

## Hong Kong, China

### Yield Movements

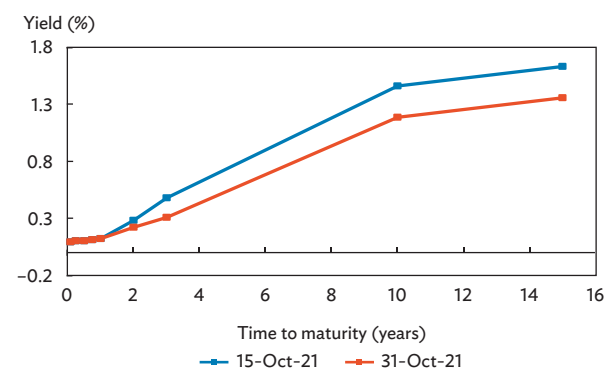
Between 31 August and 15 October, the local currency (LCY) government bond yield curve in Hong Kong, China remained unchanged at the shorter-end but shifted upward for tenors longer than 1 year (**Figure 1**). Yields for bonds with maturities of 1 year or less held steady, while yields for those with maturities longer than 1 year gained an average of 20 basis points (bps). The 10-year and 15-year tenors showed the most gain in yields, with both climbing 29 bps. The spread between the 2-year and the 10-year bond yields widened to 124 bps on 15 October from 101 bps on 31 August.

Hong Kong, China's LCY bond yield movements largely tracked the rate movements of United States (US) Treasuries during the review period as the Hong Kong dollar is pegged to the US dollar. The US bond yield curve shifted upward during the review period, with yields rising an average of 16 bps across all tenors. The rise was driven by inflation fears as supply chain bottlenecks generated upward pressure on prices. As widely expected, the US Federal Reserve announced that they will begin to taper bond purchases in November.

Hong Kong, China's consumer price inflation remained moderate, rising 1.4% year-on-year (y-o-y) in September after a 1.6% y-o-y increase in August. The underlying inflation rate, which nets out the effects of the government's relief measures on prices, also eased to 1.0% in September from 1.2% in August. The Census and Statistics Department expects that inflationary pressures would rise in the near term as the economic recovery continues but projects the underlying consumer inflation to remain modest if economic activities continue to fall short of pre-pandemic levels.

Hong Kong, China's gross domestic product rose 5.4% y-o-y in the third quarter (Q3) of 2021, following 7.6% y-o-y growth in the second quarter (Q2). The growth moderation in Q3 2021 was largely due to base effects and the stronger-than-expected economic expansion in the first half of the year. Robust external and domestic demand underpinned the growth in Q3 2021, with merchandise exports rising 14.2% y-o-y

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



Source: Based on data from Bloomberg LP.

and private consumption expanding 7.1% y-o-y. Hong Kong, China's growth outlook continues to face several risk factors, including uncertainties over the track of major central banks' monetary policies and the continuing geopolitical tensions between the US and the People's Republic of China (PRC).

### Size and Composition

Hong Kong, China's outstanding LCY bonds amounted to HKD2,428.6 billion (USD311.9 billion) at the end of September (**Table 1**). The LCY bond market posted a 0.1% quarter-on-quarter (q-o-q) rise in Q3 2021 after an 0.8% q-o-q drop in Q2 2021. The tepid growth in Hong Kong, China's LCY bond market in Q3 2021 was driven by a contraction in the corporate bond segment. On an annual basis, the LCY bond market expanded 6.1% y-o-y in Q3 2021, down from 7.0% y-o-y in the previous quarter. Hong Kong, China's LCY bond market was split almost evenly between government and corporate bonds, with government bonds comprising 51.6% of the total at the end of September.

**Government bonds.** LCY government bonds outstanding totaled HKD1,252.2 billion at the end of September on growth of 3.0% q-o-q and 8.2% y-o-y. The q-o-q growth in Q3 2021 was driven by expansions in the outstanding stock of Exchange Fund Bills (EFBs) and Hong Kong

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2020		Q2 2021		Q3 2021		Q3 2020		Q3 2021	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>2,288</b>	<b>295</b>	<b>2,427</b>	<b>313</b>	<b>2,429</b>	<b>312</b>	<b>0.9</b>	<b>1.0</b>	<b>0.1</b>	<b>6.1</b>
Government	1,158	149	1,216	157	1,252	161	0.1	(1.1)	3.0	8.2
Exchange Fund Bills	1,042	134	1,044	134	1,064	137	0.03	(0.6)	1.9	2.1
Exchange Fund Notes	26	3	24	3	24	3	0.0	(9.2)	0.0	(6.2)
HKSAR Bonds	90	12	147	19	164	21	1.1	(4.4)	11.1	82.8
Corporate	1,130	146	1,211	156	1,176	151	1.6	3.3	(2.9)	4.1

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

Special Administrative Region (HKSAR) bonds, as the stock of Exchange Fund Notes (EFNs) remained steady during the quarter.

Issuance of government bonds amounted to HKD882.7 billion in Q3 2021 with growth easing to 3.2% q-o-q in Q3 2021 from 4.5% q-o-q in the prior quarter. The growth in issuance of LCY government bonds in Q3 2021 stemmed largely from strong issuance of EFBs.

**Exchange Fund Bills.** EFBs outstanding totaled HKD1,064.3 billion at the end of September on growth of 1.9% q-o-q and 2.1% y-o-y. EFBs accounted for 85.0% of total LCY government bonds at the end of September. Issuance of EFBs reached HKD850.5 billion in Q3 2021. Issuance growth more than doubled, rising 3.0% q-o-q in Q3 2021 from 1.4% q-o-q in Q2 2021. To absorb excess liquidity in the financial system, the Hong Kong Monetary Authority (HKMA) increased the issuance size of 91-day EFBs in September by a total of HKD20.0 million during the quarter.

**Exchange Fund Notes.** Outstanding EFNs amounted to HKD24.2 billion at the end of September. Since 2015, the HKMA has limited its issuance of EFNs to 2-year tenors. In August, the HKMA issued 2-year EFNs worth HKD1.2 billion. Due to maturities, outstanding EFNs posted zero q-o-q growth in Q3 2021. On a y-o-y basis, outstanding EFNs contracted 6.2% in Q3 2021. EFNs comprised 1.9% of total LCY government bonds at the end of September.

**HKSAR bonds.** HKSAR bonds outstanding reached HKD163.7 billion at the end of September on growth of 11.1% q-o-q and 82.8% y-o-y due to strong issuance. HKSAR bond issuance rose 9.9% q-o-q in Q3 2021. In August, the government issued HKD30.0 billion worth of 3-year Silver Bonds, which are bonds intended for senior citizens. The issuance received strong demand as the eligible age for subscription was lowered to 60 from 65. The government also issued HKD1.0 billion worth of 15-year HKSAR bonds in September. Outstanding HKSAR bonds accounted for 13.1% of total LCY government bonds at the end of Q3 2021.

**Corporate bonds.** Corporate bonds outstanding amounted to HKD1,176.4 billion at the end of September after a 2.9% q-o-q contraction in Q3 2021 due to maturities and a drop in issuance. On an annual basis, growth in LCY corporate bonds outstanding moderated to 4.1% y-o-y in Q3 2021 from 8.9% y-o-y in Q2 2021.

LCY bonds outstanding of Hong Kong, China's top 30 nonbank issuers totaled HKD300.6 billion at the end of Q3 2021, accounting for 25.6% of the total LCY corporate bond market (Table 2). Hong Kong Mortgage Corporation, Sung Hung Kai & Co., and The Hong Kong and China Gas Company continued to top the list, with outstanding bonds of HKD69.9 billion, HKD20.9 billion, and HKD18.0 billion, respectively. The top 30 issuers were predominantly finance and real estate companies. Finance firms' outstanding bonds accounted for 44.9% of the total bonds outstanding of the top 30 nonbank issuers, while real estate firms represented a 21.3% share. Among the

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	69.9	9.0	Yes	No	Finance
2. Sun Hung Kai & Co.	20.9	2.7	No	Yes	Finance
3. The Hong Kong and China Gas Company	18.0	2.3	No	Yes	Utilities
4. New World Development	16.0	2.0	No	Yes	Diversified
5. Hang Lung Properties	13.2	1.7	No	Yes	Real Estate
6. Hong Kong Land	12.9	1.7	No	No	Real Estate
7. Link Holdings	12.7	1.6	No	Yes	Finance
8. MTR	12.3	1.6	Yes	Yes	Transportation
9. Henderson Land Development	12.0	1.5	No	Yes	Real Estate
10. Swire Pacific	10.3	1.3	No	Yes	Diversified
11. CK Asset Holdings	10.0	1.3	No	Yes	Real Estate
12. The Wharf Holdings	9.7	1.2	No	Yes	Finance
13. Guotai Junan International Holdings	9.1	1.2	No	Yes	Finance
14. Cathay Pacific	9.0	1.1	No	Yes	Transportation
15. Airport Authority	8.9	1.1	Yes	No	Transportation
16. Hongkong Electric	8.5	1.1	No	No	Utilities
17. CLP Power Hong Kong Financing	7.4	1.0	No	No	Finance
18. Swire Properties	7.3	0.9	No	Yes	Diversified
19. Hysan Development Corporation	6.1	0.8	No	Yes	Real Estate
20. Future Days	4.2	0.5	No	No	Transportation
21. Haitong International	3.3	0.4	No	Yes	Finance
22. Lerthai Group	3.0	0.4	No	Yes	Real Estate
23. AIA Group	2.4	0.3	No	Yes	Insurance
24. Ev Dynamics Holdings	2.4	0.3	No	Yes	Diversified
25. Champion REIT	2.3	0.3	No	Yes	Real Estate
26. South Shore Holdings	2.2	0.3	No	Yes	Industrial
27. IFC Development	2.0	0.3	No	No	Finance
28. Nan Fung	1.8	0.2	No	No	Real Estate
29. Wheelock and Company	1.5	0.2	No	Yes	Real Estate
30. Emperor International Holdings	1.4	0.2	No	Yes	Real Estate
<b>Total Top 30 Nonbank LCY Corporate Issuers</b>	<b>300.6</b>	<b>38.6</b>			
<b>Total LCY Corporate Bonds</b>	<b>1,176.4</b>	<b>151.1</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>	<b>25.6%</b>	<b>25.6%</b>			

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

Notes:

1. Data as of 30 September 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.

top 30 issuers, only three were government-owned while a majority were listed on the Hong Kong Stock Exchange.

Issuance of corporate debt amounted to HKD196.7 billion at the end of September. Issuance contracted 15.8% q-o-q in Q3 2021 as uncertainties regarding the trajectory of the pandemic and economic recovery continued to dampen demand for corporate debt.

**Table 3** shows the largest corporate issuers in Q3 2021. Hong Kong Mortgage Corporation was the largest issuer with an aggregate HKD12.5 billion from 36 issuances, including a 1-year bond worth HKD1.0 billion. The longest tenor issued by Hong Kong Mortgage Corporation was a 7-year bond with a 0.40% coupon worth HKD0.2 billion. The next largest issuer was Haitong International, which raised HKD3.2 billion from seven issuances of bonds with maturities ranging from 3 months to 1 year. The next largest issuers during the quarter were Guotai Junan International, Sun Hung Kai & Co., and Henderson Land. Hong Kong Land's 10-year bond with a 1.96% coupon worth HKD0.4 billion was the longest tenor issued during the quarter.

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

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Hong Kong Mortgage Corporation		
1-year bond	0.29	1.00
2-year bond	0.42	0.26
3-year bond	0.71	0.48
7-year bond	0.40	0.20
Haitong International		
3-month bond	0.40	0.30
6-month bond	0.60	0.80
1-year bond	0.70	0.25
Guotai Junan International Holdings		
6-month bond	0.50	0.80
1-year bond	0.85	0.50
Sun Hung Kai & Co.		
3-year bond	0.82	0.60
7-year bond	1.87	0.39
Henderson Land		
2-year bond	1.00	0.30
3-year bond	1.20	0.40
Hong Kong Land		
10-year bond	1.96	0.38

HKD = Hong Kong dollar.  
Source: Bloomberg LP.

## Policy, Institutional, and Regulatory Developments

### People's Bank of China and Hong Kong Monetary Authority Launch Southbound Bond Connect

On 24 September, the People's Bank of China and the HKMA announced the launch of southbound trading under the Bond Connect platform. The arrangement allows financial institutions in the PRC to invest in Hong Kong, China's bond market. The scheme followed the launch of Northbound Bond Connect 4 years earlier, which provided overseas investors access to the PRC's bond market. Southbound Connect featured an initial daily quota of CNY20 billion (HKD24 billion) and an annual quota of CNY500 billion (HKD600 billion). All bonds traded in Hong Kong, China's bond market were included in the scheme. The HKMA noted that Southbound Bond Connect will help drive the development of Hong Kong, China's bond market and enhance the connection between the financial infrastructures of the PRC and Hong Kong, China.

### Hong Kong Monetary Authority Increases Issuance of Exchange Fund Bills

To meet the rise in demand for EFBs amid excess liquidity in the financial system, the HKMA increased its issuance of 91-day EFBs starting in September. The HKMA increased the planned issuance size of 91-day EFBs by HKD5 billion in each of the tenders scheduled from 7 September to 21 December. The HKMA will monitor market conditions during the period and maintain the flexibility of adjusting or not executing the increases if deemed necessary.

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

On 28 October, the HKMA held the countercyclical capital buffer ratio (CCyB) at 1.0%. The HKMA noted that despite its nascent recovery, the domestic economy still faces significant risks due to the global pandemic. The latest economic data as of Q2 2021 signaled a CCyB of 2.25%, but the HKMA decided to hold a lower CCyB at 1.0% to support economic recovery amid lingering uncertainties. The CCyB is an integral part of the Basel III regulatory capital framework intended to improve the resilience of the banking sector.