Bond Market Developments in the First Quarter of 2020

Size and Composition

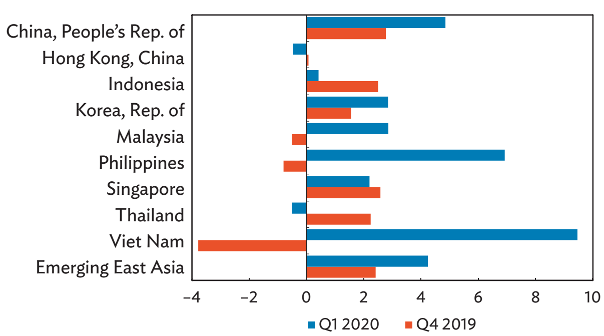
Emerging East Asia's local currency bond market expanded in the first quarter of 2020 to reach a size of USD16.3 trillion at the end of March.

Local currency (LCY) bonds outstanding in emerging East Asia amounted to USD16.3 trillion at the end of March, up from USD15.6 trillion (in current terms) at the end of December.[5] Overall growth quickened to 4.2% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2020 from 2.4% q-o-q in the fourth quarter (Q4) of 2019 (**Figure 1a**). The region's bond market growth was tempered by the risk-off sentiment affecting emerging markets, which was brought about by the slowdown in the global economy and the onset of the coronavirus disease (COVID-19) during the quarter.

The majority of the region's nine markets posted moderate q-o-q growth in Q1 2020, with the fastest growth seen in Viet Nam and the Philippines. Hong Kong, China and Thailand experienced negative q-o-q growth during the review period. Compared with Q4 2019, the q-o-q growth rate accelerated in five of the region's nine bond markets.

On a year-on-year (y-o-y) basis, the region's LCY bond market grew at a faster pace of 14.0% in Q1 2020 versus 12.6% in Q4 2019 (**Figure 1b**). All nine emerging East Asian markets posted positive y-o-y growth in Q1 2020, led by the People's Republic of China (PRC)

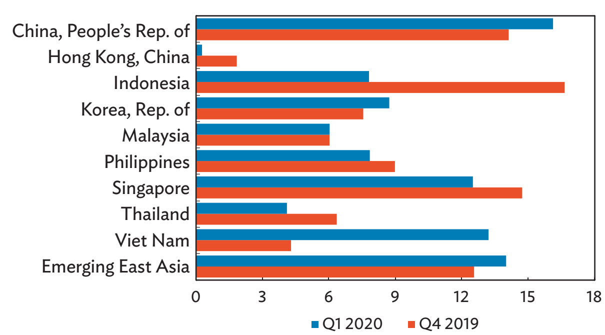
Figure 1a: Growth of Local Currency Bond Markets in the Fourth Quarter of 2019 and First Quarter of 2020 (q-o-q, %)



q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 31 March 2020 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

Figure 1b: Growth of Local Currency Bond Markets in the Fourth Quarter of 2019 and First Quarter of 2020 (y-o-y, %)



Q1 = first quarter, Q4 = fourth quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
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[5] Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

and Viet Nam. The LCY bond markets of the PRC, the Republic of Korea, and Viet Nam recorded faster y-o-y growth in Q1 2020 than in Q4 2019. Malaysia's y-o-y growth was steady between the two quarters, while the region's remaining markets experienced a slowdown in y-o-y growth in Q1 2020.

The PRC remained the region's leader in terms of bond market size, with outstanding bonds of USD12.5 trillion at the end of March. The PRC's share of the regional bond market increased to 76.6% at the end of March from 76.1% at the end of December. The PRC's overall bond market growth accelerated to 4.9% q-o-q in Q1 2020 from 2.8% q-o-q in Q4 2019.

The PRC's government bond segment recorded 3.5% q-o-q growth in Q1 2020, up from 2.0% q-o-q in Q4 2019. Growth in the outstanding government bond stock was supported by the issuance of Treasury and other government bonds, which rose 68.2% q-o-q in Q1 2020.

Growth in the PRC's corporate bond stock rose to 7.3% q-o-q in Q1 2020 from 4.1% q-o-q in Q4 2019, bolstered by strong issuance, which accelerated to 10.7% q-o-q in Q1 2020 from 1.7% q-o-q in Q4 2019. On a y-o-y basis, the PRC's bond market expanded 16.1% in Q1 2020, up from 14.1% in the prior quarter.

The Republic of Korea's LCY bond market was the second-largest in the region at the end of March at USD2.0 trillion. Growth in the bond market increased to 2.8% q-o-q in Q1 2020 from 1.6% q-o-q in Q4 2019. However, its share of the regional total slipped to 12.5% in Q1 2020 from 12.7% in the previous quarter. Government bonds rose 4.2% q-o-q, bolstered by strong issuance, which accelerated 45.4% q-o-q, largely driven by Korea Treasury Bonds. In Q1 2020, the Government of the Republic of Korea sold more bonds than in the previous quarter as it frontloaded expenditures for 2020 and raised funds to finance the government's stimulus program to counter the impact of COVID-19. The stock of corporate bonds posted a modest 1.9% q-o-q hike in Q1 2020, down from 2.7% q-o-q in Q4 2019. On an annual basis, the Republic of Korea's bond market growth rose to 8.7% y-o-y in Q1 2020 from 7.6% y-o-y in Q4 2019.

The size of the LCY bond market in Hong Kong, China was little changed at the end of March at USD291.0 billion. Overall, the bond market contracted 0.5% q-o-q in Q1 2020, driven by a decline in outstanding government bonds. The stock of government bonds contracted 1.1% q-o-q in Q1 2020, largely driven by a decline in the stock of Hong Kong Special Administrative Region bonds due to maturities. The stock of Exchange Fund Bills posted weak 0.4% q-o-q growth in Q1 2020, while the stock of Exchange Fund Notes was unchanged on zero growth. The corporate bond segment recorded marginal 0.2% q-o-q growth in Q1 2020. On a y-o-y basis, the bond market of Hong Kong, China barely grew at 0.3% in Q1 2020. The weak growth in Hong Kong, China's bond market stemmed from an economic contraction brought about by the combined effects of prolonged political protests, softening global demand, and the onset of COVID-19.

The aggregate amount of LCY bonds outstanding of the member economies of the Association of Southeast Asian Nations (ASEAN) stood at USD1.5 trillion at the end of March.[6] Overall growth inched up to 2.0% q-o-q in Q1 2020 from 1.2% q-o-q in Q4 2019. The total government bond stock reached USD1.0 trillion at the end of March, while corporate bonds stood at USD469.3 billion. Thailand, Malaysia, and Singapore remained the three largest bond markets in the ASEAN space.

Thailand's LCY bonds outstanding amounted to USD402.1 billion at the end of March. The 0.5% q-o-q contraction in Q1 2020 reversed the 2.2% q-o-q gain posted in the previous quarter. The global exodus from emerging markets impacted Thailand during the quarter, resulting in heightened volatility and tight liquidity in the domestic bond market. In March, the Bank of Thailand tapered its bond issuances and called off some offerings to improve market liquidity. Government bonds outstanding declined 1.0% q-o-q during the review period due to contractions in the outstanding stock of Bank of Thailand bonds and state-owned enterprise and other bonds, which outpaced the growth in government bonds and Treasury bills. The stock of outstanding corporate bonds posted marginal growth of 0.8% q-o-q in Q1 2020, down from 1.6% q-o-q in the previous quarter. Weak investor confidence dented demand for corporate bonds during the review period, resulting in a 12.5% q-o-q

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

drop in corporate issuance. The y-o-y growth rate in the Thai bond market eased to 4.1% in Q1 2020 from 6.4% in Q4 2019.

The outstanding amount of Malaysia's LCY bonds totaled USD353.6 billion at the end of March, with growth rebounding to 2.9% q-o-q in Q1 2020 from –0.5% q-o-q in Q4 2019. Growth was supported by strong issuance of government bonds, particularly Treasury and other government bonds, which rose 72.7% q-o-q in Q1 2020. The growth of outstanding corporate bonds picked up, rising to 1.7% q-o-q in Q1 2020 from 0.7% q-o-q in Q4 2019. On a y-o-y basis, Malaysia's LCY bond market expanded 6.0% in Q1 2020.

The largest *sukuk* (Islamic bond) market in emerging East Asia is that of Malaysia, where about 61.5% of total LCY bonds outstanding comprise *sukuk*. At the end of Q1 2020,45.2% of outstanding government bonds were structured following Islamic principles, while 79.6% of corporate bonds were *sukuk*.

At the end of March, Singapore's LCY bond market amounted to USD328.5 billion as growth dipped to 2.2% q-o-q in Q1 2020 from 2.6% q-o-q in Q4 2019. The slowdown in growth stemmed from the weaker growth of outstanding government bonds in Q1 2020 compared with the previous quarter. The corporate bond stock grew 1.7% q-o-q, the same pace recorded in Q4 2019. On an annual basis, Singapore's bond market growth eased to 12.5% y-o-y in Q1 2020 from 14.7% y-o-y in Q4 2019.

The outstanding amount of Indonesia's LCY bonds stood at USD203.8 billion at the end of March, with growth decelerating to 0.4% q-o-q in Q1 2020 from 2.5% q-o-q in Q4 2019. The stock of government bonds rose only 0.6% q-o-q and the corporate bond stock contracted 0.5% q-o-q. Indonesia's bond market was also largely affected by investors' risk-off sentiment due to COVID-19, lowering demand for both government and corporate bonds. On a y-o-y basis, Indonesia's LCY bond market growth moderated to 7.8% in Q1 2020 from 16.6% in Q4 2019.

The Philippines' LCY bond market reached a size of USD140.2 billion at the end of March, as growth rebounded to 6.9% q-o-q in Q1 2020 from –0.8% q-o-q in Q4 2019. The stock of government bonds posted 7.5% q-o-q growth in Q1 2020, reversing the 2.1% q-o-q decline in the previous quarter. Growth in the stock of corporate bonds rose to 5.0% q-o-q in Q1 2020 from 4.0% q-o-q in Q1 2019. Annual bond market growth in the Philippines eased to 7.9% y-o-y in Q1 2020 from 9.0% y-o-y in Q4 2019.

The LCY bond market in Viet Nam posted the highest growth in the region during the review period, albeit coming from a low base. Overall growth rebounded to 9.5% q-o-q in Q1 2020 from –3.8% q-o-q in the previous quarter. The growth stemmed from a rise in the government bond stock, which increased 10.5% q-o-q in Q1 2020, reversing the 3.9% q-o-q drop in Q4 2019. The stock of corporate bonds contracted 1.7% q-o-q in Q1 2019. On a y-o-y basis, Viet Nam's bond market expanded 13.2% in Q1 2020, up from 4.3% in Q4 2019.

At the end of March, government bonds continued to account for the majority of emerging East Asia's total LCY bond stock, representing a 60.6% share. In nominal terms, the outstanding amount of government bonds climbed to USD9.9 trillion on growth of 3.3% q-o-q and 12.3% y-o-y (**Table 1**). Accounting for the largest shares of the regional government bond market were the PRC and the Republic of Korea. Together, the two markets accounted for 88.2% of emerging East Asia's total government bond stock.

ASEAN economies accounted for 10.3% of aggregate government bonds outstanding in emerging East Asia at the end of Q1 2020. Among ASEAN economies, Thailand had the largest LCY government bond market at the end of March at a size of USD285.6 billion. The next largest markets were those of Singapore and Malaysia, with outstanding government bonds totaling USD205.9 billion and USD186.0 billion, respectively. Indonesia's government bond stock stood at USD176.7 billion at the end of March. The Philippines and Viet Nam continued to have the smallest government bond stocks at USD109.0 billion and USD53.3 billion, respectively.

LCY corporate bonds outstanding in emerging East Asia reached USD6.4 trillion at the end of March. On a q-o-q basis, growth in corporate bonds outstanding accelerated to 5.7% in Q1 2020 from 3.5% in the previous quarter. The faster growth rate was driven mostly by growth in

Table 1: Size and Composition of Local Currency Bond Markets

	Q1 2019		Q4 2019		Q1 2020		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q1 2019		Q1 2020		Q1 2019		Q1 2020	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	11,325	100.0	12,090	100.0	12,464	100.0	3.0	16.7	4.9	16.1	5.6	9.1	3.1	10.1
Government	7,309	64.5	7,753	64.1	7,886	63.3	2.5	16.1	3.5	13.8	5.0	8.5	1.7	7.9
Corporate	4,015	35.5	4,337	35.9	4,577	36.7	4.1	17.8	7.3	20.3	6.7	10.1	5.5	14.0
Hong Kong, China														
Total	287	100.0	291	100.0	291	100.0	1.1	8.5	(0.5)	0.3	0.9	8.5	0.05	1.6
Government	148	51.6	152	52.2	151	51.9	(0.6)	1.1	(1.1)	0.7	(0.9)	1.1	(0.6)	2.0
Corporate	139	48.4	139	47.8	140	48.1	3.0	17.8	0.2	(0.2)	2.8	17.8	0.7	1.1
Indonesia														
Total	217	100.0	239	100.0	204	100.0	8.7	18.7	0.4	7.8	9.8	14.4	(14.6)	(5.9)
Government	187	86.2	207	86.6	177	86.7	9.6	21.0	0.6	8.4	10.7	16.7	(14.5)	(5.4)
Corporate	30	13.8	32	13.4	27	13.3	3.0	5.9	(0.5)	4.4	4.0	2.1	(15.4)	(8.8)
Korea, Rep. of														
Total	2,006	100.0	2,083	100.0	2,032	100.0	1.7	4.2	2.8	8.7	(0.4)	(2.4)	(2.4)	1.3
Government	820	40.9	824	39.5	814	40.1	1.9	1.7	4.2	6.6	(0.3)	(4.7)	(1.1)	(0.7)
Corporate	1,186	59.1	1,259	60.5	1,218	59.9	1.7	5.9	1.9	10.2	(0.5)	(0.8)	(3.3)	2.7
Malaysia														
Total	353	100.0	363	100.0	354	100.0	2.9	7.6	2.9	6.0	4.1	1.8	(2.6)	0.2
Government	188	53.1	189	52.1	186	52.6	3.6	8.7	3.9	4.9	5.0	2.8	(1.6)	(0.9)
Corporate	165	46.9	174	47.9	168	47.4	2.0	6.4	1.7	7.3	3.3	0.7	(3.7)	1.3
Philippines														
Total	125	100.0	131	100.0	140	100.0	8.0	17.8	6.9	7.9	8.0	17.0	6.8	11.8
Government	99	79.0	101	77.4	109	77.8	8.8	16.2	7.5	6.2	8.8	15.4	7.4	10.1
Corporate	26	21.0	30	22.6	31	22.2	5.4	24.4	5.0	14.0	5.4	23.5	4.9	18.2
Singapore														
Total	306	100.0	340	100.0	329	100.0	3.1	8.3	2.2	12.5	3.7	4.7	(3.3)	7.3
Government	188	61.5	212	62.5	206	62.7	4.5	11.1	2.5	14.6	5.1	7.5	(3.0)	9.3
Corporate	118	38.5	127	37.5	123	37.3	0.9	4.0	1.7	9.2	1.4	0.6	(3.7)	4.1
Thailand														
Total	399	100.0	446	100.0	402	100.0	1.6	10.9	(0.5)	4.1	30.1	43.4	(9.8)	0.9
Government	287	72.0	318	71.4	286	71.0	1.4	11.1	(1.0)	2.7	27.0	38.0	(10.2)	(0.5)
Corporate	111	28.0	127	28.6	117	29.0	2.3	10.3	0.8	7.9	39.0	59.5	(8.6)	4.5
Viet Nam														
Total	52	100.0	54	100.0	58	100.0	0.8	0.5	9.5	13.2	0.8	(1.2)	7.3	11.1
Government	47	90.9	49	91.8	53	92.6	0.9	(2.4)	10.5	15.4	0.9	(4.1)	8.3	13.2
Corporate	5	9.1	4	8.2	4	7.4	(0.1)	43.7	(1.7)	(8.5)	(0.2)	41.3	(3.6)	(10.2)
Emerging East Asia														
Total	15,069	100.0	16,036	100.0	16,272	100.0	2.9	14.1	4.2	14.0	5.2	7.9	1.5	8.0
Government	9,273	61.5	9,805	61.1	9,868	60.6	2.6	13.9	3.3	12.3	5.1	7.8	0.6	6.4
Corporate	5,796	38.5	6,231	38.9	6,404	39.4	3.4	14.4	5.7	16.8	5.3	8.0	2.8	10.5
Japan														
Total	10,597	100.0	10,966	100.0	11,079	100.0	0.2	1.9	0.04	1.4	(0.8)	(2.3)	1.03	4.5
Government	9,881	93.2	10,180	92.8	10,282	92.8	0.3	1.8	0.01	0.9	(0.8)	(2.4)	1.0	4.1
Corporate	717	6.8	786	7.2	797	7.2	0.1	3.5	0.4	7.9	(0.9)	(0.8)	1.4	11.3

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

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. For LCY base, emerging East Asia growth figures are based on 31 March 2020 currency exchange rates and do not include currency effects.
5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

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

the PRC's corporate bond sector, which rose 7.3% q-o-q in Q1 2020. Seven out of the nine markets in emerging East Asia posted positive q-o-q growth in the corporate bond stock; Indonesia and Viet Nam posted contractions in the stock of their corporate bonds. The PRC and the Republic of Korea account for a majority of emerging East Asia's corporate bond sector with a combined share of 90.5% at the end of March. ASEAN economies accounted for 7.3% of emerging East Asia's corporate bond stock. Within ASEAN, Malaysia had the largest corporate bond market, followed by Singapore.

Emerging East Asia's total LCY bond market constituted 87.8% of the region's gross domestic product (GDP) at the end of March, expanding from 83.2% at the end of December and 80.2% in March 2019 (**Table 2**). The respective percentage shares of government and corporate bonds to GDP were higher at the end of Q1 2020 compared with the end of Q4 2019: the government bonds-to-GDP ratio climbed to 53.2% from 50.9%, while the corporate bonds-to-GDP ratio rose to 34.6% from 32.3%. The higher bond-to-GDP ratios can be attributed to an increase in the region's bond market size in Q1 2020 as regional GDP contracted due to the impact of COVID-19.

The bond markets of the Republic of Korea and Malaysia had the highest bonds-to-GDP ratios in the region, both of which exceeded 100% of their GDP, while Indonesia had the smallest at 20.8%. All emerging East Asian economies saw increases in their bonds-to-GDP ratios between Q4 2019 and Q1 2020 except for Indonesia and Thailand, where the ratios declined.

By segment, Singapore had the highest government bonds-to-GDP ratio in the region at 58.0%, while Indonesia had the smallest at 18.0%. The Republic of Korea had the largest corporate bonds-to-GDP share at 80.0%, while in Viet Nam this share was only 1.6%.

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

	Q1 2019	Q4 2019	Q1 2020
China, People's Rep. of			
Total	81.3	85.0	90.1
Government	52.5	54.5	57.0
Corporate	28.8	30.5	33.1
Hong Kong, China			
Total	78.7	79.1	80.0
Government	40.6	41.3	41.5
Corporate	38.1	37.8	38.5
Indonesia			
Total	20.4	20.9	20.8
Government	17.6	18.1	18.0
Corporate	2.8	2.8	2.8
Korea, Rep. of			
Total	125.2	130.2	133.5
Government	51.2	51.5	53.5
Corporate	74.0	78.7	80.0
Malaysia			
Total	104.6	104.5	107.3
Government	55.6	54.4	56.4
Corporate	49.0	50.1	50.9
Philippines			
Total	35.4	34.1	36.3
Government	28.0	26.3	28.2
Corporate	7.5	7.7	8.1
Singapore			
Total	81.7	90.1	92.6
Government	50.2	56.3	58.0
Corporate	31.4	33.8	34.5
Thailand			
Total	76.5	78.4	78.2
Government	55.1	56.0	55.6
Corporate	21.4	22.4	22.7
Viet Nam			
Total	21.3	20.6	22.3
Government	19.4	18.9	20.6
Corporate	1.9	1.7	1.6
Emerging East Asia			
Total	80.2	83.2	87.8
Government	49.3	50.9	53.2
Corporate	30.8	32.3	34.6
Japan			
Total	214.3	215.1	215.6
Government	199.8	199.7	200.1
Corporate	14.5	15.4	15.5

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

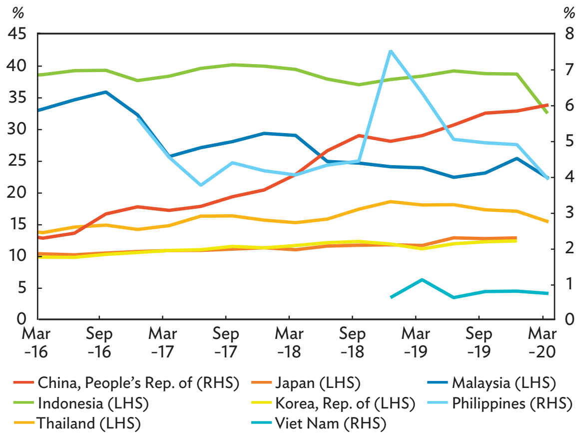
Sources: People's Republic of China (CEIC); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and The Bank of Korea); Malaysia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

Foreign Investor Holdings

Foreign ownership of LCY government bonds declined in Q1 2020.

Emerging East Asia's foreign investor holdings share at the end of Q1 2020 declined from the end of Q4 2019 in all markets except for the PRC, where a minimal increase was observed (**Figure 2**). With uncertainty surrounding

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



LHS = left-hand side, RHS = right-hand side.
Note: Data as of 31 March 2020 except for Japan and the Republic of Korea (31 December 2019).
Source: *AsianBondsOnline*.

the financial and economic environment, foreign investors have been cautious with their asset holdings, which was evident in the observed retreat of foreign funds from Southeast Asian economies during Q1 2020.

In the PRC, the foreign holdings share of government bonds increased slightly to 6.0% at the end of March from 5.8% at the end of December 2019. The increase can be attributed to market optimism as the PRC recovers from the impact of the COVID-19 pandemic. Investor interest in the PRC's bond market continued to be supported by the inclusion of its government bonds in the Bloomberg Barclays Global Aggregate Index and in the J.P. Morgan's Government Bond Index–Emerging Markets Global Diversified Index, as well as by being on the watchlist for inclusion in FTSE Russell's World Government Bond Index.

Indonesia's foreign holdings' share fell to 32.7% at the end of March, its lowest level since December 2013. The share of bonds held by foreigners declined by 5.9 percentage points from the end of December 2019, making it the largest drop in the region in Q1 2020 and the largest quarterly drop in Indonesia's foreign holdings' share since such data became available. The fall in foreign holdings was mainly due to the reflexive risk reduction of investors on the back of market routs caused by the pandemic. At the same time, Indonesia continued to have the highest foreign holdings' share in the region.

In Malaysia, the share of government bonds held by foreign investors dropped to 22.2% at the end of March from 25.3% at the end of December. The fall in foreign holdings can be traced to the perceived risks brought about by the negative impacts of COVID-19 and tumbling oil prices, as well as profit-taking by investors over fears caused by the short-lived political turmoil during Q1 2020. Investors took some respite from the announcement that the FTSE Russell's World Government Bond Index would keep Malaysia on the watchlist. Malaysia has the region's second-largest share of foreign-held government bonds.

In Thailand, the share of foreign holdings fell to 15.3% at the end of March from 17.0% at the end of the preceding quarter. The decline in foreign ownership was mainly due to investor profit-taking as the Bank of Thailand loosened its monetary policy by cutting its key rate to shore up the domestic economy. The record-low policy rate has prompted bond yields to fall, making them unattractive to foreign investors.

Foreign investors reduced their holdings share of Philippine government bonds to 3.9% at the end of March from 4.9% at the end of December. Despite moderating inflation since the start of 2020, the foreign holdings' share still declined. Foreign investor decisions were induced by the aggressive interest rate cuts of the Bangko Sentral ng Pilipinas, which pulled yields down.

Foreign ownership of sovereign debt in Viet Nam fell in Q1 2020, albeit only marginally. The share of foreign holders was at 0.7% at the end of March, down from 0.8% at the end of December. Having only a small bond market, Viet Nam's foreign holdings' share is the smallest in the region.

Meanwhile, the Republic of Korea's share of foreign holdings increased to 12.3% at the end of December from 12.2% at the end of September. The share has been on a gradual uptrend since March 2019. Higher yields in the Republic of Korea's bond market and fiscal strength are seen as the factors behind increasing foreign interest.

Foreign Bond Flows

Foreign funds flowed out of most emerging East Asian markets in January–April.

Most economies in the region for which data are available registered net outflows of foreign funds during Q1 2020 with the exception of the PRC and the Republic of Korea (**Figure 3**). For markets that experienced net outflows during the review period, the outflows began mainly in February in the wake of the COVID-19 outbreak, with the largest outflows seen in March. The fund withdrawal by foreign investors was underlain by risk aversion and profit-taking as yields in those markets declined due to interest rate cuts by central banks.

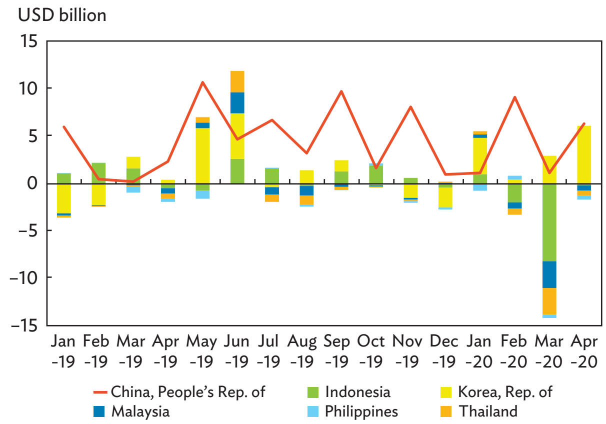
Foreign investor interest in the PRC's LCY bond market remained strong throughout Q1 2020, with net monthly inflows that continued into April. Inflows in the PRC market totaled USD11.5 billion during Q1 2020, which was slightly higher than total inflows of USD10.8 billion in Q4 2019. In April, foreign investors poured an additional USD6.4 billion in the debt market, bringing the total fund inflows in the first 4 months of the year to USD17.8 billion.

Indonesia saw net foreign fund outflows of USD9.1 billion from its government bond market in Q1 2020, far exceeding the foreign inflows of USD2.2 billion in Q4 2019. Additional outflows of USD0.1 billion in April resulted in year-to-date outflows of USD9.2 billion in the first 4 months of the year, the largest cumulative foreign bond outflows among all markets in the region during the review period.

Malaysia also registered outflows in Q1 2020 after experiencing net inflows in the previous quarter. Total foreign outflows in Q1 2020 amounted to USD3.9 billion, compared with inflows of USD3.3 billion in Q4 2019, as falling oil prices highlighted concerns about the government's finances. Including outflows in April, the total amount of funds withdrawn by foreign investors from the bond market in the first 4 months of the year amounted to USD4.3 billion.

In the Philippines and in Thailand, bond sell-offs by foreign investors in Q4 2019 continued into Q1 2020. In Q4 2019, the Philippines and Thailand experienced net outflows of USD0.2 billion each. In Q1 2020, Thailand's net outflows amounted to USD3.1 billion,

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



USD = United States dollar.
Notes:
1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Data as of 30 April 2020.
3. Figures were computed based on 30 April 2020 exchange rates to avoid currency effects.

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

while the Philippines' quarterly outflows were more modest at USD0.7 billion. Outflows continued in April in both markets at USD0.4 billion for the Philippines and USD0.6 billion for Thailand.

The opposite trend was seen in the Republic of Korea as foreign investors flocked to its government bond market in Q1 2020, bringing in a total of USD7.3 billion during the quarter and reversing the previous quarter's USD3.7 billion of net outflows. The trend continued into April, with foreign inflows in the Republic of Korea's bond market from January to April totaling USD13.4 billion.

LCY Bond Issuance

Emerging East Asia's aggregate LCY bond sales reached USD1.7 trillion in Q1 2020, buoyed by increased issuance volumes in nearly all markets.

LCY bond issuance in emerging East Asia climbed to USD1,671.5 billion in Q1 2020 on growth of 19.7% q-o-q after a contraction of 9.6% q-o-q in Q4 2019 (**Table 3**).

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

	Q1 2019		Q4 2019		Q1 2020		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q1 2020		Q1 2020	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	869	100.0	834	100.0	1,075	100.0	31.2	30.6	29.0	23.7
Government	443	50.9	297	35.7	491	45.7	68.2	17.2	65.3	11.0
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	443	50.9	297	35.7	491	45.7	68.2	17.2	65.3	11.0
Corporate	426	49.1	536	64.3	584	54.3	10.7	44.5	8.8	36.9
Hong Kong, China										
Total	136	100.0	128	100.0	136	100.0	5.0	(1.4)	5.5	(0.1)
Government	104	76.3	109	85.2	108	79.7	(1.8)	2.9	(1.3)	4.3
Central Bank	103	76.2	109	84.6	108	79.4	(1.4)	2.9	(0.8)	4.2
Treasury and Other Govt.	0.3	0.2	0.8	0.6	0.3	0.2	(61.5)	19.0	(61.3)	20.6
Corporate	32	23.7	19	14.8	28	20.3	44.3	(15.3)	45.0	(14.2)
Indonesia										
Total	26	100.0	21	100.0	20	100.0	13.7	(11.6)	(3.4)	(22.8)
Government	25	94.2	19	88.3	19	94.3	21.4	(11.4)	3.2	(22.7)
Central Bank	7	28.3	8	39.2	7	34.5	0.3	8.0	(14.7)	(5.7)
Treasury and Other Govt.	17	65.9	10	49.2	12	59.8	38.2	(19.8)	17.5	(29.9)
Corporate	2	5.8	2	11.7	1	5.7	(44.9)	(14.3)	(53.2)	(25.1)
Korea, Rep. of										
Total	163	100.0	196	100.0	197	100.0	6.1	30.0	0.6	21.2
Government	71	43.4	60	30.5	82	41.8	45.4	25.1	37.9	16.5
Central Bank	32	19.6	29	14.6	30	15.2	10.7	1.2	5.0	(5.7)
Treasury and Other Govt.	39	23.9	31	15.9	52	26.6	77.3	44.6	68.2	34.7
Corporate	92	56.6	136	69.5	115	58.2	(11.1)	33.9	(15.7)	24.7
Malaysia										
Total	25	100.0	20	100.0	21	100.0	10.7	(10.1)	4.8	(15.1)
Government	15	58.5	9	43.5	12	56.2	42.9	(13.8)	35.2	(18.5)
Central Bank	5	19.2	3	14.6	2	11.0	(16.4)	(48.5)	(20.8)	(51.3)
Treasury and Other Govt.	10	39.3	6	28.9	10	45.1	72.7	3.2	63.5	(2.5)
Corporate	10	41.5	12	56.5	9	43.8	(14.1)	(5.0)	(18.7)	(10.2)
Philippines										
Total	14	100.0	7	100.0	17	100.0	128.6	18.0	128.4	22.3
Government	13	92.0	5	71.9	14	83.0	163.9	6.4	163.7	10.4
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	13	92.0	5	71.9	14	83.0	163.9	6.4	163.7	10.4
Corporate	1	8.0	2	28.1	3	17.0	38.4	149.6	38.3	158.8
Singapore										
Total	112	100.0	130	100.0	125	100.0	1.3	17.5	(4.1)	12.0
Government	108	96.7	128	98.4	122	97.7	0.6	18.7	(4.8)	13.2
Central Bank	103	92.0	103	79.3	101	80.9	3.2	3.3	(2.3)	(1.5)
Treasury and Other Govt.	5	4.8	25	19.1	21	16.9	(10.4)	316.7	(15.2)	297.2
Corporate	4	3.3	2	1.6	3	2.3	44.9	(19.4)	37.2	(23.1)
Thailand										
Total	85	100.0	79	100.0	72	100.0	1.1	(12.2)	(8.3)	(14.9)
Government	70	82.7	66	83.7	62	85.9	3.7	(8.8)	(5.9)	(11.6)
Central Bank	65	76.6	59	74.8	56	77.9	5.2	(10.8)	(4.6)	(13.5)
Treasury and Other Govt.	5	6.1	7	8.9	6	8.1	(8.9)	15.9	(17.4)	12.3
Corporate	15	17.3	13	16.3	10	14.1	(12.5)	(28.6)	(20.7)	(30.8)

continued on next page

Table 3 *continued*

	Q1 2019		Q4 2019		Q1 2020		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q1 2020		Q1 2020	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	6	100.0	22	100.0	7	100.0	(66.6)	27.7	(67.3)	25.2
Government	6	96.5	22	99.2	7	100.0	(66.4)	32.3	(67.0)	29.8
Central Bank	3	44.5	20	88.5	6	80.4	(69.7)	130.6	(70.3)	126.2
Treasury and Other Govt.	3	52.0	2	10.8	1	19.6	(39.1)	(51.8)	(40.3)	(52.7)
Corporate	0.2	3.5	0.2	0.8	0	0.0	(100.0)	(100.0)	(100.0)	(100.0)
Emerging East Asia										
Total	1,435	100.0	1,439	100.0	1,671	100.0	19.7	22.1	16.2	16.4
Government	853	59.4	716	49.8	919	55.0	32.9	12.6	28.4	7.7
Central Bank	318	22.1	330	23.0	310	18.6	(2.0)	0.5	(6.1)	(2.4)
Treasury and Other Govt.	535	37.3	385	26.8	609	36.4	62.4	20.1	58.0	13.7
Corporate	582	40.6	723	50.2	753	45.0	6.8	36.2	4.1	29.3
Japan										
Total	385	100.0	418	100.0	383	100.0	(9.4)	(3.5)	(8.5)	(0.5)
Government	362	94.1	376	89.9	356	92.9	(6.3)	(4.6)	(5.4)	(1.7)
Central Bank	0	0.0	20	4.8	0	0.0	(100.0)	–	(100.0)	–
Treasury and Other Govt.	362	94.1	356	85.0	356	92.9	(1.0)	(4.6)	0.01	(1.7)
Corporate	23	5.9	42	10.1	27	7.1	(36.4)	15.3	(35.8)	18.9

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. For LCY base, emerging East Asia growth figures are based on 31 March 2020 currency exchange rates and do not include currency effects.

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

The q-o-q growth stemmed largely from higher bond sales of Treasury bonds and other government bonds and a modest increase in corporate bond issuance. On the other hand, the issuance of central bank instruments slowed from Q4 2019 as central banks focused on monetary easing. Six out of nine LCY bond markets in the region posted faster q-o-q issuance growth during the quarter. On a q-o-q basis, only the bond markets of the Republic of Korea, Singapore, and Viet Nam registered a slowdown in issuance, with Viet Nam posting a contraction during the quarter.

On an annual basis, overall growth in LCY bond issuance in emerging East Asia accelerated to 22.1% y-o-y in Q1 2020 from 12.5% y-o-y in Q4 2019. All bond market segments contributed to the y-o-y hike in issuance during the quarter. Most markets, however, registered slower y-o-y growth or even contractions in issuance in Q1 2020 compared with Q4 2019, particularly in Indonesia; Singapore; Thailand; Viet Nam; and Hong Kong, China.

In Q1 2020, more than half of the region's LCY bond issuance was accounted for by government bonds. LCY government bond issuance totaled USD918.9 billion, up 32.9% q-o-q and 12.6% y-o-y. Of this amount, 66.2% comprised Treasury and other government bonds. The governments of the PRC, Indonesia, the Republic of Korea, Malaysia, and the Philippines were the most active in issuing Treasury and other government bonds in Q1 2020, due mostly to frontloading policies and increased financing needs to fund stimulus packages and recovery efforts in response to the COVID-19 pandemic. In contrast, lower issuance volumes for Treasury and other government bonds were noted in Singapore; Thailand; Viet Nam; and Hong Kong, China.

The region's issuance of central bank instruments slowed in Q1 2020 versus Q4 2019. Total issuance from central banks tallied USD310.3 billion, a 2.0% q-o-q contraction from 1.6% q-o-q growth in the prior quarter. On a y-o-y basis, the aggregate issuance volume of central banks slumped from growth of 10.2% in Q4 2019 to only 0.5% in Q1 2020.

New corporate debt from emerging East Asia totaled USD752.5 billion in Q1 2020, up 6.8% q-o-q and 36.2% y-o-y. Six out of nine markets posted slower q-o-q growth in corporate bond issuance during the quarter. However, the region's overall issuance level was lifted by a surge in the issuance of corporate bonds in the PRC, which accounted for 77.6% of the region's new corporate debt during Q1 2020.

The PRC continued to account for nearly 65% of the region's aggregate bond sales in Q1 2020, up from about 59% of the total in the previous quarter. The total issuance volume reached USD1,075.1 billion as q-o-q growth rebounded to 31.2% q-o-q after declining 17.2% q-o-q in Q4 2019. Government bonds buoyed growth, particularly local government bonds as the State Council pushed for an acceleration in the issuance and use of local government special bonds to support key projects. A bond quota of CNY1.8 trillion was announced by the Ministry of Finance in February, and about CNY1.6 trillion had been tapped by local governments at the end of March. The corporate bond segment also contributed to the overall growth in issuance but to a lesser extent. New corporate debt issued during the quarter climbed 10.7% q-o-q following the government's relaxation of rules for issuing bonds through a registration-based application with the China Securities Regulatory Commission, as well as an increase in short-term instruments amid falling interest rates. On a y-o-y basis, overall bond issuance climbed 30.6% in Q1 2020, up from 11.1% in the previous quarter.

In the Republic of Korea, new bond sales totaled USD197.4 billion in Q1 2020, up 6.1% from Q4 2019. Overall growth was capped by a decline in issuance of corporate bonds during the quarter. Government bond issuance rose 45.4% q-o-q, a turnaround from a decline of 9.0% q-o-q in Q4 2019, buoyed by strong issuance of Treasury securities. The government continued to adopt a frontloading issuance policy, aiming to sell more than half of its planned issuance for 2020 during the first half of the year to bolster the economy. The passage of the supplemental budget, which will be largely extended for COVID-19 stimulus programs and social aid, also warranted an increase in government borrowing. Central bank issuance edged higher on growth of 10.7% q-o-q. In contrast, issuance of corporate bonds dropped 11.1% q-o-q due to tight credit conditions, particularly in March. Some corporates in the Republic of Korea failed to meet their targeted bond issuance amounts amid a tight credit environment as investors sought higher rates to compensate for the economic uncertainty brought about by the COVID-19 pandemic. On an annual basis, the Republic of Korea's bond issuance surged 30.0% in Q1 2020.

LCY bond issuance in Hong Kong, China totaled USD135.6 billion in Q1 2020 on a 5.0% q-o-q expansion during the quarter. Government bonds, which account for nearly 80% of total issuance, dragged down overall issuance growth during the quarter. Total government bond issuance reached USD108.0 billion, down 1.8% q-o-q on lower sales of Exchange Fund Bills, Exchange Fund Notes, and Hong Kong Special Administrative Region bonds. Corporate bond sales were more active on growth of 44.3% q-o-q in Q1 2020 after a contraction of 18.9% q-o-q in the preceding quarter. On a y-o-y basis, LCY bond issuance in Hong Kong, China was down 1.4% in Q1 2020.

Aggregate bond issuance among ASEAN member economies reached USD263.4 billion in Q1 2020, representing a 15.8% share of the regional total. The q-o-q growth, while marginal at 0.8% in Q1 2020, was an improvement from a decline of 0.3% in the previous quarter. On a y-o-y basis, however, ASEAN economies' issuance total moderated to 3.0% from 24.3% in the same period.

The Philippines posted the fastest q-o-q growth in the region as its issuance more than doubled in Q1 2020. On a q-o-q basis, LCY bond issuance in Indonesia, Malaysia, and Thailand picked up in Q1 2020 after contracting in the prior quarter. On the other hand, q-o-q bond sales in Singapore moderated in Q1 2020 and contracted in Viet Nam. In terms of total issuance amounts, the most active markets in the ASEAN space in Q1 2020 were Singapore, Thailand, and Malaysia.

Total bonds sales in Singapore reached USD125.0 billion in Q1 2020, with overall q-o-q growth moderating to 1.3% from 2.8% in the preceding quarter. Government bond issuance was capped by the decline in sales of Singapore Government Securities bills and bonds. Issuance of Monetary Authority of Singapore bills grew by a modest 3.2% q-o-q. Corporate bond issuance in Q1 2020 was more active, rising 44.9% over the previous quarter.

A number of firms tapped the debt market during the quarter, with a huge volume coming from state-owned firms and higher-rated corporates. On an annual basis, bond issuance slowed from 28.2% y-o-y growth in Q4 2019 to 17.5% y-o-y in Q1 2020.

In Thailand, overall LCY bond issuance rebounded, gaining 1.1% q-o-q to USD72.2 billion after a 2.1% q-o-q contraction in the previous quarter. The gains were driven solely by government bond issuance, which grew 3.7% q-o-q to USD62.1 billion as a result of a 5.2% q-o-q increase in the issuance of central bank bonds (from a decline of 3.3% q-o-q in the previous quarter), more than offsetting the 8.9% q-o-q decline in Treasury and other government bonds. Thai corporate bond issuance continued to be weak as the ongoing pandemic curtailed demand and companies shied away from taking on more debt. Corporate bond issuance in Thailand fell 12.5% q-o-q to USD10.2 billon after declining 7.5% q-o-q in Q4 2019. On an annual basis, issuance fell 12.2% y-o-y in Q1 2020.

In Malaysia, LCY bond issuance tallied USD21.4 billion in Q1 2020, rising 10.7% q-o-q after contracting 1.2% in Q4 2019. Government bond issuance rebounded 42.9% q-o-q as the government ramped up its issuance of Treasury instruments during the quarter to help fund the budget deficit amid falling global crude prices that acted as a drag on government revenues. Issuance by the central bank declined 16.4% q-o-q in Q1 2020 following a 41.9% q-o-q hike in Q4 2019. Corporate bond issuance became less active during the quarter, despite a low-interest-rate environment. Compared with Q1 2019, overall growth in issuance fell 10.1% in Q1 2020.

LCY bond issuance in Indonesia climbed to USD20.4 billion in Q1 2020 with growth rebounding to 13.7% q-o-q following a decline of 15.2% q-o-q in Q4 2019. Government bond issuance drove much of the growth as the government continued to adopt a frontloading policy as in past years. Aside from weekly auctions of Treasury bills and bonds, the government also issued through private placements of select issues of Treasury bonds and bookbuilding for retail *sukuk* (Islamic bonds) during the quarter. Central bank bills also rose by a marginal 0.3% q-o-q. Corporate bond issuance continued to slow down, as the volume of new issuance contracted 44.9% in Q1 2020 after declining 22.6% in Q4 2019. On a y-o-y basis, Indonesia's bond issuance was down 11.6% in Q1 2020.

LCY bond issuance in the Philippines surged 128.6% q-o-q in Q1 2020 to reach USD17.1 billion. The strong growth was largely driven by increased government bond issuance during the quarter. Amid flush liquidity in the market, the government took advantage and accepted a higher volume of bids during the weekly Treasury auctions. In addition, it also raised PHP310.8 billion from the sale of Retail Treasury Bonds in February. Corporate bond issuance also rose during the quarter but to a lesser extent. On an annual basis, LCY bond issuance growth quickened to 18.0% y-o-y from 0.1% y-o-y in the previous quarter.

In Viet Nam, LCY bond issuance fell sharply by 66.6% q-o-q to USD7.2 billion in Q1 2020. Government bond issuance fell 66.4% q-o-q as the volume of issuance for both Treasuries and central bank bills declined during the quarter. There was no issuance in Q1 2020 of either government-guaranteed bonds or corporate bonds. On a y-o-y basis, overall growth in issuance eased to 27.7% in Q1 2020.

Two corporate bonds with guarantees from the Credit Guarantee and Investment Facility were issued in Cambodia in April. The issuance also utilized the ASEAN+3 Multi-Currency Bond Issuance Framework. RMA (Cambodia) Plc., a retail and distribution company, sold a KHR80 billion 5-year bond. RMA (Cambodia) Plc.'s issuance marked the first Credit Guarantee and Investment Facility-guaranteed bond and the first issuance by a nonfinancial company in Cambodia. In the same month, Prasac Microfinance Institution Plc. raised KHR127.2 billion from the sale of a 3-year bond. To date, Prasac Microfinance's Plc. issuance is the largest corporate bond issue from Cambodia.

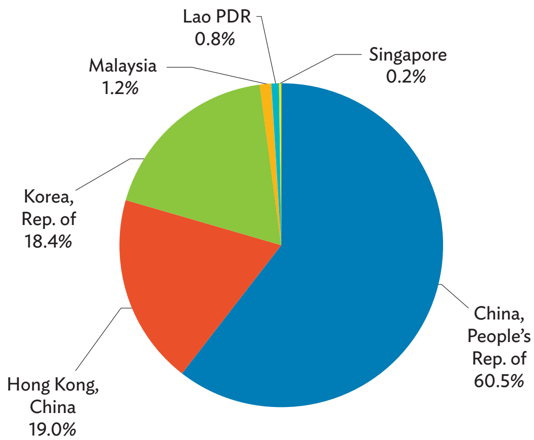
Cross-Border Bond Issuance

Cross-border bond issuance in emerging East Asia reached USD2.4 billion in Q1 2020.

Intraregional bond issuance in emerging East Asia reached USD2.4 billion in Q1 2020, a 12.5% q-o-q increase from USD2.2 billion in Q4 2019 but a 57.5% y-o-y

[7] For the discussion on cross-border issuance, emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Figure 4: Origin Economies of Intra-Emerging East Asian Bond Issuance in the First Quarter of 2020



Lao PDR = Lao People's Democratic Republic.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

decline from Q1 2019.[7] Institutions from six economies issued cross-border bonds in Q1 2020, led by the PRC; Hong Kong, China; and the Republic of Korea. The PRC continued to have the largest aggregate issuance volume at USD1.5 billion and a share of 60.5% (**Figure 4**). Hong Kong, China and the Republic of Korea registered shares of 19.0% and 18.4%, respectively. Other economies that issued cross-border bonds were Malaysia, the Lao People's Democratic Republic, and Singapore.

Intraregional bond issuances in the PRC rose 8.2% q-o-q to USD1.5 billion in Q1 2020. Nearly a third of the bond issuers in the region in Q1 2020 came from the PRC. The region's top two issuers in Q1 2020, who also had the two single-largest bond issuances during the quarter, were from the PRC. Bank of China and Bank of Communications issued USD516.0 million and USD361.3. million, respectively; both of these 2-year bonds were denominated in Hong Kong dollars. The remaining eight institutions from the PRC that issued cross-border bonds in Q1 2020 accounted for aggregate issuance of USD590.8 million. These bonds were denominated in Hong Kong dollars, Malaysian ringgit, and Singapore dollars.

Three institutions from Hong Kong, China issued CNY-denominated cross-border bonds in Q1 2020 totaling USD461.1 million on a 37.1% q-o-q increase from the previous quarter. Visari Investment Holding raised USD333.3 million worth of 5-year bonds, government-owned Hong Kong Mortgage Corporation issued USD126.4 million of 1-year bonds, and KGI International sold USD1.4 million of 2-year bonds.

In the Republic of Korea, cross-border bond issuances in Q1 2020 reached USD445.6 million, a 79.1% q-o-q increase from the previous quarter. The majority of these issuances came from state-owned institutions, led by Korea Development Bank, which raised the equivalent of USD269.8 million in various currencies: Indonesian rupiah (USD96.3 million), Thai baht (USD91.6 million), Hong Kong dollars (USD46.6 million), and Chinese yuan (USD35.3 million). Korea Resources, a mining company, had the single-largest issuance in the Republic of Korea during the quarter, raising USD64.5 million worth of HKD-denominated 5-year bonds. Other state-owned institutions that issued cross-border bonds were Export–Import Bank of Korea (USD41.3 million) and Korea National Oil (USD20.6 million). The only private firm was Kookmin Bank, which issued USD49.4 million worth of 2-year bonds denominated in Hong Kong dollars.

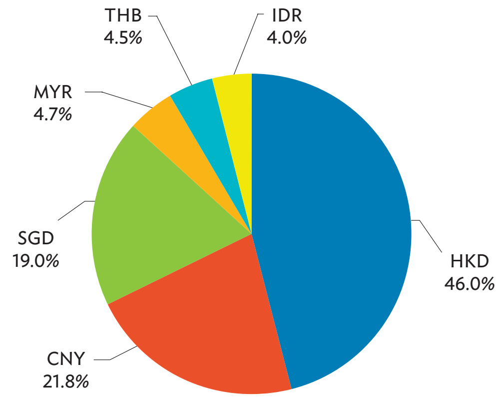
Malayan Banking was the sole issuer of cross-border bonds in Malaysia, raising USD28.2 million of CNY-denominated 5-year bonds. In the Lao People's Democratic Republic, Nam Ngum 2 Power, a hydroelectric power plant operator, raised USD18.3 million worth of THB-denominated bonds.

In Singapore, three institutions issued cross-border bonds with an aggregate volume of USD5.4 million: Credit Suisse (USD4.0 million), DBS Bank (USD1.3 million), and Nomura International Fund (USD0.1 million).

The top 10 issuers of cross-border bonds in the region had an aggregate volume of USD2.3 billion and accounted for 92.8% of the regional total. The list mainly comprised firms from the PRC, with six companies issuing the equivalent of USD1.5 billion denominated in Hong Kong dollars, Malaysian ringgit, and Singapore dollars. Two companies each were from Hong Kong, China (USD459.4 million) and the Republic of Korea (USD340.9 million). The top two issuers were again from the PRC: Bank of China and Bank of Communications.

The Hong Kong dollar remained the predominant currency of cross-border bonds in emerging East Asia in Q1 2020 with an aggregate issuance amount of USD1.1 billion and a share of 46.0% of the regional total (**Figure 5**). Firms that issued in this currency were

Figure 5: Currency Shares of Intra-Emerging East Asian Bond Issuance in the First Quarter of 2020



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

from the PRC, the Republic of Korea, and Singapore. The Chinese yuan was the second most widely used currency, totaling USD528.7 million and comprising a share of 21.8%. Other cross-border issuance currencies were the Singapore dollar (19.0%, USD460.6 million); Malaysian ringgit (4.7%, USD115.2 million); Thai baht (4.5%, USD109.9 million); and Indonesian rupiah (4.0%, USD96.3 million).

G3 Currency Bond Issuance

Total G3 currency bond issuance in emerging East Asia amounted to USD112.5 billion in January–April.

The value of G3 currency bonds issued in emerging East Asia from January to April totaled USD112.5 billion, a decrease of 3.9% y-o-y from USD117.1 billion in the same period in 2019 (**Table 4**).[8] The contraction was driven by lower G3 issuance in the PRC; Singapore; Thailand; and Hong Kong, China.

During the review period, 91.7% of all G3 currency bonds issued were denominated in US dollars, while 7.6% were in euros, and 0.7% were in Japanese yen. In January–April, a total of USD103.2 billion worth of bonds denominated in US dollars was issued in emerging East Asia, representing a decline of 5.0% y-o-y. The equivalent of USD8.5 billion of EUR-denominated bonds were issued during the review period, a surge of 49.9% y-o-y, as more economies issued such bonds. Bonds issued in Japanese yen totaled USD0.8 billion, a decline of 72.1% y-o-y from a high base as Malaysia had a significant issuance of samurai bonds in March 2019.

The PRC continued to dominate all economies in the issuance of G3 currency bonds, totaling USD64.6 billion during the January–April period and mainly supported by its issuance in US dollars. This was followed by Indonesia with USD13.8 billion and Malaysia with USD9.7 billion, both issuing mainly in US dollars as well.

In the first 4 months of 2020, G3 currency bond issuance increased on a y-o-y basis in Indonesia (117.5%), Malaysia (71.9%), the Philippines (20.9%), and the Republic of Korea (3.4%). Issuance of G3 currency bonds in January–April declined on a y-o-y basis in Hong Kong, China (–43.7%); Thailand (–21.3%); the PRC (–14.6%); and Singapore (–7.5%).

The PRC accounted for 57.4% of all G3 currency issuance in emerging East Asia in January–April, issuing USD62.3 billion in US dollars and the equivalent of USD2.2 billion in euros. In January, real estate developer Scenery Journey issued USD-denominated callable bonds in two tranches worth USD2.0 billion each and with tenors of 3 years and 4 years and coupon rates of 11.5% and 12.0%, respectively. Proceeds from the bonds will be used to refinance existing obligations and for general corporate purposes. Bank of China issued a USD2.8 billion perpetual callable bond with a 3.6% coupon rate. This came after the PRC's central bank encouraged banks at the start of last year to replenish their capital through perpetual bond issuances. It also relaxed rules to allow perpetual bonds as qualified collateral for various lending facilities.

The Republic of Korea accounted for an 8.6% share of all G3 currency bonds issued during the review period: USD7.1 billion in US dollars and the equivalent of USD2.5 billion in euros. The Export–Import Bank of Korea issued six USD-denominated bonds totaling USD1.1 billion with tenors ranging from 2 years to 5 years and carrying various coupon rates. It also had a dual-tranche offering with a USD0.7 billion 3-year

[8] G3 currency bonds are denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2019			January–April 2020		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
China, People's Rep. of	**225.2**		**China, People's Rep. of**	**64.6**	
Tencent Holdings 3.975% 2029	3.0	11-Apr-19	Bank of China 3.6% Perpetual	2.8	4-Mar-20
People's Republic of China (Sovereign) 0.125% 2026	2.2	12-Nov-19	Scenery Journey 11.5% 2022	2.0	24-Jan-20
People's Republic of China (Sovereign) 1.950% 2024	2.0	3-Dec-19	Scenery Journey 12.0% 2023	2.0	24-Jan-20
Others	218.0		Others	57.7	
Hong Kong, China	**31.9**		**Hong Kong, China**	**6.8**	
Celestial Miles 5.75% Perpetual	1.0	31-Jan-19	AIA Group 3.375% 2030	1.0	7-Apr-20
Hong Kong, China (Sovereign) 2.50% 2024	1.0	28-May-19	Elect Global Investments 4.100% Perpetual	0.9	3-Mar-20
AIA Group 3.60% 2029	1.0	9-Apr-19	Sino Pharmaceutical 0.000% 2025	0.8	17-Feb-20
Others	28.9		Others	4.1	
Indonesia	**22.4**		**Indonesia**	**13.8**	
Perusahaan Penerbit SBSN Sukuk 4.45% 2029	1.3	20-Feb-19	Indonesia (Sovereign) 3.85% 2030	1.7	15-Apr-20
Indonesia (Sovereign) 1.40% 2031	1.1	30-Oct-19	Indonesia (Sovereign) 4.20% 2050	1.7	15-Apr-20
Indonesia (Sovereign) 3.70% 2049	1.0	30-Oct-19	Indonesia (Sovereign) 2.85% 2030	1.2	14-Jan-20
Others	19.0		Others	9.3	
Korea, Rep. of	**29.4**		**Korea, Rep. of**	**9.6**	
Republic of Korea (Sovereign) 2.500% 2029	1.0	19-Jun-19	Korea Housing Finance 0.01000% 2025	1.1	5-Feb-20
Export–Import Bank of Korea 0.375% 2024	0.8	26-Mar-19	Export–Import Bank of Korea 0.82900% 2025	0.8	27-Apr-20
LG Display 1.500% 2024	0.7	22-Aug-19	Korea Development Bank 2.04175% 2023	0.8	18-Feb-20
Others	26.8		Others	7.0	
Lao People's Democratic Republic	**0.2**		**Lao People's Democratic Republic**	**0.0**	
Malaysia	**13.7**		**Malaysia**	**9.7**	
Malaysia (Sovereign) 0.530% 2029	1.8	15-Mar-19	Petronas Capital 4.55% 2050	2.8	21-Apr-20
Resorts World Las Vegas 4.625% 2029	1.0	16-Apr-19	Petronas Capital 3.50% 2030	2.3	21-Apr-20
Others	10.9		Others	4.7	
Philippines	**6.7**		**Philippines**	**2.9**	
Philippines (Sovereign) 3.750% 2029	1.5	14-Jan-19	Philippines (Sovereign) 0.7% 2029	0.7	3-Feb-20
Philippines (Sovereign) 0.875% 2027	0.8	17-May-19	Philippines (Sovereign) 0.0% 2023	0.7	3-Feb-20
Others	4.4		Others	1.6	
Singapore	**9.7**		**Singapore**	**4.3**	
DBS Group 2.85% 2022	0.8	16-Apr-19	DBS Group Holdings 3.30% Perpetual	1.0	27-Feb-20
BOC Aviation 3.50% 2024	0.8	10-Apr-19	BOC Aviation 3.25% 2025	1.0	29-Apr-20
Others	8.2		Others	2.3	
Thailand	**6.4**		**Thailand**	**0.8**	
Bangkok Bank/Hong Kong 3.733% 2034	1.2	25-Sep-19	PTTEP Treasury 2.993% 2030	0.4	15-Jan-20
Kasikornbank 3.343% 2031	0.8	2-Oct-19	TMB Bank 0.250% 2021	0.2	24-Mar-20
Others	4.4		Others	0.2	
Viet Nam	**1.0**		**Viet Nam**	**0.0**	
Emerging East Asia Total	**346.4**		**Emerging East Asia Total**	**112.5**	
Memo Items:			**Memo Items:**		
India	**21.9**		**India**	**8.4**	
Indian Oil Corporation 4.75% 2024	0.9	16-Jan-19	Adani Electricity 3.949% 2030	**1.0**	12-Feb-20
Others	21.0		Others	7.4	
Sri Lanka	**4.9**		**Sri Lanka**	**0.1**	
Sri Lanka (Sovereign) 7.55% 2030	1.5	28-Jun-19	Sri Lanka (Sovereign) 5.93% 2021	0.02	22-Jan-20
Others	3.4		Others	**0.1**	

USD = United States dollar.
Notes:
1. Data exclude certificates of deposits.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Bloomberg LP end-of-period rates are used.
4. Emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
5. Figures after the issuer name reflect the coupon rate and year of maturity of the bond.

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

USD-denominated bond and a USD0.8 billion 5-year EUR-denominated green bond. Proceeds from the USD-denominated tranche will be used for general funding purposes, while those from the EUR-denominated bond will be utilized for extending loans to green projects. Korea Development Bank issued eight USD-denominated bonds totaling USD2.2 billion with tenors of 3–6 years and varying coupon rates.

Hong Kong, China accounted for a 6.0% share of G3 currency bond issuance in January–April. By currency, USD5.7 billion was issued in US dollars, and EUR-denominated and JPY-denominated bonds amounted to USD0.9 billion and USD0.2 billion, respectively. Financial services company AIA Group issued USD1.0 billion of 10-year callable USD-denominated bonds with a coupon rate of 3.375%. Under its global medium-term note and securities program, proceeds from the issuance will be used for general corporate purposes. Elect Global Investments also sold bonds in US dollars: a USD0.9 billion perpetual callable bond with a 4.1% coupon rate.

G3 currency bond issuance among ASEAN member economies increased 57.0% y-o-y to USD31.5 billion in January–April from USD20.1 billion in the same period in 2019 as Indonesia, Malaysia, and the Philippines ramped up issuance during the period. As a share of emerging East Asia's total, ASEAN's G3 currency bond issuance accounted for 28.0% during the review period, up from 17.1% during the same period in 2019. Indonesia and Malaysia led all ASEAN members in terms of G3 currency bond issuance, followed by Singapore, the Philippines, and Thailand, with issuances amounting to USD4.3 billion, USD2.9 billion, and USD0.8 billion, respectively.

Indonesia's G3 currency bond issuance in January–April accounted for 12.3% of the total in emerging East Asia, comprising USD12.7 billion in US dollars and the equivalent of USD1.1 billion in euros. In January, the Government of Indonesia issued USD3.1 billion worth of dual-currency bonds in three tranches, two of which were in US dollars (10-year and 30-year tenors) and one in euros (7-year tenor). Taking advantage of stable market conditions and positive investor sentiment, proceeds from the issuance will be used for general budgetary purposes. In April, the Government of Indonesia sold the first global bond in response to the COVID-19 pandemic. Proceeds from the issuance will be used to finance the government's measures to fight the impact of the pandemic. The issuance totaled USD4.3 billion in USD-denominated bonds with three tranches in tenors of 10.5 years, 30.5 years, and 50 years. State-owned oil and natural gas corporation Pertamina issued two dual-tranche USD-denominated callable bonds totaling USD3.0 billion, with tenors ranging from 10 years to 40 years, to refinance capital expenditures and for general corporate purposes. Proceeds from the 11-year and 40-year tenors will also be used to fund a tender offer to buy back the state-owned firm's senior notes due in May 2021 and extend the company's debt maturity profile.

G3 currency bonds issued in Malaysia accounted for 8.6% of emerging East Asia's total, including USD-denominated bonds worth USD9.1 billion and JPY-denominated bonds worth USD0.6 billion. State-owned oil company Petronas Capital raised USD6.0 billion through three tranches of USD-denominated callable bonds. The tranches have tenors of 10 years, 30 years, and 40 years, and coupon rates of 3.5%, 4.55%, and 4.8%, respectively. Proceeds from the issuance will be used for general corporate purposes. In February, Maybank issued three USD-denominated bonds with tenors of 2 years, 3 years, and 40 years totaling USD0.5 billion. The 40-year tenor was a zero-coupon callable bond. During the same month, Maybank also sold samurai bonds in three tranches of 10-year, 30-year, and 40-year tenors to expand its investor base.

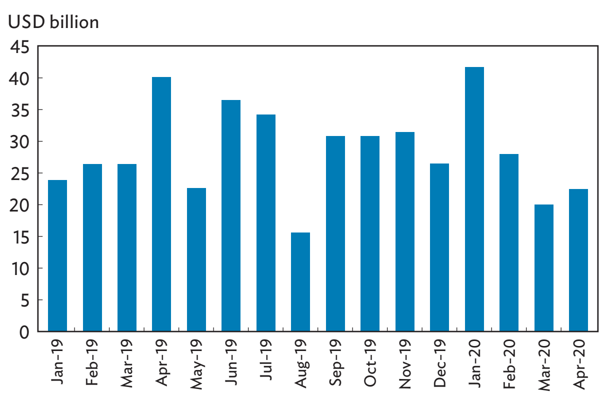
Singapore's share of G3 currency bond issuance in emerging East Asia was 3.8% in January–April, comprising USD4.2 billion in US dollars and the equivalent of USD0.1 billion in euros. Global aircraft operating company BOC Aviation expanded its USD-denominated bonds with two 5-year callable bonds totaling USD1.4 billion and with coupon rates of 2.625% and 3.25%. Proceeds from both issuances will be used for new capital expenditure, general corporate purposes, and debt financing. DBS Group Holdings raised USD1.0 billion through issuance of a perpetual callable bond with a coupon rate of 3.3%.

The Philippines accounted for a 2.6% share of total G3 currency bonds issued in emerging East Asia during the January–April period, comprising bonds denominated in US dollars and euros amounting to USD1.6 billion and USD1.3 billion, respectively. In February, the Government of the Philippines issued two tranches of EUR-denominated bonds worth USD1.3 billion and with tenors of 3 years and 9 years and coupon rates of 0.0% and 0.7%, respectively. The issuance diversifies the government's funding sources. SMC Global Power issued a USD-denominated callable perpetual bond worth USD0.6 billion with a coupon rate of 5.7%. Proceeds from the issuance will be used for the development of battery energy storage projects and for general corporate purposes.

During the January–April period, 0.7% of all G3 currency bonds issued in the region were from Thailand, comprising USD0.5 billion worth of bonds denominated in euros and USD0.4 billion in US dollars. TMP Bank issued two EUR-denominated 1-year bonds totaling USD0.5 billion with a 0.25% coupon each. Oil and gas producer PTTEP sold USD0.4 billion of 10-year callable bonds denominated in US dollars. Proceeds will be used for general corporate purposes.

Monthly G3 currency issuance trends from January to April 2020 reversed those observed from January to April 2019 (**Figure 6**). Declining G3 issuances in January–April 2020 from the PRC; Hong Kong, China; Indonesia; and the Philippines weighed on the regional trend. The downtrend reflected weak global conditions amid uncertainties caused by the COVID-19 pandemic.

Figure 6: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.
Notes:
1. Emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Figures were computed based on 30 April 2020 currency exchange rates and do not include currency effects.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Government Bond Yield Curves

Government bond yields in emerging East Asia fell at the shorter-end of the curve for nearly all markets as governments sought to mitigate the economic impact of COVID-19, while in a number of markets yields rose at the longer-end over rising risk aversion and the potential deterioration of government finances.

Between 28 February and 29 May, the ongoing impact of COVID-19 and efforts to minimize the spread led to a deterioration in economic growth across the region, with most economies contracting. To manage the economic impact and calm financial markets, regional economies have eased both monetary and fiscal policy.

Among advanced economies, the United States (US) Federal Reserve was the most aggressive, implementing a cut of 50 basis points (bps) on 3 March ahead of its scheduled 17–18 March meeting. An additional 100-bps cut was announced on 15 March. Other measures were initiated by the government and the Federal Reserve, including a US Treasury-bond-buying program of at least USD500 billion and measures to ease the financing strain on corporates and households.

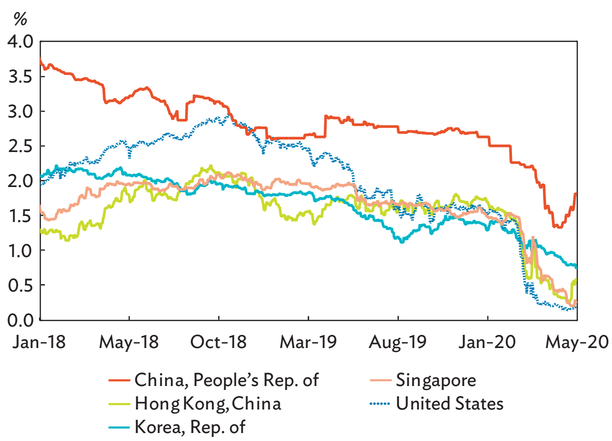
In the euro area, the European Central Bank did not adjust its policy rates, but it announced a EUR120 billion asset purchase program on 18 March. It also launched the EUR750 billion Pandemic Emergency Purchase Programme on 18 March that is scheduled to run for the duration of 2020. Subsequently, on 4 June, the ECB increased the volume of purchases under the program to EUR1,350 billion.

In Japan, the Bank of Japan (BOJ) likewise did not adjust policy rates but instead engaged in additional asset purchases. On 16 March, the BOJ increased its purchase of (i) corporate bonds and commercial paper by JPY2.0 trillion, (ii) exchange-traded funds by JPY6.0 trillion, and (iii) Japan real-estate investment trusts by JPY90 billion. On 27 April, the BOJ more than doubled its purchase of corporate bonds and commercial paper to JPY20 trillion and removed existing limits on the purchase of 10-year government bonds.

The economic impacts of COVID-19 and efforts to mitigate these effects have not been limited to advanced economies; emerging East Asian economies have also pursued a number of policy measures. As the pandemic's impact has been global, yield movements in most economies have moved similarly. In particular, 2-year yields in emerging East Asia have moved largely in tandem with and in response to US yield movements, declining steadily over the period in review (**Figure 7a**). Spikes were noted in March, coinciding with aggressive US stimulus measures and a sharp decline in oil prices. This largely increased uncertainty, raising investor risk aversion and highlighting concerns that stimulus measures could result in worsening fiscal deficits. However, after March, yield movements largely trended downward. The region's exception to this trend was Indonesia, with its 2-year yield rising between 28 February and 29 May (**Figure 7b**). Bank Indonesia has generally not been as aggressive in easing monetary policy as its regional peers.

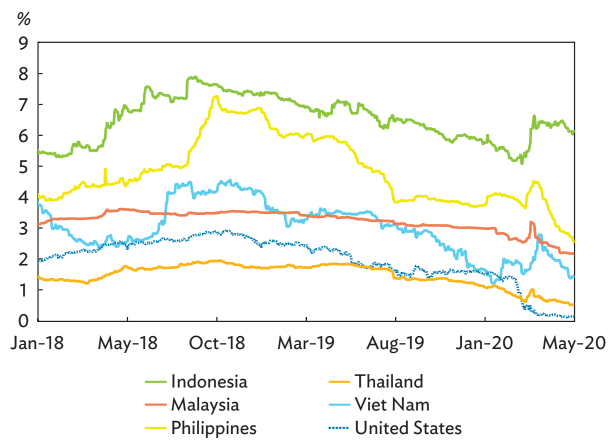
The 10-year yield movements in emerging East Asia also trended downward during the review period, but the March spike in 10-year yields was even more pronounced across the region. In addition, while 10-year yields trended downward after March, in some markets—such as the Republic of Korea, Thailand, and Viet Nam—they remained elevated (**Figure 8a** and **Figure 8b**). Similar to its

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



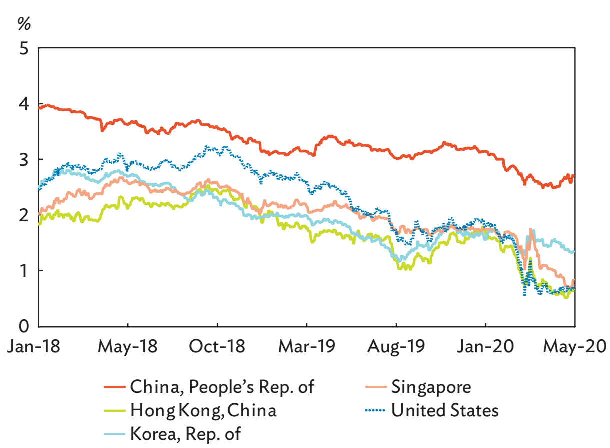
Note: Data as of 29 May 2020.
Source: Based on data from Bloomberg LP.

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



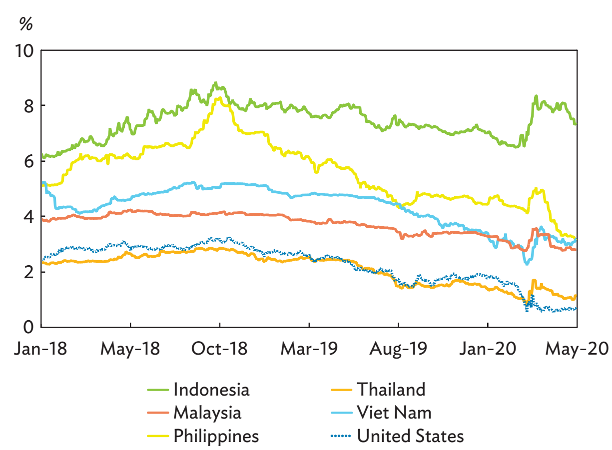
Note: Data as of 29 May 2020.
Source: Based on data from Bloomberg LP.

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



Note: Data as of 29 May 2020.
Source: Based on data from Bloomberg LP.

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



Note: Data as of 29 May 2020.
Source: Based on data from Bloomberg LP.

2-year yield movement, Indonesia's 10-year yield trended upward during the review period.

Many of the region's benchmark yield curves moved similarly to one another during the review period (**Figure 9**). The entire yield curve shifted downward between 28 February and 29 May in the Philippines; Singapore; and Hong Kong, China, while in the PRC, only the 30-year tenor rose. Yields fell at the shorter-end of the curve but rose for longer tenors in the Republic of Korea, Malaysia, Thailand, and Viet Nam. In Indonesia, the yield curve rose for all tenors.

Aggressive policy rate reductions and rising risk aversion at the longer-end of the yield curve led to a widening in the 2-year versus 10-year yield spread in all emerging East Asian markets except Indonesia (**Figure 10**).

With demand falling as a result of the effects of COVID-19, inflation declined in all markets in emerging East Asia (**Figure 11a** and **Figure 11b**). The Republic of Korea slipped into deflation with consumer prices declining 0.3% y-o-y in May after 0.1% y-o-y growth in April. In Malaysia, inflation came in below zero in March at –0.2% y-o-y and fell further to –2.9% y-o-y in April. Other markets which posited deflation in consumer prices were Singapore (–0.7%) in April and Thailand (–3.0%) in May.

Weak demand and subdued inflation have largely been supportive of emerging East Asian central banks' easing measures. More worrisome has been the economic impact of COVID-19, which was exacerbated by community quarantine measures implemented to reduce transmission. These measures have affected consumer sentiment and led to reductions in consumer demand and pending investment, and impacted supply chains and production.

In emerging East Asia, only four markets showed positive y-o-y GDP growth in Q1 2020: Indonesia, the Republic of Korea, Malaysia, and Viet Nam. And in these markets, economic growth slowed notably. In Indonesia, GDP growth eased to 3.0% y-o-y in Q1 2020 from 5.0% y-o-y in Q4 2019. The Republic of Korea's GDP growth slowed to 1.4% y-o-y in Q1 2020 from 2.3% y-o-y in the previous quarter. In Malaysia, GDP growth slowed to 0.7% y-o-y in Q1 2020 from 3.6% y-o-y in Q4 2019. In Viet Nam, GDP growth moderated to 3.8% y-o-y in Q1 2020 from 7.0% y-o-y in Q4 2019. The economies that showed the largest contractions in GDP during Q1 2020 were Hong Kong, China (–8.9% y-o-y) and the PRC (–6.8% y-o-y). Thailand also saw a contraction in GDP of –1.8% y-o-y in Q1 2020. The smallest declines in GDP were seen in the Philippines and Singapore, where GDP contracted 0.2% y-o-y and 0.7% y-o-y, respectively, in Q1 2020.

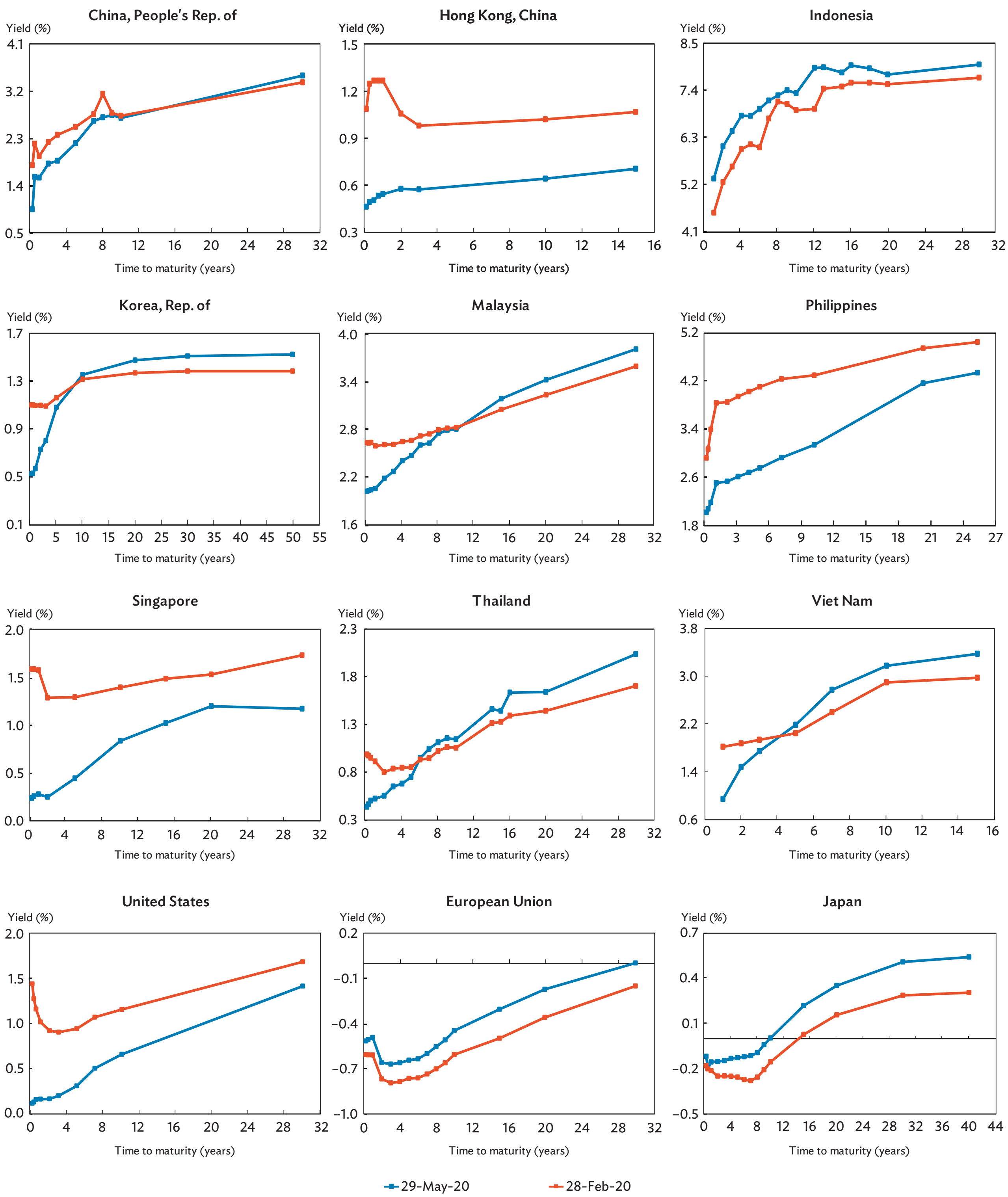
The pandemic's impact also led to a downgrade in the ratings outlook for a number of markets. In April, S&P Global downgraded the outlook of Indonesia to negative from stable and of Thailand to stable from positive. Also in April, Fitch Ratings downgraded the outlook of Malaysia to negative from stable and of Viet Nam to stable from positive, while in May its outlook for the Philippines was revised downward to stable from positive. In June, S&P Global downgraded the outlook of Japan to stable from positive.

Central banks in the region have been forced to ease monetary policy to help boost economic output and reduce financial market volatility. For example, the People's Bank of China (PBOC) reduced a number of key interest rates to lower borrowing costs and prime the economy. On 29 March, the PBOC reduced its 7-day repurchase rate by 20 bps to 2.20%, and it lowered the rate it charges on its medium-term lending facility by 20 bps to 2.95% on 15 April. On 19 April, the PBOC reduced the rate on the 1-year loan prime rate by 20 bps to 3.85%.

Among central banks in the region, the Bangko Sentral ng Pilipinas has been among the most active in taking aggressive action, with a year-to-date cumulative reduction in the policy rate of 125 bps (**Figure 12a**). The Bangko Sentral ng Pilipinas reduced its policy rate by 25 bps on 6 February; 50 bps on 19 March; and engaged in another 50 bps reduction on 16 April, bringing the overnight reverse repurchase facility rate to 2.75%.

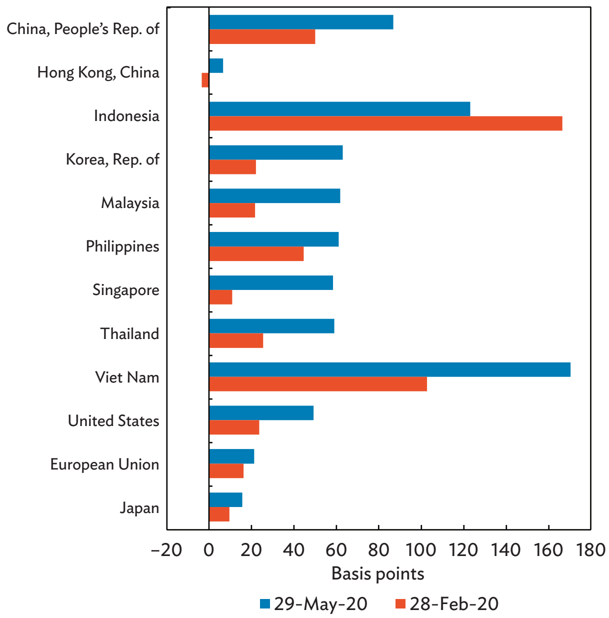
In the Republic of Korea, the Bank of Korea reduced by 25 bps its policy rate on 25 May, after leaving rates unchanged during its 9 April meeting, due to economic weakness and declining inflation. Bank Negara Malaysia has implemented a cumulative reduction in its key policy rate of 100 bps in response to the economic downturn. Bank Negara Malaysia implemented a 25-bps cut to its overnight policy rate on 22 January and again on 3 March. This was followed by a 50-bps cut on 5 May, lowering the rate to 2.0%.

Figure 9: Benchmark Yield Curves—Local Currency Government Bonds



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

Figure 10: Yield Spreads between 2-Year and 10-Year Government Bonds

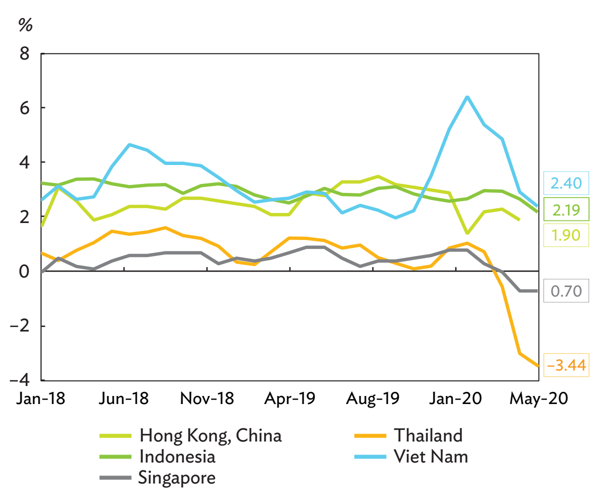


Source: Based on data from Bloomberg LP.

In Thailand, the central bank reduced its policy rate by 25 bps on 5 February and another 25 bps in a special meeting on 20 March, which was earlier than its originally scheduled meeting on 25 March. The Bank of Thailand again reduced its policy rate by an additional 25 bps on 20 May.

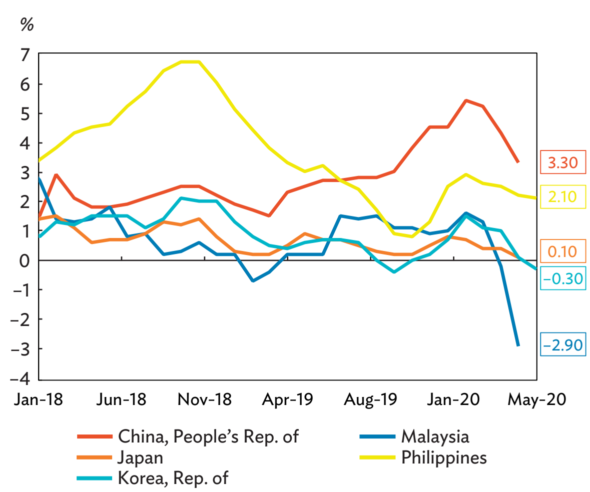
Indonesia was the only market in the region that experienced a consistent rise in yields over the review period. This was largely due to the central bank's relatively tamer policy rate reductions compared to others in the region. Bank Indonesia reduced its policy rate by 25 bps on 20 February and by another 25 bps on 19 March, but it has largely left policy rates unchanged since then (**Figure 12b**). On the other hand, the State Bank of Vietnam was the most aggressive central bank in the region in terms of rate reductions with a cumulative reduction of 150 bps through the end of May, reducing its policy rate by 100 bps on 16 March and by another 50 bps on 13 May.

Figure 11a: Headline Inflation Rates



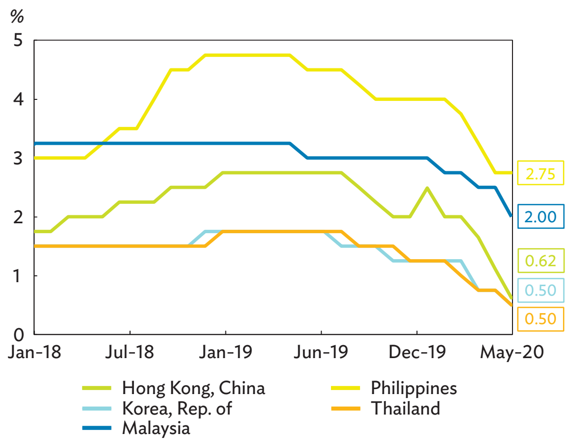
Note: Data as of May 2020 except for Hong Kong, China (April 2020).
Source: Based on data from Bloomberg LP.

Figure 11b: Headline Inflation Rates



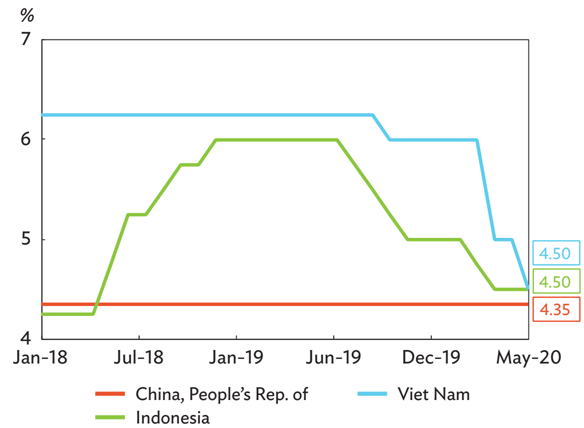
Note: Data as of May 2020 except for the People's Republic of China, Japan, and Malaysia (April 2020).
Source: Based on data from Bloomberg LP.

Figure 12a: Policy Rates



Note: Data as of 29 May 2020.
Source: Based on data from Bloomberg LP.

Figure 12b: Policy Rates



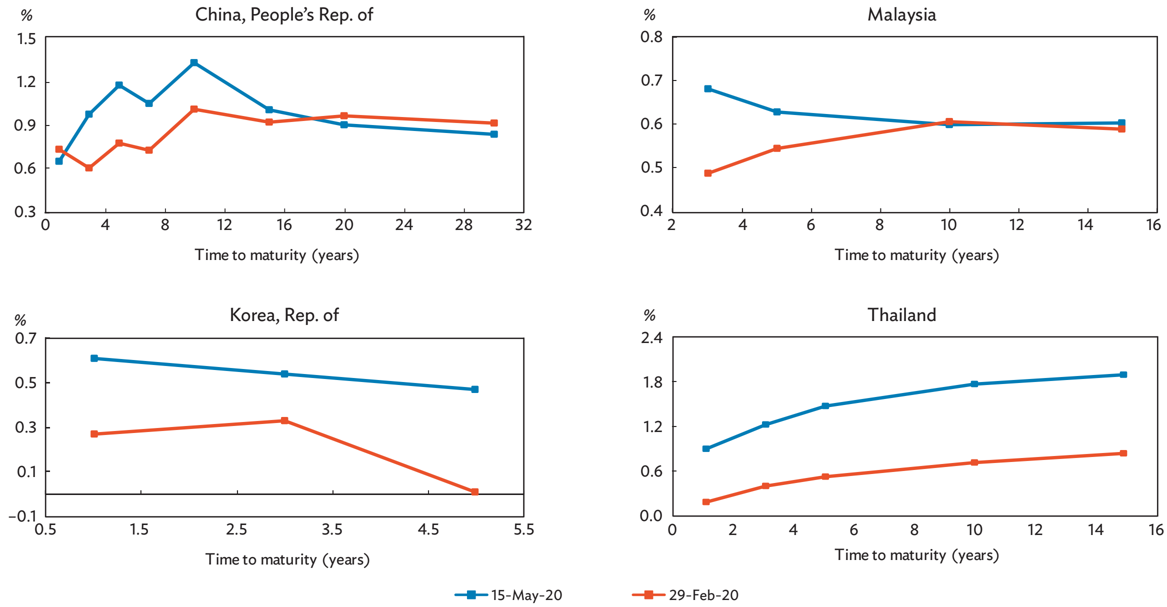
Note: Data as of 29 May 2020.
Source: Based on data from Bloomberg LP.

The AAA-rated corporate versus government yield spread widened in all markets on rising risk aversion that resulted in a flight to safety for most investors.

The AAA-rated corporate versus government yield spread widened between 28 February and 15 May in all markets for which data are available (**Figure 13a**). This was largely the result of a flight to safety by investors as the economic impact of COVID-19 led to repayment concerns.

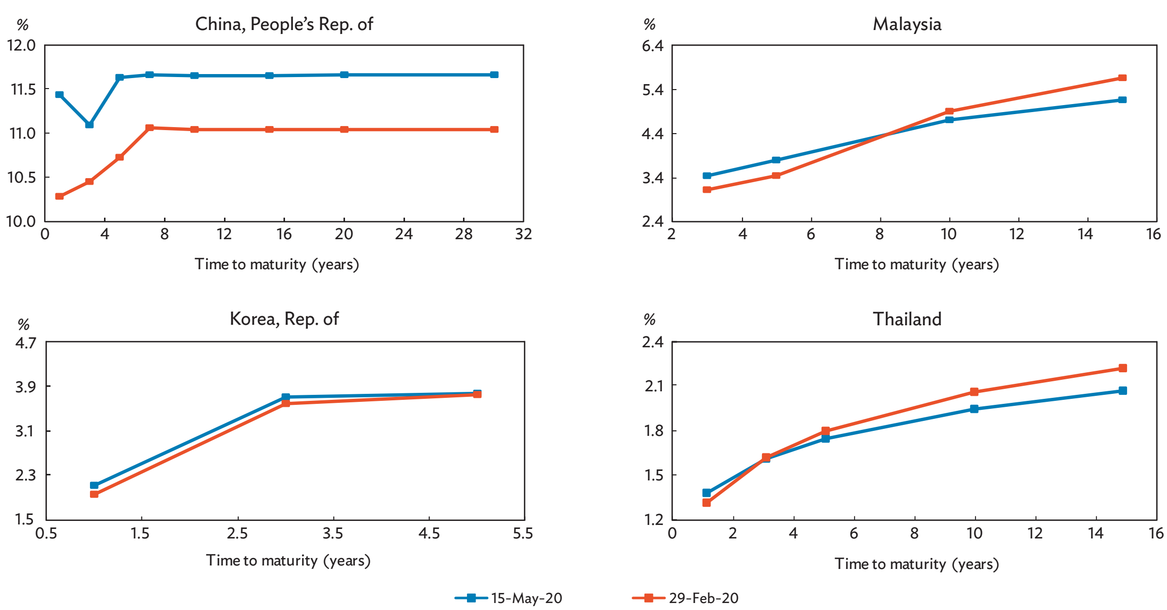
For lower-rated credit spreads, movements were mixed. The spread between lower-rated and AAA-rated corporate bonds widened in the PRC and the Republic of Korea for all tenors, but only rose at the shorter-end of the curve in Malaysia and Thailand (**Figure 13b**).

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



Notes:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For Malaysia, data on corporate bonds yields are as of 29 February 2020 and 14 May 2020.
Sources: People's Republic of China (Bloomberg LP), Republic of Korea (*EDAILY BondWeb*), Malaysia (Bank Negara Malaysia), and Thailand (Bloomberg LP).

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



Notes:
1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, data on corporate bonds yields are as of 29 February 2020 and 14 May 2020.
Sources: People's Republic of China (Bloomberg LP), Republic of Korea (*EDAILY BondWeb*), Malaysia (Bank Negara Malaysia), and Thailand (Bloomberg LP).