Market Summaries

People's Republic of China—Update

Yield Movements

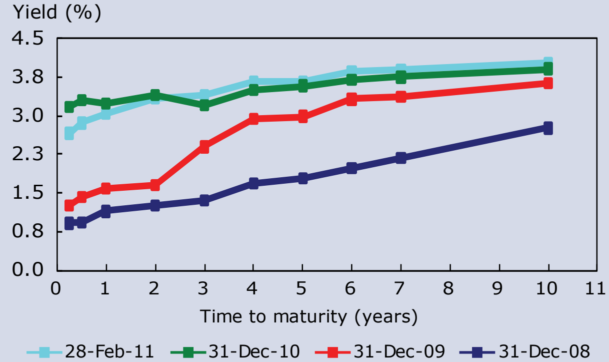
The People's Republic of China's (PRC) government bond yield curve rose and flattened in 2010, especially at the short-end of the curve, reflecting concern about inflationary pressures due to rising food prices. The People's Bank of China (PBOC) began to raise its policy rates and reserve requirement ratios in the latter part of the year in order to slow liquidity growth **(Figure 1)**.

More recently, the government bond yield curve steepened between end-December and end-February. Yields on tenors of 1 year or less fell by 21–52 basis points. The largest drop was seen in the 3-month rate, which fell 52 basis points. The long-end of the curve experienced a rise in yields, with yields for 10- and 7-year tenors rising by 15 and 12 basis points, respectively. Meanwhile, yields for the 6-year tenor rose by 16 basis points, while yields for the 5-year tenor rose by 9 basis points.

Due to a drop in short-term yields and increases in yields for longer-term bonds, the spread between 2- and 10-year government bonds increased to 70 basis points at end-February from 51 basis points at end-December.

Changes in the yield curve as well as recent market volatility, particularly at the shorter-end of the curve, are a response to efforts by the PRC to slow down inflation and credit growth. The PBOC has hiked the reserve requirement ratio six times (by 50 basis points each time) since November. The PRC also hiked its benchmark interest rates in December for the second time in 2010, raising the 1-year lending rate to 5.81% and the 1-year deposit rate to 2.75%. Inflation for the year peaked in November, reaching 5.1%, before slowing slightly in December to 4.6%. However, inflation picked up again in January, reaching 4.9%, driven mostly by rising food costs. The January inflation figure also reflects a re-weighting of the basket used to calculate inflation, with an increase in housing-related items such as rent and utilities, while other categories in the basket received a smaller weighting. The PRC again hiked benchmark interest rates by 25 basis points on 8 February, bringing the 1-year lending rate to 6.06% and the 1-year deposit rate to 3.0%.

Figure 1: People's Republic of China's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

New loans for full-year 2010 hit CNY7.95 billion, exceeding the government's target of CNY7.5 billion and raising concerns about the pace of credit growth. The M2 measure of money supply also showed an uptick in 2010, including growth rates of 19.7% in December and 19.5% in November. The recent efforts of the PBOC to tighten the money supply have had an effect, with M2 money supply growth slowing to 15.7% in February.

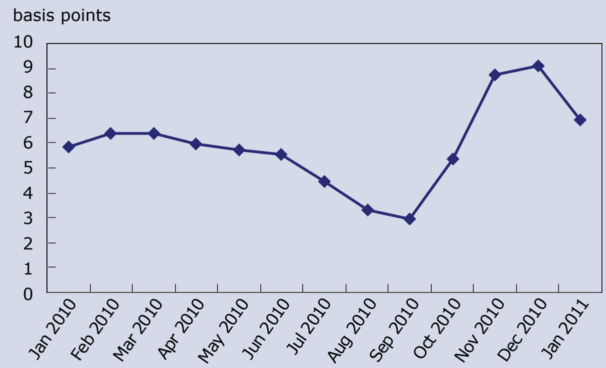
The rise in property prices has also prompted some concern, with the PRC government unveiling a number of measures to reduce speculation.

Property prices posted their fourth straight month-on-month (m-o-m) increase in December, rising by 0.3%. On a y-o-y basis, property prices rose 6.4%.

Tighter monetary conditions in 4Q10 led to significant volatility in the bond market. **Figure 2** presents the historical bid–ask spreads for government bonds. Bid–ask spreads were at their tightest in September 2010, before rising dramatically in 4Q10.

Size and Composition

Figure 2. PRC Government Bonds Historical Bid-Ask Spreads



PRC = People's Republic of China.
Source: Wind.

The amount of outstanding local currency (LCY) bonds in the PRC market reached CNY20.2 trillion at the end of December, representing a y-o-y increase of 15.1% and a quarter-on-quarter (q-o-q) rise of 0.8% **(Table 1)**.

Government bonds outstanding increased by 10.3% y-o-y as of end-December and were flat on a q-o-q basis, while corporate bonds rose 37.2% y-o-y and 3.6% q-o-q. In the government sector, treasury bonds and policy bank bonds expanded 16.1% and 16.0%, respectively, while central bank bonds declined by 3.5% y-o-y. On a q-o-q basis, growth rates in 4Q10 were down from the previous quarter, with treasury bonds and

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

	Amount (billion)								**Growth Rates** (%)						
	Sep-10		**Oct-10**		**Nov-10**		**Dec-10**		**Sep-10**		**Oct-10**	**Nov-10**	**Dec-10**		
	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	20,013	2,991	19,896	2,983	20,176	3,026	20,165	3,052	21.4	3.6	(0.6)	1.4	15.1	0.8	(0.1)
Government	15,905	2,377	15,744	2,360	15,943	2,391	15,908	2,408	15.6	1.9	(1.0)	1.3	10.3	0.02	(0.2)
Treasury Bonds	6,398	956	6,444	966	6,544	982	6,663	1,008	13.1	5.4	0.7	1.6	16.1	4.1	1.8
Central Bank Bonds	4,442	664	4,208	631	4,232	635	4,085	618	10.5	(6.3)	(5.3)	0.6	(3.5)	(8.0)	(3.5)
Policy Bank Bonds	5,064	757	5,092	763	5,167	775	5,160	781	24.2	5.5	0.6	1.5	16.0	1.9	(0.1)
Corporate	4,108	614	4,151	622	4,233	635	4,257	644	50.5	10.9	1.0	2.0	37.2	3.6	0.6
Policy Bank Bonds															
China Development Bank	3,662	547	3,672	551	3,738	561	3,680	557	24.6	5.8	0.3	1.8	15.0	0.5	(1.5)
Export–Import Bank of China	509	76	518	78	518	78	553	84	36.3	5.9	1.7	0.0	26.1	8.6	6.8
Agricultural Dvt. Bank of China	892	133	902	135	912	137	927	140	16.5	4.1	1.1	1.1	14.3	3.9	1.7

LCY = local currency, 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.Treasury bonds include savings bonds and local government bonds.
3.Bloomberg LP 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.

central bank bonds posting growth rates of 4.1% and 1.9%, respectively. Furthermore, central bank bonds declined by 8.0% q-o-q in 4Q10.

Interest Rate Swaps

Table 2 provides information on the total notional amount traded in interest rate swaps (IRSs) during February 2010–January 2011. Based on the table, much of the market in IRSs is concentrated in shorter-term benchmark rates, the 7-day repurchase (repo) rate, and the overnight Shanghai Interbank Offered Rate (SHIBOR). In terms of market size, the IRS based on the 7-day repo rate accounts for 56% of the total market, while the IRS for the SHIBOR accounts for 39%. The IRS based on the 7-day repo rate is a key instrument helping banks to manage funding costs since banks can tap the repo market for short-term funding needs. Among the various repo market tenors, the 7-day repo remains the most popular.

Table 2: PRC Interest Rate Swaps (IRS)—Market Notional Values

Benchmark	Total Notional Amount (CNY100 Million)	% of Total Notional Amount
7-Day Repo Rate	899	56.0%
SHIBOR Overnight	354	22.1%
SHIBOR 3-Month	270	16.8%
SHIBOR 3-Months 10-Day	0	0.0%
SHIBOR 1-Week	0	0.0%
1-Year Term Deposit Interest Rate	79	4.9%
1-Year Lending Interest Rate	3	0.2%
3-Year Lending Interest Rate	0	0.0%
Total	**1,606**	**100.0%**

PRC = People's Republic of China, SHIBOR = Shanghai Interbank Offered Rate.
Source: Chinamoney.

Corporate Bonds

With the exception of asset- and mortgage-backed securities, and commercial bank bonds, the remaining key sectors of the corporate bond market grew by double digits in 4Q10. Medium-term notes (MTNs) grew by 57.0% y-o-y, while commercial paper and local corporate bonds posted y-o-y growth rates of 43.2% and 51.1%, respectively. State-owned corporate bonds (or SOE bonds) grew by 22.1% y-o-y, and commercial bank bonds grew 3.6%. In contrast to these other sectors, the amount of asset- and mortgage-backed securities has been on a steady decline, with no new issuance since 4Q08.

On a q-o-q basis, all sectors showed slower growth rates in 4Q10 compared with the prior quarter, with the exception of local corporate bonds **(Table 3)**. Local corporate bonds expanded by 13.6% in 4Q10 from 8.6% growth in 3Q10. Growth of MTNs slowed to 5.0% in 4Q10 from 12.0% in 3Q10. Commercial paper showed the greatest change between quarters, declining 2.6% in 4Q10 compared with positive growth of 9.0% in 3Q10. Commercial bank bonds grew at an anemic rate of 0.1% in 4Q10, the same growth rate posted in 3Q10.

MTNs had consistently enjoyed double-digit q-o-q growth rates for the past few quarters prior to 4Q10, reflecting continued strong corporate sector demand and improved access to MTNs facilitated by the relatively quick issuance approval processes. The MTN market's slowing growth rate in 4Q10 seems to reflect the PBOC's tightening of monetary policy in recent months and the prospect of rising interest rates in the near term.

Possibly as a reflection of tighter monetary conditions, issuance for all sectors except commercial paper experienced a q-o-q decline in 4Q10 **(Figure 3)**. Monetary conditions continue to be challenging in 2011 as evident by recent news that a planned China Development Bank bond issuance was reduced in size by one-half to CNY10 billion and offered with a much higher yield than was offered by the bank in most of its issues over the past year.

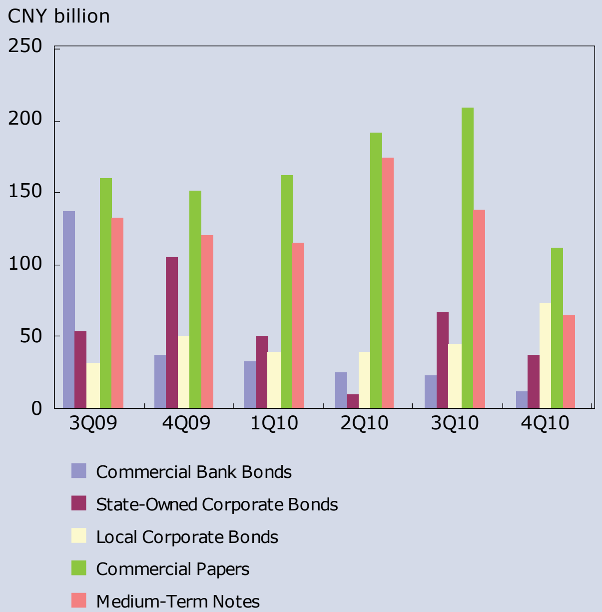
Looking at the PRC's top issuers **(Table 4)**, it is clear that only a handful of issuers dominate the corporate bond market. The top 50 corporate bond issuers account for CNY2.5 trillion, which is more than half of the outstanding corporate bond market. Furthermore, issuer size rapidly begins

Table 3: Corporate Bonds Outstanding in Key Sectors

	Amount (CNY billion)						Growth Rates (%)					
							q-o-q					y-o-y
	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	4Q09	1Q10	2Q10	3Q10	4Q10	4Q10
Commercial Bank Bonds	589.2	588.4	589.6	608.5	609.0	609.5	(0.1)	0.2	3.2	0.1	0.1	3.6
State-Owned Corporate Bonds	619.3	720.2	771.1	781.1	842.6	879.6	16.3	7.1	1.3	7.9	4.4	22.1
Local Corporate Bonds	328.8	376.9	420.0	461.7	501.3	569.4	14.6	11.4	9.9	8.6	13.6	51.1
Commercial Papers	353.1	456.1	508.8	615.4	670.6	653.0	29.2	11.5	21.0	9.0	(2.6)	43.2
Asset/Mortgage-Backed Securities	46.0	39.9	31.1	26.5	21.9	18.2	(13.4)	(22.1)	(14.8)	(17.2)	(16.8)	(54.3)
Medium-Term Notes	742.1	862.2	976.4	1,151.2	1,289.5	1,353.6	16.2	13.2	17.9	12.0	5.0	57.0

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

Figure 3: Corporate Bond Issuance in Key Sectors



Source: *ChinaBond.*

to drop further down the rankings. In fact, out of the CNY2.5 trillion of outstanding corporate bonds issued by the top 50 corporates, CNY1.5 trillion (61%) is from the top 10 corporate issuers.

State-owned companies (defined as majority-owned by the government) dominate the corporate bond market in the PRC. Out of the top 50 corporate bond issuers, 42 are state-owned, with a total of CNY2.3 trillion worth of bonds outstanding. All eight of the companies that are not state-owned are listed on stock exchanges.

The largest sector in the corporate bond market is transportation **(Figure 4)**. However, the transportation sector is highly skewed as it is dominated by a single issuer, the Ministry of Railways, which accounts for more than half of the transportation sector's outstanding bonds. Following closely in terms of bonds outstanding are the banking sector and the capital goods sector. A large portion of bonds issued within the banking sector is closely related to the banks'

Table 4: Top 50 Issuers of LCY Corporate Bonds in the People's Republic of China

Issuer	Bonds Outstanding		State-Owned	Privately-Owned	Listed Company	Sector
	LCY Bonds (CNY billion)	LCY Bonds (USD billion)				
1.Ministry of Railways	526.0	79.61	Yes	No	No	Transportation
2.State Grid Corporation of China	233.0	35.27	Yes	No	No	Public Utilities
3.China National Petroleum Corporation	158.0	23.91	Yes	No	No	Energy
4.Bank of China	124.9	18.91	Yes	No	Yes	Banking
5.China Construction Bank	120.0	18.16	Yes	No	Yes	Banking

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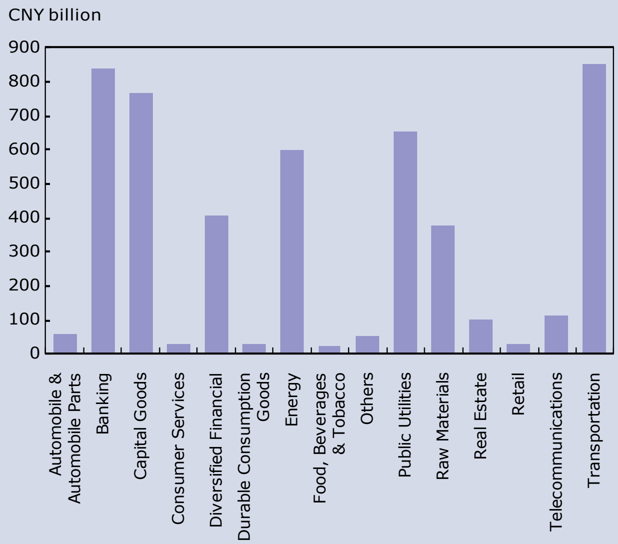
Table 4 continued

Issuer	Bonds Outstanding		State-Owned	Privately-Owned	Listed Company	Sector
	LCY Bonds (CNY billion)	LCY Bonds (USD billion)				
6.Petrochina Company Limited	97.5	14.76	Yes	No	Yes	Energy
7.Industrial and Commercial Bank of China	97.0	14.68	Yes	No	Yes	Banking
8.Industrial Bank	68.0	10.29	No	Yes	Yes	Banking
9.China Petroleum and Chemical Corporation	58.5	8.85	Yes	No	Yes	Energy
10.Aluminum Corporation of China	55.0	8.32	Yes	No	Yes	Raw Material
11.Agricultural Bank of China	50.0	7.57	Yes	No	Yes	Banking
12.Bank of Communications	50.0	7.57	No	Yes	Yes	Banking
13.China Telecom Corporation Limited	50.0	7.57	Yes	No	Yes	Telecomm
14.China Guodian Corporation	38.0	5.75	Yes	No	No	Public Utilities
15.China United Network Communications Corporation Limited	38.0	5.75	No	Yes	Yes	Telecomm
16.Shenhua Group Corporation Limited	37.9	5.74	Yes	No	No	Energy
17.Citic Grouop	37.0	5.60	Yes	No	No	Capital Goods
18.China Southern Power Grid Co., Ltd.	36.0	5.45	Yes	No	No	Public Utilities
19.Shougang Group	33.0	4.99	Yes	No	No	Capital Goods
20.China Huaneng Group	30.0	4.54	Yes	No	No	Public Utilities
21.China Merchants Bank	30.0	4.54	No	Yes	Yes	Banking
22.China Three Gorges Project Corporation	28.5	4.31	Yes	No	No	Public Utilities
23.China Minsheng Bank	28.3	4.28	No	Yes	Yes	Banking
24.China Guangdong Nuclear Power Holding Co., Ltd.	27.8	4.21	Yes	No	No	Public Utilities
25.China Power Investment Corporation	27.6	4.18	Yes	No	No	Public Utilities
26.State-owned Capital Operation and Management Center of Beijing	25.0	3.78	No	Yes	Yes	Banking
27.Huaxia Bank	24.0	3.64	Yes	No	Yes	Banking
28.China Citic Bank	22.5	3.41	Yes	No	Yes	Raw Material
29.Wuhan Iron and Steel (Group) Corporation	22.0	3.33	Yes	No	Yes	Capital Goods
30.China Metallurgical Group Corporation	21.3	3.22	Yes	No	No	Capital Goods
31.China Resources National Corporation	20.5	3.10	Yes	No	No	Capital Goods
32.Tianjin Infrastructure Construction Investment (Group) Co., Ltd.	20.2	3.06	Yes	No	No	Capital Goods
33.Aviation Industry Corporation of China	20.0	3.03	No	Yes	Yes	Banking
34.Bank of Beijing	20.0	3.03	Yes	No	No	Transportation
35.Beijing Infrastructure Investmenet Co., Ltd.	19.0	2.88	No	Yes	Yes	Banking
36.Shanghai Pudong Development Bank	18.8	2.85	Yes	No	Yes	Capital Goods
37.Metallurgical Corporation of China Ltd.	18.4	2.78	Yes	No	No	Public Utilities
38.China Datang Corporation	18.2	2.75	Yes	No	No	Diversified Financial
39.Shanghai Chengtou Corporation	18.2	2.75	Yes	No	No	Retail
40.Cofco Limited	18.1	2.74	Yes	No	Yes	Capital Goods
41.China State Construction Engineering Corp., Ltd.	16.2	2.45	Yes	No	Yes	Banking
42.China Everbright Bank	16.0	2.42	Yes	No	No	Transportation
43.Capital Airports Holding Company	15.9	2.41	Yes	No	No	Capital Goods
44.China Minmetals Corporation	15.8	2.39	Yes	No	No	Capital Goods
45.China North Industries Group Corporation	15.2	2.30	Yes	No	No	Transportation
46.Jiangsu Communication Holding Company	15.1	2.29	Yes	No	Yes	Transportation
47.China Cosco Holdings Company Limited	15.0	2.27	Yes	No	Yes	Capital Goods
48.China Railway Construction Company Ltd.	15.0	2.27	Yes	No	No	Diversified Financial
49.State Development and Investment Corporation	14.5	2.19	Yes	No	No	Capital Goods
50.Anshan Iron and Steel Group Corporation	14.0	2.12	Yes	No	Yes	Raw Material
Total Top 50	**2539.0**	**384.28**				

LCY = local currency.
Source: Bloomberg LP, *ChinaBond,* and Wind.

Figure 4. LCY Corporate Bonds Outstanding by Sector (CNY billion)



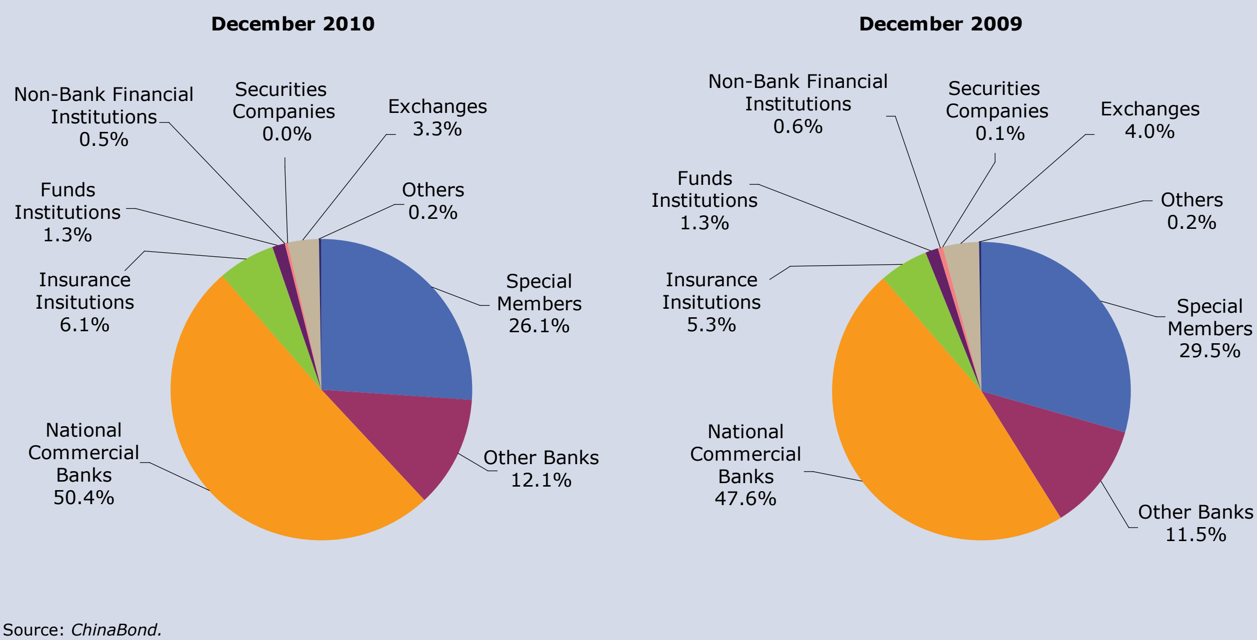
LCY = local currency.
Note: Others includes Commercial & Specialized Services, Family & Personal Goods, Food & Main Products Retail, Insurance, Media, Pharmaceutical, BioTech & Life Sciences, Semi-Conductor/Semi-Conductor Production Equipments, Software & Services, Technology, Hardware & Equipments
Source: Wind & *ChinaBond*.

capital-raising efforts through the issuance of subordinated debt that can be classified as Tier 2 capital. Banks in the PRC have been using Tier 2 capital to support their loan-making activities, which grew at a rapid pace in 2010 and exceeded the PBOC's official loan target. The capital goods sector follows as the third largest component of outstanding corporate bonds.

Investor Profile

Treasury Bonds. Banks remained the largest category of investors in the PRC Treasury bond market, holding a larger share of these bonds at end-December 2010 (62.5%) than end-December 2010 (59.1%) **(Figure 5)**. The share held by special members dropped to 26.1% in December 2010 from 29.5% a year earlier. Special members comprise the PBOC, Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Co., and China Securities Depository and Clearing Corporation.

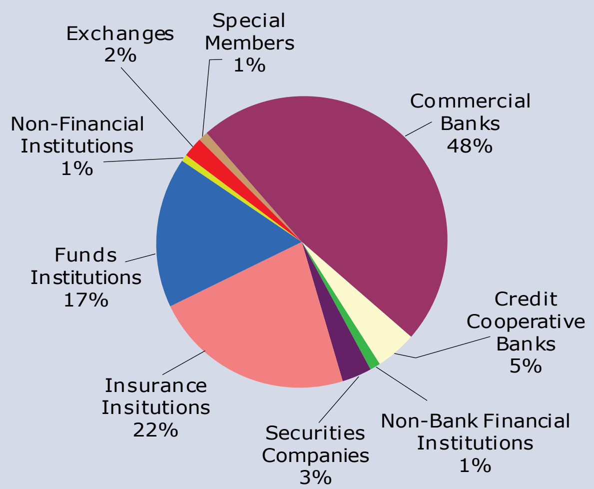
Figure 5: Treasury Bonds Investor Profile



Source: *ChinaBond.*

Corporate Bonds. In terms of the investor profile for coporate bonds, the largest holders are banks, which hold 63% of outstanding corporate bonds, followed by insurance institutions which hold 22%. **(Figure 6)**

Figure 6: Corporate Bonds Investor Profile



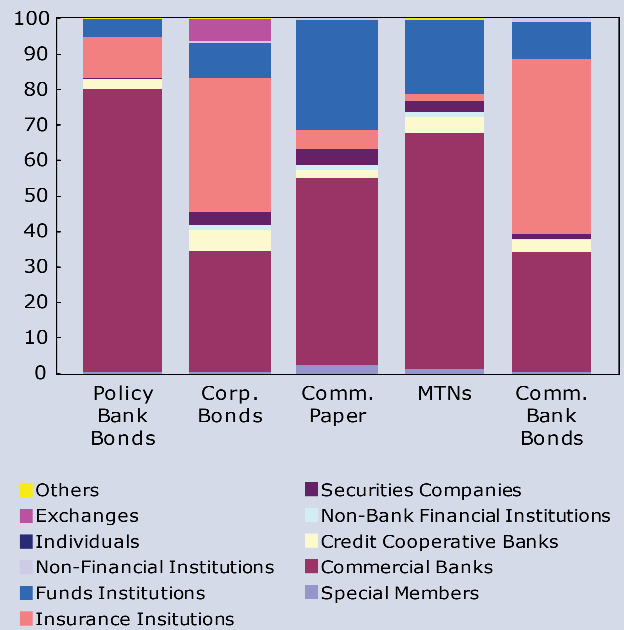
Source: Chinabond.

Figure 7 presents the investor profile across different bond categories. Based on the graph, banks are the largest holders when it comes to treasury bonds and policy bank bonds. In particular, banks hold roughly 80% of outstanding policy bank bonds. On the other hand, insurance institutions are the largest holders of commercial bank bonds.

Rating Changes

Following Moody's Investors Service ratings upgrade for the PRC in November, Standard & Poor's (S&P) upgraded the FCY long-term and LCY long-term sovereign ratings of the PRC by one notch to AA- on 16 December, with a stable outlook for both **(Table 5)**. S&P cited the PRC's substantial foreign exchange reserves, strong fiscal position, and growth prospects as reasons for the upgrade. S&P also said that it might raise its ratings further

Figure 7: Investor Profile across Bond Categories



MTNs = medium-term notes.
Source: *ChinaBond*.

Table 5: Selected Sovereign Ratings and Outlook for the PRC

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Aa3	AA-	A+
Outlook	Positive	Stable	Stable

FCY = foreign currency, LT = long-term, PRC = People's Republic of China.
Source: Rating agencies

if structural reforms led to sustained economic growth and average income levels improved.

Policy, Institutional, and Regulatory Developments

PBOC Hikes Reserve Requirement Ratio of Banks

Since November, the PRC has implemented a series of increases in the reserve requirement ratios for financial institutions, reflecting continued concerns over inflation and the pace of credit growth. New loans granted in 2010 exceeded the official target of CNY7.5 billion to reach CNY7.95 billion.

By mid-March, the PBOC had hiked the reserve requirement ratio six times—by 50 basis points each time—since November 2010. These hikes effectively brought the reserve requirement rate to 20.5% for several major banks, 20.0% for other large financial institutions, and 18.0% for small and medium-sized financial institutions.

CSRC Grants Additional QFII Licenses

On 12 January, the China Regulatory Securities Commission (CRSC) announced that it had issued three additional licenses in December under the Qualified Foreign Institutional Investor (QFII) scheme. The licenses were issued to BMO Investments Inc., Julius Bear & Co. Ltd., and KTB Asset Management. As of end-2010, 106 institutions had been granted QFII licenses.

Draft on QFII Index Futures Trading Issued

On 25 January, the CSRC issued a draft regulation for foreign investors under the QFII program allowing them to trade local stock index futures. Under the rules, foreign investors, like local investors, can only trade the index futures for hedging purposes. There will also be limits on trading volume, and the number of investors under the QFII program will be restricted by a quota.

PRC Implements Additional Property Measures

The State Council announced on 26 January that it would increase the minimum down payment for second-home buyers from 50% to 60%. The State Council also asked local governments to set price targets for property. Two days later, the PRC approved a property tax trial scheme in Shanghai and Chongqing. In Shanghai, the property tax will be 0.6% for all taxable residential properties, but will be reduced to 0.4% for houses with a purchase price of less than twice the average price of commercial homes. In Chongqing, only homes with a purchase price of more than twice the average will be taxed. In addition, the Ministry of Finance announced that residential properties sold within 5 years of purchase will be subject to transaction taxes.

Bank Clients Allowed to Invest in Currency Swaps

On 31 January, the State Administration of Foreign Exchange (SAFE) issued a circular that will allow banks to offer currency swap products to their corporate clients, effective 3 March. Prior to this, currency swaps were only available on the interbank market. Under the new guidelines, banks that have been trading currency swaps for at least 1 year may offer the facility to their clients.

PBOC Implements Individualized Reserve Requirement Ratios on Some Banks

On 10 February, the PBOC imposed a differentiated reserve requirement ratio on several small and medium-sized financial institutions. Under such a scheme, the financial institutions will have individualized reserve requirement ratios.

CPI Basket Weights Changed

On 11 February, when the inflation figures for January were released, it was also announced that there were changes in the basket weights used to calculate inflation. Housing-related items such as rent and utilities saw an increase in their basket weights, while other categories received a smaller weighting.

Renminbi Forex Options to Be Traded

On 17 February, SAFE announced that it will allow the trading of renminbi foreign exchange options on 1 April. The trading of the options will be limited to hedging purposes as opposed to speculation, and only European-style call options will be allowed to be traded. Furthermore, once a party purchases an option, they are prohibited from reselling it.

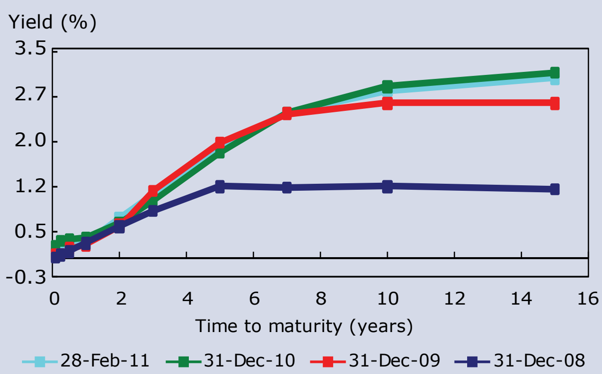
Hong Kong, China—Update

Yield Movements

The yield curve for Hong Kong, China's exchange fund bills and notes (EFBNs) rose for most maturities in 2010, but tightened by 15–17 basis points for the 3-, 4-, and 5-year maturities. However, by end-February 2011, yields at the short-end and long-end of the curve had tightened 7–10 basis points, while yields rose in the belly of the curve **(Figure 1)**. The yield on the 4-year tenor increased the most, rising 12 basis points. The spread between 2-year and 10-year maturities narrowed to 212 basis points, compared with a spread of 227 points at end-December 2010.

Consumer price inflation in Hong Kong, China accelerated to 3.6% year-on-year (y-o-y) in January, up from 3.1% in December. The higher inflation level was mainly due to higher food prices and increases in private housing rentals. Most of the major components of the composite consumer price index posted y-o-y increases in January, including food (8.2%); electricity, gas, and water (7.0%); clothing and footwear (5.0%); miscellaneous goods (3.6%); and miscellaneous services (2.7%). For 2011, the government expects inflation to continue to rise to 4.5%.

Figure 1: Hong Kong, China's Benchmark Yield Curve—EFBNs



EFBNs = Exchange Fund Bills and Notes.
Source: Bloomberg LP.

Domestic demand has proven resilient, with retail sales in December climbing 18.5% y-o-y, leading to a sixteenth consecutive month of positive growth. Also, manufacturing activity remains robust, with the HSBC Purchasing Managers' Index (PMI) for January rising to 55.2, the highest level in 9 months. (A PMI reading above 50 is indicative of an expansion of manufacturing activity.)

Hong Kong, China's gross domestic product (GDP) grew 6.2% y-o-y in 4Q10, slightly lower than the 6.7% growth realized in 3Q10. Private consumption expanded 7.1% y-o-y, an improvement over 4.9% growth in 3Q10. Merchandise export growth moderated to 8.4% y-o-y in 4Q10 after rising 20.8% in 3Q10. On a quarter-on-quarter (q-o-q) basis, the economy expanded 1.5%. For 2010 as a whole, the economy registered GDP growth of 6.8%, a turnaround from a contraction of 2.7% in 2009. The government expects GDP to grow 4.0%–5.0% in 2011.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market climbed 14.0% y-o-y to HKD1.3 trillion (USD163.7 billion) at end-December **(Table 1)**. On a q-o-q basis, LCY bonds outstanding grew at a pace of only 1.6% in 4Q10.

Total government bonds outstanding rose 25.5% y-o-y as of end-December, while q-o-q growth was relatively flat in 4Q10. Government bonds outstanding in Hong Kong, China include exchange fund bills (EFBs), exchange fund notes (EFNs), and bonds issued under the Institutional Bond Issuance Programme (HKSAR bonds).

The growth in total government bonds outstanding was largely attributed to the growth of EFBs, which expanded 25.6% in 2010. On the other hand, the stock of EFNs remained flat at HKD69.9 billion (USD9.0 billion). HKSAR bonds outstanding rose 336.4% in 2010 to reach HKD24.0 billion (USD3.1 billion), having come from a low base of

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

	Amount (billion)								**Growth Rate** (%)						
	Sep-10		**Oct-10**		**Nov-10**		**Dec-10**		**Sep-10**		**Oct-10**	**Nov-10**	**Dec-10**		
	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	1,253	161	1,260	163	1,265	163	1,273	164	25.8	1.3	0.6	0.4	14.0	1.6	0.6
Government	672	87	674	87	674	87	677	87	61.2	0.6	0.3	0.0	25.5	0.8	0.5
Exchange Fund Bills	582	75	582	75	583	75	583	75	69.4	0.1	0.03	0.1	25.6	0.2	0.1
Exchange Fund Notes	70	9	70	9	70	9	70	9	0.9	0.0	0.0	(0.9)	0.3	(0.4)	0.4
HKSAR Bonds	20	2.5	22	3	22	3	24	3	457.1	21.9	10.3	0.0	336.4	23.1	11.6
Corporate	581	75	586	76	591	76	596	77	0.3	2.1	0.8	0.8	3.2	2.5	0.8

HKSAR = Hong Kong Special Administrative Region, LCY = local currency, 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 LP 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.

only HKD6.0 billion (USD0.7 billion) at the end of 2009.

In October, HKD2.0 billion in 10-year Specieal Administrative Region (SAR) government bonds were issued under the Institutional Bond Issuance Programme. An additional HKD2.5 billion in 5-year bonds were sold in December. Both of these bond issues were well received by institutional investors, with tenders reaching HKD6.3 billion and HKD6.2 billion, respectively.

Corporate bonds outstanding reached HKD595.7 billion (USD76.6 billion) at end-2010 for growth of 3.2% y-o-y and 2.5% q-o-q. The top 18 non-bank corporate issuers in Hong Kong, China accounted for about 15% of total corporate bonds outstanding as of end-December **(Table 2)**. Hong Kong, China's top corporate issuer of LCY bonds was state-owned Hong Kong Mortgage Corporation (HKMC), with bonds valued at HKD24.3 billion (USD3.1 billion). Sun Hung Kai Properties (Capital Market) Ltd. was in the second spot with outstanding bonds of HKD9.9 billion (USD1.3 billion), while CLP Power Hong Kong Financing Ltd. was in the third spot with HKD9.3 billion (USD1.2 billion).

Finance-related firms dominated the list of the top 18 non-bank corporate issuers, accounting for over 70% of the list. Seven state-owned companies were included in the list, while 11 were privately owned. Among the companies in Table 2, only one company is listed on the Hong Kong Exchange.

Offshore Renminbi Bond Market

The offshore renminbi bond market in Hong Kong, China has grown dramatically since its inception in 2009. By 23 February, cumulative renminbi bond issuance had reached CNY82 billion. Low borrowing costs and the renminbi's expected appreciation against the United States (US) dollar have attracted both lenders and investors. Outstanding renminbi deposits in Hong Kong, China reached CNY314 billion at the end of 2010, a dramatic increase from only CNY895 million at the end of 2004, the year in which renminbi deposits were first offered. Issuers in the renminbi bond

Table 2: Top 18 Non-Bank Issuers of LCY Corporate Bonds in Hong Kong China (as of 31 December 2010)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Sector
	LCY Bonds (HKD billion)	LCY Bonds (USD billion)				
1. The Hong Kong Mortgage Corporate Ltd.	24.31	3.13	Yes	No	No	Finance
2. Sun Hung Kai Properties (Capital Market) Ltd.	9.89	1.27	No	Yes	No	Finance
3. CLP Power Hong Kong Financing Ltd.	9.28	1.19	No	Yes	No	Finance
4. Kowloon-Canton Railway Corporation	6.60	0.85	Yes	No	No	Transportation
5. MTR Corporation (C.I.) Ltd.	5.20	0.67	Yes	No	Yes	Transportation
6. Swire Pacific MTN Financing Ltd.	4.80	0.62	No	Yes	No	Finance
7. Hongkong Electric Finance Ltd.	3.80	0.49	No	Yes	No	Finance
8. Cheung Kong Bond Finance Ltd.	2.95	0.38	No	Yes	No	Finance
9. Airport Authority Hong Kong	2.90	0.37	Yes	No	No	Trannsportation
10. HKCG (Finance) Limited	2.76	0.36	No	Yes	No	Finance
11. Wharf Finance Ltd.	2.29	0.30	No	Yes	No	Finance
12. Bauhinia MBS Ltd.	2.21	0.28	Yes	No	No	Finance
13. The Link Finance (Cayman) 2009 Ltd.	2.10	0.27	No	Yes	No	Finance
14. Hysan (MTN) Ltd.	1.80	0.23	No	Yes	No	Finance
15. Urban Renewal Authority	1.50	0.19	Yes	No	No	Property Development
16. Cheung Kong Finance (MTN) Ltd.	0.80	0.10	No	Yes	No	Finance
17. Hong Kong Link 2004 Ltd.	0.79	0.10	Yes	No	No	Infrastructure
18. The Hongkong Land Notes Company Ltd.	0.20	0.03	No	Yes	No	Finance
Total Top 18 Non-Bank Corporate Issuers	**84.18**	**10.83**				

LCY = local currency.
Note:
Based on Central Money Markets Unit (CMU) data on tradeable non-bank debt securities issued and still outstanding as of 21 January 2011.
Source: Hong Kong Monetary Authority.

market have included high-grade issuers such as the government of the People's Republic of China (PRC) and lower-rated institutions such as Galaxy Entertainment.

Rating Changes

On 10 November, Moody's Investors Service upgraded Hong Kong, China's government bond rating to Aa1 from Aa2 **(Table 3)**. Moody's also raised Hong Kong, China's foreign currency (FCY) bank deposit ceiling to Aa1 and the FCY bond ceiling to Aaa. Moody's assigned a positive outlook to the ratings. Moody's cited the following factors as contributing to Hong Kong, China's ratings upgrade: (i) prospects for continued and improving government financial strength; (ii) lessening vulnerability to external shocks; and (iii) favorable prospects for the PRC's economic performance in the coming years, which will provide support to economic growth and financial development in Hong Kong, China.

On 25 November, Fitch Ratings raised Hong Kong, China's FCY long-term debt to AA+ from AA. The outlook on the ratings was stable. Fitch cited Hong Kong, China's strong economic growth and the government's prudent fiscal management as the reason for the upgrade.

On 16 December, Standard & Poor's (S&P) upgraded Hong Kong, China's long-term FCY and LCY ratings to AAA from AA+. The outlook on the ratings was stable. S&P attributed the upgrade to Hong Kong, China's large net external creditor position, the government's accumulated fiscal reserves, and above-average growth potential.

Table 3: Selected Sovereign Ratings and Outlook for Hong Kong, China

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Aa1	AAA	AA+
Outlook	positive	stable	stable

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

Policy, Institutional, and Regulatory Developments

Hong Kong, China Introduces Property Measures

On 19 November, the government of Hong Kong, China announced a number of measures designed to rein in housing prices, including additional stamp duties on property held for less than 6 months and higher down payments on some types of properties.

In addition to these measures, on 23 February the government announced that it would increase the available land supply for private and public housing development.

HSBC and Bank of China Offer Renminbi Cashier Checks

On 14 February, as part of the continued development of the offshore renminbi market, HSBC and Bank of China announced that they have begun issuing CNY-denominated cashier's checks on behalf of clients. HSBC's first renminbi cashier check was issued on behalf of tea seller Hung Fook Toong. Meanwhile, Bank of China is also offering renminbi cashier checks through its branches.

Bank of China Offers Renminbi Repos

On 20 February, Bank of China announced that it would begin offering renminbi repurchase and lending facilities in Hong Kong, China. According to the bank, the launch of these facilities will spur the development of new CNY-denominated products and facilitate renminbi settlements.

Indonesia—Update

Yield Movements

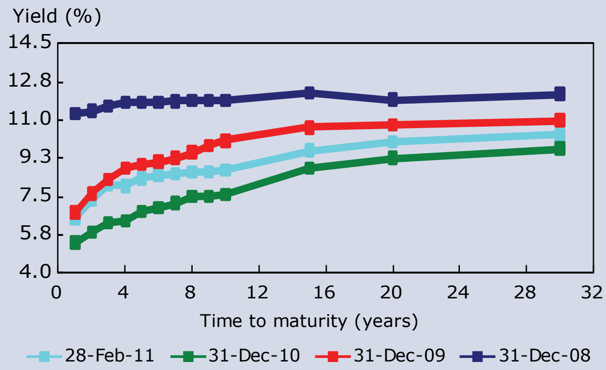
Between end-December 2009 and end-December 2010, the government bond yield curve for Indonesia shifted downward across all maturities **(Figure 1)**. However, the yield curve shifted upward again between end-December 2010 and end-February, rising more at the short-end of the curve, as Bank Indonesia (BI) raised its policy rate to dampen growing inflationary pressures. Yields at the short-end of the curve were almost identical to their end-2009 levels.

Yields from the short-end through the 10-year maturity rose more than 100 basis points by end-February from their end-December levels. The yield for the 3-year maturity climbed the most among all maturities between end-December and end-February, rising 169 basis points. Meanwhile, the 5-year and 10-year maturities rose by 152 and 113 basis points, respectively. The yield spread between the 2-year and 10-year maturities narrowed to 138 basis points by end-February from a spread of 174 basis points at end-December.

For the first time in 4 months, consumer price inflation eased, falling to 6.84% year-on-year (y-o-y) in February from 7.02% in January. On a month-on-month (m-o-m) basis, consumer price inflation slowed to 0.13% in February on account of lower food prices following improvement in the supply of some volatile food items (e.g., rice and chili peppers). However, the core inflation rate (excluding volatile items) rose to 4.36% y-o-y in February from only 4.18% in the previous month. The central bank's inflation target stands at 4.0%–6.0% for 2011.

In a meeting held on 4 February, BI's Board of Governors decided to raise its reference rate by 25 basis points to 6.75% to curb the renewed onset of inflationary pressures. This was the first rate hike since October 2008 when BI last raised its interest rate by 25 basis points to 9.5%. According to BI, it will keep a close watch on inflationary pressures and allow the rupiah's exchange rate versus the United States (US) dollar to strengthen as needed. In addition, BI will continue to implement its macro-prudential policies introduced in 2010. Subsequently, in its meeting held on 4 March, BI's Board of Governors decided to keep its reference rate steady at 6.75%.

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



LCY = local currency.
Source: Bloomberg LP.

Indonesia's gross domestic product (GDP) grew 6.9% y-o-y in 4Q10 on account of strong domestic consumption and investment. Household consumption expanded 4.4% y-o-y, while investment rose 8.7%. Most major industry sectors registered higher annual growth in 4Q10 compared with the previous quarter, led by transport and communications, which expanded 15.5% y-o-y. On a quarter-on-quarter (q-o-q) basis, however, the economy contracted 1.5% in 4Q10. For the full-year 2010, the economy recorded GDP growth of 6.1%, compared with 4.6% in 2009. For 2011, the Ministry of Finance is targeting GDP growth of 6.4% based on the 2011 State Budget.

Size and Composition

Total local currency (LCY) bonds outstanding in Indonesia expanded 2.8% y-o-y as of end-December to reach IDR956.1 trillion (USD106.3 billion) **(Table 1)**. On a quarter-on-quarter (q-o-q) basis, however, bonds outstanding fell 4.4% in 4Q10. The negative growth in LCY bonds outstanding was due mainly to a drop in the stock of government bonds.

As of end-December, the growth in total government bonds outstanding was flat on a y-o-y basis mainly on account of a notable drop in the stock of central bank bills issued by BI in the form of *Sertifikat* Bank Indonesia (SBI). On the other hand, the stock of central government bonds (treasury bills and bonds issued by the Ministry of Finance) rose 10.2% y-o-y in 4Q10, which was still down from 13.7% growth in 3Q10. On a q-o-q basis, government bonds contracted 6.2%, with both central government bonds and central bank bills posting negative growth.

In 4Q10, issuance by the central government totaled IDR10.6 trillion (USD1.2 billion), down 26.5% compared with IDR14.4 trillion a year earlier. On a q-o-q basis, treasury issuance dropped 67.0%. Bond issues during the quarter comprised both conventional and Islamic treasury bills and bonds.

In 2010, the government was able to raise IDR161.9 trillion in bonds (gross). Issuance was reduced in the second half of the year as the budget deficit for 2010 was revised downward. According to the Ministry of Finance, the final budget deficit for 2010 was equivalent to only 0.6% of GDP, compared with an initial forecast of 2.1%.

For 2011, the Finance Ministry's Debt Management Office has chosen four state bond series (FR0055, FR0053, FR0056, and FR0054) as its benchmark bonds **(Table 2)**. The selection of the government's benchmark bonds takes into account the results of the Preference Structure of Government Securities Portfolio survey and inputs from primary dealers, as well as liquidity, outstanding amounts, and the

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

	Amount (billion)								**Growth Rate** (%)						
	Sep-10		**Oct-10**		**Nov-10**		**Dec-10**		**Sep-10**		**Oct-10**	**Nov-10**	**Dec-10**		
	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	999,992	112	973,330	109	966,960	107	956,142	106	15.3	1.5	(2.7)	(0.7)	2.8	(4.4)	(1.1)
Government	896,857	101	867,994	97	856,374	95	841,325	94	13.8	0.5	(3.2)	(1.3)	(0.03)	(6.2)	(1.8)
Central Govt Bonds	645,077	72	642,984	72	642,814	71	641,215	71	13.7	3.8	(0.3)	(0.03)	10.2	(0.6)	(0.2)
Central Bank Bills	251,780	28	225,010	25	213,560	24	200,110	22	14.1	(7.1)	(10.6)	(5.1)	(23.0)	(20.5)	(6.3)
Corporate	103,135	12	105,336	12	110,586	12	114,817	13	30.7	10.9	2.1	5.0	29.8	11.3	3.8

LCY = local currency, 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 LP 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.

coupon of each series. The outstanding amount of these bonds, however, added up to a relatively small IDR21.6 trillion, equivalent to only 3.4% of outstanding central government bonds as of end-December.

Table 2: Indonesian Government Benchmark Bonds for 2011

Bond Series	Outstanding Amount (IDR billion)	Coupon (%)	Maturity Date
FR0055	4,100	7.35	15-Sep-16
FR0053	6,372	8.25	15-Jul-21
FR0056	3,750	8.38	15-Sep-26
FR0054	7,722	9.50	15-Jul-31
Total Benchmark Bonds	21,944		
Total Central Government Bonds	641,215		
Benchmark Bonds as % of Total	3.42%		

Source: Indonesia Stock Exchange.

SBI Market Developments. The stock of central bank bills contracted 23.0% y-o-y in 4Q10, compared with 14.1% growth in 3Q10. Regulations imposed by the central bank in the second half of 2010 reduced the frequency of SBI auctions and required a 1-month holding period for SBIs. Subsequently, this led to a significant drop in the stock of central bank bills during the review period. On a q-o-q basis, central bank bills dropped 20.5%, after declining 7.1% in 3Q10.

In 4Q10, three SBI auctions were held, with one auction each month. SBI issuance for the quarter consisted mostly of longer-dated tenors (6- and 9-months). In November, the central bank stopped issuing 3-month SBI and instead began offering term deposit instruments to absorb excess bank liquidity and limit foreign holdings. However, these term deposit instruments were only offered to banking institutions.

In February, BI announced that it would no longer issue SBI with maturities of less than 9-months. The central bank also began issuing term deposits with tenors of more than 1 month to absorb excess liquidity. Specifically, the central bank began issuing term deposits with a 5-month maturity in January and a 6-month maturity in February.

Corporate Bond Market Trends. Corporate bonds outstanding grew 29.8% y-o-y to IDR114.8 trillion (USD12.8 billion) in 4Q10. On a q-o-q basis, corporate bonds outstanding rose by 11.3% in 4Q10. The positive growth rates on a y-o-y and q-o-q basis in corporate bonds were driven by double-digit growth rates in issuance: 19.5% y-o-y and 23.5% q-o-q.

The top 52 corporate issuers in Indonesia accounted for almost 95% of total corporate bonds outstanding as of end-December **(Table 3)**. Indonesia's top corporate issuer of LCY bonds was the state-power firm PLN, with bonds valued at IDR15.1 trillion (USD1.7 billion). Telecommunications firm Indosat followed with IDR7.5 trillion (USD0.8 billion) in outstanding LCY bonds. Bank Pan Indonesia was in the third spot with outstanding LCY bonds of IDR6.9 trillion (USD0.8 billion).

Financial institutions dominate the list of the top 52 corporate issuers in Indonesia, accounting for nearly half of the list. Financial institutions include banks, securities companies, and other specialized companies engaged in finance (e.g., pawnshop, leasing). In addition, 12 state-owned companies were on the list, with five state-owned companies in the top 10. Also, about two-thirds of the top 52 companies are listed on the Indonesia Stock Exchange. This is an indication that these firms are tapping both equity and fixed-income instruments as sources of funding. Among the companies listed in Table 3, 40 companies are privately-owned entities.

Corporate LCY bond issuance rose to IDR14.2 trillion (USD1.6 billion) in 4Q10 from IDR11.5 trillion (USD1.3 billion) in 3Q10. The corporate bond issuers in 3Q10 were mostly firms from the financial sector, except for two—Jasa Marga (toll operator) and BW Plantation. Most corporate bonds issued in 4Q10 carried coupons ranging from 8.0%–10.0%. Some notable corporate bond issues in 4Q10 are listed in **Table 4**.

Bank Pan Indonesia raised a total of IDR3.0 trillion in a bond offering in November. The proceeds from the bond issue will be used to support the bank's

Table 3: Top 52 LCY Corporate Bond Issuers (as of 31 December 2010)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (USD billion)				
1. PLN (Persero)	15,100	1.68	Yes	No	No	Energy
2. Indosat Tbk	7,450	0.83	No	Yes	Yes	Telecommunication
3. Bank Pan Indonesia Tbk	6,900	0.77	No	Yes	Yes	Bank
4. Indonesia Eximbank	5,341	0.59	Yes	No	No	Bank
5. Jasa Marga (Persero) Tbk	5,000	0.56	Yes	No	Yes	Toll Road, Airport, Harbor And Allied Products
6. Bank Tabungan Negara (Persero)	4,150	0.46	Yes	No	Yes	Bank
7. Bank Danamon Indonesia Tbk	4,050	0.45	No	Yes	Yes	Bank
8. Indofood Sukses Makmur Tbk	3,574	0.40	No	Yes	Yes	Food and Beverages
9. Bank Mandiri (Persero) Tbk	3,500	0.39	Yes	No	Yes	Bank
10. Bank Tabungan Pensiunan Nasional Tbk	3,150	0.35	No	Yes	Yes	Bank
11. Perum Pegadaian	3,000	0.33	Yes	No	No	Financial Institution
12. Telekomunikasi Indonesia Tbk	3,000	0.33	Yes	No	Yes	Telecommunication
13. Bank CIMB Niaga	2,980	0.33	No	Yes	Yes	Bank
14. Federal International Finance	2,845	0.32	No	Yes	No	Financial Institution
15. Adira Dinamika Multifinance Tbk	2,544	0.28	No	Yes	Yes	Financial Institution
16. Astra Sedaya Finance	2,460	0.27	No	Yes	No	Financial Institution
17. Oto Multiartha	2,300	0.26	No	Yes	No	Financial Institution
18. Bank Rakyat Indonesia (Persero) Tbk	2,000	0.22	Yes	No	Yes	Bank
19. Summit Oto Finance	1,900	0.21	No	Yes	No	Financial Institution
20. Bank Jabar Banten	1,750	0.19	No	Yes	Yes	Bank
21. Excelcomindo Pratama Tbk	1,500	0.17	No	Yes	Yes	Telecommunication
22. Medco Energi Internasional Tbk	1,500	0.17	No	Yes	Yes	Crude Petroleum & Natural Gas Production
23. Bank OCBC NISP Tbk	1,480	0.16	No	Yes	Yes	Bank
24. Bentoel International Investama Tbk	1,350	0.15	No	Yes	Yes	Tobacco Manufacturers
25. Berlian Laju Tanker Tbk	1,340	0.15	No	Yes	Yes	Transportation
26. Danareksa (Persero)	1,080	0.12	Yes	No	No	Others Finance
27. Bank Negara Indonesia (Persero) Tbk	1,000	0.11	Yes	No	Yes	Bank
28. Bank Mega Tbk	1,000	0.11	No	Yes	Yes	Bank
29. Pupuk Kalimantan Timur	791	0.09	No	Yes	No	Chemicals
30. Wahana Ottomitra Multiartha Tbk	775	0.09	No	Yes	Yes	Financial Institution
31. Bank DKI	750	0.08	No	Yes	No	Bank
32. Salim Ivomas Pratama	730	0.08	No	Yes	No	Plantation
33. Sarana Multigriya Finansial (Persero)	727	0.08	Yes	No	No	Financial Institution
34. BCA Finance	725	0.08	No	Yes	No	Financial Institution
35. BW Plantation	700	0.08	No	Yes	Yes	Plantation
36. Lontar Papyrus Pulp & Paper Industry	700	0.08	No	Yes	No	Pulp & Paper
37. Bakrie Telecom Tbk	650	0.07	No	Yes	Yes	Telecommunication
38. Bakrieland Development Tbk	650	0.07	No	Yes	Yes	Property And Real Estate
39. Thames Pam Jaya (Aertra Air Jakarta)	615	0.07	No	Yes	No	Water Utilities
40. Mobile-8 Telecom Tbk	607	0.07	No	Yes	Yes	Telecommunication
41. Apexindo Pratama Duta Tbk	600	0.07	No	Yes	No	Crude Petroleum & Natural Gas Production
42. Arpeni Pratama Ocean Line Tbk	600	0.07	No	Yes	Yes	Transportation
43. Bumi Serpong Damai Tbk	600	0.07	No	Yes	Yes	Property And Real Estate
44. Surya Citra Televisi	575	0.06	No	Yes	No	Advertising, Printing & Media
45. Matahari Putra Prima Tbk	528	0.06	No	Yes	Yes	Retail Trade
46. Indah Kiat Pulp & Paper Tbk	501	0.06	No	Yes	Yes	Pulp & Paper

continued on next page

Table 3 continued

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (USD billion)				
47. Adhi Karya (Persero) Tbk	500	0.06	Yes	No	Yes	Building Construction
48. Ciliandra Perkasa	500	0.06	No	Yes	No	Plantation
49. Duta Pertiwi Tbk	500	0.06	No	Yes	Yes	Property And Real Estate
50. Japfa Comfeed Indonesia Tbk	500	0.06	No	Yes	Yes	Animal Feed
51. Lautan Luas Tbk	500	0.06	No	Yes	Yes	Wholesale (Durable & Non-Durable Goods)
52. Bank Permata Tbk	500	0.06	No	Yes	Yes	Bank
Total Top 52 Corporate Issuers	**108,068**	**12.01**				
Total Corporate Bonds Outstanding	**114,817**	**12.76**				
Top 52 as % of Total Corporate	**94.12%**	**94.12%**				

LCY = local currency.
Source: Indonesia Stock Exchange.

Table 4: Notable LCY Corporate Bond Issuance in 4Q10

Corporate Issuers	Amount Issued (IDR billion)
Bank Pan Indonesia Tbk	3,000
Bank Danamon Indonesia Tbk	2,800
Adira Dinamika Multifinance Tbk	2,000
Bank CIMB Niaga	1,600
Jasa Marga (Persero) Tbk	1,500
Summit Oto Finance	1,500
Others	1,800
Total	**14,200**

LCY = local currency.
Source: Indonesia Stock Exchange.

loan expansion and to strengthen its capital. The bonds consisted of the following series:

(i) 5-year bonds worth IDR540 billion, coupon of 9.0%; and
(ii) 7-year subordinated bonds worth IDR2.46 trillion, coupon of 10.5%.

Bank Danamon Indonesia also issued a total of IDR2.8 trillion in bonds in December to support its loan expansion. The bonds comprised the following tranches:

(i) 3-year bonds worth IDR1.88 trillion, coupon of 8.75%; and
(ii) 5-year bonds worth IDR921 billion, coupon of 9.0%.

Automotive financing company, Adira Dinamika Multifinance, issued IDR2.0 trillion through a five-tranche bond deal in October. The bonds consisted of the following series:

(i) 1.5-year bonds worth IDR229 billion, coupon of 7.60%;
(ii) 2-year bonds worth IDR238 billion, coupon of 8.25%;
(iii) 2.5-year bonds worth IDR577 billion, coupon of 8.70%;
(iv) 3-year bonds worth IDR284 billion, coupon of 9.0%; and
(v) 4-year bonds worth IDR672 billion, coupon of 9.25%.

Bank CIMB Niaga raised IDR1.6 trillion from the sale of subordinated bonds in December, an upsize from its original plan of IDR500 billion. The subdebt will mature in 10 years and carries a coupon of 10.85%. The proceeds from the subdebt issue will be used to strengthen the bank's capitalization.

State-owned toll road operator Jasa Marga issued IDR1.5 trillion in bonds in October to pay its debts and to finance toll road expansion. The bonds consisted of the following series:

(i) 3-year bonds worth IDR500 billion, zero coupon; and
(ii) 10-year bonds worth IDR1.0 trillion, coupon of 9.35%.

Automobile financing company Summit Oto Finance raised IDR1.5 trillion in a four-tranche bond sale. The bond issue comprised the following series:

(i) 370-day bonds worth IDR300 billion, coupon of 7.3%;
(ii) 2-year bonds worth IDR300 billion, coupon of 8.4%;
(iii) 3-year bonds worth IDR600 billion, coupon of 9.5%;
(iv) 4-year bonds worth IDR300 billion, coupon of 9.75%.

Foreign Currency Bonds

In November, the government raised JPY60 billion from an issue of *samurai* bonds. The bonds have a 10-year maturity and were issued with a coupon rate of 1.6%, or 55 basis points above the yen swap rate. This was the second issue of *samurai* bonds by Indonesia since selling JPY35 billion of 10-year *samurai* bonds in July 2009.

Investor Profile

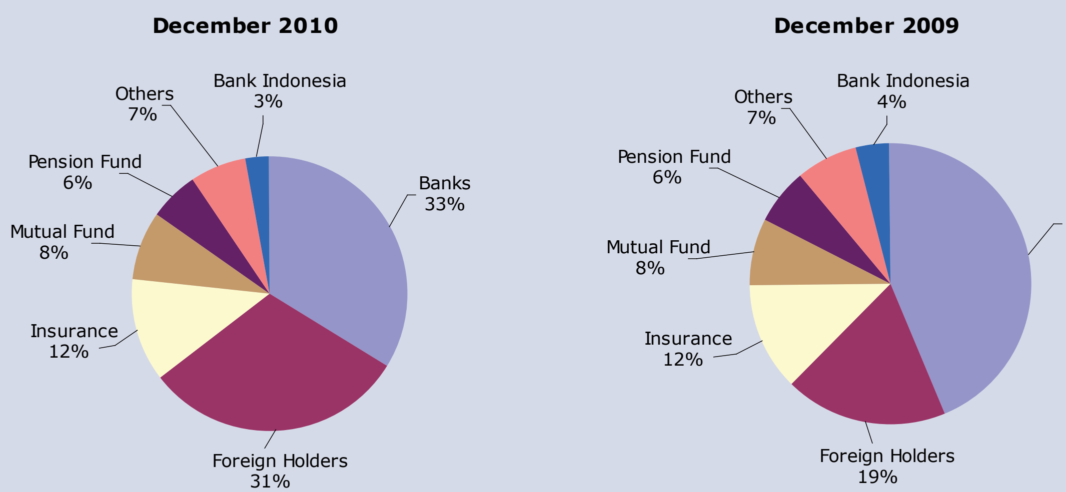
Central Government Bonds. At end-December, banking institutions remained the biggest holders of Indonesian LCY central government bonds, with 33% of total central government bonds outstanding **(Figure 2)**. However, banks' holdings have dropped significantly from 44% at end-December 2009, and from as high as 82% in 2002.

Foreign investors are the second biggest holder of Indonesian LCY central government bonds, with a share of 31% at end-December, compared with only 19% at end-December 2009. The share of foreign investors' holdings has steadily risen from only 0.48% in 2002. Foreign holders include non-resident private banks, fund/asset management firms, securities firms, insurance companies, and pension funds.

As of end-December, the share of bonds held by foreign investors in short-dated tenors (bonds with maturities of less than 1 year) rose to 10.2% from only 1.9% in 2008 and 4.5% in 2009 **(Figure 3)**. The 1-month holding period for SBIs may have led investors to shift into treasury bills. Foreign investors' holdings of long-dated tenors (maturities of more than 5 years) fell to 67.0% at end-December from 71.0% a year earlier.

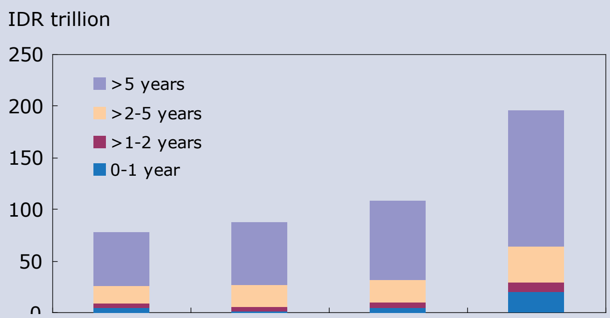
Meanwhile, the share of insurance companies, mutual funds, and pension funds' holdings of LCY

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 3: Foreign Holdings of LCY Government Bonds by Maturity



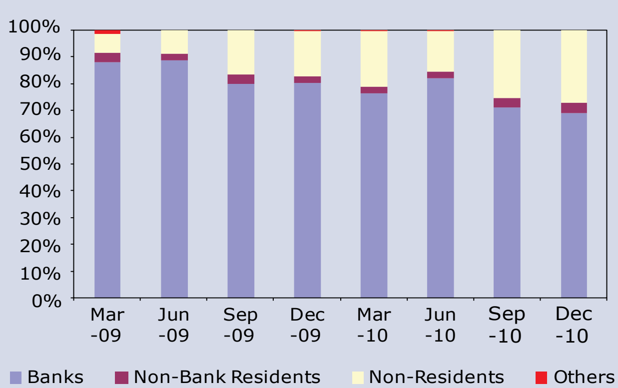
LCY = local currency.
Source: Indonesia Debt Management Office.

bonds outstanding remained flat at end-December 2010 from a year earlier.

Central Bank Bills. At end-December, banks were the major holders of SBIs, with a 69% share **(Figure 4)**. However, this was down from banks' 80% share at end-December 2009. The share of banks' holdings of SBIs reached a high of 89% in June 2009.

Foreign interest in SBIs remained strong as the share of non-residents rose significantly to 27% at end-December from only 17% in the previous year. In addition, non-bank residents' share rose to 4% at end-December from 3% a year earlier.

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

Rating Changes

On 14 October, Rating and Investment Information (R&I) affirmed Indonesia's foreign currency (FCY) issuer rating at BB+ and changed the outlook to positive from stable **(Table 5)**. R&I believes that a rating upgrade to BBB is possible once Indonesia is able to sustain balanced economic growth by boosting investment in infrastructure. The rating agency also affirmed Indonesia's FCY short-term debt rating at a-3.

Moody's Investors Service (Moody's) raised Indonesia's sovereign credit rating to one notch below investment grade. On 17 January, Moody's raised Indonesia FCY and LCY debt ratings to Ba1 from Ba2. The outlook for both ratings was stable. The rating upgrade came after Moody's conducted a review in December. Moody's cited the following reasons for the upgrade: (i) economic resilience and sustained macroeconomic balance, (ii) the government's improved debt position and the central bank's adequate FCY reserves, and (iii) improved prospects for foreign direct investment inflows.

On 24 February, Fitch Ratings (Fitch) affirmed Indonesia's long-term foreign and local currency issuer default ratings at BB+ and upgraded the outlook on both ratings to positive from stable. Fitch cited Indonesia's strong economic growth as one of the factors for the upgrade.

Table 5: Selected Sovereign Ratings and Outlook for Indonesia

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Ba1	BB	BB+	BB+
Outlook	stable	positive	positive	positive

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

Policy, Institutional, and Regulatory Developments

New Regulations on Reserve Requirements and Bank Lending

In November, new regulations on reserve requirements took effect to help contain inflation and boost economic growth. The primary reserve requirement was raised from 5.0% to 8.0% of deposits, while the secondary reserve requirement remained at 2.5%. In addition, a new regulation designed to give banks incentives for maintaining their loan-to-deposit ratio within a range of 78%–100% went into effect on 1 March 2011.

State Firms to Purchase Government Bonds in the Event of Sudden Capital Outflow

In early January 2011, the Ministry of Finance and the State Enterprises Ministry signed a memorandum of understanding requiring state-owned firms to act as stand-by purchasers of government bonds in the event of sudden capital outflows. Under the scheme, a bond stabilization fund will be created to help protect the economy in case of sudden capital flight. The government has appointed 13 major state companies and financial institutions to participate in the bond stabilization fund. These 13 companies comprise four banks (Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, and Bank Tabungan Negara), and nine non-banks and insurance companies (including Jaminan Kredit Indonesia and Asuransi Kredit Indonesia).

BI Implements Measures to Minimize the Risk of Capital Flight

In January, BI re-introduced a measure that limits overseas short-term borrowing by Indonesian banks to 30% of their capital. Also, BI announced that it will require Indonesian banks to increase their foreign exchange reserves deposited with BI as part of measures to absorb foreign exchange liquidity. The central bank will require banks to increase their foreign exchange reserves to 5.0% of foreign exchange deposits in March and 8.0% in June.

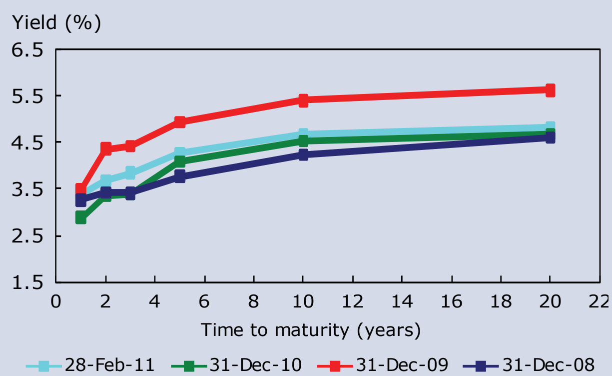
Republic of Korea—Update

Yield Movements

The government bond yield curve in the Republic of Korea shifted downward between end-2009 and end-2010. Yields, however, rose for all maturities between end-2010 and 28 February, with the yield hikes ranging from 13 basis points for the 20-year tenor to 51 basis points for the 1-year tenor **(Figure 1)**. Meanwhile, the yield spread between 2- and 10-year maturities narrowed by 17 basis points between end-2010 and 28 February. The jump in yields, which were relatively high from the short-end up to the belly of the curve, may be attributed to concerns over rising inflationary pressures and expectations of policy rate hikes.

Advance estimates of 4Q10 gross domestic product (GDP) in the Republic of Korea showed that GDP growth improved to 4.8% year-on-year (y-o-y) in 4Q10 from 4.4% in 3Q10 on the back of strong export growth. On a quarter-on-quarter (q-o-q) basis, the 4Q10 GDP growth rate stood at 0.5%, lower than the previous quarter's 0.7%. GDP growth for the full-year 2010 leveled off at 6.1%. Meanwhile, consumer price inflation accelerated to 4.5% y-o-y in February from 4.1% in January and 3.5% in December, mainly due to relatively sharp food price hikes. The Bank of Korea (BOK) raised its 7-day repurchase rate by 25 basis points to 3.0% in March, after keeping it steady in February. A previous 25-basis points hike in the policy rate was made in January.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The Republic of Korea's local currency (LCY) bond market expanded by 9.4% y-o-y and 1.2% q-o-q to reach KRW1,293.9 trillion (USD1.1 trillion) as of end-December **(Table 1)**. The annual growth in LCY bonds outstanding was led by buoyant growth in both government and corporate bonds.

The size of the LCY government bond market grew 7.2% in 2010, but fell 2.0% q-o-q in 4Q10, leveling off at KRW554.2 trillion (USD492 billion) at end-December. Central government bonds outstanding climbed 9.0% in 2010, but declined 2.1% q-o-q in 4Q10 on the back of a 2.6% quarterly drop in the amount of outstanding Korean Treasury Bonds (KTBs). LCY bonds issued by the BOK, or Monetary Stabilization Bonds (MSBs), increased 9.6% y-o-y, but fell slightly by 0.6% on a quarterly basis. Industrial finance debentures registered declines of 20.1% y-o-y and 7.5% q-o-q.

The LCY corporate bond market in the Republic of Korea grew 11.1% y-o-y and 3.7% q-o-q to KRW739.7 trillion (USD657 billion) as of end-December. The annual growth was due largely to an increase in issuance of both private corporate and special public bonds. Private corporate bonds soared 22.9% y-o-y and 13.5% q-o-q, reaching KRW289.9 trillion (USD257 billion). Special public bonds also rose 14.6% y-o-y, but fell 2.7% from the previous quarter, leveling off at KRW243.7 trillion (USD217 billion). In contrast, financial debentures (excluding the Korea Development Bank) dropped 5.2% y-o-y and 0.7% q-o-q to KRW206.2 trillion (USD183 billion).

In 4Q10, the top three issuers of LCY corporate bonds were Industrial Bank of Korea, which sold KRW6.9 trillion worth of bonds for the quarter, Korea Finance Corporation (KRW3.8 trillion), and

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

	Amount (billion)								**Growth Rate** (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	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	1,278,906	1,122	1,283,715	1,141	1,294,691	1,117	1,293,940	1,149	8.7	1.8	0.4	0.9	9.4	1.2	(0.1)
Total Government	565,376	496	565,092	502	565,028	487	554,223	492	4.6	1.2	(0.1)	(0.0)	7.2	(2.0)	(1.9)
Central Bank Bonds	164,470	144	164,300	146	164,080	142	163,530	145	5.9	(1.9)	(0.1)	(0.1)	9.6	(0.6)	(0.3)
Central Government Bonds	370,643	325	371,515	330	372,233	321	362,690	322	10.9	3.7	0.2	0.2	9.0	(2.1)	(2.6)
Industrial Finance Debentures	30,263	27	29,277	26	28,714	25	28,003	25	(40.5)	(10.5)	(3.3)	(1.9)	(20.1)	(7.5)	(2.5)
Corporate	713,530	626	718,623	639	729,663	629	739,717	657	12.1	2.3	0.7	1.5	11.1	3.7	1.4

LCY = local currency, 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. Central government bonds include Korean Treasury bonds, National Housing bonds, and Seoul Metropolitan Subway bonds.
3. Bloomberg LP 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*.

Export–Import Bank of Korea (KRW3.4 trillion). The largest issuer of special public bonds for the quarter was Korea Finance Corporation; the largest issuer of financial debentures was Industrial Bank of Korea; and the largest issuer of private corporate bonds was LH My Home 2nd Securitization Specialty Inc., which issued KRW1 trillion worth of asset-backed securities.

As of end-December, the top 50 issuers of LCY corporate bonds had total outstanding bonds of KRW548 trillion (USD487 billion), which is about 74% of the total corporate bond market in the Republic of Korea **(Table 2)**. About 67% of the top 50 are financial institutions—mostly banks and securities companies. In addition, about 48% of the top 50 are publicly listed on the Korea Exchange (KRX) and 46% are privately-owned. Korea Land & Housing Corp., a state-owned real estate entity, stood as the largest issuer of LCY corporate bonds at KRW56.1 trillion (USD50 billion).

Foreign Currency Bonds

Foreign currency (FCY) bonds outstanding in the Republic of Korea as of end-December stood at USD129.4 billion, which is 10.5% higher than in the previous year. Around 75% of these bonds were in United States (US) dollars, 10% were in Japanese yen, 5% were in euros, and another 5% were in emerging East Asian currencies.

Investor Profile

In the Republic of Korea, the general government (consisting of central government, local government, and social security funds) continued to be the largest holder of LCY government bonds, with 24% of the total as of end-December 2010 **(Figure 2)**. This was followed by insurance firms and pension funds with a combined 23% share of the total, while banks and other financial institutions held 19% and 18%, respectively. Meanwhile, foreign investors owned 10% of LCY government bonds. Compared with end-December 2009, the shares of foreign investors and financial institutions (other than banks and insurance firms/pension funds) rose by 3 and

Table 2: Top 50 Issuers of LCY Corporate Bonds in the Republic ofKorea (as of December 2010)

Issuer	Outstanding Amount		State-Owned	Privately-Owned	Listed In		Sector
	LCY Bonds (KRW billion)	LCY Bonds (USD billion)			KOSPI	KOSDAQ	
1. Korea Land & Housing Corp.	56,139	49.9	Yes	No	No	No	Real Estate
2. Industrial Bank of Korea	34,534	30.7	Yes	No	Yes	No	Bank
3. Korea Housing Finance Corp.	33,667	29.9	Yes	No	No	No	Financial
4. Kookmin Bank	29,504	26.2	No	Yes	No	No	Bank
5. Korea Deposit Insurance Corp.	27,061	24.0	Yes	No	No	No	Insurance
6. Korea Finance Corp.	26,570	23.6	Yes	No	No	No	Financial
7. Korea Electric Power Corp.	20,840	18.5	Yes	No	Yes	No	Utility
8. Daewoo Securities	19,930	17.7	Yes	No	Yes	No	Securities
9. Shinhan Bank	19,217	17.1	No	Yes	No	No	Bank
10. Woori Bank	18,502	16.4	Yes	No	No	No	Bank
11. Korea Highway	17,320	15.4	Yes	No	No	No	Infrastructure
12. Nonghyup (National Agricultural Cooperative Federation)	15,355	13.6	Yes	No	No	No	Bank
13. Hana Bank	14,696	13.1	No	Yes	No	No	Bank
14. Small & Medium Business Corp.	14,503	12.9	Yes	No	No	No	Financial
15. Woori Investment and Securities	14,433	12.8	Yes	No	Yes	No	Securities
16. Korea Investment and Securities	11,244	10.0	No	Yes	No	No	Securities
17. Korea Rail Network Authority	10,765	9.6	Yes	No	No	No	Infrastructure
18. Korea Gas Corp.	10,500	9.3	Yes	No	Yes	No	Utility
19. Tong Yang Securities	9,217	8.2	No	Yes	Yes	No	Securities
20. Shinhan Card	9,202	8.2	No	Yes	No	No	Financial
21. Hyundai Securities	8,705	7.7	No	Yes	Yes	No	Securities
22. Mirae Asset Securities	7,662	6.8	No	Yes	Yes	No	Securities
23. Hyundai Capital Services	6,810	6.1	No	Yes	No	No	Securities
24. Shinhan Financial Group	6,370	5.7	No	Yes	Yes	No	Financial
25. Export-Import Bank of Korea	6,340	5.6	Yes	No	No	No	Bank
26. Korea Railroad Corp.	6,330	5.6	Yes	No	No	No	Infrastructure
27. Standard Chartered First Bank Korea	5,853	5.2	No	Yes	No	No	Bank
28. Hana Daetoo Securities	5,543	4.9	No	Yes	No	No	Securities
29. Hyundai Card	5,169	4.6	No	Yes	No	No	Financial
30. Kiwoom Securities	5,103	4.5	No	Yes	Yes	No	Securities
31. Samsung Securities	4,938	4.4	No	Yes	Yes	No	Securities
32. SH Corp.	4,861	4.3	No	Yes	No	No	Manufacturing
33. KT Corp.	4,470	4.0	No	Yes	Yes	No	Telecoms
34. Korea Water Resources	4,331	3.8	Yes	No	Yes	No	Utility
35. Samsung Card	4,110	3.7	No	Yes	Yes	No	Financial
36. Dongbu Securities	4,084	3.6	No	Yes	Yes	No	Securities
37. Korea Student Aid Foundation	3,760	3.3	Yes	No	No	No	Education
38. Woori Financial Group	3,660	3.3	Yes	No	Yes	No	Financial
39. Korea Exchange Bank	3,520	3.1	No	Yes	Yes	No	Bank
40. Incheon Urban Development Corp.	3,491	3.1	Yes	No	No	No	Infrastructure
41. Posco	3,300	2.9	No	Yes	Yes	No	Manufacturing
42. Korean Air Lines	3,240	2.9	No	Yes	Yes	No	Air transport
43. Shinhan Investment Corp.	3,105	2.8	No	Yes	No	No	Securities
44. National Federation of Fisheries Cooperatives	3,095	2.7	Yes	No	No	No	Financial
45. GS Caltex Corp.	2,940	2.6	No	Yes	No	No	Utility
46. SK Energy	2,930	2.6	No	Yes	Yes	No	Utility
47. SK Holdings	2,920	2.6	No	Yes	Yes	No	Diversified

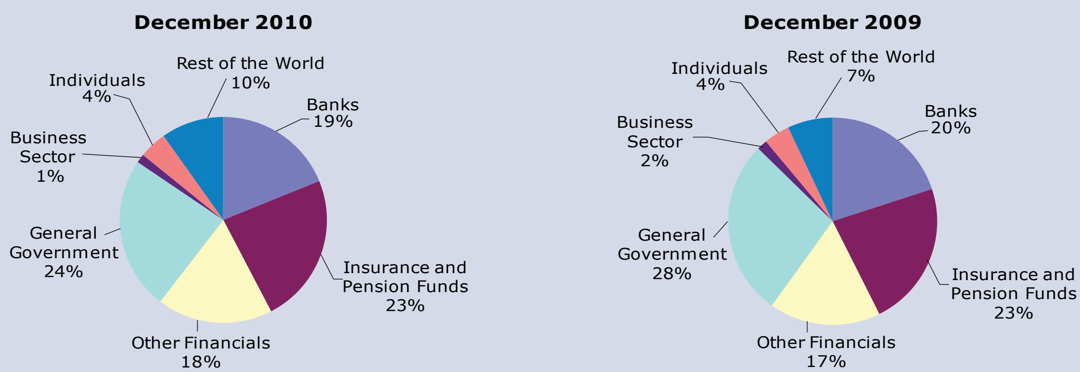
continued on next page

Table 2 continued

Issuer	Outstanding Amount		State-Owned	Privately-Owned	Listed In		Sector
	LCY Bonds (KRW billion)	LCY Bonds (USD billion)			KOSPI	KOSDAQ	
48. Kyobo Securities	2,874	2.6	No	Yes	Yes	No	Securities
49. Hyundai Steel	2,640	2.3	No	Yes	Yes	No	Manufacturing
50. Hana Financial Group	2,630	2.3	No	Yes	Yes	No	Financial
Total Top 50 LCY Corporate Issuers	**547,982**	**486.7**					
Total LCY Corporate Bonds	**739,717**	**656.9**					
Top 50 as % of Total LCY Corporate Bonds	**74.1%**	**74.1%**					

KOSPI = Korea Composite Stock Price Index, KOSDAQ = Korean Securities Dealers Automated Quotations, LCY = local currency.
Source: *AsianBondsOnline*, Bloomberg LP, and *KoreaBondWeb*.

Figure 2: Investor Profile for LCY Government Bonds in the Republic of Korea



LCY = local currency.
Source: The Bank of Korea.

1 percentage point(s), respectively. In contrast, the shares of the general government and banks dropped by 4 and 1 percentage point(s), respectively.

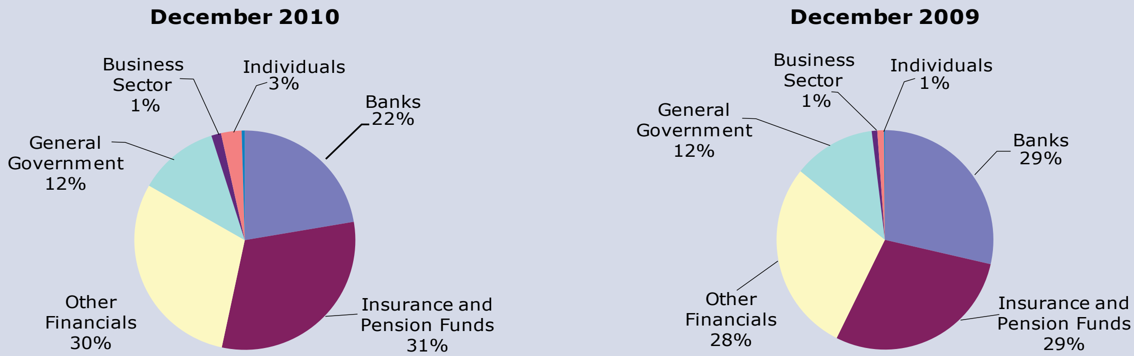
The financial sector in the Republic of Korea continues to be the dominant investor group in LCY corporate bonds **(Figure 3)**. As of December last year, banks, insurance firms/pension funds, and other financial institutions owned 22%, 31%, and 30% of total LCY corporate bonds, respectively, while the general government held 12%. Compared with December 2009, the shares of financial institutions (other than banks and insurance firms/pension funds), local individual investors, and insurance firms/pension funds climbed by 2 percentage points each. On the other hand, the share of banks plunged by 7 percentage points.

Policy, Institutional, and Regulatory Developments

Withholding Tax Re-imposed on Foreign Investors' LCY Government Bond Holdings

The government re-imposed a 14% tax on interest income and a 20% tax on capital gains from KTBs and MSBs held by foreign investors, effective 1 January. This was made following the passage of legislative bills in December calling for the restoration of the withholding tax in order to help mitigate capital flow volatility and minimize systemic risks to the domestic economy.

Figure 3: Investor Profile for LCY Corporate Bonds in the Republic of Korea



LCY = local currency.
Source: The Bank of Korea.

New Measures to Stabilize Prices and Combat Inflation

In January, the government of the Republic of Korea announced new measures to help mitigate spikes in prices and curb inflationary pressures. Among these measures were the lowering of import tariffs and the provision of financial and tax incentives to private and public sector entities that support the stabilization of prices.

Regulatory Measures to Enhance Derivatives Trading Introduced

New regulatory measures to improve the trading of derivatives products were introduced in January by the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS), together with the Korea Exchange (KRX) and the Korea Financial Investment Association (KOFIA). These measures aim to reduce settlement risk, mitigate shocks in the market, and enhance financial soundness.

Macro-Prudential Stability Levy Imposed on Non-Deposit FCY Liabilities of Banks

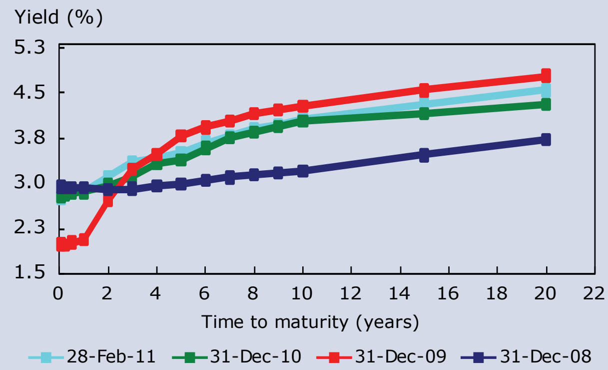
The government announced in December that it plans to impose a macro-prudential stability levy on the non-deposit FCY liabilities of local and foreign banks. This proposal was made in order to curb volatility in capital flows as well as to provide liquidity to support the domestic economy in managing external shocks. It is expected that the levy will take effect in the second half of 2011.

Malaysia—Update

Yield Movements

The yield curve for Malaysian LCY government bonds flattened between end-December 2009 and end-December 2010, with rates rising on the very short-end while falling from the belly to the longer-end of the curve. Between end-December 2010 and end-February 2011, Malaysian government bond yields fell slightly on the very short-end but rose on the rest of the curve, with the short-end and the long-end rising more than the belly. The rise in the yield curve reflects market expectations of further rate hikes given that other countries in the region—the Republic of Korea, Thailand, and Indonesia—have already increased their policy rates to combat building inflationary pressures. While Bank Negara Malaysia (BNM) decided to keep its key policy rates steady at 2.75% during its last Monetary Policy Committee meeting on 11 March, BNM has increased the statutory reserve requirement ratio to 2% from 1% **(Figure 1)**.

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



LCY = local currency.
Source: Bloomberg LP.

Rates are also expected to rise as issuance increases in 2011. The government recently announced 29 new issuances and re-issuances of treasury bonds for the whole of 2011, compared with only 19 in the previous year. Gross issuance of Malaysian Government Securities (MGS) and Government Investment Issues (GII) amounted to MYR64.7 billion in 2010, which pales in comparison to the MYR262.1 billion worth of total bills issued by BNM last year. MGS and GII maturing in 2011 amount to MYR44.5 billion, compared with MYR23.4 billion in 2010.

Malaysia's economic growth eased to 4.8% year-on-year (y-o-y) in 4Q10, versus 5.3% in the previous quarter, due to falling external demand. Private consumption increased 6.5% y-o-y, while gross fixed capital formation rose 9.2%. Meanwhile, public sector spending shrank 0.3% y-o-y in 4Q10. Also, exports grew only 1.5% y-o-y in the last quarter of 2010, significantly lower than the 6.6% y-o-y growth posted in 3Q10. For the full-year 2010, Malaysia's gross domestic product (GDP) expanded 7.2%, rebounding from growth of only 1.7% in 2009.

During the first 9 months of 2010, the overall budget deficit was estimated to be MYR25.1 billion, or 4.5% of GDP. The government targeted a budget deficit of 5.6%–7.0% of GDP for the whole of 2010. In 2011, the government is projecting a budget deficit of 4.5% of GDP.

Meanwhile, Malaysia's consumer price inflation rose to 2.2% y-o-y in December, the highest level since May 2009, mainly driven by higher food prices. In 2010, Malaysia posted average consumer price inflation of 1.7%.

Size and Composition

Total outstanding local currency (LCY) bonds in Malaysia increased 18.9% y-o-y to MYR755.3 billion as of end-December **(Table 1)**. Outstanding LCY government bonds jumped 28.5% y-o-y to MYR445.6 billion, mainly due to the increase in outstanding central bank bills. Excluding central bank bills, outstanding government LCY bonds rose by 9.8% y-o-y. LCY corporate bonds outstanding, on the other hand, posted 7.4% y-o-y growth.

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

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	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	721	234	748	240	743	234	755	247	15.1	3.7	3.7	(0.7)	18.9	4.7	1.7
Government	422	137	447	144	443	140	446	146	20.9	5.1	6.0	(0.8)	28.5	5.7	0.6
Central Government Bonds	340	110	346	111	349	110	347	113	10.7	2.6	1.9	0.7	11.0	2.1	(0.5)
Central Bank Bills	81	26	100	32	93	29	98	32	116.0	17.0	23.1	(6.2)	225.3	20.8	4.6
Others	1	0	1	0	1	0	1	0	(77.5)	0.0	0.0	0.0	(77.5)	0.0	0.0
Corporate	300	97	301	97	300	95	310	101	7.8	1.7	0.6	(0.6)	7.4	3.3	3.4

LCY = local currency, 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 LP 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, Fully Automated System for Issuing/Tendering (FAST), and Bloomberg LP.

On a quarter-on-quarter (q-o-q) basis, total LCY bonds outstanding increased by 4.7%. Outstanding central bank bills grew 20.8% q-o-q, as issuance rose to MYR82.4 billion in 4Q10 from MYR76.0 billion in 3Q10. LCY corporate bonds outstanding increased 3.3% q-o-q.

Issuance of LCY corporate bonds amounted to MYR25.6 billion in 4Q10, 18.4% higher than the MYR21.6 billion issued in the previous quarter. Among the largest corporate LCY issuers in October–December were Senai Desaru Expressway (MYR5.6 billion), Cagamas (MYR 2.5 billion), Pengurusan Air SPV (MYR2.2 billion), CIMB (MYR2.0 billion), and Malaysia Airports Capital (MYR1.5 billion).

As of end-December, the top 50 corporate LCY issuers accounted for 68.8% of total bonds outstanding **(Table 2)**. The top two issuers of LCY corporate bonds were both state-owned: the national mortgage corporate, Cagamas, with MYR19.2 billion outstanding, followed by Khazanah Nasional with MYR13.2 billion. Meanwhile, communications company Binariang and expressway operator Project Lebuhraya ranked third and fourth with MYR11.3 billion and MYR10.3 billion in LCY bonds outstanding, respectively.

Finance companies accounted for more than half of the outstanding LCY corporate bonds in Malaysia as of end-2010 **(Figure 2)**. Transportation and communications companies followed with 16%, while utilities companies accounted for 12%.

Of the top 50 corporate issuers of LCY bonds in Malaysia in 2010, 33 were privately-owned, and 15 of these were listed on Bursa Malaysia.

Investor Profile

As of end-September 2010, financial institutions were still the largest holders of government bonds, with 43.8% of total outstanding MGS and GII, followed by social security institutions, which held 27.9%. Meanwhile, foreigner investors held 20.3% at end-September, up from an 18.1% share at

Table 2. Top 50 Corporate Issuers in Malaysia (as of 31 December 2010)

Issuer	Outstanding Amount (MYR billion)					State-Owned	Privately-Owned	Listed Company	Sector
	BONDS	IBONDS	MTN	IMTN	TOTAL				
1. Cagamas			9.42	9.76	19.18	Yes	No	No	Real Estate
2. Khazanah		13.20			13.20	Yes	No	No	Bank
3. Binariang GSM		3.17		8.28	11.30	No	Yes	No	Financial
4. Project Lebuhraya		6.57		3.68	10.25	No	Yes	Yes	Bank
5. Prasarana	5.11	2.00		2.00	9.11	Yes	No	No	Insurance
6. Maybank	6.10	1.50			7.60	No	Yes	Yes	Financial
7. Malakoff Corp		1.70		5.60	7.30	No	Yes	No	Utillity
8. Senai Desaru Expressway Bhd		1.46		5.58	7.40	No	Yes	No	Securities
9. Rantau Abang Capital Bhd				7.00	7.00	No	Yes	No	Bank
10. KL International Airport	1.60	4.76			6.36	Yes	No	No	Bank
11. CIMB Bank	5.50				5.50	No	Yes	No	Infrastructure
12. AM Bank	1.60		4.43		5.46	No	Yes	Yes	Bank
13. Valuecap	5.10				5.10	Yes	No	No	Bank
14. 1Malaysia Development Bhd.				5.00	5.00	Yes	No	No	Financial
15. Jimah Energy Ventures				4.65	4.65	No	Yes	No	Securities
16. Putrajaya Holdings		0.99		3.57	4.56	Yes	No	No	Securities
17. Bank Pembangunan Malaysia	1.00		2.60	0.90	4.50	Yes	No	No	Infrastructure
18. Tanjung Bin				4.29	4.29	No	Yes	No	Utility
19. Celcom Transmission				4.20	4.20	No	Yes	No	Securities
20. YTL Power International	2.20		1.70		3.90	No	Yes	Yes	Financial
21. Tenaga Nasional	1.50	2.15			3.65	No	Yes	Yes	Securities
22. RHB Bank	0.60		3.00		3.60	No	Yes	No	Securities
23. Danga Capital				3.60	3.60	Yes	No	No	Securities
24. Cekap Mentari	3.50				3.50	No	Yes	Yes	Financial
25. Public Bank	1.20		1.87		3.73	No	Yes	Yes	Bank
26. The Export-Import Bank of Korea			2.98		2.98	Yes	No	No	Infrastructure
27. Hijrah Pertama		2.92			2.92	No	Yes	No	Bank
28. Malaysia Airports Capital				2.50	2.50	No	Yes	No	Securities
29. CIMB Group	2.13			0.35	2.48	No	Yes	Yes	Financial
30. Kapar Energy Ventures		2.19			2.19	No	Yes	No	Securities
31. Johor Corp		2.15			2.15	Yes	No	No	Securities
32. Syarikat Bekalan Air Selangor				2.13	2.13	Yes	No	No	Manufacturing
33. Public Finance	2.88				2.88	No	Yes	No	Telecoms
34. Sime Darby				2.00	2.00	No	Yes	Yes	Utility
35. Hyundai Capital Services			2.00		2.00	No	Yes	No	Financial
36. Lion Corp	1.93				1.93	No	Yes	Yes	Securities
37. PLUS SPV				1.80	1.80	No	Yes	No	Education
38. MISC				1.80	1.80	Yes	No	Yes	Financial
39. Silterra Capital		1.80			1.80	Yes	No	No	Bank
40. Puncak Niaga	0.76	1.20			1.78	No	Yes	Yes	Infrastructure
41. Penerbangan Malaysia				1.75	1.75	Yes	No	No	Manufacturing
42. Encorp Systembilt		1.75			1.75	No	Yes	No	Air transport
43. EON Bank	0.50		1.16		1.66	No	Yes	No	Securities
44. HLCM Capital			1.65		1.65	No	Yes	No	Financial
45. GB Services			1.60		1.60	No	Yes	No	Utility
46. Industrial Bank of Korea			1.60		1.60	Yes	No	Yes	Utility

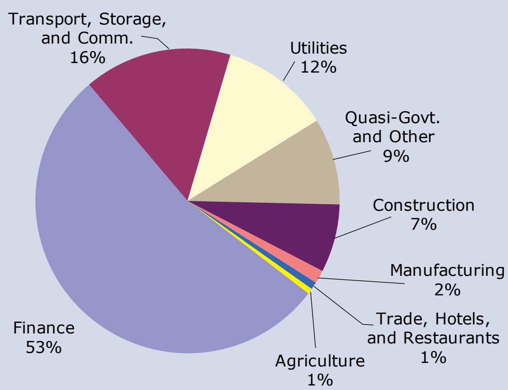
continued on next page

Table 2 continued

Issuer	Outstanding Amount (MYR billion)					State-Owned	Privately-Owned	Listed Company	Sector
	BONDS	IBONDS	MTN	IMTN	TOTAL				
47. Oversea-Chinese Banking Corporation	1.60				1.60	No	Yes	Yes	Diversified
48. OCBC Bank (Malaysia)	1.30	0.20			1.50	No	Yes	No	Securities
49. Lingkaran Trans Kota				1.45	1.45	No	Yes	Yes	Manufacturing
50. RHB Capital	0.65		0.79		1.44	No	Yes	Yes	Financial
Total for Top 50 Corporate LCY Bond Issuers					**213.24**				
Top 50 as % of Total Corporate LCY Bond Oustanding					**68.84%**				

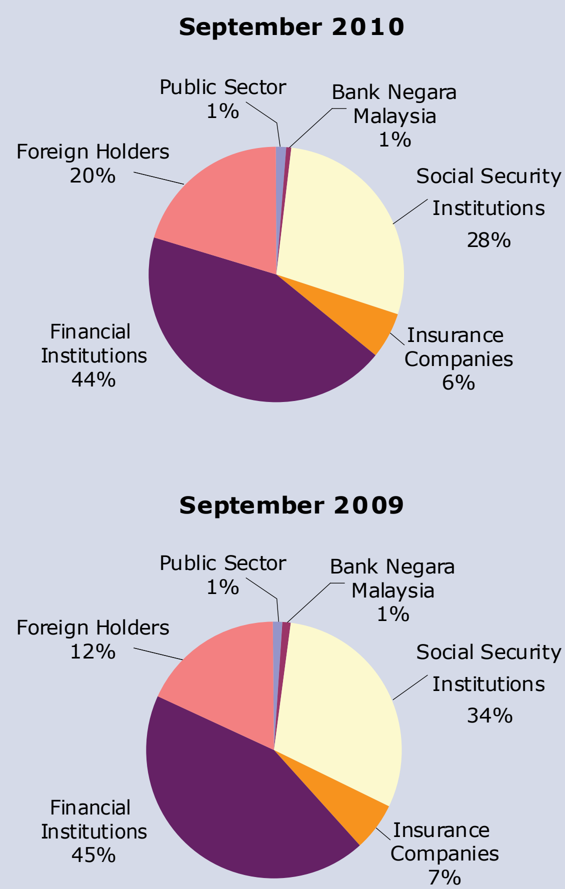
IBONDS = Islamic Bonds, IMTN = Islamic Medium-Term Notes, LCY = local currency MTN = Medium-Term Notes.
Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST).

Figure 2. LCY Corporate Bond Issuers in Malaysia by Industry, December 2010



Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST).

Figure 3. Malaysian LCY Government Bond Market Investor Profile



Source: Bank Negara Malaysia.

end-June, while insurance companies comprised 6.0% of the total **(Figure 3)**.

Rating Changes

R&I affirmed Malaysia's long-term LCY and FCY ratings as well as its short-term FCY rating in October, and posted a stable country outlook **(Table 3)**. R&I cited Malaysia's economic recovery driven by external demand and robust domestic demand.

Table 3: Selected Sovereign Ratings and Outlook for Malaysia

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	A3	A-	A-	A
Outlook	stable	stable	stable	stable

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

Policy, Institutional, and Regulatory Developments

International Islamic Liquidity Management Corporation Established

In October 2010, Bank Negara Malaysia (BNM), 10 other central banks, and two multilateral organizations established the International Islamic Liquidity Management Corporation (IILM) to assist financial institutions offering Islamic financial services to manage their liquidity and enhance institutional linkages. The IILM initiative will facilitate cross-border investment flows by issuing short-term, multi-currency liquidity instruments beginning in December 2011.

Malaysia was selected as the host country for the IILM. In addition to BNM, founding members include the Central Bank of Qatar, Bank of Mauritius, Saudi Arabian Monetary Agency, Central Bank of the United Arab Emirates (UAE), Central Bank of Iran, Bank Indonesia, Banque Centrale du Luxembourg, Central Bank of Nigeria, Central Bank of Sudan, Central Bank of Turkey, Islamic Development Bank, and Islamic Corporation for the Development of the Private Sector.

Bursa Malaysia, AIBIM, and Bloomberg Launch New *Sukuk* Index; Malaysia to Start Cross-Border *Sukuk* Trading in 2H11

On 21 February, Bursa Malaysia, the Association of Islamic Banking Institutions Malaysia (AIBIM), and Bloomberg LP launched the Bloomberg AIBIM Bursa Malaysia Sovereign *Sharia'h* Index (BMSSI) as part of efforts to enhance the Islamic finance platform. The new MYR-denominated *sukuk* index aims to provide a benchmark for future *sukuk* issuances, as well as a measurement of the performance of MYR-denominated government Islamic securities.

BNM also announced that its wholly-owned subsidiary, the Malaysian Electronic Clearing Corporation (MyClear), has embarked on an initiative to allow cross-border trading of Islamic bonds. Set to launch in the second half of 2011, MyClear will provide a platform for Malaysians to invest in foreign securities held by international and regional securities depositories.

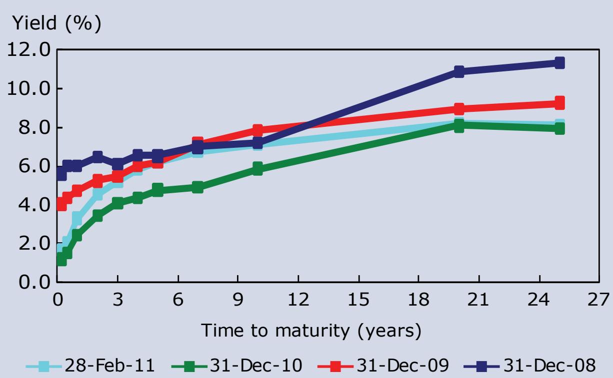
Philippines—Update

Yield Movements

The entire Philippine yield curve shifted downward between the end of 2009 and the end of 2010. Philippine government bond yields, however, have since risen for all maturities as a rise in commodity prices and transportation costs has increased concerns about future inflation **(Figure 1)**. The yields at the short-end of the curve rose between 45 and 85 basis points, while yields in the belly to the long-end of the curve climbed between 15 and 185 basis points. Yield spreads between 2- and 10-year tenors widened to 255 basis points on 28 February from 246 basis points at end-December.

The Philippine's gross domestic product (GDP) rose by 7.1% year-on-year (y-o-y) in 4Q10, following a revised 6.3% expansion in 3Q10, as business and consumer spending grew. Full-year 2010 GDP growth surged to 7.3% y-o-y, the Philippine economy's largest expansion in 34 years. Record growth rates of foreign trade and election-related stimulus spending helped the government to surpass its target of 5.0%–6.0% for 2010. The industrial and services sectors, which expanded 12.1% and 7.1% y-o-y, respectively, also fueled economic growth in 2010.

Figure 1: Philippines' Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The Philippines' fiscal deficit for 2010 widened to PHP314.4 billion, equivalent to 3.7% of GDP. This was lower than the budgeted amount of PHP325 billion or 3.9% of GDP. The government aims to achieve a deficit-to-GDP ratio of 2% by 2013.

Consumer price inflation for the month of February rose to 4.3% y-o-y, higher than the previous month's 3.6%. The year-to-date average of 3.9% remained within the government's target range of 3.0%–5.0% for 2011. Rising inflation in February was traced mainly to higher prices of food items caused by adverse weather conditions and a continued rise in petroleum products due to political tensions in the Middle East.

The Monetary Board of Bangko Sentral ng Pilipinas (BSP) kept its key policy interest rates steady at 4.0% for the overnight borrowing (reverse repurchase [RRP]) facility and 6.0% for the overnight lending (repurchase [RP]) facility in February. The interest rates on term RRPs, RPs, and special deposit accounts were also left unchanged. The policy rates have been held steady since July 2009 to support economic activity. BSP noted the sustained increase in inflation, and reported that it is closely monitoring all risks to future inflation and is prepared to take the appropriate monetary policy actions to safeguard price stability. The next policy meeting will be held on 24 March.

Size and Composition

The size of the Philippines' local currency (LCY) bond market rose 9.4% year-on-year (y-o-y), with total volume reaching PHP3.2 trillion (USD72.8 billion) as of end-December, buoyed primarily by government borrowing **(Table 1)**. Compared with 3Q10, total LCY bonds outstanding in 4Q10 were relatively unchanged and registered only 0.2% quarter-on-quarter (q-o-q) growth, as a lack of issuance in the corporate sector offset the increase in government LCY bonds.

Table 1. Size and Composition of the LCY Bond Market in the Philippines

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	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	59.5	2,912	63.1	3,182	72.6	3,187	72.8	13.0	3.6	0.3	0.2	9.4	0.2	(0.3)
Government	2,504	52.9	2,560	55.5	2,799	63.8	2,818	64.3	11.8	3.8	(0.0)	0.7	10.1	0.7	0.0
Treasury Bills	607	12.8	622	13.5	578	13.2	527	12.0	(4.8)	1.9	(4.3)	(1.7)	(15.2)	(8.8)	(3.0)
Treasury Bonds	1,807	38.2	1,839	39.8	2,089	47.6	2,160	49.3	15.6	4.6	1.2	1.4	17.5	3.4	0.8
Others	89	1.9	100	2.2	132	3.0	131	3.0	47.9	—	—	—	31.5	(0.6)	(0.6)
Corporate	313	6.6	351	7.6	383	8.7	368	8.4	22.4	1.7	2.6	(3.3)	4.8	(3.7)	(2.9)

— = not applicable, LCY = local currency, 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 LP 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: Philippine Bureau of the Treasury and Bloomberg LP.

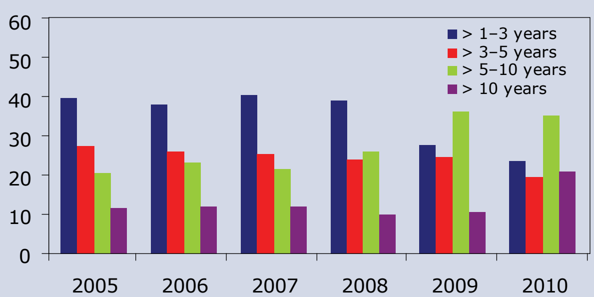
Total LCY government bonds outstanding rose 10.1% y-o-y to PHP2.8 trillion (USD64.3 billion) as of end-December, driven by a surge in treasury bonds of 17.5% y-o-y in 4Q10, as the government lengthened its debt maturity profile with a debt exchange program. Corporate sector bonds outstanding grew by 4.8% y-o-y. Meanwhile, treasury bills outstanding declined by 15.2% y-o-y to close the year at PHP527 billion (USD12 billion).

In 4Q10, the government borrowed a total of PHP304 billion (USD6.9 billion) through LCY debt issuance: PHP223.1 billion (USD5.1 billion) in treasury bonds and PHP81.3 billion (USD 1.9 billion) in treasury bills. Included among the treasury bonds were PHP199 billion (USD4.5 billion) worth of new 10- and 25-year bonds issued under the debt exchange program mentioned above. Bonds totaling PHP173 billion (USD3.9 billion) were made eligible to either be swapped for new 10- and 25-year bonds, or tendered for cash to be sourced from new subscriptions of 25-year bonds. The coupon rates of the 10- and 25-year bonds were set at 5.875% and 8.125%, respectively. The bond swap effectively extended the average maturity of the accepted bonds from 6.7 years to 22.5 years. The average coupon of the accepted bonds decreased by 0.47%, thereby reducing the government's overall funding costs.

The maturity profile of LCY government securities has changed significantly from the time the government introduced its debt exchange program in February 2006. Government borrowing in the form of 1- to 3-year tenors averaged between 38% and 41% of total LCY outstanding debt in 2005–08. This share dropped to 28% at end-2009, and 23% at end-2010. Meanwhile, the portion of bonds maturing within 5–10 years as a percentage of total LCY government debt rose from 21% in 2005 to 36% in 2010. In addition, bonds having maturities of more than 10 years comprised only 12% of total LCY government debt in 2005 before jumping to 21% by 2010. These trends reflect the government's progress in fiscal consolidation over this period **(Figure 2)**.

LCY corporate bonds rose to PHP368 billion (USD8.4 billion) as of end-December with the top 30 corporate issuers accounting for 93.6% of the total LCY corporate bond market. San Miguel Brewery remained the leader in terms of bonds outstanding with PHP38.8 billion (USD886 million) followed by Banco de Oro Unibank with PHP28.0 billion (USD639 million), and Rizal Commercial Banking Corporation with PHP21.0 billion (USD479 million) **(Table 2)**. Among LCY corporate bonds outstanding, 33.4% were issued by commercial banks, 12.7% by real estate developers, and 11.3% by a brewery company. Also, 27 out of the top 30 corporate issuers at end-December were listed companies.

Figure 2: LCY Government Securities Maturity Profile (individual maturities as % of total)



LCY = local currency.
Source: Philippine Bureau of the Treasury.

Foreign Currency Bonds

In line with the government's liability management program, the Philippines completed a USD3.1 billion bond exchange in October 2010 in which outstanding USD-denominated bonds were exchanged for new USD-denominated global bonds. The government issued USD2.2 billion in new bonds due January 2021 and USD949 million of re-opened bonds due October 2034, after inviting offshore bondholders to tender their existing holdings in exchange for longer-maturity debt. The new 2021 bonds were priced to yield 4.091%, while the re-opened 2034 bonds were priced to yield 5.276%. Bonds maturing between February 2011 and January 2017 can be exchanged for either of these bonds. Bonds maturing between January 2019 and January 2031 can be exchanged only for the re-opened bonds due October 2034. The government was able to raise USD200 million from the 2021 bonds, with the rest issued in exchange for old bonds.

The corporate sector also took advantage of positive market sentiment in 4Q10 to issue USD-denominated bonds. Banco de Oro Universal Bank sold USD300 million of bonds due April 2016 with a coupon of 3.875%, while SM Investments Corporation sold USD400 million of bonds due October 2017 with a coupon of 5.5%.

In January, SMC Global Power Holdings Corp, a wholly-owned subsidiary of San Miguel Corporation, and Energy Development Corporation (EDC) tapped the global market and each raised USD300 million in USD-denominated bonds. SMC Global issued 5-year bonds with a coupon of 7.0%, while EDC issued 10-year bonds with a coupon of 6.5%.

Rating Changes

In January, Moody's Investors Service changed the outlook on the government of the Philippines' Ba3 foreign currency (FCY) and LCY bond ratings to positive from stable on back of the Philippines' (i) strengthening trend in its external payments position, (ii) successful conduct of monetary policy, and (iii) improved prospects for economic reform policies.

Also in January, Fitch Ratings affirmed the sovereign credit ratings of the Philippines at BB for its FCY long-term issuer default rating and BB+ for its long-term LCY issuer default rating and country ceiling. Fitch Ratings also affirmed its stable outlook for the Philippines **(Table 3)**.

Table 2: Top 30 LCY Corporate Issuers in the Philippines (as of 31 December 2010)

Issuer	Amount Outstanding (PHP billion)	State-Owned	Privately-Owned	Listed Company	Type of Industry
1. San Miguel Brewery, Inc	38.80	No	Yes	Yes	Brewery
2. Banco De Oro Unibank, Inc	28.00	No	Yes	Yes	Commer Banks Non-US
3. Rizal Commercial Banking Corporation	21.00	No	Yes	Yes	Commer Banks Non-US
4. Metropolitan Bank & Trust Company	18.50	No	Yes	Yes	Commer Banks Non-US
5. Philippine National Bank	17.75	No	Yes	Yes	Commer Banks Non-US
6. Globe Telecom, Inc	16.80	No	Yes	Yes	Telecom Services
7. Petron Corporation	16.30	No	Yes	Yes	Oil Refining&Marketing
8. Ayala Corporation	16.00	No	Yes	Yes	Diversified Operations
9. Robinsons Land Corporation	15.00	No	Yes	Yes	Real Estate Oper/Develop
10. JG Summit Holdings, Inc	13.31	No	Yes	Yes	Food-Misc/Diversified
11. Manila Electric Company	12.50	No	Yes	Yes	Electric-Distribution
12. Energy Development Corporation	12.00	No	Yes	Yes	Electric-Generation
13. Bank of the Philippine Islands	10.00	No	Yes	Yes	Commer Banks Non-US
14. SM Development Corporation	10.00	No	Yes	Yes	Real Estate Oper/Develop
15. SM Investments Corporation	9.40	No	Yes	Yes	Retail-Misc/Diversified
16. First Philippine Holdings Corporation	8.99	No	Yes	Yes	Electric-Integrated
17. Allied Banking Corporation	8.00	No	Yes	Yes	Commer Banks Non-US
18. Philippine Long Distance Telephone Co.	7.50	No	Yes	Yes	Telephone-Integrated
19. Ayala Land, Inc	7.34	No	Yes	Yes	Real Estate Oper/Develop
20. SM Prime Holdings, Inc	7.00	No	Yes	Yes	Real Estate Mgmnt/Servic
21. Aboitiz Power Corporation	6.88	No	Yes	Yes	Electric-Generation
22. Megaworld Corporation	6.38	No	Yes	Yes	Real Estate Oper/Develop
23. Metrobank Card Corporation	6.30	No	Yes	No	Diversified Finan Serv
24. Manila North Tollways Corporation	5.34	No	Yes	No	Public Thoroughfares
25. China Banking Corporation	5.00	No	Yes	Yes	Commer Banks Non-US
26. Filinvest Land, Inc	5.00	No	Yes	Yes	Real Estate Oper/Develop
27. Tanduay Distillers, Inc	5.00	No	Yes	No	Beverages-Wine/Spirits
28. Manila Water Company, Inc	4.00	No	Yes	Yes	Water
29. Union Bank of the Philippines, Inc	3.75	No	Yes	Yes	Commer Banks Non-US
30. Security Bank Corporation	3.00	No	Yes	Yes	Commer Banks Non-US
Total Top 30 Corporate Issuers	**344.83**				
Total Corporate Bonds Outstanding	**368.33**				
Top 30 as % of Total Corporate Bonds Outstanding	**93.62%**				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for the Philippines

	Moody's	S&P	Fitch
FCY Long-Term Rating	Ba3	BB	BB
Outlook	positive	stable	stable

FCY = foreign currency.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

Government Issue Peso Global Bonds Anew

In January, the Philippine government took advantage of favorable market conditions and a low interest rate environment to sell USD1.25 billion (PHP54.77 billion) of 25-year peso global bonds. This issuance allowed the government to lengthen its debt maturity profile and reduce its exposure to foreign exchange risk. The bonds are PHP-denominated but will be settled offshore and payable in dollars. The conversion rate for the bonds at pricing was PHP43.777 to USD1.0. The government first sold a global peso bond in September 2010—USD1.0 billion (PHP44.1 billion) of 10-year bonds—which was the first offshore LCY bond issuance by an Asian country. The global bonds are not included in the government's official statistics for LCY bonds.

BSP Further Liberalizes Rules on Foreign Exchange Transactions

In November, BSP issued Circular 698 which further liberalized the rules governing foreign exchange (FX) transactions. The circular comprised the following measures:

(i) increase the present ceiling of over-the-counter FX purchases made by residents from authorized agent banks (AABs) and AAB foreign exchange corporations without documentation for non-trade current account;

(ii) increase the present ceiling on the amount of pesos that departing non-resident tourists and Filipinos residing abroad may reconvert at airports or other ports of exit without need for proof-of-sale of FX;

(iii) increase the present ceiling on residents' purchase of FX from AABs and AAB foreign exchange corporations—from USD100,000 to USD1 million—to cover advance payment requirements for import transactions with prior BSP approval, subject to standard documentary requirements;

(iv) allow prepayment of private sector, BSP-registered foreign and FCY loans to be funded with FX from AABs and AAB foreign exchange corporations without prior BSP approval, subject to presentation of supporting documents;

(v) allow registering banks to act on requests by foreign investors for conversion into FX and outward remittances of peso funds, not to exceed the FX brought into the country less the amount used for investments actually made in the country, subject to conditions and documentary requirements; and

(vi) increase the present ceiling per investor per year—from USD30 million to USD60 million—of the amount that residents may purchase from AABs for outward investments and/or investments in Republic Of the Philippine (ROP) bonds and other Philippine debt papers issued offshore, including PHP-denominated instruments to be settled in FX, provided the total FX purchases for any or all of these purposes by any investor in 1 year does not exceed the prescribed limit. This increase will be complemented by the following additional measures:

  (a) lift the registration requirement for outward investments in excess of the USD 60 million limit and replace this with reporting to BSP; and

  (b) extend the period of inward remittance and conversion to pesos, or re-investment of proceeds and related earnings on outward investment of residents, from 2 and 7 banking days, respectively, to 30 banking days from receipt of funds abroad.

BSP Issues Circular for Early Adoption of IFRS/PFRS 9

On 10 January, BSP issued circular 708 to provide guidelines on the adoption of International/ Philippine Financial Reporting Standards 9 (IFRS/ PFRS 9). The new accounting standards aim to revise IAS 39, which has been criticized as being too difficult to apply and whose limitations were particularly underscored during the 2008/09 global financial crisis. The highlights of IFRS/ PFRS 9 include (i) basing asset classification on the financial institution's business model versus the current practice of basing it on management's intention; (ii) reducing the number of asset categories to two, depending on asset features and the institution's business model, including (a) fair value and (b) amortized cost; and (iii) measuring at fair value through profit or loss investments in hybrid securities, overlying securitization structures, and other structured products. Upon adoption of PFRS 9 by financial institutions, the tainting rule for held-to-maturity (HTM) securities shall no longer apply. The tainting provision prohibits a financial institution from using the HTM category and requires the reclassification of the entire HTM portfolio to available-for-sale during the reporting period and for the next two years if the financial institution reclassified or sold a significant amount of HTM investments before maturity other than allowed conditions.

BSP Approves Regulations for the Establishment of Trust Corporations

BSP approved the rules and regulations governing the establishment of trust corporations through Circular 710. A trust corporation can be created and duly authorized by the Monetary Board to engage in a trust, other fiduciary business, and investment management activities. The trust corporation will have a required minimum capitalization of PHP300 million, which can increase as assets under management exceed PHP20 billion. Banks with established trust departments may spin them off into a trust corporation. A key feature of the trust corporation is the treatment of the single borrower's limit (SBL). The new rules stipulate that for a trust corporation owned by a bank or quasi-bank the assets under management of the trust corporation do not form part of the SBL calculations for the parent bank. This is in recognition that the arrangement between trustor and trustee is not a debtor–creditor relationship against which the SBL provisions apply.

PDEx Revises Rules on Listing and Settlement of Trades

In March, the Philippine Dealing and Exchange Corporation (PDEx), the sole fixed-income trading platform in the Philippines, amended its rules for the fixed-income securities market, particularly Rules 7 and 8. Rule 7, which covers enrollment of issuers and listing of securities, was revised to include the following requirements:

(i) the issuer's certificate of good standing from the Securities and Exchange Commission shall be submitted to PDEx within 3 months from the issue date of issuer's securities, and;

(ii) the securities for listing should have no restrictions on transferability to investors of different tax categories.

Meanwhile, Rule 8, which discusses the settlement of trades, was revised to include the requirement that settlement participants shall access the liquidity measures available in the market (e.g., PDEx Repurchase Agreement Program, PDEx Securities Lending Transaction Program) to ensure the settlement of all trades on the settlement date.

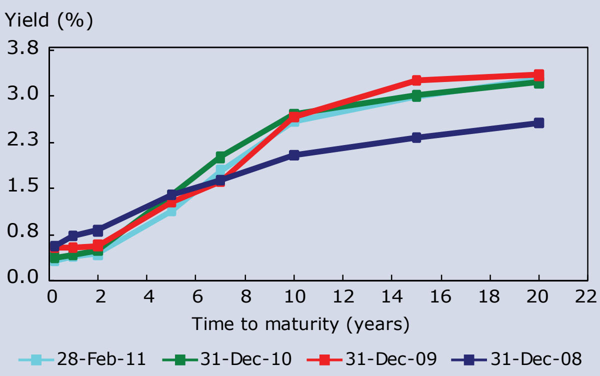
Singapore—Update

Yield Movements

The Singapore government bond yield curve steepened between end-December 2010 and end-February **(Figure 1)**. Yields fell for all tenors throughout the length of the curve except for the 20-year benchmark, which recorded an increase of 7 basis points. Yields for 5- and 7-year maturities fell by larger amounts, dropping 25 and 22 basis points, respectively. Yields for 2-, 10-, and 15-year benchmarks declined 6, 11, and 1 basis point(s), respectively. The yield spread between 2- and 10-year maturities narrowed to 216 basis points as of 28 February from a spread of 221 basis points at end-December.

Singapore's economy expanded 12.0% year-on-year (y-o-y) in 4Q10, following an increase of 10.5% y-o-y recorded in 3Q10, according to the Ministry of Trade and Industry (MTI). Singapore's expanded output in 4Q10 was driven by strong growth in the manufacturing sector, which recorded 25.5% y-o-y growth and was led by the biomedical manufacturing cluster. Meanwhile, growth in the services sector eased to 8.8% y-o-y from 10.2% in 3Q10, while the construction sector contracted by 2.0% y-o-y after recording 6.7% growth in 3Q10. For the whole of 2010, Singapore's economy expanded 14.5% y-o-y in a reversal of the 0.8% contraction in 2009. MTI expects Singapore's economic growth to remain between 4.0% and 6.0% in 2011.

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



LCY = local currency.
Source: Bloomberg LP.

The Monetary Authority of Singapore (MAS) announced in October 2010 that it would allow a modest and gradual appreciation of the Singapore dollar's nominal effective exchange rate (S$NEER) policy trading band. MAS also said that it would slightly steepen and widen its currency's trading band, but would not change the level at which the band is centered. According to MAS, this policy stance remains supportive of Singapore's economic growth and MAS' annual inflation targets of 2.5%–3.0% for 2010 and 2.0%–3.0% for 2011.

Singapore's consumer price inflation in January accelerated to its highest level since 2008, led by higher prices for transport, housing, and food. Consumer price inflation climbed to 5.5% y-o-y in January after posting an increase of 4.6% in December. Transport costs rose 18.4% on account of higher prices for cars and petrol, housing costs increased 5.3% due to higher costs for accommodation and electricity tariffs, and food prices went up 2.8%. Consumer price inflation rose 2.8% for the whole of 2010, compared with 0.6% in 2009.

Size and Composition

The size of Singapore's local currency (LCY) bond market expanded 15.9% in 2010 to reach SGD229.3 billion (USD178.7 billion) **(Table 1)**. The y-o-y growth rate at end-December nearly doubled the 8.8% y-o-y growth rate from end-September. As of end-December, total LCY bonds outstanding rose 4.9% quarter-on-quarter (q-o-q) and 0.5% month-on-month (m-o-m).

The outstanding stock of Singapore Government Securities (SGS) rose 7.0% y-o-y as of end-

Table 1. Size and Composition of the LCY Bond Market in Singapore

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sept-10		Oct-10	Nov-10	Dec-10		
	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	219	166	224	173	228	173	229	179	8.8	2.9	2.4	1.9	15.9	4.9	0.5
Government	128	97	130	101	131	99	132	103	4.5	–	1.6	0.9	7.0	3.3	0.8
Bills	55	41	55	42	56	42	57	44	10.5	2.6	0.7	2.2	9.6	4.8	1.8
Bonds	74	56	75	58	75	57	75	59	0.4	(1.9)	2.2	–	5.0	2.2	–
Corporate	90	69	94	72	97	73	97	76	15.5	7.4	3.6	3.4	30.9	7.3	0.2

– = data not available, LCY = local currency, 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 LP 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, Singapore Government Securities, and Bloomberg LP.

December to reach SGD132.3 billion, against 4.5% y-o-y growth as of end-September. SGS bills increased by 9.6% y-o-y and SGS bonds grew 5.0% y-o-y through December, with total amounts outstanding of SGD57.1 billion and SGD75.2 billion, respectively.

Growth in the issuance of SGS bills slowed to 2.5% y-o-y in 4Q10—totalling SGD53.5 billion—after having recorded double-digit growth in the first three quarters of 2010. The issuance of SGS bonds declined 27.3% y-o-y to SGD1.6 billion in 4Q10, against 25.0% y-o-y growth in 3Q10. The majority of SGS issuance in 4Q10 comprised 91-day Treasury bills, while in October only 5-year SGS (SGD1.6 million) were issued. MAS has created a highly tradable bond stock by limiting the number of bond issues outstanding to 19 and by frequently re-opening its benchmark issues.

The SGS issuance calendar for the first half of 2011 includes more than 20 issues of 3-month Treasury bills and a re-opening of benchmark bonds. Starting in February 2011, the 7-year bond will no longer be used as a benchmark bond, as the bond yield curve has been extended meaningfully beyond 10 years. Future bond issuance will concentrate liquidity on existing securities across the curve, including 2-, 5-, 10-, 15-, and 20-year bonds.

Corporate bonds outstanding amounted to SGD97.0 billion as of end-December 2010, up 30.9% y-o-y. On a q-o-q basis, corporate bonds grew 7.3%.

Total corporate bond issuance in 4Q10 climbed 146.7% y-o-y to reach SGD5.62 billion, after recording a 55.5% y-o-y increase in 3Q10. However, corporate bond issuance actually declined 1.4% q-o-q. Notable issues in 4Q10 included a total of SGD2.5 billion of bonds from DBS Bank, as well as SGD500 million bond issuances from Keppel Corp., Keppel Land, and Land Transport Authority. In January, new bonds issued included SGD200 million from CapitaMalls, SGD400 million from Great Eastern Holdings, and SGD420 million from Savu Investments.

The top 40 corporate issuers in Singapore at end-December were mainly from the financial and consumer sectors, accounting for 52% of total corporate bonds outstanding **(Table 2)**. The majority of the issuers included privately-owned corporations and three statutory boards—Housing and Development Board (HDB), Public Utilities Board, and Land Transport Authorities. HDB ranked first as the top LCY corporate issuer, with total LCY bonds outstanding of SGD6.1 billion as of end-December.

Foreign Currency Bonds

As of end-December, financial institutions had issued 62% of the total foreign currency (FCY) bonds outstanding in Singapore, while private corporations had issued the remaining amount. No SGS were issued in FCY as the government did not need to finance its expenditures through the issuance of government bonds. The majority of the FCY bonds outstanding were in USD (83.7%). All other currencies, including the EUR, GBP, HKD, JPY, MYR, and NOK, accounted for a cumulative share of 16.3% of total FCY bonds outstanding. In 4Q10, total FCY bond issuance amounted to USD966 million, including Oversea-Chinese Banking Corporation's USD500 million issue of 12-year bonds in November.

In January, StatsChiPac issued USD200 million of 5-year bonds in the international bond market. This issuance followed StatsChiPac's USD600 million issue of 5-year bonds in August 2010. Meanwhile, DBS Bank issued a total of USD150 million of 30-year bonds in January.

Policy, Institutional, and Regulatory Developments

World Bank and Finance Ministry of Singapore Launch Regional Infrastructure Finance Center of Excellence

In November, the World Bank and the Finance Ministry of Singapore launched the Infrastructure Finance Center of Excellence (IFCOE) to assist regional governments in tapping the private sector for investments in Asian infrastructure. IFCOE also aims to expand the infrastructure finance advisory work of the World Bank–Singapore Urban Hub (Singapore Hub). IFCOE is a specialized unit created under the Singapore Hub, which was established in June 2009.

Singapore Government Bonds to Trade on SGX

In January, the Finance Ministry of Singapore announced that it would allow the trading of SGS on the Singapore Exchange (SGX) by June 2011. The ministry aims to provide retail investors with a safe but higher-yielding alternative to bank deposits. The SGX plans to continue enhancing its infrastructure to facilitate bond listing and trading, as well as expanding its product range to include SGS.

Funding for Proposed SGX-ASX Merger

The SGX announced in January that it has secured long-term financing from six banks to fund its proposed merger with the Australian Securities Exchange (ASX). The financing includes term loans worth SGD3.8 billion and AUD750 million from the Australia and New Zealand Banking Group (ANZ Bank), the Singapore branch of the Bank of Tokyo-Mitsubishi UFJ, DBS Bank, Oversea-Chinese Banking Corp, United Overseas Bank, and National Australia Bank. In October, ASX and SGX announced that they had agreed to merge, creating the world's fifth-largest exchange group and Asia's second-largest behind the Hong Kong Stock Exchange.

Table 2: Top 40 Issuers of LCY Corporate Bonds in Singapore (as of 31 December 2010)

Issuer	Bonds Outstanding		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (USD billion)				
1. Housing and Development Board	6.1	4.8	Yes	No	No	Financial
2. Capitaland	4.9	3.8	No	Yes	Yes	Financial
3. DBS Bank Singapore	4.1	3.2	No	Yes	Yes	Financial
4. United Overseas Bank	3.6	2.8	No	Yes	Yes	Financial
5. Temasek Financial I	3.6	2.8	No	Yes	No	Financial
6. Public Utilities Board	2.5	1.9	Yes	No	No	Utilities
7. SP Power Assets	2.5	1.9	No	Yes	No	Utilities
8. Land Transport Authority	2.4	1.9	Yes	No	No	Industrial
9. Oversea-Chinese Banking	2.2	1.7	No	Yes	Yes	Financial
10. Singapore Airlines	1.7	1.3	No	Yes	Yes	Consumer
11. F&N Treasury	1.3	1.0	No	Yes	No	Financial
12. Keppel Land	1.2	1.0	No	Yes	Yes	Financial
13. Capitamall Trust	1.2	0.9	No	Yes	Yes	Financial
14. City Developments	1.1	0.9	No	Yes	Yes	Consumer
15. Capitaland Treasury	1.1	0.8	No	Yes	No	Financial
16. PSA Corporation	1.0	0.8	No	Yes	No	Consumer
17. Mapletree Treasury Services	0.7	0.6	No	Yes	No	Financial
18. Sembcorp Financial Services	0.7	0.5	No	Yes	No	Industrial
19. Capitacommercial Trust	0.6	0.5	No	Yes	Yes	Financial
20. Singapore Press Holdings	0.6	0.5	No	Yes	Yes	Communications
21. Singtel Group Treasury	0.6	0.5	No	Yes	No	Communications
22. Ascott Capital	0.5	0.4	No	Yes	No	Financial
23. Keppel Corporation	0.5	0.4	No	Yes	Yes	Diversified
24. Singapore Post	0.5	0.4	No	Yes	Yes	Industrial
25. Hotel Properties	0.5	0.4	No	Yes	Yes	Consumer
26. ST Treasury Services	0.5	0.4	No	Yes	No	Financial
27. Asia Pacific Breweries	0.4	0.3	No	Yes	Yes	Consumer
28. Guocoland	0.4	0.3	No	Yes	Yes	Financial
29. Capitamalls Asia Treasury	0.4	0.3	No	Yes	No	Financial
30. Sengkang Mall	0.3	0.3	No	Yes	No	Financial
31. Ascendas	0.3	0.3	No	Yes	Yes	Financial
32. Queensley Holdings	0.3	0.2	No	Yes	No	Financial
33. CDL Properties	0.3	0.2	No	Yes	No	Financial
34. Olam International	0.3	0.2	No	Yes	Yes	Consumer
35. Overseas Union Enterprise	0.3	0.2	No	Yes	Yes	Consumer
36. Ruby Assets	0.3	0.2	No	yes	No	Financial
37. Singapore Power	0.3	0.2	No	Yes	No	Utilities
38. Swiber Holdings	0.3	0.2	No	Yes	Yes	Energy
39. Midpoint Properties	0.3	0.2	No	Yes	No	Financial
40. Neptune Orient Lines	0.3	0.2	No	Yes	Yes	Industrial
Total Top 40 LCY Corporate Issuers	**50.5**	**39.3**				
Total LCY Corporate Bonds	**97.0**	**75.6**				
Top 40 as % of Total LCY Corporate Bonds	**52.0%**	**52.0%**				

LCY=local currency.
Source: Bloomberg LP.

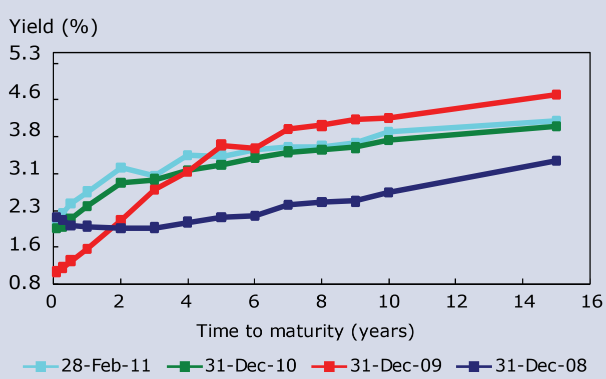
Thailand—Update

Yield Movements

Yields on Thai government bonds shifted downward in 2010 along most of the government bond curve, except at the very short-end. Between end-December and end-February 2011, however, Thai government bond yields shifted upward throughout the length of the curve **(Figure 1)**. Yields had climbed the most from the short-end to the belly of the curve, with 1-, 2- and 4-year maturities rising 30, 30, and 31 basis points, respectively. Yields along the rest of the belly of the curve rose between 10 and 20 basis points, except for the 8-year tenor, which increased 7 basis points. At the long-end of the curve, yields for the 9-, 10-, and 15-year maturities rose 10, 17, and 10 basis points, respectively. The yield spread between 2- and 10-year maturities narrowed to 73 basis points as of end-February from a spread of 86 basis points at end-December.

The Bank of Thailand (BOT) raised its 1-day repurchase rate by another 25 basis points to 2.50% on 9 March. The rate hike came on the back of increased inflationary pressures fueled by a surge in oil and commodity prices. This is the second time the BOT raised its policy rate by 25 basis points this year. On 12 January, the BOT raised its 1-day repurchase rate by 25 basis points to 2.25%. The BOT expects increases in the headline and core inflation rates to accompany sharply rising oil and commodity prices. Commercial banks responded to the policy rate hike by increasing their deposit and loan rates, while most market observers are expecting the BOT to raise its policy rate further in 2011. Thailand's consumer price inflation eased to 2.9% yeay-on-year (y-o-y) in February from 3.0% in January, as government subsidies helped curb food and fuel price increases. On a month-on-month (m-o-m) basis, consumer prices rose by 0.4%, partly on the back of fresh food price hikes. The Thai Ministry of Commerce sees consumer price inflation rising somewhat to between 3.2% and 3.7% in 2011 as price caps on some food staples, including eggs and sugar, will expire at the end of March.

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



LCY = local currency.
Source: Bloomberg LP.

Thailand's gross domestic product (GDP) growth continued to ease in 4Q10, slowing to a rate of 3.8% y-o-y from 6.6% in 3Q10. Thailand's economy recorded GDP growth rates of 12.0% in 1Q10 and 9.2% in 2Q10. For the whole of 2010, Thailand's GDP expanded 7.8% y-o-y, its strongest annual expansion in 15 years, on the back of solid exports and consumer spending. However, growth is expected to slow to 3.0%–5.0% in 2011 due to the strengthening baht, fluctuating oil prices, and the impact of floods on agricultural output.

Size and Composition

As of end-December, the amount of Thailand's local currency (LCY) bonds outstanding had expanded 14.4% y-o-y to THB6.8 trillion (USD225 billion), which was slightly higher than 14.2% y-o-y growth as of end-September **(Table 1)**. Total LCY bonds outstanding rose 2.7% quarter-on-quarter (q-o-q) in 4Q10, while decreasing 0.3% on a month-on-month (m-o-m) basis in December.

The outstanding stock of Thai government bonds amounted to THB5.5 trillion at end-December. Growth on a y-o-y basis was 16.7% at end-

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

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	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	6,577	217	6,680	223	6,776	224	6,753	225	14.2	2.5	1.6	1.4	14.4	2.7	(0.3)
Government	5,350	176	5,459	182	5,531	183	5,499	183	17.3	3.3	2.0	1.3	16.7	2.8	(0.6)
Treasury Bonds	2,597	86	2,583	86	2,599	86	2,595	86	9.1	1.2	(0.5)	0.6	9.9	(0.1)	(0.2)
Central Bank Bonds	2,250	74	2,378	79	2,436	81	2,412	80	36.3	7.3	5.7	2.5	32.5	7.2	(1.0)
State-Owned Enterprise & Other Bonds	503	17	499	17	496	16	493	16	(5.2)	(2.2)	(0.9)	(0.6)	(7.1)	(2.1)	(0.6)
Corporate	1,227	40	1,221	41	1,244	41	1,253	42	2.6	(1.2)	(0.4)	1.9	5.3	2.2	0.7

LCY = local currency, 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 LP 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.

December, which was down from 17.3% y-o-y growth at end-September. BOT bonds had the highest annual growth rate in 2010 among all categories of government bonds at 32.5%, followed by treasury bonds with an annual growth rate of 9.9%. State-owned enterprise and other bonds, however, declined 7.1% in 2010.

New issuance of government bonds climbed 57.9% y-o-y to THB3.0 trillion in 4Q10, compared with 11.7% y-o-y growth in 3Q10. The BOT accounted for 96% of total government issuance in 4Q10, amounting to THB2.9 trillion, which was up 74.5% y-o-y. BOT bills accounted for a 67% share of total BOT issuance in 4Q10. New issuance from the central government and state-owned enterprises, however, declined 47.8% (THB126 billion) and 76.1% (THB3.6 billion), respectively, on a y-o-y basis in 4Q10.

In February, the Thai Ministry of Finance announced the postponement of its planned issuance of THB100 billion of savings bonds. The reason given was that Thailand's considerable fiscal reserves obviated the need to issue more debt. According to the Public Debt Management Office (PDMO), the bonds would have had maturities of 7–12 years, with the proceeds being used to restructure the national debt.

The Thai Finance Ministry issued its longest-dated security ever in February—a 50-year government bond amounting to THB3.5 billion. Thailand is the fourth country to issue 50-year bonds after the United Kingdom, France, and the People's Republic of China. The Thai government also plans to issue a series of 50-year bonds in 3Q11 and 4Q11 in a range of between THB3 billion and THB4 billion. Proceeds will help cover the budget deficit and a portion will be used to refinance existing government debt. As of end-January, Thailand's international reserves stood at USD170 billion and had remained above USD100 billion since September 2008. Thailand expects to run a budget deficit of THB350 billion, or not more than 4.0% of GDP, for fiscal year 2012 (ending on 30 September), an improvement from a THB420 billion deficit in fiscal year 2011. The PDMO announced that it plans to focus on long-term bonds with maturities of 5, 7, 10, 15, and 30 years, together with the issuance of 50-year bonds and inflation-linked bonds, as part of the government's target to achieve a balanced budget in 5 years.

Corporate bonds outstanding stood at THB1.3 trillion (USD42 billion) as of end-December, up 5.3% y-o-y. Total corporate bonds outstanding rose 2.2% q-o-q and 0.7% m-o-m, respectively. New issuance in 4Q10 reached THB259 billion, an increase of 0.7% y-o-y and 15.4% quarter-on-quarter (q-o-q). Notable THB-denominated corporate bond issues for 4Q10 included THB14 billion from PTT PCL, THB8 billion from Charoen Pokphand Foods, and THB7 billion from Don Muang Tollway. Maturities for these bonds ranged between 3 and 10 years.

In October, the Ministry of Finance approved three foreign entities to issue THB-denominated bonds prior to 31 March. Central American Bank for Economic Integration (CABEI), ING Bank, and the Export–Import Bank of Korea (KEXIM) have received approval to issue bonds of THB4.0 million, THB10.0 million, and THB8.0 million, respectively. In February, CABEI offered a total of THB3.1 billion in three tranches. CABIE priced its 3-year bonds at 3.85%, 5-year bonds at 4.51%, and 10-year bonds at 4.88%. In early February, the Export –Import Bank of Korea raised THB2.2 billion by issuing bonds in the Thai market. In January, the Thai Ministry of Finance approved another 10 foreign entities to issue THB-denominated bonds during the period 1 January–30 June 2011. These entities are as follows:

(i) BNP Paribas (THB10 billion)
(ii) Commonwealth Bank of Australia (THB8 billion)
(iii) Citigroup Inc. (THB10 billion)
(iv) Deutsche Bank Aktiengesellschaft (THB6 billion)
(v) Industrial Bank of Korea (THB5 billion)
(vi) International Bank for Reconstruction and Development (THB5 billion)
(vii) Kommunalbanken AS (THB4 billion)
(viii) Korea Development Bank (THB8 billion)
(ix) Swedish Export Credit Corporation (THB5 billion)
(x) Westpac Banking Corporation (THB6 billion)

In November, Thailand's largest oil and gas company, PTT, raised THB4 billion of 100-year bonds, the first-ever long-tenor paper in Thai bond market history. The bonds will mature in 2110 and were priced at 5.9%. The issuance attracted five insurance companies, which took 90% of the deal, while the remainder of the bonds were purchased by a private fund and a few high net-worth individuals. The century bonds have a put option on their 50th and 75th years.

PTT also sold THB10 billion of 4- and 7-year debentures in November. The 4-year tranche was priced with a coupon of 3.2%, while the 7-year tranche was priced at 3.7%. Both were sold to retail investors. In November, PTT became the first Thai group to tap the Islamic capital market with its issuance of a MYR600 million serial *sukuk.* The Islamic bonds were sold by PTT's subsidiary, Trans Thai–Malaysia (TTM), through a special purpose vehicle called TTM *Sukuk* and with 5–15 year tenors.

The top 30 corporate issuers in Thailand at end-December were mainly from the financial and consumer sectors, which together accounted for 73% of total corporate bonds outstanding **(Table 2)**. The majority of the issuers included privately-owned corporations and listed companies. PTT ranked first as the top LCY corporate issuer, with total LCY bonds outstanding of THB191.5 billion as of end-December.

Foreign Currency Bonds

As of end-December, the amount of total foreign currency (FCY) bonds outstanding in Thailand stood at USD7.7 billion, of which private corporations had issued 43%, while financial institutions and the government had issued 39% and 19%, respectively. The majority of FCY bonds outstanding were issued in US dollars (85%), with Japanese yen accounting for the rest. In 4Q10, total FCY bond issuance amounted to

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand (as of 31 December 2010)

Issuer	Bonds Outstanding		State-Owned	Privately-Owned	Listed Company	Sector
	LCY Bonds (THB billion)	LCY Bonds (USD billion)				
1. PTT PCL	191.5	6.4	Yes	No	Yes	Energy
2. Siam Cement PCL	110.0	3.7	Yes	No	Yes	Diversified
3. Bank of Ayudhya	56.3	1.9	No	Yes	Yes	Financial
4. Krung Thai Bank	55.4	1.8	Yes	No	Yes	Financial
5. PTT Exploration and Production Company	49.0	1.6	Yes	No	Yes	Energy
6. Charoen Pokphand Foods	30.7	1.0	No	Yes	Yes	Consumer
7. Thai Airways International	29.3	1.0	Yes	No	Yes	Consumer
8. Toyota Leasing Thailand	26.7	0.9	No	Yes	No	Consumer
9. Kasikorn Bank	25.1	0.8	No	Yes	Yes	Financial
10. Krungthai Card	24.2	0.8	Yes	No	Yes	Financial
11. DAD SPV Company LTD	24.0	0.8	Yes	No	No	Financial
12. Thai Oil	20.8	0.7	Yes	No	Yes	Energy
13. PTT Chemical	20.4	0.7	Yes	No	Yes	Basic Materials
14. Siam Commercial Bank	20.0	0.7	No	Yes	Yes	Financial
15. Advanced Info Service	19.5	0.6	No	Yes	Yes	Communications
16. Thanachart Bank	18.0	0.6	No	Yes	No	Financial
17. TMB Bank	17.3	0.6	No	Yes	Yes	Financial
18. Bangkok Expressway	15.1	0.5	No	Yes	Yes	Consumer
19. Glow Energy	15.0	0.5	No	Yes	Yes	Utilities
20. PTT Aromatics and Refining	15.0	0.5	Yes	No	Yes	Energy
21. True Corporation	14.9	0.5	No	Yes	Yes	Communications
22. Ayudhya Capital Auto Lease	14.7	0.5	No	Yes	No	Financial
23. Kiatnakin Bank	14.3	0.5	No	Yes	Yes	Financial
24. Quality Houses	14.0	0.5	No	Yes	Yes	Consumer
25. Thanachart Capital	13.5	0.4	No	Yes	Yes	Financial
26. Bangkok Mass Transit System	12.0	0.4	Yes	Yes	No	Industrial
27. CH Karnchang Public Company	12.0	0.4	No	Yes	Yes	Industrial
28. Land and Houses	11.0	0.4	No	Yes	Yes	Consumer
29. Minor International	10.9	0.4	No	Yes	Yes	Consumer
30. Central Pattana	10.7	0.4	No	Yes	Yes	Financial
Total Top 30 LCY Corporate Issuers	**911.3**	**30.3**				
Total LCY Corporate Bonds	**1,253.4**	**41.7**				
Top 30 as % of Total LCY Corporate Bonds	**72.7%**	**72.7%**				

LCY = local currency.
Source: Bloomberg LP.

USD1.5 billion, including Bangkok Bank's issuance of USD1.2 billion of 5- and 10-year bonds in the offshore bond market. Meanwhile, the Export–Import Bank of Thailand issued a total of USD250 million of 4- and 6-year bonds in 4Q10.

Investor Profile

Commercial banks remained the largest holder of Thai government bonds with a total of THB598.5 billion as of end-December **(Figure 2)**. However, commercial banks' total share decreased to 23.1% in December 2010 from 25.7% in December 2009. Contractual savings funds were the second largest holder of government bonds with a 22.6% share in December 2010, down from 25.3% from a year earlier. Insurance companies were in the third spot, increasing their share to 20.4% in December 2010 from 17.5% a year earlier. Thai residents had a share of 16.3%, followed by nonresidents (7.2%), financial corporations "not elsewhere classified" (3.1%), general government and non-profit organizations (2.3%), and the central bank (2.0%). Finally, non-financial market mutual funds had a 1.9% share, while other non-financial corporations held a 1.0% share.

Foreign holdings of Thai government bonds stood at THB187.5 billion as of end-December, an increase of 145.7% y-o-y and 19.1% q-o-q.

Rating Changes

On 28 October, Moody's upgraded the outlook for Thailand's long-term FCY and LCY government bond ratings to stable from negative **(Table 3)**. According to Moody's, the decision for the outlook change was based on Thailand's "robust economic recovery" and the "stabilization of government finances despite continuing domestic political turmoil."

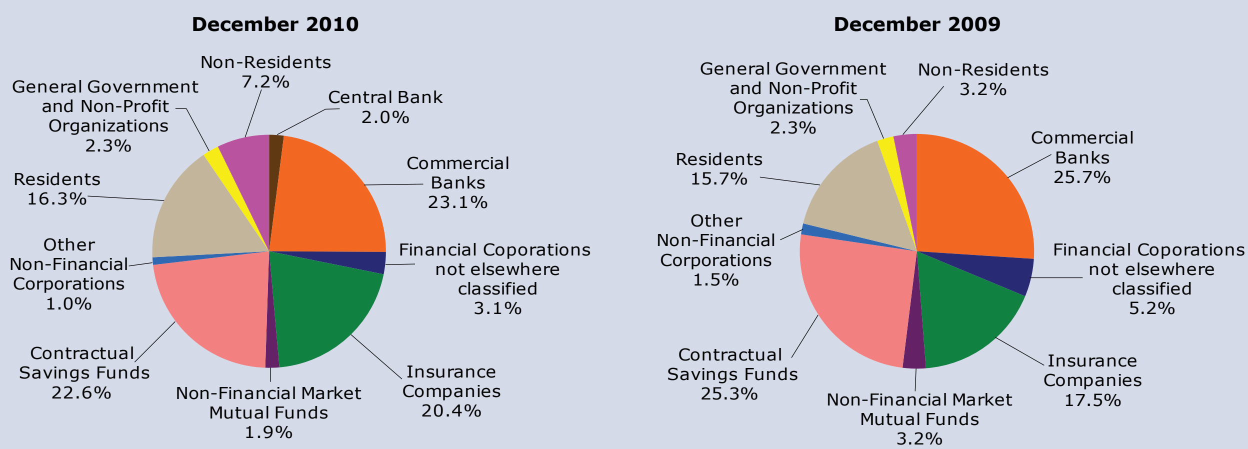
On 9 December, Standard & Poor's (S&P) raised its credit rating outlook for Thailand to stable from negative. According to S&P, the decision for the upgrade was based on Thailand's low level of

Table 3: Selected Sovereign Ratings and Outlook for Thailand

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Baa1	BBB+	BBB
Outlook	stable	stable	stable

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

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank of Thailand.

government debt and prudent fiscal policies. S&P affirmed Thailand's BBB+/A-2 foreign currency rating and A-/A-2 local currency sovereign credit ratings.

Policy, Institutional, and Regulatory Developments

Thai Cabinet Approves a 15% Tax on Bonds

The Thai government has approved the imposition of a 15% tax on interest and capital gains earned by foreign investors from Thai bonds in an effort to slow FCY inflows and ease the baht's appreciation. Effective 13 October, foreign investors trading government, central bank, or state enterprise bonds were required to pay a withholding tax of 15%. Meanwhile, the Customs Department is considering waiving import tariffs on machinery that cannot be produced in Thailand to help exporters and small and medium-sized enterprises (SMEs) improve their productivity. State banks—Krung Thai Bank, Small and Medium Enterprise Development Bank of Thailand, Islamic Bank of Thailand, and the Export–Import Bank of Thailand—are also offering forward contracts to protect SMEs against volatility in the exchange rate. The Government Savings Bank provides SMEs a credit line of up to THB5.0 billion. Also, the Revenue Department is planning to offer local companies additional tax breaks for asset depreciation. According to the Ministry of Finance, about 10,000 SMEs need assistance as a result of the baht's recent appreciation.

BOT Relaxes Regulations on FX Transactions

The BOT relaxed foreign exchange (FX) regulations to increase the flexibility of Thai businesses in managing FX risk. Effective 12 October, Thai exporters were permitted to transfer FCY deposits to counterparties in Thailand for payment of goods and services, with the limit on FX transactions being increased to USD50,000 from USD20,000. Also, Thai businesses undertaking direct investment or lending abroad of USD10 million or more per year are now required to notify the BOT.

Thai Financial Regulators to Strengthen Bond Information

In December, the BOT signed an agreement with the Securities and Exchange Commission (SEC), Stock Exchange of Thailand (SET), Thai Bond Market Association, and PDMO to create the Thailand Financial Instruments Information Center (TFIIC). TFIIC is part of the Thai government's 5-year capital market master plan, which aims to collect information on financial instruments by related sources, share the information, and provide linkages among related agencies.

Revenue Department of Thailand to Slash Corporate Income Tax

In January, the Revenue Department of Thailand considered slashing the corporate income tax rate to 18% from the current 30%. The tax department is preparing to restructure taxes in order to boost Thailand's competitiveness in advance of Thailand's membership in the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC) in 2015. The AEC will permit the free movement of goods, investment, and labor between member countries without the imposition of taxes or other barriers.

Thailand to Allow New Securities Exchanges

In February, the SEC announced that a law is being drafted to allow new securities exchanges to compete with the SET, with the aim of lowering the cost of raising capital for domestic companies. SET, a wholly state-owned bourse, currently has a monopoly on equity and financial derivatives trading.

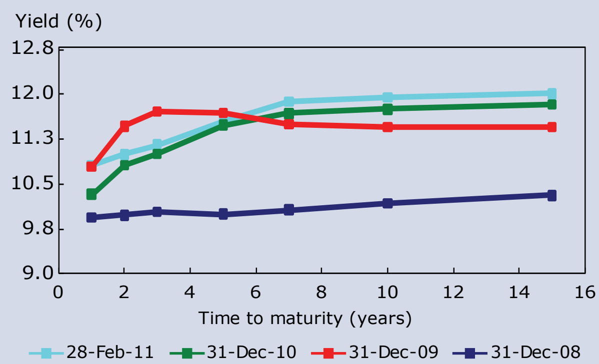
Viet Nam—Update

Yield Movements

Government bond yields in Viet Nam steepened between end-December 2009 and end-December 2010, as rates rose at the belly and the long-end of the curve. Between end-December 2010 and mid-February, Viet Nam's government benchmark yields rose for all maturities, with the curve rising more on the short-end due to inflation concerns **(Figure 1)**. Yields increased the most for the 1-year tenor, rising by 48 basis points. Yields inched up by 6 basis points for the 5-year maturity, while yields rose by 21, 19, and 17 basis points for the 7-, 10-, and 15-year maturities.

The rise in short-term yields reflects acceleration in the rate of consumer price inflation, which rose to 12.3% year-on-year (y-o-y) in February from 12.2% in January, on the back of double-digit annual hikes in food prices. The State Bank of Viet Nam (SBV) has become more active in adjusting its interest rates upward to counter rising inflation. In early November, the SBV raised its key rates—the base interest rate, the refinancing rate, and discount rate—by 100 basis points each to 9.0%, 9.0%, and 7.0%, respectively. More recently, the SBV raised its refinancing rate by another 200 basis points to 11.0% on 17 February, and another 100 basis points to 12.0% on 8 March. Also, the SBV hiked the reverse repurchase rate by 100 basis points to 12.0% on 22 February.

Figure 1: Viet Nam's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The SBV adjusted the inter-bank average exchange rate to VND20,693 = USD1 from VND18,932 = USD1 on 11 February, while narrowing the trading band for the exchange rate to ±1.0% from ±3.0%. The devaluation of the Vietnamese dong came in an effort to improve the liquidity of the foreign exchange market. The last time the SBV adjusted the inter-bank average exchange rate was in August when it devalued the currency with the aim of trimming Viet Nam's trade deficit.

Viet Nam's 4Q10 real gross domestic product (GDP) growth rate stood at 7.3% y-o-y, a slight improvement over the previous quarter's 7.2% growth. For the full-year 2010, Viet Nam's economy grew by 6.8%, compared with 5.3% in 2009, as the industrial and services sectors expanded by 7.7% and 7.5%, respectively.

Size and Composition

Viet Nam's local currency (LCY) bond market expanded 34.2% y-o-y and 2.8% quarter-on-quarter (q-o-q) to reach VND299 trillion (USD15.3 billion) at end-December 2010, led by strong growth in both government and corporate bonds outstanding **(Table 1)**.

The size of the LCY government bond market stood at VND269 trillion (USD13.8 billion) at end-December, registering growth of 33.5% y-o-y and 1.4% q-o-q. Treasury bonds increased 30.6% from a year earlier, but fell slightly by 0.4% from the previous quarter, to reach VND118 trillion (USD6.1 billion). Viet Nam Development Bank bonds and state-owned enterprise bonds climbed 38.0% y-o-y and 2.8% q-o-q to VND151 trillion (USD7.7 billion).

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

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	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	290,490	15	304,718	16	302,435	16	298,665	15	27.4	(1.0)	4.9	(0.7)	34.2	2.8	(1.2)
Government	265,199	14	276,628	14	272,745	14	268,975	14	25.5	0.2	4.3	(1.4)	33.5	1.4	(1.4)
Treasury Bonds	118,490	6	124,096	6	121,328	6	117,983	6	16.0	(1.6)	4.7	(2.2)	30.6	(0.4)	(2.8)
Central Bank Bonds	0.0	0	0.0	0	0.0	0	0.0	0	—	—	—	—	—	—	—
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	146,709	8	152,532	8	151,417	8	150,992	8	36.6	1.9	4.0	(0.7)	38.0	2.9	(0.3)
Corporate	25,290	1	28,090	1	29,690	2	29,690	2	51.9	(12.6)	11.1	5.7	41.4	17.4	-

— = not applicable, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:
1. Bloomberg LP 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.

LCY corporate bonds outstanding also surged by 41.4% y-o-y and 17.4% q-o-q to VND30 trillion (USD1.5 billion). LCY corporate issues in 4Q10 included Maritime Bank (VND1.0 trillion), Thu Duc Housing Development (VND600 billion), and Vietnam Petroleum Transport (VND100 billion).

The top 15 corporate issuers in Viet Nam comprised 93% of total corporate bonds outstanding at end-December, and most of these issuers were financial institutions, including banks and securities companies **(Table 2)**. Of the 15 top corporate issuers, 12 were listed on either the Hanoi Stock Exchange or Ho Chi Minh Stock Exchange.

Meanwhile, foreign currency (FCY) bonds outstanding at end-December stood at USD2.5 billion, 97% of which were government bonds.

Rating Changes

Moody's Investors Services, Standard & Poor's, and R&I all lowered their sovereign ratings for Viet Nam **(Table 3)**. Moody's cut Viet Nam's long-term FCY rating to B1 from Ba3 in December, and posted a negative country outlook, mainly because of heightened risk in the balance of payments position. Similarly, Standard and Poor's reduced Viet Nam's long-term FCY and LCY ratings in December to BB– from BB, and BB from BB+, respectively. Standard and Poor's also recorded a negative country outlook based on its assessment that Viet Nam's banking sector has become more vulnerable to economic and financial shocks. In February, R&I downgraded Viet Nam's FCY rating to BB- from BB and gave the country a negative outlook. R&I cited rising inflationary pressures generated by overheated domestic demand and the devaluation of the Vietnamese dong, resulting in concerns over Viet Nam's economic stability.

Table 2: Top 15 Corporate LCY Issuers in Viet Nam, (as of December 2010)

Issuer		Bonds Outstanding (VND billion)	State-Owned	Privately-Owned	Listed Company	Type of Industry
1.	Vincom	5,000.00	No	Yes	Yes	Real Estate
2.	Vietnam Techcombank	3,850.00	No	Yes	No	Finance
3.	Asia Commercial Joint Stock Bank	3,599.93	No	Yes	Yes	Finance
4.	Vietnam Commercial Bank	3,000.00	No	Yes	Yes	Finance
5.	Agribank Securities	2,000.00	No	Yes	Yes	Finance
6.	Sacombank	2,000.00	No	Yes	Yes	Finance
7.	Saigon Securities	2,000.00	No	Yes	Yes	Finance
8.	Vinpearl	1,000.00	No	Yes	Yes	Resorts/Theme Parks
9.	Vietnam Maritime Commercial Bank	1,000.00	No	Yes	No	Finance
10.	Military Bank	1,000.00	No	Yes	No	Finance
11.	Refigeration Electrical	810.42	No	Yes	Yes	Industrial
12.	Hoa Phat Group	800.00	No	Yes	Yes	Industrial
13.	Thu Duc Housing Devt Corp	600.00	No	Yes	Yes	Real Estate
14.	Kinh Bac City Devt Corp	500.00	No	Yes	Yes	Real Estate
15.	HCMC Gen Import Export & Investment	450.00	No	Yes	Yes	Trade
Total for Top 15 Corporate LCY Bond Issuers		**27,610.35**				
Top 15 as % of Total Corporate LCY Bond Outstanding		**93.0%**				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for Viet Nam

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	B1	BB-	B+	BB-
Outlook	negative	negative	stable	negative

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

Policy, Institutional, and Regulatory Developments

SBV Allows Charter Capital Increases for One Local and Four Foreign Banks

In January, the SBV allowed for an increase in the charter capital of Saigon Hanoi Bank (SHB) to VND4,995 billion from VND3,498 billion. In December, the SBV also permitted an increase in the charter capital of the local branches of four foreign banks. The charter capital of the branches of Huanan Commercial Bank and Chinatrust Commercial Bank in Ho Chi Minh City were allowed to increase to USD65 million from USD15 million, while the Ho Chi Minh and Hanoi branches of Mizuho Corporate Bank were allowed to increase to USD134 million from USD15 million.

SBV Sets Ceiling on Banks' Mobilizing Rates at 14.0%

In December, the SBV reached a consensus with the General Secretary and the Viet Nam Banks Association to put a ceiling on Vietnamese dong mobilizing rates—the banks' lending rates—at 14.0% per annum. This step was taken in line with the Prime Minister's directive of stabilizing the country's money market and ensuring a sound banking system.