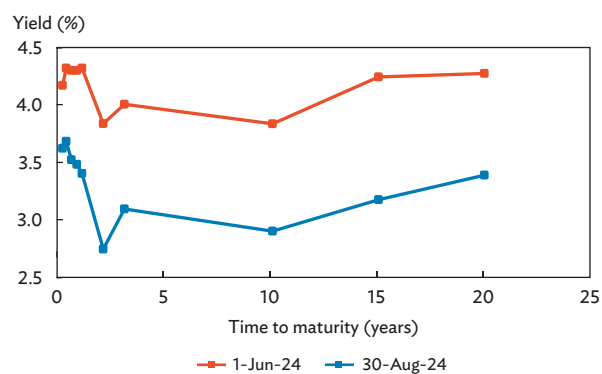


Hong Kong, China

Yield Movements

Local currency (LCY) government bond yields in Hong Kong, China fell for all tenors between 1 June and 30 August on market expectations of policy easing in the United States (US). Bond yields dropped an average of 86 basis points across all maturities, with the 2-year tenor posting the steepest decline at 110 basis points (**Figure 1**). Softening inflation and weak July employment figures in the US prompted markets to anticipate a rate cut by the Federal Reserve in September, driving down government bond yields globally. The decline in government bond yields was more pronounced in Hong Kong, China compared to its regional peers since the Hong Kong Monetary Authority’s monetary policy moves in lockstep with that of the US, owing to the Hong Kong dollar’s peg to the US dollar. Domestic inflation in Hong Kong, China remained moderate, but rose to 2.5% year-on-year in July from 1.5% year-on-year in June, largely due to the end of property rate concessions in June.

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

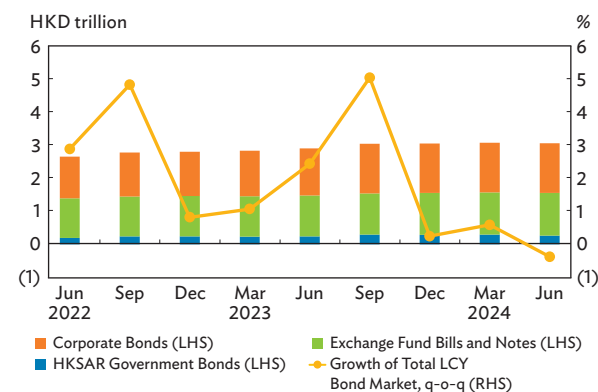


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Hong Kong, China’s LCY bonds outstanding posted a nominal 0.4% quarter-on-quarter (q-o-q) contraction in the second quarter (Q2) of 2024 due to a large volume of maturities in government bonds. LCY bonds outstanding totaled HKD3,033.6 billion at the end of June, down from HKD3,045.1 billion at the end of March, as a decline in outstanding Hong Kong Special Administrative Region (HKSAR) government bonds outstripped modest expansions in Exchange Fund Bills and Notes and corporate bonds (**Figure 2**). The stock of HKSAR government bonds fell 9.9% q-o-q due to a relatively large volume of maturities and a contraction in issuance during the quarter. Outstanding Exchange Fund Bills and Notes rose 1.0% q-o-q, while corporate bonds outstanding inched up 0.2% q-o-q. At the end of June, corporate bonds outstanding (HKD1,493.2 billion) comprised nearly half of total LCY bonds, while Exchange Fund Bills and Notes (HKD1,281.7 billion) and HKSAR government bonds (HKD258.7 billion) accounted for the remaining 42.2% and 8.5% shares, respectively.

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



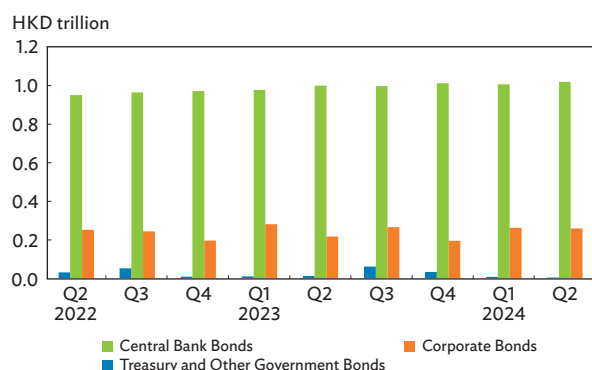
() = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Source: Hong Kong Monetary Authority.

LCY bond issuance in Hong Kong, China posted modest growth in Q2 2024, supported solely by increased issuance of Exchange Fund Bills and Notes.

Total LCY bond sales amounted to HKD1,275.2 billion in Q2 2024, up 0.4% from the previous quarter (Figure 3). Growth was driven by a 1.3% q-o-q rise in Exchange Fund Bills and Notes issuance. Meanwhile, issuance of new HKSAR government bonds contracted 72.7% q-o-q amid plans to gradually replace the existing Government Bond Program with the Infrastructure Bond and Sustainable Bond Programs. Corporate bond sales in Q2 2024 tallied HKD256.4 billion, down 1.3% q-o-q as borrowing costs remained elevated. Hong Kong Mortgage Corporation was the top nonbank corporate issuer during the quarter, with cumulative issuance of HKD11.8 billion that represented 71.7% of total nonbank issuance.

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

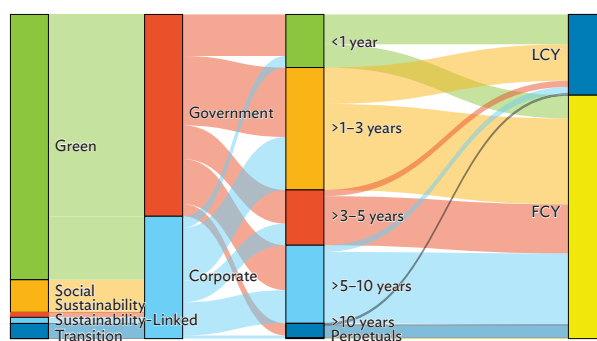


HKD = Hong Kong dollar, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Source: Hong Kong Monetary Authority.

Sustainable Bond Market

At the end of June, sustainable bonds outstanding in Hong Kong, China were predominantly green bond instruments issued by the public sector. Sustainable bonds outstanding totaled USD41.6 billion at the end of Q2 2024, contracting 4.0% q-o-q due to a decline in issuance. Green bonds dominate the sustainable bond market in Hong Kong, China, comprising over 80% of outstanding instruments at the end of June, followed by social bonds with a share of more than 10% (Figure 4). Government-issued green bonds comprised nearly two-thirds of outstanding sustainable bonds. Outstanding sustainable bonds are concentrated in short- to medium-term maturities—over 70% of outstanding instruments had remaining maturities of up to 5 years, and the size-weighted average tenor of sustainable bonds outstanding was 4.3 years at the end of June. Over three-quarters of outstanding sustainable bonds at the end of June were denominated in foreign currencies, primarily US dollars. New issuance in Q2 2024 totaled USD385.5 million, comprising green and sustainability-linked instruments issued by the private sector.

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



FCY = foreign currency, LCY = local currency.
Source: AsianBondsOnline calculations based on Bloomberg LP data.