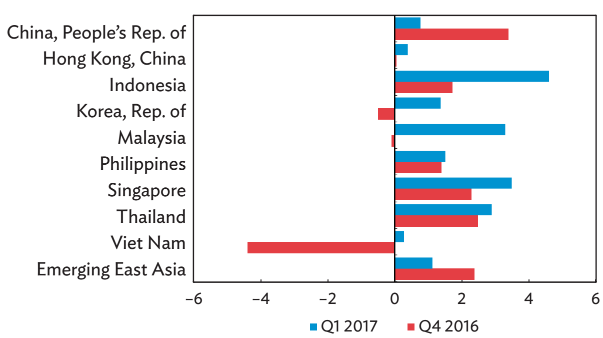
Bond Market Developments in the First Quarter of 2017

Size and Composition

Emerging East Asia's local currency bond market continued to expand in the first quarter of 2017 to reach a size of USD10.5 trillion at the end of March.

The outstanding size of emerging East Asia's local currency (LCY) bond market continued to expand in the first quarter (Q1) of 2017 to reach USD10,513 billion at the end of March.[6] However, growth moderated to 1.1% quarter-on-quarter (q-o-q) from 2.4% q-o-q in the previous quarter. A slowdown in the People's Republic of China's (PRC) bond market dragged down the region's overall growth (**Figure 1a**). All other markets in the region posted faster q-o-q growth rates in Q1 2017.

Figure 1a: Growth of Local Currency Bond Markets in the Fourth Quarter of 2016 and First Quarter of 2017 (q-o-q, %)



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

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 31 March 2017 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, Q1 2017 corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

In terms of size, the PRC continued to account for the largest market in the region with outstanding bonds of USD7,245 billion at the end of March. However, its share of the region's aggregate LCY bond stock declined to 68.9% from 70.0% at the end of December. The overall growth of the PRC's bond market slowed to 0.8% q-o-q in Q1 2017 due to a decline in government bond issuance (except policy bank bonds) amid rising credit concerns and the associated deleveraging efforts to mitigate such risks. Growth in municipal bonds slowed to 3.6% q-o-q in Q1 2017 after rising 9.3% q-o-q in the fourth quarter (Q4) of 2016. New regulations announced in April capped debt issuance by riskier local governments. However, the People's Bank of China (PBOC) still expects an increase in local government bond issuance, raising its local government bond quota to CNY18.8 trillion (USD2.7 trillion) in 2017. Meanwhile, central bank bonds outstanding dropped to zero in Q1 2017 following the cessation of central bank bond issuance by the PBOC in 2014 and the redemption of remaining central bank bonds. The stock of corporate bonds in the PRC contracted on a q-o-q basis on declines in growth of medium-term notes and commercial papers.

The Republic of Korea's LCY bond market was the second largest in emerging East Asia with outstanding bonds of USD1,873 billion at the end of March on overall growth of 1.4% q-o-q. Growth was driven largely by the government bond segment, particularly Korea Treasury Bonds as the government frontloaded its issuance to fund nearly a third of its annual budget in Q1 2017. This was in line with efforts to pump-prime the economy. Growth in central bank bonds was also faster in Q1 2017 than in the previous quarter. The corporate bond segment continued to post marginal gains during the review period.

The outstanding size of Thailand's LCY bond market climbed to USD325 billion at the end of March on 2.9% q-o-q growth. Growth came mainly from government bonds, led by substantial increases in the stock of government bonds, Treasury bills, and central bank bonds. On the other hand, Thailand's corporate

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

bond segment posted a 0.2% q-o-q decline on a lower issuance volume in Q1 2017.

In Malaysia, the LCY bond market reached a size of USD272 billion on growth of 3.3% q-o-q in Q1 2017, reversing its 0.1% q-o-q contraction in the prior quarter. Growth was largely supported by gains in the government bond segment, particularly central government bonds, as well as the corporate bond segment due to increased issuance during the review period. Central bank bonds also contributed to the overall growth to a lesser extent.

At the end of March, Malaysia still accounted for the largest *sukuk* (Islamic bond) market in emerging East Asia, with about 57% of its LCY bonds in the form of Islamic debt. Nearly three-fourths of its corporate bonds are Islamic in nature, while 43.0% of the government bond segment comprises *sukuk*.

The LCY bond market in Singapore expanded to USD247 billion at the end of March, up 3.5% q-o-q in Q1 2017. Much of the growth was buoyed by increases in the stock of Singapore Government Securities (SGS) bills and bonds despite a slightly lower issuance volume during the quarter, as well as an increase in the stock of Monetary Authority of Singapore (MAS) bills. On the other hand, corporate bonds continued to contract during the review period.

At the end of March, the outstanding stock of LCY bonds in Hong Kong, China rose to USD237 billion on overall growth of 0.4% q-o-q. Growth in its bond market stemmed largely from increases in its stock of Exchange Fund Bills and corporate bonds. During the review period, Exchange Fund Notes continued to fall as issuance was limited to 2-year maturities. Longer-dated Exchange Fund Notes were replaced with issuances of Hong Kong Special Administrative Region bonds.

The outstanding size of Indonesia's LCY bond market climbed to USD172 billion at the end of March on robust growth of 4.6% q-o-q. Growth was largely driven by central government bonds, comprising Treasury bills and bonds issued by the Ministry of Finance. As in past years, the government continued to adopt a frontloading policy for bond issuance, targeting some 60% of its gross issuance target, which includes foreign currency bonds, within the first semester of the year. To a lesser extent, corporate bonds also contributed to growth during the review period. In contrast, the stock of central bank bills issued by Bank Indonesia declined as the central bank ceased issuance of conventional central bank bills and limited its issuance to *shariah*-compliant central bank bills. The decline in issuance of central bank certificates is in line with Bank Indonesia's plan of utilizing short-term government bonds (Treasury bills) as a replacement for central bank bills for its monetary operations.

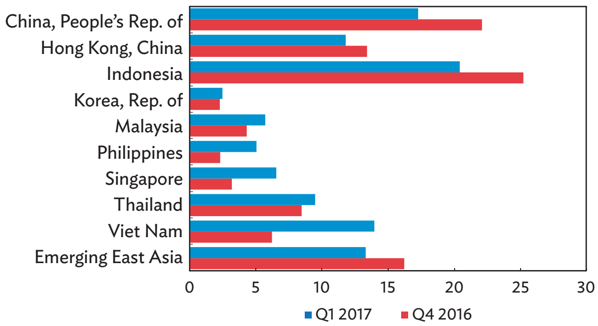
In the Philippines, the LCY bond market expanded to reach a size of USD98 billion at the end of March, posting growth of 1.5% q-o-q. Growth was driven by increases in the stock of Treasury bonds as new issuance exceeded redemptions. Corporate bonds also contributed to the overall growth during the review period. The stock of Treasury bills continued to decline as the Bureau of the Treasury partially awarded most of its auctions in Q1 2017. Other government bonds also fell due to the absence of new issuance and the maturation of some issues.

Viet Nam's bond market was broadly unchanged at USD44 billion at the end March, rising a marginal 0.3% q-o-q. Growth was driven primarily by increases in government bonds outstanding, particularly Treasury bonds, which rose 1.5% q-o-q. Also, all short-term government instruments, including both Treasury bills and central bank bills, had matured as of the end of March. Corporate bonds outstanding were unchanged from Q4 2016. (*AsianBondsOnline* data classifies the issuances of some state-owned entities in Viet Nam as part of the government bond segment.)

On a year-on-year basis (y-o-y), overall growth in emerging East Asia's LCY bond market moderated, with the growth rate easing to 13.3% from 16.2% in Q4 2016 (**Figure 1b**). While six of the nine markets posted faster y-o-y growth rates, the slowdown in the PRC's bond market once again dragged down the region's overall growth. The PRC's y-o-y growth rate slid as the impact of deleveraging efforts reduced bond issuance, particularly corporate bonds. On a y-o-y basis, Indonesia (20.3%) was the fastest-growing bond market, followed by the PRC (17.2%) and Viet Nam (13.9%).

The LCY bond market in emerging East Asia mainly comprises government bonds, which accounted for a 64.9% share of the total at the end of March (**Table 1**). This was slightly higher than the previous quarter's figure of 64.6%. Both q-o-q and y-o-y growth rates in the region's government bond market moderated in Q1 2017, due to the slowdown in the PRC. Growth eased to

Figure 1b: Growth of Local Currency Bond Markets in the Fourth Quarter of 2016 and First Quarter of 2017 (y-o-y, %)



Q1 = first quarter, Q4 = fourth quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 31 March 2017 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, Q1 2017 corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

2.0% q-o-q and 20.9% y-o-y in Q1 2017 from 3.2% q-o-q and 23.6% y-o-y in Q4 2016.

In terms of absolute size, the PRC led all government bond markets in the region at USD5,098 billion, representing nearly three-fourths of emerging East Asia's total government bond stock at the end of March. It was followed by the Republic of Korea with government bonds valued at USD780 billion, representing a share of 11.4% of the total. The remaining 13.8% share consisted of all other government bond markets in the region.

Compared to the more financially developed markets of Hong Kong, China; Malaysia; and Singapore; Indonesia had a larger government bond market with outstanding bonds of USD148 billion at the end of March. The Philippines and Viet Nam were the region's smallest government bond markets at USD80 billion and USD42 billion, respectively.

At the end of March, LCY corporate bonds in emerging East Asia stood at USD3,694 billion, lower by 0.4% q-o-q but higher by 1.5% y-o-y. The PRC's corporate bond market, which accounted for 58.1% of the region's total corporate bond stock at the end of March, contracted 1.2% q-o-q during the review period. The decline was driven by decreased issuances as corporate borrowers became reluctant to issue amid the PRC's continued deleveraging efforts designed to reduce financial risk. Declines were also noted in the corporate bond markets of Thailand (–0.2%) and Singapore (–0.1%). All other markets registered slower q-o-q growth in corporate bonds with the exception of Hong Kong, China, where the growth rate was unchanged, and the Republic of Korea and Malaysia, where markets reversed the prior quarter's decline.

Due to the decline in the PRC's corporate bond market, the overall size of emerging East Asia's LCY corporate bond market fell to a share of 35.1% of the region's total bond stock at the end of March from 35.4% at the end of December 2016. The PRC remained the largest corporate bond market, with outstanding bonds of USD2,146 billion, followed by the Republic of Korea at USD1,093 billion.

Emerging East Asia's LCY bond market was the equivalent of 68.5% of gross domestic product (GDP) in Q1 2017, slightly lower from Q4 2016's 68.9% share (**Table 2**). The share of government bonds to GDP fell marginally to 44.4% from 44.5% during the review period. Corporate bonds also declined as a share of GDP to 24.1% in Q1 2017 from 24.4% in Q4 2016. The Republic of Korea, reflecting its status as home to one of the region's most well-developed financial markets, maintained its lead as the market with the largest share of LCY bonds to GDP with a value of 126.5%. Malaysia followed with an LCY bonds-to-GDP share of 95.4%.

Improving investor sentiment led to gains in the foreign holdings' share in most emerging East Asian LCY bond markets.

Investor sentiment has turned positive in recent months as foreign funds returned to emerging East Asia's LCY bond markets. Offshore holdings of LCY government bonds climbed for most markets for which data are available (**Figure 2**).

The largest gain was noted in Indonesia, where the foreign holdings' share in its LCY government bond market rose to 38.2% at the end of March after having slid to 37.6% at the end of December. Positive investor sentiment on the back of improved macroeconomic and financial conditions, and expectations of a sovereign rating upgrade

Table 1: Size and Composition of Local Currency Bond Markets

	Q1 2016		Q4 2016		Q1 2017		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q1 2016		Q1 2017		Q1 2016		Q1 2017	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	6,596	100.0	7,129	100.0	7,245	100.0	4.9	28.2	0.8	17.2	5.6	23.2	1.6	9.8
Government	4,306	65.3	4,974	69.8	5,098	70.4	5.2	33.0	1.6	26.3	5.9	27.8	2.5	18.4
Corporate	2,290	34.7	2,155	30.2	2,146	29.6	4.3	20.1	(1.2)	0.03	5.0	15.3	(0.4)	(6.3)
Hong Kong, China														
Total	212	100.0	236	100.0	237	100.0	1.8	6.5	0.4	11.8	1.8	6.4	0.2	11.6
Government	123	58.2	137	58.1	137	58.1	3.2	11.7	0.3	11.5	3.2	11.6	0.1	11.3
Corporate	89	41.8	99	41.9	99	41.9	(0.04)	0.1	0.5	12.1	(0.1)	(0.01)	0.3	11.9
Indonesia														
Total	144	100.0	163	100.0	172	100.0	8.8	16.8	4.6	20.3	13.3	15.4	5.8	19.6
Government	125	86.7	139	85.8	148	86.0	9.9	17.7	4.9	19.4	14.5	16.2	6.1	18.7
Corporate	19	13.3	23	14.2	24	14.0	1.6	11.6	3.0	26.4	5.8	10.2	4.1	25.6
Korea, Rep. of														
Total	1,788	100.0	1,714	100.0	1,873	100.0	1.2	7.6	1.4	2.5	4.0	4.4	9.3	4.8
Government	734	41.1	703	41.0	780	41.6	2.1	6.3	2.9	3.9	5.0	3.2	11.0	6.2
Corporate	1,054	58.9	1,011	59.0	1,093	58.4	0.5	8.5	0.3	1.5	3.3	5.3	8.1	3.8
Malaysia														
Total	293	100.0	260	100.0	272	100.0	1.9	6.3	3.3	5.7	12.3	0.9	4.7	(6.9)
Government	161	55.1	141	54.3	147	54.0	2.7	2.7	2.7	3.5	13.1	(2.5)	4.1	(8.8)
Corporate	131	44.9	119	45.7	125	46.0	1.0	11.1	4.0	8.3	11.2	5.5	5.4	(4.5)
Philippines														
Total	102	100.0	98	100.0	98	100.0	(1.1)	0.5	1.5	5.0	0.9	(2.2)	0.3	(3.8)
Government	85	82.7	80	81.7	80	81.1	(1.3)	(0.6)	0.8	3.0	0.7	(3.3)	(0.4)	(5.7)
Corporate	18	17.3	18	18.3	19	18.9	(0.1)	6.3	4.6	14.6	1.9	3.4	3.3	5.0
Singapore														
Total	240	100.0	230	100.0	247	100.0	0.2	0.1	3.5	6.5	5.4	1.8	7.2	2.8
Government	136	56.7	133	57.9	147	59.4	0.3	(4.4)	6.1	11.5	5.5	(2.7)	9.9	7.7
Corporate	104	43.3	97	42.1	100	40.6	0.2	6.5	(0.1)	(0.04)	5.4	8.4	3.4	(3.5)
Thailand														
Total	291	100.0	303	100.0	325	100.0	1.9	9.6	2.9	9.5	4.6	1.5	7.3	11.9
Government	217	74.5	222	73.1	240	73.9	1.5	7.5	4.0	8.5	4.1	(0.4)	8.5	11.0
Corporate	74	25.5	81	26.9	85	26.1	3.3	16.3	(0.2)	12.1	5.9	7.8	4.1	14.6
Viet Nam														
Total	39	100.0	44	100.0	44	100.0	(6.5)	(9.7)	0.3	13.9	(5.7)	(12.7)	0.3	11.6
Government	38	95.8	42	95.4	42	95.4	(7.1)	(12.0)	0.3	13.4	(6.3)	(15.0)	0.3	11.1
Corporate	2	4.2	2	4.6	2	4.6	10.5	129.6	0.0	25.0	11.5	122.0	(0.03)	22.5
Emerging East Asia														
Total	9,705	100.0	10,177	100.0	10,513	100.0	3.7	20.2	1.1	13.3	5.3	16.2	3.3	8.3
Government	5,925	61.0	6,572	64.6	6,819	64.9	4.3	23.8	2.0	20.9	5.8	19.6	3.8	15.1
Corporate	3,780	39.0	3,605	35.4	3,694	35.1	2.8	15.0	(0.4)	1.5	4.6	11.2	2.5	(2.3)
Japan														
Total	9,841	100.0	9,637	100.0	10,180	100.0	3.2	2.5	0.6	2.4	10.2	9.3	5.6	3.4
Government	9,148	93.0	8,966	93.0	9,472	93.0	3.5	3.0	0.6	2.5	10.6	9.9	5.6	3.5
Corporate	693	7.0	671	7.0	708	7.0	(1.1)	(3.6)	0.6	1.1	5.7	2.8	5.6	2.2

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

Notes:

1. For Hong Kong, China, Q1 2017 corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. For LCY base, emerging East Asia growth figures are based on 31 March 2017 currency exchange rates and do not include currency effects.
5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

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

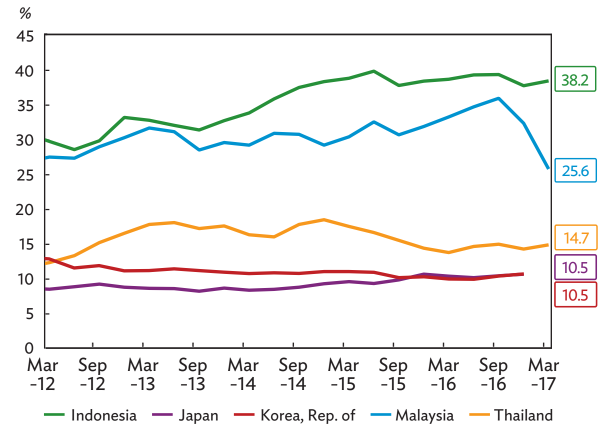
Table 2: Size and Composition of Local Currency Bond Markets (% of GDP)

	Q1 2016	Q4 2016	Q1 2017
China, People's Rep. of			
Total	60.8	66.5	65.4
Government	39.7	46.4	46.0
Corporate	21.1	20.1	19.4
Hong Kong, China			
Total	68.1	73.6	72.7
Government	39.6	42.8	42.2
Corporate	28.5	30.8	30.5
Indonesia			
Total	16.2	17.7	18.0
Government	14.1	15.1	15.5
Corporate	2.2	2.5	2.5
Korea, Rep. of			
Total	129.3	126.2	126.5
Government	53.1	51.8	52.7
Corporate	76.2	74.4	73.8
Malaysia			
Total	97.4	94.9	95.4
Government	53.7	51.5	51.5
Corporate	43.8	43.4	43.9
Philippines			
Total	34.7	33.6	33.4
Government	28.7	27.5	27.1
Corporate	6.0	6.2	6.3
Singapore			
Total	79.4	81.3	83.2
Government	45.0	47.1	49.4
Corporate	34.4	34.2	33.8
Thailand			
Total	73.9	75.6	76.5
Government	55.1	55.3	56.5
Corporate	18.8	20.3	20.0
Viet Nam			
Total	20.7	22.1	21.8
Government	19.8	21.1	20.8
Corporate	0.9	1.0	1.0
Emerging East Asia			
Total	65.1	68.9	68.5
Government	39.8	44.5	44.4
Corporate	25.4	24.4	24.1
Japan			
Total	208.3	210.0	211.0
Government	193.7	195.3	196.3
Corporate	14.7	14.6	14.7

GDP = gross domestic product, Q1 = first quarter, Q4 = fourth quarter.
Notes:
1. Data for GDP is from CEIC.
2. For Hong Kong, China, Q1 2017 corporate bonds outstanding based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding based on *AsianBondsOnline* estimates.

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

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



Note: Data as of end-March 2017 except for Japan and the Republic of Korea (end-December 2016).
Source: *AsianBondsOnline*.

from Standard and Poor's Global Ratings buoyed demand for Indonesia's LCY government bonds.[7] Foreign investors continued to comprise the largest investor group in Indonesia's LCY government bond market at the end of March. Further gains were noted in Indonesia's foreign holdings' share to 39.1% at the end of April.

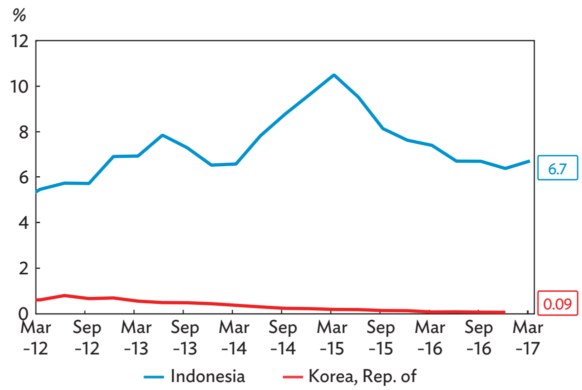
The foreign holdings' share also climbed in Thailand, inching up 0.6 percentage points to 14.7% at the end of March.

The only exception to this trend was Malaysia, where the foreign holdings' share plunged 6.6 percentage points to 25.6% at the end of March. The continued decline in Malaysia's foreign holdings' share came after regulations were issued by Bank Negara Malaysia that deterred foreign banks from engaging in nondeliverable forward contracts. Offshore investors' inability to hedge MYR-denominated investments has led to capital outflows. However, in April, the foreign holdings' share began to recover.

In contrast, the foreign holdings' share in LCY corporate bonds in Indonesia and the Republic of Korea, the two corporate markets for which data are available, remained low (**Figure 3**). While there was a marginal uptick in the holdings of LCY corporate bonds in Indonesia by foreign investors, this share remained low relative to foreign

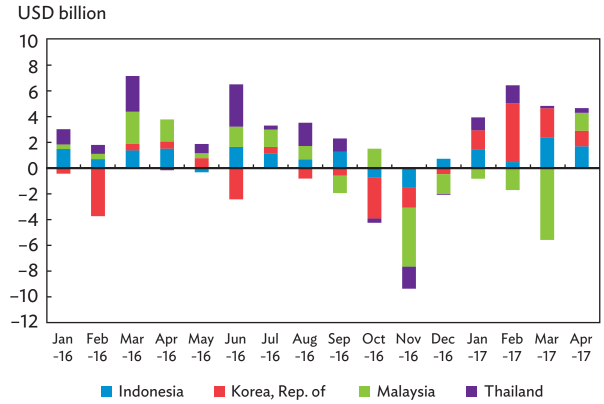
[7] On 19 May, Standard and Poor's Global Ratings raised Indonesia's sovereign credit rating to investment grade.

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



Notes:
1. For Indonesia, data are as of end-March 2017.
2. For the Republic of Korea, data are as of end-December 2016.
Sources: Based on data from Otoritas Jasa Keuangan and the Bank of Korea.

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



Notes:
1. The Republic of Korea and Thailand provided data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data provided as of April 2017.
3. Figures were computed based on 30 April 2017 exchange rates to avoid currency effects.
Sources: Directorate General of Budget Financing and Risk Management, Ministry of Finance; Financial Supervisory Service; Bank Negara Malaysia; and Thai Bond Market Association.

holdings of LCY government bonds. At the end of March, the foreign holdings' share in Indonesia's corporate bond market stood at only 6.7%. In the Republic of Korea, the holdings of foreign investors accounted for less than 0.1% of the total corporate bond stock at the end of December.

Emerging East Asia LCY's bond markets attracted foreign capital in Q1 2017, except in Malaysia.

Foreign funds flowed back to most emerging East Asian LCY bond markets in Q1 2017 following a sell-off in Q4 2016, when capital outflows were recorded in all four markets for which data are available (**Figure 4**). Foreign investors risk appetite rose on an improving outlook in developed economies, which brought renewed interest in emerging market assets.

In Q1 2017, the Republic of Korea, Indonesia, and Thailand experienced a reversal of the foreign capital outflows from their respective bond markets that had occurred in the prior quarter. The Republic of Korea had the largest net foreign capital inflow as offshore investors poured in USD8.3 billion in Q1 2017, a turnaround from an outflow of USD5.3 billion in Q4 2016. Foreign bond flows, while remaining positive, began to slow in the Republic of Korea in March and April. Thailand also posted gains in its bond market as it attracted USD2.6 billion in net foreign capital flow in Q1 2017. In both the Republic of Korea and Thailand, foreign investors were attracted to high levels of foreign exchange reserves and current account surpluses.

In Indonesia, foreign bond inflow into the bond market totaled USD4.3 billion in Q1 2017, also reversing an outflow from its bond market in Q4 2016. Foreign investors remain attracted to Indonesia's bond market due to its relatively high interest rates among peers in emerging East Asia and the positive developments in its domestic economy.

Only Malaysia's bond market saw foreign capital outflow in Q1 2017. In April, however, Malaysia posted positive foreign capital flow after 5 consecutive months of foreign capital outflow.

Emerging East Asia's total LCY bond issuance was down in Q1 2017 as growth in most markets in the region was capped by the decline in issuance in the PRC.

Emerging East Asia's LCY bond issuance fell 11.9% q-o-q to USD852 billion in Q1 2017 from USD946 billion in Q4 2016 as both the region's government and corporate bond markets posted q-o-q contractions (**Table 3**). Total government bond issuance fell 3.7% q-o-q to USD596 billion, while corporate bond issuance declined

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

	Q1 2016		Q4 2016		Q1 2017		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q1 2017		Q1 2017	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	640	100.0	532	100.0	391	100.0	(27.1)	(34.7)	(26.5)	(38.9)
Government	360	56.2	314	59.0	257	65.8	(18.8)	(23.7)	(18.1)	(28.5)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	360	56.2	314	59.0	257	65.8	(18.8)	(23.7)	(18.1)	(28.5)
Corporate	280	43.8	218	41.0	134	34.2	(39.1)	(49.0)	(38.6)	(52.2)
Hong Kong, China										
Total	92	100.0	104	100.0	103	100.0	(0.9)	12.2	(1.1)	12.0
Government	80	87.8	93	89.4	92	89.3	(1.0)	14.0	(1.2)	13.8
Central Bank	80	87.6	92	88.6	91	89.0	(0.4)	14.1	(0.6)	13.8
Treasury and Other Govt.	0.2	0.2	0.8	0.8	0.2	0.2	(72.3)	12.5	(72.4)	12.3
Corporate	11	12.2	11	10.6	11	10.7	0.0	(1.4)	(0.2)	(1.6)
Indonesia										
Total	16	100.0	9	100.0	15	100.0	63.7	(4.5)	65.5	(5.1)
Government	15	93.5	6	68.6	14	88.9	112.3	(9.2)	114.7	(9.8)
Central Bank	3	18.0	1	15.1	0.3	1.7	(81.4)	(90.9)	(81.1)	(91.0)
Treasury and Other Govt.	12	75.5	5	53.5	13	87.2	166.8	10.3	169.9	9.6
Corporate	1	6.5	3	31.4	2	11.1	(42.4)	62.6	(41.8)	61.6
Korea, Rep. of										
Total	159	100.0	139	100.0	165	100.0	10.1	1.1	18.7	3.4
Government	76	47.5	56	40.6	79	48.1	30.4	2.4	40.6	4.7
Central Bank	39	24.7	27	19.1	39	23.8	36.9	(2.6)	47.6	(0.5)
Treasury and Other Govt.	36	22.8	30	21.5	40	24.3	24.6	7.9	34.3	10.3
Corporate	84	52.5	82	59.4	85	51.9	(3.8)	(0.04)	3.7	2.2
Malaysia										
Total	16	100.0	11	100.0	17	100.0	54.4	24.1	56.6	9.3
Government	7	46.0	4	39.2	9	50.5	99.2	36.3	102.0	20.1
Central Bank	0	0.0	1	6.0	0.2	1.1	(71.7)	–	(71.3)	–
Treasury and Other Govt.	7	46.0	4	33.1	9	49.4	130.3	33.3	133.5	17.5
Corporate	9	54.0	7	60.8	9	49.5	25.6	13.6	27.3	0.1
Philippines										
Total	4	100.0	4	100.0	6	100.0	56.1	68.8	54.2	54.5
Government	4	93.4	3	64.9	5	83.6	101.1	51.1	98.7	38.4
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	4	93.4	3	64.9	5	83.6	101.1	51.1	98.7	38.4
Corporate	0.3	6.6	1	35.1	1	16.4	(27.2)	318.7	(28.1)	283.4
Singapore										
Total	58	100.0	62	100.0	72	100.0	12.1	28.1	16.1	23.6
Government	56	95.9	61	98.4	69	95.9	9.3	28.0	13.1	23.6
Central Bank	53	90.7	56	90.2	64	89.1	10.7	25.9	14.6	21.5
Treasury and Other Govt.	3	5.2	5	8.1	5	6.7	(6.8)	65.9	(3.5)	60.1
Corporate	2	4.1	1	1.6	3	4.1	180.8	28.7	190.8	24.2
Thailand										
Total	70	100.0	70	100.0	76	100.0	4.1	6.0	8.5	8.4
Government	60	85.0	56	80.1	66	86.0	11.7	7.2	16.6	9.6
Central Bank	54	77.0	51	72.2	53	70.0	0.9	(3.5)	5.3	(1.4)
Treasury and Other Govt.	6	8.1	6	7.9	12	16.0	110.6	109.5	119.7	114.2
Corporate	11	15.0	14	19.9	11	14.0	(26.8)	(0.6)	(23.7)	1.6

continued on next page

Table 3 *continued*

	Q1 2016		Q4 2016		Q1 2017		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q1 2017		Q1 2017	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	14	100.0	14	100.0	6	100.0	(57.1)	(55.5)	(57.1)	(56.4)
Government	14	98.9	14	98.6	6	100.0	(56.5)	(55.0)	(56.5)	(55.9)
Central Bank	9	65.5	13	90.1	3	50.1	(76.2)	(66.0)	(76.2)	(66.7)
Treasury and Other Govt.	5	33.3	1	8.4	3	49.9	153.6	(33.4)	153.7	(34.7)
Corporate	0.2	1.1	0.2	1.4	0	0.0	(100.0)	(100.0)	(100.0)	(100.0)
Emerging East Asia										
Total	1,069	100.0	946	100.0	852	100.0	(11.9)	(17.2)	(9.9)	(20.3)
Government	671	62.8	608	64.3	596	70.0	(3.7)	(8.0)	(1.9)	(11.2)
Central Bank	239	22.3	240	25.4	252	29.6	2.3	5.5	4.9	5.5
Treasury and Other Govt.	433	40.5	368	38.9	345	40.5	(7.7)	(15.8)	(6.3)	(20.3)
Corporate	398	37.2	338	35.7	255	30.0	(26.4)	(33.0)	(24.4)	(35.8)
Japan										
Total	435	100.0	413	100.0	436	100.0	0.5	(0.8)	5.5	0.3
Government	412	94.8	389	94.1	406	93.1	(0.6)	(2.5)	4.3	(1.5)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	412	94.8	389	94.1	406	93.1	(0.6)	(2.5)	4.3	(1.5)
Corporate	23	5.2	24	5.9	30	6.9	18.4	31.8	24.4	33.2

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. For Hong Kong, China, Q1 2017 corporate bond issuance are carried over from Q4 2016.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. For LCY base, emerging East Asia growth figures are based on 31 March 2017 currency exchange rates and do not include currency effects.
Sources: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (*EDAILY Bondweb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand and ThaiBMA); Viet Nam (Bloomberg LP and Vietnam Bond Market Association); and Japan (Japan Securities Dealers Association).

at a faster pace of 26.4% q-o-q to USD255 billion. Total LCY bond issuance in the region fell 17.2% y-o-y on lower volumes of new issues in both the government and corporate bond markets.

Lower LCY bond issuance in Q1 2017 was driven by the continued decline in issuance in the PRC as the government stepped up its efforts to manage debt levels. The PRC accounted for almost half of the region's total LCY bond issuance in Q1 2017. Meanwhile, most other markets in the region posted robust q-o-q growth rates, driven by higher issuance in their respective government bond markets. The only exceptions were in Hong Kong, China, where bond issuance for Q1 2017 was almost at par with the previous quarter, and in Viet Nam, where total issuance fell 57.1% q-o-q.

Issuance of central government bonds—Treasury bills, Treasury bonds, and other government securities—amounted to USD345 billion in Q1 2017, comprising 40.5% of total LCY bond issuance in the region. Issuance in Q1 2017 declined 7.7% from the previous quarter. The main driver of the decline was the 18.8% q-o-q drop in issuance in the PRC, which accounts for nearly three-fourths of the region's total issuance of central government bonds. However, this was partially offset by growth in other markets, including Indonesia, the Republic of Korea, Malaysia, the Philippines, and Thailand. The higher issuance volumes in these markets were a result of either expanded borrowing programs in 2017 or frontloading policies.

Issuance of central bank bonds, which accounted for 29.6% of the region's total bond issuance, was up 2.3% q-o-q to USD252 billion. The growth was led by higher issuances of Monetary Stabilization Bonds by the Bank of Korea and central bank bills by the MAS.

The region's corporate bond market fell 26.4% q-o-q to USD255 billion at the end of March as most corporate markets in the region reduced issuance volumes. Corporate bond issuance accounted for nearly one-third of the region's total LCY bond issuance for the quarter. The PRC led the region's drop with its corporate bond issuance declining 39.1% q-o-q to USD134 billion. Companies in the Republic of Korea, the second largest issuer of corporate bonds in the region, also issued lower volumes of bonds, declining 3.8% q-o-q. The only markets that posted q-o-q increases were Malaysia and Singapore.

The PRC continues to be the largest issuer of LCY bonds in the region with total issuance of USD391 billion, comprising 45.9% of the regional total. Issuance for the quarter dropped 27.1% q-o-q and 34.7% y-o-y as the government continued its financial deleveraging programs. Issuance of local government bonds declined 50.5% q-o-q to CNY475 billion in Q1 2017 from CNY959 billion in the previous quarter. Issuance of Treasury bonds also fell 20.6% q-o-q to CNY466 billion. Meanwhile, the PRC's corporate bond market fell at a faster pace of 39.1% q-o-q, a result of the liquidity tightening measures implemented by the PBOC, which raised interest rates on its open market operation facilities in Q1 2017 (reverse repurchase agreements, standing lending facility, and midterm lending facility). This resulted in rising bond yields, which has made it more costly for companies to issue bonds.

The Republic of Korea was the second largest bond issuer in the region with total issuance amounting to USD165 billion at the end of March, comprising 19.3% of the regional total. Total issuance grew 10.1% q-o-q, driven by higher issuance of government bonds offsetting the 3.8% q-o-q decline in new corporate issuance. Issuance of government bonds surged 30.4% q-o-q to USD79 billion in Q1 2017, led by increased issuance of both Monetary Stabilization Bonds and Korea Treasury Bonds. The higher issuance of Korea Treasury Bonds was in line with government efforts to prop up the economy by frontloading almost a third of its budget in Q1 2017. The jump in the growth rate was also partly due to the relatively low base in Q4 2016, when both the Ministry of Finance and the Bank of Korea reduced their auction programs to help stabilize market volatility in the latter part of the year.

In Hong Kong, China, total bond issuance of USD103 billion in Q1 2017 was almost at par with that of Q4 2016. Issuance of government bonds contracted 1.0% q-o-q as there was less programmed issuance of Hong Kong Special Administrative Region bonds. From a year earlier, however, total bond issuance in Hong Kong, China increased 12.2%.

Total LCY bond issuance increased the most in Indonesia on a q-o-q basis, rising 63.7% to USD15 billion, largely driven by higher issuance of central government bonds. This was in line with the government's frontloading policy in which it targets to issue some 60.0% of its planned borrowing program in the first half of the year. The accelerated growth rate was also partly due to a relatively low issuance volume in Q4 2016, which saw fewer scheduled auctions, as a result of the frontloading policy implemented in 2016. Meanwhile, corporate bond issuance dropped 42.4% q-o-q to USD2 billion. On a y-o-y basis, Indonesia's bond issuance fell 4.5% as growth in new corporate bonds and central government bonds were offset by the decline in issuance of central bank bonds.

Issuance in the Philippines posted robust growth of 56.1% q-o-q in Q1 2017 to reach USD6 billion at the end of March. The rise was a result of both a larger borrowing program for Q1 2017 and relatively more successful auctions compared with Q4 2016. The volume of new corporate issues in Q1 2017 was tepid compared to the previous quarter as issuers awaited a clearer yield direction given uncertainties in the market. The Philippines total bond issuance grew at a faster pace of 68.8% compared to a year earlier, with higher issuance volumes in both sectors.

In Malaysia, total bond issuance reached USD17 billion, a 54.4% increase from the previous quarter. Increased issuance of central government bonds, particularly Malaysian Government Securities, led the q-o-q growth. The market foresees a higher volume of issuance for the year due to a sizable amount of maturing government securities. New corporate issues also rose in Q1 2017 as borrowers took advantage of low interest rates prior to the Federal Reserve rate hike in March and in anticipation of an upward trend in yields. Compared to the same period a year earlier, issuance in Malaysia rose 24.1%.

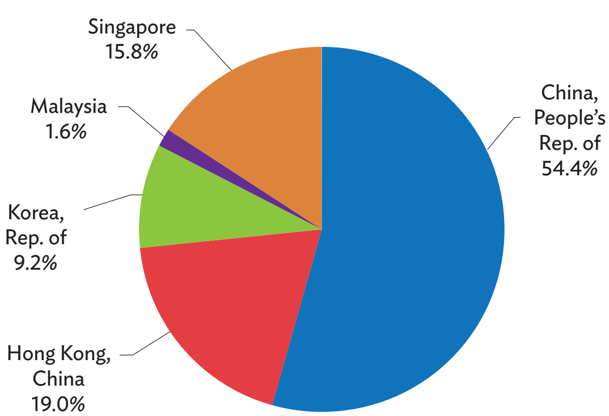
Singapore's LCY bond issuance rose 12.1% q-o-q to USD72 billion, driven by higher issuance of MAS bills, which are used to mop up excess liquidity and manage currency volatility. Singapore's corporate bond market also started the year on a high note with Q1 2017 issuance more than double the volume issued in Q4 2016. On a y-o-y basis, total issuance was up 28.1%, led by growth in new government bond issues.

In Thailand, total bond issuance moderately increased 4.1% q-o-q to USD76 billion as the rise in government bonds was offset by a decline in corporate bond issuance. In Q1 2017, there was a surge in issuance of central government bonds as the government sought to finance its increased 2017 fiscal budget aimed at propping up the economy. Issuance of corporate bonds fell 26.8% q-o-q. From the same period a year earlier, total bond issuance in Thailand rose 6.0%.

Viet Nam was the only market that posted a q-o-q contraction in Q1 2017, falling 57.1% to USD6 billion, led by reduced central bank bond issuance from the State Bank of Viet Nam and a lack of new corporate issues. On a y-o-y basis, total issuance declined 55.5%.

Emerging East Asia's total cross-border bond issuance rose 3.4% q-o-q to USD2.3 billion in Q1 2017, but logged a 11.9% y-o-y contraction compared to Q1 2016. The PRC accounted for the largest share with intra-regional bond issuance totaling USD1.2 billion, representing a 54.4% share of the region's total intra-regional issuance in Q1 2017 (**Figure 5**).

Figure 5: Emerging East Asia Intra-Regional Bond Issuance by Market of Origin in the First Quarter of 2017



Source: Based on data from Bloomberg LP.

A total of HKD9.5 billion (USD1.2 billion) was issued by four firms based in the PRC in Q1 2017, with the largest cross-border issuance coming from state-owned China Development Bank comprising 3-year notes worth HKD7.8 billion and priced at par to yield 1.443%. In Hong Kong, China, a total of CNY3.0 billion worth of debt securities with tenors ranging from 3 months to 5 years were sold by five institutions, with the largest issuance being the CNY1.1 billion 5-year bond sale made by Zhuhai United Laboratories.

Cross-border issuance from the Republic of Korea totaled USD207.8 million in Q1 2017, comprising 3–5-year notes denominated mostly in Chinese yuan, and one each in Hong Kong dollar and Singapore dollar. State-owned Korea Development Bank was the largest issuer with CNY-denominated bonds worth CNY650 million and SGD-denominated bonds worth SGD70 million.

Cagamas, Malaysia's national mortgage corporation, issued a SGD850 million cross-border bond with a 3-year maturity and a coupon rate of 1.85%. Most of the cross-border bonds in Singapore were issued by financial institutions with a combined total issuance of USD356.6 million, denominated in Chinese yuan, Hong Kong dollar, Indonesian rupiah, and Philippine peso. The largest issuance amounted to CNY1 billion (USD149.9 million) with a 5-year tenor and a coupon rate of 5.6% issued by Deutsche Bank in Singapore. This was followed by a dual-tranche offering from the Development Bank of Singapore with a combined amount of HKD900 million.

Of the total cross-border issuance in Q1 2017, 63.3% was denominated in Hong Kong dollar, 31.6% in Chinese yuan, and the rest was denominated in Singapore dollar (3.8%), Indonesian rupiah (0.8%), and Philippine peso (0.4%).

G3 currency bond issuance from emerging East Asia surged in January–April.

G3 currency bond issuance from emerging East Asia in January–April increased 81.6% y-o-y to USD103,478 million **(Table 4)**.[8] The value was already almost half the total G3 currency bond sales in full-year 2016 as borrowers flocked to the debt market to take

[8] G3 currency bonds are bonds denominated in either euro, Japanese yen, or US dollar.

Table 4: G3 Currency Bond Issuance

2016		
Issuer	**Amount (USD million)**	**Issue Date**
China, People's Rep. of	**120,019**	
China Cinda Asset Management 4.45% Perpetual	3,200	30-Sep-16
Proven Honour Capital 4.125% 2026	2,000	6-May-16
China Minsheng Banking 4.95% Perpetual	1,439	14-Dec-16
Huarong Finance 3.625% 2021	1,350	22-Nov-16
Sinopec 2% 2021	1,300	29-Sep-16
Export–Import Bank of China 2% 2021	1,250	26-Apr-16
Export–Import Bank of China 0.25% 2019	1,209	2-Dec-16
Sinopec 1.75% 2019	1,100	29-Sep-16
Others	107,171	
Hong Kong, China	**29,204**	
China Overseas Finance 0% 2023	1,500	5-Jan-16
CK Hutchison 1.25% 2023	1,420	8-Apr-16
Others	26,284	
Indonesia	**17,888**	
Perusahaan Penerbit SBSN *Sukuk* 4.55% 2026	1,750	29-Mar-16
Indonesia (Sovereign) 2.625% 2023	1,578	14-Jun-16
Indonesia (Sovereign) 3.75% 2028	1,578	14-Jun-16
Indonesia (Sovereign) 5.25% 2047	1,500	8-Dec-16
Indonesia (Sovereign) 4.35 2027	1,250	8-Dec-16
Others	10,233	
Korea, Rep. of	**28,593**	
Korea Development Bank 3% 2026	1,000	13-Jan-16
Korea Eximbank 1.75% 2019	1,000	26-May-16
Korea Eximbank 2.625% 2026	1,000	26-May-16
Others	25,593	
Lao People's Democratic Rep.	**312**	
Malaysia	**6,026**	
Malaysia (Sovereign) *Sukuk* 3.179% 2026	1,000	27-Apr-16
Danga Capital 3.035% 2021	750	1-Mar-16
TNB Global Ventures Capital 3.244% 2026	750	19-Oct-16
Others	3,526	
Philippines	**2,675**	
Philippines (Sovereign) 3.7% 2041	2,000	1-Mar-16
Others	675	
Singapore	**9,636**	
BOC Aviation 3.875% 2026	750	27-Apr-16
DBS Group 3.6% Perpetual	750	7-Sep-16
Others	8,136	
Thailand	**1,225**	
Kasikorn Bank 2.375% 2022	400	6-Oct-16
Others	825	
Emerging East Asia Total	**215,579**	
Memo Items:		
India	**8,354**	
Export–Import Bank of India 3.375% 2026	1,000	5-Aug-16
Others	7,354	
Sri Lanka	**2,916**	

January–April 2017		
Issuer	**Amount (USD million)**	**Issue Date**
China, People's Rep. of	**65,189**	
China Zheshang Bank 5.45% 2050	2,175	29-Mar-17
China Development Bank 0.125% 2020	1,634	24-Jan-17
China Huarong Asset Management 4.5% 2050	1,500	24-Jan-17
Industrial and Commercial Bank of China 2.103% 2022	1,450	24-Apr-17
Bank of China 1.806% 2020	1,200	14-Feb-17
Export–Import Bank of China 2.625% 2022	1,150	14-Mar-17
China Development Bank (HK) 1.8% 2022	1,150	06-Mar-17
ICBCIL Finance Co. Limited 3.00% 2020	1,150	05-Apr-17
China Huarong Asset Management 3.375% 2020	1,100	24-Jan-17
Sinopec 3.0% 2022	1,100	12-Apr-17
Others	51,580	
Hong Kong, China	**12,034**	
China Cinda Finance 3.65% 2022	1,300	09-Mar-17
Hong Kong, China (Sovereign) *Sukuk* 3.132% 2027	1,000	28-Feb-17
CK Hutchison International 2.875% 2022	1,000	05-Apr-17
CK Hutchison International 3.5% 2027	800	05-Apr-17
Others	7,934	
Indonesia	**6,885**	
Perusahaan Penerbit SBSN *Sukuk* 4.15% 2027	2,000	29-Mar-17
Perusahaan Penerbit SBSN *Sukuk* 3.4% 2022	1,000	29-Mar-17
Others	3,885	
Korea, Rep. of	**9,952**	
Republic of Korea (Sovereign) 2.75% 2027	1,000	19-Jan-17
Hyundai 3.0% 2022	600	
Others	8,352	
Malaysia	**2,542**	
Genting Overseas Holdings Limited Capital 4.25% 2027	1,000	24-Jan-17
CIMB Bank 1.931% 2020	600	15-Mar-17
CIMB Bank 3.263% 2022	500	15-Mar-17
Others	442	
Philippines	**2,000**	
Republic of the Philippines (Sovereign) 3.7% 2042	2,000	02-Feb-17
Singapore	**4,312**	
DBS Bank 0.375% 2024	817	23-Jan-17
Trafigura Group 6.875% 2050	600	21-Mar-17
Oversea-Chinese Banking Corporation 0.25% 2022	545	21-Mar-17
United Overseas Bank 0.125% 2022	545	02-Mar-17
United Overseas Bank 2.125% 2020	500	02-Mar-17
Others	1,306	
Thailand	**563**	
Siam Commercial Bank 3.2% 2022	400	26-Jan-17
Others	163	
Emerging East Asia Total	**103,478**	
Memo Items:		
India	**6,181**	
Vedanta Resources 6.375% 2022	1,000	30-Jan-17
Others	5,181	
Sri Lanka	**1,431**	

USD = United States dollar.
Notes:
1. Data exclude certificates of deposit.
2. G3 currency bonds are bonds denominated in either euro, Japanese yen, or US dollar.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

advantage of relatively low interest rates before the Federal Reserve further hikes policy rates later this year and the consequent strengthening of the US dollar.

Bonds denominated in US dollar accounted for the largest share of G3 issuance during January–April, reaching USD94,818 million, or 91.6% of the total. EUR-denominated bonds amounted to USD7,915 million and JPY-denominated bonds reached USD745 million, comprising 7.6% and 0.7% of the total, respectively.

All markets in emerging East Asia saw an increase in G3 currency bond issuance in the first 4 months of the year from the same period in 2016 except for the Republic of Korea, Malaysia, and Singapore. The PRC posted the fastest y-o-y increase in January–April, while Malaysia had the largest y-o-y decline. Of the markets under review, 84.2% of G3 currency issuance came from the PRC; Hong Kong, China; and the Republic of Korea while the remaining 15.8% was from Association of Southeast Asian Nations (ASEAN) markets.

Issuers from the PRC drove the growth of G3 currency bonds sales in emerging East Asia in January–April, totaling USD65,189 million, or 63.0% of the new issuance. USD-denominated bonds accounted for 91.0% of the total, while 9.0% were denominated in euros.

The increase in G3 currency bonds from PRC-based issuers can be traced to the PBOC's stance of encouraging banks to issue more USD-denominated bonds offshore.[9] The PBOC has not given its reasons but market participants speculate that the central bank's stance is meant to control the depreciation of the Chinese yuan. Furthermore, the issuance of USD-denominated bonds by banks may be intended to support the offshore activities of state-owned enterprises (SOEs). Internationally known Chinese banks can tap the capital market at lower borrowing costs than most SOEs. As such, the proceeds from these debt securities can be lent to SOEs for their funding requirements. Tightening financial conditions in the PRC also contributed to the surge in G3 currency bonds, making it difficult for issuers to raise funds from the onshore debt market and forcing them, including junk-rated firms, to tap offshore financing by issuing USD-denominated bonds. However, regulators have looked at cutting this channel to abate risk.

In January–April, USD-denominated bond issuance from the PRC amounted to USD59,289 million, with 73.4% emanating from the financial sector. In comparison, USD21,148 million in USD-denominated bonds were issued in January–April 2016.

Huarong Asset Management Company, the PRC's largest financial asset management company with a focus on distressed debt management, was the biggest seller of G3 currency bonds among PRC-based issuers. Its total debt issuance during the period reached USD5,570 million from the multitranche sale of USD-denominated bonds. China Development Bank sold USD4,070 million of G3 currency bonds, which included three USD-denominated bonds amounting to USD2,000 million and two EUR-denominated bonds valued at EUR1,900 million.

Issuers in Hong Kong, China sold USD12,034 million of G3 currency bonds in January–April, a 59.2% y-o-y hike from the same period in 2016. Hong Kong, China was the second highest issuer of G3 currency bonds in the region, comprising 11.6% of the regional issuance total during the review period. The bulk of its G3 currency bonds during the period were sold in March, with the monthly total (largely in US dollar) amounting to USD4,902 million. China Cinda Asset Management Company had the highest aggregated issuance in January–April from a multitranche sale of USD-denominated bonds totaling USD3,000 million. This included a 5-year USD1,300 million bond with a coupon rate of 3.65%, the single largest G3 currency issuance in Hong Kong, China during the period.

The Republic of Korea's issuance of G3 currency bonds declined 7.1% y-o-y to USD9,952 million in January–April. A large share of the issuance came from the government with a total of USD7,235 million, followed by the financial sector, which included banks, with USD2,289 million. Government-owned Export–Import Bank of Korea and the Korea Development Bank were the top sellers of G3 currency bonds. Each had a total sale of USD1,800 million from a multitranche sale of USD-denominated bonds.

G3 currency issuance from ASEAN markets totaled USD16,302 million in January–April, 6.4% higher than in

[9] Reuters. *Chinese Banks Told To Issue Dollar-Denominated Debt-Sources*. 22 January 2017. http://www.reuters.com/article/china-outflows-bonds-idUSL4N1FD1NI

the same period in 2016. The bond sales accounted for 43.0% of the full-year 2016 total issuance in the ASEAN region. Five out of the 10 members of ASEAN issued G3 currency bonds in January–April: Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Indonesia continued to lead the group in terms of bond sales.

Indonesia's G3 currency bond issuance reached USD6,885 million in the first 4 months of 2017, supported by the Government of Indonesia's sale of USD-denominated *sukuk* in March comprising a USD2,000 million 10-year bond with a coupon rate of 4.15% and a USD1,000 million 5-year bond with a coupon rate of 3.4%. Issuance of G3 bonds grew 49.7% y-o-y in January–April, largely driven by issuance from the government.

Singapore's G3 issuance was down 7.5% y-o-y at USD4,312 million. Most of the issuances in the first 4 months of the year were sold in March and were dominated by banks. United Overseas Bank had the highest aggregate issuance in January–April of USD1,095 million, comprising two tranches of USD-denominated bonds totaling USD550 million and EUR-denominated bonds of EUR500 million. The largest single issuance during the period was DBS Bank's 7-year EUR750 million carrying a coupon rate of 0.375%.

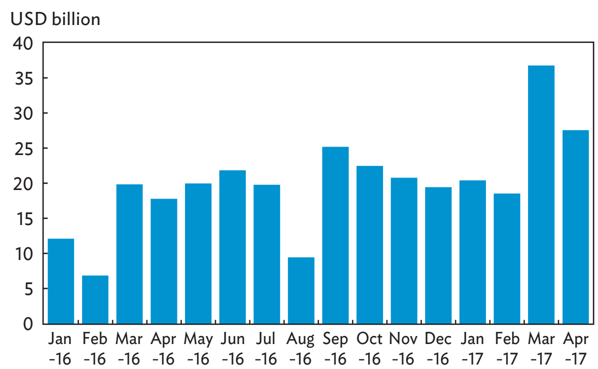
Among the three markets with an annual decline in G3 currency bond issuance in January–April, Malaysia had the largest drop of 31.0% y-o-y to USD2,542 million. Its pale issuance of G3 currency bonds can be attributed to the relative weakness of the Malaysian ringgit, which made it more expensive to borrow in G3 currency. CIMB Bank was the largest G3 bond issuer, totaling USD1,117 million from a multitranche sale.

The Philippines' sole G3 currency issuance was the government's USD2,000 million global bond issued in February with a 25-year tenor and priced at a 3.7% coupon rate. The USD500 million component was new money and USD1,500 million was a switch tender with shorter-dated and more expensive debt. In March 2016, the Government of the Philippines also issued USD-denominated 25-year global bonds worth USD2,000 million.

Thailand's issuance was the smallest amount of G3 currency bonds among emerging East Asian issuers in January–April at USD562.6 million, though this was up 50.0% y-o-y. Siam Commercial Bank sold USD400 million of 5-year bonds, topping Thailand's other two issuers during the period.

On a monthly basis, a surge in total G3 currency bond issuance was seen in March and April, with March issuance pulling up the January–April tally (**Figure 6**). It advanced by 84.9% y-o-y to USD36,374 million and comprised 35.6% of the total G3 currency bonds issued during the period. The high level of issuance in March coincided with the Federal Reserve's monetary policy meeting in which it raised the federal funds rate by 0.25 percentage points. This move may have prompted entities to increase their borrowing before market rates eventually adjusted and the US dollar further appreciated. While still remaining high, a 25.0% month-on-month drop in G3 bond issuance was seen in April, with the monthly total falling to USD27,610 million. The decline may be attributed to the wait-and-see stance of market participants who are seeking policy leads, particularly on when the Federal Reserve will further hike its key rate. Nonetheless, G3 bond issuance in emerging East Asia in April was up 54.7% y-o-y. Monthly G3 currency bond issuance levels in January–April were higher than the average monthly issuance in January–April 2016 of USD14,213 million and the 2016 monthly average of USD18,016 million.

Figure 6: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.
Notes:
1. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euro, Japanese yen, or US dollar.
3. Figures were computed based on 30 April 2017 currency exchange rates and do not include currency effects.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Government bond yields in most emerging East Asian markets fell for most tenors following a decline in US interest rates at the long-end of the curve and on positive investor sentiment.

Bond markets in emerging East Asia continued to benefit in Q1 2017 from optimism that global economic growth is improving. Some bond markets also tracked a decline in US interest rates that occurred following the Federal Reserve's rate hike in March.

On 14 March, the Federal Reserve raised its federal funds target range by 25 basis points (bps) to 0.75%–1.0%. The Federal Reserve noted that the US labor market continued to strengthen and that inflation was expected to meet its 2.0% target over the medium term.

However, Q1 2017 data also showed a slowdown in economic growth in the US. GDP expanded at an annual rate of 1.2% in Q1 2017 versus 2.1% in Q4 2016. In March, nonfarm payrolls only added 50,000 jobs versus 232,000 in February.

However, the Federal Reserve noted in its 3 May meeting that the economic weakness is temporary and the economy would resume gaining strength. More recent data seemed to confirm this. The unemployment rate fell to 4.3% in May from 4.4% in April, while nonfarm payroll additions reached 138,000 in May. Industrial production also grew 1.0% month-on-month in April, the largest increase since February 2014.

In the eurozone, the European Central Bank said that, while downside risks have abated, monetary policy needs to remain accommodative in order to support the economic recovery. In March, the central bank raised some of its forecasts for GDP and inflation.

The Bank of Japan maintained that the domestic economy will continue to run above its growth potential for 2018 and 2019. Q1 2017 annualized GDP growth in Japan reached 1.0%.

A number of economies in emerging East Asia also showed accelerating gains. The PRC's GDP growth rate of 6.9% y-o-y in Q1 2017 was up from 6.8% y-o-y growth in the previous quarter. Hong Kong, China's GDP expanded 4.3% y-o-y in Q1 2017 after growing 3.2% y-o-y in Q4 2016. Indonesia's economy also showed gains with GDP growth inching up to 5.0% y-o-y from 4.9% y-o-y in the same period. The Republic of Korea's GDP growth rate rose to 2.9% y-o-y in Q1 2017 from 2.4% y-o-y in Q4 2016. In Malaysia, the economy expanded faster than expected at 5.6% y-o-y in Q1 2017, up from 4.5% y-o-y in Q4 2016. Lastly, Thailand's GDP growth accelerated to 3.3% y-o-y in Q1 2017 from 3.0% y-o-y in the prior quarter.

Improved investor sentiment led to declines in the yield for 2-year tenors in the Republic of Korea, Indonesia, Malaysia, and Thailand (**Figures 7a, 7b**). The 2-year yield also declined in Hong Kong, China due to strengthened liquidity, while Singapore's 2-year yield closely tracked that of the US.

For the 10-year yield, Singapore closely tracked US yields (**Figure 8a**), while positive sentiment drove rates lower in Indonesia and Malaysia (**Figure 8b**). In Hong Kong, China, the 10-year yield fell on high levels of domestic liquidity.

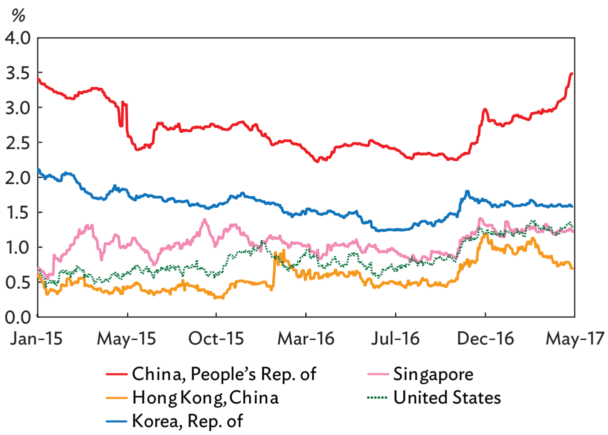
It was only in the PRC and the Philippines where both the 2-year and 10-year yields saw increases. In the case of the PRC, the rise in yields was consistent with the government's deleveraging efforts, causing borrowing costs to rise. In the Philippines, the higher yields were driven by rising inflation. The Bangko Sentral ng Pilipinas, in its monetary policy statement on 11 May, said that while inflation is still within the target range, inflation risk was biased to the upside.

The improved investor sentiment in emerging East Asia was also seen in positive bond inflows and gains in the share of foreign investor holdings. Optimism and gains in economic growth led to better asset prices in the region's foreign exchange and equity markets.

Other than movements in the 2-year and 10-year yields, downward shifts were noted for most tenors in most emerging East Asian government bond yield curves between 1 March and 15 May (**Figure 9**). The yield curve shifted downward for all tenors in Hong Kong, China and Indonesia.

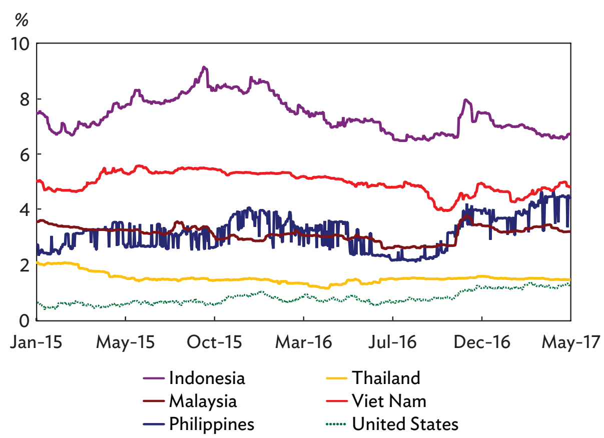
Indonesia had the greatest decline in its yields, with yields falling an average of 41 bps. Investors are bullish over Indonesia's improving macroeconomic and

Figure 7a: 2-Year Local Currency Government Bond Yields



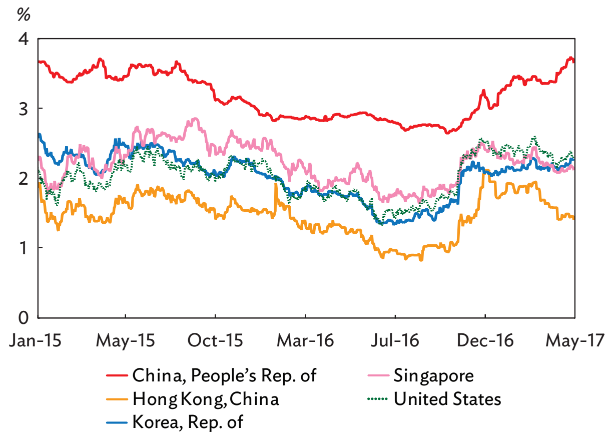
Note: Data as of 15 May 2017.
Source: Based on data from Bloomberg LP.

Figure 7b: 2-Year Local Currency Government Bond Yields



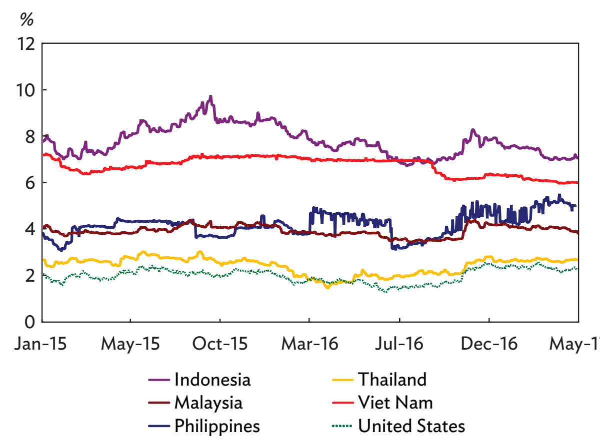
Note: Data as of 15 May 2017.
Source: Based on data from Bloomberg LP.

Figure 8a: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 May 2017.
Source: Based on data from Bloomberg LP.

Figure 8b: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 May 2017.
Source: Based on data from Bloomberg LP.

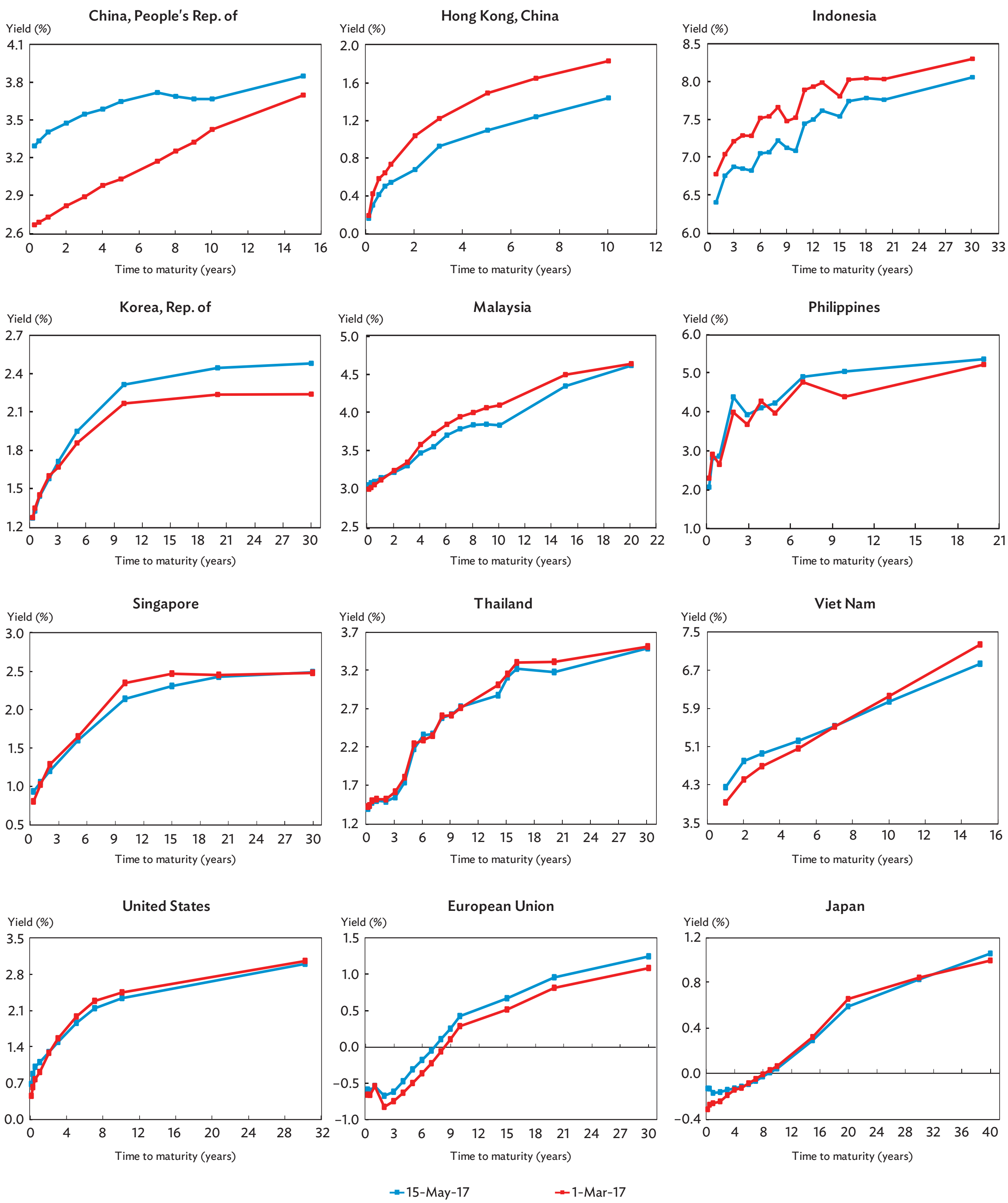
financial conditions, as well as positive revisions from a number of credit ratings agencies to Indonesia's outlook.

The yield curve fell for most tenors in Malaysia, Singapore, and Thailand. However, the yield curve for the Republic of Korea mostly shifted upward. While the Republic of Korea's yields tracked US yields for the most part, uncertainties in the direction of domestic policy and geopolitical risk placed upward pressure on its yields.

In the Philippines and Viet Nam, the yield curve shifted upward for most tenors on rising inflation, while the yield curve rose for all tenors in the PRC due to continued deleveraging.

Consistent with improving economic growth, a majority of emerging East Asian economies saw inflation rates peak in January–February before easing somewhat in March–April. The decline in inflation from these peaks follows the significant decline in oil prices in March. Oil prices hit a temporary peak of USD54.48 per barrel on 23 February but had fallen to USD47.02 by 27 March, driven by rising oil inventories in the US.

Figure 9: Benchmark Yield Curves—Local Currency Government Bonds

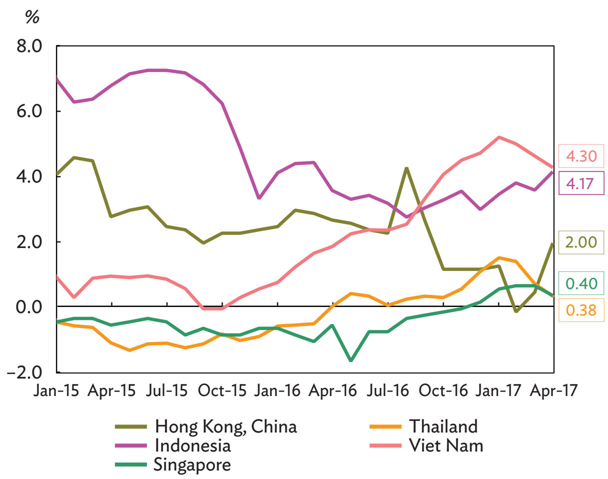


Source: Based on data from Bloomberg LP.

The exceptions to this inflation trend include Indonesia and the Philippines where inflation rates continued to rise due to higher energy prices (**Figure 10a, 10b**). Inflation also remained elevated in Viet Nam despite slowing in April. In Hong Kong, China, inflation fell in February and rebounded in March. However, inflation was distorted by the timing of the Lunar New Year, with inflation actually falling if the March inflation figure is compared to the average of January–February.

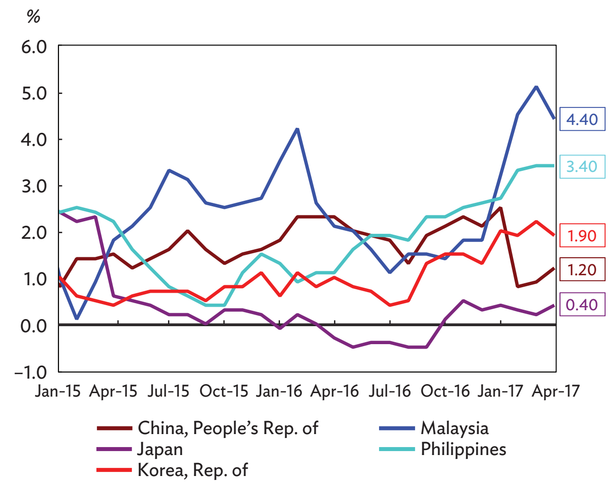
Nearly all central banks kept their policy rates steady from 1 January to 15 May with the exception of Hong Kong, China (**Figures 11a, 11b**). Its lack of an independent monetary policy dictates that its policy rate follows movements in the US policy rate. Most central banks have kept policy rates steady as economic growth picks up and inflation is rising since they are still not at the levels at which central banks would feel the need to act. Some central banks are also monitoring global developments and awaiting further clarity.

Figure 10a: Headline Inflation Rates



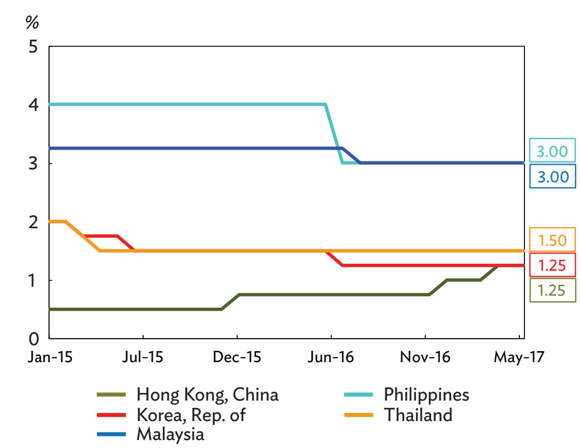
Note: Data as of April 2017.
Source: Based on data from Bloomberg LP.

Figure 10b: Headline Inflation Rates



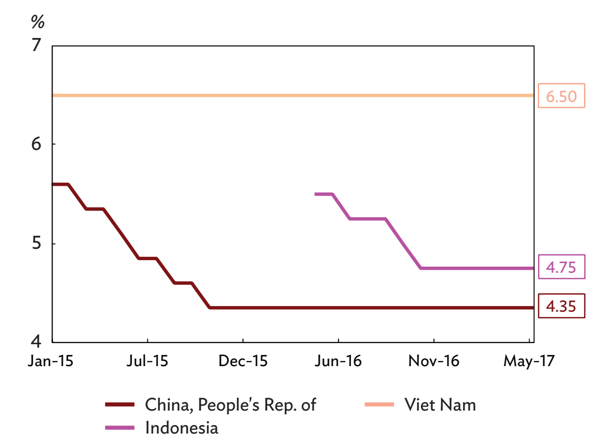
Note: Data as of April 2017.
Source: Based on data from Bloomberg LP.

Figure 11a: Policy Rates



Notes:
1. Data as of 15 May 2017.
2. The policy rate of the Philippines was adjusted to 3.0% from 4.0% in June 2016 following the shift in the Bangko Sentral ng Pilipinas' monetary operations to an interest rate corridor system.
Source: Based on data from Bloomberg LP.

Figure 11b: Policy Rates



Notes:
1. Data as of 15 May 2017.
2. Bank Indonesia shifted its policy rate to the 7-day reverse repurchase rate effective 19 August 2016.
Source: Based on data from Bloomberg LP.

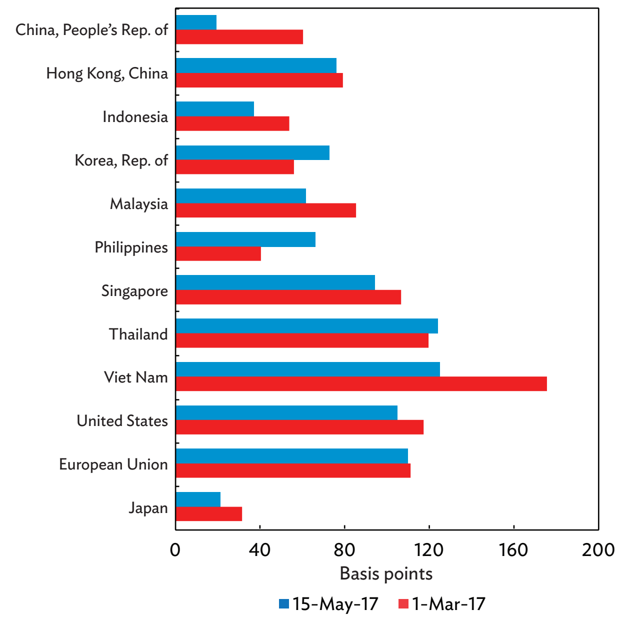
During the review period from 1 March to 15 May, the 2-year versus 10-year yield spread fell in nearly all markets except for the Republic of Korea, the Philippines, and Thailand (**Figure 12**).

The AAA-rated corporate yield versus government yield spread rose in the PRC, the Republic of Korea, and Malaysia.

The difference between AAA-rated corporate yields and government yields rose from 1 March to 15 May in all three markets (**Figure 13a**). In the PRC, the rise was due to heightened risk aversion amid continued deleveraging.

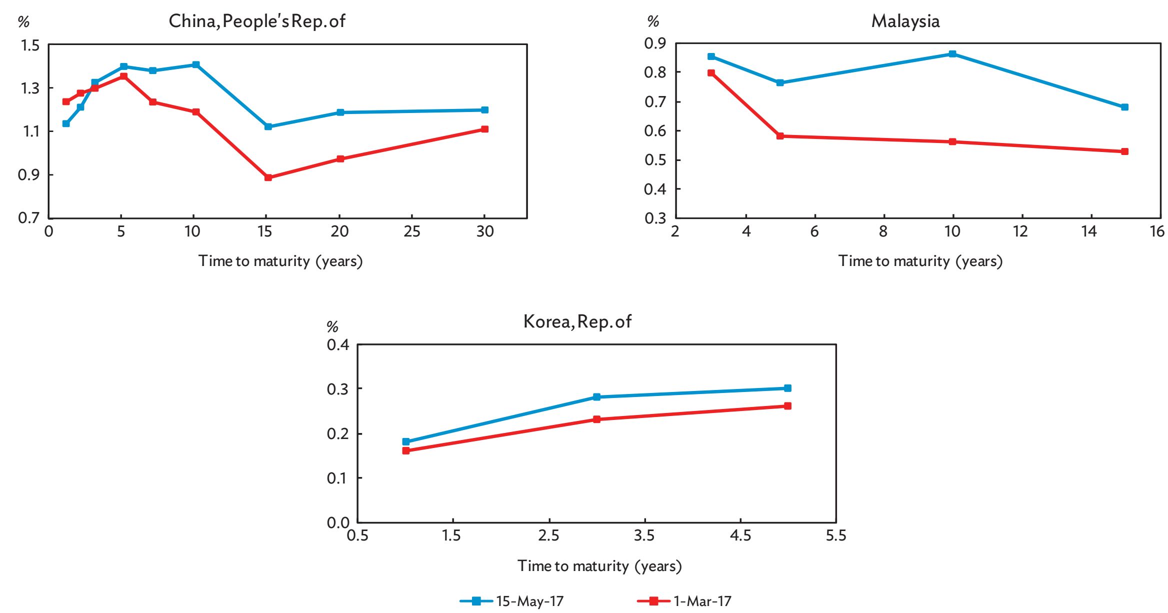
In the PRC and the Republic of Korea, the yield spreads between AAA-rated corporates and lower-rated corporates were mostly unchanged between 1 March and 15 May (**Figure 13b**).

Figure 12: Yield Spreads Between 2-Year and 10-Year Government Bonds



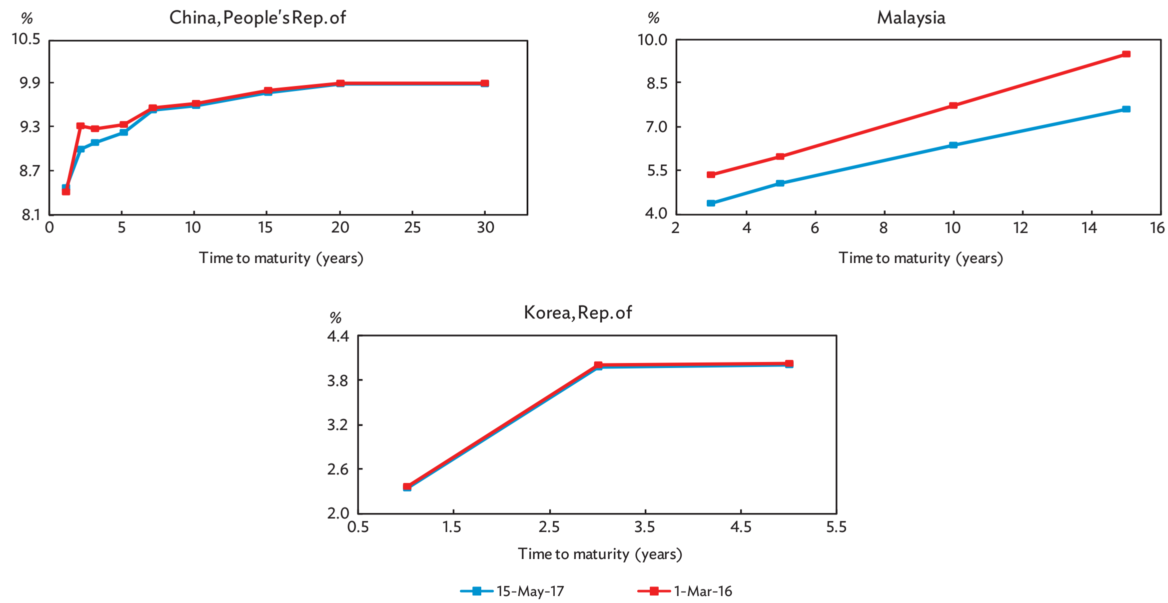
Source: Based on data from Bloomberg LP.

Figure 13a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Notes:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For Malaysia, data on corporate bond yields are as of 28 February 2017 and 12 May 2017.
Sources: People's Republic of China (*Wind Information*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (Bank Negara Malaysia).

Figure 13b: Credit Spreads—Lower-Rated Local Currency Corporates vs. AAA



Notes:
1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
3. For Malaysia, data on corporate bond yields are as of 28 February 2017 and 12 May 2017.

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