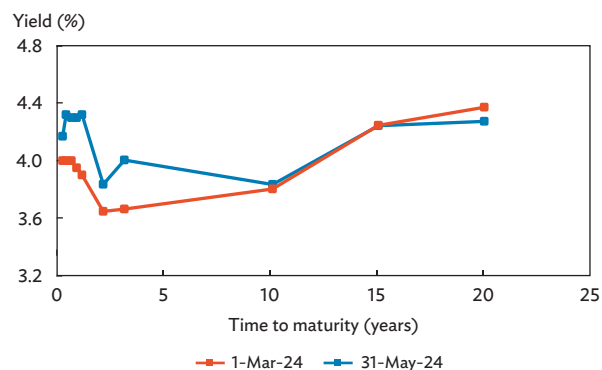


Hong Kong, China

Yield Movements

Between 1 March and 31 May, local currency (LCY) government bond yields in Hong Kong, China rose for most tenors, driven largely by the delay in the United States Federal Reserve's expected rate cut. Bond yields gained an average of 27 basis points for maturities up to 10 years on market expectations of higher-for-longer interest rates (Figure 1). Meanwhile, longer-term bond yields edged down by an average of 5 basis points for tenors of 15–20 years amid a slowdown in domestic economic growth and easing inflation. Hong Kong, China's gross domestic product growth decelerated to 2.7% year-on-year (y-o-y) in the first quarter (Q1) of 2024 from 4.3% y-o-y in the previous quarter. Inflation dropped to 1.1% y-o-y in April from 2.0% y-o-y in March and 2.1% y-o-y in February.

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

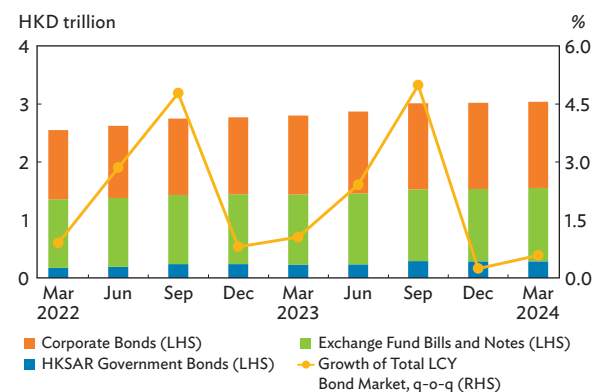


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Hong Kong, China's LCY bonds outstanding expanded 0.6% quarter-on-quarter (q-o-q) in Q1 2024, led by growth in corporate bonds. By the end of March, outstanding LCY bonds reached HKD3.0 trillion, driven by a rebound in corporate bonds outstanding, which was supported by large issuances by state-owned entities during the quarter (Figure 2). Meanwhile, Hong Kong Special Administrative Region (HKSAR) government bonds recorded modest growth due to small volume of maturities during the quarter. Corporate bonds outstanding (HKD1.5 trillion) comprised 48.9% of Hong Kong, China's LCY bond market at the end of March 2024, while outstanding Exchange Funds Bills and Notes (HKD1.3 trillion) and HKSAR government bonds (HKD0.3 trillion) comprised the remaining 41.7% and 9.4% shares, respectively.

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



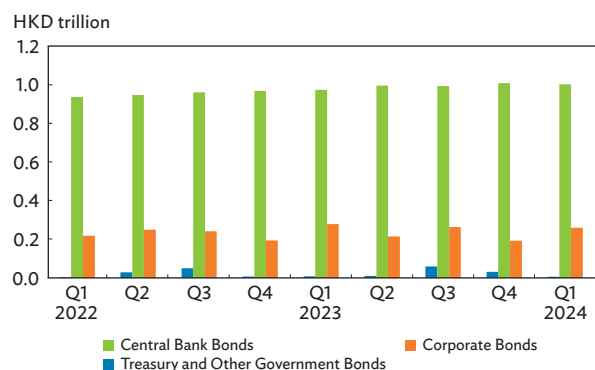
HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Source: Hong Kong Monetary Authority.

LCY bond issuance in Hong Kong, China rebounded in Q1 2024 from a contraction in the preceding quarter due to a recovery in corporate bond sales.

Total LCY bond issuance tallied HKD1.3 trillion in Q1 2024, posting 2.9% q-o-q growth, a reversal from the decline in the fourth quarter of 2023 (**Figure 3**). Growth was driven solely by the robust issuance of corporate bonds, which expanded 34.8% q-o-q, on increased debt issuance by several state-owned entities. These issuances included the Airport Authority Hong Kong’s inaugural retail bonds worth HKD5.0 billion and Hong Kong Mortgage Corporation’s benchmark bonds totaling HKD12.0 billion. Meanwhile, issuance of HKSAR government bonds and Exchange Fund Bills and Notes contracted in Q1 2024. HKSAR government bond sales included HKD2.0 billion of 2-year digital green bonds issued to global institutional investors in February.¹⁴

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.

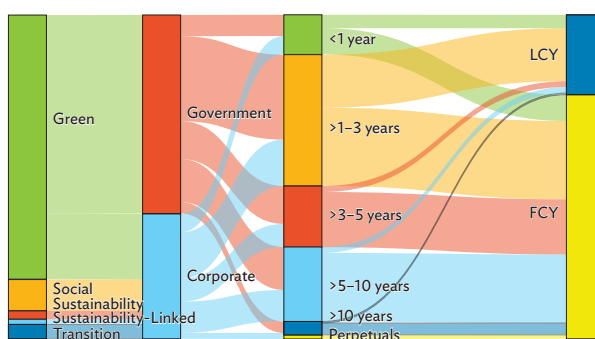
Source: Hong Kong Monetary Authority.

Sustainable Bond Market

Outstanding sustainable bonds in Hong Kong, China are dominated by green bonds and public sector issuances.

These bonds typically have short-term maturities and are denominated in foreign currency. Hong Kong, China’s sustainable bonds outstanding reached a size of USD43.4 billion at the end of March, of which about 80% were green bonds and about 10% were social bonds (**Figure 4**). Outstanding sustainable bonds posted a nominal 0.3% q-o-q contraction in Q1 2024 as issuance declined 62.2% q-o-q to USD1.1 billion. Only green bond instruments were issued in Q1 2024. Most sustainable bonds are primarily issued by the government (61.4%) and have maturities of up to 5 years (71.7%). A large share of both government (42.8%) and private (37.2%) sustainable bonds are concentrated in tenors of 1–3 years. As a result, the size-weighted average tenor of Hong Kong, China’s sustainable bonds at the end of Q1 2024 was 4.4 years, one of the lowest averages among all ASEAN+3 economies.¹⁵ Foreign-currency-denominated instruments comprised over three-quarters of Hong Kong, China’s sustainable bonds at the end of March.

Figure 4: Market Profile of Outstanding Sustainable Bonds in Hong Kong, China at the End of March 2024



FCY = foreign currency, LCY = local currency.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

¹⁴ The HKD2.0 billion tranche of HKD-denominated bonds was part of a multicurrency digital green bond issuance, which also included CNY1.5 billion, USD200.0 million, and EUR80.0 million tranches.

¹⁵ ASEAN+3 is defined to include member states of the Association of Southeast Asian Nations (ASEAN) plus the People’s Republic of China; Hong Kong, China; Japan; and the Republic of Korea.