Market Summaries

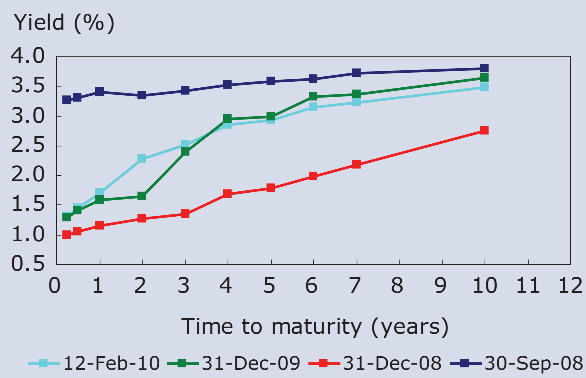
People's Republic of China—Update

Yield Movements

Yields on government bonds have increased significantly from their December 2008 levels. Yields for maturities ranging from 3 months to 3 years rose compared to their end-December 2009 levels, but fell for longer maturities. At the short-end of the curve, the most pronounced yield increase was that of the 2-year bond, which rose 63 basis points, while yields from the middle to the long-end of the curve declined between 5 and 18 basis points **(Figure 1)**.

Due to the surge in yields on 2-year bonds, and the decline in the yields of longer dated bonds, the spread between 2- and 10-year government bonds decreased from 199 basis points at end-December 2009 to 121 basis points as of 12 February. Given that yield levels were elevated compared to their levels in December 2008, the upward movements of the curve, particularly at the shorter end, reflects ongoing concerns over monetary tightening and inflation, as well as investors' focus on equities, property, and other asset classes.

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



Source: Bloomberg LP.

For the full year 2009, the PRC's gross domestic product (GDP) grew a higher-than-expected 8.7% year-on-year (y-o-y), fuelled by a surge in bank lending that had been encouraged by the government earlier in the year. On a quarterly basis, the country registered GDP growth of 10.7% y-o-y in 4Q09, compared with growth rates of 9.1% in 3Q09, 7.9% in 2Q09, and 6.2% in 1Q09.

New loans extended during 2009 totaled CNY9.58 trillion, which was nearly double the government's annual target of CNY5.0 trillion. In 4Q09, however, new loans amounted to CNY927.54 billion. This compares with new loan totals of CNY1.28 trillion in 3Q09, CNY2.79 trillion in 2Q09, and CNY4.58 trillion in 1Q09. M2 money supply, meanwhile, grew 27.68% in December, compared to growth rates of 29.74% and 29.51% in November and October, respectively.

The slowdown in loan growth was partially due to guidance from the China Banking Regulatory Commission (CBRC) aimed at decreasing the pace of commercial bank lending and limiting the flow of funds towards property and equity markets, both of which were showing increasingly attractive returns. The fall-off in 4Q09 loans was also due to the adoption of policies to restrain investment in steel, cement, and other sectors in which investment is deemed to be overly concentrated. While the total amount of new loans extended in 4Q09 was markedly lower than loan figures in the prior three quarters, the quarterly total for 4Q09 masked a sequential rise in lending in the quarter: new loans in December totaled CNY379.8 billion, compared to November's CNY294.76 billion and October's CNY252.98 billion.

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

	Amount (billion)								**Growth Rate** (%)						
	Sep-09		**Oct-09**		**Nov-09**		**Dec-09**		**Sep-09**		**Oct-09**	**Nov-09**	**Dec-09**		
	CNY	USD	CNY	USD	CNY	USD	CNY	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	16,483	2,415	16,687	2,444	17,218	2,522	17,525	2,567	13.9	4.5	1.2	3.2	16.0	6.3	1.8
Government	13,753	2,015	13,853	2,029	14,214	2,082	14,424	2,113	5.7	3.1	0.7	2.6	8.0	4.9	1.5
Treasury Bonds	5,655	828	5,629	824	5,746	842	5,741	841	18.3	5.8	(0.5)	2.1	17.8	1.5	(0.1)
Central Bank Bonds	4,020	589	4,081	598	4,070	596	4,233	620	(16.4)	(3.4)	1.5	(0.3)	(12.0)	5.3	4.0
Policy Bank Bonds	4,078	597	4,143	607	4,398	644	4,450	652	19.0	6.3	1.6	6.2	21.2	9.1	1.2
Corporate	2,729	400	2,834	415	3,004	440	3,102	454	87.7	12.5	3.8	6.0	77.5	13.6	3.3
Policy Bank Bonds															
China Development Bank	2,939	431	2,994	439	3,134	459	3,201	469	14.8	6.2	1.9	4.7	18.3	8.9	2.1
Export-Import Bank of China	373	55	373	55	438	64	438	64	38.1	10.3	0.0	17.4	38.8	17.4	0.0
Agricultural Dvt. Bank of China	766	112	776	114	826	121	811	119	28.5	4.8	1.3	6.4	24.8	5.9	(1.8)

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg end-of-period LCY—USD rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Source: *ChinaBond* and Bloomberg LP.

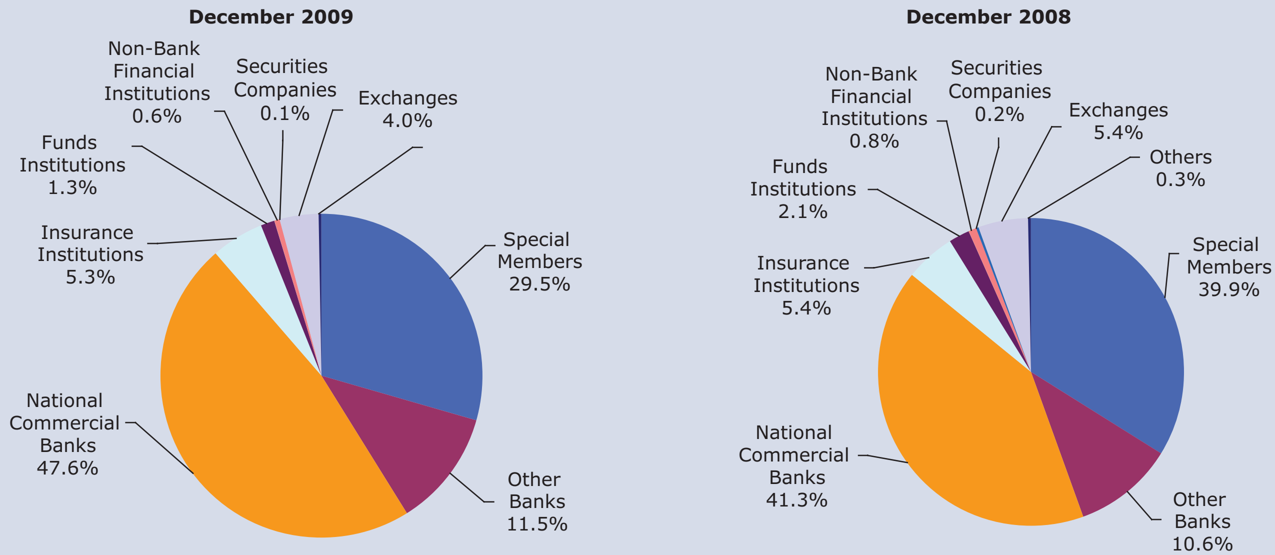
In January 2010, the People's Bank of China (PBOC) increased banks' reserve ratios by 0.5 percentage points—the first such increase since 2008—and accepted higher yields on 3-month and 1-year bills in two successive auctions. These measures were followed by an additional 0.5 percentage point increase in banks' reserve ratios in February. New loans for January 2010 alone, which amounted to CNY1.39 trillion, far exceeded the total for the whole of 4Q08 despite the measures taken to moderate loan growth.

Consumer price inflation, which had been negative for much of 2009, climbed from -0.5% y-o-y in October to 0.6% and 1.9% in November and December, respectively. Inflation then moderated to 1.5% in January before rising to 2.7% in February. Commercial and residential property prices in 70 large and medium-sized cities rose 10.7% y-o-y in February from 9.8% in the previous month. However, new loans extended in February amounted to CNY700 billion, down from CNY1.39 trillion in January. These and other steps taken to tighten liquidity are indicative of policymakers' cautious approach towards managing the country's economic recovery.

Size and Composition

The PRC's outstanding amount of local currency (LCY) bonds stood at CNY17.525 trillion at the end of 4Q09, representing a y-o-y rise of 16.0% and a q-o-q increase of 6.3% **(Table 1)**. Government bonds outstanding increased 4.9% q-o-q, and 8.0% y-o-y, while corporate bonds rose 13.6% q-o-q and 77.5% y-o-y. All three major categories of government bonds—treasury, central bank, and policy bank—posted single-digit gains on a q-o-q basis. However, policy bank and treasury bonds had positive double-digit growth rates on a y-o-y basis, while central bank bonds declined 12.0%.

Figure 2: Treasury Bonds Investor Profile



Note:
Special members include the People's Bank of China (PBOC), Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Co., and China Securities Depository and Clearing Corporation.

Source: *ChinaBond*.

Treasury Investor Profile

Banks remain the largest category of treasury bond investors in the country, holding a larger share of these bonds in 2009 compared to their share in the previous year **(Figure 2)**. As of December 2009, banks as a group held 59.1% of treasury bonds outstanding compared to their December 2008 share of 51.9%. As was the case at end-September, the share of Treasury bonds held by all other investor classes—most notably institutional investors such as insurance companies—fell compared to their holdings at the end of 2008.

Corporate Bonds

There was remarkable expansion in the outstanding amount of PRC corporate bonds in 2009 **(Table 2)**, which to a large extent mirrored the growth of new loans during the year. At the end of 2009, medium-term notes (MTNs) outstanding had grown 415.7% y-o-y. Local corporate bonds outstanding grew 137.9% y-o-y, while the bonds of commercial banks and state-owned corporations increased 51.4% and 38.0%, respectively. Meanwhile, commercial paper increased 8.5% y-o-y. In terms of bonds outstanding at the end of 2009, MTNs represented the largest issuer category, with CNY862.2 billion of notes outstanding. The second- and third-largest categories were state-owned corporations (CNY720.2 billion) and commercial banks (CNY588.4 billion).

The emergence of MTNs as the largest sector of the corporate bond market is extraordinary given that MTN issuance only began in earnest in 2Q08. As noted in previous issues of the Asia Bond Monitor, the growth of MTNs was due to an apparent shift from the traditional issuance windows towards the MTN window, under which the issuance approval process tends to be quicker. The MTN window is regulated by the National Association of Financial Market Institutional Investors (NAFMII).

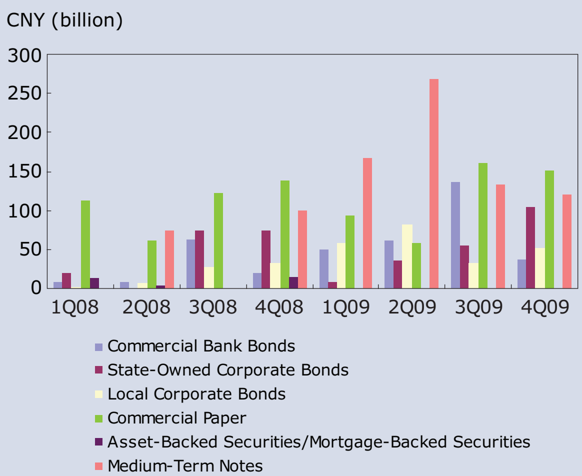
Compared to 3Q09, corporate bond issuance in 4Q09 was marked by a fall-off in MTN and

Table 2: Corporate Bonds Outstanding in Key Sectors (CNY billion)

	Amount								Growth Rates (%)				
									q-o-q				y-o-y
	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q09	2Q09	3Q09	4Q09	4Q09
Commercial Bank Bonds	314.5	327.5	384.5	388.7	437.7	486.4	589.2	588.4	12.6	11.1	21.1	(0.1)	51.4
State-Owned Corporate Bonds	376.1	376.6	446.6	521.9	526.5	565.3	619.3	720.2	0.9	7.4	9.6	16.3	38.0
Local Corporate Bonds	92.8	100.2	125.2	158.4	196.9	295.7	328.8	376.9	24.3	50.1	11.2	14.6	137.9
Commercial Paper	371.6	313.4	344.8	420.3	409.4	384.3	353.1	456.1	(2.6)	(6.1)	(8.1)	29.2	8.5
Asset/Mortgage-Backed Securities	37.2	43.4	43.4	55.1	56.6	55.4	46.0	39.9	2.7	(2.1)	(16.9)	(13.4)	(27.7)
Medium-Term Notes	0.0	73.5	73.5	167.2	340.8	592.1	742.1	862.2	103.8	73.7	25.3	16.2	415.7

q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Source: *ChinaBond.*

Figure 3: Corporate Bond Issuance in Key Sectors



Source: *ChinaBond.*

commercial paper issuance, as well as a steep decline in commercial bank bond issuance **(Figure 3)**.

The decline in MTN issuance in 4Q09 was not unexpected in view of the heavy volume of MTN issuance in the prior three quarters. Nevertheless, MTN issuance levels in 4Q09 remained substantial compared to 3Q09 levels, when issuance fell off its 2Q09 peak.

One reason for the decline in commercial bank bond issuance in 4Q09 was the adoption of measures to curb lending in the latter half of 2009. However, in the first 3 quarters, there was an increased issuance of commercial bank bonds, largely in the form of subordinated debt, as banks boosted their capital positions to keep up with their rapidly expanding loan books.

In contrast to the q-o-q decline in MTN issuance and commercial bank bonds in 4Q09, issuance by state-owned corporations in 4Q09 was almost double the amount of the previous quarter and marked the highest level of quarterly issuance for this issuer category over the past 8 quarters. Local corporate bond issuance was also higher in 4Q09 compared to 3Q09, but was still below 1Q09 and 2Q09 levels.

Policy, Institutional, and Regulatory Developments

HSBC Becomes First Foreign Bank to Underwrite Domestic Issue

In November, HSBC, through its PRC unit, became the first foreign bank in the PRC to participate in the underwriting of a domestic, CNY-denominated issue. The issue was a Bank of Shanghai dual-tranche senior finance bond comprising a 3-year CNY2.0 billion tranche paying a fixed interest rate of 3.65% and a CNY3.0 billion floater paying interest of 92 basis points above the 1-year deposit rate. The joint lead managers for the issue were ICBC and Citic Securities. HSBC joined 25 other domestic banks and financial institutions in underwriting the issue.

The PRC Launches 50-year Bond, Extending the Yield Curve

The Ministry of Finance in late November sold the country's first 50-year treasury bond, which is the country's longest-dated issue. The CNY20 billion issue pays a coupon of 4.3%. Before the issuance of the 50-year bond, the longest-maturity government bond was a 30-year bond. The 50-year bond was well received by long-term investors, particularly insurers and pension funds, as bids totaled nearly twice the amount offered.

Among the reasons for the issue was to provide a benchmark for the pricing of long-dated issues. Given that institutional investors typically hold long-term bonds to maturity for asset–liability management purposes, the issue is expected to be thinly traded.

First Structured MTN Collective Issue

In November, the first structured MTN in the PRC was issued by the Shandong Zhu Cheng SME Collective, a group of eight small- and medium-sized enterprises (SMEs), each of which is responsible for a certain share of the total issue. The CNY500 million issue consisted of a CNY300 million senior tranche and a CNY200 million subordinated tranche. The issuance of the subordinated tranche is noteworthy as it represents the first such offering in the SME and MTN bond markets. The senior tranche is guaranteed by China Bond Insurance and is rated AAA by New Century, a domestic rating agency, while the subordinated tranche is rated AA-. Individually, the SMEs in the collective have domestic credit ratings of BBB or higher.

The issuance of the structured MTN is part of a larger effort to disperse the credit risk borne by the banking system. Authorities in the PRC have encouraged the establishment of credit enhancement firms such as China Bond Insurance to help broaden access to the bond market, which has mainly been restricted to large, highly-rated companies. The Shandong Zhu Cheng issue was followed by two other SME collective issues of commercial paper and MTNs. These issues are part of the first batch of wrapped, or credit-enhanced, SME collective paper.

Relaxation of Rules on Insurance Companies' Bond Investments

The China Insurance Regulatory Commission (CIRC) in October raised the limit on PRC insurers' corporate bond investments from 30% of their assets to 40%. Still, insurers' investments in bonds are limited to bonds of large state-owned enterprises; Hong Kong, China-listed "red chips"; and companies with "H-share" issuance. In addition, the bonds that insurers may invest in must be rated BBB or higher. The CIRC also lifted the requirement that insurers' bond investments be limited to companies that have been profitable for the prior 3 years, requiring instead that the issuer's average yearly profit in the prior 3 years be higher than the yearly interest payments on the issuer's bonds.

Domestic Bank Participation in Bond Trading on Exchanges

In early November, three large state-owned banks—the Bank of Communications (BOC), China Construction Bank (CCB), and the Industrial and Commercial Bank of China (ICBC)—received approval from the China Banking Regulatory Commission (CBRC) to engage in exchange-based bond trading. In addition to approval from regulators, the banks also need approval from by the stock exchanges. The BOC and CCB have already received approval from the Shanghai Stock Exchange.

To provide a bridge between the PRC's two primary venues for bond trading—the interbank market and stock exchanges—CBRC and the China Securities Regulatory Commission (CSRC) jointly issued preliminary rules in January permitting listed banks to trade bonds in the country's stock exchanges. The interbank bond market is much larger than the exchange-traded market. Regulations for the entry of domestically-listed banks into exchange-based bond trading were released in early July.

Banks' participation in exchange-based bond trading is aimed at strengthening demand for the bonds of listed companies and increasing confidence in the successful distribution of their bonds on the exchanges.

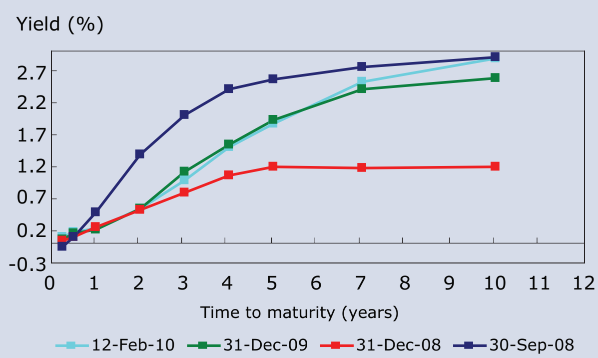
Hong Kong, China—Update

Yield Movements

Yields on Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) as of 12 February, compared to their levels at end-December 2009, increased marginally at the very short-end, declined at the belly, and rose at the long-end of the curve. Yields rose slightly at the short-end, increasing between 1 basis point (1–year bills) to 3 basis points (3-month bills). At the belly of the curve, yield declines ranged from 0.6 basis points (2-year notes) to 13.6 basis points (3-year notes); while at the long-end of the curve, yields on 7- and 10-year notes rose 10.2 and 31.3 basis points, respectively.

As a result of the large rise in yields at the long-end of the curve, the spread between 2- and 10-year EFBNs, which stood at 202.8 basis points as of end-December, rose to 234.70 basis points as of 12 February. These yield movements, particularly at the short-end, reflect the low-interest environment of Hong Kong, China. The value of the Hong Kong dollar is pegged within a narrow band, to the United States (US) dollar and, consequently, short-term domestic interest rates tend to be closely aligned with US interest rates.

Figure 1: Hong Kong, China's EFBN Yield Curve



EFBN=Exchange Fund Bills and Notes.
Source: Bloomberg, LP.

Size and Composition

As of end-December, the outstanding amount of government bonds—comprising EFBNs and bonds issued under Hong Kong, China's newly-introduced Institutional Issuance Program—reached HKD540 million for a 242% year-on-year (y-o-y) increase **(Table 1)**. The rise in government bonds outstanding largely resulted from the issuance of Exchange Fund Bills by the Hong Kong Monetary Authority (HKMA) to accommodate significant bank demand. As capital has continued to flow into the Special Administrative Region, banks' reserve accounts with the HKMA have been rising, thereby increasing Hong Kong, China's monetary base and boosting demand for short-dated EFBNs. EFBNs are key instruments for liquidity management purposes since they are eligible as collateral for borrowing from the HKMA through repurchase agreements.

At end-December, the amount of Exchange Fund Bills outstanding surged 411.7% y-o-y and 35.2% quarter-on-quarter (q-o-q) to HKD464 billion. By contrast, the stock of Exchange Fund Notes at end-December grew more modestly, by 4.2% y-o-y and 0.1% q-o-q. In January, continuing a trend seen in 2009, the HKMA announced it would increase issuance of Exchange Fund Bills for the month by a total of HKD35 billion to accommodate strong bank demand.

The local currency corporate sector of Hong Kong, China's bond market, as in previous years, was restrained in 4Q09, with the outstanding amount of corporate paper rising only 3.3% y-o-y and declining 0.4% q-o-q to HKD577 billion.

Policy, Institutional, and Regulatory Developments

Institutional Issuance Program Bonds

In July, Hong Kong, China's Legislative Council approved the Special Administrative Region's Institutional Issuance Program. Under the

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

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	HKD	USD	HKD	USD	HKD	USD	HKD	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	996	129	1,018	131	1,054	136	1,117	144	39.0	15.4	2.2	3.5	55.8	12.1	5.9
Government	417	54	440	57	476	61	540	70	187.3	44.4	5.5	8.4	242.2	29.5	13.3
Exchange Fund Bills	343	44	366	47	402	52	464	60	333.2	56.2	6.7	9.6	411.7	35.2	15.6
Exchange Fund Notes	70	9	70	9	69	9	70	9	5.9	1.5	0.0	(0.9)	4.2	0.1	1.0
HKSAR Bonds	4	0.5	4	0.5	6	1	6	1	—	—	0.0	57.1	—	57.1	0.0
Corporate	580	75	579	75	578	75	577	74	1.4	0.9	(0.1)	(0.1)	3.3	(0.4)	(0.1)

— = not applicable, HKSAR = Hong Kong Special Administrative Region, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. The amount of corporate bonds outstanding for October and November were estimated based on the compounded monthly growth rate between September and December.

Source:
Hong Kong Monetary Authority and Bloomberg LP.

program, the government is authorized to issue debt amounting to HKD100 billion over the next few years, with the aim of helping develop the domestic bond market and providing a benchmark for the pricing of corporate debt. Bonds issued under the program are liabilities of the Government of the Hong Kong Special Administrative Region, unlike EFBNs, which are backed by foreign reserves under Hong Kong, China's currency board system.

Following the initial sale in September of HKD3.5 billion of bonds under the program, HKD2.0 billion of 5-year bonds and HKD2.5 billion of 10-year bonds were issued in November 2009 and January 2010, respectively.

Issuance of the People's Republic of China's Treasury Bonds in Hong Kong, China

The People's Republic of China's (PRC) Ministry of Finance said on 20 October 2009 that its CNY6 billion treasury bond offering in Hong Kong, China attracted subscriptions totaling three times the offered amount. The sale, which capitalizes on Hong Kong, China's role as an international financial center, is seen as part of the PRC's efforts to broaden the use of the yuan internationally and further develop Hong Kong, China's bond market.

Indonesia—Update

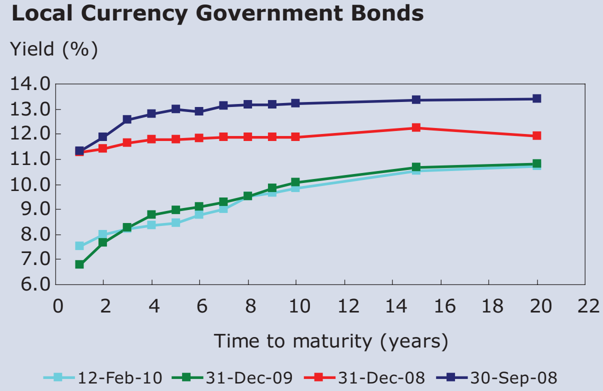
Yield Movements

Indonesia's government bond yield curve fell modestly for most maturities in mid-February from end-December levels **(Figure 1)**. Yields fell the most for 5-year maturities, shedding 51 basis points. However, the shorter-end of the curve rose 75 basis points for 1-year maturities and 33 basis points for 2-year maturities. Thus, the yield spread between 2-year and 10-year maturities narrowed to 183 basis points in mid-February from 241 basis points at end-December.

Rising yields at the short-end of the curve reflect, in part, expectations of price pressures in the near term amid renewed strength in domestic economic activity. Nonetheless, the overall downward shift in the yield curve from the belly through the end of the curve since September 2008 can be attributed to positive market sentiments related to (i) the appreciation of the Indonesian rupiah, and (ii) an improved economic outlook.

Indonesia posted 5.4% year-on-year (y-o-y) gross domestic product (GDP) growth in 4Q09, the fastest pace in 5 quarters. Full year economic growth in 2009, however, fell to 4.5% compared with 6.0% in 2008. Growth in household consumption declined to 4.9% at the end of 2009 compared to 5.3% one year earlier. However, household consumption continued to play a dominant role in GDP (58.6%). Meanwhile, government consumption climbed 15.7% in 2009. According to the Central Statistics Agency, Indonesia is coping with the global economic crisis better than neighboring countries due to strong consumer spending and the government's fiscal stimulus package. For 2010, the government's economic growth forecast is 5.5%.

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



Source: Bloomberg, LP.

Consumer price inflation in Indonesia climbed to 3.72% y-o-y in January and 3.81% y-o-y in February amid rising costs for food and commodities, particularly rice and sugar. The uptick in inflation levels, however, was still below Bank Indonesia's (BI) target inflation range for 2010 of 4.0%–6.0%. BI has held its benchmark interest rate steady at the historically low level of 6.5% since August of last year.

Size and Composition

As of end-December, the size of the local currency (LCY) bond market in Indonesia had expanded 19.4% y-o-y and 7.3% quarter-on-quarter (q-o-q) **(Table 1)** as the total volume of Indonesia's LCY bond market reached IDR930.06 trillion (USD98 billion).

Outstanding government bonds rose 19.2% y-o-y to IDR841.6 trillion in 2009 on account of strong growth in both central government bonds (issuance by the Ministry of Finance) and central bank bills (issuance by BI in the form of *Sertifikat Bank Indonesia* [SBI]). As of end-December, the stock of central government bonds had grown 10.7% y-o-y and 2.5% q-o-q. On a month-on-month (m-o-m) basis, however, central government bonds remained flat in December.

The Ministry of Finance suspended treasury issuance in mid-November after fully meeting its 2009 gross issuance target of IDR144.54 trillion. The government was able to frontload much of

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

	Amount (billion)								**Growth Rate** (%)						
	Sep-09		**Oct-09**		**Nov-09**		**Dec-09**		**Sep-09**		**Oct-09**	**Nov-09**	**Dec-09**		
	IDR	**USD**	**IDR**	**USD**	**IDR**	**USD**	**IDR**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	866,973	90	892,947	94	911,282	96	930,063	98	17.7	0.1	3.0	2.1	19.4	7.3	2.1
Government	788,043	82	814,245	85	832,709	88	841,612	89	19.6	0.3	3.3	2.3	19.2	6.8	1.1
Central Govt Bonds	567,367	59	574,967	60	581,758	61	581,748	61	4.7	2.6	1.3	1.2	10.7	2.5	(0.0)
Central Bank Bills	220,676	23	239,279	25	250,951	27	259,864	27	88.7	(5.2)	8.4	4.9	44.3	17.8	3.6
Corporate	78,930	8	78,701	8	78,573	8	88,452	9	1.3	(1.2)	(0.3)	(0.2)	21.2	12.1	12.6

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank Indonesia, Indonesia Stock Exchange, and Bloomberg LP.

its bond issuance early in 2009. Meanwhile, the stock of central bank bills was substantially higher, growing 44.3%, y-o-y and 17.8% q-o-q.

The government tapped various treasury instruments in 2009 to finance its budget deficit. The Revised State Budget for 2009 fixed the deficit at 2.4% of GDP (equivalent to IDR129.8 trillion). However, the actual deficit was equivalent to about 1.6% of GDP. For 2010, the budget deficit is projected to be IDR98 trillion (equivalent to 1.6% of GDP).

The government continues to issue *shari'a*-compliant debt instruments through Islamic treasury auctions, retail Islamic bonds (*sukuk)*, and global Islamic bonds. In February, the government sold IDR8.034 trillion in 3-year *sukuk* to retail investors. The retail *sukuk* carried a coupon of 8.7%. The issue was well received with bids nearly tripling the initial target of IDR3 trillion. This was the second retail *sukuk* issuance by Indonesia.

The stock of corporate bonds significantly rose this year, increasing by a notable 21.2% y-o-y and 12.1% q-o-q.

As of end-December, the top 10 corporate issuers in Indonesia accounted for about 50% of total corporate bonds outstanding **(Table 2)**. State power firm PLN was Indonesia's top corporate issuer of LCY bonds at IDR9.1 trillion. This was equivalent to 10% of total corporate bonds outstanding in 4Q09.

Telecommunications firm PT Indosat ranked second with bonds valued at IDR8.1 trillion, while toll operator Jasa Marga was third with outstanding bonds amounting to IDR4.2 trillion. Five banks made it to the top 10 list of corporate issuers, with their aggregate bonds outstanding valued at IDR16.3 trillion.

In 4Q09, corporate issuance reached more than IDR12 trillion. Of this amount, about IDR10 trillion was issued in December. Notable issues during 4Q09 are listed in **Table 3**. Data from the Capital Market and Financial Institutions Supervisory

Table 2: Top 10 Corporate Issuers as of December 2009

Top 10 Corporate Issuers	Outstanding Amount (IDR billion)
PLN	9,100
Indosat	8,090
Jasa Marga (Toll operator)	4,150
Bank Panin	3,950
Indofood Sukses Makmur	3,610
Bank Mandiri	3,500
Perum Pegadaian (Pawnshop)	3,270
Bank Tabungan Negara	3,250
Bank Ekspor Indonesia	3,050
Bank Rakyat Indonesia	2,500

Source: Indonesia Stock Exchange.

Table 3: Notable Corporate Issuance in 4Q09

Issuers	Outstanding Amount (IDR billion)
Bank Mandiri	3,500
Bank Rakyat Indonesia	2,000
Indosat	1,500
Oto Multiartha	1,200
Bank Panin	800
Pupuk Kaltim	791
Bank Tabungan Pensiunan Nasional	750
Salim Ivomas Pratama	730

Source: Indonesia Stock Exchange.

Agency (Bapepam-LK) showed that IDR26.3 trillion was raised through the issuance of bonds in 2009, which exceeded the IDR15 trillion target set by Bapepam-LK for the year.

Foreign Currency Bonds

In January of this year, the government sold USD2 billion of 10-year bonds at a yield of 6.0%, which was about 2.28 percentage points higher than comparable US treasuries. The yield on Indonesia's global bond issue was also higher than the yield on Philippine 10-year bonds, which were sold a week earlier at 5.67%. Indonesia's 10-year bond issue was 2.3 times oversubscribed with demand reaching USD4.5 billion. The government had also planned to offer 30-year bonds, but cancelled the issue.

The government still plans to issue *samurai* bonds up to a maximum of USD1.1 billion in late April this year.

Rating Changes

In January, Moody's Investor Service (Moody's) said the outlook for Indonesia's Ba2 rating remained stable. Moody's last rating action on Indonesia was taken on 16 September when it upgraded the foreign currency (FCY) and LCY sovereign debt ratings to Ba2. On 26 January, Moody's also changed the industry outlooks for 12 of the banking systems in Asia and the Pacific, including Indonesia's, from negative to stable.

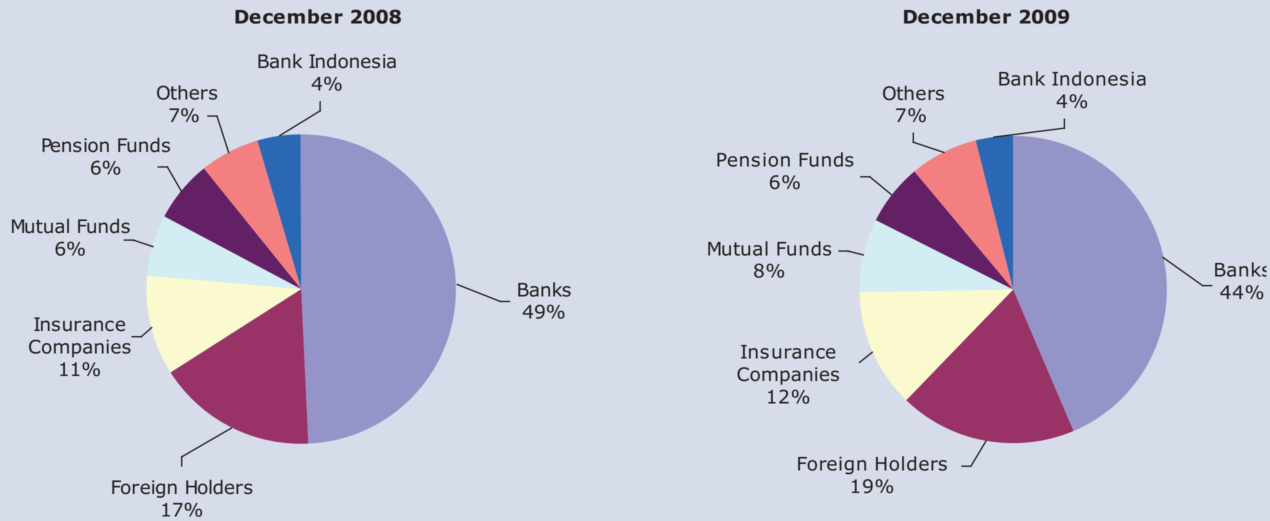
Fitch Ratings upgraded Indonesia's long-term FCY and LCY issuer default ratings to BB+ from BB on 25 January **(Table 4)**. The outlook on the ratings was stable. This brought Indonesia only one step away from reaching investment grade. Fitch also raised the country ceiling to BBB- from BB+ and affirmed the short-term FCY rating at B. According to Fitch, the rating action reflects Indonesia's relative resilience to severe global financial stress in 2008/2009, which has been underpinned by continued improvement in the country's public finances and a material easing of external financial constraints. Fitch also raised the ratings of eight local banks' foreign debt to BB+ from BB. The eight banks include PT Bank Mandiri, PT Bank Internasional Indonesia, PT Bank CIMB Niaga, PT Bank Rakyat Indonesia, PT Bank Central Asia, PT Bank Danamon, PT Bank OCBC NISP, and PT Bank UOB Buana.

Table 4: Selected Sovereign Ratings and Outlook for Indonesia

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba2	BB	BB+
Outlook	stable	positive	stable

FCY = foreign currency and LT = long term.
Source: Rating agencies.

Figure 3: Investor Profile for Local Currency Government Bonds



Source: Indonesia Debt Management Office.

In March, Standard and Poor's rating agency (S&P) upgraded Indonesia's long-term FCY rating by one notch to BB from BB-. S&P based this upgrade on the resilience of the Indonesian economy over the last year.

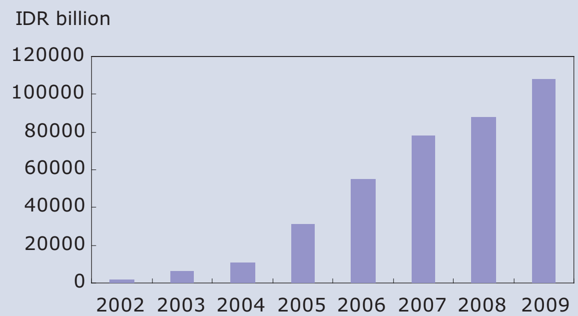
Investor Profile

As of end-December, banking institutions continued to be the major holder of Indonesian LCY government bonds, with holdings equivalent to 44% of total government bonds outstanding **(Figure 3)**. Although bank holdings still represent a significant share, this share has declined dramatically in recent years. In 2002, banks were holding as much as 82% of total government bonds outstanding.

Bonds held by foreign investors—the second-largest holder of Indonesian government bonds—increased to 19% from 17% in 2008. As of end-December, bonds held by foreign investors reached IDR108 trillion, the highest level to date **(Figure 4)**.

The share of LCY bond holdings of insurance companies and mutual funds also rose during 2009.

Figure 4: Foreign Holdings in Government Bonds



Source: Indonesia Debt Management Office.

Policy, Institutional, and Regulatory Developments

Scrapping of Double Taxation on Transactions in Islamic Financial Markets

In September, Indonesia's parliament passed a revised law on value-added taxes. The law scrapped double taxation on transactions in Islamic financial markets. The law will come into effect sometime in April 2010.

Auction of Islamic Bonds

Beginning mid-October, the Finance Ministry commenced holding regular auctions of government *shari'a*-compliant debt instrument known as *sukuk*. The issuance of *sukuk* will follow the sale-and-lease structure of *ijarah*. The underlying assets to be used in the auction of *sukuk* will be state properties approved by the House of Representatives.

Secondary Reserve Requirement

Effective 24 October 2009, banks were required to set aside 2.5% of IDR deposits as a secondary reserve requirement for unexpected liquidity needs. This raised banks' reserve requirement with Bank Indonesia to 7.5%. The secondary reserve requirement may be held in the form of treasury bonds, treasury bills, SBI, or excess reserves.

New Tax Regulation to Prevent Tax Evasion

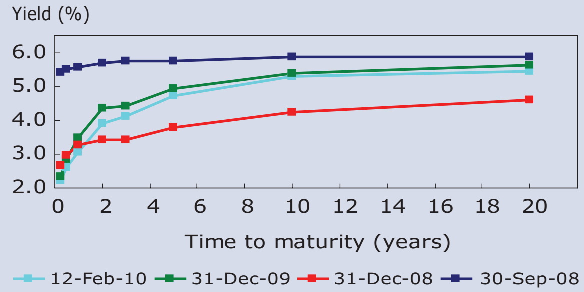
In January, a new rule to prevent tax evasion came into effect. The new regulation requires more detailed information from bond issuers to determine whether they are entitled to withholding tax rates below the standard rate of 20%. Borrowers setting up an offshore unit in a jurisdiction with a lower tax rate and with a double taxation treaty with Indonesia need to prove the unit was not set up only for the purpose of reducing taxes. This new regulation applies to both new issues and existing bonds.

Republic of Korea—Update

Yield Movements

The Republic of Korea's (Korea) government bond yields fell for all maturities in mid-February from their end-December 2009 levels **(Figure 1)**. The drop in yields was largest in the short-end through the belly of the curve, as yields for 1-, 2-, 3-, and 5-year tenors declined 42, 46, 29, and 20 basis points, respectively. At the longer-end of the curve, yields for 10- and 20-year tenors decreased by 10 and 17 basis points, respectively. The larger decline in Korea's short-term yields compared to long-term yields has resulted in a steepened yield curve.

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



Source: Bloomberg, LP.

In March, the Bank of Korea (BOK) held its base rate steady at 2.0%, maintaining an accommodative monetary policy stance in order to help sustain Korea's economic recovery. Expectations of the policy interest rate remaining unchanged in the coming months are seen to have contributed to the decline in yields.

Korea's 4Q09 real gross domestic product (GDP) increased 0.2% quarter-on-quarter (q-o-q), down from 3Q09 growth of 3.2%. On a year-on-year (y-o-y) basis, real GDP expanded 6.0% in 4Q09, following 0.9% growth in 3Q09. Consumer price inflation was 2.7% y-o-y in February, compared to 3.1% in January.

Size and Composition

Korea's total local currency (LCY) bonds outstanding as of December 2009 stood at KRW1,183 trillion (USD1 trillion), representing increases of 15.0% y-o-y and 0.5% q-o-q. However, Korea's bonds outstanding at the end of December were 0.7% less than end-November levels **(Table 1)**. On a y-o-y basis, total government bonds climbed 11.4% to KRW516.9 trillion (USD446 billion) as central government bonds and central bank bonds increased 15.7% and 17.6%, respectively, more than offsetting the 29.2% drop in industrial finance debentures. Compared to September, however, the amount of total government bonds fell 4.3% due to declines in central government bonds, central bank bonds, and industrial finance debentures. Total government bonds also dropped on a month-on-month (m-o-m) basis, by 2.4%, with central government bonds and central bank bonds falling 2.3% and 3.0%, respectively.

As of December 2009, corporate bonds outstanding reached KRW666 trillion (USD575 billion) for increases of 18.0% y-o-y, 4.6% q-o-q, and 0.7% m-o-m. About 35% of total corporate bonds were private non-financial corporate bonds, while private financial corporate bonds and special public corporate bonds comprised 33% and 32%, respectively, of the total corporate bond market **(Table 2)**.

In 4Q09, Korea's top LCY corporate bond issues involved banks, special purpose entities (SPEs), and an energy firm. In the banking sector, the largest LCY corporate bond issue was Hana Bank's 2-year bonds of KRW550 billion (USD475 million) at a 4.95% coupon. The largest SPE issue was made by Dream Hub, which raised KRW850 billion (USD734 million) of 3-year, asset-backed securities (ABS) at a 5.97% coupon. Korea Electric Power issued KRW330 billion (USD285 million) of 5-year bonds at a 5.28% coupon, making it the largest corporate issue in the energy sector.

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

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	KRW	USD	KRW	USD	KRW	USD	KRW	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	1,176,962	1,001	1,180,580	993	1,191,088	1,021	1,182,917	1,021	16.0	2.6	0.3	0.9	15.0	0.5	(0.7)
Total Government	540,357	460	521,680	439	529,480	454	516,935	446	17.1	2.4	(3.5)	1.5	11.4	(4.3)	(2.4)
Central Bank Bonds	155,327	132	149,357	126	153,897	132	149,237	129	15.9	(6.2)	(3.8)	3.0	17.6	(3.9)	(3.0)
Central Government Bonds	334,130	284	337,674	284	340,603	292	332,637	287	19.0	7.3	1.1	0.9	15.7	(0.4)	(2.3)
Industrial Finance Debentures	50,900	43	34,649	29	34,980	30	35,061	30	9.1	0.6	(31.9)	1.0	(29.2)	(31.1)	0.2
Corporate	636,605	542	658,901	554	661,608	567	665,982	575	15.1	2.9	3.5	0.4	18.0	4.6	0.7

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Note:

1. Calculated using data from national sources.
2. Central government bonds include treasury bonds, National Housing Bonds, and Seoul Metropolitan Subway bonds.
3. Bloomberg end-of-period LCY–USD rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bank of Korea and *KoreaBondWeb*.

Table 2: Structure of the Korean Corporate Bond Market as of end-December 2009 (KRW billion)

Total Corporate Bonds	**665,982**
Special Public Corporations	**212,657**
of which:	
Korea Housing Finance Corporation (KHFC)	28,207
Korea Deposit Insurance Corporation (KDIC)	27,691
Korea Land	19,408
Korea Electric Power Corporation (KEPCO)	16,103
Korea Highway	15,435
Small & Medium Business Corporation (SBC)	13,943
Korea Train Express	8,795
Korea Gas	8,728
Financial Debentures	**217,502**
of which:	
Kookmin Bank	36,309
Industrial Bank of Korea (IBK)	34,930
Private Non-Financial Corporations	**235,823**

Source: *KoreaBondWeb.*

The size of Korea's outstanding commercial paper market, as of September 2009, was KRW78.96 trillion (USD67.2 billion), which was down 9.9% y-o-y and 5.6% q-o-q.

Rating Changes

In January 2010, Standard & Poor's (S&P) affirmed its foreign currency (FCY) and LCY sovereign credit ratings for Korea at A/A-1 and A+/A-1, respectively. S&P also retained its stable outlook for the country **(Table 3)**. The rating agency reported that Korea's dynamic economy, sizeable foreign exchange reserves, and healthy fiscal position were helping to support its ratings. Furthermore, S&P noted that these strengths tend to balance the country's weaknesses, which stem from large contingent liabilities and limited monetary flexibility due to banks' significant short-term foreign borrowing.

Table 3: Selected Sovereign Ratings and Outlook for the Republic of Korea

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	A2	A	A+
Outlook	stable	stable	stable

FCY = foreign currency, LT = long-term.
Source: Rating agencies.

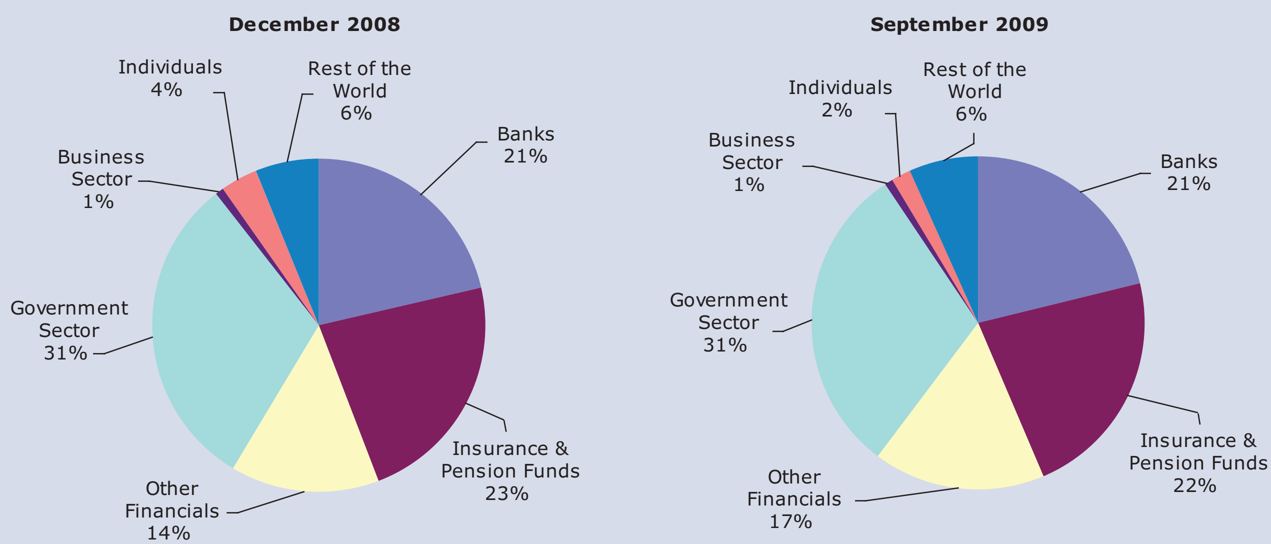
Investor Profile

As of September 2009, the financial sector in Korea owned about three-fifths of the country's total LCY government bonds, with insurance and pension funds, banks, and other financial institutions holding 22%, 21%, and 17% of government bonds, respectively **(Figure 2)**. The remaining bondholders included the government, individuals, non-financial corporations (i.e., business sector), and the rest of the world with shares of 31%, 2%, 1%, and 6%, respectively. Compared to end-December 2008, individuals' bond holdings fell by 2 percentage points, while the share of other financial institutions rose by 3 percentage points.

As of September 2009, banks, insurance firms/pension funds, and other financial institutions were the top bondholders of LCY corporate bonds in Korea, with shares of 31%, 29%, and 27%, respectively **(Figure 3)**. Other bondholders included the government (12%) and business sector (1%). Compared to end-2008, the shares of other financial institutions and the government climbed by 7 percentage points and 1 percentage point, respectively, while the share of banks fell by 6 percentage points. The shares of insurance firms/pension funds and individuals registered a drop of one 1 percentage point apiece.

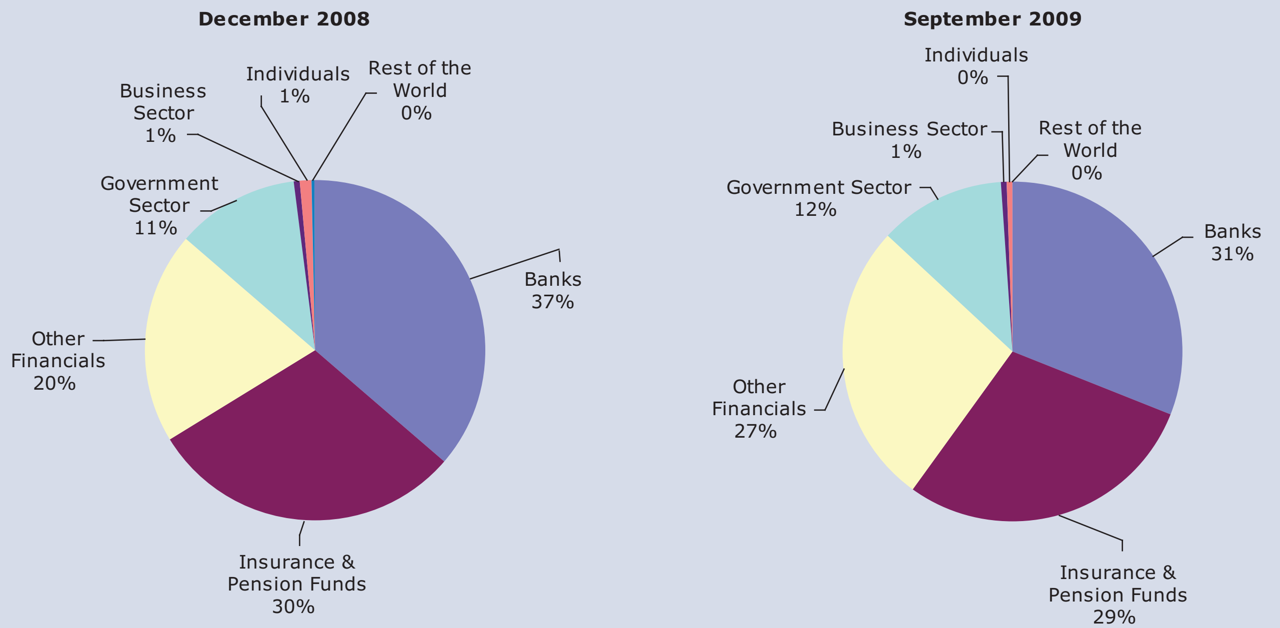
As of September 2009, financial institutions, other than banks and insurance firms/pension funds, held the largest share of commercial paper at 72%, which is 5 percentage points higher than in December 2008 **(Figure 4)**. The share of the business sector stood at 14% in both periods, while the share of banks fell to 8% in September 2009 from 13% in December 2008. Individuals and insurance firms/pension funds held shares of 5% and 1%, respectively, in both periods.

Figure 2: Investor Profile for Local Currency Government Bonds in Korea



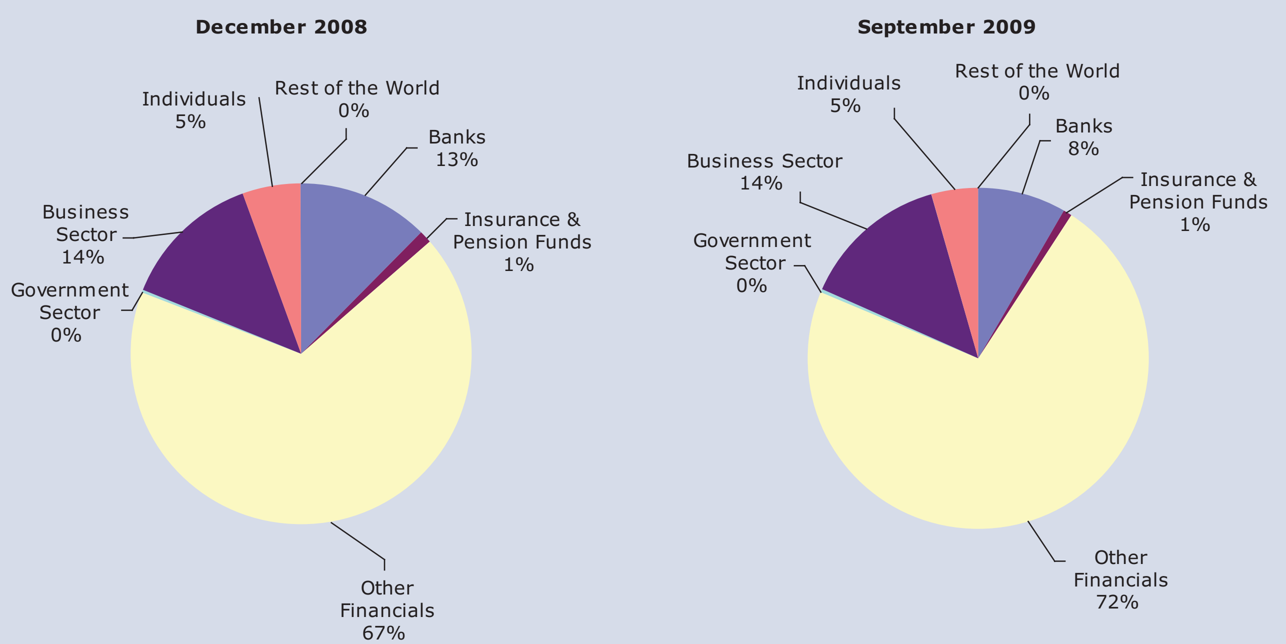
Source: Bank of Korea

Figure 3: Investor Profile for Local Currency Corporate Bonds



Source: Bank of Korea.

Figure 4: Investor Profile for Commercial Paper



Source: Bank of Korea.

Policy, Institutional, and Regulatory Developments

Bank of Korea and Bank of Japan Agree to Extend Measure to Increase Size of the KRW–JPY Swap Arrangement

In January, BOK and the Bank of Japan (BOJ) extended an agreement increasing the size of their bilateral KRW–JPY swap arrangement—from USD3 billion to USD20 billion—until 30 April 2010. The increase in the size of the bilateral swap arrangement was originally valid from 12 December 2008 to 30 April 2009.

Amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act

In December 2009, amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act (FSCMA) took effect with the aim of promoting corporate restructuring and mergers and acquisitions. These amendments include provisions on (i) incorporation of special purpose acquisition companies, (ii) fund valuation and fund sales commission, (iii) independent third-party valuation on mergers, and (iv) investment of private equity funds in restructuring and social overhead capital enterprises.

Amendments to the Enforcement Decrees of the Banking Act and the Financial Holding Companies Act

In October 2009, amendments to the enforcement decrees of the Banking Act and the Financial Holding Companies Act took effect. These amendments cover (i) management participation by a non-financial entity (NFE), (ii) approval of an NFE's bank ownership, (iii) approval of a private equity fund's bank ownership, and (iv) public pension funds' exemption from NFE restrictions.

Malaysia—Update

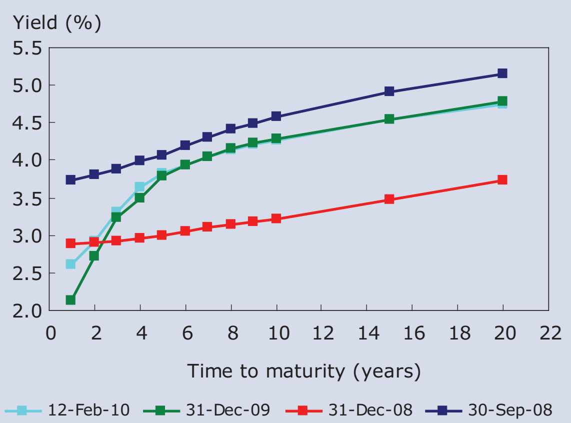
Yield Movements

Malaysian government bond yields increased at the short-end of the curve between end-December 2009 and mid-February, while the middle and long-end of the curve remained unchanged **(Figure 1)**. Yields in the belly and in the long-end of the curve, however, have risen from their end-December 2008 levels and are almost near their end-September 2008 levels (post-Lehman Brothers collapse). Expectations of monetary tightening have had the effect of flattening the longer-end of the Malaysian government bond yield curve.

Malaysia's economy grew 4.5% year-on-year (y-o-y) in 4Q09, driven by both domestic and external demand. Private consumption increased 1.7% y-o-y in 4Q09, while public sector spending posted 1.3% y-o-y growth as fiscal stimulus gained momentum during the quarter. For the full-year 2009, Malaysia's GDP contracted 1.7%, compared to the government's forecast of a 3.0% contraction for the year. The government expects economic growth to return in 2010.

Malaysia's consumer price inflation in December rose to 1.1% y-o-y and then to 1.3% y-o-y in January, after staying in negative territory over the June–November period. Full-year inflation for 2009 was reported at 0.6%, lower than the government's target range of 1.0%–2.0%. For 2010, the central bank once again expects modest inflation and forecasts a range of 1.0%–2.0%.

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



Source: Bloomberg, LP.

On 4 March, Bank Negara Malaysia (BNM) raised its benchmark rate by 25 basis points to 2.25%. The increase was widely expected as the BNM had earlier expressed the need for the normalization of rates as the economy recovers, given that a prolonged low-interest rate regime could lead to financial imbalances. The overnight policy rate was kept at its historic low of 2.0%, where it has remained since February 2009, amidst the threat of an economic downturn. According to BNM's policy statement, the monetary policy will remain accommodative and supportive of economic growth.

On 23 October, Malaysia announced its budget for 2010, forecasting a reduction in the budget deficit—as a percentage of GDP—from 7.4% in 2009 to 5.6% in 2010.

Size and Composition

Total local currency (LCY) bonds outstanding for Malaysia at the end of 2009 rose to MYR635.3 billion, up 10.3% y-o-y. Government and corporate LCY bonds outstanding grew 10.9% and 9.6%, respectively, in 2009 **(Table 1)**. Total central government bonds outstanding increased 19.9% y-o-y as bond issuance surged to fund the government's MYR60 billion stimulus package.

On a quarter-on-quarter (q-o-q) basis, total LCY government bonds outstanding declined 0.5% as outstanding BNM bills dropped 19.8% q-o-q. Total LCY corporate bonds outstanding increased 3.7% q-o-q.

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

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	MYR	USD	MYR	USD	MYR	USD	MYR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	626.6	180.7	631.1	185.1	638.0	187.8	635.3	184.7	5.5	2.7	0.7	1.1	10.3	1.4	(0.4)
Government	348.6	100.5	350.4	102.8	350.6	103.2	346.9	100.9	4.7	2.8	0.5	0.1	10.9	(0.5)	(1.1)
Central Government Bonds	307.0	88.5	304.1	89.2	310.6	91.4	312.6	90.9	24.4	6.6	(0.9)	2.1	19.9	1.8	0.6
Central Bank Bills	37.4	10.8	42.0	12.3	35.7	10.5	30.0	8.7	(50.1)	(14.4)	12.3	(15.0)	(29.2)	(19.8)	(16.0)
Others	4.3	1.2	4.3	1.3	4.3	1.3	4.3	1.2	(62.7)	(42.5)	-	-	(56.0)	-	-
Corporate	278.0	80.2	280.7	82.3	287.4	84.6	288.4	83.9	6.5	2.5	1.0	2.4	9.6	3.7	0.4

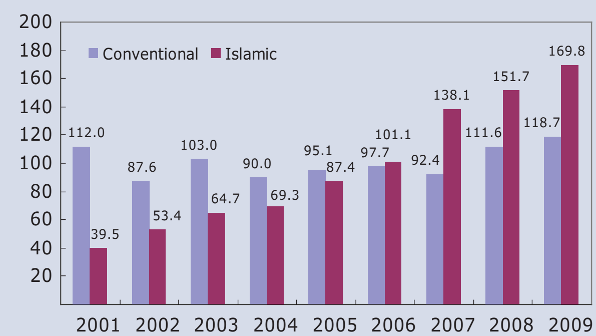
m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. Others refer to Khazanah Bonds issued by Khazanah Nasional Berhad and Cagamas, Bonds and Notes, Bithaman Ajil Islamic Securities, Sanadat ABBA Cagamas and Sanadat Mudharabah Cagamas issued by Cagamas Berhad.
Source: Bank Negara Malaysia, and Bloomberg LP.

Reflecting the government's effort to boost Malaysia's Islamic capital market, Islamic-based LCY corporate bonds outstanding have been steadily increasing, amounting to MYR169.76 billion by the end of 2009 from only MYR39.5 billion in 2001. Conventional LCY corporate bonds have remained stable in a range of MYR90 billion to MYR118.7 billion over the last decade **(Figure 2)**.

In the meantime, the internal structure of the Islamic bond market is changing rapidly. In 2009, Islamic medium-term notes rose 30.6% to reach MYR88.35 billion, while the stock of more traditional Islamic bonds issued by corporations (IBONDS) was almost unchanged at MYR71.46 billion. Islamic corporate papers actually declined to MYR4.03 billion while Islamic asset backed securities dropped to MYR5.92 billion **(Table 2)**.

A comprehensive regulatory and tax framework for Islamic finance, and a sound infrastructure platform has provided the impetus for *sukuk* (Islamic bond) issuance in Malaysia. In 2009, Bursa Malaysia topped the world's exchanges in terms of the value of *sukuk* listings. Since its inaugural *sukuk* listing

Figure 2. Outstanding LCY Corporate Bonds
(MYR billion)



Source: Bank Negara Malaysia.

Table 2: Breakdown of Islamic-Based Local Currency Corporate Bonds (MYR billion)

Year	IABS/ ABS-IMTN	IBONDS	ICP	IMTN
2001	-	33.29	4.46	1.75
2002	-	46.11	4.69	2.57
2003	0.99	52.09	6.21	5.43
2004	0.60	55.09	3.62	9.97
2005	3.25	62.88	4.49	16.75
2006	3.21	65.05	5.89	26.96
2007	5.55	70.99	6.46	55.07
2008	6.17	71.95	5.89	67.67
2009	5.92	71.46	4.03	88.38

Notes:
IABS = Islamic asset-backed securities - Islamic bonds issued pursuant to a securitisation transaction; ABS-IMTN = Asset-backed securities - medium-term notes issued pursuant to a securitisation transaction; IBONDS = Islamic bonds issued by corporations; ICP = Islamic commercial papers issued by corporations, IMTN = Islamic medium-term notes issued by corporations
Source: Bank Negara Malaysia.

in August 2009, the bourse has listed 12 *sukuks* totaling USD17.60 billion.

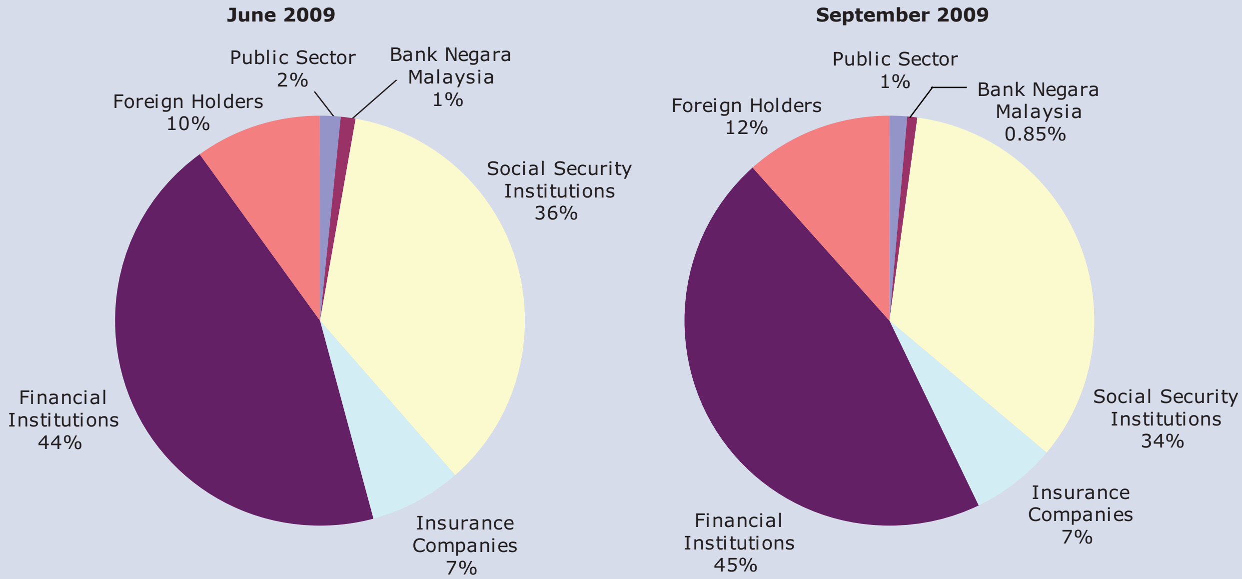
The top 20 corporate issuers in Malaysia made up about 47.7% of total corporate bonds outstanding as of end-2009 **(Table 3)**. National mortgage corporation Cagamas Berhad is the top issuer of corporate bonds with MYR16.4 billion outstanding in conventional and Islamic medium-term notes. The next two largest issuers were investment holding company Binariang GSM and government investment-holding arm Khazanah Nasional.

Table 3: Top 20 Corporate Issuers (MYR billion)

Issuer	Conventional Bonds	Islamic Bonds	Conventional MTN	Islamic MTN	Total
Cagamas	-	-	9.2	7.2	16.4
Binariang GSM	-	3.0	-	12.1	15.1
Khazanah	-	12.0	-	-	12.0
Project Lebuhraya (PLUS)	-	7.1	-	2.7	9.8
Prasarana	5.1	2.0	-	2.0	9.1
Maybank	6.1	2.5	-	-	8.6
Rantau Abang Capital Berhad	-	-	-	8.0	8.0
Malakoff Corp.	-	1.7	-	5.6	7.3
KL International Airport	1.6	5.3	-	-	6.9
Valuecap	5.1	-	-	-	5.1
1 Malaysian Development Berhad	-	-	-	5.0	5.0
Jimah Energy Ventures	-	-	-	4.8	4.8
Tanjung Bin	-	-	-	4.8	4.8
Putrajaya Holdings	-	1.1	-	3.1	4.2
YTL Power International	2.2	-	1.7	-	3.9
Tenaga Nasional Berhad	1.5	2.2	-	-	3.7
Cekap Mentari Berhad	3.5	-	-	-	3.5
CIMB Bank	3.5	-	-	-	3.5
Public Bank Berhad	1.2	-	1.9	-	3.1
Hijrah Pertama Berhad	-	2.9	-	-	2.9
Total	29.8	39.8	12.8	55.2	137.6
% of Total Corporate Outstanding					**47.7%**

MTN = medium-term note.
Source:Bank Negara Malaysia.

Figure 3: Local Currency Government Bonds Investor Profile



Source: Bank Negara Malaysia.

Investor Profile

As of end-September 2009, financial institutions were still the largest holders of Malaysian Government Securities (MGS). Financial institutions held 45% of outstanding MGS and social security institutions held 34%, down from 36% at end-June **(Figure 3)**. Foreign holdings as a percentage of total MGS outstanding increased from 10% at end-June to 12% at end-September. Meanwhile, insurance companies and the public sector held 7% and 1%, respectively, of total MGS outstanding.

Policy, Institutional, and Regulatory Developments

Corporate Debt Restructuring Committee Revises Eligibility Criteria

The Corporate Debt Restructuring Committee (CDRC) has revised its eligibility criteria to allow more companies to seek assistance from the CDRC in restructuring their debt obligations. Under the revised eligibility criteria, companies seeking to resolve their debt obligations under the CDRC must fulfill the following criteria:

(i) aggregate indebtedness of MYR30 million or more;

(ii) at least two financial creditors;

(iii) not in receivership or liquidation, except in cases where receivers have been appointed over certain specified assets and the directors remain in control over the companies' overall operations; and

(iv) difficulties in servicing debt obligations, which may not include having already defaulted, provided criteria (i) and (ii) are met.

Also, the revised criteria extends eligibility to any company listed on Bursa Malaysia that has been classified as PN17 (Main Market—the merged main board and second board of Bursa Malaysia) or GN3 (ACE market—the revamp of the Malaysian Exchange Securities Dealing and Automated

Quotation [MESDAQ]) irrespective of the amount of debt outstanding.

Government Plans to Introduce Goods and Services Tax in 2011

To increase its revenue base and help reduce the budget deficit, the Malaysian government is planning to introduce a new goods and services tax (GST) in 2011. The proposed 4.0% GST is expected to generate MYR1 billion in revenue per year. However, 40 basic goods and services, including foodstuffs, residential accommodation, education, health services, public transportation, and domestic water and electricity supply will be exempted from the GST to protect the welfare of low-income groups. The GST has been successfully implemented in 140 countries. Among member countries of the Association of Southeast Asian Nations (ASEAN), only Brunei, Malaysia, and Myanmar have not implemented a GST.

Philippines—Update

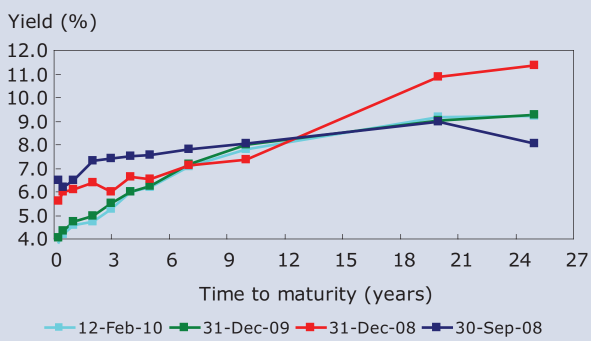
Yield Movements

Philippine government bond yields declined across all tenors between end-2009 and February 2010, except at the very long-end of the curve. Yields on 2-year bonds fell by as much as 275 basis points, while yields on 10-year debt dropped 175 basis points. In the run-up to its foreign bond issue on January 7 of this year, the Bureau of the Treasury (BTr) often declined to accept bids which it felt to be unacceptably high **(Figure 1).**

The Philippines' budget deficit widened to a record PHP298.5 billion in 2009, which was equivalent to 3.9% of gross domestic product (GDP). Increased spending to support the economy amid the global crisis and weak tax collections drove the 2009 deficit above the government's target of PHP250 billion. The government is maintaining its projected budget deficit ceiling at PHP293 billion for 2010, but will monitor the economy's performance in 1Q09 to determine whether the target needs to be adjusted.

Consumer price inflation for the month of February was 4.2% year-on-year (y-o-y), slightly less than January's rate of 4.3%. The rise in consumer prices in January has been attributed to oil and food price hikes. Headline inflation for 2009 averaged 3.2%, which was well within the government's target of 2.5%–4.5%. The inflation target for 2010 has been set by the Development Budget Coordinating Committee (DBCC) at 4.5% ±1.0 percentage point. The key overnight borrowing rate has remained at a record low of 4.0% and the overnight lending (repurchase) facility at 6.0% since July 2009. However, the peso rediscount rate was raised 50 basis points to 4.0% (effective 1 February) as BSP started to unwind its stimulus measures. Prior to this, the peso rediscount rate had been held at 3.5% from March 2009 until January 2010 to ensure the orderly operation of domestic financial markets amid the global crisis. Meanwhile, the economy expanded 1.8% y-o-y in 4Q09, while full year GDP grew at a slower rate of 0.9% after expanding 3.8% in 2008.

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



Source: Bloomberg, LP.

Size and Composition

By the end of 2009, total government local currency (LCY) bonds stood at PHP2.56 trillion. Bonds issued by BTr and agencies owned and controlled by the government rose 12.9% and 18.2% from end-2008, respectively. However, treasury bills decreased 19.2% y-o-y in 2009, which resulted in marginal growth of 3.1% y-o-y for total government LCY bonds. On a quarterly basis, the stock of total government bonds increased 2.3% **(Table 1)**.

The National Food Authority (NFA) raised PHP9 billion worth of 10-year bonds in October for maturing loans, capital expenditures, and rice imports. However, NFA postponed its planned issuance of an additional PHP5 billion–PHP10 billion of long-term bonds from December 2009 to 1Q10, dependent upon local debt market conditions at the planned time of issue.

In November, the National Development Corporation (NDC) sold PHP3.5 billion worth of 5-year bonds, with bids reaching twice the volume offered, indicating robust investor appetite. Funds raised will be used to repair and upgrade

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

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	PHP	USD	PHP	USD	PHP	USD	PHP	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	2,817	59	2,855	59	2,879	59	2,912	63	7.5	2.3	1.4	0.8	8.1	3.4	1.1
Government	2,504	52	2,538	53	2,545	52	2,560	56	3.0	2.0	1.3	0.3	3.1	2.3	0.6
Treasury Bills	607	13	639	13	620	13	622	13	(20.5)	(10.6)	5.1	(2.9)	(19.2)	2.4	0.3
Treasury Bonds	1,807	38	1,801	38	1,823	37	1,839	40	14.2	7.1	-0.4	1.2	12.9	1.7	0.9
Others	89	2	98	2	102	2	100	2	5.8	0.0	10.1	3.6	18.2	11.8	(2.0)
Corporate	313	7	318	7	335	7	351	8	65.8	5.4	1.6	5.4	66.5	12.4	5.0

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" includes government-guaranteed bonds such as Land Bank of the Philippines and National Power Corporation (Napocor).
Source: Bureau of the Treasury and Bloomberg LP.

irrigation facilities. Moreover, President Gloria Macapagal Arroyo signed Executive Order 824-A on 22 October to allow NDC to issue infrastructure bonds of up to PHP50 billion to finance the implementation of infrastructure projects. The National Economic and Development Authority (NEDA) and NDC will select infrastructure projects under NEDA's Medium-Term Public Investment Program (MTPIP) that wil be funded by the proceeds of the bonds.

On 18 November, the Power Sector Assets and Liabilities Management Corporation (PSALM) launched a new 2024 global bond issue of up to USD600 million and re-opened its 2019 USD bonds, inviting investors holding National Power Corporation (Napocor) bonds maturing in 2010 and 2011 to participate in a debt exchange program that allows them to swap their bonds into the new PSALM issue.

The Philippine government sold USD1.5 billion of bonds in a dual-tranche offering in January of this year that was more than six times oversubscribed. The issue comprised a USD650 million re-opening of the 2020 bonds at a yield of 5.67% and a USD850 million re-opening of the 2034 bonds at a yield of 6.66%. The sale was the first international global bond transaction in Asia in 2010, leading other Asian borrowers to tap the offshore market. Furthermore, the government successfully sold JPY100 billion worth of 10-year *samurai* bonds via private placement in late February, with a guarantee from the state-backed Japan Bank for International Cooperation (JBIC). The bonds were priced at par and carried a coupon of 2.32%. The Department of Finance (DOF) said the latest bond sale completes its planned foreign debt market issuance of USD2.5 billion for 2010.

Total LCY corporate bonds outstanding as of end-December 2009 stood at PHP351 billion for a 66.5% y-o-y rise. Of the total amount, PHP127.8 billion, or 36%, were held by local and foreign commercial banks, while the remaining 64% were held by non-financials. More corporates issued bonds in 4Q09, resulting in a 12.4% q-o-q increase in the size of the total corporate bond market.

In October, Unionbank of the Philippines issued lower Tier 2 notes worth PHP3.75 billion, while Allied Bank issued PHP3.5 billion of long-term negotiable certificates of deposit. Real estate companies Megaworld and Filinvest Land each sold PHP5 billion in November to finance their respective projects. Also, JG Summit sold PHP9 billion in 5-year bonds to support capital expenditure requirements.

Meanwhile, the geothermal company Energy Development Corporation (EDC) tapped the local bond market in December and sold PHP12 billion worth of fixed-rate bonds to investors with tenors of 5.5 and 7 years. A portion of the proceeds from the issue will be used to refinance and re-denominate EDC's Miyazawa II loan, which will mature in June 2010. The Miyazawa II loan is under the New Miyazawa Initiative, a financial support mechanism started in 1998 by the Japanese government to assist Asian countries in overcoming their economic difficulties. Also, the Manila Electric Company (Meralco) raised PHP5.5 billion in a December bond offering, which will be used for corporate funding requirements.

San Miguel Brewery remains the largest corporate issuer in the Philippines, with outstanding bonds totaling PHP38.8 billion, followed by Banco de Oro Universal Bank (PHP33.0 billion), and Meralco (PHP20.6 billion). The amount of bonds outstanding among the top 20 corporate issuers comprised 82% of the total corporate bond market at the end of 2009 **(Table 2)**.

The Philippine Dealing and Exchange Corporation (PDEx) reported that the fixed-income trading volume for government and corporate securities reached PHP2.52 trillion as of 9 December. The 2009 year-to-date volume rose by PHP585 billion, or 30%, from last year's volume and PDEx recorded PHP49.4 billion in trades for a 17% y-o-y increase. Corporate bonds issued and listed on PDEx are Ayala Corporation; Ayala Land, Inc.; Globe Telecom, Inc.; Manila Water Company, Inc.; San Miguel Brewery, Inc.; Megaworld Corporation; Energy Development Corporation; Metropolitan Bank and Trust Company; and Rizal Commercial Banking Corporation.

Table 2: Top 20 Corporate Bond Issuers as of December 2009

Rank	Issuer	Amount Outstanding (PHP billion)
1	San Miguel Brewery Inc.	38.80
2	Banco de Oro Unibank Inc.	33.00
3	Manila Electric Company	20.58
4	Metropolitan Bank & Trust	18.50
5	Philippine National Bank	17.75
6	Petron Corporation	16.30
7	Rizal Commercial Banking Corporation	16.00
8	Globe Telecom	15.80
9	Robinsons Land Corporation	15.00
10	JG Summit Holdings Inc.	13.31
11	Energy Development Corporation	12.00
12	SM Prime Holdings Inc.	11.50
13	Bank of Philippine Islands	10.00
14	SM Investments Corporation	9.40
15	Allied Banking Corporation	8.00
16	Ayala Land Inc.	7.00
17	Aboitiz Power Corporation	6.88
18	Megaworld Corporation	6.40
19	Ayala Corporation	6.00
20	Security Bank Corporation	6.00
Top 20 Total		**288.22**
Total Corporate Bonds Outstanding		**351.42**
Top 20/Total Corporate Bonds Outstanding		**82%**

Source: Bloomberg LP.

Rating Changes

In January, three major international rating agencies affirmed their respective outlook and ratings for the Philippines **(Table 3)**.

Table 3: Selected Sovereign Ratings and Outlook for the Philippines

	Moody's	S&P	Fitch
Long-Term LCY Rating	Ba3	BB-	BB+
Outlook	Stable	Stable	Stable

LCY = local currency.
Source: Rating agencies.

Moody's Investors Service has kept its stable outlook and Ba3 long-term LCY rating despite expectations that the Philippines will post the slowest economic growth in Southeast Asia this year.

Standard & Poor's has retained its stable outlook and BB- long-term LCY rating, citing the country's strong external liquidity position and its track record of resilient economic growth.

Fitch Ratings affirmed its stable outlook and BB+ long-term LCY issuer default rating, citing manageable external financing requirements in spite of weaknesses in public finances.

Policy, Institutional, and Regulatory Developments

Monetary Board Aligns Rediscount Rate with Reverse Repurchase Rate

Bangko Sentral ng Pilipinas' (BSP) Monetary Board decided on 28 January to raise the peso rediscount rate by 50 basis points to 4.0% effective 1 February in a sign that the BSP has started to unwind its stimulus measures. The peso rediscount rate was previously held at 3.5% to ensure the orderly operation of domestic financial markets amid the global crisis. The overnight borrowing, or reverse repurchase facility, and the overnight lending, or repurchase facility, remained at 4.0% and 6.0%, respectively.

PSE Tightens Rules on Short-Term Lending

The Philippine Stock Exchange (PSE) released Guidelines on Safeguards Against Securities Borrowing and Lending Program Violations and Expected Minimum Response by Trading Participants on 19 February. PSE identified seven possible violations as follows: (i) the unauthorized lending of a client's securities, (ii) denial of the beneficial owner's right to vote, (iii) failure to share lending fees to beneficial owners of securities, (iv) breach of foreign ownership limits, (v) failure to manage collateral received resulting in loss of possible income, (vi) unreasonably large value of collateral requirements, and (vii) violators failure to properly distribute manufactured dividends. Violators are levied fines of between PHP10,000 and PHP50,000, while grave situations can result in the suspension of the trading participant.

The guidelines will take effect on 5 March.

Singapore—Update

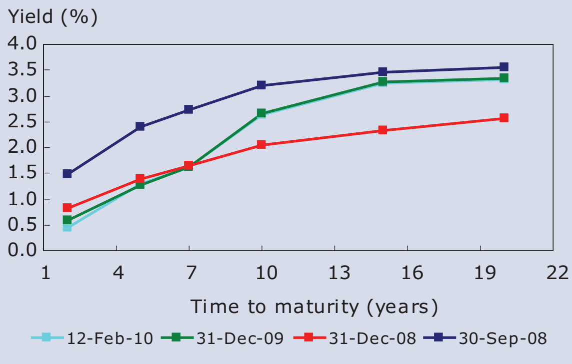
Yield Movements

As of mid-February, Singapore benchmark bond yields were largely unchanged from their end-December levels, except for a slight drop in the 2-year benchmark yield. On 1 March, the government re-opened a 15-year government bond that was auctioned in August 2009 and will mature in September 2024.

According to final data released by the Ministry of Trade and Industry (MTI) on 19 February, Singapore's gross domestic product (GDP) grew 4.0% year-on-year (y-o-y) in 4Q09, up from 0.6% growth posted in the previous quarter. For the full-year 2009, Singapore's GDP contracted 2.0%, which was well within the government's forecast of a 2.0%–2.5% contraction. The country's manufacturing sector dipped 4.1% in 2008, while the construction sector posted 16.0% growth. Service-producing industries dipped 2.2%, as most major service sectors contracted. For 2010, the government now expects the economy to grow 4.5%–6.5%, following an earlier forecast of 3.0%–5.0% growth.

Full-year inflation for 2009 was 0.6% after having been in negative territory throughout the July–December period. In January, consumer price inflation rose to 0.2% y-o-y. The government also revised its inflation forecast for 2010 downward from 2.5%–3.5% to 2.0%–3.0%. The revision is attributable to the re-basing of the consumer price index (CPI) for 2009. According to the Monetary Authority of Singapore (MAS), the current monetary policy stance remains appropriate. In October 2009, MAS decided to maintain its zero percent appreciation policy for Singapore's currency. This policy was first put in place in October 2008 in response to the weakening global economy. MAS also maintained the level and width of the exchange rate policy band. During its policy review in April 2009, MAS re-centered the exchange rate policy band. The next monetary policy meeting is scheduled for April 2010.

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



Source: Bloomberg, LP.

Given improvements in the domestic and global economies, the government plans to unwind the stimulus policies it implemented at the height of the financial crisis. Last year, Singapore's government tapped its reserves to fund a SGD20.5 billion resilience package. The budget deficit for fiscal year (FY) 2009/2010 is estimated at SGD8.5 billion (equivalent to 3.3% of GDP), which is less than an earlier estimate of SGD14.9 billion. On 22 February, the government announced an expected budget deficit of SGD3 billion (equivalent to 1.1% of GDP) for FY 2010/2011. In terms of spending, the government will gradually phase-out the Job Credit and Special Risk Initiative schemes, but will increase spending on education, healthcare, and transport infrastructure.

Size and Composition

As of end-December 2009, the amount of total local currency (LCY) bonds outstanding was SGD211 billion, representing a 15.3% y-o-y increase from SGD182 billion in December 2008 **(Table 1)**. Government bonds outstanding increased 18.3% y-o-y to SGD124 billion, while corporate bonds outstanding rose 12.1% y-o-y. Corporate issuance in 4Q09 included Temasek's issue of SGD600 million in 20- and 30-year bonds.

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

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	SGD	USD	SGD	USD	SGD	USD	SGD	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	212	150	210	150	208	150	211	150	15.3	5.6	(0.7)	(1.2)	15.6	(0.4)	1.5
Government	123	87	122	87	123	89	124	88	20.7	6.0	(0.2)	0.7	18.3	0.9	0.4
Bills	49	35	51	36	52	37	52	37	46.7	7.2	2.8	1.8	45.1	5.7	1.0
Bonds	73	52	72	51	72	52	72	51	7.8	5.2	(2.3)	-	4.2	(2.3)	-
Corporate	89	63	88	63	84	61	87	62	8.6	5.0	(1.3)	(4.0)	12.1	(2.2)	3.2

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondOnline* estimates.
2. Bloomberg end-of-period LCY—USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Monetary Authority of Singapore and Bloomberg LP.

At the end of December, the top 20 corporate issuers accounted for 37% of total corporate bonds outstanding **(Table 2)**.

Policy, Institutional, and Regulatory Developments

Amendments to Government Securities Act Provide More Power to the Central Bank

On 11 January, the Parliament passed the Government Securities (Amendment) Bill 2009 that provides MAS more regulatory powers and the flexibility to manage the government bond market. When in force, the bill will provide MAS regulatory powers over the primary dealers of bonds, namely, the power to inspect, suspend, and revoke appointments of primary dealers. The amendment will authorize MAS to redeem its Singapore Government Securities (SGS) before maturity at market price, if it deems necessary. MAS will also be allowed to enter into securities lending arrangements involving SGS with primary dealers. The amount MAS can lend, however, is limited to its own holdings. When MAS holdings are not enough to meet primary dealers' demand for SGS, the government can issue new SGS to MAS, which MAS can lend on an overnight basis.

Table 2: Bonds Outstanding of Top Corporate Issuers

Issuer	Outstanding Amount (SGD billion)
Housing &Development BRD (Public Housing Auth.)	5.35
Capital Land Ltd. (Real Estate)	3.67
United Overseas Bank Ltd (Banking)	3.62
SP Power Assets Ltd. (Electricity Transmission and Distribution)	2.41
Oversea-Chinese Banking (Banking)	2.20
Public Utilities Board (National Water Authority)	2.10
Land Transport Authority (Building and Contruction)	1.80
DBS Bank Ltd/Singapore (Banking)	1.61
F&N Treasury Pte Ltd (Food Service, Property, and Pub & Printing)	1.40
PSE Corp. Ltd. (Container Transhipment Hub)	1.20
Singapore Airlines (Airlines)	0.90
Ascott Capital Pte Ltd (Real Estate)	0.76
Yanlord Land Group (Real-estate Developer PRC-based)	0.71
Capitaland Treasury Ltd (Real Estate Operations)	0.70
HK Land Treasury Service (Property Investment Management)	0.70
Capitamall Trust (REITS-Shopping Centers)	0.65
Mapletree Treasury Svcs (Special Purpose Entity)	0.60
Temasek Financial (Investment Company)	0.60
City Developments (Hotels and Motels)	0.53
Keppel Land (Real Estate Developer)	0.51
Total	**32.02**
% of Total Corporate Outstanding	**36.73%**

Source: Bloomberg, LP.

MAS Ends Swap Facility

MAS allowed its USD30 billion swap facility with the US Federal Reserve to lapse on 1 February as a result of improving wholesale funding market conditions.

Government Plans to Earmark Funds to Increase Productivity

Over the next 5 years, the government plans to spend SGD1.1 billion in tax benefits, grants, and training subsidies to boost productivity. Specific measures include:

(i) expansion of the Continuing Education and Training (CET) system;

(ii) increase in maximum payouts for the Workfare Income Supplement;

(iii) implementation of the Productivity and Innovation Credit, which provides tax incentives for activities that enhance productivity such as Singapore-based research, development, and design; intellectual property acquisition and registration; investment in automation; and training costs; and

(iv) establishment of a National Productivity Fund.

Thailand—Update

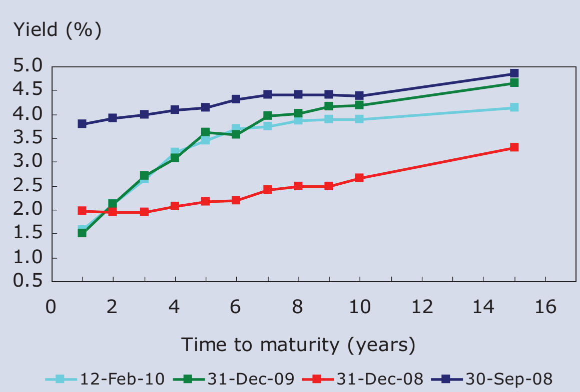
Yield Movements

Thai government bond yields dropped for most maturities between end-December 2009 and mid-February **(Figure 1)**. At the shorter-end of the curve, yields declined for 3- and 5-year maturities, narrowing 7 and 17 basis points, respectively. Meanwhile, the yield curve flattened by as much as 53 basis points from the belly through the longer-end of the curve. As a result, the spread between 2- and 10-year bonds narrowed to 178 basis points on 12 February from 207 basis points at end-December.

The downward shift in the yield curve reflects investor perceptions of modest growth in 2010 and expectations that the Bank of Thailand (BOT) will not raise the policy rate (1-day repo rate) until the second half of 2010, even though the market expects a modest rise in inflation this year. BOT's Monetary Policy Committee (MPC) maintained the repurchase rate at the current level of 1.25% in March.

Thailand's economy expanded 5.8% year-on-year (y-o-y) in 4Q09, driven by exports, but still contracted 2.3% for all of 2009. Signs of improvement were notable during the second half of the year as quarter-on-quarter (q-o-q) gross domestic product (GDP) growth recovered from –4.9% in 2Q09 to –2.8% in 3Q09, mainly due to gains in private consumption, tourism, exports, and agriculture. Thailand's GDP is expected to grow 3.5% in 2010, with government spending and private sector recovery likely to be the main forces driving the economy.

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



Source: Bloomberg, LP.

Consumer price inflation stood at 3.7% y-o-y in February, a modest decline from 4.1% y-o-y in January. BOT's MPC expects that inflation will further accelerate in 2010 as the Thai government ends its subsidy measures and oil prices continue to rise. The flattening of the government bond yield curve from its belly through the longer-end indicates that investors are not factoring expectations of higher inflation data.

Size and Composition

The amount of local currency (LCY) bonds outstanding in Thailand stood at THB5.9 trillion (USD176.8 billion) at end-December, climbing 20.5% y-o-y and 2.5% q-o-q **(Table 1)**.

Government bonds in 4Q09 were up 21.0% y-o-y and 3.3% q-o-q, with the total amount outstanding valued at THB4.7 trillion. The amount of Treasury bonds, which represented half of total government bonds outstanding, grew 22.3% y-o-y, yet contracted 0.8% q-o-q, to stand at THB2.4 trillion at end-December. Similarly, state-owned enterprise and other bonds rose 6.5% y-o-y, but shrank 0.1% q-o-q. Central bank bonds stood at THB1.8 trillion for an increase of 24.2% y-o-y and 10.3% q-o-q.

On 16 February, the Thai government approved the issuance of THB100 billion of government savings bonds with a 6-year maturity. The bonds will be offered at a premium to current market yields with a step-up coupon rate. The Thai government imposed a delay on the issuance until further notice due to current domestic political uncertainties and the upcoming Songkran holidays. Subscription was initially scheduled from 29 March to 5 April.

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

	Amount (billion)								**Growth Rate** (%)						
	Sep-09		**Oct-09**		**Nov-09**		**Dec-09**		**Sep-09**		**Oct-09**	**Nov-09**	**Dec-09**		
	THB	**USD**	**THB**	**USD**	**THB**	**USD**	**THB**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	5,757.2	172.1	5,826.9	174.3	5,836.7	175.6	5,901.9	176.8	15.8	6.2	1.2	0.2	20.5	2.5	1.1
Government	4,561.3	136.4	4,645.5	139.0	4,639.1	139.6	4,711.9	141.1	13.1	6.6	1.8	(0.1)	21.0	3.3	1.6
Treasury Bonds	2,380.5	71.2	2,381.5	71.2	2,355.0	70.9	2,362.1	70.7	19.8	6.2	0.0	(1.1)	22.3	(0.8)	0.3
Central Bank Bonds	1,650.3	49.3	1,733.8	51.9	1,756.0	52.8	1,819.7	54.5	7.6	8.4	5.1	1.3	24.2	10.3	3.6
State Enterprises Bonds & Other Bonds	530.4	15.9	530.1	15.9	528.1	15.9	530.1	15.9	3.7	2.7	(0.1)	(0.4)	6.5	(0.1)	0.4
Corporate	1,195.9	35.8	1,181.5	35.3	1,197.5	36.0	1,190.0	35.6	27.2	5.0	(1.2)	1.4	18.8	(0.5)	(0.6)

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank of Thailand (BOT) and Bloomberg LP.

Proceeds from the issuance will be used to refinance loans borrowed for the Thai Khem Khaeng Program. Thai Khem Khaeng (Strong Thailand) is the government's second-stage stimulus program, with a total budget of THB1.4 trillion (USD42 billion), that aims to fund a range of social and infrastructure development projects in the transport, irrigation, health, and education sectors.

The stock of corporate bonds outstanding as of end-December rose 18.8% y-o-y to THB1.2 trillion. On a q-o-q and month-on-month (m-o-m) basis, however, total corporate bonds contracted 0.5% and 0.6%, respectively.

As of end-December, the top 10 corporate and SOE issuers in Thailand were mainly from the industrial and financial sectors, which together represented 48.6% of total LCY corporate and SOE bonds **(Table 2)**.

Krung Thai Bank, Thailand's second-largest lender, sold THB13 billion of subordinated bonds in October. The 10-year bonds carried a coupon rate of 4.8%. Proceeds will be used to refinance existing debt and provide working capital. Siam Cement, Thailand's biggest industrial conglomerate, sold THB10 billion of senior unsecured bonds in October.

Table 2: Top 10 Corporate and SOE Issuers as of December 2009

Issuer	Amount Outstanding (THB billion)
1. PTT (parent oil company)	115.2
2. Siam Cement	110.0
3. Government Housing Bank	88.1
4. Electricity Generating Authority of Thailand	80.4
5. Expressway Authority of Thailand	73.2
6. Bank of Ayudhya Public Ltd.	67.6
7. State Railway of Thailand	67.3
8. Krung Thai Bank PCL	63.3
9. Provincial Electricity Authority of Thailand	61.3
10. PTT Exploration and Production PCL	58.5
Total - Top 10	**785.0**
Total - Corp. and SOE Bond Outstanding	**1,616.7**
% of Total Corp. and SOE Bond Outstanding	**48.6**

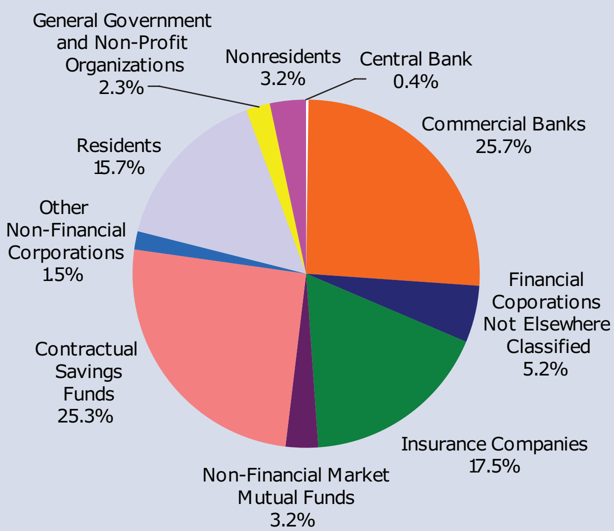
SOE = state-owned enterprise.
Source: Bloomberg LP.

The 4-year bonds carried a coupon rate of 4.15%. Proceeds will be used as part of a plan to refinance existing bonds worth THB25 billion that were due for redemption in 2009. Thanachart Capital sold THB9 billion of 5-year senior unsecured bonds with a 4.9% coupon, while Thai Military Bank sold THB5.3 billion of 10-year unsecured bonds with a 5.0% coupon.

Investor Profile

As of end-December, commercial banks remained the largest holder of Thai government bonds (25.7%), which stood at THB606.6 billion **(Figure 2)**. Contractual savings funds were the second-largest holder of government bonds with a 25.3% share, followed by insurance companies (17.5%), residents (15.7%), and financial corporations not elsewhere classified (5.2%). Non-financial market mutual funds and nonresidents each had a 3.2% share of total bonds. Meanwhile, general government and non-profit organizations, other non-financial corporations, and Thailand's central bank held shares of 2.3%, 1.5%, and 0.4%, respectively.

Figure 2: Local Currency Government Bonds Investor Profile (December 2009)



Source: Bank of Thailand (BOT).

Policy, Institutional, and Regulatory Developments

Bank of Thailand Lifts Capital Outflow Controls

In February 2010, Thailand further relaxed foreign exchange regulations pertaining to investments abroad, foreign exchange hedging transactions, and corporate treasury centers. Thai firms are now allowed to freely make direct investments overseas. The size of portfolio investments allocated to investors and under the supervision of the Securities and Exchange Commission (SEC) has been expanded from USD30 billion to USD50 billion. Exporters and importers in Thailand can now unwind their foreign exchange hedging transactions without seeking permission. Also, an existing firm can set up a corporate treasury center and transfer foreign currencies between the treasury center and its affiliated firms located in Thailand. In addition, Thailand has raised the limit for the purchase of immovable properties overseas for Thai individuals from USD5 million per year to USD10 million per year and is allowing Thai companies to lend up to USD50 million to non-affiliated companies overseas.

Bank of Thailand Releases Financial Sector Master Plan Phase II

In November 2009, the Thai Economic Cabinet, Ministry of Finance, and BOT released the second phase of the Financial Sector Master Plan (FSMP), which aims to boost the efficiency of financial institutions over the period 2010–2014. The plan includes reducing system-wide operating costs, promoting competition and financial access, and strengthening financial infrastructure. An FSMP Implementation Committee will be formed once the cabinet approves the principles stipulated in the plan.

Viet Nam—Update

Yield Movements

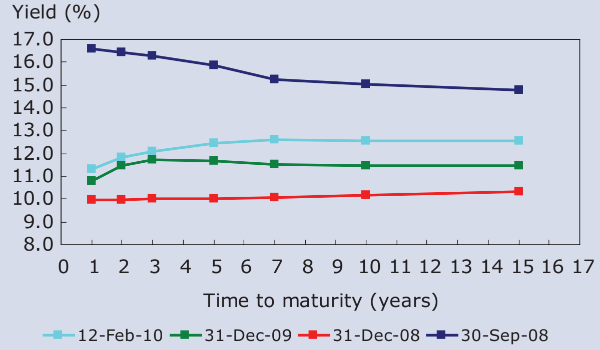
As of mid-February, the Vietnamese government bond yield curve had risen above end-December 2009 levels as yields increased across all maturities **(Figure 1)**. Yields for 2- and 10-year maturities climbed 37 basis points and 112 basis points, respectively. The yield spread between 2- and 10-year government bonds widened to 73.7 basis points on 12 February compared to a spread of –1.7 basis points at end-December 2009.

The rise in government bond yields over the December 2009–February 2010 period reflects expectations of potential monetary tightening in the face of accelerating inflation. The State Bank of Viet Nam (SBV) has kept the benchmark rate unchanged for three consecutive months this year amid accelerating inflation and rising share prices. However, in December 2009, SBV raised its benchmark rate by 1 percentage point to 8.0% for the first increase since January 2009. The refinancing rate and discount rate were also raised to 8.0% and 6.0%, respectively.

Consumer price inflation accelerated to a 6-month high of 8.46% year-on-year (y-o-y) in February as the Lunar New Year (Tet holiday) fueled price hikes. Viet Nam's economy expanded in 2009 at an annual rate of 5.32%, driven by the industry and construction, and services sectors. While Viet Nam exceeded its target of 5.0% annual growth in 2009, the figure was lower than the 6.18% growth rate recorded in 2008.

SBV implemented bold measures to stabilize the money market in the face of gold and foreign exchange speculation, and rising credit growth. SBV narrowed the trading band of the Vietnamese dong against the US dollar to ±3% from ±5%, and at the same time devalued the dong twice to an exchange rate of VND18,544–USD1. Meanwhile, credit expanded 37.7% in 2009, exceeding the cap of 30.0% set by SBV.

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



Source: Bloomberg, LP.

Size and Composition

The total amount of local currency (LCY) bonds outstanding in Viet Nam as of December 2009 stood at VND217.6 trillion (USD11.8 billion), which represented a decline of 6.3% y-o-y **(Table 1)**. Compared to 3Q09, total bonds outstanding decreased 2.8% in 4Q09.

Government bonds, which comprised about 92% of total bonds outstanding, stood at VND200.1 trillion at end-December for a decline of 4.7% quarter-on-quarter (q-o-q) and 9.8% y-o-y. The quarterly drop in government bonds was induced by an 11.6% decline in treasury bonds to VND90.3 trillion. Meanwhile, the amount of central bank bonds remained unchanged in 4Q09 at VND1.7 trillion. Other bonds, including Viet Nam Development Bank (VDB) bonds and state-owned enterprise bonds, stood at VND108 trillion at end-December for an increase of 1.8% q-o-q and 9.0% y-o-y.

The Ministry of Finance had estimated bond issuance in 2009 of VND200 trillion. Specifically, the State Treasury's issuance needs were estimated at VND126 trillion, VDB's were VND40 trillion, and the Viet Nam Bank for Social Policies' (VBSP) were VND10 trillion. However, in 2009, actual bond

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

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	VND	USD	VND	USD	VND	USD	VND	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	223,837.9	12.5	226,262.9	12.7	219,094.9	11.9	217,628.8	11.8	4.5	3.6	1.1	(3.2)	(6.3)	(2.8)	(0.7)
Government	210,053.0	11.8	210,278.0	11.8	203,110.0	11.0	200,143.8	10.8	2.9	2.7	0.1	(3.4)	(9.8)	(4.7)	(1.5)
Treasury Bonds	102,120.7	5.7	99,550.7	5.6	92,377.7	5.0	90,313.7	4.9	8.8	(1.7)	(2.5)	(7.2)	(11.9)	(11.6)	(2.2)
Central Bank Bonds	1736.0	0.1	1736.0	0.1	1736.0	0.1	1736.0	0.1	(92.7)	-	0.0	0.0	(91.4)	0.0	0.0
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	106,196.3	6.0	108,991.3	6.1	108,996.3	5.9	108,094.2	5.8	22.8	5.6	2.6	0.0	9.0	1.8	(0.8)
Corporate	13,784.9	0.8	15,984.9	0.9	15,984.9	0.9	17,484.9	0.9	35.4	18.0	16.0	0.0	68.4	26.8	9.4

– = not applicable, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Bloomberg end-of-period LCY—USD rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bloomberg LP.

issuance was much lower than expected as the State Treasury issued VND7.0 trillion in bonds, VDB issued VND4.86 trillion, and VBSP issued VND2.0 trillion.

State-owned Petrovietnam Finance Co. (PVFC) sold VND2.8 trillion of senior unsecured bonds in October 2009. The 3-year bonds carried a 10.4% coupon. In 2010, PVFC is planning to issue USD1 billion–USD2 billion of bonds domestically and abroad to raise funds for investment.

The stock of corporate bonds in 4Q09 climbed 26.8% q-o-q and 68.4% y-o-y to VND17.5 trillion on the back of several large corporate issues. Viet Nam Technological and Commercial Joint Stock Bank (Techcombank) raised VND2.1 trillion of 3-year senior unsecured bonds in October, the largest bond issuance by a financial institution in 2009. The real estate firm, Vincom Joint Stock Company (VINCOM JSC), issued VND1 trillion of 3-year mortgage bonds in December with a 14.5% coupon.

The Vietnamese government successfully issued USD1 billion of international bonds in January. The 10-year bonds carry a coupon of 6.75%, which is higher than the 5.67% yield on Philippine sovereign bonds and the 6.06% yield on Indonesian sovereign bonds issued earlier in 2010. Of the bonds sold, 56% were placed with United States (US) investors, 28% with Asian investors, and 16% with European investors. Asset fund managers bought 73%, followed by insurers and pension funds (10%), retail investors (9%), banks (7%), and other investors (1%). Proceeds will finance various energy and transportation projects. Moody's has assigned a foreign currency (FCY) rating of Ba3 with a negative outlook.

Rating Changes

In 12 March 2010, Fitch Ratings placed Viet Nam's long-term foreign and local currency rating of BB– on Rating Watch Negative (RWN), citing weakness of the Vietnamese dong and a lack of transparency for key economic indicators, such as international reserves and balance of payments **(Table 2)**.

Table 2: Selected Sovereign Ratings and Outlook for Viet Nam

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba3	BB	BB-
Outlook	negative	negative	watch negative

FCY = foreign currency and LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

Viet Nam to Lift Ceiling on Foreign Ownership Ratio in Local Businesses

The Viet Nam State Securities Commission is expected to release a decision raising the ceiling on the foreign ownership ratio in local business to 49%. While the maximum level of foreign ownership in public companies will increase from 30% to 49% of total chartered capital, the increase will not apply to credit institutions. For foreign-owned member funds, 100% foreign ownership will be allowed.

Regulations on Establishment of Commercial Banks

SBV is drafting more detailed ground rules on the establishment of new joint stock commercial banks. The new regulations would lift the freeze on and tighten rules for establishing new banks. SBV froze the establishment of new commercial banks in August 2008 to stop the proliferation of weak banks.

Viet Nam to Carry Out Further State-Owned Enterprise Reforms

The Vietnamese government is set to implement reforms on the equitization of state-owned enterprises following the Asian Development Bank's award of up to USD630 million to support the reform effort. Since 1992, the government has arranged 5,660 state-owned enterprises, of which 379 were transformed into single-member limited liability firms; 3,896 were equitized; 197 were transferred; 155 were sold; 30 were leased; 532 were merged with other firms; and 471 were dissolved. The government still holds 100% equity in 1,500 enterprises and is planning to improve the efficiency, profitability, and transparency of a number of large state-owned corporations.