

Bond Market Developments in the First Quarter of 2015

Size and Composition

The stock of local currency bonds outstanding in emerging East Asia reached US\$8.3 trillion at end-March.⁴

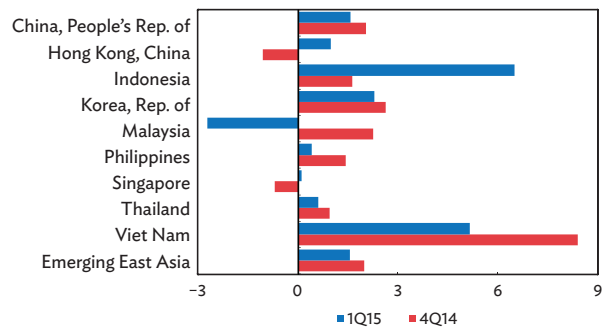
Emerging East Asia's local currency (LCY) bond market continued to expand in 1Q15, reaching a size of US\$8.3 trillion at end-March. However, growth moderated during the quarter, rising only 1.6% quarter-on-quarter (q-o-q) compared with 2.0% q-o-q growth in 4Q14 (**Figure 1a**). All markets in the region recorded slower q-o-q growth in 1Q15, except for Hong Kong, China; Indonesia; and Singapore.

The People's Republic of China (PRC) remained home to the largest LCY bond market in emerging East Asia with outstanding bonds of US\$5,279 billion, representing a 63.8% share of the region's total bond stock at end-March. The PRC's 1Q15 growth of 1.6% q-o-q was modest and down slightly from 2.0% q-o-q in 4Q14. Growth in the PRC's bond market was largely driven by its corporate bond sector, particularly local corporate bonds and Tier 2 bonds, as a result of capital-raising efforts. On the other hand, the stock of Treasury bonds fell while the stock of central bank bonds was unchanged. The People's Bank of China (PBOC) relied on other money market instruments for liquidity management amid a lack of issuance of PBOC bills and bonds since December 2013.

In the Republic of Korea, LCY bonds outstanding reached US\$1,712 billion at end-March on 2.3% q-o-q growth that was driven by increases in central bank bonds, central government bonds, and corporate bonds. The government plans to issue more bonds in 2015 than in 2014 to maintain an expansionary fiscal policy in order to stimulate economic growth.

Malaysia's was the only LCY bond market in emerging East Asia that contracted in 1Q15, declining 2.7% q-o-q to US\$290 billion. The drop stemmed mainly from the decline in the stock of central bank bills, or Bank Negara Malaysia (BNM) bills, which slipped 46.8% q-o-q.

Figure 1a: Growth of LCY Bond Markets in 4Q14 and 1Q15 (q-o-q, %)



LCY = local currency, q-o-q = quarter-on-quarter.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-March 2015 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Maturing BNM bills were not rolled over as BNM has not issued bills since December 2014. On the other hand, the stocks of Treasury bonds and corporate bonds posted q-o-q growth of 2.2% and 1.0%, respectively.

Malaysia is home to the largest *sukuk* (Islamic bond) market in the region, with more than half of its LCY bond market comprising *sukuk* at end-March. The corporate bond market, in particular, is dominated by *sukuk* issues, which represent 71.2% of the aggregate corporate bond stock. The share of *sukuk* in the government bond market, although smaller, is still significant at 39.0%.

At end-March, the LCY bond market in Thailand had expanded 0.6% q-o-q to reach US\$286 billion. Growth was buoyed by increases in the stock of government bonds and state-owned enterprise (SOE) bonds. In contrast, central bank bonds and corporate bonds contracted in 1Q15.

⁴ Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

In Singapore, the LCY bond market totaled US\$233 billion at end-March, posting marginal q-o-q growth of 0.1% in 1Q15 after contracting 0.7% in 4Q14. Growth was mainly driven by increases in the stock of Singapore Government Securities (SGS) bills and bonds, and corporate bonds. Meanwhile, the stock of Monetary Authority of Singapore (MAS) bills slipped 4.2% q-o-q.

The LCY bond market in Hong Kong, China saw growth of 2.6% q-o-q in 1Q15 with bonds outstanding climbing to US\$199 billion at end-March. Both the government and corporate bond segments contributed to growth.

Indonesia's LCY bond market reported the fastest q-o-q growth in emerging East Asia in 1Q15, climbing 6.5% to reach US\$125 billion. Growth was largely driven by the government bond segment, particularly Treasury bills and bonds. As in the past, a frontloaded issuance strategy was adopted, with the government opting to issue a huge volume of bonds within the first half of the year. Most bond auctions during the quarter were either oversubscribed or fully subscribed, including auctions for *sukuk*.

In February, Indonesia's House of Representatives approved the revised state budget for 2015, which reduced the projected deficit to 1.9% of gross domestic product (GDP) from 2.2% in the original budget. To help finance the budget gap, the legislative assembly authorized the Ministry of Finance to issue bonds worth IDR297.7 trillion (US\$22.8 billion), compared with IDR277.0 trillion in the original budget. The increased debt issuance, despite the lower projected deficit, is being driven by the government's plans to increase equity in SOEs to strengthen their balance sheets and increase their capacity to finance more infrastructure projects.

The LCY bond market in the Philippines grew a marginal 0.4% q-o-q to US\$105 billion at end-March. Growth came solely from an increase in the stock of Treasury bonds, while the stocks of Treasury bills, SOE bonds, and corporate bonds contracted during the review period. The Bureau of the Treasury rejected two out of six scheduled auctions as investors sought higher rates due to uncertainty over United States (US) monetary policy and the eurozone debt crisis. The market also does not expect Bangko Sentral ng Pilipinas (BSP) to cut interest rates this year as inflation is expected to fall within its target range. Corporate issuers remained on the sidelines as speculation over the timing of a US policy rate hike

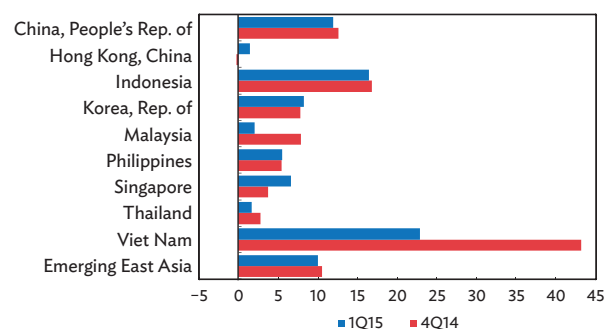
resulted in an uptick in yields, making it more costly to raise capital in the bond market.

Viet Nam's bond market expanded 5.1% q-o-q in 1Q15, a slowdown from 8.4% q-o-q growth in 4Q14. Much of the growth came from increases in the stock of central bank bills, or State Bank of Viet Nam (SBV) bills, which grew 17.8% q-o-q. Treasury bonds also contributed to growth, rising 5.1% q-o-q. In contrast, the stock of SOE bonds slipped in 1Q15. Also, there was no new issuance of corporate bonds during the quarter.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market saw robust growth of 10.0% in 1Q15, although this was down from 10.6% y-o-y growth in 4Q14 (**Figure 1b**). All markets in the region recorded positive y-o-y growth rates in 1Q15, led by Viet Nam (22.9%), Indonesia (16.5%), and the PRC (12.0%). Growth rates of between 1.7% y-o-y and 8.3% y-o-y were recorded for all other emerging East Asian bond markets.

At end-March, government bonds continued to dominate the region's LCY bond market, accounting for a 59.9% share of the region's total bond stock (**Table 1**).

Figure 1b: Growth of LCY Bond Markets in 4Q14 and 1Q15 (y-o-y, %)



LCY = local currency, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-March 2015 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Table 1: Size and Composition of LCY Bond Markets

	1Q14		4Q14		1Q15		Growth Rate (LCY-base %)				Growth Rate (US\$-base %)			
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	1Q14		1Q15		1Q14		1Q15	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	4,702	100.0	5,192	100.0	5,279	100.0	2.2	10.5	1.6	12.0	(0.5)	10.4	1.7	12.3
Government	3,056	65.0	3,335	64.2	3,370	63.8	2.1	8.2	1.0	10.0	(0.5)	8.1	1.1	10.3
Corporate	1,646	35.0	1,858	35.8	1,909	36.2	2.3	15.0	2.7	15.7	(0.4)	14.9	2.8	16.0
Hong Kong, China														
Total	196	100.0	194	100.0	199	100.0	0.9	6.8	2.6	1.5	0.8	6.9	2.6	1.5
Government	109	55.5	109	56.4	111	55.5	0.5	8.5	1.0	1.4	0.5	8.6	1.0	1.4
Corporate	87	44.5	85	43.6	89	44.5	1.3	4.7	4.7	1.6	1.3	4.8	4.7	1.7
Indonesia														
Total	123	100.0	123	100.0	125	100.0	6.8	21.1	6.5	16.5	14.4	3.8	0.91	1.2
Government	104	84.5	106	85.4	107	86.0	8.3	23.3	7.2	18.6	16.0	5.6	1.6	3.1
Corporate	19	15.5	18	14.6	17	14.0	(0.4)	10.7	2.1	4.7	6.7	(5.2)	(3.2)	(9.0)
Korea, Rep. of														
Total	1,648	100.0	1,703	100.0	1,712	100.0	1.8	8.6	2.3	8.3	0.4	13.4	0.6	3.9
Government	635	38.6	701	41.2	712	41.6	2.9	8.6	3.2	16.7	1.5	13.4	1.5	12.0
Corporate	1,012	61.4	1,002	58.8	1,001	58.4	1.2	8.6	1.6	3.0	(0.3)	13.4	(0.1)	(1.1)
Malaysia														
Total	322	100.0	316	100.0	290	100.0	2.8	5.5	(2.7)	2.1	3.2	0.0	(8.1)	(10.0)
Government	188	58.4	185	58.6	165	57.0	2.7	4.2	(5.4)	(0.3)	3.0	(1.2)	(10.7)	(12.1)
Corporate	134	41.6	131	41.4	125	43.0	3.0	7.5	1.0	5.4	3.4	1.8	(4.6)	(7.1)
Philippines														
Total	99	100.0	104	100.0	105	100.0	0.4	10.5	0.4	5.5	(0.5)	0.6	0.4	5.8
Government	84	84.6	87	83.7	88	83.8	(1.9)	7.8	0.6	4.5	(2.8)	(1.8)	0.6	4.8
Corporate	15	15.4	17	16.3	17	16.2	15.0	27.9	(0.4)	11.3	13.9	16.4	(0.4)	11.6
Singapore														
Total	239	100.0	241	100.0	233	100.0	(2.5)	1.6	0.1	6.6	(2.1)	0.2	(3.3)	(2.3)
Government	146	61.1	147	60.8	140	60.1	(3.0)	(0.3)	(1.1)	4.8	(2.6)	(1.7)	(4.5)	(4.0)
Corporate	93	38.9	95	39.2	93	39.9	(1.8)	4.7	1.9	9.5	(1.4)	3.2	(1.5)	0.3
Thailand														
Total	282	100.0	281	100.0	286	100.0	1.7	6.2	0.6	1.7	2.6	(4.1)	1.7	1.3
Government	217	76.8	211	75.1	218	76.0	0.6	3.7	1.9	0.7	1.5	(6.4)	3.0	0.3
Corporate	66	23.2	70	24.9	69	24.0	5.7	15.5	(3.2)	5.1	6.7	4.2	(2.1)	4.6
Viet Nam														
Total	35	100.0	41	100.0	42	100.0	23.0	17.8	5.1	22.9	23.0	16.8	4.3	20.3
Government	35	98.3	40	98.4	42	98.5	23.9	20.0	5.2	23.1	23.9	19.0	4.4	20.5
Corporate	0.6	1.7	0.6	1.6	0.6	1.5	(12.6)	(43.1)	0.0	8.1	(12.6)	(43.6)	(0.8)	5.8
Emerging East Asia														
Total	7,646	100.0	8,196	100.0	8,272	100.0	2.1	9.5	1.6	10.0	0.3	9.3	0.9	8.2
Government	4,574	59.8	4,921	60.0	4,952	59.9	2.2	8.0	1.2	9.9	0.4	7.1	0.6	8.3
Corporate	3,072	40.2	3,275	40.0	3,320	40.1	1.9	12.0	2.2	10.3	0.1	12.7	1.4	8.1
Japan														
Total	10,239	100.0	8,972	100.0	9,006	100.0	0.5	3.7	0.7	2.4	2.5	(5.4)	0.4	(12.0)
Government	9,443	92.2	8,292	92.4	8,331	92.5	0.6	4.2	0.8	2.7	2.6	(4.9)	0.5	(11.8)
Corporate	796	7.8	680	7.6	675	7.5	(0.8)	(2.1)	(0.4)	(1.3)	1.2	(10.7)	(0.7)	(15.2)

(-) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

2. Corporate bonds include issues by financial institutions.

3. Bloomberg LP end-of-period LCY—US\$ rates are used.

4. For LCY base, emerging East Asia growth figures based on end-March 2015 currency exchange rates and do not include currency effects.

5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Emerging East Asia's outstanding government bonds stood at US\$4,952 billion in 1Q15 on growth of 1.2% q-o-q and 9.9% y-o-y. The PRC had the largest government bond market in the region at US\$3,370 billion, or 68.1% of the region's total. The next two largest government bond markets were in the Republic of Korea (US\$712 billion) and Thailand (US\$218 billion). The government bond segment was larger than the corporate bond segment in all markets except the Republic of Korea's, where the corporate bond segment accounted for 58.4% of the aggregate bond stock at end-March.

The region's aggregate corporate bond stock stood at US\$3,320 billion at end-March on growth of 2.2% q-o-q and 10.3% y-o-y. The PRC (US\$1,909 billion) and the Republic of Korea (US\$1,001 billion) accounted for the largest corporate bond markets in emerging East Asia with regional shares of 57.5% and 30.1%, respectively.

As a share of GDP, the size of emerging East Asia's LCY bond market was broadly stable at 57.7% at end-March compared with 57.6% at end-December (**Table 2**). The share of government bonds to GDP stood at 34.5%, while the share of corporate bonds to GDP was 23.2%. The Republic of Korea had the highest outstanding bonds-to-GDP ratio at more than 100.0%, followed by Malaysia at 96.0%. The smallest markets in terms of share of GDP were those of Indonesia (15.1%), Viet Nam (22.9%), and the Philippines (36.5%). All other markets had outstanding bonds-to-GDP ratios of between 50.8% and 81.5%.

Shares of foreign holdings in emerging East Asia's LCY government bond markets continued to rise in 1Q15.

Foreign investor interest in the region's LCY government bonds remained upbeat in a number of markets in 1Q15 despite the US dollar gaining strength against most of the region's local currencies. The share of foreign holdings in Indonesia and Malaysia continued to rise, with over 30% of government bonds in both economies held by foreign investors (**Figure 2**).

In Indonesia, foreign investors were the largest investor group in the LCY government bond market, with holdings climbing to 38.6% at end-March. This was up from a share of 38.1% at end-December, but down from a high of 40.2% at end-January. Foreign funds continued to chase yields

Table 2: Size and Composition of LCY Bond Markets (% of GDP)

	1Q14	4Q14	1Q15
China, People's Rep. of			
Total	48.9	50.6	50.8
Government	31.8	32.5	32.4
Corporate	17.1	18.1	18.4
Hong Kong, China			
Total	70.3	66.8	67.4
Government	39.0	37.6	37.4
Corporate	31.3	29.1	30.0
Indonesia			
Total	14.3	14.5	15.1
Government	12.1	12.4	13.0
Corporate	2.2	2.1	2.1
Korea, Rep. of			
Total	121.2	125.1	125.8
Government	46.8	51.5	52.3
Corporate	74.5	73.6	73.5
Malaysia			
Total	100.8	99.7	96.0
Government	58.8	58.5	54.8
Corporate	42.0	41.3	41.3
Philippines			
Total	37.6	36.8	36.5
Government	31.8	30.8	30.6
Corporate	5.8	6.0	5.9
Singapore			
Total	78.5	81.9	81.5
Government	47.9	49.8	48.9
Corporate	30.5	32.1	32.6
Thailand			
Total	70.7	70.4	70.4
Government	54.3	52.9	53.5
Corporate	16.4	17.6	16.9
Viet Nam			
Total	20.4	22.1	22.9
Government	20.0	21.8	22.6
Corporate	0.3	0.3	0.3
Emerging East Asia			
Total	56.3	57.6	57.7
Government	33.7	34.6	34.5
Corporate	22.6	23.0	23.2
Japan			
Total	218.8	220.4	220.8
Government	201.8	203.7	204.3
Corporate	17.0	16.7	16.6

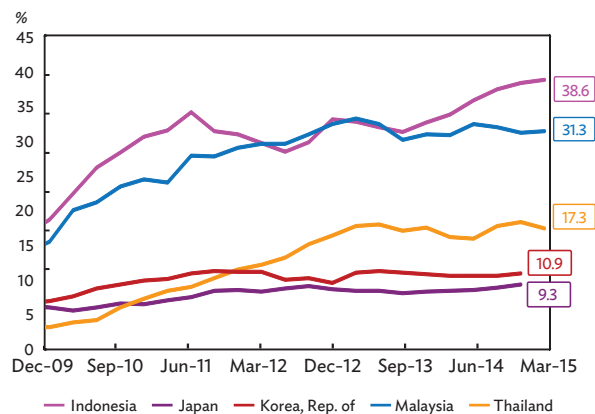
GDP = gross domestic product, LCY = local currency.

Notes:

1. Data for GDP is from CEIC. 1Q15 GDP figure for the Republic of Korea carried over from 4Q14.
2. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 2: Foreign Holdings of LCY Government Bonds in Select Asian Economies (% of total)



LCY = local currency.
 Note: Data as of end-March 2015 except for Japan and the Republic of Korea (end-December 2014).
 Source: AsianBondsOnline.

in the Indonesian LCY government bond market, which offers the highest yields in the region. Recently, however, the Ministry of Finance said that it aims to reduce foreign holdings of bonds to a 30% share to manage the stability of the Indonesian rupiah.

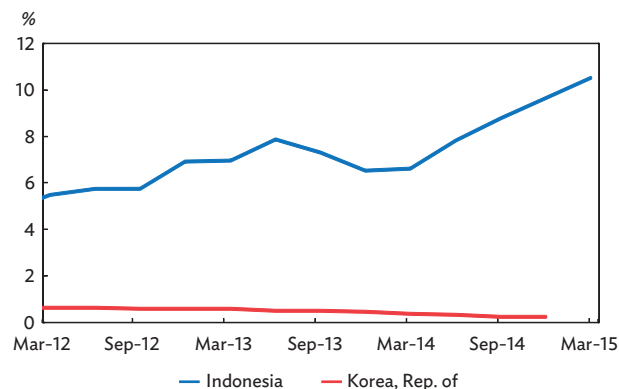
Foreign investor holdings of MYR-denominated government securities inched up to 31.3% at end-March. The uptick in the share of foreign holdings is an indication that most investors had already priced in negative developments in Malaysia's LCY bond market, including the risk of a credit rating downgrade, declining international reserves, and a depreciating currency. Most investors are weighted toward the long-end of the yield curve as oil prices are expected to recover and benign inflation indicates that BNM will maintain its current monetary policy stance for the rest of the year.

In the Republic of Korea, the share of foreign holdings was broadly stable in 4Q14, the most recent quarter for which data are available, settling at 10.9% at end-December. In Thailand, the share of foreign holdings slipped by 1 percentage point to 17.3% at end-March.

The share of foreign holdings for LCY corporate bonds still pales in comparison with that of government bonds in Indonesia and the Republic of Korea. Foreign funds' holdings of IDR-denominated corporate debt accounted

for 10.5% of the total corporate bond stock at end-March (Figure 3). The share of foreign holdings, however, has risen steadily from only 4.8% in December 2011. Meanwhile, the share of foreign holdings in the corporate bond market of the Republic of Korea at end-December was an insignificant 0.3%.

Figure 3: Foreign Holdings of LCY Corporate Bonds in Indonesia and the Republic of Korea (% of total)



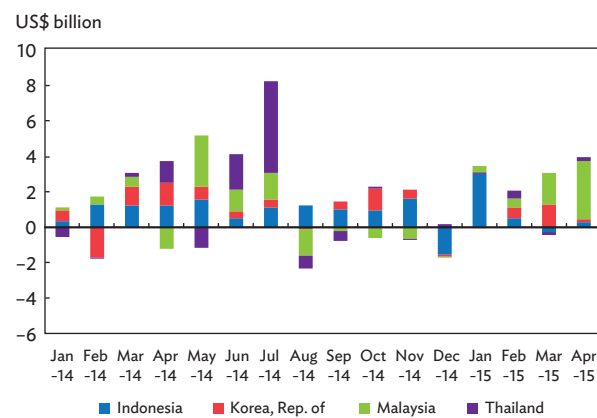
LCY = local currency.
 Note: For Indonesia, data as of 27 March 2015. For the Republic of Korea, data as of end-December 2014.
 Source: Based on data from Otoritas Jasa Keuangan and The Bank of Korea.

Net foreign capital flows into emerging East Asia's LCY bond market have been positive year-to-date.

Net foreign capital flows into emerging East Asia's LCY bond market have been positive since the start of the year, with foreign investors shoring up their bond holdings despite uncertainty over the timing of a US interest rate hike. Among the four markets providing data on capital flows, Malaysia recorded the largest net inflows year-to-date, as investor appetite for MYR-denominated securities significantly improved in March and April (Figure 4). The Republic of Korea also saw a notable rise in capital inflows from foreign funds in March.

In Indonesia, while foreign capital flows remained positive year-to-date, capital flows turned negative in March after strong inflows in January, and before recovering in April. Foreign capital flows into Thailand's bond market have been volatile in 2015, although they have been net positive year-to-date.

Figure 4: Foreign Bond Flows in Select Emerging East Asian Markets



Notes:

1. The Republic of Korea and Thailand provides data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data provided as of end-April 2015.
3. Figures were computed based on end-April 2015 exchange rates to avoid currency effects.

Sources: Directorate General of Budget Financing and Risk Management Ministry of Finance, Financial Supervisory Service, Bank Negara Malaysia, and Thai Bond Market Association.

Emerging East Asia's LCY bond issuance growth was mixed in 1Q15.

LCY bond issuance in emerging East Asia totaled US\$924 billion in 1Q15, 70.4% of which came from the region's government segment and 29.6% from the corporate segment (**Table 3**). The region's 1Q15 issuance was down from US\$1,032 billion in 4Q14 due to lower sales volumes in both the government and corporate segments; on the other hand, issuance was up from US\$858 billion in 1Q14 mainly because of a y-o-y increase in government bond issues.

The PRC topped emerging East Asia in LCY bond issuance in 1Q15 at US\$300 billion, which accounted for about 32% of the regional total. The PRC's 1Q15 issuance volume was less than in the preceding quarter due to less corporate bond issuance, partly because banks completed most of their Basel III capital-raising activities in 2014. Issuance, however, was higher on a y-o-y basis on higher volumes in the government bond segment.

Hong Kong, China's LCY bond issuance totaled US\$281 billion in 1Q15, with the Hong Kong Monetary Authority (HKMA) contributing 95.9% of the total. On a

q-o-q basis, issuance was lower due to a decline among Exchange Fund Bills and Notes.

LCY bonds issued in the Republic of Korea in 1Q15 totaled US\$174 billion, down from 4Q14's total due to lower LCY corporate bond sales and despite increases in Korea Treasury Bond (KTB) and Monetary Stabilization Bond (MSB) issues. In contrast, LCY bond issuance was up on a y-o-y basis in 1Q15.

Among the region's six Association of Southeast Asian Nation (ASEAN) member economies—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—the combined total of LCY bond issues in 1Q15 was US\$169 billion, down from US\$197 billion and US\$206 billion in 4Q14 and 1Q14, respectively.

Indonesia's LCY bond issuance exhibited double-digit growth on both a q-o-q and y-o-y basis to reach US\$12 billion in 1Q15. This was largely due to increased issuance of Treasury bonds, which eclipsed the contraction in central bank bills. Aside from the regular auction of Treasury instruments, the government also conducted a retail *sukuk* offering during the quarter.

In Malaysia, 1Q15 LCY bond issuance dropped to US\$13 billion from US\$34 billion in 4Q14 and US\$36 billion in 1Q14 amid a lack of issuance from BNM and declining corporate bond issues.

Philippine LCY bond issues in 1Q15 totaled US\$3 billion, down from both 4Q14 and 1Q14 levels because of lower issuance volumes from corporates and the central government, the latter of which rejected two of its six auction bids.

LCY bond issuance in Singapore reached US\$72 billion in 1Q15, the largest amount among all ASEAN markets, with 93% of the total issued by the MAS.

Thailand's LCY bond issuance fell to US\$57 billion in 1Q15 from US\$58 billion in 4Q14 and US\$60 billion in 1Q14 due to declining corporate sector issuance volumes and despite q-o-q and y-o-y increases in government bonds.

Viet Nam's LCY bond sales amounted to US\$11 billion in 1Q15, down from 4Q14 and 1Q14 mainly due to weaker bond issuance by the SBV. There were no issues from the corporate sector in 1Q15.

Table 3: LCY-Denominated Bond Issuance (gross)

	1Q14		4Q14		1Q15		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	1Q15		1Q15	
							q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	298	100.0	320	100.0	300	100.0	(6.5)	0.4	(6.4)	0.7
Government	137	46.0	140	43.6	144	47.9	2.8	4.5	2.9	4.8
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	137	46.0	140	43.6	144	47.9	2.8	4.5	2.9	4.8
Corporate	161	54.0	181	56.4	156	52.1	(13.6)	(3.0)	(13.5)	(2.8)
Hong Kong, China										
Total	195	100.0	335	100.0	281	100.0	(16.1)	44.2	(16.0)	44.3
Government	186	95.5	327	97.6	271	96.3	(17.2)	45.3	(17.2)	45.4
Central Bank	185	95.0	327	97.5	270	95.9	(17.4)	45.5	(17.4)	45.6
Treasury and Other Govt.	1.0	0.5	0.4	0.1	1.0	0.4	163.3	5.3	163.4	5.4
Corporate	9	4.5	8	2.4	11	3.7	29.3	20.5	29.3	20.6
Indonesia										
Total	11	100.0	8	100.0	12	100.0	48.0	28.0	40.2	11.2
Government	10	95.6	7	83.3	11	92.0	63.5	23.1	54.9	7.0
Central Bank	3	26.6	3	41.7	2	17.7	(37.2)	(14.8)	(40.4)	(26.0)
Treasury and Other Govt.	7	69.0	3	41.6	9	74.3	164.5	37.7	150.6	19.7
Corporate	0.5	4.4	1	16.7	0.9	8.0	(29.3)	134.5	(33.0)	103.8
Korea, Rep. of										
Total	158	100.0	179	100.0	174	100.0	(1.2)	14.2	(2.9)	9.6
Government	75	47.1	71	39.7	82	47.4	18.0	14.9	16.0	10.2
Central Bank	45	28.1	42	23.3	45	26.0	10.2	5.5	8.4	1.2
Treasury and Other Govt.	30	19.0	29	16.4	37	21.4	29.0	28.8	26.9	23.6
Corporate	84	52.9	108	60.3	91	52.6	(13.8)	13.6	(15.3)	9.0
Malaysia										
Total	36	100.0	34	100.0	13	100.0	(58.2)	(58.0)	(60.5)	(63.0)
Government	27	73.9	26	75.8	8	62.3	(65.6)	(64.6)	(67.6)	(68.8)
Central Bank	18	48.9	18	54.2	0	0.0	-	-	-	-
Treasury and Other Govt.	9	24.9	7	21.6	8	62.3	20.6	4.8	13.9	(7.6)
Corporate	9	26.1	8	24.2	5	37.7	(34.7)	(39.4)	(38.3)	(46.6)
Philippines										
Total	6	100.0	4	100.0	3	100.0	(25.6)	(41.0)	(25.6)	(40.8)
Government	3	60.1	3	75.9	3	91.8	(10.0)	(9.8)	(10.0)	(9.6)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	3	60.1	3	75.9	3	91.8	(10.0)	(9.8)	(10.0)	(9.6)
Corporate	2	39.9	1	24.1	0.3	8.2	(74.8)	(87.9)	(74.8)	(87.9)
Singapore										
Total	77	100.0	82	100.0	72	100.0	(9.2)	1.5	(12.3)	(7.0)
Government	74	95.7	79	96.9	70	98.0	(8.1)	4.0	(11.2)	(4.7)
Central Bank	71	91.8	74	90.5	67	93.1	(6.5)	3.0	(9.7)	(5.6)
Treasury and Other Govt.	3	3.9	5	6.4	3	4.9	(30.4)	26.3	(32.8)	15.7
Corporate	3	4.3	3	3.1	1	2.0	(42.9)	(53.4)	(44.9)	(57.3)
Thailand										
Total	60	100.0	58	100.0	57	100.0	(1.7)	(4.2)	(0.6)	(4.5)
Government	46	77.2	45	77.9	50	86.7	9.5	7.7	10.8	7.2
Central Bank	35	58.9	34	59.1	36	63.0	5.0	2.6	6.2	2.2
Treasury and Other Govt.	11	18.3	11	18.8	14	23.7	23.8	23.9	25.2	23.4
Corporate	14	22.8	13	22.1	8	13.3	(41.0)	(44.2)	(40.4)	(44.5)

continued on next page

Table 3 continued

	1Q14		4Q14		1Q15		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	1Q15		1Q15	
							q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	17	100.0	12	100.0	11	100.0	(0.7)	(33.0)	(1.4)	(34.4)
Government	17	100.0	11	99.1	11	100.0	0.2	(33.0)	(0.6)	(34.4)
Central Bank	12	66.8	10	84.3	8	68.2	(19.6)	(31.7)	(20.2)	(33.1)
Treasury and Other Govt.	6	33.2	2	14.9	4	31.8	112.6	(35.8)	110.9	(37.1)
Corporate	0	0.0	0	0.9	0	0.0	-	-	-	-
Emerging East Asia										
Total	858	100.0	1,032	100.0	924	100.0	(9.8)	10.0	(10.5)	7.7
Government	576	67.1	709	68.7	650	70.4	(7.6)	15.7	(8.3)	13.0
Central Bank	368	42.9	508	49.2	428	46.3	(15.1)	19.6	(15.8)	16.2
Treasury and Other Govt.	208	24.2	201	19.5	223	24.1	11.2	8.9	10.6	7.2
Corporate	282	32.9	323	31.3	273	29.6	(14.7)	(1.6)	(15.3)	(3.2)
Japan										
Total	485	100.0	427	100.0	414	100.0	(2.6)	(0.7)	(2.9)	(14.6)
Government	459	94.5	401	94.1	392	94.7	(2.0)	(0.5)	(2.3)	(14.5)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	459	94.5	401	94.1	392	94.7	(2.0)	(0.5)	(2.3)	(14.5)
Corporate	26	5.5	25	5.9	22	5.3	(12.5)	(3.5)	(12.8)	(17.1)

(-) = negative, - = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Corporate bonds include issues by financial institutions.

2. Bloomberg LP end-of-period LCY—US\$ rates are used.

3. For LCY base, emerging East Asia growth figures are based on end-March 2015 currency exchange rates and do not include currency effects.

Sources: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (EDAILY *Bondweb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand and ThaiBMA); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Cross-border bond issuance in emerging East Asia fell 44.0% q-o-q and 31.0% y-o-y to US\$2.9 billion in 1Q15 due to relatively large decreases in bond sales from the PRC and Hong Kong, China. PRC issuers sold US\$542 million worth of HKD-denominated bonds in 1Q15, down 68.7% q-o-q and 46.6% y-o-y, while entities from Hong Kong, China raised US\$412 million from bonds denominated in Chinese renminbi and Singapore dollars, which was down 76.2% from 4Q14 and 84.4% from 1Q14. Entities from the Republic of Korea issued bonds denominated in Chinese renminbi, Hong Kong dollars, Indonesian rupiah, and Singapore dollars that amounted to US\$1.3 billion in 1Q15, up from issuance levels recorded in 4Q14 and 1Q14.

Several entities in ASEAN member economies issued bonds in 1Q15 that were denominated in emerging East Asian currencies other than their home currency. Two Indonesian issuers—Ciputra Property, a real estate developer and Logindo Samudramakmur, a maritime transport provider—raised a combined US\$84 million

from sales of SGD-denominated bonds. Indonesia's total cross-border issuance in 1Q15 was down 60.3% q-o-q and 45.3% y-o-y. Ciputra Property's SGD65 million 3-year bond and Logindo Samudramakmur's SGD50 million 5-year bond, both issued in February, carried coupon rates of 5.625% and 2.93%, respectively.

Two Malaysian banks—Export-Import Bank of Malaysia and Maybank—sold bonds denominated in Chinese renminbi and Hong Kong dollars that totaled US\$145 million, which was less than Malaysia's cross-border issuance total in 4Q14 of US\$347 million but more than 1Q14's US\$48 million. Export-Import Bank of Malaysia issued a HKD610 million 3-year bond with a 1.43% coupon in February, while Maybank sold a CNY410 million 5-year bond with a 4.12% coupon in March.

Four Singaporean companies issued US\$308 million worth of bonds denominated in Chinese renminbi and Hong Kong dollars in 1Q15, which was down from

Singapore's cross-border issuance of US\$440 million in 4Q14 but up from 1Q14's US\$48 million. In March, one Thai company—TMB Bank—sold a bond denominated in Chinese renminbi worth CNY600 million (US\$97 million) with a tenor of 3 years and a coupon of 5.5%.

G3 currency bond issuance in emerging East Asia remained active in January–April.

Emerging East Asia's G3 currency bond issuance remained active in January–April—amounting to US\$66.3 billion, or about one-third of the record high in 2014—as issuers continued to lock in low borrowing costs with expectations of an upward adjustment in the US federal funds rate in the second half of 2015 (**Table 4**).⁵ The US dollar was once again the currency of choice among G3-denominated bonds in emerging East Asia, accounting for 91% of the regional total, followed by the euro at 8% and the Japanese yen at 1%. The January–April period saw an increasing share of euro-denominated bond issuance in the region, up from a 5% share in full-year 2014, driven by falling borrowing costs in the eurozone following the 22 January announcement of the European Central Bank that it would expand its asset purchase program to include sovereign bonds in addition to private sector bonds.

The PRC remained the largest source of G3 currency bond issuances in the region as it accounted for US\$31.5 billion of G3 currency bonds during the first 4 months of 2015, comprising 48% of the regional total. The largest issuer group from the PRC comprised financial institutions, with their combined G3 issuance accounting for 47% of the PRC total. Sinopec was the top G3 currency bond issuer in the PRC, raising US\$6.5 billion from sales of three US\$-denominated bonds and two EUR-denominated bonds in April. The largest single issue in the PRC also belonged to Sinopec, a US\$2.5 billion 5-year bond carrying a coupon rate of 2.5%.

The second largest source of G3 currency bond issuances in emerging East Asia in January–April was the Republic of Korea at US\$9.1 billion. Financial institutions were the dominant issuer group with combined G3 issuance that accounted for 77% of the total. Korea Eximbank sold the largest amount of G3 currency bonds with a total of US\$3.4 billion, including a US\$2.3 billion dual-tranche

bond sale made in January. Meanwhile, Hong Kong, China posted US\$7.8 billion worth of G3 currency bond sales in January–April, with financial institutions being the dominant issuer group.

G3 currency bond issuance from ASEAN member economies in January–April were valued at US\$17.9 billion, led by Malaysia with an issuance total of US\$6.8 billion, which already exceeds its full-year 2014 total of US\$3.6 billion. Among the largest issues in January–April, Petronas raised US\$5.0 billion from selling four US\$-denominated bonds in March, and the Government of Malaysia in April sold a US\$1.0 billion 10-year bond and a US\$0.5 billion 30-year bond with coupon rates of 3.043% and 4.236%, respectively.

Indonesia was ASEAN's next largest issuer of G3 currency bonds in January–April with a total of US\$5.2 billion. Of this amount, US\$4.0 billion came from the government, which sold 10-year and 30-year US\$-denominated bonds worth US\$2.0 billion each in January.

Philippine G3 currency bond issuance in January–April eclipsed the economy's full-year 2014 level by registering US\$2.9 billion, of which US\$2.0 billion comprised proceeds from the central government's sale of 25-year bonds.

Singapore also recorded US\$2.9 billion in G3 currency bond sales in January–April. The largest single issuer was Hutchison Port Holdings Trust, which sold a US\$500 million 3-year bond at a 2.25% coupon and a US\$500 million 5-year bond at a 2.875% coupon.

Thailand posted US\$150 million in G3 currency bond issuance over the January–April period via a single 5-year bond sold by the Export–Import Bank of Thailand at a 1.0791% coupon in January.

On a monthly basis, G3 currency bond issuance from emerging East Asia totaled US\$20.9 billion in January before falling to US\$11.2 billion in February. Issuance rebounded in March, recording US\$13.9 billion, and rose further to US\$20.2 billion in April (**Figure 5**).

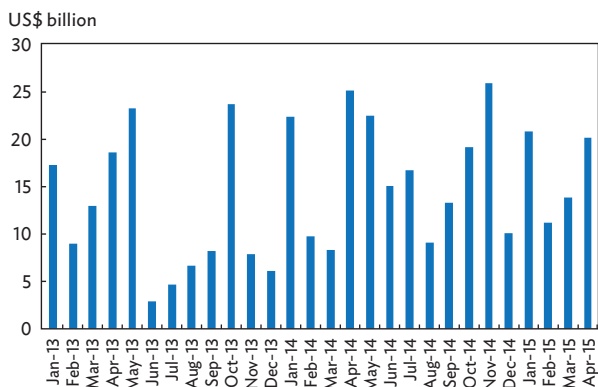
⁵ G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2014			1 January–30 April 2015		
Issuer	Amount (US\$ million)	Issue Date	Issuer	Amount (US\$ million)	Issue Date
China, People's Rep. of	98,227		China, People's Rep. of	31,537	
Bank of China 5% 2024	3,000	13-Nov-14	Sinopec 2.5% 2020	2,500	28-Apr-15
ICBC 6% Perpetual	2,940	10-Dec-14	China Cinda Finance (2015) 4.25% 2025	1,700	23-Apr-15
Alibaba 2.5% 2019	2,250	28-Nov-14	Sinopec 3.25% 2025	1,500	28-Apr-15
Alibaba 3.6% 2024	2,250	28-Nov-14	Huarong Finance II 5.5% 2025	1,400	16-Jan-15
CNOOC Finance 4.25% 2024	2,250	30-Apr-14	China Cinda Finance (2015) 3.125% 2020	1,300	23-Apr-15
Tencent Holdings 3.375% 2019	2,000	29-Apr-14	Huarong Finance II 4.5% 2020	1,200	16-Jan-15
Sinopec 1.0136% 2017	1,800	10-Apr-14	CCCI Treasury 3.5% Perpetual	1,100	21-Apr-15
State Grid Overseas Investment 4.125% 2024	1,600	7-May-14	Tencent Holdings 2.875% 2020	1,100	11-Feb-15
Others	80,137		Others	19,737	
Hong Kong, China	34,530		Hong Kong, China	7,780	
Hutchison Whampoa 1.625% 2017	2,000	31-Oct-14	Shimao Property 8.375% 2022	1,100	10-Feb-15
Hutchison Whampoa 1.375% 2021	1,815	31-Oct-14	AIA Group 3.2% 2025	750	11-Mar-15
Others	30,715		Others	5,930	
Indonesia	11,423		Indonesia	5,175	
Indonesia (Sovereign) 5.875% 2024	2,000	15-Jan-14	Indonesia (Sovereign) 4.125% 2025	2,000	15-Jan-15
Indonesia (Sovereign) 6.75% 2044	2,000	15-Jan-14	Indonesia (Sovereign) 5.125% 2045	2,000	15-Jan-15
Pertamina 6.45% 2044	1,500	30-May-14	TBG Global 5.25% 2022	350	10-Feb-15
Indonesia (Sovereign) 4.35% 2024	1,350	10-Sep-14	Astra Sedaya Finance 2.875% 2018	300	1-Apr-15
Perusahaan Gas Negara (PGN) 5.125% 2024	1,350	16-May-14	Pratama Agung 6.25% 2020	300	24-Feb-15
Others	3,223		Global Prime Capital 6.75% 2020	225	27-Apr-15
Korea, Rep. of	31,714		Korea, Rep. of	9,086	
Republic of Korea (Sovereign) 4.125% 2044	1,000	10-Jun-14	Korea Eximbank 2.875% 2025	1,250	21-Jan-15
Woori Bank 4.75% 2024	1,000	30-Apr-14	Korea Eximbank 2.25% 2020	1,000	21-Jan-15
Republic of Korea (Sovereign) 2.125% 2024	947	10-Jun-14	Industrial Bank of Korea 2% 2020	700	23-Apr-15
Others	28,766		Others	6,136	
Malaysia	3,567		Malaysia	6,812	
Cahaya Capital 0.162% 2021	500	18-Sep-14	Petronas Capital 3.5% 2025	1,500	18-Mar-15
AmBank 3.125% 2019	400	3-Jul-14	Petronas Capital 4.5% 2045	1,500	18-Mar-15
EXIM Sukuk Malaysia 2.874% 2019	300	19-Feb-14	Petronas Global Sukuk 2.707% 2020	1,250	18-Mar-15
Others	2,367		Others	2,562	
Philippines	2,675		Philippines	2,886	
Philippines (Sovereign) 4.2% 2024	1,500	21-Jan-14	Philippines (Sovereign) 3.95% 2040	2,000	20-Jan-15
SM Investments 4.875% 2024	350	10-Jun-14	Royal Capital 6.25% Perpetual	300	29-Jan-15
SMC Global Power 7.5% Perpetual	350	7-May-14	Security Bank 3.95% 2020	300	3-Feb-15
Others	475		Others	286	
Singapore	11,661		Singapore	2,912	
OCBC Bank 4% 2024	1,000	15-Apr-14	BOC Aviation 3% 2020	750	30-Mar-15
OCBC Bank 4.25% 2024	1,000	19-Jun-14	HPHT Finance (15) 2.25% 2018	500	17-Mar-15
Avago Technologies 2% 2021	1,000	6-May-14	HPHT Finance (15) 2.875% 2020	500	17-Mar-15
Others	8,661		Others	1,162	
Thailand	3,565		Thailand	150	
Viet Nam	1,000		Viet Nam	0	
Emerging East Asia Total	198,362		Emerging East Asia Total	66,368	
Memo Items:			Memo Items:		
India	18,323		India	4,459	
Bharti Airtel 5.35% 2024	1,000	20-May-14	Reliance Industries 4.125% 2025	1,000	28-Jan-15
Abja Investment 5.95% 2024	1,000	31-Jul-14	Reliance Industries 4.875% 2045	750	10-Feb-15
Others	16,323		Others	2,709	
Sri Lanka	2,165		Sri Lanka	238	

Note: Data excludes certificate of deposit.

Source: AsianBondsOnline calculations based on data from Bloomberg LP.

Figure 5: G3 Currency Bond Issuance

Source: AsianBondsOnline calculations based on Bloomberg LP data.

Government bond yields rose between 2 March and 5 June for longer tenors in emerging East Asia, tracking yield movements in the US and the eurozone.

Yields in most emerging East Asian economies fell between end-December and end-February, largely on the back of slowing economic growth and easing inflation expectations due to lower oil prices. In the US, data released for 1Q15 showed weaker economic growth as GDP contracted at an annual rate of 0.7% following a 2.2% expansion in the previous quarter. Furthermore, nonfarm payrolls increased by only 119,000 in March, compared with 266,000 in February. In the eurozone, renewed concerns over the Greek debt situation amid uncertainty surrounding the outcome of negotiations added to volatility. The Greek economy entered into recession again when its GDP contracted 0.2% q-o-q in 1Q15 after having fallen 0.4% in 4Q14.

Yields in the US and the eurozone began rising at the start of May and through the beginning of June due to a number of developments. The US Federal Reserve indicated it believed that 1Q15 economic weakness was largely transitory, caused by temporary factors such as unusually cold weather and a labor dispute at West Coast ports. Furthermore, nonfarm payrolls improved in April and May, increasing by 221,000 and 280,000, respectively. In the eurozone, GDP growth rose to 1.0% y-o-y in 1Q15 from 0.9% y-o-y in 4Q14.

Oil prices have also firmed in recent months, leading to rising inflation expectations. The WTI crude oil price

rose to US\$60.25 per barrel on 29 May from US\$47.72 per barrel on 31 March.⁶ The eurozone posted inflation in May of 0.3% y-o-y after posting zero inflation in April. In the US, the core Consumer Price Index rose 0.3% month-on-month (m-o-m) in April following a 0.2% m-o-m hike in March.

As a result, 10-year yields in the US and the eurozone began rising. Yields in a number of emerging East Asian markets have followed suit, despite weaker economic growth, with yields rising mostly at the long-end of the curve. At the short-end, however, some markets diverged, owing to either benign inflation or monetary stimulus. Yields for the 2-year tenor declined in the PRC, the Republic of Korea, Malaysia, and Thailand (**Figure 6a and 6b**). For the 10-year yield, all markets showed increases in the beginning of June (**Figure 7a and 7b**).

While yields at the longer-end rose for all markets except the Philippines, yields at the short-end were driven mostly by differences in inflation and policy rate movements between 2 March and 5 June (**Figure 8**). Inflation remained benign in most of the region, but has been rising in Indonesia and Malaysia since March (**Figure 9a and 9b**).

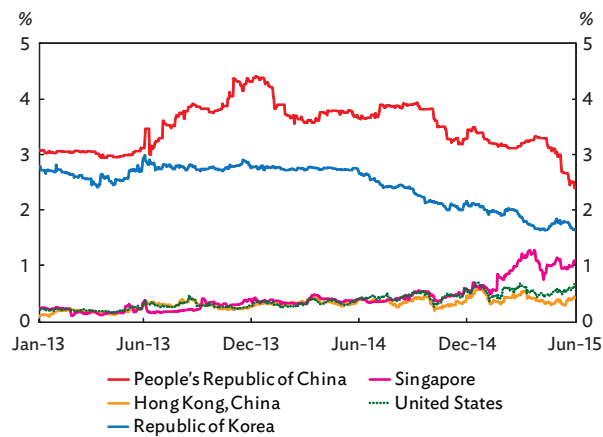
Accelerating inflation in Indonesia has caused the yield curve to rise for all tenors, with an average increase of 145 basis points (bps). Indonesia's inflation rate increased to 7.2% y-o-y in May from 6.8% y-o-y in April, currently the highest in the region. In addition to rising oil prices, Indonesia's inflation is also being driven by the removal of fuel subsidies.

In Malaysia, rising inflation has had the opposite effect, with most of Malaysia's yields falling, particularly at the short-end of the curve. Yields fell between 1 bp and 23 bps for tenors of 5 years or less. The decline in yields was due to positive sentiment as firmer oil prices are expected to boost government finances.

Other economies have not yet seen a rise in inflation due to firmer oil prices, though pass-through effects may be felt in the future. In contrast, Thailand's deflation has actually worsened, with consumer price inflation falling to -1.3% in May from -1.0% in April. This resulted in a fall in Thailand's yield curve at the short-end, with yields declining between 3 bps and 49 bps for tenors of 5 years

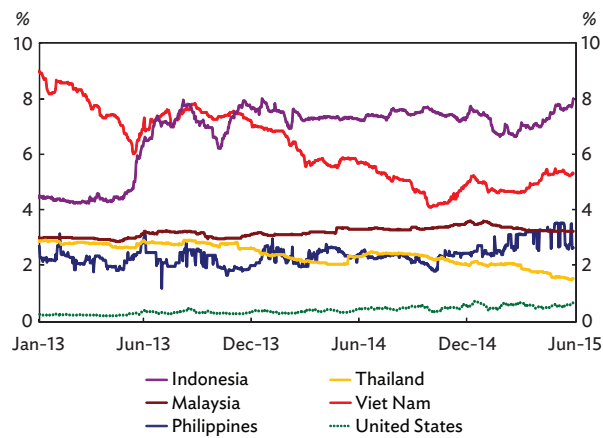
⁶ WTI crude oil price refers to Cushing, Oklahoma FOB spot price per barrel.

Figure 6a: 2-Year LCY Government Bond Yields



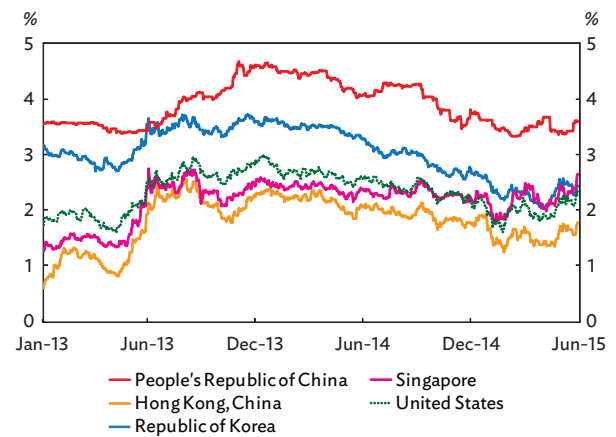
LCY = local currency.
 Note: Data as of 5 June 2015.
 Source: Based on data from Bloomberg LP.

Figure 6b: 2-Year LCY Government Bond Yields



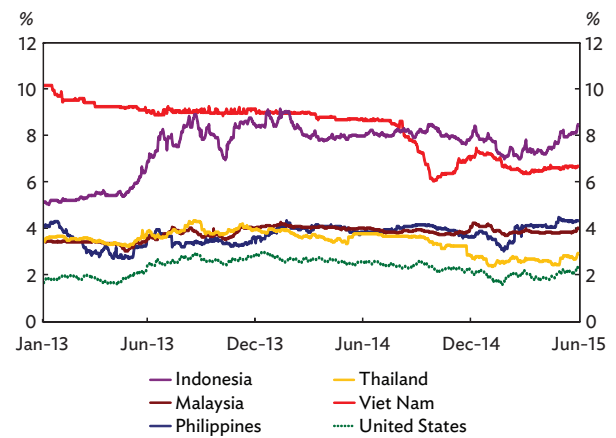
LCY = local currency.
 Note: Data as of 5 June 2015.
 Source: Based on data from Bloomberg LP.

Figure 7a: 10-Year LCY Government Bond Yields



LCY = local currency.
 Note: Data as of 5 June 2015.
 Source: Based on data from Bloomberg LP.

Figure 7b: 10-Year LCY Government Bond Yields



LCY = local currency.
 Note: Data as of 5 June 2015.
 Source: Based on data from Bloomberg LP.

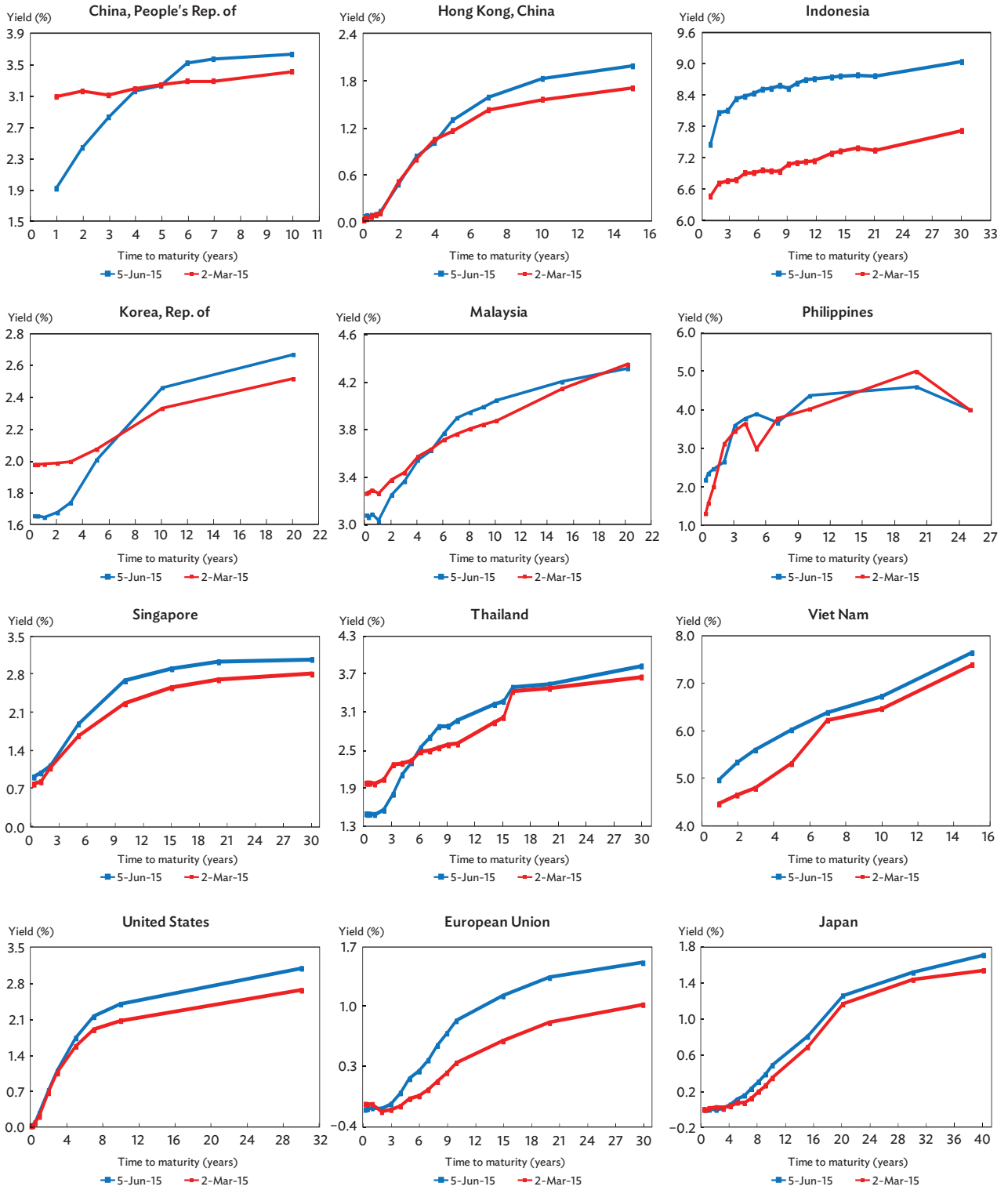
or less. The long-end of Thailand's curve, however, has seen a rise similar to others in the region as inflation is expected to resume in the later half of 2015. In addition, Thailand's GDP growth improved to 3.0% y-o-y in 1Q15 from 2.1% y-o-y in 4Q14. To support economic growth, the Bank of Thailand has reduced policy rates twice in 2015, each time by 25 bps (**Figure 10a**).

Despite slower GDP growth in 1Q15 for most markets, other than Thailand, only the PRC and the Republic of Korea have reduced policy rates. In the PRC, the strong downward interest rate movement was mostly due to measures taken by the government to boost economic growth. The PBOC has lowered policy rates twice in

2015 by 25 bps each time, once in March and once in May (**Figure 10b**). The PRC also reduced banks' reserve requirement ratios. In the Republic of Korea, policy rates were reduced in March by 25 bps. As a result, yields at the short-end fell for both the PRC and the Republic of Korea.

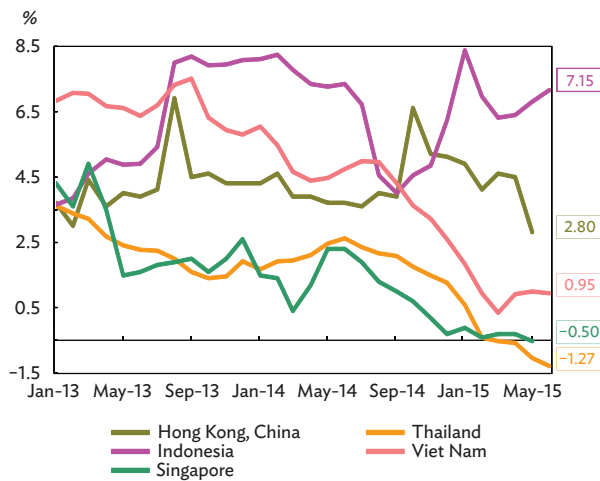
In contrast to the PRC and the Republic of Korea, Viet Nam's central bank has not chosen to reduce policy rates despite benign inflation. Inflation was stable at 0.95% y-o-y in May and 0.99% in April. The SBV instead opted to devalue the Vietnamese dong on 7 May to boost exports. The market has been pushing yields upward in Viet Nam, with most auctions of Treasury bonds falling short of

Figure 8: Benchmark Yield Curves—LCY Government Bonds



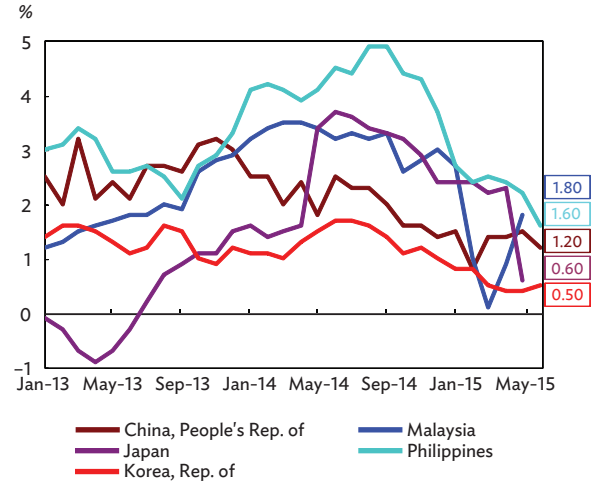
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 9a: Headline Inflation Rates



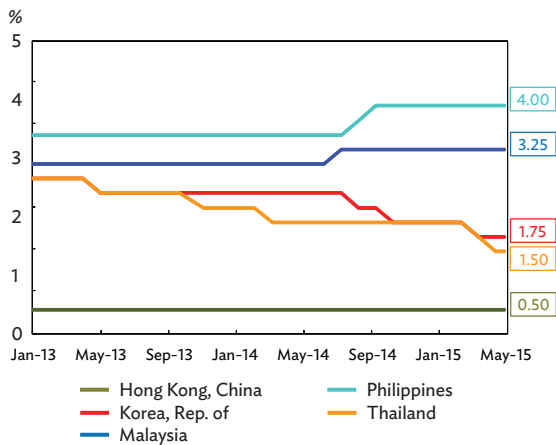
Note: Data as of end-May 2015 except for Hong Kong, China and Singapore (end-April 2015).
Source: Bloomberg LP.

Figure 9b: Headline Inflation Rates



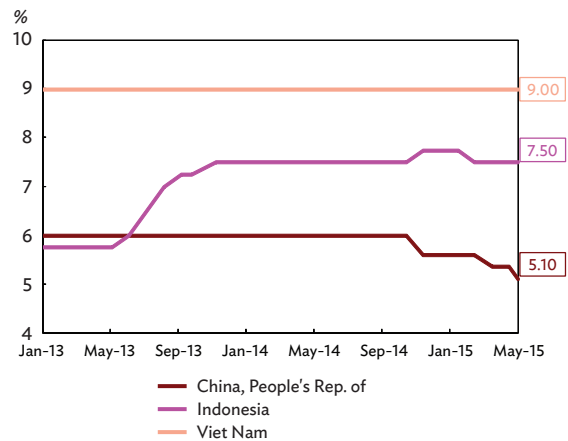
Note: Data as of end-May 2015 except for Japan and Malaysia (end-April 2015).
Source: Bloomberg LP.

Figure 10a: Policy Rates



Note: Data as of end-May 2015.
Source: Bloomberg LP.

Figure 10b: Policy Rates



Notes:
1. Data as of end-May 2015.
2. For Viet Nam base interest rate was used.
Source: Bloomberg LP.

their targets in April and May. As a result, Viet Nam’s yield curve shifted upward for all tenors, rising an average of 48 bps.

In the Philippines, like Viet Nam, yields rose for most tenors despite lower inflation. Inflation fell to 1.6% y-o-y in May from 2.2% y-o-y in April. The rise is due to market expectations that the central bank will not adjust policy

rates this year. The BSP has not adjusted policy rates since September 2014.

Lastly, yields rose for most tenors in Hong Kong, China and for all tenors in Singapore as both markets closely track US interest rate movements due to the nature of their exchanges rates, which do not float freely in response to market movements.

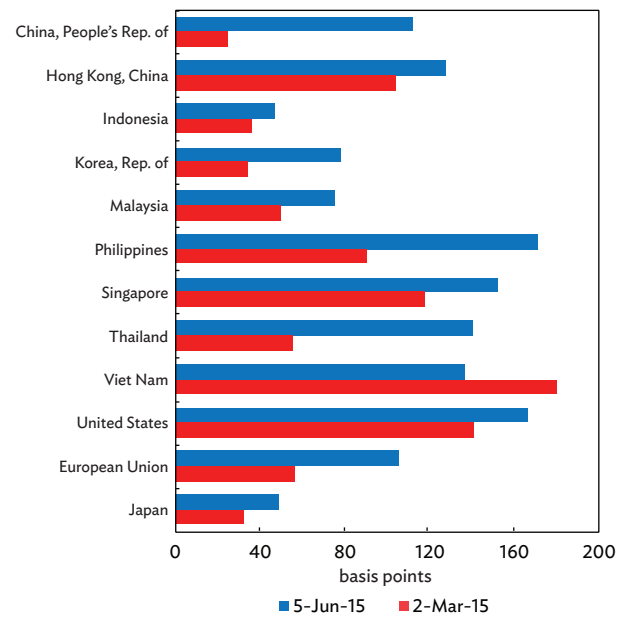
Given the rise in yields at the long-end of the curve in most emerging East Asian markets, the 2-year versus 10-year spread rose in all markets except Viet Nam (Figure 11).

Corporate yields narrowed versus government yields in the PRC and Malaysia.

Credit spreads between AAA-rated corporate bonds and government bonds narrowed in the PRC and Malaysia at the long-end of the curve. The narrowing in the PRC was due to expectations that the PBOC would ease policy rates to support the economy, thereby increasing risk appetite. In Malaysia, the narrowing of credit spreads was the result of improving sentiment over the government’s fiscal situation given rising oil prices (Figure 12a).

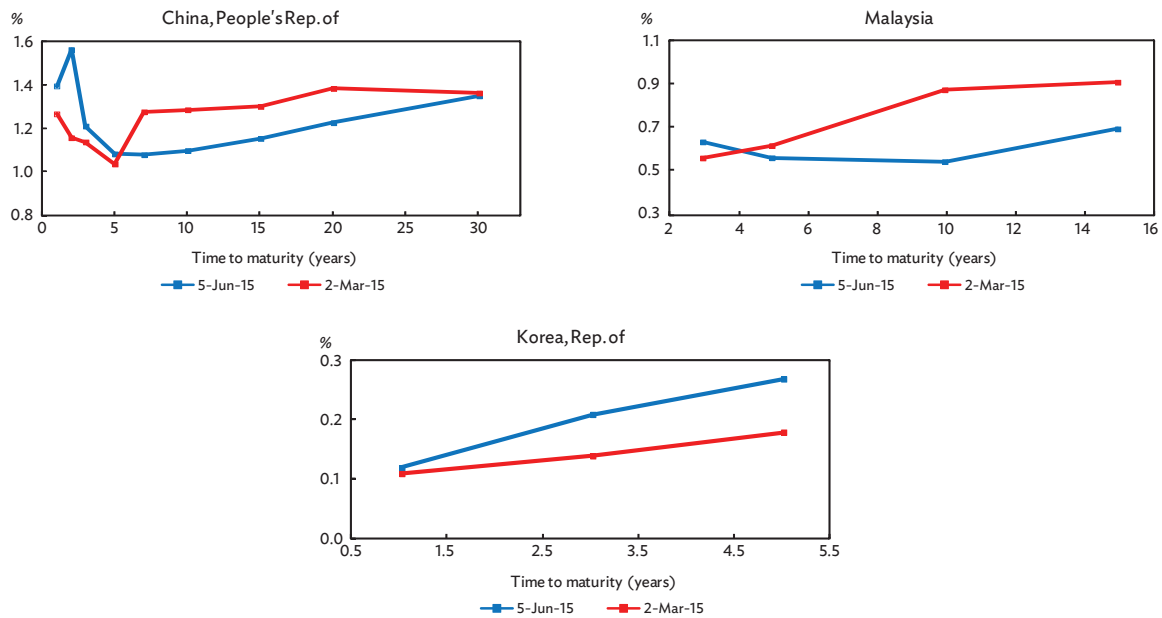
Credit spreads between AAA- and lower-rated corporate bonds were roughly unchanged in the PRC and the Republic of Korea between 2 March and 5 June. In Malaysia, credit spreads showed a slight narrowing (Figure 12b).

Figure 11: Yield Spreads Between 2- and 10-Year Government Bonds



Source: Based on data from Bloomberg LP.

Figure 12a: Credit Spreads—LCY Corporates Rated AAA vs. Government Bonds



LCY = local currency.

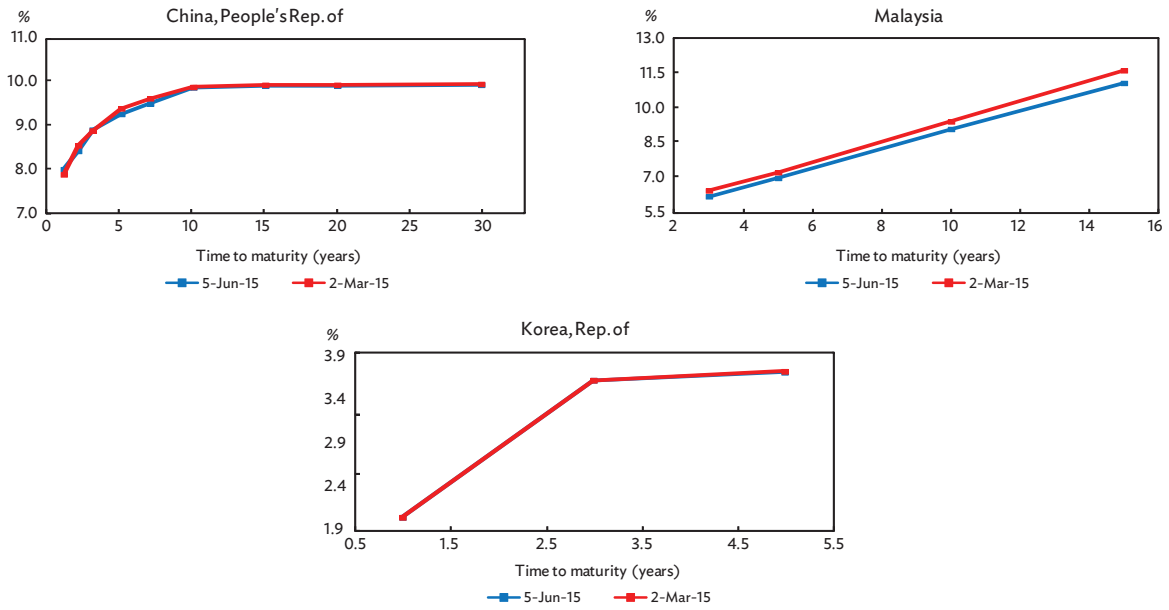
Notes:

1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.

2. For Malaysia, data on corporate bond yields are as of 27 February 2015 and 5 June 2015.

Sources: People's Republic of China (*ChinaBond*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).

Figure 12b: Credit Spreads—Lower-Rated LCY Corporates vs. AAA



LCY = local currency.

Notes:

1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
3. For Malaysia, data on corporate bond yields are as of 27 February 2015 and 5 June 2015.

Sources: People's Republic of China (*ChinaBond*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).