

Key Developments in Asian Local Currency Markets

Japan's merchandise trade deficit narrowed to JPY768.0 billion in September from JPY1.0 trillion in the same month a year earlier as exports increased at a faster pace than imports. Exports of goods increased 7.5% year-on-year (y-o-y) to JPY4.3 trillion, while merchandise imports rose 1.3% to JPY5.0 trillion. Japan's current account surplus narrowed to JPY287.0 billion in August from JPY417.0 billion in July. In Malaysia, exports rose 1.7% y-o-y in August from revised growth of 0.8% in July. The trade surplus widened to MYR3.9 billion in August from MYR3.6 billion in July. In the Philippines, merchandise exports increased 10.5% y-o-y to US\$5.5 billion in August.

In the Philippines, consumer price inflation eased to 4.4% y-o-y in September from 4.9% in August due to lower annual increases in prices of food and non-alcoholic beverages, housing, water, electricity, gas, and other fuels and transport. The lower annual increases in these items were mainly due to ample domestic food supplies, and downward adjustments in electricity rates and fuel prices.

Net foreign investment in the Republic of Korea's local currency (LCY) bond market amounted to KRW499 billion in September, a reversal from the previous month's net bond outflows of KRW82 billion.

The People's Republic of China (PRC) passed new rules allowing local governments to issue bonds directly subject to a quota. However, proceeds can only be used to either repay existing debt or fund public services. They can no longer issue bonds through special funding vehicles or local-government-owned corporations.

The PRC lifted restrictions on loans made by banks to property companies. The PRC removed a ceiling that limited banks to lend no more than 10% of their total portfolio to property companies.

Bank of China last week announced plans to debut its Additional Tier 1 issuance under Basel III rules. The perpetual issuance will be callable in 5 years with an indicative yield of 6.5%–7.0% and an issue size of US\$6.5 billion. Greenland Holdings Group priced a US\$500 million 3-year Reg S bond at a coupon rate of 3.5%. ABC International, a subsidiary of Agricultural Bank of China, priced a 3-year US\$300 million Reg S bond at a coupon rate of 2.1%.

Korea Exchange Bank priced a US\$300 million 10-year Basel III-compliant Tier 2 bond at a coupon rate of 4.25%.

Asia Bond Monitor September 2014

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

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-14*
US	2.28	-3.29	-15.36	-74.78
EU	0.89	-1.90	-3.80	-104.20
Japan	0.51	1.30	-1.30	-23.60
PRC	4.04	0.00	-3.00	-58.00
Hong Kong, China	2.07	26.20	13.70	-23.50
India	8.46	-1.20	-3.00	-39.20
Indonesia	8.39	-1.90	-11.20	-2.20
Korea, Rep. of	3.06	21.20	23.40	-52.60
Malaysia	3.85	0.00	-2.60	-27.80
Philippines	4.10	-2.63	-5.85	50.20
Singapore	2.32	5.00	-7.00	-24.00
Thailand	3.39	-1.90	-7.90	-50.40
Viet Nam	9.50	0.00	0.00	0.00

- 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

In Thailand, Land & Houses issued a THB4.0 billion 3-year debenture at a coupon rate of 3.50%, while Thai Union Frozen Products sold THB3.5 billion worth of 10-year debentures at a coupon rate of 4.58% and THB1.0 billion of 7-year bonds carrying a 4.21% coupon. The Lao People's Democratic Republic offered THB1.8 billion worth of 3-year bonds at a coupon rate of 4.7%, THB1.9 billion of 5-year bonds at 5.2% coupon, and THB1.5 billion of 7-year bonds at 5.5% coupon.

LCY government bond yields fell last week for all tenors in Indonesia and Viet Nam. Yields rose for all tenors in the Republic of Korea. Yields fell for most tenors in the remaining markets. Yield movements in Hong Kong, China and Singapore tracked US yields while Philippines movements were in response to the fall in the inflation rate. Yield spreads between 2- and 10-year tenors widened in Hong Kong, China, the Republic of Korea, Philippines and Viet Nam while spreads narrowed in the remaining markets.

Summary Text of News Articles

Japan's Merchandise Trade Deficit Narrows in September, Current Account Surplus Narrows in August; Malaysia's Exports Rise in August; Philippine Merchandise Exports Increase in August

Japan's merchandise trade deficit narrowed to JPY768.0 billion in September from JPY1.0 trillion in the same month a year earlier as exports increased at a faster pace than imports. Exports of goods increased 7.5% year-on-year (y-o-y) to JPY4.3 trillion, while merchandise imports rose 1.3% to JPY5.0 trillion. Japan's current account surplus narrowed to JPY287.0 billion in August from JPY417.0 billion in July. This was mainly due to the decrease in the primary income account surplus to JPY1.5 trillion in August from JPY1.9 trillion in July. Meanwhile, the goods and services account deficit narrowed to JPY1.1 trillion in August from JPY1.3 trillion in the previous month. The secondary income account deficit expanded to JPY150.3 trillion from JPY149.3 trillion in July.

In Malaysia, exports rose 1.7% y-o-y in August from revised growth of 0.8% y-o-y in July. Exports of electrical and electronic products, petroleum, and crude petroleum drove the increase, while shipments of natural rubber and palm oil declined. On a month-on-month (m-o-m) basis, exports to Japan, Australia, Thailand, and the Republic of Korea registered increases ranging from MYR503 million to MYR1.3 billion. Meanwhile, imports surged 7.6% y-o-y after declining 0.7% in the previous month, led by imports of intermediate goods such as industrial supplies. The trade surplus widened to MYR3.9 billion in August from MYR3.6 billion in July.

In the Philippines, merchandise exports increased 10.5% y-o-y to US\$5.5 billion in August. Electronic exports, which accounted for the largest share of total monthly merchandise exports (41.6%), increased 10.0% y-o-y. Japan was still the Philippines' largest export market, accounting for a 19.1% share of total merchandise exports, followed by the People's Republic of China (PRC) (15.0%); the United States (US) (14.6%); Hong Kong, China (8.7%); and Singapore (7.4%). In January–August, merchandise exports increased 9.2% y-o-y to US\$40.7 billion.

Consumer Price Inflation Eases in the Philippines

In the Philippines, consumer price inflation eased to 4.4% y-o-y in September from 4.9% in August due to lower annual increases in prices of food and non-alcoholic beverages (7.4%); housing, water, electricity, gas, and other fuels (2.2%); and transport (0.7%). The lower annual increases in these items were mainly due to ample domestic food supplies, and downward adjustments in electricity rates and fuel prices. Average inflation for the year stood at 4.4%.

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

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

Foreign Bond Investment in the Republic of Korea Turns Positive in September

Net foreign investment in the Republic of Korea's local currency (LCY) bond market amounted to KRW0.5 trillion in September, a reversal from the previous month's net bond outflows of KRW0.1 trillion, based on data from the Financial Supervisory Service (FSS). By country origin, the largest source of foreign bond investment in September came from the PRC at KRW0.3 trillion, while the largest net bond outflows were generated by investors in France amounting to KRW0.4 trillion. At end-September, US investors held the largest amount of Korean LCY bonds at KRW19.2 trillion, or 19.5% of total foreign bond holdings in the Republic of Korea.

The PRC Passes New Laws to Manage Local Government Debt Risks

The State Council of the PRC passed new regulations governing local government debt. Under the new rules, local governments can now issue bonds directly subject to a quota. There are other restrictions such as the requirement that funding raised from bond issuances by local governments cannot be used to pay for existing government operations. It can only be used to repay debt servicing and to fund public services. In addition, local governments are no longer allowed to issue bonds through special funding vehicles or local-government-owned corporations.

Summary Text of News Articles

The PRC Eases Restrictions on Property Loans

Last week, the PRC lifted restrictions on loans made by banks to property companies. The PRC removed a ceiling that limited banks to lend no more than 10% of their total portfolio to property companies.

**Bank of China Plans Additional Tier 1 Issuance;
Greenland Holdings Group and ABC International Prices 3-Year Reg S Bonds; Korea Exchange Bank Prices US\$300
Million 10-year Basel III-compliant Tier 2 Bond;
Korea Water Resources Corporation Prices US\$300 Million 3.5-year Bond;
Lao PDR Offers THB5 Billion Triple-Tranche Bonds in Thailand**

Bank of China last week announced plans to debut its Additional Tier 1 issuance under Basel III rules. While the bond roadshow is still ongoing, indications for the bond have reached US\$17.0 billion versus a targeted issue size of US\$6.5 billion. The perpetual issuance will be callable in 5 years and has an indicative yield of 6.5%–7.0%.

Also, Greenland Holdings Group priced a US\$500 million 3-year Reg S bond under new State Administration of Foreign Exchange (SAFE) rules. The bond carries a coupon rate of 3.5%. Under the new rules of SAFE, companies issuing bonds offshore can now provide guarantees from onshore companies and use onshore collateral without the need to seek approval or quotas from SAFE. However, the proceeds of such issuances cannot be remitted onshore. Greenland said it would use the proceeds to fund offshore projects.

ABC International, a subsidiary of Agricultural Bank of China, priced a 3-year Reg S bond at a coupon rate of 2.1%. Orders for the bond reached US\$1.8 billion and the bond has an issue size of US\$300 million.

Korea Exchange Bank priced a US\$300 million 10-year Basel III-compliant Tier 2 bond at a coupon rate of 4.25% last week. Korea Water Resources Corporation priced a US\$300 million 3.5-year bond carrying a coupon of 2% last week. The Lao People's Democratic Republic offered THB1.8 billion worth of 3-year bonds at a coupon rate of 4.7%, THB1.9 billion of 5-year bonds at 5.2% coupon, and THB1.5 billion of 7-year bonds at 5.5% coupon in Thailand last week.

**Land & Houses Sells THB4.0 Billion 3-Year Debenture;
Thai Union Frozen Products Raises THB4.5 Billion from Dual-Tranche Bond Sale**

Land & Houses, a housing developer in Thailand, issued a THB4.0 billion 3-year debenture at a coupon rate of 3.50% last week. The bond was given a rating of A+ from TRIS Rating. Also last week, Thai Union Frozen Products sold THB3.5 billion worth of 10-year debentures at a coupon rate of 4.58% and THB1.0 billion of 7-year bonds carrying a 4.21% coupon.

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	0.01	0.00	0.00	-6.08
EU	-0.04	0.40	-1.20	-20.00
Japan	-0.01	1.10	0.20	-6.90
PRC	4.04	24.00	25.00	-12.00
Hong Kong, China	0.04	0.00	-2.00	-7.00
India	8.38	-7.50	-18.00	-37.50
Korea, Rep. of	2.27	14.50	14.50	-29.10
Malaysia	3.23	0.00	0.00	26.30
Philippines	1.25	0.00	0.00	92.50
Singapore	0.33	0.00	0.00	2.00
Thailand	2.04	0.23	1.43	-26.80

Close of 10 October 2014

10-Year Selected LCY Government Bond Yields

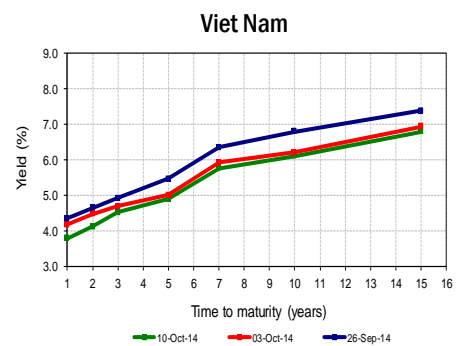
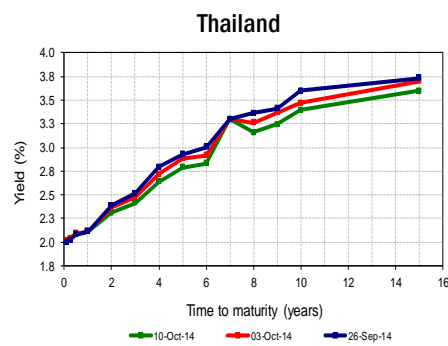
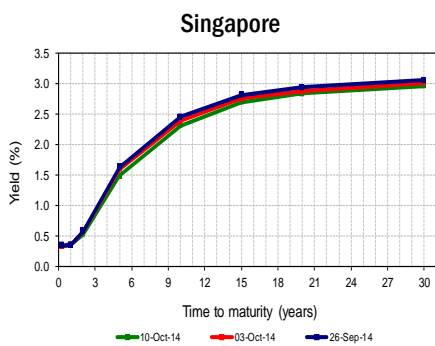
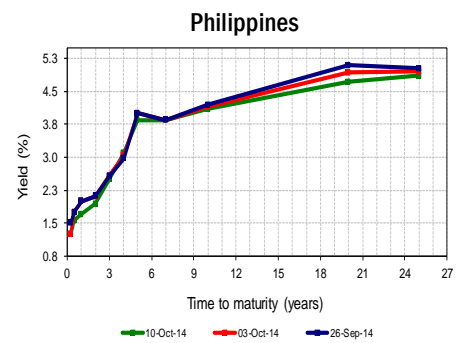
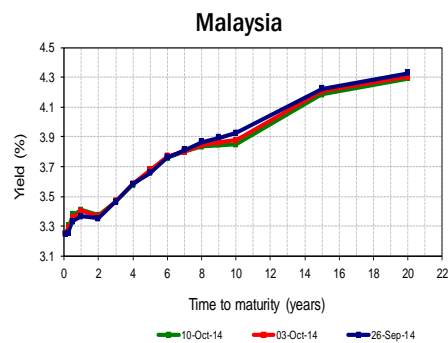
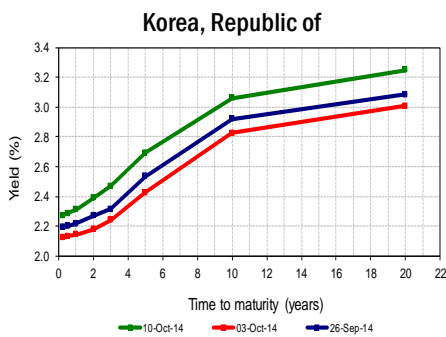
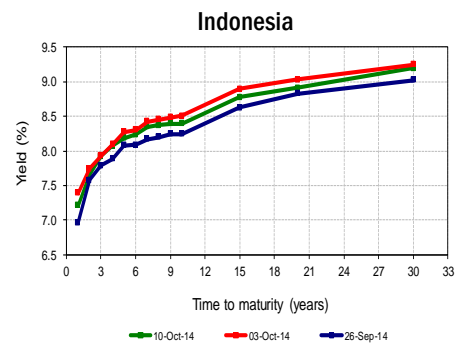
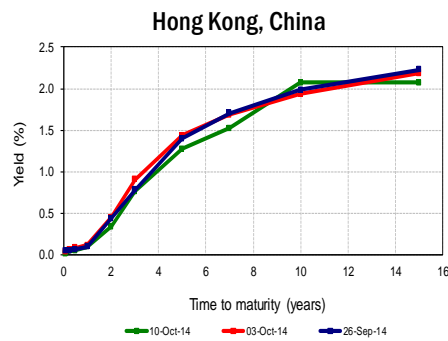
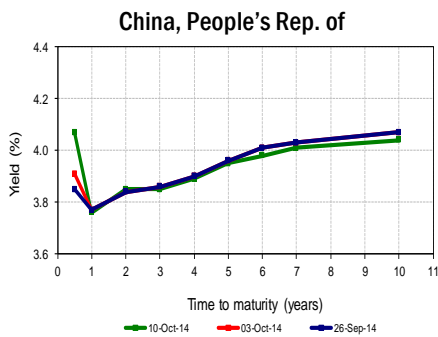
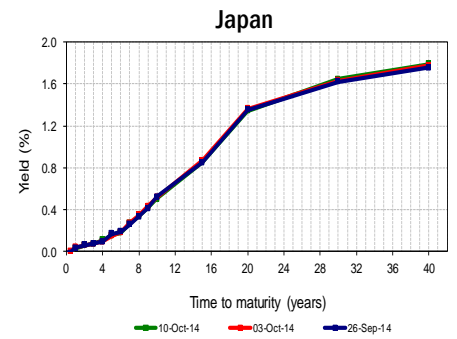
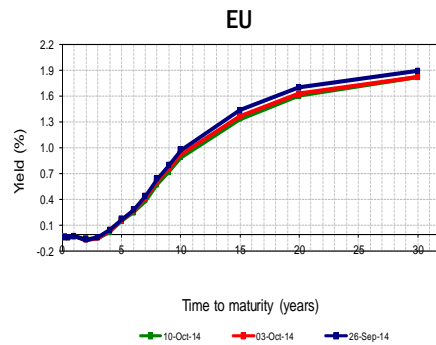
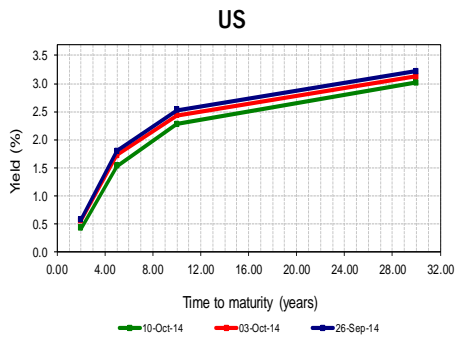
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EU	0.89	-1.90	-3.80	-104.20
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PRC	4.04	0.00	-3.00	-58.00
Hong Kong, China	2.07	26.20	13.70	-23.50
India	8.46	-1.20	-3.00	-39.20
Indonesia	8.39	-1.90	-11.20	-2.20
Korea, Rep. of	3.06	21.20	23.40	-52.60
Malaysia	3.85	0.00	-2.60	-27.80
Philippines	4.10	-2.63	-5.85	50.20
Singapore	2.32	5.00	-7.00	-24.00
Thailand	3.39	-1.90	-7.90	-50.40
Viet Nam	9.50	0.00	0.00	0.00

Close of 10 October 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

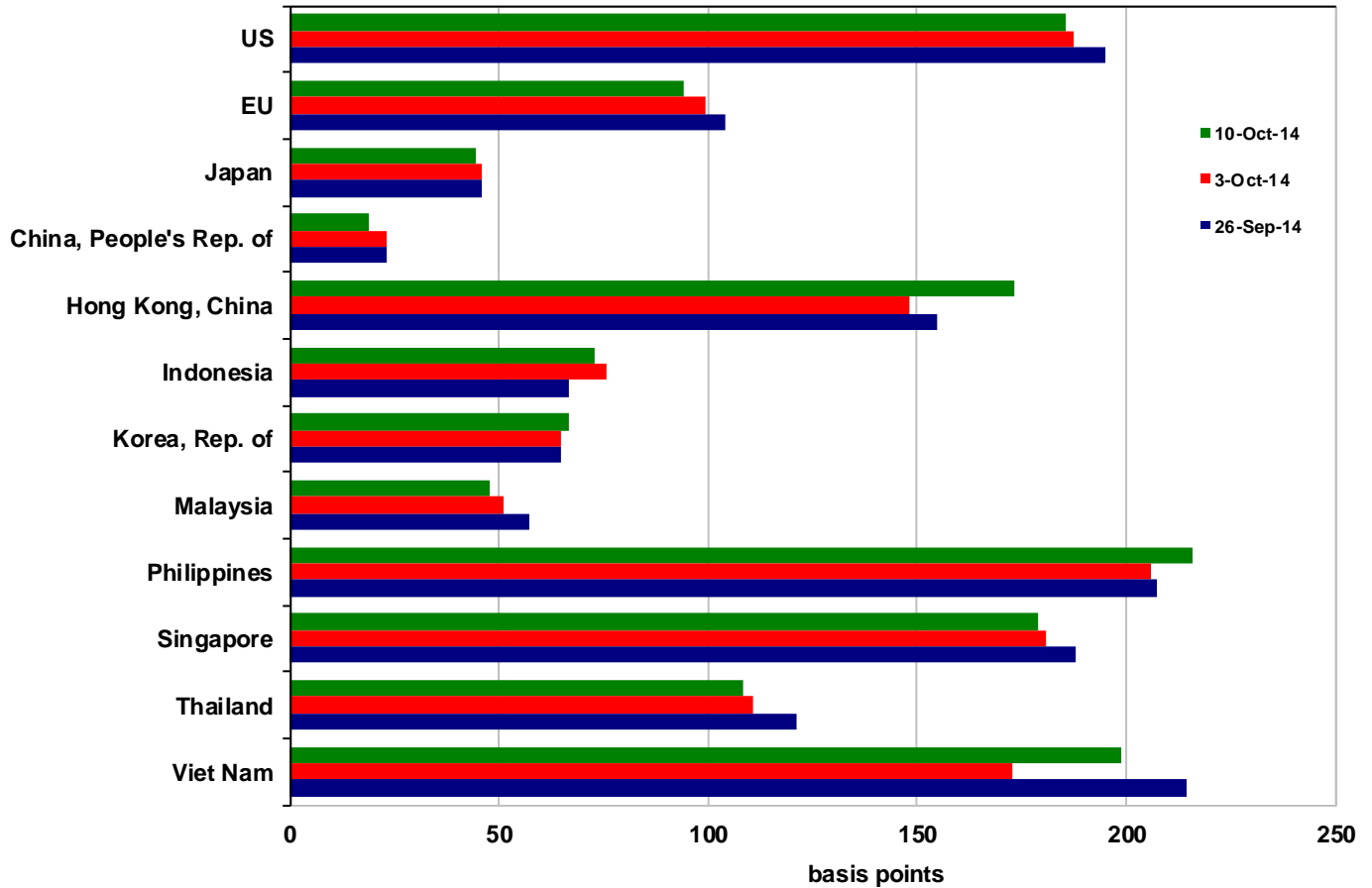
Tip: Zoom-in on the table using the Acrobat zoom tool



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

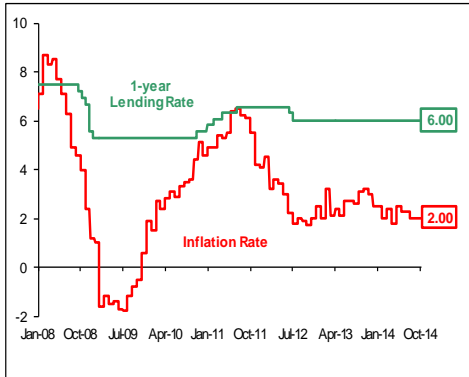


EU = European Union, US = United States.
 Source: Based on data from Bloomberg LP.

Policy Rate versus Inflation Rate

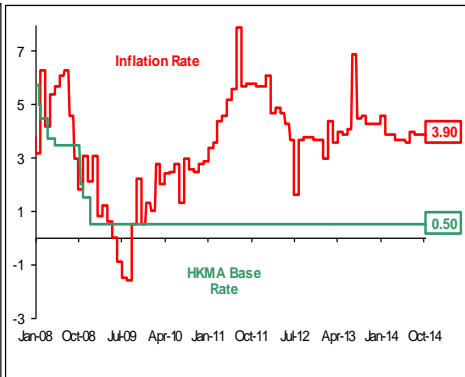
Tip: Zoom-in on the table using the Acrobat zoom tool

China, People's Rep. of



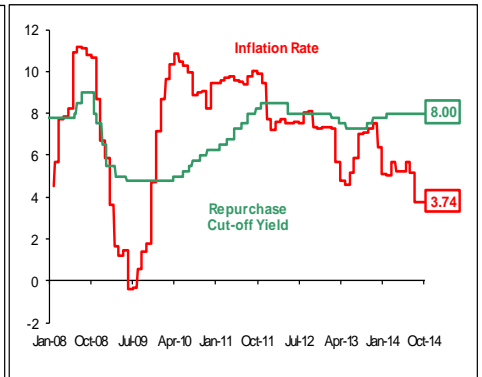
The PRC uses the 1-year lending rate as one of its policy rates.
Source: Bloomberg LP.

Hong Kong, China



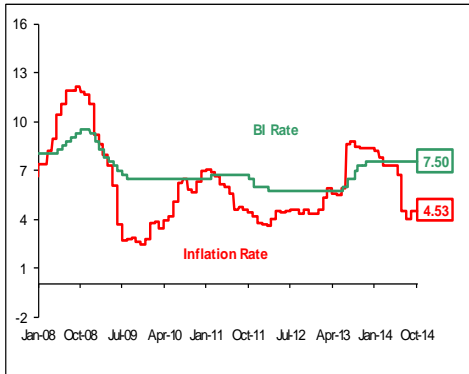
The Hong Kong Monetary Authority maintains a Discount Window Base Rate.
Source: Bloomberg LP.

India



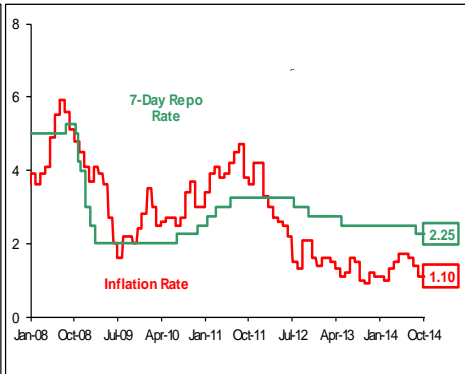
The Reserve Bank of India uses the repurchase (repo) cut-off yield as its policy rate.
Source: Bloomberg LP.

Indonesia



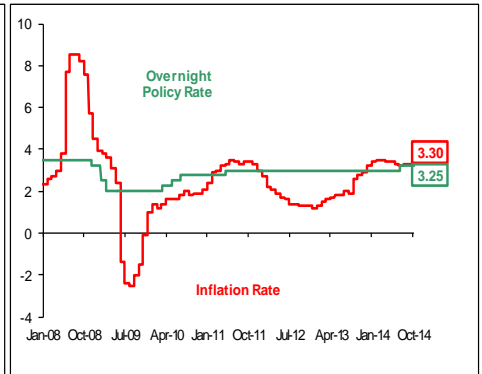
Bank Indonesia uses its reference interest rate (BI rate) as its policy rate.
Source: Bloomberg LP.

Korea, Republic of



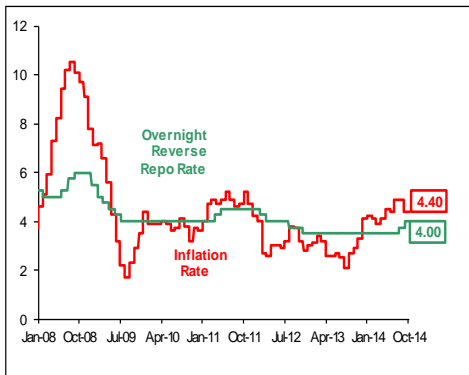
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008.
Source: Bloomberg LP.

Malaysia



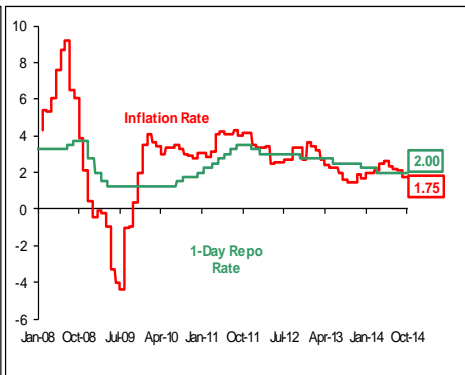
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate.
Source: Bloomberg LP.

Philippines



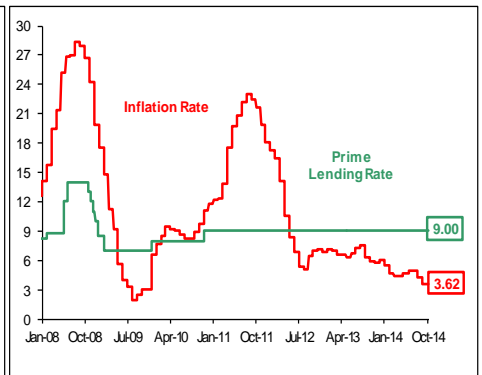
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments.
Source: Bloomberg LP.

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

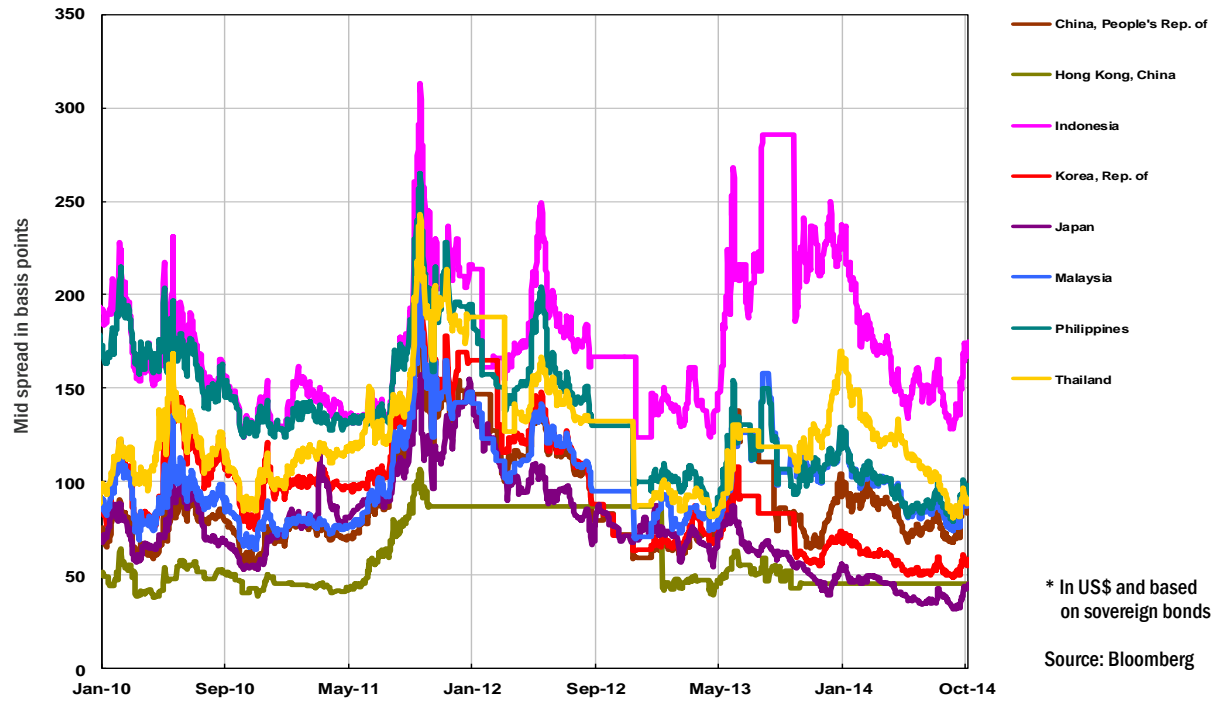


The State Bank of Viet Nam uses a benchmark prime lending rate as its policy rate.
Source: Bloomberg LP.

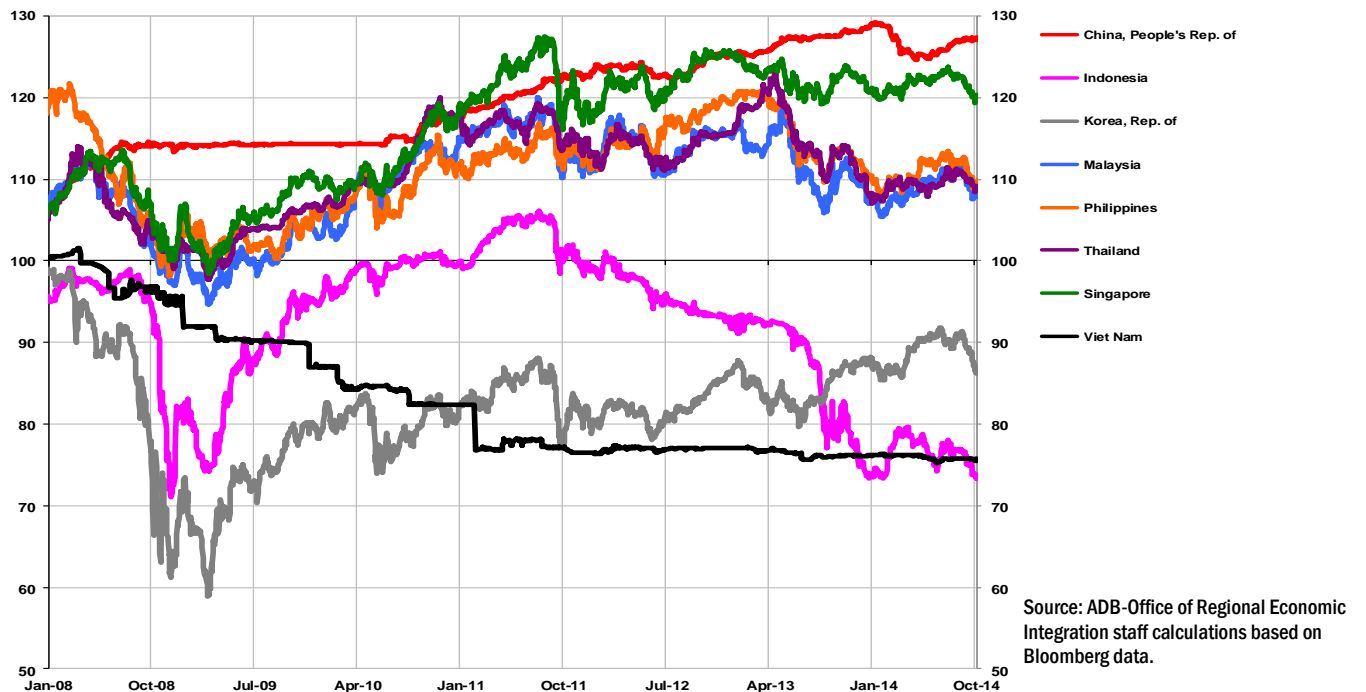
Credit Default Swap Spreads and Exchange Rate Indexes

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 (6 – 10 October 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	7-Oct	91-day Exchange Fund Bills	0.06		31.50	31.50
		182-day Exchange Fund Bills	0.08		11.00	11.00
		364-day Exchange Fund Bills	0.11		5.00	5.00
ID	7-Oct	6-month Islamic Treasury Bills	6.82			1,240.00
		6-year Project-Based Sukuk	8.48	8.25	1,500.00	265.00
JP	8-Oct	6-month Treasury Discount Bills	0.00		3,500.00	3,499.93
	9-Oct	3-month Treasury Discount Bills	0.00		5,700.00	5,649.89
KR	6-Oct	91-day Monetary Stabilization Bonds	2.14		1,300.00	1,300.00
		182-day Monetary Stabilization Bonds	2.14		700.00	700.00
		3-year Treasury Bonds	2.26	2.75	1,700.00	1,700.00
		30-year Treasury Bonds	3.11	3.00	700.00	696.00
MY	8-Oct	210-day BNM Notes	3.30		2.00	2.00
		364-day BNM Notes	3.26		2.00	2.00
		364-day BNM Islamic Notes	3.37		1.00	1.00
PH	7-Oct	91-day Treasury Bills	1.14		8.00	8.00
		182-day Treasury Bills	1.68		6.00	6.00
		364-day Treasury Bills	1.87		6.00	6.00
SG	7-Oct	28-day MAS Bills	0.21		1.00	1.00
		84-day MAS Bills	0.24		5.10	5.10
	9-Oct	168-days MAS Bills	0.30		2.30	2.30
TH	6-Oct	28-day Treasury Bills	2.02		15.00	15.00
	7-Oct	91-day BOT Bonds	2.05		28.00	27.26
		182-day BOT Bonds	2.08		28.00	28.00

BNM = Bank Negara Malaysia, BOT = Bank of Thailand, LCY = local currency, MAS = Monetary Authority of Singapore.

Sources: Local market sources and Bloomberg, LP.

Selected Asia Data Releases (14 – 20 October 2014)

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

Economy and Variable	Release Date	Historical Data	Recent Trends
Singapore GDP y-o-y, % 3Q14	10/14	2Q13: 4.0% 3Q13: 5.0% 1Q14: 4.8% 2Q14: 2.4%	Singapore's gross domestic product (GDP) growth rate fell to 2.4% year-on-year (y-o-y) in 2Q14 from 4.8% in 1Q14.
China, People's Republic of Foreign Direct Investment y-o-y, % SEP	10/14-10/18	08/13: 0.6% 09/13: 4.9% 07/14: -17.0% 08/14: -14.0%	The People's Republic of China's (PRC) foreign direct investment continued to fall on a y-o-y basis, albeit at a slower pace in August (14.0%) versus July (17.0%).
China, People's Republic of CPI y-o-y, % SEP	10/15	08/13: 2.6% 09/13: 3.9% 07/14: 2.3% 08/14: 2.0%	The PRC's inflation rate fell to 2.0% y-o-y in August from 2.3% in July.
China, People's Republic of New Loans CNY billion SEP	10/10-10/15	08/13: 712.8 09/13: 787.0 07/14: 385.2 08/14: 702.5	New loans granted by financial institutions in the PRC rose to CNY702.5 billion in August from CNY385.2 billion in July.
Japan Industrial Production y-o-y, % SEP	10/15	08/13: -0.6% 09/13: 5.3% 07/14: -0.7% 08/14: -2.9%	Japan's industrial production index fell again in August, dipping 2.9% y-o-y following a 0.7% decline in July.
Republic of Korea 7-Day Repo Rate y-o-y, % 15-Oct	10/15	09/13: 2.5% 10/13: 2.5% 08/14: 2.25% 09/14: 2.25%	The Republic of Korea kept its key policy rate unchanged in September at 2.25%.
Singapore Retail Sales y-o-y, % SEPT	10/15	08/13: -7.7% 09/13: -6.0% 07/14: 0.4% 08/14: 5.5%	Growth in Singapore's retail sales rose to 5.5% y-o-y in August from 0.4% in July.
Singapore Non-Oil Domestic Exports y-o-y, % SEPT	10/17	08/13: -6.8% 09/13: -2.0% 07/14: -3.3% 08/14: 6.0%	Singapore's non-oil domestic exports recovered in August, rising 6.0% y-o-y following a decline of 3.3% in July.
Malaysia CPI y-o-y, % SEPT	10/17	08/13: 1.9% 09/13: 2.6% 07/14: 3.2% 08/14: 3.3%	Malaysia's consumer price inflation rose slightly to 3.3% in August from 3.2% 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 older versions right-click to open a new browser)

Japan Merchandise Trade Deficit Narrows in September; Japan Current Account Surplus Narrows in August ; Malaysia's Exports Rise in August; Philippine Merchandise Export Increases in August

- [Value of Exports and Imports September 2014 \(First 20 days Provisional\)](#)
Ministry of Finance (8 October 8 2014)
- [Balance of Payments \(Preliminary\)](#)
Ministry of Finance (8 October 2014)
- [Malaysia Trade Statistics August 2014](#)
Department of Statistics Malaysia (7 October 2014)
- [Merchandise Exports Performance : August 2014](#)
National Statistics Office (10 October 2014)

Consumer Price Inflation Eases in the Philippines

- [Summary Inflation Report Consumer Price Index \(2006=100\) : September 2014](#)
National Statistics Office (9 October 2014)
- [September Inflation Slows Down to 4.4 Percent](#)
Bangko Sentral ng Pilipinas (10 October 2014)

Foreign Bond Investment in the Republic of Korea Turns Positive in September

- [Foreign Investors' Stock and Bond Investment, September 2014](#)
Financial Supervisory Service (7 October 2014)

PRC Passes New Laws to Manage Local Government Debt Risks

- [China issues rules to manage local government debts](#)
Xinhua (2 October 2014)

PRC Eases Restrictions on Property Loans

- [China central bank lifts cap on property development loans](#)
Shanghai Daily (10 October 2014)

Bank of China Plans Additional Tier 1 Issuance; Greenland Holdings Group and ABC International Prices 3-Year Reg S Bonds; Korea Exchange Bank Prices US\$300 Million 10-year Basel III-compliant Tier 2 Bond; Korea Water Resources Corporation Prices US\$300 Million 3.5-year Bond; Lao PDR Offers THB5 Billion Triple-Tranche Bonds in Thailand

- [Investors pile into China AT1](#)
IFRAsia (11 October 2014)
- [BONDS: Greenland goes for seconds with onshore parent guarantee](#)
IFRAsia (10 October 2014)
- [BONDS: ABC captures low Treasury yields to print US\\$300m notes](#)
IFRAsia (10 October 2014)
- [KEB Basel III T2 issue tightens](#)
IFRAsia (11 October 2014)
- [K-Water leaves premium](#)
IFRAsia (11 October 2014)
- [MOFL170A, MOFL190a and MOFL210A are registered with ThaiBMA on October 10, 2014](#)
ThaiBMA (10 October 2014)

Land & Houses Sells THB4 Billion 3-year Debenture; Thai Union Frozen Products Raises THB4.5 Billion from Dual-Tranche Bond Sale

- [LH170A is registered with ThaiBMA on October 6, 2014](#)
ThaiBMA (6 October 2014)
- [TUF210A and TUF240A are registered with ThaiBMA on October 9, 2014](#)
ThaiBMA (8 October 2014)

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