

Bond Market Developments in the Fourth Quarter of 2014

Size and Composition

Emerging East Asia's local currency bond market reached a size of US\$8.2 trillion at end-December.³

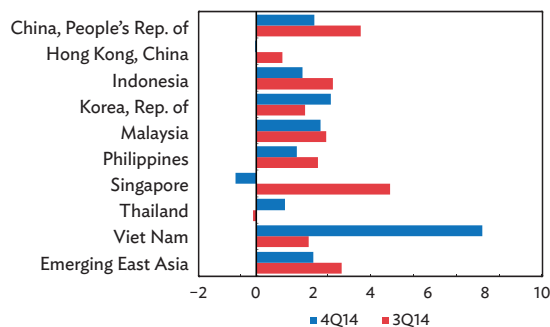
The local currency (LCY) bond market in emerging East Asia reached US\$8.2 trillion at end-December. Growth was modest in 4Q14 at 2.0% quarter-on-quarter (q-o-q), and down from the 3.0% q-o-q expansion in 3Q14 (Figure 1a).

At end-December, the largest bond market in the region was that of the People's Republic of China (PRC), which had an outstanding size of US\$5.2 trillion on an increase of 2.0% q-o-q. The PRC's bond market accounted for 63.4% of the total LCY bond stock in the region at end-December. It leads the region in terms of size for both government and corporate bonds. Growth in the PRC's bond market in 4Q14 was largely driven by Treasury bonds and local corporate bonds. On the other hand, the stock of central bank bonds continued to decline as the People's Bank of China (PBOC) ceased issuance of PBOC bills and bonds in 2013, instead opting to use other tools for managing liquidity.

The Republic of Korea followed with outstanding bonds of US\$1.7 trillion at end-December, posting 2.6% q-o-q growth. Growth in 4Q14 came mainly from government bonds on the back of increases in the stocks of both Treasury bonds and industrial finance debentures. On the other hand, central bank bonds and corporate bonds both fell slightly on a q-o-q basis.

Malaysia, with the third largest LCY bond market in emerging East Asia, recorded an increase of 2.3% q-o-q as the size of the bond market reached US\$316 billion at end-December. Growth stemmed mostly from increases in the stocks of central government bonds and corporate bonds. Central bank bills marginally fell on a q-o-q basis in 4Q14 while *Sukuk Perumahan Kerajaan* posted a 20.0% q-o-q rise, albeit this growth was coming from a low base.⁴

Figure 1a: Growth of LCY Bond Markets in 3Q14 and 4Q14 (q-o-q, %)



LCY = local currency, q-o-q = quarter-on-quarter.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-December 2014 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

The majority of Malaysia's bond market is composed of *sukuk* (Islamic bonds), representing 52% of the total bond stock at end-December. In 4Q14, *sukuk* accounted for a 38.7% share of the government bond sector and a 70.8% share of the corporate bond sector. Malaysia is home to the largest *sukuk* market in emerging East Asia.

In Thailand, the bond market saw growth of 1.0% q-o-q in 4Q14 to reach US\$282 billion at end-December. The corporate sector grew more strongly than the government sector.

At end-December, Singapore's bond market stood at US\$241 billion, declining by 0.7% q-o-q. The stocks of Singapore Government Securities (SGS) and corporate bonds both recorded declines on a q-o-q basis. As Singapore does not rely on debt issuance to fund its expenditure requirements, its issuance of SGS is quite limited. Monetary Authority of Singapore (MAS) bills are issued instead to avoid hitting the debt ceiling limit. In 4Q14, the stock of MAS bills rose slightly.

³ Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

⁴ *Sukuk Perumahan Kerajaan* raises funds through the issuance of *sukuk* (Islamic bonds) to help fund the Malaysian government's housing loan program for public employees.

Hong Kong, China's bond market fell by 0.04% q-o-q to US\$194 billion at end-December. The marginal q-o-q decline resulted from less issuance of HKSAR bonds in 4Q14.

The outstanding size of the LCY bond market in Indonesia reached US\$123 billion at end-December, up 1.6% q-o-q. Indonesia's government bond market continued to climb, posting a 1.7% q-o-q gain in 4Q14. Growth in central government bonds was quite subdued, expanding only 0.9% q-o-q as the government had completed most of its annual financing requirements prior to 4Q14.

In 4Q14, central bank bills, known as *Sertifikat Bank Indonesia* (SBI), climbed 13.3% q-o-q. SBI are issued as a monetary policy tool for mopping up excess liquidity. The Indonesian government decided to raise fuel prices in November, and subsequently removed gasoline subsidies beginning in 2015. Corporate bonds also contributed to the q-o-q growth as some companies prefunded their capital requirements in anticipation of higher rates in 2015.

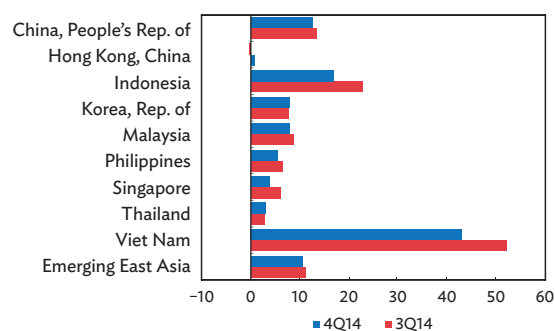
In the Philippines, the bond market's total size climbed to US\$104 billion at end-December, up 1.4% q-o-q. Outstanding fixed-income securities issued by the Philippine government and government-controlled companies rose 1.3% q-o-q. All Treasury auctions were awarded in full in 4Q14, unlike in 3Q14.

At end-December, Treasury bills declined 1.2% q-o-q and Treasury bonds increased 1.9% q-o-q. Outstanding fixed-income instruments issued by government-controlled companies fell 10.8% q-o-q as some of them matured in 4Q14. Total outstanding LCY corporate bonds in the Philippines increased 2.3% q-o-q in 4Q14. About 85% of total new corporate debt issuance in 4Q14 was issued by banks.

In Viet Nam, the LCY bond market expanded 7.9% q-o-q to reach US\$41 billion at end-December, buoyed by growth in government bonds. While Viet Nam was the fastest growing bond market in 4Q14 on both a q-o-q and year-on-year (y-o-y) basis in emerging East Asia, its growth occurs from a low base. Meanwhile, corporate bonds are still shut out of the Vietnamese market.

On a y-o-y basis, emerging East Asia's LCY bond market saw growth of 10.6% in 4Q14, down from the 11.2% y-o-y growth recorded in the previous quarter (**Figure 1b**). Three out of the nine markets in the region recorded

Figure 1b: Growth of LCY Bond Markets in 3Q14 and 4Q14 (y-o-y, %)



LCY = local currency, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-December 2014 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

double-digit y-o-y growth rates, led by Viet Nam (43.1%). Double-digit growth was also posted in Indonesia (16.8%) and the PRC (12.7%). Most other emerging East Asian bond markets posted y-o-y growth rates of between 2.9% to 8.0%. It was only in Hong Kong, China where bond market growth was negative (-0.2% y-o-y).

On a q-o-q and y-o-y basis, growth in government bonds outpaced that of corporate bonds in emerging East Asia.

Government bonds continued to dominate emerging East Asia's LCY bond market in 4Q14, climbing to US\$4.9 trillion at end-December (**Table 1**). This accounted for a 60.0% share of the region's total outstanding bonds at end-December. The government bond markets of the PRC, the Republic of Korea, and Thailand were the largest in the region at end-December. All markets in the region, except the Republic of Korea, have a larger government bond market than corporate bond market. (Corporate bonds account for almost 60% of the total bond stock in the Republic of Korea.)

At end-December, the aggregate size of corporate bonds in the region reached US\$3.3 trillion. The PRC (\$1,858 billion), the Republic of Korea (\$1,002 billion),

Table 1: Size and Composition of LCY Bond Markets

	4Q13		3Q14		4Q14		Growth Rate (LCY-base %)				Growth Rate (US\$-base %)			
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	4Q13		4Q14		4Q13		4Q14	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)														
Total	4,724	100.0	5,143	100.0	5,192	100.0	2.7	12.5	2.0	12.7	3.8	15.8	1.0	9.9
Government	3,073	65.0	3,315	64.5	3,335	64.2	2.7	7.7	1.7	11.2	3.8	10.8	0.6	8.5
Corporate	1,652	35.0	1,828	35.5	1,858	35.8	2.7	22.6	2.7	15.3	3.8	26.2	1.6	12.5
Hong Kong, China														
Total	195	100.0	194	100.0	194	100.0	0.9	9.7	(0.04)	(0.2)	0.9	9.7	0.1	(0.2)
Government	108	55.7	110	56.8	109	56.4	0.4	16.1	(0.8)	0.9	0.5	16.1	(0.6)	0.9
Corporate	86	44.3	84	43.2	85	43.6	1.5	2.6	0.9	(1.7)	1.6	2.6	1.1	(1.7)
Indonesia														
Total	108	100.0	124	100.0	123	100.0	6.8	20.1	1.6	16.8	0.1	(3.3)	(0.01)	14.8
Government	90	83.3	105	85.4	106	85.4	7.9	20.9	1.7	19.8	1.1	(2.7)	0.1	17.7
Corporate	18	16.7	18	14.6	18	14.6	1.5	16.4	1.2	2.1	(4.8)	(6.3)	(0.4)	0.3
Korea, Rep. of														
Total	1,641	100.0	1,715	100.0	1,703	100.0	2.5	10.0	2.6	7.8	4.9	11.6	(0.7)	3.8
Government	626	38.2	674	39.3	701	41.2	1.9	7.9	7.5	16.4	4.3	9.4	4.0	12.0
Corporate	1,015	61.8	1,041	60.7	1,002	58.8	2.9	11.4	(0.5)	2.6	5.3	12.9	(3.8)	(1.3)
Malaysia														
Total	312	100.0	329	100.0	316	100.0	2.9	2.2	2.3	8.0	2.4	(4.5)	(4.1)	1.1
Government	182	58.5	193	58.6	185	58.6	2.4	(0.2)	2.2	8.3	1.9	(6.8)	(4.1)	1.4
Corporate	130	41.5	136	41.4	131	41.4	3.7	5.9	2.3	7.5	3.2	(1.1)	(4.1)	0.7
Philippines														
Total	99	100.0	102	100.0	104	100.0	2.4	8.5	1.4	5.5	0.3	0.3	2.0	4.8
Government	86	86.6	86	83.8	87	83.7	1.5	8.0	1.3	2.0	(0.6)	(0.3)	1.8	1.2
Corporate	13	13.4	17	16.2	17	16.3	8.7	12.4	2.3	28.5	6.4	3.9	2.8	27.6
Singapore														
Total	244	100.0	252	100.0	241	100.0	1.5	9.1	(0.7)	3.8	0.9	5.6	(4.4)	(1.1)
Government	150	61.4	153	60.5	147	60.8	1.1	9.3	(0.3)	2.8	0.5	5.7	(4.0)	(2.1)
Corporate	94	38.6	100	39.5	95	39.2	2.2	8.9	(1.4)	5.5	1.6	5.3	(5.1)	0.5
Thailand														
Total	275	100.0	283	100.0	282	100.0	0.8	5.6	1.0	2.9	(3.7)	(1.2)	(0.5)	2.3
Government	214	77.7	213	75.4	211	75.1	(0.2)	3.4	0.6	(0.5)	(4.7)	(3.3)	(0.9)	(1.1)
Corporate	62	22.3	70	24.6	70	24.9	4.4	14.3	2.4	14.9	(0.2)	6.9	0.9	14.1
Viet Nam														
Total	29	100.0	38	100.0	41	100.0	14.8	15.6	7.9	43.1	14.9	14.2	7.1	41.2
Government	28	97.6	37	98.5	40	98.5	15.4	17.9	7.9	44.4	15.5	16.5	7.1	42.5
Corporate	0.7	2.4	0.6	1.5	0.6	1.5	(6.8)	(36.0)	9.5	(9.6)	(6.7)	(36.7)	8.7	(10.9)
Emerging East Asia														
Total	7,627	100.0	8,180	100.0	8,196	100.0	2.6	11.1	2.0	10.6	3.5	12.1	0.2	7.5
Government	4,557	59.7	4,887	59.7	4,921	60.0	2.4	7.7	2.4	10.9	3.1	8.5	0.7	8.0
Corporate	3,070	40.3	3,293	40.3	3,275	40.0	2.8	16.6	1.5	10.0	4.0	18.0	(0.6)	6.7
Japan														
Total	9,990	100.0	9,742	100.0	8,972	100.0	1.1	4.0	0.6	2.1	(5.7)	(14.3)	(7.9)	(10.2)
Government	9,203	92.1	8,998	92.4	8,292	92.4	1.1	4.7	0.7	2.5	(5.6)	(13.7)	(7.8)	(9.9)
Corporate	787	7.9	744	7.6	680	7.6	0.04	(3.4)	(0.2)	(1.7)	(6.6)	(20.4)	(8.6)	(13.6)
Memo Item: India														
Total	988	100.0	1,064	100.0	1,063	100.0	5.5	8.5	2.0	9.7	6.9	(3.5)	(0.1)	7.6
Government	761	77.0	810	76.1	801	75.4	6.2	6.4	1.0	7.4	7.6	(5.3)	(1.1)	5.3
Corporate	227	23.0	254	23.9	261	24.6	3.3	15.8	5.2	17.5	4.7	3.0	3.0	15.2

() = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

2. Corporate bonds include issues by financial institutions.

3. Bloomberg LP end-of-period LCY—US\$ rates are used.

4. For LCY base, emerging East Asia growth figures based on end-December 2014 currency exchange rates and do not include currency effects.

5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); Japan (Japan Securities Dealers Association); and India (Securities and Exchange Board of India and Bloomberg LP).

and Malaysia (\$131 billion) were the largest corporate bond markets in emerging East Asia. All other markets had corporate bonds outstanding valued at less than US\$100 billion.

As a share of gross domestic product (GDP), the size of emerging East Asia's LCY bond market dropped to 57.8% at end-December from 58.1% at end-September (**Table 2**). Government bonds accounted for a 34.7% share of the region's aggregate GDP, while corporate bonds had a share of 23.1%. The Republic of Korea and Malaysia had the largest bond markets relative to GDP with shares of over 100%. In contrast, Indonesia remained the smallest bond market with only a 15.2% share of GDP.

The maturity profiles of LCY government and corporate bonds are weighed toward the short-end for most markets in emerging East Asia.

Emerging East Asia's LCY government bonds were mostly weighed toward short-term maturities at end-December. Five out of the nine markets in the region had a larger share of their bonds at the short-end of the curve (maturities of more than 1 year to 3 years) (**Figure 2**). In Hong Kong, China, almost 50% of government bonds were short-dated. In Malaysia and Singapore, government bonds were mostly medium-dated tenors (maturities of more than 5 years to 10 years), while bonds in Indonesia and the Philippines were more weighed toward the long-end of the curve (those with maturities of more than 10 years).

The region's corporate bonds were also mostly concentrated at the short-end of the curve at end-December (**Figure 3**). Corporate debt in Indonesia and the Republic of Korea had the largest proportion of bonds with short-term maturities. In Indonesia, more than 50% of corporate bonds were short-dated. Notably, there were no IDR-denominated corporate bonds carrying a maturity of beyond 10 years. In the Republic of Korea, about 46% of corporate bonds carried maturities of more than 1 year to 3 years.

In contrast, Malaysia had a high share of corporate debt with medium- and long-dated tenors. The corporate bond markets of the Philippines and Viet Nam were concentrated at maturities of more than 5 years to

Table 2: Size and Composition of LCY Bond Markets (% of GDP)

	4Q13	3Q14	4Q14
China, People's Rep. of			
Total	48.6	50.8	50.6
Government	31.6	32.7	32.5
Corporate	17.0	18.0	18.1
Hong Kong, China			
Total	71.0	68.3	68.4
Government	39.6	38.8	38.6
Corporate	31.4	29.5	29.8
Indonesia			
Total	14.4	15.3	15.2
Government	12.0	13.0	12.9
Corporate	2.4	2.2	2.2
Korea, Rep. of			
Total	120.6	123.2	122.3
Government	46.0	48.4	50.4
Corporate	74.6	74.8	71.9
Malaysia			
Total	103.6	102.2	103.1
Government	60.6	60.0	60.5
Corporate	43.0	42.3	42.7
Philippines			
Total	38.2	37.3	36.8
Government	33.1	31.2	30.8
Corporate	5.1	6.0	6.0
Singapore			
Total	81.4	82.8	81.9
Government	50.0	50.1	49.8
Corporate	31.4	32.7	32.1
Thailand			
Total	75.6	76.0	76.3
Government	58.7	57.3	57.3
Corporate	16.9	18.7	19.0
Viet Nam			
Total	16.9	20.9	22.0
Government	16.5	20.6	21.7
Corporate	0.4	0.3	0.3
Emerging East Asia			
Total	56.5	58.1	57.8
Government	33.8	34.7	34.7
Corporate	22.8	23.4	23.1
Japan			
Total	219.1	219.8	220.1
Government	201.9	203.0	203.4
Corporate	17.3	16.8	16.7

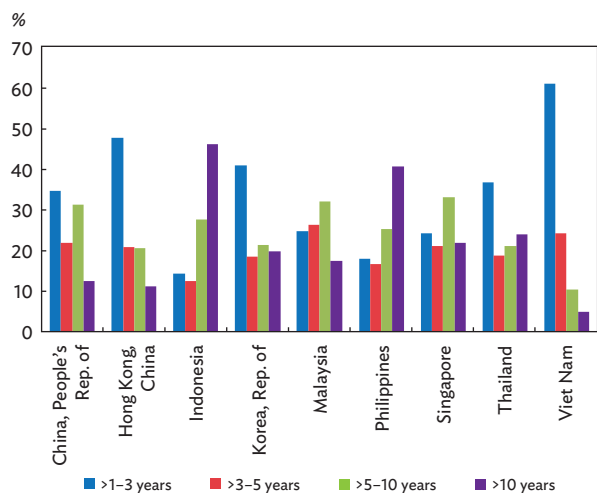
GDP = gross domestic product, LCY = local currency.

Notes:

1. Data for GDP is from CEIC. 4Q14 GDP figures carried over from 3Q14 for Hong Kong, China and the Republic of Korea.
2. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

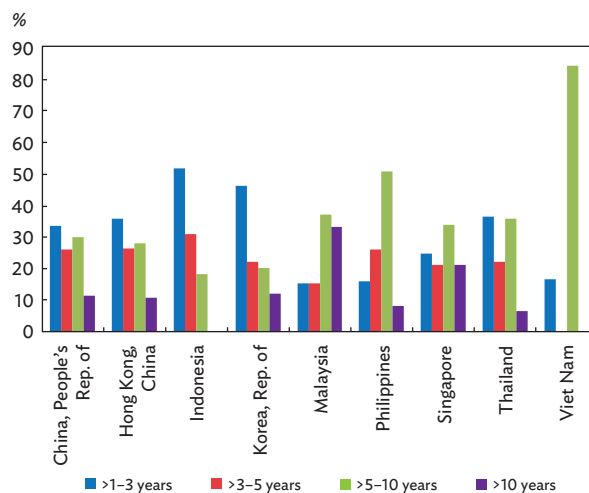
Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Financing and Risk Management Office Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 2: Government Bond Maturity Profiles
(individual maturities as % of total)



Source: AsianBondsOnline.

Figure 3: Corporate Bond Maturity Profiles
(individual maturities as % of total)



Notes:

1. Indonesia has no corporate bonds with maturities of more than 10 years.
2. Viet Nam has no corporate bonds with maturities of more than 3 years to 5 years, and more than 10 years.

Source: AsianBondsOnline.

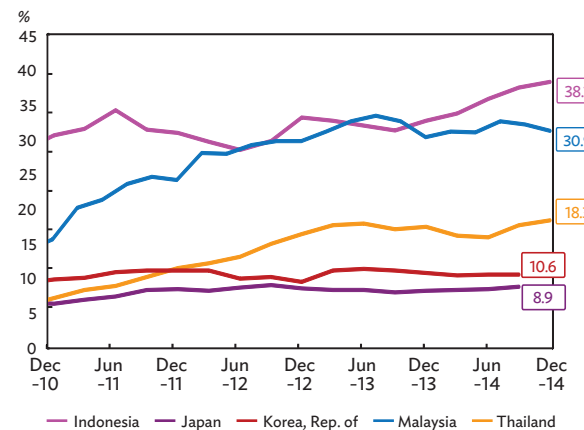
10 years. Singapore's maturity distribution for corporate bonds was broadly balanced.

Emerging East Asia's LCY government bonds continued to attract interest from foreign investors in 4Q14.

Foreign holdings of LCY government bonds remained strong in most government bond markets in emerging East Asia in 4Q14, as shares climbed in Indonesia and Thailand, and held steady in the Republic of Korea (Figure 4). The only exception was Malaysia where foreign holdings of MYR-denominated bonds declined in 4Q14.

At end-December, foreign investors were the largest investor group in Indonesia, accounting for a 38.1% share. Foreign funds remain attracted to IDR-denominated government bonds, which offer the highest yields in the region. For example, Indonesia's 10-year government bond fetched a yield of 7.8% at end-December. In addition, foreign investors welcomed fuel-related policy reforms as the government raised fuel prices in November and subsequently removed the gasoline subsidy and provided a fixed diesel subsidy in January. These reforms are expected to provide the government additional fiscal space for infrastructure spending.

Figure 4: Foreign Holdings of LCY Government Bonds in Select Asian Economies (% of total)



LCY = local currency.

Notes:

1. Data as of end-December 2014 except for Japan and the Republic of Korea as of end-September 2014.
2. Data for Malaysia based on AsianBondsOnline estimates.

Source: AsianBondsOnline.

Foreign holdings' share of government bonds in Indonesia continued to rise in the last week of January 2015 and through the first week of February as inflation eased and trade figures improved. As of 20 February, the IDR-denominated bond holdings of offshore investors stood at 39.6% of total government bonds.

In Thailand, foreign holdings' share of government bonds climbed to 18.3% at end-December from 17.6% at end-September on renewed confidence in its economic recovery. In contrast, the share of foreign holdings in the LCY government bond market of Malaysia slipped to 30.9% at end-December from 31.8% at end-September. Meanwhile, foreign holdings' share in the Republic of Korea's government bond market was stable in 4Q14 at 10.6%.

The share of foreign holdings in the region's LCY corporate bonds remained subdued in 4Q14 as foreign ownership of LCY corporate debt is significantly lower than that of government bonds. At the same time, the share of foreign holdings of Indonesian corporate debt slightly rose to 9.6% at end-December (Figure 5). Foreign investor holdings of IDR-denominated corporate bonds have steadily risen since end-December 2013. In the Republic of Korea, the share of foreign holdings of corporate bonds remained negligible in 4Q14 at less than 0.5%.

Foreign capital outflows were recorded in most bond markets in December, with inflows returning in January for some markets.

Most LCY bond markets in emerging East Asia recorded capital outflows in December as investors took profits amid the weakening of most local currencies against the US dollar. Indonesia recorded the largest outflows

from its LCY government bond market in December (Figure 6). However, it recovered strongly in January as investor appetite for emerging market assets returned.

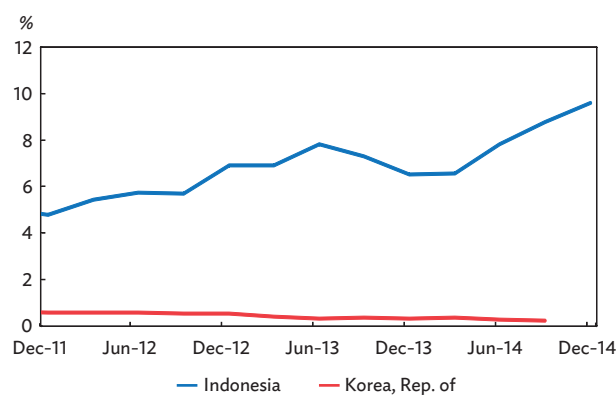
Foreign capital flows in the Republic of Korea's bond market were also negative in December as redemptions of maturing bonds by foreign investors exceeded bond purchases. However, this trend reversed in January as foreign capital flows turned positive. Meanwhile, Malaysia reported foreign capital outflows for 5 consecutive months through December.

Bucking the regional trend was Thailand, which recorded foreign capital inflows in December and net outflows in January.

Emerging East Asia's LCY bond issuance exhibited a mixed performance in 4Q14.

LCY bond issuance in emerging East Asia exhibited a mixed performance in 4Q14. The quarterly amount of US\$1,032 billion was larger than the 4Q13 total, but smaller than 3Q14's (Table 3). Governments in the region issued LCY bonds worth US\$709 billion in 4Q14, down 8.2% q-o-q amid a quarterly drop in Treasury bond issues,

Figure 5: Foreign Holdings of LCY Corporate Bonds in Indonesia and the Republic of Korea (% of total)

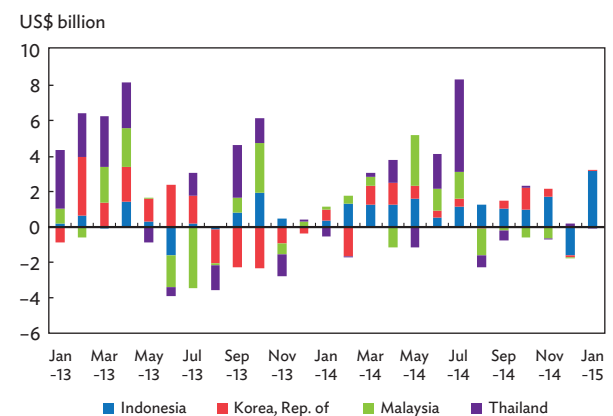


LCY = local currency.

Note: For Indonesia data as of 24 December 2014. For the Republic of Korea data as of end-September 2014.

Source: Based on data from Otoritas Jasa Keuangan and The Bank of Korea.

Figure 6: Foreign Bond Flows in Select Emerging East Asian Markets



Notes:

1. The Republic of Korea and Thailand provide data on bond flows. For Indonesia and Malaysia month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data provided as of end-January 2015 except for Malaysia as of end-December 2014.
3. Figures were computed based on end-January 2015 exchange rates to avoid currency effects.

Sources: Directorate General of Financing and Risk Management Ministry of Finance, Financial Supervisory Service, Bank Negara Malaysia, and Thai Bond Market Association.

Table 3: LCY-Denominated Bond Issuance (gross)

	4Q13		3Q14		4Q14		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	4Q14		4Q14	
							q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)										
Total	297	100.0	432	100.0	320	100.0	(24.9)	10.5	(25.7)	7.8
Government	149	50.2	212	49.2	140	43.6	(33.5)	(4.1)	(34.2)	(6.4)
Central Bank	4	1.2	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	146	49.0	212	49.2	140	43.6	(33.5)	(1.8)	(34.2)	(4.2)
Corporate	148	49.8	219	50.8	181	56.4	(16.7)	25.2	(17.6)	22.2
Hong Kong, China										
Total	238	100.0	309	100.0	335	100.0	8.3	41.0	8.5	41.0
Government	232	97.6	300	97.2	327	97.6	8.8	40.9	8.9	40.9
Central Bank	232	97.4	298	96.5	327	97.5	9.4	41.0	9.5	41.0
Treasury and Other Govt.	0.4	0.2	2	0.7	0.4	0.1	(81.8)	0.0	(81.8)	(0.01)
Corporate	6	2.4	9	2.8	8	2.4	(6.7)	42.9	(6.6)	42.8
Indonesia										
Total	8	100.0	10	100.0	8	100.0	(18.6)	2.2	(19.9)	0.4
Government	7	89.0	10	94.7	7	83.3	(28.4)	(4.4)	(29.5)	(6.1)
Central Bank	2	20.2	2	19.6	3	41.7	73.2	110.6	70.4	106.9
Treasury and Other Govt.	6	68.7	8	75.0	3	41.6	(54.9)	(38.2)	(55.6)	(39.3)
Corporate	0.9	11.0	0.6	5.3	1	16.7	154.9	55.0	150.7	52.3
Korea, Rep. of										
Total	173	100.0	168	100.0	179	100.0	10.1	7.4	6.4	3.4
Government	74	42.6	79	47.0	71	39.7	(7.0)	0.04	(10.1)	(3.7)
Central Bank	43	25.1	47	27.9	42	23.3	(8.1)	(0.2)	(11.2)	(3.9)
Treasury and Other Govt.	30	17.5	32	19.0	29	16.4	(5.4)	0.3	(8.5)	(3.4)
Corporate	99	57.4	89	53.0	108	60.3	25.2	12.9	21.1	8.6
Malaysia										
Total	42	100.0	42	100.0	34	100.0	(14.4)	(14.3)	(19.7)	(19.7)
Government	28	66.1	32	76.8	26	75.8	(15.6)	(1.7)	(20.8)	(8.0)
Central Bank	19	45.8	25	59.6	18	54.2	(22.1)	1.4	(26.9)	(5.0)
Treasury and Other Govt.	9	20.3	7	17.3	7	21.6	6.9	(8.9)	0.3	(14.6)
Corporate	14	33.9	10	23.2	8	24.2	(10.7)	(38.8)	(16.3)	(42.7)
Philippines										
Total	5	100.0	7	100.0	4	100.0	(38.9)	(3.8)	(38.5)	(4.5)
Government	3	62.3	6	79.5	3	75.9	(41.6)	17.2	(41.3)	16.4
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	3	62.3	6	79.5	3	75.9	(41.6)	17.2	(41.3)	16.4
Corporate	2	37.7	1	20.5	1	24.1	(28.2)	(38.6)	(27.8)	(39.0)
Singapore										
Total	87	100.0	85	100.0	82	100.0	(0.8)	(1.1)	(4.5)	(5.7)
Government	83	95.4	81	94.8	79	96.9	1.4	0.5	(2.4)	(4.3)
Central Bank	66	76.6	76	88.6	74	90.5	1.3	16.8	(2.5)	11.3
Treasury and Other Govt.	16	18.7	5	6.2	5	6.4	1.5	(66.3)	(2.3)	(67.9)
Corporate	4	4.6	4	5.2	3	3.1	(40.0)	(32.9)	(42.2)	(36.0)
Thailand										
Total	63	100.0	61	100.0	58	100.0	(4.5)	(7.2)	(5.9)	(7.8)
Government	51	80.9	48	79.0	45	77.9	(5.8)	(10.7)	(7.2)	(11.2)
Central Bank	37	59.8	35	57.6	34	59.1	(2.1)	(8.3)	(3.5)	(8.9)
Treasury and Other Govt.	13	21.1	13	21.4	11	18.8	(15.9)	(17.3)	(17.1)	(17.8)
Corporate	12	19.1	13	21.0	13	22.1	0.6	7.3	(0.9)	6.7

continued on next page

Table 3 continued

	4Q13		3Q14		4Q14		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	4Q14		4Q14	
							q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	5	100.0	14	100.0	12	100.0	(18.4)	155.2	(19.1)	151.7
Government	5	100.0	14	100.0	11	99.1	(19.1)	153.0	(19.7)	149.5
Central Bank	2	41.9	12	83.1	10	84.3	(17.3)	413.4	(17.9)	406.3
Treasury and Other Govt.	3	58.1	2	16.9	2	14.9	(28.1)	(34.7)	(28.6)	(35.6)
Corporate	0	0.0	0	0.0	0.1	0.9	-	-	-	-
Emerging East Asia (EEA)										
Total	917	100.0	1,129	100.0	1,032	100.0	(7.3)	15.2	(8.6)	12.6
Government	631	68.8	783	69.4	709	68.7	(8.2)	14.7	(9.5)	12.4
Central Bank	405	44.2	495	43.8	508	49.2	3.9	27.3	2.6	25.3
Treasury and Other Govt.	226	24.6	288	25.5	201	19.5	(29.1)	(8.3)	(30.1)	(10.8)
Corporate	286	31.2	346	30.6	323	31.3	(5.0)	16.4	(6.7)	12.9
Japan										
Total	500	100.0	464	100.0	427	100.0	0.4	(2.9)	(8.1)	(14.6)
Government	470	94.1	433	93.2	401	94.1	1.4	(2.9)	(7.2)	(14.6)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	470	94.1	433	93.2	401	94.1	1.4	(2.9)	(7.2)	(14.6)
Corporate	30	5.9	32	6.8	25	5.9	(13.5)	(3.5)	(20.8)	(15.2)

(-) = negative, - = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Corporate bonds include issues by financial institutions.

2. Bloomberg LP end-of-period LCY—US\$ rates are used.

3. For LCY base, emerging East Asia growth figures are based on end-December 2014 currency exchange rates and do not include currency effects.

Sources: People's Republic of China (*ChinaBond* and Wind); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand and *ThaiBMA*); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

but up 14.7% y-o-y on larger bond issuances from central banks and monetary authorities. Meanwhile, the region's corporates sold a total of US\$323 billion of bonds in 4Q14, down 5.0% q-o-q, but up 16.4% y-o-y.

Hong Kong, China again had the largest LCY bond issuance among all emerging East Asian markets in 4Q14, totaling US\$335 billion (HKD2,600 billion), of which 97% came from the Hong Kong Monetary Authority (HKMA). HKMA's 4Q14 bond issuance eclipsed both 3Q14 and 4Q13 totals amid larger issues of Exchange Fund Bills.

The second largest LCY bond issuance in the region in 4Q14 was seen in the PRC, which sold bonds worth US\$320 billion (CNY1,989 billion), of which 56% were corporate bonds. On a q-o-q basis, the PRC's issuance of LCY bonds was down 24.9% amid decreases in both the government and corporate sectors. However, issuance in 4Q14 was up on a y-o-y basis as the annual increase in LCY corporate bond issuance more than offset the drop in LCY government bond sales.

The Republic of Korea had LCY bond issuance of US\$179 billion (KRW194,976 billion) in 4Q14, up 10.1% q-o-q and 7.4% y-o-y, amid relatively fast growth in corporate bond issues. The uptick in issuance of LCY corporate bonds was led by positive growth in the issuance of financial debentures and corporate bonds issued by the private sector. Meanwhile, government bond issuance was down on a q-o-q basis due to less Korea Treasury Bond and Monetary Stabilization Bond issuance than in 3Q14, but was marginally higher on a y-o-y basis on the back of more issues of industrial finance debentures compared with 4Q13.

Association of Southeast Asian Nations (ASEAN) member country markets—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—saw LCY bond issuance reach a combined US\$197 billion in 4Q14, down from US\$221 billion in 3Q14 and US\$209 billion in 4Q13 due to smaller bond sales in both the government and corporate sectors. Singapore recorded the largest LCY bond issuance among ASEAN markets in 4Q14,

with a total of US\$82 billion (SGD108 billion), of which 90% were MAS bills. Overall, Singapore's 4Q14 issuance volume was down slightly due to a drop in LCY corporate bond issues.

In Indonesia, LCY bond issuance amounted to US\$8 billion (IDR103,794 billion) in 4Q14, of which 83% were government bond sales; this amount was lower on a q-o-q basis due to a decrease in issuance of Treasury bonds, but was higher on a y-o-y basis because of growth in LCY corporate bond issuance. Malaysia's LCY bond sales fell to US\$34 billion (MYR118 billion) in 4Q14; the negative growth was triggered by lower bond issuance in its government and corporate sectors. Philippine LCY bond issuance decreased to US\$4 billion (PHP198 billion) in 4Q14 largely due to smaller proceeds from sales of corporate bonds. LCY bond sales in Thailand dropped to US\$58 billion (THB1,897 billion) in 4Q14, driven by lower bond issuance in the government sector. Viet Nam's LCY bond issuance in 4Q14 stood at US\$12 billion (VND246,955 billion), of which 84% were central bank bonds; this amount was smaller than 3Q14's total, but larger compared with 4Q13.

Meanwhile, cross-border bond issuance in emerging East Asia continued to expand, increasing to US\$11.3 billion in 4Q14 from US\$11.2 billion in 3Q14 and US\$10.3 billion in 4Q13. The increase was led by issuers from the PRC, whose bonds denominated in other emerging East Asian currencies reached US\$6.8 billion in 4Q14, an uptick from US\$6.5 billion in 3Q14 and US\$3.8 billion in 4Q13. The majority of bonds sold by PRC issuers in 4Q14 were denominated in Hong Kong dollars, with the biggest deal being a HKD3.5 billion (US\$451 million) 15-year bond carrying a coupon of 6.1% sold by China Resources Land.

Issuers from Hong Kong, China had the second largest amount of issuance denominated in other emerging East Asian currencies in 4Q14 at US\$3.1 billion, about the same amount as in 3Q14, but down from 4Q13's US\$5 billion. The majority of bonds sold by entities based in Hong Kong, China were denominated in renminbi.

From the Republic of Korea, two domestic banks—Korea Eximbank and Woori Bank—issued a total of six bonds in other emerging East Asian markets in 4Q14; four of the bonds were denominated in renminbi, one in Hong Kong dollars, and one in Indonesian rupiah.

The 4Q14 total stood at US\$345 million, which is larger than both 3Q14's US\$247 million and 4Q13's US\$273 million.

Two companies from Indonesia—Astra Sedaya Finance and Protelindo Finance—issued SGD-denominated bonds in 4Q14 worth SGD100 million and SGD180 million, respectively, for a bined total of SGD280 million (US\$215 million); this marked an increase in Indonesian cross-border bond issuance from US\$157 million in 3Q14.

Malaysian issuers' intra-emerging East Asian bond issuance in 4Q14 totaled US\$347 million, down from 3Q14 and 4Q13 totals of US\$515 million and US\$762 million, respectively. In 4Q14, there were four bonds—three in Hong Kong dollars and one in renminbi—sold by three Malaysian entities—Cagamas, CIMB Bank, and Maybank.

Singaporean issuers' cross-border bond issuance in emerging East Asia summed to US\$451 million in 4Q14, a smaller amount than in both 3Q14 (US\$566 million) and 4Q13 (US\$526 million). Total cross-border issuance in 4Q14 comprised three bonds, one each denominated in renminbi, Hong Kong dollars, and Malaysian ringgit.

From 1 January to mid-February 2015, intra-emerging East Asian bond issuance remained active, led again by PRC issuers, who raised US\$2.3 billion from the sale of bonds in other emerging East Asian markets, followed by cross-border issuers in Hong Kong, China (US\$807 million); Singapore (US\$354 million); the Republic of Korea (US\$181 million); Indonesia (US\$85 million); and Malaysia (US\$79 million).

Emerging East Asia's G3 currency bond issuance reached a record-high in 2014.⁵

Emerging East Asia's G3 currency bond issuance reached a record-high US\$198.4 billion in 2014 (**Table 4**). The US dollar was the main currency used in G3-denominated emerging East Asian bonds in 2014, accounting for 94% of the regional total. The euro accounted for 5% of the total and Japanese yen comprised the remainder. The relatively large volume of G3 currency bond issues in 2014 can be ascribed to issuers continuing to take advantage of

⁵ G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2013			2014		
Issuer	Amount (US\$ million)	Issue Date	Issuer	Amount (US\$ million)	Issue Date
China, People's Rep. of	56,709		China, People's Rep. of	98,227	
CNOOC Finance 3.0% 2023	2,000	9-May-13	Bank of China 5% 2024	3,000	13-Nov-14
Evergrande Real Estate 8.75% 2018	1,500	30-Oct-13	ICBC 6% Perpetual	2,940	10-Dec-14
Sinopec Group 4.375% 2023	1,500	17-Oct-13	Alibaba 2.5% 2019	2,250	28-Nov-14
CNOOC Curtis Funding 4.5% 2023	1,300	3-Oct-13	Alibaba 3.6% 2024	2,250	28-Nov-14
Sinopec Capital 3.125% 2023	1,250	24-Apr-13	CNOOC Finance 4.25% 2024	2,250	30-Apr-14
Others	49,159		Others	85,537	
Hong Kong, China	24,011		Hong Kong, China	34,530	
Hutchison Whampoa 3.75% Perpetual	2,367	10-May-13	Hutchison Whampoa 1.625% 2017	2,000	31-Oct-14
Shimao Property 6.625% 2020	800	14-Jan-13	Hutchison Whampoa 1.375% 2021	1,815	31-Oct-14
Others	20,844		Others	30,715	
Indonesia	12,270		Indonesia	11,423	
Pertamina 4.3% 2023	1,625	20-May-13	Indonesia (Sovereign) 5.875% 2024	2,000	15-Jan-14
Pertamina 5.625% 2043	1,625	20-May-13	Indonesia (Sovereign) 6.75% 2044	2,000	15-Jan-14
Indonesia (Sovereign) 3.375% 2023	1,500	15-Apr-13	Pertamina 6.45% 2044	1,500	30-May-14
Indonesia (Sovereign) 4.625% 2043	1,500	15-Apr-13	Indonesia (Sovereign) 4.35% 2024	1,350	10-Sep-14
Perusahaan Penerbit SBSN 6.125% 2019	1,500	17-Sep-13	Perusahaan Gas Negara (PGN) 5.125% 2024	1,350	16-May-14
Others	4,520		Others	3,223	
Korea, Rep. of	30,400		Korea, Rep. of	31,714	
Korea Eximbank 2.0% 2020	1,369	30-Apr-13	Republic of Korea (Sovereign) 4.125% 2044	1,000	10-Jun-14
The Republic of Korea (Sovereign) 3.875% 2023	1,000	11-Sep-13	Woori Bank 4.75% 2024	1,000	30-Apr-14
Korea Development Bank 3.0% 2019	750	17-Sep-13	Republic of Korea (Sovereign) 2.125% 2024	947	10-Jun-14
Others	27,281		Others	28,766	
Malaysia	4,065		Malaysia	3,567	
1MDB Global Investments 4.40% 2023	3,000	19-Mar-13	Cahaya Capital 0.162% 2021	500	18-Sep-14
Sime Darby 2.053% 2018	400	29-Jan-13	AmBank 3.125% 2019	400	3-Jul-14
Sime Darby 3.29% 2023	400	29-Jan-13	EXIM Sukuk Malaysia 2.874% 2019	300	19-Feb-14
Others	265		Others	2,367	
Philippines	3,858		Philippines	2,675	
San Miguel Corporation 4.875% 2023	800	26-Apr-13	Philippines (Sovereign) 4.2% 2024	1,500	21-Jan-14
JG Summit 4.375% 2023	750	23-Jan-13	SM Investments 4.875% 2024	350	10-Jun-14
Petron Corporation 7.50% Perpetual	750	6-Feb-13	SMC Global Power 7.5% Perpetual	350	7-May-14
Others	1,558		Others	475	
Singapore	5,925		Singapore	11,661	
Olam International 6.75% 2018	750	29-Jan-13	OCBC Bank 4% 2024	1,000	15-Apr-14
Global A&T Electronics 10.00% 2019	625	7-Feb-13	OCBC Bank 4.25% 2024	1,000	19-Jun-14
Stats Chippac 4.5% 2018	611	20-Mar-13	Avago Technologies 2% 2021	1,000	6-May-14
Flextronics International 5.0% 2023	500	20-Feb-13	United Overseas Bank 3.75% 2024	800	19-Mar-14
Others	3,439		Others	7,861	
Thailand	3,445		Thailand	3,565	
PTT Exploration & Production 3.707% 2018	500	16-Sep-13	PTT Exploration & Production 4.875% Perpetual	1,000	18-Jun-14
Others	2,945		Others	2,565	
Viet Nam	827		Viet Nam	1,000	
Emerging East Asia Total	141,510		Emerging East Asia Total	198,362	
Memo Items:			Memo Items:		
India	14,053		India	18,323	
Bharti Airtel International 5.125% 2023	1,500	11-Mar-13	Bharti Airtel 5.35% 2024	1,000	20-May-14
Vedanta Resources 6.0% 2019	1,200	3-Jun-13	Abja Investment 5.95% 2024	1,000	31-Jul-14
Others	11,353		Others	16,323	
Sri Lanka	2,441		Sri Lanka	2,165	

Note: Data excludes certificate of deposit.

Sources: Bloomberg LP, newspaper and wire reports.

low borrowing costs with expectations of a looming policy rate increase in US.

The largest source of G3 currency bond issuance in emerging East Asia in 2014 was the PRC, with G3 issuance amounting to US\$98.2 billion, surpassing 2013's total of US\$56.7 billion. Financial institutions

topped all other categories in the PRC in issuing G3 currency bonds, selling a combined 55% of the PRC's total G3 currency bonds in 2014. Alibaba Group, an e-commerce company, stood as the single largest issuer with a total of US\$8 billion from its multi-tranche bond sale in November. The second largest PRC-based issuer of G3 currency bonds in 2014 was Sinopec, which raised

US\$7 billion from its multi-tranche bond sale in April and June.

G3 currency bond issuance from Hong Kong, China totaled US\$34.5 billion in 2014—higher than 2013's total of US\$24 billion and the second highest for the year across the region's markets. Of the total, 56% was issued by financial institutions. Hutchison Whampoa raised the largest sum in 2014, selling in October a US\$2 billion 3-year bond at a coupon rate of 1.625%, a US\$1.5 billion 10-year bond at 3.625%, and a EUR1.5 billion 7-year bond at 1.325%. Notably, the Government of the Special Administrative Region of Hong Kong, China launched its first Islamic bond—a US\$1 billion 5-year bond with a 2.005% coupon—in September.

Issuers in the Republic of Korea had a total of US\$31.7 billion worth of G3 currency bond issues in 2014, up slightly from US\$30.4 billion in 2013. Almost half (49%) of this issuance came from financial institutions, led by Korea Eximbank and Korea Development Bank with currency issues of US\$5.7 billion and US\$4.8 billion, respectively.

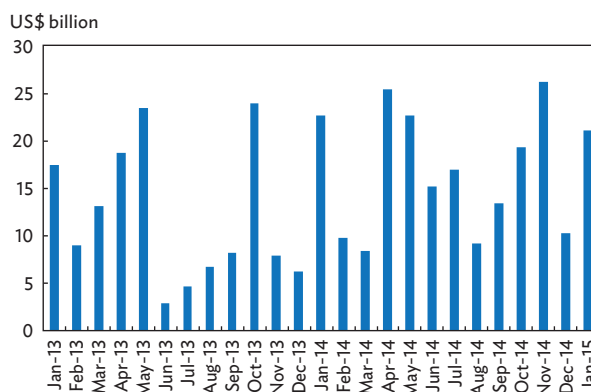
ASEAN member economies garnered a combined total of US\$33.9 billion of G3 currency bonds issued in 2014, up from a 2013 total of US\$30.4 billion. Indonesian issuers accumulated US\$11.4 billion worth of G3 currency bond issues in 2014, down from US\$12.3 billion in 2013, with the central government accounting for 59% of the total. G3 currency bond issuance from Malaysia slipped to US\$3.6 billion in 2014 from US\$4.1 billion in 2013, with all bonds sold in 2014 coming from financial institutions, mostly banks. Philippine G3 currency bond issuance was valued at US\$2.7 billion in 2014, down from 2013's total of US\$3.9 billion. There were five Philippine issuers of G3 currency bonds in 2014, with the government selling the largest bond worth US\$1.5 billion and carrying a 10-year tenor and a coupon of 4.2%.

Singaporean issues had the largest amount of G3 currency issuance among ASEAN members at US\$11.7 billion, up from US\$5.9 billion in 2013. Financial institutions continued to dominate the issuance of G3 currency bonds in Singapore, accounting for 74% of the 2014 total, led by DBS, OCBC Bank, and United Overseas Bank. Thai issuers posted US\$3.6 billion of G3 currency bond issues in 2014, up slightly from 2013, with 55% of the total coming from banks. Finally, Viet Nam tapped the G3 bond market in November

with a US\$1 billion 10-year sovereign bond carrying a 4.8% coupon.

Issuance of emerging East Asian G3 currency bonds exhibited a relatively strong start in 2015, with the monthly value reaching US\$21 billion in January, up from \$10.2 billion in December and higher than the 2014 monthly average of US\$16.5 billion (**Figure 7**). The PRC remained the region's largest market for G3 currency bond issuance in January, accounting for 38% of the region's total.

Figure 7: G3 Currency Bond Issuance



Source: AsianBondsOnline calculations based on Bloomberg LP data.

EUR-denominated bond issuance from emerging East Asia increased between the beginning of January and mid-February 2015. This appeared to be motivated by expectations of falling borrowing costs in the eurozone, especially in light of the European Central Bank's announcement on 22 January of an expansion of its asset purchase program to include sovereign bonds in addition to existing purchases of bonds issued by the private sector. Issuance of EUR-denominated bonds sold by emerging East Asian entities during this period stood at US\$1.7 billion, which constituted 6% of the region's overall G3 currency bond issuance. The biggest EUR-denominated bond issuance came from the State Grid Corporation of China, which raised EUR1 billion from a dual-tranche bond sale in late January.

Government bond yields fell for most tenors in emerging East Asia due to easing inflation.

Despite the end of the US Federal Reserve's asset purchase program in September 2014 and the continued

strength of the US economy, the outlook for the world economy continues to be weak due to vulnerabilities in other major economies such as the European Union. This soft growth has also contributed to falling oil prices. At end-September, the WTI crude oil spot price was US\$91.17, but by the second half of February it had fallen to US\$52.66.

Weak global growth and plummeting oil prices have led to expectations that the Federal Reserve might delay raising interest rates. In addition, slower growth and declining oil prices have also led to reduced inflation expectations for emerging East Asia.

The yield curves fell for almost all tenors in most emerging East Asian markets between end-December 2014 and mid-February 2015 (**Figure 8**). The market with the biggest average decline in yields was Indonesia, where the yield curve shifted downward between 29 basis points (bps) and 68 bps. This was despite Bank Indonesia raising its policy rate in November by 25 bps to 7.75%. While the removal of fuel subsidies raised inflation expectations, since then, falling oil prices and a higher GDP growth target prompted Indonesia to cut policy rates by 25 bps to 7.50% on 17 February. Indonesia's GDP grew 5.0% in 2014 and is targeted to expand 5.7% in 2015.

With the exception of Indonesia, all other markets have shown a declining trend in their inflation rates (**Figures 9a, 9b**). Two economies, Thailand and Singapore, are flirting with deflation: Thailand reported an inflation rate of -0.4% in January and Singapore reported a rate of -0.2% in December. As a result, Thailand's yield curve shifted downward for most tenors. Singapore's yields have also generally fallen along with declining US yields. The 20-year tenor fell the most at 23 bps. Singapore's response to its negative inflation was to reduce the slope by which the S\$NEER band is set to appreciate.

In Thailand, while inflation is negative and the yield curve has mostly fallen—the 14-year tenor plunged 21 bps—the Thai central bank's last rate cut was on 12 March 2014 (**Figure 10a**). The Bank of Thailand has signaled that surveys indicate expectations are for negative inflation to be temporary. The central bank forecasts inflation to turn positive in 3Q15.

Similar to Indonesia, the Philippines experienced a change in inflation expectations. Since its last rate hike on

11 September 2014, the Bangko Sentral ng Pilipinas (BSP) has kept its policy rate steady. Inflation in the Philippines was elevated for most of 2014, but since September inflation has plunged. The Philippines reported an inflation rate of 2.4% in January versus a rate of 4.9% in August. In its Monetary Board meeting on 12 February, the BSP also noted that inflation pressures had abated. As a result, most tenors in the Philippines showed declining yields, with the 25-year tenor shedding 46 bps.

In the PRC, inflation hit a 5-year low in January, with prices rising 0.8% y-o-y. For most of 2014, the PRC avoided any broad-based stimulus, preferring targeted measures to stimulate the agricultural and small-sized industrial sectors. But on 24 November 2014, the PRC reduced its benchmark lending rates by 40 bps to 5.6% and its benchmark deposit rates by 25 bps to 2.75% (**Figure 10b**).

In the Republic of Korea, the central bank reduced its policy rate by 25 bps on 15 October to 2.0%. Inflation in the Republic of Korea fell to 0.8% y-o-y in December from 1.0% y-o-y in November. The Bank of Korea also cut its inflation forecast from 2.4% to 1.9% in 2015, and the GDP growth rate to 3.4% from 3.9%. Yields have fallen in the Republic of Korea between 5 bps and 26 bps, between end-December 2014 and mid-February 2015.

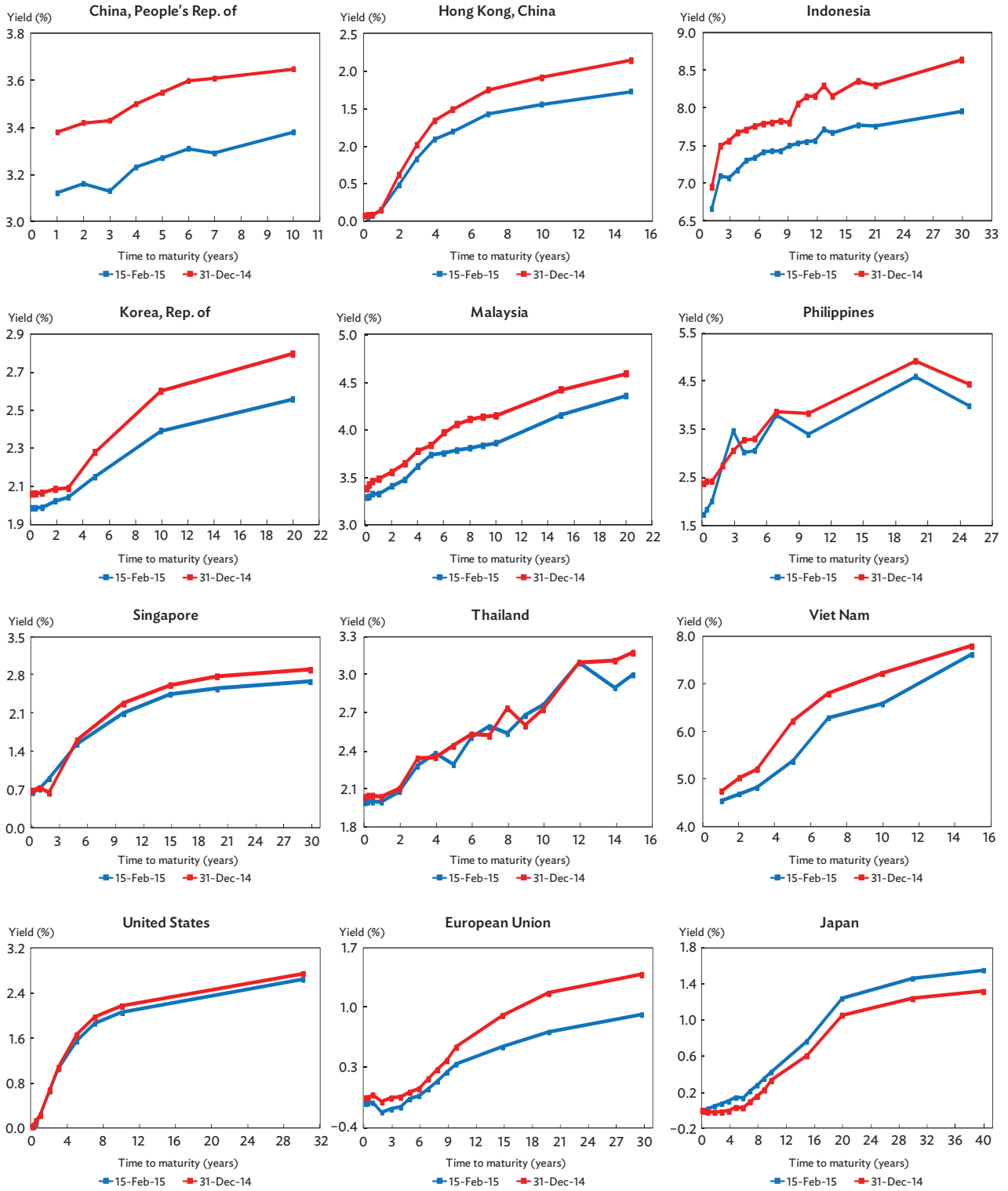
In Viet Nam, the yield curve shifted downward between 18 bps and 85 bps between end-December 2014 and mid-February 2015. Inflation in Viet Nam has been falling steadily since June 2014, with January inflation at only 0.9% y-o-y. The government is also seeking to boost bank lending by targeting an annual lending growth rate of 12%–14%. Viet Nam's central bank reduced its deposit rate cap by 50 bps to 5.5% on 28 October 2014. For full-year 2015, the government set an inflation target of 5.0% and a GDP growth target of 6.0%. (GDP growth in 2014 also stood at 6.0%).

The 2-year versus 10-year spread declined in almost all markets in the region, except Indonesia and Thailand, in line with declining inflation in the region (**Figure 11**).

Corporate yields tightened versus government yields in 4Q14 everywhere in the region except in Malaysia.

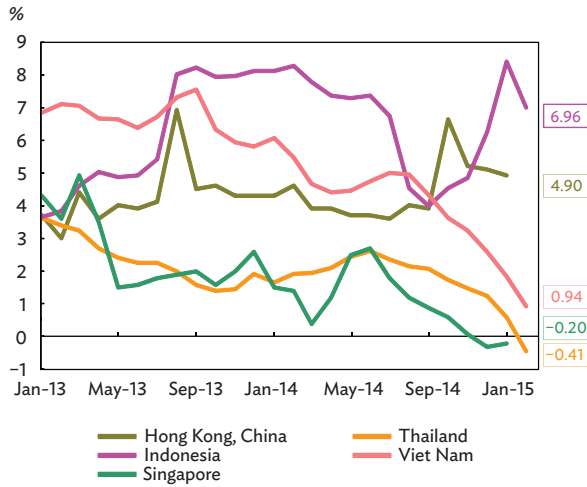
Credit spreads between AAA-rated corporate bonds and government bonds tightened in the PRC and the

Figure 8: Benchmark Yield Curves—LCY Government Bonds



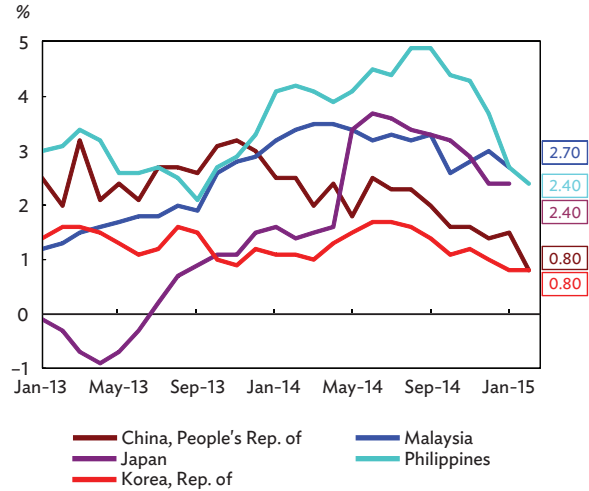
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 9a: Headline Inflation Rates



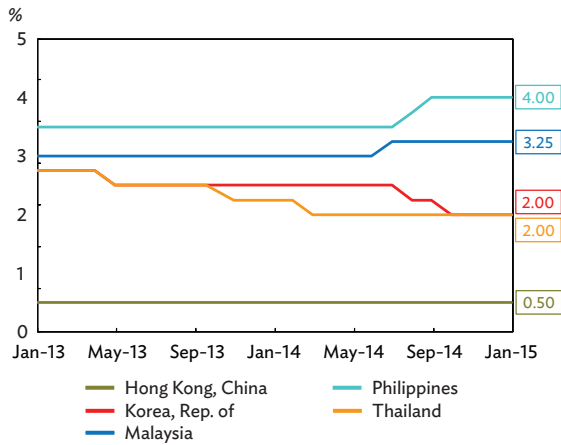
Note: Data as of end-January 2015 except for Hong Kong, China and Singapore as of end-December 2014.
Source: Bloomberg LP.

Figure 9b: Headline Inflation Rates



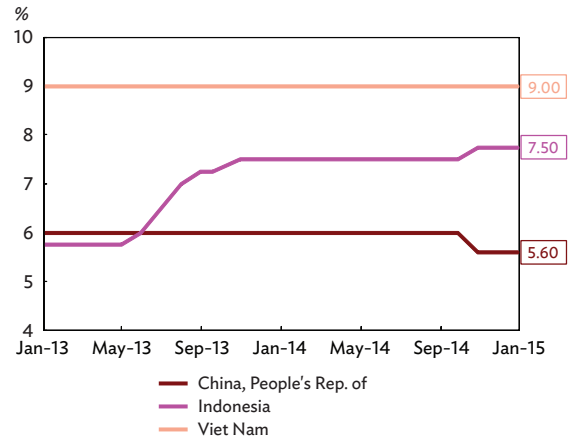
Note: Data as of end-January 2015 except for Japan and Malaysia as of end-December 2014.
Source: Bloomberg LP.

Figure 10a: Policy Rates



Note: Data as of end-January 2015.
Source: Bloomberg LP.

Figure 10b: Policy Rates



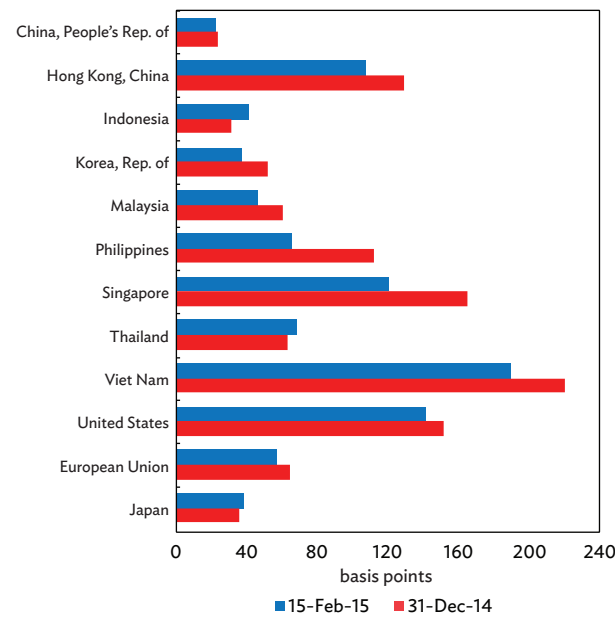
Notes:
1. Data as of end-January 2015.
2. For Viet Nam base interest rate was used.
Source: Bloomberg LP.

Republic of Korea in 4Q14, due to increased corporate demand on the back of yield pick-up as interest rates fell. In contrast, the spread widened in Malaysia, as corporate bond issuance declined in 4Q14 on a y-o-y basis, demonstrating slowing demand (Figure 12a). RAM ratings released a report showing that in the first

half of 2014 the downgrade-to-upgrade ratio in Malaysia increased.

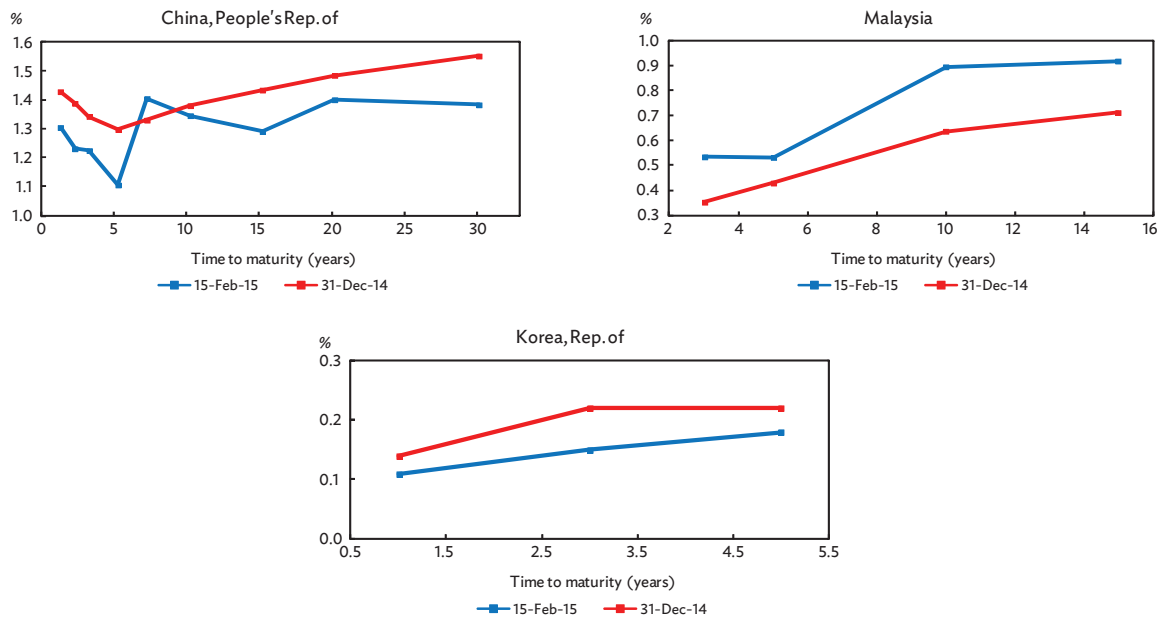
Credit spreads between AAA-rated and lower-rated corporate bonds were roughly unchanged in all markets with the exception of Malaysia (Figure 12b).

Figure 11: Yield Spreads Between 2- and 10-Year Government Bonds



Source: Based on data from Bloomberg LP.

Figure 12a: Credit Spreads—LCY Corporates Rated AAA vs. Government Bonds

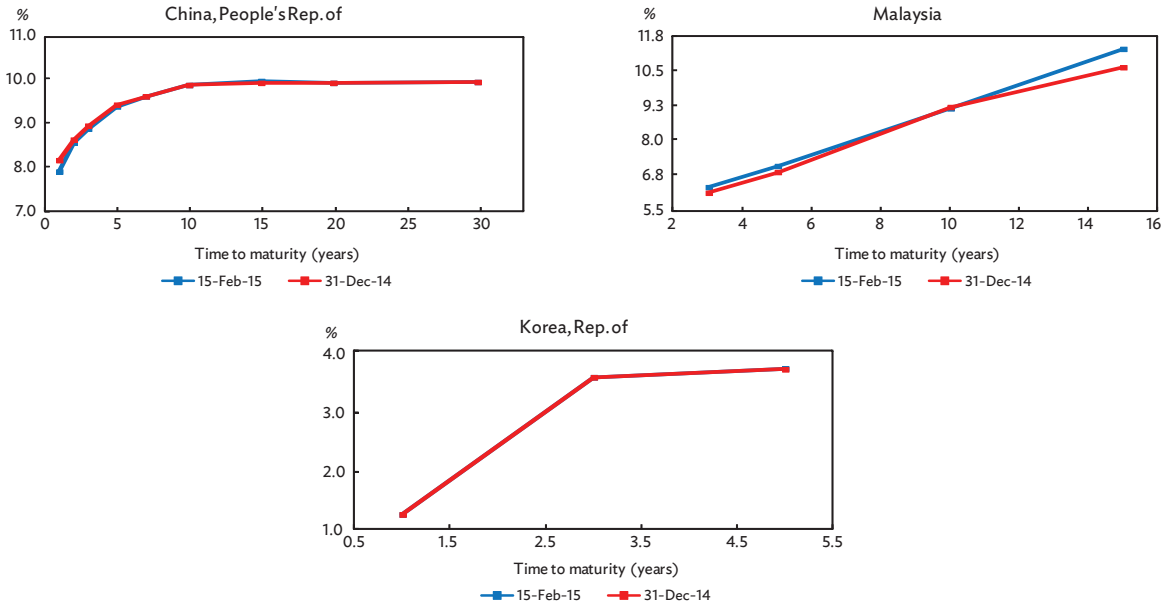


LCY = local currency.

Note: Credit spreads are obtained by subtracting government yields from corporate indicative yields.

Sources: People's Republic of China (*ChinaBond*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).

Figure 12b: Credit Spreads—Lower-Rated LCY Corporates vs. AAA



LCY = local currency.

Notes:

1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
 2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
- Sources: People's Republic of China (*ChinaBond*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).