

Bond Market Developments in the Fourth Quarter of 2015

Size and Composition

Emerging East Asia's local currency bond market reached a size of USD9,105 billion at the end of December.³

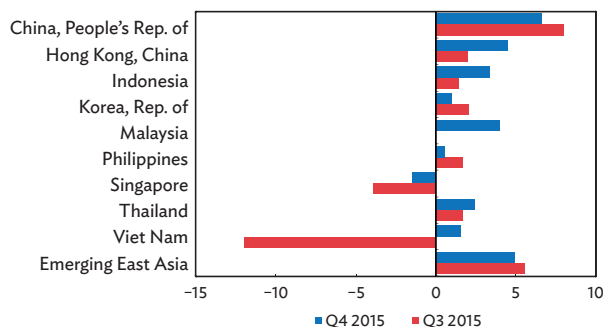
The outstanding size of emerging East Asia's local currency (LCY) bond market climbed to USD9,105 billion at the end of December on growth of 5.0% quarter-on-quarter (q-o-q) in the fourth quarter (Q4) of 2015. This, however, was slightly lower than the 5.6% q-o-q growth posted in the third quarter (Q3) of 2015 (**Figure 1a**). The fastest growing bond markets in the region were those of the People's Republic of China (PRC) (6.7%); Hong Kong, China (4.5%); and Malaysia (4.0%). All other markets recorded q-o-q growth rates of between 0.6% and 3.4% in Q4 2015. It was only in Singapore where the LCY bond market contracted on a q-o-q basis during the review period.

Growth in the region's LCY bond market continued to be driven by the PRC, which remained the largest bond market in emerging East Asia. The PRC's outstanding bonds of USD6,150 billion at the end of December accounted for a 67.5% share of the region's total bond stock. Both its government (7.6% q-o-q) and corporate (4.9% q-o-q) bond segments reported robust growth in Q4 2015.

The PRC's government bond market's growth was buoyed by an increase in the stock of local government bonds that was driven by the refinancing of local government bonds and the need to fund expenditures as revenues from property sales continued to decline. Corporate bond market growth was supported by increases in the stock of Tier 2 bonds, medium-term notes, and commercial paper as corporates tapped bond markets with banks increasingly reluctant to lend.

The Republic of Korea was the second largest LCY bond market in emerging East Asia at a size of USD1,720 billion at the end of December on growth of 1.1% q-o-q. Growth in the Republic of Korea's bond market in Q4 2015 was fairly balanced between its government (1.0% q-o-q)

Figure 1a: Growth of LCY Bond Markets in Q3 2015 and Q4 2015 (q-o-q, %)



LCY = local currency, q-o-q = quarter-on-quarter, Q3 = third quarter, Q4 = fourth 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 31 December 2015 currency exchange rates and do not include currency effects.
 4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.
 5. Malaysia's Q3 2015 q-o-q growth rate is -0.01% and is not visible in the chart.
- Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget 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 and Vietnam Bond Market Association).

and corporate (1.1% q-o-q) segments. Growth in the government bond market stemmed from increases in the stock of central government bonds and industrial finance debentures; central bank bonds contracted during the review period.

In Thailand, the LCY bond market reached a size of USD278 billion at the end of December on growth of 2.5% q-o-q. Both the government and corporate bond segments posted q-o-q growth of 2.5% in Q4 2015. The expansion of Thailand's bond market was led by increases in its stock of government bonds and Treasury bills, state-owned enterprise bonds, and corporate bonds.

At the end of December, Malaysia's outstanding bond stock reached USD261 billion on growth of 4.0% q-o-q in Q4 2015, reversing a marginal 0.01% q-o-q contraction

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.

in Q3 2015. Much of this growth in Q4 2015 came from the corporate bond market, which expanded 7.1% q-o-q. Government bonds contributed to growth at a much slower pace of 1.6% q-o-q.

More than half of Malaysia's LCY bond market comprised *sukuk* (Islamic bonds) at the end of December, making it the largest *sukuk* market in the region. *Sukuk* accounted for 40% of Malaysia's government bond sector and 71% of the corporate bond segment.

The LCY bond market of Singapore contracted 1.5% q-o-q to USD221 billion at the end of December. The decline was due largely to reduced issuance of Monetary Authority of Singapore bills in Q4 2015. Corporate bonds also declined marginally as maturing bonds outpaced new corporate bond issuance during the review period.

At the end of December, Hong Kong, China's outstanding bond stock stood at USD209 billion on growth of 4.5% q-o-q. Growth in Q4 2015 was largely driven by an increase in government bonds, particularly Exchange Fund Bills as the Hong Kong Monetary Authority siphoned off liquidity amid rising demand for Hong Kong dollars following the devaluation of the Chinese renminbi. Corporate bonds also contributed to the growth in Q4 2015.

In Indonesia, the outstanding stock of LCY bonds climbed to USD127 billion at the end of December on overall growth of 3.4% q-o-q. Growth was mainly driven by increases in the stock of Treasury bills and bonds as the government sought to fund its budget deficit. It also issued more than its planned issuance target to help prefund expenditures for 2016 and lock-in lower borrowing costs. On the other hand, the stock of central bank bills continued to decline as Bank Indonesia opted to utilize other monetary policy tools to manage liquidity. Indonesia's corporate bond market was broadly steady in Q4 2015, posting 0.1% q-o-q growth.

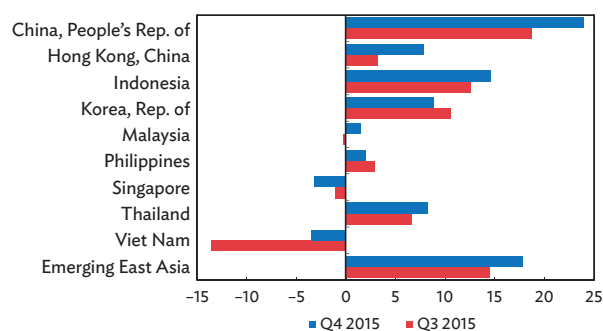
The Philippines LCY bond market reached a size of USD101 billion at the end of December on marginal growth of 0.6% q-o-q. Government bonds rose on the back of increases in Treasury bonds and new debt issuance by government-owned Land Bank of the Philippines in Q4 2015. Corporate bonds, on the other hand, grew at a much faster pace of 2.8% q-o-q.

At the end of December, LCY bonds outstanding in Viet Nam stood at USD38 billion on growth of 1.5% q-o-q. Growth in Q4 2015 was led by Treasury bonds, state-owned enterprise bonds, and corporate bonds. As interest for long-dated bonds remained weak, the government decided to allow for the issuance of bonds with maturities of 5 years or less beginning in November. This resulted in successful auctions and allowed the government to finance its budget deficit. On the other hand, central bank bonds fell by nearly half during the review period.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market grew at a pace of 17.8% in Q4 2015 compared with 14.4% y-o-y in Q3 2015 (**Figure 1b**). The fastest growing bond markets were those of the PRC (23.9% y-o-y), Indonesia (14.4% y-o-y), and the Republic of Korea (8.8% y-o-y). All other emerging East Asian markets recorded y-o-y growth rates of between 1.4% and 8.1% except for Singapore and Viet Nam, which recorded y-o-y contractions in Q4 2015.

At the end of December, government bonds still comprised a majority of emerging East Asia's LCY bond market, accounting for 61.5% of the total bond stock

Figure 1b: Growth of LCY Bond Markets in Q3 2015 and Q4 2015 (y-o-y, %)



LCY = local currency, Q3 = third quarter, Q4 = fourth quarter, 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 31 December 2015 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 Budget 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 and Vietnam Bond Market Association).

Table 1: Size and Composition of LCY Bond Markets

	Q4 2014		Q3 2015		Q4 2015		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q4 2014		Q4 2015		Q4 2014		Q4 2015	
							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														
Total	5,192	100.0	5,891	100.0	6,150	100.0	2.0	12.7	6.7	23.9	1.0	9.9	4.4	18.4
Government	3,335	64.2	3,862	65.6	4,067	66.1	1.7	11.2	7.6	27.6	0.6	8.5	5.3	22.0
Corporate	1,858	35.8	2,029	34.4	2,083	33.9	2.7	15.3	4.9	17.4	1.6	12.5	2.7	12.1
Hong Kong, China														
Total	194	100.0	200	100.0	209	100.0	(0.04)	(0.2)	4.5	7.8	0.1	(0.2)	4.5	7.8
Government	109	56.4	113	56.4	120	57.1	(0.8)	0.9	5.8	9.2	(0.6)	0.9	5.8	9.3
Corporate	85	43.6	87	43.6	90	42.9	0.9	(1.7)	2.8	5.9	1.1	(1.7)	2.8	6.0
Indonesia														
Total	123	100.0	115	100.0	127	100.0	1.6	16.8	3.4	14.4	(0.01)	14.8	9.9	2.8
Government	106	85.4	98	85.3	109	85.7	1.7	19.8	4.0	14.8	0.1	17.7	10.5	3.1
Corporate	18	14.6	17	14.7	18	14.3	1.2	2.1	0.1	12.1	(0.4)	0.3	6.4	0.8
Korea, Rep. of														
Total	1,703	100.0	1,687	100.0	1,720	100.0	2.6	7.8	1.1	8.8	(0.7)	3.8	1.9	1.0
Government	701	41.2	686	40.7	700	40.7	7.5	16.4	1.0	7.4	4.0	12.0	1.9	(0.2)
Corporate	1,002	58.8	1,000	59.3	1,020	59.3	(0.5)	2.6	1.1	9.7	(3.8)	(1.3)	2.0	1.8
Malaysia														
Total	316	100.0	245	100.0	261	100.0	2.3	8.0	4.0	1.4	(4.1)	1.1	6.5	(17.4)
Government	185	58.6	137	55.9	142	54.7	2.2	8.3	1.6	(5.5)	(4.1)	1.4	4.0	(23.0)
Corporate	131	41.4	108	44.1	118	45.3	2.3	7.5	7.1	11.1	(4.1)	0.7	9.6	(9.5)
Philippines														
Total	104	100.0	101	100.0	101	100.0	1.5	5.6	0.6	1.9	2.0	4.8	0.2	(2.8)
Government	87	83.5	84	83.4	84	83.0	1.3	2.0	0.2	1.3	1.8	1.2	(0.2)	(3.4)
Corporate	17	16.5	17	16.6	17	17.0	2.6	28.7	2.8	5.0	3.2	27.8	2.4	0.1
Singapore														
Total	244	100.0	223	100.0	221	100.0	0.7	5.0	(1.5)	(3.2)	(3.1)	0.1	(1.2)	(9.5)
Government	147	60.1	132	59.1	129	58.6	(0.3)	2.8	(2.3)	(5.7)	(4.0)	(2.1)	(2.1)	(11.8)
Corporate	97	39.9	91	40.9	91	41.4	2.1	8.6	(0.2)	0.5	(1.7)	3.5	0.03	(6.1)
Thailand														
Total	281	100.0	269	100.0	278	100.0	0.9	2.9	2.5	8.1	(0.5)	2.2	3.5	(1.2)
Government	211	75.1	201	74.9	208	74.9	0.5	(0.6)	2.5	7.8	(1.0)	(1.2)	3.5	(1.5)
Corporate	70	24.9	68	25.1	70	25.1	2.4	14.8	2.5	9.0	0.9	14.1	3.4	(0.4)
Viet Nam														
Total	42	100.0	38	100.0	38	100.0	(8.9)	32.4	1.5	(3.5)	(9.6)	30.6	1.5	(8.2)
Government	41	98.3	37	97.0	37	96.7	(9.0)	32.9	1.2	(5.0)	(9.7)	31.1	1.1	(9.7)
Corporate	0.7	1.7	1	3.0	1	3.3	(3.1)	8.5	13.3	84.3	(3.8)	7.0	13.3	75.3
Emerging East Asia														
Total	8,200	100.0	8,769	100.0	9,105	100.0	2.0	10.6	5.0	17.8	0.1	7.5	3.8	11.0
Government	4,922	60.0	5,351	61.0	5,595	61.5	2.2	10.9	5.9	20.5	0.5	7.9	4.6	13.7
Corporate	3,278	40.0	3,418	39.0	3,509	38.5	1.6	10.1	3.6	13.8	(0.5)	6.8	2.7	7.1
Japan														
Total	8,970	100.0	9,125	100.0	8,931	100.0	0.6	2.1	(1.9)	(0.1)	(7.9)	(10.2)	(2.1)	(0.4)
Government	8,290	92.4	8,464	92.8	8,274	92.7	0.7	2.4	(2.0)	0.2	(7.8)	(9.9)	(2.2)	(0.2)
Corporate	680	7.6	661	7.2	656	7.3	(0.1)	(1.7)	(0.5)	(3.1)	(8.5)	(13.6)	(0.8)	(3.5)

(-) = negative, LCY = local currency, q-o-q = quarter-on-quarter, Q3 = third quarter, Q4 = fourth 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—USD rates are used.

4. For LCY base, emerging East Asia growth figures based on 31 December 2015 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 Budget 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 and Vietnam Bond Market Association); and Japan (Japan Securities Dealers Association).

in Q4 2015 (**Table 1**). The region's government bond market reached a size of USD5,595 billion at the end of December, up 5.9% q-o-q and 20.5% y-o-y in Q4 2015. The PRC's government bond market was the largest in the region at USD4,067 billion, accounting for 72.7% of the region's aggregate government bond stock. The Republic of Korea's government bond market was the next largest at USD700 billion, followed by Thailand's at USD208 billion. In all emerging East Asian markets except the Republic Korea, the size of the government bond market exceeded that of the corporate bond market: the corporate bond market in the Republic of Korea accounted for a 59.3% share of the economy's total bond stock at the end of December.

The region's corporate bond market totaled USD3,509 billion at the end of December, up 3.6% q-o-q and 13.8% y-o-y in Q4 2015. The largest corporate bond markets in the region were those of the PRC (USD2,083 billion) and the Republic of Korea (USD1,020 billion). These two markets accounted for 59.4% and 29.1% of the region's total corporate bond stock, respectively. All other emerging East Asian markets comprised the remaining 11.6% share.

As a share of gross domestic product (GDP), emerging East Asia's LCY bond market rose to 63.9% in Q4 2015 from 61.7% in the previous quarter (**Table 2**). The share of government bonds to GDP climbed to 39.3% from 37.6% over the same period, while the share of corporate bonds to GDP rose marginally to 24.6% from 24.0%. The Republic of Korea had the largest share of bonds to GDP at 132.5%, followed by Malaysia (96.7%) and Singapore (79.2%). The markets with the smallest share of bonds to GDP were Indonesia (15.2%) and Viet Nam (20.5%).

Foreign investors' holdings of LCY governments bonds remain stable in emerging East Asia.

The shares of foreign holdings in LCY government bond markets in emerging East Asia remained broadly stable despite the first rate hike initiated by the United States (US) Federal Reserve in 9 years in December. Foreign investors' holdings in Indonesia and Malaysia, as a share of the total market, continued to rise in Q4 2015 even as their currencies weakened against the US dollar in 2015. Both markets have more than 30% of their LCY bonds held by offshore investors, making them vulnerable to the risks associated with capital flight.

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

	Q4 2014	Q3 2015	Q4 2015
China, People's Rep. of			
Total	50.7	56.2	59.0
Government	32.5	36.9	39.0
Corporate	18.1	19.4	20.0
Hong Kong, China			
Total	66.8	65.6	68.6
Government	37.6	37.0	39.2
Corporate	29.1	28.6	29.4
Indonesia			
Total	14.5	15.0	15.2
Government	12.4	12.8	13.0
Corporate	2.1	2.2	2.2
Korea, Rep. of			
Total	125.1	129.9	132.5
Government	51.5	52.9	53.9
Corporate	73.6	77.1	78.6
Malaysia			
Total	99.7	94.2	96.7
Government	58.5	52.7	52.9
Corporate	41.3	41.5	43.9
Philippines			
Total	36.9	36.1	35.8
Government	30.8	30.1	29.7
Corporate	6.1	6.0	6.1
Singapore			
Total	82.9	80.2	79.2
Government	49.8	47.4	46.4
Corporate	33.1	32.8	32.8
Thailand			
Total	70.5	72.8	74.0
Government	52.9	54.5	55.4
Corporate	17.6	18.3	18.6
Viet Nam			
Total	22.6	20.6	20.5
Government	22.2	20.0	19.8
Corporate	0.4	0.6	0.7
Emerging East Asia			
Total	57.6	61.7	63.9
Government	34.6	37.6	39.3
Corporate	23.0	24.0	24.6
Japan			
Total	220.6	220.4	215.2
Government	203.9	204.4	199.4
Corporate	16.7	16.0	15.8

GDP = gross domestic product, LCY = local currency, Q3 = third quarter, Q4 = fourth quarter.

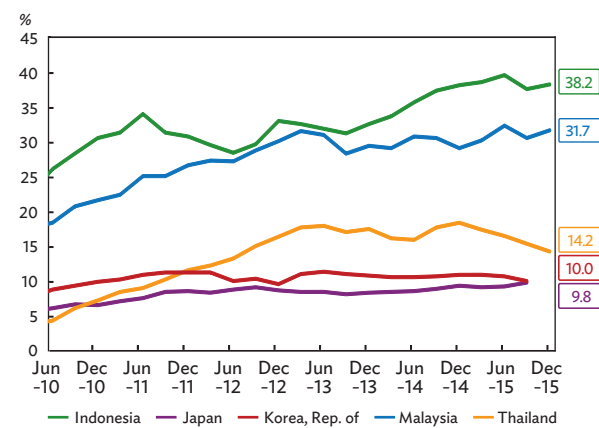
Notes:

1. Data for GDP is from CEIC. For Hong Kong, China; Republic of Korea; and Singapore; Q4 2015 GDP figures carried over from Q3 2015.
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 Budget 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 and Vietnam Bond Market Association); and Japan (Japan Securities Dealers Association).

Foreign ownership of LCY government bonds in Q4 2015, as a share of the total government bond market, was the highest in Indonesia among all markets providing such data in emerging East Asia. The share of foreign holdings in the Indonesian LCY government bond market climbed to 38.2% in Q4 2015 from 37.6% in Q3 2015 (**Figure 2**). Offshore investors remain attracted to Indonesian LCY government bonds, which offer the highest yields among all markets in the region. About 45% of these investors are positioned at the long-end of the yield curve, as they remain confident in Indonesia's macroeconomic fundamentals and are optimistic about government policy packages to boost economic growth. Some foreign governments and central banks also hold Indonesian government bonds.

Figure 2: Foreign Holdings of LCY Government Bonds in Select Asian Economies (% of total)



LCY = local currency.
Note: Data as of end-December 2015 except for Japan and the Republic of Korea (end-September 2015).
Source: *AsianBondsOnline*.

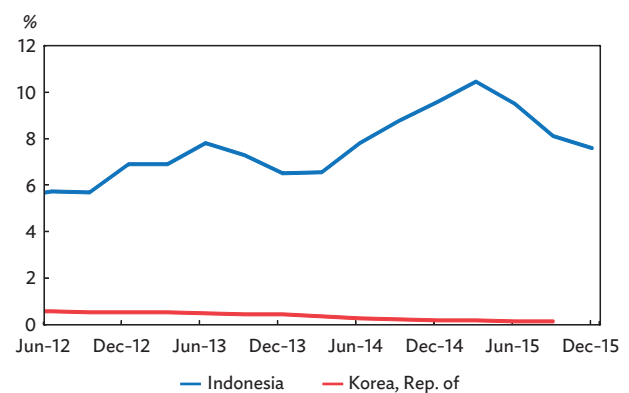
In Malaysia, the share of foreign holdings climbed more than 1 percentage point in Q4 2015 to 31.7%. Sentiments in the government bond market improved as the Malaysian ringgit stabilized in the latter part of 2015.

On the other hand, foreign holders' share in Thailand declined by more than 1 percentage point to 14.2% in Q4 2015. Foreign fund outflows were recorded in the run-up to the Federal Reserve's rate hike in December. In addition, economic conditions remained weak amid falling exports and persistent deflation. In the Republic of Korea, offshore holdings of LCY bonds dropped to a share of 10.0% of the total in Q3 2015, the latest quarter for which data are available.

Foreign investor appetite for the region's corporate bonds continued to pale in comparison with that for government bonds. Available data for both Indonesia and the Republic of Korea showed much lower foreign holding shares in corporate bond markets than in government bond markets. This may be partly explained by the illiquid nature of most of the region's corporate bonds, with the majority of investors tending to buy and hold until maturity. In addition, foreign investors often shy away from corporate bonds because of the added due diligence requirements.

In Q4 2015, the share of foreign holdings in the Indonesian LCY corporate bond market slipped to 7.6% from 8.1% in Q3 2015 (**Figure 3**). In the Republic of Korea, offshore holdings of corporate bonds comprised a negligible share of 0.2% of the total market in Q3 2015, the latest quarter for which data are available, despite the relatively large size of its corporate bond market.

Figure 3: Foreign Holdings of LCY Corporate Bonds in Indonesia and the Republic of Korea (% of total)

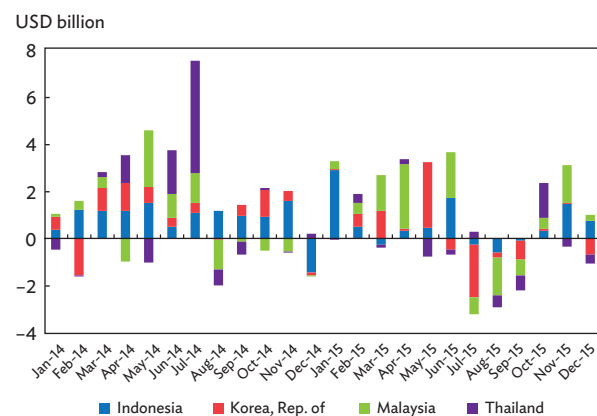


LCY = local currency.
Note: For Indonesia, data as of 23 December 2015. For the Republic of Korea, data as of end-September 2015.
Source: Based on data from Otoritas Jasa Keuangan and the Bank of Korea.

Net foreign capital inflows resumed in most emerging East Asian bond markets in Q4 2015.

Foreign fund inflows resumed in most emerging East Asian bond markets in Q4 2015, reversing the outflows recorded in Q3 2015 (**Figure 4**). In Q4 2015, three out of the four emerging East Asian markets for which data are available recorded net bond inflows. The only market that recorded net foreign fund outflow in Q4 2015 was the Republic of Korea.

Figure 4: 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 local currency government bonds were used as a proxy for bond flows.
2. Data provided as of end-December 2015.
3. Figures were computed based on 31 December 2015 currency exchange rates and do not include currency effects.

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

Indonesia recorded the largest net foreign fund inflows in Q4 2015 at USD2.5 billion, with investor sentiments turning positive amid an improving economic performance. As inflation slowed toward Bank Indonesia's target range, it provided some space for monetary easing.

Malaysia also witnessed the resumption of foreign fund inflows in its LCY bond market in Q4 2015, recording net capital inflows of USD2.3 billion that were partly driven by improved sentiments over the Malaysian ringgit. In Thailand, net capital inflows of USD0.7 billion were recorded in Q4 2015, mainly the result of large inflows in October which offset the outflows in November and December.

It was only in the Republic of Korea where net capital flows remained negative in Q4 2015. However, the net capital outflows of USD0.5 billion in Q4 2015 were less than the USD3.2 billion in outflows recorded in the previous quarter.

Emerging East Asia's LCY bond issuance exhibited a mixed performance in Q4 2015.

Emerging East Asia's total LCY bond issuance in Q4 2015 amounted to USD1,060 billion, of which 63.3% comprised government bond sales and 36.7% was issued by corporates (Table 3). Issuance in Q4 2015

was lower compared with Q3 2015 due to a q-o-q decline in the issuance of government bonds—including Treasury bonds and bonds issued by central banks and monetary authorities—but higher than Q4 2014 due to y-o-y increases in Treasury bond and corporate bond issuances.

The PRC continued to be the largest source of LCY bond issuances in the region, with Q4 2015 issuance of renminbi-denominated bonds reaching USD644 billion (CNY4,179 billion). This was down from Q3 2015 because of a quarterly drop in Treasury bond issuance, while it was much higher than in Q4 2014 because of annual increases in government bond issuance, led by local governments seeking to refinance maturing obligations, and corporate bond issuance.

In Hong Kong, China, LCY bond issuance climbed to USD90 billion (HKD696 billion) in Q4 2015, buoyed by growth in Hong Kong Monetary Authority (HKMA) bond sales, which accounted for 88.5% of Hong Kong, China's quarterly bond issuance as HKMA siphoned off liquidity. LCY corporate bond issues recorded double-digit growth in Q4 2015, accounting for the remaining 11.5% of total issuance.

LCY bonds sold in the Republic of Korea stood at USD160 billion (KRW188,446 billion) in Q4 2015, up from Q3 2015 amid a quarterly hike in bonds sold by the central bank and the corporate sector. However, issuance was down from Q4 2014, mainly a result of y-o-y declines in central bank and corporate bond issues.

The six Southeast Asian markets—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—recorded total LCY bond issuance of USD166 billion in Q4 2015, which was down relative to Q3 2015 and Q4 2014 totals.

LCY bonds issued in Indonesia in Q4 2015 totaled USD8 billion (IDR109,548 billion), which was down on a q-o-q basis because of a lower volume of issuance in the corporate bond market. Issuance by Bank Indonesia also declined as the central bank opted to use other monetary policy tools for managing liquidity. In contrast, Q4 2015 issuance of IDR-denominated bonds was up from Q4 2014 on the back of increased issuance by the government to finance its budget deficit.

In Malaysia, LCY bond issuance summed to USD22 billion (MYR94 billion) in Q4 2015. The increase from Q3 2015

Table 3: LCY-Denominated Bond Issuance (gross)

	Q4 2014		Q3 2015		Q4 2015		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q4 2015		Q4 2015	
							q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	320	100.0	674	100.0	644	100.0	(2.4)	110.1	(4.5)	100.8
Government	140	43.6	432	64.2	381	59.2	(9.9)	185.5	(11.8)	172.9
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	140	43.6	432	64.2	381	59.2	(9.9)	185.5	(11.8)	172.9
Corporate	181	56.4	241	35.8	262	40.8	11.0	51.9	8.6	45.1
Hong Kong, China										
Total	83	100.0	84	100.0	90	100.0	6.8	7.9	6.8	8.0
Government	75	90.2	79	93.7	80	88.5	0.9	5.9	0.9	6.0
Central Bank	75	89.8	77	92.1	79	87.5	1.5	5.2	1.5	5.3
Treasury and Other Govt.	0.4	0.5	1	1.6	0.9	1.0	(32.1)	140.0	(32.1)	140.1
Corporate	8	9.8	5	6.3	10	11.5	94.1	26.3	94.1	26.4
Indonesia										
Total	8	100.0	8	100.0	8	100.0	(0.8)	5.5	5.4	(5.2)
Government	7	83.3	6	85.4	7	90.3	5.0	14.5	11.5	2.9
Central Bank	3	41.7	1	18.9	1	14.1	(26.1)	(64.3)	(21.5)	(68.0)
Treasury and Other Govt.	3	41.6	5	66.5	6	76.2	13.8	93.6	20.9	74.0
Corporate	1	16.7	1	14.6	0.8	9.7	(34.4)	(39.0)	(30.2)	(45.2)
Korea, Rep. of										
Total	179	100.0	156	100.0	160	100.0	2.0	(3.3)	2.9	(10.3)
Government	71	39.7	71	45.6	72	44.6	0.01	8.8	0.9	1.0
Central Bank	42	23.3	36	23.2	37	22.9	0.7	(5.0)	1.5	(11.8)
Treasury and Other Govt.	29	16.4	35	22.3	35	21.7	(0.7)	28.3	0.2	19.1
Corporate	108	60.3	85	54.4	89	55.4	3.8	(11.3)	4.7	(17.7)
Malaysia										
Total	34	100.0	15	100.0	22	100.0	44.4	(20.4)	47.8	(35.1)
Government	26	75.8	9	62.5	9	39.6	(8.5)	(58.4)	(6.3)	(66.1)
Central Bank	18	54.2	3	20.9	3	11.6	(19.9)	(82.9)	(18.0)	(86.1)
Treasury and Other Govt.	7	21.6	6	41.6	6	28.0	(2.8)	3.2	(0.5)	(16.0)
Corporate	8	24.2	6	37.5	13	60.4	132.6	99.1	138.0	62.1
Philippines										
Total	4	100.0	10	100.0	4	100.0	(62.7)	(15.5)	(62.8)	(19.4)
Government	3	75.9	9	90.8	3	82.6	(66.0)	(8.0)	(66.2)	(12.3)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	3	75.9	9	100.0	3	82.6	(66.0)	(8.0)	(66.2)	(12.3)
Corporate	1	24.1	0.9	9.2	0.6	17.4	(29.3)	(39.0)	(29.5)	(41.9)
Singapore										
Total	82	100.0	63	100.0	59	100.0	(6.6)	(22.5)	(6.4)	(27.6)
Government	79	96.8	61	95.9	56	95.5	(7.1)	(23.6)	(6.8)	(28.6)
Central Bank	74	90.4	58	91.6	52	87.4	(10.9)	(25.1)	(10.7)	(30.0)
Treasury and Other Govt.	5	6.4	3	4.3	5	8.1	74.4	(1.4)	74.8	(7.9)
Corporate	3	3.2	3	4.1	3	4.5	4.1	10.1	4.4	2.9
Thailand										
Total	58	100.0	62	100.0	60	100.0	(4.4)	13.7	(3.5)	3.9
Government	45	77.9	51	81.6	50	83.0	(2.6)	21.3	(1.7)	10.8
Central Bank	34	59.1	40	65.2	35	59.3	(13.0)	14.1	(12.2)	4.2
Treasury and Other Govt.	11	18.8	10	16.4	14	23.8	38.6	43.7	39.9	31.3
Corporate	13	22.1	11	18.4	10	17.0	(12.0)	(12.8)	(11.1)	(20.4)

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Table 3 continued

	Q4 2014		Q3 2015		Q4 2015		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q4 2015		Q4 2015	
							q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	12	100.0	15	100.0	14	100.0	(7.7)	24.7	(7.7)	18.6
Government	11	99.1	15	98.9	14	99.7	(6.9)	25.3	(6.9)	19.2
Central Bank	10	84.3	14	92.4	7	53.3	(46.7)	(21.2)	(46.7)	(25.0)
Treasury and Other Govt.	2	14.9	1.0	6.5	6.3	46.4	557.6	288.9	557.4	269.9
Corporate	0.1	0.9	0.2	1.1	0.04	0.3	(73.3)	(52.4)	(73.3)	(54.7)
Emerging East Asia										
Total	780	100.0	1,086	100.0	1,060	100.0	(1.3)	44.3	(2.4)	35.9
Government	457	58.6	732	67.5	671	63.3	(7.5)	55.9	(8.4)	46.8
Central Bank	256	32.8	230	21.2	213	20.1	(7.6)	(11.3)	(7.2)	(16.5)
Treasury and Other Govt.	201	25.8	502	46.3	457	43.2	(7.4)	141.1	(8.9)	127.3
Corporate	323	41.4	353	32.5	389	36.7	11.4	27.9	10.1	20.5
Japan										
Total	427	100.0	407	100.0	434	100.0	6.8	2.0	6.5	1.7
Government	401	94.1	383	94.1	410	94.7	7.4	2.6	7.1	2.2
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	401	94.1	383	94.1	410	94.7	7.4	2.6	7.1	2.2
Corporate	25	5.9	24	5.9	23	5.3	(2.8)	(7.4)	(3.1)	(7.8)

(-) = negative, - = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q3 = third quarter, Q4 = fourth quarter, y-o-y = year-on-year.

Notes:

1. Corporate bonds include issues by financial institutions.

2. Bloomberg LP end-of-period LCY-USD rates are used.

3. For LCY base, emerging East Asia growth figures are based on 31 December 2015 currency exchange rates and do not include currency effects.

Sources: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget 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 Vietnam Bond Market Association); and Japan (Japan Securities Dealers Association).

levels was mainly prompted by a quarterly rise in LCY corporate bond issues. The decline from Q4 2014 levels was primarily a result of a double-digit y-o-y drop in the issuance of central bank bills.

LCY bond sales in the Philippines were down on both a q-o-q and y-o-y basis in Q4 2015, leveling off at USD4 billion (PHP167 billion). The declines were brought about by reduced bond issuance from both the central government and the corporate sector.

In Singapore, LCY bond issuance totaled USD59 billion (SGD84 billion) in Q4 2015. The decline from Q3 2015 and Q4 2014 figures was precipitated by fewer sales of Monetary Authority of Singapore bills.

Thailand's LCY bond market registered new LCY issuances of USD60 billion (THB2,157 billion) in Q4 2015, down from the preceding quarter's total but up from Q4 2014. The quarterly drop was attributed to reduced issuance of Bank of Thailand bills and bonds, as

well as a decline in corporate bond issues. The upswing between Q4 2014 and Q4 2015 was driven solely by a y-o-y increase in government bond issuance.

Viet Nam posted USD14 billion (VND307,727 billion) worth of LCY bond issues in Q4 2015, which was lower than the Q3 2015 total but higher than in Q4 2014. Viet Nam's LCY government bond issuance was the main driver in the q-o-q and y-o-y movements.

Cross-border bond issuance in emerging East Asia totaled USD2.4 billion in Q4 2015 on declines of 30.0% q-o-q and 52.9% y-o-y. PRC-based institutions raised USD192 million from cross-border bond sales in Q4 2015—six of which were denominated in Hong Kong dollars and one in Malaysian ringgit. Issuers from Hong Kong, China offered renminbi-denominated bonds totaling USD860 million in Q4 2015. Issuers from the Republic of Korea sold a total of USD1.2 billion worth of bonds denominated in either Hong Kong dollars, Singapore dollars, or Chinese renminbi, including a

CNY3 billion 3-year sovereign bond carrying a 3% coupon rate. Indonesia Eximbank auctioned SGD-denominated bonds worth SGD50 million with a tenor of 5 years and a coupon rate of 4.135%. Malaysia's Cagamas issued SGD100 million worth of 2-year bonds at a 2.37% coupon, and Maybank raised HKD435 million worth of 3-year bonds at a 2.15% coupon rate in Hong Kong, China. The Chinese renminbi was the dominant currency in cross-border issuance in emerging East Asia in Q4 2015, accounting for 68% of the total.

Emerging East Asia's G3 currency bond issuance down in 2015.⁴

Emerging East Asia's G3 currency bond issuance totaled USD182.6 billion in 2015, down from USD198.4 billion in 2014 (**Table 4**). On a quarterly basis, the region's G3 bond issuance in Q4 2015 was USD42.2 billion, up 31.5% from Q3 2015 but down 23.7% from Q4 2014. The US dollar continued to be the G3 currency of choice for emerging East Asian issuers, comprising 90.7% of the full-year 2015 total, followed by the euro (7.8%) and the Japanese yen (1.5%).

The PRC stood as the largest source of G3 currency bonds from the region with full-year 2015 issuance valued at USD103.5 billion, which was up from its 2014 total of USD98.2 billion. Sinopec, a state-owned petroleum and petrochemical firm, was the PRC's largest G3 bond issuer in 2015 with a USD4.8 billion triple-tranche bond sale and a EUR1.5 billion dual-tranche bond sale, both of which were sold in April. The single biggest G3 bond from the PRC in 2015 was a USD3.05 billion perpetual bond with a 4.65% coupon rate sold by China Construction Bank in December.

G3 currency bond issues from the Republic of Korea in 2015 amounted to USD23.3 billion, the second highest total in the region. Korea Eximbank was the largest Korean G3 currency bond issuer for the year, raising a total of USD7.5 billion from multiple bond sales. It also issued the single biggest Korean G3 currency bond in January when it offered a USD1.25 billion 10-year bond at a 2.875% coupon. The Republic of Korea's G3 issuance total in 2015 fell short of the previous year's total of USD31.7 billion.

Issuers in Hong Kong, China—mostly financial institutions, recorded G3 currency bond sales worth

USD18.7 billion in 2015, the third highest total in the region. One of the notable transactions included the government's USD1 billion 5-year *sukuk* issued in June with a coupon of 1.894%. Its issuance performance in 2015, however, was tepid compared with 2014 when a total of USD34.5 billion was recorded.

G3 currency bonds sold by issuers from Southeast Asia reached USD37.0 billion in 2015, an increase from 2014's total of USD33.9 billion. Indonesia was responsible for the largest amount of G3 issuance in the subregion in 2015 with USD15.6 billion—an increase from the previous year's issuance of USD11.4 billion—buoyed by a multiple-tranche sovereign bond sale totaling USD11.7 billion, of which 84% comprised USD-denominated bonds. The Lao People's Democratic Republic conducted its first offshore USD-denominated bond transaction by raising USD182 million from a dual-tranche bond sale in December. The bonds were offered to investors in Thailand. Malaysian issuers sold a combined USD8.5 billion worth of G3 currency bonds in 2015—more than double the USD3.6 billion issuance in 2014—led by Petronas' USD5.0 billion multiple-tranche bond issuance in March. G3 currency bond sales from the Philippines rose to USD4.3 billion in 2015 from USD2.7 billion in 2014 amid increased issuance from the economy's corporate and government sectors. In contrast, G3 currency bond sales fell in Singapore in 2015 to USD8.3 billion from USD11.7 billion in 2014, and in Thailand to USD176 million in 2015 from USD3.6 billion in 2014.

On a monthly basis, G3 currency bond issuance in emerging East Asia rose to USD17.3 billion in December from USD17.0 billion in November and USD7.9 billion in October (**Figure 5**). The start of 2016 saw the region's G3 currency bond issuance totaling USD12.2 billion in January.

Government bond yields fell for most tenors in most markets—despite the Federal Reserve's rate hike in December—on continued weakness in the global economy.

At the 16 December meeting of the Federal Open Market Committee, the Federal Reserve finally raised interest rates, taking the target federal funds rate to between 0.25% and 0.50% from between zero and 0.25%. The

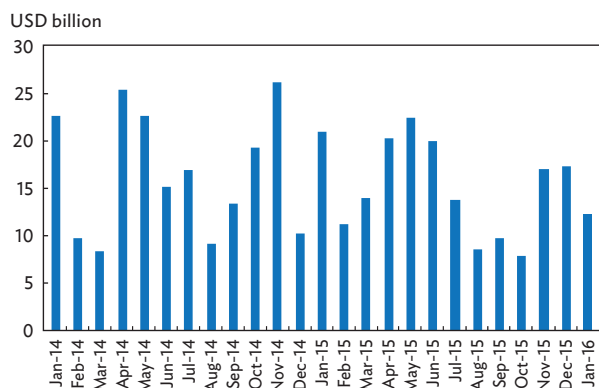
⁴ G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2014			2015		
Issuer	Amount (USD million)	Issue Date	Issuer	Amount (USD million)	Issue Date
China, People's Rep. of	98,227		China, People's Rep. of	103,527	
Bank of China 5% 2024	3,000	13-Nov-14	China Construction Bank 4.65% Perpetual	3,050	16-Dec-15
ICBC 6% Perpetual	2,940	10-Dec-14	Sinopec 2.5% 2020	2,500	28-Apr-15
Alibaba 2.5% 2019	2,250	28-Nov-14	Bank of Communications 5% Perpetual	2,450	29-Jul-15
Alibaba 3.6% 2024	2,250	28-Nov-14	China Construction Bank 3.875% 2025	2,000	13-May-15
CNOOC Finance 4.25% 2024	2,250	30-Apr-14	CNOOC Finance 3.5% 2025	2,000	5-May-15
Tencent Holdings 3.375% 2019	2,000	29-Apr-14	ICBC 4.875% 2025	2,000	21-Sep-15
Sinopec 1.0136% 2017	1,800	10-Apr-14	China Cinda Finance (2015) 4.25% 2025	1,700	23-Apr-15
State Grid Overseas Investment 4.125% 2024	1,600	7-May-14	Evergrande Real Estate Group 9% Perpetual	1,500	29-Dec-15
Others	80,137		Others	86,327	
Hong Kong, China	34,530		Hong Kong, China	18,702	
Hutchison Whampoa 1.625% 2017	2,000	31-Oct-14	Shimao Property 8.375% 2022	1,100	10-Feb-15
Hutchison Whampoa 1.375% 2021	1,815	31-Oct-14	Hong Kong, China (Sovereign) Sukuk 1.894% 2020	1,000	3-Jun-15
Others	30,715		Others	16,602	
Indonesia	11,423		Indonesia	15,572	
Indonesia (Sovereign) 5.875% 2024	2,000	15-Jan-14	Indonesia (Sovereign) 4.75% 2026	2,250	8-Dec-15
Indonesia (Sovereign) 6.75% 2044	2,000	15-Jan-14	Indonesia (Sovereign) 4.125% 2025	2,000	15-Jan-15
Pertamina 6.45% 2044	1,500	30-May-14	Indonesia (Sovereign) 5.125% 2045	2,000	15-Jan-15
Indonesia (Sovereign) 4.35% 2024	1,350	10-Sep-14	Perusahaan Penerbit SBSN 4.325% 2025	2,000	28-May-15
Perusahaan Gas Negara (PGN) 5.125% 2024	1,350	16-May-14	Indonesia (Sovereign) 3.375% 2025	1,397	30-Jul-15
Others	3,223		Others	5,925	
Korea, Rep. of	31,714		Korea, Rep. of	23,348	
Republic of Korea (Sovereign) 4.125% 2044	1,000	10-Jun-14	Korea Eximbank 2.875% 2025	1,250	21-Jan-15
Woori Bank 4.75% 2024	1,000	30-Apr-14	Korea Eximbank 2.25% 2020	1,000	21-Jan-15
Republic of Korea (Sovereign) 2.125% 2024	947	10-Jun-14	Korea Eximbank 3.25% 2025	1,000	10-Nov-15
Others	28,766		Others	20,098	
Lao People's Dem. Rep.	0		Lao People's Dem. Rep.	182	
Malaysia	3,567		Malaysia	8,496	
Cahaya Capital 0.162% 2021	500	18-Sep-14	Petronas Capital 3.5% 2025	1,500	18-Mar-15
AmBank 3.125% 2019	400	3-Jul-14	Petronas Capital 4.5% 2045	1,500	18-Mar-15
EXIM Sukuk Malaysia 2.874% 2019	300	19-Feb-14	Petronas Global Sukuk 2.707% 2020	1,250	18-Mar-15
Others	2,367		Others	4,246	
Philippines	2,675		Philippines	4,256	
Philippines (Sovereign) 4.2% 2024	1,500	21-Jan-14	Philippines (Sovereign) 3.95% 2040	2,000	20-Jan-15
SM Investments 4.875% 2024	350	10-Jun-14	Royal Capital BV 5.5% Perpetual	450	26-Aug-15
SMC Global Power 7.5% Perpetual	350	7-May-14	Rizal Commercial Banking Corporation 3.45% 2021	320	2-Nov-15
Others	475		Others	1,486	
Singapore	11,661		Singapore	8,346	
OCBC Bank 4% 2024	1,000	15-Apr-14	Global Logistics Properties 3.875% 2025	1,000	4-Jun-15
OCBC Bank 4.25% 2024	1,000	19-Jun-14	DBS Bank 1.625% 2018	1,000	6-Aug-15
Avago Technologies 2% 2021	1,000	6-May-14	BOC Aviation 3% 2020	750	30-Mar-15
Others	8,661		Others	5,596	
Thailand	3,565		Thailand	176	
Viet Nam	1,000		Viet Nam	0	
Emerging East Asia Total	198,362		Emerging East Asia Total	182,605	
Memo Items:			Memo Items:		
India	18,323		India	10,919	
Bharti Airtel 5.35% 2024	1,000	20-May-14	Bharti Airtel 4.375% 2025	1,000	10-Jun-15
Abja Investment 5.95% 2024	1,000	31-Jul-14	Reliance Industries 4.125% 2025	1,000	28-Jan-15
Others	16,323		Others	8,919	
Sri Lanka	2,165		Sri Lanka	3,649	

Note: Data exclude certificates of deposit.

Source: AsianBondsOnline calculations based on data from Bloomberg LP.

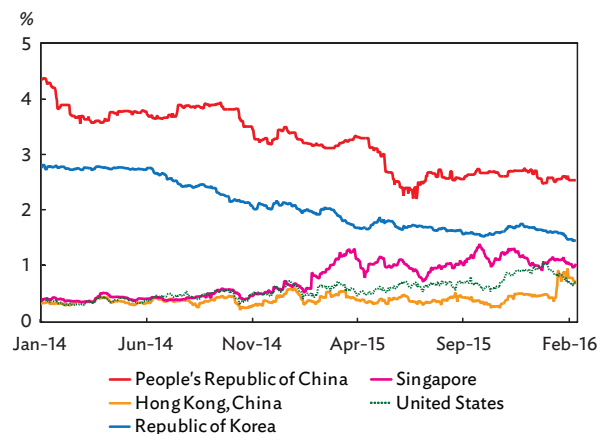
Figure 5: G3 Currency Bond Issuance

Source: AsianBondsOnline calculations based on Bloomberg LP data.

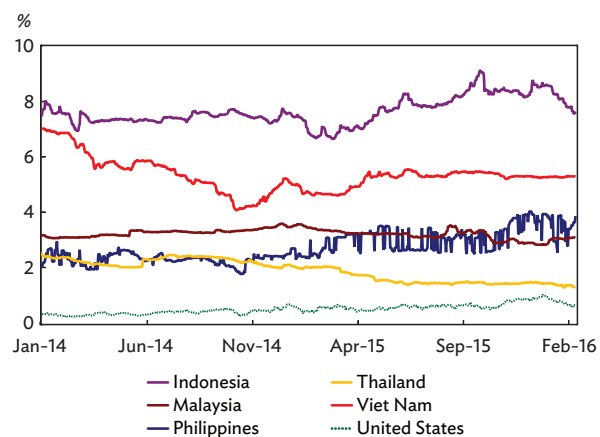
move was consistent with market expectations and indicated that the Federal Reserve was on track to continue hiking rates during the course of 2016. More recent developments, however, have shifted market expectations toward there being a delay in further increases. In its 27 January meeting, the Federal Reserve held off making additional changes to its monetary policy. In its decision, the Federal Reserve said that it would closely monitor global economic and financial developments. In a Monetary Policy Report to the US Congress on 11 February, the Chair of the Federal Reserve, Janet Yellen, indicated concerns about financial conditions in the US and global economic developments, such as the slowdown in the PRC and increased volatility in international financial markets.

This change in market expectations led to falling government bond yields in emerging East Asia in January–February following a spike in the run-up to the interest rate increase in December. In most markets, the 2-year yield showed an initial rise before declining. The exception was in Malaysia and Hong Kong, China, where the 2-year yield was up during the review period, and in Viet Nam, where the 2-year yield remained broadly stable (Figures 6a, 6b). In addition, the PRC’s 2-year yield showed a slight increase in January–February after falling in December.

Yields also fell for 10-year bonds in most emerging East Asian markets in January–February (Figures 7a, 7b). The exception was in the PRC, where the 10-year yield rose slightly after December in response to increased liquidity needs ahead of the Lunar New Year as well as the continued rapid issuance of local government bonds.

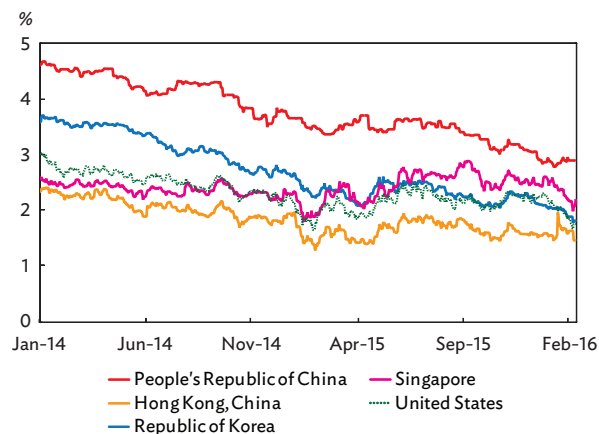
Figure 6a: 2-Year LCY Government Bond Yields

LCY = local currency.
Note: Data as of 15 February 2016.
Source: Based on data from Bloomberg LP.

Figure 6b: 2-Year LCY Government Bond Yields

LCY = local currency.
Note: Data as of 15 February 2016.
Source: Based on data from Bloomberg LP.

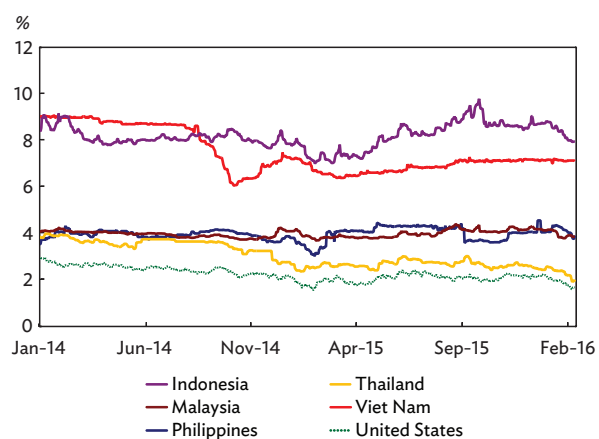
Weakness in the global economy, particularly the slowdown in the PRC, led to yield curves for most emerging East Asian markets shifting downward between 1 January and 15 February (Figure 8). In the PRC, GDP grew 6.8% y-o-y in Q4 2015, down from 6.9% y-o-y growth in Q3 2015. In Hong Kong, China, Q4 2015 GDP growth slowed to 1.9% y-o-y from 2.2% y-o-y in Q3 2015. Malaysia’s GDP growth slowed to 4.5% y-o-y in Q4 2015 from 4.7% y-o-y in the previous quarter. Thailand’s GDP growth slowed to 2.8% y-o-y in Q4 2015 from 2.9% y-o-y in Q3 2015. Other markets showed accelerating GDP growth in Q4 2015, but overall growth remains weak and most markets are expecting the outlook to remain challenging in 2016.

Figure 7a: 10-Year LCY Government Bond Yields

LCY = local currency.

Note: Data as of 15 February 2016.

Source: Based on data from Bloomberg LP.

Figure 7b: 10-Year LCY Government Bond Yields

LCY = local currency.

Note: Data as of 15 February 2016.

Source: Based on data from Bloomberg LP.

The PRC was one of the few markets in the region where yields rose during the review period, as the result of growing risk aversion due to volatility in the PRC's markets. Between 1 January and 15 February, the Shanghai Stock Exchange Composite Index fell by 22.4%. The Chinese renminbi depreciated over the same period. Liquidity concerns as the Lunar New Year approached put upward pressure on yields. Lastly, yields also rose due to a rising supply of local government bonds to meet refinancing demands amid declining revenues from land sales.

Yields also rose in Hong Kong, China. The rise reflects the possibility that liquidity may tighten as the HKMA intervenes by selling US dollars and buying Hong Kong

dollars to maintain the peg. The Hong Kong dollar has come under pressure, depreciating 0.4% in the review period, due to negative sentiments on its currency and economy. Hong Kong, China's stock market fell over 13% in the review period.

The weakening global economy has reigned in inflation expectations and kept commodity prices low. Oil prices have remained depressed in early 2016. At the end of December 2015, the price of crude oil per barrel was USD37.13, falling further to USD29.32 per barrel as of 12 February.

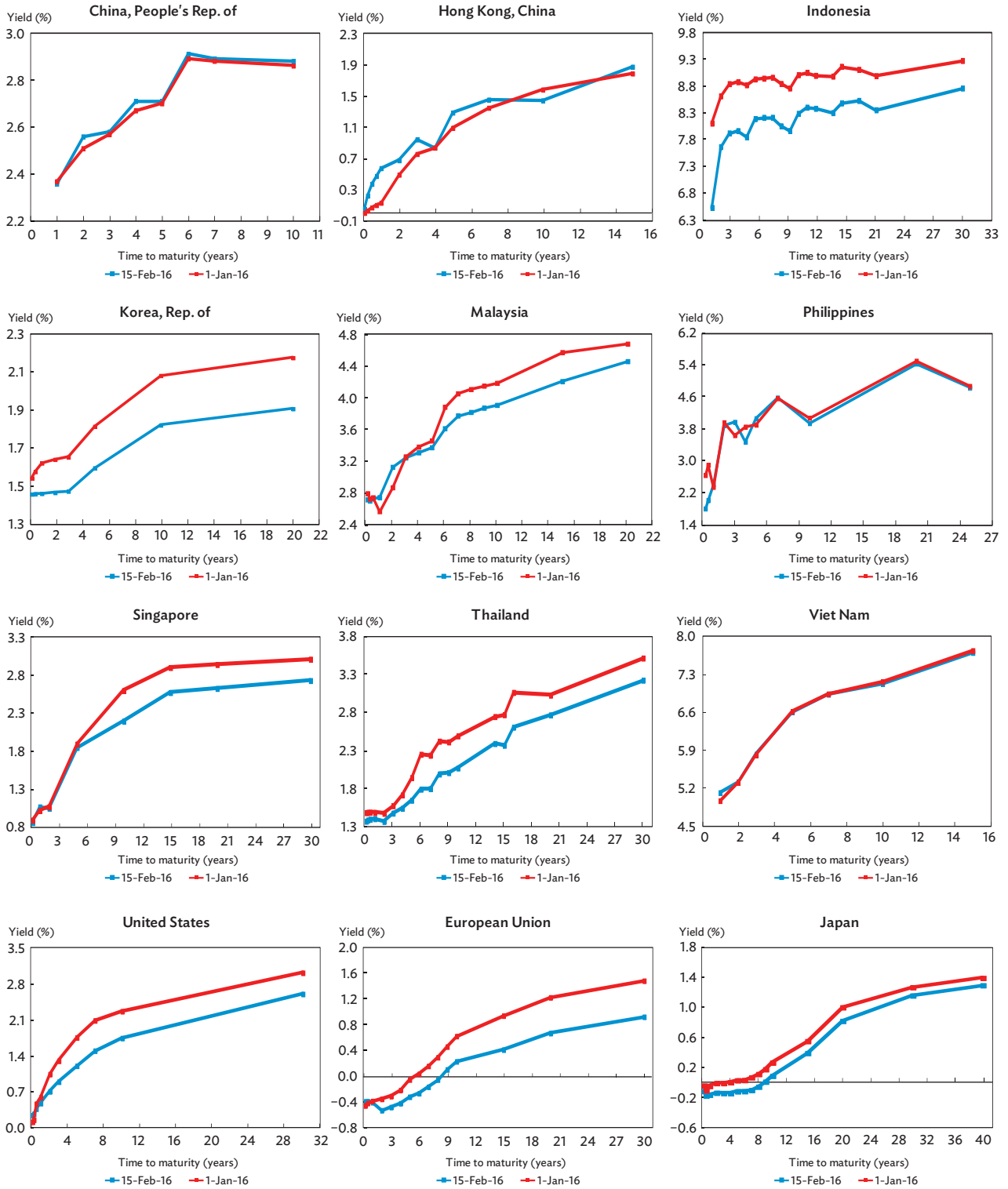
While some markets in emerging East Asia have shown a recent uptick in inflation, this has largely been due to seasonal factors owing to the celebration of the Lunar New Year (the PRC; Hong Kong, China) and the Tet Holiday (Viet Nam). Inflation in both the Republic of Korea and the Philippines moved downward after a slight rising trend (**Figure 9a**), while both Singapore and Thailand remained in deflationary territory (**Figure 9b**).

Due to weak economic growth and low inflation expectations, central banks and monetary authorities in the region have kept monetary policies accommodative, holding policy rates steady or even reducing them in the case of Indonesia.

In Thailand, despite there being deflation, the central bank last cut interest rates in April 2015 (**Figure 10a**). In its monetary policy meeting in February, the Bank of Thailand's Monetary Policy Committee said that while the inflation outlook remains subdued, it expects positive inflation to return within the first half of 2016. The central bank also said that current monetary policy remains accommodative.

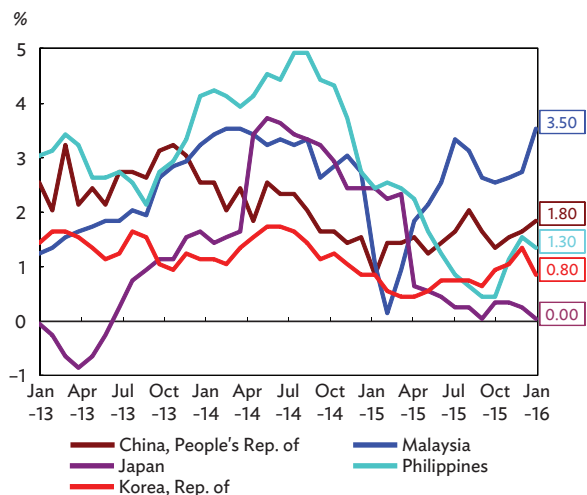
Indonesia was the sole market in emerging East Asia that reduced policy rates in the first two months of 2016 (**Figure 10b**). Bank Indonesia reduced the policy, deposit, and lending facility rates by 25 basis points (bps) each in January and again in February. In February, Bank Indonesia also reduced the reserve requirement ratios of its banks by 100 bps. In the past, Bank Indonesia held off reducing policy rates in order to minimize the impact on the current account deficit, but Indonesia's balance of payments surplus improved in Q4 2015. The appreciation of the Indonesian rupiah, driven by expectations of improved economic performance, also gave the central bank added flexibility.

Figure 8: Benchmark Yield Curves—LCY Government Bonds



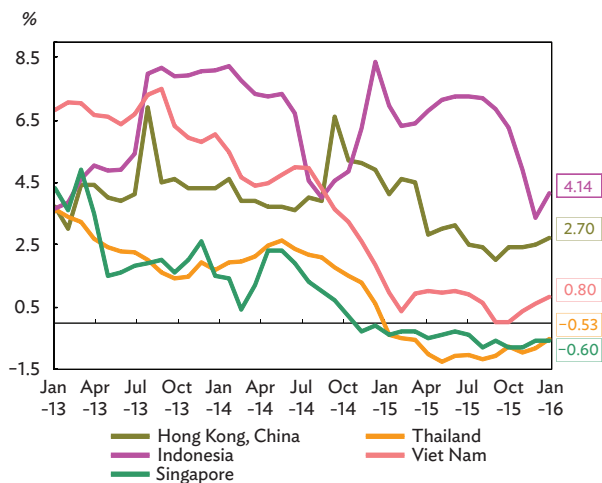
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 9a: Headline Inflation Rates



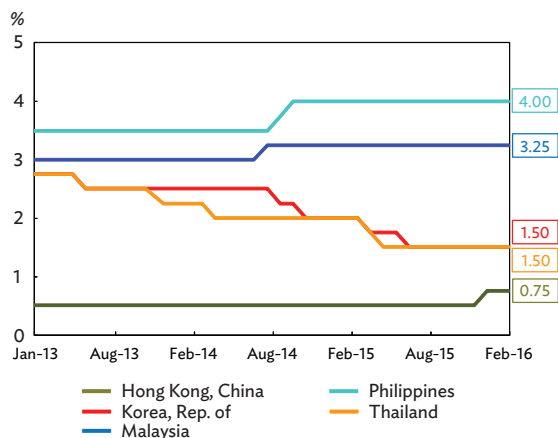
Note: Data as of January 2016.
Source: Based on data from Bloomberg LP.

Figure 9b: Headline Inflation Rates



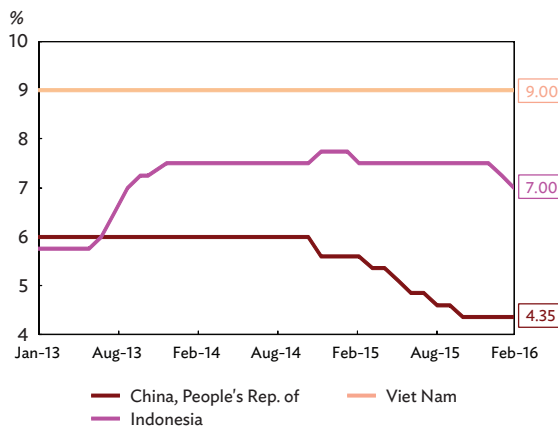
Note: Data as of January 2016.
Source: Based on data from Bloomberg LP.

Figure 10a: Policy Rates



Note: Data as of 18 February 2016.
Source: Based on data from Bloomberg LP.

Figure 10b: Policy Rates



Note: Data as of 18 February 2016.
Source: Based on data from Bloomberg LP.

Despite financial market volatility and slowing growth, the PRC has not reduced its policy rates this year. Having last reduced rates in October 2015, the PRC has sought other means to add liquidity to the market, such as the use of reverse repurchase agreements, and has changed the auction schedule from twice a week to daily. The PRC seems reluctant to adjust policy rates as it would add further pressure on the renminbi.

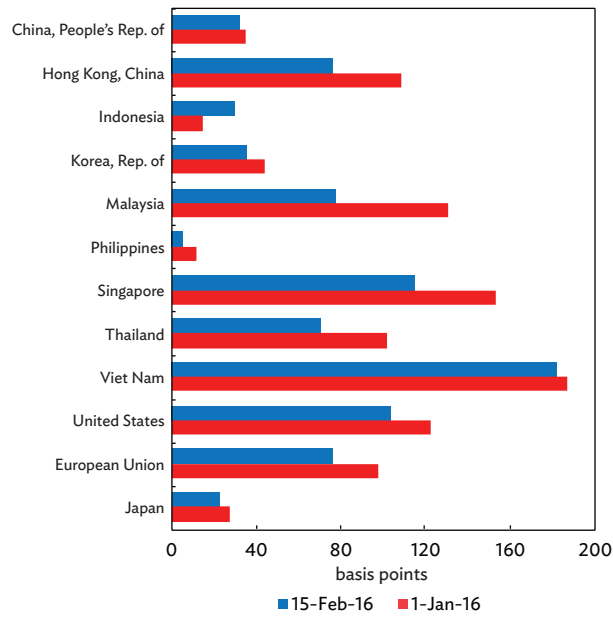
Between 1 January and 15 February, the spread between the 2-year and 10-year maturities narrowed for all

markets in emerging East Asia except Indonesia, which is consistent with the region's weak economic outlook and subdued inflation (Figure 11).

The AAA-rated corporate yield versus government yield spread fell for all tenors in the Republic of Korea and for most tenors in the PRC, but rose in Malaysia.

Credit spreads between AAA-rated corporate bonds and government bonds fell for all tenors in the Republic

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

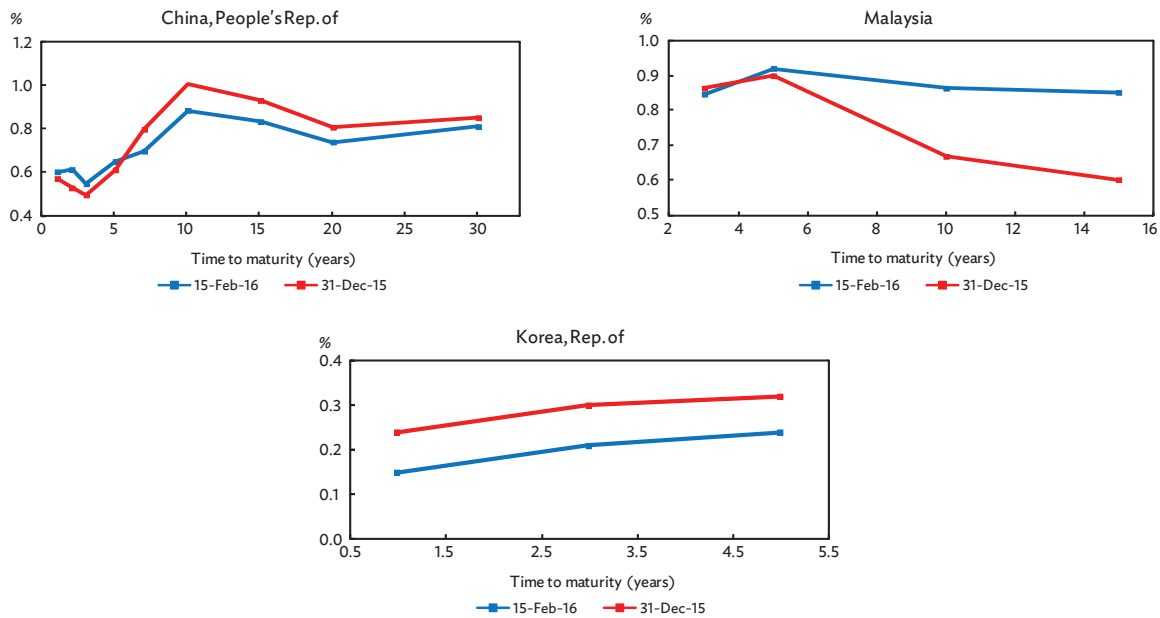


Source: Based on data from Bloomberg LP.

of Korea between 1 January and 15 February, driven by improved economic prospects as economic growth accelerated in Q4 2015 (**Figure 12a**). The Republic of Korea's GDP grew 3.0% y-o-y in Q4 2015, up from 2.7% y-o-y in Q3 2015. The credit spread fell for most tenors in the PRC as investors shifted funds from the stock market to the corporate bond market. In Malaysia, the credit spread worsened due to the continued decline in oil prices, reducing the profitability of corporates.

Credit spreads between AAA-rated bonds and lower-rated corporate bonds were mostly unchanged in the PRC and the Republic of Korea over the same period. Meanwhile, the credit spread widened in Malaysia (**Figure 12b**).

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



LCY = local currency.

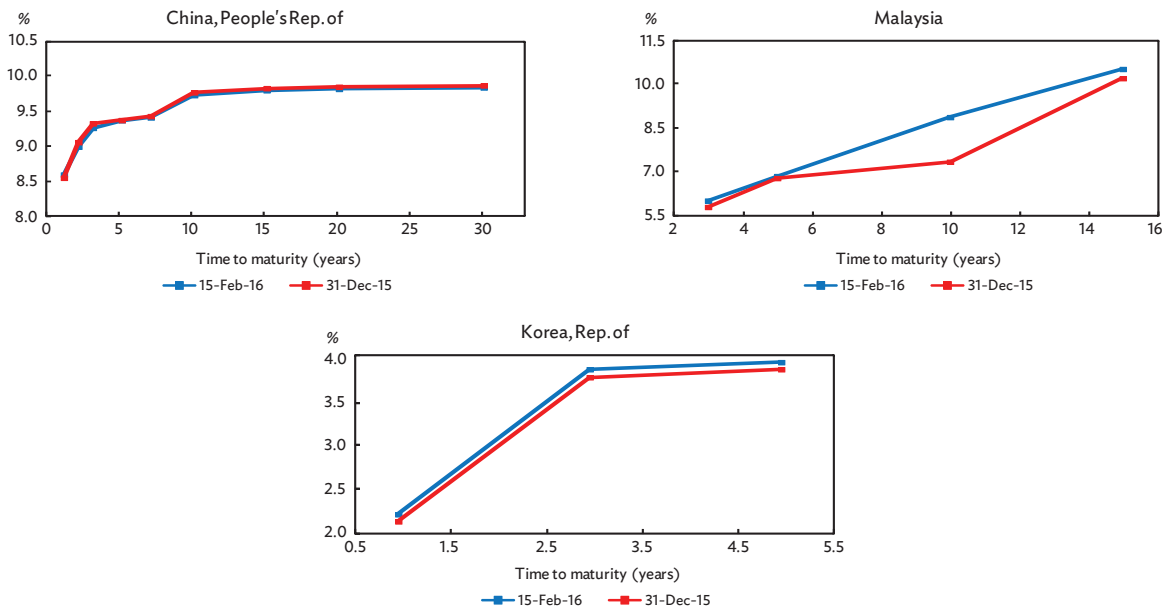
Notes:

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

2. For Malaysia, data on corporate bond yields are as of 31 December 2015 and 12 February 2016.

Sources: People's Republic of China (*Wind*), 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.
3. For Malaysia, data on corporate bond yields are as of 31 December 2015 and 12 February 2016.

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