Market Summaries

People's Republic of China

Yield Movements

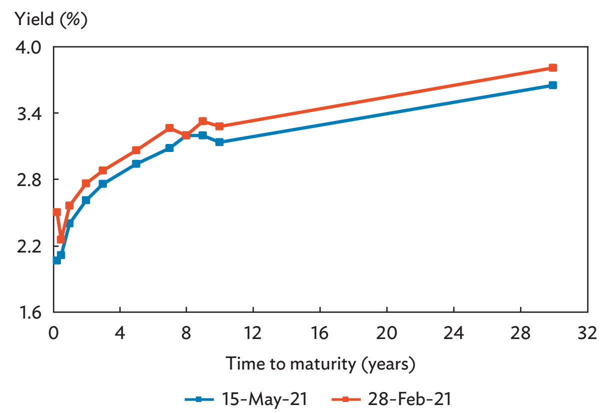
Between 28 February and 15 May, the local currency (LCY) government bond yield curve of the People's Republic of China (PRC) shifted downward for all tenors except the 8-year bond, which was unchanged (**Figure 1**). The largest decline was seen for the 3-month tenor, which fell 44 basis points (bps), followed by the 7-year tenor, which fell 18 bps. All other maturities fell between 12 bps and 16 bps. As a result, the 2-year versus 10-year yield spread moved upward only 1 bp during the review period.

While bond yields in the PRC fell, the economy continued to post strong gains as it recovered from the COVID-19 pandemic. The declines in the PRC's bond yields despite strong economic gains were largely due to expectations that the Government of the PRC would reduce the supply of government bonds outstanding given the domestic economic recovery, which has reduced the need for additional fiscal stimulus. The PRC is also focusing on mitigating credit risk in financial markets, and investors expect the government to rein in the issuance of local government bonds.

The PRC's GDP expanded rapidly in the first quarter (Q1) of 2021, growing 18.1% year-on-year (y-o-y) after gaining 6.5% y-o-y in the fourth quarter (Q4) of 2020. While all major sectors showed accelerated growth, the gains were particularly notable in the secondary and tertiary industries. The secondary industry's growth rate rose to 24.4% y-o-y in Q1 2021 from 2.6% y-o-y in the prior quarter, while the tertiary industry's growth increased to 15.6% y-o-y from 2.1% y-o-y in the same period. Primary industry grew 8.1% y-o-y in Q1 2021 versus 3.0% y-o-y in Q4 2020.

Industrial production also sustained its momentum but at a slower pace. In April, industrial production grew 9.8% y-o-y, which was lower than March's 14.1% y-o-y gain and the 35.1% y-o-y growth reported in January–February.

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



Source: Based on data from Bloomberg LP.

Despite the PRC's sustained economic recovery, inflation in the PRC remained manageable. Consumer price inflation rose to 0.9% y-oy in April, which was higher than the rate of 0.4% y-o-y recorded in March.

Size and Composition

LCY bonds outstanding in the PRC grew 2.1% quarter-on-quarter (q-o-q) in Q1 2021 after rising 3.3% q-o-q in Q4 2020 to CNY103.5 trillion (USD15.8 trillion) (**Table 1**). Bond growth also slowed on a y-o-y basis to 17.3% from 20.5% in the same period. The slower growth rate was largely due to a decline in government bond issuance in Q1 2021.

Government bonds. Government bonds outstanding in the PRC grew 1.6% q-o-q in Q1 2021, slower than Q4 2020's growth of 3.8% q-o-q. The slowdown was due to a decline in the issuance of Treasury bonds of 37.8% q-o-q in Q1 2021 due to reduced fiscal stimulus needs amid the economy's sustained recovery. In addition, the government shifted its policies toward risk control, leading Treasury bonds and other government bonds outstanding to grow only 0.5% q-o-q in Q1 2021 versus 8.3% q-o-q in the previous quarter.

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**88,270**	**12,464**	**101,413**	**15,537**	**103,528**	**15,799**	**4.9**	**16.1**	**2.1**	**17.3**
Government	55,852	7,886	65,130	9,978	66,198	10,102	3.5	13.8	1.6	18.5
Treasury Bonds and Other Government Bonds	16,850	2,379	20,933	3,207	21,032	3,210	0.9	13.2	0.5	24.8
Central Bank Bonds	19	3	15	2	15	2	(15.9)	1,133.3	0.0	(18.9)
Policy Bank Bonds	15,985	2,257	18,040	2,764	18,382	2,805	1.8	8.2	1.9	15.0
Local Government Bonds	22,999	3,247	26,142	4,005	26,769	4,085	6.6	18.5	2.4	16.4
Corporate	32,418	4,577	36,283	5,559	37,329	5,697	7.3	20.3	2.9	15.2

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.

Local government bonds, which used to be the major driver of bond market growth in the PRC, grew only 2.4% q-o-q in Q1 2021 after rising 0.8% q-o-q in Q4 2020, largely due to base effects. In Q4 2020, local governments hardly issued bonds after having mostly completed their annual quotas for special bonds. However, in Q1 2020, despite the renewal of the quotas at the start of the year, local government bond issuance rose only 16.9% q-o-q and fell 44.5% y-o-y. The central government is slowing the issuance of local government bonds unlike in previous years when it had pushed for the utilization of the quotas early in the year. The government also reduced the local government bond quota to CNY3.65 trillion in 2021 from CNY3.75 trillion in 2020.

Policy bank bonds, however, posted a moderate growth of 1.9% q-o-q in Q1 2021 after gaining 0.9% in Q4 2020.

Corporate bonds. The PRC's corporate bond market's growth rate inched up to 2.9% q-o-q in Q1 2021 from 2.4% q-o-q in Q4 2020. Issuance of corporate bonds declined 3.0% q-o-q in Q1 2021 due to government directives on overleveraging as well as investor concerns regarding credit risks.

Commercial paper outstanding rose 8.9% q-o-q in Q1 2021 as companies used short-term borrowing in anticipation of lower interest rates (**Table 2**). State-owned enterprise bonds and medium-term notes outstanding were roughly unchanged owing to a reduction in issuance due to risk controls. Financial bonds gained 4.3% q-o-q as commercial banks beefed up their funding in anticipation of increased economic activity.

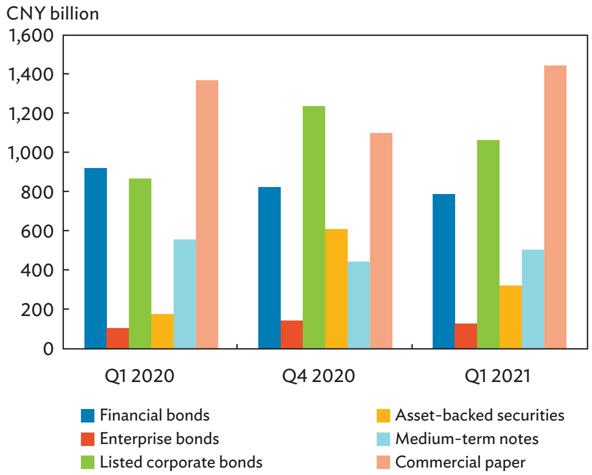
Credit risk concerns also led to a decline in nearly all major corporate bond issuance categories (**Figure 2**). The exceptions were commercial paper, with issuance

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q1 2020		Q1 2021	
	Q1 2020	Q4 2020	Q1 2021	q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	6,364	7,427	7,746	1.1	34.2	4.3	21.7
Enterprise Bonds	3,707	3,880	3,860	1.0	(4.3)	(0.5)	4.1
Listed Corporate Bonds	8,328	10,223	10,603	1.1	26.0	3.7	27.3
Commercial Paper	2,671	2,152	2,344	1.3	19.2	8.9	(12.2)
Medium-Term Notes	6,829	7,381	7,382	1.1	17.5	0.03	8.1
Asset-Backed Securities	2,388	2,883	2,942	1.0	38.2	2.0	23.2

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

Figure 2: Corporate Bond Issuance in Key Sectors



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

rising 31.3% q-o-q, and medium-term notes, which rose 13.8% q-o-q. Financial bond issuance was roughly unchanged, declining 4.3% q-o-q.

The top 30 issuers' share of total LCY corporate bonds outstanding remained roughly unchanged at 28.7% in Q1 2021 (**Table 3**). By the end of March, the bonds outstanding of the top 30 issuers reached CNY10.7 trillion. Of the top 30, the 10 largest issuers accounted for an aggregate CNY7.0 trillion. China Railway remained the largest issuer, accounting for 24.8% of the total bonds outstanding of the top 30 issuers. The top 30 issuers included 14 banks.

Table 4 lists the largest corporate bond issuances in Q1 2021. Of the five top issuers, four are financial institutions that sought to increase their liquidity and funding during the quarter. The largest issuer in the PRC has consistently been China Railway, which again issued bonds for infrastructure development in Q1 2021. The firm raised a total of CNY70 billion during the quarter through bonds with various maturities.

Investor Profile

Government bonds. Banks remained the majority investor group in the government bond market in Q1 2021 (**Figure 3**). However, with strong inflows from other types of investors, banks' holding share fell somewhat from a year earlier. At the end of March, banks held 65.5% of outstanding Treasury bonds (down from 67.5% at the end of March 2020), 55.9% of outstanding policy bank bonds (down from 57.4%), and 87.6% of outstanding local government bonds.

In contrast, the Treasury bond holdings share of foreign investors increased during the review period, rising to 10.9% at the end of March from 9.0% a year earlier, while their share of policy bank bonds rose to 5.4% from 3.4%.

Liquidity

The volume of interest rate swaps rose 6.4% q-o-q in Q1 2021 (**Table 5**). Demand for interest rate swaps was lower given the decline in interest rates. The 7-day repo rate remained the most used interest rate swap with an 85.7% share of all transactions.

Policy, Institutional, and Regulatory Developments

The People's Bank of China and the State Administration of Foreign Exchange Implement Cross-Border Pilot Program for Multinational Corporations

In March, the People's Bank of China and the State Administration of Foreign Exchange launched a pilot program to allow multinational corporations with good credit standing to enjoy a more streamlined process for cross-border fund transfers. The pilot program is meant to integrate multinational corporations' transfers of both Chinese yuan and foreign currencies. The benefits of the pilot program for the companies include a unified policy on Chinese yuan and other foreign currencies, the relaxation of quotas on external debt and overseas loans, and the easier cross-border transfer of currencies and purchases of foreign currencies subject to quota.

The People's Bank of China Adjusts Foreign Exchange Reserve Requirement Ratio

Effective 15 June, the foreign exchange reserve requirement ratio of financial institutions was raised to 7.0% from 5.0%, as previously announced by the People's Bank of China in May.

Table 3: Top 30 Issuers of Local Currency Corporate Bonds in the People's Republic of China

		Outstanding Amount				
	Issuers	LCY Bonds (CNY billion)	LCY Bonds (USD billion)	State-Owned	Listed Company	Type of Industry
1.	China Railway	2,648.5	404.2	Yes	No	Transportation
2.	Agricultural Bank of China	680.3	103.8	Yes	Yes	Banking
3.	Bank of China	641.4	97.9	Yes	Yes	Banking
4.	Industrial and Commercial Bank of China	640.1	97.7	Yes	Yes	Banking
5.	Shanghai Pudong Development Bank	485.9	74.2	No	Yes	Banking
6.	Bank of Communications	462.1	70.5	No	Yes	Banking
7.	Central Huijin Investment	456.0	69.6	Yes	No	Asset Management
8.	China Construction Bank	388.1	59.2	Yes	Yes	Banking
9.	Industrial Bank	326.3	49.8	No	Yes	Banking
10.	State Grid Corporation of China	291.0	44.4	Yes	No	Public Utilities
11.	China National Petroleum	274.9	42.0	Yes	No	Energy
12.	China Securities Finance	264.0	40.3	Yes	No	Financial Services
13.	China Minsheng Banking	260.0	39.7	No	Yes	Banking
14.	China CITIC Bank	255.0	38.9	No	Yes	Banking
15.	State Power Investment	253.8	38.7	Yes	No	Energy
16.	China Everbright Bank	215.9	32.9	Yes	Yes	Banking
17.	China Merchants Bank	209.2	31.9	Yes	Yes	Banking
18.	Ping An Bank	198.7	30.3	No	Yes	Banking
19.	Huaxia Bank	198.0	30.2	Yes	No	Banking
20.	China Southern Power Grid	182.5	27.9	Yes	No	Energy
21.	CITIC Securities	168.8	25.8	Yes	Yes	Brokerage
22.	Tianjin Infrastructure Construction and Investment Group	160.6	24.5	Yes	No	Industrial
23.	Postal Savings Bank of China	160.0	24.4	Yes	Yes	Banking
24.	Shaanxi Coal and Chemical Industry Group	144.0	22.0	Yes	No	Energy
25.	China Merchants Securities	136.0	20.8	Yes	No	Brokerage
26.	Huatai Securities	131.8	20.1	Yes	Yes	Brokerage
27.	PetroChina	119.0	18.2	Yes	Yes	Energy
28.	Jinneng Holding Coal Group	118.2	18.0	Yes	Yes	Coal
29.	Datong Coal Mine Group	114.2	17.4	Yes	No	Coal
30.	China Three Gorges Corporation	114.0	17.4	Yes	No	Power
Total Top 30 LCY Corporate Issuers		**10,698.1**	**1,632.6**			
Total LCY Corporate Bonds		**37,329.5**	**5,696.7**			
Top 30 as % of Total LCY Corporate Bonds		**28.7%**	**28.7%**			

CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 31 March 2021.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

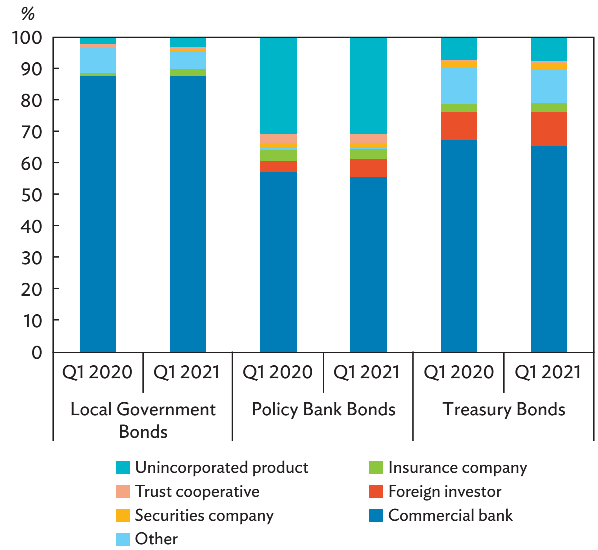
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Railway[a]		
5-year bond	3.40	20.0
5-year bond	3.53	20.0
10-year bond	3.65	15.0
10-year bond	3.56	7.0
20-year bond	3.82	8.0
Shanghai Pudong Development Bank		
3-year bond	2.48	60.0
China Merchants Securities[a]		
3-month bond	2.49	4.0
3-month bond	3.03	3.0
3-month bond	3.25	4.2
1-year bond	3.55	6.0
2-year bond	3.85	6.0
2-year bond	3.24	1.5
3-year bond	3.95	6.0
3-year bond	3.95	4.8
3-year bond	3.53	4.5
3-year bond	3.58	1.4
China Everbright Bank		
3-year bond	3.45	40.0
Bank of China		
3-year bond	3.36	10.0
10-year bond	4.15	15.0
15-year bond	4.38	10.0

CNY = Chinese yuan.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Based on data from Bloomberg LP.

Figure 3: Local Currency Treasury Bonds and Policy Bank Bonds Investor Profile



Q1 = first quarter.
Source: CEIC.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the First Quarter of 2021

Interest Rate Swap Benchmarks	Notional Amount (CNY billion) Q1 2021	Share of Total Notional Amount (%) Q1 2021	Growth Rate (%) q-o-q
1-Day Repo Rate (Deposit Institutions)	0.2	0.004	0.0
7-Day Repo Rate	4,594.3	85.7	1.0
7-day Repo Rate (Deposit Institutions)	0.3	0.005	0.4
Overnight SHIBOR	21.3	0.4	2.1
3-Month SHIBOR	685.1	12.8	1.2
1-Year Lending Rate	23.0	0.4	2.1
5-Year Lending Rate	5.8	0.1	9.7
10-Year Treasury Yield	10.5	0.2	0.5
3-Year AAA Short-Term Notes/ Government Debt	0.1	0.001	0.3
China Development Bank 10-Year Bond Yield	11.0	0.2	0.5
10-Year Bond Yield/10-Year Government Bond Yield	10.5	0.2	0.5
Total	**5,362.1**	**100.0**	**6.4**

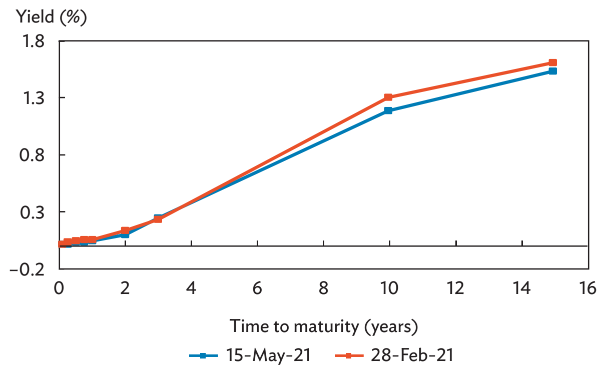
CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *AsianBondsOnline* and *ChinaMoney*.

Hong Kong, China

Yield Movements

Between 28 February and 15 May, the local currency (LCY) government bond yield curve in Hong Kong, China shifted downward for all tenors except the 3-year, which gained 1 basis point (bp), and the 1-month, which was unchanged (**Figure 1**). Yields fell 3 bps on average, with the 10-year tenor showing the steepest drop at 12 bps. The spread between the 2-year and 10-year bonds narrowed from 117 bps to 109 bps from 28 February to 15 May.

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



Source: Based on data from Bloomberg LP.

The drop in yields for Hong Kong, China's LCY government bonds with maturities of 1 year or less broadly tracked the movements of short-dated United States (US) Treasury yields. Low yields also reflected strong liquidity in the domestic financial system. Due to several interventions by the Hong Kong Monetary Authority (HKMA) to maintain the Hong Kong dollar's peg to the US dollar amid seasonal and equity-related demand in 2020, the Aggregate Balance remained elevated during the review period. The Aggregate Balance, an indicator of liquidity in the financial system, totaled HKD457.5 billion on 15 May.

For bonds with maturities longer than 1 year, yield movements diverged from those of US Treasuries, whose rise reflected expectations that inflation in the US would quicken along with the pace of the domestic economic recovery. In contrast, inflation expectations in Hong Kong, China were subdued as economic activities remained below pre-recession levels. Consumer price inflation inched up to 0.7% year-on-year (y-o-y) in April from 0.5% y-o-y in March, mainly driven by a rise in local transport costs and motor fuel prices. The government's latest inflation outlook predicted headline and underlying consumer price inflation for full-year 2021 of 1.6% and 1.0%, respectively.

Hong Kong, China's GDP expanded 7.9% y-o-y in the first quarter (Q1) of 2021, ending 6 straight quarters of contraction. Nonetheless, the recovery was uneven. The growth was mainly driven by merchandise exports, which rose 30.2% y-o-y as economic recovery gained momentum in the People's Republic of China and the US. Consumption and investment remained muted as social distancing measures continued to limit tourism and other economic activities. The establishment of a travel bubble with Singapore was postponed again due to a resurgence of COVID-19 cases. Private consumption inched up 1.6% y-o-y, while investment expanded moderately at 4.5% y-o-y in Q1 2021. Hong Kong, China's unemployment rate reached a 16-year high of 6.8% in January–March before easing slightly to 6.4% in February–April.

Despite the initial economic recovery, uncertainties linger stemming from several domestic and global factors. Hong Kong, China's vaccination rate trails that of other Asian financial hubs despite having an ample supply of vaccines. Geopolitical tension between the People's Republic of China and the US continues to pose downside risks to the domestic growth outlook. Finally, Hong Kong, China's path to recovery remains highly reliant on the global trajectory of the pandemic, particularly the speed and efficacy of vaccine rollouts.

Size and Composition

Hong Kong, China's LCY bonds outstanding expanded 1.7% quarter-on-quarter (q-o-q) in Q1 2021 to reach HKD2,445.7 billion (USD314.6 billion) at the end of March (**Table 1**). The growth in the LCY bond market stemmed primarily from the corporate bond segment, which grew 3.1% q-o-q in Q1 2021. The government bond segment showed tepid growth of 0.2% q-o-q during the review period. Government bonds accounted for 48.6% of total LCY bonds outstanding at the end of March. On a y-o-y basis, the LCY bond market expanded 8.4% in Q1 2021, up from 6.1% in the fourth quarter of 2020.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,255**	**291**	**2,405**	**310**	**2,446**	**315**	**(0.5)**	**0.3**	**1.7**	**8.4**
Government	1,170	151	1,185	153	1,187	153	(1.1)	0.7	0.2	1.5
Exchange Fund Bills	1,060	137	1,043	135	1,043	134	0.4	2.4	0.02	(1.5)
Exchange Fund Notes	27	3	25	3	25	3	0.0	(14.7)	0.0	(6.0)
HKSAR Bonds	83	11	117	15	119	15	(16.9)	(12.2)	2.3	43.2
Corporate	1,086	140	1,220	157	1,258	162	0.2	(0.2)	3.1	15.9

( ) = negative, 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.

Government bonds. LCY government bonds outstanding reached HKD1,187.5 billion at the end of March on growth of 0.2% q-o-q. The growth was driven solely by a 2.3% q-o-q expansion of Hong Kong Special Administrative Region (HKSAR) bonds. The stock of Exchange Fund Bills (EFBs) and Exchange Fund Notes (EFNs) held steady during the review period. On a y-o-y basis, the stock of LCY government bonds rose 1.5% in Q1 2021. Government issuance declined 5.6% q-o-q in Q1 2021 as issuance of EFBs and HKSAR bonds contracted during the quarter.

Exchange Fund Bills. Due to maturities and a decline in issuance, outstanding EFBs barely grew in Q1 2021, amounting to HKD1,043.3 billion at the end of March. On a y-o-y basis, EFBs outstanding contracted 1.5% in Q1 2021. Issuance of EFBs amounted to HKD814.1 billion in Q1 2021, contracting 1.7% 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 HKD25.0 billion in Q1 2021.

HKSAR bonds. HKSAR bonds outstanding amounted to HKD119.2 billion at the end of March on growth of 2.3% q-o-q and 43.2% y-o-y. The government issued a 10-year HKSAR bond worth HKD1.7 billion in February and a 15-year HKSAR bond worth HKD1.0 billion in March under the Institutional Bond Issuance Programme.

Corporate bonds. Corporate bonds outstanding reached HKD1,258.2 billion at the end of March on growth of 3.1% q-o-q and 15.9% y-o-y. The growth was driven by strong issuance as corporates tapped the bond market to meet their funding needs amid the low-interest-rate environment.

Hong Kong, China's top 30 nonbank issuers had a combined HKD283.6 billion of bonds outstanding at the end of March, accounting for 22.5% of the total LCY corporate bond market (**Table 2**). The government-owned Hong Kong Mortgage Corporation remained the top issuer with HKD60.7 billion of bonds outstanding at the end of Q1 2021. Sun Hung Kai & Co. maintained its position as second-largest issuer with HKD18.8 billion of bonds outstanding. The third-largest issuer was utilities provider Hong Kong and China Gas Company, with HKD17.3 billion of outstanding debt. The top 30 issuers were predominantly finance and real estate companies. A majority of the top 30 issuers were listed on the Hong Kong Stock Exchange; only four were government-owned corporations.

Corporate bond issuance totaled HKD294.8 billion in Q1 2021 on growth of 9.6% q-o-q and 38.1% y-o-y. Among the top nonbank issuers in Q1 2021, the Hong Kong Mortgage Corporation was the largest issuer with an aggregate HKD26.2 billion from 47 issuances, the largest of which was a 2-year bond with a 0.5% coupon worth HKD7.0 billion (**Table 3**). The next top issuer was Cathay Pacific, which raised HKD6.7 billion from a 5-year

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	60.7	7.8	Yes	No	Finance
2.	Sun Hung Kai & Co.	18.8	2.4	No	Yes	Finance
3.	The Hong Kong and China Gas Company	17.3	2.2	No	Yes	Utilities
4.	New World Development	14.2	1.8	No	Yes	Diversified
5.	Link Holdings	12.9	1.7	No	Yes	Finance
6.	Hong Kong Land	12.5	1.6	No	No	Real Estate
7.	Hang Lung Properties	12.4	1.6	No	Yes	Real Estate
8.	Henderson Land Development	12.3	1.6	No	Yes	Real Estate
9.	MTR	12.2	1.6	Yes	Yes	Transportation
10.	Swire Pacific	11.6	1.5	No	Yes	Diversified
11.	Cathay Pacific	9.3	1.2	No	Yes	Transportation
12.	Airport Authority Hong Kong	8.9	1.1	Yes	No	Transportation
13.	Hongkong Electric	8.5	1.1	No	No	Utilities
14.	Wharf Real Estate Investment	8.2	1.1	No	Yes	Real Estate
15.	CLP Power Hong Kong Financing	7.7	1.0	No	No	Finance
16.	Guotai Junan International Holdings	7.6	1.0	No	Yes	Finance
17.	Swire Properties	7.6	1.0	No	Yes	Diversified
18.	Smart Edge	6.5	0.8	No	No	Finance
19.	AIA Group	6.3	0.8	No	Yes	Insurance
20.	Hysan Development Corporation	5.7	0.7	No	Yes	Real Estate
21.	Future Days	4.2	0.5	No	No	Transportation
22.	Lerthai Group	3.0	0.4	No	Yes	Real Estate
23.	China Dynamics Holdings	2.4	0.3	No	Yes	Automotive
24.	Champion REIT	2.3	0.3	No	Yes	Real Estate
25.	South Shore Holdings	2.2	0.3	No	Yes	Industrial
26.	IFC Development	2.0	0.3	No	No	Finance
27.	Nan Fung	1.8	0.2	No	No	Real Estate
28.	Kowloon-Canton Railway	1.7	0.2	Yes	No	Transportation
29.	Haitong International	1.4	0.2	No	Yes	Finance
30.	Emperor Capital	1.4	0.2	No	Yes	Finance
Total Top 30 Nonbank LCY Corporate Issuers		**283.6**	**36.5**			
Total LCY Corporate Bonds		**1,258.2**	**161.8**			
Top 30 as % of Total LCY Corporate Bonds		**22.5%**	**22.5%**			

HKD = Hong Kong dollar, LCY = local currency, REIT = real estate investment trust, USD = United States dollar.
Notes:
1. Data as of 31 March 2021.
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 Issuances in the First Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Hong Kong Mortgage Corporation		
2-year bond	0.50	7.00
Cathay Pacific		
5-year bond	2.75	6.74
New World Development		
10-year bond	3.50	1.50
Guotai Junan International Holdings		
1-year bond	1.00	0.56
Hang Lung Properties		
7-year bond	2.35	0.56
Swire Pacific		
10-year bond	2.35	0.30

HKD = Hong Kong dollar.
Source: Bloomberg LP.

bond with a 2.75% coupon. Other notable issuers during the quarter include New World Development, Guotai Junan International Holdings, Hang Lung Properties, and Swire Pacific. The longest tenor issued during the quarter were 10-year bonds from two issuers. New World Development raised HKD1.5 with its 10-year bond carrying a 3.50% coupon, while Swire Pacific raised a relatively smaller amount of HKD0.3 billion with its 10-year bond carrying a 2.35% coupon. Finance company Guotai Junan was another large issuer during the quarter. It raised a total of HKD2.7 billion from 10 issuances, the largest of which was a 1-year bond worth HKD0.6 billion and with a 1.0% coupon. Hang Lung Properties, another finance company, also raised a total of HKD2.7 billion. Its largest issue was a 7-year bond with a 2.35% coupon worth HKD0.56 billion.

Policy, Institutional, and Regulatory Developments

Hong Kong Monetary Authority and Bank of Japan Launch a Cross-Border Delivery-Versus-Payment Link

On 1 April, the HKMA and the Bank of Japan (BOJ) launched a delivery-versus-payment link for cross-currency securities transactions between the Hong Kong Dollar Clearing House Automated Transfer System and BOJ Financial Network System for Japanese Government Bond (JGB) Services. The delivery-versus-payment link provides settlement infrastructure for Hong Kong dollar sale and repurchase transactions using JGBs as collateral. It helps reduce settlement risk by guaranteeing simultaneous delivery of Hong Kong dollars in Hong Kong, China and JGBs in Japan. The link is operated by BOJ in Japan and the Hong Kong Interbank Clearing Limited in Hong Kong, China.

Hong Kong Monetary Authority Launches Green and Sustainable Finance Grant Scheme

On 10 May, the HKMA launched the Green and Sustainable Finance Grant Scheme, which will provide subsidies for eligible bond issuers and loan borrowers to cover expenses related to bond issuance and external review services. The scheme, which will last for 3 years, aims to strengthen Hong Kong, China's position as a regional green and sustainable finance hub, and help enrich its green and sustainable finance ecosystem. Eligible green and sustainable loans are those issued in Hong Kong, China with a size of at least HKD200 million, or the equivalent in a foreign currency, and have procured pre-issuance external review services by a recognized provider.

Hong Kong Monetary Authority Holds Countercyclical Capital Buffer at 1.0%

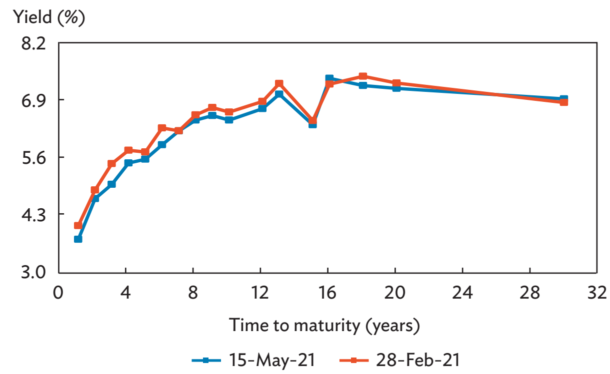
On 17 May, the HKMA announced that the countercyclical buffer (CCyB) would remain unchanged at 1.0%. The HKMA noted that while there have been initial signs of recovery, the economy continued to face uncertainties driven by the global pandemic. Thus, holding the CCyB steady and monitoring the economic situation for a few more quarters was deemed more appropriate. The CCyB 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.

Indonesia

Yield Movements

Between 28 February and 15 May, local currency (LCY) government bond yields in Indonesia fell for most tenors (**Figure 1**). Bond yields across the curve declined an average of 21 basis points (bps), while yields for the 16-year and 30-year maturities gained 13 bps and 8 bps, respectively. Yields fell the most for the 3-year tenor, shedding 47 bps during the review period. The spread between the 2-year and 10-year maturities slightly widened from 175 bps on 28 February to 177 bps on 15 May.

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



Source: Based on data from Bloomberg LP.

The decline in yields across the curve was influenced by the 25-bps rate cut by Bank Indonesia on 18 February, which brought the 7-day reverse repo rate to 3.50%, the deposit facility rate to 2.75%, and the lending facility rate to 4.25%. From January to May, Bank Indonesia was the sole central bank in emerging East Asia to ease policy rates. The policy rate has been held steady since then. In its latest meeting on 24–25 May, Bank Indonesia left rates unchanged at their current levels to support growth and manage the stability of the Indonesian rupiah amid the absence of inflationary pressure.

Contributing to the decline in yields during the review period, particularly at the shorter-end of the curve, was Indonesia's low and managed inflation rate. Consumer price inflation rose slightly to 1.7% year-on-year (y-o-y) in May from 1.4% y-o-y in April. The rise was due to the Muslim holidays of Ramadan and Idul Fitri, but the gain was considered manageable compared to the 2.2% y-o-y rise in May 2020. The government noted that an adequate supply of food products from the harvest season more than offset increased demand for goods during the Ramadan festivities. The uptick in May inflation was also capped as consumer sentiment was affected by some restrictions limiting travel and social gatherings during the Muslim holidays. The inflation rate also remained below Bank Indonesia's full-year 2021 inflation rate target of 2.0%–4.0%.

The drop in yields was also fueled by the recovery in foreign fund inflows from 1 April through 15 May. In February and March, the bond market was struck by a market sell-off over concerns that the United States (US) Federal Reserve would tighten monetary policy sooner than expected due to rising inflation. Market conditions normalized somewhat beginning in April as the Federal Reserve noted that the inflation spike was likely to be transitory.

Economic performance remained muted, with GDP declining for 4 quarters in a row. The pace of contraction slowed, however, indicating the economic activity was slowly picking up. GDP declined 0.7% y-o-y in the first quarter (Q1) of 2021, following contractions of 2.2% y-o-y in the fourth quarter (Q4) of 2020, 3.5% y-o-y in the third quarter of 2020, and 5.3% y-o-y in the second quarter of 2020. The Finance Ministry expects full-year GDP growth for 2021 of between 4.5% and 5.3%.

During the review period, the Indonesian rupiah was broadly stable, rising a marginal 0.3% versus the US dollar. The slight uptick was fueled by the recovery in foreign fund inflows in April.

Size and Composition

The outstanding size of Indonesia's LCY bond market expanded to IDR4,799.4 trillion (USD330.4 billion) at the end of March (**Table 1**). Bond market growth moderated to 6.2% quarter-on-quarter (q-o-q) in Q1 2021 from 10.0% q-o-q in Q4 2020. Government bonds continued to drive much of the growth, stemming largely from increases in the stock of central government bonds, which comprised both Treasury bills and bonds. The stocks of central bank bonds and nontradable bonds declined at the end of March. Corporate bonds also contributed

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**3,528,670**	**216**	**4,517,251**	**322**	**4,799,432**	**330**	**0.6**	**6.4**	**6.2**	**36.0**
Government	3,085,761	189	4,091,542	291	4,366,500	301	0.7	6.7	6.7	41.5
Central Govt. Bonds	2,833,359	174	3,870,757	275	4,155,596	286	2.9	12.1	7.4	46.7
of which: *Sukuk*	478,152	29	686,561	49	765,420	53	(1.5)	11.9	11.5	60.1
Central Bank Bonds	48,423	3	55,421	4	54,927	4	(52.7)	(63.2)	(0.9)	13.4
of which: *Sukuk*	36,173	2	55,421	4	54,927	4	16.0	45.2	(0.9)	51.8
Nontradable Bonds	203,978	13	165,365	12	155,977	11	(2.2)	(12.5)	(5.7)	(23.5)
of which: *Sukuk*	38,805	2	38,778	3	35,684	2	(11.4)	0.1	(8.0)	(8.0)
Corporate	442,909	27	425,709	30	432,931	30	(0.5)	4.4	1.7	(2.3)
of which: *Sukuk*	30,200	2	30,341	2	31,172	2	0.3	22.7	2.7	3.2

( ) = 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. *Sukuk* refers to Islamic bonds.

Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

to the growth but to a lesser extent. Compared with the same period a year earlier, the LCY bond market of Indonesia expanded 36.0% y-o-y in Q1 2021, up from 28.7% y-o-y in Q4 2020.

Government bonds continued to account for a majority share of Indonesia's LCY bond market, representing 91.0% of the aggregate bond stock at the end of March. Indonesia has the largest share of government bonds to total bonds among its emerging East Asian peers. This reflects the importance of LCY bond financing to Indonesia's economy, as it supports capital-intensive infrastructure and economic development. The bond market has also helped to raise funds for COVID-19 stimulus measures and recovery efforts.

At the end of March, conventional bonds accounted for over 80.0% of Indonesia's LCY bond market. While smaller, the share of *sukuk* (Islamic bonds) inched up to 18.5% of total bonds outstanding at the end of March from 18.0% at the end of December 2020 and 16.5% at the end of March 2020.

Government bonds. The outstanding stock of government bonds reached IDR4,366.5 trillion at the end of March. Growth, however, eased to 6.7% q-o-q in Q1 2021 following an 11.6% uptick in Q4 2020. On a y-o-y basis, government bond market growth accelerated to 41.5% in Q1 2021 from 33.6% in Q4 2020.

Central government bonds. At the end of March, the outstanding amount of central government bonds stood at IDR4,155.6 trillion, representing 95.2% of the aggregate government bond total. While positive, overall growth slowed amid a sharp decline in the issuance of Treasury bills and bonds during the quarter. Growth decelerated to 7.4% q-o-q in Q1 2021 from 11.8% q-o-q in Q4 2020. The stock of central government bonds posted strong growth of 46.7% y-o-y in Q1 2021 versus a 40.6% y-o-y uptick in the previous quarter.

The stock of central government bonds continued to expand in Q1 2021 despite a slowdown in issuance caused by a rise in market volatility, especially in February and March. During the period, investors sought higher interest rates during the weekly government bond auctions. However, the government still had ample reserves from previous fundraising efforts.

In Q1 2021, new issuance of Treasury bills and Treasury bonds tallied IDR307.0 trillion, down from IDR444.4 trillion in the preceding quarter. More borrowing in the prior quarter led to a high base effect, resulting in a q-o-q decline in Q1 2021. However, issuance activities in Q1 2021 were still above pre-COVID-19 levels, indicating the government's need for ongoing stimulus measures. The government continued to issue in relatively large volumes during its weekly auctions in Q1 2021, making use of the "green shoe

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	35,986	2.48	Yes	No	Energy
2.	Indonesia Eximbank	26,657	1.84	Yes	No	Banking
3.	Sarana Multi Infrastruktur	20,513	1.41	Yes	No	Finance
4.	Bank Rakyat Indonesia	17,320	1.19	Yes	Yes	Banking
5.	Sarana Multigriya Finansial	16,592	1.14	Yes	No	Finance
6.	Bank Tabungan Negara	15,975	1.10	Yes	Yes	Banking
7.	Bank Mandiri	14,000	0.96	Yes	Yes	Banking
8.	Bank Pan Indonesia	13,427	0.92	No	Yes	Banking
9.	Indosat	11,779	0.81	No	Yes	Telecommunications
10.	Permodalan Nasional Madani	10,089	0.69	Yes	No	Finance
11.	Indah Kiat Pulp & Paper	10,000	0.69	No	Yes	Pulp and Paper
12.	Waskita Karya	9,402	0.65	Yes	Yes	Building Construction
13.	Pegadaian	9,255	0.64	Yes	No	Finance
14.	Pupuk Indonesia	9,046	0.62	Yes	No	Chemical Manufacturing
15.	Astra Sedaya Finance	7,313	0.50	No	No	Finance
16.	Semen Indonesia	7,078	0.49	Yes	Yes	Cement Manufacturing
17.	Telekomunikasi Indonesia	7,000	0.48	Yes	Yes	Telecommunications
18.	Bank CIMB Niaga	6,806	0.47	No	Yes	Banking
19.	Tower Bersama Infrastructure	6,703	0.46	No	Yes	Telecommunications Infrrastructure Provider
20.	Hutama Karya	6,500	0.45	Yes	No	Nonbuilding Construction
21.	Adira Dinamika Multi Finance	6,328	0.44	No	Yes	Finance
22.	Federal International Finance	5,981	0.41	No	No	Finance
23.	Bank Pembangunan Daerah Jawa Barat Dan Banten	5,248	0.36	Yes	Yes	Banking
24.	Angkasa Pura II	5,000	0.34	Yes	No	Airport Management Services
25.	Wijaya Karya	5,000	0.34	Yes	Yes	Building Construction
26.	Mandiri Tunas Finance	4,878	0.34	No	No	Finance
27.	Bank Maybank Indonesia	4,849	0.33	No	Yes	Banking
28.	Chandra Asri Petrochemical	4,489	0.31	No	Yes	Petrochemicals
29.	Adhi Karya	4,316	0.30	Yes	Yes	Building Construction
30.	Kereta Api Indonesia	4,000	0.28	Yes	No	Transportation
Total Top 30 LCY Corporate Issuers		**311,528**	**21.45**			
Total LCY Corporate Bonds		**432,931**	**29.81**			
Top 30 as % of Total LCY Corporate Bonds		**72.0%**	**72.0%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 31 March 2021.
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.

option" as a strategy when investor bids were above its acceptable rate. Aside from the weekly Treasury auctions, the government also raised IDR26.0 trillion from the sale of retail Treasury bonds in February.

Central bank bonds. The stock of central bank bills and bonds slipped to IDR54.9 trillion at the end of March, contracting 0.9% q-o-q but rising 13.4% y-o-y. Issuance of central bank instruments totaled IDR172.2 trillion in Q1 2021, representing a 12.4% q-o-q decline. The reduced issuance stemmed from efforts to boost liquidity amid the market sell-off in February and March.

Corporate bonds. The stock of corporate bonds inched up to IDR432.9 trillion on growth of 1.7% q-o-q in Q1 2021, rebounding from a decline of 3.4% q-o-q in Q4 2020. On a y-o-y basis, a contraction of 2.3% was recorded in Q1 2021 versus a decline of 4.4% in the prior quarter. The weak growth in Q1 2021 was influenced by uncertainties in the trajectory of economic recovery.

Table 2 presents the 30 largest issuers of corporate bonds in Indonesia at the end of March. Collectively, their bonds outstanding summed to IDR311.5 trillion, slightly higher than the IDR309.7 trillion recorded at the end of December. However, their share of total corporate bonds slightly dipped to 72.0% at the end of March from 72.7% in the preceding quarter.

Among the 30 firms on the list, 16 came from the banking and financial sectors. Some firms from capital-intensive sectors—such as energy, telecommunications, and building and construction—also made the list. Nearly two-thirds of the firms on the list were state-owned entities, with eight of them ranking in the top 10. A majority (17) of the issuers are listed on the Indonesia Stock Exchange.

State-owned energy firm Perusahaan Listrik Negara continued to lead the list of top 30 issuers at the end of March, with outstanding bonds amounting to IDR36.0 trillion and representing 8.3% of the aggregate corporate bond total during the period. In the second spot was Indonesia Eximbank (IDR26.7 trillion), followed by Sarana Multi Infrastruktur (IDR20.5 trillion), Bank Rakyat Indonesia (IDR17.3 trillion), and Sarana Multigriya (IDR16.6 trillion). The composition of top five firms was the same as in the previous quarter.

New corporate bond issuance tallied IDR20.6 trillion in Q1 2021, representing a decline of 4.4% q-o-q. This, however, was an improvement over the 42.5% q-o-q contraction recorded in Q4 2020. Despite the low-interest-rate environment and the fiscal stimulus measures of the government, some corporates remained reluctant to issue and have reconsidered their borrowing plans in light of uncertainties brought about by the COVID-19 pandemic.

Only 16 firms tapped the bond market for funding during the quarter, adding 41 bond series to the corporate bond stock. Of the 41 new bond series issued, four were structured as *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership) and two were structured as *sukuk ijarah* (Islamic bonds backed by lease agreements).

The largest new corporate bonds issued in Q1 2021 are presented in **Table 3**. Leading the list was Indah

Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Indah Kiat Pulp & Paper		
370-day bond	7.25	1,081
3-year bond	9.50	1,895
5-year bond	10.50	277
Wijaya Karya		
3-year bond	8.50	495
3-year *sukuk mudharabah*	8.50	134
5-year bond	9.10	746
5-year *sukuk mudharabah*	9.10	212
7-year bond	9.75	1,260
7-year *sukuk mudharabah*	9.75	154

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Tower Bersama Infrastructure		
370-day bond	5.50	1,898
3-year bond	6.75	1,017
Pupuk Indonesia		
3-year bond	5.60	350
5-year bond	6.20	1,600
7-year bond	7.20	800
Sarana Multigriya Finansial		
370-day bond	4.75	1,500
370 day *sukuk mudharabah*	4.75	100
3-year bond	5.75	401

IDR = Indonesian rupiah.
Note: *Sukuk mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
Source: Indonesia Stock Exchange.

Kiat Pulp & Paper, which issued three tranches of bonds in March totaling IDR3,253.1 billion. Next was state-owned Wijaya Karya with issuance amounting to IDR3,000 billion in both conventional bonds and *sukuk*. In the third spot was Tower Bersama Infrastructure with total bond issuance of IDR2,915.0 billion via a dual-tranche issuance.

Investor Profile

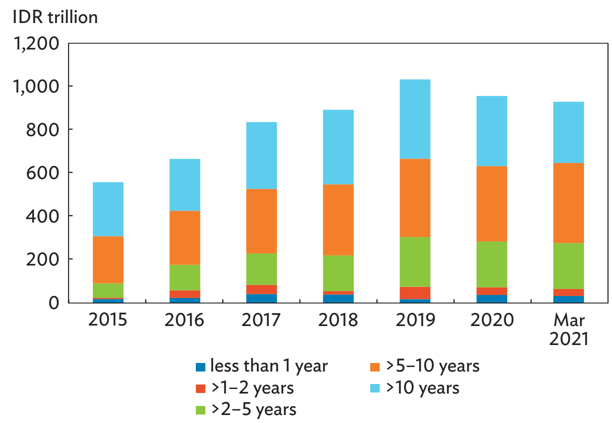
The Indonesian bond market saw net foreign bond outflows of USD1.6 billion in Q1 2021, reversing the USD2.8 billion of inflows posted in Q4 2020. Outflows were recorded in February and March following a rise in US Treasury rates, leading foreign investors to reallocate funds to safe-haven assets. This resulted in the further decline of the foreign holdings share in the Indonesian LCY government bond market.

At the end of March, the holdings of offshore investors shrank to 22.9% from 25.2% at the end of December 2020 and from 32.7% at the end of March 2020 (**Figure 2**). The accelerated decline in the foreign holdings share was also fueled by the rapid growth of government bonds since last year to support stimulus and relief measures.

Most foreign investors that stayed in the bond market remained invested in longer-dated maturities, reflecting their confidence in Indonesia's growth potential and sound fundamentals (**Figure 3**). About 70% of foreign funds were placed in bonds with maturities of more than 5 years, while only 7.0% were invested in bonds with maturities of 2 years or less.

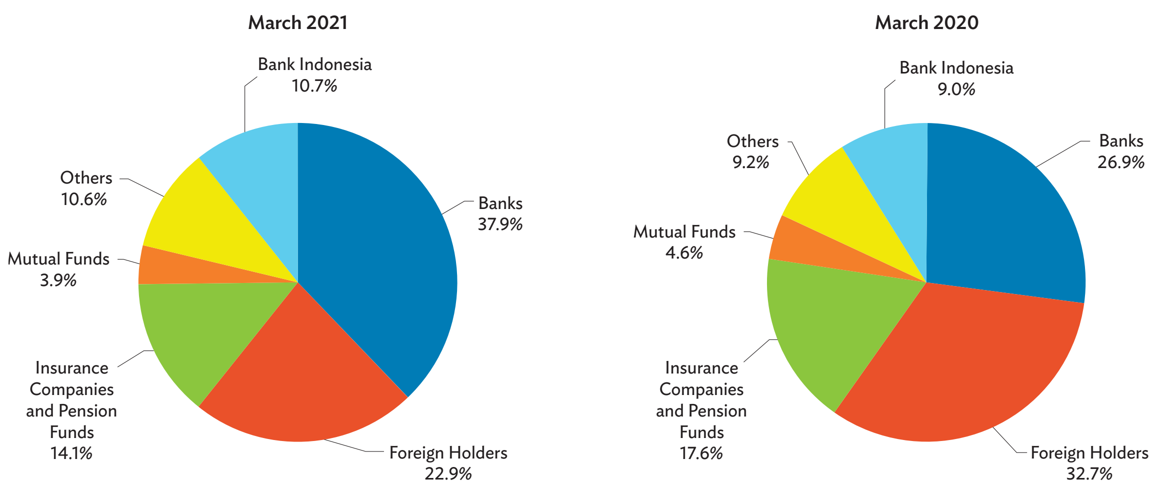
At the end of March, banking institutions were the largest investor group in Indonesia's government bond market. Ample market liquidity, brought about by the series of policy rate cuts since 2020, and the slowdown in economic activity led banks to allocate more funds to the

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.

Figure 2: Local Currency Central Government Bonds Investor Profile



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

government bond market. Bank holdings of government bonds climbed to a 37.9% share at the end of March from 26.9% a year earlier.

Bank Indonesia also increased its holdings of government bonds as it continued to support the bond market. The central bank's holdings of government bonds rose from a share of 9.0% at the end of March 2020 to 10.7% at the end of March 2021. Other investors, comprising individuals and securities firms among others, also increased their holdings share of government bonds during the review period.

On the other hand, institutional investors, especially insurance companies and pension funds, reduced holdings of government bonds. Their holdings slipped from 17.6% in March 2020 to 14.1% in March 2021. Similarly, mutual funds saw a slight drop in their share of holdings of government bonds.

Ratings Update

On 22 March, Fitch Ratings affirmed Indonesia's BBB sovereign credit rating. The rating was given a stable outlook. In its decision, Fitch Ratings cited Indonesia's positive economic outlook over the medium-term and a low (but rising) government-debt-to-GDP ratio. The rating agency, however, raised concerns over Indonesia's external borrowing, weak government revenues, and lagging structural reforms (as evidenced by low governance indicators and GDP per capita relative to other BBB-rated sovereigns).

On 22 April, Rating and Investment Information, Inc. affirmed Indonesia's BBB+ investment grade rating. The rating was given a stable outlook. In its assessment, the rating agency took note of the following: (i) an expected rebound to pre-COVID-19 levels in 1–2 years for Indonesia's economy, (ii) a low government debt ratio, and (iii) an economic resilience to external shocks.

Also on 22 April, S&P Global Ratings (S&P) affirmed Indonesia's sovereign credit rating at BBB. In contrast to other rating agencies, it gave a negative outlook, citing sustained fiscal and external pressures in the next 12 to 24 months. According to S&P, the ratings affirmation reflected solid economic growth prospects and judicious policies. S&P expects Indonesia's economy to gain traction in 2022 amid its vaccination rollout and as economic activities gradually normalize.

Policy, Institutional, and Regulatory Developments

Indonesia Expands Economic Stimulus Program

In January, Indonesia raised its National Economic Recovery budget to IDR553 trillion from the previously approved IDR372 trillion budget. The program includes programs for health spending and social support.

Bank Indonesia Revises Regulation for Monitoring Foreign Exchange Transactions

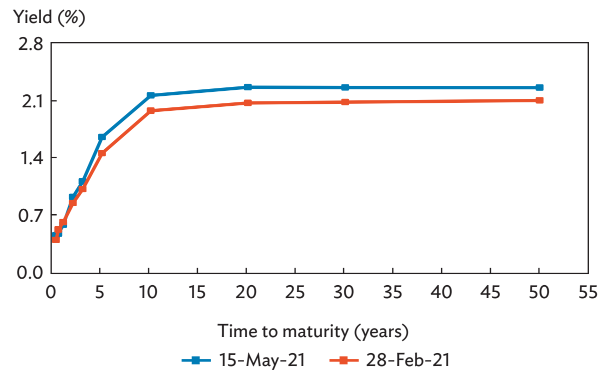
In June, a new Bank Indonesia regulation came into effect to strengthen the monitoring of foreign exchange transactions. Under the new regulation, banks must include in the foreign exchange transaction monitoring system those client transactions with a transaction value of at least USD250,000 and derivative transactions with a minimum value of USD1 million.

Republic of Korea

Yield Movements

The Republic of Korea's local currency (LCY) government bond yields rose for most tenors between 28 February and 15 May (**Figure 1**). The yield for the 3-month tenor rose 6 basis points (bps), while yields for the 6-month and 1-year tenor fell 5 bps and 3 bps, respectively. Yields for the 2-year and 3-year tenors rose 8 bps on average, while the 5-year tenor rose the most with a 20-bps increase. Yields for long-term tenors of 10–50 years rose 18 bps on average. The spread between 2-year and 10-year yields widened to 123 bps from 112 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.

Domestic bond yields in the Republic of Korea largely tracked the upward trend in United States (US) Treasury yields. Yields increased in the US on rising inflation expectations and speculation that the Federal Reserve would tighten monetary policy earlier than expected. On the domestic front, increased bond issuance arising from the passage of a supplementary budget contributed to the rise in yields in the Republic of Korea, albeit to a lesser extent. On 25 March, the National Assembly passed the KRW14.9 trillion supplementary budget, bringing the 2021 budget to KRW572.9 trillion. Despite the Bank of Korea's announcement of its bond purchase program to address oversupply concerns and stabilize the market, yield volatility remained high. As a result of volatility from the middle to the long-end of the yield curve, investors demand for short-term paper rose, which resulted in declining yields.

The Bank of Korea on both its 15 April and 27 May monetary policy meetings decided to leave the base rate unchanged at 0.50%. The Bank of Korea noted that global economic growth had strengthened on the back of economic stimulus and accelerated vaccine distribution. Domestic economic growth was also deemed to have strengthened, supported by the continued recovery in exports and investments. Economic growth for 2021 was projected to be around 4.0%, compared with the February forecast of 3.0%.

The Republic of Korea's economic growth accelerated to 1.7% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2021 from 1.1% q-o-q in the fourth quarter (Q4) of 2020. The higher growth was mainly driven by the recovery in consumption, which rose 1.3% q-o-q in Q1 2021 after a 1.1% q-o-q contraction in the previous quarter. Growth in gross fixed capital formation also accelerated to 2.5% q-o-q in Q1 2021 from 1.8% q-o-q in Q4 2020. Meanwhile, exports posted a lower growth rate of 2.0% q-o-q from 5.3% q-o-q. The Republic of Korea's economy grew 1.9% year-on-year (y-o-y) in Q1 2020, reversing a 1.1% y-o-y contraction in Q4 2020. Inflation continued to accelerate in the first 4 months of 2021, rising from 0.6% y-o-y in January to 2.3% y-o-y in April, driven by increased prices for agricultural and livestock products, and the impact of rising crude oil prices on industrial goods.

The LCY bond market has attracted a massive amount of net foreign inflows in Q1 2021, particularly in the months of February and March, with net inflows reaching KRW8,988 billion and KRW9,164 billion, respectively. This was a rebound from the KRW899 of net outflows registered in Q4 2020, and a large increase from the KRW1,158 billion of net inflows in January. The net inflows trend continued in April, albeit at a smaller amount of KRW3,346 billion.

The Korean won strengthened in March and April; its performance was closely tied to that of the domestic equities market. However, the gain was reversed as the won weakened in early May amid volatility in the equities market, which was partly due to the lifting of the ban on short selling. As a result, the Korean won registered a slight depreciation of 0.4% from 28 February to 15 May, settling at KRW1,128.54 per US dollar.

Size and Composition

The Republic of Korea's LCY bonds outstanding posted growth of 2.4% q-o-q in Q1 2021 to reach KRW2,695.5 trillion (USD2,381.6 billion) at the end of March (**Table 1**). This was higher than the 1.2% q-o-q growth registered in Q4 2020. Growth in Q1 2021 was largely driven by the surge in issuance of central government bonds during the quarter. Corporate bonds also posted an increase, albeit at a slower pace. On a y-o-y basis, the Republic of Korea's LCY bond market expanded 8.9%, which was slightly lower than the 9.4% growth registered in Q4 2020.

Government bonds. The Republic of Korea's LCY government bond market expanded 4.0% q-o-q and 13.1% y-o-y to reach a size of KRW1,122.4 trillion at the end of Q1 2021. This was largely driven by the 5.9% q-o-q growth in central government bonds, which amounted to KRW769.3 trillion at the end of March. Issuance of central government bonds surged 33.6% q-o-q in Q1 2021, reaching KRW50.4 billion as a result of the government's frontloading policy. In December, the Ministry of Economy and Finance announced plans to spend 72.4% of the original 2021 budget in the first half of the year as part of its support for economic recovery. Increased bond issuance is expected to continue in the succeeding quarter as the government subsequently passed a KRW14.9 trillion supplementary budget in March, with partial spending also expected to be in the second quarter of the year.

Government agency bonds outstanding increased 1.5% q-o-q to KRW195.8 trillion at the end of March. Meanwhile, the stock of Monetary Stabilization Bonds issued by the Bank of Korea fell 1.3% q-o-q to KRW157.2 trillion as the volume of maturities exceeded new issuance. The Bank of Korea reduced its issuance of 1-year and 2-year bonds in March in an effort to ease the yield volatility caused by the sharp rise in US Treasury yields.

Corporate bonds. The Republic of Korea's LCY corporate bond market posted marginal growth of 1.2% q-o-q to reach a size of KRW1,573.2 trillion at the end of March, as issuance slowed during the quarter. **Table 2** lists the top 30 LCY corporate bond issuers in the Republic of Korea at the end of Q1 2021, with aggregate bonds outstanding amounting to KRW949.4 trillion and accounting for 60.3% of the total LCY corporate bond market. Financial institutions involved in securities trading continued to comprise the largest share of the top 30 list at 40.5%, followed by banks with a share of 24.2%. State-owned Korea Housing Finance Corporation remained the largest issuer with bonds outstanding valued at KRW146.8 trillion at the end of March.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,476,170**	**2,032**	**2,633,219**	**2,424**	**2,695,546**	**2,382**	**2.8**	**8.7**	**2.4**	**8.9**
Government	992,346	814	1,078,982	993	1,122,368	992	4.2	6.6	4.0	13.1
Central Government Bonds	645,928	530	726,766	669	769,339	680	5.6	10.6	5.9	19.1
Central Bank Bonds	165,710	136	159,260	147	157,230	139	1.0	(3.2)	(1.3)	(5.1)
Others	180,708	148	192,956	178	195,799	173	2.5	2.8	1.5	8.4
Corporate	1,483,824	1,218	1,554,237	1,430	1,573,178	1,390	1.9	10.2	1.2	6.0

( ) = 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 KG Zeroin Corporation.

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	146,844	129.7	Yes	No	No	Housing Finance
2.	Industrial Bank of Korea	73,020	64.5	Yes	Yes	No	Banking
3.	Mirae Asset Securities Co.	65,508	57.9	No	Yes	No	Securities
4.	Korea Investment and Securities	59,758	52.8	No	No	No	Securities
5.	KB Securities	51,641	45.6	No	No	No	Securities
6.	Hana Financial Investment	51,288	45.3	No	No	No	Securities
7.	NH Investment & Securities	36,826	32.5	Yes	Yes	No	Securities
8.	Samsung Securities	31,243	27.6	No	Yes	No	Securities
9.	Korea Land & Housing Corporation	30,406	26.9	Yes	No	No	Real Estate
10.	Shinhan Investment Corporation	30,074	26.6	No	No	No	Securities
11.	Shinhan Bank	28,132	24.9	No	No	No	Banking
12.	Korea Electric Power Corporation	27,410	24.2	Yes	Yes	No	Electricity, Energy, and Power
13.	Korea Expressway	24,940	22.0	Yes	No	No	Transport Infrastructure
14.	The Export–Import Bank of Korea	22,635	20.0	Yes	No	No	Banking
15.	Meritz Securities Co.	21,107	18.6	No	Yes	No	Securities
16.	Kookmin Bank	20,864	18.4	No	No	No	Banking
17.	KEB Hana Bank	19,930	17.6	No	No	No	Banking
18.	Woori Bank	19,580	17.3	Yes	Yes	No	Banking
19.	Korea National Railway	19,210	17.0	Yes	No	No	Transport Infrastructure
20.	NongHyup Bank	19,190	17.0	Yes	No	No	Banking
21.	Shinyoung Securities	18,981	16.8	No	Yes	No	Securities
22.	Hanwha Investment and Securities	18,330	16.2	No	No	No	Securities
23.	Korea SMEs and Startups Agency	17,588	15.5	Yes	No	No	SME Development
24.	Shinhan Card	16,605	14.7	No	No	No	Credit Card
25.	KB Kookmin Bank Card	14,550	12.9	No	No	No	Consumer Finance
26.	Hyundai Capital Services	14,385	12.7	No	No	No	Consumer Finance
27.	NongHyup	13,200	11.7	Yes	No	No	Banking
28.	Standard Chartered Bank Korea	13,100	11.6	No	No	No	Banking
29.	Samsung Card Co.	11,558	10.2	No	Yes	No	Credit Card
30.	Korea Gas Corporation	11,469	10.1	Yes	Yes	No	Gas Utility
Total Top 30 LCY Corporate Issuers		**949,370**	**838.8**				
Total LCY Corporate Bonds		**1,573,178**	**1,389.9**				
Top 30 as % of Total LCY Corporate Bonds		**60.3%**	**60.3%**				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, KRW = Korean won, LCY = local currency, SMEs = small and medium-sized enterprises, USD = United States dollar.
Notes:
1. Data as of 31 March 2021.
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 KG Zeroin Corporation data.

Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Shinhan Bank[a]		
1-year bond	0.92	200
1-year bond	0.90	300
1-year bond	0.88	330
1-year bond	0.91	510
1-year bond	0.89	550
2-year bond	0.99	530
2-year bond	1.02	620
Woori Bank[a]		
1-year bond	0.88	250
1-year bond	0.96	270
1-year bond	0.99	400
2-year bond	1.05	300
2-year bond	1.02	300
2-year bond	0.99	450

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Kookmin Bank[a]		
1-year bond	0.85	300
2-year bond	0.99	300
2-year bond	0.99	350
10-year bond	2.26	500
NongHyup Bank[a]		
1-year bond	0.91	230
1-year bond	0.88	500
2-year bond	0.92	200
3-year bond	1.31	400
LG Chem		
3-year bond	1.14	350
5-year bond	1.51	270
7-year bond	1.76	200
10-year bond	2.14	260
Naver Corporation		
3-year bond	1.24	250
5-year bond	1.60	450

KRW = Korean won.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Based on data from Bloomberg LP.

Issuance of corporate bonds in the Republic of Korea declined 9.9% q-o-q in Q1 2021 to KRW129.1 trillion. However, the large quarterly decline came from a high base in Q4 2020 after a surge in issuance during the last quarter of the year. **Table 3** lists notable corporate bond issuances in Q1 2021, which remain dominated by financial institutions such as Shinhan Bank, Woori Bank, and Kookmin Bank.

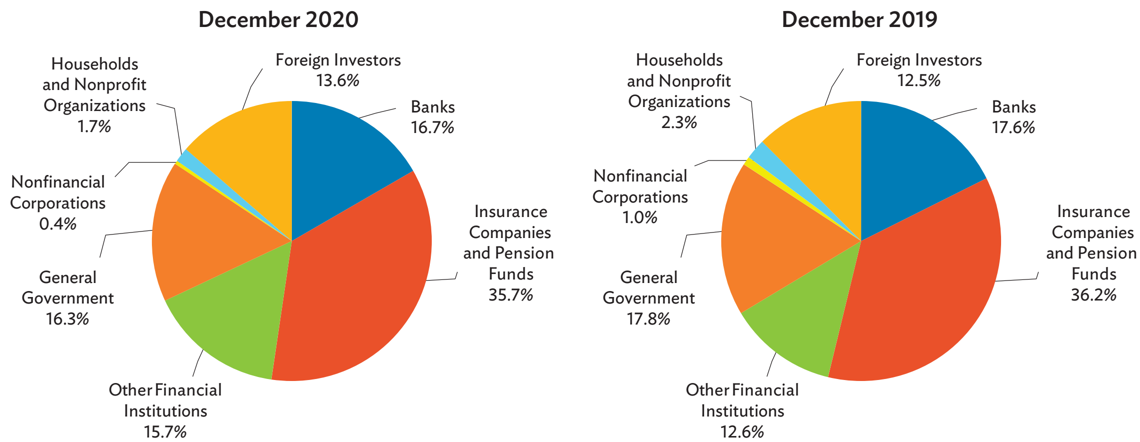
Investor Profile

Insurance companies and pension funds remained the largest holders of LCY government bonds in the Republic of Korea at the end of December 2020 with a share of 35.7%, slightly lower than their share of 36.2% in December 2019 (**Figure 2**). Banks were the second-largest investor group, but their share declined to 16.7% from 17.6% during the review period. The same trend was registered for the holdings of the general government, with its share falling to 16.3% from 17.8%. Meanwhile, the share of other financial institutions rose to 15.7% from 12.6%. Foreign holdings of LCY government bonds also increased to 13.6% from 12.5% during the review period. Nonfinancial corporations and households continued to register negligible shares of 0.4% and 1.7%, respectively.

The Republic of Korea's LCY corporate bond market continued to be dominated by insurance companies and pension funds with a share of 37.3% at the end of December 2020; other financial institutions comprised a 36.7% share (**Figure 3**). Both investor groups registered an increase in their respective shares of 37.1% and 35.8% in December 2019. The share of the general government was only slightly changed at 13.7% in December 2020 versus 13.6% a year earlier, while banks' share increased to 9.6% from 8.5% during the review period. Foreign holdings of Korean LCY corporate bonds remained negligible at 0.1%.

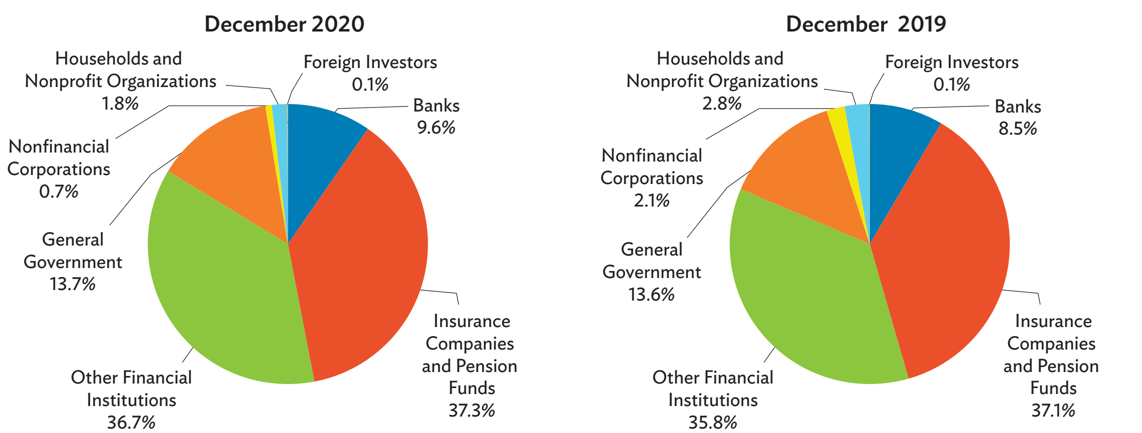
Foreign investor demand for the Republic of Korea's LCY bonds rebounded in the first 4 months of 2021, posting net inflows of KRW1,158 billion in January following an aggregate of KRW899 of net outflows in Q4 2020 (**Figure 4**). Net foreign inflows peaked in February and March at KRW8,988 billion and KRW9,164 billion, respectively. The Republic of Korea continued to be a safe haven relative to other bond markets in the region for which data are available, some of which recorded net outflows in the previous months amid rising US Treasury yields. Moreover, foreign institutions reinvested in short-term LCY bonds following a high volume of maturities in Q4 2020. The net inflows trend continued in April, albeit at a smaller amount of KRW3,346 billion.

Figure 2: Local Currency Government Bonds Investor Profile



Source: *AsianBondsOnline* and The Bank of Korea.

Figure 3: Local Currency Corporate Bonds Investor Profile

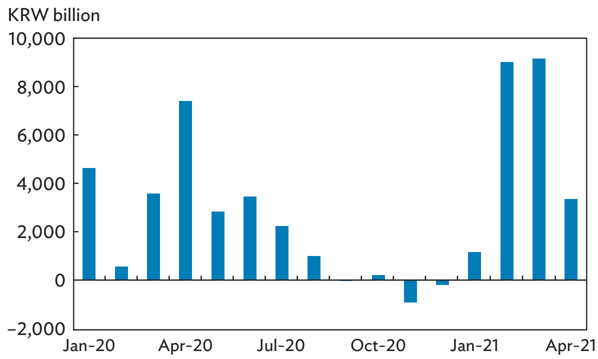


Source: *AsianBondsOnline* and The Bank of Korea.

Ratings Update

On 28 April, S&P Global Ratings affirmed the Republic of Korea's sovereign credit rating at AA with a stable outlook. The rating agency cited the Republic of Korea's strong economic growth prospects relative to other developed countries, sound fiscal position, and robust net external creditor position as some of the reasons behind the rating affirmation. The stable outlook is supported by expectations that the economy will post growth higher than most other high-income economies in the coming years and the government's budget will return to a surplus in 2023. The rating agency also forecasts annual real GDP growth to be 3.6% and 3.1% in 2021 and 2022, respectively.

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



KRW = Korean won.
Source: Financial Supervisory Service.

Policy, Institutional, and Regulatory Developments

National Assembly Passes KRW14.9 Trillion Supplementary Budget

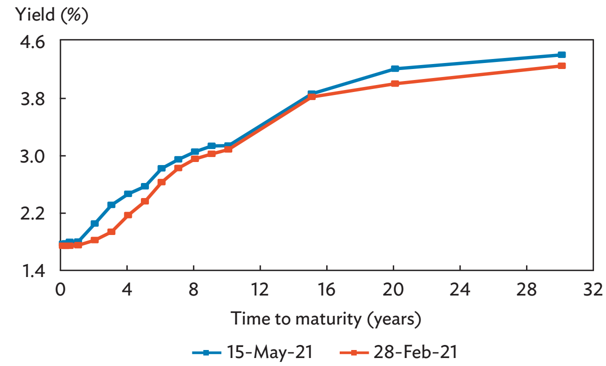
On 25 March, the National Assembly passed the KRW14.9 trillion supplementary budget, which was slightly less than the proposed KRW15.0 trillion. The additional budget will mostly be used to fund COVID-19 relief programs, support for small businesses hit by the pandemic, and job retention and creation programs. The supplementary budget brought the total 2021 budget to KRW572.9 trillion and increased the fiscal deficit to 4.5% of GDP.

Malaysia

Yield Movements

Between 28 February and 15 May, Malaysia's local currency (LCY) government bond yields increased across all tenors (**Figure 1**). Yields of tenors from 1 month to 1 year jumped an average of 4 basis points (bps). The belly of the curve (2–9 years) went up an average of 20 bps. At the longer-end of the yield curve, 20-year and 30-year bonds increased an average of 18 bps, while 10-year and 15-year bonds increased an average of only 5 bps. The yield spread between 2-year and 10-year government bonds contracted from 126 bps to 108 bps during the review period.

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



Source: Based on data from Bloomberg LP.

The increase in yields tracked the increase in long-term United States Treasury yields as consumer price inflation in the United States was expected to rise, due to base effects, supply shortages, and recent stimulus packages. Low demand for Malaysia's long-term securities can also be attributed to investor cautiousness due to the uncertainty of the path of the COVID-19 pandemic. Events that pose challenges to the economy are potential vaccine rollout complications and a resurgence of cases necessitating a Movement Control Order once again.

On 6 May, Bank Negara Malaysia's (BNM) monetary policy committee kept its policy rate unchanged at 1.75% as the global and domestic economic outlooks remained positive. Consumer price inflation in Malaysia is also expected to trend upward in 2021. The overnight policy rate has been at 1.75% since July 2020.

Malaysia's economy contracted 0.5% year-on-year (y-o-y) in the first quarter (Q1) of 2021, an improvement from a decline of 3.4% y-o-y in the fourth quarter (Q4) of 2020. On a quarter-on-quarter (q-o-q) seasonally adjusted basis, Malaysia's economy rebounded to expand 2.7% after contracting 1.5% in the previous quarter. The improved performance of the economy in Q1 2021 can be attributed to the gradual resumption of economic activities after the Movement Control Order restricted business operations last year. Various stimulus packages also contributed to Malaysia's economic recovery. BNM forecasts full-year economic growth of 6.0%–7.5% in 2021.

The prices of basic goods and services in Malaysia increased 4.7% y-o-y in April from a low base. Consumer price inflation rebounded to 0.1% y-o-y in February after a decline of 0.2% y-o-y in January. The increase in inflation in the transport segment contributed to the rise in consumer price inflation as oil prices rose. Higher prices of housing, water, electricity, gas and other fuels, and food and nonalcoholic beverages also helped push consumer prices upward. BNM expects consumer price inflation for full-year 2021 to be between 2.5% and 4.0%, driven by higher global oil prices.

On 12 May, Malaysia reverted to a Movement Control Order due to a resurgence of COVID-19 cases. Economic activities will continue, however, while social activities were limited. BNM noted that the reimposition of containment measures will have less severe effects on the economy than in 2020 as businesses will be allowed to operate.

Size and Composition

Malaysia's LCY bond market expanded 2.8% q-o-q in Q1 2021 to reach a size of MYR1,648.9 billion (USD397.8 billion) at the end of March, up from MYR1,604.5 billion at the end of Q4 2020 (**Table 1**). The growth corresponds to a 7.9% y-o-y jump from MYR1,527.8 billion at the end of Q1 2020. The growth in the LCY bond market in Q1 2021 was supported by expansions in both LCY government and corporate bonds, which accounted for 54.0% and 46.0%, respectively, of total LCY bonds outstanding at the end of March. Total

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,528**	**354**	**1,604**	**399**	**1,649**	**398**	**2.9**	**6.0**	**2.8**	**7.9**
Government	804	186	853	212	890	215	3.9	4.9	4.3	10.7
Central Government Bonds	767	177	827	206	865	209	4.0	6.4	4.6	12.8
of which: *Sukuk*	362	84	384	95	403	97	5.9	10.6	5.1	11.5
Central Bank Bills	10	2	2	0	1	0	11.1	(42.2)	(50.0)	(90.0)
of which: *Sukuk*	2	0	0	0	0	0	50.0	(71.2)	–	(100.0)
Sukuk Perumahan Kerajaan	27	6	24	6	24	6	0.0	(3.9)	0.0	(10.1)
Corporate	724	168	752	187	759	183	1.7	7.3	1.0	4.8
of which: *Sukuk*	577	133	609	151	614	148	1.5	11.0	0.9	6.5

( ) = negative, – = not applicable, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. *Sukuk* refers to Islamic bonds.
5. 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.

outstanding *sukuk* (Islamic bonds) at the end of the review period stood at MYR1,041.6 billion on growth of 2.5% q-o-q, spurred by increased stocks of government and corporate *sukuk*.

Issuance of LCY bonds in Q1 2021 jumped 11.7% q-o-q to MYR100.2 billion from MYR89.7 billion in Q4 2020, driven by increased government bond issuance.

Government bonds. The LCY government bond market grew 4.3% q-o-q to MYR889.6 billion in Q1 2021, up from MYR852.6 billion in the previous quarter. The growth was due to the 4.6% q-o-q increase in outstanding central government bonds, which comprised 97.2% of total outstanding LCY government bonds at the end of March. The growth in central government bonds can be attributed in part to the government's additional stimulus package that was unveiled in March to mitigate the impact of the COVID-19 pandemic on the economy. Outstanding central bank bills, which comprised a 0.1% share of total LCY government bonds outstanding, contracted 50.0% q-o-q as some bills matured in March. The outstanding stock of Sukuk Perumahan Kerajaan, which comprised 2.7% of total outstanding LCY government bonds at the end of March, remained unchanged from the previous quarter.

LCY government bonds issued in Q1 2021 surged 81.0% q-o-q to MYR57.0 billion from MYR31.5 billion in the previous quarter, as issuance of government bonds and Treasury bills increased. Issuances of Malaysian Government Securities and Government Investment Issues both increased from the previous quarter.

Corporate bonds. LCY corporate bonds outstanding expanded 1.0% q-o-q to MYR759.3 billion in Q1 2021 from MYR751.9 billion in Q4 2020. Outstanding corporate *sukuk* rose 0.9% q-o-q to MYR614.4 billion at the end of March from MYR608.6 billion in the prior quarter.

The top 30 corporate bond issuers in Malaysia accounted for an aggregate MYR457.3 billion of corporate bonds outstanding at the end of Q1 2021, or 60.2% of the total corporate bond market (**Table 2**). Government institution Danainfra Nasional continued to dominate all issuers with outstanding LCY corporate bonds amounting to MYR74.5 billion. By industry, finance comprised the largest share (51.7%) of the top 30 issuers with MYR236.4 billion in outstanding LCY corporate bonds at the end of March.

Issuance of LCY corporate bonds decreased 25.8% q-o-q to MYR43.2 billion in Q1 2021 from MYR58.2 billion in Q4 2020. The bulk of the issuance during the quarter (MYR28.0 billion) occurred in March as companies frontloaded their financing needs to lock in lower interest rates after there had been upward pressure on bond yields in previous months.

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	74.5	18.0	Yes	No	Finance
2.	Prasarana	37.0	8.9	Yes	No	Transport, Storage, and Communications
3.	Lembaga Pembiayaan Perumahan Sektor Awam	34.2	8.2	Yes	No	Property and Real Estate
4.	Cagamas	29.0	7.0	Yes	No	Finance
5.	Project Lebuhraya Usahasama	28.9	7.0	No	No	Transport, Storage, and Communications
6.	Urusharta Jamaah	27.3	6.6	Yes	No	Finance
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	24.8	6.0	Yes	No	Finance
8.	Pengurusan Air	18.3	4.4	Yes	No	Energy, Gas, and Water
9.	CIMB Bank	14.4	3.5	Yes	No	Finance
10.	Sarawak Energy	13.0	3.1	Yes	No	Energy, Gas, and Water
11.	Maybank Islamic	13.0	3.1	No	Yes	Banking
12.	CIMB Group Holdings	12.6	3.0	Yes	No	Finance
13.	Khazanah	11.9	2.9	Yes	No	Finance
14.	Malayan Banking	11.7	2.8	No	Yes	Banking
15.	Tenaga Nasional	10.3	2.5	No	Yes	Energy, Gas, and Water
16.	Danga Capital	10.0	2.4	Yes	No	Finance
17.	Jimah East Power	9.0	2.2	Yes	No	Energy, Gas, and Water
18.	Danum Capital	8.4	2.0	No	No	Finance
19.	Bank Pembangunan Malaysia	7.2	1.7	Yes	No	Banking
20.	Public Bank	6.9	1.7	No	No	Banking
21.	GENM Capital	6.5	1.6	No	No	Finance
22.	Sapura TMC	6.4	1.5	No	No	Finance
23.	YTL Power International	6.1	1.5	No	Yes	Energy, Gas, and Water
24.	Bakun Hydro Power Generation	5.9	1.4	No	No	Energy, Gas, and Water
25.	GOVCO Holdings	5.7	1.4	Yes	No	Finance
26.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
27.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
28.	1Malaysia Development	5.0	1.2	Yes	No	Finance
29.	Jambatan Kedua	4.6	1.1	Yes	No	Transport, Storage, and Communications
30.	Kuala Lumpur Kepong	4.6	1.1	No	Yes	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers		**457.3**	**110.3**			
Total LCY Corporate Bonds		**759.3**	**183.2**			
Top 30 as % of Total LCY Corporate Bonds		**60.2%**	**60.2%**			

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 31 March 2021.
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.

Energy company Sapura Energy issued the equivalent of MYR6.5 billion in 7-year *sukuk murabahah*, an Islamic bond in which bondholders are entitled to a share of the revenues generated by the assets, under its Multi-Currency Sukuk Programme (**Table 3**). Proceeds from the issuance will be used to settle financial obligations of its subsidiary Sapura TMC. Government-owned public sector home financing board Lembaga Pembiayaan Perumahan Sektor Awam issued eight tranches of *sukuk murabahah* with tenors ranging from 5 years to 30 years and coupon rates ranging from 3.07% to 4.91%. Maybank Islamic also issued *sukuk murabahah* under its Subordinated Sukuk Programme. Proceeds of the 10-year bond will be used for business expansion, general corporate purposes, and other Shariah-compliant activities. During the review period, Cagamas, the national mortgage corporation of Malaysia, issued several conventional medium-term notes to fund the purchase of housing-related transactions from the financial system.

Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Sapura Energy		
7-year *sukuk murabahah*	Floating	6,504.7
Lembaga Pembiayaan Perumahan Sektor Awam		
5-year *sukuk murabahah*	3.07	275.0
7-year *sukuk murabahah*	3.51	515.0
10-year *sukuk murabahah*	3.85	325.0
15-year *sukuk murabahah*	4.46	600.0
24-year *sukuk murabahah*	4.79	765.0
25-year *sukuk murabahah*	4.81	700.0
29-year *sukuk murabahah*	4.88	100.0
30-year *sukuk murabahah*	4.91	720.0
Maybank Islamic		
10-year *sukuk murabahah*	2.90	1,000.0
Cagamas		
1-year MTN	2.12	55.0
1-year MTN	2.10	400.0
1-year MTN	2.20	175.0
3-year MTN	2.38	55.0

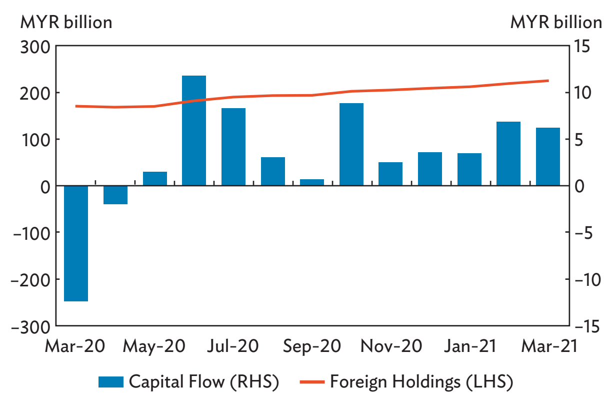
MTN = medium-term note, MYR = Malaysian ringgit.
Notes:
1. *Sukuk murabahah* are Islamic bonds in which bondholders are entitled to a share of the revenues generated by the assets.
2. Multiple issuances of the same tenor indicates issuance on different dates.
Source: Bank Negara Malaysia Bond Info Hub.

Investor Profile

Foreign holdings of LCY government bonds in Q1 2021 jumped to MYR655.0 billion from MYR614.8 billion in Q4 2020, with monthly holdings increasing during the quarter, an extension of the trend of expanded monthly holdings in place since May 2020 (**Figure 2**). A total of MYR16.6 billion in net capital inflows were recorded in Q1 2021, with most of the inflows coming in February. As a share of LCY government bonds, foreign holdings increased to 26.0% at the end of Q1 2021 from 25.2% at the end of Q4 2020. The enthusiasm from foreign investors, especially in March, may be attributed to FTSE Russell removing Malaysia from its fixed-income watch list and retaining Malaysia in its FTSE World Government Bond Index.

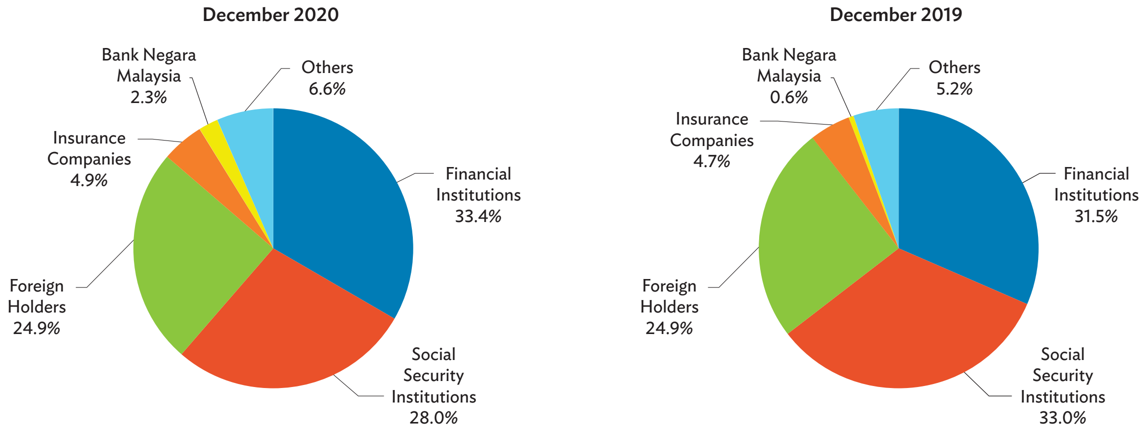
At the end of Q4 2020, financial institutions and social security institutions led all investors in LCY government bond holdings with 33.4% and 28.0% of the total, respectively (**Figure 3**). Financial institutions held a larger share at the end of December compared to the same month in 2019, while the share of social security institutions dropped. The foreign holders' share remained the same at 24.9% during the review period. The holdings share of insurance companies increased to 4.9% from 4.7% between Q4 2019 and Q4 2020, while the share of total holdings of BNM surged to 2.3% from 0.6%.

Figure 2: Foreign Holdings and Capital Flows in the Malaysian Local Currency Government Bond Market



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.

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.

Policy, Institutional, and Regulatory Developments

FTSE Russell Removes Malaysia from Its Watch List

On 29 March, FTSE Russell announced that it had removed Malaysia from its fixed-income watch list and retained Malaysia in its FTSE World Government Bond Index. The decision was made in consideration of regulatory enhancements in Malaysia's financial market. When Malaysia was included in FTSE Russell's watch list in 2019, BNM introduced regulations that made its government bond market more accessible to foreign investors by improving secondary market liquidity and facilitating foreign exchange transactions.

Bank Negara Malaysia Liberalizes Foreign Exchange Policy

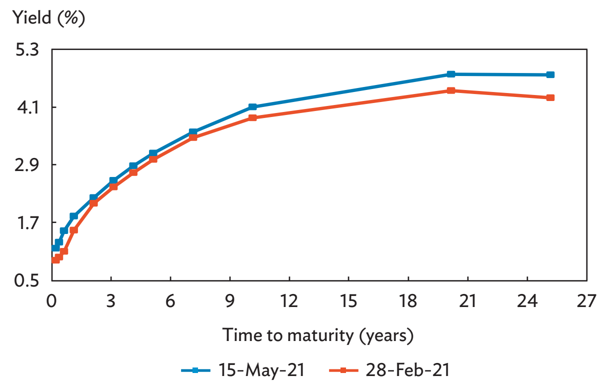
On 31 March, BNM introduced regulations that provide greater flexibility to export-oriented industries. Effective 15 April, resident exporters can (i) manage the conversion of their export proceeds based on their foreign currency needs, (ii) settle their domestic trades in foreign currency with other residents, (iii) extend the repatriation of their export proceeds without seeking approval from BNM, and (iv) net-off their export proceeds against permitted foreign currency liabilities without seeking approval from BNM. Resident corporates can engage in commodity derivatives hedging with nonresident counterparties. These new regulations aim to attract foreign direct investments to support Malaysia's economic recovery.

Philippines

Yield Movements

The yields of local currency (LCY) government bonds in the Philippines increased for all tenors between 28 February and 15 May, shifting the yield curve upward (**Figure 1**). Yields of bonds with longer maturities (10–25 years) increased the most with average gains of 35 basis points (bps). Comparable yield increases were seen in 1-month to 1-year bonds, which averaged gains of 32 bps. Smaller increases in yields, averaging 13 bps, were observed for securities with 2-year to 7-year maturities. Across the curve, the yield for 25-year bonds increased the most at 48 bps, while 2-year bonds and 7-year bonds had the smallest gains at 12 bps each. The yield spread between the 2-year and 10-year tenors widened during the review period from 178 bps to 189 bps.

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



Source: Based on data from Bloomberg LP.

The upward movement across the yield curve can be traced to inflation risks as consumer prices are still elevated. The inflation rate in May was 4.5% year-on-year (y-o-y), unchanged from April. The resulting year-to-date average inflation of 4.4% was still above the government's 2021 annual target of 2.0%–4.0%. The implementation of nonmonetary measures by the government, particularly on meat products, aims to temper supply-side inflationary pressure in the coming months. The Bangko Sentral ng Pilipinas (BSP) lowered its 2021 inflation forecast to 3.9% from 4.2%, while it raised its 2022 forecast to 3.0% from 2.8%.

The weak economic performance on the back of subdued economic activity may have also contributed to yield increases. With constrained business operations due to ongoing COVID-19 restrictions, tax revenue has been lower, resulting in expectations that the government will borrow more in the bond market for its funding needs, thus putting upward pressure on yields.

The Philippine economy remained in recession for the 5th straight quarter with GDP contracting 4.2% y-o-y in the first quarter (Q1) of 2021. This was an improvement from the 8.3% y-o-y decline in the fourth quarter (Q4) of 2020, but it was worse compared with the 0.7% y-o-y decline in Q1 2020. All major economic sectors posted declines during the quarter. On the demand side, all components posted declines except for government expenditure, which grew 16.1% y-o-y. Household expenditure, which contributes about 70% to economic output, declined by 4.8% y-o-y. Recent containment measures in Metro Manila and neighboring provinces is expected to weigh down on GDP performance in the second quarter and act as a drag on recovery. The government reduced its GDP growth target to 6.0%–7.0% in 2021 from the earlier target of 6.5%–7.5%.

The uptrend in domestic yields may also have taken its cue from United States (US) Treasuries, whose yields trended upward on the prospects of a strong rebound in the US economy.

The BSP kept its policy rate steady at 2.00% in its monetary policy meeting on 12 May as it expects inflation to decelerate in the second half of 2021 and settle within the target range of 2.0%–4.0%. The central bank also expects the economy to continue to recover in the coming months, and therefore an accommodative stance is needed to sustain traction. The BSP last reduced its key policy rate in November 2020 by 25 bps, which brought the cumulative rate cut in 2020 to 200 bps.

The Philippine peso sustained its strength against the US dollar despite the economy remaining in recession. The domestic currency traded at 47.8 per US dollar on 15 May, appreciating by 1.6% from 28 February. The appreciation of the peso was driven by inflows from overseas remittances and revenues from business process outsourcing. It also reflected lower demand for imports as economic activity remained constrained.

Size and Composition

The Philippine LCY bond market expanded in Q1 2021 by 6.5% quarter-on-quarter (q-o-q) to reach PHP9,122.1 billion (USD187.9 billion) at the end of March (**Table 1**). Quarterly growth accelerated from 5.3% q-o-q in Q4 2020, driven entirely by the government segment as the corporate segment saw contraction during the quarter. On an annual basis, the LCY bond market expanded 28.4% y-o-y. Government bonds accounted for 82.7% of the total bond market at the end of March, while corporate bonds accounted for 17.3%.

Government bonds. Total LCY government bonds outstanding expanded 8.4% q-o-q to PHP7,542.6 billion in Q1 2021, which was faster than the growth of 7.0% q-o-q in the previous quarter. Treasury bills and Treasury bonds primarily drove the increase, as the government continued to heavily borrow from the local market for its COVID-19 relief efforts and to support economic recovery.

Outstanding Treasury bills and Treasury bonds grew 10.5% q-o-q and 7.2% q-o-q, respectively, on the back of higher debt sales during the quarter, which included another tranche of Retail Treasury Bonds (RTBs). Securities from the BSP also contributed considerably to the bond market growth, with its outstanding debt increasing 35.2% q-o-q to reach PHP297.5 billion at the end of March. On the other hand, outstanding debt from government-related entities marginally decreased due to bond maturities and no issuances during the quarter.

Total securities issued by the government in the domestic market increased 55.8% q-o-q to PHP2,082.4 billion in Q1 2021. The substantial growth was supported by higher issuance volumes from both the Bureau of the Treasury (BTr) and the BSP.

Treasury bond sales in Q1 2021 reached PHP613.3 billion, more than triple the amount issued in Q4 2020, lifted by the issuance of RTBs in February amounting to PHP463.3 billion. The 3-year RTB issuance comprises the second-largest debt sale to date following the record PHP516.3 billion RTB issuance in August 2020.

Treasury bill issuance amounted to PHP372.6 billion in Q1 2021 on growth of 28.5% q-o-q, reversing the decline of 28.3% q-o-q in Q4 2020. The jump in issuance was due to higher offer volumes from the BTr during the quarter that were fully awarded. The opening of BTr's tap facility to accommodate the demand led to the higher-than-programmed debt sales.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**7,106**	**140**	**8,568**	**178**	**9,122**	**188**	**6.9**	**7.9**	**6.5**	**28.4**
Government	5,526	109	6,956	145	7,543	155	7.5	6.2	8.4	36.5
Treasury Bills	557	11	949	20	1,049	22	14.5	(8.4)	10.5	88.5
Treasury Bonds	4,930	97	5,720	119	6,130	126	6.8	8.1	7.2	24.3
Central Bank Securities	0	0	220	5	297	6	–	–	35.2	–
Others	40	1	66	1	66	1	(0.02)	18.3	(0.01)	65.2
Corporate	1,579	31	1,612	34	1,579	33	5.0	14.0	(2.0)	0.01

( ) = negative, – = not applicable, 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.

The government borrowed more from the market as it ran a budget deficit due to lagging revenue collection and rising expenditure for its COVID-19 pandemic response. On the investor side, the preference for government bonds remained high on the back of the uncertainties brought about by the COVID-19 pandemic. Abundant market liquidity also boosted demand for such safe-haven assets.

The issuance of BSP bills climbed 30.5% q-o-q to PHP1,096.5 billion. The central bank increased its volume offer in Q1 2021 and auctions were all met with good demand except for an auction in February that was undersubscribed. The increase in issued securities during the quarter was indicative of high liquidity in the market.

While government-related entities had no LCY issuance in Q1 2021, the Development Bank of the Philippines returned to the international capital market in March with the sale of a 10-year USD300.0 million bond. The proceeds will be used to refinance its debt of the same tenor that was issued in 2011 and matured on 25 March 2021.

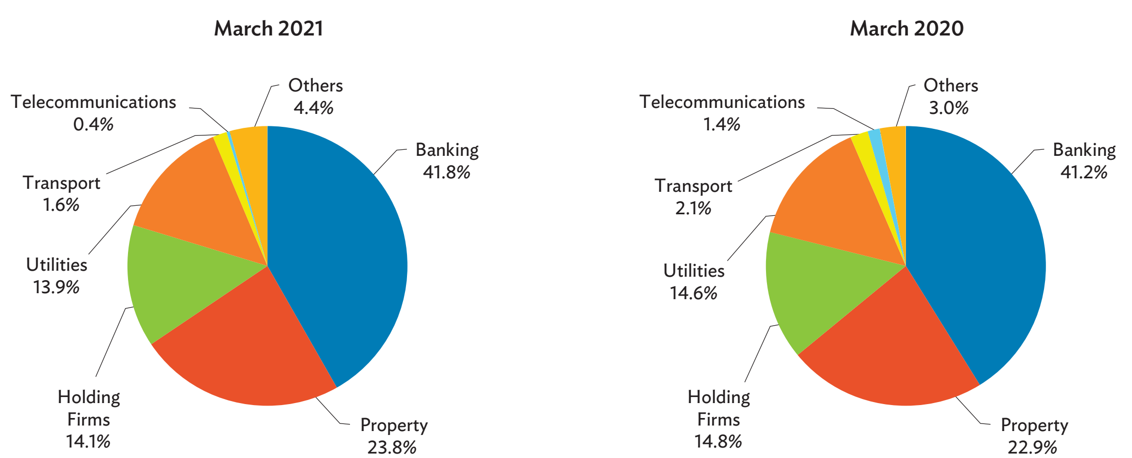
The government plans to borrow PHP3.0 trillion this year to fund its budget deficit. Of which, 85.0% will come from domestic sources and 15.0% from external sources.

Corporate bonds. Debt outstanding in the corporate sector declined by 2.0% q-o-q in Q1 2021 to PHP1,579.4 billion, following a 1.3% q-o-q drop in Q4 2020. The decline can be attributed to the maturation of bonds offsetting the new issuances during the quarter.

The market shares of corporate bond issuers marginally changed in March 2021 from a year earlier. The banking sector continued to hold the largest share of LCY corporate bonds outstanding at the end of March. Its debt comprised 41.8% of total corporate bonds outstanding, slightly up from 41.2% at the end of March 2020 (**Figure 2**). The property sector had the second-largest share of the market at 23.8%. The banking, property, and "other" sectors saw an increase in their respective shares of corporate bonds compared to a year earlier, while the remaining sectors saw their respective shares decline during the review period.

The aggregate debt outstanding of the top 30 corporate issuers amounted to PHP1,414.1 billion at the end of March, comprising 89.5% of the total corporate bond market (**Table 2**). The banking sector held the largest share of outstanding bonds with PHP633.8 billion or 44.8% of the total LCY corporate bond market. This was followed by holdings firms with PHP296.9 billion (21.0%) and property firms with PHP235.4 billion (16.6%). Ayala Land, BDO Unibank, and Metropolitan Bank were the top three issuers at the end of March with debts of over PHP100 billion each.

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.	Ayala Land	113.9	2.3	No	Yes	Property
2.	BDO Unibank	109.9	2.3	No	Yes	Banking
3.	Metropolitan Bank	102.8	2.1	No	Yes	Banking
4.	SM Prime Holdings	95.7	2.0	No	Yes	Holding Firms
5.	Bank of the Philippine Islands	86.1	1.8	No	Yes	Banking
6.	SMC Global Power	80.0	1.6	No	No	Electricity, Energy, and Power
7.	Rizal Commercial Banking Corporation	73.1	1.5	No	Yes	Banking
8.	Security Bank	66.3	1.4	No	Yes	Banking
9.	China Bank	61.2	1.3	No	Yes	Banking
10.	San Miguel	60.0	1.2	No	Yes	Holding Firms
11.	SM Investments	58.3	1.2	No	Yes	Holding Firms
12.	Philippine National Bank	52.2	1.1	No	Yes	Banking
13.	Aboitiz Power	48.0	1.0	No	Yes	Electricity, Energy, and Power
14.	Vista Land	43.5	0.9	No	Yes	Property
15.	Petron	42.9	0.9	No	Yes	Electricity, Energy, and Power
16.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
17.	Maynilad	28.1	0.6	No	No	Water
18.	Aboitiz Equity Ventures	27.9	0.6	No	Yes	Holding Firms
19.	Filinvest Land	25.8	0.5	No	Yes	Property
20.	Philippine Savings Bank	25.4	0.5	No	Yes	Banking
21.	Robinsons Land	25.2	0.5	No	Yes	Property
22.	Union Bank of the Philippines	24.6	0.5	No	Yes	Banking
23.	San Miguel Brewery	22.0	0.5	No	No	Brewery
24.	East West Banking	16.2	0.3	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.	San Miguel Food and Beverage	15.0	0.3	No	Yes	Food and Beverage
29.	Megaworld	12.0	0.2	No	Yes	Property
30.	Puregold	12.0	0.2	No	Yes	Whole and Retail Trading
Total Top 30 LCY Corporate Issuers		**1,414.1**	**29.1**			
Total LCY Corporate Bonds		**1,579.4**	**32.5**			
Top 30 as % of Total LCY Corporate Bonds		**89.5%**	**89.5%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 31 March 2021.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Corporate bond issuance in Q1 2021 slightly declined by 0.2% q-o-q, which was an improvement from the 53.3% q-o-q drop in Q4 2020. Only five firms raised funds during the quarter, issuing a combined PHP58.9 billion worth of bonds. The weak issuance activity from the corporate sector was due to economic and business prospects remaining gloomy amid the ongoing COVID-19 pandemic and a resurgence of cases. These factors led firms to hold off expansion or issuance plans even as interest rates remained low. **Table 3** lists all issuances in Q1 2021, which were led by the banking sector.

Investor Profile

The investor landscape for LCY government bonds in March was somewhat changed from a year earlier (**Figure 3**). Banks and investment houses, and contractual savings and tax-exempt institutions remained the first- and second-largest holders of LCY government bonds, respectively, at the end of Q1 2021. The market share of banks and investment houses, however, declined to 37.5% from 50.4% during the review period, while that of contractual savings and tax-exempt institutions increased to 35.7% from 23.0%. Government-owned or -controlled corporations and local government units continued to comprise the smallest market share at 0.2%. Changes in ranking based on market shares were seen among the remaining investor groups. Brokers, custodians, and depositories (9.6%) and BTr-managed funds (8.6%) held the third- and fourth-largest market shares, respectively, overtaking "other" investors (8.5%), which dropped to fifth.

Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021

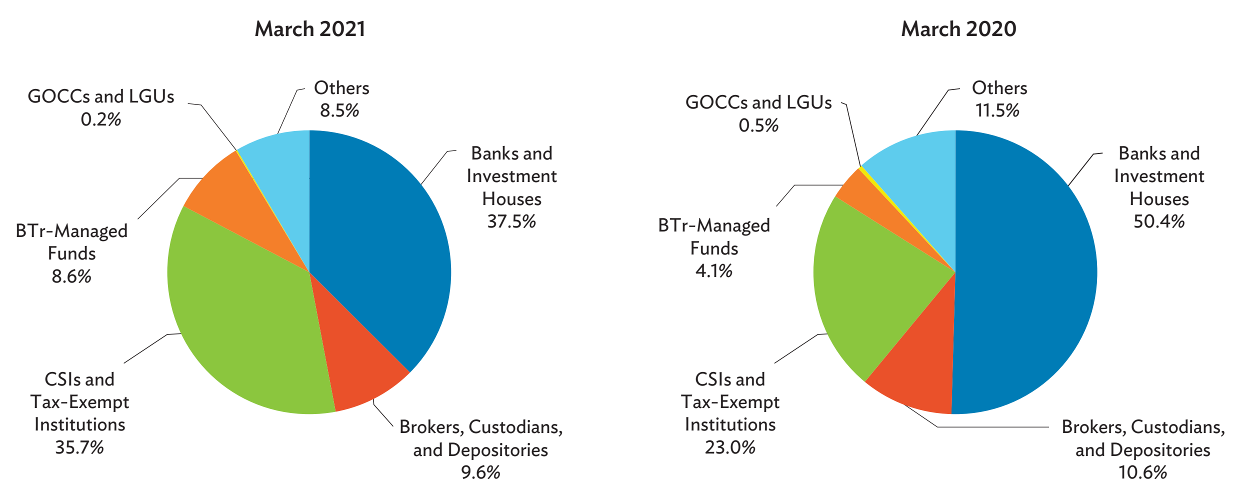
Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
China Bank		
3-year bond	2.50	20.00
Rizal Commercial Banking Corporation		
2-year bond	3.20	13.74
5-year bond	4.18	4.13
SM Prime Holdings		
2-year bond	2.46	7.50
5-year bond	3.85	2.50
Aboitiz Power		
5-year bond	3.82	8.00
Century Properties		
3-year bond	4.85	3.00

PHP = Philippine peso.
Source: Based on data from Bloomberg LP.

Ratings Update

On 10 January, Fitch Ratings affirmed the Philippines' sovereign credit at BBB with a stable outlook. The affirmation was based on the rating agency's assessment that the Philippines had modest government debt levels relative to peers, robust external buffers, and medium-

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.

term growth prospects that remained strong. It also cited risk factors that could negatively affect the credit rating: (i) higher fiscal deficits arising from a reversal of reforms or departure from a prudent macroeconomic policy framework, (ii) failure to return to historically high economic growth rates, and (iii) weakness in external indicators. On the other hand, factors to affect the rating positively include a broadening of the government's revenue base and a strengthening of governance standards.

On 22 April, Rating and Investment Information maintained the Philippines' BBB+ sovereign credit rating with a stable outlook as it expects the economy to recover from the severe contraction, supported primarily by aggressive public investment while accommodative fiscal and monetary policies remain to boost growth. Additional factors cited by the ratings agency that contributed to the affirmation include the government's commitment to maintaining fiscal discipline, the accomplishment of comprehensive tax reforms and various regulatory reforms, the economy's strong external position, and a stable banking sector.

On 27 May, S&P Global Ratings affirmed the Philippines' BBB+ sovereign credit rating with a stable outlook based on the view that the economy will rebound strongly, which will improve the government's fiscal position. Good prospects for the economic recovery are backed by the ongoing vaccine rollout, a strong external account, and fiscal reforms that have made debt manageable. The rating agency noted that it may upgrade the Philippines' credit rating if the economy expands faster than expected and if fiscal consolidation is achieved in the immediate term. Deterioration in these metrics, however, may lead to a downgrade.

Policy, Institutional, and Regulatory Developments

Bangko Sentral ng Pilipinas Increases Net Open Foreign Exchange Limit

In June, the Monetary Board of the BSP approved an increase in the net open foreign exchange position (NOP) limit for banks in response to rising demand for foreign exchange that is underpinned by the increased volume of trade transactions and investments. The NOP limit was raised to either 25% of qualifying capital or USD150 million, whichever is lower. The previous limit was 20% of unimpaired capital or USD50 million. According to the BSP, the increase in the NOP limit is part of a larger set of amendments to the framework for the management of banks' open foreign exchange positions, which aim to make the calculation and measurement of a bank's NOP more risk-based. The amendments will take effect on 1 August 2021.

Bureau of the Treasury Plans to Borrow PHP555 Billion in the Second Quarter of 2021

The BTr is set to borrow PHP555 billion from the domestic debt market in the second quarter of 2021. For April and May, the monthly programmed Treasury bill offerings were PHP100 billion, while Treasury bond offerings were PHP70 billion. In June, the BTr increased its issuance plan by holding more auctions and shifting to a higher offer volume of Treasury bonds. The BTr is seeking to raise PHP215 billion from the market in June, comprising PHP75 billion of Treasury bills and P140 billion of Treasury bonds, through its weekly auctions.

Singapore

Yield Movements

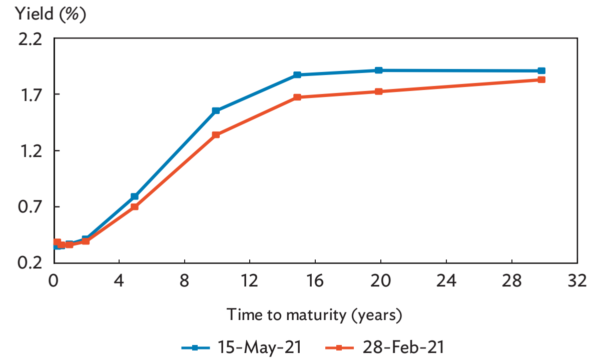
Between 28 February and 15 May, Singapore's local currency (LCY) government bond yields increased for most tenors (**Figure 1**). The shorter-end of the yield curve (3–6 months) declined an average of 2 basis points (bps). Tenors of 1–5 years rose an average of 4 bps, while the 30-year tenor jumped 8 bps. Yields for 10-20 years recorded an average increase of 20 bps. The yield spread between 2-year and 10-year government bonds expanded from 95 bps to 114 bps during the review period.

The yield curve for Singapore's LCY government bonds tracked the movements of the yield curve for United States (US) Treasuries during the review period, with the yields of short-term tenors declining and the yields of long-term tenors increasing. Longer-term US Treasury yields rose on expectations of higher consumer price inflation brought about by fiscal stimulus measures. The low demand for long-term securities can also be attributed to investor cautiousness brought about by uncertainties over the path of the COVID-19 pandemic. Events that may pose challenges are potential vaccine roll out complications and the emergence of new variants of the virus.

In April, Monetary Authority of Singapore (MAS) kept its monetary policy unchanged. The appreciation rate of the Singapore dollar nominal effective exchange rate remained at zero, and the center of the policy band was left unchanged. MAS is optimistic that the economy will exhibit above-average growth this year. However, core consumer price inflation is expected to remain low.

Singapore's economy expanded 1.3% year-on-year (y-o-y) in the first quarter (Q1) of 2021, improving from the contraction of 2.4% y-o-y in the fourth quarter (Q4) of 2020. A bright spot that contributed to Singapore's economic expansion was the growth of manufacturing output. This was partially offset, however, by the construction industry's contraction as social distancing measures inhibited activities in the sector.

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



Source: Based on data from Bloomberg LP.

The Ministry of Trade and Industry forecasts Singapore's economic growth will be between 4.0% and 6.0% for full-year 2021.

Consumer price inflation in Singapore increased steadily during Q1 2021 from 0.2% y-o-y in January to 0.7% y-o-y in February and 1.3% y-o-y in March. Core inflation, which excludes the cost of accommodations and private transport, was 0.5% y-o-y in March, compared with 0.2% y-o-y in February. Singapore's central bank expects price pressures to gradually pick up as domestic demand improves. MAS projects inflation for full-year 2021 to be between 0.5% and 1.5%.

Singapore was already in Phase 3 of its reopening strategy at the end of December 2020. However, on 8 May, Singapore reverted to Phase 2 (Heightened Alert) due to rising COVID-19 cases. Although not a Circuit Breaker, the government introduced tightened measures to arrest the spread of the disease. Despite the rise in cases, Singapore's vaccination program has been highly successful. Vaccination data from Singapore's Ministry of Health indicated that 2.5 million people have received at least one dose of the COVID-19 vaccine as of 7 June.[10] It is expecting to administer at least one dose of the COVID-19 vaccine to all of its adult population by August.

[10] According to Singapore's Department of Statistics, the city-state's population at the end of June 2020 was 5.7 million.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**461**	**324**	**503**	**380**	**522**	**388**	**2.2**	**11.8**	**3.8**	**13.4**
Government	293	206	330	249	349	260	2.5	14.6	6.0	19.3
SGS Bills and Bonds	188	132	196	148	203	151	2.7	44.8	3.5	8.3
MAS Bills	105	74	133	101	146	109	2.0	(16.5)	9.6	38.9
Corporate	168	118	173	131	173	129	1.7	7.1	(0.3)	3.1

( ) = 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.

Size and Composition

Singapore's LCY bond market expanded 3.8% quarter-on-quarter (q-o-q) in Q1 2021 to reach a size of SGD522.2 billion (USD388.3 billion) at the end of March, up from SGD502.9 billion at the end of December 2020 (**Table 1**). On an annual basis, growth accelerated to 13.4% y-o-y in Q1 2021 from 11.6% y-o-y in Q4 2020. The expansion in the LCY bond market was supported by growth in government bonds, which accounted for 66.9% of total LCY bonds outstanding at the end of Q1 2021.

Issuance of LCY bonds in Q1 2021 increased 4.7% q-o-q to SGD226.7 billion from SGD216.6 billion in Q4 2020, driven by rising government bond issuance. This was partially offset by a drop in the issuance of corporate bonds.

Government bonds. The LCY government bond market grew 6.0% q-o-q to SGD349.2 billion in Q1 2021 from SGD329.5 billion in the previous quarter. Outstanding Singapore Government Securities bills and bonds, which comprised 58.2% of total outstanding LCY government bonds at the end of March, increased 3.5% q-o-q. MAS bills, comprising 41.8% of all outstanding LCY government bonds, jumped 9.6% q-o-q.

LCY government bond issuance in Q1 2021 rose 5.1% q-o-q. The growth may be attributed to the government's need to help finance the budget deficit generated by increased spending to address the COVID-19 pandemic. The growth was also due to an increase in MAS bills spurred by the issuance of 1-year floating-rate notes in March in addition to the existing 6-month tenor. MAS issues floating-rate notes to promote the use of the Singapore Overnight Rate Average (SORA) as a benchmark in Singapore's financial market. Issuance of Singapore Government Securities bills and bonds declined to SGD32.2 billion in Q1 2021 from SGD33.5 billion in the previous quarter.

Corporate bonds. LCY corporate bonds outstanding marginally declined 0.3% q-o-q in Q1 2021 to SGD173.0 billion at the end of March, down from SGD173.4 billion at the end of December, as several corporate bonds matured during the quarter and fewer bonds were issued compared to the previous quarter.

The top 30 LCY corporate bond issuers in Singapore accounted for combined bonds outstanding of SGD92.9 billion, or 53.7% of the total LCY corporate bond market, at the end of Q1 2021 (**Table 2**). The government-owned Housing & Development Board remained the largest issuer with outstanding LCY corporate bonds amounting to SGD25.8 billion. By industry type, real estate companies continued to comprise the largest share (47.6%) among the top 30 issuers of LCY corporate bonds with SGD44.2 billion of aggregate LCY corporate bonds outstanding at the end of Q1 2021.

In Q1 2021, issuance of LCY corporate bonds declined to SGD3.7 billion, a contraction of 17.9% q-o-q from SGD4.5 billion in the previous quarter. This marked the third consecutive quarter of decline in corporate bond 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	25.8	19.2	Yes	No	Real Estate
2.	Land Transport Authority	9.5	7.0	Yes	No	Transportation
3.	Singapore Airlines	8.7	6.5	Yes	Yes	Transportation
4.	CapitaLand	4.3	3.2	Yes	Yes	Real Estate
5.	Frasers Property	4.0	3.0	No	Yes	Real Estate
6.	United Overseas Bank	3.4	2.5	No	Yes	Banking
7.	Temasek Financial	3.1	2.3	Yes	No	Finance
8.	DBS Bank	2.9	2.1	No	Yes	Banking
9.	Mapletree Treasury Services	2.9	2.1	No	No	Finance
10.	Sembcorp Industries	2.9	2.1	No	Yes	Diversified
11.	Keppel Corporation	2.2	1.6	No	Yes	Diversified
12.	City Developments Limited	2.1	1.5	No	Yes	Real Estate
13.	CapitaLand Mall Trust	2.0	1.5	No	No	Finance
14.	Oversea-Chinese Banking Corporation	1.7	1.3	No	Yes	Banking
15.	Olam International	1.7	1.3	No	Yes	Consumer Goods
16.	Ascendas Real Estate Investment Trust	1.6	1.2	No	Yes	Finance
17.	Shangri-La Hotel	1.5	1.1	No	Yes	Real Estate
18.	NTUC Income	1.4	1.0	No	No	Finance
19.	Suntec Real Estate Investment Trust	1.3	1.0	No	Yes	Real Estate
20.	Singapore Technologies Telemedia	1.2	0.9	Yes	No	Utilities
21.	GuocoLand Limited IHT	1.1	0.8	No	No	Real Estate
22.	Public Utilities Board	1.0	0.7	Yes	No	Utilities
23.	Ascott Residence	1.0	0.7	No	Yes	Real Estate
24.	Singapore Press Holdings	1.0	0.7	No	Yes	Communications
25.	StarHub	0.9	0.7	No	Yes	Diversified
26.	Hyflux	0.9	0.7	No	Yes	Utilities
27.	Mapletree Commercial Trust	0.9	0.7	No	Yes	Real Estate
28.	Keppel Real Estate Investment Trust	0.8	0.6	No	No	Real Estate
29.	Wing Tai Holdings	0.8	0.6	No	Yes	Real Estate
30.	RCS Trust	0.7	0.5	No	No	Real Estate
Total Top 30 LCY Corporate Issuers		**92.9**	**69.1**			
Total LCY Corporate Bonds		**173.0**	**128.7**			
Top 30 as % of Total LCY Corporate Bonds		**53.7%**	**53.7%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 31 March 2021.
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.

The Housing & Development Board issued the two largest LCY corporate bonds in Q1 2021, an SGD800.0 million 5-year bond and a SGD900.0 million 7-year bond (**Table 3**). Both issuances were part of the company's multicurrency medium-term note program. Proceeds from the issuances will be used to finance the company's development programs and working capital requirements. Olam International and United Overseas Bank issued callable perpetual bonds in Q1 2021. Proceeds from Olam International's issuance will be used for working capital and general corporate purposes. Promoting the adoption of SORA, United Overseas Bank pioneered the issuance of a capital security with a reset coupon rate referencing the SORA overnight indexed swap rate. In March, Boustead Industrial Fund issued a bond with the highest coupon rate during the review period at 7.0%.

Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing & Development Board		
5-year bond	0.635	800.0
7-year bond	1.370	900.0
Olam International		
Perpetual bond	5.375	250.0
Surbana Jurong		
10-year bond	2.480	250.0
Boustead Industrial Fund		
10-year bond	7.000	236.0
StarHub		
10-year bond	2.480	200.0
United Overseas Bank		
Perpetual bond	2.250	150.0

SGD = Singapore dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

Bilateral Investment Treaty with Indonesia Begins

On 9 March, the bilateral investment treaty signed in 2018 by Singapore and Indonesia entered into force. The treaty establishes rules and additional protections for investors and investments in each other's economies. The establishment of the bilateral investment treaty aims to foster a better economic relationship and increase investment flows between Singapore and Indonesia.

Singapore and Japan Renew Bilateral Swap Arrangement

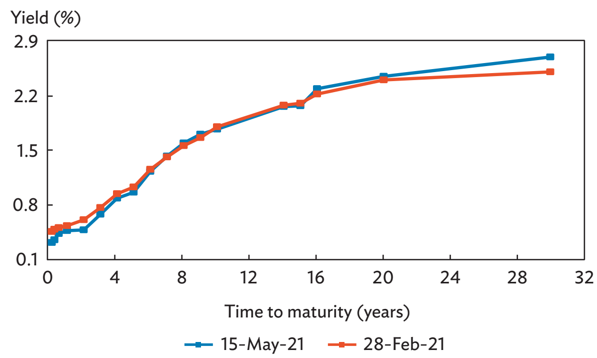
On 21 May, MAS and the Bank of Japan renewed the existing bilateral swap arrangement between Singapore and Japan. Singapore can swap Singapore dollars up to the equivalent of USD3 billion in Japanese yen. Japan can swap Japanese yen up to the equivalent of USD1 billion in Singapore dollars. With the renewal of the arrangement, the two economies will be able to continue to exchange their local currency for US dollars from each other. This gives flexibility to both economies in meeting their liquidity needs, while also promoting financial stability and better economic ties between Singapore and Japan.

Thailand

Yield Movements

Between 28 February and 15 May, Thailand's local currency (LCY) government bond yields showed mixed movements (**Figure 1**). Yields fell an average of 9 basis points (bps) for bonds with maturities of up to 6 years, while yields rose an average of 3 bps for bonds with maturities of 7–9 years. Yields for bonds with maturities from 10 years to 15 years shed an average of 3 bps, while yields of longer-dated bonds with maturities of 16 to 30 years gained an average of 10 bps. Overall, yields fell an average of 3 bps across all tenors. The spread between the 2-year and the 10-year tenors widened to 129 bps on 15 May from 119 bps on 28 February.

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



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

The overall decline in yields, particularly at the shorter-end of the yield curve, reflected lingering uncertainties brought about by the prolonged impact of the COVID-19 pandemic on Thailand's trade- and tourism-reliant economy. While the government started its vaccine rollout during the quarter, Thailand's vaccination rate remained low relative to neighboring economies. Programs to revive tourism were thwarted by a third wave of COVID-19 toward the end of the review period.

Declining yields also reflected the lingering weakness in Thailand's economy. GDP contracted 2.6% year-on-year (y-o-y) in the first quarter (Q1) of 2021, an improvement over the 4.2% y-o-y decline recorded in the fourth quarter (Q4) of 2020. Consumption contracted 0.5% y-o-y in Q1 2021, reversing the 0.9% y-o-y growth in the previous quarter as a wave of COVID-19 infections at the end of 2020 prompted containment measures. Government expenditure and gross fixed capital formation rose 2.1% y-o-y and 7.3% y-o-y, respectively. Exports of goods and services contracted 10.5% y-o-y, while imports of goods and services inched up 1.7% y-o-y in Q1 2021. In May, the National Economic and Social Development Council lowered its GDP growth forecast for full-year 2021 to 1.5%–2.5% from 2.5%–3.5% announced in February.

The rise in yields at the longer-end of the curve reflected concerns about the debt burden implied by the government's continued efforts to boost the economy. At the end of March, Thailand's public debt stood at THB8.5 trillion, or 53.3% of GDP. The Public Debt Management Office (PDMO) projected the ratio would reach 58.8% of GDP by the end of fiscal year 2021 on 30 September.

Consumer price inflation rose 3.4% y-o-y in April, ending 13 consecutive months of pandemic-driven deflation. The hike was brought about primarily by relatively high oil prices in April compared with a low base a year earlier. Elevated food prices due to supply constraints and the end of a government subsidy on utility bills also contributed to inflationary pressure. Inflation eased to 2.4% y-o-y in May.

The Bank of Thailand's (BOT) monetary policy remained accommodative. On 5 May, the Monetary Policy Committee of the BOT held the policy rate steady at 0.5% to preserve its limited policy space. Since the onset of the pandemic, the BOT has reduced its policy rate by a total of 75 bps.

Size and Composition

Thailand's LCY bonds outstanding totaled THB13,842.4 billion (USD443.1 billion) at the end of March (**Table 1**). The bond market continued to contract in Q1 2021, falling 0.6% quarter-on-quarter (q-o-q) following a 0.7% q-o-q decline in Q4 2020. Contraction in both government and corporate bond segments

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**13,169**	**402**	**13,923**	**465**	**13,842**	**443**	**(0.5)**	**4.1**	**(0.6)**	**5.1**
Government	9,353	286	10,232	342	10,152	325	(1.0)	2.7	(0.8)	8.5
Government Bonds and Treasury Bills	5,079	155	6,020	201	6,349	203	2.8	6.4	5.5	25.0
Central Bank Bonds	3,492	107	3,365	112	2,911	93	(6.1)	(2.4)	(13.5)	(16.6)
State-Owned Enterprise and Other Bonds	782	24	846	28	892	29	(1.4)	3.1	5.5	14.1
Corporate	3,816	117	3,692	123	3,690	118	0.8	7.9	(0.1)	(3.3)

( ) = 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.

contributed to the decline, with the biggest drop coming from the outstanding stock of BOT bonds partly due to adjustments in the BOT's issuance program. On a y-o-y basis, the growth of outstanding LCY bonds slipped to 5.1% in Q1 2021 from 5.2% in Q4 2020. Government bonds continued to dominate the Thai bond market, accounting for 73.3% of total bonds outstanding at the end of March.

Government bonds. The size of the LCY government bond market stood at THB10,152.5 billion at the end of March, following a 0.8% q-o-q contraction in Q1 2021. The contraction was driven by a 13.5% q-o-q decline in outstanding BOT bonds, which outpaced the growth in outstanding government bonds and Treasury bills, and outstanding state-owned enterprise and other bonds. On an annual basis, the growth of total government bonds outstanding rose to 8.5% y-o-y in Q1 2021 from 8.3% y-o-y in the previous quarter.

Total government bond issuance amounted to THB1,686.6 billion in Q1 2021. Issuance continued to contract, dropping 13.6% q-o-q in Q1 2021 after decreasing 25.6% q-o-q in Q4 2020. Issuance of government bonds and Treasury bills expanded 42.0% q-o-q during the quarter. Issuance of BOT bonds and state-owned enterprise and other bonds saw sizable contractions of 29.0% q-o-q and 19.6% q-o-q, respectively. The BOT adjusted its bond issuance program for 2021 in response to high volatility in the market. To ensure that BOT bonds and government bonds are issued at different points along the yield curve, several tenors of BOT bonds were discontinued to make room for government bond issuance from the PDMO. These included 6-month bills and 3-year bonds. The adjustments contributed to the drop in BOT bond issuance during the quarter.

Corporate bonds. Outstanding corporate bonds totaled THB3,689.9 billion at the end of March after contracting 0.1% q-o-q and 3.3% y-o-y. The contraction in corporate bonds outstanding was mainly due to a relatively high volume of maturities, as corporate issuance saw robust growth during the quarter.

The LCY bonds outstanding of the top 30 corporate issuers amounted to THB2,164.5 billion at the end of March, accounting for 58.7% of the Thai corporate bond market (**Table 2**). Among the top 30 issuers, food and beverage, commerce, banking, and communication firms held over half of the total outstanding bond stock. The majority of the top 30 issuers were listed on the Thai Stock Exchange, while only four were state-owned firms. Due to sizable issuances during the quarter, CP ALL became the top issuer at the end of March with outstanding debt of THB183.7 billion. Siam Cement, the top issuer in the previous quarter, became the second-largest issuer at the end of March with outstanding debt of THB175.0 billion. Charoen Pokphand Foods, Thai Beverage, Berli Jucker, True Corp, True Move H Universal Communication, and Bank of Ayudhya were the next largest issuers, all with bonds outstanding of more than THB100.0 billion at the end of March.

Issuance of corporate bonds rose 6.4% q-o-q in Q1 2021, reversing the drop of 14.6% q-o-q in the previous quarter as corporates raised debt to lock in low interest rates. Charoen Pokphand Foods issued the largest amount

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.	CP ALL	183.7	5.9	No	Yes	Commerce
2.	Siam Cement	175.0	5.6	Yes	Yes	Construction Materials
3.	Charoen Pokphand Foods	139.7	4.5	No	Yes	Food and Beverage
4.	Thai Beverage	125.1	4.0	No	No	Food and Beverage
5.	Berli Jucker	121.6	3.9	No	Yes	Commerce
6.	True Corp	119.4	3.8	No	No	Communication
7.	True Move H Universal Communication	113.0	3.6	No	No	Communication
8.	Bank of Ayudhya	108.8	3.5	No	Yes	Banking
9.	PTT	92.6	3.0	Yes	Yes	Energy and Utilities
10.	Toyota Leasing Thailand	70.9	2.3	No	No	Finance and Securities
11.	Indorama Ventures	69.5	2.2	No	Yes	Petrochemicals and Chemicals
12.	CPF Thailand	68.6	2.2	No	No	Food and Beverage
13.	Minor International	57.7	1.8	No	Yes	Hospitality and Leisure
14.	PTT Global Chemical	51.7	1.7	No	Yes	Petrochemicals and Chemicals
15.	Bangkok Commercial Asset Management	51.2	1.6	No	Yes	Finance and Securities
16.	Banpu	49.3	1.6	No	Yes	Energy and Utilities
17.	Krungthai Card	46.5	1.5	Yes	Yes	Banking
18.	TPI Polene	45.7	1.5	No	Yes	Property and Construction
19.	Frasers Property Thailand	45.6	1.5	No	Yes	Property and Construction
20.	Global Power Synergy	45.0	1.4	No	Yes	Energy and Utilities
21.	Krung Thai Bank	44.0	1.4	Yes	Yes	Banking
22.	Muangthai Capital	41.6	1.3	No	Yes	Finance and Securities
23.	Bangkok Expressway & Metro	38.7	1.2	No	Yes	Transportation and Logistics
24.	Sansiri	38.3	1.2	No	Yes	Property and Construction
25.	ICBC Thai Leasing	37.9	1.2	No	No	Finance and Securities
26.	Land & Houses	37.6	1.2	No	Yes	Property and Construction
27.	dtac TriNet	37.5	1.2	No	Yes	Communications
28.	CH Karnchang	36.9	1.2	No	Yes	Property and Construction
29.	Bangchak	36.0	1.2	No	Yes	Energy and Utilities
30.	TMB Bank	35.4	1.1	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**2,164.5**	**69.3**			
Total LCY Corporate Bonds		**3,689.9**	**118.1**			
Top 30 as % of Total LCY Corporate Bonds		**58.7%**	**58.7%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 31 March 2021.
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 Issuances in the First Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Charoen Pokphand Foods		
2-year bond	1.75	2.5
5-year bond	2.99	13.1
7-year bond	3.15	4.0
10-year bond	3.60	5.0
12-year bond	3.80	5.4
True Corp[a]		
1-year bond	0.00	2.5
1-year bond	2.72	2.0
1.26-year bond	2.72	0.3
2.75-year bond	3.30	7.4
3.75-year bond	3.85	4.3
4.75-year bond	4.20	2.5
5.75-year bond	4.50	5.8
CP ALL		
5-year bond	2.86	10.0
7-year bond	3.42	6.8
10-year bond	3.95	3.6
15-year bond	4.64	1.5

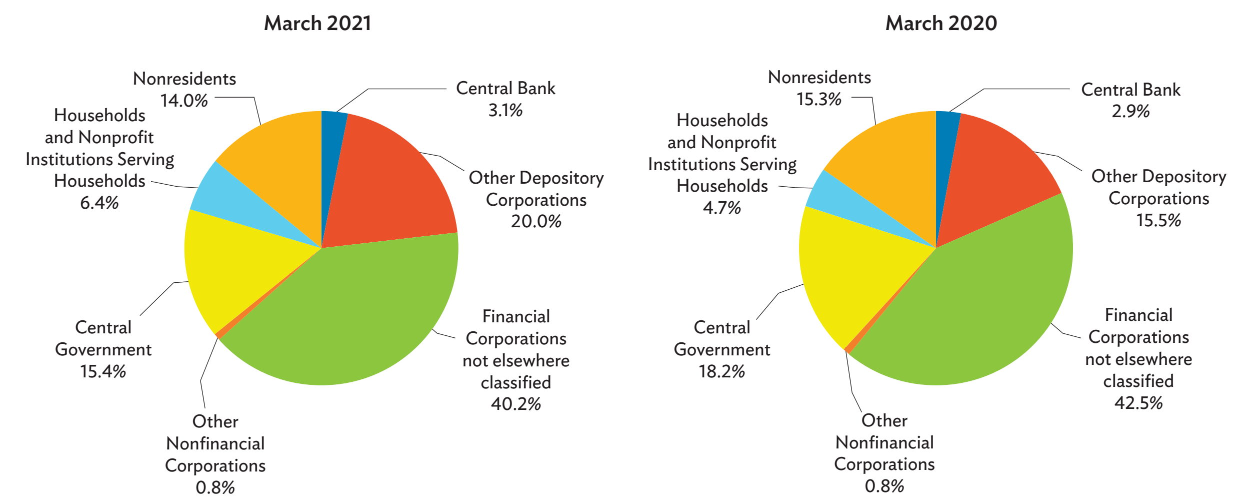
THB = Thai baht.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Bloomberg LP.

of corporate debt totaling THB30.0 billion in Q1 2021, comprising bonds with tenors ranging from 2 years to 12 years and carrying coupons ranging from 1.75% to 3.80% (**Table 3**). True Corp was the second-largest issuer during the quarter, with total issuance amounting to THB24.8 billion from bonds with tenors ranging from 1 year to 5.75 years and carrying coupons ranging from 0.0% to 4.50%. CP ALL, a food and beverage firm, was the third-largest issuer with total issuance of THB21.9 billion from bonds with tenors ranging from 5 years to 15 years carrying coupons ranging from 2.86% to 4.64%.

Investor Profile

Central government bonds. Between March 2020 and March 2021, the combined share of the four largest holders of LCY government bonds declined to 89.7% from 91.5% (**Figure 2**). Financial corporations continued to hold the largest share of government bonds, although their share fell to 40.2% at the end of March 2021 from 42.5% a year earlier. In contrast, the share of other depository corporations increased to 20.0% from 15.5% between March 2020 and March 2021. The share held by

Figure 2: Local Currency Government Bonds Investor Profile



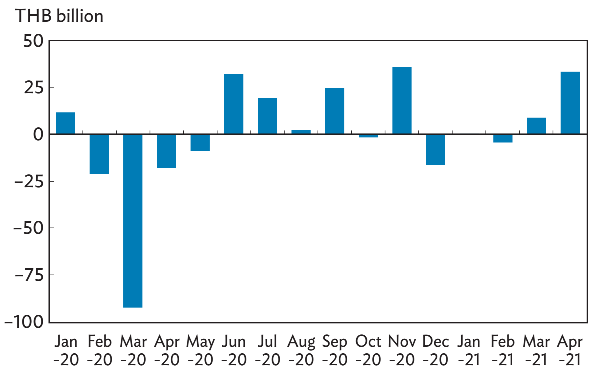
Note: Government bonds include Treasury bills and bonds.
Source: *AsianBondsOnline* and Bank of Thailand.

the central government decreased to 15.4% from 18.2% during the same period. Nonresidents' holdings inched down to 14.0% from 15.3% due to risk-off sentiment affecting demand for emerging market sovereign bonds.

Central bank bonds. Between March 2020 and March 2021, the combined share of the four largest holders of BOT bonds slipped to 95.6% from 96.1% (**Figure 3**). Other depository corporations held the largest share of BOT bonds, although their share dropped to 38.3% from 49.5% between March 2020 and March 2021. Financial corporations remained the second-largest holder of BOT bonds with 33.3% of total holdings at the end of March 2021, up from 21.7% a year earlier. The BOT's holdings of its LCY bonds decreased to 14.2% from 16.0% during the same period. The central government's share rose to 9.8% in March 2021 from 8.9% a year before. Nonresidents continued to hold a marginal share of BOT bonds at 0.9% in March 2021, down from 1.1% in March 2020.

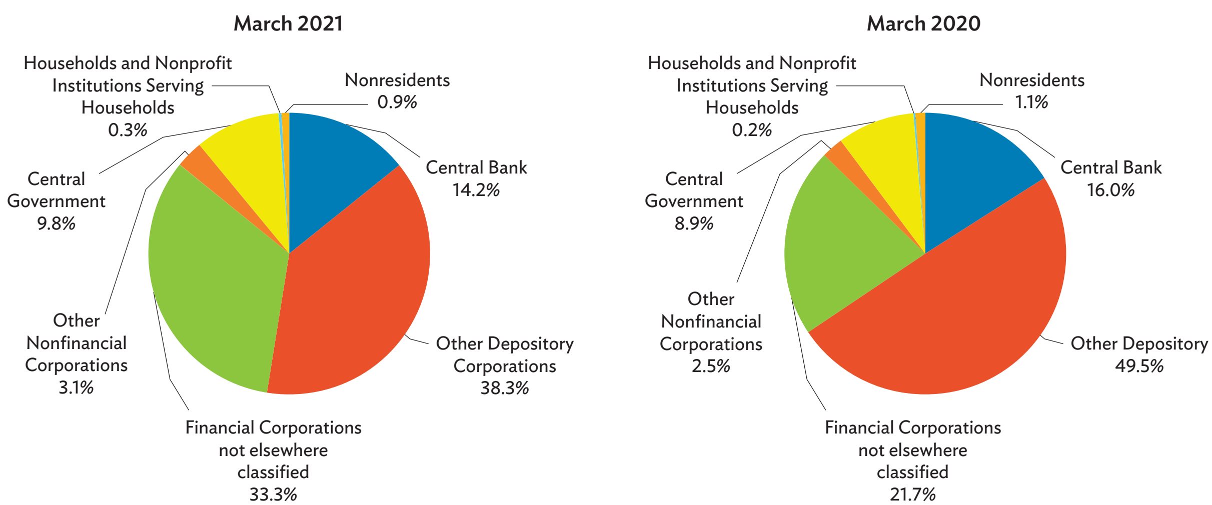
Foreign investors in Thailand's LCY bond market recorded net inflows of THB4.0 billion in Q1 2021, following net inflows of THB16.8 billion in Q4 2020 (**Figure 4**). Foreign capital flows into the Thai bond market remained volatile in 2021. January saw inflows of THB0.1 billion, followed by outflows of THB4.6 billion in February. March saw inflows of THB8.5 billion, while April witnessed a jump in inflows to THB32.9 billion following the approval of additional relief measures to counter the impact of a new wave of infections.

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



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

Figure 3: Local Currency Central Bank Securities Investor Profile



Source: Bank of Thailand.

Ratings Update

In March, Rating and Investment Information, Inc. affirmed Thailand's LCY sovereign credit rating at A– with a stable outlook. The rating was based on the assessment that Thailand's economic fundamentals and fiscal management will remain sound despite an expected slow recovery from the COVID-19 pandemic. The current account balance has maintained a surplus and concerns over Thailand's external position remain small. Thus, the rating agency viewed that the factors supporting Thailand's creditworthiness will remain unchanged. The credit rating agency also affirmed Thailand's foreign currency issuer rating at A– with a stable outlook.

Policy, Institutional, and Regulatory Developments

Bank of Thailand Adjusts Bond Issuance Program for 2021

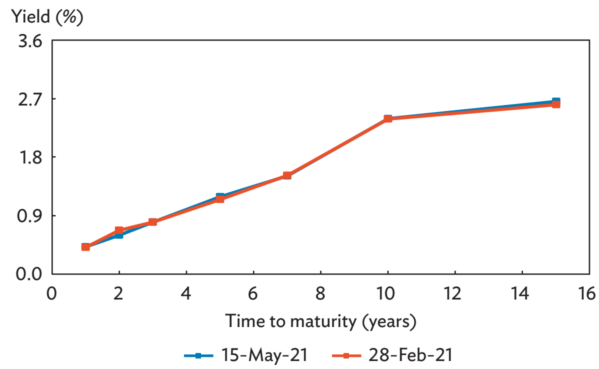
The BOT adjusted its bond issuance program for 2021 to accommodate changes in market demand and support the government's financing needs for COVID-19 relief measures. The BOT and the PDMO continued to coordinate so that BOT and government bonds would be issued at different sections of the yield curve. In particular, the BOT discontinued the issuance of 6-month bills and 3-year bonds in line with the PDMO's plan to issue 6-month Treasury bills and 3-year government bonds in 2021. The BOT also terminated the issuance of 2-week bills as the need for these short-term bills had declined in recent years. Furthermore, the BOT replaced the Bangkok Interbank Offered Rate-linked floating rate bonds with Thai Overnight Repurchase Rate-linked floating rate bonds to promote the development of the new reference rate.

Viet Nam

Yield Movements

The yields of local currency (LCY) government securities in Viet Nam rose for most tenors between 28 February and 15 May. (**Figure 1**). Yields on 5-year and 15-year bonds increased the most at 4 basis points (bps) and 5 bps, respectively, while those on 1-year and 10-year maturities increased by less than 1 bp each. Declining yields were seen for the 2-year tenor (–8 bps) and 7-year tenor (–0.6 bps). The yield on the 3-year bond was unchanged. The yield spread between the 2-year and 10-year tenors widened from 172 bps to 180 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 modest general increase in LCY government bond yields signaled that ample liquidity remained in the system and that risk aversion is sustaining the demand for government securities, thereby limiting the increases in rates.

The accommodative monetary policy stance of the State Bank of Vietnam also influenced yield movements. A low-interest-rate environment persists, with the central bank reducing the key policy rate by 50 bps to 4.0% on 1 October 2020.

Inflationary pressure remained relatively weak. The prices of consumer goods in Viet Nam increased 2.9% year-on-year (y-o-y) in May, largely due to higher oil prices in the world market that translated into higher domestic transportation costs. The May figure and the resulting year-to-date inflation of 1.3% were still in line with the government's goal to keep inflation below 4.0% for 2021. Nonetheless, inflationary pressure may build in the coming months as businesses and consumers adapt to the new normal and the global economy recovers, thereby driving up demand.

Viet Nam's economy continued to expand as its GDP grew 4.5% y-o-y in the first quarter (Q1) of 2021. The domestic economy remained resilient despite the resurgence of COVID-19 cases in some areas. The expansion was the same as in the fourth quarter of 2020 but was up from 3.8% y-o-y in Q1 2020. While all economic sectors posted growth during the quarter, the manufacturing sector contributed the most to the overall expansion. The government is targeting annual GDP growth of 6.5% y-o-y in 2021.

The Vietnamese dong was stable against the United States dollar during the review period, trading at VND23,040 per USD1 on 15 May, reflecting only a marginal depreciation of 0.1% from 28 February. The stability of the dong was underpinned by trade surpluses and sufficient foreign exchange reserves.

Size and Composition

Viet Nam's total LCY bonds outstanding slightly declined 0.3% quarter-on-quarter (q-o-q) to VND1,637.3 trillion (USD71.0 billion) at the end of Q1 2021, reversing the previous quarter's expansion of 8.1% q-o-q (**Table 1**). The market contraction was due to lower outstanding government debt even as corporate bonds outstanding increased. Government bonds accounted for a dominant share of Viet Nam's bond market at 82.1% versus corporate bonds with a 17.9% share. On an annual basis, the bond market expanded 19.0% y-o-y in Q1 2021, led by corporate bonds, which grew more than double during the quarter.

Government bonds. The government bond market contracted 1.1% q-o-q in Q1 2021, reducing the government's outstanding debt to VND1,343.5 trillion. A large volume of maturities was seen in government

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,375,700	58	1,642,790	71	1,637,288	71	10.4	14.4	(0.3)	19.0
Government	1,260,477	53	1,358,315	59	1,343,539	58	10.5	15.4	(1.1)	6.6
Treasury Bonds	970,436	41	1,207,228	52	1,199,863	52	(0.9)	5.6	(0.6)	23.6
Central Bank Bills	136,986	6	0	0	0	0	–	–	–	(100.0)
Government-Guaranteed and Municipal Bonds	153,055	6	151,087	7	143,677	6	(5.6)	(9.0)	(4.9)	(6.1)
Corporate	115,223	5	284,475	12	293,749	13	9.9	4.1	3.3	154.9

( ) = negative, – = not applicable, 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.

securities during the quarter, which was accompanied by low or no issuance across government bond segments.

Treasury bonds outstanding declined 0.6% q-o-q to VND1,199.9 trillion in Q1 2021, reversing the 6.9% q-o-q growth in the preceding quarter. The decline came on the back of lower bond offerings and issuance volumes by the State Treasury of Vietnam and was compounded by the large volume of securities that matured during the quarter. The issuance of Treasury bonds decreased by more than 50.0% q-o-q in Q1 2021 to VND39.2 trillion.

Outstanding government-guaranteed and municipal bonds declined 4.9% q-o-q to VND143.7 trillion due to maturities and the absence of issuance in this government bond segment in Q1 2021. There were no outstanding central bank bills at the end of Q1 2021 as the State Bank of Vietnam continued to support liquidity in the market.

Corporate bonds. Corporate bonds posted growth of 3.3% q-o-q in Q2 2021, lifting the total outstanding amount to VND293.7 trillion at the end of March. The increase, however, was slower compared to the growth of 13.5% q-o-q in the previous quarter. The slowdown in growth can be traced to lower issuance volume from the corporate sector due to regulations that raised standards for corporate bond issuance to promote transparency and fairness in the market.

The aggregate bonds outstanding of the top 30 LCY corporate issuers amounted to VND199.9 trillion, or 68.1% of the total corporate bond market, at the end of March (**Table 2**). The top 30 corporate issuers were mostly from the banking industry with cumulative outstanding bonds equal to VND107.0 trillion, or more than half of the top 30's outstanding bonds. Property firms were the next most prolific issuers with VND44.7 trillion in bonds outstanding, or 22.4% of the top 30's total debt. The Bank for Investment and Development of Vietnam was the single-largest issuer with outstanding debt of VND22.0 trillion at the end of Q1 2021.

Issuance from the corporate sector in Q1 2021 amounted to VND18.6 trillion, down from VND45.6 trillion in the fourth quarter of 2020. Debt issuance from property firms dominated the list of new corporate bonds with sales amounting to VND12.8 trillion, which accounted for about 70.0% of total issuance in Q1 2021. There were 32 corporate bond issuers in Q1 2021, 17 of which are property firms. Notable bond issuances during the quarter were mainly from the property sector, led by Vingroup with cumulative issuance of VND4.4 trillion from three tranches of 3-year bonds (**Table 3**).

Investor Profile

Insurance firms and banks together held nearly all government securities outstanding at the end of December 2020, accounting for a combined share of 99.3% (**Figure 2**). The insurance sector held 54.1% of government bonds outstanding, slightly down from 54.7% at the end of December 2019, while the banking sector held 45.2%, up from 43.9% during the same period. The remaining outstanding bonds were held by

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.	Bank for Investment and Development of Vietnam	22,023	0.95	Yes	Yes	Banking
2.	Masan Group	16,900	0.73	No	Yes	Finance
3.	Ho Chi Minh City Development Joint Stock Commercial Bank	12,248	0.53	No	Yes	Banking
4.	Vinhomes Joint Stock Company	10,890	0.47	No	Yes	Property
5.	Lien Viet Post Joint Stock Commercial Bank	10,600	0.46	No	Yes	Banking
6.	Tien Phong Commercial Joint Stock Bank	9,649	0.42	No	Yes	Banking
7.	Vietnam Prosperity Joint Stock Commercial Bank	9,150	0.40	No	Yes	Banking
8.	Vietnam International Joint Stock Commercial Bank	9,050	0.39	No	Yes	Banking
9.	Vietnam Joint Stock Commercial Bank for Industry and Trade	8,850	0.38	Yes	Yes	Banking
10.	Saigon Glory Company Limited	8,000	0.35	No	No	Property
11.	Sovico Group Joint Stock Company	7,550	0.33	No	Yes	Diversified Operations
12.	Orient Commercial Joint Stock Bank	7,535	0.33	No	No	Banking
13.	Vingroup	5,425	0.24	No	Yes	Property
14.	Asia Commercial Bank JSC	5,300	0.23	No	Yes	Banking
15.	Vinpearl	5,080	0.22	No	No	Hotel Operator
16.	Vietnam Technological and Commercial Joint Stock Bank	5,000	0.22	No	No	Banking
17.	Bac A Commercial Joint Stock Bank	4,640	0.20	No	Yes	Banking
18.	Phu My Hung Corporation	4,497	0.19	No	No	Property
19.	Ho Chi Minh City Infrastructure Investment Joint Stock Company	4,390	0.19	No	Yes	Construction
20.	Nui Phao Mining and Processing Co., Ltd.	4,310	0.19	No	No	Mining
21.	NoVa Real Estate Investment Corporation JSC	4,207	0.18	No	Yes	Property
22	Vincom Retail	3,050	0.13	No	Yes	Property
23.	Vietnam Maritime Joint Stock Commercial Bank	2,999	0.13	No	Yes	Banking
24.	Tuong Minh Investment and Real Estate Company Limited	2,950	0.13	No	No	Property
25.	TNL Investment and Leasing Joint Stock Company	2,926	0.13	No	No	Property
26.	Phu Long Real Estate Joint Stock Company	2,800	0.12	No	No	Property
27.	Binh Hai Golf Investment and Development Joint Stock Company	2,745	0.12	No	No	Leisure
28.	Masan Resources	2,500	0.11	No	No	Manufacturing
29.	Hoan My Medical Corporation	2,330	0.10	No	No	Healthcare Services
30.	Refrigeration Electrical Engineering Corporation	2,318	0.10	No	Yes	Manufacturing
Total Top 30 LCY Corporate Issuers		**199,912**	**8.67**			
Total LCY Corporate Bonds		**293,749**	**12.74**			
Top 30 as % of Total LCY Corporate Bonds		**68.1%**	**68.1%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 31 March 2021.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg LP and Vietnam Bond Market Association data.

Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Vingroup[a]		
3-year bond	Floating	1,860
3-year bond	Floating	1,515
3-year bond	Floating	1,000
Nhat Quang Property Development Corporation		
3-year bond	–	2,150
Smart Dragon Investment JSC		
3-year bond	–	1,900
Masan Group		
3-year bond	Floating	1,400

– = not available, VND = Vietnamese dong.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Sources: Vietnam Bond Market Association.

security companies, investment funds, offshore investors, and other investors. Foreign investors held 0.6% of government securities at the end of December 2020, which remained the smallest foreign holdings share among all emerging East Asian economies.

Ratings Update

On 1 April, Fitch Ratings affirmed Viet Nam's sovereign credit rating at BB and raised the outlook to positive. The rate affirmation and improved outlook were based on Viet Nam's strong economic performance as it was able to maintain positive growth despite the pandemic, largely because of success in containing its COVID-19 outbreak; an improvement in public finances; and a strong external finance position on the back of a current account surplus and rising foreign exchange reserves. Sustained high economic growth, further improvement in public finances, and sustainable fiscal consolidation over the medium-term could lead to a rating upgrade, while a deterioration of these conditions could be rating-negative.

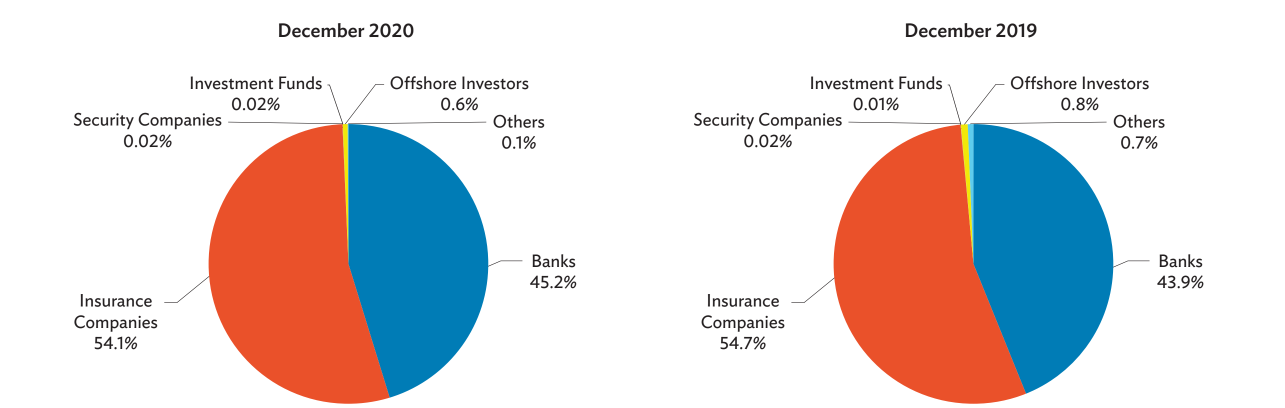
On 21 May, S&P Global Ratings retained Viet Nam's sovereign credit rating at BB and upgraded the outlook to positive. The rating agency noted that the decision was based on Viet Nam's impressive economic achievements and policy reforms, and measures in response to the negative impacts of the pandemic. S&P Global Ratings expects that Viet Nam will continue to enjoy a firm economic recovery, supported by its robust macroeconomic fundamentals, well-managed public debt, and flexible fiscal policy.

Policy, Institutional, and Regulatory Developments

Ministry of Finance Lists Market Makers

Viet Nam's Ministry of Finance released Decision No. 2290/QD-BTC, which lists market makers for the debt market effective 1 January–31 December 2021. The market markers for 2021 comprise 17 commercial banks and securities firms, up from only 13 in 2020. The entities have the right to participate in the bidding of government bonds, act as the main guarantor organization for the

Figure 2: Local Currency Government Bonds Investor Profile



Source: Viet Nam Ministry of Finance.

issuance of government bonds, and provide inputs for drafting new policies for the bond market. The Ministry of Finance will evaluate the entities toward the end of the year if they can maintain their status as market makers.

State Bank of Vietnam Issues Regulation to Control Credit Quality in Risky Sectors

In May, the State Bank of Vietnam issued Official Dispatch No. 3029/NHNN-TTGSNH to credit institutions and foreign bank branches, instructing them to implement strict control over the quality of credit in sectors with potential risks such as real estate and securities. High-risk credit areas include investments in corporate bonds, securities credit, real estate, build-operate-transfer, and consumer loans. For corporate bonds, issuance from the real estate sector has rapidly increased in volume, with almost none having any collateral. This risks the formation of a property bubble that could inflict huge losses on investors when the bubble bursts.

Asia Bond Monitor June 2021

This publication reviews recent developments in East Asian local currency bond markets along with the outlook, risks, and policy options. It covers the 10 members of the Association of Southeast Asian Nations and the People's Republic of China; Hong Kong, China; and the Republic of Korea.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members —49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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