

Bond Market Developments in the First Quarter of 2016

Size and Composition

The size of emerging East Asia's local currency bond market climbed to USD9,608 billion at the end of March.

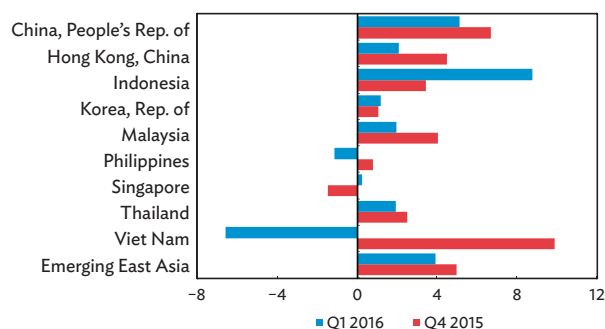
Emerging East Asia's local currency (LCY) bond market expanded to a size of USD9,608 billion at the end of March on 3.9% quarter-on-quarter (q-o-q) growth in the first quarter (Q1) of 2016.⁶ Growth in Q1 2016 was slower than the 5.0% q-o-q increase recorded in the fourth quarter (Q4) of 2015 (**Figure 1a**). LCY bond markets in the People's Republic of China (PRC); Hong Kong, China; Malaysia; and Thailand recorded slower q-o-q growth rates in Q1 2016 than in Q4 2015. Markets in Indonesia, the Republic of Korea, and Singapore recorded faster q-o-q growth rates, while the amount of LCY bonds outstanding contracted on a q-o-q basis in the Philippines and Viet Nam in Q1 2016. The fastest growing bond markets in the region in Q1 2016 were those of Indonesia (8.8% q-o-q); the PRC (5.1% q-o-q); and Hong Kong, China (2.1% q-o-q).

At the end of March, the PRC's outstanding bonds totaled USD6,505 billion, which was the most in emerging East Asia and accounted for a 67.7% share of the region's total bond stock. Growth in the PRC's LCY bond market slowed to 5.1% q-o-q in Q1 2016 from 6.7% q-o-q in Q4 2015. Growth was broadly balanced between the government (5.2% q-o-q) and corporate (4.9% q-o-q) bond segments.

Government bond market growth was largely driven by increases in local government bonds as local governments refinanced existing debt and reduced borrowing costs by swapping debt for municipal bonds. Corporate bond market growth was buoyed by the rising stocks of commercial paper, commercial bank bonds, and Tier 2 notes.

The second largest LCY bond market in the region at the end of March was that of the Republic of Korea with outstanding bonds of USD1,788 billion. Growth of 1.2% q-o-q in Q1 2016 in the Republic of Korea's bond

Figure 1a: Growth of Local Currency Bond Markets in Q4 2015 and Q1 2016 (q-o-q, %)



q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 31 March 2016 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

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

market was largely driven by the government bond segment, which climbed 2.1% q-o-q on increases in the stocks of treasury bonds and central bank bonds. The corporate bond market expanded at a slower pace of 0.5% q-o-q in Q1 2016.

In Malaysia, the LCY bond market reached a size of USD293 billion at the end of March on 1.9% q-o-q growth in Q1 2016. Government bonds expanded 2.7% q-o-q during the review period, led by Malaysian Government Securities and Government Investment Issues. The stock of central bank bills declined because of a lack of issuance from Bank Negara Malaysia. Growth in the corporate bond segment was only 1.0% q-o-q in Q1 2016 due to declining issuance.

Malaysia remains home to the largest *sukuk* (Islamic bond) market in the region, reflecting its expertise in Islamic finance. About 54% of Malaysia's aggregate LCY

⁶ Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

bond market comprised *sukuk* at the end of March. About 40% of its government bond market is accounted for by *sukuk*; *sukuk*'s share of the corporate bond market is a dominant 71%.

Thailand's outstanding LCY bond stock stood at USD291 billion at the end of March, expanding 1.9% q-o-q in Q1 2016. Growth stemmed from an increase in government bonds, particularly central government bonds and central bank bonds. The Bank of Thailand issued more bonds during the first quarter of the year, suggesting that it may be intervening in response to the appreciation of the Thai baht. In the corporate bond segment, 3.2% q-o-q growth was recorded.

At the end of March, Singapore's LCY bond market reached a size of USD233 billion on marginal growth of 0.2% q-o-q in Q1 2016, reversing a 1.5% q-o-q decline in the previous quarter. Growth mostly stemmed from increases in the stock of Singapore Government Securities. The corporate bond segment rose marginally during the review period. On the other hand, the stock of Monetary Authority of Singapore bills contracted in Q1 2016 on declining issuance.

In Hong Kong, China, the outstanding size of LCY bonds expanded to USD214 billion at the end of March on overall growth of 2.1% q-o-q in Q1 2016. Much of the growth came from the government bond segment and was driven by increases in the stocks of Exchange Fund Bills and Hong Kong Special Administrative Region Government bonds. Corporate bonds rose at a pace of 0.5% q-o-q during the review period.

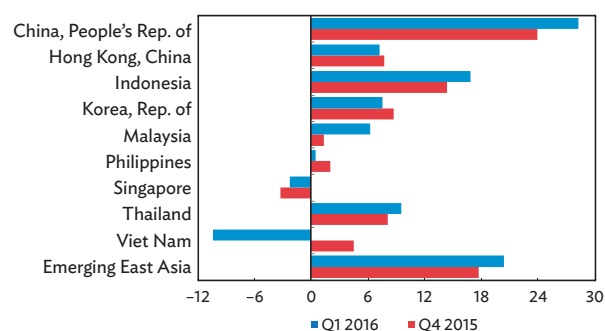
Indonesia's LCY bond market climbed to USD144 billion at the end of March on growth of 8.8% q-o-q, making it the region's fastest growing bond market in Q1 2016. Growth was largely driven by government bonds, particularly Treasury bills and bonds, as the Government of Indonesia continued its frontloading policy of issuing a higher volume of bonds in the first half of the year. The government is looking to fund a budget deficit of IDR273.2 trillion, or the equivalent of 2.15% of gross domestic product (GDP), which may further widen as the government is drafting revisions to the 2016 state budget. The stock of central bank bills issued by Bank Indonesia also climbed during the review period, further boosting the stock of government bonds. The corporate bond segment expanded in Q1 2016 as well, but at a slower pace of 1.6% q-o-q.

At the end of March, the LCY bond market in the Philippines stood at USD102 billion on a 1.1% q-o-q decline that resulted from a decrease in the stock of LCY government bonds, particularly Treasury bonds and bonds issued by government-owned or -controlled corporations, as the redemption of maturing bonds exceeded new debt issuance in Q1 2016. Corporate bonds also slipped marginally during the review period, falling 0.1% q-o-q.

Viet Nam's LCY bond market, the smallest in emerging East Asia, contracted 6.6% q-o-q to USD39 billion at the end of March. Much of the decline stemmed from the government bond segment, which fell 7.1% q-o-q in Q1 2016 due to a sharp drop in the stock of central bank bonds. State-owned enterprise bonds also fell during the review period. On the other hand, Treasury bills and bonds recorded a 5.0% q-o-q hike due to improved investor appetite for Viet Nam's debt. The outstanding amount of corporate bonds was up 10.1% q-o-q on a single issuance from real estate firm Vingroup amounting to VND3.0 trillion.

Year-on-year (y-o-y) growth in emerging East Asia's bond market was 20.4% in Q1 2016, up from a 17.7% y-o-y expansion in Q4 2015 (**Figure 1b**). The PRC's bond

Figure 1b: Growth of Local Currency Bond Markets in Q4 2015 and Q1 2016 (y-o-y, %)



Q1 = first quarter, Q4 = fourth quarter, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 31 March 2016 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

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

market posted the fastest annual growth rate in the region at 28.3% y-o-y, followed by Indonesia with a 16.8% y-o-y gain and Thailand at 9.6% y-o-y. Growth of between 0.5% y-o-y and 7.6% y-o-y was recorded in all other emerging East Asian markets except Singapore and Viet Nam, whose respective bond markets posted y-o-y declines.

Emerging East Asia's LCY bond market remains dominated by government bonds, which accounted for a 61.7% share of the region's aggregate bond stock at the end of March (**Table 1**). The region's government bond market stood at USD5,925 billion on growth of 4.4% q-o-q and 24.1% y-o-y in Q1 2016. The largest government bond market in the region was that of the PRC at a size of USD4,306 billion, which comprised 72.7% of emerging East Asia's total government bond stock. This was followed by the Republic of Korea at USD734 billion and Thailand at USD217 billion. Except for the Republic of Korea, all markets in the region had a larger government bond segment than corporate bond segment. In the smaller markets of Indonesia, the Philippines, and Viet Nam, the government bond segment accounted for more than 80% of the LCY bond stock at the end of March, while the rest of emerging East Asia's markets had government bond segment shares of between 55% and 75%.

At the end of March, the region's stock of corporate bonds reached a size of USD3,683 billion, climbing 3.2% q-o-q and 14.9% y-o-y in Q1 2016. The PRC has the largest corporate bond market in the region at a size of USD2,199 billion, followed by the Republic of Korea at USD1,054 billion. The two markets together dominate the region's corporate bond segment, accounting for 59.7% and 28.6% of the region's total, respectively.

The size of emerging East Asia's LCY bond market as a share of GDP climbed to 65.4% in Q1 2016 from 63.7% in Q4 2015 (**Table 2**). Government bonds as a share of GDP rose to 40.3% in Q1 2016 from 39.2% in Q4 2015, while corporate bonds rose to a 25.1% share of GDP from 24.6%.

The Republic of Korea's LCY bond market as a share of GDP stood at 129.8% at the end of March, the highest in the region, which is a reflection of its well-developed bond market. The next two largest bond markets in the region as a share of GDP were those of Malaysia (97.4%) and

Singapore (77.9%). The smallest bond markets in GDP terms were those of Indonesia (16.2%) and Viet Nam (20.6%).

Offshore investors remained attracted to emerging East Asia's LCY government bonds.

With the United States (US) Federal Reserve leaving its policy rates unchanged in the first 5 months of the year, emerging East Asia's LCY bonds remained attractive to foreign investors, owing to their relatively higher interest rates.

The share of foreign holdings in LCY government bond markets rose in most emerging East Asian markets where data are available. The largest increase was seen in Malaysia, where foreign investors accounted for a 34.1% share of outstanding LCY government bonds at the end of March, up from a 31.7% share at the end of December (**Figure 2**). The strong demand for Malaysian bonds was a result of a recovery in oil prices, which led to investor expectations of improved government finances and better corporate earnings.

Indonesia remained the market with the largest share of foreign investor holdings at 38.5% at the end of March, up slightly from 38.2% in Q4 2015. The Indonesian market's attractiveness is due to its bonds having the highest interest rates in emerging East Asia.

In the Republic of Korea, foreign investment remained steady in the most recent quarter for which data are available, with the share of foreign investor holdings rising slightly to 10.1% at the end of December from 10.0% at the end of September. On the other hand, the share of foreign holdings in Thailand's LCY bond market declined to 13.6% at the end of March from 14.2% at the end of December.

Foreign investor participation in emerging East Asia's LCY corporate bond markets remains weak due to its illiquid nature. In Indonesia, the share of foreign investors has been steadily declining over the past year. The share of foreign investor holdings of corporate bonds fell to 7.4% at the end of March from 7.6% at the end of December (**Figure 3**). The share of foreign investor holdings in the Republic of Korea's corporate bond market has declined steadily for several years and now accounts for an insignificant 0.2% of the total corporate bond stock.

Table 1: Size and Composition of Local Currency Bond Markets

	Q1 2015		Q4 2015		Q1 2016		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q1 2015		Q1 2016		Q1 2015		Q1 2016	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	5,279	100.0	6,150	100.0	6,505	100.0	1.6	12.0	5.1	28.3	1.7	12.3	5.8	23.2
Government	3,370	63.8	4,067	66.1	4,306	66.2	1.0	10.0	5.2	33.0	1.1	10.3	5.9	27.8
Corporate	1,909	36.2	2,083	33.9	2,199	33.8	2.7	15.7	4.9	19.9	2.8	16.0	5.5	15.2
Hong Kong, China														
Total	199	100.0	209	100.0	214	100.0	2.6	1.5	2.1	7.2	2.6	1.5	2.0	7.2
Government	111	55.5	120	57.1	123	57.8	1.0	1.4	3.2	11.7	1.0	1.4	3.2	11.6
Corporate	89	44.5	90	42.9	90	42.2	4.7	1.6	0.5	1.7	4.7	1.7	0.4	1.6
Indonesia														
Total	125	100.0	127	100.0	144	100.0	6.5	16.5	8.8	16.8	0.9	1.2	13.3	15.4
Government	107	86.0	109	85.7	125	86.7	7.2	18.6	9.9	17.7	1.6	3.1	14.5	16.2
Corporate	17	14.0	18	14.3	19	13.3	2.1	4.7	1.6	11.6	(3.2)	(9.0)	5.8	10.2
Korea, Rep. of														
Total	1,712	100.0	1,720	100.0	1,788	100.0	2.3	8.3	1.2	7.6	0.6	3.9	4.0	4.4
Government	712	41.6	700	40.7	734	41.1	3.2	16.7	2.1	6.3	1.5	12.0	5.0	3.2
Corporate	1,001	58.4	1,020	59.3	1,054	58.9	1.6	3.0	0.5	8.5	(0.1)	(1.1)	3.3	5.3
Malaysia														
Total	290	100.0	261	100.0	293	100.0	(2.7)	2.1	1.9	6.3	(8.1)	(10.0)	12.3	0.9
Government	165	57.0	142	54.7	161	55.1	(5.4)	(0.3)	2.7	2.7	(10.7)	(12.1)	13.1	(2.5)
Corporate	125	43.0	118	45.3	131	44.9	1.0	5.4	1.0	11.1	(4.6)	(7.1)	11.2	5.5
Philippines														
Total	105	100.0	101	100.0	102	100.0	0.4	5.6	(1.1)	0.5	0.4	5.9	0.9	(2.2)
Government	88	83.7	84	82.9	85	82.7	0.6	4.5	(1.3)	(0.6)	0.6	4.8	0.7	(3.3)
Corporate	17	16.3	17	17.1	18	17.3	(0.4)	11.6	(0.1)	6.3	(0.4)	11.9	1.9	3.4
Singapore														
Total	234	100.0	221	100.0	233	100.0	(0.8)	5.3	0.2	(2.2)	(4.2)	(3.5)	5.4	(0.4)
Government	140	59.9	129	58.6	136	58.6	(1.1)	4.8	0.3	(4.4)	(4.5)	(4.0)	5.5	(2.7)
Corporate	94	40.1	91	41.4	96	41.4	(0.4)	6.0	0.2	1.1	(3.8)	(2.9)	5.4	2.9
Thailand														
Total	286	100.0	278	100.0	291	100.0	0.6	1.7	1.9	9.6	1.7	1.3	4.6	1.5
Government	218	76.0	208	74.9	217	74.5	1.9	0.7	1.5	7.5	3.0	0.3	4.1	(0.4)
Corporate	69	24.0	70	25.1	74	25.5	(3.2)	5.1	3.2	16.3	(2.1)	4.6	5.9	7.7
Viet Nam														
Total	45	100.0	41	100.0	39	100.0	8.9	10.9	(6.6)	(10.3)	8.0	8.5	(5.8)	(13.3)
Government	44	98.3	40	96.8	38	96.3	9.0	10.8	(7.1)	(12.2)	8.1	8.4	(6.3)	(15.1)
Corporate	0.7	1.7	1	3.2	1	3.7	3.2	18.5	10.1	103.7	2.4	16.0	11.1	97.0
Emerging East Asia														
Total	8,275	100.0	9,108	100.0	9,608	100.0	1.6	9.9	3.9	20.4	0.9	8.1	5.5	16.1
Government	4,954	59.9	5,599	61.5	5,925	61.7	1.2	9.8	4.4	24.1	0.7	8.2	5.8	19.6
Corporate	3,321	40.1	3,509	38.5	3,683	38.3	2.1	10.2	3.2	14.9	1.3	7.9	4.9	10.9
Japan														
Total	9,000	100.0	8,931	100.0	9,842	100.0	0.6	2.4	3.2	2.5	0.3	(12.0)	10.2	9.4
Government	8,326	92.5	8,274	92.7	9,148	92.9	0.7	2.7	3.5	3.0	0.4	(11.8)	10.6	9.9
Corporate	674	7.5	656	7.3	694	7.1	(0.5)	(1.1)	(0.9)	(3.5)	(0.8)	(15.0)	5.8	3.0

(-) = negative, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

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

2. Corporate bonds include issues by financial institutions.

3. Bloomberg LP end-of-period LCY—USD rates are used.

4. For LCY base, emerging East Asia growth figures based on 31 March 2016 currency exchange rates and do not include currency effects.

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

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

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

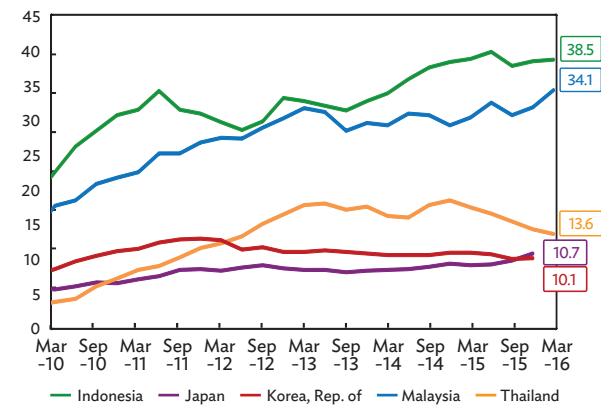
	Q1 2015	Q4 2015	Q1 2016
China, People's Rep. of			
Total	50.7	59.0	61.1
Government	32.4	39.0	40.4
Corporate	18.4	20.0	20.6
Hong Kong, China			
Total	67.3	67.8	68.6
Government	37.4	38.7	39.6
Corporate	30.0	29.1	29.0
Indonesia			
Total	15.1	15.2	16.2
Government	13.0	13.0	14.0
Corporate	2.1	2.2	2.2
Korea, Rep. of			
Total	126.6	129.6	129.8
Government	52.6	52.7	53.3
Corporate	74.0	76.9	76.5
Malaysia			
Total	96.0	96.7	97.4
Government	54.8	52.9	53.7
Corporate	41.3	43.8	43.8
Philippines			
Total	36.6	35.8	34.8
Government	30.6	29.7	28.8
Corporate	6.0	6.1	6.0
Singapore			
Total	81.5	77.7	77.9
Government	48.8	45.5	45.6
Corporate	32.7	32.2	32.3
Thailand			
Total	70.4	74.0	74.7
Government	53.5	55.4	55.7
Corporate	16.9	18.6	19.0
Viet Nam			
Total	24.3	22.2	20.6
Government	23.9	21.5	19.8
Corporate	0.4	0.7	0.8
Emerging East Asia			
Total	57.7	63.7	65.4
Government	34.5	39.2	40.3
Corporate	23.2	24.6	25.1
Japan			
Total	220.9	215.1	221.4
Government	204.3	199.3	205.8
Corporate	16.5	15.8	15.6

GDP = gross domestic product, Q1 = first quarter, Q4 = fourth quarter.

Notes:

1. Data for GDP is from CEIC Data.
2. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

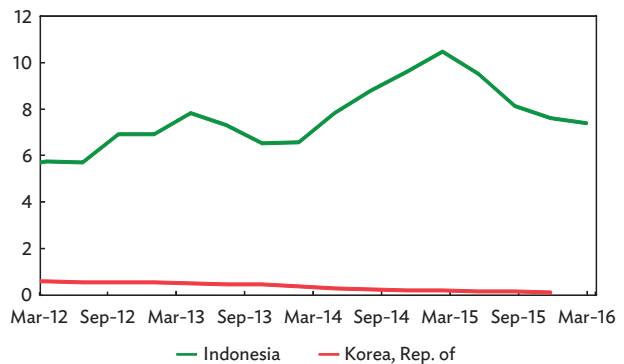
Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and the Bank of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

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

LCY = local currency.

Note: Data as of end-March 2016 except for Japan and the Republic of Korea (end-December 2015).

Source: *AsianBondsOnline*.

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

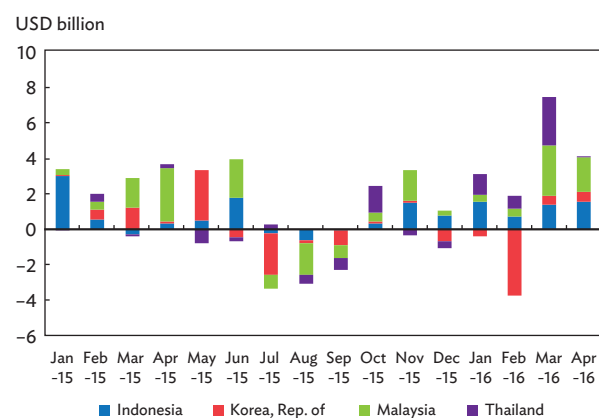
Note: For Indonesia, data as of 1 April 2016. For the Republic of Korea, data as of end-December 2015.

Source: Based on data from Otoritas Jasa Keuangan and the Bank of Korea.

Net foreign capital inflows into emerging East Asia's bond markets were strong in January–April.

With US Federal Reserve policy rate hikes put on hold in March and April, and improved investor sentiment in emerging East Asia as a whole, net foreign capital flows into emerging East Asian bond markets were strong in January–April (**Figure 4**).

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



Notes:

1. The Republic of Korea and Thailand provide data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Data provided as of end-April 2016.
3. Figures were computed based on 30 April 2016 exchange rates to avoid currency effects.

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

All emerging East Asian bond markets for which data are available showed net bond inflows in March and April as the US Federal Reserve held off raising policy rates during its March and April meetings. Prior to this, the Republic of Korea was alone among emerging East Asian economies included in Figure 4 in recording net bond outflows in January and February.

Strengthening currencies in Malaysia, where the ringgit gained 6.1% against the US dollar year-to-date through 15 May, and Indonesia, where the rupiah gained 3.7% against the US dollar year-to-date through 15 May, contributed to foreign funds flowing into their respective bond markets during the review period. The largest foreign fund inflows in the region in January–April were recorded in Malaysia at USD5.6 billion and Indonesia at USD5.1 billion. In the Thai LCY bond market, foreign fund inflows totaled USD4.7 billion in the first 4 months of the year.

While the Republic of Korea recorded outflows in January and February, foreign investors returned in March and April. However, this did not fully offset the outflows in January and February, leading to net outflows of USD3.1 billion in the first 4 months of the year.

Emerging East Asian LCY bond issuance reached USD1,052 billion in Q1 2016.

LCY bond issuance in emerging East Asia reached USD1,052 billion in Q1 2016, with 63.8% comprising government bonds and 36.2% comprising corporate bonds (**Table 3**). Issuance growth was negative on a q-o-q basis—as the Q4 2015 issuance total stood at USD1,060 billion—but was positive on a y-o-y basis—as the Q1 2015 issuance total stood at USD718 billion.

The PRC continued to be the largest source of new LCY bonds in the region with Q1 2016 issuance amounting to USD629 billion (CNY4,060 billion), which accounted for about three-fifths of the regional total. Issuance in Q1 2016 was down from Q4 2015, mainly as a result of a decline in the issuance of Treasury bonds and other government bonds. At the same time, LCY bond issuance in the PRC more than doubled between Q1 2015 and Q1 2016, buoyed by vibrant y-o-y growth in issuance in both the government and corporate segments. Government bond issuance was driven by local government debt while corporate bond issuance was buoyed by commercial bank and Tier 2 bonds.

LCY bond issuance in Hong Kong, China in Q1 2016 summed to USD92 billion (HKD710 billion), registering growth of 2.1% q-o-q and 22.2% y-o-y on the back of increased issuance from the Hong Kong Monetary Authority and the corporate bond segment.

In the Republic of Korea, USD153 billion (KRW174,810 billion) worth of new LCY bonds were issued in Q1 2016, which was down on both a q-o-q and y-o-y basis, largely due to lower corporate bond sales. Meanwhile, issuance of LCY government bonds increased on a q-o-q basis but dropped on a y-o-y basis in Q1 2016.

In the six Southeast Asian economies belonging to emerging East Asia—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—combined LCY bond issuance expanded to USD179 billion in Q1 2016 from USD166 billion in Q4 2015 and from USD170 billion in Q1 2015. The q-o-q growth stemmed from increases in Indonesia, the Philippines, and Thailand, while the y-o-y uptick was induced by positive growth in all Southeast Asian markets except Singapore's.

Table 3: Local-Currency-Denominated Bond Issuance (gross)

	Q1 2015		Q4 2015		Q1 2016		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q1 2016		Q1 2016	
							q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	299	100.0	644	100.0	629	100.0	(2.8)	118.8	(2.2)	110.2
Government	144	48.0	381	59.2	360	57.2	(6.2)	160.6	(5.6)	150.3
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	144	48.0	381	59.2	360	57.2	(6.2)	160.6	(5.6)	150.3
Corporate	156	52.0	262	40.8	269	42.8	2.0	80.2	2.7	73.1
Hong Kong, China										
Total	75	100.0	90	100.0	92	100.0	2.1	22.2	2.0	22.1
Government	64	86.0	80	88.5	80	87.8	1.2	24.8	1.1	24.7
Central Bank	63	84.6	79	87.5	80	87.6	2.2	26.5	2.1	26.4
Treasury and Other Govt.	1	1.4	0.9	1.0	0.2	0.2	(77.8)	(79.7)	(77.8)	(79.8)
Corporate	11	14.0	10	11.5	11	12.2	8.8	6.3	8.7	6.2
Indonesia										
Total	12	100.0	8	100.0	16	100.0	93.6	38.1	101.6	36.4
Government	11	92.0	7	90.3	15	93.5	100.4	40.4	108.7	38.6
Central Bank	2	17.7	1	14.1	3	18.0	147.3	40.4	157.6	38.6
Treasury and Other Govt.	9	74.3	6	76.2	12	75.5	91.7	40.3	99.7	38.6
Corporate	0.9	8.0	0.8	9.7	1	6.5	30.1	12.2	35.5	10.8
Korea, Rep. of										
Total	174	100.0	160	100.0	153	100.0	(7.2)	(9.2)	(4.7)	(11.9)
Government	82	47.4	72	44.6	76	49.4	2.6	(5.4)	5.5	(8.2)
Central Bank	45	26.0	37	22.9	39	25.7	4.1	(10.3)	6.9	(12.9)
Treasury and Other Govt.	37	21.4	35	21.7	36	23.7	1.1	0.6	3.9	(2.4)
Corporate	91	52.6	89	55.4	77	50.6	(15.2)	(12.7)	(12.8)	(15.3)
Malaysia										
Total	13	100.0	22	100.0	16	100.0	(33.9)	25.8	(27.2)	19.5
Government	8	62.3	9	39.6	7	46.0	(23.3)	(7.2)	(15.5)	(11.8)
Central Bank	0	0.0	3	11.6	0	0.0	(100.0)	-	(100.0)	-
Treasury and Other Govt.	8	62.3	6	28.0	7	46.0	8.6	(7.2)	19.5	(11.8)
Corporate	5	37.7	13	60.4	9	54.0	(40.9)	80.2	(34.9)	71.2
Philippines										
Total	3	100.0	4	100.0	4	100.0	13.6	29.0	15.9	25.5
Government	3	91.8	3	82.6	4	93.4	28.4	31.2	31.1	27.6
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	3	91.8	3	100.0	4	93.4	28.4	31.2	31.1	27.6
Corporate	0	8.2	0.6	17.4	0.3	6.6	(56.9)	4.2	(56.0)	1.3
Singapore										
Total	72	100.0	59	100.0	58	100.0	(6.0)	(19.7)	(1.2)	(18.3)
Government	70	98.0	56	95.5	56	95.9	(5.6)	(21.5)	(0.7)	(20.1)
Central Bank	67	93.1	52	87.4	53	90.7	(2.5)	(21.9)	2.6	(20.5)
Treasury and Other Govt.	3	4.9	5	8.1	3	5.2	(39.7)	(14.6)	(36.6)	(13.1)
Corporate	1	2.0	3	4.5	2	4.1	(14.8)	67.1	(10.4)	70.0
Thailand										
Total	58	100.0	60	100.0	70	100.0	14.6	32.1	17.6	22.4
Government	50	86.8	50	83.0	60	85.0	17.4	29.4	20.4	19.9
Central Bank	36	62.8	35	59.3	54	77.0	48.9	61.8	52.7	49.9
Treasury and Other Govt.	14	24.0	14	23.8	6	8.1	(61.0)	(55.4)	(60.0)	(58.7)
Corporate	8	13.2	10	17.0	11	15.0	1.0	49.4	3.6	38.5

continued on next page

Table 3 continued

	Q1 2015		Q4 2015		Q1 2016		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q1 2016		Q1 2016	
							q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	13	100.0	14	100.0	14	100.0	(0.2)	10.5	0.7	6.8
Government	13	99.8	14	99.7	14	99.0	(0.9)	9.6	(0.1)	6.0
Central Bank	8	60.2	7	53.3	9	65.7	22.9	20.4	23.9	16.4
Treasury and Other Govt.	5	39.6	6	46.4	5	33.4	(28.3)	(6.9)	(27.6)	(10.0)
Corporate	0.02	0.2	0.04	0.3	0.1	1.0	275.0	510.7	278.2	490.4
Emerging East Asia										
Total	718	100.0	1,060	100.0	1,052	100.0	(2.2)	51.0	(0.7)	46.5
Government	446	62.0	671	63.3	671	63.8	(1.4)	54.7	0.1	50.7
Central Bank	221	30.8	213	20.1	239	22.7	9.3	9.4	11.8	7.9
Treasury and Other Govt.	224	31.2	457	43.2	433	41.1	(6.4)	100.6	(5.4)	93.0
Corporate	273	38.0	389	36.7	381	36.2	(3.5)	44.7	(2.1)	39.6
Japan										
Total	414	100.0	434	100.0	435	100.0	(6.1)	(1.6)	0.3	5.0
Government	392	94.7	410	94.7	412	94.8	(6.0)	(1.5)	0.4	5.1
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	392	94.7	410	94.7	412	94.8	(6.0)	(1.5)	0.4	5.1
Corporate	22	5.3	23	5.3	23	5.2	(8.7)	(3.4)	(2.5)	3.1

(-) = negative, - = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:

1. Corporate bonds include issues by financial institutions.

2. Bloomberg LP end-of-period LCY—USD rates are used.

3. For LCY base, emerging East Asia growth figures are based on 31 March 2016 currency exchange rates and do not include currency effects.

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

Indonesia's LCY bond issuance in Q1 2016 reached USD16 billion (IDR212,086 billion), which was up on both a q-o-q and y-o-y basis, led by the sale of central government, central bank, and corporate bonds. The Government of Indonesia maintained its policy of frontloading debt issuance, opting to issue the majority of bonds in the first half of the year. Aside from its regular Treasury auctions, Indonesia raised IDR31.5 trillion from the issuance of retail *sukuk* in March, which marked the largest issuance of such bonds since their first offering in Indonesia in 2009.

Malaysia's Q1 2016 LCY bond issuance leveled off at USD16 billion (MYR62 billion), down from Q4 2015 but up relative to Q1 2015, mainly due to the mixed performance of the corporate bond segment. Government bond issuance fell as Bank Negara Malaysia ceased issuing bonds in Q1 2016.

In the Philippines, LCY bond sales aggregated to USD4 billion (PHP190 billion) in Q1 2016, posting double-digit q-o-q and y-o-y growth that was driven solely by increased Treasury bill and bond issuance.

LCY bond issuance in Singapore in Q1 2016 tallied USD58 billion (SGD79 billion), down from both the previous quarter and the first quarter of the previous year as a result of relatively weak government bond issuance.

In Thailand, LCY bond issuance reached USD70 billion (THB2,473 billion) in Q1 2016, registering double-digit growth on both a q-o-q and y-o-y basis on the back of the Bank of Thailand's relatively large issuance.

LCY bond issuance in Viet Nam in Q1 2016 totaled USD14 billion (VND306,906 billion), down marginally

from Q4 2015—given lower bond sales in the government segment with the exception of central bank bonds—but up from Q1 2015 amid positive y-o-y issuance growth in central bank bonds and corporate bonds.

Intraregional LCY bond issuance in emerging East Asia fell 14.8% q-o-q and 28.3% y-o-y to USD2.1 billion in Q1 2016. Three PRC-based issuers raised USD66 million from the sale of HKD-denominated bonds; six issuers from Hong Kong, China sold renminbi-denominated bonds totaling USD1.0 billion; issuance of HKD- and renminbi-denominated bonds amounted to USD512 million from Korean issuers; issuance of HKD- and SGD-denominated bonds totaled USD234 million from Malaysian issuers; and three institutions from Singapore issued HKD-denominated bonds worth a combined USD208 million.

Emerging East Asia's G3 currency bond issuance remained active in January–April.

Emerging East Asia's G3 currency bond issuance in January–April reached USD57.4 billion, or the equivalent of 31% of the full-year 2015 total (**Table 4**).⁷ The US dollar remained the dominant G3 currency of choice for emerging East Asian issuers, accounting for 86.4% of the total. The euro accounted for 13.1% of the total and the Japanese yen for the remaining 0.5%. G3 currency bond issuance in Q1 2016 totaled USD39.3 billion, down 21.2% q-o-q and 14.5% y-o-y, mainly due to lower G3 currency bond sales from PRC-based institutions.

PRC-based issuers were responsible for the largest G3 currency bond issuance in emerging East Asia during the first 4 months of 2016, accounting for USD23.5 billion, or 41.0% of the regional total. The Export–Import Bank of China was the biggest seller of G3 currency bonds among PRC-based issuers at USD3.6 billion, including three USD-denominated bonds totaling USD2.9 billion and one EUR-denominated bond worth EUR650 million. The Export–Import Bank of China also sold the PRC's single largest G3 currency bond in January–April, which was a USD1.25 billion 5-year bond carrying a 2.0% coupon.

G3 currency bond issuers from the Republic of Korea raised USD10.8 billion, spearheaded by the Korea Development Bank, which sold an aggregated USD2.0 billion worth of EUR- and USD-denominated

bonds. Korea Development Bank also issued the single largest Korean G3 currency bond in January–April, which was a USD1 billion 10-year tenor carrying a 3.0% coupon.

Hong Kong, China generated USD7.7 billion worth of G3 currency bond sales in January–April, with 67% of the total coming from USD-denominated bonds and 30% from EUR-denominated bonds. The single largest was CK Hutchison's 7-year EUR1.35 billion bond sold in April with a 1.25% coupon.

G3 currency bond issuance in Southeast Asia amounted to USD15.4 billion in January–April, or the equivalent of 42% of the subregion's total in full-year 2015. Indonesian issuers posted USD4.6 billion of G3 currency bond sales, led by the Government of Indonesia, which raised USD2.5 billion from a dual-tranche *sukuk* sale in March. Bank Indonesia's issuance of USD-denominated foreign exchange bills also boosted Indonesia's G3 debt issuance volume in January–April.

Malaysia tallied USD3.7 billion worth of USD-denominated bonds, spearheaded by the government's USD1.5 billion dual-tranche *sukuk* sale in April. The Philippines' only G3 currency bond issuance in January–April was a USD2.0 billion 25-year sovereign bond issued in March with a 3.7% coupon. Singapore's USD4.8 billion of G3 currency bond issuance consisted of 61% in USD-denominated bonds, 39% in EUR-denominated bonds, and 1% in JPY-denominated bonds. Finally, two Thai corporates issued USD-denominated bonds in April totaling USD375 million.

On a monthly basis, emerging East Asian G3 currency bond issuance exhibited a fluctuating pattern in the first 4 months of 2016: USD12.2 billion in January, USD6.9 billion in February, USD20.0 billion in March, and USD18.0 billion in April (**Figure 5**).

Government bond yield curves fell for most markets in emerging East Asia amid continued weakness in the global economy and the US Federal Reserve's decision to hold off raising interest rates.

The US Federal Reserve held off raising interest rates during its March and April Federal Open Market Committee meetings. The committee noted that while

⁷ G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2015			1 January–30 April 2016		
Issuer	Amount (USD million)	Issue Date	Issuer	Amount (USD million)	Issue Date
China, People's Rep. of	103,527		China, People's Rep. of	23,495	
China Construction Bank 4.65% Perpetual	3,050	16-Dec-15	Export-Import Bank of China 2% 2021	1,250	26-Apr-16
Sinopec 2.5% 2020	2,500	28-Apr-15	China Development Bank 0.875% 2018	1,145	3-Feb-16
Bank of Communications 5% Perpetual	2,450	29-Jul-15	China Development Bank 2.5% 2020	1,000	3-Feb-16
China Construction Bank 3.875% 2025	2,000	13-May-15	Export-Import Bank of China 2.875% 2026	1,000	26-Apr-16
CNOOC Finance 3.5% 2025	2,000	5-May-15	Bank of China 1.6851% 2019	900	1-Mar-16
ICBC 4.875% 2025	2,000	21-Sep-15	Export-Import Bank of China 0.375% 2019	744	26-Apr-16
China Cinda Finance (2015) 4.25% 2025	1,700	23-Apr-15	Ping An Life Insurance 2.375% 2019	700	19-Jan-16
Evergrande Real Estate Group 9% Perpetual	1,500	29-Dec-15	Sunshine Life Insurance 3.15% 2021	700	20-Apr-16
Others	86,327		Export-Import Bank of China 1.4361% 2019	640	9-Mar-16
Hong Kong, China	18,702		Watagan Mining 8.75% 2025	606	31-Mar-16
Shimao Property 8.375% 2022	1,100	10-Feb-15	Azure Orbit International Finance 2.625% 2021	600	21-Mar-16
Hong Kong, China (Sovereign) Sukuk 1.894% 2020	1,000	3-Jun-15	Bank of China (Hong Kong) 1.875% 2019	600	1-Mar-16
Others	16,602		CRRRC 0% 2021	600	5-Feb-16
Indonesia	15,572		Others	13,010	
Indonesia (Sovereign) 4.75% 2026	2,250	8-Dec-15	Hong Kong, China	7,680	
Indonesia (Sovereign) 4.125% 2025	2,000	15-Jan-15	CK Hutchison 1.25% 2023	1,546	8-Apr-16
Indonesia (Sovereign) 5.125% 2045	2,000	15-Jan-15	China Overseas Finance 0% 2023	1,500	5-Jan-16
Perusahaan Penerbit SBSN Sukuk 4.325% 2025	2,000	28-May-15	OVPH 5.875% Perpetual	1,200	1-Mar-16
Indonesia (Sovereign) 3.375% 2025	1,397	30-Jul-15	AIA Group 4.5% 2046	750	16-Mar-16
Others	5,925		CK Hutchison 2% 2028	744	8-Apr-16
Korea, Rep. of	23,348		Others	1,940	
Korea Eximbank 2.875% 2025	1,250	21-Jan-15	Indonesia	4,600	
Korea Eximbank 2.25% 2020	1,000	21-Jan-15	Perusahaan Penerbit SBSN Sukuk 4.55% 2026	1,750	29-Mar-16
Korea Eximbank 3.25% 2025	1,000	10-Nov-15	Perusahaan Penerbit SBSN Sukuk 3.4% 2021	750	29-Mar-16
Others	20,098		Others	2,100	
Lao People's Dem. Rep.	182		Korea, Rep. of	10,762	
Malaysia	8,496		Korea Development Bank 3% 2026	1,000	13-Jan-16
Petronas Capital 3.5% 2025	1,500	18-Mar-15	Korea Eximbank 0.375% 2019	859	15-Mar-16
Petronas Capital 4.5% 2045	1,500	18-Mar-15	Hyundai Capital America 2.5% 2019	600	18-Mar-16
Petronas Global Sukuk 2.707% 2020	1,250	18-Mar-15	Others	8,303	
Others	4,246		Malaysia	3,684	
Philippines	4,256		Malaysia (Sovereign) Sukuk 3.179% 2026	1,000	27-Apr-16
Philippines (Sovereign) 3.95% 2040	2,000	20-Jan-15	Danga Capital 3.035% 2021	750	1-Mar-16
Royal Capital BV 5.5% Perpetual	450	26-Aug-15	Others	1,934	
Others	1,806		Philippines	2,000	
Singapore	8,346		Philippines (Sovereign) 3.7% 2041	2,000	1-Mar-16
Global Logistics Properties 3.875% 2025	1,000	4-Jun-15	Singapore	4,753	
DBS Bank 1.625% 2018	1,000	6-Aug-15	BOC Aviation 3.875% 2026	750	27-Apr-16
BOC Aviation 3% 2020	750	30-Mar-15	United Overseas Bank 3.5% 2026	700	16-Mar-16
Others	5,596		Temasek Financial 0.5% 2022	687	1-Mar-16
Thailand	176		Others	2,616	
Emerging East Asia Total	182,605		Thailand	375	
Memo Items:			Emerging East Asia Total	57,350	
India	10,919		Memo Items:		
Bharti Airtel 4.375% 2025	1,000	10-Jun-15	India	1,949	
Others	8,919		ICICI Bank 4% 2026	700	18-Mar-16
Sri Lanka	3,649		Others	1,249	
			Sri Lanka	1,166	

USD = United States dollar.

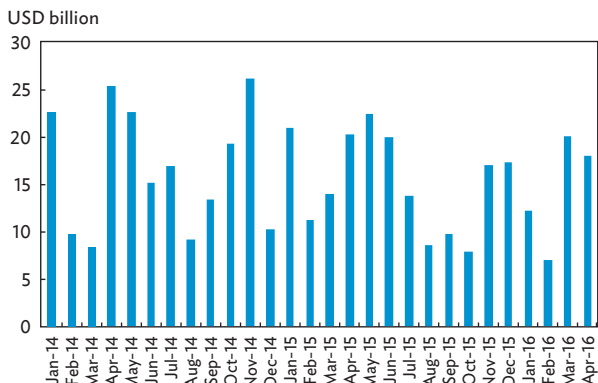
Notes:

1. Data exclude certificates of deposit.

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

Source: AsianBondsOnline calculations based on data from Bloomberg LP.

Figure 5: G3 Currency Bond Issuance



USD = United States dollar.
 Note: G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
 Source: AsianBondsOnline calculations based on Bloomberg LP data.

the US economy continued to grow, there was also some weakness in the domestic economy, such as business fixed investment, and net exports remained soft due to slower global growth.

The US economy grew at an annualized rate of only 0.8% in Q1 2016, slower than the 1.4% annualized growth rate in Q4 2015. On a y-o-y basis, the eurozone grew 1.7% in Q1 2016, same pace as in the previous quarter. Growth also slightly improved to 0.6% q-o-q in Q1 2016 from 0.4% q-o-q in Q4 2015.

The European Central Bank (ECB) on 10 March reduced its key rates on refinancing operations and its marginal lending facilities by 5 basis points (bps) to 0% and 0.25%, respectively. It reduced by 10 bps the deposit facility to -0.4% and expanded its monthly asset purchase program to EUR80 billion, while also adding investment-grade nonbank EUR-denominated bonds to monthly purchases. In an ECB meeting on 21 April, monetary policy was left unchanged but ECB President Mario Draghi noted that risks to the eurozone’s growth outlook remain tilted to the downside.

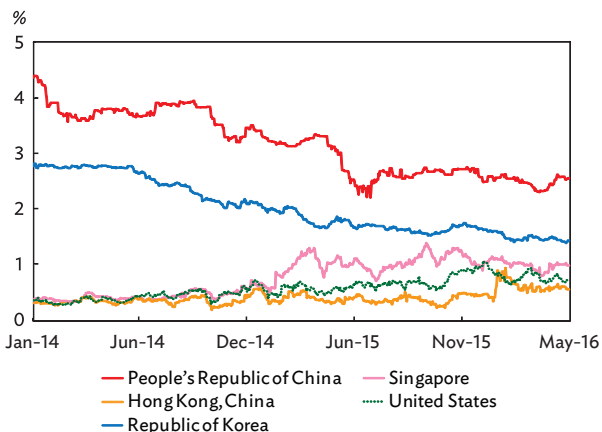
Japan managed to miss a technical recession with annualized GDP growth of 1.9% in Q1 2016.

Global inflation remains weak due to oil prices even though prices have stabilized somewhat and recently approached the USD50 per barrel mark. At the start of the year, Brent crude was priced at USD36.28 per barrel; by 13 May, it had reached USD47.05.

In the US, rising oil prices contributed to the increase in inflation to 1.1% y-o-y in April from 0.9% in March, but this was still below the US Federal Reserve’s 2.0% target. The eurozone reported deflation in April, with consumer prices falling 0.2% y-o-y. In Japan, consumer prices fell 0.3% y-o-y in April.

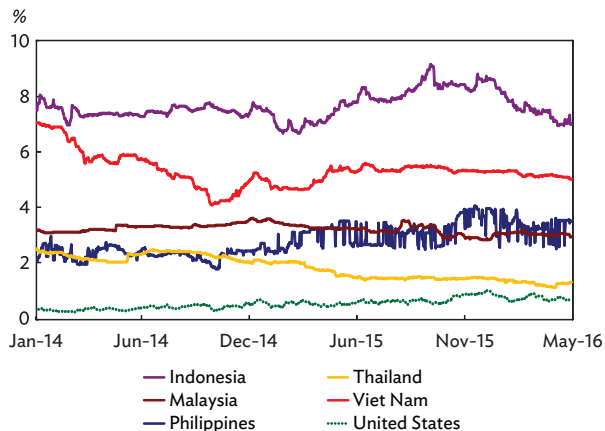
These factors contributed to the decline in bond yields in emerging East Asia. The 2-year rate declined between 1 March and 15 May in most markets, with the exception of the PRC and the Philippines (Figures 6a and 6b). In the PRC, the 2-year yield showed an upward drift. In the cases of Singapore and Hong Kong, China, the fall in yields

Figure 6a: 2-Year Local Currency Government Bond Yields



Note: Data as of 15 May 2016.
 Source: Based on data from Bloomberg LP.

Figure 6b: 2-Year Local Currency Government Bond Yields



Note: Data as of 15 May 2016.
 Source: Based on data from Bloomberg LP.

more closely tracked declines in the US, with yields falling toward the end of March before spiking and then falling again.

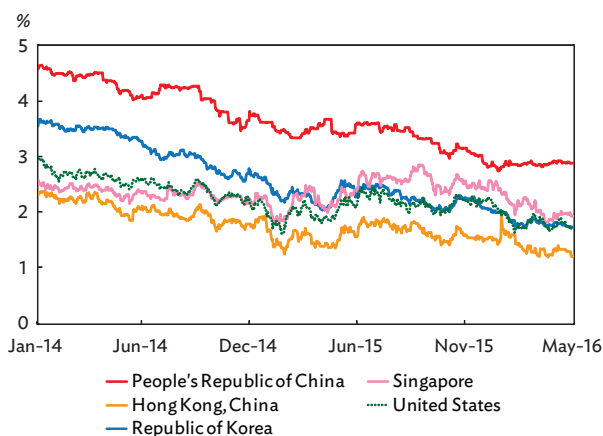
The 10-year yield for emerging East Asian markets followed a similar pattern between 1 March and 15 May with the exception (again) of the PRC and the Philippines (**Figures 7a and 7b**). The PRC's 10-year yield was roughly stable while Philippine yields spiked in March.

Weak growth in developed economies also spilled over into emerging East Asia. All of the region's economies showed slower GDP growth in Q1 2016 than in the

previous quarter except the Philippines and Thailand. The PRC's GDP growth slowed to 6.7% y-o-y in Q1 2016 from 6.8% y-o-y in Q4 2015; Hong Kong, China's GDP growth slowed to 0.8% y-o-y from 1.9% y-o-y; Indonesia's GDP growth slowed to 4.9% y-o-y from 5.0% y-o-y; the Republic of Korea's GDP growth fell to 2.8% y-o-y from 3.1% y-o-y; and Malaysia's GDP growth fell to 4.2% y-o-y from 4.5% y-o-y.

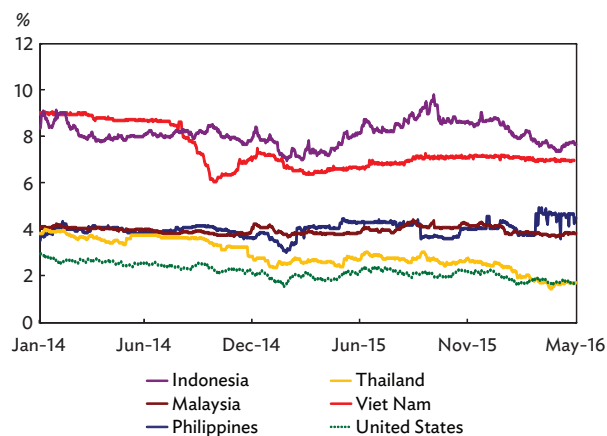
GDP growth accelerated in the Philippines to 6.9% y-o-y in Q1 2016 from 6.5% in Q4 2015. In Thailand, GDP growth rose to 3.2% y-o-y in Q1 2016 from 2.8% in Q4 2015. Singapore's GDP growth remained unchanged in Q1 2016 at 1.8% y-o-y.

Figure 7a: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 May 2016.
Source: Based on data from Bloomberg LP.

Figure 7b: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 May 2016.
Source: Based on data from Bloomberg LP.

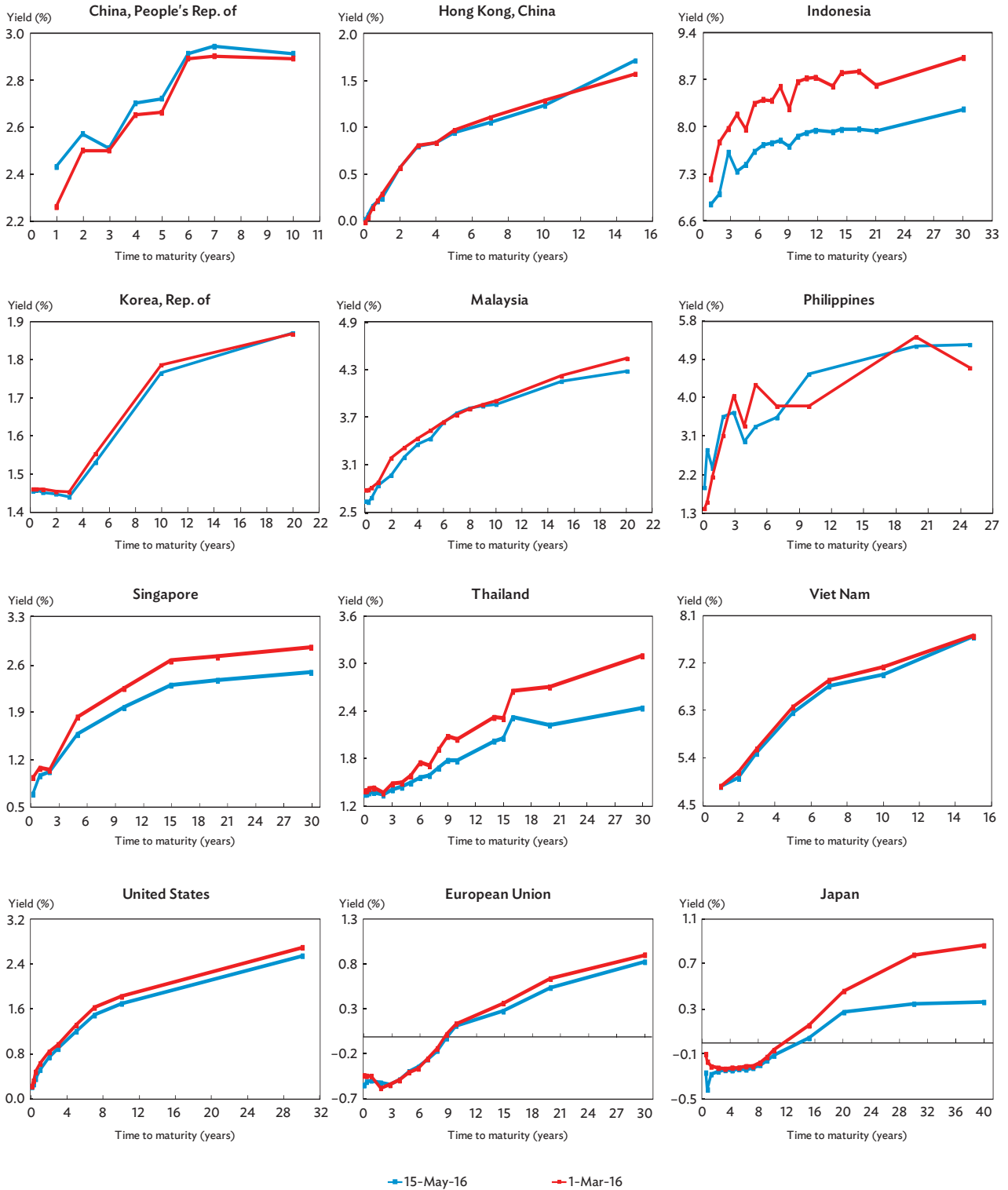
Yield curves for nearly all emerging East Asian markets fell for most tenors between 1 March and 15 May (**Figure 8**). Despite a slowdown in its economy, the PRC has the distinction of being the only market to show a marked rise in its yield curve during the review period. The rise in the PRC's yield curve reflects a number of concerns ranging from the rapid increase in the supply of local government bonds to defaults in the corporate bond segment.

In the Philippines, yield curve movements were mixed. Yields spiked in March following movements in US Treasuries, but they did not follow when US Treasury yields dropped in April, likely because of uncertainties over the national elections in May.

Weak economic growth and a lack of inflationary pressures have kept inflation contained. However, in some markets, inflation has begun to pick up as oil prices stabilize. Thailand escaped deflation in April as a result of higher oil prices (**Figure 9a**). On the other hand, Malaysia experienced a significant decline in inflation to 2.1% y-o-y in April from 4.2% y-o-y in February due to lower transportation costs (**Figure 9b**).

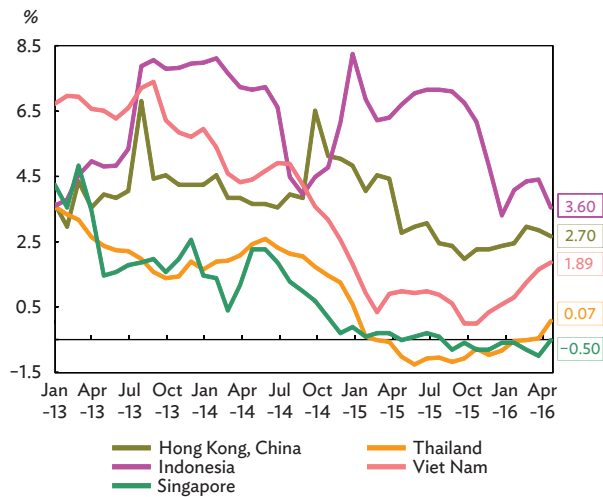
Policy rates were held steady in emerging East Asia except for Indonesia in the first 5 months of 2016 (**Figure 10a**). Indonesia was the only economy in the region that eased monetary policy more than once in Q1 2016. Bank Indonesia reduced its policy rate by a cumulative 75 bps between January and March to help boost the economy (**Figure 10b**). Indonesia is also shifting its key policy rate from the 12-month reference rate to the 7-day repurchase rate in August. While the

Figure 8: Benchmark Yield Curves—Local Currency Government Bonds



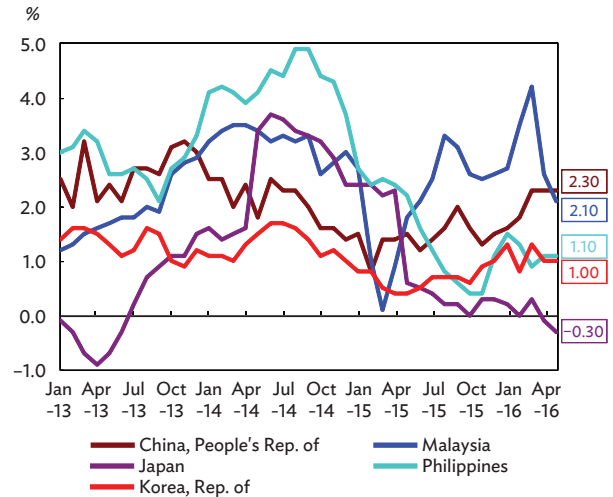
Source: Based on data from Bloomberg LP.

Figure 9a: Headline Inflation Rates



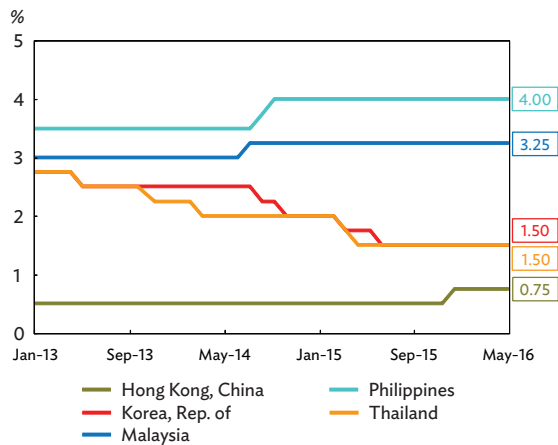
Note: Data as of April 2016.
Source: Based on data from Bloomberg LP.

Figure 9b: Headline Inflation Rates



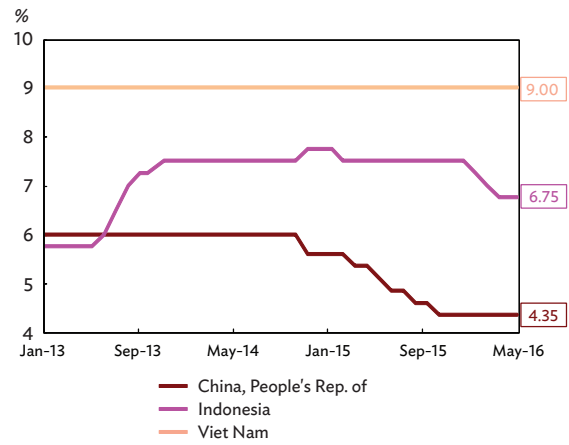
Note: Data as of April 2016.
Source: Based on data from Bloomberg LP.

Figure 10a: Policy Rates



Note: Data as of 15 May 2016.
Source: Based on data from Bloomberg LP.

Figure 10b: Policy Rates



Note: Data as of 15 May 2016.
Source: Based on data from Bloomberg LP.

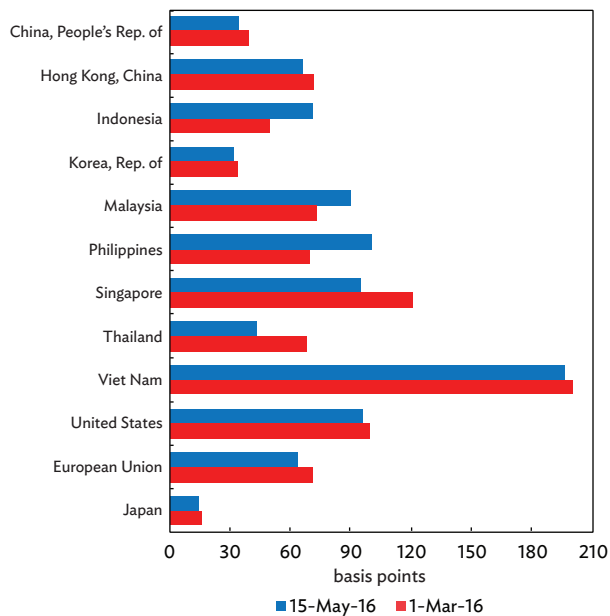
PRC did not adjust policy rates in Q1 2016, it reduced reserve requirement ratios of financial institutions by 50 bps in March.

As a result of movements in yield curves, the 2-year versus 10-year yield spread fell in all emerging East Asian markets except Indonesia, Malaysia, and the Philippines (Figure 11).

The spread between AAA-rated corporate yields and government yields fell for most tenors in the Republic of Korea and Malaysia, but rose in the PRC.

Credit spreads between AAA-rated corporate bonds and government bonds fell for most tenors in the Republic of Korea and Malaysia between 1 March and 15 May

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

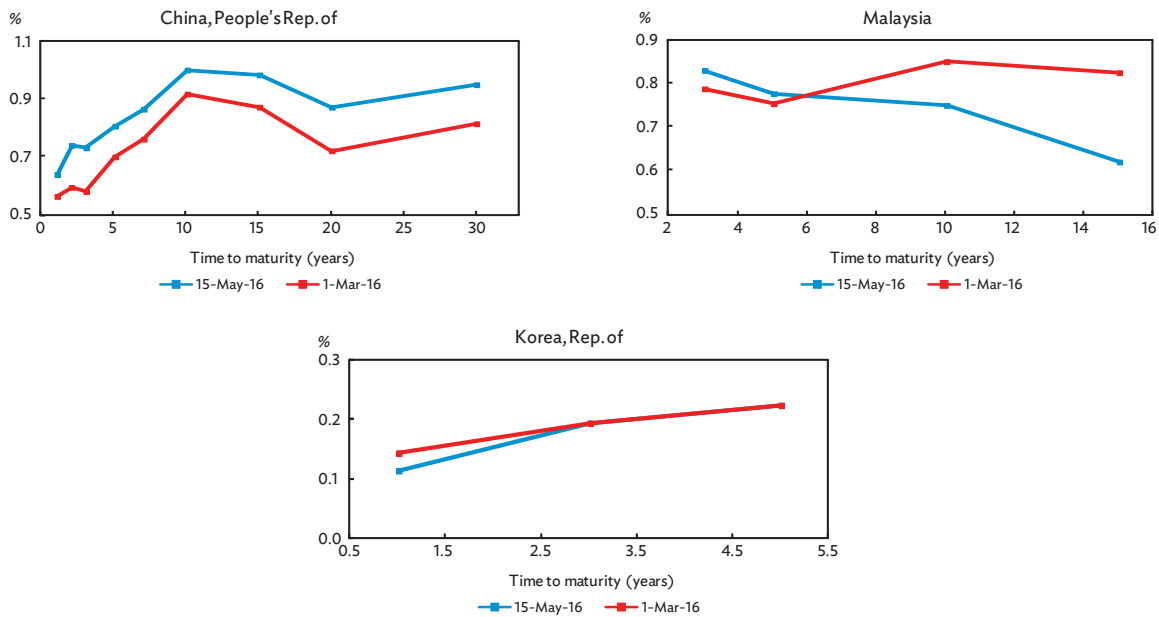


Source: Based on data from Bloomberg LP.

(Figure 12a). In Malaysia, higher oil prices led to improved investor sentiments, which helped strengthen the Malaysian ringgit and reduce risk premiums.

In the PRC, credit spreads rose due to continued concerns about risks in the corporate bond segment as a number of corporate issuers have missed debt payments this year. Lower-rated credit spreads also rose in the PRC between 1 March and 15 May because of the same concerns (Figure 12b). In both the Republic of Korea and Malaysia, lower-rated spreads were little changed.

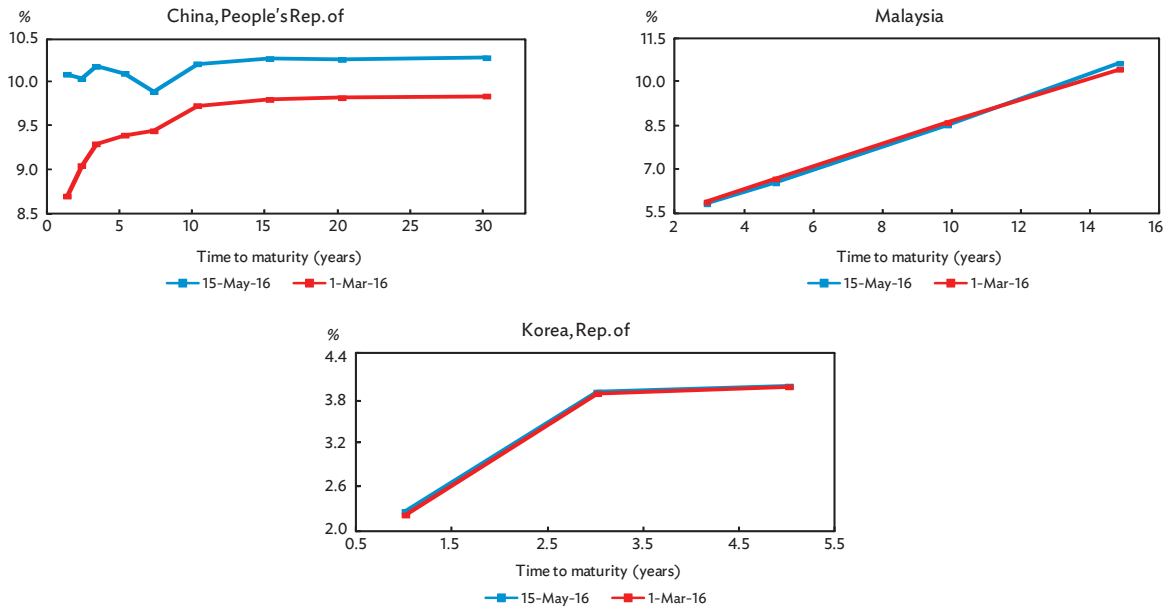
Figure 12a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Notes:

1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
 2. For Malaysia, data on corporate bond yields are as of 29 February 2016 and 13 May 2016.
- Sources: People's Republic of China (*Wind*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).

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



Notes:

1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
3. For Malaysia, data on corporate bond yields are as of 29 February 2016 and 13 May 2016.

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