Market Summaries

People's Republic of China—Update

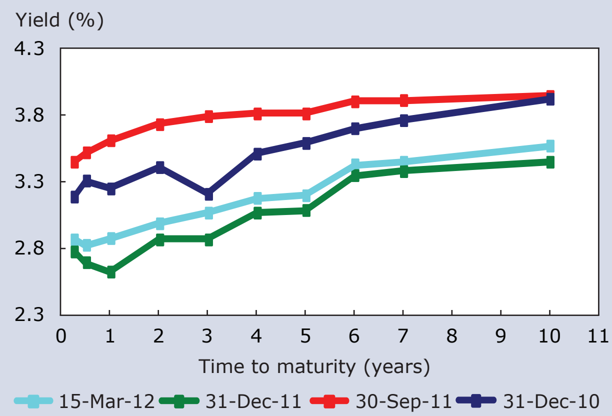
Yield Movements

The People's Republic of China's (PRC) government bond yield curve shifted upward between the beginning of 2011 and end-September 2011, particularly at the short-end of the curve, due to rising inflation **(Figure 1)**. On tenors of 2 years or less, the yield curve rose an average of 29 basis points (bps). However, from end-September to end-December, yields fell as inflation tapered off toward the end of the year. In addition, the People's Bank of China (PBOC) began easing monetary policy. In October, the PBOC temporarily suspended sales of 3-year central bank bonds. The PBOC also slashed the reserve requirement ratio by 50 bps for the first time in 3 years in December. Thus, from end-September to end-December, yields declined the most at the short-end and belly of the curve, falling between 67 bps and 98 bps on tenors of 5 years or less. For tenors longer than 5 years, yields fell 49 bps–55 bps.

The market continues to keep a close watch on monetary policy action and economic data. The PRC's gross domestic product (GDP) growth fell to 8.9% in 4Q11 from 9.1% in 3Q11, while consumer price inflation continued to drop in 4Q11: from 5.5% year-on-year (y-o-y) in October to 4.2% in November and 4.1% in December. There was a brief spike in inflation in January due to the Lunar New Year as inflation hit 4.5% y-o-y. But inflation has come down again with February registering a 3.2% y-o-y rise in consumer prices and March registering a 3.6% rise.

Markets were surprised, when the PBOC left the reserve requirement ratio unchanged before the start of the Lunar New Year in January. Monetary authorities remain concerned about underlying inflationary pressures, and also have yet to ease any of their policy rates. Thus, yields rose between the beginning of the year and 15 March but rose more at the short-end than at the long-end of the curve, resulting in a flatter yield curve.

Figure 1: People's Republic of China's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The yield curve rose 9 bps–25 bps on tenors of 1 year or less while yields rose 8 bps–12 bps on tenors longer than 5 years. The yield spread between the 2- and 10-year rate remained unchanged at 58 bps on 15 March from its end-December levels.

New loans disbursed in January totaled CNY738.1 billion, while new loans disbursed in February were lower at CNY710.7 billion.

In response to emerging economic data, the PBOC reduced the reserve requirement ratio of banks by 15 bps on 18 February. On 21 March, the PBOC expanded its differentiated reserve requirement scheme for Agricultural Bank of China. The move effectively reduced the reserve requirement ratio for 565 banks by 200 bps.

Table 1: Size and Composition of the LCY Bond Market in the People's Republic of China

	Amount (billion)								**Growth Rates** (%)						
	Sep-11		**Oct-11**		**Nov-11**		**Dec-11**		**Sep-11**		**Oct-11**	**Nov-11**	**Dec-11**		
	CNY	**US$**	**CNY**	**US$**	**CNY**	**US$**	**CNY**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	20,720	3,247	20,845	3,238	21,011	3,294	21,354	3,392	3.5	0.5	0.6	0.8	5.9	3.1	1.6
Government	15,788	2,474	15,770	2,450	15,771	2,473	15,991	2,540	(0.7)	0.1	(0.1)	0.01	0.5	1.3	1.4
Treasury Bonds	7,276	1,140	7,323	1,138	7,326	1,149	7,384	1,173	13.7	4.8	0.6	0.04	10.8	1.5	0.8
Central Bank Bonds	2,116	332	2,016	313	2,015	316	2,129	338	(52.4)	(24.0)	(4.7)	(0.05)	(47.9)	0.6	5.7
Policy Bank Bonds	6,396	1,002	6,431	999	6,430	1,008	6,478	1,029	26.3	5.8	0.5	(0.01)	25.5	1.3	0.7
Corporate	4,932	773	5,074	788	5,239	821	5,363	852	20.0	1.8	2.9	3.3	26.0	8.7	2.4
Policy Bank Bonds															
China Development Bank	4,455	698	4,474	704	4,455	698	4,443	706	21.6	4.0	0.4	(0.4)	20.7	(0.3)	(0.3)
Export–Import Bank of China	780	122	795	125	811	127	833	132	53.2	14.0	1.9	2.0	50.7	6.9	2.7
Agricultural Devt. Bank of China	1,162	182	1,162	183	1,164	182	1,201	191	30.2	7.9	0.04	0.2	29.6	3.4	3.2

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period LCY–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Source: *ChinaBond* and Bloomberg LP.

Weaker external demand from advanced economies has also pressured the PBOC into taking policy actions. Export growth slowed in 4Q11 before turning negative in the first month of the new year, with y-o-y growth in exports in October, November, December, and January at 15.9%, 13.8%, 13.4%, and –0.5%, respectively. However, February exports posted a recovery, growing 18.4% y-o-y. Foreign direct investment (FDI) in the PRC also posted negative y-o-y growth rates in November, December, January, and February, declining most recently by 0.9% in February.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC market reached CNY21.4 trillion (US$3.4 trillion) at end-2011, representing a y-o-y increase of 5.9% and a quarter-on-quarter (q-o-q) rise of 3.1% **(Table 1)**.

LCY government bonds outstanding grew 0.5% y-o-y and 1.3% q-o-q in 4Q11, while corporate bonds rose 26.0% y-o-y and 8.7% q-o-q. In the government sector, marginal y-o-y growth was due to a drop in central bank bonds outstanding, which fell 47.9% y-o-y and only rose 0.6% q-o-q. In contrast, treasury bonds grew 10.8% y-o-y and 1.5% q-o-q, while policy bank bonds grew 25.5% y-o-y and 1.3% q-o-q.

Corporate Bonds. Overall, corporate bonds outstanding grew 26.0% y-o-y in 4Q11. Growth was driven mainly by an increase in outstanding commercial bank bonds and medium-term notes (MTNs). Commercial bank bonds grew 51.6% y-o-y in 4Q11, due largely to issuances of subordinated notes as banks sought to bolster their capital base in advance of the PRC's implementation in 2012 of stricter capital rules under Basel III.

Local corporate bonds grew 37.3% and MTNs grew 45.9% y-o-y in 4Q11, while state-owned corporate bonds grew only 1.7% **(Table 2)**. Commercial paper outstanding fell 23.1% y-o-y and asset- and mortgage-backed securities outstanding fell 47.7% due to a lack of issuance in the last quarter of the year.

Table 2: Corporate Bonds Outstanding in Key Sectors

	Amount (CNY billion)						Growth Rates (%)					
							q-o-q					y-o-y
	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	4Q10	1Q11	2Q11	3Q11	4Q11	4Q11
Commercial Bank Bonds	609.0	609.5	625.0	758.8	755.2	924.3	0.1	2.5	21.4	(0.5)	22.4	51.6
State-Owned Corporate Bonds	842.6	879.6	879.6	877.1	876.4	894.4	4.4	–	(0.3)	(0.1)	2.1	1.7
Local Corporate Bonds	501.3	569.4	653.1	714.1	727.3	782.1	13.6	14.7	9.3	1.8	7.5	37.3
Commercial Paper	670.6	653.0	683.3	687.1	616.5	502.4	(2.6)	4.6	0.6	(10.3)	(18.5)	(23.1)
Asset- and Mortgage-Backed Securities	21.9	18.2	10.8	10.1	9.9	9.5	(16.8)	(41.0)	(6.1)	(2.3)	(3.5)	(47.7)
Medium-Term Notes	1,289.5	1,353.6	1,532.5	1,621.4	1,768.6	1,974.3	5.0	13.2	5.8	9.1	11.6	45.9

– = not available, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Source: *ChinaBond.*

MTNs continued to have higher growth rates than other types of corporate bonds due to regulatory arbitrage, given that the facility benefits from an ease of issuance and a quick approval processes. In fact, MTNs have consistently enjoyed double digit q-o-q growth rates since 3Q08.

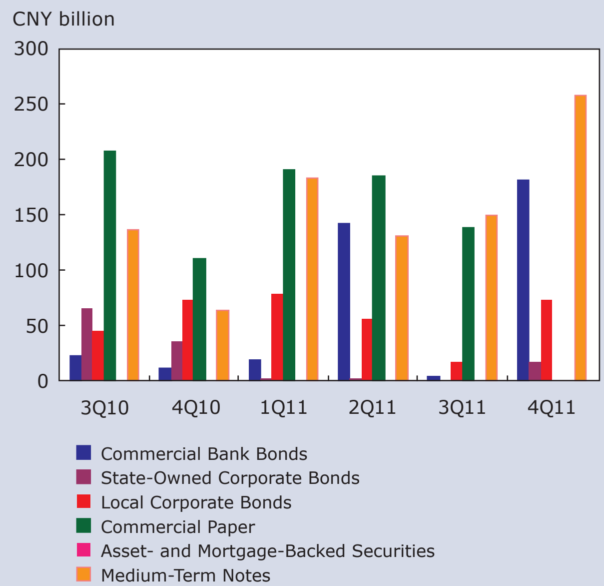
On a q-o-q basis, most categories of outstanding corporate bonds grew in 4Q11, with the exception of commercial paper and asset- and mortgage-backed securities. Local corporate bonds grew 7.5%, MTNs grew 11.6%, and state-owned enterprise bonds grew 2.1%.

Issuance of corporate bonds was up in 4Q11 from 3Q11 levels **(Figure 2)**, with the exception of commercial paper and asset- and mortgage-back securities, as there was no new issuance of either of these types of corporate bonds in 4Q11. Commercial bank bond issuance was up dramatically from 3Q11 due to banks' capital-raising efforts in light of expected increases in capital requirements in 2012 resulting from Basel III.

At end-December, the top 30 corporate bond issuers accounted for CNY3.04 trillion, or about 57%, of total corporate bonds outstanding **(Table 3)**. Among the top 30 corporate issuers, the 10 largest issuers accounted for CNY2.1 trillion, or 69%, of the bonds outstanding of the top 30 issuers.

State-owned companies (defined as majority-owned by the government), in particular, dominate the corporate bond market in the PRC. Among the top 30 corporate bond issuers, 25 are state-owned, with a total of CNY2.77 trillion worth of bonds outstanding at end-December.

Figure 2: Corporate Bond Issuance in Key Sectors, 3Q10–4Q11



Source: *ChinaBond.*

The top issuers are from the infrastructure, energy, and banking sectors **(Figure 3)**. This is consistent with the fact that all of these industries are capital intensive with extensive financing needs.

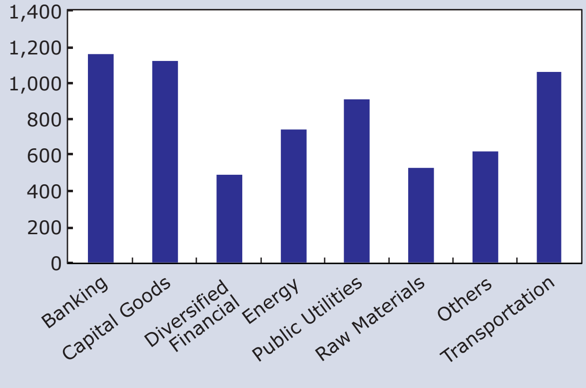
Bid–Ask Spreads. Bid–ask spreads continued to fall for most government bond categories from

Table 3: Top 30 Issuers of LCY Corporate Bonds in the People's Republic of China (as of end-December 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (CNY billion)	LCY Bonds (US$ billion)				
1. Ministry of Railways	617.0	96.69	Yes	No	No	Transportation
2. State Grid Corporation of China	294.5	46.15	Yes	No	No	Public Utilities
3. Industrial and Commercial Bank of China	210.0	32.91	Yes	No	Yes	Banking
4. Bank of China	196.9	30.86	Yes	No	Yes	Banking
5. China National Petroleum	191.0	29.93	Yes	No	No	Energy
6. China Construction Bank	160.0	25.07	Yes	No	Yes	Banking
7. China Petroleum & Chemical	131.5	20.61	Yes	No	Yes	Energy
8. Central Huijin Investment	109.0	17.08	Yes	No	No	Diversified Financial
9. Agricultural Bank of China	100.0	15.67	Yes	No	Yes	Banking
10. Petrochina	97.5	15.28	Yes	No	Yes	Energy
11. Industrial Bank	84.1	13.18	No	Yes	Yes	Banking
12. Bank of Communications	76.0	11.91	No	Yes	Yes	Banking
13. China Guodian	74.6	11.69	Yes	No	No	Public Utilities
14. China United Network Communications	53.0	8.31	Yes	No	Yes	Telecommunications
15. China Southern Power Grid	51.0	7.99	Yes	No	No	Public Utilities
16. State-Owned Capital Operation and Management Center of Beijing	50.0	7.84	Yes	No	No	Diversified Financial
17. China Three Gorges Project	49.5	7.76	Yes	No	No	Public Utilities
18. Shenhua Group	48.4	7.58	Yes	No	No	Energy
19. Citic Group	44.5	6.97	Yes	No	No	Diversified Financial
20. Shougang Group	42.0	6.58	Yes	No	No	Raw Materials
21. China Huaneng Group	41.2	6.46	Yes	No	No	Public Utilities
22. China Power Investment	40.1	6.28	Yes	No	No	Public Utilities
23. China Telecom	40.0	6.27	Yes	No	Yes	Telecommunications
24. China Minsheng Bank	38.3	6.00	No	Yes	Yes	Banking
25. Shanghai Pudong Development Bank	37.2	5.83	No	Yes	Yes	Banking
26. Metallurgical Corporation of China	35.2	5.52	Yes	No	Yes	Capital Goods
27. China Guangdong Nuclear Power Holding	32.7	5.12	Yes	No	No	Public Utilities
28. Beijing Infrastructure Investment	32.0	5.01	Yes	No	No	Capital Goods
29. Aluminum Corporation of China	31.0	4.86	Yes	No	No	Raw Materials
30. China Merchants Bank	30.0	4.70	No	Yes	Yes	Banking
Total Top 30 LCY Corporate Issuers	**3,038.2**	**476.12**				
Total LCY Corporate Bonds	**5,362.9**	**840.42**				
Top 30 as % of Total LCY Corporate Bonds	**56.7%**	**56.7%**				

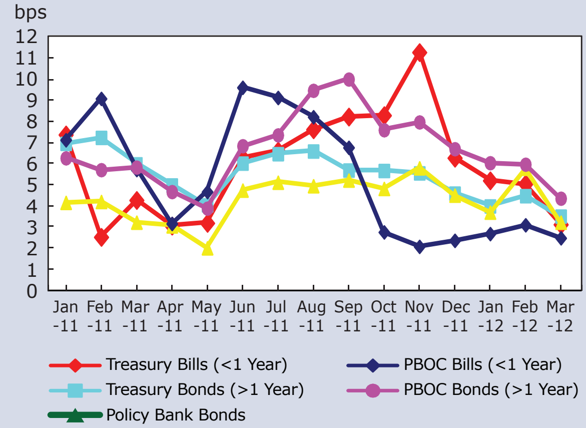
LCY = local currency.
Source: Bloomberg LP and Wind.

Figure 3: LCY Corporate Bonds Outstanding by Sector (as of end-December 2011)



Note: Others includes automobiles and automobile parts; consumer services; durable consumption; food, beverage, and tobacco; real estate; retail; and telecommunications.
Source: *Wind*.

Figure 4: Average Bid–Ask Spreads in the PRC, 1 January 2011–15 March 2012



PBOC = People's Bank of China, PRC = People's Republic of China.
Source: *Wind*.

end-December to mid-March **(Figure 4)**. Liquidity for government bonds improved toward end-2011 as the market was expecting the PBOC to ease monetary policy on the back of lower inflation and GDP growth rates.

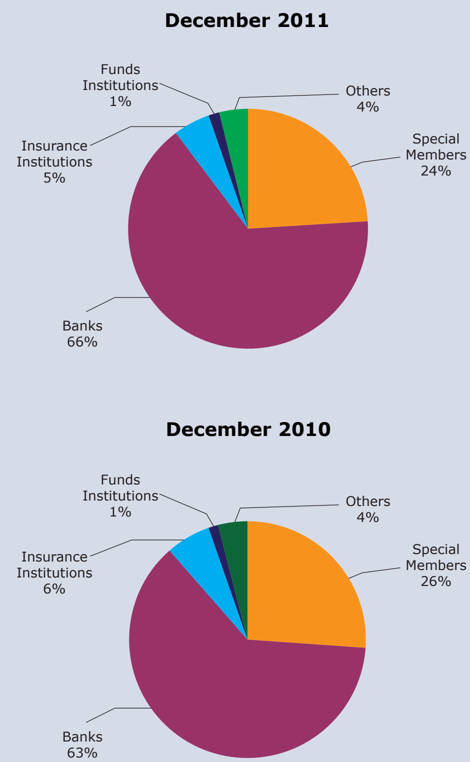
Investor Profile

Treasury Bonds. Banks remained the largest category of investors in the PRC's treasury bond market, holding a slightly larger share of these bonds at end-December 2011 (66%) than at end-December 2010 (63%) **(Figure 5a)**. The shares held by special members remained unchanged at end-December. Special members comprise the PBOC, Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Co., and China Securities Depository and Clearing Corporation.

Banks are a much more significant holder of policy bank bonds **(Figure 5b)**. As of December 2011, banks held 84% of outstanding policy bank bonds, up from 82% in December 2010. Insurance institutions are the next largest holder, holding 9% in December 2011 from 12% in December 2010.

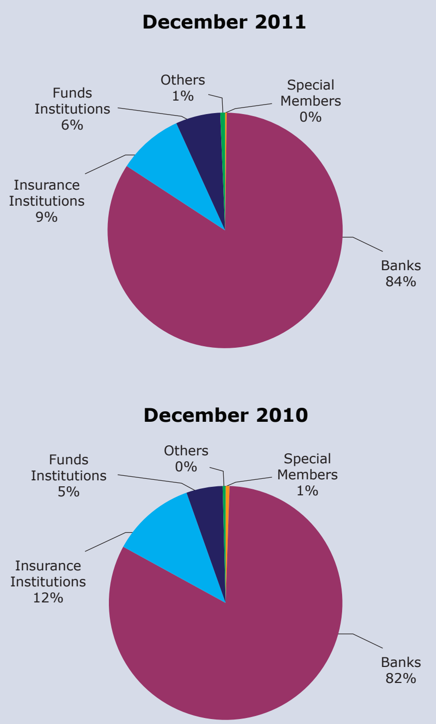
Corporate Bonds. Banks remained the largest holder of corporate bonds in 2011, with a share

Figure 5a: LCY Treasury Bonds Investor Profile



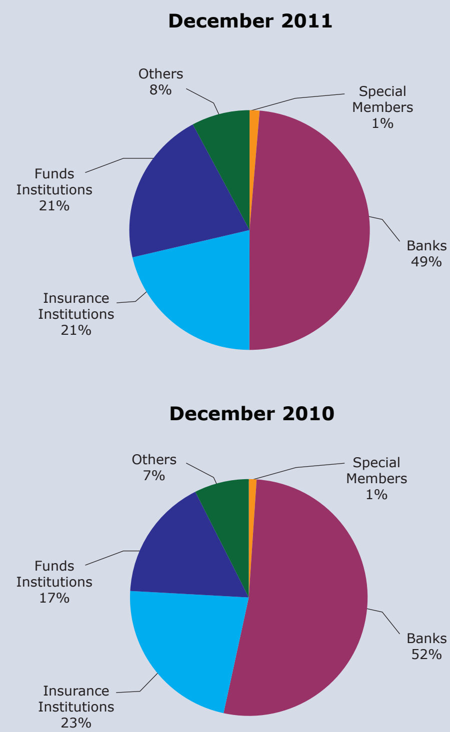
LCY = local currency.
Source: *ChinaBond*.

Figure 5b: LCY Policy Bank Bonds Investor Profile



LCY = local currency.
Source: *ChinaBond*.

Figure 6: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: *ChinaBond*.

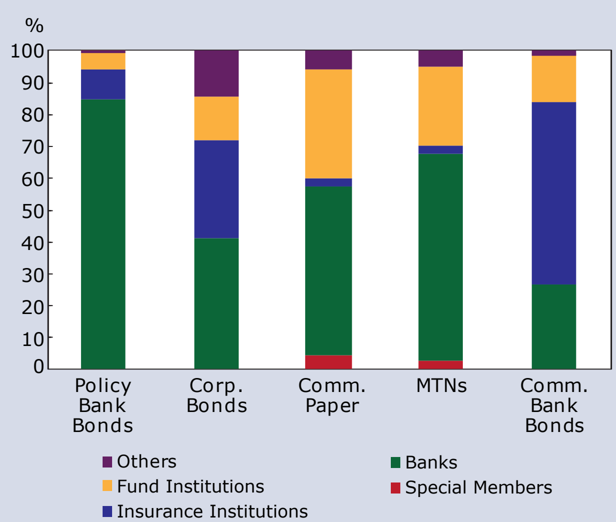
that fell slightly to 49% from 52% in end-December 2010 **(Figure 6)**. The shares held by insurance and fund institutions were each 21% at end-December 2011 after standing at 23% and 17%, respectively, at end-December 2010.

Figure 7 presents the investor profile across different bond categories. Banks were the largest holder of policy bank bonds at end-December, with slightly more than 80% of outstanding policy bank bonds. Meanwhile, insurance institutions were the largest holder of commercial bank bonds.

Interest Rate Swaps

The total notional amount traded in the interest rate swap (IRS) market fell 25.7% y-o-y and 33.9% q-o-q in 4Q11 to CNY521.9 billion, on a total of 3,285 transactions **(Table 4)**. The overnight SHIBOR became the most popular

Figure 7: Investor Profile across Bond Categories (as of end-December 2011)



MTNs = medium-term notes.
Source: *ChinaBond*.

Table 4: Notional Values of the PRC's Interest Rate Swap Market (as of 4Q11)

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%)	
	4Q11			q-o-q	y-o-y
7-Day Repo Rate	176.5	33.8	1,702	(56.5)	(39.7)
Overnight SHIBOR	255.1	48.9	714	(8.5)	(5.3)
3-Month SHIBOR	88.9	17.0	842	(8.8)	(28.9)
1-Year Term Deposit Rate	1.3	0.2	17	(94.4)	(96.7)
1-Year Lending Rate	0.1	0.02	10	(38.2)	(94.7)
Total	**521.9**	**100.0**	**3,285**	**(33.9)**	**(25.7)**

– = not applicable, PRC = People's Republic of China, q-o-q = quarter-on-quarter, repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate, y-o-y = year on year.
Source: *ChinaMoney*, *Wind*, and *AsianBondsOnline*.

benchmark in 4Q11, accounting for 48.9% of the total notional amount traded. The 7-day repurchase (repo) rate accounted for 33.8% of the total. These two benchmarks were the most active in 4Q11 because the primary participants in the PRC's onshore IRS market are commercial banks with funding exposure mainly in the form of repo transactions. Therefore, banks desire to use the repo rate as the base rate to hedge their funding.

Policy, Institutional, and Regulatory Developments

PRC Allows CNH to Be Used for Cross-Border Investment

On 14 October, the PRC released two sets of regulations paving the way for CNH funds raised in Hong Kong, China to be used for FDI in the PRC. The Notice on Cross-Border Renminbi Foreign Direct Investment was issued by the Ministry of Commerce and the Renminbi Foreign Direct Investment Settlement Rules were issued by the PBOC.

PRC to Provide Support for Small and Micro-Sized Enterprises

On 14 November, the China Regulatory Banking Commission (CBRC) granted three banks authority to issue special bonds for the purpose of funding small-scale enterprises. On 2 February, Premier Wen Jiabao said that the government would provide support for these enterprises through a CNY15 billion fund and the extension of preferential tax policies until 2015.

PRC Launches Trial Program for RQFII

On 31 December, the PRC announced the launch of the Renminbi Qualified Foreign Institutional Investor (RQFII) program with an initial quota of CNY10.7 billion. The program will allow CNH funds to be placed in the PRC's domestic securities market. At least 80% of the funds must be placed in fixed-income investments.

PRC Issues Additional QFII Licenses

On 16 January, the China Securities Regulatory Commission (CSRC) announced that it had issued an additional 14 licenses for the Qualified Foreign Institutional Investors (QFII) program in December. The 14 institutions granted QFII licenses include Canada Pension Plan Investment Board; Van Eck Associates Corp.; Hansberger Global Investors; EARNEST Partners; Bank of Thailand; Kuwait Investment Authority; Northern Trust Global Investments; a life insurance company in Taipei,China; Bank of Korea; Ontario Teachers' Pension Plan Board; Korea Investment Corp.; Russell Investments Ireland; Metzler Asset Management; and HI Asset Management Co.

On 20 January, the CSRC announced that seven more licenses had been granted in January. The institutions granted the license include Shinhan

BNP Paribas Asset Management, Stichting Pensioenfonds voor Huisartsen, Republic of Korea's National Pension Service, Mercuries Life Insurance, Prudential Financial Securities Investment Trust Enterprise, Principal Global Investors, and Hospital Authority Provident Fund Scheme.

PBOC to Provide Support for First-Home Buyers

On 8 February, the PBOC announced that banks must provide mortgage loans to first-time home buyers. The PBOC also said that it would support efforts to construct affordable housing.

PBOC Reduces Reserve Requirement Ratio

On 18 February, the PBOC reduced the reserve requirement ratio of banks by 50 bps, bringing the ratio to 20.5% for larger financial institutions and 18.5% for small and medium-sized banks.

PBOC Expands Cross-Border Settlement Program

On 2 March, the PBOC announced that it had expanded its cross border settlement program to include all companies that are engaged in foreign trade activities.

CSRC to Develop High-Yield Bond Market

On 6 March, the CSRC announced plans to develop a high-yield LCY bond market that will help provide additional financing to small and medium-sized enterprises (SMEs). According to press reports, the CSRC is working on guidelines for the establishment of the market. The bonds are to be issued on the securities exchanges and will be subject to quotas.

PBOC Expands Differentiated Reserve Requirement for Agricultural Bank Branches

On 18 March, the PBOC expanded its differentiated reserve requirement ratio scheme for Agricultural Bank of China to include an additional 379 branches. The PBOC also announced that the reserve requirement ratio for a total of 565 branches will be reduced by 200 bps in an effort to expand the amount of rural credit available by CNY23 billion.

PRC Widens CNY Trading Band

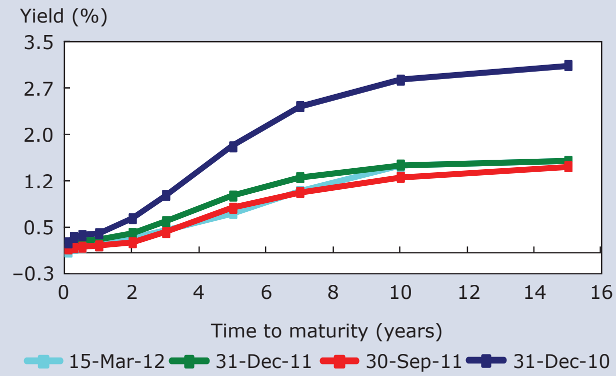
On 16 April, the PBOC began allowing the renminbi to trade within a wider band. The renminbi subsequently began trading in a range of 1.0% above and below a daily reference exchange rate. Previously, the renminbi could only trade in a band of 0.5% above and below the daily reference rate.

Hong Kong, China—Update

Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) shifted significantly downward in 2011 **(Figure 1)**. Between end-December 2010 and end-September 2011, the yield curve fell 73 basis points (bps) on average. The drop was greatest at the long-end of the curve, with the 10-year tenor falling 159 bps and the 15-year tenor falling 166 bps. From end-September to end-December, there was a slight shift upward in the yield curve, particularly in the middle- to the long-end of the curve. The 5-year tenor rose 20 bps while the 7-year tenor rose 24 bps. However, the end-December levels were still significantly lower than where the curve was at end-December 2010.

Figure 1: Hong Kong, China's Benchmark Yield Curve—EFBNs



EFBN = Exchange Fund Bills and Notes.
Source: Bloomberg LP.

More recently, the yield curve fell for all maturities between end-December and 15 March, except for the 15-year tenor. The 5-year tenor declined the most, falling 28 bps, followed by the 7-year tenor, which fell 23 bps. Yields on the 10-year maturity fell only 2 bps while the 15-year tenor rose by 0.2 bps. For tenors of less than 5 years, yields fell an average of 11 bps. Due to the slightly larger drop in the 2-year rate versus the 10-year rate, the yield spread between the 2- and 10-year rate widened to 118 bps from 112 bps from end-December to 15 March.

The decline in yields reflected concerns that Hong Kong, China's economy would continue to weaken. Gross domestic product (GDP) growth in 4Q11 fell to 3.0% year-on-year (y-o-y) from 4.3% in 3Q11. During the 2011–12 Budget Speech, Financial Secretary John Tsang said that declining exports could weaken the economy, with the 2012 GDP growth rate expected to reach only 1%–3%. In January, exports fell 8.6% y-o-y, while imports fell 10.5%. In contrast, December saw an export growth rate of 7.4% y-o-y and an import growth rate of 8.1%.

In 2012, HKD80 billion will be allocated for relief and stimulus measures to help boost the economy. The measures will take the form of tax rebates, electricity subsidies, and property tax rate waivers.

Inflation hit a peak in January, rising 6.1% y-o-y, driven by food and housing-related expenses from 5.7% in December. However consumer price rises tapered off in February, rising 4.7%. The government plans to increase the supply of land to help stabilize property prices.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market grew 3.1% y-o-y to HKD1.3 trillion (US$168.5 billion) as of end-December **(Table 1)**. However, on a quarter-on-quarter (q-o-q) basis, LCY bonds outstanding fell 0.9%, driven by a fall in corporate bonds outstanding.

Total LCY government bonds outstanding rose 3.9% y-o-y as of end-December, while q-o-q growth was 0.9%. Government bonds include Exchange Fund Bills (EFBs), Exchange Fund Notes (EFNs), and bonds issued under the Institutional Bond Issuance Programme (HKSAR Bonds).

The amount of LCY government bonds outstanding at end-December reached HKD703 billion.

Table 1: Size and Composition of the LCY Bond Market in Hong Kong, China

	Amount (billion)								**Growth Rate** (%)						
	Sep-11		**Oct-11**		**Nov-11**		**Dec-11**		**Sep-11**		**Oct-11**	**Nov-11**	**Dec-11**		
	HKD	**US$**	**HKD**	**US$**	**HKD**	**US$**	**HKD**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	1,320	170	1,315	169	1,312	169	1,309	169	5.7	1.6	(0.4)	(0.2)	3.1	(0.9)	(0.2)
Government	698	90	698	90	701	90	703	91	3.8	1.9	0.01	0.4	3.9	0.9	0.4
Exchange Fund Bills	585	75	585	75	586	75	586	75	0.6	0.06	0.01	0.1	0.5	0.2	0.03
Exchange Fund Notes	70.0	9	70	9	69	9	69	9	(0.9)	0.00	0.00	(0.9)	(0.9)	(0.4)	0.4
HKSAR Bonds	42.5	5.5	43	5	46	6	48	6	117.9	41.7	0.00	7.1	100.0	12.9	5.5
Corporate	623	80	617	79	611	79	606	78	7.8	1.2	(0.9)	(0.9)	2.2	(2.8)	(0.9)

HKSAR = Hong Kong Special Administrative Region, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. The amount of corporate bonds outstanding for October and November were estimated based on the compounded monthly growth rate between September 2011 and December 2011.
Source: Hong Kong Monetary Authority and Bloomberg LP.

Most of the growth in government bonds in 4Q11 can be attributed to growth in HKSAR Bonds, which expanded 100.0% y-o-y to HKD48 billion from HKD24 billion at end-December 2010. On the other hand, the stock of EFNs declined 0.9% y-o-y to HKD69 billion. EFBs grew only slightly by 0.5% y-o-y to HKD586 billion.

In November, HKD3.0 billion in 3-year HKSAR Bonds were issued; HKD2.5 billion in 5-year bonds were sold in December.

The size of LCY corporate bonds outstanding fell to HKD605.5 billion at end-December, reflecting growth of 2.2% y-o-y and a decline of 2.8% q-o-q. The top 20 non-bank corporate issuers in Hong Kong, China accounted for about 15% of total corporate bonds outstanding as of end-December **(Table 2)**. Hong Kong, China's top corporate issuer of LCY bonds remained the state-owned Hong Kong Mortgage Corporation (HKMC), with bonds valued at HKD20.8 billion at end-December. Sun Hung Kai Properties (Capital Market) Ltd. was the next largest issuer with outstanding bonds of HKD12.5 billion, while CLP Power Hong Kong Financing Ltd. was in the third spot with HKD10.1 billion.

Financial firms dominated the list of the top 20 non-bank corporate issuers, accounting for all but six of the firms among the top 20. Six state-owned companies were included on the list, while 12 were privately owned. Among the companies in Table 2, only three were listed on the Hong Kong Exchange.

Policy, Institutional, and Regulatory Developments

Hong Kong Exchange Simplifies Listing Requirements for Bonds Sold to Professional Investors

On 21 October, the Hong Kong Exchange issued an amendment to the listing requirements for bonds sold to professional investors. Under the new rules, listing procedures will be made much simpler. According to the Hong Kong Exchange,

Table 2: Top 20 Non-Bank Corporate Issuers in Hong Kong, China (as of end-December 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (HKD billion)	LCY Bonds (US$ billion)				
1. The Hong Kong Mortgage Corporate Ltd.	20.75	2.66	Yes	No	No	Finance
2. Sun Hung Kai Properties (Capital Market) Ltd.	12.54	1.61	No	Yes	No	Finance
3. CLP Power Hong Kong Financing Ltd.	10.10	1.30	No	Yes	No	Finance
4. Kowloon-Canton Railway Corporation	6.60	0.85	Yes	No	No	Transportation
5. MTR Corporation (C.I.) Ltd.	5.70	0.73	Yes	No	Yes	Transportation
6. Airport Authority Hong Kong	4.61	0.59	Yes	No	No	Trannsportation
7. Hongkong Electric Finance Ltd.	4.51	0.58	No	Yes	No	Finance
8. The Link Finance (Cayman) 2009 Ltd.	4.29	0.55	No	Yes	No	Finance
9. Swire Pacific MTN Financing Ltd.	4.10	0.53	No	Yes	No	Finance
10. HKCG (Finance) Limited	4.00	0.51	No	Yes	No	Finance
11. Cheung Kong Bond Finance Ltd.	2.95	0.38	No	Yes	No	Finance
12. Wharf Finance Ltd.	2.45	0.31	No	Yes	No	Finance
13. Cheung Kong Finance (MTN) Ltd.	2.21	0.28	No	Yes	No	Finance
14. Hysan (MTN) Ltd.	1.80	0.23	No	Yes	No	Finance
15. Urban Renewal Authority	1.70	0.22	Yes	No	No	Property Development
16. The Hongkong Land Notes Company Ltd.	1.19	0.15	No	Yes	No	Finance
17. Bauhinia MBS Ltd.	0.86	0.11	Yes	No	No	Finance
18. Cathay Pacific MTN Financing Ltd.	0.66	0.08	No	No	Yes	Airlines
19. Wheelock Finance Ltd.	0.44	0.06	No	No	Yes	Property Development
20. Henderson Land MTN Ltd.	0.20	0.03	No	Yes	No	Finance
Total Top 20 Non-Bank LCY Corporate Issuers	**91.64**	**11.77**				
Total LCY Corporate Bonds	**605.52**	**77.77**				
Top 20 as % of Total LCY Corporate Bonds	**15.1%**	**15.1%**				

LCY = local currency.
Note: Based on Central Money Markets Unit data on tradeable non-bank debt securities issued and outstanding as of 1 July 2011.
Source: Hong Kong Monetary Authority.

the effect will be to shorten the listing time to 5 days after receiving the application.

Hong Kong, China's Role as Offshore Renminbi Center Expanded

On 18 January, the Hong Kong Monetary Authority (HKMA) issued new regulations making it easier for financial institutions to hold CNH. Previously, participating financial institutions were required to keep 25% of their CNH deposits in cash with the Clearing Bank and to maintain a net open position—the amount by which assets are not matched by corresponding liabilities—of 20%. Under the new rules, CNH bonds issued by the People's Republic of China will be eligible to qualify as investments that satisfy the 25% deposit requirement. In addition, the net open position limit was reduced to 10%.

HKMA Launches Pilot Platform for Cross-Border Debt Security Investment between Malaysia and Hong Kong, China

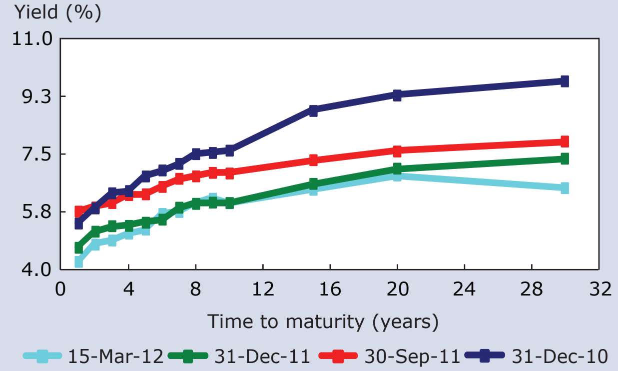
On 13 March, HKMA, Bank Negara Malaysia (BNM), and Euroclear Bank jointly announced the launch of a pilot program allowing for cross-border investment and settlement of debt securities. Through the pilot platform, investors in Hong Kong, China and Malaysia can buy and hold the LCY debt securities of each country on a delivery-versus-payment (DVP) basis.

Indonesia—Update

Yield Movements

Between end-September and end-December, the government bond yield curve in Indonesia shifted downward as yields fell across all tenors **(Figure 1)**. The entire curve shifted further downward between end-December and 15 March. However, yields for the 6- and 9-year maturities rose slightly by 17 basis points (bps) and 12 bps, respectively. Yields at the short-end of the curve fell between 39 bps and 43 bps, while yields from the 15-year maturity through the long-end of the curve fell between 18 bps and 89 bps. The yield spread between the 2- and 10-year maturities narrowed to 86 bps at end-December before widening to 125 bps in mid-March.

Figure 1: Indonesia's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The overall bullish trend in Indonesia's government bond market can be attributed to positive market sentiments from Indonesia regaining its investment grade credit rating from Fitch Ratings (Fitch) in December and Moody's Investors Service (Moody's) in January. In addition, easing inflation has led Bank Indonesia (BI) to make further cuts to its benchmark policy rate, bringing it to a new record-low level of 5.75% in February. Capitalizing on low borrowing costs and the sovereign debt upgrades, a number of Indonesian corporate borrowers have announced plans to sell bonds.

Consumer price inflation accelerated for the first time in 7 months in March to 4.0% year-on-year (y-o-y), compared with 3.6% in February, on higher food prices. On a month-on-month (m-o-m) basis, consumer prices rose 0.07% following a rise of 0.05% in February. For the full-year 2012, BI's inflation target stands at 3.5%–5.5%.

In March, the Finance Ministry submitted its proposed revisions to the 2012 State Budget to the House of Representatives. However, it failed to get approval from the House of Representatives to raise subsidized fuel prices by 33% on 1 April. Instead, authority was provided to adjust fuel prices if the 6-month average price of the Indonesian crude exceeds the budget assumption of US$105 per barrel by 15%. Based on the revised state budget, the budget deficit will widen to IDR190.1 trillion, equivalent to 2.2% of gross domestic product (GDP), from IDR124 trillion, equivalent to 1.5% of GDP, in the original budget. To help finance the wider budget deficit, the government plans to raise its net debt issuance target by IDR25 trillion to IDR159.6 trillion from IDR134.6 trillion (see **Policy, Institutional, and Regulatory Developments** for more details).

In a meeting held on 12 April, Bank Indonesia's (BI) Board of Governors decided to keep its benchmark rate steady at 5.75%. According to the central bank, the benchmark rate remains consistent with inflationary pressures going forward, BI also said it will remain vigilant on the possibility of temporary inflationary pressures driven by the government's fuel policy and will stand ready to take necessary measures to anticipate it.

Table 1: Size and Composition of the LCY Bond Market in Indonesia

	Amount (billion)								Growth Rate (%)						
	Sep-11		Oct-11		Nov-11		Dec-11		Sep-11		Oct-11	Nov-11	Dec-11		
	IDR	US$	IDR	US$	IDR	US$	IDR	US$	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	982,415	111	992,734	112	1,000,105	110	993,827	110	(1.8)	(2.9)	1.1	0.7	3.6	1.2	(0.6)
Government	847,778	96	857,649	97	864,910	95	846,859	93	(5.6)	(3.7)	1.2	0.8	0.3	(0.1)	(2.1)
Central Govt. Bonds	696,561	78	712,006	80	723,756	79	723,606	80	8.0	0.8	2.2	1.7	12.8	3.9	(0.02)
Central Bank Bills	151,217	17	145,643	16	141,154	15	123,253	14	(40.1)	(20.0)	(3.7)	(3.1)	(39.3)	(18.5)	(12.7)
Corporate	134,637	15	135,086	15	135,196	15	146,969	16	30.5	2.0	0.3	0.1	28.0	9.2	8.7

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. The total stock of non-tradable bonds as of end-December stands at IDR224.6 trillion.
Source: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, and Bloomberg LP.

Indonesia's economy expanded 6.5% y-o-y in 4Q11, growing at the same pace as in 3Q11, boosted by domestic consumption and strong growth in investment. Domestic consumption grew 5.0% y-o-y in 4Q11 compared with 4.8% in 3Q11; investment climbed 11.5% after posting annual growth of 7.1% in the previous quarter. All major industrial sectors posted positive y-o-y growth with the exception of mining, which contracted 0.04%. For the full-year 2011, the economy expanded 6.5%, following revised growth of 6.2% in 2010, marking the fastest annual GDP growth rate since 1996. The government is looking to achieve a growth target of 6.5% based on the revised 2012 state budget.

Size and Composition

Total local currency (LCY) bonds outstanding in Indonesia expanded 3.6% y-o-y in 4Q11 after declining 1.8% in 3Q11 **(Table 1)**. On a quarter-on-quarter (q-o-q) basis, bonds outstanding rose 1.2%. In terms of volume, total bonds outstanding reached IDR993.8 trillion (US$110 billion) at end-December.

As of end-December, outstanding LCY government bonds had grown a marginal 0.3% y-o-y in 4Q11 to reach IDR846.9 trillion. The growth in LCY government bonds was mainly driven by central government bonds comprising treasury bills and treasury bonds issued by the Ministry of Finance. On the other hand, central bank bills, known as *Sertifikat* Bank Indonesia (SBI), fell a significant 39.3% y-o-y.

Central Government Bonds. On a y-o-y basis, the stock of central government bonds grew 12.8% to IDR723.6 trillion in 4Q11. On a q-o-q basis, central government bonds rose a modest 3.9%.

In 4Q11, a total of IDR25.6 trillion in treasury bills and bonds were issued by the central government, representing a 141.4% rise from 3Q11. However, treasury issuance fell 31.5% on a q-o-q basis. LCY bond issues during the quarter included treasury bills and fixed-rate treasury bonds. The government cancelled its last scheduled auction in December due to a slowdown in state budget spending.

In 2011, the government had raised a total of IDR204.6 trillion in gross bond sales (including international bond issuance). According to the Ministry of Finance, a deficit of IDR90.1 trillion, equivalent to 1.3% of GDP based on preliminary figures, was recorded in 2011. The government will continue to rely on domestic issuance as a funding source in 2012 and has capped foreign currency (FCY) debt issuance at 18% of total gross debt issuance for the year.

The Ministry of Finance also said that it will continue with its frontloading strategy by issuing 55%–60% of its debt securities in the first half of the year. The government raised IDR60.4 trillion in debt securities in 1Q12, higher than the target amount of IDR53.2 trillion. The Ministry of Finance conducted 11-IDR-denominated bond auctions in 1Q12, comprising both conventional and Islamic bonds.

The government has identified FR0060, FR0061, FR0059, and FR0058 as the new benchmark bonds for 5-, 10-, 15-, and 20-year maturities, respectively. Details for the new benchmark bond series are provided in **Table 2**.

Central Bank Bills. The stock of central bank bills continued to fall sharply in 4Q11. Outstanding SBI stood at IDR123.3 trillion in 4Q11, contracting 39.3% y-o-y and 18.5% q-o-q. The decline in the stock of SBI is in line with the central bank's policy of reducing SBI issuance as they have become an ineffective tool for managing the money supply. BI has instead been providing term deposits to replace SBI and buying government securities for its monetary operations. On a q-o-q basis, central bank bill issuance rose 160.5% in 4Q11, but fell 66.6% on a y-o-y basis. But this was still a small amount compared to the volume of short-term SBI maturing during the quarter.

Table 2: Indonesian Government Benchmark Bonds for 2012

Bond Series	Outstanding Amount (IDR billion)	Coupon (%)	Maturity Date
1. FR0060	3,700	6.25	15-Apr-17
2. FR0061	7,100	7.00	15-May-22
3. FR0059	7,850	7.00	15-May-27
4. FR0058	9,400	8.25	15-Jun-32

Source: Indonesia Debt Management Office.

Corporate Bonds. The corporate bond market reported robust growth in 4Q11, expanding 28.0% y-o-y. On a q-o-q basis, growth in corporate bonds was 9.2%. Corporate bonds comprise a small percentage of Indonesia's LCY bond market, accounting for only 14.8% of total LCY bonds outstanding in Indonesia at end-December.

At end-December, the outstanding bonds of the top 30 corporate issuers in Indonesia totaled IDR114.9 trillion, accounting for almost 80% of total LCY corporate bonds outstanding **(Table 3)**. State-power firm PLN remained the top issuer in 4Q11 with outstanding bonds valued at IDR15.1 trillion. Automotive leasing company Adira Dinamika Multifinance took the second spot with bonds outstanding of IDR7.4 trillion, followed by Indonesia Eximbank with bonds outstanding of IDR7.2 trillion.

Bond issuers from the banking and financial sector dominated the list of the top 30 LCY corporate issuers, accounting for 73% of the firms on the list. Meanwhile, 10 companies on the list were state-owned firms. More than half of the 30 firms were also listed on the Indonesia Stock Exchange, indicating that these firms are tapping both the equity and bond markets for their funding needs.

In 4Q11, total corporate LCY bond issuance reached IDR16.0 trillion, up significantly from IDR5.8 trillion in 3Q11. Out of a total of 10 corporate issuers in 4Q11, seven companies issued in December to take advantage of lower borrowing cost after BI's rate cut of 50 bps in November.

Once again, corporate bond issuance in 4Q11 was dominated by firms from the banking and financial sectors. The corporate bonds issued in 4Q11 were all conventional bonds except for one subordinated bond issue. More than half of these new bond issues carried maturities of 3–5 years.

Table 3: Top 30 Issuers of LCY Corporate Bonds in Indonesia (as of end-December 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (US$ billion)				
1. PLN	15,100	1.67	Yes	No	No	Energy
2. Adira Dinamika Multifinance	7,426	0.82	No	Yes	Yes	Finance
3. Indonesia Eximbank	7,191	0.79	Yes	No	No	Banking
4. Bank Pan Indonesia	6,900	0.76	No	Yes	Yes	Banking
5. Indosat	6,350	0.70	No	Yes	Yes	Telecommunications
6. Bank Tabungan Negara	5,450	0.60	Yes	No	Yes	Banking
7. Jasa Marga	5,000	0.55	Yes	No	Yes	Toll Roads, Airports, and Harbors
8. Federal International Finance	4,742	0.52	No	Yes	No	Finance
9. Bank CIMB Niaga	4,480	0.49	No	Yes	Yes	Banking
10. Bank Danamon Indonesia	4,050	0.45	No	Yes	No	Banking
11. Bank Internasional Indonesia	4,000	0.44	No	Yes	Yes	Banking
12. Perum Pegadaian	3,664	0.40	Yes	No	No	Finance
13. Bank Tabungan Pensiunan Nasional	3,650	0.40	No	Yes	Yes	Banking
14. Indofood Sukses Makmur	3,574	0.39	No	Yes	Yes	Food and Beverages
15. Bank Mandiri	3,500	0.39	Yes	No	Yes	Banking
16. Astra Sedaya Finance	3,480	0.38	No	Yes	No	Finance
17. Antam	3,000	0.33	Yes	No	Yes	Petroleum and Natural Gas
18. Telekomunikasi Indonesia	3,000	0.33	Yes	No	Yes	Telecommunications
19. Bank Jabar Banten	2,750	0.30	No	Yes	Yes	Banking
20. Bank Rakyat Indonesia	2,000	0.22	Yes	No	Yes	Banking
21. Sarana Multigriya Finansial	1,940	0.21	Yes	No	No	Finance
22. Bank Permata	1,750	0.19	No	Yes	Yes	Banking
23. Summit Oto Finance	1,565	0.17	No	Yes	No	Finance
24. Bank DKI	1,500	0.17	No	Yes	No	Banking
25. XL Axiata	1,500	0.17	No	Yes	Yes	Telecommunications
26. Medco-Energi Internasional	1,500	0.17	No	Yes	Yes	Petroleum and Natural Gas
27. Oto Multiartha	1,500	0.17	No	Yes	No	Finance
28. BCA Finance	1,489	0.16	No	Yes	No	Finance
29. Bank OCBC NISP	1,480	0.16	No	Yes	Yes	Banking
30. Wahana Ottomitra Multiartha	1,400	0.15	No	Yes	Yes	Finance
Total Top 30 LCY Corporate Issuers	**114,930**	**12.67**				
Total LCY Corporate Bonds	**146,969**	**16.21**				
Top 30 as % of Total LCY Corporate Bonds	**78.2%**	**78.2%**				

LCY = local currency.
Source: Indonesia Stock Exchange.

Table 4: Notable LCY Corporate Bond Issuance, 4Q11

Corporate Issuers	Amount Issued (IDR billion)
Indonesia Eximbank	3,250
Antam	3,000
Adira Dinamika Multi Finance	2,523
Bank Internasional Indonesia	2,500
Bank CIMB Niaga	1,500
Clipan Finance Indonesia	1,000
Perum Pegadaian	1,000
Others	1,200
Total	**15,973**

Source: Indonesia Stock Exchange.

Table 4 lists the most notable corporate bond issues in 4Q11.

State-owned lender Indonesia Eximbank raised IDR3.25 trillion in three tranches in December. The proceeds from the bonds will be used to help fund lending to importers. The bonds comprised the following series:

- 3-year bonds worth IDR202 billion, coupon of 7.00%;
- 5-year bonds worth IDR243 billion, coupon of 7.75%; and
- 7-year bonds worth IDR2.8 trillion, coupon of 8.50%.

Antam issued IDR3.0 trillion worth of bonds in December. Proceeds from the bond sale will be used to fund the firm's investments and business development. The bonds consisted of the following series:

- 7-year bonds worth IDR900 billion, coupon of 8.38%; and
- 10-year bonds worth IDR2.1 trillion, coupon of 9.05%.

Adira Dinamika Multifinance issued a total of IDR2.5 trillion of conventional bonds in December. The proceeds from the bond sale will be used to raise capital for its automotive financing business. The bonds consisted of the following series:

- 2-year bonds worth IDR325 billion, coupon of 7.75%;
- 3-year bonds worth IDR665 billion, coupon of 8.00%; and
- 5-year bonds worth IDR1.5 trillion, coupon of 9.00%.

Bank Internasional Indonesia raised a total of IDR2.5 trillion from a three-tranche sale consisting of conventional bonds and one subordinated bond. The proceeds from the bond issue will be used to boost lending. The bonds consisted of the following series:

- 3-year bonds worth IDR440 billion, coupon of 7.75%;
- 5-year bonds worth IDR1.6 trillion, coupon of 8.75%; and
- 7-year subordinated bonds worth IDR500 billion, coupon of 10.00%.

Bank CIMB Niaga issued IDR1.5 trillion worth of conventional bonds in December. The proceeds from the bond sale will be used to support its lending expansion. The bonds consisted of the following series:

- 3-year bonds worth IDR180 billion, coupon of 7.38%; and
- 5-year bonds worth IDR1.3 trillion, coupon of 8.30%.

Clipan Finance Indonesia sold a total of IDR1.0 trillion of conventional bonds in November. The proceeds from the bond sale will be used to boost the firm's working capital. The bonds consisted of the following series:

- 1-year bonds worth IDR248 billion, coupon of 8.75%;
- 2-year bonds worth IDR123 billion, coupon of 9.75%; and
- 3-year bonds worth IDR629 billion, coupon of 10.25%.

State-owned pawnshop operator Perum Pegadaian issued IDR1.0 trillion of bonds in three tranches in November. The proceeds from the bonds will be used to fund working capital and for debt repayment. The bonds comprised the following series:

- 3-year bonds worth IDR250 billion, coupon of 7.50%;
- 5-year bonds worth IDR250 billion, coupon of 8.00%; and
- 10-year bonds worth IDR500 billion, coupon of 9.00%.

Corporate Rating Changes. On 28 February, Fitch downgraded Bakrie Telecom's long-term FCY and LCY issuer default ratings to CCC from B. According to Fitch, the downgrade reflects growing liquidity risks faced by the company as IDR650 billion worth of bonds are scheduled to mature in September and finance leasing obligation payments for the year total IDR660 billion. As of end-December 2011, the company's cash and cash equivalents stood at only IDR250 billion. Fitch does not expect the company to generate sufficient cash to meet its obligations.

On 15 March, Fitch downgraded Berlian Laju Tanker's (BLT) long-term FCY and LCY issuer default ratings to Restricted Default (RD) from C, while it affirmed at C with a Recovery Rating of RR5 its rating on the company's US$400 million senior unsecured notes due 2014. In February, S&P lowered its long-term corporate rating on the company to D from CC. S&P also lowered its issuer rating on the US$400 million senior unsecured notes due 2014 to D from C. The Indonesia Stock Exchange (IDX) suspended the bonds issued by BLT effective 28 February after the company announced a default on its debt instruments. The company, including its subsidiaries, defaulted on debts amounting to IDR421.5 billion. BLT had issued six series of bonds, comprising both conventional and Islamic bonds.

On 20 March, Moody's downgraded its ratings for Davomas Abadi, an Indonesian cocoa producer to Ca from Caa3 with a negative outlook. According to Moody's, weak sales over the past two quarters and poor inventory management could have led to the depletion of cash reserves and impaired the company's ability to service interest payments.

Foreign Currency Bonds. The government raised US$1.75 billion from the sale of US$-denominated 30-year bonds, the proceeds of which will be used to help fund the budget deficit. The bond sale was part of Indonesia's Global Medium-Term Note Program. The bonds carried a coupon of 5.25% and a yield of 5.375%. The offering was oversubscribed 2.06 times, with the order book totaling US$3.6 billion. The bonds were allocated to asset managers (73%), banks (20%), insurance and pension funds (4%), and private banks (3%). The sale was handled by HSBC, JP Morgan Chase, and Standard Chartered as joint lead managers and joint bookrunners, and PT Mandiri Sekuritas as co-manager.

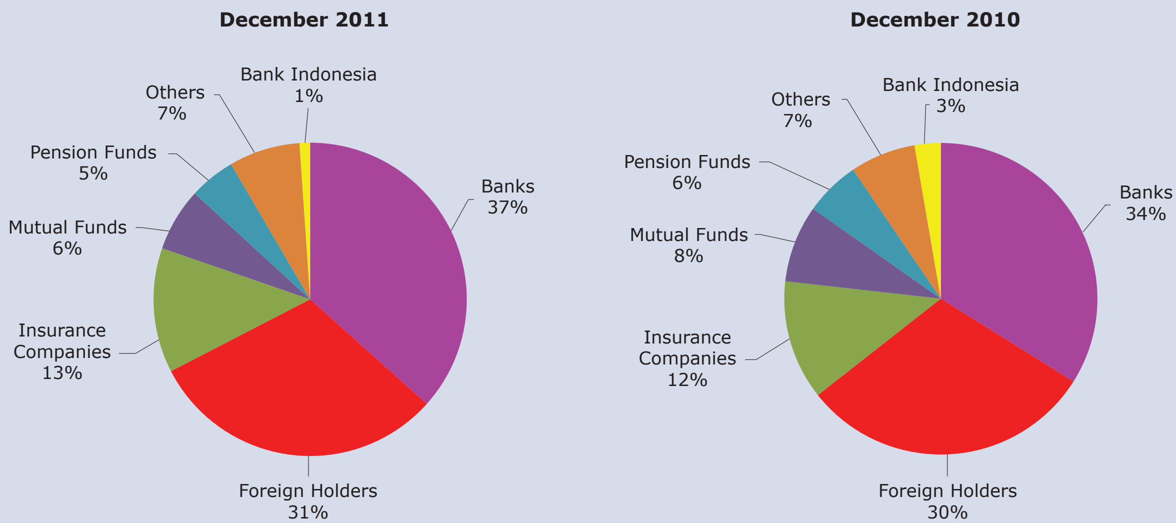
In 2012, 18% of the government's gross debt issuance will come from FCY issuance. The government is planning to issue JPY-denominated bonds in June and global *sukuk* (Islamic bonds) in the second half of the year.

On the corporate front, Indonesian power firm Cikarang Listrindo priced US$500 million in 7-year bonds in February. The bonds were priced at par and carried a coupon of 6.95%. The bond deal was the first Indonesian corporate high-yield issue of 2012 as well as the first RegS/144A high-yield issued in the region this year. The bonds were well distributed, with 38% sold to investors in Asia, 35% to investors in the United States (US), and 27% to investors in Europe. The bond sale was oversubscribed, with the order book reaching US$4.3 billion.

Investor Profile

Central Government Bonds. Banking institutions remain the largest holder of LCY government bonds in Indonesia, with a slightly higher share of total LCY government bonds outstanding at end-December 2011 (37%) compared with 1 year earlier (34%) **(Figure 2)**. Banking institutions include state banks, private banks, non-recap banks, regional banks, and *shari'a* (Islamic law) banks. State banks account for about 60% of the total bond holdings of banks.

Figure 2: LCY Government Bonds Investor Profile



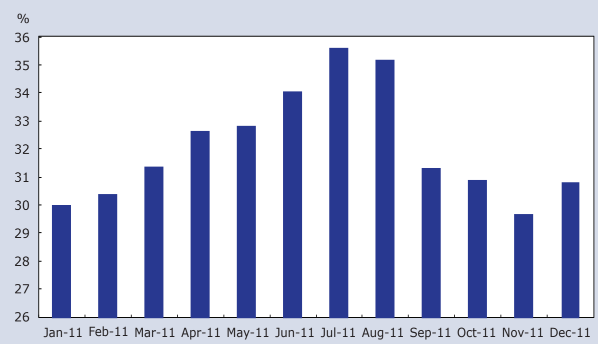
LCY = local currency.
Source: Indonesia Debt Management Office.

The second largest share of government bond holdings at end-December belonged to foreign investors with a share of 31%. Foreign investors' share peaked at 36% on 12 September, before a sell-off in LCY government bonds by offshore investors led to the rapid decline of their holdings to 31% by end-September. This share declined further to 30% by end-November before recovering in December **(Figure 3)**.

Foreign buying by investors resumed after Indonesia's upgrade to investment grade status from Fitch in December and Moody's in January. Government bond holdings of foreign investors recovered to 32.1% at end-January before falling again to 30.4% by mid-March. The government's planned fuel price hike dampened market sentiments in the bond and currency markets over inflationary concerns.

At end-December, 63% of the total bonds held by foreigners were in the form of long-dated tenors (maturities of 5 years or more) **(Figure 4)**. However, this reflected a drop from a share of 67% in 2010 and 71% in 2009. Offshore holdings of short-dated tenors (maturities of less than 1 year) climbed to 12% at end-December,

Figure 3: Monthly Foreign Investors Share in LCY Government Bonds, 2011

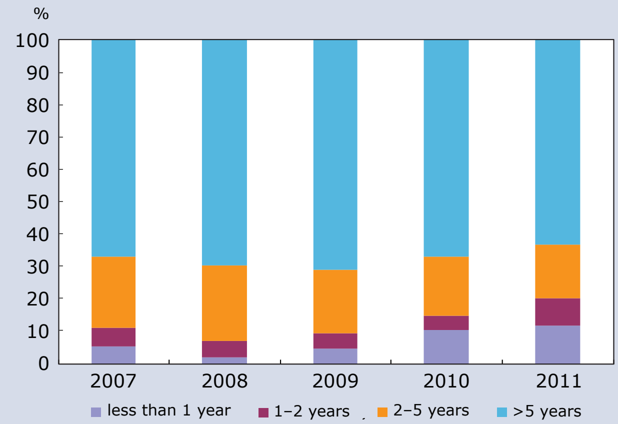


LCY = local currency
Source: Indonesia Debt Management Office.

compared with 10% in 2010 and only 5% in 2009.

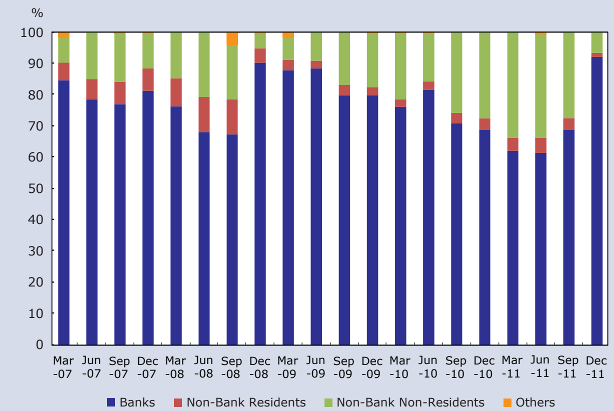
The central bank's share in government bonds dropped to 1% in 4Q11 from 3% in 4Q10. At end-December, BI's holdings of LCY bonds reached IDR7.8 trillion, after hitting IDR17.0 trillion at end-September. BI has been purchasing government bonds both to help stabilize prices and to increase its holdings, which it plans to use for monetary operations as a replacement for SBI.

Figure 4: Foreign Holdings of LCY Government Bonds by Maturity, 2007–2011



LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 5: LCY Central Bank Bills Investor Profile, March 2007–December 2011



LCY = local currency.
Source: Bank Indonesia.

Meanwhile, the share of contractual savings institutions' holdings of government bonds is relatively low in Indonesia compared with other markets in the region. Insurance companies and pension funds held shares of 13% and 5%, respectively, at end-December.

Central Bank Bills. The dominant share of SBI were held by banking institutions at the end of 4Q11, with their ownership share climbing to 92% at end-December from 69% at end-September **(Figure 5)**. BI has noted that banks were using SBI as an investment tool instead of channeling funds for lending.

On the other hand, foreign investors' holdings of SBI fell sharply at the end of 4Q11, as their share dropped to 7% at end-December from 27% at end-September. Foreign ownership in SBI peaked in May 2011 at a share of 39% when the SBI holding period was extended to 6 months. Furthermore, since February 2011, SBI have only been issued with maturities of 9 months. The share of foreign investors' holdings of SBI had declined steadily before dropping sharply in 4Q11 to its current level. At end-December, foreign investors held a total of IDR7.8 trillion in SBI.

Rating Changes

On 15 December, Fitch upgraded Indonesia's long-term FCY and LCY debt to BBB– **(Table 5)**. The outlook for both ratings is stable. Fitch cited Indonesia's improved economic performance, strengthened external liquidity, low and declining public debt ratios, and a prudent overall macro policy framework as reasons for the upgrade.

Table 5: Selected Sovereign Ratings and Outlook for Indonesia

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Baa3	BB+	BBB–	BB+
Outlook	Stable	Positive	Stable	Positive

FCY = foreign currency, LT = long term.
Source: Rating agencies.

On 18 January, Moody's raised Indonesia's FCY and LCY ratings to Baa3 from Ba1, with a stable outlook for both. According to Moody's, the key factors for the upgrade were expectations that the government's financial metrics would remain in line with its new Baa3 peers, the demonstrated resilience of Indonesia's economic growth in the face of large external shocks, the presence of policy buffers and tools that address financial vulnerabilities, and a healthier banking system capable of withstanding stress.

Policy, Institutional, and Regulatory Developments

BI to Allow *Sukuk* for Reverse Repo Operations

Effective 1 December, BI began allowing the use of *sukuk* in the reverse repo transactions of *shari'a* banks and business units. Indonesian *shari'a* banks can purchase at least IDR1 billion of *sukuk* from the central bank and in exchange they will receive transaction margins when they buy back the *sukuk* at an agreed price after a specified time. This regulation aims to absorb excess liquidity among *shari'a* banks, specifically those banks with a finance-to-deposit ratio of at least 80% and those that participate in BI's *shari'a* monetary operations.

BI to Purchase Long-Term Bonds and *Sukuk* to Help Stabilize Bond Market

In January, BI announced plans to purchase long-term government bonds as part of efforts to defend the Indonesian rupiah and stabilize the domestic bond market. Since September 2011, the central bank has been buying short- and medium-term government bonds in the market to support prices. In February, BI announced that it would purchase Islamic government debt to help stabilize the bond market and deepen the *shari'a* financial market.

BI Widens Lower Limit on Benchmark Rate to 200 bps

Effective 18 January, BI widened the lower limit of its benchmark rate (deposit facility) from 150 bps to 200 bps below the BI rate. This measure was taken in order to bolster banks' liquidity management by encouraging them to transact with one another, thereby boosting banking efficiency. Following the policy rate cut in February, rates now stand at 3.75% for the overnight deposit facility and 6.75% for the overnight lending facility.

House of Representatives Approves the 2012 Revised State Budget

In March, the Ministry of Finance submitted its proposed revisions to the 2012 State Budget to the House of Representatives. On 1 April, the Parliament approved the 2012 economic growth assumptions, which include (i) an economic growth target of 6.5%, (ii) an inflation rate target of 6.8%, (iii) an IDR–US$ exchange rate of IDR9,000 per US$1, (iv) a 3-month treasury bill rate of 5%, (v) an Indonesian Crude Price of US$105 per barrel, and (vi) an oil lifting volume of 930,000 barrels per day.

Indonesian Government Raises IDR13.6 trillion from the Sale of Islamic Retail Bonds

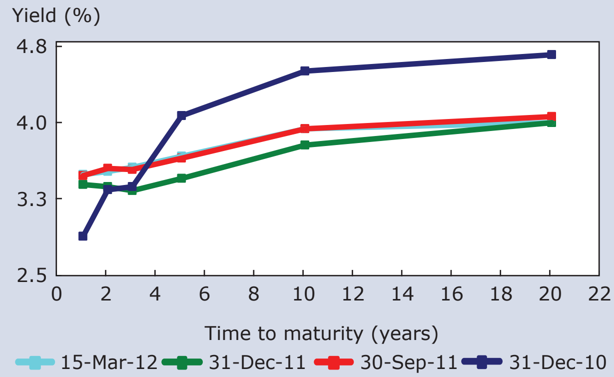
In March, the government raised IDR13.6 trillion from the sale of its fourth series of retail Islamic bonds. The bonds carried a maturity of 3 years and offered a 6.25% coupon. A total of IDR19 trillion in orders were received during the offer period. The bonds were allocated to 17,606 investors: 28% of which were civil servants, 21% were private employees, 20% were entrepreneurs, 16% were housewives, and the remaining 15% were employees working in other fields.

Republic of Korea—Update

Yield Movements

Government bond yields in the Republic of Korea fell for all maturities between end-September and end-December, with the fall ranging from 6 basis points (bps) for the 20-year tenor to 21 bps for the 3-year tenor **(Figure 1)**. The drop in yields during this period has been largely attributed to increased concerns over the eurozone's sovereign debt crisis. Between end-December and 15 March, however, yields rose for most maturities amid inflation expectations.

Figure 1: The Republic of Korea's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The yield spread between 2- and 10-year tenors widened 2 bps between end-September and end-December—as the fall in the 2-year was larger than that in the 10-year, and increased 1 bp between end-December and 15 March—as the rise in the 10-year was larger than that of the 2-year.

The Bank of Korea's Monetary Policy Committee decided on 13 April to keep its base rate—the 7-day repurchase rate—steady at 3.25%; it was the tenth consecutive month that the policy rate was left unchanged. The committee noted that the global recovery will be moderated by sluggish economic activity in Europe and weakening growth in emerging markets. It also noted the presence of high inflationary expectations amid geopolitical tensions in the Middle East.

Consumer price inflation decelerated to 2.6% year-on-year (y-o-y) in March from 3.1% in February and 3.4% in January. Food and non-alcoholic beverage prices climbed 4.9% y-o-y for the month, while housing and utility costs rose 5.4%. On a month-on-month (m-o-m) basis, consumer prices decreased 0.1% in March, led by a 0.8% monthly drop in education costs.

Economic growth moderated in 4Q11 on the back of weakening personal and government consumption, investment spending, and exports. Based on preliminary data from The Bank of Korea, real gross domestic product (GDP) growth eased to 0.3% quarter-on-quarter (q-o-q) in 4Q11 from 0.8% in the previous quarter. The slowdown in growth has been attributed to (i) a 0.5% q-o-q fall in final consumption expenditure—as personal consumption and government expenditure both declined, (ii) negative 1.5% q-o-q growth in gross fixed capital formation, and (iii) a 2.3% q-o-q decline in exports of goods and services. On the supply-side, manufacturing production contracted 0.3% q-o-q in 4Q11, following 1.1% growth in the previous quarter, and construction activity also declined 0.2% for the quarter. On an annual basis, real GDP grew 3.3% y-o-y in 4Q11, lower than the 3.6% growth in 3Q11. For the full-year 2011, real GDP growth stood at 3.6%, lower than the growth rate of 6.3% in 2010.

Size and Composition

The Republic of Korea's local currency (LCY) bond market continued to expand in 4Q11, with total LCY bonds outstanding increasing 9.5% y-o-y and 2.0% q-o-q to reach KRW1,416 trillion (US$1,229 billion) at end-December **(Table 1)**. Government bonds outstanding stood at KRW587.3 trillion, which was up 6.0% y-o-y but down 0.5% q-o-q. Central government

Table 1: Size and Composition of the LCY Bond Market in the Republic of Korea

	Amount (billion)								**Growth Rate** (%)						
	Sep-11		**Oct-11**		**Nov-11**		**Dec-11**		**Sep-11**		**Oct-11**	**Nov-11**	**Dec-11**		
	KRW	**US$**	**KRW**	**US$**	**KRW**	**US$**	**KRW**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	1,389,038	1,179	1,400,338	1,261	1,415,673	1,239	1,416,376	1,229	8.6	2.1	0.8	1.1	9.5	2.0	0.0
Government	590,429	501	589,293	531	594,633	520	587,316	510	4.4	1.2	(0.2)	0.9	6.0	(0.5)	(1.2)
Central Bank Bonds	169,420	144	167,220	151	168,770	148	164,760	143	3.0	1.4	(1.3)	0.9	0.8	(2.8)	(2.4)
Central Government Bonds	391,213	332	392,847	354	397,291	348	392,675	341	5.5	1.1	0.4	1.1	8.3	0.4	(1.2)
Industrial Finance Debentures	29,796	25	29,226	26	28,572	25	29,881	26	(1.5)	1.0	(1.9)	(2.2)	6.7	0.3	4.6
Corporate	798,609	678	811,045	731	821,040	719	829,060	719	11.9	2.9	1.6	1.2	12.1	3.8	1.0

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: EDAILY *BondWeb* and The Bank of Korea.

bonds, which include Korea Treasury Bonds (KTBs), increased 8.3% y-o-y and 0.4% q-o-q to reach KRW392.7 trillion. Meanwhile, central bank bonds, known as Monetary Stabilization Bonds (MSBs), rose a marginal 0.8% y-o-y, but posted negative q-o-q growth of 2.8%, to level off at KRW164.8 trillion. Industrial finance debentures—bonds sold by the Korea Development Bank (KDB)—expanded 6.7% y-o-y and increased a marginal 0.3% q-o-q to reach KRW29.9 trillion.

Government bond issuance in 4Q11 totaled KRW66.5 trillion, which was down 9.7% q-o-q. Central bank issuance, which comprised 62% of total government issuance, fell to KRW41.4 trillion from KRW47.1 trillion in the previous quarter. On the other hand, issuance of central government bonds increased slightly in 4Q11 to KRW22.3 trillion from KRW21.1 trillion in 3Q11, as KTB issuance rose 5.5% q-o-q to KRW19.6 trillion.

The outstanding stock of LCY corporate bonds jumped 12.1% y-o-y and 3.8% q-o-q to KRW829.1 trillion at end-December, spearheading growth in the overall LCY bond market. Private corporate bonds surged 22.0% y-o-y and 6.5% q-o-q to KRW353.6 trillion. Similarly, special public bonds expanded 10.1% y-o-y and 2.6% q-o-q to KRW268.3 trillion. Meanwhile, financial debentures (excluding KDB bonds) increased marginally, rising 1.0% y-o-y and 0.5% q-o-q, to level off at KRW207.2 trillion.

As of end-December, the combined bonds outstanding of the top 30 corporate issuers amounted to KRW515.9 trillion, accounting for 62% of total corporate bonds outstanding **(Table 2)**. The top 30's share of the total was about the same in 4Q11 as in the previous quarter. Korea Land & Housing Corp. continued to be the largest corporate issuer with total bonds outstanding of KRW57.0 trillion.

In 4Q11, LCY corporate bond issuance amounted to KRW95.3 trillion, of which 52% were private corporate bonds, 28% financial debentures, and 20% special public bonds. Compared with

Table 2: Top 30 Issuers of LCY Corporate Bonds in the Republic of Korea (as of end-December 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed on		Type of Industry
	LCY Bonds (KRW billion)	LCY Bonds (US$ billion)			KOSPI	KOSDAQ	
1. Korea Land & Housing Corp.	57,032	49.5	Yes	No	No	No	Real Estate
2. Korea Housing Finance Corp.	38,547	33.4	Yes	No	No	No	Financial
3. Korea Finance Corp.	32,960	28.6	Yes	No	No	No	Financial
4. Industrial Bank of Korea	31,474	27.3	Yes	No	Yes	No	Bank
5. Daewoo Securities	26,057	22.6	Yes	No	Yes	No	Securities
6. Korea Deposit Insurance Corp.	25,280	21.9	Yes	No	No	No	Insurance
7. Korea Electric Power Corp.	24,220	21.0	Yes	No	Yes	No	Utillity
8. Kookmin Bank	21,205	18.4	No	Yes	No	No	Bank
9. Shinhan Bank	19,297	16.7	No	Yes	No	No	Bank
10. Woori Investment and Securities	19,253	16.7	Yes	No	Yes	No	Securities
11. Korea Highway	18,560	16.1	Yes	No	No	No	Infrastructure
12. Woori Bank	16,692	14.5	Yes	No	No	No	Bank
13. Korea Investment and Securities	16,104	14.0	No	Yes	No	No	Securities
14. Small & Medium Business Corp.	14,738	12.8	Yes	No	No	No	Financial
15. Hana Bank	13,834	12.0	No	Yes	No	No	Bank
16. Tong Yang Securities	13,256	11.5	No	Yes	Yes	No	Securities
17. Korea Rail Network Authority	12,660	11.0	Yes	No	No	No	Infrastructure
18. Mirae Asset Securities	12,232	10.6	No	Yes	Yes	No	Securities
19. Korea Gas Corp.	12,155	10.5	Yes	No	Yes	No	Utility
20. Nonghyup (National Agricultural Cooperative Federation)	10,710	9.3	Yes	No	No	No	Bank
21. Hyundai Securities	10,334	9.0	No	Yes	Yes	No	Securities
22. Shinhan Card	9,331	8.1	No	Yes	No	No	Financial
23. Korea Water Resources	8,778	7.6	Yes	No	Yes	No	Utility
24. Hana Daetoo Securities	7,918	6.9	No	Yes	No	No	Securities
25. Korea Eximbank	7,630	6.6	Yes	No	No	No	Bank
26. Standard Chartered First Bank Korea	7,550	6.6	No	Yes	No	No	Bank
27. Hyundai Capital Services	7,482	6.5	No	Yes	No	No	Securities
28. Shinhan Financial Group	7,290	6.3	No	Yes	Yes	No	Financial
29. Korea Railroad Corp.	7,110	6.2	Yes	No	No	No	Infrastructure
30. KB Kookmin Card	6,240	5.4	No	Yes	No	No	Financial
Total Top 30 LCY Corporate Issuers	**515,929**	**447.7**					
Total LCY Corporate Bonds	**829,060**	**719.4**					
Top 30 as % of Total LCY Corporate Bonds	**62.2%**	**62.2%**					

KOSPI = Korea Composite Stock Price Index, KOSDAQ = Korean Securities Dealers Automated Quotations, LCY = local currency.
Source: *AsianBondsOnline*, Bloomberg LP, and EDAILY *BondWeb*.

the previous quarter, issuance of corporate bonds jumped 22.9%, led by a 37.9% spike in private corporate bond issues. On a y-o-y basis, corporate bond issuance surged 18.5% on the back of double-digit growth in special public bonds, financial debentures, and private corporate bonds. The largest corporate bond issue in 4Q11 was the Korea Development Insurance Corp.'s 3-year bond worth KRW1.2 trillion with a coupon rate of 3.8%.

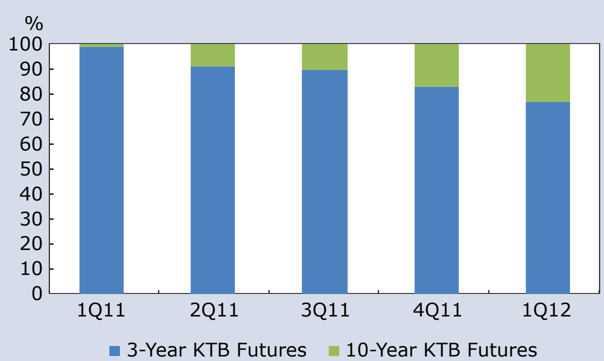
Liquidity

The turnover ratio for LCY government bonds fell from 1.30 in 3Q11 to 1.08 in 4Q11 as liquidity conditions tightened for both central government and central bank bonds. The turnover ratio for central government bonds—largely comprising KTBs—decreased to 1.10 in 4Q11 (from 1.32 in 3Q11), while it also declined for MSBs from 1.51 in 3Q11 to 1.25 in 4Q11.

In the KTB futures market, trading activity weakened in 4Q11 compared with 3Q11, with the number of traded KTB futures contracts falling to 7.6 million in 4Q11 from 11.9 million in 3Q11. In 1Q12, however, trading activity rebounded as the number of traded KTB futures contracts increased to 8.3 million.

The share of 10-year KTB futures has been steadily increasing in recent quarters—from 1.3% in 1Q11, it climbed to 17.2% in 4Q11, and further rose to 23.3% in 1Q12 **(Figure 2)**. In contrast, the share of 3-year KTB futures dropped from 98.7% in 1Q11 to 82.8% in 4Q11, and further declined to 76.7% in 1Q12.

Figure 2: Trading Volume of KTB Futures Contracts, 1Q11–1Q12 (%)



KTB = Korea Treasury Bonds.
Source: Korea Exchange.

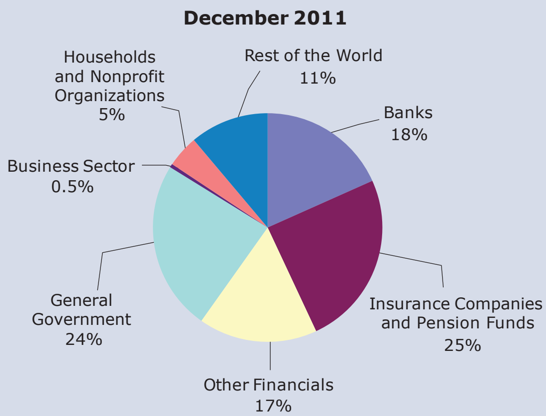
Liquidity in the LCY corporate bond market has improved in 4Q11, with the turnover ratio increasing to 0.18 in 4Q11 from 0.16 in 3Q11. This was led by financial debentures and private corporate bonds, with their turnover ratios rising to 0.38 from 0.34 and 0.10 from 0.08, respectively. Meanwhile, the turnover ratio for special public bonds remained unchanged from the previous quarter at 0.13.

Investor Profile

The largest investor group in LCY government bonds at end-December was insurance companies and pension funds with a 25% share followed by the general government—consisting of the central government, local government, and social security funds—at 24% **(Figure 3)**. Banks and other financial institutions held 18% and 17% of the total, respectively, while foreign investors owned 11%. Between end-December 2010 and end-December 2011, the share of households and nonprofit organizations rose 2 percentage points while the shares of foreign investors and insurance companies and pension funds increased 1 percentage point each. Conversely, the share of banks dropped 2 percentage points and the shares of other financial institutions and non-financial companies declined 1 percentage point each.

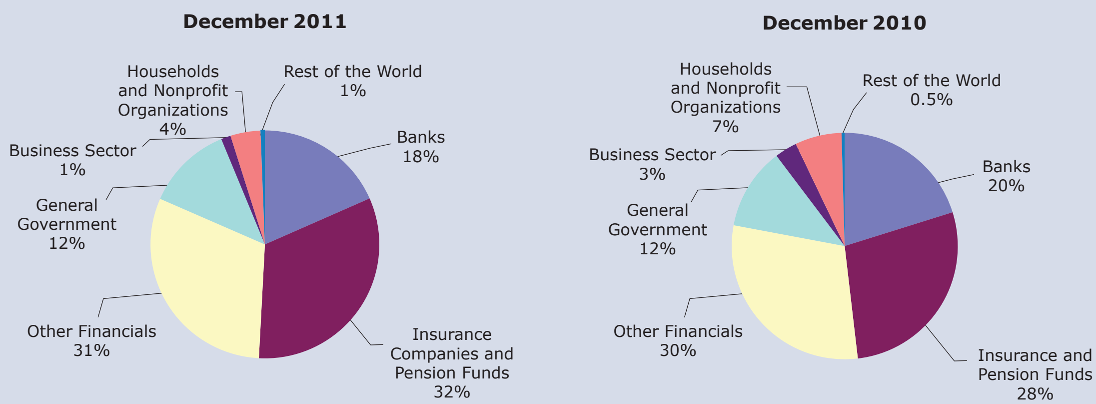
The largest investor group in LCY corporate bonds as of end-December was insurance companies and pension funds, which held a share of 32% of total corporate bonds, followed by other financial institutions with a 31% share **(Figure 4)**. Banks held 18% of corporate bonds and the general government accounted for 12%. Compared with December 2010, the shares in corporate bonds increased by 4 percentage points for insurance companies and pension funds, and by 1 percentage point each for foreign investors and other financial

Figure 3: LCY Government Bonds Investor Profile



LCY = local currency.
Source: *AsianBondsOnline* and The Bank of Korea.

Figure 4: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: *AsianBondsOnline* and The Bank of Korea.

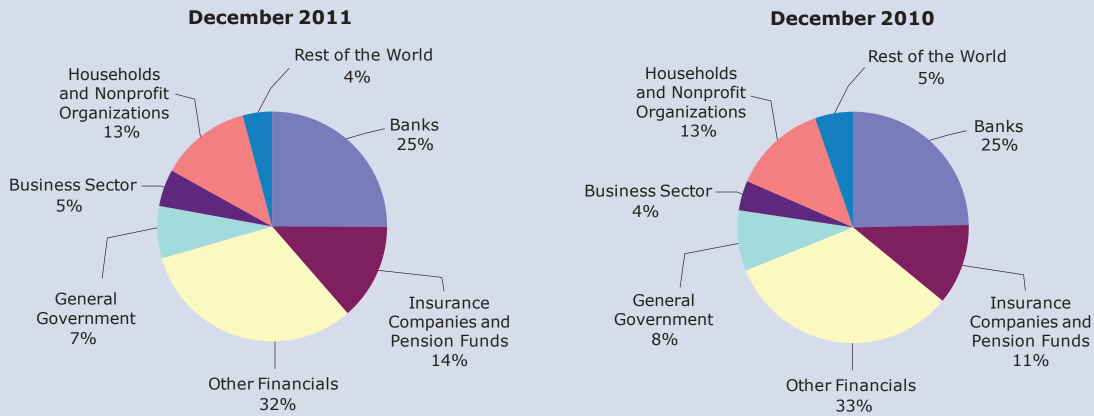
institutions. In contrast, the share of households and nonprofit organizations dropped 3 percentage points, and the shares of banks and non-financial companies fell 2 percentage points each.

The largest investor group in LCY financial debentures (including KDB) as of end-December was financial institutions other than banks with a 32% share **(Figure 5)**. Banks had the second-largest share at 25%, followed by insurance firms and pension funds with 14%, and households and nonprofit organizations with 13%. The shares of insurance companies and pension funds, and non-financial companies, climbed 3 percentage points and 1 percentage point, respectively, from end-December 2010 levels. In contrast, the shares of the general government, foreign investors, and other financial institutions each fell by 1 percentage point.

Rating Changes

On 2 April, Moody's changed the outlook on the Republic of Korea's A1 government bonds rating from stable to positive **(Table 3)**. The change in the ratings outlook stemmed from

Figure 5: LCY Financial Debentures Investor Profile



LCY = local currency.
Note: Financial debentures data include KDB.
Source: *AsianBondsOnline* and The Bank of Korea.

(i) the sovereign's strong and improving fiscal fundamentals, (ii) a relatively robust medium-term outlook for GDP growth, (iii) resilience in the government's external financing position, and (iv) reduction in the domestic banking sector's external vulnerability.

Table 3: Selected Sovereign Ratings and Outlook for the Republic of Korea

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	A1	A	A+	A+
Outlook	Positive	Stable	Positive	Stable

FCY = foreign currency, LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

QFII License Granted to the Bank of Korea, Korea Investment Corporation, and National Pension Service

The China Securities Regulatory Commission (CSRC) granted qualified foreign institutional investor (QFII) licenses to The Bank of Korea and the Korea Investment Corporation—a sovereign wealth fund—in December, and to the National Pension Service in January. The licenses will allow the three institutions to invest in CNY-denominated assets—such as bonds and stocks—that are listed on the Shanghai and Shenzhen stock exchanges.

FSC Sets 2012 Financial Policy Agenda

In January, the Financial Services Commission (FSC) announced its 2012 financial policy agenda, which contains three policy goals: (i) better crisis preparation, (ii) the promotion of entrepreneurship and business growth, and (iii) low-income households' increased access to financial services. The agenda also includes six key steps to achieve these policy objectives: (i) taking preemptive actions to ensure market stability, (ii) advancing the financial system, (iii) creating a financial environment that is conducive for the growth of start-up businesses and SMEs, (iv) ensuring financial services for sustainable development, (v) widening access to financial services for low-income households, and (vi) raising the social contribution of financial institutions and enhancing financial consumer protection.

2012 Treasury Bill Issuance Plan Introduced

In February, the Ministry of Strategy and Finance introduced its issuance plan for treasury bills in 2012. The plan indicated that issuance in February–March would include 63- and 182-day bills amounting to KRW5 trillion. In an initial step, the government issued 63-day treasury bills totaling KRW1 trillion in February.

KOFIA to Launch Trading Platform for SME Bonds

The Korea Financial Investment Association (KOFIA) plans to establish a trading platform—an electronic over-the-counter system—for the bonds of small and medium-sized enterprises (SMEs). The issuers of the bonds will be local unlisted firms with asset sizes of less than KRW500 billion. The trading system is expected to be launched in May.

Malaysia—Update

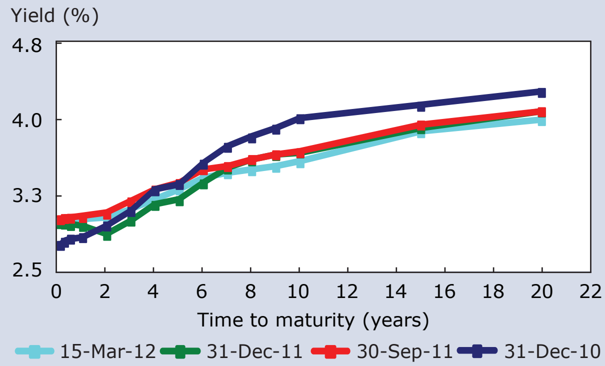
Yield Movements

The yield curve for Malaysian local currency (LCY) government bonds fell across all maturities between end-September and end-December 2011. The yield curve then flattened between end-December and 15 March as yields rose at the short-end and the belly of the curve, but dropped at the long-end **(Figure 1)**. Yields at the very short-end rose between 2 basis points (bps) and 4 bps, while 2- and 3-year maturities rose 17 bps and 12 bps, respectively. Yields for the 5-year maturity rose 11 bps, while yields for 4- and 6-year maturities both increased by 6 bps. On the other hand, yields between the 7- and 20-year maturities fell 5 bps–12 bps. The yield spread between 2- and 10-year maturities narrowed to 92 bps in mid-March from 106 bps at end-December.

Bank Negara Malaysia (BNM) decided to keep its overnight policy rate steady at 3.0% after its Monetary Policy Committee meeting on 9 March. BNM has kept its rate at this level since May last year. Consumer price inflation averaged 3.2% in 2011 and is expected to moderate in 2012 as cost-push inflation eases amid a slowdown in global economic activity. Malaysia's consumer price inflation slowed to 2.2% year-on-year (y-o-y) in February from 2.7% in January. Index for food and non-alcoholic beverages increased 2.9% y-o-y in February, significantly lower than the 4.8% y-o-y increase posted in January. Meanwhile, index for non-food increased 1.8% y-o-y in February, slightly higher than January's 1.7%.

Malaysia's gross domestic product (GDP) expanded 5.2% y-o-y in 4Q11, down slightly from the 5.8% growth posted in 3Q11. Growth in 4Q11 was supported by sustained domestic demand that increased 10.5% y-o-y, compared with 9.0% in 3Q11, and was driven by higher growth in public sector consumption and gross fixed capital formation. On the other hand, net exports dropped 25.7% y-o-y in 4Q11 in a reversal from the 18.1% increase posted in the previous quarter. For the full-year 2011, Malaysia's GDP increased 5.1%.

Figure 1: Malaysia's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Total LCY bonds outstanding reached MYR833.8 billion (US$263.2 billion) at the end of 2011, up 10.4% y-o-y but flat on a quarter-on-quarter (q-o-q) basis **(Table 1)**. Growth in LCY government bonds eased to 12.0% y-o-y in 4Q11—for a total of MYR499.0 billion (US$157.5 billion)—after posting a 19.8% increase in 3Q11. Central government bills and bonds rose 13.0% y-o-y at end-December versus 10.9% at end-September. However, central bank bills growth slowed to 9.3% y-o-y at end-December from 58.0% at end-September. On a q-o-q basis, total LCY government bonds outstanding fell 1.2% in 4Q11.

Issuance of government bonds—Malaysian Government Securities (MGSs) and Government Investment Issues (GIIs)—increased 92.8% y-o-y to MYR20.2 billion in 4Q11. Total government bond issuance increased 60.6% in 2011 to reach MYR93.3 billion, up from MYR58.1 billion in 2010. A total of MYR48.1 billion worth of government bonds matured in 2011, which brought net issuance to MYR45.2 billion.

Table 1: Size and Composition of the LCY Bond Market in Malaysia

	Amount (billion)								Growth Rate (%)						
	Sep-11		Oct-11		Nov-11		Dec-11		Sep-11		Oct-11	Nov-11	Dec-11		
	MYR	US$	MYR	US$	MYR	US$	MYR	US$	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	840.0	263.4	839.7	273.9	843.7	265.5	833.8	263.2	16.5	3.4	(0.03)	0.5	10.4	(0.7)	(1.2)
Government	505.0	158.4	504.1	164.4	502.1	158.0	499.0	157.5	19.8	4.1	(0.2)	(0.4)	12.0	(1.2)	(0.6)
Central Government Bonds	376.8	118.2	383.0	124.9	389.0	122.4	392.0	123.7	10.9	0.2	1.6	1.6	13.0	4.0	0.8
Central Bank Bills	127.7	40.0	120.6	39.3	112.6	35.4	106.7	33.7	58.0	17.8	(5.6)	(6.6)	9.3	(16.4)	(5.2)
Others	0.5	0.1	0.5	0.2	0.5	0.1	0.2	0.1	(52.1)	–	–	–	(75.0)	(47.8)	(47.8)
Corporate	335.0	105.0	335.6	109.5	341.6	107.5	334.8	105.7	11.8	2.3	0.2	1.8	8.1	(0.05)	(2.0)

– = not applicable, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

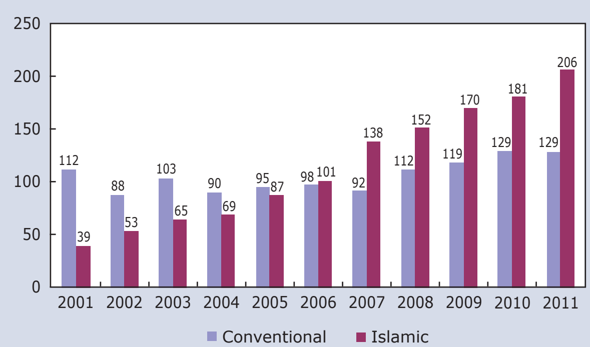
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" refers to Khazanah Bonds issued by Khazanah Nasional Berhad and Cagamas Bonds and Notes, Bithaman Ajil Islamic Securities, Sanadat ABBA Cagamas, and Sanadat Mudharabah Cagamas issued by Cagamas Berhad.

Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST); and Bloomberg LP.

Outstanding LCY corporate bonds rose 8.1% y-o-y as of end-2011. However, on a q-o-q basis, total LCY corporate bonds outstanding were unchanged in 4Q11. LCY corporate bonds outstanding have been steadily increasing since 2005, largely driven by the surge in *sukuk* (Islamic bonds). At the end of 2011, LCY corporate *sukuk* outstanding stood at MYR206.1 billion, more than double the level from 2006 and more than 5 times the amount in 2001. On the other hand, outstanding conventional LCY corporate bonds were unchanged in 2011 **(Figure 2)**.

Despite the drop in the stock of more traditional Islamic bonds issued by corporations (IBONDS) and Islamic corporate paper, Islamic-based LCY corporate bonds outstanding were up 14.1% y-o-y at end-2011 due to an increase in Islamic Medium-Term Notes (IMTNs) outstanding, which surged 49.9% to MYR101.5 billion in 2010 and 29.0% to MYR130.8 billion in 2011 **(Table 2)**. The large issuers of IMTNs in 2011 included water asset management company Pengurusan Air (MYR9.9 billion), Tenaga Nasional's special purpose vehicle Manjung Island Energy (MYR4.9 billion), and national infrastructure company Prasarana (MYR3.1 billion). State-owned GovCo Holdings and state electricity provider Sarawak Energy each sold MYR3.0 billion worth of IMTNs in 2011, while road toll operator Anih Bhd. issued MYR2.5 billion of IMTNs.

Figure 2: Outstanding LCY Corporate Bonds, 2001–2011 (MYR billion)



LCY = local currency.
Source: Bank Negara Malaysia.

Table 2: Outstanding Islamic Corporate LCY Bonds, 2001-2011 (MYR billion)

Year	IABS/ ABS-IMTN	IBONDS	ICP	IMTN
2001	–	18.33	4.48	1.12
2002	–	33.29	4.46	1.75
2003	–	46.11	4.69	2.57
2004	0.99	52.09	6.21	5.43
2005	0.60	55.09	3.62	9.97
2006	3.25	62.88	4.49	16.75
2007	3.21	65.05	5.89	26.96
2008	5.55	70.99	6.46	55.07
2009	6.17	71.95	5.89	67.67
2010	5.12	68.79	5.28	101.45
2011	5.10	67.05	3.18	130.82

– = data not available, ABS–IMTN = asset-backed securities–Islamic medium-term notes, IABS = Islamic asset-backed securities, IBONDS = Islamic bonds, ICP = Islamic corporate paper, IMTN = Islamic medium-term notes.
Source: Bank Negara Malaysia.

Issuance of LCY corporate bonds fell 9.2% y-o-y to MYR23.2 billion in 4Q11, but total corporate LCY bond issuance increased 12.4% to MYR92.3 billion in full-year 2011.

As of end-2011, the top 30 issuers in Malaysia accounted for 56% of total LCY corporate bonds outstanding. Cagamas Bhd., Khazanah Nasional, and Binariang GSM remained the biggest issuers of LCY corporate bonds, with outstanding amounts of MYR20.0 billion, MYR13.2 billion, and MYR11.3 billion, respectively **(Table 3)**.

Investor Profile

As of end-December, financial institutions were the largest holders of MGSs and GIIs, with 42% of total outstanding government bonds, followed by social security institutions, which held 24%. Insurance companies comprised 6% of the total **(Figure 3)**. The share of government bonds held by foreign investors continued to rise to 26% at end-December, up from a 25% share at end-September and 22% at end-December 2010.

Domestic commercial and Islamic banks were the largest holders of LCY corporate bonds, with an estimated share of 45% at end-December 2010. Life insurance companies and the Employment Provident Fund followed with shares of 30% and 13%, respectively **(Figure 4)**.

Ratings Change

In January, Moody's affirmed Malaysia's A3 long-term LCY and foreign currency (FCY) rating and gave it a stable outlook **(Table 4)**. According to Moody's, Malaysia's A3 sovereign rating was based on its economic resiliency, backed by a highly open, medium-sized economy, and a well-diversified external sector. While Malaysia's credit metrics have weakened due to the global financial crisis, the stable outlook reflects prospects for the effective implementation of countercyclical fiscal policy and gradual reforms to help cushion the impact of external shocks.

Policy, Institutional, and Regulatory Developments

BNM Announces a Renminbi Settlement Service

BNM announced that Renminbi Settlement Services (RSS) were to be included in its Real-Time Electronic Transfer of Funds and Settlement System (RENTAS) beginning 21 March. Bank of China (Malaysia) Bhd. has been appointed as the onshore settlement institution for RSS, which will provide greater efficiency and competitiveness in trade settlement, facilitate bilateral trade between Malaysia and the People's Republic of China (PRC), and provide a natural hedge against the fluctuations and volatility of other currencies while eliminating settlement risk for renminbi transactions.

HKMA, BNM, and Euroclear Unveil Pilot Program for Cross-Border Bond Transactions

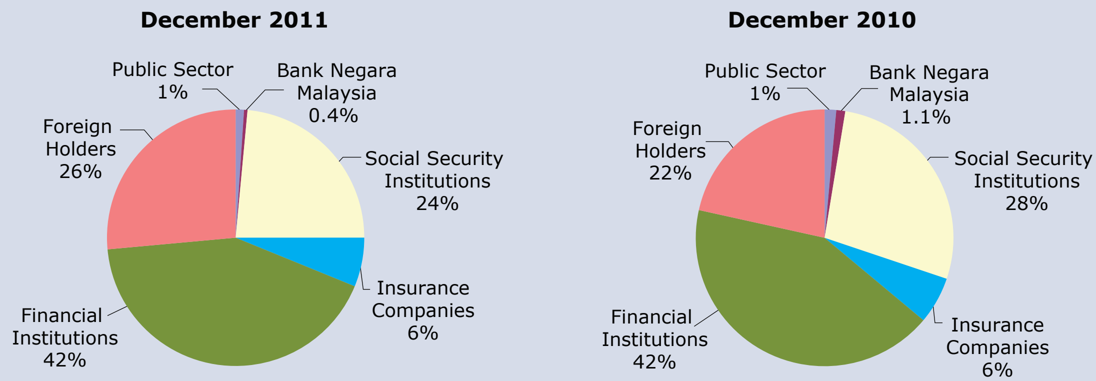
The Hong Kong Monetary Authority (HKMA), BNM, and Euroclear Bank announced the launch of a pilot platform in March. The platform, which became operational on 30 March, allows investors in Hong Kong, China and Malaysia to buy and hold foreign debt securities, and settle cross-border transactions on a delivery-

Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia (as of end-December 2011)

Issuers	Outstanding Amount (MYR billion)					State-Owned	Privately-Owned	Listed Company	Type of Industry
	BONDS	IBONDS	MTN	IMTN	TOTAL				
1. Cagamas			9.77	10.22	19.99	Yes	No	No	Finance
2. Khazanah		13.20			13.20	Yes	No	No	Quasi-Govt. and Other
3. Binariang GSM		3.02		8.28	11.30	No	Yes	No	Transport, Storage, and Comm.
4. Pengurusan Air Bhd.				11.08	11.08	Yes	No	No	Energy, Gas, and Water
5. Maybank	9.10	1.50			10.60	No	Yes	Yes	Finance
6. Project Lebuhraya		5.62		3.68	9.30	No	Yes	Yes	Transport, Storage, and Comm.
7. Prasarana	2.91	2.00		4.00	8.91	Yes	No	No	Finance
8. Malakoff Corp.		1.70		5.60	7.30	No	Yes	No	Finance
9. CIMB Bank	7.00				7.00	No	Yes	No	Finance
10. Public Bank	1.20		4.87		6.07	No	Yes	Yes	Finance
11. KL International Airport	1.60	4.26			5.86	Yes	No	No	Transport, Storage, and Comm.
12. Rantau Abang Capital Bhd.				5.80	5.80	No	Yes	No	Quasi-Govt. and Other
13. Senai Desaru Expressway Bhd.				5.58	5.58	No	Yes	No	Construction
14. 1Malaysia Development Bhd.				5.00	5.00	Yes	No	No	Finance
15. AM Bank	0.49		4.48		4.96	No	Yes	Yes	Finance
16. Manjung Island Energy Bhd.				4.85	4.85	Yes	No	No	Energy, Gas, and Water
17. Jimah Energy Ventures				4.43	4.43	No	Yes	No	Energy, Gas, and Water,
18. Putrajaya Holdings		0.57		3.78	4.35	Yes	No	No	Finance
19. Celcom Transmission				4.20	4.20	No	Yes	No	Transport, Storage, and Comm.
20. Bank Pembangunan Malaysia	0.90		2.40	0.90	4.20	Yes	No	No	Finance
21. RHB Bank	0.60		3.25		3.85	No	Yes	No	Finance
22. Tanjung Bin				3.73	3.73	No	Yes	No	Energy, Gas, and Water
23. Danga Capital				3.60	3.60	Yes	No	No	Finance
24. YTL Power International			3.53		3.53	No	Yes	Yes	Energy, Gas, and Water
25. Cekap Mentari	3.50				3.50	No	Yes	Yes	Finance
26. Hong Leong Bank	2.20		1.16		3.36	No	Yes	Yes	Finance
27. Anih Bhd.	0.62			2.50	3.12	No	Yes	No	Finance
28. GOVCO Holdings				3.00	3.00	Yes	No	No	Quasi-Govt. and Other
29. Sarawak Energy				3.00	3.00	Yes	No	Yes	Energy, Gas, and Water
30. CIMB Group	2.13		0.50	0.35	2.98	No	Yes	Yes	Finance
Total Top 30 LCY Corporate Issuers	**32.25**	**31.87**	**29.96**	**93.57**	**187.65**				
Total LCY Corporate Bonds	**59.06**	**67.05**	**56.41**	**130.82**	**334.81**				
Top 30 as % of Total LCY Corporate Bonds	**54.6%**	**47.5%**	**53.1%**	**71.5%**	**56.0%**				

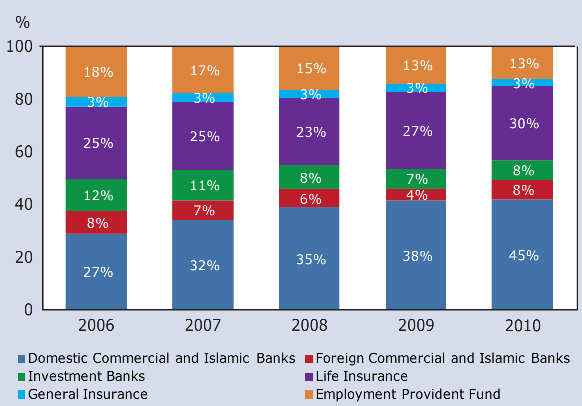
IBONDS = Islamic bonds, IMTN = Islamic medium-term notes, LCY = local currency, MTN = medium-term notes.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST).

Figure 3: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank Negara Malaysia.

Figure 4: Malaysian LCY Corporate Bonds Investor Profile, 2006–2010



LCY = local currency.
Source: Bank Negara Malaysia.

versus-payment (DVP) basis. According to BNM and HKMA's joint press release, the platform is intended to facilitate the harmonization of market practices and standardization of the issuance and settlement of debt securities in order to deepen Asian bond market liquidity, attract investment, and increase operational efficiency. The pilot platform will optimize existing system links between HKMA's Central Moneymarkets Units (CMUs), BNM's RENTAS, and Euroclear Bank, as well as strengthen the connections between local central securities depositories and foreign current real-time gross settlement systems. It will also contain a comprehensive Asian debt securities

Table 4: Selected Sovereign Ratings and Outlook for Malaysia

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	A3	A–	A–	A
Outlook	Stable	Stable	Stable	Stable

FCY = foreign currency, LT = long term.
Source: Rating agencies.

database maintained by Euroclear Bank. The new infrastructure is expected to strengthen cross-border issuance of local bonds in Hong Kong, China and Malaysia, and the rollout of the platform will provide investors and market intermediaries with efficient and cost effective cross-border access to the Hong Kong, China and Malaysian bond markets.

BNM and MAS Sign MOU to Enhance Domestic Liquidity

In January, BNM and the Monetary Authority of Singapore (MAS) signed a memorandum of understanding (MOU) to strengthen their cooperation in carrying out domestic liquidity management and enhance the liquidity of financial institutions in both countries. The cross-border collateral agreement allows eligible financial institutions in Singapore to pledge ringgit or MYR-denominated government and central bank securities to obtain Singapore dollar liquidity from MAS. Likewise, eligible financial institutions in Malaysia may pledge Singapore dollars or SGD-denominated government securities to obtain ringgit liquidity from BNM.

BNM Issues New Liberalization Measures

In February, BNM issued new liberalization measures to enhance competitiveness and develop domestic financial markets. The new measures (i) permit licensed onshore banks to trade one FCY against another with a resident, (ii) allow licensed onshore banks to offer MYR-denominated interest rate derivatives to a non-bank non-resident; and (iii) permit residents to convert a MYR- or FCY-denominated debt obligation into a debt obligation of another FCY. These new measures are designed to increase liquidity, depth, and participation in domestic financial markets.

PBOC and BNM Enter Into Currency Swap Agreement

The People's Bank of China (PBOC) and BNM signed a currency swap agreement in February to exchange CNY180 billion–MYR90 billion over a period of 3 years. The swap value was increased to CNY180 billion–MYR90 billion from CNY80 billion–MYR40 billion, which had previously been agreed to in February 2009. The PBOC said that the swap agreement will facilitate bilateral trade between the People's Republic of China and Malaysia, and maintain regional financial stability.

Philippines—Update

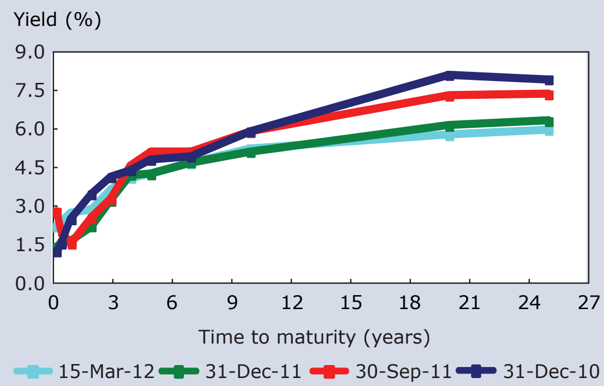
Yield Movements

The Philippines' government bond yield curve flattened between end-2010 and end-2011 as inflation fears dissipated and concerns over weakening growth heightened, leading to calls for a more accommodative monetary policy and aggressive fiscal stimulus measures. In 2011, the yields on tenors of less than 1 year increased between 5 basis points (bps) and 18 bps, while the rest of the curve fell between 17 bps and nearly 200 bps **(Figure 1)**.

The yield curve continued to flatten between end-December and 15 March, as yields in most tenors across the curve rose—with maturities of 3 years or less rising more than the others. Yields for maturities between 3 months and 3 years increased between 45 bps and 110 bps, while tenors of 5 years and 10 years rose 3 bps and 15 bps, respectively. Meanwhile, yields in other tenors declined between 4 bps and 37 bps. Yield spreads between 2- and 10-year tenors narrowed to 238 bps in 15 March from 291 bps at end-December.

The gross domestic product (GDP) of the Philippines grew 3.7% year-on-year (y-o-y) in 2011 after expanding 3.7% y-o-y in 4Q11. GDP growth in 2011 failed to meet the government's target of 4.5%–5.5% and was well below 2010's growth rate of 7.6%. Spillover effects from the eurozone debt crisis and a slowdown in the United States (US) and Japan weighed heavily on the country's export sector in 2011. Cumulative exports for the full-year 2011 stood at US$48 billion—a contraction of 6.9% from 2010. Merchandise exports showed signs of recovery in the first two months of 2012—generating $8.6 billion receipts or 8.8% higher than same period of 2011. Remittances from overseas Filipinos buoyed the country's economy, reaching a record-high US$20.1 billion in 2011 or annual growth of 7.2%. Remittances in January–February 2012 reached US$3.1 billion—5.6% higher than the same period in 2011.

Figure 1: Philippines' Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Average consumer price inflation in the Philippines was 4.8% in 2011, based on 2006 consumer price index (CPI) data, which was well within the government's target range of 3.0%–5.0%. (Inflation averaged 4.4% based on 2000 CPI data.) Benign inflation continued in 1Q12 as inflation in January, February, and March eased to 3.9%, 2.7%, and 2.6% y-o-y, respectively. Bangko Sentral ng Pilipinas (BSP) has set an inflation target range for 2012–2014 of 3.0%–5.0%. Year-to-date average is at 3.1%.

With inflation risks well within manageable levels and growth lagging in 2011, BSP shifted its monetary policy stance from neutral to accommodative by slashing key interest rates 25 bps in both January and March. The overnight borrowing (reverse repurchase) and lending (repurchase) rates were lowered to 4.0% and 6.0%, respectively. Policy rates have thus reverted to their historic lows last seen in March 2011. BSP also reduced its reserve requirement ratio by 3 percentage points from 21% to 18%—for commercial and universal banks—effective 6 April. In 19 April, BSP kept its policy rates unchanged—pausing from its easing monetary stance—as (i) oil prices remain elevated leading to upside risks to inflation outlook and (ii) gains from previous rate cuts have yet to be assessed.

Table 1: Size and Composition of the LCY Bond Market in the Philippines

	Amount (billion)								Growth Rate (%)						
	Sep-11		Oct-11		Nov-11		Dec-11		Sep-11		Oct-11	Nov-11	Dec-11		
	PHP	US$	PHP	US$	PHP	US$	PHP	US$	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	3,276	75	3,321	78	3,368	77	3,391	77	3.2	0.3	1.4	1.4	5.9	3.5	0.7
Government	2,867	65	2,902	68	2,936	67	2,956	67	2.4	0.7	1.2	1.2	4.9	3.1	0.7
Treasury Bills	330	8	313	7	296	7	295	7	(43.0)	(13.5)	(5.2)	(5.5)	(44.1)	(10.5)	(0.2)
Treasury Bonds	2,420	55	2,472	58	2,524	58	2,547	58	15.8	3.1	2.1	2.1	17.9	5.3	0.9
Others	117	3	117	3	117	3	113	3	(11.2)	(1.7)	–	–	(13.5)	(3.1)	(3.1)
Corporate	409	9	419	10	432	10	436	10	8.9	(2.2)	2.8	3.0	13.4	6.5	0.9

– = not applicable, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" includes bonds issued by government agencies/instrumentalities/corporations with which repayment was guaranteed by the National Government. These include issues of Power Sector Assets and Liabilities Management (PSALM), National Food Authority, and others.
5. Peso Global Bonds (PHP-denominated bonds but payable in US$) and multi-currency Retail Treasury Bonds are not included. As of 31 December 2011, the Government of the Philippines and Petron Corporation have an outstanding PHP98.9 billion and PHP20.0 billion of Peso Global Bonds, respectively.

Source: Philippine BTr and Bloomberg LP.

Size and Composition

As of end-December, LCY bonds outstanding stood at PHP3.4 trillion for an increase of 3.5% quarter-on-quarter (q-o-q). Growth in treasury and corporate bonds led the robust expansion. Fixed-Rate Treasury Notes (FXTNs) stood at PHP2.96 trillion at end-December, rising 5.3% q-o-q; corporate bonds ended at PHP436 billion for a 6.5% q-o-q increase. Treasury bills, meanwhile, shrank 10.5% q-o-q to PHP295 billion **(Table 1)**.

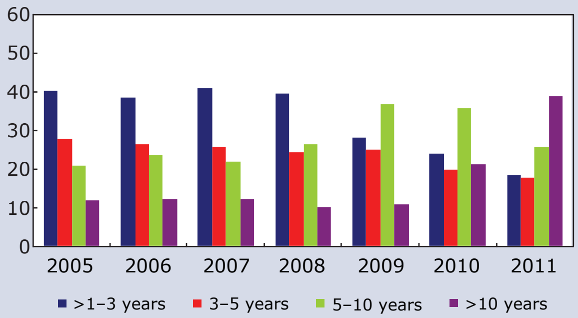
On an annual basis, total LCY bonds outstanding surged 5.9% in 4Q11, led by y-o-y growth of 17.9% and 13.4%, respectively, in treasury and corporate bonds. The growth figures are a result of the government and private issuers taking advantage of massive liquidity in the financial system and the low interest rate environment to issue long-term bonds.

In October, the Bureau of the Treasury (BTr) issued PHP110 billion of Retail Treasury Bonds (RTBs) with maturities of 10 years and 15 years. The 10-year RTBs, totaling PHP54.9 billion, carry a coupon of 5.75%; the 15-year RTBs, totaling PHP55.1 billion, have a coupon of 6.25%. RTBs are FXTNs that are sold primarily to individual investors and pay coupons on a quarterly basis.

Consistent with its strategy of lengthening its debt maturity profile, BTr offered only 7-, 10-, and 25-year bonds in 4Q11. BTr was able to sell PHP7.8 billion of 7-year bonds, PHP9.0 billion of 10-year bonds, and PHP18.8 billion of 25-year bonds.

The maturity profile of government FXTNs continued to lengthen in 2011. The average term of FXTNs increased to 9.7 years in 2011 from 7.6 years in 2010. Noticeably, the share of FXTNs with maturities between 1 year and 3 years fell to 18.3% in 2011 from 23.9% in 2010. The share of FXTNs with maturities between 3 years and 5 years decreased to 17.4% from 19.5%.The share of FXTNs with maturities between 5 years and 10 years fell to 25.5% from 35.5%. In contrast, the share of FXTNs with maturity terms of more

Figure 2: LCY Government Securities Maturity Profile, 2005–2011 (individual maturities as % of total)



LCY = local currency.
Note: Treasury bills and bonds with maturities of 1 year or less are excluded in the calculation of the LCY government securities maturity profile.
Source: Philippine BTr.

than 10 years rose to 38.8% in 2011 from 21.1% in 2010 **(Figure 2)**.

Major issuers of corporate bonds in 4Q11 were banks, investment houses, and a telephone company. BDO Unibank Inc. sold PHP6.5 billion of Tier 2 notes with a coupon of 6.375% and a maturity date of 7 January 2022. First Metro Investment Corporation, the investment banking arm of Metrobank Group, sold PHP5 billion worth of retail bonds with a coupon of 5.675% and a maturity date of 25 February 2017. Rizal Commercial Banking Corporation (RCBC) sold PHP3.85 billion of long-term certificates of deposit due on 29 June 2017 with a coupon of 5.25%. Philippine National Bank (PNB) issued PHP3.1 billion of 5.25-year long-term certificates of deposit with a coupon rate of 5.18% and a maturity date of 17 February 2017.

Corporate Bond Market Development. Total LCY corporate bonds outstanding in the Philippines reached PHP435.8 billion at end-December. San Miguel Brewery Inc. (SMB) remained the top corporate issuer with PHP38.8 billion worth of outstanding bonds **(Table 2)**. Recently, SMB gained approval from the majority of its bondholders to change several covenants in its existing bonds and was given the authority to raise another PHP20 billion through the issuance of 5- and 10-year bonds.

The four next largest borrowers in the bond market in 4Q11 were (i) BDO Unibank, Inc. with PHP38.0 billion of debt; (ii) Ayala Corporation, a holding company, with PHP26.0 billion; (iii) Philippine National Bank with PHP24.4 billion; and (iv) SM Investments Corporation with PHP21.1 billion.

Among the top 30 bond issuers, 27 companies were listed on the Philippine Stock Exchange. Only Manila North Tollways Corporation; Tanduay Distillers, Inc.; and Philippine Phosphate Fertilizer Corporation were privately-owned companies. Meanwhile, 14 out of the 30 issuers have bonds listed with the Philippine Dealing and Exchange Corporation (PDEx), the sole fixed-income exchange in the country. (The Power Sector Assets and Liabilities Management Corporation [PSALM] has PHP30 billion worth of bonds listed with PDEx; however, *AsianBondsOnline* classifies these as government bonds.)

Banking and financial services institutions remained the dominant issuers of bonds in 4Q11, accounting for 36% of the total market **(Figure 3)**. The share of banks and financial institutions was up from 34% in 3Q11 as BSP-supervised institutions enhanced their capitalization (Tier 2) and deposit bases (long-term certificates of deposit) in anticipation of the adoption of Basel III provisions by 2014, based on the latest guidance from BSP (See **Policy, Regulatory, and Institutional Developments**). In a low interest rate environment, banks have been tapping the bond market to protect existing lending franchises, expand operations, and ensure liquidity.

Holdings companies' share represented 16% of the total in 4Q11 and real estate companies accounted for 13%. A brewery and other companies selling alcoholic beverages comprised 11% of the total corporate bond market, while electricity and telecommunications companies accounted for 9% and 8%, respectively.

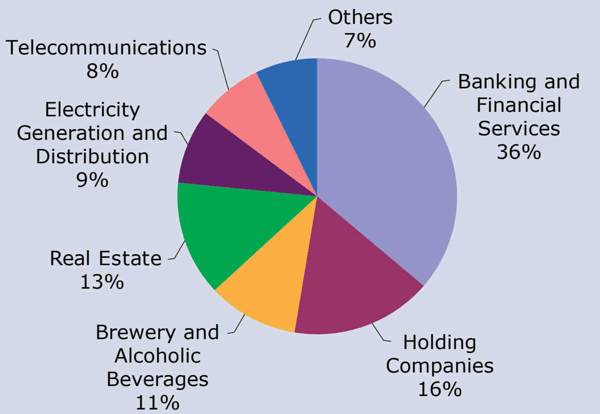
Foreign Currency Bonds. In January, the government took advantage of favorable market conditions to issue a 25-year US$-denominated benchmark bond designed to meet the country's

Table 2: Top 30 Issuers of LCY Corporate Bonds in the Philippines (as of end-December 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (PHP billion)	LCY Bonds (US$ billion)				
1. San Miguel Brewery Inc	38.80	0.89	No	Yes	Yes	Brewery
2. BDO Unibank Inc	38.00	0.87	No	Yes	Yes	Banking
3. Ayala Corporation	26.00	0.59	No	Yes	Yes	Diversified Operations
4. Philippine National Bank	24.35	0.56	No	Yes	Yes	Banking
5. SM Investments Corporation	21.10	0.48	No	Yes	Yes	Diversified Operations
6. Rizal Commercial Banking Corporation	19.85	0.45	No	Yes	Yes	Banking
7. Manila Electric Company	18.82	0.43	No	Yes	Yes	Electricity Distribution
8. Metropolitan Bank & Trust Co	18.50	0.42	No	Yes	Yes	Banking
9. Philippine Long Distance Telephone Co	17.50	0.40	No	Yes	Yes	Telecommunications
10. Ayala Land Inc	15.51	0.35	No	Yes	Yes	Real Estate
11. Robinsons Land Corporation	15.00	0.34	No	Yes	Yes	Real Estate
12. Petron Corporation	13.60	0.31	No	Yes	Yes	Oil Refining and Marketing
13. JG Summit Holdings, Inc	13.31	0.30	No	Yes	Yes	Diversified Operations
14. Globe Telecommunications	12.72	0.29	No	Yes	Yes	Telecommunications
15. Energy Development Corporation	12.00	0.27	No	Yes	Yes	Electricity Generation
16. Bank of the Philippine Islands	10.00	0.23	No	Yes	Yes	Banking
17. SM Development Corporation	10.00	0.23	No	Yes	Yes	Real Estate
18. First Philippine Holdings Corporation	8.49	0.19	No	Yes	Yes	Electricity Generation and Distribution
19. Allied Banking Corporation	8.00	0.18	No	Yes	Yes	Banking
20. Filinvest Land, Inc	8.00	0.18	No	Yes	Yes	Real Estate
21. United Coconut Planters Bank	7.67	0.17	No	Yes	Yes	Banking
22. Aboitiz Power Corporation	6.87	0.16	No	Yes	Yes	Electricity Generation
23. Megaworld Corporation	6.38	0.15	No	Yes	Yes	Real Estate
24. Metrobank Card Corporation	6.30	0.14	No	Yes	Yes	Diversified Financial Services
25. Manila North Tollways Corporation	5.28	0.12	No	Yes	No	Public Thoroughfares
26. China Banking Corporation	5.00	0.11	No	Yes	Yes	Banking
27. First Metro Investment Corporation	5.00	0.11	No	Yes	Yes	Investment Banking
28. Tanduay Distillers Inc	5.00	0.11	No	Yes	No	Alcoholic Beverages
29. Philippine Phosphate Fertilizer Corporation	4.50	0.10	No	Yes	No	Agricultural Chemicals
30. Manila Water Company Inc	4.00	0.09	No	Yes	Yes	Water Distribution
Total Top 30 LCY Corporate Issuers	**405.55**	**9.25**				
Total LCY Corporate Bonds	**435.80**	**9.94**				
Top 30 as % of Total LCY Corporate Bonds	**93.1%**	**93.1%**				

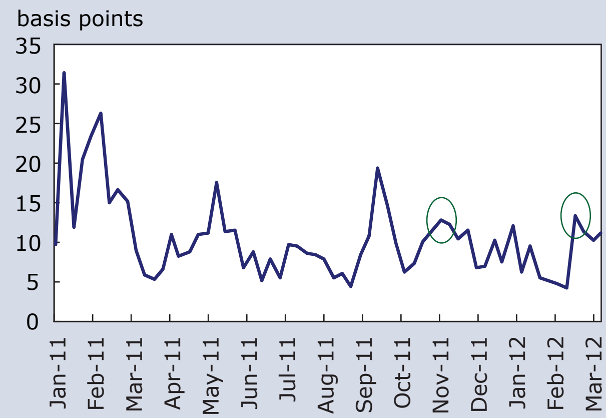
LCY = local currency.
Source: Bloomberg LP.

Figure 3: LCY Corporate Bond Issuers by Industry
(as of end-December 2011)



LCY = local currency.
Source: Bloomberg LP.

Figure 4: Bid–Ask Spreads of the Philippines' Most Active Government Securities, 7 January 2011–15 March 2012



Source: *AsianBondsOnline*.

budgetary requirements. The government raised US$1.5 billion from the offering. The bonds carried an interest rate of 5.0% per annum. Investors comprised buyers from the United States (35%), Philippines (25%), the rest of Asia (25%), and Europe (15%). The government has a planned foreign borrowing program of US$4.02 billion in 2012 to be sourced from commercial borrowing (US$2.25 billion) and project loans (US$1.77 billion).

Benchmark Government Securities Bid–Ask Spreads

Bid–ask spreads for the most traded government securities between 7 January 2011 and 15 March 2012 are presented in **Figure 4**. Treasury bonds with daily or most frequent available bid–ask (two-way) quotes were gathered to monitor liquidity in the LCY secondary market. The data used to capture the bid-ask spreads for these securities were obtained from the Bloomberg pages of the money brokers operating in the Philippines.

During the period covered, average bid–ask spreads narrowed considerably. In 1Q11, average bid–ask spreads were 15.9 bps. In 2Q11, average spreads narrowed to 9.6 bps before falling further to 9.1 bps in 3Q11. Average bid-ask spreads rose marginally to 9.3 bps in 4Q11, then tightened again in the first several months of 2012, averaging 8.4 bps on expectations of monetary easing and a positive outlook for the country's economy.

Starting in the second half of 2011, less data are available on bid–ask levels for short tenors—such as FXTN 5-67, FXTN 7-48, and FXTN 10-42—as short tenors have been increasingly swapped-out for longer tenors and the government did not offer any notes with tenors of 2–5 years in 4Q11.

Some notable widening of average bid–ask spreads were recorded in 4Q11 and the first 2.5 months of 2012. During the two consecutive weeks of 8–11 and 14–18 November, average bid–ask spreads were 12.8 bps and 12.2 bps, respectively. Risk aversion sentiment crept into the LCY market as the eurozone's debt turmoil was perceived to be deepening on account of escalating European borrowing costs. In 2012, average bid–ask spreads were at their highest in the week of 20–24 February at 13.3 bps, when BTr set the coupon rates for its long-dated RTBs at least 25 bps higher than secondary trading of the same tenored treasuries.

The bonds posting single-digit bid–ask spreads during the period of observation were RTB 20-1 (1.9 bps), FXTN 20-17 (2.1 bps), RTB 15-2 (4.7 bps), FXTN 10-54 (6.1 bps), RTB 10-3 (7.1 bps), FXTN 10-53 (7.2 bps), FXTN 25-8 (7.3 bps), RTB 10-2 (7.4 bps), and FXTN 7-51 (8.1 bps).

Rating Changes

S&P raised its outlook on the Philippines' BB sovereign credit rating to positive from stable in December. The agency cited strong external liquidity and signs of improving growth prospects as reasons for the upgrade **(Table 3)**.

Table 3: Selected Sovereign Ratings and Outlooks for the Philippines

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba2	BB	BB+
Outlook	Positive	Positive	Stable

FCY = foreign currency, LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

BTr Sells PHP179.8 Billion of Long-Dated RTBs

BTr sold a record-breaking PHP179.8 billion of 15- and 20-year RTBs in the last week of February. The 15- and 20-year bonds carry coupon rates of 5.375% and 5.875% per annum, respectively. The RTB coupons are payable on a quarterly basis. Of the total PHP179.8 billion worth of bonds issued, PHP44.1 billion were in the form of 15-year RTBs and PHP135.7 billion were 20-year RTBs. The RTBs were settled on 1 March. Previously, in October 2011, BTr raised PHP110 billion from the sale of 10- and 15-year RTBs.

BSP Relaxes Rules on FX Transactions

BSP amended several foreign exchange (FX) regulations to provide easier access for both resident and non-resident FX users and to encourage investment in the country. The new measures aim to improve the data monitoring of private external debt and simplify procedures for FX transactions. The rule changes will

(i) allow, within a 3-month period (December 2011–February 2012), unregistered private sector foreign loans to be paid using FX purchased from authorized agent banks (AABs) and their subsidiary and/or affiliate FX corporations;

(ii) expand the list of non-trade current account transactions for which FX may be freely purchased from AABs or AAB FX corporations, without prior BSP approval, to include the following: (a) lease of foreign-owned equipment; (b) refund of unused foreign grant or aid funds, and foreign loan proceeds; (c) payment of underwriting expenses, fees, and commissions, including brokers' fees payable or due to non-residents for initial public offerings (IPOs) involving Philippine shares; and (d) settlement by the Philippine Deposit Insurance Corporation of Foreign Currency Deposit Unit (FCDU) claims against banks that have ceased operations;

(iii) allow AABs and AAB FX corporations to sell FX for advance payment of imports regardless of amount and without prior BSP approval, but subject to standard document requirements;

(iv) lift the requirements to (a) inwardly remit dividends, earnings, and divestment proceeds from outward investments funded by FX purchased from AABs or AAB FX corporations; and (b) reinvest these funds within 30 banking days from receipt;

(v) lift the requirement to convert to pesos the FX funding of foreign direct equity investments to qualify for registration with the BSP;

(vi) exempt from BSP approval foreign and FCDU loans that finance infrastructure projects included in the government's list of public–private partnerships (PPP), provided these are subsequently registered with BSP to qualify for servicing using FX to be purchased from AABs or AAB FX corporations, and include microfinance activities in the list of projects eligible for foreign financing under Section 25 of the Manual of Regulations on Foreign Exchange Transactions;

(vii) lift the 3-day period within which FX purchased for import payments and deposited in FCDU accounts must be remitted to the offshore beneficiary; and

(viii) lift the BSP approval requirement for extensions beyond 1 year of the validity of letters of credit.

On 16 March, BSP further revised the FX rules by (i) raising the ceiling of undocumented importations from US$50,000 to US$500,000, (ii) lifting the requirement for submission of hard copies of daily investment registrations and outward remittance reports, and (iii) revising the list of regulated and prohibited products for export.

BSP Simplifies Reserve Requirement Rules, Cuts Ratios by 3 Percentage Points

Effective 6 April, BSP will adopt a simplified reserve requirement policy. Under the new rules, existing statutory and liquidity reserve requirements will be unified into a single reserve requirement, and BSP will not pay interest to the banks on the unified reserve requirement. Cash-in-vault (for banks) and demand deposits (for non-bank financial institutions with quasi-banking functions) will no longer count toward reserve requirement compliance.

Under existing rules, banks are paid interest rates of 4% on amounts up to 40% of their regular reserves. They are also paid on their liquidity reserves—a rate equivalent to comparable government securities less 50 bps. Upon adoption of the new rules, BSP will lower the reserve requirement ratio by 3 percentage points—to 18%—to offset the impact on banks' intermediation costs. Universal and commercial banks will maintain a reserve ratio of 18% from 21%.

BSP to Implement Basel III Provisions by 2014

In January, BSP announced that it would adopt all provisions of the Basel III Agreement effective 1 January 2014. While the Basel Committee on Banking Supervision allows for the staggered implementation of Basel III provisions up until January 2019, BSP decided to adopt all capital adequacy standards 5 years ahead of this timeline. Further, BSP will impose higher capital ratios than those suggested by the Basel Committee. **Table 4** provides a summary of the minimum capital requirements of Basel III compared with BSP's existing and proposed guidelines.

BSP will be conducting a quantitative study in 2Q12 to identify which banks are most susceptible to potential negative impacts from the implementation of its new guidelines.

Table 4: Capital Requirements under Basel III and BSP Guidelines (%)

Capital Requirements	Basel III		BSP Guidelines		
	Minimum Ratios	With Conservation Buffer	Existing Minimum Ratios	Proposed Minimum Ratios	Proposed Minimum with Conservation Buffer
Common Equity Tier 1 Ratio	4.5	7.0	None	6.0	8.5
Tier 1 Ratio	6.0	8.5	5.0 (6.0 trigger for PCA)	7.5	10.0
Capital Adequacy Ratio	8.0	10.5	10.0	10.0	12.5

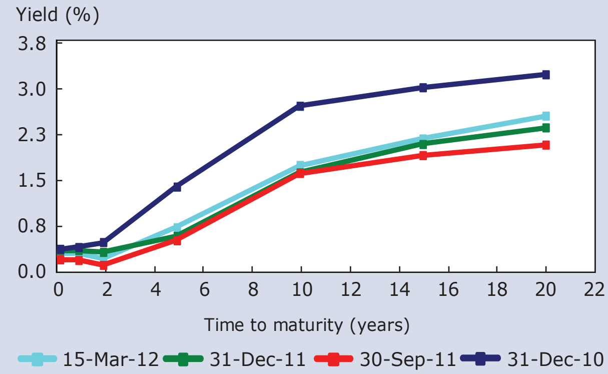
PCA = prompt corrective action.
Source: Bangko Sentral ng Pilipinas.

Singapore—Update

Yield Movements

The yield curve for local currency (LCY) government bonds in Singapore rose across all maturities between end-September and end-December 2011. Between end-December and 15 March, the yield curve steepened as yields fell at the short-end on the back of easing inflationary pressures, and rose from the belly to the long-end **(Figure 1)**. Between end-December and 15 March, yields for the 3- and 12-month tenors dropped 5 basis points (bps) each, while yields for the 2-year maturity fell 10 bps. Meanwhile, yields for the 5-, 10-, 15-, and 20-year tenors rose 14, 12, 9, and 19 bps, respectively. The yield spread between the 2- and 10-year maturities widened to 151 bps in 15 March from 129 bps at end-December and 149 bps at end-September.

Figure 1: Singapore's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Consumer price inflation in Singapore eased to 4.6% y-o-y in February from 4.8% in January and 5.5% in December as food and services inflation moderated. For the full-year 2011, consumer price inflation was 5.2%. In its policy statement in April, the Monetary Authority of Singapore (MAS) said that external inflationary pressures are likely to be sustained due to higher oil prices. MAS revised its inflation forecast for 2012 from 2.5–3.5% to 3.5–4.5%. MAS announced that it will continue with the policy of a modest and gradual appreciation, and will slightly increase the slope of the policy band of the Singapore dollar Nominal Effective Exchange Rate (S$NEER). Also, MAS is restoring a narrower policy band.

According to the Ministry of Trade and Industry (MTI), Singapore's economy expanded 3.6% y-o-y in 4Q11, down from 6.0% in the previous quarter. On a seasonally adjusted and annualized quarter-on-quarter (q-o-q) basis, Singapore's gross domestic product (GDP) contracted 2.5% in 4Q11, a reversal of the 2.0% growth rate reported in 3Q11. Growth in the manufacturing sector slowed to 9.2% y-o-y in 4Q11 from 13.7% in 3Q11, while growth in the construction sector was slightly higher in 4Q11 at 2.9% from 2.4% in the previous quarter. Growth among service producing industries weakened to 2.1% in 4Q11 from 3.6% in 3Q11. The finance and insurance sector and the transportation and storage sector posted lower 4Q11 growth rates of 3.5% and 2.4%, respectively, from 11.6% and 5.1% in 3Q11. For the full-year 2011, Singapore's GDP expanded 4.9%, significantly lower than growth of 14.8% registered in 2010. MTI is maintaining a 1.0%–3.0% growth forecast for 2012 amid the bleak global economic outlook.

Size and Composition

The total amount of LCY bonds outstanding surged 29.6% y-o-y to SGD245.6 billion (US$189.4 billion) at end-December, as the MAS started issuing MAS bills in April **(Table 1)**. Outstanding Singapore Government Securities (SGS) bills and bonds rose 4.7% y-o-y and 2.2% q-o-q to SGD138.5 billion. This figure, however, does not include the special issues of SGS for the Singapore Central Provident Fund, which amounted to SGD176.1 billion in 2010.

Issuance of SGS bonds increased 3.7% y-o-y and 9.5% q-o-q in 4Q11. MAS also started issuing

Table 1. Size and Composition of the LCY Bond Market in Singapore

	Amount (billion)								Growth Rate (%)						
	Sep-11		Oct-11		Nov-11		Dec-11		Sep-11		Oct-11	Nov-11	Dec-11		
	SGD	US$	SGD	US$	SGD	US$	SGD	US$	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	246.2	188.3	243.4	194.0	245.6	191.6	245.6	189.4	12.7	4.0	(1.2)	0.9	13.1	(0.2)	0.02
Government	152.3	116.5	153.0	122.0	153.6	119.9	153.5	118.4	18.9	5.8	0.5	0.4	16.0	0.8	(0.1)
Central Bank Bills	135.5	103.6	137.6	109.7	138.0	107.7	138.5	106.8	5.8	(2.2)	1.5	0.3	4.7	2.2	0.4
Central Gov't Bonds and Bills	16.8	12.9	15.4	12.3	15.6	12.2	15.0	11.6	–	211.1	(8.3)	1.3	–	(10.7)	(3.8)
Corporate	93.9	71.8	90.4	72.0	92.0	71.8	92.1	71.0	3.8	1.0	(3.8)	1.8	8.6	(1.9)	0.2

– = not applicable, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondOnline* estimates.
2. Government bonds and bills does not include the special issue of Singapore Government Securities held by the Singapore Central Provident Fund (CPF).
3. Bloomberg LP end-of-period LCY–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.

Source: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

MAS bills in April—as mentioned above—as part of its money market operations. Outstanding MAS bills increased from SGD5.4 billion at end-June to SGD15.0 billion at end-December.

Meanwhile, outstanding LCY corporate bonds increased 8.6% y-o-y to SGD92.1 billion at end-December, up from the 3.8% y-o-y growth posted at end-September. On a q-o-q basis, outstanding LCY corporate bonds slightly fell 1.9% at end-December.

Notable issues during 4Q11 included the Temasek Financial III's SGD790 million zero-coupon, guaranteed 3-year exchangeable bond in October and another SGD500 million zero-coupon, guaranteed 2-year exchangeable bond in December. Also, the Housing and Development Board issued SGD600 million worth of 7-year bonds in November and Global Logistics Properties sold SGD600 million worth of perpetual bonds in December.

The top 30 corporate issuers in Singapore accounted for about 54% of total LCY corporate bonds outstanding at end-December, mostly from the financial and consumer sectors **(Table 2)**. The Housing and Development Board remained the biggest issuer, with SGD9.1 billion of outstanding bonds at end-4Q11, followed by CapitaLand and Temasek Financial I, with outstanding amounts of SGD4.9 billion and SGD3.6 billion, respectively.

Ratings

In March, Moody's reaffirmed Singapore's Aaa long-term LCY and foreign currency (FCY), and senior unsecured issuer ratings **(Table 3)**. According to Moody's, Singapore's Aaa ratings are supported by the high level of economic resiliency brought about by its rapid economic growth, rising per capita income, and strong institutions. Moody's also cited Singapore's high level of private savings and conservative fiscal policies, which allows the government to maintain a strong balance sheet to provide ample cushion against exogenous shocks.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Singapore (as of end-December 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (US$ billion)				
1. Housing and Development Board	9.1	7.0	Yes	No	No	Financial
2. Capitaland	4.9	3.8	No	Yes	Yes	Financial
3. Temasek Financial I	3.6	2.8	No	Yes	No	Financial
4. United Overseas Bank	3.3	2.6	No	Yes	Yes	Financial
5. DBS Bank Singapore	3.0	2.3	No	Yes	Yes	Financial
6. SP Power Assets	2.5	1.9	No	Yes	No	Utilities
7. Land Transport Authority	2.4	1.8	Yes	No	No	Industrial
8. Public Utilities Board	2.1	1.6	Yes	No	No	Utilities
9. Oversea-Chinese Banking	2.0	1.6	No	Yes	Yes	Financial
10. Temasek Financial III	1.3	1.0	No	Yes	No	Financial
11. F&N Treasury	1.3	1.0	No	Yes	No	Financial
12. Keppel Land	1.2	0.9	No	Yes	Yes	Financial
13. City Developments	1.1	0.8	No	Yes	Yes	Consumer
14. Capitamall Trust	1.0	0.8	No	Yes	Yes	Financial
15. PSA Corporation	1.0	0.8	No	Yes	No	Consumer
16. Hyflux	0.9	0.7	No	Yes	Yes	Industrial
17. Singtel Group Treasury	0.9	0.7	No	Yes	No	Communications
18. Singapore Airlines	0.8	0.6	No	Yes	No	Communications
19. Overseas Union Enterprise	0.8	0.6	No	Yes	Yes	Consumer
20. Olam International	0.8	0.6	No	Yes	Yes	Consumer
21. GLL IHT PTE	0.8	0.6	No	Yes	No	Financial
22. Mapletree Treasury Services	0.7	0.6	No	Yes	No	Financial
23. Capitaland Treasury	0.7	0.6	No	Yes	No	Financial
24. Sembcorp Financial Services	0.7	0.5	No	Yes	No	Industrial
25. Singapore Press Holdings	0.6	0.5	No	Yes	Yes	Communications
26. Neptune Orient Lines	0.6	0.4	No	Yes	Yes	Industrial
27. Ascott Capital	0.6	0.4	No	Yes	No	Financial
28. United Overseas Land	0.6	0.4	No	Yes	Yes	Financial
29. Capitamalls Asia Treasury	0.6	0.4	No	Yes	No	Financial
30. Global Logistic Properities	0.5	0.4	No	Yes	Yes	Diversified
Total Top 30 LCY Corporate Issuers	**50.1**	**38.7**				
Total LCY Corporate Bonds	**92.1**	**71.0**				
Top 30 as % of Total LCY Corporate Bonds	**54.4%**	**54.4%**				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for the Singapore

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Aaa	AAA	AAA
Outlook	Stable	Stable	Stable

FCY = foreign currency, LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

SGX Introduces Dual Currency Trading

In March, the Singapore Exchange (SGX) introduced dual currency trading that enables the trading of listed securities in two different currencies. Dual-currency listed shares will be consolidated in investors' central depository accounts. The introduction of dual currency trading is aimed at improving cost efficiency by allowing investors to trade FCY-denominated securities in their LCY.

MAS Announces Initiatives to Improve LCY Corporate Debt Market

MAS Managing Director Ravi Menon announced in March three initiatives to improve efficiency and liquidity in Singapore's LCY corporate debt market. These initiatives include (i) providing swap liquidity to primary dealer banks handling SGD-denominated debt issuances for foreign companies; MAS will support swap transactions at market-determined prices to develop swap market liquidity for longer tenors; (ii) partnering with the industry in the creation of a lending platform for SGD-denominated corporate debt securities from which market players will be allowed to borrow securities for market making; and (iii) initiating a price discovery platform targeted for completion in the second half of the year. This platform aims to improve transparency in the corporate bond market and provide reliable mark-to-market prices to allow market participants to contribute end-of-day prices for a range of SGD-denominated corporate bonds.

BNM and MAS Sign MOU to Enhance Domestic Liquidity

In January, Bank Negara Malaysia (BNM) and MAS signed a memorandum of understanding (MOU) to strengthen their cooperation in carrying out domestic liquidity management and enhance the liquidity of financial institutions in both countries. The cross-border collateral agreement allows eligible financial institutions in Singapore to pledge ringgit or MYR-denominated government and central bank securities to obtain Singapore dollar liquidity from MAS. Likewise, eligible financial institutions in Malaysia may pledge Singapore dollars or SGD-denominated government securities to obtain ringgit liquidity from BNM.

MAS Implements New Regulatory Framework for CRAs

In January, MAS implemented a new regulatory framework to govern credit rating agencies (CRAs). Under the new framework, the provision of credit rating services will be regulated under the Securities and Futures Act (SFA), consequently requiring CRAs to be licensed under SFA's Capital Markets Services. MAS will also introduce a new code of conduct for CRAs in conjunction with the establishment of the new regulatory regime.

Thailand—Update

Yield Movements

Thailand's government bond yields dropped for all tenors between end-September and end-December, with declines ranging from 33 basis points (bps) for the 7-year tenor to 66 bps for the 4-year tenor **(Figure 1)**. The drop in yields was partly due to expectations of lower inflationary pressures. Yield movements, however, rose for most tenors between end-December and 15 March.

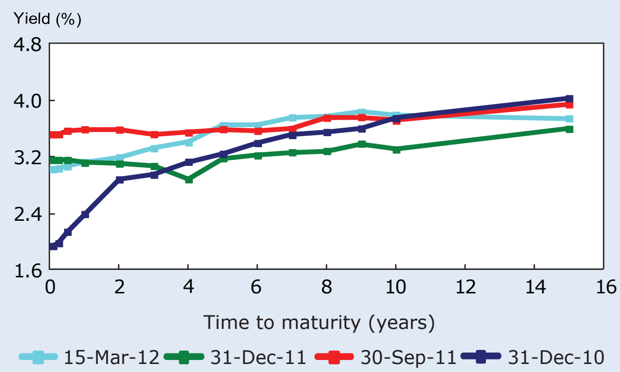
The yield spread between 2- and 10-year tenors widened 7 bps between end-September and end-December—as the decline in the 2-year tenor was larger than that in the 10-year tenor—and increased further by 40 bps between end-December and 15 March—as the rise in the 10-year tenor was larger than that in the 2-year tenor.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 21 March to keep the 1-day repurchase rate steady at 3.00%. The decision was made in light of the committee's assessment that the global economy would continue to grow slowly, risks to financial stability emanating from Europe had weakened, economic recovery in Thailand had gained pace, and domestic inflationary pressures remained stable in the short-run but were generally inching up amid rising global oil prices. The committee had previously lowered its policy rate by 25 bps from 3.50% to 3.25% on 30 November, and by another 25 bps from 3.25% to 3.00% on 25 January.

Consumer price inflation in Thailand stood at 3.4% year-on-year (y-o-y) in March—compared with 3.3% in February and 3.4% in January—as food and beverage prices climbed 7.1% y-o-y for the month. On a month-on-month (m-o-m) basis, consumer prices increased 0.6% in March, led by a 1.2% monthly hike in raw food and energy prices.

Thailand's real gross domestic product (GDP) in 4Q11 shrank 9.0% y-o-y following a revised 3.7% gain in the previous quarter. The sharp fall

Figure 1: Thailand's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

in the y-o-y GDP growth rate has been largely attributed to a 6.5% drop in total exports of goods and services, and a 3.0% decline in personal consumption. Compared with the previous quarter, real GDP contracted 6.3%—following 1.1% quarter-on-quarter (q-o-q) growth in 3Q11—largely on the back of a 17.1% decline in total exports of goods and services.

Size and Composition

The outstanding size of the local currency (LCY) bond market in Thailand at end-December amounted to THB7.1 trillion (US$225 billion), rising 5.3% y-o-y and 1.2% month-on-month (m-o-m), while falling 0.6% q-o-q **(Table 1)**. Total government bonds, which accounted for 81% of total bonds outstanding, increased 4.4% y-o-y and 0.9% m-o-m, but fell 1.4% q-o-q, to reach THB5.7 trillion. The annual and quarterly growth in total government bonds was spearheaded by the growth in central bank bonds. The outstanding stock of BOT bonds amounted to THB2.6 trillion at end-December. The size of government bonds also rose at end-December, by 1.2% y-o-y, while contracting 6.5% q-o-q, to level off at THB2.6 trillion. (There were no treasury bills outstanding at end-December.) In contrast, the outstanding bonds of state-owned

Table 1: Size and Composition of the LCY Bond Market in Thailand

	Amount (billion)								Growth Rate (%)						
	Sep-11		Oct-11		Nov-11		Dec-11		Sep-11		Oct-11	Nov-11	Dec-11		
	THB	US$	THB	US$	THB	US$	THB	US$	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	7,149	229	7,047	229	7,023	228	7,110	225	8.7	4.8	(1.4)	(0.3)	5.3	(0.6)	1.2
Government	5,823	187	5,712	186	5,690	184	5,743	182	8.9	6.5	(1.9)	(0.4)	4.4	(1.4)	0.9
Government Bonds and Treasury Bills	2,809	90	2,684	87	2,627	85	2,627	83	8.2	9.9	(4.5)	(2.1)	1.2	(6.5)	0.0
Central Bank Bonds	2,535	81	2,552	83	2,588	84	2,642	84	12.7	4.5	0.7	1.4	9.5	4.2	2.1
State-Owned Enterprise and Other Bonds	479	15	476	15	476	15	474	15	(4.8)	(0.8)	(0.6)	(0.0)	(3.7)	(0.9)	(0.3)
Corporate	1,326	43	1,336	43	1,333	43	1,367	43	8.1	(2.1)	0.7	(0.2)	9.1	3.1	2.5

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank of Thailand (BOT) and Bloomberg LP.

enterprises (SOEs) and other government entities posted decreases of 3.7% y-o-y, 0.9% q-o-q, and 0.3% m-o-m to fall to THB474 billion.

Issuance of total LCY government bonds in 4Q11 amounted to THB2.5 trillion for a decline of 16.5% y-o-y and 9.7% q-o-q. The drop is largely attributed to a fall in BOT bond issuance of 14.3% y-o-y and 0.2% q-o-q to THB2.48 trillion. Moreover, issuance of government bonds plunged 74.5% y-o-y and 89.0% q-o-q to THB32.1 billion. Issuance of SOE bonds and other government bonds remained relatively small at THB10.2 billion, which was down 39.1% q-o-q but up a significant 187.3% y-o-y.

LCY corporate bonds outstanding were valued at THB1.4 trillion at end-December, up 9.1% y-o-y and 3.1% q-o-q. On a m-o-m basis, LCY corporate bonds outstanding increased 2.5% in December. New issuance of LCY corporate bonds in 4Q11 stood at THB248.2 billion, up 29.6% q-o-q but down 7.7% y-o-y. The largest corporate bond issue of the quarter was made by Siam Cement in the form of a 4-year bond amounting to THB10 billion and with a coupon rate of 4.5%.

The top 30 issuers of LCY corporate bonds at end-December had combined bonds outstanding of THB917.2 billion, which accounted for about 67% of the total LCY corporate bond market **(Table 2)**. PTT and Siam Cement remained the two largest LCY corporate issuers at the end of 4Q11 with bonds outstanding of THB168.5 billion and THB110.0 billion, respectively.

Investor Profile

Contractual savings funds and insurance companies were the two largest holders of LCY government bonds (excluding BOT bonds and SOE bonds) in Thailand at end-December, accounting for 24% and 21% of the total, respectively **(Figure 2)**. They were followed by resident investors (15%), commercial banks (14%), and foreign investors (12%). Compared with end-December 2010, the shares of the central bank and foreign investors

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand (as of end-December 2011)

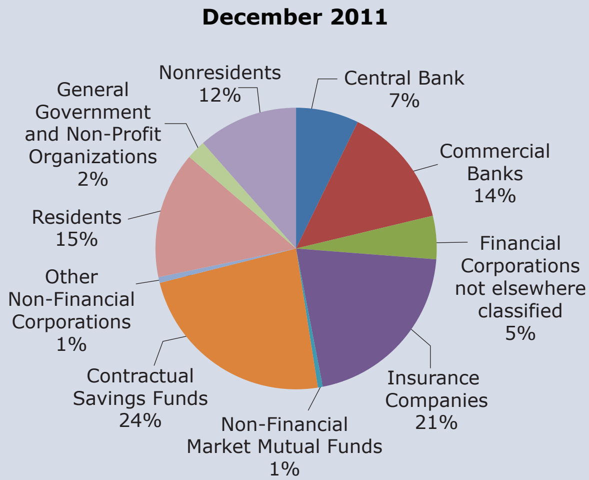
Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US$ billion)				
1. PTT Public Company	168.5	5.3	Yes	No	Yes	Energy
2. Siam Cement Public Company	110.0	3.5	Yes	No	Yes	Diversified
3. Krung Thai Bank	55.4	1.8	Yes	No	Yes	Financial
4. PTT Exploration and Production Company	49.0	1.6	Yes	No	Yes	Energy
5. Charoen Pokphand Foods	39.9	1.3	No	Yes	Yes	Consumer
6. PTT Global Chemical	35.4	1.1	Yes	No	Yes	Basic Materials
7. Thanachart Bank	28.0	0.9	No	Yes	no	Financial
8. Thai Airways International	27.8	0.9	Yes	No	Yes	Consumer
9. Krung Thai Card	26.5	0.8	Yes	No	Yes	Financial
10. Kasikorn Bank	25.1	0.8	No	Yes	Yes	Financial
11. Bank of Ayudhya	24.0	0.8	No	Yes	Yes	Financial
12. DAD SPV Company LTD	24.0	0.8	Yes	No	No	Financial
13. Ayudhya Capital Auto Lease	22.3	0.7	No	Yes	No	Financial
14. Toyota Leasing Thailand	21.9	0.7	No	Yes	No	Consumer
15. Banpu	21.3	0.7	No	Yes	Yes	Energy
16. Thai Oil	20.8	0.7	Yes	No	Yes	Energy
17. Glow Energy	20.6	0.7	No	Yes	Yes	Utilities
18. Siam Commercial Bank	20.0	0.6	No	Yes	Yes	Financial
19. Quality Houses	17.8	0.6	No	Yes	Yes	Consumer
20. TMB Bank	17.3	0.5	No	Yes	Yes	Financial
21. Kiatnakin Bank	16.5	0.5	No	Yes	Yes	Financial
22. True Corporation	16.1	0.5	No	Yes	Yes	Communications
23. Advanced Info Service	15.5	0.5	No	Yes	Yes	Communications
24. Bangkok Expressway	15.1	0.5	No	Yes	Yes	Consumer
25. Central Pattana	14.7	0.5	No	Yes	Yes	Industrial
26. Mitr Phol Sugar Corporation	14.3	0.5	No	Yes	No	Consumer
27. Ratchaburi Electricity Generating	13.3	0.4	No	Yes	Yes	Utilities
28. Minor International Public Company	12.2	0.4	No	Yes	Yes	Consumer
29. Italian-Thai Development Public Company	12.1	0.4	No	Yes	Yes	Industrial
30. Bangkok Mass Transit System	12.0	0.4	Yes	Yes	No	Industrial
Total Top 30 LCY Corporate Issuers	**917.2**	**29.1**				
Total LCY Corporate Bonds	**1,367.0**	**43.3**				
Top 30 as % of Total LCY Corporate Bonds	**67.1%**	**67.1%**				

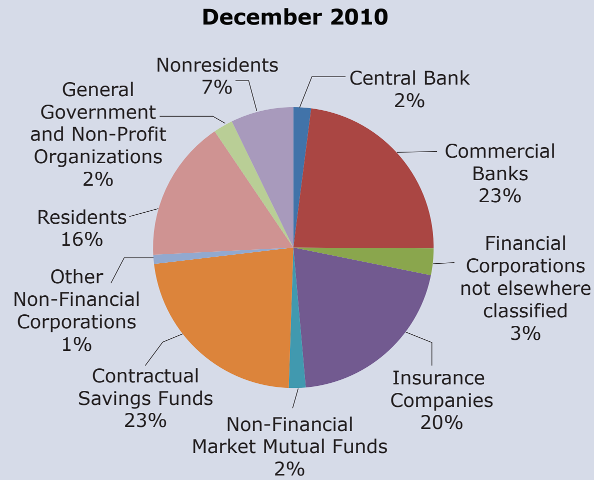
LCY = local currency.
Source: Bloomberg LP.

increased the most at 5 and 4 percentage points, respectively. In contrast, the share of commercial banks had the biggest drop over the same period, declining 9 percentage points.

Individual retail investors were the largest investor group in LCY corporate bonds in Thailand, holding 45% of the total as of end-September **(Figure 3)**. This was followed by other investors—such as the government, cooperatives, and foundations—with a combined 13% share, contractual savings funds and mutual funds with an 11% share each, and insurance companies with 9%. Compared with end-September 2010, the shares of individual investors and mutual funds rose 1 percentage point each, while the share of other investors climbed 2 percentage points. On the other

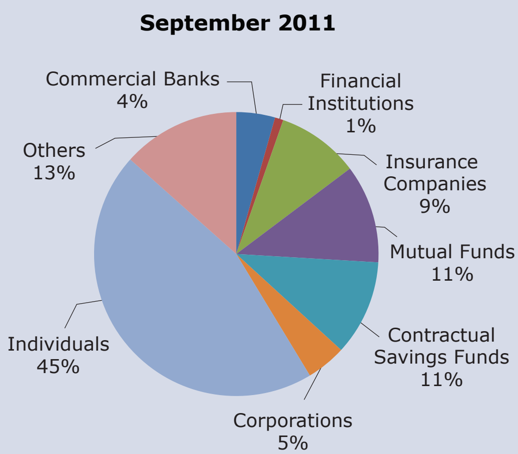
Figure 2: LCY Government Bonds Investor Profile

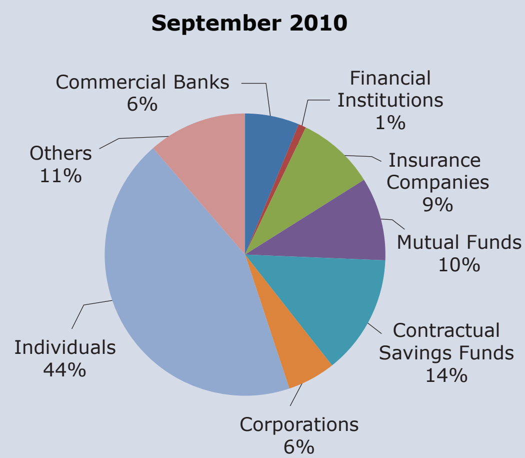




LCY = local currency.
Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
Source: *AsianBondsOnline* and Bank of Thailand.

Figure 3: LCY Corporate Bonds Investor Profile





LCY = local currency.
Source: ThaiBMA.

hand, the shares of contractual savings funds, commercial banks, and corporations declined 3, 2, and 1 percentage point(s), respectively.

Policy, Institutional, and Regulatory Developments

BOT and BNM Sign MOU on Cross-Border Collateral Arrangement

BOT announced in February that it had signed a memorandum of understanding (MOU) with Bank Negara Malaysia (BNM) to enter into a cross-border collateral arrangement to strengthen liquidity facility measures for financial institutions operating in both countries. Under this arrangement, eligible financial institutions operating in Thailand may acquire Thai baht liquidity from BOT by pledging ringgit or MYR-denominated central bank and government securities, while eligible financial institutions in Malaysia may obtain Malaysian ringgit liquidity from BNM by pledging baht or THB-denominated central bank and government securities.

Ministry of Finance Gives Approval to Seven Foreign Companies to Issue LCY Bonds

The Ministry of Finance announced that it granted approval to seven foreign companies to sell LCY bonds totaling THB66 billion between 1 January and 30 September. The foreign entities and the allowable amount of their respective bond issuances are (i) Australia and New Zealand Corporation (THB8 billion), (ii) Citigroup (THB10 billion), (iii) Hana Bank (THB10 billion), (iv) Industrial Bank of Korea (THB10 billion), (v) Korea Development Bank (THB8 billion), (vi) Korea Eximbank (THB10 billion), and (vii) Korea National Oil Corporation (THB10 billion). Hana Bank issued THB10 billion worth of dual-tranche bonds in February.

Bank of Thailand Receives QFII License

BOT was granted a Qualified Foreign Institutional Investors (QFII) license by the China Securities Regulatory Commission (CSRC) in December, allowing the central bank to invest in CNY-denominated bonds and stocks listed on the Shanghai and Shenzhen stock exchanges.

Viet Nam—Update

Yield Movements

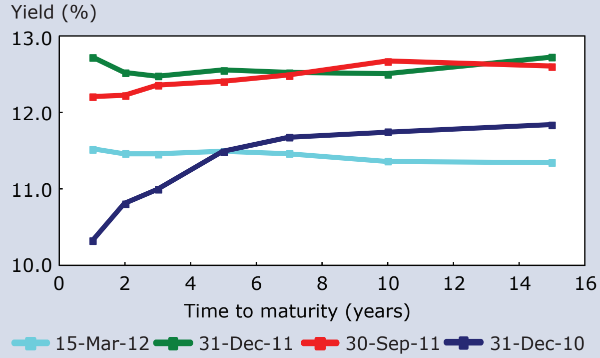
Between end-September and end-December, government bond yields in Viet Nam rose across all tenors, except for the 10-year tenor, largely due to a lack of liquidity in the banking sector in 4Q11 **(Figure 1)**. The largest rise in the yield curve was observed at the short-end, particularly for the 1-year tenor, which rose 51 basis points (bps), resulting in a flattened yield curve. Between end-December and 15 March, government bond yields fell across all tenors, especially at the short-end (1-year tenor fell 120 bps) and the long-end (15-year tenor fell 138 bps) of the curve. The drop in government bond yields since the beginning of this year has been the result of banks' improved liquidity as well as speculation that the State Bank of Viet Nam (SBV) will lower policy rates since inflation declined for 7 straight months between September and March. Meanwhile, consumer price inflation slowed from 22.4% year-on-year (y-o-y) in September to 14.2% in March, according to the General Statistics Office of Viet Nam (GSO).

The country's cumulative gross domestic product (GDP) growth for full-year 2011 slowed to 5.9% from 6.8% in 2010 due to production difficulties and the government's efforts to curb inflation and stabilize macroeconomic fundamentals. According to the GSO, the agriculture, forestry, and fishery sector expanded 4.0% in 2011; the industry and construction sector grew 5.5%; and the service sector grew 7.0%.

Size and Composition

As of end-December, Viet Nam's total local currency (LCY) bonds outstanding stood at VND354.7 trillion (US$16.9 billion), which represents 16.5% y-o-y growth that was mainly driven by 19.9% growth in government bonds outstanding. However, growth in government bonds was offset by an 8.7% y-o-y contraction in corporate bonds outstanding; more corporate bonds matured in 2011 than were issued

Figure 1: Viet Nam's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

as high inflation rates made it difficult for corporate issuers to come to the market last year **(Table 1)**.

Among LCY government bonds outstanding, treasury bonds and other government bonds—bonds issued by the Viet Nam Development Bank and other government agencies—posted double-digit annual growth of 26.0% and 15.0% y-o-y, respectively. As a result, total government bonds outstanding stood at VND322.4 trillion at end-December.

As mentioned above, LCY corporate bonds outstanding contracted 8.7% y-o-y to VND32.4 trillion as of end-December. However, the LCY corporate sector grew marginally on a quarter-on-quarter (q-o-q) basis in 4Q11, rising 0.3%, due to the issuance by Sai Gon Thuong Tin Real Estate of a VND99 billion bond in October. This represented the only issuance in Viet Nam's LCY corporate bond market in 4Q11. LCY corporate bond issuance was mostly inactive in 2011, with only 3 corporate bond issues during the entire year due to high rates of inflation.

The top 15 corporate issuers in Viet Nam at the end of 4Q11 retained the same rankings as end-3Q11. These issuers mainly comprised commercial banks and real estate developers. Total bonds outstanding

Table 1: Size and Composition of the LCY Bond Market in Viet Nam

	Amount (billion)								Growth Rate (%)						
	Sep-11		Oct-11		Nov-11		Dec-11		Sep-11		Oct-11	Nov-11	Dec-11		
	VND	US$	VND	US$	VND	US$	VND	US$	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	353,370	17	353,429	17	352,468	17	354,748	17	22.2	1.8	0.02	(0.3)	16.5	0.4	0.6
Government	321,112	15	321,072	15	320,111	15	322,391	15	21.1	2.1	(0.01)	(0.3)	19.9	0.4	0.7
Treasury Bonds	146,087	7	146,487	7	146,506	7	148,676	7	23.3	12.0	0.3	0.01	26.0	1.8	1.5
Central Bank Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds, and Other Bonds	175,025	8	174,585	8	173,605	8	173,715	8	19.3	(4.9)	(0.3)	(0.6)	15.0	(0.7)	0.1
Corporate	32,258	2	32,357	2	32,357	2	32,357	2	34.7	(1.6)	0.3	–	(8.7)	0.3	–

– = not applicable, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Bloomberg LP end-of-period LCY–US$ rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bloomberg LP. w

among the 15 largest issuers comprised 94.7% of all corporate bonds outstanding at end-December **(Table 2)**. Vietin Bank remained the largest corporate bond issuer in Viet Nam with total bonds outstanding of VND7.1 trillion, the same level as end-September.

Policy, Institutional, and Regulatory Developments

VBMA Agreement Assigns Market Maker Status to Eight Banks

At the annual meeting of the Viet Nam Bond Market Association (VBMA) held on 9 December, eight banks—Bank For Investment and Development of Viet Nam, Viet Nam Bank for Foreign Trade, HSBC Viet Nam, ANZ Viet Nam, Standard Chartered Viet Nam, Viet Nam Technological Commercial Joint-Stock Bank, BNP Paribas Viet Nam, and Viet Nam Maritime Commercial Joint Stock Bank—signed an agreement to commit themselves to act as experimental market makers in the LCY bond market. The move aims to increase market transparency, boost transaction volume and liquidity, improve market efficiency, and provide a reliable LCY bond market yield curve for domestic and potential foreign investors. The banks also agreed to support market players in evaluating their mark-to-market portfolios in order to more accurately reflect portfolio performance and to bring bond trading activities in Viet Nam closer to international best practices.

SBV Issues New Reporting Requirements for Credit Institutions and Foreign Bank Branches

On 6 February, the SBV issued requirements for credit institutions and foreign bank branches (excluding local people's credit funds) to report to the Monetary Statistics and Forecast Department of the SBV activities related to lending, depositing, borrowing, deposit-taking from other banks, and investing in bonds and valuable paper issued by other credit institutions. The SBV is seeking to assess the operation of the inter-bank market and to make these institutions fully responsible for accurately reporting all relevant information.

Table 2: Top 15 Issuers of LCY Corporate Bonds in Viet Nam (as of end-December 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US$ billion)				
1. Vietin Bank	7,095	0.34	No	Yes	Yes	Finance
2. Asia Commercial Joint Stock Bank	5,090	0.24	No	Yes	Yes	Finance
3. Vincom	5,000	0.24	No	Yes	Yes	Real Estate
4. Vietnam Techcombank	3,880	0.18	No	Yes	No	Finance
5. Agribank Securities	2,000	0.10	No	Yes	Yes	Finance
6. Sacombank	1,900	0.09	No	Yes	Yes	Finance
7. Vietnam Maritime Commercial Bank	1,000	0.05	No	Yes	No	Finance
8. Minh Phu Seafood	900	0.04	No	Yes	No	Fisheries
9. Hoa Phat Group	800	0.04	No	Yes	Yes	Industrial
10. An Binh Bank	600	0.03	No	Yes	No	Finance
11. HAGL	530	0.03	No	Yes	Yes	Real Estate
12. Kinh Bac City Development	500	0.02	No	Yes	Yes	Real Estate
13. Vinpearl	500	0.02	No	Yes	Yes	Resorts/Theme Parks
14. HCMC General Import Export & Investment	450	0.02	No	Yes	Yes	Trade
15. Vietnam Steel	400	0.02	No	Yes	No	Industrial
Total Top 15 LCY Corporate Issuers	**30,645**	**1.46**				
Total LCY Corporate Bonds	**32,357**	**1.54**				
Top 15 as % of Total LCY Corporate Bonds	**94.7%**	**94.7%**				

LCY = local currency.
Source: Bloomberg LP.

SBV Cuts Key Interest Rates

Effective 13 March, the SBV decided to cut key interest rates—the refinancing interest rate, overnight rate for inter-bank electronic payment, and discount rate—by 100 bps each to 14%, 15%, and 12%, respectively. The move was based on a downward trend in inflation as well as capital supply and demand in the market. The SBV also decided to cut ceiling VND deposit rates by 100 bps to 5% for demand deposits and time deposits of less than 1 month, and to 13% for time deposits of 1 month or longer. Effective 11 April, these three interest rates were cut again by the SBV by another 100 bps to 13%, 14%, and 11%, respectively, in order to stimulate economic growth as well as to boost market liquidity.