ADB News Release
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EMERGING EAST ASIA'S LOCAL CURRENCY BONDS RESILIENT BUT FACE RISKS

MANILA, PHILIPPINES (29 November 2011) – Emerging East Asia's local currency bonds are still in demand from domestic and offshore investors, but the region's markets face increasing challenges, according to the latest Asia Bond Monitor released today.

Emerging East Asia's local currency markets continue to expand, but at a slower rate than previously. At the end of September, the region had $5.5 trillion in outstanding bonds, 5.5% more than a year earlier in local currency terms. That compared with a year-on-year growth rate of 7.6% at the end of the second quarter of 2011.

The expansion in the third quarter was largely due to strong growth in the region's corporate bond market, which expanded by 15.4%, while the government bond market grew by a smaller 1.3%.

"Asia's low debt levels, strong economic fundamentals and the yield pick-up compared with bonds of developed markets contribute to the attractiveness of local bonds," said Iwan J. Azis, Head of the Asian Development Bank's (ADB) Office of Regional Economic Integration.

Still, risks to the outlook include growing uncertainty surrounding the European economies, which is generating volatility in global and regional markets and a flight to safe-haven investments. Furthermore, the slowdown in Asia's economic growth and the potential for abrupt capital outflows are also challenges.

The report assesses the bond markets of the People's Republic of China (PRC); Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Bonds issued by local governments could become an interesting new asset class in the local markets. The Thai government now permits issuance by local governments and the companies they own. Meanwhile, the PRC recently approved issuance of bonds by the municipal government of Shanghai and the province of Guangdong for CNY7.1 billion and CNY6.9 billion, respectively.

Yield curves in most markets have flattened and in some cases shifted downwards as markets and policymakers focus on supporting growth rather than stemming inflation. Declining yields, particularly for longer-dated bonds, offer governments in the region an opportunity to raise cost-effective debt should they need to finance additional borrowing.

Viet Nam was the fastest-growing local currency bond market in the third quarter, expanding 22.2% on year to $17 billion. The corporate bond market grew by a strong 34.7% with the government bond market increasing 21.1%.

The PRC has the largest local currency bond market in emerging East Asia with $3.2 trillion in bonds outstanding at the end of September. That was 3.5% more than a year earlier and 0.5% more than at the end of June. The 20.0% year-on-year growth in the corporate bond market contrasted with the 0.7% contraction in the government bond market.

Bond issuance in the region totaled $829 billion in the third quarter, up 7.6% versus the second quarter but down 19.9% year-on-year as central banks reduced sales to offset foreign exchange inflows. Corporate issuance was also down 24.4% on a year-on-year basis. This decline, however, was from extraordinarily high levels in 2010.

AsianBondsOnline's latest liquidity survey of over 100 investors shows that bid-ask spreads have widened compared with last year but turnover ratios have improved. The survey results show that market participants want governments to issue more bonds to improve market liquidity.

As of the end of October, borrowers in emerging East Asia had raised $63 billion in so-called G3 bonds – or bonds denominated in US dollars, euros or yen -- suggesting the region may, after all, fall short of the record $87 billion in issuance witnessed in 2010.

ADB, based in Manila, is dedicated to reducing poverty in Asia and the Pacific through inclusive economic growth, environmentally sustainable growth and regional integration. Established in 1966, it is owned by 67 members -- 48 from the region. In 2010, ADB approvals, including co-financing, totaled $17.51 billion. In addition, ADB's ongoing Trade Finance Program supported $2.8 billion in trade.

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