

The *Asia Capital Markets Monitor* (ACMM) reviews recent developments in emerging Asia's stock, bond, and currency markets along with their outlook, risks, and policy implications. This inaugural issue features a special section "Bringing Life to Asian Money Markets." The ACMM covers the capital markets of the People's Republic of China; Hong Kong, China; India; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam.

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Emerging Asian Capital Markets: A Regional Update

Highlights

Global and Regional Environment

- Amid global recession, financial markets are showing signs of stabilizing as aggressive policy measures gain traction.
- Equities worldwide have seen a bear market rally since mid-March, with volatility easing if still elevated.
- Even if markets have reached bottom, the road to recovery will likely be long and hard.
- Long-term government bond yields have started edging up, as record government issuance to fund financial rescue and fiscal stimulus packages test government creditworthiness.
- Money market spreads have gradually tightened with extensive liquidity injections, though they remain high compared with pre-September 2008 levels.

Emerging Asia's Market Performance and Outlook

- The financial outlook for emerging Asia is less bleak than for other regions, with net private capital inflows to the region's capital markets expected to remain positive this year, if down sharply from their 2007 peak.
- Equity markets across emerging Asia show signs of a tentative recovery, as valuation indicators have begun to look attractive.
- Any sustained recovery, however, could be delayed as uncertainty over the severity and length of the global financial crisis and recession weighs down investor sentiment.
- Local currency bond issuance should expand in 2009 as fiscal policy moves center stage in the fight against recession and government bond issuance rises to finance fiscal stimulus packages.
- Rising bond yields associated with increased government bond issuance may raise funding costs of fiscal stimulus packages.
- Most emerging Asian currencies fell sharply against the US dollar given massive deleveraging and heightened risk aversion; onshore and offshore implied interest rate differentials indicate depreciation pressures persist on some Asian currencies.
- Growing cross-border transactions, rapid investment inflows, and speculative positioning have driven emerging Asia's non-deliverable forwards markets.

Continued overleaf

Acronyms, Abbreviations, and Notes

ABCP	Asset-Backed Commercial Paper
ABM	Asia Bond Monitor
ABS	asset-backed securities
ABMI	Asian Bond Markets Initiative
ADB	Asian Development Bank
ALBI	Asian Local Bond Index (HSBC)
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN plus People's Republic of China, Japan, and Republic of Korea
BI	Bank Indonesia
BIS	Bank for International Settlements
BNM	Bank Negara Malaysia
CDS	credit default swap
CP	commercial paper
CPI	consumer price index
EU	European Union
FDI	foreign direct investment
FDIC	Federal Deposit Insurance Corporation
FX	foreign exchange
G3	eurozone, Japan, and United States
G8	Group of 8
G20	Group of 20
GARCH	Generalized Autoregressive Conditional Heteroskedasticity
GDP	gross domestic product
HKMA	Hong Kong Monetary Authority
IT	information technology
IMF	International Monetary Fund
IPO	initial public offering
Korea	Republic of Korea
LCY	local currency
LIBOR	London Interbank Offered Rate
MAS	Monetary Authority of Singapore
MBS	mortgage-backed securities
MSCI	Morgan Stanley Capital International
MDB	multilateral development bank
NIE	newly industrialized economy
NDF	non-deliverable forward
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight Index Swap
OREI	Office of Regional Economic Integration
OTC	over-the-counter
PBOC	People's Bank of China
PRC	People's Republic of China
q-o-q	quarter-on-quarter
RBI	Reserve Bank of India
repo	repurchase agreement
saar	seasonally-adjusted annualized rate
SBV	State Bank of Viet Nam
US	United States
US Fed	United States Federal Reserve
WTO	World Trade Organization
y-o-y	year-on-year
YTD	year-to-date

bp = basis points

Note: To conform with market practice, the *Asia Bond Monitor* uses two-letter official ISO Country Codes and three-letter currency codes rather than ADB's standard symbols.

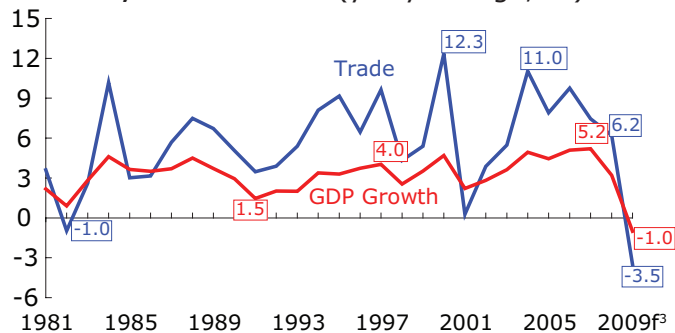
The *Asia Capital Markets Monitor* April 2009 was prepared by ADB's Office of Regional Economic Integration and does not necessarily reflect the views of ADB's Board of Governors or the countries they represent.

Special Section: Bringing Life to Asian Money Markets

- Money markets are central to capital allocation, the efficient distribution of liquidity among financial institutions, and the hedging of short-term risks; they act as an aggregator and clearing house for liquidity and are key to price discovery for financial instruments.
- Although the relative underdevelopment of money markets in emerging Asia helped insulate the region from the worst effects of the global financial turmoil, all money markets experienced some degree of dislocation.
- Building vibrant, resilient money markets in the region will require authorities to ensure market confidence, depth, and liquidity, while consistently updating the supervisory and regulatory environment.
- Despite the diversity among emerging Asian markets, there is a common architecture that can enhance the development of money markets:
 - A transparent and robust legal and regulatory framework;
 - Prudent regulation and effective risk management practices; and
 - Continued liberalization of domestic financial markets and better cross-border collaboration.

Emerging Asian Capital Markets at a Glance

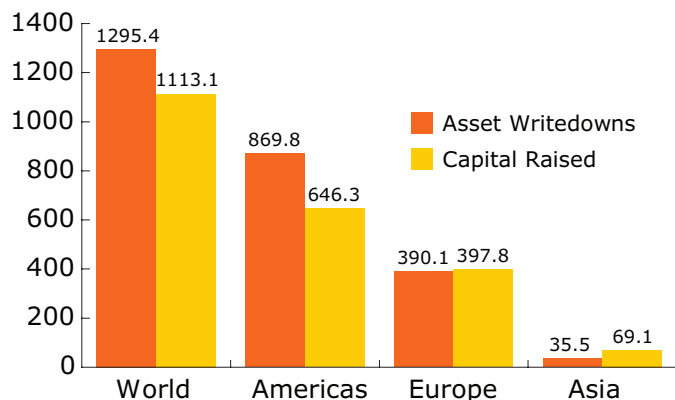
Figure H1: World GDP,¹ World Trade Volume,² and Growth (y-o-y change, %)



¹Export Volume. ²GDP = gross domestic product. ³f = forecast.
Sources: *Asian Development Outlook 2009*, Asian Development Bank; *World Economic Outlook Database* (Oct 2008), *Global Economic Policies and Prospects for the G20 Meeting of the Ministers and Central Bank Governors*, International Monetary Fund.

Global economic activity slows at an alarming speed, recession sets in, and trade volumes plummet.

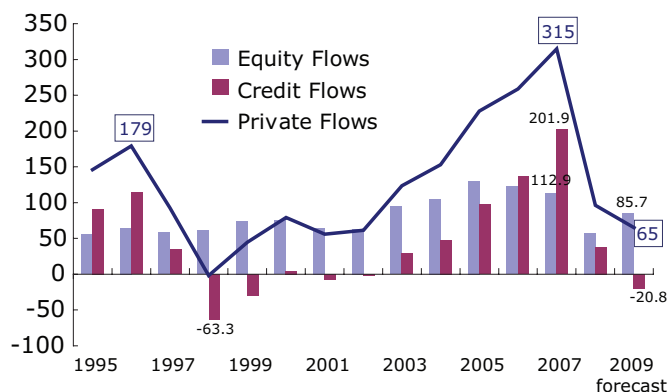
Figure H2: Writedowns and Capital Raised by Major Banks since July 2007 (USD billion, as of 31 Mar 2009)



Source: Bloomberg.

The global banking system remains the weakest link in the chain of global financial and economic crises.

Figure H3: Net Private Capital Flows—Emerging Asia¹ (USD billion)

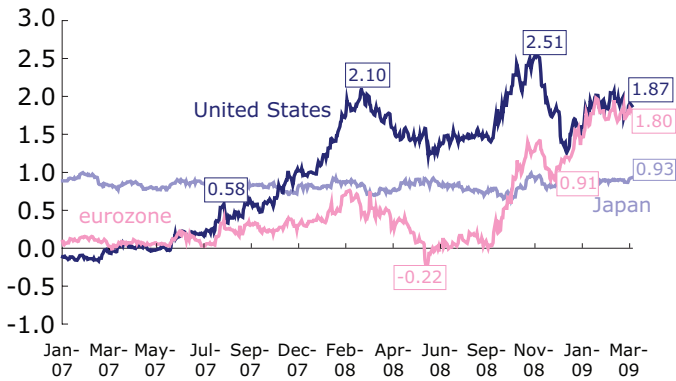


¹Refers to People's Republic of China; India; Indonesia; Malaysia; Philippines; Republic of Korea; and Thailand.
Source: Institute of International Finance.

For emerging Asia, the financial outlook is less bleak than for other regions, with net private capital inflows to the region's capital markets expected to remain positive this year.

Figure H4: 10-year and 2-year Government Bond Yield Spreads

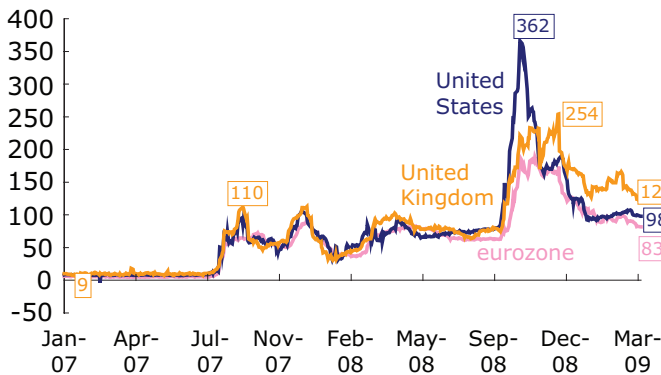
(% per annum)



Source: Datastream.

A sharp rise in government bond supply to finance financial rescue and fiscal stimulus packages are starting to put upward pressure on long-term bond yields.

Figure H5: 3-Month LIBOR minus OIS¹ Spreads (basis points)

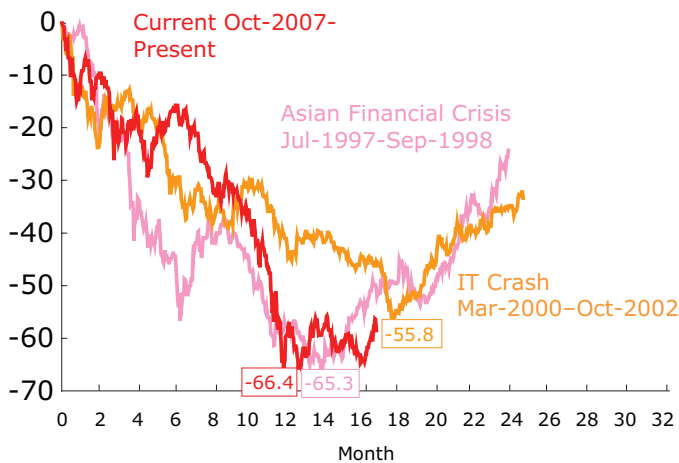


¹OIS=Overnight Index Swap.
Sources: Staff calculations based on Bloomberg data.

Money market spreads have gradually narrowed with extensive liquidity injections, although they remain elevated compared with pre-September 2008 levels.

Figure H6: Bear Markets in Asia¹

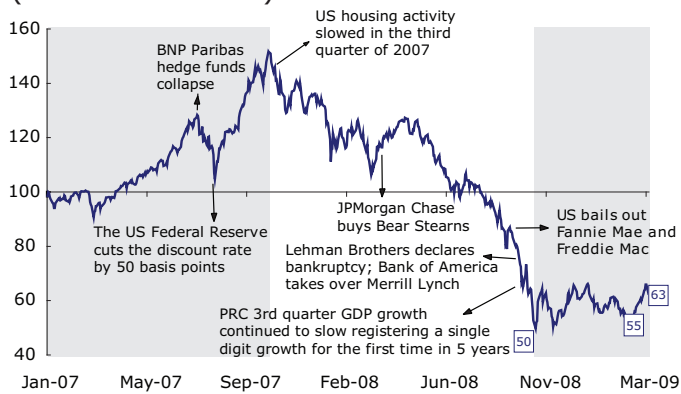
(% change)



¹Based on Morgan Stanley Capital International (MSCI) Asia (excluding Japan) index.
Source: Bloomberg.

Emerging Asia's equity markets show tentative signs of stabilizing after being hit hard by the global financial crisis.

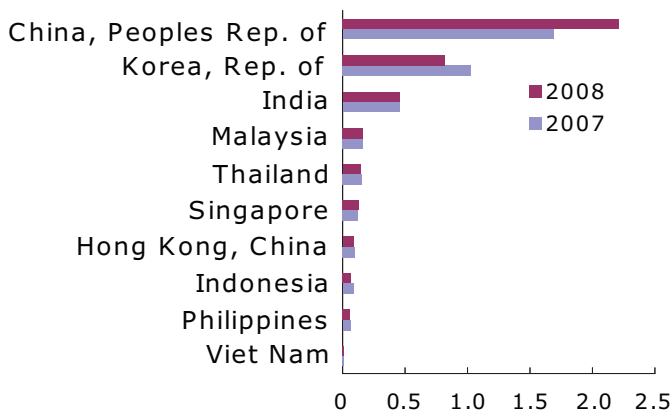
Figure H7: MSCI Indexes—Emerging Asia¹
(2 Jan 2007 = 100)



¹Refers to People's Republic of China ; India; Indonesia; Republic of Korea; Malaysia; Philippines; Taipei,China; and Thailand. ²PRC=People's Republic of China. ³GDP = Gross domestic product.
Source: Morgan Stanley Capital International (MSCI) Barra.

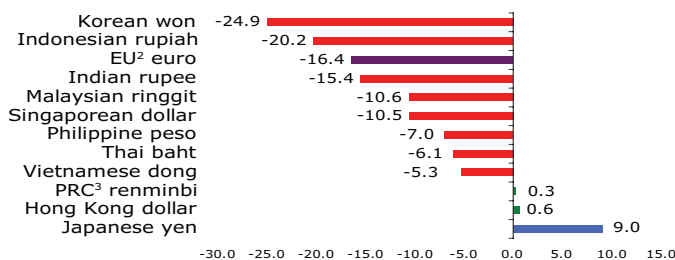
Equity markets across emerging Asia show signs of a tentative recovery, as valuation indicators have begun to look attractive; still, the road to sustained recovery could be long and hard.

Figure H8: Total Bonds Outstanding—2007 and 2008 (USD trillion)



LCY bond issuance is expected to increase in 2009 as fiscal stimulus packages have become a primary tool of governments across the region in the fight against recession.

Figure H9: Regional Currencies¹
(1 July 2008 to 30 March 2009, % change)

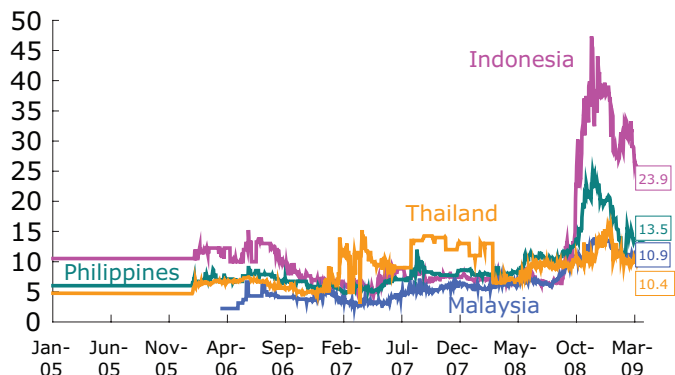


¹Latest closing as of 30 March 2009, based on the USD value of local currency. Negative values indicate depreciation. ²EU = European Union. ³PRC = People's Republic of China.
Source: OREI staff calculations based on Reuters data.

Most emerging Asian currencies fell sharply against the US dollar amid massive deleveraging and heightened risk aversion; while they have stabilized somewhat lately, volatility remains high.

Figure H10: Implied Volatility of Exchange Rates—ASEAN-4

(3-month ATM¹)



¹At-the-money strike.
Source: Bloomberg.

Foreign exchange volatility is at its highest level in a decade; although the current global credit crisis influenced volatility less than past financial crises.

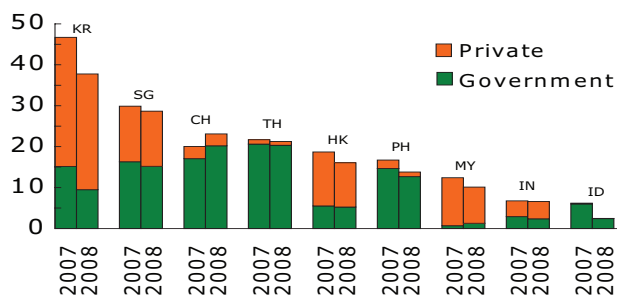
Table H1: Average Daily NDF Turnover (USD million)

	2008—2009	2003—2004
CNY	1,000	50
INR	800	20-50
KRW	3,000	700-1,000
IDR	400	50
PHP	500	20-30
MYR	500	

Source: Deutsche Bank.

Growing cross-border transactions, rapid investment inflows, and speculative positioning are driving emerging Asia's non-deliverable forward markets.

Figure H11: Outstanding Short-Term Debt Securities¹ (% of GDP)²



Note: KR=Republic of Korea; SG=Singapore; CH=People's Republic of China; TH=Thailand; HK=Hong Kong, China; PH=Philippines; MY=Malaysia; IN=India; ID=Indonesia.

¹Debt securities with remaining maturity up to 1 year, including those issued in domestic and international markets. Private sector debt covers securities issued by financial institutions and the corporate sector. Domestic securities for 2008 are as of September 2008. ²Fiscal Year 2008 gross domestic product data for India is World Economic Outlook estimate; for Rep of Korea estimate from published fiscal year budget ratios.

Sources: OREI Staff calculations based on data from Bank for International Settlements; CEIC; World Economic Outlook Update Oct 08, International Monetary Fund.

Money markets require further development to effectively allocate capital, efficiently distribute liquidity among financial institutions, and hedge short-term risks.