

Key Developments in Asian Local Currency Markets

**B**angko Sentral ng Pilipinas (BSP) raised its key policy rates by 25 basis points (bps) each last week, bringing the overnight reverse repurchase rate to 3.75% and the overnight repurchase rate to 5.75%. The central bank said that it raised rates to preempt rising inflation expectations amid increasing inflationary pressures. Current pressures are coming from elevated food prices, volatile oil prices, and pending rate adjustments in energy and transport prices. BSP also said that its move to increase interest rates comes in advance of expected monetary policy normalization in advanced economies.

Consumer price inflation in the Republic of Korea stood at 1.6% year-on-year (y-o-y) in July, down slightly from June's inflation rate of 1.7%, amid slower y-o-y increases in food, housing, and utility costs, and a larger annual drop in transport costs. In Thailand, consumer price inflation moderated to 2.2% y-o-y in July from 2.4% in June, led by slower price hikes in non-food and beverages prices.

The People's Republic of China's (PRC) current account surplus rose in 2Q14 to US\$72.2 billion dollars from US\$7.2 billion in 1Q14. The Republic of Korea's current account surplus stood at US\$7.9 billion in June, down from US\$9.1 billion in May. Thailand's current account balance shifted to a surplus of US\$1.8 billion in June from a deficit of US\$0.7 billion in May.

The PRC's manufacturing activity picked up in July, as the manufacturing Purchasing Managers Index (PMI), rose to 51.7 from 51.0 in June. In the Republic of Korea, industrial production rebounded in June, rising 0.6% y-o-y after contracting 2.1% in May. Manufacturing production was up 0.4% y-o-y in June after falling 2.3% in May. Thailand's manufacturing production contracted 6.6% y-o-y in June following a 4.0% drop in May. In Viet Nam, industrial production growth accelerated to 7.5% y-o-y in July from 6.1% in June.

Hong Kong, China's retail sales fell 6.9% y-o-y in June from a revised 3.9% decline in May. The decline in retail sales for July was mostly due to a dip in sales of high-value items.

The PRC's Bank of Communications priced a securitized multi-tranche bond last week. The CNY2.0 billion A1 tranche has an expected maturity of 6 months. Its first coupon rate was priced to yield 5.0%. The CNY2.177 billion A2 tranche is expected to mature in April 2016 and was priced to yield 5.4%. The CNY358 million B tranche is expected to mature in October

Asia Bond Monitor June 2014

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10-Year Selected LCY Government Security Yields Close of 1 August 2014  
basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-14*
US	2.49	-6.53	2.70	-53.57
EU	1.13	-2.40	-1.60	-79.80
Japan	0.54	0.10	0.30	-20.20
PRC	4.29	-3.00	2.00	-33.00
Hong Kong, China	2.05	2.80	8.70	-25.30
India	8.53	2.90	-14.70	-32.10
Indonesia	8.06	3.80	1.80	-35.80
Korea, Rep. of	3.10	4.80	10.00	-48.30
Malaysia	3.88	0.00	-0.10	-24.60
Philippines	3.95	-7.50	-5.00	35.00
Singapore	2.49	3.00	22.00	-7.00
Thailand	3.71	0.00	0.00	-18.90
Viet Nam	9.50	0.00	0.00	0.00

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  - 2-versus-10 Yield Spread Chart
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2016 and its first coupon rate was set at 6.25%. There is also a CNY373.9 million subordinated tranche with no specific coupon and it is expected to mature in January 2018.

International Finance Corporation (IFC) announced last week that it is planning to issue additional bonds via a tap of its existing CNH2.0 billion bond that matures in 2017 and carries a coupon of 2.0%. Indications are that the tap will be priced to yield 2.0%–2.1% and have a size of CNY750 million. In the PRC, Jingrui Holdings has set an indicated yield of roughly 14.0% for its planned Reg S bond, which will have a maturity of 5 years and be callable after 3 years. The issue size is expected to be between US\$150 million and US\$200 million.

Yields changes were mostly mixed in most markets with the exception of Viet Nam, whose yield curve fell. However, the PRC and the Philippines, due to the hike in policy rates, had larger increases in yields at the shorter-end. The 2-year versus 10-year yield spreads rose for most markets except for the PRC, Malaysia, Philippines and Thailand.

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## Summary Text of News Articles

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### BSP Hikes Policy Rates

Bangko Sentral ng Pilipinas (BSP) raised its key policy rates by 25 basis points (bps) each last week, bringing the overnight reverse repurchase rate to 3.75% and the overnight repurchase rate to 5.75%. The central bank said that it raised rates to preempt rising inflation expectations amid increasing inflationary pressures. BSP's current inflation forecasts are at the upper end of its 2015 inflation target range of 2.0%–4.0%. Current inflationary pressures are coming from elevated food prices, volatile oil prices, and pending rate adjustments in energy and transport prices. BSP also said that its move to increase interest rates comes in advance of expected monetary policy normalization in advanced economies.

For policy rate trends in the Philippines, refer to this link:

[http://asianbondsonline.adb.org/philippines/data/marketwatch.php?code=policy\\_rate\\_and\\_inflation\\_trends](http://asianbondsonline.adb.org/philippines/data/marketwatch.php?code=policy_rate_and_inflation_trends)

### Consumer Price Inflation Moderates in the Republic of Korea and Thailand in July

Consumer price inflation in the Republic of Korea stood at 1.6% year-on-year (y-o-y) in July, down slightly from June's inflation rate of 1.7%, amid slower y-o-y increases in food, housing, and utility costs, and a larger annual drop in transport costs. The price index for food and non-alcoholic beverages rose 1.1% y-o-y in July, down from a 1.5% hike in June; housing and utility costs climbed 2.8% y-o-y for the month, compared with a 3.0% increase in the previous month; and transport costs declined at a faster y-o-y pace in July, falling 0.9% versus a decrease of 0.1% in the previous month.

In Thailand, consumer price inflation moderated to 2.2% y-o-y in July from 2.4% in June, led by slower hikes in non-food and beverages prices. Prices of food and non-alcoholic beverages rose 4.2% y-o-y in July, following a 4.1% hike in June. However, non-food and beverages prices increased at a slower annual pace in July, rising 1.1% y-o-y compared with a 1.4% increase in June.

For inflation trends in the Republic of Korea, refer to this link:

[http://asianbondsonline.adb.org/korea/data/marketwatch.php?code=policy\\_rate\\_and\\_inflation\\_trends](http://asianbondsonline.adb.org/korea/data/marketwatch.php?code=policy_rate_and_inflation_trends)

For inflation trends in Thailand, refer to this link:

[http://asianbondsonline.adb.org/thailand/data/marketwatch.php?code=policy\\_rate\\_and\\_inflation\\_trends](http://asianbondsonline.adb.org/thailand/data/marketwatch.php?code=policy_rate_and_inflation_trends)

### The PRC's Current Account Surplus Rises in 2Q14; The Republic of Korea's Current Account Surplus Narrows in June; Thailand's Current Account Shifts to Surplus in June

The People's Republic of China (PRC)'s current account surplus rose in 2Q14 to US\$72.2 billion dollars from US\$7.2 billion in 1Q14. The surplus came from the goods sector, which had a current account surplus of US\$109 billion. Meanwhile, the services sector posted a deficit of US\$29.6 billion.

The Republic of Korea's current account surplus stood at US\$7.9 billion in June, down from US\$9.1 billion in May, based on balance-of-payments (BOP) data from The Bank of Korea released last week. Exports of goods fell 4.0% and merchandise imports inched up 0.9% month-on-month (m-o-m) in June, resulting in a monthly drop in the merchandise trade surplus to US\$6.6 billion from US\$9.1 billion in the previous month. Between May and June, the deficit in the services account widened from US\$0.3 billion to US\$0.6 billion, the primary income surplus expanded from US\$0.7 billion to US\$2.2 billion, and the deficit in the secondary income account was US\$0.4 billion in both months.

Thailand's current account balance shifted to a surplus of US\$1.8 billion in June from a deficit of US\$0.7 billion in May. This stemmed from the merchandise trade surplus widening to US\$3.9 billion in June from US\$1.6 billion in May, as merchandise exports rose 1.3% m-o-m and merchandise imports items decreased 11.2%. In addition, the deficit in the net services, primary income, and secondary income account slipped to US\$2.0 billion in June from US\$2.3 billion in May.

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## Summary Text of News Articles

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### **The PRC's Manufacturing PMI Rises in July; Manufacturing Production Improves in the Republic of Korea and Viet Nam, Contracts in Thailand, in June**

The PRC's manufacturing activity picked up in July, with the manufacturing Purchasing Managers Index (PMI) rising to 51.7 from 51.0 in June.

In the Republic of Korea, industrial production in the manufacturing, mining, and electricity and gas sectors rebounded in June, gaining 0.6% y-o-y after contracting 2.1% in May. Manufacturing production was up 0.4% y-o-y in June after declining 2.3% in May. On a m-o-m and seasonally adjusted basis, industrial production rose 2.9% in June after falling 2.8% in May.

Thailand's manufacturing production contracted 6.6% y-o-y in June following a 4.0% drop in May. The Bank of Thailand stated that the contraction stemmed from a fall in automobile production and weak foreign demand for domestically produced electric appliances and hard disk drives.

In Viet Nam, industrial production climbed 7.5% y-o-y in July, after gaining 6.1% in June, with three out of four major industries contributing to the growth. Power generation and supply expanded 11.6%, followed by manufacturing and water supply and waste treatment and management with 10.3% and 8.7% growth, respectively. Meanwhile, the output of the mining and quarrying sector continued to decline for the third consecutive month, dropping 3.0% in July.

### **Retail Sales Dip in Hong Kong, China in June**

Hong Kong, China's retail sales fell 6.9% y-o-y in June after a revised 3.9% decline in May. Retail items that showed the fastest y-o-y growth in July were motor vehicles and parts (17.9%); footwear, related products, and other clothing accessories (10.7%); and alcoholic drinks and tobacco (8.6%). However, the y-o-y decline in retail sales for July was mostly due to a decline in sales of high-value items such as jewelry and watches, which fell 28.2%. Also, sales of commodity items in department store fell 3.6%. The government said that the y-o-y decline in sales was due to slower tourist spending and a high base last year, but that future retail sales would still have domestic support due to a stable labor market.

### **BOC Prices First Securitized Deal of the Year**

The PRC's Bank of Communications (BOC) priced a securitized multi-tranche bond last week. The total size of the bond is CNY4.9 billion, it is backed by uncollateralized loan obligations, and is priced based on the 1-year deposit rate of 3.0%. The CNY2.0 billion A1 tranche has an expected maturity of 6 months and its first coupon rate was priced to yield 2.0% over the 1-year deposit rate, or 5.0%. The CNY2.177 billion A2 tranche is expected to mature in April 2016 is priced to yield 2.4% over the 1-year deposit rate, or 5.4%. The CNY358 million B tranche is expected to mature in October 2016 and its first coupon rate was set at 3.25% over the 1-year deposit rate, or 6.25%. There is also a CNY373.9 million subordinated tranche with no specific coupon; it is expected to mature in January 2018. The transaction is backed by 60 loans from 41 borrowers.

### **IFC and Jinrui Holdings Announced Planned Issuances**

International Finance Corporation (IFC) announced last week that it is planning to tap its existing CNH2.0 billion bond that matures in 2017 and carries a coupon of 2.0%. Indications are that the tap will be priced at 2.0%–2.1% and have a size of CNH750 million. In the PRC, Jinrui Holdings has set an indicated yield of roughly 14.0% for its planned Reg S bond with a 5-year maturity that will be callable after 3 years. The issue size is expected to be between US\$150 million and US\$200 million.

### 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-14*
US	0.02	0.00	-0.50	-4.56
EU	0.00	-0.20	-0.20	-15.80
Japan	0.03	-0.40	-0.50	-3.40
PRC	3.83	32.00	33.00	-33.00
Hong Kong, China	0.07	0.00	-1.00	-4.00
India	8.61	0.00	-2.00	-14.50
Korea, Rep. of	2.40	0.30	-0.80	-16.40
Malaysia	3.00	0.00	-0.40	2.90
Philippines	1.38	0.00	12.50	105.00
Singapore	0.30	0.00	0.00	-1.00
Thailand	2.01	-0.28	-0.52	-30.12

Close of 1 August 2014

#### 10-Year Selected LCY Government Bond Yields

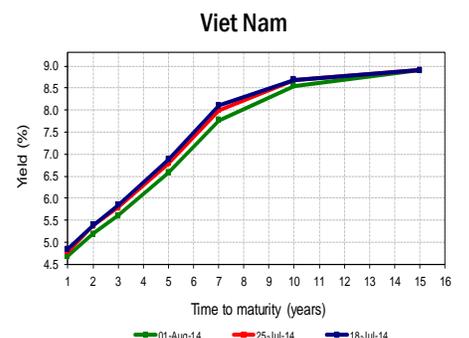
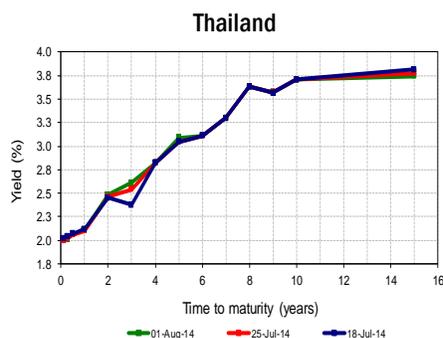
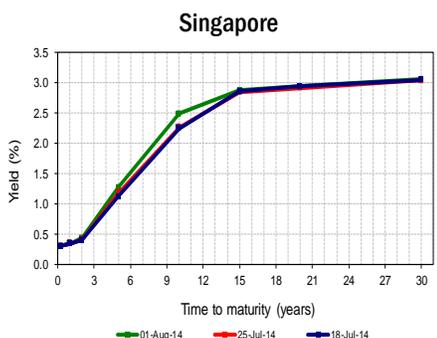
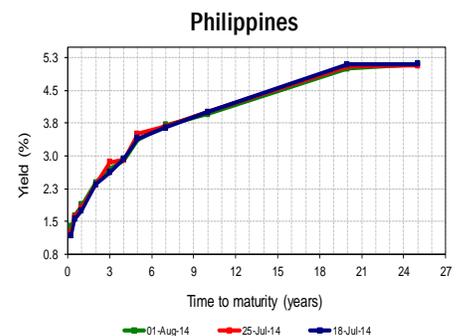
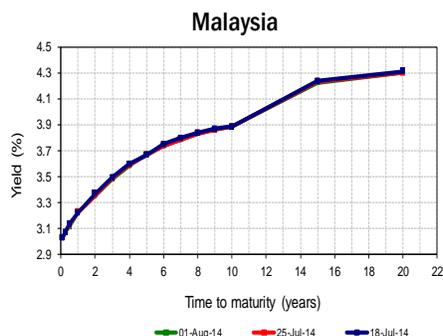
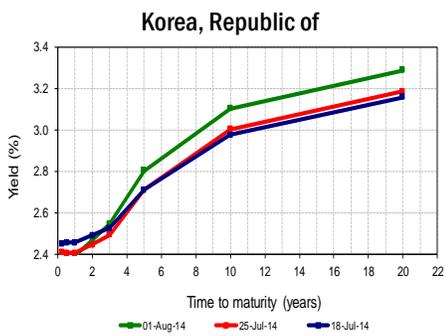
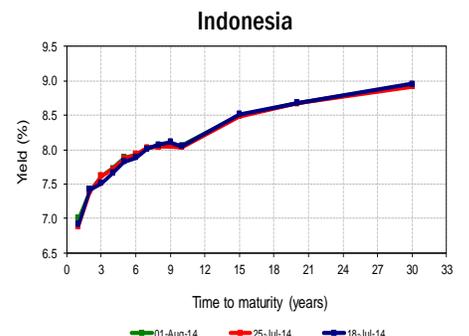
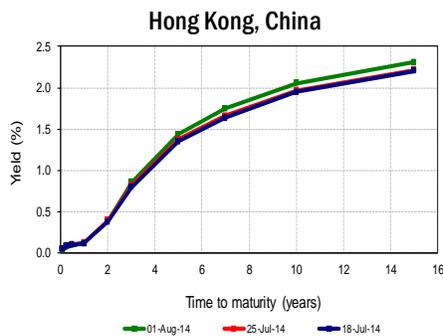
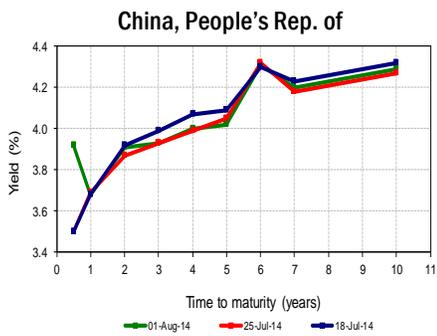
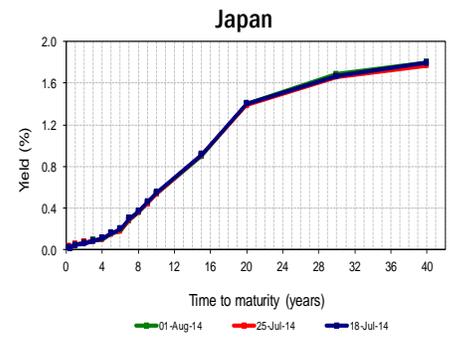
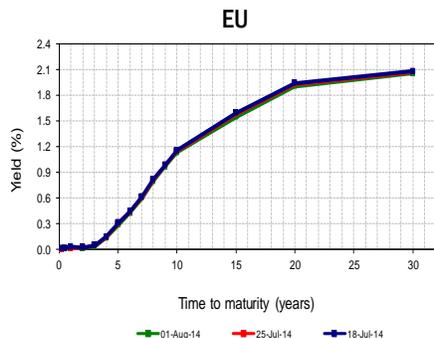
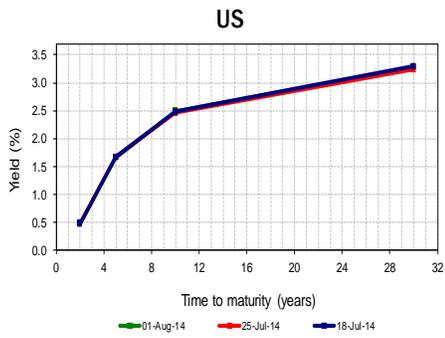
Markets	Latest Closing	basis point change from		
		Previous Day*	Previous Week*	1-Jan-14*
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Japan	0.54	0.10	0.30	-20.20
PRC	4.29	-3.00	2.00	-33.00
Hong Kong, China	2.05	2.80	8.70	-25.30
India	8.53	2.90	-14.70	-32.10
Indonesia	8.06	3.80	1.80	-35.80
Korea, Rep. of	3.10	4.80	10.00	-48.30
Malaysia	3.88	0.00	-0.10	-24.60
Philippines	3.95	-7.50	-5.00	35.00
Singapore	2.49	3.00	22.00	-7.00
Thailand	3.71	0.00	0.00	-18.90
Viet Nam	9.50	0.00	0.00	0.00

Close of 1 August 2014

EU = European Union, LCY = local currency, PRC = People's Republic of China, US = United States.  
 Source: Based on data from Bloomberg, LP.

**Benchmark Yield Curves – LCY Government Bonds**

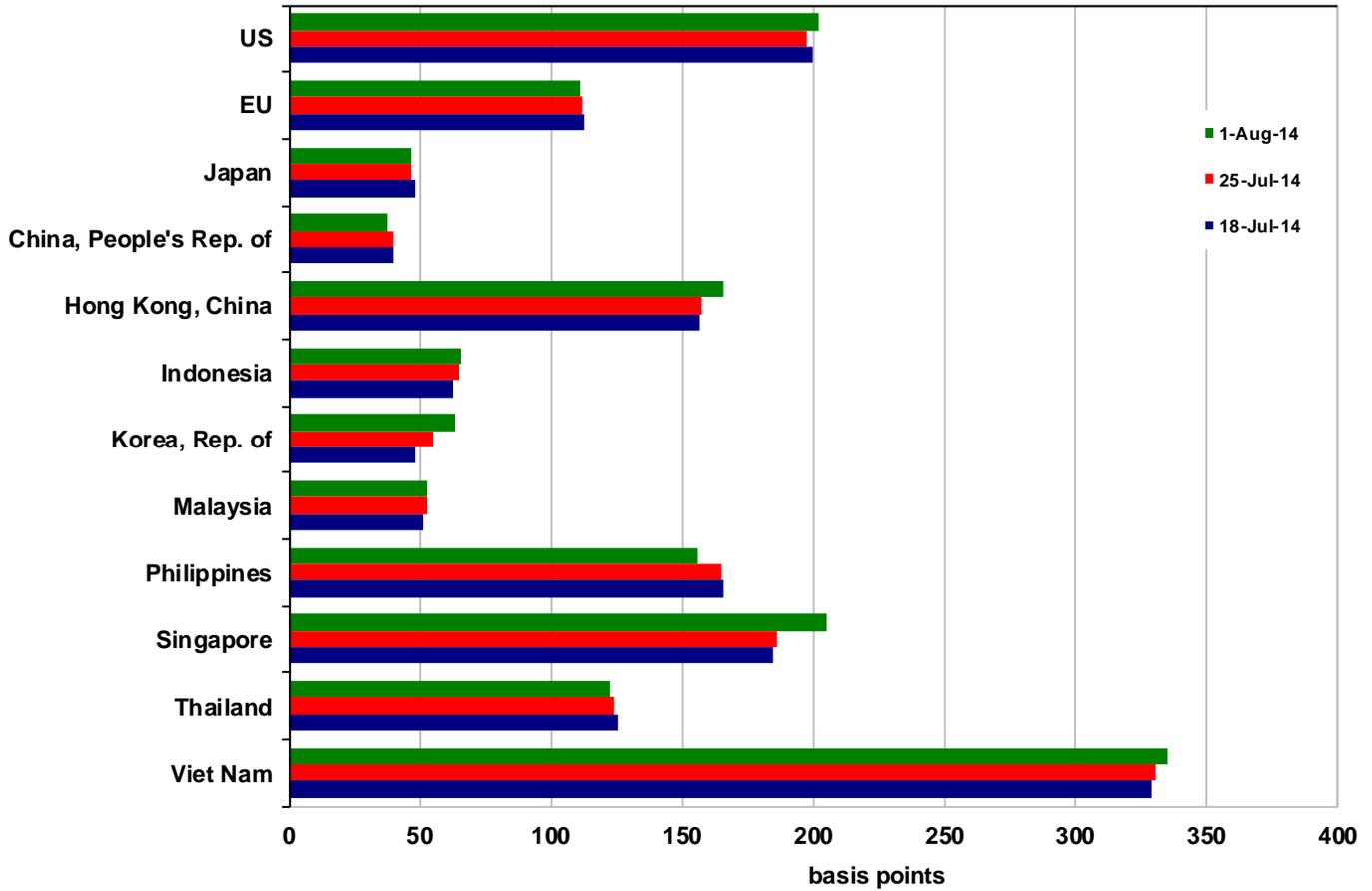
Tip: Zoom-in on the table using the Acrobat zoom tool



EU = European Union, LCY = local currency US = United States.  
Source: Based on data from Bloomberg.

### 2- versus 10- Year Yield Spread Chart

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

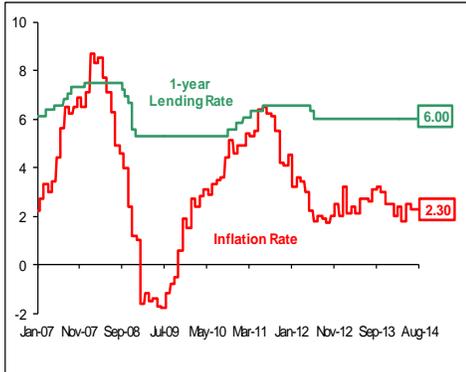


EU = European Union, US = United States.  
 Source: Based on data from Bloomberg LP.

**Policy Rate versus Inflation Rate**

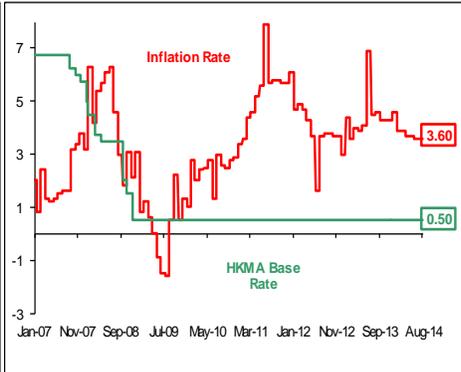
Tip: Zoom-in on the table using the Acrobat zoom tool

**China, People's Rep. of**



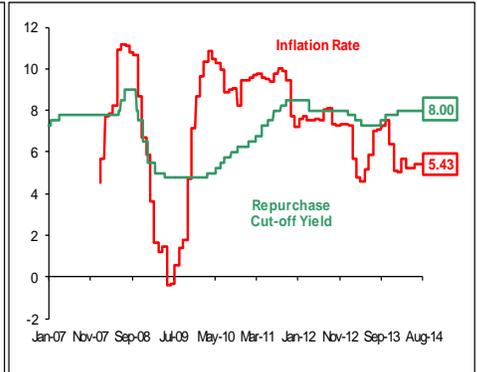
The PRC uses the 1-year lending rate as one of its policy rates.  
Source: Bloomberg LP.

**Hong Kong, China**



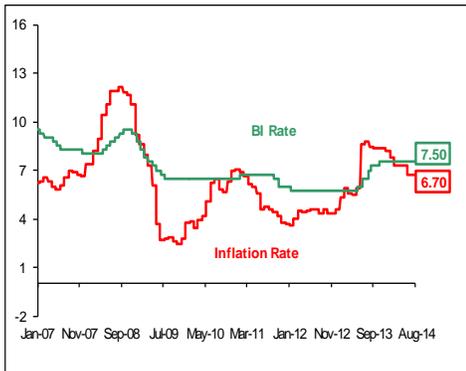
The Hong Kong Monetary Authority maintains a Discount Window Base Rate.  
Source: Bloomberg LP.

**India**



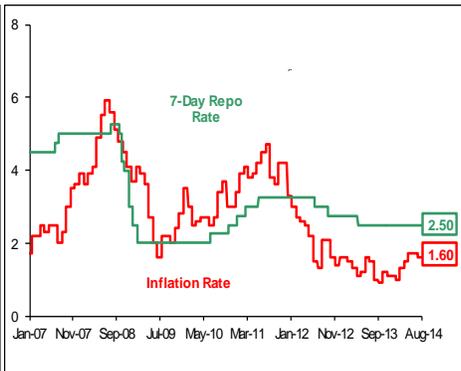
The Reserve Bank of India uses the repurchase (repo) cut-off yield as its policy rate.  
Source: Bloomberg LP.

**Indonesia**



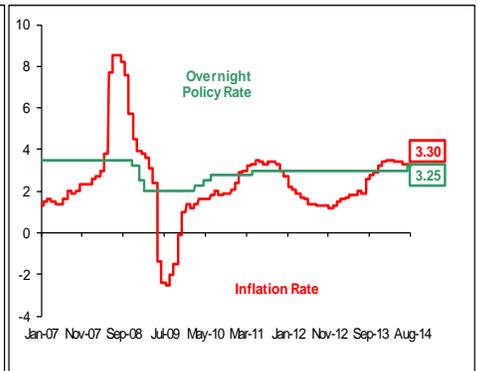
Bank Indonesia uses its reference interest rate (BI rate) as its policy rate.  
Source: Bloomberg LP.

**Korea, Republic of**



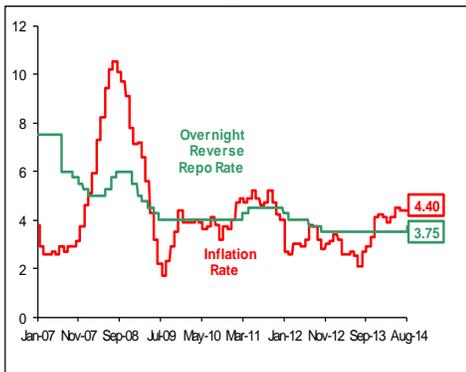
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008.  
Source: Bloomberg LP.

**Malaysia**



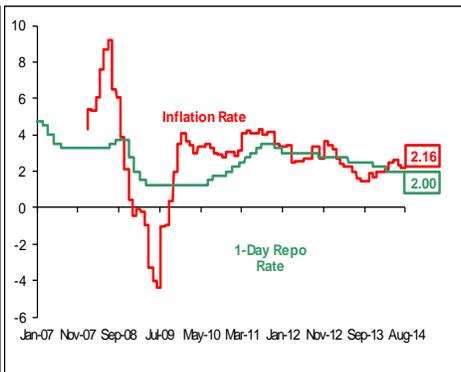
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate.  
Source: Bloomberg LP.

**Philippines**



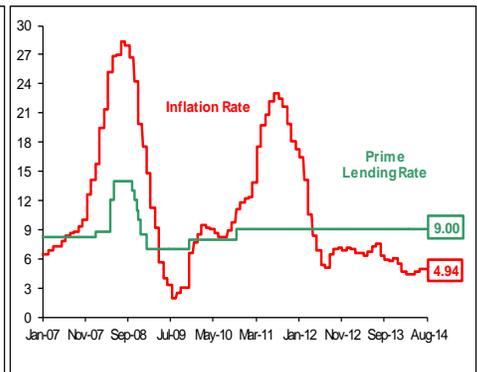
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments.  
Source: Bloomberg LP.

**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**

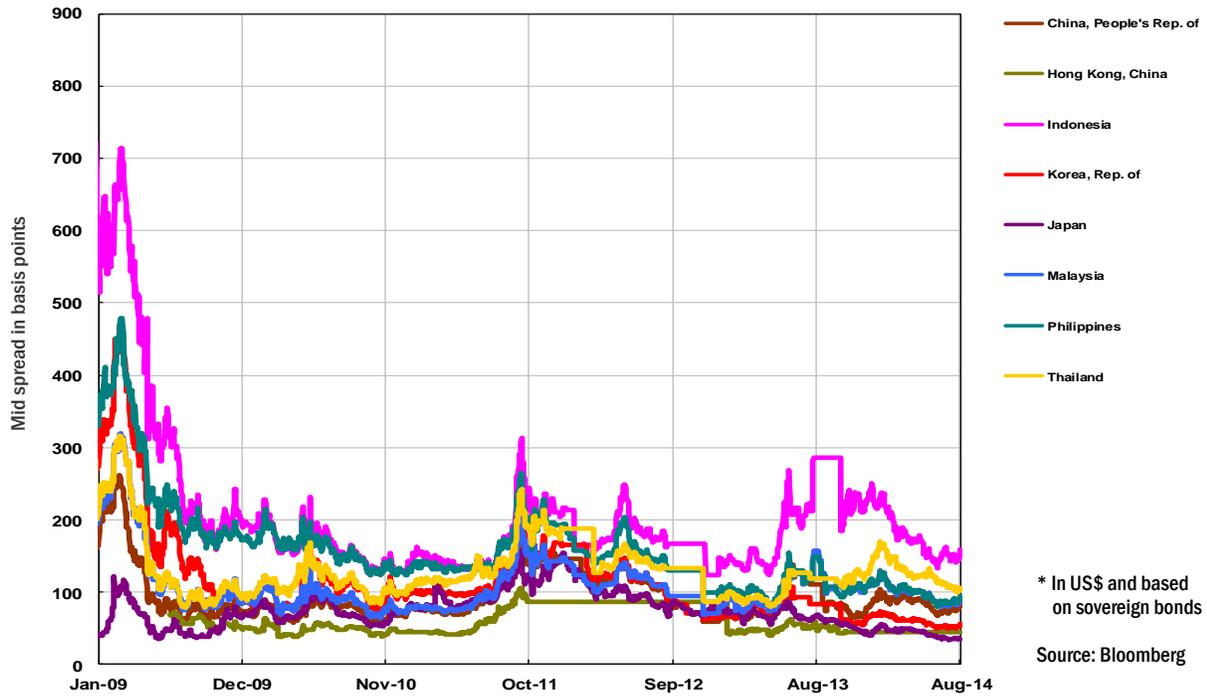


The State Bank of Viet Nam uses a benchmark prime lending rate as its policy rate.  
Source: Bloomberg LP.

### Credit Default Swap Spreads and 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 (28 July – 1 August 2014)

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

Markets	Auction Date	Type of Security	Average Yield (%)	Coupon (%)	Amount Offered (LCY billion)	Amount Issued (LCY billion)
HK	29-Jul	91-day Exchange Fund Bills	0.08		30.57	30.57
		182-day Exchange Fund Bills	0.10		11.00	11.00
JP	29-Jul	2-year Japanese Government Bonds	0.07	0.10	2,700.00	2,783.10
	31-Jul	3-month Treasury Discount Bills	0.03		5,700.00	5,649.95
KR	28-Jul	91-day Monetary Stabilization Bonds	2.47		1,400.00	1,280.00
		20-year Treasury Bonds	3.19	3.75	850.00	850.00
SG	29-Jul	28-day MAS Bills	0.13		1.00	1.00
		84-day MAS Bills	0.23		4.60	4.60
TH	28-Jul	28-day Treasury Bills	1.97		15.00	15.00
	29-Jul	91-day Bank of Thailand Bonds	1.99		25.00	25.00
		182-day Bank of Thailand Bonds	2.05		25.00	25.00
	30-Jul	30-year Government Bonds	4.16		12.00	12.00
VN	29-Jul	2-year Treasury Bonds	5.25		1,000.00	1,000.00
		3-year Treasury Bonds	5.68		2,000.00	2,000.00
		5-year Treasury Bonds	6.68		3,000.00	3,000.00
		10-year Treasury Bonds	6.48		2,000.00	2,000.00

LCY = local currency, MAS = Monetary Authority of Singapore.

Sources: Local market sources and Bloomberg, LP.

## Selected Asia Data Releases (5 – 11 August 2014)

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

Economy and Variable	Release Date	Historical Data	Recent Trends
<b>People's Republic of China</b> <b>Trade Balance</b> US\$ billion JUL	08/05	06/13: 27.3 07/13: 17.8 <b>05/14: 35.9</b> <b>06/14: 31.6</b>	The People's Republic of China's (PRC) trade surplus narrowed in June to US\$31.6 billion from US\$35.9 billion a month earlier.
<b>Indonesia</b> <b>GDP</b> y-o-y, % 2Q14	08/05	1Q13: 6.0% 2Q13: 5.8% <b>4Q13: 5.7%</b> <b>1Q14: 5.2%</b>	Indonesia's economy grew 5.2% year-on-year (y-o-y) in 1Q14 compared with 5.7% in 4Q13.
<b>Malaysia</b> <b>Exports</b> y-o-y, % JUN	08/05	05/13: -5.3% 06/13: -7.1% <b>04/14: 18.7%</b> <b>05/14: 16.4%</b>	Malaysia's exports rose 16.4% y-o-y in May, following 18.7% growth in April, led by higher shipments of electrical and electronics products, which grew 2.4% to MYR21.2 billion.
<b>Philippines</b> <b>CPI</b> y-o-y, % JUL	08/05	06/13: 2.7% 07/13: 2.5% <b>05/14: 4.5%</b> <b>06/14: 4.4%</b>	Consumer price inflation in the Philippines eased slightly to 4.4% y-o-y in June after rising 4.5% in May.
<b>Thailand</b> <b>1-Day Repurchase Rate</b> % 6-Aug	08/06	07/13: 2.50% 08/13: 2.50% <b>06/14: 2.00%</b> <b>07/14: 2.00%</b>	The Bank of Thailand's Monetary Policy Committee decided on 18 June to maintain the policy rate at 2.00%, given its view that the economic recovery of Thailand will accelerate amid less political uncertainty.
<b>Japan</b> <b>Current Account Balance</b> JPY billion JUN	08/08	05/13: 566.6 06/13: 377.7 <b>04/14: 187.4</b> <b>05/14: 522.8</b>	Japan's current account surplus widened to JPY522.8 billion in May from JPY187.4 billion in April.
<b>People's Republic of China</b> <b>CPI</b> y-o-y, % JUL	08/09	06/13: 2.7% 07/13: 2.7% <b>05/14: 2.5%</b> <b>06/14: 2.3%</b>	Consumer price inflation in the PRC slowed to 2.3% y-o-y in June from 2.5% in May.
<b>Malaysia</b> <b>Industrial Production</b> y-o-y, % JUN	08/11	05/13: 5.6% 06/13: 3.8% <b>04/14: 4.9%</b> <b>05/14: 6.0%</b>	Malaysia's industrial production jumped to 6.0% y-o-y in June from 4.9% in May, driven by the manufacturing sector, which posted growth of 7.8%

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 older versions right-click to open a new browser)

### BSP Hikes Policy Rates

- [Monetary Board Hikes Policy Rates by 25 Basis Points](#)  
Bangko Sentral ng Pilipinas (31 July 2014)

### Consumer Price Inflation Moderates in the Republic of Korea and Thailand in July

- [Consumer Price Index in July 2014](#)  
Statistics Korea (1 August 2014)
- [Consumer Price Index in June 2014](#)  
Statistics Korea (1 July 2014)
- [Consumer Price Index and Core Consumer Price Index: July 2014](#)  
Ministry of Commerce (1 August 2014)
- [Consumer Price Index and Core Consumer Price Index: June 2014 and first six month period of year 2014](#)  
Ministry of Commerce (1 July 2014)

### PRC's Current Account Surplus Rises in 2Q14; The Republic of Korea's Current Account Surplus Narrows in June; Thailand's Current Account Shifts to Surplus in June

- [China's current account surplus continues](#)  
Xinhua (31 July 2014)
- [Balance of Payments during June 2014](#)  
The Bank of Korea (29 July 2014)
- [Balance of Payments \(US\\$\) \(Summary\)](#)  
Bank of Thailand (31 July 2014)

### PRC's Manufacturing PMI Rises in July; Manufacturing Production Improves in the Republic of Korea and Viet Nam, Contracts in Thailand in June

- [Strong manufacturing activity points to improving growth momentum](#)  
Xinhua (1 August 2014)
- [Monthly Industrial Statistics, June 2014](#)  
Statistics Korea (30 July 2014)
- [Press Release on the Economic and Monetary Conditions for June and the Second Quarter of 2014](#)  
Bank of Thailand (31 July 2014)
- [Social and economic situation in seven months of 2014](#)  
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### Retail Sales Growth Falls Further in Hong Kong, China

- [Provisional statistics of retail sales for June 2014](#)  
Census and Statistics Department (31 July 2014)

### BOC Prices First Securitized Deal for the Year

- [STRUCTURED FINANCE: BoCom closes Rmb4.9bn four-tranche CLO](#)  
IFRAsia (1 August 2014)

### IFC and Jinrui Holdings Announced Planned Issuances

- [BONDS: IFC talks 2017 Dim Sum tap at 2%-2.1%](#) Finance Asia IFRAsia (1 August 2014)
- [BONDS: Jingrui readies Reg S offering at 14% area](#) IFRAsia (1 August 2014)

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