Asia Bond Monitor Highlights

Key Trends

- Yields in emerging East Asia trended upward between 1 March and 31 May amid global economic expansion and tightening United States (US) monetary policy. The main exception was the People's Republic of China (PRC), where 2-year and 10-year yields fell after the People's Bank of China reduced the reserve requirement ratio for banks.
- The global economic outlook remains positive, with solid growth in both advanced and developing economies.
- Given the improved outlook of the US economy and the Federal Reserve's ongoing monetary policy normalization, the US dollar continues to strengthen, leading to the depreciation of all emerging East Asian currencies, except the Korean won, during the review period.
- In emerging East Asia, credit default swap (CDS) spreads have risen in most markets, partly due to the depreciation of currencies across the region. An exception is the Republic of Korea, where the CDS spread fell due to easing geopolitical tensions.
- Equity markets in emerging East Asia also retreated during the review period due to weakness of domestic currencies.
- Foreign holdings of local currency government bonds in emerging East Asia slightly fell in the first quarter of 2018 in all emerging East Asian markets for which data are available, except the PRC.
- Emerging East Asia's local currency bond market grew by 1.1% quarter-on-quarter in the first quarter of 2018 to reach USD12.8 trillion at the end of March. The PRC remains the key driver of the region's bond market growth.

Risks to the Bond Market

- The ongoing US monetary policy normalization could pose a risk to the region's financial stability by leading to tighter monetary conditions and increased financial stress. Indonesia raised its policy rates twice in May, and India followed suit in early June.
- The buildup of corporate and household debt in some Asian economies during the low-interest-rate era may exacerbate this risk.
- Another risk is currency turmoil in emerging markets, especially evident in Argentina and (to a lesser degree) Turkey. However, the region is well equipped to weather the volatility due to strong fundamentals.
- An escalation of trade tensions between the US and the PRC could adversely affect the global economic outlook and financial stability.

Theme Chapter: The Role of Greenness Indicators in Green Bond Market Development

- The theme chapter aims to understand the pricing mechanism in the green bond market. It empirically investigates the existence of a green bond premium, in the green bond market. The evidence indicates that overall there is no significant premium on green bonds. However, green bonds that have been reviewed by an external reviewer and/or received a Climate Bonds Initiative certification are traded at a lower green discount.
- The theme chapter's findings point to the potential benefits of having a widely recognized greenness measure in the green bond market. Such a measure could not only benefit investors by lowering information costs, but also help issuers of green bonds to broaden their investor base. Therefore, commonly acknowledged definitions and standards of greenness can foster development of the green bond market.