Market Summaries

People's Republic of China

Yield Movements

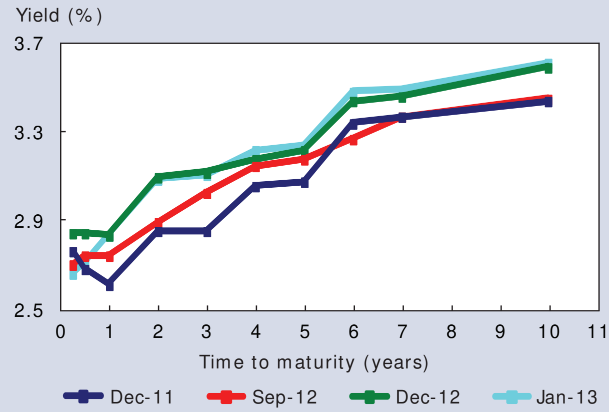
The government bond yield curve of the People's Republic of China (PRC) shifted upward from end-September to end-December, particularly at the shorter-end. Yields rose in 4Q12 between 9 basis points (bps) and 14 bps for tenors of 1-year or less. Meanwhile, yields rose 3 bps–17 bps between the 2- and 6-year tenors, and 9 bps–14 bps between the 7- and 10-year tenors **(Figure 1)**. As a result of the rise in interest rates, particularly at the shorter-end of the curve, the yield curve flattened in 4Q12

The rise in yields in 4Q12 was primarily due to a rise in inflationary expectations. Inflation accelerated to 2.5% year-on-year (y-o-y) in December from 2.0% in November. Inflation was 1.7% in October. Inflation was 2.0% in January, but was tempered by a high base due to the Lunar New Year falling in January.

Seasonal factors also contributed to the rise in yields as banks hoarded cash in anticipation of increasing customer demand at year's end. In addition, economic data suggest improvement in the PRC's economy, putting further upward pressure on yields. In 4Q12, gross domestic product (GDP) growth moderately improved to 7.9% y-o-y from 7.4% in 3Q12.

In January, rates declined at the shorter-end of the curve amid improved liquidity as demand among bank customers eased. Interest rates also declined following the central bank's announcement that it would implement a new liquidity management tool using repurchase (repo) and reverse repo agreements of less than 7 days. Interest rates fell 13 bps–18 bps in January on tenors of less than 1 year. Meanwhile, between the belly and longer-end of the curve, interest rates rose marginally between 2 bps and 4 bps. As a result, the yield curve steepened slightly, with the spread between the 2- and 10-year tenors rising to 52 bps at end-January from 49 bps at end-December.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC market reached CNY23.7 trillion (US$3.8 trillion) at end-December, an increase of 11.2% y-o-y and 3.0% quarter-on-quarter (q-o-q), largely driven by growth in policy bank and corporate bonds **(Table 1)**.

Government Bonds. LCY government bonds outstanding grew 8.0% y-o-y and 0.9% q-o-q in 4Q12, largely driven by the growth in policy bank bonds, which expanded 21.3% y-o-y and 3.3% q-o-q. Central bank bonds continued to act as a drag on government bond growth, falling 37.2% y-o-y and 16.2% q-o-q as a result of fewer

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

	Outstanding Amount (billion)								Growth Rates (%)						
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12	Nov-12	Dec-12		
	CNY	US$	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	23,046	3,667	23,263	3,730	23,462	3,768	23,747	3,811	4.6	11.2	0.9	0.9	1.2	3.0	11.2
Government	17,119	2,724	17,176	2,754	17,222	2,766	17,270	2,772	4.4	8.4	0.3	0.3	0.3	0.9	8.0
Treasury Bonds	7,915	1,259	7,980	1,279	8,017	1,288	8,074	1,296	5.5	8.8	0.8	0.5	0.7	2.0	9.3
Central Bank Bonds	1,597	254	1,564	251	1,462	235	1,338	215	(3.2)	(24.5)	(2.1)	(6.5)	(8.5)	(16.2)	(37.2)
Policy Bank Bonds	7,606	1,210	7,632	1,224	7,743	1,243	7,858	1,261	4.9	18.9	0.3	1.4	1.5	3.3	21.3
Corporate	5,927	943	6,086	976	6,240	1,002	6,477	1,040	5.0	20.2	2.7	2.5	3.8	9.3	20.8
Policy Bank Bonds															
China Development Bank	5,142	818	5,149	825	5,214	837	5,270	846	4.5	15.4	0.1	1.3	1.1	2.5	18.6
Export–Import Bank of China	1,008	160	1,026	165	1,078	173	1,112	178	8.4	29.2	1.8	5.1	3.1	10.3	33.4
Agricultural Devt. Bank of China	1,457	232	1,457	234	1,450	233	1,476	237	4.1	25.4	0.0	(0.5)	1.8	1.3	22.9

( ) = negative, 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–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.
5. The balance of outstanding commercial paper at end-December was zero as of 4Q12 based on *ChinaBond* data and CNY1.3 trillion on *Wind*.
Source: *ChinaBond* and Bloomberg LP.

sterilization activities and additional monetary easing by the People's Bank of China (PBOC). Meanwhile, treasury bonds increased 9.3% y-o-y and 2.0% q-o-q in 4Q12.

Corporate Bonds. Corporate bonds outstanding grew 20.8% y-o-y and 9.3% q-o-q in 4Q12 **(Table 2)**. Growth was driven mainly by an increase in outstanding local corporate bonds. Commercial bank bonds grew 36.9% y-o-y in 4Q12, due largely to the carryover of issuance of subordinated notes in 2Q12 as banks sought to bolster their capital bases in advance of the PRC's implementation of Basel III capital adequacy requirements. While state-owned enterprise (SOE) bonds rose a modest 11.0% y-o-y in 4Q12, local corporate bonds and medium-term notes (MTNs) expanded significantly by 66.8% y-o-y and 26.2% y-o-y, respectively, during the same period. Also in 4Q12, asset-backed securities (ABS) continued to decline, falling 19.9% y-o-y due to a lack of issuance linked to a government decision to temporarily halt new issuance in 2008. In 4Q12, however, the ABS isssuance program was resumed. On a q-o-q basis, local corporate bonds also showed the strongest growth among all types of corporate bonds in 4Q12 at 18.3%.

Overall issuance of corporate bonds was up in 4Q12 from 3Q12 levels **(Figure 2)**, with the exception of MTNs. Issuance of commercial bank bonds was strong, matching its peak level reached in 4Q11.

A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. At end-December, the top 30 corporate bond issuers accounted for CNY3.8 trillion worth of corporate bonds outstanding, or about 60% of the market. Among the top 30 corporate issuers, the 10 largest accounted for CNY2.5 trillion worth of bonds outstanding.

State-owned companies—defined as majority-owned by the government—continue to dominate the corporate bond market in the PRC. Among the top 30 corporate issuers at end-December, 23 were state-owned, with a total of CNY3.3 trillion worth of bonds outstanding.

Table 2: Corporate Bonds Outstanding in Key Sectors

	Outstanding Amount (CNY billion)						Growth Rates (%)					
							q-o-q					y-o-y
	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	4Q11	1Q12	2Q12	3Q12	4Q12	4Q12
Commercial Bank Bonds	755	924	1,028	1,100	1,106	1,265	22.4	11.2	7.0	0.6	14.4	36.9
State-Owned Corporate Bonds	876	894	953	992	991	993	2.1	6.6	4.1	(0.1)	0.2	11.0
Local Corporate Bonds	727	782	876	987	1,103	1,305	7.5	12.0	12.6	11.8	18.3	66.8
Asset- and Mortgage-Backed Securities	10	10	9	8	8	8	(3.5)	(9.6)	(4.3)	–	(7.4)	(19.9)
Medium-Term Notes	1,769	1,974	2,030	2,129	2,340	2,492	11.6	2.8	4.9	9.9	6.5	26.2

– = not available, ( ) = negative, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Source: *ChinaBond.*

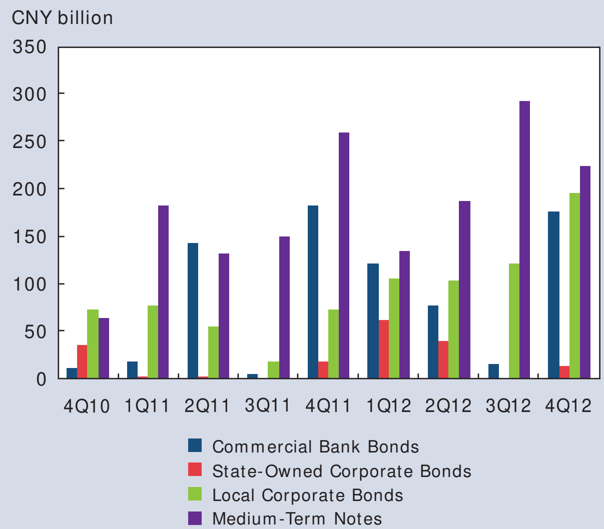
Investor Profile

Treasury Bonds. Banks remained the largest category of investors in the PRC's treasury bond market, holding a slightly larger share of these bonds at end-December 2012 (68%) than at end-December 2011 (66%) **(Figure 3a)**. The shares held by special members fell to 22% from 24% during the same period. 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.

Policy Bank Bonds. Banks are also a significant holder of policy bank bonds **(Figure 3b)**. At end-December, banks held 85% of outstanding policy bank bonds, up slightly from 84% a year earlier. Meanwhile, insurance institutions' holdings dropped slightly to 7% from 9% during the same time period.

Corporate Bonds. Banks were also the largest holder of corporate bonds at end-December, albeit with a comparatively smaller share than their holdings of treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 43% at end-December from 49% at end-December 2011 **(Figure 4)**. The second largest holder of corporate bonds was insurance companies, with a 20% share at end-December, slightly lower than their 21% share at end-December 2011.

Figure 2: Corporate Bond Issuance in Key Sectors



Source: *ChinaBond.*

Figure 5 presents the investor profile across different bond categories. Banks were the largest holders of MTNs and policy bank bonds at end-December. Specifically, they held more than 80% of policy bank bonds outstanding. Meanwhile, insurance companies were the largest holder of commercial bank bonds.

Liquidity

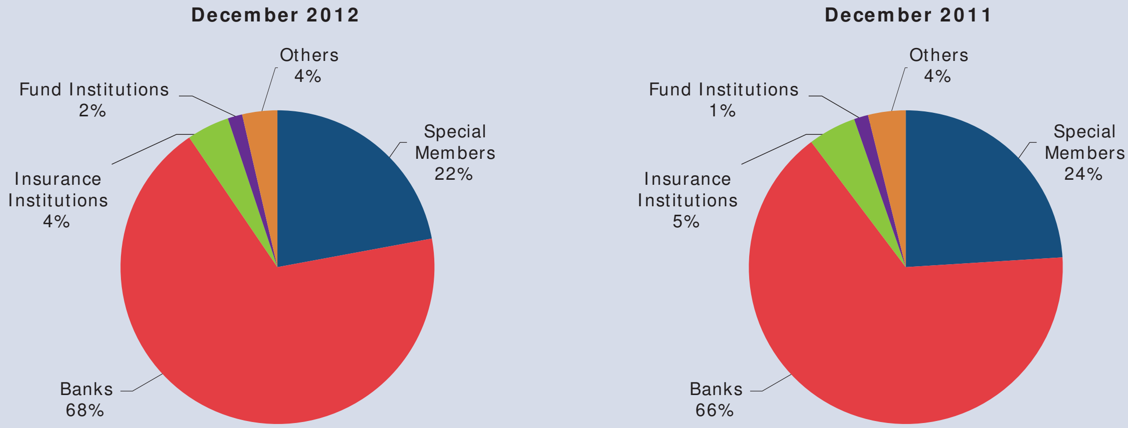
Figure 6 presents the turnover ratio for government bonds, including both spot trading and repo trading volumes. The volume of repo trading is

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

Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed Company	Type of Industry
	LCY Bonds (CNY billion)	LCY Bonds (US$ billion)				
1. Ministry of Railways	742.0	119.1	Yes	No	No	Transportation
2. China National Petroleum	320.0	51.4	Yes	No	No	Energy
3. State Grid Corporation of China	309.5	49.7	Yes	No	No	Public Utilities
4. Industrial and Commercial Bank of China	230.0	36.9	Yes	No	Yes	Banking
5. Bank of China	219.9	35.3	Yes	No	Yes	Banking
6. China Construction Bank	200.0	32.1	Yes	No	Yes	Banking
7. China Petroleum & Chemical	154.7	24.8	Yes	No	Yes	Energy
8. Agricultural Bank of China	150.0	24.1	Yes	No	Yes	Banking
9. Central Huijin Investment	109.0	17.5	Yes	No	No	Diversified Financial
10. Shenhua Group	97.0	15.6	Yes	No	No	Energy
11. China Guodian	95.2	15.3	Yes	No	No	Public Utilities
12. Petrochina	87.5	14.0	Yes	No	Yes	Energy
13. China Minsheng Bank	82.3	13.2	No	Yes	Yes	Banking
14. Shanghai Pudong Development Bank	79.2	12.7	No	Yes	Yes	Banking
15. Bank of Communications	76.0	12.2	No	Yes	Yes	Banking
16. Industrial Bank	72.1	11.6	No	Yes	Yes	Banking
17. China Three Gorges Project	70.5	11.3	Yes	No	No	Public Utilities
18. China Life	68.0	10.9	Yes	No	Yes	Insurance
19. China Power Investment	61.8	9.9	Yes	No	No	Public Utilities
20. China Merchants Bank	61.7	9.9	No	Yes	Yes	Banking
21. State-Owned Capital Operation and Management Center of Beijing	58.5	9.4	Yes	No	No	Diversified Financial
22. Huaneng Power International	58.0	9.3	Yes	No	Yes	Public Utilities
23. China Southern Power Grid	54.0	8.7	Yes	No	No	Public Utilities
24. Citic Group	53.5	8.6	Yes	No	No	Diversified Financial
25. China United Network Communications	53.0	8.5	Yes	No	Yes	Telecommunications
26. China Everbright Bank	52.7	8.5	No	Yes	Yes	Banking
27. China Huaneng Group	52.2	8.4	Yes	No	No	Public Utilities
28. China Citic Bank	42.5	6.8	No	Yes	Yes	Banking
29. Shougang Group	42.0	6.7	Yes	No	No	Raw Materials
30. Metallurgical Corporation of China	39.6	6.4	Yes	No	Yes	Capital Goods
Total Top 30 LCY Corporate Issuers	**3,792.4**	**608.7**				
Total LCY Corporate Bonds	**6,477.1**	**1,039.6**				
Top 30 as % of Total LCY Corporate Bonds	**58.6%**	**58.6%**				

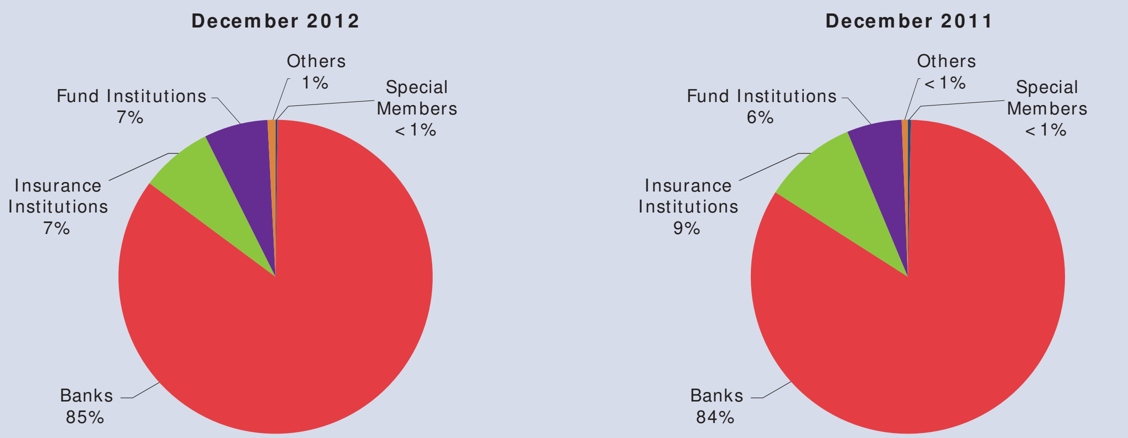
LCY = local currency.
Notes:
1. Data as of 31 December 2012.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on *Wind* data.

Figure 3a: LCY Treasury Bonds Investor Profile



LCY = local currency.
Source: *ChinaBond.*

Figure 3b: LCY Policy Bank Bonds Investor Profile



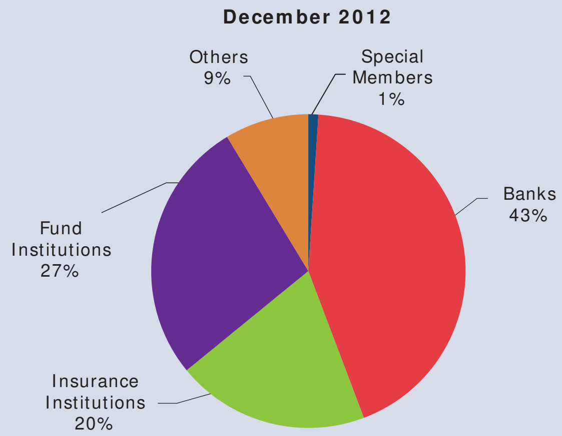
LCY = local currency.
Source: *ChinaBond.*

larger than that of spot trading in the PRC bond market, and the repo market is also the more active of the two. As of end-December, repo transactions for central bank bonds had the highest turnover rate among all government bonds at nearly 1.5 times the amount of central bank bonds outstanding. Turnover, however, for central bank bonds declined in 2012 with the lack of new issuance of central bank bonds and bills.

Interest Rate Swaps

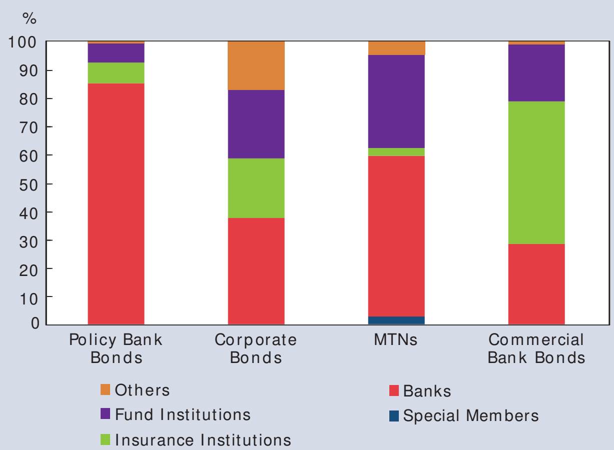
In 4Q12, the total notional amount of signed interest rate swap (IRS) agreements in the PRC reached CNY927.5 billion on 4,807 transactions (**Table 4**). Also during the quarter, the most popular benchmark switched from the 7-day repo rate, which accounted for 31.0% of the notional amount of signed IRS agreements, to the overnight Shanghai Interbank Offered Rate (SHIBOR), which accounted for 57.1% of the notional amount signed.

Figure 4: LCY Corporate Bonds Investor Profile



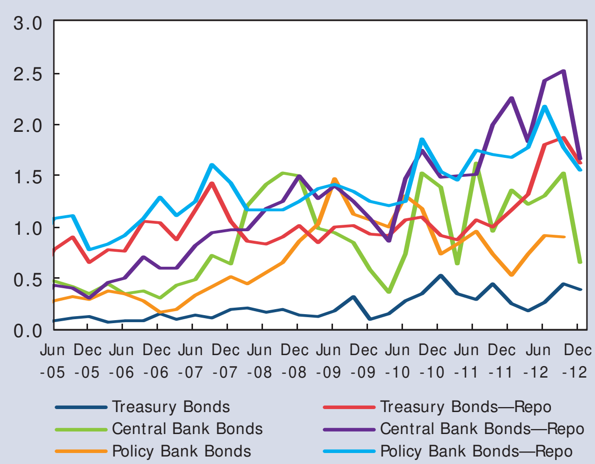
LCY = local currency.
Source: *ChinaBond.*

Figure 5: Investor Profile across Bond Categories



bps = basis points, MTNs = medium-term notes.
Note: Data as of 31 December 2012.
Source: *ChinaBond.*

Figure 6: Turnover Ratios for Government Bonds



Repo = repurchase.
Source: *ChinaBond.*

Policy, Institutional, and Regulatory Developments

The PRC to Implement Pilot Capital Monitoring System

On 5 December, the PRC announced that it would implement a pilot data system in the city of Dalian and the provinces of Liaoning, Zheijang (except Ningbo), and Shaanxi that would update the government's data collection system for capital transactions. The program will cover capital account business processed by foreign exchange regulators and banks.

The PRC Mulls Increasing QFII and RQFII Quotas

On 15 January, the Chairman of the China Securities Regulatory Commission, Guo Shuqing, announced that the PRC plans to increase the quotas for Qualified Foreign Institutional

Table 4: Notional Values of the PRC's Interest Rate Swap Market

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions
	3Q12		
7-Day Repo Rate	287.8	31.0	2,508
Overnight SHIBOR	529.2	57.1	1,092
3-Month SHIBOR	88.8	9.6	895
1-Year Term Deposit Rate	7.2	0.8	94
6-Month Lending Rate	0.04	0.0	4
1-Year Lending Rate	9.8	1.1	190
3-Year Lending Rate	3.8	0.4	16
5-Year Lending Rate	0.3	0.0	5
Above 5-Year Lending Rate	0.6	0.1	3
Total	**927.5**	**100.0**	**4,807**

– = not applicable, PRC = People's Republic of China, q-o-q = quarter-on-quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate, y-o-y = year on year.
Note: Data as of 31 December 2012.
Source: *AsianBondsOnline* and *ChinaMoney*.

Investors (QFII) and Renminbi Qualified Foreign Institutional Investors (RQFII). The quotas could possibly be increased tenfold in the future, he said. Guo also said that the PRC will support two-way balanced portfolio investment, which would allow non-residents to diversify existing investments in the PRC.

PBOC to Use Short-Term Liquidity Operations to Manage Money Supply

On 21 January, the PBOC announced that it will begin using short-term liquidity operations as an additional tool to manage the money supply. The main tools will be repo and reverse repo agreements with maturities of less than 7 days.

Hong Kong, China

Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) shifted downward for maturities of 3-years or less between end-September and end-December as yields at the shorter-end of the curve fell between 13 basis points (bps) and 18 bps **(Figure 1)**. Meanwhile, the yield for the 10-year maturity fell 14 bps. Yields were unchanged for all remaining tenors. The fall in yields along some parts of the curve reflected the United States (US) maintaining a relatively accommodative monetary stance.

Yields rose for all tenors between end-December and end-January. Yields rose 6 bps–8 bps for tenors of 1-year or less, with the exception of the 1-month tenor. Yields rose 9 bps–37 bps for tenors between 2 years and 7 years. Meanwhile, yields rose between 60 bps and 64 bps for tenors of 10-years or longer.

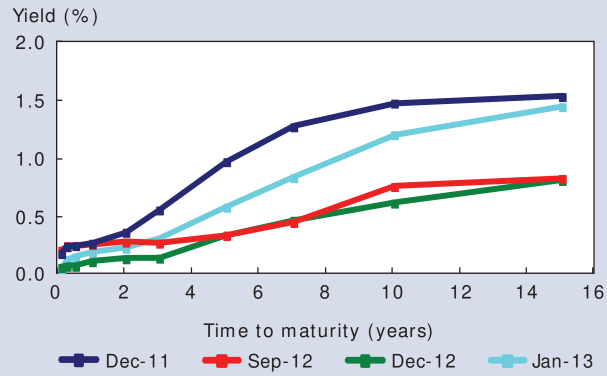
Hong Kong, China's economic performance improved in certain areas in recent months. For example, export growth was 14.4% year-on-year (y-o-y) in December and 10.5% in November, reversing October's 2.8% decline, as demand from the rest of Asia and the US improved. However, gross domestic product (GDP) growth remained weak at 1.3% in 4Q12 following 1.2% growth in 3Q12.

Inflation stabilized in December at 3.7% y-o-y, the same rate as in November. The Government of the Special Administrative Region of Hong Kong, China has stated that it expects inflationary pressures to be contained given domestic and international conditions, although it remains concerned over property prices.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market grew 5.1% y-o-y to HKD1.4 trillion

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



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

(US$178 billion) at end-December **(Table 1)**. On a quarter-on-quarter (q-o-q) basis, LCY bonds outstanding rose 0.9% in 4Q12.

Total LCY government bonds outstanding rose 3.0% y-o-y and 0.5% q-o-q as of end-December. Government bonds include Exchange Fund Bills (EFBs), Exchange Fund Notes (EFNs), and bonds issued under the Institutional Bond Issuance Programme (HKSAR Bonds).

The amount of LCY government bonds outstanding at end-December reached HKD724 billion. Most of the growth in government bonds in 4Q12 could be attributed to growth in HKSAR Bonds, which expanded 39.6% y-o-y to HKD67 billion from HKD48 billion at end-December 2011. In November, HKD3 billion in 3-year HKSAR Bonds were issued. On the other hand, the stock of EFNs declined slightly by 0.9% y-o-y to HKD69 billion, while EFBs grew slightly by 0.4% y-o-y to HKD589 billion.

The amount of LCY corporate bonds outstanding rose to HKD651 billion at end-December, reflecting growth of 7.6% y-o-y and 1.3% q-o-q. The top 28 non-bank corporate issuers in Hong Kong, China accounted for 16% of total corporate bonds

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

	Outstanding Amount (billion)								Growth Rate (%)						
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12	Nov-12	Dec-12		
	HKD	US$	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	1,364	176	1,367	176	1,373	177	1,376	178	1.2	3.3	0.2	0.4	0.2	0.9	5.1
Government	720	93	721	93	724	93	724	93	0.0	3.3	0.1	0.4	0.04	0.5	3.0
Exchange Fund Bills	587	76	588	76	589	76	589	76	0.0	0.4	0.1	0.1	(0.0)	0.2	0.4
Exchange Fund Notes	69	9	69	9	68	9	69	9	0.0	(0.9)	0.0	(0.9)	0.4	(0.4)	(0.9)
HKSAR Bonds	64	8	64	8	67	9	67	9	0.0	50.6	0.0	4.7	0.0	4.7	39.6
Corporate	643	83	646	83	649	84	651	84	2.6	3.3	0.4	0.4	0.4	1.3	7.6

( ) = negative, 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–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Hong Kong Monetary Authority and Bloomberg LP.

outstanding as of end-December **(Table 2)**. Hong Kong, China's top corporate issuer of LCY bonds remained the state-owned Hong Kong Mortgage Corporation (HKMC) with outstanding bonds valued at HKD16 billion at end-December. CLP Power Hong Kong Financing Ltd. was the next largest issuer with outstanding bonds of HKD11.7 billion. Sun Hung Kai Properties (Capital Market) Ltd. was the third largest issuer with outstanding bonds of HKD11.5 billion.

Financial firms dominated the list of the top 28 non-bank corporate issuers in 4Q12, accounting for nine of the 28 issuers. Six state-owned companies were included on the list, while 20 were privately owned. Among the companies included in Table 2, eight are listed on the Hong Kong Exchange.

Policy, Institutional, and Regulatory Developments

HKMA Revises Rules on CNH

On 15 January, the Hong Kong Monetary Authority (HKMA) released two new regulations making it easier for banks to hold offshore renminbi (CNH). The first one allows banks to include renminbi currency futures as part of the calculation of a bank's net open position. The second one shortens the notice period from two business days to one business day for banks seeking to tap the HKMA renminbi liquidity facility.

DBS Launches Renminbi Index

On 16 January, DBS Bank Ltd. (Hong Kong, China) launched a DBS Renminbi Index for VVinning Enterprises (DRIVE). The index measures actual usage and acceptance of the renminbi among enterprises in Hong Kong, China, and gauges sentiment for the expanded use of the renminbi as a global currency. The index is based on a survey along four dimensions: (i) actual business performance in the last 12 months and expectations for the next 12 months, (ii) past and future demand for renminbi in business operations, (iii) use of renminbi in trade settlement, and (iv) ease of access to renminbi financing. The initial index value in 4Q12 was 54.9; future updates are to be released quarterly.

Table 2: Top 28 Non-Bank Corporate Issuers in Hong Kong, China

Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed Company	Type of Industry
	LCY Bonds (HKD billion)	LCY Bonds (US$ billion)				
1. Hong Kong Mortgage Corporation	15.99	2.06	Yes	No	No	Finance
2. CLP Power Hong Kong Financing Ltd.	11.73	1.51	No	Yes	No	Electric
3. Sun Hung Kai Properties (Capital Market) Ltd.	11.51	1.49	No	Yes	No	Real Estate
4. MTR Corporation (C.I.) Ltd.	6.90	0.89	Yes	No	Yes	Transportation
5. Kowloon–Canton Railway Corporation	6.30	0.81	Yes	No	No	Transportation
6. Swire Pacific MTN Financing Ltd.	5.68	0.73	No	Yes	Yes	Diversified
7. HKCG (Finance) Limited	5.60	0.72	No	Yes	No	Gas
8. The Link Finance (Cayman) 2009 Ltd.	5.29	0.68	No	Yes	No	Finance
9. Hongkong Electric Finance Ltd.	4.81	0.62	No	Yes	No	Electric
10. Wharf Finance Ltd.	3.68	0.48	No	Yes	No	Diversified
11. Wheelock Finance Ltd.	3.44	0.44	No	Yes	No	Diversified
12. Airport Authority Hong Kong	2.85	0.37	Yes	No	No	Trannsportation
13. Urban Renewal Authority	2.50	0.32	Yes	No	No	Property Development
14. Cheung Kong Bond Finance Ltd.	2.45	0.32	No	Yes	Yes	Finance
15. Hysan (MTN) Ltd.	2.43	0.31	No	Yes	No	Finance
16. Cheung Kong Finance (MTN) Ltd.	2.21	0.28	No	Yes	No	Finance
17. Yue Xiu Enterprises (Holdings) Ltd.	2.00	0.26	No	Yes	No	Diversified
18. Henderson Land MTN Ltd.	1.83	0.24	No	Yes	Yes	Finance
19. Cathay Pacific MTN Financing Ltd.	1.70	0.22	No	Yes	Yes	Airlines
20. Wharf Finance (No.1) Ltd.	1.44	0.19	No	Yes	No	Diversified
21. Dragon Drays Ltd.	1.00	0.13	No	Yes	No	Diversified
22. Swire Properties MTN Finanicing Ltd.	0.80	0.10	No	No	Yes	Diversified
23. Nan Fung Treasury Ltd.	1.21	0.16	No	Yes	No	Real Estate
24. Wharf Finance (BVI) Ltd.	0.45	0.06	No	Yes	No	Diversified
25. HLP Finance Ltd.	0.41	0.05	No	No	Yes	Real Estate
26. Bauhinia MBS Ltd.	0.26	0.03	Yes	No	No	Finance
27. Cheung Kong Infrastructure Finance (BVI) Ltd.	0.26	0.03	No	Yes	Yes	Finance
28. The Hongkong Land Notes Company Ltd.	0.20	0.03	No	Yes	No	Finance
Total Top 28 Non-Bank LCY Corporate Issuers	**104.91**	**13.54**				
Total LCY Corporate Bonds	**651.41**	**84.05**				
Top 28 as % of Total LCY Corporate Bonds	**16.1%**	**16.1%**				

LCY = local currency.
Notes:
1. Data as of 31 December 2012.
2. Based on Central Money Markets Unit data on tradeable non-bank debt securities issued and outstanding.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Hong Kong Monetary Authority data.

Indonesia

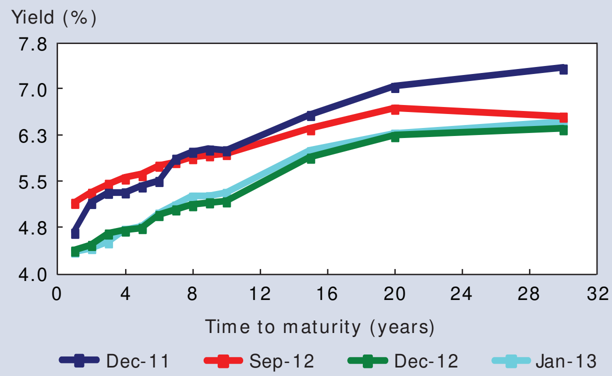
Yield Movements

Local currency (LCY) government bond yields in Indonesia fell for all tenors between end-September and end-December, resulting in the entire curve shifting downward **(Figure 1)**. By end-January, however, the yield curve rose slightly above its end-December level with a steepening bias, as the decline in yields at the short-end was outpaced by rising yields from the 4-year maturity through the long-end of the curve. Specifically, yields at the shortest-end (1-year maturity) of the curve fell only 1 basis point (bp) while yields from the belly through the end of the curve rose as much as 10 bps to 14 bps. The yield spread between the 2- and 10-year maturities widened to 90 bps at end-January from a spread of 71 bps at end-December 2012.

The downward shift in Indonesia's government bond yield curve may be attributed to foreign fund inflow as well as stable inflation. Foreign fund inflows into the Indonesian bond market remained strong in 4Q12 on the back of positive macro-fundamentals and attractive yields. The United States (US) Federal Reserve's announcement in December that it would expand its asset purchase program also helped boost demand for high-yield assets such as Indonesian debt instruments.

Consumer price inflation in Indonesia eased marginally in December, leveling off at 4.30% year-on-year (y-o-y), compared with 4.32% in November and 4.61% in October. Consumer price inflation for the full-year 2012 was at 4.3%, well within Bank Indonesia's (BI) 2012 inflation target range of between 3.5% and 5.5%, and below the Ministry of Finance's annual target of 5.3%. In January, consumer price inflation rose to 4.6% y-o-y due mainly to increases in power tariffs and food prices. On a month-on-month (m-o-m) basis, consumer prices rose to 1.0% in January, from 0.5% a month earlier.

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



LCY = local currency.
Source: Bloomberg LP.

In a meeting held on 12 February, BI's Board of Governors decided to keep its benchmark interest rate steady at 5.75%. The BI rate has remained at a record-low level since February of last year. At its current level, the BI rate remains consistent with the central bank's 2013 inflation target range (3.5%–5.5%). According to BI's assessment, Indonesia's economy continued its robust performance in 2012, yet pressure on the external balance remains strong due to the weak global environment.

Economic growth in Indonesia slowed to a still-robust rate of 6.1% y-o-y in 4Q12, following annual growth of 6.2% in 3Q12. On a quarter-on-quarter (q-o-q) basis, the economy contracted 1.5% in 4Q12, after posting 3.2% growth in 3Q12. Full-year GDP growth was recorded at 6.2% y-o-y, compared with 6.5% in 2011, amid weakened export performance. Domestic consumption (5.3%) and investment (9.8%) continued to drive growth in 2012. For 2013, BI is forecasting economic growth of between 6.3% and 6.7%, while the Ministry of Finance is targeting growth of 6.8% based on its budget forecast for the year.

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

	Outstanding Amount (billion)								**Growth Rate** (%)						
	Sep-12		**Oct-12**		**Nov-12**		**Dec-12**		**Sep-12**		**Oct-12**	**Nov-12**	**Dec-12**		
	IDR	**US$**	**IDR**	**US$**	**IDR**	**US$**	**IDR**	**US$**	**q-o-q**	**y-o-y**	**m-o-m**	**m-o-m**	**m-o-m**	**q-o-q**	**y-o-y**
Total	1,054,800	110	1,080,862	112	1,090,985	113	1,090,055	111	0.4	7.4	2.5	0.9	(0.1)	3.3	9.7
Government	883,479	92	905,942	94	913,119	95	902,594	92	(0.1)	4.2	2.5	0.8	(1.2)	2.2	6.6
Central Govt. Bonds	812,796	85	834,000	87	834,551	87	820,266	84	2.7	16.7	2.6	0.1	(1.7)	0.9	13.4
Central Bank Bills	70,683	7	71,942	7	78,568	8	82,328	8	(23.9)	(53.3)	1.8	9.2	4.8	16.5	(33.2)
Corporate	171,321	18	174,920	18	177,866	18	187,461	19	3.1	27.2	2.1	1.7	5.4	9.4	27.6

( ) = negative, 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–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. The total stock of non-tradable bonds as of end-December stood at IDR275.9 trillion.

Source: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, and Bloomberg LP.

Size and Composition

The size of Indonesia's LCY bond market rose to IDR1,090 trillion (US$111 billion) at end-December, expanding a modest 3.3% q-o-q **(Table 1)**. On a y-o-y basis, the LCY bond market saw more rapid growth of 9.7%, with contributions to growth coming from both the government and corporate sectors of the bond market.

At end-December, outstanding LCY government bonds stood at IDR902.6 trillion for a 2.2% q-o-q increase. On a y-o-y basis, government bonds grew 6.6% in 4Q12. Growth in the government bond market was driven mainly by central government bonds, comprised of treasury bills and treasury bonds issued by the Ministry of Finance. The stock of central bank bills has declined significantly on a y-o-y basis since BI initiated measures to reduce issuance in 2010 to curb currency speculation, although central bank bills rose modestly on both q-o-q and m-o-m basis in 4Q12.

Central Government Bonds. The stock of central government bonds grew marginally in 4Q12, rising 0.9% q-o-q to IDR820.3 trillion. On a y-o-y basis, central government bonds rose 13.4%. **Table 2** provides a breakdown of central government bonds outstanding by type of bond.

In 4Q12, new issuance of treasury bills and bonds reached IDR27.1 trillion, falling 33.2% on a q-o-q basis. Issuance of treasury instruments, however, rose 6.1% in 4Q12 compared with a year earlier. Central government bond issuance normally slows down during the fourth quarter each year as the government has either fully realized its annual issuance target or has no additional need for financing. Issuance in 4Q12 consisted of treasury bills, fixed rate bonds, Islamic treasury bills, and project-based *sukuk*.

In 2013, the government plans to sell a total of IDR281.3 trillion (gross) of government bonds. Of which, about IDR57.5 trillion is being planned for issue in 1Q13. As part of its debt strategy for the year, the government will also issue US$-denominated bonds in the domestic market.

Table 2: Central Government Bonds Outstanding by Type of Bond

Government Bonds	Outstanding Amount (IDR billion)	% Share	Growth Rate (%)	
			q-o-q	y-o-y
Treasury Bills (SPN)	22,820	2.8	(19.1)	(23.7)
Fixed-Rate Bonds	576,241	70.3	0.8	21.4
Variable-Rate Bonds	122,755	15.0	(3.4)	(9.1)
Zero-Coupon Bonds	1,263	0.2	(49.7)	(49.7)
Retail Bonds	34,153	4.2	59.0	(19.9)
Islamic Treasury Bills	195	0.02	(78.5)	(85.2)
Sukuk	17,137	2.1	0.0	2.4
Retail *Sukuk*	28,989	3.5	0.0	38.5
Project-Based *Sukuk*	16,714	2.0	11.4	–
Total	**820,267**	**100.0**	**0.9**	**13.4**

– = not applicable, ( ) = negative.
Note: Data as of 31 December 2012.
Source: Indonesia Stock Exchange.

However, the government plans to prioritize LCY issuance by capping issuance in foreign currency (FCY) at a maximum of 14% of the total. The government will continue to issue in varying tenors, ranging from 3 months to 25 years, and conduct buyback and debt switches.

The government has identified FR0066, FR0063, FR0064, and FR0065 as the new benchmark series bonds this year for 5-, 10-, 15-, and 20-year maturities, respectively. Details for the new benchmark bonds series are provided in **Table 3**.

Central Bank Bills. The stock of central bank bills stood at IDR82.3 trillion at end-December, rising 16.5% q-o-q as issuance of *Sertifikat* Bank Indonesia (SBI) and *sharia'h*-compliant SBI rose 29.8% q-o-q. On a y-o-y basis, however, the stock of central bank bills dropped 33.2% in 4Q12. SBI are issued by the central bank as one of its tools for monetary operations to help contain inflation.

Corporate Bonds. The size of Indonesia's LCY corporate bond market reached IDR187.5 trillion in 4Q12, growing 9.4% q-o-q and 27.6% y-o-y. Corporate bonds, however, comprised a small share of Indonesia's LCY bond market, accounting for only 17.2% of the total.

Table 4 provides a breakdown of corporate bonds outstanding by type of bond as of end-December.

Table 3: Indonesian Government Benchmark Bonds for 2013

Bond Series	Outstanding Amount (IDR billion)	Coupon (%)	Maturity Date
1. FR0066	5,050	5.25	15-May-18
2. FR0063	10,550	5.63	15-May-23
3. FR0064	9,976	6.25	15-May-28
4. FR0065	13,850	6.63	15-May-33

Source: Indonesia Debt Management Office.

Conventional corporate bonds dominated the list, accounting for 81.9% of total corporate bonds outstanding. Subordinated bonds accounted for 14.2% of the total, while *sukuk* (Islamic bond) issues by corporate entities remained small, comprising only 3.5% of corporate bonds outstanding at end-December.

At end-December, the amount of LCY bonds outstanding of the top 33 corporate bond issuers in Indonesia reached IDR150.3 trillion, representing 80.2% of total corporate bonds outstanding **(Table 5)**. The composition of the top three LCY corporate bond issuers remained the same as in 3Q12, led by state-power firm PLN with outstanding bonds valued at IDR14.2 trillion. PLN was followed by leasing company Adira Dinamika Multifinance with a total LCY bond stock amounting to IDR9.4 trillion. Telecommunications firm Indosat was the third-largest LCY bond issuer with bonds outstanding of IDR9.2 trillion.

Table 4: Corporate Bonds Outstanding by Type of Bond

Corporate Bonds	Outstanding Amount (IDR billion)	% Share	Growth Rate (%)	
			q-o-q	y-o-y
Conventional Bonds	153,617	81.9	8.3	27.0
Subordinated Bonds	26,611	14.2	17.7	32.2
Convertible Bonds	150	0.1	0.0	–
Zero-Coupon Bonds	500	0.3	0.0	–
Sukuk Ijarah	4,694	2.5	6.9	(6.8)
Sukuk Mudharabah	775	0.4	0.0	(7.6)
Sukuk Mudharabah Subordinated	1,114	0.6	0.0	–
Total	**187,461**	**100.0**	**9.4**	**27.6**

– = not applicable, ( ) = negative.
Notes:
1. Data as of 31 December 2012.
2. *Sukuk Ijarah* refers to Islamic bonds backed by a lease agreement.
3. *Sukuk Mudharabah* refers to Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
Source: Indonesia Stock Exchange.

Table 5: Top 33 Issuers of LCY Corporate Bonds in Indonesia

Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (US$ billion)				
1. PLN	14,208	1.45	Yes	No	No	Energy
2. Adira Dinamika Multifinance	9,421	0.96	No	Yes	Yes	Finance
3. Indosat	9,150	0.93	No	Yes	Yes	Telecommunications
4. Indonesia Eximbank	9,134	0.93	Yes	No	No	Banking
5. Astra Sedaya Finance	8,635	0.88	No	Yes	No	Finance
6. Bank Pan Indonesia	8,500	0.87	No	Yes	Yes	Banking
7. Federal International Finance	7,379	0.75	No	Yes	No	Finance
8. Bank Tabungan Negara	7,150	0.73	Yes	No	Yes	Banking
9. Bank Internasional Indonesia	7,000	0.71	No	Yes	Yes	Banking
10. Bank CIMB Niaga	6,480	0.66	No	Yes	Yes	Banking
11. Jasa Marga	5,000	0.51	Yes	No	Yes	Toll Roads, Airports, and Harbors
12. Perum Pegadaian	4,664	0.48	Yes	No	No	Finance
13. Bank Tabungan Pensiunan Nasional	4,550	0.46	No	Yes	Yes	Banking
14. Bank Permata	4,250	0.43	No	Yes	Yes	Banking
15. Indofood Sukses Makmur	3,610	0.37	No	Yes	Yes	Food and Beverages
16. Bank Mandiri	3,500	0.36	Yes	No	Yes	Banking
17. Antam	3,000	0.31	Yes	No	Yes	Petroleum and Natural Gas
18. Telekomunikasi Indonesia	3,000	0.31	Yes	No	Yes	Telecommunications
19. Medco-Energi Internasional	2,987	0.30	No	Yes	Yes	Petroleum and Natural Gas
20. Sarana Multigriya Finansial	2,902	0.30	Yes	No	No	Finance
21. Bank Danamon Indonesia	2,800	0.29	No	Yes	No	Banking
22. BCA Finance	2,530	0.26	No	Yes	No	Finance
23. Agung Podomoro Land	2,400	0.25	No	Yes	Yes	Property and Real Estate
24. Bank Jabar Banten	2,400	0.25	No	Yes	Yes	Banking
25. Indomobil Finance Indonesia	2,225	0.23	No	Yes	No	Finance
26. Bank Rakyat Indonesia	2,000	0.20	Yes	No	Yes	Banking
27. Surya Artha Nusantara Finance	1,995	0.20	No	Yes	No	Finance
28. Toyota Astra Financial Services	1,905	0.19	No	Yes	No	Finance
29. AKR Corporindo	1,500	0.15	No	Yes	Yes	Wholesale Distributor of Petroleum and Basic Chemicals
30. Bank Bukopin	1,500	0.15	No	Yes	Yes	Banking
31. Bank DKI	1,500	0.15	No	Yes	No	Banking
32. Japfa	1,500	0.15	No	Yes	Yes	Animal Feed
33. Surya Semesta Internusa	1,500	0.15	No	Yes	Yes	Property and Real Estate
Total Top 33 LCY Corporate Issuers	**150,273**	**15.34**				
Total LCY Corporate Bonds	**187,461**	**19.14**				
Top 33 as % of Total LCY Corporate Bonds	**80.2%**	**80.2%**				

LCY = local currency.
Notes:
1. Data as of 31 December 2012.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

Corporate issuers from the banking and financial sectors dominated the list of top LCY corporate bond issuers in Indonesia. Other bond issuers were from the following sectors: energy; telecommunications; toll roads, airports, and harbors; food and beverages; petroleum and natural gas; and property and real estate. About one-third of the companies on the list were state-owned firms while 23 firms were privately-owned. The top 33 list also includes 21 firms with shares listed on the Indonesia Stock Exchange.

In 4Q12, corporate bond issuance climbed to IDR21.8 trillion, a significant hike of 118.7% q-o-q and 36.4% y-o-y. Forty bond series were issued by 20 corporate firms during the quarter, with maturities ranging from 1 year to 7 years. The new corporate bond issues in 4Q12 were all conventional bonds except for two *sukuk* issues and four subordinated bond series. Corporate bonds issued in recent months carried coupons ranging from 6.25% to 9.4%. **Table 6** lists some of the notable corporate bonds issued in 4Q12.

Bank Internasional Indonesia (BII) raised a total of IDR3 trillion through a triple-tranche bond sale in November. The proceeds from the bonds will be used to strengthen BII's capital base and boost its lending business. The bond sale comprised the following issues:

- 3-year bonds worth IDR980 billion, coupon of 7.6%;
- 5-year bonds worth IDR1.02 trillion, coupon of 8.0%; and
- 7-year subordinated bonds worth IDR1 trillion, coupon of 9.25%.

Table 6: Notable LCY Corporate Issuance in 4Q12

Corporate Issuers	Issued Amount (IDR billion)
Bank Internasional Indonesia	3,000
Bank Pan Indonesia	3,000
Indonesia Eximbank	2,100
Bank CIMB Niaga	2,000
Bank Permata	1,800
Astra Sedaya Finance	1,530
AKR Corporindo	1,500
Surya Semesta Internusa	1,500
Others	5,350
Total	**21,780**

LCY = local currency.
Source: Indonesia Stock Exchange.

Bank Pan Indonesia sold a total of IDR3 trillion worth of bonds in a dual-tranche bond sale in December. The proceeds from the bond sale will be used to boost the bank's lending business. The bond issue consisted of the following series:

- 5-year bonds worth IDR1 trillion, coupon of 8.15%; and
- 7-year subordinated bonds worth IDR2 trillion, coupon of 9.40%.

State-owned export financing company Lembaga Pembiayaan Ekspor Indonesia (Indonesia Eximbank) raised a total of IDR2.1 trillion from a dual-tranche bond sale in November. The bonds consisted of the following series:

- 370-day bonds worth IDR1.43 trillion, coupon of 6.25%; and
- 3-year bonds worth IDR666 billion, coupon of 6.50%.

Bank CIMB Niaga sold a total of IDR2 trillion in a dual-tranche bond sale in October. Proceeds from the bond sale will be used by the bank for credit expansion. The bonds were rated IdAAA by Pefindo and AAA(idn) by Fitch Ratings Indonesia. The bond sale comprised the following issues:

- 3-year bonds worth IDR600 billion, coupon of 7.35%; and
- 5-year bonds worth IDR1.4 trillion, coupon of 7.75%.

Bank Permata sold IDR1.8 trillion of 7-year subordinated bonds in December. Proceeds from the bond sale will be used to further boost the bank's capital. The bonds carry a coupon of 9.4%. The subordinated bonds were rated idAA– by Pefindo.

Investor Profile

Central Government Bonds. At end-December, banking institutions were still the biggest holder of central government bonds in Indonesia **(Figure 2)**.

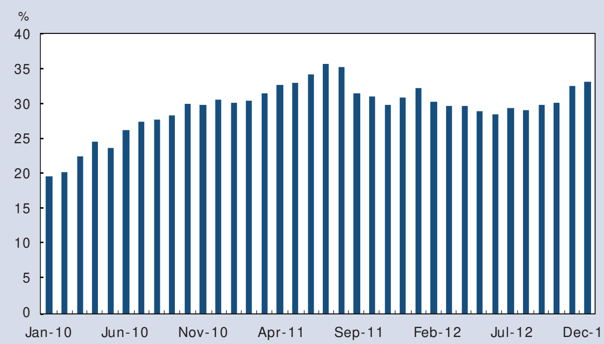
The share of central government bonds held by banking institutions in 4Q12 was almost unchanged at 36.5% from 36.6% in 4Q11. Banking institutions can be broken down into five categories: (i) state recap banks, (ii) private recap banks, (iii) non-recap banks, (iv) regional banks, and (v) *sharia'h* banks. Among these five types of banking institutions, state banks held the largest portion of central government bonds at end-December.

Foreign investors were the second-largest holder of Indonesian LCY central government bonds at end-December. The share of foreign investors in LCY central government bonds steadily increased from a share of 29.5% at end-March to 33.0% at end-December **(Figure 3)**. In absolute terms, outstanding bonds held by foreign investors climbed to IDR270.6 trillion as of end-December.

Foreign investors include among others, non-resident private banks, fund and asset management firms, insurance companies, and pension funds. Offshore financial institutions owned nearly 60% of bonds held by foreign investors at end-December **(Figure 4)**. They were followed by mutual funds with an ownership share of 25.9%. Meanwhile, pension funds accounted for 1.6% of the total and insurance companies held a share of 1.3%.

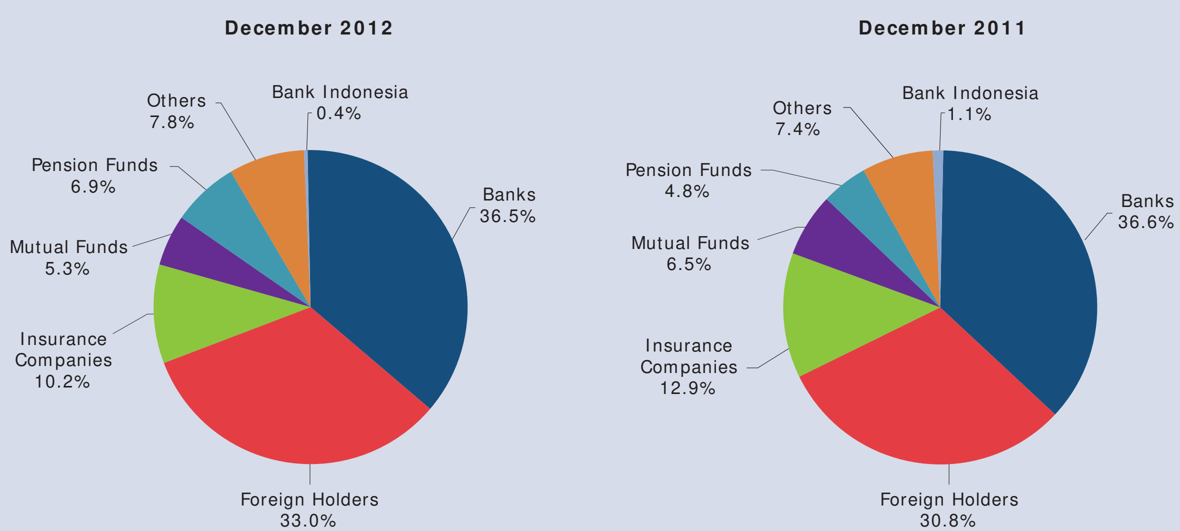
At end-December, the majority of foreign investors in Indonesia's LCY central government bonds were long-term investors. About 45% of bonds held by offshore investors were in maturities of more than 10 years **(Figure 5)** at end-December, compared with 38% at end-December 2011. In addition, foreign investors' holdings of bonds with maturities of more than 5 years and up to 10 years climbed to 28% of foreign investors' total holdings from 25%. Meanwhile, offshore holdings of short-dated tenors (bonds with maturities of less than 1 year) fell to 8% at end-December from 12% at end-December 2011.

Figure 3: Monthly Foreign Investor Share of LCY Central Government Bonds



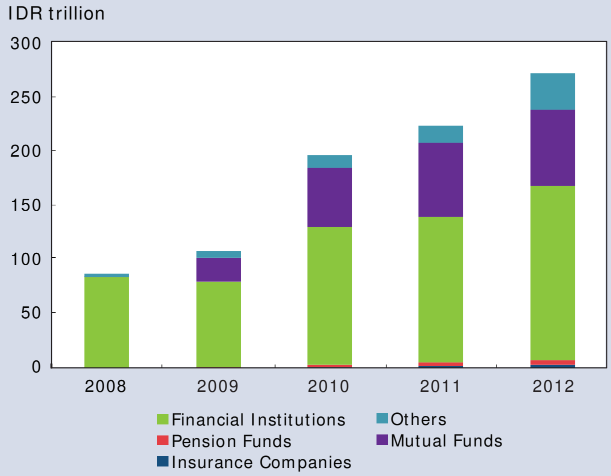
LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 2: LCY Central Government Bonds Investor Profile



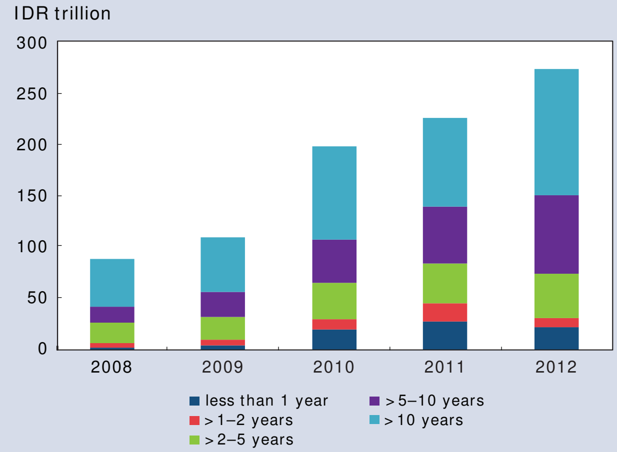
LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 4: Foreign Holdings of LCY Central Government Bonds by Type of Investor



LCY = local currency.
Note: Others include corporations, individuals, security companies, foundations, and other investors not classified.
Source: Indonesia Debt Management Office.

Figure 5: Foreign Holdings of LCY Central Government Bonds by Maturity

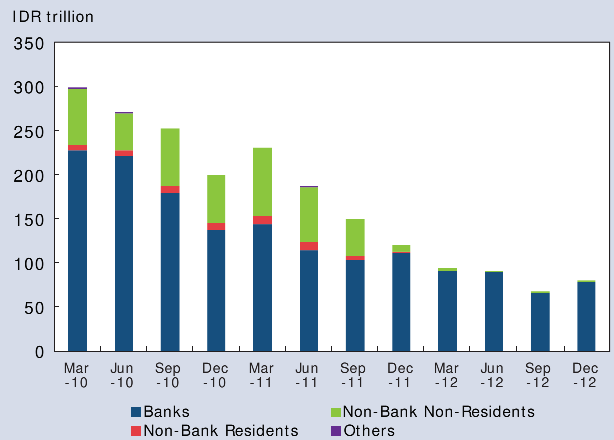


LCY = local currency.
Source: Indonesia Debt Management Office.

Meanwhile, the share of insurance companies' holdings fell to 10.2% of the total in 4Q12 compared with 12.9% a year earlier. Mutual funds' holdings of government bonds remained relatively small compared with other investor classes, accounting for a share of only 5.3% at the end of 4Q12. Meanwhile, the share of bonds held by pension funds rose to 6.9% at end-December from 4.8% a year earlier.

Central Bank Bills. At end-December, central bank bills were held almost entirely by banking institutions with a share of 99.5%, compared with 92.2% at end-December 2011 **(Figure 6)**. In absolute terms, outstanding SBI held by banks stood at IDR78.5 trillion in 4Q12. Meanwhile, offshore investors held the remaining 0.5%, down from a 3.3% share at end-September. The share of SBI held by foreign investors has fallen precipitously since the central bank implemented a 6-month holding period for SBI in 2011.

Figure 6: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

Rating Changes

On 18 October, Ratings and Investment (R&I) raised Indonesia's sovereign credit rating to BBB– from BB+. The outlook on the rating was stable. R&I cited Indonesia's economic resilience amid the downturn in the global economy, conservative fiscal management, low debt burden, and stable financial system as reasons for the ratings action.

On 13 November, the Japan Credit Rating Agency (JCR) affirmed Indonesia's sovereign credit rating at BBB– with a stable outlook. JCR cited the following factors in its decision to affirm Indonesia's ratings: (i) the country's sustainable economic growth outlook, (ii) a low public debt burden, and (iii) a reinforced resilience to external shocks.

On 21 November, Fitch Ratings (Fitch) affirmed the long-term FCY and LCY issuer default ratings of Indonesia at BBB–. The outlook on the ratings was stable. Fitch also affirmed the country ceiling at BBB and the short-term FCY issuer default rating at F3. According to Fitch, the credit profile of Indonesia is supported by the country's strong and resilient economic growth, low and declining public debt ratios, high investment rate, and a broadly appropriate macroeconomic policy framework. The ratings agency opined that the pressures on Indonesia's external finances and its credit weakness are consistent with its BBB– rating.

Policy, Institutional, and Regulatory Developments

BI Announces New Capital Adequacy Ratios for Banks

In December, BI announced new capital requirements for banks as part of efforts to strengthen the banking system. Beginning in March, banks will be required to maintain a capital adequacy ratio (CAR) of between 8% and 14%, depending on their risk profile. Currently, the CAR for all banks is set at 8%. Based on the new regulation, banks with a low risk profile will continue to maintain a CAR of 8%, banks with a second-level risk profile will be required to maintain a CAR of 9%–10%, and those with a third-level risk profile will be required to maintain a ratio of 10%–11%. High-risk banks (fourth- and fifth-level risk profiles) will be required to maintain a CAR of 11%–14%. BI also set a special requirement, known as a capital equivalency maintained asset (CEMA), for foreign banks operating in Indonesia.

Bond Research Institute Established in Indonesia

In January, the Bond Research Institute (BondRI), a research institution for bonds and fixed income markets, was established in Indonesia. BondRI's mission is to produce research and analysis on bonds and fixed income to improve Indonesia's capital market competitiveness.

OJK Plans to Release Ratings on Corporate Governance

In January, Indonesia's supervisory bond agency, the Financial Services Authority (OJK), announced plans to publish ratings on the quality of corporate governance of Indonesian firms. OJK plans to provide ratings for the 50 largest listed companies this year. Among the criteria to be evaluated are how a company treats minority shareholders and the role played by its board of directors.

Indonesian Government to Hedge FCY Liabilities Against Fluctuations in Interest and Exchange Rates

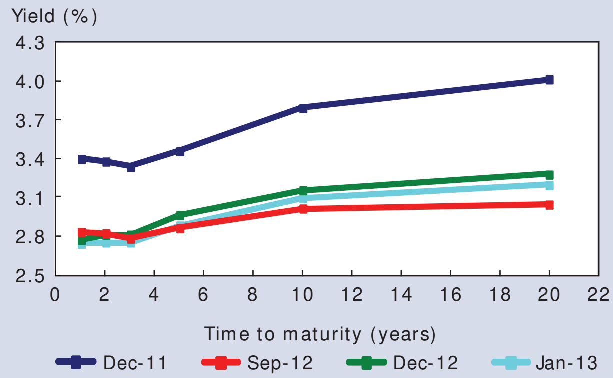
In January, the Ministry of Finance issued a regulation that would allow the government to hedge its FCY-denominated liabilities, for both bonds and international loans, against fluctuations in interest and exchange rates. The decree, however, did not indicate which specific hedging instruments it will use. The mechanism for conducting hedging transactions is still being formulated by the government. The decree requires the government counterparty for hedging transactions to have at least an A credit rating from two international rating agencies.

Republic of Korea

Yield Movements

Government bond yields in the Republic of Korea rose for most tenors between end-September and end-December **(Figure 1)**. The rise in yields covered tenors of 3 years and longer, with increases ranging from 3 basis points (bps) for the 3-year tenor to 23 bps for the 20-year tenor. In contrast, the 1-year tenor fell 6 bps and the 2-year tenor declined 1 bp. The yield hike for most tenors can be attributed to expectations of a domestic and global economic recovery. Between end-December and end-January, yields fell for all tenors. Meanwhile, the yield spread between the 2- and 10-year tenors widened 15 bps between end-September and end-December, and remained unchanged between end-December and end-January.

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



LCY = local currency.
Source: Bloomberg LP.

The Bank of Korea's Monetary Policy Committee decided on 14 February to keep the base rate—the 7-day repurchase rate—steady at 2.75%. Consumer price inflation inched up to 1.5% year-on-year (y-o-y) in January from 1.4% in December. For the full-year 2012, the inflation rate stood at 2.2%, the lowest since 2006.

Real gross domestic product (GDP) grew 0.4% quarter-on-quarter (q-o-q) and 1.5% y-o-y in 4Q12, based on advance estimates of The Bank of Korea. For the full-year 2012, the real GDP growth rate stood at 2.0%. Between 3Q12 and 4Q12, the y-o-y growth rate rose from 1.6% to 2.8% for private consumption expenditure, from 2.9% to 4.0% for total exports of goods and services, and from 1.1% to 3.1% for total imports of goods and services. In contrast, the y-o-y growth rate of gross fixed capital formation fell to −4.1% in 4Q12 from −2.3% in 3Q12.

Size and Composition

Total local currency (LCY) bonds outstanding in the Republic of Korea grew 10.5% y-o-y and 2.8% q-o-q to reach KRW1,566 trillion (US$1.5 trillion) at end-December **(Table 1)**. The outstanding size of LCY government bonds stood at KRW609 trillion, which was up 3.7% from a year earlier and 0.9% from end-September. The central government's bonds outstanding expanded 6.0% y-o-y and 0.5% q-o-q to KRW416.1 trillion, spurred by increases of 6.7% y-o-y and 0.7% q-o-q in Korea Treasury Bonds (KTBs). Meanwhile, the outstanding amount of central bank bonds—known as Monetary Stabilization Bonds (MSBs)—slipped 1.0% y-o-y but rose 0.4% q-o-q to level off at KRW163.1 trillion. Industrial finance debentures fell, albeit marginally, by 0.1% y-o-y but expanded 9.4% q-o-q to reach KRW29.9 trillion.

In 4Q12, issuance of LCY government bonds amounted to KRW71.6 trillion, up 7.6% from a year earlier and 13.1% from the previous quarter. Issuance of central bank bonds rose 5.0% y-o-y and 11.5% q-o-q to KRW43.5 trillion, while that of industrial finance debentures surged 114.0% y-o-y and 262.2% q-o-q to KRW5.9 trillion. In contrast, central government bond issues fell 0.7% y-o-y and 2.2% q-o-q to KRW22.2 trillion.

Total LCY corporate bonds outstanding expanded 15.4% y-o-y and 4.1% q-o-q to reach KRW956.7 trillion at end-December. The expansion stemmed from increases in private corporate bonds outstanding, which climbed 21.9% y-o-y and 5.1% q-o-q, and increases in special public bonds outstanding, which climbed 19.1% y-o-y and 4.7% q-o-q. Meanwhile, the outstanding size of financial debentures, excluding Korea Development Bank (KDB) bonds, rose 1.0% q-o-q but fell 0.6% y-o-y.

The top 30 LCY corporate bond issuers in the Republic of Korea at end-December had combined outstanding bonds of KRW593.7 trillion, accounting for 62% of total LCY corporate bonds outstanding **(Table 2)**. Korea Land & Housing Corp. remained the largest issuer of corporate bonds with a total outstanding amount of KRW57.9 trillion.

LCY corporate bond issuance in 4Q12 stood at KRW98.6 trillion, which was 3.5% higher than a year earlier and 1.9% more than in the previous quarter. The y-o-y increase was largely due to a 29.2% annual rise in issuance of special public bonds, while the q-o-q hike was bolstered by a 19.9% quarterly surge in financial debenture issues.

The largest corporate bond issues in 4Q12 included Nonghyup Bank's KRW700 billion 8-year bond offering a 3.33% coupon, Korea Land & Housing Corporation's KRW500 billion 3-year bond carrying a 3.02% coupon, and SH Corporation's KRW300 billion 1.5-year bond with a 3.08% coupon. The longest-dated LCY corporate bond issued during the quarter was Korea Land & Housing Corporation's 40-year bond worth KRW90 billion and carrying a 3.52% coupon. Among the high-yield corporate bond issues during the quarter were Dongbu Corporation's 1-year bond worth KRW42 billion with an 8.9% coupon, and Kolon Global Corporation's 2.5-year bond worth KRW100 billion with an 8.5% coupon.

Liquidity

Liquidity in LCY government bonds slipped in 4Q12 as the turnover ratio fell to 1.01 from

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

	Outstanding Amount (billion)								**Growth Rate** (%)						
	Sep-12		**Oct-12**		**Nov-12**		**Dec-12**		**Sep-12**		**Oct-12**	**Nov-12**	**Dec-12**		
	KRW	US$	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	1,522,869	1,370	1,544,160	1,416	1,565,497	1,446	1,565,704	1,471	2.1	9.6	1.4	1.4	0.01	2.8	10.5
Government	603,590	543	608,429	558	614,521	568	609,035	572	0.4	2.2	0.8	1.0	(0.9)	0.9	3.7
Central Bank Bonds	162,460	146	162,010	149	163,070	151	163,070	153	(1.3)	(4.1)	(0.3)	0.7	0.0	0.4	(1.0)
Central Government Bonds	413,848	372	417,034	382	421,570	389	416,113	391	1.3	5.8	0.8	1.1	(1.3)	0.5	6.0
Industrial Finance Debentures	27,283	25	29,385	27	29,881	28	29,852	28	(3.3)	(8.4)	7.7	1.7	(0.1)	9.4	(0.1)
Corporate	919,279	827	935,731	858	950,976	878	956,669	899	3.3	15.1	1.8	1.6	0.6	4.1	15.4

( ) = negative, 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–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: EDAILY *BondWeb* and The Bank of Korea.

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

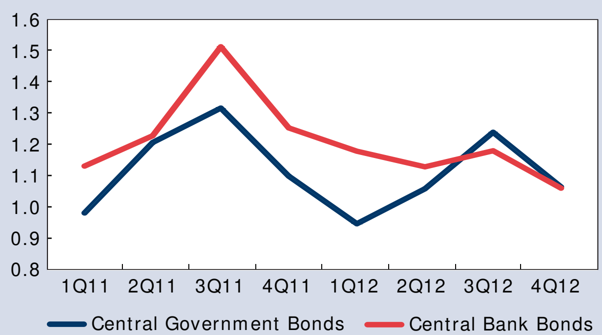
Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed on		Type of Industry
	LCY Bonds (KRW billion)	LCY Bonds (US$ billion)			KOSPI	KOSDAQ	
1. Korea Land & Housing Corp.	57,871	54.4	Yes	No	No	No	Real Estate
2. Korea Housing Finance Corp.	47,414	44.5	Yes	No	No	No	Financial
3. Korea Deposit Insurance Corp.	45,200	42.5	Yes	No	No	No	Insurance
4. Korea Finance Corp.	41,270	38.8	Yes	No	No	No	Financial
5. Industrial Bank of Korea	30,115	28.3	Yes	No	Yes	No	Bank
6. KDB Daewoo Securities	29,844	28.0	Yes	No	Yes	No	Securities
7. Korea Electric Power Corp.	28,990	27.2	Yes	No	Yes	No	Utillity
8. Woori Investment and Securities	24,767	23.3	Yes	No	Yes	No	Securities
9. Korea Investment and Securities	23,499	22.1	No	Yes	No	No	Securities
10. Mirae Asset Securities	19,735	18.5	No	Yes	Yes	No	Securities
11. Korea Expressway Corp.	19,370	18.2	Yes	No	No	No	Infrastructure
12. Kookmin Bank	18,868	17.7	No	Yes	No	No	Bank
13. Tong Yang Securities	18,298	17.2	No	Yes	Yes	No	Securities
14. Shinhan Bank	18,068	17.0	No	Yes	No	No	Bank
15. Woori Bank	15,502	14.6	Yes	No	No	No	Bank
16. Small & Medium Business Corp.	15,175	14.3	Yes	No	No	No	Financial
17. Korea Rail Network Authority	14,210	13.4	Yes	No	No	No	Infrastructure
18. Korea Gas Corp.	12,795	12.0	Yes	No	Yes	No	Utility
19. Hana Bank	12,764	12.0	No	Yes	No	No	Bank
20. Hyundai Securities	12,134	11.4	No	Yes	Yes	No	Securities
21. Hana Daetoo Securities	11,856	11.1	No	Yes	No	No	Securities
22. Korea Water Resources	9,729	9.1	Yes	No	Yes	No	Utility
23. Shinhan Investment Corp.	9,455	8.9	No	Yes	No	No	Securities
24. Shinhan Card	9,116	8.6	No	Yes	No	No	Financial
25. Hyundai Capital Services	8,301	7.8	No	Yes	No	No	Securities
26. Samsung Securities	8,195	7.7	No	Yes	Yes	No	Securities
27. Standard Chartered First Bank Korea	7,930	7.5	No	Yes	No	No	Bank
28. Korea Railroad Corp.	7,860	7.4	Yes	No	No	No	Infrastructure
29. Shinhan Financial Group	7,750	7.3	No	Yes	Yes	No	Financial
30. Nonghyup Bank	7,600	7.1	Yes	No	No	No	Bank
Total Top 30 LCY Corporate Issuers	**593,680**	**557.8**					
Total LCY Corporate Bonds	**956,669**	**898.8**					
Top 30 as % of Total LCY Corporate Bonds	**62.1%**	**62.1%**					

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of 31 December 2012.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

1.16 in 3Q12. For central government bonds, mostly KTBs, the turnover ratio dropped to 1.06 in 4Q12 from 1.24 in 3Q12. Also, the turnover ratio for central bank bonds, or MSBs, decreased to 1.06 from 1.18 in the previous quarter **(Figure 2)**.

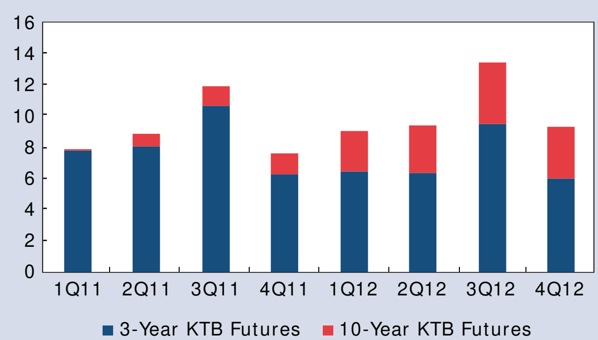
The number of KTB futures contracts traded fell to 9.3 million in 4Q12 from 13.4 million in 3Q12 due to less trading volume for both 3- and 10-year KTB futures **(Figure 3)**. The proportion of 3-year contracts traded as a share of all KTB futures contacts slipped to 65% in 4Q12 from 71% in 3Q12, while the share of 10-year KTB futures contracts climbed to 35% in 4Q12 from 29% in 3Q12.

Figure 2: Turnover Ratios for Central Government and Central Bank Bonds



Note: Central government bonds include Korea Treasury Bonds and National Housing Bonds.
Source: The Bank of Korea and EDAILY *BondWeb*.

Figure 3: Trading Volume in KTB Futures Contracts (millions of contracts)



KTB = Korea Treasury Bond.
Source: Korea Exchange.

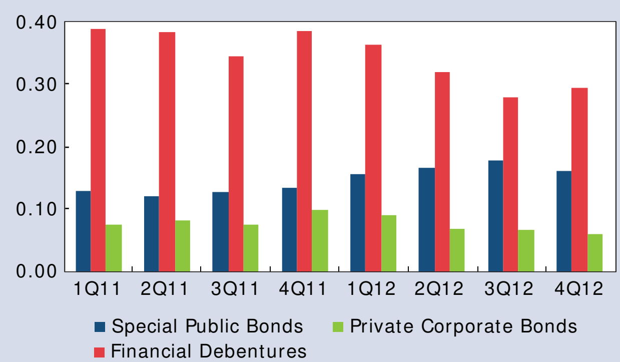
For LCY corporate bonds, the turnover ratio remained steady at 0.15 in 4Q12 for the second consecutive quarter. However, between 3Q12 and 4Q12, the turnover ratio for financial debentures inched up from 0.28 to 0.29, it fell for special public bonds from 0.18 to 0.16, and decreased slightly for private corporate bonds from 0.07 to 0.06 **(Figure 4)**.

Investor Profile

Insurance companies and pension funds were the largest investor group in LCY government bonds as of end-September, holding 25% of the total **(Figure 5)**. They were followed by the general government—consisting of the central government, local government, and social security funds—which held 23% of the total, financial companies other than banks (19%), banks (18%), foreign investors (10%), households and nonprofit organizations (5%), and non-financial companies (1%). Between end-September 2011 and end-September 2012, the share of insurance companies and pension funds climbed 2 percentage points, while the share of financial companies other than banks rose 1 percentage point. On the other hand, the shares of the general government and foreign investors dropped 1 percentage point each.

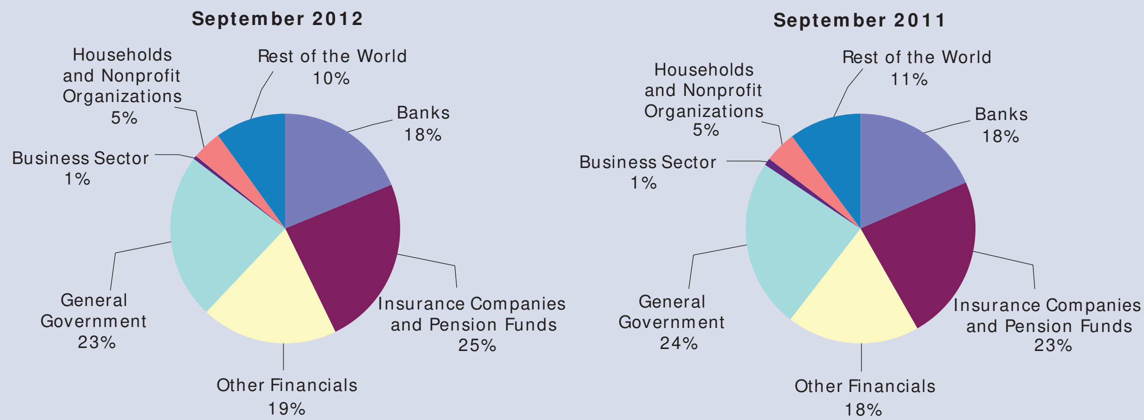
Insurance companies and pension funds were also the largest investor group in LCY corporate bonds, holding 33% of the total as of end-September

Figure 4: Turnover Ratios for Special Public Bonds, Financial Debentures, and Private Corporate Bonds



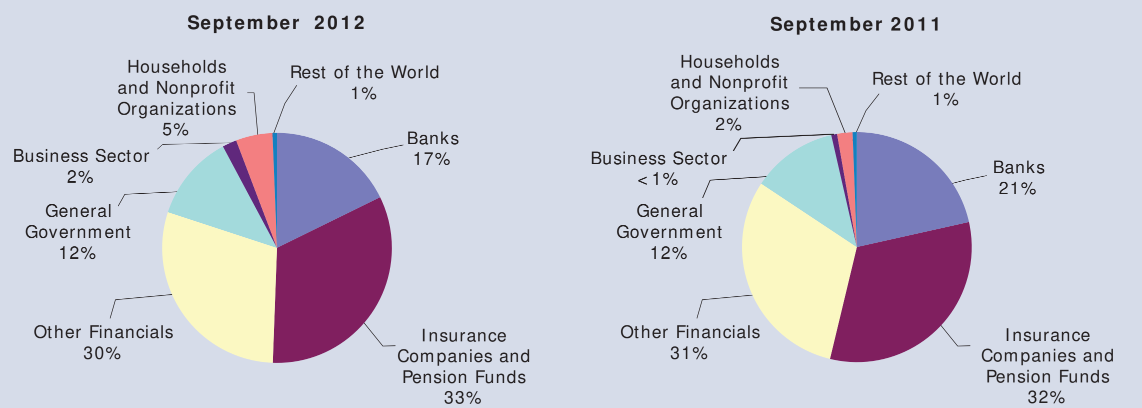
Source: EDAILY *BondWeb*.

Figure 5: LCY Government Bonds Investor Profile



LCY = local currency.
Source: *AsianBondsOnline* and The Bank of Korea.

Figure 6: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: *AsianBondsOnline* and The Bank of Korea.

(**Figure 6**). Financial companies other than banks were the second-largest corporate bondholders with a share of 30%, followed by banks (17%), the general government (12%), households and nonprofit organizations (5%), non-financial companies (2%), and foreign investors (1%). Compared with end-September 2011, the shares of households and nonprofit organizations, non-financial companies, and insurance companies and pension funds rose 3, 2, and 1 percentage point(s), respectively. On the other hand, the share of banks dropped 4 percentage points and the share of other financial companies fell 1 percentage point.

Policy, Institutional, and Regulatory Developments

MOSF Announces KTB Issuance Plan for 2013

The Ministry of Strategy and Finance (MOSF) announced in January its issuance plan for KTBs for 2013. MOSF reported plans to issue a total of KRW79.7 trillion worth of KTBs in 2013, with KRW57.5 trillion to be used for refinancing purposes.

FSC Releases Legislative Notice on Proposed Covered Bonds Act

The Financial Services Commission (FSC) released a legislative notice on its proposed Covered Bonds Act in October. The notice includes the definition of covered bonds and eligible issuers, the cover pool, registration of the issuance plan and cover pool, the management of the cover pool, and the preferential rights of covered bond investors. The FSC reported in its January press release that the draft bill of the Covered Bond Act was approved by the Cabinet on 29 January.

FSC Sets Implementation Plan for Basel III

The FSC stated in December that it will set a specific timeline for domestic implementation of Basel III in the Republic of Korea, and that this will reflect global trends with respect to other countries' implementation experiences. The FSC reported that 11 countries had finalized their implementation plans for Basel III, while 15 countries, including the Republic of Korea, had drafted regulations for Basel III implementation.

Malaysia

Yield Movements

Between end-September and end-December, the local currency (LCY) government bond yield curve in Malaysia flattened as yields rose at the shorter-end and fell from the 2-year maturity through the end of the curve **(Figure 1)**. Yields rose the most for the 1-year maturity, climbing 1.5 basis points (bps). Yields from the 2-year maturity through the end of the curve fell between 2 bps and 9 bps.

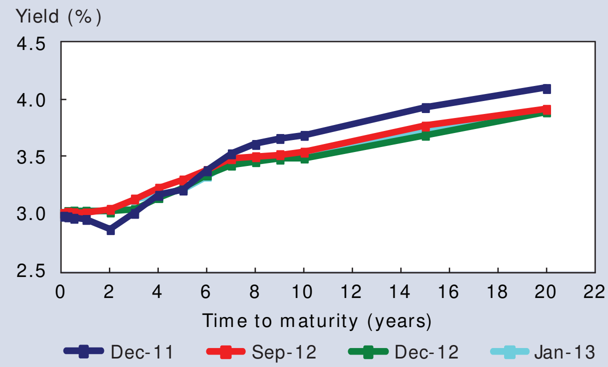
Between end-December and end-January, there was not much change in the yields except for the 3-year maturity, which rose 9 bps. The yield spread between the 2- and 10-year maturities remained at 47 bps at end-January, the same level as end-December; however, it narrowed significantly compared with a spread of 82 bps at end-December 2011.

Rising yields at the shorter-end of the curve reflected expectations of higher inflation in 2013 as domestic demand remained strong. Consumer price inflation in Malaysia was relatively tame in 2012 with inflation easing to 1.2% year-on-year (y-o-y) in December from 1.3% in November and October. Between November and December, consumer price inflation remained flat. For the full-year 2012, inflation averaged 1.6% y-o-y as price indices for all main groups rose except for clothing and footwear, and communications.

Bank Negara Malaysia (BNM) decided to leave the overnight policy rate unchanged at 3.0% in its Monetary Policy Committee meeting on 31 January. BNM has kept its benchmark rate at the same level since May 2011. The central bank considers the current monetary policy to be supportive of the economy while inflation remains contained.

Malaysia's real gross domestic product (GDP) expanded 6.4% y-o-y in 4Q12 compared with 5.3% growth in 3Q12. This was largely driven by investment, which posted double-digit growth of 15.0% y-o-y, while growth in government spending and private spending slowed to 1.1% and 6.1%, respectively. All sectors recorded positive y-o-y increases in 4Q12, led by the services, manufacturing, and construction sectors. For the full-year 2012, GDP growth was recorded at 5.6% compared with 5.1% in 2011. For 2013, the government has targeted a GDP growth rate of between 4.5% and 5.5%.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Total LCY bonds outstanding in Malaysia reached MYR1.0 trillion (US$327 billion) at end-December, climbing a significant 19.9% y-o-y **(Table 1)**. Both the government and corporate bond sectors contributed to the strong growth during the period. On a quarter-on-quarter (q-o-q) basis, however, the bond market grew by a more modest rate of 2.8%.

Government Bonds. At end-December, outstanding LCY government bonds stood at MYR599 billion, rising 2.2% q-o-q and 20.0% y-o-y. All three government bond instruments recorded positive y-o-y growth. Central government bonds and bills, which accounted for 73.5% of the total stock of government bonds at end-December, grew

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

	Outstanding Amount (billion)								Growth Rate (%)						
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12	Nov-12	Dec-12		
	MYR	US$	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	972	318	992	325	1,006	331	1,000	327	4.1	15.7	2.0	1.5	(0.6)	2.8	19.9
Government	586	192	601	197	609	200	599	196	4.8	16.1	2.5	1.3	(1.7)	2.2	20.0
Central Government Bonds and Bills	424	139	432	142	437	144	440	144	1.8	12.6	1.9	1.2	0.6	3.7	12.2
Central Bank Bills	159	52	164	54	167	55	154	50	12.0	24.5	3.1	1.8	(7.6)	(3.0)	44.6
Sukuk Perumahan Kerajaan	3	1	5	1	5	1	5	1	–	465.2	73.1	0.0	0.0	73.1	1,775.0
Corporate	386	126	391	128	397	131	401	131	2.9	15.3	1.2	1.6	1.0	3.9	19.8

– = not applicable, ( ) = negative, 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–US$ rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.

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

12.2% y-o-y. Central bank bills rose 44.6% y-o-y but fell 3.0% q-o-q. *Sukuk Perumahan Kerajaan* (Islamic bonds issued by the government) recorded the highest growth rate at 1,775% y-o-y, although the amount of these bonds outstanding came from a very low base of only MYR0.2 billion at end-December 2011 and increased to MYR5 billion at end-December 2012.

In 4Q12, government bond issuance fell 24.8% q-o-q, as issuance volumes declined from the previous quarter for all types of government bonds. However, on a y-o-y basis, the issuance of government bonds rose a significant 23.5%.

Corporate Bonds. The size of Malaysia's LCY corporate bond market climbed to MYR401 billion (US$131 billion) at end-December, expanding 3.9% q-o-q and 19.8% y-o-y. In 4Q12, corporate bond issuance totaled MYR32.5 billion, down 21.4% compared with the previous quarter. However, on a y-o-y basis, corporate bond issuance climbed 40.2%. **Table 2** lists some notable corporate bonds issued during 4Q12.

The largest issuer during the quarter was Turus Pesawat, a special purpose company fully owned by Malaysia's Ministry of Finance. Turus Pesawat, which sold MYR3.4 billion of multi-tranche *sukuk* (Islamic bonds) in November, was established to raise funds to lend to Malaysian Airlines System (MAS) for the purpose of purchasing new planes and refinancing a MYR1.0 billion bridge loan. The bond sale comprised the following issues:

Table 2: Notable Corporate Issuance in 4Q12

Corporate Issuer	Instrument	Issued Amount (MYR billion)
Turus Pesawat Sdn Bhd.	IMTNs	3.40
Khazanah Nasional	IBONDS	2.00
Golden Assets International Finance	IMTNs	1.50
CIMB Bank	BONDS	1.50
RHB Bank	MTNs	1.30
Cagamas	IMTNs	1.04
Imtiaz Sukuk	IMTNs	1.00

BONDS = conventional corporate bonds, IBONDS = Islamic bonds, IMTNs = Islamic medium-term notes, MTNs = medium-term notes.
Source: Bank Negara Malaysia.

- 10-year *sukuk* worth MYR500 million, profit rate of 3.74%;
- 12-year *sukuk* worth MYR500 million, profit rate of 3.93%;
- 15-year *sukuk* worth MYR750 million, profit rate of 4.12%; and
- 20-year *sukuk* worth MYR1.65 billion, profit rate of 4.36%.

Government investment holding arm Khazanah Nasional sold MYR2 billion worth of zero-coupon *sukuk* in October. The *sukuk* were drawn from an unrated *Sukuk Musyarakah* Program and were issued at a discount. The bond sale comprised the following issues:

- 5-year *sukuk* worth MYR1 billion at an issue price of 83.825 and implied yield of 3.7%; and
- 15-year *sukuk* worth MYR1 billion at an issue price of 53.845 and implied yield of 4.2%.

Golden Assets International Finance, a subsidiary of Singapore-listed palm oil plantation firm Golden Agri Resources Ltd., issued MYR1.5 billion of 5-year *sukuk* bearing a profit rate of 4.35%. The bonds were part of the company's Islamic Medium-Term Note (IMTN) Program of up to MYR5 billion.

CIMB Bank issued MYR1.5 billion of 10-year Lower Tier 2 subordinated notes in November, completing its MYR5 billion issuance program. The bonds carry a coupon of 4.15%. Proceeds from the subdebt issue will be used to boost the bank's working capital requirements and for general banking business.

RHB Bank issued MYR1.3 billion worth of 10-year Lower Tier 2 notes in November. The notes, rated AA3 by RAM Ratings, carry a coupon of 4.4%. Proceeds from the issuance will be used to refinance maturing Lower Tier 2 notes.

Other notable issuances in 4Q12 included Cagamas MYR1.04 billion worth of conventional bonds and *sukuk* in several tranches in December, and Imtiaz Sukuk Bhd.'s MYR1 billion dual-tranche IMTNs in November.

As of end-December, the total bonds outstanding of the top 30 corporate bond issuers in Malaysia stood at MYR221.8 billion **(Table 3)**, accounting for 55.3% of total corporate bonds outstanding. Project Lebuhraya Usahasama Bhd. remained the largest issuer of LCY corporate bonds in Malaysia with bonds outstanding valued at MYR30.6 billion. National mortgage corporation Cagamas and government investment holding arm Khazanah followed with total bonds outstanding amounting to MYR20.2 billion and MYR17.7 billion, respectively.

Finance-related companies accounted for a third of the list of the top 30 LCY corporate bond issuers in 4Q12. Other bond issuers were from the energy, gas, and water; transport, storage, and communications; quasi-government; and construction sectors.

Investor Profile

Financial institutions remained the largest holder of Malaysian Government Securities (MGSs) and Government Investment Issues (GIIs) in Malaysia, holding a 43% share of total outstanding MGSs and GIIs at end-September **(Figure 2)**. In absolute terms, the share of financial institutions stood at MYR182 billion in 3Q12, up from MYR161 billion in the same period a year earlier.

Foreign investors were the second-largest investor group at end-September with a share of 29%. The share of foreign investors has steadily risen since June 2009. **Figure 3** shows the relationship between the MYR–US$ exchange rate and foreign holdings of MGSs and GIIs between end-March 2005 and end-September 2012. Foreign holdings' share of the total has steadily climbed as the MYR appreciated against the US$ during this period.

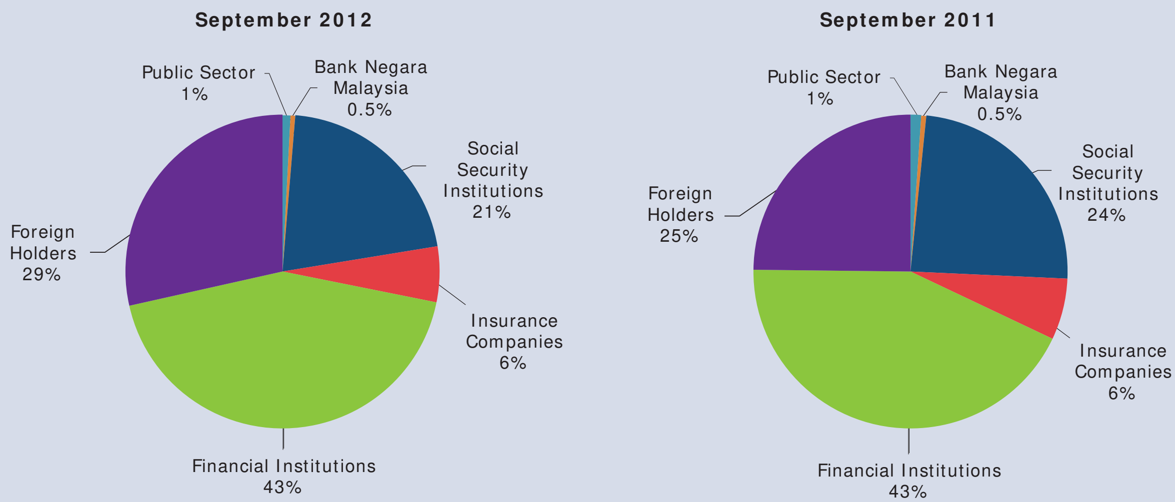
In 3Q12, the share of social security institutions fell to 21% of the total stock of MGSs and GIIs, down slightly from 24% a year earlier, while the share of insurance companies' holdings was steady at 6%.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Malaysia

Issuers	Outstanding Amount (MYR billion)					State-Owned	Privately Owned	Listed Company	Type of Industry
	BONDS	IBONDS	MTNs	IMTNs	TOTAL				
1. Project Lebuhraya Usahasama Bhd.				30.6	30.6	No	Yes	No	Toll Roads and Expressway
2. Cagamas			9.1	11.1	20.2	Yes	No	No	Finance
3. Khazanah		17.7			17.7	Yes	No	No	Quasi-Govt. and Other
4. Pengurusan Aset Air Bhd.				11.3	11.3	Yes	No	No	Energy, Gas, and Water
5. Malaysian Banking Bhd.	9.7	1.5			11.2	No	Yes	Yes	Finance
6. Prasarana	1.9	4.0		4.0	9.9	Yes	No	No	Transport, Storage, and Comm.
7. Binariang GSM		3.0		6.9	9.9	No	Yes	No	Transport, Storage, and Comm.
8. CIMB Bank	8.5				8.5	No	Yes	No	Finance
9. Malakoff Corp		1.8		5.6	7.4	No	Yes	No	Energy, Gas, and Water
10. Public Bank	1.2		4.9		6.1	No	Yes	Yes	Finance
11. Senai Desaru Expressway Bhd.				5.6	5.6	No	Yes	No	Construction
12. Sarawak Energy				5.5	5.5	Yes	No	No	Energy, Gas, and Water
13. KL International Airport	1.6	3.8			5.4	Yes	No	No	Transport, Storage, and Comm.
14. AM Bank	0.5		4.7		5.2	No	Yes	No	Finance
15. Putrajaya Holdings		0.4		4.7	5.1	No	Yes	No	Property and Real Estate
16. 1Malaysia Development Bhd.				5.0	5.0	Yes	No	No	Quasi-Govt. and Other
17. Celcom Transmission				5.0	5.0	No	Yes	No	Transport, Storage, and Comm.
18. Hong Leong Bank	3.7		1.2		4.9	No	Yes	Yes	Finance
19. Manjung Island Energy Bhd.				4.9	4.9	No	Yes	No	Energy, Gas, and Water
20. RHB Bank	0.6		4.0		4.6	No	Yes	No	Finance
21. Aman Sukuk Bhd.				4.4	4.4	Yes	No	No	Finance
22. Tanjung Bin Power				4.2	4.2	No	Yes	No	Energy, Gas, and Water
23. Jimah Energy Ventures				4.2	4.2	No	Yes	No	Energy, Gas, and Water
24. Bank Pembangunan Malaysia	0.8		2.4	0.9	4.1	Yes	No	No	Finance
25. Rantau Abang Capital Bhd.				3.8	3.8	No	Yes	No	Quasi-Govt. and Other
26. Danga Capital				3.6	3.6	Yes	No	No	Finance
27. Cekap Mentari	3.5				3.5	No	Yes	No	Finance
28. Perbadanan Tabung Pendidikan Tinggi Nasional				3.5	3.5	No	Yes	No	Quasi-Govt. and Other
29. Turus Pesawat Sdn Bhd.				3.4	3.4	Yes	No	No	Quasi-Govt. and Other
30. YTL Power International			3.3		3.3	No	Yes	Yes	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers	**32.0**	**32.2**	**29.6**	**128.0**	**221.8**				
Total LCY Corporate Bonds					**401.0**				
Top 30 as % of Total LCY Corporate Bonds					**0.6%**				

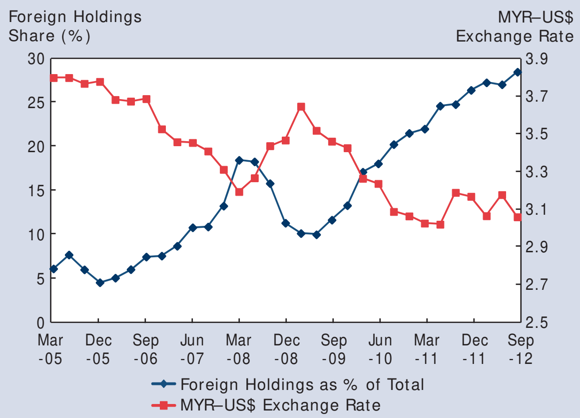
BONDS = conventional corporate bonds, IBONDS = Islamic bonds, IMTNs = Islamic medium-term notes, LCY = local currency, MTNs = medium-term notes.
Notes:
1. Data as of 31 December 2012.
2. Total outstanding amount includes commercial paper.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank Negara Malaysia.

Figure 3: Foreign Holdings of LCY Government Bonds vs. the MYR–US$ Exchange Rate



LCY = local currency.
Source: Bank Negara Malaysia.

Rating Changes

On 18 October, Ratings and Investment (R&I) affirmed Malaysia's foreign and domestic currency issuer rating at A and A+, respectively. The outlook on both ratings was stable. R&I cited Malaysia's solid economy, stable external balance, and the agency's low level of concern over its financing capabilities as the reasons for the ratings action.

Policy, Institutional, and Regulatory Developments

BNM Announces *Sharia'h* Standards for Mudarabah

On 22 October, BNM issued the *Sharia'h* Standard on *Mudarabah* (a partnership where one partner provides capital to the other for investment in a commercial enterprise) to all Islamic financial institutions under its purview as part of its efforts to enhance the *sharia'h*-compliant regulatory framework in Malaysia. The new *Sharia'h* Standard on *Mudarabah* will serve as a guideline for Islamic financial institutions in developing Islamic financial products and services based on the concept of *mudarabah*. The *Sharia'h* Standard on *Mudarabah* is the second in the series of *Sharia'h* Standards (formerly known as *Sharia'h* Parameters). The first series was the *Sharia'h* Standard on *Murabahah* (a contract based on the sale of an asset at cost plus mark-up).

BNM and SC Sign MOU to Strengthen Joint Regulatory Oversight

On 30 October, BNM and Securities Commission Malaysia (SC) signed a Memorandum of

Understanding (MOU) to improve their joint regulatory oversight. The MOU provides for enhanced collaboration between BNM and SC, with the aim of promoting financial sector and capital market stability. The MOU reinforces the intent to collaborate, cooperate, and share information to enable both agencies to effectively carry out their respective mandates.

SC Introduces New Capital Market Regulations

On 2 January, SC announced new capital market regulations through the Capital Markets and Services (Amendment) Act 2012 (CMSA 2012), which aims to encourage market innovation, promote market efficiency, and allow for more informed investment decisions. CMSA 2012 introduces a new approval framework that will facilitate the offering of a broader array of capital market products for the benefit of issuers, intermediaries, and investors. New regulations under CMSA 2012 include, among others, (i) guidelines for business trusts that allow for greater fundraising flexibility and provide investors with an opportunity to invest in a new asset class, (ii) revised guidelines on private debt securities and *sukuk* (Islamic bonds) that allow publicly listed companies and banks to offer bonds and *sukuk* to retail investors, and (iii) the establishment of a consolidated capital market compensation fund.

Moody's Adjusts FCY Bond and LCY Country Risk Ceilings for Malaysia

On 7 January, Moody's Investors Service (Moody's) adjusted the foreign currency (FCY) bond and LCY country risk ceilings for Malaysia. The adjustments, however, will not affect Malaysia's A3 sovereign rating. Moody's said the change in ceilings would mean that the highest rating that can be assigned to a domestic issuer in Malaysia, or to a structured finance security backed by LCY receivables, are as follows: (i) the long-term FCY bond ceiling was raised to A1 from A3, (ii) the long-term FCY deposit ceiling remained at A3, (iii) the short-term FCY bond and deposit ceilings remained unchanged at P-1, and (iv) the long-term LCY bond and deposit ceilings were lowered to A1 from Aa2. According to Moody's, the decision to readjust the country ceilings for Malaysia was based on its assessment of moratorium risks, given the country's ability and willingness to service both its public and private cross-border debt obligations.

RAM Ratings Launches Global and ASEAN Ratings Scale

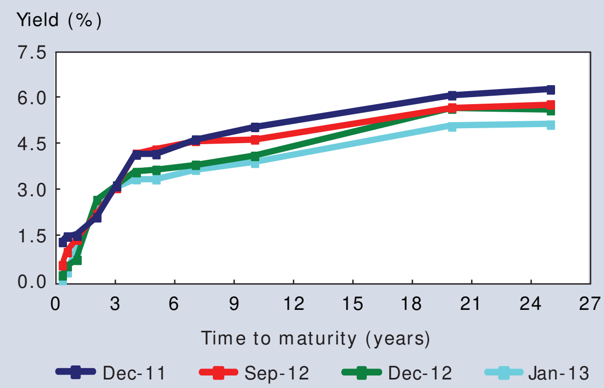
In January, RAM Ratings Services Bhd. launched its global and Association of Southeast Asian Nations (ASEAN) ratings scales. The scale will enable RAM to benchmark ratings against global and regional peers. The Credit Guarantee and Investment Facility (CGIF) was the first institution to be given a global and ASEAN rating of AAA by RAM.

Philippines

Yield Movements

Between end-September and end-December, Philippine local currency (LCY) government bond yields fell for most tenors with the exception of the 2- and 3-year tenors **(Figure 1)**. Yields for tenors of 1 year and below plunged between 32 basis points (bps) and 65 bps on the back of foreign demand driven by the strong peso. Yields on tenors between 4 years and 10 years fell 53 bps–77 bps. Yields for the 20- and 25-year tenors fell 3 bps and 19 bps, respectively. In contrast to the rest of the curve, yields rose 45 bps and 8 bps, respectively, for the 2- and 3-year tenors. The fall in yields along most of the curve was also influenced by future supply factors as the Bureau of Treasury (BTr) announced a change in the auction schedule for 1Q13. In the past, auctions for government bonds were conducted every other week. In 1Q13, auctions for treasury bills and bonds will be held once a month.

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



LCY = local currency.
Source: Bloomberg LP.

Between end-December and end-January, the entire yield curve shifted downward again (except the 1-year maturity), particularly at the longer-end. Yields fell between 15 bps and 20 bps for tenors of less than 1-year. Yields fell 6 bps–30 bps between the 2- and 7-year maturities. Yields for longer tenors fell between 22 bps and 57 bps. Rates fell due to monetary policy changes implemented by Bangko Sentral ng Pilipinas (BSP) toward the end of January. While BSP elected to keep policy rates unchanged, it lowered the rate granted to special deposit accounts (SDAs). In contrast to the rest of the curve, the 1-year maturity rose 33 bps.

As a result of these movements, the yield spread between the 2- and 10-year tenors narrowed 21 bps between end-December and end-January: from 155 bps to 134 bps.

In addition to supply factors and monetary policy, yields have fallen in the Philippines due to positive economic data. Inflation in the Philippines was favorable in 2012, enabling the pursuit of expansionary fiscal and monetary policy goals. Consumer price inflation has generally been slow and steady in recent months at 2.8% year-on-year (y-o-y) in November, 2.9% in December, and 3.0% in January. Inflation for 2012 averaged 3.2%, near the lower-end of the government's 3%–5% target. For 2013, the government's inflation forecast was lowered to 3.1% from 3.9% last December 2012.

Gross domestic product (GDP) growth was also strong in the last 2 quarters of 2012. GDP expanded 6.8% y-o-y in 4Q12 and 7.2% in 3Q12. Growth in 4Q12 was driven by the services sector. For the full-year 2012, GDP grew 6.6% y-o-y. Exports were also robust toward the end of the year. Exports rose 5.5% y-o-y in November and 6.1% in October, but these increases were substantially lower than September's 22.8% growth.

The country's gross international reserves (GIR) reached US$85.8 billion at end-January. The increase in the GIR was due to the BSP's forex operations as well as income from investments abroad. The GIR balance at end-January was large enough to cover 12.3 months of imports and payments of services abroad, and was equal to 5.8 times the country's external short-term debt by residual maturity.

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

	Outstanding Amount (billion)								Growth Rate (%)						
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12	Nov-12	Dec-12		
	PHP	US$	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	3,801	91	3,805	92	3,837	94	4,085	100	3.7	16.1	0.1	0.8	6.5	7.5	20.5
Government	3,286	79	3,290	80	3,314	81	3,559	87	3.6	14.7	0.1	0.7	7.4	8.3	20.5
Treasury Bills	262	6	263	6	272	7	275	7	2.7	(20.6)	0.4	3.7	0.9	5.0	(6.8)
Treasury Bonds	2,900	69	2,903	71	2,928	72	3,171	77	3.8	19.8	0.1	0.9	8.3	9.3	24.5
Others	124	3	124	3	113	3	113	3	0.3	8.6	0.0	-8.8	0.0	-8.8	(1.0)
Corporate	514	12	515	13	524	13	526	13	3.9	26.1	0.1	1.7	0.5	2.3	20.7

( ) = negative, 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 end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" includes bonds issued by government agencies, instrumentalities, and corporations with which repayment was guaranteed by the National Government. These include issues of Power Sector Assets and Liabilities Management (PSALM), National Food Authority, and others.
5. Peso Global Bonds (PHP-denominated bonds but payable in US$) and multi-currency Retail Treasury Bonds are not included. As of 31 December 2012, the Government of the Philippines and Petron Corporation had PHP98.9 billion and PHP20.0 billion of Peso Global Bonds outstanding, respectively. The government also had PHP20.8 billion of multi-currency Retail Treasury Bonds outstanding.

Source: Philippine Bureau of the Treasury and Bloomberg LP.

The Philippines' strong economic performance has led to positive actions from several ratings agencies. In October, Moody's Investors Service (Moody's) raised the Philippines' sovereign debt rating to Ba1, one notch below investment grade. In December, Standard & Poor's (S&P) kept its Philippine debt rating unchanged at BB+, but raised its outlook to positive from stable, making it likely that the Philippines will be upgraded in 2013.

Size and Composition

The Philippine LCY bond market was growing at a robust rate of 20.5% y-o-y as of end-December, led mostly by treasury bonds **(Table 1)**. Total LCY bonds reached PHP4.1 trillion (US$100 billion) at end-December, up 7.5% from end-September's level of almost PHP3.8 trillion. Government securities accounted for the majority of bonds outstanding, totaling PHP3.6 trillion (87% of total), while corporate bonds summed to PHP526 billion.

Government Bond Market Development. Outstanding fixed income instruments issued by the Philippine government and government-controlled companies rose 20.5% y-o-y and 8.3% quarter-on-quarter (q-o-q) to close at PHP3.6 trillion at end-December. Among such instruments, treasury bonds advanced at the most rapid pace—24.5% y-o-y and 9.3% q-o-q—to stand at PHP3.2 trillion at end-December. Meanwhile, only treasury bills registered a decline in 4Q12, contracting 6.8% y-o-y to PHP275 billion. However, December's balance of outstanding treasury bills was up 5.0% on a q-o-q basis.

In terms of issuance in 4Q12, PHP52 billion worth of treasury bills were sold compared with PHP89 billion of treasury bonds.

The government has programmed LCY borrowing of PHP120 billion through its regular auction schedule in 1Q13. This will consist of PHP45 billion of treasury bills with 91-, 182-, and 364-day tenors, and the remainder in the form of treasury bonds with maturities of 7, 10, and 25 years. Also, the government has changed the frequency of its auctions in 1Q13. Auctions for treasury bills and bonds will each be held once a month for a total of six auctions. In contrast, there were 11 auctions scheduled in 4Q12.

Corporate Bond Market Development. As of end-December, total outstanding LCY corporate bonds stood at PHP526 billion (US$13 billion), driven by a growth rate of 20.7% y-o-y. Comparing 4Q12 with 3Q12, the amount of corporate bonds outstanding rose 2.3%. A total of PHP16 billion of LCY corporate bonds were sold in 4Q12. Major issuers for the quarter included (i) Ayala Corp., (ii) Ayala Land, and (iii) Banco de Oro Unibank (BDO) **(Table 2)**.

Only 47 companies are actively tapping the capital markets in the Philippines. Not surprisingly, the top 30 issuers accounted for 93.5% of the total amount of LCY corporate bonds outstanding (PHP526 billion) at end-December **(Table 3)**. Out of the top 30 bond issuers, only four companies were privately held corporations and the rest were publicly listed on the Philippine Stock Exchange (PSE). San Miguel Brewery (SMB) remained the largest corporate borrower in the country with PHP45.2 billion of outstanding debt. BDO followed SMB as the next largest borrower with PHP43 billion. Ayala Corp. was in the third spot with PHP40 billion of outstanding bonds.

The diversity of LCY corporate bond issuers in 4Q12 was comparable with that in 3Q12 **(Figure 2)**. Banks and financial services, including investment houses, remained the leading issuers of debt in 4Q12, with 33% of the total, as BSP moved toward more stringent liquidity and capital requirements. The market share of most industries remained unchanged, except for thoroughfares and tollways, which fell to 5% in 1Q12 from 6% in 3Q12, and electricity generation and distribution, which rose to 7% from 6%. Of note, firms from industries as diverse as (i) electricity generation and distribution, (ii) telecommunications, and (iii) thoroughfares and tollways continued to hold single-digit shares of total corporate bonds outstanding.

PDEx Trade Volume Trends—Government Securities. As the sole fixed income exchange in the country, the Philippine Dealing and Exchange Corporation (PDEx) captures the secondary trading of listed fixed income issues. The volume of secondary trading of government securities surged between 2005 and 2012 **(Figure 3)**. From an annual trading volume of PHP437.7 billion in 2005, trading volume increased to PHP5.04 trillion in 2012. The largest annual volume was recorded in 2010, when secondary trading reached PHP5.35 trillion. In 2005–2012, treasury bonds accounted for almost 73% of all trades in the secondary market as investors sought greater capital gains and interest income from these securities.

Investor Profile

The largest grouping of investors of government securities in 4Q12 comprised banks and financial

Table 2: Selected Issuance in 4Q12

	Issue Date	Issued Amount		Bond Type
		PHP (billion)	US$ (billion)	
Ayala Corporation	23-Nov-12	10	0.24	Senior Unsecured
PHP10 billion 5.45% due 2019				
Ayala Land	31-Oct-12	1	0.02	Senior Secured
PHP1 billion 5% due 2015				
BDO Universal Bank	15-Oct-12	5	0.12	Certificate of Deposit
PHP5 billion 5.25% due 2019				

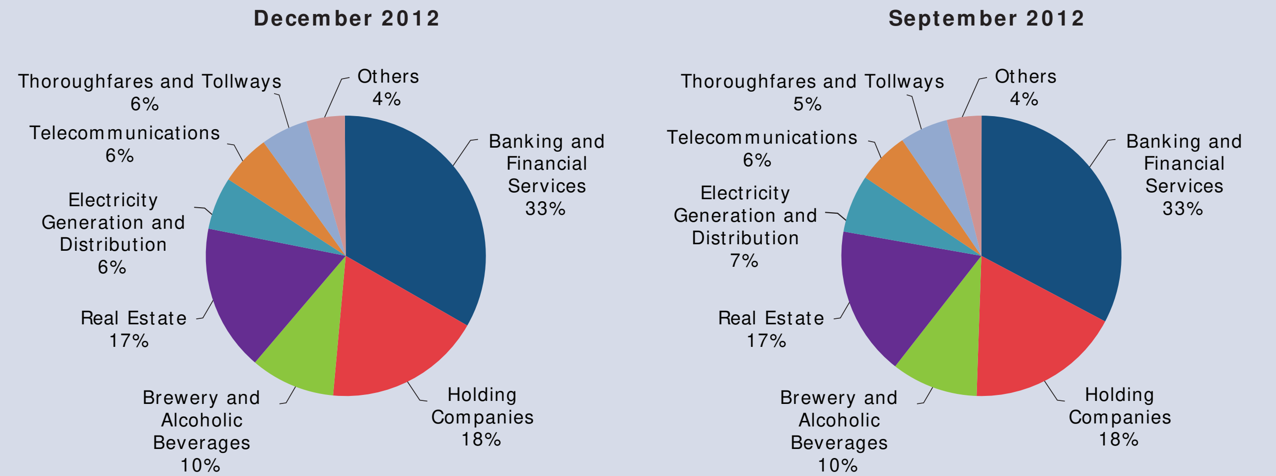
Source: Bloomberg LP.

Table 3: Top 30 Issuers of LCY Corporate Bonds in the Philippines

Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed Company	Type of Industry
	LCY Bonds (PHP billion)	LCY Bonds (US$ billion)				
1. San Miguel Brewery Inc.	45.2	1.08	No	Yes	Yes	Brewery
2. BDO Unibank Inc.	43.0	1.03	No	Yes	Yes	Banking
3. Ayala Corporation	40.0	0.96	No	Yes	Yes	Diversified Operations
4. SM Investments Corporation	36.1	0.86	No	Yes	Yes	Diversified Operations
5. Ayala Land Inc.	31.2	0.75	No	Yes	Yes	Real Estate
6. Philippine National Bank	21.9	0.52	No	Yes	Yes	Banking
7. Rizal Commercial Banking Corporation	21.0	0.50	No	Yes	Yes	Banking
8. Manila Electric Company	19.4	0.46	No	Yes	Yes	Electricity Distribution
9. Philippine Long Distance Telephone Co.	17.3	0.42	No	Yes	Yes	Telecommunications
10. Maynilad Water Services	16.6	0.40	No	Yes	Yes	Water
11. SM Development Corporation	16.3	0.39	No	Yes	Yes	Real Estate
12. Filinvest Land Inc.	14.5	0.35	No	Yes	Yes	Real Estate
13. Petron Corporation	13.6	0.33	No	Yes	Yes	Oil Refining and Marketing
14. JG Summit Holdings Inc.	13.3	0.32	No	Yes	Yes	Diversified Operations
15. Security Bank Corporation	13.0	0.31	No	Yes	Yes	Banking
16. Energy Development Corporation	12.0	0.29	No	Yes	Yes	Electricity Generation
17. First Metro Investment Corporation	12.0	0.29	No	Yes	Yes	Investment Banking
18. Robinsons Land Corporation	12.0	0.29	No	Yes	Yes	Real Estate
19. MTD Manila Expressway Corporation	11.5	0.28	No	Yes	No	Transport Services
20. South Luzon Tollway Corporation	11.0	0.26	No	Yes	No	Transport Services
21. Globe Telecom Inc.	10.9	0.26	No	Yes	Yes	Telecommunications
22. Metropolitan Bank & Trust Co.	10.0	0.24	No	Yes	Yes	Banking
23. United Coconut Planters Bank	9.5	0.23	No	Yes	Yes	Banking
24. Allied Banking Corporation	8.0	0.19	No	Yes	No	Banking
25. Megaworld Corporation	6.4	0.15	No	Yes	Yes	Real Estate
26. Manila North Tollways Corporation	6.1	0.15	No	Yes	No	Public Thoroughfares
27. Bank of the Philippine Islands	5.0	0.12	No	Yes	Yes	Banking
28. China Banking Corporation	5.0	0.12	No	Yes	Yes	Banking
29. SM Prime Holdings, Inc.	5.0	0.12	No	Yes	Yes	Real Estate
30. Tanduay Distilleries Inc.	5.0	0.12	No	Yes	Yes	Alcoholic Beverages
Total Top 30 LCY Corporate Issuers	**491.9**	**11.78**				
Total LCY Corporate Bonds	**526.1**	**12.60**				
Top 30 as % of Total LCY Corporate Bonds	**93.5%**	**93.5%**				

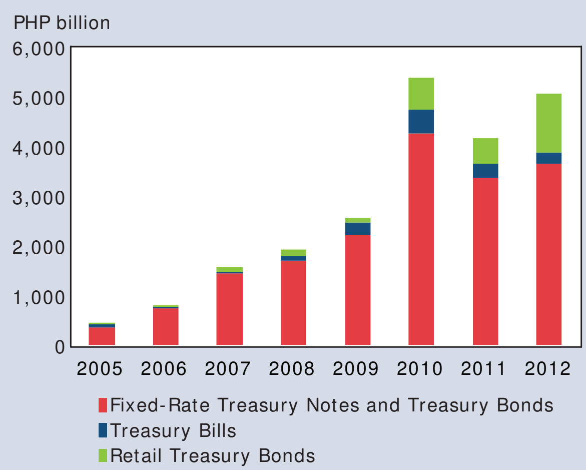
LCY = local currency.
Notes:
1. Data as of 31 December 2012.
2. Petron Corporation has PHP20 billion of global peso bonds outstanding that are not included.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Figure 2: LCY Corporate Bond Issuers by Industry



LCY = local currency.
Source: Bloomberg LP.

Figure 3: PDEx Trade Volume Trends—Government Securities



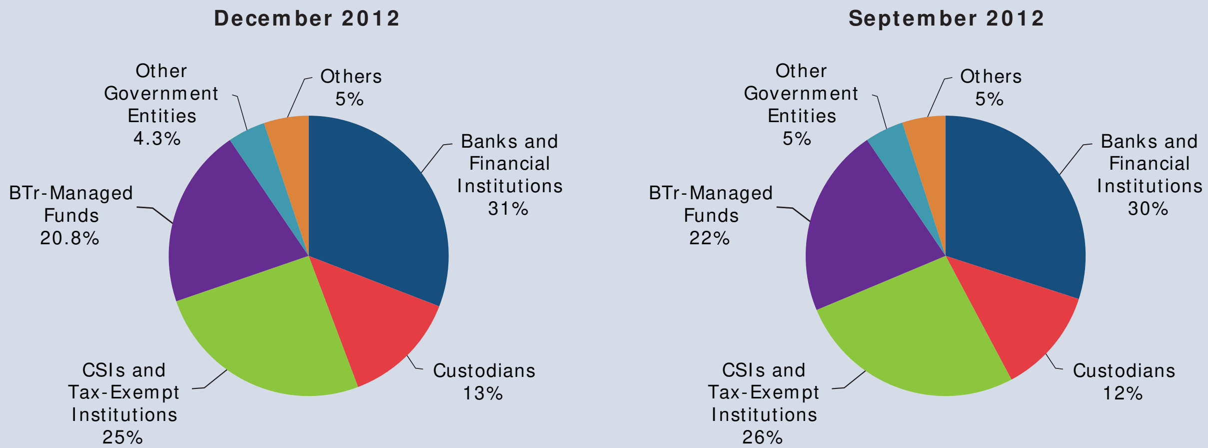
Note: PDEx reports one side of the trade only.
Source: Philippine Dealing and Exchange Corporation (PDEx).

institutions with 30.9% of the total **(Figure 4)**. This was slightly higher than its share of 30% in 3Q12. Contractual savings institutions—including the Social Security System (SSS), the Government Service Insurance System (GSIS), Pag-ibig, and life insurance companies—and tax-exempt institutions—such as trusts and other tax-exempt entities—accounted for 25.4% in 3Q12, down from 26.4% in 3Q12. Meanwhile, the share of funds being managed by the Bureau of the Treasury (BTr), which includes the Bond Sinking Fund, fell to 20.8% at end-December from 21.9% at end-June. The participation of custodians increased to 13.4% from 12.3% in the same period. Other government entities and other investors, which include individuals and private corporations, were almost unchanged between end-September and end-December at around 5.0% and 5.2%, respectively.

Rating Changes

Following Moody's upgrade on 29 October, S&P raised its outlook to positive. The rating agency announced that it may upgrade the Philippines this year and affirmed the country's BB+ rating. It said that the positive outlook was granted based on an improving political environment and the capacity of the government to pursue its reform agenda. S&P said that it may raise its rating if the country improves its revenue structure, reduces its reliance on foreign debt borrowing, and reduces its debt servicing.

Figure 4: LCY Government Bonds Investor Profile



BTr = Bureau of Treasury, CSIs = contractual savings institutions, LCY = local currency.
Note: For the purpose of this investor profile only, LCY government bonds are defined as domestic bonds, which include multi-currency (US$ and EUR) retail treasury bonds totaling almost PHP21 billion as of end-December 2012.
Source: Philippine Bureau of the Treasury.

Policy, Institutional, and Regulatory Developments

BSP Adopts Disclosure Rules for Capital Instruments

On 1 February, BSP added disclosure requirements, which are Basel III compliant, for debt instruments issued by banks. BSP has added a client suitability measure to determine whether the investor understands the risks involved in an investment. A risk disclosure statement must also be included that outlines the risks as well as the processes that would follow once thresholds are breached.

AMLA Amendments Approved

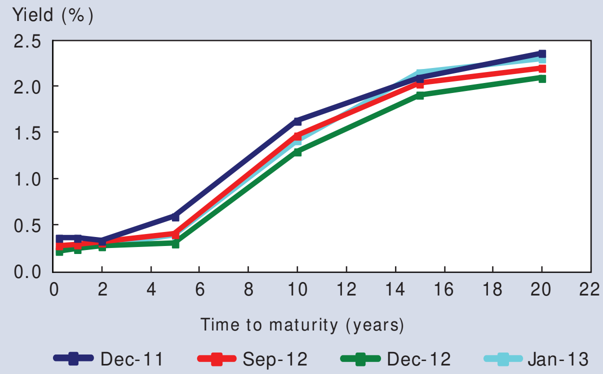
On 7 February, Congress ratified amendments to the Anti-Money Laundering Act (AMLA). The amendments include expanding the list of covered institutions required to report transactions in excess of PHP500,000 and the list of unlawful activities covered by the AMLA. The covered institutions were expanded to include companies such as forex dealers, pawnshops, remittance agents, and pre-need firms. Unlawful activities include terrorism, financing of terrorism, fraud, and bribery.

Singapore

Yield Movements

Between end-September and end-December, local currency (LCY) government bond yields in Singapore fell across all maturities, resulting in the entire curve shifting downward **(Figure 1)**. However, between end-December and end-January, yields rose across all maturities, leading the curve to steepen as yields rose more at the longer-end of the curve than at the shorter-end. Yields rose the most for the 15-year tenor, gaining 24 basis points (bps). Yields at the longest-end of the curve (20-year) rose 21 bps, while yields at the shortest-end (3-month) increased 2 bps. The yield spread between the 2- and 10-year tenors widened to 113 bps at end-January compared with a spread of 102 bps at end-December.

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



LCY = local currency.
Source: Bloomberg LP.

In October 2012, the Monetary Authority of Singapore (MAS) decided to maintain the modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band. MAS also decided to keep the slope and width of the S$NEER policy band unchanged. According to MAS' assessment, the existing policy stance was appropriate for containing inflationary pressures and keeping the economy on a path toward sustainable growth.

Consumer price inflation in Singapore climbed to 4.3% year-on-year (y-o-y) in December from 3.6% in November (and 4.0% in October). This was due mainly to higher accommodations and transportation costs. Price indices for all major groups rose during the month except for communications. On a month-on-month (m-o-m) basis, consumer price inflation rose 0.7% in December. The inflation rate for full-year 2012 was recorded at 4.6%.

Based on advance estimates released by the Ministry of Trade and Industry (MTI), Singapore's economy expanded 1.1% y-o-y in 4Q12, after posting flat growth in 3Q12. In 4Q12, growth in the construction sector eased to 5.9% y-o-y from 7.7% in 3Q12, while the services sector expanded at an accelerated pace of 1.5% y-o-y compared with 0.2% in the previous quarter. The manufacturing sector contracted 1.5% y-o-y in 4Q12 after slipping 1.6% in 3Q12.

On a quarter-on-quarter (q-o-q) and seasonally adjusted annualized basis, Singapore's economy rebounded to expand 1.8% in 4Q12 after contracting 6.3% in the previous quarter. The manufacturing sector contracted 10.8% q-o-q reflecting continued weakness in electronics output. The construction sector fell 8.9% q-o-q as private sector building activities declined. Output in services rose 7.0% in 4Q12 due to a rebound in wholesale and retail trade, the finance and insurance sectors, and other service industries.

For the full-year 2012, gross domestic product (GDP) growth was 1.2%, falling short of MTI's forecast of growth of about 1.5%, as weakness in the manufacturing sector continued to weigh on the economy.

Size and Composition

The size of Singapore's LCY bond market stood at SGD295 billion (US$241 billion) at end-December on modest growth of 1.4% q-o-q **(Table 1)**. On a y-o-y basis, the bond market grew 19.4%, with growth driven by both the government and corporate sectors of the bond market.

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

	Outstanding Amount (billion)								Growth Rate (%)						
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12	Nov-12	Dec-12		
	SGD	US$	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	291	237	290	238	293	240	295	241	6.5	18.1	(0.3)	1.2	0.5	1.4	19.4
Government	171	139	169	138	171	140	173	142	4.7	12.1	(1.2)	1.5	0.9	1.2	12.6
Central Govt. Bonds and Bills	144	117	141	116	143	117	143	117	0.8	6.2	(1.9)	1.0	0.0	(0.9)	3.0
Central Bank Bills	27	22	28	23	29	24	30	25	31.9	60.1	2.2	4.4	5.6	12.6	102.0
Corporate	120	98	121	99	122	100	122	100	9.1	27.8	1.0	0.7	(0.01)	1.7	30.6

( ) = negative, 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 *AsianBondsOnline* estimates.
2. Government bonds and bills do not include the special issue of Singapore Government Securities held by the Singapore Central Provident Fund (CPF).
3. Bloomberg LP end-of-period LCY–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Source: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

Government Bonds. LCY government bonds outstanding at end-December rose to SGD173 billion for a 1.2% q-o-q increase. On a y-o-y basis, government bonds grew 12.6% in 4Q12. Growth in the government bond market was largely driven by an increase in MAS bills, which have been issued since April 2011 as part of MAS' money market operations. In 4Q12, the stock of MAS bills rose 12.6% q-o-q and 102.0% y-o-y. Issuance of MAS bills was also up 5.4% q-o-q and 16.2% y-o-y in 4Q12.

The stock of Singapore Government Securities (SGSs), comprising treasury bills and bonds, fell 0.9% q-o-q. On a y-o-y basis, however, treasury instruments rose modestly by 3.0%. Issuance of SGS bills fell significantly in 4Q12, declining 13.7% q-o-q and 20.7% y-o-y. Meanwhile, issuance of SGS bonds fell a notable 64.3% q-o-q, but rose 11.1% y-o-y.

Corporate Bonds. Singapore's LCY corporate bonds outstanding stood at SGD122 billion at end-December, expanding 1.7% q-o-q and 30.6% y-o-y.

Also at end-December, the amount of LCY bonds outstanding of the top 30 corporate bond issuers in Singapore reached SGD62.3 billion, representing 51.1% of the total corporate bond market **(Table 2)**. The top LCY corporate issuer was the Housing and Development Board with outstanding bonds valued at SGD12.2 billion. It was followed by CapitaLand Ltd. with a total bond stock amounting to SGD4.9 billion. In the third spot was United Overseas Bank Ltd. with bonds outstanding of SGD4.5 billion.

Corporate issuers from the financial sector dominated the list of the top 30 LCY corporate bond issuers in Singapore. Other major bond issuers were from the utilities, industrial, commercial, real estate, telecommunications, and transportation sectors. Only four companies on the list were state-owned firms.

In 4Q12, corporate bond issuance reached SGD2.4 billion, a notable decline of 76.1% q-o-q

Table 2: Top 30 Issuers of LCY Corporate Bonds in Singapore

Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (US$ billion)				
1. Housing and Development Board	12.2	10.0	Yes	No	No	Financial
2. CapitaLand Ltd.	4.9	4.0	No	Yes	Yes	Financial
3. United Overseas Bank Ltd.	4.5	3.7	No	Yes	Yes	Financial
4. DBS Bank Ltd.	5.0	4.1	No	Yes	Yes	Financial
5. Temasek Financial I	3.6	2.9	No	Yes	No	Financial
6. Oversea-Chinese Banking Corp.	2.7	2.2	No	Yes	Yes	Financial
7. SP PowerAssets Ltd.	2.4	2.0	No	Yes	No	Utilities
8. Public Utilities Board	2.1	1.7	Yes	No	No	Utilities
9. Land Transport Authority	2.1	1.7	Yes	No	No	Industrial
10. Olam International Ltd.	2.0	1.6	No	Yes	Yes	Consumer
11. Keppel Corp Ltd.	1.5	1.2	No	Yes	Yes	Industrial
12. Keppel Land Ltd.	1.5	1.2	No	Yes	Yes	Real Estate
13. GLL IHT Pte Ltd.	1.4	1.2	No	Yes	No	Real Estate
14. Mapletree Treasury Services	1.3	1.1	No	Yes	No	Financial
15. Overseas Union Enterprise Ltd.	1.3	1.1	No	Yes	Yes	Consumer
16. Temasek Financial III	1.3	1.1	No	Yes	No	Financial
17. Neptune Orient Lines Ltd.	1.3	1.0	No	Yes	Yes	Industrial
18. CapitaMalls Asia Treasury	1.1	0.9	No	Yes	No	Financial
19. City Developments Ltd.	1.1	0.9	No	Yes	Yes	Consumer
20. PSA Corporation Ltd.	1.0	0.8	No	Yes	No	Consumer
21. F&N Treasury Pte Ltd.	1.0	0.8	No	Yes	No	Financial
22. Hyflux Ltd.	1.0	0.8	No	Yes	Yes	Industrial
23. Singapore Post Limited	0.9	0.7	Yes	No	No	Industrial
24. Singtel Group Treasury	0.9	0.7	No	Yes	No	Telecommunications
25. Singapore Airlines	0.8	0.7	No	Yes	No	Transportation
26. Global Logistic Properties	0.8	0.6	No	Yes	Yes	Industrial
27. CapitaMall Trust	0.7	0.6	No	Yes	Yes	Financial
28. CapitaLand Treasury Ltd.	0.7	0.6	No	Yes	No	Financial
29. Joynote Limited	0.7	0.6	No	Yes	No	Financial
30. Sembcorp Financial Services	0.7	0.6	No	Yes	No	Industrial
Total Top 30 LCY Corporate Issuers	**62.3**	**51.0**				
Total LCY Corporate Bonds	**122.0**	**99.9**				
Top 30 as % of Total LCY Corporate Bonds	**51.1%**	**51.1%**				

LCY = local currency.
Notes:
1. Data as of 31 December 2012.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

and 33.3% y-o-y. A total of 11 bond series were issued by 10 companies during the quarter. Corporate bonds issued in 4Q12 carried maturities ranging from 3 years to 12 years, and coupon rates of between 4.0% and 6.0%. **Table 3** lists notable corporate bonds issued in 4Q12.

Table 3: Notable LCY Corporate Bond Issuance in 4Q12

Corporate Issuers	Issued Amount (SGD million)
Housing and Development Board	600
Olam International Ltd.	500
SMRT Capital Pte Ltd.	450
Neptune Orient Lines Ltd.	300
Overseas Union Enterprise Ltd.	200
Keppel Land Ltd.	130
Others	230
Total	**2,410**

LCY = local currency.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

PBOC Appoints Clearing Bank for Renminbi in Singapore

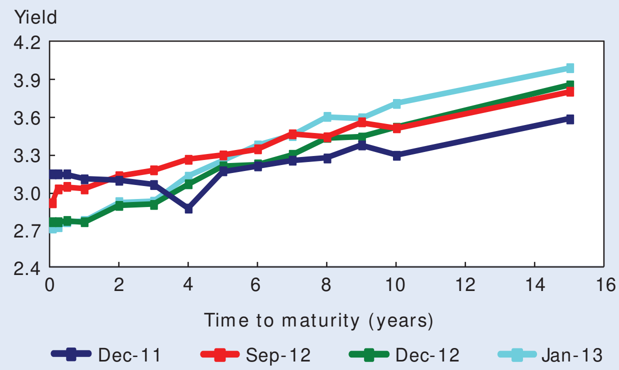
On 8 February, the People's Bank of China (PBOC) appointed the Industrial and Commercial Bank of China's (ICBC) Singapore branch as the clearing bank for renminbi in Singapore. MAS will work closely with the PBOC and ICBC in implementing clearing arrangements in Singapore. The appointment of a renminbi clearing bank in Singapore marks a milestone in financial cooperation between the PBOC and MAS, and will enable Singapore to facilitate greater use of the renminbi for trade, investment, and other economic activities in the region.

Thailand

Yield Movements

Thailand's government bond yields fell for most tenors between end-September and end-December (**Figure 1**). The drop in yields was especially evident for tenors of less than 9 years, with yields declining most sharply—by 28 basis points (bps)—on the 3-year tenor. In contrast, yields for the 10- and 15-year tenors rose 0.4 bps and 5 bps, respectively, between end-September and end-December. Between end-December and end-January, yields rose for most tenors. Meanwhile, yield spreads between the 2- and 10-year tenors widened 24 bps between end-September and end-December, and climbed an additional 16 bps between end-December and end-January.

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



LCY = local currency.
Source: Bloomberg LP.

On 20 February, the Bank of Thailand's (BOT) Monetary Policy Committee decided to keep the policy rate—the 1-day repurchase rate—steady at 2.75% for the third consecutive committee meeting. The last time the central bank made a policy rate cut was in October.

Consumer price inflation in Thailand moderated to 3.4% year-on-year (y-o-y) in January from 3.6% in December. Food prices rose 4.3% y-o-y in January, compared with a 4.0% hike in December. On the other hand, non-food prices climbed 2.8% y-o-y in January, following a 3.4% increase in December.

Real gross domestic product (GDP) growth accelerated to 18.9% y-o-y in 4Q12 from 3.1% in 3Q12. Total exports of goods and services rose 19.0% y-o-y for the quarter, a reversal from the 2.8% contraction in the previous quarter. Imports of goods and services also rose 14.7% y-o-y in 4Q12 after posting a 1.8% decline in 3Q12. Similarly, between 3Q12 and 4Q12, the y-o-y growth rate rose from 6.0% to 12.2% for private consumption expenditure, from 10.0% to 12.1% for general government consumption expenditure, and from 15.5% to 23.5% for gross fixed capital formation. On the supply side, y-o-y growth in the non-agricultural sector accelerated to 21.3% in 4Q12 from 2.7% in 3Q12, as the manufacturing sector expanded 37.4% y-o-y in 4Q12 after a 1.1% decline in 3Q12. Meanwhile, the agricultural sector's growth eased to 0.8% y-o-y in 4Q12 from 8.3% in 3Q12.

Size and Composition

The outstanding amount of local currency (LCY) bonds in Thailand stood at THB8.5 trillion (US$279 billion) at end-December, growing 19.8% y-o-y and 4.2% quarter-on-quarter (q-o-q) (**Table 1**). Total government bonds rose 17.7% y-o-y and 3.6% q-o-q to level off at THB6.8 trillion. The outstanding size of central bank bonds increased 18.1% y-o-y and 6.4% q-o-q to reach THB3.1 trillion, while outstanding government bonds expanded 15.1% y-o-y and 1.2% q-o-q to level off at THB3.0 trillion. The size of outstanding state-owned enterprise and other bonds climbed 29.8% y-o-y and 1.5% q-o-q to reach THB616 billion.

The outstanding amount of LCY corporate bonds increased 28.8% y-o-y and 6.7% q-o-q to

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

	Outstanding Amount (billion)								Growth Rate (%)						
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12	Nov-12	Dec-12		
	THB	US$	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	8,176	265	8,175	266	8,362	272	8,520	279	1.9	14.4	(0.01)	2.3	1.9	4.2	19.8
Government	6,527	212	6,500	212	6,642	216	6,760	221	1.3	12.1	(0.4)	2.2	1.8	3.6	17.7
Government Bonds and Treasury Bills	2,987	97	2,895	94	2,949	96	3,024	99	(0.4)	6.3	(3.1)	1.9	2.5	1.2	15.1
Central Bank Bonds	2,933	95	2,988	97	3,076	100	3,120	102	(1.0)	15.7	1.9	3.0	1.4	6.4	18.1
State-Owned Enterprise and Other Bonds	607	20	618	20	617	20	616	20	26.0	26.7	1.8	(0.01)	(0.3)	1.5	29.8
Corporate	1,649	54	1,675	55	1,719	56	1,760	58	4.2	24.4	1.6	2.6	2.4	6.7	28.8

( ) = negative, 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 end-of-period LCY–US$ 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.

reach THB1.8 trillion at end-December. The top 30 corporate bond issuers had combined bonds outstanding of THB1.1 trillion, which accounted for 65.1% of total corporate bonds outstanding **(Table 2)**. PTT and Siam Cement remained the two largest corporate issuers in terms of total LCY bonds outstanding.

The three largest corporate bond issues in 4Q12 included Siam Cement's THB25 billion 4-year bond carrying a coupon rate of 4.15%, Bangkok Bank's THB20 billion 10-year subordinated bond with a 4.375% coupon, and Bank of Ayudhya's THB14.8 billion 10-year subordinated bond offering a 4.7% coupon. True Corporation issued a corporate bond with a relatively high coupon rate: a 4-year bond worth THB6 billion set at 6.0%. The corporate bond issue in 4Q12 with the longest tenor was MBK's 15-year bond worth THB1.5 billion.

Investor Profile

Contractual savings funds remained the largest holders of LCY government bonds in Thailand at end-December, accounting for 28% of the total, followed by insurance companies with a 23% share **(Figure 2)**. Compared with end-2011, the respective shares of the central bank, contractual savings funds, insurance companies, non-financial market mutual funds, and nonresident investors all increased, while shares fell for most other types of bond investors. The share of nonresidents or foreign investors recorded the biggest increase, rising 5 percentage points between end-2011 and end-December to reach 16%.

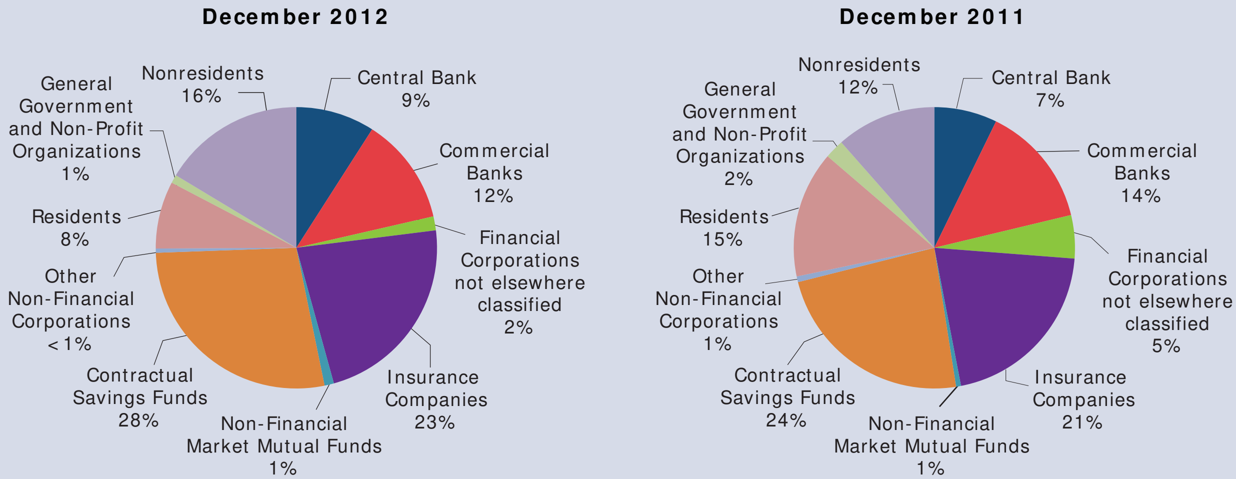
Retail investors remained the largest investor group in LCY corporate bonds, holding 51% of the total at end-June 2012 **(Figure 3)**. They were followed by other investors—such as the government, cooperatives, and foundations—with a combined 15% share, then mutual funds (9%), insurance companies (8%), contractual savings funds (7%), non-financial corporations (5%), commercial banks (4%), and other financial institutions (1%). Compared with end-June 2011, the share

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand

Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US$ billion)				
1. PTT	187.0	6.1	Yes	No	Yes	Energy
2. Siam Cement	126.5	4.1	Yes	No	Yes	Diversified
3. Krung Thai Bank	75.7	2.5	Yes	No	Yes	Financial
4. Siam Commercial Bank	60.0	2.0	No	Yes	Yes	Financial
5. Charoen Pokphand Foods	58.5	1.9	No	Yes	Yes	Consumer
6. Bank of Ayudhya	52.7	1.7	No	Yes	Yes	Financial
7. Kasikorn Bank	47.1	1.5	No	Yes	Yes	Financial
8. Thanachart Bank	42.6	1.4	No	Yes	No	Financial
9. Thai Airways International	34.7	1.1	Yes	No	Yes	Consumer
10. PTT Global Chemical	33.3	1.1	Yes	No	Yes	Basic Materials
11. Ayudhya Capital Auto Lease	32.1	1.0	No	Yes	No	Financial
12. PTT Exploration and Production Company	29.2	1.0	Yes	No	Yes	Energy
13. Thai Oil	27.8	0.9	Yes	No	Yes	Energy
14. TMB Bank	27.7	0.9	No	Yes	Yes	Financial
15. Banpu	25.3	0.8	No	Yes	Yes	Energy
16. Krung Thai Card	23.5	0.8	Yes	No	Yes	Financial
17. DAD SPV	22.5	0.7	Yes	No	No	Financial
18. Mitr Phol Sugar	22.2	0.7	No	Yes	No	Consumer
19. True Corporation	22.1	0.7	No	Yes	Yes	Communications
20. Indorama Ventures	21.7	0.7	No	Yes	Yes	Basic Materials
21. Toyota Leasing Thailand	20.9	0.7	No	Yes	No	Consumer
22. Bangkok Bank	20.0	0.7	No	Yes	Yes	Financial
23. IRPC	19.6	0.6	Yes	No	Yes	Energy
24. Glow Energy	19.1	0.6	No	Yes	Yes	Utilities
25. Quality Houses	18.3	0.6	No	Yes	Yes	Consumer
26. Minor International	16.4	0.5	No	Yes	Yes	Consumer
27. Bangkok Expressway	16.2	0.5	No	Yes	Yes	Consumer
28. Land & Houses	15.0	0.5	No	Yes	Yes	Consumer
29. Thanachart Capital	15.0	0.5	No	Yes	Yes	Financial
30. Tisco Bank	14.1	0.5	No	Yes	No	Financial
Total Top 30 LCY Corporate Issuers	**1,146.5**	**37.5**				
Total LCY Corporate Bonds	**1,760.5**	**57.6**				
Top 30 as % of Total LCY Corporate Bonds	**65.1%**	**65.1%**				

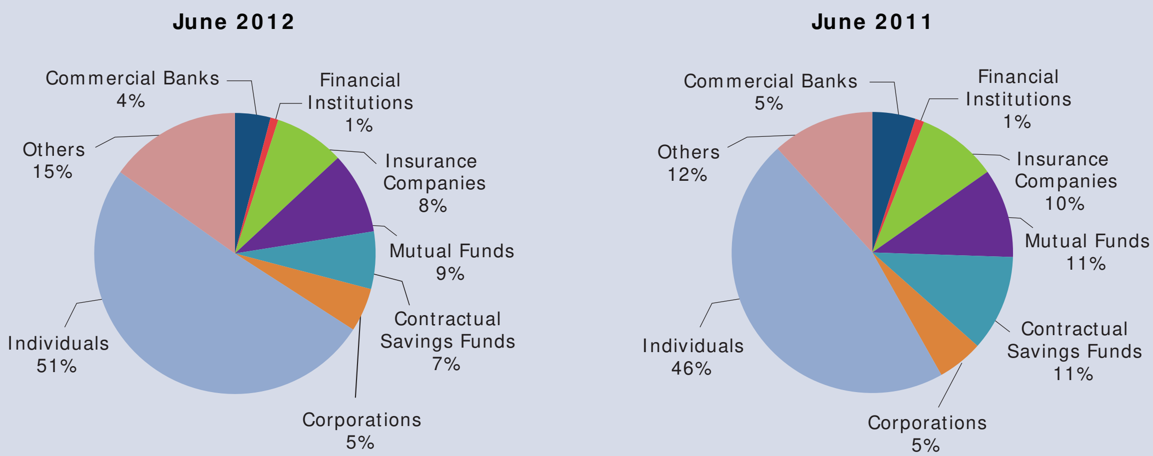
LCY = local currency.
Notes:
1. Data as of 31 December 2012.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsiaBondsOnline* calculations based on Bloomberg data.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
Source: *AsianBondsOnline* and Bank of Thailand.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: ThaiBMA.

of individual retail investors rose 5 percentage points, while the share of the combined group of government, cooperatives, and foundations rose 3 percentage points. In contrast, the respective shares of contractual savings funds, mutual funds, insurance companies, and commercial banks all fell compared with end-June 2011.

Rating Changes

In October, Rating and Investment Information (R&I) upgraded Thailand's foreign currency (FCY) issuer rating to BBB+ from BBB, and its LCY issuer rating to A– from BBB+, while affirming the country's FCY short-term debt rating at a-2.

Policy, Institutional, and Regulatory Developments

MOF Permits Eight Foreign Entities to Issue LCY Bonds in Thailand

The Ministry of Finance (MOF) has permitted eight foreign entities to sell THB-denominated bonds and debentures in Thailand, totaling THB59 billion, between 1 January and 30 September. These entities and their respective authorized bond issuance amounts are as follows: (i) Industrial Bank of Korea (THB10 billion), (ii) ING Bank (THB10 billion), (iii) Korea Eximbank (THB10 billion), (iv) Shinhan Bank (THB10 billion), (v) Woori Bank (THB10 billion), (vi) Rabobank Nederland (THB4 billion), (vii) Noble Group (THB3.5 billion), and (viii) Ministry of Finance of Lao PDR (THB1.5 billion).

BOT Announces Planned Bond Issuance Program for 2013

In December, BOT announced its planned bond issuance program for 2013. BOT noted that in 2013 it would cease issuance of 4-year fixed coupon bonds, as well as 2- and 3-year floating rate bonds. BOT will also raise the issue size per auction of its short-term bonds and slightly lower the issue size of its medium-term bonds. The central bank stated that these plans were in line with changing market conditions and would further facilitate the development of Thailand's bond market.

BOT Provides Notification on Basel III's Capital Adequacy Framework

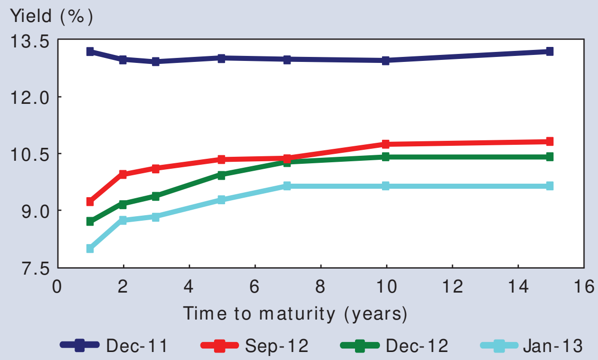
In December, BOT provided notification on Basel III's capital adequacy framework. The central bank informed Thai banks of the requirement to maintain a minimum common equity ratio of 4.5%, a Tier 1 ratio of 6.0%, and a total capital ratio of 8.5%. The notification also stipulates that branches of foreign banks are required to maintain a total capital ratio of 8.5%.

Viet Nam

Yield Movements

Government bond yields in Viet Nam shifted downward across most of the yield curve in 4Q12, while steepening from the shorter-end to the belly of the curve. Between end-September and end-December, yields fell between 9 basis points (bps) and 73 bps across all tenors **(Figure 1)**. Between end-December and end-January, yields further shifted downward across all tenors between 38 bps–70 bps. At the shorter-end, yields on 1-year government bonds fell 65 bps to 8.0%. At the longer-end, yields on 10- and 15-year government bonds both fell 70 bps to settle at the same level of 9.5%. As a result, the spread between 2- and 10-year government bonds widened to 82 bps at end-January from 115 bps at end-December.

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



LCY = local currency.
Source: Bloomberg LP.

Viet Nam's gross domestic product (GDP) expanded 5.0% year-on-year (y-o-y) in 2012, easing slightly from 5.9% in 2011 to post the slowest annual growth rate since 1999. In 4Q12, GDP expanded 5.4% y-o-y, up from a revised growth rate of 5.1% in 3Q12. Viet Nam's economy was slowed in 2012 by a fall-off in lending as banks faced rising levels of bad debt throughout the year. To encourage more rapid credit growth, the State Bank of Viet Nam (SBV) cut key interest rates six times in 2012 by a total of 600 bps.

Consumer price inflation for the full-year 2012 was 9.2%, just below the SBV's target rate of 10.0%, driven mostly by price hikes in housing and construction materials, medical services, and education. In January, consumer price inflation slightly accelerated to 7.1% y-o-y after rising 6.8% in December.

Viet Nam's industrial production index (IPI) rose 4.8% in 2012, down from the 6.8% annual growth rate posted in 2011. Mining and quarrying rose 3.5%; manufacturing, 4.5%; power and gas, 12.3%; and water supply and waste management, 8.4%. In January, the IPI rose significantly by 21.1% y-o-y but fell 3.2% month-on-month (m-o-m).

Size and Composition

As of end-December, Viet Nam's total local currency (LCY) bonds outstanding stood at VND521.9 trillion (US$25.0 billion), an increase of 42.7% y-o-y that was driven mainly by growth of 71.5% in treasury bills and bonds, and the resumption of SBV bill issuance in March 2012. However, the significant growth in the government bond sector was partially offset by a 47.6% y-o-y contraction in corporate bonds outstanding, continuing a steady decline in place since March 2011 **(Table 1)**.

Total LCY government bonds outstanding rose 54.6% y-o-y to VND499.6 trillion at end-December. Treasury bills and bonds outstanding reached VND255.0 trillion and SBV bills stood at VND58.6 trillion after the SBV resumed issuance in March 2012. Meanwhile, state-owned enterprise (SOE) bonds grew 6.6% y-o-y to VND186.0 trillion at end-December, reversing a contraction of 3.3% y-o-y at end-September. In

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

	Outstanding Amount (billion)								Growth Rate (%)						
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12	Nov-12	Dec-12		
	VND	US$	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	443,731	21	450,680	22	492,341	24	521,923	25	(2.7)	21.4	1.57	9.2	6.0	17.6	42.7
Government	410,237	20	425,581	20	468,342	22	499,560	24	(1.7)	27.0	3.74	10.0	6.7	21.8	54.6
Treasury Bonds	218,743	10	231,058	11	243,856	12	255,011	12	18.0	48.0	5.6	5.5	4.6	16.6	71.5
Central Bank Bonds	22,070	1	22,914	1	49,298	2	58,560	3	–	–	3.8	115.1	18.8	165.3	–
State-Owned Enterprise Bonds	169,424	8	171,609	8	175,188	8	185,989	9	(2.7)	(3.3)	1.3	2.1	6.2	9.8	6.6
Corporate	33,494	2	25,099	1	23,999	1	22,362	1	(12.7)	(21.4)	(25.1)	(4.4)	(6.8)	(33.2)	(47.6)

– = not applicable, ( ) = negative, 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–US$ rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bloomberg LP.

contrast, total LCY corporate bonds outstanding contracted 47.6% y-o-y and 33.2% q-o-q to VND22.4 trillion.

In 4Q12, issuance of treasury bills and bonds and SBV bills remained active. Total new issuance of treasury bills and bonds and SBV bills amounted to VND35.6 trillion and VND58.6 trillion, respectively. Meanwhile, new issuance of SOE bonds, primarily by the Viet Nam Development Bank, amounted to VND17.6 trillion. Given the continuing tough market conditions in 2012, Vietnamese investors' risk appetite for corporate bonds remained low. Viet Nam's LCY corporate bond market was mostly inactive in 2012, with only one new issue—a VND150 billion bond issued by Lam Son Sugar, a manufacturer and trader of sugar, malt, alcoholic and non-alcoholic drinks, and other sugar-based products and animal feeds.

At the end of 2012, real estate company HAGL ranked as the largest corporate issuer with outstanding bonds of VND4.1 trillion **(Table 2)**. It marked the first time a non-bank corporate was the largest issuer of corporate bonds, reversing a history of financial institutions dominating Viet Nam's corporate bond market. Of the top 15 LCY corporate issuers at end-December, five were real estate developers and only three were financial institutions. Total LCY bonds outstanding among the 15 largest issuers comprised 94.7% of all LCY corporate bonds outstanding.

Policy, Institutional, and Regulatory Developments

SBV Cut Key Rates in December for the Sixth Time in 2012

On 24 December, the SBV cut key interest rates for the sixth time in 2012 in a continuation of its policy of monetary easing. The discount rate and the refinancing interest rate were each cut by an additional 100 bps to 7.0% and 9.0%, respectively.

Table 2: Top 15 Issuers of LCY Corporate Bonds in Viet Nam

Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US$ billion)				
1. HAGL	4,110	0.20	No	Yes	Yes	Real Estate
2. Asia Commercial Joint Stock Bank	3,000	0.14	No	Yes	Yes	Finance
3. Techcombank	3,000	0.14	No	Yes	No	Finance
4. Vincom	3,000	0.14	No	Yes	Yes	Real Estate
5. Vinpearl	2,500	0.12	No	Yes	Yes	Resorts and Theme Parks
6. Agribank Securities	2,000	0.10	No	Yes	Yes	Finance
7. Minh Phu Seafood	700	0.03	No	Yes	Yes	Fisheries
8. Hoa Phat Group	600	0.03	No	Yes	Yes	Miscellaneous Manufacturing
9. Kinh Bac City Development	500	0.02	No	Yes	Yes	Real Estate
10. Development Investment	350	0.02	No	Yes	No	Building and Construction
11. Phu Hoang Anh	350	0.02	No	Yes	No	Real Estate
12. Binh Chanh Construction	300	0.01	No	Yes	Yes	Building and Construction
13. Saigon Telecommunication	300	0.01	No	Yes	Yes	Technology
14. Dabaco Corporation	254	0.01	No	Yes	Yes	Diversified Operations
15. Thu Duc Housing Development	209	0.01	No	Yes	Yes	Real Estate
Total Top 15 LCY Corporate Issuers	**21,173**	**1.02**				
Total LCY Corporate Bonds	**22,362**	**1.07**				
Top 15 as % of Total LCY Corporate Bonds	**94.7%**	**94.7%**				

LCY = local currency.
Notes:
1. Data as of 31 December 2012.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.