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Hong Kong Bond Market: New Opportunities for Diversification and Extended Duration

CENTRAL, HONG KONG, June 17, 2017 /EINPresswire.com/ -- Hong Kong dollar denominated long-term bonds are among those increasingly sought by the local market.

Hong Kong based portfolio managers, from institutional to retail, are seeking a diversification in their asset management and investment opportunities. In terms of the local bond market, there is a demand for a larger range of time commitment options, as well as a broader and deeper scope for investment.

According to a paper by The British Chamber of Commerce in Hong Kong (BCC), traditional availability of Hong Kong debt securities from 1996 to 2013 comprised of 88% fixed rate notes under a 5-year maturity date, showing how financial markets were and still are skewed towards short-term
debts. The short-term nature of these bonds hinders long-term business or government investment providing only low interest rates, low duration and earlier maturity dates.

Short term bonds and higher coupon rates cause cost and debt management to be burdensome for borrowers/issuers, due to higher annual interest payments and shorter maturity. With lower coupon rates, long-term bond issuers can better manage their lower cost of borrowing and can be protected from monetary shocks suffered by short-term borrowing. On the other hand, long-term bonds have higher duration, causing investors to be prone to interest-rate rise or fluctuation, directly and inversely affecting the market price of the bond.

With the issuance of longer-term bonds, asset managers who tend to focus on Hong Kong's equity market will be incentivised to invest in the debt market promoting growth.

In terms of government initiative, The Hong Kong Monetary Authority (HKMA) implemented the Government Bond Programme (GB) in 2009 with the objective of meeting the demands of institutional and retail investors seeking stable investments, with AAA government credit rating. On 16 May 2017, the collaboration between the People's Bank of China and the HKMA announced the launch of Bond Connect, a cross-border platform that connects Hong Kong and Mainland China's bond markets, allowing institutional overseas investors to trade in the Mainland bond market. Settlements are conducted through multiple accounts opened by HKMA's Central Moneymarkets Unit (CMU), providing overseas investors with greater flexibility and convenience as the procedures and compliance requirements will be relatively relaxed.

Mainland China has the world's third largest bond market with an outstanding value of approximately RMB 65 trillion and an overseas investor holding of 2%. This attracts foreign investors, and promotes the demand for Hong Kong's financial services which supports Hong Kong's role as an international financial centre, and an intermediary for capital flows between Hong Kong and the mainland.

Credit Rating Agencies should then be incentivized to rate smaller Hong Kong companies and issues to increase market transparency and development of the market.

Investment in a more developed and diverse bond market brings reduction in overall risk, funding towards numerous sectors of the economy spurring growth and development, stability of investments for investors and government, and growth in OTC markets positioning Hong Kong as an attractive regional financial hub. The increase in total outstanding dollars in Hong Kong will deepen the marketplace.

(Source Credit: James Johnson and Chris Lusher)

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