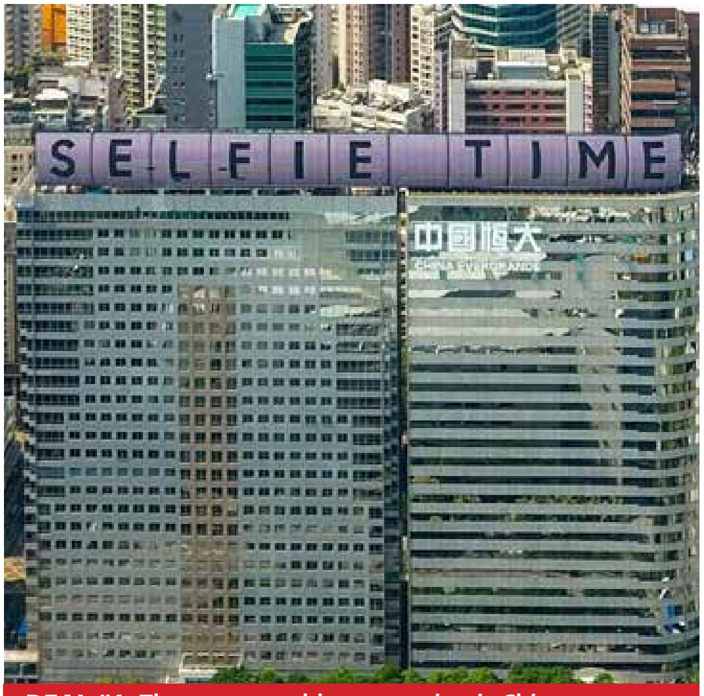


DEAL #1: The most notable transaction is China Evergrande's US$6.6b transaction which comprised of US$3.8b in new money raised and US$2.8bexchange offer.

DEAL #2: State Grid Corporation's US$5b note has created a record of the largest note issuance programme in global public utilities industry and the Asia-Pacific region.

Panda's boom is the dim sum's bane

Issuance of bonds in Hong Kong called dim sum bonds further slowed down in 2017 with the rapid opening up of China's onshore bond market called Panda bonds.

The first half of 2017 seemed to carry the momentum of previous quarters as bond markets as well as the debt capital market in Hong Kong posted stellar figures that could very well carry on for the rest of the year if the current trend is sustained. Data from Thomson Reuters reveal that Hong Kong is among the top three G3 markets in the Asian region with US$30.9 billion bond offerings in 1H17 capturing 18.3% of the market volume. In the Hong Kong DCM scene, financial institutions still hold a majority in 2017 with more than 60% of the total issues (including government bonds) in 2017 according to **Jianwei Xu,** senior economist for Greater China at Natixis. Meanwhile, Chinese real estate companies have grown issuance at 525% this year to date. The real estate sector and airlines companies issued the second and third most corporate bonds at 15 and 5 issues, respectively.

Michael Tse, APAC fixed income head at Dealogic also noted the positive turnout for Hong Kong's debt capital market in the first half of 2017, describing it as a "great year" so far. "A large driver is that market observers are expecting another USD interest rate hike in the second half of the year, and this popular currency is driving issuers to rush before the funding costs rise," he said.

In terms of volume, the sector in Hong Kong has reached a year-to-date high buoyed by activity in the region. Tse elaborated on observations regarding a record number of participants on bonds, which does allude to the conversation that banks are now facing fierce competition this year.

The market share of US dollar (USD) bond remains substantial at about 58% for the Hong Kong bond market, followed by the share of Hong Kong dollar at 32%.

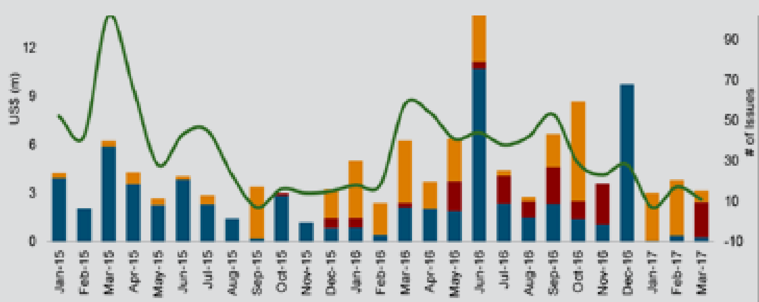
Hong Kong's strength has also been reflected as shown in the latest Asia Bond Monitor from the Asian Development Bank (ADB), where Hong Kong witnessed the largest bond yield increase on both 2-year and 10-year government bonds, reflecting high yields in the United States as well as stronger domestic growth prospects.

Yasuyuki Sawada, ADB chief economist, further noted that economies in developing Asia continue to grow strongly, with financial risks gradually receding. This continued growth, he further added, is a reflection of prudent policymaking and strong economic fundamentals, allowing markets to withstand risks related to possible changes to US Federal Reserve policy.

Specifically, the report said that the the local currency (LCY) government bond yield curve of Hong Kong rose for all tenors between 1 June and 15 August. The yield curve also steepened, with longer-dated tenors rising at a much faster pace than yields with tenors of 1 year or less. The rise in Hong Kong's government bond yields tracked United States (US) interest rate movements due to the pegging of the Hong Kong dollar to the US dollar. Better economic growth in Hong Kong, China also helped push yields up. Hong Kong, China's gross domestic product (GDP) rose 3.8% year-on-year in the second quarter of 2017 after a 4.3% y-o-y rise in the previous quarter.

Policy-wise, in July, the Hong Kong Monetary Authority

Dim Sum, panda and formosa bonds (ex self-funded)



Source: Thomson Reuters

announced that the mainland Chinese government's State Council approved an increase in Hong Kong's Renminbi Qualified Foreign Institutional Investor quota from 270 billion Chinese yuan to 500 billion Chinese yuan.

Natixis Xu noted that "The bond market is blessed with low funding costs on the back of the low US interest rates, and a broad investor base that attracts overseas issuers," he said. "As a result, Hong Kong dollar debt issuance has been continuously soaring over the years. The economic driver for the expansion of bond market was particularly strong for the first half of 2017, leading to a strong growth in Hong Kong's bond market."

Jianwei Xu

Michael Tse

Yasuyuki Sawada

Ivan Chung

Notable deals

Hong Kong's decent showing on the bond market and debt capital market front is fuelled by certain notable deals—that could affect the bond market landscape in the Asia Pacific region as numbers and figures shoot up.

Some of the more notable deals this year include the State Grid Corporations' US$5 billion transaction completed in April as part of the US$7.7 billion overseas Medium Term Note Programme. **Laura Li** of KWM noted, that this transaction is the largest single-currency foreign note issuance programme in the history of Chinese state-owned enterprises and has created a record of the largest note issuance programme in global public utilities industry and the Asia-Pacific region since the beginning of 2017.

Meanwhile, China Evergrande's US$6.6b transaction which comprised of US$3.8b in new money raised and US$2.8b exchange offer becomes the largest US dollar bond ever completed in Asia. This transaction marked the largest bond raised by a Chinese real estate company on record, as well as the largest high yield bond priced in Asia ex Japan ever, according to Tse. Industry experts and observers are saying that this deal may raise borrowing costs in Asia's booming bond markets.

Dim sum vs Panda

With the current interest rate differential, the market share of US dollar (USD) bond remains substantial at about 58% for the Hong Kong bond market, followed by the share of Hong Kong dollar at 32%. Chinese yuan (renminbi) takes the third largest share but remains a minor domination currency compared to the other two at 4%. In the offshore RMB bonds (dim sum bond), however, issuance further slowed down in 2017 on the back of not only the appreciation of yuan as well as the hike in interest rate, but also the rapid opening up of China's onshore bond market with programs such as Bond Connect.

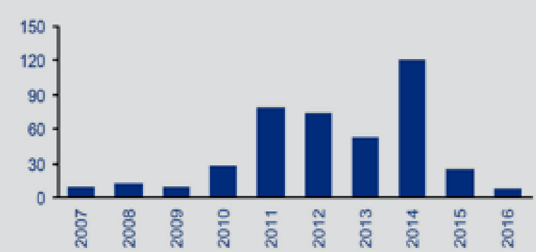
Bond Connect is the mutual bond market access scheme between Hong Kong and mainland China, which would allow foreign investors to expand their investments in the onshore market minus the paperwork required on the mainland. "Bond Connect will allow international investors to trade onshore RMB bonds in Hong Kong, thereby easing their access to the onshore bond market," says **Ivan Chung**, associate managing director and head of Greater China research and analysis team at Moody's. "Therefore, Bond Connect is likely to attract more international investors and enable them to expand their investments in the onshore market more quickly. As Bond Connect transactions will be conducted via settlement accounts in Hong Kong, it will be more convenient for investors to move the invested funds across borders," says Chung.

In the latest Monitor, Moody's also says regulatory efforts to tighten supervision of financial institutions' funding and investments in the bond markets have resulted in tighter liquidity and higher funding costs in the onshore market this year, which is dampening issuance growth.

Data from BMI Research suggested that whilst increasing linkages between China's onshore financial markets with Hong Kong will likely continue to place the latter as a top offshore yuan clearing centre, the offshore dim sum bonds market in Hong Kong will gradually lose appeal over the coming quarters as the onshore bond market gains prominence. "The weakness of the yuan over recent years has served as a boon for the panda bond market and its upwards growth trajectory, largely at the expense of dim sum market for yuan-denominated bonds sold offshore (predominantly Hong Kong) by overseas firms," according to BMI Research.

The Hong Kong bond market's fate and its status as the regional offshore yuan clearing centre of choice may take a dent and will most likely depend on how monetary policy—specially on onshore bond market

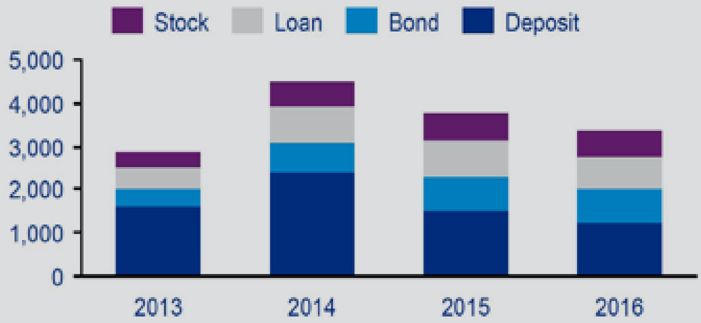
CNH Bond Fundraising in Hong Kong, CNY billion



Source: KPMG

FINANCIAL INSIGHT: DIM SUM BONDS

Onshore RMB assets CNY billion



Source: KPMG

policy—and the currency of mainland China will be for the rest of the year. BMI Research forecasts that Hong Kong will continue to be the largest offshore yuan clearing centre over the coming years amidst efforts by Chinese policymakers to internationalise the Chinese yuan and push for greater use of the currency globally. According to SWIFT, Hong Kong processes the lion's share of yuan payments, approximately 76% in value terms in 2017 compared to the 74% recorded the previous year. Whilst Hong Kong will remain the world's largest offshore yuan clearing centre—ahead of London and Singapore—its appeal may wane over policies in the mainland."Foreign investors are likely to tap on it due to the larger pool of liquidity as compared with the offshore bond market," BMI Research said.

If the borrowing costs onshore remain high, then we expect to continue to see this momentum of companies choosing to raise funds offshore and as a result, the wider region will grow.

Outlook

This strong connection with mainland China will likely remain a strong push-and-pull point for Hong Kong's bond markets. Natixis' Xu said that looking ahead, uncertainties are rising despite the market continuing to grow for the next year. This is due to certain issues including the possibility of more restrictions for Chinese corporates issuing bonds in Hong Kong next year.

"To fight the rising debt issue, the Chinese government has obviously tightened their control over Chinese companies issuing foreign debts, especially for the sectors with high debt ratio," the Natixis senior economist noted, adding that because of this, the issuance of debts from sectors such as real estate and quasi-government will be weaker next year. The incentive for issuing Hong Kong dollar or US dollar-denominated debts will become weaker, forecasts Xu, if the USD starts to appreciate and the funding cost in USD/HKD will increase in the next year or so. This view is echoed by Dealogic's Tse saying that the trajectory of Hong Kong's bond market and debt capital market will largely depend on the monetary policy in mainland China. "If the borrowing costs onshore remain high, then we expect to continue to see this momentum of companies choosing to raise funds offshore and as a result, the wider region will grow," he said. "All in all, we still have confidence in Hong Kong's debt market, as it is one of the limited alternatives for Chinese corporates to issue non-yuan (renminbi) denominated debts, but it will apparently confront more headwinds in the next year," concluded Xu.

SINGAPORE VIEW

SG Bonds: Who borrowed where?

Singaporean companies have cut back on local issued bonds to finance operations and have moved towards more overseas borrowing and perpetual bonds, new data shows. Meanwhile, Singapore local banks remain the largest bond issuers, accounting for 61.8 % of the market in the first half of 2017. Property developers remained active issuers in order to refinance maturing debt and raise debt capital for overseas expansion, whilst smaller companies offering higher yields also came back to tap the local capital markets.

Primary bond offerings from Singapore-domiciled issuers reached US$12.8b in the first half of the year, translating to a 23.2% decline in proceeds after a strong momentum sustained over the same period last year which recorded $16.7b in primary bond offerings.

Notable deals

HSBC Holdings issued its debut Singapore offering of Additional Tier 1 capital in June this year for S$1b (US$724.4m), the largest issuance this year in the Singapore-dollar bond market. For Singapore-dollar bonds, OCBC Bank was the sole lead manager and bookrunner of the Frasers Centrepoint Limited deal priced at S$348m, 10-year bonds at a coupon rate of 4.15%.

In the Financials sector, OCBC Bank was joint lead manager and bookrunner of the deal with BNP Paribas priced at S$250 million for a 7.5-year bond issue at a coupon rate of 3.65% in March 2017, as well as Commerzbank's S$500 million, 4.875% 10-year non-call 5-year issue in February 2017. Some of the players in the Singapore-dollar bonds category include the Housing and Development Board's issuance of S$900m, UOB's S$750m issuance, as well as Singapore Airlines Limited and Mapletree Treasury Services' issuances at S$700m.

This also includes foreign financials like Huarong Finance,, and the return of smaller higher yielding issuers like Centurion Corp Ltd, Tuan Sing Holdings Limited, and Chip Eng Seng Corp Ltd. City Developments Limited (CDL), through its wholly-owned subsidiary CDL Properties Ltd (CDLP), has successfully launched the first green bond by a Singapore company. The two-year senior secured green bond has raised S$100 million at 1.98% fixed rate due 2019. The investors comprised mainly financial institutions and fund managers. The green bond is issued under the CDLP S$700 million secured Medium Term Note (MTN) Programme first established in 2001. DBS Bank Ltd. (DBS) is the sole bookrunner on this transaction.

Singapore Dollar Bonds Volume - Top Macro Industry - 2017 YTD

Sources: Thomson Reuters