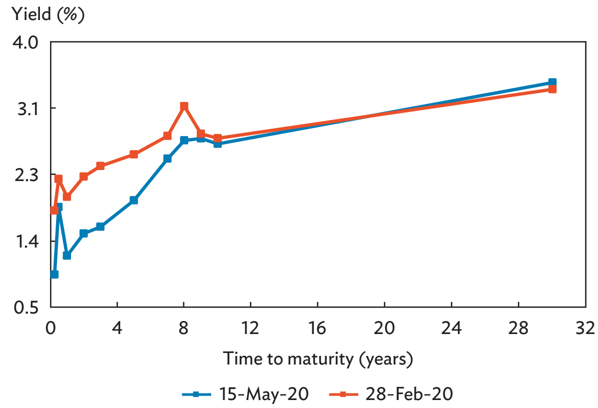
Market Summaries

People's Republic of China

Yield Movements

The People's Republic of China's (PRC) yield curve for local currency (LCY) bonds steepened between 28 February and 15 May, driven by a much larger decrease in yields at the shorter-end of the curve (**Figure 1**). Yields fell by an average of 70 basis points (bps) for tenors of 3 years or less. For tenors between 5 years and 10 years, yields fell an average of 29 bps. The yield for the 30-year tenor rose 9 bps. As a result, the 2-year versus 10-year yield spread rose from 50 bps to 117 bps during the review period.

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



Source: Based on data from Bloomberg LP.

Yields in the PRC fell largely over the ongoing economic impact of the coronavirus disease (COVID-19), which has curtailed both consumer demand and manufacturing supply. In addition, the global impact of COVID-19 has negatively affected PRC exports. This led to the PRC's gross domestic product declining 6.8% year-on-year (y-o-y) in the first quarter (Q1) of 2020 after 6.0% y-o-y growth in the previous quarter. Exports in March also declined, falling 6.6% y-o-y. April exports staged a rebound, rising 3.5% y-o-y. However, the rise in exports was largely the result of production backlogs from previous orders that were not completed when quarantine measures were implemented. Inflation also softened, with the inflation rate coming in at 3.3% y-o-y in April versus 4.3% y-o-y in March.

As a result of the economic contraction, the PRC was forced to implement further monetary easing. On 29 March, the People's Bank of China (PBOC) reduced the 7-day repurchase rate by 20 bps to 2.20%. The PBOC also reduced the rate it charges on its medium-term lending facility by 20 bps to 2.95% on 15 April. On 19 April, it also reduced the rate on the 1-year loan prime rate by 20 bps to 3.85%.

Size and Composition

The PRC's outstanding LCY bonds climbed 4.9% quarter-on-quarter (q-o-q) in Q1 2020, after gaining 2.8% q-o-q in the fourth quarter (Q4) of 2019, to reach CNY88.3 trillion (USD12.4 trillion). LCY bonds grew 16.1% y-o-y in Q1 2020 (**Table 1**).

Government bonds. The growth of government bonds outstanding in the PRC accelerated to 3.5% q-o-q in Q1 2020 after growth of 2.0% in the previous quarter. Growth was driven by an increase in local government bond issuance, which surged more than eightfold on a q-o-q basis to CNY1.6 trillion in Q1 2020, leading to a 6.6% q-o-q increase in local government bonds outstanding. The increase in issuance was driven both by a low base effect, as local governments had completed their bond issuance quotas before Q4 2019, and by the granting of the 2020 bond issuance quota totaling CNY1.8 trillion. Specifically, the State Council issued a directive on 17 March to accelerate bond issuance and the use of proceeds. Treasury bonds and other government bonds fell 0.9% q-o-q in Q1 2020, while policy bank bonds grew 1.8% q-o-q in the same period.

Corporate bonds. Growth in the PRC's corporate bond market accelerated in Q1 2020 to 7.3% q-o-q from 4.1% q-o-q in Q4 2019. The rise in corporate bonds was helped in part by regulations issued in March simplifying

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**76,012**	**11,325**	**84,185**	**12,090**	**88,270**	**12,464**	**3.0**	**16.7**	**4.9**	**16.1**
Government	49,061	7,309	53,986	7,753	55,852	7,886	2.5	16.1	3.5	13.8
Treasury Bonds and Other Government Bonds	14,882	2,217	16,698	2,398	16,850	2,379	(0.3)	10.6	0.9	13.2
Central Bank Bonds	2	0	22	3	19	3	–	–	(15.9)	1,133.3
Policy Bank Bonds	14,776	2,201	15,695	2,254	15,985	2,257	1.8	8.6	1.8	8.2
Local Government Bonds	19,401	2,890	21,571	3,098	22,999	3,247	5.2	27.6	6.6	18.5
Corporate	26,951	4,015	30,199	4,337	32,418	4,577	4.1	17.8	7.3	20.3
Policy Bank Bonds										
China Development Bank	8,328	1,241	8,704	1,250	8,875	1,253	2.2	10.0	2.0	6.6
Export–Import Bank of China	2,444	364	2,735	393	2,858	404	1.9	4.9	4.5	17.0
Agricultural Devt. Bank of China	4,005	597	4,256	611	4,252	600	0.8	8.2	(0.1)	6.2

( ) = negative, – = not applicable, CNY = Chinese yuan, 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 local currency–USD rates are used.
4. Growth rates are calculated from local currency base and do not include currency effects.
Sources: CEIC and Bloomberg LP.

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q1 2019		Q1 2020	
	Q1 2019	Q4 2019	Q1 2020	q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	4,744	5,832	6,364	1.0	28.7	9.1	34.2
Enterprise Bonds	3,872	3,793	3,707	1.0	(11.7)	(2.3)	(4.3)
Listed Corporate Bonds	6,608	7,724	8,328	1.0	21.5	7.8	26.0
Commercial Paper	2,240	1,994	2,671	1.1	26.9	34.0	19.2
Medium-Term Notes	5,813	6,333	6,829	1.1	19.4	7.8	17.5
Asset-Backed Securities	1,728	2,416	2,388	1.0	72.4	(1.2)	38.2

( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, y-o-y = year-on-year.
Source: CEIC.

the issuance process for listed corporate bonds and enterprise bonds.

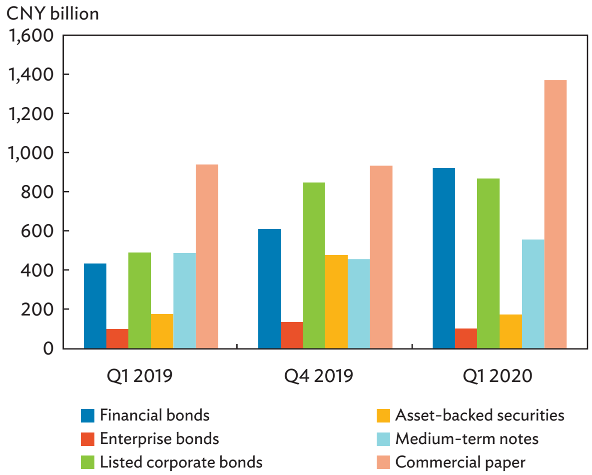
The new regulations led to strong growth in listed corporate bonds, which grew 7.8% q-o-q in Q1 2020 (**Table 2**). Increased financial uncertainty and expectations of further declines in interest rates led to commercial paper outstanding rising 34.0% q-o-q on a surge in issuance of 46.9% q-o-q (**Figure 2**). Issuance of financial bonds also rose 50.6% q-o-q in Q1 2020 as financial institutions sought to bolster their capital base and liquidity.

The PRC's LCY corporate bond market continued to be dominated by a few big issuers in Q1 2020 (**Table 3**).

At the end of March, the top 30 corporate bond issuers accounted for a combined CNY8.9 trillion worth of corporate bonds outstanding, representing 27.5% of the total corporate bond stock. Of the top 30, the 10 largest issuers accounted for an aggregate CNY5.7 trillion. China Railway, the top issuer, had four times the outstanding amount of bonds as Industrial and Commercial Bank of China, the second-largest issuer. The top 30 issuers included 15 banks, which continued to generate funding to strengthen their capital bases, improve liquidity, and lengthen their maturity profiles amid ongoing uncertainty.

Table 4 lists the largest corporate bond issuances in the PRC in Q1 2020. The top issuers consisted largely of

Figure 2: Corporate Bond Issuance in Key Sectors



CNY = Chinese yuan, Q1 = first quarter, Q4 = fourth quarter.
Source: *ChinaBond*.

financial institutions that sought to improve their capital bases and liquidity in light of the ongoing economic impact of COVID-19.

Investor Profile

Among the major government bond categories (local government, Treasury, and policy bank bonds), banks were the single-largest holder at the end of March, with a 73.0% share of all outstanding government bonds (**Figure 3**). The concentration of banks' ownership of bonds was highest for local government bonds (87.9%), as banks were asked by the government to help support the funding efforts of local governments. Policy banks were the next largest holder of local government bonds. Unincorporated products were the second-largest holder of policy bank bonds after banks.[12]

Liquidity

The volume of interest rate swaps fell 10.2% q-o-q in Q1 2020. The 7-day repurchase agreement remained the most used interest rate swap, comprising a 79.2% share of the total interest rate swap volume during the quarter (**Table 5**).

Policy, Institutional, and Regulatory Developments

National Development and Reform Commission Eases Bond Issuance Regulations

In March, the National Development and Reform Commission launched a registration-based system for the public issuance of enterprise and corporate bonds to replace the previous approval-based corporate and enterprise bond issuance system. Starting 1 March, the National Development and Reform Commission began registering the issuance of enterprise bonds if a firm's average distributable profits over the last 3 years were enough to cover 1 year of interest. The new system was expected to reduce the issuance period of enterprise bonds to 2 weeks from 2–6 months.

People's Bank of China Reduces Reserve Requirement Ratios for Small Banks

In April, PBOC announced a reduction in the reserve requirement ratio for small banks by a total of 100 bps, a 50-bps cut each on 15 April and 15 May. The reductions released a total of around CNY400 billion into the domestic economy, which has been negatively impacted by the outbreak of COVID-19. The PBOC has stepped up its policy easing measures since February, cutting the benchmark leading rate and encouraging banks to offer cheap loans to firms hit hardest by the pandemic.

[12] Unincorporated products include banks' wealth management products, securities investment funds, trust funds, and insurance products.

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	2,098.5	296.3	Yes	No	Transportation
2.	Industrial and Commercial Bank of China	517.6	73.1	Yes	Yes	Banking
3.	Agricultural Bank of China	500.1	70.6	Yes	Yes	Banking
4.	Bank of China	491.2	69.4	Yes	Yes	Banking
5.	Central Huijin Investment	443.0	62.6	Yes	No	Asset Management
6.	State Grid Corporation of China	358.0	50.5	Yes	No	Public Utilities
7.	Bank of Communications	351.5	49.6	No	Yes	Banking
8.	Shanghai Pudong Development Bank	325.5	46.0	No	Yes	Banking
9.	China Construction Bank	307.1	43.4	Yes	Yes	Banking
10.	China CITIC Bank	291.8	41.2	No	Yes	Banking
11.	China National Petroleum	274.9	38.8	Yes	No	Energy
12.	China Minsheng Banking	234.0	33.0	No	Yes	Banking
13.	Industrial Bank	216.2	30.5	No	Yes	Banking
14.	State Power Investment	202.3	28.6	Yes	No	Energy
15.	PetroChina	195.0	27.5	Yes	Yes	Energy
16.	Tianjin Infrastructure Construction and Investment Group	171.0	24.1	Yes	No	Industrial
17.	China Merchants Bank	169.4	23.9	Yes	Yes	Banking
18.	China Southern Power Grid	167.0	23.6	Yes	No	Energy
19.	China Everbright Bank	164.2	23.2	Yes	Yes	Banking
20.	Ping An Bank	163.7	23.1	No	Yes	Banking
21.	Postal Savings Bank of China	155.0	21.9	Yes	Yes	Banking
22.	Huaxia Bank	155.0	21.9	Yes	No	Banking
23.	CITIC Securities	142.8	20.2	Yes	Yes	Brokerage
24.	Datong Coal Mine Group	135.3	19.1	Yes	No	Coal
25.	Bank of Beijing	132.9	18.8	No	Yes	Banking
26.	Shaanxi Coal and Chemical Industry Group	125.5	17.7	Yes	No	Energy
27.	China Cinda Asset Management	115.0	16.2	Yes	Yes	Asset Management
28.	Shougang Group	108.5	15.3	Yes	No	Steel
29.	China Datang	107.7	15.2	Yes	Yes	Energy
30.	China Three Gorges Corporation	105.0	14.8	Yes	No	Power
Total Top 30 LCY Corporate Issuers		**8,924.6**	**1,260.1**			
Total LCY Corporate Bonds		**32,417.6**	**4,577.3**			
Top 30 as % of Total LCY Corporate Bonds		**27.5%**	**27.5%**			

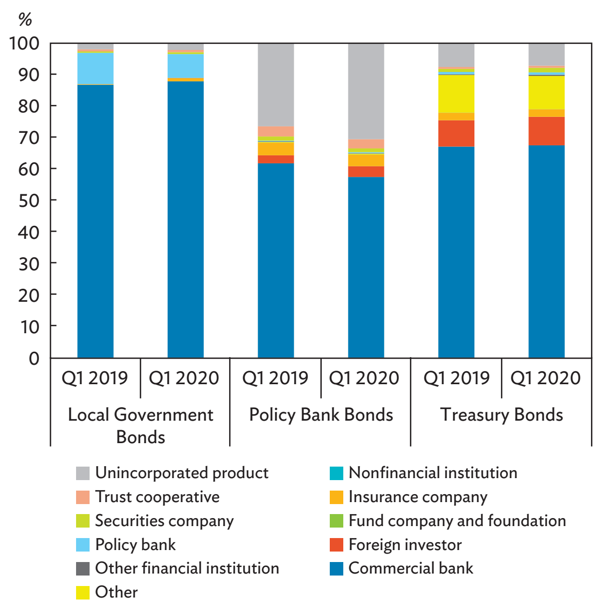
CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 31 March 2020.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Central Huijin Investment		
3-year bond	3.15	15
3-year bond	2.75	15
5-year bond	3.55	6
5-year bond	3.02	6
Bank of Beijing		
3-year bond	2.85	30
5-year bond	3.10	10
China CITIC Bank		
3-year bond	2.75	30
China Southern Power Grid		
3-year bond	3.30	5
3-year bond	3.30	5
3-year bond	2.94	4
3-year bond	2.90	4
5-year bond	3.19	4
CITIC Securities		
3-year bond	2.95	2
3-year bond	3.02	2
5-year bond	3.20	2
5-year bond	3.31	2

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

Figure 3: Government Bonds Investor Profile



Q1 = first quarter.
Source: Bloomberg LP.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the First Quarter of 2020

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
	Q1 2020		q-o-q
7-Day Repo Rate	2.0	0.00	(100.0)
7-Day Repo Rate (Deposit Institutions)	33,950.5	79.21	3.7
Overnight SHIBOR	234.0	0.55	170.5
3-Month SHIBOR	7,799.3	18.20	(45.2)
1-Year Lending Rate	728.5	1.70	77.8
5-Year Lending Rate	25.6	0.06	39.7
10-Year Treasury Yield	62.0	0.14	(61.1)
10-Year China Development Bank Bond/10-Year Government Bond Yield	61.0	0.14	(34.1)
Total	**42,862.9**	**100.00**	**(10.2)**

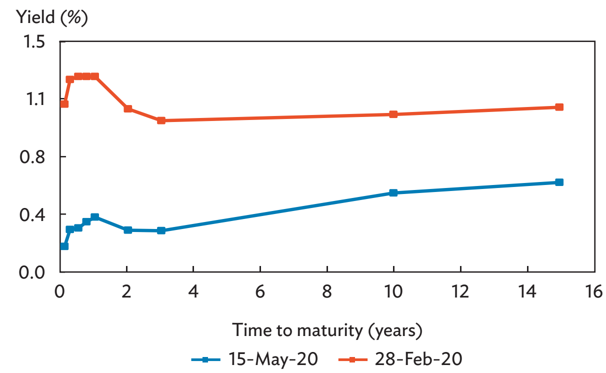
( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *AsianBondsOnline* and *ChinaMoney*.

Hong Kong, China

Yield Movements

Between 28 February and 15 May, local currency (LCY) government bond yields in Hong Kong, China fell across all tenors, shifting the yield curve downward (**Figure 1**). The drop was more pronounced at the shorter-end of the curve as tenors with maturities of 1 year or below shed an average of 94 basis points (bps). For longer-dated bonds with maturities of 10 years or more, yields fell an average of 50 bps. The 15-year tenor posted the smallest drop at 49 bps.

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



Source: Based on data from Bloomberg LP.

Hong Kong, China's yield curve was inverted at the beginning of the review period with the spread between the 2-year and 10-year yields at –4 bps. The yield curve had normalized by the end of the review period, with the spread between 2-year and 10-year bonds back in positive territory at 24 bps.

Hong Kong, China's government bond yields tracked United States (US) Treasury yields during the review period. The US yield curve shifted downward, with yields of tenors with maturities of 1 year or below falling an average of 110 bps, and tenors with maturities of 10 years or longer dropping 43 bps on average. The decline in US yields stemmed from a sharp interest rate drop as the Federal Reserve cut the federal funds rate twice in March in response to the coronavirus disease (COVID-19) pandemic. The two rate cuts—a 50-bps cut on 3 March and a 100-bps cut on 15 March—lowered the federal funds target to a range of between 0.0% and 0.25%. To further mitigate risks and address volatility in financial markets, the Federal Reserve also expanded its repo operations and resumed purchasing Treasury and mortgage-backed securities.

To maintain the Hong Kong dollar's peg to the US dollar, the Hong Kong Monetary Authority (HKMA) lowered its base rate by 50 bps to 1.50% on 4 March. In response to the subsequent 100-bps cut by the US Federal Reserve, the HKMA again lowered the base rate to 0.86% on 16 March based on a pre-set formula.[16] Demand for the Hong Kong dollar surged in April, fueled by carry trade activities brought about by the gap between the Hong Kong Interbank Offered Rates (HIBORs) over US interest rates, which combined with seasonal and equity-related demand as high-profile initial public offerings resumed in Hong Kong, China's stock market.

The heightened demand for the Hong Kong dollar pushed the strong-side of its trading band against the US dollar, prompting the HKMA to spend a total of HKD20.7 billion to rein in the local currency in April. A series of HKMA interventions brought the aggregate balance—an indicator of liquidity in the financial system—to HKD84.7 billion, up 55.7% year-to-date by the end of April. To inject further liquidity into the market, the HKMA also reduced it issuance of Exchange Fund Bills (EFBs) by HKD20.0 billion between April and May. By 15 May, the aggregate balance reached HKD94.7 billion, up 74.1% since the start of the year. Consequently, domestic interest rates dropped, with the overnight HIBOR at 0.07% and the 1-month HIBOR at 0.64%.

Falling yields also reflected the contraction of Hong Kong, China's economy. The economic recession deepened in Q1 2020 as the onset of COVID-19 disrupted the economy already battered by the combined impacts of trade tensions between the US and the People's Republic of China (PRC), as well as prolonged political unrest. Gross domestic product (GDP) dropped sharply by 8.9%

[13] The base rate is set at either 50 bps above the lower end of the prevailing target range of the US federal funds rate or the average 5-day moving average of the overnight and 1-month Hong Kong Interbank Offered Rates (HIBORs), whichever is higher. As of 15 March, the 5-day moving average of the overnight and 1-month HIBORs was 0.86%.

year-on-year (y-o-y) in the first quarter (Q1) of 2020, following a 3.0% y-o-y decline in the fourth quarter (Q4) of 2019.

The contraction in Q1 2020 was the steepest on record for a single quarter and worse than what the economy experienced following the 1997/98 Asian financial crisis. Private consumption dropped 10.1% y-o-y in Q1 2020 due to disruptions in consumer-related activities, while investment expenditure fell 14.3% y-o-y amid sagging investor confidence.

Exports of goods fell 9.9% y-o-y in Q1 2020, weighed down by disruptions to regional supply chains and the sharp drop in global demand as several governments implemented travel bans and social distancing measures to contain the spread of COVID-19. Exports of services plunged 37.8% y-o-y in Q1 2020 as the pandemic halted tourism and hampered cross-border transport and commercial services in February and March.

Consumer price inflation moderated to 1.9% y-o-y in April from 2.3% y-o-y in March as the recession in the domestic economy and the slowdown in global demand eased pressure on prices.

Size and Composition

Hong Kong, China's LCY bonds outstanding amounted to HKD2,255.4 billion (USD291.0 billion) at the end of March after a 0.5% quarter-on-quarter (q-o-q) contraction in Q1 2020 (**Table 1**). The drop in LCY bonds outstanding stemmed from a 1.1% q-o-q contraction in the government bond segment combined with tepid 0.2% q-o-q growth in the corporate bond segment. On a year-on-year basis, growth slowed to 0.3% in Q1 2020 from 1.8% in Q4 2019. Government bonds accounted for a 51.9% share of total LCY bonds outstanding at the end of March.

Government bonds. LCY government bonds outstanding stood at HKD1,169.5 billion at the end of March. The stock of government bonds contracted 1.1% q-o-q in Q1 2020, mainly due to the 16.9% q-o-q contraction of Hong Kong Special Administrative Region (HKSAR) bonds. EFBs posted weak 0.4% q-o-q growth, while Exchange Fund Notes (EFNs) posted no growth in Q1 2020. Annual growth of LCY government bonds outstanding decelerated to 0.7% y-o-y in Q1 2020 from 1.2% y-o-y in the previous quarter. Government bond issuance declined 1.8% q-o-q in Q1 2020 as issuance of EFBs, EFNs, and HKSAR bonds contracted during the quarter.

Exchange Fund Bills. EFBs outstanding reached HKD1,059.7 at the end of March on growth of 0.4% q-o-q and 2.4% y-o-y. Issuance of EFBs amounted to HKD833.8 billion in Q1 2020, contracting 1.4% q-o-q.

Exchange Fund Notes. Since 2015, the HKMA has limited its issuance of EFNs to 2-year tenors. In February, the HKMA issued a 2-year EFN worth HKD1.2 billion. Due to maturities, outstanding EFNs remained steady at HKD26.6 billion in Q1 2020.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,249**	**287**	**2,266**	**291**	**2,255**	**291**	**1.1**	**8.5**	**(0.5)**	**0.3**
Government	1,161	148	1,182	152	1,170	151	(0.6)	1.1	(1.1)	0.7
Exchange Fund Bills	1,035	132	1,055	135	1,060	137	0.5	2.1	0.4	2.4
Exchange Fund Notes	31	4	27	3	27	3	(3.1)	(15.2)	–	(14.7)
HKSAR Bonds	95	12	100	13	83	11	(10.5)	(3.5)	(16.9)	(12.2)
Corporate	1,088	139	1,084	139	1,086	140	3.0	17.8	0.2	(0.2)

( ) = negative, – = not applicable, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, 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 local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
Source: Hong Kong Monetary Authority.

HKSAR bonds. HKSAR bonds outstanding amounted to HKD83.2 billion at the end of March, down 16.9% q-o-q and 12.2% y-o-y in Q1 2020. The government issued a 10-year HKSAR bond worth HKD1.7 billion in February and a 15-year HKSAR bond worth HKD800.0 million in March under the Institutional Bond Issuance Programme.

Corporate bonds. Corporate bonds outstanding reached HKD1.1 billion at the end of March. The corporate bond segment recovered slightly in Q1 2020 with 0.2% q-o-q growth, reversing the 0.9% q-o-q contraction in the previous quarter. On a y-o-y basis, corporate bonds outstanding dropped 0.2% in Q1 2020, reversing the 2.6% gain posted in the previous quarter.

Hong Kong, China's top 30 nonbank issuers had a combined HKD223.8 billion of bonds outstanding at the end of March, accounting for 20.6% of the total corporate bond market (**Table 2**). Government-owned financial firm Hong Kong Mortgage Corporation remained the top issuer with HKD30.0 billion of bonds outstanding at the end of Q1 2020. Sun Hung Kai & Co. maintained its position as second-largest issuer at HKD17.0 billion. The third-largest issuer was MTR corporation, a government-owned transportation company, with HKD13.7 billion. The top 30 issuers were predominantly finance and real estate companies. A majority of the top 30 issuers were listed in the Hong Kong Stock Exchange; only two were government-owned corporations.

Corporate bond issuance reached HKD213.6 billion at the end of March, as issuance growth rebounded to 44.3% q-o-q in Q1 2020 from an 18.9% q-o-q decline in the previous quarter. Among the top nonbank issuers in Q1 2020, government-owned Hong Kong Mortgage Corporation was the largest issuer with an aggregate HKD4.5 billion from 13 issuances, the largest of which was a 2-year bond with a 1.74% coupon worth HKD1.0 billion (**Table 3**). The next top issuers were Wharf Real Estate Investment and Han Lung Properties, each with aggregate issuance worth HKD2.8 billion. Wharf Real Estate Investment issued two 10-year bonds worth HKD800.0 million each, as well as a 7-year bond with a 2.10% coupon worth HKD1.0 billion. Han Lung Properties' issuances included a 5-year bond with a 2.35% coupon worth HKD950.0 million and a 7-year bond with a 3.01% coupon worth HKD700.0 million. There were two issuances of 15-year bonds in Q1 2020, the longest-dated tenor issued during the quarter. Henderson Land Development issued a 15-year HKD100.0 million bond with a 2.66% coupon, while Hong Kong Land issued a 15-year HKD400.0 million bond with a 2.72% coupon.

Ratings Update

On 20 April, Fitch Ratings downgraded Hong Kong, China's long-term currency issuer default rating to AA– from AA with a stable outlook, stating that the economy was facing a second major shock from the onset of the COVID-19 pandemic after prolonged political unrest. Fitch Ratings noted that the downgrade reflected Hong Kong, China's increasing integration into the PRC's national governance system and the related rise of economic, financial, and sociopolitical links to the PRC merit a closer alignment of their respective sovereign ratings. The PRC is currently rated one notch below Hong Kong, China at A+. The downgrade puts Hong Kong, China at its lowest rating level since 2007.

Policy, Institutional, and Regulatory Developments

Hong Kong Monetary Authority Reduces Countercyclical Capital Buffer to 1.0%

On 16 March, the HKMA reduced its countercyclical buffer to 1.0% from 2.0% amid worsening economic conditions brought about by the COVID-19 outbreak. The move was intended to release additional funds that would allow banks to extend credit to support financing needs in the domestic economy, particularly for sectors and individuals affected by the downturn. The countercyclical buffer is an integral part of the Basel III regulatory capital framework designed to increase the resilience of the banking sector during periods of excess credit growth.

Hong Kong Monetary Authority Reduces Issuance of Exchange Fund Bills by HKD20.0 billion in April–May

On 9 April, the HKMA announced a reduction in the issuance of EFBs, which was aimed at raising Hong Kong dollar liquidity in the interbank market. The HKMA reduced the issue size of 91-day EFBs by HKD5.0 billion in each of the tenders held on 21 April, 28 April, 5 May, and 12 May. The combined reduction lowered the issuance of EFBs by a total of HKD20.0 billion.

Table 2: Top 30 Nonbank Corporate Issuers of Local Currency Corporate Bonds in Hong Kong, China

Issuers		Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (HKD billion)	LCY Bonds (USD billion)			
1.	Hong Kong Mortgage Corporation	30.0	3.9	Yes	No	Finance
2.	Sun Hung Kai & Co.	17.0	2.2	No	Yes	Finance
3.	MTR Corporation	13.7	1.8	Yes	Yes	Transportation
4.	The Hong Kong and China Gas Company	13.3	1.7	No	Yes	Utilities
5.	Link Holdings	11.9	1.5	No	No	Finance
6.	New World Development	11.8	1.5	No	Yes	Diversified
7.	Hong Kong Land	10.9	1.4	No	No	Real Estate
8.	Henderson Land Development	10.9	1.4	No	No	Real Estate
9.	Swire Pacific	10.0	1.3	No	Yes	Diversified
10.	CLP Power Hong Kong Financing	7.7	1.0	No	No	Finance
11.	Hang Lung Properties	7.1	0.9	No	Yes	Real Estate
12.	Smart Edge	6.8	0.9	No	No	Finance
13.	The Wharf (Holdings)	6.7	0.9	No	Yes	Finance
14.	Hongkong Electric	6.3	0.8	No	No	Utilities
15.	AIA Group	6.3	0.8	No	Yes	Insurance
16.	CK Asset Holdings	6.2	0.8	No	Yes	Real Estate
17.	Wharf Real Estate Investment	5.9	0.8	No	Yes	Real Estate
18.	Hysan Development Company	5.9	0.8	No	Yes	Real Estate
19.	Swire Properties	5.6	0.7	No	Yes	Diversified
20.	Future Days	5.5	0.7	No	No	Transportation
21.	Guotai Junan Holdings	3.1	0.4	No	Yes	Finance
22.	Lerthai Group	3.0	0.4	No	Yes	Real Estate
23.	Haitong International Securities Group	2.7	0.3	No	Yes	Finance
24.	Champion REIT	2.5	0.3	No	Yes	Real Estate
25.	China Dynamics Holdings	2.4	0.3	No	Yes	Automotive
26.	South Shore Holdings	2.2	0.3	No	Yes	Industrial
27.	Emperor Capital Group	2.2	0.3	No	Yes	Finance
28.	Emperor International Holdings	2.2	0.3	No	Yes	Real Estate
29.	Cathay Pacific Airways	2.1	0.3	No	Yes	Transportation
30.	Nan Fung Treasury	1.8	0.2	No	No	Finance
Total Top 30 Nonbank LCY Corporate Issuers		**223.8**	**28.9**			
Total LCY Corporate Bonds		**1,085.9**	**140.1**			
Top 30 as % of Total LCY Corporate Bonds		**20.6%**	**20.6%**			

HKD = Hong Kong dollar, LCY = local currency, REIT = real estate investment trust, USD = United States dollar.
Notes:
1. Data as of 31 March 2020.
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 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD million)
Wharf Real Estate Investment		
7-year bond	2.10	1.00
10-year bond	2.69	0.80
10-year bond	2.80	0.80
Hong Kong Mortgage Corporation		
1-year bond	1.90	0.50
2-year bond	1.74	1.00
4-year bond	1.19	0.25
Hang Lung Properties		
5-year bond	2.35	0.95
7-year bond	3.01	0.70
Hong Kong Land		
15-year bond	2.72	0.40
Henderson Land Development		
15-year bond	2.66	0.10

HKD = Hong Kong dollar.
Source: Bloomberg LP.

Hong Kong Monetary Authority Introduces a Temporary US Dollar Liquidity Facility

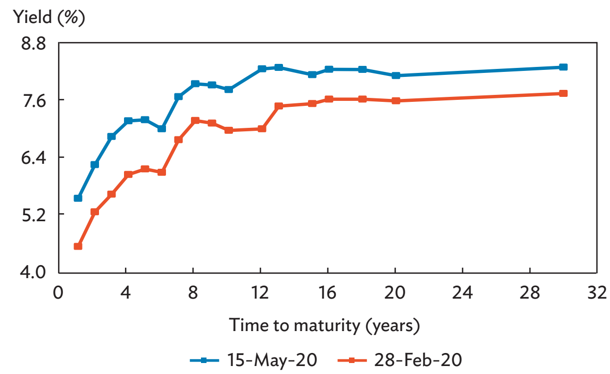
On 22 April, the HKMA announced the introduction of a temporary US dollar liquidity facility that will provide US dollar liquidity assistance to licensed banks through competitive tenders of 7-day repurchase transactions. Starting 6 May, the HKMA began conducting a tender once per week. Eligible banks can submit a bid of at least USD100.0 million or multiples thereof. The HKMA intends to maintain the facility, which currently has USD10.0 billion of available funds, until 30 September. It will also consider market conditions and revise arrangements as necessary.

Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia climbed across all tenors, leading the yield curve to shift upward between 28 February and 15 May (**Figure 1**). Bond yields rose an average of 95 basis points (bps) for the 1-year maturity through the 13-year maturity. Yields climbed the most for the 3-year, 4-year, 5-year, and 12-year tenors, with upticks of over 100 bps for each during the review period. For maturities of 15 years and longer, bond yields climbed an average of 57 bps. The spread between the 2-year and 10-year maturities narrowed to 154 bps on 15 May from 167 bps on 28 February.

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



Source: Based on data from Bloomberg LP.

The overall rise in yields was largely driven by a market sell-off as investor sentiments soured amid heightened global market uncertainty. As the coronavirus disease (COVID-19) pandemic spread globally, rising risk aversion led investors to shift toward safe-haven assets. This resulted in the steep decline in Indonesia's foreign holdings share from 38.6% at the end of December to 32.7% at the end of March, and further to 30.3% on 15 May. Record-level foreign capital outflows from Indonesia's bond market were also recorded in March.

Further contributing to the risk-off sentiment was S&P Global's downward revision of the sovereign rating outlook of Indonesia from stable to negative in April. The rise in yields was also reflective of the government's need for a wider budget deficit to fund COVID-19-related stimulus measures and recovery efforts, as well as of Bank Indonesia's less aggressive monetary policy stance compared with regional peers.

While there is room for monetary easing amid tame inflation and given the need to bolster economic growth, Bank Indonesia had only lowered policy rates by a cumulative 50 bps year-to-date through the end of May. The central bank opted to support the Indonesian rupiah, whose value once again weakened to its 1997/98 Asian financial crisis level of IDR16,000 per USD1, which was last seen in 2018 when the United States (US) Federal Reserve tightened monetary policy. To maintain financial market stability, Bank Indonesia has opted to inject liquidity in the money market and banking system through interventions and bond buy-backs, repurchase transactions, foreign currency swaps, and a reduction in the rupiah reserve requirement ratio.

The Indonesian rupiah fell to its lowest level year-to-date on 23 March at IDR16,575 per USD1, before recovering after Bank Indonesia signed a deal with the Federal Reserve for a repo facility worth USD60 billion. Between 28 February and 15 May, the Indonesian rupiah depreciated the most among all emerging East Asian currencies, weakening 3.6% versus the US dollar.

Indonesia was among three markets in the region that posted positive economic growth in the first quarter (Q1) of 2020. Real gross domestic product growth moderated to 3.0% year-on-year (y-o-y) in Q1 2020 from 5.0% y-o-y in the fourth quarter (Q4) of 2019. Gross domestic product growth slowed as all expenditure components posted weaker growth. Domestic consumption rose 2.8% y-o-y in Q1 2020 versus 5.0% y-o-y in Q4 2019, while investment growth slowed to 1.7% y-o-y from 5.0% y-o-y during the same period. Bank Indonesia expects economic growth to slow further during the rest of 2020 due to the COVID-19 pandemic.

Size and Composition

The LCY bond market in Indonesia reached a size of IDR3,324.7 trillion (USD203.8 billion) at the end of March on marginal growth of 0.4% quarter-on-quarter (q-o-q) in Q1 2020, down from 2.5% q-o-q in Q4 2019 (**Table 1**). Growth came largely from an expansion in the stock of central government bonds, comprising Treasury bills and Treasury bonds. The stocks of both central bank bills and corporate bonds contracted during the quarter in review. On a y-o-y basis, overall growth of the bond market moderated to 7.8% in Q1 2020 from 16.6% in Q4 2019.

The LCY bond market in Indonesia largely comprises government bonds, with a share of 86.7% of the aggregate bond total at the end of March. The remaining 13.3% share was accounted for by corporate bonds. Similarly, conventional bonds accounted for a larger share of the aggregate bond total, representing an 83.6% share during the period. At the end of March, *sukuk* (Islamic bonds) had a share of 16.4%.

Government bonds. The outstanding size of government bonds reached IDR2,881.8 trillion at the end of March, up 0.6% q-o-q and 8.4% y-o-y. Growth was solely contributed by central government bonds, particularly conventional bonds. The stock of central government *sukuk* declined during the review period. The stock of central bank bonds also contracted, but with declines coming from conventional central bank instruments rather than *sukuk*.

Central government bonds. The outstanding stock of central government bonds stood at IDR2,833.4 trillion at the end of March on growth of 2.9% q-o-q and 12.1% y-o-y. While positive, growth in Q1 2020 moderated from that of Q4 2019. Despite strong issuance volume in Q1 2020 due to the Ministry of Finance's adoption of a frontloading policy as in past years, a high volume of maturities during the quarter capped the outstanding size of central government bonds.

The issuance of Treasury bills and Treasury bonds climbed to IDR199.0 trillion, up 38.2% q-o-q but down 19.8% y-o-y. The government accepted bids higher than its targeted amount in 9 out of 13 Treasury auctions, in line with its frontloading policy. Two Treasury auctions were under-awarded while two were awarded at par with the target. The government also raised funds from the private placement of select Treasury bonds during the quarter. An Islamic retail bond was offered via bookbuilding in March, with the government raising IDR12.1 trillion from the sale. A higher volume of Treasury issuance is expected during the rest of the year as the government aims for a wider budget deficit to fund its stimulus measures and recovery efforts to combat the impact of the COVID-19 pandemic.

Central bank bonds. At the end of March, the outstanding amount of central bank instruments, comprising Sertifikat Bank Indonesia and Sukuk Bank Indonesia, reached IDR48.4 trillion. The stock of central bank bonds was down 57.1% q-o-q and 63.2% y-o-y in Q1 2020 as maturities greatly exceeded issuance during the quarter. Total issuance of central bank instruments in Q1 2020 was broadly at par with the preceding quarter as the central bank opted to boost financial market liquidity.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**3,083,746**	**217**	**3,310,632**	**239**	**3,324,692**	**204**	**8.7**	**18.7**	**0.4**	**7.8**
Government	2,659,664	187	2,865,531	207	2,881,782	177	9.6	21.0	0.6	8.4
Central Govt. Bonds	2,527,993	177	2,752,741	199	2,833,359	174	6.7	15.7	2.9	12.1
of which: *Sukuk*	427,277	30	485,534	35	478,152	29	8.7	29.8	(1.5)	11.9
Central Bank Bonds	131,671	9	112,790	8	48,423	3	127.5	913.1	(57.1)	(63.2)
of which: *Sukuk*	24,915	2	31,174	2	36,173	2	148.1	91.7	16.0	45.2
Corporate	424,082	30	445,101	32	442,909	27	3.0	5.9	(0.5)	4.4
of which: *Sukuk*	24,606	2	28,673	2	30,200	2	15.5	49.6	5.3	22.7

( ) = negative, IDR = Indonesian rupiah, 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 local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. The total stock of nontradable bonds as of 31 March 2020 stood at IDR204.9 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

Corporate bonds. Total corporate bonds outstanding stood at IDR442.9 trillion at the end of March, down 0.5% q-o-q but up 4.4% y-o-y. The stock of corporate bonds declined as issuance during the quarter was reduced by nearly half to IDR18.8 trillion from IDR34.2 trillion in the previous quarter. Corporates reconsidered their issuance plans due to the slowdown in the economy and falling consumption demand. Also, some corporates opted to delay issuing bonds in line with current market conditions as borrowing costs remained high following the uptick in government bond yields.

The 30 largest corporate bond issuers in Indonesia had an aggregate outstanding bond stock of IDR330.3 trillion at the end of March, down from IDR332.1 trillion at the end of December (**Table 2**). The top 30 corporate issuers accounted for 74.6% of the aggregate corporate bond stock during the review period. Firms from the banking and financial sectors continued to dominate the list. Other firms on the list were from the energy, telecommunications, construction, and transportation sectors, among others. A total of 17 institutions on the list were state-owned firms, eight of which were also among the top 10 in Q1 2020. A total of 17 of the top issuers were listed on the Indonesia Stock Exchange.

Leading the list of top 30 corporate issuers were six state-owned entities, with the top spot occupied by energy firm Perusahaan Listrik Negara (PLN). Indonesia Eximbank was bumped to the second spot during the quarter, while Bank Rakyat Indonesia rose to the third spot. Sarana Multi Infrastruktur slid to fourth place, and Bank Tabungan kept the fifth spot.

In Q1 2020, new issuance of corporate bonds declined to IDR18.8 trillion from IDR34.2 trillion in the preceding quarter. Issuance volume fell 44.9% q-o-q and 14.3% y-o-y, dragged down by uncertainties in the economy due to the COVID-19 outbreak. A total of 13 firms tapped the bond market for funding during the quarter, compared with 24 firms in Q4 2019. Most of the new bond issues were conventional bonds. Two firms also issued *sukuk ijarah* (Islamic bonds backed by lease agreements) and one bank issued *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership).

The largest issuance during the quarter came from PLN, which issued an IDR4.9 trillion multi-tranche bond in February (**Table 3**). PLN issued both conventional bonds and *sukuk ijarah*. Financing firm Sarana Multigriya Finansial raised IDR4.0 trillion. This was followed by Astra Sedaya Finance with issuance of IDR2.2 trillion. Medco Energi Internasional and Tower Bersama Infrastructure each issued bonds worth IDR1.5 trillion during the quarter.

Investor Profile

Foreign investors continued to comprise the largest investor group in the LCY central government bond market segment. This was despite a decrease in their holdings to a share of 32.7% at the end of March from 38.3% a year earlier (**Figure 2**). A market sell-off in Q1 2020 resulted in investors dumping Indonesian bonds in favor of safe-haven assets amid heightened uncertainties due to the COVID-19 pandemic. Government bonds held by foreign investors dropped to IDR926.9 trillion at the end of March from IDR927.1 trillion a year earlier.

Long-term government bonds remained the favorite among foreign bond holders. Bonds with remaining maturities of at least 10 years and from over 5 years to 10 years accounted for 35.0% and 31.6%, respectively, of total central government bond holdings among nonresident investors (**Figure 3**). Bonds maturing in more than 2 years to 5 years accounted for a 23.1% share, and bonds maturing in more than a year to 2 years had a 7.9% share. The remaining 2.4% of the government bonds held by foreign investors will mature in less than a year.

Banking institutions continued to hold the biggest share of central government bonds among local investors, increasing their share from 25.7% at the end of March 2019 to 26.9% at the end of March 2020. Bank Indonesia nearly doubled its government bond holdings to IDR255.1 trillion at the end of March from IDR132.0 trillion in March 2019, growing its share of government bonds outstanding to 9.0% from 5.2% a year earlier.

Other domestic investors that posted increases in their holdings of central government bonds were pension funds and mutual funds. Pension fund holdings of central government bonds rose to 9.6% in March from 8.9% a year earlier, and mutual fund holdings inched up to 4.6% from 4.5% in the same period. In contrast, the holdings of insurance providers declined to a share of 8.0% from 8.2% at the end of March 2019.

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

	Issuers	Outstanding Amount LCY Bonds (IDR billion)	Outstanding Amount LCY Bonds (USD billion)	State-Owned	Listed Company	Type of Industry
1.	Perusahaan Listrik Negara	32,675	2.00	Yes	No	Energy
2.	Indonesia Eximbank	32,487	1.99	Yes	No	Banking
3.	Bank Rakyat Indonesia	25,026	1.53	Yes	Yes	Banking
4.	Sarana Multi Infrastruktur	21,866	1.34	Yes	No	Finance
5.	Bank Tabungan Negara	19,847	1.22	Yes	Yes	Banking
6.	Sarana Multigriya Finansial	16,422	1.01	Yes	No	Finance
7.	Indosat	15,716	0.96	No	Yes	Telecommunications
8.	Bank Mandiri	14,000	0.86	Yes	Yes	Banking
9.	Bank Pan Indonesia	13,427	0.82	No	Yes	Banking
10.	Waskita Karya	12,960	0.79	Yes	Yes	Building Construction
11.	Bank CIMB Niaga	10,350	0.63	No	Yes	Banking
12.	Adira Dinamika Multifinance	9,647	0.59	No	Yes	Finance
13.	Telekomunikasi Indonesia	8,995	0.55	Yes	Yes	Telecommunications
14.	Permodalan Nasional Madani	8,189	0.50	Yes	No	Finance
15.	Federal International Finance	7,986	0.49	No	No	Finance
16.	Pupuk Indonesia	7,945	0.49	Yes	No	Chemical Manufacturing
17.	Semen Indonesia	7,078	0.43	Yes	Yes	Cement Manufacturing
18.	Astra Sedaya Finance	6,958	0.43	No	No	Finance
19.	Perum Pegadaian	6,851	0.42	Yes	No	Finance
20.	Hutama Karya	6,825	0.42	Yes	No	Nonbuilding Construction
21.	Medco Energi Internasional	6,452	0.40	No	Yes	Petroleum and Natural Gas
22.	Bank Maybank Indonesia	5,831	0.36	No	Yes	Banking
23.	Bank Pembangunan Daerah Jawa Barat Dan Banten	5,000	0.31	Yes	Yes	Banking
24.	Mandiri Tunas Finance	4,730	0.29	No	No	Finance
25.	Tower Bersama Infrastructure	4,488	0.28	No	Yes	Telecommunications Infrastructure Provider
26.	Adhi Karya	4,027	0.25	Yes	Yes	Building Construction
27.	Kereta Api	4,000	0.25	Yes	No	Transportation
28.	XL Axiata	3,815	0.23	No	Yes	Telecommunications
29.	Maybank Indonesia Finance	3,550	0.22	No	No	Finance
30.	Chandra Asri Petrochemicals	3,139	0.19	No	Yes	Petrochemicals
Total Top 30 LCY Corporate Issuers		**330,279**	**20.25**			
Total LCY Corporate Bonds		**442,909**	**27.16**			
Top 30 as % of Total LCY Corporate Bonds		**74.6%**	**74.6%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 31 March 2020.
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.

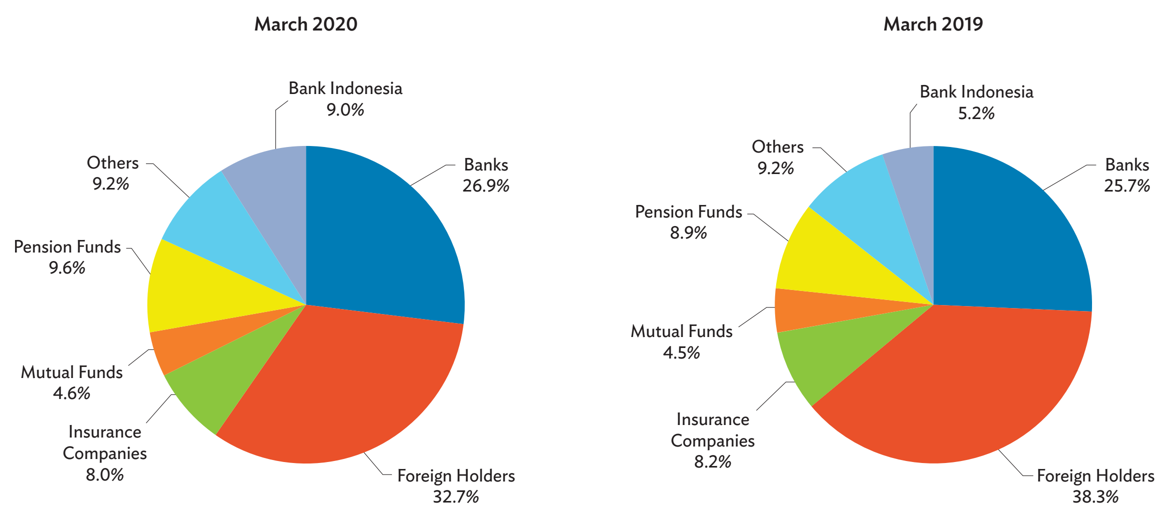
Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Perusahaan Listrik Negara		
5-year bond	7.70	540.63
7-year bond	7.40	672.50
7-year *sukuk ijarah*	7.40	40.50
10-year bond	8.00	544.25
10-year *sukuk ijarah*	8.00	3.50
15-year bond	8.70	1,459.00
15-year *sukuk ijarah*	8.70	9.00
20-year bond	9.05	1,596.05
20-year *sukuk ijarah*	9.05	62.50

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Sarana Multigriya Finansial		
370-day bond	6.00	1,460.00
5-year bond	7.00	2,541.00
Astra Sedaya Finance		
370-day bond	5.80	882.00
5-year bond	7.00	1,301.05
Medco Energi Internasional		
3-year bond	8.90	1,023.70
5-year bond	9.30	476.30
Tower Bersama Infrastructure		
370-day bond	6.25	633.00
3-year bond	7.75	867.00

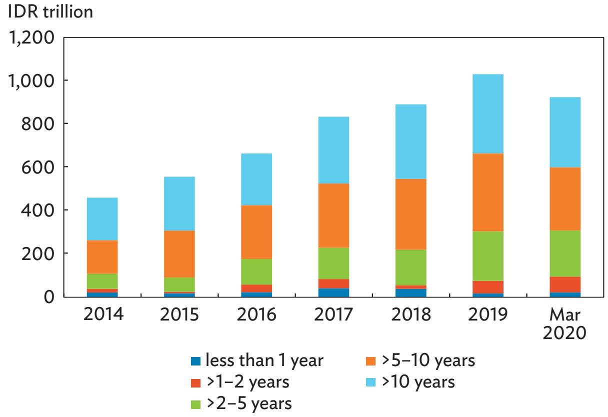
IDR = Indonesian rupiah.
Note: *Sukuk ijarah* are Islamic bonds backed by lease agreements.
Source: Indonesia Stock Exchange.

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 17 April, S&P Global affirmed the sovereign credit rating of Indonesia at BBB. The outlook on the rating was revised downward to negative from stable. S&P Global cited Indonesia's stable institutional settings, strong growth prospects, and historically prudent fiscal policy as the factors for the rating affirmation. On the other hand, the negative outlook was based on S&P Global's expectation of increased fiscal and external risks underpinned by higher government borrowing amid the COVID-19 pandemic.

Policy, Institutional, and Regulatory Developments

Otoritas Jasa Keuangan Issues Regulations for the Issuance of Debt Securities Through Private Placements

In March, Otoritas Jasa Keuangan (OJK) issued regulations for the issuance of debt instruments, including *sukuk*, through private placements. The regulations, which are set to became effective in June, placed the legality of instruments issued through private placements similar to that of bonds and provide investor protections. Under the regulations, firms that undertake issuance of debt securities—in particular, medium-term notes or *sukuk*—through a private placement will be required to (i) file for registration with OJK, (ii) obtain an investment grade from an OJK-certified credit rating agency for persons outside the scope of public companies, (iii) avail the services of an arranger and monitoring agent, and (iv) limit the buying of medium-term notes to professional investors.

Bank Indonesia Lowers Reserve Requirement Ratios

In April, Bank Indonesia announced a 200-bps reduction in the rupiah reserve requirement ratio for conventional commercial banks and a 50-bps cut for Islamic banks and Islamic business units. The adjustment in reserve requirement ratios took effect in May and formed part of Bank Indonesia's accommodative macroprudential policy stance to stimulate bank intermediation and mitigate the economic impact of COVID-19.

Bank Indonesia and the Federal Reserve Agree to a USD60 Billion Repo Facility

In April, Bank Indonesia reached a deal with the Federal Reserve for a USD60 billion repurchase agreement (repo) facility. According to Bank Indonesia, the repo facility is intended as a second line of defense aside from the bilateral swap agreements it has signed with other markets to boost US dollar liquidity. Bank Indonesia has been engaging in interventions to help stabilize the Indonesian rupiah since February.

Bank Indonesia to Purchase Government Bonds in the Primary Market

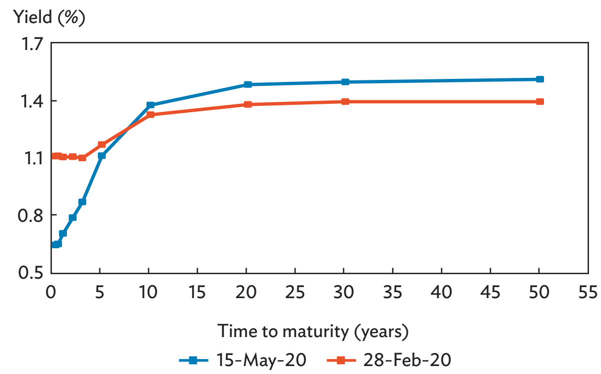
In April, Bank Indonesia commenced its participation in the weekly auctions of the government to purchase Treasury instruments. Previously, Bank Indonesia was only allowed to purchase bonds from the secondary market. The regulation in lieu of Law 1/2020 that was passed in March, allows the central bank to participate in the weekly auctions as a noncompetitive bidder. Bank Indonesia and the Ministry of Finance set a limit on the central bank's bond purchases at 30% for Shari'ah Treasury auctions and 25% for conventional Treasury auctions. Bank Indonesia's purchase of government bonds in the primary market is only allowed when the market is unable to absorb the offers.

Republic of Korea

Yield Movements

Between 28 February and 15 May, the Republic of Korea's local currency (LCY) government bond yield curve steepened as yields at the short-end fell, while yields at the long-end rose (**Figure 1**). The yields for 3-month and 6-month paper fell 47 basis points (bps) and 46 bps, respectively. The yield for 1-year paper fell 40 bps. Yields for medium-term tenors of 2 years and 3 years fell 27 bps on average; the 5-year tenor fell the least, dipping 6 bps. The yields for tenors ranging from 10 years to 50 years rose 9 bps on average. The spread between the 2-year and 10-year yields rose to 59 bps from 22 bps during the review period.

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



Source: Based on data from Bloomberg LP.

Yields at the short-end of the curve fell following the rate cut by the Bank of Korea in its emergency Monetary Policy Board meeting on 16 March, a day after the United States (US) Federal Reserve lowered its target range for the federal fund rate by 100 basis points to 0%–0.25%. The Bank of Korea decided to lower its base rate by 50 basis points to 0.75% to stabilize the financial market and in response to the impending economic impact of the coronavirus disease (COVID-19) pandemic. In its Monetary Policy Board meeting on 9 April, the central bank decided to leave its base rate unchanged.

The Bank of Korea has also announced and implemented several measures since March to provide additional liquidity in the market, which contributed to the fall in yields at the short-end of the curve. These included, among others, a (i) weekly reverse repurchase auction for a period of 3 months, available for financial institutions; (ii) broadening of the securities eligible for its open market operations; and (iii) new lending facility for companies with a ceiling of KRW10 trillion and a term of 3 months.

Despite various stabilization measures and strong foreign demand, yields continued to rise at the long-end of the curve, fueled by bond supply concerns as the government passed two supplementary budgets to support various sectors affected by the pandemic. As of 15 May, the National Assembly had approved a total of KRW23.9 trillion in supplementary budget funds to be partly financed via issuance of government bonds. A third supplementary budget is expected to be submitted in June. However, market expectations that the Bank of Korea will purchase government bonds to address oversupply concerns have tempered the rise in yields, particularly in early May.

The Republic of Korea's real gross domestic product contracted 1.3% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2020, a reversal from the 1.3% q-o-q growth in the fourth quarter (Q4) of 2019, based on preliminary estimates by the Bank of Korea. This reflected the economic impact of COVID-19 as the country went on lockdown. Private consumer spending declined 6.5% q-o-q in Q1 2020 after an increase of 0.7% q-o-q in the previous quarter. Exports also fell 1.4% q-o-q from marginal growth of 0.6% q-o-q in Q4 2019. The q-o-q growth in government spending and fixed capital formation also slowed in Q1 2020. On an annual basis, the Republic of Korea's economic growth slowed to 1.4% year-on-year (y-o-y) from 2.3% y-o-y in the previous quarter. Consumer price inflation also decelerated in April to 0.1% y-o-y from an average of 1.2% y-o-y in Q1 2020, amid a slowdown in spending and production, and a drop in oil prices.

The Republic of Korea registered massive net foreign inflows in the months of March and April, providing downward support to bond yields. Foreign demand increased on the economy being considered a safe haven relative to its peers; a high interest rate differential with other bond markets in the region, as well as US Treasuries; the implementation of policies to stabilize financial market volatility and address the economic impact of the pandemic; and a relatively stable Korean won.

The Korean won depreciated versus the US dollar during the review period, particularly in March, due to financial market volatility and foreign selling, with the foreign exchange rate peaking at KRW1,285.7 to USD1 on 19 March. The currency subsequently stabilized toward the end of the month after the Bank of Korea announced a temporary currency swap agreement with the Federal Reserve for a period of at least 6 months. The currency remained in the KRW1,204–KRW1,236 to USD1 range during the rest of the review period.

Size and Composition

The Republic of Korea's LCY bond market grew 2.8% q-o-q to reach a size of KRW2,476.2 trillion (USD2,032.1 billion) at the end of March (**Table 1**). This was higher than the 1.6% q-o-q growth posted in Q4 2019. Growth in Q1 2020 was largely driven by the 4.2% q-o-q increase in the stock of government bonds. Meanwhile, the Republic of Korea's corporate bond segment grew at a slower pace of 1.9% q-o-q.

Government bonds. The size of the Republic of Korea's LCY government bond market rose 4.2% q-o-q to KRW992.3 trillion at the end of March. Growth was boosted by a 5.6% q-o-q expansion in the stock of central government bonds to KRW645.9 trillion due to the surge in issuance in Q1 2020. The outstanding amount of Monetary Stabilization Bonds issued by the Bank of Korea inched up 1.0% q-o-q to KRW165.7 trillion. Outstanding bonds issued by government-related entities rose 2.5% q-o-q.

Issuance of central government bonds more than doubled in Q1 2020 to KRW42.5 trillion from KRW20.0 trillion in Q4 2019 as the government had a larger annual fiscal budget and a frontloading policy. High issuance volume were seen in the first 2 months of the year and surged even more in March as the government funded policy programs to address the economic impact of the COVID-19 pandemic. Issuance volume is expected to rise further the rest of the year as the government finances its supplementary budgets.

Corporate bonds. The Republic of Korea's LCY corporate bond market marginally grew 1.9% q-o-q to KRW1,483.8 trillion at the end of March on tepid issuance for the quarter. **Table 2** lists the top 30 LCY corporate bond issuers in the Republic of Korea, who together had an aggregate KRW922.1 trillion of bonds outstanding at the end of March, which accounted for 62.1% of the total LCY corporate bond market. Financial companies such as banks and securities and investment firms continued to comprise a majority of the 30 largest corporate bond issuers. Korea Housing Finance Corporation remained the largest issuer with outstanding bonds valued at KRW133.3 trillion.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,277,392**	**2,006**	**2,407,623**	**2,083**	**2,476,170**	**2,032**	**1.7**	**4.2**	**2.8**	**8.7**
Government	930,886	820	951,912	824	992,346	814	1.9	1.7	4.2	6.6
Central Government Bonds	584,006	514	611,533	529	645,928	530	3.0	2.7	5.6	10.6
Central Bank Bonds	171,150	151	164,060	142	165,710	136	(0.3)	(2.1)	1.0	(3.2)
Others	175,730	155	176,319	153	180,708	148	0.3	2.5	2.5	2.8
Corporate	1,346,506	1,186	1,455,711	1,259	1,483,824	1,218	1.7	5.9	1.9	10.2

( ) = negative, KRW = Korean won, 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 local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. "Others" comprise Korea Development Bank Bonds, National Housing Bonds, and Seoul Metro Bonds.
5. Corporate bonds include equity-linked securities and derivatives-linked securities.
Sources: The Bank of Korea and *EDAILY BondWeb*.

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

	Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
		LCY Bonds (KRW billion)	LCY Bonds (USD billion)		KOSPI	KOSDAQ	
1.	Korea Housing Finance Corporation	133,287	109.4	Yes	No	No	Housing Finance
2.	Mirae Asset Daewoo Co.	75,016	61.6	No	Yes	No	Securities
3.	Korea Investment and Securities	68,135	55.9	No	No	No	Securities
4.	Industrial Bank of Korea	57,340	47.1	Yes	Yes	No	Banking
5.	KB Securities	55,090	45.2	No	No	No	Securities
6.	NH Investment & Securities	49,822	40.9	Yes	Yes	No	Securities
7.	Hana Financial Investment	46,860	38.5	No	No	No	Securities
8.	Samsung Securities	35,950	29.5	No	Yes	No	Securities
9.	Shinhan Bank	31,342	25.7	No	No	No	Banking
10.	Korea Land & Housing Corporation	29,700	24.4	Yes	No	No	Real Estate
11.	Korea Electric Power Corporation	28,456	23.4	Yes	Yes	No	Electricity, Energy, and Power
12.	Korea Expressway	23,100	19.0	Yes	No	No	Transport Infrastructure
13.	Woori Bank	21,290	17.5	Yes	Yes	No	Banking
14.	KEB Hana Bank	21,170	17.4	No	No	No	Banking
15.	Shinyoung Securities	19,625	16.1	No	Yes	No	Securities
16.	Korea Rail Network Authority	19,204	15.8	Yes	No	No	Transport Infrastructure
17.	Kookmin Bank	18,950	15.6	No	No	No	Banking
18.	The Export-Import Bank of Korea	18,444	15.1	Yes	No	No	Banking
19.	Hyundai Capital Services	17,440	14.3	No	No	No	Consumer Finance
20.	Shinhan Card	16,727	13.7	No	No	No	Credit Card
21.	Korea Deposit Insurance Corporation	15,280	12.5	Yes	No	No	Insurance
22.	Nonghyup Bank	15,145	12.4	Yes	No	No	Banking
23.	Korea SMEs and Startups Agency	15,038	12.3	Yes	No	No	SME Development
24.	Hanwha Investment and Securities	14,836	12.2	No	No	No	Securities
25.	KB Kookmin Bank Card	13,534	11.1	No	No	No	Consumer Finance
26.	Standard Chartered Bank Korea	13,290	10.9	No	No	No	Banking
27.	Korea Gas Corporation	13,090	10.7	Yes	Yes	No	Gas Utility
28.	Nonghyup	12,100	9.9	Yes	No	No	Banking
29.	Meritz Securities Co.	12,009	9.9	No	Yes	No	Securities
30.	Korea Student Aid Foundation	10,870	8.9	Yes	No	No	Student Loan
Total Top 30 LCY Corporate Issuers		**922,140**	**756.8**				
Total LCY Corporate Bonds		**1,483,824**	**1,217.7**				
Top 30 as % of Total LCY Corporate Bonds		**62.1%**	**62.1%**				

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 2020.
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.

The Republic of Korea's corporate bond market saw tepid issuance during Q1 2020, particularly in March, due to market volatility as a result of the COVID-19 pandemic. In addition, the continued pessimistic outlook in economic growth resulted in less borrowing by corporates during the quarter. **Table 3** lists the notable corporate bond issuances in Q1 2020. The market continues to be dominated by issuances from banks and financial institutions such as Woori Bank, Nonghyup Bank, and Mirae Asset Daewoo.

Investor Profile

Insurance companies and pension funds remained the largest holders of the Republic of Korea's LCY government bonds at the end of December 2019 with a share of 35.7%, which was slightly lower than their share of 36.0% in the same period in 2018 (**Figure 2**). General government and banks were next with shares of 17.6% and 17.4%, respectively. The share of the general government declined from 19.2% in December 2018, while that of

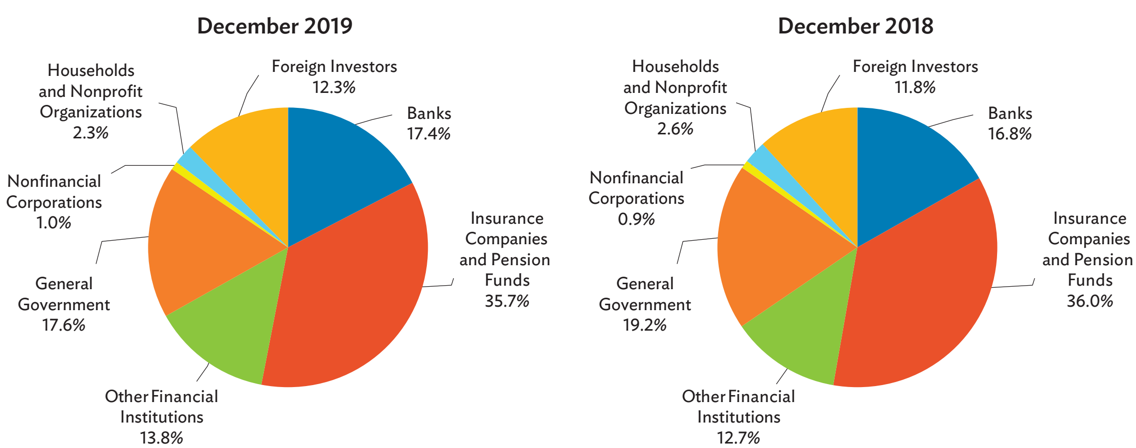
Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Woori Bank		
2-year bond	1.42	400
3-year bond	1.25	400
3-year bond	1.46	350
10-year bond	1.94	300
Nonghyup Bank		
2-year bond	1.50	380
5-year bond	1.62	300
10-year bond	2.38	300
Mirae Asset Daewoo		
3-year bond	1.80	350
6-year bond	3.00	500
SK Hynix		
3-year bond	1.61	340
5-year bond	1.72	360

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
National Agricultural Cooperative Federation		
3-year bond	1.51	300
5-year bond	1.62	400
Samsung Securities		
3-year bond	1.48	450
S-Oil Corp		
5-year bond	1.49	440
Kookmin Bank		
10-year bond	2.02	400
KB Financial Group		
10-year bond	2.21	370
LG Chem		
10-year bond	1.57	350
KEB Hana Bank		
10-year bond	2.32	350

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

Figure 2: Local Currency Government Bonds Investor Profile



Sources: *AsianBondsOnline* and the Bank of Korea.

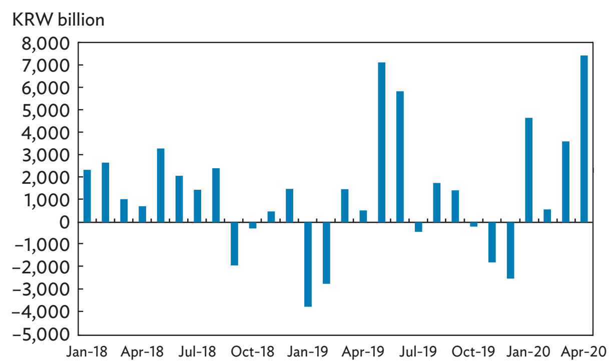
banks marginally increased from 16.8%. The share of other financial institutions rose to 13.8% from 12.7% during the review period. Foreign holdings of LCY government bonds was up marginally to 12.3% from 11.8%.

Insurance companies and pension funds continued to be the largest investor group in the Republic of Korea's LCY corporate bond market with a share of 37.0% at the end of December 2019, a decline from its share of 39.2% in the same period in 2018 (**Figure 3**). Meanwhile, the share of other financial institutions rose to 35.8% from 33.3% during the same period. The share of the general government was barely changed at 13.6% at the end of December 2019, while the share of banks rose to 8.5% from 7.1%. The share of foreign investors remained negligible at 0.1%.

Foreign investor demand for the Republic of Korea's LCY bond market remained strong in the first 4 months of 2020 amid financial market volatility caused by the COVID-19 pandemic (**Figure 4**). The Republic of Korea remained a safe haven relative to its peers in the region as its LCY bond market registered net inflows of KRW4,623 billion in January. A decline to KRW570 billion in net inflows was registered in February, primarily due to risk aversion as domestic COVID-19 cases temporarily surged. However, foreign investors returned in March with net inflows of KRW3,581 billion, followed by a surge in net inflows of KRW7,383 billion in April.

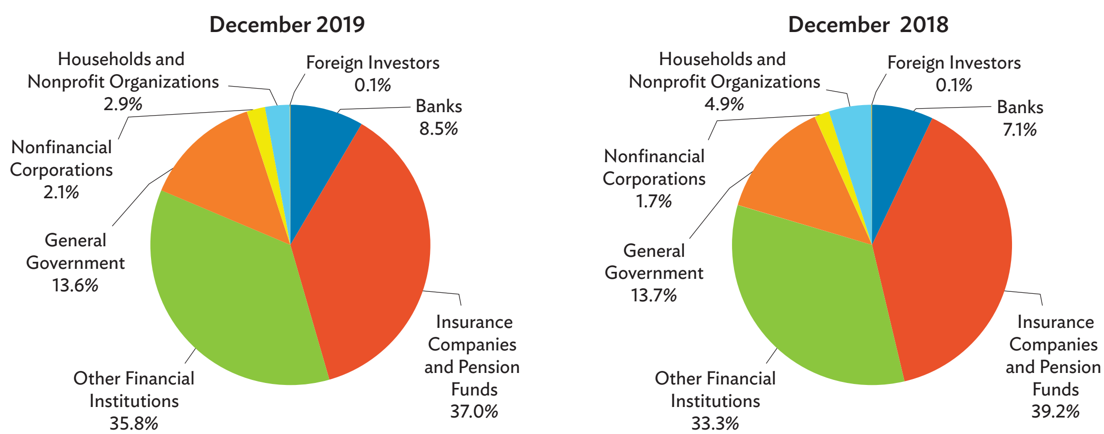
The strong demand for the Republic of Korea's LCY bonds can be attributed to the high interest rate differential with the bond yields of similarly rated peers and with US Treasury yields after the Federal Reserve cut its rate to between 0% and 0.25%. The Republic of Korea also remained a safe haven given its high credit rating, robust external balances, the government's efforts to provide liquidity in the market, and its various programs to cushion the economic impact of the pandemic.

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



KRW = Korean won.
Source: Financial Supervisory Service.

Figure 3: Local Currency Corporate Bonds Investor Profile



Sources: *AsianBondsOnline* and the Bank of Korea.

Ratings Update

On 11 February, Fitch Ratings affirmed the Republic of Korea's sovereign credit rating at AA– with a stable outlook. The rating affirmation was supported by the economy's steady macroeconomic prospects, which were to be further boosted by the government's fiscal stimulus, sound fiscal management, and robust external finances. Risks to the outlook remain and largely stem from rising cases of COVID-19 and geopolitical risks.

On 21 April, S&P Global affirmed the Republic of Korea's sovereign credit rating at AA and maintained its stable outlook. The rating agency stated that the economy may contract 1.5% in 2020, and it expects the fiscal deficit to widen this year due to fiscal measures being undertaken by the government to address the impact of the COVID-19 pandemic. The rating agency cited the Republic of Korea's strong economic prospects, with growth expected to rebound in 2021; the government's sound fiscal position amid years of surpluses; a favorable policy environment; and strong external metrics as reasons behind the affirmation.

Policy, Institutional, and Regulatory Developments

The Republic of Korea Announces Launch of Financial Support Package in Excess of KRW50 Trillion

On 19 March, the Government of the Republic of Korea announced the launch of a more than KRW50 trillion financial support package to aid businesses and households affected by the COVID-19 pandemic. The package includes nine programs focused on (i) providing liquidity to small businesses, special guarantees for small and medium-sized enterprise loans, guarantees for small merchants; (ii) deferment and or suspension of loan and interest payments by small and medium-sized enterprises and small businesses; and the (iii) creation of a bond market stabilization fund and equity market stabilization fund.

The Bank of Korea Announces Measures to Boost Market Liquidity

On 26 March, the Bank of Korea announced measures to support market liquidity and stabilize financial markets. This included the conduct of weekly repo auctions for a period of 3 months. It also expanded the range of institutions eligible for the auctions from five to 16 nonbanks, eligible securities will now include eight bonds issued by public organizations, and eligible collateral has been extended to eight bonds issued by public organizations and bank debentures.

The Bank of Korea Launches Corporate Bond-Backed Lending Facility

On 16 April, the Bank of Korea launched the Corporate Bond-Backed Lending Facility to allow banks and non-bank financial institutions that can provide high-rated corporate bonds as collateral to access credit from the central bank. The facility will have a ceiling of KRW10 trillion and a term of 3 months; this can be adjusted after an assessment of financial market conditions.

National Assembly Passes KRW12.2 Trillion Supplementary Budget

On 30 April, the National Assembly passed the government's second supplementary budget, which was revised upward to KRW12.2 trillion from KRW7.6 trillion. As part of the government's financial support package, funds will be used to aid sectors affected by the COVID-19 pandemic, particularly financing of the household emergency relief program. KRW8.8 trillion will be sourced from spending restructuring, and the remaining KRW3.4 trillion will be raised via debt issuance.

Malaysia

Yield Movements

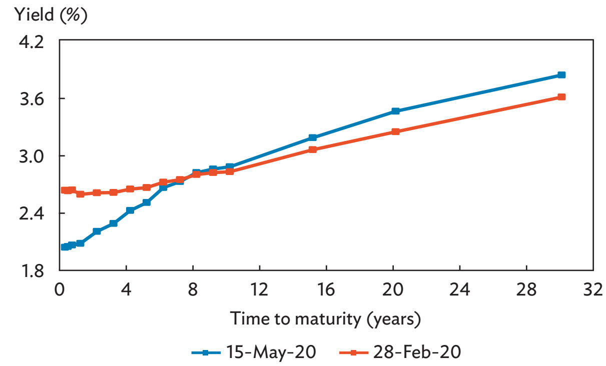
Between 28 February and 15 May, movements in Malaysia's local currency (LCY) government bond yields were mixed (**Figure 1**). Yield of bonds with 1-month to 7-year tenor declined an average of 34 basis points (bps). Yields of longer-term tenors (from 8 years to 30 years) increased an average of 11 bps. The yield spread between 2-year and 10-year government bonds expanded from 22 bps to 67 bps during the review period.

The movement at the shorter-end of the yield curve in Malaysia was driven by Bank Negara Malaysia's (BNM) decision to cut its overnight policy rate by a total of 75 bps during its monetary policy committee meetings held on 3 March and 5 May. To enhance liquidity amid the economic fallout from the coronavirus disease (COVID-19) pandemic, BNM also announced in March that banks may use Malaysian Government Securities and Government Investment Issues to fulfill their statutory reserve requirements. The decline in demand for longer-term tenors reflects investors' flight to safety amid an uncertain economic outlook. In March, Malaysia's 10-year yield spiked as a substantial decline in global oil prices hampered sentiments in global financial markets, with investors demanding a higher risk premium. Investors turned wary of the possible effects of oil-related revenues on Malaysia's fiscal balance. The 10-year yield has since fallen as global oil prices rebounded.

On 5 May, the monetary policy committee of BNM decided to lower the overnight policy rate by 50 bps to 2.00%, the third time in 2020 that it has reduced the policy rate. The committee decreased the overnight policy rate by 25 bps during its 22 January and 3 March meetings. The series of reductions were meant to ensure price stability and a stable growth trajectory for Malaysia's economy. But with the COVID-19 pandemic disrupting economic activities worldwide, the decision was viewed as enabling conditions for a sustainable economic recovery.

Prices of basic goods and services in Malaysia declined 0.2% year-on-year (y-o-y) in March, dragged down by the transport industry. This came after consumer price inflation of 1.6% y-o-y and 1.3% y-o-y in January and February, respectively. In May, BNM announced that it

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



Source: Based on data from Bloomberg LP.

expects inflation for full-year 2020 to be negative due to falling global oil and other commodity prices.

Malaysia's economic growth slowed to 0.7% y-o-y in the first quarter (Q1) of 2020 from 4.4% y-o-y and 3.6% y-o-y in the third quarter and fourth quarter (Q4) of 2019, respectively. In April, BNM's economic growth forecast for full-year 2020 was between –2.0% and –0.5% due to weak global demand that has led to declining oil prices and commodity supply disruptions. During the second half of March, the Government of Malaysia implemented a Movement Control Order to contain the spread of COVID-19. This is expected to lead to limited domestic demand. BNM expects the Malaysian economy to contract in the second quarter of 2020.

Size and Composition

Malaysia's LCY bond market expanded 2.9% quarter-on-quarter (q-o-q) in Q1 2020 to reach a size of MYR1,527.8 billion (USD353.7 billion), up from MYR1,485.4 billion at the end of Q4 2019 (**Table 1**). The growth corresponds to a 6.0% y-o-y jump from MYR1,440.8 billion at the end of Q1 2019. The growth in the LCY bond market in Q1 2020 was supported by expansions in both LCY government and corporate bonds, which accounted for 52.6% and 47.4%, respectively, of total LCY bonds outstanding at the end of March. Total outstanding *sukuk* (Islamic bonds) at the

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,441**	**353**	**1,485**	**363**	**1,528**	**354**	**2.9**	**7.6**	**2.9**	**6.0**
Government	766	188	773	189	804	186	3.6	8.7	3.9	4.9
Central Government Bonds	720	176	737	180	767	177	4.2	9.8	4.0	6.4
of which: *Sukuk*	327	80	341	83	362	84	6.7	14.1	5.9	10.6
Central Bank Bills	17	4	9	2	10	2	(9.9)	(13.9)	11.1	(42.2)
of which: *Sukuk*	5	1.3	1	0.2	2	0.3	40.5	420.0	50.0	(71.2)
Sukuk Perumahan Kerajaan	28	7	27	7	27	6	(1.8)	(1.8)	0.0	(3.9)
Corporate	675	165	712	174	724	168	2.0	6.4	1.7	7.3
of which: *Sukuk*	520	127	569	139	577	134	3.0	8.3	1.5	11.0

( ) = negative, 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 local currency–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 and Bloomberg LP.

end of the review period stood at MYR966.7 billion on growth of 3.1% q-o-q from MYR937.7 billion at the end of the previous quarter, spurred by increased stocks of government and corporate *sukuk*.

Issuance of LCY bonds in Q1 2020 increased 10.7% q-o-q to MYR92.6 billion from MYR83.7 billion in Q4 2019, driven by increased government bond issuance.

Government bonds. The LCY government bond market grew 3.9% q-o-q to MYR803.5 billion in Q1 2020, up from MYR773.2 billion in the previous quarter. The growth was due to the 4.0% q-o-q increase in outstanding central government bonds, which comprised 95.4% of total outstanding LCY government bonds, and the 11.1% q-o-q expansion of outstanding central bank bills, which comprised a 1.2% share of total LCY government bonds outstanding. The outstanding stock of Sukuk Perumahan Kerajaan (3.3% of total outstanding LCY government bonds) remained unchanged from the previous quarter.

LCY government bonds issued in Q1 2020 surged 42.9%, spurred by robust issuance of government bonds and Treasury bills. These were more than enough to offset the decline in BNM bills. Issuance of Malaysian Government Securities and Government Investment Issues jumped compared to the previous quarter.

Corporate bonds. LCY corporate bonds outstanding expanded 1.7% q-o-q to MYR724.3 billion in Q1 2020 from MYR712.2 billion in Q4 2019. Outstanding corporate *sukuk* rose 1.5% q-o-q to MYR576.8 billion at the end of March from MYR568.6 billion in the prior quarter.

The top 30 corporate bond issuers in Malaysia accounted for an aggregate MYR432.9 billion of corporate bonds outstanding at the end of Q1 2020, or 59.8% of the total corporate bond market (**Table 2**). Government institutions Danainfra Nasional, Prasarana, and Cagamas continued to dominate all issuers with outstanding LCY corporate bonds amounting to MYR63.8 billion (8.8% of total LCY corporate bonds outstanding), MYR34.5 billion (4.8%), and MYR32.9 billion (4.5%), respectively. By industry, finance comprised the largest share (53.4%) of the top 30 issuers with MYR231.1 billion in outstanding LCY corporate bonds at the end of March. This was followed by the transport, storage, and communications industry with MYR69.2 billion, which represented 16.0% of total LCY corporate bonds outstanding at the end Q1 2020.

Issuance of LCY corporate bonds declined 14.1% q-o-q in Q1 2020 due to the slow pace of issuance in January.

Government-owned public transport company Prasarana issued the most tranches of Islamic medium-term notes (MTN), issuing five tranches with tenors ranging from 7 years to 30 years, proceeds from which will be used for various Shari'ah-compliant activities of the company (**Table 3**). Prasarana also issued a MYR0.7 billion 20-year

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	63.8	14.8	Yes	No	Finance
2.	Prasarana	34.5	8.0	Yes	No	Transport, Storage, and Communications
3.	Cagamas	32.9	7.6	Yes	No	Finance
4.	Project Lebuhraya Usahasama	29.4	6.8	No	No	Transport, Storage, and Communications
5.	Urusharta Jamaah	27.6	6.4	Yes	No	Finance
6.	Lembaga Pembiayaan Perumahan Sektor Awam	24.7	5.7	Yes	No	Property and Real Estate
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	21.6	5.0	Yes	No	Finance
8.	Pengurusan Air	18.0	4.2	Yes	No	Energy, Gas, and Water
9.	Khazanah	14.2	3.3	Yes	No	Finance
10.	CIMB Bank	14.1	3.3	Yes	No	Finance
11.	Maybank Islamic	13.0	3.0	No	Yes	Banking
12.	Maybank	11.4	2.6	No	Yes	Banking
13.	CIMB Group Holdings	11.2	2.6	Yes	No	Finance
14.	Sarawak Energy	11.1	2.6	Yes	No	Energy, Gas, and Water
15.	Danga Capital	10.0	2.3	Yes	No	Finance
16.	Jimah East Power	9.0	2.1	Yes	No	Energy, Gas, and Water
17.	Public Bank	7.9	1.8	No	No	Banking
18.	GENM Capital	7.6	1.8	No	No	Finance
19.	Bank Pembangunan Malaysia	7.2	1.7	Yes	No	Banking
20.	GOVCO Holdings	7.2	1.7	Yes	No	Finance
21.	Tenaga Nasional	7.0	1.6	No	Yes	Energy, Gas, and Water
22.	Bakun Hydro Power Generation	6.3	1.5	No	No	Energy, Gas, and Water
23.	YTL Power International	6.1	1.4	No	Yes	Energy, Gas, and Water
24.	Telekom Malaysia	5.8	1.3	No	Yes	Telecommunications
25.	Rantau Abang Capital	5.5	1.3	Yes	No	Finance
26.	Danum Capital	5.5	1.3	No	No	Finance
27.	Turus Pesawat	5.3	1.2	Yes	No	Transport, Storage, and Communications
28.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
29.	1Malaysia Development	5.0	1.2	Yes	No	Finance
30.	Sunway Treasury Sukuk	4.9	1.1	No	No	Finance
Total Top 30 LCY Corporate Issuers		**432.9**	**100.2**			
Total LCY Corporate Bonds		**724.3**	**167.7**			
Top 30 as % of Total LCY Corporate Bonds		**59.8%**	**59.8%**			

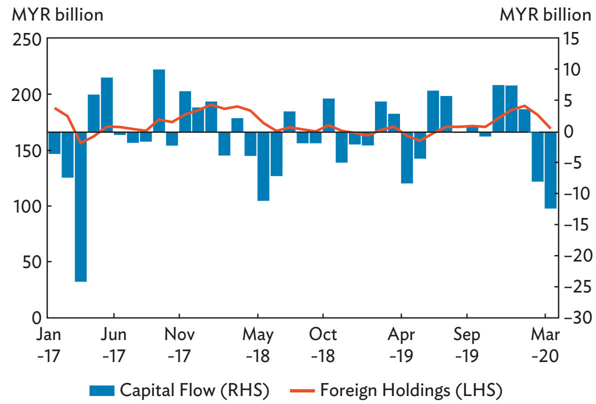
LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 31 March 2020.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering data.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR billion)
Prasarana		
7-year Islamic MTN	3.02	0.4
10-year Islamic MTN	3.09	0.6
15-year Islamic MTN	3.28	0.5
20-year Islamic MTN	3.44	1.0
20-year *sukuk murabahah*	3.75	0.7
25-year Islamic MTN	3.90	0.7
30-year Islamic MTN	3.80	1.0
Khazanah		
20-year MTN	4.14	2.9
Aeon Credit Service		
7-year *sukuk wakalah*	3.80	0.3
8-year *sukuk wakalah*	3.85	0.2
10-year *sukuk wakalah*	3.95	0.2

MTN = medium-term note, MYR = Malaysian ringgit.
Notes:
1. *Sukuk murabahah* are Islamic bonds in which bondholders are entitled to a share of the revenues generated by the assets.
2. *Sukuk wakalah* are Islamic bonds backed by an agreement between an investor and an agent. The bondholders are entitled to profits as agreed upon by the two parties.
Source: Bank Negara Malaysia Bond Info Hub.

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.
Notes:
1. Figures exclude foreign holdings of Bank Negara Malaysia bills.
2. Month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
Source: Bank Negara Malaysia Monthly Statistical Bulletin.

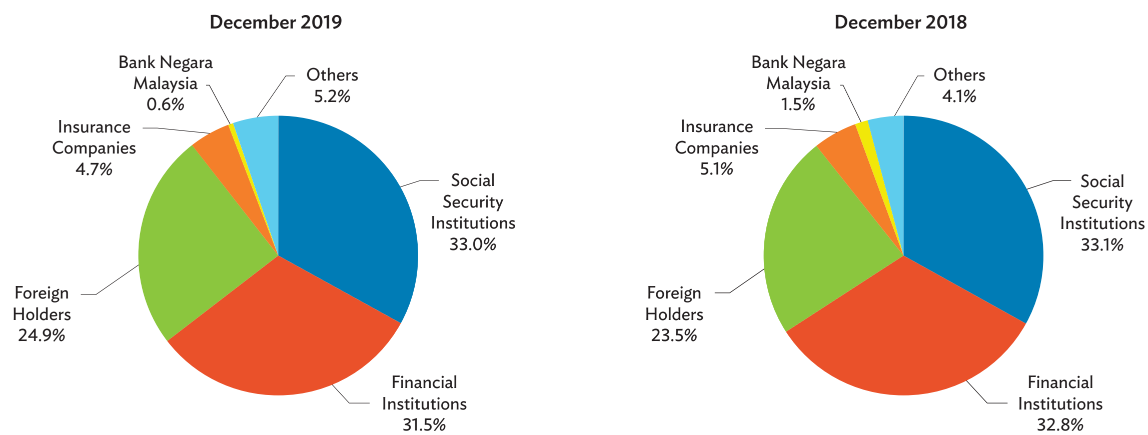
sukuk murabahah (an Islamic bond in which bondholders are entitled to a share of the revenues generated by the assets) with a coupon rate of 3.75%. The *sukuk* was issued under the company's Sukuk Murabahah Programme, and its proceeds will be used to finance Shari'ah-compliant activities related to the LRT3 project. Prasarana issued a 25-year Islamic MTN worth MYR0.7 billion and with a coupon rate 3.90%. Proceeds from the issuance will be used for Shari'ah-compliant capital expenditure and general working capital requirements. Khazanah had the single-largest issuance, which also carried the largest coupon, during the quarter with a MYR2.9 billion 20-year MTN and a 4.14% coupon rate. The sovereign wealth fund of the Government of Malaysia will utilize the proceeds to fund general investments and refinance borrowing. Aeon Credit Service issued two tranches of *sukuk* with tenors of 7 years and 8 years. It also sold a MYR0.2 billion 10-year *sukuk* with a 3.95% coupon rate. The financial institution will use the proceeds from the issuances to finance disbursements to its customers and refinance existing obligations.

Investor Profile

Foreign holdings of LCY government bonds in Q1 2020 jumped to MYR542.2 billion from MYR536.9 billion in Q4 2019, although monthly holdings showed a declining trend (**Figure 2**). A total of MYR16.7 billion in net capital outflows were recorded in Q1 2020, with the largest outflows recorded in March amid recession concerns as global investors became increasingly wary of the economic impact of the COVID-19 pandemic. This reversed the capital inflows of MYR14.4 billion recorded in the previous quarter. As a share of LCY government bonds, foreign holdings of LCY government bonds decreased to 22.2% at the end of Q1 2020 from 25.3% at the end of Q4 2019.

At the end of Q4 2019, social security institutions and financial institutions led all investors in LCY government bond holdings with 33.0% and 31.5% of the total, respectively, both of which were down from a year earlier (**Figure 3**). Foreign holders increased their share of total holdings to 24.9% from 23.5% in Q4 2018. The shares of insurance companies and BNM fell to 4.7% and 0.6%, respectively, from 5.1% and 1.5% during the review period.

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.

Ratings Update

On 27 March, S&P Global affirmed Malaysia's A-/A-2 foreign currency and A/A-1 local currency ratings with a stable outlook for both. Despite falling oil prices and the sudden change in government, the rating agency hailed the economy's strong position in the international market, monetary stance flexibility, and well-established institutions. It also expects the new government to continue the reforms started by the previous administration. On the other hand, increasing net general government debt and rising political risk are placing downward pressure on the economy's ratings.

On 9 April, Fitch Ratings affirmed Malaysia's long-term foreign currency issuer default rating at A– but revised its outlook to negative from stable. Declining economic activities due to the lockdown imposed to fight the COVID-19 pandemic have weakened growth prospects for Malaysia. The uncertainty of the duration of the pandemic contributed to the weak projections for the economy. Fitch Ratings is also wary of political risks hampering improvements in governance for the past 2 years as the new government's plans have yet to be laid out.

Policy, Institutional, and Regulatory Developments

Bank Negara Malaysia Decreases Statutory Reserve Requirement

On 19 March, BNM decreased the statutory reserve requirement ratio from 3.0% to 2.0%. Principal dealers can now include up to a total of MYR1.0 billion worth of Malaysian Government Securities and Government Investment Issues in the computation of their reserves. On 5 May, the central bank allowed all banking institutions to do the same, although no cap on the total amount was mentioned. The measures are expected to release MYR46.0 billion worth of liquidity into Malaysia's banking system to support financial activities in the market.

FTSE Russell Keeps Malaysia on Its Watchlist

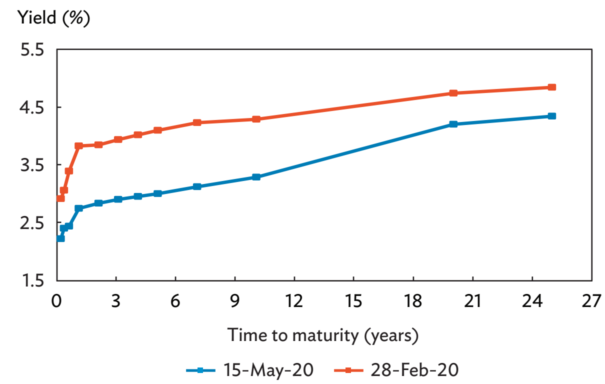
On 2 April, FTSE Russell decided to keep Malaysia on its watchlist during its interim March review, saying it would continue to monitor Malaysia for a possible downgrade. To avoid being removed from the FTSE Russell World Government Bond Index, Malaysia has been given 6 months to improve its market conditions. Since its placement on the watchlist last year, Malaysia has implemented regulations to improve bond and foreign exchange liquidity conditions. The decision on whether or not to exclude Malaysia from the benchmark index is expected during FTSE Russell's annual review in September.

Philippines

Yield Movements

The yields of local currency (LCY) government securities in the Philippines fell across the board between 28 February and 15 May (**Figure 1**). Yields of bonds with maturities from 1 year to 10 years declined the most, averaging 106 basis points (bps). Smaller yield declines were observed at the shorter-end and longer-end of the curve. Securities with 6-month tenors or less shed an average of 77 bps from their yield, while longer-term debt paper (20- and 25-year tenors) dropped 52 bps on average. The change in the yield spread between the 2-year and 10-year tenors was minimal, widening only 1 bp during the review period from 45 bps to 46 bps.

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



Source: Based on data from Bloomberg LP.

Several developments influenced the downward movement of the yield curve. The first was the series of interest rate cuts from Bangko Sentral ng Pilipinas (BSP). The central bank cut the policy rate by 50 bps on 17 April during an off-cycle meeting, bringing the overnight reverse repurchase rate to 2.75%. The move came less than 1 month after the BSP cut the policy rate by 50 bps on 19 March. The unprecedented move sought to encourage lending in various sectors of the economy. The BSP has aggressively cut the key rate by 125 bps thus far in 2020 in an effort to keep the economy afloat during the pandemic. However, the BSP recently hinted at a pause in monetary policy easing to assess the impact of its actions.

The second factor has been investors resorting to safe-haven assets at a time of persistent uncertainty over the economic impact of the COVID-19 pandemic. In an environment clad with risks, investors have become cautious by parking their money in less risky assets such as government bonds. Increased demand from investors, as observed in the auctions, has led to higher bids and lower yields.

Weaker inflationary pressure was also a factor pushing yields downward. Consumer price inflation has moderated since the start of the year. In May, it slowed further to 2.1% year-on-year (y-o-y) from 2.2% y-o-y in April. The Consumer Price Index was weighed down largely by the continued negative price growth in the transport group where prices declined 5.6% y-o-y due to lower domestic petroleum prices. The lower inflation was also underpinned by the slower price adjustments for some food and nonfood commodities.

LCY bond yield declines were also driven by the dovish stance of the United States (US) Federal Reserve and other major central banks. The Federal Reserve cut its policy rate to almost zero in March to shield the domestic economy from the negative impact of the COVID-19 pandemic. This resulted in US Treasury yields tumbling, which Philippine bond yields often track to a degree.

The Philippines' gross domestic product fell 0.2% y-o-y in the first quarter (Q1) of 2020 after expanding 6.7% y-o-y in the fourth quarter (Q4) of 2019, ending the economy's growth streak since Q4 1998. The decline was the result of shocks to the economy, primarily coming from the imposition of enhanced community quarantine, which halted most economic activities, as a measure to control the COVID-19 pandemic. All major sectors showed weaker performance, led by declining output in manufacturing, transportation and storage, and accommodation and food service activities. On the expenditure side, only household and government consumption showed increases, albeit at slower paces than in Q4 2019 at 0.2% y-o-y and 7.1% y-o-y, respectively.

The Philippine peso was relatively stable from the beginning of the year through mid-May, characterized by modest strengthening against the US dollar. Despite the COVID-19 pandemic that has wreaked havoc on both the domestic and global economy, the peso-to-dollar exchange rate has managed to hover around PHP50–PHP51 to USD1. The peso's strength is backed by the economy's sufficient financial buffers that include gross international reserves at a secure level and a sound fiscal position. But the prospect of a weakening peso remains if the impact of the pandemic worsens.

Size and Composition

The Philippine LCY bond market expanded 6.9% quarter-on-quarter (q-o-q) in Q1 2020, registering total bonds outstanding of PHP7,106 billion (USD140.2 billion) at the end of March (**Table 1**). The quarterly growth rate in Q1 2020 rebounded strongly from a decline in the preceding quarter. On an annual basis, the bond market grew 7.9% y-o-y, which was slower compared with Q4 2019. The LCY bond market comprises 77.8% government bonds and 22.2% corporate bonds.

Government bonds. The size of the LCY government bond market grew 7.5% q-o-q in Q1 2020, following a q-o-q decline in Q4 2019 when a large volume of Treasury bonds and bills matured and resulted in a reduced bond stock. The increase in market size was due to Bureau of the Treasury's (BTr) enlarged borrowing plan from the local market in Q1 2020, which was upped by the issuance of Retail Treasury Bonds (RTBs). Treasury bills and Treasury bonds outstanding grew 14.5% q-o-q and 6.8% q-o-q, respectively, after recording declines in Q4 2019, while the amount of outstanding debt from government-related entities was mostly unchanged.

The government raised a substantial volume of debt in the domestic bond market in Q1 2020. The total issuance of PHP718.2 billion more than doubled issuance volume in Q4 2019 of PHP272.2 billion. The increased borrowing was programmed to take advantage of liquidity in the local market as a result of the reserve requirement ratio cuts in Q4 2019 by the BSP, as well as of lower interest rates. A large portion of government bond sales during the quarter comprised the issuance of 3-year RTBs amounting to PHP310.8 billion, the highest volume recorded for an RTB offering. In Q1 2020, issuance of Treasury bonds amounted to PHP 414.6 billion, and Treasury bill issuance amounted to PHP303.6 billion. Both amounts represented a significant increase from their respective issue volumes in the previous quarter. Proceeds from the government's aggressive Q1 2020 debt sales will be used for general budgetary purposes and for planned increased spending in 2020.

Despite the government's aggressive borrowing stance, it postponed the sale of CNY-denominated Panda bonds in the People's Republic of China that had been scheduled for March 2020. The BTr stated that it needs to evaluate

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**6,588**	**125**	**6,646**	**131**	**7,106**	**140**	**8.0**	**17.8**	**6.9**	**7.9**
Government	5,203	99	5,141	101	5,526	109	8.8	16.2	7.5	6.2
Treasury Bills	608	12	486	10	557	11	22.9	82.8	14.5	(8.4)
Treasury Bonds	4,562	87	4,615	91	4,930	97	7.2	11.1	6.8	8.1
Others	34	1	40	0.8	40	0.8	(0.02)	(16.2)	(0.02)	18.3
Corporate	1,385	26	1,505	30	1,579	31	5.4	24.4	5.0	14.0

( ) = negative, 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 local currency–USD rates are used.
3. Growth rates are calculated from local currency 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 and the National Food Authority, among others.
5. Peso Global Bonds (PHP-denominated bonds payable in USD) are not included.
Sources: Bloomberg LP and Bureau of the Treasury.

developments in the market to decide on the timing of the sales amid the COVID-19 pandemic. Meanwhile, the government can take advantage of strong local demand for securities, especially for short-term tenors as liquidity onshore remains high.

The BTr may also adjust its borrowing program upward given the fiscal measures being taken to contain the impact of COVID-19 on the economy. The government must ensure that it has the resources to prop up the economy and support growth in the near-term.

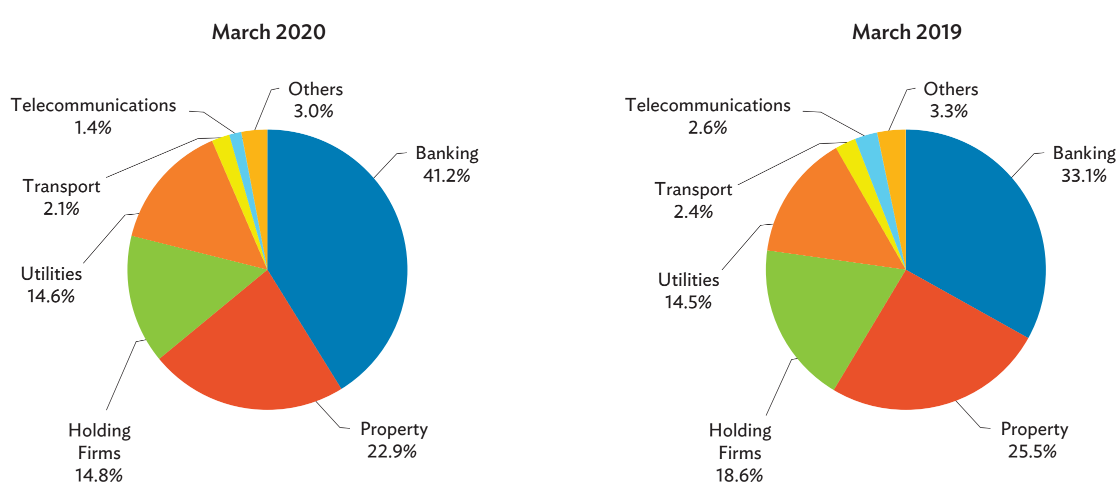
Corporate bonds. The LCY corporate bond market expanded 5.0% q-o-q in Q1 2020, which was slightly faster than the growth recorded in Q4 2019. LCY corporate bonds outstanding registered PHP1,579.3 billion at the end of Q1 2020, an amount that was lifted by a large volume of issuance during the quarter.

Outstanding debt from the banking sector comprised the largest share of the corporate bond market at the end of March at 41.2% (**Figure 2**). This share was up from 33.1% at the end of March 2019 as several local banks raised their funding levels over the past year. Property companies and holding firms remained in the second and third spot, respectively, comprising 22.9% and 14.8% of the market. In both cases, however, the shares were lower compared with Q1 2019.

The combined bonds outstanding of the top 30 issuers in the corporate market amounted to PHP1,388.3 billion, or 87.9% of the total debt stock in the corporate segment (**Table 2**). The top 30 issuers comprised 25 listed firms and 5 unlisted firms. Nearly half of the outstanding bonds were from the banking sector, totaling PHP609.2 million. Metropolitan Bank, BDO Unibank, Ayala Land, and SM Prime Holdings had the largest amount of bonds outstanding with over PHP100 billion each.

Bond issuances from the corporate segment in Q1 2020 sustained the momentum of the previous quarter with double-digit growth of 38.4% q-o-q. Corporate issuance amounted to PHP147.3 billion with the bulk of it coming from the banking sector. The issuance growth came on the back of strong economic prospects prior to the outbreak of COVID-19 as corporates sought to capitalize on investor optimism by tapping the bond market. The reserve requirement ratio cuts in Q4 2019, with expectations of further reductions, also unleashed liquidity that boosted demand in the market. Notable issuances during Q1 2020 included BDO Unibank's PHP40.1 billion 2.5-year bond in February, which was the single-largest bond issuance from the private sector in the Philippines to date. It was met by strong demand and fetched a coupon rate of 4.41%. Arthaland's maiden issuance of a 5-year PHP3.0 billion green bond with a 6.35% coupon rate was also noteworthy (**Table 3**).

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

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

Issuers		Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (USD billion)			
1.	Metropolitan Bank	128.3	2.5	No	Yes	Banking
2.	BDO Unibank	121.4	2.4	No	Yes	Banking
3.	Ayala Land	105.0	2.1	No	Yes	Property
4.	SM Prime Holdings	103.6	2.0	No	Yes	Property
5.	SMC Global Power	80.0	1.6	No	No	Electricity, Energy, and Power
6.	San Miguel	70.0	1.4	No	Yes	Holding Firms
7.	Bank of the Philippine Islands	64.6	1.3	No	Yes	Banking
8.	Security Bank	59.2	1.2	No	Yes	Banking
9.	Philippine National Bank	56.2	1.1	No	Yes	Banking
10.	SM Investments	52.8	1.0	No	Yes	Holding Firms
11.	Rizal Commercial Banking Corporation	48.7	1.0	No	Yes	Banking
12.	Vista Land	43.6	0.9	No	Yes	Property
13.	Petron	42.9	0.8	No	Yes	Electricity, Energy, and Power
14.	China Bank	42.7	0.8	No	Yes	Banking
15.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
16.	Aboitiz Equity Ventures	37.0	0.7	No	Yes	Holding Firms
17.	Maynilad	32.8	0.6	No	No	Water
18.	Aboitiz Power	30.5	0.6	No	Yes	Electricity, Energy, and Power
19.	Union Bank of the Philippines	26.6	0.5	No	Yes	Banking
20.	Philippine Savings Bank	25.4	0.5	No	Yes	Banking
21.	Manila Electric Company	23.0	0.5	No	Yes	Electricity, Energy, and Power
22.	Filinvest Land	22.0	0.4	No	Yes	Property
23.	San Miguel Brewery	22.0	0.4	No	No	Brewery
24.	East West Banking	20.2	0.4	No	Yes	Banking
25.	Robinsons Bank	16.0	0.3	No	No	Banking
26.	GT Capital	15.1	0.3	No	Yes	Holding Firms
27.	Doubledragon	15.0	0.3	No	Yes	Property
28.	PLDT	15.0	0.3	No	Yes	Telecommunications
29.	San Miguel Food and Beverage	15.0	0.3	No	Yes	Food and Beverage
30.	NLEX Corporation	13.9	0.3	No	No	Transport
Total Top 30 LCY Corporate Issuers		**1,388.3**	**27.4**			
Total LCY Corporate Bonds		**1,579.3**	**31.2**			
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 2020.
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 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Bank of the Philippine Island		
1-year bond	4.05	33.90
2-year bond	4.24	15.33
BDO Unibank		
2.5-year bond	4.41	40.10
SM Prime Holdings		
5-year bond	4.86	11.37
7-year bond	5.06	3.63
San Miguel Food and Beverage		
5-year bond	5.05	8.00
7-year bond	5.25	7.00
Arthaland		
5-year bond	6.35	3.00

PHP = Philippine peso.
Source: Bloomberg LP.

Investor Profile

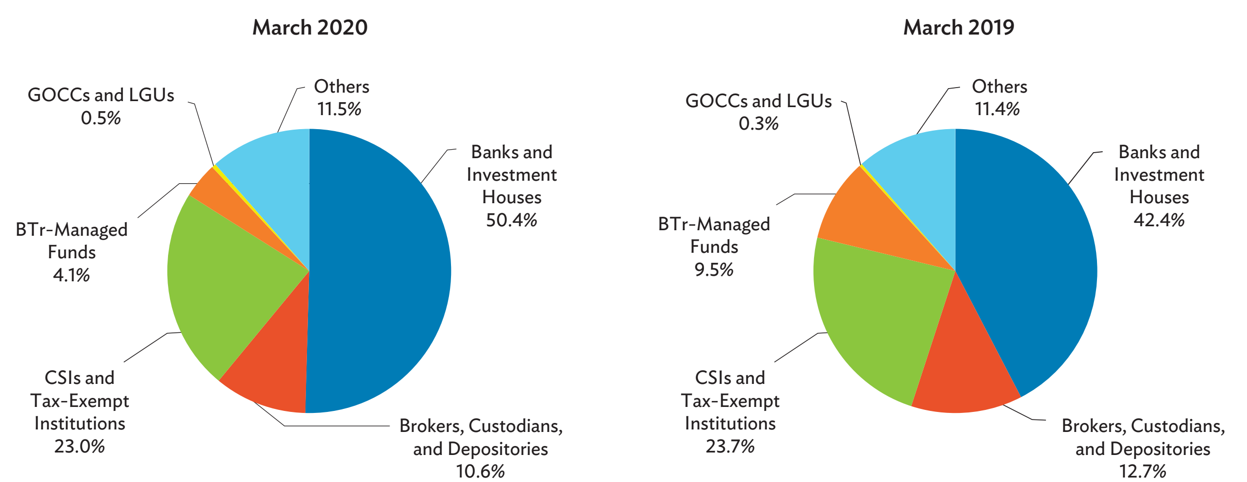
Banks and investment houses remained the largest investor in LCY government bonds at the end of March, with their combined market share among all investor groups rising to 50.4% from 42.4% from a year earlier (**Figure 3**). On the other hand, contractual savings and tax-exempt institutions; brokers, custodians, and depositories; and BTr-managed funds maintained their respective rankings but all saw declines in their respective market shares. The share of BTr-managed funds declined 5.4 percentage points from March 2019 to March 2020. The shares of the remaining investor groups were mostly unchanged.

Ratings Update

On 7 February, Rating and Investment Information Inc. (R&I) upgraded the Philippines' credit rating to BBB+ from BBB with a stable outlook. The upgrade from R&I was based on the Philippines' continued positive economic performance that is being sustained by the government's aggressive public investment, led by the accelerated infrastructure drive. R&I also noted that the government has maintained a sound fiscal position with the help of tax reforms.

On 7 May, Fitch Ratings revised its outlook for the Philippines downward to stable from positive as near-term macroeconomic and fiscal prospects deteriorated amid the global COVID-19 pandemic and the resulting domestic lockdown to control the spread of the virus. The revision came 3 months after the rating agency had upgraded its outlook to positive from stable on 11 February on the back of expectations of high growth accompanied by moderate inflation and sound fiscal conditions. Fitch Ratings affirmed the economy's BBB rating as fiscal and external buffers remained in place and medium-term growth prospects were still strong.

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.

Policy, Institutional, and Regulatory Developments

Bangko Sentral ng Pilipinas Cuts Reserve Requirement Ratio to Support the Economy amid COVID-19

The BSP announced a cut to the reserve requirement ratio (RRR) of universal and commercial banks by 200 bps on 24 March, effective on 3 April. According to the central bank, the RRR cut was intended to encourage banks to lend to the retail and corporate sectors, and to ensure that there is enough liquidity to support economic activities amid the COVID-19 pandemic. The Monetary Board has authorized the Governor of the BSP to reduce the RRR by as much as 400 bps in 2020. The BSP will assess the pandemic's ongoing impact on the domestic economy to determine the timing and extent of possible further reductions. The possibility of extending the RRR cut to other types of banks and non-bank financial institutions is being explored.

Bangko Sentral ng Pilipinas Announces Measures to Support Domestic Liquidity

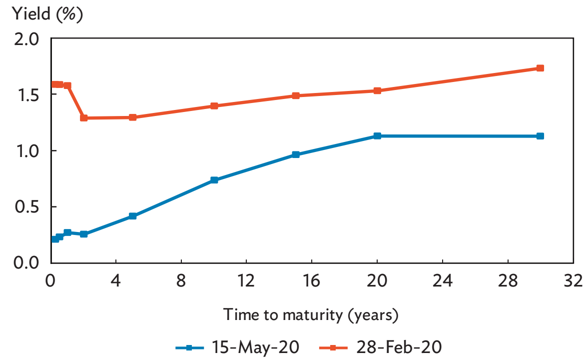
On 10 April, the BSP announced measures to support domestic liquidity to ensure stability and the proper functioning of the financial market. Based on BSP's statement, the measures include (i) purchases of government securities in the secondary market, (ii) a reduction of overnight reverse repurchase volumes to encourage counterparties to lend in the interbank market or to rechannel their funds into other assets such as government securities or loans, and (iii) a repurchase agreement with the government where the BSP shall purchase government securities worth up to PHP300 billion from the BTr.

Singapore

Yield Movements

Between 28 February and 15 May, Singapore's local currency (LCY) government bond yields declined for all tenors (**Figure 1**). The shorter-end of the yield curve (from 3 months to 1 year) declined an average of 134 basis points (bps). Yields of longer-term tenors (from 2 years to 30 years) recorded smaller declines, decreasing an average of 68 bps. The yield spread between 2-year and 10-year government bonds expanded from 11 bps to 48 bps during the review period.

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



Source: Based on data from Bloomberg LP.

The yield curve for Singapore's LCY government bonds shifted downward during the review period amid policy easing by the Monetary Authority of Singapore (MAS) on 30 March, which followed easing measures taken in October 2019. At the end of March, MAS adopted a 0.0% per annum rate of appreciation for the policy band to support the domestic economy amid disruptions caused by the coronavirus disease (COVID-19) pandemic.

In October 2019, MAS reduced slightly the appreciation rate of the Singapore dollar nominal effective exchange rate policy band. In March 2020, this rate was reduced further to 0.0%. Singapore's inflation and economic growth rates have been low since 2019, with recession fears worrying investors. The monetary policy easing supports the economy and ensures price stability over the medium-term. It also complements the Resilience Budget announced in late March.[16]

Singapore's consumer price inflation in March was 0.0% year-on-year (y-o-y) as increases in prices of food and transport were offset by declines in the cost of housing and utilities, and recreation and culture. This came after recording consumer price inflation of 0.8% y-o-y and 0.3% y-o-y in January and February, respectively. In January, MAS inflation projection for full-year 2020 was 0.5%–1.5% y-o-y. In March, the forecast was revised downward to between –1.0% and 0.0%.

Singapore's economy contracted 0.7% y-o-y in the first quarter (Q1) of 2020 after expanding 0.7% y-o-y and 1.0% y-o-y in the third quarter and fourth quarter (Q4) of 2019, respectively. In February, Singapore's Ministry of Trade and Industry downgraded its full-year 2020 economic growth to between –1.5% and –0.5% from a November 2019 forecast of between 0.5% and 2.5% as the COVID-19 pandemic was expected to affect the growth prospects of the People's Republic of China and other regional economies, leading to a decline in tourist arrivals and a contraction in domestic consumption. In March, it reduced its growth forecast to between –4.0% and –1.0% amid the escalated COVID-19 outbreak and significantly deteriorating economic activities worldwide. And in May, the forecast was revised downward further to between –7.0% and –4.0%. At the start of April, Singapore started implementing its circuit breaker, limiting movements inside the city-state to prevent the spread of COVID-19.[17]

Size and Composition

Singapore's LCY bond market expanded 2.2% quarter-on-quarter (q-o-q) in Q1 2020 to reach SGD467.2 billion (USD328.5 billion) at the end of March from SGD457.1 billion at the end of December (**Table 1**). On an annual basis, growth was up 12.5% y-o-y. The expansion in the LCY bond market was supported by growth in government and corporate bonds, which

[14] The Resilience Budget is a supplementary budget which aims to address the COVID-19 situation and its impact on the economy and society of Singapore.
[15] Circuit breaker is a set of measures implemented by the Singapore government to prevent the spread of COVID-19.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**415**	**306**	**457**	**340**	**467**	**329**	**3.1**	**8.3**	**2.2**	**12.5**
Government	256	188	286	212	293	206	4.5	11.1	2.5	14.6
SGS Bills and Bonds	130	96	183	136	188	132	3.8	7.2	2.7	44.8
MAS Bills	126	93	103	77	105	74	5.4	15.4	2.0	(16.5)
Corporate	160	118	171	127	174	123	0.9	4.0	1.7	9.2

( ) = negative, 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 SGS held by the Singapore Central Provident Fund.
3. Bloomberg LP end-of-period local currency–USD rates are used.
4. Growth rates are calculated from local currency base and do not include currency effects.
Sources: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

accounted for 62.7% and 37.3%, respectively, of total LCY bonds outstanding at the end of Q1 2020.

Issuance of LCY bonds in Q1 2020 increased 1.3% q-o-q to SGD177.8 billion from SGD175.6 billion in Q4 2019, driven by both rising government and corporate bond issuance.

Government bonds. The LCY government bond market grew 2.5% q-o-q to SGD292.8 billion in Q1 2020 from SGD285.7 billion in the previous quarter. The growth was due to increases in Singapore Government Securities (SGS) bills and bonds, and MAS bills. Outstanding SGS bills and bonds, which comprised 64.1% of total outstanding LCY government bonds, jumped 2.7% q-o-q as 6-month SGS bills gradually replaced 24-week MAS bills starting July 2019. By the end of March, outstanding MAS bills had dropped 16.5% on an annual basis.

LCY government bond issuance in Q1 2020 marginally rose 0.6% q-o-q as lower issuance of SGS bills and bonds was offset by slightly higher MAS bills issuance.

Corporate bonds. LCY corporate bonds outstanding increased 1.7% q-o-q to SGD174.4 billion in Q1 2020 from SGD171.4 billion in Q4 2019, buoyed by the increase in outstanding corporate bonds in the real estate industry.

The top 30 LCY corporate bond issuers in Singapore accounted for combined outstanding bonds of SGD83.1 billion, or 47.7% of total LCY corporate bonds outstanding at the end of Q1 2020 (**Table 2**). Government institutions such as the Housing & Development Board and the Land Transport Authority remained the largest issuers with outstanding LCY corporate bonds amounting to SGD24.4 billion (14.0% of total LCY corporate bonds outstanding) and SGD10.4 billion (6.0% of total LCY corporate bonds outstanding), respectively. By industry type, real estate companies continued to comprise the largest share (43.9%) among the top 30 issuers of LCY corporate bonds with SGD36.5 billion of LCY corporate bonds outstanding at the end of Q1 2020. Although its share slightly dropped compared with the previous quarter, the transport industry still had the second-largest share of total LCY corporate bonds outstanding at 18.7% (SGD15.6 billion).

Issuance of LCY corporate bonds soared 44.9% q-o-q in Q1 2020 after tepid issuance during the last quarter of 2019.

The Housing & Development Board issued the single-largest LCY corporate bond in Q1 2020, issuing a SGD700.0 million 7-year bond with a coupon rate of 1.76% under its Multicurrency Medium-Term Note Programme (**Table 3**). Proceeds from the issuance will be used to finance the real estate company's development programs and working capital needs, and to refinance existing obligations. PSA Treasury and Singapore Press Holdings both issued SGD500.0 million 10-year bonds, the longest tenor issued during the quarter. PSA Treasury will use the proceeds to support general corporate activities and to refinance existing borrowing, while Singapore Press Holdings plans on utilizing issuance

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	24.4	17.2	Yes	No	Real Estate
2.	Land Transport Authority	10.4	7.3	Yes	No	Transportation
3.	Singapore Airlines	4.4	3.1	Yes	Yes	Transportation
4.	Frasers Property	4.0	2.8	No	Yes	Real Estate
5.	United Overseas Bank	3.3	2.3	No	Yes	Banking
6.	Mapletree Treasury Services	2.7	1.9	No	No	Finance
7.	Capitaland Treasury	2.7	1.9	No	No	Finance
8.	Temasek Financial	2.6	1.8	Yes	No	Finance
9.	DBS Group Holdings	2.5	1.8	No	Yes	Banking
10.	Keppel Corporation	2.4	1.7	No	Yes	Diversified
11.	Sembcorp Financial Services	2.4	1.7	No	No	Engineering
12.	Capitaland	1.8	1.3	Yes	Yes	Real Estate
13.	City Developments Limited	1.7	1.2	No	Yes	Real Estate
14.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
15.	CMT MTN	1.4	1.0	No	No	Finance
16.	Shangri-La Hotel	1.4	1.0	No	Yes	Real Estate
17.	GLL IHT	1.3	0.9	No	No	Real Estate
18.	SP Powerassets	1.3	0.9	No	No	Utilities
19.	Public Utilities Board	1.3	0.9	Yes	No	Utilities
20.	Singtel Group Treasury	1.2	0.8	No	No	Finance
21.	Mapletree Commercial Trust	1.1	0.7	No	Yes	Real Estate
22.	Singapore Press Holdings	1.0	0.7	No	Yes	Communications
23.	Hyflux	0.9	0.6	No	Yes	Utilities
24.	Ascendas	0.9	0.6	No	Yes	Finance
25.	Olam International	0.8	0.6	No	Yes	Consumer Goods
26.	Suntec REIT	0.8	0.6	No	Yes	Real Estate
27.	DBS Bank	0.8	0.6	No	Yes	Banking
28.	SMRT Capital	0.8	0.6	No	No	Transportation
29.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
30.	Singapore Technologies Telemedia	0.8	0.6	Yes	No	Utilities
Total Top 30 LCY Corporate Issuers		**83.1**	**58.4**			
Total LCY Corporate Bonds		**174.4**	**122.6**			
Top 30 as % of Total LCY Corporate Bonds		**47.7%**	**47.7%**			

LCY = local currency, MTN = medium-term note, REIT = real estate investment trust, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 31 March 2020.
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 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing & Development Board		
7-year bond	1.76	700.0
PSA Treasury		
10-year bond	1.63	500.0
Singapore Press Holdings		
10-year bond	3.20	500.0
Oxley Holdings		
3-year bond	6.50	75.0
Aspial Corporation		
3-year bond	6.50	50.0

SGD = Singapore dollar.
Source: Bloomberg LP.

proceeds for working capital, capital expenditure, and debt refinancing. The highest coupon rate in Q1 2020 was offered by Oxley Holdings and Aspial Corporation, which both issued 3-year bonds. Oxley Holdings' issuance was drawn from its Euro Medium-Term Note Programme. Aspial Corporation will use the proceeds from the issuance to fund general corporate use and to refinance debt obligations.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore and Federal Reserve Establish Swap Facility

On 19 March, MAS and the United States Federal Reserve established a USD60.0 billion swap facility to address liquidity concerns amid the COVID-19 pandemic. In place for at least 6 months, the swap facility provides stable liquidity conditions in the US dollar funding market in Singapore. It also complements MAS' management of the Singapore dollar market. Together, these measures reinforce the robustness and efficiency of Singapore's financial market.

Monetary Authority of Singapore Adjusts Regulations to Support Financial Institutions

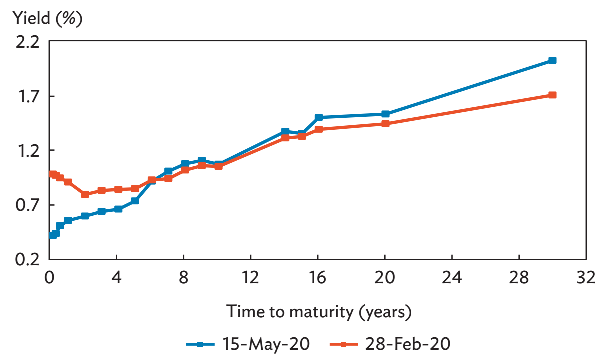
On 7 April, MAS adjusted regulatory and supervisory measures to support financial institutions as they deal with the impacts of the COVID-19 pandemic. To help financial institutions sustain their lending activities, MAS adjusted downward the net stable funding ratio requirement to 25% from 50%. It will also allow financial institutions to factor in the government's fiscal assistance and banks' relief measures in accounting loan loss allowances. As businesses focus on managing the impact of COVID-19, the implementation of Basel III reforms for Singaporean banks has been deferred for 1 year. MAS will coordinate with financial institutions for revised timelines for the submission of regulatory reports. Regular on-site inspections and supervisory visits will be suspended indefinitely; MAS assessments will focus instead on how financial institutions handle the impacts of COVID-19 on their businesses.

Thailand

Yield Movements

Between 28 February and 15 May, the local currency (LCY) government bond yield curve in Thailand shifted downward at the shorter-end and slightly upward at the longer-end (**Figure 1**). Yields fell an average of 28 basis points (bps) for tenors with maturities of up to 6 years, while yields rose an average of 9 bps for tenors with maturities of 7 years or longer. The 1-month bill exhibited the steepest drop at 55 bps, while the 30-year bond showed the largest gain at 31 bps. On average, yields dropped 10 bps across all tenors. The spread between the 2-year and 10-year tenors widened from 25 bps on 28 February to 47 bps on 15 May.

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



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

The decline in yields at the shorter-end of the curve stemmed primarily from the easing of the Bank of Thailand's (BOT) monetary policy in response to the economic headwinds brought by the coronavirus disease (COVID-19). The BOT cut its benchmark policy rate by 25 bps three times during the review period, bringing it to a record low of 0.50%. Aside from the policy rate reduction, the BOT also expressed its readiness to use additional monetary measures if necessary.

The uptick in longer-term bond yields was partly due to capital outflows from the Thai bond market. Risk-off sentiment, brought about by softening global growth and exacerbated by uncertainties due to COVID-19, drove investors away from emerging market assets, including Thai sovereign bonds. Between February and April, the Thai bond market recorded net foreign outflows totaling THB131.3 billion. Domestic demand was also depressed, resulting in heightened volatility and tight liquidity in the Thai bond market, particularly for longer-dated tenors. In March, the BOT tapered its bond issuances and cancelled some offerings to improve market liquidity and reduce volatility.

Another factor contributing to the upward pressure on long-term bond yields were the declining growth prospects and heightened risk associated with the economic fallout from COVID-19. Thailand's economy is highly reliant on exports and tourism, which were both battered by travel bans and social distancing measures imposed by governments around the world to contain the pandemic.

Thailand's economy fell into recession in the first quarter (Q1) of 2020, with gross domestic product shrinking 1.8% year-on-year (y-o-y), the deepest contraction since the fourth quarter (Q4) of 2011. Consumption growth slowed to 3.0% y-o-y in Q1 2020 from 4.1% y-o-y in Q4 2019. Government spending and investment dropped 2.7% y-o-y and 6.5% y-o-y, respectively. Exports of goods and services plunged 6.7% y-o-y, while imports of goods and services dipped 2.5% y-o-y. In May, the National Economic and Social Development Council revised its forecast for full-year 2020 gross domestic product growth to a contraction of 5.0%–6.0% from an earlier projection of 1.5%–2.5% growth.

Consumer price inflation fell 3.0% y-o-y in April, following a 0.5% y-o-y drop in March. The deflation resulted from a plunge in energy prices and a reduction in costs of goods and services due to government support measures. The headline inflation rate has been well below the BOT's target range of 1.0%–3.0%. The central bank expects inflation to remain in negative territory for the rest of the year amid subdued energy prices.

The Thai baht depreciated 1.7% against the United States dollar between 28 February and 15 May as weak investor confidence and risk aversion drove foreign capital away from Thai assets, dampening demand for the baht. Prior to the onset of COVID-19, the baht had been outperforming its regional peers. The BOT has expressed concern over the possible strengthening of the baht, which could undermine economic recovery.

Size and Composition

Thailand's LCY bonds outstanding amounted to THB13,168.9 billion (USD402.1 billion) at the end of March after a 0.5% quarter-on-quarter (q-o-q) contraction in Q1 2020 (**Table 1**). The decline reversed the 2.2% q-o-q rise seen in Q4 2019. A contraction in the government bond segment, coupled with tepid growth in the corporate bond segment, drove the quarterly decline in outstanding LCY bonds. On an annual basis, the growth of outstanding LCY bonds decelerated to 4.1% y-o-y in Q1 2020 from 16.0% y-o-y in the previous quarter. The Thai bond market is largely composed of government bonds, which accounted for 71.0% of the total bonds outstanding at the end of March.

Government bonds. The size of the LCY government bond market stood at THB9,353.3 billion at the end of March, with the 1.0% q-o-q contraction in Q1 2020 reversing the 2.5% q-o-q growth posted in Q4 2019. BOT bonds and state-owned enterprise and other bonds posted contractions of 6.1% q-o-q and 1.4% y-o-y, respectively. In contrast, the growth of government bonds and Treasury bills picked up, rising 2.8% q-o-q in Q1 2020 after a 2.3% q-o-q increase in the previous quarter. On an annual basis, the growth of total government bonds outstanding decelerated to 2.7% y-o-y in Q1 2020 from 15.2% y-o-y in the previous quarter.

Total issuance from the government amounted to THB2,032.5 in Q1 2020, with the 3.7% q-o-q growth reversing the 0.9% q-o-q contraction in the previous quarter. The growth stemmed solely from an expansion in the issuance of BOT bonds, which rose 5.2% q-o-q. There were no new issuances of state-owned enterprise and other bonds, while government bonds and Treasury bills contracted 11.1% q-o-q in Q1 2020. On a y-o-y basis, issuance of government bonds dropped 8.8%, brought down by contractions in the issuance of government bonds and Treasury bills, as well as BOT bonds.

Corporate bonds. Outstanding corporate bonds totaled THB3,815.5 billion at the end of Q1 2020, with q-o-q growth decelerating to 0.8% from 1.6% in the previous quarter. Annual growth was also weaker at 7.9% y-o-y in Q1 2020 compared with 18.0% y-o-y in Q4 2019. The contraction in corporate bonds outstanding was due to a sharp drop in issuance during the review period. Corporate issuance plunged 12.5% q-o-q and 28.6% y-o-y as the onset of the COVID-19 pandemic and the government's containment measures caused wide-scale disruptions in business activities, raising volatility and depressing demand for corporate bonds.

The LCY bonds outstanding of the top 30 corporate issuers amounted to THB2,142.4 billion at the end of March, accounting for 56.1% of the total corporate bond market (**Table 2**). Among the top 30 issuers, food and beverage, commerce, banking, and communication firms together held over half of the outstanding bond stock. Food and beverage firms dominated the list, with total bonds outstanding amounting to THB411.1 billion from five issuers. The majority of the top 30 issuers were listed in the Thai Stock Exchange, while only five were state-owned. Thai Beverage remained the top issuer, with outstanding debt of THB179.5 billion at the end

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**12,649**	**399**	**13,236**	**446**	**13,169**	**402**	**1.6**	**10.9**	**(0.5)**	**4.1**
Government	9,111	287	9,451	318	9,353	286	1.4	11.1	(1.0)	2.7
Government Bonds and Treasury Bills	4,774	150	4,940	166	5,079	155	0.8	7.9	2.8	6.4
Central Bank Bonds	3,579	113	3,718	125	3,492	107	3.0	20.5	(6.1)	(2.4)
State-Owned Enterprise and Other Bonds	758	24	793	27	782	24	(1.7)	(6.2)	(1.4)	3.1
Corporate	3,538	111	3,786	127	3,816	117	2.3	10.3	0.8	7.9

( ) = negative, 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 local currency–USD rates are used.
3. Growth rates are calculated from local currency 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.	Thai Beverage	179.5	5.5	No	No	Food and Beverage
2.	Siam Cement	172.8	5.3	Yes	Yes	Construction Materials
3.	CP All	152.8	4.7	No	Yes	Commerce
4.	Bank of Ayudhya	135.2	4.1	No	Yes	Banking
5.	True Move H Universal Communication	121.2	3.7	No	No	Communications
6.	Berli Jucker	119.2	3.6	No	Yes	Commerce
7.	Charoen Pokphand Foods	100.3	3.1	No	Yes	Food and Beverage
8.	True Corp	91.4	2.8	No	No	Communications
9.	Toyota Leasing Thailand	87.2	2.7	No	No	Finance and Securities
10.	PTT	82.4	2.5	Yes	Yes	Energy and Utilities
11.	Thai Airways International	74.3	2.3	Yes	Yes	Transportation and Logistics
12.	Minor International	66.9	2.0	No	Yes	Hospitality and Leisure
13.	Indorama Ventures	65.3	2.0	No	Yes	Petrochemicals and Chemicals
14.	CPF Thailand	59.5	1.8	No	No	Food and Beverage
15.	Banpu	49.5	1.5	No	Yes	Energy and Utilities
16.	Bangkok Commercial Asset Management	45.8	1.4	No	Yes	Finance and Securities
17.	Krungthai Card	45.8	1.4	Yes	Yes	Banking
18.	Krung Thai Bank	45.5	1.4	Yes	Yes	Banking
19.	Global Power Synergy	42.7	1.3	No	Yes	Energy and Utilities
20.	PTT Global Chemical	41.4	1.3	No	Yes	Petrochemicals and Chemicals
21.	Land & Houses	39.5	1.2	No	Yes	Property and Construction
22.	TPI Polene	39.3	1.2	No	Yes	Property and Construction
23.	Mitr Phol Sugar Corp	38.4	1.2	No	No	Food and Beverage
24.	Bangkok Expressway & Metro	37.5	1.1	No	Yes	Transportation and Logistics
25.	TMB Bank	37.2	1.1	No	Yes	Finance and Securities
26.	Muangthai Capital	36.7	1.1	No	Yes	Finance and Securities
27.	Sansiri	36.0	1.1	No	Yes	Property and Construction
28.	Thai Union Group	33.4	1.0	No	Yes	Food and Beverage
29.	Frasers Property Thailand	33.0	1.0	No	Yes	Property and Construction
30.	CH Karnchang	32.8	1.0	No	Yes	Property and Construction
Total Top 30 LCY Corporate Issuers		**2,142.4**	**65.4**			
Total LCY Corporate Bonds		**3,815.5**	**116.5**			
Top 30 as % of Total LCY Corporate Bonds		**56.1%**	**56.1%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 31 March 2020.
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.

of March. Siam Cement remained the second-largest issuer, with total bonds worth THB172.8 billion at the end of March. CP All, Bank of Ayudhya, True Move H Universal Communication, Berli Jucker, and Charoen Pokphand Foods were the next largest issuers, all with bonds outstanding over THB100.0 billion at the end of March.

In Q1 2020, Berli Jucker issued the largest amount of corporate debt totaling THB12.0 billion, comprising bonds with tenors ranging from 3 years to 10 years and carrying coupons ranging from 1.40% to 2.43% (**Table 3**). Toyota Leasing was the second-largest issuer during the quarter, with total issuance amounting to THB8.0 billion from bonds with tenors ranging from 1.5 years to 3 years and coupons ranging from 1.22% to 1.34%. Bank of Ayudhya, True Corp, and Frasers Property were the next largest issuers, with issuances amounting to THB7.0 billion, THB5.5 billion, and THB5.0 billion, respectively.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Berli Jucker		
3-year bond	1.40	1.0
5-year bond	1.63	1.0
8-year bond	2.16	7.0
10-year bond	2.43	3.0
Toyota Leasing		
1.5-year bond	1.22	2.0
2.1-year bond	1.27	3.0
3-year bond	1.34	3.0
Bank of Ayudhya		
2-year bond	1.44	2.9
3-year bond	1.57	4.1
True Corp		
1.2-year bond	2.88	0.5
3-year bond	3.43	4.3
5.5-year bond	4.65	0.7
Frasers Property		
3-year bond	2.00	0.5
3.5-year bond	2.10	1.0
5-year bond	2.36	1.8
7-year bond	2.85	0.5
10-year bond	3.20	1.2

THB = Thai baht.
Source: Bloomberg LP.

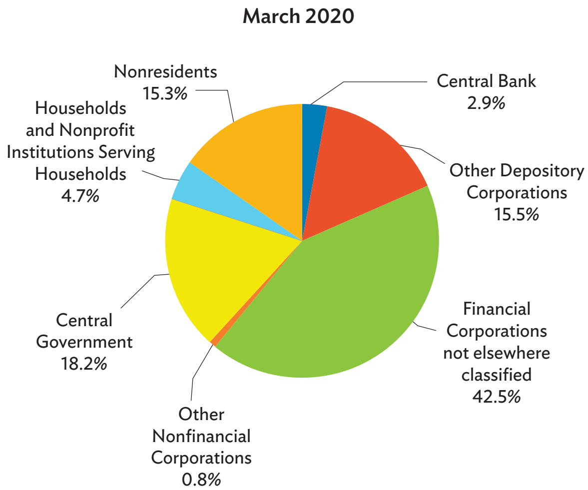
Investor Profile

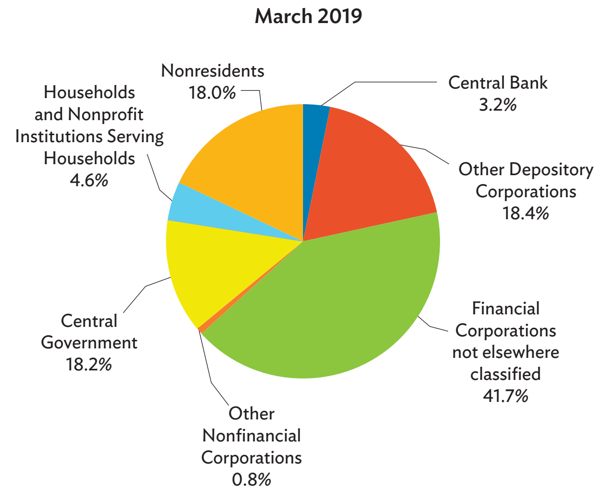
Central government bonds. The profile of LCY government bonds investors at the end of March was little changed from last year (**Figure 2**). The combined shares of the four largest holders of LCY government bonds in Thailand remained at 91.5% at the end of March. Financial corporations continued to hold the largest share of government bonds, with their share inching up to 42.5% at the end of March from 41.7% a year earlier. Between March 2019 and March 2020, the central government's share of government bond holdings rose to 18.2% from 13.5%, while that of the BOT dipped to 15.5% from 18.4%. During the same period, the share of nonresidents dropped to 15.3% from 18.0% amid foreign capital outflows from Thailand's government bond market as investors reduced their holdings of emerging market sovereign bonds amid rising uncertainty. The BOT bought government bonds worth THB100.0 billion in the week of 13–20 March to inject liquidity into the bond market given the thin demand for government bonds.

Central bank bonds. Between March 2019 and March 2020, the combined shares of the four largest holders of BOT bonds rose to 96.1% from 92.3% (**Figure 3**). Other depository corporations held the largest share of BOT bonds at 49.5%, up from 37.6% a year earlier. Financial corporations remained the second-largest holder of BOT bonds, although their share of the total holdings fell to 21.7% at the end of March 2020 from 31.2% the year before. The BOT and the central government remained the next largest holders of BOT bonds. The BOT's holdings of its LCY bonds nearly doubled to 16.0% at the end of March 2020 from 8.8% a year earlier. The central government's share dipped to 8.9% in March 2020 from 14.7% the year before. Nonresidents held a marginal amount of LCY BOT bonds at the end of March 2020 at 1.1%, down from 2.5% a year earlier.

Foreign investors in Thailand's LCY bond market recorded net outflows of THB101.8 billion in Q1 2020, following net outflows of THB5.5 billion in Q4 2019 (**Figure 4**). The capital outflows in Q1 2020 were the largest quarterly totals in the last 3 years. The Thai bond market saw net foreign fund outflows for most of 2019 but experienced a slight reprieve in December and January with net inflows of THB3.9 billion and THB11.4 billion, respectively. However, the spread of COVID-19 in Thailand once again prompted an exodus of foreign funds, with outflows amounting to THB21.3 billion in February and THB91.9 billion in March. In April, smaller outflows of

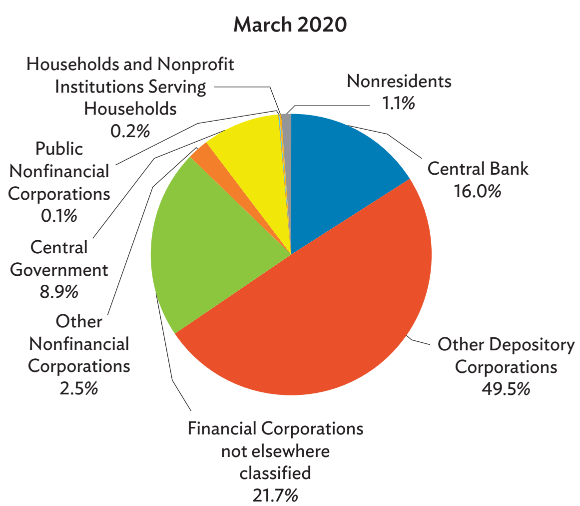
Figure 2: Local Currency Government Bonds Investor Profile

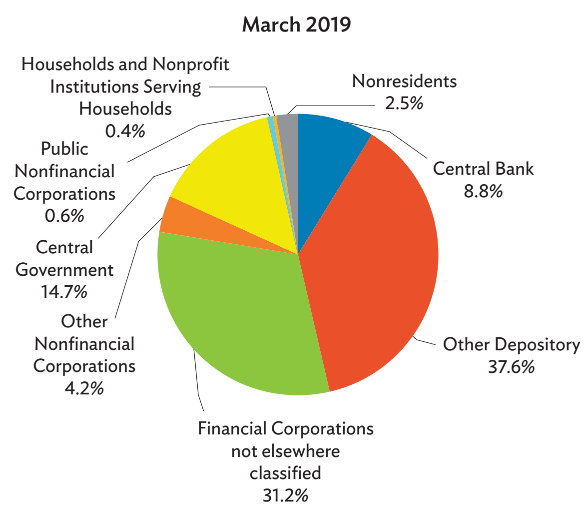




Notes:
1. Government bonds include Treasury bills and bonds.
2. Local Government not presented in the chart due to its relatively small shares of 0.005% in March 2019 and 0.00003% in March 2020.
Sources: *AsianBondsOnline* and Bank of Thailand.

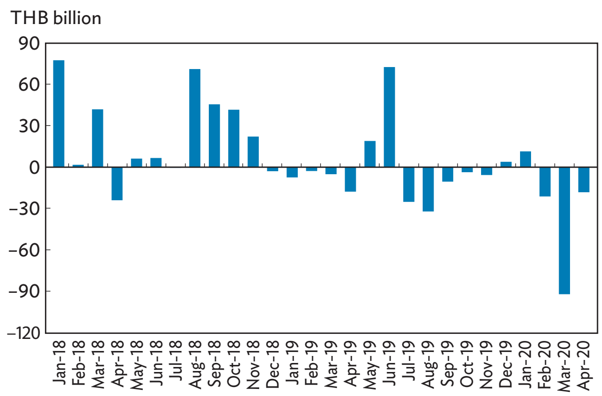
Figure 3: Local Currency Central Bank Securities Investor Profile





Source: Bank of Thailand.

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



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

THB18.1 billion were recorded as the Government of Thailand approved a stimulus package worth at least THB117.0 billion to mitigate the impact of COVID-19 on the economy.

Ratings Update

On 14 April, S&P Global revised downward its outlook on Thailand to stable from positive amid uncertainties over the extent of economic fallout from the COVID-19 pandemic. The revised outlook reflected the rating agency's assessment that the risks being generated by COVID-19 and the ensuing containment efforts could delay the political transition under the civilian government. The rating agency noted that another downgrade is possible if the sluggish economic recovery continues. It affirmed Thailand's BBB+ long-term and A-2 short-term foreign currency sovereign credit ratings.

Policy, Institutional, and Regulatory Developments

Public Debt Management Office to Issue Shorter-Dated Bonds

In March, the Public Debt Management Office (PDMO) announced that it will adjust its bond issuance plan to include shorter-dated bonds amid weak demand for government bonds due to heightened uncertainties caused by the COVID-19 pandemic. The PDMO announcement came after a wave of fixed-income redemptions as alarm over COVID-19 drove investors to switch from debt instruments to cash.

Bank of Thailand Implements Measures to Stabilize Bond Market

In March, the BOT implemented several measures to alleviate the impact of COVID-19 on the Thai bond market. It established a mutual fund liquidity facility to provide liquidity for mutual funds through commercial banks. The BOT promised to inject about THB1.0 trillion into the bond market through the facility, which will be available until market conditions normalize. Commercial banks that buy investment units of high-quality mutual funds in money market and daily fixed-income funds can apply for liquidity support and use the underlying investment assets as collateral.

Along with the Thai Bankers' Association, the Government Savings Bank, Thai insurance providers, and the Government Pension Fund, the BOT also launched a Corporate Bond Stabilization Fund amounting to THB70 billion–THB100 billion. The fund will be used to inject liquidity into the corporate bond market by buying newly issued investment-grade bonds by corporates that cannot fully rollover maturing debt. The BOT will also continue to purchase government bonds to ensure stability in the government bond market.

Bank of Thailand Revises Bond Issuance Program

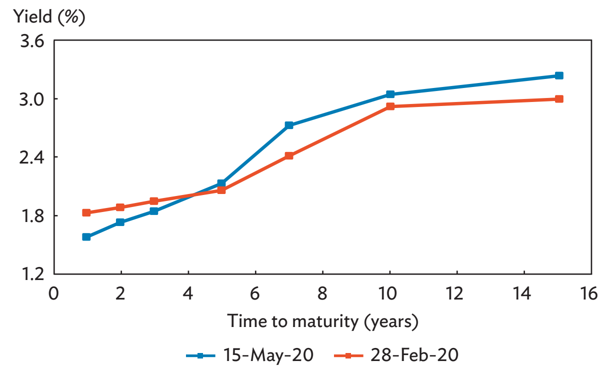
On 11 May, the BOT launched a revised bond issuance program for 2020 to accommodate the government's financing needs to fund relief measures and respond to changes in investor sentiment amid the COVID-19 pandemic. The auction days and frequency will remain as announced at the beginning of the year, but the BOT may adjust the issue sizes and will notify market participants of relevant changes at least 2 days before the auction dates. If necessary, the BOT will adjust the auction frequency of 3-month and 6-month BOT bills and of fixed-coupon bonds to accommodate the issuance schedule of Treasury bills and government bonds of comparable tenors. The ranges and minimum issue size per auction were expanded to between TH10.0 billion and THB60.0 billion for all maturities of BOT bills. The BOT will closely coordinate with the PDMO and take into consideration domestic and global market conditions in setting the issue sizes of BOT bills and bonds.

Viet Nam

Yield Movements

Viet Nam's local currency (LCY) bond yield curve shifted downward for short-term tenors and upward for medium- to long-term tenors between 28 February and 15 May (**Figure 1**). Bonds with maturities of 3 years or less saw yield falls between 10 basis points (bps) and 25 bps. The yield for the 1-year bond fell the most, dipping 25 bps. In contrast, yields for 7- to 15-year bonds were up between 13 bps and 31 bps, while the yield for the 5-year bond only rose 7 bps. The opposing movements at the different ends of the yield curve led to a widening of the 2-year versus 10-year yield spread from 103 bps to 131 bps during the review period.

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



Source: Based on data from Bloomberg LP.

The yield decline at the shorter-end of the curve can be traced to the interest rate cuts of the State Bank of Vietnam (SBV). The central bank cut its key policy rate to 4.5% from 5.0% on 13 May, following a 100-bps cut on 17 March, resulting in a cumulative 150-bps rate reduction for the year through the middle of May. The aggressive stance of the SBV's interest rate reduction sought to spur the domestic economy against the negative impact of the coronavirus disease (COVID-19) pandemic, which is in line with many central banks' unprecedented rate cuts around the world. Amid such an uncertain economic environment, investors are resorting to holding safe assets like government securities in the short-run, taking a wait-and-see approach to developments in the COVID-19 pandemic.

On the other hand, the increase in yields at the medium- to longer-end of the curve reflects investors seeking higher returns at the same time the government needs to secure money to finance its socioeconomic development programs to support the economy. Some upward bias, especially at the longer-end of the curve, can be observed amid rising expectations of expanded and extended fiscal stimulus. The upward pressure therefore reflects investors demanding a higher premium to invest in longer-term bonds.

Viet Nam's economic expansion decelerated in the first quarter (Q1) of 2020 due to the global pandemic, with gross domestic product growth significantly moderating to 3.8% year-on-year (y-o-y) from 7.0% y-o-y in the fourth quarter (Q4) of 2020. The economy's growth hit a 10-year low as the pandemic took a toll on the domestic economy. All key sectors bore the brunt of the pandemic, recording slower y-o-y growth rates in Q1 2020 than in the previous quarter as activities were halted due to strict measures to mitigate the spread of the virus.

Prices of consumer goods in Viet Nam slightly moderated to 2.4% in May from 2.9% y-o-y in April, largely due to lower prices for oil. Falling oil prices caused the transport group's price index to drop sharply by 23.4% y-o-y. Postal services and telecommunication, and culture, entertainment, and tourism also saw negative y-o-y price growth, while the rest of the commodity groups saw price increases. On a month-on-month (m-o-m) basis, consumer prices marginally declined 0.03% in May. In the first 5 months of 2020, the inflation rate reached 4.4% y-o-y.

The Vietnamese dong has been relatively stable against the United States dollar thus far in 2020, trading at VND23,349 per USD1 on 15 May, which reflected a marginal depreciation of 0.8% from the start of the year. A decrease in exports and remittances amid subdued global economic activities affected the supply of foreign exchange in the system. However, with large abundant foreign exchange reserves and the appropriate management of monetary policies by SBV, the exchange rate has been kept stable.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,201,959	52	1,243,214	54	1,360,742	58	0.8	0.5	9.5	13.2
Government	1,092,228	47	1,141,009	49	1,260,287	53	0.9	(2.4)	10.5	15.4
Treasury Bonds	919,151	40	978,904	42	970,246	41	2.3	9.0	(0.9)	5.6
Central Bank Bills	4,900	0	0	0	136,986	6	–	(94.6)	–	2,695.6
Government-Guaranteed and Municipal Bonds	168,177	7	162,105	7	153,055	6	(8.5)	(9.0)	(5.6)	(9.0)
Corporate	109,731	5	102,205	4	100,455	4	(0.1)	43.7	(1.7)	(8.5)

– = not applicable, ( ) = negative, 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 local currency–USD rates are used.
2. Growth rates are calculated from local currency base and do not include currency effects.
Sources: Bloomberg LP and Vietnam Bond Market Association.

Size and Composition

Viet Nam's LCY bonds outstanding totaled VND1,360.7 trillion at the end of March. The market expanded 9.5% quarter-on-quarter (q-o-q) in Q1 2020 after recording a decline in Q4 2019. The rebound was entirely driven by the government segment as outstanding bonds in the corporate sector remained subdued. On an annual basis, overall market growth accelerated to 13.2%y-o-y in Q1 2020 from 4.3% y-o-y in the previous quarter. Government bonds comprised the bulk of the bond market with a 92.6% share at the end of the quarter versus a 7.4% share for corporate bonds.

Government bonds. Total LCY government bonds outstanding at the end of Q1 2020 amounted to VND1,260.3 trillion on a rebound in growth to 10.5% q-o-q after a decline in the preceding quarter. The increase in market size in Q1 2020 was solely driven by the jump in the stock of central bank bills. On the other hand, outstanding Treasury bonds and outstanding government-guaranteed and municipal bonds decreased in Q1 2020.

Outstanding central bank bills totaled VND137.0 trillion at the end of Q1 2020, up from zero in Q4 2019 on new issuances during the quarter after all previously outstanding central bank bills had matured in Q4 2019.

Treasury bonds outstanding saw a marginal decline of 0.9% q-o-q in Q1 2020 to VND970.2 trillion despite the government issuing VND33.5 trillion during the quarter. The decline can be attributed to an increase in maturities in Q1 2020. At the same time, Treasury bonds accounted for the largest share of the government bond stock at the end of March, accounting for 77.0% of the total.

The State Treasury had planned to raise VND50 trillion–VND60 trillion via government bond issuance in Q1 2020. However, the bond sales were not well supported by investors as yields are at historic lows. As a result, issuance during the quarter fell short.

Government-guaranteed and municipal bonds outstanding contracted in Q1 2020 after increasing in Q4 2019. Together they amounted to VND153.1 billion, reflecting a decline of 5.6% q-o-q. On a yearly basis, this bond segment declined 9.0% y-o-y.

Corporate bonds. Corporate bonds outstanding leveled off at VND100.5 trillion at the end of Q1 2020, reflecting a decline of 1.7% q-o-q and 8.5% y-o-y. The primary reason for the decline was the absence of new issuance in Q1 2020 as well as the maturation of some outstanding debt during the quarter. Furthermore, a number of corporates in Viet Nam issue bonds through private placements in which information is mostly undisclosed.[16]

The aggregated bond outstanding of the top 30 issuers in Viet Nam's corporate market amounted to VND96.9 trillion (**Table 2**). This nearly comprised the total debt stock of the corporate segment as there are

[16] *AsianBondsOnline* data on corporate bonds in Viet Nam is obtained from Bloomberg. 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	0.53	No	Yes	Real Estate
2.	Masan Consumer Holdings	11,100	0.47	No	No	Diversified Operations
3.	Asia Commercial Joint Stock Bank	8,300	0.35	No	No	Banking
4.	Vietnam Joint Stock Commercial Bank for Industry and Trade	8,200	0.35	Yes	Yes	Banking
5.	Vinpearl	7,500	0.32	No	No	Hotel Operator
6.	Vingroup	7,000	0.30	No	Yes	Real Estate
7.	Lien Viet Post Joint Stock Commercial Bank	3,100	0.13	No	Yes	Banking
8.	Hoang Anh Gia Lai	3,000	0.13	No	Yes	Real Estate
9.	Vietnam Technological and Commercial Joint Stock Bank	3,000	0.13	No	No	Banking
10.	Bank for Investment and Development of Vietnam	2,700	0.11	Yes	Yes	Banking
11.	Sai Dong Urban Investment and Development	2,600	0.11	No	No	Real Estate
12.	Ho Chi Minh City Infrastructure Investment	2,470	0.10	No	Yes	Infrastructure
13.	Hoan My Medical	2,330	0.10	No	No	Health-care Services
14.	Refrigeration Electrical	2,318	0.10	No	Yes	Manufacturing
15.	Vietnam International Commercial Bank	2,203	0.09	No	Yes	Agriculture
16.	Hong Phong 1 Energy	2,150	0.09	No	No	Utility
17.	Agro Nutrition International	2,000	0.08	No	No	Agriculture
18.	Joint Stock Commercial Bank for Foreign Trade of Vietnam	2,000	0.08	Yes	Yes	Banking
19.	Nui Phao Mining	1,710	0.07	No	No	Mining
20.	Masan Group	1,500	0.06	No	Yes	Finance
21.	Masan Resources	1,500	0.06	No	Yes	Mining
22	SSI Securities	1,150	0.05	No	Yes	Finance
23.	Mobile World Investment	1,135	0.05	No	Yes	Manufacturing
24.	Pan Group	1,135	0.05	No	Yes	Consumer Services
25.	Sai Gon Thuong Tin Real Estate	870	0.04	No	Yes	Real Estate
26.	TTC Education Joint Stock Company	801	0.03	No	No	Education Services
27.	Vietnam Bank for Agriculture and Rural Development	760	0.03	Yes	No	Banking
28.	Nam Long Investment	660	0.03	No	Yes	Real Estate
29.	Saigon-Hanoi Securities	650	0.03	No	Yes	Finance
30.	Khang Dien House	534	0.02	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**96,876**	**4.10**			
Total LCY Corporate Bonds		**100,455**	**4.25**			
Top 30 as % of Total LCY Corporate Bonds		**96.4%**	**96.4%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 31 March 2020.
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.

only 46 companies currently tapping the bond market. Companies in the banking and real estate sectors are the top fundraisers with VND28.1 trillion and VND27.2 trillion of outstanding bonds, respectively, at the end of March. Together, these two sectors comprise over half of the total corporate bond market. Of the top 30, 19 are listed companies, 11 are unlisted companies, and 4 are state-owned enterprises.

Ratings Update

On 8 April, Fitch Ratings revised its outlook on Viet Nam downward to stable from positive but maintained the economy's credit rating of BB. The outlook revision reflects decelerating economic growth in the near-term due to the impact of the COVID-19, which resulted in muted domestic demand and the abatement of many activities in the export and tourism sectors. Strict measures intended to contain the spread of the virus largely contributed to the weakening. The affirmation of the BB rating was based on medium-term growth prospects, which remained strong, coupled with a sound fiscal position and healthy external finances.

On 21 May, S&P Global maintained Viet Nam's sovereign credit rating at BB with a stable outlook. The rate affirmation reflected the economy's strong macroeconomic performance and improved government institutional settings, which remained intact amid the ongoing global COVID-19 pandemic. The stable outlook was based on the economy's strong growth potential following a deceleration due to the COVID-19 pandemic.

Policy, Institutional, and Regulatory Developments

State Bank of Vietnam Issues Circular on Reserve Requirements

In December, the State Bank of Vietnam issued a circular that grants credit institutions either a lower reserve requirement ratio or a reserve requirement waiver. Circular 30/2019/TT-NHNN identified cases where credit institutions would be granted a reserve requirement waiver: (i) the credit institution is placed under special control; (ii) the credit institution has not yet started its business; and (iii) the credit institution is given an approval for dissolution, issued a decision to institute bankruptcy proceedings, or issued a decision on the revocation of a business license by a competent authority. The circular also granted credit institutions that support the system restructuring a 50% reduction in the reserve requirement rate.[17] The new circular took effect on 1 March.

Ministry of Finance Reduces Securities Fees by Half

On 7 May, the Ministry of Finance issued Circular No. 37, which reduced 20 out of 22 securities fees by 50%. The measure aims to help businesses negatively impacted by the COVID-19 pandemic in line with the government's effort to keep the economy afloat. The reduction will be effective from 7 May to 31 December.

[17] Footnote 9.