Bond Market Developments in the First Quarter of 2019

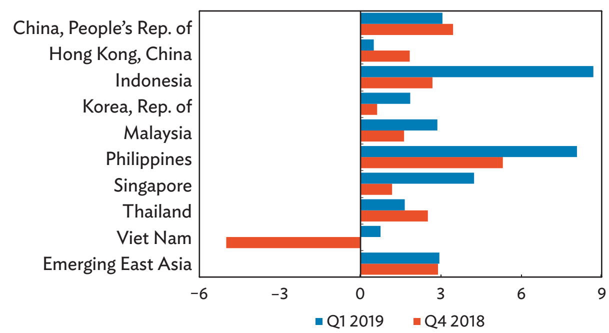
Size and Composition

Emerging East Asia's local currency bond market reached a size of USD15.0 trillion at the end of March.

The local currency (LCY) bond market in emerging East Asia expanded in size to reach USD15.0 trillion at the end of March.[3] Improved investor optimism in emerging markets benefitted the region's bond market after the United States (US) Federal Reserve hinted at a pause in policy rate hikes for the rest of the year. At the same time, the region's bond markets are beginning to feel the impact of the overall slowdown in the global economy.

The region's bond market grew 2.9% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2019, maintaining its pace of growth from the fourth quarter (Q4) of 2018 (**Figure 1a**). All of the region's nine markets recorded positive q-o-q growth in Q1 2019, with the fastest growth seen in Indonesia and the Philippines. Compared with Q4 2018, the q-o-q growth rate accelerated in all emerging East Asian bond markets except for those in the People's Republic of China (PRC); Hong Kong, China; and Thailand.

Figure 1a: Growth of Local Currency Bond Markets in the Fourth Quarter of 2018 and First Quarter of 2019 (q-o-q, %)



q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 31 March 2019 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

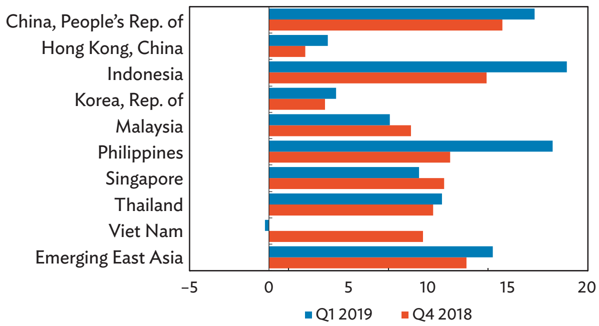
On a year-on-year (y-o-y) basis, the region's LCY bond market grew at a faster pace of 14.0% in Q1 2019 versus 12.4% in Q4 2018 (**Figure 1b**). Positive y-o-y growth rates were recorded in all emerging East Asian markets except Viet Nam in Q1 2019. Similar with the q-o-q trends, Indonesia and the Philippines were the region's fastest growing bond markets, albeit from a relatively low base in both cases. The LCY bond markets of Malaysia, Singapore, and Viet Nam recorded slower y-o-y growth in Q1 2019 than in Q4 2018.

The PRC remained the region's leader in terms of bond market size, with outstanding bonds of USD11.3 trillion at the end of March. The PRC's share of the regional bond market total increased to 75.3% at the end of March from 74.6% at the end of December. However, the PRC's overall bond market growth moderated to 3.0% q-o-q in Q1 2019 from 3.4% q-o-q in Q4 2018.

Much of the growth in the PRC's government bond segment was sustained by an increase in the stock of local government bonds, the issuance of which surged in Q1 2019. As part of measures to boost the economy, the government frontloaded local governments' allocation for the issuance of special bonds in January instead of March, as had been the case in recent years. The growth in the local government bond stock, however, was capped by a contraction in the stock of Treasury bills and bonds as maturities exceeded new issuances, which declined by nearly half during the review period.

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

Figure 1b: Growth of Local Currency Bond Markets in the Fourth Quarter of 2018 and First Quarter of 2019 (y-o-y, %)



Q1 = first quarter, Q4 = fourth quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 31 March 2019 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

Growth in the corporate bond stock moderated to 4.1% q-o-q in Q1 2019 from 5.9% q-o-q in Q4 2018. While the volume of new corporate bonds issued remained fairly large, issuance in all major corporate bond categories fell except for commercial paper, which mostly carry short-term maturities. On a y-o-y basis, the PRC's bond market expanded 16.7% in Q1 2019.

The Republic of Korea's LCY bond market was the second largest in the region at USD2.0 trillion at the end of March. Growth in the bond market rebounded from 0.6% q-o-q in Q4 2018 to 1.8% q-o-q in Q1 2019. However, its share of the regional total slipped to 13.4% at the end of Q1 2019 from 14.0% in the previous quarter. Government bonds rose 1.9% q-o-q, largely driven by an increase in the stock of Korea Treasury Bonds (KTBs). In Q1 2019, the government sold more bonds as it frontloaded expenditures for 2019 by utilizing 70% of its budget in the first 6 months of the year to boost economic growth. The stock of corporate bonds also grew significantly during the review period, as firms locked in low borrowing costs amid concerns that the slowing economy could lead to a deterioration of credit quality and put upward pressure on interest rates. On an annual basis, growth in the Republic of Korea's bond market was 4.2% y-o-y in Q1 2019.

The size of the LCY bond market in Hong Kong, China was little changed at the end of March at USD249.7 billion. The overall growth of 0.5% q-o-q was the weakest among the region's bond markets in Q1 2019. The stock of government bonds contracted 0.6% q-o-q in Q1 2019, largely driven by the declines in the stocks of Exchange Fund Notes and Hong Kong Special Administrative Region Bonds. While the stock of Exchange Fund Bills rose 0.5% q-o-q, overall growth in government bonds was limited by the declines in the two other government instruments. The corporate bond segment was the main growth driver in Q1 2019, with issuance volume rising two-fold during the quarter. On a y-o-y basis, the bond market of Hong Kong, China grew 3.7% in Q1 2019.

The aggregate amount of LCY bonds outstanding among member economies of the Association of Southeast Asian Nations (ASEAN) stood at USD1.5 trillion at the end of March.[4] Overall growth inched up to 4.0% q-o-q in Q1 2019 from 2.0% q-o-q in Q4 2018. The total government bond stock climbed to USD996.0 billion and corporate bonds stood at USD458.5 billion at the end of March. The largest LCY bond markets in ASEAN at the end of Q1 2019 were found in Thailand, Malaysia, and Singapore.

The LCY bond market of Thailand expanded to a size of USD398.6 billion at the end of March, with growth moderating to 1.6% q-o-q in Q1 2019 from 2.5% q-o-q in Q4 2018. The government bond segment slowed its pace of expansion during the review period as the stock of state-owned enterprise bonds and other bonds declined, and the stock of government bonds and Treasury bills grew marginally. On the other hand, the corporate bond segment rebounded with growth rising from 0.5% q-o-q in Q4 2018 to 2.3% q-o-q in Q1 2019. The y-o-y growth rate in the Thai bond market inched up to 10.9% in Q1 2019.

The outstanding amount of Malaysia's LCY bonds totaled USD353.0 billion at the end of March, with growth

[4] LCY bond statistics for ASEAN include the markets of Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

accelerating from 1.6% q-o-q in Q4 2018 to 2.9% q-o-q in Q1 2019. Growth stemmed largely from government bonds, particularly central government bonds as their issuance picked up in Q1 2019. The stock of central bank bills, on the other hand, fell 9.9% q-o-q. Corporate bonds also contributed to the positive growth but on a smaller scale. On a y-o-y basis, Malaysia's LCY bond market grew 7.6% in Q1 2019.

The largest *sukuk* (Islamic bond) market in emerging East Asia is that of Malaysia, where 61.0% of total LCY bonds outstanding comprise *sukuk*. In Malaysia, 47.0% of all government bonds are structured following Islamic principles, while 76.9% of corporate bonds are *sukuk*.

Singapore's LCY bond market climbed to a size of USD309.6 billion at the end of March, as growth picked up from 1.2% q-o-q in Q4 2018 to 4.2% q-o-q in Q1 2019. Government bonds drove much of the growth, with increases in both Singapore Government Securities and Monetary Authority of Singapore bills. The corporate bond stock also grew 3.7% q-o-q. On an annual basis, Singapore's bond market growth eased to 9.4% y-o-y in Q1 2019 from 11.0% y-o-y in Q4 2018.

The outstanding amount of Indonesia's LCY bonds climbed to USD216.5 billion at the end of March, with growth accelerating to 8.7% q-o-q in Q1 2019 from 2.7% q-o-q in Q4 2018. Indonesia's bond market grew the most among its ASEAN peers, gaining USD17.0 billion in its stock of bonds during the review period, driven largely by government bonds. The stock of Treasury instruments expanded in line with the government's frontloading policy in which it opts to issue a higher volume in the first semester of the year to secure its funding requirements at a time when revenue collection is generally slow. The stock of central bank bills and bonds also contributed to the growth as Bank Indonesia continued to issue conventional Sertifikat Bank Indonesia (SBI) and *sukuk* Bank Indonesia (SukBi). The corporate bond stock grew 3.0% q-o-q on increased issuance volume as corporates took advantage of market conditions following the pause in rate hikes by the Federal Reserve. On a y-o-y basis, Indonesia's LCY bond market growth climbed from 13.7% in Q4 2018 to 18.7% in Q1 2019.

The Philippines' LCY bond market reached a size of USD125.4 billion at the end of March, as growth quickened from 5.3% q-o-q in Q4 2018 to 8.0% q-o-q in Q1 2019. Growth was buoyed largely by government bonds, the stock of which rose 8.8% q-o-q, up from 4.1% q-o-q growth in the prior quarter. The government took advantage of improving market sentiment and issued nearly triple the amount of bonds in Q1 2019 than in Q4 2018. The corporate bond segment also contributed to the overall growth, although at a lesser extent. Annual bond market growth in the Philippines jumped to 17.8% y-o-y in Q1 2019 from 11.4% y-o-y in Q1 2018.

The LCY bond market in Viet Nam posted positive q-o-q growth during the review period, rebounding from a contraction in the prior quarter. LCY bonds outstanding rose to USD51.4 billion at the end of March, up 0.7% q-o-q from the end of December. Growth was solely driven by an increase in the stock of Treasury bonds. For the first time in 5 months, the State Bank of Vietnam sold central bank bills amid flush liquidity in the banking system. The increases in the stock of Treasury bonds and central bank bills more than offset the decline in government-guaranteed bonds and municipal bonds. The stock of corporate bonds also declined in Q1 2019. On a y-o-y basis, Viet Nam's bond market contracted a marginal 0.2%.

At the end of March, government bonds continued to account for the majority of emerging East Asia's total LCY bond stock, representing a 61.7% share. In nominal terms, the outstanding amount of government bonds climbed to USD9.3 trillion on growth of 2.6% q-o-q and 14.0% y-o-y (**Table 1**). Accounting for the largest shares of the regional government bond market were the PRC and the Republic of Korea with 78.8% and 8.8% of the region's government bond stock, respectively.

Among ASEAN members, Thailand had the largest LCY government bond market at the end of March at a size of USD287.1 billion. Next largest were Singapore and Malaysia, with outstanding government bonds totaling USD188.5 billion and USD187.6 billion, respectively. Due to the rapid growth of government bonds outstanding in Q1 2019, Indonesia's total bonds outstanding were nearly on par at USD186.7 billion. The Philippines and Viet Nam continued to have the smallest government bonds outstanding at USD99.0 billion and USD47.1 billion, respectively.

LCY corporate bonds outstanding in emerging East Asia reached USD5.8 trillion at the end of March. On a q-o-q basis, growth in the corporate bond outstanding decelerated to 3.5% from 4.6% in the previous quarter.

Table 1: Size and Composition of Local Currency Bond Markets

	Q1 2018		Q4 2018		Q1 2019		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
							Q1 2018		Q1 2019		Q1 2018		Q1 2019	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	10,382	100.0	10,725	100.0	11,325	100.0	1.3	15.8	3.0	16.7	5.0	27.1	5.6	9.1
Government	6,735	64.9	6,961	64.9	7,309	64.5	0.7	17.5	2.5	16.1	4.4	28.9	5.0	8.5
Corporate	3,647	35.1	3,763	35.1	4,015	35.5	2.3	12.8	4.1	17.8	6.1	23.8	6.7	10.1
Hong Kong, China														
Total	241	100.0	249	100.0	250	100.0	(0.9)	2.1	0.5	3.7	(1.3)	1.1	0.3	3.7
Government	146	60.8	149	59.9	148	59.2	(0.4)	7.6	(0.6)	1.1	(0.8)	6.5	(0.9)	1.1
Corporate	94	39.2	100	40.1	102	40.8	(1.6)	(5.5)	2.2	7.7	(2.1)	(6.4)	1.9	7.7
Indonesia														
Total	189	100.0	197	100.0	217	100.0	4.0	13.4	8.7	18.7	2.7	10.1	9.8	14.4
Government	160	84.6	169	85.5	187	86.2	4.2	11.5	9.6	21.0	2.8	8.2	10.7	16.7
Corporate	29	15.4	29	14.5	30	13.8	3.4	24.8	3.0	5.9	2.1	21.1	4.0	2.1
Korea, Rep. of														
Total	2,056	100.0	2,014	100.0	2,007	100.0	1.2	4.4	1.8	4.2	1.5	9.8	(0.3)	(2.4)
Government	860	41.9	823	40.8	820	40.9	3.0	4.9	1.9	1.7	3.4	10.3	(0.3)	(4.7)
Corporate	1,195	58.1	1,191	59.2	1,187	59.1	(0.1)	4.0	1.8	6.0	0.2	9.3	(0.3)	(0.7)
Malaysia														
Total	347	100.0	339	100.0	353	100.0	4.1	11.1	2.9	7.6	9.1	27.2	4.1	1.8
Government	182	52.6	179	52.7	188	53.1	4.7	8.3	3.6	8.7	9.7	24.1	5.0	2.8
Corporate	164	47.4	160	47.3	165	46.9	3.5	14.3	2.0	6.4	8.4	30.9	3.3	0.7
Philippines														
Total	107	100.0	116	100.0	125	100.0	2.1	13.1	8.0	17.8	(2.5)	8.8	8.0	17.0
Government	86	80.1	91	78.4	99	79.0	0.5	11.7	8.8	16.2	(4.0)	7.4	8.8	15.4
Corporate	21	19.9	25	21.6	26	21.0	9.2	19.5	5.4	24.4	4.3	14.9	5.4	23.5
Singapore														
Total	292	100.0	295	100.0	310	100.0	5.7	10.3	4.2	9.4	7.7	17.5	4.8	5.9
Government	175	60.0	179	60.7	188	60.9	3.7	12.2	4.5	11.1	5.6	19.6	5.1	7.5
Corporate	117	40.0	116	39.3	121	39.1	8.9	7.5	3.7	6.9	10.9	14.5	4.3	3.4
Thailand														
Total	366	100.0	385	100.0	399	100.0	1.2	2.2	1.6	10.9	19.5	31.7	3.5	8.9
Government	263	71.9	278	72.2	287	72.0	0.1	(0.6)	1.4	11.1	16.4	26.5	3.3	9.1
Corporate	103	28.1	107	27.8	111	28.0	4.0	10.1	2.3	10.3	28.2	47.2	4.2	8.3
Viet Nam														
Total	52	100.0	51	100.0	51	100.0	10.8	16.5	0.7	(0.2)	10.3	16.3	0.7	(1.9)
Government	49	93.6	47	91.4	47	91.6	11.6	16.1	0.9	(2.4)	11.1	15.9	0.9	(4.1)
Corporate	3	6.4	4	8.6	4	8.4	(0.5)	23.2	(1.3)	31.9	(0.9)	23.0	(1.4)	29.7
Emerging East Asia														
Total	14,032	100.0	14,371	100.0	15,036	100.0	1.4	13.0	2.9	14.0	4.8	23.1	4.6	7.2
Government	8,657	61.7	8,875	61.8	9,273	61.7	1.1	14.8	2.6	14.0	4.6	25.2	4.5	7.1
Corporate	5,375	38.3	5,496	38.2	5,763	38.3	1.9	10.3	3.5	14.2	5.1	19.9	4.9	7.2
Japan														
Total	10,848	100.0	10,687	100.0	10,710	100.0	0.2	1.8	1.3	3.0	6.2	6.7	0.2	(1.3)
Government	10,125	93.3	9,964	93.2	9,992	93.3	0.3	2.1	1.4	2.9	6.4	7.0	0.3	(1.3)
Corporate	723	6.7	724	6.8	718	6.7	(1.5)	(1.9)	0.3	3.7	4.4	2.8	(0.7)	(0.6)

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

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Japan, Q1 2019 bonds outstanding data are as of February 2019.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. For LCY base, emerging East Asia growth figures are based on 31 March 2019 currency exchange rates and do not include currency effects.
5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

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

The slower growth rate was driven mostly by a slowdown in the PRC's corporate bond sector. The PRC and the Republic of Korea account for a significant portion of emerging East Asia's corporate bond sector with a combined share of 90.3% at the end of March. Within ASEAN, Malaysia had the largest corporate bond market, followed by Singapore.

Emerging East Asia's share of LCY bonds outstanding to gross domestic product (GDP) rose to 81.4% at the end of March from 80.4% at the end of December (**Table 2**). The shares of government bonds and corporate bonds to GDP rose to 50.2% and 31.2%, respectively. The region's largest bond market measured as a share of GDP remained the Republic of Korea's at 125.6%. Next was the Malaysian bond market at 104.7%. Emerging East Asia's rising share of bonds outstanding to GDP in Q1 2019 was mostly due to slower economic growth in the region.

Foreign Investor Holdings

Movements in the shares of foreign investor holdings in emerging East Asia were mixed at the end of March.

Foreign investor holdings in emerging East Asia's LCY government bond markets moved in mixed directions in Q1 2019, reflecting individual market characteristics (**Figure 2**). The PRC and Indonesia saw increases in their foreign investor shares during the quarter, while the Philippines, Thailand, and Malaysia recorded declines.

In the PRC, the uptick in nonresident holdings reflects optimism that the domestic economy will be able to weather a slowdown following stimulus measures initiated by the government to help boost growth and stabilize the economy.

Indonesia experienced the largest increase during the review period, with its foreign investor share rising to 38.3% at the end of March from 37.7% at the end of December. Overseas funds shored up their holdings of Indonesian bonds after the Federal Reserve's announcement that it would hold off further rate hikes for the year. Indonesia continued to attract interest from offshore investors due to relatively high real interest rates as inflation remained under control.

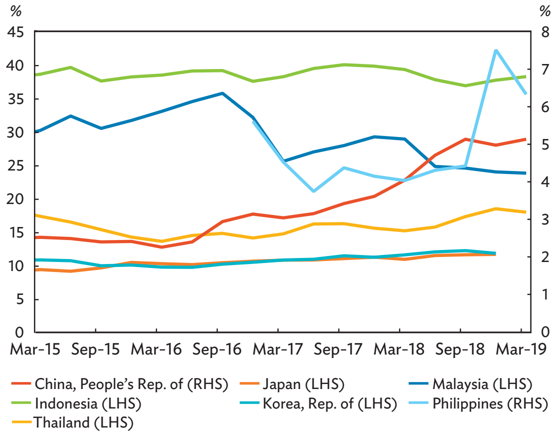
Table 2: Size and Composition of Local Currency Bond Markets (% of GDP)

	Q1 2018	Q4 2018	Q1 2019
China, People's Rep. of			
Total	77.6	81.9	83.0
Government	50.4	53.2	53.6
Corporate	27.3	28.8	29.4
Hong Kong, China			
Total	69.6	68.6	68.3
Government	42.3	41.1	40.5
Corporate	27.3	27.5	27.8
Indonesia			
Total	18.7	19.1	20.4
Government	15.8	16.4	17.6
Corporate	2.9	2.8	2.8
Korea, Rep. of			
Total	123.4	123.8	125.6
Government	51.6	50.6	51.3
Corporate	71.7	73.2	74.3
Malaysia			
Total	101.7	102.9	104.7
Government	53.5	54.3	55.6
Corporate	48.2	48.6	49.1
Philippines			
Total	34.6	35.0	37.2
Government	27.7	27.4	29.4
Corporate	6.9	7.5	7.8
Singapore			
Total	81.2	82.0	84.8
Government	48.7	49.8	51.7
Corporate	32.5	32.2	33.2
Thailand			
Total	72.8	76.3	76.8
Government	52.3	55.1	55.3
Corporate	20.5	21.2	21.5
Viet Nam			
Total	23.4	21.4	21.2
Government	21.9	19.5	19.4
Corporate	1.5	1.8	1.8
Emerging East Asia			
Total	77.4	80.4	81.4
Government	47.7	49.7	50.2
Corporate	29.6	30.7	31.2
Japan			
Total	210.6	213.6	215.8
Government	196.6	199.1	201.4
Corporate	14.0	14.5	14.5

GDP = gross domestic product, Q1 = first quarter, Q4 = fourth quarter.
Notes:
1. Data for GDP is from CEIC.
2. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Japan, Q1 2019 bonds outstanding data are as of February 2019.

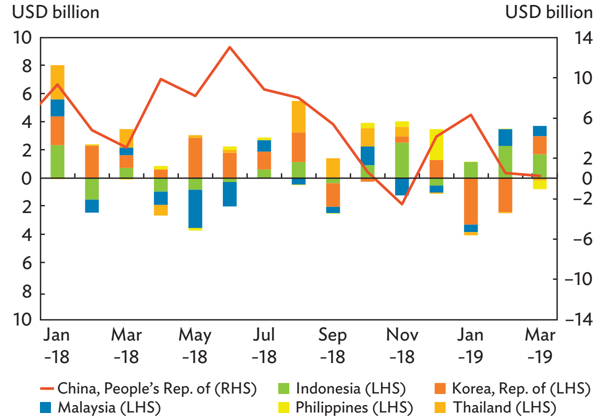
Sources: People's Republic of China (*CEIC*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and The Bank of Korea); Malaysia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

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



LHS = left-hand side, RHS = right-hand side.
Note: Data as of end-March 2019 except for Japan and the Republic of Korea (end-December 2018).
Source: *AsianBondsOnline*.

Figure 3: Foreign Bond Flows in Select Emerging East Asian Economies



LHS = left-hand side, RHS = right-hand side, USD = United States dollar.
Notes:
1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Data as of end-March 2019.
3. Figures were computed based on 31 March 2019 exchange rates to avoid currency effects.

Sources: People's Republic of China (Bloomberg LP); Indonesia (Directorate General of Budget Financing and Risk Management, Ministry of Finance); Republic of Korea (Financial Supervisory Service); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); and Thailand (Thai Bond Market Association).

The Philippines, on the other hand, experienced the largest decline in its foreign holdings share, which dropped to 6.3% at the end of March from 7.5% at the end of December. Investors locked in their profits ahead of expectations that yields will decline further.

Thailand's foreign holdings share slipped to 18.0% from 18.5% due to uncertainties ahead of the Thai general election at the end of March. In Malaysia, the share fell slightly to 23.8% at the end of March on concerns over the government's debt levels.

Foreign Bond Flows

Foreign flows into the region's bond markets were also mixed in Q1 2019.

The PRC's and Indonesia's bond markets were the biggest beneficiaries of capital flows, with both markets registering positive bond flows in each month of Q1 2019 (**Figure 3**).

Thailand experienced consistent bond outflows in each month of Q1 2019 amid uncertainty surrounding the general election. Overall, outflows were limited to a net of USD0.5 billion as Thailand's strong current account surpluses helped offset the impact of negative investor sentiment.

The largest cumulative outflows for Q1 2019 were in the Republic of Korea at USD4.4 billion, mainly in January and February. Investor sentiment in the Republic of Korea was negatively affected by the continued depreciation of the Korean won due to economic growth concerns.

Malaysia's net inflows for Q1 2019 were positive at USD1.4 billion. Concerns over Malaysia's fiscal balances and overall debt levels led to outflows in January, which were more than offset by inflows in February and March.

The Philippines reported outflows in March, following positive inflows in January and February as investors took profits from rising bond prices.

On an aggregate basis, foreign bond flows into emerging East Asia's LCY bond market remained positive at USD8.2 billion in Q1 2019. However, this was down from the net inflows posted in Q4 2018.

Issuance

Emerging East Asia's aggregate bond issuance rose to USD1.4 trillion in Q1 2019.

Emerging East Asia's LCY aggregate bond issuance reached USD1.4 trillion in Q1 2019, up 10.0% q-o-q after a decline of 15.8% q-o-q in Q4 2018, buoyed by strong issuance of government bonds despite lower corporate bond sales (**Table 3**). Government bonds formed 60.2% of the region's issuance in Q1 2019. Increased issuances on a q-o-q basis were seen in all markets in the region except the Republic of Korea, which saw a decline of 8.3% q-o-q. On an annual basis, total LCY issuance rose 39.6% y-o-y in Q1 2019, accelerating from 9.7% y-o-y growth in Q4 2018, driven by increased issuance in both the government and corporate bond sectors.

LCY bond issuance in the region's government bond sector amounted to USD853.4 billion in Q1 2019, up 29.0% q-o-q and rebounding from a 34.2% q-o-q decline in Q4 2018 as issuances rose in all markets except Hong Kong, China. The strong issuance volumes were boosted by frontloading policies in a number of markets, including the PRC, Indonesia, and the Republic of Korea. Expansions on a q-o-q basis were seen across all government bond segments, the largest of which was for Treasury bonds and other securities at 46.1% q-o-q, which recovered from a 48.2% q-o-q decline in Q4 2018. On an annual basis, government bond issuance rose 37.6% y-o-y, with all segments exhibiting growth.

LCY bond issuance in the corporate sector amounted to USD563.9 billion in Q1 2019, down 10.0% q-o-q, driven by declines in most markets, including the PRC and the Republic of Korea—the two largest markets in the region. Together, these markets accounted for 91.9% of the region's corporate bond issuance in Q1 2019. The PRC saw a decline of 9.7% q-o-q in corporate bond sales, while the Republic of Korea saw an even sharper decline of 22.6% q-o-q. Markets that exhibited q-o-q growth include Hong Kong, China; Indonesia; Singapore; and Thailand. On an annual basis, the region's corporate bonds sales grew rapidly by 42.8% y-o-y.

The PRC's LCY bond issuance rose 11.6% q-o-q in Q1 2019, after falling 23.8% q-o-q in Q4 2018, to reach USD868.9 billion. The q-o-q growth was solely driven by the government bond segment, which surged 44.5% q-o-q to USD442.6 billion, reversing a 51.1% q-o-q decline in the previous quarter due to large issuances of local government bonds in the first 3 months of the year. The Ministry of Finance decided to frontload local government debt allocations in an effort to boost the economy, which posted its slowest annual growth in 2018 in almost 3 decades. More than half of the issuances were special purpose bonds used to finance construction projects in an effort to boost economic growth through infrastructure spending. In Q1 2019, government bonds accounted for over half (50.9%) of the PRC's total LCY bond issuance. The corporate bond segment, on the other hand, saw a decline of 9.7% q-o-q in Q1 2019 to USD426.3 billion, reversing the 19.4% q-o-q growth posted in the prior quarter. Among the PRC's corporate bond segments, only commercial paper saw increased issuance during the review period.

LCY bond issuance in the Republic of Korea amounted to USD162.9 billion in Q1 2019, down 8.3% q-o-q after growing 7.2% q-o-q in Q4 2018. Corporate bond issuance in Q1 2019 fell 22.6% q-o-q in Q1 2019, offsetting strong government bond issuance during the period. Government bond issuance in Q1 2019 rose 20.7% q-o-q, reversing the previous quarter's 23.3% q-o-q decline with a 45.4% q-o-q increase in the issuance of Treasury bonds and other government securities. The rise in issuance was driven by the government's funding needs as it frontloaded expenditures to help prop up the domestic economy.

Hong Kong, China's LCY bond issuance grew 3.8% q-o-q in Q1 2019, following modest growth of 1.4% q-o-q in Q4 2018, to reach USD117.4 billion at the end of March. Despite the issuance of corporate bonds doubling on a q-o-q basis during the period, government bond issuance was weak. Government bonds, which made up 88.2% of total issuance during the quarter, declined 2.4% q-o-q in Q1 2019 to USD103.6 billion, zeroing out the previous quarter's 2.5% q-o-q growth. Issuance of Hong Kong Special Administrative Region bonds, typically low at the start of the year, dropped 77.9% q-o-q in Q1 2019. This was coupled with a decline of 1.5% q-o-q in the issuance of Exchange Fund Bills and Notes by the Hong Kong Monetary Authority. Corporate bond issuance steeply climbed 99.6% q-o-q in Q1 2019 to USD13.8 billion, but only constituted 11.8% of total quarterly issuance in Hong Kong, China.

The aggregate LCY bond issuance of ASEAN member economies amounted to USD268.0 billion in Q1 2019,

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

	Q1 2018		Q4 2018		Q1 2019		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q1 2019		Q1 2019	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	536	100.0	760	100.0	869	100.0	11.6	73.3	14.4	62.0
Government	261	48.7	299	39.4	443	50.9	44.5	81.4	48.1	69.6
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	261	48.7	299	39.4	443	50.9	44.5	81.4	48.1	69.6
Corporate	275	51.3	461	60.6	426	49.1	(9.7)	65.6	(7.5)	54.8
Hong Kong, China										
Total	115	100.0	113	100.0	117	100.0	3.8	2.2	3.6	2.2
Government	101	88.0	106	93.9	104	88.2	(2.4)	2.5	(2.6)	2.5
Central Bank	101	87.8	105	92.8	103	88.0	(1.5)	2.5	(1.8)	2.5
Treasury and Other Govt.	0.2	0.2	1	1.1	0.3	0.2	(77.9)	16.7	(77.9)	16.6
Corporate	14	12.0	7	6.1	14	11.8	99.6	(0.04)	99.1	(0.1)
Indonesia										
Total	18	100.0	11	100.0	26	100.0	138.9	50.9	141.4	45.4
Government	16	90.5	10	91.3	25	94.1	146.3	57.0	148.8	51.3
Central Bank	0.3	1.7	2	15.4	7	28.5	341.5	2,396.4	346.0	2,306.2
Treasury and Other Govt.	16	88.7	8	75.9	17	65.6	106.5	11.5	108.7	7.5
Corporate	2	9.5	0.9	8.7	2	5.9	61.8	(6.9)	63.4	(10.2)
Korea, Rep. of										
Total	180	100.0	182	100.0	163	100.0	(8.3)	(3.4)	(10.3)	(9.5)
Government	82	45.7	60	33.0	71	43.4	20.7	(8.3)	18.2	(14.1)
Central Bank	38	21.1	33	17.9	32	19.6	0.1	(10.3)	(2.1)	(16.0)
Treasury and Other Govt.	44	24.7	27	15.1	39	23.9	45.4	(6.6)	42.3	(12.5)
Corporate	98	54.3	122	67.0	92	56.6	(22.6)	0.7	(24.3)	(5.6)
Malaysia										
Total	26	100.0	25	100.0	25	100.0	0.7	2.9	2.0	(2.6)
Government	15	57.5	14	57.7	15	58.5	2.2	4.7	3.5	(0.9)
Central Bank	4	16.9	7	30.0	5	19.2	(35.5)	17.2	(34.7)	10.9
Treasury and Other Govt.	11	40.6	7	27.7	10	39.3	43.1	(0.5)	44.9	(5.8)
Corporate	11	42.5	10	42.3	10	41.5	(1.3)	0.5	(0.02)	(4.9)
Philippines										
Total	6	100.0	7	100.0	14	100.0	94.0	147.5	94.1	145.8
Government	4	78.7	5	65.4	13	92.0	172.9	189.3	172.9	187.4
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	4	78.7	5	65.4	13	92.0	172.9	189.3	172.9	187.4
Corporate	1	21.3	2	34.6	1	8.0	(54.9)	(6.7)	(54.9)	(7.3)
Singapore										
Total	93	100.0	100	100.0	112	100.0	10.5	24.1	11.1	20.0
Government	89	95.5	97	96.9	108	96.7	10.3	25.7	10.9	21.6
Central Bank	83	89.7	94	93.2	103	92.0	9.1	27.2	9.7	23.1
Treasury and Other Govt.	5	5.8	4	3.7	5	4.8	41.2	1.4	41.9	(1.9)
Corporate	4	4.5	3	3.1	4	3.3	17.5	(9.9)	18.1	(12.9)
Thailand										
Total	72	100.0	70	100.0	85	100.0	18.8	19.6	21.1	17.5
Government	57	79.5	59	84.3	70	82.7	16.5	24.4	18.7	22.2
Central Bank	47	64.4	53	75.7	65	76.6	20.2	42.1	22.4	39.7
Treasury and Other Govt.	11	15.1	6	8.6	5	6.1	(15.7)	(51.5)	(14.2)	(52.4)
Corporate	15	20.5	11	15.7	15	17.3	31.2	0.9	33.6	(0.9)

continued on next page

Table 3 *continued*

	Q1 2018		Q4 2018		Q1 2019		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q1 2019		Q1 2019	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	22	100.0	4	100.0	6	100.0	69.8	(71.9)	69.7	(72.4)
Government	22	99.6	3	87.4	6	97.5	89.4	(72.5)	89.3	(73.0)
Central Bank	19	86.7	0.7	18.3	3	42.2	291.6	(86.3)	291.3	(86.6)
Treasury and Other Govt.	3	12.9	2	69.1	3	55.4	36.0	20.5	35.9	18.5
Corporate	0.1	0.4	0.5	12.6	0.1	2.5	(66.8)	65.1	(66.8)	62.3
Emerging East Asia										
Total	1,068	100.0	1,272	100.0	1,417	100.0	10.0	39.6	11.5	32.7
Government	648	60.7	654	51.4	853	60.2	29.0	37.6	30.5	31.6
Central Bank	293	27.4	294	23.1	318	22.4	7.8	11.1	8.0	8.6
Treasury and Other Govt.	356	33.3	360	28.3	536	37.8	46.1	60.2	49.0	50.6
Corporate	420	39.3	618	48.6	564	39.8	(10.0)	42.8	(8.7)	34.3
Japan										
Total	415	100.0	417	100.0	404	100.0	(1.9)	1.7	(2.9)	(2.5)
Government	396	95.5	382	91.7	378	93.4	0.03	(0.4)	(1.0)	(4.5)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	396	95.5	382	91.7	378	93.4	0.03	(0.4)	(1.0)	(4.5)
Corporate	19	4.5	35	8.3	27	6.6	(22.7)	47.7	(23.6)	41.6

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Corporate bonds include issues by financial institutions.
2. For Japan, Q1 2019 issuance data are based on data for the months of December 2018 to February 2019.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. For LCY-base, emerging East Asia growth figures are based on 31 March 2019 currency exchange rates and do not include currency effects.
Sources: People's Republic of China (*CEIC*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (*EDAILY Bondweb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand and ThaiBMA); Viet Nam (Bloomberg LP and Vietnam Bond Market Association); and Japan (Japan Securities Dealers Association).

accounting for 18.9% of the total issuance in emerging East Asia. Singapore was the largest ASEAN issuer, while Viet Nam was the smallest. Issuance across all ASEAN markets grew on a quarterly basis, with Indonesia and the Philippines having the highest q-o-q growth rates. Total issuance in Q1 2019 comprised 88.2% government bonds and 11.8% corporate bonds.

Indonesia's LCY bond issuance was exceptionally high at USD26.2 billion in Q1 2019, with growth of 138.9% q-o-q reversing a decline of 29.7% q-o-q in Q4 2018, propelled by triple-digit growth in the government sector, making Indonesia the top gainer among its ASEAN peers. The Ministry of Finance regularly adopts a frontloading policy by issuing more Treasury instruments in the first half of the year to finance the government's budget spending. Issuance of central government bonds reached USD17.2 billion in Q1 2019 from the sale of Treasury bills and bonds, with growth rising to 106.5% q-o-q from a contraction of 25.0% q-o-q in Q4 2018. Issuances in Q1 2019 were met with hefty demand from investors interested in Indonesian government bonds following the Federal Reserve's dovish policy statements. Issuance of central bank instruments, comprising of Sertifikat Bank Indonesia (SBI) and Sukuk Bank Indonesia (SukBI) amounted to USD7.5 billion in Q1 2019. The q-o-q growth in central bank issuance, which rose more than four-fold from a low base in the previous quarter, was due to increased issuance of SBI and a substantial rise in the issuance of SukBI. (The government commenced issuance of SukBI in December 2018.) Corporate bond issuance advanced more slowly than government bonds in Q1 2019 at 61.8% q-o-q, amounting to USD1.5 billion. Good market conditions allowed corporates to tap the bond market for their funding needs during the quarter, recovering from a 59.3% q-o-q contraction in corporate issuance in the previous quarter.

Malaysia's LCY bond issuance grew 0.7% q-o-q in Q1 2019 to USD25.2 billion at the end of March, losing speed from growth of 11.1% q-o-q in Q4 2018, sustained by growth in the government sector. Buoyed by the strong issuance of central government securities, the government sector grew 2.2% q-o-q in Q1 2019 to USD14.8 billion at the end of March, following growth of 3.9% q-o-q in Q4 2018. Government Investment Issues and Malaysian Government Securities, which made up 90.1% of total central government bond issuance, reached USD8.9 billion at the end of March on growth of 44.3% q-o-q, offsetting the 35.5% q-o-q decline in the issuance of central bank bonds. Buying interest in government bonds was high as indicated by a strong bid-to-cover ratio, which can be traced to benign inflation. Corporate bond issuance amounted to USD10.5 billion in Q1 2019, on a decline of 1.3% q-o-q. Negative sentiment over slowing economic growth and falling investment, both domestically and globally, led to the q-o-q decline after 22.6% q-o-q growth in Q4 2018.

Gross bond issuance in the Philippines totaled USD14.0 billion, up 94.0% q-o-q and accounting for the second-highest q-o-q growth rate in the region. The growth in Philippine bond issuance was solely driven by gains in government bonds, which grew 172.9% q-o-q. The strong growth in government bonds was led by the issuance of Retail Treasury Bonds in March, which accounted for 35.0% of total government bond issuance during the quarter. The government also issued more bonds in Q1 2019 as it took advantage of improved investor sentiment and demand. In contrast, Philippine corporate bond issuance declined 54.9% q-o-q.

Bond issuance in Singapore grew 10.5% q-o-q to reach USD111.7 billion in Q1 2019, reversing the previous quarter's decline of 5.9% q-o-q. Government bond issuance dominated with a share of 96.7%, mostly from the Monetary Authority of Singapore. Corporate bond issuance also grew 17.5% q-o-q from a low base.

Thailand's LCY bond issuance rose 18.8% q-o-q in Q1 2019 to USD84.9 billion, following a decline of 2.9% q-o-q in Q4 2018, on growth in both the government and corporate sectors. Issuance of government bonds amounted to USD70.2 billion in Q1 2019, growing 16.5% q-o-q after meager 1.9% q-o-q growth in Q4 2018. The quarterly growth was mainly driven by increased issuance of central bank bonds, which rose 20.2% q-o-q in Q1 2019 and formed 92.6% of total government bond issuance. Issuance of central government bills and state-owned enterprise bonds fell 15.7% q-o-q after also declining 21.6% q-o-q in Q4 2018. Corporate bond issuance in Q1 2019 rose 31.2% q-o-q to USD14.7 billion, following a decline of 22.2% q-o-q in Q4 2018, due to the substantial increase in the issuance of nonrated and noninvestment-grade, long-term corporate bonds. Issuance of highly rated, investment-grade bonds also rose, albeit at a much slower pace owing to the relatively low interest rate environment set. Bank of Thailand held off on further rate hikes in Q1 2019 following a 25 basis points (bps) increase in December 2018.

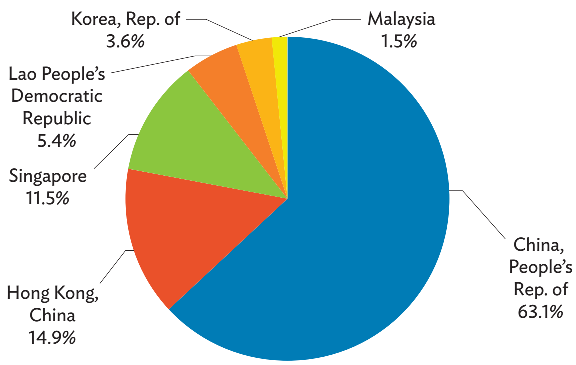
LCY bond issuance in Viet Nam rose 69.8% q-o-q in Q1 2019 to USD6.1 billion, reversing a 47.9% q-o-q contraction in Q4 2018, on account of increased issuance of government bonds during the period. Government bond issuance grew 89.4% q-o-q to reach USD5.9 billion in Q1 2019, benefitting from the strong issuance of central bank bills and the steady issuance of central government bonds. Issuance of central bank bills soared 291.6% q-o-q in Q1 2019 to USD2.6 billion, constituting a 42.2% share of total government issuance for the period. The State Bank of Vietnam resumed the issuance of bills for the first time in 5 months in March to withdraw Vietnamese dong from the banking system due to abundant liquidity. Issuance of central government bonds rose 36.0% q-o-q in Q1 2019, easing from growth of 41.3% q-o-q in Q4 2018. Issuance in the corporate sector, on the other hand, sharply fell 66.8% q-o-q to USD0.1 billion, accounting for only 2.5% of Viet Nam's aggregate issuance during the quarter.

Cross-Border Bond Issuance

Cross-border bond issuance in emerging East Asia totaled USD5.8 billion in Q1 2019.

Emerging East Asia's total intra-regional bond issuance increased 5.3% q-o-q in Q1 2019 to reach USD5.8 billion, up from USD5.5 billion in Q4 2018 but down from USD8.4 billion in Q1 2018. The PRC had the largest amount of cross-border issuance in Q1 2019 at USD3.6 billion, contributing 63.1% of the region's cross-border issuance total during the quarter (**Figure 4**). This was followed by Hong Kong, China with USD0.9 billion (14.9%), which was half the issued amount of USD1.8 billion in Q4 2018. Singapore issued USD0.7 billion (11.5%) and was followed by the Lao People's Democratic Republic (Lao PDR) with USD0.3 billion (5.4%), the Republic of Korea with USD0.2 billion (3.6%), and Malaysia with USD0.1 billion (1.5%).

Figure 4: Origin Economy of Intra-Emerging East Asian Bond Issuance in the First Quarter of 2019



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

Due to the close economic ties between the PRC and Hong Kong, China, most PRC-based firms engaged in cross-border bond issuances in Q1 2019 issued HKD-denominated bonds, which amounted to USD3.5 billion. Two other cross-border bonds were issued during the quarter: one denominated in Singapore dollars and the other in Malaysian ringgit. Issuances from the PRC carried tenors ranging from 6 months to 10 years. The largest issuance came from the Export–Import Bank of China with a USD0.5 billion 5-year bond carrying a coupon rate of 2.7%.

Most of Hong Kong, China's intra-regional bond issuances were in Chinese renminbi, totaling USD0.6 billion. The issuances carried maturities of 1–3 years, with the largest cross-border issuance coming from the Bank of East Asia at a coupon rate of 3.65%. Hong Kong, China also issued a USD0.2 billion bond with a 3-year tenor and a 6.75% coupon rate.

Cross-border bond issuances in Singapore were a mix of Chinese renminbi, Hong Kong dollars, Korean won, and Thai baht. The largest single issuance was a bond issued by United Overseas Bank amounting to USD0.3 billion.

The Lao PDR's cross-border issuances in Q1 2019 were all denominated in Thai baht for an aggregate amount of USD0.3 billion, mostly issued by Nam Ngum 2 Power Company.

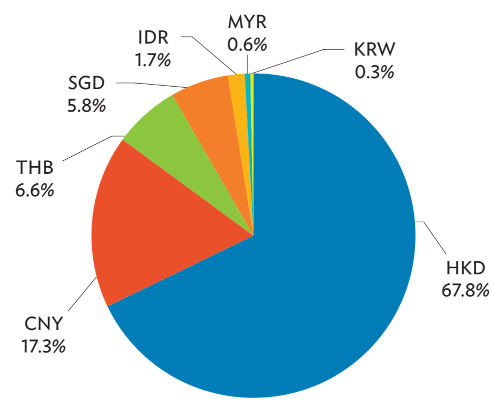
Cross-border issuances from the Republic of Korea were denominated in Chinese renminbi, Hong Kong dollars, and Indonesian rupiah, amounting to USD60 million, USD48 million, and USD97 million, respectively.

In Malaysia, Malayan Banking issued two intra-regional bonds totaling USD89 million in Q1 2019. The bonds each have a 1-year tenor and carry coupon rates of 2.15% and 2.20%.

The top 10 issuers in Q1 2019 in emerging East Asia accounted for over 70% of total cross-border bond issuance, of which six of the 10 issuers were from the PRC and denominated in Hong Kong dollars. The largest issuer was the Export–Import Bank of China with issuances amounting to USD955 million. It was followed by the China Development Bank, which had three cross-border issuances amounting to USD548 million. Other issuers included on the list were Bank of East Asia and ESR Cayman in Hong Kong, China; United Overseas Bank of Singapore; and Nam Ngum 2 Power Company from the Lao PDR.

The top three currencies utilized for cross-border issuances in emerging East Asia were the Hong Kong dollar, Chinese renminbi, and Thai baht (**Figure 5**). About 68% (USD3.9 billion) of the total issuance was denominated in Hong Kong dollars, of which about 90% was issued from entities in the PRC while the rest came

Figure 5: Currency Share of Intra-Emerging East Asian Bond Issuance in the First Quarter of 2019



CNY = Chinese yuan, HKD = Hong Kong dollar, IDR = Indonesian rupiah, KRW = Korean won, MYR = Malaysian ringgit, SGD = Singapore dollar, THB = Thai baht.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

from issuers in Singapore, Malaysia, and the Republic of Korea. CNY-denominated bonds worth USD1.0 billion came from issuers in Hong Kong, China; the Republic of Korea; and Singapore. THB-denominated bonds from issuers in the Lao PDR amounted to USD0.3 billion and from issuers in Singapore to USD0.07 billion in Q1 2019.

Meanwhile, CJ Logistics Asia raised SGD70 million in March from the sale of AA-rated 5-year bonds that carry a guarantee from the Credit Guarantee and Facility, marking the first bond issuance under the ASEAN+3 Multi Currency Bond Issuance Framework (AMBIF) in Singapore.[5] AMBIF is a policy program under the Asian Bond Markets Initiative that promotes standardized bond and note issuance processes with the aim of strengthening financial linkages among ASEAN+3 member economies.

The issuance from CJ Logistics Asia marked the region's fourth bond issued under the AMBIF initiative. The first such bond was Mizuho Bank's 3-year bond worth THB3.0 billion issued in 2015. Three more AMBIF bonds were issued in 2018, including Hattha Kaksekar's KHR120 billion 3-year bond and AEON Credit Services (Philippines) dual-tranche PHP900 million 3-year bond and PHP100 million 5-year bond.

G3 Currency Issuance

G3 currency bond issuance in emerging East Asia amounted to USD116.8 billion in January–April.

Total issuance of G3 currency bonds in emerging East Asia reached USD116.8 billion in January–April, down from USD119.1 billion during the same period in 2018 (**Table 4**).[6] This represented a decline of 1.9% y-o-y, a reversal from the growth experienced in January–April 2018, due to falling issuance for most economies in the region.

During the review period, all economies that issued G3 currency bonds sold USD-denominated debt, while some sparingly issued in euros and Japanese yen. Consequently, bonds issued in US dollars dominated with a 92.7% share of all G3 currency bond issuance; euros and Japanese yen accounted for issuance shares of 4.9% and 2.5%, respectively. In January–April, a total of USD108.2 billion worth of USD-denominated bonds were issued in emerging East Asia, representing a 0.3% y-o-y increase from the same period in 2018. The equivalent of USD5.7 billion of EUR-denominated bonds were issued in January–April, down 44.4% y-o-y from January–April 2018 as Hong Kong, China and Indonesia did not issue EUR-denominated bonds during the review period. On the other hand, bonds issued in Japanese yen more than doubled to USD2.8 billion as Malaysia issued samurai bonds worth USD1.8 billion.

The PRC issued the most G3 currency bonds in emerging East Asia in January–April, amounting to USD75.3 billion. The PRC was followed by Hong Kong, China at USD12.1 billion and the Republic of Korea at USD9.3 billion.

In the first 4 months of the year, G3 currency bond issuance increased in Malaysia (671.0% y-o-y), the Republic of Korea (9.1% y-o-y), and the PRC (0.7% y-o-y). On the other hand, G3 issuance declined in Singapore (–41.1% y-o-y); the Philippines (–37.4% y-o-y); Thailand (–31.8% y-o-y); Indonesia (–26.7% y-o-y); and Hong Kong, China (–6.6% y-o-y). Viet Nam issued G3 currency bonds in January–April 2018, but not in the same period in 2019.

The PRC led all economies in comprising a 64.5% share of emerging East Asia's total G3 currency bond issuance, issuing USD71.6 billion in US dollars and the equivalent of USD3.7 billion in euros. Multinational investment holding conglomerate Tencent Holdings led all issuers from the PRC with USD6.0 billion, the largest of which was a 10-year USD3.0 billion callable bond with a coupon rate of 3.98%. This was followed by property developer China Evergrande Group issuing six bonds all denominated in US dollars, the largest of which was a 3-year bond worth USD1.3 billion and with a 9.5% coupon.

The Republic of Korea accounted for an 8.0% share of all G3 currency bonds issued during the review period. By denomination, the Republic of Korea issued USD6.6 billion in US dollars, USD1.8 billion in euros, and USD0.9 billion in Japanese yen. The largest Korean chemical company, LG Chem, issued a total of USD1.6 billion via a combination of US dollars and euros, the largest of which was a USD0.6 billion 4-year green bond with coupon rate of 0.5% issued in euros, the proceeds of which will be used for its production expansion.

[5] ASEAN+3 refers to the 10 members of ASEAN plus the PRC, Japan, and the Republic of Korea.
[6] G3 currency bonds are denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2018			January to April 2019		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
Cambodia	**0.3**		**Cambodia**	**0.0**	
China, People's Rep. of	**183.5**		**China, People's Rep. of**	**75.3**	
Tencent Holdings 3.595% 2028	2.5	19-Jan-18	Tencent Holdings 3.975% 2029	3.0	11-Apr-19
CNAC (HK) Finbridge Company 5.125% 2028	1.8	14-Mar-18	China Construction Bank (Asia) 4.250% 2029	1.9	27-Feb-19
Scenery Journey 11.000% 2020	1.6	6-Nov-18	Tencent Holdings 3.280% 2024	1.3	11-Apr-19
Others	177.6		Others	69.2	
Hong Kong, China	**21.9**		**Hong Kong, China**	**12.1**	
CHMT Peaceful Development Asia Property 7.5% 2019	3.3	25-Apr-18	AIA Group 3.600% 2029	1.0	9-Apr-19
Bank of China (Hong Kong) 5.9% Perpetual	3.0	14-Sep-18	Celestial Miles 5.750% Perpetual	1.0	31-Jan-19
ICBC (Asia) 4.9% Perpetual	2.5	21-Mar-18	CK Hutchison International 3.625% 2029	0.8	11-Apr-19
Others	13.0		Others	9.3	
Indonesia	**26.1**		**Indonesia**	**6.4**	
Perusahaan Penerbit SBSN *Sukuk* 4.40% 2028	1.8	1-Mar-18	Perusahaan Penerbit SBSN *Sukuk* 4.450% 2029	1.3	20-Feb-19
Indonesia Asahan Aluminium 5.71% 2023	1.3	15-Nov-18	LLPL Capital 6.875% 2039	0.8	4-Feb-19
Republic of Indonesia (Sovereign) 4.75% 2029	1.3	11-Dec-18	Bank Mandiri (Persero) 3.750% 2024	0.8	11-Apr-19
Others	21.8		Others	3.6	
Korea, Rep. of	**30.0**		**Korea, Rep. of**	**9.3**	
Hanwha Life Insurance 4.700% 2048	1.0	23-Apr-18	Export–Import Bank of Korea 0.375% 2024	0.8	26-Mar-19
Korea Development Bank 0.625% 2023	0.9	17-Jul-18	Korea National Oil Corporation 0.240% 2022	0.6	22-Jan-19
Export-Import Bank of Korea 0.625% 2023	0.9	11-Jul-18	LG Chem 0.500% 2023	0.6	15-Apr-19
Others	27.3		Others	7.3	
Malaysia	**2.9**		**Malaysia**	**5.6**	
TNV Global Ventures Capital 4.85100% 2028	0.8	1-Nov-18	Malaysia (Sovereign) 0.530% 2029	1.8	15-Mar-19
Malayan Banking Berhad 3.51813% 2023	0.3	10-Aug-18	Resorts World Las Vegas 4.625% 2029	1.0	16-Apr-19
Others	1.9		Others	2.8	
Philippines	**6.2**		**Philippines**	**2.4**	
Republic of the Philippines (Sovereign) 3.00% 2028	2.0	1-Feb-18	Republic of the Philippines (Sovereign) 3.75% 2029	1.5	14-Jan-19
Republic of the Philippines (Sovereign) 0.38% 2021	1.0	15-Aug-18	SMC Global Power 6.50% Perpetual	0.5	25-Apr-19
Others	3.2		Others	0.4	
Singapore	**16.1**		**Singapore**	**4.6**	
Temasek Financial 3.625% 2028	1.4	1-Aug-18	DBS Group Holdings 2.85% 2022	0.8	16-Apr-19
DBS Bank 3.300% 2021	1.3	27-Nov-18	BOC Aviation 3.50% 2024	0.8	10-Apr-19
Others	13.5		Others	3.1	
Thailand	**5.9**		**Thailand**	**1.0**	
Bangkok Bank of Hong Kong 4.45% 2028	0.6	19-Sep-18	Siam Commercial Bank 3.9% 2024	0.5	11-Feb-19
Bangkok Bank of Hong Kong 4.05% 2024	0.6	19-Sep-18	Siam Commercial Bank 4.4% 2029	0.5	11-Feb-19
Others	4.7		Others	0.0	
Viet Nam	**0.7**		**Viet Nam**	**0.0**	
Emerging East Asia Total	**293.5**		**Emerging East Asia Total**	**116.8**	
Memo Items:			**Memo Items:**		
India	**6.4**		**India**	**9.9**	
Export–Import Bank of India 3.875% 2028	1.0	1-Feb-18	Indian Oil Corporation 4.75% 2024	0.9	16-Jan-19
Others	5.4		Others	9.0	
Sri Lanka	**3.9**		**Sri Lanka**	**2.6**	
Republic of Sri Lanka (Sovereign) 5.75% 2023	1.3	18-Apr-18	Republic of Sri Lanka (Sovereign) 7.85% 2029	1.4	14-Mar-19
Others	2.7		Others	1.2	

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

Hong Kong, China had a 10.4% share of G3 currency bond issuance in January–April. By currency, USD11.9 billion was issued in US dollars and USD0.2 billion in Japanese yen. Port investor, developer, and operator CK Hutchison International issued two USD-denominated callable bonds worth USD0.8 billion each in order to refinance existing borrowings.

G3 bond issuance of ASEAN member economies declined to USD20.1 billion in January–April from USD22.9 billion in the same 4-month period a year earlier. As a share of emerging East Asia's total, ASEAN's G3 issuance accounted for 17.2%, down from 19.2% in the same period in 2018. Indonesia issued the most G3 currency bonds among ASEAN members, totaling USD6.4 billion. Next were Malaysia and Singapore with G3 issuance amounting to USD5.6 billion and USD4.6 billion, respectively.

For the period January–April, Indonesia's regional share of G3 currency bonds issued was 5.4%. The issuances comprised USD6.4 billion in USD-denominated bonds. Perusahaan Penerbit SBSN issued a dual-tranche *sukuk* worth a total of USD2.0 billion, one was a USD1.3 billion 10-year conventional *sukuk* with a coupon rate of 4.45%, the proceeds of which will be used to partially meet the economy's general financing requirements. The other tranche was a USD0.8 billion 5.5-year green *sukuk* with a 3.90% coupon, the proceeds of which will be used to finance projects eligible under Indonesia's green bond and green *sukuk* framework.

Malaysia's 4.8% share of the region's G3 currency bond issuance comprised USD3.8 billion issued in US dollars and the equivalent of USD1.8 billion in Japanese yen. The Malaysian government issued a USD1.8 billion 10-year samurai bond with a 0.53% coupon in March. The proceeds of which will be used to finance infrastructure development.

Singapore's 4.0% regional share of total issuance of G3 currency bonds comprised bonds denominated in US dollars and euros amounting to USD4.5 billion and USD0.1 billion, respectively. The largest aircraft operating leasing company in Singapore, BOC Aviation, issued two callable bonds worth USD1.3 billion; both were denominated in US dollars. The issuance comprised a 6-year USD0.8 billion bond with a coupon rate of 3.5% and a 5-year USD0.5 billion bond with a 4.0% coupon.

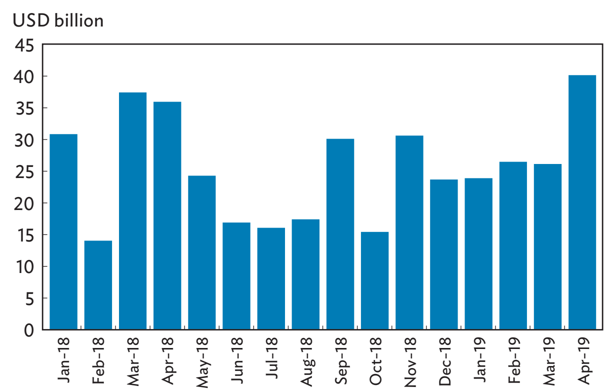
The Philippines' G3 currency bond issuances represented a 2.1% share, with USD2.4 billion sold in US dollars. The Government of the Philippines issued sovereign bonds in January as it took advantage of positive investor sentiment. The government issued a 10-year global bond worth USD1.5 billion with a 3.75% coupon rate, the proceeds of which will be used for general purposes, including budgetary support for government projects.

Thailand issued 0.9% of all G3 currency bonds in the region in January–April. The issuance comprised USD1.0 billion denominated in US dollars. Siam Commercial Bank issued a USD0.5 billion 5-year bond with a 3.9% coupon and a USD0.5 billion 10-year bond with a 4.4% coupon rate.

Cambodia and Viet Nam were the only economies that did not issue any G3 currency bond during the January–April period.

Monthly trends from January 2018–April 2019 showed that March 2018, April 2018, and April 2019 saw the highest levels of G3 currency bond issuance from emerging East Asia with USD37.5 billion, USD36.0 billion, and USD40.2 billion, respectively (**Figure 6**). The PRC was the main driver of growth every month as its real

Figure 6: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.
Notes:
1. Emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Figures were computed based on 30 April 2019 currency exchange rates and do not include currency effects.

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

estate operators and developers continue to favor issuances denominated in US dollars.

If 2018 saw volatile issuance volumes, the first part of 2019 saw issuance volumes increase. Indonesia's *sukuk* issuance in February helped drive G3 currency bond issuance growth for the month. In April, the markets of Hong Kong, China; the Republic of Korea; and Singapore boosted the supply of G3 bonds in the region.

Government Bond Yield Curves

Government bond yield curves fell for most emerging East Asian economies amid weaker global growth and easing monetary policy from some central banks.

Global economic growth continued to weaken in Q1 2019, with a number of uncertainties looming over the horizon such as the reemergence of the PRC–US trade dispute and unresolved Brexit issues. The exception so far has been the US, where economic growth remained stable with GDP expanding 3.1% y-o-y in Q1 2019, based on second estimates, after gaining 2.2% y-o-y in the previous quarter.

While US economic growth has been stable, uncertainties in the global economic environment led the Federal Reserve to leave policy rates unchanged during its 19–20 March and 30 April–1 May Federal Open Market Committee meetings. The Federal Reserve said that, given global economic developments and muted inflation, a patient approach was warranted.

Nevertheless, the minutes of the 19–20 March meeting showed that the Federal Reserve expects the US economy to continue to grow and that some members felt that an eventual rate hike was warranted, depending on economic conditions. The Federal Reserve's dot plot, however, shows that participants are not expecting a rate hike in 2019.

Both the European Central Bank (ECB) and the Bank of Japan (BOJ) have become more dovish as well. In the euro area, GDP grew 1.2% y-o-y in Q1 2019, the same rate as in Q4 2018. More significantly, the ECB downgraded its economic outlook in March, forecasting full-year 2019 GDP growth of 1.1%, down from a forecast of 1.7% made in December. The GDP growth forecast for 2020 was also slightly downgraded to 1.6% from 1.7%.

The language in ECB monetary policy statements also shifted between 24 January and 7 March, from previously indicating that it expected policy rates to remain unchanged through the middle of 2019 to predicting no increases for the whole of 2019.

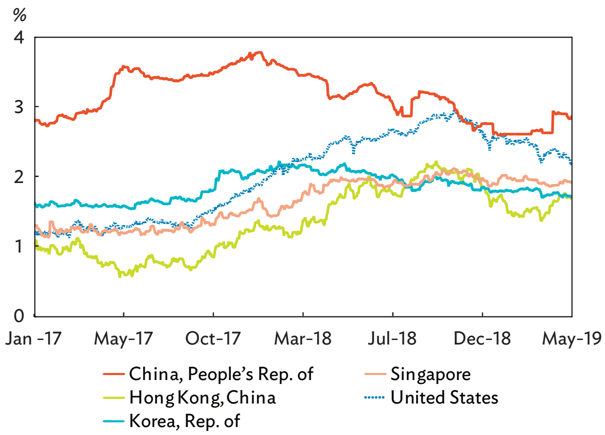
In Japan, economic growth climbed in Q1 2019 to reach an annualized rate of 2.1% from 1.6% in the previous quarter. While BOJ forecasts for fiscal year 2019 and beyond were relatively unchanged, the BOJ has noted some weakness in the domestic economy, with the fiscal year 2018 GDP growth forecast downgraded to 0.6% in April from 0.9% in January. This led the BOJ to provide explicit statements, for the first time, in its 25 April monetary policy meeting on the expected timing of its policy rates, saying that it expected current interest rates to stay at present levels at least through Q1 2020.

Uncertainties in the global economy and the more dovish tilt of central banks in advanced economies led interest rates in most emerging East Asian markets to trend downward between 1 March and 15 May.

However, there were some exceptions such as the PRC, where the 2-year yield rose during the review period. March economic indicators showed the PRC's economy growing at a faster pace than expected while a predicted easing by the People's Bank of China failed to materialize (**Figure 7a**). Hong Kong, China's 2-year yield also rose, despite historically tracking US yields, as efforts by the Hong Kong Monetary Authority to defend the Hong Kong dollar reduced liquidity, pushing short-term interest rates higher. Indonesia, Thailand, and Viet Nam also experienced a rise in their respective 2-year yields during the review period (**Figure 7b**). In Indonesia, the yield uptick resulted from both external and domestic issues, with some foreign investors exiting Indonesia's bond market in April amid expectations of a larger current account deficit than previously projected.

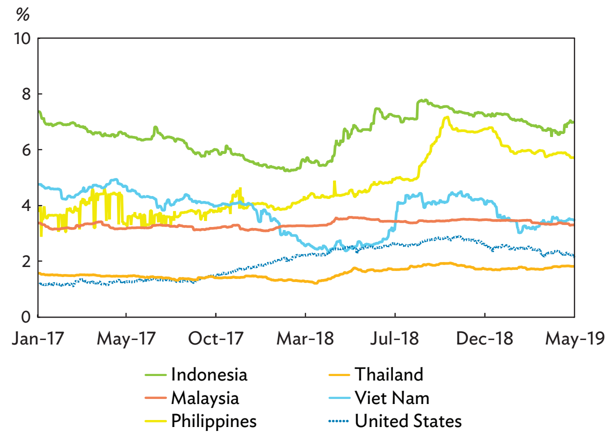
For most markets in emerging East Asia, 10-year yield movements roughly tracked the movements of 2-year yields. The one exception was Hong Kong, China, where the impact of Hong Kong dollar liquidity was mostly felt at the shorter-end of the curve, with the 10-year yield falling in line with declining US interest rates (**Figure 8a**). The Philippines' 10-year yield started to decline much more steeply than its 2-year yield beginning in March due to strong investor demand for longer-dated tenors (**Figure 8b**).

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



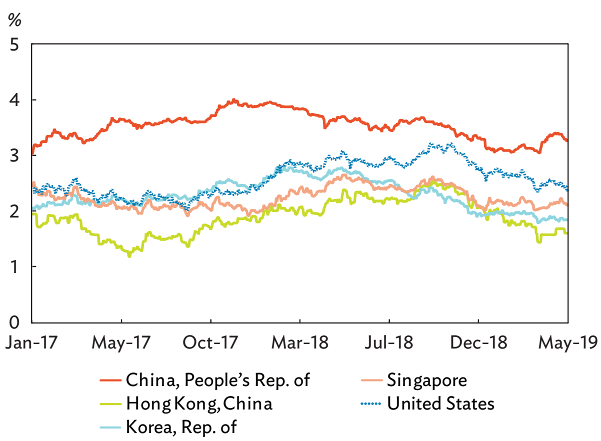
Note: Data as of 15 May 2019.
Source: Based on data from Bloomberg LP.

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



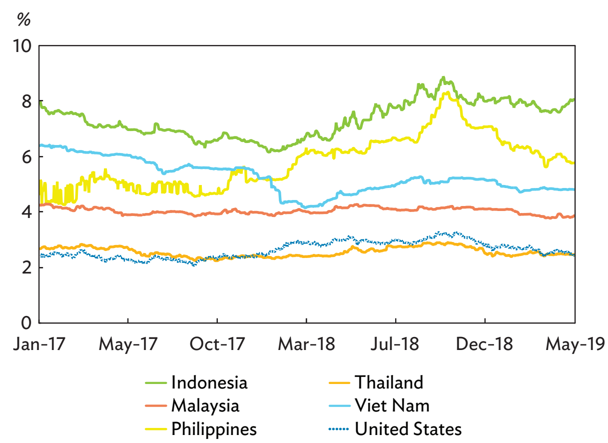
Note: Data as of 15 May 2019.
Source: Based on data from Bloomberg LP.

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



Note: Data as of 15 May 2019.
Source: Based on data from Bloomberg LP.

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

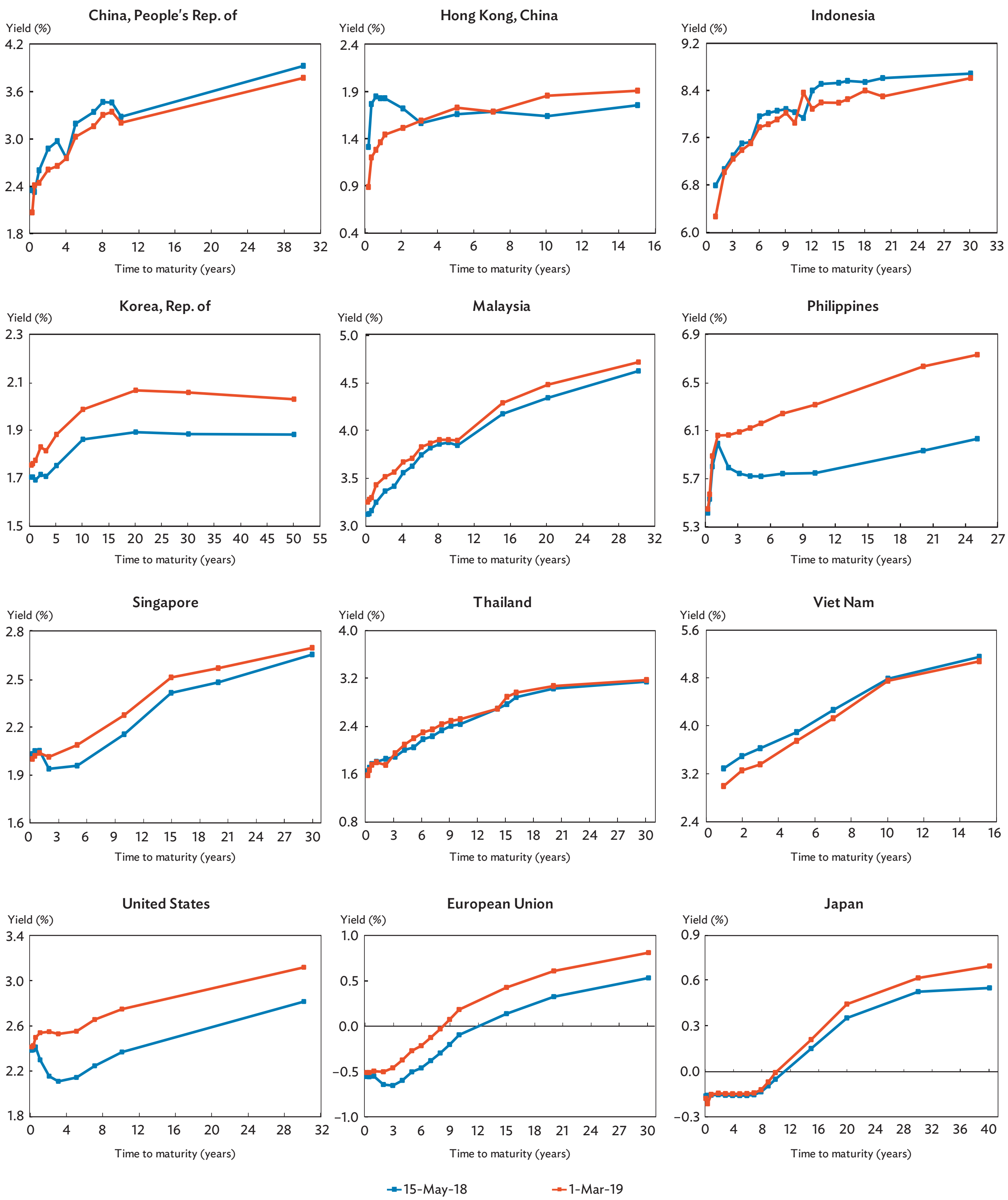


Note: Data as of 15 May 2019.
Source: Based on data from Bloomberg LP.

Similarly, most emerging East Asian government bond yield curves shifted downward between 1 March and 15 May (**Figure 9**).

Economic growth in most of emerging East Asia slowed in Q1 2019 in line with weakening growth in advanced economies. The exception was the PRC, where GDP grew 6.4% y-o-y in Q1 2019, the same pace as in Q4 2018. Hong Kong, China's GDP growth slowed to 0.6% y-o-y from 1.2% y-o-y, while the Republic of Korea's GDP growth slowed to 1.8% y-o-y from 3.1% y-o-y in the same period. Likewise, the Philippines' growth slowed to 5.6% y-o-y from 6.3% y-o-y in Q4 2018, but this was largely due to the delay in approving the 2019 budget. In Malaysia, GDP growth slowed to 4.5% y-o-y in Q1 2019 from 4.7% y-o-y in Q4 2018, while in Viet Nam growth slowed to 6.8% y-o-y from 7.3% y-o-y in the same period. Outside the PRC, the region's least affected economies were Indonesia, where GDP growth slowed marginally to 5.1% y-o-y in Q1 2019 from 5.2% y-o-y in Q2 2018, and Singapore, where GDP growth slowed to 1.2% y-o-y from 1.3% y-o-y.

Figure 9: Benchmark Yield Curves—Local Currency Government Bonds

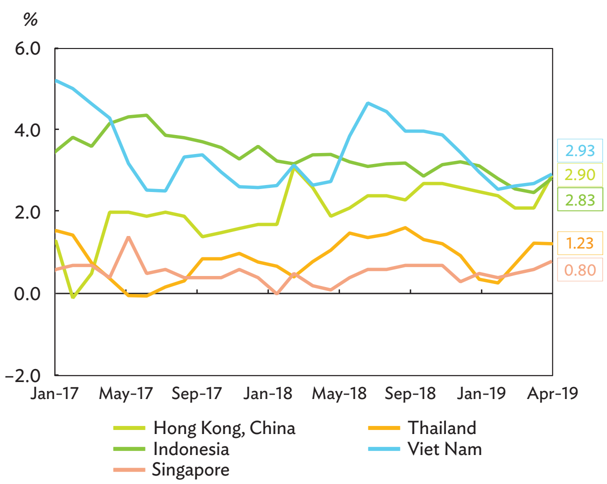


Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

In contrast to weaker economic growth, inflation in emerging East Asia trended upward during the first 4 months of the year. However, overall levels of inflation remained low throughout the region. There were exceptions such as in Hong Kong, China and the Philippines, where inflation has significantly fallen since October, reversing one of the steepest increases among emerging East Asian economies in 2018 (**Figures 10a, 10b**).

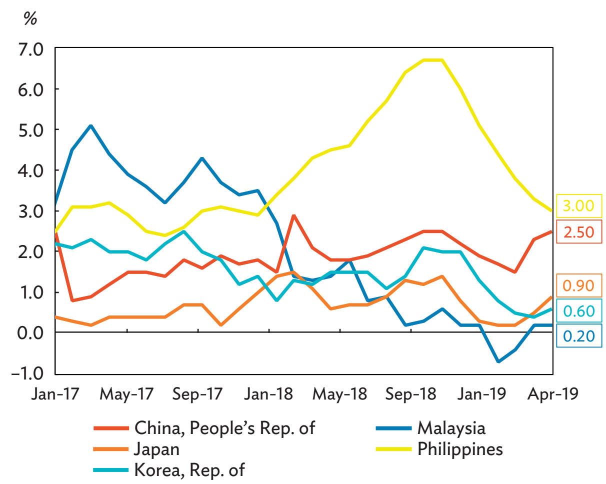
The significant decline in inflation allowed the Bangko Sentral ng Pilipinas to cut policy rates on 9 May (**Figure 11a**). In addition, the central bank reduced the reserve requirement ratio by 200 bps on 17 May. Malaysia also reduced its policy rate on 8 May by 25 bps. While all other central banks in the region have left policy rates unchanged in 2019, recent monetary policy statements from most central banks in emerging East Asia broadly indicate consensus regarding uncertainties over

Figure 10a: Headline Inflation Rates



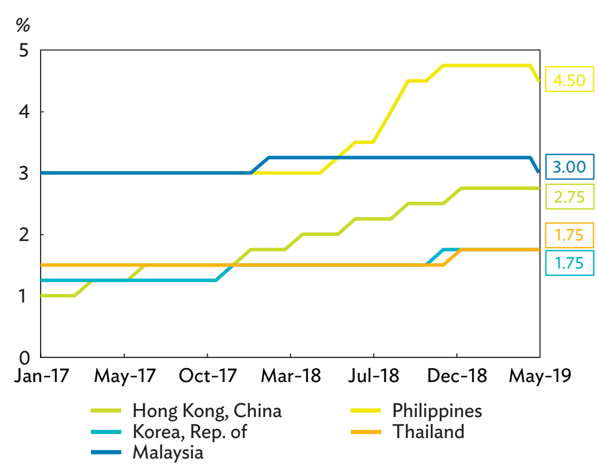
Note: Data as of April 2019.
Source: Based on data from Bloomberg LP.

Figure 10b: Headline Inflation Rates



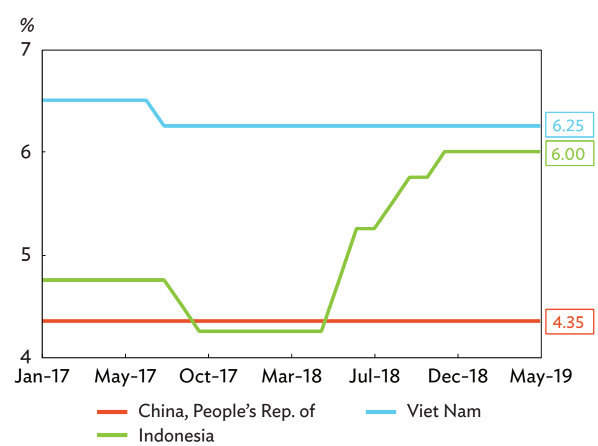
Note: Data as of April 2019.
Source: Based on data from Bloomberg LP.

Figure 11a: Policy Rates



Note: Data as of 15 May 2019.
Source: Based on data from Bloomberg LP.

Figure 11b: Policy Rates



Note: Data as of 15 May 2019.
Source: Based on data from Bloomberg LP.

global economic growth and they stand ready to make adjustments as conditions warrant.

One exception is Indonesia, which has largely left policy rates unchanged after a series of policy rate increases in 2018 (**Figure 11b**). Bank Indonesia indicated that concerns remain over the current account deficit and the impact of capital outflows.

Consistent with expectations of slower growth, the 2-year versus 10-year yield spread fell in all emerging East Asian markets except Indonesia and Malaysia (**Figure 12**).

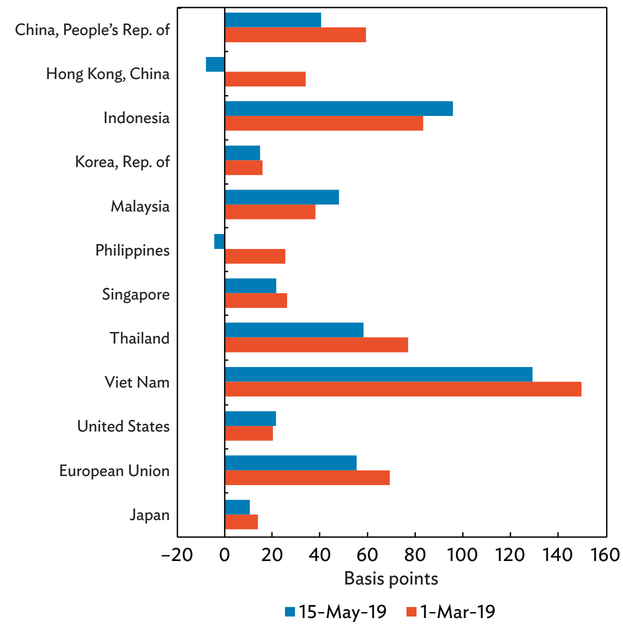
Corporate Bond Credit Spreads

The AAA-rated corporate versus government yield spread fell in all three regional markets for which data are available, but rose in the PRC and Malaysia for lower-rated bonds.

Investor sentiment toward AAA-rated corporate bonds improved in all three markets for which data are available (**Figure 13a**). In the PRC, investor sentiment was helped by government plans to stabilize the economy, while in Malaysia spreads fell amid rising oil prices between the end of December and the middle of May.

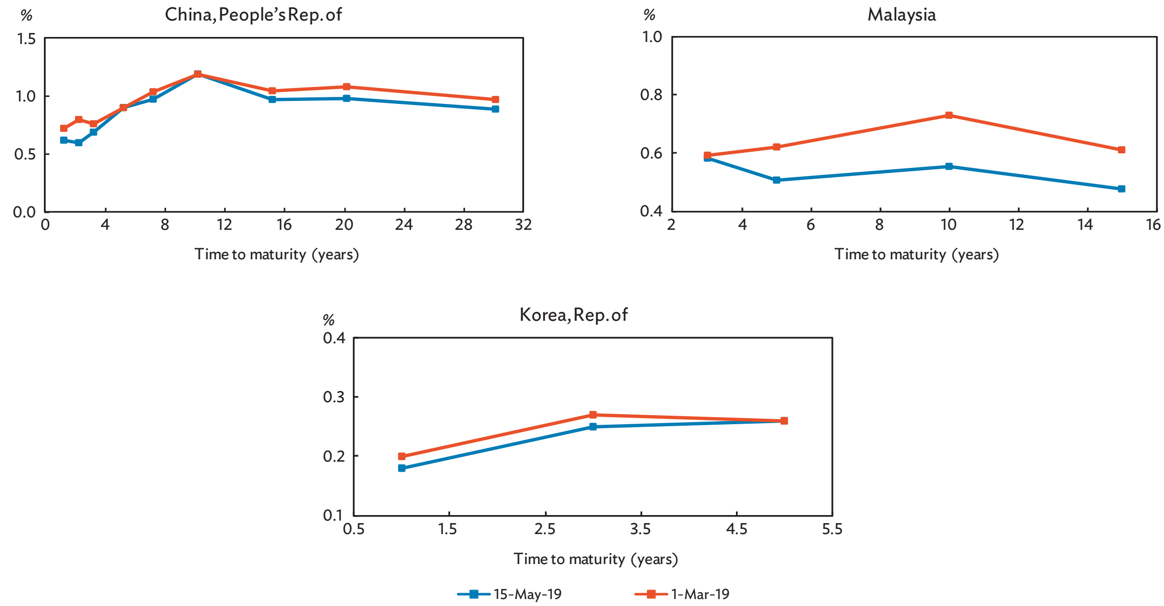
In contrast, credit spreads worsened in the PRC for lower-rated bonds due to continued corporate defaults in Q1 2019, though these occurred at a lower level than in 2018 (**Figure 13b**). In Malaysia, credit spreads for lower-rated bonds also rose during the review period.

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



Source: Based on data from Bloomberg LP.

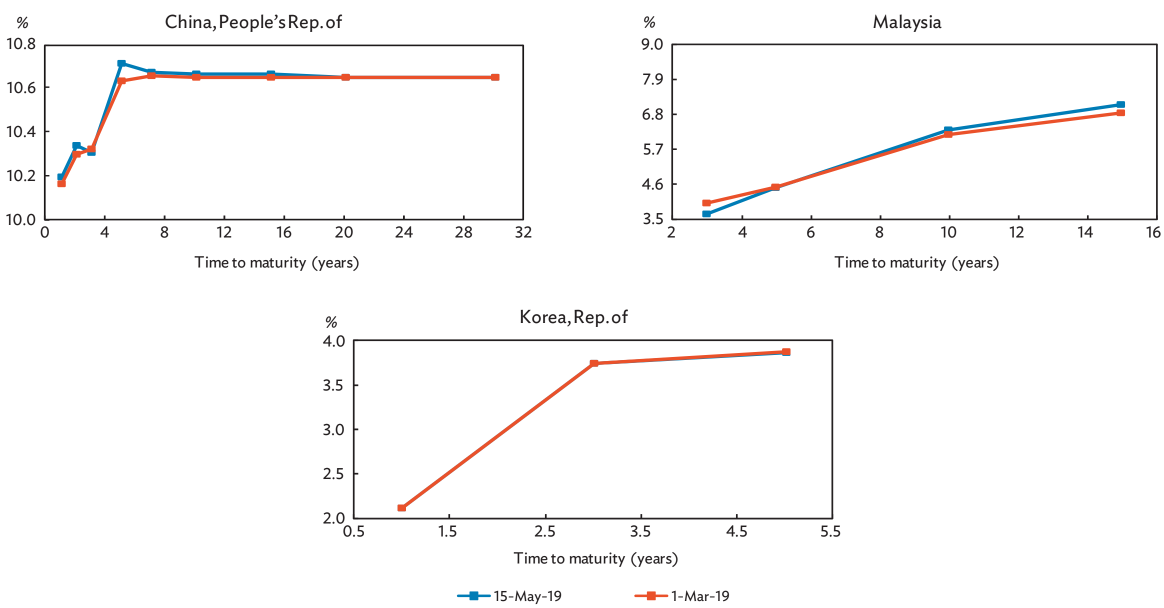
Figure 13a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Notes:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For Malaysia, data on corporate bonds yields are as of 28 February 2019 and 14 May 2019.
3. For the Republic of Korea, data on corporate bonds yields are as of 28 February 2019 and 15 May 2019.

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

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



Notes:
1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB. Data on corporate bond yields are as of 28 February 2019 and 14 May 2019.
3. For the Republic of Korea, data on corporate bonds yields are as of 28 February 2019 and 15 May 2019.

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