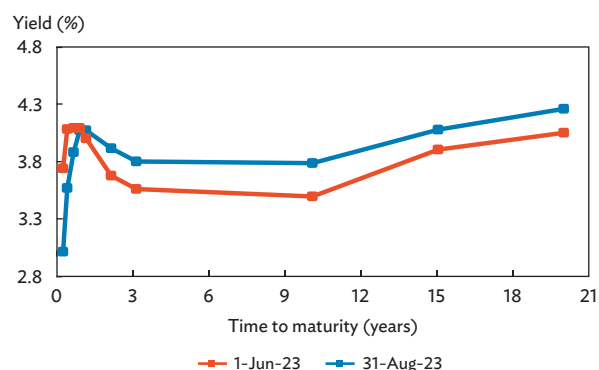


# Hong Kong, China

## Yield Movements

Between 1 June and 31 August, Hong Kong, China’s local currency (LCY) bond yields showed mixed movements (Figure 1). Yields fell for bonds with maturities of less than 1 year, but rose for bonds with maturities of 1 year or longer. The decline in short-term yields was influenced by market expectations of a pause in the United States (US) Federal Reserve’s rate hikes at its upcoming September meeting amid easing inflation in the US. Consumer price inflation in Hong Kong, China also decelerated to 1.8% year-on-year (y-o-y) in July from 1.9% y-o-y in June and 2.0% y-o-y in May. Meanwhile, the rise in yields for medium- to longer-term bonds was mostly driven by elevated interest rates due to the Federal Reserve’s previous monetary policy tightening and the Hong Kong Monetary Authority’s (HKMA) consequent rate hikes. The HKMA raised its base rate by 25 bps to a record high of 5.75% on 27 July after the Federal Reserve raised interest rates by 25 bps to a range of 5.25%–5.50% during its 25–26 July meeting. The HKMA adjusts its base rate in lockstep with Federal Reserve monetary policy changes to maintain the Hong Kong dollar’s peg to the US dollar.

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

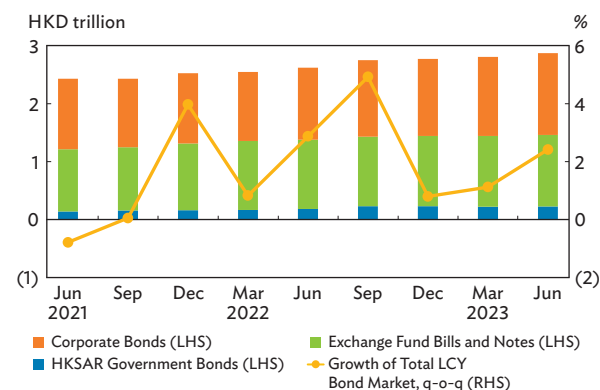


Source: Based on data from Bloomberg LP.

## Local Currency Bond Market Size and Issuance

Hong Kong, China’s LCY bond market reached a size of HKD2.9 trillion at the end of June (Figure 2). Growth in Hong Kong, China’s LCY bond market picked up 2.4% quarter-on-quarter (q-o-q) in the second quarter (Q2) of 2023, driven in part by a rebound in the issuance of Hong Kong Special Administrative Region (HKSAR) government bonds. LCY corporate bonds outstanding totaled HKD1.4 trillion at the end of June, representing nearly half of total outstanding LCY bonds. Outstanding Exchange Fund Bills and Exchange Fund Notes (HKD1.2 trillion) and HKSAR government bonds (HKD234.5 billion) comprised the remaining 42.8% and 8.2%, respectively, of Hong Kong, China’s LCY bond market.

**Figure 2: Composition of Local Currency Bonds Outstanding in Hong Kong, China**

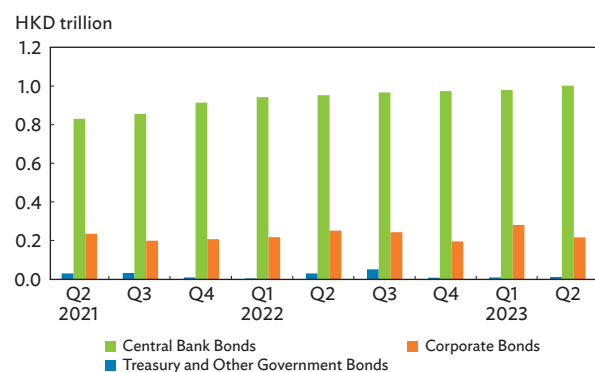


( ) = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Source: Hong Kong Monetary Authority.

**Issuance of LCY bonds in Hong Kong, China contracted in Q2 2023, driven by a decline in corporate debt issuance (Figure 3).** Issuance of new corporate bonds fell 22.9% q-o-q to HKD214.3 billion in Q2 2023 amid elevated borrowing costs. Hong Kong Mortgage Corporation continued to be the largest nonbank issuer of LCY corporate bonds, with total issuances worth HKD17.9 billion in Q2 2023. Meanwhile, new issuance of HKSAR government bonds tallied HKD9.5 billion in Q2 2023, up 21.8% from Q1 2023 due to a relatively large issuance (HKD5.0 billion) of 3-year bonds in April.

**Figure 3: Composition of Local Currency Bond Issuance in Hong Kong, China**

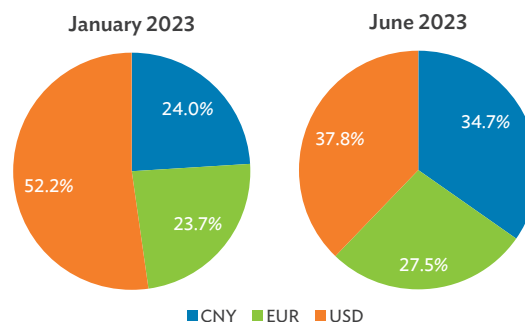


HKD = Hong Kong dollar, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Source: Hong Kong Monetary Authority.

**Hong Kong, China raised USD6.0 billion worth of multicurrency green bonds in June.** The issuance—denominated in US dollars, euros, and Chinese yuan—met strong demand with almost USD30 billion equivalent in orders. Increased access through Southbound Bond Connect supported significant participation from international investors. The triple-currency issuance comprised USD2.3 billion, EUR1.5 billion, and CNY15.0 billion worth of bonds with maturities of 2–10 years. Compared to a similar triple-currency green bond issuance in January, the June green bond issuance had a larger share of CNY-denominated bonds, as the Chinese yuan tranche was expanded to include a 10-year green bond to cater to investor demand and extend the offshore Chinese yuan yield curve (Figure 4). Hong Kong, China continues to develop its green bond portfolio to promote sustainable finance.

**Figure 4: Currency Breakdown of Institutional Green Bond Issuance in Hong Kong, China**



CNY = Chinese yuan, EUR = euro, USD = United States dollar.

Note: Figures were computed based on 30 June 2023 currency exchange rates and do not include currency effects.

Source: AsianBondsOnline calculations based on Hong Kong Monetary Authority data.