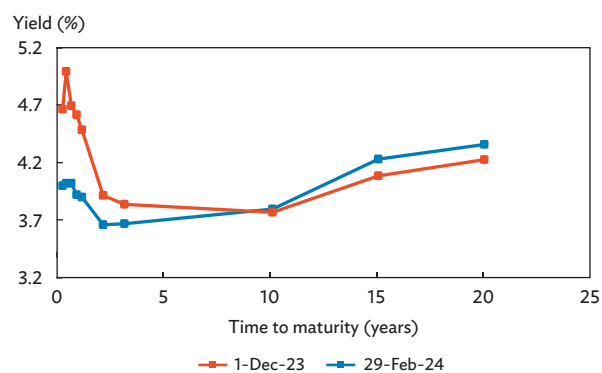


Hong Kong, China

Yield Movements

Local currency (LCY) government bond yields in Hong Kong, China fell for most tenors between 1 December 2023 and 29 February 2024, driven primarily by expectations that the Federal Reserve would cut its policy rate during the second half of the year (Figure 1). Bond yields declined by an average of 58 basis points for bonds with short-term maturities but rose an average of 10 basis points for 10-year to 20-year tenors as the longer-term yields tracked US yields. Moderating inflation also contributed to the decline in bond yields. Hong Kong, China's consumer price inflation eased further to 1.7% year-on-year (y-o-y) in January from 2.4% y-o-y in December and 2.6% y-o-y in November.

Figure 1: Hong Kong, China's Benchmark Yield Curve—Local Currency Government Bonds

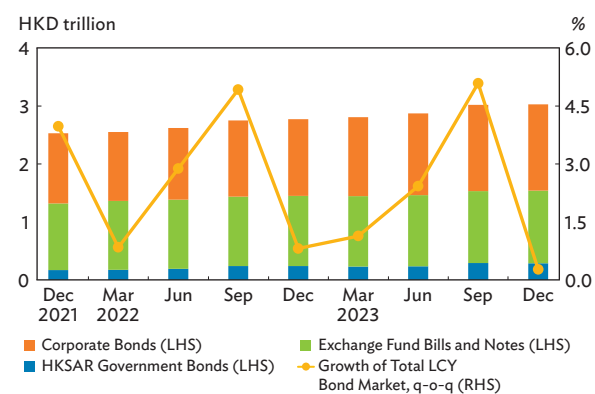


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

LCY bonds outstanding in Hong Kong, China saw modest growth of 0.3% quarter-on-quarter (q-o-q) in the fourth quarter (Q4) of 2023, reaching a size of HKD3.0 trillion at the end of December (Figure 2). Growth in the LCY bond market in Q4 2023 was driven primarily by an expansion in outstanding Exchange Fund Bills and Notes, while both Hong Kong Special Administrative Region (HKSAR) bonds and corporate bonds posted q-o-q contractions due to weaker issuance. Corporate bonds (HKD1.5 trillion) comprised 49.1% of Hong Kong, China's total LCY bond market at the end of December. Exchange Fund Bills and Notes (HKD1.3 trillion) and HKSAR bonds (HKD0.3 trillion) accounted for the remaining 41.5% and 9.4% shares, respectively.

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

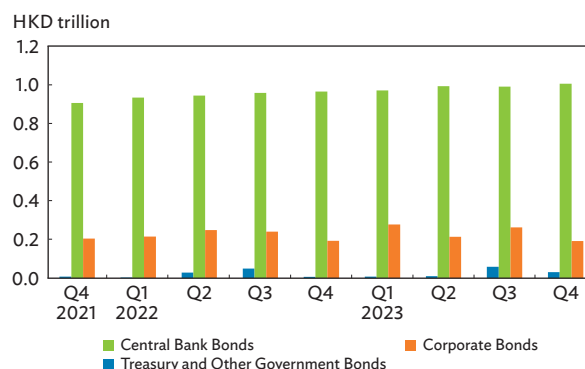


HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Source: Hong Kong Monetary Authority.

LCY debt sales in Hong Kong, China fell 6.3% q-o-q to HKD1.2 trillion in Q4 2023 due to weaker issuance of HKSAR and corporate bonds (Figure 3). HKSAR bond issuance totaled HKD30.5 billion, including HKD20.0 billion of retail green bonds issued in October.⁷ Nonetheless, HKSAR bond sales fell 47.9% q-o-q in Q4 2023, as there was a relatively large volume of Silver Bond issuance in the prior quarter.⁸ Corporate bond issuance tallied HKD192.8 billion in Q4 2023, contracting 26.8% q-o-q as interest rates remained elevated and uncertainties lingered regarding the impact of slowing global growth on the domestic economy. Meanwhile, the issuance of Exchange Fund Bills and Exchange Fund Notes posted a modest increase of 1.6% q-o-q, totaling HKD1.0 trillion in Q4 2023.

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.

⁷ This was the second batch of retail green bonds issued by the Government of the Hong Kong Special Administrative Region of the People's Republic of China following an inaugural issuance worth HKD20.0 billion in May 2022. Proceeds of the 3-year bonds go to Hong Kong, China's Capital Works Reserve Fund to finance public works projects with environmental benefits.

⁸ Silver Bonds are 3-year inflation-linked government bonds restricted for purchase by citizens aged 60 years and older.