

Key Developments in Asian Local Currency Markets

The latest economic figures from the Philippines show a July balance of payments (BOP) surplus of USD506 million. For the first 7 months of 2009, the BOP shows a surplus of USD2.72 billion, which is a 31% increase from a year ago. The July surplus was due mainly to sustained remittances from overseas workers, investment inflows, the central bank's investment income and foreign exchange earnings, and proceeds from the government's recently issued sovereign bond. Meanwhile, in the first 7 months of the year the Philippine government's budget deficit ballooned to PHP188 billion, which is five times more than during the same period last year. Year-to-date government expenditures through July rose by 18.1% to PHP832.1 billion, while government revenues slid by 4.1% to PHP644.1 billion in the same period.

Indonesia registered a second quarter current account surplus of USD3.1 billion on the back of trade balance surpluses in the non-oil and -gas, and oil and gas sectors; and current transfers. The second quarter current account surplus, which exceeded first quarter levels, more than offset deficits in the capital and financial accounts, and resulted in a BOP surplus of USD1.1 billion. In the People's Republic of China (PRC), the current account surplus declined by 32% to USD130 billion in the first half of 2009, as the PRC's exports were adversely affected by the global economic slowdown. Meanwhile, the Republic of Korea (Korea) is expecting an 11-year high in its current account surplus for 2009 as imports are falling at a much faster pace than exports.

Singapore reported that its non-oil domestic exports fell by 8.5% y-o-y in July, which was a slower pace compared to an 11.1% decline in June, offering signs that the economy may be recovering from recession. In Thailand, merchandise exports dropped by 25.7% y-o-y in July, but were still up by 4.6% m-o-m.

Several sizeable planned bond issues were announced last week. Indonesia's state electricity firm, PLN, plans to issue a total of IDR1.5 trillion in LCY bonds, and is considering a further USD250 million in FCY issuance. The state-owned Korea Development Bank is planning a USD300 million JPY-denominated bond issue. In Thailand, the central bank announced that it would sell THB50 billion in savings bonds in September. And in the Philippines, the government's National Food Authority is planning to raise PHP27 billion through a bond issuance.

In one of the few corporate bond sales in Southeast Asia last week, the Philippines' Robinsons Land Corporation sold PHP5 billion

Indonesia Market Summary

[read more](#)

10-Year Selected LCY Government Security Yields Close of 21 August 2009
basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-09*
US	3.56	13.36	-0.39	135.26
EU	3.31	5.70	-0.50	36.20
Japan	1.32	-3.50	-7.00	14.10
PRC	3.52	0.00	-1.00	76.00
Hong Kong, China	2.39	-0.70	-6.10	120.30
India	7.24	5.70	13.10	199.40
Indonesia	10.70	-9.30	-2.30	-118.80
Malaysia	4.15	-1.30	-3.30	93.30
Korea, Rep. of	5.42	-5.00	-11.00	120.00
Philippines	7.86	0.00	5.50	48.00
Singapore	2.50	-3.00	-1.00	45.00
Thailand	3.67	-3.90	-16.00	101.20
Viet Nam	10.05	16.70	12.50	-13.30

TABLES & GRAPHS

- ▶ Selected Government Security Yields
- ▶ 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

in 5-year retail bonds, following its retail bond sale of PHP5 billion in July.

Government bond yield movements were mixed in Asia last week. Yields fell for most maturities in Hong Kong, China; PRC; Korea; Malaysia; Singapore; and Thailand. They rose for all maturities in Viet Nam and for most maturities in Indonesia.

Finally, the more interesting data points this week include: policy rates for Malaysia and Thailand, GDP for Malaysia and the Philippines, the current account balance for Korea, and consumer price inflation for Japan.

Summary Text of News Articles

Philippines Posts Balance of Payments Surplus in July but Maintains Budget Deficit for First 7 Months of 2009

The Bangko Sentral ng Pilipinas (BSP) reported on 19 August that the Philippines' balance of payments (BOP) surplus for July amounted to USD506 million. The July figure brings the year-to-date position to a surplus of USD2.722 billion—a 31% increase over the BOP surplus in the same period last year. BSP's investment income and revenues from foreign exchange operations, plus sustained investment inflows and overseas remittances, were instrumental in improving the country's BOP position in July.

Meanwhile, the Philippine budget deficit widened to PHP188 billion for the first 7 months of 2009, which is more than five times the PHP33.4 billion deficit recorded in the same period last year, as the government increased spending but collected less tax revenue. Finance Secretary Margarito Teves said that it is becoming increasingly difficult to meet the revised deficit projection of PHP250 billion for 2009. However, expected revenues from the coming sale of government property, the sale of its 40% stake in the Philippine National Oil Company's Exploration Corporation (PNOC EC), and dividends from PNOC are expected to come in by year-end and could help manage the budget gap. The government spent PHP832.1 billion during the first 7 months of 2009, which is 18.1% more than the amount spent a year earlier, while revenues declined by 4.1% from the same period last year to PHP644.1 billion. National Treasurer Roberto Tan said the government is still considering a sale of retail Treasury bonds later this year.

Indonesia Records Current Account Surplus in 2Q2009; People's Republic of China's Current Account Surplus Falls in 1H2009; Republic of Korea Expects 2009 Current Account Surplus to be an 11-Year High

Indonesia's current account recorded a USD3.1 billion surplus in the second quarter, up from USD2.9 billion in the first quarter. The current account surplus was boosted by surpluses in the non-oil and -gas trade balance, oil and gas trade balance, and current transfers. The biggest improvement from the previous quarter was noted in the non-oil and -gas trade balance. The surplus in the current account more than covered the USD2.4 billion deficit in the capital and financial accounts, resulting in an overall BOP surplus of USD1.1 billion in the second quarter. The first quarter BOP surplus was USD3.96 billion.

According to preliminary data released on 20 August by the PRC's currency regulator, the State Administration of Foreign Exchange (SAFE), the PRC's current account surplus fell by 32% year-on-year (y-o-y) to USD130 billion in the first half of the year. The decline is the first in 5 years and reflects the continued weakness of global demand. The PRC's capital and financial account, under which investment flows are recorded, posted a USD33.1 billion surplus in the first half of the year, which is 54% below its year-ago level.

Meanwhile, the Republic of Korea's (Korea) Finance Ministry expects the current account surplus to reach an 11-year high this year as imports fall at a much faster pace than exports. According to the Finance Ministry, the country's current account surplus is likely to reach around USD30 billion this year, its highest level since a USD40.3 billion surplus was posted in 1998. The projection for 2009 was revised upward from June's forecast of USD25 billion. The new estimate by the Finance Ministry is also aligned with the current account surplus estimates of the Bank of Korea (USD29 billion) and the Korea Institute for International Economic Policy (USD30 billion).

Singapore's Non-Oil Domestic Exports and Thailand's Merchandise Exports Fall at a Slower Pace in July

The Singapore Department of Statistics reported that its non-oil domestic exports shrank by 8.5% y-o-y in July. The slower pace of decline—compared to June's 11.1% drop—generated hopes that the country's economy was emerging from recession. The decrease in July's non-oil domestic exports was due to a contraction in electronic and non-electronic domestic exports. Prime Minister Lee Hsien Loong has said that the economy is stabilizing, but cautioned that Singapore was “not out of the woods yet.” On a month-on-month (m-o-m) seasonally adjusted basis, non-oil domestic exports increased by 6.1% in July 2009, following June's 5.0% decline.

Meanwhile, Thailand's Ministry of Commerce reported that merchandise exports in July reached USD12.9 billion, which were down 25.7% y-o-y, but were up by USD573 million, or 4.6%, on a monthly basis. The m-o-m improvement in merchandise exports has been attributed to the fiscal stimulus programs in effect in many countries around the world.

Summary Text of News Articles

Singapore's Non-Oil Domestic Exports and Thailand's Merchandise Exports Fall at a Slower Pace in July (cont...)

On the other hand, merchandise imports fell by 32.5% y-o-y in July, which was an even bigger drop than June's 29.3% decline. The trade balance in July was a surplus of USD706 million, which was lower than the previous month's USD936.6 million surplus.

**Corporate Bond Sale in the Philippines;
Planned Corporate Bond Issues in Indonesia, Korea, and Viet Nam**

In the Philippines, Robinsons Land Corporation (RLC) successfully raised another PHP5 billion through a retail bond sale in July. Strong demand for the first tranche of RLC bonds encouraged the company to follow-up with the issuance of another round of retail bonds. The 5-year and 1-day retail bonds were assigned a rating of PRS Aaa by Philratings, priced at 8.25% per annum, and are set to mature in 2014. The proceeds will be used to fund capital expenditure requirements.

Indonesia's state electricity firm PLN is hinting at a USD250 million foreign currency (FCY) bond issue. The funds will be needed to finance the company's transmission development. There are no definitive plans yet on the issue. However, news emerged of a possible issue after the company announced that it is planning an IDR1.5 trillion local currency (LCY) bond issue.

In Korea, the state-run Korea Development Bank (KDB) is planning to raise about USD300 million in JPY-denominated (samurai) bonds next month. The proceeds will be used to help redeem the company's maturing foreign debt. This planned bond issue marks KDB's second foreign debt sale in 2009. Earlier this year, the KDB sold USD2 billion in FCY bonds.

In Viet Nam, Song Da-Thang Long Joint Stock Company passed a resolution that will allow for the issuance of VND200–VND300 billion of bonds later this year.

Planned Government Bond Issues in the Philippines and Thailand

The Philippine government's National Food Authority (NFA) is planning to sell PHP27 billion worth of bonds to pay off its maturing debt. There is no definitive timeframe yet. According to National Treasurer Roberto Tan, the sale should be completed within the year and conducted via auction similar to how the government sells Treasury bills.

The Bank of Thailand (BOT) will issue THB50 billion of 4-year and 7-year savings bonds in the first week of September. The 4-year savings bonds will have a coupon rate of 3.5% per annum, while the 7-year savings bonds will have a coupon rate of 3.0% per annum for the first 2 years, 4.0% for years 3–4, 5.0% for years 5–6, and 6.0% for year 7. The minimum investment is THB50,000. According to bankers, the interest rates of these savings bonds are more favorable than current market rates and, therefore, it is likely that these bonds will be oversubscribed.

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	0.16	0.41	-1.01	8.52
EU	0.35	0.50	-3.60	-130.40
Japan	0.14	0.00	0.00	-5.80
PRC	1.29	0.00	-8.00	37.00
Hong Kong, China	0.12	-1.00	-1.00	7.00
India	3.34	4.00	-4.00	-116.00
Malaysia	1.92	0.10	-0.30	-100.90
Korea, Rep. of	2.22	0.00	-1.00	-43.00
Philippines	4.00	0.00	0.00	-162.50
Singapore	0.27	0.00	-3.00	-30.00
Thailand	1.10	0.46	0.43	-99.00

Close of 21 August 2009

10-Year Selected LCY Government Bond Yields

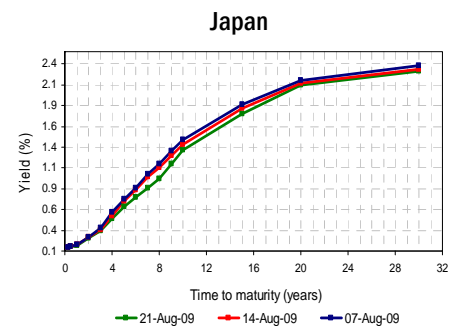
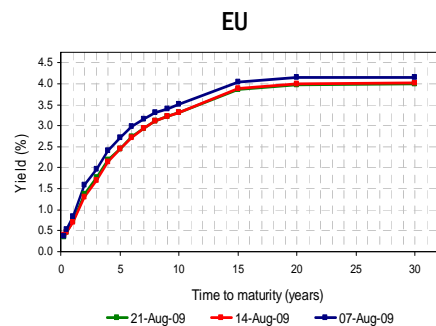
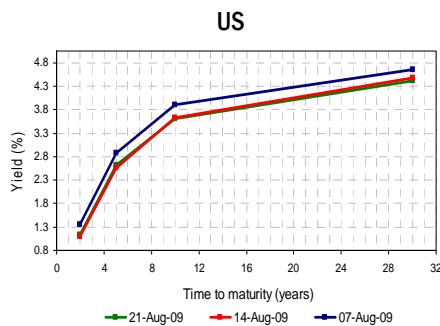
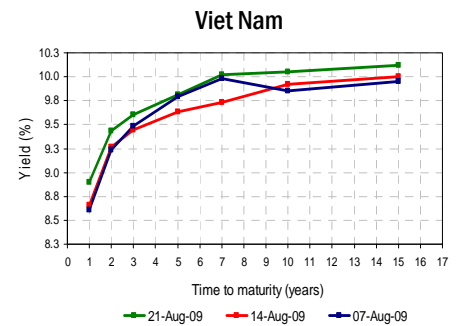
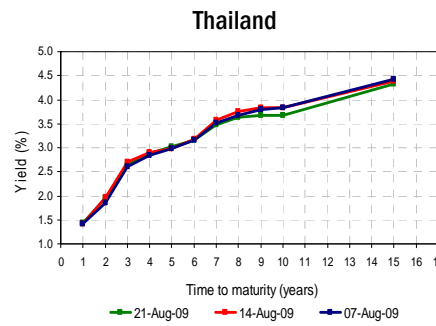
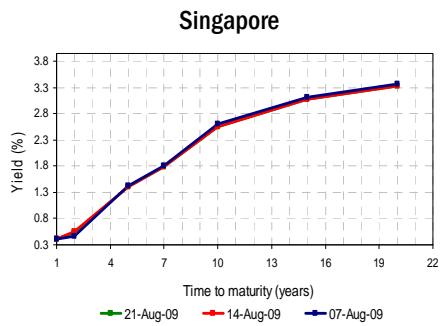
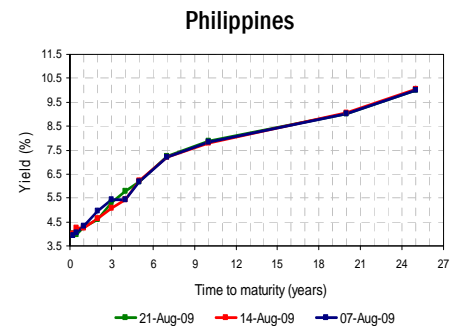
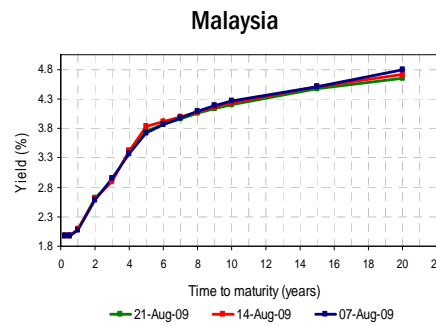
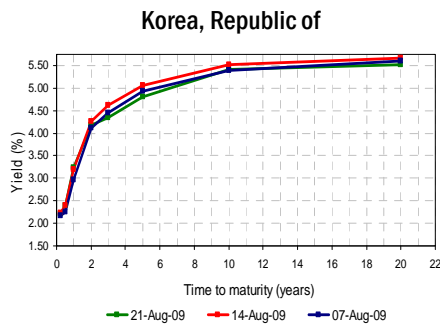
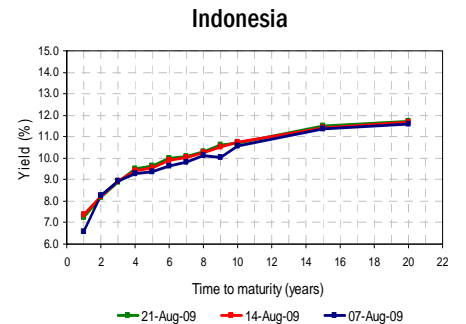
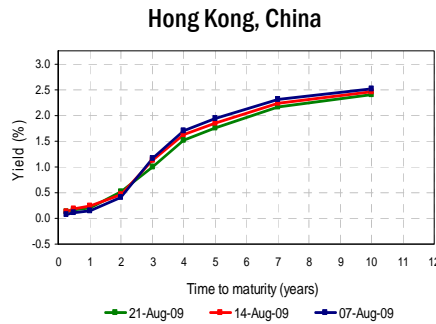
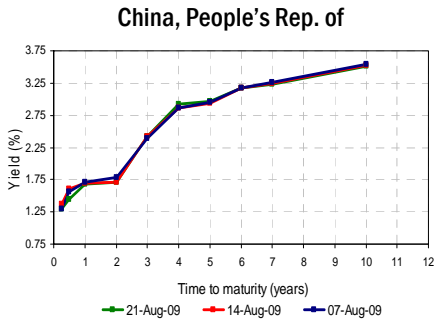
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Close of 21 August 2009

Source: Based on data from Bloomberg, LP.

Benchmark Yield Curves – Local Currency Government Bonds

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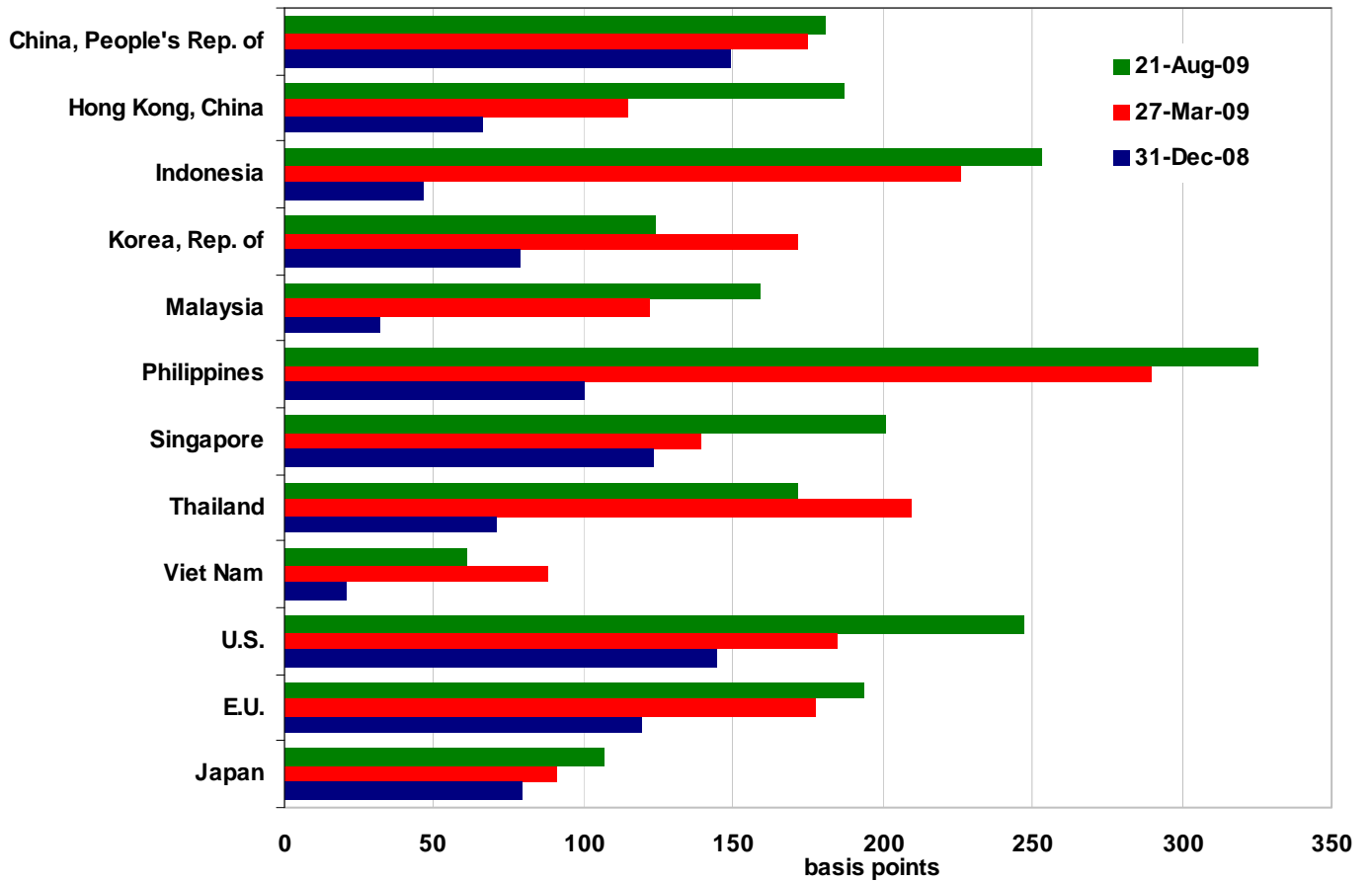


Source: Based on data from Bloomberg.

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

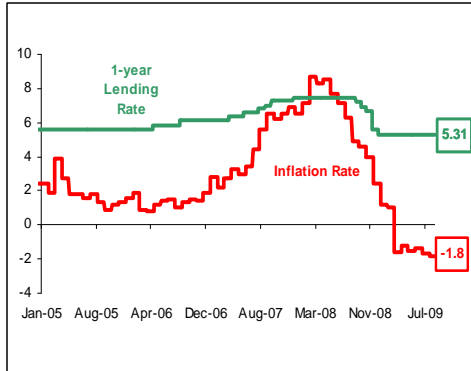


Source: Based on data from Bloomberg.

Policy Rate versus Inflation Rate Charts

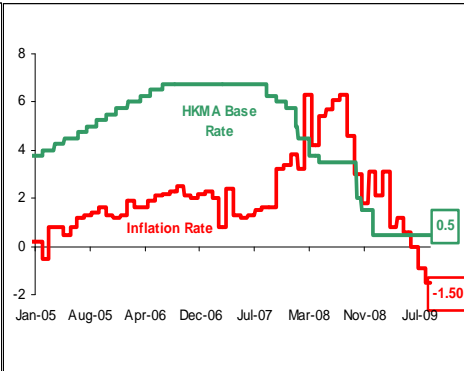
Tip: Zoom-in on the table using the Acrobat zoom tool

China, People's Rep. of



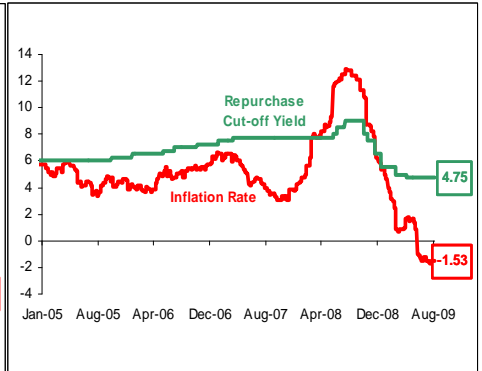
PRC uses 1-year lending rate as one of its policy rates. Source: Bloomberg, LP.

Hong Kong, China



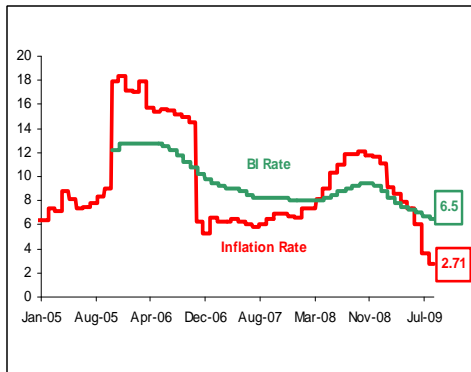
The Hong Kong Monetary Authority maintains a Discount Window Base Rate. Source: Bloomberg, LP.

India



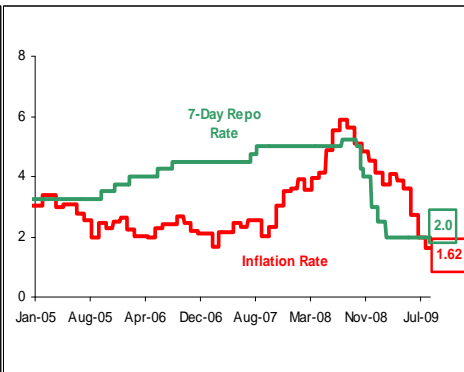
The Reserve Bank of India uses the repurchase (repo) cut-off yield as its policy rate. Source: Bloomberg, LP.

Indonesia



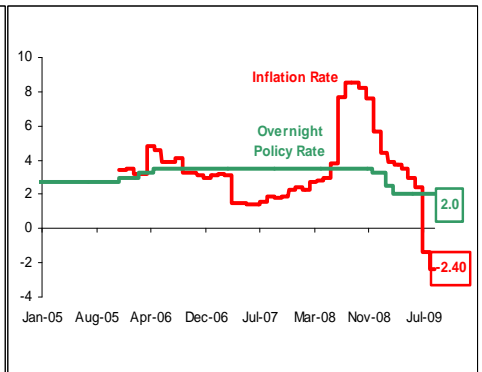
Bank Indonesia uses its reference interest rate (BI rate) as its policy rate. Source: Bloomberg, LP.

Korea, Republic of



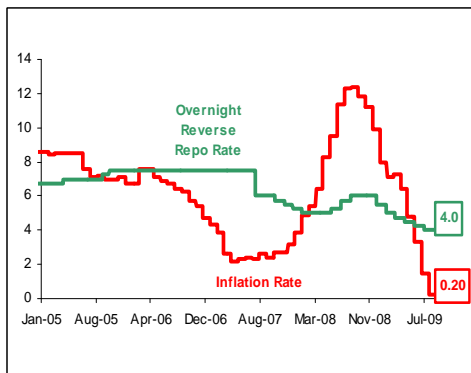
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008. Source: Bloomberg, LP.

Malaysia



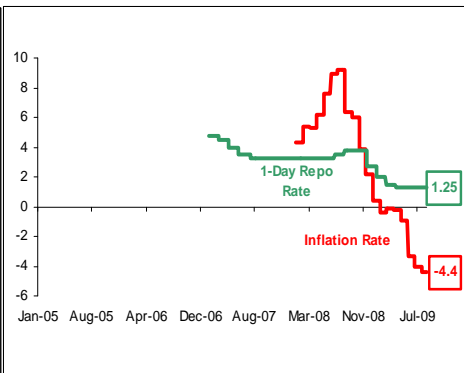
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate. Source: Bloomberg, LP.

Philippines



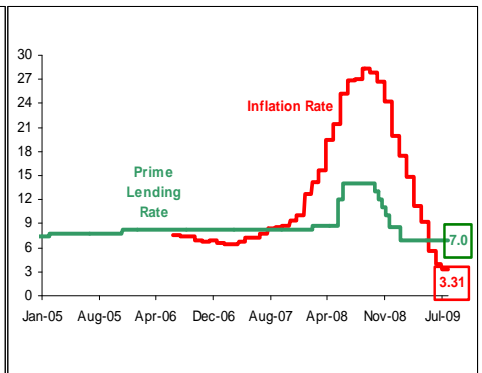
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments. Source: Bloomberg, LP.

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.

