Market Summaries

People's Republic of China

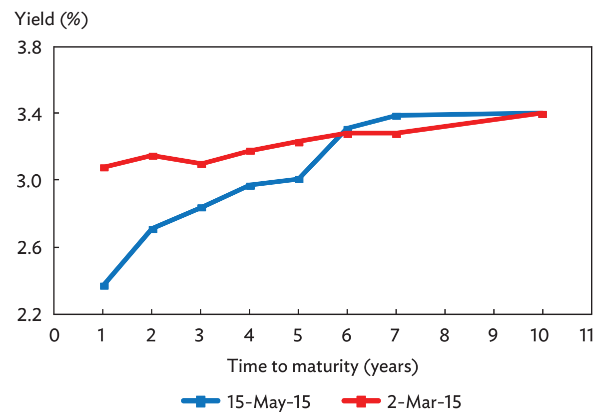
Yield Movements

From 2 March until 15 May, the yield curve of the People's Republic of China (PRC) shifted downward for tenors of 5 years or less, with yields falling between 21 basis points (bps) and 71 bps **(Figure 1)**. The biggest decrease was for the 1-year tenor, which fell 71 bps. For tenors longer than 5 years, yields rose between 3 bps and 11 bps. As a result, the 2-year versus 10-year spread rose from 25 bps to 69 bps in the same period.

The downward shift was largely in response to economic data showing that the PRC's economy is slowing. Gross domestic product (GDP) growth fell in 1Q15 to 7.0% year-on-year (y-o-y) from 7.3% y-o-y in 4Q14. The government's target for GDP growth in 2015 was set at 7.0%, compared with actual growth of 7.4% in 2014. Industrial production growth fell to 6.8% y-o-y in January–February from 7.9% y-o-y in December, and further to 5.6% y-o-y in March, before rising to 5.9% y-o-y in April. Private investment in fixed assets has also been on a downward trend, falling sharply to 12.7% y-o-y in January–April from 18.1% in full-year 2014. Inflation, on the other hand, has shown a mild upward trend in 2015. After falling to 0.8% y-o-y in January from 1.5% y-o-y in December, inflation rose to 1.4% y-o-y in February–March and to 1.5% y-o-y in April. Inflation, however, still remains below the government's 2015 target of 3.0%.

In response to the slowing economy, the People's Bank of China (PBOC) has pursued a number of easing measures in 2015. It reduced its policy rates—the benchmark 1-year lending rate and 1-year deposit rate—by 25 bps each on 1 March. In addition, the PBOC increased the band by which banks could set their deposit rates to 1.3 times that of the benchmark deposit rate. The PBOC said that it reduced interest rates due to an uncertain external environment that could put negative pressure on the local economy. With inflation below its target range, the PBOC felt it had sufficient room to ease rates by an additional 25 bps on 11 May. After the second rate reduction, the benchmark 1-year rate was 5.10% and the benchmark 1-year deposit rate was 2.25%. The deposit rate bond ceiling was also increased to 1.5 times. Other PBOC stimulus measures thus far in 2015 have included reducing reserve requirement ratios.

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



LCY = local currency.
Source: Bloomberg LP.

Despite the PBOC's easing measures, yields at the long-end of the curve rose on an expected increase in local government bond issuance as the PRC recently unveiled measures to swap existing debt for new local government bonds.

Size and Composition

The amount of outstanding LCY bonds in the PRC reached CNY32.7 trillion (US$5.3 trillion) at end-March, an increase of 1.6% quarter-on-quarter (q-o-q) and 12.0% y-o-y, largely driven by growth in policy bank and local corporate bonds **(Table 1)**.

Government Bonds. LCY government bonds outstanding grew 1.0% q-o-q and 10.0% y-o-y in 1Q15, driven by growth in policy bank bonds. Central bank bonds was unchanged as the PBOC opted to use other tools to manage liquidity (e.g., reverse repos). The amount of outstanding Treasury bonds fell 0.4% q-o-q but rose 12.3% y-o-y. The y-o-y

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

	Outstanding Amount (billion)						Growth Rates (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**29,233**	**4,702**	**32,222**	**5,192**	**32,731**	**5,279**	**2.2**	**10.5**	**1.6**	**12.0**
Government	19,002	3,056	20,693	3,335	20,894	3,370	2.1	8.2	1.0	10.0
Treasury Bonds	9,136	1,470	10,308	1,661	10,263	1,655	(0.5)	13.2	(0.4)	12.3
Central Bank Bonds	552	89	428	69	428	69	0.0	(58.9)	0.0	(22.5)
Policy Bank Bonds	9,313	1,498	9,957	1,605	10,203	1,646	5.0	14.3	2.5	9.6
Corporate	10,231	1,646	11,529	1,858	11,837	1,909	2.3	15.0	2.7	15.7
Policy Bank Bonds										
China Development Bank	5,988	963	6,266	1,010	6,337	1,022	3.9	10.4	1.1	5.8
Export–Import Bank of China	1,458	235	1,583	255	1,694	273	8.9	23.2	7.0	16.2
Agricultural Devt. Bank of China	1,867	300	2,108	340	2,172	350	5.6	21.2	3.0	16.4

( ) = negative, LCY = local currency, 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.
Sources: *ChinaBond*, *Wind*, and Bloomberg LP

Table 2: Corporate Bonds Outstanding in Key Categories

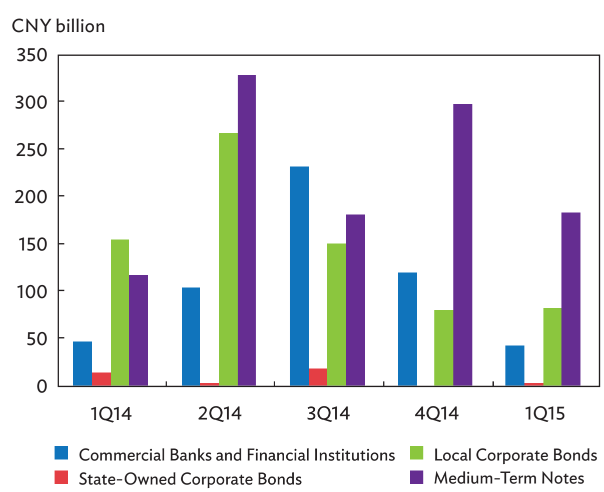
	Amount (CNY billion)				Growth Rate (%)				
					q-o-q				y-o-y
	2Q14	3Q14	4Q14	1Q15	2Q14	3Q14	4Q14	1Q15	1Q15
Commercial Bank Bonds and Tier 2 Notes	1,369	1,536	1,612	1,639	5.4	12.2	5.0	1.7	26.2
SOE Bonds	618	630	622	612	(4.5)	1.8	(1.2)	(1.5)	(5.4)
Local Corporate Bonds	2,085	2,231	2,306	2,377	28.3	7.0	3.4	3.1	46.2
Medium Term Notes	3,985	4,054	4,179	4,227	7.1	1.7	3.1	1.2	13.6

( ) = negative, q-o-q = quarter-on-quarter, SOE = state-owned enterprise, y-o-y = year-on-year.
Sources: *ChinaBond* and *Wind*.

increase was due mostly to a rise in local government bonds outstanding. Issuances of local government bonds increased due to a slowdown in local government revenues resulting from a weakening property market and the renovation of shantytowns as part of the PRC's urbanization process, among other factors. In addition, the PRC is allowing local governments to issue bonds directly for the first time, while limiting the use of local government and corporate financing vehicles.

Corporate Bonds. Corporate bonds outstanding grew 2.7% q-o-q and 15.7% y-o-y in 1Q15 to reach CNY11.8 trillion. Bonds with strong positive growth rates were those issued by banks and insurance companies, and local corporates, rising 1.7% q-o-q and 3.1% q-o-q, respectively **(Table 2)**. The strong growth in financial bonds was mostly due to issuance of subordinated bonds by financial institutions in 3Q14 to boost capital ratios.

Figure 2: Corporate Bond Issuance in Key Sectors



LCY = local currency.
Sources: *ChinaBond* and *Wind*.

Table 3: Top 30 Issuers of LCY Corporate Bonds in the People’s Republic of China

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (CNY billion)	LCY Bonds (US$ billion)			
1.	China Railway	1,068.5	172.35	Yes	No	Transportation
2.	State Grid Corporation of China	450.5	72.66	Yes	No	Public Utilities
3.	China National Petroleum	370.0	59.68	Yes	No	Energy
4.	Bank of China	300.9	48.53	Yes	Yes	Banking
5.	Industrial and Commercial Bank of China	290.5	46.86	Yes	Yes	Banking
6.	Agricultural Bank of China	270.0	43.55	Yes	Yes	Banking
7.	Industrial Bank	265.0	42.75	No	Yes	Banking
8.	Shanghai Pudong Development Bank	230.5	37.18	No	Yes	Banking
9.	China Construction Bank	200.0	32.26	Yes	Yes	Banking
10.	China Merchants Bank	159.0	25.65	No	Yes	Banking
11.	China Citic Bank	154.1	24.85	No	Yes	Banking
12.	China Minsheng Bank	153.7	24.79	No	Yes	Banking
13.	China Everbright Bank	143.7	23.18	Yes	Yes	Banking
14.	Bank of Communications	125.0	20.16	No	Yes	Banking
15.	China Power Investment	118.4	19.10	Yes	No	Public Utilities
16.	Senhua Group	111.6	17.99	Yes	No	Energy
17.	Central Huijin Investment	109.0	17.58	Yes	No	Diversified Financial
18.	Petrochina	106.0	17.10	Yes	Yes	Energy
19.	Bank of Beijing	94.4	15.23	No	Yes	Banking
20.	China Southern Power Grid	90.0	14.52	Yes	No	Public Utilities
21.	Ping An Bank	87.7	14.14	No	No	Banking
22.	China Petroleum and Chemical	79.5	12.82	Yes	Yes	Energy
23.	Bank of Shanghai	78.3	12.62	No	No	Banking
24.	China Guodian	76.2	12.28	Yes	No	Public Utilities
25.	China Three Gorges Project	74.5	12.02	Yes	No	Public Utilities
26.	China Datang	71.7	11.57	Yes	No	Energy
27.	Beijing State-owned Assets Operation & Management Center	71.5	11.53	Yes	No	Diversified Financial
28.	Tianjin Infrastructure Investment Group	69.1	11.15	Yes	No	Capital Goods
29.	Shananxi Coal and Chemical Industry Group	68.0	10.97	No	Yes	Energy
30.	China Life	68.0	10.97	Yes	Yes	Insurance
Total Top 30 LCY Corporate Issuers		**5,555.18**	**896.04**			
Total LCY Corporate Bonds		**11,836.72**	**1,909.24**			
Top 30 as % of Total LCY Corporate Bonds		**46.9%**	**46.9%**			

LCY = local currency.
Notes:
1. Data as of end-March 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Corporate bond issuance was down in 1Q15. One reason is that banks and insurance companies completed most of their capital raising requirements in 2014 **(Figure 2)**. On the other hand, local corporate issuances remained strong in 1Q15.

A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. At the end of 1Q15, the top 30 corporate bond issuers accounted for CNY5.6 trillion worth of corporate bonds outstanding, or about 47% of the market. The 10 largest issuers accounted for CNY3.6 trillion worth of bonds outstanding.

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 1Q15. Among the top 30 corporate issuers at end-March, 20 were state-owned. The top 30 is currently dominated by banks, largely as a result of their capital raising efforts under the PRC's implementation of Basel III.

Table 4 presents the most significant issuances of 1Q15. The largest of which came from issuance of subordinated debt.

Investor Profile

Treasury Bonds and Policy Bank Bonds. Banks remained the largest category of investors in the PRC's Treasury bond market, which includes policy bank bonds, accounting for a slightly smaller share of the market at end-March (75.9%) than in the same period a year earlier (76.7%) **(Figure 3)**.

Corporate Bonds. Banks were also the largest holders of corporate bonds at the end of 1Q15, albeit with a comparatively smaller share than their holdings of Treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 26.6% at the end of 1Q15 from 30.2% a year earlier **(Figure 4)**. The second largest holders of corporate bonds were funds institutions, with a 23.3% share at end-March, down from a 22.8% share a year earlier.

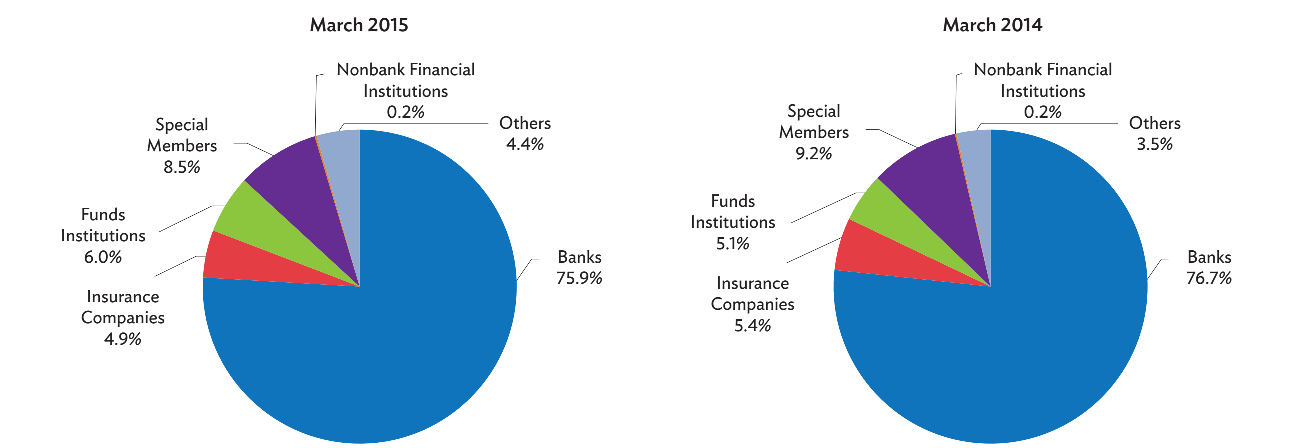
Figure 5 presents investor profiles across corporate bond categories at end-March. Banks were the largest holders

Table 4: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Industrial Bank		
3-year bond	4.95	30
China Railway		
5-year bond	4.88	20
State Grid Corporation of China		
3-year bond	4.49	10
Shenhua Group		
5-year bond	4.88	9
Hutai Securities		
2-year bond	5.90	6
ZTE Corporation		
5-year bond	5.81	6

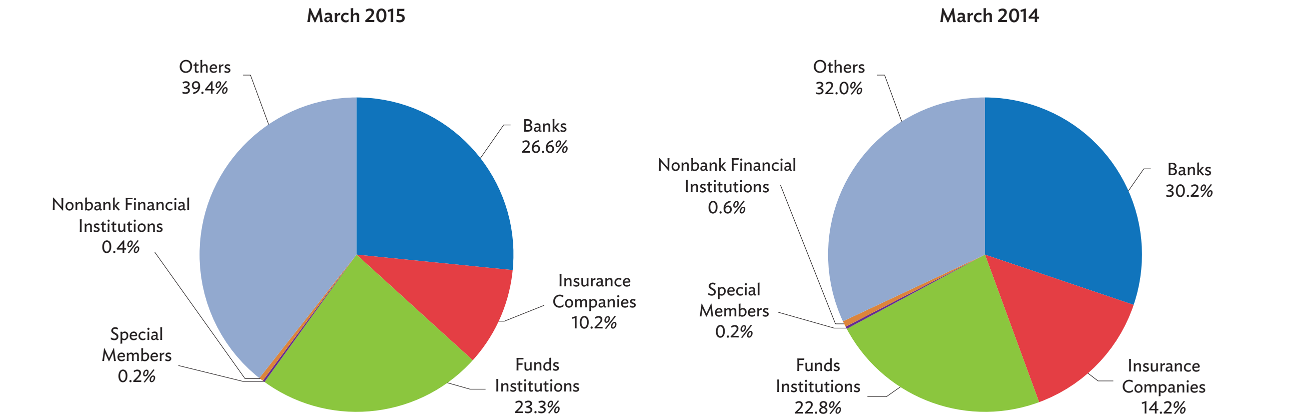
LCY = local currency.
Source: Bloomberg LP.

Figure 3: LCY Treasury Bonds and Policy Bank Bonds Investor Profile



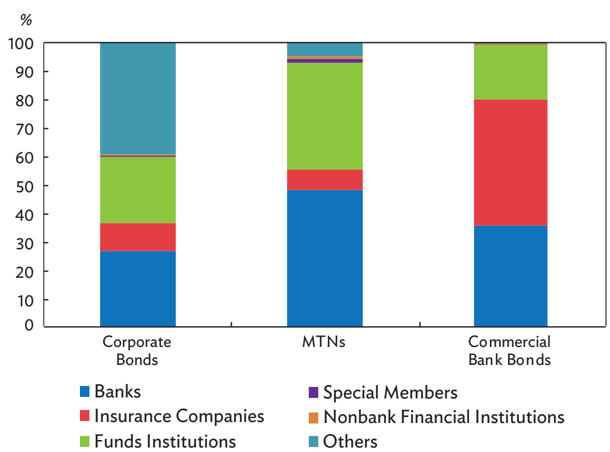
LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



MTNs = medium-term notes.
Note: Data as of end-March 2015.
Source: *ChinaBond*.

Table 5: Notional Values of the PRC's Interest Rate Swap Market in 1Q15

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%) q-o-q
7-Day Repo Rate	1,525.5	91.8	16,523	29.4
Overnight SHIBOR	45.5	2.7	133	(39.1)
3-Month SHIBOR	70.9	4.3	595	(40.1)
1-Year Term Deposit Rate	13.9	0.8	132	252.1
LIBOR	0.0	0.0	0	0.0
1-Year Lending Rate	5.1	0.3	2	(49.8)
LPR1Y	0.0	0.0	0	0.0
3-Year Lending Rate	0.0	0.0	0	0.0
5-Year Lending Rate	0.0	0.0	0	0.0
Total	**1,660.9**	**100.0**	**17,385**	**19.8**

( ) = negative, PRC = People's Republic of China, LIBOR = London Interbank Offered Rate, q-o-q = quarter-on-quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *AsianBondsOnline* and *ChinaMoney*.

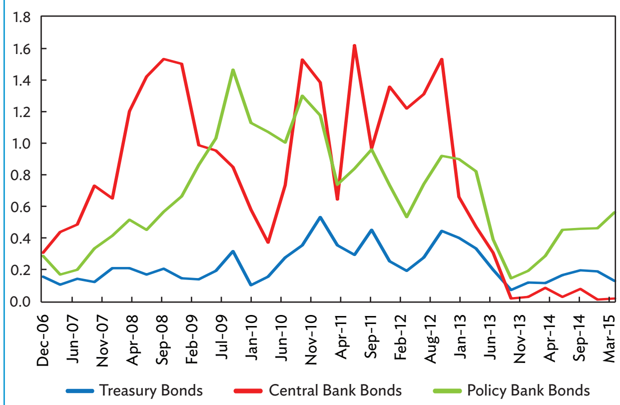
of medium-term notes with more than 50% of the total. Meanwhile, insurance companies were the largest holders of commercial bank bonds.

Liquidity

As a result of the uncertainty surrounding the timing of US monetary policy decisions and slowing domestic economic growth, the use of interest rate swaps increased in 1Q15, with volume rising 19.8% q-o-q. The bulk of interest rate swaps involved the 7-day repo rate, accounting for nearly 92% of all volume traded **(Table 5)**.

Figure 6 presents the turnover ratios for different categories of government bonds, which have seen a significant decline since 2013 owing to the tight liquidity conditions driven by the June 2013 SHIBOR shock and a crackdown on illegal bond trades. However, in 1Q15,

Figure 6: Turnover Ratios for Government Bonds



Source: *ChinaBond*.

trading activity in policy bank bonds increased while central bank bond trading continued to lag due to the lack of issuances.

Policy, Institutional, and Regulatory Developments

The PRC to Swap Local Government Debt

On 8 March, the Government of the PRC announced a CNY1 trillion quota for local governments to swap higher-yielding, maturing debt for municipal bonds, a plan that will cover roughly half of all high-yield debt maturing in 2015. The debt swap is targeted to be completed by the end of August. Issuance will be via private placement and the new bonds cannot be traded on the interbank or exchange bond markets. The bonds, however, can be used as collateral for the PBOC's repo transactions or its standing lending facilities.

PBOC Reduces Reserve Requirement Ratios

On 20 April, the PBOC reduced the reserve requirement ratio for deposit-taking financial institutions by 100 bps. In addition, the reserve requirement ratio for rural financial institutions, including rural credit cooperatives, and village and town banks, was reduced by an additional 100 bps. The reserve requirement ratio of the Agricultural Development Bank of China was reduced by an additional 200 bps, while banks with a certain level of loans to the agricultural sector or small enterprises qualify for an additional 50 bps reduction.

Asset Securitization Expanded

On 14 May, the State Council said that it would expand the current asset securitization pilot program by CNY500 billion in order to improve banks' liquidity. The government's plan is to use the funds generated by asset-backed security sales for housing renovation, water, and railway projects.

Hong Kong, China

Yield Movements

Hong Kong, China's yield movements from 2 March to 15 May closely tracked yield movements in the United States (US) **(Figure 1)**. The yield curve shifted upward at the short-end and long-end, while shifting downward in the belly of the curve.

For tenors of 6 months or less, yields rose between 0.2 basis point (bp) and 4 bps. Yields rose between 13 bps and 26 bps for tenors of 7 years or more. In the belly of the curve, the 2-year through the 5-year tenors fell 4 bps and 15 bps. The 2-year versus 10-year spread rose to 137 bps on 15 May from 105 bps on 2 March.

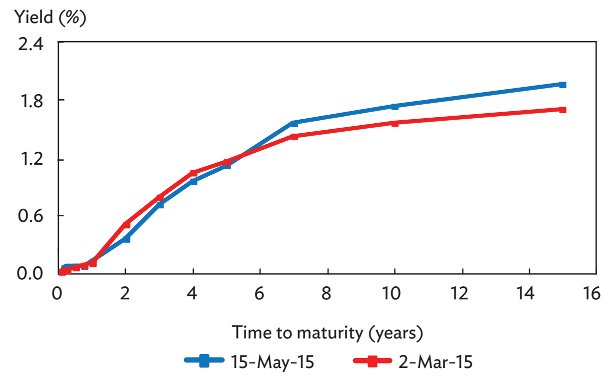
Hong Kong, China's yield curve movements closely follow those of the US due to Hong Kong, China's fixed exchange rate system. The US yield curve steepened recently following improved economic data in April and firmer oil prices.

Hong Kong, China's economy continued to slow in 1Q15, with gross domestic product (GDP) growth slowing to 2.1% year-on-year (y-o-y) from 2.4% y-o-y in 4Q14. Full-year 2014 GDP growth was 2.5%. While domestic demand remained stable in 1Q15, private consumption growth weakened to 3.5% y-o-y from 4.1% y-o-y in the previous quarter. The biggest drag came from weakening external demand amid slowing world economic growth. Exports of goods rose 0.4% y-o-y in 1Q15, down from 0.6% y-o-y in 4Q14, while exports of services fell 0.6% y-o-y in 1Q15, following a decline of 0.3% y-o-y in 4Q14. Inflation also remained subdued in 1Q15, with March inflation falling slightly to 4.5% y-o-y from 4.6% y-o-y in February. The average annual inflation rate in 1Q15 was 4.4% versus 5.0% in 4Q14.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market expanded 2.6% quarter-on-quarter (q-o-q) and 1.5% y-o-y to reach HKD1,545 billion (US$199 billion) at end-March **(Table 1)**. The higher rate of q-o-q versus y-o-y growth was mostly due to an increase in corporate bonds outstanding of 4.7% q-o-q.

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



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

Exchange Fund Notes outstanding declined while HKSAR bonds showed a dramatic increase, causing government bonds outstanding to rise 1.0% q-o-q and 1.4% y-o-y by end-March. Exchange Fund Notes fell 3.2% q-o-q and 2.3% y-o-y, while HKSAR bonds rose 8.2% q-o-q and 11.1% y-o-y.

The drop in Exchange Fund Notes and the rise in Hong Kong Special Administrative Region (HKSAR) bonds was due to recent regulatory measures taken by the Hong Kong Monetary Authority (HKMA) to align the yield curves of Exchange Fund securities and HKSAR bonds. The measures included replacing issuances of Exchange Fund Notes with tenors of 3 years or more with issuances of HKSAR bonds. In 1Q15, a total of HKD7.9 billion worth of HKSAR bonds were issued, up from HKD3.0 billion in 4Q14.

In 1Q15, the five largest nonbank issuances came from Hong Kong Mortgage Corporation (HKD2.3 billion), Bohai International (HKD2.0 billion), New World China Land (HKD0.8 billion), Swire Properties (HKD0.6 billion), Emperor International, and Eastern Creation (HKD0.3 billion each) **(Table 2)**.

Corporate bonds outstanding from the top 30 nonbank issuers in Hong Kong, China amounted to HKD126 billion at end-March, representing 18.3% of total outstanding

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,522**	**196**	**1,506**	**194**	**1,545**	**199**	**0.9**	**6.8**	**2.6**	**1.5**
Government	846	109	849	109	857	111	0.5	8.5	1.0	1.4
Exchange Fund Bills	683	88	684	88	686	89	0.1	6.8	0.3	0.4
Exchange Fund Notes	68	9	69	9	67	9	0.0	(0.9)	(3.2)	(2.3)
HKSAR Bonds	94	12	97	12	104	13	4.4	33.3	8.2	11.1
Corporate	677	87	657	85	688	89	1.3	4.7	4.7	1.6

( ) = negative, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, 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.
Sources: Hong Kong Monetary Authority and Bloomberg LP.

Table 2: Notable LCY Corporate Bond Issuance in 1Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
The Hong Kong Mortgage Corporation		
30-year bond	3.15	0.50
30-year bond	3.00	0.50
3-year bond	1.45	0.50
2-year bond	0.80	0.38
2-year bond	0.92	0.24
5-year bond	1.60	0.20
Bohai International Capital		
5-year bond	6.15	2.00
New Word China Land		
5-year bond	5.00	0.80
Swire Properties		
10-year bond	2.80	0.20
10-year bond	3.00	0.20
10-year bond	2.90	0.20
Emperor International Holdings		
5-year bond	5.00	0.30
Eastern Creation II Investment Holdings		
5-year bond	2.80	0.30

LCY = local currency.
Source: Central Moneymarkets Unit (CMU) HKMA.

corporate bonds at end-March. The top 30 list of issuers was dominated by real estate firms **(Table 3)**. HKMC remained the top issuer in Hong Kong, China with outstanding bonds of HKD19.6 billion. Next was CLP Power Hong Kong Financing with HKD10.3 billion of bonds outstanding, followed by Sun Hung Kai Properties with HKD9.7 billion. Among the top 30, six were state-owned companies and 11 were Hong Kong Exchange-listed firms. Only one state-owned company, the MTR Corporation, is listed on the exchange.

Policy, Institutional, and Regulatory Developments

The PRC Issues Dimsum Bonds in Hong Kong, China

On 20 May, the People's Republic of China (PRC) successfully auctioned CNY12.0 billion worth of dimsum bonds in Hong Kong, China. The CNY 5.0 billion 3-year tranche was priced with a coupon of 2.8%, the CNY3.0 billion 5-year tranche carries a coupon of 3.0%, the CNY1.5 billion 7-year was priced at a coupon of 3.36%, the CNY1.5 billion 10-year tranche was priced at 3.39%, the CNY0.5 billion 15-year tranche was priced at 3.60%, and the CNY0.5 billion 30-year tranche was priced at 4.1%.

Table 3: Top 30 Nonbank Corporate Issuers in Hong Kong, China

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (HKD billion)	LCY Bonds (US$ billion)			
1.	The Hong Kong Mortgage Corporation	19.62	2.53	Yes	No	Finance
2.	CLP Power Hong Kong Financing	10.30	1.33	No	No	Electric
3.	Sun Hung Kai Properties (Capital Market)	9.71	1.25	No	No	Real Estate
4.	Wharf Finance	7.22	0.93	No	No	Diversified
5.	The Link Finance (Cayman) 2009	6.79	0.88	No	No	Finance
6.	MTR Corporation (C.I.)	6.25	0.81	Yes	Yes	Transportation
7.	HKCG (Finance)	6.09	0.79	No	No	Gas
8.	Swire Pacific	5.93	0.76	No	Yes	Diversified
9.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
10.	Hongkong Electric Finance	5.01	0.65	No	No	Electric
11.	Urban Renewal Authority	4.60	0.59	Yes	No	Real Estate
12.	Cheung Kong Bond Finance	4.12	0.53	No	Yes	Real Estate
13.	Wheelock Finance	4.04	0.52	No	No	Diversified
14.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
15.	Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
16.	Airport Authority Hong Kong	2.80	0.36	Yes	No	Transportation
17.	Yue Xiu Property	2.30	0.30	No	No	Real Estate
18.	Bohai International	2.00	0.26	No	No	Diversified
19.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
20.	Swire Properties MTN Financing	2.00	0.26	No	No	Real Estate
21.	Emperor International Holdings	1.95	0.25	No	Yes	Real Estate
22.	Hysan (MTN)	1.80	0.23	No	Yes	Real Estate
23.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
24.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
25.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
26.	Tencent Holdings	1.20	0.15	No	Yes	Comunications
27.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
28.	Dragon Drays	1.00	0.13	No	No	Diversified
29.	K. Wah International	1.00	0.13	No	Yes	Real Estate
30.	Citic Limited	0.92	0.12	No	Yes	Diversified
Total Top 30 Nonbank LCY Corporate Issuers		**125.96**	**16.25**			
Total LCY Corporate Bonds		**687.93**	**88.76**			
Top 30 as % of Total LCY Corporate Bonds		**18.3%**	**18.3%**			

LCY = local currency.
Notes:
1. Data as of end-March 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Hong Kong Monetary Authority data.

Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia rose for all tenors between 2 March and 15 May, resulting in an upward shift of the yield curve **(Figure 1)**. Yields gained between 90 basis points (bps) and 116 bps from the 2-year tenor through the long-end of the curve, while yield at the very short-end rose 75 bps. The yield spread between the 2-year and 10-year maturities narrowed to 30 bps from 37 bps in the period under review.

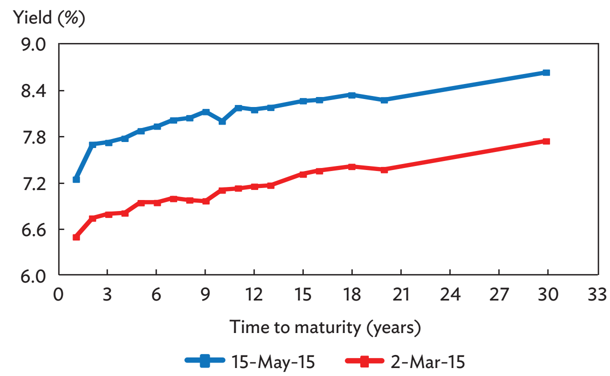
The overall rise in yields was reflective of concerns over the timing of a likely United States (US) Federal Reserve interest rate hike. In addition, rising yields at the short-end of the curve posit rising inflationary expectations as global oil prices have shown some recovery. Coupled with the government's removal of fuel subsidies at the beginning of the year, this is contributing to additional price pressures. There is also an upside risk to inflation as demand for goods normally picks up during the Muslim fasting month of Ramadan.

Consumer price inflation has thus far remained above Bank Indonesia's 2015 target range of 3.0%–5.0%. Inflation slowed to 7.0% year-on-year (y-o-y) in January and 6.3% y-o-y in February, before rising again to 6.4% y-o-y in March and 6.8% y-o-y in April. The uptick in April inflation was due mainly to increases in fuel costs and food prices.

With inflation remaining elevated above its target range, Bank Indonesia continued to maintain its tight monetary policy stance. The benchmark interest rate has been kept at 7.50% since February. Bank Indonesia's tight monetary bias also remains in place in order to reduce the current account deficit to a more sustainable level. To spur growth, Bank Indonesia said that it plans to loosen macroprudential measures by revising its policies for the loans-to-deposit and loan-to-value ratios for mortgage loans and down payments for automotive loans.

Foreign investor interest in Indonesia's LCY bond market has slightly weakened in March due to risk aversion following investor concerns that US will raise interest rates. Net foreign capital outflows were recorded in March, with the share of foreign holdings of Indonesian LCY bonds slipping to 38.6% from 40.3% at end-January.

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



LCY = local currency.
Source: Bloomberg LP.

Foreign holdings' share had further declined to 38.1% as of 15 May.

Meanwhile, gross domestic product (GDP) growth in Indonesia slipped to 4.7% y-o-y in 1Q15 from 5.0% y-o-y in 4Q14. GDP growth in 1Q15 was at its slowest since 2009, resulting from weak exports and falling crude oil prices, according to Statistics Indonesia. Growth in government spending also slowed to 2.2% y-o-y in 1Q15 from 2.8% y-o-y in 4Q14. On the other hand, private consumption, which accounts for about 56% of GDP, rose 5.0% in 1Q15 to match 4Q14's growth rate. Bank Indonesia is projecting economic growth to improve in 2Q15 as the government increases infrastructure spending to stimulate growth

Size and Composition

The outstanding size of Indonesia's LCY bond market continued to climb at end-March, rising to IDR1,629.1 trillion (US$125 billion). Overall growth of the bond market remained strong at 6.5% quarter-on-quarter (q-o-q) and 16.5% y-o-y **(Table 1)**. Indonesia's LCY bond market was still largely dominated by conventional bonds, accounting for about 90% of total outstanding bonds at end-March. The remaining 10% were *sukuk* (Islamic bonds).

The outstanding stock of government bonds expanded to IDR1,401.6 trillion at end-March on growth of 7.2% q-o-q and 18.6% y-o-y. Growth came mainly from an increase in

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	IDR	US$	IDR	US$	IDR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,398,996**	**123**	**1,529,810**	**123**	**1,629,143**	**125**	**6.8**	**21.1**	**6.5**	**16.5**
Government	1,181,628	104	1,306,990	106	1,401,586	107	8.3	23.3	7.2	18.6
Central Govt. Bonds	1,072,741	94	1,209,961	98	1,305,486	100	7.8	24.5	7.9	21.7
of which: *Sukuk*	96,764	9	110,704	9	145,229	11	11.0	30.4	31.2	50.1
Central Bank Bills	108,887	10	97,029	8	96,100	7	13.3	12.4	(1.0)	(11.7)
of which: *Sukuk*	5,377	0.5	8,130	0.7	8,810	0.7	14.1	10.8	8.4	63.8
Corporate	217,369	19	222,820	18	227,557	17	(0.4)	10.7	2.1	4.7
of which: *Sukuk*	7,194	0.6	7,105	0.6	7,078	0.5	(4.8)	(14.2)	(0.4)	(1.6)

( ) = negative, LCY = local currency, 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 nontradable bonds as of end-March stood at IDR263.1 trillion.
Sources: Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, Indonesia Stock Exchange, Otoritas Jasa Keuangan, and Bloomberg LP.

the stock of central government bonds, which comprised Treasury instruments issued by the Ministry of Finance. On the other hand, the stock of central bank bills, which are known as *Sertifikat* Bank Indonesia (SBI), contracted in 1Q15.

Central Government Bonds. The outstanding size of central government bonds climbed 7.9% q-o-q and 21.7% y-o-y to reach IDR1,305.5 trillion. Growth was largely driven by increases in the stock of conventional fixed-rate bonds, and Islamic Treasury instruments, particularly Islamic Treasury bills, retail *sukuk*, and project-based *sukuk.*

The government raised a total of IDR114.1 trillion worth of Treasury bills and bonds in 1Q15. As in the past, the government has adopted a frontloading policy with regard to issuance, choosing to issue a larger volume of debt instruments in the first 6 months of the year. In 2015, the government's target is to complete about 60% of gross LCY bond issuance in the first half of the year. Also, the government plans to issue 79.9% in the form of conventional bonds and the remaining 20.1% as *sukuk.*

In 1Q15, new issuance by the central government was notably higher on both a q-o-q and y-o-y basis as the government conducted weekly auctions of Treasury instruments and issued retail *sukuk* through a bookbuilding process. Most of the treasury auctions during the quarter were fully subscribed or oversubscribed, including some *sukuk* auctions.

In March, the government issued the retail *sukuk* series SR-007, raising IDR21,965 billion from the bond sale. The retail *sukuk* carried a maturity of 3 years and a rate of return of 8.25%. SR-007 was issued following the *ijarah* principle, which refers to Islamic bonds backed by a lease agreement. The retail *sukuk* were only sold to individual investors and required a 1-month holding period before it can be traded.

Central Bank Bills. The stock of SBI fell to IDR96.1 trillion at end-March, down on both a q-o-q and y-o-y basis. Bank Indonesia issues SBI as one of its tools for liquidity management. New issuance of SBI and *shari'a*-compliant SBI with 9-month tenors amounted to IDR27.2 trillion in 1Q15, significantly lower from the earlier quarter and year ago levels. There were three auctions of SBI during the quarter, one per month, with issuance of both conventional and *shari'a*-compliant SBI.

Corporate Bonds. At end-March, the outstanding stock of LCY corporate bonds in Indonesia reached IDR227.6 trillion on growth of 2.1% q-o-q and 4.7% y-o-y. Most corporate bonds were conventional issues, with *sukuk* only accounting for about 3% of the total. Indonesia's corporate bond segment remains small, accounting for only about 14% of the aggregate bond stock.

At end-March, the top 30 LCY corporate bond issuers in Indonesia had a total outstanding bond stock of IDR171.3 trillion, or a 75.3% share of total LCY corporate bonds outstanding **(Table 2)**. Dominating the list were

Table 2: Top 30 Issuers of LCY Corporate Bonds in Indonesia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (IDR billion)	LCY Bonds (US$ billion)			
1.	Indonesia Eximbank	21,712	1.66	Yes	No	Banking
2.	PLN	14,073	1.08	Yes	No	Energy
3.	Adira Dinamika Multifinance	11,005	0.84	No	Yes	Finance
4.	Astra Sedaya Finance	10,125	0.77	No	No	Finance
5.	Bank Internasional Indonesia	8,360	0.64	No	Yes	Banking
6.	Indosat	7,962	0.61	No	Yes	Telecommunications
7.	Bank Tabungan Negara	7,950	0.61	Yes	Yes	Banking
8.	Bank CIMB Niaga	7,750	0.59	No	Yes	Banking
9.	Bank Permata	6,482	0.50	No	Yes	Banking
10.	Bank Pan Indonesia	6,000	0.46	No	Yes	Banking
11.	Jasa Marga	5,900	0.45	Yes	Yes	Toll Roads
12.	Perum Pegadaian	5,419	0.41	Yes	No	Finance
13.	Bank OCBC NISP	5,378	0.41	No	Yes	Banking
14.	Sarana Multigriya Finansial	4,955	0.38	Yes	No	Finance
15.	Agung Podomoro Land	4,575	0.35	No	Yes	Property, Real Estate, and Building Construction
16.	Bank Tabungan Pensiunan Nasional	4,420	0.34	No	Yes	Banking
17.	Federal International Finance	4,070	0.31	No	No	Finance
18.	Indofood Sukses Makmur	4,000	0.31	No	Yes	Food and Beverages
19.	Bank Mandiri	3,500	0.27	Yes	Yes	Banking
20.	Medco-Energi International	3,500	0.27	No	Yes	Petroleum and Natural Gas
21.	Antam	3,000	0.23	Yes	Yes	Petroleum and Natural Gas
22.	BCA Finance	3,000	0.23	No	No	Finance
23.	Telekomunikasi Indonesia	3,000	0.23	Yes	Yes	Telecommunications
24.	Bumi Serpong Damai	2,750	0.21	No	Yes	Property, Real Estate, and Building Construction
25.	Indomobil Finance Indonesia	2,608	0.20	No	No	Finance
26.	Toyota Astra Financial Services	2,223	0.17	No	No	Finance
27.	Garuda Indonesia	2,000	0.15	Yes	Yes	Infrastructure, Utilities, and Transportation
28.	Permodalan Nasional Madani	2,000	0.15	Yes	No	Finance
29.	BII Finance	1,824	0.14	No	No	Finance
30.	Bank Jabar Banten	1,724	0.13	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**171,265**	**13.10**			
Total LCY Corporate Bonds		**227,557**	**17.41**			
Top 30 as % of Total LCY Corporate Bonds		**75.3%**	**75.3%**			

LCY = local currency.
Notes:
1. Data as of end-March 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

firms from the banking and finance sectors. Some of the largest bond issuers came from capital intensive industries such as energy (PLN) and telecommunications (Indosat), and a toll road operator (Jasa Marga).

In 1Q15, Indonesia Eximbank remained the top corporate bond issuer of LCY bonds as its outstanding bond stock climbed to IDR21.7 trillion. Indonesia Eximbank issued twice in 1Q15—once in January and once in March. State power firm PLN was the second largest issuer with outstanding LCY bonds valued at IDR14.1 trillion at end-March, while Adira Dinamika Multifinance was third with an outstanding bond stock of IDR11.0 trillion.

New corporate bond issuance fell to IDR12.3 trillion in 1Q15 from IDR17.4 trillion in 4Q14. A total of nine corporate firms raised capital from the bond market, mostly in the banking and financial sectors. There were 19 new corporate bond series issued in 1Q15, all of which were conventional. In terms of maturity, most of the new bonds issued carried a maturity of 1–3 years, six bond series had maturities of more than 3 years to 5 years, and one bond series had a 7-year tenor. The largest corporate bond issuances in 1Q15 are shown in **Table 3**.

Foreign Currency Bonds. Taking advantage of the low interest rate environment, the Indonesian government priced a total of US$4.0 billion worth of bonds in a dual-tranche sale in January. The issue comprised a US$2.0 billion 10-year bond carrying a coupon of 4.125% and a yield of 4.200%, and a US$2.0 billion 30-year bond with a coupon of 5.125% and a yield of 5.200%. The bonds were oversubscribed, with the combined order book reaching US$19.3 billion. Investors were based in Asia, Europe, and the US.

In May, the Indonesian government priced a US$2.0 billion *sukuk*, the largest US$-denominated *sukuk* sale by Indonesia to date. The bonds carried a maturity of 10 years and were priced at par to yield 4.325%. The bonds were issued following the *wakala* principle (Islamic bonds backed by an agency agreement). The bond sale was oversubscribed, with the order book exceeding US$6.8 billion

Based on the revised 2015 budget, the maximum limit for the government's international bond issuance is set at 22.6% of total gross issuance. The government plans to issue in all G3 currencies: euros, Japanese yen, and US dollars. The government issues foreign currency bonds to complement its domestic issuance and to provide a benchmark for corporate debt.

Table 3: Notable LCY Corporate Bond Issuance in 1Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Indonesia Eximbank		
370-day bond	8.25	575
3-year bond	9.00	1,298
3-year bond	9.25	800
5-year bond	7.25	700
5-year bond	9.50	2,727
OCBC NISP		
370-day bond	9.00	1,095
2-year bond	9.40	670
3-year bond	9.80	1,235
BCA Finance		
370-day bond	8.25	438
2-year bond	8.50	140
3-year bond	9.00	422
BFI Finance		
370-day bond	9.88	345
2-year bond	10.50	105
3-year bond	10.88	550

LCY = local currency.
Source: Indonesia Stock Exchange.

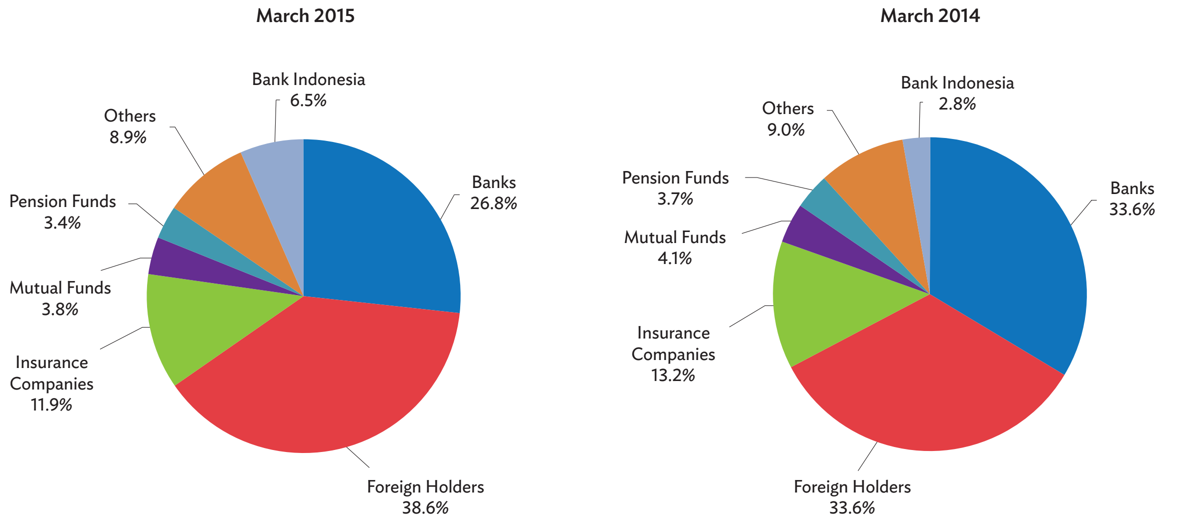
Investor Profiles

Central Government Bonds. Foreign investors were still the largest investor group in Indonesia's LCY government bond market at end-March. Foreign investor holdings rose to a share of 38.6% of total LCY central government bonds at end-March from a share of 33.6% a year earlier **(Figure 2)**. In absolute terms, outstanding bonds held by foreign investors soared to IDR504.1 trillion at end-March from IDR360.9 trillion in the same period a year earlier. Foreign investors continue to chase the higher yields of Indonesian LCY government bonds, compared with other emerging East Asian markets.

Foreign investors were mostly attracted to long-term maturities, with about 44% of their bonds held in maturities of more than 10 years at end-March. Foreign holdings of more than 5 years to 10 years comprised a share of about 35% in 1Q15 **(Figure 3)**.

In 1Q15, banking institutions were the second largest investor group in the central government bond market with a share of 26.8% at end-March, which was down

Figure 2: LCY Central Government Bonds Investor Profile



LCY = local currency.
Source: Directorate General of Budget Financing and Risk Management Ministry of Finance.

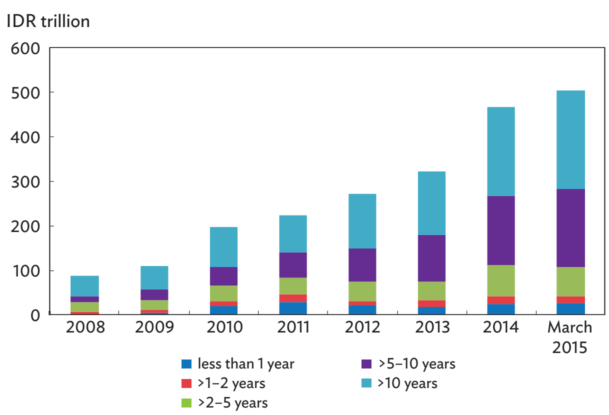
from 33.6% a year earlier. All other domestic investors posted y-o-y declines in their share of government bond holdings at end-March. The only exception was Bank Indonesia whose holdings of central government bonds rose to a share of 6.5% in 1Q15 at end-March from 2.8% a year earlier.

Central Bank Bills. Central bank bills, or SBI, are held almost exclusively by banking institutions **(Figure 4).** At end-March, bank holdings of SBI rose to a share of 99.8% of the total from 93.8% a year earlier. The remaining share of SBI holdings was accounted for by foreign nonbank investors.

Ratings Update

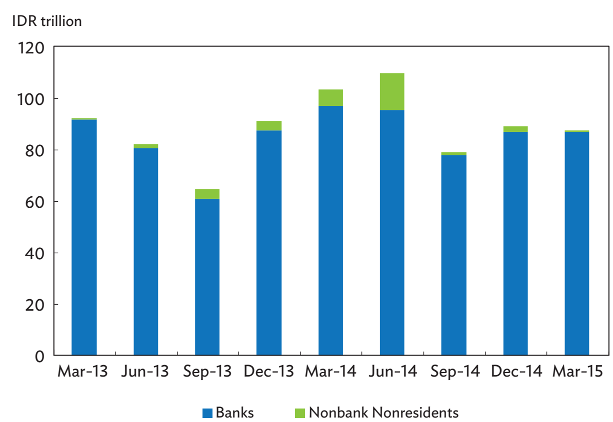
In March, Ratings and Investments (R&I) affirmed Indonesia's sovereign credit ratings at BBB– with a stable outlook. R&I cited the following factors to support its ratings decision: (i) Indonesia's expanded fiscal space,

Figure 3: Foreign Holdings of LCY Central Government Bonds by Maturity



LCY = local currency.
Source: Directorate General of Budget Financing and Risk Management Ministry of Finance.

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

(ii) the government's commitment to implementing structural reforms, and (iii) fading concerns over foreign currency liquidity.

On 21 May, Standard and Poor's (S&P) affirmed Indonesia's BB+ sovereign credit rating and revised the outlook to positive, indicating a possible rating upgrade in the next 12 months. In making its ratings decision, S&P cited "improvements in Indonesia's policy framework which have enhanced monetary and financial sector management."

Policy, Institutional, and Regulatory Developments

Government Approves 2015 Revised State Budget

In February, the House of Representatives approved a revised 2015 state budget that reduced the deficit to the equivalent of 1.9% of GDP from the 2.2% of GDP estimated in the original budget. The revised state budget calls for spending of IDR1,984.1 trillion versus revenue of IDR1,761.6 trillion. To help finance the deficit, the legislative assembly authorized the Ministry of Finance to issue bonds worth IDR297.7 trillion, compared with IDR277.0 trillion in the original budget. The underlying macroeconomic assumptions for the revised 2015 state budget include: (i) annual GDP growth of 5.7%, (ii) annual inflation of 5.0%, (iii) an exchange rate of IDR12,500–US$1, (iv) a 3-month Treasury bill rate of 6.2%, and (v) an Indonesian crude oil price of US$60 per barrel.

Bank Indonesia Refines Framework for Determining JIBOR

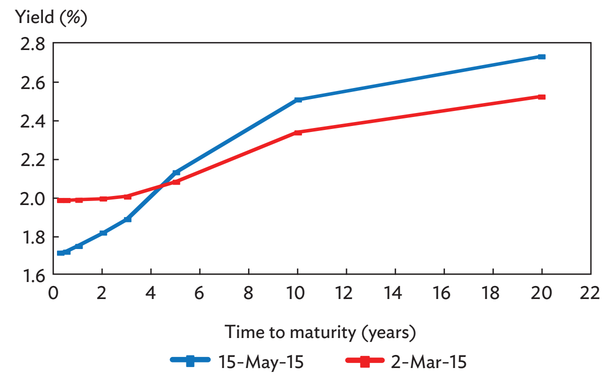
In March, Bank Indonesia issued new regulation for determining the Jakarta Interbank Offered Rate (JIBOR). The regulation allows contributor banks—those that submit an indicative rate for short-term maturities (1 year and less)—to lend the rupiah at the indicative rate submitted by the bank while fulfilling certain time limits. This new regulation is seen to boost JIBOR as a credible market reference rate for short-term maturities.

Republic of Korea

Yield Movements

The Republic of Korea's yield curve for local currency (LCY) government bonds steepened between 2-March and 15-May as yields fell at the shorter-end of the curve and rose at the longer-end of the curve **(Figure 1)**. The drop in short-term yields was partly induced by low inflationary pressures and market expectations of a policy rate cut. Meanwhile, the increase in long-term yields was partly induced by global yield hikes. Over the same period, the yield spread between the 2-year and 10-year tenors widened 35 basis points (bps).

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



LCY = local currency.
Source: Bloomberg LP.

The Bank of Korea's Monetary Policy Committee lowered the base rate by 25 bps from 2.00% to 1.75% in March, after keeping it steady in both January and February, in order to support recovery in domestic growth. In its subsequent meetings held on 9 April and 15 May, the committee decided to maintain the policy interest rate at 1.75%.

Real gross domestic product (GDP) growth in the Republic of Korea was 0.8% quarter-on-quarter (q-o-q) and 2.5% year-on-year (y-o-y) in 1Q15, according to preliminary estimates of The Bank of Korea. Q-o-q growth in 1Q15 was up from the previous quarter's 0.3%, while y-o-y growth was down from 2.7% in the previous quarter.

Consumer price inflation moderated throughout 1Q15 as the inflation rate slid from 0.8% y-o-y in January to 0.5% y-o-y in February and further down to 0.4% y-o-y in March, according to Statistics Korea. In April, the y-o-y inflation rate remained at 0.4%. On a month-on-month (m-o-m) basis, the Consumer Price Index (CPI) rose 0.5% in January, remained unchanged in February and March, and inched up 0.1% in April.

The Bank of Korea reported in April that it had revised downward its GDP growth outlook for 2015 to 3.1% from its previous forecast of 3.4% made in January, and cut its 2015 inflation forecast to 0.9% from 1.9%.

Size and Composition

The LCY bond market in the Republic of Korea recorded growth rates of 2.3% q-o-q and 8.3% y-o-y in 1Q15, leveling off at KRW1,900.2 trillion (US$1.7 trillion) at end-March **(Table 1)**. This expansion was led by 3.2% q-o-q and 16.7% y-o-y growth in the stock of LCY

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,754,188**	**1,648**	**1,857,739**	**1,703**	**1,900,194**	**1,712**	**1.8**	**8.6**	**2.3**	**8.3**
Government	676,491	635	765,008	701	789,741	712	2.9	8.6	3.2	16.7
Central Bank Bonds	170,800	160	178,000	163	184,940	167	4.4	1.8	3.9	8.3
Central Government Bonds	466,463	438	495,016	454	513,685	463	2.3	9.3	3.8	10.1
Industrial Finance Debentures	39,227	37	91,992	84	91,116	82	3.8	39.5	(1.0)	132.3
Corporate	1,077,697	1,012	1,092,731	1,002	1,110,453	1,001	1.2	8.6	1.6	3.0

( ) = negative, LCY = local currency, 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. Central government bonds include Korea Treasury bonds, National Housing bonds, and Seoul Metro bonds.
Sources: EDAILY *BondWeb* and The Bank of Korea.

government bonds—including Monetary Stabilization Bonds (MSBs) issued by The Bank of Korea and central government bonds, largely consisting of Korea Treasury Bonds (KTBs). Issuance of LCY government bonds during 1Q15 was up 18.0% q-o-q and 14.9% y-o-y.

The LCY corporate bond market also exhibited positive growth in 1Q15 of 1.6% q-o-q and 3.0% y-o-y, stemming from increases in the existing stock of financial debentures and private corporate bonds. The top 30 LCY corporate bond issuers at end-March had combined bonds outstanding of KRW696.8 trillion, which was 62.8% of total LCY corporate bonds outstanding **(Table 2)**. Korea Housing Finance Corporation remained the largest LCY corporate bond issuer at end-March.

Table 2: Top 30 Issuers of LCY Corporate Bonds in the Republic of Korea

	Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
		LCY Bonds (KRW billion)	LCY Bonds (US$ billion)		KOSPI	KOSDAQ	
1.	Korea Housing Finance Corp.	59,282	53.4	Yes	No	No	Financial
2.	Korea Land & Housing Corp.	55,651	50.1	Yes	No	No	Real Estate
3.	NH Investment & Securities	49,308	44.4	Yes	Yes	Yes	Securities
4.	KDB Daewoo Securities	46,872	42.2	Yes	Yes	No	Securities
5.	Korea Investment and Securities	44,103	39.7	No	No	No	Securities
6.	Korea Deposit Insurance Corp.	37,630	33.9	Yes	No	No	Insurance
7.	Industrial Bank of Korea	35,100	31.6	Yes	Yes	No	Bank
8.	Mirae Asset Securities	32,084	28.9	No	Yes	No	Securities
9.	Hana Daetoo Securities	31,368	28.3	No	No	No	Securities
10.	Korea Electric Power Corp.	28,230	25.4	Yes	Yes	No	Utilities
11.	Korea Expressway	21,500	19.4	Yes	No	No	Infrastructure
12.	Hyundai Securities	20,921	18.9	No	Yes	No	Securities
13.	Kookmin Bank	18,140	16.3	No	No	No	Bank
14.	Woori Bank	18,082	16.3	Yes	No	No	Bank
15.	Korea Rail Network Authority	17,800	16.0	Yes	No	No	Infrastructure
16.	Shinhan Bank	16,093	14.5	No	No	No	Bank
17.	Korea Gas Corp.	15,954	14.4	Yes	Yes	No	Utilities
18.	Small & Medium Business Corp.	14,895	13.4	Yes	No	No	Financial
19.	Daishin Securities	13,977	12.6	No	Yes	No	Securities
20.	Samsung Securities	13,708	12.4	No	Yes	No	Securities
21.	Shinhan Investment Corp.	12,817	11.6	No	No	No	Securities
22.	Standard Chartered First Bank Korea	11,880	10.7	No	No	No	Bank
23.	Korea Railroad Corp.	11,260	10.1	Yes	No	No	Infrastructure
24.	Korea Student Aid Foundation	10,940	9.9	Yes	No	No	Financial
25.	Korea Water Resources Corp.	10,628	9.6	Yes	Yes	No	Utilities
26.	Hana Bank	10,230	9.2	No	No	No	Bank
27.	Korea Eximbank	10,020	9.0	Yes	No	No	Bank
28.	Shinhan Card	9,750	8.8	No	No	No	Financial
29.	Shinyoung Securities	9,358	8.4	No	Yes	Yes	Securities
30.	Hyundai Capital Services	9,263	8.3	No	No	No	Financial
Total Top 30 LCY Corporate Issuers		**696,843.7**	**628.0**				
Total LCY Corporate Bonds		**1,110,453.0**	**1,000.7**				
Top 30 as % of Total LCY Corporate Bonds		**62.8%**	**62.8%**				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-March 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

LCY corporate bond issuance was down 13.8% q-o-q in 1Q15 but up 13.6% y-o-y. Of the five largest LCY corporate bond issues in 1Q15, four were from banks and one from an industrial firm **(Table 3)**.

Table 3: Notable LCY Corporate Bond Issuance in 1Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Woori Bank		
1-year bond	1.75	430
2-year bond	2.09	550
Industrial Bank of Korea		
0.8-year bond	1.74	520
NongHyup Bank		
10-year bond	2.77	500
Samsung Heavy Industries		
3-year bond	2.51	500

LCY = local currency.
Note: Coupon rates for 1-year bond of Woori Bank and 0.8-year bond of Industrial Bank of Korea are indicative yields as of end-March 2015.
Source: Bloomberg LP.

Investor Profile

The largest investor group in the LCY government bond market of the Republic of Korea is insurance companies and pension funds, as they held 31.3% of the total amount of LCY government bonds at end-December **(Figure 2)**. They were followed by the general government, which held 19.3% of the total. Between end-2013 and end-2014, the share of insurance companies and pension funds climbed by 1.3 percentage points, while the share of the general government fell by 1.5 percentage points.

Insurance companies and pension funds also comprised the largest investor group in the LCY corporate bond market, with a 34.8% share at end-December **(Figure 3)**. Insurance companies and pension funds recorded the largest y-o-y increase in LCY corporate bond holdings, with a share that rose by 2.8 percentage points between end-2013 and end-2014. In contrast, the holdings share of banks fell the most on a y-o-y basis, decreasing by 1.8 percentage points to reach 10.9% at end-December.

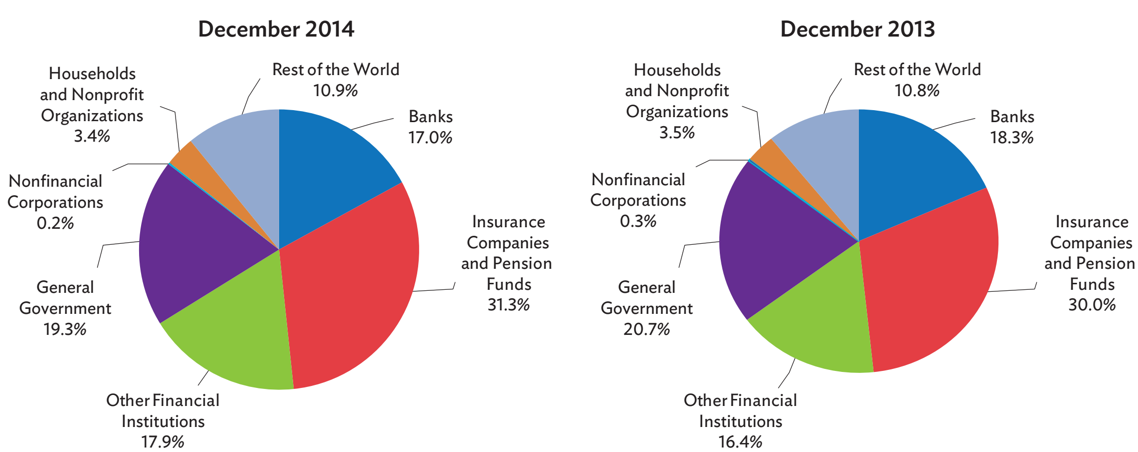
Net foreign investment in the Republic of Korea's LCY bond market rose throughout 1Q15—reaching KRW1,370 billion in March from KRW642 billion in February and KRW55 billion in January—but fell to KRW143 billion in April, based on Financial Supervisory Service data **(Figure 4)**. On a quarterly basis, net foreign bond investment climbed to KRW2,067 billion in 1Q15 from KRW1,669 billion in 4Q14.

Policy, Institutional, and Regulatory Developments

FSC Introduces Financial Market Infrastructure Guidelines

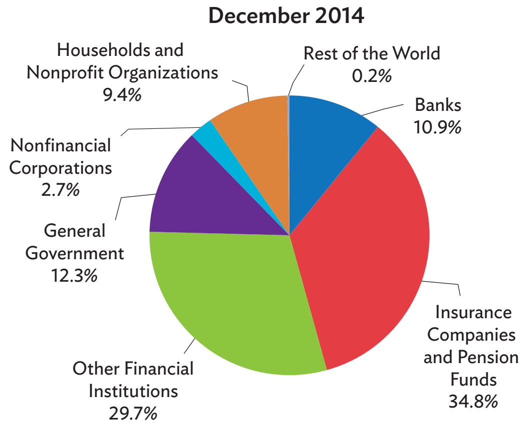
The FSC introduced in March its Business Guideline for Financial Market Infrastructures, aiming to implement

Figure 2: LCY Government Bonds Investor Profile



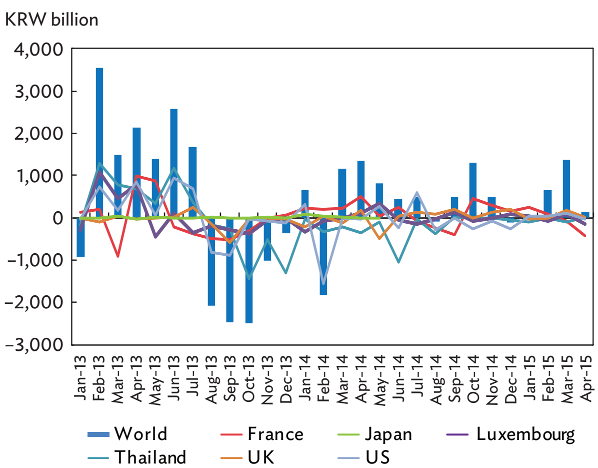
LCY = local currency.
Sources: *AsianBondsOnline* and The Bank of Korea.

Figure 3: LCY Corporate Bonds Investor Profile



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

Figure 4: Net Foreign Investment in LCY Bonds in the Republic of Korea



LCY = local currency, UK = United Kingdom, US = United States.
Source: Financial Supervisory Service.

business standards for the Korea Exchange and Korea Securities Depository that are consistent with the Principles for Financial Market Infrastructures launched in April 2012 by the Bank for International Settlements' (BIS) Committee on Payment and Settlement Systems and the International Organization of Securities Commissions (IOSCO).

FSC Announces Capital Market Reforms

The Republic of Korea's Financial Services Commission (FSC) announced in April a series of policy directions and tasks for reforming the country's capital markets. The tasks include promoting the country's private bond market, which would support the FSC's policy directive of boosting investments in start-up and venture capital companies, as well as invigorating the country's derivatives market.

Malaysia

Yield Movements

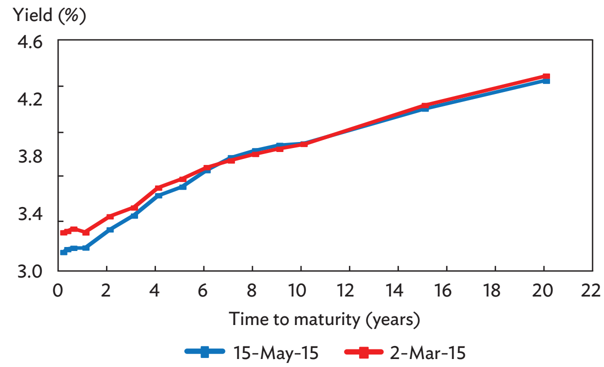
Between 2 March and 15 May, Malaysian local currency (LCY) government bond yields fell for most tenors, particularly at the short-end of the curve, as the market expected the Bank Negara Malaysia (BNM) to maintain the overnight policy rate due to manageable inflation **(Figure 1)**. Yields for tenors between 1 month and 1 year fell between 10 basis points (bps) and 14 bps. Meanwhile yields for the rest of the tenors were broadly unchanged. Yields for bonds with tenors of between 2 years and 6 years fell 2 bps–9 bps; yields for tenors between 7 years and 9 years increased 2 bps–3 bps; and the 15-year and 20-year tenors fell 2 bps and 3 bps, respectively.

BNM decided to maintain its overnight policy rate at 3.25% at monetary policy meetings on both 5 March and 7 May. BNM stated that domestic demand continues to support the economy. Notwithstanding the possible dampening effects of the implementation of the Goods and Services Tax (GST) on 1 April 2015, private consumption is expected to be buttressed by rising income and employment. Meanwhile, inflation is expected to increase, though remain manageable, with implementation of the GST.

Inflation eased in the first 4 months of the year to 1.8% year-on-year (y-o-y) in April from 2.7% y-o-y in December. While risks to inflation remain with implementation of the GST, the effects of low global oil prices are expected to outweigh these upward pressures.

Meanwhile, Malaysia's gross domestic product (GDP) growth slowed to 5.6% y-o-y in 1Q15 from 5.7% y-o-y in 4Q14, mainly due to a 0.6% y-o-y decline in exports. By type of expenditure, growth in private final consumption accelerated to 8.8% y-o-y in 1Q15 from 7.6% y-o-y in 4Q14; gross fixed capital formation growth also rose to 7.9% y-o-y from 4.3% y-o-y. By type of industry, the y-o-y growth in the services sector eased to 6.4% from 6.6%. On the other hand, mining and quarrying sector posted strong growth at 9.6% y-o-y from 9.5% in the earlier quarter. Also, growth in the manufacturing sector rose to 5.6% y-o-y in 1Q15 from 5.4% y-o-y growth posted in the prior quarter.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Total LCY bonds outstanding in Malaysia decreased 2.7% quarter-on-quarter (q-o-q) to MYR1,073 billion (US$290 billion) at end-March, led by the government bond sector, particularly central bank bills **(Table 1)**. On a y-o-y basis, however, the LCY bond market grew 2.1% in 1Q15. Government bonds outstanding totaled MYR612 billion (US$165 billion), while corporate bonds summed to MYR461 billion (US$125 billion). *Sukuk* (Islamic bonds) continued to comprise the majority of the LCY bond market with a share of 53% of total bonds outstanding at end-March.

Government Bonds. LCY government bonds outstanding decreased 5.4% q-o-q and 0.3% y-o-y to close at MYR612 billion at end-March. Central government bonds—comprising Malaysian Government Securities (MGSs), Government Investment Issues (GIIs), and Treasury bills—increased 2.2% q-o-q to MYR531 billion. Outstanding BNM monetary notes, on the other hand, contracted 46.8% q-o-q to MYR57 billion as there was no issuance in 1Q15.

Total government bond issuance declined 65.6% q-o-q in 1Q15 to MYR31 billion, primarily due to the lack of issuance of BNM monetary notes. The central bank ceased the

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,051**	**322**	**1,103**	**316**	**1,073**	**290**	**2.8**	**5.5**	**(2.7)**	**2.1**
Government	614	188	647	185	612	165	2.7	4.2	(5.4)	(0.3)
Central Government Bonds	502	154	519	149	531	143	4.1	12.5	2.2	5.7
of which: *sukuk*	180	55	188	54	195	53	3.2	20.4	4.0	8.3
Central Bank Bills	99	30	107	31	57	15	(7.4)	(27.5)	(46.8)	(42.3)
of which: *sukuk*	41	12	43	12	19	5	1.8	(29.9)	(54.4)	(52.1)
Sukuk Perumahan Kerajaan	13	4	20	6	24	7	44.9	108.1	19.6	89.1
Corporate	438	134	457	131	461	125	3.0	7.5	1.0	5.4
of which: *sukuk*	298	91	323	92	328	89	4.2	9.3	1.6	10.4

( ) = negative, 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.
Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

issuance of BNM monetary notes—a tool used to mop up excess liquidity in the money supply—amid easing inflation. Meanwhile, the issuance of central government bonds rose 21.1% q-o-q to MYR27 billion.

Corporate Bonds. LCY corporate bonds increased 1.0% q-o-q, bringing total outstanding bonds to MYR461 billion at end-March. The share of corporate sukuk to total corporate bonds outstanding inched up to 71.2% at end-March from 70.8% at end-December.

Corporate bond issuance declined 34.7% q-o-q to MYR19 billion in 1Q15 (on a total of 64 new issues) from MYR28 billion in the previous quarter. **Table 2** lists notable corporate bonds issued in 1Q15.

The largest corporate issuers in 1Q15 were from the transportation and financial sectors, led by Prasarana, Danga Capital, and AM Bank. Prasarana issued a multi-tranche Islamic MTN comprising a MYR700 million 5-year tranche, MYR200 million 10-year tranche, and MYR1.1 billion 15-year tranche. The notes carried 4.02%, 4.38%, and 4.64% profit rates, respectively. The issue was guaranteed by the Government of Malaysia. Danga Capital issued MYR1.5 billion worth of 15-year *sukuk* with a profit rate of 4.88%. The bond was rated AAA with a stable outlook by RAM Ratings. AM Bank issued MYR800 million worth of 3-year and MYR600 million of 4-year medium-term notes with coupon rates of 4.25% and 4.30%, respectively. The issuance was rated AA2 with a stable outlook by RAM Ratings.

Table 2: Notable LCY Corporate Bond Issuance in 1Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Prasarana		
5-year Islamic MTN	4.02	700
10-year Islamic MTN	4.38	200
15-year Islamic MTN	4.64	1,100
Danga Capital		
15-year Islamic MTN	4.88	1,500
AM Bank		
3-year MTN	4.25	800
4-year MTN	4.30	600
AISL		
2.5-year *Sukuk*	4.25	300
5-year *Sukuk*	4.45	900
HBMS		
5-year Islamic MTN	4.24	750
Cagamas		
3-year MTN	3.95	440

LCY = local currency, MTN = medium-term note.
Source: Bank Negara Malaysia Bond Info Hub.

Table 3 provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR252.6 billion at end-March, representing 54.8% of the LCY corporate bond market. Banking and financial institutions comprised 16 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR138.44 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

Foreign Currency Bonds. In April, the Government of Malaysia issued US$1.5 billion worth of dual-tranche US dollar *sukuk* via a special purpose vehicle, Malaysia Sovereign *Sukuk*. The issue comprised a US$1 billion 10-year tranche and a US$500 million 30-year tranche. The 10-year and

Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (US$ billion)			
1.	Project Lebuhraya Usahasama	30.60	8.26	No	No	Transport, Storage, and Communications
2.	Cagamas	23.04	6.22	Yes	No	Finance
3.	Khazanah	20.00	5.40	Yes	No	Finance
4.	Prasarana	15.91	4.30	Yes	No	Transport, Storage, and Communications
5.	Danainfra Nasional	14.10	3.81	Yes	No	Finance
6.	Pengurusan Air	11.73	3.17	Yes	No	Energy, Gas, and Water
7.	Maybank	11.36	3.07	No	Yes	Banking
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	11.00	2.97	Yes	No	Finance
9.	CIMB Bank	8.05	2.17	No	No	Banking
10.	Public Bank	7.55	2.04	No	Yes	Banking
11.	Sarawak Energy	7.00	1.89	Yes	No	Energy, Gas, and Water
12.	Aman Sukuk	6.26	1.69	Yes	No	Construction
13.	BGSM Management	6.02	1.63	No	No	Transport, Storage, and Communications
14.	Bank Pembangunan	5.90	1.59	No	No	Banking
15.	RHB Bank	5.60	1.51	No	No	Banking
16.	Turus Pesawat	5.31	1.43	Yes	No	Transport, Storage, and Communications
17.	Cagamas MBS	5.04	1.36	Yes	No	Finance
18.	1Malaysia Development	5.00	1.35	Yes	No	Finance
19.	Celcom Transmission	5.00	1.35	No	No	Transport, Storage, and Communications
20.	Malakoff Power	4.88	1.32	No	No	Energy, Gas, and Water
21.	Manjung Island Energy	4.85	1.31	No	No	Energy, Gas, and Water
22.	Rantau Abang	4.80	1.30	Yes	No	Finance
23.	YTL Power International	4.77	1.29	No	Yes	Energy, Gas, and Water
24.	Hong Leong Bank	4.70	1.27	No	Yes	Banking
25.	AM Bank	4.55	1.23	No	No	Banking
26.	Putrajaya Holdings	4.13	1.11	Yes	No	Property and Real Estate
27.	Tanjung Bin Power	4.05	1.09	No	No	Energy, Gas, and Water
28.	Danga Capital	4.00	1.08	Yes	No	Finance
29.	CIMB Group Holdings	3.76	1.02	No	Yes	Finance
30.	TNB Western Energy	3.66	0.99	Yes	No	Construction
Total Top 30 LCY Corporate Issuers		**252.60**	**68.21**			
Total LCY Corporate Bonds		**461.31**	**124.56**			
Top 30 as % of Total LCY Corporate Bonds		**54.8%**	**54.8%**			

LCY = local currency.
Notes:
1. Data as of end-March 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

30-year *sukuk* were priced at 3.04% and 4.24%, respectively.

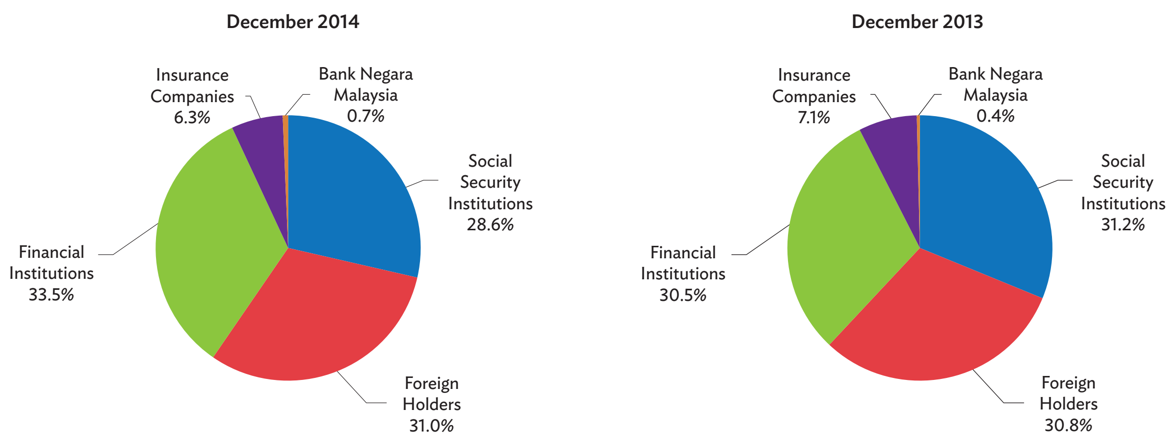
Investor Profile

At end-December, the share of government bonds held by financial institutions—including banks, development financial institutions, and nonbank financial institutions—rose to 33.5% on holdings of MYR162.7 billion from 30.5% at end-December 2013 **(Figure 2)**. Banks remained the largest holder among this group with a position of MYR139.8 billion.

Holdings of foreign investors were mostly unchanged in 4Q14 with a share of 31.0% valued at MYR150.8 billion. Meanwhile, the share of social security institutions fell to 28.6% of the total market at end-December, down from 31.2% a year earlier, as a result of divestments made by the Employees Provident Fund of its MGSs holdings. The share of insurance companies' government bond holdings also fell to 6.3% at end-December from 7.1% a year earlier.

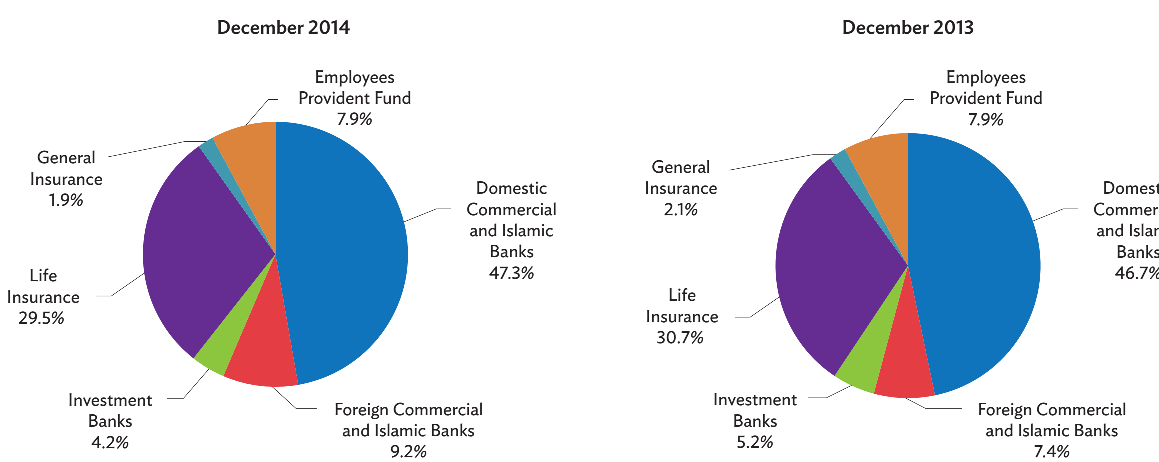
Domestic and foreign banks (commercial and Islamic) remained the largest investor group in LCY corporate

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank Negara Malaysia.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: Bank Negara Malaysia.

bonds at end-December with a combined share of 56.5% **(Figure 3)**. Compared with a year earlier, the shares in corporate bonds increased 0.6 percentage point to 47.3% for domestic banks, and 1.8 percentage points to 9.2% for foreign banks. Meanwhile, the share of life insurance companies decreased slightly to 29.5% at end-December from 30.7% a year earlier. Investment banks also trimmed their position to 4.2% of total corporate bonds from 5.2% a year earlier, while general insurance companies' share declined to 1.9% from 2.1%. The share of Employees Provident Fund remained unchanged at 7.9%.

Ratings Update

In February, Standard and Poor's (S&P) affirmed Malaysia's long-term and short-term foreign currency ratings at A and A-2, respectively. The rating agency also affirmed Malaysia's long-term and short-term local currency ratings at A and A-1, respectively. The outlook on the long-term ratings is stable. S&P noted that falling oil prices are not expected to disrupt Malaysia's long-term fiscal consolidation given its fairly diversified and broad-based growth.

Policy, Institutional, and Regulatory Developments

Singapore, Malaysia, and Thailand Sign Memorandum of Understanding on Cross-Border Equity and Debt Securities Offerings

In March, a Memorandum of Understanding was signed between the Monetary Authority of Singapore; Singapore Exchange; Securities Commission Malaysia; and the Securities and Exchange Commission, Thailand for the creation of a streamlined review framework for the Association of Southeast Asian Nations (ASEAN) common prospectus. This framework aims to facilitate cross-border offerings of equity and debt securities in ASEAN. The framework is expected to be implemented beginning in 3Q15.

BNM and PBOC Renew Bilateral Currency Swap Arrangement

In April, BNM and the People's Bank of China (PBOC) renewed their bilateral currency swap arrangement for another 3 years. The size of the arrangement was maintained at CNY180 billion–MYR90 billion. The arrangement will continue to promote bilateral trade and investment flows between Malaysia and the People's Republic of China.

Philippines

Yield Movements

Between 2 March and 15 May, yields for most tenors of Philippine local currency (LCY) bonds rose on speculation over the timing of a possible rate hike by the United States (US) Federal Reserve **(Figure 1)**. Yields between the 3-month and 1-year tenors rose 121 basis points (bps)–137 bps. Yields for bonds with tenors of between 2 years and 10 years rose 14 bps–42 bps, with the exception of the 7-year tenor, which fell 16 bps. Meanwhile, the yield for the 20-year tenor fell 25 bps. These yield movements occurred despite low inflation that gave room for the Bangko Sentral ng Pilipinas (BSP) to maintain its policy rates. Market participants continue to monitor developments in the US economy that might indicate a shift in the Federal Reserve's monetary policy.

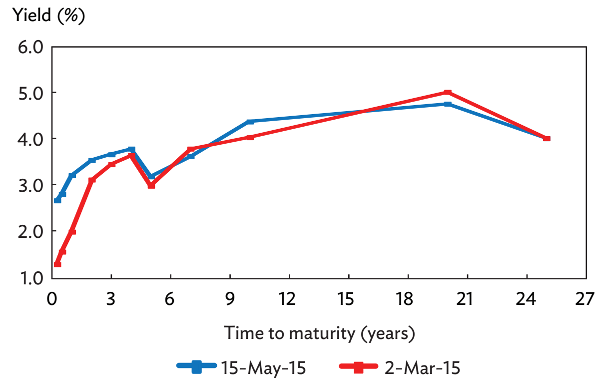
Inflation continued to slow in the first 4 months of the year, easing to 2.2% year-on-year (y-o-y) in April from a peak of 4.9% y-o-y in August 2014. This led the BSP to maintain its overnight borrowing rate at 4.0% and overnight lending rate at 6.0%. The BSP noted that inflationary pressures continued to moderate primarily due to the decline in international oil prices, and that risks to inflation remain broadly balanced, with upward pressure coming from pending adjustments in utility rates and downward pressure from slower global economic activity.

Meanwhile, the Philippines' economic growth slowed to 5.2% y-o-y in 1Q15 from 6.6% y-o-y in 4Q14. This was mainly due to a slowdown in government spending, with growth falling to 4.8% y-o-y from 9.4% y-o-y, and weak exports. Growth in 1Q15 was supported by sustained growth in public consumption, which increased 5.4% y-o-y, as well as a boost in capital formation, which rose 11.8% y-o-y. Exports increased only 1.0% y-o-y in 1Q15, while imports rose 4.6% y-o-y.

Size and Composition

The Philippine LCY bond market barely moved in 1Q15, expanding a mere 0.4% quarter-on-quarter (q-o-q) to PHP4,674 billion (US$105 billion) at end-March **(Table 1)**. Government securities accounted for the majority of bonds outstanding, totaling PHP3,917 billion, while corporate bonds summed to PHP757 billion. On a y-o-y basis, the LCY bond market grew 5.5% as of end-March.

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



LCY = local currency.
Source: Bloomberg LP.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies increased 0.6% q-o-q and 4.5% y-o-y to close at PHP3,917 billion at end-March. Treasury bills decreased 1.2% q-o-q and 5.1% y-o-y to stand at PHP278 billion at end-March.

Treasury bonds increased 1.1% q-o-q and 6.2% y-o-y to PHP3,547 billion. Meanwhile, fixed-income instruments issued by government-controlled companies decreased 11.6% q-o-q and 21.1% y-o-y to PHP91 billion.

In terms of issuance, 1Q15 saw lower volume at PHP135 billion compared with PHP150 billion in 4Q14; the Bureau of the Treasury (BTr) rejected two out of six scheduled auctions of Treasury bills and bonds in 1Q15 as the market sought higher yields due to uncertainty in both the US and eurozone. The government has programmed LCY borrowing of PHP135 billion through its regular auction schedule in 2Q15: PHP60 billion of Treasury bills with 91-, 182-, and 364-day tenors; and PHP75 billion of Treasury bonds with 3-, 5-, and 10-year tenors.

Corporate Bonds. Total outstanding LCY corporate bonds decreased 0.4% q-o-q to PHP757 billion. Total corporate

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,429**	**99**	**4,655**	**104**	**4,674**	**105**	**0.4**	**10.5**	**0.4**	**5.5**
Government	3,749	84	3,895	87	3,917	88	(1.9)	7.8	0.6	4.5
Treasury Bills	293	7	282	6	278	6	(8.7)	1.2	(1.2)	(5.1)
Treasury Bonds	3,340	75	3,510	78	3,547	79	(1.3)	8.7	1.1	6.2
Others	116	3	103	2	91	2	0.0	2.1	(11.6)	(21.1)
Corporate	680	15	760	17	757	17	15.0	27.9	(0.4)	11.3

( ) = negative, LCY = local currency, 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 an LCY base and do not include currency effects.
4. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management (PSALM) and the National Food Authority, among others.
5. Peso Global Bonds (PHP-denominated bonds payable in US dollars) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-March 2015, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively. There was a total of PHP6.3 billion of outstanding multi-currency Treasury bonds at end-March 2015.
Sources: Bloomberg LP and Bureau of the Treasury.

bond issuance in 1Q15 stood at PHP12 billion, down from PHP48 billion in 4Q14 and PHP66 billion in 3Q14. Corporate bond issuers opted to wait as speculation on the timing of a possible rate hike by the Federal Reserve caused an uptick in yields, making it costly to raise funds via the bond market. Only Robinsons Land issued bonds in 1Q15, raising PHP12 billion through the issuance of 7-year and 10-year bonds with coupon rates of 4.8% and 4.934%, respectively **(Table 2)**.

Table 2: Notable LCY Corporate Bond Issuance in 1Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Robinsons Land		
7-year bond	4.80	10.64
10-year bond	4.93	1.36

LCY = local currency.
Source: Bloomberg LP.

Only 51 companies are actively tapping the bond market in the Philippines. The top 30 issuers accounted for 88.8% of the total amount of LCY corporate bonds outstanding at end-March **(Table 3)**. Out of the top 30 bond issuers, only eight companies were privately held corporations and the rest were publicly listed with the Philippine Stock Exchange. Ayala Land remained the largest corporate issuer in the country with PHP57.9 billion of outstanding bonds at end-March. Metrobank was the next largest borrower with PHP46.8 billion of outstanding bonds, and SM Investments was in the third spot with PHP41.9 billion.

The diversity of LCY corporate bond issuers in 1Q15 was comparable with that in 1Q14 **(Figure 2)**. Banks and other financial institutions, including investment houses, remained the leading issuers of debt in 1Q15 with 30.5% of the total, up from a share of 24.5% in 1Q14. Real estate companies were second with a share of 22.2% of the total, compared with an 18.0% share in 1Q14. Meanwhile, the share of holding companies declined to 18.9% in 1Q15 from 20.0% in 1Q14. Firms from industries as diverse as electricity generation and distribution, telecommunications, and thoroughfares and tollways continued to have single-digit shares of total corporate bonds outstanding.

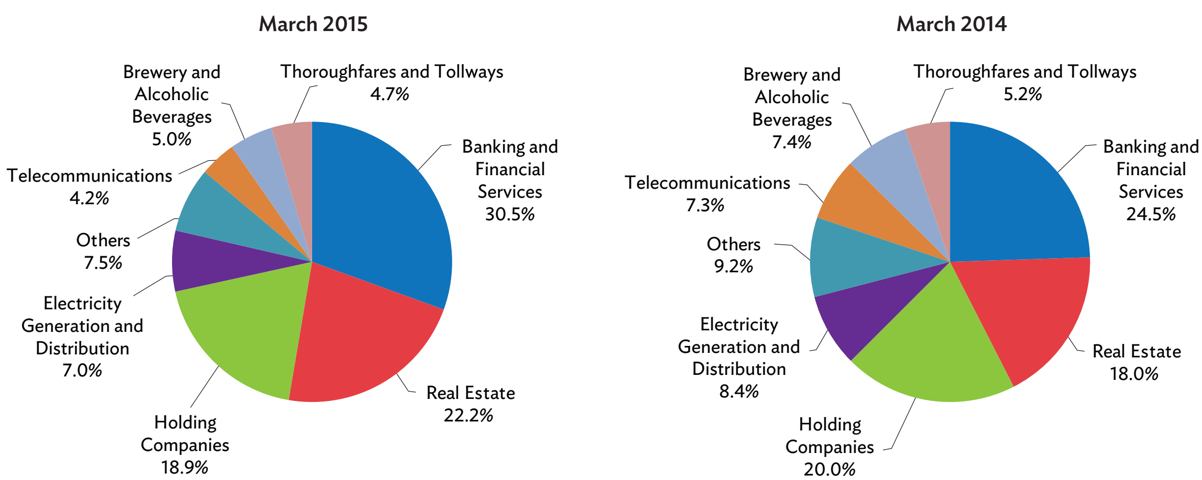
Foreign Currency Bonds. In January, the Philippines issued US$2 billion worth of 25-year global bonds. The issue consisted of US$1.5 billion of exchange offers from existing bondholders, while the remaining US$500 million comprised new issuance intended to fund the budget. This was, however, less than the US$750 million government's offshore borrowing program as the BTr indicated it had a strong cash buffer. The bonds were priced at 3.95%, compared with initial pricing guidance of 4.2%.

Table 3: Top 30 Issuers of LCY Corporate Bonds in the Philippines

Issuers		Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (US$ billion)			
1.	Ayala Land	57.9	1.3	No	Yes	Real Estate
2.	Metrobank	46.8	1.0	No	Yes	Banking
3.	SM Investments	41.9	0.9	No	Yes	Diversified Operations
4.	Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
5.	San Miguel Brewery	37.8	0.8	No	No	Brewery
6.	Philippine National Bank	34.6	0.8	No	Yes	Banking
7.	BDO Unibank	30.0	0.7	No	Yes	Banking
8.	JG Summit Holdings	30.0	0.7	No	Yes	Diversified Operations
9.	RCBC	27.1	0.6	No	Yes	Banking
10.	SM Prime	25.0	0.6	No	Yes	Real Estate
11.	Filinvest Land	24.0	0.5	No	Yes	Real Estate
12.	Meralco	23.5	0.5	No	Yes	Electricity Distribution
13.	Security Bank	23.0	0.5	No	Yes	Banking
14.	GT Capital Holdings	22.0	0.5	No	Yes	Investment Companies
15.	Energy Development Corporation	19.0	0.4	No	Yes	Electricity Generation
16.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
17.	Maynilad Water Services	16.4	0.4	No	No	Water
18.	MCE Leisure Philippines	15.0	0.3	No	No	Casino Services
19.	Philippine Long Distance Telephone	15.0	0.3	No	Yes	Telecommunications
20.	SM Development	14.3	0.3	No	Yes	Real Estate
21.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
22.	Manila North Tollways	13.0	0.3	No	No	Transport Services
23.	First Metro Investment	12.0	0.3	No	No	Investment Banking
24.	Robinsons Land	12.0	0.3	No	Yes	Real Estate
25.	MTD Manila Expressway	11.5	0.3	No	No	Transport Services
26.	South Luzon Tollway	11.0	0.2	No	No	Transport Services
27.	Aboitiz Power	10.5	0.2	No	Yes	Electricity Generation
28.	United Coconut Planters Bank	9.5	0.2	No	No	Banking
29.	East West Bank	9.3	0.2	No	Yes	Banking
30	Filinvest Development	8.8	0.2	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**671.9**	**15.0**			
Total LCY Corporate Bonds		**757.0**	**16.9**			
Top 30 as % of Total LCY Corporate Bonds		**88.8%**	**88.8%**			

LCY = local currency.
Notes:
1. Data as of end-March 2015.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that were not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Figure 2: LCY Corporate Bond Issuers by Industry

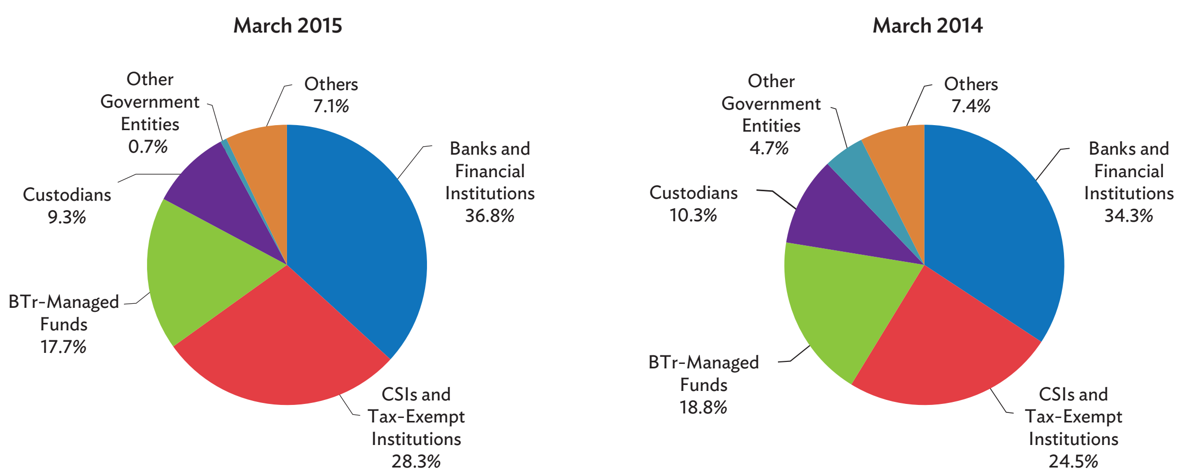


LCY = local currency.
Source: Bloomberg LP.

Investor Profile

The largest grouping of investors in government securities at end-1Q15 comprised banks and financial institutions with a 36.8% share of the total **(Figure 3)**, this was up slightly from a 34.3% share at end-1Q14. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and life insurance companies—and tax-exempt institutions—such as trusts and other tax-exempt entities—accounted for 28.3% of the total at end-1Q15, up from 24.5% at end-1Q14. The shares of funds being managed by BTr, including the Bond Sinking Funds, fell slightly to 17.7% from 18.8% at end-1Q14. The participation of custodians also decreased to 9.3% from 10.3%. The share of other government entities and other investors, which include individuals and private corporations, decreased to 7.8% at end-March from 12.1% at end-1Q14.

Figure 3: LCY Government Bonds Investor Profile



BTr = Bureau of the Treasury, CSIs = contractual savings institutions, LCY = local currency.
Source: Bureau of the Treasury.

Ratings Update

In March, Fitch Ratings (Fitch) affirmed its BBB– long-term foreign currency issuer default ratings and BBB long-term LCY issuer default ratings for the Philippines. Both ratings were given a stable outlook. Fitch cited the Philippines' strong macroeconomic performance as the reason for its ratings decision.

Policy, Institutional, and Regulatory Developments

BSP Announces Further Amendments to Foreign Exchange Regulations

In February, the BSP released further amendments to its Manual of Regulations on Foreign Exchange Transactions. These include the introduction of a policy that requires private sector, nonbank borrowers to maintain a long-term debt-to-equity ratio of at least 75–25 for the entire period of their foreign-currency-denominated loans. Other amendments include policies that could further enable and monitor legitimate trade transactions, and expand the coverage of short-term interbank loans that do not require prior BSP approval.

BTr Implements NRT for LCY Government Bonds

On 4 May 2015, BTr implemented the nonrestricted trading and settlement environment (NRT) for LCY coupon-bearing government securities. BTr stated that the market is now able to facilitate these trades after various preparatory activities including market testing, establishing business continuity process and systems readiness protocols, and other international preparations conducted by market participants. The circular pertaining to this initiative was released on 22 September 2014. The circular provides guidance on the implementation of NRT across tax categories in the secondary market for Philippine LCY coupon-bearing government securities, with the intention of deepening liquidity in the bond market and providing additional investment avenues for tax-exempt institutions and individuals.

Singapore

Yield Movements

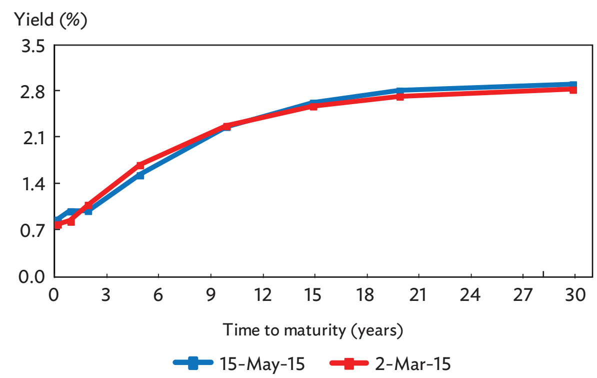
Local currency (LCY) government bond yields in Singapore mirrored movements in United States (US) bond yields between 2 March and 15 May **(Figure 1)**. The Singapore Government Securities (SGS) bond yield curve was mixed, with yields rising at the short-end and the long-end of the curve, while falling in the belly of the curve. SGS bond yields rose the most for the 1-year SGS bond, which gained 16 basis points (bps). At the long-end of the curve, the 20-year tenor rose the most with a 9 bps gain. In the belly of the curve, bond yields shed between 1 bp and 15 bps for maturities between 2 years and 10 years. Meanwhile, the yield spread between the 2-year and 10-year maturities widened to 126 bps on 15 May from 119 bps on 2 March.

The Monetary Authority of Singapore (MAS) maintained its policy of modest and gradual appreciation of the S$NEER policy band in its Monetary Policy Statement on 14 April. MAS left unchanged the slope and the width of the policy band, and the level at which it is centered. MAS noted that the economy is on track to grow 2.0%–4.0% in 2015, and inflation is expected to remain on target.

Economic growth in Singapore rose to 2.6% year-on-year (y-o-y) in 1Q15 from 2.1% in 4Q14. Both the wholesale and retail trade and construction sectors recorded gains, with y-o-y growth of 4.1% and 3.1%, respectively. The transportation and storage sector also rebounded, rising 1.5% y-o-y in 1Q15. The manufacturing sector, however, contracted 2.7% y-o-y in 1Q15 as output in the transport engineering, electronics, and biomedical manufacturing clusters declined. On a seasonally adjusted and quarter-on-quarter (q-o-q) basis, economic growth eased to 3.2% in 1Q15 from 4.9% in 4Q14. The Ministry of Trade and Industry maintained its GDP growth forecast of 2.0%–4.0% for 2015.

Singapore recorded deflation for the sixth straight month as consumer prices fell 0.5% y-o-y in April due mainly to lower prices of oil-related items and declining inflation in the services sector. Accommodation costs further dropped in April, falling 2.5% y-o-y, after contracting 2.2% y-o-y in March due to weakness in the rental housing market. On a monthly basis, consumer prices contracted 0.6% between March and April.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Singapore's LCY bond market grew a marginal 0.1% q-o-q in 1Q15 to SGD320 billion (US$233 billion) at end-March. On a y-o-y basis, however, bond market growth was more robust at 6.6% **(Table 1)**.

Government Bonds. The stock of LCY government bonds fell 1.1% q-o-q to SGD192 billion due mainly to a decline in the stock of MAS bills. The stock of MAS bills dropped 4.2% q-o-q to SGD92 billion. In 1Q15, MAS bill issuance totaled SGD91.5 billion, contracting 6.5% from end-December but up from its level in 1Q14.

In contrast, the outstanding stock of Singapore Government Securities (SGS) bills and bonds, which account for a majority of LCY government bonds, gained 1.9% q-o-q but fell 8.2% y-o-y to SGD100 billion. New issuance of SGS bonds was down to SGD4.8 billion in 1Q15 from SGD6.9 billion in 4Q14. In 1Q15, new SGS bond issuance comprised re-openings of 2-, 7-, and 30-year SGS bonds.

Corporate Bonds. Based on *AsianBondsOnline* estimates, total outstanding LCY corporate bonds in Singapore reached SGD128 billion at end-March on growth of 1.9% q-o-q and 9.5% y-o-y in 1Q15 **(Table 2)**.

At end-March, Singapore's top 31 corporate issuers had aggregate bonds outstanding of SGD67.8 billion.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**300**	**239**	**320**	**241**	**320**	**233**	**(2.5)**	**1.6**	**0.1**	**6.6**
Government	183	146	194	147	192	140	(3.0)	(0.3)	(1.1)	4.8
SGS Bills and Bonds	109	87	98	74	100	73	(12.7)	(25.8)	1.9	(8.2)
MAS Bills	74	59	96	73	92	67	15.9	100.0	(4.2)	23.8
Corporate	117	93	125	95	128	93	(1.8)	4.7	1.9	9.5

( ) = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, SGS = Singapore Government Securities, y-o-y = year-on-year.
Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.
2. SGS bills and bonds do not include the special issue of SGS held by the Singapore Central Provident Fund (CPF).
3. Bloomberg LP end-of-period LCY–US$ rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

This accounted for a 53.1% share of total corporate bonds. The state-owned Housing and Development Board was by far the biggest issuer with bonds outstanding of SGD20.5 billion. It was followed by real estate firm Capitaland with outstanding bonds valued at SGD5.2 billion. The third spot was taken by United Overseas Bank with total bonds amounting to SGD4.1 billion. Three state-owned firms were among the top 31 issuers, all of which ranked within the top 10. The top 31 corporate bond issuers came from a diverse set of sectors including financial, banking, real estate, utilities, transportation, telecommunications, and industrial.

A total of SGD1.9 billion of new corporate debt was issued in 1Q15, comprising 14 bond series from 12 corporate entities. Of these 12 corporate issuers, seven were financial institutions. In terms of maturity structure, nine bond series carried maturities of more than 1 year to 5 years, four bond series were medium-dated (more than 5 years to 10 years), and one was a perpetual bond. The largest corporate bond issues in 1Q15 are shown in **Table 3**.

Policy, Institutional, and Regulatory Developments

MAS to Launch Savings Bond Program

In March, MAS announced plans to launch a savings bond program aimed at providing individual investors with long-term savings options with safe returns. Singapore Savings Bonds carry a maturity of 10 years and are fully backed by the government. Investors may purchase bonds for a minimum amount of SGD500 and in increments of SGD500 thereafter. These savings bonds will carry a step-up interest rate based on long-term SGS rates. MAS plans to issue the savings bonds on a monthly basis and expects to commence issuance in the second half of 2015.

Singapore, Malaysia, and Thailand Sign Memorandum of Understanding on Cross-Border Equity and Debt Securities Offerings

In March, a Memorandum of Understanding was signed between MAS; Singapore Exchange; Securities Commission Malaysia; and the Securities and Exchange Commission, Thailand for the creation of a streamlined review framework for the Association of Southeast Asian Nations (ASEAN) common prospectus. This framework aims to facilitate cross-border offerings of equity and debt securities in ASEAN. The framework is expected to be implemented beginning in 3Q15.

MAS Provides Retail Investors with Access to Investment Products

In April, MAS expanded the range of simple, low-cost investment products available to retail investors by providing them with expanded access to investment products such as Exchange-Traded Funds. With this enhancement, fund managers may now reclassify investment funds as Excluded Investment Products. Previously, all investment funds that used derivatives were classified as Specified Investment Products, which are more complex products and require enhanced safeguards for retail investors.

Table 2: Top 31 Issuers of LCY Corporate Bonds in Singapore

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (SGD billion)	LCY Bonds (US$ billion)			
1.	Housing and Development Board	20.5	15.0	Yes	No	Real Estate
2.	CapitaLand	5.2	3.8	No	Yes	Real Estate
3.	United Overseas Bank	4.1	3.0	No	Yes	Banking
4.	Temasek Financial I	3.6	2.6	No	No	Financing
5.	DBS Bank	3.3	2.4	No	Yes	Banking
6.	SP PowerAssets	2.4	1.7	No	No	Utilities
7.	Land Transport Authority	1.8	1.3	Yes	No	Transportation
8.	Public Utilities Board	1.8	1.3	Yes	No	Utilities
9.	City Developments	1.7	1.2	No	Yes	Real Estate
10.	GLL IHT	1.7	1.2	No	No	Financing
11.	FCL Treasury	1.6	1.2	No	No	Real Estate
12.	Keppel	1.5	1.1	No	Yes	Diversified
13.	Olam International	1.3	1.0	No	Yes	Consumer Goods
14.	Singapore Airlines	1.3	0.9	No	No	Transportation
15.	Hyflux	1.3	0.9	No	Yes	Utilities
16.	Neptune Orient Lines	1.3	0.9	No	Yes	Logistics
17.	CapitaLand Treasury	1.2	0.8	No	No	Financing
18.	Singtel Group Treasury	1.2	0.8	No	No	Telecommunications
19.	Keppel Land	1.1	0.8	No	Yes	Real Estate
20.	CapitaMalls Asia Treasury	1.0	0.7	No	No	Financing
21.	Oversea-Chinese Banking	1.0	0.7	No	Yes	Banking
22.	PSA	1.0	0.7	No	No	Port Operator
23.	Sembcorp Financial Services	1.0	0.7	No	No	Financing
24.	Mapletree Treasury Services	0.9	0.7	No	No	Financing
25.	DBS Group	0.8	0.6	No	Yes	Banking
26.	CMT MTN	0.8	0.6	No	No	Financing
27.	Global Logistic Properties	0.8	0.5	No	Yes	Real Estate
28.	SMRT Capital	0.8	0.5	No	No	Transportation
29.	Joynote	0.7	0.5	No	No	Financing
30.	Ezion Holdings	0.7	0.5	No	Yes	Marine Services
31.	Overseas Union Enterprise	0.7	0.5	No	Yes	Real Estate
Total Top 31 LCY Corporate Issuers		**67.8**	**49.4**			
Total LCY Corporate Bonds		**127.8**	**93.1**			
Top 31 as % of Total LCY Corporate Bonds		**53.1%**	**53.1%**			

LCY = local currency.
Notes:
1. Data as of end-March 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 3: Notable LCY Corporate Bond Issuance in 1Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
FCL Treasury		
Perpetual bond	5.00	700
Singtel Group Treasury		
5.5-year bond	2.58	150
6.5-year bond	2.72	150
GLL IHT		
2.5-year bond	3.60	170
5-year bond	4.20	50
Mapletree Commercial Trust		
8-year bond	3.25	100
Perennial Treasury		
3-year bond	4.25	100

LCY = local currency.
Source: Bloomberg LP.

Thailand

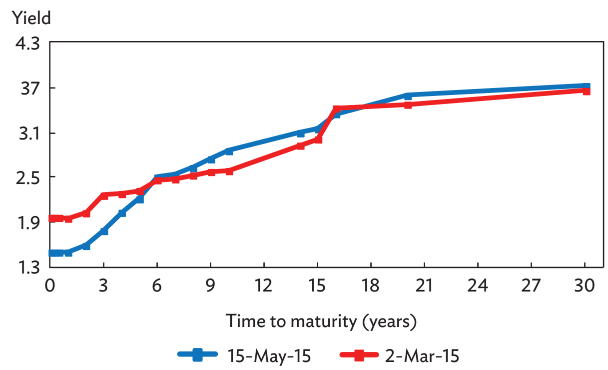
Yield Movements

The yield curve for Thailand's local currency (LCY) government bonds steepened between 2 March and 15 May as yields fell at the shorter-end of the curve and rose for most tenors at the longer-end of the curve **(Figure 1)**. The decrease in short-term yields was brought about by expectations of policy rate cuts amid sluggish economic recovery and weak inflationary pressures. Meanwhile, the increase in most long-term yields was partly due to foreign investors' net sales of Thailand's long-term LCY bonds. In the same period, the yield spread between the 2-year and 10-year tenors climbed 70 basis points (bps).

The first 4 months of 2015 saw the Bank of Thailand's (BOT) Monetary Policy Committee lowering its policy interest rate—the 1-day repurchase rate—by a total of 50 bps; the first 25-bps reduction was made on 11 March and the second on 29 April. The reductions in the policy interest rate to 1.50% were made to support Thailand's economic recovery amid falling consumer prices. Year-on-year (y-o-y) inflation, as measured by the Consumer Price Index (CPI), has been negative for 4 consecutive months to start the year: –0.4% in January, –0.5% in February, –0.6% in March, and –1.0% in April.

Meanwhile, real gross domestic product (GDP) growth of Thailand accelerated on a y-o-y basis—rising to 3.0% y-o-y in 1Q15 from 2.1% y-o-y in 4Q14—but decelerated on a quarter-on-quarter (q-o-q) basis, falling to 0.3% q-o-q in 1Q15 from 1.1% q-o-q in 4Q14.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The amount of outstanding LCY bonds in Thailand grew 0.6% q-o-q and 1.7% y-o-y in 1Q15, leveling off at THB9.3 trillion at end-March **(Table 1)**. The government bond market rose on both a q-o-q and y-o-y basis in 1Q15 to reach THB7.1 trillion at end-March. This expansion was

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**9,158**	**282**	**9,258**	**281**	**9,314**	**286**	**1.7**	**6.2**	**0.6**	**1.7**
Government	7,031	217	6,949	211	7,079	218	0.6	3.7	1.9	0.7
Government Bonds and Treasury Bills	3,461	107	3,413	104	3,578	110	1.4	11.7	4.8	3.4
Central Bank Bonds	2,820	87	2,743	83	2,682	82	(0.8)	(6.8)	(2.2)	(4.9)
State-Owned Enterprise and Other Bonds	750	23	793	24	819	25	2.5	14.6	3.2	9.2
Corporate	2,127	66	2,309	70	2,235	69	5.7	15.5	(3.2)	5.1

( ) = negative, LCY = local currency, 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 an LCY base and do not include currency effects.
Sources: Bank of Thailand and Bloomberg LP.

driven by positive q-o-q and y-o-y growth in government bonds and Treasury bills, as well as state-owned enterprise bonds. In contrast, the outstanding amount of central bank bonds contracted on both a q-o-q and y-o-y basis in 1Q15. Meanwhile, the stock of LCY corporate bonds valued THB2.2 trillion at end-March, down 3.2% q-o-q but was larger by 5.1% on a y-o-y basis.

At end-March, the combined outstanding bonds of the top 30 corporate issuers amounted to THB1.3 trillion, which accounted for 60% of the total LCY corporate bond market **(Table 2)**. The largest LCY corporate bonds issued in Thailand in 1Q15 included (i) CP All's THB10.2 billion 5-year bond carrying a 4.1% coupon and THB9.9 billion 2-year bond with a 3.55% coupon,

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (THB billion)	LCY Bonds (US$ billion)			
1.	PTT	183.9	5.7	Yes	Yes	Energy and Utilities
2.	CP All	160.0	4.9	No	Yes	Commerce
3.	The Siam Cement	151.5	4.7	Yes	Yes	Construction Materials
4.	Charoen Pokphand Foods	63.1	1.9	No	Yes	Food and Beverage
5.	Bank of Ayudhya	61.8	1.9	No	Yes	Banking
6.	Thai Airways International	44.6	1.4	Yes	Yes	Transportation and Logistics
7.	Kasikorn Bank	43.5	1.3	No	Yes	Banking
8.	Indorama Ventures	42.6	1.3	No	Yes	Petrochemicals and Chemicals
9.	Toyota Leasing Thailand	40.6	1.2	No	No	Finance and Securities
10.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
11.	True Corporation	36.5	1.1	No	Yes	Communications
12.	Banpu	35.4	1.1	No	Yes	Energy and Utilities
13.	Mitr Phol Sugar	34.4	1.1	No	No	Food and Beverage
14.	PTT Exploration and Production Company	32.1	1.0	Yes	Yes	Energy and Utilities
15.	Thanachart Bank	30.5	0.9	No	No	Banking
16.	Thai Oil	28.0	0.9	Yes	Yes	Energy and Utilities
17.	IRPC	27.6	0.8	Yes	Yes	Energy and Utilities
18.	TMB Bank	25.4	0.8	No	Yes	Banking
19.	Ayudhya Capital Auto Lease	25.2	0.8	No	No	Financial
20.	Quality Houses	24.9	0.8	No	Yes	Property and Construction
21.	ICBC Thai Leasing	24.7	0.8	No	No	Finance and Securities
22.	Krung Thai Card	24.2	0.7	Yes	Yes	Finance and Securities
23.	Krung Thai Bank	23.8	0.7	Yes	Yes	Banking
24.	DAD SPV	22.5	0.7	Yes	No	Finance and Securities
25.	PTT Global Chemical	20.3	0.6	No	Yes	Petrochemicals and Chemicals
26.	Bangkok Bank	20.0	0.6	No	Yes	Banking
27.	CH. Karnchang	20.0	0.6	No	Yes	Property and Construction
28.	Pruksa Real Estate	20.0	0.6	No	Yes	Property and Construction
29.	Kiatnakin Bank	19.8	0.6	No	Yes	Banking
30.	Glow Energy	19.1	0.6	No	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers		**1,345.9**	**41.4**			
Total LCY Corporate Bonds		**2,234.5**	**68.7**			
Top 30 as % of Total LCY Corporate Bonds		**60.2%**	**60.2%**			

LCY = local currency.
Notes:
1. Data as of end-March 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

both rated A(tha) by Fitch Ratings (Thailand); (ii) Bank of Ayudhya's THB4 billion 2-year bond at 2.61% and THB4 billion 3-year bond at 2.89%, both rated AAA by Fitch Ratings; and (iii) CH Karnchang's THB4 billion 6-year bond carrying a 4.16% coupon, rated A– by TRIS Rating **(Table 3)**.

Table 3: Notable LCY Corporate Bond Issuance in 1Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
CP All		
2-year bond	3.55	9.85
5-year bond	4.10	10.15
Bank of Ayudhya		
2-year bond	2.61	4.00
3-year bond	2.89	4.00
CH Karnchang		
6-year bond	4.16	4.00

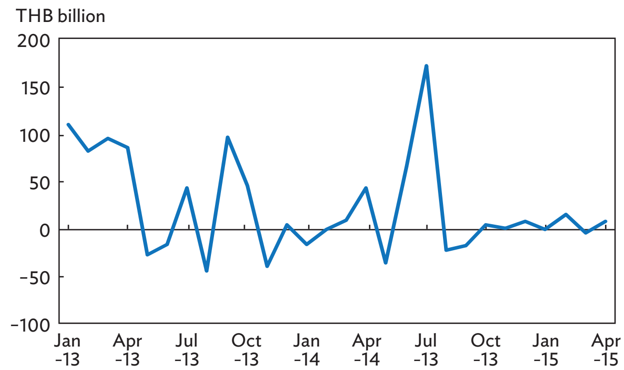
LCY = local currency.
Source: Bloomberg LP.

Investor Profile

Contractual savings funds and insurance companies remained the two largest investor groups in the LCY government bond market, with their holdings of Thai government bonds accounting for 27% and 25% of the total, respectively, at end-March **(Figure 2)**. Meanwhile, commercial banks recorded the biggest y-o-y increase in the share of Thai government bond holdings, rising 4 percentage points.

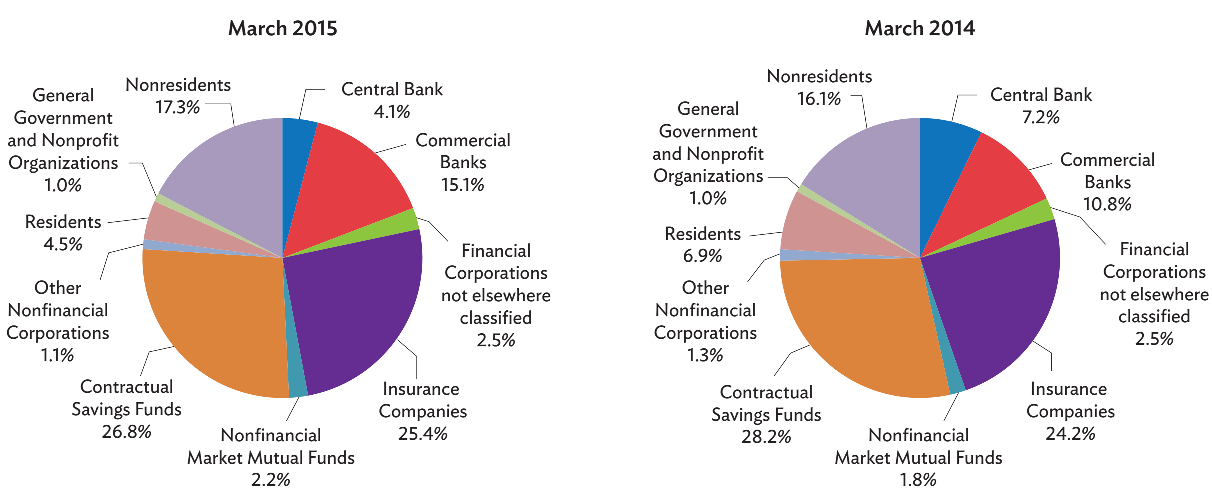
Net foreign bond flows into Thailand appeared stable in the first 4 months of 2015 as foreign investors recorded net bond purchases in February and April, and net bond sales in January and March, both at relatively small levels **(Figure 3)**.

Figure 3: Foreign Investor Net Trading of LCY Bonds in Thailand



LCY = local currency.
Source: ThaiBMA.

Figure 2: LCY Government Bonds Investor Profile



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

Ratings Update

In February, Rating and Investment Information (R&I) affirmed Thailand's foreign currency issuer rating at BBB+ and domestic currency issuer rating at A–, with a rating outlook of negative for both.

Policy, Institutional, and Regulatory Developments

SEC Allows Retail and Private Funds to Invest in GMS Financial Instruments

The Securities and Exchange Commission (SEC) reported in January that the Capital Market Supervisory Board has approved revisions to investment rules to allow retail funds and private funds to invest in financial instruments in Greater Mekong Subregion (GMS) countries, which include Cambodia, the Lao People's Democratic Republic, and Myanmar.

SEC and ThaiBMA to Promote Corporate Bond Issuance

In March, the SEC launched a joint project with the Thai Bond Market Association (ThaiBMA) to entice local businesses to raise funds in the LCY corporate bond market. ThaiBMA will approve exemptions from registration fees and discounts from annual fees for businesses that participate in the project and issue long-term bonds in 2015.

BOT to Ease Foreign Exchange Regulations

The BOT announced in April plans to relax foreign exchange regulations in order to facilitate the foreign asset holdings of Thai residents and entice nonbanks to participate in foreign exchange transactions. The central bank plans to ease measures aimed at curbing speculation on the Thai baht to encourage nonresidents to borrow Thai baht from local financial institutions.

Viet Nam

Yield Movements

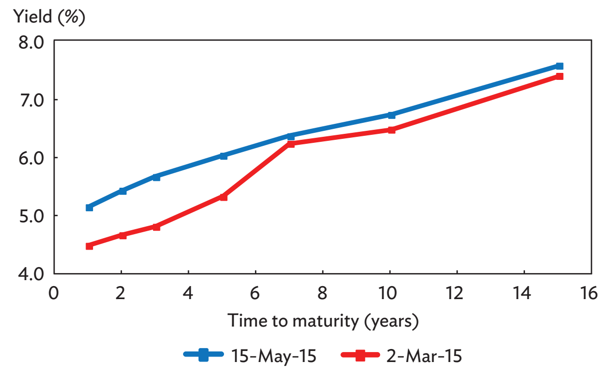
Between 2 March and 15 May, local currency (LCY) government bond yields in Viet Nam rose for all tenors, with an average increase of 51 basis points (bps) **(Figure 1)**. The largest increases came at the short-end and in the belly of the curve, with bond yields rising between 66 bps and 85 bps for tenors of 5 years or less. Yields for tenor of 7 years or more rose between 13 bps and 25 bps. As a result, the yield spread between the 2-year and 10-year tenors narrowed to 130 bps on 15 May from 181 bps on 2 March.

Lower demand for bonds pushed up yields at the short-end of the curve as most investors chose to hold onto their funds ahead of an anticipated devaluation of the Vietnamese dong. In May, the State Bank of Viet Nam (SBV) devalued the dong to boost exports and economic growth.

Treasury auctions fell short of their targets in April and May. Banks, who are the largest holders of government bonds, had little new appetite for bonds between end-December and end-April, instead choosing to allocate their funds to support lending activities on the back of rising credit growth.

Economic growth in Viet Nam slowed in 1Q15 to 6.0% year-on-year (y-o-y) from 7.0% y-o-y in 4Q14. Inflation has remained benign thus far in 2015, registering less than 1.0% y-o-y in January–April.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The outstanding size of Viet Nam's LCY bond market reached VND915.1 trillion (US$42 billion) at end-March on growth of 5.1% quarter-on-quarter (q-o-q) and 22.9% y-o-y **(Table 1)**. The strong growth rates were driven by a low base effect.

Government Bonds. The stock of LCY government bonds continued to expand in 1Q15, rising to VND901.5 trillion at end-March on growth of 5.2% q-o-q and 23.1% y-o-y. Much of the growth came from increases in the stock of central bank bills, or SBV bills, which grew 17.8% q-o-q in 1Q15. Treasury bonds also contributed to growth,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**744,589**	**35**	**870,245**	**41**	**915,061**	**42**	**23.0**	**17.8**	**5.1**	**22.9**
Government	732,069	35	856,713	40	901,529	42	23.9	20.0	5.2	23.1
Treasury Bonds	373,960	18	504,165	24	529,769	25	11.0	20.4	5.1	41.7
Central Bank Bonds	147,004	7	134,396	6	158,357	7	281.8	30.3	17.8	7.7
State-Owned Enterprise Bonds	211,104	10	218,153	10	213,404	10	(2.0)	12.9	(2.2)	1.1
Corporate	12,520	0.6	13,532	0.6	13,532	0.6	(12.6)	(43.1)	0.0	8.1

( ) = negative, LCY = local currency, 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.

rising 5.1% q-o-q. In contrast, the stock of state-owned enterprise bonds slipped 2.2% q-o-q.

Of total government bond issuance in 1Q15, nearly 70% were new issues of SBV bills. Gross issuance of SBV bills in 1Q15 was, however, lower on both a q-o-q and y-o-y basis. On the other hand, new Treasury bond and other government bond issues more than doubled on a q-o-q basis, rising 112.6%; meanwhile, such issues fell on a y-o-y basis by 35.8%.

Corporate Bonds. The total LCY corporate bond stock was unchanged at VND13.5 trillion at end-March as there were no new corporate bond issues in 1Q15. A total of 10 firms comprised the entire corporate bond sector of Viet Nam **(Table 2)**. The largest issues were Asia Commercial Joint Stock Bank and Techcom Bank with outstanding bonds of VND3.0 trillion each. They were followed by Masan Consumer Holdings with outstanding bonds of VND2.1 trillion.

Policy, Institutional, and Regulatory Developments

Viet Nam to Launch Derivatives Market

On 5 May, Viet Nam issued a decree providing a legal framework and investment guidelines for a derivatives market. The target date for the market's launch is 2016. Under the decree, both individuals and institutions, except for some businesses, will be allowed to invest in derivatives. The derivatives will be listed on the Viet Nam's stock exchange and will initially only include stock indices and government bond futures.

SBV Devalues Dong for Second Time in 2015

On 7 May, the SBV devalued the Vietnamese dong by 1% to a reference rate of VND21,673 per US$1. It marked the second time this year that the Vietnamese dong has been devalued. The move was made to enhance export competitiveness and boost economic growth.

Table 2: Corporate Issuers of LCY Corporate Bonds in Viet Nam

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (VND billion)	LCY Bonds (US$ billion)			
1.	Asia Commercial Joint Stock Bank	3,000.00	0.14	No	Yes	Finance
2.	Techcom Bank	3,000.00	0.14	No	No	Finance
3.	Masan Consumer Holdings	2,100.00	0.10	No	No	Food
4.	HAGL JSC	1,980.00	0.09	No	Yes	Real Estate
5.	Ho Chi Minh City Infrastructure	1,081.85	0.05	No	Yes	Infrastructure
6.	Vincom	1,000.00	0.05	No	Yes	Real Estate
7.	Ocean Group	980.00	0.05	No	Yes	Consulting Services
8.	Binh Chanh Construction	150.00	0.01	No	Yes	Building and Construction
9.	Tan Tao Investment	130.00	0.01	No	No	Real Estate
10.	Ho Chi Minh City Securities	110.00	0.01	No	No	Finance
Total LCY Corporate Issuers		**13,531.8**	**0.63**			

LCY = local currency.
Notes:
1. Data as of end-March 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.