Market Summaries

People's Republic of China

Yield Movements

The People's Republic of China's (PRC) yield curve for local currency (LCY) bonds shifted upward between 1 March and 8 May with the exception of the 6-month and 4-year tenors (**Figure 1**). The PRC's yield curve shifted upward by an average of 19 basis points (bps) with the largest gain seen for the 3-year tenor, which rose 35 bps. The 2-year versus 10-year yield spread fell from 59 bps on 1 March to 49 bps on 8 May.

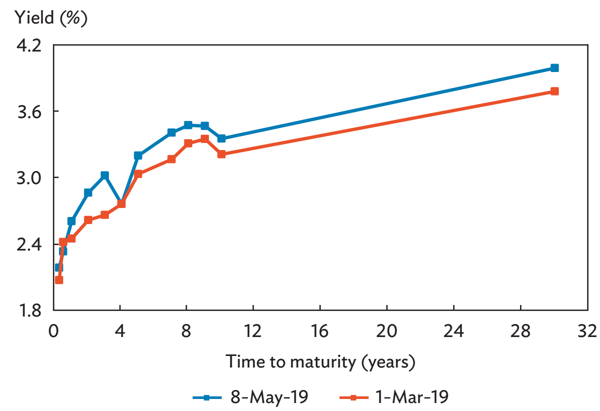
From 1 January to 31 March, the PRC's yields largely trended downward over expectations that the domestic economy would weaken and that the People's Bank of China (PBOC) would ease liquidity conditions. The PRC reduced the reserve requirement ratio of banks on 4 January and markets had been anticipating a possible reserve requirement ratio cut in April.

However, the PRC's yields trended upward in April as the anticipated reserve requirement ratio cut failed to materialize. In addition, economic indicators showed better-than-expected economic growth. The PRC reported a gross domestic product (GDP) growth rate of 6.4% year-on-year (y-o-y) in the first quarter (Q1) of 2019, the same rate as in the fourth quarter (Q4) of 2018. Industrial production was also strong in Q1 2019, with growth of 6.5% y-o-y in January–March, up from 5.3% y-o-y in January–February. In March, industrial production grew 8.5% y-o-y.

Inflation in the PRC generally trended upward in the first 4 months of the year, with the inflation rates for March and April at 2.3% y-o-y and 2.5% y-o-y, respectively, versus 1.7% y-o-y and 1.5% y-o-y for January and February, respectively. Rising inflation in the PRC was mostly due to supply-side factors such as the impact of an outbreak of swine flu on pork prices.

Yields trended downward in May, following the release of weaker-than-expected economic indicators in April as well as ongoing uncertainties regarding the PRC's trade

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



Source: Based on data from Bloomberg LP.

dispute with the United States (US). Industrial production grew 5.4% y-o-y in April versus an earlier estimate of 6.5% y-o-y. Retail sales growth fell to 7.2% y-o-y in April from 8.7% y-o-y in March.

The PBOC announced on 5 May a targeted reserve requirement ratio reduction for small county-level rural commercial banks. By doing so, the PBOC indicated a preference for more targeted adjustments in increasing liquidity and boosting lending, as opposed to broader easing measures. In contrast, the central government has opted for wider measures, such as during the National People's Congress in March when it adopted an increase in the budget deficit target as well as some tax reductions. In addition, the central government plans to use local government special bonds to help boost infrastructure investment at the municipal level.

Size and Composition

LCY bonds outstanding in the PRC rose 3.0% quarter-on-quarter (q-o-q) in Q1 2019, a deceleration from 3.4% q-o-q growth in Q4 2018. On a y-o-y basis, LCY bonds outstanding grew 16.7% (**Table 1**).

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**65,152**	**10,382**	**73,770**	**10,725**	**76,012**	**11,325**	**1.3**	**38.4**	**3.0**	**16.7**
Government	42,263	6,735	47,883	6,961	49,061	7,309	0.7	71.0	2.5	16.1
Treasury Bonds and Other Government Bonds	13,459	2,145	14,922	2,169	14,882	2,217	(0.6)	11.1	(0.3)	10.6
Central Bank Bonds	0	0	0	0	2	0	0.0	0.0	0.0	0.0
Policy Bank Bonds	13,600	2,167	14,517	2,110	14,776	2,201	1.1	7.9	1.8	8.6
Local Government Bonds	15,204	2,423	18,444	2,681	19,401	2,890	1.4	35.0	5.2	27.6
Corporate	22,889	3,647	25,887	3,763	26,951	4,015	2.3	2.3	4.1	17.8
Policy Bank Bonds										
China Development Bank	7,571	1,206	8,147	1,184	8,328	1,241	0.4	5.4	2.2	10.0
Export–Import Bank of China	2,329	371	2,397	348	2,444	364	1.4	6.4	1.9	4.9
Agricultural Devt. Bank of China	3,700	590	3,973	578	4,005	597	2.3	14.6	0.8	8.2

( ) = 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: CEIC and Bloomberg LP.

Government bonds. The PRC's government bonds outstanding grew 2.5% q-o-q in Q1 2019, up from 2.2% q-o-q in Q4 2018. The slightly higher q-o-q growth rate was largely due to increases in local government bonds, which expanded 5.2% q-o-q in Q1 2019 after growth of less than 1.0% in Q4 2018. (Local governments had reached most of their annual issuance quotas during the third quarter of 2018.)

To provide economic stimulus to the domestic economy, the Government of the PRC frontloaded local government bond issuance and established an annual quota of CNY1.39 trillion at the start of 2019, which was to be realized mostly in the form of special bonds. At the National People's Congress in March, the central government announced that it had raised the local government issuance quota to CNY3.08 trillion, of which CNY2.15 trillion would be in the form of special bonds.

In contrast, Treasury bonds outstanding contracted 0.3% q-o-q in Q1 2019 on reduced issuance. The PRC also reported CNY1.5 trillion in central bank bonds outstanding at the end of March as a result of the central bank bond swap facility launched in February 2019, which allowed banks to swap their holdings of perpetual bank bonds for central bank bonds in order to improve liquidity.

Corporate bonds. The PRC's corporate bonds outstanding grew 4.1% q-o-q in Q1 2019, down from 5.9% q-o-q growth in Q4 2018. The slower corporate bond growth was largely due to uncertainties over the PRC's economy. Yields largely trended downward over the course of Q1 2019 in anticipation of lower funding costs. As a result, nearly all major bond categories posted lower q-o-q growth in Q1 2019, with the exception of commercial paper due to its short-term nature (**Table 2**). Outstanding commercial paper grew 14.1% q-o-q in Q1 2019 after rising 3.5% q-o-q in Q4 2018

Issuance for all major corporate bond types fell in Q1 2019 compared with Q4 2018, similar to the performance of corporate bonds outstanding during the same period (**Figure 2**).

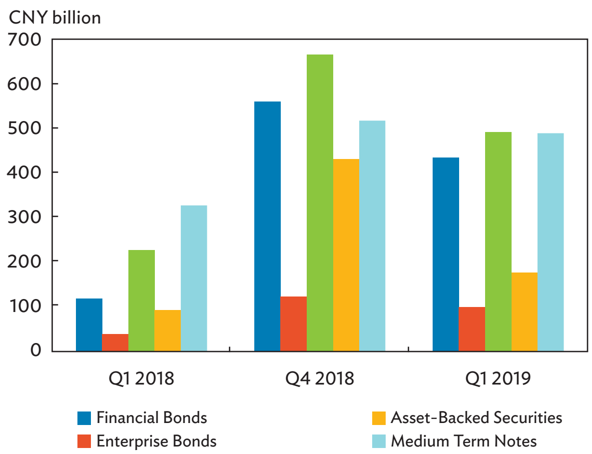
The PRC's LCY corporate bond market continued to be dominated by a few big issuers (**Table 3**). At the end of Q1 2019, the top 30 corporate bond issuers accounted for CNY7.7 trillion worth of corporate bonds outstanding, or about 28.5% of the total market. Of the top 30, the 10 largest issuers accounted for CNY4.8 trillion. China Railway, the top issuer, had more than four times the outstanding amount of bonds as Bank of China, the second-largest issuer. The top 30 issuers included 14 banks, which continued to generate funding to

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q1 2018		Q1 2019	
	Q1 2018	Q4 2018	Q1 2019	q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	3,687	4,531	4,744	1.0	24.7	4.7	28.7
Enterprise Bonds	4,387	3,929	3,872	1.0	(1.9)	(1.5)	(11.7)
Listed Corporated Bonds	5,440	6,393	6,608	1.0	25.5	3.4	21.5
Commercial Papers	1,765	1,963	2,240	1.2	(7.2)	14.1	26.9
Medium Term Notes	4,868	5,520	5,813	1.0	7.7	5.3	19.4
Asset-Backed Securities	1,002	1,706	1,728	1.0	50.8	1.3	72.4

( ) = 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: CEIC.

Figure 2: Corporate Bond Issuance in Key Sectors



CNY = Chinese yuan, Q1 = first quarter, Q4 = fourth quarter.
Sources: CEIC.

strengthen their capital bases, improve liquidity, and lengthen their maturity profiles.

Table 4 lists the largest corporate bond issuances in Q1 2019. The top issuers consisted largely of banks and state-owned enterprises.

Investor Profile

Treasury bonds. Banks were the single-largest holder of Treasury bonds at the end of March (**Figure 3**), but with a slightly smaller share compared with a year earlier (60.4% versus 61.2%). In contrast, the share held by funds institutions rose to 5.8% from 5.4% during the same period.

Liquidity

The volume of interest rate swaps fell 24.0% q-o-q in Q1 2019. The 7-day repurchase rate remained the most used interest rate swap, comprising a 75.8% share of the total interest rate swap volume during the quarter (**Table 5**).

Policy, Institutional, and Regulatory Developments

National People's Congress Annual Session Held in March

On 5 March, the Government of the PRC held its annual session of the National People's Congress. During the meeting, the government adjusted its annual GDP target for 2019 to 6.0%–6.5%, down from its previous target of 6.5%. According to Premier Li Keqiang, the lower growth target takes into account economic challenges such as the ongoing trade dispute with the US and credit risks in the domestic economy. The inflation target was set at 3.0% y-o-y for full-year 2019.

To meet the GDP growth target, Premier Li Keqiang said the government would utilize fiscal measures. A budget deficit target of 2.8% of GDP was set for 2019, up from the previous year's 2.6% target, reflecting an increase in planned infrastructure spending and a reduction in taxes. The government said that it would cut business and personal taxes by CNY1.3 trillion, up from the previous year's CNY1.1 trillion tax reduction. The government also announced that the value-added tax rate would be reduced from 16% to 13% for manufacturing firms and

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	1,765.5	263.0	Yes	No	Transportation
2.	Bank of China	439.7	65.5	Yes	Yes	Banking
3.	Agricultural Bank of China	418.2	62.3	Yes	Yes	Banking
4.	Industrial and Commercial Bank of China	412.0	61.4	Yes	Yes	Banking
5.	China Construction Bank	343.4	51.2	Yes	Yes	Banking
6.	State Grid Corporation of China	327.2	48.7	Yes	No	Public Utilities
7.	Central Huijin Investment	320.0	47.7	Yes	No	Asset Management
8.	China National Petroleum	290.0	43.2	Yes	No	Energy
9.	China CITIC Bank	267.6	39.9	No	Yes	Banking
10.	Bank of Communications	265.9	39.6	No	Yes	Banking
11.	China Minsheng Banking	265.3	39.5	No	Yes	Banking
12.	Shanghai Pudong Development Bank	260.8	38.8	No	Yes	Banking
13.	Industrial Bank	205.3	30.6	No	Yes	Banking
14.	China Everbright Bank	173.4	25.8	Yes	Yes	Banking
15.	State Power Investment	163.8	24.4	Yes	No	Energy
16.	Tianjin Infrastructure Construction and Investment Group	161.5	24.1	Yes	No	Industrial
17.	China Merchants Bank	143.9	21.4	Yes	Yes	Banking
18.	CITIC Securities	138.0	20.6	Yes	Yes	Brokerage
19.	Huaxia Bank	133.4	19.9	Yes	No	Banking
20.	Ping An Bank	126.7	18.9	No	Yes	Banking
21.	PetroChina	125.0	18.6	Yes	Yes	Energy
22.	Datong Coal Mine Group	120.8	18.0	Yes	No	Coal
23.	China Souther Power Grid	113.5	16.9	Yes	No	Energy
24.	China Datang	105.5	15.7	Yes	Yes	Energy
25.	China Life Insurance	103.0	15.3	Yes	Yes	Insurance
26.	China Merchants Securities	102.1	15.2	No	Yes	Brokerage
27.	China Cinda Asset Management	100.0	14.9	Yes	Yes	Asset Management
28.	GF Securities	98.0	14.6	No	Yes	Brokerage
29.	Dalian Wanda Commercial Properties	93.0	13.9	No	Yes	Real Estate
30.	Bank of Beijing	93.0	13.8	Yes	Yes	Banking
Total Top 30 LCY Corporate Issuers		**7,675.3**	**1,143.5**			
Total LCY Corporate Bonds		**26,951.5**	**4,015.4**			
Top 30 as % of Total LCY Corporate Bonds		**28.5%**	**28.5%**			

CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 31 March 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Agricultural Bank of China		
10-year bond	4.28	50
15-year bond	4.53	10
Industrial and Commercial Bank of China		
10-year bond	4.26	45
15-year bond	4.51	10
Shanghai Pudong Development Bank		
3-year bond	3.50	50
Bank of China		
1-year bond	3.00	7
1-year bond	3.00	8
3-year bond	3.42	10
3-year bond	3.40	10
5-year bond	3.67	2
5-year bond	3.76	5
China Southern Power Grid		
3-year bond	3.65	5
3-year bond	3.53	5
5-year bond	3.76	5
5-year bond	3.73	5

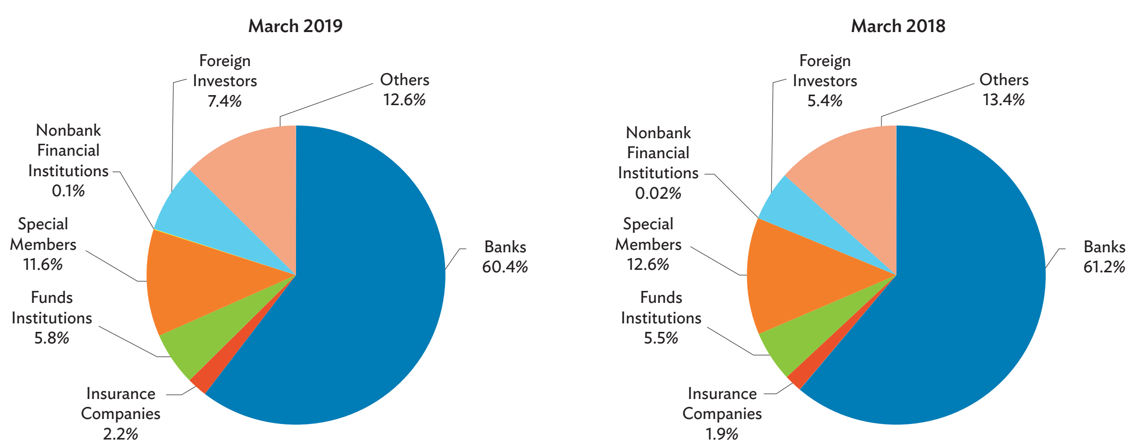
CNY = Chinese yuan.
Source: Based on data from Bloomberg LP.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the First Quarter of 2019

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
	Q1 2019		q-o-q
7-Day Repo Rate	2,839.3	74.1	(26.1)
Overnight SHIBOR	16.1	0.4	46.4
3-Month SHIBOR	915.9	23.9	(14.6)
1-Year Lending Rate	1.3	0.03	292.4
Loan Interest Rate 1 Year	1.8	0.05	(73.0)
3-Year Lending Rate	0.0	–	(100.0)
5-Year Lending Rate	0.0	–	(100.0)
Depository Institution 7-Day Repo Rate	1.7	0.04	3,260.0
10-Year Bond Yield	10.3	0.3	(56.2)
10-Year Treasury Yield	40.5	1.1	(47.9)
3-Year AAA Short-Term Notes/ Government Debt	0.0	–	(100.0)
10-Year Bond Yield/10-Year Government Bond Yield	0.9	0.02	840.0
Loan Interest Rate—1 Year * 1.1	1.4	0.04	(34.8)
Loan Interest Rate—1 Year * 1.05	0.4	0.01	–
Loan Interest Rate—1 Year * 1.35	0.0	–	(100.0)
Loan Interest Rate—5 Year * 1.05	0.04	0.001	(94.4)
Total	**3,829.5**	**100.0**	**(24.0)**

( ) = negative, – = not applicable, CNY = Chinese yuan, 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*.

Figure 3: Local Currency Treasury Bonds Investor Profile



Source: Bloomberg LP.

from 10% to 9% for transport and construction firms. The threshold for the application for the value-added system and the contribution rate for government pensions were also adjusted.

PBOC Reduces Reserve Requirement Ratio for Rural Banks

On 5 May, the PBOC announced that it would reduce the reserve requirement ratios for certain small and medium-sized banks that meet specified criteria. The PBOC said that rural commercial banks with a presence in rural counties and total assets of less than CNY10 billion will have their reserve requirement ratios set at 8%, the same level as credit cooperatives. The PBOC estimates that roughly 1,000 rural commercial banks will qualify for the reduced reserve requirement ratios and that a total of CNY280 billion will be released into the banking system.

PBOC Issues Bills in Hong Kong, China

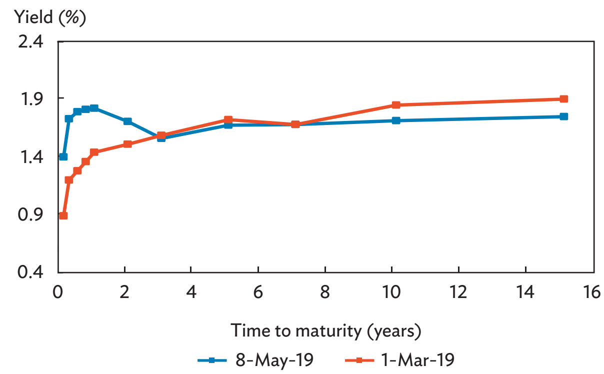
On 15 May, the PBOC issued CNY20 billion worth of central bank bills in Hong Kong, China. By tenor, the PBOC issued CNY10 billion worth of 3-month bills with an average rate of 2.87%. The PBOC also issued CNY10 billion worth of 1-year bills with an average rate of 2.96%.

Hong Kong, China

Yield Movements

Hong Kong, China's local currency (LCY) government bond yield curve exhibited mixed movements between 1 March and 8 May (**Figure 1**). For bonds with maturities of 2 years or less, yields rose an average of 43 basis points (bps), with the 2-year tenor posting the smallest gain at 20 bps. For bonds with maturities of 10 years or more, yields fell an average of 14 bps. Yields barely moved between the 3-year and 7-year tenor, falling an average of 4 bps for 3-year and 5-year tenors, and rising less than 1 bp for 7-year bonds. The slight decline in yields for bonds with tenors between 3 years and 7 years drove the yield curve down sharply in the belly, from a steep climb at the short-end until it flattened toward the long-end. The gap between the 2-year and 10-year tenors closed to less than 1 bp.

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



Source: Based on data from Bloomberg LP.

Despite Hong Kong, China's policy rate being in lockstep with the United States (US) Federal Reserve rate to maintain its currency peg to the US dollar, the market's yield curve has not been moving in sync with the US Treasury yield curve. Weaker demand for loans, caused by a cooling property market and lack of appetite to invest amid trade tensions between the People's Republic of China (PRC) and the US, caused the interbank rate for Hong Kong dollars to rise at a slower pace than the interbank rate for US dollars, leaving banks with excess liquidity and negatively affecting the value of the Hong Kong dollar. To prop up the domestic currency and raise borrowing costs, the Hong Kong Monetary Authority (HKMA) purchased HKD22.1 billion (USD2.8 billion) worth of Hong Kong dollar when it repeatedly fell to the weak-end of its trading band in March. The intervention reduced the aggregate balance to around HKD55 billion, resulting in tighter liquidity in the market. The Hong Kong Interbank Offered Rate rose, easing pressure on the Hong Kong dollar. Yields for shorter-dated bonds also rose, causing the yield curve to steepen at the short-end.

The lackluster yield performance of longer-dated bonds reflected Hong Kong, China's slowing economy. Gross domestic product growth eased to 0.6% year-on-year (y-o-y) in the first quarter (Q1) of 2019 from 1.2% y-o-y in the fourth quarter (Q4) of 2018, weakened by a slowdown in external demand and investment. Merchandise exports and imports fell 4.1% y-o-y and 4.7% y-o-y, respectively, while gross domestic fixed capital formation saw a decline of 7.1% y-o-y in Q1 2019. Private consumption rose only 0.2% y-o-y during the period.

Inflation in March was 2.1% y-o-y, maintaining its February pace but slowing from the average inflation rate for January–February, which according to the government was due to smaller increases in package tour charges caused by the timing of the Easter holiday, which arrived in April in 2019 versus March in 2018. The Easter holiday subsequently led to April's inflation rate accelerating to 2.9% y-o-y.

Size and Composition

Hong Kong, China's LCY bonds outstanding reached HKD1,960 billion at the end of March, up both on a quarter-on-quarter (q-o-q) and y-o-y basis in Q1 2019 (**Table 1**). Growth moderated to 0.5% q-o-q in Q1 2019 from 1.2% q-o-q in Q4 2018 due to a decline in the government bond segment coupled with marginal growth in the corporate bond segment. Growth climbed to 3.7% y-o-y in Q1 2019 from 2.3% y-o-y in Q4 2018, driven mainly by the corporate bond segment. Despite sluggish issuance in Q1 2019, government bonds continued to comprise the larger share of the bond market, accounting for 59.0% of total LCY bonds outstanding at the end of March.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,890**	**241**	**1,950**	**249**	**1,960**	**250**	**(0.9)**	**2.1**	**0.5**	**3.7**
Government	1,149	146	1,169	149	1,161	148	(0.4)	7.6	(0.6)	1.1
Exchange Fund Bills	1,014	129	1,031	132	1,035	132	0.3	10.4	0.5	2.1
Exchange Fund Notes	37	5	32	4	31	4	(2.6)	(20.0)	(3.1)	(15.2)
HKSAR Bonds	98	13	106	14	95	12	(6.3)	(4.7)	(10.5)	(3.5)
Corporate	741	94	782	100	799	102	(1.6)	(5.5)	2.2	7.7

( ) = 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.
Source: Hong Kong Monetary Authority.

Government bonds. LCY government bonds outstanding amounted to HKD1,161 billion at the end of March. Contractions in both Exchange Fund Notes (EFNs) and Hong Kong Special Administrative Region (HKSAR) bonds outstanding in Q1 2019 caused the government bond market's growth to ease to 0.6% q-o-q from 1.2% q-o-q in the previous quarter and to grow at a slightly slower pace of 1.1% y-o-y versus 1.3% y-o-y in Q4 2018.

Exchange Fund Bills. Exchange Fund Bills outstanding amounted to HKD1,035 billion at the end of March, growing on both a q-o-q and y-o-y basis as issuance remained strong in the face of maturing bills, totaling HKD810 billion during the review period. However, due to maturities, the growth of Exchange Fund Bills was marginal in Q1 2019 at 0.5% q-o-q and 2.1% y-o-y.

Exchange Fund Notes. EFN outstanding continued their downward trend that has been in place since the HKMA started limiting the issuance of EFNs to 2-year tenors in 2015, falling 3.1% q-o-q and 15.2% y-o-y to HKD31 billion at the end of March. In February, the HKMA issued a 2-year EFN worth HKD1.2 billion.

HKSAR bonds. HKSAR bonds outstanding amounted to HKD95 billion at the end of March, down 10.5% q-o-q and 3.5% y-o-y, reversing growth of 9.8% q-o-q and 1.0% y-o-y in Q4 2018. In Q1 2019, the government issued a 10-year bond worth HKD1.5 billion and a 15-year bond worth HKD600 million under the Institutional Bond Issuance Programme.

Corporate bonds. Corporate bonds outstanding amounted to HKD799 billion at the end of March, growing 2.2% q-o-q after expanding 2.7% q-o-q in Q4 2018 and accelerating to 7.7% y-o-y growth from 3.7% y-o-y in Q4 2018. Hong Kong, China's top 30 nonbank corporate issuers together accounted for outstanding bonds of HKD212 billion, or 26.6% of total corporate bond market (**Table 2**). Government-owned financial firm Hong Kong Mortgage Corporation, the top issuer in Hong Kong, China, had outstanding bonds of HKD32.4 billion. It was followed by another financial firm, Sun Hung Kai & Co., with outstanding bonds of HKD16.9 billion, and MTR Corporation, a government-owned transport company, with outstanding bonds of HKD12.2 billion. The top 30 issuers were predominantly real estate companies and financing firms. Of the top 30 list, two-thirds are listed on the Hong Kong Stock Exchange and four are government-owned corporations.

Corporate issuances reached HKD108 billion in Q1 2019, or double the amount in Q4 2018. Among the top nonbank issuers in Q1 2019, government-owned Hong Kong Mortgage Corporation was the largest with aggregate issuance of HKD9.8 billion from 24 issuances, the largest of which was a zero-coupon, 5-year bond worth HKD1.0 billion. The next top issuer was Sun Hung Kai & Co. with aggregate issuance of HKD2.6 billion from five issuances. AIA Group, an insurance company, was the third-largest issuer and had the two single-largest bonds in Q1 2019. One was a 3.5-year bond worth HKD1.3 billion and carrying a 4.12% coupon, and the other was a 10-year bond worth HKD1.1 billion and carrying a 3.68% coupon.

Table 2: Top 31 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.	Hong Kong Mortgage Corporation	32.4	4.1	Yes	No	Finance
2.	Sun Hung Kai	16.9	2.2	No	Yes	Finance
3.	MTR Corporation	12.2	1.6	Yes	Yes	Transportation
4.	Hong Kong Land	11.8	1.5	No	No	Real Estate
5.	The Hong Kong and China Gas Company	11.6	1.5	No	Yes	Utilities
6.	New World Development	9.4	1.2	No	Yes	Diversified
7.	Haitong International Securities Group	9.0	1.2	No	Yes	Finance
8.	CLP Power Hong Kong Financing	8.8	1.1	No	No	Finance
9.	The Wharf (Holdings)	8.6	1.1	No	Yes	Finance
10.	Henderson Land Development	7.7	1.0	No	No	Real Estate
11.	Swire Pacific	7.6	1.0	No	Yes	Diversified
12.	Link Holdings	7.4	0.9	No	No	Finance
13.	AIA Group	6.3	0.8	No	Yes	Insurance
14.	CK Asset Holdings	6.2	0.8	No	Yes	Real Estate
15.	Swire Properties	5.9	0.8	No	Yes	Real Estate
16.	Hongkong Electric	5.8	0.7	No	No	Utilities
17.	China Merchants Port Holdings	5.7	0.7	No	Yes	Transportation
18.	Hang Lung Properties	4.6	0.6	No	Yes	Real Estate
19.	IFC Development Corporation	3.5	0.4	No	No	Finance
20.	Kowloon-Canton Railway	3.4	0.4	Yes	No	Transportation
21.	Lerthai Group	3.0	0.4	No	Yes	Real Estate
22.	Hysan Development Company	3.0	0.4	No	Yes	Real Estate
23.	Urban Renewal Authority	2.8	0.4	Yes	No	Real Estate
24.	Emperor International Holdings	2.6	0.3	No	Yes	Real Estate
25.	Wharf Real Estate Investment	2.6	0.3	No	Yes	Real Estate
26.	Champion REIT	2.5	0.3	No	Yes	Real Estate
27.	China Dynamics (Holdings)	2.4	0.3	No	Yes	Diversified
28.	The 13 Holdings	2.2	0.3	No	Yes	Industrial
29.	CK Hutchison Holdings	2.0	0.3	No	Yes	Diversified
30.	Gluon Xima International	2.0	0.3	No	No	Real Estate
31.	China Agri-Products Exchange	2.0	0.3	No	Yes	Consumer, non-cyclical
Total Top 30 Nonbank LCY Corporate Issuers		**212.1**	**27.0**			
Total LCY Corporate Bonds		**798.7**	**101.7**			
Top 30 as % of Total LCY Corporate Bonds		**26.6%**	**26.6%**			

LCY = local currency.
Notes:
1. Data as of 31 March 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Hong Kong Mortgage Corporation		
3-month bond	0.00	0.66
5-year bond	0.00	1.00
30-year bond	3.15	0.58
Sun Hung Kai & Co.		
7-year bond	3.12	0.62
10-year bond	3.21	1.00
AIA Group		
3.5-year bond	2.95	1.30
12-year bond	3.68	1.10
Hong Kong Land		
15-year bond	3.67	0.60

HKD = Hong Kong dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

HKMA Maintains Countercyclical Capital Buffer at 2.5%

In April, the HKMA maintained its countercyclical capital buffer (CcyB) at 2.5%. The decision to keep the CcyB at its current rate was based on the significantly high level of credit to gross domestic product gap of 12%, despite the indicative buffer guide signaling a lower CCyB of 0.75%. This resulted from a recent narrowing of the property price-to-rental gap to slightly below 3% from more than 10% in the previous quarter. The CCyB, as an integral part of the Basel III regulatory capital framework, was designed to increase the resilience of the banking sector in periods of excess credit growth allowing the latter to act as a "shock absorber" in times of stress.

HKMA Launches Key Sustainable Banking and Green Finance Measures

In May, the HKMA launched three sets of measures to support and promote Hong Kong, China's green finance development at the HKMA Green Finance Forum. These measures include (i) green and sustainable banking, (ii) responsible investment, and (iii) a Centre for Green Finance. Green and sustainable banking involves developing a common framework to assess the "greenness baseline" of banks, engaging relevant stakeholders in consultations, and monitoring and evaluating banks' progress in meeting targets. Responsible investment implies that the HKMA will adopt a principle to give priority to green and environmental investments and social and governance investments for which long-term returns are comparable to other investments on a risk-adjusted basis. The HKMA already supports responsible investment, including investing in the Managed Co-Lending Portfolio Programme of the International Finance Corporation, with a substantial part of this initiative targeting sustainable investments across emerging markets. The third measure involves the establishment of the Centre for Green Finance under the HKMA Infrastructure Financing Facilitation Office to serve as a platform for technical support and experience sharing for the green development of Hong Kong, China's banking and finance industry.

Hong Kong, China Joins Green Bond Pledge

In May, Hong Kong, China became the first Asian signatory to the Green Bond Pledge, a pledge that calls on signatories to support long-term infrastructure and capital projects that address environmental impact and climate risk, and issue green bonds to finance a low-carbon transition. In line with the objectives of the pledge, the government stated that its Climate Action Plan 2030+ is targeted to reduce Hong Kong, China's carbon intensity by 65%–70% below its 2005 level by 2030. This bond program encourages issuers to arrange financing for their green projects through capital markets in Hong Kong, China. Signing the pledge is among several ongoing efforts of the government to turn Hong Kong, China into a regional hub for green finance. The Green Bond Pledge is a joint initiative developed by international climate finance and sustainability groups including the Climate Bonds Initiative, Mission2020, Ceres, Cassa De Possiti e Prestiti, Citizens' Climate Lobby, California Governor's Office, California Treasurer's Office, Global Optimism, Natural Resources Defense Council, and The Climate Group. It was launched by former United Nations climate chief Christiana Figueres at the Climate Bonds Annual Conference in March 2018.

Indonesia

Yield Movements

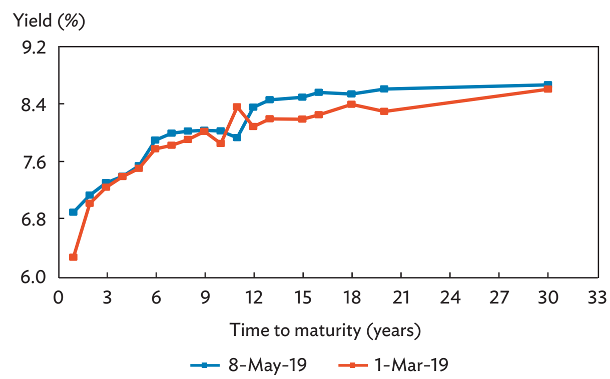
Between 1 March and 8 May, local currency (LCY) government bond yields in Indonesia edged higher for nearly all maturities (**Figure 1**). Yields gained the most for the 1-year maturity, which rose 63 basis points (bps). Yield upticks for 2-year through 10-year maturities averaged 9 bps, while gains for 12-year through 30-year tenors averaged 24 bps. The yield spread between the 2-year and 10-year maturities widened from 83 bps on 1 March to 89 bps on 8 May.

The overall trend of rising yields in Indonesia stemmed from the resurgence of uncertainties in global financial markets as well as concerns over trade tensions between the People's Republic of China (PRC) and the United States (US). In addition, concerns over the current account deficit weighed on investor sentiment. A trade deficit of USD2.5 billion was recorded in April, the widest since 2013, which may further worsen the current account deficit.

The Indonesian rupiah came under pressure in the middle of April as some investors locked in profits and adopted a wait-and-see attitude. Indonesia's LCY government bond market benefitted from strong foreign fund inflows of USD5.2 billion in the first quarter (Q1) of 2019. The trend of monthly inflows reversed in April when the bond market saw net outflows of USD0.5 billion. Indonesia's LCY government bond market remains highly sensitive to developments in the global market, with foreign investors still holding the single-largest share of its LCY government bonds among all investor groups. As such, Bank Indonesia engaged in market intervention to maintain the stability of the Indonesian rupiah and the US dollar exchange rate. In addition, it intervened in the government bond market through bond buybacks as well as in the domestic nondeliverable forward market.

In a meeting held on 24–25 April, Bank Indonesia held steady the 7-day reverse repurchase (repo) rate at 6.00%, the deposit facility rate at 5.25%, and the lending facility rate at 6.75%. The central bank deemed that at their current levels these rates are supportive of efforts to narrow the current account deficit and keep inflation within its full-year 2019 target range of 2.5%–4.5%.

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



Source: Based on data from Bloomberg LP.

Economic growth in Indonesia, as measured by gross domestic product (GDP), slipped to 5.1% year-on-year (y-o-y) in the first quarter (Q1) of 2019 from 5.2% y-o-y in the fourth quarter (Q4) of 2018. According to Bank Indonesia, seasonal factors and the slowdown in global economic growth contributed to the slower GDP growth. Private consumption, which is the largest contributor to GDP, grew 5.0% y-o-y in Q1 2019, buoyed by tame inflation, rising incomes, and improving consumer confidence. The Q1 2019 y-o-y growth in domestic consumption was weaker than the 5.1% y-o-y growth posted in Q4 2018. Exports and imports of goods and services contracted on a y-o-y basis in Q1 2019, influenced by a slowdown in global demand and softer commodity prices. Gross fixed capital formation also moderated, with growth easing to 5.0% y-o-y in Q1 2019 from 6.0% y-o-y in Q4 2018. On a quarter-on-quarter (q-o-q) basis, the economy contracted 0.5% in Q1 2019.

Size and Composition

Indonesia LCY bonds outstanding expanded to reach IDR3,083.7 trillion (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 (**Table 1**). Annual growth in bonds outstanding also quickened to 18.7% y-o-y from 13.7% y-o-y during the same period. All bond segments posted positive growth during the review period, with much of the growth driven by government bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,598,075**	**189**	**2,838,177**	**197**	**3,083,746**	**217**	**4.0**	**13.4**	**8.7**	**18.7**
Government	2,197,585	160	2,426,320	169	2,659,664	187	4.2	11.5	9.6	21.0
Central Govt. Bonds	2,184,588	159	2,368,451	165	2,527,993	177	4.0	15.5	6.7	15.7
of which: *Sukuk*	329,204	24	392,985	27	427,277	30	(4.0)	19.9	8.7	29.8
Central Bank Bonds	12,997	0.9	57,869	4	131,671	9	29.7	(83.6)	127.5	913.1
of which: *Sukuk*	12,997	0.9	10,043	0.7	24,915	2	29.7	5.9	148.1	91.7
Corporate	400,490	29	411,857	29	424,082	30	3.4	24.8	3.0	5.9
of which: *Sukuk*	16,449	1	21,298	1	24,606	2	6.9	39.0	15.5	49.6

( ) = 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 31 March 2019 stood at IDR234.0 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

Indonesia's bond market remains dominated by government bonds, with its share rising to 86.2% of the aggregate bond stock at the end of March from 85.5% at the end of December and from 84.6% at the end of March 2018. The majority of LCY bonds in Indonesia are conventional bonds, which accounted an 84.5% share of the total at the end of Q1 2019. The share of *sukuk* (Islamic bonds), while relatively much smaller at 15.5%, rose from 15.0% at the end of December 2018 and 13.8% at the end of March 2018.

Government bonds. Total outstanding LCY government bonds stood at IDR2,659.7 trillion at the end of March on growth of 9.6% q-o-q and 21.0% y-o-y. Treasury instruments issued by the Ministry of Finance, which are used mainly for budget financing, accounted for a larger share of the total government bond stock at the end of Q1 2019. While the stock of central bank instruments accounted for a smaller share, central bank instruments posted the fastest growth rate among all bond market segments during the review period.

Central government bonds. The outstanding amount of central government bonds expanded to IDR2,528.0 trillion at the end of Q1 2019 on growth of 6.7% q-o-q and 15.7% y-o-y. As in past years, the Ministry of Finance has adopted a frontloading issuance policy in 2019 and plans to conduct the majority of its annual issuance during the first half of the year. The first quarter of the year is generally a slow period for revenue collection; thus, the government opted to issue higher volumes in Q1 2019 to support its budget spending.

The government took advantage of hefty demand from investors as market sentiments toward Indonesian government bonds attracted strong interest following the Federal Reserve's announcement of a dovish outlook for its monetary policy. The total volume of newly issued Treasury bills and Treasury bonds amounted to IDR244.6 trillion at the end of March, with growth rebounding to 106.5% q-o-q and 11.5% y-o-y in Q1 2019 after contracting 25.0% q-o-q and posting a marginal 0.7% y-o-y hike in the preceding quarter. The government issued in higher volumes in Q1 2019, accepting bids over its targeted amount for 12 of 13 scheduled conventional and Islamic Treasury auctions. In addition, the government raised IDR21.1 trillion from the sale of retail *sukuk* in March, more than double its target of IDR10.0 trillion. An additional auction for Islamic Treasury bills and the private placement of a project-based *sukuk* were conducted in January and February, respectively.

Central bank bonds. The outstanding size of central bank bonds, comprising central bank certificates known as Sertifikat Bank Indonesia (SBI) and Sukuk Bank Indonesia (SukBI), climbed more than two-fold during the quarter to reach IDR131.7 trillion at the end of March. The rapid growth was the result of expanding from a low base as Bank Indonesia had only resumed the issuance of conventional SBI in July 2018.

(Bank Indonesia had ceased issuance of conventional SBI beginning in January 2017.) Similar with the trends of Treasury instruments, conventional SBI are issued in much larger volumes than their *sukuk* counterparts. In addition, beginning in December 2018, the central bank commenced the issuance of Bank Indonesia *sukuk* as a tool in guiding monetary policy.

In Q1 2019, total issuance by the central bank surged to IDR106.5 trillion from IDR24.1 trillion in Q4 2018 and IDR4.3 trillion in Q1 2018. Of this amount, IDR35.8 trillion comprised conventional SBI and IDR9.7 trillion were shariah-compliant SBI. The largest issuance share comprised IDR61.0 trillion of SukBI. While the issuance volume for SukBI was quite large, the instrument's overall impact on LCY bonds outstanding was not significant owing to the short-term nature of this type of bond: Bank Indonesia *sukuk* carry short-term maturities of 7, 14, and 28 days.

Corporate bonds. The total corporate bond stock stood at IDR424.1 trillion at the end of March, with growth expanding 3.0% q-o-q and 5.9% y-o-y. Good market conditions allowed corporates to tap the bond market for their funding needs in Q1 2019. A smaller volume of maturities was also observed than in the preceding quarter, resulting in an overall increase in the corporate bond stock.

At the end of March, a total of 117 corporate entities comprised the Indonesian corporate bond market. By type of industry, banks and financial institutions had the most bonds outstanding, accounting for a 61.0% share of the total. The banking and financial sector was followed by the infrastructure, utilities, and transportation sector, whose outstanding bond stock represented 20.5% of the corporate total at the end of March. All other sectors had a share of 6.8% or less at the end of the review period.

The 30 largest corporate bond issuers had aggregate bonds outstanding of IDR315.4 trillion, representing nearly three-fourths of the corporate total during the review period (**Table 2**). Of the 30 firms on the list, 21 came from the banking and financial sector. Nearly half of the firms were state-owned entities, of which seven firms landed in the list's top 10.

The top 30 list was led by three state-owned firms; the ranking of each was unchanged from the previous quarter. In the top spot was Indonesia Eximbank with outstanding bonds valued at IDR33.5 trillion at the end of March. It was followed by Bank Rakyat Indonesia (IDR23.4 trillion) and Perusahaan Listrik Negara (IDR22.8 trillion). Moving up one ranking to the fourth spot was Indosat, with its outstanding bond total pulled up by a multitranche issuance during the quarter. Bank Tabungan Negara dropped from the fourth to fifth spot during the quarter.

In Q1 2019, new corporate bond issuance totaled IDR22.0 trillion, with growth accelerating 61.8% q-o-q but falling 6.9% y-o-y. This compares with contractions of 59.3% q-o-q and 73.3% y-o-y in Q4 2018. A total of 64 new corporate bond series were added to the corporate bond stock during the quarter, including 22 series of *sukuk*. In January, Adira Dinamika Multi Finance issued three series of *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership). Also, in March, two series of *sukuk mudharabah* were issued by Sarana Multi Infrastruktur. Multitranche issuances of *sukuk ijarah* (Islamic bonds backed by a lease agreement) came from XL Axiata, Perusahaan Listrik Negara, and Indosat during the quarter. Also, a *sukuk ijarah* was issued by Aneka Gas Industri in March.

The five largest corporate bond issuers and their respective bond issuances in Q1 2019 are provided in **Table 3**. In the top spot was state-owned Sarana Multigriya Finansial, which tapped the bond market twice during the quarter, in February and again in March, for an aggregate issuance total of IDR4.4 trillion. State-owned energy firm Perusahaan Listrik Negara followed with an issuance of IDR3.3 trillion via a multitranche deal in February. Next on the list was Federal International Finance with a dual-tranche issuance worth IDR2.4 trillion in March.

Foreign currency bonds. In February, the Government of Indonesia raised USD2.0 billion from a dual-tranche sale of global *sukuk*. The sale comprised (i) a USD750 million 5.5-year global green *sukuk* with a profit rate of 3.9%, and (ii) a USD1.25 billion of 10-year global *sukuk* with a profit rate of 4.45%. The proceeds from the 5.5-year global green *sukuk* were targeted for funding or refinancing eligible green projects as outlined in the government's Green Bond and Green Sukuk Framework, while the proceeds from the 10-year global *sukuk* were to be used to meet general financing requirements. The *sukuk* were structured following the *wakalah* principle (an Islamic bond backed by an agreement nominating another entity to act on its behalf).

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	33,504.9	2.4	Yes	No	Banking
2.	Bank Rakyat Indonesia	23,426.5	1.6	Yes	Yes	Banking
3.	Perusahaan Listrik Negara	22,783.0	1.6	Yes	No	Energy
4.	Indosat	18,081.0	1.3	No	Yes	Telecommunications
5.	Bank Tabungan Negara	17,050.0	1.2	Yes	Yes	Banking
6.	Bank Pan Indonesia	15,427.0	1.1	No	Yes	Banking
7.	Sarana Multi Infrastruktur	15,245.3	1.1	Yes	No	Finance
8.	Bank Mandiri	14,000.0	1.0	Yes	Yes	Banking
9.	Waskita Karya	13,861.3	1.0	Yes	Yes	Building Construction
10.	Federal International Finance	13,471.8	0.9	No	No	Finance
11.	Sarana Multigriya Finansial	12,797.0	0.9	Yes	No	Finance
12.	Adira Dinamika Multifinance	10,708.5	0.8	No	Yes	Finance
13.	Pupuk Indonesia	9,076.0	0.6	Yes	No	Chemical Manufacturing
14.	Telekomunikasi Indonesia	8,995.0	0.6	Yes	Yes	Telecommunications
15.	Astra Sedaya Finance	8,250.0	0.6	No	No	Finance
16.	Perum Pegadaian	7,649.0	0.5	Yes	No	Finance
17.	Bank CIMB Niaga	7,037.0	0.5	No	Yes	Banking
18.	Hutama Karya	6,825.0	0.5	Yes	No	Nonbuilding Construction
19.	Bank Maybank Indonesia	6,766.0	0.5	No	Yes	Banking
20.	Medco-Energi Internasional	6,454.2	0.5	No	Yes	Petroleum and Natural Gas
21.	Permodalan Nasional Madani	5,746.0	0.4	Yes	No	Finance
22.	XL Axiata	5,103.0	0.4	No	Yes	Telecommunications
23.	BFI Finance Indonesia	4,602.0	0.3	No	Yes	Finance
24.	Bank OCBC NISP	4,381.0	0.3	No	Yes	Banking
25.	Bank Pembangunan Daerah Jawa Barat Dan Banten	4,252.0	0.3	Yes	Yes	Banking
26.	Maybank Indonesia Finance	4,100.0	0.3	No	No	Finance
27.	Bank Permata	4,060.0	0.3	No	Yes	Banking
28.	Indofood Sukses Makmur	4,000.0	0.3	No	Yes	Food and Beverages
29.	Bank UOB Buana	3,900.0	0.3	No	No	Banking
30.	Mandiri Tunas Finance	3,850.0	0.3	No	No	Finance
Total Top 30 LCY Corporate Issuers		**315,402.3**	**22.1**			
Total LCY Corporate Bonds		**424,081.7**	**29.8**			
Top 30 as % of Total LCY Corporate Bonds		**74.4%**	**74.4%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 31 March 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Sarana Multigriya Finansial		
370-day bond	8.00	677.00
370-day bond	7.75	522.00
3-year bond	8.80	748.50
3-year bond	8.45	1,989.00
5-year bond	9.25	425.00
Perusahaan Listrik Negara		
3-year bond	8.50	369.00
3-year *sukuk ijarah*	8.50	263.00
5-year bond	9.10	1,212.00
5-year *sukuk ijarah*	9.10	263.00
7-year bond	9.35	183.00
7-year *sukuk ijarah*	9.35	204.00
10-year bond	9.60	211.00
10-year *sukuk ijarah*	9.60	45.00
15-year bond	9.80	263.00
15-year *sukuk ijarah*	9.80	60.00
20-year bond	9.95	155.00
20-year *sukuk ijarah*	9.95	28.00
Federal International Finance		
370-day bond	8.00	990.85
3-year bond	8.80	1,369.47
Astra Sedaya Finance		
370-day bond	8.00	932.00
3-year bond	8.80	670.00
5-year bond	9.20	623.00
Indosat		
370-day bond	8.25	815.00
370-day *sukuk ijarah*	8.25	348.00
3-year bond	9.25	408.00
3-year *sukuk ijarah*	9.25	91.00
5-year bond	9.75	185.00
5-year *sukuk ijarah*	9.75	29.00
7-year bond	10.10	45.00
7-year *sukuk ijarah*	10.10	11.00
10-year bond	10.35	47.00
10-year *sukuk ijarah*	10.35	21.00

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

Investor Profiles

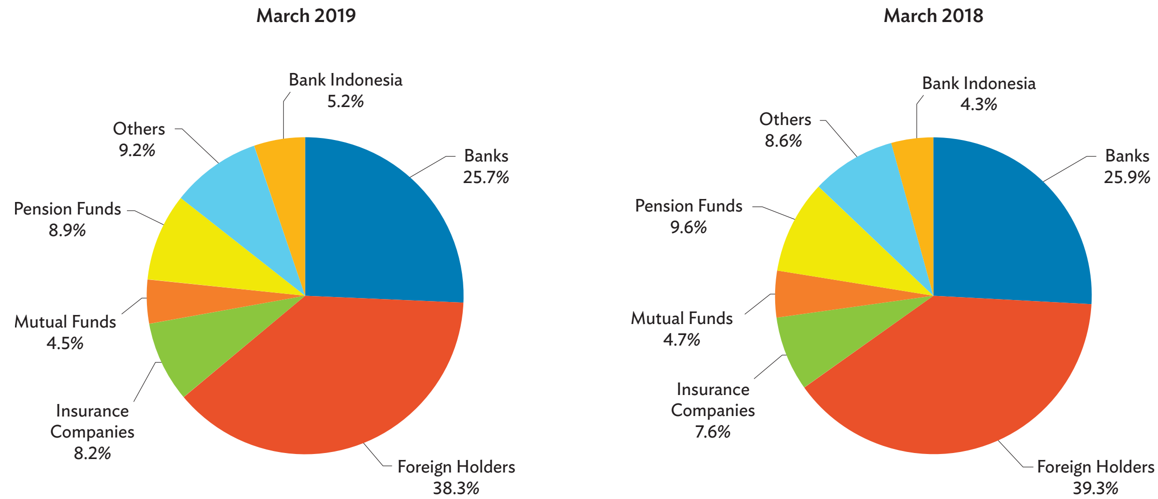
Central government bonds. As an investor group, foreign investors remained the largest holder of LCY government bonds in Indonesia with a 38.3% share of the total at the end of March (**Figure 2**). While the foreign holdings' share was down from 39.3% at the end of March 2018, it rose steadily throughout Q1 2019. Improved sentiments in the bond market led foreign investors to shore up their holdings of central government bonds, influenced by the Federal Reserve's shift to a dovish policy stance.

At the end of March, foreign investors held a total of IDR967.1 trillion worth of LCY central government bonds, which was higher than the IDR858.8 trillion at the end of March 2018. Foreign investor holdings also include bonds held by foreign governments and central banks, whose holdings climbed to IDR182.0 trillion at the end of March from IDR143.8 trillion in the same period a year earlier. This reflects the confidence of other governments and central banks in Indonesia's economy and its resilience to market shocks, particularly following the market sell-off in 2018.

Nonresident investors largely placed their holdings in long-dated maturities. At the end of March, foreign bond holdings in maturities of more than 5 years to 10 years and of more than 10 years accounted for 33.9% and 35.5% of the foreign holdings total, respectively (**Figure 3**). Bonds with maturities of more than 2 years to 5 years accounted for a 25.6% share, while bonds with maturities of 2 years or less accounted for a 5.0% share.

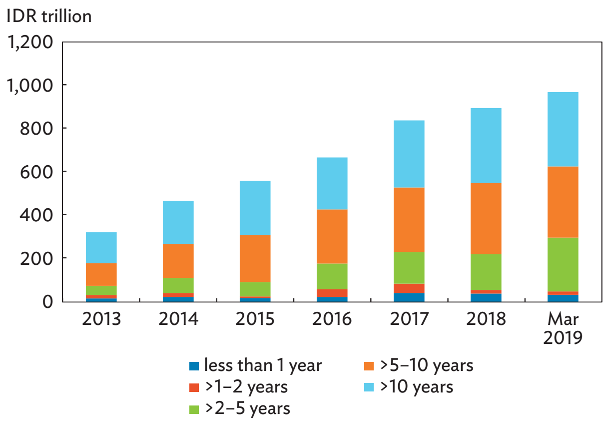
Among domestic investors, the largest holders of LCY government bonds were banking institutions. As a percentage of the total, however, bank holdings were slightly lower at 25.7% at the end of March versus 25.9% a year earlier. During the same period, bond holdings of mutual funds and pension funds slipped to shares of 4.5% and 8.9%, respectively, from 4.7% and 9.6%.
On the other hand, Bank Indonesia increased its bond holdings by nearly 1 percentage point to 5.2% at the end of March from 4.3% a year earlier, as the central bank engaged in bond buybacks as part of its market intervention to support the Indonesian rupiah. Insurance companies also increased their bond holdings to an 8.2% share from 7.6% during the same period.

Figure 2: Local Currency Central Government Bonds Investor Profile



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

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.

Ratings Update

On 14 March, Fitch Ratings (Fitch) affirmed Indonesia's sovereign credit rating at BBB with a stable outlook. In making its decision, Fitch cited Indonesia's favorable GDP growth outlook and low government debt burden, while also noting risks in the global environment. Fitch expects inflation to average 3.4% in full-year 2019 and for policy rates to remain stable.

On 26 April, Ratings and Investment Information (R&I) affirmed Indonesia's sovereign credit rating at BBB with a stable outlook. In its decision, R&I noted Indonesia's solid economic growth performance, narrow fiscal deficit-to-GDP ratio in 2018, and low government debt-to-GDP ratio. R&I also cited Indonesia's resilience to external shocks on the back of government and central bank efforts to maintain macroeconomic stability.

On 26 April, the Japan Credit Rating Agency (JCR) affirmed Indonesia's foreign currency long-term issuer rating at BBB and LCY long-term issuer rating at BBB+. The outlook for the ratings was revised from stable to positive. According to JCR, the ratings were based on Indonesia's solid economic growth, restrained budget deficit and levels of public debt, and resilience to external shocks. With regard to the change in the outlook, JCR cited (i) Indonesia's large-scale infrastructure development program, which is proceeding faster than planned; (ii) expanded infrastructure and human capital expenditures amid budget deficit reductions; and (iii) the possibility of enhanced economic growth supported by the government's policy reforms and initiatives.

Policy, Institutional, and Regulatory Developments

Indonesia Plans to Raise IDR129 Trillion in Q2 2019

The Government of Indonesia plans to raise IDR129 trillion from the sale of Treasury bills and bonds in the second quarter (Q2) of 2019. Scheduled auctions for the quarter comprise five conventional bond auctions and six *sukuk* auctions. (The Q2 2019 auction schedule will be cut short due to holidays relating to Ramadan.) For the conventional bond auctions, the following maturities will be offered: 3 months, 9 months, 12 months, 5 years, 10 years, 15 years, 20 years, and 30 years. *Sukuk* auctions will comprise the following tenors: 6 months, 2 years, 4 years, 7 years, 15 years, and 30 years.

Bank Indonesia Announces Policy to Help Boost Domestic Demand

In April, Bank Indonesia expanded its accommodative policy to boost domestic demand by (i) increasing liquidity through monetary operations, (ii) enhancing retail payment efficiency, (iii) increasing the supply of nondeliverable forwards, (iv) improving regulation in the money market and foreign exchange market, (v) developing the commercial paper market, and (vi) expanding electronification of social programs.

Indonesia Launches Shariah Economy Masterplan, 2019–2024

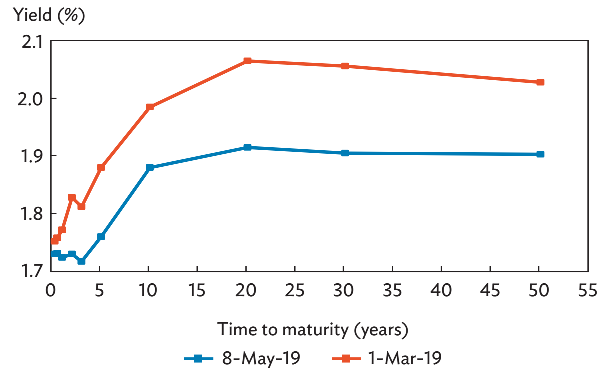
In May, the Government of Indonesia launched the Shariah Economy Masterplan, 2019–2014, which highlights strategies to strengthen shariah finance; support micro, small, and medium-sized enterprises; and optimize the digital economy.

Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea fell for all tenors between 1 March and 8 May, resulting in the entire yield curve shifting downward (**Figure 1**). Yields for short-term tenors fell 3 basis points (bps) on average, while yields for maturities of between 2 years and 50 years declined an average of 12 bps. The largest decline in yields was noted for the 20-year and 30-year maturities, which fell 15 bps each. The spread for the 2-year and 10-year tenors slipped to 15 bps on 8 May from 16 bps on 1 March.

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



Source: Based on data from Bloomberg LP.

The downward trend in yields during the review period was due to market expectations that the Bank of Korea might cut its key rate this year as export growth weakens, inflation remains subdued, and uncertainties over global trade disputes persist. Recent domestic and global developments contributed to the overall decline in yields. Aside from trade tensions between the United States (US) and the People's Republic of China, Brexit also poses uncertainties, which could lead to increased international financial market volatility and a further slowdown in the global economy. The pace of domestic economic growth also moderated during the review period as consumption slowed, investments adjusted, and export growth weakened.

On 18 April, the Monetary Policy Board of the Bank of Korea decided to maintain the base rate at 1.75%, where it has been since the last adjustment in November 2018. The board noted that risks have increased and it therefore will ensure that economic growth continues and inflation remains stable.

The Republic of Korea's real gross domestic product (GDP) grew 1.7% year-on-year (y-o-y) in the first quarter (Q1) of 2019, down from 3.1% y-o-y growth in the fourth quarter (Q4) of 2018. Growth was weighed down by the decline in gross capital formation, a slowdown in final consumption expenditure, and a slump in exports. The economy shrank 0.4% on a seasonally adjusted quarter-on-quarter (q-o-q) in Q1 2019 following the previous quarter's 1.0% q-o-q expansion.

Consumer price inflation in the Republic of Korea was subdued in Q1 2019 with a quarterly average of 0.6% y-o-y, down from the 1.8% y-o-y in Q4 2018. In April, inflation slightly picked up to 0.6% y-o-y from 0.4% y-o-y in March, while prices for services and oil products remained stable.

Size and Composition

The Republic of Korea's LCY bond market grew 1.8% q-o-q in Q1 2019 with outstanding bonds amounting to KRW2,278.7 trillion (USD2.0 trillion) at the end of March on account of increases in the stocks of central government bonds and corporate bonds (**Table 1**).

Government bonds. The Republic of Korea's LCY government bond market grew 1.9% q-o-q in Q1 2019 to reach KRW930.9 trillion at the end of March. The stocks of central government bonds and National Housing Bonds expanded during the review period, while the outstanding amount of Monetary Stabilization Bonds issued by the Bank of Korea slightly contracted 0.3% q-o-q in Q1 2019.

The government issued a higher volume of Korea Treasury Bonds during the review period to fund its fiscal spending. The government frontloaded its spending plan in the first half of the year to help boost economic growth and create jobs. The stock of central government bonds posted growth of 3.0% q-o-q in Q1 2019.

In Q1 2019, issuances of government bonds registered hefty growth of 20.7% q-o-q, amounting to KRW80.3 trillion, mainly through large issuances from the Treasury and other government agencies. Issuances from the Bank of Korea slightly increased 0.1% q-o-q in Q1 2019.

Corporate bonds. The outstanding amount of LCY corporate bonds increased 1.8% q-o-q to reach KRW1,347.8 trillion at the end of March. **Table 2** lists the top 30 LCY corporate bond issuers in the Republic of Korea with aggregate bonds outstanding of KRW1,104.2 trillion, comprising 67.4% of total LCY corporate bonds at the end of March. Financial institutions such as banks and investment and securities firms continued to dominate the top 30 list in the Republic of Korea. Mirae Asset Daewoo Company, the brokerage arm of Mirae Asset Financial Group, was the largest issuer at the end of March with outstanding bonds of KRW132.0 trillion.

Issuances of corporate bonds declined 22.6% q-o-q in Q1 2019 due to a drop in private corporate issuances. **Table 3** presents notable corporate bond issuances in Q1 2019. Financial firms such as Shinhan Bank, KEB Hana Bank, Woori Bank, and Hyundai Capital Services were the top issuers during the quarter.

Investor Profile

Insurance companies and pension funds were still the top holders of LCY government bonds with a share of 36.0% at the end of December 2018 (**Figure 2**). Next was the general government with a share of 19.2%, which was slightly lower than its 19.9% share in December 2017. Next were banks whose shareholdings increased to 16.8% of the total local government bonds at the end of December 2018 from 16.0% a year earlier.

For the LCY corporate bond market, insurance companies and pension funds remained the largest investor group in December 2018, maintaining their share at around 40% (**Figure 3**). The share of other nonbank financial institutions declined to 33.3% from 34.8% a year earlier. Meanwhile, the general government increased its share to 13.7% from 13.2% during the review period.

Net foreign investment inflows into the Republic of Korea's LCY bond market dropped in the first 2 months of 2019 following net inflows in most of 2018 (**Figure 4**). January saw net foreign investment outflows amounting to KRW3,739 billion, which eased in February to KRW2,719 billion before rebounding in March when net foreign investment inflows surged to KRW1,468 billion. In April, net foreign bond inflows slowed to KRW526 billion.

Ratings Update

In May, RAM Ratings reaffirmed the Republic of Korea's rating at gAA3(pi) and seaAAA(pi) on the global and ASEAN scales, respectively, with a stable rating for both. In making its decision, RAM Ratings took note of the Republic of Korea's economic resilience, sturdy external balance sheet, and prudent fiscal management.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,186,590**	**2,056**	**2,237,400**	**2,014**	**2,278,665**	**2,007**	**1.2**	**4.4**	**1.8**	**4.2**
Government	915,155	860	913,966	823	930,886	820	3.0	4.9	1.9	1.7
Central Government Bonds	568,774	535	567,044	510	584,006	514	4.0	6.7	3.0	2.7
Central Bank Bonds	174,790	164	171,640	154	171,150	151	2.3	(0.04)	(0.3)	(2.1)
Others	171,591	161	175,282	158	175,730	155	0.5	4.6	0.3	2.4
Corporate	1,271,435	1,195	1,323,434	1,191	1,347,779	1,187	(0.1)	4.0	1.8	6.0

( ) = 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. "Others" comprise Korea Development Bank Bonds, National Housing Bonds, and Seoul Metro Bonds.
2. Calculated using data from national sources.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
5. Corporate bonds include equity-linked securities and derivatives-linked securities.
Sources: The Bank of Korea and *EDAILY BondWeb*.

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.	Mirae Asset Daewoo	131,965.8	116.3	No	Yes	No	Securities
2.	Korea Housing Finance Corporation	118,054.9	104.0	Yes	No	No	Housing Finance
3.	Korea Investment and Securities	112,888.0	99.4	No	No	No	Securities
4.	NH Investment & Securities	94,254.4	83.0	Yes	Yes	No	Securities
5.	KB Securities	80,250.0	70.7	No	No	No	Securities
6.	Hana Financial Investment	62,249.0	54.8	No	No	No	Securities
7.	Samsung Securities	52,085.2	45.9	No	Yes	No	Securities
8.	Industrial Bank of Korea	51,670.1	45.5	Yes	Yes	No	Banking
9.	Korea Land & Housing Corporation	30,857.4	27.2	Yes	No	No	Real Estate
10.	Shinyoung Securities	29,910.0	26.3	No	Yes	No	Securities
11.	Shinhan Bank	29,571.5	26.1	No	No	No	Banking
12.	Korea Electric Power Corporation	27,090.0	23.9	Yes	Yes	No	Electricity, Energy, and Power
13.	Korea Expressway	21,820.0	19.2	Yes	No	No	Transport Infrastructure
14.	Kookmin Bank	21,288.7	18.8	No	No	No	Banking
15.	Woori Bank	19,610.0	17.3	Yes	Yes	No	Banking
16.	KEB Hana Bank	19,250.0	17.0	No	No	No	Banking
17.	Korea Rail Network Authority	18,960.0	16.7	Yes	No	No	Transport Infrastructure
18.	Hanwha Investment and Security	18,570.6	16.4	No	No	No	Securities
19.	Daishin Securities	17,866.4	15.7	No	Yes	No	Securities
20.	Korea Deposit Insurance Corporation	15,630.0	13.8	Yes	No	No	Insurance
21.	The Export–Import Bank of Korea	15,375.0	13.5	Yes	No	No	Banking
22.	Shinhan Card	14,220.0	12.5	No	No	No	Banking
23.	Nonghyup	13,710.0	12.1	Yes	No	No	Banking
24.	Hyundai Capital Services	13,606.0	12.0	No	No	No	Consumer Finance
25.	Small & Medium Business Corporation	13,203.1	11.6	Yes	No	No	SME Development
26.	Korea Gas Corporation	12,738.6	11.2	Yes	Yes	No	Gas Utility
27.	Meritz Securities	12,715.5	11.2	No	Yes	No	Securities
28.	KB Kookmin Bank Card	12,190.0	10.7	No	No	No	Consumer Finance
29.	Standard Chartered Bank Korea	11,610.0	10.2	No	No	No	Banking
30.	Korea Student Aid Foundation	11,020.0	9.7	Yes	No	No	Student Loan
Total Top 30 LCY Corporate Issuers		**1,104,230.3**	**972.7**				
Total LCY Corporate Bonds		**1,637,371.3**	**1,442.4**				
Top 30 as % of Total LCY Corporate Bonds		**67.4%**	**67.4%**				

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 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Shihan Bank		
2-year bond	1.93	300
3-year bond	1.99	300
20-year bond	2.56	50
KEB Hana Bank		
1.5-year bond	1.95	100
2-year bond	1.96	100
3-year bond	1.96	100
Woori Bank		
1-year bond	1.93	200
2-year bond	1.95	200
10-year bond	2.68	200
Hyundai Capital Services		
5-year bond	2.45	10
7-year bond	2.52	35

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

RAM Ratings expects firmer growth in the Republic of Korea during the rest of 2019 given the recovery in the semiconductor industry. Although exports weakened in Q1 2019, the current account stayed in positive territory and foreign reserves remained adequate. In March, the government announced a supplementary budget of KRW6.7 trillion, or 0.3% of GDP, to counter near-term headwinds.

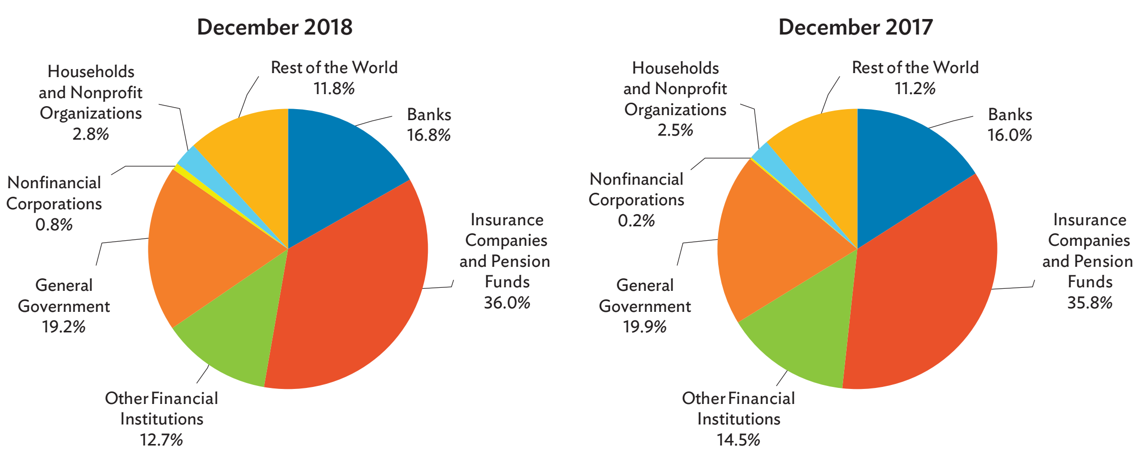
Due to the economy's growth resilience and the government's expansionary fiscal stance, RAM Ratings views the Republic of Korea as credit positive. However, if weakening GDP growth persists and/or fiscal prudence significantly diminishes, it could exert pressure on the ratings.

Policy and Regulatory Developments

Financial Services Commission Releases Financial Policy Road Map for 2019

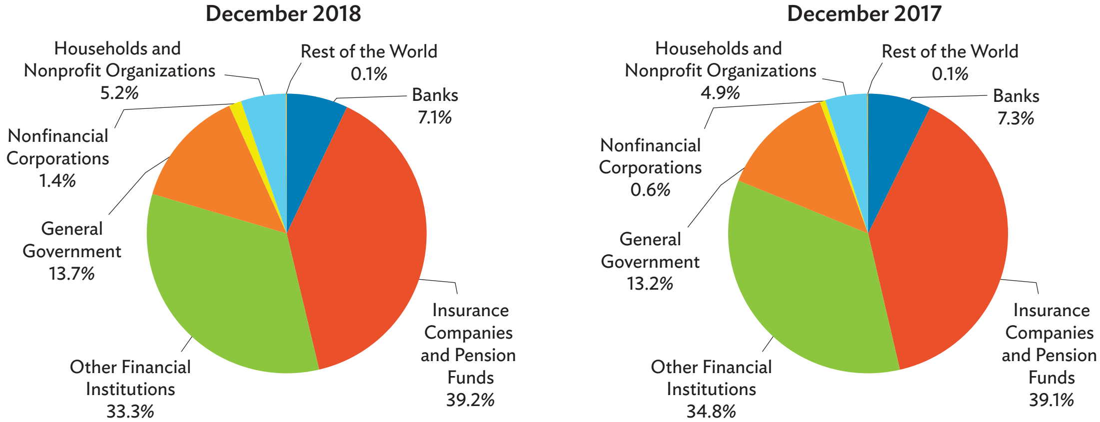
The Republic of Korea's Financial Services Commission (FSC) announced in March its 2019 financial policy aimed at promoting financial innovation, ensuring trust in finance, and securing financial stability. Financial innovation will be accelerated as the newly enacted laws for online banking and financial regulatory sandbox will take effect this year. The government will provide financial support to small and medium-sized enterprises and start-ups to boost economic vitality. The government will continue its policy efforts to curb household debt, keeping its growth between 5% and 6%, and will preemptively manage corporate debt risk with an enhanced evaluation system. The FSC will enact a comprehensive bill for better consumer information and protection. To ensure fairness and transparency in order to protect investors and shareholders, the FSC will remain vigilant against potential risks through the close monitoring of financial markets and active policy responses.

Figure 2: Local Currency Government Bonds Investor Profile



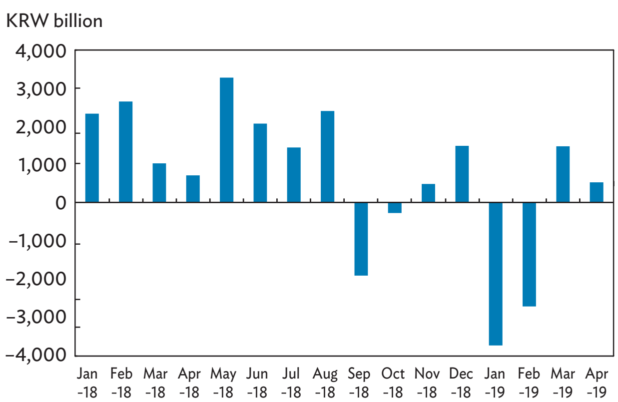
Sources: *AsianBondsOnline* and the Bank of Korea.

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.

Republic of Korea to Cut Stock Transaction Tax

The Government of the Republic of Korea will cut taxes on stock transactions effective 3 June to support the secondary market for venture firms and promote venture capital. The trading tax for stocks listed on the Korea Composite Stock Price Index and Korea Securities Dealers Automated Quotation markets will be reduced by 0.05 percentage points each, for unlisted stocks by 0.05 percentage points, and for Korean New Exchange stocks by 0.2 percentage points to promote venture capital. A special tax for rural development of 0.15%, levied on Korea Composite Stock Price Index transactions, will remain unchanged.

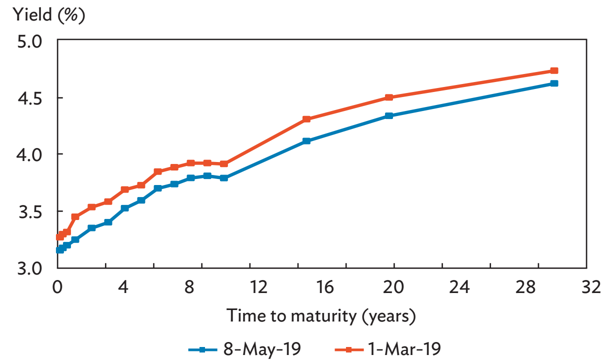
Starting 1 January 2020, the government will change capital gains taxes on stock transactions to allow the transfer of losses between domestic and foreign stock transactions. Taxes will also only be imposed on net gains that are earned throughout the year.

Malaysia

Yield Movements

Malaysia's local currency (LCY) government bond yield curve shifted downward across all tenors between 1 March and 8 May (**Figure 1**). Tenors declined an average of 15 basis points (bps), with the 1-year maturity declining the most at 20 bps, followed by the 15-year bond, which declined 19 bps. The 2-year and 3-year tenors followed with an 18-bps decline each. The yield spread between 2-year and 10-year government bonds widened from 38 bps on 1 March to 44 bps on 8 May.

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



Source: Based on data from Bloomberg LP.

The cut in interest rate by the Bank Negara Malaysia drove the yields downward. The dovish sentiment of Bank Negara Malaysia had already been priced in as investors reacted to the central bank's statement in March.

During its monetary policy committee meeting on 7 May, Bank Negara Malaysia cut its key policy rates 25 bps to maintain accommodative monetary conditions that support economic growth and price stability. The overnight policy rate stood at 3.00%. Likewise, the ceiling rate of its interest rate corridor was reduced to 3.25% and the floor rate to 2.75%. The central bank took into consideration the resilient domestic financial market amid tightening financial conditions. Despite the slowing Malaysian economy in the first quarter (Q1) of 2019, the monetary policy committee expects stable labor market conditions and capacity expansion to drive spending. Inflation is expected to remain low due to policy measures such as the price ceiling for fuels and the change in consumption tax.

Prices for basic goods and services in Malaysia increased 0.2% year-on-year (y-o-y) in April, unchanged from March. The price increase was largely driven by upward price adjustments in the food and nonalcoholic beverages group, while transport costs declined. In January, Malaysia recorded consumer price deflation—for the first time since November 2009—of 0.7% y-o-y on the back of declining transport prices. Consumer price growth was again negative in February, dipping 0.4% y-o-y.

Malaysia's economy grew 4.5% y-o-y in Q1 2019, which was slower than the growth of 4.7% y-o-y recorded in Q4 2018. Weaker growth was registered in Q1 2019 in all sectors except agriculture and mining and quarrying. The slower domestic product growth can be attributed to the slowdown in the services, manufacturing, and construction sectors.

The Malaysian ringgit depreciated against the United States (US) dollar between 1 March and 8 May, losing 1.8%. Due to concerns about liquidity, FTSE Russell announced in April that it was mulling excluding Malaysian government debt from its World Government Bond Index. This placed pressure on the ringgit. The interest rate cut by Bank Negara Malaysia also put pressure on the currency as the gap between Malaysian and US interest rates narrowed. This led to foreign capital outflows in April.

Size and Composition

Malaysia's LCY bond market expanded 2.9% quarter-on-quarter (q-o-q) and 7.6% y-o-y, reaching a size of MYR1,441 billion (USD353 billion) at the end of Q1 2019 (**Table 1**). Compared with Q4 2018, the q-o-q growth rate was faster while the y-o-y growth rate was slower. The government and corporate segments both supported the expansion of the bond market, with shares of 53.1% and 46.9%, respectively. The share of *sukuk* (Islamic bonds) in Malaysia's bond market was 61.0% at the end of Q1 2019, amounting to MYR879 billion, up slightly from 60.2% at the end of the previous quarter.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,339**	**347**	**1,401**	**339**	**1,441**	**353**	**4.1**	**11.1**	**2.9**	**7.6**
Government	705	182	739	179	766	188	4.7	8.3	3.6	8.7
Central Government Bonds	656	170	691	167	720	176	3.0	7.1	4.2	9.8
of which: *Sukuk*	287	74	306	74	327	80	6.3	13.9	6.7	14.1
Central Bank Bills	20	5	19	5	17	4	173.5	109.4	(9.9)	(13.9)
of which: *Sukuk*	1	0.3	4	0.9	5	1	–	–	40.5	420.0
Sukuk Perumahan Kerajaan	28	7	28	7	28	7	0.0	0.0	(1.8)	(1.8)
Corporate	635	164	662	160	675	165	3.5	14.3	2.0	6.4
of which: *Sukuk*	480	124	504	122	520	127	4.4	17.4	3.0	8.3

( ) = 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.

Malaysia's LCY bond issuance in Q1 2019 totaled MYR103 billion, reflecting a marginal increase of 0.7% q-o-q due to a minimal pick-up in government issuance, which was partly offset by the drop in corporate issuance. On an annual basis, issuance grew 2.9% y-o-y with government and corporate bonds showing an increase, but with only marginal growth in the latter. The logged q-o-q and y-o-y growth rates in Q1 2019 were considerably slower than in the previous quarter.

Government bonds. The amount of LCY government bonds outstanding climbed to MYR766 billon at the end of Q1 2019 on growth of 3.6% q-o-q, mainly driven by the expansion of central government bonds. On the other hand, outstanding central bank bonds declined to MYR17 billion at the end of Q1 2019 from MYR19 billion in Q4 2018 due to a high volume of maturities and lower bond sales. However, the stock of central bank *sukuk* continued to increase, climbing to MYR5 billion in Q1 2019 from MYR4 billion in the preceding quarter.

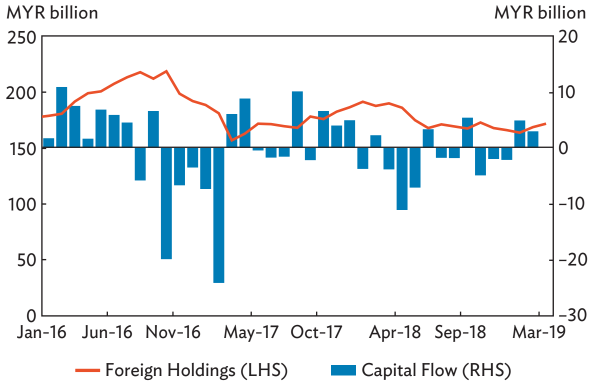
Total bond issuance from the government was vibrant in Q1 2019 at MYR60 billion, up from MYR59.0 billion in Q4 2018. Government Investment Issues dominated with sales of MYR21 billion during the quarter, while issuance of Malaysian Government Securities amounted to MYR16 billion. Buying interest in government bonds was high as evidenced by a strong bid-to-cover ratio, which can be traced to benign inflation.

Corporate bonds. LCY bonds outstanding in the corporate sector grew faster in Q1 2019 at 2.0% q-o-q versus 1.3% q-o-q in Q4 2018. The corporate bond stock amounted to MYR675 billion, with *sukuk* comprising a dominant share of MYR520 billion at the end of Q1 2019. On an annual basis, the growth of the corporate bond market decelerated to 6.4% y-o-y from 8.0% y-o-y in the previous quarter.

The aggregate LCY bonds outstanding of the top 30 corporate issuers amounted to MYR388 billion at the end of March, equivalent to 57.5% of total LCY corporate bonds (**Table 2**). The top 30 list was dominated by finance companies, with 12 such issuers who together had bonds outstanding of MYR191 billion. Danainfra Nasional remained the largest issuer with MYR56 billion in bonds outstanding at the end of March, climbing from MYR53 billion at the end of December. Cagamas and Project Lebuhraya Usahasama were second and third on the list, respectively, with MYR34 billion and MYR30 billion, although both of these amounts were down from the previous quarter due to maturities.

Issuance from the corporate sector was meek in Q1 2019, falling by 1.3% q-o-q to MYR43 billion, reversing the growth of 11.1% q-o-q in Q4 2018. The issuances were primarily medium-term notes and commercial paper. The lower debt sales during the quarter can be attributed to local factors such as the government's project rationalization policy, which has reduced

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



LHS = left-hand side, MYR = Malaysian ringgit, RHS = right-hand side.
Note: 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.

issuance activities from corporates, especially those in the infrastructure and construction sectors, as well as to external factors such as the protracted trade spat between the People's Republic of China and the US, and the global economic growth slowdown.

Notable debt sales from Malaysia's top issuers are listed in **Table 3**. Sunway issued two tranches of perpetual *sukuk* amounting to MYR300 million each, while the rest of its issuances in Q1 2019 comprised short-term commercial paper. Maybank issued a total of MYR3,759 million during the quarter. This included two short-term commercial paper issuances and two *sukuk* with 10-year and 12-year maturities amounting to MYR2,000 million and MYR1,700 million, respectively.

Investor Profile

At the end of December 2018, social security institutions remained the largest group among LCY government bond investors with a 33.1% share, up from 32.0% at the end of December 2017 (**Figure 3**). Financial institutions at 32.3% overtook foreign investors at 24.0% as the second-largest investor group; these figures compare with shares of 27.7% and 29.2%, respectively, at the end of December 2017. Insurance companies increased their share to 5.1% in December 2018 from 4.9% a year earlier. Bank Negara Malaysia remained the smallest investor share-wise, while slightly increasing its share to 1.5% from 1.4% during the review period.

Foreign investor holdings of LCY central government bonds climbed to MYR171 billion at the end of March, driven by net inflows of MYR6 billion in Q1 2019 (**Figure 2**). Despite the increase, the foreign holdings-to-LCY central government bonds outstanding ratio at the end of March slightly decreased to 23.8% from 24.0% at the end of December due to faster growth in the government bond stock. Malaysian Government Securities comprised the largest of share of foreign holdings amounting to MYR151 billion, while Government Investment Issues totaled MYR19 billion. In January, net outflows were recorded for the third consecutive month, amounting to MYR2 billion. However, the 3-month losing streak was reversed in February and March with total net inflows of MYR8 billion. The renewed interest of foreign investors in the local bond market can be traced to the dovish stance of the US Federal Reserve, Malaysia's benign inflation rate, and the depreciating ringgit.

Ratings Update

On 15 May, RAM Ratings affirmed Malaysia's sovereign long-term ratings of $_{g}A_{2}$ (global), $_{sea}$AAA (ASEAN), and AAA (domestic scale), and its short-term ratings of $_{g}$P1 (global), $_{sea}$P1 (ASEAN), and P1 (domestic scale), with a stable outlook for all ratings. The affirmation reflects the domestic economy's resiliency, which is underpinned by strong fundamentals and the government's commitment to long-term fiscal consolidation. The rating agency also noted that Malaysia's high level of government debt and heavy reliance on oil- and gas-related earnings remain concerns.

Fitch Ratings (Fitch) affirmed Malaysia's long-term foreign-currency issuer default rating at A– with a stable outlook on 21 February. The affirmation reflects Malaysia's higher growth rates compared with peer economies and a strong external creditor position underpinned by a current account surplus and large external assets, according to the ratings agency. However, a high level of government debt, low per capita income, and weak standards of governance were noted by Fitch as constraining factors. Fitch cited the reduction in government debt ratios, among other factors, as a trigger for the ratings upgrade, while it also noted the deterioration in the government debt-to-gross domestic product trajectory as one of the factors contributing to a possible negative rating action.

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	55.7	13.7	Yes	No	Finance
2.	Cagamas	33.7	8.2	Yes	No	Finance
3.	Project Lebuhraya Usahasama	29.9	7.3	No	No	Transport, Storage, and Communications
4.	Prasarana	29.5	7.2	Yes	No	Transport, Storage, and Communications
5.	Perbadanan Tabung Pendidikan Tinggi Nasional	21.6	5.3	Yes	No	Finance
6.	Lembaga Pembiayaan Perumahan Sektor Awam	17.8	4.3	Yes	No	Property and Real Estate
7.	Pengurusan Air	17.1	4.2	Yes	No	Energy, Gas, and Water
8.	Khazanah	14.0	3.4	Yes	No	Finance
9.	Maybank	13.8	3.4	No	Yes	Banking
10.	CIMB Bank	13.3	3.3	Yes	No	Finance
11.	Sarawak Energy	11.3	2.8	Yes	No	Energy, Gas, and Water
12.	CIMB Group Holdings	10.1	2.5	Yes	No	Finance
13.	Danga Capital	10.0	2.4	Yes	No	Finance
14.	Jimah East Power	9.0	2.2	Yes	No	Energy, Gas, and Water
15.	Maybank Islamic	8.5	2.1	No	Yes	Banking
16.	GENM Capital	7.6	1.9	No	No	Finance
17.	GOVCO Holdings	7.3	1.8	Yes	No	Finance
18.	Bank Pembangunan Malaysia	7.3	1.8	Yes	No	Banking
19.	Rantau Abang Capital	7.0	1.7	Yes	No	Finance
20.	Tenaga Nasional	7.0	1.7	No	Yes	Energy, Gas, and Water
21.	Public Bank	6.9	1.7	No	No	Banking
22.	Bakun Hydro Power Generation	6.5	1.6	No	No	Energy, Gas, and Water
23.	YTL Power International	6.1	1.5	No	Yes	Energy, Gas, and Water
24.	ValueCap	6.0	1.5	Yes	No	Finance
25.	Telekom Malaysia	5.8	1.4	No	Yes	Telecommunications
26.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
27.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
28.	1Malaysia Development	5.0	1.2	Yes	No	Finance
29.	Celcom Networks	5.0	1.2	No	No	Transport, Storage, and Communications
30.	Aman Sukuk	5.0	1.2	Yes	No	Construction
Total Top 30 LCY Corporate Issuers		**388.0**	**95.1**			
Total LCY Corporate Bonds		**675.2**	**165.4**			
Top 30 as % of Total LCY Corporate Bonds		**57.5%**	**57.5%**			

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 31 March 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
GENM Capital		
5-year MTN	4.63	2,000
15-year MTN	4.71	1,700
Cagamas		
1-year Islamic MTN	4.19	200
2-year MTN	4.12	500
2-year MTN	4.22	100
2-year MTN	4.30	300
2-year MTN	4.28	750
2-year MTN	4.15	400
2-year MTN	4.38	250
2-year MTN	4.34	600
3-year MTN	4.54	400
Tenaga Nasional		
15-year Islamic MTN	5.80	300
20-year Islamic MTN	5.80	300

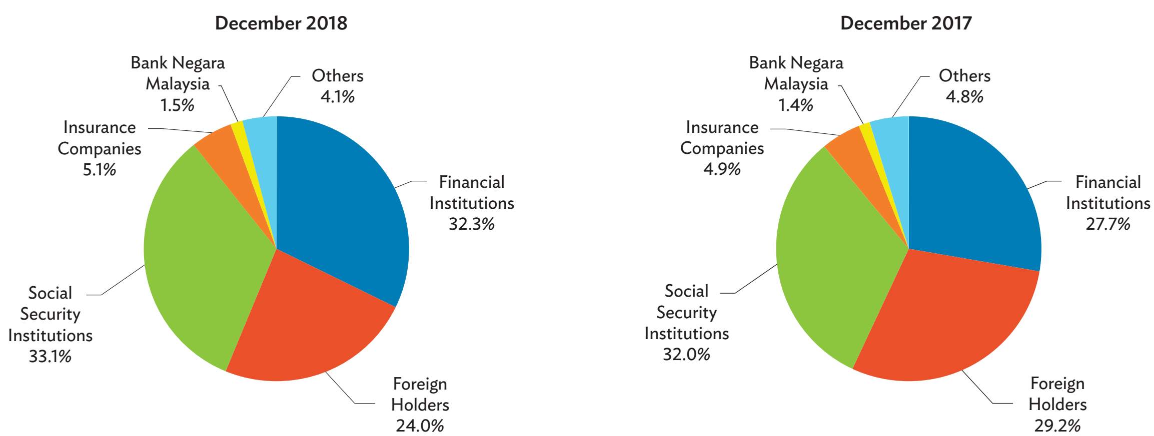
MTN = medium-term note, MYR = Malaysian ringgit.
Source: Bank Negara Malaysia Bond Info Hub.

Policy, Institutional, and Regulatory Developments

Bank Negara Malaysia Liberalizes Foreign Exchange Policies

On 27 March, Bank Negara Malaysia liberalized its foreign exchange administration framework to allow investors to hedge their foreign exchange risks more effectively. Residents are now allowed to hedge their foreign exchange obligations for up to 12 months. Approval must be obtained from the central bank for obligations with a tenor of more than 1 year. To help small and medium-sized enterprises hedge their foreign currency risk, net importers are allowed to receive foreign currency payments for their domestic goods and services from resident exporters.

Figure 3: Local Currency Government Bonds Investor Profile



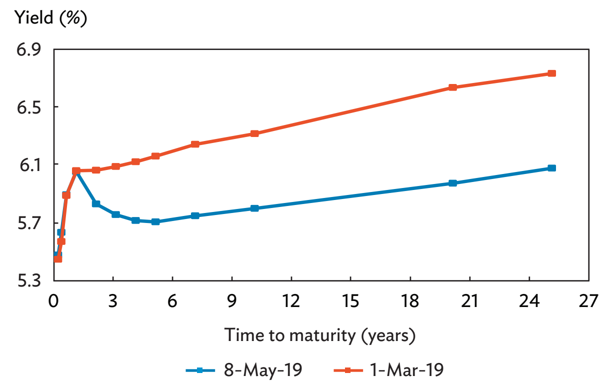
Note: "Others" include statutory bodies, nominees and trustee companies, and cooperatives and unclassified items.
Source: Bank Negara Malaysia.

Philippines

Yield Movements

Between 1 March and 8 May, the yields of Philippine local currency (LCY) bonds for all tenors declined an average of 31 basis points (bps) (**Figure 1**). The 20-year maturity decreased the most (66 bps), followed by the 25-year maturity (65 bps). On the other hand, short-term maturities increased, with the 3-month tenor registering an increase of 6 bps. The yield spread between 2-year and 10-year government bonds contracted from 25 bps on 1 March to −3 bps on 8 May. At times over the course of the review period, the yield on the 2-year tenor was greater than that of the 10-year maturity, a situation that first arose in the latter part of March through early April, then again from the end of April into early May.

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



Source: Based on data from Bloomberg LP.

Interest rates fell as market participants expected lower inflation in 2019 due to an expected decline in global oil prices and as monetary and nonmonetary policies designed to rein in inflation took effect. Interest rate cuts from the Bangko Sentral ng Pilipinas (BSP), as well as the new BSP governor's hinting at expediting a cut to large banks' reserve requirement ratio this year, emboldened investors to take more risks. Yields also declined as Standard & Poor's (S&P) announced an upgrade in the credit rating of the Philippines.

In the first few months of 2019, average yields at Treasury bill auctions increased while the average yield of longer-tenor bonds declined. Toward the end of March through May, there were growing global concerns over a possible recession in the United States (US) due to the inversion of its yield curve for the first time since 2007. Investors viewed this as a possible sign of slowing global growth. Given these expectations, investors preferred to buy bonds in the belly of the curve.

After reaching a record high of 6.7% year-on-year (y-o-y) in October 2018, inflation in the Philippines began to decline in November 2018 and into 2019, averaging 3.8% y-o-y during the first quarter (Q1) of 2018. This was well within the full-year 2019 target range of 2.0%–4.0% set by the BSP.

The Philippines' gross domestic product expanded 5.6% y-o-y during Q1 2019, the slowest pace since Q1 2015 when the Philippine economy grew 5.1% y-o-y. Growth in Q1 2019 was down from the 6.5% y-o-y expansion recorded in Q1 2018. Economic managers attributed the slowdown to the budget impasse in Congress and reduced government expenditure. The government slashed its economic growth forecast for full-year 2019 to 6.0%–7.0% from 7.0%–8.0% due to the delay in the approval of the 2019 budget, the effects in the Philippines of a mild El Niño, and the trade tensions between the People's Republic of China and the US.

At a meeting on 21 March, the Monetary Board of the BSP decided to maintain its key policy rates. But on 9 May, the Monetary Board reduced its key policy rates by 25 bps. As a result, the overnight reverse repurchase rate stood at 4.50%. The decision was made amid the government's improved inflation outlook and slower domestic growth. Inflation in 2019 is expected to fall within the BSP's forecast of 2.0%–4.0% on lower food prices and better supply conditions. However, the central bank remains cautious of the risks to the economy brought about by the delay in the approval of the 2019 budget.

Size and Composition

The Philippines' local currency (LCY) bond market expanded 8.0% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2019, compared with 2.1% q-o-q growth in Q1 2018 (**Table 1**). Total LCY bonds amounted to

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**5,593**	**107**	**6,098**	**116**	**6,588**	**125**	**2.1**	**13.1**	**8.0**	**17.8**
Government	4,479	86	4,783	91	5,203	99	0.5	11.7	8.8	16.2
Treasury Bills	332	6	494	9	608	12	5.7	16.2	22.9	82.8
Treasury Bonds	4,106	79	4,255	81	4,562	87	0.1	12.3	7.2	11.1
Others	40	0.8	34	0.6	34	0.6	(0.01)	(42.0)	(0.02)	(16.2)
Corporate	1,114	21	1,315	25	1,385	26	9.2	19.5	5.4	24.4

( ) = 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.

PHP6,588 billion (USD125 billion) at the end of March, up from PHP6,098 billion at the end of the fourth quarter (Q4) of 2018. The increase was supported by growth in both the government and corporate bond markets.

Government bonds. The amount of LCY government bonds outstanding stood at PHP5,203 billion at the end of March on growth of 8.8% q-o-q, supported by Treasury bills, which rose 22.9% q-o-q. Treasury bonds expanded as well, growing 7.2% q-o-q as the Bureau of the Treasury (BTr) issued Retail Treasury Bonds (RTBs) in March. Responding to high demand, the BTr utilized its tap facility in January to issue more than the programmed auction amounts for Treasury bills and bonds. Despite the surge in outstanding Treasury bills, they totaled PHP608 billion at the end of March, comprising about 12% of total outstanding government bonds. Treasury bonds amounting to PHP4,562 billion, or 88% of total government securities, continued to form the bulk of outstanding government bonds.

LCY government bonds worth PHP674.7 billion were issued in Q1 2019, up from PHP247.2 billion in Q4 2018. This corresponded to a nearly threefold increase on a q-o-q basis due to the issuance of PHP235.9 billion of 5-year RTBs in March. The RTBs have a coupon of 6.25%. Proceeds from the RTBs will be used to fund the government's health, education, and public infrastructure programs. The RTB issuance was also part of the government's plan to borrow PHP1.2 trillion in 2019 to support increased social services and infrastructure spending.

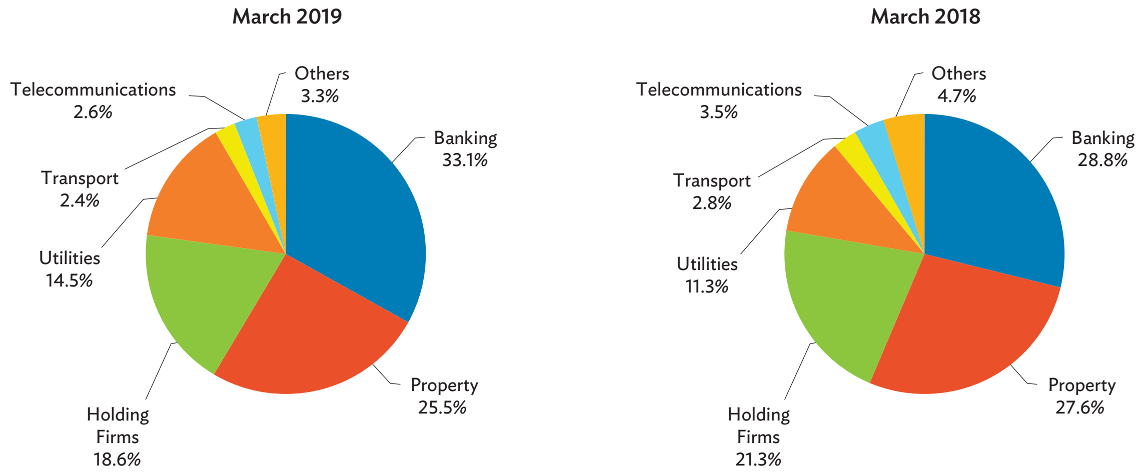
In the second quarter (Q2) of 2019, the BTr plans to continue the weekly auction of 91-day, 182-day, and 364-day Treasury bills totaling PHP195 billion, which is lower than the PHP240 billion in issuance programmed in Q1 2019. Together with Treasury bonds (PHP120 billion), the BTr plans to borrow PHP315 billion during Q2 2019, down from PHP360 billion in Q1 2019. The government is still flush with cash due to strong demand for RTBs in March and after it adjusted its borrowings, confident that it remains on track to meet all 2019 financing needs.

Corporate bonds. LCY corporate bonds grew 5.4% q-o-q during Q1 2019, with total corporate bonds outstanding increasing to PHP1,385 billion from PHP1,315 billion in the previous quarter.

At the end of March 2019, the top three sectors in terms of LCY corporate bonds outstanding were banking (PHP458.3 billion or 33.1% of the total), property (PHP352.8 billion or 25.5%), and holding firms (PHP257.6 billion or 18.6%) (**Figure 2**). These same sectors dominated the amount of LCY corporate bonds outstanding in March 2018 as well. During the review period, the sectoral shares of banking and utilities increased, while the sectoral shares of holding firms, property, telecommunications, and transport decreased.

Property developer Ayala Land continued to lead the top 30 issuers in terms of outstanding LCY corporate bonds at the end of March with PHP109.6 billion (**Table 2**). BDO, the Philippines' largest bank, and SM Prime Holdings, another property developer, followed

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

with PHP94.0 billion and PHP93.7 billion, respectively. Companies in the banking sector continued to dominate the top of the list, comprising 36.2% of the outstanding issues of the largest corporate issuers. This was followed by the property sector with 23.4% and holding firms with 19.3%. Altogether, the top 30 issuers of LCY corporate bonds accounted for PHP1,217.2 billion, or 87.9% of all outstanding corporate issuances at the end of March.

In Q1 2019, PHP59.0 billion worth of LCY corporate bonds were issued, which represented a decline of 54.9% q-o-q from the PHP130.9 billion issued in Q4 2018. Uncertainties in local and international financial markets continued to affect market sentiments, leading to only a few companies issuing LCY corporate bonds during the quarter.

One of the notable corporate issuances in Q1 2019 was BDO's PHP35.0 billion 1-year bond with a 6.42% coupon (**Table 3**). The largest bank in the Philippines issued the bond under a PHP100 billion bond program. Proceeds from the 1-year bond will be used to expand funding sources and support business expansion. Another bank, RCBC, issued a PHP15.0 billion 1-year green bond with a coupon rate of 6.7315%. The proceeds from the issuance will be used to support environmentally friendly projects and other activities that promote resiliency to climate change. Finally, PNB, another bank, issued an PHP8.2 billion 6-year bond with a coupon of 5.75% in order to manage its debts and offer more loans.

Foreign currency bonds. In January, the Philippines raised USD1.5 billion from the sale of 10-year global bonds priced at 110 bps above benchmark US Treasuries. The issuance was strategically announced on the back of positive market sentiments driven by strong US employment data released on 4 January. With the issuance, the Philippines became the first emerging market to offer offshore dollar bonds in 2019. In terms of distribution, 37% of the offering was allocated to investors in Asia, while investors from the US and Europe were allocated 28% and 35%, respectively. By investor type, the global bonds were allocated to asset managers (52%); banks (22%); sovereign wealth funds, pension funds, and insurance firms (14%); and private banks and other investors (12%). Proceeds from the bond issue will be used for general purposes and budgetary support.

Investor Profile

Banks and investment houses dominated the LCY government bond investor base at the end of March, accounting for a 42.4% share of all investors (**Figure 3**). They comprised the largest group of investors in March 2018 as well. Contractual savings and tax-exempt institutions followed with a 23.7% share, down from a 30.8% share in March 2018. Brokers, custodians, and depositories increased their share to 12.7% from 6.8% a year earlier. The share of BTr-managed funds decreased to 9.5% at the end of March from 10.4% in March 2018. Investors from government-owned or -controlled

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	109.6	2.1	No	Yes	Property
2.	BDO Unibank	94.0	1.8	No	Yes	Banking
3.	SM Prime Holdings	93.7	1.8	No	Yes	Property
4.	Metrobank	90.3	1.7	No	Yes	Banking
5.	San Miguel	60.0	1.1	No	Yes	Holding Firms
6.	SM Investments	51.4	1.0	No	Yes	Holding Firms
7.	SMC Global Power	50.0	1.0	No	No	Electricity, Energy, and Power
8.	Philippine National Bank	44.7	0.9	No	Yes	Banking
9.	Petron	42.9	0.8	No	Yes	Electricity, Energy, and Power
10.	Rizal Commercial Banking Corporation	42.2	0.8	No	Yes	Banking
11.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
12.	Vista Land	38.0	0.7	No	Yes	Property
13.	Bank of the Philippine Islands	37.2	0.7	No	Yes	Banking
14.	San Miguel Brewery	34.8	0.7	No	No	Brewery
15.	East West Banking	33.8	0.6	No	Yes	Banking
16.	Maynilad	33.3	0.6	No	No	Water
17.	Aboitiz Equity Ventures	32.0	0.6	No	Yes	Holding Firms
18.	JG Summit	30.0	0.6	No	Yes	Holding Firms
19.	Security Bank	29.4	0.6	No	Yes	Banking
20.	Filinvest Land	29.0	0.6	No	Yes	Property
21.	Union Bank	28.0	0.5	No	Yes	Banking
22.	Meralco	27.8	0.5	No	Yes	Electricity, Energy, and Power
23.	China Bank	26.2	0.5	No	Yes	Banking
24.	Aboitiz Power	23.2	0.4	No	Yes	Electricity, Energy, and Power
25.	GT Capital	22.0	0.4	No	Yes	Holding Firms
26.	PLDT	17.8	0.3	No	Yes	Telecommunications
27.	Doubledragon	15.0	0.3	No	Yes	Property
28.	Philippine Savings Bank	14.5	0.3	No	Yes	Banking
29.	NLEX Corporation	13.9	0.3	No	No	Transport
30.	Globe Telecom	12 .5	0.2	No	Yes	Telecommunications
Total Top 30 LCY Corporate Issuers		**1,217.2**	**23.2**			
Total LCY Corporate Bonds		**1,385.1**	**26.4**			
Top 30 as % of Total LCY Corporate Bonds		**87.9%**	**87.9%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 31 March 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
BDO Unibank		
1-year bond	6.42	35.0
Rizal Commercial Banking Corporation		
1-year bond	6.73	15.0
Philippine National Bank		
6-year bond	5.75	8.2
Alsons Consolidated Resources		
1-year bond	0.00	0.098

PHP = Philippine peso.
Source: Bloomberg LP.

corporations and local government units had a smaller share of the total in March, accounting for only 0.3% compared with 0.5% a year earlier.

Ratings Update

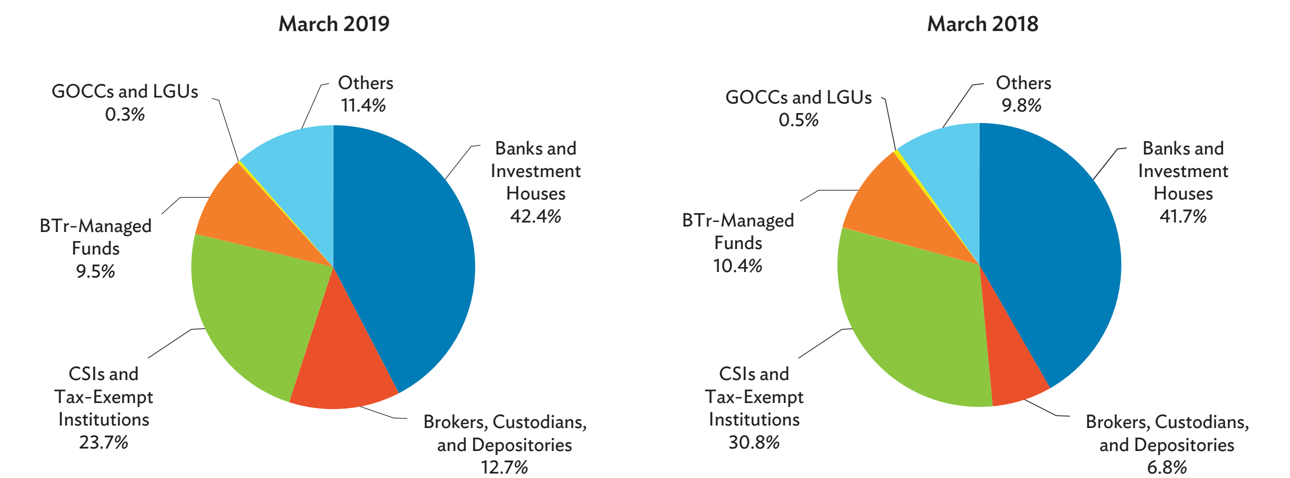
On 30 April 2019, S&P raised the Philippines' credit rating by one notch to BBB+ with a stable outlook. The outlook implies that the credit rating agency expects the economy to sustain its strong economic growth and external and fiscal positions over the next 6 months to 2 years. The growth is supported by the government's strong fiscal position, low public financial obligations, and strong remittances and services exports. Furthermore, S&P noted the economy's supporting policies fostering a healthy investment environment. Also, it views the government's tax reform program to be supportive of infrastructure spending.

Policy, Institutional, and Regulatory Developments

BSP Loosens Restrictions on Foreign Exchange Transactions

On 10 January, the BSP liberalized its rules governing the foreign exchange regulatory framework in order to encourage development and innovation in the country's capital market. Concerning investments in foreign currencies, the BSP allowed banks to register beyond the prescribed period. It also streamlined its requirements and expanded the number of banks eligible to register for investing in foreign currencies. If a bank desires to purchase foreign currencies beyond its threshold amount, it does not need prior approval from the central bank. It just needs to notify the BSP about its activities. Lastly, the liberalized framework allows banks to submit supporting documents electronically.

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.

BSP Champions Green Finance with British Embassy Manila

On 17–18 January, the BSP hosted a Green Finance Forum and Roundtable at its head office. The event, organized in partnership with various government agencies and the British Embassy Manila, was attended by representatives from the government, financial institutions, civic organizations, and academe. The BSP aims to promote the use of green financing by explaining its objectives, requirements, and uses. Working in partnership with the British Embassy, the central bank envisions sustainable green financing in the Philippines.

BSP Eases Financial Services Licensing Requirements

On 22 February, the BSP relaxed its rules governing BSP-supervised financial institutions wanting to offer electronic payment and financial services. A financial institution simply needs to notify the BSP within 30 days of its launch of financial activities. However, services allowing clients to transfer funds and initiate other financial transactions require prior BSP approval. Furthermore, institutions with services with fund transfer capability must participate in automated clearing houses. The streamlined process for acquiring electronic payment and a financial services license is as follows: the financial institution conducts a self-assessment of its capabilities to offer such services; the BSP evaluates the institutions and provides a certificate of compliance; finally, the central bank issues the license to the financial institution. The licensed financial institution is required to provide periodic reports to the BSP. The new rules aim to promote digital innovation and efficiency in payments and remittances, paving the way for the smoother flow of funds in the Philippine financial system. They also promote interoperability between financial institutions.

BSP Reduces Reserve Requirement Ratio of Big Banks

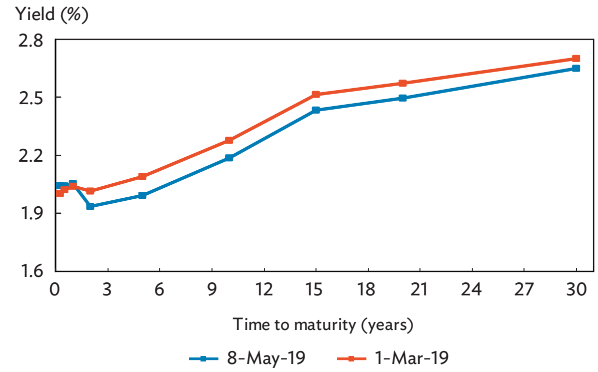
On 16 May, the BSP announced that it will cut the reserve requirement ratio of universal and commercial banks from 18% to 16%. The decrease will come in three phases: 100 bps will be cut on 31 May, 50 bps on 28 June, and 50 bps on 26 July. The decision was made amid the Philippines' low inflation environment and lower-than-expected economic growth. Every 1 percentage point decrease in the reserve requirement ratio is expected to release about PHP90 billion–PHP100 billion into the economy. The announced cut was timely as the Philippine economy is experiencing tightening liquidity conditions, as evidenced by single-digit money supply growth, and high time-deposit rates. A decision on the reserve requirement ratio of smaller banks is subject to discussion during the next monetary board meeting. The BSP plans to gradually decrease the reserve requirement ratio for big banks to the single-digit level by 2023.

Singapore

Yield Movements

Between 1 March and 8 May, Singapore's local currency (LCY) bond yields decreased an average of 4 basis points (bps) (**Figure 1**). The 5-year tenor decreased the most, shedding 10 bps. This was followed by the 10-year tenor (9 bps) and the 15-year tenor (8 bps). On the other hand, short-term maturities registered an increase, with the 3-month tenor registering the largest increase of 4 bps. The trade war between the People's Republic of China (PRC) and the United States (US) has weakened the Singapore dollar, resulting in declining liquidity and increased borrowing costs. The yield spread between 2-year and 10-year government bonds contracted 1 bp during the review period from 26 bps on 1 March to 25 bps on 8 May.

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



Source: Based on data from Bloomberg LP.

The decline in Singapore's yields may be attibuted to the prospect of slower growth in the economy. Singapore's yields tracked interest rate movements in the US, where most tenors decreased during the review period. The US Federal Reserve is expected to keep interest rates unchanged in 2019. The narrowing gap between 2-year and 10-year US government bonds, aggravated by the escalation of the trade tensions between the PRC and the US, has caused speculation that a recession in the US may be imminent.

Based on advance estimates, Singapore's economic growth eased in Q1 2019 to 1.3% y-o-y from an annual rate of 3.2% for full-year 2018. The easing growth was spurred by the decline in manufacturing output. On a quarter-on-quarter (q-o-q) seasonally adjusted basis, gross domestic product grew 2.0% in Q1 2019, which was lower than the 2018 average of 3.2% q-o-q.

Singapore's inflation rate continued its upward trend during the first quarter (Q1) of 2019, rising to 0.6% year-on-year (y-o-y) in March from 0.4% y-o-y in January and 0.5% y-o-y in February. The Monetary Authority of Singapore (MAS) expects global oil prices to decline in 2019. Together with lower electricity prices, the MAS expects inflation to moderate, prompting it to revise downward its inflation forecast for full-year 2019 to 0.5%–1.5% from 1.0%–2.0% as earlier projected in January.

The low-inflation environment, despite easing economic growth, prompted the MAS on 12 April to maintain the current slope of the Singapore dollar nominal effective exchange rate policy band, leaving its width and center unchanged as well. The move aimed to ensure price stability in the medium-term.

The ongoing trade war between the PRC and the US has affected the currency of the trade-dependent economy. In 2019, the Singapore dollar reached its lowest point in May, hitting SGD1.3705–USD1.0 from a high of SGD1.3456–USD 1.0 in January. The effects of the tit-for-tat tariffs imposed by the PRC and the US on each other's goods are expected to continue to lead to the depreciation of the Singapore dollar.

Size and Composition

The Singapore LCY bond market grew 4.2% q-o-q in Q1 2019 to reach SGD420 billion (USD310 billion) at the end of March, up from SGD403 billion at the end of Q4 2018 (**Table 1**). The expansion was supported by growth in both the government and corporate bond sectors.

Government bonds. Total outstanding LCY government bonds increased 4.5% q-o-q in Q1 2019 to reach SGD256 billion at the end of March, up from SGD244 billion at the end of the previous quarter.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**384**	**292**	**403**	**295**	**420**	**310**	**5.7**	**10.3**	**4.2**	**9.4**
Government	230	175	244	179	256	188	3.7	12.2	4.5	11.1
SGS Bills and Bonds	121	92	125	92	130	96	4.2	3.5	3.8	7.2
MAS Bills	109	83	120	88	126	93	3.1	23.8	5.4	15.4
Corporate	154	117	158	116	164	121	8.9	7.5	3.7	6.9

( ) = 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.

Contributing to the growth was the expansion of outstanding MAS bills, which increased 5.4% q-o-q to SGD126 billion from SGD120 billion in Q4 2018. Outstanding Singapore Government Securities (SGS) bills and bonds increased 3.8% q-o-q, climbing to SGD130 billion at the end of March from SGD125 billion at the end of the previous quarter.

A total of SGD146.4 billion worth of government bills and bonds were issued during Q1 2019. Of these, SGD139.2 billion, or 95.1%, were MAS bills; the remaining SGD7.2 billion, or 4.9%, were SGS bills and bonds. MAS bills increased 9.1% q-o-q, while SGS bills and bonds grew 41.2% q-o-q due to larger offerings and more issuances of SGS bonds.

Corporate bonds. LCY corporate bonds expanded 3.7% q-o-q in Q1 2019. On a y-o-y basis, corporate bonds grew 6.9% to SGD164 billion from SGD58 billion in Q4 2017.

The top 30 LCY corporate issuers accounted for SGD75.9 billion, or 46.3% of all LCY corporate bonds outstanding, at the end of March (**Table 2**). The state-owned real estate company Housing & Development Board continued to top the list, accounting for 14.0% of the total LCY corporate bond market with SGD23.0 billion of corporate bonds outstanding. Fellow state-owned company Land Transport Authority was a distant second with SGD9.0 billion of bonds outstanding, comprising 5.5% of the total LCY corporate bond market.

Just like the previous quarter, the real estate sector dominated the top 30 corporate issuers, accounting for 45.4% of the top 30's total corporate bonds outstanding at the end of March. This was followed by the transport and finance sectors with market shares of 18.6% and 14.6%, respectively.

In Q1 2019, LCY corporate bond issuances grew 17.5% to SGD5.0 billion from SGD4.2 billion issued during the previous quarter. The jump in issuance of LCY corporate bonds was due to large issuances, led by government-owned institutions.

One of the notable issuances was Land Transport Authority's SGD1,500 million 40-year bond with a coupon rate of 3.38%, which was issued under its SGD12 billion multicurrency medium-term note program (**Table 3**). Singapore Airlines' SGD750 million 5-year bond with a coupon of 3.03%, which targeted both retail and institutional investors, was met with strong demand. Proceeds from the issuance will be used to diversify the company's funding sources and for aircraft-related activities. The Housing & Development Board issued two bonds: a SGD600 million 10-year bond with a coupon of 2.675% and a SGD500 million 7-year bond with a 2.495% coupon. Both issuances are part of its SGD32 billion multicurrency medium-term note program, which aims to finance the company's development programs and refinance its existing debts. Singapore Technologies Telemedia issued a SGD350 million perpetual bond with a 5.0% coupon as part of its SGD2 billion multicurrency program. Proceeds from the issuance will be used to finance various activities by the company.

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	23.0	17.0	Yes	No	Real Estate
2.	Land Transport Authority	9.0	6.6	Yes	No	Transportation
3.	Singapore Airlines	4.4	3.2	Yes	Yes	Transportation
4.	Temasek Financial	3.6	2.7	Yes	No	Finance
5.	Frasers Property	3.4	2.5	No	Yes	Real Estate
6.	DBS Group Holdings	2.5	1.9	No	Yes	Banking
7.	United Overseas Bank	2.5	1.8	No	Yes	Banking
8.	Mapletree Treasury Services	2.4	1.8	No	No	Finance
9.	Capitaland	2.1	1.5	Yes	Yes	Real Estate
10.	Keppel Corporation	1.7	1.3	No	Yes	Diversified
11.	Capitaland Treasury	1.6	1.2	No	No	Finance
12.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
13.	CMT MTN	1.4	1.0	No	No	Finance
14.	SP Powerassets	1.4	1.0	No	No	Utilities
15.	Public Utilities Board	1.3	1.0	Yes	No	Utilities
16.	GLL IHT	1.3	0.9	No	No	Real Estate
17.	City Developments Limited	1.2	0.9	No	Yes	Real Estate
18.	Olam International	1.2	0.9	No	Yes	Consumer Goods
19.	Singtel Group Treasury	1.2	0.8	No	No	Finance
20.	Ascendas	1.0	0.7	No	Yes	Finance
21.	Suntec REIT	0.9	0.7	No	Yes	Real Estate
22.	Hyflux	0.9	0.7	No	Yes	Utilities
23.	Mapletree Commercial Trust	0.9	0.6	No	Yes	Real Estate
24.	Sembcorp Financial Services	0.9	0.6	No	No	Finance
25.	Shangri-La Hotel	0.8	0.6	No	Yes	Real Estate
26.	DBS Bank	0.8	0.6	No	Yes	Banking
27.	Overseas Union Enterprise	0.8	0.6	No	Yes	Real Estate
28.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
29.	Singapore Technologies Telemedia	0.8	0.6	Yes	No	Utilities
30.	SMRT Capital	0.8	0.6	No	No	Transportation
Total Top 30 LCY Corporate Issuers		**75.9**	**56.0**			
Total LCY Corporate Bonds		**164.2**	**121.1**			
Top 30 as % of Total LCY Corporate Bonds		**46.3%**	**46.3%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 31 March 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
40-year bond	3.38	1,500
Housing & Development Board		
7-year bond	2.495	500
10-year bond	2.675	600
Singapore Airlines		
5-year bond	3.03	750
Singapore Technologies Telemedia		
Perpetual bond	5.00	350

SGD = Singapore dollar.
Source: Bloomberg LP.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
40-year bond	3.38	1,500
Singapore Airlines		
5-year bond	3.03	750
Housing & Development Board		
10-year bond	2.675	600
7-year bond	2.495	500
Singapore Technologies Telemedia		
Perpetual bond	5.00	350

SGD = Singapore dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

MAS and the European Commission Agree on Common Approach to Trading Derivatives

On 20 February, the MAS and the European Commission agreed to support reforms allowing derivatives to be traded between Singapore and the European Union through each other's trading platforms. The agreement specifies that participants must comply with both European Union and Singaporean regulations when they trade derivatives in each other's markets. The common approach aims to strengthen inter-regional connections and provides investors from Singapore and the European Union with options to hedge financial risks.

MAS Established Corporate Governance Advisory Committee

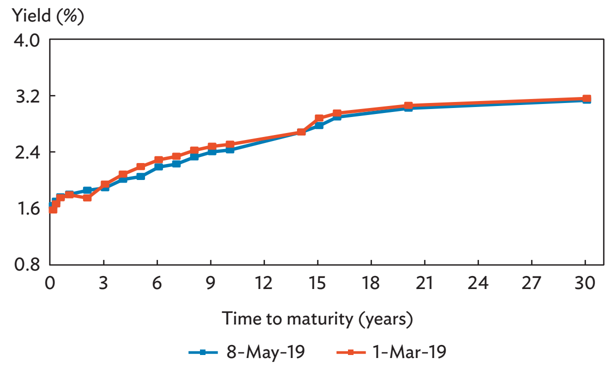
On 12 February, the MAS established a Corporate Governance Advisory Committee to promote best practices in corporate governance for companies in Singapore. The committee aims to build investor confidence in Singapore's financial market and strengthen Singapore's reputation as a financial hub. The committee is in charge of identifying risks to corporate governance and monitoring international trends and best practices, with the goal of ultimately updating the Corporate Governance Code.

Thailand

Yield Movements

Between 1 March and 8 May, the local currency (LCY) government bond yield curve in Thailand shifted slightly upward at the short-end and slightly downward at the long-end (**Figure 1**). Yields rose an average of 3 basis points (bps) for tenors with maturities of up to 1 year. The 2-year tenor had the largest gain at 11 bps. Excluding the 14-year tenor, yields fell an average of 8 bps for tenors with maturities of at least 3 years. The spread between the 2-year and 10-year tenors narrowed to 58 bps on 8 May from 77 bps on 1 March.

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



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

The marginal downward shift of the yield curve for most tenors resulted from expectations that the policy rate would be kept at its current level of 1.75%. In its monetary policy meeting on 20 March, the Bank of Thailand (BOT) decided to keep its policy rate unchanged as the economy expanded at a slower pace in first quarter (Q1) of 2019 amid weakening external demand. The BOT's gross domestic product (GDP) growth forecast for 2019 was lowered to 3.8% from 4.0% amid sluggish export demand. Inflation was expected to remain within the lower bound of its 0.7%–1.7% target. The BOT deemed that existing accommodative monetary policy was conducive to ensure economic growth and account for the impact of heightened global and domestic uncertainties. It thus decided to keep the policy rate unchanged at 1.75% in March and for a second time at its subsequent monetary policy meeting on 8 May.

Consumer price inflation was broadly unchanged in April, slightly declining 1.23% year-on-year (y-o-y) from 1.24% y-o-y in March, after having accelerated from 0.7% y-o-y in February, buoyed by higher food and oil prices. Core inflation, which excludes volatile food and energy prices, was also broadly unchanged in April at 0.61% y-o-y against 0.58% y-o-y in March. The government expects domestic food prices to rise in the coming months as drought and dry weather may cause a shortage in the supply of fresh vegetables. Consumer prices have been on an upward trend since the beginning of year, but the government is keeping its full-year 2019 inflation forecast at 1.0% y-o-y, which is within its target range. The Thai baht appreciated 0.1% against the United States (US) dollar between 1 March and 8 May, once again outperforming its regional peers as the only currency that strengthened during the review period. Thailand's robust external finances are reflected in its high current account surplus, which was equivalent to 10.9% of GDP at the end of Q1 2019, up from 5.5% at the end of fourth quarter (Q4) of 2018. Thailand's current account surplus has shielded the baht from global economic shocks despite a series of net outflows since the beginning of the year. The widening trade surplus suggested that Thailand's economy may be less susceptible than its regional peers to trade tensions between the US and the People's Republic of China (PRC).

Nevertheless, the Thai economy slowed amid the US–PRC trade war, with GDP growth in Q1 2019 posting its slowest pace since Q1 2014, easing to 2.8% y-o-y from revised growth of 3.6% y-o-y in Q4 2018. The Q1 2019 growth was lower than expected, weighed down by the decline in external demand. Exports fell 3.6% y-o-y in Q1 2019, after growing 2.3% y-o-y in Q4 2018, as a result of a weakened demand from Thailand's major trading partners. Domestic demand slowed as well, with private consumption growing 4.6% q-o-q in Q1 2019, easing from growth of 5.4% q-o-q in Q4 2018. Private investment growth slowed to 4.4% q-o-q in Q1 2019 from 5.5% q-o-q in Q4 2018, restrained by weakening investment in construction. Following the weak economic performance in Q1 2019, the National Economic and Social Development Council reduced its full-year GDP growth forecast in May to 3.3%–3.8% from 3.5%–4.5% and its exports growth forecast to 2.2% from 4.0%.

Size and Composition

Thailand's LCY bond market expanded to a size of THB12,649 billion (USD399 billion) at the end of March on growth of 1.6% q-o-q and 10.9% y-o-y (**Table 1**) . The quarterly growth rate in Q1 2019 was down from 2.5% q-o-q in Q4 2018, but annual growth in Q1 2019 was slightly faster than the 10.3% y-o-y posted in the previous quarter. Growth was buoyed by expansions in both the government and corporate sectors, which was attributable to the double-digit q-o-q issuance growth during the quarter. The Thai bond market largely comprises government bonds, which accounted for 72% of total bonds outstanding at the end of March.

Government bonds. The size of the LCY government bond market reached THB9,111 billion at the end of March, with growth easing to 1.4% q-o-q in Q1 2019 from 3.3% q-o-q in Q4 2018. Expansions were seen across all government bond segments, except for state-owned enterprise bonds. Central government bonds outstanding marginally increased 0.8% q-o-q during the quarter, which was a slower growth rate than in Q4 2018. While recording only a minimal increase, central government bonds comprised more than half of the aggregate government bond stock during the review period. Central bank bonds outstanding also expanded more slowly in Q1 2019 versus Q4 2018 at 3.0% q-o-q. The amount of state-owned enterprise bonds outstanding declined 1.7% q-o-q, reversing growth of 1.2% q-o-q in Q4 2018, as issuance volume declined. On a y-o-y basis, total government bonds outstanding grew 11.1% in Q1 2019.

Total issuance from the government surged 16.5% q-o-q in Q1 2019, up from growth of 1.9% q-o-q in the previous quarter, mainly lifted by an increase in central bank bonds that was partly countered by declines in central government bills and state-owned enterprise bonds. On a y-o-y basis, issuance of government bonds went up 24.4%, supported by higher central bank issuance. Government debt sales in Q1 2019 amounted to THB2,228 billion; about 93% of which comprised central bank securities.

Corporate bonds. Outstanding corporate bonds totaled THB3,538 billion at the end of March, reflecting a faster expansion of 2.3% q-o-q in Q1 2019 versus 0.5% q-o-q in Q4 2018, but falling to 10.3% y-o-y from 12.2% y-o-y during the same period. Growth was supported by higher corporate debt sales during the quarter.

The size of bonds outstanding of the top 30 corporate issuers totaled THB1,954 billion at the end of March, accounting for 55.2% of the total corporate bond market (**Table 2**). The list was dominated by the food and beverage industry with six issuers and aggregate bonds outstanding of THB528 billion. Siam Cement remained the top issuer with outstanding debt of THB182 billion at the end of March, unchanged from the end of December. Thai Beverage ranked second on the list, surpassing CP All, with its outstanding bonds jumping to THB180 billion from THB127 billion during the review period on increased issuance in Q1 2019.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**11,410**	**366**	**12,445**	**382**	**12,649**	**399**	**1.2**	**2.2**	**1.6**	**10.9**
Government	8,203	263	8,986	276	9,111	287	0.1	(0.6)	1.4	11.1
Government Bonds and Treasury Bills	4,425	142	4,738	146	4,774	150	2.1	5.3	0.8	7.9
Central Bank Bonds	2,969	95	3,477	107	3,579	113	(2.4)	(9.4)	3.0	20.5
State-Owned Enterprise and Other Bonds	808	26	771	24	758	24	(1.4)	5.5	(1.7)	(6.2)
Corporate	3,208	103	3,459	106	3,538	111	4.0	10.1	2.3	10.3

( ) = 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.
Source: Bank of Thailand.

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.	Siam Cement	181.5	5.7	Yes	Yes	Construction Materials
2.	Thai Beverage	180.0	5.7	No	No	Food and Beverage
3.	CP All	164.8	5.2	No	Yes	Commerce
4.	Berli Jucker	121.8	3.8	No	Yes	Food and Beverage
5.	PTT	110.7	3.5	Yes	Yes	Energy and Utilities
6.	Charoen Pokphand Foods	109.5	3.4	No	Yes	Food and Beverage
7.	Bank of Ayudhya	104.0	3.3	No	Yes	Banking
8.	True Move H Universal Communication	82.0	2.6	No	No	Communications
9.	Toyota Leasing Thailand	79.2	2.5	No	No	Finance and Securities
10.	Minor International	66.0	2.1	No	Yes	Hospitality and Leisure
11.	Indorama Ventures	65.4	2.1	No	Yes	Petrochemicals and Chemicals
12.	Thai Airways International	59.1	1.9	Yes	Yes	Transportation and Logistics
13.	Krungthai Card	47.4	1.5	Yes	Yes	Banking
14.	CPF Thailand	44.0	1.4	No	Yes	Food and Beverage
15.	Mitr Phol Sugar	42.2	1.3	No	No	Food and Beverage
16.	Banpu	41.8	1.3	No	Yes	Energy and Utilities
17.	Land & Houses	40.5	1.3	No	Yes	Property and Construction
18.	Advanced Wireless	40.2	1.3	No	Yes	Communications
19.	Tisco Bank	39.7	1.3	No	No	Banking
20.	Bangkok Expressway and Metro	38.2	1.2	No	Yes	Transportation and Logistics
21.	TPI Polene	36.6	1.2	No	Yes	Property and Construction
22.	Thai Union Group	30.6	1.0	No	Yes	Food and Beverage
23.	PTT Exploration and Production Company	29.6	0.9	Yes	Yes	Energy and Utilities
24.	DTAC Trinet	29.5	0.9	No	Yes	Communications
25.	Sansiri	29.4	0.9	No	Yes	Property and Construction
26.	True Corp	29.1	0.9	No	Yes	Communications
27.	Bangkok Commercial Asset Management	28.2	0.9	No	No	Finance and Securities
28.	CH. Karnchang	28.1	0.9	No	Yes	Property and Construction
29.	Kasikorn Bank	28.0	0.9	No	Yes	Banking
30.	Muangthai Capital	27.3	0.9	No	Yes	Finance and Securities
Total Top 30 LCY Corporate Issuers		**1,954.3**	**61.6**			
Total LCY Corporate Bonds		**3,537.6**	**111.5**			
Top 30 as % of Total LCY Corporate Bonds		**55.2%**	**55.2%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 31 March 2019.
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.

Corporate bond issuance in Q1 2019 increased 31.2% q-o-q to THB467 billion, reversing the 22.2% q-o-q decline in Q4 2018. According to the Thai Bond Market Association, the issuance of nonrated and noninvestment-grade, long-term corporate bonds rose substantially in Q1 2019. Similarly, the highest-rated, investment-grade bonds registered an increase, but at a much slower pace. Firms took advantage of the relatively low interest rate environment as the BOT held off further rate hikes after raising the benchmark policy rate by 25 bps in December.

Thai Beverage recorded the largest corporate debt sales in Q1 2019, totaling THB53 billion from three issuances, following THB77 billion of issuance in the third quarter of 2018, which marked the biggest quarterly corporate debt issuance total yet in Thailand (**Table 3**).

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2019

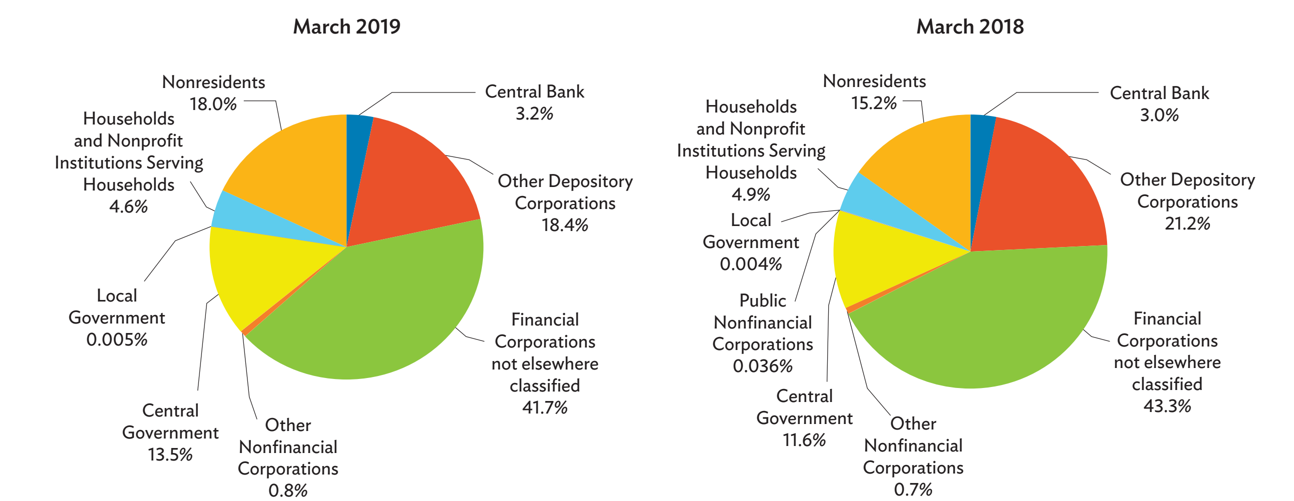
Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Thai Beverage		
2-year bond	3.00	31,600
5-year bond	3.50	11,300
10-year bond	4.00	10,100
Minor International		
5-year bond	3.60	4,635
5-year bond	3.60	2,165
10-year bond	4.17	5,685
10-year bond	4.17	1,815
12-year bond	4.43	2,430
12-year bond	4.43	1,570
15-year bond	4.62	2,430
15-year bond	4.62	3,070
True Move H Universal Communication		
2-year bond	3.80	2,810
5-year bond	5.10	11,190
5-year bond	5.00	200

THB = Thai baht.
Source: Bloomberg LP.

Investor Profile

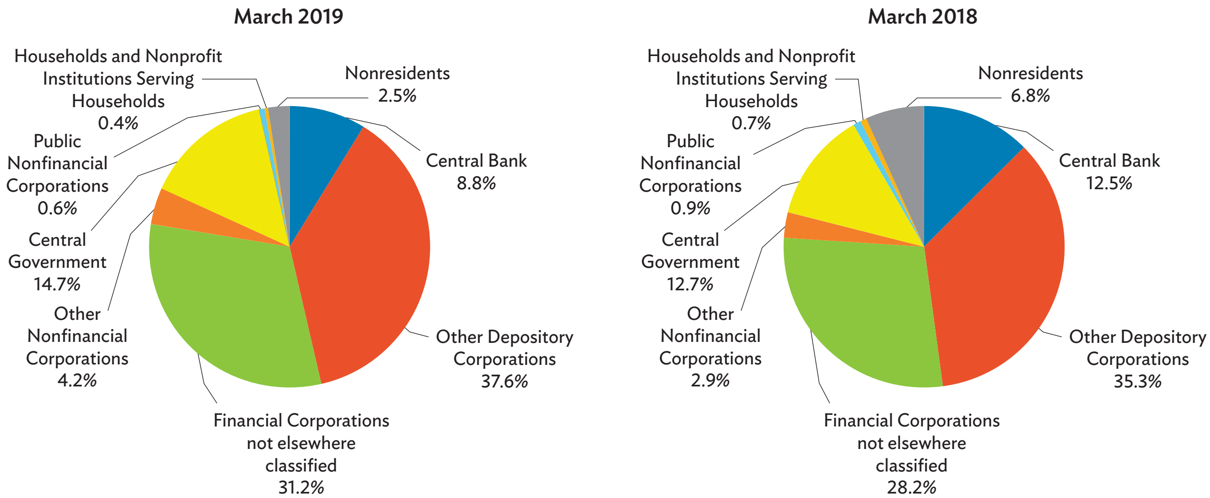
Central government bonds. The profile of LCY central government bond investors at the end of March was little changed from a year earlier (**Figure 2**). Financial corporations again had the largest share of holdings at 41.7% of total LCY central government bonds outstanding, although this was a decrease from 43.3% in March 2018. Similarly, other depository corporations saw their government bonds dip from 21.2% to 18.4% during the review period. On the other hand, the central government and foreign investors groups registered increases in their shares, with the former holding 13.5% at the end of March, up from 11.6%, and the latter holding 18.0%, up from 15.2%. These four investor groups together held over 90% of total central government bonds outstanding at the end of March.

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

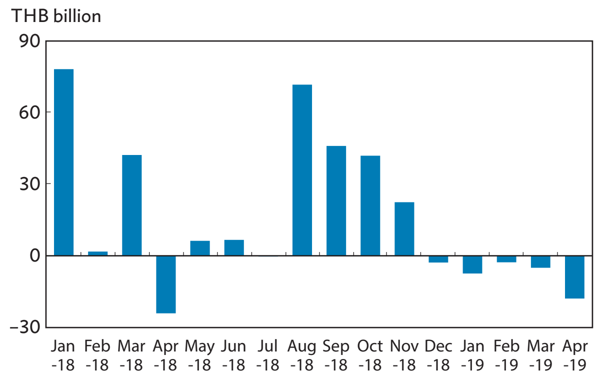


Source: Bank of Thailand.

Central bank bonds. The three largest investor groups in the central bank bond segment registered increased holding shares in March compared with a year earlier (**Figure 3**). Other depository corporations' share increased 2.2 percentage points to 37.6%, financial corporations' share rose 3.1 percentage points to 31.2%, and the BOT's share was up 2.0 percentage points to 14.7%. The foreign investors share in central bank bonds decreased to 2.5% in March from 6.8% in March 2018, the largest percentage decrease among all investor groups.

Between January and April, Thailand's LCY bond market recorded net outflows of THB33 billion, reversing net inflows of THB97 billion recorded in January–April 2018 (**Figure 4**). Unsettled by external factors such as the global economic slowdown, the US–PRC trade war, and the unclear terms of Brexit, investors have been selling short-term bonds since the beginning of the year to lock in profits on expectations of higher interest rates and the Thai baht's depreciation. Uncertainties on the domestic political front stemming from the general elections in March also made investors more risk averse, leading net outflows to surge to THB18 billion in April.

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



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

Ratings Update

Rating and Investment Information (R&I) affirmed Thailand's foreign currency issuer rating at BBB+, with a stable outlook, on 31 January. The rationale behind the rate affirmation is Thailand's strong economic fundamentals underpinned by a consistent current account surplus and inflows of foreign direct investment. The economy is projected to stay on a solid growth path. R&I also said that while the government's fiscal deficit is on an upward trend, the introduction of the Fiscal Responsibility Act will keep the economy's fiscal position sound. Furthermore, R&I expects the post-election government transition to be smooth and deemed the resurgence of political and social turmoil to be unlikely.

Policy, Institutional, and Regulatory Developments

BOT and Bank Indonesia Sign Memorandum of Understanding on Payment Systems and Financial Innovation

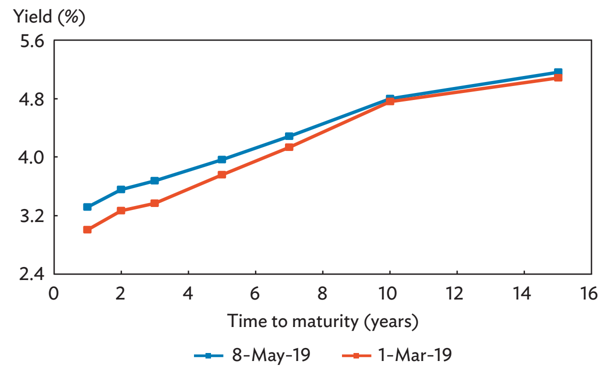
The BOT and Bank Indonesia signed a memorandum of understanding on 4 April to strengthen payment systems and financial innovation cooperation between Thailand and Indonesia. The agreement also aims to strengthen the implementation of central bank policies and address the increasingly complex challenges in payments between the two economies. It will also reinforce the implementation of policies against money laundering and terrorism financing.

Viet Nam

Yield Movements

Between 1 March and 8 May, local currency (LCY) government bond yields in Viet Nam climbed for all tenors (**Figure 1**). Bond yields rose faster at the short-end than the long-end, resulting in a flattening of the yield curve. Yields gained an average of 30 basis points (bps) for the 1-year through 3-year maturities, but only rose an average of 6 bps for the 10-year through 15-year tenors. As a result, the spread between the 2-year and 10-year yields narrowed to 125 bps on 8 May from 150 bps on 1 March.

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



Source: Based on data from Bloomberg LP.

The overall upward trend in bond yields was influenced by the uptick in deposit rates. Some banks raised deposit interest rates at the beginning of the year, to enable them to attract funds for mobilization. A regulation by the State Bank of Vietnam (SBV), which came into effect in 2019, reduced the ratio of short-term capital that can be used for long-term lending. Only 40% of a bank's short-term capital can now be used for long-term lending, down from the previous allowable amount of 45%. As a result, borrowing costs edged higher.

The uptick in bond yields at the short-end of the curve can also be attributed to rising inflation expectations. Upward adjustments in the prices of electricity and gasoline in March and April were expected to have a domino effect on the cost of goods and services. While inflation in the first 4 months of the year was the lowest for this period in 3 years, core inflation crept up to 1.8% year-on-year (y-o-y) in January–April, hitting the upper-end of the target range of 1.6%–1.8% set by the National Assembly for full-year 2019.

On the external front, uncertainties in global financial markets, particularly those arising from the unresolved trade issues between the United States (US) and the People's Republic of China, also impacted on bond yields. These two markets are among Viet Nam's largest trading partners.

The SBV has kept its refinancing rate steady since July 2017 at 6.25% and continues to utilize other monetary tools in guiding interest rates. The SBV has engaged in open market operations and intervened in the foreign exchange market to stabilize the VND–USD exchange rate. Between 1 March and 8 May, the Vietnamese dong weakened by 0.7% versus the US dollar.

Real gross domestic product (GDP) growth in Viet Nam eased to 6.8% y-o-y in the first quarter (Q1) of 2019 from 7.5% y-o-y in Q1 2018 as growth moderated in all major industry types. The largest contributor to overall GDP growth was the industry and construction sector, which grew 8.6% y-o-y in Q1 2019. The services sector expanded 6.5% y-o-y, and the agriculture sector grew 2.7% y-o-y in Q1 2019.

Size and Composition

Viet Nam's LCY bond market reached a size of VND1,193.0 trillion (USD51 billion) at the end of March (**Table 1**). Growth rose a marginal 0.7% quarter-on-quarter (q-o-q) in Q1 2019, a reversal from the 5.0% q-o-q contraction in Q4 2018. On a y-o-y basis, however, a 0.2% contraction was recorded.

Government bonds. Total LCY government bonds outstanding stood at VND1,092.2 trillion at the end of March, with growth rebounding to 0.9% q-o-q in Q1 2019 after contracting 6.1% q-o-q in the preceding quarter. On a y-o-y basis, the government bond market contracted 2.4% after expanding 7.9% in Q4 2018. The stock of Treasury instruments was the sole driver of

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,195,934	52	1,184,204	51	1,192,959	51	10.8	16.5	0.7	(0.2)
Government	1,119,575	49	1,082,140	47	1,092,228	47	11.6	16.1	0.9	(2.4)
Treasury Bonds	843,522	37	898,393	39	919,151	40	5.9	9.1	2.3	9.0
Central Bank Bills	91,270	4	0	0	4,900	0	456.5	–	–	(94.6)
Government-Guaranteed and Municipal Bonds	184,783	8	183,748	8	168,177	7	(2.8)	(3.2)	(8.5)	(9.0)
Corporate	76,359	3	102,063	4	100,731	4	(0.5)	23.2	(1.3)	31.9

– = 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.

growth as the stocks of central bank bills and government-guaranteed and municipal bonds contracted during the review period.

At the end of March, the outstanding amount of Treasury bonds reached VND919.2 trillion, accounting for an 84.2% share of the government bond stock. Growth of Treasury instruments rebounded to 2.3% q-o-q and 9.0% y-o-y. In Q1 2019, newly issued Treasury instruments totaled VND78.0 trillion on issuance growth of 123.4% q-o-q and 20.5% y-o-y.

The outstanding stock of central bank bills stood at VND4.9 trillion, as the SBV resumed issuance in March after a 5-month break. The stock of government-guaranteed and municipal bonds stood at VND168.2 trillion, down 8.5% q-o-q and 9.0 y-o-y.

Corporate bonds. At the end of March, the outstanding stock of LCY corporate bonds reached VND100.7 trillion, with growth declining 1.3% q-o-q but rising 31.9% y-o-y. Data culled from Bloomberg showed that the LCY corporate bond market of Viet Nam comprised issuances from 46 institutions. A majority of corporate bonds are issued via private placement for which information is not publicly disclosed.[9]

The 30 largest corporate bond issuers in Viet Nam accounted for an aggregate bond total amounting to VND96.2 trillion (**Table 2**). This was equivalent to 95.5% of the corporate bond total at the end of the review period. The composition of the top five issuers was unchanged from the list at the end of December. Taking the top spot was Vinhomes with outstanding bonds amounting to VND12.5 trillion, followed by Masan Consumer Holdings with outstanding bonds of VND11.1 trillion. Together, these two firms accounted for 23.4% of the total corporate bond stock at the end of March. In the third spot was Vingroup with outstanding bonds valued at VND9.6 trillion, followed by Vietnam Joint Stock Commercial Bank for Industry and Trade (VND8.2 trillion) and Asia Commercial Joint Stock Bank (VND6.8 trillion).

In Q1 2019, two firms tapped the debt market for funding: Refrigeration Electrical Engineering and Ho Chi Minh City Infrastructure. Details for their respective bond issues are presented in **Table 3**. Both issuances carried a long-term maturity of 10 years.

Ratings Update

In April, S&P Global Ratings raised Viet Nam's long-term sovereign credit rating to BB from BB–. The rating was given a stable outlook by S&P Global Ratings, which cited Viet Nam's strong economic growth and improved government institutional environment as the reason for the upgrade.

In May, Fitch Ratings affirmed Viet Nam's long-term foreign currency issuer default rating and long-term LCY issuer default rating at BB and revised the outlook

[9] As most bonds in Viet Nam are issued via private placement, our data on corporate bonds may be understated.

Table 2: Top 30 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.	Vinhomes	12,500	0.54	No	Yes	Real Estate
2.	Masan Consumer Holdings	11,100	0.48	No	No	Diversified Operations
3.	Vingroup	9,600	0.41	No	Yes	Real Estate
4.	Vietnam Joint Stock Commercial Bank for Industry and Trade	8,200	0.35	Yes	Yes	Banking
5.	Asia Commercial Joint Stock Bank	6,800	0.29	No	No	Banking
6.	Ho Chi Minh City Infrastructure Investment	3,560	0.15	No	Yes	Infrastructure
7.	Bank for Investment and Development of Vietnam	3,050	0.13	Yes	Yes	Banking
8.	Hoang Anh Gia Lai	3,000	0.13	No	Yes	Real Estate
9.	Masan Group	3,000	0.13	No	Yes	Finance
10.	Vietnam Prosperity Joint Stock Commercial Bank	3,000	0.13	No	Yes	Banking
11.	Vietnam Technological and Commercial Joint Stock Bank	3,000	0.13	No	No	Banking
12.	Sai Dong Urban Investment and Development	2,600	0.11	No	No	Real Estate
13.	Hoan My Medical	2,330	0.10	No	No	Healthcare Services
14.	Refrigeration Electrical	2,318	0.10	No	Yes	Manufacturing
15.	Hoang Anh Gia Lai International Agriculture	2,217	0.10	No	Yes	Agriculture
16.	Vietnam International Commercial Bank	2,203	0.09	No	Yes	Agriculture
17.	Agro Nutrition International	2,000	0.09	No	No	Agriculture
18.	Joint Stock Commercial Bank for Foreign Trade of Vietnam	2,000	0.09	Yes	Yes	Banking
19.	Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
20.	Masan Resources	1,500	0.06	No	Yes	Mining
21.	Nui Phao Mining	1,500	0.06	No	No	Mining
22	Saigon-Hanoi Securities	1,150	0.05	No	Yes	Finance
23.	SSI Securities	1,150	0.05	No	Yes	Finance
24.	Mobile World Investment	1,135	0.05	No	Yes	Manufacturing
25.	Pan Group	1,135	0.05	No	Yes	Consumer Services
26.	DIC Corporation	1,000	0.04	Yes	No	Chemicals
27.	No Va Land Investment Group	1,000	0.04	No	Yes	Real Estate
28.	TTC Education Joint Stock Company	951	0.04	No	No	Education Services
29.	Vietnam Bank for Agriculture and Rural Development	760	0.03	Yes	No	Banking
30.	Nam Long Investment	660	0.03	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**96,219**	**4.15**			
Total LCY Corporate Bonds		**100,731**	**4.34**			
Top 30 as % of Total LCY Corporate Bonds		**95.5%**	**95.5%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 31 March 2019.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg LP and Vietnam Bond Market Association data.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Refrigeration Electrical Engoineering		
10-year bond	7.00	2,318
Ho Chi Minh City Infrastructure		
10-year bond	7.20	1,150

VND = Vietnamese dong.
Source: Bloomberg LP.

for both ratings to positive from stable. In making its decision, Fitch Ratings cited Viet Nam's improving economic management, falling government debt levels, strong economic growth performance, and stable inflation.

Policy, Institutional, and Regulatory Developments

State Treasury to Sell VND80 Trillion Worth of Bonds in the Second Quarter of 2019

In April, the State Treasury announced that it plans to issue VND80 trillion bonds in the second quarter of 2019. The issuance plan is as follows: (i) 5-year Treasury bonds worth VND10 trillion, (ii) 7-year Treasury bonds worth VND5 trillion, (iii) 10-year Treasury bonds worth VND26 trillion, (iv) 15-year Treasury bonds worth VND30 trillion, (v) 20-year Treasury bonds worth VND5 trillion, and (vi) 30-year Treasury bonds worth VND4 trillion. For 2019 as a whole, the government is targeting to issue VND200 trillion.