

Highlights

Key Trends

- Global growth moderation, ongoing trade tensions, and the less hawkish monetary stances of major central banks contributed to a decline in bond yields in both advanced economies and emerging East Asia.¹ The Philippines and Malaysia cut their respective policy rates by 25 basis points each in May. Yields on 10-year local currency (LCY) government bonds posted declines in most emerging East Asian economies between 1 March and 15 May. The exceptions were the People's Republic of China (PRC), Indonesia, and Viet Nam.
- The region's financial markets faced uncertainties as trade tensions between the PRC and the United States (US) resurfaced in May. The tensions soured investment sentiment and led investors to pull back from emerging East Asian financial markets.
- Equity markets in emerging East Asia declined during the review period, with Indonesia experiencing the largest decline due to heavy foreign selling. Credit default swap spreads also widened, reflecting the deteriorating investment sentiment.
- All regional currencies except the Thai baht weakened vis-à-vis the US dollar during the review period. The baht strengthened on the back of Thailand's strong current account surplus.
- Emerging East Asia's LCY bond market expanded to reach a size of USD15.0 trillion at the end of March. The region's bond market grew by 2.9% quarter-on-quarter in the first quarter of 2019. On a year-on-year basis, growth reached 14.0%.
- The Asian Bond Markets Initiative (ABMI) witnessed the fourth bond issuance under the ASEAN+3 Multi-Currency Bond Issuance Framework in March and the second corporate bond issuance in Cambodia in April.

Risks to Financial Stability

- Downside risks to the region's bond markets currently outweigh the upside risks.
- Global trade tensions continue to pose the single-largest risk to the world economy and financial stability. Renewed tensions may further slow global economic growth, which was already decelerating.
- Emerging market currencies have been relatively stable but vulnerabilities remain, as evidenced by the renewed weakness of the Argentine peso and Turkish lira in 2019.
- Volatile global oil prices could also have a negative impact on growth and financial stability. Geopolitical factors underlie the oil price volatility.
- On the upside, it is widely expected that the US Federal Reserve will not raise interest rates in 2019. The change in its monetary policy stance will contribute to financial stability in emerging markets.

Theme Chapter: Developing the Housing Bond Market

- The theme chapter discusses the importance of housing finance in expanding home ownership, which is a key factor in the well-being of households. Housing finance comprises both financing for prospective homeowners and housing suppliers.
- The chapter reviews the history of housing finance. Banks have been the traditional providers of housing finance (via mortgage loans), but capital markets can also help mobilize housing finance through instruments such as covered bonds and mortgage-backed securities.
- The chapter also includes a discussion of the development of housing finance in select emerging Asian economies.

¹ 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.