ADB **News Release**
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EMERGING EAST ASIA'S BOND MARKETS EXPAND, STILL IN DEMAND – REPORT

MANILA, PHILIPPINES (1 September 2011) – Local currency bond markets in emerging East Asia continued to expand in the first half of this year as demand from foreign investors increased, with the region's economic growth set to outpace much of the rest of the world.

According to the Asian Development Bank's (ADB) latest *Asia Bond Monitor*, emerging East Asia had $5.5 trillion in local currency bonds outstanding at the end of June this year, 2.4% higher in local currency terms than at the end of March and 7.7% more than at the end of June 2010.

Emerging East Asia comprises the People's Republic of China (PRC); Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.

Overall, the fastest growing markets in the second quarter of 2011 were Viet Nam (up 5.0%), Singapore (up 4.3%) and Malaysia (up 3.7%) versus the previous quarter. The PRC, which has driven the swift expansion in the region's markets in the past, grew 2.7% reflecting a modest 1.6% increase in its government bond market.

The growth was driven by corporate bonds, which grew by 4.4% to $1.8 trillion in the second quarter over the first quarter. The PRC's corporate bond market grew at a rapid pace of 6.3% in the same period and is now the region's largest corporate bond market overtaking the Republic of Korea.

Foreign holdings of the region's government bonds have also risen, driven by global investors chasing yields, interest rate differentials and expectations of appreciation in regional currencies. By the end of June, overseas investors held 34% of Indonesian government bonds. By the end of March, overseas investors held 22% of Malaysian bonds, and 10% of bonds issued by the Republic of Korea. The share of foreign investment in the Thai market has also doubled over the last year to nearly 9.0% by the end of June.

"There has been a bullish flattening of government yield curves in most markets. We are seeing compression of yields at the long end, reflecting market concerns of slowdown in growth," said Iwan Azis, Head of ADB's Office of Regional Economic Integration, which produced the report. "We expect monetary authorities to adopt a more neutral policy stance as they move to cushion against any anticipated slowdown in mature markets."

Risks include a severe economic slowdown in mature economies that will hit Asian exports, destabilizing capital flows, poorly timed policy action by mature markets, and potential commodity price fluctuations.

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Returns on local currency bonds have remained buoyant this year in most of the emerging East Asia markets, with the Asian Bond Fund's Pan-Asian Bond Index gaining 6.4% on a US dollar unhedged total return basis.

Local currency bond issuance dropped sharply in the second quarter due to lower sales of short-term bills by central banks and monetary authorities, which was mostly the result of reduced sterilization activities. Government sector entities issued more bonds, particularly at the long end of the curve because of the reduced difference in yields between the long and short ends of the yield curves.

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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