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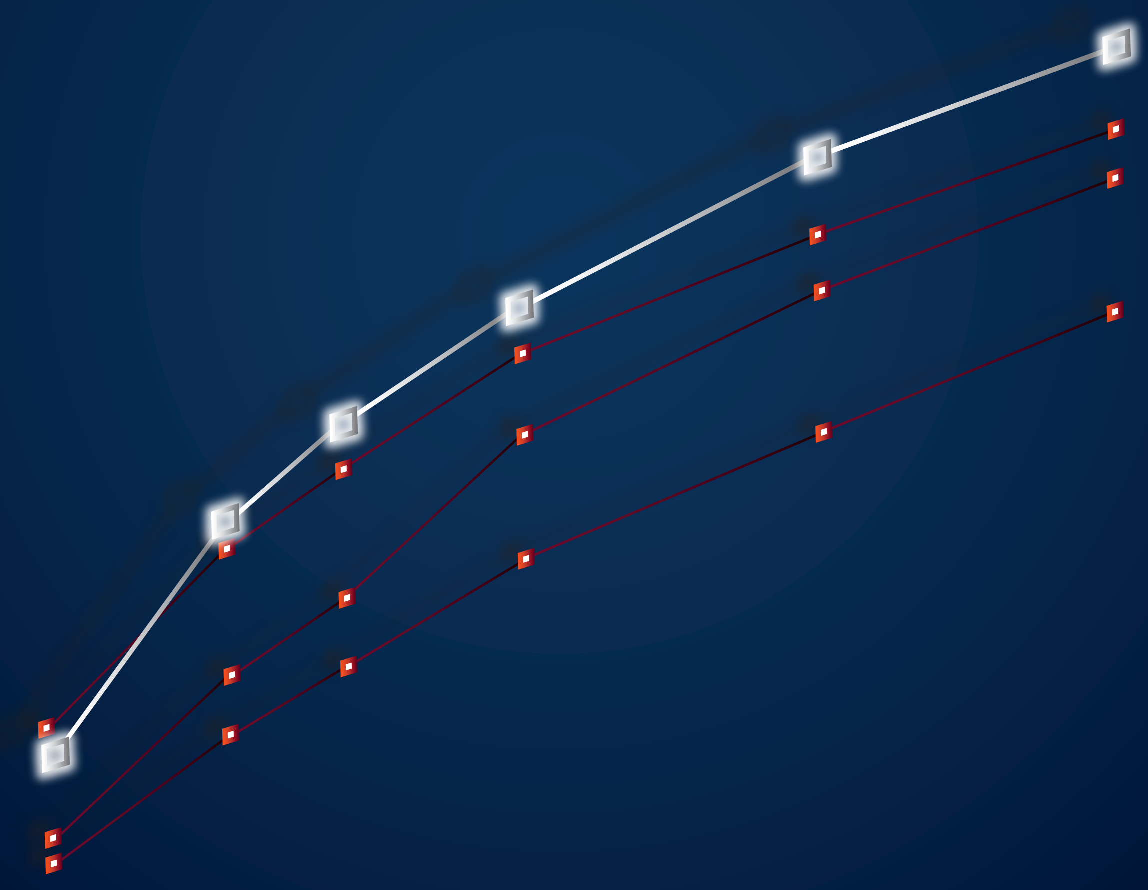
ASIA BOND MONITOR

SEPTEMBER 2009



Asian Development Bank

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The *Asia Bond Monitor* (ABM) reviews recent developments in East Asian local currency bond markets along with the outlook, risks, and policy challenges. The ABM covers the 10 Association of Southeast Asian Nations member countries plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

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Emerging East Asian Local Currency Bond Markets:
A Regional Update

Highlights

Bond Market Developments in the First Half of 2009

- The global economy has shown tentative signs of recovery in recent months as economic stimulus—both monetary and fiscal—has begun to take effect.

- Financial markets are recovering faster than expected, with credit spreads narrowing; corporate default risk decreasing; and stock markets staging a turnaround, with emerging Asia leading the way.

- Growth in emerging East Asia's local currency bonds outstanding recovered strongly in the first half of 2009, led by strong primary corporate debt markets and government bond issuance in support of fiscal stimulus.

- The corporate sector emerged as a more significant driver of growth than government issuance due to large funding needs for energy and infrastructure investments, as well as bank issuance to support capital adequacy ratios.

- Emerging East Asia's stock of treasury bills and central bank bills rose during the first half of the year, as steepening yield curves in most markets led to aggressive issuance of short-term bills by central banks, monetary authorities, and finance ministries.

- Government bond yield curves have steepened in most markets through August, reflecting much lower policy rates at the short end of the curve and market concerns over fiscal sustainability at the long end.

- G3 currency bond issuance by emerging East Asia's governments and corporations through early September was more than double the amount for all of 2008, due to both improved global market conditions and investor appetite for yield.

- In the first half of 2009, returns on LCY bonds declined slightly from their lackluster performance in 2008, as investors focused on the region's resurgent equity markets.

- State-owned enterprises remain the dominant players in many of the region's LCY corporate bond markets, with banks, infrastructure, and energy companies as primary issuers.

- Across emerging East Asian markets, credit spreads have tightened for higher-rated securities in most corporate bond markets compared with September 2008 levels; for lower-rated corporate credits, investors still demand substantial risk premiums.

- The lack of a more diverse corporate debt market, including a weak high-yield segment, remains a major shortcoming of LCY bond markets in the region.

Introduction: **Global and regional market developments**

The global economy has shown tentative signs of emerging from recession in recent months. Massive economic stimulus programs—combined with equally aggressive monetary easing—appear to have breathed some life into financial markets. Credit spreads have narrowed; corporate default risk has decreased; and stock markets staged a turnaround, with emerging Asia leading the way.

Emerging East Asia's participation in this recovery is being driven in large part by the People's Republic of China (PRC). The PRC's gross domestic product (GDP) growth rate of 7.9% in 2Q09, following growth of 6.1% in 1Q09, is evidence that the country's massive fiscal pump-priming, facilitated by bank lending, is effectively delivering on the government's promise of sustained growth amid the global economic crisis. These strong results are being driven by rapid loan growth as much as by increased bond issuance. Monetary easing and fiscal stimulus packages adopted by various governments in the region have helped to reinvigorate domestic demand, which is expected to support a recovery. Overall, the region is poised to stage a V-shaped recovery. Furthermore, the majority of this growth will be sourced from domestic rather than external demand as the global environment remains circumspect.

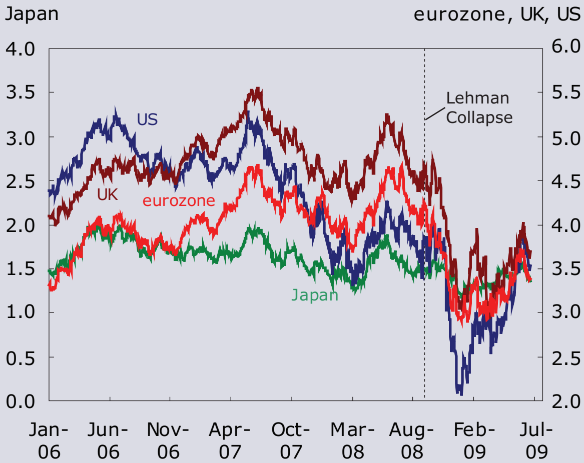
Emerging East Asia has moved beyond the worst of the economic dislocation and financial market instability seen in the wake of the Lehman Brothers bankruptcy and subsequent deterioration of global economic conditions. Stock markets have rebounded from lows, short-term funding costs have eased, investors' risk appetite has returned, foreign capital has begun to flow back into the region, and capital raising activities are back with a flurry. As mentioned above, resilient banking systems, easy monetary conditions, and fiscal and liquidity support in local markets have helped the region's financial markets to recover rapidly. However, stabilization in some economies and markets may have been achieved at a high fiscal cost. Global rating agencies have flagged concerns about deteriorating government balances, but remain confident overall about sovereign creditworthiness in the region.

Nevertheless, major risks to the market outlook remain, including: (i) a weaker than expected recovery in developed markets, which could prolong the current recession in some of these markets; (ii) premature monetary policy tightening; and (iii) a continuing trend toward a steepening of government bond yield curves in both emerging Asian and developed markets. The rise in longer-dated government bond yields seems to reflect a number of factors, ranging from investor concern that liquidity driven investments may generate a sudden inflation spike by the end of this year to simple competition for funding from resurgent stock markets. Discussions on exit strategies from easy monetary policies are creeping into the headlines and popping up on market radars, keeping bond investors on edge.

Emerging East Asian local currency (LCY) bond markets have shown resilience and emerged as an important source of funding for both regional governments and companies during volatile times. Local companies have aggressively tapped domestic bond markets to raise new funds and for refinancing, pushing corporate LCY bond issuance to record levels in some emerging East Asian markets. However, Asian government bond yields have been rising in recent weeks, surpassing their levels from end-2008 and even 3Q08.

Finally, the continued growth of the emerging East Asian bond market in recent years has given it respectable bulk. At the end of 1H09, the emerging East Asian market was valued at USD3.94 trillion, a modest increase from USD3.69 trillion at the end of 2008. As a point of comparison, this is about one third of the value of the Japanese market at end-2008. Of this amount, the PRC bond market accounted for USD2.2 trillion

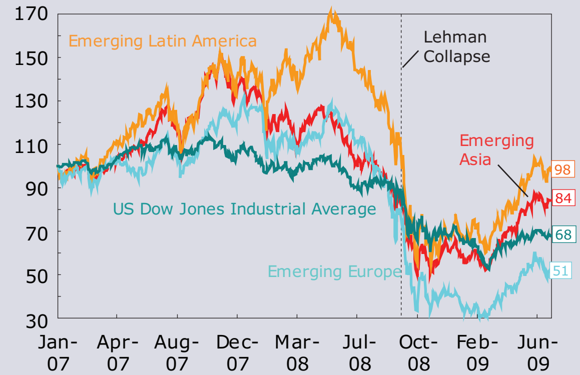
Figure A: 10-Year Government Bond Yields
(% per annum)



UK = United Kingdom, US = United States.

Source: Bloomberg LP.

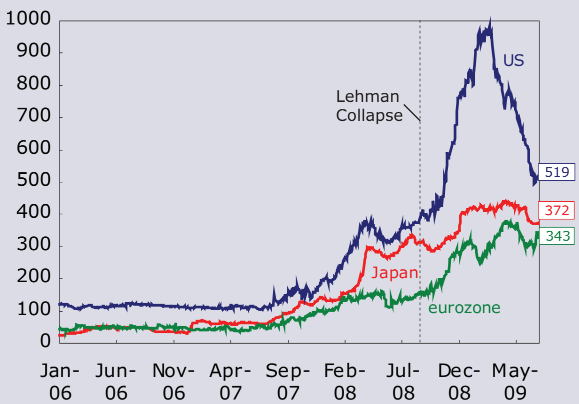
Figure C: MSCI Indexes
(January 2007 = 100)[1]



[1]Includes China, People's Rep. of; India; Indonesia; the Republic of Korea; Malaysia; Pakistan; Philippines; Taipei,China; and Thailand.

Sources: Morgan Stanley Capital International (MSCI) Barra and Bloomberg LP.

Figure B: Corporate Bond Spreads
basis points

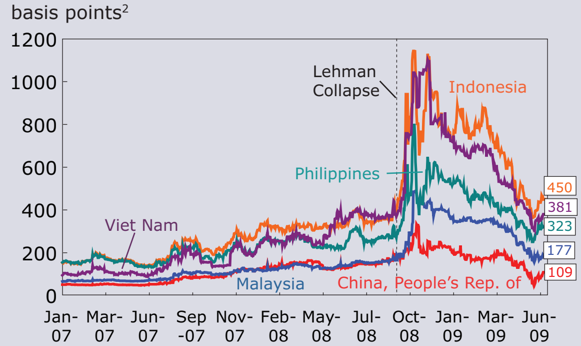


US = United States.
Note:
Bond spread refers to the difference between yields of 5-year bonds issued by BBB-rated finance companies and yields of sovereign benchmark bonds of the same tenor.

Source: Bloomberg LP.

Figure D: JP Morgan EMBI Sovereign Stripped Spreads

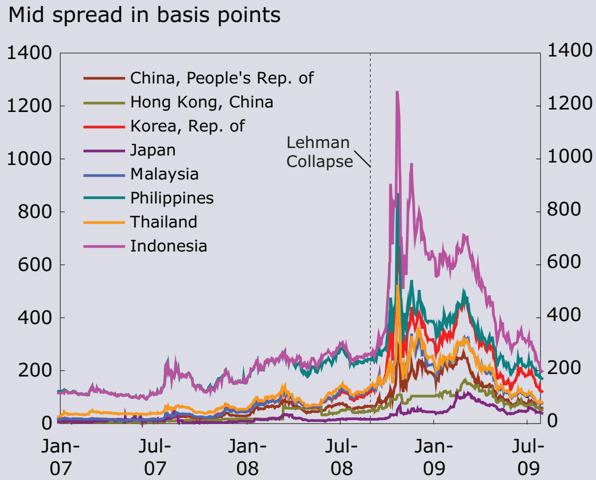
basis points[2]



[2]USD based on sovereign bonds.

Source: Bloomberg LP.

Figure E: Credit Default Swap Spreads
(senior 5-year)[3]



[3]In USD and based on sovereign bonds.

Source: Thomson DataStream.

Table A: Bonds Outstanding in Major Markets
(USD trillion)

	2008		1996	
	LCY Bonds Outstanding	% of World Total	LCY Bonds Outstanding	% of World Total
United States	24.62	41.3	10.93	42.8
Japan	11.08	18.6	4.46	17.4
France	2.92	4.9	1.30	5.1
Germany	2.59	4.3	1.89	7.4
United Kingdom	1.22	3.7	0.68	2.7
Emerging East Asia	3.69	6.2	0.50	2.0
of which: PRC	2.21	3.7	0.06	0.2
Emerging East Asia excl. PRC	1.48	2.5	0.44	1.7
of which: Republic of Korea	0.80	1.3	0.28	1.1
Brazil	0.86	1.4	0.30	1.2
India	0.43	0.7	0.08	0.3

LCY = local currency, PRC = People's Republic of China.
Note:
Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia: Philippines; Singapore; Thailand; and Viet Nam.

Source: Bank for International Settlements (BIS) and *AsianBondsOnline*.

and the rest of emerging East Asia comprised USD1.5 trillion. Outside of the PRC, the Republic of Korea (Korea) has the single largest bond market in emerging East Asia at USD800 billion.

Emerging East Asia comprised 6.2% of the total worldwide bond market at end-2008 compared to 2.0% in 1996. The PRC bond market alone was 3.7% of the worldwide total and roughly equal in size to larger European bond markets such as the United Kingdom's. In addition, Brazil's bond market was roughly equal in size to the Korean LCY market, while the Indian bond market was roughly one half the size of Brazil's and Korea's respective markets.

Bond Market Developments in the First Half of 2009

Size and Composition

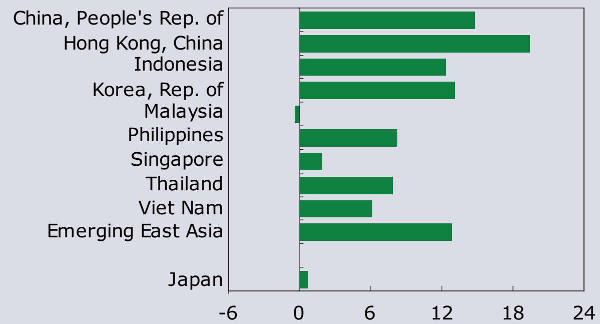
Growth in emerging East Asia's local currency bonds outstanding recovered strongly in the first half of 2009, led by strong primary corporate debt markets and government bond issuance in support of fiscal stimulus.

Emerging East Asia's[1] bond market grew by 12.8% year-on-year (y-o-y) on an local currency (LCY) basis to USD3.94 trillion in the first half of 2009 **(Table 1).** The market also expanded by 5.2% quarter-on-quarter (q-o-q) in 2Q09 as financial markets showed signs of stabilization and the region's growth showed signs of recovery. This lifted the growth rate for outstanding LCY bonds for the first half of the year.

In 4Q08, a combination of shrinking economic growth, loss of investor confidence, and a reversal of the need for the region's central banks to issue bonds for sterilization purposes sharply reduced bond market growth. The recovery trend first appeared during 1Q09, led by increased issuance of government debt to finance fiscal stimulus packages, and gathered strength the following quarter. The result was a dramatic expansion of emerging East Asia's bond markets during the first half of 2009.

The strongest improvements in y-o-y bond market growth rates on an LCY basis in the first half of 2009 were in Hong Kong, China (19.4%); the People's Repubic of China (PRC) (14.8%); the Republic of Korea (Korea) (13.1%); Indonesia (12.3%); and the Philippines (8.2%) **(Figure 1)**.

Figure 1: Growth of Emerging East Asian LCY Bond Markets in 1H09 (y-o-y %)



y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
3. Total emerging East Asia growth figure is based on end-June 2009 currency exchange rates and do not include currency effects.

Source: People's Republic of China *(ChinaBond)*; Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Comparing the increase of bonds outstanding in 2Q09 with bonds outstanding in 1Q09, the highest q-o-q growth rates were in Hong Kong, China (9.8%); the PRC (5.3%); Korea (5.3%); Singapore (5.0%); and Malaysia (4.6%).

In the first half of 2009, growth in government bonds was led by Hong Kong, China; Indonesia; and Korea.

The upward y-o-y trend in LCY bond market growth rates at the end of the first half of 2009 (LCY basis) was driven by the impressive growth rates of the government bond sector in Hong Kong, China (99.9%); Indonesia (14.9%); and Korea (10.7%) **(Figure 2).** The Hong Kong Monetary Authority

[1] Emerging East Asia consists of People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.

Table 1: Size and Composition of Emerging East Asian Local Currency Bond Markets

	1H08		1Q09		1H09		**Growth Rate** (LCY-base %)				**Growth Rate** (USD-base %)			
	Amount (USD billion)	**% share**	**Amount** (USD billion)	**% share**	**Amount** (USD billion)	**% share**	1H08		1H09		1H08		1H09	
							2Q08/ 1Q08	1H08/ IH07	2Q09/ 1Q09	1H09/ IH08	2Q08/ 1Q08	1H08/ IH07	2Q09/ 1Q09	1H09/ IH08
China, People's Rep. of														
Total	2,004	100.0	2,192	100.0	2,309	100.0	3.8	31.9	5.3	14.8	6.2	46.5	5.3	15.2
Government	1,819	90.7	1,899	86.6	1,954	84.6	3.8	30.9	2.9	7.0	6.2	45.4	2.9	7.4
Corporate	185	9.3	293	13.4	355	15.4	3.5	41.9	21.1	90.9	5.8	57.6	21.1	91.6
Hong Kong, China														
Total	93	100.0	101	100.0	111	100.0	(0.6)	(6.8)	9.8	19.4	(0.8)	(6.6)	9.8	20.1
Government	19	20.0	28	27.9	37	33.4	0.7	7.3	31.8	99.9	0.5	7.6	31.8	101.1
Corporate	74	80.0	73	72.1	74	66.6	(0.9)	(9.8)	1.3	(0.7)	(1.1)	(9.6)	1.3	(0.1)
Indonesia														
Total	83	100.0	73	100.0	84	100.0	(3.3)	(2.4)	1.0	12.3	(3.5)	(4.7)	15.8	1.5
Government	74	89.2	67	91.4	77	91.3	(3.5)	(3.5)	0.8	14.9	(3.7)	(5.8)	15.6	3.8
Corporate	9	10.8	6	8.6	7	8.7	(1.8)	7.7	2.6	(8.9)	(2.1)	5.2	17.6	(17.6)
Korea, Rep. of														
Total	968	100.0	796	100.0	901	100.0	2.7	9.5	5.3	13.1	(2.8)	(3.5)	13.2	(6.9)
Government	455	47.0	365	45.8	415	46.0	1.0	1.8	5.9	10.7	(4.5)	(10.3)	13.8	(8.9)
Corporate	513	53.0	432	54.2	486	54.0	4.3	17.3	4.8	15.2	(1.3)	3.3	12.6	(5.2)
Malaysia														
Total	187	100.0	160	100.0	174	100.0	6.0	27.2	4.6	(0.4)	3.6	34.4	8.5	(7.4)
Government	110	58.6	88	55.1	96	55.6	4.5	23.5	5.5	(5.5)	2.2	30.5	9.4	(12.1)
Corporate	78	41.4	72	44.9	77	44.4	8.2	32.9	3.5	6.8	5.8	40.4	7.4	(0.7)
Philippines														
Total	57	100.0	56	100.0	57	100.0	1.7	10.7	2.1	8.2	(5.7)	13.9	2.4	0.9
Government	53	92.8	51	91.2	51	89.2	0.8	8.8	(0.2)	4.0	(6.6)	12.0	0.1	(3.0)
Corporate	4	7.2	5	8.8	6	10.8	15.4	43.9	25.6	62.4	6.9	48.1	26.0	51.5
Singapore														
Total	139	100.0	120	100.0	133	100.0	2.7	15.5	5.0	1.9	4.1	29.9	10.4	(4.3)
Government	79	57.2	71	59.1	80	60.2	4.4	15.9	6.9	7.1	5.9	30.3	12.4	0.7
Corporate	59	42.8	49	40.9	53	39.8	0.4	14.9	2.2	(5.2)	1.8	29.3	7.4	(10.9)
Thailand														
Total	150	100.0	147	100.0	159	100.0	2.4	16.2	3.6	7.8	(3.9)	19.9	7.9	5.8
Government	121	80.6	119	80.5	126	79.0	1.6	19.1	1.6	5.6	(4.6)	22.9	5.8	3.6
Corporate	29	19.4	29	19.5	33	21.0	5.6	5.3	11.8	17.1	(0.9)	8.7	16.4	15.0
Viet Nam														
Total	12	100.0	12	100.0	12	100.0	0.1	42.5	2.4	6.1	(4.3)	36.5	2.4	0.4
Government	12	96.8	11	95.6	11	96.1	0.1	38.1	2.9	5.3	(4.2)	32.3	2.9	(0.4)
Corporate	0.4	3.2	0.5	4.4	0.5	3.9	0.0	4714.8	(8.3)	30.8	(4.3)	4511.3	(8.3)	23.8

Continued on next page

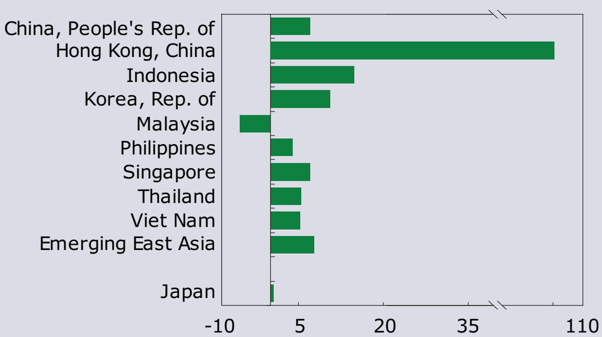
Table 1 continued

	1H08		1Q09		1H09		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
							1H08		1H09		1H08		1H09	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	2Q08/ 1Q08	1H08/ IH07	2Q09/ 1Q09	1H09/ IH08	2Q08/ 1Q08	1H08/ IH07	2Q09/ 1Q09	1H09/ IH08
Total Emerging East Asia														
Total	3,693	100.0	3,658	100.0	3,940	100.0	3.2	22.0	5.2	12.8	2.4	23.6	7.7	6.7
Government	2,741	74.2	2,698	73.8	2,847	72.3	3.0	22.9	3.6	7.8	3.0	27.3	5.5	3.9
Corporate	952	25.8	960	26.2	1,093	27.7	3.7	19.3	9.4	28.3	0.8	14.0	13.9	14.8
Less PRC														
Total	1,689	100.0	1,466	100.0	1,631	100.0	2.4	10.8	5.0	10.1	(1.7)	4.2	11.3	(3.4)
Government	922	54.6	799	54.5	893	54.8	1.4	8.1	5.3	9.5	(2.9)	2.2	11.7	(3.1)
Corporate	767	45.4	666	45.5	738	45.2	3.8	14.2	4.5	10.9	(0.3)	6.8	10.7	(3.8)
Japan														
Total	8,144	100.0	8,700	100.0	9,041	100.0	0.3	2.6	0.8	0.7	(5.7)	19.1	3.9	11.0
Government	7,321	89.9	7,811	89.8	8,118	89.8	0.2	2.6	0.8	0.6	(5.7)	19.1	3.9	10.9
Corporate	823	10.1	889	10.2	923	10.2	0.7	3.1	0.7	1.7	(5.3)	19.6	3.8	12.2

Note:
1. For Singapore, corporate bond quarterly figures are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
5. For LCY-base, total emerging East Asia growth figures are based on end-June 2009 currency exchange rates and do not include currency effects.
6. The q-o-q growth rate for 1H09 is defined as bonds outstanding as of end June 2009 (1H09 = 2Q09) over bonds outstanding as of end March 2009 (1Q09). The same principle applies to q-o-q growth rates for 1H08.

Source:
People's Republic of China *(ChinaBond)*; Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 2: Growth of Emerging East Asian LCY Government Bond Markets in 1H09 (y-o-y %)



y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
3. Total emerging East Asia growth figure is based on end-June 2009 currency exchange rates and do not include currency effects.

Source: People's Republic of China *(ChinaBond)*; Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

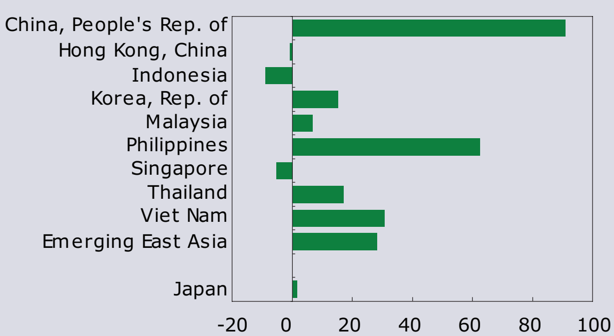
(HKMA) increased issuance of Exchange Fund bills and notes (EFBNs) for monetary policy purposes, while the Indonesian government aggressively issued bonds to help finance its fiscal stimulus program and compensate for the cessation of government bond issuance in 4Q08. The Korean government also issued to support its economic stimulus program and to provide assistance to the financial sector. The government bond sector grew at modest single-digit rates in most other markets and actually declined by 5.5% y-o-y in Malaysia, due primarily to a continued reduction in new bond issuance for sterilization purposes by Bank Negara Malaysia.

The corporate sector emerged as a more significant driver of LCY bond market growth in emerging East Asia in the first half of 2009 due to large funding needs for investments in energy and infrastructure, as well as issuance by the region's banks.

The size of the corporate bond market grew by 62.4% y-o-y in the Philippines, as leading blue chip corporates issued to fund investments in infrastructure and energy, and banks issued subordinated bonds to support their CARs **(Figure 3)**. In Korea's much-larger corporate bond market, state-owned companies and financial institutions have been aggressive issuers of KRW-denominated bonds this year, resulting in the Korean corporate bond market growing by 15.2% y-o-y in the first half of 2009. Substantial y-o-y corporate bond market growth was also reported for Viet Nam (30.8%), Thailand (17.1%), and Malaysia (6.8%). However, corporate bond market growth occurred from a very small base in the case of Viet Nam. The only corporate bond markets to decline in size on a y-o-y basis in the first half of 2009 were Hong Kong, China (–0.7%); Indonesia (–8.9%); and Singapore (–5.2%). Meanwhile, growth in the Hong Kong, China market was roughly flat on a q-o-q basis (1.3%), while Singapore's market grew by 2.2% and Indonesia's by 2.6%.

The PRC's corporate bond market reported exceptionally strong y-o-y growth of 90.9% in the first half of 2009. However, its q-o-q growth rates were 14.7% in 1Q09 and 21.1% in 2Q09. State-owned enterprises have been active issuers this year in the PRC, while growth of the newly created window for medium-term notes (MTNs) has been spectacular (see page 32). Furthermore, PRC banks have stepped up their bond issues **(Figure 4)**, mostly in the form of subordinated bonds to support their capital base amid expanding loan activity this year. The rapid increase of LCY subordinated debt (subdebt) bond issuance is taking place in most other markets as well.

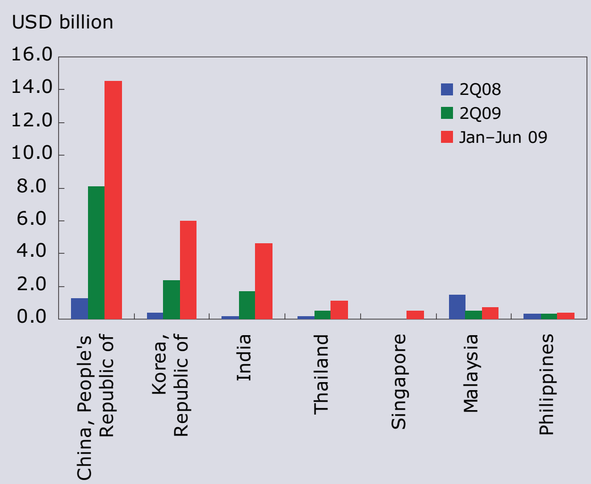
Figure 3: Growth of Emerging East Asian LCY Corporate Bond Markets in 1H09 (y-o-y %)



y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Corporate bonds include issues by financial institutions.
3. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
4. Total emerging East Asia growth figure is based on end-June 2009 currency exchange rates and do not include currency effects.

Source: People's Republic of China *(ChinaBond)*; Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 4: Bank Subdebt Issuance (year-to-date)



Source: Bloomberg LP.

Table 2: Size and Composition of Emerging East Asian Local Currency Bond Markets (% of GDP)

	1H08	2H08	1H09
China, People's Rep. of			
Total	56.8	50.2	52.4
Government	51.6	44.4	44.3
Corporate	5.3	5.8	8.1
Hong Kong, China			
Total	44.7	42.5	51.4
Government	8.9	9.2	17.2
Corporate	35.8	33.3	34.2
Indonesia			
Total	19.8	15.7	19.3
Government	17.6	14.2	17.6
Corporate	2.1	1.5	1.7
Korea, Rep. of			
Total	93.0	100.5	110.9
Government	43.7	45.3	51.0
Corporate	49.3	55.1	59.8
Malaysia			
Total	96.9	76.5	81.3
Government	56.7	41.7	45.2
Corporate	40.2	34.8	36.1
Philippines			
Total	35.2	36.3	36.5
Government	32.6	33.4	32.6
Corporate	2.5	2.8	3.9
Singapore			
Total	79.3	71.9	74.1
Government	45.4	40.6	44.6
Corporate	33.9	31.2	29.5
Thailand			
Total	59.6	53.8	60.6
Government	48.0	42.8	47.9
Corporate	11.5	11.0	12.7
Viet Nam			
Total	16.7	15.3	14.1
Government	16.1	14.7	13.6
Corporate	0.6	0.6	0.6
Total Emerging East Asia			
Total	61.1	54.6	58.2
Government	45.3	40.6	42.1
Corporate	15.7	14.0	16.2
Japan			
Total	176.5	170.2	161.7
Government	158.7	152.9	145.2
Corporate	17.8	17.2	16.5

Note:
GDP data are from CEIC. 2007 annual GDP was used for the calculation of bonds outstanding as a percentage of GDP for 1H08; 2008 annual GDP was used for 4Q08 and 1H09.

Source: People's Republic of China *(ChinaBond)*, Hong Kong, China (Hong Kong Monetary Authority), Indonesia (Indonesia Stock Exchange and Bank Indonesia), Republic of Korea (Bank of Korea and *KoreaBondWeb*), Malaysia (Bank Negara Malaysia), Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

The ratio of LCY bonds to GDP in emerging East Asia stood at 58.2% at the end of the first half of 2009, up from 54.6% at the end of the second half of 2008, and from 54.0% at the end of 1Q09 **(Table 2)**. The ratio for the first half of 2009 remains lower than the 61.1% recorded in the first half of 2008. The three markets that accounted for the largest declines between the first halves of 2008 and 2009, expressed as a percentage of GDP, were Malaysia (–15.57%), Singapore (–5.16%), and the PRC (–4.43%).

LCY Bond Issuance

LCY bond issuance jumped in the first half of 2009 as companies in several markets raised funds to cover slower bank lending and take advantage of improving investor appetite.

LCY issuance in 1Q09 for emerging East Asia as a whole rose by 14.0% q-o-q, following a decline of 15.1% in 4Q08. These first quarter results were followed in 2Q09 by a rise of 53.8% q-o-q, or 44.0% y-o-y **(Table 3)**.

Table 3: Local Currency-Denominated Bond Issuance (Gross)

	LCY billion		USD billion		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	2Q09	% share	2Q09	% share	2Q09		2Q09	
					2Q09/ 1Q09	2Q09/ 2Q08	2Q09/ 1Q09	2Q09/ 2Q08
China, People's Rep. of								
Total	2,287	100.0	335	100.0	118.4	33.7	118.5	34.2
Government	1,771	77.4	259	77.4	163.4	13.7	163.5	14.1
Corporate	516	22.6	76	22.6	37.7	235.6	37.7	236.7
Hong Kong, China								
Total	1,207	100.0	156	100.0	82.2	223.9	82.2	225.9
Government	1,149	95.2	148	95.2	88.4	261.8	88.4	264.0
Corporate	57	4.8	7	4.8	9.6	4.6	9.6	5.3
Indonesia								
Total	353,054	100.0	35	100.0	(25.0)	(30.5)	(14.0)	(37.2)
Government	332,833	94.3	33	94.3	(28.9)	(33.5)	(18.5)	(39.9)
Corporate	20,221	5.7	2	5.7	819.1	154.4	953.5	129.9
Korea, Rep. of								
Total	169,561	100.0	133	100.0	44.0	140.8	54.8	98.2
Government	149,406	88.1	117	88.1	65.4	161.6	77.8	115.3
Corporate	20,155	11.9	16	11.9	(26.5)	51.4	(21.0)	24.6
Malaysia								
Total	76	100.0	22	100.0	(7.7)	(34.7)	(4.3)	(39.3)
Government	50	65.8	14	65.8	(27.3)	(42.0)	(24.6)	(46.1)
Corporate	26	34.2	7	34.2	91.7	(13.8)	98.8	(19.9)
Philippines								
Total	139	100.0	3	100.0	(58.1)	(13.2)	(58.0)	(19.1)
Government	78	56.5	2	56.5	(73.7)	(42.7)	(73.6)	(46.6)
Corporate	60	43.5	1	43.5	80.3	162.2	80.8	144.5
Singapore								
Total	45	100.0	31	100.0	22.0	11.5	28.2	4.7
Government	42	94.5	29	94.5	19.2	9.6	25.3	3.0
Corporate	2	5.5	2	5.5	103.2	58.3	113.6	48.8
Thailand								
Total	2,995	100.0	88	100.0	(0.6)	(1.7)	3.5	(3.5)
Government	2,704	90.3	79	90.3	(4.1)	2.3	(0.2)	0.4
Corporate	291	9.7	9	9.7	51.4	(27.7)	57.7	(29.0)
Viet Nam								
Total	8,310	100.0	0.5	100.0	219.6	592.5	219.6	555.3
Government	7,310	88.0	0.4	88.0	181.2	3555.0	181.1	3358.7
Corporate	1,000	12.0	0.1	12.0	0.0	0.0	0.0	(5.4)

Continued on next page

Table 3 continued

	LCY billion		USD billion		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	2Q09	% share	2Q09	% share	2Q09		2Q09	
					2Q09/ 1Q09	2Q09/ 2Q08	2Q09/ 1Q09	2Q09/ 2Q08
Total Emerging East Asia								
Total	n.a.	n.a.	802	100.0	53.8	44.0	59.3	38.4
Government	n.a.	n.a.	682	85.1	59.8	38.0	66.0	32.9
Corporate	n.a.	n.a.	120	14.9	26.8	90.6	29.5	81.4
Less PRC								
Total	n.a.	n.a.	467	100.0	26.9	52.3	33.4	41.7
Government	n.a.	n.a.	423	90.5	28.7	58.8	35.3	47.8
Corporate	n.a.	n.a.	44	9.5	11.7	9.6	17.4	1.3
Japan								
Total	41,948	100.0	436	100.0	(1.1)	3.4	2.0	14.0
Government	37,332	89.0	388	89.0	(1.6)	5.8	1.5	16.7
Corporate	4,616	11.0	48	11.0	2.9	(13.0)	6.1	(4.0)

n.a. = not applicable.
Note:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. For LCY-base, total emerging east Asia growth figures are based on end-June 2009 currency exchange rates and do not include currency effects.

Source: People's Republic of China *(ChinaBond)*; Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bloomberg LP); Republic of Korea (Bank of Korea); Malaysia (Bloomberg LP); Philippines (Bloomberg LP); Singapore (Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

The impressive uptick in 2Q09 issuance, whether calculated on a q-o-q or y-o-y basis, was due to large issuances in specific segments of a few markets. For example, in the public sector, there may have been large increases in central government bonds rather than central bank bonds, reflecting increased issuance mainly to finance rising fiscal deficits.

The buoyancy in primary corporate issuance reflects improved investor sentiment. This gave hope to companies seeking fresh funds or facing substantial refinancing needs, as banks remained cautious about lending in the current environment. Under current circumstances, these new issuance trends encouraged domestic companies. However, only specific sectors, such as infrastructure and banking, issued large amounts of bonds. And, as mentioned previously, most of the increase in PRC corporate bond issuance came from MTNs.

There were several main drivers of 2Q09 issuance in q-o-q terms:

- a 163% increase in PRC government bond issuance; and
- an 88% increase in government bond issuance in Hong Kong, China.

In y-o-y terms, the 44.0% increase in total issuance in 2Q09 was due to the following:

- a 236% increase in PRC corporate bond issuance;
- a 262% increase in government bond issuance in Hong Kong, China;
- a 162% increase in Korean government bond issuance, accompanied by a 51% increase in Korean corporate bond issuance; and

- a large increase in corporate bond issuance in the Philippines (162%) and a more modest, yet still significant, increase in corporate bond issuance in Singapore (58%).

These increases offset substantial y-o-y declines in the issuance of Indonesian and Philippine government bonds, Thai corporate bonds, and government and corporate bonds in Malaysia.

Thus, whether viewed on a q-o-q or y-o-y basis, the recovery of bond issuance in the region in 2Q09 was impressive, but the extent of the recovery varied greatly across markets.

Government bond issuance in Viet Nam rose dramatically, both on a y-o-y and q-o-q basis, as did corporate issuance in Indonesia. In both cases, however, these large increases came from a very small base.

The analysis of 2Q09 issuance clearly shows the diversity among emerging East Asian bond markets, reflecting the different economic and financial cycles of individual economies and bond markets in the region.

Also, short-term bills issued by many governments and central banks rose dramatically in several markets. This increase in short-term government and central bank issuance—plus the need to roll over large amounts of bills outstanding—inflated issuance growth rates in some markets.

Money Market Trends and Bills-to-Bonds Ratios

Emerging East Asia's stock of treasury bills and central bank bills rose in 2Q09 as steepening yield curves in most markets led to aggressive issuance of short-term bills by central banks, monetary authorities, and finance ministries.

The value of LCY treasury bills reached USD162.4 billion—up 15.7% q-o-q and 40.0% y-o-y on an LCY basis—while central bank bills reached USD510 billion at the end of the first half of 2009—an increase of 12.0% q-o-q and 28.0% y-o-y on an LCY basis.

The stock of treasury and central bank bonds declined by a modest 4.0% in 1H09 on a y-o-y basis, while remaining roughly flat between 1Q09 and 2Q09 **(Table 4)**. These trends resulted in a substantial increase in the bills-to-bonds ratios in the first half of 2009 for most government and central bank bills markets, with bills defined as having maturities of 1 year or less.

The bills-to-bonds ratio for treasury bills in the region rose from 0.07 in 1H08 to 0.11 in 1H09, while the bills-to-bonds ratio for the much larger central bank bills market rose from 0.25 in 1H08 to 0.35 in 1H09. The data for treasury and central bank bills also shows that the increase for government debt markets—on the basis of bonds outstanding and new issuance of bonds—has consisted in large part of short-dated debt. Issuance of short-dated debt in such large amounts allows governments and central bank issuers to pay lower interest rates. However, it also increases the stock of short-term debt and increases future refinancing or rollover risks.

This analysis of short-term debt, comprising government and central bank bills, versus longer-term debt can be simplified by combining central bank and treasury bills for a given market into a single figure that is compared with total government sector bonds, comprising securities with maturities

Table 4: Government Bills-to-Bonds Ratios of Emerging East Asian Local Currency Bond Markets

	1H08		4Q08		1H09		Government Bills to Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	1H08	4Q08	1H09	1H09		1H09	
										2Q09/ 1Q09	1H09/ 1H08	2Q09/ 1Q09	1H09/ 1H08
China, People's Rep. of													
Total	1,328.0	100.0	1,406.7	100.0	1,352.4	100.0				0.9	1.5	0.9	1.8
Treasury Bills	67.6	5.1	82.1	5.8	103.4	7.6	0.07	0.08	0.12	21.6	52.3	21.6	52.9
Central Bank Bills	293.4	22.1	354.3	25.2	368.3	27.2	0.30	0.37	0.42	4.2	25.1	4.2	25.5
Bonds	967.0	72.8	970.2	69.0	880.8	65.1				(2.4)	(9.2)	(2.3)	(8.9)
Hong Kong, China													
Total	18.5	100.0	20.3	100.0	37.2	100.0				31.8	99.9	31.8	101.1
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.0	0.0	0.0	0.0
Central Bank Bills	10.1	54.7	11.7	57.6	28.4	76.2	1.21	1.36	3.20	45.6	178.3	45.6	180.0
Bonds	8.4	45.3	8.6	42.4	8.9	23.8				1.0	5.1	1.0	5.7
Indonesia													
Total	74.3	100.0	62.3	100.0	76.1	100.0				(0.3)	13.4	14.3	2.5
Treasury Bills	0.6	0.8	0.9	1.4	2.4	3.2	0.01	0.02	0.05	15.3	372.6	32.2	327.1
Central Bank Bills	17.9	24.1	15.9	25.5	21.9	28.8	0.32	0.35	0.42	(3.9)	35.4	10.1	22.4
Bonds	55.8	75.1	45.5	73.1	51.8	68.0				0.7	2.6	15.4	(7.2)
Korea, Rep. of													
Total	372.5	100.0	285.9	100.0	348.9	100.0				15.1	13.8	23.7	(6.3)
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.0	0.0	0.0	0.0
Central Bank Bills	24.2	6.5	12.9	4.5	53.8	15.4	0.07	0.05	0.18	145.4	169.9	163.7	122.1
Bonds	348.3	93.5	273.0	95.5	295.0	84.6				4.9	2.9	12.7	(15.3)
Malaysia													
Total	104.2	100.0	85.7	100.0	94.4	100.0				6.0	(2.6)	9.9	(9.5)
Treasury Bills	1.3	1.3	1.2	1.5	1.2	1.3	0.02	0.02	0.02	0.0	0.0	3.7	(7.0)
Central Bank Bills	29.3	28.1	12.3	14.3	12.4	13.2	0.40	0.17	0.15	(1.8)	(54.3)	1.8	(57.6)
Bonds	73.6	70.6	72.2	84.2	80.7	85.5				7.4	17.9	11.4	9.6
Philippines													
Total	50.9	100.0	50.6	100.0	49.2	100.0				(0.4)	3.8	(0.1)	(3.2)
Treasury Bills	16.5	32.5	16.3	32.1	14.1	28.7	0.48	0.47	0.40	(11.5)	(8.3)	(11.2)	(14.5)
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.0	0.0	0.0	0.0
Bonds	34.3	67.5	34.4	67.9	35.1	71.3				4.8	9.6	5.1	2.2

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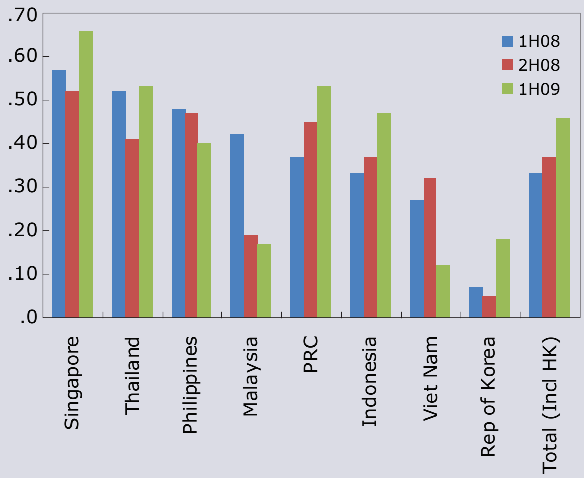
Table 4 continued

	1H08		4Q08		1H09		Government Bills to Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	1H08	4Q08	1H09	1H09		1H09	
										2Q09/ 1Q09	1H09/ 1H08	2Q09/ 1Q09	1H09/ 1H08
Singapore													
Total	79.4	100.0	72.8	100.0	79.9	100.0				6.9	7.1	12.4	0.7
Treasury Bills	28.7	36.1	25.0	34.3	31.8	39.8	0.57	0.52	0.66	11.4	17.9	17.1	10.8
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.0	0.0	0.0	0.0
Bonds	50.7	63.9	47.8	65.7	48.1	60.2				4.2	1.0	9.5	(5.1)
Thailand													
Total	99.3	100.0	87.3	100.0	100.0	100.0				4.6	2.6	8.9	0.7
Treasury Bills	4.2	4.2	2.3	2.7	8.9	8.9	0.06	0.04	0.14	29.0	115.5	34.2	111.6
Central Bank Bills	30.0	30.2	23.2	26.6	25.6	25.7	0.46	0.38	0.39	1.9	(12.9)	6.1	(14.5)
Bonds	65.1	65.6	61.7	70.7	65.5	65.5				3.0	2.5	7.2	0.6
Viet Nam													
Total	6.6	100.0	7.1	100.0	5.8	100.0				(0.5)	(6.6)	(0.5)	(11.6)
Treasury Bills	0.0	0.0	0.6	8.2	0.6	11.0	0.00	0.11	0.12	1.0	0.0	1.0	0.0
Central Bank Bills	1.4	21.3	1.2	16.2	0.0	0.0	0.27	0.22	0.00	0.0	(100.0)	0.0	(100.0)
Bonds	5.2	78.7	5.4	75.5	5.2	89.0				(0.7)	5.7	(0.7)	0.0
Total Emerging East Asia													
Total	2,133.6	100.0	2,078.8	100.0	2,143.9	100.0				3.9	4.7	6.1	0.5
Treasury Bills	118.9	5.6	128.5	6.2	162.4	7.6	0.07	0.08	0.11	15.7	40.0	17.5	36.6
Central Bank Bills	406.4	19.0	431.4	20.8	510.4	23.8	0.25	0.28	0.35	12.0	28.0	13.5	25.6
Bonds	1,608.4	75.4	1,518.9	73.1	1,471.0	68.6				0.3	(4.0)	2.6	(8.5)
Less PRC:													
Total	805.6	100.0	672.1	100.0	791.4	100.0				9.6	10.7	16.2	(1.8)
Treasury Bills	51.3	6.4	46.3	6.9	59.0	7.5	0.08	0.08	0.10	6.7	22.5	10.8	15.2
Central Bank Bills	113.0	14.0	77.1	11.5	142.2	18.0	0.18	0.14	0.24	39.3	36.3	47.8	25.9
Bonds	641.4	79.6	548.7	81.6	590.2	74.6				4.5	4.9	11.1	(8.0)
Japan													
Total	6,425.1	100.0	7,473.2	100.0	7,074.5	100.0				0.7	(0.1)	3.8	10.1
Treasury Bills	214.7	3.3	188.3	2.5	233.6	3.3	0.04	0.03	0.04	7.1	(1.3)	10.5	8.8
Central Bank Bills	1,163.3	18.1	1,208.1	16.2	976.8	13.8	0.23	0.20	0.17	(3.9)	(23.8)	(0.9)	(16.0)
Bonds	5,047.2	78.6	6,076.8	81.3	5,864.1	82.9				1.2	5.4	4.4	16.2

Note:
1. Bloomberg LP end-of-period LCY–USD rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. For LCY-base, total emerging East Asia growth figures are based on end-June 2009 currency exchange rates and do not include currency effects.
4. Total figures per market refer to bills and bonds issued by the central government and the central bank. It excludes bonds issued by policy banks and state-owned enterprises. Bills are defined as securities with original maturities of less than one year.
5. The q-o-q growth rate for 1H09 is defined as bonds outstanding as of end June 2009 (1H09 = 2Q09) over bonds outstanding as of end March 2009 (1Q09). The same principle applies to q-o-q growth rates for 1H08.

Source: People's Republic of China *(ChinaBond)*; Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bloomberg LP); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore); Thailand (Bloomberg LP); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

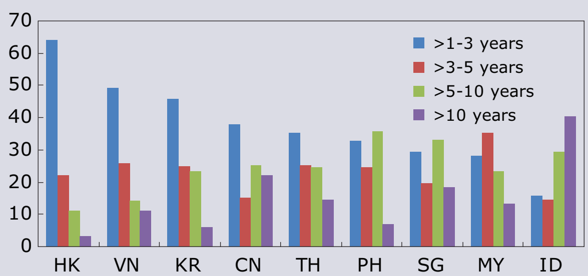
Figure 5: Ratio of Total Bills To Bonds



Note:
Total bills comprise central bank bills plus treasury bills. Bonds comprise long-term bonds (more than 1 year in maturity) issued by central governments and central banks.

Source: *AsianBondsOnline*.

Figure 6: Maturity Profile
(individual maturities as % of total)



CN = People's Republic of China; HK = Hong Kong, China; ID = Indonesia; KR = Republic of Korea; MY = Malaysia; PH = Philippines; SN = Singapore; TH = Thailand; VN = Viet Nam.
Note: Data is as of end 2Q09.

Source: *AsianBondsOnline*.

in excess of 1 year that were issued by either the central government or central bank in a given market **(Figure 5)**. The ratio of total bills to bonds has risen significantly for most markets in recent quarters. Furthermore, this ratio has risen even more rapidly for the region as a whole when Hong Kong, China is factored in. Hong Kong, China was not included because to its bills-to-bonds ratio was so much higher than other markets (e.g., a ratio of 1.21 at the end 4Q08 and 3.20 at the end of 2Q09).

Maturity Structure

The maturity structure in emerging East Asian bond markets—defined as debt securities with maturities exceeding 1 year—favors the shorter end of the profile in most LCY markets.

In emerging East Asia's government bond markets, maturities are concentrated at the shorter end of the curve (1–3 years), especially in Hong Kong, China; Viet Nam; and Korea **(Figure 6)**. The concentration of maturities in the 1–3 year range rose from 52% at the end of 2Q08 to 64% at the end of 2Q09 in Hong Kong, China; from 25% to 29% in Singapore; and from 14% to 16% in Indonesia.

On the other hand in the PRC, the 1–3 year share of total maturities fell from 42% at the end of 2Q08 to 37% at the end of 2Q09; and from 39% to 33% in the Philippines. The share of total maturities in the 1–3 year range remained roughly unchanged in Korea and Malaysia over the same period.

In Korea, Malaysia, and the Philippines, maturities in the 3–5 year and 5–10 year range account for around 50% of the total government bond market. There is little transaction volume at the long end of the curve for most emerging East Asian government bonds, with the exception of Indonesia, where bonds with maturities in excess of 10 years account for almost 40% of total bonds outstanding. This maturity structure reflects a conscious policy on the part of the Indonesian government, which was forced to restructure its relatively small stock of US dollar bonds during the 1997/98 Asian financial crisis. Thus, the Indonesian government has remained mindful of the rollover risks created by an inappropriate maturity structure.

In other government bond markets in the region, maturities in excess of 10 years account for 7% or less of the total in Korea; the Philippines; and Hong Kong, China; and between 13% and 22% in Viet Nam, PRC, Singapore, and Malaysia.

Turnover

As a measure of market liquidity, turnover was decidedly mixed across emerging East Asia in the first half of 2009.

In keeping with past trends, turnover for government bonds was generally higher than corporate bonds, except in the PRC **(Figure 7)**. However, in the markets reviewed, government bond turnover ratios rose in four of these markets between 1Q09 and 2Q09—the PRC; Hong Kong, China; Indonesia; and Korea—and fell in four other markets—Japan; Thailand; Singapore; and the Philippines—while remaining essentially unchanged in Malaysia. As in the past, the government bond turnover ratio for Hong Kong, China was far larger than most other market turnover ratios—by a factor of 10 or more.

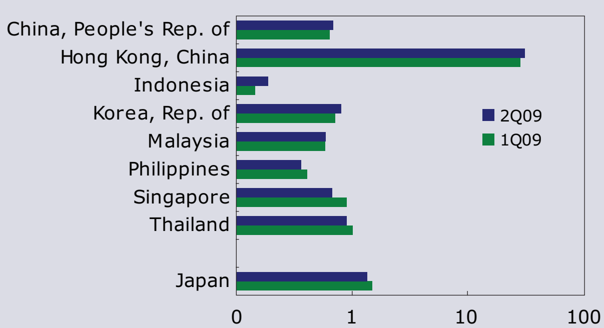
Past patterns were also maintained in the turnover ratio for corporate bonds **(Figure 8)**. The PRC's turnover ratio is larger than that of most other markets by at least a factor of four. In fact, the PRC's corporate bond turnover ratio is slightly higher than most Asian government bond markets. The PRC corporate bond turnover ratio is even larger than the PRC's own government bond turnover ratio. What is more, the PRC's corporate bond turnover ratio rose slightly in 2Q09 over 1Q09 levels, as did the corporate bond turnover ratios for Hong Kong, China; Indonesia; and Malaysia. Meanwhile, the corresponding ratios for Japan, Thailand, and Korea fell between 1Q09 and 2Q09.

Government Bond Yields

Government bond yield curves have steepened in most markets through August, reflecting much lower policy rates at the short end of the curve and market concerns over fiscal sustainability at the longer end.

In recent months, government bond yield curves have steepened, apparently imitating the US government bond yield curve, which has approached its end-September 2008 level at the longer end of the curve **(Figure 9)**. The long end of government bond yield curves in some markets—including the Philippines; PRC; Korea; and Hong Kong, China—

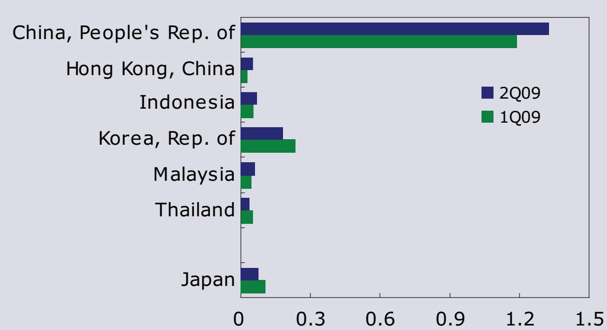
Figure 7: Government Bond Turnover Ratios[1]



[1]Calculated as local currency (LCY) trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.
Note:
Figure 7 is based on a logarithmic scale.

Source: China, People's Republic of *(ChinaBond)*; Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Korea, Republic of *(KoreaBondWeb)*; Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore and Singapore Government Securities); Thailand (Thai Bond Market Association); and Japan (Japan Securities Dealers Association).

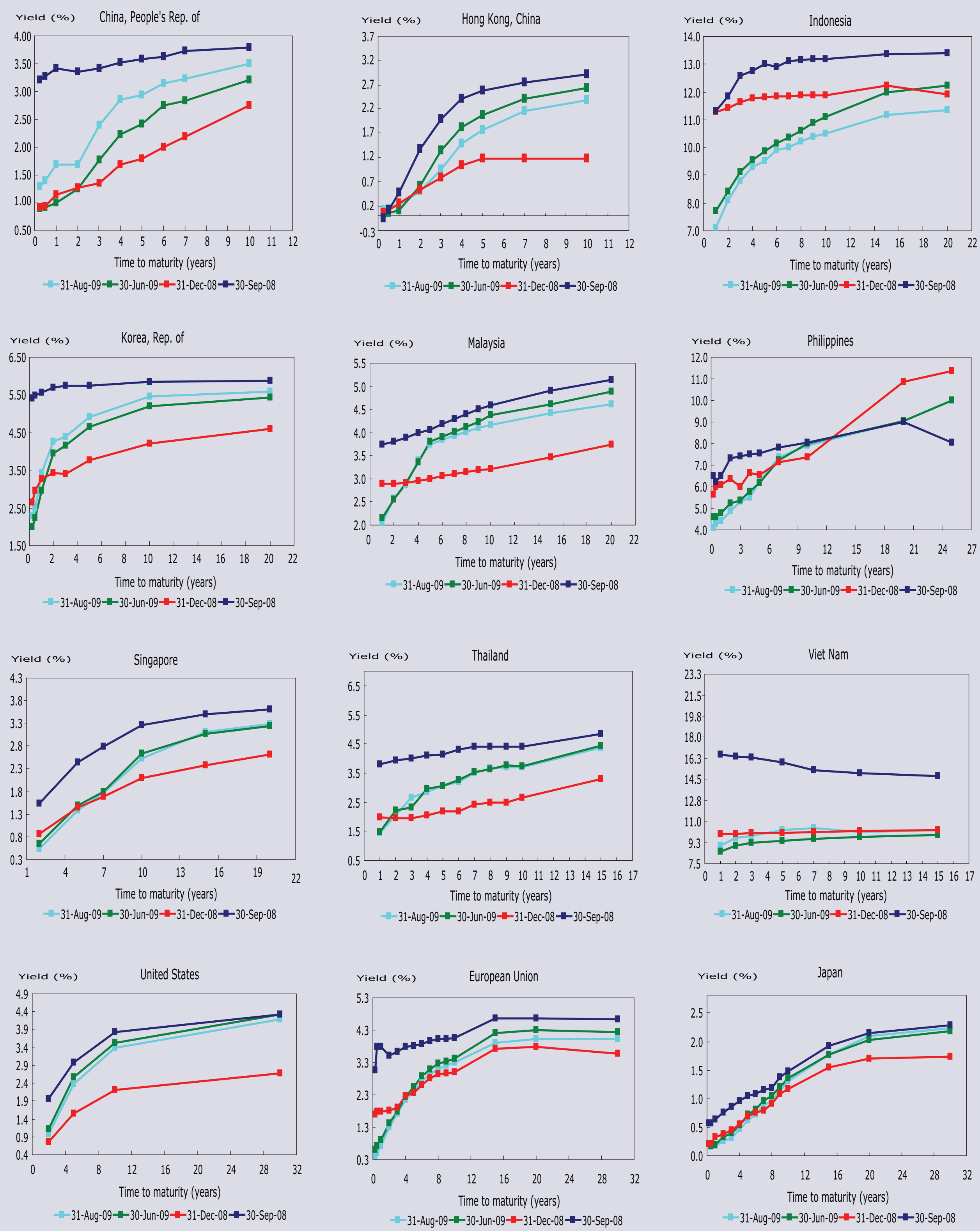
Figure 8: Corporate Bond Turnover Ratios[1]



[1]Calculated as local currency (LCY) trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.

Source: China, People's Republic of *(ChinaBond)*; Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Korea, Republic of *(KoreaBondWeb)*; Malaysia (Bank Negara Malaysia); Thailand (Thai Bond Market Association); and Japan (Japan Securities Dealers Association).

Figure 9: Benchmark Yield Curves—Local Currency Bonds



Source: Based on data from Bloomberg.

have either converged with their September 2008 yield levels or appear about to do so. The long end of government bond yield curves in Malaysia and Thailand are close to their end-September 2008 levels, but are either moving away from these levels (Malaysia) or have simply converged with end-June 2009 levels (Thailand).

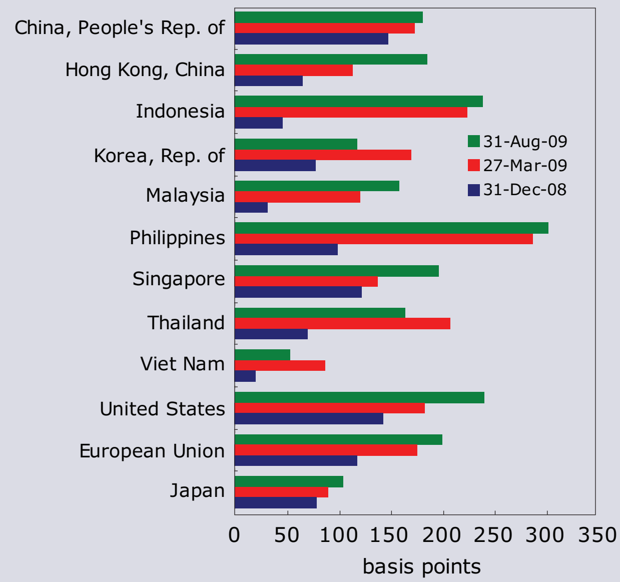
In all of these cases, the short end of the curve is dramatically lower than the end-September 2008 levels and, in most cases, the short end of the curve is below end-December 2008 levels. The most dramatic example of this is the Philippines, whose yield curve lies well below its end-September 2008 level for maturities of less than 10 years and below its end-December 2008 level for maturities of less than 8 years.

The only LCY government bond yield curves that sit well below their end-September 2008 levels are those of Indonesia and Viet Nam. Viet Nam's government bond curve is currently close to its end-December 2008 level, except at the very short end, which is slightly below the end-December 2008 level. Meanwhile, the entire Indonesian curve is well below its end-December 2008 level.

The reason for these trends would seem to include investor concern over the long-term fiscal implications of current economic stimulus programs; the strong recovery in equity markets in the region; and the newly revitalized US dollar bond market for Asian issuers—where coupons on a wide range of sovereign and quasi-sovereign issues are frequently more attractive than coupons for comparable bonds in the region's LCY bond markets, especially when adjusted for foreign exchange rate risk.

The reasons behind this steepening apply mainly to the portion of the curve for maturities 10 years or below. In some markets, the curve for maturities beyond 10 years appears to be simply shifting upward rather than steepening. Most of this shifting, rather than steepening, can probably be explained by the maturity structure that favors the short end. The proportion of bonds outstanding with maturities beyond 10 years tends to be very small. In Korea; the Philippines; and Hong Kong, China; bonds outstanding in excess of 10 years are around 5.0% of the total. These trends reflect the reluctance of investors to take longer-dated risk in their markets, as well as the reluctance of issuers to pay the higher coupons necessary to issue longer-dated bonds.

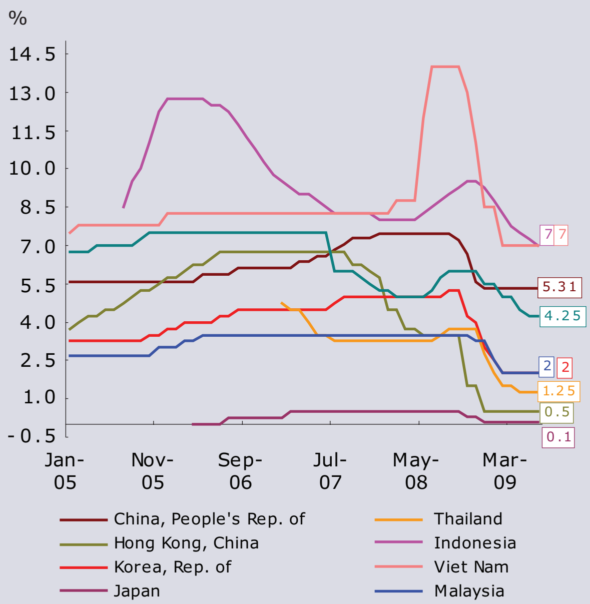
Figure 10: Yield Spread Between 2- and 10-Year Government Bonds



Source: Bloomberg LP.

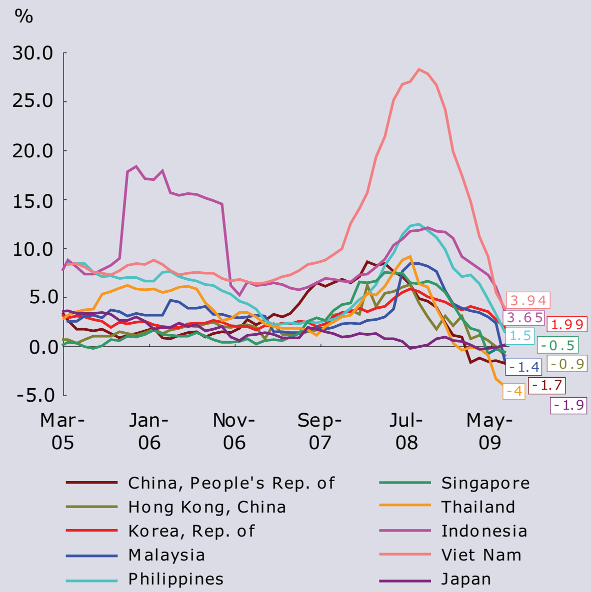
The trend toward rising long-term yields against lower short-term yields can be seen more clearly by examining spreads between yields for 2- and 10-year government bonds for major markets in the region **(Figure 10)**. The overall trend is for progressively higher yield spreads between the two tenors. The increase in the yield spread for Singapore and Hong Kong, China increased dramatically between 27 March and 31 August of this year, following the trend in the US bond market. Indonesia, the Philippines, and Thailand had especially large increases in their yield spreads between end-December 2008 and 27 March 2009. However, Thailand, along with Korea and Viet Nam, saw a modest decline in its yield spread between 27 March and 31 August this year.

Figure 11: Policy Rates (June 2009)



Source: Bloomberg LP except for Viet Nam (State Bank of Viet Nam).

Figure 12: Headline Inflation Rates (June 2009)



Source: Bloomberg LP.

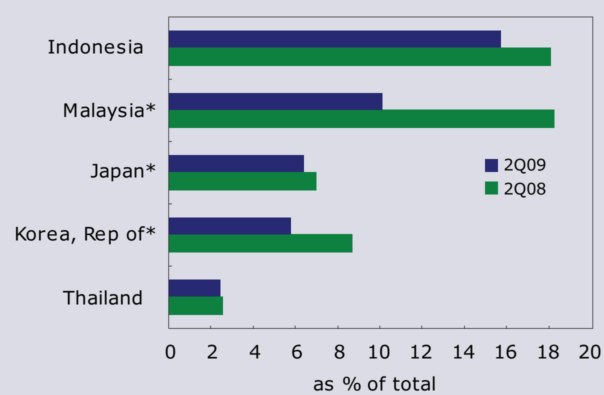
An additional factor pushing government bond yields higher is investor concern that the monetary easing posture of central banks in the region may be coming to an end. This reflects a number of global issues, including concerns over increasing commodity prices, their impact on price levels, and the impact of abundant new liquidity created over the past year **(Figures 11 and 12)**.

Foreign holdings

Foreign holdings of LCY government bonds fell during 2Q09 in all five markets where data is available.

The trend of declining foreign holdings of LCY government bonds likely reflects repatriation of funds to home markets by foreign investors, worries over government finances in some markets, and uncertainty over movement in foreign exchange rates **(Figure 13)**.

Figure 13: Foreign Holdings of Local Currency Government Bonds



*Data for Japan, Republic of Korea, and Malaysia are as of March 2009.

Source: Indonesia (Indonesia Debt Management Office); Japan (Bank of Japan); Korea, Republic of (Bank of Korea); Malaysia (Bank Negara Malaysia); and Thailand (Bank of Thailand).

An amelioration of this trend—if not an outright reversal—is expected in 3Q09, on the back of renewed investor confidence, anticipated economic recovery, and the strengthening of some regional currencies.

G3 Currency Bonds

G3 currency bond issuance by emerging East Asia's governments and corporations through early September was more than double the amount for all of 2008, due to both improved global market conditions and investor appetite for yield.

G3 currency bond issues reached a record high of USD46 billion through the beginning of September this year **(Table 5)**. This surge, which is more than twice the USD19.2 billion registered for the whole of 2008, reflects greater investor demand for such bonds due to the return of investor appetite for yield. In addition, there was little G3 bond issuance during the second half of 2008. On the supply side, this trend is the result of the region's governments financing their economic stimulus programs and some corporate entities refinancing their funding obligations.

Among the largest individual bond issuers in G3 currencies are sovereigns, banks, and energy companies—including USD4.5 billion in bonds from Malaysia's Petronas in August, USD3 billion of bonds from Hong Kong's Hutchison Whampoa in early September, the 10-year USD2 billion Indonesian sovereign in March, and USD2 billion in bonds from the Korea Development Bank and the Export–Import Bank of Korea (KEXIM) in January. Korean issuers have led the way, issuing USD26 billion thus far in 2009. Indonesia is second with issuance of nearly USD5 billion to date. Petronas issued a 5-year *sukuk* (Islamic bond) and 10-year note for a total of USD4.5 billion in August. The recent USD3 billion issue from Hutchison Whampoa raised Hong Kong, China's issuance this year to USD4.5 billion, resulting in a tie between Hong Kong, China and Malaysia for the third largest issuer. The Philippines trails with a number of sovereign issues plus an issue by the government-owned Power Assets and Liabilities Management Corporation (PSALM), totaling USD3.3 billion to date.

The USD200 million high-yield issue of Indonesian retailer Matahari on 4 August, with a coupon of 10.75%, was the first high-yield issue in US dollars this year. The Matahari bond was followed on 10 September by Chinese real estate developer Country Gardens with a coupon of 11.75%.

More than one half of the region's total G3 currency issuance this year comes from Korea, reflecting liquidity conditions in the domestic market and funding needs. Korea's large G3 currency issuance is also explained by the relative size of the Korean economy. The ratio of Korea's G3 currency bonds outstanding to LCY bonds outstanding is about 11.2%, less than that of Malaysia (14.2%), Indonesia (19.6%), and Viet Nam (20.4%). Viet Nam's 20.4% ratio includes USD1.7 billion of US dollar bonds issued domestically.

Bond and Equity Market Returns

In the first half of 2009, returns on LCY bonds declined slightly from their lackluster performance in 2008, as investors focused on the region's resurgent equity markets.

The two exceptions to this trend were Indonesia and the Philippines, which had returns of 9.6% and 5.1%, respectively, on a local currency basis in the first half of 2009.

The ABF Pan-Asian Bond Index gained a meager 0.15% year-to-date through June, against 4% in 2008 and 8% in 2007 **(Table 6)**. This compares with a 0.26% return for HSBC's All Bond Index (ALBI), which contains a number of highly rated corporate issues. Losses on these securities accounted for lower portfolio returns in the ALBI for 2008. In the first half of 2009, however, these issues may have been responsible for marginally higher returns in the ALBI than the Asian Bond

Table 5: G3 Currency Bond Issuance

Issued in 2008		Issued in 2009		
Issuer	**USD million**	**Issuer**	**USD million**	**Issue Date**
Republic of Korea	**7,318**	**Republic of Korea**	**25,984**	
of which: Policy Banks	3,333	Korea Sovereign 5.75% 2014	1,500	16-Apr-09
KDB 5.3% 2011	1,000	Korea Sovereign 7.125% 2019	1,500	16-Apr-09
KDB JPY19 billion FRNs 2010	174	KDB 8.0% 2014	2,000	23-Jan-09
KDB FRNs 2011	150	KEXIM 8.125% 2014	2,000	20-Jan-09
KDB JPY15 billion 3.22% 2018	144	KEXIM 5.875% 2015	1,500	14-Jul-09
KDB JPY13 billion 2.43% 2010	119	KNOC 5.375% 2014	1,000	30-Jul-09
KEXIM EUR750 million 5.75% 2013	1,158	Kookmin Covered Bond 7.25% 2014	1,000	14-May-09
KEXIM JPY15 billion 3.24% 2018	143	IBK 7.125% 2014	1,000	23-Apr-09
KEXIM FRNs 2009	145	KHNP 6.25% 2014	1,000	17-Jun-09
KEXIM FRNs 2014	100	Hana Bank 6.5% 2012	1,000	9-Apr-09
IBK FRNs 2013	200	Woori Bank 7.0% 2015	800	31-Jul-09
SK Energy 7.0% 2013	450	Korean National Housing 4.875% 2014	750	10-Sep-09
KORAIL 5.375% 2013	300	Others	10,934	
Others	3,235	**People's Republic of China**	**1,300**	
People's Republic of China	**300**	Petrochina 2.0825% 2012	1,000	12-May-09
ND Paper 7.875% 2013	300	Country Garden 11.75% 2014	300	10-Sep-09
Hong Kong, China	**2,975**	**Hong Kong, China**	**4,500**	
HKCG Finance 6.25% 2018	1,000	Hutchison 4.625% 2015	2,000	11-Sep-09
Noble Group 8.5% 2013	500	Hutchison 5.75% 2019	1,000	11-Sep-09
Swire Pacific 6.25% 2018	400	KCRC 5.125% 2019	750	18-May-09
CMHI 6.125% 2013	300	HKMC 3.5% 2014	500	4-Aug-09
Others	1,075	Techtronic 8.5% 2014	150	30-Apr-09
Philippines	**850**	Wing Lung Bank 0.60438% 2010	100	4-Sep-09
Philippines Sovereign 6.375% 2032	500	**Philippines**	**3,250**	
SM Investments 6.75% 2013	350	Philippines Sovereign 8.375% 2019	1,500	14-Jan-09
Indonesia	**4,450**	Philippines Sovereign 6.5% 2020	750	20-Jul-09
Indonesia Sovereign 7.75% 2038	1,000	PSALM 7.25% 2019	1,000	19-May-09
Indonesia Sovereign 7.75% 2038	1,000	**Indonesia**	**4,970**	
Indonesia Sovereign 6.875% 2018	1,000	Indonesia Sovereign 10.375% 2014	1,000	4-Mar-09
Indonesia Sovereign 6.875% 2018	900	Indonesia Sovereign 11.625% 2019	2,000	4-Mar-09
Indonesia Sovereign 6.75% 2014	300	Indonesia Sovereign 2.73% 2019	370	29-Jul-09
Excelcomindo 7.125% 2013	250	Sovereign *Sukuk* 8.8% 2014	650	23-Apr-09
Malaysia	**2,500**	PLN 8% 2019	750	7-Aug-09
Thailand	**674**	Matahari 10.75% 2012	200	7-Aug-09
Singapore	**100**	**Malaysia**	**4,500**	
		Petronas 5.25% 2019	3,000	12-Aug-09
		Petronas *Sukuk* 4.25% 2014	1,500	12-Aug-09
		Singapore	**1,186**	
Grand Total	**19,167**	**Grand Total**	**45,690**	

Source: Compilation from newspaper and wire reports.

Table 6: iBoxx ABF Index Family Returns

Market	Modified Duration (years)	2007 Returns (%)		2008 Returns (%)		1H09 Returns (%)	
		LCY Bond Index	USD Unhedged Total Return Index	LCY Bond Index	USD Unhedged Total Return Index	LCY Bond Index	USD Unhedged Total Return Index
China, People's Rep. of	4.34	(2.12)	4.54	11.91	18.71	(0.48)	(0.60)
Hong Kong, China	3.48	5.91	5.61	10.22	10.85	(2.09)	(2.09)
Indonesia	4.48	9.84	5.51	3.22	(12.30)	9.62	16.89
Korea, Rep. of	3.60	2.36	1.73	11.46	(18.20)	0.29	(0.84)
Malaysia	4.76	3.05	9.37	7.58	2.89	(1.64)	(3.16)
Philippines	4.20	6.21	23.41	1.63	(12.55)	5.07	3.95
Singapore	5.00	5.05	11.46	6.75	6.80	(0.41)	(1.16)
Thailand	4.89	6.66	13.44	16.88	13.72	(3.91)	(1.82)
Pan-Asian Index	4.26	n.a.	8.03	n.a.	4.14	n.a.	0.15
HSBC ALBI	5.91		7.85		0.97		0.26
US Govt 1-10 years	3.86		8.59		10.95		(2.50)

n.a. = not applicable.
Note:
1. Market bond indices are from iBoxx ABF Index Family. 2009 returns year-to-date are as of 30 June 2009.
2. Annual return is computed for each year using natural logarithm of end-of-year index value/beginning year index value.
3. Duration is as of 30 June 2009.

Source: *AsianBondsOnline*, Bloomberg/EFFAS for US Government Bond Index.

Fund (ABF) indexes. The ABF indexes contain only government debt and government-guaranteed debt obligations.

International investors also repatriated some investments away from emerging markets, which was one factor in the depreciation of regional currencies against the US dollar in the earlier part of this year **(Table 7)**.

PRC bonds delivered high returns of 11.9% and 18.7% in 2008 on an LCY- and USD-unhedged basis, respectively, but suffered a slight loss in the first half of 2009 on both. All other markets, except for Indonesia and the Philippines, suffered losses in the first half of 2009.

The improvement in Indonesian bond index returns in the first half of 2009 seems to reflect the dramatic recovery of the Indonesian rupiah in 2Q09. Meanwhile, the Philippine peso remained flat after having incurred significant losses in 1Q09 and in 2008.

Table 7: Appreciation (Depreciation) of Emerging East Asian Currencies (%)

Currency	Against USD					
	2007	2008	1Q09		2Q09	
	y-o-y	y-o-y	y-o-y	q-o-q	y-o-y	q-o-q
CNY	6.7	6.7	2.6	(0.1)	0.3	0.0
HKD	(0.3)	0.6	0.4	0.0	0.6	0.0
IDR	(4.3)	(18.7)	(24.0)	(3.3)	(10.1)	13.6
KRW	(0.6)	(29.7)	(32.2)	(8.2)	(19.5)	7.2
MYR	6.5	(4.5)	(13.2)	(5.2)	(7.3)	3.6
PHP	17.3	(13.9)	(14.9)	(1.8)	(7.0)	0.3
SGD	6.5	0.1	(9.8)	(5.8)	(6.2)	5.0
THB	6.9	(3.1)	(12.2)	(2.2)	(1.9)	4.0
VND	0.2	(8.8)	(10.0)	(1.8)	(5.5)	(0.0)
JPY	6.3	20.8	0.5	(9.0)	9.8	3.1

y-o-y = year-on-year, q-o-q = quarter-on-quarter.
Note:
Appreciation (depreciation) is computed as follows:
-LN(end-of-period rate/start-of-period rate) × 100%

Source: Bloomberg LP.

The Asian equity market has been a star performer in 2009 **(Table 8)**. The best performing market was Indonesia, which improved nearly 55% in the first 6 months of 2009. Thailand was next with a return of 42% over the same period, followed by the PRC and Hong Kong, China.

Table 8: MSCI Index Returns

Market	2007 Returns (%)		2008 Returns (%)		1H09 Returns (%)	
	LCY terms	USD terms	LCY terms	USD terms	LCY terms	USD terms
China, People's Rep. of	63.52	63.10	(52.23)	(51.94)	35.10	35.10
Hong Kong, China	37.83	37.48	(53.16)	(52.88)	32.56	32.56
Indonesia	57.50	50.81	(50.76)	(57.57)	44.65	54.46
Korea, Republic of	30.80	29.95	(40.62)	(55.87)	24.60	23.19
Malaysia	32.68	41.55	(40.77)	(43.39)	24.45	22.50
Philippines	16.26	38.04	(46.77)	(53.79)	30.10	28.54
Singapore	16.25	23.91	(49.50)	(49.55)	30.59	30.00
Thailand	31.33	40.94	(48.72)	(50.34)	39.10	42.00
Far East ex Japan Index	32.39	33.38	(48.14)	(51.96)	31.80	31.66
MSCI USA		4.09		(38.58)		2.39

Note:
1. Market indices are from MSCI country indexes. 2009 returns are year-to-date as of 30 June 2009.
2. Far East ex Japan includes: China, People's Rep. of; Hong Kong, China; Indonesia; Korea, Rep. of; Malaysia; Philippines; Singapore; Taipei,China; and Thailand.

Source: *AsianBondsOnline* and Bloomberg LP.

Policy and Regulatory Developments

People's Republic of China

Outbound Investment Rules Relaxed

The PRC foreign exchange regulator, the State Administrator of Foreign Exchange (SAFE), said in June that it would expand the range of PRC firms permitted to invest foreign exchange earnings in their overseas operations. The regulator said it was relaxing restrictions on overseas investment to enable PRC firms with foreign operations to grow. Previously, the investment of foreign exchange earnings abroad had been limited to large domestic firms and foreign multinationals.

New Derivatives Master Agreement

In March, the National Association of Financial Market Institutional Investors (NAFMII), a trade body established by the People's Bank of China, released a new master agreement governing activities involving onshore derivatives transactions in the PRC interbank market. The new agreement consolidated and superseded the previous two master agreements published by NAFMII and the China Foreign Exchange Trading System (CFets).

The previous agreements had covered only CNY-denominated foreign exchange and interest rate derivatives, while the new master agreement eliminates overlaps between its predecessors and broadens instruments covered to include credit, gold, bond derivatives, and any combination of these instruments. The inclusion of bond derivatives is aimed at giving PRC bond investors added flexibility in managing their investments.

Hong Kong, China

Yuan Trade Settlement

The PRC and Hong Kong, China signed an agreement 29 June to permit the yuan to be used in settling cross-border trade transactions. Prior to the deal, banks based in Hong Kong, China had been allowed, on a limited basis, to take yuan deposits and provide other CNY-denominated services. They were, however, not allowed to engage in cross-border yuan trade settlement transactions.

The People's Bank of China (PBOC) on 2 July began allowing certain companies in Shanghai and four cities in Guangdong province to settle trade transactions with firms in Hong Kong, China; Macau, China; and the 10 member countries of the Association of Southeast Asian Nations (ASEAN). The first yuan settlement transactions were conducted on 6 July.

Hong Kong, China's Lawmakers Approve HKD100 Billion Bond Sale

Hong Kong, China's legislative council approved a new HKD100 billion (USD12.9 billion) debt issue program in July that aims to provide further depth to the Hong Kong, China bond market through issuance of sovereign paper. Authorities hope that bonds issued under the program will offer an additional benchmark for the pricing of corporate debt, thereby increasing investor confidence and interest in these instruments.

Bonds sold under the program will be unsecured liabilities of the government of Hong Kong, China and will not be backed by foreign reserves—in contrast to EFBNs. As the new bonds will not have foreign reserve backing, they are expected to pay a premium over EFBNs. The first bond under this program was issued for HKD3.5 billion on 2 September.

Indonesia

Indonesia Bond Pricing Agency to Provide Reference Pricing for Corporate Bonds and *Sukuk*

The Indonesia Bond Pricing Agency (IBPA) expects to begin publishing daily reference prices for corporate bonds and *sukuk* by 3Q09. This move is expected to help improve transparency and make Indonesia's debt market more attractive to investors. Currently, IBPA provides daily pricing for LCY government bonds.

The availability of a reference price could help firms planning a bond issuance to more accurately estimate their cost of borrowing and provide a benchmark for those seeking to trade bonds.

Republic of Korea

Foreign Investors Exempt from Withholding Taxes on Treasury Bonds and Monetary Stabilization Bonds

In May, a law was approved exempting foreign investors from withholding taxes on interest income and capital gains from investments in treasury bonds and monetary stabilization bonds. The exemption will be granted provided that an application for the tax exemption and required documents are submitted to and approved by fiscal authorities.

Korean Firms Now Allowed to Purchase Foreign Currency Bonds

The Financial Services Commission (FSC) has allowed institutional investors to purchase a limited amount of foreign currency-denominated bonds issued abroad by Korean companies. The rule, however, does not include convertible bonds, bonds with warrants, and exchangeable bonds. There is also a 20% limit on the amount of foreign currency bonds that can be purchased by domestic institutions as well as a holding period of 1 year.

Malaysia

Malaysia Announces Measures to Liberalize Capital Markets

On 30 June, Prime Minister Datuk Seri Najib announced measures to further liberalize foreign investment and open up Malaysia's domestic capital markets. The measures are part of the country's shift to a new economic model, following liberalization in the financial sector and services sub-sectors.

A new investment institution, Ekuiti Nasional Berhad (Ekuinas), will also be established. Ekuinas will serve as a private equity fund with initial capital of MYR500 million, which will subsequently be increased to MYR10 billion, focusing on investments in sectors with high-growth potential and joint investments with private sector funds.

Malaysia Establishes National Financial Guarantee Institution to Support Corporations Raising Funds in the Bond Market

To increase support for Malaysia's second economic stimulus package, the Malaysian government announced the establishment of a national financial guarantee institution, Danajamin Nasional Berhad (Danajamin), effective 15 May. Danajamin will provide financial guarantee insurance for issues of private debt and Islamic securities. The insurance will be available for securities issued by investment grade companies rated BBB or higher by a Malaysian rating agency. Danajamin will be able to insure up to MYR15 billion of investment-grade private debt and Islamic securities.

Philippines

Bangko Sentral ng Pilipinas Agrees to Extend Suspension of Mark-to-Market Rule on Foreign Currency Deposit Units

In March, the Bangko Sentral ng Pilipinas (BSP) agreed to extend the suspension of the mark-to-market rule on the asset cover for foreign currency deposit units (FCDUs) for another 6 months until September 2009. The initial suspension was intended to be a one-time, temporary suspension of the mark-to-market rule that would be applicable only when determining the value of asset cover used for FCDU loans. However, BSP decided to extend it to give FCDUs more flexibility in rounding up asset cover for loans.

Singapore

Monetary Authority of Singapore Joins Implementation of the ASEAN and Plus Standards Scheme

On 12 June, the Monetary Authority of Singapore (MAS) announced the implementation of the Association of Southeast Asian Nations (ASEAN) and Plus Standards Scheme for multi-jurisdiction offerings of securities in ASEAN. Under the scheme, issuers making an "ASEAN offering" of plain equity or debt securities are required to comply with a set of common disclosure requirements, known as the ASEAN Standards, and limited additional requirements, known as the Plus Standards, as prescribed by the respective jurisdiction. In Singapore, issuers will be required to comply with the ASEAN Standards and the Singapore Plus Standards.

Thailand

Thailand Relaxes Regulations on Overseas Investments in Securities and Derivatives Transactions

In early August, the Bank of Thailand (BOT) relaxed regulations on overseas investments in derivatives and securities transactions by institutional investors and "persons in Thailand."

Most importantly, these new regulations (i) increased the type of institutional investors by allowing "juristic persons" registered under Thai law—who have at least THB5 billion in assets and principal businesses in manufacturing, services, or trading—to invest in securities abroad not exceeding USD50 million per entity; and (ii) allowed institutional investors to engage in derivatives transactions and securities borrowing and lending, repurchase agreements, and reverse repurchase agreements.

Viet Nam

Viet Nam Allows the Listing and Trading of USD-Denominated Government Bonds

In May, the State Securities Commission of Viet Nam announced it would regulate the listing and trading of USD-denominated government bonds at the Hanoi Securities Trading Center. Procedures on the listing and trading of these bonds are similar to those for VND-denominated government bonds. This legal framework aims to attract more bond issuance and guarantee liquidity in Viet Nam's bond market.

Use of Foreign Currency Government Bonds as a Mortgage Asset for VND Borrowings from State Bank of Viet Nam

In July, the State Bank of Viet Nam (SBV) issued a decision that would allow commercial banks to use foreign currency government bonds as a mortgage asset to borrow Vietnamese dong from the SBV. These bonds will be used to support the liquidity of commercial banks in case banks exhaust their Tier 1- and Tier 2-valuable papers.

Viet Nam Launches Financial Supervision Agency

In July, SBV officially launched the Financial Supervision Agency (FSA). The FSA will be under the jurisdiction of SBV with responsibility for "performing administrative and specialized supervision of all banking operations within the scope of the SBV management; advising and assisting the SBV Governor in oversight of credit institutions, small-sized financial institutions, and banking operations of other institutions; and combating money laundering in compliance with law."

Corporate Bond Market Developments

Recent Trends

The local currency denominated corporate bond market has emerged as an important driver of overall bond market growth this year.

The two most dynamic corporate bond markets in 2Q09 were the People's Republic of China's (PRC) and the Philippines; with the bond markets of Viet Nam, Thailand, and the Republic of Korea (Korea) also reporting substantial growth. Corporate bond market growth elsewhere was fairly subdued. Some Asian bond markets have benefited from government economic stimulus programs; while others were left behind by the flow of funds into the region's equity markets, which recovered during 1H09, as well as the recovery of the USD bond market.

Table A in the Introduction, presented data on emerging East Asia's share of the world bond market, which amounted to 6.2% at the end of 2008. **Table 9** disaggregates this amount among bonds issued by emerging East Asian governments, financial institutions, and non-financial corporations. Governments in emerging East Asia account for a proportionally larger amount of the region's local currency (LCY) bonds outstanding—that is, 7.2% of global government bonds outstanding—compared to 6.2% of ***total global*** bonds outstanding for emerging East Asian bond issuers. In this sense, emerging East Asia's financial institutions account for a smaller share (4.3%) of the global total of such bonds, while non-financial corporations account for a much larger share (8.3%).

Table 9: Corporate Bonds Outstanding (end-2008)

	All Issuers		Governments	Financial Institutions	Corporates
	LCY Bonds Outstanding (USD trillion)	% of World Total	% of World Total	% of World Total	% of World Total
United States	24.62	41.3	26.5	59.4	44.1
Japan	11.08	18.6	30.6	5.1	11.6
France	2.92	4.9	4.8	5.0	4.9
Germany	2.59	4.3	4.6	4.0	4.5
United Kingdom	1.22	3.7	2.8	1.6	0.3
Emerging East Asia	**3.69**	**6.2**	**7.2**	**4.3**	**8.3**
of which: PRC	**2.21**	**3.7**	**4.8**	**2.6**	**2.8**
Emerging East Asia excl. PRC	**1.48**	**2.5**	**2.4**	**1.7**	**5.5**
of which: Republic of Korea	**0.80**	**1.3**	**1.1**	**1.3**	**3.3**
Brazil	0.86	1.4	1.8	1.3	0.1
India	0.43	0.7	1.3	0.1	0.1

Source: Bank for International Settlements and *AsianBondsOnline*.

The principal driver behind emerging East Asia's proportionally larger share of government bonds is the PRC. The global shares of the PRC's financial institution sector and corporate bond sector are only about one half as large as the global share of PRC government securities. However, the global share of the financial institution and corporate bond sectors are rising rapidly, as discussed later in this section, and they may become dominant players in coming years.

When looking at emerging East Asia excluding the PRC, the structural composition changes dramatically. In this universe, emerging East Asian bonds outstanding (excluding the PRC) account for 2.5% of global bonds outstanding. The government sector's share of global government bonds outstanding is about the same at 2.4%, while the financial sector's share in this universe is proportionally smaller (1.7%) and the corporate sector's share is proportionally larger (5.5%).

The major factor behind this result is Korea's bond market. While Korea's total share of the global bond market is only 1.3%, or roughly about the same as Brazil's, its share of the non-financial corporate sector is 3.3%. This reflects issuance by both Korea's non-financial private corporate sector as well as the even larger bond issuance by the state-owned corporate sector and a number of transportation and infrastructure companies. In fact, bonds issued by publicly-owned, non-financial corporates account for around 55% of the bonds issued by Korean non-financial corporates.

Structure of Emerging East Asian Corporate Bond Markets

State-owned enterprises (SOEs) remain dominant players in many of the region's LCY corporate bond markets.

We need to keep two key issues in mind when looking at LCY corporate bond markets in emerging East Asia:

(i) **State-owned enterprises in the corporate bond market sector.** While the overall trend is toward privatization of state-owned companies over time, these entities are not only still dominant in many countries, but are often the largest issuers in individual corporate bond markets.

(ii) **Type of activity.** From an issuance point of view, the most important issuers in recent years have fallen into three sectors: banks (predominantly issuance of subordinated debt bonds), infrastructure, and energy.

Thus, the Asian corporate bond market primarily consists of government-owned companies and financial institutions. This is different from the Anglo-Saxon concept of a corporate as a privately-owned, non-financial company. Such entities comprise a relatively small part of most Asian corporate bond markets.

- In the case of Korea, privately-owned, non-financial corporates—as defined above—account for only about 23% of bonds classified as corporate when determining bond market size and composition **(Table 10)**. Banks and non-bank financial institutions account for more than 50% of corporate bonds outstanding in Korea.

Table 10: Structure of the Korean Corporate Bond Market (KRW billion)

Total Corporate Bonds	**618,932**
Special Public Corps	**171,991**
of which:	
KDIC	28,091
KHFC	22,899
Korea Land	17,830
KEPCO	14,993
Korea Highway	15,235
SBC	12,433
Korea Gas	8,518
Korea Train Express	8,425
Banks	**213,451**
of which:	
Kookmin Bank	37,362
IBK	32,013
Private Corporates	**233,490**
Securities Companies and other Financials	91,997
Non-Financials Companies	141,493
of which:	
KT Corp	5,020
Korea Air	3,250
SK Energy	3,470
Posco	2,640
SK Corp.	2,450

Source: *KoreaBondWeb* and Bloomberg LP.

- The lion's share of corporate sector issuance in the PRC is still from the public sector. Government-linked companies are also prominent issuers in Singapore as well as in the more liquid portion of the Hong Kong, China corporate bond market, where the government-owned Hong Kong Mortgage Corporation (HKMC), Airport Authority, and Urban Renewal Authority are important issuers.

- Private companies account for a larger share of the corporate bond market in the Philippines, Thailand, Malaysia, and Indonesia. However, state-owned power and energy companies are also important issuers in all three markets.

Activities Being Supported by Corporate Bond Issuance

Most of the outstanding corporate bond stock in Asia is concentrated in three major sectors—banking, infrastructure, and energy.

Bank bond issuance. A substantial portion of the region's bank bond issuance has been in the form of Tier 2 (subordinated debt) securities, which are quasi-equity instruments that can be counted as part of regulatory capital. Banks have been issuing subordinated debt bonds (subdebt) to maintain capital adequacy ratios (CARs) at acceptable levels, as they have accelerated their lending activities in sync with government economic stimulus programs. In particular, banks in the PRC have been issuing very large amounts of subordinated debt bonds to bolster their CARs. This is true for most other markets as well (see Figure 4 in the previous section). **Appendix 1** includes a list of the 10 largest subordinated debt bonds outstanding —in the six largest markets for bank bonds—and presents data on their relationship to total bank bonds outstanding in each market. In addition to issuing bonds to improve capital adequacy, banks have been issuing bonds for funding purposes as well.

Energy and infrastructure. The importance of energy and infrastructure as an issuance theme in the Asian corporate bond market can be seen in **Table 11**, which lists the 10 largest corporate bond issuers in Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore; and Thailand. In fact, this energy and infrastructure theme also explains the continued significance of state-owned companies as issuers in the corporate bond market. The highest concentration of infrastructure-related companies can be seen in the Malaysian market, where the large volume of infrastructure companies' bonds outstanding reflects their role in overall economic growth.

The domination of the corporate bond market by the infrastructure and energy sectors is probably most pronounced in the PRC **(Table 12)**, where

Table 11: Emerging East Asian Corporate Bonds—Top 10 Issuers By Market (USD billion)

Issuer	Amt Outst.	Issuer	Amt Outst.
Hong Kong, China		**Malaysia**	
HK Mortgage Corp.	4.06	Project Lebuhraya (Tollways)	7.66
Kowloon-Canton Railway Corp.	1.60	Berjaya Corp. (Conglomerate)	5.57
CLP Power—HK Finance	1.06	KL Intl. Airport	3.90
Sun Hung Kai Properties	0.96	Tanjung Bin (Power Station)	2.91
Swire Pacific Finance	0.61	Prasarana (Public Transport)	2.90
Bauhnia MBS (Mortgage-Backed Sec.)	0.49	Malayan Banking Corp	2.59
Airport Authority	0.48	Putrajaya Hldngs (Developer)	2.44
Cheung Kong Finance	0.38	Tekad Mercu (SPV Finance Company)	2.28
HK Electric Finance	0.35	Malakoff Corp. Bhd. (IPP)	2.25
HKCG (Finance)	0.26	Jimah Energy (Power Sector)	2.08
Subtotal	**10.26**	**Subtotal**	**34.58**
Total 10 non-bank, tradable debt securitities[1]	**11.39**	**Total**	**71.86**
Total corporate sector bonds[2]	**74.07**	**Top 10 issuers as % of corporate bond market**	**48.13%**
Top 10 issuers as % of corporate bond market	**13.90%**		
Singapore		**Thailand**	
Housing and Development Board	3.73	PTT(parent)	4.28
UOB Bank	2.67	Siam Cement	3.15
Capital Land	1.88	Bank of Ayudhya	2.28
OCBC Bank	1.87	PTT Expl & Prod.	1.68
SP Power Assets	1.66	Krung Thai Bank	1.44
Land Transport Authority	1.45	Thai Airways	1.37
Public Utilities Board	1.28	Toyota Leasing	0.83
F&N Treasury PTE	0.97	Kasikorn Bank	0.83
PSA Corp.	0.83	Advanced Info Service	0.70
DBS Bank	0.76	DAD SPV (Financial Services)	0.69
Subtotal	**17.09**	**Subtotal**	**17.25**
Total	**49.17**	**Total**	**48.50**
Top 10 issuers as % of corporate bond market	**34.76%**	**Top 10 Issuers as % of corporate bond market**	**35.57%**
Indonesia		**Philippines**	
PLN (State-Owned Power Co.)	0.89	San Miguel Brewery	0.81
Indosat (Telecom)	0.65	Napocor	0.73
Jasa Marga (Toll Operator)	0.41	Banco de Oro	0.69
Indofood	0.35	Metrobank	0.38
Bank BTN	0.32	Philippine National Bank	0.37
Bank Ekspor	0.31	Manila Electric	0.35
Bank Panin	0.31	Petron	0.34
Astra Sedaya Finance	0.23	Rizal Commercial Banking	0.33
Federal International Finance	0.22	Globe Telecom	0.33
Perum Pegadaian (Pawn shop)	0.17	SM Prime Holdings	0.24
Subtotal	**3.86**	**Subtotal**	**4.57**
Total	**6.90**	**Total**	**4.90**
Top 10 issuers as % of corporate bond market	**55.94%**	**Top 10 Issuers as % of corporate bond market**	**93.18%**

Note:
[1]Based on Central Money Markets Unit (CMU) data on non-bank debt securities issued and still outstanding as of 13 August 2009.
[2]As defined by *AsianBondsOnline*; see Table 1 in Hong Kong, China's Market Summary.

Source: Hong Kong, China (Central Money Markets Unit and Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Malaysia (Bloomberg LP); Philippines (Bloomberg LP); Singapore (Bloomberg LP); and Thailand (Bloomberg LP).

Table 12: Notable Bond Issues in the People's Republic of China (2009)

Bond Name	Issue Date	(CNY billion)
Notable Medium-Term Note (MTN) Issues		
State Grid Corporation of China 2009	20-Apr-09	30.0
China National Petroleum Corporation 2009	25-Mar-09	20.0
Ministry of Railways 2009	23-Apr-09	20.0
PetroChina Company Limited 2009	13-Jan-09	15.0
Ministry of Railways 2009	15-Jan-09	15.0
PetroChina Company Limited 2009	19-Mar-09	15.0
Beijing State-Owned Assets Operation Center 2009	9-Mar-09	10.0
China FAW Group Corporation 2009	9 Mar 09	10.0
Guangdong Hengjian Investment Holding Co., Ltd. 2009	9 Mar 09	10.0
China Petroleum & Chemical Corporation 2009	27 Mar 09	10.0
Notable State-Owned Enterprise (SOE) Issues		
China Three Gorges Project Corporation Bond 2009	8-Apr-09	7.0
China Three Gorges Project Corporation Bond 2009	8-Apr-09	3.0
China National Chemical Corporation Bond 2009	6-Jan-09	2.3
China National Gold Group Corporation Bond 2009	29-Apr-09	2.0
China Potevio Company Limited Bond 2009	24-Mar-09	1.6
Sinohydro Corporation Bond 2009	19-Mar-09	1.3
China Poly Group Corporation Bond 2009	7-May-09	1.3
Peking University Founder Group Corporation Bond 2009	6-Feb-09	1.0
China National Pharmaceutical Group Corporation Bond 2009	26-Mar-09	1.0
China National Machinery Industry Corporation Bond 2009	30-Mar-09	0.8
Notable Commercial Paper (CP) Issues		
Ministry of Railways 2009	19-Feb-09	20.0
Ministry of Railways 2009	16-Mar-09	10.0
COFCO Limited 2009	21-Jan-09	5.0
Huaneng Power International Inc. 2009	24-Feb-09	5.0
Bright Food Group Co., Ltd. 2009	3-Mar-09	4.0
Benxi Iron & Steel Group Co., Ltd. 2009	13-Jan-09	3.0
Beijing Infrastructure Investment Co., Ltd. 2009	16-Mar-09	3.0
Jiangsu Communication Holding Company 2009	11-Mar-09	2.8
Shanghai International Port Group Co., Ltd. 2009	14-Jan-09	2.7
Yuntanhua Group Co., Ltd. 2009	5-Jan-09	2.0

Source: *ChinaBond.*

infrastructure and energy companies comprise a significant portion of issuance in several different categories of the corporate bond market (e.g., medium-term notes [MTNs], state-owned enterprise [SOE] bonds, and commercial paper).

Major bond issuers among infrastructure and energy companies in the PRC—such as the Ministry of Railways and Huaneng Power, respectively—also issue in the commercial paper market in amounts as large as bonds issued in the MTN and SOE windows.[1]

[1]See the PRC market summary in this report for discussion of the different issuing windows for PRC corporate issues.

Corporate Bond Yields and Credit Spreads

Credit spreads have tightened in most corporate bond markets compared to September 2008 levels.

Credit spreads—defined as the difference between AAA corporate bond yields and government bond yields—have tightened for higher-rated AAA corporate bonds. But investors still require a substantial premium to be compensated for the risk of holding BBB corporate credits. This has resulted in an overall widening of credit spreads for BBB rated corporates, defined as the yield differential between BBB and AAA rated corporate bonds.

LCY corporate bond market yields. Yields of corporate bonds **(Figure 14A)** in the four markets for which we have data—the PRC, Korea, Malaysia, and Thailand—have generally moved in a direction similar to that of government LCY bonds in recent months. They have generally risen above yield levels set in December and November 2008 at the longer end of their curve, while falling at the shorter end. This has resulted in a modest overall steepening of these curves. The exception to this general trend are yields for AAA corporate credits in Korea, which have fallen well below both November and December 2008 levels, with yields on the very short end of the curve, which extends to 5 years, falling to very low levels.

Credit spreads (I). The spread **(Figure 14B)** between AAA corporate yields and government bond yields is a complex story that varies from market to market. Nevertheless, the spreads between AAA credits and government bonds are generally below 1.5% at present, although they have generally risen at the short end of their respective curves even as spreads on other parts of the curve have fallen below levels set previously in November or December of 2008.

- PRC spreads for 2-year maturities have risen well above levels set in September and November of last year, even as the rest of the PRC credit spread curve has moved closer to the November spread levels from higher levels at the end of December 2008.

- Korean spreads have sunk to their lowest level since 4Q08, suggesting that Korean investors have become much more comfortable holding highly rated coporate bonds. Many of these bonds are issued by government-owned companies, which investors view as having quasi-sovereign risk.

- Malaysian credit spreads have fallen to their lowest level since September of last year, except at the very short end of the Malaysian credit curve, which appears to be converging with the higher levels of last November and December.

- Thai spreads for June 2009 moved in a zig-zag pattern above the spread curve for September 2008 and most of the curve for November 2008, but in a pattern that generally remained well below the spread curve for the end of December 2008. However, we note that the June 2009 yield curve reached its highest point for maturities of 1.5 and 3 years. We also note that the maximum maturity for the Thai curve is only 4 years.

Credit spreads (II). The spread between bonds rated AAA and BBB (**Figure 14C;** for the case of Thailand, A-rated bonds were used) is also our "credit quality" spread, because it answers the question: how much of a premium do investors demand for holding riskier corporate assets?

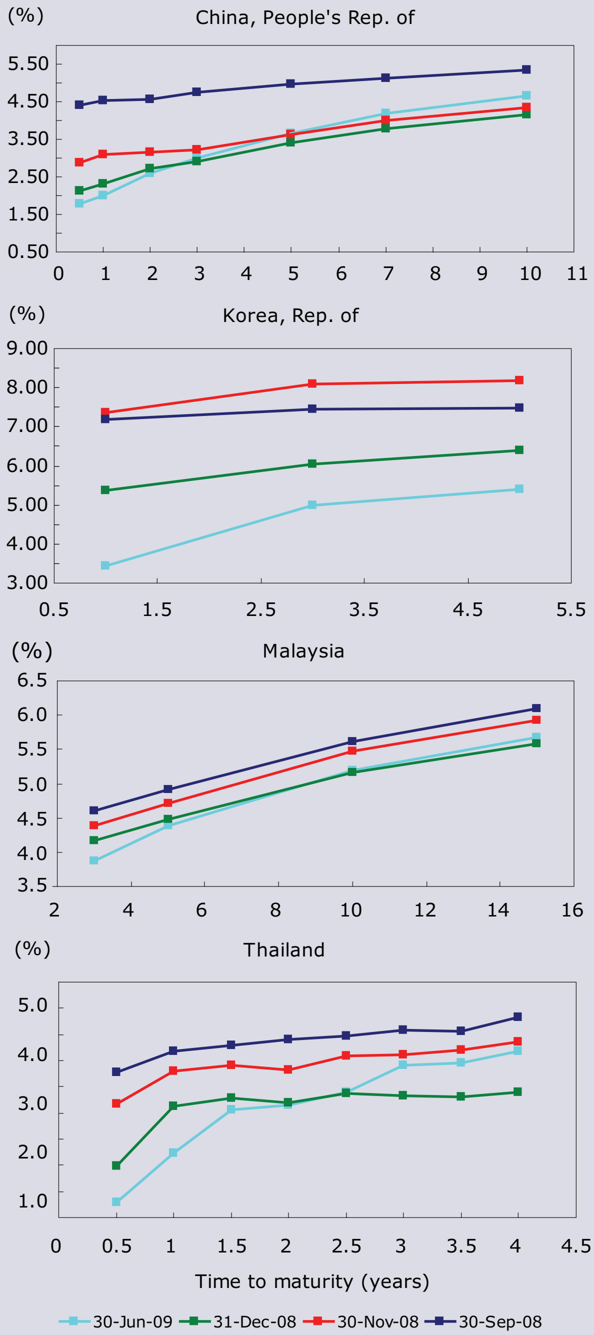
- The credit quality spreads for Malaysia are the highest among the four markets analyzed, and the short end of the curve rose above end-December levels at the end of June 2009. The short end of the Malaysian curve at the end of June 2009 was, in fact, at its highest levels since September 2008.

- For the PRC, spreads are available dating back only to the beginning of the year, and they have fallen along the entire length of the PRC credit quality curve, but still range above 400 basis points (bps) for most of the curve.

- In Korea, the credit quality spread has risen significantly over the last year by about 300 bps at the long end of the curve and by about 250 bps at the very short end of the curve. It would appear that Korean investors are now demanding a very significant premium for holding riskier BBB-rated bonds. This is in stark contrast with sharply reduced premiums they accept for holding AAA-rated bonds.

- In Thailand, we have a zig-zag pattern, as before, with a tightening of spreads (compared to end-December) for maturities of 0.5 to 2 years and also for maturities of 3.5 to 4 years, but a widening of spreads for maturities of 2.5 to 3 years. However, the credit spread between AAA-rated and A-rated bonds is less than 100 bps.

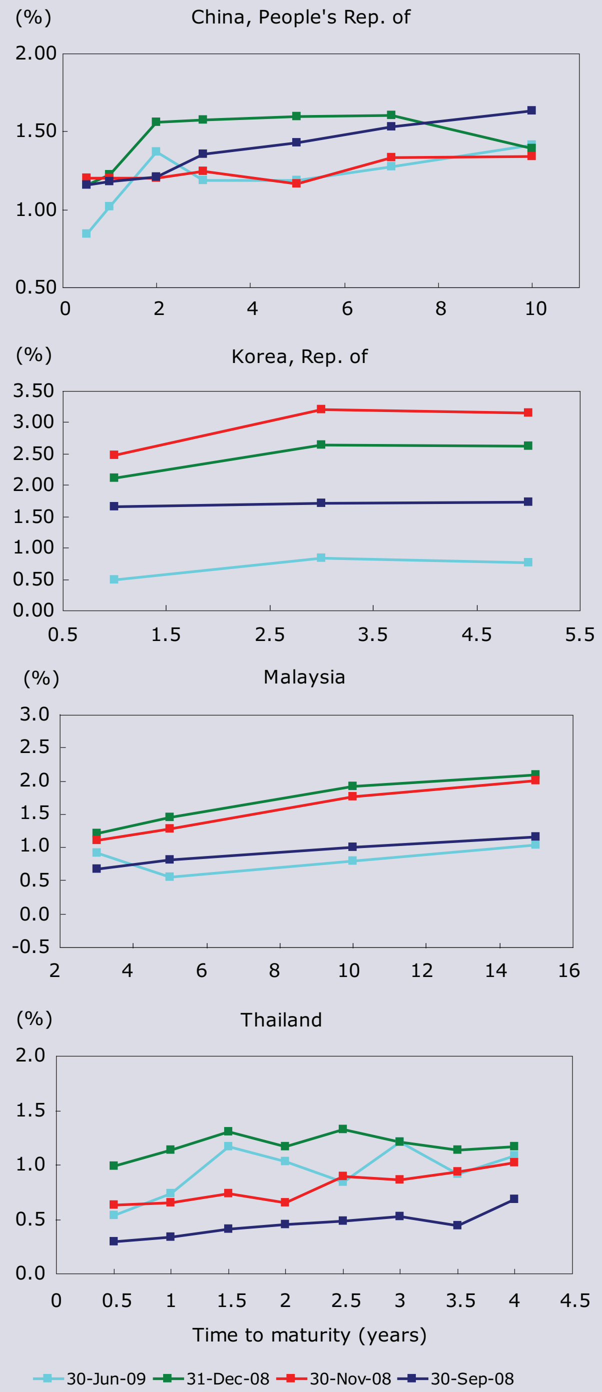
Figure 14A: Indicative Yields for Local Currency Corporates Rated AAA



Note:
1. For China, People's Republic of: yield curve of interbank fixed-rate corporate bonds rated AAA.
2. For Malaysia: consolidated indicative yields of private debt securities rated AAA; rates given are the average rates contributed by designated financial institutions.
3. For Korea, Republic of: mark-to-market yields of non-guaranteed corporations rated AAA.
4. For Thailand: interpolated yields are from the latest quoted yields by at least 3 active dealers and only corporate bonds with no embedded options are included, AAA-rated yields are used.

Source: People's Republic of China (*ChinaBond*); Republic of Korea (*KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Thailand (ThaiBMA).

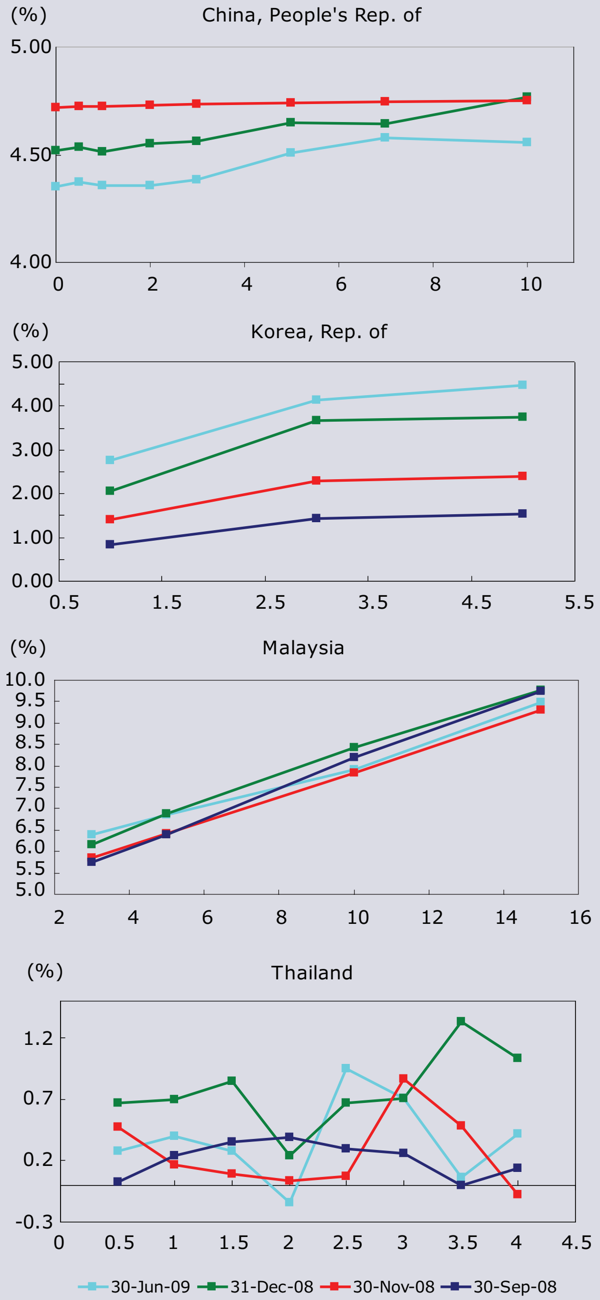
Figure 14B: Credit Spreads—Local Currency Corporates Rated AAA versus Govt. Bonds



Note:
1. Credit spreads are obtained by subtracting the government yields from corporate indicative yields.

Source: People's Republic of China (*ChinaBond*); Republic of Korea (*KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Thailand (ThaiBMA).

Figure 14C: Credit Spreads—Local Currency Corporates Rated BBB versus AAA



Note:
1. For China, People's Republic of: credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
2. For Malaysia: credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
3. For Korea Republic of: credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
4. For Thailand: Credit Spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as A.

Source: People's Republic of China (*ChinaBond*); Republic of Korea (*KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Thailand (ThaiBMA).

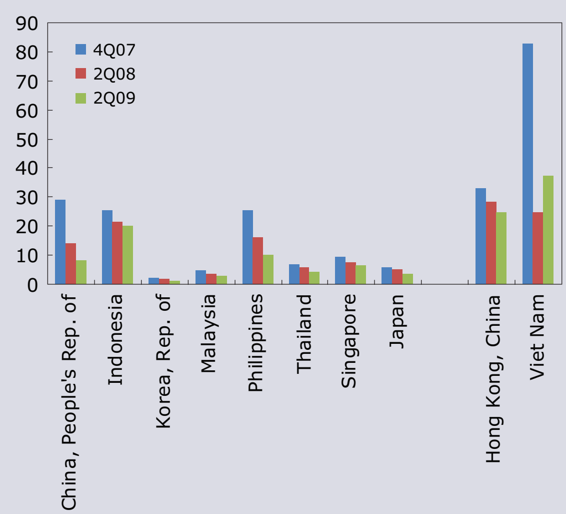
Equity Markets Dwarf Corporate Debt Markets

The lack of a diverse corporate debt market, including a weak high yield segment, remains a major shortcoming of LCY bond markets in the region.

A comparison of equity market capitalization to corporate sector bonds outstanding helps to shed light on the relationship between sources of funding and investment patterns in emerging East Asian markets.

If we compare the corporate bond market to the equity market for a given emerging East Asian economy, the corporate bond market is tiny with the notable exceptions of Korea in 2Q09. The ratio of equity market capitalization to corporate bonds outstanding at the end of 2007 for most of the economies under review in **Figure 15** ranges from a high of 37 for Viet Nam in 2Q09 to a low of 1.25 for Korea in 2Q09, with an exceptionally high ratio of 80 for Viet Nam in 4Q07. These ratios were also affected by the collapse of stock markets in many countries in 2008.

Figure 15: Ratio of Equity Market Capitalization to Corporate Bonds Outstanding



Source: Bloomberg LP and *AsianBondsOnline* calculations.

This leads us to the following often-discussed question: why are Asian equity markets so large compared to their corresponding corporate bond markets? The many possible reasons for this include: (i) poor disclosure and accounting standards; (ii) deeper affinity for investment in equity markets rather than in bond markets; (iii) slow development of local bond rating agencies; (iv) less developed market infrastructure (e.g., weak legal systems); (v) corporates continue to be well served by commercial banks; (vi) perception of low yields—a preponderance of corporate bond issuers are either government-owned or -supported entities, or private sector blue-chip entities; and (vii) lack of investor diversity—participants in almost all emerging east Asian markets agree that their particular market needs access to a more diverse set of investors than is available at the present time.

More importantly, the low yields on corporate bonds—or at least the perception of low yields—are even less appealing compared to the attractive returns on equity investments when the market is on an upswing. However, when equity markets top out—as happened in 2008—there is a massive exodus from the stock markets of the region. The absence of well-developed, diverse LCY corporate bond markets constrains investors.

There are many other benefits of a large, corporate bond market, including (i) a more diversified funding base, (ii) longer-term financing, and (iii) alternative financing to equity by providing companies a greater range of options for funding than can often be obtained from banks. Eventually, these changes should result in a better balance of financing options for domestic companies as well as provide alternative investment opportunities for the region's vast savings.

Appendix 1

Subdebt Bond Tables

Subdebt Bonds Outstanding—People's Rep. of China					Rating Agencies		
Issuer	Issue Date	Maturity	Coupon (%)	Amount (CNY billion)	Lianhe	Dagong	Chengxin
China Construction Bank	26-Feb-09	26-Feb-24	4.00	28.0	AAA	—	—
Agricultural Bank China	20-May-09	20-May-24	4.00	25.0	—	—	AAA
Agricultural Bank China	20-May-09	20-May-19	3.30	20.0	—	—	AAA
China Development Bank	30-Dec-04	30-Dec-19	5.42	20.0	—	—	—
China Development Bank	30-Jun-05	30-Jun-20	3.82	20.0	—	—	—
China Merchants Bank	4-Sep-08	4-Sep-18	5.70	19.0	AA+	—	—
Bank of Communications	8-Mar-07	8-Mar-22	4.13	16.0	—	—	—
Bank of China	4-Mar-05	4-Mar-15	4.83	15.9	—	AAA	—
Ind'l & Comm Bk Of China	29-Aug-05	29-Aug-15	3.11	13.0	—	—	AAA
Ind'l & Comm Bk Of China	6-Sep-05	6-Sep-20	3.77	13.0	—	—	AAA
Subtotal—Top 10 bank subdebt issues				**190 USD27.8 billion**			
Total bank subdebt				**352 USD51.5 billion**			
Total commercial bank bonds				**679 USD99.4 billion**			
Memo Item: Total policy bank bonds				**1,337 USD195.8 billion**			

— = data not available.
Note:
CNY6.8307–USD1.00 as of 30 Jun 09

Source: Bloomberg LP.

Subdebt Bonds Outstanding—Republic of Korea					Rating Agencies
Issuer	Issue Date	Maturity	Coupon (%)	Amount (KRW billion)	Nice / Kis Ratings
Kookmin Bank	31-Mar-06	31-Jan-12	5.70	1,000	AA+ / —
Kookmin Bank	31-Mar-09	31-Mar-39	6.46	1,000	AA / AA
Woori Bank	31-Mar-09	31-Mar-39	6.66	1,000	AA / AA
Woori Bank	28-Sep-06	28-Mar-12	5.05	800	AA+ / AA+
Nat’l Agri Coop Fed	31-Mar-09	31-Mar-39	6.76	750	— / —
Shinhan Bank	5-Jun-09	5-Jun-39	5.95	700	AA / AA
Ind’l Bank of Korea	11-Dec-06	11-Dec-36	6.36	600	— / AA
Nat’l Agri Coop Fed	29-May-09	29-May-15	5.90	596	— / AA+
Kookmin Bank	27-Aug-03	27-Aug-33	7.00	533	— / —
Shinhan Bank	28-Mar-08	28-Mar-38	7.02	510	AA / —
Subtotal—Top 10 Bank subdebt issues				**7,489**	
Total bank subdebt				**33,886**	**USD26.63 billion**
Total commercial bank bonds (Excl. IFD’s)				**213,451**	**USD167.76 billion**
Memo item: KDB Ind’l Fin Debentures (IFD’s)				**50,596**	**USD39.77 billion**

— = data not available.
Note: KRW1272.35–USD1.00 as of 30-Jun-09

Source: Bloomberg LP.

Subdebt Bonds Outstanding - Malaysia					Rating Agencies	
Issuer	Issue Date	Maturity	Coupon (%)	Amount (MYR billion)	MARC	RAM
Maybank	27-Jun-08		0.00	3.50	—	AA2
Maybank	15-May-06	15-May-18	5.00	1.50	—	AA1
Maybank	13-Apr-07	13-Apr-17	4.00	1.50	—	AA1
CIMB	28-Mar-08	28-Mar-18	4.90	1.50	AA	—
Public Bank	16-May-08	16-May-18	4.73	1.40	—	AA1
Bumiputra-Commerce	30-Jun-09	30-Jun-59	7.30	1.38	A+	—
RHB	30-Nov-07	30-Nov-17	5.00	1.30	—	A1
Public Bank	22-Dec-06	22-Dec-36	5.10	1.20	—	AA2
Maybank	24-Nov-05	24-Nov-15	4.48	1.00	—	AA1
CIMB	7-Oct-08	7-Oct-38	6.70	1.00	AA-	—
Subtotal—Top 10 Bank subdebt issues				**15.28**		
Total bank subdebt				**27.92**	**USD7.94 billion**	
Total commercial bank bonds				**28.51**	**USD8.11 billion**	

— = data not available.
Note: MYR3.515–USD1.00 as of 30-Jun-09

Source: Bloomberg LP.

Subdebt Bonds Outstanding—Philippines					Rating Agencies	
Issuer	Issue Date	Maturity	Coupon (%)	Amount (PHP billion)	Moody's/Fitch	Philratings
Banco de Oro	30-May-08	30-May-18	8.50	10.00	—	—
Banco de Oro	21-Nov-07	21-Nov-17	7.00	10.00	—	—
Metrobank	19-Oct-07	19-Oct-17	7.00	8.50	—	—
Rizal Comm'l Banking Corp	22-Feb-08	22-Feb-18	7.00	7.00	— / B+	—
Land Bank	9-Jun-09	9-Jun-19	7.25	6.93	— / AAe	—
Dev't Bank of the Phils	1-Sep-08	1-Sep-18	7.75	6.50	—	—
Phil National Bank	19-Jun-08	19-Jun-18	8.50	6.00	—	—
Phil National Bank	10-Aug-06	10-Aug-16	10.00	5.10	—	—
Bank of the Philippine Islands	12-Dec-08	12-Dec-18	8.45	5.00	— / AA+ (phl)	—
Allied Bank	6-Mar-08	6-Mar-18	7.13	4.50	Ba3	—
Subtotal—Top 10 Bank subdebt issues				**69.53**		
Total bank subdebt				**99.82**	**USD2.08 billion**	
Total commecial bank bonds				**141.49**	**USD2.94 billion**	

— = data not available.
Note: PHP48.078–USD1.00 as of 30-Jun-09

Source: Bloomberg LP.

Subdebt Bonds Outstanding—Singapore					Rating Agencies
Issuer	Issue Date	Maturity	Coupon (%)	Amount (SGD billion)	Moody's/S&P/ Fitch
United Overseas Bank	15-Sep-08	N.A.	5.05	1.32	Aa3/A-/A+
United Overseas Bank	30-Aug-01	30-Sep-16	4.95	1.30	Aa2/A-/N.A.
DBS Bank	25-May-01	N.A.	6	1.10	Aa3/N.A./N.A.
OCBC Bank	28-Jul-08	N.A.	5.1	1.00	Aa3/A-/A+
United Overseas Bank	24-Aug-04	3-Sep-19	4.1	1.00	Aa2/A-/N.A.
OCBC Bank	27-Mar-09	27-Mar-19	5.6	0.71	Aa2/A/A+
DBS Bank	11-Jul-06	15-Jul-21	4.47	0.50	Aa2/A/A+
OCBC Bank	6-Jul-01	6-Sep-11	5	0.27	Aa2/N.A./A+
OCBC Bank	28-Nov-07	28-Nov-17	3.78	0.23	Aa2/A/A+
Total Banks subdebts				**7.42**	**USD5.12 billion**
Total Commercial bank bonds				**7.69**	**USD5.31 billion**

Note: SGD1.4486–USD1.00 as of 30-Jun-09

Source: Bloomberg LP.

Subdebt Bonds Outstanding—Thailand					Rating Agency	
Issuer	**Issue Date**	**Maturity**	**Coupon** (%)	**Amount** (THB billion)	**TRIS**	**Moody's/ Fitch**
Krung Thai Bank	20-Feb-09	20-Feb-19	5.0	21.0	—	—
Kasikorn Bank	19-Dec-08	19-Dec-18	5.3	17.0	—	—
Kasikorn Bank	16-Oct-03	16-Oct-13	4.3	12.0	—	—/BBB
Bank of Ayudha	5-Nov-03	5-Nov-13	4.8	12.0	A+	Baa2/BBB-
Krung Thai Bank	18-May-05	18-May-15	4.6	10.4	NR	—
Siam City Bank	19-Jun-09	19-Jun-19	5.5	10.0	—	—
Thanachart Bank	9-May-08	9-May-15	5.1	5.0	A	—
TMB Bank	30-Apr-09	30-Apr-49	7.0	4.0	BBB+	—
Thanachart Bank	3-Apr-09	3-Apr-19	5.3	2.0	A	—
Indust Fininance Corporation	30-Nov-00	30-Nov-10	5.4	1.8	—	—
Subtotal—Top 10 Bank subdebt issues				**95.2**		
Total bank subdebts				**98.4**	**USD2.94 billion**	
Total commercial bank bonds				**253.5**	**USD7.57 billion**	

— = data not available.
Note: THB33.46–USD1.00 as of 30-Jun-09

Source: Bloomberg LP.

Market Summaries

Peoples Republic of China—Update

Yield Movements

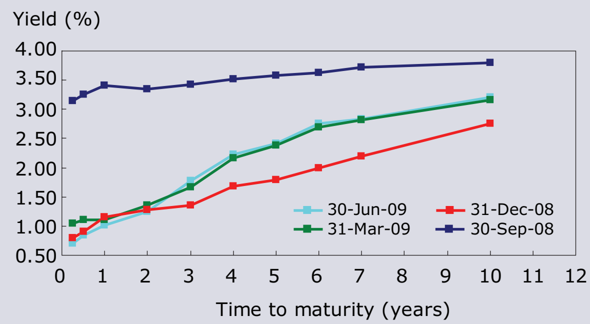
Economic data releases from the People's Republic of China (PRC) in June appeared to show that measures to stimulate the country's economy are taking hold. In the first half of the year, the PRC's economy grew 7.1%, driven by strong fixed asset investment, which was pushed forward by a massive expansion of credit.

Second quarter gross domestic product (GDP) grew 7.9% year-on-year (y-o-y), compared to a 1Q09 GDP growth rate of 6.1%, which was the lowest quarterly rate in a decade.

The People's Bank of China (PBOC), which in 4Q08 had twice cut its lending and deposit benchmark rates to 5.31% and 2.25%, respectively, kept its benchmark rates at these levels through June 2009. Meanwhile, June headline inflation, as measured by the consumer price index (CPI), was reported at –1.7% y-o-y, which represents the lowest level since 1999 and the fifth successive month of decline since February.

To encourage banks to boost lending in support of the government's CNY4 trillion stimulus program announced in November 2008, regulations on lending were eased in 4Q08. PRC banks responded by extending a total of CNY4.58 trillion in new loans by the end of 1Q09. Credit expansion subsequently slowed, with new loans in April and May amounting to CNY591.8 billion and CNY664.5 billion, respectively, before lending rebounded in June to reach CNY1.53 trillion. Data from 2Q09 brings the PRC's new loan total for the first 6 months of the year to CNY7.37 trillion, which is well above the government's annual target for 2009 of CNY5 trillion.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds

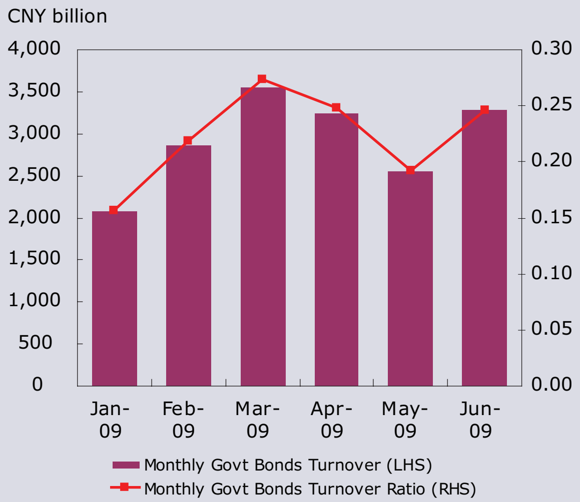


Source: Bloomberg LP.

The spike in June lending was, as in previous months, attributable primarily to activity related to the economic stimulus program, especially real estate and government-sponsored construction projects. In line with the growth in bank lending, M2 grew at a record rate of 28.5% y-o-y in June. Reflecting the country's expansionary monetary policies in the first half of the year, y-o-y growth rates for M2 increased 18.8% in January and 20.48% in February, and ranged between 25.0% and 26.0% in the succeeding 3 months.

The combination of historically low policy rates, declining inflation, and domestic liquidity in the first half resulted in heightened demand for bonds, particularly short-dated instruments, and resulted in declining short-term yields and a steepened yield curve **(Figure 1)**. Medium- to long-term yields rose significantly compared to their end-2008 levels and increased slightly over their March 2009 levels.

Figure 2: Government Bond Trading Volume and Turnover Ratio



Source: *ChinaBond*.

The spread between 2- and 10-year government bonds widened to 196 basis points at the end of June, compared to spreads of 149 and 181 basis points at end-2008 and March 2009, respectively. In March, the share of government bonds with maturities of 3–5 years increased as a percentage of bonds outstanding, contributing to the rise in yields at the belly of the curve.

Size and Composition

At the end of June 2009, the amount of the PRC's outstanding local currency (LCY) bonds stood at CNY15.77 trillion—up 5.3% quarter-on-quarter (q-o-q) and 14.8% y-o-y **(Table 1)**. In the first 6 months of 2009, corporate bonds posted a record growth rate of 90.9% y-o-y, with the stock of corporate paper rising to CNY2.426 trillion in June. Total government bonds outstanding, however, increased by a more moderate 7.0% y-o-y in the first half of the year.

Turnover of Government Bonds

As of June 2009, the year-to-date aggregate trading volume of spot government bills and bonds on the interbank market stood at CNY17.55 trillion—11% higher than for the same period last year. The trading of government bills and bonds peaked in March at CNY3.559 trillion, declined significantly in May, and rebounded to CNY3.281 trillion in June, when trading reached its second-highest monthly level of the year **(Figure 2)**.

Treasury Investor Profile

The first 6 months of the year saw a noteworthy shift in the profile of investors in treasury bonds **(Figure 3)**, with banks holding a larger share of Treasury bonds than they did at the end of 2008. In June 2009, commercial banks, which are traditionally the largest investor in treasury instruments, held 56.3% of treasury bonds outstanding, compared to their 51.9% share in December 2008. Underscoring the dominance of banks as investors in the treasury bond market, all other investor classes held a lower percentage share of the treasury debt stock in June compared to December 2008.

Corporate Bonds

The first half of 2009 was marked by a remarkable expansion in the amount of corporate bonds outstanding. With the exception of commercial paper and asset-backed securities, the outstanding amount of corporate bonds across key sectors in June 2009 significantly outstripped their levels in December 2008. The rise in the amount of outstanding medium-term notes (MTNs), local corporate bonds, and commercial bank bonds in June 2009 as compared to end-2008 levels is particularly noteworthy **(Table 2)**.

Table 1: Size and Composition of Local Currency Bond Markets

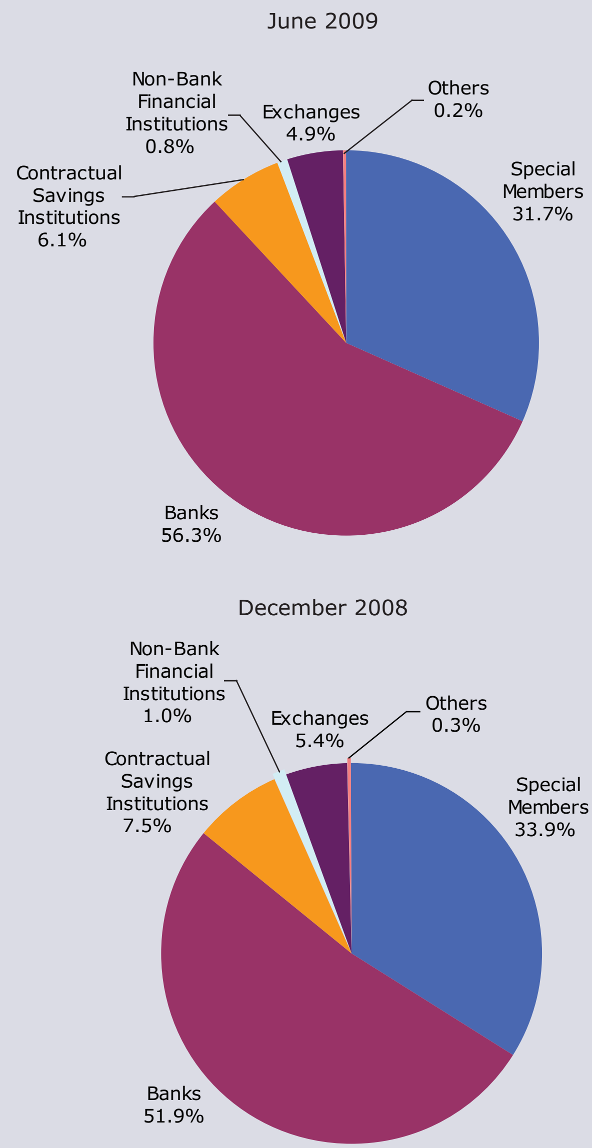
	Amount (billion)								**Growth Rate** (%)						
	Mar-09		Apr-09		May-09		Jun-09		Mar-09		Apr-09	May-09	Jun-09		
	CNY	USD	CNY	USD	CNY	USD	CNY	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	14,978	2,192	15,311	2,244	15,623	2,287	15,770	2,309	13.1	(0.9)	2.2	2.0	14.8	5.3	0.9
Government	12,974	1,899	13,143	1,926	13,319	1,950	13,344	1,954	8.0	(2.9)	1.3	1.3	7.0	2.9	0.2
Treasury Bonds	4,900	717	5,015	735	5,170	757	5,345	782	5.4	0.5	2.4	3.1	12.5	9.1	3.4
Central Bank Bonds	4,345	636	4,354	638	4,342	636	4,161	609	4.2	(9.7)	0.2	(0.3)	(5.5)	(4.2)	(4.2)
Policy Bank Bonds	3,729	546	3,774	553	3,808	558	3,838	562	16.8	1.6	1.2	0.9	15.9	2.9	0.8
Corporate	2,004	293	2,168	318	2,303	337	2,426	355	63.2	14.7	8.2	6.2	90.9	21.1	5.3
Memo Item: Policy Bank Bonds															
China Development Bank	2,694	394	2,734	401	2,764	405	2769	405	9.8	(0.5)	1.5	1.1	9.8	2.8	0.2
Export–Import Bank of China	322	47	337	49	338	50	338	50	47.4	1.9	4.5	0.5	60.7	5.1	0.0
Agricultural Dvt. Bank of China	713	104	704	103	706	103	731	107	36.7	9.8	(1.3)	0.3	25.9	2.4	3.5

y-o-y = year-on-year, q-o-q =quarter-on-quarter, m-o-m = month-on-month.

Note:
1. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds
3. Bloomberg end-of-period LCY–USD rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.

Source: *ChinaBond* and Bloomberg LP.

Figure 3: Treasury Bond Investor Profile



Note: Special Members include the People's Bank of China, Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Co., and China Securities Depository & Clearing Corporation.

Source: *ChinaBond*.

The explosive growth of MTNs can be seen more clearly in **Table 3** and **Figure 4**, which present corporate bond issuance over the last 6 quarters. Issuance through the window involving approval by the National Development and Reform Commission (NDRC) and Corporate Securities Regulatory Commission (CSRC) has dropped dramatically,

Table 2: Corporate Bonds Outstanding in Key Sectors (CNY billion)

	Mar-08	Jun-08	Sep-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	June-09 Growth y-o-y (%)
Commercial Bank Bonds	314.47	327.47	384.47	388.67	388.67	429.67	437.67	438.67	479.87	486.37	48.52
State-Owned Corporate Bonds	376.10	376.60	446.60	521.90	524.20	525.20	526.50	539.90	563.20	565.30	50.11
Local Corporate Bonds	92.76	100.25	125.25	158.45	162.05	173.05	196.95	229.28	255.27	295.67	194.95
Commercial Paper	371.61	313.38	344.76	420.31	422.59	429.03	409.36	414.23	414.93	384.28	22.62
Asset-Backed Securities/ Mortgage-Backed Securities	37.16	43.44	43.44	55.11	54.61	56.61	56.61	56.61	55.41	55.41	27.55
Medium-Term Notes	0.00	73.50	73.50	167.20	220.50	234.30	340.80	453.30	493.50	592.10	705.58

y-o-y = year-on-year.
Source: *ChinaBond*.

Table 3: Corporate Bond Issuance (CNY billion)

	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	1H09 Total	1H09 as % of end-08
Commercial Bank Bonds	7.70	8.50	62.00	19.20	97.40	49.00	61.70	110.70	114
State-Owned Corporate Bonds	20.00	0.50	74.00	73.80	168.30	8.00	35.90	43.90	26
Local Corporate Bonds	1.99	7.10	27.50	31.80	68.39	58.23	81.55	139.78	204
Commercial Paper	111.59	60.43	122.67	138.46	433.15	92.50	57.35	149.85	35
Asset-Backed Securities/Mortgage-Backed Securities	12.77	3.77	0.00	13.67	30.20	0.00	0.00	0.00	0
Medium-Term Notes	0.00	73.50	0.00	100.20	173.70	167.10	268.60	435.70	251

Source: ChinaBond.

while corporate issuance appears to have shifted to the MTN window regulated by the National Association of Financial Market Institutional Investors (NAFMII).

One apparent reason for this shift is that the approval process for the MTN window is much quicker, and can often be completed in 1–2 months. Total issuance of MTNs in the first half of 2009 reached CNY435.70 billion, or 251% of the full-year total for 2008. Issuance of local corporate bonds and commercial bank bonds—the bulk of the latter in the form of subordinated debt—exhibited a similar trend, with issuance through June 2009 representing 204% and 114%, respectively, of their corresponding 2008 totals.

In line with the PRC's rapid loan growth, subordinated bond issuance by major PRC banks has increased. The CNY50 billion of new bonds issued by the Agricultural Bank of China in May is one example of this trend, with additional subordinated debt issues expected from other major banks in the second half of 2009.

Issuance of commercial paper in 1Q09 and in 2Q09 was lower than that for the same periods last year, with 1Q09 issuance amounting to CNY92.50 billion and 2Q09 issuance totaling CNY57.35 billion. This compares with issuance of CNY111.59 billion and CNY60.43 billion in 1Q08 and 2Q08, respectively.

Turnover of Corporate Bonds

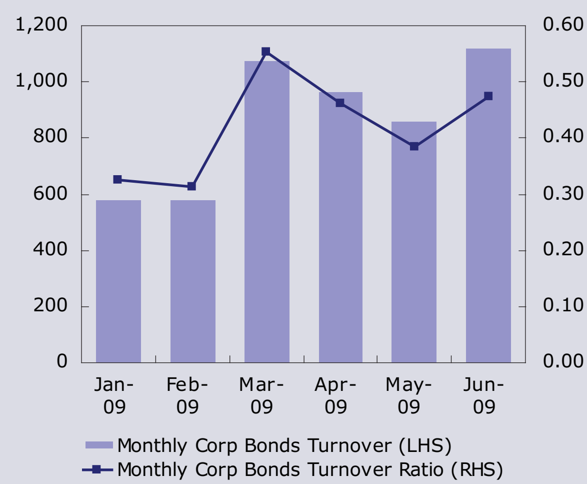
The year-to-date volume of spot corporate bond trading on the interbank market totaled CNY5.17 trillion through June 2009, equivalent

Figure 4: Quarterly Corporate Bond Issuance (CNY billion)

Source: *ChinaBond.*

to 111% of the full-year 2008 corporate bond trading volume of CNY4.65 trillion. The rise in trading volume is consistent with the growth of corporate issuance in the first 6 months of 2009. Trading volume of corporate bonds followed a similar pattern as government bonds, although the rebound in corporate bond trading volume in June was more pronounced, with trading volume climbing to its highest monthly level in the first half of the year **(Figure 5)**.

Figure 5: Corporate Bond Trading Volume and Turnover Ratio (CNY billion)



Source: *ChinaBond.*

Policy, Institutional, and Regulatory Developments

Foreign Participation in Bond Trading and Issuance

In January 2009, the PRC announced that it would allow foreign banks to underwrite CNY-denominated bonds and trade corporate bonds in the country's interbank market. Previously, foreign banks could trade only government bonds, central bank bills, bonds issued by financial institutions, and some derivative instruments on the local bond market.

Also in January 2009, the PRC began considering allowing qualified foreign-funded financial institutions to issue CNY-denominated bonds in the mainland or in Hong Kong, China. Under the proposal, qualified foreign-funded banks would be allowed to undertake such activities provided they met certain eligibility requirements.

The first half of 2009 saw the initial phases of implementation of these measures, with foreign banks achieving a number of "firsts" in terms of bond trading and issuance:

- In April, Standard Chartered Bank announced that its local unit based in Shanghai had traded PRC corporate debt to complete a commercial paper transaction, making it the first foreign bank to participate in the fast-growing PRC corporate debt market.

- In May, HSBC and the Bank of East Asia became the first non-PRC banks to gain approval to issue CNY-denominated bonds in Hong Kong, China. In March, HSBC issued CNY1 billion in floating-rate notes in Hong Kong, China to become the first foreign bank to issue a CNY-denominated bond in the Special Administrative Region. The Bank of East Asia issued a CNY4 billion bond in Hong Kong, China in late July.

Additionally, in June, Standard Chartered Bank announced plans to issue CNY3.5 billion of financial bonds in the PRC. Upon successful issuance, the bank will become the first foreign bank to issue CNY-denominated debt in the mainland.

Reopening of Bond Issuance by Publicly-Listed Companies

In July, the listed company Shanghai Yuyuan Tourist Mart received CSRC approval to issue up to CNY1 billion in bonds, marking the resumption of listed company bond issuance after a 10-month suspension. As of July, about 35 listed companies were reported to be preparing to issue bonds totaling approximately CNY115 billion. CSRC approved these bonds on a preliminary basis, but had yet to give the final permits needed to proceed with issuance. With the re-opening of listed company issuance, some CNY150 billion of additional issuance is expected this year. The resumption of listed company issuance will be accompanied by new regulations on the distribution of these bonds and retail investors' access to them.

Domestic Bank Participation in Bond Trading on Exchanges

In January, the China Banking Regulatory Commission (CBRC) and CSRC issued a joint set of preliminary rules allowing listed banks to engage in bond trading on the country's stock exchanges, with the aim of providing a bridge between the interbank market and stock exchanges, the PRC's two primary venues for bond trading. The interbank bond market is significantly larger than the exchange-traded market.

Rules for the entry of domestically listed banks into exchange-based bond trading were released in early July. The opening up of exchange-based bond trading is geared towards strengthening demand for the bonds of listed companies. Banks' participation in exchange-based trading is expected to increase large issuers' confidence that their bonds can be fully distributed on the exchanges. The country's 14 listed domestic banks are currently eligible to engage in bond trading on the exchanges, but they must first obtain approval from CBRC and CSRC. The entry of banks into the exchange market comes after a 12-year absence.

New Derivatives Master Agreement

In March, NAFMII released a new master agreement governing activities involving onshore derivatives transactions in the PRC interbank market. The new agreement consolidated and superseded the previous two master agreements published by NAFMII and the China Foreign Exchange Trading System (CFets).

The previous agreements had covered only CNY-denominated foreign exchange and interest rate derivatives, while the new master agreement eliminates overlaps between its predecessors and broadens instruments covered to include credit, gold, bond derivatives, and combinations of these instruments. The inclusion of bond derivatives is aimed at giving PRC bond investors added flexibility in managing their investments.

Outbound Investment Rules Relaxed

The PRC's foreign exchange regulator, the State Administrator of Foreign Exchange (SAFE), said in June that it would allow a wider range of PRC firms to invest their foreign exchange earnings abroad. The regulator said it was relaxing restrictions on overseas investment to enable PRC firms with foreign operations to grow.

Prior to the move, the investment of foreign exchange earnings abroad had been limited to large domestic firms and foreign multinationals. Other PRC foreign exchange earners were required to exchange their earnings for local currency.

Additionally, the regulator said that firms would be allowed to use foreign exchange acquired with yuan for investments in their subsidiaries abroad, increasing the amount of foreign exchange available for overseas investment by PRC firms.

Companies will still need to secure approvals from SAFE, but the processes for approval, as well as for remittances and other related activities, will be simplified.

Hong Kong, China—Update

Yield Movements

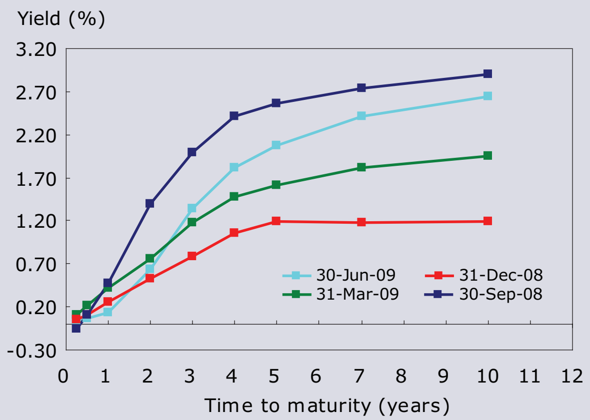
The Hong Kong, China yield curve steepened considerably in 2Q09 from the previous quarter, as yields declined at the short-end and rose from the 3-year tenor through the rest of the curve **(Figure 1)**.

At the end of June, yields on 3-month, 6-month, 1-year, and 2-year Exchange Fund bills and notes (EFBNs) fell from their end-March levels, with the yield on 1-year Exchange Fund bills declining the most at 29 basis points. In contrast, yields on the 3- to 10-year tenors rose progressively with their maturities.

Yields on 3-year notes rose 16 basis points, those on 5-year notes increased 45 basis points, and yields on 10-year notes increased 69 basis points. The steepened curve is reflected by the spread between 2- and 10-year Exchange Fund paper, which stood at 200 basis points as of end-June compared to 119 basis points as of end-March.

The tightening of the EFBN yield curve at the short-end, and its widening along the rest of the curve, is attributable mainly to banks' strong demand for short-term liquidity. Exchange Fund bills are key instruments in bank liquidity management, since they can be used as collateral when borrowing from the Hong Kong Monetary Authority (HKMA) through repurchase agreements.

Figure 1: Benchmark Yield Curve—Local Curency Government Bonds



Source: Bloomberg LP.

Size and Composition

As of end-June 2009, the amount of EFBNs outstanding reached HKD288.42 billion, almost double the EFBN stock in June 2008. The rise in the outstanding amount of EFBNs is due to continued issuance of Exchange Fund bills by HKMA to meet strong bank demand. Banks in Hong Kong, China are currently awash with cash, as indicated by their burgeoning reserve accounts with HKMA. The high level of liquidity in Hong Kong, China's financial system is due mainly to large capital inflows in 2Q09.

In the wake of the Lehman Brothers bankruptcy in September of last year, demand for Exchange Fund instruments shot up, as concerns about counterparty risk led banks to invest surplus funds in Exchange Fund instruments, which are considered to be a safe haven, rather than engage in inter-bank lending. HKMA addressed the need for its paper by increasing issuance.

Demand for short-dated Exchange Fund paper continued to rise through June of this year, although it has been driven not by concerns about counterparty risk, but instead by banks' need for instruments to manage intra-day liquidity. As shown in **Table 1**, the increase in the aggregate amount of government bonds outstanding as of June is attributable to the growth in issuance of Exchange Fund bills. In June, the outstanding amount of Exchange Fund bills totaled HKD219.82 billion—up 178.3% year-on-year (y-o-y) and 45.6% quarter-on-quarter (q-o-q). By contrast, the stock of Exchange Fund notes in June grew only 1.0% on q-o-q and month-on-month (m-o-m) basis, and increased by only 5.1% y-o-y.

Table 1: Size and Composition of Local Currency Bond Market

	Amount (billion)								**Growth Rate** (%)						
	Mar-09		**Apr-09**		**May-09**		**Jun-09**		**Mar-09**		**Apr-09**	**May-09**	**Jun-09**		
	HKD	**USD**	**HKD**	**USD**	**HKD**	**USD**	**HKD**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total Government	218.90	28.24	226.57	29.23	247.77	31.96	288.42	37.22	52.8	38.8	3.5	9.4	99.9	31.8	16.4
Government															
Exchange Fund Notes	67.9	8.76	67.90	8.76	67.90	8.76	68.60	8.85	4.9	1.5	0.0	0.0	5.1	1.0	1.0
Exchange Fund Bills	151.00	19.48	158.67	20.47	179.87	23.20	219.82	28.36	92.2	66.4	5.1	13.4	178.3	45.6	22.2
Corporate	566.92	73.15	—	—	—	—	574.06	74.07	(2.8)	1.4	—	—	(0.7)	1.3	—

— = data not available, y-o-y = year-on-year, q-o-q =quarter-on-quarter, m-o-m = month-on-month.
Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Hong Kong Monetary Authority and Bloomberg LP.

The corporate sector of the bond market was relatively subdued in the first half. The amount of corporate bonds outstanding grew 1.3% q-o-q and declined by a slight 0.7% y-o-y. New issuance of corporate bonds in 2Q09—despite being the most since 2Q07—appears to have simply offset prepayments and maturities, resulting in the flat growth of corporate debt stock.

According to data from the Central Money Markets Unit, HKMA's clearing group, the largest issuers of tradable, non-bank, HKD-denominated debt securities are involved in mortgage financing, railways, electric power, and property **(Table 2)**. Six companies (or their financing arms) account for the bulk of the outstanding amount of these securities: the Hong Kong Mortgage Corporation (HKMC), a public entity; CLP Power, which is the Special Administrative Region's largest electric power utility; the MTR Corporation, operator

Table 2: Top 10 Non-Bank Corporate Issuers
(USD billion)

Issuer	Amount Outstanding
1. The Hong Kong Mortgage Corporation	4.06
2. CLP Power Hong Kong Financing	1.06
3. Sun Hung Kai Properties	0.97
4. MTR Corporation	0.88
5. Kowloon-Canton Railway Corporation	0.72
6. Swire Pacific MTN Financing	0.61
7. Bauhinia MBS	0.49
8. Airport Authority Hong Kong	0.48
9. Cheung Kong Bond Finance	0.38
10. HongKong Electric Finance	0.35
Total	**11.37**
Subtotal: Top 10 non-bank, tradable debt securitities	**10.01**
Total 10 non-bank, tradable debt securitities[1]	**0.88**
Total corporate sector bonds[2]	**74.07**
Top 10 Issuers as % of corporate bond market	**13.5%**

Note:
[1]Based on Central Money Markets Unit (CMU) data on non-bank debt securities issued and still outstanding as of 13 August 2009.
[2]See Table 1.

Source:
Central Money Markets Unit.

of Hong Kong, China's subway system; the Kowloon–Canton Railway Corporation; Sung Hung Kai Properties; and the Swire Pacific group. In addition to the HKMC, another public entity, Airport Authority Hong Kong, is also a significant issuer.

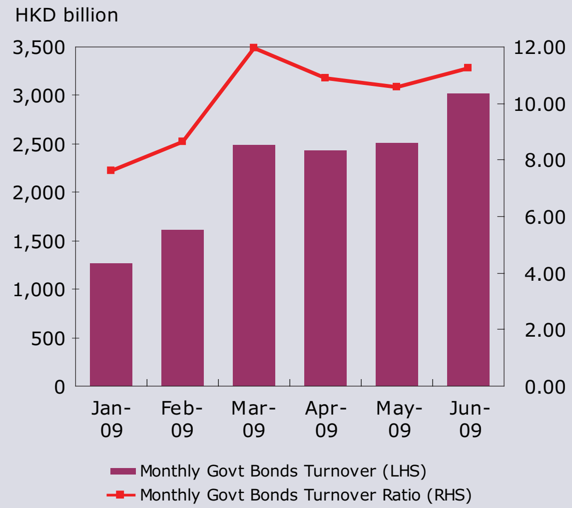
Turnover

EFBN trading volume (or turnover) in the first half of the year totaled HKD13.319 trillion, which is more than double the HKD6.4 trillion posted in the first half of 2008. From HKD1.27 trillion in January, trading volume climbed to HKD2.48 trillion in March, remained at similar levels through May, and rose sharply to HKD3.015 trillion in June.

Trading activity, as measured by the government bond turnover ratio, peaked at 11.97 in March before falling off to 10.60 in May, and again rising to 11.25 in June. These double digit ratios highlight the increased activity of government bond trading in the first half of the year compared to the latter half of 2008, when turnover ratios ranged between 6.23 and 8.11.

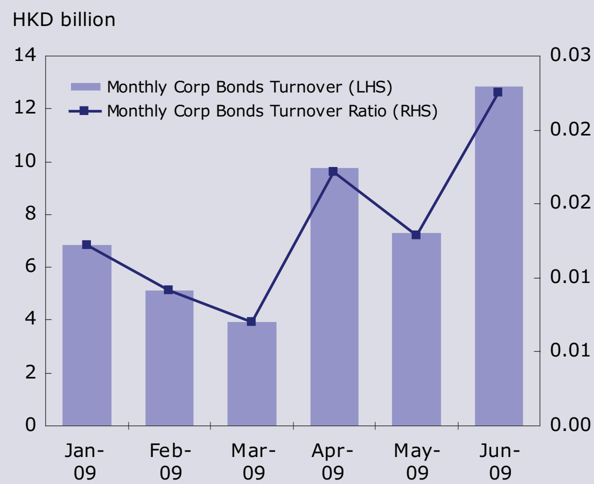
After reaching a trough of HKD3.93 billion in March, corporate trading volume soared in June to its highest level of the year on the back of strong corporate issuance and the recovery of investor appetite for corporate paper. Trading volume in June amounted to HKD12.83 billion, which is more than three times the March figure and almost twice the January trading volume of HKD6.84 billion.

Figure 2: Government Bond Trading Volume and Turnover Ratio



Source: Hong Kong Monetary Authority.

Figure 3: Corporate Bond Trading Volume and Turnover Ratio



Source: Hong Kong Monetary Authority and *AsianBondsOnline* estimates.

Policy, Institutional, and Regulatory Developments

Cross-Border Payment Arrangements between the People's Republic of China (PRC) and Hong Kong, China

In February 2009, the People's Bank of China (PBOC) and HKMA signed a memorandum of understanding on the establishment of multi-currency, cross-border payment arrangements. The currencies covered by the agreement include the US dollar, Hong Kong dollar, euro, and British pound (see below for developments on yuan settlements).

The agreement aims to meet increased demand for cross-border payment services as Hong Kong, China and the People’s Republic of China (PRC) develop increasingly close economic and financial links. These services are being offered with a view towards encouraging greater competition among banks as the main providers of payment services, thereby enhancing service quality and resulting in better settlement terms for both banks and their customers.

Furthermore, it is hoped that this agreement will spur the use of cross-border payments services and help expand access to a broader range of market participants. Cross-border services were introduced on 16 March.

Yuan Trade Settlement

The PRC and Hong Kong, China signed an agreement on 29 June to permit the yuan to be used in settling cross-border trade transactions. Prior to the deal, banks based in Hong Kong, China had been permitted—on a limited basis—to take yuan deposits and provide other yuan-denominated services. They were, however, not allowed to engage in cross-border yuan trade settlement transactions.

On 2 July, PBOC began allowing certain companies in Shanghai and four cities in Guangdong province to settle trade transactions with firms in Hong Kong, China; Macau, China; and the 10 member countries of the Association of Southeast Asian Nations (ASEAN). The first yuan settlement transaction occurred on 6 July.

Hong Kong, China’s Lawmakers Approve HKD100 Billion Bond Sale

Hong Kong, China’s legislative council on 8 July approved a new HKD100 billion debt issue program that aims to provide additional depth to the Hong Kong, China bond market through the issuance of sovereign paper. Bonds issued under the program are expected to offer another benchmark for the pricing of corporate debt, thereby increasing investor confidence and interest in these instruments.

Estimates of the size of new government issuance range from HKD10 billion–HKD20 billion a year. Four bond offerings—with maturities of 2, 10, and 15 years—are planned to be sold annually.

The bonds to be sold under the program will constitute unsecured liabilities of the government of Hong Kong, China and will not be backed by foreign reserves—in contrast to EFBNs. As the new bonds will not have foreign reserve backing, they are expected to pay a premium over EFBNs.

Indonesia—Update

Yield Movements

Indonesia's government bond yield curve shifted downwards in June from end-December levels for most maturities under 15 years **(Figure 1)**. The shift reflects improving confidence in the economy as inflationary pressures continued to ease and macroeconomic conditions have improved. Consumer price inflation dropped to 2.71% in July after peaking at 12.14% in September of last year.

Easing inflationary pressures and improving macroeconomic conditions allowed Bank Indonesia (BI) to lower its benchmark rate to a record low of 6.5%. The central bank has reduced its key rate by a total of 275 basis points year-to-date.

Indonesia's economy expanded 4.0% year-on-year (y-o-y) in 2Q09 as domestic consumption remained strong. The Finance Ministry is optimistic that signs of recovery will be more evident during the second half of the year, following a slower pace of decline in exports in the second quarter.

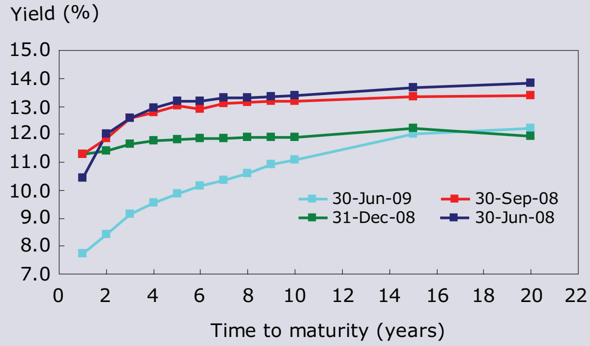
As BI continues its policy of monetary easing, commercial bank lending is expected to improve in the second half of 2009. Bank lending grew by only 2.09% in the first half of 2009 from December 2008 levels, as lenders were cautious in providing credit amid a business slowdown. However, loans grew 16.0% on a y-o-y basis.

Size and Composition

Indonesia's total local currency (LCY) bond market reported strong y-o-y growth in 2Q09. In terms of LCY base, the bond market grew 12.3% y-o-y. On a quarter-on-quarter (q-o-q) basis, the size of the LCY bond market grew 1.0% **(Table 1)**.

In 2Q09, the stock of central government bonds rose 6.6% y-o-y. The government resumed its issuance of treasury instruments in early January, following the cancellation of all scheduled auctions during 4Q08 amid volatile market conditions.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

The Finance Ministry has tapped various treasury instruments to raise funds to finance its budget deficit, which was projected to be 2.5% of gross domestic product (GDP) this year. However, recent developments suggest that the budget deficit might reach 2.6% of GDP as the government has revised its economic growth projection for 2009 downward from 4.5% to 4.3%.

In addition to the regular auctions of treasury bills and treasury bonds, the government has tapped alternative options for funding. For example, the first retail *sukuk* (Islamic bonds) were issued in February, raising IDR5.556 trillion. The Finance Ministry is also conducting a bond exchange program offering long-term bonds for short-term paper. In August, the Finance Ministry swapped IDR189 billion worth of bonds. This most recent bond swap generated a smaller amount compared to previous swaps (e.g., IDR1.248 trillion in May and IDR562 billion in June). About IDR210 trillion worth of LCY government bonds are scheduled to mature during 2009–2013. The Finance Ministry is planning to conduct debt exchanges on a regular basis in a bid to extend its debt maturity profile.

Table 1: Size and Composition of Local Currency Bond Market

	Amount (billion)								Growth Rate (%)						
	Mar-09		Apr-09		May-09		Jun-09		Mar-09		Apr-09	May-09	Jun-09		
	IDR	USD	IDR	USD	IDR	USD	IDR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	852,664	73	857,569	80	859,425	84	861,167	84	7.6	9.5	0.6	0.2	12.3	1.0	0.2
Government	779,358	67	782,311	73	784,236	76	785,957	77	10.0	10.4	0.4	0.2	14.9	0.8	0.2
Central Govt. Bonds	546,658	47	548,858	51	560,633	54	553,227	54	9.7	4.0	0.4	2.1	6.6	1.2	(1.3)
Central Bank Bonds	232,700	20	233,453	22	223,603	22	232,731	23	10.6	29.2	0.3	(4.2)	40.9	0.0	4.1
Corporate	73,306	6	75,258	7	75,188	7	75,210	7	(12.8)	0.4	2.7	(0.1)	(8.9)	2.6	0.0

y-o-y = year-on-year, q-o-q =quarter-on-quarter, m-o-m = month-on-month.
Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bank Indonesia, Indonesia Stock Exchange, and Bloomberg LP.

In August, the government sold its sixth series of retail treasury bonds, receiving a warm response from investors as sales reached IDR8.54 trillion compared to a target of IDR8.42 trillion. The retail bonds carried a maturity of 3 years with a yield of 9.35%.

To date, the government has sold more than 80% of its planned bond issuance for 2009, raising nearly IDR120 trillion from its target of IDR144.5 trillion. The government's revised state budget for 2009 indicated a budget deficit in the amount of IDR133 trillion. This will be funded by the domestic issuance of government bonds and bills, as well as *shari'a*-compliant bonds.

Meanwhile, the central bank continued to actively issue *Sertifikat Bank Indonesia* (SBI) bills in 2009 as part of its sterilization efforts. The stock of central bank bills outstanding rose 40.9% y-o-y in 2Q09. However, on a q-o-q basis, central bank bills remained flat.

The stock of corporate bonds, while lower in June at IDR75.21 trillion compared with one year earlier, showed signs of recovery. Corporate bonds outstanding rose 2.6% q-o-q in 2Q09. Since June of last year, the amount of corporate bonds outstanding had recorded quarterly declines. The top 10 corporate issuers in Indonesia, which are listed in **Table 2**, accounted for more than 50% of total corporate bonds outstanding as of end-June, with PT PLN as the single largest corporate issuer. The list of the 10 largest issuers of corporate bonds was dominated mostly by banks and financial institutions.

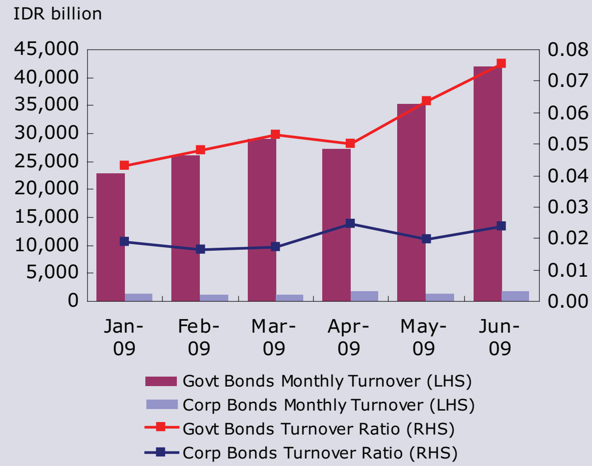
Corporate bonds outstanding are expected to rise in 2H09 given the notable increase in corporate announcements of planned bond issuance in recent months. The Finance Ministry also shares this view and is also expecting an increase in the number of corporate issues in the second semester.

Table 2: Top 10 Corporate Issuers

Top 10 Corporate Issuers	Outstanding Amount (IDR billion)
PLN	9,100
Indosat	6,590
Jasa Marga (Toll operator)	4,150
Indofood Sukses Makmur	3,610
Bank BTN	3,250
Bank Ekspor	3,200
Bank Panin	3,150
Astra Sedaya Finance	2,380
Federal International Finance	2,200
Perum Pegadaian (Pawn shop)	1,770

Source: Indonesia Stock Exchange.

Figure 2: Monthly Bond Trading Volume and Turnover Ratio



Source: Indonesia Stock Exchange.

Foreign Currency Bonds

In March of this year, the government raised USD3 billion from a global bond issue comprising USD2 billion in 10-year notes and USD1 billion in 5-year notes. The government also issued a sovereign 5-year *sukuk* (Islamic bond) in April, raising USD650 million from an issue of 5-year bonds.

In July, Indonesia sold JPY35 billion in *samurai* bonds through a private placement. The bonds had a maturity of 10 years at a coupon of 2.73%. The Japan Bank for International Cooperation (JBIC) provided a guarantee for issuance of up to USD1.5 billion. However, the Finance Ministry recently announced that it does not currently have plans to issue *samurai* bonds up to the full amount of USD1.5 billion as provided by the guarantee.

Planned Issuance

The government plans to auction IDR1 trillion worth of *sukuk*, which will represent the first time that *sukuk* will be auctioned. Previous issuance of *sukuk* was done through bookbuilding.

Turnover

The monthly government bond turnover ratio in Indonesia recovered to 0.08 in June, after dropping to a low of 0.04 in December. Trading value has also steadily risen, reaching IDR41.94 trillion in June **(Figure 2)**.

Corporate bond turnover has remained relatively flat since the beginning of the year at 0.02, while corporate trading value reached IDR1.80 trillion in June.

Rating Changes

In January, Fitch affirmed Indonesia's long-term foreign currency (FCY) and LCY rating at BB, with a stable outlook. R&I also affirmed a BB+ on Indonesia's long-term FCY rating, with a stable outlook.

On 11 June, Moody's Investor Service upgraded its outlook on Indonesia's Ba3 sovereign rating from stable to positive. According to Moody's, the move was prompted by Indonesia's relatively strong growth prospects, and an increasingly effective macroeconomic policy framework.

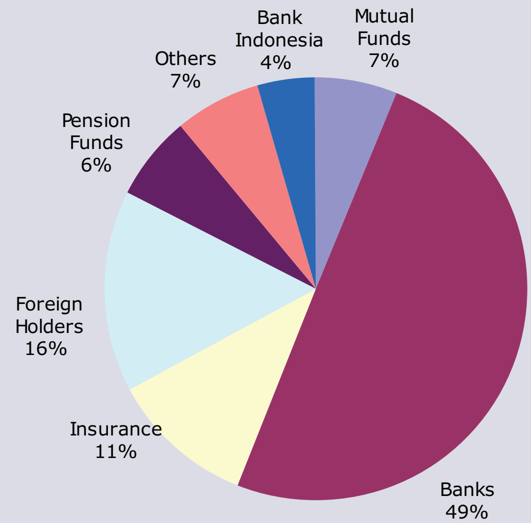
	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba3	BB-	BB
Outlook	positive	stable	stable

Investor Profile

As of end-June, banking institutions held nearly 50% of outstanding government bonds amounting to IDR272 trillion. While this figure was down by 2.5% from the first quarter, banks remained the largest holders of government bonds as they continued to seek safe havens and generate higher returns, given that benchmark interest rates are on a downward trend. The Finance Ministry recently noted that banks have slowed their rate of loan expansion amid heightened risk of default. **(Figure 3)**

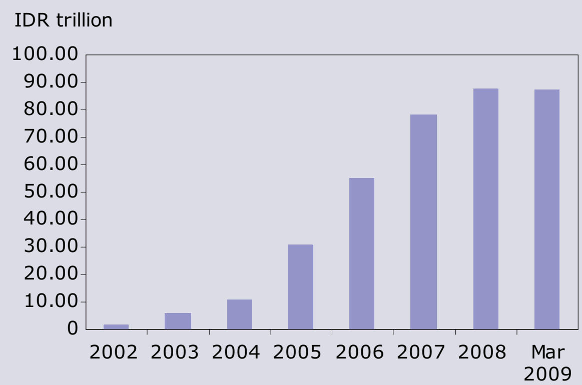
Foreign investors held nearly 16% of all central government bonds at the end of 2Q09. Government bonds held by foreign investors reached IDR87.15 trillion in June, which was 9% higher than the end-March amount of IDR79.83 trillion. The amount of bonds held by foreigners peaked in September 2008 at IDR105.49 trillion **(Figure 4)**.

Figure 3: Investor Profile for Local Currency Government Bonds (June 2009)



Source: Indonesia Debt Management Office.

Figure 4: Foreign Holdings of Government Bonds



Source: Indonesia Debt Management Office.

Policy, Institutional, and Regulatory Developments

IDR73.3 Trillion Fiscal Stimulus

In February, the House of Representatives endorsed Indonesia's 2009 fiscal stimulus package in the amount of IDR73.3 trillion. The package consists mainly of tax savings and subsidies—amounting to IDR56.3 trillion—and infrastructure spending—including business and job subsidies—at IDR15.0 trillion. The current stimulus package is about 1.4% of GDP.

Currency Swap Arrangements

On 23 March, the governments of Indonesia and the People's Republic of China (PRC) entered into an agreement on a bilateral currency swap arrangement amounting to CNY100 billion–IDR175 trillion (USD15 billion). The currency swap arrangement is expected to provide short-term foreign exchange liquidity as well as boost bilateral trade and investment agreements between the two countries. The currency swap will be valid for 3 years and subject to a possible extension.

In April, the Bank of Japan and BI agreed to increase the maximum amount of the bilateral swap arrangement under the Chiang Mai Initiative of the ASEAN+3 (Association of Southeast Asian Nations [ASEAN] plus the PRC, Japan, and Republic of Korea) Finance Ministers. The agreement allows Indonesia to swap Indonesian rupiah up to an equivalent of USD12 billion should a liquidity problem arise.

Indonesia Bond Pricing Agency to Provide Reference Pricing for Corporate Bonds and *Sukuk*

The Indonesia Bond Pricing Agency (IBPA) expects to begin publishing daily reference prices for corporate bonds and *sukuk* by 3Q09. This move is expected to help improve transparency and make Indonesia's debt market more attractive to investors. Currently, IBPA provides daily pricing for LCY government bonds.

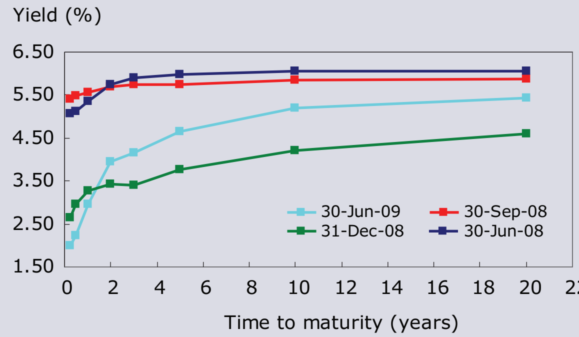
The availability of a reference price could help firms planning a bond issuance to more accurately estimate their cost of borrowing, while providing a benchmark for those seeking to trade bonds. Plans to provide reference prices for other types of *sukuk* and other assets—such as USD-denominated government bonds, bond futures, and interest rate futures—are also under consideration by IBPA.

Republic of Korea—Update

Yield Movements

The Republic of Korea's (Korea) government bond yield curve—from 2 year maturities to the longer end of the curve—steepened significantly in June compared to the end of December 2008 **(Figure 1)**. The rise in yields over the middle to long end of the curve reflected a number of different trends, including recovery of the Korean stock market and concerns over continued bond issuance by the Korean government, government-owned corporations, and financial institutions in both Korean won and United States (US) dollars.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

The Korean economy contracted 2.2% year-on-year (y-o-y) in 2Q09. While GDP growth remained in negative territory, signs of economic recovery are beginning to show.

On a quarter-on-quarter (q-o-q) basis, the economy expanded 2.6% in 2Q09—the fastest pace in 7 years—boosted by improvements in exports and consumer demand. The Finance Ministry expects the economy to contract 1.5% in 2009, which is an improvement over its earlier forecast of a 2.0% contraction.

Consumer price inflation eased to a 9-year low in July at 1.6%. However, there is a growing threat that inflation could rise again due to increasing oil prices and excessive global liquidity.

Meanwhile, the Bank of Korea (BOK) has kept its key benchmark rate steady at a record low of 2.0% since February, following reductions totaling 325 basis points beginning in October 2008. The policy rate is expected to remain at its current level for the next 2–3 months.

Size and Composition

The local currency (LCY) bond market in Korea recovered in 2Q09. The bond market rose 5.3% q-o-q (on an LCY basis) in June. On a y-o-y basis, bonds outstanding grew by 13.1% **(Table 1)**.

Government bonds outstanding were up 5.9% q-o-q (on an LCY basis) in 2Q09. The stock of central government bonds—comprising Treasury bills, Treasury bonds, Seoul Metropolitan bonds[3], and National Housing bonds—were up 2.6% q-o-q. Central bank bonds— mainly comprising monetary stabilization bonds—grew 14.5% q-o-q. Industrial finance debentures rose slightly.

On a y-o-y basis, total government bonds outstanding rose 10.7% boosted by double digit increases in central bank bonds (16.3%) and industrial finance debentures (16.7%). The stock of central government bonds also rose by 7.0% y-o-y.

The Korean government issued more treasury instruments this year to help finance its budget expenditures. Originally, the government planned to issue KRW74.3 trillion worth of bonds in 2009. The government announced in March that additional bonds will be sold to help finance its supplementary budget.

Meanwhile, corporate bonds outstanding grew 4.8% q-o-q in 2Q09, and by a more substantial 15.2% on a y-o-y basis.

[3]Bank of Korea classifies Seoul Metropolitan Subway bonds as part of government bonds.

Table 1: Size and Composition of Local Currency Bond Market

	Amount (billion)								**Growth Rate** (%)						
	Mar-09		Apr-09		May-09		Jun-09		Mar-09		Apr-09	May-09	Jun-09		
	KRW	USD	KRW	USD	KRW	USD	KRW	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	1,088,932	796	1,109,871	865	1,133,575	904	1,146,610	901	10.3	5.9	1.9	2.1	13.1	5.3	1.1
Government	498,403	365	511,649	399	523,441	417	527,678	415	5.5	7.4	2.7	2.3	10.7	5.9	0.8
Central Govt Bonds	303,391	222	311,631	243	318,755	254	311,405	245	7.8	5.5	2.7	2.3	7.0	2.6	(2.3)
Central Bank Bonds	144,657	106	150,977	118	156,847	125	165,677	130	(2.0)	14.0	4.4	3.9	16.3	14.5	5.6
Industrial Finance Debentures	50,355	37	49,041	38	47,839	38	50,596	40	16.8	1.6	(2.6)	(2.5)	16.7	0.5	5.8
Corporate	590,529	432	598,223	466	610,134	486	618,931	486	14.6	4.6	1.3	2.0	15.2	4.8	1.4

y-o-y = year-on-year, q-o-q =quarter-on-quarter, m-o-m = month-on-month.
Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bank of Korea and *KoreaBondWeb*.

Table 2: Structure of the Korean Corporate Bond Market (KRW billion)

Total Corporate Bonds	**618,932**	**Banks**	**213,451**
Special Public Corps	**171,991**	of which: Kookmin	37,362
of which:		IBK	32,013
KDIC	28,091	**Private Corporates**	**233,490**
KHFC	22,899	Sec. Companies and other Finls	91,997
Korea Land	17,830	Non-Financial Companies	141,493
KEPCO	14,993	of which: KT Corp	5,020
Korea Highway	15,235	Korea Air	3,250
SBC	12,433	SK Energy	3,470
Korea Gas	8,518	Posco	2,640
Korea Train Express	8,425	SK Corp.	2,450

Source: *KoreaBondWeb* and Bloomberg LP.

About 23% of corporate bonds outstanding were issued by private non-financial corporates. Banks are the largest segment of the corporate bond market, accounting for 35% of the total **(Table 2)**.

Kookmin Bank and the Industrial Bank of Korea were among the biggest financial issuers of LCY bonds, accounting for 18% and 15% of bonds issued by financial companies, respectively.

Foreign Currency Bonds

In April, the government raised USD3 billion overseas through the sale of USD-denominated foreign exchange stabilization bonds. The bonds carried a 5-year tenor.

Hana Bank also sold USD1 billion worth of government-guaranteed bonds with a 3-year maturity. The bonds were oversubscribed with demand reaching USD6 billion. Hana Bank was the first lender to tap Korea's USD100 billion debt guarantee program for overseas bond sales, which was established in October of last year.

In May, Kookmin Bank became the first commercial bank to issue covered bonds in Asia. It sold

USD1 billion worth of 5-year covered bonds carrying a coupon of 7.25%.

Turnover

The monthly government bond turnover ratio in Korea rose to 0.30 in June, after dropping to a low of 0.19 in November. Trading value has also recovered reaching KRW158.32 trillion in June **(Figure 2)**.

The corporate bond turnover ratio improved to 0.08 in February through April before dropping to a low of 0.06 in June. Trading value reached KRW33.96 trillion.

Rating Changes

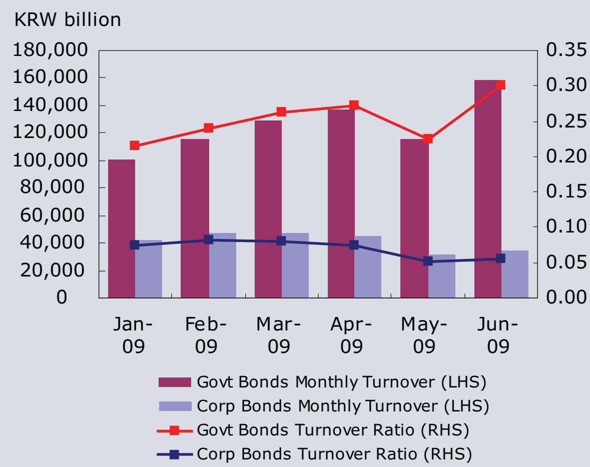
In February, Standard & Poor's (S&P) affirmed Korea's sovereign credit rating. According to S&P, the country's sovereign rating is underpinned by a dynamic economy, and sound fiscal and external positions. The stable outlook on the ratings reflects the view that financial stability will be maintained despite an anticipated weakening of banks' financial profiles in the near term.

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	A2	A	A+
Outlook	stable	stable	negative

Investor Profile

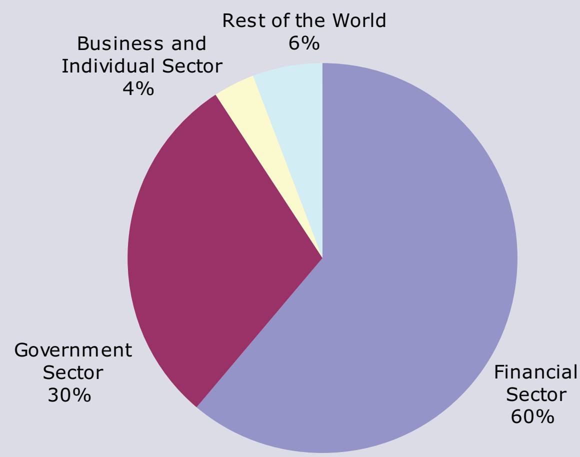
The financial sector held more than half of government bonds as of March 2009 amounting to KRW245 trillion. This was 7.0% above end-December levels. Foreign holdings, however, dropped slightly from 7.0% in end-December to 6.0% as of end-March.

Figure 2: Monthly Bond Trading Volume and Turnover Ratio



Source: Bank of Korea and *KoreaBondWeb*.

Figure 3: Investor Profile for Local Currency Government Bonds (March 2009)



Source: Bank of Korea.

Policy, Institutional, and Regulatory Developments

Approval of Supplementary Budget in the Amount of KRW28.4 trillion

The National Assembly (Parliament) approved the government's supplementary budget in the amount of KRW28.4 trillion in April to help boost domestic demand and jumpstart the slumping economy. This is the largest extra-budgetary measure since the 1997/98 Asian financial crisis. Of this amount, KRW17.2 trillion is earmarked for additional spending, while the remaining KRW11.2 trillion will be used to cover shortfalls in tax revenue. The supplementary budget will be funded mainly through the sale of government bonds.

Extension of Currency Swap Arrangement with US Federal Reserve

BOK and the US Federal Reserve have agreed to extend their currency swap arrangement until 1 February 2010. Originally, the agreement was scheduled to end on 30 October 2009. BOK expects the extension of the swap arrangement to contribute to the continuing stability of foreign currency and financial markets in Korea.

Foreign Investors Exempt from Withholding Taxes on Treasury Bonds and Monetary Stabilization Bonds

Foreign investors are now exempt from withholding taxes on interest income and capital gains taxes when investing in treasury bonds and monetary stabilization bonds. The exemption will be granted provided that an application and required documents are submitted to and approved by fiscal authorities.

Korean Firms Are Now Allowed to Purchase Foreign Currency Bonds

The Financial Services Commission (FSC) has allowed institutional investors to purchase a limited amount of foreign currency–denominated bonds issued abroad by Korean companies. The rule, however, does not include convertible bonds, bonds with a warrant, and exchangeable bonds. There is also a 20% limit on the amount of foreign currency (FCY) bonds that can be purchased by domestic institutions as well as a holding period of 1 year. According to the FSC, the new rule will lower the interest rates that companies have to pay when issuing FCY-denominated bonds abroad. The rule came into effect in July.

Malaysia—Update

Yield Movements

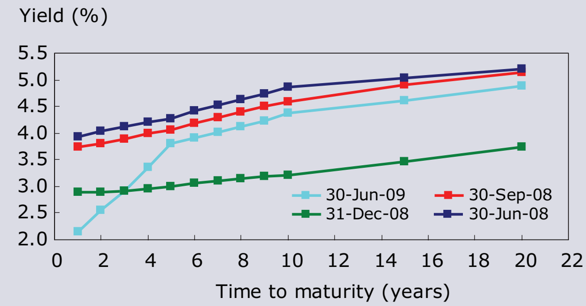
The Malaysian government has been pursuing an expansive fiscal policy since the beginning of the year. On 10 March it announced an MYR60 billion stimulus package, generating concerns that the supply of longer-maturity debt will balloon as the government raises funds to support the package. On 20 March, the government announced a revision of the existing 2009 auction calendar for Malaysian Government Securities (MGS) and Government Investment Issues (GII) by increasing the number of offerings from 27 to 28. The frequency of debt offerings was also changed as follows: 2-year from zero to two issues, 3-year from six to nine issues, 5-year from ten to eleven issues, 10-year from nine to six issues, and 20-year from two to zero issues. This announcement has had the effect of steepening the government bond yield curve.

In June, Malaysian government bond yields fell at the short end of the curve, while yields at the middle to the long end rose, compared to December **(Figure 1)**. The sharp rise in yields at the long end of the curve was due to investors demanding a higher premium amid heightened risk at home and in Malaysia's major export markets. Bank Negara Malaysia (BNM) is optimistic about an economic recovery towards the end of the year and has maintained its overnight policy rate at 2.0% during its last 3 monetary policy meetings after initiating a series of rate cuts over the period of November 2008–February 2009.

BNM reported that its accumulated monetary policy initiatives and measures to enhance financing access, coupled with the government's additional stimulus package, adequately support domestic demand.

A slowing inflation rate also allowed room for maintaining the overnight policy rate at 2.0% for the April–June period. The consumer price index (CPI) fell to 3.9% year-on-year (y-o-y) in January from 4.4% in December; and consistently slowed

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

in February, March, April, and May to 3.7%, 3.5%, 3.0%, and 2.4%, respectively. The CPI eventually fell to negative territory when it declined to –1.4% in June. The decline in consumer prices is mainly due to changes in the price of petrol and diesel that began in June 2008. The CPI for the January–June period increased by 2.5% y-o-y, resulting from increases in all major price indices except transport, clothing and footwear, and communication.

Size and Composition

Total local currency (LCY) bonds outstanding for Malaysia in the first half of 2009 stood at MYR610 billion, a decrease of 0.4% y-o-y, with outstanding government bonds falling by 5.5%. Outstanding BNM Bills and state-owned bonds (e.g., Khazanah and Cagamas bonds) fell by 54.3% and 59.0%, respectively **(Table 1)**. Outstanding central government bonds (e.g., Malaysian Treasury bills, Malaysian Islamic Treasury bills, GII, and MGS) held up as the public sector grew by 17.6% y-o-y.

Total LCY government bonds rose by 4.6% q-o-q during 2Q09 and central government bonds rose by 7.3% q-o-q as the government issued more bonds to fund its MYR60 billion stimulus program. However, outstanding BNM bills fell by 1.8% q-o-q and bonds of state-owned companies fell by 12.4% q-o-q.

Table 1: Size and Composition of Local Currency Bond Market

	Amount (billion)								Growth Rate (%)						
	Mar-09		Apr-09		May-09		Jun-09		Mar-09		Apr-09	May-09	Jun-09		
	MYR	USD	MYR	USD	MYR	USD	MYR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	583	160	590	166	597	171	610	174	0.9	3.3	1.16	1.18	-0.4	4.6	2.2
Government	321	88	325	92	329	94	339	96	-6.4	4.5	1.24	1.23	-5.5	5.5	2.9
Central Government Bonds	268	74	270	76	278	80	288	82	14.5	5.6	0.6	3.1	17.6	7.3	3.4
Central Bank Bills	45	12	47	13	43	12	44	12	-51.1	5.0	6.1	-9.3	-54.3	-1.8	2.1
Others	8	2	8	2	8	2	7	2	-52.7	-23.3	-2.6	-1.3	-59.0	-12.4	-8.8
Corporate	262	72	265	75	268	77	271	77	11.6	1.9	1.07	1.12	6.8	3.5	1.3

y-o-y = year-on-year, q-o-q =quarter-on-quarter, m-o-m = month-on-month.
Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. Others refer to debt securities issued by both Cagamas Berhad and Khazanah Nasional Berhad.

Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST), and Bloomberg LP.

LCY corporate bonds outstanding amounted to MYR271 billion at the end of June, an increase of 6.8% y-o-y. In 2Q09, outstanding corporate bonds grew only 3.5% q-o-q, although issuance rose by 92.0% q-o-q. The rise in issuance seems to reflect the government's new measures to improve access to capital markets—such as the exemption of mandatory credit rating requirements for convertible and exchangeable bonds and *sukuk* (Islamic bond) issue, which was implemented in March (see **Policy, Institutional and Regulatory Developments**)—while significant amortization and repayment of corporate bonds occurred in 2Q09.

Bloomberg data shows that at the end of June, the top 20 corporate issuers, which comprise more

Table 2: Top 20 Corporate Issuers (MYR billion)

Issuer	Amount Outstanding
1. Project Lebuhraya (Tollways Operator)	26.9
2. Berjaya Corp. (Conglomerate)	19.6
3. KL International Airport (Intl. Airport)	13.7
4. Tanjung Bin (Power Station)	10.2
5. Prasarana (Public Transport Operator)	10.2
6. Malayan Banking (Banking)	9.1
7. Putrajaya Holdings (Developer)	8.6
8. Tekad Mercu Bhd. (Special Purpose Finance Company)	8.0
9. Malakoff Corp. Bhd. (Independent Power Producer)	7.9
10. Jimah Energy (Power Sector)	7.3
11. Nucleus Avenue (Investment Company)	7.3
12. Tenaga Nasional (Electric Utility)	7.3
13. Telekom Malaysia (Telecommunication Co.)	6.0
14. Kapar Energy (Power Generation)	5.1
15. Midciti Res Bhd. (Residential Construction)	4.8
16. Bank Pembangunan (Gov't-owned DFI)	4.0
17. CIMB Bank Bhd. (Banking and Financial Srvcs.)	4.0
18. Encorp System (Conglomerate)	3.8
19. Silterra Capital (Semiconductor Foundry)	3.6
20. Berjaya Land (Developer)	3.6
Total	**171.1**
% of total corporate outstanding	**63.1%**

Source: Bloomberg LP.

than 60% of total corporate bonds outstanding **(Table 2)**, were mainly from the industrial and infrastructure sectors. Infrastructure development is the focus of the Ninth Malaysian Plan—Malaysia's economic development plan for 2006–2010. Project Leburaya, a tollway operator, was the largest issuer in terms of outstanding bonds.

Investor Profile

As of March 2009, financial institutions had overtaken social security institutions as the largest holders of MGS. Financial institutions hold 41% of outstanding MGS **(Figure 2)**, while social security institutions—including the Employees Provident Fund, which is required to invest 30% of its assets in MGS—hold 38% of outstanding MGS.

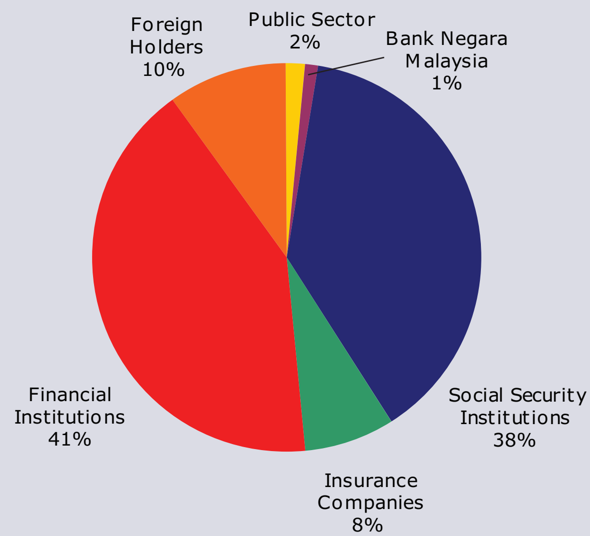
Foreign holders and insurance companies hold 10.0% and 8.0%, respectively, of total MGS outstanding. Foreign holdings of MGS fell slightly during 1Q09 after having grown significantly since 2005 **(Figure 3)**. During 2Q09, foreign holdings of MGS rose to levels attained at the end of 2008, amounting to MYR28.3 billion.

Turnover

Monthly data shows that government bond trading volumes rose to MYR58.1 billion in January and MYR67.7 billion in February after trading volumes declined in 4Q08 **(Figure 4)**. The turnover ratio was 0.18 in January and 0.21 in February. In March, the trading volume fell to MYR58.6 billion and the turnover ratio was 0.18 after a total of MYR10 billion of existing MGS benchmark papers was issued following the announcement of the government's second stimulus package.

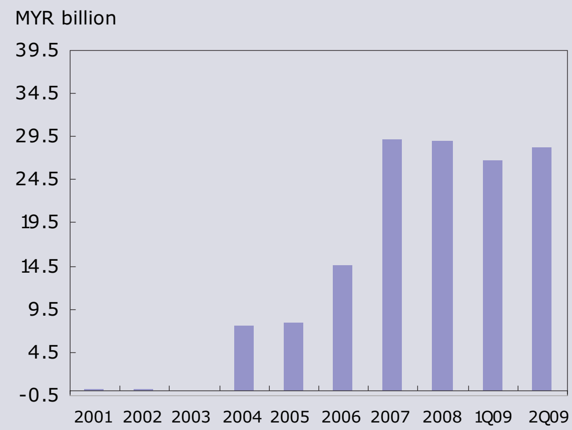
Government bond turnover varied in April and May amid speculation on whether BNM would slash its policy rate for a fourth straight time following a contraction of the economy in 1Q09. Trading volume for April and May was MYR71.3 billion and MYR60.7 billion, respectively, with a turnover ratio of 0.22 in April and 0.19 in May. Trading in June rose to MYR63 billion, boosted by debt auctions in MGS, with a turnover ratio of 0.19.

Figure 2: Local Currency Government Bonds Investor Profile (March 2009)



Source: Bank Negara Malaysia.

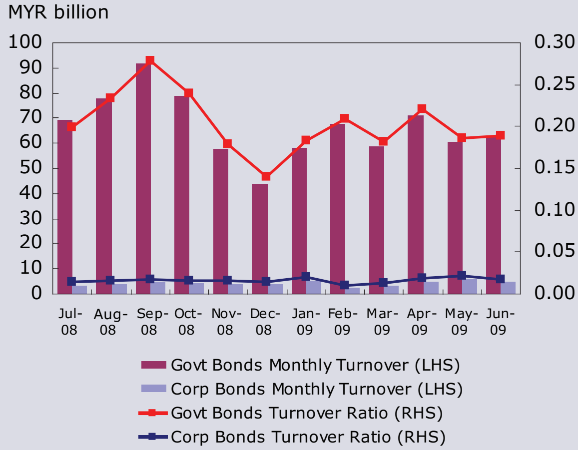
Figure 3: Amount of Foreign Holdings of Malaysian Government Securities



Source: Bank Negara Malaysia.

Monthly corporate bond turnover rose in January to MYR5.3 billion from MYR3.9 billion in December, driven by rising investor appetite for corporate bonds following a 75 basis point cut in the overnight policy rate. The turnover ratio in January was 0.02. In February, however, bond trading volume

Figure 4: Bond Trading Volume and Turnover Ratio



Source: Bank Negara Malaysia.

fell to MYR2.6 billion and the turnover ratio fell to 0.01 on heightened risk aversion amid a difficult operating environment for corporations. Trading volume recovered in March to MYR3.6 billion, with a turnover ratio of 0.014. Corporate turnover remained robust in subsequent months, reaching MYR4.9 billion and MYR5.8 billion in April and May, respectively, as the turnover ratio rose to 0.019 in April and 0.022 in May. This was followed by lower trading volume in June at MYR4.8 billion, as the turnover ratio fell to 0.018.

Rating Changes

On 9 June, Fitch Ratings lowered Malaysia's long-term LCY rating to A from A+ and revised its outlook to stable from negative. Fitch's rating action reflects the deterioration in Malaysia's public finance position when measured against its A-rated peer group. Meanwhile, Fitch affirmed the long-term foreign currency (FCY) outlook at A- and also affirmed its outlook of stable. Malaysia still has an FCY outlook of stable from all three major rating agencies.

Table 3: Long-term FCY Sov. Ratings

	Moody's	S&P	Fitch
Ratings	A3	A-	A-
Outlook	stable	stable	stable

Policy, Institutional, and Regulatory Developments

Malaysia launches second stimulus plan worth MYR60 billion

On 10 March, the Ministry of Finance announced a second stimulus plan worth MYR60 billion, which is several times larger than the MYR7 billion plan announced in November 2008, following the government's forecast of a contraction in the economy. The second stimulus plan would run over the next 2 years and swell the 2009 budget deficit to 7.6% of GDP. Finance Minister Najib Razak said that the additional spending would be funded from domestic sources. The MYR60 billion plan can be broken down into the following components:

(i) MYR15 billion—fiscal injection,
(ii) MYR25 billion—guarantee funds,
(iii) MYR10 billion—equity investments,
(iv) MYR7 billion—private finance initiative and off-budget projects, and
(v) MYR3 billion—tax incentives.

Malaysia Announces Measures to Liberalize Capital Markets

On 30 June, Prime Minister Datuk Seri Najib announced measures to further liberalize foreign investment and open up Malaysia's domestic capital markets. The measures are part of the country's shift to a new economic model, following liberalization in the financial sector and services sub-sectors. Some of the important measures announced include:

(i) ownership in the wholesale segment of the fund management industry will now be allowed up to 100% for qualified and leading fund management companies;
(ii) foreign shareholding limits for unit trust management and stock broking companies will be raised to 70% from 49%;

(iii) the Foreign Investment Committee guidelines on the acquisition of interests, mergers, and takeovers have been repealed; and,
(iv) the 30% *bumiputra* (ownership by ethnic Malays) requirement for initial public offering will no longer exist.

In addition, the Securities Commission will introduce a guideline requiring Malaysian companies seeking a listing to offer 50% of the public shareholding spread to *bumiputra* investors.

A new investment institution, Ekuiti Nasional Berhad (Ekuinas), will also be established. Ekuinas will serve as a private equity fund with initial capital of MYR500 million, which will subsequently be increased to MYR10 billion, focusing on investments in sectors with high-growth potential and joint investments with private sector funds.

Malaysia's Securities Commission release new measures to improve access to capital markets

After the Finance Ministry announced the second stimulus package, which specifies new measures to access the capital market, the Securities Commission (SC) on 16 March announced two measures to improve access to capital markets: (i) revisions to the terms and conditions of bonds and *sukuk* (Islamic bond), and (ii) exemption of the mandatory credit rating requirement for convertible and exchangeable bonds and *sukuk* issues.

The revision would save the issuer the cost of submission to the SC, which involves engagement of relevant advisers. On the other hand, the exemption of mandatory ratings aims to generate cost savings for issuers and reduce the time to market for new issues, since rating exercises normally take several weeks.

Malaysia Establishes National Financial Guarantee Institution to Support Corporations Raising Funds in Bond Market

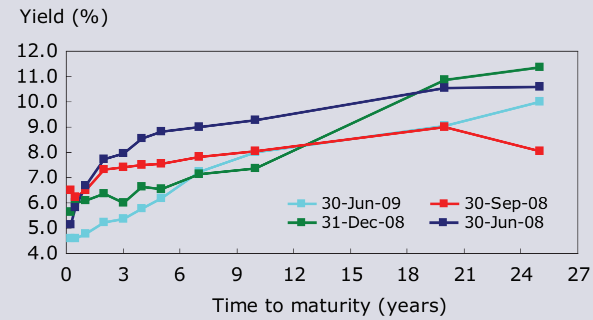
To increase support for Malaysia's second economic stimulus package, the Malaysian government announced the establishment of the national financial guarantee institution, Danajamin Nasional Berhad (Danajamin), effective 15 May. Danajamin will provide financial guarantee insurance for issues of private debt and Islamic securities. The insurance will be available for securities issued by investment grade companies, which are defined as rated BBB or higher by a Malaysian rating agency. Danajamin will have the capacity to insure up to MYR15 billion of investment grade private debt and Islamic securities.

Philippines—Update

Yield Movements

The short-end of the government yield curve was at its lowest level since June 2008. Meanwhile, 7- and 10-year bond yields climbed from end-2008 levels and almost reached the levels prevailing at end-September 2008. The long-end of the curve has risen less than the belly and short-end, mainly due to the fact that long-dated bonds are a small segment of the total government bond market and are thinly traded **(Figure 1)**.

Figure 1: Benchmark Yield Curve–Local Currency Government Bonds



Source: Bloomberg LP.

Bangko Sentral ng Pilipinas (BSP) has said that its current monetary stance remains appropriate for now, given that liquidity in the system is sufficient to help boost growth and inflation is expected to stay within manageable levels. BSP's Monetary Board has slashed a total of 200 basis points from the policy rate since December 2008, bringing the current rate to a historic low of 4.0% in an effort to help reverse the economic downturn.

The inflation rate in July slowed further to 0.2% year-on-year (y-o-y), bringing the year-to-date inflation average down to 4.3%, which is within the target range for 2009. BSP has attributed the downward trajectory of inflation primarily to the base effect of high prices for commodities last year and it assured the public that the economy is not facing the threat of deflation. BSP has said it will continue to monitor monetary conditions to ensure that settings are appropriately calibrated to its inflation outlook and the requirements of the Philippine economy.

Size and Composition

The amount of outstanding government bonds as of June 2009 fell by 0.2% quarter-on-quarter (q-o-q) to PHP2.456 trillion from PHP2.460 trillion in March. The value of government-guaranteed bonds (bonds issued by public sector corporations with government guarantees) rose by 7.9% and treasury bonds by 4.8%, while treasury bills fell 11.5%. On a month-on-month (m-o-m) basis, the total amount of government bonds fell by 0.6% from end-May levels of PHP2.483 trillion **(Table 1)**.

In March, the national government issued the first residential mortgage-backed securities in the Philippines—valued at PHP2.2 billion—through the National Home Mortgage and Finance Corporation (NHMFC). NHMFC plans to offer more of these securities in the future. In terms of foreign currency (FCY) bonds, the Philippines successfully issued another USD-denominated bond on 14 July totaling USD750 million and due in January 2020. The earlier issuance of USD1.5 billion in January had been expected to be the government's only dealing in the international debt market this year, but the need to finance a larger-than-forecast budget deficit forced a second bond issue.

National Treasurer Roberto Tan said this would be the last global bond offering for the year and that the rest of the government's financing needs would be covered either locally or through the issuance of JPY-denominated bonds. The Development Budget Coordination Council (DBCC) revised this year's deficit ceiling from PHP199.2 billion to PHP250 billion, or equivalent to 3.2% of gross domestic product (GDP). The national government reported in August that the budget deficit for the first 7 months of the year had reached PHP188 billion.

Table 1: Size and Composition of Philippine LCY Bond Markets

	Amount (billion)								Growth Rate (%)						
	Mar-09		Apr-09		May-09		Jun-09		Mar-09		Apr-09	May-09	Jun-09		
	PHP	USD	PHP	USD	PHP	USD	PHP	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	2,696	56	2,752	57	2,769	57	2,753	57	7.8	0.1	2.1	0.6	8.2	2.1	(0.6)
Government	2,460	51	2,475	51	2,483	51	2,456	51	5.1	(0.9)	0.6	0.3	4.0	(0.2)	(1.1)
Treasury Bills	768	16	752	16	726	15	680	14	9.4	(0.3)	(2.1)	(3.4)	(8.3)	(11.5)	(6.4)
Treasury Bonds	1,610	33	1,641	34	1,668	35	1,687	35	3.0	(1.1)	1.9	1.7	9.6	4.8	1.2
Central Bank Bonds	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	83	2	82	2	89	2	89	2	6.5	(2.0)	(0.5)	8.4	11.3	7.9	0.0
Corporate	236	5	278	6	286	6	297	6	49.2	11.9	17.6	3.1	62.4	25.6	3.6

y-o-y = year-on-year, q-o-q =quarter-on-quarter, m-o-m = month-on-month.
Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. Others inclue government-guaranteed bonds such as Land Bank of the Philippines and National Power Corporation (Napocor).

Source: Bureau of the Treasury and Bloomberg LP.

The Philippine government is likely to proceed with the issuance of USD1.5 billion worth of *samurai* bonds in the 4Q09. The DOF and JBIC signed a memorandum of understanding in June for the proposed *samurai* bond issuance to take place within 2 years. JBIC will guarantee 95% of the present value of all principal and interest payments. Aside from the issuance of *samurai* bonds, the government is also considering other fundraising options, including the issuance of retail treasury bonds to finance a rising budget deficit.

Corporate bonds as of end-June 2009 stood at PHP297 billion, growing 25.6% q-o-q and 3.6% m-o-m. Contributing to the increase was a series of corporate issuances led by San Miguel Brewery, Banco de Oro Unibank, and Metropolitan Bank and Trust Company **(Table 2)**. In April, San Miguel Brewery issued PHP38.8 billion worth of bonds to pay for tangible and intangible assets that it will buy from its parent firm, the San Miguel Corporation. Lower Tier II notes were issued by Banco de Oro Unibank during 1Q09 and by other banks in the following quarter. Meanwhile, the Power Sector Assets and Liabilities Management Corporation (PSALM) successfully raised USD1 billion in global bonds in May. PSALM, a government-owned and -controlled corporation, was created by the Electric Power Industry Reform Act of 2001 for the principal purpose of managing the orderly sale, disposition, and privatization of the National Power Corporation's (Napocor) generation, real estate, and other disposable assets. The size of Napocor bonds as of 30 June stood at PHP34.86 billion. SM Investment Corporation (SMIC) raised PHP10 billion from 5-year and 7-year papers, while Petron managed to generate PHP10 billion from 5-year and 7-year bonds. Globe's bond issuance raised PHP5 billion, while LandBank's Tier 2 notes generated PHP6.9 billion.

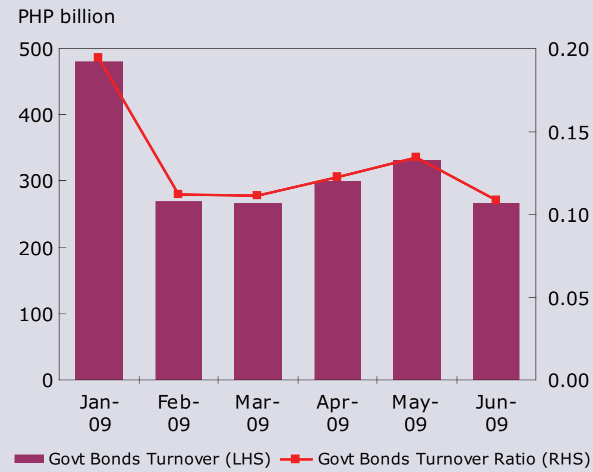
The new San Miguel Brewery issue of PHP38 billion has not only increased the size of the Philippine corporate market, but also provides a significant high-yield element to the LCY corporate bond market.

Table 2: Top 20 Corporate Issuers (PHP billion)

Issuer	Amount Outstanding
1. San Miguel Brewery	38.80
2. Banco De Oro Unibank	33.00
3. Metropolitan Bank & Tust Company	18.50
4. Philippine National Bank	17.75
5. Manila Electric Company	17.00
6. Petron Corporation	16.30
7. Rizal Commercial Banking	16.00
8. Globe Telecom	15.80
9. SM Prime Holdings	11.50
10. Bank Of The Philippine Islands	10.00
11. Ayala Land	7.00
12. Aboitiz Power Corporation	6.89
13. Ayala Corporation	6.00
14. Security Bank Corporation	6.00
15. International Container Terminal Services	5.71
16. Manila North Tollways Corporation	5.50
17. China Banking Corporation	5.00
18. First Gen Corporation	5.00
19. First Philippine Holdings	5.00
20. Philippine Long Distance Telephone Company	5.00

Source: Bloomberg LP.

Figure 2: Government Bond Trading Volume and Turnover Ratio



Source: Bureau of the Treasury.

	Moody's	S&P	Fitch
FCY LT Ratings	Ba3	BB-	BB
Outlook	Stable	Stable	Stable

Turnover

Government bond turnover in 2Q09 fell by 19% to 0.11 from the previous quarter. Philippine government bonds have become less liquid as most investors have become more risk averse due to the uncertain economic environment **(Figure 2)**.

Data for corporate bond turnover is not available.

Rating Changes

On 6 May, Fitch Ratings affirmed all of its credit ratings as well as its stable outlook for the Philippines, despite expectations that the country's deficit would exceed this year's ceiling.

On 3 July, Standard and Poor's (S&P) affirmed the Philippines' FCY and LCY ratings, while maintaining a stable outlook due to the resilience of the Philippines' external position and the strength of its banking sector.

On the other hand, Moody's Investors Service upgraded the Philippines' FCY and LCY government ratings on 23 July to Ba3 from B1, the country ceiling for FCY bank deposits to Ba3 from B1, and FCY bonds to Ba1 from Ba3. Meanwhile, the ratings outlook was changed from positive to stable.

Policy, Institutional, and Regulatory Developments

Philippines Considers Islamic Stock Index

The Philippines Stock Exchange (PSE) is considering setting up an index of *shari'a*-compliant stocks to compete with countries such as Malaysia in capturing a slice of the Islamic investment market. According to PSE, about 30 listed companies are *shari'a*-compliant.

Bangko Sentral ng Pilipinas Agrees to Extend Suspension of Mark-to-Market Rule on Foreign Currency Deposit Units

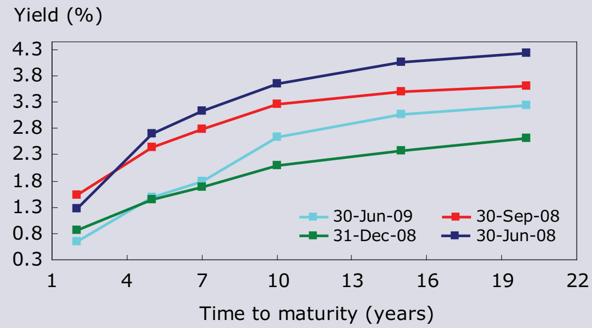
BSP agreed to extend the suspension of the mark-to-market rule on the asset cover for foreign currency deposit units (FCDUs) for another 6 months until September 2009. Total FCDU asset cover includes liquid assets (e.g., assets due from BSP–FCDUs, local banks, and foreign banks; interbank loans maturing within 1 year; un-matured export bills purchased; readily marketable FCDU debt instruments; FCY notes and coins on hand; FCY checks and other cash items; and short-term loans to exporters) and other eligible FCDU asset cover. The initial suspension was intended to be a one-time, temporary suspension of the mark-to-market rule that would be applicable only when determining the value of asset cover used for FCDU loans. However, BSP decided to extend the suspension to give FCDUs more flexibility in securing asset cover for loans.

Singapore—Update

Yield Movements

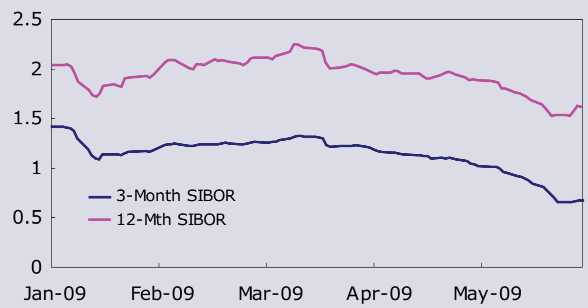
On 27 May, a new 10-year Singapore Government Security (SGS) was auctioned, which pushed yields of 10-years and longer above levels attained in December 2008, and steepened the government's yield curve, especially at the long end of the curve **(Figure 1)**. The SGS bond market continues to be anchored by relatively conducive short-term interest rates as the 3-month Singapore interbank offered rate (SIBOR) is near record lows amid sufficient money market liquidity **(Figure 2)**.

Figure 1: Benchmark Yield Curve–Local Currency Government Bonds



Source: Bloomberg LP.

Figure 2: SIBOR Rates



SIBOR = Singapore interbank offered rate.

Source: Bloomberg LP.

The economy contracted 3.5% year-on-year (y-o-y) during 2Q09, a significant improvement over the –9.6% y-o-y decline in 1Q09, as all major sectors experienced a decline except for construction and business services. The economy contracted by 6.5% in the first half of the year. The Ministry of Trade and Industry (MTI) is expecting Singapore's economy to contract by 4% – 6% in 2009, an upward revision from the contraction of 6% – 9% that it had forecast in April. Business expectations for companies have also improved. In April, the Monetary Authority of Singapore (MAS) announced that the Singapore dollar's nominal effective exchange rate (SGD NEER) was appropriate for maintaining domestic price stability over the medium term. MAS re-centered the exchange rate policy band to the prevailing level of the SGD NEER and retained the zero percent appreciation path.

The consumer price index (CPI) reached negative territory in April, May, and June at –0.7% y-o-y, –0.3%, and –0.5%, respectively, following positive, yet slowing, CPI rates recorded during each of the first 3 months of 2009. The CPI for the first 6 months of 2009 was 0.8% higher compared with the same period in 2008. The slowdown in inflation falls within MTI's expectations, given the downward correction of global commodity prices from levels attained in 2008. Domestic cost pressures have also eased in line with Singapore's recession. MTI forecasts that inflation will be between –1% and zero for the whole of 2009.

Size and Composition

As of June 2009, the value of total local currency (LCY) bonds was SGD192 billion, which represented an increase of 1.9% y-o-y and 5.0% quarter-on-quarter (q-o-q). Outstanding government bonds were SGD116 billion in June, which rose by 6.9% q-o-q after rising by 3.4% in March. Government bond issuance rose 7.9% q-o-q in 1Q09. However, the majority of SGS issues were 91-day Treasury bills, while SGS bond issues were relatively small, such as the 20-year SGS (SGD700 million) issued in February

Table 1: Size and Composition of Local Currency Bond Markets

	Amount (billion)								**Growth Rate** (%)						
	Mar-09		**Apr-09**		**May-09**		**Jun-09**		**Mar-09**			**Apr-09**	**May-09**	**Jun-09**		
	SGD	**USD**	**SGD**	**USD**	**SGD**	**USD**	**SGD**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	183	120	188	127	190	132	192	133	-0.4	-1.0	2.8	2.9	1.1	1.9	5.0	0.9
Government	108	71	112	76	113	78	116	80	4.6	3.4	3.0	3.2	1.2	7.1	6.9	2.4
Treasury Bonds	108	71	112	76	113	78	116	80	4.6	3.4	3.0	3.2	1.2	7.1	6.9	2.4
Central Bank Bonds																
Corporate	75	49	77	52	77.47	53.58	76.50	52.92	-6.9	-6.9	2.4	2.3	1.1	-5.2	2.2	-1.2

y-o-y = year-on-year, q-o-q =quarter-on-quarter, m-o-m = month-on-month.
Note:
1. Government Bonds are calculated using data from national sources. Corporate bond are based on *AsianBondOnline* estimates.
2. Bloomberg end-of-period LCY–USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Monetary Authority of Singapore and Bloomberg LP.

and the 5-year SGS (SGD800 million) issued in March. Government bond issuance rose significantly to 19.2% q-o-q during 2Q09. One notable long-term bond issue during 2Q09 was the 10-year SGS (SGD2 billion) issued on 1 June. There is no SGS bond issuance scheduled further until 1 September, when a new 15-year benchmark will become available.

At the end of March, outstanding corporate bonds amounted to SGD75 billion, falling 6.9% on both a y-o-y and q-o-q basis. Corporate bond issuance in 1Q09 fell 65% compared to 4Q08. The government implemented a special risk-sharing initiative to stimulate bank lending and ensure that a broader segment of companies have access to credit, which may have prompted companies to approach banks and apply for loans to sustain their operations rather than issue corporate bonds. At end-June, corporate bonds outstanding amounted to SGD76.5 billion, rising 2.2% q-o-q. The government's fiscal 2009 budget initiatives appear to have provided relief to corporations and households.

Bloomberg data shows that at the end of June the top 20 corporate bond issuers—comprising 42% of total corporate bonds outstanding—came from the utilities industry and the real estate sector **(Table 2).**

Turnover

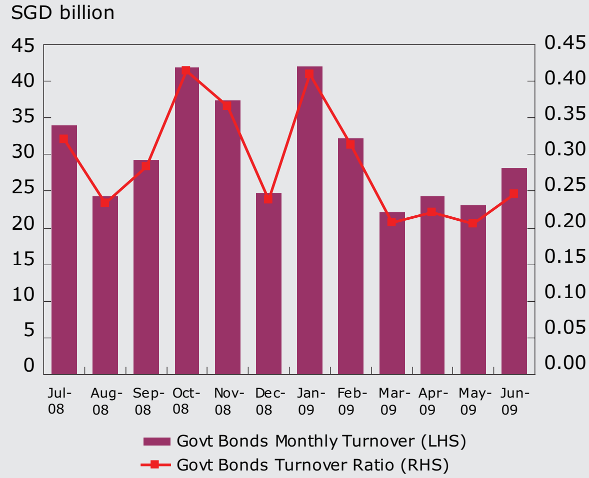
Monthly data shows that government bond trading volume rose significantly in January to SGD42 billion from SGD25 billion in December. The turnover ratio also rose in January to 0.41 from 0.24 in December. For the succeeding 2 months, trading volume fell to SGD32 billion in February and SGD22 billion in March, with corresponding declines in turnover ratios to 0.31 in February and 0.21 in March. Trading volume was slightly higher in April and May at SGD24 billion and SGD23 billion, respectively. The turnover ratio remained mostly steady in April and May at 0.22 and 0.21, respectively. In June, the trading volume rose to SGD28 billion, its highest level over a 4-month period, and the turnover ratio increased to 0.25.

Table 2: Bonds Outstanding of Top Corporate Issuers (SGD billion)

Issuer	Amount Outstanding
1. Housing & Development BRD (Public Housing Auth.)	5.4
2. United Overseas Bank Ltd. (Banking)	3.9
3. Capital Land Ltd. (Real Estate)	2.7
4. Oversea-Chinese Banking (Banking)	2.7
5. SP Power Assets Ltd. (Electricity Transmission and Distribution)	2.4
6. Land Transport Authority (Building and Construction)	2.1
7. Public Utilities Board (National Water Authority)	1.9
8. F&N Treasury PTE Ltd. (Food Service, Property, and Pub & Printing)	1.4
9. PSA Corp. Ltd. (Container Transhipment Hub)	1.2
10. DBS Bank Ltd. (Banking)	1.1
11. ST Treasury Services Ltd. (Finance)	0.9
12. Singapore Airlines (Airlines)	0.9
13. Clover Holdings Ltd. (Special Purpose Entity)	0.9
14. Winmall Ltd. (Financial)	0.8
15. Capitaland Treasury Ltd.(Real Estate Operations)	0.8
17. Guocoland Ltd. (Property Development and Investment)	0.8
18. HK Land Treasury SG (Property Investment Management)	0.7
19. Yanlord Land Group (Real-estate Developer PRC-based)	0.7
20. Capitamall Trust (REITS-Shopping Centers)	0.7
Total	**31.8**
% of total corporate outstanding	**41.5%**

Source: Bloomberg LP.

Figure 3: Government Bond Trading Volume and Turnover Ratio



Source: Monetary Authority of Singapore.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore Issues Guidelines on the Application of Banking Regulations to Islamic Banking

On 7 May 2009, MAS issued a set of Guidelines on the Application of Banking Regulations to Islamic Banking. The guidelines consolidated the previous regulations and clarifications issued by MAS, and offered specific information on the regulatory treatment of various Islamic structures. The guidelines will provide greater clarity and certainty for financial institutions offering Islamic banking products in Singapore.

Monetary Authority of Singapore Joins Implementation of the ASEAN and Plus Standards Scheme

On 12 June, MAS announced the implementation of the Association of Southeast Asian Nations (ASEAN) and Plus Standards Scheme for multi-jurisdiction offerings of securities in ASEAN. The scheme will be implemented in Singapore via the Securities and Futures (Offers of Investments) (Shares and Debentures) (Amendment) Regulations 2009, which came into effect on 19 June 2009. Under the scheme, issuers making an "ASEAN offering" of plain equity or debt securities are required to comply with a set of common disclosure requirements, known as the ASEAN Standards, and limited additional requirements, known as the Plus Standards, as prescribed by the respective jurisdiction. In Singapore, issuers will be required to comply with the ASEAN Standards and the Singapore Plus Standards. The scheme seeks to bring about efficiency and cost savings to ASEAN and non-ASEAN issuers, while offering securities in multiple jurisdictions within ASEAN. By doing so, the scheme aims to facilitate one world activities within ASEAN and enhance the visibility of ASEAN capital markets as an attractive investment destination for global investors.

Monetary Authority of Singapore Extends Swap Facility with US Federal Reserve

On 26 June, the temporary reciprocal currency arrangements, or swap lines, with the United States (US) Federal Reserve, which amount to USD30 billion, were extended until February 2010.

Jobs Payment Scheme Makes Payment to Employers in March and June

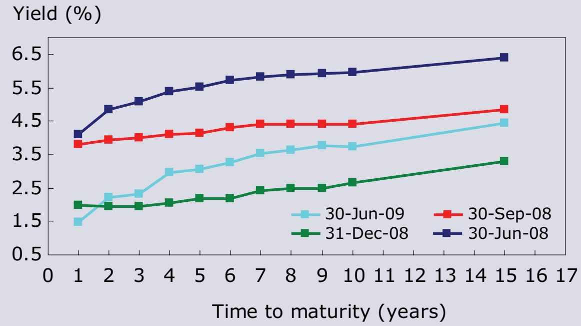
More than 100,000 employers employing a total of about 1.4 million local workers received SGD900 million from the second payment of the Jobs Credit Payment Scheme on 30 June. The scheme is part of the SGD20.5 billion Resilience Package announced in the government's 2009 budget in January. The first tranche of the payment scheme worth SGD920 million was paid out on 31 March. The remaining two payments will be made in September and December.

Thailand—Update

Yield Movements

In the first half of 2009, the Bank of Thailand (BOT) conducted an expansionary monetary policy by lowering its policy interest rate—the 1-day repurchase rate—three times. From 2.75% in December 2008, the policy rate was reduced to 2.00% in January, 1.50% in February, and 1.25% in April. This latest cut in the policy rate was meant to stimulate the Thai economy as 1Q09 real gross domestic product (GDP) plunged by 7.1% year-on-year (y-o-y) due to the global economic crisis. In July, BOT maintained the policy rate at 1.25%. The Thai government is also undertaking fiscal expansion measures to support an economic recovery as it unveiled a THB1.43 trillion economic stimulus program, part of which would be financed by bonds, to be implemented over the 2009–2012 period.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

Thailand's consumer price inflation eased as it fell to a record low of –4.4% y-o-y in July from –4.0% in June, largely because of lower fuel costs and government subsidies for low income workers. On the back of interest rate cuts, expected inflationary pressures, and bond supply concerns, the Thai government bond yield curve steepened by the end of June 2009 compared to end-2008, with yields falling on the shorter end of the curve, while rising on the longer end **(Figure 1)**.

Size and Composition

As of June 2009, total local currency (LCY) bonds outstanding in Thailand reached THB5.4 trillion for an increase of 7.8% y-o-y, or 3.6% on a quarter-on-quarter (q-o-q) basis **(Table 1)**. About 79% of total LCY outstanding bonds are government bonds, comprising treasury bonds, central bank bonds, state enterprises bonds, and other bonds. LCY government bonds outstanding in June were THB4.3 trillion, growing by 5.6% y-o-y and 1.6% q-o-q. Treasury bonds, which accounted for about half of all LCY government bonds, climbed by 13.1% y-o-y and 2.5% q-o-q. State enterprise and specialized organization bonds also increased by 7.3% y-o-y and 2.9% q-o-q. On the other hand, central bank bonds fell by 4.3% y-o-y. LCY corporate bonds outstanding in June were THB1.1 trillion, higher by 17.1% y-o-y and 11.8% q-o-q.

In mid-July, government savings bonds worth THB80 billion were sold to the elderly and general public. These bonds had a 5-year maturity with offerings of 3% for the first two years, 4% in the third year, and 5% in the fourth and fifth years.

About 36% of total LCY corporate and state-owned enterprise (SOE) bonds were made by the top 10 corporate and SOE issuers, comprising five financial institutions; two energy firms; and one company each from the airline, cement, and telecommunications sectors (**Table 2**).

Turnover

In June, the trading volume and turnover ratio of Thai government bonds were THB1.4 trillion and 0.32, respectively, both of which were higher than in the previous month **(Figure 2)**.

Thai corporate bond turnover rose to THB15.7 billion

Table 1: Size and Composition of Thailand Bond Market

	Amount (billion)								Growth Rate (%)						
	Mar-09		Apr-09		May-09		Jun-09		Mar-09		Apr-09	May-09	Jun-09		
	THB	USD	THB	USD	THB	USD	THB	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	5,231.0	147.4	5,317.4	150.7	5,387.7	157.0	5,419.4	159.0	6.5	6.8	1.7	1.3	7.8	3.6	0.6
Government	4,211.8	118.7	4,263.2	120.8	4,307.4	125.5	4,280.0	125.6	5.6	8.1	1.2	1.0	5.6	1.6	(0.6)
Treasury Bonds	2,187.2	61.6	2,263.9	64.2	2,267.5	66.1	2,241.9	65.8	12.7	13.2	3.5	0.2	13.1	2.5	(1.1)
Central Bank Bonds	1,522.7	42.9	1,490.5	42.2	1,529.5	44.6	1,521.8	44.6	(3.6)	3.9	(2.1)	2.6	(4.3)	(0.1)	(0.5)
State Enterprises Bonds & Other Bonds	501.8	14.1	508.8	14.4	510.4	14.9	516.3	15.1	6.8	0.9	1.4	0.3	7.3	2.9	1.1
Corporate	1,019.2	28.7	1,054.2	29.9	1,080.3	31.5	1,139.4	33.4	10.6	1.8	3.4	2.5	17.1	11.8	5.5

y-o-y = year-on-year, q-o-q =quarter-on-quarter, m-o-m = month-on-month.

Note:

1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.

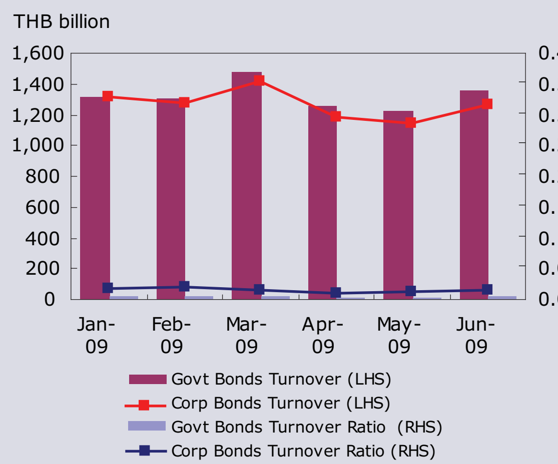
Source: Bank of Thailand (BOT) and Bloomberg LP.

Table 2: Top 10 Corporate and State-Owned Enterprise Issuers (THB billion)

Issuer	Amount Outstanding (THB billion)
1. PTT	149.2
2. Siam Cement	110.0
3. Bank of Ayudhya	79.6
4. PTT Exploration & Production	58.5
5. Krung Thai Bank	50.3
6. Thai Airways	47.8
7. Toyota Leasing	29.1
8. Kasikorn Bank	29.0
9. Advanced Info Service	24.5
10. DAD SPV	24.0
Total	**602.0**
Total corporate and SOE bonds outstanding	**1,655.7**
% of total corporate and SOE bonds outstanding	**36.4**

SOE = state-owned enteprise.
Source: Bloomberg LP.

Figure 2: Monthly Bond Trading Volume and Turnover Ratio



Source: Thai Bond Market Association.

in June from THB12.5 billion in May. But the turnover ratio has remained generally unchanged at 0.01 since April. The relatively low trading volume and turnover ratio for corporate bonds may be due to the short supply and minimal trading of corporate bonds in the secondary market.

Investor Profile

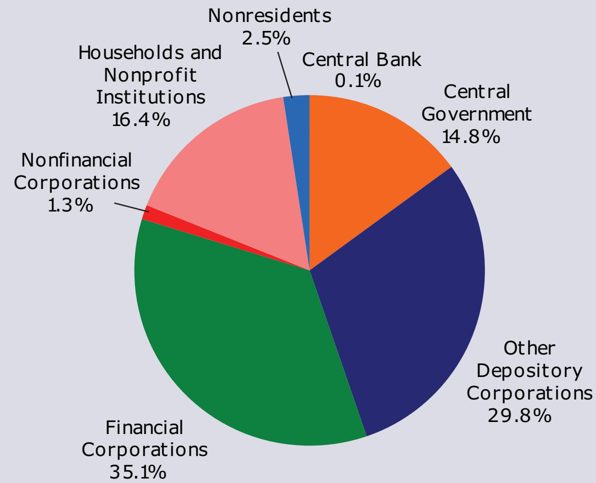
Financial corporations are the largest holders of Thai government bonds, accounting for 35.1% of total government bonds as of June **(Figure 3)**. Other depository corporations were the second-largest government bondholders with 29.8%, followed by households and nonprofit institutions (16.4%), the central government (14.8%), nonresidents (2.5%), non-financial corporations (1.3%), and the central bank (0.1%).

The largest corporate bondholders in Thailand are retail investors. As of June, they held 53.4% of total corporate bonds, while institutional investors hold the remaining 33.7% **(Figure 4)**. Among retail investors, individuals comprised 45.3% of total corporate bondholders, while corporations owned 8.1% of total. Contractual savings funds—which include the government pension fund—provident fund, and social security fund—are the biggest institutional investors of corporate bonds with an 11.8% share. This is followed by insurance companies (8.9%), mutual funds (8.0%), commercial banks (4.0%), and financial institutions (1.1%), which include the Export–Import Bank of Thailand, Government Housing Bank, and Government Saving Bank.

Rating Changes

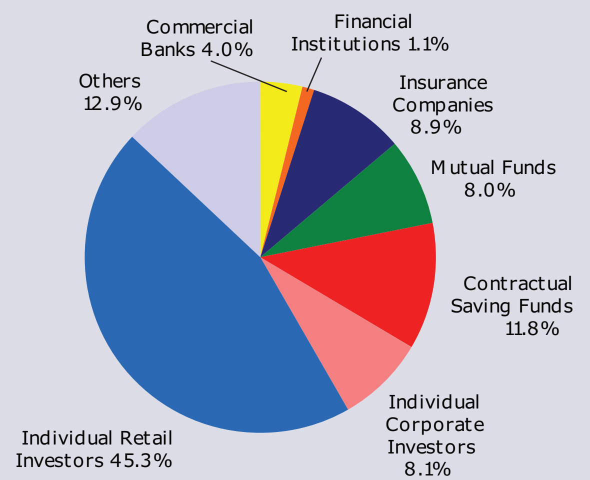
In April, two foreign rating agencies downgraded Thailand's credit ratings largely because of heightened political uncertainties. Fitch Ratings cut Thailand's foreign currency debt rating to BBB from BBB+, and lowered the country's LCY debt rating to A- from A. Similarly, Standard & Poor's downgraded the country's LCY rating from A to A-, and affirmed its negative outlook.

Figure 3: Local Currency Thai Government Bonds Investor Profile (June 2009)



Source: Bank of Thailand (BOT).

Figure 4: Corporate Bonds Investor Profile (June 2009)



Source: Thai Bond Market Association.

Policy, Institutional, and Regulatory Developments

Regulation on Overseas Investments in Securities and Derivatives Transactions Relaxed

In early August, BOT relaxed regulations on overseas investments in derivatives and securities transactions by institutional investors and "persons in Thailand." According to BOT, this move was made in order to promote greater flexibility in foreign exchange transactions, further increase alternative investment and risk management channels, raise Thailand's investments abroad, and bring the country to a net creditor position.

The key issues covered in the relaxation of these regulations include: (i) increasing the type of institutional investors by allowing "juristic persons" registered under Thai law—who have at least THB5 billion in assets and principal businesses in manufacturing, services, or trading—to invest in securities abroad not exceeding USD50 million per entity; (ii) allowing institutional investors to engage in derivatives transactions linked to foreign variables as well to engage in securities borrowing and lending, repurchase agreements, and reverse repurchase agreements; (iii) allowing juristic persons and individuals with assets below THB5 billion, who need BOT approval to invest in securities overseas via private firms and securities firms, to further invest in securities overseas and to engage in certain financial transaction; (iv) allowing persons in Thailand to engage in derivatives transactions for foreign exchange hedging purposes with domestic commercial banks; and (v) allowing persons in Thailand to engage in transactions involving derivatives, structured deposits, or structured notes that have returns linked to foreign variables and are not related to exchange rates involving the Thai baht.

Senate Approves Bill and Executive Decree for THB800 Billion Loan

In early August, the Senate approved a bill that would allow the Ministry of Finance to borrow THB400 billion in loans in order to finance the Thai government's economic stimulus program. This bill was approved by the House of Representatives last June.

In June, following approval by both the House of Representatives and the Constitutional Court, the Senate also approved the executive decree allowing the Ministry of Finance to avail of domestic loans worth THB400 billion. This will partially finance the government's budget deficit, which is expected to run until 2015, and the THB1.43 trillion economic stimulus program for 2009–2012. In addition, the Ministry of Finance announced that it plans to auction THB120 billion of debt starting in 3Q09.

Limit on Long-Dated Government Bond Issuances

In June, the Public Debt Management Office announced that it plans to limit long-dated bond issuances in the near future. The announcement was made in order to manage upward pressures on bond yields.

Vietnam—Update

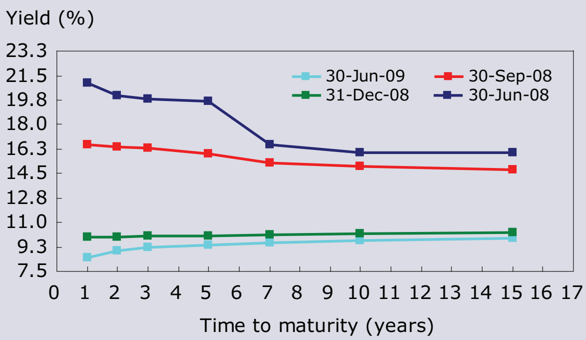
Yield Movements

The first several months of 2009 saw the State Bank of Viet Nam (SBV) gradually lowering interest rates: the prime interest rate was reduced to 7.0% from 8.5% in February; the refinancing rate was decreased in February to 8.0% from 9.5%, and was cut further in March to 7.0%; the discount rate was reduced to 6.0% from 7.5% in February, and further lowered to 5.0% in April; reserve requirement ratios for Vietnamese dong (VND)-denominated loans of less than 12 months were cut to 3.0% from 6.0%; and ratios for VND-denominated loans above 12 months were cut to 1.0% from 2.0%.

Consumer price inflation has also been on a decelerating trend compared to the previous year, falling to a record low of 3.31% year-on-year (y-o-y) in July, following a high of 17.48% y-o-y in January. On a month-on-month (m-o-m) basis however, consumer price inflation has been moving up slightly as it reached 0.52% in July.

Given these trends, Viet Nam's government bond yield curve had tightened by the end of June 2009 from its end-December 2008 position, as yields fell across all maturities along the curve **(Figure 1)**.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

Size and Composition

As of June 2009, Viet Nam's total VND-denominated bonds outstanding climbed by 6.1% y-o-y, or 2.4% on a quarter-on-quarter (q-o-q) basis, to VND212.7 trillion (USD11.9 billion) **(Table 1)**. VND-denominated government bonds, which comprised 96% of total VND-denominated bonds, rose by 5.3% from a year ago on the back of strong y-o-y growth in treasury bonds, Viet Nam Development Bank bonds, state-owned enterprise bonds, and Ho Chi Minh Investment Fund bonds.

VND-denominated corporate bonds increased by 30.8% y-o-y, or 8.3% m-o-m, to VND8.3 trillion in June; however, they fell by 8.3% from the previous quarter. More corporate bond issuances are being planned for the remainder of the year. Saigon Commercial Bank has been given the go-signal by the SBV to issue VND1 trillion of convertible bonds for 2009. PetroVietnam plans to issue USD500 million–USD1 billion worth of bonds by late 2009.

Viet Nam's USD-denominated government bonds have also been constantly rising since end-December 2008; from USD1.4 billion, they increased to USD1.6 billion at the end of 1Q09 and further climbed to USD1.7 billion by end-June **(Table 2)**. As of June 2009, the total amount of VND- and USD-denominated bonds outstanding in Viet Nam was USD13.7 billion, higher than the USD13.3 billion registered in March.

Rating Changes

In June, Fitch Ratings downgraded Viet Nam's long-term local currency (LCY) issuer default rating to BB- from BB due to a deterioration in the country's fiscal position that has been exacerbated by structural weaknesses, including a low revenue base and dependence on volatile oil-related revenues. Fitch Ratings affirmed the long-term foreign currency (FCY) issuer default rating, short-term FCY issuer default rating, and country ceiling

Table 1: Size and Composition of LCY Bond Market in Viet Nam

	Amount (billion)								**Growth Rate** (%)						
	Mar-09		Apr-09		May-09		Jun-09		Mar-09		Apr-09	May-09	Jun-09		
	VND	USD	VND	USD	VND	USD	VND	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	207,599.9	11.7	208,991.9	11.8	210,329.7	11.8	212,661.5	11.9	3.7	(8.2)	0.7	0.6	6.1	2.4	1.1
Government	198,568.4	11.2	201,342.2	11.3	202,680.0	11.4	204,380.0	11.5	2.4	(8.5)	1.4	0.7	5.3	2.9	0.8
Treasury Bonds	104,260.9	5.9	104,037.9	5.9	103,875.7	5.8	103,410.7	5.8	19.6	(0.4)	(0.2)	(0.2)	18.3	(0.8)	(0.4)
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(100.0)	(100.0)	0.0	0.0	(100.0)	0.0	0.0
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds, and Other Bonds	94,307.5	5.3	97,304.3	5.5	98,804.3	5.6	100,969.3	5.7	13.6	2.4	3.2	1.5	21.6	7.1	2.2
Corporate	9,031.5	0.5	7,649.7	0.4	7,649.7	0.4	8,281.5	0.5	42.6	0.0	(15.3)	0.0	30.8	(8.3)	8.3

y-o-y = year-on-year, q-o-q =quarter-on-quarter, m-o-m = month-on-month.
Note:
1. Bloomberg end-of-period local currency (LCY)–USD rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.

Sources: Bloomberg LP.

Table 2: Size of USD-Denominated Government Bonds in Viet Nam

Period	**Bonds Outstanding** (USD billion)
Dec-08	1.4
Mar-09	1.6
Jun-09	1.7

Source: Bloomberg LP.

at BB, B, and BB-, respectively; and revised all rating outlooks to stable from negative.

Policy, Institutional, and Regulatory Developments

Regulation on Domestic Issuance of Long-Term Bonds and Certain SBV Functions and Tasks Amended

In August, SBV amended rules on the domestic issuance of long-term bonds, including convertible bonds and warrant-linked bonds. According to SBV, this change was made in order to facilitate the issuance of such instruments by credit institutions "so as to meet the requirements of economic development."

SBV also revised certain provisions on the functions and tasks of SBV's relevant entities to be consistent with the mandate, functions, tasks, and organizational structure of the Financial Supervision Agency (FSA), which was established in May.

Regulation on Use of Short-Term Funds for Medium to Long-Term Loans Amended

In August, SBV set a new maximum ratio of short-term capital resources that credit institutions can utilize for their medium- and long-term loans. Based on the SBV, 30% is the maximum ratio for commercial banks and finance and leasing companies, while 20% is the maximum for the Central People's Credit Fund.

Viet Nam Bond Market Association Launched

In August, the Viet Nam Bond Market Association (VBMA) was launched with more than 50 members, including foreign and local commercial banks, securities firms, and other financial institutions. It was created to support the development of Viet Nam's bond market, enhance the capacity of its members, and improve the efficiency of the domestic bond market. Over the 2009–2012 period, VBMA plans to put in place a centralized database, a code of conduct and ethics, a set of market practices, and training programs for its members.

Foreign Currency Government Bonds Allowable as Mortgage for VND Loans from the State Bank of Viet Nam

In July, SBV issued a decision that allows commercial banks to use FCY government bonds as a mortgaged asset in order to borrow VND-denominated loans from SBV.

Financial Supervision Agency Established

In May, the FSA was established and placed under SBV's jurisdiction. The FSA will perform administrative and specialized supervision of banking operations within the ambit of SBV; advise and assist the SBV Governor in the oversight of credit institutions and small-sized financial institutions, as well as banking operations of other institutions; and combat money laundering activities.

Listing and Trading of USD-Denominated Government Bonds Approved

The State Securities Commission of Viet Nam released a decision in May regulating the listing and trading of USD-denominated government bonds at the Hanoi Securities Trading Center. Procedures on the listing and trading of these bonds are similar to those for VND-denominated government bonds. This legal framework aims to attract more bond issuance and guarantee liquidity in Viet Nam's bond market.

Interest Rate Subsidy Program Launched

SBV launched the interest rate subsidy program in the first half of 2009. As of 9 July, the program had subsidized interest rate payments on loans totaling VND375.9 trillion, of which VND266.8 trillion were disbursed by state-owned commercial banks and the Central People's Credit Fund; VND87.2 trillion by joint-stock commercial banks; VND18.3 trillion by joint-venture banks, foreign bank branches, and wholly-owned foreign banks; and VND3.7 trillion by finance companies. On the borrowing side, private enterprises received the largest amount of interest rate subsidies (VND248.5 trillion), followed by households (VND69.3 trillion), and state-owned enterprises (VND68.2 trillion).

USD1 Billion Economic Stimulus Package

In January, the Government of Viet Nam approved an economic stimulus package worth VND17 trillion (USD1 billion) to help businesses cope with the economic slowdown in 2009. This fund will be used to subsidize as much as four percentage points of interest rate payments for 12-month bank loans provided to most firms (excluding importers of non-essential products and stock and financial investors). Both the Ministry of Finance and Viet Nam Development Bank plan to establish a VND200 billion credit guarantee fund for enterprises with capital of less than VND20 billion and staff of less than 500 workers. The Ministry of Finance has also allowed individuals and firms to delay payments for income taxes, value-added taxes, and tariffs on exports and imports.

Asia Bond Monitor September 2009

The Asia Bond Monitor (ABM) reviews recent developments in East Asian local currency bond markets along with the outlook, risks, and policy options. The ABM covers the 10 Association of Southeast Asian Nations member countries plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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