

Key Developments in Asian Local Currency Markets

Economic data released last week by the People's Republic of China (PRC) points toward a strengthening recovery. Cumulative urban fixed-asset investment in the first 8 months of the year increased 33% compared to the same period last year. August industrial output rose by 12.3% year-on-year (YOY), compared to 10.8% registered in July. CPI Inflation in August was reported at -1.2%, following a reading of -1.3% in July. The PPI, a measure of inflation at the wholesale level, fell by 7.9% in August, which was less than the 8.2% drop in July. The amount of new loans extended in August reached CNY410.4 billion, an increase over the July level of CNY355.9 billion, but still dramatically lower than total new loans in June of CNY1.53 trillion.

A number of important new issues hit the market last week. On 9 September, Hong Kong, China-based conglomerate Hutchison Whampoa sold a total of USD3 billion in 6- and 10-year bonds with coupons of 4.625% and 5.75%, respectively. Hutchison was followed a day later by a USD500 million bond from Hong Kong China's Henderson Land. Singapore-based port operator PSA International priced a new USD500 million 10-year bond, its first such issue since 2006. Finally, Bank Tabungan Negara (BTN) of Indonesia issued its second residential mortgage-backed security valued at IDR391 billion (USD39 million).

The corporate bond market in Viet Nam is reported to be on the verge of recovery after a number of successful corporate bond issues in the beginning of the year, including Electricity of Viet Nam (VND3.5 trillion), Viet Nam Shipbuilding (VND3 trillion), and Vinpearl Tourism and Trading (VND1 trillion). The market is expecting new issuance from Sacombank (VND3 trillion) in 3Q09 and VND1 trillion of convertible bonds from Saigon Commercial Bank in 1Q10.

On 6 September, the Group of Central Bank Governors and Heads of Supervision, which exercise oversight authority of the Basel Committee on Banking Supervision, agreed on a set of key measures to strengthen banking regulation.

Bank Indonesia (BI) has announced plans to assign capital requirements for commercial banks that will be based on a bank's level of risk. Under current rules, banks in Indonesia have until the end of 2010 to meet the minimum capital requirement of IDR100 billion. Banks that cannot meet the requirement are encouraged to merge to increase their capitalization.

Philippines Market Summary

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10-Year Selected LCY Government Security Yields Close of 11 September 2009
basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-09*
US	3.35	-0.02	-9.08	113.47
EU	3.24	-6.80	-0.60	28.60
Japan	1.31	-2.00	-2.10	13.60
PRC	3.48	1.00	0.00	72.00
Hong Kong, China	2.35	-0.60	3.90	115.40
India	7.36	-1.20	-10.70	211.70
Indonesia	10.48	-2.40	-13.40	-141.20
Malaysia	4.17	0.00	0.30	95.60
Korea, Rep. of	5.43	-2.00	8.00	121.00
Philippines	7.85	5.12	-7.50	47.50
Singapore	2.41	-4.00	-7.00	36.00
Thailand	3.75	0.20	4.40	109.00
Viet Nam	10.19	0.00	14.60	0.70

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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
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The Asian trade sector reported mixed news last week. Malaysia recorded a trade surplus of MYR7.8 billion in July, which was a decrease of 45.8% YOY. Japan's current account surplus fell 19.4% to JPY1.266 trillion YOY in July due to weak exports and falling returns from overseas investments. Meanwhile, Philippine exports fell 25.4% YOY in July to USD3.312 billion, largely driven by a 25.2% decline in electronics exports.

Yield movements were mixed last week. Yields fell for most maturities in Indonesia, the Philippines, the PRC, and Singapore. They rose for all maturities in Korea, Thailand, and Viet Nam, and for most maturities in Hong Kong, China; and Malaysia. Yield spreads between 2- and 10-year government bonds fell in Indonesia, the PRC, Singapore, and Thailand, while they rose in Hong Kong, China; the Philippines; and Viet Nam.

Summary Text of News Articles

August Data Shows Signs of Recovery in the People's Republic of China

Economic data releases in the People's Republic of China (PRC) last week painted a very positive picture of the country's recovery. Cumulative urban fixed-asset investment in the first 8 months of the year increased 33% year-on-year (YOY), which is higher than the 32.9% YOY growth through July and exceeded the consensus estimate of 32.7%.

Industrial output in August increased 12.3% YOY, up from growth of 10.8% registered in July and above economists' median forecast of 11.8%. August seasonally adjusted retail sales increased 15.4% YOY—the largest increase in one year and slightly above the consensus estimate of 15.3%.

Consumer price inflation in August was reported at -1.2%, slightly above the -1.3% registered in July. The producer price index (PPI), a measure of inflation at the wholesale level, fell by 7.9% in August, which is less than the 8.2% drop in July.

New loans extended in August in the PRC unexpectedly increased to CNY410.4 billion, which was well above the CNY320 billion consensus estimate and higher than CNY355.9 billion in new loans in July. Despite the higher-than-expected rise in August new loans, the cumulative amount of new loans extended in August and July is significantly below June's new loan total of CNY1.53 trillion.

More Corporate Bond Issuances in Hong Kong, China; Indonesia; and Singapore

On 9 September, Hong Kong, China-based conglomerate Hutchison Whampoa sold a total of USD3 billion in 6- and 10-year bonds with coupons of 4.625% and 5.75%, respectively. The 6- and 10- year bonds were priced to yield 227.5 and 235 basis points above their respective US Treasury benchmarks. The issue was the largest by Hutchison in 6 years. Proceeds from the sale will be for refinancing purposes. Hutchison initially intended to raise USD2 billion, but strong investor demand, especially for the 6-year bonds, made the company raise its offering to USD3 billion. On 10 September, Hong Kong, China's Henderson Land raised USD500 million in 10-year bonds that were priced within a 235 basis points spread over US Treasuries.

Last week, Indonesian home lender PT Bank Tabungan Negara (BTN) issued its second residential mortgage-backed security (RMBS) valued at IDR391 billion. The proceeds from the issue will be used for the expansion of lending to homebuyers. The bonds offered a yield of 10%—11%.

Singapore-based port operator PSA International priced a new USD500 million 10-year benchmark bond last week. PSA has not issued new USD-denominated debt since 2006 and investors reportedly placed orders worth USD2.5 billion at 140 basis points over US Treasuries. The deal was mostly a benchmarking exercise for PSA.

Bank of Thailand Mulls Issuing Another Set of Savings Bonds; More Planned Corporate and Quasi-Government Bond Issues from the Philippines and Malaysia

The Bank of Thailand (BOT) plans to issue another set of savings bonds this year following its recent issue of THB130.7 billion of savings bonds—60% of which were 7-year bonds—to about 6,000 investors. This is part of BOT's efforts to restructure its liquidity management by increasing long-term instruments in order to absorb excess liquidity and reduce its use of short-term tools. A BOT official said that the central bank will push through with its plan to issue a new batch of savings bonds if the government would not be able to issue its second batch of savings bonds later this year. The Finance Ministry has announced plans to issue between THB30 billion to THB50 billion of savings bonds in October, following its recent issuance of THB80 billion.

In the Philippines, JG Summit Holdings, Inc. is planning to raise PHP5 billion to boost its working capital. The retail bond offer could be finalized in the next 2 weeks pending the outcome of the Bureau of the Treasury's PHP25 billion offering starting on 15 September. Meanwhile, SM Investment Corporation (SMIC) is also planning to issue USD500 million worth of fixed-rate bonds. SMIC has an option to increase the issue size depending on investor demand and market condition.

Malaysian state-owned public transport operator Syarikat Prasarana Negara Bhd (Prasarana) is selling MYR2 billion of Islamic bonds to raise funds for projects. Prasarana hired CIMB Investment Bank Bhd and Maybank Investment Bank Bhd to help it sell 20-year notes. Prasarana plans to sell as much as MYR4 billion of Islamic bonds, known as sukuk, to raise funds for projects such as rail line extensions.

➔ Summary Text of News Articles

Corporate Bond Market in Viet Nam Appears to be on the Verge of Recovery

The corporate bond market in Viet Nam appears to be on the verge of recovery after a number of successful corporate bond issues earlier this year and announcements of planned issuances in the remainder of the year through early 2010. Among the successful issues of corporate bonds this year were Electricity of Viet Nam Group (VND3.5 trillion), Viet Nam Shipbuilding Industry Corporation (VND3 trillion), Vinpearl Tourism and Trading Joint Stock Company (VND1 trillion), and Kinh Bac Urban Development Company (VND700 billion). The two important planned issuances of corporate bonds are Saigon Thuong Tin Commercial Joint Stock Bank (Sacombank) amounting to VND3 trillion in 3Q09 and Saigon Commercial Joint Stock Bank (SCB) totaling VND1 trillion in convertible bonds for 1Q10.

The major corporate bondholders in Viet Nam are banks and other financial institutions. However, the size and trading volume of the corporate bond market in Viet Nam are below that of the government bond market.

Trade Statistics Decline in July for Malaysia, Japan, and the Philippines

Malaysia recorded a trade surplus of MYR7.8 billion in July 2009, a decrease of 45.8% as compared with MYR14.4 billion registered in July 2008. This was the 141th consecutive month of trade surpluses since November 1997.

Japan's current account surplus fell 19.4% YOY in July to JPY1.266 trillion due to weak exports and falling returns from overseas investments.

Meanwhile, Philippine exports fell 25.4% to USD3.312 billion YOY in July. Electronic products declined 25.2% from the previous year, which was driven by a 24.8% YOY decrease in the export of semiconductors. Apparel and clothing accessories, which is the Philippines' second largest export earner, fell by 26.4% YOY from last year's figure of USD170.07 million.

Oversight Body of Basel Committee Agrees on Key Measures To Strengthen Banking Regulation

On 6 September, the Group of Central Bank Governors and Heads of Supervision, which has oversight authority of the Basel Committee on Banking Supervision, agreed on a set of key measures to strengthen banking regulation. These measures call for better quality, consistency, and transparency of the Tier 1 capital base; the provision of a leverage ratio to the risk-based framework of Basel II; a minimum global standard for funding liquidity; a framework for countercyclical capital buffers above the minimum requirement and recommendations to reduce the systemic risk associated with the resolution of cross-border banks.

The Basel Committee on Banking Supervision will formulate specific proposals on these key measures by the end of 2009, launch an impact assessment at the start of 2010, and carry out a calibration of new requirements that must be completed by end-2010.

Bank Indonesia to Set New Capital Requirements

Meanwhile, Bank Indonesia (BI) plans to assign capital requirements for commercial banks that will be based on their level of risk. Under current rules, banks in Indonesia have until the end of 2010 to meet the minimum capital requirement of IDR100 billion. Banks that cannot meet the requirement are encouraged to merge to increase their capitalization.

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	-0.20	0.91	6.39
EU	0.36	0.30	3.20	-130.10
Japan	0.15	0.00	0.00	-5.30
PRC	1.30	0.00	-20.00	30.00
Hong Kong, China	0.11	0.00	-1.00	6.00
India	3.42	4.00	5.00	-108.00
Malaysia	1.98	0.40	1.40	-95.50
Korea, Rep. of	2.30	-2.00	7.00	-35.00
Philippines	4.10	0.00	25.89	-152.50
Singapore	0.33	0.00	1.00	-24.00
Thailand	1.24	0.28	4.00	-85.72

Close of 11 September 2009

10-Year Selected LCY Government Bond Yields

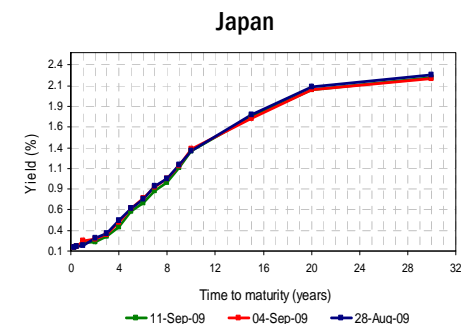
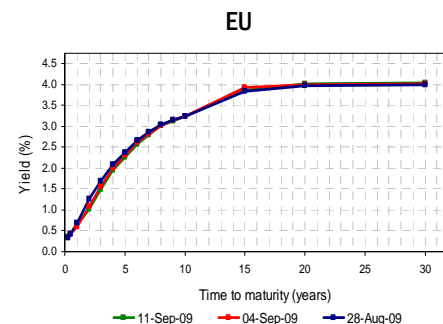
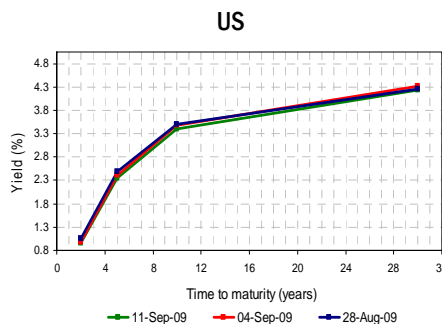
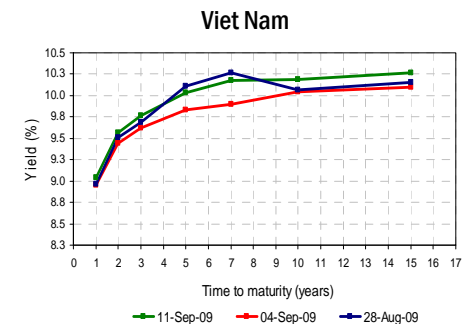
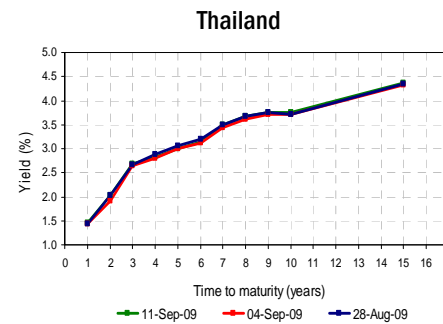
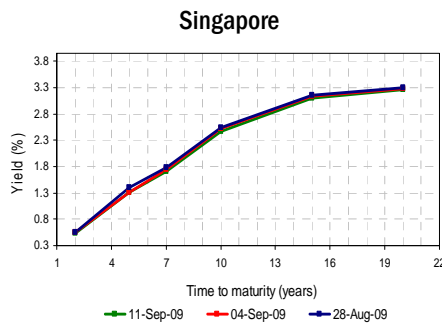
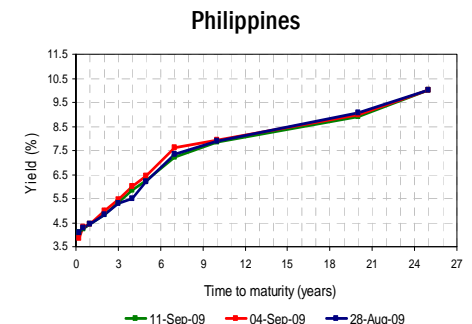
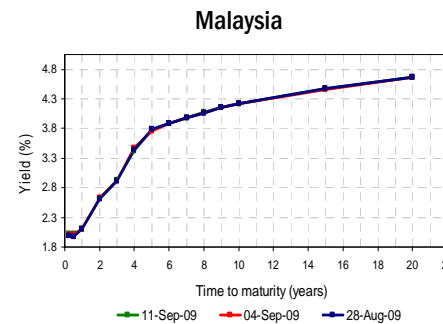
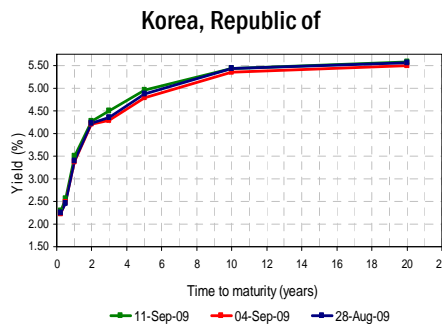
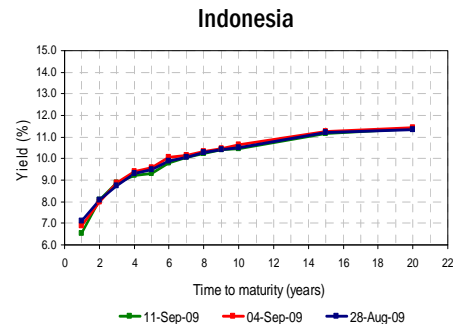
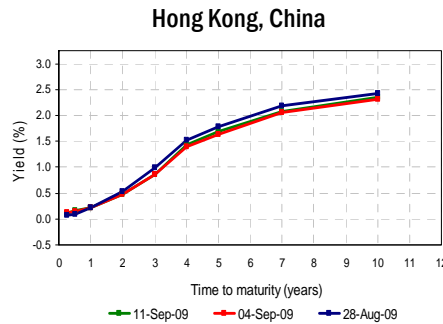
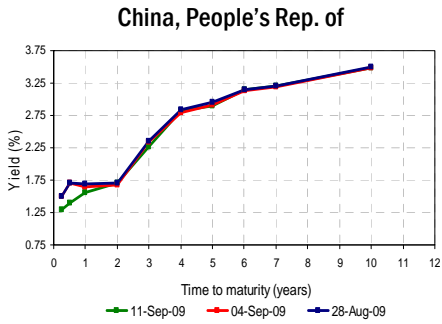
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Close of 11 September 2009

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

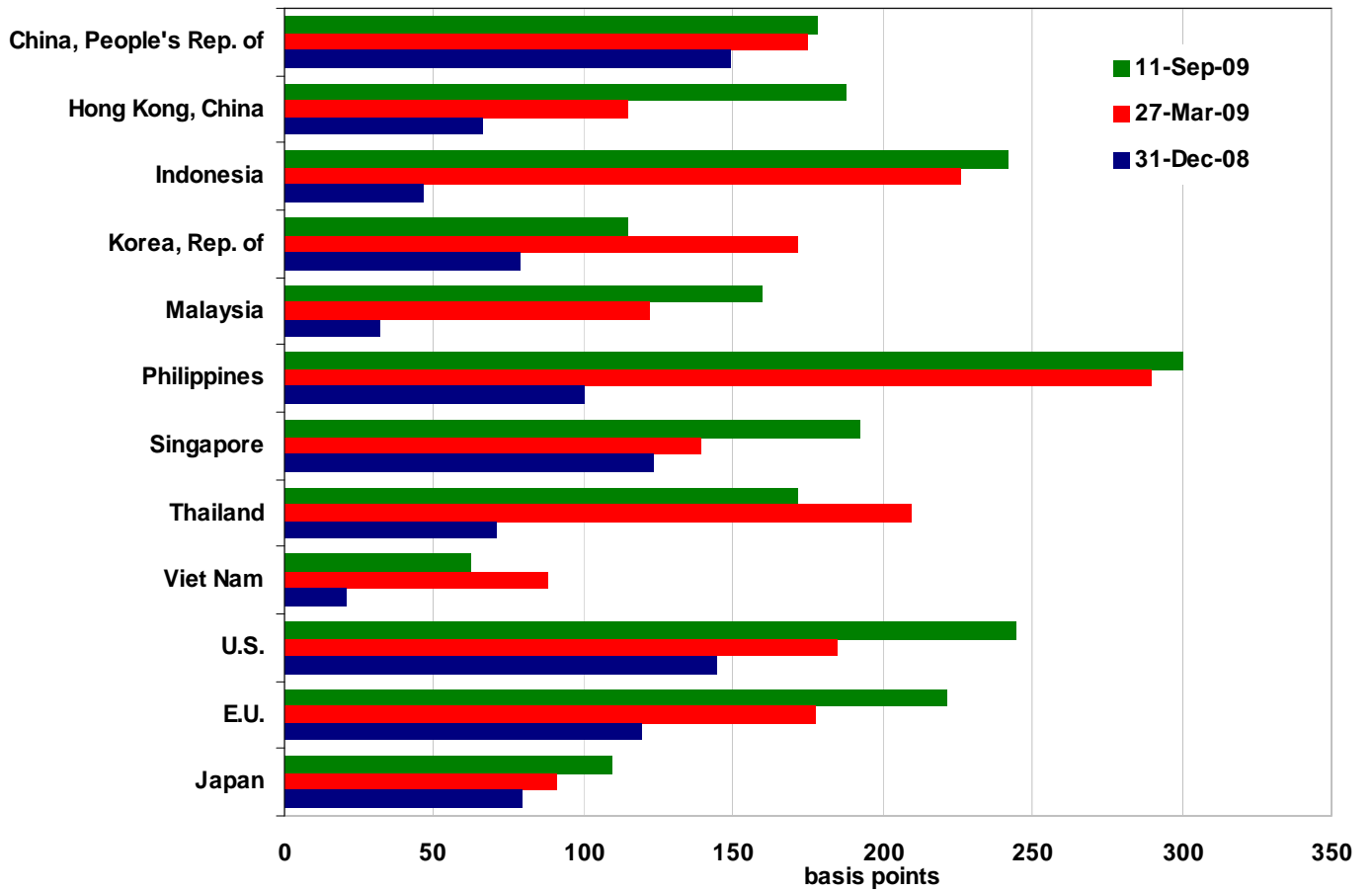


Source: Based on data from Bloomberg.

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

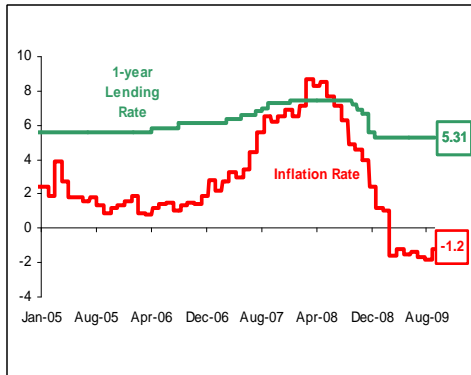


Source: Based on data from Bloomberg.

Policy Rate versus Inflation Rate Charts

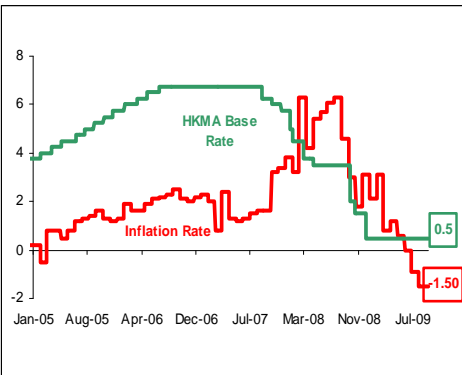
Tip: Zoom-in on the table using the Acrobat zoom tool

China, People's Rep. of



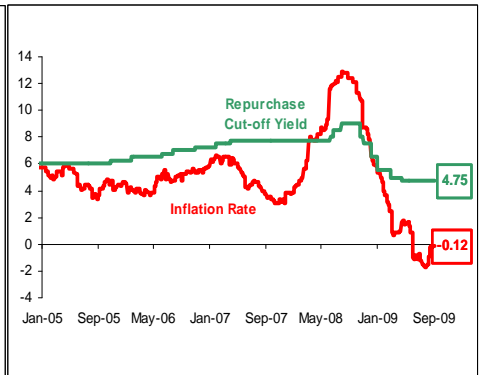
PRC uses 1-year lending rate as one of its policy rates. Source: Bloomberg, LP.

Hong Kong, China



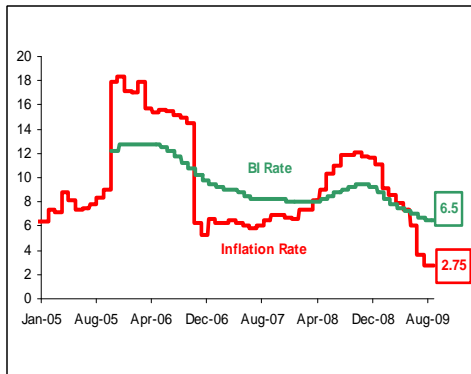
The Hong Kong Monetary Authority maintains a Discount Window Base Rate. Source: Bloomberg, LP.

India



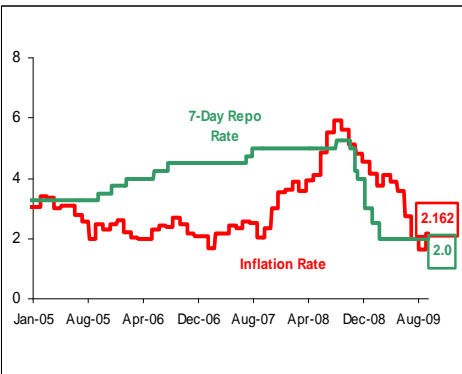
The Reserve Bank of India uses the repurchase (repo) cut-off yield as its policy rate. Source: Bloomberg, LP.

Indonesia



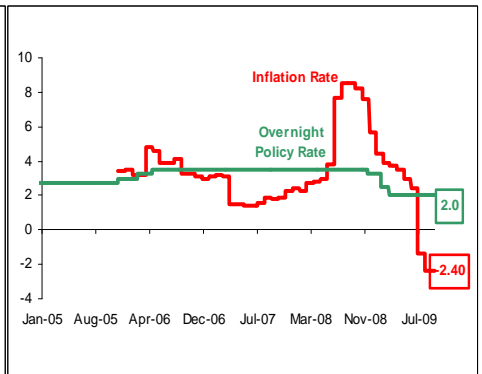
Bank Indonesia uses its reference interest rate (BI rate) as its policy rate. Source: Bloomberg, LP.

Korea, Republic of



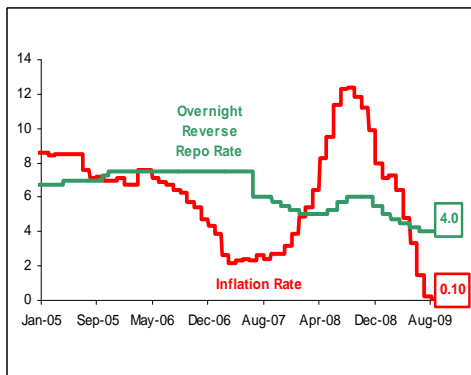
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008. Source: Bloomberg, LP.

Malaysia



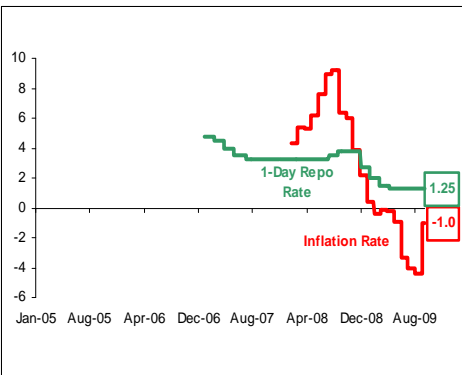
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate. Source: Bloomberg, LP.

Philippines



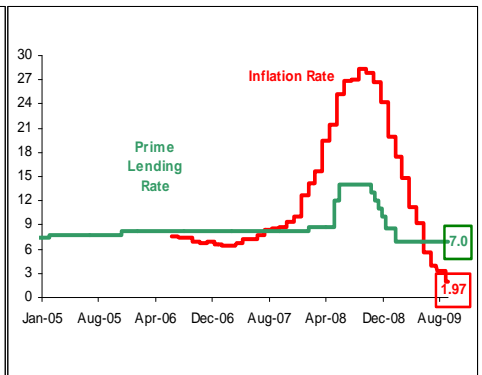
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments. Source: Bloomberg, LP.

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.

