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Fresh HK\$ bonds in the offing

Budget to spur capital market

By K. Gopinath

SIR John Bremridge's farewell budget has paved the way for the unhampered growth of capital markets in Hongkong, according to analysts.

They predict the issue of more Hongkong dollar bonds in the near future by foreign conglomerates and multinationals on the one hand and Chinese financial institutions on the other.

Two factors contribute to this optimistic view: there are no increases in taxation; and the Financial Secretary stressed that a sensible balance has been struck at the 59-41% ratio between direct and indirect taxation. The implication is that this ratio will be maintained for the next five years.

This will further act as a spur to

capital markets since Hongkong is enjoying high liquidity. Banks, and other institutions are cash heavy, looking for avenues for investment, but many major projects, such as the second container terminal and the Hungghom development are to be financed by group funds, blocking off market place investors.

Thus banks have been undergoing a lean spell with their loan portfolios and with the wind-down in trade even the reinvestment loans have become a trickle. Whatever the balance sheets may show, 1985 was a year of gloom for the banks and '86 is forecast to be only a notch better.

Capital markets have proved to be especially attractive since activities in that sector are not shown on the balance sheets although they contribute to the bottom line, which is why banks are continuing to move away from traditional loan activities and enter the commercial paper and bonds markets.

Analysts also point out that there has been a significant shift in the attitudes of Chinese investors. Local investors have begun to move away from the traditional havens of banks, stocks and precious metals. The result has been a boom in unit trust and mutual funds. Currently more than 150 of them are registered in Hongkong.

The development of secondary money markets in Hongkong has been spasmodic, and this has been in no small measure due to the government's reluctance to issue any papers. However analysts feel that commercial paper issued by multinationals and some of the local giants is good enough to fuel secondary markets, and they eye the recent successes of the commercial papers issued by MTRC and KCRC, coupled with Sir John's budget, as pointers in this direction.

The increasing activities of Japanese and American institutions in the territory will be yet another contributing factor. Most

of them are here to develop regional business but their primary target continues to be China.

Knowledgeable sources feel that some of the Japanese institutions are certain to float Hongkong dollar bonds in the near future to finance their growing activities in the territory. A few of the Japanese banks have done so in the past. Now the conglomerates look certain to follow suit.

Hongkong's capital market has been very active in recent years but has levelled off in the past twelve months. However it is still at a high plateau and the next four years may see a steady upward curve before China joins as a major player after sorting out its priorities and economy.

Besides the second cross harbour tunnel there is no major developmental activity that could possibly involve commercial paper, but in the next four years, analysts feel, Chinese financial institutions will issue more and more Hongkong dollar bonds.