

Key Developments in Asian Local Currency Markets

Last week saw several large bond issues as well as bond auctions falling short of target. In the People's Republic of China (PRC), the Bank of China sold a total of CNY40 billion in floating-rate and step-up notes, and energy conglomerate Shenhua Group issued CNY20 billion in 5-year bonds. Additionally, five local governments, including those of the Xinjiang region and the city of Shenzhen, sold a combined CNY11.9 billion in 3-year bonds. In the Republic of Korea, the Export-Import Bank of Korea issued USD1.5 billion in 5.5-year bonds. Of particular note were the Treasury auctions of the PRC (see below for more detail) and Viet Nam. For the fifth consecutive time since March, Viet Nam's State Treasury failed to sell VND1.5 trillion (USD84.3 million) of bonds as investors required higher yields.

➤ In auctions on 8 and 10 July, the PRC sold only CNY52.6 billion of a total planned offering of CNY63.0 billion in 1-year Treasury bills. The 8 July auction was the first to have stumbled in almost 6 years. Meanwhile, the People's Bank of China (PBOC) resumed issuance of 1-year bills after an 8-month break. The resumption of 1-year bill sales suggests that PBOC is looking to rein-in liquidity.

➤ An official from the China Banking Regulatory Commission (CBRC) said that banks should engage in greater syndicated lending to spread default risk amid the rapid expansion of bank credit in the PRC. New loans extended in June amounted to CNY1.53 trillion, bringing total new loans in the first half of the year to CNY 7.37 trillion, which is far above the government's full-year target of CNY5.00 trillion.

➤ At the G8 summit in Italy last week, Dai Bingguo, a member of the PRC State Council, called for "a better system for reserve currency issuance and regulation" to maintain exchange rate stability and promote a more "rational" reserve currency system. His remarks came shortly after three Shanghai companies became the first to settle cross-border transactions in yuan under a pilot settlements program.

➤ Philippine consumer price inflation eased to 1.5% y-o-y in June, its lowest since April 1987, due largely to downward pressure on fuel and utility prices. This has allowed the central bank to lower its policy interest rates by 25 basis points to 4.0% for overnight borrowing and to 6.0% for overnight lending.

➤ The International Monetary Fund (IMF), in two publications released last week—World Economic Outlook Update and Global Financial Stability Report Update—projected that

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10-Year Selected LCY Government Security Yields Close of 10 July 2009

Markets	Latest Closing	basis point change from			1-Jan-09*
		Previous Day*	Previous Week*		
US	3.30	-10.04	-19.59		109.03
EU	3.26	-4.00	-8.10		30.90
Japan	1.31	0.40	-2.50		13.10
PRC	3.30	1.00		5.00	54.00
Hong Kong, China	2.44	3.10	-14.50		125.30
India	7.03	3.20		20.30	178.50
Indonesia	10.50	-2.60	-27.80		-138.50
Malaysia	4.29	-1.00	-8.60		107.20
Korea, Rep. of	4.98	-6.00	-6.00		76.00
Philippines	8.05	5.00		5.00	67.50
Singapore	2.43	-5.00	-20.00		38.00
Thailand	3.62	-3.00	-3.90		96.00
Viet Nam	9.85	0.00		2.30	-33.30

TABLES & GRAPHS

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developing Asia would grow by 5.5% in 2009 and 7.0% in 2010. The IMF forecast the People's Republic of China (PRC) to grow by 7.5% in 2009 and 8.5% in 2010, while the ASEAN-5 economies—Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam—are forecast to experience combined growth of -0.3% in 2009 and 3.7% in 2010. Growth projections for Japan in 2009 and 2010 are -6.0% and 1.7%, respectively.

➤ Yield curve movements in Asian markets were mixed last week. Yields fell for all maturities in Indonesia, the Republic of Korea, and Singapore; and for most maturities in Hong Kong, China, Malaysia and Thailand. On the other hand, government bond yields rose for all maturities in Viet Nam and for most maturities in the PRC. The Philippine yield curve steepened as yields fell at the shorter end and rose at the longer end of the curve.

Summary Text of News Articles

People's Republic of China and Republic of Korea Issuance

Issuance in the People's Republic of China (PRC) remained active, with the Bank of China selling CNY24 billion and CNY10 billion of 15- and 10-year step-up notes, respectively. Initial coupon rates were 4.00% for the 15-year notes and 3.28% for the 10-year notes. The bank also issued CNY2 billion in floating-rate notes. Another large issuer was the Shenhua Group, a diversified energy and fuel company, which issued CNY20 billion in 5-year bonds carrying a coupon rate of 3.6%.

Additionally, five local governments, including those of the Xinjiang region and the city of Shenzhen, sold a combined CNY11.9 billion in 3-year bonds at a coupon rate of 1.79%. The local government issues are part of a program launched early this year under which the country's finance ministry issues bonds on behalf of local governments.

The Export-Import Bank of Korea (Kexim) successfully issued USD1.5 billion worth of 5.5-year bonds on 8 July. Kexim's issue was re-offered at 99.426, with a coupon of 5.875%, and was priced at a spread of 362.5 basis points over the yield of the 5-year US Treasury benchmark note. The issue was given a rating of A by Standard & Poor's, A2 by Moody's, and A+ by Fitch. The proceeds will be used to provide financing for local exporters and to support local firms' resource development.

Failed Government Bond Auction in Viet Nam

For the fifth consecutive time since March, Viet Nam's State Treasury failed to sell VND1.5 trillion (USD84.3 million) of bonds as investors were calling for higher yields. Coupons offered by the State Treasury were 8.7% for 2-year bonds, 9% for 3-year bonds, and 9.1% for 5-year bonds. However, investors were demanding 9%–9.6%, 9.2%–9.8%, and 9.2%–10.2% for 2-year, 3-year, and 5-year bonds, respectively.

PRC's New Bank Loans Exceed CNY1.5 Trillion in June; Regulator Pushes for Syndicated Loans

The People's Bank of China (PBOC) reported on 8 July that new loans extended in June amounted to CNY1.53 trillion (USD223.96 billion), while at the same time cautioning that the figure is a preliminary number. The value of new loans in June is more than twice the CNY664.5 billion in new loans extended the previous month, and is almost five times as large as the amount of new loans in June 2008. The June figure brings total new loans in the first half of the year to CNY7.37 trillion, which is far above the government's full-year target of CNY5 trillion.

The PRC's explosive loan growth, which is largely the result of the easing of lending restrictions in support of the country's stimulus package, has led to concern about bad debt, asset bubbles, and looming inflation.

Wang Huaqing, an official from the China Banking Regulatory Commission (CBRC), warned of the risks to both lenders and the financial system as a whole in a speech posted on the CBRC website on 7 July. Mr. Wang cited the concentration of loans in certain industries and businesses—particularly infrastructure and real estate—and said that banks should engage in greater syndicated lending to spread the risk of default.

In the first 5 months of the year, housing sales in the PRC rose 45.3%, while the country's stock market has soared by as much as 69%. In May, the CBRC had previously warned of an "accumulation of risks" and instructed banks to ensure loan quality.

PBOC Resumes Sale of 1-year Bills; Treasury Auction Falls Short of Target

PBOC issued CNY50 billion (USD7.3 billion) in 1-year bills on 9 July, the first such issuance of the 1-year instrument in about 8 months. The bills yielded 1.50%, compared to the 2.25% yield on these instruments when they were last issued in November 2008. The resumption of 1-year bill issuance suggests that the bank is looking to drain liquidity from the market.

The PRC's Ministry of Finance (MOF) was unable to raise the full amount of planned issuance in two successive debt auctions last week. In an auction on 8 July, the MOF was only able to raise CNY27.5 billion of its planned issue of CNY28 billion in 1-year bills, marking the first time in almost 6 years that the government failed to raise the amount of planned issuance. In the week's second auction on 10 July, the MOF sold just CNY25.1 billion of the CNY35 billion in 1-year bills on offer.

