

# Bond Market Developments in the First Quarter of 2021

## Size and Composition

Emerging East Asia's local currency bond market expanded in the first quarter of 2021 to reach a size of USD20.3 trillion at the end of March.

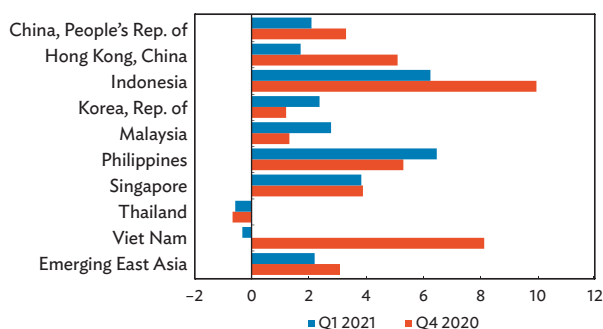
The local currency (LCY) bond market in emerging East Asia continued to grow in the first quarter (Q1) of 2021, reaching an aggregate size of USD20.3 trillion at the end of March.<sup>3</sup> Overall growth eased to 2.2% quarter-on-quarter (q-o-q) from 3.1% q-o-q in the fourth quarter (Q4) of 2020 (**Figure 1a**). The region's government and corporate bond segments continued to expand in Q1 2021, albeit at a weaker pace than in the prior quarter as governments balanced fiscal policy with risk control and corporates weigh uncertainties surrounding the pace of economic recovery in the region.

The q-o-q growth rate of bonds outstanding moderated in five of the region's nine markets from Q4 2020 to Q1 2021. All markets except for Thailand and Viet Nam posted positive q-o-q growth in Q1 2021. Among those that recorded an expansion, the Philippine and Indonesian bond markets posted the fastest q-o-q growth in Q1 2021, while markets in Hong Kong, China and the People's Republic of China (PRC) had the weakest growth.

On a year-on-year (y-o-y) basis, the region's LCY bond market grew at a weaker pace of 15.9% in Q1 2021 versus 18.2% in Q4 2020 (**Figure 1b**). All emerging East Asian bond markets except Hong Kong, China; Indonesia; and Singapore experienced a slowdown in y-o-y growth in Q1 2021 compared to the previous quarter. Nonetheless, all nine emerging East Asian markets posted positive y-o-y growth in Q1 2021, led by Indonesia and the Philippines.

The PRC's bond market remained the largest in the region at the end of March with outstanding bonds of USD15.8 trillion. The PRC's share of the region's total

**Figure 1a: Growth of Local Currency Bond Markets in the Fourth Quarter of 2020 and First Quarter of 2021 (q-o-q, %)**



q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter.

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Calculated using data from national sources.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Emerging East Asia growth figures are based on 31 March 2021 currency exchange rates and do not include currency effects.

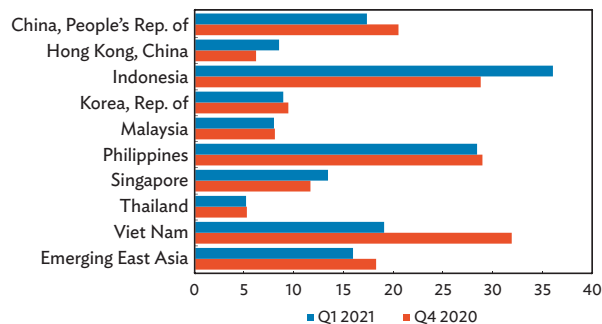
Sources: People's Republic of China (CEIC); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (The Bank of Korea and KG Zeroin Corporation); Malaysia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

market slipped slightly to 77.8% of bonds outstanding at the end of March from 77.9% at the end of December. Overall growth in the PRC's bond market moderated to 2.1% q-o-q in Q1 2021 from 3.3% q-o-q in Q4 2020.

Growth in the PRC's government bond segment dropped to 1.6% q-o-q in Q1 2021 from 3.8% q-o-q in Q4 2020, dragged down largely by weaker issuance of local government bonds and a contraction in the issuance of Treasury bonds. To manage risk in the financial system, the Government of the PRC scaled back its pandemic stimulus measures. The government also reduced the full-year quota for local government bonds in 2021 to CNY3.65 trillion from CNY3.75 trillion in 2020. While the local government bond stock increased during Q1 2021, the government sought to limit the utilization of this

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

**Figure 1b: Growth of Local Currency Bond Markets in the Fourth Quarter of 2020 and First Quarter of 2021 (y-o-y, %)**



Q1 = first quarter, Q4 = fourth quarter, y-o-y = year-on-year.

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Calculated using data from national sources.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Emerging East Asia growth figures are based on 31 March 2021 currency exchange rates and do not include currency effects.

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

type of bond for fundraising. Unlike the usual practice of speeding up issuance upon replenishment of the quota at the start of the year, local governments slowed their debt issuance during the quarter, thus contributing to the slowdown in the growth of the government bond stock.

Growth in the PRC's corporate bond stock quickened to 2.9% q-o-q in Q1 2021 from 2.4% q-o-q in Q4 2020 amid a brisk economic recovery. On a y-o-y basis, the PRC's bond market expanded 17.3% in Q1 2021, down from 20.5% in the previous quarter.

The Republic of Korea was home to the second-largest LCY bond market in emerging East Asia at the end of March with an outstanding bond stock of USD2.4 trillion. Its share of the regional total was steady from Q4 2020 to Q1 2021 at 11.7%. Overall growth in the bond market doubled to 2.4% q-o-q in Q1 2021 from 1.2% q-o-q in Q4 2020, supported by faster growth in the government bond segment. Growth in outstanding government bonds jumped to 4.0% q-o-q in Q1 2021 from 0.9% q-o-q in

the previous quarter, bolstered by an expansion in the stock of central government bonds. Issuance of Treasury and other government bonds supported this growth, as the government frontloaded expenditures for 2021 to strengthen the domestic economic recovery. Growth in the stock of corporate bonds dipped to 1.2% q-o-q in Q1 2021 from 1.4% q-o-q in Q4 2020 due to maturities and a contraction in issuance. On an annual basis, the Republic of Korea's bond market expanded 8.9% y-o-y in Q1 2021, down from 9.4% y-o-y growth in the prior quarter.

Hong Kong, China's LCY bond market reached a size of USD314.6 billion at the end of March. Overall, the bond market expanded 1.7% q-o-q in Q1 2021, driven largely by growth in the corporate bond segment. The tepid 0.2% q-o-q growth in outstanding government bonds was driven solely by an expansion in the stock of Hong Kong Special Administrative Region bonds, as the outstanding stock of Exchange Fund Bills and Exchange Fund Notes remained unchanged. The corporate bond segment posted a 3.1% q-o-q increase in Q1 2021, supported by strong issuance. On a y-o-y basis, the bond market of Hong Kong, China expanded 8.4% in Q1 2021, up from 6.1% in the previous quarter.

The aggregate amount of LCY bonds outstanding among member economies of the Association of Southeast Asian Nations (ASEAN) stood at USD1.8 trillion at the end of March.<sup>4</sup> Overall growth slipped to 3.0% q-o-q in Q1 2021 from 3.4% q-o-q in Q4 2020. The total government bond stock reached USD1.3 trillion, while corporate bonds outstanding stood at USD0.5 trillion at the end of March. The bond markets of Thailand, Malaysia, and Singapore remained the three largest among all ASEAN members.

Thailand's LCY bonds outstanding stood at USD443.1 billion at the end of March. The bond market continued to contract, declining 0.6% q-o-q in Q1 2021 after a 0.7% q-o-q drop in the previous quarter. Government bonds outstanding declined 0.8% q-o-q in Q1 2021 due to a contraction in Bank of Thailand (BOT) bonds that outpaced the growth in government bonds and state-owned enterprise and other bonds. The stock of outstanding corporate bonds saw a marginal decline of 0.1% q-o-q during the review period due to a high volume of maturities. The y-o-y growth in the Thai bond market fell slightly to 5.1% in Q1 2021 from 5.2% in Q4 2020.

<sup>4</sup> LCY bond statistics for ASEAN include the markets of Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

The outstanding amount of Malaysia's LCY bonds totaled USD397.8 billion at the end of March. Overall growth more than doubled to 2.8% q-o-q in Q1 2021 from 1.3% q-o-q in Q4 2020. Government bonds outstanding expanded 4.3% q-o-q during the review period, boosted primarily by strong growth in central government bonds that outpaced the contraction in central bank bills. Growth in corporate bonds outstanding slowed to 1.0% q-o-q in Q1 2021 from 2.2% q-o-q in Q4 2020. On a y-o-y basis, Malaysia's LCY bond market growth rate was hardly changed, expanding 7.9% in Q1 2021 versus 8.0% in Q4 2020.

The largest *sukuk* (Islamic bond) market in emerging East Asia is in Malaysia, with a total of USD251.3 billion of *sukuk* outstanding at the end of March. *Sukuk* accounted for 63.2% of Malaysia's LCY bond market. At the end of March, the outstanding stock of government *sukuk* totaled USD103.1 billion, or 48.0% of Malaysia's government bond market. Outstanding corporate *sukuk* stood at USD148.2 billion, or 80.9% of the corporate bond market.

Singapore's LCY bonds outstanding reached USD388.3 billion at the end of March, as growth eased to 3.8% q-o-q in Q1 2021 from 3.9% q-o-q in Q4 2020. Government bonds outstanding expanded 6.0% q-o-q in Q1 2021, driven by growth in outstanding Singapore Government Securities and Monetary Authority of Singapore (MAS) bills and notes. The growth in MAS bills was spurred by the issuance of 1-year floating-rate notes in March in addition to existing 6-month floating-rate notes. A contraction of 0.3% q-o-q in the corporate bond segment dragged down growth in government bonds, leading to slightly slower q-o-q growth in Q1 2021 compared with Q4 2020. On an annual basis, Singapore's bond market growth quickened to 13.4% y-o-y in Q1 2021 from 11.6% y-o-y in Q4 2020.

The outstanding amount of Indonesia's LCY bonds stood at USD330.4 billion at the end of March on growth of 6.2% q-o-q. The government bond segment posted growth of 6.7% q-o-q, which stemmed primarily from an expansion in central government bonds. Meanwhile, the stock of Bank Indonesia instruments contracted during the review period due largely to a decline in issuance. The corporate bond segment, which expanded 1.7% q-o-q, also contributed to overall growth in Q1 2021. On a y-o-y basis, Indonesia's LCY bond market growth accelerated to 36.0% in Q1 2021 from 28.7% in the previous quarter.

The Philippines' LCY bond market reached a size of USD187.9 billion at the end of March, as growth quickened to 6.5% q-o-q in Q1 2021 from 5.3% q-o-q in Q4 2020. The growth was driven by the government bond segment, which posted an 8.4% q-o-q expansion in Q1 2021 following a 7.0% q-o-q increase in the prior quarter. Treasury bills and bonds and Bangko Sentral ng Pilipinas securities contributed to the growth, with the latter posting a 35.2% q-o-q gain. The stock of corporate bonds continued to contract, declining 2.0% q-o-q in Q1 2021 after a 1.3% q-o-q drop in Q4 2020, as weak market sentiment persisted amid a resurgence of COVID-19 cases during the review period.

The LCY bond market in Viet Nam remained the smallest in emerging East Asia with an outstanding bond stock of USD71.0 billion at the end of March. Viet Nam's LCY bond market contracted 0.3% q-o-q in Q1 2021, driven largely by a decline in the stock of government bonds, which offset the growth in the stock of corporate bonds. Government bonds contracted 1.1% q-o-q in Q1 2021 due to declines in Treasury bonds and government-guaranteed and municipal bonds. Corporate bonds expanded 3.3% q-o-q during the review period. On a y-o-y basis, Viet Nam's bond market grew 19.0% in Q1 2021, down from 31.9% in the previous quarter.

At the end of March, government bonds continued to account for the majority of emerging East Asia's total LCY bond stock, representing a 61.8% share. In nominal terms, the outstanding amount of government bonds in the region climbed to USD12.6 trillion on growth of 2.1% q-o-q and 18.0% y-o-y (**Table 1**). Except for Thailand and Viet Nam, all government bond markets in the region posted positive q-o-q growth in Q1 2021. Nonetheless, the q-o-q growth of the region's government bond stock slowed in Q1 2021 versus Q4 2020, as growth moderated in most of the region's markets including that of the PRC.

The PRC and the Republic of Korea maintained their positions as the first- and second-largest government bond markets in the region, respectively, with a combined share of 88.3% of the region's total government bond stock at the end of March. ASEAN economies held 10.5% of the region's government bond total. Among ASEAN economies, the largest government bond markets were those of Thailand, Indonesia, and Singapore.

Table 1: Size and Composition of Local Currency Bond Markets

	Q1 2020		Q4 2020		Q1 2021		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q1 2020		Q1 2021		Q1 2020		Q1 2021	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
<b>China, People's Rep. of</b>														
<b>Total</b>	12,464	100.0	15,537	100.0	15,799	100.0	4.9	16.1	2.1	17.3	3.1	10.1	1.7	26.8
Government	7,886	63.3	9,978	64.2	10,102	63.9	3.5	13.8	1.6	18.5	1.7	7.9	1.2	28.1
Corporate	4,577	36.7	5,559	35.8	5,697	36.1	7.3	20.3	2.9	15.2	5.5	14.0	2.5	24.5
<b>Hong Kong, China</b>														
<b>Total</b>	291	100.0	310	100.0	315	100.0	(0.5)	0.3	1.7	8.4	0.1	1.6	1.4	8.1
Government	151	51.9	153	49.3	153	48.6	(1.1)	0.7	0.2	1.5	(0.6)	2.0	0.03	1.2
Corporate	140	48.1	157	50.7	162	51.4	0.2	(0.2)	3.1	15.9	0.7	1.1	2.8	15.5
<b>Indonesia</b>														
<b>Total</b>	216	100.0	322	100.0	330	100.0	0.6	6.4	6.2	36.0	(14.5)	(7.1)	2.8	52.7
Government	189	87.4	291	90.6	301	91.0	0.7	6.7	6.7	41.5	(14.4)	(6.8)	3.2	58.9
Corporate	27	12.6	30	9.4	30	9.0	(0.5)	4.4	1.7	(2.3)	(15.4)	(8.8)	(1.6)	9.8
<b>Korea, Rep. of</b>														
<b>Total</b>	2,032	100.0	2,424	100.0	2,382	100.0	2.8	8.7	2.4	8.9	(2.4)	1.3	(1.7)	17.2
Government	814	40.1	993	41.0	992	41.6	4.2	6.6	4.0	13.1	(1.1)	(0.7)	(0.1)	21.8
Corporate	1,218	59.9	1,430	59.0	1,390	58.4	1.9	10.2	1.2	6.0	(3.3)	2.7	(2.8)	14.1
<b>Malaysia</b>														
<b>Total</b>	354	100.0	399	100.0	398	100.0	2.9	6.0	2.8	7.9	(2.6)	0.2	(0.3)	12.5
Government	186	52.6	212	53.1	215	54.0	3.9	4.9	4.3	10.7	(1.6)	(0.9)	1.2	15.4
Corporate	168	47.4	187	46.9	183	46.0	1.7	7.3	1.0	4.8	(3.7)	1.3	(2.0)	9.3
<b>Philippines</b>														
<b>Total</b>	140	100.0	178	100.0	188	100.0	6.9	7.9	6.5	28.4	6.8	11.8	5.4	34.1
Government	109	77.8	145	81.2	155	82.7	7.5	6.2	8.4	36.5	7.4	10.1	7.3	42.6
Corporate	31	22.2	34	18.8	33	17.3	5.0	14.0	(2.0)	0.01	4.9	18.2	(3.0)	4.5
<b>Singapore</b>														
<b>Total</b>	324	100.0	380	100.0	388	100.0	2.2	11.8	3.8	13.4	(3.3)	6.5	2.1	19.9
Government	206	63.6	249	65.5	260	66.9	2.5	14.6	6.0	19.3	(3.0)	9.3	4.2	26.1
Corporate	118	36.4	131	34.5	129	33.1	1.7	7.1	(0.3)	3.1	(3.7)	2.1	(1.9)	9.0
<b>Thailand</b>														
<b>Total</b>	402	100.0	465	100.0	443	100.0	(0.5)	4.1	(0.6)	5.1	31.3	44.7	(4.7)	10.2
Government	286	71.0	342	73.5	325	73.3	(1.0)	2.7	(0.8)	8.5	26.4	37.3	(4.8)	13.8
Corporate	117	29.0	123	26.5	118	26.7	0.8	7.9	(0.1)	(3.3)	45.2	66.8	(4.2)	1.4
<b>Viet Nam</b>														
<b>Total</b>	58	100.0	71	100.0	71	100.0	10.4	14.4	(0.3)	19.0	8.3	12.2	(0.2)	22.0
Government	53	91.6	59	82.7	58	82.1	10.5	15.4	(1.1)	6.6	8.3	13.2	(0.9)	9.2
Corporate	5	8.4	12	17.3	13	17.9	9.9	4.1	3.3	154.9	7.8	2.1	3.4	161.3
<b>Emerging East Asia</b>														
<b>Total</b>	16,281	100.0	20,086	100.0	20,314	100.0	4.2	14.0	2.2	15.9	2.4	8.8	1.1	24.8
Government	9,881	60.7	12,422	61.8	12,560	61.8	3.3	12.3	2.1	18.0	1.6	7.3	1.1	27.1
Corporate	6,400	39.3	7,664	38.2	7,754	38.2	5.7	16.8	2.4	12.6	3.6	11.3	1.2	21.1
<b>Japan</b>														
<b>Total</b>	11,079	100.0	12,115	100.0	11,604	100.0	0.04	1.4	2.7	7.8	1.0	4.5	(4.2)	4.7
Government	10,282	92.8	11,250	92.9	10,793	93.0	0.01	0.9	2.9	8.1	1.0	4.1	(4.1)	5.0
Corporate	797	7.2	865	7.1	811	7.0	0.4	7.9	0.4	4.7	1.4	11.3	(6.3)	1.7

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

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY-USD rates are used.
4. For LCY base, emerging East Asia growth figures based on 31 March 2021 currency exchange rates and do not include currency effects.
5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
6. For Indonesia, data for government bonds include nontradable bonds.

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

LCY corporate bonds outstanding in emerging East Asia reached USD7.8 trillion at the end of March. On a q-o-q basis, growth in the region's corporate bond market quickened to 2.4% in Q1 2021 from 2.2% in the previous quarter. The faster growth rate was driven mostly by growth in the PRC's corporate bond market. Six out of the region's nine markets showed positive q-o-q growth in their corporate bond segments during the review period. The Philippines, Singapore, and Thailand posted contractions in the stock of their corporate bonds. On a y-o-y basis, growth in the region's LCY corporate bond stock moderated to 12.6% in Q1 2021 from 16.2% in Q4 2020.

The PRC and the Republic of Korea accounted for the majority of emerging East Asia's corporate bond stock with a combined share of 91.4% at the end of March. ASEAN economies accounted for 6.5% of emerging East Asia's corporate bond stock. Within ASEAN, Malaysia had the largest corporate bond market at the end of March, followed by Singapore and Thailand.

The aggregate amount of LCY bonds outstanding in emerging East Asia was equivalent to 96.4% of the region's GDP at the end of March, down from 97.7% at the end of December 2020 but up from 88.1% in March 2020 (**Table 2**). The GDP shares of both government and corporate bonds decreased in Q1 2021 from Q4 2020: the government bond market's GDP share was down to 59.6% from 60.4%, and the corporate bond market's share fell to 36.8% from 37.3%. While total outstanding bonds in the region increased, the lower bonds-to-GDP shares were mainly due to the accelerated expansion of the PRC's exceptionally large economy pulling up the region's aggregate GDP. To a smaller extent, growth in the economies of Viet Nam and Hong Kong, China also lifted the region's overall GDP.

All of the region's economies saw increases in their bonds-to-GDP shares from Q4 2020 to Q1 2021 except for the PRC and Viet Nam, which saw declines, and Thailand, where the share was practically unchanged.

The Republic of Korea, Malaysia, and Singapore had the largest bonds-to-GDP shares in the region, with all exceeding 100%. The Republic of Korea's bond market remained the largest, as measured by this metric, at 146.1%, while Viet Nam's bond market remained the smallest at 23.3%.

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

	Q1 2020	Q4 2020	Q1 2021
<b>China, People's Rep. of</b>			
<b>Total</b>	90.5	99.8	97.7
Government	57.3	64.1	62.5
Corporate	33.2	35.7	35.2
<b>Hong Kong, China</b>			
<b>Total</b>	80.6	89.4	89.5
Government	41.8	44.1	43.4
Corporate	38.8	45.4	46.0
<b>Indonesia</b>			
<b>Total</b>	22.1	29.3	31.0
Government	19.3	26.5	28.2
Corporate	2.8	2.8	2.8
<b>Korea, Rep. of</b>			
<b>Total</b>	133.2	143.4	146.1
Government	53.4	58.7	60.8
Corporate	79.8	84.6	85.2
<b>Malaysia</b>			
<b>Total</b>	107.1	119.4	122.8
Government	56.3	63.4	66.3
Corporate	50.8	55.9	56.6
<b>Philippines</b>			
<b>Total</b>	36.4	47.8	51.1
Government	28.3	38.8	42.3
Corporate	8.1	9.0	8.9
<b>Singapore</b>			
<b>Total</b>	90.6	107.2	111.0
Government	57.6	70.2	74.2
Corporate	33.0	37.0	36.8
<b>Thailand</b>			
<b>Total</b>	78.2	88.7	88.7
Government	55.6	65.2	65.0
Corporate	22.7	23.5	23.6
<b>Viet Nam</b>			
<b>Total</b>	22.5	26.1	23.3
Government	20.6	21.6	19.2
Corporate	1.9	4.5	4.2
<b>Emerging East Asia</b>			
<b>Total</b>	88.1	97.7	96.4
Government	53.5	60.4	59.6
Corporate	34.6	37.3	36.8
<b>Japan</b>			
<b>Total</b>	213.4	232.2	239.6
Government	198.1	215.7	222.8
Corporate	15.4	16.6	16.7

GDP = gross domestic product, Q1 = first quarter, Q4 = fourth quarter.

Notes:

1. Data for GDP are from CEIC.
2. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

By segment, Singapore's government bonds had the highest bonds-to-GDP share in the region at 74.2% in Q1 2021, while Viet Nam's government bonds had the lowest at 19.2%. The Republic of Korea had the highest corporate bonds-to-GDP share at 85.5%, while Indonesia had the smallest at 2.8%.

## Foreign Investor Holdings

### The trends of the foreign holdings share of local currency government bonds in emerging East Asian markets were mixed in Q1 2021.

The foreign investor holdings share increased in the PRC, Malaysia, and Thailand, while it declined in Indonesia and the Philippines, from Q4 2020 to Q1 2021 (Figure 2). The divergence in economic recoveries and COVID-19 resurgences and containment measures in some economies affected investor decisions about fund allocations in the region's government bond markets.

Foreign investors continued to increase their holdings of PRC government bonds, with the share rising to 10.1% at the end of March from 9.7% at the end of December 2020. Investors continued to expand their positions in the PRC's government bond market because of its high yields. Moreover, the PRC's economic growth potential, the size and rapid growth of its LCY bond market, and the

ease of access for foreign investors make it an attractive investment destination.

In Malaysia, the foreign investor share of government bond holdings continued its uptrend, climbing to 26.0% at the end of March from 25.2% at the end of December 2020. Foreign holdings remained supported by strong fund inflows as high yields kept Malaysian government bonds appealing to investors. Additionally, FTSE Russell's decision to retain Malaysia's membership in its World Government Bond Index boosted demand. At the end of March, Malaysia surpassed Indonesia for the region's largest share of foreign holdings in its LCY government bond market.

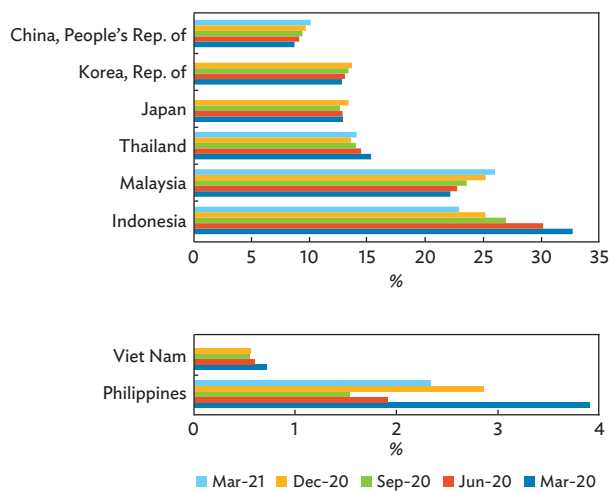
The ongoing downtrend in the share of foreign ownership in Thailand's government bond market reversed in Q1 2021, as the foreign holdings share rose to 14.0% at the end of March from 13.6% in December 2020. The Q4 2020 foreign holdings share was at its lowest level since Q1 2016.

Foreign holdings of government bonds in Indonesia declined to 22.9% at the end of March, posting an 11-year low. While the Government of Indonesia is borrowing heavily in the LCY bond market, most of this new debt is being absorbed domestically. Bank Indonesia's holdings of sovereign debt climbed to 10.7% at the end of March from 9.0% a year earlier, because of its bond-buying program to finance the government's pandemic relief measures. In addition, foreign investor interest in Indonesian government bonds remained weak, with fund outflows seen in Q1 2021.

The share of foreign ownership of government bonds in the Philippines slid to 2.3% at the end of March from 2.9% at the end of December 2020. The decrease was underpinned by foreign fund outflows as investors reduced their risk exposure on worries that the resurgence of COVID-19 cases could derail the economic recovery.

At the end of December 2020, the Republic of Korea's foreign holdings' share of government bonds outstanding increased to 13.6%, sustaining the upward trend in place since June 2019. Foreign investors continued to build their positions in the Republic of Korea's government bond market as they viewed the bonds as a safe asset on the back of attractive yields, low fiscal deficits, and a strong external account. Viet Nam's foreign holdings' share increased in Q4 2020, though marginally, to 0.56% at the

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



Note: Data for Japan, the Republic of Korea, and Viet Nam are as of 31 December 2020.  
Source: AsianBondsOnline.

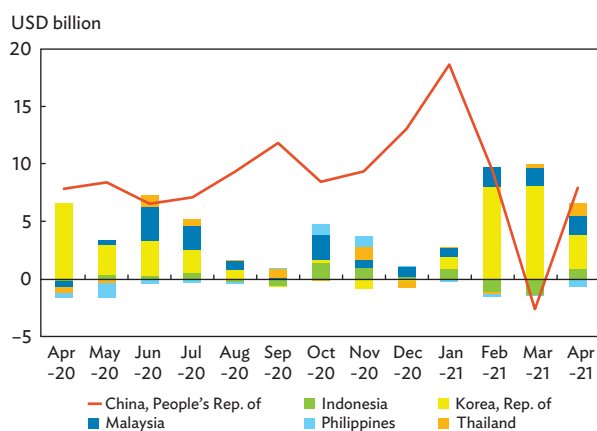
end of December from 0.55% at the end of September. Viet Nam's bond market is the smallest in the region, thus limiting opportunities for foreign investors.

## Foreign Bond Flows

### Foreign funds continued to flow into the government bond markets of most emerging East Asian economies in Q1 2021.

Emerging East Asia received total net inflows of USD45.2 billion in Q1 2021, continuing the sustained increase in place since the third quarter of 2020 (Figure 3). All of the region's markets recorded net foreign buying of government bonds in Q1 2021 except for Indonesia and the Philippines. During the quarter, the largest monthly inflows occurred in January (USD21.3 billion), and the smallest were in March (USD6.0 billion). In April, net inflows picked up to USD14.0 billion. High global liquidity, yield premiums, and better recovery prospects in the region were the main drivers of the positive flows. Even with the surge in yields in the US, emerging East Asian government bonds maintained their overall attractiveness.

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



USD = United States dollar.

Notes:

1. The Republic of Korea and Thailand provided data on bond flows. For the PRC, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data as of 30 April 2021.
3. Figures were computed based on 30 April 2021 exchange rates to avoid currency effects.

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

The PRC drew in a total of USD25.7 billion of foreign funds in Q1 2021. This was, however, lower than the inflows in Q4 2020 of USD31.0 billion due to outflows in March amounting to USD2.6 billion. The monthly drop in March can be traced to rising yields and good economic recovery prospects in the US, which narrowed the yield spread and weakened the Chinese yuan against the US dollar, dimming some of the appeal of PRC government bonds. The sell-off in March ended the 2-year foreign buying spree in the government bond market. Nonetheless, the market quickly recovered with inflows amounting to USD8.0 billion in April. Foreign interest in government bonds is expected to be resilient following the final approval of FTSE Russell's inclusion of PRC bonds in its World Government Bond Index starting in October. The inclusion period, however, will take 36 months rather than 12 months as previously announced.

In the Republic of Korea, net inflows amounted to USD17.3 billion in Q1 2021, reversing the USD0.8 billion of net outflows in the preceding quarter. The Republic of Korea's quarterly inflows were the region's largest next to the PRC and the largest quarterly foreign buying in the Republic of Korea's bond market since data are available. Throughout Q1 2021, the Republic of Korea recorded monthly foreign fund inflows. In April, foreign investors added a net USD3.0 billion of funds into the government bond market. The inflows were traced to the reinvestment of funds following a large volume of maturities toward the end of 2020. Moreover, returns on the Republic of Korea's government bonds were still higher than those of US Treasuries even if the latter's yields have been rising. The local bond market's appeal also remained supported by the Republic of Korea's manageable fiscal deficits and a strong external account position.

Foreign investments in the Malaysian and Thai government debt markets continued to climb in Q1 2021. Malaysia received total inflows of USD4.1 billion during the quarter, continuing the steady increase in inflows since a rebound in the second quarter of 2020. In April, Malaysia posted its 12th consecutive month of net inflows, amounting to USD1.6 billion. The resilience of foreign demand was sustained by optimism over Malaysia retaining its inclusion in the FTSE Russell World Government Bond Index and on the improving economic recovery. In Thailand, total inflows in Q1 2021 were modest at USD0.1 billion, the smallest quarterly amount since the return of foreign fund inflows in Q2 2020. It was

also the smallest quarterly foreign fund inflows among government bond markets in the region that received net inflows in Q1 2021. Weak inflows in January and March plus outflows in February resulted in the modest quarterly figure. In April, foreign purchases of government bonds picked up to USD1.1 billion.

Indonesia and the Philippines saw foreign fund withdrawals from their government bond markets in Q1 2021. Risks to the economic outlook weighed on investor sentiment as the two economies accounted for the most COVID-19 cases in emerging East Asia. Together with the rise in US yields, investors may have reassessed their fund allocations and shifted to other markets in the region. A large fiscal deficit in Indonesia also contributed to investor worries.

Foreign investors in the Indonesian bond market sold USD1.6 billion of government bonds during the quarter, following a net purchase of USD2.8 billion in Q4 2020. Outflows in February and March wiped out the inflows in January. Foreign funds returned to Indonesia's government bond market in April with net inflows of USD0.9 billion. The Philippines saw foreign fund outflows in Q1 2021 of USD0.5 billion after a brief rebound in Q4 2020 that brought in USD1.9 billion. Net outflows were seen in each month of the quarter and again in April (USD0.6 billion). Only the Philippines among all economies in the region experienced a foreign sell-off in April, likely due to investor concerns over the surge in COVID-19 cases, a slow vaccine rollout, the reimposition of restrictions on movement in the National Capital Region and nearby provinces, and rising inflation.

## LCY Bond Issuance

### Issuance of LCY bonds in emerging East Asia slipped to USD1.9 trillion in Q1 2021 from USD2.0 trillion in Q4 2020.

LCY bond issuance in emerging East Asia tallied USD1.9 trillion in Q1 2021 versus USD2.0 trillion in Q4 2020 (**Table 3**). Issuance fell 1.7% q-o-q, although this was a much slower decline compared with the 14.7% drop posted in Q4 2020. The decline in issuance was largely due to high base effects in the prior 3 quarters of 2020 amid the COVID-19 outbreak, which resulted in increased borrowing by governments to finance stimulus and recovery measures. In nominal terms, issuance volumes

in Q1 2021 were larger than pre-COVID-19, highlighting the importance of LCY financing in supporting economic recovery.

Issuance of both central bank bonds and corporate bonds were down during the quarter, with only Treasury and other government bond issuance expanding marginally on a q-o-q basis. The overall regional issuance total was pulled down by decreased issuance from the PRC in Q1 2021. Other emerging East Asian markets that recorded a q-o-q decline in issuance were Hong Kong, China; Indonesia; Thailand; and Viet Nam. On the other hand, q-o-q increases in bond issuance were recorded in the Republic of Korea, Malaysia, the Philippines, and Singapore.

On a y-o-y basis, issuance growth moderated to 8.6% in Q1 2021 from 32.3% in Q4 2020. Issuance in six out of nine markets in the region increased compared with the same period a year earlier. The exceptions were the markets of the Republic of Korea, Thailand, and Viet Nam, where bond issuance contracted on an annual basis.

Government bonds continued to account for a higher share of the total issuance volume during the quarter with 55.8% of the total. This was slightly higher than a share of 54.8% in Q4 2020, which was due to the q-o-q contraction in corporate bond issuance. The region's aggregate government bond issuance during Q1 2021 tallied USD1,082.4 billion on marginal growth of 0.2% q-o-q, following a decline of 23.6% q-o-q in Q4 2020. On an annual basis, issuance grew at a slower pace of 10.8% y-o-y in Q1 2021 versus 47.5% y-o-y in Q4 2020.

Of the government issuance total, 68.2% comprised Treasury instruments and other government bonds. The issuance of which inched up 0.5% q-o-q, a reversal from the 31.3% q-o-q contraction in Q4 2020. Most of the region's bond markets posted slower q-o-q growth in issuance of Treasury and other government bonds during the review period on account of a higher base in the prior quarter. The only markets that recorded accelerated q-o-q issuance of Treasury and other government bonds were the Republic of Korea, Malaysia, the Philippines, and Thailand. Compared with the same period a year earlier, growth moderated to 12.7% y-o-y in Q1 2021 from 81.8% y-o-y in Q4 2020.



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

	Q1 2020		Q4 2020		Q1 2021		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q1 2021		Q1 2021	
							q-o-q	y-o-y	q-o-q	y-o-y
<b>China, People's Rep. of</b>										
<b>Total</b>	1,075	100.0	1,294	100.0	1,255	100.0	(2.6)	8.0	(3.0)	16.7
Government	491	45.7	590	45.6	575	45.8	(2.2)	8.3	(2.6)	17.0
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	491	45.7	590	45.6	575	45.8	(2.2)	8.3	(2.6)	17.0
Corporate	584	54.3	703	54.4	680	54.2	(3.0)	7.8	(3.3)	16.5
<b>Hong Kong, China</b>										
<b>Total</b>	136	100.0	146	100.0	143	100.0	(2.0)	5.9	(2.2)	5.6
Government	108	79.7	112	76.3	105	73.5	(5.6)	(2.3)	(5.8)	(2.6)
Central Bank	108	79.4	107	73.1	105	73.3	(1.7)	(2.4)	(2.0)	(2.6)
Treasury and Other Govt.	0.3	0.2	5	3.2	0.3	0.2	(92.6)	8.0	(92.6)	7.7
Corporate	28	20.3	35	23.7	38	26.5	9.6	38.1	9.3	37.6
<b>Indonesia</b>										
<b>Total</b>	19	100.0	47	100.0	34	100.0	(24.6)	61.0	(27.0)	80.8
Government	18	94.0	46	96.8	33	95.9	(25.2)	64.2	(27.7)	84.4
Central Bank	7	37.0	14	29.7	12	34.5	(12.4)	49.8	(15.3)	68.2
Treasury and Other Govt.	11	57.0	32	67.1	21	61.4	(30.9)	73.7	(33.2)	95.0
Corporate	1	6.0	2	3.2	1	4.1	(4.4)	10.7	(7.5)	24.3
<b>Korea, Rep. of</b>										
<b>Total</b>	197	100.0	210	100.0	205	100.0	1.6	(3.6)	(2.5)	3.8
Government	82	41.8	78	37.2	91	44.3	21.0	2.3	16.1	10.2
Central Bank	30	15.2	29	13.8	29	14.3	4.8	(9.7)	0.6	(2.8)
Treasury and Other Govt.	52	26.6	49	23.4	62	30.1	30.6	9.2	25.3	17.6
Corporate	115	58.2	132	62.8	114	55.7	(9.9)	(7.8)	(13.5)	(0.7)
<b>Malaysia</b>										
<b>Total</b>	21	100.0	22	100.0	24	100.0	11.7	8.2	8.3	12.8
Government	12	56.2	8	35.1	14	56.9	81.0	9.6	75.5	14.3
Central Bank	2	11.0	0	0.0	0	0.0	-	(100.0)	-	(100.0)
Treasury and Other Govt.	10	45.1	8	35.1	14	56.9	81.0	36.4	75.5	42.2
Corporate	9	43.8	14	64.9	10	43.1	(25.8)	6.3	(28.1)	10.8
<b>Philippines</b>										
<b>Total</b>	17	100.0	29	100.0	44	100.0	53.5	147.4	51.9	158.4
Government	14	83.0	28	95.8	43	97.3	55.8	190.0	54.2	202.9
Central Bank	0	0.0	17	60.2	23	51.2	30.5	-	29.2	-
Treasury and Other Govt.	14	83.0	10	35.6	20	46.0	98.7	37.3	96.6	43.4
Corporate	3	17.0	1	4.2	1	2.7	(0.2)	(60.0)	(1.3)	(58.2)
<b>Singapore</b>										
<b>Total</b>	125	100.0	164	100.0	169	100.0	4.7	27.5	2.9	34.8
Government	122	97.7	160	97.9	166	98.4	5.1	28.3	3.4	35.7
Central Bank	101	80.9	135	82.5	142	84.2	6.8	32.7	5.0	40.3
Treasury and Other Govt.	21	16.9	25	15.5	24	14.2	(3.9)	7.3	(5.5)	13.5
Corporate	3	2.3	3	2.1	3	1.6	(17.9)	(8.7)	(19.3)	(3.4)
<b>Thailand</b>										
<b>Total</b>	72	100.0	74	100.0	63	100.0	(11.1)	(16.3)	(14.8)	(12.2)
Government	62	85.9	65	87.6	54	85.1	(13.6)	(17.0)	(17.2)	(13.0)
Central Bank	56	77.8	49	66.4	34	53.1	(29.0)	(42.9)	(31.9)	(40.1)
Treasury and Other Govt.	6	8.1	16	21.2	20	32.0	34.5	233.0	29.0	249.0
Corporate	10	14.1	9	12.4	9	14.9	6.4	(11.7)	2.0	(7.4)

continued on next page

Table 3 continued

	Q1 2020		Q4 2020		Q1 2021		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q1 2021		Q1 2021	
							q-o-q	y-o-y	q-o-q	y-o-y
<b>Viet Nam</b>										
<b>Total</b>	8	100.0	8	100.0	3	100.0	(68.5)	(68.3)	(68.5)	(67.5)
Government	7	93.3	6	75.2	2	67.8	(71.6)	(76.9)	(71.5)	(76.4)
Central Bank	6	75.2	0	0.0	0	0.0	-	(100.0)	-	(100.0)
Treasury and Other Govt.	1	18.1	6	75.2	2	67.8	(71.6)	18.9	(71.5)	21.8
Corporate	0.5	6.7	2	24.8	1	32.2	(59.2)	53.0	(59.1)	56.8
<b>Emerging East Asia</b>										
<b>Total</b>	1,671	100.0	1,995	100.0	1,940	100.0	(1.7)	8.6	(2.8)	16.1
Government	918	54.9	1,093	54.8	1,082	55.8	0.2	10.8	(1.0)	18.0
Central Bank	310	18.6	352	17.6	344	17.7	(0.5)	6.9	(2.3)	10.9
Treasury and Other Govt.	607	36.3	741	37.2	738	38.1	0.5	12.7	(0.4)	21.6
Corporate	753	45.1	902	45.2	858	44.2	(3.9)	5.9	(4.9)	13.9
<b>Japan</b>										
<b>Total</b>	383	100.0	771	100.0	664	100.0	(7.7)	78.4	(13.9)	73.3
Government	356	92.9	718	93.2	640	96.4	(4.5)	85.2	(10.9)	79.8
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	356	92.9	718	93.2	640	96.4	(4.5)	85.2	(10.9)	79.8
Corporate	27	7.1	53	6.8	24	3.6	(51.2)	(9.5)	(54.5)	(12.1)

(-) = negative, - = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Corporate bonds include issues by financial institutions.

2. Bloomberg LP end-of-period LCY-USD rates are used.

3. For LCY base, emerging East Asia growth figures are based on 31 March 2021 currency exchange rates and do not include currency effects.

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

In Q1 2021, issuance of central bank bills and bonds declined 0.5% q-o-q, reversing the 0.3% q-o-q expansion in the previous quarter. The decline stemmed from tapered issuance from the Hong Kong Monetary Authority, Bank Indonesia, and the BOT during the quarter, and the cessation of issuance by Bank Negara Malaysia and the State Bank of Vietnam. On the other hand, the Bank of Korea, Bangko Sentral ng Pilipinas, and the MAS increased their respective sales of central bank instruments during the quarter in review. On an annual basis, central bank issuance was up 6.9% y-o-y in Q1 2021 versus 5.3% y-o-y in Q4 2020.

Similarly, corporate bond sales in the region slumped in Q1 2021, falling 3.9% q-o-q after a 0.8% q-o-q contraction in Q4 2020. The Republic of Korea and the PRC, two of the largest corporate bond markets in the region, had less issuance during the quarter, which pulled down the overall total for emerging East Asia. All other regional markets issued a smaller volume of corporate bonds in Q1 2021 than in Q4 2020 except for Thailand

and Hong Kong, China. Corporate bond issuance growth moderated to 5.9% y-o-y in Q1 2021 from 17.7% y-o-y in Q4 2020.

The PRC continued to account for the largest issuance volume among the region's bond markets. However, its share of the regional total slipped to 64.7% in Q1 2021 from 65.3% in Q4 2020. LCY bond issuance in the PRC totaled USD1,254.9 billion in Q1 2021, with issuance volume declining across all bond types. Government bond issuance dipped 2.2% q-o-q due to a slowdown in the issuance of Treasury bonds as the PRC's economy sustained its recovery. While the issuance of local government bonds increased during the quarter, the overall volume was relatively low at only CNY895.5 billion versus CNY1.6 trillion in Q1 2020. The government aims to scale back the issuance of such bonds this year to control risk in the financial system. This is contrary to what has happened in past years, when the government pushed for the acceleration and utilization of the local government bond quota at the start of the year to speed up

infrastructure projects and development. During Q1 2021, the issuance of corporate bonds slipped 3.0% q-o-q amid heightened warnings by the government to ease borrowing and over-leveraging, particularly by property companies. The issuance of listed corporate bonds, commercial bank bonds, enterprise bonds, medium-term notes, and asset-backed securities slowed in Q1 2021. On an annual basis, LCY bond issuance in the PRC moderated to 8.0% y-o-y in Q1 2021 from 45.5% y-o-y in Q4 2020.

LCY bond sales in the Republic of Korea totaled USD204.9 billion, with growth slowing to 1.6% q-o-q in Q1 2021 from 3.2% q-o-q in Q4 2020. Overall growth was driven by the issuance of government bonds through a frontloading policy. Issuance of government bonds grew 21.0% q-o-q in Q1 2021 after a decline of 14.3% q-o-q in the preceding quarter. Increased government bond issuance is needed in 2021 to fund the government's budget worth KRW558 trillion. In addition, the Government of the Republic of Korea approved in late March a KRW15 trillion supplementary budget, with about two-thirds of the amount to be funded through bond issuance. To a lesser extent, issuance of central bank bills also contributed to overall growth, rising 4.8% q-o-q in a reversal from a decline of 12.0% in Q4 2020. In contrast, corporate bond issuance declined 9.9% q-o-q in Q1 2021 after rising 17.3% q-o-q in the previous quarter. On an annual basis, the Republic of Korea's LCY bond sales contracted 3.6% y-o-y in Q1 2021 after rising 0.7% y-o-y in Q4 2020.

In Hong Kong, China, LCY bond issuance reached USD143.1 billion, down 2.0% q-o-q in Q1 2021 from a 1.2% hike in the preceding quarter. The q-o-q decline was due mainly to less issuance of government bonds, particularly Treasury and other government bonds, following the large volume of issuance of iBonds and Silver Bonds in the last 2 months of 2020. In addition, the Hong Kong Monetary Authority issued a slightly reduced volume of Exchange Fund Bills and Exchange Fund Notes during the quarter. Issuance of corporate bonds increased in Q1 2021 on growth of 9.6% q-o-q, but this was slower than Q4 2020's 24.9% q-o-q hike. Compared with the same period in 2020, Hong Kong, China's LCY bond issuance grew 5.9% y-o-y in Q1 2021, down from a 13.4% y-o-y hike in Q4 2020.

LCY bond sales of ASEAN member economies totaled USD337.2 billion in Q1 2021, with its share of the regional total inching up to 17.4% from 17.1% in Q4 2020. Total LCY

bond issuance in ASEAN markets during the quarter was up marginally by 0.2% q-o-q after contracting 2.0% q-o-q in Q4 2020. On an individual market level, higher bond sales in Q1 2021 versus Q4 2020 were observed in Malaysia, the Philippines, and Singapore. In contrast, Indonesia, Thailand, and Viet Nam reduced their respective issuance volumes during the same period. Compared with the same period in the prior year, bond issuance of ASEAN economies was up 21.5% y-o-y in Q1 2021 but was lower than the 21.9% y-o-y uptick in Q4 2020. Among ASEAN peers, Singapore, Thailand, and the Philippines were the most active issuers of LCY bonds in Q1 2021.

New issuance in Singapore reached USD168.5 billion in Q1 2021, representing a 50.0% share of the aggregate total of ASEAN. Bond issuance climbed 4.7% q-o-q, driven largely by government bonds, in particular MAS bills and notes. In addition to issuing MAS bills, a 1-year floating rate note was issued beginning in March. The issuance of MAS bills and notes climbed 6.8% q-o-q in Q1 2021 and declined -3.9% q-o-q for SGS bills and bonds. Issuance by corporates further declined in Q1 2021, falling 17.9% q-o-q. On an annual basis, LCY bond issuance in Singapore surged to 27.5% y-o-y in Q1 2021 from 23.3% y-o-y in Q4 2020.

In Thailand, LCY bond sales tallied USD63.4 billion in Q1 2021, accounting for 18.8% of ASEAN's issuance total. The pace of issuance, however, slowed 11.1% q-o-q due to a decline in government bond issuance. Specifically, a decline in the issuance of BOT instruments exceeded the increased issuance of Treasury and other government bonds during the quarter. Issuance of BOT instruments slowed 29.0% q-o-q in Q1 2021 due to changes in BOT's issuance program for this year. The central bank will discontinue issuance of 2-week BOT bills, 6-month BOT bills, and 3-year BOT bonds this year. (The last issuance of 3-year BOT bonds was in January 2021). A new BOT floating-rate bond with a 6-month tenor that is indexed to the Thai Overnight Repurchase Rate was issued for the first time in March. Issuance of corporate bonds rebounded in Q1 2021, rising 6.4% q-o-q as more corporates tapped the bond market to lock in low interest rates. On an annual basis, issuance volume in Thailand declined 16.3% y-o-y in Q1 2021 after contracting 4.8% y-o-y in the prior quarter.

The Philippines saw increased issuance activity in Q1 2021 with total issuance climbing to USD44.1 billion. Overall growth surged 53.5% q-o-q, which was largely accounted

for by the increased issuance of government bonds. The volume of Treasury and other government bond issuance almost doubled from the previous quarter, bolstered by the issuance of Retail Treasury Bonds in February and increased issuance during the weekly Treasury auctions that are needed to fund pandemic stimulus measures and the vaccine rollout program. Bangko Sentral ng Pilipinas issuance also contributed to the overall growth, rising 30.5% q-o-q in Q1 2021, while corporate bond issuance dropped a marginal 0.2% q-o-q. On a y-o-y basis, bond issuance growth moderated to 147.4% in Q1 2021 from 268.5% in Q4 2020.

In Indonesia, LCY bond issuance contracted across all bond types in Q1 2021 following a high volume of borrowing in 2020. Total issuance summed to USD34.4 billion, contracting 24.6% q-o-q. Government bond issuance, which accounted for 95.9% of total issuance, slumped 25.2% q-o-q due to declines in the issuance of Treasury bills and bonds, and central bank instruments. While the government normally adopts a frontloading policy at the start of the year, a high base effect from the previous quarter resulted in the quarterly decline in Q1 2021. Issuance volume was still high relative to pre-COVID-19 levels, as issuance of government bonds rose 64.2% y-o-y, led by Treasury bonds at 73.7% y-o-y. Corporate bond issuance fell 4.4% q-o-q during the quarter. On an annual basis, bond issuance in Indonesia rose 61.0% y-o-y in Q1 2021 after gaining 126.3% y-o-y in Q4 2020.

Malaysia recorded Q1 2021 issuance of USD24.2 billion, which was up 11.7% q-o-q after recording a 0.3% q-o-q decline in the previous quarter. The increase was due to a rise in government bond issuance of 81.0% q-o-q as the Government of Malaysia funded a 2021 budget that will be 8.5% higher than the 2020 budget. In addition, in March the government passed a supplemental budget of MYR20 billion, which will raise the 2021 deficit-to-GDP (forecast) share from 5.4% to 6.0%. On the other hand, corporate bond issuance fell 25.8% q-o-q in Q1 2021 after rising 51.8% q-o-q in the prior quarter. On a y-o-y basis, Malaysia's bond issuance rose 8.2% in Q1 2021, up from 7.2% in Q4 2020.

In Viet Nam, overall bond issuance fell 68.5% q-o-q in Q1 2021 to USD2.5 billion, which was much steeper than Q4 2020's 5.3% q-o-q drop. All bond categories recorded q-o-q declines, with government bond issuance contracting 71.6% q-o-q and corporate bonds declining

59.2% q-o-q. On an annual basis, bond issuance in Viet Nam fell 68.3% y-o-y, largely due to the 76.9% y-o-y contraction in government bonds.

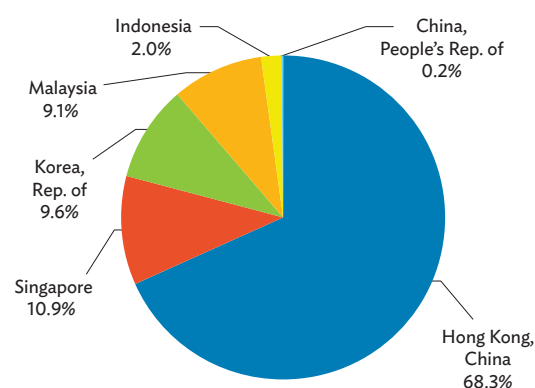
## Cross-Border Bond Issuance

### Cross-border bond issuance in emerging East Asia totaled USD5.6 billion in Q1 2021.

Intraregional bond issuance in emerging East Asia reached USD5.6 billion in Q1 2021, an almost five-fold increase from the USD1.2 billion raised in Q4 2020 and almost double the volume from Q1 2020. Institutions from six economies issued cross-border bonds in Q1 2021, led by Hong Kong, China, which accounted for 68.3% of the regional aggregate (**Figure 4**). Other economies that issued cross-border bonds in Q1 2021 include Singapore, the Republic of Korea, Malaysia, Indonesia, and the PRC. Monthly issuance volumes amounted to USD1.1 billion, USD1.7 billion, and USD2.8 billion in January, February, and March, respectively.

In Q1 2021, Hong Kong, China dominated the region's cross-border issuance with a total of USD3.8 billion, a five-fold increase from the volume issued in the previous quarter. Fourteen institutions from Hong Kong, China issued cross-border bonds that were all denominated in Chinese yuan, except for one bond issued in Singapore dollars. The government-owned Hong Kong Mortgage Corporation led the market with total issuance of USD1.3 billion worth of

**Figure 4: Origin Economies of Intra-Emerging East Asian Bond Issuance in the First Quarter of 2021**



Source: AsianBondsOnline calculations based on Bloomberg LP data.

CNY-denominated bonds in various tenors. The largest of which was the CNY2.5 billion (USD381.5 million) 3-year bond offer in February as part of its USD12.0 billion medium-term note program. Another large issuer of cross-border bonds in Hong Kong, China was the majority state-owned public transportation company MTR Corporation, which raised USD366.3 million in March via 1-year and 3-year bonds.

Singapore had the second-largest, cross-border issuance volume in the region in Q1 2021 at USD605 million and a share of 10.9% of the regional total. Five institutions issued cross-border bonds, led by DBS Group Holdings, which raised USD244.2 million worth of CNY-denominated 10-year bonds. Asia Water Technology, a private industrial company in Singapore, issued USD228.9 million of 5-year bonds. Other issuing institutions in Q1 2021 included CMT MTN, Nomura International Fund, and DBS Bank, which issued CNY- and HKD-denominated bonds.

In the Republic of Korea, only two institutions issued intraregional bonds in Q1 2021 with a total issuance amount of USD533.2 million. The government-owned Export-Import Bank of Korea, the second-largest issuer of cross-border bonds in the region, raised USD369.9 million via issuance of multi-tenor bonds denominated in Chinese yuan and Philippine pesos. KEB Hana Bank issued 3-year CNY-denominated bonds worth USD163.3 million.

In Malaysia, total intraregional bond issuance amounted to USD508.3 million in Q1 2021. Malayan Banking, the fourth-largest issuer of cross-border bonds in the region, raised USD308.7 million via issuance of bonds denominated in Chinese yuan and Hong Kong dollars. Cagamas Global, a subsidiary of Malaysia's national mortgage corporation, Cagamas Berhad, issued a total of USD199.6 million of bonds denominated in Singapore dollars and Hong Kong dollars.

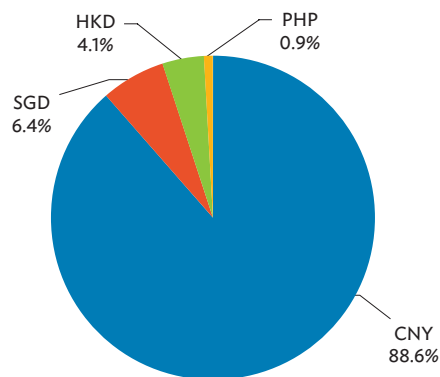
Property developer Ciputra Development was the sole issuer of intraregional bonds in Indonesia in Q1 2021, raising USD111.5 million via a 5-year bond denominated in Singapore dollars.

In the PRC, only two institutions issued cross-border bonds in Q1 2021 with a total amount of USD9.6 million. China Tontine Wines Group (USD5.1 million) and China Parenting Network (USD4.5 million) both issued in Hong Kong dollars.

The top 10 issuers of intraregional bonds in the region in Q1 2021 had an aggregate issuance volume of USD4.1 billion and comprised 73.2% of the regional total. The majority were firms from Hong Kong, China with combined issuance totaling USD3.4 billion. This included the Hong Kong Mortgage Corporation, which was the largest issuer in the region in Q1 2021 (USD1.3 billion), and MTR Corporation (USD366.3 million). The Export-Import Bank of Korea (USD369.9 million) and Malayan Banking (USD308.7 million) were the region's other large issuers of intraregional bonds in Q1 2021.

The Chinese yuan remained the predominant currency of cross-border bonds in emerging East Asia in Q1 2021 with an issuance volume equivalent to USD4.9 billion and a share of 88.6% of the regional total (**Figure 5**). Firms that issued in this currency were from Hong Kong, China; the Republic of Korea; Malaysia; and Singapore. Other issuance currencies included the Singapore dollar (USD356.9 million, 6.4%); Hong Kong dollar (USD231 million, 4.1%); and the Philippine peso (USD49.4 million, 0.9%).

**Figure 5: Currency Shares of Intra-Emerging East Asian Bond Issuance in the First Quarter of 2021**



CNY = Chinese yuan, HKD = Hong Kong dollar, PHP = Philippine peso, SGD = Singapore dollar.  
Source: AsianBondsOnline calculations based on Bloomberg LP data.

## G3 Currency Issuance

### In January–April, a total of USD139.6 billion in G3 currency bonds was issued in emerging East Asia.

In January–April, total G3 currency bonds issued in emerging East Asia reached USD139.6 billion, up 23.7% y-o-y from USD112.8 billion in January–April 2020 (**Table 4**).<sup>5</sup> The expansion can be attributed to increased G3 issuance in most of the region's economies compared to a year earlier. The first 4 months of 2021 saw companies and governments issuing amid a low-interest-rate environment, with several economies issuing sovereign bonds to fund their ongoing COVID-19 relief responses.

During the review period, 94.7% of all G3 currency bonds issued were denominated in US dollars, 4.8% in euros, and 0.5% in Japanese yen. A total of USD132.2 billion worth of bonds denominated in US dollars was issued in emerging East Asia in January–April, representing a jump of 27.8% y-o-y. EUR-denominated bond issuance totaled USD6.7 billion during the review period, a decrease of 21.3% y-o-y, as issuances from the Republic of Korea, the largest issuer of EUR-denominated bonds in January–April 2020, declined during the first 4 months of 2021. Bonds issued in Japanese yen totaled USD0.7 billion, a decline of 19.7% y-o-y.

The PRC dominated the region's G3 currency bond issuance, totaling USD75.1 billion in January–April. It was followed by the Republic of Korea with USD17.5 billion and Hong Kong, China with USD16.5 billion. US dollars were the main G3 currency of issuance in all three economies.

On a y-o-y basis, G3 currency bond issuance increased in the first 4 months of 2021 in Thailand (146.9%); Hong Kong, China (139.1%); the Republic of Korea (81.5%); Singapore (37.9%); the Philippines (33.0%); and the PRC (16.1%). Annual declines in G3 currency bond issuance were recorded in Malaysia (–10.9%) and Indonesia (–31.6%). Viet Nam issued G3 currency bonds during the January–April period after not issuing any during the same period in 2020.

Entities from the PRC accounted for 53.8% of all G3 currency issuance in emerging East Asia in January–April, issuing USD73.1 billion in US dollars and USD2.0 billion equivalent in euros. Technology company Alibaba Group raised USD5.0 billion in bonds denominated in US dollars in February. The four tranches of callable bonds had tenors ranging from 10 years to 40 years and will be used for general corporate purposes. In April, another technology company, Tencent Holdings, took advantage of the low-interest-rate environment by also issuing a four-tranche callable USD-denominated bond totaling USD4.2 billion with tenors ranging from 10 years to 40 years.

The Republic of Korea accounted for a 12.5% share of all G3 currency bond issuance during the review period: USD16.9 billion in US dollars and the equivalent of USD0.6 billion in euros. Every month during the first 4 months of 2021, the Korea Development Bank issued several USD-denominated bonds with tenors from 1 year to 10 years. Its most notable issuance was a 3-year floating-rate green bond, the bank's first issuance linked to the Secured Overnight Financing Rate.<sup>6</sup> Another prolific issuer in each of the first 4 months of the year was the Export–Import Bank of Korea with several issuances of USD-denominated bonds, the tenors of which ranged from 1 year to 10 years. The export credit agency's issuances included a bond with three tranches (3 years, 5 years, and 10 years) issued in February totaling USD1.5 billion.

Hong Kong, China accounted for an 11.8% share of G3 currency bond issuance in January–April 2021. By currency, USD16.3 billion was USD-denominated, while EUR-denominated and JPY-denominated bonds amounted to the equivalent of USD0.1 billion each. In January, the government issued USD2.5 billion worth of USD-denominated green bonds under its Government Green Bond Programme. The issuance comprised three tranches with tenors of 5 years, 10 years, and 30 years. The proceeds from the bond issue will be used for projects with environmental benefits and the economy's sustainable development.

ASEAN member economies' G3 currency bond issuance decreased 3.4% y-o-y to USD30.6 billion in January–April 2021 from USD31.6 billion in January–April 2020, driven

<sup>5</sup> G3 currency bonds are denominated in either euros, Japanese yen, or US dollars. For the discussion on G3 currency issuance, emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

<sup>6</sup> The Secured Overnight Financing Rate is a benchmark reference rate for dollar-denominated loans established as an alternative to the London Interbank Offered Rate.

Table 4: G3 Currency Bond Issuance

2020			January–April 2021		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
<b>Cambodia</b>	<b>0.4</b>		<b>Cambodia</b>	<b>0.0</b>	
<b>China, People's Rep. of</b>	<b>232.3</b>		<b>China, People's Rep. of</b>	<b>75.1</b>	
Industrial and Commercial Bank of China 3.58% Perpetual	2.9	23-Sep-20	Tencent Holdings 3.840% 2051	1.8	22-Apr-21
Bank of China 3.60% Perpetual	2.8	4-Mar-20	Alibaba Group 2.125% 2031	1.5	9-Feb-21
Bank of Communications 3.80% Perpetual	2.8	18-Nov-20	Alibaba Group 3.150% 2051	1.5	9-Feb-21
Others	223.8		Others	70.3	
<b>Hong Kong, China</b>	<b>34.8</b>		<b>Hong Kong, China</b>	<b>16.5</b>	
AIA Group 3.200% 2040	1.8	16-Sep-20	Hong Kong, China (Sovereign) 0.625% 2026	1.0	2-Feb-21
MTR Corporation 1.625% 2030	1.2	19-Aug-20	Hong Kong, China (Sovereign) 1.375% 2031	1.0	2-Feb-21
AIA Group 3.375% 2030	1.0	7-Apr-20	Airport Authority Hong Kong 1.625% 2031	0.9	4-Feb-21
Others	30.9		Others	13.6	
<b>Indonesia</b>	<b>27.9</b>		<b>Indonesia</b>	<b>9.4</b>	
Indonesia (Sovereign) 3.85% 2030	1.7	15-Apr-20	Indonesia (Sovereign) 1.85% 2031	1.3	12-Jan-21
Indonesia (Sovereign) 4.20% 2050	1.7	15-Apr-20	Indonesia (Sovereign) 3.05% 2051	1.3	12-Jan-21
Indonesia (Sovereign) 0.90% 2027	1.2	14-Jan-20	Indonesia (Sovereign) 1.10% 2033	1.2	12-Jan-21
Others	23.4		Others	5.7	
<b>Korea, Rep. of</b>	<b>30.0</b>		<b>Korea, Rep. of</b>	<b>17.5</b>	
Korea Housing Finance Corporation 0.010% 2025	1.2	5-Feb-20	SK Hynix 2.375% 2031	1.0	19-Jan-21
Korea Development Bank 1.250% 2025	1.0	3-Jun-20	SK Hynix 1.500% 2026	1.0	19-Jan-21
Export–Import Bank of Korea 0.829% 2025	0.9	27-Apr-20	SK Battery America 2.125% 2026	0.7	26-Jan-21
Others	26.9		Others	14.8	
<b>Malaysia</b>	<b>17.2</b>		<b>Malaysia</b>	<b>8.6</b>	
Petronas Capital 4.55% 2050	2.8	21-Apr-20	Malaysia (Sovereign) 2.070% 2031	0.8	28-Apr-21
Petronas Capital 3.50% 2030	2.3	21-Apr-20	Malaysia (Sovereign) 3.075% 2051	0.5	28-Apr-21
Others	12.2		Others	7.3	
<b>Philippines</b>	<b>15.5</b>		<b>Philippines</b>	<b>3.9</b>	
Philippines (Sovereign) 2.65% 2045	1.5	10-Dec-20	Philippines (Sovereign) 1.75% 2041	1.0	28-Apr-21
Philippines (Sovereign) 2.95% 2045	1.4	5-May-20	Philippines (Sovereign) 1.20% 2033	0.8	28-Apr-21
Others	12.6		Others	2.1	
<b>Singapore</b>	<b>14.7</b>		<b>Singapore</b>	<b>6.1</b>	
United Overseas Bank 0.010% 2027	1.2	1-Dec-20	BOC Aviation 1.625% 2024	0.8	29-Apr-21
Oversea-Chinese Banking Corporation 1.832% 2030	1.0	10-Sep-20	United Overseas Bank 2.000% 2031	0.8	14-Apr-21
Others	12.5		Others	4.6	
<b>Thailand</b>	<b>5.3</b>		<b>Thailand</b>	<b>2.0</b>	
Bangkok Bank in Hong Kong, China 5.0% Perpetual	0.8	23-Sep-20	GC Treasury Center 2.98% 2031	0.7	18-Mar-21
PTT Treasury 3.7% 2070	0.7	16-Jul-20	Krungthai Bank 4.40% Perpetual	0.6	25-Mar-21
Others	3.8		Others	0.7	
<b>Viet Nam</b>	<b>0.1</b>		<b>Viet Nam</b>	<b>0.5</b>	
<b>Emerging East Asia Total</b>	<b>378.1</b>		<b>Emerging East Asia Total</b>	<b>139.6</b>	
<b>Memo Items:</b>			<b>Memo Items:</b>		
<b>India</b>	<b>14.3</b>		<b>India</b>	<b>12.5</b>	
Vedanta Holdings Mauritius II 13.00% 2023	1.4	21-Aug-20	Vedanta Resources 8.95% 2025	1.2	11-Mar-21
Others	12.9		Others	11.3	
<b>Sri Lanka</b>	<b>0.4</b>		<b>Sri Lanka</b>	<b>0.04</b>	
Sri Lanka (Sovereign) 6.57% 2021	0.1	30-Jul-20	Sri Lanka (Sovereign) 6.89% 2022	0.04	22-Jan-21
Others	0.3		Others	0.004	

USD = United States dollar.

Notes:

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

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

by declining issuances from Indonesia and Malaysia.<sup>7</sup> As a share of emerging East Asia's total G3 currency bond issuance in the first 4 months of 2021, ASEAN issuance accounted for 21.9%, down from 28.1% in the same period in 2020. Despite a drop in each of their respective issuance volumes, Indonesia and Malaysia led all ASEAN members in G3 currency bond issuance, followed by Singapore, the Philippines, Thailand, and Viet Nam.

Indonesia's issuance of G3 currency bonds in January–April 2021 represented 6.8% of the total in emerging East Asia, comprising USD8.2 billion in US dollars and the equivalent of USD1.2 billion in euros. The Government of Indonesia raised the equivalent of USD4.2 billion in a dual-currency issuance in January in three tranches (10 years, 30 years, 50 years) denominated in US dollars, while one tranche (12 years) was in euros. Proceeds from the issuance will be used for general budgetary purposes including the funding of Indonesia's COVID-19 relief efforts.

G3 currency bond issuance by Malaysia accounted for 6.2% of the region's total in the first 4 months of the year. Issuance was solely denominated in USD amounting to USD8.6 billion. In April, the Government of Malaysia issued the first sovereign USD-denominated sustainability *sukuk* in the world. The issuance was a dual-tranche bond worth USD1.3 billion and with tenors of 10 years and 30 years. Proceeds from the issuance will be used for social and green projects to support achievement of the United Nations Sustainable Development Goals.

The Philippines' share of total G3 currency bond issuance in emerging East Asia during the January–April 2021 period was 2.8%, comprising bonds denominated in euros amounting to USD2.5 billion, USD0.9 billion in USD-denominated bonds, and JPY-denominated bonds worth USD0.5 billion. In April, the Government of the Philippines issued a zero-coupon, 3-year samurai bond worth USD0.5 billion. In the same month, the government also issued three tranches of a euro-denominated bond worth USD2.5 billion. Proceeds from both the issuances expanded the government's funding sources for its COVID-19 response and other priority programs that will help the economy rebound from the pandemic.

G3 currency bond issuance in Singapore was 4.4% of emerging East Asia's total in the first 4 months of 2021, comprising USD5.7 billion in US dollars, the equivalent of USD0.3 billion in euros, and USD0.1 billion in Japanese yen. In February, United Overseas Bank issued a USD0.3 billion zero-coupon, 30-year callable bond denominated in US dollars. In April, the Singapore bank issued a dual-tranche, USD-denominated bond worth USD1.5 billion. The issuance represented Singapore's first sustainable bond issuance, the proceeds of which may be used for projects such as green buildings and renewable energy, and also may extend to COVID-19-related loans to help businesses sustain employment and growth during the pandemic.

Entities from Thailand accounted for 1.4% of all G3 currency bonds issued in the region during the January–April period, comprising USD2.0 billion worth of USD-denominated bonds. In March, GC Treasury Center issued USD1.3 billion worth of callable USD-denominated bonds. The dual-tranche bond, with tenors of 10 years and 30 years, was issued under its parent company's global medium-term note program, the proceeds of which will be used for general corporate purposes. In the same month, Krung Thai Bank issued a USD0.6 billion perpetual callable bond denominated in US dollars with a coupon rate of 4.4%. Proceeds from the issuance will be used for funding and general corporate purposes.

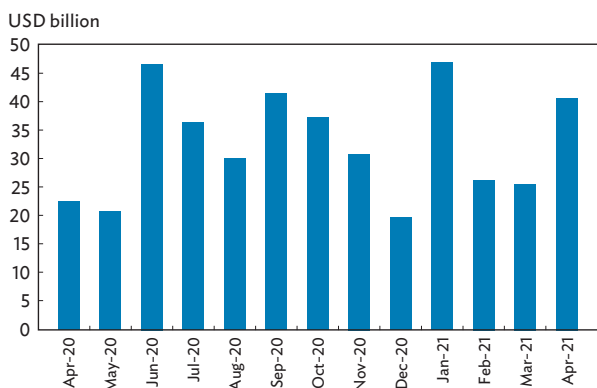
During the review period, Viet Nam accounted for 0.4% of all G3 currency issuance in emerging East Asia with USD0.5 billion worth of USD-denominated bonds. In April, Viet Nam's largest conglomerate, Vingroup, issued a USD0.5 billion 5-year convertible bond with a coupon rate of 3.0%. Proceeds from the issuance will be used for refinancing existing facilities and funding capital expenditures and other general corporate purposes.

Monthly G3 currency issuance totals in emerging East Asia from April 2020 to April 2021 are presented in **Figure 6**. There was a high volume of G3 issuance in January 2021 as investors returned to the market after pandemic-related concerns led to declining issuances from September 2020 to December 2020. Issuances fell again in February and March 2021 as major issuers in the PRC, Indonesia, and the Republic of Korea reduced their issuances. In addition, rising US Treasury yields made borrowing in US dollars more costly for issuers.

<sup>7</sup> ASEAN G3 issuance data includes Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.



**Figure 6: G3 Currency Bond Issuance in Emerging East Asia**



USD = United States dollar.

Notes:

1. Emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Figures were computed based on 30 April 2021 currency exchange rates and do not include currency effects.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

Issuances picked up again in April, with most economies in emerging East Asia tapping international bond markets for their borrowing. Investors are cautiously optimistic about the global economic recovery due to successful vaccine rollouts in some places at the same time there are COVID-19 case resurgences and the emergence of new variants elsewhere.

## Government Bond Yield Curves

**Local currency government bond yield movements were mixed as the resurgence of COVID-19 cases and global inflation fears had varied effects on individual markets. Idiosyncratic factors also had an effect.**

Uncertainty over the global economy rose in Q1 2021, largely due to the resurgence of COVID-19 cases in some economies, while financial markets were also affected by the potential for a liquidity withdrawal in response to global inflation fears.

The ongoing vaccination efforts and previous stimulus measures are expected to lead to a recovery in the global economy. However, the rise in COVID-19 cases and the emergence of new variants in some economies have

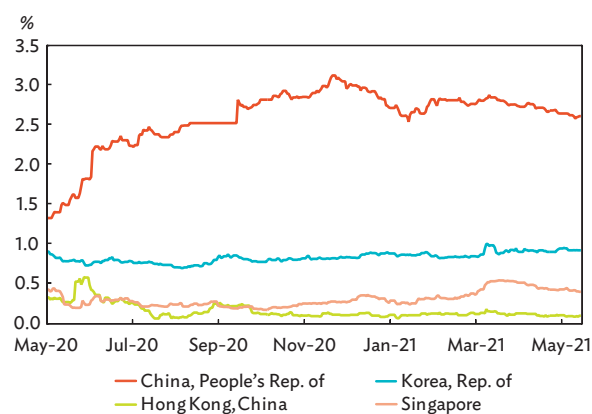
raised the possibility that economic recovery may be delayed in other markets. The pace of vaccine rollouts and the effectiveness of government responses also factor into the uncertain trajectory of economic recovery.

The US economy continued to have a rosy outlook. GDP in Q1 2021 expanded at an annualized rate of 6.4%, up from a 4.3% gain in Q4 2020. However, there are concerns of rising inflation risk leading to expectations that the Federal Reserve may tighten earlier than expected and reduce liquidity in the financial market. Consumer price inflation in the US accelerated to 5.0% y-o-y in May from 4.2% y-o-y in April and 2.6% y-o-y in March. While the Federal Reserve left monetary policy unchanged during its 15–16 June meeting, two rate hikes are expected in 2023.

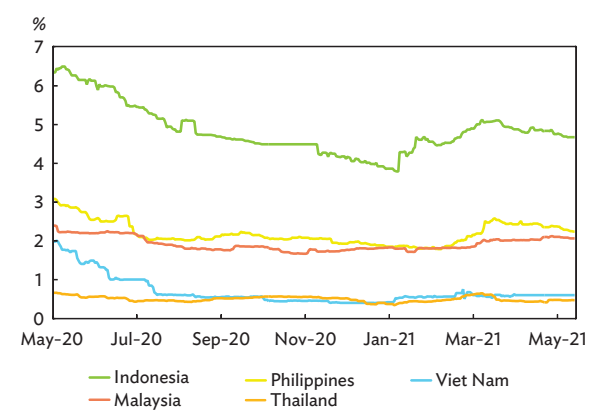
In contrast, the euro area's GDP fell 1.3% y-o-y in Q1 2021 after falling 4.7% y-o-y in the previous quarter as a resurgence of COVID-19 led to additional containment measures. While the European Central Bank left monetary policy unchanged at its 22 April meeting, it announced that it would speed up the pace of its bond buying in Q2 2021. On 10 June, the European Central Bank affirmed its existing easy monetary stance. In Japan, annualized GDP fell 3.9% in Q1 2021 due to an extension of the state of emergency over the COVID-19 pandemic.

Similarly, the outlooks for emerging East Asia's economies are also mixed owing to market-specific factors. Between 28 February and 15 May, yield movements diverged across emerging East Asian economies. The 2-year yield trended upward in both the Republic of Korea and Singapore, largely due to positive economic outlooks as both markets have effectively managed the COVID-19 outbreak. Surprisingly, despite strong economic growth, the 2-year yield in the PRC trended downward during the review period (**Figure 7a**). This was largely the result of the government's focus on risk control as evidenced by the reduced issuance of government bonds compared to the same period in 2020 and less need for fiscal stimulus.

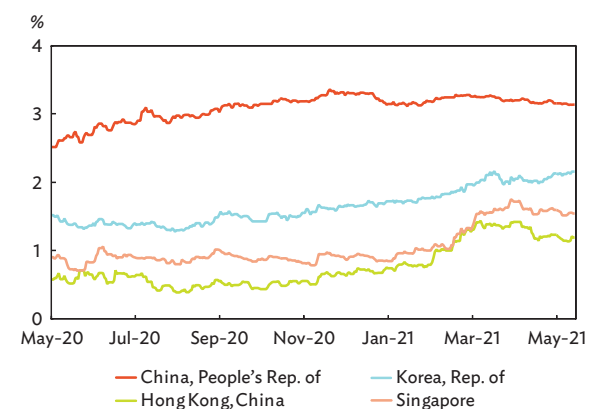
Positive economic sentiment also lifted the 2-year yield in Malaysia (**Figure 7b**). In the Philippines, the 2-year yield trended upward at the start of the year on rising inflation. After peaking in March, yields moved slightly downward over concerns that increased COVID-19 cases would delay economic recovery. The 2-year yield in Indonesia fell the most among its regional peers due to foreign

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

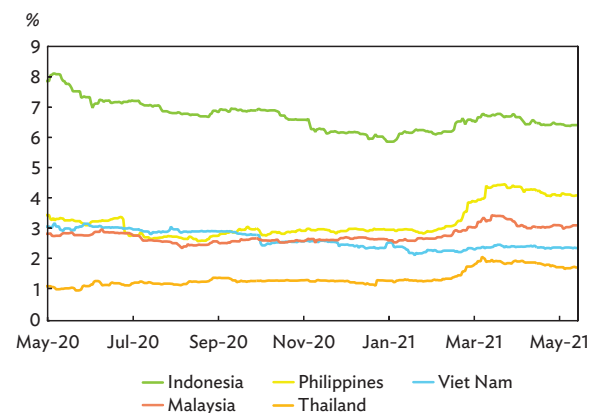
Note: Data coverage is from 2 May 2020 to 15 May 2021.  
Source: Based on data from Bloomberg LP.

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

Note: Data coverage is from 2 May 2020 to 15 May 2021.  
Source: Based on data from Bloomberg LP.

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

Note: Data coverage is from 2 May 2020 to 15 May 2021.  
Source: Based on data from Bloomberg LP.

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

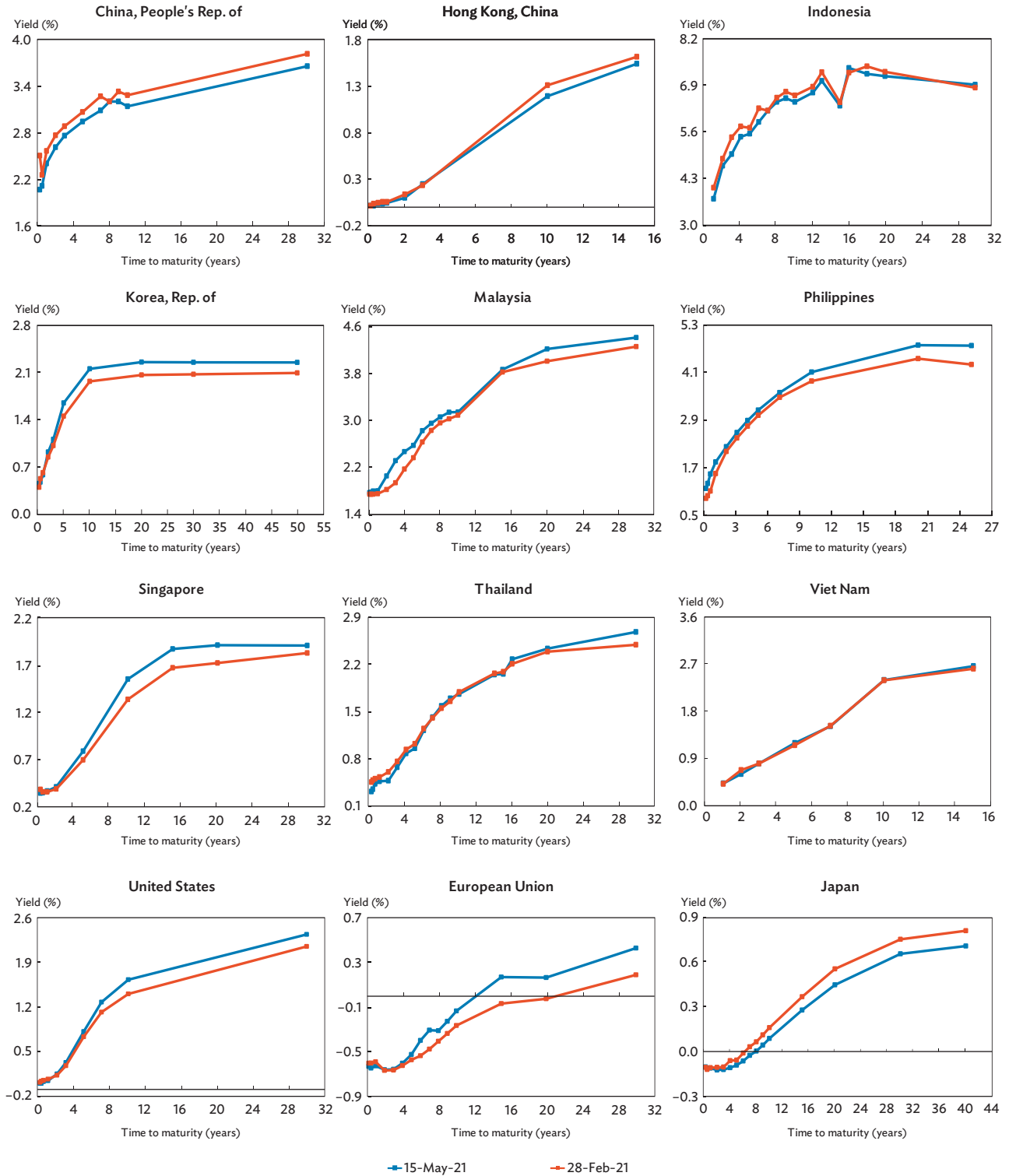
Note: Data coverage is from 2 May 2020 to 15 May 2021.  
Source: Based on data from Bloomberg LP.

investor inflows and low inflation. In Thailand, 2-year yields trended downward starting in March on economic growth concerns over a rise in COVID-19 cases and the impact of the pandemic on Thailand's tourism industry. The 10-year yield in emerging East Asian markets largely followed the movement of the respective 2-year yield (**Figures 8a** and **8b**).

Between 28 February and 15 May, LCY government bond yield curves in emerging East Asia exhibited mixed trends (**Figure 9**). The PRC's yield curve shifted downward for all tenors except the 8-year, which was unchanged,

by an average of 18 bps over the tightening supply of government bonds. Indonesia's and Hong Kong, China's yield curves shifted downward for most tenors, as did Thailand's, over economic growth concerns. The yield curves of the Republic of Korea, Malaysia, and Singapore steepened during the review period, with most longer tenors rising on positive economic sentiment. While the Philippine yield curve shifted strongly upward for all tenors by an average of 25 bps, unlike other markets in the region, the rise was mostly due to rising inflation and the need for an increased bond supply to fund the budget deficit.

Figure 9: Benchmark Yield Curves—Local Currency Government Bonds



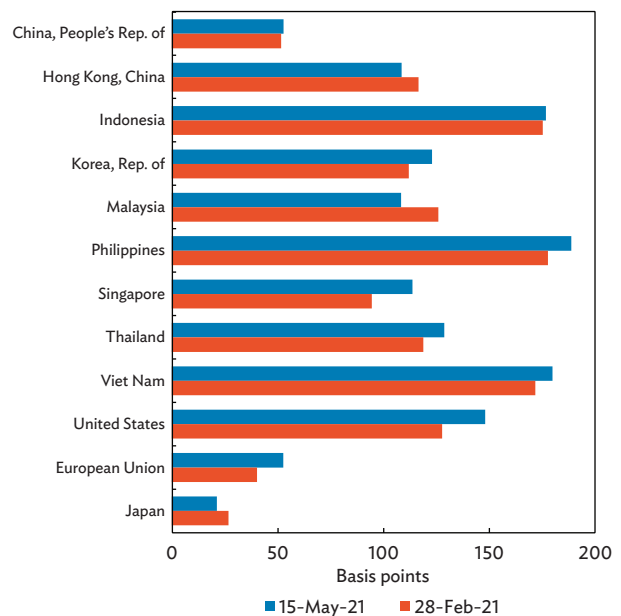
Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

Between 28 February and 15 May, the 2-year versus 10-year yield spread largely widened in all emerging East Asian economies except for Malaysia and Hong Kong, China (Figure 10).

Economic performances in emerging East Asia improved in Q1 2021 versus Q4 2020. Both the PRC and Viet Nam continued to post positive economic growth rates. Economic recovery in the PRC was particularly strong, with GDP rising 18.3% y-o-y in Q1 2021. Viet Nam posted solid 4.5% y-o-y GDP growth in the same quarter, similar to the y-o-y expansion in Q4 2020. Hong Kong, China; the Republic of Korea; and Singapore each posted positive growth rates in Q1 2021 after their respective economies contracted in the previous quarter. Both Malaysia and Indonesia continued to post GDP contractions in Q1 2021, but the pace of contraction slowed to -0.5% y-o-y and -0.7% y-o-y, respectively, from -3.4% y-o-y and -2.2% y-o-y in Q4 2020. While GDP contractions in the Philippines and Thailand were also smaller in Q1 2021 than in the previous quarter, their negative growth rates remained relatively elevated at -4.2% y-o-y and -2.6% y-o-y, respectively.

With economic performance improving in some markets, inflation largely trended upward during the review period. The exception was Indonesia (Figure 11a), whose inflation rate either remained steady or dipped slightly. Inflation in Thailand rose to move the economy out of deflation, but

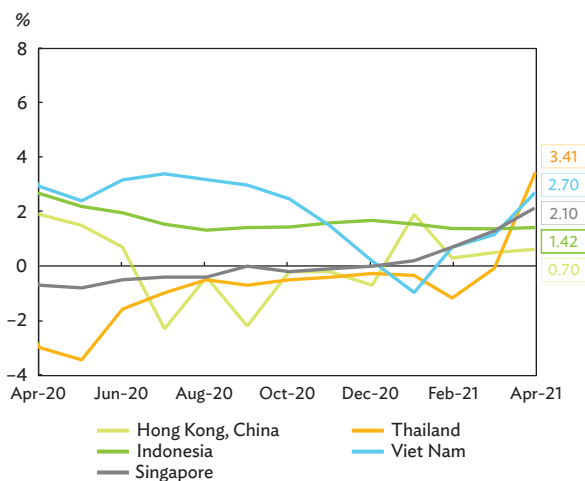
Figure 10: Yield Spreads between 2-Year and 10-Year Government Bonds



Source: AsianBondsOnline computations based on Bloomberg LP data.

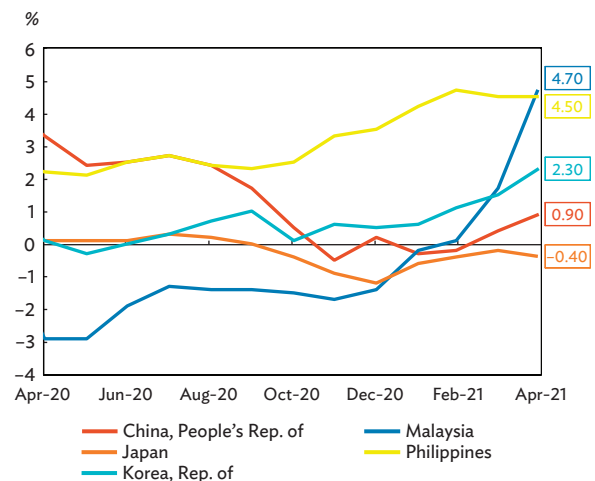
this was largely due to base effects. The region's highest inflation during the review period occurred in Malaysia at 4.7% (Figure 11b). It was followed by the Philippines, with a rate of 4.5% y-o-y in April, owing to rising pork prices due to an outbreak of swine flu.

Figure 11a: Headline Inflation Rates



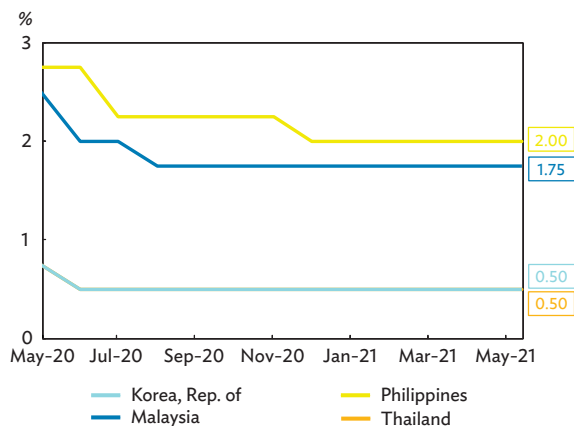
Note: Data coverage is from April 2020 to April 2021. Source: Based on data from Bloomberg LP.

Figure 11b: Headline Inflation Rates



Note: Data coverage is from April 2020 to April 2021. Source: Based on data from Bloomberg LP.

Figure 12a: Policy Rates

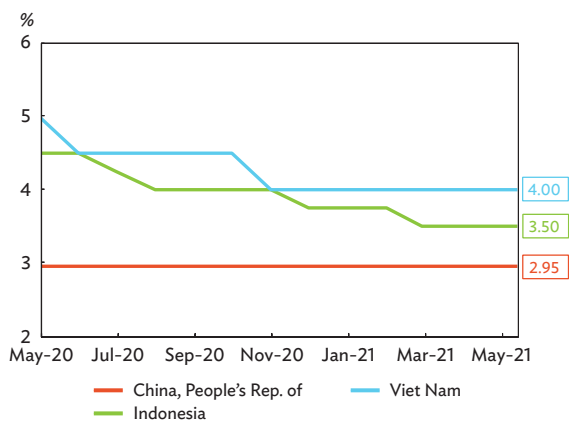


Notes:

1. Data coverage is from 2 May 2020 to 15 May 2021.
2. The Republic of Korea and Thailand have the same trend lines.

Source: Based on data from Bloomberg LP.

Figure 12b: Policy Rates



Notes:

1. Data coverage is from 2 May 2020 to 15 May 2021.
2. For the People's Republic of China, data used in the chart are the 1-year medium-term lending facility rate. While the 1-year benchmark lending rate is the official policy rate of the People's Bank of China, market players use the 1-year medium-term lending facility rate as a guide for the monetary policy direction of the People's Bank of China.

Source: Based on data from Bloomberg LP.

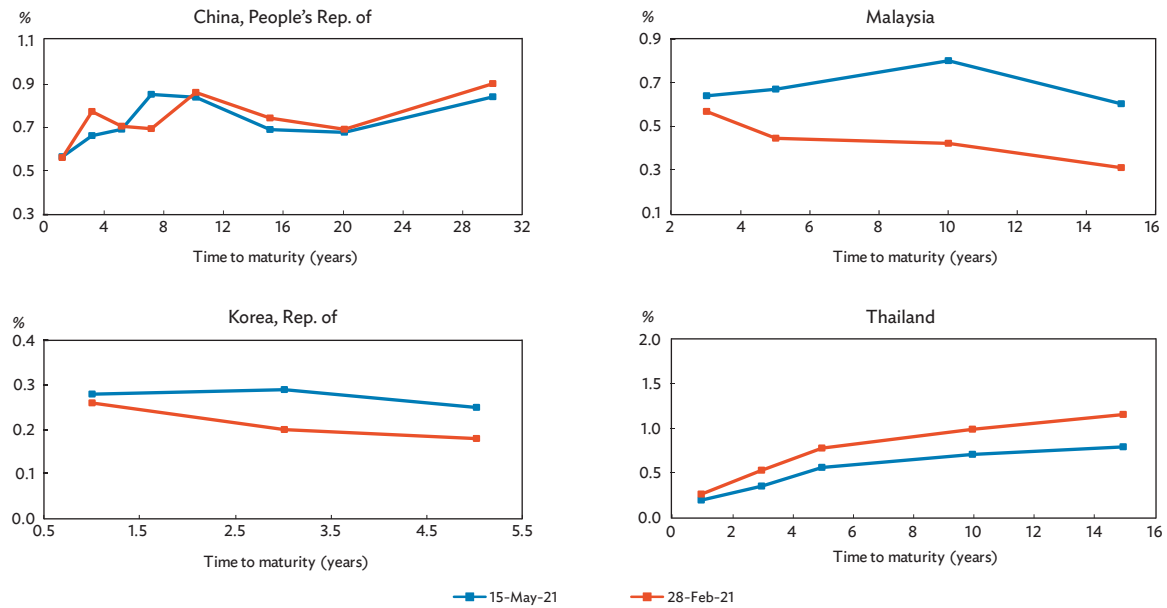
While inflation rates were rising, central banks in emerging East Asia largely left monetary policies unchanged, allowing the effects of past easing to work their way through the economy (**Figures 12a** and **12b**). Authorities also expected that growth would recover over the medium-term but rising COVID-19 cases in some markets have raised uncertainty. The exception to the regional trend was Indonesia, which reduced its policy rate by 25 bps in February.

**AAA-rated corporate spreads rose in Malaysia and in the Republic of Korea and fell in Thailand.**

The AAA-rated corporate versus government yield spread rose in the Republic of Korea and in Malaysia between 28 February and 15 May (**Figure 13a**), as the improved economic outlook led to increased risk-taking. The spread fell in Thailand, over increased demand for safer credit, and was largely unchanged in the PRC.

Lower-rated corporate spreads rose in the PRC and Thailand but fell in the Republic of Korea and Malaysia on demand for high-yield securities (**Figure 13b**).

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

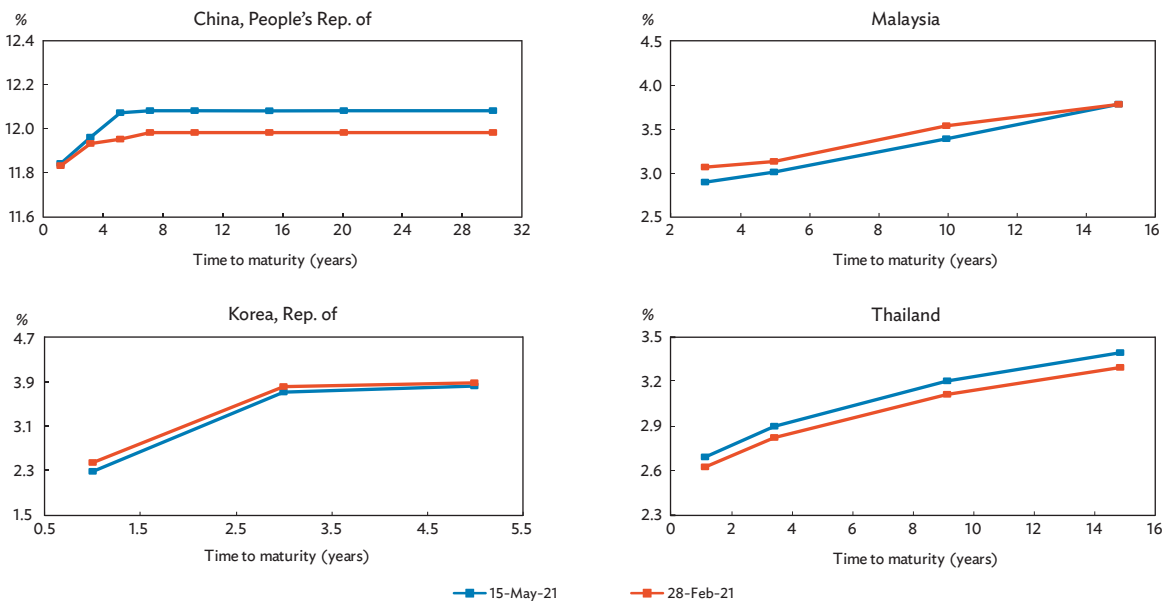


**Notes:**

1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For the Republic of Korea, data on corporate bond yields are as of 26 February 2021 and 14 May 2021.
3. For Malaysia, data on corporate bonds yields are as of 26 February 2021 and 12 May 2021.

Sources: People's Republic of China (Bloomberg LP); Republic of Korea (KG Zeroin Corporation); Malaysia (Fully Automated System for Issuing/Tendering Bank Negara Malaysia); and Thailand (Bloomberg, LP).

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



**Notes:**

1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For the Republic of Korea, data on corporate bond yields are as of 26 February 2021 and 14 May 2021.
3. For Malaysia, data on corporate bonds yields are as of 26 February 2021 and 12 May 2021.

Sources: People's Republic of China (Bloomberg LP); Republic of Korea (KG Zeroin Corporation); Malaysia (Fully Automated System for Issuing/Tendering Bank Negara Malaysia); and Thailand (Bloomberg, LP).