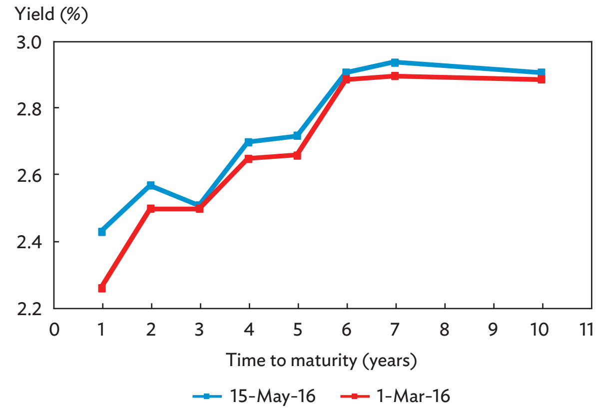
Market Summaries

People's Republic of China

Yield Movements

Between 1 March and 15 May, the local currency (LCY) government bond yield curve in the People's Republic of China (PRC) shifted upward, with yields for all tenors rising **(Figure 1)**. The largest increase was for the 1-year tenor, which rose 17 basis points (bps). The rise in yields was less pronounced at the longer-end of the curve, with yields for tenors more than 5 years rising only 2–4 bps. As a result, the 2-year versus 10-year spread fell from 39 bps on 1 March to 34 bps on 15 May.

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



Source: Based on data from Bloomberg LP.

The rise in yields was in contrast to most of the economic data for the PRC. Gross domestic product growth slowed to 6.7% in the first quarter (Q1) of 2016 from 6.8% in the fourth quarter (Q4) of 2015. The slowdown was evident in all three major sectors of the economy. The agriculture sector's growth slowed to 2.9% in Q1 2016 from 4.1% in Q4 2015. The manufacturing sector's gross domestic product growth slowed to 5.8% in Q1 2016 from 6.1% in the prior quarter. Lastly, service sector growth fell to 7.6% from 8.2%.

Exports also remained weak. Monthly export data for Q1 2016 is somewhat distorted due to the varying timing of the Lunar New Year. Using January–April figures as a whole to remove this effect shows that exports fell 2.1% in renminbi terms and 7.6% in US dollar terms (due to the depreciation of the renminbi).

Inflation, however, showed signs of stabilizing. The consumer price inflation rate remained at 2.3% in February–April. Producer price inflation also showed some improvement, with the deflation rate falling to 3.4% in April from 4.3% in March.

To help spur the economy, the People's Bank of China (PBOC) reduced the reserve requirement ratio of financial institutions by 50 bps effective 1 March. The cut effectively reduced the reserve requirement ratio on large banks to 17.0%.

Despite the weak economic growth and reserve requirement ratio cut, the yield curve shifted upward in the PRC from 1 March to 15 May. An increased supply of government bonds for a debt swap program, particularly local government bonds, placed pressure on yields to rise.

The rise in yields was also driven by uncertainty over implementation of the new value-added tax (VAT), which is to be expanded to some financial transactions. While the details have not been finalized, markets were initially concerned that the value would increase borrowing costs for repurchase (repo) transactions and reduce income from policy bank bond holdings.

Negative risk sentiment weighed on bonds overall, driven by concerns over rising debt levels and corporate bond defaults in the PRC. In April, China Railway Materials announced that it would seek to restructure debt. In the same month, Dongbei Special Steel Group, Baoding Tianwei Group, and Chinacoal Group Shanxi Huayu Energy missed debt payments.

Size and Composition

Outstanding LCY bonds in the PRC grew 5.1% quarter-on-quarter (q-o-q) and 28.3% year-on-year (y-o-y) to CNY42.0 trillion (USD6.5 trillion) at the end of Q1 2016 **(Table 1)**.

Government Bonds. LCY government bonds outstanding stood at CNY27.8 trillion in Q1 2016 on q-o-q growth of 5.2% and y-o-y growth of 33.0%. Growth was driven by a large increase in Treasury bonds, which rose 5.8% q-o-q and 54.5% y-o-y. For the past few quarters, Treasury bonds have seen large increases due to continued issuances of local government bonds as local governments refinanced existing debt and reduced borrowing costs by swapping debt for municipal bonds. The total amount of local municipal bonds issued is covered by a cap, which has increased over time. The cap stands at CNY15 trillion and the government expects the debt swap program to be completed by the end of 2017.

Policy bank bonds continued to grow, though not at the same pace as Treasury bonds, with policy bank bonds expanding 4.6% q-o-q and 12.8% y-o-y. The outstanding amount of central bank bonds remained unchanged in Q1 2016 from the prior quarter as the PBOC has ceased issuing central bank bonds, using other tools to affect liquidity.

Corporate Bonds. Corporate bonds outstanding grew 4.9% q-o-q and 19.9% y-o-y to CNY14.2 trillion. Among the major bond categories, commercial paper and commercial bank bonds, and Tier 2 notes showed the strongest growth, rising 12.6% q-o-q and 9.3% q-o-q, respectively **(Table 2)**. Strong issuance by commercial banks and insurance companies continued to be driven by fund-raising efforts. However, medium-term notes outstanding rose only 1.8% q-o-q due to maturing debt.

Medium-term notes had the highest issuance level among the major bond categories in Q1 2016 **(Figure 2)**, but issuance was lower than in the prior quarter. Commercial bank bonds and Tier 2 notes issuance increased to CNY203 billion in Q1 2016 from CNY168 billion in Q4 2015 on continued fund-raising efforts.

A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. At the end of Q1 2016, the top 30 corporate bond issuers accounted for CNY8.0 trillion worth of corporate bonds outstanding, or 56.7% of the PRC corporate market. Out of the top 30, the 10 largest issuers accounted for CNY4.8 trillion.

The top 30 issuer list is dominated by banks, owing to the continued issuances of commercial bank bonds as banks accelerate fund-raising. Among the top 30 corporate issuers, 20 of them were in the banking industry.

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**32,731**	**5,279**	**39,938**	**6,150**	**41,983**	**6,505**	**1.6**	**12.0**	**5.1**	**28.3**
Government	20,894	3,370	26,408	4,067	27,791	4,306	1.0	10.0	5.2	33.0
Treasury Bonds	10,263	1,655	14,984	2,307	15,856	2,457	(0.4)	12.3	5.8	54.5
Central Bank Bonds	428	69	428	66	428	66	0.0	(22.5)	0.0	0.0
Policy Bank Bonds	10,203	1,646	10,996	1,693	11,507	1,783	2.5	9.6	4.6	12.8
Corporate	11,837	1,909	13,529	2,083	14,192	2,199	2.7	15.7	4.9	19.9
Policy Bank Bonds										
China Development Bank	6,337	1,022	6,601	1,017	6,816	1,056	1.1	5.8	3.3	7.6
Export–Import Bank of China	1,694	273	1,852	285	1,913	296	7.0	16.2	3.3	12.9
Agricultural Devt. Bank of China	2,172	350	2,543	392	2,778	430	3.0	16.4	9.2	27.9

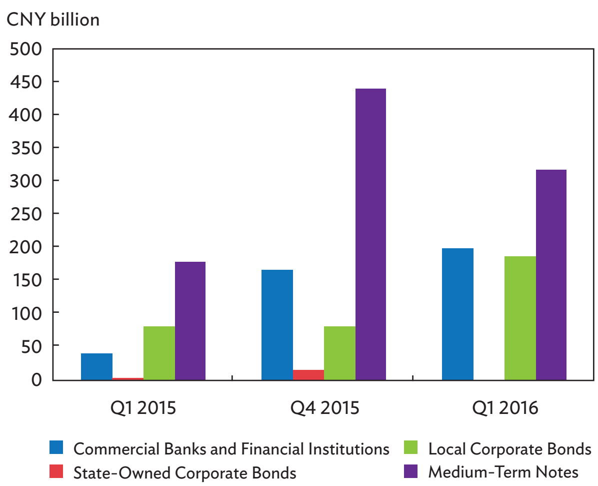
( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period local currency–USD rate is used.
4. Growth rates are calculated from local currency 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 (%)			
				Q1 2015		Q1 2016	
	Q1 2015	Q4 2015	Q1 2016	q-o-q	y-o-y	q-o-q	y-o-y
Commercial Bank Bonds and Tier 2 Notes	1,639	2,009	2,196	1.0	22.0	9.3	34.0
SOE Bonds	612	588	583	1.0	(2.7)	(0.9)	(4.8)
Local Corporate Bonds	2,377	2,558	2,690	1.0	22.1	5.2	13.2
Commercial Paper	1,866	2,405	2,709	1.1	14.3	12.6	45.2
Medium-Term Notes	4,227	4,702	4,787	1.0	9.2	1.8	13.3

( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, SOE = state-owned enterprise, y-o-y = year-on-year.
Sources: *ChinaBond* and *Wind*.

Figure 2: Corporate Bond Issuance in Key Sectors



CNY = Chinese yuan, Q1 = first quarter, Q4 = fourth quarter.
Sources: *ChinaBond* and *Wind*.

Table 4 presents the most notable corporate bond issuances in Q1 2016. The list mainly comprises banks and oil companies, reflecting the fund-raising efforts of banks this year and the large financing needs of the oil industry.

Investor Profile

Treasury Bonds and Policy Bank Bonds. Banks remained the dominant investor group in Q1 2016, holding 71.9% of all Treasury bonds, including policy bank bonds **(Figure 3)**. This was down from the same period last year. The holdings of funds institutions, such as mutual funds, have steadily increased over time, comprising 10.3% in Q1 2016, up from 6.0% in Q1 2015.

Corporate Bonds. Banks were no longer the largest holders of corporate bonds at the end of Q1 2016. Banks' share of corporate bonds fell to 21.3% at the end of March 2016 from 26.6% a year earlier **(Figure 4)**. Funds institutions became the dominant holder of corporate bonds, holding 38.1% of the outstanding stock in Q1 2016, up from 23.3% a year earlier.

Figure 5 presents investor profiles across corporate bond categories at the end of March. Funds institutions are the dominant holders of local corporate bonds, with the percentage share of bank holdings declining over time. Banks and insurance companies are the dominant holders of commercial bank bonds, with commercial banks holding the majority of common bonds and insurance companies holding the most subordinated bonds.

Liquidity

Interest rate swap volumes fell 15.1% q-o-q, driven mostly by a decline in 7-day repo transactions. The 7-day repo interest rate swap is the most popular interest rate swap, accounting for nearly 82% of total transaction volume in Q1 2016 **(Table 5)**.

Figure 6 presents the turnover ratio of government bonds, broken down into Treasury bonds and policy bank bonds. In the later half of 2015 and in Q1 2016, trading volumes experienced an increase, particularly for policy bank bonds.

Table 3: Top 30 Issuers of Local Currency 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 (USD billion)			
1.	China Railway	1,253.5	194.23	Yes	No	Transportation
2.	Shanghai Pudong Development Bank	650.2	100.74	No	Yes	Banking
3.	Industrial Bank	573.6	88.88	No	Yes	Banking
4.	State Grid Corporation of China	368.1	57.04	Yes	No	Public Utilities
5.	China Merchants Bank	361.7	56.04	No	Yes	Banking
6.	China Citic Bank	334.4	51.81	No	Yes	Banking
7.	China Everbright Bank	330.1	51.14	Yes	Yes	Banking
8.	China National Petroleum	330.0	51.13	Yes	No	Energy
9.	Bank of China	310.6	48.12	Yes	Yes	Banking
10.	Industrial and Commercial Bank of China	283.1	43.86	Yes	Yes	Banking
11.	Ping An Bank	278.6	43.17	Yes	Yes	Banking
12.	Agricultural Bank of China	262.0	40.60	Yes	Yes	Banking
13.	Bank of Beijing	248.9	38.57	Yes	Yes	Banking
14.	China Construction Bank	218.1	33.80	Yes	Yes	Banking
15.	China Minsheng Bank	215.0	33.31	No	Yes	Banking
16.	Petrochina	201.3	31.19	Yes	Yes	Energy
17.	Huaxia Bank	188.6	29.22	Yes	No	Banking
18.	Evergrowing Bank	169.4	26.25	No	No	Banking
19.	Bank of Shanghai	167.1	25.90	Yes	Yes	Banking
20.	Bank of Beijing	150.2	23.27	Yes	Yes	Banking
21.	State Power Investment	144.0	22.31	Yes	No	Energy
22.	Bank of Communications	143.5	22.23	No	Yes	Banking
23.	Central Huijin Investment	127.7	19.78	Yes	No	Diversified Financial
24.	Senhua Group	118.5	18.36	Yes	No	Energy
25.	China Petroleum and Chemical	112.4	17.42	Yes	Yes	Energy
26.	China Three Gorges Project	112.0	17.35	Yes	No	Public Utilities
27.	China Southern Power Grid	109.0	16.89	Yes	No	Public Utilities
28.	Huishang Bank	99.6	15.44	Yes	Yes	Banking
29.	China Guangfa Bank	99.6	15.44	No	Yes	Banking
30.	China Zheshang Bank	87.9	13.62	No	No	Banking
Total Top 30 LCY Corporate Issuers		**8,048.53**	**1,247.14**			
Total LCY Corporate Bonds		**14,191.87**	**2,199.06**			
Top 30 as % of Total LCY Corporate Bonds		**56.7%**	**56.7%**			

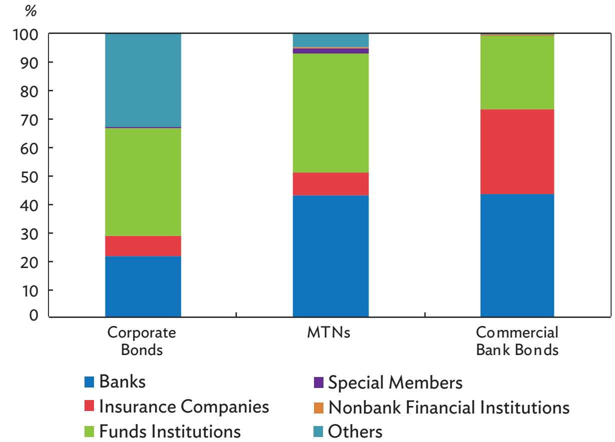
CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of end-March 2016.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 4: Notable Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Huaxia Bank		
3-year bond	3.03	15
5-year bond	3.25	25
China National Petroleum		
3-year bond	3.05	20
Shanghai Pudong Development Bank		
3-year bond	2.95	20
Petrochina		
5-year bond	3.15	10
Founder Securities		
5-year bond	4.43	10
BOE Technology Group		
5-year bond	3.15	10

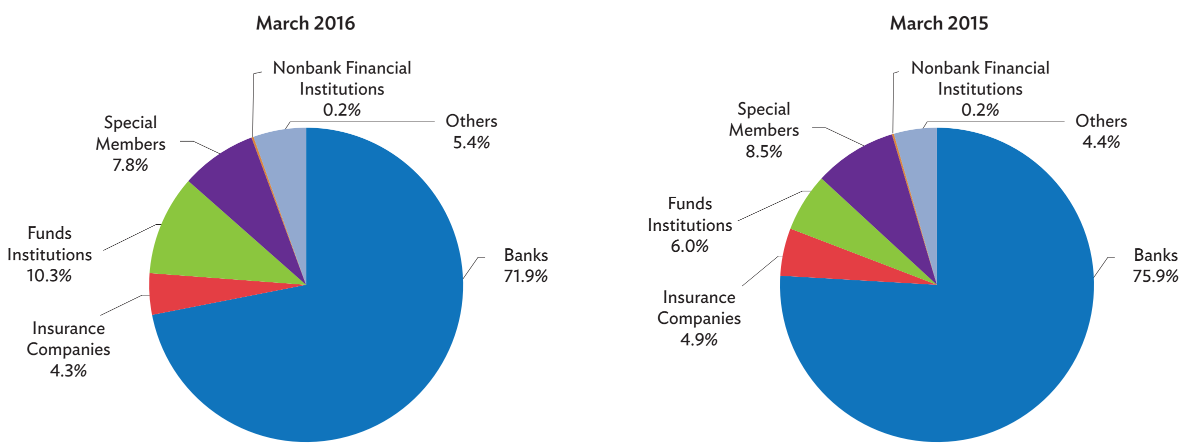
CNY = Chinese yuan, Q1 = first quarter.
Source: Based on data from Bloomberg LP.

Figure 5: Investor Profile across Bond Categories



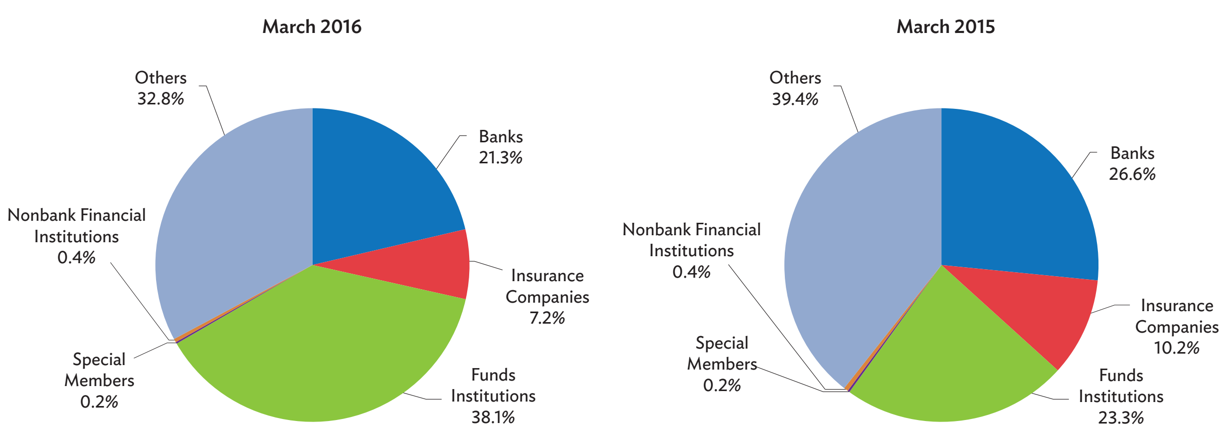
MTNs = medium-term notes.
Note: Data as of end-March 2016.
Source: *ChinaBond*.

Figure 3: Local Currency Treasury Bonds and Policy Bank Bonds Investor Profile



Source: *ChinaBond*.

Figure 4: Local Currency Corporate Bonds Investor Profile



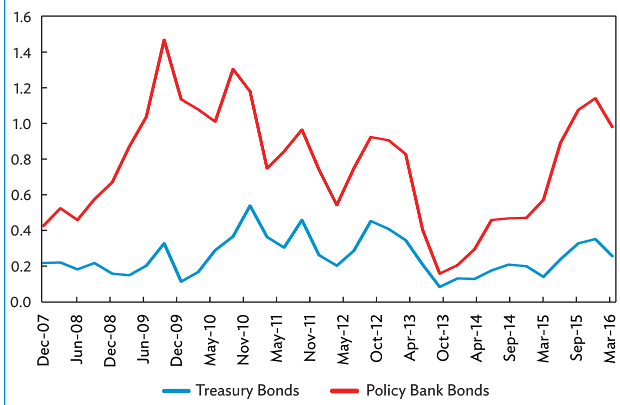
Source: *ChinaBond*.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in Q1 2016

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Percentage of Total Notional Amount (%)	Growth Rate (%)
	Q1 2016		q-o-q
7-Day Repo Rate	1,644.6	81.75	(16.95)
Overnight SHIBOR	120.3	5.98	(24.86)
3-Month SHIBOR	234.1	11.64	22.49
1-Year Term Deposit Rate	5.7	0.28	11.36
LIBOR	0.0	0.00	0.00
1-Year Lending Rate	6.4	0.32	(79.81)
LPR1Y	0.3	0.01	(55.99)
3-Year Lending Rate	0.4	0.02	0.00
5-Year Lending Rate	0.0	0.00	0.00
Total	**2,011.8**	**100.00**	**(15.08)**

( ) = negative, CNY = Chinese yuan, LIBOR = London Interbank Offered Rate, q-o-q = quarter-on-quarter, Q1 = first quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *AsianBondsOnline* and *ChinaMoney*.

Figure 6: Turnover Ratios for Government Bonds



Source: *ChinaBond*.

Policy, Institutional, and Regulatory Developments

People's Bank of China Reduces Reserve Requirement Ratios

In March, the PBOC lowered the reserve requirement ratios of financial institutions by 50 bps. For large banks, the changes resulted in a reserve requirement ratio of 17.0%.

Value-Added Tax Applied to Financial Transactions

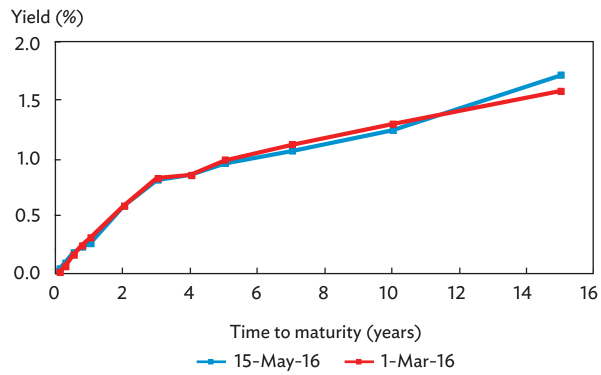
On 23 March, the PRC issued guidelines for the new VAT. Under the plan, the PRC will shift from levying a business tax on certain transactions and industries to a VAT-based one. The financial industry is one of the sectors affected, with interest income from loans and other income to be subject to a 6.0% VAT instead of a 5.5% business tax.

Hong Kong, China

Yield Movements

Between 1 March and 15 May, Hong Kong, China's yield curve movements for Exchange Fund Bills and Notes mostly followed the movements of United States (US) Treasuries **(Figure 1)**. Yields fell for all tenors during the review period except at the very short-end and very long-end of the curve. Yields fell between 1 basis point (bp) and 6 bps for all tenors between 9-months and 10-years, with the exception of the 2-year and 4-year tenors, which remained unchanged. For bonds with tenors of less than 9 months, yields rose 2–3 bps, while the 15-year tenor rose 14 bps.

Figure 1: Hong Kong, China's Benchmark Yield Curve—Exchange Fund Bills and Notes



Source: Based on data from Bloomberg LP.

The 2-year-versus-10-year spread fell to 66 bps on 15 May from 71 bps on 1 March.

Hong Kong, China's yields were also affected by the domestic economic slowdown. Hong Kong, China's gross domestic product grew only 0.8% year-on-year (y-o-y) in the first quarter (Q1) of 2016, down from 1.9% growth in the fourth quarter (Q4) of 2015. The slowdown in gross domestic product growth was driven by both domestic and external factors. Private consumption expenditure growth slowed to 1.1% in Q1 2016 from 2.7% in the previous quarter. Exports of goods and services also declined. Exports of goods fell 3.6% y-o-y in Q1 2016 after declining 0.5% in Q4 2015. Exports of services fell 4.9% y-o-y after falling 2.7% y-o-y in the previous quarter.

Inflation in Hong Kong, China softened in the first 4 months of the year. In April, consumer price inflation fell to 2.7% y-o-y from 2.9% y-o-y in March. The slowdown in inflation was driven by slower increases in private housing rental costs and food prices.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market rose 2.1% quarter-on-quarter (q-o-q) and 7.2% y-o-y to reach HKD1,657 billion (USD214 billion) at the end of March **(Table 1)**. The q-o-q growth was

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,545**	**199**	**1,623**	**209**	**1,657**	**214**	**2.6**	**1.5**	**2.1**	**7.2**
Government	857	111	927	120	957	123	1.0	1.4	3.2	11.7
Exchange Fund Bills	686	89	770	99	800	103	0.3	0.4	4.0	16.6
Exchange Fund Notes	67	9	59	8	56	7	(3.2)	(2.3)	(3.8)	(15.2)
Government Bonds	104	13	99	13	101	13	8.2	11.1	1.6	(3.7)
Corporate	688	89	696	90	700	90	4.7	1.6	0.5	1.7

( ) = negative, HKD = Hong Kong dollar, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
Sources: Hong Kong Monetary Authority and Bloomberg LP.

mostly driven by increases in Exchange Fund Bills (EFBs) and government bonds.

EFBs outstanding gained 4.0 q-o-q in Q1 2016 on increased issuance, which rose to HKD621 billion from HKD608 billion in Q4 2015. Despite this, q-o-q growth was down in Q1 2016 from 8.2% growth in the previous quarter due to maturating EFBs.

The Hong Kong Monetary Authority (HKMA) issued EFBs in greater quantities in Q1 2016 to help mop up liquidity as depositors exchanged renminbi for Hong Kong dollars. At the end of March, renminbi deposits had fallen to CNY759 billion from CNY851 billion at the end of December.

Exchange Fund Notes (EFNs) continued to decline in Q1 2016, falling 3.8% q-o-q and 15.2% y-o-y, as HKMA sought to align the EFB and EFN markets with the Hong Kong Special Administrative Region (HKSAR) Government bond market by replacing issuances of EFNs with tenors of 3 years or more with HKSAR bonds.

In Q1 2016, the amount of HKSAR Government bonds rose 1.6% q-o-q, but fell 3.7% y-o-y due to a decline in issuance. HKMA issued a HKD1 billion 10-year HKSAR Government bond and a HKD0.6 billion 15-year HKSAR Government bond under the Institutional Bond Programme in Q1 2016. It did not issue any bonds through the Retail Bond Programme during the quarter under review.

Total corporate bonds outstanding rose 0.5% q-o-q and 1.7% y-o-y in Q1 2016.

The top 30 nonbank issuers in Hong Kong, China had outstanding LCY bonds amounting to HKD123.5 billion at the end of March, representing 17.7% of total corporate bonds outstanding. The top 30 list of issuers was dominated by real estate firms and the financing vehicles of corporates **(Table 2)**. The Hong Kong Mortgage Corporation remained the top issuer with outstanding bonds of HKD19.9 billion. Next was the Link Finance (Cayman) 2009 with HKD9.5 billion of bonds outstanding, followed by CLP Power Hong Kong Financing with HKD9.1 billion. Among the top 30, 6 were state-owned companies and 9 were Hong Kong Exchange-listed firms.

The five largest nonbank issuances in Q1 2016 came from the Hong Kong Mortgage Corporation, MTR Corporation, Hong Kong Electric Finance, China Oceanwide Institutional Finance, and Emperor International Holdings **(Table 3)**.

Policy, Institutional, and Regulatory Developments

Tentative Schedule Released for Hong Kong Special Administrative Region Government Bond Issuance in April–September

On 9 March, the Hong Kong Monetary Authority released a tentative schedule for HKSAR Government bond issuance in April through September under the Institutional Bond Issuance Programme. A 3-year HKD4.0 billion bond was issued on 13 April, a 5-year HKD2.5 billion bond was issued on 11 May, a 10-year HKD1.2 billion bond will be issued on 29 June, and a 15-year HKD0.6 billion bond will be issued on 7 September.

Table 2: 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 (USD billion)			
1.	The Hong Kong Mortgage Corporation	19.87	2.56	Yes	No	Finance
2.	The Link Finance (Cayman) 2009	9.46	1.22	No	No	Finance
3.	CLP Power Hong Kong Financing	9.11	1.18	No	No	Finance
4.	MTR Corporation (C.I.)	7.32	0.94	Yes	Yes	Transportation
5.	Sun Hung Kai Properties (Capital Market)	7.22	0.93	No	No	Real Estate
6.	HKCG (Finance)	6.68	0.86	No	No	Finance
7.	Swire Pacific	6.42	0.83	No	Yes	Diversified
8.	Hongkong Electric Finance	5.75	0.74	No	No	Finance
9.	Wharf Finance	5.05	0.65	No	No	Finance
10.	NWD (MTN)	4.51	0.58	No	Yes	Finance
11.	Wheelock Finance	4.04	0.52	No	No	Finance
12.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
13.	Urban Renewal Authority	3.30	0.43	Yes	No	Real Estate
14.	Swire Properties MTN Financing	3.00	0.39	No	No	Finance
15.	Emperor International Holdings	2.60	0.34	No	Yes	Real Estate
16.	Yue Xiu Property	2.30	0.30	No	No	Real Estate
17.	Chueng Kong Finance (MTN)	2.21	0.28	No	No	Finance
18.	Airport Authority Hong Kong	2.20	0.28	Yes	No	Transportation
19.	Tencent Holdings	2.20	0.28	No	Yes	Communications
20.	Bohai International Capital	2.00	0.26	No	No	Iron and Steel
21.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
22.	Hong Kong Science and Technology Parks	1.95	0.25	Yes	No	Real Estate
23.	Cathay Pacific MTN Financing	1.71	0.22	No	Yes	Finance
24.	Wharf Finance (No. 1)	1.70	0.22	No	No	Finance
25.	Hysan (MTN)	1.65	0.21	No	Yes	Real Estate
26.	Nan Fung Treasury	1.40	0.18	No	No	Real Estate
27.	Henderson Land MTN	1.31	0.17	No	Yes	Finance
28.	Cheung Kong Bond Securities (02)	1.19	0.15	No	No	Finance
29.	Dragon Drays	1.00	0.13	No	No	Diversified
30.	K. Wah International	1.00	0.13	No	Yes	Real Estate
Total Top 30 Nonbank LCY Corporate Issuers		**123.51**	**15.94**			
Total LCY Corporate Bonds		**699.62**	**90.27**			
Top 30 as % of Total LCY Corporate Bonds		**17.7%**	**17.7%**			

LCY = local currency.
Notes:
1. Data as of end-March 2016.
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.

Table 3: Notable Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
The Hong Kong Mortgage Corporation		
3-year bond	0.00	0.78
MTR Corporation (C.I.)		
25-year bond	2.95	0.40
30-year bond	3.00	0.70
35-year bond	3.00	0.20
35-year bond	3.00	0.60
Hong Kong Electric Finance		
15-year bond	2.80	0.60
15-year bond	3.00	0.50
China Oceanwide International Finance		
3-year bond	8.50	0.50
Emperor International Holdings		
5-year bond	4.40	0.50
The Hong Kong Mortgage Corporation		
3-year bond	1.25	0.78

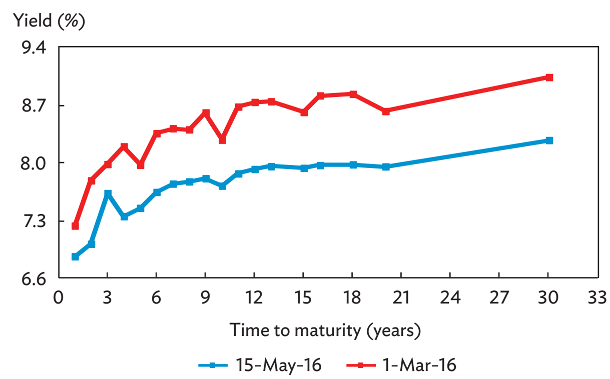
HKD = Hong Kong dollar, Q1 = first quarter.
Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.

Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia fell for all tenors between 1 March and 15 May, which resulted in the entire yield curve shifting downward **(Figure 1)**. Except for the 1-year and 3-year maturities, where yields fell 37 basis points (bps) and 35 bps, respectively, all other tenors shed an average of 73 bps. The spread between the 2-year and 10-year tenors widened to 71 bps on 15 May from 49 bps on 1 March.

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



Source: Based on data from Bloomberg LP.

The fall in yields was reflective of positive sentiments in the Indonesian LCY bond market on account of Bank Indonesia's easing of its monetary policy, slowing inflation, and the strengthening of the Indonesian rupiah. Combined with sluggish and still weak growth expectations in the external environment, this resulted in an overall decline in yields.

Bank Indonesia reduced its benchmark interest rate by a cumulative 75 bps between January and March. The central bank in its Board of Governors meetings held on 20–21 April and 18–19 May, however, took a pause and held steady its benchmark interest rate at 6.75%. Bank Indonesia kept unchanged the deposit facility rate at 4.75% and the lending facility rate at 7.25%. The central bank also maintained the 7-day repo rate at 5.5%, which will become the new policy rate effective 19 August 2016.

Inflationary pressures eased on account of reductions in electricity tariffs, airfare costs, and nonsubsidized fuel costs. Food prices also declined amid adequate supplies coinciding with the harvest season. Consumer price inflation eased to 3.6% year-on-year (y-o-y) in April, after climbing to 4.1% y-o-y in January, 4.4% y-o-y in February, and 4.5% y-o-y in March. Bank Indonesia expects inflation for full-year 2016 to remain within its target range of 3.0%–5.0%.

The Indonesian rupiah appreciated 3.7% year-to-date against the US dollar through 15 May, supported by a steady inflow of foreign funds and an increased supply of foreign exchange among corporate entities.

Economic growth in Indonesia was lower than expected in the first quarter (Q1) of 2016, as real gross domestic product (GDP) growth slowed to 4.9% y-o-y from 5.0% y-o-y in the fourth quarter (Q4) of 2015. Domestic consumption, which accounts for about 58% of GDP, rose 4.9% y-o-y, while government spending expanded 2.9% y-o-y. Investments climbed 5.6% y-o-y in Q1 2016, while both exports and imports contracted during the quarter in review. On a quarter-on-quarter basis, GDP contracted 0.3% in Q1 2016.

Size and Composition

Indonesia's LCY bond market continued to expand in Q1 of 2016 to reach a size of IDR1,903.6 trillion (USD144 billion) at the end of March **(Table 1)**. Total outstanding bonds rose 8.8% quarter-on-quarter (q-o-q) and 16.8% y-o-y in Q1 2016, both of which were up compared with Q4 2015. Conventional bonds continued to account for the bulk of the aggregate bond stock with a share of 88.4% at the end of March. At the same time, *sukuk* (Islamic bonds) increased their share of the total bond stock in Q1 2016 to 11.6% from 10.0% in Q4 2015.

Government Bonds. At the end of March, the outstanding amount of government bonds stood at IDR1,649.7 trillion on growth of 9.9% q-o-q and 17.7% y-o-y. Growth came largely from a larger increase in the stock of central government bonds, comprising Treasury bills and bonds issued by the Ministry of Finance. Central bank bills, known as *Sertifikat* Bank Indonesia (SBI), also recorded positive growth during the review period.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,629,143**	**125**	**1,750,306**	**127**	**1,903,610**	**144**	**6.5**	**16.5**	**8.8**	**16.8**
Government	1,401,586	107	1,500,426	109	1,649,687	125	7.2	18.6	9.9	17.7
Central Govt. Bonds	1,305,486	100	1,461,846	106	1,575,115	119	7.9	21.7	7.7	20.7
of which: *Sukuk*	145,229	11	159,236	12	204,222	15	31.2	50.1	28.3	40.6
Central Bank Bills	96,100	7	38,580	3	74,572	6	(1.0)	(11.7)	93.3	(22.4)
of which: *Sukuk*	8,810	0.7	6,280	0.5	7,038	0.5	8.4	63.8	12.1	(20.1)
Corporate	227,557	17	249,880	18	253,923	19	2.1	4.7	1.6	11.6
of which: *Sukuk*	7,078	0.5	9,802	0.7	9,216	0.7	(0.4)	(1.6)	(6.0)	30.2

( ) = negative, IDR = Indonesian rupiah, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. The total stock of nontradable bonds as of end-March stood at IDR261.8 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; Otoritas Jasa Keuangan; and Bloomberg LP.

Central Government Bonds. The stock of Treasury bills and bonds climbed to IDR1,575.1 trillion at the end of March, posting 7.7% q-o-q and 20.7% y-o-y growth, on increased bond issuance during the quarter in review. Growth stemmed from increases in the stock of conventional fixed-rate bonds and Treasury bills and Islamic Treasury instruments, particularly Islamic Treasury bills and project-based *sukuk*.

As the Government of Indonesia continued to pursue its policy of debt issuance frontloading, central government bond issuance increased on both a q-o-q and y-o-y basis in Q1 2016. New issuance of Treasury bills and bonds climbed to IDR160.1 trillion in the first 3 months of the year. Of this amount, IDR128.6 trillion was raised from the government's weekly auctions of conventional and Islamic Treasury instruments, and IDR31.5 trillion was raised through bookbuilding from the issuance of retail *sukuk* in March, which marked the largest issuance of such bonds since their first offering in 2009.

The government accepted more than its targeted amount in 10 of the 13 auctions held in Q1 2016. Of the 13 auctions, only one auction fell below the government's target amount. All auctions for *sukuk* were successfully placed and either fully awarded or above target.

The government plans to issue a total of IDR546.6 trillion in government bonds, including foreign-currency-denominated bonds, to help fund its budget shortfall. The 2016 budget deficit is estimated to reach IDR273.2 trillion, which is equivalent to 2.15% of gross domestic product. The government is planning to issue 76% of its gross issuance target through conventional bonds; the remaining 24% will comprise *sukuk*. The government also capped foreign currency bond issuance at 30% of the gross issuance target for the year.

Central Bank Bills. The outstanding stock of central bank bills, or SBI, rose to IDR74.6 trillion at the end of March, up 93.3% q-o-q but down 22.4% y-o-y. Bank Indonesia issues SBI as one of its monetary policy tools to mop up excess liquidity in the market.

In Q1 2016, the issuance of SBI climbed to IDR38.2 trillion, up on both a q-o-q and y-o-y basis. Bank Indonesia conducts monthly auctions of SBI with maturities of 9 months and 1 year that comprise conventional and *shari'ah*-compliant SBI.

Corporate Bonds. The outstanding amount of Indonesia's LCY corporate bonds reached IDR253.9 trillion at the end of March on growth of 1.6% q-o-q and 11.6% y-o-y. Corporate bonds accounted for only 13.3% of the aggregate LCY bond stock at the end of March. The corporate bond segment remains dominated by conventional bond issues, which represent a 96.4% share of the total corporate total. Corporate *sukuk* accounted for only 3.6% of Indonesia's total LCY corporate bond stock at the end of March.

The top 30 LCY corporate bond issuers in Indonesia, which are presented in **Table 2**, had aggregate outstanding bonds valued at IDR193.2 trillion at the end of March, accounting for a 76.1% share of the total LCY corporate bond stock. Eleven state-owned firms were on the list, six of which landed among the top 10 in terms of size. Most firms on the top 30 list came from the banking and financial sectors. Also included on the list were capital-intensive industries such as energy, telecommunications, and property and real estate, among others.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Indonesia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (IDR billion)	LCY Bonds (USD billion)			
1.	Indonesia Eximbank	25,040	1.89	Yes	No	Banking
2.	PLN	13,268	1.00	Yes	No	Energy
3.	Indosat	11,642	0.88	No	Yes	Telecommunications
4.	Bank Tabungan Negara	10,950	0.83	Yes	Yes	Banking
5.	Adira Dinamika Multifinance	10,198	0.77	No	Yes	Finance
6.	Telekomunikasi Indonesia	8,995	0.68	Yes	Yes	Telecommunications
7.	Astra Sedaya Finance	8,345	0.63	No	No	Finance
8.	Perum Pegadaian	7,959	0.60	Yes	No	Finance
9.	Bank Rakyat Indonesia	7,650	0.58	Yes	Yes	Banking
10.	Bank Internasional Indonesia	7,380	0.56	No	Yes	Banking
11.	Federal International Finance	6,935	0.52	No	No	Finance
12.	Bank CIMB Niaga	6,865	0.52	No	Yes	Banking
13.	Bank Permata	6,482	0.49	No	Yes	Banking
14.	Jasa Marga	5,900	0.45	Yes	Yes	Toll Roads, Airports, and Harbors
15.	Bank Pan Indonesia	5,460	0.41	No	Yes	Banking
16.	Sarana Multigriya Finansial	5,296	0.40	Yes	No	Finance
17.	Agung Podomoro Land	4,575	0.35	No	Yes	Property and Real Estate
18.	Toyota Astra Financial Services	4,489	0.34	No	No	Finance
19.	Indomobil Finance Indonesia	4,059	0.31	No	No	Finance
20.	Indofood Sukses Makmur	4,000	0.30	No	Yes	Food and Beverages
21.	Bank Mandiri	3,500	0.26	Yes	Yes	Banking
22.	Medco-Energi International	3,500	0.26	No	Yes	Petroleum and Natural Gas
23.	Antam	3,000	0.23	Yes	Yes	Mining
24.	Bank OCBC NISP	2,785	0.21	No	Yes	Banking
25.	Waskita Karya	2,675	0.20	Yes	Yes	Building Construction
26.	Bumi Serpong Damai	2,665	0.20	No	Yes	Property and Real Estate
27.	Bank UOB Indonesia	2,500	0.19	No	No	Banking
28.	Summarecon Agung	2,500	0.19	No	Yes	Property and Real Estate
29.	Wahana Ottomitra Multiartha	2,303	0.17	No	Yes	Finance
30.	Bank Tabungan Pensiunan Nasional	2,260	0.17	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**193,176**	**14.59**			
Total LCY Corporate Bonds		**253,923**	**19.18**			
Top 30 as % of Total LCY Corporate Bonds		**76.1%**	**76.1%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of end-March 2016.
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.

The largest corporate bond issuer in Indonesia remained state-owned lender Indonesia Eximbank with bonds valued at IDR25.0 trillion at the end of March. In the second spot was state-owned energy firm PLN with an outstanding bond stock of IDR13.3 trillion. In the third spot was Indosat, a telecommunications company with bonds valued at IDR11.6 trillion.

In Q1 2016, new corporate debt issues totaled IDR13.8 trillion, up 30.1% q-o-q and 12.2% y-o-y. Only eight firms tapped the bond market for their funding requirements in Q1 2016, all of which came from the banking and financial sectors. A total of 20 new bond series were issued during the quarter, including one series of *sukuk mudharabah* (profit-sharing bonds) by Bank Nagari. Some of the largest corporate issuers in Q1 2016 are presented in **Table 3**. The largest corporate issuance came from Bank Rakyat Indonesia's multi-tranche bond sale worth IDR4.7 trillion. Indonesia Eximbank also added IDR4.0 trillion to its bond stock.

In terms of maturity, most of the new corporate debt issued in Q1 2016 was short-dated. About 13 out of the 20 new bond series during the quarter carried maturities of between more than 1 year and 3 years. The longest-dated was a bond series carrying a 7-year maturity. The rest of the new issues comprised one bond series with a maturity of 4 years and five bond series with a maturity of 5 years.

Table 3: Notable Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Rakyat Indonesia		
370-day bond	8.50	808
3-year bond	9.25	1,019
5-year bond	9.60	2,824
Indonesia Eximbank		
370-day bond	8.50	657
3-year bond	9.25	1,647
5-year bond	9.60	1,732
Indomobil Finance		
370-day bond	9.60	592
3-year bond	10.50	444
4-year bond	10.65	464
Adira Finance		
370-day bond	8.75	73
3-year bond	9.50	331
5-year bond	10.25	698
BFI Finance		
370-day bond	9.75	200
3-year bond	10.25	142
5-year bond	10.75	658

IDR = Indonesian rupiah, Q1 = first quarter.
Source: Indonesia Stock Exchange.

Foreign Currency Bonds. In March, the Indonesian government raised USD2.5 billion from a dual-tranche sale of USD-denominated *sukuk.* The bond sale comprised USD750 million of 5-year *sukuk* and USD1.75 billion of 10-year *sukuk.* The 5-year *sukuk* was priced at par with a profit rate of 3.4% and the 10-year *sukuk* was priced at par with a profit rate of 4.55%. The *sukuk* was well received with the order book reaching USD2.1 billion for the 5-year tranche and USD5.6 billion for the 10-year tranche.

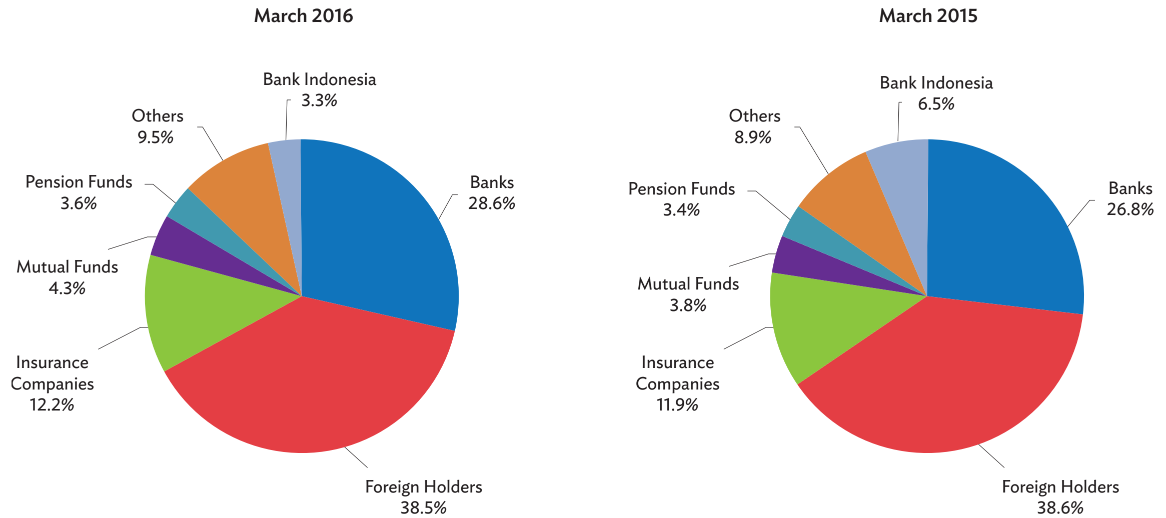
Also, Bank Indonesia issued a total of USD2.0 billion from the sale of USD-denominated foreign exchange (FX) bills between January to April. These FX bills are short-term tradable debt instruments issued in foreign currency (mostly in USD) by Bank Indonesia. The issuance of which is part of Bank Indonesia's measures to help stabilize IDR–USD exchange rate, and to strengthen foreign exchange reserves. Bank Indonesia first issued these FX bills in December 2015. Bank Indonesia will be issuing these USD-denominated FX bills regularly with tenors of between 1 month and 12 months.

Investor Profiles

Central Government Bonds. Foreign investors remained the largest holder of Indonesian LCY government bonds at the end of March **(Figure 2)**. Foreign investors accounted for a share of 38.5% of the central government total, which was broadly comparable to their share of 38.6% in the same period a year earlier. In absolute terms, overseas investors held IDR606.1 trillion worth of government bonds at the end of March. Foreign investors include nonresident private banks, fund and asset managers, securities firm, and insurance companies and pension funds, among others. These foreign institutions remain attracted to Indonesian LCY government bonds by their yields, the highest among emerging East Asian markets. In addition, 7.1% of Indonesian LCY government bonds are held by foreign governments and central banks as part of their foreign exchange reserves.

At the end of March, most foreign investors remained positioned at the long-end of the yield curve. Nearly

Figure 2: Local Currency Central Government Bonds Investor Profile

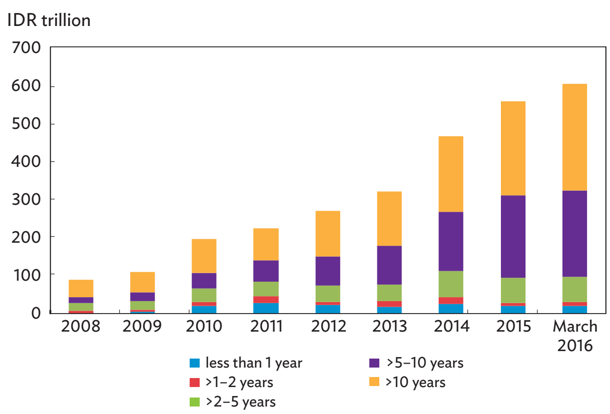


Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

47% of foreign investor holdings were placed in long-dated maturities (more than 10 years), while 37.5% of their holdings were in medium-dated tenors (5 years to 10 years) **(Figure 3)**. Bonds with maturities of between more than 2 years and 5 years accounted for 10.8% of their holdings. Short-dated tenors (2 years or less) accounted for less than 5.0% of their aggregate holdings.

Banking institutions were the second largest holders of Indonesian central government bonds in Q1 2016. At the end of March, banks accounted for a 28.6% share compared with a share of 26.8% a year earlier. Insurance companies increased their holdings of central government bonds to 12.2% in Q1 2016 from 11.9% in Q4 2015. Other nonbank investors particularly mutual funds, pension funds, and other investors, also increased their holdings of central government bonds in Q1 2016, but their respective shares of the total remained small at less than 10.0%.

Figure 3: Foreign Holdings of Local Currency Central Government Bonds by Maturity



IDR = Indonesian rupiah.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

On the other hand, Bank Indonesia's holdings of central government bonds dropped by about one-half to 3.3% of the total at the end of March from 6.5% a year earlier.

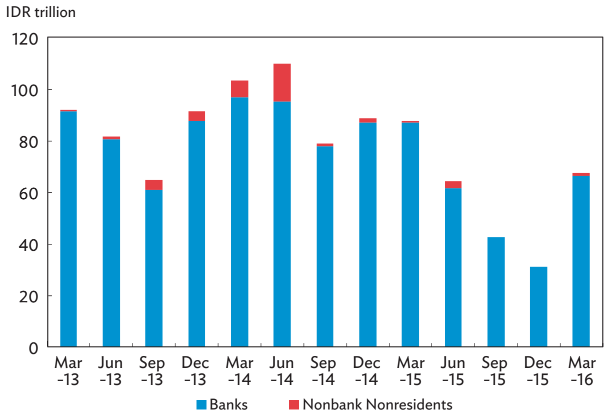
Central Bank Bills. The stock of central bank bills, or SBI, was mostly held by banking institutions at the end of March with a share of 98.7% **(Figure 4)**.

Ratings Update

In April, Ratings and Investment Information (R&I) affirmed Indonesia's sovereign credit rating at BBB– with a stable outlook. R&I took note of the following factors for its decision: (i) solid economic growth, (ii) a restrained budget deficit and healthy public debt levels, (iii) sound banking sector balance sheets, and (iv) the economy's resilience to external shocks.

Also in April, RAM Rating Services Berhad (RAM) affirmed its ratings for Indonesia at gBBB2(pi) with a stable outlook. According to RAM, the rating is reflective

Figure 4: Local Currency Central Bank Bills Investor Profile



IDR = Indonesian rupiah.
Notes:
1. For end-September and end-December 2015, nonresidents had no holdings of *Sertifikat* Bank Indonesia (SBI).
2. For end-March 2016, nonresidents held IDR0.9 trillion of SBI.
Source: Bank Indonesia.

of expected modest economic growth for Indonesia and commendable fiscal position.

In May, Fitch Ratings (Fitch) affirmed Indonesia's sovereign credit ratings at BBB- with a stable outlook. Fitch cited Indonesia's low government debt burden, favorable growth outlook, and limited sovereign exposure to banking sector risks as the key factors for its decision.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Allows Islamic Banks to Hedge Foreign Exchange Risk

Bank Indonesia issued a new regulation allowing Islamic banks to engage in hedging activities. The rule, which took effect on 26 February, will allow Islamic banks to hedge their foreign exchange risks. Bank Indonesia expects that the new regulation will contribute to the further development of Islamic-based financial markets.

Bank Indonesia to Shift Policy Rate to 7-Day Repo Rate

On 15 April, Bank Indonesia announced that it would shift its policy rate from the reference rate to the 7-day repo rate. According to the Governor of Bank Indonesia, "the move aims to improve the effectiveness of monetary policy transmission." The move to the new policy rate will take effect on 19 August.

Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea fell for most tenors between 1 March and 15 May. Bonds with yields of less than 1 year up to 10 years registered declines, while yields increased for 20-year and 30-year tenors **(Figure 1)**. The yield spread between the 2-year and 10-year tenors fell 2 basis points.

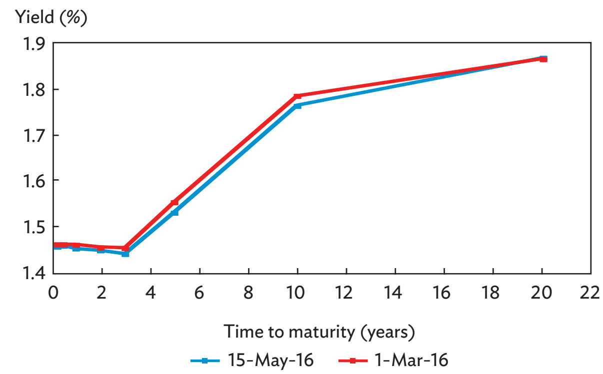
The policy interest rate in the Republic of Korea remained unchanged in the first 5 months of 2016, with the Bank of Korea's Monetary Policy Board deciding to maintain the base rate at 1.50% in meetings held on 14 January, 16 February, 10 March, 19 April, and 13 May.

The Republic of Korea's real gross domestic product (GDP) growth decelerated to 2.8% year-on-year (y-o-y) in the first quarter (Q1) of 2016 from 3.1% y-o-y in the fourth quarter (Q4) of 2015, according to the Bank of Korea's preliminary estimates released in April. The growth slowdown in Q1 2016 was due to a moderation in y-o-y increases in final consumption expenditure, gross fixed capital formation, and exports and imports of goods and services on the expenditure side; and a slackening in y-o-y output growth in the manufacturing, services, and utilities sectors on the production side. On a seasonally adjusted basis, real GDP growth slowed to 0.5% quarter-on-quarter (q-o-q) in Q1 2016 from 0.7% q-o-q in Q4 2015.

Consumer price inflation in the Republic of Korea hovered around 1.0% in the first 4 months of the year, with the y-o-y inflation rate at 0.8% in January, 1.3% in February, and 1.0% in both March and April. The month-on-month (m-o-m) inflation rate registered 0.0% in January, 0.5% in February, –0.3% in March, and 0.1% in April.

The Bank of Korea reported in April that it had revised downward its 2016 economic outlook for the Republic of Korea, lowering its annual GDP growth forecast to 2.8% from a previous projection of 3.0% made in January. The central bank also lowered its 2016 forecast for headline consumer price inflation to 1.2% from 1.4%.

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



Source: Based on data from Bloomberg LP.

Size and Composition

The Republic of Korea's LCY bond market size continued to grow in Q1 2016, with the outstanding bond stock climbing 1.2% q-o-q and 7.6% y-o-y to reach KRW2,044.4 trillion (USD1,788 trillion) at the end of March **(Table 1)**. In the LCY government bond market, the amount of outstanding bonds rose 2.1% q-o-q and 6.3% y-o-y to KRW839.6 trillion, led by relatively strong growth in central government bonds. The issuance of LCY government bonds in Q1 2016 stood at KRW86.4 trillion, up 2.6% q-o-q amid quarterly increases in the issuance of both central bank and central government bonds. LCY government bond issuance was down 5.4% y-o-y due to a relatively sharp decline in central bank bond issues.

In the LCY corporate bond market, the outstanding stock of bonds rose 0.5% q-o-q and 8.5% y-o-y in Q1 2016, reaching a total of KRW1,204.8 trillion at the end of March. In contrast, issuance of LCY corporate bonds fell 15.2% q-o-q and 12.7% y-o-y to KRW88.5 trillion in Q1 2016.

The top 30 issuers of LCY corporate bonds had a cumulative outstanding bond stock worth KRW775.7 trillion at the end of March, constituting about 64% of the total LCY corporate bond market **(Table 2)**.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,900,194**	**1,712**	**2,020,522**	**1,720**	**2,044,415**	**1,788**	**2.3**	**8.3**	**1.2**	**7.6**
Government	789,741	712	821,993	700	839,618	734	3.2	16.7	2.1	6.3
Central Bank Bonds	184,940	167	180,930	154	181,390	159	3.9	8.3	0.3	(1.9)
Central Government Bonds	513,685	463	548,724	467	566,919	496	3.8	10.1	3.3	10.4
Industrial Finance Debentures	91,116	82	92,340	79	91,309	80	(1.0)	132.3	(1.1)	0.2
Corporate	1,110,453	1,001	1,198,529	1,020	1,204,797	1,054	1.6	3.0	0.5	8.5

( ) = negative, KRW = Korean won, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency 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.

Korea Housing Finance Corporation continued to be the largest issuer of LCY corporate bonds. Five of the most notable LCY corporate bonds issued in Q1 2016 were short-term bonds issued by two domestic banks **(Table 3)**.

Investor Profile

Insurance companies and pension funds remained the largest investor group in the Republic of Korea's LCY government bond market, accounting for a combined 32.6% share of the total market at the end of 2015 **(Figure 2)**. Insurance companies and pension funds also had the largest y-o-y increase in the share of LCY government bond holdings among all investor groups. Nonfinancial corporations had the smallest share of LCY government bond holdings among all investor groups at the end of 2015, comprising only 0.6% of the market.

Insurance companies and pension funds were also the largest investor group in the LCY corporate bond market at the end of 2015, with a 37.3% share of the market, and recorded the fastest rate of annual growth in the share of holdings among all investor groups **(Figure 3)**. Foreign investors held the smallest share of the LCY corporate bond market at the end of December at only 0.2%.

Foreign investors' net LCY bond sales in the Republic of Korea soared to KRW4,149 billion in Q1 2016 from KRW605 billion in Q4 2015, largely driven by net bond sales of KRW487 billion in January and KRW4,232 billion in February. In March and April, on the other hand, foreign investors were responsible for net bond investments totaling KRW570 billion and KRW631 billion, respectively **(Figure 4)**.

Ratings Update

Fitch Ratings (Fitch) announced in February that it had affirmed the Republic of Korea's long-term foreign currency (FCY) issuer default rating at AA– and its long-term LCY issuer default rating at AA, with a stable outlook for both. The rating agency also affirmed the Republic of Korea's senior unsecured FCY- and LCY-denominated bonds at AA– and AA, respectively. Fitch stated that its rating decision was based on its assessment of the Republic of Korea as having a strong macroeconomic environment and robust external finances. These factors were balanced by the Republic of Korea's geopolitical risk and low gross domestic product per capita relative to its peers.

Policy, Institutional, and Regulatory Developments

Financial Services Commission to Invigorate Financial Advisory Services

The Republic of Korea's Financial Services Commission (FSC) announced in March its plan to amend regulations to invigorate the Republic of Korea's financial advisory services sector. The FSC will amend the Enforcement Decree of the Financial Investment Services and Capital Markets Act in the first half of 2016 in order to create a new registration category for financial advisers covering certain types of financial products—such as derivative-

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

	Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
		LCY Bonds (KRW billion)	LCY Bonds (USD billion)		KOSPI	KOSDAQ	
1.	Korea Housing Finance Corporation	94,178	82.4	Yes	No	No	Housing Finance
2.	NH Investment & Securities	59,371	51.9	Yes	Yes	No	Securities
3.	KDB Daewoo Securities	56,470	49.4	Yes	Yes	No	Securities
4.	Korea Land & Housing Corporation	52,275	45.7	Yes	No	No	Real Estate
5.	Korea Investment and Securities	48,658	42.6	No	No	No	Securities
6.	Mirae Asset Securities	40,652	35.6	No	Yes	No	Securities
7.	Industrial Bank of Korea	39,543	34.6	Yes	Yes	No	Banking
8.	Hana Financial Investment	34,900	30.5	No	No	No	Securities
9.	Korea Deposit Insurance Corporation	31,230	27.3	Yes	No	No	Insurance
10.	Korea Electric Power Corporation	25,030	21.9	Yes	Yes	No	Electricity, Energy, and Power
11.	Hyundai Securities	22,905	20.0	No	No	No	Securities
12.	Korea Expressway	22,620	19.8	Yes	No	No	Transport Infrastructure
13.	Korea Rail Network Authority	19,390	17.0	Yes	No	No	Transport Infrastructure
14.	Kookmin Bank	18,497	16.2	No	No	No	Banking
15.	Shinhan Bank	18,423	16.1	No	No	No	Banking
16.	Samsung Securities	17,682	15.5	No	Yes	No	Securities
17.	Woori Bank	16,715	14.6	Yes	Yes	No	Banking
18.	Daishin Securities	16,345	14.3	No	Yes	No	Securities
19.	Korea Gas	15,499	13.6	Yes	Yes	No	Gas Utility
20.	NongHyup Bank	14,800	12.9	Yes	No	No	Banking
21.	Small & medium Business Corporation	13,830	12.1	Yes	No	No	SME Development
22.	Korea Eximbank	12,750	11.2	Yes	No	No	Banking
23.	Standard Chartered First Bank Korea	12,120	10.6	No	No	No	Banking
24.	Korea Student Aid Foundation	12,020	10.5	Yes	No	No	Student Loan
25.	K-Water	10,594	9.3	Yes	No	No	Water
26.	Hyundai Capital Services	10,499	9.2	No	No	No	Consumer Finance
27.	Shinhan Card	9,889	8.6	No	No	No	Credit Card
28.	Korea Railroad Corporation	9,820	8.6	Yes	No	No	Transport Infrastructure
29.	Shinyoung Securities	9,801	8.6	No	Yes	No	Securities
30.	NongHyup	9,190	8.0	Yes	No	No	Financial
Total Top 30 LCY Corporate Issuers		**775,696.0**	**678.4**				
Total LCY Corporate Bonds		**1,204,797.0**	**1,053.7**				
Top 30 as % of Total LCY Corporate Bonds		**64.4%**	**64.4%**				

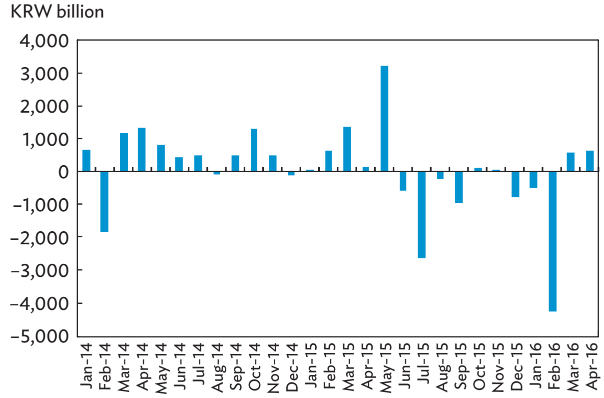
KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, KRW = Korean won, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of end-March 2016.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

Table 3: Notable Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
NongHyup Bank		
0.25-year bond	1.55	770
0.25-year bond	1.54	450
0.5-year bond	1.54	460
1-year bond	1.55	750
Industrial Bank of Korea		
1-year bond	1.54	550

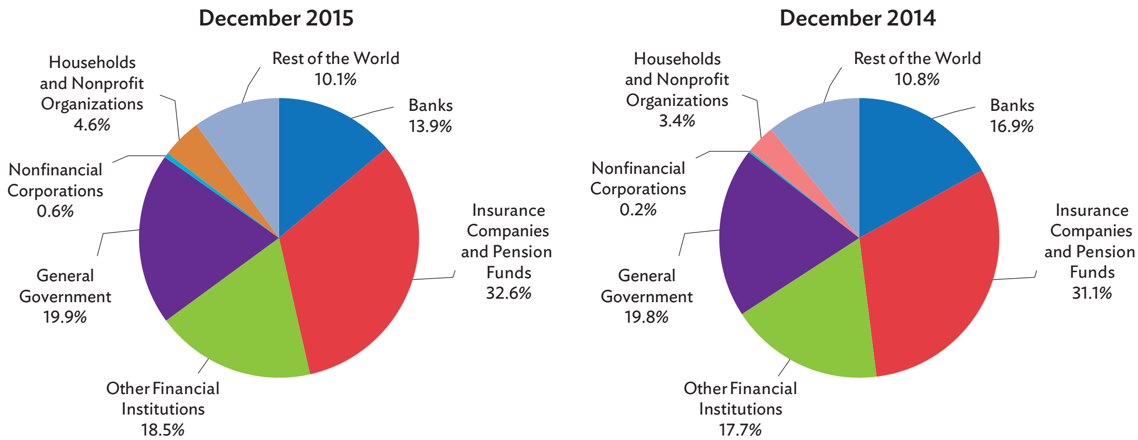
KRW = Korean won, Q1 = first quarter.
Note: Coupon rates for the bonds of NongHyup Bank and Industrial Bank of Korea are indicative yields as of end-March 2016.
Source: Based on data from Bloomberg LP.

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



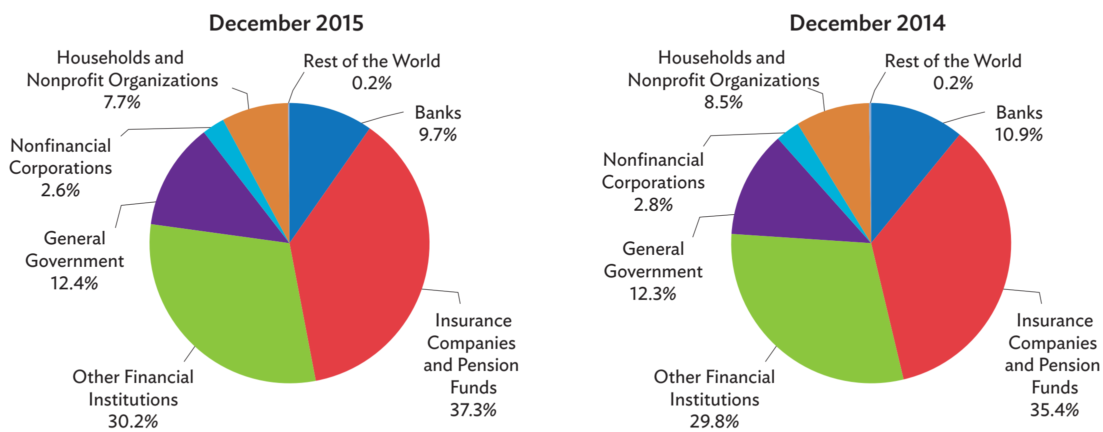
KRW = Korean won.
Source: Financial Supervisory Service.

Figure 2: Local Currency Government Bonds Investor Profile



Sources: *AsianBondsOnline* and The Bank of Korea.

Figure 3: Local Currency Corporate Bonds Investor Profile



Sources: *AsianBondsOnline* and The Bank of Korea.

linked securities, funds, and savings products—and to lower their capital requirements to KRW100 million from KRW500 million. Planned amendments to the Financial Investment Services and Capital Markets Act are also aimed at allowing eligible “robo-advisors” to directly render front-office services to their clients. The FSC has plans to (i) propose amendments to the Regulation on Financial Investment Business that will introduce detailed requirements for Independent Financial Advisers, and (ii) create best practice guidelines for financial advisory providers for investor protection purposes.

Financial Services Commission Outlines Corporate Restructuring Plan

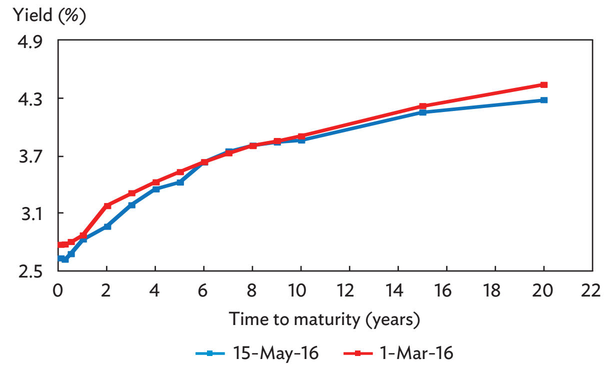
The FSC announced its corporate restructuring plan in April, focusing on financially distressed firms and vulnerable sectors. The plan has three tracks that focus on (i) cyclically vulnerable sectors such as the shipbuilding and shipping industries, (ii) main debtor groups and individual companies, and (iii) oversupplied sectors such as the petrochemical and steel industries.

Malaysia

Yield Movements

Between 1 March and 15 May, Malaysian local currency (LCY) government bond yields fell for most tenors, particularly at the short-end of the curve, amid market expectations that the United States (US) Federal Reserve would delay further increases in its policy rate **(Figure 1)**. Yields for tenors between 1 month and 6 months fell between 13 basis points (bps) and 16 bps, and yields for tenors between 1 year and 5 years fell 4–22 bps. Yields for bonds with tenors of between 9 years and 20 years fell 2–16 bps. The 2-year versus 10-year spread rose from 73 bps to 90 bps.

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



Source: Based on data from Bloomberg LP.

Declining yields were also reflective of renewed investor confidence in the Malaysian local bond market and the Malaysian ringgit. The rebound in oil prices since the start of the year provided support to the domestic bond market and the local currency. However, the fall in yields and the appreciation of the Malaysian ringgit were capped during the latter part of April amid reports of 1Malaysia Development Berhad's (1MDB) nonpayment of interest due to bondholders.

The Malaysian ringgit appreciated 6.1% year-to-date through 15 May, reaching a high of MYR3.87–USD1 on 20 April, after depreciating 22.8% in full-year 2015. Data from Bank Negara Malaysia (BNM) also showed a surge in foreign holdings of central government debt securities in the first 4 months of the year to MYR199 billion in April from MYR179 billion in January.

Inflation inched up in the first 2 months of the year to 4.2% year-on-year (y-o-y) in February, before easing to 2.6% y-o-y in March and further to 2.1% y-o-y in April. Benign inflation allowed BNM to maintain the overnight policy rate at 3.25% at its 19 May policy meeting. Inflation is projected to trend lower in 2016 due to low energy and commodity prices. The central bank also expects Malaysia's economy to grow 4.0%–4.5% y-o-y in 2016 and will continue to be supported by strong domestic demand.

Malaysia's gross domestic product growth slowed to 4.2% y-o-y in the first quarter (Q1) of 2016 from 4.5% y-o-y in the fourth quarter (Q4) of 2015. The slower rate of expansion was due to weaker growth in gross fixed capital formation of 0.1% y-o-y in Q1 2016 compared with 2.7% y-o-y in the previous quarter. Exports also contracted 0.5% y-o-y in Q1 2016, while imports increased 1.3% y-o-y. Government spending and private final consumption expenditure both posted higher annual increases in Q1 2016 compared with the previous quarter. By sector, all industries posted annual increases except for agriculture, which contracted 3.8% y-o-y in Q1 2016 following growth of 1.5% y-o-y in Q4 2015.

Size and Composition

The Malaysian LCY bond market expanded 1.9% quarter-on-quarter (q-o-q) to MYR1,141 billion (USD293 billion) at the end of March, led by growth in the government bond sector **(Table 1)**. On a y-o-y basis, the LCY bond market rose 6.3% in Q1 2016. Government bonds outstanding totalled MYR628 billion at the end of March, while corporate bonds summed to MYR512 billion. *Sukuk* (Islamic bonds) continued to comprise the majority of the LCY bond market, with a share of 54% of total bonds outstanding at the end of March.

Government Bonds. LCY government bonds outstanding rose 2.7% on both a q-o-q and y-o-y basis to close at MYR628 billion at the end of March. The rise was solely the result of an increase in the outstanding stock of central government bonds, particularly Malaysian

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,073**	**290**	**1,119**	**261**	**1,141**	**293**	**(2.7)**	**2.1**	**1.9**	**6.3**
Government	612	165	612	142	628	161	(5.4)	(0.3)	2.7	2.7
Central Government Bonds	531	143	559	130	579	148	2.2	5.7	3.5	9.0
of which: *Sukuk*	193	52	214	50	221	57	4.0	8.4	3.0	14.2
Central Bank Bills	57	15	25	6	22	6	(46.8)	(42.3)	(12.2)	(62.3)
of which: *Sukuk*	19	5	1	0.1	0	0	(54.4)	(52.1)	(100.0)	(100.0)
Sukuk Perumahan Kerajaan	24	7	28	7	28	7	19.6	89.1	0.0	16.4
Corporate	461	125	507	118	512	131	1.0	5.4	1.0	11.1
of which: *Sukuk*	328	89	361	84	366	94	1.6	10.4	1.4	11.5

( ) = negative, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rate is used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Sukuk Perumahan Kerajaan are Islamic bonds issued by the Government of Malaysia to refinance funding for housing loans to government employees and to extend new housing loans.

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

Government Securities and Government Investment Issues.

Total government bond issuance, however, fell 23.3% q-o-q to MYR29 billion in Q1 2016 from MYR37 billion in Q4 2015, as BNM did not issue any central bank bills in the most recent quarter. There was also less issuance of Malaysian Government Securities in Q1 2016 compared with the previous quarter. Issuance of Government Investment Issues and Treasury bills, on the other hand, was up in Q1 2016.

Corporate Bonds. Total outstanding LCY corporate bonds increased 1.0% q-o-q in Q1 2016 to MYR512 billion at the end of March. The ratio of corporate *sukuk* to total corporate bonds outstanding remained steady at 71%.

Table 2 provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR281.5 billion at the end of March, representing 54.9% of the LCY corporate bond market. Financial firms, including banks, comprised 16 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR154.7 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

Issuance of corporate bonds started the year at a moderate pace as total issuance fell to MYR34 billion in Q1 2016 from MYR57 billion in Q4 2015. *Sukuk* accounted for 55.4% of total issuance, while conventional bonds registered a share of 44.6%. By type of instrument, Islamic medium-term notes had the highest share of total issuance at 34.9%, followed by conventional commercial paper with a share of 31.6%. **Table 3** lists notable corporate bond issuances in Q1 2016.

The largest corporate issuers in Q1 2016 were from government-owned entities in the financial, utilities, and transport sectors. Prasarana Malaysia Berhad, which owns the largest public transportation company in Malaysia, issued MYR3.05 billion worth of *sukuk* in five tranches with maturities ranging from 7 years to 25 years. Sime Darby, with major holdings in palm oil plantations, issued MYR2.2 billion worth of perpetual *sukuk* with a non-call option of 10 years and a profit rate of 5.65%. Pengurusan Air SPV, a water services company, issued *sukuk* comprising a MYR1 billion 7-year tranche and a MYR750 million 10-year tranche with coupon rates of 4.43% and 4.63%, respectively.

Foreign Currency Bonds. In April, the Government of Malaysia issued USD1.5 billion worth of dual-tranche US dollar *sukuk* via a special purpose vehicle, Malaysia *Sukuk* Global Berhad. The issue comprised a USD1 billion 10-year tranche and a USD500 million 30-year tranche. The 10-year and 30-year *sukuk* were priced at 3.18% and 4.08%, respectively.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Malaysia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (USD billion)			
1.	Project Lebuhraya Usahasama	30.6	7.8	No	No	Transport, Storage, and Communications
2.	Cagamas	26.1	6.7	Yes	No	Finance
3.	Danainfra Nasional	20.7	5.3	Yes	No	Finance
4.	Prasarana	20.6	5.3	Yes	No	Transport, Storage, and Communications
5.	Khazanah	20.0	5.1	Yes	No	Finance
6.	Maybank	14.9	3.8	No	Yes	Banking
7.	Pengurusan Air	14.2	3.7	Yes	No	Energy, Gas, and Water
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	11.0	2.8	Yes	No	Finance
9.	CIMB Bank	9.1	2.3	No	No	Banking
10.	Jimah East Power	9.0	2.3	Yes	No	Energy, Gas, and Water
11.	Public Bank	8.6	2.2	No	No	Banking
12.	Sarawak Energy	8.5	2.2	Yes	No	Energy, Gas, and Water
13.	Aman Sukuk	6.3	1.6	Yes	No	Construction
14.	Rantau Abang Capital	6.0	1.5	Yes	No	Finance
15.	Danga Capital	5.5	1.4	Yes	No	Finance
16.	RHB Bank	5.4	1.4	No	No	Banking
17.	Turus Pesawat	5.3	1.4	Yes	No	Transport, Storage, and Communications
18.	BGSM Management	5.1	1.3	No	No	Transport, Storage, and Communications
19.	1Malaysia Development	5.0	1.3	Yes	No	Finance
20.	Manjung Island Energy	4.9	1.2	No	No	Energy, Gas, and Water
21.	CIMB Group Holdings	4.8	1.2	Yes	No	Finance
22.	Bank Pembangunan Malaysia	4.8	1.2	Yes	No	Banking
23.	YTL Power International	4.8	1.2	No	Yes	Energy, Gas, and Water
24.	AM Bank	4.5	1.2	No	Yes	Banking
25.	Putrajaya Holdings	4.5	1.2	Yes	No	Property and Real Estate
26.	Celcom Networks	4.5	1.2	No	No	Transport, Storage, and Communications
27.	Malakoff Power	4.4	1.1	No	No	Energy, Gas, and Water
28.	Cagamas MBS	4.2	1.1	Yes	No	Finance
29.	Sime Darby	4.2	1.1	Yes	Yes	Finance
30.	Tanjung Bin Power	4.0	1.0	No	No	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers		**281.5**	**72.2**			
Total LCY Corporate Bonds		**512.3**	**131.4**			
Top 30 as % of Total LCY Corporate Bonds		**54.9%**	**54.9%**			

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of end-March 2016.
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.

Table 3 : Notable Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Prasarana		
7-year Islamic MTN	4.29	500
10-year Islamic MTN	4.47	500
15-year Islamic MTN	4.75	700
20-year Islamic MTN	4.97	600
25-year Islamic MTN	5.07	755
Sime Darby		
10-year Islamic MTN	5.65	2,200
Pengurusan Air		
7-year Islamic MTN	4.43	1,000
10-year Islamic MTN	4.63	750
Danga Capital		
10-year Islamic MTN	4.60	1,500
Cagamas		
3-year MTN	4.10	1,120
Maybank Islamic		
10-year bond	4.65	1,000

MTN = medium-term note, MYR = Malaysian ringgit, Q1 = first quarter.
Source: Bank Negara Malaysia Bond Info Hub.

Investor Profile

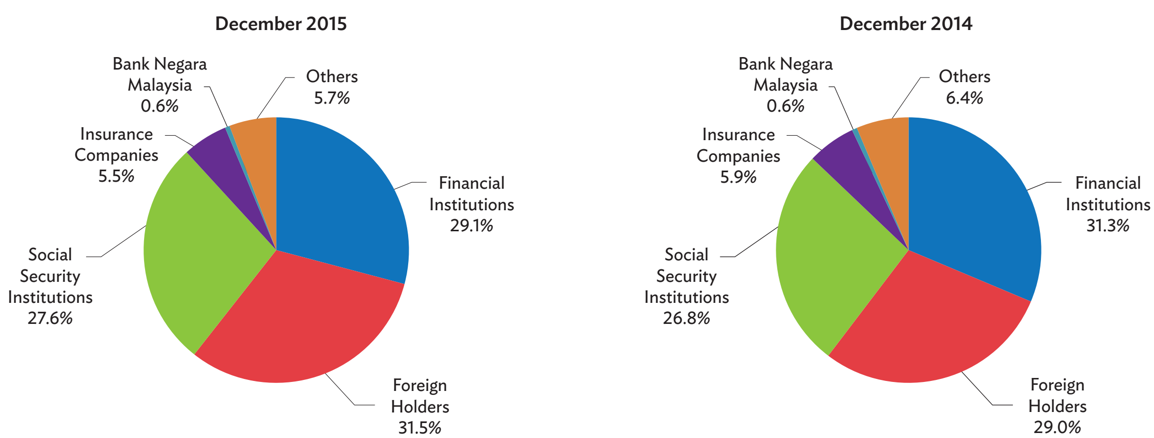
At the end of December, foreign investors comprised the largest share of the government bond market at 31.5%, surpassing financial institutions—including banks, development financial institutions, and nonbank financial institutions—whose share declined to 29.1% from 31.3% at the end of December 2014 **(Figure 2)**. Social security institutions remained the third largest holders of government bonds with a share of 27.6%, which was slightly higher than their share of 26.8% a year earlier. Meanwhile, the share of insurance companies' government bond holdings fell to 5.5% from 5.9% a year earlier.

Domestic banks (commercial and Islamic) remained the largest investor group in LCY corporate bonds at the end of March 2016 with a share of 46.5% **(Figure 3)**. Compared with March 2015, the share of domestic banks increased 1.7 percentage points, while that of foreign banks decreased 2.2 percentage points to 5.7%. Life insurance companies remained the second largest holders of LCY corporate bonds with a share of 31.8%, up from 30.6% a year earlier.

Ratings Update

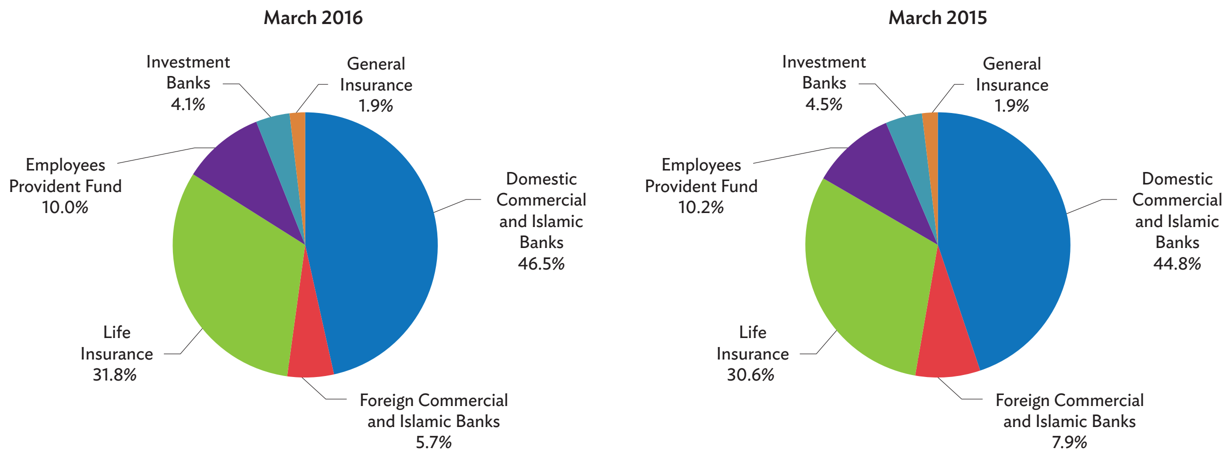
In February, Fitch Ratings (Fitch) affirmed its long-term foreign currency issuer default rating of A– and long-term local currency issuer default rating of A for Malaysia, with a stable outlook for both ratings. Fitch cited as reasons for its decision Malaysia's commitment to fiscal consolidation, the stabilization of the Malaysian ringgit and foreign reserves, and strong (despite slower) economic growth relative to its A-rated peers.

Figure 2: Local Currency Government Bonds Investor Profile



Note: "Others" include statutory bodies, nominees and trustee companies, and cooperatives and unclassified items.
Source: Bank Negara Malaysia.

Figure 3: Local Currency Corporate Bonds Investor Profile



Note: The Employees Provident Fund's bond holdings data is as of end-December 2015.
Source: Bank Negara Malaysia and Employees Provident Fund.

In March, S&P Global Ratings (S&P) affirmed its A–/A-2 foreign currency and A/A-1 local currency sovereign credit ratings for Malaysia. S&P also maintained a stable outlook on both ratings. S&P cited Malaysia's strong external position and monetary flexibility as reasons for its decision. S&P expects the Government of Malaysia to continue its policies to achieve balanced economic growth despite ongoing issues concerning 1MDB.

Policy, Institutional, and Regulatory Developments

Bank Negara Malaysia and Bank of Thailand Launch Local Currency Settlement Framework

In March, BNM and the Bank of Thailand announced the launch of a local currency settlement framework intended to promote bilateral trade between the two economies. The framework will allow Malaysian and Thai businesses greater access to local currency and other financial services in appointed banks in both markets. The framework follows a memorandum of understanding signed between the two central banks in August 2015.

Securities Commission Malaysia Introduces Regulatory Framework for Peer-to-Peer Financing Program

In April, the Securities Commission Malaysia introduced the regulatory framework for a peer-to-peer financing (P2P) program, including requirements for the registration of a P2P platform. The P2P electronic platform facilitates access to market-based financing for eligible private and unlisted companies. The framework also outlines the duties and responsibilities of a P2P operator, as well as the types of issuers and investors who can participate in the platform.

Philippines

Yield Movements

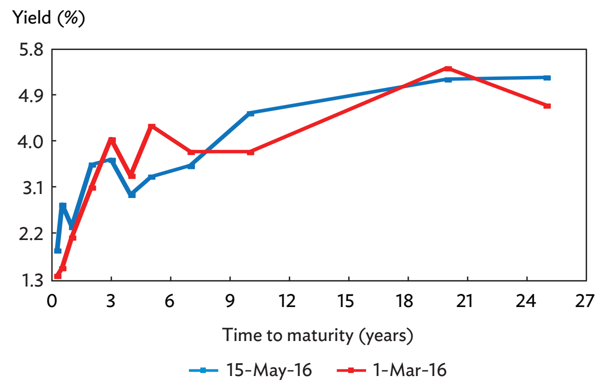
Between 1 March and 15 May, local currency (LCY) government bond yields in the Philippines rose for the 0.25-, 0.5-, 1-, 2-, 10-, and 25-year tenors; and fell for the 3-, 4-, 5-, 7-, and 20-year tenors **(Figure 1)**. The biggest increase was reflected in the 0.5-year tenor, which gained 123 basis points (bps), and the largest drop was seen in the 5-year tenor, which declined 99 bps. The yield spread between the 2-year and 10-year tenors widened by 31 bps.

Policy interest rates in the Philippines remained unchanged in the first 5 months of 2016, with the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) deciding during its meetings on 11 February, 23 March, and 12 May to maintain the overnight borrowing (reverse repurchase) facility at 4.00% and the overnight lending (repurchase) facility at 6.00%.

Real gross domestic product in the Philippines grew 6.9% year-on-year (y-o-y) in the first quarter (Q1) of 2016, bolstered by relatively strong output growth in industry and services, as well as increased domestic and foreign demand.

Consumer price inflation in the Philippines stood at 1.1% y-o-y in April, which was unchanged from March. In January and February, the y-o-y inflation rates were 1.3% and 0.9%, respectively. The BSP described Philippine headline inflation in Q1 2016 as being subdued, with the y-o-y inflation rate in the January–March period averaging 1.1%, which was below the government's 2016 inflation target of 3.0% ±1.0 percentage point.

Figure 1: Philippines' Benchmark Yield Curve—Local Currency Government Bonds



Source: Based on data from Bloomberg LP.

Size and Composition

The amount of LCY bonds outstanding in the Philippines fell 1.1% quarter-on-quarter (q-o-q) in Q1 2016 but rose 0.5% y-o-y to reach PHP4,706 billion (USD102 billion) at

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,681**	**105**	**4,760**	**101**	**4,706**	**102**	**0.4**	**5.6**	**(1.1)**	**0.5**
Government	3,917	88	3,946	84	3,893	85	0.6	4.5	(1.3)	(0.6)
Treasury Bills	278	6	264	6	279	6	(1.2)	(5.1)	5.5	0.2
Treasury Bonds	3,547	79	3,596	77	3,539	77	1.1	6.2	(1.6)	(0.2)
Others	91	2	86	2	76	2	(11.6)	(21.1)	(12.2)	(17.3)
Corporate	765	17	814	17	813	18	(0.4)	11.6	(0.1)	6.3

( ) = negative, PHP = Philippine peso, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period local currency–USD rates are used.
3. Growth rates are calculated from a local currency 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) are not included.
Sources: Bloomberg LP and Bureau of the Treasury.

the end of March **(Table 1)**. The q-o-q contraction largely stemmed from decreases in the existing stock of LCY government bonds, particularly Treasury bonds and bonds issued by government-owned or -controlled corporations. The y-o-y uptick was driven by relatively buoyant y-o-y growth in LCY corporate bonds. At the end of March, the stocks of LCY government bonds and LCY corporate bonds constituted 83% and 17%, respectively, of total LCY bonds outstanding.

In the LCY corporate bond market, banks remained the largest issuer group, accounting for 28.2% of LCY corporate bonds outstanding at the end of March, followed by property firms with 23.6% **(Figure 2)**. Compared with 12 months earlier, the share of banks fell while that of property firms rose.

The top 30 Philippine corporate bond issuers at the end of March had cumulative LCY bonds outstanding of PHP719.9 billion, which represented about 89% of the Philippines' LCY corporate bond market **(Table 2)**.

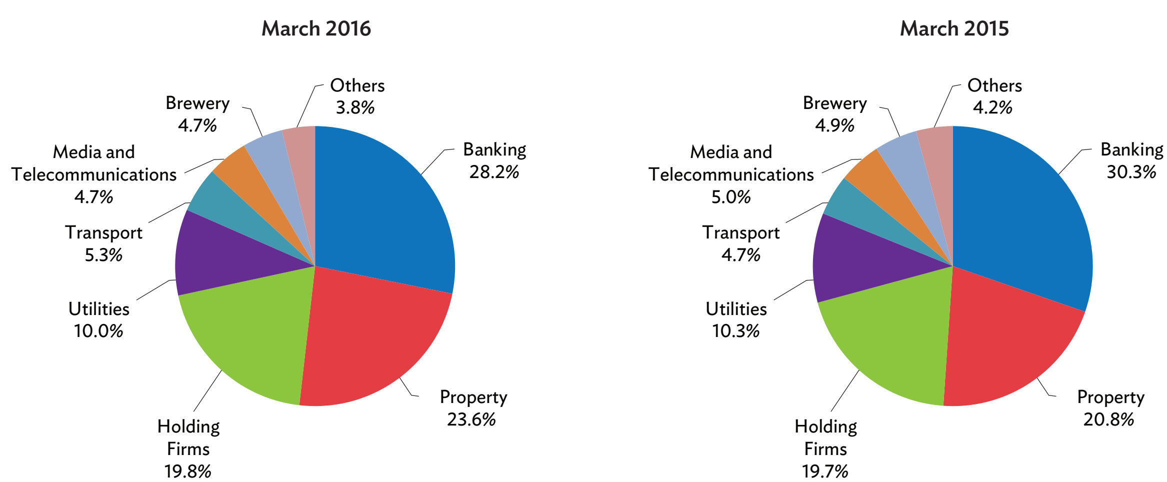
Philippine LCY bond issuance in Q1 2016 totaled PHP189.7 billion, up 13.6% q-o-q and 29.0% y-o-y. LCY government bond issuance in Q1 2016 comprised Treasury bills and bonds worth PHP177.2 billion, up 28.4% q-o-q and 31.2% y-o-y.

LCY corporate bond issuance in Q1 2016 reached PHP12.5 billion, which was down 56.9% q-o-q and up 4.2% y-o-y. Three Philippine companies tapped the corporate bond market for funding purposes in Q1 2016: (i) Ayala Land, which issued a PHP8.0 billion 10-year bond at a 4.85% coupon in March; (ii) Phoenix Petroleum, which raised PHP3.5 billion from a triple-tranche commercial paper sale in January; and (iii) SL Agritech, which raised PHP1.0 billion from a triple-tranche commercial paper sale in January **(Table 3)**.

Investor Profile

Banks and investment houses were the largest investor group in LCY government securities in the Philippines at the end of March, accounting for 37.1% of the total market. This was followed by contractual savings institutions and tax-exempt institutions, which held 29.8% of LCY government bonds outstanding **(Figure 3)**. In the 12-month period through the end of March 2016, banks and investment houses, contractual savings institutions and tax-exempt institutions, and other government securities holders recorded y-o-y increases in their shares of LCY government bond holdings. Brokers, custodians, and depositories; funds managed by the Bureau of the Treasury; and government-owned or -controlled corporations and local government units experienced y-o-y declines.

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in the Philippines

Issuers		Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (USD billion)			
1.	Ayala Land	66.2	1.4	No	Yes	Property
2.	Metrobank	46.8	1.0	No	Yes	Banking
3.	SM Prime	45.0	1.0	No	Yes	Property
4.	Ayala Corporation	40.0	0.9	No	Yes	Holding Firms
5.	San Miguel Brewery	37.8	0.8	No	No	Brewing
6.	BDO Unibank	37.5	0.8	No	Yes	Banking
7.	Philippine National Bank	34.6	0.8	No	Yes	Banking
8.	Aboitiz Equity Ventures	32.0	0.7	No	Yes	Holding Firms
9.	Filinvest Land	32.0	0.7	No	Yes	Property
10.	JG Summit	30.0	0.7	No	Yes	Holding Firms
11.	SM Investments	28.3	0.6	No	Yes	Holding Firms
12.	Meralco	23.5	0.5	No	Yes	Electricity, Energy, and Power
13.	Security Bank	23.0	0.5	No	Yes	Banking
14.	Rizal Commercial Banking Corporation	22.1	0.5	No	Yes	Banking
15.	GT Capital	22.0	0.5	No	Yes	Holding Firms
16.	South Luzon Tollway	18.3	0.4	No	No	Transport
17.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
18.	East West Bank	16.8	0.4	No	Yes	Banking
19.	Maynilad Water Services	16.3	0.4	No	No	Water and Wastewater Services
20.	MCE Leisure (Philippines)	15.0	0.3	No	No	Casinos and Gaming
21.	Philippine Long Distance Telephone Company	15.0	0.3	No	Yes	Telecommunications
22.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
23.	Manila North Tollways	12.9	0.3	No	No	Transport
24.	First Metro Investment	12.0	0.3	No	No	Banking
25.	Robinsons Land	12.0	0.3	No	Yes	Property
26.	MTD Manila Expressway	11.5	0.3	No	No	Transport
27.	Energy Development Corporation	10.5	0.2	No	Yes	Electricity, Energy, and Power
28.	Aboitiz Power	10.0	0.2	No	Yes	Electricity, Energy, and Power
29.	8990 Holdings	9.0	0.2	No	Yes	Property
30	Filinvest Development	8.8	0.2	No	Yes	Holding Firms
Total Top 30 LCY Corporate Issuers		**719.9**	**15.7**			
Total LCY Corporate Bonds		**812.9**	**17.7**			
Top 30 as % of Total LCY Corporate Bonds		**88.6%**	**88.6%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of end-March 2016.
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 Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Ayala Land		
10-year bond	4.85	8.00
Phoenix Petroleum		
0.25-year bond	3.80	1.11
0.5-year bond	4.17	1.12
1-year bond	4.17	1.27
SL Agritech		
0.25-year bond	4.50	0.35
0.5-year bond	4.75	0.08
1-year bond	5.25	0.57

PHP = Philippine peso, Q1= first quarter.
Note: Coupon rates for 0.25-year, 0.5-year, and 1-year bonds of SL Agritech are yields at issue.
Source: Bloomberg LP.

Ratings Update

Fitch Ratings (Fitch) reported in April that it had affirmed the Philippines' long-term foreign currency (FCY) issuer default rating at BBB– and long-term LCY issuer default rating at BBB, and maintained a positive outlook for both ratings. In addition, Fitch affirmed the Philippines' FCY and LCY bond ratings at BBB– and BBB, respectively, the country ceiling at BBB, and the short-term FCY issuer default rating at F3. According to Fitch, its affirmation of the Philippines' sovereign ratings represented the economy's favorable growth performance, a strong external finance position, declining government debt and deficit levels, improving governance standards, ample liquidity in the banking system, and relatively low levels of development and per capita income.

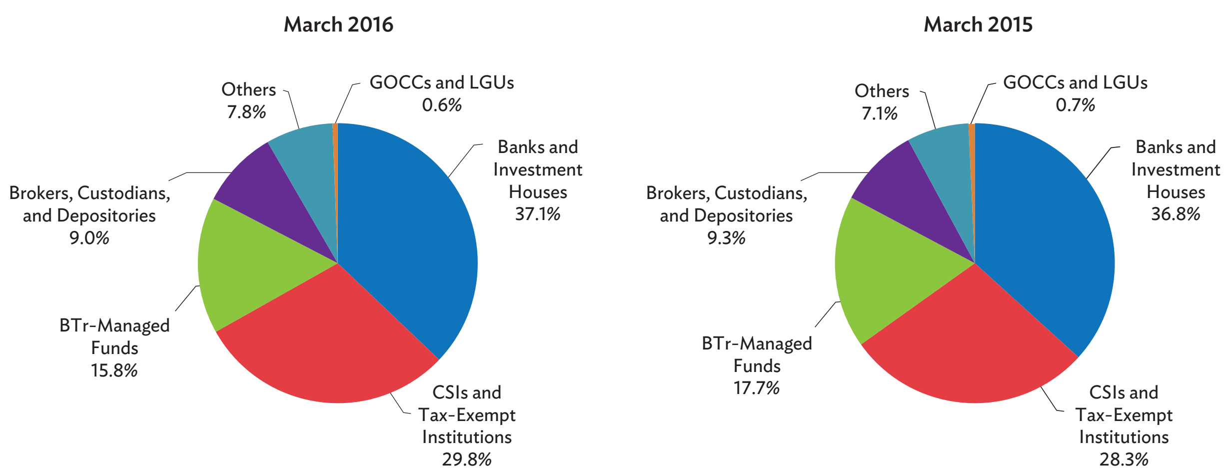
S&P Global Ratings announced in April that it had affirmed its sovereign credit ratings for the Philippines. Its long-term and short-term ratings were maintained at BBB and A–2, respectively, with the outlook kept stable for both. The rating agency stated that the ratings affirmation resulted from its assessment of the economy having a strong external position, which was counterbalanced by the economy's "low-income" status and vulnerabilities in its institutional and governance framework. It also stated that the stable outlook was based on its expectation of continued improvements in the Philippines' key economic fiscal, external, and monetary credit measures.

Policy, Institutional, and Regulatory Developments

The Philippines and Malaysia Sign Bilateral Agreement under the Association of Southeast Asian Nations Banking Integration Framework

In March, the BSP and Bank Negara Malaysia signed a bilateral agreement under the Association of Southeast Asian Nations (ASEAN) Banking Integration Framework that provides guidelines for the entry of Qualified ASEAN Banks into the Philippine and Malaysian markets.

Figure 3: Local Currency Government Bonds Investor Profile



BTr = Bureau of the Treasury, CSIs = contractual savings institutions, GOCCs = government-owned and controlled corporations, LGUs = local government units.
Source: Bureau of the Treasury.

Bangko Sentral ng Pilipinas Adopts Basel III Liquidity Coverage Framework

In March, the BSP's Monetary Board approved the liquidity coverage ratio framework developed under Basel III, which requires Philippine universal and commercial banks, as well as foreign bank branches in the Philippines, to hold a sufficient stock of high-quality liquid assets in order to enhance their liquidity positions.

Bangko Sentral ng Pilipinas Implements Interest Rate Corridor System

In May, the BSP announced that it will formally implement an interest rate corridor system starting 3 June. The BSP stated that this shift in its monetary operations was made to improve the transmission of monetary policy. Through this system, short-term interest rates will be guided toward the overnight reverse repurchase rate, which is the BSP's policy interest rate.

Singapore

Yield Movements

Local currency (LCY) government bond yields in Singapore fell for all tenors between 1 March and 15 May **(Figure 1)**. The yield curve for Singapore Government Securities (SGS) flattened as yields fell more sharply at the longer-end than the short-end. Yields for 2-year maturities declined only 2 basis points (bps) during the review period. On the other end of the curve, yields dropped an average of 36 bps for the 15-year through 30-year maturities. As a result, the spread between the 2-year and 10-year tenors narrowed to 94 bps on 15 May from 120 bps on 1 March.

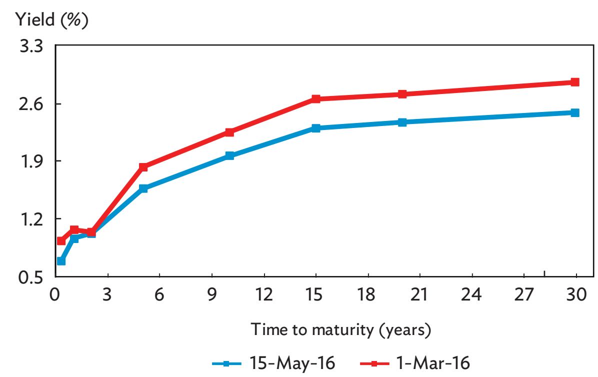
The decline in SGS bond yields largely tracked movements in yields for United States (US) Treasuries. The drop in yields was also reflective of overall weakness in the domestic economy and the persistence of deflation.

In its policy statement on 14 April, the Monetary Authority of Singapore (MAS) set the rate of appreciation of the Singapore dollar nominal effective exchange rate policy band at zero. The monetary authority kept unchanged both the width of the policy band and the level at which it is centered. MAS expects this move to support price stability over the medium-term. Market sentiment viewed the move as an easing of MAS' monetary policy stance.

Real gross domestic product growth in Singapore stood at 1.8% year-on-year (y-o-y) in the first quarter (Q1) of 2016, the same pace of growth as in the fourth quarter of 2015. The manufacturing sector contracted 1.0% y-o-y on account of lower output in the transport engineering and precision engineering clusters. Growth in the services industries eased to 1.4% y-o-y in Q1 2016. On the other hand, the construction sector grew 6.2% y-o-y. On a quarter-on-quarter (q-o-q) and seasonally adjusted annualized basis, Singapore's economy grew 0.2% in Q1 2016. The Ministry of Trade and Industry maintained its 2016 gross domestic product growth forecast between 1.0% and 3.0% y-o-y.

Singapore continued to post deflation in April, as consumer prices dropped 0.5% y-o-y following a 1.0% y-o-y decline in March. Private road transport costs declined 7.1% y-o-y and the cost of electricity and gas slipped 13.9% y-o-y. MAS expects inflation to remain negative for the rest of the year and come in at between –1.0% and 0.0% for full-year 2016.

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



Source: Based on data from Bloomberg LP.

Size and Composition

The size of Singapore's LCY bond market stood at SGD314 billion (USD233 billion) at the end of March **(Table 1)**. Overall growth was weak at a marginal 0.2% q-o-q. On a y-o-y basis, the LCY bond market declined by 2.2% in Q1 2016.

Government Bonds. The outstanding stock of LCY government bonds grew by a marginal 0.3% q-o-q in Q1 2016 to reach SGD184 billion at the end of March. Growth was mainly driven by an increase in the stock of SGS bonds. In Q1 2016, new issuance of SGS bonds totaled SGD4.1 billion, which comprised a reopening of 5-year SGS bonds and new issuances of 30-year SGS bonds. There were no redemptions of SGS bonds during the quarter, resulting in an overall increase in the stock of SGS bonds.

The outstanding stock of MAS bills declined to SGD74 billion at the end of March for a 4.6% q-o-q and 19.8% y-o-y decline in Q1 2016. New issuance of MAS bills was SGD71.5 billion, down 2.5% q-o-q and 21.9% y-o-y.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**321**	**234**	**313**	**221**	**314**	**233**	**(0.8)**	**5.3**	**0.2**	**(2.2)**
Government	192	140	183	129	184	136	(1.1)	4.8	0.3	(4.4)
SGS Bills and Bonds	100	73	106	75	110	81	1.9	(8.2)	3.9	9.8
MAS Bills	92	67	78	55	74	55	(4.2)	23.8	(4.6)	(19.8)
Corporate	128	94	130	91	130	96	(0.4)	6.0	0.2	1.1

( ) = negative, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, SGD = Singapore dollar, USD = United States dollar, 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 Singapore Government Securities held by the Singapore Central Provident Fund.
3. Bloomberg LP end-of-period local currency–USD rates are used.
4. Growth rates are calculated from local currency base and do not include currency effects.
Sources: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

Corporate Bonds. Based on *AsianBondsOnline* estimates, the outstanding stock of LCY corporate bonds reached SGD130 billion at the end of March, up 0.2% q-o-q and 1.1% y-o-y.

The 30 largest LCY corporate bond issuers had combined outstanding bonds amounting to SGD67.2 billion at the end of March, accounting for a 51.7% share of the aggregate corporate bond stock **(Table 2)**. The largest corporate bond issuer was the government's Housing and Development Board with outstanding bonds worth SGD20.1 billion. In the second spot was another state-owned agency, the Land Transport Authority, with total bonds outstanding of SGD4.0 billion. In the third spot was United Overseas Bank with total bonds valued at SGD3.9 billion.

While the top two issuers were state-owned agencies, only one other government entity was on the list of the top 30 issuers in Singapore, which comprised a diverse set of issuers from the banking, finance, real estate, transportation, and utilities sectors.

New issuance of LCY corporate debt reached SGD3.2 billion at the end of March, reflecting a decline of 14.8% q-o-q and a gain of 67.1% y-o-y. A total of 14 companies tapped the bond market for funding needs during Q1 2016, issuing a total of 17 new corporate bond series. The largest issuance in Q1 2016 was the Housing and Development Board's 7-year bond worth SGD1,000 million. It was followed by DBS Group Holdings dual-tranche bond sale worth SGD730 million. Notable corporate bond issues in Q1 2016 are presented in **Table 3.**

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore and the People's Bank of China Renew Bilateral Currency Swap Agreement

In March, MAS and the People's Bank of China renewed their bilateral currency swap arrangements for an additional 3 years. The arrangement provides up to CNY300 billion of liquidity for eligible financial institutions operating in Singapore.

Monetary Authority of Singapore Allows Corporate Bond Issuers to Tap Retail Market

In May, MAS issued two regulations allowing corporate bond issuers to tap the retail market. Corporate issuers may issue bonds through the Bond Seasoning Framework, which allows firms who met the criteria set by the Singapore Exchange to sell bonds to retail investors. Wholesale bonds issued by these issuers may be re-denominated in smaller lots and offered for sale to retail investors through the secondary market 6 months after the listing of the bonds. Issuers may offer additional bonds targeted for retail investors without a prospectus.

Corporate issuers may also issue bonds through the Exempt Bond Issuer Framework, which allow issuers with higher eligibility criteria under the Bond Seasoning Framework to offer bonds to retail investors without a prospectus.

As an incentive, the Ministry for Finance will grant tax concessions for eligible issuers who issue bonds under these frameworks.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Singapore

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (SGD billion)	LCY Bonds (USD billion)			
1.	Housing and Development Board	20.1	14.9	Yes	No	Real Estate
2.	Land Transport Authority	4.0	2.9	Yes	No	Transportation
3.	United Overseas Bank	3.9	2.9	No	Yes	Banking
4.	Temasek Financial I	3.6	2.7	No	No	Finance
5.	DBS Bank	3.3	2.4	No	Yes	Banking
6.	CapitaLand	3.0	2.2	No	Yes	Real Estate
7.	FCL Treasury	2.1	1.6	No	No	Real Estate
8.	SP PowerAssets	1.9	1.4	No	No	Utilities
9.	Olam International	1.7	1.3	No	Yes	Consumer Goods
10.	Keppel	1.7	1.3	No	Yes	Diversified
11.	Public Utilities Board	1.7	1.2	Yes	No	Utilities
12.	DBS Group	1.5	1.1	No	Yes	Banking
13.	Oversea-Chinese Banking	1.5	1.1	No	Yes	Banking
14.	City Developments	1.4	1.1	No	Yes	Real Estate
15.	Neptune Orient Lines	1.3	0.9	No	Yes	Logistics
16.	Hyflux	1.2	0.9	No	Yes	Utilities
17.	CapitaLand Treasury	1.2	0.9	No	No	Finance
18.	Singtel Group Treasury	1.2	0.9	No	No	Finance
19.	Mapletree Treasury Services	1.1	0.8	No	No	Finance
20.	GLL IHT	1.1	0.8	No	No	Finance
21.	CapitaMalls Asia Treasury	1.0	0.7	No	No	Finance
22.	Singapore Airlines	1.0	0.7	No	No	Transportation
23.	Sembcorp Financial Services	1.0	0.7	No	No	Engineering
24.	CMT MTN	0.9	0.7	No	No	Finance
25.	National University of Singapore	0.9	0.7	No	Yes	Education
26.	Ascendas REIT	0.8	0.6	No	Yes	Finance
27.	Overseas Union Enterprise	0.8	0.6	No	Yes	Real Estate
28.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
29.	Global Logistic Properties	0.8	0.6	No	Yes	Real Estate
30.	SMRT Capital	0.8	0.6	No	No	Transportation
Total Top 30 LCY Corporate Issuers		**67.2**	**49.8**			
Total LCY Corporate Bonds		**129.9**	**96.4**			
Top 30 as % of Total LCY Corporate Bonds		**51.7%**	**51.7%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of end-March 2016.
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 Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
7-year bond	2.50	1,000
DBS Group Holdings		
5-year bond	2.78	480
12-year bond	3.80	250
Ascendas		
5-year bond	2.97	100
7-year bond	3.50	200
10-year bond	3.50	75
Singtel Group Treasury		
7-year bond	2.90	250
Mapletree Treasury Services		
3-year bond	2.92	200

Q1 = first quarter, SGD = Singapore dollar.
Source: Bloomberg LP.

Thailand

Yield Movements

Between 1 March and 15 May, Thai local currency (LCY) government bond yields fell for all tenors **(Figure 1)**. Yields for tenors of between 1 month and 1 year declined 4–6 basis points (bps). Yields for tenors of between 2 years and 7 years fell 3–19 bps. Yields for tenors of between 8 years and 30 years fell 24–66 bps.

The fall in yields was due to excess liquidity in the market driving up demand for local government bonds. Demand from both domestic and foreign investors rose amid expectations of a more gradual policy rate increase by the United States (US) Federal Reserve and the appreciation of the Thai baht.

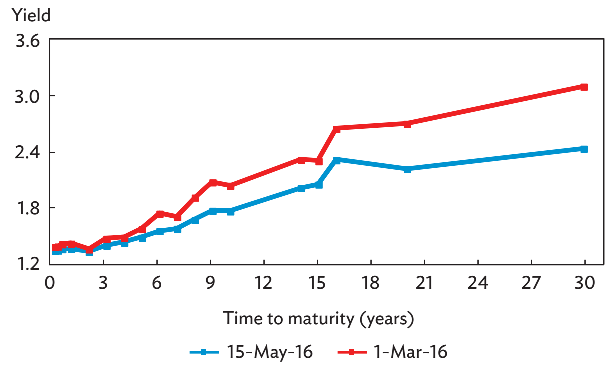
The 2-year versus 10-year spread narrowed from 68 bps to 43 bps during the review period with the yield curve flattening as a result. The flattening reflected market expectations that the Bank of Thailand (BOT) would maintain the overnight policy rate at its record-low level for the rest of the year as the government increasingly relies on fiscal policy to boost the economy.

The BOT decided to maintain the overnight policy rate at 1.50% in its 11 May policy meeting. The central bank stated that while the economy was gradually recovering, downside risks remained, including a continued contraction in merchandise exports and low levels of private investment. The central bank also noted that the appreciation of the Thai baht might have an unfavorable impact on the economy.

Deflation continued in Thailand in January–March before a positive inflation rate of 0.1% year-on-year (y-o-y) was recorded in April. The reversal was primarily due to a larger annual increase in the food and nonalcoholic beverages index, and a slower annual decline in the transportation index as global oil prices recovered. The outlook for inflation could still be affected by oil price volatility and weak domestic demand.

Thailand's economy grew more than expected in the first quarter (Q1) of 2016. Real gross domestic product growth rose to 3.2% y-o-y from 2.8% y-o-y in the fourth (Q4) of 2015. The expansion was mainly due to higher

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



Source: Based on data from Bloomberg LP.

government consumption, which rose 8.0% y-o-y in Q1 2016 following growth of 4.8% y-o-y in the previous quarter, a result of stimulus measures being implemented by the Government of Thailand. Exports also rose 5.1% y-o-y in Q1 2016 following a 3.3% y-o-y contraction in the previous quarter. Meanwhile, growth in private consumption and gross fixed capital formation slowed in Q1 2016.

Size and Composition

The LCY bond market in Thailand expanded 1.9% quarter-on-quarter (q-o-q) to THB10,205 billion (USD291 billion) at the end of March **(Table 1)**. On a y-o-y basis, the LCY bond market rose 9.6%. Government bonds outstanding amounted to THB7,607 billion, while corporate bonds summed to THB2,598 billion.

Government Bonds. LCY government bonds outstanding increased 1.5% q-o-q to THB7,607 billion at the end of March as both central government bonds and central bank bonds posted q-o-q increases. Meanwhile, outstanding state-owned enterprise and other bonds declined 1.1% q-o-q.

In terms of issuance, Q1 2016 saw a higher volume of THB2,103 billion, compared with THB1,791 billion in Q4 2015, primarily due to the jump in the issuance of central bank bonds. Central bank bond issuance

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**9,314**	**286**	**10,012**	**278**	**10,205**	**291**	**0.6**	**1.7**	**1.9**	**9.6**
Government	7,079	218	7,494	208	7,607	217	1.9	0.7	1.5	7.5
Government Bonds and Treasury Bills	3,578	110	3,888	108	3,964	113	4.8	3.4	1.9	10.8
Central Bank Bonds	2,682	82	2,823	78	2,869	82	(2.2)	(4.9)	1.6	7.0
State-Owned Enterprise and Other Bonds	819	25	782	22	774	22	3.2	9.2	(1.1)	(5.5)
Corporate	2,235	69	2,517	70	2,598	74	(3.2)	5.1	3.2	16.3

( ) = negative, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, THB = Thai baht, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD 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.

climbed almost 50% to THB1,903 billion in Q1 2016 from THB1,278 billion in Q4 2015, suggesting that the BOT may be intervening in response to the appreciation of the Thai baht brought about by increased foreign fund inflows. A weaker Thai baht is favored by the Government of Thailand to support exports and boost the economy. Meanwhile, the issuance of central government bonds fell in Q1 2016.

Corporate Bonds. Total outstanding LCY corporate bonds rose 3.2% q-o-q to THB2,598 billion at the end of March.

Table 2 provides a breakdown of the top 30 LCY corporate bond issuers in Thailand, whose total LCY bonds outstanding stood at THB1,465 billion. The top 30 issuers accounted for 56.4% of total LCY corporate bonds outstanding at the end of March. CP All remained the largest corporate issuer in Thailand with THB180 billion of outstanding bonds. PTT was the next largest borrower at THB169.5 billion and Siam Cement was in the third spot with THB166.5 billion.

Corporate bonds issuance amounted to THB370 billion in Q1 2016, which was nearly on par with the previous quarter. **Table 3** lists notable corporate bond issuances in Q1 2016.

The largest corporate issuers in Q1 2016 came from various industries. CPF Thai, with major business interests in animal feeds, issued a multi-tranche THB16 billion bond with maturities ranging between 5 years and 12 years. Bank of Ayudhya issued a THB12 billion 3-year bond with a coupon rate of 1.86%.

Investor Profile

Contractual savings funds remained the largest holder of LCY government bonds in Thailand with a share of 28.4% at the end of March, up slightly from a share of 26.8% in Q1 2015 **(Figure 2)**. Insurance companies accounted for the second largest share at 25.5%, which was barely changed from 25.4% in Q1 2015. The share of foreign investors fell to 13.6% at the end of March from 17.3% a year earlier.

Net foreign flows into Thailand's LCY bond market were positive in the first 4 months of 2016, particularly in Q1 2016, as foreign investors regained interest in the region after the US Federal Reserve delayed further increases in its policy rate **(Figure 3)**. Aggregate fund inflows in Q1 2016 amounted to THB161 billion. Net foreign inflows in April stood at THB4 billion.

Policy, Institutional, and Regulatory Developments

Securities and Exchange Commission and the Association of Investment Management Companies to Prepare Institutional Investor Code

In March, the Securities and Exchange Commission, Thailand (SEC) and the Association of Investment

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Thailand

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (THB billion)	LCY Bonds (USD billion)			
1.	CP All	180.0	5.1	No	Yes	Commerce
2.	PTT	169.5	4.8	Yes	Yes	Energy and Utilities
3.	Siam Cement	166.5	4.7	Yes	Yes	Construction Materials
4.	Charoen Pokphand Foods	70.9	2.0	No	Yes	Food and Beverage
5.	Bank of Ayudhya	62.8	1.8	No	Yes	Banking
6.	Thai Airways International	56.3	1.6	Yes	Yes	Transportation and Logistics
7.	True Corporation	45.5	1.3	No	Yes	Communications
8.	Indorama Ventures	45.3	1.3	No	Yes	Petrochemicals and Chemicals
9.	Kasikorn Bank	42.5	1.2	No	Yes	Banking
10.	Tisco Bank	41.4	1.2	No	No	Banking
11.	The Siam Commercial Bank	40.0	1.1	No	Yes	Banking
12.	Banpu	39.4	1.1	No	Yes	Energy and Utilities
13.	Mitr Phol Sugar	38.4	1.1	No	No	Food and Beverage
14.	Toyota Leasing Thailand	37.3	1.1	No	No	Finance and Securities
15.	True Move H Universal Communication	34.0	1.0	No	No	Communications
16.	Thanachart Bank	32.5	0.9	No	No	Banking
17.	PTT Exploration and Production Company	32.1	0.9	Yes	Yes	Energy and Utilities
18.	Krung Thai Bank	31.2	0.9	Yes	Yes	Banking
19.	TPI Polene	29.6	0.8	No	Yes	Property and Construction
20.	Land & Houses	29.0	0.8	No	Yes	Property and Construction
21.	Thai Oil	28.0	0.8	Yes	Yes	Energy and Utilities
22.	Minor International	25.8	0.7	No	Yes	Food and Beverage
23.	TMB Bank	25.4	0.7	No	Yes	Banking
24.	CH. Karnchang	25.0	0.7	No	Yes	Property and Construction
25.	Kiatnakin Bank	24.3	0.7	No	Yes	Banking
26.	Quality Houses	24.1	0.7	No	Yes	Property and Construction
27.	IRPC	23.0	0.7	Yes	Yes	Energy and Utilities
28.	ICBC Thai Leasing	22.1	0.6	No	No	Finance and Securities
29.	Krung Thai Bank	21.7	0.6	Yes	Yes	Banking
30.	Glow Energy	21.6	0.6	No	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers		**1,465.2**	**41.7**			
Total LCY Corporate Bonds		**2,598.5**	**74.0**			
Top 30 as % of Total LCY Corporate Bonds		**56.4%**	**56.4%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of end-March 2016.
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.

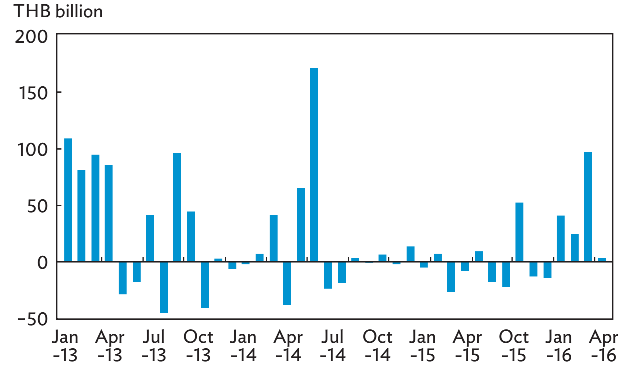
Management Companies (AIMC) announced the preparation of the Thailand Institutional Investor Code. Through the code, the SEC and AIMC aim to promote responsible investment among institutional investors through the establishment of policies based on corporate governance principles. The code will also provide guidelines for institutional investors in monitoring the operations of the companies they have invested in to protect the interest of their clients and the investment management industry as a whole.

Table 3: Notable Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
CPF Thai		
5-year bond	3.10	7,450
7-year bond	3.47	2,150
10-year bond	3.87	3,350
12-year bond	4.15	3,050
Bank of Ayudhya		
3-year bond	1.86	12,000
UOB Thai		
3-year bond	1.85	5,000
5-year bond	2.16	5,000
Toyota Leasing Thailand		
3-year bond	1.93	3,500
4-year bond	2.14	4,500
CP All		
5-year bond	2.95	1,382
7-year bond	3.40	937
10-year bond	4.00	2,074
12-year bond	4.15	2,607

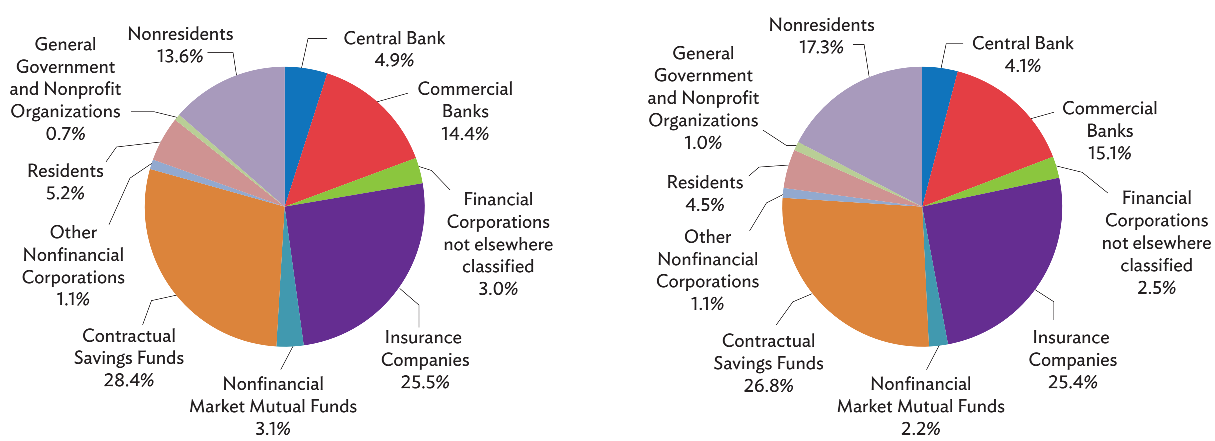
Q1 = first quarter, THB = Thai baht.
Source: Bloomberg LP.

Figure 3: Foreign Investor Net Trading of Local Currency Bonds in Thailand



THB = Thai baht.
Source: ThaiBMA.

Figure 2: Local Currency Government Bonds Investor Profile



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

Viet Nam

Yield Movements

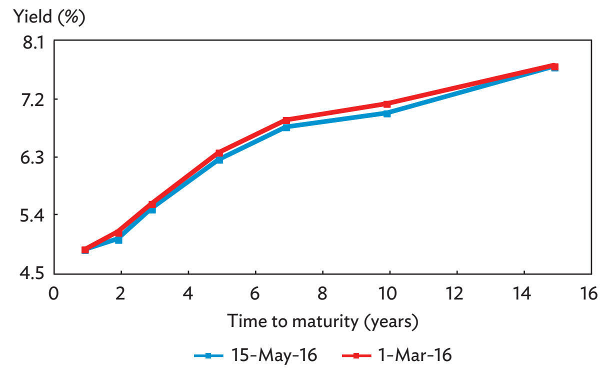
Between 1 March and 15 May, local currency (LCY) government bond yields in Viet Nam fell for all tenors **(Figure 1)**. Yields slipped 1 basis point (bp) and 2 bps for the 1-year and 15-year maturities, respectively. From the 2-year through the 10-year maturities, yields declined by an average of 11 bps. As a result, the spread between the 2-year and 10-year tenors narrowed to 196 bps on 15 May from 199 bps on 1 March.

The drop in yields can be attributed to improved demand for government bonds. Most auctions for 3-year and 5-year bonds were well received by investors during the first quarter.

Macroeconomic conditions have also helped keep yields at bay, while a more stable Vietnamese dong has eased concerns over depreciation. Consumer price inflation averaged 1.4% between January and April. Inflation in Viet Nam is still low relative to some of its emerging East Asian peers, although it has started to rise due to food supply disruptions and the recovery in global oil prices.

Gross domestic product growth eased to 5.5% year-on-year (y-o-y) in the first quarter (Q1) of 2016 from 6.0% y-o-y in Q1 2015. Only the service sector recorded a higher annual increase in Q1 2016 compared with Q1 2015. Industry and construction growth slowed to 6.7% y-o-y in Q1 2016. The agriculture, forestry, and fishery sector contracted 1.2% y-o-y.

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



Source: Based on data from Bloomberg LP.

Size and Composition

At the end of March, the size of the LCY bond market in Viet Nam reached VND870.9 trillion (USD39 billion) on declines of 6.6% quarter-on-quarter (q-o-q) and 10.3% y-o-y **(Table 1)**. There were increases in the stock of Treasury bonds and corporate bonds while central bank bonds and state-owned enterprise bonds fell during the review period. Viet Nam's LCY bond market remains dominated by government bonds, which represent a

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**970,873**	**45**	**932,391**	**41**	**870,926**	**39**	**8.9**	**10.9**	**(6.6)**	**(10.3)**
Government	954,850	44	902,749	40	838,284	38	9.0	10.8	(7.1)	(12.2)
Treasury Bonds	582,949	27	597,740	27	627,691	28	11.0	23.1	5.0	7.7
Central Bank Bonds	158,357	7	98,191	4	4,905	0.2	17.8	(8.9)	(95.0)	(96.9)
State-Owned Enterprise Bonds	213,544	10	206,818	9	205,688	9	(1.3)	(0.6)	(0.5)	(3.7)
Corporate	16,023	0.7	29,642	1	32,642	1	3.2	18.5	10.1	103.7

( ) = negative, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, VND = Vietnamese dong, y-o-y = year-on-year.
Notes:
1. Bloomberg LP end-of-period local currency–USD rates are used.
2. Growth rates are calculated from local currency base and do not include currency effects.
Source: Bloomberg LP.

96.3% share of the aggregate bond stock. The corporate bond market comprises only a 3.7% share.

Government Bonds. The outstanding stock of government bonds totaled VND838.3 trillion at the end of March on declines of 7.1% q-o-q and 12.2% y-o-y. Treasury bonds climbed 5.0% q-o-q in Q1 2016. On the other hand, central bank bonds and state-owned enterprise bonds both declined on a q-o-q and y-o-y basis.

Treasury and state-owned enterprise bond issuance stood at VND102.4 trillion in Q1 2016, lower on both a q-o-q and y-o-y basis. In contrast, State Bank of Viet Nam bill issuance climbed 22.9% q-o-q and 20.4% y-o-y.

Corporate Bonds. The outstanding amount of corporate bonds rose to VND32.6 trillion at the end of March, up 10.1% q-o-q and 103.7% y-o-y. A total of 15 corporate entities comprised Viet Nam's entire corporate bond market at the end of March **(Table 2)**. Masan Consumer Holdings was the largest corporate bond issuer with bonds valued at VND11.1 trillion, followed by real estate firm Vingroup with bonds outstanding amounting to VND5.0 trillion. Hoang Anh Gia Lai was in the third spot with bonds valued at VND4.0 trillion.

In Q1 2016, the lone issuance in the corporate bond market was Vingroup's dual-tranche bond offering worth VND3.0 trillion in February **(Table 3)**. The bond issuance was backed by the Credit Guarantee and Investment Facility.

Table 3: Notable Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Vingroup		
5-year bond	7.75	1,950
10-year bond	8.50	1,050

Q1 = first quarter, VND = Vietnamese dong.
Source: Bloomberg LP.

Ratings Update

In March, RAM Ratings Services Berhad (RAM) affirmed Viet Nam's global sovereign rating at gBB3(pi) with a stable outlook. RAM took note of the risks stemming from Viet Nam's fiscal deficits and rising government debt levels, inadequate foreign currency reserves, the dominant role of state-owned enterprises, and risks from its banking sector. However, RAM said that such risks

Table 2: Corporate Issuers of Local Currency Corporate Bonds in Viet Nam

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (VND billion)	LCY Bonds (USD billion)			
1.	Masan Consumer Holdings	11,100	0.50	No	No	Diversified Operations
2.	Vingroup JSC	5,000	0.22	No	Yes	Real Estate
3.	Hoang Anh Gia Lai	4,000	0.18	No	Yes	Real Estate
4.	Asia Commercial Joint Stock	3,000	0.13	No	Yes	Finance
5.	Techcom Bank	3,000	0.13	No	No	Banking
6.	Ho Chi Minh City Infrastructure	2,102	0.09	No	Yes	Infrastructure
7.	DIC	1,000	0.04	Yes	No	Chemicals
8.	Ocean Group	980	0.04	No	Yes	Consulting Services
9.	Saigon–Hanoi Securities	650	0.03	No	Yes	Finance
10.	Tasco	500	0.02	No	Yes	Engineering and Construction
11.	Sotrans	400	0.02	No	No	Logistics
12.	Hung Vuong	300	0.01	No	Yes	Food
13.	Saigon Securities	300	0.01	No	Yes	Finance
14.	Ha Do	200	0.01	No	Yes	Construction
15.	Ho Chi Minh City Securities	110	0.005	No	No	Finance
Total LCY Corporate Issuers		**32,642**	**1.46**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of end-March 2016.
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.

were partly abated by Viet Nam's solid economic growth, strong foreign direct investment, and improving business environment.

In May, Viet Nam's Ministry of Finance announced that S&P Global Ratings affirmed Viet Nam's BB– long-term sovereign debt rating and B short-term sovereign debt rating. Both ratings were given a stable outlook. Factors that S&P Global Ratings cited for the ratings affirmation include Viet Nam's relatively diverse and flexible economy, and stable macroeconomic conditions.

Policy, Institutional, and Regulatory Developments

Ha Noi Stock Exchange and Viet Nam Securities Depository to Test Run Derivatives Market

In March, Ha Noi Stock Exchange (HNX) and the Viet Nam Securities Depository (VSD) announced that members may participate in the test run of a derivatives market in September and October before the official launch by the end of the year. According to HNX, two products would initially be offered: future contracts for share indexes and government bonds with a 5-year maturity. The trading of derivatives contracts will be conducted through HNX and clearing will take place through VSD.