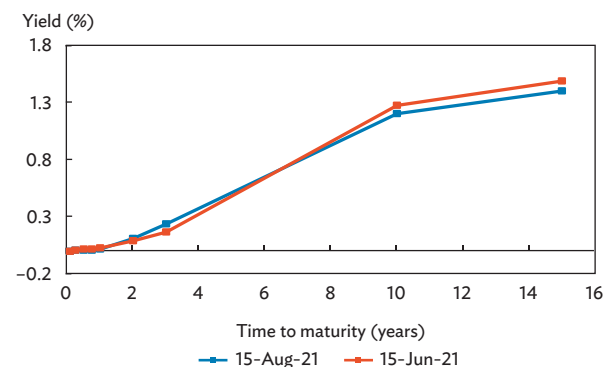
Hong Kong, China's local currency (LCY) bond yield curve exhibited mixed movements between 15 June and 15 August (**Figure 1**). The curve hardly moved at the shorter-end: yields were unchanged for bonds with maturities of 3 months or less, while yields dipped 1 basis point (bp) for bonds with maturities of between 6 months and 1 year. In contrast, the 2-year and 3-year tenors gained 2 bps and 7 bps, respectively. Yields fell an average of 8 bps for bonds with maturities of 10 years or more, shifting the curve slightly downward at the longer-end. On average, bond yields fell 1 bp across the curve. The spread between the 2-year and 10-year yields narrowed from 118 bps on 15 June to 109 bps on 15 August.

The yield movements of Hong Kong, China's LCY medium- to long-term government bonds broadly tracked the rate movements of the corresponding United States Treasuries during the review period. For both economies, risk-off sentiment drove long-term government bond yields down as the spread of the delta variant threatened the nascent economic recovery.

Hong Kong, China's inflation remained subdued as economic activities were still below pre-pandemic levels. Consumer price inflation accelerated to 3.7% year-on-year (y-o-y) in July from 0.7% y-o-y in June. The uptick in inflation in July was mainly due to a low base of comparison a year earlier, when a third wave of COVID-19 infections prompted government subsidies that drove prices down.

Hong Kong, China's gross domestic product expanded 7.6% y-o-y in the second quarter (Q2) of 2021 after rebounding to grow 8.0% y-o-y in the first quarter (Q1) of 2021. Consumption and investment demand gained momentum in Q2 2021 as the easing of social distancing measures revived consumer and investor sentiment. Private consumption rose 6.8% y-o-y in Q2 2021 versus 2.1% in Q1 2021. Investment growth jumped to 23.8% y-o-y in Q2 2021 from 4.8% y-o-y in the previous quarter. Exports of goods continued to be a main driver of economic growth, expanding 20.2% y-o-y in Q2 2021 after a 30.1% y-o-y rise in Q1 2021. Exports of services exhibited a modest recovery, rising 2.6% y-o-y in Q2 2021 after contracting 7.3% y-o-y in the prior quarter.

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



Source: Based on data from Bloomberg LP.

Hong Kong, China's track to economic recovery remains reliant on several factors, including the ongoing geopolitical tensions between the People's Republic of China and the United States, and the highly volatile trajectory of the global pandemic.

### Size and Composition

Hong Kong, China's outstanding LCY bonds totaled HKD2,426.9 billion (USD312.5 billion) at the end of June (**Table 1**). The LCY bond market contracted 0.8% quarter-on-quarter (q-o-q) in Q2 2021, reversing the 1.7% q-o-q gain in Q1 2021. The contraction in the stock of outstanding bonds was driven by a decline in the corporate bond segment that outpaced the growth in the government bond segment. Government bonds accounted for 50.1% of total LCY bonds outstanding at the end of June, up from 48.6% at the end of March. On a y-o-y basis, growth in Hong Kong, China's LCY bond market moderated to 7.0% in Q2 2021 from 8.4% in the previous quarter.

**Government bonds.** LCY government bonds outstanding reached HKD1,215.7 billion at the end of June, with growth accelerating to 2.4% q-o-q in Q2 2021 from 0.2% q-o-q in Q1 2021. The growth was driven primarily by a 23.6% q-o-q expansion of Hong Kong Special Administrative Region (HKSAR) bonds. The stock of Exchange Fund Bills (EFBs) inched up 0.1% q-o-q, while the stock of Exchange Fund Notes (EFNs) fell 3.2% q-o-q

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>2,269</b>	<b>293</b>	<b>2,446</b>	<b>315</b>	<b>2,427</b>	<b>313</b>	<b>0.6</b>	<b>(0.7)</b>	<b>(0.8)</b>	<b>7.0</b>
Government	1,156	149	1,187	153	1,216	157	(1.1)	(0.7)	2.4	5.1
Exchange Fund Bills	1,042	134	1,043	134	1,044	134	(1.7)	(0.003)	0.1	0.2
Exchange Fund Notes	26	3	25	3	24	3	(3.0)	(12.2)	(3.2)	(6.2)
HKSAR Bonds	89	11	119	15	147	19	6.4	(4.5)	23.6	66.4
Corporate	1,112	144	1,258	162	1,211	156	2.4	(0.8)	(3.7)	8.9

( ) = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, 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.

Source: Hong Kong Monetary Authority.

during the review period. On a y-o-y basis, growth in LCY government bonds outstanding quickened to 5.1% in Q2 2021 from 1.5% in Q1 2021.

Issuance of government bonds totaled HKD854.9 billion in Q2 2021 with the 4.5% q-o-q growth reversing the 5.6% q-o-q decline in the previous quarter. Strong issuance of HKSAR bonds largely drove the overall expansion in LCY government bond issuance.

**Exchange Fund Bills.** EFBs outstanding reached HKD1,044.2 billion at the end of June on growth of 0.1% q-o-q and 0.2% y-o-y. Issuance of EFBs totaled HKD825.5 billion in Q2 2021, rising 1.4% q-o-q.

**Exchange Fund Notes.** Since 2015, the Hong Kong Monetary Authority (HKMA) has limited its issuance of EFNs to 2-year tenors. In May, the HKMA issued 2-year EFNs worth HKD1.2 billion. Due to maturities, outstanding EFNs declined 3.2% q-o-q in Q2 2020, amounting to HKD24.2 billion at the end of June.

**HKSAR bonds.** Due to strong issuance, HKSAR bonds outstanding expanded 23.6% q-o-q in Q2 2021 to reach HKD147.3 billion at the end of June. The government issued a 4-year bond worth HKD4.0 billion in April, a 5-year bond worth HKD2.5 billion in May, and a 10-year bond worth HKD1.7 billion in June under the Institutional Bond Issuance Programme. The government also issued HKD20.0 billion of 3-year, inflation-linked retail bonds in June. On a y-o-y basis, HKSAR bonds outstanding expanded 66.4% in Q2 2021, up from 43.2% in the previous quarter.

**Corporate bonds.** Corporate bonds outstanding reached HKD1,211.2 billion at the end of June after a 3.7% q-o-q drop in Q2 2021 due to maturities and a decline in issuance. On a y-o-y basis, growth in the outstanding stock of corporate bonds moderated to 8.9% in Q2 2021 from 15.9% in Q1 2021.

Hong Kong, China's top 30 nonbank issuers had a combined HKD290.9 billion of bonds outstanding at the end of Q2 2021, accounting for 24.0% of the total LCY corporate bond market (**Table 2**). Hong Kong Mortgage Corporation remained the top issuer with HKD64.9 billion of bonds outstanding at the end of June. Sun Hung Kai & Co. and Hong Kong and China Gas Company were the next largest issuers with outstanding bond of HKD19.1 billion and HKD17.9 billion, respectively. The top 30 issuers were predominantly finance and real estate companies. A majority of the top 30 issuers were listed in the Hong Kong Stock Exchange and only three were government-owned corporations.

Issuance of corporate debt totaled HKD233.6 billion at the end of June. Issuance contracted 20.8% q-o-q in Q2 2021 as uncertainties about the negative impacts of new COVID-19 variants tempered demand for corporate debt.

**Table 3** lists the largest corporate issuers in Q2 2021. Hong Kong Mortgage Corporation was the largest issuer with an aggregate HKD15.7 billion from 45 issuances, the largest of which was a 2.5-year bond worth HKD1.0 billion. The next largest issuer was CK Asset Holdings, which raised HKD3.8 billion from an issuance

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.	Hong Kong Mortgage Corporation	64.9	8.4	Yes	No	Finance
2.	Sun Hung Kai & Co.	19.1	2.5	No	Yes	Finance
3.	The Hong Kong and China Gas Company	17.9	2.3	No	Yes	Utilities
4.	New World Development	16.0	2.1	No	Yes	Diversified
5.	Link Holdings	12.9	1.7	No	Yes	Finance
6.	MTR	12.5	1.6	Yes	Yes	Transportation
7.	Hong Kong Land	12.5	1.6	No	No	Real Estate
8.	Hang Lung Properties	12.4	1.6	No	Yes	Real Estate
9.	Henderson Land Development	12.0	1.5	No	Yes	Real Estate
10.	Swire Pacific	11.6	1.5	No	Yes	Diversified
11.	CK Asset Holdings	10.0	1.3	No	Yes	Real Estate
12.	The Wharf Holdings	9.4	1.2	No	Yes	Finance
13.	Cathay Pacific	9.3	1.2	No	Yes	Transportation
14.	Airport Authority Hong Kong	8.9	1.1	Yes	No	Transportation
15.	Hong Kong Electric	8.5	1.1	No	No	Utilities
16.	CLP Power Hong Kong Financing	7.7	1.0	No	No	Finance
17.	Guotai Junan International Holdings	7.7	1.0	No	Yes	Finance
18.	Swire Properties	7.6	1.0	No	Yes	Diversified
19.	Hysan Development Corporation	5.7	0.7	No	Yes	Real Estate
20.	Future Days	4.2	0.5	No	No	Transportation
21.	Lethai Group	3.0	0.4	No	Yes	Real Estate
22.	AIA Group	2.4	0.3	No	Yes	Insurance
23.	China Dynamics Holdings	2.4	0.3	No	Yes	Diversified
24.	Champion REIT	2.3	0.3	No	Yes	Real Estate
25.	The 13 Holdings	2.2	0.3	No	Yes	Industrial
26.	IFC Development	2.0	0.3	No	No	Finance
27.	Nan Fung	1.8	0.2	No	No	Real Estate
28.	Wheelock and Company	1.5	0.2	No	Yes	Real Estate
29.	Emperor International Holdings	1.4	0.2	No	Yes	Real Estate
30.	Innovative Pharmaceutical Biotech	1.3	0.2	No	Yes	Health Care
<b>Total Top 30 Nonbank LCY Corporate Issuers</b>		<b>290.9</b>	<b>37.5</b>			
<b>Total LCY Corporate Bonds</b>		<b>1,211.2</b>	<b>156.0</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>24.0%</b>	<b>24.0%</b>			

HKD = Hong Kong dollar, LCY = local currency, REIT = real estate investment trust, USD = United States dollar.

Notes:

1. Data as of 30 June 2021.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

of a 3-year bond with a 0.62% coupon. Other notable issuers in Q2 2021 included New World Development, Sun Hung Kai & Co., MTR, and Guotai Junan International Holdings. The longest tenor issued during the quarter was a 30-year bond from New World Development.

## Policy, Institutional, and Regulatory Developments

### Hong Kong Monetary Authority Holds Countercyclical Capital Buffer at 1.0%

On 5 August, the HKMA announced that the countercyclical buffer (CCyB) would remain unchanged at 1.0%. The HKMA noted that while there have been initial signs of recovery, the economy continued to face uncertainties driven by the global pandemic. Thus, holding the CCyB steady and monitoring the economic situation for a few more quarters was deemed more appropriate. The CCyB is an integral part of the Basel III regulatory capital framework designed to increase the resilience of the banking sector during periods of excess credit growth. A lower CCyB releases additional liquidity into the banking system by raising banks' lending capacity to support the economy.

**Table 3: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2021**

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Hong Kong Mortgage Corporation <sup>a</sup>		
9-month bond	zero	1.00
9-month bond	zero	1.00
1-year bond	0.27	0.70
2.5-year bond	0.70	1.00
3-year bond	0.80	0.70
5-year bond	0.42	0.92
5-year bond	1.07	0.40
10-year bond	1.71	0.30
CK Asset Holdings		
3-year bond	0.62	3.79
New World Development		
10-year bond	3.95	0.78
30-year bond	4.79	1.00
Sun Hung Kai & Co.		
3-year bond	0.70	0.70
7-year bond	1.90	0.80
MTR		
1-year bond	0.19	1.00
Guotai Junan International Holdings <sup>a</sup>		
1-year bond	0.60	0.30
1-year bond	0.80	0.25

HKD = Hong Kong dollar.

<sup>a</sup> Multiple issuance of the same tenor indicates issuance on different dates.

Source: Bloomberg LP.