Market Summaries

People's Republic of China

Yield Movements

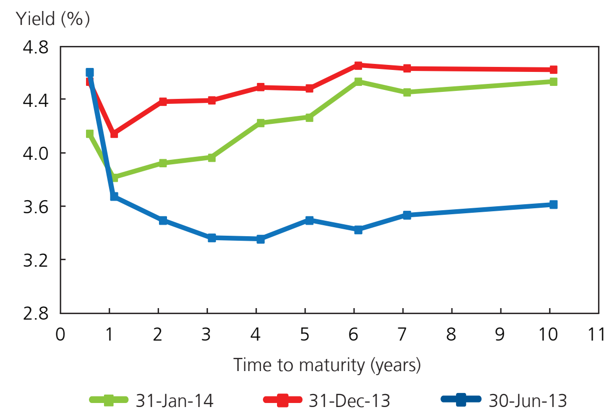
The government bond yield curve for the People's Republic of China (PRC) dramatically shifted upward between end-June and end-December 2013, with the exception of tenors of less than 1 year **(Figure 1)**. At the shorter-end of the curve, yields fell 187 basis points (bps) for the 3-month tenor and 7 bps for the 6-month tenor. Yields rose between 47 bps and 123 bps for tenors of 1 year or longer.

The steep rise in yields between end-June and end-December was the result of both external and domestic factors. Announcements by the United States (US) Federal Reserve that it was considering tapering its monthly bond buying program were made in May. By December, the Federal Reserve signaled its intention to begin tapering asset purchases by US$10 billion per month starting in January.

Domestic liquidity also tightened in the PRC as evidenced by rising interbank repo rates in mid-June in response to the SHIBOR shock. While repo rates had recovered by end-June, tight liquidity conditions still prevailed, causing interbank rates to rise again later in the year. The People's Bank of China (PBOC) suspended reverse repo auctions on 17 October. With corporate tax payments due, the 7-day repo rate rose from 4.56% at the start of August to 4.93% on 28 October. The PBOC was then forced to inject liquidity via short-term liquidity operations from 28 October to 30 December, and to conduct two additional reverse repo auctions.

Liquidity tightened again in the first half of December when the PBOC once more halted reverse repo auctions. The 7-day repo rate rose to 8.84% on 23 December. The PBOC was then forced to intervene via short-term liquidity operations and to extend interbank trading hours by 30 minutes. The liquidity injection helped calm markets, with the 7-day repo rate falling to 5.25% by end-December. These developments and the PBOC's response were the reasons for the decline in short-term rates in the second half of 2013.

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



LCY = local currency.
Source: Bloomberg LP.

In early January, yields began to rise on liquidity concerns as the Chinese New Year holiday approached and the PBOC chose not to conduct any reverse repo auctions in the first half of the month. However, market concerns were allayed when the PBOC injected liquidity via reverse repos from 21 January to 28 January. As a result, by end-January yields had fallen between zero and 46 bps from end-December levels. The PBOC again began issuing repo agreements in February, draining some liquidity from the market.

The PBOC has largely been silent in the past regarding its liquidity decisions. But in the PBOC's 4Q13 monetary policy report, the central bank hinted that it will manage liquidity to control credit expansion. In various news reports, market participants were cited as saying that the PBOC appears to be targeting the shadow banking system.

In January, a trust marketed by Industrial and Commercial Bank of China (ICBC) was at risk of default as it had provided funds to the Shanxi Zhengfu Energy Group, which had subsequently gone bankrupt. However, ICBC opted to protect investor principal. In February,

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

	Outstanding Amount (billion)						Growth Rates (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**23,747**	**3,811**	**26,364**	**4,307**	**26,968**	**4,454**	**3.0**	**11.2**	**2.3**	**13.6**
Government	17,270	2,772	18,117	2,960	18,463	3,050	0.9	8.0	1.9	6.9
Treasury Bonds	8,074	1,296	8,895	1,453	9,109	1,505	2.0	9.3	2.40	12.8
Central Bank Bonds	1,338	215	564	92	552	91	(16.2)	(37.2)	(2.1)	(58.7)
Policy Bank Bonds	7,858	1,261	8,658	1,415	8,802	1,454	3.3	21.3	1.7	12.0
Corporate	6,477	1,040	8,247	1,347	8,505	1,405	9.3	20.8	3.1	31.3
Policy Bank Bonds										
China Development Bank	5,270	846	5,525	903	5,672	937	2.5	18.6	2.7	7.6
Export–Import Bank of China	1,112	178	1,268	207	1,357	224	10.3	33.4	7.0	22.1
Agricultural Devt. Bank of China	1,476	237	1,604	262	1,772	293	1.3	22.9	10.5	20.1

( ) = negative, LCY = local currency, 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 as of 4Q13 was CNY1.5 trillion based on data from *Wind*.
Sources*:* Bloomberg LP, *ChinaBond,* and *Wind*.

another trust product marketed by China Construction Bank (CCB) raised concerns over loans made to Shanxi Liansheng Energy.

Declining yields in January also reflected concerns that the PRC's growth might slow. Growth in 4Q13 was relatively stable at 7.7% y-o-y following a 7.8% expansion in 3Q13. For full-year 2013, GDP grew 7.7%. However, more recent data has raised concerns. Both the manufacturing and non-manufacturing Purchasing Managers' Index (PMI) fell in January. The manufacturing PMI fell to 50.5 in January from 51.0 in December, while the non-manufacturing PMI fell to 53.4 from 54.6. The PRC's industrial production growth has also been on the decline, with December's growth slipping to 9.7% y-o-y from 10.0% in November. Meanwhile, inflation has been stable, with January's consumer price inflation at 2.5% y-o-y, the same rate as in December.

As a result of the much larger decline in short-term yields compared with long-term yields, the 2- versus 10-year spread rose to 61 bps at end-January from 24 bps at end-December.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC market reached CNY27 trillion (US$4.5 trillion) at end-December, an increase of 2.3% quarter-on-quarter (q-o-q) and 13.6% y-o-y, largely driven by growth in treasury, policy bank, and corporate bonds **(Table 1)**.

Government Bonds. LCY government bonds outstanding grew 1.9% q-o-q and 6.9% y-o-y in 4Q13, driven by growth in policy bank bonds. Central bank bonds continued to decline as the PBOC opted to use other tools to manage liquidity (e.g., reverse repos).

Corporate Bonds. Corporate bonds outstanding grew 3.1% q-o-q and 31.3% y-o-y in 4Q13 **(Table 2)**. The bonds with relatively higher q-o-q growth rates were medium-term notes and local corporate bonds at 3.9% and 3.6%, respectively. Outstanding commercial bank bonds were relatively unchanged in 4Q13 as banks had completed most of their capital-raising requirements before the start of the quarter.

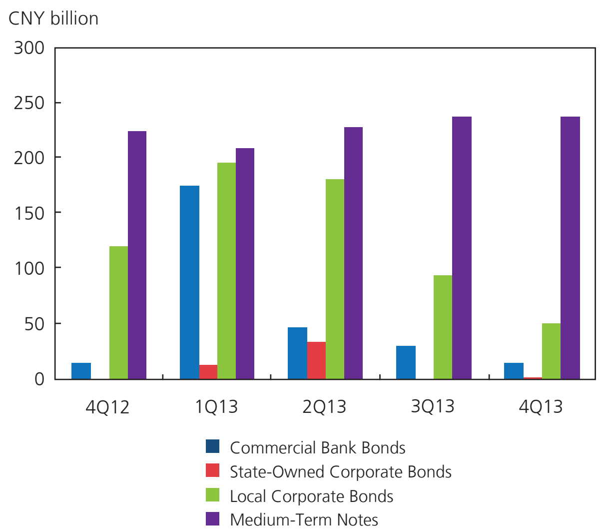
The growth of corporate bonds outstanding is reflected in the issuance data presented in **Figure 2**, with corporate bond issuance levels for some bond types having been affected by tight liquidity conditions in the market. Yet, there were some issuers who opted to lock in the low borrowing costs in anticipation of rising yields as the US Federal Reserve tapers its monthly asset purchases.

Table 2: Corporate Bonds Outstanding in Key Sectors

	Outstanding Amount (CNY billion)				Growth Rates (%)				
					q-o-q				y-o-y
	1Q13	2Q13	3Q13	4Q13	1Q13	2Q13	3Q13	4Q13	4Q13
Commercial Bank Bonds	1,304	1,329	1,299	1,311	3.1	1.9	(2.2)	0.9	3.6
State-Owned Corporate Bonds	1,024	653	647	646	3.2	(36.3)	(0.9)	(0.1)	(34.9)
Local Corporate Bonds	1,484	1,580	1,626	1,684	13.7	6.4	2.9	3.6	29.0
Medium-Term Notes	3,194	3,509	3,705	3,848	10.2	9.9	5.6	3.9	32.8

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

Figure 2: Corporate Bond Issuance in Key Sectors



Source: *ChinaBond.*

A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. As of 4Q13, the top 30 corporate bond issuers accounted for CNY4.1 trillion worth of corporate bonds outstanding, or about 49% of the market. Among the top 30 corporate issuers, the 10 largest accounted for CNY2.8 trillion worth of bonds outstanding.

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 4Q13. Among the top 30 corporate issuers at end-December, 22 were state-owned.

Table 4 presents the most significant issuances of 4Q13.

Investor Profile

Treasury Bonds. Banks remained the largest category of investors in the PRC's treasury bond market, which includes policy bank bonds, holding a slightly smaller share of these bonds at the end of 4Q13 (77.0%) than at the end of 4Q12 (77.2%) **(Figure 3)**.

Corporate Bonds. Banks were also the largest holders of corporate bonds at the end of 4Q13, albeit with a comparatively smaller share than their holdings of treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 29.5% at the end of 4Q13 from 36.7% a year earlier **(Figure 4)**. The second largest holders of corporate bonds were insurance companies, with a 14.7% share at the end of 4Q13, down from a 21.0% share a year earlier.

Figure 5 presents investor profiles across corporate bond categories. Based on the latest data available, banks were the largest holders of medium-term notes at end-December with more than 50% of the total. Meanwhile, insurance companies were the largest holders of commercial bank bonds.

Liquidity

Figure 6 presents the turnover ratios for government bonds, which have seen a significant decline since June, reflecting both tight liqudity conditions as well as the crackdown on illegal bond trading in May.

Interest Rate Swaps

In 4Q13, the total notional amount of signed interest rate swap agreements in the PRC reached

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

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (CNY billion)	LCY Bonds (US$ billion)			
1. China Railway	896.0	147.99	Yes	No	Transportation
2. State Grid Corporation of China	354.5	58.55	Yes	No	Public Utilities
3. China National Petroleum	340.0	56.16	Yes	No	Energy
4. Industrial and Commercial Bank of China	233.0	38.49	Yes	Yes	Banking
5. Bank of China	224.9	37.15	Yes	Yes	Banking
6. China Construction Bank	205.0	33.86	Yes	Yes	Banking
7. Agricultural Bank of China	153.0	25.27	Yes	Yes	Banking
8. China Petroleum & Chemical	134.7	22.25	Yes	Yes	Energy
9. China Guodian	112.3	18.55	Yes	No	Public Utilities
10. Central Huijin Investment	109.0	18.00	Yes	No	Diversified Financial
11. Petrochina	106.0	17.51	Yes	Yes	Energy
12. China Minsheng Bank	102.3	16.90	No	Yes	Banking
13. Shenhua Group	97.0	16.02	Yes	No	Energy
14. China Power Investment	89.6	14.80	Yes	No	Public Utilities
15. Bank of Communications	89.0	14.70	No	Yes	Banking
16. Shanghai Pudong Development Bank	82.2	13.58	No	Yes	Banking
17. China Three Gorges Project	77.5	12.80	Yes	No	Public Utilities
18. Industrial Bank	71.0	11.73	No	Yes	Banking
19. China Southern Power Grid	68.5	11.31	Yes	No	Public Utilities
20. China Life	68.0	11.23	Yes	Yes	Insurance
21. China Merchants Bank	64.7	10.69	No	Yes	Banking
22. China Citic Bank	60.5	9.99	No	Yes	Banking
23. China Huaneng Group	60.0	9.91	Yes	No	Public Utilities
24. State-Owned Capital Operation and Management Center of Beijing	55.0	9.08	Yes	No	Diversified Financial
25. China Everbright Bank	52.7	8.70	No	Yes	Banking
26. Citic Group	49.5	8.18	Yes	No	Diversified Financial
27. Tianjin Infrastructure Investment Group	47.8	7.90	Yes	No	Capital Goods
28. China Datang	44.7	7.38	Yes	No	Public Utilities
29. Bank of Beijing	43.5	7.18	No	Yes	Banking
30. Huaneng Power International	43.0	7.10	Yes	Yes	Public Utilities
Total Top 30 LCY Corporate Issuers	**4,134.94**	**682.98**			
Total LCY Corporate Bonds	**8,505.36**	**1,404.85**			
Top 30 as % of Total LCY Corporate Bonds	**49%**	**49%**			

LCY = local currency.
Notes:
1. Data as of end-December 2013.
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.

Table 4: Notable LCY Corporate Bond Issuance in 4Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Hubei Provincial Communications Investment		
15-year bonds	6.18	2.5
Wuhan Metro Group		
5-year bonds	Floating	2.3
Wuulanchabu Urban Investment and Development		
7-year bonds	7.7	2
China Shenhua Energy		
5-year bonds	5.49	5
Henan Energy and Chemical Group		
5-year bonds	6.40	5
Hunan Provincial Express Highway Construction and Development		
3-year bonds	7.30	5

LCY = local currency.
Source: *Wind*.

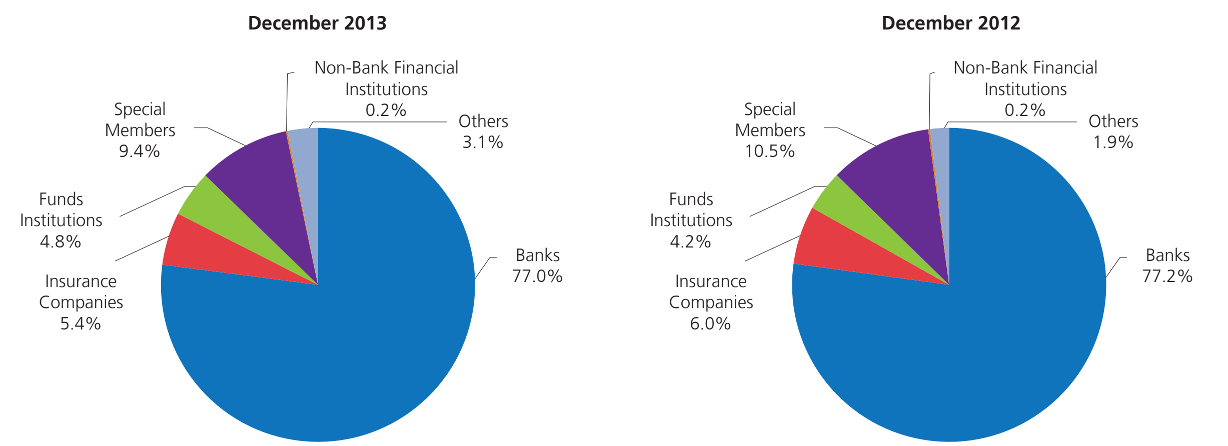
CNY606 billion on 6,021 transactions **(Table 5)**. The most popular benchmark was the 7-day repo, which accounted for 69% of all transactions.

Policy, Institutional, and Regulatory Developments

Shanghai Free Trade Zone Processes Cross-Border Renminbi Payments

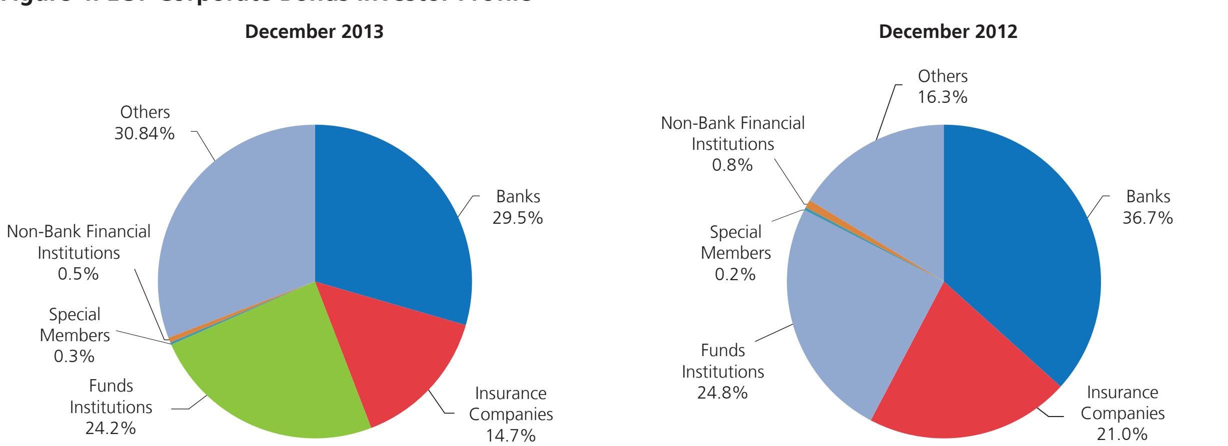
On 18 February, the PBOC announced it would allow five payment companies to process cross-border renminbi payments in the Shanghai Free Trade Zone: Allinpay, 99Bill, ChinaPay, Dongfang Electronics, and Shengpay. The five companies will open accounts with the Shanghai branches of

Figure 3: LCY Treasury Bonds Investor Profile



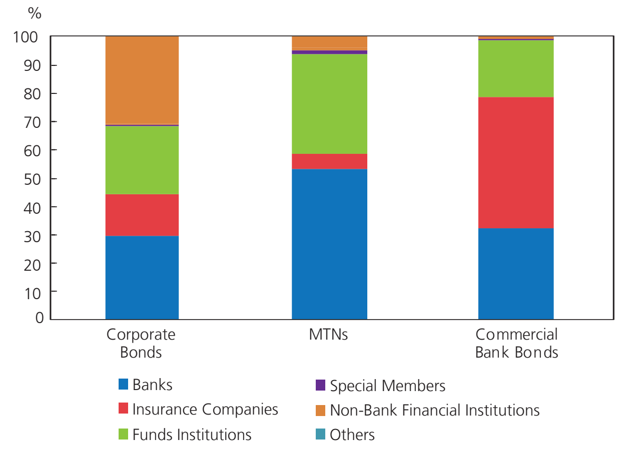
LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



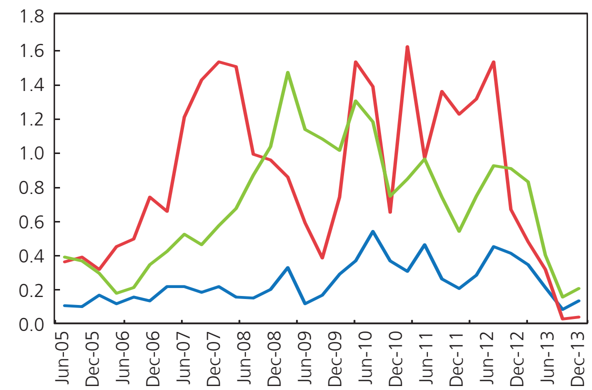
LCY = local currency.
Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



MTNs = medium-term notes.
Note: Data as of end-September 2013.
Source: *ChinaBond*.

Figure 6: Turnover Ratios for Government Bonds



Source: *ChinaBond*.

Table 5: Notional Values of the PRC's Interest Rate Swap Market in 4Q13

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%)	
		4Q13		q-o-q	y-o-y
7-Day Repo Rate	418.4	69.1	4,588	3.6	45.4
Overnight SHIBOR	87.1	14.4	203	10.2	(83.6)
3-Month SHIBOR	89.6	14.8	1,097	11.9	0.9
1-Year Term Deposit Rate	9.1	1.5	116	122.2	26.3
1-Year Lending Rate	1.2	0.2	11	(28.7)	(87.6)
3-Year Lending Rate	0.6	0.1	6	(34.4)	(83.0)
Total	**606.0**	**100.0**	**6,021**	**6.4**	**(34.7)**

( ) = negative, 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.
Sources: *AsianBondsOnline* and *ChinaMoney*.

ICBC, Bank of China (BoC), CBC, China Merchants Bank, and China Minsheng Bank to help facilitate the transfers.

PBOC Resumes Repo Auctions

On 18 February, the PBOC conducted its first repo auction in 8 months when it auctioned 14-day repurchase agreements at a rate of 3.8%. The total amount issued was CNY48 billion.

CIRC Relaxes Investment Limits for Insurance Companies

On 19 February, the China Insurance Regulatory Commission (CIRC) released new regulations regarding allowable investments for insurance companies. There will no longer be limits for fixed-income investments. Prior to this, fixed-income investing had some restrictions, such as investments only in corporate bonds with credit ratings of BBB and above, as well as a 40% limit in corporate bonds.

Limits on equity investments were also raised to 30%. Prior to this, the limits were 25% in listed equities, and 10% in unlisted equities and equity investment funds.

Banks Liquidity Coverage Ratio Requirement Increased

On 20 February, the China Banking Regulatory Commission (CBRC) announced new rules requiring banks to maintain a 100% Liquidity Coverage Ratio (LCR) by 2018 compared with the prior requirement of 60%. The LCR requirement will increase by 10% each year until reaching 100% in 2018.

Hong Kong, China

Yield Movements

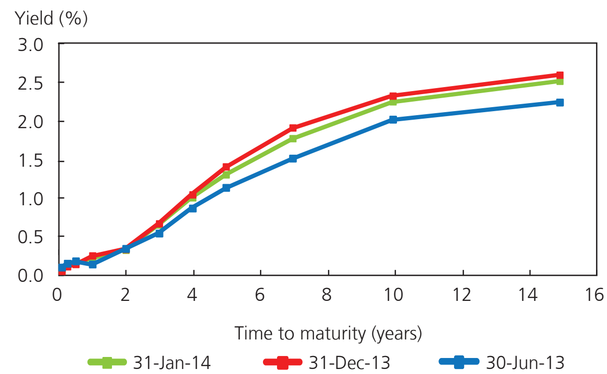
Between end-June and end-December, yields for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) fell at the shorter-end and rose at the longer-end of the curve, with the exception of the 2-year Exchange Fund Note (EFN), resulting in the steepening of the yield curve **(Figure 1)**. The rise in yields partly reflects uncertainty over the United States (US) Federal Reserve's tapering measures.

After the Federal Reserve meetings in December and January, which announced the winding down of its monthly asset purchase program to US$75 billion in January and US$65 billion in February, the EFBN yield curve flattened. Yields rose between 1 basis point (bp) and 3 bps from the 1-month Exchange Fund Bill (EFB) through the 6-month EFB, and fell between 1 bp and 14 bps for the 1-year maturity through the end of the curve. As a result, the yield spread between the 2- and 10-year tenors narrowed slightly to 191 bps at end-January from 197 bps at end-December.

Yield movements in Hong Kong, China and the US are highly correlated as Hong Kong, China's currency is pegged to the US dollar. The drop in long-term yields partly reflects concerns over slower economic growth. In 3Q13, gross domestic product (GDP) growth in Hong Kong, China eased to 2.9% year-on-year (y-o-y) from 3.2% in the previous quarter. Domestic consumption and investment continued to drive growth, although at much slower pace than in 2Q13. Growth in private consumption moderated to 2.8% y-o-y in 3Q13, while investment growth slowed to 2.2%. For full-year 2013, the government estimates that GDP growth reached 3.0%.

Consumer price inflation was relatively tame in 2013, averaging 4.0% compared with 4.7% in 2012. The government expects inflationary pressures to remain contained in 2014, given the low level of imported inflation and slower increases in rental prices in certain areas.

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



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

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market rose 0.5% quarter-on-quarter (q-o-q) and 9.2% y-o-y to reach HKD1,503 billion (US$194 billion) at end-December **(Table 1)**.

At end-December, the stock of government bonds—comprising EFBs, EFNs, and HKSAR bonds—grew 0.4% q-o-q and 16.1% y-o-y to reach HKD841 billion. Growth in government bonds was largely driven by HKSAR bonds, which are issued under the HKMA's Institutional Bond Issuance Program. In November, the government raised HKD3 billion from the sale of 3-year HKSAR bonds.

LCY corporate bonds outstanding grew marginally by 0.5% q-o-q and 1.6% y-o-y to reach HKD661 billion at end-December. In 4Q13, the three largest issuances came from the Airport Authority of Hong Kong (HKD0.5 billion), Hong Kong Mortgage Corporation (HKMC) (HKD0.4 billion), and Wharf Finance (HKD0.3 billion) **(Table 2)**.

Corporate bonds outstanding from the top 27 non-bank issuers in Hong Kong, China amounted to HKD106.6 billion at end-December, representing about

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

	Outstanding Amount (billion)						Growth Rate (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,376**	**177**	**1,496**	**193**	**1,503**	**194**	**0.9**	**5.1**	**0.5**	**9.2**
Government	724	93	838	108	841	108	0.5	3.0	0.4	16.1
Exchange Fund Bills	589	76	682	88	683	88	0.1	0.4	0.1	16.0
Exchange Fund Notes	69	9	68	9	68	8.8	(0.4)	(0.9)	(0.4)	(0.9)
HKSAR Bonds	67	9	87	11	90	12	4.7	39.6	3.4	34.3
Corporate	651	84	658	85	661	85	1.3	7.6	0.5	1.6

( ) = negative, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, 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.
Sources: Hong Kong Monetary Authority and Bloomberg LP.

Table 2: Notable LCY Corporate Bond Issuance in 4Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Airport Authority of Hong Kong		
2-year bonds	0.90	0.50
The Hong Kong Mortgage Corporation		
2-year bonds	Floating	0.43
Wharf Finance		
5-year bonds	3.00	0.30

LCY = local currency.
Source: Central Moneymarkets Unit (CMU) HKMA.

16% of total outstanding corporate bonds at the end of 4Q13. The top 27 list of issuers was dominated by real estate firms **(Table 3)**. As was the case in the previous quarter, HKMC remained the top issuer in Hong Kong, China with outstanding bonds of HKD13.4 billion. Next was CLP Power Hong Kong Financing with HKD10.0 billion of bonds outstanding, followed closely by Sun Hung Kai Properties' HKD9.9 billion of bonds outstanding. Among the list, there are five state-owned companies and eight Hong Kong Exchange-listed firms, only one state-owned company, the MTR Corporation, is listed.

Policy, Institutional, and Regulatory Developments

Hong Kong, China and Malaysia to Promote Offshore Renminbi Business

On 3 December, Hong Kong, China and Malaysia conducted the first meeting of the Hong Kong–Malaysia Private Sector Dialogue on Offshore Renminbi Business. The purpose of the dialogue is to jointly develop the offshore renminbi business. During the dialogue, both economies agreed to expand cooperation between banks in Hong Kong, China and Malaysia. They also agreed to promote awareness about the use of the renminbi in trade settlement and promote the development of the reminbi *sukuk* (Islamic bond) market.

Table 3: Top 27 Non-Bank Corporate Issuers in Hong Kong, China

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (HKD billion)	LCY Bonds (US$ billion)			
1. The Hong Kong Mortgage Corporate	13.42	1.73	Yes	No	Finance
2. CLP Power Hong Kong Financing	10.01	1.29	No	No	Electric
3. Sun Hung Kai Properties (Capital Market)	9.93	1.28	No	No	Real Estate
4. MTR Corporation (C.I.)	6.73	0.87	Yes	Yes	Transportation
5. Wharf Finance	6.14	0.79	No	No	Diversified
6. The Link Finance (Cayman) 2009	5.75	0.74	No	No	Finance
7. HKCG (Finance)	5.60	0.72	No	No	Gas
8. Hongkong Electric Finance	5.51	0.71	No	No	Electric
9. Swire Pacific	4.83	0.62	No	Yes	Diversified
10. Kowloon-Canton Railway	4.80	0.62	Yes	No	Transportation
11. Cheung Kong Bond Finance	4.62	0.60	No	Yes	Real Estate
12. Urban Renewal Authority	3.90	0.50	Yes	No	Real Estate
13. Wheelock Finance	3.74	0.48	No	No	Diversified
14. NWD (MTN)	3.50	0.45	No	Yes	Real Estate
15. Airport Authority Hong Kong	3.50	0.45	Yes	No	Transportation
16. Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
17. Hysan (MTN)	2.43	0.31	No	No	Finance
18. Henderson Land MTN	1.83	0.24	No	Yes	Finance
19. Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
20. Nan Fung Treasury	1.31	0.17	No	No	Real Estate
21. Dragon Drays	1.00	0.13	No	No	Diversified
22. Swire Properties MTN Financing	0.80	0.10	No	No	Real Estate
23. R-Reit International Finance	0.78	0.10	No	No	Real Estate
24. Wing Tai Properties (Finance)	0.58	0.07	No	No	Real Estate
25. HLP Finance	0.56	0.07	No	Yes	Real Estate
26. CITIC Pacific	0.50	0.06	No	Yes	Diversified
27. The Hongkong Land Notes Company	0.20	0.03	No	No	Finance
Total Top 27 Non-Bank LCY Corporate Issuers	**106.63**	**13.75**			
Total LCY Corporate Bonds	**661.47**	**85.31**			
Top 27 as % of Total LCY Corporate Bonds	**16.12%**	**16.12%**			

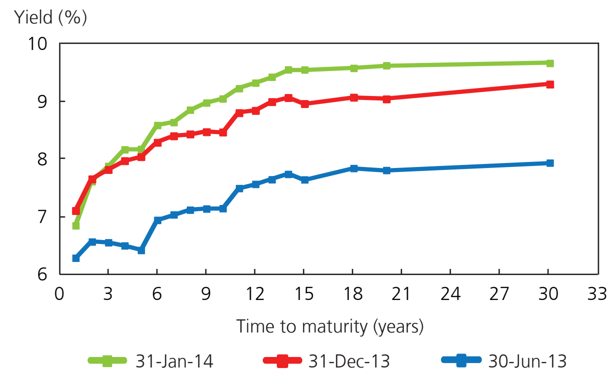
LCY = local currency.
Notes:
1. Data as of end-December 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Hong Kong Monetary Authority data.

Indonesia

Yield Movements

Between end-June and end-December, local currency (LCY) government bond yields in Indonesia rose dramatically, with the entire curve shifting upward **(Figure 1)**. The steep rise in yields reflected negative sentiments generated by external and domestic factors. Bond yields have been on the rise since May over uncertainty about United States (US) monetary policy. In December, the US Federal Reserve announced that it would begin tapering its asset purchase program by US$10 billion per month—from US$85 billion to US$75 billion—beginning in January 2014. On the domestic front, a slew of negative news weighed on the market, including a rising inflation rate, a widening current account deficit, and a weakening rupiah.

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



LCY = local currency.
Source: Bloomberg LP.

Government bond yields continued to rise between end-December and end-January from the 3-year maturity through the long-end of the curve, while yields at the short-end of the curve (1- and 2-year maturities) fell, resulting in a steepened yield curve. The spread between 2- and 10-year maturities widened to 143 basis points (bps) at end-January from 81 bps at end-December and 58 bps at end-June.

In January, the Federal Reserve announced another US$10 billion cut in its monthly asset purchase program to US$65 billion starting in February. As a result, increasing risk aversion in emerging market assets has pushed yields upward in Indonesia and elsewhere. In addition, inflation expectations remained high as the flooding that affected various areas in Indonesia in January disrupted food supplies and resulted in higher food prices. Consumer price inflation slowed in September but remained elevated in January at 8.2% year-on-year (y-o-y). Indonesia's inflation rate has been the highest in emerging East Asia since July of last year after the government reduced fuel subsidies.

Bank Indonesia initiated macroprudential measures and tightened its monetary policy in the second half of 2013 on the back of a widening current account deficit. Bank Indonesia raised its benchmark rate by a cumulative 175 bps to 7.50% between June and November. In its Board of Governors meeting held on 9 January, Bank Indonesia held steady its benchmark interest rate, and kept the lending facility rate at 7.50% and the deposit facility rate at 5.75%. The central bank noted that at current levels these rates were in line with ongoing efforts to bring down the inflation rate toward its full-year 2014 target range of 3.5%–5.5%, and reduce the current account deficit to a more sustainable level.

Gross domestic product (GDP) growth in Indonesia was below 6.0% y-o-y for the third consecutive quarter in 4Q13, coming in at 5.7%, which was up from 5.6% in 3Q13 but down from a growth rate of 6.2% recorded a year earlier. According to the Ministry of Finance, the government geared its policies toward addressing the current account deficit and sacrificed economic growth in the process. Exports recovered strongly, rising 7.4% y-o-y in 4Q13 due to higher demand from developed economies. Growth in domestic consumption, which slowed to 5.4% in 4Q13, also helped boost economic growth. Investment growth moderated to 4.4% in 4Q13 after rising 4.5% in the previous quarter. On a quarter-on-quarter (q-o-q) basis, the economy contracted 1.4% in 4Q13.

Size and Composition

The outstanding stock of LCY bonds in Indonesia reached IDR1,309.6 trillion (US$108 billion) at end-December, expanding 6.8% q-o-q and 20.1% y-o-y **(Table 1)**.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	IDR	US$	IDR	US$	IDR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,090,055**	**111**	**1,226,334**	**108**	**1,309,576**	**108**	**3.3**	**9.7**	**6.8**	**20.1**
Government	902,594	92	1,011,443	89	1,091,356	90	2.2	6.6	7.9	20.9
Central Govt. Bonds	820,266	84	942,859	83	995,252	81.8	0.9	13.4	5.6	21.3
of which: *Sukuk*	63,035	6	87,690	8	87,174	7	1.6	61.7	(0.6)	38.3
Central Bank Bills	82,328	8	68,584	6	96,104	8	16.5	(33.2)	40.1	16.7
of which: *Sukuk*	3,455	0.4	3,610	0.3	4,712	0.4	38.5	(0.6)	30.5	36.4
Corporate	187,461	19	214,891	19	218,220	18	9.4	27.6	1.5	16.4
of which: *Sukuk*	6,883	0.7	6,974	0.6	7,553	0.6	4.6	17.1	8.3	9.7

( ) = negative, LCY = local currency, 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 IDR266.4 trillion.
Sources: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, Otoritas Jasa Keaungan, and Bloomberg LP.

At end-December, outstanding LCY government bonds stood at IDR1,091.4 trillion, up 7.9% q-o-q and 20.9% y-o-y. In recent quarters, growth in the government bond sector was mainly driven by central government bonds, comprising treasury bills and treasury bonds issued by the Ministry of Finance. In 4Q13, central bank bills, which are known as *Sertifikat* Bank Indonesia (SBI), also contributed to growth.

Central Government Bonds. The stock of central government bonds climbed 5.6% q-o-q and 21.3% y-o-y to reach IDR995.3 trillion at end-December. Conventional fixed-rate bonds, which account for the bulk of the central government bond stock, continued to drive growth **(Table 2)**. Retail bonds also grew significantly with the issuance in October of the government's 10th series of retail bonds known as ORI010. Project-based *sukuk*, which are backed by government infrastructure projects, also helped boost growth in the government sector during the quarter. On the other hand, short-term instruments—treasury bills and Islamic treasury bills—registered negative growth in 4Q13.

Total treasury bills and bond issuance in 4Q13 reached IDR69.8 trillion, down slightly from 3Q13. The government conducted five auctions of conventional bonds, three auctions of Islamic bonds, and a retail bond offering. As in the past, auctions of conventional bonds were fully awarded while auctions for Islamic bonds did not meet their targets.

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	34,050	3.4	(1.6)	49.2
Fixed-Rate Bonds	707,391	71.1	4.9	22.8
Variable-Rate Bonds	122,755	12.3	0.0	0.0
Retail Bonds	43,882	4.4	85.3	28.5
Islamic Treasury Bills	8,633	0.9	(9.9)	4,327.2
Sukuk	16,587	1.7	(3.2)	(3.2)
Retail *Sukuk*	35,924	3.6	0.0	23.9
Project-Based *Sukuk*	26,030	2.6	3.9	55.7
Total	**995,252**	**100.0**	**5.6**	**21.3**

( ) = negative, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note: Data as of end-December 2013.
Source: Indonesia Stock Exchange.

Central Bank Bills. The stock of central bank bills (SBI) reached IDR96.1 trillion, posting double-digit growth on both a q-o-q and y-o-y basis. In 3Q13, new issuance of SBI and *shari'ah*-compliant SBI rose 4.1% q-o-q, but contracted 46.2% y-o-y. Bank Indonesia issues SBI as one of its monetary tools to contain inflation.

Corporate Bonds. The size of Indonesia's LCY corporate bond market reached IDR218.2 trillion, posting 1.5% q-o-q and 16.4% y-o-y expansions. Growth came mainly from an increase in outstanding conventional corporate bonds, subordinated bonds, and *Sukuk Ijarah*. **Table 3** presents the

Table 3: Corporate Bonds Outstanding by Type of Bond

Corporate Bonds	Outstanding Amount (IDR billion)	% Share	Growth Rate (%)	
			q-o-q	y-o-y
Bonds	184,771	84.7	1.1	20.3
Subordinated Bonds	25,746	11.8	3.5	(3.3)
Convertible Bonds	150	0.1	0.0	0.0
Sukuk Ijarah	4,974	2.3	21.5	6.0
Sukuk Mudharabah	1,079	0.5	0.0	39.2
Sukuk Mudharabah Subordinate	1,500	0.7	0.0	34.6
Total	**218,220**	**100.0**	**1.5**	**16.4**

– = not applicable, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Data as of end-December 2013.
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.

breakdown of outstanding corporate bonds by type at end-December. The stock of corporate bonds is dominated by conventional corporate bonds, which account for 84.7% of total corporate bonds. *Sukuk* (Islamic bonds) accounted for less than 4.0% of the total.

In 4Q13, the aggregate amount of bonds issued by the top 30 LCY corporate bond issuers in Indonesia reached IDR168.4 trillion **(Table 4)**. This represented 77.2% of total corporate bonds outstanding at end-December. The top 30 issuers were largely dominated by financial and banking institutions, which accounted for two-thirds of the firms. The top 30 list was led by state-power firm PLN with outstanding LCY corporate bonds of IDR16.9 trillion, followed by financing firms Astra Sedaya Finance (IDR11.9 trillion) and Adira Dinamika Multi Finance (IDR11.4 trillion).

New issuance of corporate bonds reached IDR11.2 trillion in 4Q13. A total of 10 firms issued 26 series of corporate bonds during the quarter, led mostly by firms from the banking and non-bank financial sectors. All bonds were conventional except for three issues of *Sukuk Ijarah* and one subordinated bond issue. The maturity structure of these new issues was mostly concentrated between 3 and 5 years. In addition, there was one issue carrying a 7-year maturity and two issues of a 10-year tenor. **Table 5** shows some notable corporate bonds issued in 4Q13.

Foreign Currency Bonds. In November, the government conducted its first sale of US$-denominated bonds targeted for the domestic market. The government raised US$190 million from the sale of 3.5-year bonds that carry a coupon of 3.5% and were priced to yield 3.51671%. The bond sale fell short of the government's target of US$450 million as investors sought higher yields. A total of US$293.6 million in bids was received.

In January, the Indonesian government tapped the international market and raised US$4 billion from a two-tranche bond sale. The government sold US$2 billion of 10-year bonds to yield 5.95% with a coupon of 5.875%, and US$2 billion of 30-year bonds to yield 6.85% with a coupon of 6.75%. The bonds were oversubscribed with the order book reaching US$17.5 billion. The bulk of the 10-year tranche was sold to investors from the US (66%), while the remainder was sold to investors from Europe (17%), Indonesia (11%), and Asia (6%). The 30-year bonds were also mostly sold to investors from the US (70%), with the remainder was distributed among investors from Europe (16%), Asia (11%), and Indonesia (3%). The bonds were rated BBB– by Fitch Ratings and BB+ by Standard & Poor's.

Investor Profile

Central Government Bonds. Banking institutions were the largest holder of LCY government bonds in Indonesia at end-December 2013, accounting for a 33.7% share of the total **(Figure 2)**. However, this was down from a 36.5% share a year ago. Banking institutions comprise state recap banks, private recap banks, non-recap banks, regional banks, and *shari'ah* banks.

The second largest investor group was foreign investors, whose share slightly dropped to 32.5% in 4Q13 from 33.0% a year earlier. Their share, however, has gradually recovered after hitting a low of 30.6% at end-August, but is still lower compared with levels prior to May **(Figure 3)**. In nominal terms, outstanding bonds held by foreign investors stood at IDR323.8 trillion at end-December.

At-end December, foreign investor holdings of government bonds were largely concentrated in longer-dated tenors. About 44% of government bonds

Table 4: Top 30 Issuers of LCY Corporate Bonds in Indonesia

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (US$ billion)			
1. PLN	16,881	1.39	Yes	No	Energy
2. Astra Sedaya Finance	11,852	0.97	No	No	Finance
3. Adira Dinamika Multi Finance	11,384	0.94	No	Yes	Finance
4. Indonesia Eximbank	11,135	0.91	Yes	No	Banking
5. Bank Tabungan Negara	8,850	0.73	Yes	Yes	Banking
6. Bank CIMB Niaga	7,930	0.65	No	Yes	Banking
7. Federal International Finance	7,901	0.65	No	No	Finance
8. Indosat	7,820	0.64	No	Yes	Telecommunications
9. Bank Internasional Indonesia	7,000	0.58	No	Yes	Banking
10. Bank Pan Indonesia	7,000	0.58	No	Yes	Banking
11. Bank Permata	6,478	0.53	No	Yes	Banking
12. Perum Pegadaian	5,739	0.47	Yes	No	Finance
13. Jasa Marga	5,600	0.46	Yes	Yes	Toll Roads, Airports, and Harbors
14. Bank Tabungan Pensiunan Nasional	4,985	0.41	No	Yes	Banking
15. Medco-Energi International	4,487	0.39	No	Yes	Petroleum and Natural Gas
16. Bank OCBC NISP	3,880	0.32	No	Yes	Banking
17. Sarana Multigriya Finansial	3,629	0.30	Yes	No	Finance
18. Indofood Sukses Makmur	3,610	0.30	No	Yes	Food and Beverages
19. Agung Podomoro Land	3,600	0.32	No	Yes	Property, Real Estate, and Building Construction
20. Bank Mandiri	3,500	0.29	Yes	Yes	Banking
21. Antam	3,000	0.25	Yes	Yes	Petroleum and Natural Gas
22. Telekomunikasi Indonesia	3,000	0.25	Yes	Yes	Telecommunications
23. BCA Finance	2,850	0.23	No	No	Finance
24. Bumi Serpong Damai	2,750	0.23	No	Yes	Petroleum and Natural Gas
25. Indomobil Finance Indonesia	2,728	0.22	No	No	Finance
26. Toyota Astra Financial Services	2,595	0.21	No	No	Finance
27. Bank Jabar Banten	2,400	0.20	No	Yes	Banking
28. Bank Rakyat Indonesia	2,000	0.16	Yes	Yes	Banking
29. Garuda Indonesia	2,000	0.16	Yes	Yes	Infrastructure, Utilities, and Transportation
30. Surya Artha Nusantara Finance	1,841	0.20	No	No	Finance
Total Top 30 LCY Corporate Issuers	**168,423**	**13.94**			
Total LCY Corporate Bonds	**218,220**	**17.93**			
Top 30 as % of Total LCY Corporate Bonds	**77.2%**	**77.7%**			

LCY = local currency.
Notes:
1. Data as of end-December 2013.
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.

held by non-residents carried maturities of more than 10 years **(Figure 4)**. Their share of holdings in medium-dated tenors or those with maturities of more than 5–10 years also climbed to 32% at end-2013 from 28% at end-2012. Meanwhile, foreign holdings of short-term securities (less than 1 year) declined to 5.0% at end-2013 from 8.0% a year earlier.

The share of other domestic investors in central government bond holdings, except for mutual funds and pension funds, increased in 2013. Insurance companies' holdings of government bonds rose to a share of 13.0% from 10.2% in the previous year. Bank Indonesia also registered a significant increase in its holdings of central government bonds to a share of 4.5% at end-December

Table 5: Notable LCY Corporate Bond Issuance in 4Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Permata		
370-day bond	10.00	696
3-year bond	10.50	672
7-year bond	12.00	860
Adira Dinamika Multi Finance		
370-day bond	9.15	722
3-year bond	10.50	880
5-year bond	11.00	490
Astra Sedaya Finance		
370-day bond	8.75	545
3-year bond	9.50	870
4-year bond	9.75	385
PLN		
5-year bond	9.00	593
5-year *Sukuk Ijarah*	9.00	321
10-year bond	9.60	651
10-year *Sukuk Ijarah*	9.60	108
Bank CIMB Niaga		
2-year bond	8.75	285
3-year bond	9.15	315
5-year bond	9.75	850

LCY = local currency.
Note: *Sukuk Ijarah* refers to Islamic bonds backed by a lease agreement.
Source: Indonesia Stock Exchange.

from 0.4% a year earlier. Mutual fund and pension fund holdings of central government bonds both declined on a y-o-y basis.

Central Bank Bills. At end-December, banking institutions were the largest holders of central bank bills (SBI) with holdings equivalent to a share of 95.9% of the total **(Figure 5)**. The nominal amount of SBI held by banks totaled IDR87.7 trillion at end-December, up sharply from IDR60.9 trillion in the previous quarter. Foreign non-bank investors held the remaining 4.1% of outstanding SBI. Foreign investor interest in SBI remained low despite Bank Indonesia's decision in August to reduce the minimum holding period from 6 months to 1 month.

Rating Changes

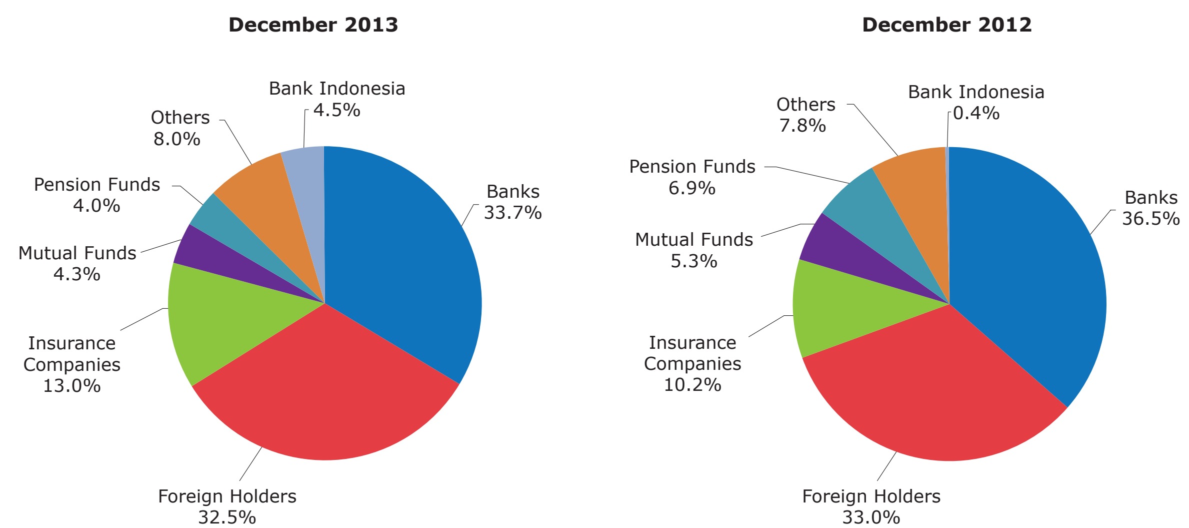
On 15 November, Fitch Ratings (Fitch) affirmed Indonesia's sovereign credit rating at BBB– with a stable outlook. In making its decision, Fitch took note of Indonesia's policy measures in response to market pressures, its relatively high long-term growth prospects, its low public debt and prudent fiscal management, and its well-capitalized banking system.

Policy, Institutional, and Regulatory Developments

Bank Indonesia and Bank of Japan Sign Third BSA Establish Cross-Border Liquidity Arrangement

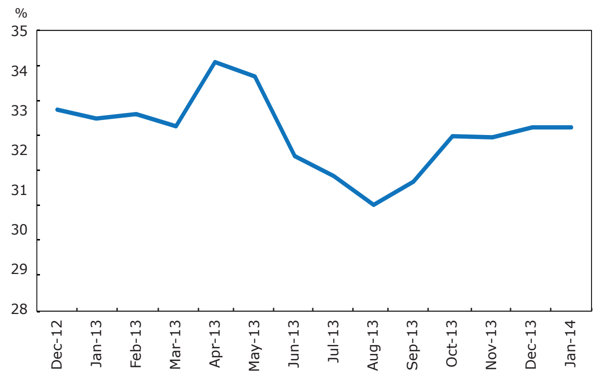
On 12 December, Bank of Japan, acting as the agent for the Ministry of Finance, and Bank Indonesia signed a third Bilateral Swap Arrangement (BSA). Under

Figure 2: LCY Central Government Bonds Investor Profile



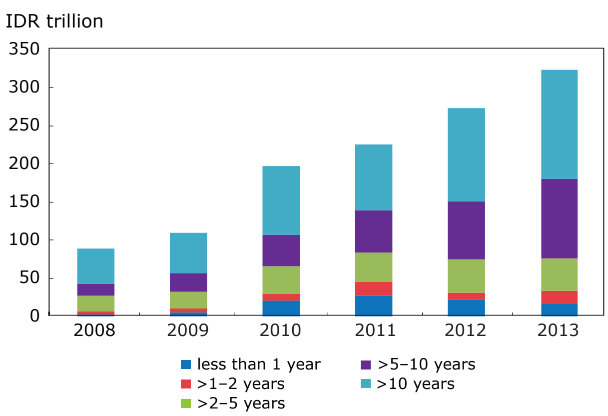
LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 3: Foreign Investor Share of LCY Central Government Bonds



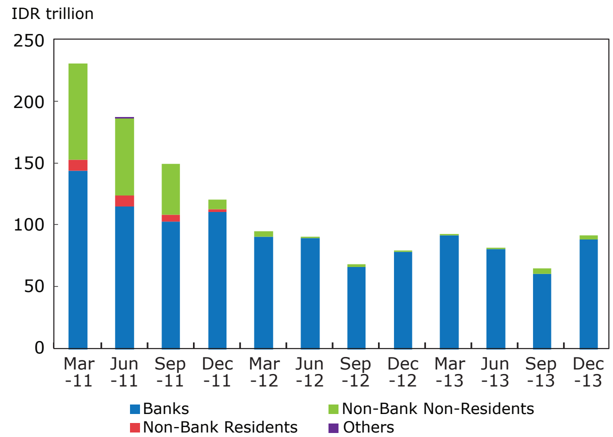
LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 4: Foreign Holdings of LCY Central Government Bonds by Maturity



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

Figure 5: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

this new arrangement, the size of the facility was increased to US$22.76 billion from US$12.0 billion. The BSA introduced a new feature in the form of a crisis prevention scheme to support potential and actual liquidity requirements.

Also in December, a cross-border liquidity arrangement was established between Bank of Japan and Bank Indonesia to ensure stability in the Indonesian financial market. With the arrangement, eligible banks with operations in Indonesia may obtain IDR liquidity from Bank Indonesia by providing Japanese government securities.

Bank Indonesia Signs MRA with Domestic Banks

On 18 December, a mini Master Repo Agreement (MRA) was signed between Bank Indonesia and eight Indonesian banks. The mini MRA will serve as a standard contract for interbank repo transactions. The eight banks include Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, Bank Central Asia, Bank Panin, Bank Bukopin, Bank DKI, and Bank Jabar Banten. This move is expected to promote and deepen the repo market as most transactions were previously undertaken through bilateral agreements due to the absence of a standardized global MRA in Indonesia.

Bank Indonesia Issues New Regulations for Hedge Swap Transactions

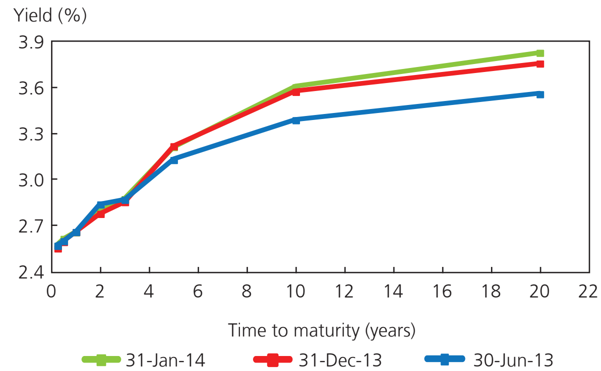
As part of efforts to deepen Indonesia's domestic foreign exchange market, Bank Indonesia announced new regulations to expand currency swap facilities for hedging transactions. The new regulations, which took effect on 3 February, aim to minimize exchange rate risks and increase investment activities in Indonesia. Under the new regulations, a hedging contract may be entered into by a bank within a period of up to 3 years through hedge swap transactions with Bank Indonesia at maturities of 3, 6, and 12 months. Other regulatory improvements were also announced, including the expansion of underlying transaction coverage, the extension of transaction tenors, and settlement by netting.

Republic of Korea

Yield Movements

The Republic of Korea's local currency (LCY) government bond yield curve steepened between end-June 2013 and end-January 2014 as yields rose relatively more at the longer-end of the curve **(Figure 1)**. The rise in longer-term yields was most pronounced in November, amid expectations of a tapering in the asset purchase program of the United States (US) Federal Reserve by the end of the year. Moreover, the further increase in yields for most tenors in January was induced by increased expectations of an inflation uptick and a better-than-expected economic recovery, both domestically and globally. Meanwhile, the yield spread between 2- and 10-year tenors widened 26 basis points (bps) between end-June 2013 and end-January 2014.

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



LCY = local currency.
Source: Bloomberg LP.

Real gross domestic product (GDP) of the Republic of Korea grew 0.9% quarter-on-quarter (q-o-q) and 3.9% year-on-year (y-o-y) in 4Q13, based on advance estimates released by The Bank of Korea in January. Compared with 3Q13, real GDP growth was lower on a q-o-q basis but higher on a y-o-y basis. For full-year 2013, real GDP growth stood at 2.8%, higher than 2012's growth of 2.0%. On the demand side, the biggest annual improvement came from gross fixed capital formation, which rebounded with 3.8% growth in 2013 following a 1.7% contraction in 2012. On the production side, the agriculture, forestry, and fishery sector and the construction sector were the most improved sectors in 2013, posting annual growth rates of 5.6% and 3.7%, respectively, following negative growth in the previous year. Meanwhile, The Bank of Korea also released in January its latest economic outlook for the Republic of Korea, maintaining its GDP growth rate projections at 2.8% for 2013 and 3.8% for 2014.

Inflationary pressures remained relatively low in 4Q13, as the y-o-y inflation rate based on the consumer price index (CPI) hovered around 1.0% in each month of the quarter. For the full-year 2013, the headline CPI inflation rate stood at 1.1%, lower than the 2.2% rate recorded in 2012. For the month of January, consumer price inflation stood at 1.1% y-o-y and 0.5% month-on-month (m-o-m). The Bank of Korea in its economic outlook released in January forecasted headline consumer price inflation to be at 1.3% in 2013 and 2.3% in 2014. Meanwhile, the policy interest rate was kept unchanged by the central bank throughout 4Q13. On 9 January, The Bank of Korea's Monetary Policy Committee decided to maintain the policy interest rate at 2.50% in support of economic growth amid a low inflation environment.

Size and Composition

The Republic of Korea's LCY bond market expanded in 4Q13, on both an annual and quarterly basis, as LCY corporate and government bonds outstanding both rose in nominal terms **(Table 1)**. The increase in the outstanding amount of government bonds, which accounted for 38% of the overall bond market, was led by steady growth in central government bonds, particularly Korea Treasury Bonds (KTBs), which rose 2.6% q-o-q and 10.4% y-o-y, outweighing the anemic y-o-y growth and slight q-o-q decline in central bank bonds, which are also known as Monetary Stabilization Bonds (MSBs). The government issued more bonds in 4Q13 than in the previous quarter, with issuance rising 3.8% q-o-q and 8.0% y-o-y.

Corporate bonds outstanding expanded at a much faster pace than government securities in 4Q13. This was buoyed by growth in the outstanding bonds of

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

	Outstanding Amount (billion)						Growth Rate (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,565,704**	**1,471**	**1,680,687**	**1,564**	**1,722,720**	**1,641**	**2.8**	**10.5**	**2.5**	**10.0**
Government	609,035	572	645,333	601	657,309	626	0.9	3.7	1.9	7.9
Central Bank Bonds	163,070	153	164,880	153	163,670	156	0.4	(1.0)	(0.7)	0.4
Central Government Bonds	416,113	391	444,599	414	455,858	434	0.5	6.0	2.5	9.6
Industrial Finance Debentures	29,852	28	35,854	33	37,781	36	9.4	(0.1)	5.4	26.6
Corporate	956,669	899	1,035,354	963	1,065,411	1,015	4.1	15.4	2.9	11.4

( ) = negative, LCY = local currency, 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.
Sources: EDAILY *BondWeb* and The Bank of Korea.

private sector corporates (3.4% q-o-q and 14.1% y-o-y) and of special public companies (2.7% q-o-q and 10.8% y-o-y). Meanwhile, outstanding financial debentures, excluding Korean Development Bank (KDB) bonds, also grew, albeit at a slower pace compared with the overall growth of corporate bonds. Meanwhile, LCY corporate bond issuance increased 27.4% q-o-q and 5.7% y-o-y in 4Q13, induced by solid growth in gross bond sales of financial companies and private sector corporates.

By the end of 2013, the value of outstanding bonds sold by the top 30 LCY corporate issuers as a share of total corporate bonds stood at 64%, which was 2 percentage points higher than what was recorded in the previous quarter **(Table 2)**. Korea Housing Finance remained the largest issuer of LCY corporate bonds, followed by Korea Land and Housing.

Of the five relatively large LCY corporate bond issues during 4Q13, two were made by banks (Industrial Bank of Korea and Woori Bank), one by a utility company (Korea Gas), one by a steel company (POSCO), and one by a transport infrastructure company (Korea Rail Network Authority) **(Table 3)**.

Liquidity

The LCY government bond market in the Republic of Korea appeared to be less liquid in 4Q13, as the turnover ratio for government bonds was lower compared with 3Q13 and 4Q12. Moreover, the latter half of 2013 saw relatively low turnover ratios for central government and central bank bonds, as trading of KTBs and MSBs was down during this quarter **(Figure 2)**.

Similarly, liquidity in the KTB futures market tightened in 4Q13, as the total number of 3- and 10-year KTB futures contracts traded fell to 7.5 million from 8.8 million in the previous quarter **(Figure 3)**. Between 3Q13 and 4Q13, the volume of 3-year KTB futures contracts traded as a share of the total fell from 75% to 69%, while the share of the volume of 10-year KTB futures contracts traded climbed from 25% to 31%.

In the LCY corporate bond market, liquidity trends during the second half of 2013 appear to have been mixed; on one hand, the turnover ratios for the outstanding bonds of financial institutions and private sector corporates remained roughly unchanged between 3Q13 and 4Q13, while on the other hand, the turnover ratio for the debt securities of special public companies soared during the last quarter of the year **(Figure 4)**.

Investor Profile

Insurance companies and pension funds—the largest investor group holder of LCY government bonds in the Republic of Korea—and financial institutions (other than banks, local insurers, and pension funds) each registered a 2 percentage point increase in their respective shares of government bond holdings between end-September 2012 and end-September 2013, showcasing their increasing demand for

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

Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
	LCY Bonds (KRW billion)	LCY Bonds (US$ billion)		KOSPI	KOSDAQ	
1. Korea Housing Finance	61,956	59.0	Yes	No	No	Financial
2. Korea Land & Housing	58,663	55.9	Yes	No	No	Real Estate
3. Korea Finance	46,520	44.3	Yes	No	No	Financial
4. Korea Deposit Insurance	45,850	43.7	Yes	No	No	Insurance
5. KDB Daewoo Securities	34,889	33.2	Yes	Yes	No	Securities
6. Industrial Bank of Korea	33,175	31.6	Yes	Yes	No	Bank
7. Korea Investment and Securities	31,945	30.4	No	No	No	Securities
8. Korea Electric Power	30,750	29.3	Yes	Yes	No	Utillity
9. Woori Investment and Securities	30,437	29.0	Yes	Yes	No	Securities
10. Mirae Asset Securities	25,783	24.6	No	Yes	No	Securities
11. Hana Daetoo Securities	24,836	23.7	No	No	No	Securities
12. Shinhan Investment	24,276	23.1	No	No	No	Securities
13. Korea Expressway	20,760	19.8	Yes	No	No	Infrastructure
14. Kookmin Bank	19,325	18.4	No	No	No	Bank
15. Korea Rail Network Authority	17,250	16.4	Yes	No	No	Infrastructure
16. Shinhan Bank	16,064	15.3	No	No	No	Bank
17. Small & Medium Business Corp.	15,365	14.6	Yes	No	No	Financial
18. Tong Yang Securities	14,925	14.2	No	Yes	No	Securities
19. Korea Gas	14,855	14.2	Yes	Yes	No	Utility
20. Woori Bank	14,492	13.8	Yes	No	No	Bank
21. Hyundai Securities	12,963	12.3	No	Yes	No	Securities
22. Hana Bank	12,285	11.7	No	No	No	Bank
23. Standard Chartered First Bank Korea	10,860	10.3	No	No	No	Bank
24. Samsung Securities	10,639	10.1	No	Yes	No	Securities
25. Korea Water Resources	9,951	9.5	Yes	Yes	No	Utility
26. Hyundai Capital Services	9,235	8.8	No	No	No	Financial
27. Korea Railroad	9,200	8.8	Yes	No	No	Infrastructure
28. Shinhan Card	8,861	8.4	No	No	No	Financial
29. Korea Student Aid Foundation	8,820	8.4	Yes	No	No	Financial
30. NongHyup Bank	8,600	8.2	Yes	No	No	Bank
Total Top 30 LCY Corporate Issuers	**683,532**	**651.1**				
Total LCY Corporate Bonds	**1,065,411**	**1,014.9**				
Top 30 as % of Total LCY Corporate Bonds	**64.2%**	**64.2%**				

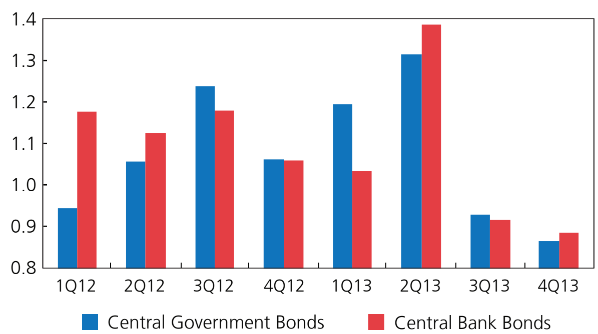
KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-December 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

Table 3: Notable LCY Corporate Bond Issuance in 4Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Industrial Bank of Korea		
10-year bond	3.97	500.0
Korea Gas		
3-year bond	3.14	300.0
Korea Rail Network Authority		
5-year bond	3.54	370.0
POSCO		
5-year bond	3.35	330.0
Woori Bank		
10-year bond	3.89	500.0

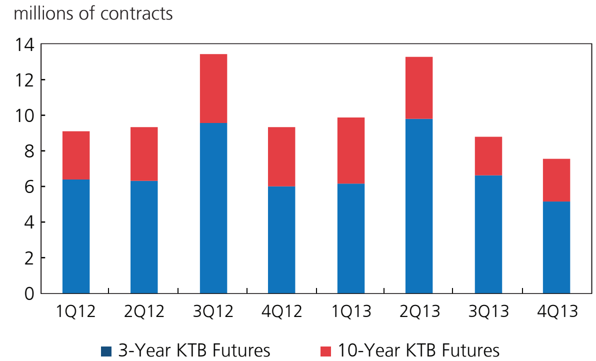
LCY = local currency.
Source: Bloomberg LP.

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



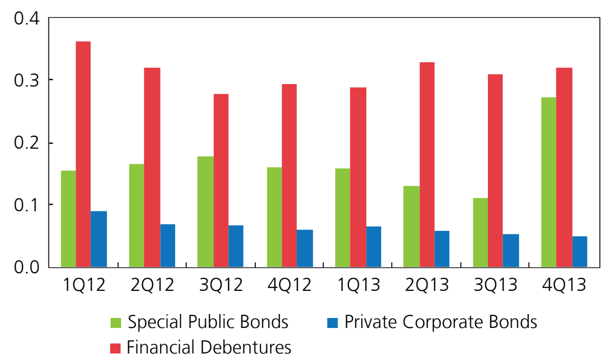
Note: Central government bonds include Korea Treasury Bonds and National Housing Bonds.
Sources: The Bank of Korea and EDAILY *BondWeb*.

Figure 3: Trading Volume of KTB Futures Contracts



KTB = Korea Treasury Bond.
Source: Korea Exchange.

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



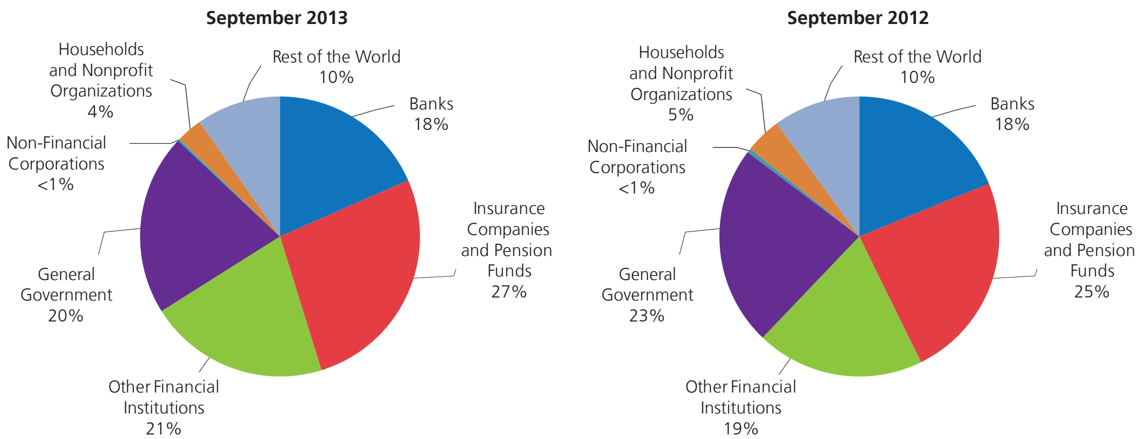
Source: EDAILY *BondWeb*.

government debt securities **(Figure 5)**. In contrast, the shares of government bond holding of households and nonprofit organizations, non-financial corporations, and the general government—comprising the central government, local governments, and social security funds—all posted annual declines, while government bond holding shares remaining the same for banks and foreign investors.

Insurance companies and pension funds remained the largest investor group in the Republic of Korea's LCY corporate bond market at end-September, holding 35% of all corporate bonds, with their share of corporate bond holdings climbing 2 percentage points from September 2012 **(Figure 6)**. Similarly, the share of corporate bond holdings of households and nonprofit organizations rose 2 percentage points on an annual basis at end-September. On the other hand, the share of corporate bonds held by non-financial corporations remained steady, while the shares of corporate bonds held by banks, other financial institutions, and foreign investors all fell between end-September 2012 and end-September 2013.

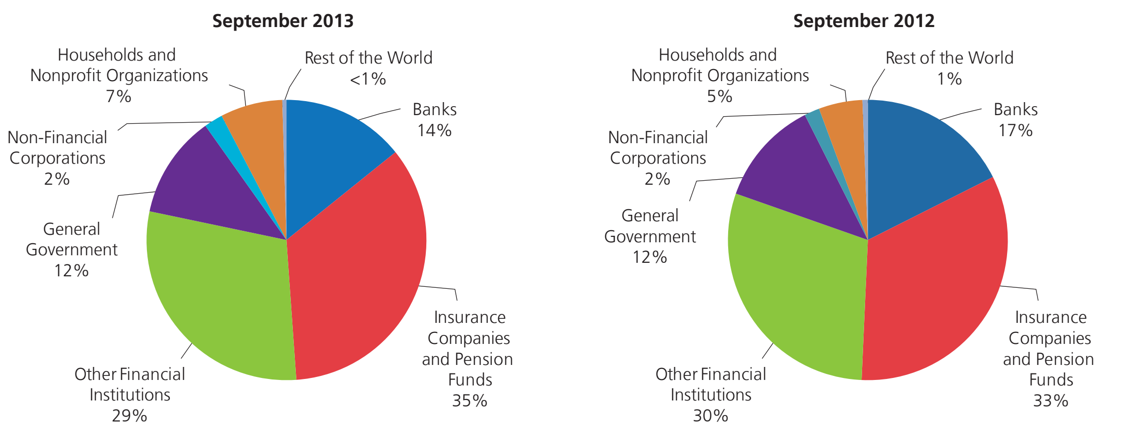
Net foreign investment in the Republic of Korea's LCY bond market turned positive in January after being negative for five consecutive months, according to Financial Supervisory Service (FSS) data **(Figure 7)**. Relatively large bond purchases by foreign investors, compared with bond redemptions, contributed to the net foreign bond inflow position for the month. Meanwhile, foreign investor net investment in the Republic of Korea's bond market in full-year 2013 totaled KRW3.5 trillion, substantially lower than the net bond inflow of KRW7.4 trillion in 2012; the lower 2013 figure stems from the massive net bond

Figure 5: LCY Government Bonds Investor Profile



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

Figure 6: LCY Corporate Bonds Investor Profile



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

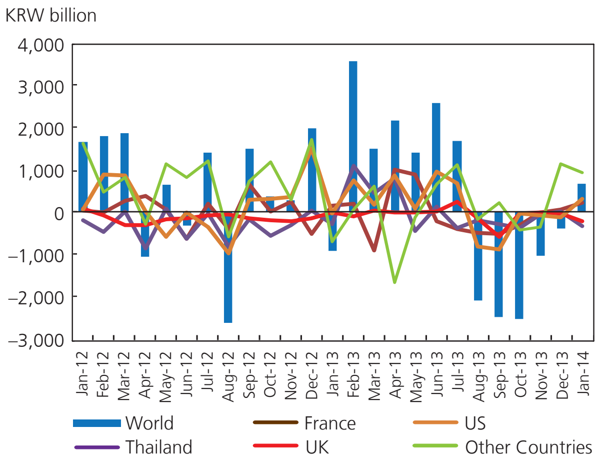
sales during 2H13 amid concerns over potential tapering by the US Federal Reserve of its asset purchase program.

Policy, Institutional, and Regulatory Developments

MOSF Introduces Policy Directions for KTB Market

The Ministry of Strategy and Finance (MOSF) announced in December policy measures for the management and development of the KTB market. MOSF specifically noted the need for smooth fiscal fund-raising through the stable issuance of KTBs. To achieve this, MOSF cited maintaining the monthly KTB issuance volume at KRW8 trillion, optimizing the proportion of KTB issuance by tenor, and making slight adjustments to KTB issuance plans based on market conditions. In addition, MOSF also aims to promote KTBs as a benchmark in capital markets and cited the need for consolidation of data and information on KTBs managed by different institutions, amendments on KTB futures by tenor (e.g., introducing the issuance of longer-term KTB futures), and extensive revision of the relevant act on government bonds.

Figure 7: Net Foreign Investment by Country in LCY Bonds in the Republic of Korea



LCY = local currency, UK = United Kingdom, US = United States.
Source: Financial Supervisory Service (FSS).

MOSF Revises Regulations on KTB Issuance and the Primary Dealer Management System

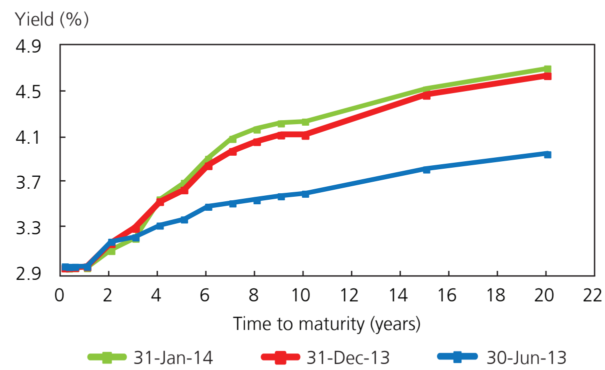
MOSF revised regulations on KTB issuance and the primary dealer management system, effective 1 January. Among the major revisions were the strengthening of the role of primary dealers in holding KTBs; adding the trading performance of primary dealers in "off-the-run" KTBs listed on the Korea Exchange as an evaluation item; reducing the interval in the differential pricing auction for 10-year KTBs from 3 bps to 2 bps; and equal treatment in the evaluation of both conversions and buy-backs, with evaluations to be conducted on a monthly basis instead of a quarterly basis.

Malaysia

Yield Movements

Malaysia's local currency (LCY) government bond yield curve shifted upward between end-June and end-December 2013, with the yields of 3-year maturities and longer rising—as much as 67 basis points (bps) to 4.64% in the case of the 20-year maturity **(Figure 1)**. The higher yields for Malaysian Government Securities (MGS) benchmark paper tracked the sluggish performance of United States (US) Treasuries as market players were increasingly concerned that the US Federal Reserve would begin tapering its monthly bond purchases. Between end-December and end-January, yields were mixed, as tenors of 3 years and less declined, while yields from the 4-year maturity through the end of the curve showed an upward bias, with increases of between 2 bps and 12 bps. Meanwhile, the yield spread between 2- and 10-year maturities widened to 110 bps at end-January from a spread of 92 bps at end-December.

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



LCY = local currency.
Source: Bloomberg LP.

The Malaysian economy improved in recent months, aided by recovery in exports and resilient domestic demand. Real gross domestic product (GDP) growth inched up to 5.1% year-on-year (y-o-y) in 4Q13 from 5.0% in 3Q13. The fourth quarter y-o-y growth rate was the highest in 2013. On the demand side, all five types of expenditure registered positive y-o-y growth in 4Q13: private final consumption expenditure (7.3%), government final consumption expenditure (5.1%), gross fixed capital formation (5.8%), exports of goods and services (2.9%), and imports of goods and services (4.4%). On the production side, except for the mining and quarrying sector, which recorded a 1.5% y-o-y drop in output, all sectors posted positive y-o-y growth: agriculture (0.2%), construction (9.7%), manufacturing (5.1%), and services (6.4%). Also, import duties climbed 3.6% y-o-y. Annual real GDP growth, however, slipped to 4.7% in 2013 from 5.6% in 2012.

Foreign reserves rose by MYR14.5 billion in 2013 to MYR441.7 billion (US$134.9 billion), stemming from a continued surplus in the current account and inflows of foreign direct investment, non-resident portfolio funds, and banking funds. The current account surplus in 4Q13 amounted to MYR16.2 billion, larger than the 3Q13 surplus of MYR9.8 billion due to the merchandise trade surplus, which widened to MYR33.6 billion in 4Q13 from MYR25.8 billion in the previous quarter. In addition, between 3Q13 and 4Q13, the services account's deficit position narrowed from MYR4.3 billion to MYR3.7 billion, the deficit in the primary income account climbed from MYR8.1 billion to MYR9.9 billion, and the deficit in the secondary income account inched up from MYR3.5 billion to MYR3.7 billion. The current account surplus for the full-year 2013 stood at MYR37.3 billion, down from 2012's surplus of MYR57.3 billion.

Consumer price inflation quickened to 3.2% y-o-y in December from 2.9% in the previous month and 1.2% a year earlier due to higher prices for food and transportation. The y-o-y increase in consumer prices exceeded the benchmark overnight policy rate for the first time since November 2011 and was the highest in 2 years. Annual inflation climbed to 2.1% in 2013. On a month-on-month (m-o-m) basis, the consumer price index increased 0.3%.

At its Monetary Policy Committee meeting on 29 January, Bank Negara Malaysia (BNM) decided to maintain its overnight policy rate at 3.0%, which is the same level it has been set at since May 2011. BNM expects inflation to increase largely due to domestic cost factors. The increase in inflation, however, is expected to be tempered by a stable external price environment and moderate domestic demand pressures.

Size and Composition

Total LCY bonds outstanding in Malaysia grew 2.9% quarter-on-quarter (q-o-q) and 2.2% y-o-y to

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,000**	**327**	**993**	**305**	**1,022**	**312**	**2.8**	**19.9**	**2.9**	**2.2**
Government	599	196	584	179	597	182	2.2	20.0	2.4	(0.2)
Central Government Bonds	440	144	468	143	482	147	3.7	12.2	3.1	9.5
of which: *sukuk*	146	48	166	51	175	53	5.8	29.9	5.4	19.9
Central Bank Bills	154	50	107	33	107	33	(3.0)	44.6	(0.5)	(30.8)
of which: *sukuk*	62	20	41	13	40	12	(1.6)	93.4	(2.5)	(35.3)
Sukuk Perumahan Kerajaan	5	1	9	3	9	3	73.1	–	0.0	97.8
Corporate	401	131	410	126	425	130	3.9	19.8	3.7	5.9
of which: *sukuk*	264	86	274	84	286	87	5.0	28.1	4.2	8.2

( ) = negative, – = not applicable, 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.
Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

reach MYR1,022 billion at the end of 4Q13. Growth in the corporate bond market outpaced growth in the government bond sector, climbing 3.7% q-o-q and 5.9% y-o-y **(Table 1).**

Government Bonds. LCY government bonds outstanding stood at MYR597.5 billion at end-December, up 2.4% q-o-q but down 0.2% y-o-y. Central government bonds—comprising MGSs, Government Investment Issues (GIIs) and treasury bills—climbed to a record-high level of MYR481.9 billion. The size of outstanding BNM monetary notes, on the other hand, has shrunk every quarter since December 2012. The shares of conventional government bonds and government *sukuk* (Islamic bonds) remained at 63% and 37%, respectively, of total government bonds outstanding.

Government bond issuance rose 7.3% q-o-q to MYR90.9 billion in 4Q13, reversing a downward trend in place since December 2012, owing to issuance of central bank bills. Of the total issuance, the shares of conventional bonds and *sukuk* were almost equal at 49.6% and 50.4%, respectively.

In 2014, the government's borrowing requirements will be met primarily by re-opening bonds rather than issuing new debt. Malaysia's bond auction calendar shows a total of 32 offerings planned in 2014 versus 29 a year earlier. Compared with 2013, the auction plan for 2014 lacks new issuances, with only seven planned auctions versus 16 in 2013. The seven new issues will be spread over 1H14, which includes four auctions for MGSs, two for *Sukuk Perumahan Kerajaan* (SPK), and one for GIIs. The borrowing program was also skewed toward the belly of the curve (5- to 10-year maturities).

Corporate Bonds. Malaysia's LCY corporate bonds outstanding reached a record-high MYR424.7 billion at end-December, rising 3.7% q-o-q and 5.9% y-o-y. The increase is solely attributable to a spike in medium-term notes (MTNs), which amounted to MYR16.2 billion. The split between corporate *sukuk* and conventional corporate bonds remained constant, with corporate *sukuk* accounting for 67% of total corporate bonds and conventional corporate bonds comprising 33%.

Corporate bond issuance totaled MYR46.6 billion in 4Q13—the largest amount since June 2012 and double the level of issuance in 3Q13. A total of 100 corporate bond offerings, mostly *sukuk*, were issued by 66 corporate borrowers. Conventional bonds accounted for 32% of new corporate bond issues, down from 55% in the previous quarter; *sukuk* represented 68% of the total, up from 45%. **Table 2** lists some notable corporate bonds issued during 4Q13.

The largest corporate LCY issuer in 4Q13 was state-owned Cagamas, with total issuance of MYR7.0 billion, up from MYR1.2 billion in 3Q13. The breakdown of issuance by instrument is as follows: Islamic commercial paper

Table 2: Notable LCY Corporate Bond Issuance in 4Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Cagamas		
3-month Islamic commercial paper	3.30	500
1-year Islamic MTN	3.40	485
3-year Islamic MTN	3.65 to 3.75	585
5-year Islamic MTN	3.95 to 4.05	350
7-year Islamic MTN	4.15 to 4.35	410
10-year Islamic MTN	4.30 to 4.60	650
12-year Islamic MTN	4.55	450
15-year Islamic MTN	4.75	675
20-year Islamic MTN	5.00	675
1-year MTN	3.35	120
3-year MTN	3.55	225
5-year MTN	3.90	300
7-year MTN	4.10	310
10-year MTN	4.30	375
12-year MTN	4.55	410
15-year MTN	4.75	460
BGSM Management		
1-year Islamic MTN	5.65	1,180.45
2-year Islamic MTN	5.75	917.65
3-year Islamic MTN	5.90	1,072.07
4-year Islamic MTN	6.10	1,081.76
5-year Islamic MTN	4.90	373
6-year Islamic MTN	6.60	738.88
7-year Islamic MTN	5.25	373
9-year Islamic MTN	7.10	760.24
10-year Islamic MTN	5.60	373
3-year MTN	3.75	15
Malakoff Power		
1-year Islamic MTN	4.10	500
2-year Islamic MTN	4.30	440
3-year Islamic MTN	4.50	100
5-year Islamic MTN	4.90	330
6-year Islamic MTN	5.05	670
7-year Islamic MTN	5.15	410
8-year Islamic MTN	5.25	500
9-year Islamic MTN	5.35	340
10-year Islamic MTN	5.45	320
11-year Islamic MTN	5.55	190
12-year Islamic MTN	5.65	140
13-year Islamic MTN	5.75	90
14-year Islamic MTN	5.85	90
15-year Islamic MTN	5.95	270
16-year Islamic MTN	6.05	370
17-year Islamic MTN	6.15	320
18-year Islamic MTN	6.25	300
10-year Subordinated MTN	4.80	1,000

LCY = local currency, MTN = medium-term note.
Source: Bank Negara Malaysia Bond Info Hub.

(MYR500 million), conventional MTNs (MYR2.2 billion), and Islamic MTNs (MYR4.28 billion). On 28 October, Cagamas issued the single largest *Sukuk* Commodity *Murabahah* issuance in Malaysia amounting to MYR3.8 billion. The tenors ranged from 1 year to 20 years at profit rates of between 3.4% and 5.0%. The proceeds from the issuance will be used to tap Islamic financing. Cagamas was assigned LCY and foreign currency (FCY) long-term issuer ratings of A3 with a stable outlook by Moody's. Meanwhile, Cagamas MTNs were rated AAA by both Malaysian Rating Corp. (MARC) and RAM Ratings, and the Islamic MTNs received ratings of AAA-ID and AAA, respectively.

BGSM Management sold 1- to 10-year Islamic MTNs amounting to MYR6.9 billion with profit rates ranging from 4.9% to 7.1%. The proceeds will be used to refinance outstanding *sukuk*, US$-denominated loans, and bridging loans of BGSM. BGSM Management is an investment-holding company set up to facilitate the debt restructuring of BGSM. It owns an indirect 65% stake in Maxis Berhad (Maxis)—one of the major Malaysian mobile phone operators that offers voice and broadband services through its wireless and fixed telephony networks. The new issues were rated AA3 by RAM Ratings.

Malakoff Power issued 17 tranches of Islamic MTNs with tenures ranging between 1 year and 18 years, and profit rates between 4.1% and 6.25%. The total issuance size was RM5.38 billion, with the 5-year tenor comprising the largest tranche at MYR670 million. Malakoff Power is a wholly owned unit of Malakoff Corporation, the country's largest independent power producer with generating capacity of 5,020 megawatts. Malakoff Power was incorporated for the purpose of facilitating Malakoff Group's corporate restructuring. It will acquire the power plant operation and maintenance business of Malakoff and loan stocks in four independent power producers in which Malakoff has ownership interests. The notes were rated AA-IS by MARC with a stable outlook.

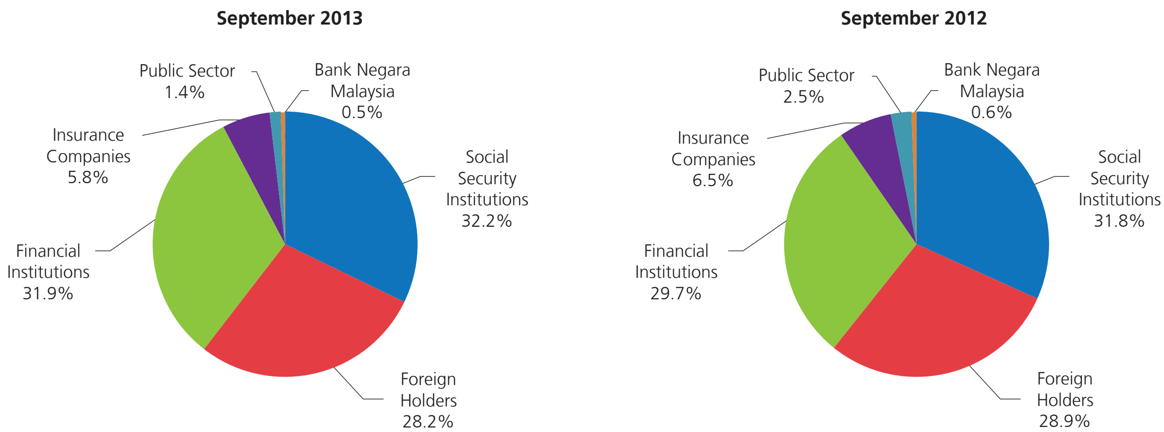
At end-December, the outstanding bonds of the top 30 corporate bond issuers in Malaysia amounted to MYR232.9 billion, accounting for 54.8% of the LCY corporate bond market **(Table 3)**. Project Lebuhraya remained the largest issuer of LCY corporate bonds with MYR30.6 billion outstanding, followed by Cagamas and Khazanah Nasional, with outstanding amounts of MYR24.7 billion and MYR18.7 billion, respectively.

Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (MYR billion)	LCY Bonds (US$ billion)			
1. Project Lebuhraya Usahasama	30.60	9.34	No	Yes	Transport, Storage, and Communications
2. Cagamas	24.69	7.54	Yes	No	Finance
3. Khazanah	18.70	5.71	Yes	No	Quasi-Government
4. Prasarana	11.91	3.64	Yes	No	Transport, Storage, and Communications
5. Pengurusan Air	11.63	3.55	Yes	No	Energy, Gas, and Water
6. Maybank	9.70	2.96	No	Yes	Finance
7. CIMB Bank	8.05	2.46	No	No	Finance
8. Public Bank	7.02	2.14	Yes	No	Finance
9. BGSM Management	6.87	2.10	No	No	Transport, Storage, and Communications
10. Danainfra Nasional	6.50	1.98	Yes	No	Finance
11. Cagamas MBS	6.03	1.84	Yes	No	Finance
12. Perbadanan Tabung Pendidikan Tinggi Nasional	6.00	1.83	Yes	No	Quasi-Government
13. Malakoff Power	5.58	1.70	No	No	Energy, Gas, and Water
14. Senai Desaru Expressway	5.56	1.70	No	No	Construction
15. Sarawak Energy	5.50	1.68	Yes	No	Energy, Gas, and Water
16. Turus Pesawat	5.31	1.62	Yes	No	Quasi-Government
17. Putrajaya Holdings	5.26	1.61	No	No	Property and Real Estate
18. Aman *Sukuk*	5.03	1.54	Yes	No	Construction
19. AM Bank	5.01	1.53	No	No	Finance
20. Celcom Transmission	5.00	1.53	No	No	Transport, Storage, and Communications
21. 1Malaysia Development	5.00	1.53	Yes	No	Quasi-Government
22. Hong Leong Bank	4.86	1.48	No	Yes	Finance
23. KL International Airport	4.86	1.48	Yes	No	Transport, Storage, and Communications
24. Manjung Island Energy	4.85	1.48	No	No	Energy, Gas, and Water
25. RHB Bank	4.60	1.40	No	No	Finance
26. Tanjung Bin Power	4.05	1.23	No	Yes	Energy, Gas, and Water
27. Jimah Energy Ventures	3.88	1.18	No	No	Energy, Gas, and Water
28. YTL Power International	3.77	1.15	No	Yes	Energy, Gas, and Water
29. Danga Capital	3.60	1.10	No	No	Finance
30. Cekap Mentari	3.50	1.07	Yes	No	Finance
Total Top 30 LCY Corporate Issuers	**232.91**	**71.10**			
Total LCY Corporate Bonds	**424.70**	**129.65**			
Top 30 as % of Total LCY Corporate Bonds	**54.8%**	**54.8%**			

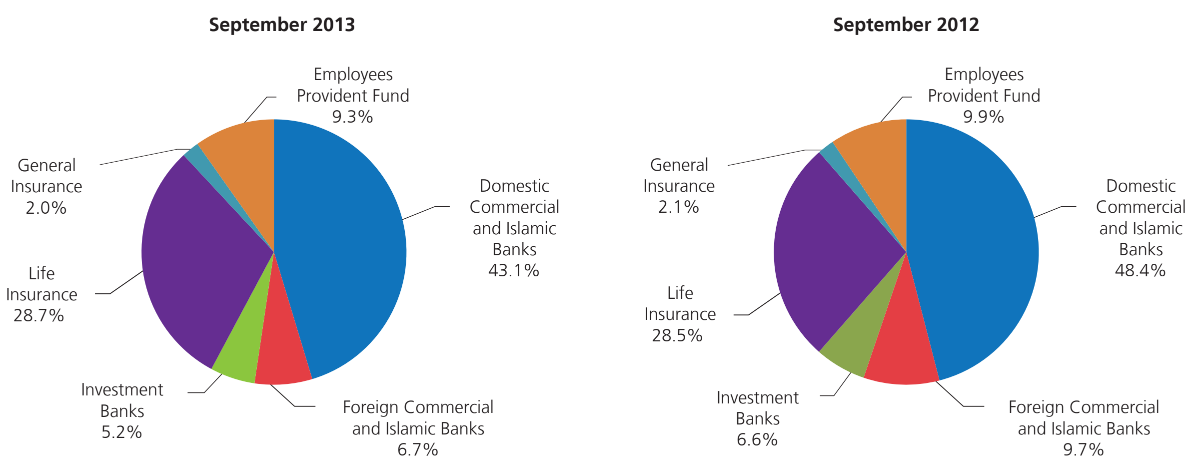
LCY = local currency.
Notes:
1. Data as of end-December 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank Negara Malaysia.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.
Note: Employees Provident Fund as of end-2012.
Source: Bank Negara Malaysia.

Investor Profile

Social security institutions remain the dominant holders of MGSs and GIIs. Their holdings climbed to 32.2% of total government bonds outstanding at end-September **(Figure 2)** from 31.8% on the back of increased investments in GIIs by the Employees Provident Fund.

Holdings of financial institutions rose to 31.9% from 29.7% last year, driven by increased bank holdings of GIIs, while the share of foreign investors remained largely unchanged at 28.2% versus 28.9% a year earlier. In contrast, holdings of insurance companies dropped to 5.8% from 6.5%, as these institutions reduced their holdings of MGSs.

Domestic and foreign banks (commercial and Islamic) were the largest investor group in LCY corporate bonds at end-September with shares of 43.1% and 6.7%, respectively **(Figure 3)**. Compared with September 2012, the shares in corporate bonds dropped 5 percentage points for domestic banks and 3 percentage points for foreign banks. Investment banks also trimmed their position to 5.2% of total corporate bonds from 6.6% a year earlier, while insurance companies maintained their share of nearly 29% at end-September. In absolute terms, holdings of life insurance companies in corporate bonds rose MYR7.5 billion to MYR118.0 billion, which is more than double their MYR57 billion in holdings 6 years ago.

Rating Changes

Moody's Revises Outlook to Positive from Stable, Affirms A3 rating

On 20 November, Moody's revised Malaysia's outlook to positive from stable and affirmed its government bond and issuer ratings at A3. The change in the outlook was based on (i) improved prospects for fiscal consolidation and reform and (ii) continued macroeconomic stability in the face of external headwinds. Moody's noted that Malaysia's sovereign rating is supported by the government's favorable debt structure, depth of onshore capital markets, and high level of domestic savings. The rating agency further noted that Malaysia's economic resilience has been accompanied by price stability, which is anchored by the credibility of its central bank, BNM.

Policy, Institutional, and Regulatory Developments

Hong Kong, China and Malaysia Hold Joint Forum on Islamic Finance

On 3 December, the Hong Kong Monetary Authority (HKMA) and BNM facilitated a forum on Islamic finance, with participants from eight commercial banks and three fund management companies. The Financial Services and the Treasury Bureau of Hong Kong, China; the Securities and Futures Commission of Malaysia; and the Hong Kong Exchanges and Clearing Limited also joined the meeting.

The forum reviewed the current developments of Islamic finance globally and in both jurisdictions, and discussed measures to further the development of Hong Kong, China's Islamic financial market, particularly the *sukuk* market and the Islamic fund management industry.

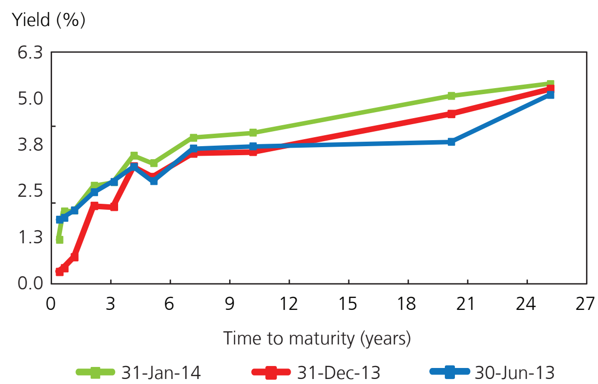
The participants agreed to (i) identify potential *sukuk* issuers, particularly corporates, and encourage cross-border *sukuk* issuances between Hong Kong, China and Malaysia; and (ii) actively consider launching Islamic funds and making use of the established mutual recognition framework for Islamic funds between Hong Kong, China and Malaysia to facilitate cross-border Islamic financial activities.

Philippines

Yield Movements

Between end-June and end-December 2013, yields fell for most Philippine local currency (LCY) bonds, particularly for those with tenors of 3 years and less **(Figure 1)**. Yields for tenors of 1 year and less plunged between 128 basis points (bps) and 143 bps, while yields for 2- and 3-year bonds fell 38 bps and 68 bps, respectively. The fall in the yields was a result of a correction after the market sell-off in May, due to speculation that the United States (US) Federal Reserve would begin tapering its quantitative easing (QE) program, and market buying on the short-end of the curve due to uncertainties over the Federal Reserve's tapering. Moreover, the continued benign inflation of the country and Moody's upgrade of the Philippines to investment grade on 3 October provided good news for the market. Meanwhile, yields on 20- and 25-year bonds rose 76 bps and 16 bps, respectively.

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



LCY = local currency.
Source: Bloomberg LP.

Between end-December and end-January, yields rose for all tenors. Yields for tenors of 1 year and less rose between 88 bps and 155 bps, while yields for bonds with tenors of between 2 and 20 years rose between 30 bps and 68 bps. The rise in yields was mainly due to market concerns as the US Federal Reserve continued to taper its QE program, reducing monthly bond-buying from US$85 billion to US$75 billion in January and announcing a further reduction to US$65 billion starting in February. Moreover, market players are pushing yields higher to maintain the interest rate differential with US Treasury yields as the latter have been rising. Auctions for Treasury bills and 3-year paper in January were met with relatively low demand. The Bureau of the Treasury (BTr) rejected bids for 6-month paper and accepted lower bids for the other tenors as market players posted higher yields. In addition, there are inflation concerns mostly due to the effects of Typhoon Haiyan and other upside risks.

Inflation for January increased to 4.2% year-on-year (y-o-y) from 4.1% in December 2013. Although the average inflation rate for full-year 2013 of 3.0% was still within the Bangko Sentral ng Pilipinas' (BSP) target range of 3%–5%, upside risks to inflation remain in 2014. These include (i) food inflation due to supply concerns as a result of weather-related production disruptions; (ii) higher electricity rates due to power supply concerns and the pending petition by electricity distributor Meralco for a rate hike; and (iii) continued peso depreciation, with the currency falling 8.3% in 2013 and 2.0% year-to-date as of end-January 2014, due to concerns generated by the US Federal Reserve's tapering of its QE program. Thus, speculation of possible monetary tightening by the BSP has also added to uncertainties in the market.

The Philippine economy grew 6.5% y-o-y in 4Q13, following revised 6.9% y-o-y growth in 3Q13. The decline in growth was primarily due to effects of Typhoon Haiyan. Despite this, growth continues to be supported by the strong performance of the services sector, which expanded 6.5% y-o-y in 4Q13. Meanwhile, growth in the manufacturing sector accelerated to 12.3%. For the full-year 2013, real GDP grew 7.2%.

Size and Composition

The Philippine LCY bond market grew at a robust annual rate of 10.2% in 2013, led by both Treasury bills and bonds **(Table 1)**. Total LCY bonds reached PHP4,481 billion (US$101 billion) at end-November, up 4.0% from end-September's level of PHP4,307 billion. Government securities accounted for the majority of bonds outstanding, totaling PHP3,889 billion, while corporate bonds summed to PHP591.5 billion.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies rose 3.4% quarter-on-

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

	Outstanding Amount (billion)						Growth Rate (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,064**	**99**	**4,307**	**99**	**4,481**	**101**	**6.9**	**19.9**	**4.0**	**10.2**
Government	3,538	86	3,763	87	3,889	88	7.7	19.8	3.4	9.9
Treasury Bills	275	7	310	7	333	7	5.0	(6.8)	7.3	21.0
Treasury Bonds	3,150	77	3,339	77	3,440	77	8.6	23.7	3.0	9.2
Others	113	3	113	3	116	3	(8.8)	2.3	2.6	2.6
Corporate	526	13	544	13	592	13	2.3	20.7	8.7	12.4

( ) = negative, LCY = local currency, 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. Data for government bonds as of end-November 2013.
5. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management (PSALM) and the National Food Authority, among others.
6. Peso Global Bonds (PHP-denominated bonds payable in US dollars) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-November 2013, the Government of the Philippines and Petron had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively. There was a total of PHP9.0 billion of outstanding multi-currency Treasury bonds at end-November 2013.
Sources: Bureau of the Treasury and Bloomberg LP.

quarter (q-o-q) and 9.9% y-o-y to close at PHP3,889 billion at end-November. Treasury bills expanded 7.3% q-o-q and 21.0% y-o-y to stand at PHP332.6 billion at end-November, as demand for shorter tenors was high due to uncertainties in the market. Treasury bonds increased 3.0% q-o-q and 9.2% y-o-y to PHP3,440 billion. Meanwhile, fixed-income instruments issued by government-controlled companies registered an increase of 2.6% y-o-y to PHP116.5 billion at the end of 4Q13.

In terms of issuance, 4Q13 saw less volume, PHP127.9 billion compared with PHP340.0 billion in 3Q13, due to the government's comfortable cash position after the issuance of PHP150 billion worth of 10-year Retail Treasury Bonds (RTBs) in August.

The government has programmed LCY borrowing of PHP135 billion through its regular auction schedule in 1Q14: PHP60 billion of Treasury bills with 91-, 182-, and 364-day tenors; and PHP75 billion of Treasury bonds with 3-, 5-, and 7-years tenors.

Corporate Bonds. As of end-December, total outstanding LCY corporate bonds grew 8.7% q-o-q and 12.4% y-o-y to reach PHP591.5 billion. The market saw a lot of corporate bond issuances in 4Q13, a total of PHP77.4 billion compared to PHP19.5 billion, PHP14.0 billion, and PHP32.0 billion in the first 3 quarters of the year, respectively. Local firms took advantage of relatively low interest rates before the end of the year, in anticipation of higher rates in 2014 as a result of the Federal Reserve tapering its QE program and rising inflation concerns.

Twelve companies issued bonds, long-term negotiable certificates of deposits (LTNCDs) , and Tier 2 notes in 4Q13. Meralco was the largest issuer in 4Q13 raising PHP18.5 billion worth of bonds **(Table 2)**, Development Bank of the Philippines was second with PHP10.0 billion of Tier 2 notes, and Aboitiz Equitiz Ventures was third with PHP8.0 billion of corporate bonds.

Only 52 companies are actively tapping the bond market in the Philippines. The top 33 issuers accounted for 93.4% of the total amount of LCY corporate bonds outstanding at end-December **(Table 3)**. Out of the top 33 bond issuers, only seven companies were privately held corporations and the rest were publicly listed with the Philippine Stock Exchange (PSE). Ayala Land was the largest corporate issuer in the country with PHP49.9 billion of outstanding debt at end-December. San Miguel Brewery was the next largest borrower with PHP45.2 billion outstanding. Ayala Corporation was in the third spot with PHP40 billion of outstanding bonds.

The diversity of LCY corporate bond issuers in 4Q13 was comparable with that in 3Q13 **(Figure 2)**. Banks and financial services, including investment houses, remained the leading issuer of debt in 4Q13 with 25.5% of the total as BSP moved toward more stringent liquidity and capital requirements. The market share of most industries

Table 2: Notable LCY Corporate Bond Issuance in 4Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Meralco		
7-year bond	4.38	11.50
12-year bond	4.88	7.00
Development Bank of the Philippines		
10-year Tier 2 Notes	4.88	10.00
Aboitiz Equity Ventures		
7-year bond	4.41	6.20
10-year bond	4.62	1.80
Filinvest Land		
7-year bond	4.86	4.30
10-year bond	5.43	2.70
Ayala Land		
7-year bond	4.63	4.00
20-year bond	6.00	2.00
BDO Unibank		
5.5-year LTNCD	3.13	5.00
Land Bank of the Philippines		
5.5-year LTNCD	3.13	5.00
RCBC		
5.5-year LTNCD	3.25	2.86
5.5-year LTNCD	0.00	2.14
Philippine National Bank		
5.5-year LTNCD	3.25	4.00
Asia United Bank		
5.25-year LTNCD	3.50	0.90

LCY = local currency, LTNCD = long-term negotiable certificate of deposit.
Source: Bloomberg LP.

remained unchanged, except for real estate, which increased to 19.5% from 17.9%. Firms from industries as diverse as electricity generation and distribution, telecommunications, and thoroughfares and tollways continued to have shares of total corporate bonds outstanding in the single-digit levels.

As the sole fixed-income exchange in the country, PDEx captures the secondary trading of listed fixed-income issues. The volume of secondary trading of government securities surged between 2005 and 2013 **(Figure 3)**. From an annual trading volume of PHP437.7 billion in 2005, trading volume increased to PHP5,692.0 billion in 2013.

Total trading volume in 2013 increased 12.9% y-o-y to PHP5,692 billion from PHP5,042 billion in 2012. Between 2005 and 2013, treasury bonds accounted for the highest share in the total trading volume. However, its share also declined from 81.6% in 2005 to 59.8% in 2013. Meanwhile, the share of RTBs increased from 5.5% in 2005 to 37.2% in 2013. This reflects the market's interest in longer-tenored government securities, particularly the 20- and 25-year maturities, which are mostly RTBs.

Foreign Currency Denominated Bonds. In January, the Philippines raised US$1.5 billion from the sale of 10-year US$-denominated global bonds. The bonds carry a coupon of 4.2%. The bond issuance occurred concurrently with a 1-day tender offer for 11 series of US$-denominated bonds maturing between 2015 and 2025. This was its first dollar bond issuance since January 2012, and is the first to achieve an international investment-grade rating—Baa3 from Moody's, BBB– from Standard & Poor's, and BBB– from Fitch Ratings.

Investor Profile

The largest grouping of investors in government securities in 4Q13 comprised banks and financial institutions with 31.6% of the total **(Figure 4)**. This was up slightly from a share of 30.9% in 4Q12. Contractual savings institutions—including the Social Security System (SSS), 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 24.4% of the total in 4Q13, down from 25.4% in 4Q12. The share of funds being managed by BTr, which includes the Bond Sinking Fund, also fell to 18.9% in 4Q13 from 20.8% in 4Q12. The participation of custodians slightly decreased to 13.2% from 13.4% in the same period in 2012. The share of other government entities and other investors, which include individuals and private corporations, increased to 11.8% in 4Q13 from 9.5% in 4Q12.

Policy, Institutional, and Regulatory Developments

BSP Issues Circular on Amendments to Regulations on FX Transactions

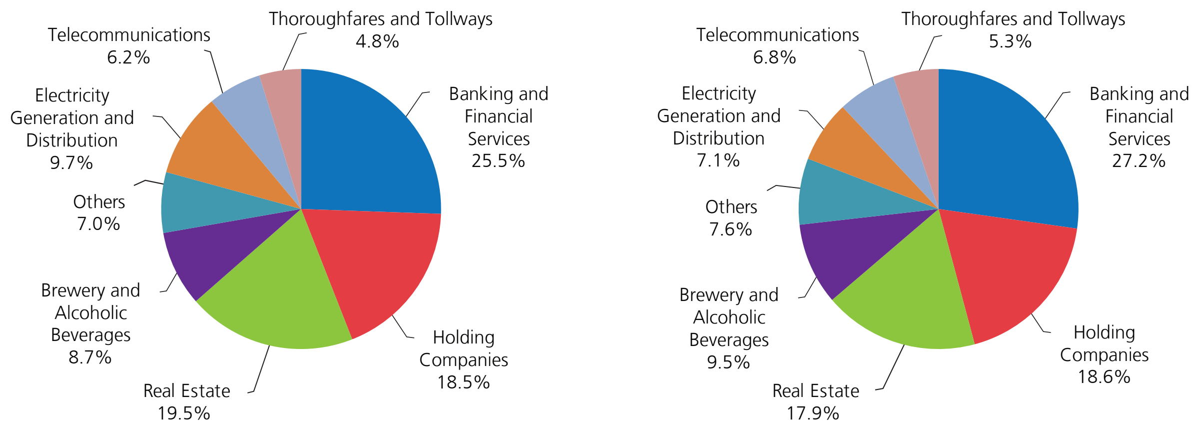
On 7 November, the BSP released the implementing circular on the amendments to the manual regulations on foreign exchange (FX) transactions. This included (i) allowing prepayment of BSP-registered short-term loans subject to required documents, (ii) waiver of the submission of documents to support reports on importations under documents against acceptance and open account arrangements, and (iii) clarification of the prescriptive

Table 3: Top 33 Issuers of LCY Corporate Bonds in the Philippines

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (PHP billion)	LCY Bonds (US$ billion)			
1. Ayala Land	49.9	1.1	No	Yes	Real Estate
2. San Miguel Brewery	45.2	1.0	No	Yes	Brewery
3. Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4. Meralco	37.9	0.9	No	Yes	Electricity Distribution
5. SM Investments	36.1	0.8	No	Yes	Diversified Operations
6. Philippine National Bank	30.9	0.7	No	Yes	Banking
7. BDO Unibank	23.0	0.5	No	Yes	Banking
8. Filinvest Land	21.5	0.5	No	Yes	Real Estate
9. Energy Development Corporation	19.0	0.4	No	Yes	Electricity Generation
10. RCBC	19.0	0.4	No	Yes	Banking
11. Philippine Long Distance Telephone	17.2	0.4	No	Yes	Telecommunications
12. Globe Telecom	17.0	0.4	No	Yes	Telecommunications
13. Maynilad Water Services	16.6	0.4	No	No	Water
14. SM Development	14.3	0.3	No	Yes	Real Estate
15. Petron	13.6	0.3	No	Yes	Oil Refining and Marketing
16. Security Bank	13.0	0.3	No	Yes	Banking
17. First Metro Investment	12.0	0.3	No	No	Investment Banking
18. MTD Manila Expressway	11.5	0.3	No	No	Transport Services
19. South Luzon Tollway	11.0	0.2	No	No	Transport Services
20. GT Capital Holdings	10.0	0.2	No	Yes	Investment Companies
21. Robinsons Land	10.0	0.2	No	Yes	Real Estate
22. Metrobank	10.0	0.2	No	Yes	Banking
23. United Coconut Planters Bank	9.5	0.2	No	No	Banking
24. JG Summit Holdings	9.0	0.2	No	Yes	Diversified Operations
25. Allied Banking	8.0	0.2	No	Yes	Banking
26. Aboitiz Equity Ventures	8.0	0.2	No	Yes	Diversified Operations
27. Union Bank of the Philippines	6.8	0.2	No	Yes	Banking
28. Megaworld	6.4	0.1	No	Yes	Real Estate
29. Manila North Tollways	6.1	0.1	No	No	Transport Services
30. Tanduay Distilleries	5.0	0.1	No	No	Alcoholic Beverages
31. SM Prime Holdings	5.0	0.1	No	Yes	Real Estate
32. Rockwell Land	5.0	0.1	No	Yes	Real Estate
33. Bank of the Philippine Islands	5.0	0.1	No	Yes	Banking
Total Top 33 LCY Corporate Issuers	**552.4**	**12.4**			
Total LCY Corporate Bonds	**591.5**	**13.3**			
Top 33 as % of Total LCY Corporate Bonds	**93.4%**	**93.4%**			

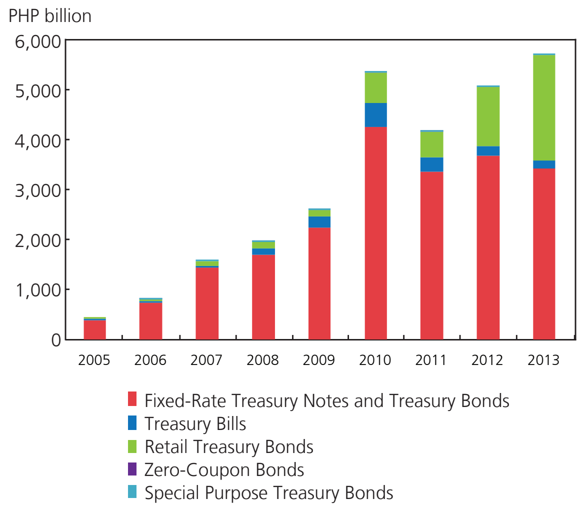
LCY = local currency.
Notes:
1. Data as of end-December 2013.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that are not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations 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).

period for filing requests for BSP registration of foreign direct investment and rules on currency swaps.

BSP Liberalizes Rules on the Issuance of LTNCTDs

On 23 December, the Monetary Board of BSP issued new guidelines liberalizing the issuance of Long-Term Negotiable Certificates of Time Deposits (LTNCTDs). This included lifting the PHP5 billion issue size cap for LTNCTD offerings by banks. With this are also refinements of the rules to promote issuer accountability. These include raising the reserve requirement from 3% to 6% of outstanding LTNCTDs, and listing the instruments on an accredited exchange platform.

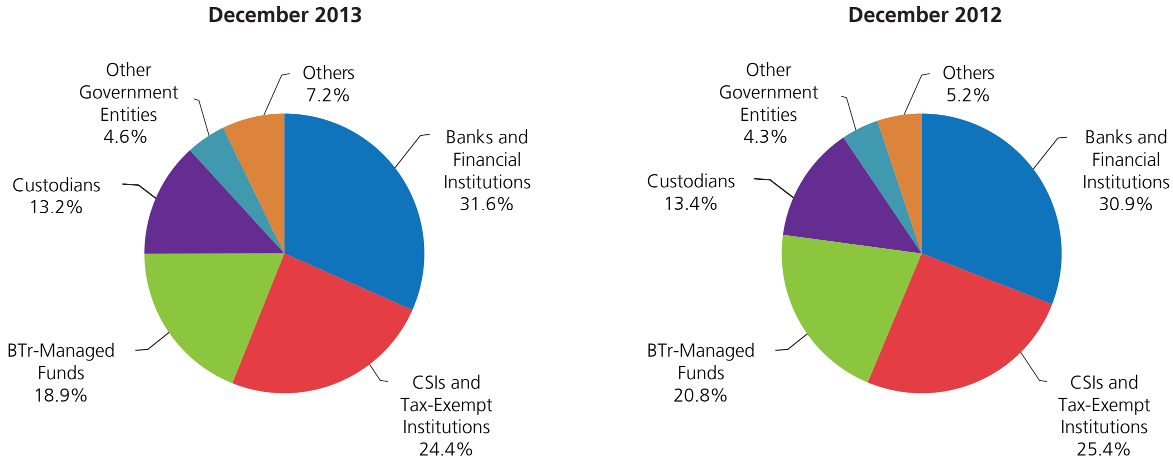
BSP, DOF, IC, PDIC, and SEC Create Financial Stability Coordination Council

On 29 January, BSP, the Department of Finance (DOF), Insurance Commission (IC), Philippine Deposit Insurance Corporation (PDIC), and Securities and Exchange Commission (SEC) signed a memorandum of agreement to formally create the Financial Stability Coordination Council. Its key roles will include identifying, managing, and mitigating the build-up of systemic risks, with the objective of securing financial stability in the Philippines.

BSP Maintains Policy Rates

On 6 February, the Monetary Board of BSP decided to keep its key policy rates—the overnight borrowing and lending rates—steady at 3.50% and 5.50%, respectively. The reserve requirement ratios and the interest rate for BSP's Special Deposit Account facility were also kept steady. Despite the slight increase in inflation due to an increase in food prices as a result of weather-related production

Figure 4: LCY Government Bonds Investor Profile



BTr = Bureau of the Treasury, CSIs = contractual savings institutions, LCY = local currency.
Source: Bloomberg LP.

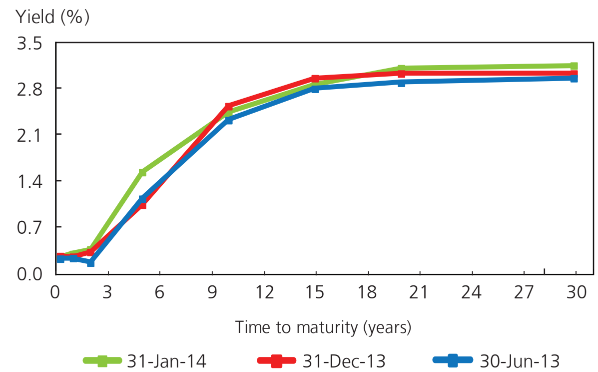
disruptions, BSP cited that the future inflation path continues to be broadly in line with BSP's target ranges of 3.0%–5.0% for 2014 and 2.0%–4.0% for 2015. The Monetary Board noted certain upside risks to inflation, including the pending petitions for adjustments of utility rates and a possible uptick in food prices. BSP also noted that while global economic conditions have become more challenging due to recent US monetary policy adjustments and concerns over growth sustainability in emerging markets, expectations for domestic activity remain firm.

Singapore

Yield Movements

Between end-December and end-January, the yield curve for Singapore's local currency (LCY) government bonds rose for all tenors except the 3-month, and 10- and 15-year, which fell between 1 and 10 basis points (bps) during this period **(Figure 1)**. Yields rose the most for the 5-year Singapore Government Security (SGS), gaining 49 bps. The yield spread between 2- and 10-year tenors narrowed to 205 bps at end-January from 219 bps at end-December. In 2H13, Singapore's government bond yield curve showed a rising trend at the longer-end of the curve. As Singaporean financial markets are highly correlated with United States (US) financial markets, and given the commencement in January of the tapering of the US Federal Reserve's quantitative easing (QE) measures, there might be increasing upward pressure on SGS yields, especially for longer tenors.

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



LCY = local currency.
Source: Bloomberg LP.

According to the Ministry of Trade and Industry (MTI), Singapore's real gross domestic product (GDP) expanded 5.5% year-on-year (y-o-y) in 4Q13, down from 3Q13's revised growth of 5.8%. By sector, the manufacturing industry posted 7.0% y-o-y growth in 4Q13 compared with 5.3% in 3Q13, the construction sector's growth slipped to 4.8% in 4Q13 from 6.6% in 3Q13, and the services producing industries recorded slower growth of 5.9% in 4Q13 compared with 6.3% in 3Q13. Meanwhile, on a quarter-on-quarter (q-o-q) and seasonally adjusted annualized basis, the Singaporean economy grew 6.1% in 4Q13, a substantial increase from the revised economic growth of 0.3% in the previous quarter. MTI announced in February that it was maintaining Singapore's growth forecast for 2014 at 2.0%–4.0%.

Meanwhile, Singapore's consumer price inflation eased to 1.5% y-o-y in December from 2.6% in November. The slower inflation was due mainly to lower private road transport costs, which declined 2.8% in December due to Certificate of Entitlement premiums. Accommodation costs increased 2.9%, compared with a 3.3% hike in the previous month, and food inflation rose to 2.7% from 2.6% amid slightly faster increases in the prices of non-cooked food items. Consumer price inflation averaged 2.4% in 2013, down significantly from 4.6% in 2012. On a m-o-m basis, consumer price inflation slowed to 0.3% in December from 0.7% in November.

Size and Composition

The total outstanding size of Singapore's LCY bond market rose 1.4% q-o-q and 8.3% y-o-y to SGD305 billion (US$242 billion) at end-December, led by growth in both the government and corporate bond markets **(Table 1)**. Growth in the government bond sector was mainly due to the substantial increase in the stock of Monetary Authority of Singapore (MAS) bills, which were first issued in April 2011 as part of MAS money market operations.

Government Bonds. LCY government bonds outstanding reached SGD189 billion at end-December, representing a 1.1% q-o-q and 9.3% y-o-y increase, led by 8.8% q-o-q and 111.9% y-o-y growth in MAS bills outstanding, which reached SGD64 billion at end-December. MAS bills are negotiable instruments used to help Singaporean banks better manage their liquidity and to increase the availability of high-quality liquid assets. To withdraw liquidity from the financial market, MAS conducts net issuance of MAS bills; to inject liquidity, MAS pursues the net redemption of MAS bills. Banks in need of liquidity can sell or pledge MAS bills as collateral in the interbank repurchase (repo) market.

The large increase in MAS bills outstanding is not only a result of MAS open market operations to withdraw liquidity, but also because MAS ceased to issue the 3-month SGS bill effective 12 June 2013, instead replacing it with

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

	Outstanding Amount (billion)						Growth Rate (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**282**	**231**	**301**	**240**	**305**	**242**	**2.2**	**14.1**	**1.4**	**8.3**
Government	173	142	187	149	189	150	1.2	12.6	1.1	9.3
SGS Bills and Bonds	143	117	128	102	125	99	(0.9)	3.0	(2.4)	(12.5)
MAS Bills	30	25	59	47	64	51	12.6	102.0	8.8	111.9
Corporate	109	89	114	91	116	92	3.9	16.4	1.9	6.7

( ) = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, SGS = Singapore Government Securities, y-o-y = year-on-year.
Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.
2. SGS bills and bonds do not include the special issue of SGS held by the Singapore Central Provident Fund (CPF).
3. Bloomberg LP end-of-period LCY–US$ rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

the 12-week MAS bill. MAS also introduced the 6-month MAS bill in January to replace the 6-month SGS bill after its last issuance on 27 December 2013. The 6-month MAS bill will be issued fortnightly.

The 4Q13 stock of SGS bills and bonds has contracted for the past 3 quarters, falling to SGD125 billion at end-December, due to the net redemption of SGS bills partly driven by the replacement of 3-month SGS bills with 12-week MAS bills.

Corporate Bonds. LCY corporate bonds outstanding continued to expand steadily in 4Q13, reaching SGD116 billion at end-December based on *AsianBondsOnline* estimates, representing a 1.9% q-o-q and 6.7% y-o-y increase. Singapore Statutory Boards—comprising government agencies such as the Housing and Development Board (HDB) and Land Transport Authority—and the financial sector continue to dominate the corporate bond market in terms of bonds outstanding.

The amount of LCY bonds outstanding of the top 30 corporate bond issuers in Singapore at end-2013 reached SGD63.8 billion, or about half of the total corporate bond market **(Table 2)**. Singapore's HDB retained its ranking as the top corporate issuer with bonds outstanding of SGD17.6 billion at end-December, up from SGD16.1 billion at end-September. United Overseas Bank climbed from the fourth- to second-ranked corporate issuer between end-September and end-December with bonds outstanding of SGD4.6 billion due to the bank's November issue of subordinated bonds worth SGD500 million in anticipation of the new Basel III regulatory capital requirements. CapitaLand was ranked the third-largest corporate issuer with bonds outstanding of SGD4.5 billion. The rest of the top 30 issuers more or less sustained their previous rankings from 3Q13.

A total of 19 bonds were issued by 18 corporates amounting to SGD5.1 billion in 4Q13, up from SGD4.2 billion in 3Q13. **Table 3** lists some notable corporate bond issuances in 4Q13. Similar to the previous quarter, perpetual bonds were issued by DBS Group and United Overseas Bank carrying coupon rates of 4.70% and 4.75%, respectively. These two issues reflected the banks' anticipation of a transition to the new Basel III regulatory capital rules under which the existing preferred shares will no longer fully qualify as Tier 1 capital. The rest of the issuances were dominated by real estate companies, with maturities between 1 year and 10.5 years, and coupon rates between 1.5% and 8.5%.

Policy, Institutional, and Regulatory Developments

HKEx and SGX Cooperate on RMB Internationalization

On 4 December 2013, Hong Kong Exchanges and Clearing Limited (HKEx) and SGX signed a Memorandum of Understanding (MOU) that enables both exchanges to cooperate in promoting the internationalization of the renminbi. This cooperation can be in the form of product development, connectivity enhancement, technology development, and extraterritorial market infrastructure regulation.

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

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (US$ billion)			
1. Housing and Development Board	17.6	13.9	Yes	No	Financial
2. United Overseas Bank	4.6	3.6	No	Yes	Financial
3. CapitaLand	4.5	3.5	No	Yes	Financial
4. DBS Bank	4.2	3.3	No	Yes	Financial
5. Temasek Financial I	3.6	2.9	No	No	Financial
6. SP PowerAssets	2.4	1.9	No	No	Utilities
7. Public Utilities Board	2.1	1.7	Yes	No	Utilities
8. GLL IHT	2.0	1.6	No	No	Real Estate
9. Land Transport Authority	1.8	1.4	Yes	No	Industrial
10. Oversea-Chinese Banking Corp.	1.7	1.4	No	Yes	Financial
11. Keppel	1.5	1.2	No	Yes	Industrial
12. Olam International	1.4	1.1	No	Yes	Consumer
13. City Developments	1.4	1.1	No	Yes	Consumer
14. Neptune Orient Lines	1.3	1.0	No	Yes	Industrial
15. CapitaMalls Asia Treasury	1.1	0.9	No	No	Financial
16. Keppel Land	1.1	0.9	No	Yes	Real Estate
17. PSA	1.0	0.8	No	No	Consumer
18. Overseas Union Enterprise	1.0	0.8	No	Yes	Consumer
19. Mapletree Treasury Services	1.0	0.8	No	No	Financial
20. Hyflux	1.0	0.8	No	Yes	Industrial
21. Sembcorp Financial Services	0.9	0.7	No	No	Industrial
22. Singtel Group Treasury	0.9	0.7	No	No	Telecommunications
23. DBS Group Holdings	0.8	0.6	No	Yes	Financial
24. Singapore Airlines	0.8	0.6	No	No	Transportation
25. Temasek Financial III	0.8	0.6	No	No	Financial
26. Global Logistic Properties	0.8	0.6	No	Yes	Industrial
27. CMT MTN	0.8	0.6	No	No	Financial
28. CapitaLand Treasury	0.7	0.6	No	No	Financial
29. Joynote	0.7	0.6	No	No	Financial
30. F&N Treasury	0.7	0.5	No	No	Financial
Total Top 30 LCY Corporate Issuers	**63.8**	**50.5**			
Total LCY Corporate Bonds	**116.4**	**92.1**			
Top 30 as % of Total LCY Corporate Bonds	**54.8%**	**54.8%**			

LCY = local currency.
Notes:
1. Data as of end-December 2013.
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.

Table 3: Notable LCY Corporate Bond Issuance in 4Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
4-year bond	1.88	1,500
DBS Group		
perpetual bond	4.70	805
Capitaland		
10-year bond	1.95	800
United Overseas Bank		
perpetual bond	4.75	500
Sembcorp Financial Services		
10.5-year bond	3.64	200
LMIRT Capital		
3-year bond	4.25	150
GLL IHT		
1-year bond	2.00	150
3-year bond	3.55	125

LCY = local currency.
Source: Bloomberg LP.

SGX and Thomson Reuters Launch SGD Bond Indices

On 10 December 2013, Singapore Exchange (SGX) and Thomson Reuters launched the Thomson Reuters–SGX Singapore Fixed Income Indices, which cover corporate, government, and statutory board bonds. The indices were made for market participants to serve as a benchmark for investment performance.

RQFII License Applications Open for Eligible Singaporean Financial Institutions

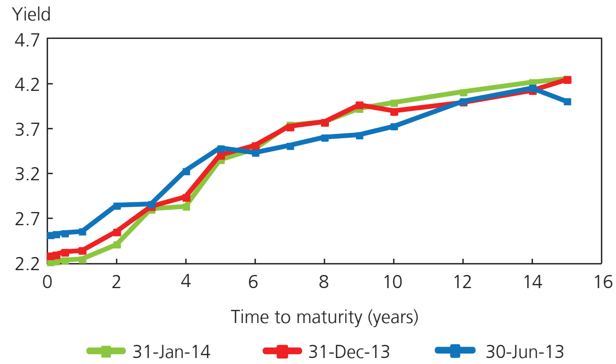
On 24 January, MAS announced that all Singapore-incorporated financial institutions that it approved to conduct fund management activities may submit applications for the Renminbi Qualified Foreign Institutional Investor (RQFII) license. This will allow them to offer renminbi investment products as well as invest offshore renminbi into the PRC's securities market. This move followed the recent allocation of an aggregate quota of CNY50 billion to Singapore under the PRC's RQFII program.

Thailand

Yield Movements

Thailand's local currency (LCY) government bond yield curve steepened between 30 June 2013 and 31 January 2014, as yields fell for shorter-term bonds and rose for longer-term bonds **(Figure 1)**. Specifically, yields decreased for tenors of less than 6 years, with the decrease ranging from 6 basis points (bps) for the 3-year bond to 43 bps for the 2-year bond. Meanwhile, yields increased for tenors of 6 years and longer, with the hikes ranging from 4 bps for the 6-year bond to 29 bps for the 9-year bond. The yield spread between the 2- and 10-year tenors widened 69 bps during this period.

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



LCY = local currency.
Source: Bloomberg LP.

The second half of 2013 saw yields falling for most tenors, especially for short-term paper, with the declines more acute during the month of November as foreign investors sold relatively large amounts of short-term debt amid increased concerns over a tapering in the United States (US) Federal Reserve's asset purchase program before the end of the year. In January, yields fell further for most tenors amid expectations of additional tapering of the Federal Reserve's asset purchase program as well as concerns over the domestic political environment.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 22 January to maintain the policy rate at 2.25%, viewing its accommodative monetary policy stance as appropriate in support of economic recovery. In its previous meeting held on 27 November, the committee decided to reduce the policy rate 25 bps from 2.50% to 2.25% due to slower-than-expected domestic economic growth and increased downside risks. Thailand's real gross domestic product (GDP) growth decelerated to 0.6% y-o-y in 4Q13 from 2.7% in 3Q13, largely due to contractions in household consumption and domestic investment.

Consumer price inflation climbed to 1.9% year-on-year (y-o-y) in January from 1.7% in December amid increasing hikes in retail food prices. The price index for food and non-alcoholic beverages rose at a faster pace in January, increasing 3.6% y-o-y after rising 3.0% in the previous month. Meanwhile, the y-o-y increase in the price index for non-food items and beverages inched up to 1.1% in January from 1.0% in December. On a month-on-month (m-o-m) basis, consumer price inflation rose to 0.4% in January from 0.1% in December. Meanwhile, for the full-year 2013, consumer price inflation in Thailand stood at 2.2%.

Size and Composition

The LCY bond market in Thailand continued to grow in 4Q13, recording growth rates of 0.9% quarter-on-quarter (q-o-q) and 5.7% y-o-y, which were both significantly lower than growth rates in the fourth quarter of the previous year **(Table 1)**. The outstanding size of government bonds grew modestly by 3.5% on a y-o-y basis, but recorded a marginal 0.1% decrease from the previous quarter; the relatively slow growth of the government bond market was largely due to a contraction in the outstanding size of central bank bonds. In contrast, positive growth was evident in the outstanding size of bills and bonds sold by the central government, and the bonds of state-owned enterprises (SOEs).

Issuance of LCY government bonds was down in 4Q13, leveling off at THB1.7 trillion, which was down 5.5% q-o-q and 10.7% y-o-y. Central bank bond issues, which accounted for 60% of total LCY bond issuance in 4Q13, amounted to THB1.2 trillion in 4Q13, reflecting declines of 15.8% q-o-q and 27.8% y-o-y. In contrast, LCY central government bonds and treasury

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

	Outstanding Amount (billion)						Growth Rate (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**8,520**	**279**	**8,919**	**286**	**9,002**	**275**	**4.1**	**19.8**	**0.9**	**5.7**
Government	6,760	221	7,004	224	6,996	214	3.6	17.7	(0.1)	3.5
Government Bonds and Treasury Bills	3,024	99	3,371	108	3,414	104	1.2	15.1	1.3	12.9
Central Bank Bonds	3,120	102	2,920	93	2,843	87	6.4	18.1	(2.6)	(8.9)
State-Owned Enterprise and Other Bonds	616	20	712	23	738	23	1.5	29.8	3.6	19.9
Corporate	1,760	58	1,915	61	2,006	61	6.3	28.8	4.8	14.0

( ) = negative, LCY = local currency, 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 an LCY base and do not include currency effects.
Sources: Bank of Thailand (BOT) and Bloomberg LP.

bills together amounted to THB389 billion, which reflected increases of 86.8% q-o-q and 163.8% y-o-y. For SOE bonds, total issuance in 4Q13 stood at THB47.7 billion, which was down 49.7% q-o-q, but up 172.7% y-o-y.

Thailand's LCY corporate bond market again recorded positive growth in 4Q13, rising 4.8% q-o-q and 14.0% y-o-y, stemming from higher bond issuance by corporates, which reached THB386.1 billion on growth of 22.4% q-o-q and 12.1% y-o-y. At the end of 2013, PTT and Siam Cement stood as the two largest issuers in the LCY corporate bond market. Meanwhile, the combined bonds outstanding of the top 30 corporate issuers accounted for 61% of total corporate bonds outstanding **(Table 2)**.

The two largest LCY corporate bond issues in Thailand during 4Q13 were a THB22 billion 7-year bond sold by PTT in November at a coupon rate of 4.75%, and a THB20 billion 4-year bond issued by Siam Cement in October at a 4.25% coupon **(Table 3)**. CP All, a local store operator, raised THB50 billion from a multi-tranche bond sale in October, which included, among others, a THB11.0 billion 10-year bond at a 5.35% coupon, a THB6.8 billion 3-year bond at a 4.10% coupon, and a THB6.6 billion 5-year debenture at a 4.25% coupon.

Liquidity

Liquidity conditions in Thailand's LCY bond market appear to have tightened further in 4Q13, as the turnover ratios for both government and corporate bonds declined from 3Q13 and 4Q12 **(Figure 2)**. Trading volumes of bonds issued by the central bank, the central government, and SOEs contracted on a q-o-q basis, while trading volumes of central government and SOE bonds fell on a y-o-y basis, contributing to liquidity tightening in the government bond market during the last quarter of 2013. Moreover, the trading volume of corporate bonds fell on both a quarterly and annual basis, thereby resulting in a less liquid corporate bond market in 4Q13.

Investor Profile

Contractual savings funds and insurance companies remained the two largest investor groups in Thailand's LCY government bond market in 3Q13, the most recent quarter for which data are available, as their share of total government bond holdings leveled off at 27% and 23%, respectively, at end-September **(Figure 3)**. Compared with September 2012, the biggest increase in the share in government bond holdings was that of non-resident investors, which recorded a 2 percentage point hike, followed by those of the central bank and insurance companies with increases of 1 percentage point apiece. Conversely, commercial banks' government bond holdings share posted the biggest annual decline at 3 percentage points, while a 1 percentage point decrease was incurred by both resident investors and other financial corporations.

Individual retail investors stood as the largest investor group in the LCY corporate bond market, as they held 51% of total LCY corporate bonds in Thailand at end-September **(Figure 4)**. Compared with September

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

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US$ billion)			
1. PTT	193.4	5.9	Yes	Yes	Energy
2. Siam Cement	141.5	4.3	Yes	Yes	Diversified
3. Charoen Pokphand Foods	69.3	2.1	No	Yes	Consumer
4. Krung Thai Bank	68.2	2.1	Yes	Yes	Financial
5. Bank of Ayudhya	59.7	1.8	No	Yes	Financial
6. CP All	50.0	1.5	No	Yes	Consumer
7. Thanachart Bank	41.9	1.3	No	No	Financial
8. Thai Airways International	41.1	1.3	Yes	Yes	Consumer
9. Siam Commercial Bank	40.0	1.2	No	Yes	Financial
10. Ayudhya Capital Auto Lease	38.8	1.2	No	No	Financial
11. True Corporation	32.8	1.0	No	Yes	Communications
12. Mitr Phol Sugar	30.2	0.9	No	No	Consumer
13. Kasikorn Bank	30.1	0.9	No	Yes	Financial
14. Banpu	29.6	0.9	No	Yes	Energy
15. TMB Bank	27.7	0.8	No	Yes	Financial
16. Toyota Leasing Thailand	26.7	0.8	No	No	Consumer
17. PTT Global Chemical	25.3	0.8	Yes	Yes	Basic Materials
18. Thai Oil	25.0	0.8	Yes	Yes	Energy
19. PTT Exploration and Production Company	24.2	0.7	Yes	Yes	Energy
20. Indorama Ventures	23.9	0.7	No	Yes	Basic Materials
21. Krung Thai Card	23.0	0.7	Yes	Yes	Financial
22. DAD SPV	22.5	0.7	Yes	No	Financial
23. Tisco Bank	20.6	0.6	No	No	Financial
24. Bangkok Bank	20.0	0.6	No	Yes	Financial
25. Quality Houses	20.0	0.6	No	Yes	Real Estate
26. IRPC	19.6	0.6	Yes	Yes	Energy
27. Thanachart Capital	19.3	0.6	No	Yes	Financial
28. Kiatnakin Bank	19.2	0.6	No	Yes	Financial
29. Glow Energy	19.1	0.6	No	Yes	Utilities
30. Bangkok Expressway	18.1	0.6	No	Yes	Consumer
Total Top 30 LCY Corporate Issuers	**1,220.7**	**37.3**			
Total LCY Corporate Bonds	**2,006.2**	**61.3**			
Top 30 as % of Total LCY Corporate Bonds	**60.8%**	**60.8%**			

LCY = local currency.
Notes:
1. Data as of end-December 2013.
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.

2012, the share of corporate bonds held by mutual funds posted the biggest gain at 2 percentage points, followed by contractual savings funds and non-financial corporations at 1 percentage point each. In contrast, a single percentage point drop was evident in the respective shares of commercial banks, insurance companies, and other investors.

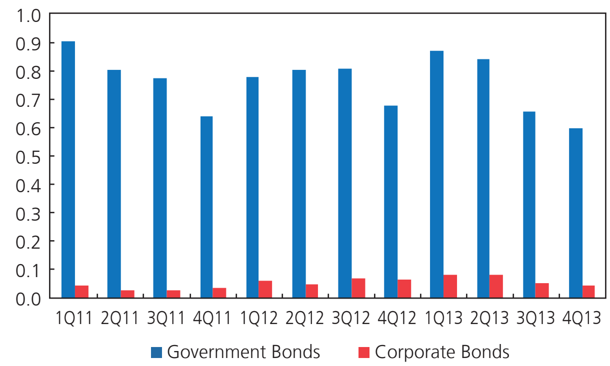
Foreign investors' net trading of LCY bonds was not consistently positive on a monthly basis throughout 2013, unlike in 2012 **(Figure 5)**. Foreign investors were net buyers of Thai LCY bonds from January to April, before becoming net sellers in May and June amid expectations of a tapering in the US Federal Reserve's asset purchase program. The second half of

Table 3: Notable LCY Corporate Bond Issuance in 4Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
PTT		
7-year bond	4.75	22.00
Siam Cement		
4-year bond	4.25	20.00
CP All		
3-year bond	4.10	6.82
5-year bond	4.25	6.60
10-year bond	5.35	10.99

LCY = local currency.
Source: Bloomberg LP.

Figure 2: Turnover Ratios of Government and Corporate Bonds in Thailand



Sources: Bank of Thailand and ThaiBMA.

2013 saw foreign investors again becoming net bond sellers, specifically in August and November. Overall, foreign investors' net bond purchases in full-year 2013 were about half the amount of purchases in 2012. Meanwhile, foreign investors in the LCY bond market were again net sellers during the first month of 2014.

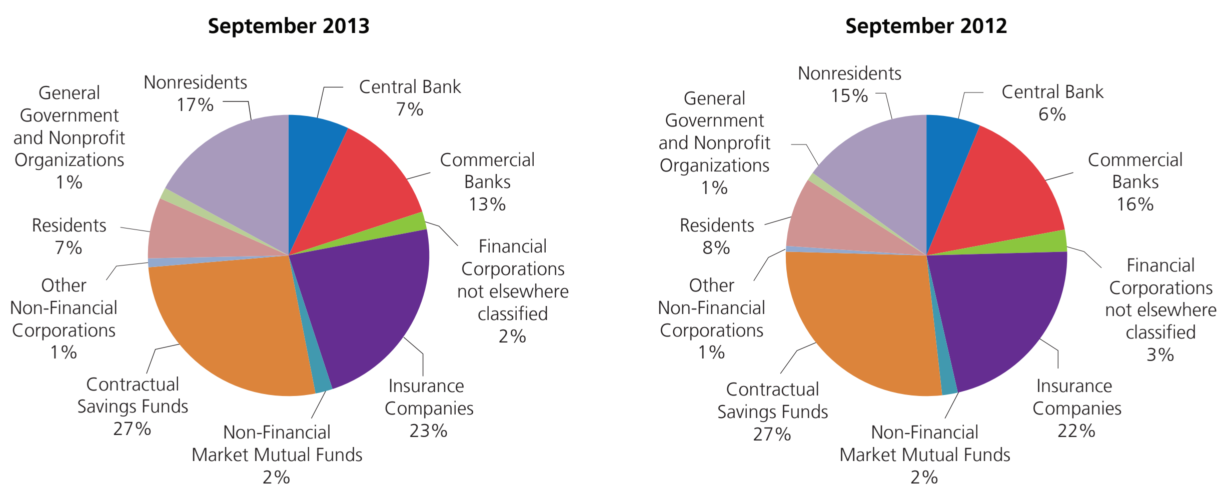
Rating Changes

Rating and Investment Information (R&I) announced in November that it was affirming its foreign currency issuer rating, its domestic currency issuer rating, and its foreign currency short-term debt ratings for Thailand at BBB+, A–, and a–2, respectively. R&I also assigned a stable rating outlook for the issuer ratings.

Meanwhile, Fitch Ratings reported in early February that political tensions in Thailand were weighing on the country's economic activity, and that a more intense or prolonged political stand-off could eventually hurt Thailand's economic performance and financial stability, particularly when compared to its rating peers.

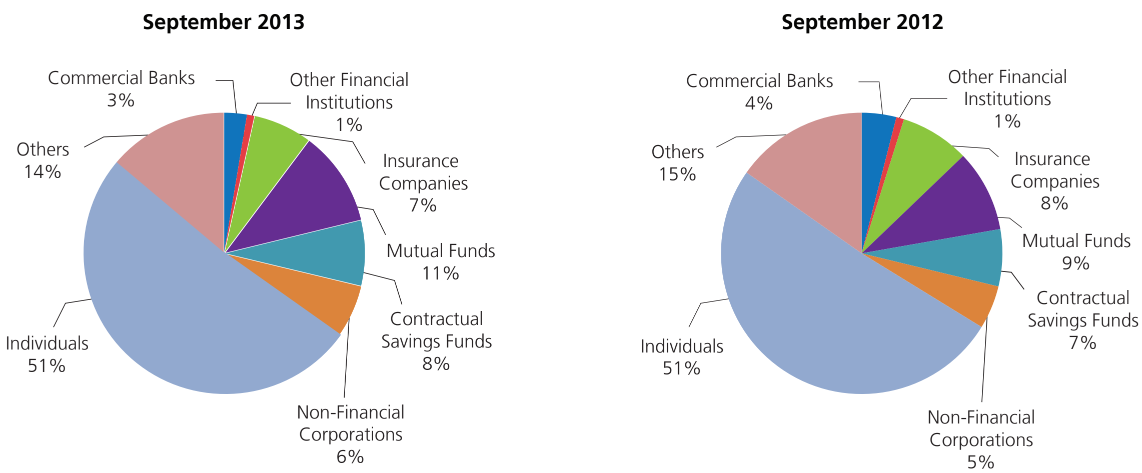
Moody's announced on 21 February that it has affirmed Thailand's government bond rating at Baa1, with its outlook for the rating being stable.

Figure 3: LCY Government Bonds Investor Profile



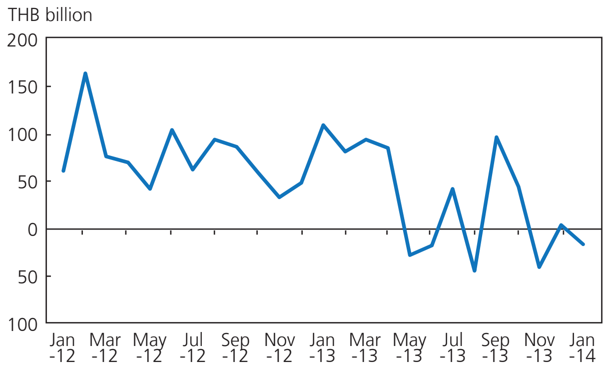
LCY = local currency.
Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
Sources: *AsianBondsOnline* and Bank of Thailand.

Figure 4: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: ThaiBMA.

Figure 5: Foreign Investors' Net Trading Value of LCY Bonds in Thailand



LCY = local currency.
Source: ThaiBMA.

Policy, Institutional, and Regulatory Developments

SEC Sets Strategic Plans for Capital Market Development

The Securities and Exchange Commission (SEC) of Thailand announced in January its 2014–16 strategic plans for the development of Thailand's capital market. The objective of the plan is to step up capital market development in Thailand—specifically in the areas of corporate governance, market capitalization, liquidity, and sustainable development—in order to widen the market's visibility in the international community. The SEC also announced its key initiatives for 2014 that aim to improve the public's awareness and understanding of savings and investments. Furthermore, the SEC stated that it plans to carry out measures to issue regulations that will accommodate overseas offerings of equities, debt, and mutual funds, as well as conduct studies on the laws and regulations of overseas jurisdictions in order to facilitate the listing of foreign securities on the Stock Exchange of Thailand (SET).

SEC Revises Rules Governing Provident Fund Investments

The SEC announced in January revisions to the rules on provident fund investments, which are consistent with international standards, in order to provide greater investment opportunities and more clarity for provident funds. Effective 1 January, provident funds were allowed to invest in derivatives up to a permissible proportion for "efficient portfolio management" purposes.

Viet Nam

Yield Movements

Between end-June and end-December, Viet Nam's local currency (LCY) government bond yields rose for short- to medium-term bonds and fell for longer-dated maturities **(Figure 1)**. The higher yields were evident in tenors of 7 years and less, which rose between 7.5 basis points (bps) for 7-year government bonds and 45 bps for 1-year government bonds.

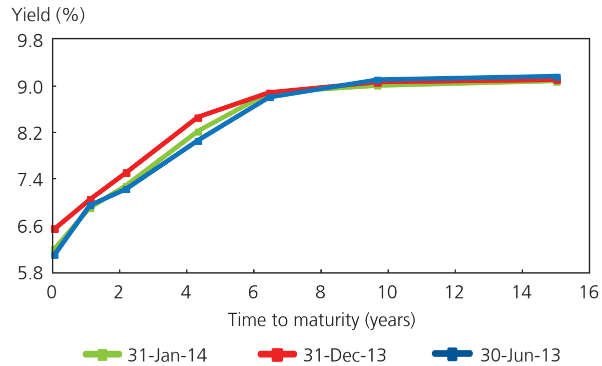
Between end-December and end-January, short- to medium-term bond yields reversed course, shifting downward to near 6-month lows. Yields for 1- to 5-year maturities dropped between 15 bps and 35 bps, with yields on 1-year government bonds falling to 6.2%. Abundant liquidity and low capital costs for banks, coupled with easing inflation, likely kept demand for bonds strong. Meanwhile, the yield spread between 2- and 10-year maturities slightly widened to 210 bps at end-January from 200 bps at end-December.

Economic data in Viet Nam suggests early signs of a gradual and broad-based recovery in 2013, supported by slowing inflation and stronger exports. Annual average consumer price inflation in 2013 moderated to 6.6% from 9.2% in 2012, reaching its lowest level in a decade. In the last 3 months of the year, consumer price inflation eased to 6.0% year-on-year (y-o-y) in December, 5.8% in November, and 5.9% in October. Inflation eased further to 5.5% y-o-y in January 2014. The government has set an annual inflation target range of 6.5%–7.0% for 2014. Meanwhile, exports grew 15.4% y-o-y in 2013, largely due to the exports of foreign-invested enterprises, which rose 22.4%, while exports of domestic companies grew a modest 3.5%.

Real gross domestic product (GDP) expanded 6.0% y-o-y in 4Q13 following a 5.5% expansion in the previous quarter, bringing 2013 GDP growth to 5.4% y-o-y, up from 5.3% in 2012, but slightly short of the government's target of 5.5%. The services sector, which accounted for 43% of GDP, grew 6.6% in 2013 from a year earlier, while manufacturing and construction, which comprised 38% of GDP, expanded 5.4%.

Since mid-2013, the State Bank of Vietnam (SBV) has undertaken several measures aimed at pumping more capital into the economy. Effective 28 June, SBV lowered the ceiling deposit interest rate for VND deposits with tenors of 6 months and less to 7.0% from 7.5% to reduce banks' funding costs and allow them to lend at lower rates. It also reduced the ceiling lending rate for five priority sectors—agriculture, exports, supporting industries, high-tech businesses, and small and medium-sized enterprises (SMEs)—to 9.0% from 10.0%. Finally, the central bank also supported the debt restructuring of the banking system through creation of the Viet Nam Asset Management Company (VAMC), which started operations in July. In 2014, the central bank expects the total money supply to expand between 16% and 18%, and for credit growth to increase by 12% to 14%.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

As of end-December, total LCY bonds outstanding in Viet Nam reached VND605.2 trillion (US$28.7 billion), marking the first time that the amount has topped the VND600 trillion mark **(Table 1)**. LCY bond growth surged 14.8% quarter-on-quarter (q-o-q) and 15.6% y-o-y owing to robust government bond issuance.

Government Bonds. LCY government bonds reached VND590.9 trillion at end-December, expanding 15.4% q-o-q and 17.9% y-o-y.

The central government remained the largest issuer of LCY debt securities, dominating the market with a more than 55% share. Government-guaranteed bonds issued

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

	Outstanding Amount (billion)						Growth Rate (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**523,423**	**25**	**527,304**	**25**	**605,204**	**29**	**18.0**	**43.1**	**14.8**	**15.6**
Government	501,060	24	511,945	24	590,884	28	22.1	55.1	15.4	17.9
Treasury Bonds	255,011	12	267,800	13	336,920	16	16.6	71.5	25.8	32.1
Central Bank Bonds	58,560	3	46,405	2	38,499	2	165.3	–	(17.0)	(34.3)
State-Owned Enterprise Bonds	187,489	9	197,741	9	215,466	10	10.7	7.5	9.0	14.9
Corporate	22,362	1	15,359	0.7	14,320	0.7	(33.2)	(47.6)	(6.8)	(36.0)

( ) = negative, – = not applicable, LCY = local currency, 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.

by the Viet Nam Development Bank (VDB), Vietnam Bank for Social Policies (VBSP), and other state-owned enterprises followed with 33% of bonds outstanding. Municipal bonds issued by Ho Chi Minh City, Da Nang, Ha Noi, and Quang Ninh comprised 3%.

Government bond issuance has never been as strong as in 2013. In the primary market, a total of VND391.4 trillion was issued by the state treasury, the central bank, VDB, VBSP, Viet Nam National Coal, and local governments, far surpassing the 5-year annual average of VND125.5 trillion. In 4Q13, government issuance amounted to VND88.3 trillion, up from VND59.7 trillion issued in 3Q13 and VND53.9 trillion in 2Q13. New issuance of Treasury bills and bonds, and central bank bills amounted to VND67.9 trillion, while new issuance of local government and state-owned enterprise (SOE) bonds, mostly by VDB, amounted to VND20.4 trillion.

For 1Q14, the State Treasury plans to offer a total of VND70 trillion of government bonds distributed as follows: VND31 trillion for tenors of 2 years and less (VND14 trillion for maturities of less than 1 year and VND17 trillion for 2-year bonds), VND36 trillion for 3- to 5-year tenors (VND21 trillion for 3-year bonds and VND15 trillion for 5-year bonds), and VND3 trillion for 10- to 15-year maturities.

Corporate Bonds. Viet Nam's corporate bond market continued its sharp decline in 4Q13, sliding 6.8% q-o-q to VND14.3 trillion and falling to its lowest level since 3Q09. The actual size of the corporate bond market, however, may be far greater than this figure, as some bond issuance campaigns were not made public and were issued through private placements between businesses and banks.

A total of 15 corporate entities comprised the corporate bond market in Viet Nam at end-December, with bonds outstanding amounting to VND14.3 trillion **(Table 2)**.

Policy, Institutional, and Regulatory Developments

Government Issues New Decree on SBV

On 11 November, the government issued Decree No. 156/2013/ND-CP regulating functions, tasks, powers, and the organizational structure of SBV. The decree states the tasks of SBV to include macroeconomic stability, inflation targeting and control, and ensuring credit institutions' sound operations within the legal framework. SBV is also tasked to implement national monetary policy, including re-financing, interest rates, exchange rates, reserve requirements, open market operations, and other tools and measures. The decree took effect on 26 December 2013.

Viet Nam's 2014 State Budget Approved

On 12 November, the National Assembly of Viet Nam approved the 2014 target economic indicators, including (i) 5.8% GDP growth, up from an estimated 5.4% in 2013; (ii) 7.0% inflation, slightly higher than 6.6% in 2013; (ii) VND782.7 trillion in state budget revenue and VND 1,006.7 trillion in budget expenditure; and (iii) a state budget deficit of VND224.0 trillion, or

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

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US$ billion)			
1. Techcom Bank	3,000	0.14	No	No	Finance
2. Asia Commercial Joint Stock	3,000	0.14	No	Yes	Finance
3. HAGL JSC	2,480	0.12	No	Yes	Real Estate
4. Vinpearl	2,000	0.09	No	Yes	Resorts and Theme Parks
5. Vincom	1,000	0.05	No	Yes	Real Estate
6. Kinh Bac City Development	500	0.02	No	Yes	Real Estate
7. Minh Phu Seafood	500	0.02	No	Yes	Fisheries
8. Development Investment	350	0.02	No	No	Building and Construction
9. Phu Hoang Anh	350	0.02	No	No	Real Estate
10. Binh Chanh Construction	300	0.01	No	Yes	Building and Construction
11. Saigon Telecommunication	300	0.01	No	No	Computer Services
12. Lam Son Sugar	150	0.01	No	No	Diversified
13. Quoc Cuong Gia	150	0.01	No	Yes	Building and Construction
14. Tan Tao Investment	130	0.01	No	No	Real Estate
15. Ho Chi Minh City Securities	110	0.01	No	No	Finance
Total LCY Corporate Issuers	**14,320**	**0.68**			
Total LCY Corporate Bonds	**14,320**	**0.68**			
% of Total LCY Corporate Bonds	**100.0%**	**100.0%**			

LCY = local currency.
Notes:
1. Data as of end-December 2013.
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.

5.3% of GDP. The largest portion of the state budget was allocated for development investments and debt payments.

Government Issues Decree on Foreign Investors Purchasing Shares of Vietnamese Credit Institutions

On 7 January, the government issued Decree No. 01/2014/ND-CP on purchases of shares of Vietnamese credit institutions by foreign investors, stating that a foreign individual's ownership share of a Vietnamese credit institution should not exceed 5% of the charter capital. The decree also allows foreign institutions to own a stake in Vietnamese credit institutions up to a maximum of 20% for a single strategic foreign investor, within a total of a 30% foreign stake in the institution. The decree will take effect on 20 February and replace Decree No. 69/2007/ND-CP dated 20 April 2007.