

Key Developments in Asian Local Currency Markets

The People's Republic of China (PRC) last week agreed to purchase IMF notes of up to SDR32 billion (USD50 billion). SDRs, or Special Drawing Rights, are international reserve assets created by the IMF as a supplement to the official reserves of member countries. They are valued based on a basket of four major currencies and are exchangeable for widely-used currencies. The IMF said that the agreement to sell the notes to the PRC, which comes after the IMF's Executive Board endorsed a note issuance framework on 1 July, will provide the PRC with a safe investment instrument.

The week was marked by major bond issues in several East Asian markets. In one of the few high-yield bond issues in Asia this year, PRC-based property developer, Country Garden, issued USD300 million of 5-year bonds with an 11.75% coupon. Hong Kong, China issued HKD3.5 billion of 2-year bonds, the first sale of government paper in more than 5 years. In the Republic of Korea (Korea), the Korean Development Bank issued JPY30 billion of samurai bonds, while the state-owned Korea National Housing Corporation raised USD750 million from a 5-year bond sale.

Korea's GDP expanded by 2.6% q-o-q in 2Q09, mainly driven by private consumption, fiscal spending, and business and construction investment. The 2Q09 growth marks the steepest expansion since a 3.8% q-o-q increase was registered in 1Q02. On a y-o-y basis, Korea's GDP shrank by 2.2% in 2Q09, an improvement over the 4.2% contraction registered in 1Q09. Meanwhile, a survey by the Monetary Authority of Singapore (MAS) suggested that the country's GDP may decline by 3.6% in 2009. Additionally, the Philippine government hinted that its 2009 GDP growth target may be raised.

Manufacturing activity appears to be improving in the PRC and Singapore, as August's purchasing managers' indices (PMI) for both markets were above their respective levels in the previous month. Meanwhile, Japan's retail sales dropped by 2.5% y-o-y in July on falling wages and a high jobless rate, while Viet Nam registered retail sales growth of 18.4% y-o-y during the Jan–Aug period.

Consumer price inflation appears to be climbing in several Asian markets. In Indonesia, consumer price inflation was at 2.75% y-o-y in August, while in Korea, consumer price inflation reached 2.2% y-o-y in August, the highest level in the last 3 months, as inflationary pressures surged ahead of the Chuseok (Korean

Republic of Korea Market Summary

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10-Year Selected LCY Government Security Yields Close of 04 September 2009
basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-09*
US	3.44	9.38	-0.78	122.55
EU	3.24	-0.10	-0.80	29.20
Japan	1.33	2.10	1.60	15.70
PRC	3.48	-1.00	-2.00	72.00
Hong Kong, China	2.31	1.00	-12.30	111.50
India	7.47	0.90	17.00	222.40
Indonesia	10.61	4.20	9.70	-127.80
Malaysia	4.17	-0.30	0.30	95.30
Korea, Rep. of	5.35	1.00	-9.00	113.00
Philippines	7.93	0.00	2.50	55.00
Singapore	2.48	1.00	-1.00	43.00
Thailand	3.71	0.30	-1.60	104.60
Viet Nam	10.04	-5.60	-2.60	-13.90

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- ▶ Benchmark Yield Curves - Local Currency Government Bonds
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- ▶ Policy Rate versus Inflation Rate Charts
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Thanksgiving) holiday and oil prices rose. In Thailand, consumer price inflation was at -1.0% y-o-y in August as compared to -4.4% in the previous month. In the Philippines, however, consumer price inflation further slowed to 0.1% in August.

Government bond yields generally fell in most Asian markets last week. They fell for all maturities in Viet Nam and for most maturities in Hong Kong, China; Korea; PRC; Singapore; and Thailand. On the other hand, yields rose for most maturities in Indonesia, Malaysia, and the Philippines.

Finally, the more interesting data points this week include: government budget balance for the Philippines, consumer price inflation and M2 growth for the PRC, current account for Japan, industrial production for Malaysia and the PRC, and policy rate for Korea.

Summary Text of News Articles

PRC Agrees to Buy SDR32 Billion of IMF Notes

The International Monetary Fund (IMF) announced on 2 September that the People's Republic of China (PRC) has agreed to buy IMF notes, the first such note issuance by the Fund. Under the agreement, the PRC would purchase IMF notes of up to SDR32 billion, which is equivalent to USD50 billion. SDRs, or Special Drawing Rights, are international reserve assets created by the IMF as a supplement to the official reserves of member countries. They are valued based on a basket of four major currencies and are exchangeable for widely-used currencies.

The IMF said that the agreement to sell bonds to the PRC, which comes after IMF's Executive Board endorsed a note issuance framework on 1 July, will provide the PRC with a safe investment instrument. In addition, the agreement would increase the IMF's ability to assist its members, especially developing or emerging market countries, amid the global crisis.

Bond Issues in the PRC; Hong Kong, China; and Republic of Korea

Country Garden, a PRC-based property developer, issued USD300 million in 5-year bonds in one of the few high-yield bond issues in Asia this year. The issue was well-received, attracting orders totaling USD800 million from international investors. Asia-based investors bought 65% of the bonds, with the remaining 35% split evenly between European and US investors.

The bonds do not have an early-call provision, although the issuer has the option to redeem them at any time prior to maturity by securing the holders' consent and paying a premium. Funds raised from the issue will be used to pay down USD35 million in bank debt and to fund property developments in the PRC and other corporate expenditures.

On 2 September, Hong Kong, China issued a total of HKD3.5 billion in 2-year bonds in the first sale of government paper in 5 years. The sale is also the first under the Special Administrative Region's Institutional Issuance Program approved by Hong Kong, China's Legislative Council in July. The program calls for issuance of government debt totaling HKD100 billion over the next few years, with a view towards developing the domestic bond market and providing a benchmark for pricing company debt. Demand for the 2-year issue was strong, with bids representing 6.45 times the HKD3.5 billion offered. The bonds, which carry a coupon of 0.92%, had an average yield of 0.59 percent. Bonds issued under the program are liabilities of the Government of the Hong Kong Special Administrative Region of the PRC and are distinct from exchange fund paper—issuance of which is closely linked to the Special Administrative Region's currency board system.

In the Republic of Korea (Korea), the state-owned Korea Development Bank (KDB) sold JPY30 billion worth of samurai bonds last week. The bonds were sold in three tranches: JPY12.1 billion in 2-year fixed rate bonds; JPY10.9 billion in 3-year fixed rate bonds; and JPY7 billion in 5-year fixed rate bonds. Lead managers for the issue were Mizuho Securities, Daiwa Securities SMBC, and Nomura Securities. Also, the state-owned Korea National Housing Corporation (KNHC) raised USD750 million from a 5-year bond sale. The bonds pay a semi-annual coupon of 4.875% and were re-offered at 99.606 to yield 4.965%. The yield translated to a spread of 265 basis points over comparable benchmark 5-year US Treasuries. The sale was oversubscribed with demand reaching USD2.57 billion. The issue was rated A2 by Moody's and A by Standard and Poor's, with a stable outlook for both.

GDP Growth Improves for Korea in 2Q09; Survey Shows a Decline in Singapore's 2009 GDP; Philippines May Raise 2009 GDP Growth Target

Korea's gross domestic product (GDP) expanded by 2.6% quarter-on-quarter (q-o-q) in 2Q09. This was an improvement over a preliminary GDP growth forecast on 24 July of 2.3%. The 2Q09 growth rate, which was driven by resilient consumer spending and business and construction investment, marks the steepest expansion since a 3.8% q-o-q increase in 1Q02. On a year-on-year (y-o-y) basis, Korea's GDP shrank 2.2%, which is also an improvement over a previous advance estimate of -2.5%. The government's massive fiscal spending was also responsible for the q-o-q growth, according to the Bank of Korea (BOK).

In Singapore, a survey of economists conducted by the Monetary Authority of Singapore (MAS) suggested the country's GDP may decline by 3.6% in 2009. This is an improvement over MAS' June forecast of a 6.5% contraction and the government's estimate that the economy may contract between 4.0% and 6.0%. Singapore expanded more than initially estimated in 2Q09 as manufacturing and global demand improved. Meanwhile, the IMF is projecting that Singapore's economy will grow 2.5% next year. The IMF notes that the "skillful implementation of a broad range of policy instruments has helped lessen the impact of the shocks." The IMF also considers Singapore's monetary policy settings to be broadly appropriate in supporting domestic demand without undermining exchange rate stability.

 Summary Text of News Articles

GDP Growth Improves for Korea in 2Q09; Survey Shows a Decline in Singapore's 2009 GDP; Philippines May Raise 2009 GDP Growth Target (cont...)

In the Philippines, there is a possibility that the government's 2009 GDP target may be raised. According to Budget Secretary Rolando Andaya and Acting Director General of the National Economic Development Authority (NEDA) Augusto Santos, the economy may perform better than the revised 2009 growth projection of 0.8%–1.8%. Growth in 2Q09 was stronger-than-expected, which Andaya said is an indication that there is room to revise the economic growth projection upward. Moreover, Santos said that the 2.6%–3.6% GDP growth target for next year may also be revised upward should inflation continue to slow down. However, Bangko Sentral ng Pilipinas (BSP) said that this year's export growth projection may have to be revised downward due to the continuing slump in the export sector. Meanwhile, the Department of Finance said that the government is sticking with its 2009 budget deficit projection of PHP250 billion, which is equivalent to 3.2% of GDP.

Manufacturing Activity Improves in the PRC and Singapore; Retail Sales Fall in Japan but Rise in Viet Nam

The PRC and Singapore last week reported improved purchasing managers' indices (PMIs) for the month of August. The PRC's Federation of Logistics and Purchasing reported that the country's manufacturing PMI stood at 54.0 in August, compared to 53.3 in July. The manufacturing PMI is based on a survey of purchasing and supply managers of more than 700 companies in a range of industries across the country. PMI readings above 50 indicate expansion of manufacturing activity, while figures below 50 suggest a decline in manufacturing.

Singapore's PMI for August was 54.4, up 2.9 points from July's 51.5. According to the Singapore Institute of Purchasing and Materials Management, the gain was due to rising employment and further expansion of new orders, production output, stocks of finished goods, and imports. Overall input prices continued to contract for the 10th straight month.

Meanwhile, Japan and Viet Nam reported mixed retail sales figures. According to Japan's Trade Ministry, the country's retail sales in July fell by 2.5% year-on-year (y-o-y) due to falling wages and a high jobless rate. Japan's retail sales have been in negative territory since September 2008, the longest such streak since 2003. Analysts attributed this to weather-depressed sales of seasonal items and the fact that consumers continue to save despite falling prices and the government's stimulus packages.

Viet Nam's retail sales during the Jan–Aug period rose by 18.4% y-o-y, reaching VND742.7 trillion. The upswing was spearheaded by a 17.7% y-o-y rise in retail sales in Hanoi and Ho Chi Minh City, which together accounted for 36.0% of the country's total retail sales over the Jan–Aug period.

Consumer Price Inflation Accelerates in Indonesia, Korea, and Thailand, but Slows Down in the Philippines

In Indonesia, consumer price inflation accelerated in August to 2.75% y-o-y as consumer demand increased during the holy month of Ramadan. This was a slight uptick from the 2.71% y-o-y inflation reported in July. Inflation was triggered mainly by increases in the price of staple foods.

Meanwhile, Bank Indonesia (BI) maintained its key benchmark rate steady at 6.5% effective 3 September. At its current level, BI deems that the rate is appropriate for achieving the 2010 inflation target of between 4.0% and 6.0%.

In Korea, consumer price inflation grew at its fastest pace in 3 months in August as inflationary pressures strengthened ahead of the Chuseok (Korean Thanksgiving) holiday and oil prices rose in the global market. Consumer price inflation was reported at 2.2% y-o-y in August, rising from 1.6% in July.

Consumer price inflation for Thailand was at –1.0% y-o-y in August, compared to –4.4% in July, representing the eighth consecutive month that annual consumer price inflation was in negative territory. On a month-on-month (m-o-m) basis, however, consumer price inflation was positive at 0.4% in August, with zero inflation in July.

In the Philippines, consumer price inflation further slowed to 0.1% in August due to a decline in the prices of rice, fuel, light, and transportation services. This is lower than the previous month's inflation rate of 0.2% and the 12.4% in August 2008.

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	0.13	0.41	-1.11	5.48
EU	0.32	0.20	-1.90	-133.30
Japan	0.15	0.00	0.00	-5.30
PRC	1.00	0.00	0.00	-10.00
Hong Kong, China	0.12	-1.00	5.00	7.00
India	3.37	0.00	-1.00	-113.00
Malaysia	1.96	0.30	2.30	-96.90
Korea, Rep. of	2.23	-1.00	-2.00	-42.00
Philippines	3.84	0.00	-25.89	-178.39
Singapore	0.32	0.00	4.00	-25.00
Thailand	1.20	0.71	5.00	-89.72

Close of 04 September 2009

10-Year Selected LCY Government Bond Yields

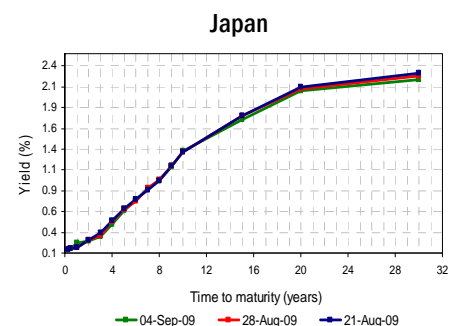
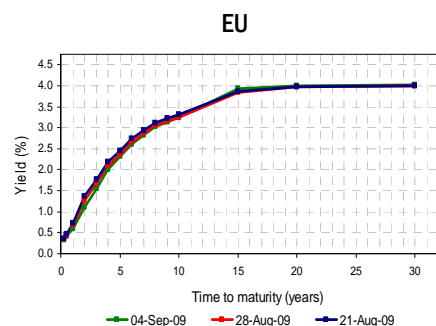
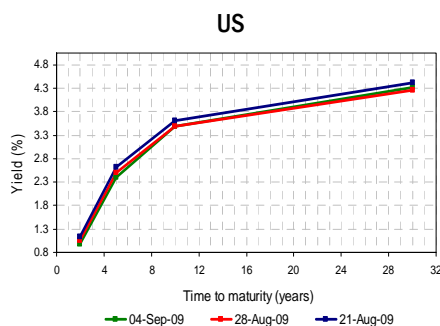
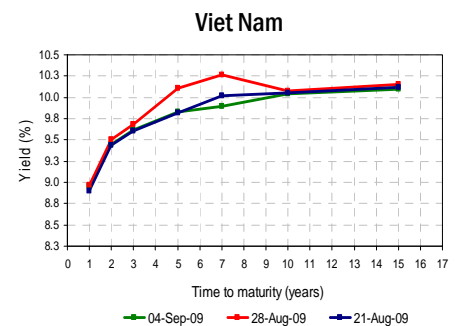
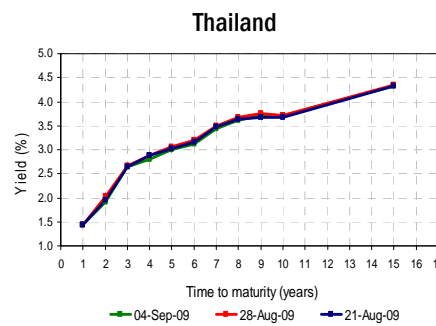
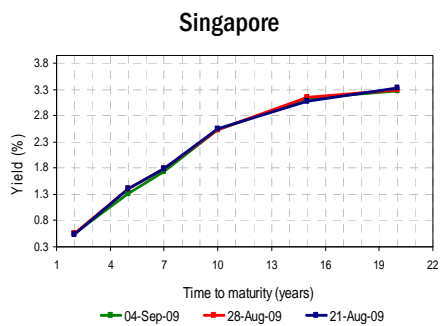
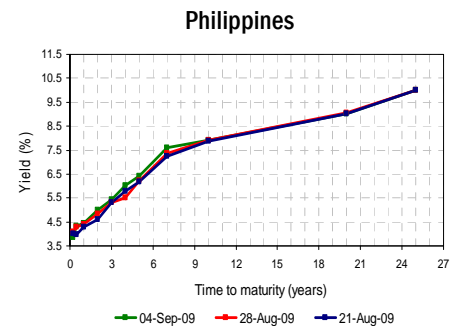
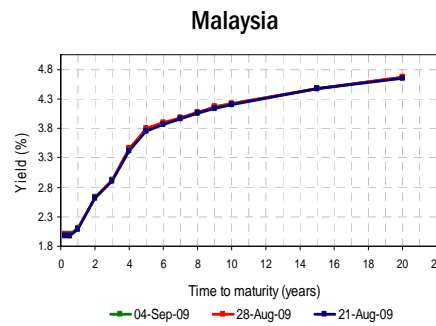
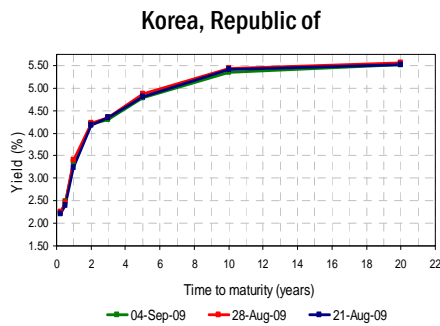
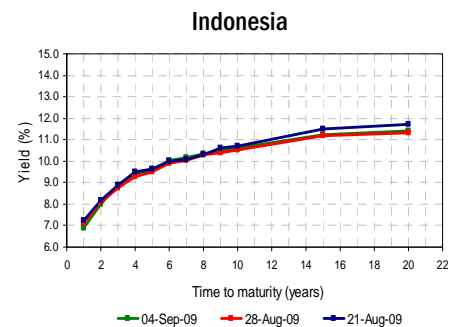
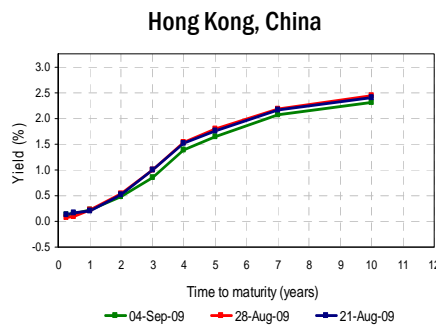
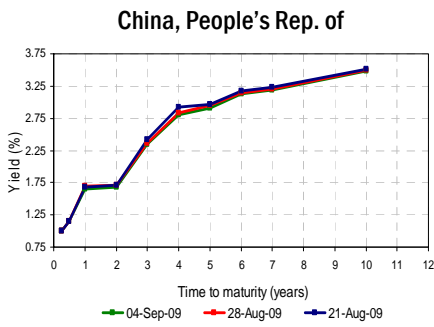
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Close of 04 September 2009

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

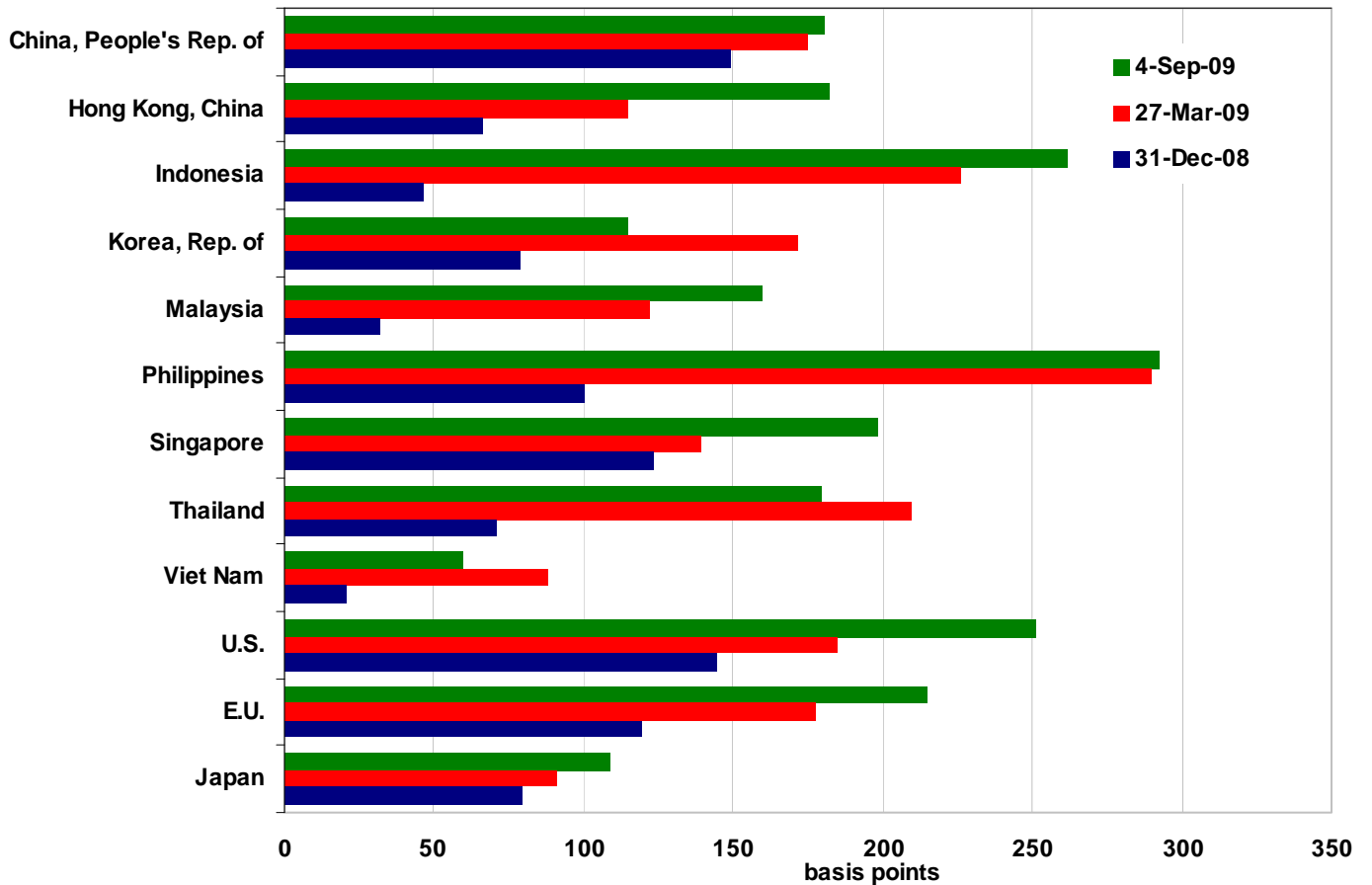


Source: Based on data from Bloomberg.

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

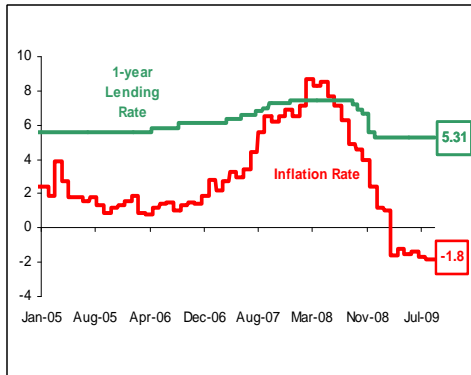


Source: Based on data from Bloomberg.

Policy Rate versus Inflation Rate Charts

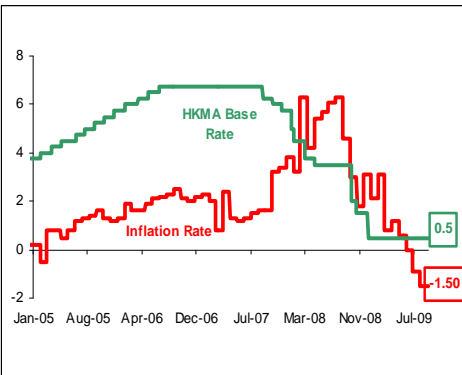
Tip: Zoom-in on the table using the Acrobat zoom tool

China, People's Rep. of



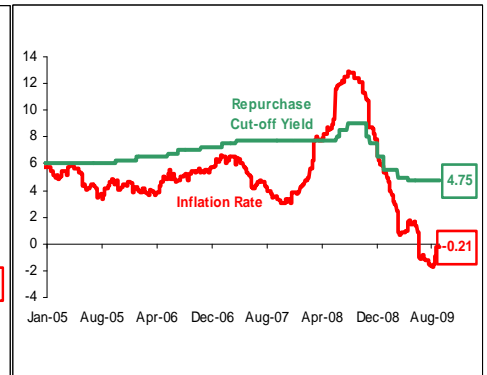
PRC uses 1-year lending rate as one of its policy rates. Source: Bloomberg, LP.

Hong Kong, China



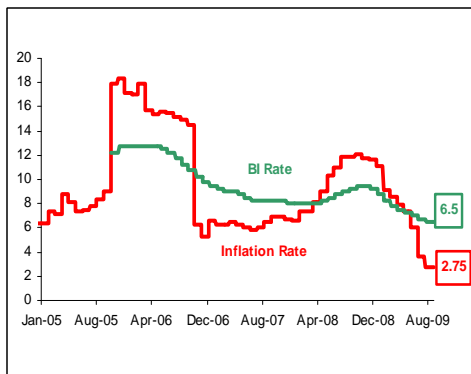
The Hong Kong Monetary Authority maintains a Discount Window Base Rate. Source: Bloomberg, LP.

India



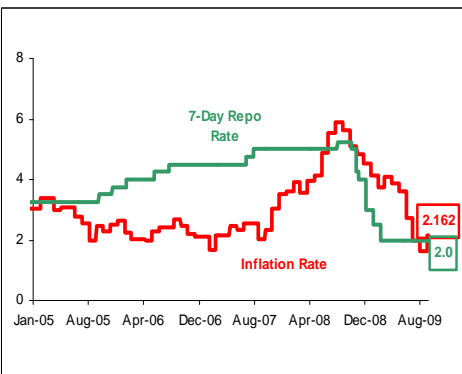
The Reserve Bank of India uses the repurchase (repo) cut-off yield as its policy rate. Source: Bloomberg, LP.

Indonesia



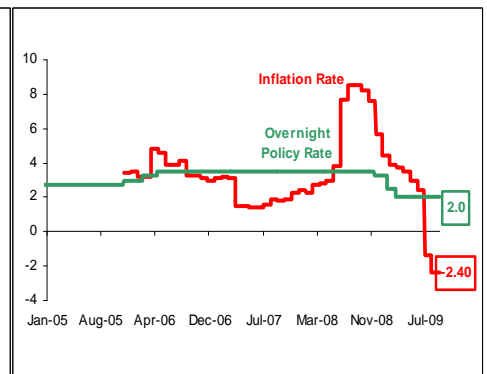
Bank Indonesia uses its reference interest rate (BI rate) as its policy rate. Source: Bloomberg, LP.

Korea, Republic of



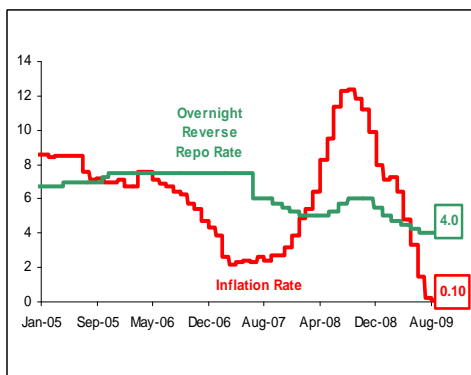
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008. Source: Bloomberg, LP.

Malaysia



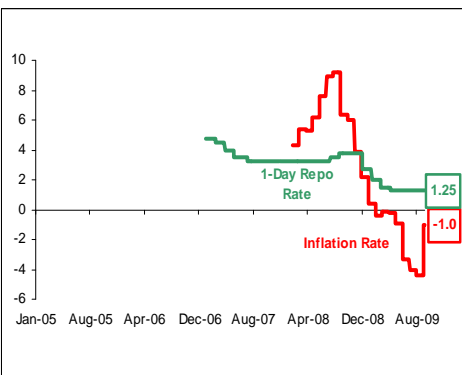
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate. Source: Bloomberg, LP.

Philippines



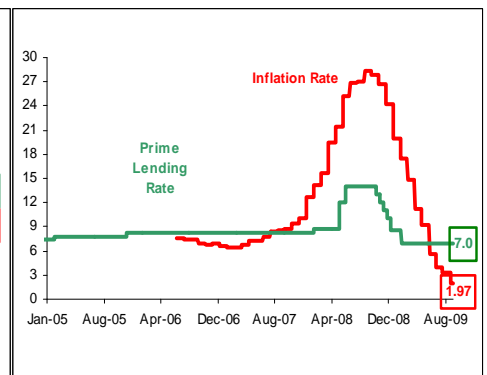
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments. Source: Bloomberg, LP.

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.

