Market Summaries

People's Republic of China

Yield Movements

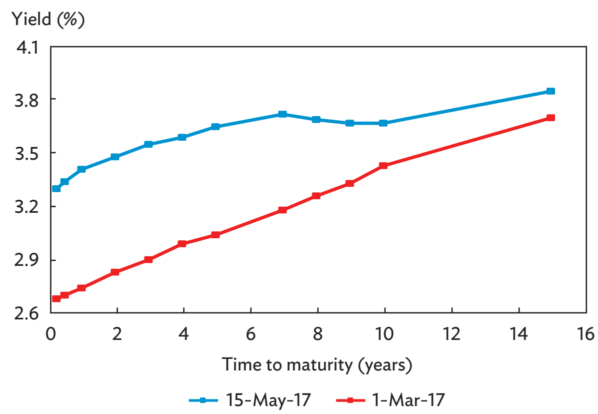
The local currency (LCY) government bond yield curve of the People's Republic of China (PRC) shifted strongly upward between 1 March and 15 May for all tenors (**Figure 1**). Yields gained the most for tenors of 5 years or less, with yields rising between 60 basis points (bps) and 67 bps. For tenors longer than 5 years, yields rose between 15 bps and 54 bps. As a result of the much faster rise at the short-end of the curve, the 2-year versus 10-year yield spread fell to 19 bps on 15 May from 60 bps on 1 March.

The rise in yields in the PRC was largely due to efforts by the government to reduce credit risk in its financial markets through a mix of regulatory and market-based measures. These measures include raising interest rates on various open market operation tools to reduce lending by financial institutions and increase costs for borrowers. On 24 January, the People's Bank of China (PBOC) raised interest rates on its 6-month and 1-year Medium-Term Lending Facility by 10 bps each. On 3 February, the central bank raised interest rates on its reverse repurchase agreements by 10 bps and on its Standing Lending Facility by 35 bps. The PBOC raised rates again on its reverse repurchase operations and Medium-Term Lending Facility by 10 bps each on 16 March.

In January, the PRC reportedly instructed banks to reduce lending, particularly mortgage lending, during the first quarter (Q1) of 2017. The PRC also sought to impose additional oversight on wealth management products by increasing disclosure requirements and, as of May 2017, was planning to raise capital requirements on banks.

Despite deleveraging efforts, the PRC reported real gross domestic product (GDP) growth of 6.9% year-on-year (y-o-y) in Q1 2017, up from GDP growth of 6.8% y-o-y in the fourth quarter (Q4) of 2016. The gains in the GDP growth rate were driven mostly by the manufacturing sector, which grew 6.4% y-o-y in Q1 2017 compared with 6.1% y-o-y in Q4 2016. The PRC is targeting slower GDP growth of 6.5% in full-year 2017 versus an actual growth of 6.7% in 2016.

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



Source: Based on data from Bloomberg LP.

Inflation in the PRC has been relatively soft. In 2017, consumer price inflation peaked at 2.5% y-o-y in January and fell to 0.8% y-o-y in February before rising slightly to 0.9% y-o-y in March and 1.2% in April.

Size and Composition

The PRC's outstanding LCY bonds rose 0.8% quarter-on-quarter (q-o-q) and 17.2% y-o-y to reach CNY49.9 trillion (USD7.2 trillion) at the end of March (**Table 1**).

Government Bonds. Growth in the PRC's bond market was driven mostly by increases in government bonds outstanding, which gained 1.6% q-o-q and 26.3% y-o-y to CNY35.1 trillion. The slower growth rates in Q1 2017 versus Q4 2016 were due to an overall decline in government bond issuance (except policy bank bonds) as authorities concerned with credit risk in the PRC's bond markets continued with efforts to reduce risk.

In particular, growth rates for municipal bonds slowed, with local government bonds outstanding growing 3.6% q-o-q in Q1 2017 after rising 9.3% q-o-q in Q4 2016. In April, the PRC announced that local government bond issuance would be governed by a formula to limit

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**42,569**	**6,596**	**49,510**	**7,129**	**49,895**	**7,245**	**4.9**	**28.2**	**0.8**	**17.2**
Government	27,791	4,306	34,545	4,974	35,113	5,098	5.2	33.0	1.6	26.3
Treasury Bonds	15,856	2,457	22,142	3,188	22,510	3,268	5.8	54.5	1.66	42.0
Central Bank Bonds	428	66	6	1	0	0	0.0	0.0	(100.0)	(100.0)
Policy Bank Bonds	11,507	1,783	12,397	1,785	12,604	1,830	4.6	12.8	1.7	9.5
Corporate	14,778	2,290	14,965	2,155	14,782	2,146	4.3	20.1	(1.2)	0.03
Policy Bank Bonds										
China Development Bank	6,816	1,056	7,081	1,020	7,185	1,043	3.3	7.6	1.5	5.4
Export–Import Bank of China	1,913	296	2,133	307	2,190	318	3.3	12.9	2.7	14.5
Agricultural Devt. Bank of China	2,778	430	3,184	458	3,229	469	9.2	27.9	1.4	16.2

( ) = negative, CNY = Chinese yuan, 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. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period LCY–USD rate is used.
4. Growth rates are calculated from an LCY base and do not include currency effects.
Sources: *ChinaBond*, *Wind Info*, and Bloomberg LP.

debt issuance by riskier local governments. However, overall local government bond issuance is still expected to increase in 2017 as the quota for local government bonds outstanding was raised from CNY17.2 trillion to CNY18.8 trillion.

Central bank bonds outstanding fell to zero in Q1 2017 as all remaining central bank bonds have matured since the cessation of central bank bond issuance by the PBOC in 2014. In contrast to slowing growth in other government bonds, policy bank bonds grew 1.7% q-o-q in Q1 2017 versus 1.5% q-o-q in the previous quarter.

Corporate Bonds. Corporate bonds outstanding declined in Q1 2017, falling 1.2% q-o-q and growing only 0.03% y-o-y to CNY14.8 trillion at the end of March (**Table 2**). The decline was mostly due to slowing growth in medium-term notes and a dip in outstanding commercial paper. Medium-term notes expanded 0.5% q-o-q in Q1 2017, while commercial paper declined 10.8% q-o-q. All other major corporate bond categories showed q-o-q declines except commercial bank bonds and Tier 2 notes, albeit not to the extent of commercial paper. The decline in corporate bonds outstanding is a result of the PRC's continued deleveraging efforts, which has led to a decline in issuance amid rising interest rates. Commercial paper was most affected with the rise in interest rates, leading to a reluctance by corporate borrowers to issue short-term debt.

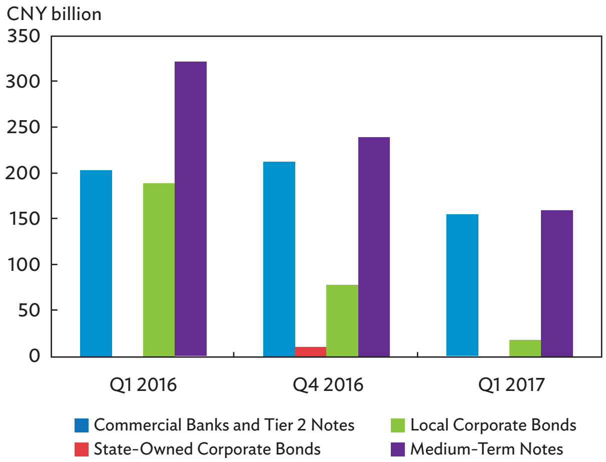
As a result of deleveraging, corporate bond issuance declined 39.1% q-o-q, with all major corporate bond categories showing declines in Q1 2017 (**Figure 2**). The smallest declines were seen in commercial bank bonds

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q1 2016		Q1 2017	
	Q1 2016	Q4 2016	Q1 2017	q-o-q	y-o-y	q-o-q	y-o-y
Commercial Bank Bonds and Tier 2 Notes	2,196	2,522	2,534	1.1	34.0	0.5	15.4
SOE Bonds	583	546	542	1.0	(4.8)	(0.6)	(7.0)
Local Corporate Bonds	2,690	2,936	2,912	1.1	13.2	(0.8)	8.3
Commercial Paper	2,841	2,144	1,912	1.1	31.3	(10.8)	(32.7)
Medium-Term Notes	4,575	4,678	4,701	1.0	13.3	0.5	2.8

( ) = 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 Info*.

Figure 2: Corporate Bond Issuance in Key Sectors



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

and Tier 2 notes, where issuance fell 27.2% q-o-q as financial institutions continued issuance for the purpose of raising capital and boosting liquidity with long-term funding.

The decline in issuance stemmed from deleveraging, which raised borrowing costs for issuers. Risk aversion resulting from recent corporate bond defaults also led to rising interest rates.

The PRC's corporate bond market is dominated by a few big issuers (**Table 3**). At the end of Q4 2016, the top 30 corporate bond issuers accounted for CNY5.8 trillion worth of corporate bonds outstanding, or about 39.5% of the total market. Out of the top 30, the 10 largest issuers accounted for CNY3.8 trillion.

The top 30 issuer list is dominated by banks, owing to the continued issuance of commercial bank bonds as banks accelerate their fund-raising amid turmoil in credit markets in order to strengthen their capital base and improve liquidity by using long-term funding. Among the top 30 corporate issuers at the end of March, 14 were in the banking industry.

Table 4 lists the most notable corporate bond issuances in Q1 2017. Most companies on the list are from the banking sector, while one issuer, China Railway, is from the infrastructure sector.

Investor Profile

Treasury Bonds and Policy Bank Bonds. Banks' share of investments in Treasury bonds, including policy bank bonds, continued to fall in Q1 2017, declining to 67.9% at the end of March from 71.9% a year earlier (**Figure 3**). The share of funds institutions rose to 13.6% from 10.3% during the review period.

Corporate Bonds. Due to continued declines in the share of bank holdings of corporate bonds, funds institutions are now the largest investor in the PRC's LCY corporate bond market, with their share rising to 47.5% at the end of March from 38.1% a year earlier (**Figure 4**). Banks' share continued to decline in Q1 2017, falling to 15.9% from 21.3% in Q1 2016. The larger drop in banks' share of corporate bonds versus Treasury bonds was due to rising risk aversion driven by credit defaults as well as the PRC's deleveraging efforts.

Figure 5 details the investor profile across different corporate bond categories at the end of March. Funds institutions are the dominant buyer of both local corporate bonds and medium-term notes, while banks and insurance companies were the dominant holders of commercial bank bonds.

Liquidity

The volume of interest rate swaps declined 9.7% q-o-q. The 7-day repurchase interest rate is the most used interest rate swap, comprising an 89.4% share of interest rate swap volume during the review period (**Table 5**).

The rise in interest rates due to efforts by the PRC to deleverage has led to reduced trading activity owing to a negative outlook on bond prices (**Figure 6**).

Ratings Update

On 24 May, Moody's Investor Services reduced the PRC's long-term local and foreign currency ratings by one notch to A1. According to Moody's Investor Services, the downgrade reflects expectations that the PRC's overall debt levels will continue to rise as the economy's potential growth slows.

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	1,381.5	200.59	Yes	No	Transportation
2.	State Grid Corporation of China	450.8	65.45	Yes	No	Public Utilities
3.	China National Petroleum	355.0	51.54	Yes	No	Energy
4.	Agricultural Bank of China	278.0	40.36	Yes	Yes	Banking
5.	Industrial and Commercial Bank of China	268.0	38.91	Yes	Yes	Banking
6.	Bank of China	258.9	37.59	Yes	Yes	Banking
7.	Bank of Communications	215.0	31.22	Yes	Yes	Banking
8.	China Construction Bank	212.0	30.78	No	Yes	Banking
9.	Industrial Bank	185.0	26.86	No	Yes	Banking
10.	China Minsheng Banking	175.1	25.42	No	Yes	Banking
11.	Shanghai Pudong Development Bank	169.6	24.63	Yes	Yes	Energy
12.	PetroChina	155.0	22.51	No	Yes	Banking
13.	China Everbright Bank	154.9	22.49	Yes	No	Energy
14.	State Power Investment	134.5	19.53	Yes	Yes	Banking
15.	Bank of Beijing	122.9	17.84	Yes	No	Asset Management
16.	Central Huijin Investment	109.0	15.83	No	Yes	Banking
17.	China CITIC Bank	107.5	15.61	Yes	No	Energy
18.	Shenhua Group	104.5	15.17	Yes	Yes	Energy
19.	China Huarong Asset Management	96.0	13.94	Yes	Yes	Banking
20.	Tianjin Infrastructure Construction and Investment Group	91.5	13.29	Yes	Yes	Energy
21.	China Three Gorges	88.5	12.85	Yes	No	Public Utilities
22.	China Guangfa Bank	86.5	12.56	No	Yes	Banking
23.	Dalian Wanda Commercial Properties	85.0	12.34	Yes	No	Industrial
24.	Haitong Securities	81.2	11.80	Yes	Yes	Energy
25.	China United Network Communications	81.0	11.76	Yes	No	Banking
26.	Huatai Securities	79.9	11.60	No	Yes	Banking
27.	Guotai Junan Securities	79.0	11.47	Yes	Yes	Brokerage
28.	Huaxia Bank	78.4	11.38	Yes	Yes	Telecommunications
29.	Postal Savings Bank of China	75.0	10.89	Yes	Yes	Asset Management
30.	China Datang	74.7	10.85	Yes	No	Asset Management
Total Top 30 LCY Corporate Issuers		**5,833.94**	**847.07**			
Total LCY Corporate Bonds		**14,782.17**	**2,146.33**			
Top 30 as % of Total LCY Corporate Bonds		**39.5%**	**39.5%**			

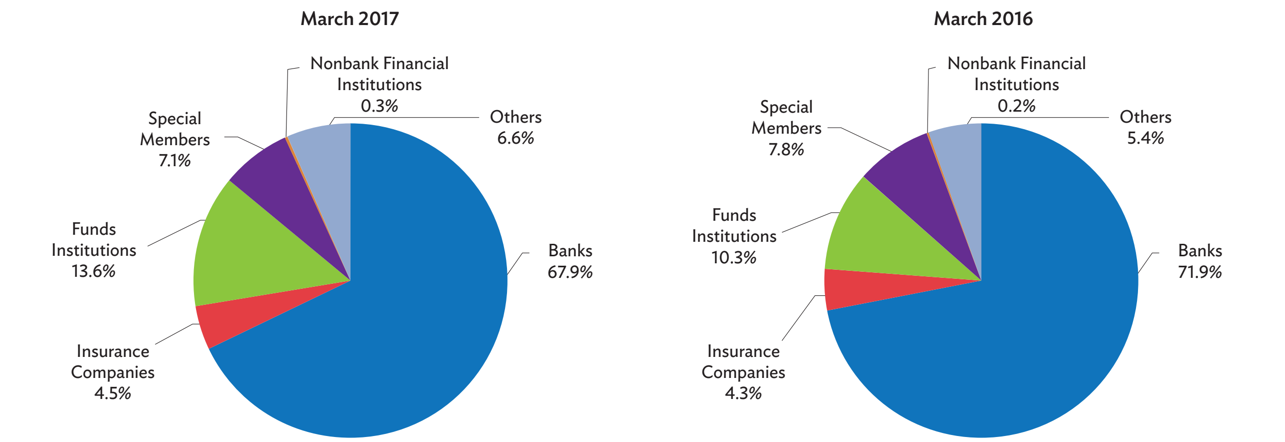
CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of end-March 2017.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Railway		
180-day bond	3.92	20.0
3-year bond	3.87	20.0
5-year bond	4.30	15.0
10-year bond	4.25	5.0
China Everbright Bank		
3-year bond	4.00	28.0
10-year bond	4.60	28.0
Minsheng Banking		
3-year bond	4.00	30.0
Everbright Securities		
1-year bond	4.00	2.0
1-year bond	4.10	2.0
2-year bond	4.30	20.0
3-year bond	4.45	2.0
Postal Savings Bank		
10-year bond	4.50	20.0

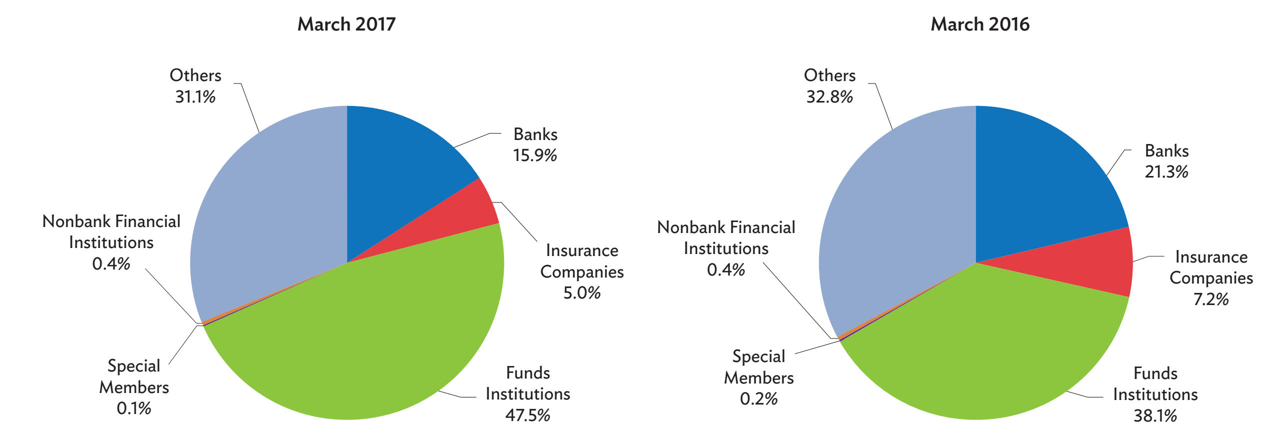
CNY = Chinese yuan.
Source: Based on data from Bloomberg LP.

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



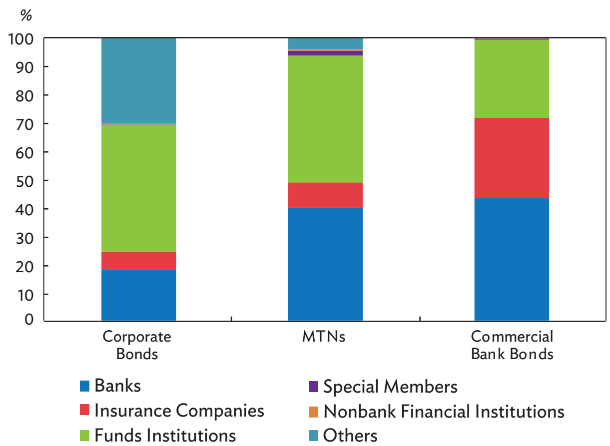
Source: *ChinaBond*.

Figure 4: Local Currency Corporate Bonds Investor Profile



Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



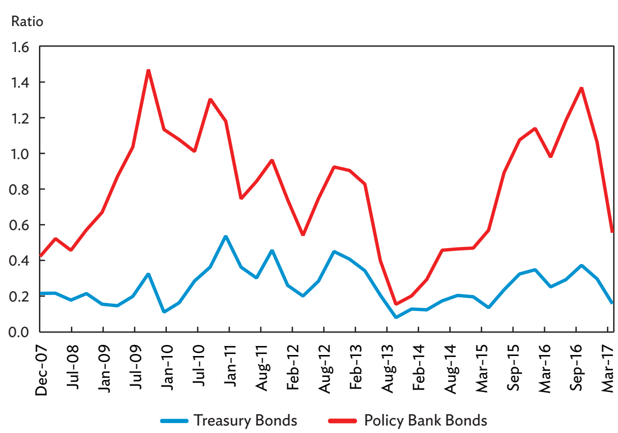
MTNs = medium-term notes.
Note: Data as of end-March 2017.
Source: *ChinaBond*.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the First Quarter of 2017

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Percentage of Total Notional Amount (%)	Growth Rate (%)
	Q1 2017		q-o-q
7-Day Repo Rate	2,399.2	89.4	(4.6)
Overnight SHIBOR	17.8	0.7	(79.7)
3-Month SHIBOR	263.8	9.8	(27.9)
1-Year Term Deposit Rate	1.3	0.05	68.8
1-Year Lending Rate	0.7	0.02	(13.3)
LPR1Y	0.3	0.01	(84.2)
Total	**2,683.1**	**100.0**	**(9.7)**

( ) = negative, CNY = Chinese yuan, LPR1Y = 1-Year Loan Prime Rate, q-o-q = quarter-on-quarter, Q1 = first quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Notes:
1. Growth rate computed based on notional amounts.
2. 3-Year Lending Rate and 5-Year Lending Rate had no transaction for Q1 2017.
Sources: *AsianBondsOnline* and *ChinaMoney*.

Figure 6: Turnover Ratios for Government Bonds



Source: *ChinaBond*.

Policy, Institutional, and Regulatory Developments

New Regulations for the Issuance of Local Government Bonds

In February and March, the PRC announced new rules governing the issuance of local government bonds in Q1 2017 to limit the credit risk of local governments. The regulations will limit the total amount that a local government can issue, subject to a formula. In addition, local governments cannot issue more than 30% of the quota in a single quarter. Funds sourced from bonds issued from the debt swap program can only be used for the repayment of debt. The PRC also raised the quota of local government bond issuance from CNY17.2 trillion to CNY18.8 trillion.

Limits on Use of Low-Rated Bonds as Borrowing Collateral

On 7 April, the PRC issued rules prohibiting the use of corporate bonds with credit ratings lower than AAA or corporate bonds issued by corporates with a credit rating lower than AA as collateral for short-term borrowing. The new rule affects only corporate bonds issued after 7 April.

Hong Kong, China

Yield Movements

Hong Kong, China's local currency (LCY) government bond yield curve shifted downward for all tenors between 1 March and 15 May due to domestic liquidity factors (**Figure 1**). The largest movements were for tenors of 2 years and longer, where yields fell an average of 37 basis points (bps). Yields for tenors of less than 2 years fell an average of 13 bps. As a result of the bigger drop at the long-end of the curve, the 2-year versus 10-year yield spread fell to 76 bps on 15 May from 79 bps on 1 March.

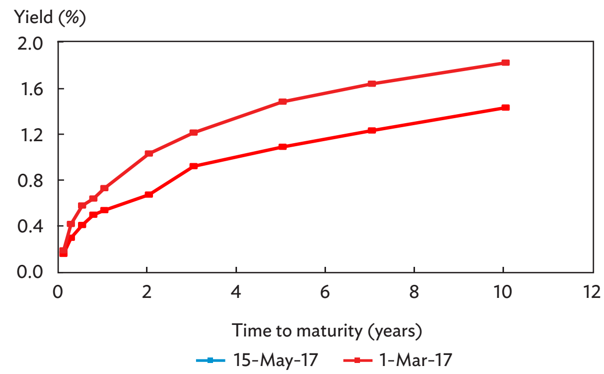
Hong Kong, China's government bond yields closely track United States (US) interest rates, owing to the lack of an independent monetary policy. During the review period, US yields fell for tenors of 3 years and longer by an average of 10 bps. The decline in US yields followed weaker-than-expected US economic data in the first quarter (Q1) of 2017. Real gross domestic product (GDP) growth fell to 1.2% year-on-year (y-o-y) in Q1 2017 from 2.1% y-o-y in the fourth quarter (Q4) of 2016. In contrast, US yields rose at the short-end of the curve following the Federal Reserve's rate hike in March.

In Hong Kong, China, yields also fell for all tenors due to abundant liquidity in Hong Kong, China's financial markets. Since last year, there has been significant demand for HKD-denominated assets, prompting the Hong Kong Monetary Authority to issue additional Exchange Fund Bills (EFBs).

In contrast to the fall in yields, Hong Kong, China's GDP expanded 4.3% y-o-y in Q1 2017 after growing 3.2% y-o-y in Q4 2016. The faster GDP growth rate was due to larger gains in Hong Kong, China's gross domestic capital formation, which expanded 6.4% y-o-y in Q1 2017 versus 5.6% in Q4 2016. There were also gains in consumer spending.

Hong Kong, China experienced an acceleration in inflation, with the rate rising to 2.0% y-o-y in April from 0.5% y-o-y in March. However, the rise was mostly due to a low base effect due to the timing of the Easter holiday and some government subsidies.

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



Source: Based on data from Bloomberg LP.

Size and Composition

Hong Kong, China's LCY bonds grew 0.4% quarter-on-quarter (q-o-q) and 11.8% y-o-y to stand at HKD1,839 billion at the end of March (**Table 1**). The growth was driven by gains in EFBs and corporate bonds.

Government bonds outstanding rose 0.3% q-o-q and 11.5% y-o-y, mostly due to growth in EFBs, which rose 0.4% q-o-q.

Exchange Fund Notes (EFNs) outstanding continued to decline in Q1 2017 as Hong Kong, China issued only 2-year EFNs, replacing longer tenors with issuances of Hong Kong Special Administrative Region (HKSAR) bonds. EFNs fell 4.6% q-o-q as a result.

HKSAR bonds rose 1.8% q-o-q and 2.6% y-o-y in Q1 2017, though HKSAR bond issuance totaling HKD1.8 billion was down from Q4 2016 levels. Specifically, a 10-year HKD1.2 billion HKSAR bond and a HKD0.6 billion 15-year HKSAR bond were issued under the Institutional Bond Issuance Programme. This compares with a total of HKD6.5 billion worth of HKSAR bonds issued in the previous quarter.

The amount of corporate bonds outstanding rose 0.5% q-o-q and 12.1% y-o-y in Q1 2017. Hong Kong, China's

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,646**	**212**	**1,831.87**	**236**	**1,839**	**237**	**1.8**	**6.5**	**0.4**	**11.8**
Government	957	123	1,064	137	1,068	137	3.2	11.7	0.3	11.5
Exchange Fund Bills	800	103	915	118	919	118	4.0	16.6	0.4	14.8
Exchange Fund Notes	56	7	48	6	46	6	(3.8)	(15.2)	(4.6)	(18.4)
HKSAR Bonds	101	13	101	13	103	13	1.6	(3.7)	1.8	2.6
Corporate	688	89	767	99	771	99	(0.04)	0.1	0.5	12.1

( ) = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, 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. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. Data for Q1 2017 are based on *AsianBondsOnline* estimates.
Sources: Hong Kong Monetary Authority and Bloomberg LP.

top 30 nonbank issuers had outstanding LCY bonds amounting to HKD144.7 billion at the end of March, comprising 18.8% of total corporate bonds outstanding. The top 30 list continued to be 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 HKD28.0 billion, followed by Sun Hung Kai Properties (Capital Market) with HKD9.1 billion of bonds outstanding and MTR Corporation (C.I.) with HKD8.9 billion. Among the top 30 nonbank issuers at the end of March, six were state-owned companies and eight were Hong Kong Exchange-listed firms.

Among the top five nonbank issuances in Q1 2017, the majority came from real estate-related entities. Comprising the list are Emperor International Holdings, NWD (MTN), MTR Corporation, Hong Kong Mortgage Corporation, and CLP Power Hong Kong Financing (**Table 3**).

Ratings Update

On 25 May, Moody's Investor Service downgraded Hong Kong, China's credit rating by one notch, the day after downgrading the People's Republic of China's (PRC) debt rating. Hong Kong, China's credit rating is now at Aa2 and reflects the likelihood that Hong Kong, China will be affected by rising debt levels in the PRC given the economic linkages between the two.

Policy, Institutional, and Regulatory Developments

The People's Republic of China and Hong Kong, China Launch Bond Market Link

On 17 May, the PRC and Hong Kong, China approved a plan to link the PRC's interbank bond market with Hong Kong, China's bond market. The link will allow Hong Kong, China and foreign investors to invest in the PRC's bond market via Hong Kong, China's financial markets.

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	28.03	3.61	Yes	No	Finance
2.	Sun Hung Kai Properties (Capital Market)	9.13	1.18	No	No	Real Estate
3.	MTR Corporation (C.I.)	8.92	1.15	Yes	Yes	Transportation
4.	Swire Pacific	8.62	1.11	No	Yes	Diversified
5.	CLP Power Hong Kong Financing	7.81	1.00	No	No	Finance
6.	HKCG (Finance)	7.80	1.00	No	No	Finance
7.	The Link Finance (Cayman) 2009	7.79	1.00	No	No	Finance
8.	Hongkong Electric Finance	7.69	0.99	No	No	Finance
9.	NWD (MTN)	7.35	0.95	No	Yes	Finance
10.	Wharf Finance	5.70	0.73	No	No	Finance
11.	Swire Properties MTN Financing	5.20	0.67	No	No	Finance
12.	Vank Real Estate (Hong Kong)	3.65	0.47	No	No	Real Estate
13.	Emperor International Holdings	3.55	0.46	No	Yes	Real Estate
14.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
15.	Urban Renewal Authority	3.30	0.42	Yes	No	Real Estate
16.	Wheelock Finance	3.10	0.40	No	No	Finance
17.	Cathay Pacific MTN Financing	2.37	0.31	No	Yes	Finance
18.	Leading Affluence	2.30	0.30	No	No	Real Estate
19.	Tencent Holdings	2.20	0.28	No	Yes	Comunications
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.	CK Property Finance (MTN)	1.85	0.24	No	No	Finance
23.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
24.	Bestgain Real Estate Lyra	1.55	0.20	No	No	Real Estate
25.	Cheung Kong Finance (MTN)	1.50	0.19	No	No	Finance
26.	Airport Authority Hong Kong	1.45	0.19	Yes	No	Transportation
27.	Hysan (MTN)	1.40	0.18	No	Yes	Real Estate
28.	Wharf Finance (No. 1)	1.33	0.17	No	No	Finance
29.	Dragon Drays	1.00	0.13	No	No	Diversified
30.	K. Wah Intenational Financial Services	1.00	0.13	No	Yes	Finance
Total Top 30 Nonbank LCY Corporate Issuers		**144.68**	**18.62**			
Total LCY Corporate Bonds		**771.46**	**99.28**			
Top 30 as % of Total LCY Corporate Bonds		**18.75%**	**18.75%**			

LCY = local currency.
Notes:
1. Data as of end-March 2017.
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 the First Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
NWD (MTN)		
7-year bond	3.50	0.70
12-year bond	4.00	1.15
MTR Corporation		
25-year bond	3.13	0.58
20-year bond	3.00	0.40
Emperor International Holdings		
5-year bond	4.70	0.80
The Hong Kong Mortgage Corporation		
2-year bond	1.48	0.10
2-year bond	1.52	0.10
3-year bond	1.96	0.30
15-year bond	2.65	0.11
CLP Power Hong Kong Financing		
15-year bond	3.16	0.30

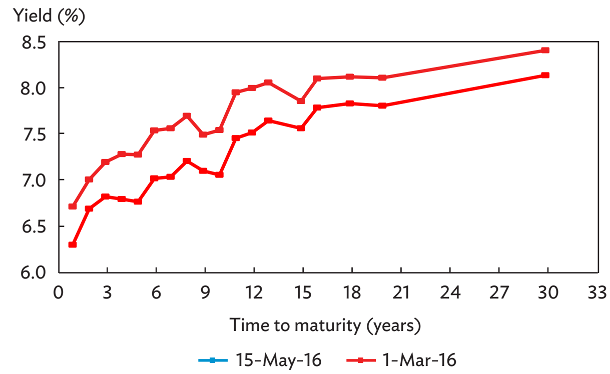
HKD = Hong Kong dollar.
Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.

Indonesia

Yield Movements

Between 1 March and 15 May, local currency (LCY) government bond yields in Indonesia fell for all tenors, resulting in the downward shift of the yield curve (**Figure 1**). Across the curve, yields shed an average of 41 basis points (bps). Yields fell the most in the belly of the curve—bonds with maturities of 4 years to 8 years—which declined an average of 51 bps. Yields at the very long-end of the curve—bonds with maturities of 15 years or more—shed the least, falling an average of 30 bps. The spread between the yield on 2-year and 10-year bonds narrowed from 54 bps on 1 March to 37 bps on 15 May.

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



Source: Based on data from Bloomberg LP.

The overall decline in yields is reflective of improved investor sentiment that has been buoyed by confidence in Indonesia's government bond market amid improving macroeconomic and financial conditions. Foreign investors have returned to the bond market since the start of the year, increasing their holdings of government bonds to a share of 38.2% of the total at the end of March and further to 39.1% at the end of April. In addition, revisions in the sovereign rating outlook by Fitch Ratings in December and Moody's Investors Services in February fueled expectations of a sovereign rating upgrade by Standard and Poor's (S&P) Global Ratings. Other regional rating agencies, including Ratings and Investment Information (R&I) and Japan Credit Rating Agency (JCR), have also revised their outlook for Indonesia. These rating agencies took note of Indonesia's prudent fiscal deficit, manageable external debt, and efforts to improve the investment climate through policy reforms. Expectations were proven correct later on as S&P subsequently raised Indonesia's sovereign rating to investment grade on 19 May.

While consumer prices have accelerated since the start of the year, the annual inflation rate has remained within Bank Indonesia's target range of between 3.0% and 5.0% for full-year 2017. Inflation climbed to 3.5% year-on-year (y-o-y) in January and 3.8% y-o-y in February before easing to 3.6% y-o-y in March. It rose again to 4.2% y-o-y in April following the second phase of electricity tariff adjustments.

Despite the uptick in inflation, Bank Indonesia has refrained from raising its policy rate. In a meeting held on 17–18 May, Bank Indonesia's Board of Governors held steady the 7-day reverse repurchase (repo) rate at 4.75%. It also kept unchanged the deposit facility rate at 4.00% and the lending facility rate at 5.50%. The current levels were deemed consistent with Bank Indonesia's efforts to maintain macroeconomic and financial system stability, and at the same time taking note of an improving global economic outlook. The central bank, however, remains vigilant with regard to global risks such as monetary policy normalization and overall policy direction in the United States, and other geopolitical risks in other regions. On the domestic front, Bank Indonesia vowed to monitor administered price inflation.

Real gross domestic product (GDP) growth inched up to 5.0% y-o-y in the first quarter (Q1) of 2017 from 4.9% y-o-y in the fourth quarter of 2016. Domestic consumption, which gained 4.9% y-o-y, continued to drive the economy, accounting for the largest contribution to GDP. The recovery in exports and gross fixed capital formation also contributed to the faster growth in Q1 2017. On a non-seasonally adjusted and quarter-on-quarter (q-o-q) basis, however, GDP contracted 0.3%.

Size and Composition

Indonesia's LCY bond market continued to expand in Q1 2017, rising to IDR2,291.0 trillion (USD172 billion) at the end of March from IDR2,190.3 trillion at the end of December (**Table 1**). Growth was robust at 4.6% q-o-q and 20.3% y-o-y in Q1 2017, making it the fastest-growing LCY bond market in the region. Central government bonds, comprising Treasury bills and bonds issued by the Ministry of Finance, largely contributed to the growth. To a lesser extent, corporate bonds also contributed to the overall growth.

At the end of March, government bonds accounted for a dominant share of Indonesia's LCY bond market at 86.0% of the aggregate LCY bond stock. The remaining 14.0% was accounted for by corporate bonds. Conventional bonds also dominated Indonesia's LCY bond market, representing 87.0% of the total stock at the end of March, while *sukuk* (Islamic bonds) accounted for the remainder.

Government Bonds. The outstanding size of government bonds reached IDR1,970.1 trillion, up 4.9% q-o-q and 19.4% y-o-y. Much of the growth in government bonds was driven by central government bonds. The outstanding volume of central bank bills, or Sertifikat Bank Indonesia (SBI), declined during the review period.

Central Government Bonds. The stock of central government bonds climbed to IDR1,891.0 trillion at the end of March on gains of 6.6% q-o-q and 20.1% y-o-y. The government continued to adopt a frontloading policy for its bond issuance, in which it plans to issue about 60% of its gross issuance target for the year (including foreign currency bonds) within the first semester. The frontloading policy allows the government to lock in low borrowing cost as the Federal Reserve moves to normalize its monetary policy. Also, the frontloading policy allows the government to secure funding for its spending early in the year when public revenues are still low.

In Q1 2017, new issuance of central government bonds reached IDR176.6 trillion. Of this amount, IDR162.6 trillion was raised through weekly auctions of conventional bonds and project-based *sukuk*. The government issued bonds as planned, awarding in full or above target 12 of 13 scheduled auctions held during the quarter. Improved domestic market conditions buoyed investor confidence and provided the government an opportunity to issue bonds as targeted. Demand for government Treasury instruments remained strong in Q1 2017 with total incoming bids averaging at IDR27.8 trillion, up from IDR18.7 trillion in the same period a year earlier. The only time a Treasury auction fell short of its target amount was during the week coinciding with the Federal Reserve's March meeting when the federal funds target rate was increased by 25 bps.

The government also raised IDR14.0 trillion through bookbuilding for the sale of retail *sukuk* (series name

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,903,610**	**144**	**2,190,326**	**163**	**2,290,966**	**172**	**8.8**	**16.8**	**4.6**	**20.3**
Government	1,649,687	125	1,878,648	139	1,970,089	148	9.9	17.7	4.9	19.4
Central Govt. Bonds	1,575,115	119	1,773,279	132	1,891,043	142	7.7	20.7	6.6	20.1
of which: *Sukuk*	204,222	15	245,708	18	274,492	21	28.3	40.6	11.7	34.4
Central Bank Bills	74,572	6	105,369	8	79,047	6	93.3	(22.4)	(25.0)	6.0
of which: *Sukuk*	7,038	0.5	10,788	0.8	12,273	0.9	12.1	(20.1)	13.8	74.4
Corporate	253,923	19	311,679	23	320,877	24	1.6	11.6	3.0	26.4
of which: *Sukuk*	9,216	0.7	11,578	0.9	11,834	0.9	(6.0)	30.2	2.2	28.4

( ) = negative, IDR = Indonesian rupiah, 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. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. The total stock of nontradable bonds as of end-March stood at IDR235.8 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

SR-009) in March. This latest retail *sukuk* carried a maturity of 3 years and a coupon rate of 6.9%. A total of 29,838 investors purchased the retail *sukuk*.

The government's issuance plan for 2017 also targets increased issuance of Surat Perbendaharaan Negara Indonesia, or Treasury bills, of about IDR5 trillion per auction for conventional short-term bills and IDR2 trillion per auction for Islamic Treasury bills. In 2016, average Treasury bill issuance for conventional short-term bills was only around IDR1.5 trillion per auction and IDR1.0 trillion for Islamic Treasury bills. This increase in issuance is directed at providing more liquidity for the short-term tenors to better reflect current market rates, which is used as a benchmark reference for the pricing of financial products.

Central Bank Bills. The stock of central bank bills declined to IDR79.0 trillion at the end of March on a 25.0% q-o-q contraction. On a y-o-y basis, however, the outstanding stock of SBI inched up 6.0%. In Q1 2017, Bank Indonesia ceased issuance of conventional SBI and only conducted monthly auctions for *shariah*-compliant central bank bills for maturities of 9 months and 1 year. This resulted in double-digit declines for SBI issuance on both a q-o-q and y-o-y basis. Reduced issuance of central bank certificates was due to Bank Indonesia's plan of gradually replacing it with short-term Treasury bills for its monetary operations.

Corporate Bonds. The stock of LCY corporate bonds climbed to IDR320.9 trillion at the end of March, rising 3.0% q-o-q and 26.4% y-o-y. The entire corporate bond market comprises 109 firms and bond issuance is largely dominated by financial institutions, which account for a 65.3% share of the total outstanding stock. The pace of growth of Indonesia's corporate bond market has remained slow relative to the growth of government bonds. Most corporates tend to borrow from banks due to the lengthy issuance process needed for raising funds from the bond market.

At the end of March, the 30 largest issuers of corporate bonds had an aggregate bond stock of IDR239.2 trillion, representing 74.5% of the total (**Table 2**). This was higher compared with the top 30 list at the end of December, which totaled IDR228.0 trillion and had a share of 73.2%. The top 30 list at the end of March was largely dominated by firms from the financial sector (banks and nonbank financial institutions). A few corporate names that made it to the top 30 list came from highly capitalized industries such as telecommunications, energy, and property and real estate.

The composition of the top three largest corporate bond issuers remained the same from the end of December. Taking the top spot was state-owned lender Indonesia Eximbank as the largest corporate bond issuer. Eximbank's total outstanding LCY bond size further rose to IDR36.0 trillion at the end of March. Another state-owned lender, Bank Rakyat Indonesia, took the second spot with IDR15.1 trillion. Rounding out the top three corporate bond issuers was telecommunications firm, Indosat, with outstanding bonds valued at IDR13.7 trillion.

Comprising the top 30 list were 12 state-owned entities, with five of the state-owned firms landing in the top 10. Also, more than half of the firms in the list have tapped the equities market for funding.

New corporate bond sales in Q1 2017 reached IDR22.4 trillion, lower on a q-o-q but higher on a y-o-y basis. Bond issuance during the quarter came from 13 corporate entities. It was only in mid-February when issuance of corporate bonds resumed. A total of 34 bond series were issued in Q1 2017. New corporate debt issues during the quarter comprised conventional bonds and few series of *sukuk mudharabah* (bonds backed by a profit-sharing scheme).

The largest new corporate bond issue in Q1 2017 was that of Indonesia Eximbank, with a multitranche sale in February amounting to IDR5.2 trillion. The state-owned lender will use the proceeds to further expand its financing portfolio. Astra Sedays Finance followed with a triple-tranche issuance in March with an aggregate amount of IDR2.5 trillion. Adira Dinamika Multifinance and Bank Pan Indonesia each issued IDR2.4 trillion worth of bonds in March. Adira Dinamika Multifinance issued both conventional and Islamic bonds, while Bank Pan Indonesia raised funds from a single tranche of 7-year bonds. **Table 3** presents some of the largest corporate debt issues during the quarter.

Foreign Currency Bonds. In March, the government raised USD3 billion from a dual-tranche offering of global *sukuk*. The bond sale comprised a USD1 billion 5-year *sukuk* priced at par to yield 3.4% and a USD2 billion 10-year *sukuk* priced at par to yield 4.15%. This latest offering

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	35,966	2.70	Yes	No	Banking
2.	Bank Rakyat Indonesia	15,137	1.14	Yes	Yes	Banking
3.	Indosat	13,721	1.03	No	Yes	Telecommunications
4.	Bank Tabungan Negara	12,950	0.97	Yes	Yes	Banking
5.	Bank Pan Indonesia	12,085	0.91	No	Yes	Banking
6.	Adira Dinamika Multifinance	10,965	0.82	No	Yes	Finance
7.	PLN	10,683	0.80	Yes	No	Energy
8.	Astra Sedaya Finance	9,725	0.73	No	No	Finance
9.	Telekomunikasi Indonesia	8,995	0.68	Yes	Yes	Telecommunications
10.	Federal International Finance	8,148	0.61	No	No	Finance
11.	Bank Internasional Indonesia	7,320	0.55	No	Yes	Banking
12.	Waskita Karya	7,232	0.54	Yes	Yes	Building Construction
13.	Sarana Multigriya Finansial	7,040	0.53	Yes	No	Finance
14.	Medco-Energi International	6,662	0.50	No	Yes	Petroleum and Natural Gas
15.	Perum Pegadaian	6,592	0.49	Yes	No	Finance
16.	Bank CIMB Niaga	6,230	0.47	No	Yes	Banking
17.	Sarana Multi Infrastruktur	6,000	0.45	Yes	No	Finance
18.	Bank Permata	5,810	0.44	No	Yes	Banking
19.	Toyota Astra Financial Services	5,464	0.41	No	No	Finance
20.	Bank Mandiri	5,000	0.38	Yes	Yes	Banking
21.	Jasa Marga	4,500	0.34	Yes	Yes	Toll Roads, Airports, and Harbors
22.	Surya Artha Nusantara Finance	4,422	0.33	No	No	Finance
23.	Bank OCBC NISP	4,115	0.31	No	Yes	Banking
24.	Indofood Sukses Makmur	4,000	0.30	No	Yes	Food and Beverages
25.	Agung Podomoro Land	3,700	0.28	No	Yes	Property and Real Estate
26.	Permodalan Nasional Madani	3,433	0.26	Yes	No	Finance
27.	BFI Finance indonesia	3,350	0.25	No	No	Finance
28.	Mandiri Tunas Finance	3,325	0.25	No	No	Finance
29.	Bumi Serpong Damai	3,315	0.25	No	Yes	Property and Real Estate
30.	Bank Bukopin	3,305	0.25	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**239,190**	**17.95**			
Total LCY Corporate Bonds		**320,877**	**24.09**			
Top 30 as % of Total LCY Corporate Bonds		**74.5%**	**74.5%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of end-March 2017.
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.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Indonesia Eximbank		
370-day bond	7.40	861
3-year bond	8.40	1,339
5-year bond	8.90	748
7-year bond	9.20	1,007
10-year bond	9.40	1,266
Astra Sedaya Finance		
370-day bond	7.40	1,000
3-year bond	8.50	1,125
5-year bond	8.75	375
Adira Dinamika Multifinance		
370-day bond	7.50	913
370-day *sukuk mudharabah*	7.50	274
3-year bond	8.60	860
3-year *sukuk mudharabah*	8.60	105
5-year bond	8.90	241
5-year *sukuk mudharabah*	8.90	7
Bank Pan Indonesia		
7-year bond	10.25	2,400
Sarana Multigriya Finansial		
370-day bond	7.50	677
3-year bond	8.40	1,000
Waskita Karya		
3-year bond	8.50	747
5-year bond	9.00	910
Toyota Astra Financial Services		
370-day bond	7.65	800
3-year bond	8.50	755

IDR = Indonesian rupiah.
Note: *Sukuk mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
Source: Indonesia Stock Exchange.

attracted USD790 million worth of funds from investors in the United States.

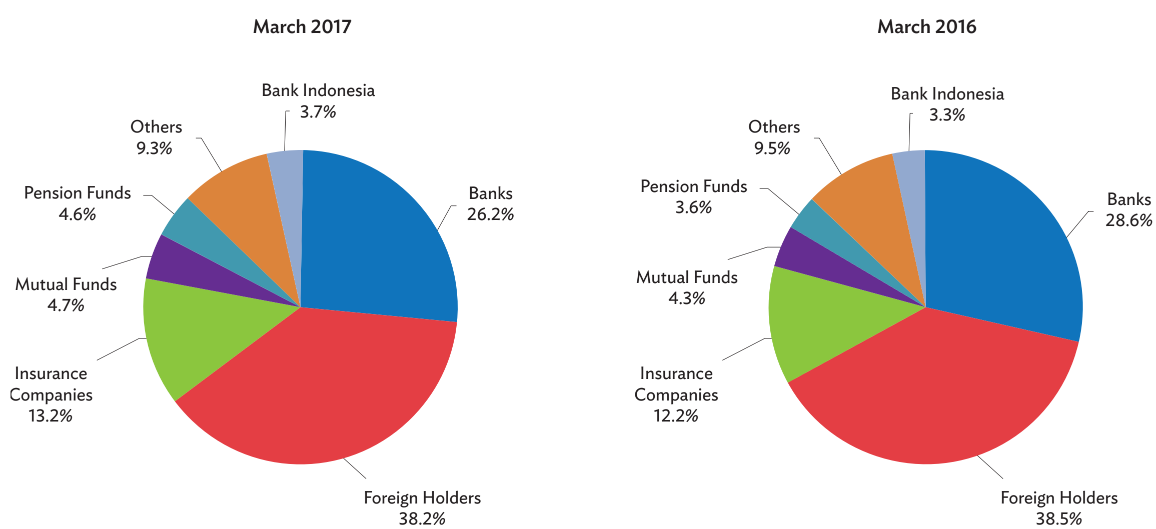
Investor Profiles

Central Government Bonds. Offshore investors returned to Indonesia's LCY government bond market in Q1 2017, following a bond market rout in Q4 2016 that saw their share of the total bond stock slipping to 37.6%. Investor sentiment turned positive at the start of the year on the back of improved domestic conditions amid continued uncertainties in the global market. While government bond yields have declined, foreign investors remain attracted to Indonesian government bond yields as they remain the highest among all peers in emerging East Asia.

Foreign investors remained the largest investor group in Indonesia's LCY government bond market with a share of 38.2% at the end of March and holdings valued at IDR723.2 trillion (**Figure 2**). Compared with March 2016, however, the share of offshore investors was marginally lower.

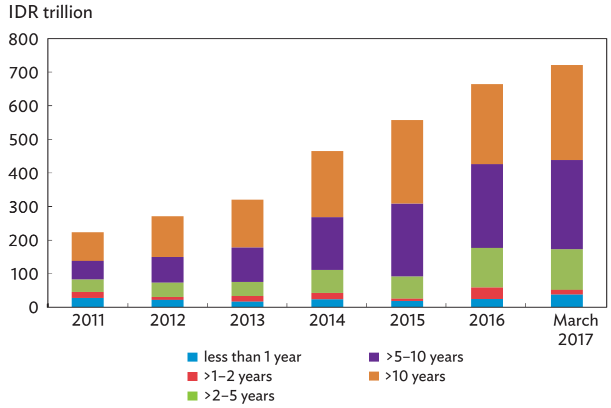
Nonresident holdings of government bonds in long-term maturities—bonds with maturities of over 10 years—further climbed at the end of March, representing a 39.2% share of aggregate foreign holdings (**Figure 3**). Total nonresident holdings of government bonds with maturities of more than 5 years to 10 years were still substantial at a 36.9% share of total foreign ownership, although this share slightly slipped during the review

Figure 2: Local Currency Central Government Bonds Investor Profile



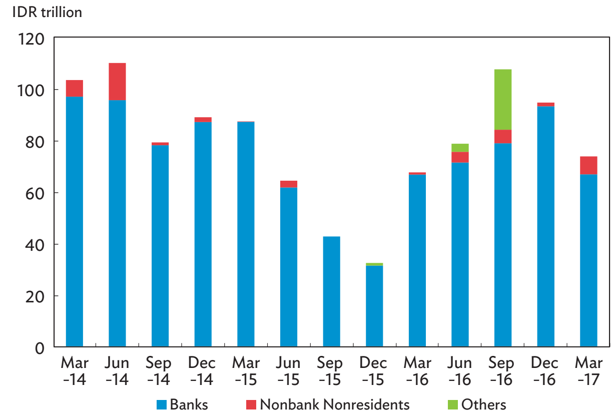
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

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



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

Figure 4: Local Currency Central Bank Bills Investor Profile



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

period. The share of government bonds with maturities of 1 year or less climbed to 5.2% of total foreign holdings.

Among domestic investors, banking institutions were the largest investor group, accounting for a share of 26.2% of the total stock of LCY central government bonds at the end of March. This, however, represents a decline in holdings from a share of 28.6% at the end of March 2016. Banks shed the most in terms of bond holdings among all investor groups.

Government bond holdings by insurance firms and pension funds increased at the end of March as both investor groups are now required to hold 30% of their assets in government bonds effective this year. In 2016, the regulatory requirement was set at 20% of their respective assets. Holdings of insurance firms and pension funds rose by 1 percentage point each at the end of March from their respective holdings a year earlier. Holdings of mutual funds and Bank Indonesia also climbed 0.4 percentage points each during the review period.

Central Bank Bills. SBI were mostly held by banking institutions at the end of March, representing a share of 90.6% of the total central bank stock (**Figure 4**). In contrast, the share of nonbank nonresident investors climbed to 9.4% after falling to 1.5% at the end of December.

Ratings Update

On 7 March, JCR revised Indonesia's sovereign rating outlook to positive from stable and affirmed its BBB– issuer credit rating. In making its decision, JCR noted two drivers of the change in the sovereign rating outlook: (i) an improved investment climate and (ii) contained private external debt.

On 31 March, RAM Ratings affirmed Indonesia's global rating of $_{g}BBB_{2}$(pi)/stable/P2(pi) and its ASEAN-scale rating of $_{sea}AA_{3}$(pi)/stable/P1(pi). In the decision to affirm its ratings, RAM Ratings forecast that Indonesia will sustain its economic growth and continue to accelerate infrastructure development. Also, the rating agency noted that Indonesia's fiscal deficit and government debt ratios were at manageable levels.

On 5 April, R&I revised Indonesia's sovereign rating outlook to positive from stable and affirmed its BBB– investment grade issuer rating. In making its decision to change Indonesia's sovereign rating outlook, R&I cited the improvement in Indonesia's external position as reflected by a narrowing current account deficit and rising foreign reserves and stable growth in private sector external debt. R&I noted the fiscal discipline evident in Indonesia's prudent deficit management and low government debt levels. The rating agency also cited the government's strong commitment to policy reforms.

On 19 May, S&P raised Indonesia's sovereign credit rating to investment grade. Indonesia's long-term sovereign credit rating was raised to BBB- and short-term sovereign credit rating to A-3. The rating was given a stable outlook. In making its decision, S&P cited reduced risk in Indonesia's fiscal metrics.

Policy, Institutional, and Regulatory Developments

Bank Indonesia and the Bank of Korea Renew Bilateral Currency Swap Arrangement

On 6 March, Bank Indonesia and the Bank of Korea agreed to the renewal of their bilateral local currency swap arrangement to promote bilateral trade and financial cooperation between the two markets. The agreement calls for the exchange of local currencies up to KRW10.7 trillion–IDR115 trillion for a period of 3 years, subject to an extension with the consent of both parties.

Bank Indonesia Issues New Regulation to Boost the Trading of Negotiable Deposit Certificates

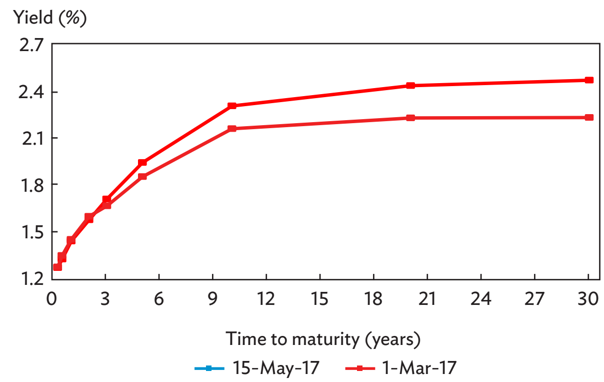
In March, Bank Indonesia issued a new regulation to boost the trading of negotiable deposit certificates and encourage financial institutions to invest excess cash in these instruments. The new regulation, which will take effect on 1 July, provides guidance on the approval process for issuers, transactions, and supervision, among others. Bank Indonesia is also looking at issuing regulations for commercial paper transactions.

Republic of Korea

Yield Movements

Between 1 March and 15 May, local currency (LCY) government bond yields in the Republic of Korea exhibited mixed movements. Yields for tenors of less than 3 years were barely changed, declining between 0.4 basis point (bp) and 2 bps (**Figure 1**). Yields for tenors of 3 years to 10 years rose between 4 bps and 15 bps, while yields for tenors of 20 years and 30 years rose 21 bps and 24 bps, respectively. The spread between the 2-year and 10-year yields widened to 72 bps on 15 May from 56 bps on 1 March.

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



Source: Based on data from Bloomberg LP.

Yields rose in the first half of March as the market awaited the Constitutional Court of Korea's ruling on the presidential impeachment trial and the impending rate hike by the United States (US) Federal Reserve on 15 March. Yields, however, immediately corrected and subsequently remained range-bound, lacking clear direction amid uncertainty over both domestic and foreign macroeconomic policies.

On the domestic front, weakening economic growth led to expectations of a rate cut by the Bank of Korea. However, the market also considered that lower interest rates could pose a risk to further growth in household debt. Uncertainty in the direction of US macroeconomic policies and the pace of the Federal Reserve rate hikes still remain.

An uptick in yields was observed in May, ahead of the presidential election on 9 May. Better-than-expected economic growth in the first quarter (Q1) of 2017 and the possibility of a supplementary budget by the new administration also contributed to the steepening of the yield curve. This has lessened expectations of a rate cut by the Bank of Korea.

At its 25 May monetary policy meeting, the Bank of Korea decided to maintain its base rate at 1.25%. The central bank cited expansion in domestic growth, supported by exports and investments as consumption remained weak. The economy is expected to maintain its pace of expansion in 2017 with annual gross domestic product growth forecast to be slightly above the 2.6% year-on-year (y-o-y) April projection. Inflation is expected to stay close to the 2.0% y-o-y target level for the time being, and full-year 2017 inflation is expected to be near the 1.9% projection made in April. The central bank noted that it will monitor the process of monetary policy normalization in the US, trade conditions with major countries, the new government's economic policies, the growth of the household debt, and geopolitical risks.

The Republic of Korea's GDP growth rose to 1.1% quarter-on-quarter (q-o-q) in Q1 2017 from 0.5% q-o-q in the fourth quarter (Q4) of 2016. By type of expenditure, the higher growth in Q1 2017 was led by increased gross fixed capital formation, higher private consumption expenditure, and a rebound in exports. On a y-o-y basis, the Republic of Korea's economy grew 2.9% in Q1 2017 versus 2.4% in Q4 2016.

Consumer price inflation in the Republic of Korea picked up in the first 4 months of 2017 to a monthly average of 2.0% y-o-y from an annual average of 1.0% in full-year 2016. The rise in inflation was driven by a rebound in oil prices and a pickup in economic activity.

Size and Composition

The Republic of Korea's LCY bond market grew 1.4% q-o-q to reach KRW2,095 trillion (USD1,873 billion) at the end of March (**Table 1**). The rise was most notable in the government bond sector as the corporate bond

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,044,415**	**1,788**	**2,066,453**	**1,714**	**2,094,915**	**1,873**	**1.2**	**7.6**	**1.4**	**2.5**
Government	839,618	734	847,537	703	872,215	780	2.1	6.3	2.9	3.9
Central Government Bonds	501,171	438	516,908	429	533,303	477	3.3	10.3	3.2	6.4
Central Bank Bonds	181,390	159	168,390	140	174,860	156	0.3	(1.9)	3.8	(3.6)
Others	157,057	137	162,239	135	164,052	147	0.7	4.4	1.1	4.5
Corporate	1,204,797	1,054	1,218,916	1,011	1,222,700	1,093	0.5	8.5	0.3	1.5

( ) = negative, KRW = Korean won, 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. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
4. "Others" comprise Korea Development Bank Bonds, National Housing Bonds, and Seoul Metro Bonds.
5. Corporate bonds include equity-linked securities and derivatives-linked securities.
Sources: The Bank of Korea and *EDAILY BondWeb*.

market exhibited only a marginal increase from the previous quarter. On a y-o-y basis, the LCY bond market increased at a faster pace of 2.5%. Total government bonds outstanding reached KRW872 trillion, while corporate bonds amounted to KRW1,223 trillion.

Government Bonds. LCY government bonds outstanding rose 2.9% q-o-q to KRW872 trillion at the end of March. The growth was mainly driven by a 3.2% q-o-q increase in the outstanding stock of central government bonds, due to higher issuance of Korea Treasury Bonds. This is in line with the government's efforts to prop up the economy, frontloading almost one-third of its budget in Q1 2017. The outstanding stock of central bank bills also increased 3.8% q-o-q to KRW175 trillion at the end of March. Other government bonds rose 1.1% q-o-q to KRW164 trillion.

Government bond issuance in Q1 2017 surged 30.4% q-o-q to reach KRW88.4 trillion, driven by higher issuance of Korea Treasury Bonds and Monetary Stabilization Bonds. The surge was also partly due to the relatively low base in Q4 2016 as both the Ministry of Finance and Bank of Korea decreased their issuance to help stabilize market volatility following the US elections in November.

Corporate Bonds. LCY corporate bonds marginally rose 0.3% q-o-q to KRW1,223 trillion at the end of March. **Table 2** presents the top 30 LCY corporate bond issuers in the Republic of Korea at the end of March. The top 30 issuers comprised 64.8% of the total LCY corporate bond market, with aggregate bonds outstanding amounting to KRW792 trillion. Securities companies and banks continued to dominate the top 30 largest debt issuers with total bonds outstanding worth KRW325 trillion and KRW140 trillion, respectively. Of those in the list, 16 were state-owned firms, including the Korea Housing Finance Corporation, which continued to top the list with outstanding corporate bonds worth KRW111 trillion.

Corporate bond issuance slowed in Q1 2017, down 3.8% q-o-q to KRW96 trillion from KRW99 trillion in the previous quarter. **Table 3** lists notable corporate bond issuances in Q1 2017. The National Agricultural Cooperative Federation, a holding company with interests in agriculture, banking, and insurance, topped the list. Other top issuers of bonds for the quarter were from the banking sector, including Woori Bank and KEB Hana Bank.

Investor Profile

Insurance companies and pension funds continued to account for the largest holdings share of LCY government bonds at the end of December 2016, with an aggregate share of 33.6%, up from 32.6% a year earlier (**Figure 2**). General government comprised the second largest investor group, accounting for 19.3%, which was down slightly from a year earlier. The share of other financial institutions at 18.7% was almost unchanged from a year earlier. The share of banks rose to 14.3% from 13.9% during the period in review. Meanwhile, foreign investors held 10.5% of LCY government bonds at the end of December 2016.

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	110,682	99.0	Yes	No	No	Housing Finance
2.	NH Investment & Securities	66,000	59.0	Yes	Yes	No	Securities
3.	Mirae Asset Daewoo	58,281	52.1	No	Yes	No	Securities
4.	Korea Investment and Securities	51,350	45.9	No	No	No	Securities
5.	Korea Land & Housing Corporation	44,548	39.8	Yes	No	No	Real Estate
6.	Hana Financial Investment	36,756	32.9	No	No	No	Securities
7.	Mirae Asset Securities	36,206	32.4	No	Yes	No	Securities
8.	Industrial Bank of Korea	35,920	32.1	Yes	Yes	No	Banking
9.	KB Securities	27,169	24.3	No	No	No	Securities
10.	Korea Deposit Insurance Corporation	27,090	24.2	Yes	No	No	Insurance
11.	Korea Electric Power Corporation	22,480	20.1	Yes	Yes	No	Electricity, Energy, and Power
12.	Samsung Securities	21,446	19.2	No	Yes	No	Securities
13.	Korea Expressway	21,370	19.1	Yes	No	No	Transport Infrastructure
14.	Korea Rail Network Authority	19,320	17.3	Yes	No	No	Transport Infrastructure
15.	Shinhan Bank	19,122	17.1	No	No	No	Banking
16.	Woori Bank	18,755	16.8	Yes	Yes	No	Banking
17.	Kookmin Bank	18,146	16.2	No	No	No	Banking
18.	Daishin Securities	17,092	15.3	No	Yes	No	Securities
19.	Korea Gas Corporation	14,469	12.9	Yes	Yes	No	Gas Utility
20.	The Export-Import Bank of Korea	13,360	11.9	Yes	No	No	Banking
21.	NongHyup Bank	12,890	11.5	Yes	No	No	Banking
22.	Small & Medium Business Corporation	12,610	11.3	Yes	No	No	SME Development
23.	KEB Hana Bank	11,710	10.5	No	No	No	Banking
24.	Korea Student Aid Foundation	11,510	10.3	Yes	No	No	Student Loan
25.	Shinhan Card	11,206	10.0	No	No	No	Credit Card
26.	Hyundai Capital Services	10,974	9.8	No	No	No	Consumer Finance
27.	Standard Charted Bank Korea	10,960	9.8	No	No	No	Banking
28.	Shinyoung Securities	10,956	9.8	No	Yes	No	Securities
29.	Korea Railroad Corporation	10,290	9.2	Yes	No	No	Transport Infrastructure
30.	Korea Water Resources Corporation	9,637	8.6	Yes	No	No	Water
Total Top 30 LCY Corporate Issuers		**792,306**	**708.4**				
Total LCY Corporate Bonds		**1,222,700**	**1,093.2**				
Top 30 as % of Total LCY Corporate Bonds		**64.8%**	**64.8%**				

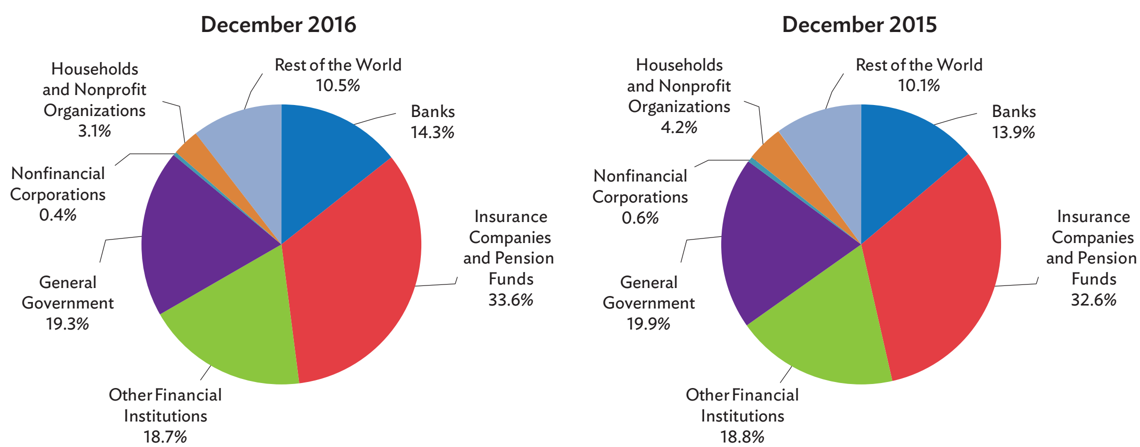
KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, KRW = Korean won, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of end-March 2017.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
3. Corporate bonds include equity-linked securities and derivatives-linked securities.
Sources: *AsianBondsOnline* calculations based on Bloomberg LP and *EDAILY BondWeb* data.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
National Agricultural Cooperative Federation		
3-year bond	1.81	380
3-year bond	1.80	260
3-year bond	1.95	210
3-year bond	1.82	170
3-year bond	1.92	120
5-year bond	1.98	350
5-year bond	2.07	50
7-year bond	2.20	70
10-year bond	2.26	30
Woori Bank		
2-year bond	1.70	100
2-year bond	1.71	200
2-year bond	1.73	200
2-year bond	1.70	230
3-year bond	1.82	100
3-year bond	1.85	100
3-year bond	1.85	100
3-year bond	1.94	200
5-year bond	2.10	250
5-year bond	2.06	110
KEB Hana Bank		
2-year bond	1.69	100
2-year bond	1.67	100
2-year bond	1.71	100
2-year bond	1.68	100
2-year bond	1.70	100
2-year bond	1.76	100
3-year bond	1.81	100
3-year bond	1.80	100
3-year bond	1.82	100
3-year bond	1.82	100
3-year bond	1.81	100
3-year bond	1.83	100
3-year bond	1.83	100
10-year bond	2.81	200

KRW = Korean won.
Source: Based on data from Bloomberg LP.

Figure 2: Local Currency Government Bonds Investor Profile

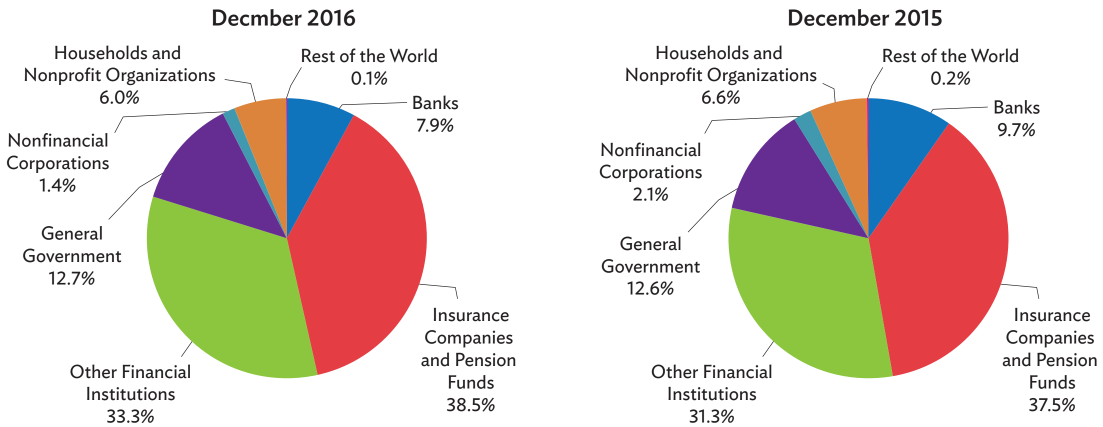


Sources: *AsianBondsOnline* and the Bank of Korea.

The investor profile of the Republic of Korea's corporate bond market was barely changed at the end of December 2016 compared with a year earlier (**Figure 3**). Insurance companies and pension funds remained the largest investor group with a share of 38.5%, up from 37.5% in December 2015. Other financial institutions were the second largest group, accounting for a third of total holdings. The share of foreign investors in the Republic of Korea's corporate bond market remained negligible.

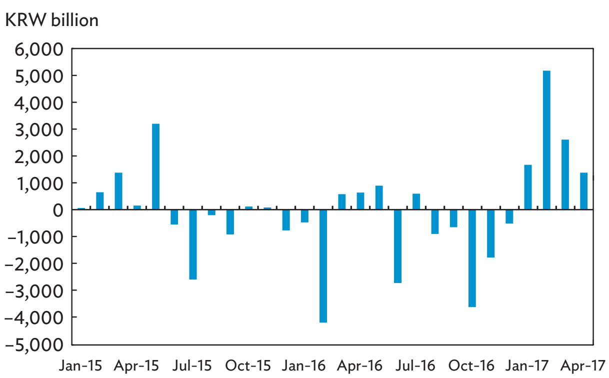
Net foreign investments in the Republic of Korea's local currency bond market surged in the first 4 months of 2017 following net investment outflows in most of 2016 (**Figure 4**). Net foreign investments amounted to KRW1,665 billion in January and reached a peak of KRW5,186 billion in February before easing to KRW2,607 billion in March and further to KRW1,375 billion in April.

Figure 3: Local Currency Corporate Bonds Investor Profile



Sources: *AsianBondsOnline* and the Bank of Korea.

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



KRW = Korean won.
Source: Financial Supervisory Service.

Foreign funds returned to the region at the start of the year as the market stabilized following volatility posed by the unexpected outcome of the US presidential election in November. The high demand was partly due to the market taking advantage of the appreciation of the won, which strengthened 5.7% against the US dollar to KRW1,138 at the end of April from KRW1,206 at the end of December 2016.

Policy, Institutional, and Regulatory Developments

Financial Services Commission Announces New Approach to Corporate Restructuring

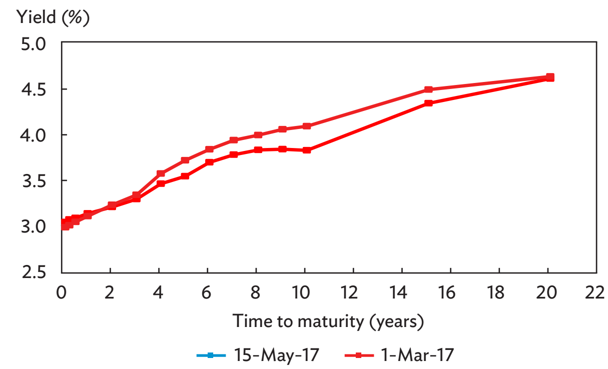
On 13 April, the Financial Services Commission announced a new approach to corporate restructuring in the Republic of Korea. This is to complement the existing framework and introduce more market-based restructuring schemes where capital market players, particularly private equity funds, will have an active role. The new approach includes a review and revision of banks' existing credit-risk evaluation models and frameworks. Companies that are included under a workout program are to be reevaluated and a more appropriate plan will be considered. This may be a continuation of the workout program or a buyout plan by private equity funds. A public–private joint fund worth KRW8 trillion will also be raised over the next 5 years. State-run banks will provide KRW4 billion and the remaining half will be funded by the private sector. The fund is intended to provide sufficient liquidity in the corporate bond market and encourage more private investments in corporate restructuring.

Malaysia

Yield Movements

Between 1 March and 15 May, local currency (LCY) government bond yields in Malaysia fell for most tenors, specifically those securities with tenors of between 2 years and 20 years (**Figure 1**). The largest drop in yields was seen in the 10-year tenor, which declined 26 basis points (bps), while a smaller drop was seen in the 2-year and 20-year tenors of 2 bps each. The decline in yields reflected restored confidence in the domestic bond market as foreign funds returned due to government policy initiatives to develop the local bond market, coupled with the recovery of the Malaysia ringgit and improved prospects for the economy. In contrast, bond yields at the short-end of the yield curve increased. On average, the yields for 3-month to 1-year tenors advanced 5 bps. The increase in short-end yields to some extent reflected lingering risk associated with the sell-off by foreign investors of LCY government bonds concentrated on shorter tenors. According to Bank Negara Malaysia (BNM), the bulk of the reduction in foreign holdings was in maturities of less than 1 year.[25] The yield spread between 2-year and 10-year government bonds declined by 24 bps during the review period.

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



Source: Based on data from Bloomberg LP.

BNM decided to maintain the overnight policy rate at 3.0% during its meeting on 12 May. The central bank's stance remained supportive of the markets' economic conditions and growth prospects, and inflation remained within BNM's expectations. While inflation has been trending higher, it mainly reflected the pass-through impacts of higher global oil prices and temporary supply disruptions that fed into higher consumer prices. Inflation is expected to moderate in the second half of the year. Malaysia' growth momentum from the latter part of 2016 is expected to carry into the first quarter (Q1) of 2017 and be sustained for rest of the year. On the external front, improving global economic conditions will support Malaysia's economic performance, particularly from exports. BNM has maintained its overnight policy rate since a 0.25-percentage points reduction in July 2016.

Malaysia's inflation rate moderated to 4.4% year-on-year (y-o-y) in April after sharply increasing to 5.1% y-o-y in March. The March number is the highest since posting an inflation rate of 5.7% y-o-y in November 2008. Both March and April consumer price inflation was driven by increasing fuel prices in the transport sector. Average inflation in January–April 2017 was 4.3%, higher than the 3.1% inflation rate posted in the same period in 2016. Core inflation, which excludes volatile items, remained stable at 2.5% y-o-y in April.

The ringgit appreciated 3.7% against the United States (US) dollar year-to-date through 15 May. The ringgit has recently recovered from its lows in November and December 2016, supported by BNM's currency measures, an improved inflow of foreign funds, and resilient economic fundamentals.

Malaysia's economy expanded faster than expected at 5.6% y-o-y in Q1 2017, overtaking the fourth quarter (Q4) of 2016 growth of 4.5% y-o-y. The Q1 2017 gross domestic product (GDP) growth was also the fastest in 2 years since 5.8% y-o-y growth was posted in Q1 2015. Malaysia's economy was lifted by strong private consumption expenditure and investment, as well as a robust recovery in exports. BNM stated that domestic demand is projected to continue to expand, supporting the economy, while exports are expected to benefit from the improvement in global growth. The central bank

[25] Bank Negara Malaysia. Statement by Financial Markets Committee: Roundtable Discussion on Bond Market Development. 14 March 2017. http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=4392&lang=en

forecast Malaysia's GDP growth at between 4.3%–4.8% for full-year 2017. Meanwhile, Malaysia had laudable GDP growth of 4.2% y-o-y in 2016, led by strong private consumption expenditure and investment. In 2015, GDP growth was 5.0% y-o-y.

Size and Composition

Total LCY bonds outstanding in Malaysia expanded 3.3% quarter-on-quarter (q-o-q) and 5.7% y-o-y, reaching MYR1,206 billion (USD272 billion) at the end of March (**Table 1**). The q-o-q growth was a turnaround from the 0.1% q-o-q backslide seen in Q4 2016. On a y-o-y basis, the growth was faster. Despite the foreign outflow pressure and risks stemming from the global front, growth remained positive in the LCY bond market, reflecting that the market has large support from local investors. The Islamic capital market maintained its dominant position from the high issuance of *sukuk* (Islamic bonds) at end of March with a share of 57.1% of total LCY bonds outstanding.

Issuance of LCY bonds sharply rebounded in Q1 2017. Total issuance during the quarter summed to MYR76.9 billion on increases of 54.4% q-o-q and 24.1% y-o-y, reversing the double-digit drop seen in Q4 2016. The pace of issuance can be traced to market lenders locking in lower rates before a highly anticipated rate hike by the US Federal Reserve in March. The recovery of the ringgit may have also helped renew investor interest in Malaysia's bond market.

Government Bonds. LCY government bond outstanding stood at MYR651 billion at the end of March, rising 2.7% q-o-q and 3.5% y-o-y. The increase was propelled by central government bonds, which made up 94.2% of the total government bond stock. Central government bonds grew 2.7% q-o-q and 5.9% y-o-y.

Government bonds propelled growth in the LCY bond market in Q1. Issuance doubled on a quarterly basis and rose by 36.3% over the previous 12 months. Bond sales from the government totaled MYR38.9 billion during the quarter, comprising Malaysian Government Securities (MGS) and Government Investment Issues. Issuance of MGS had a dramatic increase to MYR15 billion in Q1 2017 from MYR4 billion in Q4 2016. Treasury bills and central bank bills issuance also showed positive q-o-q growth in Q1 2017. The strong bond issuance reflected the Malaysian government's increased financing needs in 2017.

Foreign holdings of LCY government bonds at the end of March dropped 18.3% to MYR156.7 billion from MYR191.8 billion at the end of December 2016 (**Figure 2**).[26] Foreign investors began to offload

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

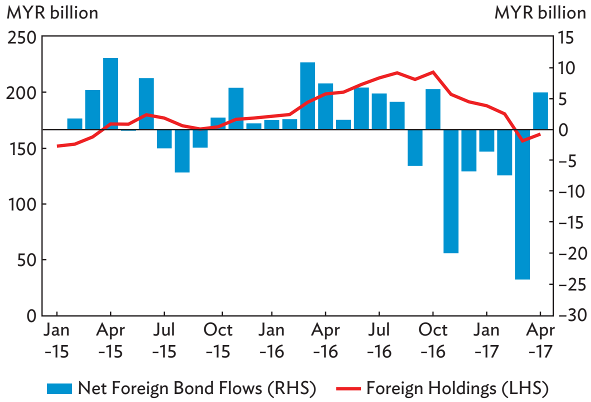
	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,141**	**293**	**1,167**	**260**	**1,206**	**272**	**1.9**	**6.3**	**3.3**	**5.7**
Government	628	161	634	141	651	147	2.7	2.7	2.7	3.5
Central Government Bonds	579	148	596	133	613	138	3.5	9.0	2.7	5.9
of which: *Sukuk*	223	57	236	53	252	57	3.3	14.3	6.6	12.9
Central Bank Bills	22	6	9	2	10	2	(12.2)	(62.3)	9.7	(55.3)
of which: *Sukuk*	0	0	0	0	0	0	(100.0)	(100.0)	–	–
Sukuk Perumahan Kerajaan	28	7	28	6	28	6	0.0	16.4	0.0	0.0
Corporate	512	131	534	119	555	125	1.0	11.1	4.0	8.3
of which: *Sukuk*	366	94	395	88	409	92	1.4	11.5	3.6	11.7

( ) = negative, – = not available, 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.

[26] Foreign holdings of debt securities and *sukuk*, excluding Bank Negara Malaysia bills.

Figure 2: Foreign Holdings of Local Currency Government Bonds



LHS = left-hand side, MYR = Malaysian ringgit, RHS = right-hand side.
Notes:
1. Figures exclude foreign holdings of Bank Negara Malaysia bills.
2. Month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
Source: Bank Negara Malaysia Monthly Statistical Bulletin.

their holdings of LCY government bonds when the unexpected outcome of the US presidential election led to speculation that was exacerbated by BNM's clamping down on nondeliverable forwards in order to stabilize the ringgit. This drew a significant amount of net foreign capital out of Malaysia's bond market in Q4 2016 and Q1 2017. During Q1 2017, Malaysia posted MYR35 billion net foreign outflows. Foreign holdings of MGS, which accounted for about 87.0% of total government securities held by foreign investors, declined 19.3% from the end of December to the end of March with net foreign outflows reaching MYR32.6 billion. By April, foreign fund flows turned positive with MYR6.0 billion monthly net foreign inflows, resulting in a total of MYR162.8 billion in foreign holdings of government bonds. Recent efforts by Malaysian policy makers to liberalize the bond market and the improving performance of the ringgit helped renew investor confidence in sovereign securities.

Corporate Bonds. Total LCY corporate bonds outstanding amounted to MYR555 billion at the end of March, an increase of 4.0% q-o-q and 8.3% y-o-y. With a large amount of issuance and a relatively low level of bond redemptions in Q1 2017, the corporate bond market managed to reverse the 0.5% q-o-q decline and even outpace the 5.2% y-o-y growth posted in Q4 2016.

Bonds outstanding from the top 30 corporate issuers at the end of March comprised 55.4% of the total LCY corporate bond market, which reached an aggregate amount of MYR307.7 billion (**Table 2**). The majority of the companies in the top 30 are not listed on Malaysia's stock exchange and 20 of them are state-owned. Companies from the finance industry dominated the list with a combined outstanding amount of MYR144.9 billion, while property and real estate accounted for only MYR5.1 billion. The government's funding vehicle for infrastructure projects, Danainfra Nasional, had the most outstanding bonds with MYR32.4 billion at the end of March, followed by privately owned transport, storage, and communications company, Project Lebuhraya Usahasama, with MYR30.4 billion.

Corporate bond market issuance rebounded in Q1 2017, with issuance amounting to MYR38.1 billion compared with MYR30.3 billion in the preceding quarter and MYR33.5 billion in Q1 2016. The increase in issuance was underpinned by government guaranteed bonds for Malaysia's key infrastructure projects. By instrument type, medium-term notes remained the dominant instrument in the corporate sector with a total issuance of MYR23.9 billion in Q1 2017.

Notable issuances in Q1 2017 are listed in **Table 3**. SapuraKencana TMC issued MYR3,366 million in a multitranche sale of 7-year maturities.

Investor Profile

The investor profile of government bond holders was little changed at the end of December 2016 from the previous year (**Figure 3**). Foreign investors continued to account for the largest share of LCY government bond holdings with a share that rose slightly to 32.2% from 31.5% in December 2015 despite foreign capital outflows toward the end of the year. Social security institutions followed with a 28.3% share, just overtaking financial institutions with a 28.0% share. Shares of insurance companies and other holders both decreased in 2016. BNM's holdings of LCY government bonds increased but remained the lowest overall at 1.0%.

For LCY corporate bonds, the investor profile generally remained unchanged between March 2016 and March 2017, with domestic commercial and Islamic banks accounting for the highest ownership share at 38.9% at the end of the review period (**Figure 4**). Marginal increases in the share of holdings were seen in life insurance companies and foreign commercial and Islamic

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.	Danainfra Nasional	32.4	7.3	Yes	No	Finance
2.	Project Lebuhraya Usahasama	30.4	6.9	No	No	Transport, Storage, and Communications
3.	Cagamas	27.5	6.2	Yes	No	Finance
4.	Prasarana	18.7	4.2	Yes	No	Transport, Storage, and Communications
5.	Khazanah	18.0	4.1	Yes	No	Finance
6.	Perbadanan Tabung Pendidikan Tinggi Nasional	16.7	3.8	Yes	No	Finance
7.	Maybank	14.7	3.3	No	Yes	Banking
8.	Pengurusan Air	14.0	3.2	Yes	No	Energy, Gas, and Water
9.	Sarawak Energy	9.5	2.1	Yes	No	Energy, Gas, and Water
10.	CIMB Bank	9.5	2.1	No	No	Finance
11.	Jimah East Power	9.0	2.0	Yes	No	Energy, Gas, and Water
12.	GOVCO Holdings	7.6	1.7	Yes	No	Finance
13.	Bank Pembangunan Malaysia	7.4	1.7	Yes	No	Banking
14.	Public Bank	7.4	1.7	No	No	Banking
15.	Rantau Abang Capital	7.0	1.6	Yes	No	Finance
16.	Sarawak Hidro	6.5	1.5	Yes	No	Energy, Gas, and Water
17.	Aman Sukuk	6.1	1.4	Yes	No	Construction
18.	ValueCap	6.0	1.4	Yes	No	Finance
19.	CIMB Group Holdings	5.4	1.2	Yes	No	Finance
20.	Turus Pesawat	5.3	1.2	Yes	No	Transport, Storage, and Communications
21.	RHB Bank	5.2	1.2	No	No	Banking
22.	Putrajaya Holdings	5.1	1.2	Yes	No	Property and Real Estate
23.	1Malaysia Development	5.0	1.1	Yes	No	Finance
24.	Celcom Networks	5.0	1.1	No	No	Transport, Storage, and Communications
25.	Danga Capital	5.0	1.1	Yes	No	Finance
26.	GENM Capital	5.0	1.1	No	No	Finance
27.	YTL Power International	4.8	1.1	No	Yes	Energy, Gas, and Water
28.	AmBank	4.7	1.1	No	No	Banking
29.	Jambatan Kedua	4.6	1.0	Yes	No	Transport, Storage, and Communications
30.	Manjung Island Energy	4.5	1.0	No	No	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers		**307.7**	**69.5**			
Total LCY Corporate Bonds		**555.1**	**125.4**			
Top 30 as % of Total LCY Corporate Bonds		**55.4%**	**55.4%**			

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of end-March 2017.
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 the First Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
SapuraKencana TMC		
7-year bond	6.37	1,413
7-year bond	6.53	1,102
7-year bond	6.48	426
7-year bond	6.46	350
7-year bond	4.85	75
GOVCO Holdings		
15-year bond	4.95	1,250
10-year bond	4.55	500
7-year bond	4.29	625
5-year bond	4.10	625
Cagamas		
5-year bond	4.15	2,000

MYR = Malaysian ringgit.
Source: Bank Negara Malaysia Bond Info Hub.

banks, while marginal decrease were seen in investment banks and the Employees Provident Fund. General insurance companies' holdings were unchanged at 2.3%.

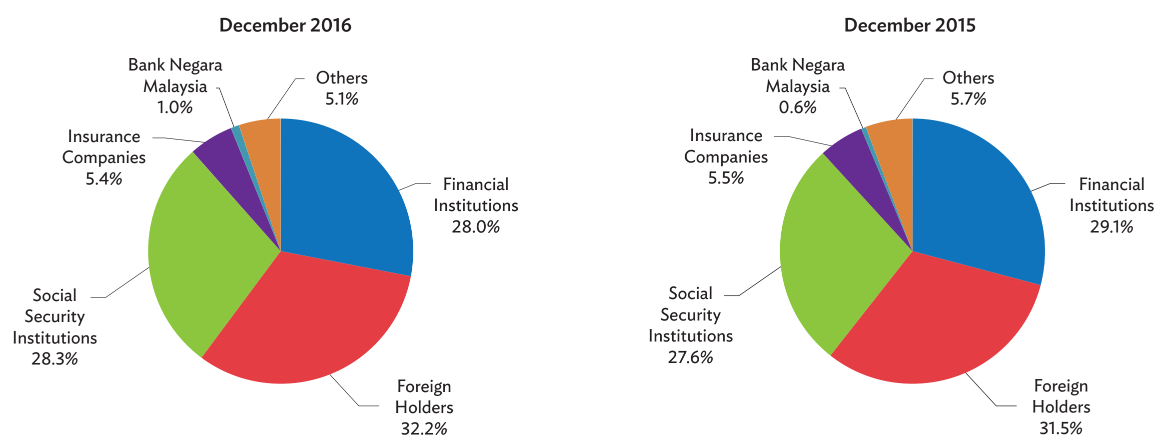
Ratings Update

In January, RAM Ratings affirmed Malaysia's global sovereign rating at $_{g}A_{2}$ and its ASEAN-scale sovereign rating at $_{sea}AAA$ with a stable outlook, reflecting the market's economic resilience despite domestic and external risks. The Government of Malaysia's fiscal consolidation efforts and the market's sustained current account surplus supported the rating. However, RAM Ratings stated that if there is deterioration in the fiscal position as a result of rising debt, a persistent current account deficit, or significant deviations in the country's economic or fiscal conditions, Malaysia's rating could be revised downward.

Fitch affirmed Malaysia's long-term foreign currency and local currency international default rating at A– in April with a stable outlook based on a promising economic environment and growth prospects. Despite offloading from foreign investors in Q4 2016, which put downward pressure on the ringgit and international reserves, Malaysia managed to maintain a strong net external creditor position, resilient GDP growth, and a current account surplus. The ratings firm flagged the Malaysian government's fiscal consolidation efforts to narrow the deficit as a positive development while failure to implement these efforts, which would lead to a deterioration of fiscal discipline, were flagged as risks.

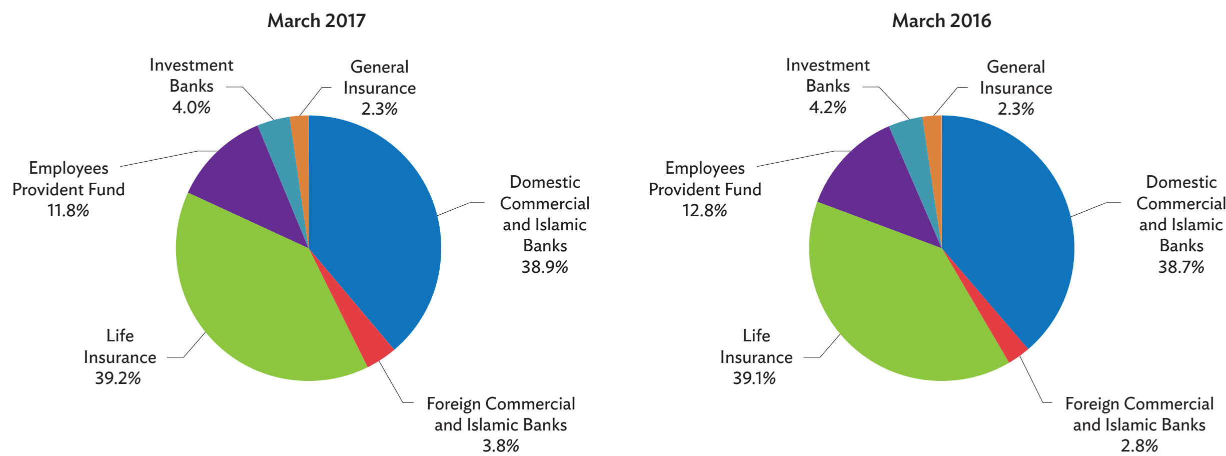
Malaysian Rating Corporation Berhad affirmed Malaysia's sovereign rating of AAA with a stable outlook in April. The rating was supported by the market's sound macroeconomic fundamentals, which were underpinned by resilient economic growth, a sustainable and strong external position, a strong and well-supervised banking system, and effective governance. The credit watcher flagged fiscal performance and high government and household debt levels as rating constraints.

Figure 3: 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 4: Local Currency Corporate Bonds Investor Profile



Note: The Employees Provident Fund's bond holdings data are as of end-December 2016.
Sources: Bank Negara Malaysia and the Employees Provident Fund.

Policy, Institutional, and Regulatory Developments

Securities Commission Allows Regulated Short-Selling of Corporate Bonds

In April, Malaysia's Securities Commission allowed principal dealers, primarily banks, to undertake a regulated short-selling of corporate bonds. The Securities Commission has set out conditions on how the regulated short-selling of corporate bonds is to be conducted and the requirements to ensure market stability. The commission's regulatory development is in line with Malaysia's efforts to develop its bond market and boost liquidity.

Bank Negara Malaysia Eases Rules on Short-Selling of Government Securities

BNM eased rules on the short-selling of MGS effective 2 May. The move is part of the liberalization measures by the central bank to develop domestic financial markets and restore investor interest in government debt. Prior to this development, only licensed banks and investment banks were allowed to short-sell MGS. The new rule allows companies and insurers to short-sell MGS to help them manage their risk and generate more trading volume, resulting in higher liquidity onshore. The central bank also said this will attract foreign investors to bring funds back to the domestic market. The clampdown on nondeliverable forwards launched in November in an effort to stabilize the ringgit saw foreign investors offload government securities.

The Bank of Japan and Bank Negara Malaysia Conclude Bilateral Currency Swap Agreement

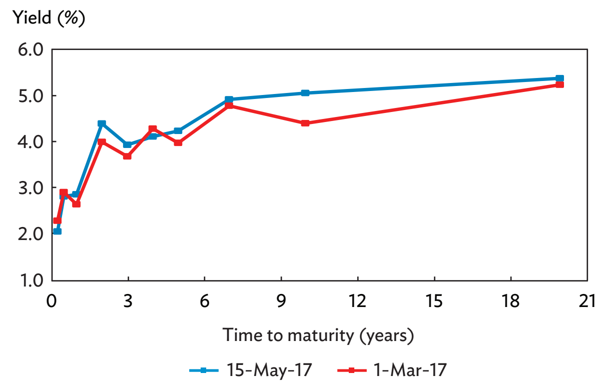
The Bank of Japan and BNM reached a bilateral currency swap agreement in early May. The agreement between the central banks will allow them to swap their currencies with US dollars when needed up to a maximum of USD3 billion. The arrangement will deepen the economic and trade ties between the Japanese and Malaysian markets and contribute to financial stability in Southeast Asia.

Philippines

Yield Movements

Between 1 March and 15 May, local currency (LCY) government bond yields in the Philippines rose for all tenors except the 3-month, 6-month, and 4-year maturities, whose yields fell by 24, 9, and 17 basis points (bps), respectively (**Figure 1**). Yields increased for government bonds with 1-, 2-, 3-, 5-, 7-, 10-, and 20-year maturities. The largest increase was seen in the yield for 10-year bonds, which advanced 65 bps. The yield spread between 2-year and 10-year tenors widened by 26 bps during the review period.

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



Source: Based on data from Bloomberg LP.

The demand for shorter-dated securities was strong because the market is in a wait-and-see position. Investors will not risk locking up their funds in long-term maturities as they remain on the lookout for policy leads on both the local and external fronts. Strong demand has bid up bond prices at the short-end, resulting in lower yields. On the other hand, advancing yields for most tenors reflect the general perception that interest rates will rise amid expectations of accelerating inflation and hawkish moves by the Bangko Sentral ng Pilipinas (BSP) toward the second half of the year.

Consumer prices in the Philippines rose 3.4% year-on-year (y-o-y) in April, the same pace of inflation from the previous month. Inflation has been trending upward since November 2016, reaching its highest level in more than 2 years in March. Year-to-date through April, the average inflation rate was 3.2% y-o-y, which was within the government's target range of 2%–4% for full-year 2017.

BSP kept its monetary policy unchanged during its meeting on 11 May, leaving the policy rate at 3.0% as it assessed that inflation remained manageable. Rates on the overnight lending and deposit facilities were also unchanged at 3.5% and 2.5%, respectively. Market expectations remained anchored to the inflation target over the policy horizon and the latest inflation forecasts for 2017 and 2018 remained within the target band of 2%–4%. The central bank flagged the proposed tax reform program and possible further adjustments in transport fares and electricity rates as upside risks to inflation. Inflation in the Philippines, while hovering near the upper end, remains within the BSP target band, thus providing enough room to delay a rate hike. The outlook for the domestic economy continued to be optimistic despite some downside risks emanating from external developments.

The Philippine peso barely moved against the United States (US) dollar year-to-date through 15 May. The peso did, however, breach the PHP50 per dollar level in mid-February, where it remained until early April. The peso reached a 10-year low in March against the backdrop of persistent uncertainty associated with the timing of the US Federal Reserve's interest rate hike and the volatile market sentiments surrounding Brexit. Consequently, the US dollar has been strengthening against currencies in Asia as investors resorted to safe-haven buying. In May, the peso began to strengthen against the greenback as the market trimmed expectations of an interest hike from the US Federal Reserve amid weaker-than-expected US inflation.

The Philippines' gross domestic product (GDP) grew at a weaker-than-expected pace of 6.4% y-o-y in the first quarter (Q1) of 2017. GDP growth in Q1 2017 was slower than that posted in the fourth quarter (Q4) of 2016 (6.6% y-o-y) and in Q1 2016 (6.9% y-o-y). It was the slowest expansion of the Philippine economy since recording 6.2% y-o-y growth in the third quarter of 2015. According to the National Economic and Development Authority, the slowing growth in Q1 2017 could be explained by the high base effects from election spending in 2016. Furthermore, the reorientation of government programs, which typically takes some time in a new administration, slowed government spending during the quarter. On the demand side, strong exports helped keep the economy afloat, while on the supply side, the services sector remained the main growth driver. Despite the slower growth, the government still sees the economy broadly in line with its full-year 2017 target GDP growth rate of 6.5%–7.5% as the government has set an ambitious infrastructure program.

Size and Composition

The Philippines' LCY bond market had bonds outstanding at the end of March amounting to PHP4,943 billion (USD98 billion), an increase of 1.5% quarter-on-quarter (q-o-q) and 5.0% y-o-y compared with a q-o-q decline and a slower y-o-y growth at the end of March 2016 (**Table 1**). The increase in the bond stock was supported by gains in both the LCY government and corporate bond segments. At the end of March, government bonds comprised 81.1% of total LCY bonds outstanding and corporate bonds comprised 18.9%.

Government Bonds. LCY government bonds outstanding registered 0.8% q-o-q growth, reaching a total of PHP4,011 billion. The q-o-q expansion was buoyed by Treasury bonds, which increased 1.0% q-o-q, but was dampened by the 0.6% q-o-q decrease in Treasury bills. The size of Treasury bonds increased because of higher issuance in Q1 2017, which was accompanied by low redemptions, while the amount of Treasury bills slightly decreased due to the partial awarding of offers in most auctions during the period. On a y-o-y basis, LCY government bonds outstanding increased 3.0%, driven by 3.3% growth in Treasury bonds and 2.6% growth in Treasury bills. On the other hand, government-owned or -controlled corporation bonds outstanding declined on a y-o-y basis as some bonds matured and there were no new issuances in Q1 2017.

Total LCY bonds issued during Q1 2017 amounted to PHP320.1 billion, up 56.0% q-o-q and 69.0% y-o-y. The government issued PHP267.8 billion of LCY securities during the quarter, more than doubling issuance in Q4 2016 and 51.0% higher compared with Q1 2016. The sharp increases reflect the government capitalizing on the local debt market to finance its ambitious infrastructure plan. Treasury bond issuance reached PHP90 billion and Treasury bill issuance reached PHP177.8 in Q1 2017.[27]

Auctions for Treasury bonds and bills were met with strong demand. However, shorter-dated Treasury bills were partially awarded by the government in most of the auctions due to investors seeking higher rates and the government being more discerning with its rates as it has enough of a cash balance. Longer-dated Treasury bonds were fully awarded as the government sought to lock in lower borrowing costs amid expectations of rate hikes in the second half of the year from the US Federal Reserve and the BSP.

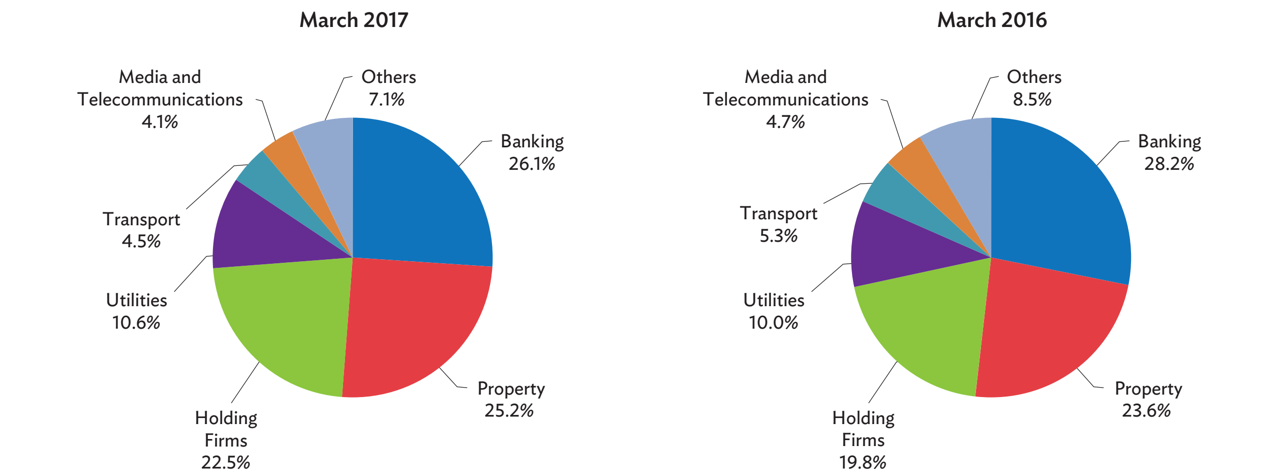
Table 1: Size and Composition of the Local Currency Bond Market in the Philippines

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,706**	**102**	**4,869**	**98**	**4,943**	**98**	**(1.1)**	**0.5**	**1.5**	**5.0**
Government	3,893	85	3,978	80	4,011	80	(1.3)	(0.6)	0.8	3.0
Treasury Bills	279	6	288	6	286	6	5.5	0.2	(0.6)	2.6
Treasury Bonds	3,539	77	3,621	73	3,656	73	(1.6)	(0.2)	1.0	3.3
Others	76	2	69	1	69	1	(12.2)	(17.3)	0.0	(8.4)
Corporate	813	18	891	18	932	19	(0.1)	6.3	4.6	14.6

( ) = negative, LCY = local currency, 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 LCY–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management (PSALM) and the National Food Authority, among others.
5. Peso Global Bonds (PHP-denominated bonds payable in US dollars) are not included.
Sources: Bloomberg LP and Bureau of the Treasury.

[27] Treasury bonds and bills include reissues and special bills.

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

In 2017, the government plans to borrow up to PHP631.3 billion, with 80% coming from local creditors and 20% from foreign creditors.

Corporate Bonds. The LCY corporate bond market was more active in Q1 2017 in terms of growth. LCY corporate bonds outstanding at the end of March increased 4.6% q-o-q and 14.6% y-o-y, reaching PHP932 billion. Compared to the same period in 2016, the q-o-q growth was a turnaround from a decline while y-o-y growth was faster.

The banking sector remained the largest source of LCY corporate bonds outstanding at the end of March, accounting for 26.1% of the total, even though its share fell from 28.2% a year earlier (**Figure 2**). On the other hand, the property sector increased its share to 25.2% at the end of March from 23.6% a year earlier. The expansion in the property sector can be attributed to robust demand for housing units and office space that prompted property firms to tap the debt market. Banking and property remained the top two sectors in terms of the amount of bonds outstanding. Sectors that saw an increase in their share of LCY corporate bonds outstanding during the review period include utilities and holding firms, while media and telecommunications, transport, and other sectors experienced declines.

LCY bonds outstanding of the top 30 corporate issuers amounted to PHP793 billion at the end of March, which represented 89.0% of the Philippines' LCY corporate bond market (**Table 2**). Property firm Ayala Land topped the list with a total of PHP80.3 billion of outstanding bonds. By sector, banks led the group with PHP202.8 billion LCY bonds outstanding, followed closely by property firms with PHP197.2 billion.

Corporate bond issuance in Q1 2017 dropped 27.2% q-o-q but more than tripled on a y-o-y basis. The q-o-q drop can be attributed to the high base in Q4 2016 and the wait-and-see position of companies amid uncertainty surrounding the timing and direction of domestic and external policies. In comparison to Q4 2016's q-o-q growth rate, corporate bond issuance increased 60.0% q-o-q, which can be attributed to very high expectations from market participants that the US Federal Reserve would increase its policy rate in December 2016, prompting companies to cash in on relatively low interest rates to manage borrowing costs ahead of the interest rate hike.

Notable corporate issuers in Q1 2017 are listed in **Table 3**. Property firm Megaworld had the largest bond issuance during the quarter from the single sale of 7-year bonds amounting to PHP12 billion and carrying a coupon rate of 5.35%. This comprised 22.9% of all corporate bonds issued in Q1 2017.

The Philippine Dealing and Exchange Corporation is also looking at the feasibility of opening an alternative funding

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	80.3	1.6	No	Yes	Property
2.	Metrobank	55.4	1.1	No	Yes	Banking
3.	SM Prime	53.8	1.1	No	Yes	Property
4.	Ayala Corporation	50.0	1.0	No	Yes	Holding Firms
5.	SM Investments	47.3	0.9	No	Yes	Holding Firms
6.	San Miguel Brewery	37.8	0.8	No	No	Brewery
7.	BDO Unibank	37.5	0.7	No	Yes	Banking
8.	Philippine National Bank	31.4	0.6	No	Yes	Banking
9.	JG Summit Holdings	30.0	0.6	No	Yes	Holding Firms
10.	Filinvest Land	29.0	0.6	No	Yes	Property
11.	Aboitiz Equity Ventures	24.0	0.5	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	0.4	No	Yes	Banking
15.	GT Capital	22.0	0.4	No	Yes	Holding Firms
16.	San Miguel	20.0	0.4	No	Yes	Holding Firms
17.	East West Bank	19.5	0.4	No	Yes	Banking
18.	Petron	18.6	0.4	No	Yes	Electricity, Energy, and Power
19.	South Luzon Tollway	18.3	0.4	No	No	Transport
20.	Globe Telecom	17.0	0.3	No	Yes	Telecommunications
21.	Maynilad Water Services	15.9	0.3	No	No	Water
22.	MCE Leisure (Philippines)	15.0	0.3	No	No	Casinos and Gaming
23.	Philippine Long Distance Telephone Company	15.0	0.3	No	Yes	Telecommunications
24.	SMC Global Power Holdings	15.0	0.3	No	No	Electricity, Energy, and Power
25.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
26.	Megaworld	12.0	0.2	No	Yes	Property
27.	Robinsons Land	12.0	0.2	No	Yes	Property
28.	Manila North Tollways	11.9	0.2	No	No	Transport
29.	MTD Manila Expressways	11.5	0.2	No	No	Transport
30	Vista Land and Lifescapes	10.2	0.2	No	Yes	Property
Total Top 30 LCY Corporate Issuers		**793.0**	**15.8**			
Total LCY Corporate Bonds		**891.2**	**17.8**			
Top 30 as % of Total LCY Corporate Bonds		**89.0%**	**89.0%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of end-March 2017.
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 LP data.

avenue for public–private entities to issue project bonds to support the government's infrastructure push.

Foreign Currency Bonds. The Government of the Philippines issued USD-denominated Global Bonds in February amounting to USD2.0 billion with a tenor of 25 years and a coupon rate of 3.70%. This marked the Philippines' successful return to the international capital market where the bonds were met with strong demand amid financial market volatility. The Global Bonds comprised a USD1.5 billion switch tender offer for liability management and USD0.5 billion in "new money."

The Government of the Philippines is considering the sale of USD200 million in the second half of 2017 of panda bonds, or Chinese yuan-denominated securities, with tenors of 3 years and 5 years.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Megaworld		
7-year bond	5.35	12.00
Ayala Corporation		
8-year bond	4.82	10.00
San Miguel		
5-year bond	4.82	6.69
7-year bond	5.28	7.29
10-year bond	5.76	6.02

PHP = Philippine peso.
Source: Bloomberg LP.

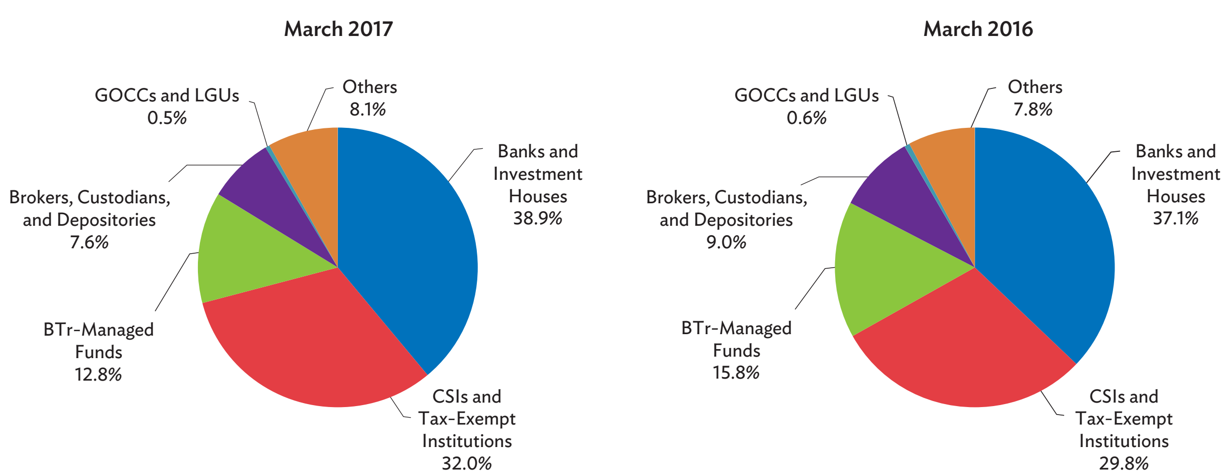
Investor Profile

Banks and investment houses remained the largest investor in LCY government bonds with a total investment of PHP1,545 billion, or a 38.9% share of all investor holdings, at the end of March (**Figure 3**). This was followed by contractual savings institutions and tax-exempt institutions with a total holding of PHP1,268 billion, accounting for 32.0% of the LCY government bond market. Government-owned and -controlled corporations and local government units had the smallest holdings at PHP20 billion. Among investor groups, banks and investment houses, contractual savings institutions and tax-exempt institutions, and "other" investor group saw y-o-y increases, gaining 8.4%,10.9%, and 8.4%, respectively. All other groups experienced y-o-y declines with the highest drop seen in the holdings of the Bureau of the Treasury-managed funds of 15.9% y-o-y.

Ratings Update

Fitch Ratings affirmed the Philippines' investment credit rating with a positive outlook in March. The ratings agency maintained the market's long-term FCY and LCY issuer default ratings at BBB– with a positive outlook. Fitch cited the Philippines' sustained strong economic

Figure 3: Local Currency Government Bonds Investor Profile



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

growth performance, robust external credit position, and low debt levels compared to similarly rated economies to back the rating affirmation. However, relatively weak governance standards, a narrow government revenue base, and relatively low levels of per capita income and human development took a toll on the rating. Fitch also said that the government's tax reform plan, which can broaden the tax base, alongside the market's resilience to external shocks, could lead to a potential ratings upgrade, while deteriorations in governance standards and implementation risks with regard to tax reform were flagged as having the potential to lead to a downgrade from a positive outlook to stable.

Standard and Poor's (S&P) Global Ratings also maintained its investment grade rating for the Philippines with a stable outlook in April, citing the market's sufficient foreign exchange reserves and low external debt as well as policy environment remaining conducive to sustaining economic growth translating into a stable fiscal position. The Philippines' BBB long-term and A-2 short-term sovereign credit ratings are both a notch above investment grade. S&P stated that improvement in investment and economic growth prospects resulting from the newly calibrated fiscal program could lead to a potential ratings upgrade but warned that if the reform agenda stalls or if the recalibrated fiscal program leads to higher-than-expected deficits, it might lower the ratings.

Policy, Institutional, and Regulatory Developments

Securities and Exchange Commission Raises Minimum Public Float

The Securities and Exchange Commission (SEC) released a draft memorandum circular stating that it will increase the public float of Philippine-listed companies to at least 20% of the companies' issued and outstanding shares from the current 10% starting 1 July. Companies applying for an initial public offering should immediately comply with the minimum public ownership requirement, while currently listed companies should increase their public float to at least 15% by the end of 2018 and eventually increase this to at least 20% by the end of 2020. According to the SEC, the higher public float requirement will increase market depth and is essential for sustaining a continuous market for listed securities in order to provide liquidity, which in turn will attract high-quality, long-term investors.

The Philippines to Borrow PHP180 Billion in the Second Quarter of 2017

The Government of the Philippines plans to borrow PHP180 billion domestically in the second quarter (Q2) of 2017, the same amount as planned borrowing in Q1 2017. The offer will comprise up to PHP90 billion each of Treasury bills and Treasury bonds to be sold in six scheduled auctions. The Q2 2017 planned borrowing is higher than the PHP135 billion target in Q2 2016. Treasury bonds will have longer maturities of 7, 10, and 20 years, as the government wants to stretch its liability amid a rising interest rate environment, especially as the US Federal Reserve has signaled two more rate hikes this year. In Q1 2017, the government sold PHP150.6 billion of government securities.

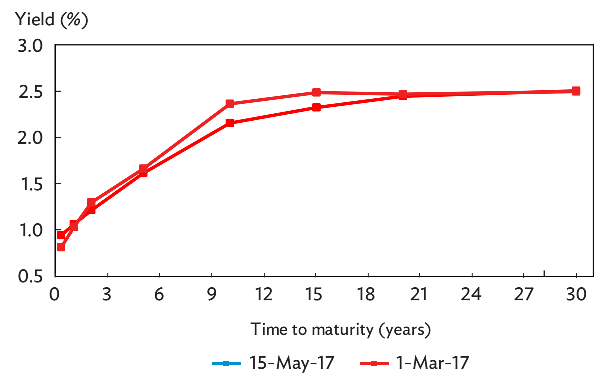
ASEAN Banking Integration Framework Negotiations Conclude between Bangko Sentral ng Pilipinas and Bank Negara Malaysia

The BSP and Bank Negara Malaysia signed in April the Declaration of Conclusion of Negotiations under the Association of Southeast Asian Nations (ASEAN) Banking Integration Framework. This marked the completion of negotiation between the central banks, allowing the entry of Qualified ASEAN Banks between the two countries. Under the agreement, these banks will have greater access to each other's markets and more operational flexibility in banking activities. The BSP has also signed a Letter of Intent with the Bank of Thailand to begin similar discussions on the ASEAN Banking Integration Framework.

Singapore

Between 1 March and 15 May, yields for most local currency (LCY) government bonds declined in Singapore (**Figure 1**). Exceptions included the yields for 3-month Singapore Government Securities (SGS) bills, and 1-year and 30-year SGS bonds, which rose 13 basis points (bps), 3 bps, and 1 bp, respectively. Yields for securities with maturities from 2 years to 5 years declined an average of 7 bps. Yields for longer-term maturities (10–15 years) fell 18 bps on average, while the yield for the 20-year SGS bond, marginally declined by 2 bps. The 2-year and 10-year yield spread narrowed from 106 bps on 1 March to 94 bps on 15 May.

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



Source: Based on data from Bloomberg LP.

Singapore bond market yields largely tracked United States (US) bond market yield movements—yields for bonds at the long-end of the curve declined, while yields for bonds at the short-end of the curve rose. The US Federal Reserve have raised interest rates in March for the second time in 3 months, but during its policy meeting in May, interest rate was kept unchanged in a unanimous vote. Expectations of at least one rate hike for the latter half of 2017 remains as the Federal Reserve gave no dovish indications.

The Monetary Authority of Singapore (MAS), on 13 April, decided to maintain the rate of appreciation of the Singapore dollar nominal effective exchange rate policy band at zero percent, while also leaving the range of the policy band width and the level at which it is centered unchanged. MAS noted that while the continued pickup in the global economy resulted in an improved outlook for Singapore's trade-driven economy, downside risks from global policy uncertainties remain. This provided support for the neutral policy stance that MAS deems appropriate for an extended period in order to ensure price stability in the medium term.

Singapore's gross domestic product (GDP) expanded 2.7% year-on-year (y-o-y) in the first quarter (Q1) of 2017 easing from 2.9% y-o-y growth in the fourth quarter (Q4) of 2016. Growth mainly came from the manufacturing sector and service-producing industries, which expanded 8.0% y-o-y and 1.6% y-o-y in Q1 2017, respectively. Alongside the positive growth outlook, downside risks persist, such as uncertainties in the direction of policies, and the credit and financial system risks in the People's Republic of China. Singapore's GDP for 2017 is forecasted to come between 1%–3%, and likely to surpass the 2.0% growth in 2016.

In 2017, inflation is expected to gradually rise to 0.5%–1.5% from an average of –0.5% in 2016. MAS core inflation is expected to average 1%–2% in 2017, higher than the 0.9% average in 2016. The rise in inflation is largely seen to come from supply-side pressures, such as energy- and administrative-related price increases, rather than being demand-induced. MAS core inflation rose 1.7% y-o-y in April up from 1.2% y-o-y in March.

Size and Composition

Singapore's LCY bonds outstanding rose 3.5% quarter-on-quarter (q-o-q) and 6.5% y-o-y to SGD345 billion (USD247 billion) at the end of March from SGD333 billion at the end of December 2016 (**Table 1**). The increase came mainly from the rise in the outstanding stock of government bonds and central bank bills, while corporate LCY bonds only decreased marginally.

Government Bonds. The outstanding stock of LCY government bonds rose 6.1% q-o-q and 11.5% y-o-y through the end of March, expanding to SGD205 billion from SGD193 billion at the end of December 2016. On a y-o-y basis, SGS bills and bonds, and MAS bills rose 6.4% and 19.2%, respectively.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**324**	**240**	**333**	**230**	**345**	**247**	**0.2**	**0.1**	**3.5**	**6.5**
Government	184	136	193	133	205	147	0.3	(4.4)	6.1	11.5
SGS Bills and Bonds	110	81	110	76	117	84	3.9	9.8	6.2	6.4
MAS Bills	74	55	83	57	88	63	(4.6)	(19.8)	6.0	19.2
Corporate	140	104	140	97	140	100	0.2	6.5	(0.1)	(0.04)

( ) = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, SGD = Singapore dollar, SGS = Singapore Government Securities, 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 LCY–USD rates are used.
4. Growth rates are calculated from an LCY base and do not include currency effects.
Sources: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

In Q1 2017, new issuance of MAS bills rose 10.7% q-o-q and 25.9% y-o-y to SGD90 billion. A total of SGD6.8 billion worth of SGS bills and bonds were issued in Q1 2017, while no redemptions were made.

Corporate Bonds. By the end of March 2017, the amount of outstanding LCY corporate bonds remained relatively unchanged at SGD140.2 billion, reflecting a decline of 0.1% q-o-q and 0.04% y-o-y.

The top 30 largest LCY corporate bond issuers in Singapore had an outstanding LCY bond stock of SGD69.6 billion in Q1 2017, accounting for 49.6% of all outstanding LCY corporate bonds (**Table 2**). Maintaining the top position was Singapore's Housing & Development Board with combined bonds outstanding worth SGD22.8 billion. Trailing behind was United Overseas Bank with a total of SGD5.4 billion, followed by Temasek Financial I—a subsidiary of state-owned investment company Temasek Holdings—with a total LCY bond stock of SGD3.6 billion.

The 30 largest corporate bond issuers comprised five state-owned agencies and firms from various business sectors, including banking, consumer goods, diversified holdings, education, finance, marine services, real estate, transport, and utilities sectors.

Table 3 shows the notable LCY corporate bond issuances in Q1 2017. A total of 13 firms issued LCY corporate bonds to raise an aggregate amount of SGD4.2 billion, reflecting increases of 180.0% q-o-q and 28.7% y-o-y. The largest LCY corporate bond issuance in Q1 2017 came from Singapore's Housing & Development Board with a 5-year bond sale worth SGD900 million with a coupon rate of 2.23%.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore Eases Finance Company Regulations in Support of Small and Medium-Sized Enterprise Financing

In February, MAS eased business restrictions on finance companies in support of their lending operations to small and medium-sized enterprises (SMEs). Uncollateralized business loans will be raised to 25% from 10% of its capital funds. The limit on an uncollateralized business loan to a single borrower will be raised to 0.5% of capital funds from the current limit of SGD5,000. Finance companies will also be allowed to offer current account and checking services to their business customers. Finally, MAS will consider applications for any foreign merger or takeover of a finance company if the merger partner or acquirer commits to maintaining SME financing as a core business. The aim of the relaxed regulations is to enhance the ability of finance companies to provide financing for SMEs.

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 & Development Board	22.8	16.3	Yes	No	Real Estate
2.	United Overseas Bank	5.4	3.9	No	Yes	Banking
3.	Temasek Financial I	3.6	2.6	Yes	No	Finance
4.	Land Transport Authority	3.5	2.5	Yes	No	Transportation
5.	FCL Treasury	2.8	2.0	No	No	Finance
6.	Capitaland	2.8	2.0	No	Yes	Real Estate
7.	SP Powerassets	1.9	1.3	No	No	Utilities
8.	Mapletree Treasury Services	1.8	1.3	No	No	Finance
9.	Olam International	1.7	1.2	No	Yes	Consumer Goods
10.	Keppel Corporation	1.7	1.2	No	Yes	Diversified
11.	DBS Group Holdings	1.5	1.1	No	Yes	Banking
12.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
13.	Singapore Airlines	1.4	1.0	No	Yes	Transportation
14.	Public Utilities Board	1.4	1.0	Yes	No	Utilities
15.	DBS Bank	1.3	0.9	No	Yes	Banking
16.	Neptune Orient Lines	1.3	0.9	No	Yes	Transportation
17.	City Developments Limited	1.2	0.9	No	Yes	Real Estate
18.	Hyflux	1.2	0.8	No	Yes	Utilities
19.	Capitaland Treasury	1.2	0.8	No	No	Finance
20.	CMT MTN	1.1	0.8	No	No	Finance
21.	GLL IHT	1.0	0.7	No	No	Real Estate
22.	National University of Singapore	1.0	0.7	No	No	Education
23.	Ascendas REIT	1.0	0.7	No	Yes	Finance
24.	Sembcorp Financial Services	1.0	0.7	No	No	Engineering
25.	Singtel Group Treasury	0.9	0.6	No	No	Finance
26.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
27.	Global Logistic Properties	0.8	0.5	No	Yes	Real Estate
28.	SMRT Capital	0.8	0.5	No	No	Transportation
29.	PSA Corporation	0.7	0.5	Yes	No	Marine Services
30.	Ezion Holdings	0.7	0.5	No	Yes	Marine Services
Total Top 30 LCY Corporate Issuers		**69.6**	**49.8**			
Total LCY Corporate Bonds		**140.2**	**100.4**			
Top 30 as % of Total LCY Corporate Bonds		**49.6%**	**49.6%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of end-March 2017.
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 LP data.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing & Development Board		
5-year bond	2.23	900
United Overseas Bank		
12-year bond	3.50	750
Mapletree Treasury Services		
Perpetual bond	4.50	625
FCL Treasury		
10-year bond	4.15	450
South Beach Consortium		
4-year bond	2.83	400

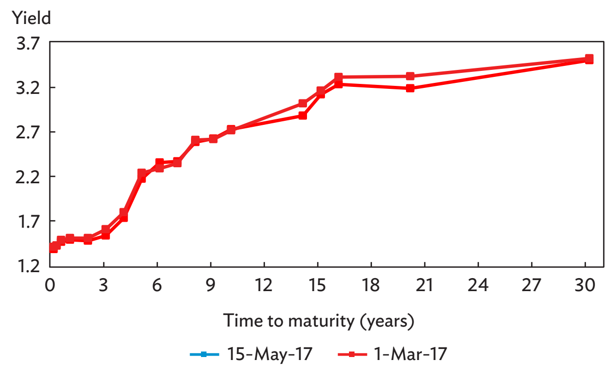
SGD = Singapore dollar.
Source: Bloomberg LP.

Thailand

Yield Movements

Between 1 March and 15 May, bond yields fell for most tenors of Thailand's local currency (LCY) government bonds. Yields for bonds with maturities of 5 years and less fell an average of 4 basis points (bps), while yields for bonds with maturities of 14–30 years fell an average of 8 bps (**Figure 1**). Only the yields for bonds with 6-, 7-, 9-, and 10-year maturities rose, on average by 3 bps. The yield spread between the 2-year and 10-year bonds rose to 124 bps in 15 May from 119 bps in 1 March.

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



Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

Noting the successive capital outflows in the last 3 months of 2016, Thailand's capital flows reversed to positive in the first 4 months of 2017. The decline in government bond yields for most tenors can be partially attributed to this strong investor appetite. It can also be a result of the shift in capital flows toward government bonds after the Bank of Thailand tightened its issuance of short-term bonds—bonds with maturities of 3–6 months—by THB80 billion (USD2.3 billion) in April in an effort to stem speculation and unwarranted appreciation of the Thai baht, as well as to dampen continued strong capital inflow.

Thailand's economy continues to grow in the first quarter (Q1) of 2017. Real gross domestic product (GDP) accelerated 3.3% year-on-year (y-o-y) in Q1 2017, overtaking the 3.0% y-o-y growth logged in the fourth quarter (Q4) of 2016. The economic expansion in Q1 2017 was underpinned by strong growth in private consumption (3.2% y-o-y), exports of goods and services (6.6% y-o-y), and public investment (9.7% y-o-y). Factors providing tailwinds for economic growth include (i) continued recovery among Thailand's main trading partners and a rebound in commodity prices, (ii) high growth in public investment, (iii) continued growth in the agricultural sector and favorable prices, (iv) continued growth in the tourism sector, and (v) improvement in the domestic car market. For full-year 2017, the Thai economy is expected to grow between 3.3% and 3.8%.

The Monetary Policy Committee of the Bank of Thailand kept the policy rate unchanged in its meeting on 24 May. The Committee assessed that Thailand's economy continue to improve despite uncertainties from external factors, such as uncertainty in the economic and trade policies of the United States (US), economic structural reforms in the People's Republic of China, and geopolitical risks. In the domestic front, economic growth is mainly supported by the sustained recovery in merchandise exports, private consumption, and tourism. The Committee noted that Thailand's monetary policy will remain accommodative as the central bank is prepared to maintain a sound monetary environment to support economic growth and ensure financial stability.

Thailand's inflation rate peaked in January at 1.6% y-o-y after a deflation seen in March 2016. Since then, inflationary pressure have eased as evident from slower inflation rates in February (1.4% y-o-y), March (0.8% y-o-y), and April (0.4% y-o-y). In May, Thailand was back to deflation with consumer prices marginally dropping by 0.04% y-o-y.

Size and Composition

At the end of March 2017, Thailand's LCY bond market had risen 2.9% quarter-on-quarter (q-o-q) and 9.5% y-o-y to THB11,171 billion (USD325 billion) from THB10,856 billion at the end of December 2016 (**Table 1**).

Government Bonds. In Q1 2017, the outstanding stock of LCY government debt securities rose to THB8,257 billion

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**10,206**	**291**	**10,856**	**303**	**11,171**	**325**	**1.9**	**9.6**	**2.9**	**9.5**
Government	7,607	217	7,938	222	8,257	240	1.5	7.5	4.0	8.5
Government Bonds and Treasury Bills	3,964	113	4,036	113	4,203	122	1.9	10.8	4.1	6.0
Central Bank Bonds	2,869	82	3,136	88	3,279	95	1.6	7.0	4.6	14.3
State-Owned Enterprise and Other Bonds	774	22	765	21	775	23	(1.1)	(5.5)	1.2	0.1
Corporate	2,599	74	2,919	81	2,914	85	3.3	16.3	(0.2)	12.1

( ) = negative, LCY = local currency, 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 local currency–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. ADB calculations used to estimate data for Q1 2017.
Sources: Bank of Thailand and Bloomberg LP.

from THB7,938 billion in the previous quarter. The outstanding stock of government LCY bonds comprises government bonds and Treasury bills (THB4,203 billion), central bank bonds (THB3,279 billion), and state-owned enterprise and other bonds (THB775 billion), all of which contributed to the rise in the aggregate stock.

In Q1 2017, newly issued central bank bonds rose 0.9% q-o-q but declined 3.5% y-o-y to THB1,836 billion at the end of March. Newly issued central government bonds rose to THB407 billion, reflecting gains of 132.2% q-o-q and 130.2% y-o-y. Thailand's Ministry of Finance plans to increase its government bond issuance this year to support fiscal spending. Including bonds issued by state-owned enterprises, new issuance of government bonds amounted to THB2,255 billion in Q1 2017.

Corporate Bonds. At the end of March 2017, the outstanding amount of LCY corporate bonds stood at THB2,914 billion, slightly down from THB2,919 billion recorded at the end of December 2016. In Q1 2017, a total of THB368 billion worth of corporate bonds were issued, reflecting declines of 26.8% q-o-q and 0.6% y-o-y.

At the end of March 2017, the combined outstanding bonds of Thailand's top 30 LCY corporate bond issuers amounted to THB1,642 billion, comprising 56.4% of Thailand's LCY corporate bond market (**Table 2**). The top corporate issuers in Q1 2017, based on total LCY bonds outstanding, were CP All (THB181.1 billion), Siam Cement (THB166.5 billion), and PTT (THB 134.8 billion).

In Q1 2017, an aggregate amount of THB368 billion of LCY bonds have been issued. Among the most notable issuances, Berli Jucker, delivered a multitranche sale of LCY bonds amounting to THB40 billion. True Corp placed second with a dual-tranche debt issuance worth THB17.5 billion. Charoen Pokphand Foods was the third largest issuer with a perpetual bond issuance worth THB15 billion. **Table 3** lists the notable corporate bond issuances in Q1 2017.

Investor Profile

At the end of March 2017, more than 50% of Thailand's LCY government bonds were held by contractual savings funds and insurance companies (**Figure 2**). The share of insurance companies increased from 25.5% in Q1 2016 to 27.0% in Q1 2017, while the share of contractual savings funds slightly decreased from 28.4% to 27.0%. At the end of March 2017, commercial banks were the third largest group of holders with a 15.3% share, followed by foreign investors who accounted for 14.7% of the total.

In the first 3 months of 2017, a total of THB89.4 billion in net foreign flows entered Thailand's LCY bond market (**Figure 3**). This amount was a reversal from the THB72.3 billion in net foreign outflows from the last quarter of 2016. Net foreign inflows in April amounted to THB12.5 billion. The continued positive net inflows reflected improved investor confidence in Thailand's economy and its resiliency amid the US Federal Reserve's ongoing rate hikes.

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	181.1	5.3	No	Yes	Commerce
2.	Siam Cement	166.5	4.8	Yes	Yes	Construction Materials
3.	PTT	134.8	3.9	Yes	Yes	Energy and Utilities
4.	Berli Jucker	122.0	3.6	No	Yes	Food and Beverage
5.	Charoen Pokphand Foods	95.0	2.8	No	Yes	Food and Beverage
6.	Bank of Ayudhya	88.4	2.6	No	Yes	Banking
7.	Thai Airways International	59.3	1.7	Yes	Yes	Transportation and Logistics
8.	True Move H Universal Communication	55.2	1.6	No	No	Communications
9.	True Corp	48.7	1.4	No	Yes	Communications
10.	Toyota Leasing Thailand	47.4	1.4	No	No	Finance and Securities
11.	Tisco Bank	47.0	1.4	No	No	Banking
12.	Indorama Ventures	45.9	1.3	No	Yes	Petrochemicals and Chemicals
13.	Krungthai Card	41.3	1.2	Yes	Yes	Banking
14.	Banpu	37.3	1.1	No	Yes	Energy and Utilities
15.	Mitr Phol Sugar	36.4	1.1	No	No	Food and Beverage
16.	Land & Houses	35.8	1.0	No	Yes	Property and Construction
17.	Thai Union Group	33.8	1.0	No	Yes	Food and Beverage
18.	Thanachart Bank	32.5	0.9	No	No	Banking
19.	PTT Exploration and Production Company	32.1	0.9	Yes	Yes	Energy and Utilities
20.	TPI Polene	32.0	0.9	No	Yes	Property and Construction
21.	Advanced Wireless	31.6	0.9	No	Yes	Communications
22.	Bangkok Dusit Medical Services	29.6	0.9	No	Yes	Medical
23.	CPF Thailand	29.0	0.8	No	Yes	Food and Beverage
24.	CH. Karnchang	28.5	0.8	No	Yes	Property and Construction
25.	Kasikorn Bank	28.0	0.8	No	Yes	Banking
26.	Minor International	25.8	0.8	No	Yes	Food and Beverage
27.	TMB Bank	25.4	0.7	No	Yes	Banking
28.	Quality Houses	24.5	0.7	No	Yes	Property and Construction
29.	ICBC Thai Leasing	24.1	0.7	No	No	Finance and Securities
30.	30. Glow Energy	23.6	0.7	No	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers		**1,642.3**	**47.8**			
Total LCY Corporate Bonds		**2,914.0**	**84.8**			
Top 30 as % of Total LCY Corporate Bonds		**56.4%**	**56.4%**			

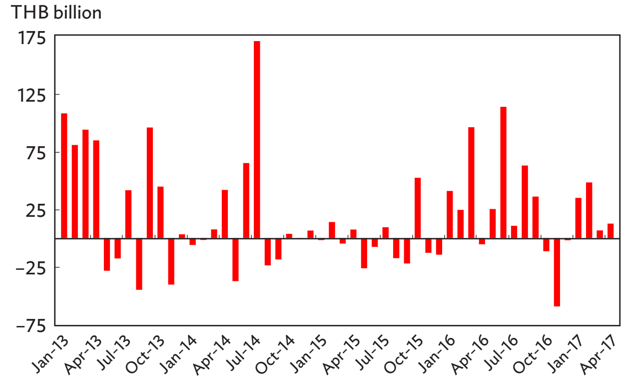
LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of end-March 2017.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Berli Jucker		
2-year bond	2.55	16,200
3-year bond	3.00	12,000
4-year bond	2.96	300
5-year bond	3.26	2,500
7-year bond	3.85	4,000
10-year bond	4.40	5,000
True Corp		
1-year bond	3.00	10,800
1-year bond	3.00	6,700
Charoen Pokphand Foods		
Perpetual bond	5.00	15,000
True Move H Universal Communication		
1-year bond	3.00	3,500
1-year bond	3.00	2,000
1-year bond	3.00	2,000
1.2-year bond	3.10	4,700
Thai Union Group		
3-year bond	2.49	3,500
5-year bond	2.91	2,000
7-year bond	3.58	2,500
10-year bond	3.94	4,000

THB = Thai baht.
Source: Bloomberg LP.

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



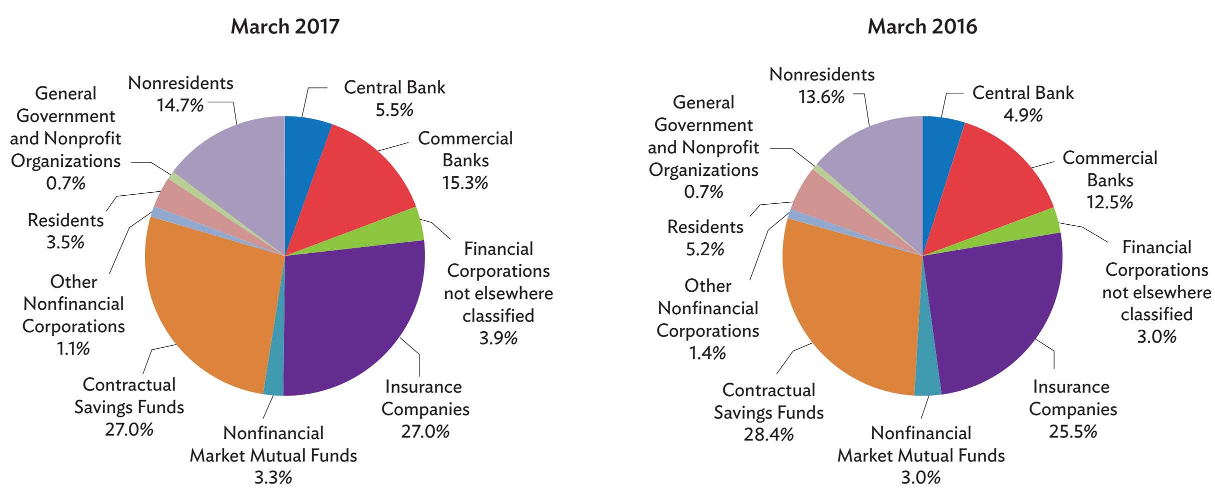
THB = Thai baht.
Source: Thai Bond Market Association.

Policy, Institutional, and Regulatory Developments

Securities and Exchange Commission Tightens Regulations on Nonrated Bonds

New regulations from the Securities and Exchange Commission governing nonrated and non-investment grade bonds went into effect on 16 January. Asset management companies were given 120 days to comply. The new regulations effectively bar any

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.

intermediary, including asset management companies, from holding more than one-third of any nonrated or non-investment grade bond issue. In addition, the intermediary is also barred from being the issuer's major creditor. The regulations were aimed at reestablishing investor confidence and protecting investors after a string of unrated bills of exchange began defaulting in October 2016.

The Bank of Japan and Bank of Thailand Sign Bilateral Swap Arrangement

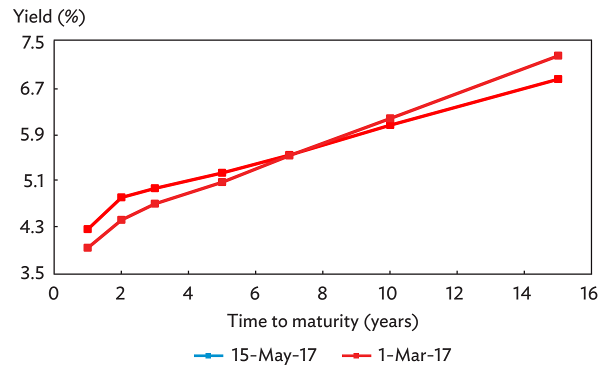
On 5 May, the Bank of Japan and the Bank of Thailand signed their fourth bilateral swap arrangement with a facility size of USD3 billion. The arrangement will enable authorities in both economies to swap their local currencies against US dollars. The aim is to reinforce the stability of financial markets and to deepen economic cooperation and trade between both economies.

Viet Nam

Yield Movements

Local currency (LCY) government bond yields in Viet Nam mostly rose between 1 March and 15 May (**Figure 1**). Yields climbed the most for 1-year through 3-year bonds, rising an average of 33 basis points (bps). Yields also gained for the 5-year and 7-year tenors, inching up 16 bps and 1 bp, respectively. In contrast, yields fell for both the 10-year and 15-year maturities, shedding 11 bps and 41 bps, respectively. As a result, the spread between the 2-year and 10-year tenors declined from 175 bps on 1 March to 125 bps on 15 May.

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



Source: Based on data from Bloomberg LP.

Elevated inflation levels since October 2016 have led to a rise in yields for most maturities. Consumer price inflation steadily climbed, hitting a high of 5.2% year-on-year (y-o-y) in January. However, more recent data indicated that inflation is starting to decline, easing to 3.2% y-o-y in May. The uptick in yields from the short-end through the belly of the curve is reflective of tightened liquidity conditions during and after the Tet holidays. Some banks were also reported to have raised deposit interest rates. To help stabilize interest rates, the State Bank of Vietnam (SBV) has been injecting liquidity into the banking system through open market operations. Falling yields at the long-end of the curve are partly caused by increased demand among banks for longer-tenor government securities.

In the first quarter (Q1) of 2017, real gross domestic product growth in Viet Nam eased to 5.1% y-o-y after rising 5.5% in full-year 2016. The agriculture sector grew 2.0% y-o-y in Q1 2017, while the industry and construction sector grew 4.2% y-o-y. The services sector grew 6.5% y-o-y in Q1 2017, the highest growth rate among Viet Nam's various sectors. Within the services sector, the largest gains came from the finance and insurance subsector, which rose 7.8% y-o-y.

Size and Composition

The size of Viet Nam's LCY bond market reached VND998.6 trillion (USD44 billion) at the end of March (**Table 1**). Its bonds outstanding are the smallest among all emerging East Asian economies. Growth during the review period was largely driven by government bonds, particularly Treasury bonds issued by the State Treasury.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**876,636**	**39**	**995,720**	**44**	**998,606**	**44**	**(6.5)**	**(9.7)**	**0.3**	**13.9**
Government	839,844	38	949,725	42	952,610	42	(7.1)	(12.0)	0.3	13.4
Treasury Bonds	629,251	28	736,932	32	747,887	33	5.0	7.9	1.5	18.9
Central Bank Bonds	4,905	0.2	8,000	0.4	0	0	(95.0)	(96.9)	(100.0)	(100.0)
State-Owned Enterprise and Municipal Bonds	205,688	9	204,792	9	204,722	9	(0.5)	(3.7)	(0.03)	(0.5)
Corporate	36,792	2	45,996	2	45,996	2	10.5	129.6	0.0	25.0

( ) = negative, LCY = local currency, 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 LCY–USD rates are used.
2. Growth rates are calculated from an LCY base and do not include currency effects.
Sources: Bloomberg LP and Vietnam Bond Market Association.

Government Bonds. At the end of March, the government bond market in Viet Nam stood at a size of USD952.6 trillion, higher by 0.3% quarter-on-quarter (q-o-q) and 13.4% y-o-y. Growth came mainly from Treasury bonds, which climbed 1.5% q-o-q and 18.9% y-o-y. The stock of SBV bills all matured during the quarter in review as the central bank only issued bills with very short tenors that also matured in Q1 2017. The stock of state-owned enterprise bonds and other bonds marginally declined in Q1 2017.

The volume of new government debt issuance fell 56.5% q-o-q in Q1 2017, due largely to a decline in central bank issuance. On the other hand, new issues of Treasury and other government bonds rose more than twofold during the quarter. The government has reduced its issuance plan for 2017 to VND183.3 trillion from an earlier estimate of VND250 trillion. The government's issuance plan is geared toward longer tenors as it aims to extend the maturity structure and ease payment obligations.

Corporate Bonds. At the end of March, the size of the corporate bond market was unchanged from the end of December at VND46 trillion. Growth was higher on a y-o-y basis, however, at 25.0%. The corporate bond segment of Viet Nam comprises a total of 27 corporate firms and represents a 4.6% share of the total LCY bond stock (**Table 2**). (*AsianBondsOnline* classifies some state-

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	0.49	No	No	Diversified Operations
2.	Vingroup JSC	8,000	0.35	No	Yes	Real Estate
3.	Asia Commercial Joint Stock	4,600	0.20	No	No	Finance
4.	Hoang Anh Gia Lai	4,000	0.18	No	Yes	Real Estate
5.	Techcom Bank	3,000	0.13	No	No	Banking
6.	Ho Chi Minh City Infrastructure	2,102	0.09	No	Yes	Infrastructure
7.	Vietcombank	2,000	0.09	Yes	Yes	Banking
8.	Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
9.	Agro Nutrition International	1,300	0.06	No	No	Agriculture
10.	DIC Corporation	1,000	0.04	Yes	No	Chemicals
11.	Ocean Group	980	0.04	No	Yes	Consulting Services
12.	Saigon-Hanoi Securities Corporation	950	0.04	No	Yes	Finance
13.	Sai Gon Thuong Tin Real Estate	600	0.03	No	Yes	Real Estate
14.	Khang Dien House Trading and Investment	534	0.02	No	Yes	Building and Construction
15.	Hoangquan	500	0.02	No	Yes	Real Estate
16.	Saigon Securities	500	0.02	No	Yes	Finance
17.	Tasco Corporation	500	0.02	No	Yes	Engineering and Construction
18.	Vietinbank Securities	500	0.02	Yes	Yes	Finance
19.	An Phat Plastic & Green Environment	450	0.02	No	Yes	Industrial
20.	Sotrans Corporation	400	0.02	No	No	Logistics
21.	Vietnam Investment Construction and Trading	350	0.02	No	Yes	Building and Construction
22	Hung Vuong Corporation	300	0.01	No	Yes	Food
23.	Ha Do Corporation	200	0.01	No	Yes	Construction
24.	Son Ha International	110	0.005	No	Yes	Building and Construction
25.	Dongnai Plastic	100	0.004	No	Yes	Industrial
26.	Fecon	70	0.003	No	Yes	Engineering and Construction
27.	Construction Joint Stock Company No. 3	50	0.002	No	Yes	Real Estate
Total LCY Corporate Issuers		45,996	2.02			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of end-March 2017.
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 LP and Vietnam Bond Market Association data.

owned entities as part of the government bond segment.) The largest corporate bond issuer is Masan Consumer Holdings with outstanding bonds amounting to VND11.1 trillion. Its issuances accounted for a 24.1% share of the aggregate corporate bond market at the end of March. In the second spot was real estate firm Vingroup JSC with bonds valued at VND8.0 trillion. Completing the top three largest issuers was Asia Commercial Joint Stock with outstanding bonds valued at VND4.6 trillion.

Ratings Update

In April, Standard & Poor's (S&P) Global Ratings affirmed Viet Nam's BB– long-term and B short-term credit ratings. The outlook on both ratings was stable.

Policy, Institutional, and Regulatory Developments

State Treasury to Issue VND66 Trillion of Government Bonds in the Second Quarter of 2017

In April, the State Treasury released its bond issuance plan for the second quarter of 2017 amounting to VND66 trillion. Of this total, 45% will comprise bonds with maturities of 5–7 years, 27.3% will comprise bonds carrying maturities of 10–15 years, and 27.3% will comprise bonds carrying maturities of 20–30 years.

Ministry of Finance Issues Regulations on the Buyback of Government Bonds

Effective 1 May, the Government of Viet Nam can conduct buybacks and repurchases of government bonds. Eligible bonds for repurchase are those issued by the State Treasury. Bond repurchases by the government are conducted to help better manage its liabilities and establish benchmark interest rates. Buyback transactions will be undertaken in the Hanoi Stock Exchange (HNX) through negotiated sale or bidding process. The Ministry of Finance will provide the interest rate range for bond buybacks. This new regulation is expected to boost liquidity and maintain stability in the bond market.

Ministry of Finance Issues Regulations on Short-Selling and Sell–Buyback of Government Bonds

The Ministry of Finance issued a new regulation that will take effect on 1 September, allowing short-selling and repurchase transactions among member participants of HNX. The short-selling term will only be allowed up to a maximum of 180 days and must not exceed the remaining maturity of the bonds. Both HNX and Viet Nam Securities Depository also released rules governing short-selling and sell–buyback of bonds to help deepen the derivatives market in Viet Nam.