

Debt Market Promotion Sub-Committee

March 17, 2005

Debt Markets Promotion Sub-Committee – Objectives

- To promote the development of the HKD new issue market
- To improve the transparency and liquidity of the HKD secondary market
- To advise the HK Government on rules, regulations and procedures that will have an impact on the development of the HK capital markets
- To promote good market practice in Hong Kong

Composition of Sub-Committee Members

- **Co-Conveners**

- The Hongkong and Shanghai Banking Corporation Limited (HSBC)
- CALYON

- **Members**

- Bank of America
- DBS Bank Limited
- Informa Global Markets (HK)
- JP Morgan Chase Bank
- Reuters Hong Kong Limited
- Standard Chartered Bank (HK) Limited

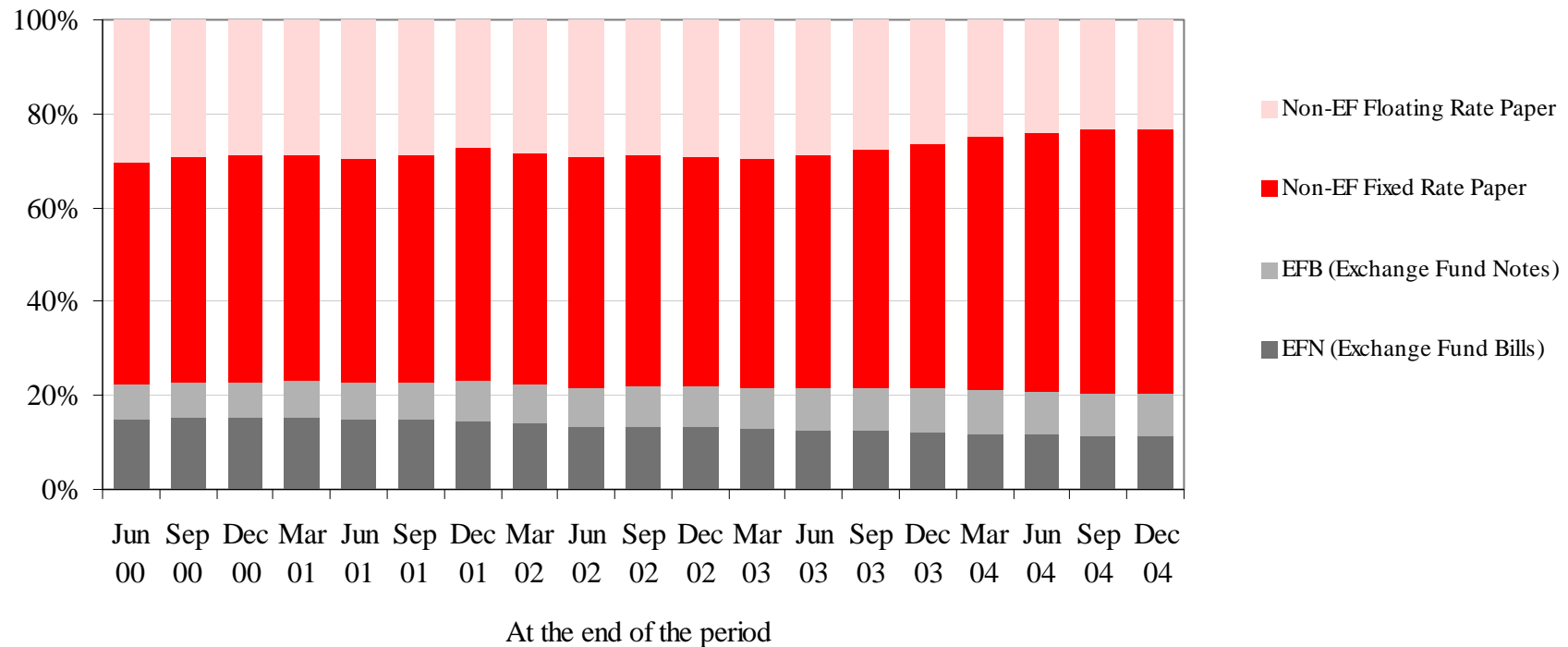
Well Established Market Infrastructure

- Central Moneymarkets Unit (“CMU”)
 - A central clearing system enables real time settlement
- Benchmark Government Curve extended up to 15 years by recent issue
- Support by well-developed Hong Kong dollar swaps/options market
- HK\$ IRS curve has extended out to 15 years in 2004
- Discount Window - provide extra liquidity to licensed banks
- Easy access as rating and listing are not mandatory
- Standard documentation facilitates smooth execution
- Presence of expertise among intermediaries, legal and accounting professionals
- Hong Kong Capital Markets Association (“HKCMA”)
 - An industry body with aim to promote the capital markets

Composition of Outstanding HKD Debt Instruments

At the end of the period

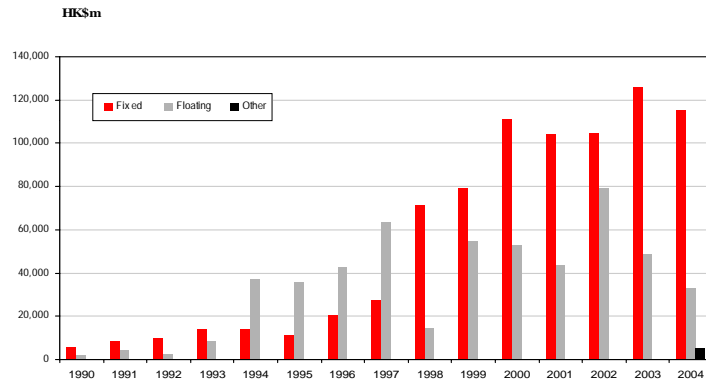
(HK\$ million)	Jun 00	Sep 00	Dec 00	Mar 01	Jun 01	Sep 01	Dec 01	Mar 02	Jun 02	Sep 02	Dec 02	Mar 03	Jun 03	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04
EFN (Exchange Fund Bills)	70,058	71,718	73,002	73,335	73,026	72,999	72,350	72,089	71,405	71,058	70,276	70,403	70,127	69,584	68,352	68,181	67,739	68,387	68,579
EFB (Exchange Fund Notes)	35,100	35,100	35,600	36,800	38,500	39,700	41,400	42,600	44,300	45,500	47,200	47,800	48,900	50,100	51,800	52,400	53,500	53,500	54,000
Non-EF Fixed Rate Paper	221,484	225,124	227,734	225,660	231,811	238,532	245,875	248,700	261,006	258,241	259,543	265,864	275,696	282,230	291,033	306,952	320,095	335,234	335,234
Non-EF Floating Rate Paper	141,727	136,955	135,761	136,361	144,194	141,611	133,979	144,454	154,904	150,260	155,344	160,188	158,086	154,031	146,579	141,388	140,669	138,473	138,473
<i>Total</i>	468,369	468,897	472,097	472,156	487,531	492,842	493,604	507,843	531,615	525,059	532,363	544,255	552,809	555,945	557,764	568,921	582,003	595,593	596,285



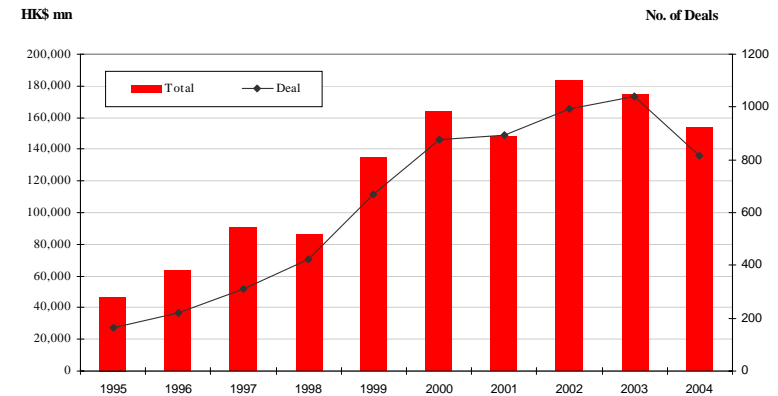
Source: HKMA Monthly Statistical Bulletin, Jan 2005

Hong Kong Dollar Private Sector New Issues Activities

HK\$ Private Sector Issuance Breakdown by Type



HK\$ Private Sector Total Issuance and Deal Volume



Volume Per Quarter - 2001

	Q1	Q2	Q3	Q4	Total
Fixed	34,115	26,754	23,576	19,812	104,256
Float	5,548	13,811	12,210	12,342	43,911
Total	39,663	40,565	35,786	32,154	148,167
Deals	179	246	222	247	894

Volume Per Quarter - 2002

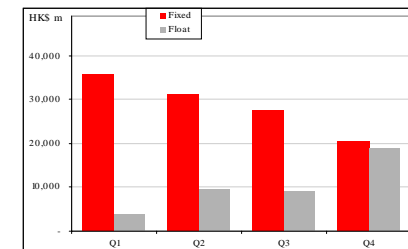
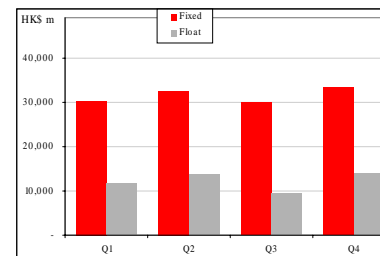
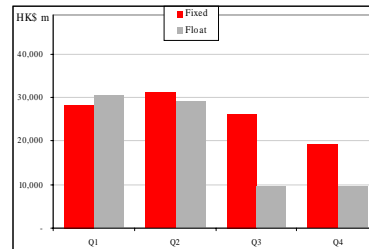
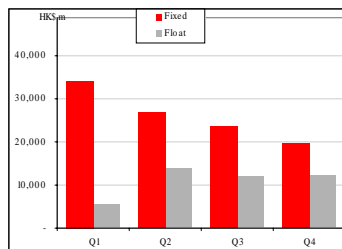
	Q1	Q2	Q3	Q4	Total
Fixed	28,215	31,097	26,143	19,135	104,589
Float	30,531	29,276	9,616	9,639	79,062
Total	58,746	60,373	35,759	28,775	183,651
Deals	303	280	234	175	992

Volume Per Quarter - 2003

	Q1	Q2	Q3	Q4	Total
Fixed	30,286	32,426	29,949	33,428	126,089
Float	11,680	13,708	9,299	13,908	48,595
Total	41,966	46,134	39,248	47,336	174,684
Deals	261	228	267	283	1,039

Volume Per Quarter - 2004

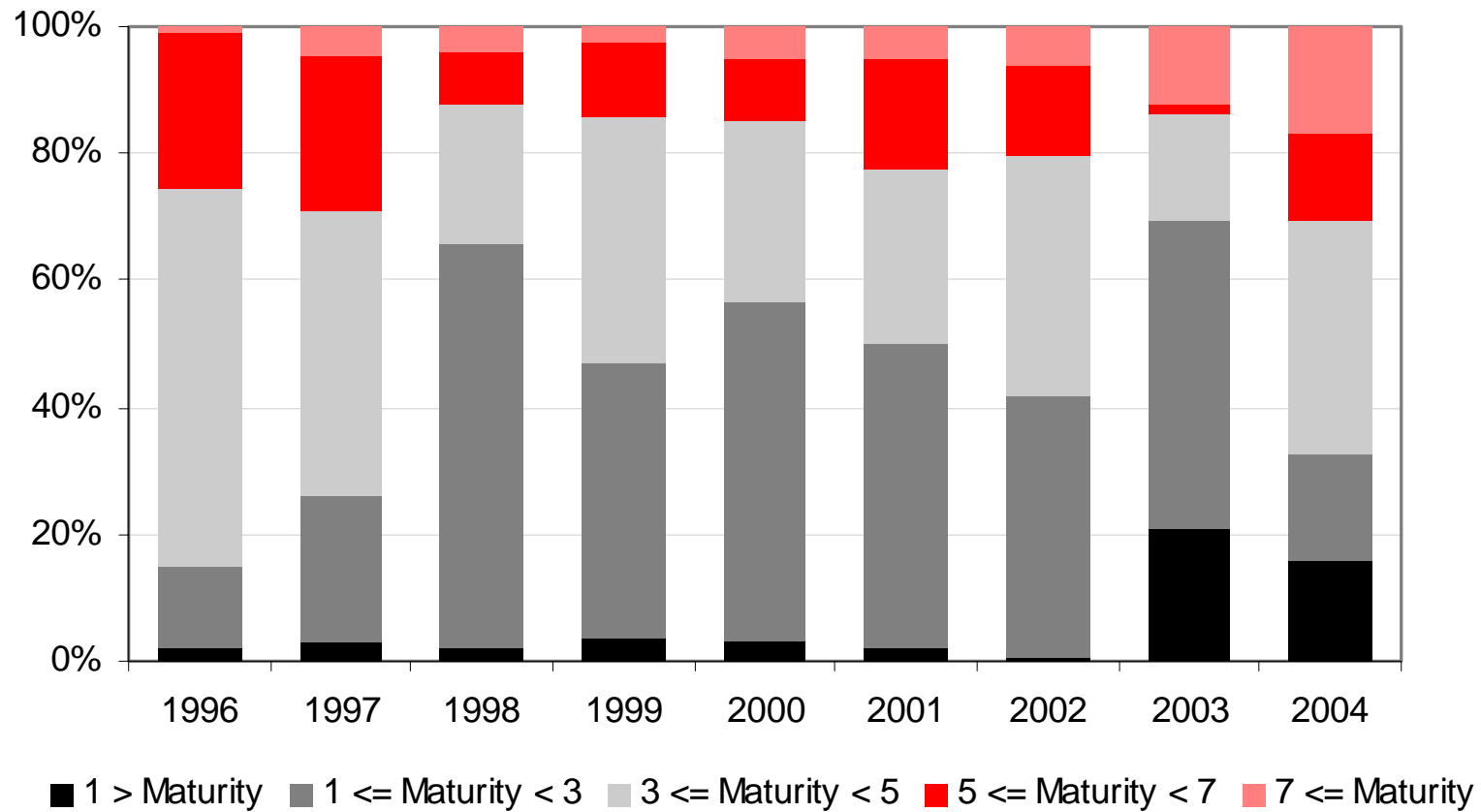
	Q1	Q2	Q3	Q4	Total
Fixed	35,845	28,024	27,392	20,371	63,869
Float	3,807	9,694	8,951	19,019	13,501
Total	39,652	37,718	36,343	39,390	77,370
Deals	218	212	160	170	430



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Source: basis point, HSBC, Jan 2005

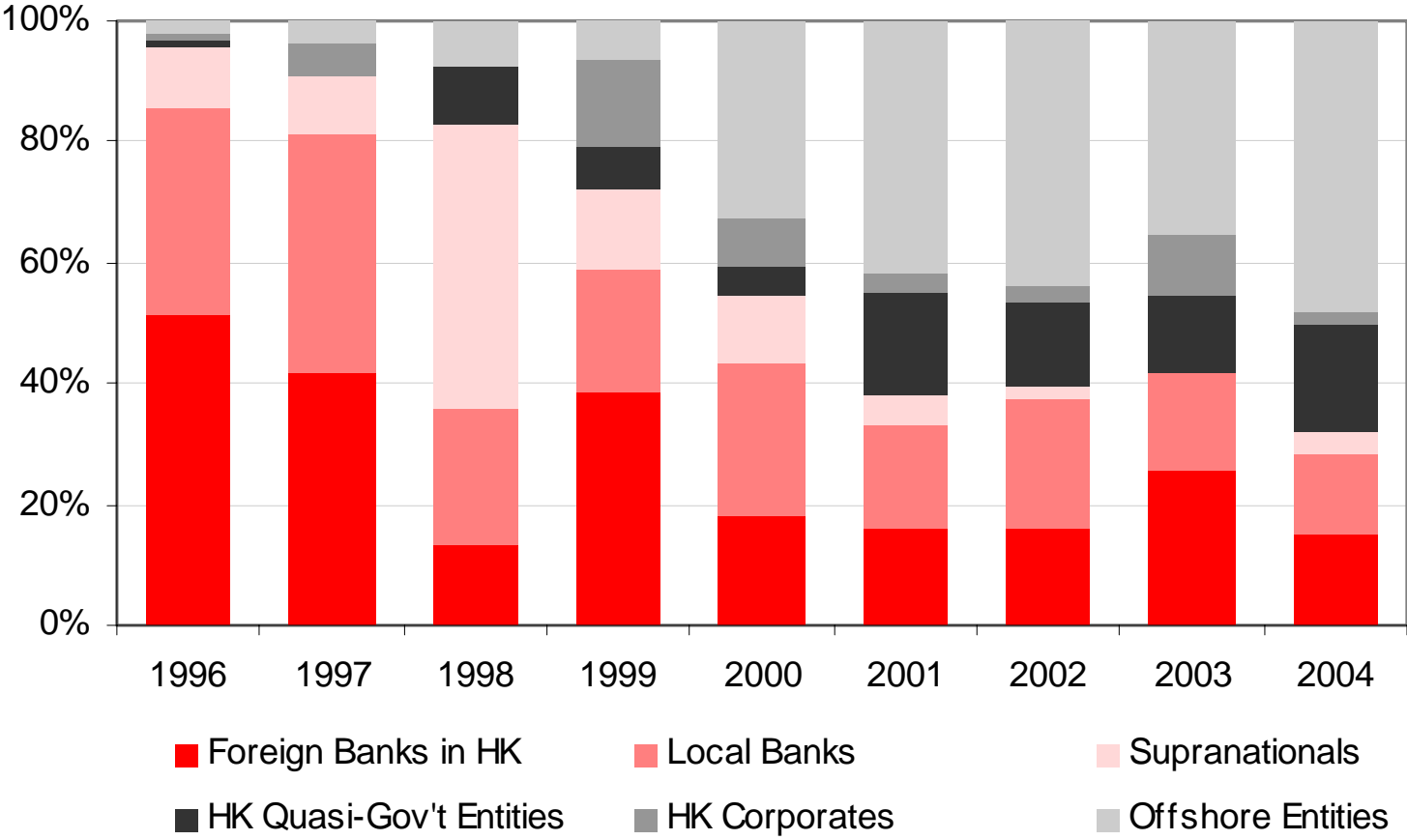
Issuance Breakdown by Maturity (Private Sector Debt)



* Non-government (Exchange Fund) debt issues (including CDs) only

Source: basis point, HSBC, Jan 2005

Issuance Breakdown by Issuer Type (Private Sector Debt)



* Non-government (Exchange Fund) debt issues (including CDs) only

Source: basis point, HSBC, Jan 2005

Hong Kong Dollar Market Outlook

Economy

- Strength in currency board → Transparent market
- Strong banking system → Strong liquidity
- Government policies on local economy → Stability

Financial Market Fundamentals

- International financial centre in Asia → Attractive market
- Well established market infrastructure → Minimize overhead cost
- Regular local demand and supply → The base of the market
- MPF/Development of retail bond market → Power up the market
- Profit Tax Concession Regime → Further promote the market

Tax Incentives to promote the HK Debt Markets

Qualifying Debt Instruments for Tax Exemption

- Cleared through CMU
- Specific Issue Ratings (BBB- equivalent or above)
- Minimum denomination of HKD50,000 (or equivalent)
- Issue to Public
- Tenor : 3 - <7 years (50% tax relief), 7 years or above (100%)

Electronic Bond Trading to enhance Liquidity

Electronic Bond Trading Platform in Hong Kong

- The Sub-Committee is conducting a feasibility study on establishing an electronic bond trading platform in Hong Kong
- The e-platform could potentially enhance transparency, liquidity and workflow efficiency
- Subject to the result of our study, we may provide recommendations to relevant parties for consideration / actions if appropriate

Debt market information on the HKCMA Website

Debt Market Information on the HKCMA Website

- The Sub-Committee assists in providing debt market information on the HKCMA website (www.hkcma.org)
- Examples of information available are as follows:
 - HK\$ IRS, Basis Swaps and EFN yields
 - HK\$ Bond New Issue Summary
 - Weekly League Tables
 - Indications on HKD Issuers
 - Indications on Asian USD Bonds
 - HKD Retail Bond Reference; etc.



The Hong Kong Capital Markets Association

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HK\$ IRS, Basis Swaps & EFN Yields As of 15:00 Mar 17 2005

	IRS (mid)	H/L (mid)	EFN Yld*	Sers	EFN
1Y	2.95	4	2.49	Y587	0.00% 03/06
2Y	3.45	5	2.971	2702	1.70% 02/08
3Y	3.75	6	3.371	5803	2.98% 03/08
4Y	3.99	7	3.559	5812	3.34% 12/08
5Y	4.17	8	3.759	5912	2.69% 12/09
7Y	4.40	9	4.037	7202	3.14% 02/12
10Y	4.62	10	4.240	1412	3.51% 12/14

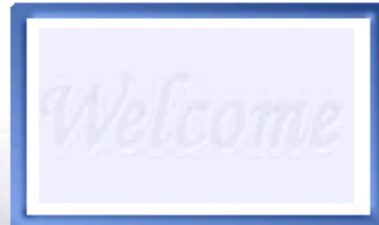
* HKMA Fixings at 11:00 Mar 17
Data Provided By Informa Global Markets

HONG KONG BOND MARKET

- [HK Debt Market Development](#)
- [What are EFBs and EFNs?](#)
- [HK EFB & EFN Tender Results](#)
- [What are retail bonds?/甚麼是零售債券?](#)
- ["Getting Into Bonds"/債券基本功](#)
- [HKD Retail Bond Reference / 零售債券價格參考](#)

The Hong Kong Capital Markets Association

香港資本市場公會



Established in 1986, the Hong Kong Capital Markets Association (HKCMA) is an industry association founded by a group of financial institutions active in the Hong Kong market to help promote the development of the local and regional debt capital markets. Since its inception, the HKCMA has performed four main functions:

- Providing various professional recommendations and feedback to regulators with respect to developmental issues of the debt markets
- Providing a forum for market professionals to discuss and implement best practices guidelines;
- Organizing regular functions for market participants to network.
- Providing bond market education and training to the public

Both the [Full](#) and [Associate members](#) of the HKCMA actively participate in the affairs of the association.

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- [Weekly League Tables](#)
- [Indications on HKD Issuers](#)
- [Indications on Asian USD Bonds](#)
- [Weekly Bond Index](#)
- [Retail Bond Market](#)
- [HKD Retail Bond Reference](#)
- [HKEJ Articles](#)

HK\$ Bond New Issue Summary (Feb 18 - 25 2005)

<i>ISSUER</i>	<i>TYPE</i>	<i>SIZE</i>	<i>CPN</i>	<i>SETTLE</i>	<i>MAT</i>
CBA	FXN	50M	2.865%A	03MAR	03MAR07
CBA	FXN	1B	4.05%A	08MAR	08MAR12
ANGLO IRISH	FRN	95N	3H+14	03MAR	03MAR08
KOMMUNEKRED	FXN	390M	3.495%Q	02MAR	02MAR10
ICBC	FXCD	200M	2.23%A	25FEB	24FEB06
BLB	FXCD	100M	3.92%Q	02MAR	02MAR12
DAH SING	FRCD	80M	3H+16	02MAR	03MAR08
ANZ	FXN	310M	2.23%A	28FEB	28FEB06
CLP POWER	FXN	500M	4.3%Q	08MAR	09MAR15
HBOS	FXN	270M	2.24%A	28FEB	28FEB06
CITIBANK	FXN	200M	2.125%Q	28FEB	28FEB06
ST GEORGE	FXN	200M	3.21%A	03MAR	03MAR08
HBOS	FXN	139M	3.24%A	25FEB	25FEB09
Eksportfinan	FXN	390M	2.91%Q	28FEB	28FEB08
ANZ	FXN	50M	3.30%	28FEB	28FEB08
DEXIA CLF	FXN	78M	2.6%	28FEB	28FEB07
WING LUNG	FXN	100M	2.638%Q	25FEB	26FEB07
DBS (HK)	FXN	300M	2.655%Q	23FEB	23FEB08
HKMC	FXN	120M	2.05%A	23FEB	23FEB06
HKMC	FXN	100M	1.85%A	22FEB	22FEB06
NORD LB	FXN	83M	3.415%A	24FEB	24FEB10
ANZ	FXN	80M	3.44%A	24FEB	24FEB10
BOTM HK	FRCD	630M	1MH+10	28FEB	28FEB07



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Indicative Yields on Most Active HKD Bond Issuers

(For size < USD50m plain vanilla deal)

As of Feb 28 2005

Ranking	Issuer	Ratings	1yr	2yr	3yr	4yr	5yr	7yr	10yr
1	CBA	Aa3/AA-	2.350% 3H-7.0	2.812% 3H-1.2	3.137% 3H+1.2	3.402% 3H+2.7	3.637% 3H+5.7	3.930% 3H+6.5	4.215% 3H+7.5
3	ABSpintab	Aa3/AA-	2.430% 3H+1.0	2.862% 3H+3.7	3.167% 3H+4.2	3.432% 3H+5.7	3.647% 3H+6.7	3.950% 3H+8.5	4.245% 3H+10.5
6	Fortis	Aa3/AA-	2.200% 3H-22.0	2.632% 3H-19.2	2.957% 3H-16.7	3.242% 3H-13.2	3.487% 3H-9.2	3.800% 3H-6.5	4.135% 3H-0.5
9	M&P	Aa3/AA-	-	2.832%	3.187%	3.462%	3.687%	-	-





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HKD Retail Bond Reference Price Table -- Selected Bond [中文頁](#)

	Issue code	Maturity	Coupon	Price		Yield (%)	
				Bid*	Offer*	Bid*	Offer*
1	HKSARG	24-Jul-2006	2.130%	98.368	98.870	3.409	3.015
2	HKSARG	23-Jul-2008	3.380%	97.712	98.620	4.161	3.859
3	HKMC 303	13-Jun-2005	4.350%	100.168	100.580	3.599	1.783
4	HKMC 310	11-Jun-2007	3.150%	98.424	99.750	3.933	3.293
5	HKMC 701	08-Dec-2010	4.250%	98.322	100.026	4.639	4.289
6	HKMC702	24-Feb-2011	4.000%	96.937	98.346	4.648	4.365
7	HK Link A	07-May-2007	2.750%	97.740	98.690	3.902	3.420
8	HK Link A	07-May-2009	3.600%	97.217	98.520	4.390	4.031
9	HK Link A	09-May-2011	4.280%	97.982	99.523	4.716	4.416
10	MTRC 301	09-May-2005	4.500%	100.066	100.410	3.970	1.384
11	MTRC 401	09-May-2006	5.000%	101.423	102.465	3.739	2.796
12	AA 301	04-Apr-2005	4.500%	100.041	100.160	3.319	0.020
13	AA 302	27-Mar-2006	2.300%	98.793	99.630	3.548	2.688
14	AA 701	26-Mar-2010	4.300%	99.097	100.510	4.554	4.230
15	KCRC 501	06-Jun-2008	3.000%	96.700	98.149	4.149	3.647
16	KCRC 1001	06-Jun-2013	4.800%	99.156	100.556	4.986	4.772



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