Market Summaries

People's Republic of China

Yield Movements

The entire government bond yield curve of the People's Republic of China (PRC) shifted downward between 1 March and 15 May (**Figure 1**). The yield curve fell an average of 28 basis points (bps), with the largest declines at the shorter-end. Yields fell from 31 bps to 39 bps for tenors of 3 years or less, while falling from 20 bps to 28 bps for the remaining tenors.

Yields for the PRC's government bonds followed a general downward trend beginning in March, stemming largely from expectations that the domestic economy would slow down this year. While the PRC reported a gross domestic product (GDP) growth rate of 6.8% year-on-year (y-o-y) for the first quarter (Q1) of 2018, the same rate as in the fourth quarter (Q4) of 2017, it was lower than full-year 2017's GDP growth.

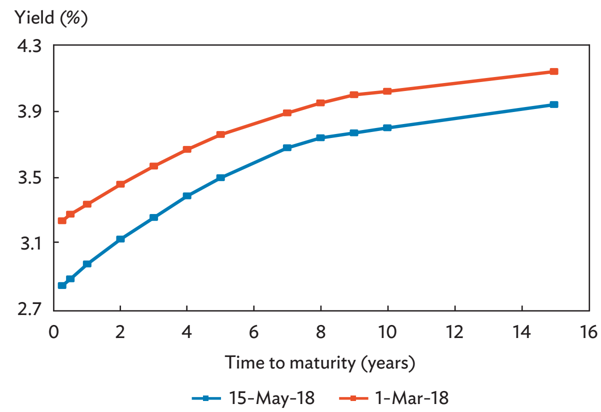
The International Monetary Fund in January forecast the PRC's full-year 2018 GDP growth rate at 6.6%; in March, the PRC set a target of 6.5%.

In addition to expectations of moderating GDP growth, inflation has shown signs of trending downward. In February, consumer prices rose 2.9% y-o-y. This slowed to 2.1% in March and declined further to 1.8% y-o-y in April.

The weaker economic data has also led to increased risk aversion, with the PRC's stock market contracting 3.5% year-to-date through 15 May. In addition, there have been a number of corporate bond defaults. On 14 May, it was reported that more than 10 companies had defaulted on bond payments in 2018 with a total value of CNY12.8 billion. The increased risk aversion has led investors to favor government bonds and AAA-rated bonds.

The People's Bank of China (PBOC) on 17 April reduced by 100 bps the reserve requirement ratio of banks. Funds released by the reserve requirement ratio cut were required to be used by banks to pay outstanding Medium-Term Lending Facility obligations and to support small and micro enterprises. The market interpreted the move by the PBOC as a slight easing from the deleveraging campaign that is being conducted. The move caused a significant 1-day drop in yields, with the PRC's 10-year yield falling 20 bps by the end of the following day.

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



Source: Based on data from Bloomberg LP.

Size and Composition

The PRC's local currency (LCY) bonds outstanding rose 0.7% quarter-on-quarter (q-o-q) and 14.8% y-o-y in Q1 2018 to reach CNY57.3 trillion (USD9.1 trillion) at the end of March (**Table 1**). The PRC bond market's q-o-q growth slowed from 4.0% in the previous quarter. The slower rate was due to declines in the growth rates of both government and corporate bonds.

Government bonds. The PRC's government bond market grew 0.8% q-o-q in Q1 2018, down from 4.4% q-o-q in the previous quarter. The slowdown was driven by the 0.1% q-o-q contraction in the PRC's outstanding Treasury bonds and only 1.5% q-o-q growth in outstanding local government bonds. In the previous quarter, local government bonds grew 5.9% q-o-q. The slowdown in

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**49,895**	**7,245**	**56,866**	**8,739**	**57,272**	**9,126**	**0.8**	**17.2**	**0.7**	**14.8**
Government	35,113	5,098	41,167	6,327	41,516	6,616	1.6	26.3	0.8	18.2
Treasury Bonds and Local Government Bonds	22,510	3,268	27,712	4,259	27,916	4,448	1.7	42.0	0.7	24.0
Central Bank Bonds	0	0	0	0	0	0	(100.0)	(100.0)	0.0	0.0
Policy Bank Bonds	12,604	1,830	13,454	2,068	13,600	2,167	1.7	9.5	1.1	7.9
Corporate	14,782	2,146	15,700	2,413	15,756	2,511	(1.2)	0.03	0.4	6.6
Policy Bank Bonds										
China Development Bank	7,185	1,043	7,540	1,159	7,571	1,206	1.5	5.4	0.4	5.4
Export–Import Bank of China	2,190	318	2,296	353	2,329	371	2.7	14.5	1.4	6.4
Agricultural Devt. Bank of China	3,229	469	3,617	556	3,700	590	1.4	16.2	2.3	14.6

( ) = 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 rates are used.
4. Growth rates are calculated from an LCY base and do not include currency effects.
Sources: *ChinaBond*, *Wind Information*, and Bloomberg LP.

Q1 2018 reflected the approaching end of the PRC's local government debt swap program and other efforts to limit the debt risk of local governments.

The PRC's local government debt swap program is set to end in August 2018. For full-year 2018, the Government of the PRC set a ceiling for local governments of CNY21.0 trillion worth of debt, up from the previous limit of CNY18.8 trillion in 2017. Local government bond issuance is expected to increase in the remaining months of the debt swap program as an estimated CNY1.9 trillion worth of local government debt remains to be swapped under the ceiling.

There were no central bank bonds outstanding in Q1 2018 as the PBOC no longer issues such bonds.

Corporate bonds. The PRC's corporate bonds outstanding grew 0.4% q-o-q in Q1 2018 after rising 2.9% q-o-q in Q4 2017. With the exception of medium-term notes, all other major categories of corporate bonds showed q-o-q declines (**Table 2**). State-owned enterprise bonds, local corporate bonds, and commercial papers all registered y-o-y declines in Q1 2018.

The weaker corporate bond growth was largely a result of increased risk aversion due to the PRC's deleveraging campaign, which led to corporates being reluctant to issue more debt. A string of defaults in January–May also led investors to prefer government bonds and investment grade corporates. These factors contributed to a 9.0% q-o-q contraction in corporate bond issuance in Q1 2018 to CNY1.4 trillion. Other than medium-term notes, all major categories of corporate bonds had lower issuance levels in Q1 2018 than in the previous quarter (**Figure 2**).

The PRC's corporate bond market continues to be dominated by a few big issuers (**Table 3**). At the end of Q1 2018, the top 30 corporate bond issuers accounted for CNY6.5 trillion worth of corporate bonds outstanding, or about 41.3% of the total market. Of the top 30, the 10 largest issuers accounted for CNY4.1 trillion. China Railway, the top issuer, has more than three times the outstanding amount of bonds as Industrial and Commercial Bank, the second-largest issuer. The top 30 issuer includes 14 banks, which continue to dominate the list as they generate funding in order to beef up their capital bases and liquidity, and lengthen their maturity profiles.

Table 4 lists the largest corporate bond issuances in Q1 2018.

Investor Profile

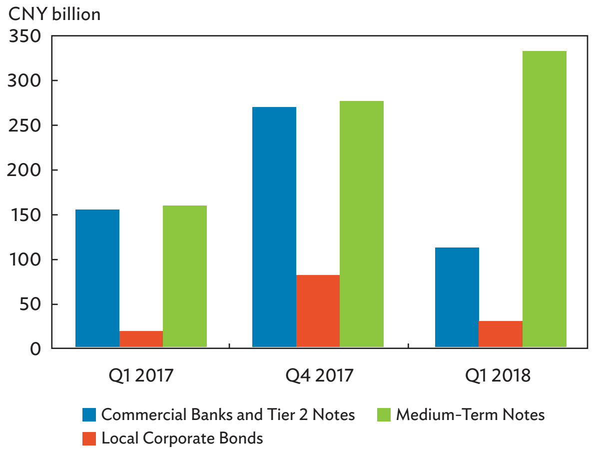
Treasury bonds and policy bank bonds. Banks were the single-largest holder of Treasury bonds and policy bank bonds at the end of March, though their share declined to 66.0% from 67.9% a year earlier (**Figure 3**). In contrast,

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q1 2017		Q1 2018	
	Q1 2017	Q4 2017	Q1 2018	q-o-q	y-o-y	q-o-q	y-o-y
Commercial Bank Bonds and Tier 2 Notes	2,534	3,143	3,125	1.0	15.4	(0.6)	23.3
SOE Bonds	542	485	465	1.0	(7.0)	(4.2)	(14.3)
Local Corporate Bonds	2,912	3,005	2,911	1.0	8.3	(3.2)	(0.1)
Commercial Papers	1,912	1,536	1,477	0.9	(32.7)	(3.9)	(22.8)
Medium-Term Notes	4,701	4,905	5,049	1.0	2.8	2.9	7.4

( ) = 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 Information*.

Figure 2: Corporate Bond Issuance in Key Sectors



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

the share held by funds institutions rose to 16.1% from 13.6% in the same period.

Corporate bonds. Funds institutions were the largest holders of corporate bonds at the end of March with a share of 48.0% of outstanding corporate bonds, up from 47.5% at the end of March 2017 (**Figure 4**). The share held by banks declined to 15.8% from 15.9% during the review period.

Figure 5 presents investor profiles across different corporate bond categories at the end of March. Funds institutions are the dominant buyers of local corporate bonds while banks are the dominant holders of commercial bank bonds.

Liquidity

The volume of interest rate swaps rose 2.5% q-o-q in Q1 2018. The 7-day repurchase rate remained the most used interest rate swap, comprising an 84.2% share of the total interest rate swap volume during the quarter (**Table 5**).

Government bond turnover ratios fell in Q1 2018 despite lower interest rates due to some investors adopting a wait-and-see attitude (**Figure 6**).

Policy, Institutional, and Regulatory Developments

PBOC Reduces Reserve Requirement Ratio

On 16 April, the PBOC reduced the reserve requirement ratio of banks by 100 basis points, effective 25 April. The PBOC placed restrictions on the funds freed by the reduction, stipulating that they must be used to repay loans from the PBOC's Medium-Term Lending Facility. Leftover funds must be used for lending to small and micro enterprises.

Government Issues New Rules on Local Government Bond Issuance

On 8 May, the PRC issued new rules governing the issuance of bonds by local governments. The new rules allow local governments to issue bonds with longer tenors, such as 15-year to 20-year bonds, and to allow bond issuances for the purpose of rolling over maturing obligations.

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	1575.5	251.06	Yes	No	Transportation
2.	Industrial and Commercial Bank of China	356.0	56.73	Yes	Yes	Banking
3.	State Grid Corporation of China	326.8	52.08	Yes	No	Public Utilities
4.	China National Petroleum	325.0	51.79	Yes	No	Energy
5.	Bank of China	318.9	50.81	Yes	Yes	Banking
6.	Agricultural Bank of China	318.0	50.67	Yes	Yes	Banking
7.	China Construction Bank	272.0	43.34	Yes	Yes	Banking
8.	Bank of Communications	265.0	42.23	No	Yes	Banking
9.	Shanghai Pudong Development Bank	198.6	31.65	No	Yes	Banking
10.	China CITIC Bank	192.5	30.67	No	Yes	Banking
11.	China Everbright Bank	188.9	30.10	Yes	Yes	Banking
12.	China Minsheng Banking	185.1	29.50	No	Yes	Banking
13.	Industrial Bank	155.0	24.70	No	Yes	Banking
14.	Central Huijin Investment	154.0	24.54	Yes	No	Asset Management
15.	State Power Investment	135.8	21.65	Yes	No	Energy
16.	Bank of Beijing	130.4	20.78	Yes	Yes	Banking
17.	Huaxia Bank	128.8	20.52	Yes	No	Banking
18.	Tianjin Infrastructure Construction and Investment Group	122.9	19.58	Yes	No	Industrial
19.	CITIC Securities	117.5	18.72	Yes	Yes	Brokerage
20.	China Cinda Asset Management	112.0	17.85	Yes	Yes	Asset Management
21.	PetroChina	105.0	16.73	Yes	Yes	Energy
22.	China Datang	97.2	15.49	Yes	Yes	Energy
23.	China Huarong Asset Management	96.0	15.30	Yes	Yes	Asset Management
24.	China Three Gorges	95.0	15.14	Yes	No	Public Utilities
25.	Haitong Securities	93.6	14.91	Yes	Yes	Brokerage
26.	Dalian Wanda Commercial Properties	93.0	14.82	No	Yes	Real Estate
27.	Guotai Junan Securities	89.8	14.31	Yes	Yes	Brokerage
28.	China Merchants Bank	89.0	14.18	Yes	Yes	Banking
29.	China Guangfa Bank	86.5	13.78	No	Yes	Banking
30.	Huatai Securities	85.9	13.69	Yes	No	Energy
Total Top 30 LCY Corporate Issuers		**6,509.70**	**1,037.32**			
Total LCY Corporate Bonds		**15,756.08**	**2,510.73**			
Top 30 as % of Total LCY Corporate Bonds		**41.3%**	**41.3%**			

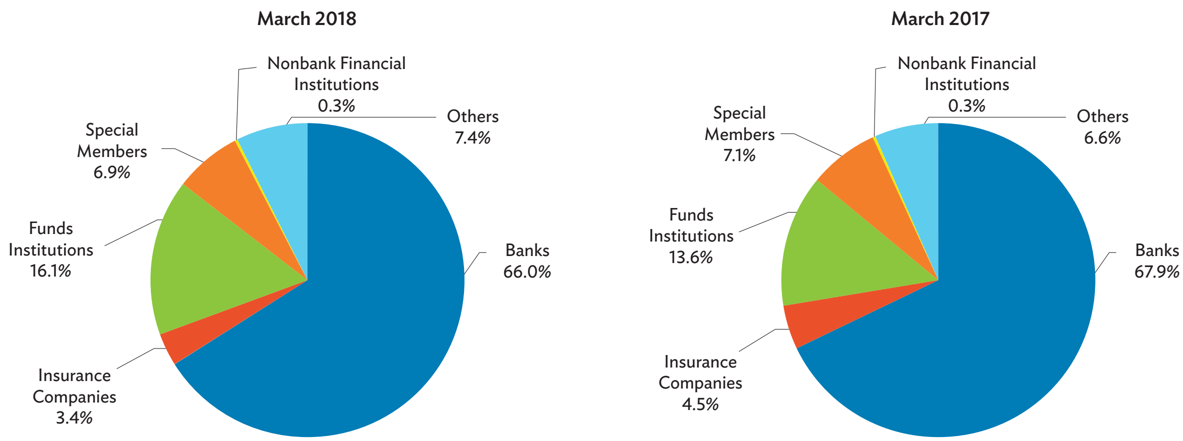
CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 31 March 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Railway Corp		
5-year bond	4.91	15
5-year bond	5.03	15
5-year bond	5.03	15
5-year bond	4.80	13
10-year bond	4.93	7
10-year bond	5.10	5
10-year bond	4.91	5
10-year bond	5.09	5
Central Huijin Investment		
1-year bond	4.80	5
1-year bond	4.90	5
3-year bond	5.00	10
3-year bond	5.15	10
China Cinda Asset Management		
10-year bond	5.50	15
10-year bond	5.50	10
China National Petroleum		
5-year bond	1.40	20
Tianjin Infrastructure Construction and Investment (Group)		
3-year bond	5.64	3
3-year bond	5.47	3
3-year bond	5.46	2
3-year bond	5.70	2
3-year bond	5.48	2
3-year bond	5.68	2
3-year bond	5.68	2

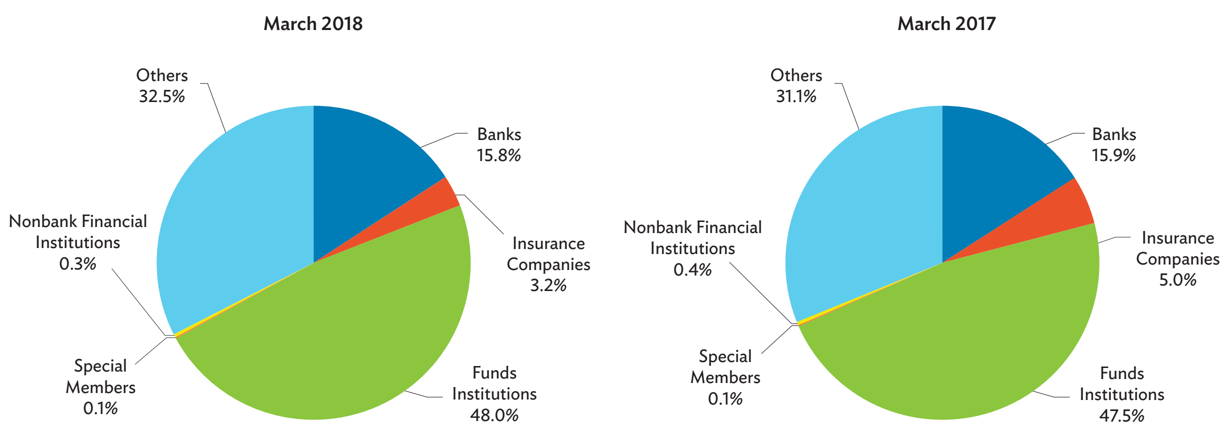
CNY = Chinese yuan.
Source: Based on data from Bloomberg LP.

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



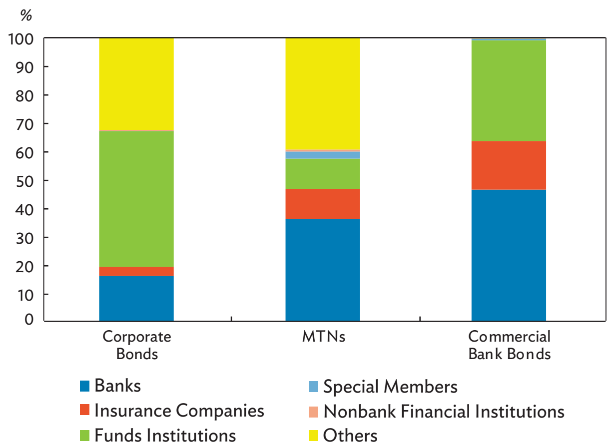
Source: *ChinaBond*.

Figure 4: Local Currency Corporate Bonds Investor Profile



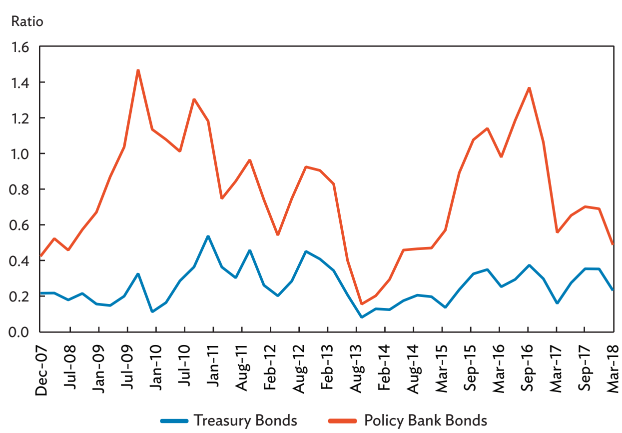
Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



MTNs = medium-term notes.
Note: Data as of end-March 2018.
Source: *ChinaBond*.

Figure 6: Turnover Ratios for Government Bonds



Source: *ChinaBond*.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the First Quarter of 2018

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
	Q1 2018		q-o-q
7-Day Repo Rate	4,455.2	84.22	19.28
Overnight SHIBOR	16.1	0.30	1.20
3-Month SHIBOR	783.1	14.80	(42.65)
1-Year Term Deposit Rate	1.0	0.02	–
LIBOR		–	n.a.
1-Year Lending Rate	0.0	–	(100.00)
LPR1Y	0.0	–	(100.00)
3-Year Lending Rate	1.5	0.03	919.33
5-Year Lending Rate	0.8	0.02	n.a.
Depository Institution 7-Day Repo Rate	2.1	0.04	(16.33)
10-Year Bond Yield	18.5	0.35	(29.69)
10-Year Treasury yield	9.4	0.18	16.77
3-Year AAA Short-Term Notes/ Government Debt	0.2	0.00	(69.23)
10-Year Bond Yield/10-Year Government Bond Yield	0.8	0.02	90.48
Loan Interest Rate—1 Year * 1.10	0.7	0.01	n.a.
Loan Interest Rate—1 Year * 1.05	0.5	0.01	n.a.
Total	**5,289.7**	**100.00**	**2.51**

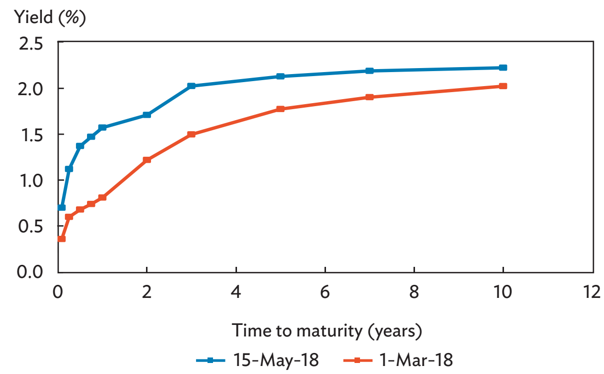
( ) = negative, CNY = Chinese yuan, LIBOR = London Interbank Offered Rate, LPR1Y = 1-Year Loan Prime Rate, n.a. = not available, q-o-q = quarter-on-quarter, Q1 = first quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *AsianBondsOnline* and *ChinaMoney*.

Hong Kong, China

Yield Movements

Hong Kong, China's local currency (LCY) government bond yield curve shifted upward for all tenors between 1 March and 15 May due to tightening domestic liquidity (**Figure 1**). Excluding the 1-month tenor, yields for maturities of 1-year or less rose an average of 68 basis points (bps). Yields with maturities of 2 years or more (excluding the 15-year tenor) rose an average of 37 bps. This resulted in the curve climbing more steeply at the short-end and flattening at the long-end of the curve. Consequently, the yield spread between 2-year and 10-year bonds narrowed to 51 bps during the review period.

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



Source: Based on data from Bloomberg LP.

Hong Kong, China's government bond yields closely track United States (US) Treasury yields. During the review period, the US yield curve shifted upward, with an average gain of 31 bps for all tenors except 1-month and 30-year tenors, which rose 16 bps and 12 bps, respectively. The benchmark 10-year US Treasury yield rose to a 4-year high, reaching 3.1% on 15 May. The rise in US yields was due to the interest rate increase of 25 bps in March as the US Federal Reserve gradually moves toward normalization and away from an accommodative monetary policy that was implemented to mitigate the effects of the global financial crisis.

In the absence of an independent monetary policy, Hong Kong, China follows the Federal Reserve's monetary policy, with the Hong Kong dollar pegged to the US dollar. Hong Kong, China likewise raised its base rate by 25 bps in March to 2.0% alongside the US interest rate hike. In April, the Hong Kong Monetary Authority (HKMA) started buying Hong Kong dollars when the domestic currency fell to the weak-end of its trading band at HKD7.85 against the US dollar. It initially bought HKD816 million to reduce the aggregate balance of liquidity in the market to HKD179 billion. In a series of interventions that followed, the HKMA has mopped up a total of HKD51.3 billion from the market. The move to buy Hong Kong dollars is intended to further reduce the aggregate balance of liquidity and, in turn, raise local interest rates. Within a week of intervention, interest rates rose to their highest level since 2008.

Alongside the rise in yields, Hong Kong, China's gross domestic product expanded 4.7% year-on-year (y-o-y) in the first quarter (Q1) of 2018, up from 3.4% y-o-y growth in the fourth quarter of 2017. It was the fastest pace of growth since the second quarter of 2011, surpassing the high-end of the growth forecast of 4.0% for full-year 2018. The robust growth was driven by gains in exports of goods, which accelerated to 5.2% y-o-y in Q1 2018 from 3.4% y-o-y in the fourth quarter of 2017, and the resilient growth of domestic demand, which expanded 8.6% y-o-y versus 6.3% y-o-y over the same period.

Consumer prices rose 1.9% y-o-y in April, slower than the 2.6% y-o-y inflation rate in March, mainly due to smaller increases in package tour charges since the Easter holiday arrived in the earlier month. The government noted that inflationary pressures remained largely moderate in April. Inflation for the first 4 months of 2018 stood at 2.3% y-o-y.

Size and Composition

Hong Kong, China's LCY bonds outstanding reached HKD1,890 billion at the end of March , down 0.9% quarter-on-quarter (q-o-q), but up 2.1% y-o-y (**Table 1**). The q-o-q decline was due to contractions in both government and corporate bonds. On a y-o-y basis, the contraction in corporate bonds dampened the

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,852**	**238**	**1,907**	**244**	**1,890**	**241**	**1.1**	**12.5**	**(0.9)**	**2.1**
Government	1,068	137	1,153	148	1,149	146	0.3	11.5	(0.4)	7.6
Exchange Fund Bills	919	118	1,011	129	1,014	129	0.4	14.8	0.3	10.4
Exchange Fund Notes	46	6	38	5	37	5	(4.6)	(18.4)	(2.6)	(20.0)
HKSAR Bonds	103	13	105	13	98	13	1.8	2.6	(6.3)	(4.7)
Corporate	784	101	754	96	741	94	2.2	13.9	(1.6)	(5.5)

( ) = 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.
Sources: Hong Kong Monetary Authority.

expansion in government bonds. At the end of March, government bonds accounted for 61.0% of total LCY bonds outstanding.

Government bonds. LCY government bonds outstanding amounted to HKD1,149 billion at the end of March, down 0.4% q-o-q, but up 7.6% y-o-y. The q-o-q slowdown was driven by decreases in Hong Kong Special Administrative Region (HKSAR) bonds and Exchange Fund Notes (EFNs). The expansion was driven by Exchange Fund Bills (EFBs), which rose 0.3% q-o-q and 10.4% y-o-y to reach HKD1,104 billion at the end of March.

The amount of EFNs outstanding continued to decline in Q1 2018, down 2.6% q-o-q and 20.0% y-o-y, falling to HKD37 billion at the end of March due to a lack of issuance since EFNs became limited to a maturity of 2 years.

HKSAR bonds fell 6.3% q-o-q and 4.7% y-o-y in Q1 2018, totaling HKD98 billion at the end of March as total issuance in Q1 2018 reached HKD1.8 billion. In Q1 2018, the government issued two HKSAR bonds, one valued at HKD600 million with a 15-year tenor and the other valued at HKD1.2 billion with a 10-year tenor, under the Institutional Bond Issuance Programme.

Corporate bonds. The amount of LCY corporate bonds outstanding totaled HKD741 billion at the end of March, down 1.6% q-o-q and 5.5% y-o-y in Q1 2018. Hong Kong, China's top 30 nonbank corporate issuers had LCY outstanding bonds amounting to HKD186 billion at the end of March, accounting for 25.1% of total corporate bonds outstanding (**Table 2**). Real estate firms continued to dominate the corporate market, comprising one-third of the top 30. The Hong Kong Mortgage Corporation remained the top issuer with outstanding bonds of HKD31.7 billion at the end of March, followed by Sun Hung Kai Properties with HKD12.4 billion and MTR Corporation with HKD11.5 billion. Among the top 30, 4 were state-owned banks and 21 were listed on the Hong Kong Stock Exchange.

Among the top five nonbank corporate issuers in Q1 2018, the Hong Kong Mortgage Corporation still took the lead with 14 issuances, the largest of which was a HKD1.9 billion bond (**Table 3**). Haitong International Securities, a financing firm, was second. It was followed by two special purpose vehicles, Henderson Land Development and Wharf Real Estate Investment Company, and Huajin Holdings, an investment holdings firm.

Policy, Institutional, and Regulatory Developments

HKMA Announces Details of the Pilot Bond Grant Scheme

On 10 May, the HKMA issued a circular on the eligibility criteria for the 3-year Pilot Bond Grant Scheme (PBGS), which seeks to attract local, People's Republic of China-based, and overseas enterprises to issue bonds in Hong Kong, China. The PBGS is set to be launched upon the completion of the legislative process for the 2018/19

Table 2: Top 30 Nonbank Corporate Issuers of Local Currency Corporate Bonds 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	31.66	4.03	Yes	No	Finance
2.	Sun Hung Kai Properties (Capital Market)	12.40	1.58	No	Yes	Real Estate
3.	MTR Corporation	11.50	1.46	Yes	Yes	Transportation
4.	The Hong Kong and China Gas Company	11.04	1.41	No	Yes	Utilities
5.	New World Development	9.41	1.20	No	Yes	Diversified
6.	Swire Pacific	8.67	1.10	No	Yes	Diversified
7.	Hong Kong Land	8.59	1.09	No	No	Real Estate
8.	Link Holdings	8.53	1.09	No	No	Finance
9.	CLP Power Hong Kong Financing	7.81	0.99	No	No	Finance
10.	The Wharf (Holdings)	7.62	0.97	No	Yes	Finance
11.	Haitong International Securities Group	7.12	0.91	No	Yes	Finance
12.	Swire Properties	5.93	0.76	No	Yes	Real Estate
13.	Hongkong Electric	5.84	0.74	No	No	Utilities
14.	China Merchants Port Holdings	5.70	0.73	No	Yes	Transportation
15.	Hang Lung Properties	4.61	0.59	No	Yes	Real Estate
16.	CK Asset Holdings	4.20	0.53	No	Yes	Real Estate
17.	Henderson Land Development	4.15	0.53	No	No	Real Estate
18.	Kowloon-Canton Railway	3.40	0.43	Yes	No	Transportation
19.	FDG Electric Vehicles	2.89	0.37	No	Yes	Energy
20.	Urban Renewal Authority	2.80	0.36	Yes	No	Real Estate
21.	Emperor International Holdings	2.60	0.33	No	Yes	Real Estate
22.	CK Hutchison Holdings	2.50	0.32	No	Yes	Diversified
23.	China Dynamics (Holdings)	2.36	0.30	No	Yes	Diversified
24.	Hysan Development Company	2.30	0.29	No	Yes	Real Estate
25.	ASM Pacific Technology	2.25	0.29	No	Yes	Technology
26.	The 13 Holdings	2.22	0.28	No	Yes	Industrial
27.	Green Leader Holdings Group	2.18	0.28	No	Yes	Diversified
28.	Gluon Xima International	2.00	0.25	No	No	Real Estate
29.	China Agri-Products Exchange	1.99	0.25	No	Yes	Consumer, non-cyclical
30.	Cathay Pacific Airways	1.98	0.25	No	Yes	Transportation
Total Top 30 Nonbank LCY Corporate Issuers		**186.21**	**23.72**			
Total LCY Corporate Bonds		**741.28**	**94.45**			
Top 30 as % of Total LCY Corporate Bonds		**25.1%**	**25.1%**			

LCY = local currency.
Notes:
1. Data as of 31 March 2018.
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 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
The Hong Kong Mortgage Corporation		
3-month bond	0.78	0.54
3-month bond	0.78	0.42
3-month bond	0.00	0.28
3-month bond	0.00	0.23
3-month bond	0.00	0.12
1-year bond	1.60	1.00
1-year bond	1.38	0.78
2-year bond	1.74	1.00
2-year bond	1.83	0.17
3-year bond	1.26	1.90
3-year bond	1.79	1.00
3-year bond	2.05	0.54
4-year bond	2.29	0.10
7-year bond	2.59	0.30
Haitong International Securities		
1-year bond	0.00	1.30
1-year bond	2.51	0.78
1-year bond	2.80	0.54
1-year bond	2.37	0.28
1-year bond	2.65	0.20
Henderson Land Development		
7-year bond	3.09	0.48
10-year bond	3.58	0.30
10-year bond	3.63	0.29
10-year bond	3.43	0.25
12-year bond	3.62	0.20
Wharf Real Estate Investment Company		
7-year bond	2.95	0.50
7-year bond	2.95	0.50
10-year bond	3.07	0.50
10-year bond	3.10	0.50
Huajun Holdings		
4-year bond	10.22	0.22

HKD = Hong Kong dollar.
Source: Bloomberg LP.

budget. Key eligibility criteria of the PBGS include the following:

(i) Eligible issuers are first-time issuers who have not issued bonds in Hong Kong, China in the 5-year period between 10 May 2013 and 9 May 2018, both days inclusive.

(ii) To be eligible, the bond must be issued in Hong Kong, China and have an issuance size of at least HKD1.5 billion (or the equivalent in foreign currency); it should be lodged with and cleared by the Central Moneymarkets Units or listed on the Hong Kong Stock Exchange, and should be issued to at least 10 persons (or fewer than 10 persons if none of them are an associate of the issuer).

(iii) The grant amount for each bond issue is equivalent to half of the eligible issuance expenses with a limit of HKD2.5 million if the bond, its issuer, or guarantors have received a credit rating from a rating agency recognized by the HKMA; or HKD1.25 million if none of the bond, its issuer, or guarantors have a credit rating. Each issuer can apply for a grant for two bond issuances at most.

HKMA Supports Enhancements to the QDI Scheme

In a press release in May, the HKMA announced that it is working with the Government of the Special Administrative Region of Hong Kong, China on enhancements to the Qualifying Debt Instrument (QDI) Scheme. The enhancements include expanding the 100% profits tax exemption coverage from debt instruments with an original maturity of at least 7 years to instruments of any duration; and to allow debt instruments listed on the Hong Kong Stock Exchange to become eligible as a QDI in addition to those lodged and cleared by the Central Moneymarkets Unit.

HKMA Pursuing a Green Bond Initiative

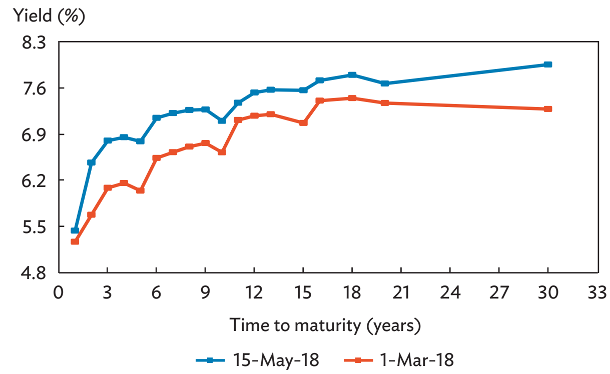
In the same press release, the HKMA also announced that it has appointed an advisor to study relevant issues and report its findings on green finance in Hong Kong, China and the government's first green bond issuance. The HKMA declared that it stands ready to assist the government by selecting arrangers to issue the inaugural green bond.

Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia rose for all tenors between 1 March and 15 May, leading the entire yield curve to shift upward (**Figure 1**). Bond yields gained the most at the short-end through the 9-year maturity, rising by an average of 65 basis points (bps), except for the 1-year tenor, which rose 17 bps. Yields for bonds with maturities from 10 years to 20 years climbed at a much slower average of 36 bps. This resulted in the narrowing of the spread between the 2-year and 10-year maturities to 63 bps on 15 May from 95 bps on 1 March.

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



Source: Based on data from Bloomberg LP.

The uptick in yields was largely driven by a market sell-off as investor appetite for Indonesian bonds waned amid rising yields for United States (US) Treasuries and the broad strengthening of the US dollar against other currencies. Foreign investors dumped Indonesian bonds as they rebalanced their portfolios, shifting their holdings away from emerging market assets. As a result, the foreign holdings' share in Indonesia's bond market declined from 41.3% at the end of January to 38.0% on 15 May. Capital outflows from the LCY government bond market were recorded in February and April. Net flows in January–April, however, remained positive at USD0.7 billion. Nonetheless, Indonesia remains vulnerable to the risk of capital outflows, given that foreign investors account for the largest investor group in its bond market.

Global market uncertainties weighed down the Indonesian rupiah as it weakened 2.1% against the US dollar between 1 March and 15 May, making it the worst-performing currency in emerging East Asia during the review period. Rising risks in global financial markets, as liquidity conditions tighten amid expectations of accelerated rate hikes by the US Federal Reserve and the normalization of monetary policies in other advanced economies, rising oil prices, trade rifts, and other geopolitical factors contributed to the overall weakness of the Indonesian rupiah. Bank Indonesia has intervened heavily to stabilize the currency and avert further sell-offs in its financial markets. Aside from external debt repayments, interventions by Bank Indonesia to stabilize the Indonesian rupiah led to the decline of foreign exchange reserves from USD132.0 billion at the end of January to USD124.9 billion at the end of April. Bank Indonesia, however, noted that while reserves declined in April, the reserve asset position is still deemed adequate.

The Board of Governors of Bank Indonesia raised policy rates twice in a period of 2 weeks in May to ensure economic and financial stability amid continued weakness in the Indonesian rupiah. Initially, the central bank raised the 7-day reverse repurchase rate 25 bps in its meeting on 16–17 May. Another 25 bps rate hike was subsequently announced on 30 May when an off-schedule monetary policy meeting was held. Corresponding adjustments were announced for the deposit facility rate to 4.0% and the lending facility rate to 5.5%. The most recent rate hike was a preemptive move by the central bank to stabilize the Indonesian rupiah amid expectations the Federal Reserve will raise its policy rate in its June meeting. Bank Indonesia noted in its statement that "it will make use of available room to raise policy rates in a measured way." Meanwhile, the central bank noted that inflation remains low and is expected to stay within its full-year 2018 target range of 2.5%–4.5%. Consumer price inflation rose 3.4% year-on-year (y-o-y) in April, broadly unchanged from March.

For full-year 2018, Bank Indonesia maintained its economic growth projection of between 5.1% and 5.5%. In the first quarter (Q1) of 2018, real gross domestic product growth dipped slightly to 5.1% y-o-y from a 5.2% y-o-y expansion in the fourth quarter (Q4) of 2017. Domestic consumption remained subdued, expanding less than

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,290,966**	**172**	**2,497,112**	**184**	**2,598,075**	**189**	**4.6**	**20.3**	**4.0**	**13.4**
Government	1,970,089	148	2,109,783	156	2,197,585	160	4.9	19.4	4.2	11.5
Central Govt. Bonds	1,891,043	142	2,099,766	155	2,184,588	159	6.6	20.1	4.0	15.5
of which: *Sukuk*	274,492	21	342,989	25	329,204	24	11.7	34.4	(4.0)	19.9
Central Bank Bills	79,047	6	10,017	0.7	12,997	0.9	(25.0)	6.0	29.7	(83.6)
of which: *Sukuk*	12,273	0.9	10,017	0.7	12,997	0.9	13.8	74.4	29.7	5.9
Corporate	320,877	24	387,330	29	400,490	29	3.0	26.4	3.4	24.8
of which: *Sukuk*	11,834	0.9	15,387	1	16,449	1	2.2	28.4	6.9	39.0

( ) = 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 IDR228.7 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

5.0% y-o-y in Q1 2018. Contributing to the slower gross domestic product growth in Q1 2018 was a smaller increase in government expenditures and a worsening trade performance.

Size and Composition

Indonesia's LCY bond market reached a size of IDR2,598.1 trillion at the end of March, expanding at a faster pace of 4.0% quarter-on-quarter (q-o-q) in Q1 2018 versus 2.9% q-o-q in Q4 2017 (**Table 1**). Compared with the same period a year earlier, LCY bond market growth eased to 13.4% y-o-y from 14.0% y-o-y. The overall growth of the market was largely driven by the government bond segment.

The LCY bond market of Indonesia remains dominated by government bonds, which comprised 84.6% of the total LCY bond stock at the end of March. Corporate bonds accounted for the remaining 15.4% share. A larger share of Indonesia's bond market comprises conventional bonds, representing a share of 86.2%. The remaining 13.8% share is accounted for by bonds structured as *sukuk* (Islamic bonds).

Government bonds. The total government bond stock climbed to IDR2,197.6 trillion at the end of March, up 4.2% q-o-q and 11.5% y-o-y. Much of the growth came from increases in the stock of Treasury bills and bonds issued by the Ministry of Finance for budget financing. The outstanding size of central bank bills, or Sertifikat Bank Indonesia (SBI), also contributed to the growth, albeit to a lesser extent.

Central government bonds. The stock of central government bonds climbed to IDR2,184.6 trillion at the end of March, on hikes of 4.0% q-o-q and 15.5% y-o-y in Q1 2018. As in past years, the government adopted a strategy of frontloading its issuance in a bid to secure the bulk of its funding requirements within the first half of the year. The government also plans to pursue most of its issuance in domestic currency as part of efforts to lower the foreign currency-to-gross domestic product ratio.

In Q1 2018, gross issuance of Treasury bills and bonds reached IDR219.4 trillion, up 86.5% q-o-q and 24.2% y-o-y. The government conducted 13 auctions of conventional bonds and *sukuk*, with demand remaining strong for most auctions despite escalating global uncertainties. The government accepted bids exceeding its targeted amount in all auctions, except for one *sukuk* auction, in line with its frontloading strategy. Aside from the scheduled auctions, the government also raised IDR8.4 trillion from the sale of retail *sukuk* in March. According to the Ministry of Finance, bond issuance during the quarter (including foreign currency bond issuance) was equivalent to 27.8% of the net target in the 2018 state budget.

Central bank bills. The outstanding stock of SBI reached IDR13.0 trillion at the end of March, up 29.7% q-o-q in Q1 2018. On a y-o-y basis, however, central bank bills outstanding fell 83.6% from a high base as a number of conventional SBI remained outstanding in Q1 2017. Beginning in 2017, Bank Indonesia ceased issuance of conventional SBI and limited its issuance to sharia'h-compliant SBI. New issuance of sharia'h-compliant SBI climbed more than twofold to IDR4.3 trillion in Q1 2018 from IDR1.9 trillion in Q4 2017.

Corporate bonds. The outstanding size of corporate bonds stood at IDR400.5 trillion, gaining 3.4% q-o-q and 24.8% y-o-y. New issuance of corporate debt contracted 53.7% q-o-q but gained 5.5% y-o-y. Issuance of corporate bonds only resumed in February.

The corporate bond market in Indonesia comprises 115 corporate entities. The aggregate bonds outstanding of the 30 largest bond issuers amounted to IDR295.0 trillion at the end of March, accounting for 73.7% of the aggregate corporate bond stock during the review period (**Table 2**). Banking and financial institutions continued to dominate the top 30, accounting for more than two-thirds of the list. There were 14 state-owned corporations on the list, with six of them landing in the top 10.

The composition of the three largest corporate issuers in Q1 2018 was the same as in Q4 2017. At the top of the list was state-owned Indonesia Eximbank, whose outstanding bonds were IDR30.9 trillion at the end of March, which was lower than its end-December stock of IDR31.4 trillion as the volume of maturing bonds exceeded new issuance in Q1 2018. State-owned lender Bank Rakyat Indonesia was in the second spot with its outstanding bonds rising to IDR26.0 trillion at the end of March on issuance of IDR2.4 trillion during the quarter. In the third spot was Bank Tabungan Negara with bonds valued at IDR18.0 trillion.

A total of 11 corporate institutions issued bonds during the quarter. Most bond issuers had a quarterly aggregate issuance volume of more than IDR1.0 trillion, except for Bank BII (IDR646 billion) and Chandra Asri Petrochemicals (IDR500 billion). A total of 39 new corporate bond series were issued during the quarter, led by banking and financial institutions. Of this total, seven new corporate bond series were structured as *sukuk*.

The five largest corporate bond issuances in Q1 2018 are presented in **Table 3**, all of which were from state-owned firms. Perum Pegadaian, a state-owned pawnshop operator, had the largest aggregate issuance at IDR3.5 trillion. It was followed by building construction firm Waskita Karya with new issuance of IDR3.5 trillion and energy firm PLN with aggregate issuance of IDR3.2 trillion. Rounding out the list were state-owned lenders Indonesia Eximbank and Bank Rakyat Indonesia with issuance of about IDR2.5 trillion each.

Foreign currency bonds. In February, the Government of Indonesia raised USD1.25 billion from the sale of global green bonds, marking the first Asian issuance of this type of bond. The bond sale was structured as a *sukuk* with a 5-year maturity and a coupon of 3.75%. In addition, the government sold USD1.75 billion of 10-year global *sukuk*. The bonds carried a coupon of 4.4%.

Investor Profiles

At the end of March, foreign investors remained the largest investor group in Indonesia's LCY government bond market, with their share of holdings rising to 39.3% of the total market from 38.2% a year earlier (**Figure 2**). In nominal terms, foreign investors held IDR858.8 trillion in March versus IDR723.2 trillion in the same period a year earlier. Foreign holdings, however, have steadily declined in 2018 on a monthly basis through mid-May. The decline has been due mainly to the sell-off in most emerging markets amid rising US Treasury rates and a strengthening US dollar.

A substantial portion of nonresident holdings are in longer-dated maturities (more than 10 years), representing 37.0% of their total bond holdings (**Figure 3**). Also, 35.6% of their holdings are invested in bonds with maturities of more than 5 years to 10 years. Only 5.9% of their holdings are in short-dated maturities (less than 1 year).

Banking institutions were the second-largest investor group in the LCY government bond market at the end of March. Bank holdings, however, slipped to a share of 25.9% at the end of March from 26.2% a year earlier. The bond holdings of insurance institutions also declined to 7.6% of the total from 13.2% during the review period.

All other domestic investors saw increases in their holdings of LCY government bonds, led by pension funds, whose holdings share gained significantly to 9.6% at the end of March from 4.6% a year earlier. Bank Indonesia's holdings of government bonds inched up to 4.3% of the

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	30,888	2.25	Yes	No	Banking
2.	Bank Rakyat Indonesia	26,001	1.89	Yes	Yes	Banking
3.	Bank Tabungan Negara	17,950	1.31	Yes	Yes	Banking
4.	PLN	17,357	1.26	Yes	No	Energy
5.	Indosat	16,519	1.20	No	Yes	Telecommunications
6.	Sarana Multi Infrastruktur	12,900	0.94	Yes	No	Finance
7.	Federal International Finance	12,562	0.92	No	No	Finance
8.	Bank Pan Indonesia	12,525	0.91	No	Yes	Banking
9.	Waskita Karya	12,509	0.91	Yes	Yes	Building Construction
10.	Adira Dinamika Multifinance	11,749	0.86	No	Yes	Finance
11.	Perum Pegadaian	11,140	0.81	Yes	No	Finance
12.	Bank Mandiri	11,000	0.80	Yes	Yes	Banking
13.	Pupuk Indonesia	9,076	0.66	Yes	No	Chemical Manufacturing
14.	Telekomunikasi Indonesia	8,995	0.66	Yes	Yes	Telecommunications
15.	Bank Maybank Indonesia	7,747	0.56	No	Yes	Banking
16.	Sarana Multigriya Finansial	7,293	0.53	Yes	No	Finance
17.	Hutama Karya	7,115	0.52	Yes	No	Non-Building Construction
18.	Bank CIMB Niaga	7,018	0.51	No	Yes	Banking
19.	Astra Sedaya Finance	6,280	0.46	No	No	Finance
20.	Bank Permata	5,810	0.42	No	Yes	Banking
21.	Medco-Energi International	5,000	0.36	No	Yes	Petroleum and Natural Gas
22.	Bank OCBC NISP	4,924	0.36	No	Yes	Banking
23.	BFI Finance Indonesia	4,801	0.35	No	Yes	Finance
24.	Maybank Indonesia Finance	4,425	0.32	No	No	Finance
25.	Permodalan Nasional Madani	4,246	0.31	Yes	No	Finance
26.	Toyota Astra Financial Services	4,064	0.30	No	No	Finance
27.	Indofood Sukses Makmur	4,000	0.29	No	Yes	Food and Beverages
28.	Adhi Karya	3,747	0.27	Yes	Yes	Building Construction
29.	Mandiri Tunas Finance	3,675	0.27	No	No	Finance
30.	Indomobil Finance	3,650	0.27	No	No	Finance
Total Top 30 LCY Corporate Issuers		**294,964**	**21.49**			
Total LCY Corporate Bonds		**400,490**	**29.17**			
Top 30 as % of Total LCY Corporate Bonds		**73.7%**	**73.7%**			

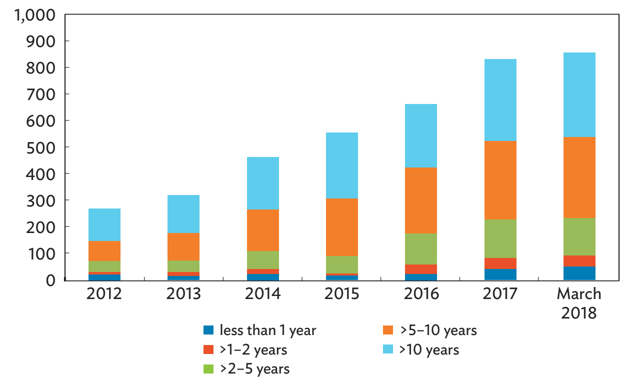
IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 31March 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Perum Pegadaian		
370-day bond	6.00	450
3-year bond	6.90	1,050
5-year bond	7.10	2,000
Waskita Karya		
3-year bond	7.75	1,175
5-year bond	8.25	2,277
PLN		
5-year bond	6.50	457
5-year *sukuk ijarah*	6.50	104
7-year bond	6.80	10
10-year bond	7.25	341
10-year *sukuk ijarah*	7.25	88
15-year bond	8.20	362
15-year *sukuk ijarah*	8.20	58
20-year bond	8.75	1,365
20-year *sukuk ijarah*	8.75	449
Indonesia Eximbank		
3-year bond	6.35	610
5-year bond	6.70	1,650
7-year bond	6.90	206
Bank Rakyat Indonesia		
5-year bond	6.65	1,837
7-year bond	6.90	605

IDR = Indonesian rupiah.
Note: *Sukuk ijarah* are Islamic bonds backed by a lease agreement.
Source: Indonesia Stock Exchange.

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



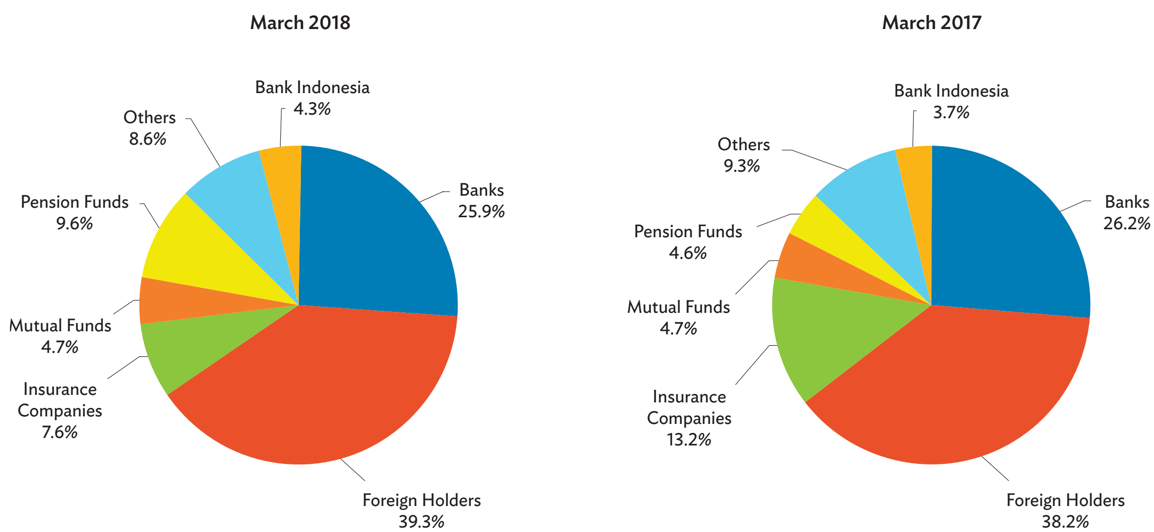
IDR = Indonesian rupiah.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

total at the end of March as it engaged in bond purchases from the secondary market to help stabilize the foreign exchange market. By mid-May, bond holdings of the central bank had further climbed to a share of 6.8%.

Ratings Update

On 8 February, Japan Credit Rating Agency (JCR) upgraded Indonesia's foreign currency long-term issuer

Figure 2: Local Currency Central Government Bonds Investor Profile



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

rating to BBB and LCY long-term issuer rating to BBB+. Both ratings were assigned a stable outlook by JCR. In its decision to raise the credit ratings one notch higher, JCR noted (i) the improving investment climate as a result of the slew of economic policy packages since September 2015, (ii) accelerating infrastructure development, and (iii) declining private sector debt due to new prudential regulations on external borrowings.

On 7 March, Rating and Investment Information upgraded Indonesia's sovereign credit rating to BBB with a stable outlook from BBB– and a positive outlook. In its decision to upgrade the rating, Rating and Investment Information took note of Indonesia's strengthening economic performance, improvements in the management of the fiscal deficit, and low government debt.

Policy, Institutional, and Regulatory Developments

Bank Indonesia to Increase Liquidity in the Banking System

In January, Bank Indonesia announced improvements to the average reserve requirement ratios. The central bank eased the daily minimum reserve requirement of conventional domestic banks to 4.5% of Indonesian rupiah deposits from 5.0%. The 2-week average reserve requirement was, however, raised to 2.0% from 1.5%. This new reserve requirement for domestic conventional banks will take effect on 16 July.

New reserve requirement regulations will also come into effect on 1 October for foreign exchange for conventional domestic banks and Islamic banks. For foreign exchange, the daily minimum reserve requirement for conventional bank was lowered to 6.0% from 8.0%. For Islamic banks, the daily minimum reserve requirement was reduced to 3.0% from 5.0%. In addition, a 2-week average reserve requirement of 2.0% will be implemented for foreign exchange for both conventional banks and Islamic banks.

IDR-Denominated Bonds to Become Part of Bloomberg Barclay's Global Aggregate Index

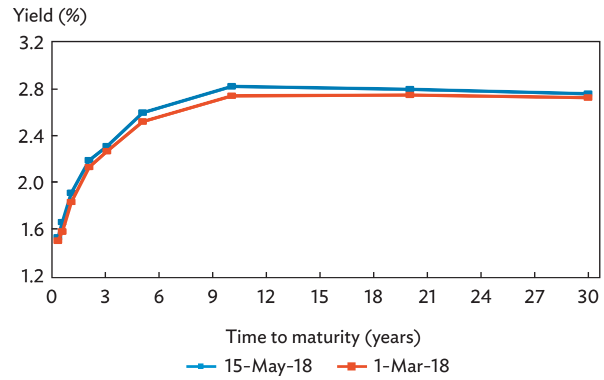
In February, Bloomberg announced that it will include IDR-denominated bonds as part of Bloomberg Barclay's Global Aggregate Index, with effect in May. Some 50 series of IDR-denominated bonds will be added to the index, contributing to its returns by 1 June. This move is expected to boost interest in Indonesian bonds.

Republic of Korea

Yield Movements

Between 1 March and 15 May, local currency (LCY) government bond yields in the Republic of Korea rose for all tenors, albeit marginally (**Figure 1**). The rise was most pronounced for tenors from 6 months to 10 years, which increased 7 basis points (bps) on average. Meanwhile, the yield for the 3-month tenor rose 3 bps, while those of the 20-year and 30-year tenors rose 5 bps and 3 bps, respectively. The spread between the 2-year and 10-year yields was barely changed from 60 bps on 1 March to 63 bps on 15 May.

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



Source: Based on data from Bloomberg LP.

Yields in the middle to longer-end of the curve showed a downward trend from 1 March through the middle of April as geopolitical tensions eased. The market expected the Bank of Korea to leave its policy rate unchanged in its 12 April monetary policy meeting on concerns of slowing growth and following a rate hike in its November meeting.

A gradual rise in yields was observed from the middle of April, reversing the earlier downward trend. Upward pressure on yields stemmed from the sustained rise in United States (US) interest rates, particularly after the release of the minutes of the March US Federal Reserve meeting that signaled the possibility of accelerated rate hikes in 2018. Moreover, uncertainty over the possibility and timing of a rate hike by the Bank of Korea remain. In its April monetary policy meeting, the central bank maintained its growth forecast but noted domestic and external risks. The central bank also lowered its inflation forecast from its January forecasts. Despite these developments, some market participants are still pricing in a rate hike this year that would narrow the interest rate differential as US interest rates have surpassed domestic yields.

In its monetary policy board meetings on 14 April and 24 May, the Bank of Korea left its key policy rate, the base rate, unchanged at 1.50%. The central bank stated that the domestic economy continued to post solid growth that is supported by consumption and improved exports. The growth is expected to be sustained as forecasts are still in line with projections made in April of 3.0% growth in full-year 2018. Inflation is also expected to remain benign, but will pick up and trend upward to the target level of 1.6% y-o-y in the second half of 2018. The Bank of Korea stated that it will maintain its accommodative monetary policy stance given benign demand-side inflationary pressures and solid economic growth. However, it will continue to monitor changes in monetary policies in (and trade relations with) advanced economies, rising household debt, and geopolitical risks.

The Republic of Korea's real gross domestic product grew 2.8% year-on-year (y-o-y) in the first quarter (Q1) of 2018, according to the preliminary estimates of the Bank of Korea, the same growth posted in the fourth quarter (Q4) of 2017. By type of expenditure, final consumption expenditure led the growth, rising 4.0% y-o-y in Q1 2018. Exports also improved in Q1 2018 reversing a decline in the previous quarter. Meanwhile, gross fixed capital formation posted a slower increase in Q1 2018. On a quarter-on-quarter (q-o-q) basis, the Republic of Korea's economy expanded 1.0% in Q1 2018, reversing the 0.2% q-o-q contraction posted in Q4 2017.

Consumer price inflation in the Republic of Korea remained subdued in Q1 2018 with a quarterly average of 1.2% y-o-y, down from an average of 1.5% y-o-y in

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,094,915**	**1,873**	**2,155,898**	**2,020**	**2,186,525**	**2,056**	**1.4**	**2.5**	**1.4**	**4.4**
Government	872,215	780	882,781	827	915,090	860	2.9	3.9	3.7	4.9
Central Government Bonds	533,303	477	546,715	512	568,774	535	3.2	6.4	4.0	6.7
Central Bank Bonds	174,860	156	170,860	160	174,790	164	3.8	(3.6)	2.3	(0.04)
Others	164,052	147	165,205	155	171,526	161	1.1	4.5	3.8	4.6
Corporate	1,222,700	1,093	1,273,117	1,193	1,271,435	1,195	0.3	1.5	(0.1)	4.0

( ) = 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*.

Q4 2017. Inflation slightly picked up in April to 1.6% y-o-y from 1.3% y-o-y in March due to higher food prices.

Size and Composition

The Republic of Korea's LCY bond market grew 1.4% q-o-q in Q1 2018 to reach an outstanding size of KRW2,187 trillion (USD2,056 billion) at the end of March (**Table 1**). The quarterly growth was solely driven by the Republic of Korea's government bond market as the stock of corporate bonds fell.

Government bonds. The Republic of Korea's LCY government bond market posted robust growth of 3.7% q-o-q in Q1 2018 with outstanding bonds amounting to KRW915 trillion at the end of March. Positive growth rates were registered across all securities issued by government entities, led by the rise in the stock of central government bonds, which were up 4.0% q-o-q to KRW569 trillion as issuance of Korea Treasury Bonds rose during the quarter. The Republic of Korea again implemented a frontloading policy in 2018, resulting in relatively high issuance volume in Q1 2018. The stock of central bank bonds and other government bonds issued by government-related entities also rose in Q1 2018.

Issuance of government bonds surged 24.9% q-o-q to KRW88 trillion in Q1 2018, largely driven by the 37.2% q-o-q jump in issuance of central government bonds as a result of the aforementioned frontloading policy and a low base in Q4 2017. Issuance volume in Q4 2017 was tepid as the government had already met its annual funding requirement in previous quarters. Issuance of Monetary Stabilization Bonds by the Bank of Korea also posted a high growth rate of 13.0% q-o-q.

Corporate bonds. The outstanding amount of LCY corporate dipped slightly in Q1 2018, falling 0.1% q-o-q to KRW1,271 trillion at the end of March due to the higher volume of maturities relative to new issuance. **Table 2** lists the top 30 LCY corporate bond issuers in the Republic of Korea at the end of March. Their aggregate bonds of KRW811 trillion comprised 64% of the total LCY corporate bond market. Financial companies such as banks and securities and investment firms continued to dominate the top 30 list in the Republic of Korea. Korea Housing Finance Corporation, a government-related company that provides financial assistance for social housing, remained the largest issuer with outstanding bonds of KRW118 trillion.

Issuance of corporate bonds fell 7.0% q-o-q in Q1 2018 to KRW104 trillion as rising interest rates made it costly for companies to raise funds via the bond market. **Table 3** lists the notable corporate bond issuances in Q1 2018. LG Chemical led all issuers in Q1 2018 with a KRW1.0 trillion multitranche offer comprising KRW300 billion worth of 10-year bonds, KRW270 billion of 7-year bonds, KRW240 billion of 5-year bonds, and KRW190 billion of 3-year bonds. The proceeds are to be invested in the expansion of its production facilities and other financing requirements.

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	117,782	110.7	Yes	No	No	Housing Finance
2.	NH Investment & Securities	65,549	61.6	Yes	Yes	No	Securities
3.	Mirae Asset Daewoo Co.	64,064	60.2	No	Yes	No	Securities
4.	Korea Investment and Securities	53,584	50.4	No	No	No	Securities
5.	Korea Land & Housing Corporation	39,606	37.2	Yes	No	No	Real Estate
6.	Industrial Bank of Korea	39,172	36.8	Yes	Yes	No	Banking
7.	KB Securities	37,957	35.7	No	No	No	Securities
8.	Hana Financial Investment	36,654	34.5	No	No	No	Securities
9.	Samsung Securities	26,849	25.2	No	Yes	No	Securities
10.	Korea Electric Power Corporation	23,680	22.3	Yes	Yes	No	Electricity, Energy, and Power
11.	Shinhan Bank	22,312	21.0	No	No	No	Banking
12.	Kookmin Bank	21,826	20.5	No	No	No	Banking
13.	Korea Expressway	21,620	20.3	Yes	No	No	Transport Infrastructure
14.	Korea Deposit Insurance Corporation	19,930	18.7	Yes	No	No	Insurance
15.	Woori Bank	19,465	18.3	Yes	Yes	No	Banking
16.	Korea Rail Network Authority	19,300	18.1	Yes	No	No	Transport Infrastructure
17.	Mirae Asset Securities	16,506	15.5	No	Yes	No	Securities
18.	KEB Hana Bank	16,380	15.4	No	No	No	Banking
19.	NongHyup Bank	15,650	14.7	Yes	No	No	Banking
20.	The Export-Import Bank of Korea	15,610	14.7	Yes	No	No	Banking
21.	Korea Gas Corporation	13,459	12.7	Yes	Yes	No	Gas Utility
22.	Daishin Securities	13,203	12.4	No	Yes	No	Securities
23.	Shinhan Card	12,147	11.4	No	No	No	Credit Card
24.	Small & Medium Business Corporation	12,143	11.4	Yes	No	No	SME Development
25.	Hyundai Capital Services	11,839	11.1	No	No	No	Consumer Finance
26.	Shinyoung Securities	11,479	10.8	No	Yes	No	Securities
27.	Korea Student Aid Foundation	11,050	10.4	Yes	No	No	Student Loan
28.	KB Kookmin Bank Card	10,841	10.2	No	No	No	Consumer Finance
29.	Standard Charted Bank Korea	10,750	10.1	No	No	No	Banking
30.	Samsung Card Co. Ltd.	10,668	10.0	No	Yes	No	Consumer Finance
Total Top 30 LCY Corporate Issuers		**811,075**	**763**				
Total LCY Corporate Bonds		**1,271,435**	**1,195**				
Top 30 as % of Total LCY Corporate Bonds		**63.8%**	**63.8%**				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, KRW = Korean won, LCY = local currency, SME = small and medium-sized enterprise, USD = United States dollar.
Notes:
1. Data as of 31 March 2018.
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 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
LG Chem		
10-year bond	3.29	300
7-year bond	3.07	270
5-year bond	2.88	240
3-year bond	2.56	190
Industrial Bank of Korea		
2-year bond	2.22	300
2-year bond	2.30	300
NH Investment Securities		
5-year bond	2.97	350
3-year bond	2.72	300
National Agricultural Cooperative		
5-year bond	2.75	290
5-year bond	2.74	250
3-year bond	2.46	100

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Kookmin Bank		
2-year bond	2.22	300
2-year bond	2.34	210
2-year bond	2.30	110
Hyundai Steel		
7-year bond	3.18	100
5-year bond	2.91	330
3-year bond	2.53	170
SK Hynix Inc		
5-year bond	3.01	300
KCC Corp		
3-year bond	2.68	300
Hana Financial Group		
10-year bond	2.96	280

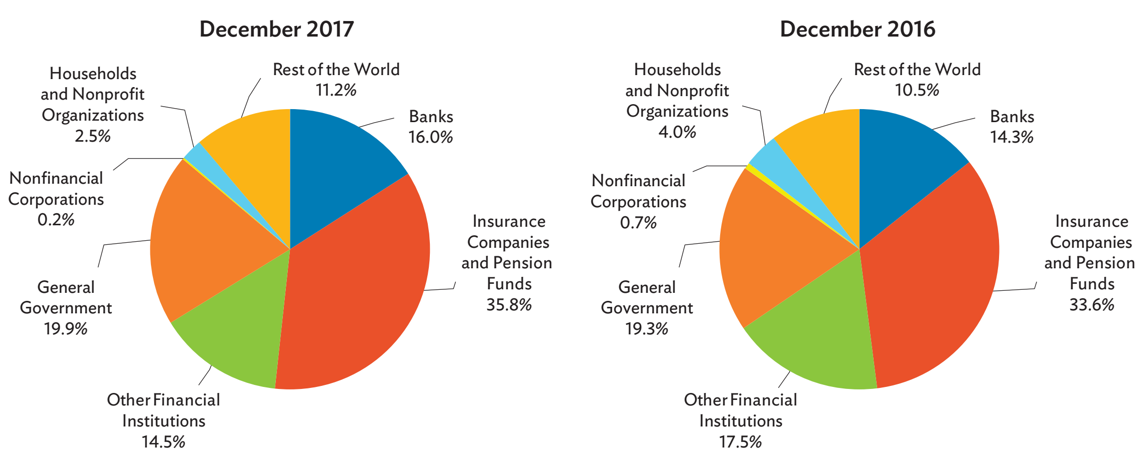
KRW = Korean won.
Source: Based on data from Bloomberg LP.

Investor Profile

The holdings share of insurance companies and pension funds in the Republic of Korea's LCY government bond market rose to 35.8% in December 2017 from 33.6% in December 2016, making it the largest investor group in the LCY government bond market once again (**Figure 2**). The general government was the largest holder with a share of 19.9% in December 2017, up from 19.3% a year earlier. Banks also saw their share rise to 16.0%, while that of other financial institutions declined to 14.5%. Foreign holdings of LCY government bonds inched up to 11.2% from 10.5% during the review period.

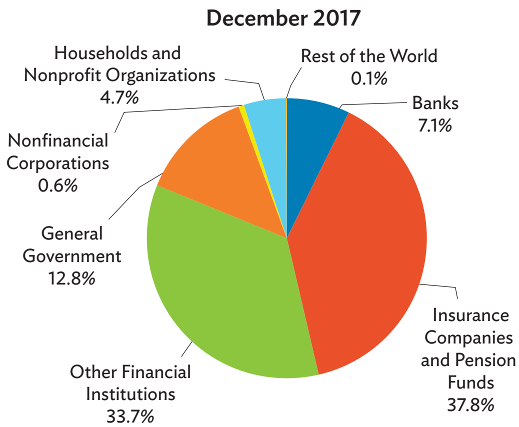
The holdings share of insurance companies and pension funds in the Republic of Korea's LCY corporate bond market remained the largest among all investor groups in December 2017, rising to 37.8% from 36.5% in December 2016 (**Figure 3**). The shares of other financial institutions and the general government also rose to 33.7% and 12.8%

Figure 2: Local Currency Government Bonds Investor Profile



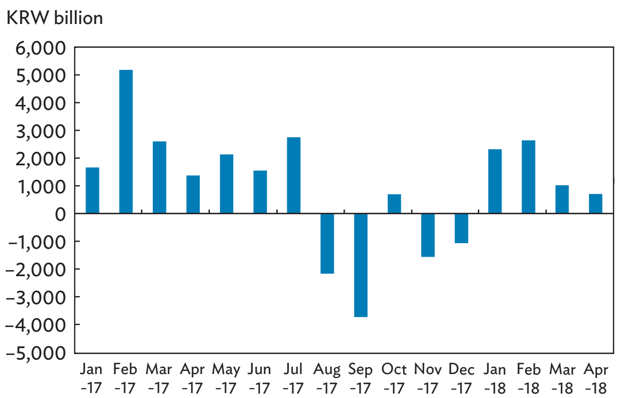
Sources: *AsianBondsOnline* and the Bank of Korea.

Figure 3: Local Currency Corporate Bonds Investor Profile



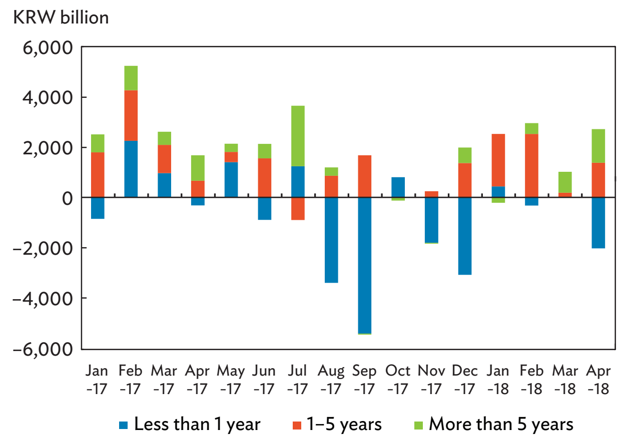
Sources: *AsianBondsOnline* and the Bank of Korea.

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



KRW = Korean won.
Source: Financial Supervisory Service.

Figure 5: Net Foreign Investment in Local Currency Bonds in the Republic of Korea, by Tenor



KRW = Korean won.
Source: Financial Supervisory Service.

from 30.9% and 12.0%, respectively. The share of banks fell to 7.1% from 7.5%. Foreign holdings in the Republic of Korea's LCY corporate bond market remained negligible.

Net foreign inflows in the Republic of Korea's LCY bond market rebounded in 2018 following outflows in Q4 2017, particularly in November and December (**Figure 4**). The net inflows came amid easing geopolitical tensions and a stable currency relative to other economies in the region. January saw net foreign investment inflows of KRW2,322 billion as the large foreign institutional funds that sold their holdings in December, due to portfolio adjustments, reinvested in the market. Net foreign inflows rose further in February to KRW2,641 billion on easing geopolitical tensions as the potential for talks between the Republic of Korea and the Democratic People's Republic of Korea started.

Foreign inflows eased in March to KRW1,024 billion, partly due to the anticipated rate hike by the Federal Reserve, and were mostly concentrated in bonds with tenors of more than 5 years (**Figure 5**). April saw capital outflows from financial markets peaking in the region as US interest rates continued to rise and amid the sustained strength of the US dollar and the possibility of accelerated rate hikes by the Federal Reserve. However, the Republic of Korea was an exception, seeing net inflows in April, albeit at lower volumes than in previous months, given the relatively stable Korean won resulting from the Republic of Korea's positive economic fundamentals and current account surplus. Net foreign inflows into the Republic of Korea's LCY bond market amounted to KRW708 billion in April.

Policy, Institutional, and Regulatory Developments

The Republic of Korea Plans KRW3.9 Trillion Supplementary Budget

In April, the Government of the Republic of Korea drafted a KRW3.9 trillion supplementary budget proposal to fund programs to support young adult employment and the promotion of local economies. Of the total, KRW2.9 trilllion has been set aside to focus on raising incomes of young adults by providing funding for their startup businesses and creating new jobs, among other projects. A budget of KRW1.0 trillion will be allotted for programs that will widen support for local enterprises. The government plans to finance the budget with KRW2.6 trillion from 2017 fiscal account surpluses and the remaining KRW1.3 trillion from public fund surpluses.

Malaysia

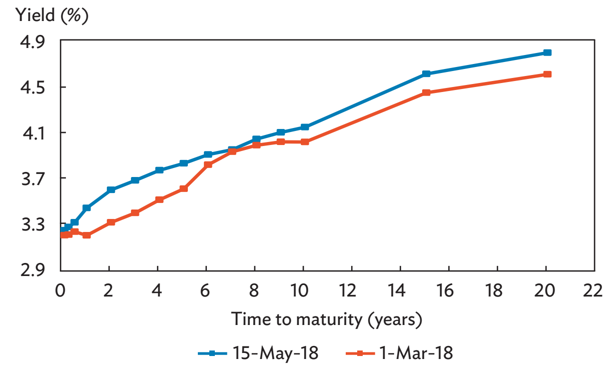
Yield Movements

Malaysia's local currency (LCY) government bond yield curve shifted upward for all tenors between 1 March and 15 May (**Figure 1**). Large yield increases were seen in tenors from 1 year to 5 years, with an average gain of 26 basis points (bps). Yield for maturities of 10 years and above increased 16 bps on average. Treasury bills and Treasury bonds with maturities of 6–9 years saw small average increases in their yields of 6 bps each. The yield spread between 2-year and 10-year government bonds narrowed 15 bps during the review period.

The upward trend in Malaysia's local government bond yields during the review period was driven by a number of factors. First, the yield increases were in line with rising global yields, especially for United States (US) Treasuries. Expectations of faster monetary policy normalization in the US and other major economies are putting upward pressure on sovereign bond yields. Another factor was Bank Negara Malaysia's (BNM) interest rate hike in January. BNM raised its overnight policy rate by 25 bps to 3.25% as a preemptive move to prevent the buildup of risks from a low-interest-rate environment. Third, the unexpected outcome of the Malaysian general election has made investors cautious in setting their position on local bonds as they wait for more clarity from the new government on its policies. Uncertainties in the near- to medium-term will weigh on the sovereign debt performance, likely translating into higher yields. At the same time, Malaysia's sound macro backdrop may help moderate yield pressures.

BNM maintained its overnight policy rate at 3.25% during its monetary policy meeting on 10 May. Previously, BNM raised the overnight policy rate for the first time since 2014 by 25 bps on 25 January. Inflation is expected to remain manageable, owing to smaller effects from global cost factors. A stronger ringgit relative to 2017 will lessen import costs, despite some observed volatility related to the general election. Core inflation is also expected to remain moderate on the back of stable domestic demand. The Malaysian economy is expected to continue to expand, buoyed by vibrant private sector activity, while growth momentum in the global economy will fuel exports.

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



Source: Based on data from Bloomberg LP.

Malaysia logged an inflation rate of 1.4% year-on-year (y-o-y) in April, which was little changed from 1.3% y-o-y in March when consumer price inflation reached its lowest level since August 2016. Food and nonalcoholic beverages, which account for the largest share of the Consumer Price Index, have seen continued price moderation since the start of the year. Transportation costs moderated the most among all components of the Consumer Price Index, increasing only 0.4% y-o-y in April after registering double-digit growth in the latter months of 2017. Price declines in transportation were observed in February and March. Core inflation, which excludes commodities that are subject to fluctuations, slowed to 1.5% y-o-y in April from 1.7% y-o-y in March.

The Malaysian ringgit appreciated 1.5% year-to-date through 15 May against the US dollar on account of strong macroeconomic fundamentals and firmer crude oil prices. However, weakness set in during the run-up to the general election. From 1 April to 15 May, the ringgit depreciated 3.0% against the US dollar. Moreover, rising yields in the US may have led to weaker demand for the ringgit. While volatility may persist, downside risks will be fairly contained given the healthy current account, ample foreign reserves, and robust growth outlook.

Malaysia's economy expanded 5.4% y-o-y in the first quarter (Q1) of 2018, underpinned by strong private sector expenditure and a buoyant external sector.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,206**	**272**	**1,286**	**318**	**1,339**	**347**	**3.3**	**5.7**	**4.1**	**11.1**
Government	651	147	673	166	705	182	2.7	3.5	4.7	8.3
Central Government Bonds	613	138	637	157	656	170	2.7	5.9	3.0	7.1
of which: *Sukuk*	252	57	270	67	287	74	6.6	12.9	6.3	13.9
Central Bank Bills	10	2	7	2	20	5	9.7	(55.3)	173.5	109.4
of which: *Sukuk*	0	0	0	0	1	0.3	–	–	–	–
Sukuk Perumahan Kerajaan	28	6	28	7	28	7	0.0	0.0	0.0	0.0
Corporate	555	125	613	152	635	164	4.0	8.3	3.5	14.3
of which: *Sukuk*	409	92	460	114	480	124	3.6	11.7	4.4	17.4

( ) = negative, – = not applicable, 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 LCY–USD rates are 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.

Private consumption and investment grew 6.9% y-o-y and 0.5% y-o-y, respectively, and exports grew 3.7% y-o-y during the quarter. On the production side, all economic sectors expanded, with the services and manufacturing sectors providing the growth impetus at 6.5% y-o-y and 5.3% y-o-y, respectively. Economic growth in Q1 2018 represented the second consecutive quarter of deceleration. BNM expects the Malaysian economy to remain on a favorable growth path in 2018, anchored on domestic demand and spillovers from the external sector.

Size and Composition

Malaysia's LCY bond market continued to expand in Q1 2018, increasing 4.1% quarter-on-quarter (q-o-q) and 11.1% y-o-y (**Table 1**). The growth rates logged in Q1 2018 were faster compared with the preceding quarter and Q1 2017. Total LCY outstanding bonds amounted to MYR1,339 billion (USD347 billion) at the end of March, comprising a mix of 53% government bonds and 47% corporate bonds. Both segments propelled the growth of the LCY bond market. *Sukuk* (Islamic bonds) dominate Malaysia's LCY bond market with a share of 59.4%. This share is up from 58.9% at the end of December.

Total issuance in Malaysia's bond market reached MYR100.1 billion in Q1 2018. On a q-o-q basis, government bond sales increased while corporate bond sales dropped, leading to moderating issuance growth of 7.8% q-o-q versus 21.1% q-o-q in the fourth quarter (Q4) of 2017. On an annual basis, issuances from both the government and corporate segments saw increases, leading to growth of 30.2% y-o-y in Q1 2018, although this was much slower than growth of 86.6% y-o-y in Q4 2017.

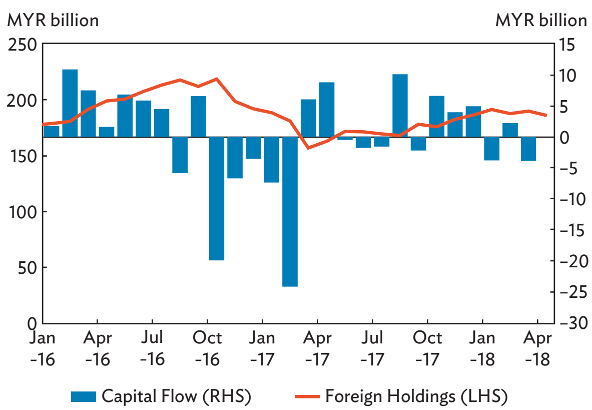
Government bonds. Malaysia's LCY government bond market posted growth of 4.7% q-o-q, climbing to a size of MYR705 billion at the end of March. Central government bonds mainly propelled the increase, having the largest share in the government bond stock, with 3.0% q-o-q growth on the back of increased gross issuance and lower redemptions during the period. Central bank bills outstanding more than doubled in Q1 2018 to reach MYR20 billion at the end of March, although they only comprised 3.0% of total government bonds. On a y-o-y basis, the LCY government bond market grew 8.3%.

Total issuance of LCY government bonds in Q1 2018 surged 60.4% q-o-q to MYR57.6 billion. Sales of Malaysian Government Securities (MGS) totaled MYR18.7 billion and sales of Government Investment Issues (GII) totaled MYR14.0 billion, both of which were higher compared with Q4 2017. The markets for MGS and GII received fairly strong support from local as well as foreign investors on the back of a firm Malaysian ringgit. Issuance of Treasury bills and BNM bills surged in Q1 2018 on a q-o-q basis, bringing their combined share to about half of total government issuance from just 21.0% in Q4 2017. BNM issued a total of MYR16.9 billion in Q1 2018, up from MYR6.0 billion in Q4 2017. The bulk of the issuance comprised BNM Interbank Bills (MYR15.9 billion), which were introduced in November 2017 as part of the central bank's initiative to strengthen the financial markets by enhancing short-selling and liquidity operations in the bond market.

Foreign investor holdings of LCY government bonds decreased to MYR185.8 billion at the end of April from MYR186.3 billion at the end of December (**Figure 2**). Foreign holdings at the end of April were equivalent to 27.9% of total LCY government bonds outstanding. The bulk of foreign holdings were in MGS, amounting to MYR162.8 billion. Net foreign inflows of MYR4.9 billion were recorded in January, while net outflows of MYR3.8 billion were recorded in February. Foreign investors became net buyers of local government bonds again in March, registering net inflows of MYR2.2 billion, but this was reversed in April with net outflows of MYR3.9 billion, the largest since March 2017. Rising yields in US Treasuries prompted a sell-off in the Malaysian bond market along with many other emerging East Asian economies. In the first 4 months of 2018, MGS saw cumulative net outflows of MYR1.6 billion, while GII and Treasury bills saw cumulative net inflows.

Corporate bonds. The stock of corporate bonds grew 3.5% q-o-q to reach MYR635 billion in Q1 2018. The growth was at par with the growth logged in Q4 2017.

Figure 2: Foreign Holdings and Capital Flows of Local Currency Government Bonds in Malaysia



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.

Sukuk remained the dominant corporate bond segment with a share of 75.6% of the total in Q1 2018, slightly higher than in the preceding quarter (74.9%).

Aggregate bonds outstanding among the top 30 corporate issues amounted to MYR359.9 billion at the end of March (**Table 2**). As a share of total LCY corporate bonds, the top 30's bonds outstanding were little changed from the end of December at 56.7%. The top 30 list predominantly comprises firms from the finance industry, who have aggregate outstanding bonds of MYR177.2 billion. On the other hand, firms from the construction industry only account for MYR5.3 billion of outstanding bonds. Danainfra Nasional, the government's funding vehicle for infrastructure projects, remained the largest issuer at the end of March with MYR46.6 billion of LCY bonds outstanding.

The corporate bond market saw subdued issuance activity in Q1 2018, with issuances declining 25.4% q-o-q to MYR42.5 billion. Monthly declines were observed in January and February; in March, issuance rebounded with a notable increase in medium-term notes. Issuance in March, however, were not enough for the Q1 2018 tally to match the amount issued in Q4 2017. Lower corporate issuance during Q1 2018 can be attributed to upward pressures from higher interest rates as a result of BNM's monetary policy rate hike, expectations of accelerated monetary tightening from the US Federal Reserve as inflationary pressures heighten, and portfolio reallocations to safe havens.

Edra Energy had the highest total issuance during Q1 2018, amounting to MYR5.1 billion, which included a 6-year Islamic medium-term note amounting to MYR235 million (**Table 3**). Other notable corporate issuances in the quarter were from Danga Capital, Danainfra Nasional, Prasarana, and Cagamas.

Investor Profile

Social security institutions had the largest holdings of government bonds among all investor groups at the end of December with a share of 32.0%, up from 28.3% in December 2016 (**Figure 3**). Foreign investor holdings of LCY government bonds were down at the end of December 2017 to 29.2% from 32.2% a year earlier. Subsequent to the outflow of foreign funds in late 2017, foreign holdings have remained relatively low. Financial

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	46.6	12.1	Yes	No	Finance
2.	Cagamas	33.3	8.6	Yes	No	Finance
3.	Project Lebuhraya Usahasama	30.2	7.8	No	No	Transport, Storage, and Communications
4.	Prasarana	27.7	7.2	Yes	No	Transport, Storage, and Communications
5.	Perbadanan Tabung Pendidikan Tinggi Nasional	19.0	4.9	Yes	No	Finance
6.	Khazanah	17.0	4.4	Yes	No	Finance
7.	Pengurusan Air	14.4	3.7	Yes	No	Energy, Gas, and Water
8.	Maybank	14.3	3.7	No	Yes	Banking
9.	CIMB Bank	13.2	3.4	Yes	No	Finance
10.	Lembaga Pembiayaan Perumahan Sektor Awam	10.8	2.8	Yes	No	Property and Real Estate
11.	Sarawak Energy	10.5	2.7	Yes	No	Energy, Gas, and Water
12.	Danga Capital	10.0	2.6	Yes	No	Finance
13.	Jimah East Power	9.0	2.3	Yes	No	Energy, Gas, and Water
14.	Maybank Islamic	8.5	2.2	No	Yes	Banking
15.	CIMB Group Holdings	7.9	2.1	Yes	No	Finance
16.	Bank Pembangunan Malaysia	7.3	1.9	Yes	No	Banking
17.	GOVCO Holdings	7.3	1.9	Yes	No	Finance
18.	YTL Power International	7.3	1.9	No	Yes	Energy, Gas, and Water
19.	Rantau Abang Capital	7.0	1.8	Yes	No	Finance
20.	Sarawak Hidro	6.5	1.7	Yes	No	Energy, Gas, and Water
21.	Public Bank	6.4	1.6	No	No	Banking
22.	ValueCap	6.0	1.6	Yes	No	Finance
23.	Turus Pesawat	5.3	1.4	Yes	No	Transport, Storage, and Communications
24.	Aman Sukuk	5.3	1.4	Yes	No	Construction
25.	Edra Energy	5.1	1.3	No	Yes	Energy, Gas, and Water
26.	1Malaysia Development	5.0	1.3	Yes	No	Finance
27.	Celcom Networks	5.0	1.3	No	No	Transport, Storage, and Communications
28.	GENM Capital	5.0	1.3	No	No	Finance
29.	Putrajaya Holdings	4.6	1.2	Yes	No	Property and Real Estate
30.	Jambatan Kedua	4.6	1.2	Yes	No	Transport, Storage, and Communications
Total Top 30 LCY Corporate Issuers		**359.9**	**93.2**			
Total LCY Corporate Bonds		**634.5**	**164.2**			
Top 30 as % of Total LCY Corporate Bonds		**56.7%**	**56.7%**			

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 31 March 2018.
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 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Danga Capital		
5-year Islamic MTN	5.02	2,000
5-year Islamic MTN	4.94	1,000
Danainfra Nasional		
15-year Islamic MTN	5.24	1,000
10-year Islamic MTN	5.11	1,500
Prasarana		
15-year Islamic MTN	5.25	1,200
Cagamas		
3-year Islamic MTN	4.17	1,000
Edra Energy		
6-year Islamic MTN	6.43	235

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

institutions were the third-largest holders of government bonds at 27.7%. BNM continued to have the smallest share of LCY government bond holdings.

The investor profile of the LCY corporate bond market was marginally changed in March 2018 from a year earlier (**Figure 4**). Domestic commercial and Islamic banks remained the largest corporate bond holders, with their share inching up to 40.3% at the end of March from 38.9% a year earlier. Life insurance companies were the second-largest holders at the end of March, but their share was slightly down to 37.9% from 39.2%. General insurance companies continued to have the smallest share at 1.9% at the end of March, which was lower compared with a year earlier.

Ratings Update

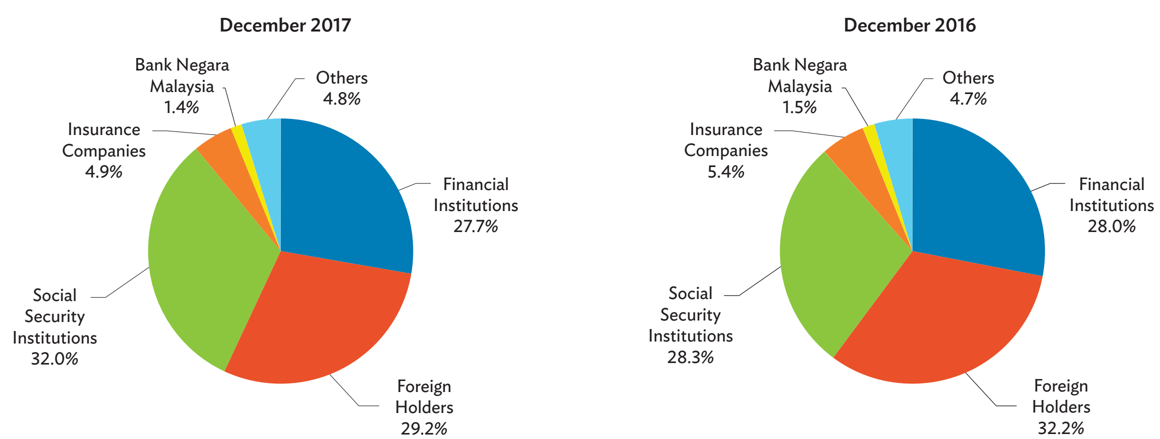
RAM Ratings Affirms Malaysia's Sovereign Ratings

RAM Ratings reaffirmed Malaysia's respective sovereign ratings of $_{g}A_{2}$ (global), $_{sea}$AAA (ASEAN), and AAA (domestic-scale), with a stable outlook, on 19 January. According to RAM Ratings, the affirmation reflected Malaysia's resilient economic growth and the government's fiscal consolidation efforts. Malaysia's economy is estimated to have grown 5.8% in 2017, which exceeded the rating agency's expectation of 4.5%. The government's lower fiscal deficit target of 2.8% of gross domestic product in 2018, compared with 3.0% in 2017, is seen as being supported by solid domestic economic conditions and the gradual recovery in oil prices.

Fitch Ratings Affirms Malaysia's Sovereign Ratings

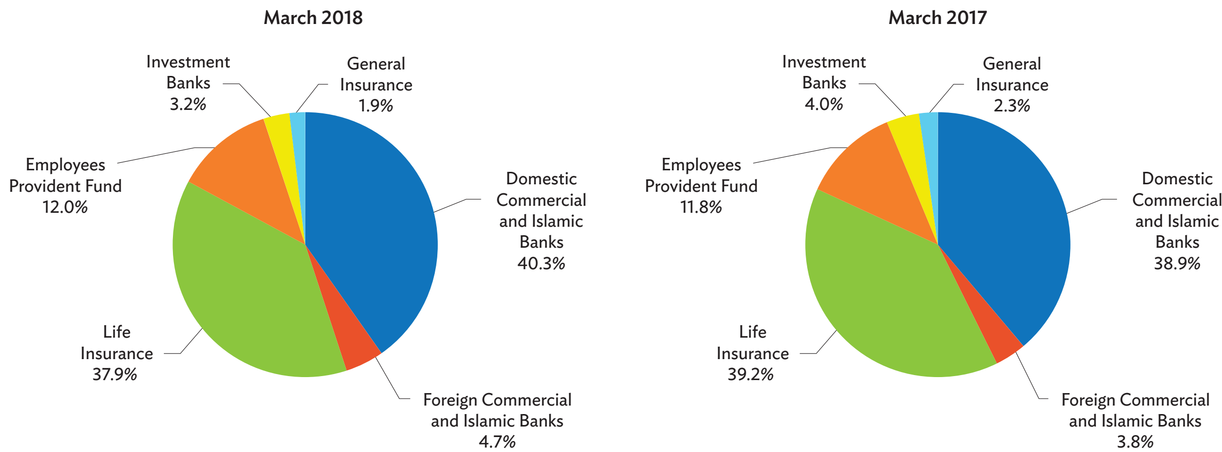
Fitch Ratings affirmed Malaysia's long-term, foreign-currency issuer default rating at A– with a stable outlook on 28 March. The affirmation reflected Malaysia's resilient economic growth, which is backed by strong private consumption and investment spending, and exports amid a strong external environment. The rating affirmation

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 31 December 2017, as data are based on the EPF's annual report.
Sources: Bank Negara Malaysia and the Employees Provident Fund.

also reflected Malaysia's net external creditor position as a result of sustained current account surpluses, the large external assets of the private sector, and falling government debt and deficit levels. According to Fitch Ratings, Malaysia's rating is constrained by weaker governance standards and lower levels of income per capita and human development compared to the median for sovereigns rated in the A category. It also cited downside risks, such as threats of trade protectionism and tighter global monetary conditions, which could leave Malaysia's open economy vulnerable to shocks.

Policy, Institutional, and Regulatory Developments

Prime Minister Razak Announces Plan to Establish Malaysia–Singapore Stock Trading Link

Prime Minister Najib Razak announced on 6 February an initiative for Malaysia to collaborate with Singapore in establishing a stock market trading link. According to Prime Minister Razak, the Malaysia–Singapore link will spur further mutual benefits and harness the economic potential of both countries as it will provide investors with seamless access to each other's markets, which together have a combined market capitalization of more than USD1.2 trillion and 1,600 public listed companies.

Bursa Malaysia Implements Intraday Short-Selling

Bursa Malaysia implemented the intraday short-selling (IDSS) framework on 16 April to boost liquidity in the local stock exchange. The measure is part of Bursa Malaysia's efforts to build a dynamic and vibrant capital market that will further improve flexibility for investors to refine their trading and risk management strategies. The list of approved stocks for IDSS comprises 280 securities and the list will be reviewed every 6 months. Compliance requirements and safeguards will also be put into place that include market controls for IDSS suspensions if a stock price falls more than 15% from the previous day's closing price or if the gross short-selling volume exceeds the daily maximum limit of 3% of outstanding shares per security.

Philippines

Yield Movements

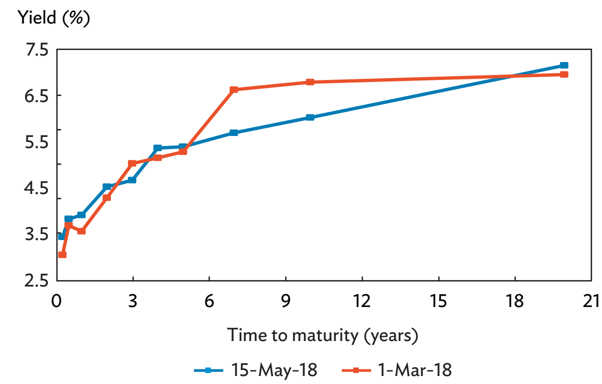
Between 1 March and 15 May, local currency (LCY) government bond yields in the Philippines rose for all tenors except the 3-year, 7-year, and 10-year maturities, which fell 36 basis points (bps), 94 bps, and 77 bps, respectively (**Figure 1**). The yield for the 3-month tenor increased the most, rising 39 bps, followed by the 1-year bond yield, which increased 35 bps. The 5-year maturity experienced the smallest yield increase at just 11 bps. The yield spread between the 2-year and 10-year tenors narrowed 101 bps during the period.

According to the Bureau of the Treasury, interest rates continued to trend upward as some investors anticipate additional rate hikes by the Bangko Sentral ng Pilipinas (BSP) following the most recent increase on 10 May. Moreover, demand for higher rates for longer tenors reflects investor concerns about inflation. In the BSP's monetary board meeting on 10 May, it updated its full-year 2018 inflation forecast to 4.6% from the previous forecast of 3.9%.

Consumer prices in the Philippines grew at a faster rate of 4.5% year-on-year (y-o-y) in April compared with 4.3% y-o-y in March. The inflation rate has accelerated since the start of the year, resulting in year-to-date inflation of 4.1% y-o-y through April, exceeding the BSP's target of 2.0%–4.0% for 2018. The BSP expects inflation to remain elevated throughout the year before eventually tapering toward the midpoint of the target range in 2019.

In its monetary policy meeting on 10 May, the BSP's monetary board hiked key interest rates 25 bps in response to year-to-date inflation through April having breached the central bank's target range. The overnight reverse repurchase rate was increased to 3.25%, while the overnight lending and deposit rates were raised to 3.75% and 2.75%, respectively. According to the central bank, inflation and elevated risks prompted the board to act, and the move will help temper the buildup in inflation expectations. It noted, however, that the rate hike may prevent the government from achieving its target of 7.0%–8.0% economic growth for full-year 2018.

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



Source: Based on data from Bloomberg LP.

The gross domestic product (GDP) of the Philippines grew 6.8% y-o-y during the first quarter (Q1) of the year. On the demand side, public construction, government consumption, and capital formation exhibited upbeat performances. Domestic demand is likely to increase following the recently approved tax reform package, which is expected to boost personal income and consumption. On the supply side, growth in the industrial sector was backed by expansion in the manufacturing and construction subsectors, owing to the government's Build, Build, Build program. Despite the challenges, the National Economic and Development Authority continues to believe that the country's growth rate implies that the Philippines has the potential to become an upper-middle-income economy.

The Philippine peso breached the PHP52 per USD1 level in mid-February and it has been hovering at this level since then. After Standard & Poor's Global Ratings upgraded its credit outlook for the Philippine economy from stable to positive in April, the peso began to strengthen against the greenback, staying below the PHP52 per USD1 level. The International Monetary Fund has not expressed concern about foreign exchange pressures since it is mostly tighter global conditions rather than domestic factors that are putting pressure on the peso. However, trade tensions between the People's Republic of China and the United States should

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,943**	**98**	**5,475**	**110**	**5,593**	**107**	**1.5**	**5.0**	**2.1**	**13.1**
Government	4,011	80	4,456	89	4,479	86	0.8	3.0	0.5	11.7
Treasury Bills	286	6	314	6	332	6	(0.6)	2.6	5.7	16.2
Treasury Bonds	3,656	73	4,101	82	4,106	79	1.0	3.3	0.1	12.3
Others	69	1	40	1	40	1	0.003	(8.4)	(0.01)	(42.0)
Corporate	932	19	1,020	20	1,114	21	4.6	14.6	9.2	19.5

( ) = 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.

be monitored carefully as an escalation could lead to a sudden tightening in global liquidity.

Size and Composition

Total LCY bonds in the Philippines reached PHP5,593 billion (USD107 billion) at the end of March on growth of 2.1% quarter-on-quarter (q-o-q) and 13.1% y-o-y (**Table 1**). The increase in outstanding bonds in the LCY bond market is supported by increases in both the government and corporate bond segments. At the end of March, government bonds represented 80.1% of total outstanding bonds, while corporate bonds comprised only 19.9%.

Government bonds. LCY government bonds outstanding registered growth of 0.5% q-o-q and 11.7% y-o-y in Q1 2018, amounting to PHP4,479 billion at the end of March. Treasury bills mainly supported the q-o-q growth of LCY government bonds, expanding 5.7% q-o-q, while Treasury bonds grew at a slower pace of 0.1% q-o-q. The bonds of government-owned and -controlled corporations declined on a q-o-q and y-o-y basis in Q1 2018 as some bonds matured and there were no new issuances during the quarter.

Total LCY issuance during Q1 2018 amounted to PHP296.4 billion, a decline of 37.2% q-o-q and 7.4% y-o-y. The Government of the Philippines issued just PHP233.2 billion during the quarter, about half of what was issued in the last quarter of 2017, representing a decline of 47.2% q-o-q. The notable dip in issuance was due to the massive amount of Retail Treasury Bonds offered in the last quarter of 2017, amounting to PHP130 billion and resulting in a high base, and the government's move to borrow more from abroad in 2018. In 2017, the cabinet-level Development Budget Coordination Committee raised from 20% to 26% the share of external borrowings for 2018, while it kept the 80:20 ratio in favor of domestic sources for 2019–2022. Treasury bill issuance stood at PHP165.2 billion in Q1 2018, while issuance of Treasury bonds reached PHP68.0 billion.[18]

Auctions for Treasury bills were generally met with strong demand during Q1 2018. The auction of 91-day Treasury bills was a mix of being partially and fully awarded. On the other hand, the 182-day and 364-day Treasury bills were all partially awarded. For Treasury bonds, all auctions of 5-year, 10-year, and 20-year bonds were partially awarded. The 7-year bond auction was completely rejected.

The Bureau of the Treasury plans to issue a total of PHP195 billion of Treasury bills and PHP130 billion of Treasury bonds during the second quarter (Q2) of 2018.

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

Corporate bonds. The LCY corporate bond market continued to be active during Q1 2018, growing 9.2% q-o-q and 19.5% y-o-y, reaching a size of PHP1,114 billion.

The banking sector continued to be the dominant issuer in the Philippines in Q1 2018, accounting for 28.8% of the LCY corporate bond market at the end of March (**Figure 2**). This was an increase over its 26.1% share at the end of March 2017. The property and utilities sectors increased their market shares during the review period to 27.6% and 11.3% from 25.2% and 10.6%, respectively. On the other hand, holding firms and the transport and telecommunications sectors declined in terms of market share to 21.3%, 2.8%, and 3.5% from 22.5%, 4.5%, and 4.1%, respectively.

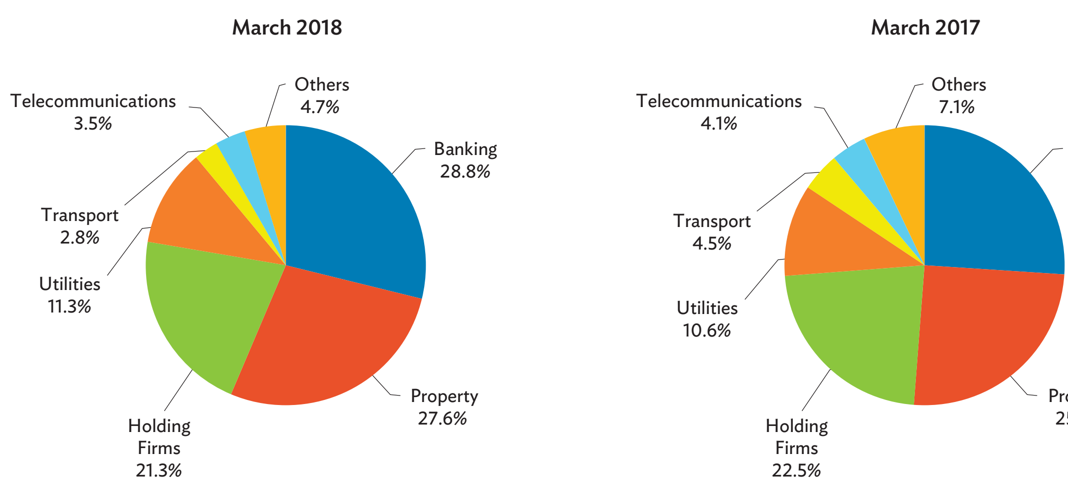
At the end of March 2018, the LCY corporate bonds outstanding of the top 30 issuers amounted to PHP978.1 billion, representing 87.8% of the Philippines' LCY corporate bond market (**Table 2**). Property firms Ayala Land and SM Prime Holdings topped the list with PHP94.7 billion and PHP93.8 billion of LCY bonds outstanding, respectively. By sector, banks accounted for the majority of outstanding bonds among the top 30 issuers with PHP397.6 billion, followed by the property sector with PHP264.4 billion.

A total of PHP63.2 billion worth of LCY corporate bonds were issued during Q1 2018 on growth of 108.7% q-o-q and 20.8% y-o-y. SM Prime Holdings, San Miguel, and Maynilad together accounted for PHP58.5 billion, or 92.5% of all new issuances for the quarter. SM Prime Holdings offered 5-year and 7-year bonds, while San Miguel and Maynilad both issued 5-year, 7-year, and 10-year bonds. Three other companies tapped the local bond market for funding purposes during the quarter: Union Bank, Phoenix Petroleum, and SL Agritech. SM Prime Holdings issued bonds for the expansion of its real estate projects, while San Miguel planned to use the proceeds to refinance debt and fund investment in various businesses.

Notable corporate issuers in Q1 2018 are listed in **Table 3**. Water service provider Maynilad had the largest bond issuance amounting to PHP14.8 billion for a 5-year bond carrying a coupon rate of 6.56%. The issuance comprised 23.4% of all LCY corporate bond issuance during the quarter. Holding firm San Miguel and property firm SM Prime Holdings likewise also each issued 5-year corporate bonds. San Miguel's issue amounted to PHP13.15 billion with a coupon rate of 6.25%. SM Prime Holdings issued a PHP10.0 billion bond with a 5.66% coupon rate.

Foreign currency bonds. The Government of the Philippines issued a USD2.0 billion 10-year global bond with a 3.0% coupon in January, USD1.25 billion of which was allocated for a 1-day accelerated switch tender offer, while the remaining USD0.75 billion was allocated to raise fresh money. The bond offering marked the Philippines'

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (USD billion)			
1.	Ayala Land	94.7	1.8	No	Yes	Property
2.	SM Prime Holdings	93.8	1.8	No	Yes	Property
3.	Metrobank	59.2	1.1	No	Yes	Banking
4.	BDO Unibank	58.8	1.1	No	Yes	Banking
5.	SM Investments	52.3	1.0	No	Yes	Holding Firms
6.	San Miguel	50.0	1.0	No	Yes	Holding Firms
7.	Philippine National Bank	47.5	0.9	No	Yes	Banking
8.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
9.	San Miguel Brewery	34.8	0.7	No	No	Brewery
10.	Maynilad	33.9	0.6	No	No	Water
11.	Aboitiz Equity Ventures	32.0	0.6	No	Yes	Holding Firms
12.	Security Bank	31.6	0.6	No	Yes	Banking
13.	JG Summit	30.0	0.6	No	Yes	Holding Firms
14.	Meralco	29.3	0.6	No	Yes	Electricity, Energy, and Power
15.	Filinvest Land	29.0	0.6	No	Yes	Property
16.	East West Bank	26.8	0.5	No	No	Banking
17.	RCBC	23.6	0.5	No	Yes	Banking
18.	GT Capital	22.0	0.4	No	Yes	Holding Firms
19.	PLDT	20.6	0.4	No	Yes	Telecommunications
20.	Vista Land	19.9	0.4	No	Yes	Property
21.	Petron	18.6	0.4	No	Yes	Electricity, Energy, and Power
22.	Bank of the Philippine Islands	17.2	0.3	No	Yes	Banking
23.	Union Bank	17.0	0.3	No	Yes	Banking
24.	Chinabank	15.9	0.3	No	Yes	Banking
25.	Doubledragon	15.0	0.3	No	Yes	Property
26.	SMC Global Power	15.0	0.3	No	No	Electricity, Energy, and Power
27.	Aboitiz Power	13.0	0.2	No	Yes	Electricity, Energy, and Power
28.	Globe Telecom	12.5	0.2	No	Yes	Telecommunications
29.	NLEX Corporation	12.1	0.2	No	No	Transport
30	Megaworld	12.0	0.2	No	Yes	Property
Total Top 30 LCY Corporate Issuers		**978.1**	**18.7**			
Total LCY Corporate Bonds		**1,113.8**	**21.3**			
Top 30 as % of Total LCY Corporate Bonds		**87.8%**	**87.8%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 31 March 2018.
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.

return to the international bond market for the first time since 2014 as part of the government's liability management exercise, which seeks significant cost savings by reducing overall interest expenses. The proceeds from the issuance will support the government's Build, Build, Build program; increase its presence in the global market; and promote financial inclusion for all Filipinos.

In March, the Philippines became the first Association of Southeast Asian Nations sovereign to issue renminbi-

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Maynilad		
5-year bond	6.56	14.80
San Miguel		
5-year bond	6.25	13.15
SM Prime Holdings		
5-year bond	5.66	10.00
7-year bond	6.08	10.00

PHP = Philippine peso.
Source: Bloomberg LP.

denominated bonds, which are also known as panda bonds. The issuance, which amounted to CNY1.46 billion, has a tenor of 3 years with a coupon rate of 5.00%. The issuance allowed the private sector to access the onshore Chinese bond market. Moreover, the successful issuance, which was rated AAA by the China Lianhe Credit Rating, reflected investors' confidence in the growth prospects and creditworthiness of the economy. The panda bonds were oversubscribed, indicating a good reception in the People's Republic of China and other offshore markets.

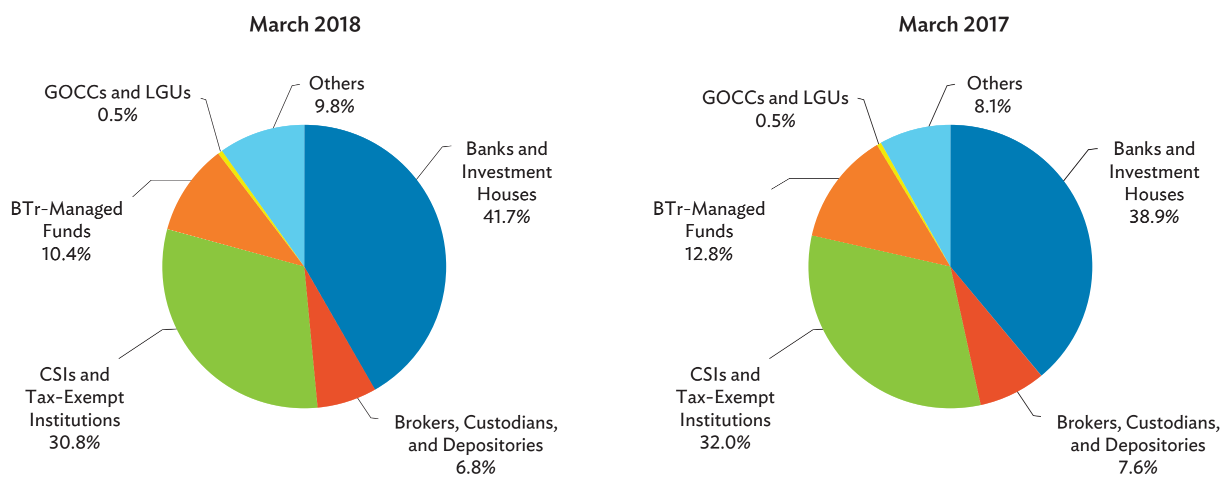
Investor Profile

Banks and investment houses continued to be the largest investors in LCY government bonds in Q1 2018, comprising a share of 41.7% of all investors at the end of March (**Figure 3**). This was followed by contractual savings and tax-exempt institutions with a 30.8% share of all investors. Government-owned and -controlled corporations and local government units accounted for the smallest share among all investor groups with only 0.5% of total investments. In nominal terms, the LCY government bond holdings of banks and investment houses registered the highest growth rate at 20.5% y-o-y, followed by growth of 18.1% y-o-y for government-owned and -controlled corporations and local government units. The LCY government bond holdings of contractual savings and tax-exempt institutions grew 8.3% y-o-y, while those of brokers, custodians, and depositories expanded only 0.5% y-o-y. The Bureau of the Treasury's bond holdings declined, registering negative growth of 8.9% y-o-y.

Ratings Update

Standard & Poor's raised its credit rating outlook for the Philippines to positive from stable while retaining its current BBB rating. According to the credit rating agency, the country has exhibited strong economic growth, a healthy external position, and improved policy-making. It is expected that the Philippines will have sustainable public finances and balanced growth over the next 24 months. Furthermore, Standard & Poor's hailed the country's effective fiscal policies as evidenced by the improved quality of expenditures and limited fiscal deficits. In spite of the administration's Build, Build, Build program, which will entail significant infrastructure

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.

spending, the recently passed comprehensive tax reform program will ensure that government finances are sustainable.

Policy, Institutional, and Regulatory Developments

BSP Reduces Reserve Requirement Ratio

At its 24 May meeting, as part of its financial market reform agenda, the Monetary Board of the BSP made an operational adjustment by reducing the reserve requirement ratio for banks by 1 percentage point to 18.0%. The BSP had recently lowered the reserve requirement ratio to 19.0% from 20.0% in March. The gradual reduction is intended to make the BSP less reliant on reserve requirements in managing liquidity risk in the financial system. The reduction will be implemented starting 1 June 2018.

The Philippines to Borrow PHP325 billion in Q2 2018

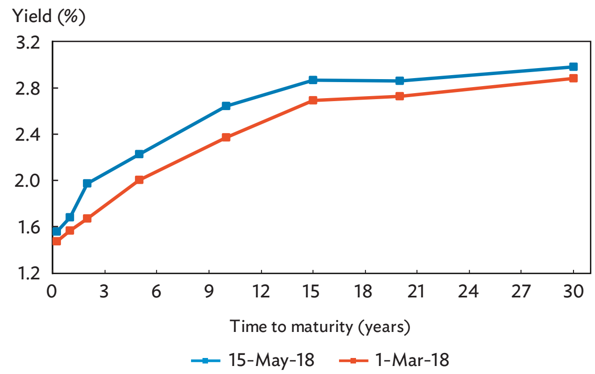
The Government of the Philippines plans to issue a total of PHP325 billion in Q2 2018, comprising PHP195 billion of Treasury bills and PHP130 billion of Treasury bonds. This compares with the Q1 2018 offering of PHP240 billion, which consisted of PHP120 billion each of Treasury bills and Treasury bonds. Auctions in Q2 2018 will be conducted on a weekly basis. The increase in domestic borrowing during the past few quarters has funded the growth of the national budget and supported the infrastructure spending program of the current administration.

Singapore

Yield Movements

Between 1 March and 15 May, local currency (LCY) government bond yields in Singapore rose for all tenors (**Figure 1**). The yield for 2-year Singapore Government Securities (SGS) bonds increased the most at 30 basis points (bps). This was followed by yields on bonds with 5-year and 10-year maturities, which advanced 22 bps and 27 bps, respectively. The yield for the 3-month Treasury bill increased the least, gaining only 8 bps. The yield spread between the 2-year and 10-year tenors narrowed 3 bps between 1 March and 15 May.

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



Source: Based on data from Bloomberg LP.

Singapore's interest rates mainly tracked interest rate movements in the United States (US) during the review period; all tenors on the US yield curve likewise increased between 1 March and 15 May. The slower rise at the long-end of the curve signaled that investors believe long-term growth optimism remain intact. The US Federal Reserve raised benchmark interest rates last March, but investors are still expecting two to three more rate hikes this year, as indicated by the movements of futures contracts, despite low inflationary pressures.

During its policy meeting on 13 April, the Monetary Authority of Singapore (MAS) decided to increase slightly the slope of the Singapore dollar nominal effective exchange rate policy band from zero. However, the width and center of the policy band were left unchanged. The MAS cited its forecast of steady economic growth and core inflation in 2018, as well as uncertainty over the possibility of a trade war between the US and the People's Republic of China, as justification for the tightening. The MAS emphasized that the policy stance would help stabilize medium-term prices, which is consistent with a modest and gradual appreciation path for the Singapore dollar nominal effective exchange rate policy band.

Consumer price inflation in February was 0.5% year-on-year (y-o-y). It eased to 0.2% y-o-y in March and further to 0.1% y-o-y in April. The decelerating inflation mainly resulted from lower price gains for retail items, which slowed to 0.9% y-o-y in April from 1.3% y-o-y in March. Meanwhile, the MAS core inflation indicator edged down to 1.3% y-o-y from 1.5% y-o-y during the same period.

The MAS and the Ministry Trade and Industry said in their outlook that oil prices may affect inflation as global oil prices increase, but the current volatility in prices will taper in succeeding quarters as supplies respond to demand. Global food prices are also expected to increase moderately in 2018. Domestically, wage growth will pick up a faster pace, but will be countered by retail rents remaining subdued due to market competition. The MAS projects that inflation will be in the upper half of the forecast range of 0.0%–1.0%. Likewise, core inflation is expected to rise gradually in 2018, moving toward the upper half of the forecast range of 1.0%–2.0%.

The Singapore dollar fared better during the first quarter (Q1) of 2018 compared with its 2017 closing rate of 1.336 against the US dollar. The SGD–USD exchange rate stayed below this level throughout Q1 2018, reaching its strongest level of SGD1.307 per US dollar in January after the US Department of the Treasury commented that it welcomed a weaker US dollar. In April, the Singapore dollar started to depreciate even with the announcement by MAS that it would allow the Singapore dollar to gradually appreciate against the US dollar. The US dollar strengthened against the Singapore dollar, along with other Asian currencies, threatening to wipe out earlier gains. Through 15 May,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**348**	**249**	**363**	**272**	**376**	**287**	**3.5**	**7.2**	**3.7**	**8.2**
Government	205	147	222	166	230	175	6.1	11.5	3.7	12.2
SGS Bills and Bonds	117	84	116	87	121	92	6.2	6.4	4.2	3.5
MAS Bills	88	63	106	79	109	83	6.0	19.2	3.1	23.8
Corporate	143	102	141	106	146	112	(0.1)	1.5	3.8	2.5

( ) = 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.

the Singapore dollar had depreciated 0.64% year-to-date against the greenback.

Singapore's economy grew 4.4% y-o-y in Q1 2018, up from an expansion of 3.6% y-o-y in the fourth quarter of 2017. The biggest contributors to growth were the manufacturing, finance, and insurance sectors. Output in all sectors expanded in Q1 2018, except for the construction sector. The Ministry of Trade and Industry revised its gross domestic product outlook for 2018 to a range of 2.5%–3.5%, from the previously announced range of 1.5%–3.5%, due to the economy's strong performance in Q1 2018.

Size and Composition

Singapore's LCY bonds outstanding amounted to SGD376 billion (USD287 billion) at the end of March, an expansion of 3.7% quarter-on-quarter (q-o-q) and 8.2% y-o-y (**Table 1**). This was an improvement from the 3.5% q-o-q and 7.2% y-o-y growth during Q1 2017. The expansion was supported by the increase in outstanding government bills and bonds, as well as outstanding corporate bonds.

Government bonds. LCY government bonds outstanding grew 3.7% q-o-q and 12.2% y-o-y in Q1 2018, expanding to SGD230 billion at the end of March from SGD222 billion at the end of December. The expansion was driven by SGS bills and bonds which increased 4.2% q-o-q to reach a size of SGD121 billion. MAS bills also contributed to the expansion, increasing 3.1% q-o-q, amounting to SGD109 billion.

Three SGS bonds were reopened during the quarter—a 2-year, a 5-year, and a 30-year bond—all of which were oversubscribed. All MAS bill auctions in Q1 2018 were successful, with each issuance being oversubscribed as indicated by bid-to-cover ratios greater than 1.0.

Total LCY government bills and bonds issued during Q1 2018 amounted to SGD116.5 billion, comprising SGD109.4 billion of MAS bills and only SGD7.1 billion of SGS bills and bonds. In January, SGD2.2 billion worth of SGS bills were redeemed.

Corporate bonds. Outstanding LCY corporate bonds expanded 3.8% q-o-q and 2.5% y-o-y in Q1 2018, increasing to SGD146 billion from SGD141 billion in the previous quarter.

The top 30 LCY corporate bond issuers accounted for 47.8% of all corporate bonds outstanding with an aggregate total of SGD70.0 billion (**Table 2**). Singapore's Housing & Development Board (HDB) topped the list with SGD22.4 billion of outstanding bonds, which comprised 15.3% of all outstanding corporate bonds. The state-owned Land Transport Authority (LTA) was a distant second with SGD5.0 billion, representing 3.4% of all corporate bonds outstanding. There were seven state-owned corporations among the top 30 issuers, coming from the real estate, transportation, finance, utilities, and marine services industries. By sector, the real estate industry accounted for almost half (48.7%) of the corporate bonds outstanding with SGD34.1 billion. This was followed by the finance sector with SGD10.4 billion, or 14.9% of the outstanding corporate bonds.

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	22.4	17.1	Yes	No	Real Estate
2.	Land Transport Authority	5.0	3.8	Yes	No	Transportation
3.	Temasek Financial I	3.6	2.7	Yes	No	Finance
4.	Frasers Property	3.4	2.6	No	Yes	Real Estate
5.	United Overseas Bank	3.4	2.6	No	Yes	Banking
6.	Singapore Airlines	3.0	2.3	Yes	Yes	Transportation
7.	Capitaland	2.8	2.1	Yes	Yes	Real Estate
8.	Mapletree Treasury Services	2.1	1.6	No	No	Finance
9.	SP Powerassets	1.9	1.4	No	No	Utilities
10.	Keppel Corporation	1.7	1.3	No	Yes	Diversified
11.	Capitaland Treasury	1.6	1.2	No	No	Finance
12.	DBS Group Holdings	1.5	1.2	No	Yes	Banking
13.	Olam International	1.4	1.1	No	Yes	Consumer Goods
14.	Public Utilities Board	1.4	1.1	Yes	No	Utilities
15.	GLL IHT	1.4	1.0	No	No	Real Estate
16.	Hyflux	1.2	0.9	No	Yes	Utilities
17.	Singtel Group Treasury	1.2	0.9	No	No	Finance
18.	City Developments	1.1	0.9	No	Yes	Real Estate
19.	CMT MTN	1.0	0.8	No	No	Finance
20.	National University of Singapore	1.0	0.8	No	No	Education
21.	Sembcorp Industries	1.0	0.8	No	Yes	Shipbuilding
22.	Ascendas REIT	1.0	0.7	No	Yes	Finance
23.	Mapletree Commercial Trust	0.9	0.7	No	Yes	Real Estate
24.	Sembcorp Financial Services	0.9	0.6	No	No	Engineering
25.	DBS Bank	0.8	0.6	No	Yes	Banking
26.	Keppel Land International	0.7	0.6	No	No	Real Estate
27.	CCT MTN	0.7	0.6	No	No	Real Estate
28.	StarHub	0.7	0.5	No	Yes	Diversified
29.	Perennial Real Estate Holdings	0.7	0.5	No	Yes	Real Estate
30.	PSA Corporation	0.7	0.5	Yes	No	Marine Services
Total Top 30 LCY Corporate Issuers		**70.0**	**53.4**			
Total LCY Corporate Bonds		**146.4**	**111.6**			
Top 30 as % of Total LCY Corporate Bonds		**47.8%**	**47.8%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 31 March 2018.
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.

A total of SGD5.5 billion of LCY corporate bonds were issued during Q1 2018, an expansion of 38.2% q-o-q and 32.1% y-o-y. Singapore's 2018 budget for infrastructure spending called for new infrastructure bond issuance to fund projects such as the construction of Changi Airport Terminal 5, the Integrated Waste Management Facility, the KL-Singapore High Speed Rail, and the JBSingapore Rapid Transit System Link. Government-owned companies LTA and HDB accounted for 47.5% of all LCY corporate bond issuance during the quarter with a combined total of SGD2.6 billion worth of bonds to finance rail and public housing infrastructure. Notable LCY corporate bond issuances in Q1 2018 are listed in **Table 3**. The LTA issued 10-year and 30-year bonds with coupon rates of 2.75% and 3.35%, respectively, with the latter being the single largest corporate bond sale in Q1 2018 amounting to SGD1,200 million. The HDB offered 5-year and 10-year bonds with coupon rates of 2.30% and 2.32%, respectively. GLL IHT and Frasers Property both issued perpetual bonds, the former offering a SGD400 million bond with a 4.60% coupon rate and the latter issuing a SGD300 million bond with a 4.38% coupon.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
30-year bond	3.35	1,200
Housing and Development Board		
5-year bond	2.30	600
10-year bond	2.32	515
GLL IHT		
Perpetual bond	4.60	400
Frasers Property		
Perpetual bond	4.38	300

SGD = Singapore dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

MAS to Introduce Central Clearing for OTC Derivatives

On 2 May, the MAS announced new regulations, effective 1 October, that will require over-the-counter (OTC) derivatives to be cleared through central counterparties. The regulations are meant to mitigate the credit risk of nonstandard derivatives. The regulations will cover the widely traded Singapore and US dollar fixed-for-floating interest rate swaps, and will require banks with gross notional outstanding OTC derivative transactions exceeding USD20 billion to clear their trades with central counterparties regulated by the MAS.

Singapore and Japan to Renew Swap Arrangement

On 4 May, the MAS and the Ministry of Finance of Japan expressed their intent to renew the existing Bilateral Swap Agreement that enables both countries to swap their respective local currencies in exchange for US dollars in times of need. The two countries are also in talks to include the Japanese yen as an additional swap currency of choice. The move to renew the arrangement is for the mutual benefit of Singapore and Japan in order to facilitate financial and economic stability and promote the use of local currency in the region. The bilateral swap arrangement will expire on 21 May.

Singapore and Brunei Darussalam Sign Cooperation Agreement for Financial Innovation

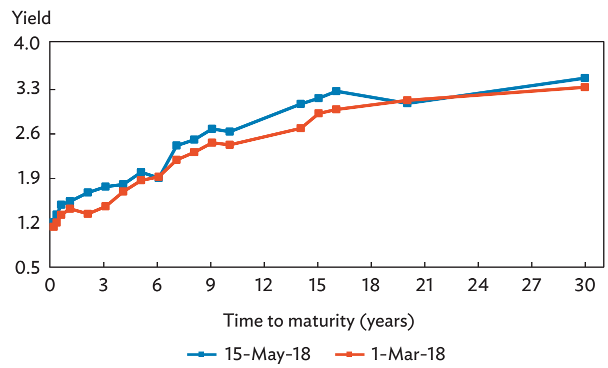
On 12 May, the MAS and the Autoriti Monetari Brunei Darussalam signed an agreement to enhance innovation in financial services between the two countries. The FinTech Cooperation Agreement will help in information sharing regarding FinTech, and in promoting joint innovation projects between Singapore and Brunei Darussalam. Businesses and consumers will also benefit from the enhancement of the retail payment ecosystem between the two countries.

Thailand

Yield Movements

Between 1 March and 15 May, local currency (LCY) government bond yields in Thailand climbed for all tenors except the 6-year and 20-year maturities, which posted slight declines (**Figure 1**). The yields for bonds with maturities of 1 year or less climbed an average of 12 basis points (bps), while yields for the 2-year to 16-year tenors gained an average of 24 bps. The spread between the 2-year and 10-year maturities narrowed from 108 bps on 1 March to 95 bps on 15 May.

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



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

Thailand's LCY government bond yields declined earlier this year as bond prices were buoyed by strong investor demand. Toward the end of April, however, bond yields gradually climbed, largely influenced by the rise in yields for United States (US) Treasuries and the broad strengthening of the US dollar. Economic conditions in the US have gained further traction, signaling that the Federal Reserve will proceed with its monetary policy normalization. Tightening liquidity conditions alongside other external risks, including uncertainties relating to rising oil prices and US trade policies, led investors to pull out from most emerging financial markets including Thailand. In April, net foreign bond outflows amounting to USD0.8 billion were recorded in the Thai bond market, following 3 consecutive months of net foreign bond inflows.

Despite rising global risks, the Monetary Policy Committee of the Bank of Thailand decided to hold its policy rate unchanged at 1.50% in its meeting on 16 May. The committee noted that the domestic economy continues to strengthen, buoyed by growth in the external sector and improvements in domestic demand. The central bank deemed its current accommodative policy conducive to ensuring financial stability but noted the risks in the global economy.

In the first quarter (Q1) of 2018, gross domestic product growth accelerated to 4.8% year-on-year (y-o-y) from 4.0% y-o-y in the previous quarter. All major expenditure groups posted positive y-o-y growth during the quarter. Domestic consumption grew 3.6% y-o-y in Q1 2018, up from 3.4% in the fourth quarter (Q4) of 2017. Growth accelerated for government expenditure (1.9%) and investment (3.4%) after each had expanded less than 0.5% y-o-y in the previous quarter. Export growth was strong at 6.0% y-o-y in Q1 2018, although slightly down from the 7.4% y-o-y expansion in Q4 2017, buoyed by improving external demand. The strong economic performance in Q1 2018 led the Ministry of Finance to revise its full-year 2018 growth projection to 4.5% from an earlier estimate of 4.2%.

Consumer price inflation rose 1.1% y-o-y in April, up from 0.8% y-o-y in March. The uptick in inflation also contributed to the upward pressure on yields.

Size and Composition

The size of Thailand's LCY bond market stood at THB11.4 trillion at the end of March, with growth slowing on both a q-o-q and y-o-y basis (**Table 1**). Growth eased to 1.2% q-o-q in Q1 2018 following a 2.2% q-o-q expansion in Q4 2017. On a y-o-y basis, bond market growth slowed to 2.2% from 3.9% in the same period.

The Thai bond market was the third-largest bond market in emerging East Asia at the end of March. Among members of the Association of Southeast Asian Nations, its market is the largest in terms of size, accounting for a 27.2% share of the group's total bonds outstanding. The Thai bond market is largely dominated by government bonds with a share of 71.9%; the remaining 28.1% share

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**11,163**	**325**	**11,279**	**346**	**11,410**	**366**	**2.8**	**9.4**	**1.2**	**2.2**
Government	8,249	240	8,196	252	8,203	263	3.9	8.4	0.1	(0.6)
Government Bonds and Treasury Bills	4,203	122	4,334	133	4,425	142	4.1	6.0	2.1	5.3
Central Bank Bonds	3,279	95	3,042	93	2,969	95	4.6	14.3	(2.4)	(9.4)
State-Owned Enterprise and Other Bonds	766	22	820	25	808	26	0.1	(0.9)	(1.4)	5.5
Corporate	2,914	85	3,083	95	3,208	103	(0.2)	12.1	4.0	10.1

( ) = 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 LP end-of-period LCY–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
Sources: Bank of Thailand and Bloomberg LP.

is accounted for by corporate bonds. Growth during Q1 2018 was largely driven by the corporate bond segment.

Government bonds. At the end of March, the total LCY government bond stock rose to THB8.2 trillion on marginal growth of 0.1% q-o-q. On a y-o-y basis, however, the stock of government bonds contracted 0.6%. Growth in the government bond market came solely from increases in the stock of Treasury bills and government bonds, which rose 2.1% q-o-q in Q1 2018. In contrast, the stock of central bank bills and bonds declined 2.4% q-o-q as maturities exceeded new issuance. The stock of state-owned enterprise bonds also fell 1.4% q-o-q in Q1 2018.

Total issuance of government bonds in Q1 2018 rose 9.9% q-o-q to reach THB1.8 trillion. Of this amount, about 65% was accounted for by central bank bills and bonds.

Corporate bonds. At the end of March, the outstanding stock of corporate bonds reached THB3.2 trillion on growth of 4.0% q-o-q and 10.1% y-o-y. The increase may be attributed to the rush of issuance from corporates ahead of plans by the Securities and Exchange Commission, Thailand to issue stricter regulations on bond issuance by June. In Q1 2018, corporate bond issuance totaled THB463 billion on growth of 3.0% q-o-q hike and 25.9% y-o-y.

The outstanding size of the 30 largest corporate bond issuers in Thailand stood at THB1.8 trillion at the end of March (**Table 2**). This represents nearly 55% of the total corporate bond stock at the end of the review period. There were five state-owned firms on the list, two of which landed in the top five. A total of 23 firms on the list were also tapping the equity market for their funding needs.

The largest corporate bond issuer at the end of March was CP All with outstanding bonds of THB181.8 billion. A close second was state-owned Siam Cement with bonds valued at THB181.5 billion. In the third spot was another state-owned firm, PTT, with outstanding bonds amounting to THB129.3 billion.

Some of the largest corporate bond issues during the quarter are presented in **Table 3**. Thai Beverage raised a total of THB50 billion from the sale of multitranche bonds in March. Telecommunications service provider True Corporation followed next with total issuance amounting to THB17.5 billion. Bank of Ayudhya and Krungsriayudhya Card Company each issued THB15 billion of bonds during the quarter.

Investor Profile

Central government bonds. The largest investor group in Thailand's central government bond market comprised financial corporations, whose holdings accounted for a 43.3% share of the aggregate central government bond stock at the end of March, up from a 41.8% share a year earlier (**Figure 2**). Other major investor groups that posted increases in their holdings of central government bonds during the review period include other depository corporations and foreign investors. On the other hand, the

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	181.8	5.8	No	Yes	Commerce
2.	Siam Cement	181.5	5.8	Yes	Yes	Construction Materials
3.	PTT	129.3	4.1	Yes	Yes	Energy and Utilities
4.	Bank of Ayudhya	123.0	3.9	No	Yes	Banking
5.	Berli Jucker	122.0	3.9	No	Yes	Food and Beverage
6.	Charoen Pokphand Foods	93.5	3.0	No	Yes	Food and Beverage
7.	Thai Airways International	68.1	2.2	Yes	Yes	Transportation and Logistics
8.	True Move H Universal Communication	60.7	1.9	No	No	Communications
9.	Toyota Leasing Thailand	59.3	1.9	No	No	Finance and Securities
10.	Tisco Bank	51.9	1.7	No	No	Banking
11.	Indorama Ventures	51.4	1.6	No	Yes	Petrochemicals and Chemicals
12.	Thai Beverage	50.0	1.6	No	No	Food and Beverage
13.	Banpu	47.3	1.5	No	Yes	Energy and Utilities
14.	Krungthai Card	44.8	1.4	Yes	Yes	Banking
15.	Land & Houses	41.5	1.3	No	Yes	Property and Construction
16.	Advanced Wireless	40.2	1.3	No	Yes	Communications
17.	Mitr Phol Sugar	34.9	1.1	No	No	Food and Beverage
18.	Thai Union Group	33.8	1.1	No	Yes	Food and Beverage
19.	TPI Polene	33.0	1.1	No	Yes	Property and Construction
20.	DTAC Trinet	31.5	1.0	No	Yes	Communications
21.	Bangkok Commercial Asset Management	30.8	1.0	No	No	Finance and Securities
22.	PTT Exploration and Production Company	29.6	0.9	Yes	Yes	Energy and Utilities
23.	CPF Thailand	29.0	0.9	No	Yes	Food and Beverage
24.	CH. Karnchang	28.5	0.9	No	Yes	Property and Construction
25.	Thanachart Bank	28.5	0.9	No	No	Banking
26.	Bangkok Expressway and Metro	28.2	0.9	No	Yes	Transportation and Logistics
27.	Bangkok Dusit Medical Services	28.0	0.9	No	Yes	Medical
28.	Kasikorn Bank	28.0	0.9	No	Yes	Banking
29.	True Corp	27.6	0.9	No	Yes	Communications
30.	Thai Oil	23.5	0.8	No	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers		**1,761.1**	**56.5**			
Total LCY Corporate Bonds		**3,207.8**	**102.9**			
Top 30 as % of Total LCY Corporate Bonds		**54.9%**	**54.9%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 31 March 2018.
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 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Thai Beverage		
2-year bond	1.79	5,000
3-year bond	2.10	11,200
6-year bond	2.76	10,000
7-year bond	3.15	9,300
10-year bond	3.60	14,500
True Corporation		
1-year bond	2.78	10,000
1.01-year bond	2.78	7,500
Bank of Ayudhya		
3-year bond	1.91	15,000
Krungsriayudhya Card Company		
1-year bond	1.60	7,000
2-year bond	1.66	8,000

THB = Thai baht.
Source: Bloomberg LP.

central government posted the largest decline in holdings, with its share declining from 15.7% at the end of March 2017 to 11.6% at the end of March 2018. The central bank posted a decline in holdings from 5.5% to 3.0% in the same period.

Central bank bonds. At the end of March, depository corporations were the largest holders of central bank bonds, accounting for more than a third of the total (**Figure 3**). Their holdings however slipped from 48.1% from the same period a year earlier. In contrast, financial corporations' holdings of central bank bonds climbed to 28.2% at the end of March from 22.6% a year earlier. Foreign investor holdings of central bank bonds also rose to a share of 6.8% of the total from 2.3% in the same period.

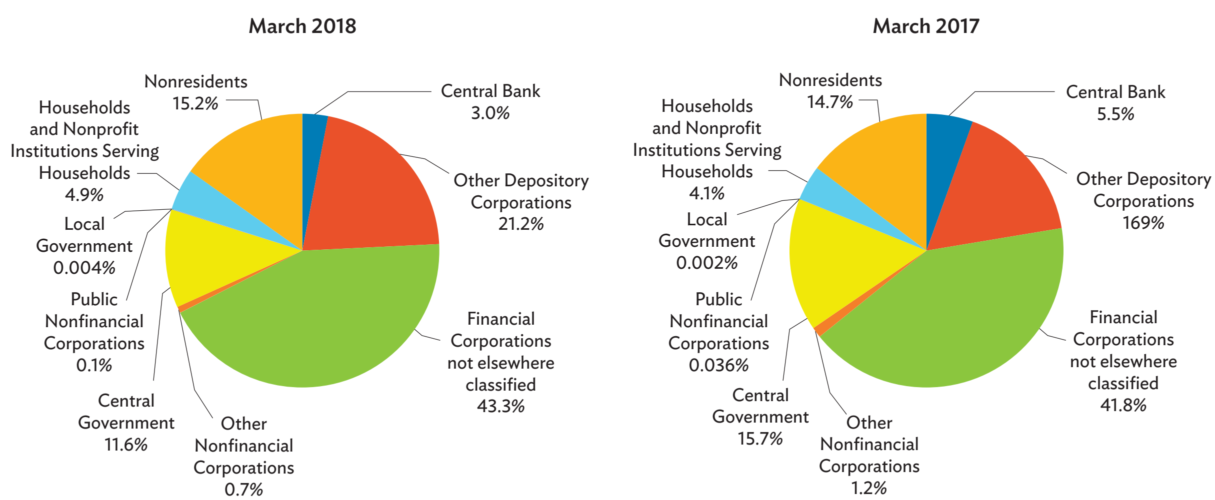
In the January–April period, Thailand recorded net foreign inflows in its LCY bond market of THB97.0 billion, which was lower than the THB101.9 billion recorded in the same period a year earlier (**Figure 4**). April saw net outflows valued at THB23.9 billion, pulling down earlier gains in the first 3 months of the year. Rising interest rates in US Treasuries resulted in foreign investors withdrawing from the Thai bond market as Thai bond yields have stayed below US Treasury rates in recent months.

Policy, Institutional, and Regulatory Developments

Bank of Thailand Increases Frequency of Issuance of 2-Year Bonds

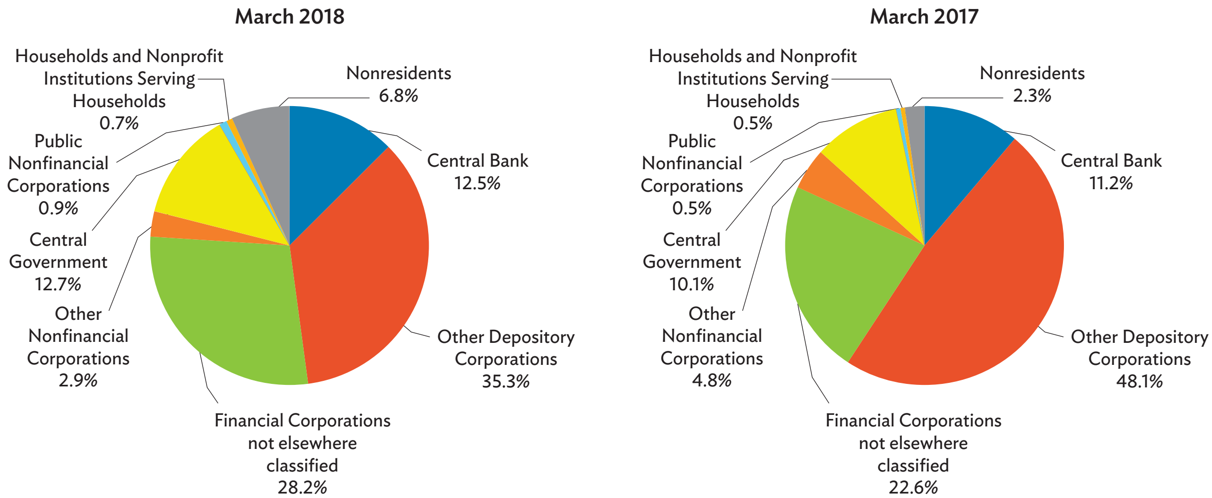
In January, the Bank of Thailand raised the frequency of issuance of its 2-year bonds to monthly from the previous schedule of every even month. New issuance of 2-year Bank of Thailand bonds are scheduled for February, May, August, November, while reopenings are scheduled in the months between each new issuance. The maximum

Figure 2: Local Currency Government Bonds Investor Profile



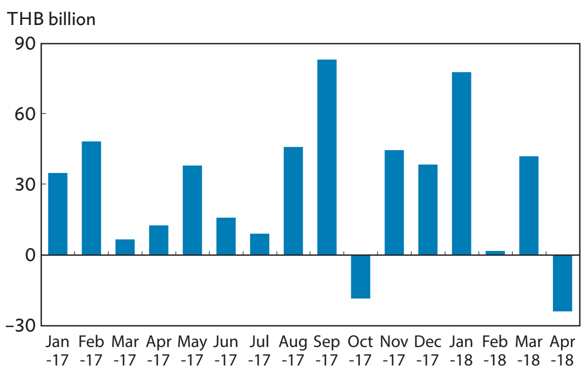
Note: Government bonds include Treasury bills and bonds.
Sources: *AsianBondsOnline* and Bank of Thailand.

Figure 3: Local Currency Central Bank Securities Investor Profile



Source: Bank of Thailand.

Figure 4: Foreign Investor Net Trading of Local Currency Bonds in Thailand



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

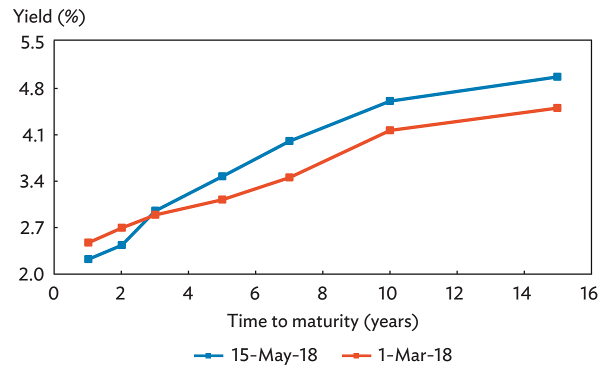
issue size for a 2-year bond was also reduced to a range of THB15 billion–THB40 billion due to the increased frequency of issuance. The revision to the issuance plan was made to help ease liquidity conditions. The Bank of Thailand issues bonds for the management of money market liquidity.

Viet Nam

Yield Movements

Between 1 March and 15 May, local currency (LCY) government bond yields in Viet Nam increased for all tenors except the 1-year and 2-year maturities, which fell 25 basis points (bps) and 26 bps, respectively (**Figure 1**). Yield increases for 3-year to 15-year tenors ranged from 6 bps to 55 bps, with 3-year maturities having the smallest gain and 7-year maturities the largest. The yield spread between 2-year and 10-year bonds widened to 215 bps from 146 bps during the review period.

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



Source: Based on data from Bloomberg LP.

The decline in yields at the short-end of the curve can be attributed to the State Bank of Vietnam's (SBV) reduction of its open market operation interest rate in January when the central bank cut the interest rate by 25 bps to 4.75%. The move was intended to support economic growth by bringing down bank lending rates. On the other hand, since domestic investors are the major players in Viet Nam's bond market, the upward movement in yields of long-term bonds reflects mounting pressure from rising global interest rates as the United States Federal Reserve and other major central banks prepare for accelerated monetary policy normalization.

Consumer price inflation in Viet Nam slightly climbed to 2.8% year-on-year (y-o-y) in April from 2.7% y-o-y in March, driven by higher prices for food, housing, transport, and education, with the fastest upward price adjustment seen in transport. February recorded the highest inflation rate of the year through April at 3.2% y-o-y and also highest since September 2017. Core inflation, barely changed in April at 1.3% y-o-y from 1.4% y-o-y in March, has been stable since the start of the year.

In January, the central bank set its key monetary management policies for 2018 with a focus on maintaining economic stability by pursuing a proactive and flexible monetary policy. The State Bank of Vietnam last cut its benchmark refinancing rate by 25 bps to 6.25% on 10 July 2017 to boost the economy's lagging growth. The Vietnamese dong has depreciated 0.3% against the United States dollar year-to-date through 15 May. The stability of the dong is being supported by a healthy balance of payments; high growth of investment inflows due to an improved investment climate; and the continuous buildup of foreign reserves by the SBV, which have recently hit record highs. These factors have also contributed to rising investor confidence in the Vietnamese market.

Viet Nam's economy expanded faster than expected at 7.4% y-o-y in the first quarter (Q1) of 2018, carrying on the growth momentum achieved in the last 3 quarters of 2017. The gross domestic product (GDP) expansion was propelled by the agriculture and industrial sectors, which contributed 0.5 percentage points and 3.4 percentage points, respectively. The services sector also expanded in Q1 2018, but at a slower pace compared with the preceding quarter, contributing 2.8 percentage points to GDP growth. On the expenditure side, exports drove the economic expansion, increasing 22.0% y-o-y. The Government of Viet Nam has targeted 6.7% GDP growth in 2018, but rising protectionism in large economies posts a challenge to the export-driven economy.

Size and Composition

The size of Viet Nam's LCY bond market reached VND1,173 trillion at the end of March, registering growth of 8.6% quarter-on-quarter (q-o-q) and 17.2% y-o-y (**Table 1**). While the government and corporate bond segments both saw increases in Q1 2018, growth in the LCY bond market is largely driven by government

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,000,756	44	1,080,093	48	1,173,062	51	0.3	14.2	8.6	17.2
Government	952,610	42	1,017,691	45	1,108,110	49	0.3	13.4	8.9	16.3
Treasury Bonds	747,887	33	788,918	35	828,247	36	1.5	18.9	5.0	10.7
Central Bank Bills	0	0	16,400	1	91,270	4	(100.0)	(100.0)	456.5	–
State-Owned Enterprise and Municipal Bonds	204,722	9	212,373	9	188,593	8	(0.03)	(0.5)	(11.2)	(7.9)
Corporate	48,146	2	62,402	3	64,952	3	1.0	30.9	4.1	34.9

– = not applicable, ( ) = 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.

bonds, which comprise about 94% of the total. Despite the strong growth, Viet Nam's bond market remains the smallest in emerging East Asia.

Government bonds. LCY government bonds outstanding grew 8.9% q-o-q and 16.3% y-o-y to reach VND1,108 trillion at the end of March. The growth recorded in the period was faster compared with the fourth quarter (Q4) of 2017. Treasury bonds remain the key driver of the increase in growth of 5.0% q-o-q and constitute the largest share of total government bonds at about 75%. A notable surge was seen in the stock of SBV bills, which rose more than fivefold on a quarterly basis to VND91.3 trillion, after dropping 21.9% q-o-q at the end of December 2017. The dramatic increase in debt was due to large issuance from the central bank during Q1 2018. On the other hand, state-owned enterprise bonds fell 11.2% q-o-q, following an increase of 9.9% q-o-q in Q4 2017, due to a large amount of maturities and no new issuance in Q1 2018.

LCY debt issuance from the government in Q1 2018 totaled VND484.5 trillion, representing a 45.4% q-o-q increase, largely driven by issuance of SBV bills, which summed to VND435.1 trillion. The SBV has increased its foreign reserves in recent months by purchasing foreign currencies, resulting in a large amount of Vietnamese dong circulating in the system. The issuance of short-term securities in Q1 2018 was intended to withdraw local money from the banking system in order to minimize inflation risks. Treasury bonds also saw a dramatic increase in issuance in Q1 2018. While the amount is far less than the issuance of SBV bills, debt sales surged nearly sixfold to reach VND49.4 trillion during the quarter. The government plans to mobilize VND200 trillion of government bonds in 2018 for its state budget, with an emphasis on long-term maturities and keeping the interest rate low. The government may, however, adjust the volume of bonds and their structure in line with market conditions.

Corporate bonds. The size of the corporate sector's bond market was valued at VND65 trillion at the end of March, growing 4.1% from the end of December and 34.9% from a year earlier. The slower growth in Q1 2018 compared with Q4 2017 was due to lower corporate debt issuance. The number of corporate bond issuers increased to 33 firms at the end of March from 27 firms a year earlier. The top 30 corporate bond issuers comprised nearly the entire corporate segment, with Masan Consumer Holdings again having the highest level of debt outstanding at VND11.1 trillion (**Table 2**).

Issuance activity in the corporate segment was subdued in Q1 2018 compared with Q4 2017. Total issuance during the quarter amounted to VND2,100 trillion from the debt sales of three firms, which was 83% lower than in Q4 2017. Saigon Securities was the largest corporate issuer among the three firms in Q1 2018 with a debt sale of VND1,150 trillion of 3-year maturities at a 4.0% coupon rate.

Ratings Update

On 14 May, Fitch Ratings upgraded Viet Nam's sovereign credit rating to BB from BB– with a stable outlook.

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	9,600	0.42	No	Yes	Real Estate
3.	Asia Commercial Joint Stock	4,600	0.20	No	No	Finance
4.	Masan Group Corporation	4,500	0.20	No	Yes	Finance
5.	No Va Land Investment Group	4,250	0.19	No	Yes	Real Estate
6.	Vietinbank	4,200	0.18	No	Yes	Banking
7.	Hoang Anh Gia Lai	4,000	0.18	No	Yes	Real Estate
8.	Techcom Bank	3,000	0.13	No	No	Banking
9.	Vietnam Prosperity Bank	3,000	0.13	No	Yes	Banking
10.	Vietcombank	2,000	0.09	Yes	Yes	Banking
11.	Ho Chi Minh City Infrastructure	1,833	0.08	No	Yes	Infrastructure
12.	Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
13.	Saigon Securities	1,650	0.07	No	Yes	Finance
14.	Agro Nutrition International	1,300	0.06	No	No	Agriculture
15.	Mobile World Investment Corporation	1,135	0.05	No	Yes	Manufacturing
16.	DIC Corporation	1,000	0.04	Yes	No	Chemicals
17.	KinhBac City Development Holding	700	0.03	No	Yes	Real Estate
18.	Sai Gon Thuong Tin Real Estate Joint Stock	600	0.03	No	Yes	Real Estate
19.	Khang Dien House Trading and Investment	534	0.02	No	Yes	Building and Construction
20.	Saigon-Hanoi Securities Corporation	800	0.04	No	Yes	Finance
21.	Tasco Corporation	500	0.02	No	Yes	Engineering and Construction
22	An Phat Plastic & Green Environment	450	0.02	No	Yes	Industrial
23.	Cuu Long Pharmaceutical Company	450	0.02	No	Yes	Manufacturing
24.	Sotrans Corporation	400	0.02	No	No	Logistics
25.	Vietnam Investment Construction and Trading	350	0.02	No	Yes	Building and Construction
26.	Hung Vuong Corporation	300	0.01	No	Yes	Food
27.	Loc Troi Group	220	0.01	No	Yes	Manufacturing
28.	Ha Do Corporation	200	0.01	No	Yes	Construction
29	Thanh Thanh Cong Education Corporation	150	0.01	No	No	Education
30.	Son Ha International Corporation	110	0.01	No	Yes	Building and Construction
Total Top 30 LCY Corporate Issuers		**64,732**	**2.8**			
Total LCY Corporate Bonds		**64,952**	**2.8**			
Top 30 as % of Total LCY Corporate Bonds		**99.7%**	**99.7%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 31 March 2018.
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.

The upgrade reflects Viet Nam's strong economic growth performance, rising foreign reserves, and the government's commitment to reducing the deficit and debt levels. Viet Nam's economy expanded 6.8% in 2017 and is forecast to grow 6.7% in 2018, backed by strong foreign direct investment inflows, an expanded manufacturing sector, and increased private consumption. The SBV has been building up its foreign reserves, which reached a record high in early 2018, to provide a cushion against external shocks and to improve investor confidence.

Policy, Institutional, and Institutional Developments

Government Approves State Budget and Sets Limit on Government-Guaranteed Loans

In April, Viet Nam's Prime Minister Nguyen Xuan Phuc approved the government's borrowing plan for 2018. The government will borrow a total of VND384 trillion, with VND276 trillion to be sourced from domestic loans and VND108 trillion from foreign loans. A large portion of the total borrowing, equivalent to VND341.8 trillion, will be used to balance the state budget. The Prime Minister also approved limits on government-guaranteed loans in 2018. For example, domestic bonds issued by the Vietnam Development Bank will not exceed VND24.4 trillion and those issued by the Vietnam Bank for Social Policies will not exceed VND9.67 trillion. In addition, limits were set on loans guaranteed by the government for projects, foreign commercial loans of enterprises, commercial loans of enterprises and credit organizations, and loans of local governments.

State Securities Commission Issues New Margin Lending Policy

Viet Nam's State Securities Commission issued a draft regulation requiring the initial margin ratio to be at least 60%, effective 1 February. The margin ratio of 60:40 means that investors have to deposit 60% of the purchase price and are allowed to borrow the remaining 40% from the broker. The regulation aims to reduce potential risks in the stock market and restrain credit growth in the banking and financial sector. At the same time, a credit slowdown could affect the growth momentum of the stock market.