

Key Developments in Asian Local Currency Markets

Yet another week of active FCY and LCY bond issuance in Asia was highlighted by huge issuances from Malaysian oil company Petroliaam Nasional Berhad (Petronas) and Indonesia's state utility firm PT PLN. Petronas issued bonds amounting to USD4.5 billion, the largest corporate bond offering in Asia in the last 5 years: USD3 billion 10-year conventional notes with a coupon of 5.25% and USD1.5 billion 5-year *sukuk* (Islamic bonds) at 4.25%. Both were priced to yield 162.5 basis points over comparable US Treasuries. PT PLN issued USD750 million in bonds with a 10-year maturity and priced to yield 8.125%. Japan issued JPY600 million of 30-year government bonds with a coupon of 2.3%. In Singapore, property developer CapitaLand issued SGD1.1 billion of 7-year convertible bonds to fund new investments and working capital.

The pipeline for planned bond issuance by state-owned corporations in Asia also remained robust. Malaysian national mortgage corporation Cagamas Berhad (Cagamas) is planning to issue more bonds totaling MYR4 billion to achieve its target of MYR12 billion for 2009. In Indonesia, state fertilizer producer PT Pupuk Kaltim is planning to issue IDR1.3 trillion in bonds to fund its ongoing projects. PT PLN also plans to sell LCY bonds amounting to IDR1.5 trillion in the fourth quarter of this year. In Viet Nam, the state-owned Viet Nam Bank for Social Policies is planning to issue VND3 trillion of 2-year bonds to finance the government's social welfare projects. Nam Bay Bay Joint Stock Co. plans to issue VND3 billion in 3-year bonds to fund its City Gate Tower project.

On 5 August, Bank Indonesia (BI) reduced its benchmark interest rate by another 25 basis points (bps) to 6.50%, which has now shed 300 bps since December 2008. Meanwhile, Bangko Sentral ng Pilipinas (BSP) said that its current monetary policy stance remains appropriate, given that the liquidity in the system will continue to boost growth. Inflation in the Philippines is expected to stay at manageable levels with consumer price inflation in July slowing to 0.2% year-on-year (y-o-y), bringing the year-to-date average down to 4.3%.

The Purchasing Managers' Index (PMI) for the People's Republic of China (PRC) and Singapore pointed towards expansion in July. The China Federation of Logistics and Purchasing reported that the PMI in July stood at 53.3. Singapore's PMI for July was 51.5, slightly higher than the 51.1 in June.

The Bank of Thailand has relaxed its rules on overseas investments in derivatives and securities transactions by institutional and retail

Viet Nam Market Summary

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10-Year Selected LCY Government Security Yields Close of 07 August 2009
basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-09*
US	3.85	10.01	37.06	163.79
EU	3.51	13.60	21.00	56.00
Japan	1.44	-0.50	2.10	26.60
PRC	3.54	2.00	6.00	78.00
Hong Kong, China	2.52	1.40	19.40	132.90
India	7.14	4.20	-0.80	190.10
Indonesia	10.58	15.10	51.00	-131.40
Malaysia	4.22	0.00	-5.60	99.70
Korea, Rep. of	5.40	-3.00	7.00	118.00
Philippines	7.83	-7.50	-5.00	45.00
Singapore	2.55	1.00	14.00	50.00
Thailand	3.83	4.40	12.30	117.10
Viet Nam	9.86	19.90	-13.90	-32.70

- TABLES & GRAPHS**
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 - ▶ Benchmark Yield Curves - Local Currency Government Bonds
 - ▶ 2-versus-10 Yield Spread Chart
 - ▶ Policy Rate versus Inflation Rate Charts
 - ▶ Credit Default Swap Spreads & Exchange Rate Indexes
 - ▶ Selected Debt Security Issuances
 - ▶ Selected Asia Data Releases

investors. The China Banking Regulatory Commission also issued a circular that will prevent domestic banks from trading derivatives with overseas counterparties to limit the risk of trading.

Government bond yields generally rose for most Asian markets last week, although yields fell for all maturities in Viet Nam and for most maturities in Malaysia. Yields increased for most maturities in PRC, Indonesia, Singapore, and Thailand. In the Philippines, yields fell for 4-year, 5-year, and 10-year maturities, while they climbed on the shorter-end of the curve.

Summary Text of News Articles

Malaysia's Petronas and Indonesia's PT PLN Sells Foreign Currency Bonds

Last week saw two huge foreign currency (FCY) bond sales from Malaysia's Petroliaam Nasional Berhad (Petronas) and Indonesia's PT PLN.

The Malaysian oil company, Petronas, sold USD4.5 billion of debt in two tranches, consisting of USD3 billion in conventional 10-year notes at 5.25% and USD1.5 billion of 5-year *sukuk* (Islamic bonds) at 4.25%. Both the conventional bonds and *sukuk* were priced to yield 162.5 basis points over comparable United States (US) Treasuries. The Petronas bonds were the largest corporate bond offering out of Asia in the last 5 years. They attracted USD19 billion in total orders, allowing Petronas to price the bonds at the lower end of its initial price guidance.

Indonesia's state utility firm PT PLN also sold USD750 million worth of bonds last week. The bonds had a 10-year maturity and were priced to yield 8.125%. Proceeds from the issue will be used by the company mainly for capital expenditures. The bonds were oversubscribed with demand reaching USD8.6 billion. PT PLN also plans to issue local currency (LCY) bonds amounting to about IDR1.5 trillion in the fourth quarter of this year.

Japan Sells JPY600 Billion in 30-Year Government Bonds; Singapore's CapitaLand Issues SGD1.1 Billion in 7-Year Convertible Bonds

Japan successfully issued JPY600 billion worth of 30-year Japanese government bonds (JGBs) on 6 August, drawing higher demand than expected. The bids for the securities with a 2.3% coupon reached JPY1.804 trillion, which was about three times oversubscribed, on concerns that the Bank of Japan will probably forecast that deflation will extend into 2011 even as the economy recovers.

In Singapore, property developer CapitaLand issued SGD1.1 billion (USD762.3 million) in 7-year convertible bonds to fund new investments and working capital. The issue carried a coupon of 2.875% a year and is convertible into new CapitaLand ordinary shares at a conversion price of SGD4.79, which is priced at a 20% premium. Credit Suisse (Singapore) Ltd., which is the sole book runner and lead manager for the issue, may exercise an option by 29 August to increase the size of the issue by up to SGD1.2 billion.

More Planned Bond Issuance Announcements from Indonesia, Malaysia, and Viet Nam

PT Pupuk Kaltim, a state fertilizer producer in Indonesia, is preparing to issue IDR1.3 trillion in bonds to help fund its ongoing projects. The bonds will comprise both conventional bonds and shari'a-compliant bonds. The firm has appointed Dana Reksa as the underwriter for its bond issue.

In Malaysia, national mortgage corporation Cagamas Berhad (Cagamas) is planning to issue bonds totaling MYR4 billion to achieve its target of MYR12 billion worth of bond issuance for 2009. Chief Executive Officer Steven Choy said that they have already issued MYR8 billion this year.

Finally, in Viet Nam, the state-owned Vietnam Bank for Social Policies (VBSP) announced plans to issue VND3 trillion (USD168.4 million) of 2-year bonds to finance the government's social welfare projects. The auction will be on 11 August at the Hanoi Stock Exchange. In its last auction on 15 July, VBSP failed to sell VND2 trillion (USD117 million) of bonds as bidders were seeking interest rates between 9.5% and 10.0%, which were higher than the 9.1% allowable maximum as set by the government.

Nam Bay Bay Joint Stock Co. (NBB) intends to sell VND3 billion of 3-year bonds in order to fund its City Gate Tower project, which has total investment capital of VND1.71 trillion. These bonds will have a face value of up to VND1 billion per bond. The coupon rate will be set at 11.5% in the first year. In succeeding years, it will be based on the average VND 12-month saving rate in three banks—Agribank, Vietcombank, and Vietinbank.

Bank Indonesia Cuts Rate by 25 Basis Points to 6.50%; BSP Sees No Need for Shift in Monetary Policy

Bank Indonesia has reduced its benchmark interest rate by another 25 basis points to 6.50%, effective 5 August. Bank Indonesia has lowered its benchmark rate by 300 basis points since December of last year. In a press release, Bank Indonesia said the decision was taken after the Board of Governors concluded that inflation would maintain a declining

Summary Text of News Articles

Bank Indonesia Cuts Rate by 25 Basis Points to 6.50%; BSP Sees No Need for Shift in Monetary Policy (cont...)

trend in view of the present limited domestic demand and steady decline in inflation expectations. Consumer price inflation in July was reported at 2.71% year-on-year (y-o-y), its slowest pace in 9 years. The government is confident that inflation will be within its 4.0% target for 2009.

Meanwhile, the Bangko Sentral ng Pilipinas (BSP) said that its current monetary stance remains appropriate for now, given that liquidity in the system remains sufficient to help boost growth and inflation is expected to stay within manageable levels. BSP's Monetary Board had 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 further slowed to 0.2% y-o-y, bringing the year-to-date average down to 4.3% and within the target range for 2009. According to BSP, the downward trajectory of inflation is driven primarily by the base effect of high prices for commodities last year, while assuring the public that the economy is not facing any threat of deflation. BSP will continue to monitor monetary conditions to ensure that settings are appropriately calibrated to the inflation outlook and the requirements of the Philippine economy.

Purchasing Managers' Indexes Rise in the People's Republic of China and Singapore in July

The China Federation of Logistics and Purchasing reported that the purchasing managers' index (PMI) in July stood at 53.3. The People's Republic of China's (PRC) purchasing price index rose 2.1 points to 59.9 in July, the eighth monthly increase since December. Meanwhile, the PRC's output index in July was up 0.2 points from a month ago to 57.3, and the new order index was the same in both June and July at 55.5.

Singapore's PMI for July was 51.5, slightly higher than the 51.1 in June. The increase in July was due to further expansion in new orders, overall production output, and stocks of finished goods. Overall employment also grew, while input prices continued to contract.

An index reading of above 50 indicates an expansion, while below 50 indicates contraction.

Thailand Relaxes Regulation on Overseas Investments in Securities and Derivatives Transactions

The Bank of Thailand (BOT) has relaxed regulations on overseas investments in derivatives and securities transactions by institutional investors and "persons in Thailand". According to BOT Assistant Governor Suchada Kirakul, this move was made in order to promote greater flexibility in foreign exchange transactions and to further increase alternative investment and risk management channels. Mrs. Kirakul added that the measure will raise Thailand's investments abroad and bring the country into position as a net creditor.

The key issues in the relaxation of these regulations include: (i) increase the types 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) allow institutional investors to engage in derivatives transactions linked to foreign variables, and securities borrowing and lending, repurchase agreements, and reverse repurchase agreements; 3) allow "juristic persons" and individuals, who have assets below THB5 billion and 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) allow "persons in Thailand" to engage in derivatives transactions for foreign exchange hedging purposes with domestic commercial banks; and (v) allow "persons in Thailand" to engage in transactions involving derivatives, structured deposits, and structured notes that have returns linked to foreign variables and are not related to exchange rates involving the Thai baht.

CBRC Moves to Regulate Derivatives

The China Banking Regulatory Commission (CBRC) will prevent domestic banks from trading derivatives with overseas counterparties in a move to limit the risks of trading in these products after a number of companies posted large derivatives losses. In a circular posted on its website on 5 August, CBRC said that banks should also evaluate the risks of domestic derivatives, and their relevance to the real economy. In addition, CBRC said banks should update clients on the status of their derivatives exposures on a monthly basis.

Summary Text of News Articles

CBRC Moves to Regulate Derivatives (cont...)

Foreign banks, some of which have strategic tie-ups with domestic banks, have been assisting banks in the PRC in marketing and selling overseas derivatives to customers in the domestic market.

China Eastern Airlines recently reported losses of CNY6.2 billion on fuel hedging contracts last year, while Citic Pacific said it posted a HKD15 billion loss on foreign exchange derivatives contracts.

Meanwhile, the People's Bank of China (PBOC) is reported to be considering measures to regulate over-the-counter derivatives trading. At the same time, the bank is also considering steps to promote the development of new derivatives products.

PRC Money Market Rates Decline While Bill Yields Rise

With the lack of large-cap initial public offerings (IPOs) in the upcoming week, money market rates in the PRC (predominantly 7-day repo transactions in the inter-bank market) fell last week. The 7-day repurchase (repo) rate, a measure of interbank liquidity, fell to 1.60%—down 50 basis points on the week—in afternoon Shanghai trading on 7 August. The 50 basis point drop was the largest weekly fall in almost a year. The 7-day interbank repo rate climbed to a 6-month high of 2.64% on 3 August—the day before Everbright Securities, the brokerage unit of the largest government-owned investment group, completed its CNY11 billion IPO.

Although demand for short-term liquidity has been dampened by the absence of new IPOs in the week ahead, yields on newly-issued People's Bank of China (PBOC) bills again reached their highest levels this year. Yields on 1-year bills have risen in each of the four auctions since the resumption of 1-year bill issuance on 9 July following an 8-month break.

On 6 August, PBOC issued CNY75 billion in 3-month bills yielding 1.2876%, the highest yield since the fourth quarter of last year. On 4 August, PBOC sold CNY18 billion in 1-year bills at 1.7397%, the highest yield for the 1-year instrument this year. On the same day, the bank entered into a 28-day repurchase agreements totaling CNY120 billion at a 1.16% rate.

PBOC said in a quarterly report on 5 August that it would “unswervingly implement the appropriately loose monetary policy while fine tuning policy with market-oriented tools in line with the economic changes at home and abroad.” The report comes amid concern that funds from massive bank lending this year—encouraged by authorities in an effort to boost domestic spending—has fuelled property and stock market bubbles.

On 6 August, the China Construction Bank, the world's second largest bank by market capitalization, said that it would cut new lending in the second half of the year by 70% to avert a wave of bad loans. A cutback in lending is expected in the second half after new loans reached a record USD1.1 trillion in the first 6 months of the year.

Selected Government Security Yields

Tip: Zoom-in on the table using the Acrobat zoom tool

3-Month Selected LCY Government Security Yields

Markets	Latest Closing	basis point change from		
		Previous Day*	Previous Week*	1-Jan-09*
US	0.17	0.51	-0.51	9.94
EU	0.37	0.50	-1.10	-128.40
Japan	0.14	-0.40	-1.40	-5.70
PRC	1.30	0.00	-3.00	38.00
Hong Kong, China	0.08	0.00	2.00	3.00
India	3.22	-7.00	0.00	-128.00
Malaysia	1.92	0.00	-2.70	-100.60
Korea, Rep. of	2.16	0.00	6.00	-49.00
Philippines	3.95	35.53	2.50	-167.50
Singapore	0.29	0.00	5.00	-28.00
Thailand	1.10	-0.04	-2.04	-99.00

Close of 07 August 2009

10-Year Selected LCY Government Bond Yields

Markets	Latest Closing	basis point change from		
		Previous Day*	Previous Week*	1-Jan-09*
US	3.85	10.01	37.06	163.79
EU	3.51	13.60	21.00	56.00
Japan	1.44	-0.50	2.10	26.60
PRC	3.54	2.00	6.00	78.00
Hong Kong, China	2.52	1.40	19.40	132.90
India	7.14	4.20	-0.80	190.10
Indonesia	10.58	15.10	51.00	-131.40
Malaysia	4.22	0.00	-5.60	99.70
Korea, Rep. of	5.40	-3.00	7.00	118.00
Philippines	7.83	-7.50	-5.00	45.00
Singapore	2.55	1.00	14.00	50.00
Thailand	3.83	4.40	12.30	117.10
Viet Nam	9.86	19.90	-13.90	-32.70

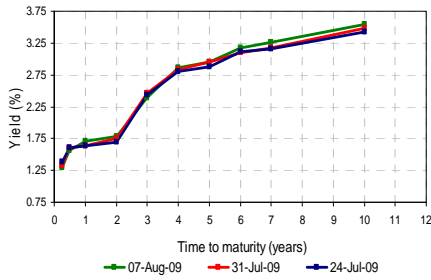
Close of 07 August 2009

Source: Based on data from Bloomberg, LP.

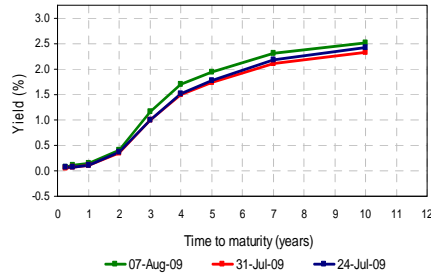
Benchmark Yield Curves – Local Currency Government Bonds

Tip: Zoom-in on the table using the Acrobat zoom tool

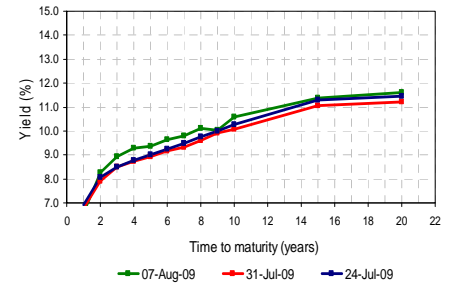
China, People's Rep. of



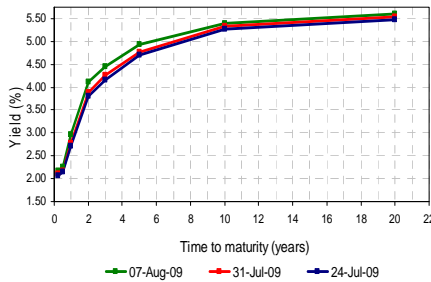
Hong Kong, China



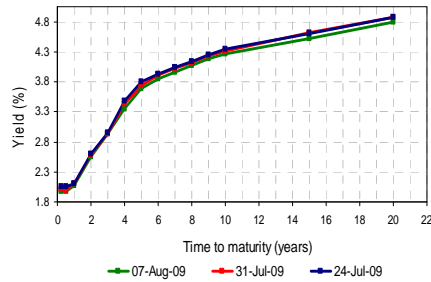
Indonesia



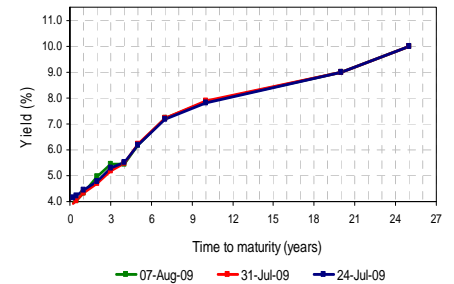
Korea, Republic of



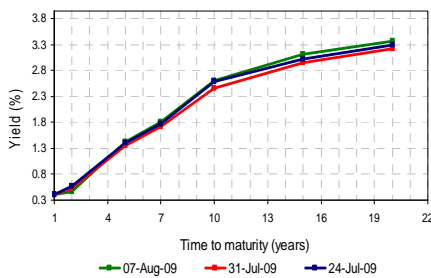
Malaysia



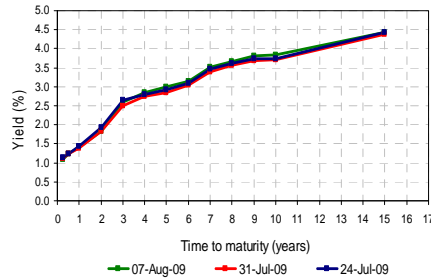
Philippines



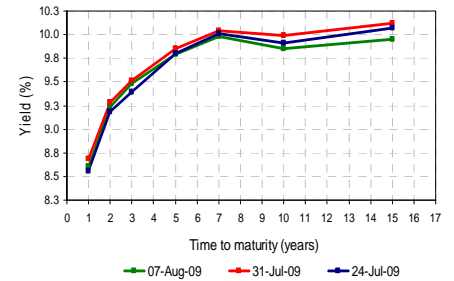
Singapore



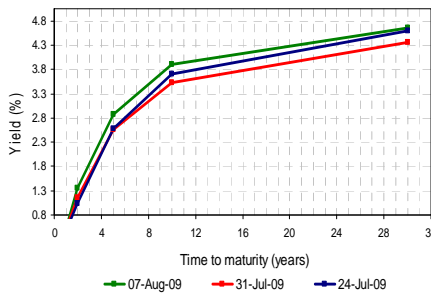
Thailand



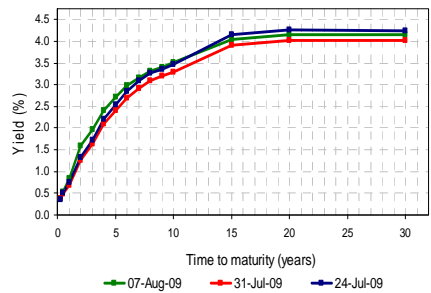
Viet Nam



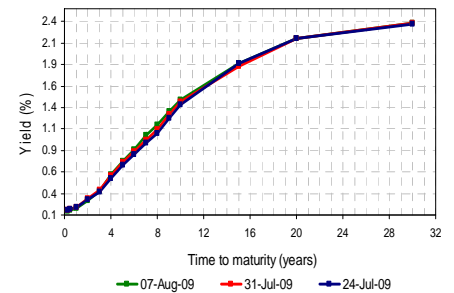
US



EU



Japan

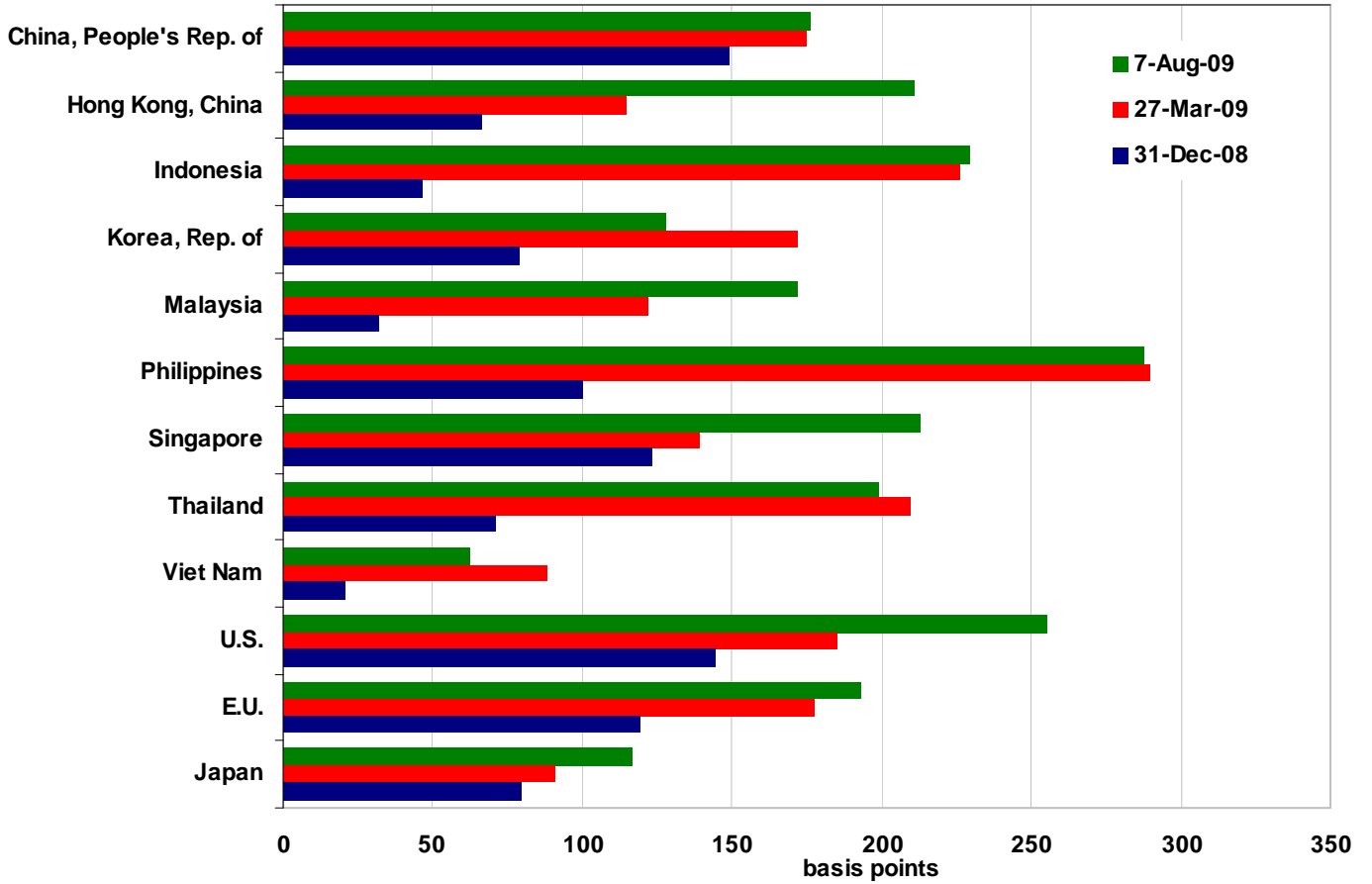


Source: Based on data from Bloomberg.

2-versus-10 Yield Spread Chart

Tip: Zoom-in on the table using the Acrobat zoom tool

Yield Spread Between the Two- and Ten-Year Government Bonds

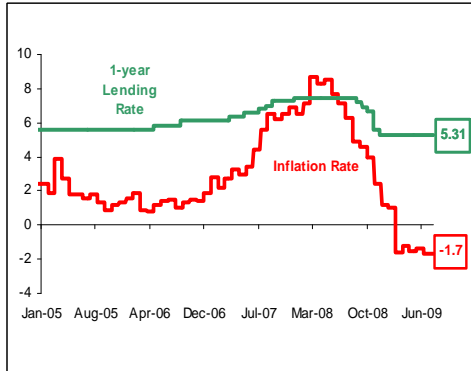


Source: Based on data from Bloomberg.

Policy Rate versus Inflation Rate Charts

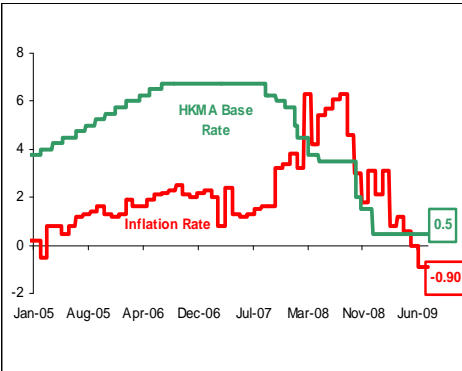
Tip: Zoom-in on the table using the Acrobat zoom tool

China, People's Rep. of



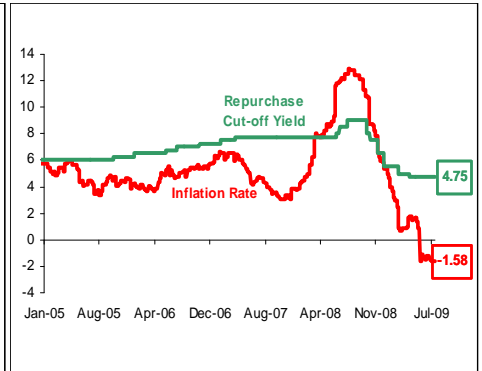
PRC uses 1-year lending rate as one of its policy rates. Source: Bloomberg, LP.

Hong Kong, China



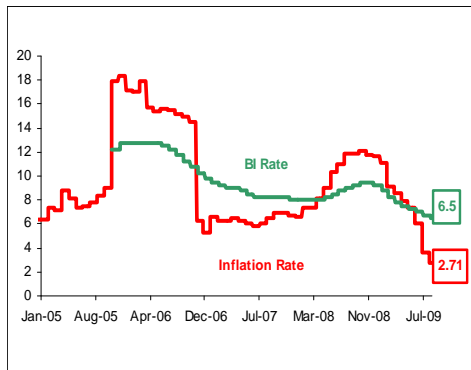
The Hong Kong Monetary Authority maintains a Discount Window Base Rate. Source: Bloomberg, LP.

India



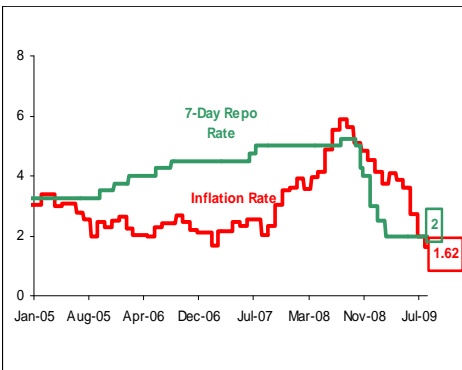
The Reserve Bank of India uses the repurchase (repo) cut-off yield as its policy rate. Source: Bloomberg, LP.

Indonesia



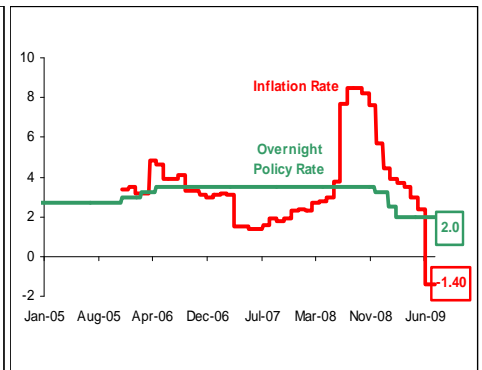
Bank Indonesia uses its reference interest rate (BI rate) as its policy rate. Source: Bloomberg, LP.

Korea, Republic of



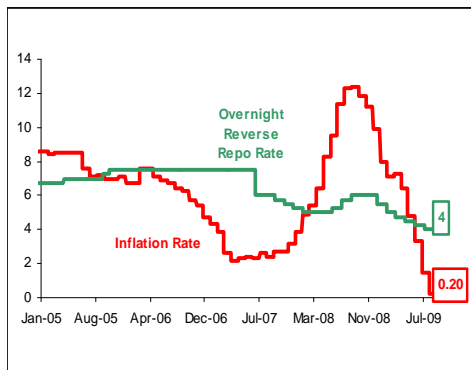
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008. Source: Bloomberg, LP.

Malaysia



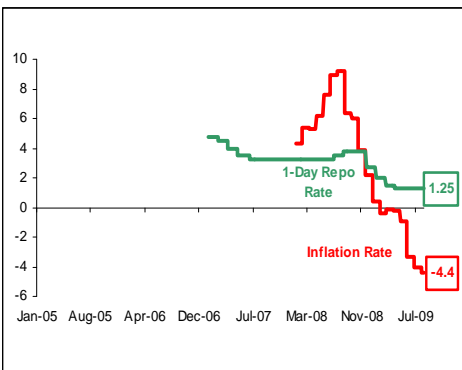
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate. Source: Bloomberg, LP.

Philippines



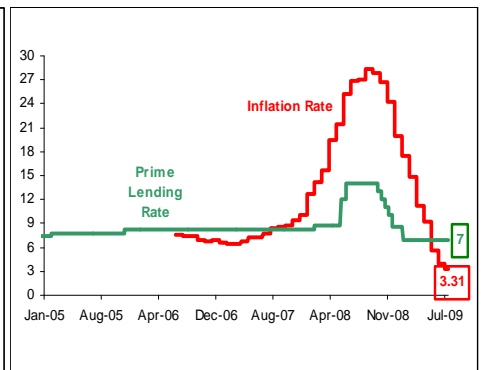
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments. Source: Bloomberg, LP.

Thailand



The Bank of Thailand replaced the 14-day repurchase rate with the 1-day repurchase rate in January 2007 as its policy rate. Source: Bloomberg, LP.

Viet Nam



The State Bank of Viet Nam uses a benchmark prime lending rate as its policy rate. Source: Bloomberg, LP.

