

Key Developments in Asian Local Currency Markets

The United States Federal Reserve last week decided to leave the key policy rate unchanged at its Federal Open Market Committee meeting on 20–21 September. The committee said that while the domestic economy has firmed enough to consider raising interest rates, it had decided to wait for additional economic data to ensure that another rate increase is warranted. Federal Reserve Chair Janet Yellen said that she expects a rate increase in December if the job market continues to strengthen and no major risks arise. At its monetary policy meeting on 20–21 September, the Bank of Japan introduced a new framework known as “quantitative and qualitative monetary easing with yield curve control” to strengthen its monetary easing program.

In its meeting held on 21–22 September, Bank Indonesia’s Board of Governors decided to cut the 7-day reverse repo rate by 25 basis points to 5.00%. Also, both the deposit facility rate (4.25%) and the lending facility rate (5.75%) were reduced by 25 basis points. Stable domestic macroeconomic conditions provided space for the central bank to ease its monetary policy. The Monetary Board of the Bangko Sentral ng Pilipinas decided during its 22 September meeting to keep the interest rate on the overnight reverse repurchase facility at 3.00%. The Philippine central bank also kept interest rates on the overnight deposit and lending facilities unchanged and the reserve requirement ratios steady.

Hong Kong, China’s consumer prices rose 4.3% year-on-year (y-o-y) in August, up from 2.3% y-o-y in July. The rise in inflation was due to a low base effect resulting from the government’s subsidy of housing rentals in August 2015. In Malaysia, consumer price inflation inched up to 1.5% y-o-y in August from 1.1% y-o-y in July. Singapore remained in deflation for the 22nd consecutive month as consumer prices fell 0.3% y-o-y in August after dropping 0.7% y-o-y in July.

In the Republic of Korea, the Producer Price Index fell 1.7% y-o-y in August, compared to a 2.5% y-o-y drop in July, according to the Bank of Korea. In the Philippines, the General Wholesale Price Index rose 0.2% y-o-y in July, a slower pace of increase than a 0.3% y-o-y hike in June, according to the Philippine Statistics Authority.

Japan’s exports fell 9.6% y-o-y to JPY5.32 trillion in August and imports declined 17.3% y-o-y to JPY5.33 trillion. A trade deficit of JPY18.7 billion was recorded in August.

S&P Global Ratings announced on 21 September that it has affirmed its long-term and

Asia Bond Monitor September 2016

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10-Year Selected LCY Government Security Yields Close of 23 September 2016 basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-16*
US	1.62	0.01	-7.42	-65.10
EU	-0.08	1.40	-8.90	-71.10
Japan	-0.05	-1.80	-0.60	-31.00
PRC	2.74	-1.60	-3.10	-11.80
Hong Kong, China	1.06	0.00	0.90	-51.70
India	6.80	-0.60	-6.40	-92.60
Indonesia	6.87	0.50	-15.00	-189.00
Korea, Rep. of	1.50	-1.30	-6.30	-58.30
Malaysia	3.57	1.30	-0.70	-61.80
Philippines	3.57	-0.73	-6.17	-52.93
Singapore	1.77	-1.12	-9.18	-82.80
Thailand	2.16	-0.50	-6.20	-33.90
Viet Nam	6.68	0.00	-24.30	-49.30

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 - Policy Rate versus Inflation Rate Charts
 - Credit Default Swap Spreads & Exchange Rate Indexes
 - Selected Debt Security Issuances
 - Selected Asia Data Releases

short-term sovereign credit ratings on the Philippines at BBB and A–2, respectively, with a stable outlook for both. Also last week, Fitch Ratings affirmed Singapore’s long-term foreign- and local-currency issuer default ratings at AAA with a stable outlook, while the short-term foreign- and local-currency issuer default ratings were affirmed at F1+.

Local currency government bond yields were mostly down in most emerging East Asian markets after the Federal Reserve refrained from raising interest rate in its meeting last week. The only exceptions were the People’s Republic of China (PRC) and the Philippines where yield movements were mixed. The spread between the 2- and 10-year yields rose for most emerging East Asian markets except for the PRC, Indonesia, Malaysia, and the Philippines where spreads narrowed.

Summary Text of News Articles

**Federal Reserve Leaves Key Policy Rate Unchanged;
BOJ Introduces “Quantitative and Qualitative Monetary Easing with Yield Curve Control” Framework**

The United States Federal Reserve last week decided to leave the key policy rate unchanged at its Federal Open Market Committee meeting on 20–21 September. The committee said that while the domestic economy has firmed enough to consider raising interest rates, it had decided to wait for additional economic data to ensure that another rate increase is warranted. The committee noted that household spending has been strong but business spending and inflation has been weak. During a news conference following the release of the decision, Federal Reserve Chair Janet Yellen said that she expects a rate increase in December if the job market continues to strengthen and no major risks occur.

At its monetary policy meeting on 20–21 September, the Bank of Japan (BOJ) introduced a new framework known as “quantitative and qualitative monetary easing with yield curve control” to strengthen its monetary easing program. The BOJ stated that the framework will include two major components. The first is the “yield curve control” through which the BOJ will control short-term and long-term interest rates. The central bank will continue to apply a negative 0.1% policy rate to the balances of financial institution accounts at the BOJ to control short-term interest rates. To control long-term interest rates, the BOJ will continue its purchase of Japanese Government Bonds so that the 10-year yield will remain more or less at the current level of about 0.0%. The second component, “inflation-overshooting commitment,” will involve expanding the monetary base until inflation surpasses and consistently remains above the 2.0% target.

For policy rate trends in Japan, refer to this link:

https://asianbondsonline.adb.org/japan/data/marketwatch.php?code=policy_rate_and_inflation_trends

**Bank Indonesia Cuts the 7-Day Reverse Repo Rate to 5.00%;
The Philippines Keeps Policy Rate Unchanged**

In its meeting held on 21–22 September, Bank Indonesia’s Board of Governors decided to cut the 7-day reverse repo rate by 25 basis points to 5.00%. Also, both the deposit facility rate (4.25%) and the lending facility rate (5.75%) were reduced by 25 basis points. Stable domestic macroeconomic conditions provided space for the central bank to ease its monetary policy. Bank Indonesia expects the move to boost economic growth.

The Monetary Board of the Bangko Sentral ng Pilipinas (BSP) decided during its 22 September meeting to keep the interest rate on the central bank’s overnight reverse repurchase facility at 3.00%. The BSP also kept the interest rates on the overnight deposit and lending facilities unchanged and the reserve requirement ratios steady. The BSP assessed that the inflation environment in the Philippines remains stable—with the latest forecasts showing average inflation likely to be slightly lower than the 2016 inflation target range of 2.0%–4.0%—and that domestic economic activity trends have exhibited “sustained firmness.”

For policy rate trends in Indonesia, refer to this link:

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

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

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

**Consumer Price Inflation Up in Hong Kong, China and Malaysia in August;
Singapore Posts Deflation for 22nd Consecutive Month in August**

Hong Kong, China’s consumer prices rose 4.3% year-on-year (y-o-y) in August, up from 2.3% y-o-y in July. The rise in inflation was due to a low base effect resulting from the government’s subsidy of housing rentals in August 2015. If the effects of subsidies are removed, then August’s rise in inflation was marginal at 2.1% y-o-y versus 2.0% y-o-y in July. The government expects inflation to be moderate in the near term given low import prices and modest increases in domestic prices.

Summary Text of News Articles

Consumer Price Inflation Up in Hong Kong, China and Malaysia in August; Singapore Posts Deflation for 22nd Consecutive Month in August (cont...)

Consumer price inflation in Malaysia inched up to 1.5% y-o-y in August from 1.1% y-o-y in July due to rising nonfood prices, which gained 0.6% y-o-y in August after falling 0.2% y-o-y in July, driven by transportation prices, which fell 6.7% y-o-y in August after falling 9.9% y-o-y in July. The subindexes for health, recreation, and miscellaneous all posted higher y-o-y increases in August. Meanwhile, the prices of food and nonalcoholic beverages, which account for almost a third of the Consumer Price Index, posted a smaller annual increase of 3.5% y-o-y in August compared with 3.8% y-o-y in July.

Singapore remained in deflation for the 22nd consecutive month as consumer prices fell 0.3% y-o-y in August after dropping 0.7% y-o-y in July. Transportation costs fell 0.7% y-o-y in August after declining 3.5% y-o-y in July, while housing and utilities costs fell 4.3% y-o-y, which was unchanged from July. Taken together, transport and housing and utilities account for 42.1% of the Consumer Price Index. Excluding these costs, the Monetary Authority of Singapore's core inflation measure rose 1.0% y-o-y in August, which was unchanged from July. On a month-on-month (m-o-m) basis, consumer prices rose 0.5% in August.

For inflation rate trends in Hong Kong, China, refer to this link:

https://asianbondsonline.adb.org/hongkong/data/marketwatch.php?code=policy_rate_and_inflation_trends

For inflation rate trends in Malaysia, refer to this link:

https://asianbondsonline.adb.org/malaysia/data/marketwatch.php?code=policy_rate_and_inflation_trends

PPI Falls in the Republic of Korea in August; GWPI Rises in the Philippines in July

In the Republic of Korea, the Producer Price Index (PPI) fell 1.7% y-o-y in August, compared to a 2.5% y-o-y drop in July, according to the Bank of Korea. The August y-o-y decline in the PPI was brought about by falling prices for manufacturing products and electric power, gas, and water supply. On a m-o-m basis, the PPI inched up 0.1% in August after slipping 0.1% in July.

In the Philippines, the General Wholesale Price Index (GWPI) rose 0.2% y-o-y in July, a slower pace of increase than the 0.3% y-o-y hike in June, according to the Philippine Statistics Authority. The y-o-y slowdown in the GWPI in July was brought about by falling prices for mineral fuels, lubricants, and related materials, as well as slower price hikes in food, beverages, and tobacco; crude materials except fuels; manufactured goods; and miscellaneous manufactured articles. On a m-o-m basis, the GWPI fell 0.3% in July after posting an 0.8% increase in June.

Japan's Exports and Imports Fall in August

Japan's exports fell 9.6% y-o-y to JPY5.32 trillion in August from JPY5.72 trillion in July. Imports declined 17.3% y-o-y to JPY5.33 trillion in August from JPY5.21 trillion in the previous month. Japan posted a JPY18.7 billion trade deficit in August.

S&P Global Ratings Affirms Its Credit Ratings for the Philippines; Fitch Affirms Singapore's Credit Rating of AAA with a Stable Outlook

S&P Global Ratings announced on 21 September that it has affirmed its long-term and short-term sovereign credit ratings for the Philippines at BBB and A-2, respectively, with a stable outlook for both. The credit rating agency affirmed its Association of Southeast Asian Nations regional scale rating on the Philippines at axA/axA-2.

S&P Global Ratings has stated that its ratings for the Philippines were due to its "strong external position, which features rising foreign reserves and low and declining external debt" that offset the country's "lower middle-income economy and rising uncertainties surrounding the stability, predictability, and accountability of its new government."

Summary Text of News Articles

**S&P Global Ratings Affirms Its Credit Ratings for the Philippines;
Fitch Affirms Singapore's Credit Rating of AAA with a Stable Outlook (cont...)**

Last week, Fitch Ratings affirmed Singapore's long-term foreign- and local-currency issuer default ratings at AAA with a stable outlook for both, while the short term foreign- and local-currency issuer default ratings were affirmed at F1+. The report cited Singapore's high level of per capita income, favorable investment climate compared to many AAA-rated peers, strong governance indicators, exceptionally strong external balance sheet, and robust fiscal framework as the key rating drivers for the affirmation.

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-16*
US	0.17	0.00	-11.16	0.47
EU	-0.75	-8.40	-17.40	-30.30
Japan	-0.34	0.10	2.30	-30.20
PRC	2.63	0.00	0.00	45.00
Hong Kong, China	0.10	0.00	0.00	3.00
India	8.31	0.00	0.00	0.00
Korea, Rep. of	1.27	0.30	0.30	-28.20
Malaysia	2.79	2.40	-0.10	-7.00
Philippines	2.75	60.79	15.31	8.09
Singapore	0.67	0.00	1.70	-22.30
Thailand	1.35	0.00	0.00	-14.85

Close of 23 September 2016

10-Year Selected LCY Government Bond Yields

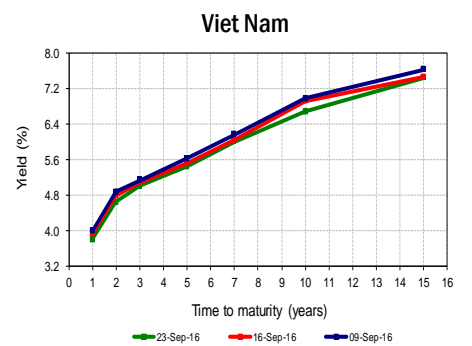
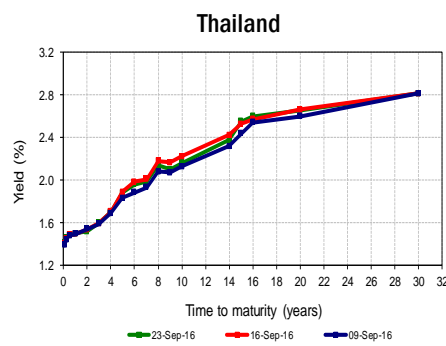
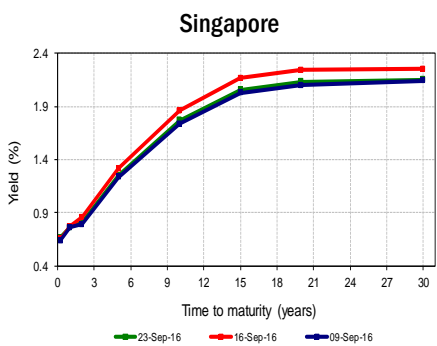
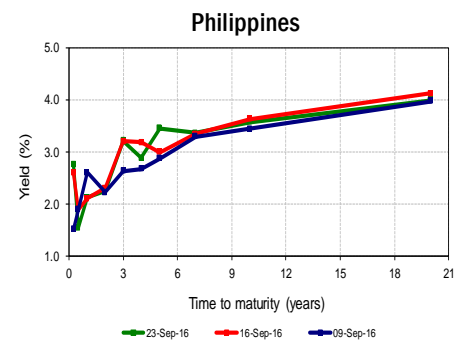
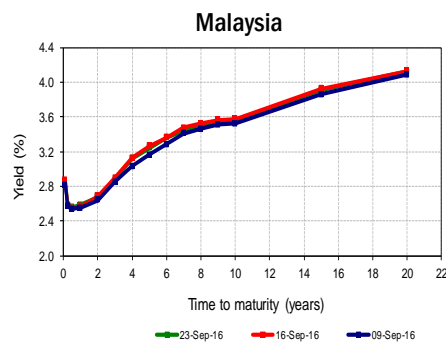
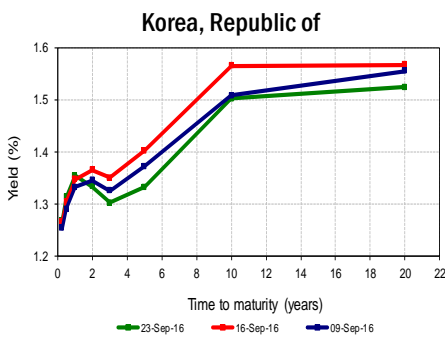
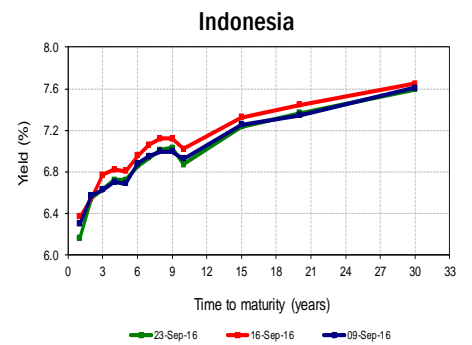
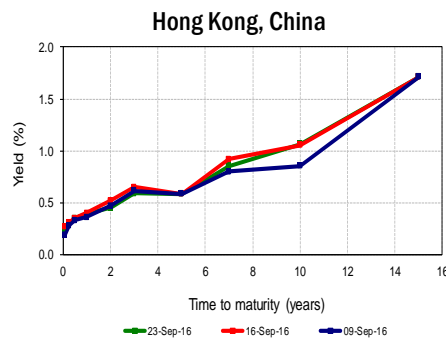
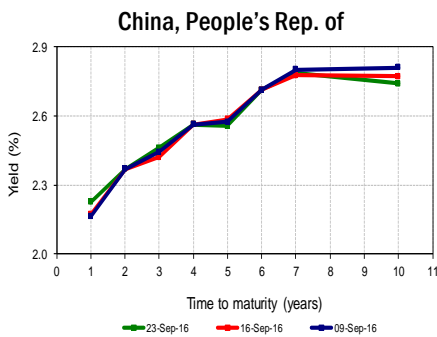
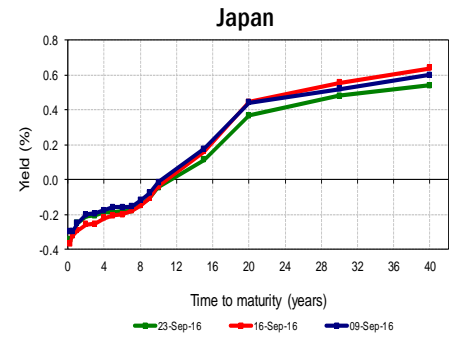
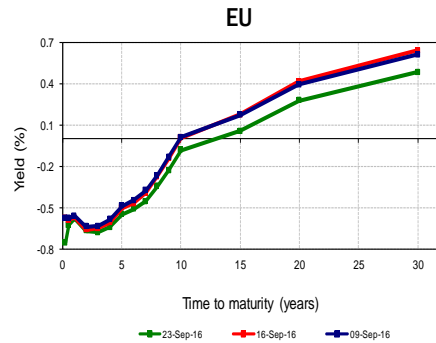
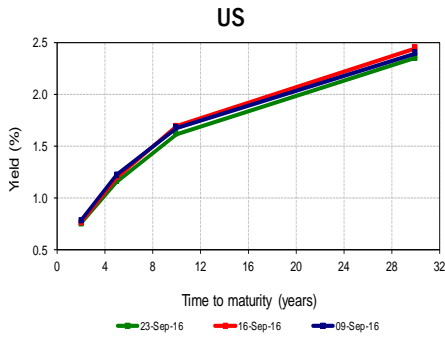
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Malaysia	3.57	1.30	-0.70	-61.80
Philippines	3.57	-0.73	-6.17	-52.93
Singapore	1.77	-1.12	-9.18	-82.80
Thailand	2.16	-0.50	-6.20	-33.90
Viet Nam	6.68	0.00	-24.30	-49.30

Close of 23 September 2016

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

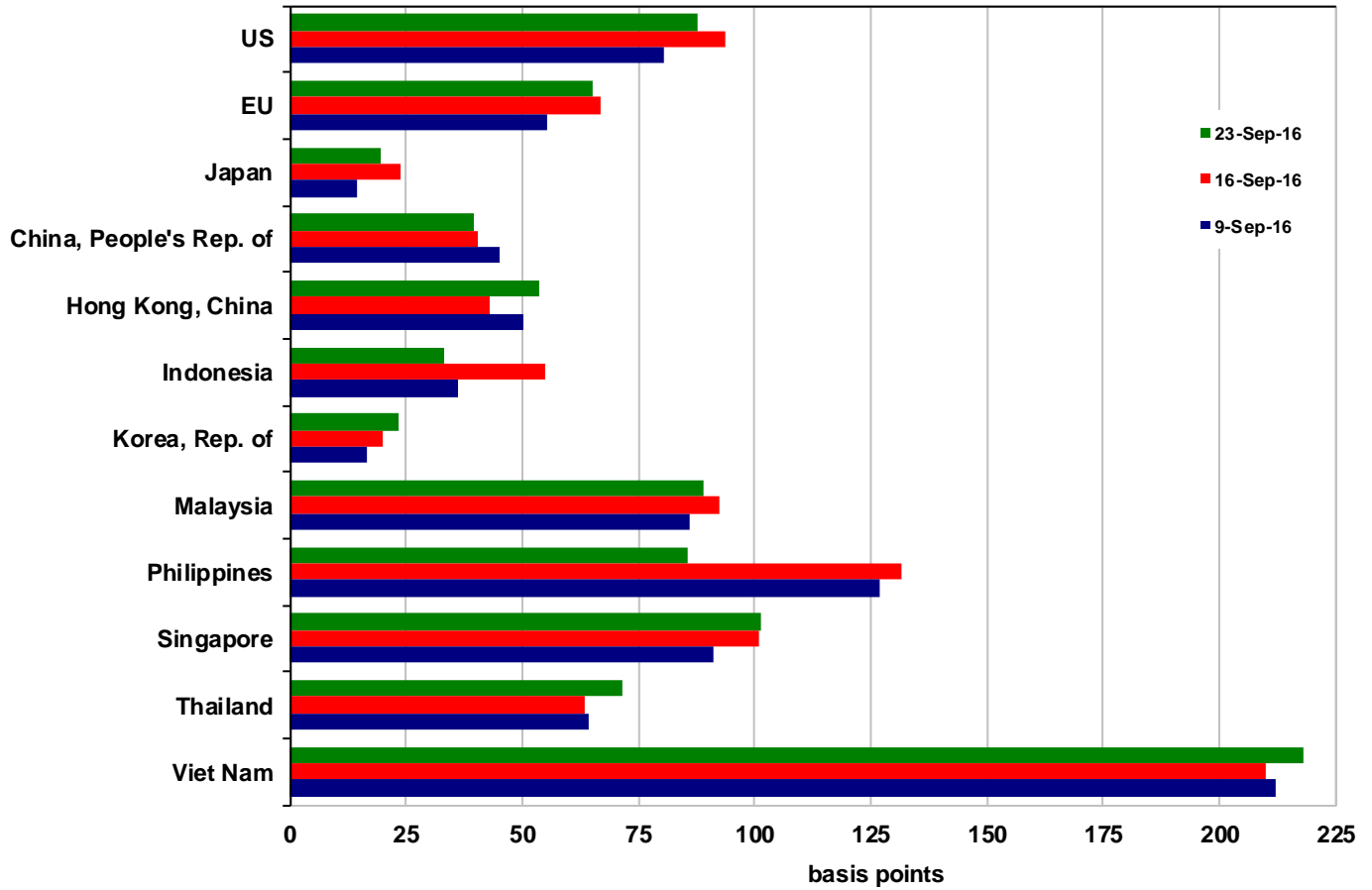
Tip: Zoom-in on the table using the Acrobat zoom tool



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

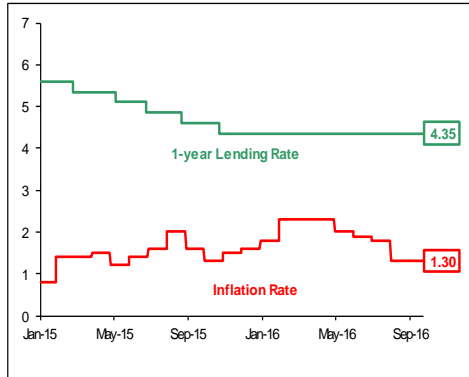


EU = European Union, US = United States.
Source: Based on data from Bloomberg LP.

Policy Rate versus Inflation Rate

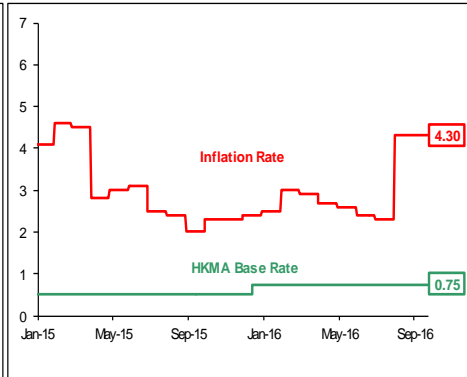
Tip: Zoom-in on the table using the Acrobat zoom tool

China, People's Rep. of



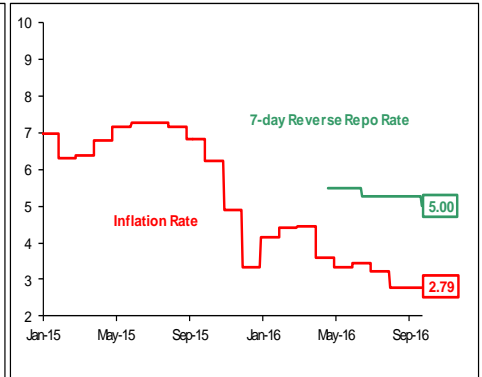
The PRC uses the 1-year lending rate as one of its policy rates.
Source: Bloomberg LP.

Hong Kong, China



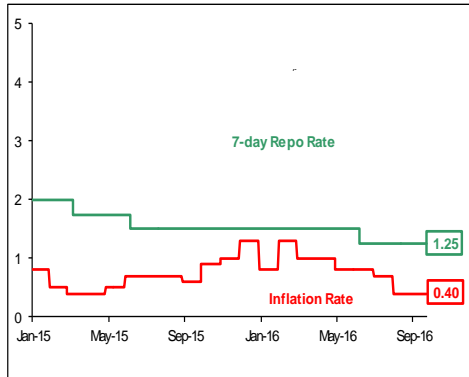
The Hong Kong Monetary Authority maintains a Discount Window Base Rate.
Source: Bloomberg LP.

Indonesia



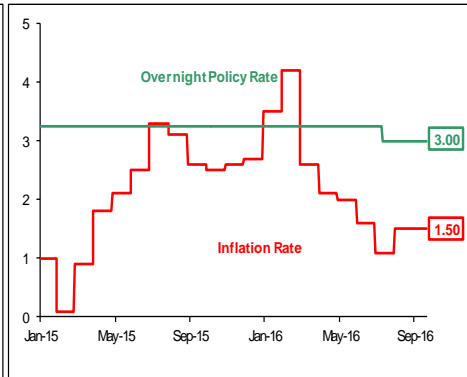
Bank Indonesia shifted its policy rate to the 7-day reverse repo rate effective 19 August 2016.
Source: Bloomberg LP.

Korea, Republic of



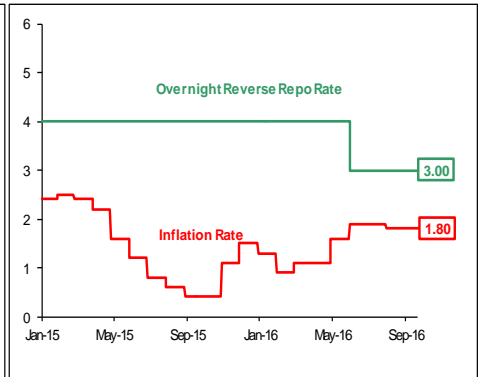
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008.
Source: Bloomberg LP.

Malaysia



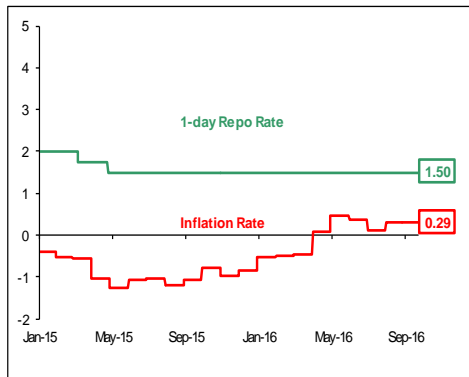
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate.
Source: Bloomberg LP.

Philippines



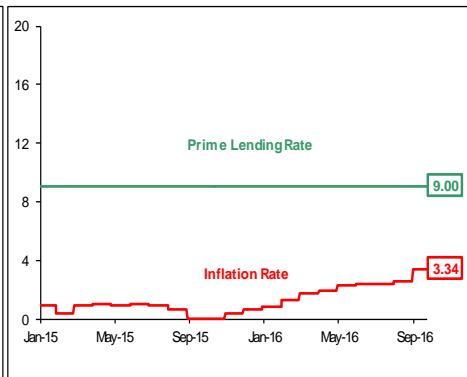
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments.
Source: Bloomberg LP.

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

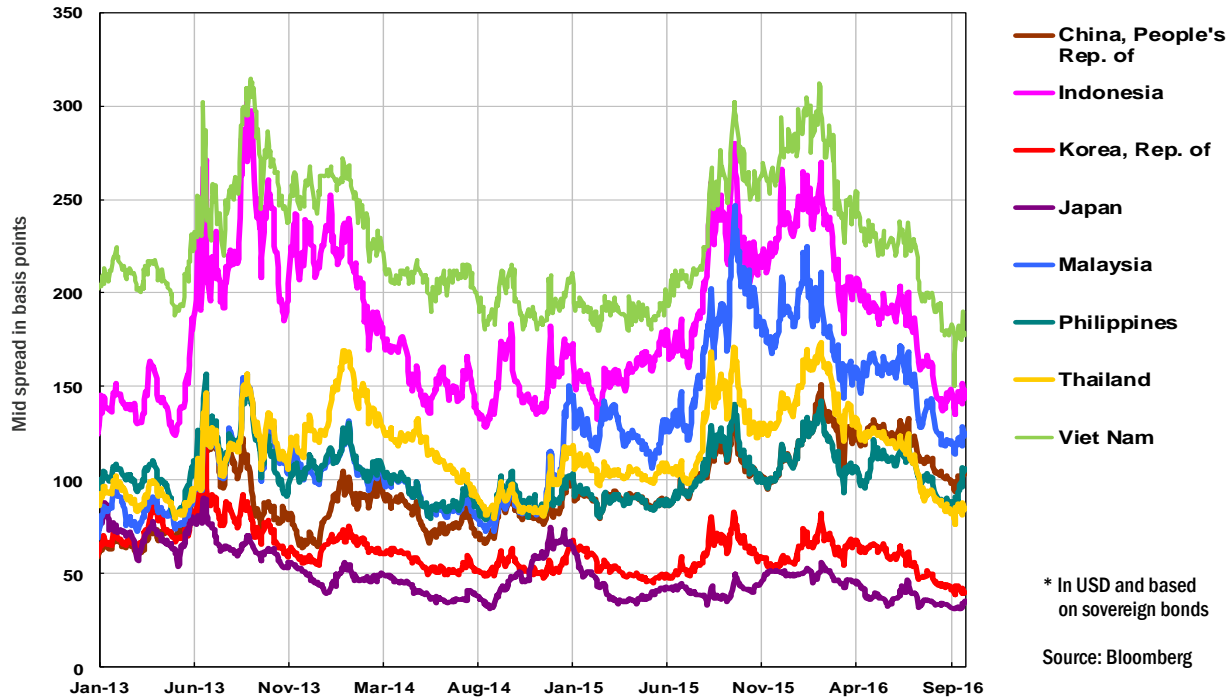


The State Bank of Viet Nam uses a benchmark prime lending rate as its policy rate.
Source: Bloomberg LP.

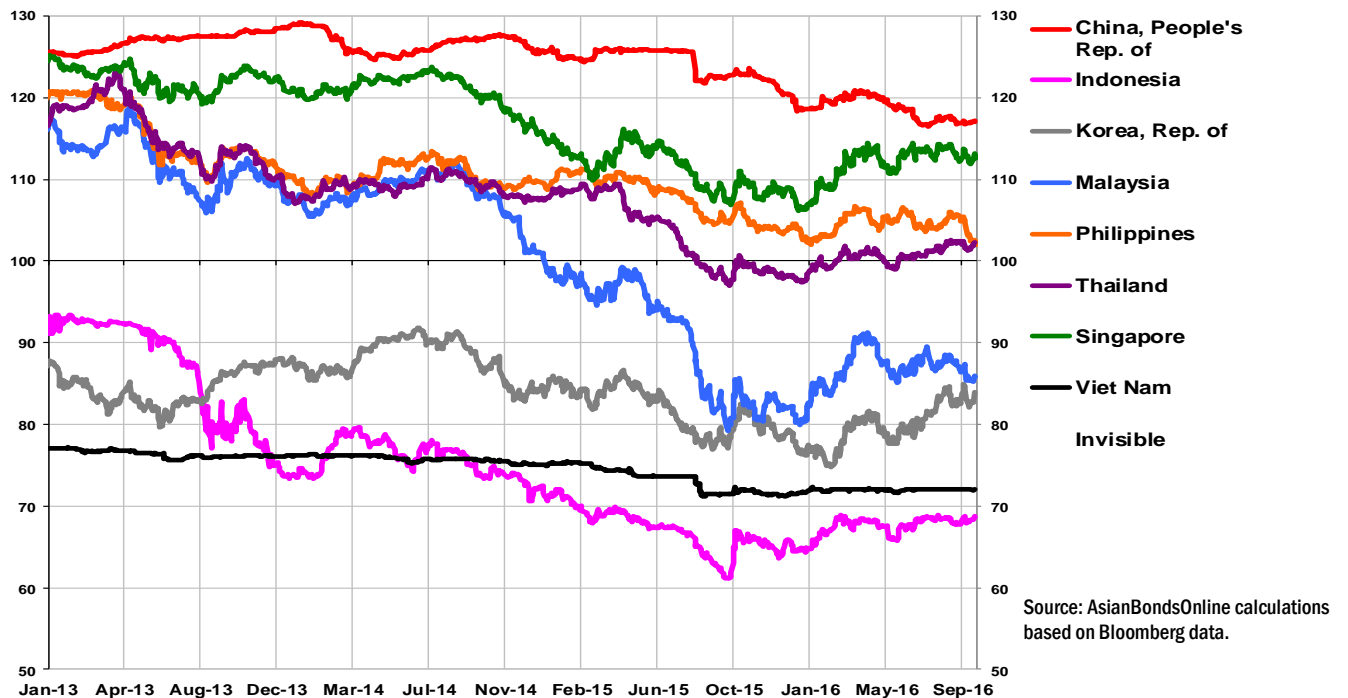
Credit Default Swap Spreads and Exchange Rate Indexes

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

Credit Default Swap Spreads – Senior 5-Year*



Exchange Rate Indexes (vis-à-vis USD, 2 January 2007=100)



Selected Debt Security Issuances (19 – 23 September 2016)

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)
CN	21-Sep	3-year Treasury Bonds	2.37	2.43	38.00	38.92
		7-year Treasury Bonds	2.73	2.75	38.00	38.95
	23-Sep	30-year Treasury Bonds	3.20	3.27	26.00	37.30
HK	20-Sep	30-day Exchange Fund Bills	0.32		2.20	2.20
		91-day Exchange Fund Bills	0.33		33.40	33.40
		182-day Exchange Fund Bills	0.39		11.00	11.00
ID	20-Sep	6-month Islamic Treasury Bills	5.88			1,000.00
		1.25 year Project-Based <i>Sukuk</i>	6.39	7.75		690.00
		4-year Project-Based <i>Sukuk</i>	6.82	8.25	4,000.00	920.00
		7 year Project-Based <i>Sukuk</i>	7.22	8.75		990.00
		15 year Project-Based <i>Sukuk</i>	7.55	8.88		400.00
JP	20-Sep	3-month Treasury Discount Bills	-0.33		4,400.00	4,379.96
KR	19-Sep	91-day Monetary Stabilization Bonds	1.27		900.00	900.00
	21-Sep	63-day Treasury Bills	1.29		1,000.00	1,000.00
		2-year Monetary Stabilization Bonds	1.35	1.25	2,000.00	2,000.00
SG	20-Sep	28-day MAS Bills	0.11		0.60	0.60
		84-day MAS Bills	0.39		4.00	4.00
	22-Sep	168-day MAS Bills	0.56		2.30	2.30
TH	19-Sep	91-day Treasury Bills	1.45		5.00	5.00
	20-Sep	28-day Bank of Thailand Bills	1.40		10.00	10.00
		91-day Bank of Thailand Bills	1.45		35.00	35.00
		182-day Bank of Thailand Bills	1.49		40.00	40.00
		294-day Bank of Thailand Bills	1.50		45.00	45.00
	21-Sep	5.73-year Government Bonds	1.95	1.88	20.00	20.00
23-Sep	14-day Bank of Thailand Bills	1.40		45.00	45.00	
VN	21-Sep	10-year Treasury Bonds	6.50		1,000.00	1,000.00

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

Sources: Local market sources and Bloomberg, LP.

Selected Asia Data Releases (27 September – 3 October 2016)

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

Economy and Variable	Release Date	Historical Data	Recent Trends
Hong Kong, China Exports y-o-y, % AUG	09/27	07/15: -1.6% 08/15: -6.1% 06/16: -1.0% 07/16: -5.1%	Exports from Hong Kong, China contracted 5.1% year-on-year (y-o-y) in July after declining 1.0% y-o-y in June.
Japan CPI y-o-y, % AUG	09/30	07/15: 0.2% 08/15: 0.2% 06/16: -0.4% 07/16: -0.4%	Consumer prices in Japan fell 0.4% y-o-y in July, the same pace as in the previous month.
Republic of Korea Industrial Production y-o-y, % AUG	09/30	07/15: -2.9% 08/15: 0.6% 06/16: 1.1% 07/16: 1.6%	Industrial production growth in the Republic of Korea accelerated to 1.6% y-o-y in July from 1.1% y-o-y in June, buoyed by faster growth in manufacturing production.
Thailand Exports y-o-y, % AUG	09/30	07/15: -5.4% 08/15: -5.6% 06/16: 1.9% 07/16: -4.5%	Merchandise exports in Thailand fell 4.5% y-o-y in July after rising 1.9% y-o-y in June.
People's Republic of China Manufacturing PMI Index SEP	10/01	08/15: 49.7 09/15: 49.8 07/16: 49.9 08/16: 50.4	The manufacturing Purchasing Managers Index (PMI) in the People's Republic of China stood at 50.4 in August after posting a reading of 49.9 in July.
Republic of Korea Exports y-o-y, % SEP	10/01	08/15: -15.2% 09/15: -8.5% 07/16: -10.3% 08/16: 2.6%	Merchandise exports from the Republic of Korea rebounded in August with 2.6% y-o-y growth after falling 10.3% y-o-y in July.
Indonesia CPI y-o-y, % SEP	10/03	08/15: 7.2% 09/15: 6.8% 07/16: 3.2% 08/16: 2.8%	Consumer price inflation in Indonesia eased to 2.8% y-o-y in August from 3.2% y-o-y in July.
Singapore PMI Index SEP	10/03	08/15: 49.3 09/15: 48.6 07/16: 49.3 08/16: 49.8	The PMI of Singapore remained below the 50-point threshold at 49.8 in August, an indication that the manufacturing economy is generally contracting.
Thailand CPI y-o-y, % SEP	10/03	08/15: -1.2% 09/15: -1.1% 07/16: 0.1% 08/16: 0.3%	Thailand's consumer price inflation rose 0.3% y-o-y in August, the fifth consecutive y-o-y increase, after inching up 0.1% 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 older versions right-click to open a new browser)

Federal Reserve Leaves Key Policy Rate Unchanged; BOJ Introduces "Quantitative and Qualitative Monetary Easing with Yield Curve Control" Framework

- [Press Release](#)
Board of Governors of the Federal Reserve System (21 September 2016)
- [Fed keeps rates steady, signals one hike by end of year](#)
Reuters (22 September 2016)
- [New Framework for Strengthening Monetary Easing: "Quantitative and Qualitative Monetary Easing with Yield Curve Control"](#)
Bank of Japan (21 September 2016)

Bank Indonesia Cuts the 7-Day Reverse Repo Rate to 5.00%; The Philippines Keeps Policy Rate Unchanged

- [BI Continues to Ease Its Monetary Policy by Lowering BI 7-Day Reverse Repo Rate 25 bps](#)
Bank Indonesia (22 September 2016)
- [Monetary Board Maintains Monetary Policy Settings](#)
Bangko Sentral ng Pilipinas (22 September 2016)

Consumer Price Inflation Up in Hong Kong, China and Malaysia in August; Singapore Posts Deflation for 22nd Consecutive Month in August

- [Consumer Price Indices for August 2016](#)
Census and Statistics Department (22 September 2016)
- [Consumer Price Index Malaysia August 2016](#)
Department of Statistics Malaysia (21 September 2016)
- [Singapore Consumer Price Index \(2014=100\) August 2016](#)
Singapore Department of Statistics (23 September 2016)

PPI Falls in the Republic of Korea in August; GWPI Rises in the Philippines in July

- [Producer Price Index during August 2016](#)
The Bank of Korea (21 September 2016)
- [General Wholesale Price Index \(1998=100\): July 2016](#)
Philippine Statistics Authority (19 September 2016)

Japan's Exports and Imports Fall in August

- [Value of Exports and Imports August 2016 \(Provisional\)](#)
Ministry of Finance (21 September 2016)

S&P Global Ratings Affirms Its Credit Ratings for the Philippines; Fitch Affirms Singapore's Credit Rating of AAA with a Stable Outlook

- [S&P keeps PHL rating; upgrade unlikely](#)
BusinessWorld (22 September 2016)
- [Fitch Affirms Singapore at 'AAA'; Outlook Stable](#)
Reuters (20 September 2016)

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