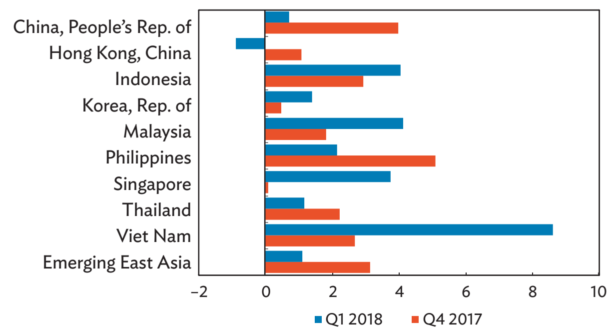
Bond Market Developments in the First Quarter of 2018

Size and Composition

Emerging East Asia's local currency bond market registered marginal growth of 1.1% quarter-on-quarter in the first quarter of 2018 to reach a size of USD12.8 trillion at the end of March.

The total outstanding amount of local currency (LCY) bonds in emerging East Asia inched up 1.1% quarter-to-quarter (q-o-q) to reach a size of USD12.8 trillion at the end of March.[6] At the same time, growth in the first quarter (Q1) of 2018 decelerated from 3.1% q-o-q in the fourth quarter (Q4) of 2017 on lower aggregate bond issuance. All LCY bond markets in the region posted positive q-o-q growth rates with the exception of Hong Kong, China, whose bonds outstanding declined in Q1 2018. Five out of the nine economies posted faster q-o-q expansions in Q1 2018 than in Q4 2017 (**Figure 1a**).

Figure 1a: Growth of Local Currency Bond Markets in the Fourth Quarter of 2017 and First Quarter of 2018 (q-o-q, %)



q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 31 March 2018 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

The People's Republic of China (PRC) drove the trend of slower regional growth as its LCY bond market posted a marginal increase of 0.7% q-o-q in Q1 2018 following a 4.0% q-o-q expansion in Q4 2017. Total LCY bonds outstanding in the PRC amounted to USD9.1 trillion at the end of March, comprising 71.5% of the region's aggregate bond stock. The PRC's government bond market was up 0.8% q-o-q to USD6.6 trillion at the end of Q1 2018. The subdued growth was primarily driven by low issuance volume for local government bonds, which has largely been the result of the winding down of the central government's debt-to-bond swap program as part of efforts to manage the PRC's debt levels. The amount of remaining local government debt to be swapped was small in Q1 2018 as the program neared completion. The outstanding amount of local government bonds inched up 1.5% q-o-q and the stock of policy bank bonds was up 1.1% q-o-q. Meanwhile, Treasury bonds fell 0.1% q-o-q due to the high volume of maturities relative to new issuance. The PRC's corporate bond market was barely changed in Q1 2018, expanding 0.4% q-o-q to reach USD2.5 trillion at the end of March on tepid issuance during the quarter.

In the Republic of Korea, the outstanding amount of LCY bonds rose 1.4% q-o-q in Q1 2018 to USD2.1 trillion, faster than the marginal growth of 0.5% q-o-q in Q4 2017. Growth was solely driven by the rise in the government bond market, which expanded 3.7% q-o-q, led by the higher stock of central government bonds. The Republic of Korea implemented a frontloading policy in 2018, which resulted in accelerated issuance in Q1 2018. The amount of Monetary Stabilization Bonds also rose in Q1 2018. Meanwhile, the Republic of Korea's LCY corporate bond market was mostly unchanged in Q1 2018, declining 0.1% q-o-q as the volume of maturities exceeded new bond issuance.

Hong Kong, China's LCY bond market fell 0.9% q-o-q to a size of USD241 billion at the end of March, following

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

growth of 1.1% q-o-q in the previous quarter, as both the government and corporate segments posted q-o-q contractions. The outstanding amount of government bonds fell 0.4% q-o-q in Q1 2018, driven by the decline in the stock of Hong Kong Special Administrative Region bonds as the government issued fewer bonds relative to the amount of maturing bonds. The amount of central bank bills, particularly Exchange Fund Bills, was barely changed in Q1 2018. Meanwhile, corporate bonds fell 1.6% q-o-q on a high volume of maturing bonds that outpaced issuance for the quarter.

The aggregate LCY bond market size for the 10 member economies of the Association of Southeast Asian Nations (ASEAN) member economies reached USD1.3 trillion at the end of March, up 3.2% q-o-q. All economies for which data are available posted positive q-o-q growth rates in Q1 2018. Government bonds amounted to USD915 billion at the end of March, comprising 68% of total LCY bonds and rising 2.9% q-o-q. LCY corporate bonds in ASEAN markets rose 4.0% q-o-q to USD432 billion at the end of March.

Thailand continued to be the largest bond market among ASEAN economies, with outstanding bonds reaching USD366 billion at the end of March on 1.2% q-o-q growth, which was slower than the 2.2% q-o-q expansion posted in Q4 2017. Growth was largely driven by the 4.0% q-o-q growth in corporate bonds as firms issued more bonds in anticipation of rising interest rates. Meanwhile, the size of outstanding government bonds was barely changed as the rise in total government bonds and Treasury bills was capped by the decline in central bank bonds and state-owned enterprise bonds. The outstanding stock of central bank bonds continued to fall as redemptions of bonds exceeded new issuance for the quarter due to the Bank of Thailand implementing its policy of reducing the issuance of short-term bonds in order to manage speculation of the Thai baht.

Malaysia's LCY bond market posted robust growth of 4.1% q-o-q in Q1 2018, up from 1.8% q-o-q growth registered in Q4 2017. Total outstanding LCY bonds at the end of March amounted to USD347 billion. Government bonds rose 4.7% q-o-q in Q1 2018 due to the surge in issuance in government securities—particularly short-term securities, Treasury bills, and central bank bills—while the volume of maturing bonds was relatively low. In November, Bank Negara Malaysia (BNM) started issuing Bank Negara Interbank Bills to boost liquidity and short-selling in the market. Issuance of Malaysian Government Securities and Government Investment Issues also rose in Q1 2018 as demand remained strong due to the strengthening of the ringgit. Malaysia's corporate bond market expanded 3.5% q-o-q on a relatively low volume of maturating bonds and high issuance volume during quarter.

Malaysia continues to have the largest *sukuk* (Islamic bond) market in emerging East Asia, with aggregate *sukuk* outstanding reaching USD206 billion at the end of March, comprising about 59% of the total LCY bond market and registering 5.0% q-o-q growth. Malaysia's corporate bond market is dominated by *sukuk*, with a share of 75.6%; for the government bond market, the share of *sukuk* is less than half, or about 45%.

The LCY bond market in Singapore totaled USD287 billion at the end of March, based on *AsianBondsOnline* estimates, up 3.7% q-o-q following minimal growth of 0.1% q-o-q in Q4 2017. Robust growth was posted in both sectors. Government bonds expanded 3.7% q-o-q as a result of higher issuance of Singapore Government Securities. Corporate bonds rose 3.8% q-o-q in Q1 2018, driven by a jump in issuance of infrastructure bonds by state-owned companies as part of the government's program to fund infrastructure projects in 2018.

Indonesia's LCY bond market registered growth of 4.0% q-o-q in Q1 2018, exceeding the 2.9% q-o-q growth posted in the previous quarter, to reach a size of USD189 billion at the end of March. The growth was largely driven by the rise in the outstanding stock of central government bonds as the government's issuance of Treasury bonds in Q1 2018 was almost double that in Q4 2017. The Government of Indonesia continued to implement a frontloading policy in 2018. The stock of central bank bills also posted higher growth in Q1 2018 due to a low base in Q4 2017. Indonesia's corporate bond market remains small but continues to grow, posting a 3.4% q-o-q increase in Q1 2018.

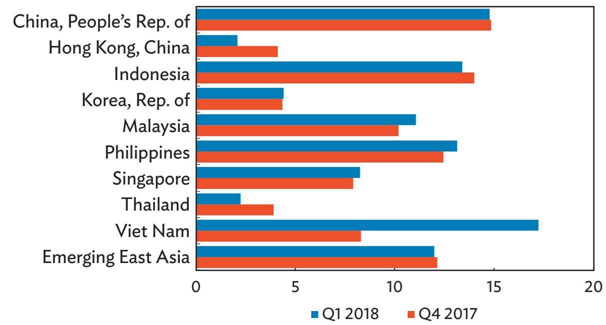
In the Philippines, growth of the LCY bond market slowed to 2.1% q-o-q in Q1 2018 from 5.1% q-o-q in Q4 2017. Total outstanding LCY bonds amounted to USD107 billion at the end of March. The slower growth was due to a high base in the previous quarter following the government's issuance of Retail Treasury Bonds. The corporate bond market led the growth with a 9.2% q-o-q expansion stemming from a surge in issuance. Companies issued more bonds in Q1 2018 as firms anticipated higher interest rates due to expectations of a rate hike by both the Bangko Sentral ng Pilipinas and United States (US) Federal Reserve. Meanwhile, the stock of government bonds posted minimal growth of 0.5% q-o-q. Most Treasury bond and bill auctions in the Philippines were only partially awarded in Q1 2018 as market players sought higher yields.

Viet Nam's LCY bond market reached a size of USD51 billion at the end of March while remaining the smallest market in the region. However, Viet Nam's market posted the region's fastest growth rate in Q1 2018 at 8.6% q-o-q, an acceleration from the 2.7% q-o-q increase posted in Q4 2017, mainly driven by the surge in issuance of central bank bonds that resulted in outstanding central bank bonds increasing more than threefold. The State Bank of Vietnam has been actively building up its foreign reserves over the last 2 years. One mechanism by which to do this is the purchase of foreign currencies in the market with Vietnamese dong. To manage the resulting excess liquidity from the additional Vietnamese dong released into circulation, the State Bank of Vietnam has been issuing central bank bills. Viet Nam's stock of Treasury bonds also rose during the quarter. Meanwhile, the stock of bonds issued by state-owned entities fell in Q1 2018 due to maturities. Corporate bonds registered growth of 4.1% q-o-q in Q1 2018.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market rose 12.0% at the end of March, slightly easing from growth of 12.1% at the end of December (**Figure 1b**). Four markets in the region posted lower annual growth rates in Q1 2018 compared with the previous quarter, while the other five posted faster growth rates. Viet Nam and the PRC posted the highest annual growth rates at 17.2% y-o-y and 14.8% y-o-y, respectively. Hong Kong, China and Thailand posted the slowest annual growth rates at 2.1% y-o-y and 2.2% y-o-y, respectively.

Emerging East Asia's LCY bond market remains dominated by government bonds, which comprised 66.9% of the regional aggregate stock at the end of March,

Figure 1b: Growth of Local Currency Bond Markets in the Fourth Quarter of 2017 and First Quarter of 2018 (y-o-y, %)



Q1 = first quarter, Q4 = fourth quarter, y-o-y = year-on-year.
Notes:
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almost at par with the government bond segment's share in Q4 2017 (**Table 1**). The region's government bond market expanded 1.3% q-o-q to reach USD8.5 trillion, decelerating from the 3.7% q-o-q growth posted in the previous quarter.

The PRC continues to have the largest government bond market in the region with a share of about 78% of the regional total at the end of March. The Republic of Korea is second with a market share of about 10%. The Philippines (USD86 billion) and Viet Nam (USD49 billion) remain the two smallest LCY government bond markets in the region. At the same time, the LCY bond market in Viet Nam registered the fastest growth rate in the region in Q1 2018 at 8.9% q-o-q, followed by Malaysia (4.7% q-o-q) and Indonesia (4.2% q-o-q). Only Hong, Kong, China's government bond market declined in Q1 2018.

The region's LCY corporate bond market posted minimal growth in Q1 2018, up only 0.5% q-o-q to USD4.2 trillion at the end of March, which was slower than the 2.0% q-o-q increase posted in Q4 2017. Bonds

Table 1: Size and Composition of Local Currency Bond Markets

	Q1 2017		Q4 2017		Q1 2018		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
							Q1 2017		Q1 2018		Q1 2017		Q1 2018	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	7,245	100.0	8,739	100.0	9,126	100.0	0.8	17.2	0.7	14.8	1.6	9.8	4.4	26.0
Government	5,098	70.4	6,327	72.4	6,616	72.5	1.6	26.3	0.8	18.2	2.5	18.4	4.6	29.8
Corporate	2,146	29.6	2,413	27.6	2,511	27.5	(1.2)	0.03	0.4	6.6	(0.4)	(6.3)	4.1	17.0
Hong Kong, China														
Total	238	100.0	244	100.0	241	100.0	1.1	12.5	(0.9)	2.1	0.9	12.3	(1.3)	1.1
Government	137	57.7	148	60.5	146	60.8	0.3	11.5	(0.4)	7.6	0.1	11.3	(0.8)	6.5
Corporate	101	42.3	96	39.5	94	39.2	2.2	13.9	(1.6)	(5.5)	2.0	13.7	(2.1)	(6.4)
Indonesia														
Total	172	100.0	184	100.0	189	100.0	4.6	20.3	4.0	13.4	5.8	19.6	2.7	10.1
Government	148	86.0	156	84.5	160	84.6	4.9	19.4	4.2	11.5	6.1	18.7	2.8	8.2
Corporate	24	14.0	29	15.5	29	15.4	3.0	26.4	3.4	24.8	4.1	25.6	2.1	21.1
Korea, Rep. of														
Total	1,873	100.0	2,020	100.0	2,056	100.0	1.4	2.5	1.4	4.4	9.3	4.8	1.8	9.8
Government	780	41.6	827	40.9	860	41.9	2.9	3.9	3.7	4.9	11.0	6.2	4.0	10.3
Corporate	1,093	58.4	1,193	59.1	1,195	58.1	0.3	1.5	(0.1)	4.0	8.1	3.8	0.2	9.3
Malaysia														
Total	272	100.0	318	100.0	347	100.0	3.3	5.7	4.1	11.1	4.7	(6.9)	9.1	27.2
Government	147	54.0	166	52.3	182	52.6	2.7	3.5	4.7	8.3	4.1	(8.8)	9.7	24.1
Corporate	125	46.0	152	47.7	164	47.4	4.0	8.3	3.5	14.3	5.4	(4.5)	8.4	30.9
Philippines														
Total	98	100.0	110	100.0	107	100.0	1.5	5.0	2.1	13.1	0.3	(3.8)	(2.5)	8.8
Government	80	81.1	89	81.4	86	80.1	0.8	3.0	0.5	11.7	(0.4)	(5.7)	(4.0)	7.4
Corporate	19	18.9	20	18.6	21	19.9	4.6	14.6	9.2	19.5	3.3	5.0	4.3	14.9
Singapore														
Total	249	100.0	272	100.0	287	100.0	3.5	7.2	3.7	8.2	7.1	3.4	5.7	15.3
Government	147	58.9	166	61.1	175	61.1	6.1	11.5	3.7	12.2	9.9	7.7	5.6	19.6
Corporate	102	41.1	106	38.9	112	38.9	(0.1)	1.5	3.8	2.5	3.4	(2.1)	5.8	9.2
Thailand														
Total	325	100.0	346	100.0	366	100.0	2.8	9.4	1.2	2.2	7.3	16.9	5.7	12.6
Government	240	73.9	252	72.7	263	71.9	3.9	8.4	0.1	(0.6)	8.4	15.4	4.6	9.6
Corporate	85	26.1	95	27.3	103	28.1	(0.2)	12.1	4.0	10.1	4.1	21.4	8.7	21.3
Viet Nam														
Total	44	100.0	48	100.0	51	100.0	0.3	14.2	8.6	17.2	0.4	11.8	8.2	17.0
Government	42	95.2	45	94.2	49	94.5	0.3	13.4	8.9	16.3	0.3	11.1	8.4	16.1
Corporate	2	4.8	3	5.8	3	5.5	1.0	30.9	4.1	34.9	1.1	28.2	3.6	34.7
Emerging East Asia														
Total	10,517	100.0	12,281	100.0	12,770	100.0	1.1	13.4	1.1	12.0	3.3	8.5	4.0	21.4
Government	6,819	64.8	8,175	66.6	8,538	66.9	2.0	21.0	1.3	15.3	3.8	15.3	4.4	25.2
Corporate	3,698	35.2	4,106	33.4	4,233	33.1	(0.4)	1.5	0.5	6.0	2.5	(2.1)	3.1	14.5
Japan														
Total	10,165	100.0	10,215	100.0	10,854	100.0	0.5	2.3	0.2	1.9	5.5	3.3	6.3	6.8
Government	9,463	93.1	9,523	93.2	10,131	93.3	0.6	2.4	0.3	2.2	5.6	3.5	6.4	7.1
Corporate	703	6.9	692	6.8	723	6.7	(0.2)	0.3	(1.5)	(1.8)	4.7	1.4	4.4	2.9

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

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. For LCY base, emerging East Asia growth figures are based on 31 March 2018 currency exchange rates and do not include currency effects.
5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

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

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

	Q1 2017	Q4 2017	Q1 2018
China, People's Rep. of			
Total	65.4	68.8	67.7
Government	46.0	49.8	49.1
Corporate	19.4	19.0	18.6
Hong Kong, China			
Total	73.2	71.7	69.5
Government	42.2	43.3	42.3
Corporate	31.0	28.3	27.3
Indonesia			
Total	18.0	18.4	18.7
Government	15.5	15.5	15.8
Corporate	2.5	2.9	2.9
Korea, Rep. of			
Total	126.3	124.6	125.3
Government	52.6	51.0	52.4
Corporate	73.7	73.6	72.9
Malaysia			
Total	95.3	95.0	97.6
Government	51.5	49.7	51.4
Corporate	43.9	45.3	46.3
Philippines			
Total	33.4	34.6	34.6
Government	27.1	28.2	27.7
Corporate	6.3	6.5	6.9
Singapore			
Total	80.2	81.1	83.2
Government	47.2	49.6	50.9
Corporate	32.9	31.5	32.4
Thailand			
Total	75.6	73.0	72.8
Government	55.8	53.0	52.3
Corporate	19.7	20.0	20.5
Viet Nam			
Total	21.8	21.6	23.0
Government	20.8	20.3	21.7
Corporate	1.1	1.2	1.3
Emerging East Asia			
Total	68.5	70.8	70.1
Government	44.4	47.1	46.9
Corporate	24.1	23.7	23.2
Japan			
Total	209.9	210.8	210.5
Government	195.4	196.5	196.4
Corporate	14.5	14.3	14.0

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

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

issued by corporates comprise about one-third of the region's total LCY bond market. The PRC continues to dominate the region's LCY corporate bond market, accounting for about 59% of the total with bonds outstanding of USD2.5 trillion. The Republic of Korea comes in second at USD1.2 trillion and with a share of about 28%. Indonesia (USD29 billion), the Philippines (USD21 billion), and Viet Nam (USD3 billion) remain the smallest corporate bond markets in the region. Excluding Hong Kong, China (–1.6% q-o-q) and the Republic of Korea (–0.1% q-o-q), all corporate bond markets in the region posted q-o-q growth in Q1 2018. The Philippines' corporate bond market expanded the most, posting an increase of 9.2% q-o-q, followed by Viet Nam's at 4.1% q-o-q.

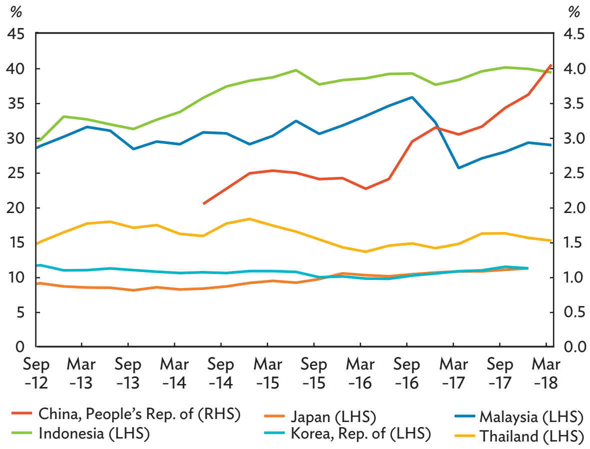
Given the minimal growth in emerging East Asia's bond market in Q1 2018, the ratio of its bond market relative to the region's gross domestic product (GDP) fell slightly to 70.1% from 70.8% in Q4 2017 as the latter rose at a faster pace (**Table 2**). The GDP shares of the region's government and corporate bond segments fell in Q1 2018 to 46.9% and 23.2% from 47.1% and 23.7%, respectively. In Q1 2018, Indonesia, Malaysia, Singapore, and Viet Nam saw increases in their respective ratios of outstanding bonds to GDP. The Republic of Korea and Malaysia continue to have the highest bonds-to-GDP ratios in the region.

The share of foreign investor holdings in most emerging East Asian LCY government bond markets showed a slight downward trend in Q1 2018.

The share of foreign investor holdings in emerging East Asia showed a slight decrease between the end of December and the end of March as a result of ongoing monetary policy normalization in the US and improved global economic growth (**Figure 2**). These factors have pushed up LCY bond yields, leading investors to reduce their exposure to emerging East Asian LCY bonds.

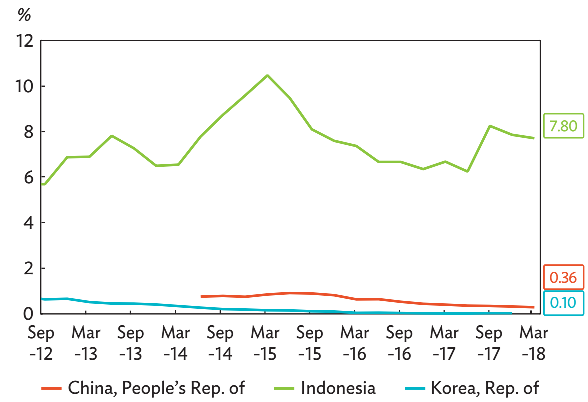
The exception was the PRC, which continued to experience a steady rise in the share of foreign investors in its government bond market, though this share remains at a low level. The share of foreign holdings in the PRC's government bond market rose to 4.0% at the end of March from 3.6% at the end of December. The PRC is also

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



LHS = left-hand side, RHS = right-hand side.
Note: Data as of 31 March 2018 except for Japan and the Republic of Korea (31 December 2017).
Source: *AsianBondsOnline*.

Figure 3: Foreign Holdings of Local Currency Corporate Bonds in Select Emerging East Asian Economies (% of total)



Note: Data as of 31 March 2018 except for the Republic of Korea (31 December 2017).
Sources: Based on data from *Wind*, Otoritas Jasa Keuangan, and The Bank of Korea.

the sole economy in the region whose yield curve shifted downward during the review period.

The largest decline in the foreign holdings' share in the LCY government bond market in Q1 2018 occurred in Indonesia, where the share fell from 39.8% at the end of December to 39.3% at the end of March. The decline reflects investor concerns about Indonesia's vulnerability to a stronger US dollar.

Thailand's foreign holdings' share in the LCY government bond market fell to 15.2% from 15.6% during the review period, while the foreign investor share in Malaysian government bonds fell from 29.2% to 28.9%. Malaysia saw fund outflows in February that were largely related to rising US yields.

The shares of foreign holdings in emerging East Asian LCY corporate bond markets for which data are available remained low relative to government bonds (**Figure 3**). Both Indonesia and the PRC saw declines in the share of foreign holdings in their respective corporate bond markets. In the PRC, concerns regarding a rise in corporate defaults and widening credit spreads among lower-rated corporates generated negative investor sentiment.

Emerging East Asia's LCY bond markets attracted foreign funds in January, while net outflows were recorded toward the end of April.

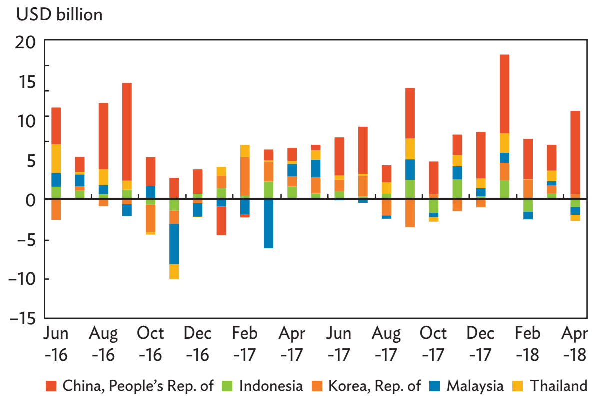
Significant bond inflows were noted in emerging East Asia at the beginning of 2018, with all markets with available data recording inflows due to positive investor sentiment. However, as the US continued its policy normalization in Q1 2018, emerging East Asia currencies depreciated, which led foreign investors to reduce their exposure to the region (**Figure 4**).

In Q1 2018, net bond flows were recorded in all markets, but this was largely driven by the strong inflows in January. In particular, both Indonesia and Malaysia noted strong outflows in February.

In Indonesia, investors are concerned about the continued depreciation of the rupiah, which has worsened Indonesia's current account deficit. The weakening rupiah led Bank Indonesia to raise its policy rate twice in May to help stabilize the domestic currency.

The Republic of Korea sustained positive bond inflows from January through April, largely on improved investor sentiment as geopolitical concerns abated.

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



USD = United States dollar.
Notes:
1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, and Malaysia, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Data provided as of April 2018.
3. Figures were computed based on 30 April 2018 exchange rates to avoid currency effects.

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

The Republic of Korea and the PRC were the only two markets to experience net bond inflows in April. Net outflows were recorded in most markets in April due to the release of the Federal Reserve's March meeting minutes, which hinted that policy rate hikes may be accelerated due to a better growth outlook in the US.

From January to April, Malaysia was the only regional economy to record net outflows, which summed to USD0.12 billion. In addition to rising US yields, which drove outflows throughout the review period, outflows in April were also related to political uncertainty ahead of the general election in May.

Total LCY bond issuance in emerging East Asia declined for the second consecutive quarter in Q1 2018, with the PRC continuing to act as a drag on issuance.

Total LCY bond issuance in emerging East Asia in Q1 2018 amounted to USD1.0 trillion, reflecting a 10.7% q-o-q decline (**Table 3**). The region's bond issuance saw a decline for the second consecutive quarter as both the government and corporate segments contracted. The q-o-q decline logged in Q1 2018 was slower compared with Q4 2017. Among the region's markets, only the PRC and the Philippines saw q-o-q declines in total issuance, with a sizable drag coming from the PRC as its issuance comprised nearly half of the regional total. On an annual basis, issuance grew 10.6% y-o-y in Q1 2018, faster than the 8.8% y-o-y growth registered in Q4 2017, even as more markets experienced a y-o-y decline in issuance in Q1 2018 than in Q4 2017.

Emerging East Asia's total LCY government bond issuance fell 12.6% q-o-q to USD646 billion in Q1 2018, moderating from a dip of 27.1% q-o-q in Q4 2017. The drop was driven by a continued decline in the PRC's government bond issuance in line with its deleveraging efforts at the same time the local government debt swap program is set to end.[7] The PRC bond market comprised 40% of total LCY government bond issuance in the region in Q1 2018. Government bond issuance in the Philippines; Hong Kong, China; and Singapore also fell in Q1 2018, although declines in the latter two markets were minimal. Compared with a year earlier, total government bond sales in Q1 2018 were practically unchanged. Issuance of central bank bonds increased 4.5% q-o-q during the quarter.[8] Positive growth in Indonesia, the Republic of Korea, Malaysia, Thailand, and Viet Nam offset the modest declines in Hong Kong, China and Singapore, which are the two largest central bank issuers in the region.

Issuance of LCY corporate bonds continued to decline in Q1 2018, albeit at a slower pace than in the preceding quarter and when compared with the decline in government bonds. Corporate bonds sales amounted to USD363 billion, reflecting a drop of 7.2% q-o-q. Contractions in large corporate bonds markets, particularly in the PRC and the Republic of Korea, pulled down the regional total, though it was partly cushioned by increases in Hong Kong, China; the Philippines; Singapore; and Thailand. The PRC and the Republic of Korea together accounted for 87% of corporate bond issuances in Q1 2018. The weakened issuance activity in emerging East Asian corporates can be attributed to concerns about higher funding costs. On a y-o-y basis, corporate debt issuance in Q1 2018 was up 31.5%.

[7] Debt raised via bank loans and other nongovernment bonds.
[8] Central bank bonds are included as a component of total government bonds.

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

	Q1 2017		Q4 2017		Q1 2018		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q1 2018		Q1 2018	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	391	100.0	605	100.0	477	100.0	(23.9)	11.2	(21.0)	22.1
Government	257	65.8	374	61.8	260	54.4	(33.0)	(8.1)	(30.5)	0.9
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	257	65.8	374	61.8	260	54.4	(33.0)	(8.1)	(30.5)	0.9
Corporate	134	34.2	231	38.2	218	45.6	(9.0)	48.4	(5.7)	62.8
Hong Kong, China										
Total	103	100.0	113	100.0	115	100.0	2.0	12.6	1.5	11.5
Government	92	88.8	104	91.9	101	88.0	(2.4)	11.5	(2.8)	10.4
Central Bank	91	88.6	103	91.2	101	87.8	(1.8)	11.6	(2.3)	10.5
Treasury and Other Govt.	0.2	0.2	0.8	0.7	0.2	0.2	(72.3)	0.0	(72.4)	(1.0)
Corporate	12	11.2	9	8.1	14	12.0	51.7	21.1	51.0	19.9
Indonesia										
Total	15	100.0	13	100.0	18	100.0	45.0	22.1	43.2	18.5
Government	14	88.9	9	70.1	16	90.5	87.1	24.2	84.7	20.5
Central Bank	0.3	1.7	0.1	1.1	0.3	1.7	123.1	22.7	120.3	19.1
Treasury and Other Govt.	13	87.2	9	69.0	16	88.7	86.5	24.2	84.1	20.6
Corporate	2	11.1	4	29.9	2	9.5	(53.7)	5.5	(54.3)	2.3
Korea, Rep. of										
Total	165	100.0	171	100.0	180	100.0	5.3	4.1	5.7	9.5
Government	79	48.1	66	38.5	82	45.7	24.9	(1.0)	25.3	4.2
Central Bank	39	23.8	33	19.6	38	21.1	13.0	(7.8)	13.4	(3.1)
Treasury and Other Govt.	40	24.3	32	18.9	44	24.7	37.2	5.8	37.7	11.2
Corporate	85	51.9	105	61.5	98	54.3	(7.0)	8.8	(6.7)	14.4
Malaysia										
Total	17	100.0	23	100.0	26	100.0	7.8	30.2	12.9	49.1
Government	9	50.5	9	38.7	15	57.5	60.4	48.3	68.0	69.8
Central Bank	0.2	1.1	1	6.5	4	16.9	181.7	1888.2	195.0	2177.5
Treasury and Other Govt.	9	49.4	7	32.2	11	40.6	36.0	7.1	42.5	22.7
Corporate	9	49.5	14	61.3	11	42.5	(25.4)	11.7	(21.9)	28.0
Philippines										
Total	6	100.0	9	100.0	6	100.0	(37.2)	(7.4)	(40.0)	(10.9)
Government	5	83.6	9	93.6	4	78.7	(47.2)	(12.9)	(49.6)	(16.2)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	5	83.6	9	93.6	4	78.7	(47.2)	(12.9)	(49.6)	(16.2)
Corporate	1	16.4	0.6	6.4	1	21.3	108.7	20.8	99.3	16.2
Singapore										
Total	72	100.0	90	100.0	93	100.0	1.2	20.8	3.1	28.7
Government	69	95.9	87	96.7	89	95.5	(0.1)	20.4	1.8	28.2
Central Bank	64	89.1	83	91.8	83	89.7	(1.2)	21.6	0.7	29.5
Treasury and Other Govt.	5	6.7	4	4.9	5	5.8	20.3	4.4	22.6	11.2
Corporate	3	4.1	3	3.3	4	4.5	38.2	32.1	40.8	40.8
Thailand										
Total	76	100.0	64	100.0	72	100.0	8.4	(14.1)	13.2	(5.3)
Government	66	86.0	50	78.4	57	79.5	9.9	(20.6)	14.8	(12.5)
Central Bank	53	70.0	43	67.1	47	64.4	4.1	(20.9)	8.7	(12.9)
Treasury and Other Govt.	12	16.0	7	11.3	11	15.1	44.4	(19.0)	50.9	(10.8)
Corporate	11	14.0	14	21.6	15	20.5	3.0	25.9	7.6	38.7

continued on next page

Table 3 *continued*

	Q1 2017		Q4 2017		Q1 2018		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q1 2018		Q1 2018	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	6	100.0	15	100.0	21	100.0	40.8	254.6	40.2	254.0
Government	6	99.6	15	96.4	21	99.6	45.4	254.3	44.8	253.7
Central Bank	3	49.9	13	83.6	19	89.4	50.5	535.1	49.9	534.1
Treasury and Other Govt.	3	49.7	2	12.8	2	10.2	11.7	(27.5)	11.2	(27.7)
Corporate	0.02	0.4	0.5	3.6	0.09	0.4	(83.0)	320.0	(83.0)	319.3
Emerging East Asia										
Total	852	100.0	1,103	100.0	1,009	100.0	(10.7)	10.6	(8.5)	18.4
Government	596	70.0	722	65.5	646	64.1	(12.6)	1.5	(10.5)	8.3
Central Bank	252	29.5	277	25.1	293	29.0	4.5	11.4	5.7	16.2
Treasury and Other Govt.	345	40.4	445	40.4	354	35.1	(23.0)	(5.5)	(20.6)	2.6
Corporate	256	30.0	381	34.5	363	35.9	(7.2)	31.5	(4.8)	41.7
Japan										
Total	439	100.0	406	100.0	415	100.0	(3.7)	(9.8)	2.2	(5.5)
Government	406	92.5	378	93.0	396	95.5	(1.1)	(7.0)	4.9	(2.5)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	406	92.5	378	93.0	396	95.5	(1.1)	(7.0)	4.9	(2.5)
Corporate	33	7.5	28	7.0	19	4.5	(37.7)	(45.5)	(34.0)	(42.9)

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. For LCY-base, emerging East Asia growth figures are based on 31 March 2018 currency exchange rates and do not include currency effects.
Sources: People's Republic of China (*ChinaBond* and *Wind Information*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (*EDAILY Bondweb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand and ThaiBMA); Viet Nam (Bloomberg LP and Vietnam Bond Market Association); and Japan (Japan Securities Dealers Association).

The PRC's total debt issuance in Q1 2018 dropped 23.9% q-o-q but increased 11.2% y-o-y to USD477 billion. With a share of about 47% of the issuance in emerging East Asia, the PRC remained the largest issuer in the region. Onshore bond market conditions are tight amid higher interest rates, and the authorities are taking regulatory measures to contain risks by scaling down local government and corporate debt levels. Another key reason for the PRC's soft issuance during the quarter is that the remaining volume of local government debt for conversion to bonds has become quite small as the debt-for-bond swap program approaches its conclusion. While arrangements for new bond issuance from local governments have yet to be made, local government debt sales are projected to substantially accelerate in the second quarter of 2018. The q-o-q slump in Q1 2018, however, was slower compared with the decline in Q4 2017. The moderation may have received some respite from the People's Bank of China's (PBOC) cut in bank reserve requirements in January by 100 basis points (bps). While the move does not constitute monetary policy tightening, it shows the authorities are adjusting some easing policies to balance economic growth conditions and the containment of risks. Issuance from the government declined 33.0% q-o-q in Q1 2018 to USD260 billion, while corporate issuance dropped 9.0% q-o-q to USD218 billion.

Hong Kong, China's bond issuance slightly climbed in Q1 2018 to USD115 billion from USD113 billion in Q4 2017. The 2.0% q-o-q increase was underpinned by higher growth in issuance from the corporate sector as issuance from the government fell. Exchange Fund Bills and Exchange Fund Notes from the central bank, as well as Hong Kong Special Administrative Region bonds, all saw lower issuance during the quarter. Corporate issuance grew more than 50% in Q1 2018, but still only comprised 12% of total new issuance in Hong Kong, China.

Bond issuance in Indonesia totaled USD18 billion in Q1 2018, reflecting a 45.0% q-o-q increase. The government and corporate segments saw movements in the opposite direction during the quarter as issuance from the government posted an increase while that of the corporate sector posted a decrease. The government issued a total of USD16 billion, up 87.1% q-o-q. The implementation of a frontloading policy, in which the government borrows most of its funding needs earlier in the year, generated significant issuance during Q1 2018. The government also accepted more bids than its targeted amount in all auctions except for a single *sukuk* auction. The low issuance base in Q4 2017, given that the government met most of its funding requirements earlier in 2017, also contributed to the high q-o-q growth rate. On the other hand, corporate issuances dropped 53.7% q-o-q in Q1 2018, following a 17.6% q-o-q increase in Q4 2017; there were no corporate issuances in January.

The Republic of Korea's total bond issuance was up 5.3% q-o-q in Q1 2018 to USD180 billion, reversing the decline the preceding quarter. Government bond issuance increased 24.9% q-o-q to USD82 billion in contrast to a drop in Q4 2017. The increase can be traced to the government's frontloading of its budget in Q1 2018 on the back of higher spending geared to maintain economic growth by funding rising welfare costs and creating more jobs. On the other hand, issuance from the corporate sector was down 7.0% q-o-q.

In Malaysia, local bond issuance climbed to USD26 billion in Q1 2018 on increased issuance of government bonds, as corporate issuance fell during the quarter, reflecting overall growth of 7.8% q-o-q and 30.2% y-o-y. However, growth was slower on both a q-o-q and y-o-y basis compared with Q4 2017. Government issuance surged 60.4% q-o-q to USD15 billion during the quarter through higher sales of Malaysian Government Securities (USD4.8 billion) and Government Investment Issues (USD3.6 billion) amid fairly strong support from both local investors and foreign investors on the back of a firm Malaysian ringgit. Issuance of government Treasury bills and BNM securities also quickened during the quarter, amounting to USD2.1 billion and USD4.4 billion, respectively. The large volume of BNM debt can be traced to an issuance of BNM Interbank Bills, which amounted to USD4.1 billion. In November 2017, the central bank introduced BNM Interbank Bills as part of its initiative to improve the financial market by enhancing short-selling and liquidity operations in the bond market. Less issuance activity in the corporate sector was seen in Q1 2018, translating into a 25.4% q-o-q drop on the back of rising pressure on funding costs as a result of BNM's rate hike and the expectation of faster monetary policy normalization in the US and other developed countries.

The Philippines total bond issuance shrank 37.2% q-o-q and 7.4% y-o-y, settling at USD6.0 billion in Q1 2018. The negative q-o-q growth was the largest among emerging East Asian markets during the quarter and reversed the recorded surge in Q4 2017. The large drop can essentially be traced to government issuance, which declined 47.2% q-o-q, due to a high base effect from Q4 2017 when the Bureau of the Treasury sold USD5 billion worth of Retail Treasury Bonds. Corporate bond issuance moved in the opposite direction, more than doubling in Q1 2018 and also recording the fastest growth in the region. However, it comprised a small portion of the local and regional issuance market, thus the increase was not substantial in real terms.

In Singapore, local bond issuance was up slightly, reaching USD93 billion on rising corporate issuance. Government issuance was marginally changed at USD89 billion as issuance of Monetary Authority Singapore bills slightly decreased and issuance of Treasury bonds increased. Issuance from the corporate sector was up 38.2% q-o-q to USD4 billion, boosted by a large volume of issuance from government-owned companies. In Q1 2018, Singapore embarked on an outsized bond issuance program with the issuance of infrastructure bonds. The new debt program is expected to raise more than SGD20 billion. Singapore had the third-fastest growth of corporate debt sales in the region in Q1 2018.

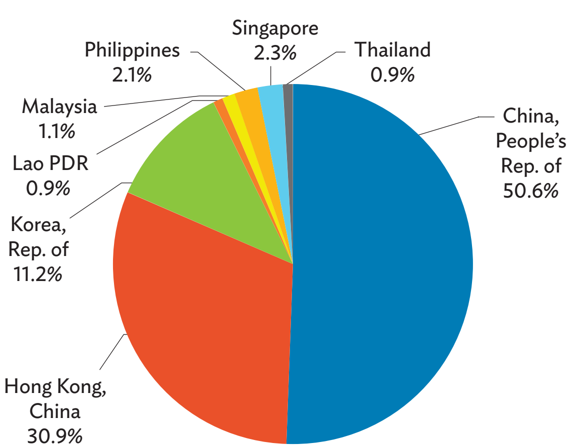
Total issuance in Thailand increased 8.4% q-o-q to USD72 billion and was supported by both the government and corporate segments. Thailand was the sole market in the region that saw positive growth in both government and corporate debt sales. Issuance from the government grew 9.9% q-o-q on increases in Bank of Thailand securities and central government bonds. Debt sales from firms grew 3.0% q-o-q, which was much slower compared with the 31.5% q-o-q growth logged in Q4 2017. The increase can be attributed to Thailand's relatively low interest rate environment amid low inflationary pressures, which makes it conducive for the government and firms to raise funds from the bond market.

Viet Nam's bond issuance surged 40.8% q-o-q in Q1 2018, second in growth in emerging East Asia next to Indonesia. Its total issuance of USD21 billion was supported by the government and corporates. Increased government bond issuance was largely driven by the issuance of State Bank of Vietnam bills to withdraw local money from the banking system in order to minimize inflationary risks. Issuance activity in the corporate segment was subdued in Q1 2018 compared with Q4 2017, with total debt sales falling 83.0% q-o-q to VND2.1 trillion. On an annual basis, government and corporate issuances increased about fourfold.

Cross-border bond issuance in emerging East Asia reached USD11.1 billion in Q1 2018.

Emerging East Asia's total cross-border bond issuance almost doubled on a q-o-q basis from USD5.6 billion in Q4 2017 to USD11.1 billion in Q1 2018, and surged on a y-o-y basis from only USD0.7 billion in Q1 2017. The PRC had the largest amount of cross-border issuance in Q1 2018 at USD5.6 billion, representing 50.6% of all intra-regional issuance during the quarter (**Figure 5**). This was followed by Hong Kong, China with USD3.4 billion (30.9%). The Lao People's Democratic Republic (Lao PDR) and Thailand had the smallest contribution of USD0.1 billion each, representing a combined share of only 1.8%.

Figure 5: Origin Economy of Intra-Emerging East Asian Bond Issuance in the First Quarter of 2018



Lao PDR = Lao People's Democratic Republic.
Note: Data as of 31 March 2018.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

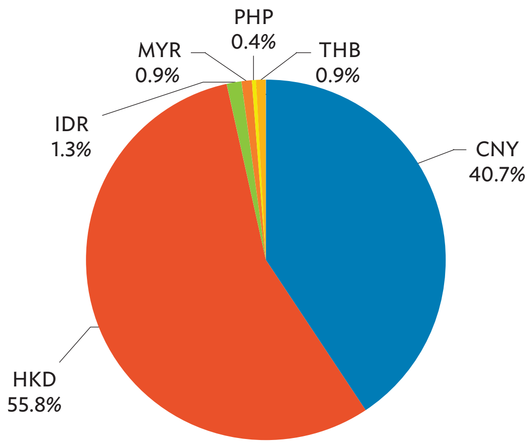
Eight firms in the PRC issued a total of HKD44.1 billion (USD5.6 billion), with tenors ranging from 1 year to 5 years. The largest cross-border issuance was made by China Evergrande Group in order to refinance its debts. The Chinese property developer issued an HKD18 billion 5-year convertible bond with a 4.25% coupon. The PRC also issued a MYR0.5 billion bond with a 2-year tenor and a 2.00% coupon rate. In Hong Kong, China, all intra-regional bond issuances were in Chinese renminbi, totaling CNY21.6 billion. The issuances had tenors from 6 months to 9 years. The largest issuance was a 3-year debt offered by China Resources Land amounting to CNY6 billion with a coupon rate of 5.38%.

Cross-border issuances in the Republic of Korea were denominated in Chinese renminbi, Hong Kong dollars, and Indonesian rupiah, amounting to CNY4.3 billion (USD0.7 billion), HKD3.6 billion (USD0.5 billion), and IDR1,363 billion (USD0.1 billion), respectively. The tenors of the issuance ranged from 1 year to 10 years, with the largest issuance coming from the Export–Import Bank of Korea, which offered a 3-year CNY1.5 billion bond. The Korean bank also issued three HKD-denominated and two IDR-denominated debt securities.

To fund its infrastructure projects, the Government of the Philippines issued 3-year panda bonds amounting to CNY1.46 billion. Singapore issued intra-regional bonds in Chinese renminbi, Indonesian rupiah, and Philippine pesos, with the largest issuance coming from International Offshore Equipment, which offered CNY1 billion worth of 3-year bonds with a coupon rate of 7.50%. In Malaysia, Malayan Banking Berhad issued two HKD-denominated bonds with 3-year and 5-year maturities that totaled to HKD1 billion. Thailand and the Lao PDR issued one cross-border bond each. CIMB Thai Bank issued MYR390 million (USD101 million) worth of 10-year bonds with a coupon rate of 5.20%, while the Lao PDR's Nam Ngum 2 Power Company offered a THB3 billion (USD96 million) 12-year bond with a coupon rate of 3.98%.

Cross-border issuance in emerging East Asia in Q1 2018 were denominated in Hong Kong dollars, Chinese renminbi, Indonesia rupiah, Malaysian ringgit, Thai baht, and Philippine pesos (**Figure 6**). The majority (55.8%) of these cross-border issuances, totaling USD6.2 billion,

Figure 6: Currency Share of Intra-Emerging East Asian Bond Issuance in the First Quarter of 2018



CNY = Chinese renminbi, HKD = Hong Kong dollar, IDR = Indonesian rupiah, PHP = Philippine peso, SGD = Singapore dollar, THB = Thai baht.
Note: Data as of 31 March 2018.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

were denominated in Hong Kong dollars. The economies of origin for these HKD-denominated issues included the PRC, the Republic of Korea, and Malaysia.

Bonds denominated in Chinese renminbi amounted to USD4.5 billion and comprised a 40.7% share of the region's cross-border issuance in Q1 2018. Hong Kong, China; the Republic of Korea; the Philippines; and Singapore all issued CNY-denominated bonds.

Issuance in Indonesian rupiah amounted to USD0.1 billion, accounting for 1.3% of all intra-regional issuance, and were observed in the Republic of Korea and Singapore.

The PRC and Thailand issued USD0.1 billion worth of MYR-denominated bonds, comprising 0.9% of all cross-border issuance.

Finally, the Lao PDR issued THB-denominated bonds worth USD0.1 billion, representing a 0.9% share of all cross-border issuance, while Singapore was the lone economy to issue cross-border bonds denominated in Philippine pesos, amounting to USD0.04 billion and representing just 0.4% of all issuances.

G3 currency bond issuance in emerging East Asia reached USD117 billion in January–April.

Emerging East Asia's issuance of G3 currency bonds reached USD117.0 billion in the first 4 months of the year, representing more than one-third of the full-year 2017 issuance volume (**Table 4**).[9] Compared with the same 4-month period a year earlier, the region's G3 bond issuance climbed 11.9%. Government and corporate issuers from emerging East Asia rushed to lock in low borrowing costs before the Federal Reserve undertakes further policy rate hikes this year. Improving economic prospects in the US signaled the continuation of its monetary policy normalization, while other advanced economies are winding down their stimulus measures. Despite tightening liquidity conditions and rising rates globally, emerging East Asia's G3 issuance managed to expand in the first 4 months of the year.

Bonds denominated in US dollars continued to dominate the region's G3 issuance, accounting for 90.5% of the aggregate issuance volume during the January–April period. This was followed by EUR-denominated bonds with an 8.7% share, while the remaining 0.8% share comprised JPY-denominated bonds. The currency breakdown was broadly comparable with that of the same 4-month period in the prior year.

In the first 4 months of 2018, G3 bond issuance rose on a y-o-y basis in all markets except for the Republic of Korea and Malaysia. The PRC remained the largest source of G3 bonds in emerging East Asia at USD67.4 billion, which was equivalent to 57.6% of the region's total G3 issuance during the review period. It was followed by Hong Kong, China at USD18.4 billion, representing a share of 15.7% of the region's G3 bond issuance total, and Indonesia at USD8.7 billion, or a 7.4% share.

The PRC's total G3 bond issuance, while still the largest in the region, rose only 1.5% y-o-y during the review period. PRC-based companies turned to the offshore market as onshore borrowing has become increasingly difficult amid the government's ongoing deleveraging push and defaults by some corporate borrowers. Although quite a number of PRC corporate issuances

[9] G3 currency bonds are denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2017			January to April 2018		
Issuer	**Amount (USD billion)**	**Issue Date**	**Issuer**	**Amount (USD billion)**	**Issue Date**
China, People's Rep. of	**225.4**		**China, People's Rep. of**	**67.4**	
Postal Savings Bank of China 4.50% Perpetual	7.3	27-Sep-17	Tencent Holdings 3.595% 2028	2.5	19-Jan-18
China Evergrande Group 8.75% 2025	4.7	28-Jun-17	CNAC (HK) Finbridge 5.125% 2028	1.8	14-Mar-18
Alibaba Group Holding 3.40% 2027	2.6	06-Dec-17	CNAC (HK) Finbridge 1.75% 2022	1.4	14-Mar-18
State Grid Overseas Investment Ltd 3.50% 2027	2.4	04-May-17	CNAC (HK) Finbridge 4.625% 2023	1.3	14-Mar-18
China Zheshang Bank 5.45% 2050	2.2	29-Mar-17	Tsinghua Uniq 4.75% 2021	1.1	31-Jan-18
Kaisa Group Holdings Ltd 9.38% 2024	2.1	30-Jun-17	Baidu 3.875% 2023	1.0	29-Mar-18
CNAC (HK) Synbridge Company Ltd 5.00% 2020	2.0	05-May-17	Bank of China 2.89728% 2023	1.0	08-Mar-18
CNAC (HK) Finbridge Company Ltd 3.85% 2020	2.0	22-Dec-17	Bank of China 2.79728% 2021	1.0	8-Mar-18
Others	200.3		Others	56.3	
Hong Kong, China	**36.7**		**Hong Kong, China**	**18.4**	
Radiant Access Limited 4.60% Perpetual	1.5	18-May-17	CHMT Peaceful Dev't Asia Property 7.50% 2019	3.3	25-Apr-18
China Cinda Finance 3.65% 2022	1.3	9-Mar-17	ICBC Asia 4.90% Perpetual	2.5	21-Mar-18
Others	33.9		Others	12.5	
Indonesia	**26.7**		**Indonesia**	**8.7**	
Perusahaan Penerbit SBSN *Sukuk* 4.15% 2027	2.0	29-Mar-17	Perusahaan Penerbit SBSN *Sukuk* 4.40% 2028	1.8	1-Mar-18
Indonesia (Sovereign) 4.35% 2048	1.8	11-Dec-17	Perusahaan Penerbit SBSN *Sukuk* 3.75% 2023	1.3	1-Mar-18
Perusahaan Listrik Negara 4.13% 2027	1.5	15-May-17	Indonesia (Sovereign) 1.75% 2025	1.2	24-Apr-18
Indonesia (Sovereign) 3.5% 2028	1.3	11-Dec-17	Indonesia (Sovereign) 4.10% 2028	1.0	24-Apr-18
Indonesia (Sovereign) 2.15% 2024	1.2	18-Jul-17	Star Enegery Geothermal Wayang Windu 6.75% 2033	0.6	24-Apr-18
Others	19.0		Others	2.9	
Korea, Rep. of	**29.8**		**Korea, Rep. of**	**8.4**	
Republic of Korea (Sovereign) 2.75% 2027	1.0	19-Jan-17	Hanwha Life Insurance 4.70% 2048	1.0	23-Apr-18
Export–Import Bank of Korea 3.00% 2022	1.0	1-Nov-17	Hyundai Capital Services 3.75% 2023	0.5	5-Mar-18
Export–Import Bank of Korea 0.50% 2022	0.9	30-May-17	Korea Development Bank 3.375% 2023	0.5	12-Mar-18
Others	26.9		Others	6.4	
Lao People's Democratic Rep.	**0.03**		**Lao People's Democratic Rep.**	**0.0**	
Malaysia	**4.4**		**Malaysia**	**0.7**	
Genting Overseas Holdings Limited Capital 4.25% 2027	1.0	24-Jan-17	Cindai Capital 0.00% 2023	0.3	08-Feb-18
CIMB Bank 1.93% 2020	0.6	15-Mar-17	Malayan Banking 0.00% 2048	0.2	29-Mar-18
CIMB Bank 3.26% 2022	0.5	15-Mar-17	Malayan Banking 3.08903% 2023	0.1	12-Jan-18
Others	2.3		Others	0.1	
Philippines	**4.0**		**Philippines**	**3.9**	
Republic of the Philippines (Sovereign) 3.7% 2042	2.0	2-Feb-17	Republic of the Philippines (Sovereign) 3.0% 2028	2.0	1-Feb-18
Others	2.0		Others	1.9	
Singapore	**12.5**		**Singapore**	**7.9**	
DBS Bank 0.38% 2024	0.9	23-Jan-17	Puma International Finance 5.00% 2026	0.8	24-Jan-18
DBS Group Holdings Ltd 1.71% 2020	0.8	8-Jun-17	DBS Group Holdings 1.50% 2028	0.7	11-Apr-18
Others	10.9		Others	6.4	
Thailand	**2.2**		**Thailand**	**1.5**	
PTTEP Treasury Center Company 4.60% Perpetual	0.5	17-Jul-17	Kasikornbank 3.256% 2023	0.4	12-Jan-18
Others	1.7		Others	1.1	
Viet Nam	**0.0**		**Viet Nam**	**0.2**	
Emerging East Asia Total	**341.6**		**Emerging East Asia Total**	**117.0**	
Memo Items:			**Memo Items:**		
India	**15.1**		**India**	**4.0**	
Vedanta Resources PLC 6.375% 2022	1.0	30-Jan-17	Abja Investment 5.45% 2028	**1.0**	**24-Jan-18**
Others	14.1		Others	3.0	
Sri Lanka	**3.7**		**Sri Lanka**	**3.1**	

USD = United States dollar.
Notes:
1. Data exclude certificates of deposits.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Bloomberg LP end-of-period rates are used.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

remain in the pipeline, offshore market conditions have tightened as investors seeking higher yields are wary of buying the bonds of riskier, small, or noninvestment grade firms.

Leading the list of G3 bond issuers from the PRC was CNAC HK Finbridge, which sold USD6.4 billion worth of bonds in euros and via a multitranche US dollar sale in March. It was followed by Tencent Holdings (USD5.0 billion) and Bank of China (HK) (USD2.3 billion) with multitranche issuances of USD-denominated bonds. For the January–April period, a total of 179 new G3 bonds were issued by PRC-based issuers, the bulk of which were denominated in US dollars. The largest G3 bond issued in the PRC was Tencent Holdings' USD2.5 billion 10-year bond with a coupon rate of 3.595% in January.

G3 bond issuance in Hong Kong, China largely contributed to regional growth in the first 4 months of the year. Issuance rose 52.7% y-o-y over the same period in 2018. The largest issuer in January–April 2018 was CHMT Peaceful Development Asia Property, which issued a dual-tranche bond in April valued at USD4.1 billion. Next were Industrial and Commercial Bank of China Asia and China Cinda Finance 2017 with bonds valued at USD2.5 billion each. Out of 69 new G3 bonds issued during the review period, 44 were denominated in US dollars while 23 were issued in Japanese yen. The largest issuance from Hong Kong, China was the 1.5-year bond of CHMT Peaceful Development Asia Property valued at USD3.3 billion.

For the January–April period, G3 currency bond issuance in the Republic of Korea contracted 16.1% y-o-y to USD8.4 billion. More than one-third of G3 bond issuances in the Republic of Korea were from government agencies. In terms of size, state-owned Korea Development Bank was the largest issuer, with aggregate bond sales of USD1.5 billion. It was followed by Hanwha Life Insurance (USD1.0 billion) and Export–Import Bank of Korea (USD0.8 billion). Out of the 45 bonds issued during the review period, only one was denominated in euros and the next was in US dollars. There was no issuance in Japanese yen. The largest bond issue was the 30-year bond of Hanwha Life Insurance worth USD1.0 billion issued in April.

G3 bond issuance among the six largest economies of ASEAN, which are collectively known as ASEAN-6, climbed to USD22.8 billion in the first 4 months of 2018 from USD16.6 billion a year earlier.[10] ASEAN-6 G3 issuance accounted for nearly 20% of the total issuance of emerging East Asia during the review period. Taking the lead was Indonesia, whose G3 issuance of USD8.7 billion was the largest among all ASEAN-6 markets.

About 75% of Indonesia's aggregate G3 issuance came from the government as it issued global US dollar *sukuk* and conventional EUR- and USD-denominated bonds during the review period. Such G3 issuance is part of the Government of Indonesia's annual financing plan to complement its onshore issuance. In addition, the central bank also sells foreign exchange bills on a regular basis. The largest issue in January–April was the 10-year global *sukuk* valued at USD1.8 billion from the government. In March, the government also sold USD1.3 billion worth of global green bonds structured as *sukuk*, the first issuance of such bonds in Asia.

New G3 bonds from Singaporean issuers rose to USD7.9 billion in the first 4 months of the year, up 72.4% y-o-y from the same period a year earlier. The largest G3 bond issuer was United Overseas Bank with total issuance amounting to USD2.0 billion. Oversea-Chinese Banking Corporation was in the second spot with aggregate issuance of USD1.3 billion. Both banks issued in US dollars and euros. A total of 33 new G3 bonds were issued by Singaporean corporates. At the top of the list was Puma International Finance, an oil refining company, which issued an USD0.8 billion 8-year bond in January.

Philippine G3 bond issuers raised a total of USD3.9 billion in the first 4 months of the year, almost doubling their G3 issuance volume in the same 4-month period in 2017. The Government of the Philippines was the top issuer of G3 bonds with USD2.0 billion worth of 10-year bonds in February. The bonds carried a coupon rate of 3.0%, which was lower than the global *sukuk* of the same maturity issued by the Government of Indonesia in March with a coupon rate of 4.4%. Both sovereigns are rated investment grade by all three global rating agencies (Standard & Poor's, Fitch Ratings, and Moody's Investors Service). All G3 bond issues in the

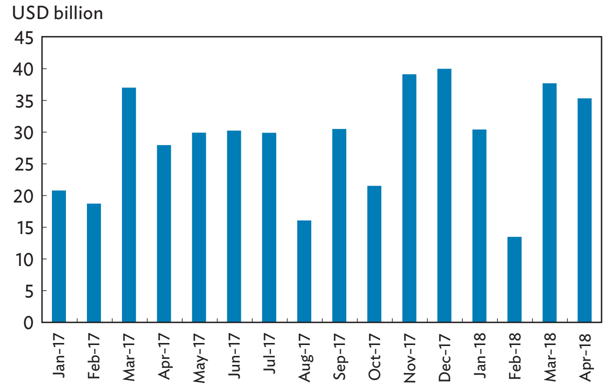
[10] ASEAN 6 comprises Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

Philippines during the review period were denominated in US dollars.

Issuance of G3 bonds by Thai corporates tallied USD1.5billion in January–April, climbing more than twofold from a year earlier. All issuances from Thailand were denominated in US dollars. The largest issuer was ThaiOil Treasury Center with a dual-tranche issue totaling to USD0.6 billion. Of the five new G3 bonds issued during the review period, the largest in terms of size was Kasikornbank's 5-year bond worth USD0.4 billion.

Among ASEAN-6, the only market to post a decline in G3 bond issuance during the review period was Malaysia's. Its total G3 bond issuance stood at USD0.7 billion in January–April, falling 72.3% y-o-y. All G3 bonds issued by Malaysia were from corporates and denominated in US dollars. Only three issuers tapped the G3 bond market, led by Malayan Banking Berhad, which had multiple issuances worth USD0.4 billion during the review period. The largest G3 bond issue from Malaysia was Cindai Capital's 5-year bond worth USD0.3 billion.

Figure 7: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.
Notes:
1. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Figures were computed based on 30 April 2018 currency exchange rates and do not include currency effects.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

For the first time since 2014, a sole issuer from Viet Nam tapped the G3 bond market in 2018. Real estate firm No Va Land Investment Group raised USD0.2 billion of 5-year bonds in April.

On a monthly basis, G3 currency bond issuance in emerging East Asia slowed from USD40.0 billion in December to USD30.4 billion in January, and further to USD13.5 billion in February (**Figure 7**). A pick-up in issuance in March and April pushed the G3 issuance volume total for January–April. The jump in G3 issuance came after the Federal Reserve raised the US policy rate and hinted at three more rate hikes for the rest of the year. As expectations of further tightening loomed, issuers took their cue by tapping the G3 market to secure funding while borrowing costs were still low.

The government bond yield curves of emerging East Asia rose for nearly all markets as investors closely followed interest rate movements in the US and other developments in the global economy.

Investors in emerging East Asian markets have largely taken their cues from global economic developments as well as the continued monetary policy normalization in the US. Among advanced economies, the US stands out as the sole market normalizing its monetary policy. However, signs are emerging that global economic growth has bolstered the likelihood that other economies may begin scaling back their easing measures.

The Federal Reserve has largely met market expectations and its federal funds target range hike of 25 bps on 20 March was widely anticipated. While Q1 2018 GDP growth in the US slowed to 2.2% y-o-y from 2.9% y-o-y in the previous quarter, the Federal Reserve believes that that the slowdown is only temporary and reflects transient factors such as a delay in tax refunds. The US economic growth outlook remains positive, with the Consumer Confidence Index rising from 125.6 in April to 128.0 in May, one of the highest readings since 2000. The GDP forecast of the Federal Reserve in March showed an improved growth rate of 2.7% for full-year 2018, up from 2.5% in December's forecast. Nonfarm payrolls also added 223,000 jobs in May from a revised 159,000 in April.

On 1 May, the Federal Reserve left unchanged its policy rate target but noted that the US economy continues to grow at a moderate pace and the labor market continues to strengthen.

Other advanced economies experienced a temporary slowdown in economic growth in Q1 2018, but the overall outlook remains unchanged. GDP growth in the euro area fell to 2.5% y-o-y in Q1 2018 from 2.8% y-o-y in Q4 2017. In addition, the European Central Bank (ECB) maintained its current monetary policy stance during its 8 March and 16 April meetings. However, similar to the US, the euro area's economic outlook has not been affected by the slowdown in Q1 2018. The ECB recently upgraded its GDP estimate for full-year 2017 from 2.4% to 2.5%, and its 2018 forecast from 2.3% to 2.4%. More tellingly, in its March and April meeting notes, the ECB removed past language referring to its readiness to adjust asset purchases should the economic outlook turn negative, suggesting they are more confident in the economic outlook.

In Japan, GDP performance in Q1 2018 was negative, with the economy contracting at an annualized pace of 0.6% y-o-y following an expansion of 1.0% y-o-y in the previous quarter. However, the decline is largely viewed as being due to seasonality and the Bank of Japan continues to forecast expansion in full-year 2018, recently revising its outlook upward to an annualized growth rate of 1.6% from the previous forecast of 1.4% made in January.

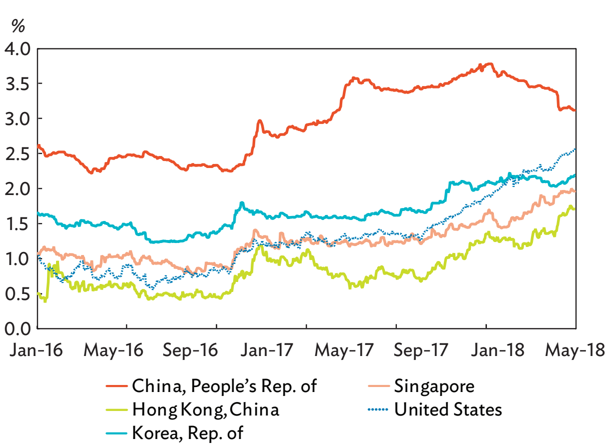
Emerging East Asia's markets and economies have been broadly in sync with that of advanced economies. Yields in emerging East Asia's bond markets have largely trended upward, tracking movements in US yields.

The sole exception has been the PRC where yields have largely fallen. Since the start of 2018, for example, there has been a steady decline in 2-year yields (**Figure 8a**). This is in contrast to the rise in yields in 2017 that was largely due to the PRC's deleveraging campaign. The fall in yields thus far in 2018 has been partially due to a shift in funds from the stock market to the bond market as investors expect the PRC's economic growth to moderate this year. Yields in the PRC were further pushed downward when the PBOC reduced the reserve requirement ratios of banks on 16 April.

Viet Nam has also experienced a decline in its 2-year yield since the start of the year (**Figure 8b**). The decline largely stemmed from increased financial liquidity after the State Bank of Vietnam reduced its open market operation rates by 25 bps on 17 January.

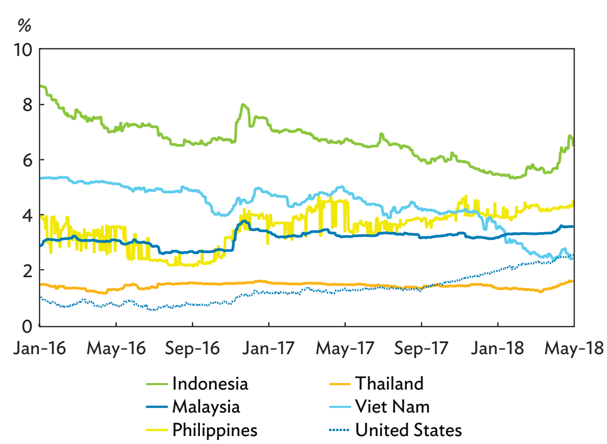
For 10-year yields, only in the PRC have yields trended downward since the start of the year (**Figure 9a**). Meanwhile, there was a noticeable rise in Hong Kong, China's and Singapore's 10-year yields, particularly after 15 April. This largely mirrored movements in the US 10-year yield, which showed a similar spike during the review period. Hong Kong, China's rise in yields also reflects domestic conditions as the Hong Kong Monetary Authority reduced liquidity following moves to strengthen the Hong Kong dollar after it hit the weak-side of its currency band.

Figure 8a: 2-Year Local Currency Government Bond Yields



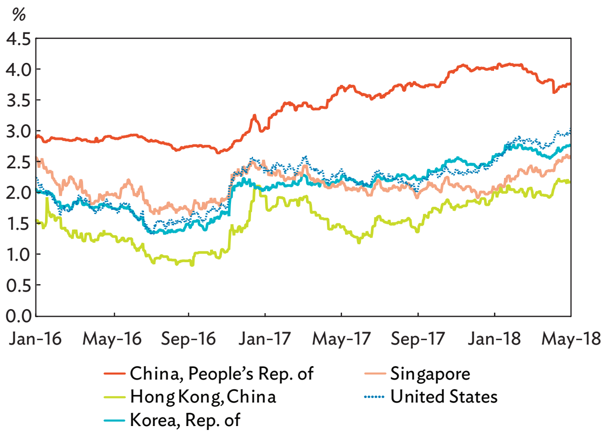
Note: Data as of 15 May 2018.
Source: Based on data from Bloomberg LP.

Figure 8b: 2-Year Local Currency Government Bond Yields



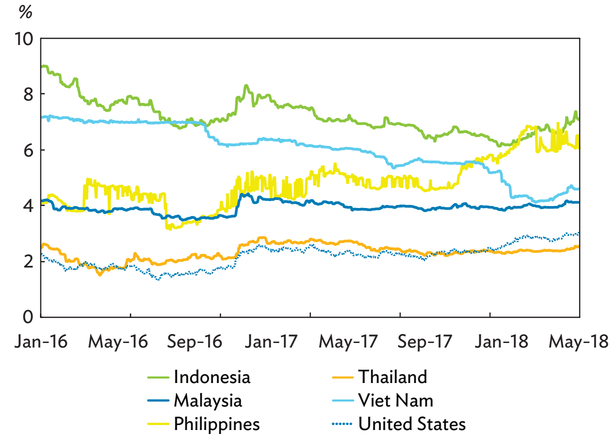
Note: Data as of 15 May 2018.
Source: Based on data from Bloomberg LP.

Figure 9a: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 May 2018.
Source: Based on data from Bloomberg LP.

Figure 9b: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 May 2018.
Source: Based on data from Bloomberg LP.

The spike observed in both Hong Kong, China and Singapore coincided with the release on 11 April of the Federal Reserve's March minutes, in which some participants noted that higher inflation forecasts might lead to the Federal Reserve accelerating its rate hikes.

In contrast to the 2-year yield movements, Viet Nam's 10-year yield has trended upward since the start of the year, largely mirroring the trend in other markets (**Figure 9b**).

Between 1 March and 15 May, the yield curves in emerging East Asia's bond markets largely shifted upward, following US yield movements, with the exception of the PRC, which saw its entire yield curve shift downward (**Figure 10**).

In emerging East Asia, markets continue to exhibit robust economic growth. Similar to advanced economies, some markets posted slower growth rates in Q1 2018 while others showed steady or slightly better economic growth.

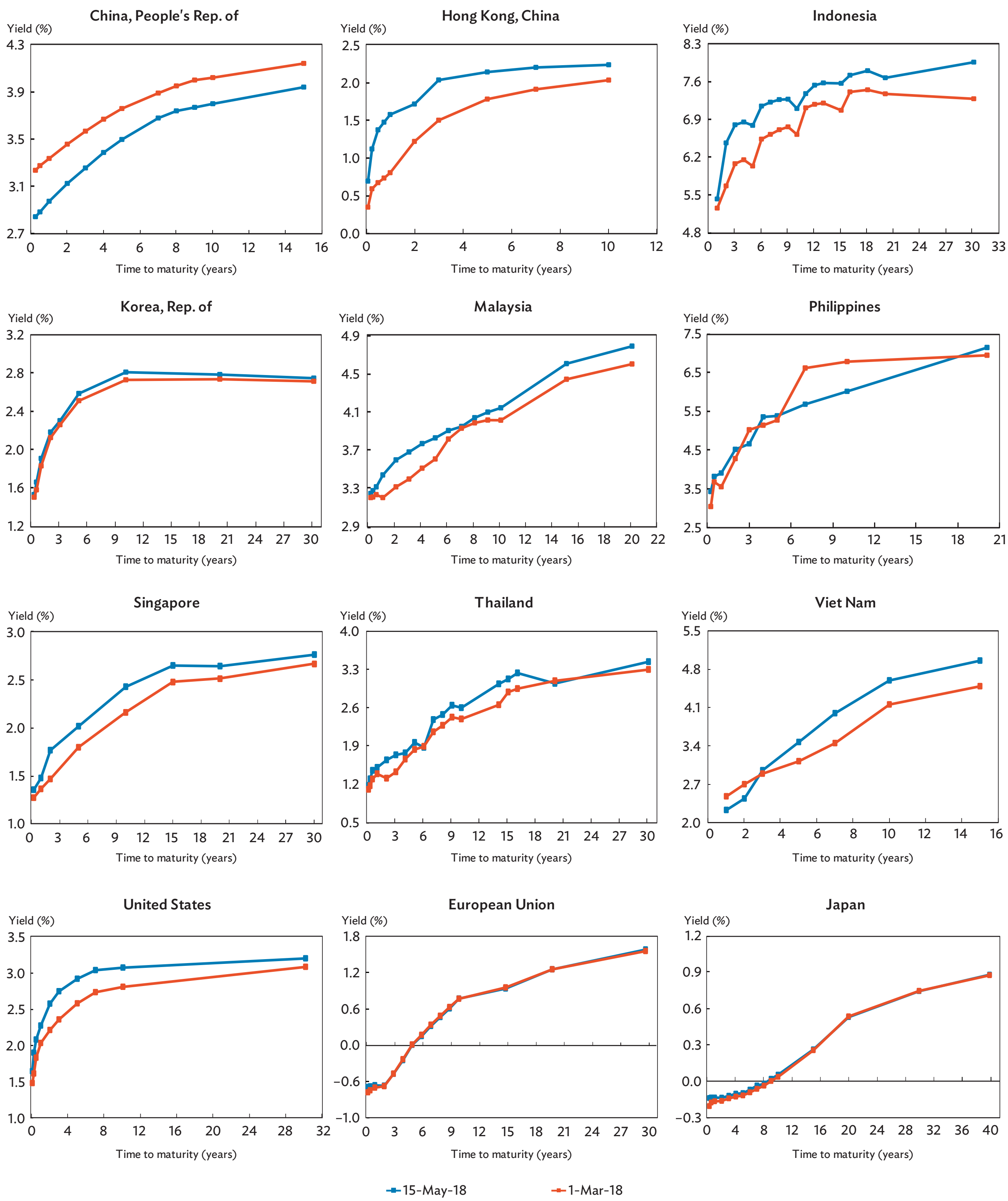
Economic growth was stable in the PRC in Q1 2018, with a GDP growth rate of 6.8% y-o-y for the second quarter in a row. The Republic of Korea's GDP was also 2.8% y-o-y in Q1 2018, the second quarter in a row. In Viet Nam, growth in Q1 2018 was at 7.4% y-o-y, up from 6.8% in full-year 2017. Hong Kong, China's GDP grew 4.7% y-o-y in Q1 2018, up from 3.4% y-o-y in Q4 2017, while the Philippines' economic growth picked up to 6.8% y-o-y from 6.5% y-o-y in the same period. In Singapore, the economy grew 4.4% y-o-y in Q1 2018, up from 3.6% y-o-y in Q4 2017, while Thailand's economy expanded 4.8% y-o-y following 4.0% y-o-y growth, respectively.

Malaysia and Indonesia had lower GDP growth rates in Q1 2018 than in Q4 2017. Malaysia's decline was the more significant, with growth falling to 5.4% y-o-y from 5.9% y-o-y. In Indonesia, GDP growth slowed marginally to 5.1% y-o-y from 5.2% y-o-y during the same period.

While economic growth in emerging East Asia was largely stable or accelerating in Q1 2018, consumer price inflation was mixed with some economies showing gains and others showing declines. In contrast, advanced economies' inflation rates were largely muted. In the Federal Reserve's March economic forecasts, its growth outlook was upgraded but expectations of inflation were largely unchanged. In the euro area, the ECB staff estimates in March showed the inflation outlook as largely unchanged, with a slight decrease in the projected inflation rate for 2019. The Bank of Japan also downgraded its inflation projection for 2018 in April.

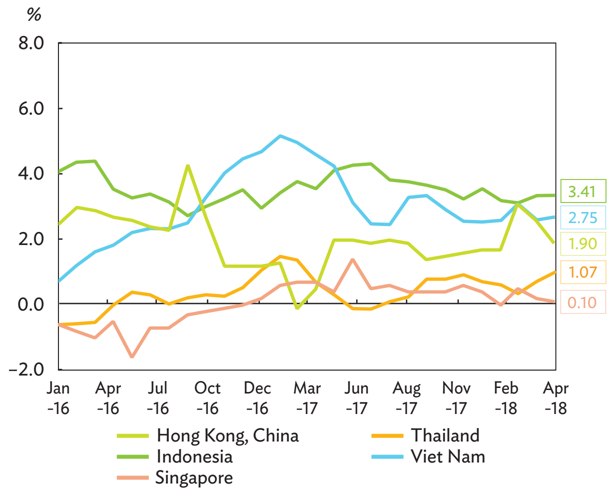
Among emerging East Asia economies, Singapore posted the lowest inflation rate in April at 0.1% y-o-y (**Figure 11a**). However, the Monetary Authority of Singapore expects inflation to edge upward and settle at the upper end of its forecasts for full-year 2018.

Figure 10: Benchmark Yield Curves—Local Currency Government Bonds



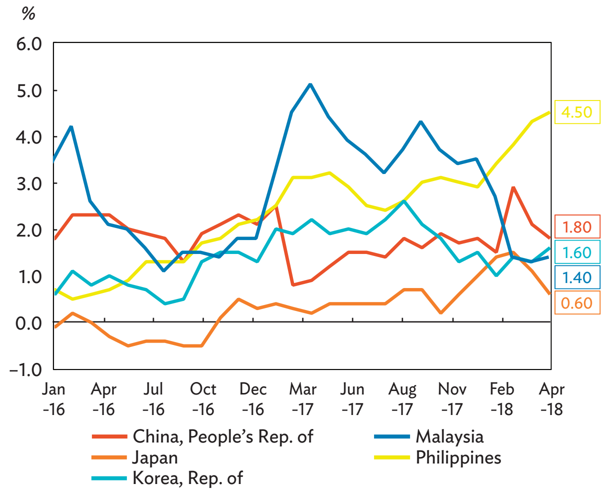
Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

Figure 11a: Headline Inflation Rates



Note: Data as of April 2018.
Source: Based on data from Bloomberg LP.

Figure 11b: Headline Inflation Rates



Note: Data as of April 2018.
Source: Based on data from Bloomberg LP.

The largest rise in inflation was seen in the Philippines, where the inflation rate rose to 4.5% y-o-y in March from 4.3% y-o-y in the previous month (**Figure 11b**). The rise in inflation was largely attributed to the effects of the tax reform program that was implemented in December 2017.

Better global economic growth has provided the central banks of some emerging East Asian economies with more confidence to begin tightening monetary policy. The Bangko Sentral ng Pilipinas raised its policy rate target 25 bps on 10 May, largely in response to rising inflation (**Figure 12a**). Singapore adjusted the stance for its exchange rate to one of slight appreciation, reflecting its growing confidence in the economy's continued economic gains and expected increases in inflation.

The other markets that tightened monetary policy thus far in the second quarter of 2018 include Malaysia and Indonesia (**Figure 12b**). Malaysia raised its policy rate on 25 January. Indonesia raised policy rates twice on 17 May and 30 May. Elsewhere in Asia, other economies such as India also raised its benchmark rate in 6 June.

The exception to the regional trend was the PRC, which reduced the reserve requirement ratio imposed on financial institutions by 100 bps on 17 April. While the PBOC requires that funds released be used to repay loans from its Medium-Term Lending Facility and for lending to small and medium-sized enterprises, the market has largely taken it as a sign that the central bank may begin to ease up on its deleveraging campaign.

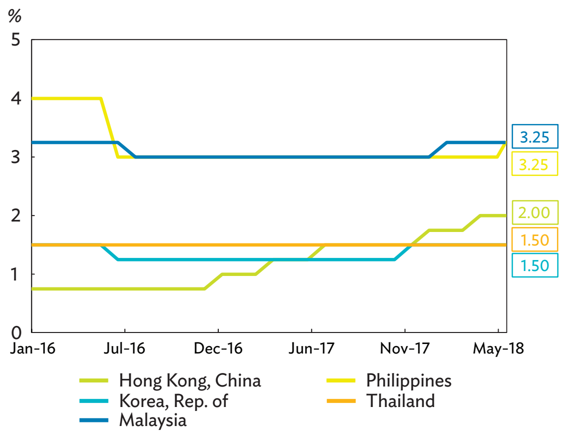
The 2-year versus 10-year yield spread fell in all markets except in the PRC and Viet Nam (**Figure 13**), and in the Republic of Korea, which was broadly unchanged.

The AAA-rated corporate versus government yield spread fell in the PRC and Malaysia, but movements were mixed in the Republic of Korea.

While the regional economy has improved, uncertainties remain with investors making a distinction between investment grade and noninvestment grade bonds. In the PRC and Malaysia, credit spreads between AAA-rated corporates and government bonds fell between 1 March and 15 May, while movements were mixed in the Republic of Korea (**Figure 14a**).

In contrast, the spread rose between AAA-rated corporate bonds and lower-rated bonds in the PRC and Malaysia between 1 March and 15 May, while falling in the Republic of Korea. In the case of the PRC, investors were concerned over a number of defaults, leading to higher risk aversion for more speculative bond investments (**Figure 14b**).

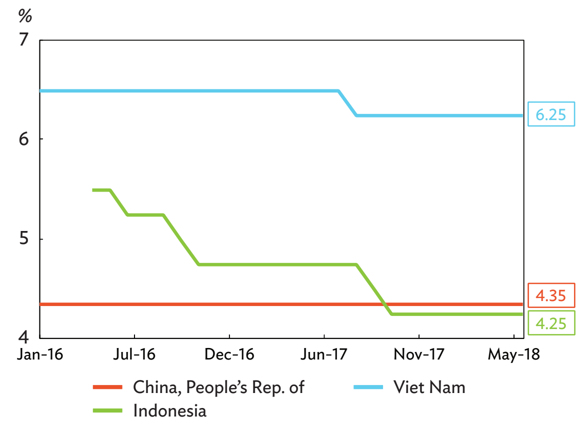
Figure 12a: Policy Rates



Notes:
1. Data as of 15 May 2018.
2. The policy rate of the Philippines was adjusted to 3.0% from 4.0% in June 2016 following the shift in the Bangko Sentral ng Pilipinas' monetary operations to an interest rate corridor system.

Source: Based on data from Bloomberg LP.

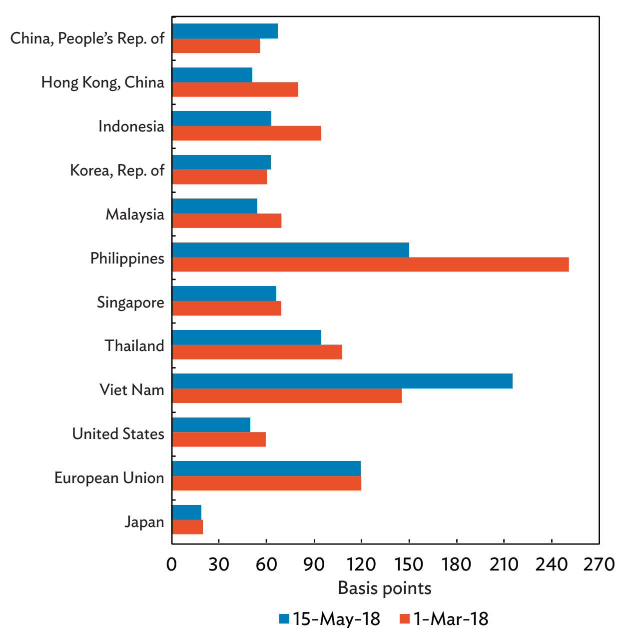
Figure 12b: Policy Rates



Notes:
1. Data as of 15 May 2018.
2. Bank Indonesia shifted its policy rate to the 7-day reverse repurchase rate effective 19 August 2016.

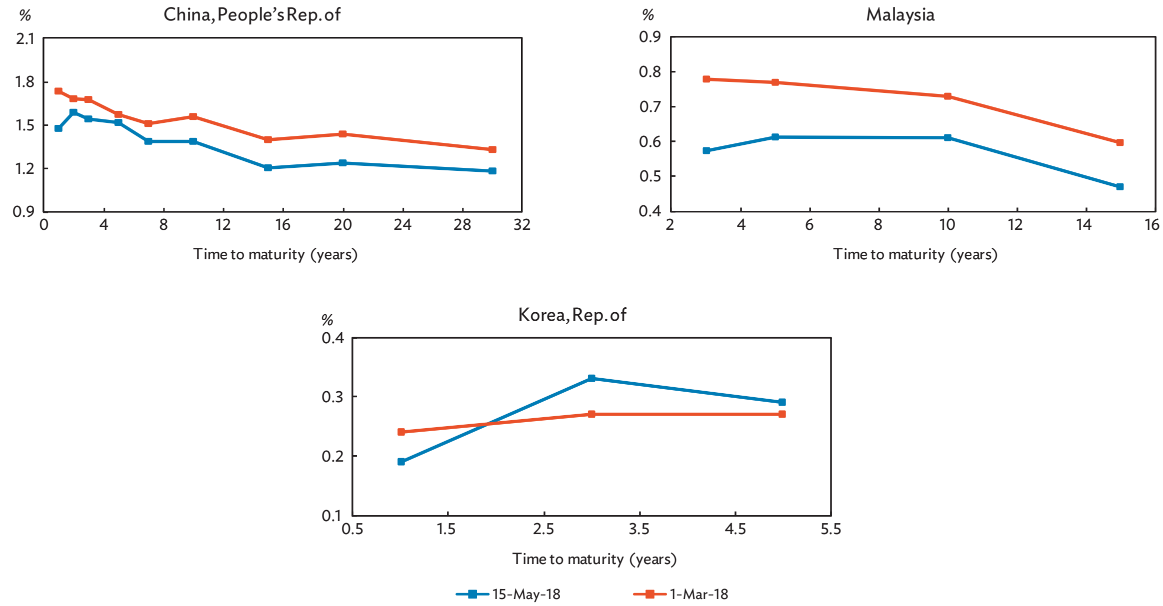
Source: Based on data from Bloomberg LP.

Figure 13: Yield Spreads Between 2-Year and 10-Year Government Bonds



Source: Based on data from Bloomberg LP.

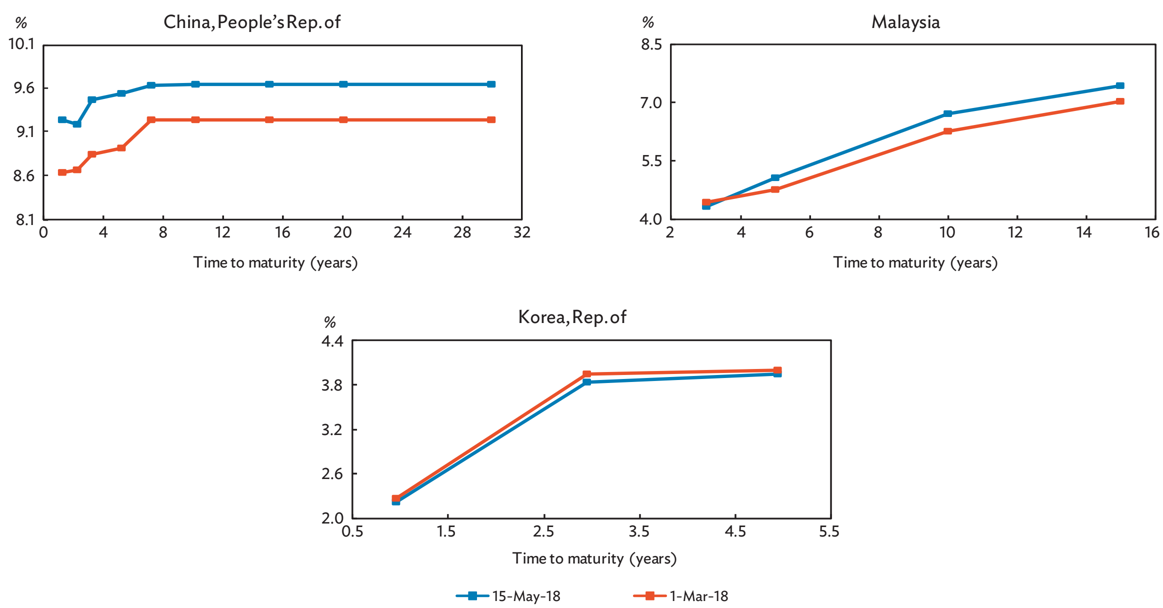
Figure 14a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Notes:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For Malaysia, data on corporate bonds yields are as of 28 February and 14 May 2018.
3. For the Republic of Korea, data on government and corporate bond yields are as of 2 March 2018.

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

Figure 14b: Credit Spreads—Lower-Rated Local Currency Corporates vs. AAA



Notes:
1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
3. For Malaysia, data on corporate bond yields are as of 28 February and 14 May 2018.
4. For the Republic of Korea, data on corporate bond yields are as of 2 March 2018.

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