

Key Developments in Asian Local Currency Markets

The People's Bank of China (PBOC) has temporarily raised the reserve requirement for four major state-owned lenders and two privately-owned banks to 17.5%, an increase of 50 basis points. It was the fourth time this year that the PBOC raised the reserve requirement for Industrial and Commercial Bank of China, China Construction Bank, Bank of China Ltd., Agricultural Bank of China, China Merchants Bank, and China Minsheng Bank. The Bank of Korea maintained its 7-day repurchase rate at 2.25% last week. Meanwhile, the Monetary Authority of Singapore announced last week that it will allow the modest and gradual appreciation of the Singapore dollar.

The Thai government has approved the imposition of a 15% tax on interest and capital gains earned by foreign investors from government bonds, central bank bonds, and state enterprise bonds, effective 13 October. The Thai government is also considering more tax measures to protect small and medium-sized enterprises from the Thai baht's appreciation.

Singapore's economic growth slowed to 10.3% year-on-year (y-o-y) in 3Q10, based on advanced estimates released by the Ministry of Trade and Industry (MTI), compared with 19.3% y-o-y growth in 2Q10. Malaysia's industrial production index (IPI) rose 4.0% y-o-y in August, which was slightly higher than the revised 3.4% y-o-y growth posted in July, driven by increases in the indices for manufacturing (6.8%) and electricity (4.9%).

The People's Republic of China's (PRC) foreign exchange reserves rose to an all-time high of USD2.65 trillion in September, increasing in 3Q10 by USD194 billion. Meanwhile, PRC reported a fiscal surplus of CNY856.46 billion for the period January to September.

The PRC's exports grew at a slower pace of 25.1% y-o-y in September, rising to USD144.99 billion, versus 34.4% growth in August. Imports grew by 24.1% y-o-y to reach USD128.1 billion, resulting in a trade surplus of USD16.88 billion. Merchandise exports from the Philippines continued to grow in August, increasing 36.6% y-o-y to USD4.75 billion.

Rating and Investment Information (R&I) affirmed Indonesia's foreign currency issuer rating of BB+ and changed the outlook to Positive from Stable. Moody's Investor Service (Moody's) has placed Hong Kong, China's Aa2 government bond ratings under review for a possible rating upgrade. The Aa2 foreign

Asia Bond Monitor October 2010

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10-Year Selected LCY Government Security Yields Close of 15 October 2010
basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-10*
US	2.56	5.21	16.77	-127.53
EU	2.37	7.60	11.70	-101.60
Japan	0.89	0.00	1.20	-41.00
PRC	3.42	0.00	8.00	-22.00
Hong Kong, China	2.08	4.70	5.80	-50.40
India	8.06	3.40	7.60	47.80
Indonesia	7.11	9.60	-14.00	-294.80
Malaysia	3.67	0.70	2.20	-61.30
Korea, Rep. of	3.92	1.00	-7.00	-147.00
Philippines	5.61	-9.40	-38.42	-238.60
Singapore	1.96	3.00	0.00	-70.00
Thailand	2.94	-3.40	-4.20	-124.20
Viet Nam	11.08	1.40	-4.20	-37.40

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
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currency bank deposit ceiling and the Aa1 foreign currency debt ceiling were also placed under review.

The Malaysian government expects its budget deficit to fall to 5.4% of Gross Domestic Product (GDP) in 2011, according to the annual Economic Report 2010/2011 issued by the Ministry of Finance last week. The report says the government is on track to meet its budget deficit target of 5.6% of GDP for 2010.

Government bond yields fell last week for all maturities in Indonesia, the Republic of Korea (Korea), the Philippines, and Viet Nam, as well as for most maturities in Thailand. Yields rose for most maturities in Hong Kong, China, while yield movements were mixed in the PRC, Malaysia, and Singapore. Yield spreads between 2- and 10-year maturities widened in the PRC; Hong Kong, China; Indonesia; Korea; Malaysia; Singapore; and Viet Nam, while spreads fell in the Philippines and remained unchanged in Thailand.

Summary Text of News Articles

PBOC Temporarily Raises Reserve Requirement for Six Banks; Korea Retains Policy Rate at 2.25%; MAS Allows Modest and Gradual Appreciation of the Singapore Dollar

The People's Bank of China (PBOC) temporarily increased the reserve requirement by 50 basis points for four of the major state-owned lenders and two privately-owned banks, raising the reserve requirement to 17.5%. It was the fourth time this year that the PBOC raised the reserve requirement for the six banks. The reserve requirement will return to its original rate of 17.0% in 2 months, according to Reuters, whose unnamed sources also said that the move is meant to drain cash from the economy while avoiding over-tightening. The six banks include Industrial and Commercial Bank of China, China Construction Bank, Bank of China Ltd., Agricultural Bank of China, China Merchants Bank, and China Minsheng Bank.

The Republic of Korea's (Korea) central bank—the Bank of Korea (BOK)—announced last week that it would maintain the 7-day repurchase rate at 2.25%. This was the third consecutive month that the BOK kept the policy interest rate steady after a 25 basis points hike in July. The BOK noted that its current accommodative monetary policy stance is geared towards supporting the Korean economy to ensure price stability and sustain sound growth.

The Monetary Authority of Singapore (MAS) announced in its second policy statement of the year on 14 October that it will allow the modest and gradual appreciation of the Singapore dollar. MAS said that it will slightly steepen and widen its exchange rate policy band, but no change will be made to the level at which the band is centered. According to MAS, this policy stance remains supportive of Singapore's economic growth and inflation targets of 2.5%–3.0% in 2010 and 2.0%–3.0% in 2011. Last April, MAS re-centered its policy band at the prevailing level of the Singapore dollar's nominal effective exchange rate (S\$NEER) and shifted the policy band from zero percent appreciation to modest and gradual appreciation. Since then the S\$NEER has fluctuated in the upper half of the policy band.

Thai Cabinet Approves a 15% Tax on Bonds

The Thai government approved on 12 October the imposition of a 15% tax on interest and capital gains earned by foreign investors from Thai bonds to slow foreign currency inflows and ease the Thai baht's appreciation. Effective 13 October, foreign investors who trade government bonds, central bank bonds, and state enterprise bonds are required to pay a withholding tax of 15%.

Meanwhile, the Customs Department is considering waiving import tariffs on machinery that cannot be produced in Thailand as the government wants to help exporters and small and medium-sized enterprises (SME) to improve their productivity. State banks—such as Krung Thai Bank, Small and Medium Enterprise Development Bank of Thailand, Islamic Bank of Thailand, and Export–Import Bank of Thailand—offer forward contracts to protect SMEs against volatility in the exchange rate. The Government Savings Bank provides SMEs a credit line of up to THB5 billion. Also, the Revenue Department is planning to offer local companies additional tax breaks for asset depreciation. According to the Ministry of Finance, about 10,000 SMEs need assistance as a result of the baht's recent appreciation.

Singapore's GDP Continues to Expand in 3Q10; Malaysia's Manufacturing Growth Steady

Singapore's economy expanded 10.3% year-on-year (y-o-y) in 3Q10, based on advanced estimates released by the Ministry of Trade and Industry (MTI). Economic growth slowed in 3Q10 compared with a 19.3% growth rate in 2Q10. According to the MTI, growth estimates for the quarter remain on track for Singapore to reach MTI's forecasted growth rate of 13.0%–15.0% in 2010.

Malaysia's industrial production index (IPI) rose 4.0% y-o-y in August, which was slightly higher than the revised 3.4% y-o-y growth posted in July, driven by increases in the indices for manufacturing (6.8%) and electricity (4.9%). On a month-on-month (m-o-m) basis, however, August IPI dropped 1.2%. In the first 8 months of the year, the cumulative index grew 9.1% compared with the same period last year. Meanwhile, manufacturing sales in August grew 8.9% y-o-y, but dropped marginally by 0.8% m-o-m. In January–August, the value of manufacturing sales reached MYR352.2 billion, 17.5% higher than sales in the same period last year.

For statistics on Singapore's GDP growth, refer to this link:

http://asianbondsonline.adb.org/singapore/data/macroeconomic_credit.php

Summary Text of News Articles

The PRC's Currency Reserves Rise, New Lending Up in September

The People's Republic of China's (PRC) foreign exchange reserves rose to an all time high of USD2.65 trillion at the end of September after rising by USD194 billion in 3Q10. Also, new CNY-denominated lending rose in September to CNY595.5 billion, a 9.2% increase from new loans in August. As a result, total loans extended in January–September reached CNY6.3 trillion.

Export Growth Eases in the PRC, Increases in the Philippines

Exports from the People's Republic of China (PRC) grew at a slower pace of 25.1% y-o-y in September, compared with 34.4% growth in August, to reach USD145.0 billion. Imports grew by 24.1% to USD128.1 billion. As a result, the PRC posted a trade surplus of USD16.9 billion in September, down from about USD20 billion in August.

Philippine merchandise exports continued to grow in August, increasing 36.6% y-o-y to USD4.75 billion. Electronics exports, which account for 63% of the Philippines' total export revenue, grew 45.3% y-o-y. Total exports to East Asia and members of the Association of Southeast Asian Nations (ASEAN) surged 44.0% and 130.8%, respectively. Singapore emerged as the top destination for Philippine merchandise exports in August, with revenues totaling USD962.28 million for an increase of 278.4% y-o-y. The United States (US) and Japan were the next largest export markets, with shares of 13.5% and 12.7%, respectively.

R&I Changes Indonesia's Outlook to Positive; Moody's to Review Hong Kong, China's Ratings

Rating and Investment Information (R&I) affirmed Indonesia's foreign currency issuer rating at BB+ and changed the outlook to Positive from Stable. R&I believes that a rating upgrade to BBB is possible once Indonesia is able to sustain balanced economic growth by boosting investment in infrastructure. The rating agency also affirmed Indonesia's foreign currency short-term debt rating at a-3.

Meanwhile, Moody's Investor Service (Moody's) has placed Hong Kong, China's Aa2 government bond rating under review for a possible upgrade. The Aa2 foreign currency bank deposit ceiling and the Aa1 foreign currency debt ceiling were also placed under review. According to Moody's, the decision to place Hong Kong, China's ratings under review was based on the government's continued and improving financial strength; the economy's decreasing vulnerability to external shocks; and favorable prospects for the PRC's economic performance in the coming years, which would provide support to economic growth and financial development in the Special Administrative Region.

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			1-Jan-10*
		Previous Day*	Previous Week*		
US	0.13	0.00	2.03	7.91	
EU	0.55	1.80	4.00	19.00	
Japan	0.11	0.00	0.00	-2.00	
PRC	1.82	-1.00	-6.00	55.00	
Hong Kong, China	0.29	1.00	1.00	22.00	
India	6.45	-5.00	10.00	315.00	
Malaysia	2.76	0.00	0.60	75.30	
Korea, Rep. of	2.35	-1.00	-11.00	1.00	
Philippines	3.80	-10.00	-12.50	-26.74	
Singapore	0.29	0.00	1.00	-26.00	
Thailand	1.68	0.00	0.85	53.88	

Close of 15 October 2010

10-Year Selected LCY Government Bond Yields

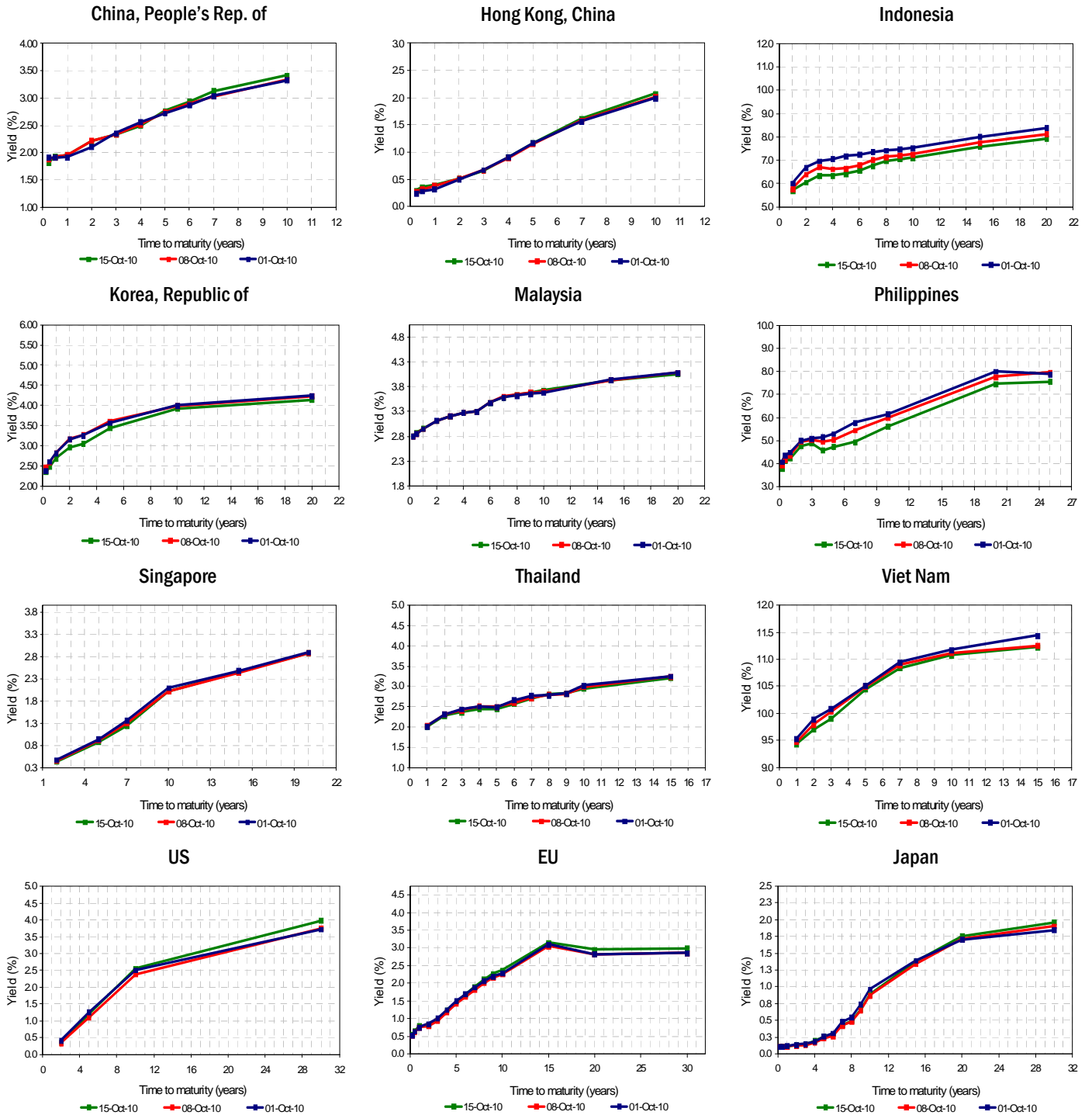
Markets	Latest Closing	basis point change from			1-Jan-10*
		Previous Day*	Previous Week*		
US	2.56	5.21	16.77	-127.53	
EU	2.37	7.60	11.70	-101.60	
Japan	0.89	0.00	1.20	-41.00	
PRC	3.42	0.00	8.00	-22.00	
Hong Kong, China	2.08	4.70	5.80	-50.40	
India	8.06	3.40	7.60	47.80	
Indonesia	7.11	9.60	-14.00	-294.80	
Malaysia	3.67	0.70	2.20	-61.30	
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Philippines	5.61	-9.40	-38.42	-238.60	
Singapore	1.96	3.00	0.00	-70.00	
Thailand	2.94	-3.40	-4.20	-124.20	
Viet Nam	11.08	1.40	-4.20	-37.40	

Close of 15 October 2010

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

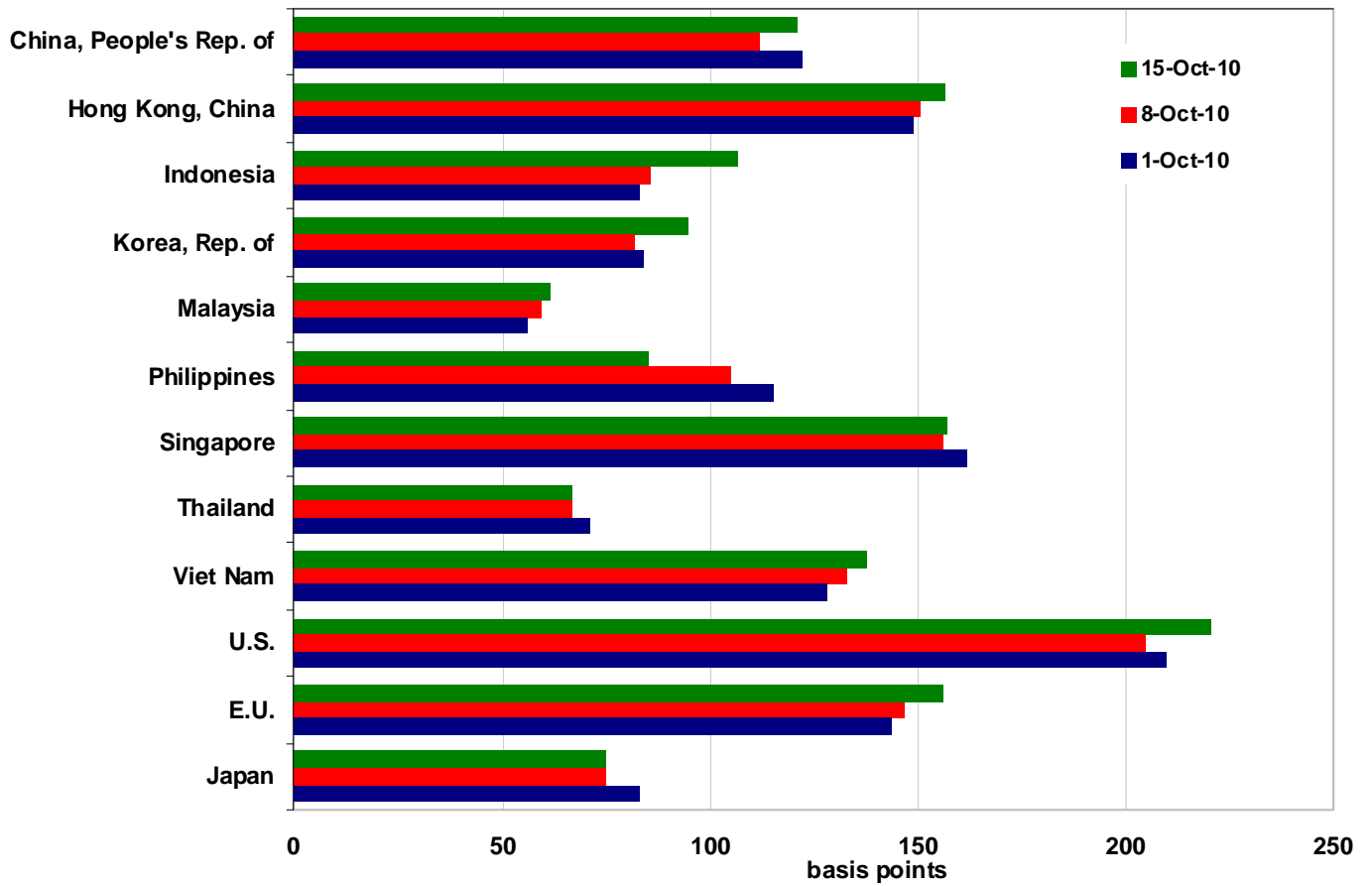


Source: Based on data from Bloomberg.

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

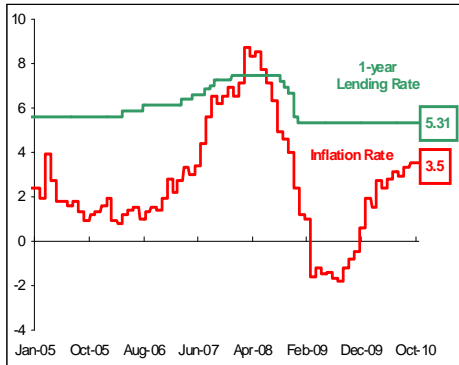


Source: Based on data from Bloomberg LP.

Policy Rate versus Inflation Rate Charts

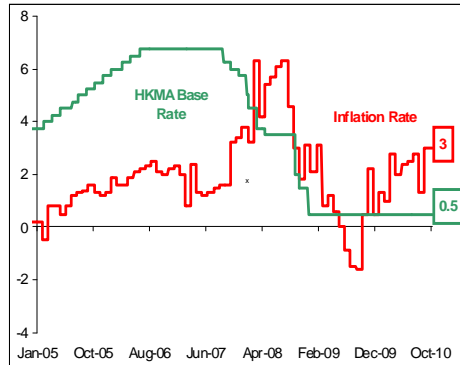
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China, People's Rep. of



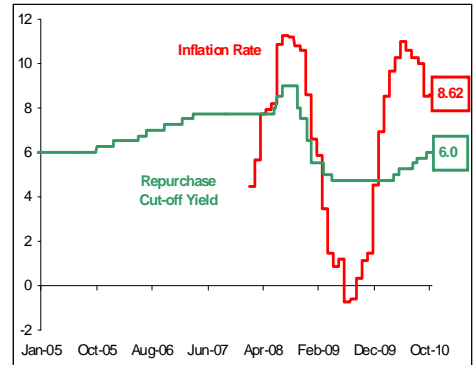
PRC uses 1-year lending rate as one of its policy rates. Source: Bloomberg LP.

Hong Kong, China



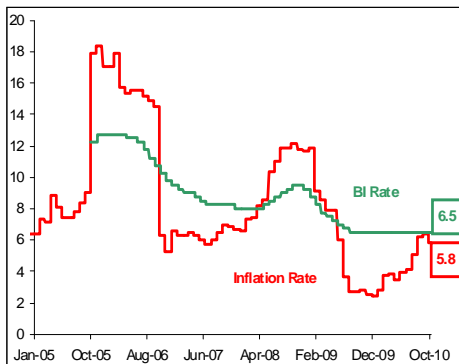
The Hong Kong Monetary Authority maintains a Discount Window Base Rate. Source: Bloomberg LP.

India



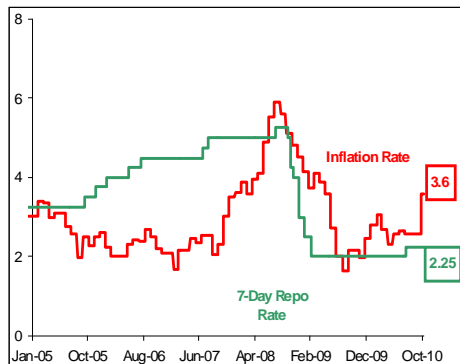
The Reserve Bank of India uses the repurchase (repo) cut-off yield as its policy rate. Source: Bloomberg LP.

Indonesia



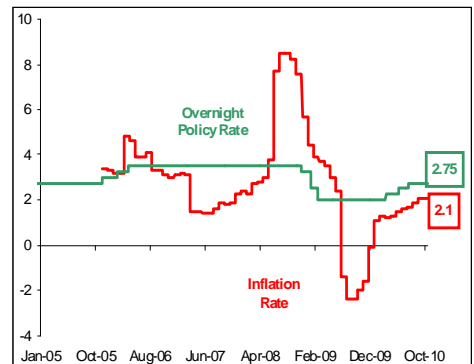
Bank Indonesia uses its reference interest rate (BI rate) as its policy rate. Source: Bloomberg LP.

Korea, Republic of



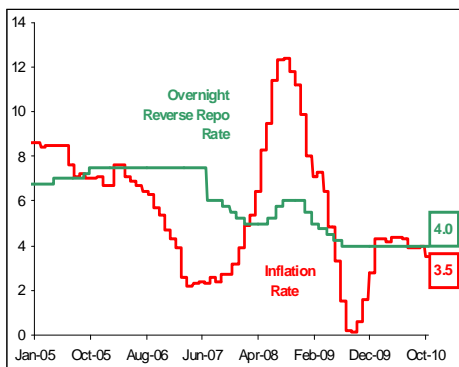
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008. Source: Bloomberg LP.

Malaysia



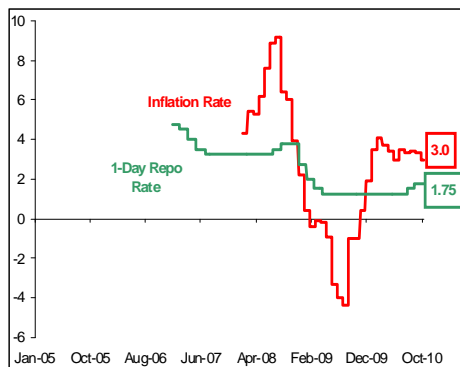
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate. Source: Bloomberg LP.

Philippines



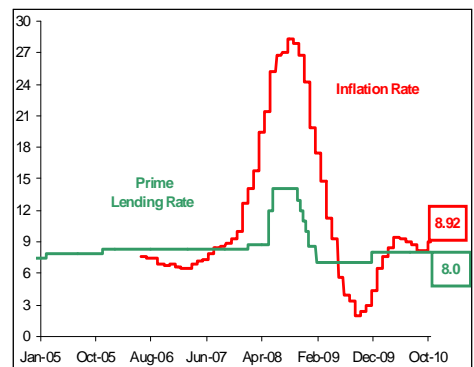
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments. Source: Bloomberg LP.

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

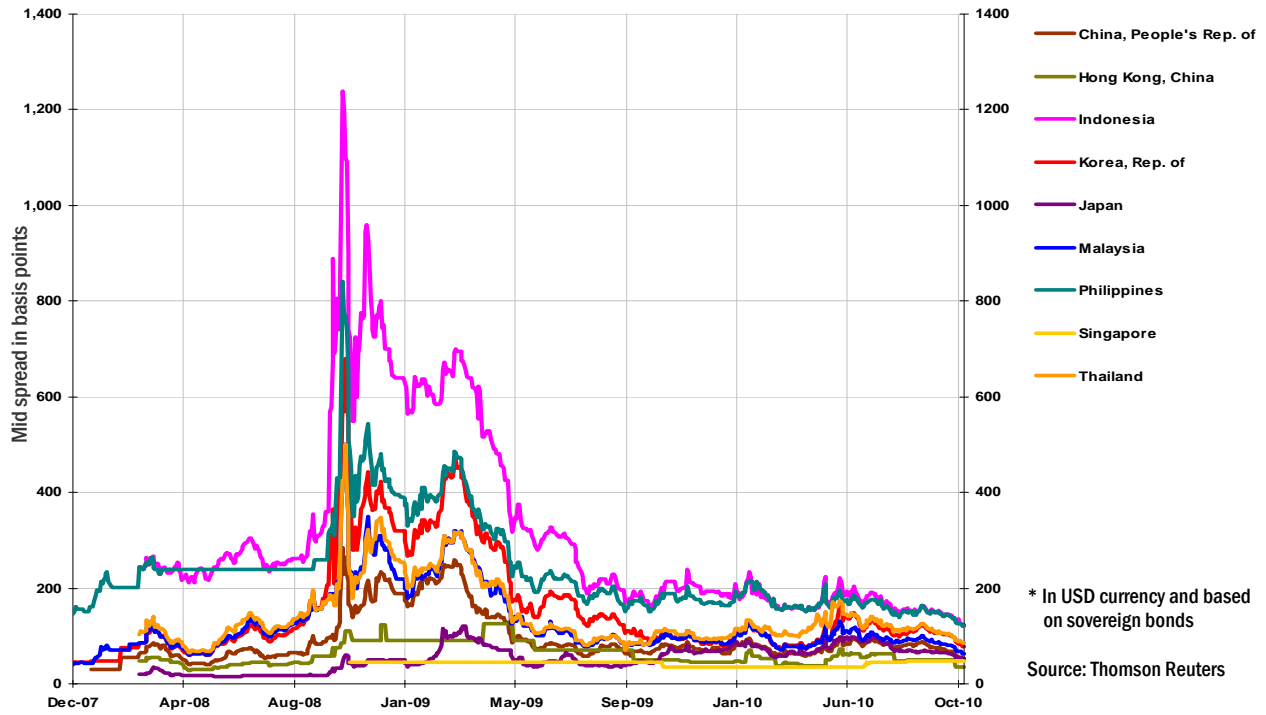


The State Bank of Viet Nam uses a benchmark prime lending rate as its policy rate. Source: Bloomberg LP.

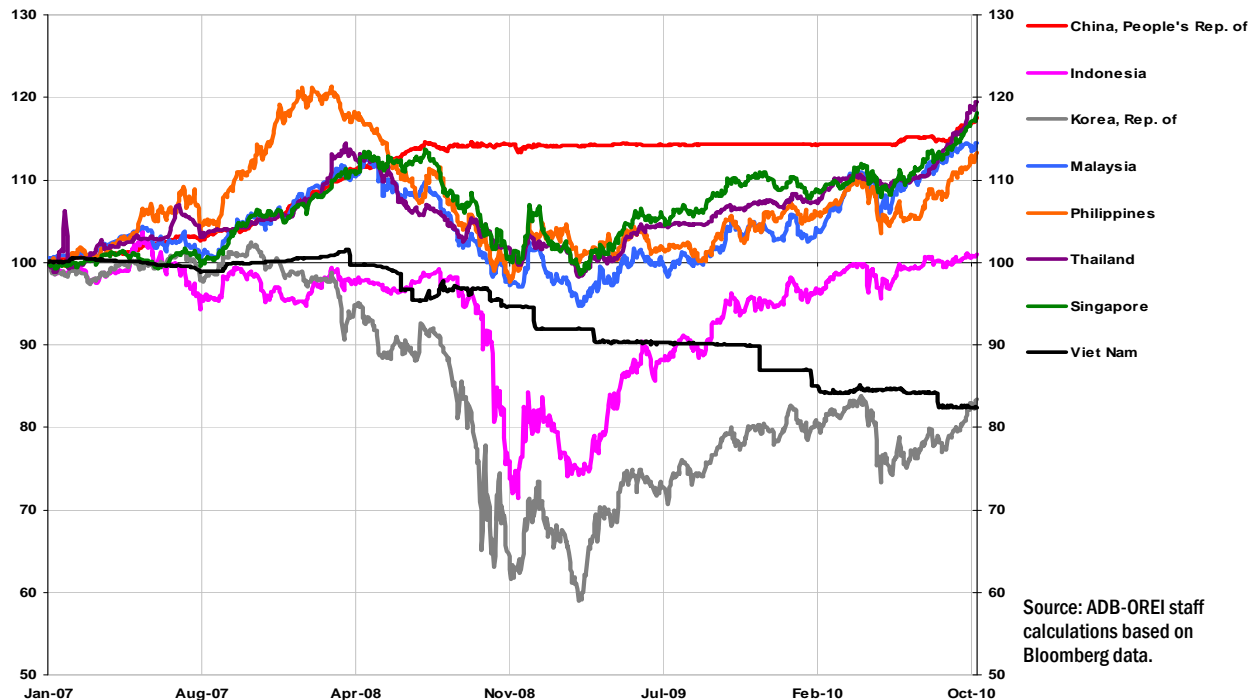
Credit Default Swap Spreads & Exchange Rate Indexes

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

Credit Default Swap Spreads - Senior 5-year*



Exchange Rate Indexes (vis-à-vis US\$, 2 January 2007=100)



Selected Debt Security Issuances (Week of October 11 - 15, 2010)

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

Markets	Auction Date	Type of Security	Average Yield (%)	Coupon (in %)	Amount Offered LCY Billions	Amount Issued LCY Billions
PRC	12-Oct	1-year PBOC Bills	2.09		22.00	22.00
	14-Oct	91-day PBOC Bills	1.57		31.00	31.00
		3-year Treasury Bonds		2.65	16.00	16.00
HK	12-Oct	91-day Exchange Fund Bills	0.35		25.14	27.24
		182-day Exchange Fund Bills	0.39		9.00	9.00
		364-day Exchange Fund Bills	0.39		5.00	5.00
ID	13-Oct	91-day SBI	6.37			10,000.00
		91-day Shari'a SBI	6.37		* 62,000.00	1,576.00
		182-day SBI	6.73			23,498.70
		273-day SBI	6.84			2,950.00
JP	12-Oct	2-month Treasury Discount Bills	0.11		2,500.00	2,347.09
	13-Oct	3-month Treasury Discount Bills	0.11		4,822.00	4,472.07
	14-Oct	30-year Japanese Government Bonds	1.98		600.00	599.00
KR	11-Oct	91-day Monetary Stabilization Bonds	2.59		1,000.00	800.00
		1-year Monetary Stabilization Bonds		2.94	500.00	550.00
		5-year Treasury Bonds	3.64		1,200.00	1,200.00
MY	11-Oct	128-day BNM Islamic Notes	2.84		1.00	1.00
		210-day BNM Notes	2.81		2.50	2.50
		211-day BNM Notes	2.89		1.50	1.50
	13-Oct	67-day BNM Notes	2.82		3.00	2.50
		91-day BNM Islamic Notes	2.83		1.00	0.50
		364-day BNM Notes	2.90		1.00	0.50
PH	12-Oct	5-year Treasury Bonds	5.01		8.00	8.00
SG	11-Oct	91-day Treasury Bills	0.28		3.70	3.70
TH	11-Oct	28-day Treasury Bills	1.58		1.00	1.00
		91-day Treasury Bills	1.69		1.00	1.00
		187-day Treasury Bills	1.74		1.00	1.00
	12-Oct	28-day BOT Bills	1.62		25.00	25.00
		91-day BOT Bills	1.70		18.00	15.99
		186-day BOT Bills	1.78		18.00	10.24

Sources: Local market sources and Bloomberg, LP.

* Indicative target for Indonesia's SBI auction was at IDR62 trillion.

Selected Asia Data Releases (19 - 25 October 2010)

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

Country/Variable	Release Date	Historical Data	Recent Trends
Hong Kong, China Unemployment Rate % SEP	10/19	08/09: 5.5% 09/09: 5.4% 07/10: 4.3% 08/10: 4.2%	Hong Kong, China's seasonally-adjusted unemployment rate dropped to 4.2% in August—the level lowest in 20 months—as the economy continued to expand in 3Q10.
Republic of Korea Unemployment Rate % SEP	10/20	08/09: 3.7% 09/09: 3.6% 07/10: 3.7% 08/10: 3.4%	The unemployment rate in the Republic of Korea (Korea) decreased to 3.4% in August from 3.7% in July.
Malaysia Consumer Price Inflation y-o-y % SEP	10/20	08/09: -2.4% 09/09: -2.0% 07/10: 1.9% 08/10: 2.1%	Consumer price inflation in Malaysia rose to 2.1% year-on-year (y-o-y) in August from 1.9% in July.
Thailand 1-Day Repurchase Rate % OCT 20	10/20	09/09: 1.25% 10/09: 1.25% 08/10: 1.75% 09/10: 1.75%	Thailand raised its 1-day repurchase rate by 0.25 percentage points to 1.75% on 25 August.
People's Republic of China Real GDP y-o-y % 3Q10	10/21	2Q09: 7.9% 3Q09: 9.1% 1Q10: 11.9% 2Q10: 10.3%	Real gross domestic product (GDP) growth in the People's Republic of China (PRC) decelerated in 2Q10 to 10.3%, compared with 11.9% growth in 1Q10.
People's Republic of China Consumer Price Inflation y-o-y % SEP	10/21	08/09: -1.2% 09/09: -1.8% 07/10: 3.3% 08/10: 3.5%	Consumer price inflation in the PRC accelerated to 3.5% y-o-y in August from 3.3% in July.
People's Republic of China Industrial Production y-o-y % SEP	10/21	08/09: 12.3% 09/09: 13.9% 07/10: 13.4% 08/10: 13.9%	Industrial production growth in the PRC accelerated slightly to 13.9% y-o-y in August, compared with 13.4% growth in July.
People's Republic of China Fixed-Asset Investment YTD y-o-y % SEP	10/21	08/09: 33.0% 09/09: 33.3% 07/10: 24.9% 08/10: 24.8%	Total fixed-asset investment in the PRC grew by 24.8% year-to-date in January–August 2010, which was less than the 33.0% growth posted in January–August 2009.
Hong Kong, China Consumer Price Inflation y-o-y % SEP	10/21	08/09: -1.6% 09/09: 0.5% 07/10: 1.3% 08/10: 3.0%	Consumer price inflation in Hong Kong, China accelerated to 3.0% y-o-y in August from 1.3% in July.
Singapore Consumer Price Inflation % SEP	10/25	08/09: -0.3% 09/09: -0.5% 07/10: 3.1% 08/10: 3.3%	Singapore's consumer price inflation climbed to 3.3% y-o-y in August from 3.1% y-o-y in July.

Source: AsianBondsOnline, Bloomberg LP, and Reuters.

News Articles: Sources for Further Reading

Tip: Click on link to open a new browser (Acrobat Reader 8); for lower versions right-click to open a new browser)

PBOC Temporarily Raises Reserve Requirement for Six Banks; Korea Retains Policy Rate at 2.25%; MAS Allows Modest and Gradual Appreciation of the Singapore Dollar

- [UPDATE 1-China Raises Big Banks' Required Reserves –Sources](#)
Reuters (11 October 2010)
- [China's Central Bank Raises 6 Big Lenders' Reserve Ratio To Check Inflation](#)
Xinhua News (11 October 2010)
- [Monetary Policy Decision](#)
The Bank of Korea (14 October 2010)
- [MAS Monetary Policy Statement](#)
Monetary Authority of Singapore (14 October 2010)

- [China's September exports up 25.1%; trade surplus hits 5-month low](#)
Balance Xinhua News (13 October 2010)
- [Merchandise Export Performance – August 2010](#)
National Statistics Office (12 October 2010)

R&I Changes Indonesia's Outlook to Positive; Moody's to Review Hong Kong, China's Ratings

- [R&I Changes Outlook Positive: Indonesia](#)
R&I Rating and Investment Information (14 October 2010)
- [Moody's may upgrade Hong Kong's credit review](#)
International Business Times (10 October 2010)

Thai Cabinet Approves a 15% Tax on Bonds

- [Firms applaud bond tax](#)
Bangkok Post (13 October 2010)
- [Cabinet approves tax breaks to shield SMEs from baht's rise](#)
The Nation (13 October 2010)

Singapore's GDP Continues to Expand in 3Q10; Malaysia's Manufacturing Growth Steady

- [Singapore's GDP expands by 10.3% on-year, contracts by 19.8% on-quarter in Q3](#)
Channel News Asia (14 October 2010)
- [Index of Industrial Production Malaysia August 2010](#)
Department of Statistics Malaysia (11 October 2010)
- [Monthly Manufacturing Statistics Malaysia August 2010](#)
Department of Statistics Malaysia (11 October 2010)

PRC's Currency Reserves Rise, New Lending Up in September

- [China Foreign-Exchange Reserves Jump to \\$2.65 Trillion](#)
Bloomberg (13 October 2010)
- [China's September new loans rise to 595.5 bln yuan](#)
Xinhua News (13 October 2010)

Export Growth Eases in the PRC, Increases in the Philippines

- [China Trade Surplus Caps Biggest Quarter Since 2008](#)
Bloomberg (13 October 2010)

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