

Key Developments in Asian Local Currency Markets

Economic and industrial activity appears to be improving in several Asian markets. In Viet Nam, 3Q09 gross domestic product (GDP) grew by 5.8%, bringing GDP growth for the Jan-Sept period to 4.6% year-on-year (y-o-y). In the People's Republic of China (PRC), manufacturing activity expanded as the country registered a Purchasing Manager's Index (PMI) of 54.3 in September, its highest level in more than a year. In Japan, industrial production rose for the sixth consecutive month by 1.8% month-on-month (m-o-m) in August. However, industrial production in Thailand contracted by 10.3% from a year ago in August.

Indonesia's consumer price inflation rose to 2.83% y-o-y in September, higher than in the previous month. In Republic of Korea (Korea), consumer price inflation rose to 2.2% y-o-y in September, and this was partly due to a hike in service sector prices, as well as hikes in electricity and water charges. On the other hand, Japan's consumer price inflation was still negative at -2.2% from a year ago, while Thailand's consumer price inflation rate was at -1.0% y-o-y in September.

The PRC last week began the sale of CNY6 billion of Treasury bonds in Hong Kong, China, the first issue of such instruments outside the PRC mainland. In what was a relatively subdued week in terms of issuance, Malaysia planned a USD1 billion bond sale to finance an energy-focused joint venture with Saudi Arabia's Petro Saudi International, and Korea took preliminary steps to change tax regulations to enable Korean issuers to more easily participate in the Islamic bond market.

An improvement in trade balances was seen in Korea and Viet Nam. Korea's trade surplus surged to USD5.37 billion in September, up from the USD1.7 billion surplus posted in August. In Viet Nam, the trade deficit shrank by 59% y-o-y to USD6.5 billion in the first 9 months of the year, down from the USD15.8 billion posted in the same period last year.

Moody's reported that it is maintaining its negative outlook for Thailand due to ongoing concerns over the country's political stability, while pointing out that Thailand's credit fundamentals have nevertheless held up well since the September 2006.

Bond yield trends were mixed in Asian markets last week. Yields dropped for most maturities in Hong Kong, China; Indonesia; Malaysia; the Philippines; and Thailand. On the other hand, yields rose for most maturities in Viet Nam while they were mixed for Korea, the

Asia Bond Monitor September 2009

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10-Year Selected LCY Government Security Yields Close of 02 October 2009
basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-09*
US	3.22	3.98	-9.96	100.65
EU	3.12	-3.50	-13.40	17.20
Japan	1.26	-4.00	-5.80	8.60
PRC	3.51	0.00	1.00	75.00
Hong Kong, China	2.25	-10.70	-11.50	105.70
India	7.21	0.00	8.30	197.10
Indonesia	9.95	0.70	-17.10	-194.20
Malaysia	4.14	-3.10	-4.10	91.70
Korea, Rep. of	5.32	0.00	-3.00	110.00
Philippines	7.93	-2.50	-2.50	55.00
Singapore	2.38	-4.00	-1.00	33.00
Thailand	3.95	-4.30	-8.50	128.70
Viet Nam	10.27	-6.30	4.20	9.00

- 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

PRC, and Singapore. The 2-10 yield spreads narrowed in Hong Kong, China; Indonesia; Korea; Singapore; and Viet Nam, while they widened in Malaysia, the Philippines, the PRC, and Thailand.

Finally, some of the more interesting data points on the data release calendar for next week include: Philippine inflation (6 October); Malaysian exports (8 October) and industrial production (12 October); Korean M2 growth (6-10 October); and new loan and M2 growth figures for the PRC (12 October-14 October).

Summary Text of News Articles

GDP Growth Improves in Viet Nam; Industrial Activity Expands in PRC and Japan but Contracts in Thailand

Viet Nam's gross domestic product (GDP) expanded by 5.8% year-on-year (y-o-y) in 3Q09, higher than the 4.5% y-o-y growth rate registered in 2Q09. During the January-September period, the country's GDP growth was at 4.6% y-o-y and this was boosted by the 5.9% growth in the services sector, which accounts for 38% of the domestic economy. Within the services sector, transportation, and communications and financial services had relatively fast annual growth rates through September of 8.4% and 8.1%, respectively. The industrial sector, which accounts for 40% of the domestic economy, grew by 4.5% in the first nine months of the year, while agriculture, forestry, and fisheries, which account for 22% of the domestic economy, grew by 1.6% in the same period.

Manufacturing activity in the People's Republic of China (PRC) expanded in September. According to the China Federation of Logistics and Purchasing, the PRC's manufacturing PMI increased to 54.3 in September, compared to 54.0 in the previous month. PMI readings above 50 suggest an expansion in manufacturing activity. The PMI is based on a survey of purchasing managers of more than 700 companies in a wide range of industries across the country.

Japan's industrial production increased for the sixth consecutive month by 1.8% m-o-m in August. According to the Survey of Production Forecast in Manufacturing, industrial production is expected to increase in September and in October. On a y-o-y basis, however, industrial production decreased by 18.7% in August.

Industrial production in Thailand dropped by 10.3% from a year ago in August, following a 7.1% decline in July. It is expected, however, that the recession in Thailand eased in the third quarter and that the economy will grow in the last quarter of the year on the back of public spending and recovery in global demand.

For more information on Viet Nam's macroeconomic data, go to: [AsianBondsOnline: Viet Nam: Data](#)

For more information on PRC's macroeconomic data, go to: [AsianBondsOnline: China, People's Rep. of: Data](#)

For more information on Japan's macroeconomic data, go to: [AsianBondsOnline: Japan: Data](#)

For more information on Thailand's macroeconomic data, go to: [AsianBondsOnline: Thailand: Data](#)

Consumer Prices Rise in Indonesia and Republic of Korea, While They Fall in Japan and Thailand

Consumer price inflation in Indonesia rose slightly in September to 2.83% year-on-year (y-o-y). With the inflation rate expected to trend higher for the rest of 2009 to 2010, analysts expect Bank Indonesia to start raising its key benchmark rate. Bank Indonesia forecasts inflation of 4.0% in 2009 and between 4.0% and 6.0% in 2010.

The Republic of Korea's (Korea) consumer price inflation rate for September was reported at 2.2% y-o-y. On a m-o-m basis, consumer price inflation was at 0.1%, compared to 0.4% in August. The hike in monthly consumer prices was attributed partly to the increase in service-sector prices including home rental fees, as well as electricity and water charges.

In Japan, consumer price inflation further slowed to -2.2% in August from a year ago. Excluding fresh food, the consumer price inflation fell the most in at least 38 years to -2.4% y-o-y. Companies are lowering prices to attract consumer and boost spending.

Finally, Thailand's consumer price inflation for the month of September was at -1.0% y-o-y, the same level as in the previous month. Food prices rose by only 0.9% y-o-y while non-food prices dropped by 2.7% y-o-y. It is reported that consumer prices would start to rise in October and that the consumer price inflation for the whole year would still be within the range of -1% to 0%.

For historical trends on Indonesia's inflation rate, refer to this link:

http://asianbondsonline.adb.org/indonesia/data/marketwatch.php?code=policy_rate_and_inflation_trends

For historical trends on Republic of Korea's inflation rate, refer to this link:

http://asianbondsonline.adb.org/korea/data/marketwatch.php?code=policy_rate_and_inflation_trends

For historical trends on Thailand's inflation rate, refer to this link:

http://asianbondsonline.adb.org/thailand/data/marketwatch.php?code=policy_rate_and_inflation_trends

 Summary Text of News Articles

**PRC Boosts International Use of Yuan via Sovereign Bond Sale in Hong Kong, China;
Malaysia to Sell USD1 Billion to Finance Joint Venture; Korea Sees Islamic Bond Issues Next Year**

The People's Republic of China (PRC) on 28 September began the sale of CNY6 billion of Treasury bonds in Hong Kong, China, the first issue of such instruments outside the PRC mainland. The sovereign sale in the Special Administrative Region is seen as part of the PRC's efforts to boost use of the yuan in international transactions.

The sale, which capitalizes on Hong Kong, China's well developed financial infrastructure, is expected to bolster the Special Administrative Region's role as an international financial center, and help further develop the bond market of Hong Kong, China. According to the issue's lead managers, the PRC Ministry of Finance intends to issue 5-, 3-, and 2-year bonds at coupon rates of 3.30%, 2.70% and 2.25%, respectively.

In Malaysia, Prime Minister Najib Razak said that the country plans to sell USD1 billion of bonds to finance its share of a joint venture with Saudi Arabia's Petro Saudi International (PSI). PSI's Malaysian counterpart is the government-owned firm, 1Malaysia Development Bhd. The joint venture is expected to invest in the oil and gas, renewable energy and real estate sectors in Malaysia and overseas. PSI's contribution to the venture is USD 1.5 billion.

In Korea, issuance of Islamic bonds or *sukuks* is expected next year as the government initiated steps to revise tax regulations to improve its position in the Islamic funds market. The Ministry of Strategy and Finance has submitted a tax revision to the National Assembly that will provide the same tax benefits for *sukuks* as other foreign currency-denominated bonds. Once approved, corporates are expected to start issuing *sukuks*. To date, no Islamic bonds have yet been issued in Korea.

**Republic of Korea's Trade Surplus Posts USD5.37 Billion in September;
Viet Nam's January-September Trade Deficit Narrows to USD6.5 Billion**

Korea's trade surplus surged to USD5.37 billion in September, up from the USD1.7 billion surplus posted in August. This was the eight consecutive month the country has registered a trade surplus. The rise in trade surplus was on account of a significant drop in imports, which totaled USD29.6 billion in September, down by 25.1% y-o-y. Exports dropped by 6.6% y-o-y to USD34.97 billion.

Viet Nam's trade deficit shrank by 59% y-o-y to USD6.5 billion in the first 9 months of the year, down from the USD15.8 billion posted in the same period last year. On a y-o-y basis, Viet Nam's exports and imports dropped by 14% and 25%, respectively. The fall in imports was brought about by the y-o-y decline in machinery and steel shipments, down by 15% and 36%, respectively, during the January-September period. Meanwhile, the value of crude oil exports fell by 46% y-o-y to USD4.8 billion, despite the 9% increase in volume, as global crude oil prices have dropped.

For more information on Korea's trade data, go to: [AsianBondsOnline: Korea Rep of: Data](#)

For more information on Viet Nam's trade data, go to: [AsianBondsOnline: Viet Nam: Data](#)

Moody's Maintains Negative Outlook for Thailand

Moody's Investors Service announced on 29 September that its negative outlook on Thailand will be maintained because of "ongoing concerns over the country's political stability," but points out that Thailand's credit fundamentals have nevertheless held up well following the coup in September 2006.

For more information on Thailand's sovereign credit ratings data, go to: [AsianBondsOnline: Thailand: Data](#)

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	0.09	-0.61	-0.81	1.72
EU	0.37	-0.30	-1.20	-129.20
Japan	0.15	0.00	-0.50	-5.30
PRC	1.20	0.00	0.00	20.00
Hong Kong, China	0.05	-1.00	-2.00	0.00
India	3.10	0.00	-32.00	-140.00
Malaysia	1.92	-0.20	-4.30	-100.60
Korea, Rep. of	2.43	0.00	1.00	-22.00
Philippines	4.09	-1.50	-11.50	-154.00
Singapore	0.34	0.00	1.00	-23.00
Thailand	1.22	0.00	-1.86	-87.29

Close of 02 October 2009

10-Year Selected LCY Government Bond Yields

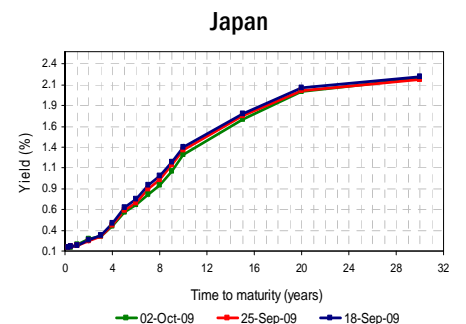
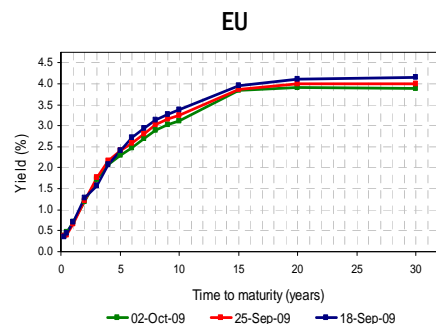
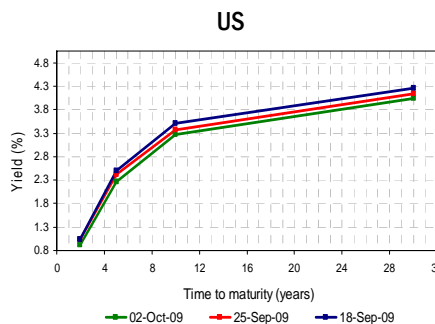
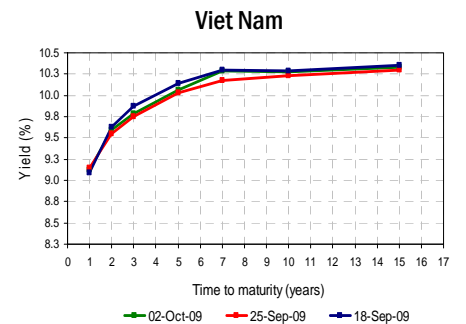
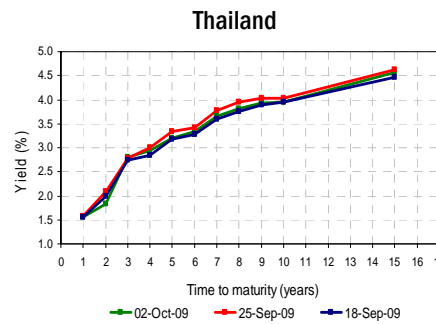
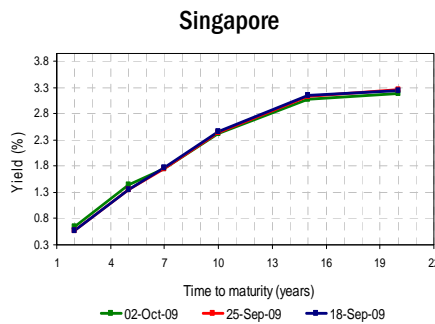
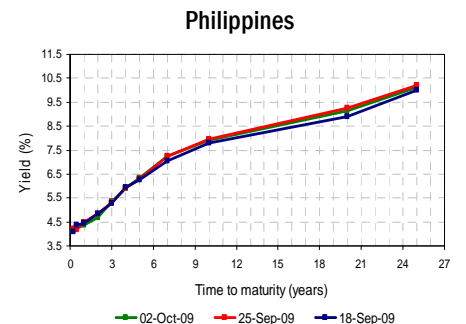
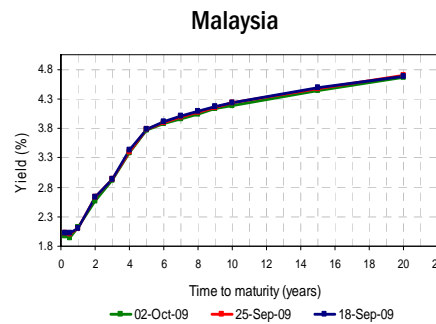
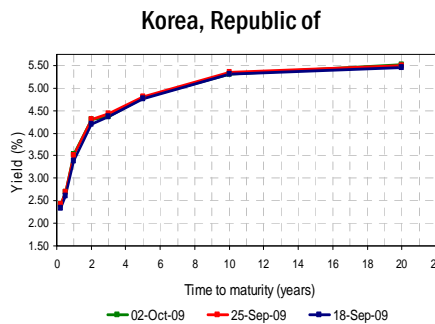
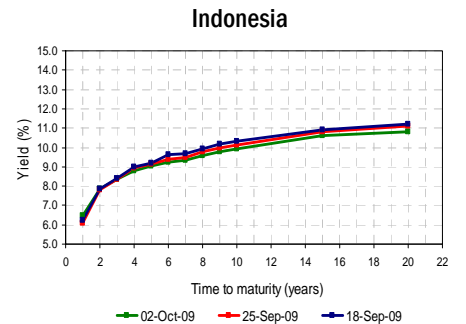
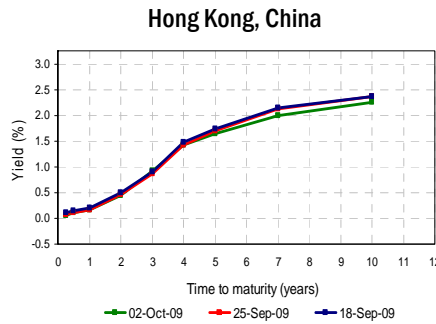
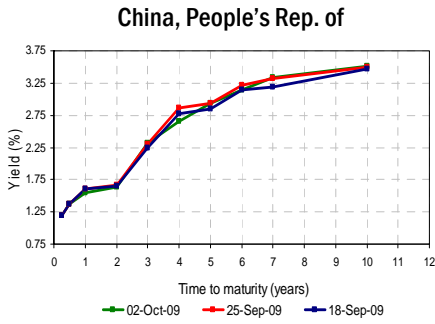
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Thailand	3.95	-4.30	-8.50	128.70
Viet Nam	10.27	-6.30	4.20	9.00

Close of 02 October 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

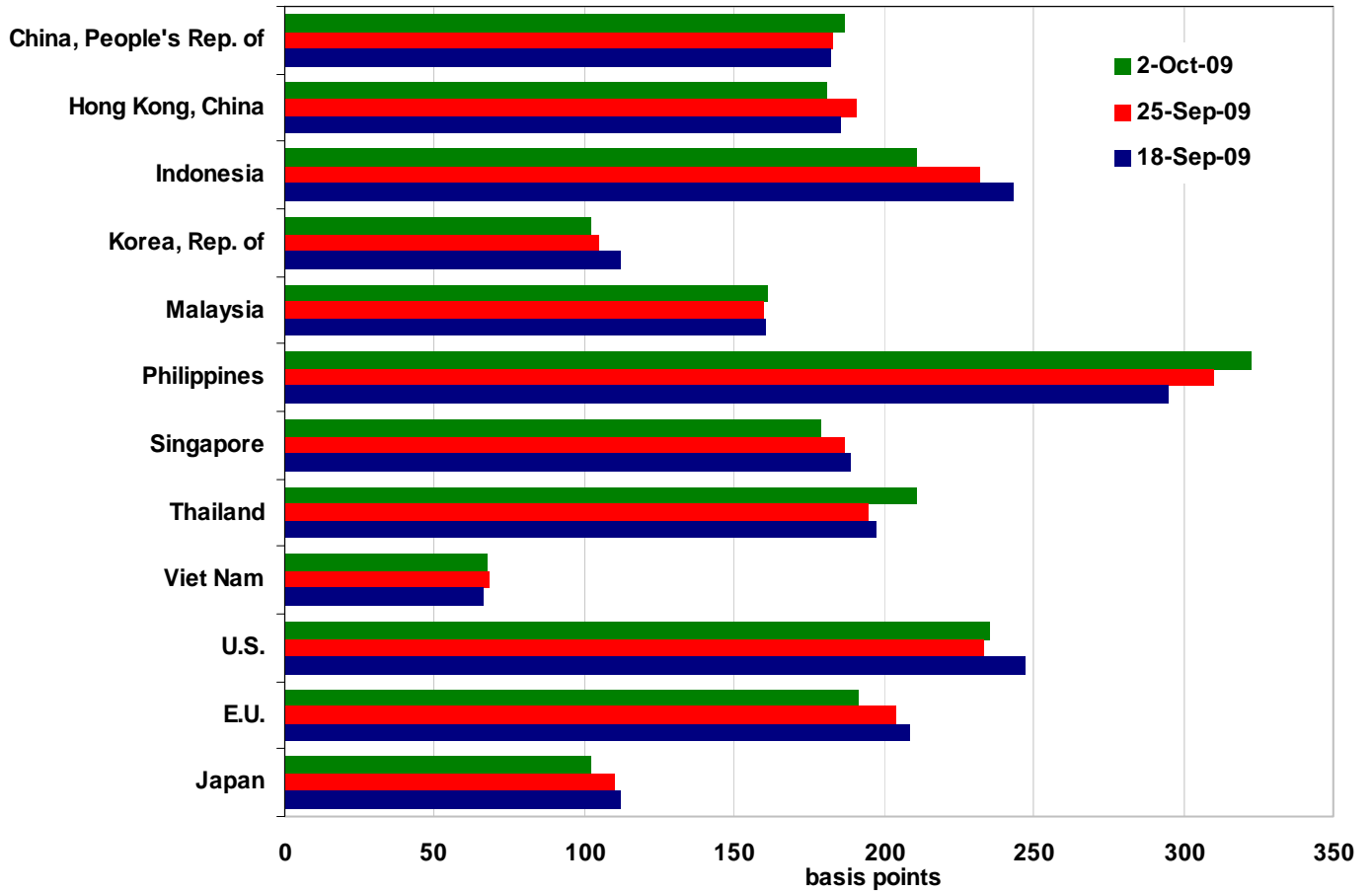


Source: Based on data from Bloomberg.

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

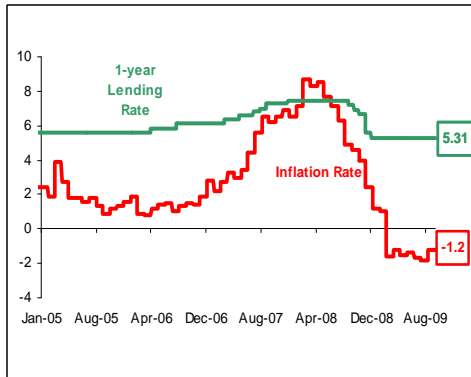


Source: Based on data from Bloomberg.

Policy Rate versus Inflation Rate Charts

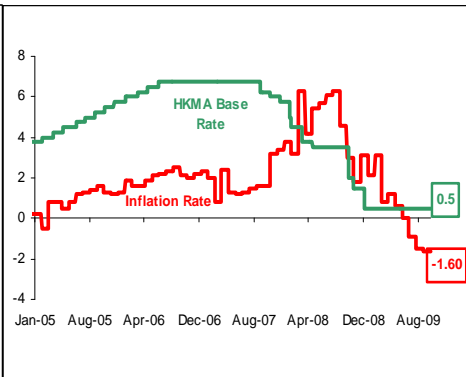
Tip: Zoom-in on the table using the Acrobat zoom tool

China, People's Rep. of



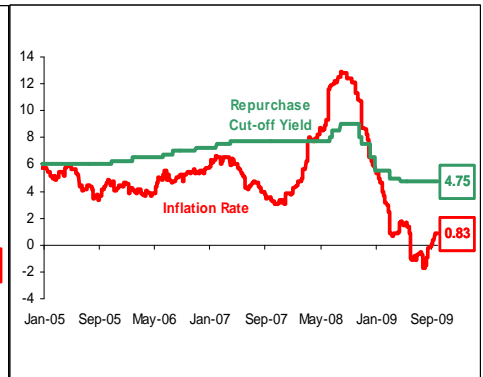
PRC uses 1-year lending rate as one of its policy rates. Source: Bloomberg, LP.

Hong Kong, China



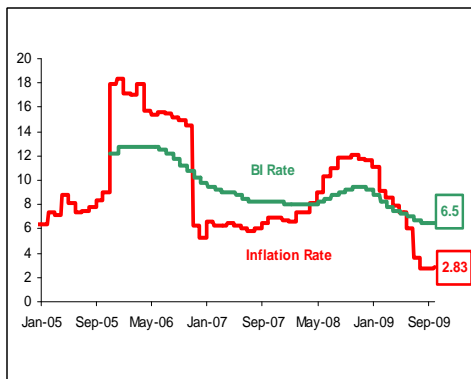
The Hong Kong Monetary Authority maintains a Discount Window Base Rate. Source: Bloomberg, LP.

India



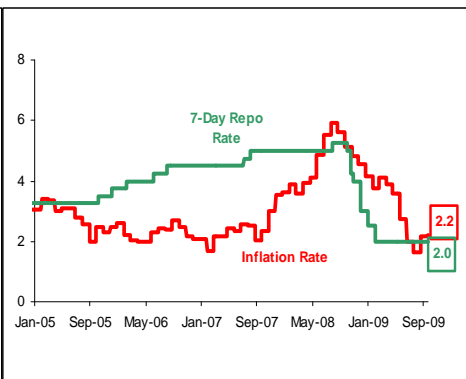
The Reserve Bank of India uses the repurchase (repo) cut-off yield as its policy rate. Source: Bloomberg, LP.

Indonesia



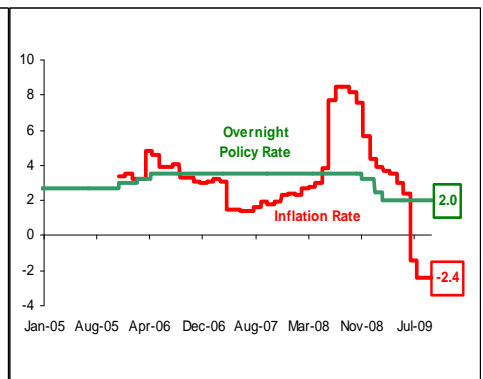
Bank Indonesia uses its reference interest rate (BI rate) as its policy rate. Source: Bloomberg, LP.

Korea, Republic of



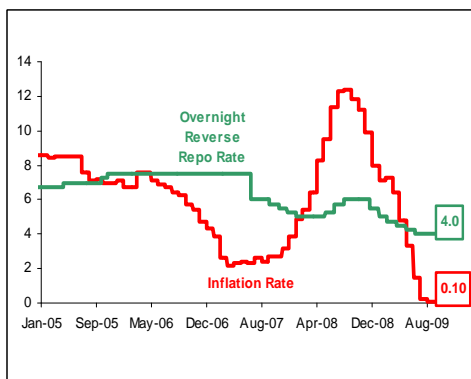
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008. Source: Bloomberg, LP.

Malaysia



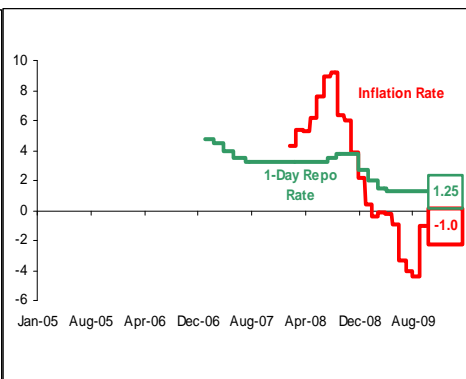
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate. Source: Bloomberg, LP.

Philippines



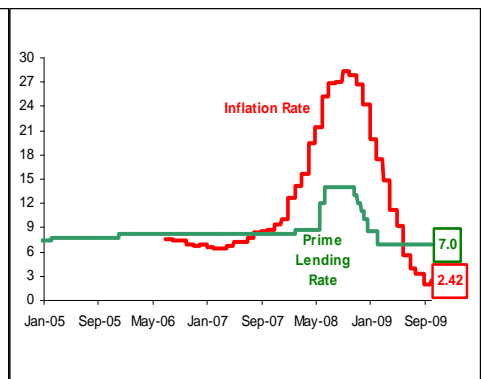
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments. Source: Bloomberg, LP.

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.

