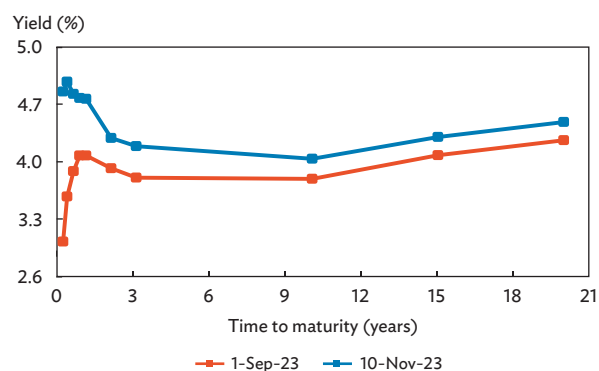


Hong Kong, China

Yield Movements

Between 1 September and 10 November, local currency (LCY) government bond yields in Hong Kong, China rose across all tenors (Figure 1). The average yield increase was 70 basis points, with more pronounced increases for short-term bonds. The rise in yields was primarily driven by expectations that the United States Federal Reserve will maintain higher interest rates longer than previously expected as well as growing uncertainty stemming from the impacts on the domestic economy of a global economic slowdown and geopolitical tensions.

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

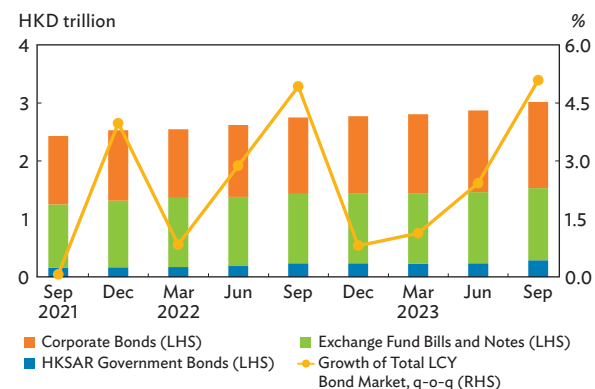


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

LCY bonds outstanding in Hong Kong, China expanded to HKD3.0 trillion at the end of September, posting 5.1% quarter-on-quarter (q-o-q) growth. This was driven by the increase in both government and corporate outstanding bonds (Figure 2). Hong Kong Special Administrative Region (HKSAR) bonds outstanding reached HKD0.3 trillion, growing by 23.2% q-o-q due to a large issuance of retail government bonds in the third quarter (Q3) of 2023. Meanwhile, the LCY corporate bonds outstanding rose 5.6% q-o-q to reach HKD1.5 trillion, and they maintained a share of nearly half of Hong Kong, China's total LCY bond market. Exchange Fund Bills and Exchange Fund Notes (HKD1.2 trillion) comprised 41.1% of total outstanding LCY bonds at the end of September, while HKSAR bonds accounted for the remaining 9.6% share.

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

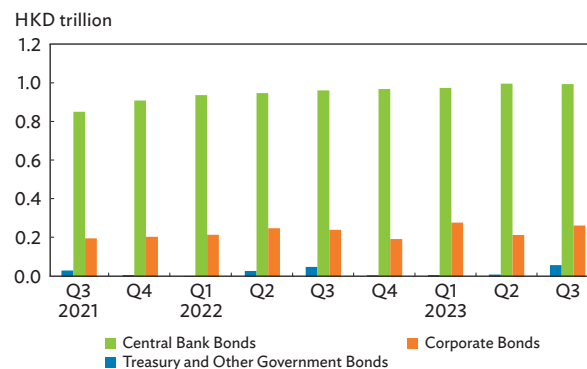


HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Source: Hong Kong Monetary Authority.

LCY bond issuance in Hong Kong, China picked up in Q3 2023 due largely to a rebound in corporate bond sales (Figure 3). Total bond issuance registered HKD1.3 trillion in Q3 2023, up 7.8% from the previous quarter. Corporate debt sales recovered, rising 22.9% q-o-q to HKD263.3 billion due to improved investor sentiment amid sustained economic growth. Hong Kong Mortgage Corporation was the top nonbank corporate issuer during the quarter with total issuance amounting to HKD14.7 billion. Meanwhile, HKSAR bond issuance jumped to HKD58.5 billion in Q3 2023 from HKD9.5 billion in the previous quarter, driven primarily by a HKD55.0 billion Silver Bond issuance in August.¹⁰ Issuance of Exchange Fund Bills and Exchange Fund Notes totaled HKD994.6 billion in Q3 2023, down 0.3% from the previous quarter.

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.

¹⁰ Silver Bonds are 3-year inflation-linked government bonds intended for purchase by citizens 60 years and older.