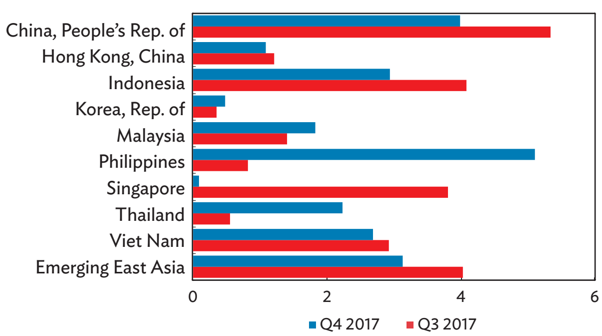
Bond Market Developments in the Fourth Quarter of 2017

Size and Composition

Emerging East Asia's local currency bond markets posted positive q-o-q growth in Q4 2017 as total bonds outstanding reached USD12.3 trillion at the end of December.

The total outstanding amount of local currency (LCY) bonds in emerging East Asia rose to USD12.3 trillion at the end of December 2017 as all markets in the region posted quarter-on-quarter (q-o-q) growth in the fourth quarter (Q4) of 2017 (**Figure 1a**).[3] Overall growth in the region's bond market moderated to 3.1% q-o-q in Q4 2017 from 4.0% q-o-q in the previous quarter due to a lower aggregate volume of issuance. Five emerging East Asian markets posted slower q-o-q growth rates, while the remaining four posted faster q-o-q growth rates.

Figure 1a: Growth of Local Currency Bond Markets in the Third and Fourth Quarters of 2017 (q-o-q, %)



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 local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 31 December 2017 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind Information*); 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).

The People's Republic of China (PRC), which is home to the largest LCY bond market in the region with a share of 71.2% of the region's aggregate bond stock, posted LCY bond market growth of 4.0% q-o-q in Q4 2017 to reach USD8.8 trillion of bonds outstanding. Growth moderated from 5.3% q-o-q in the third quarter (Q3) of 2017 due to declining issuance. As part of the government's program to manage and restructure local government debt, it imposed a ceiling on the outstanding amount of local government bonds and a quota on issuance volume. Compared with the large volume of bonds sold in each of the previous 2 quarters, Q4 2017 saw a slowdown in issuance. Moreover, the large amount of government bond issuance in Q3 2017 was due to the auction of special Treasury bonds to refinance maturing debt. Despite these factors, the PRC's government bond market posted growth of 4.4% q-o-q in Q4 2017. Local government bonds and Treasury bonds posted growth of 4.5% q-o-q and 5.9% q-o-q, respectively. The growth in the PRC's corporate bond market slowed to 2.9% q-o-q in Q4 2017 from 3.3% q-o-q in the previous quarter. Corporates issued fewer bonds in Q4 2017, discouraged by the high interest rate environment, which is also a result of the government's effort to control credit growth in the PRC.

The Republic of Korea's LCY bond market posted minimal growth of 0.5% q-o-q in Q4 2017, almost at par with the 0.3% q-o-q increase in the previous quarter, to reach a size of USD2.0 trillion at the end of December. The minimal growth was driven by the 0.5% q-o-q decline in the stock of Korea Treasury Bonds as the volume of maturing bonds was greater than new issuance during the quarter. The Republic of Korea pursued a frontloading policy in the first half of 2017, resulting in fewer issuances in the second half of the year, particularly in Q4 2017. Meanwhile, the stock of central bank bonds rose 2.9% q-o-q. Corporate bonds rose 0.6% q-o-q in Q4 2017 as companies issued more bonds in anticipation of rising interest rates, particularly after the Bank of Korea raised its policy rate in November.

In Hong Kong, China, total LCY bonds outstanding reached USD244 billion at the end of December. Growth was down slightly to 1.1% q-o-q in Q4 2017

[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.

from 1.2% q-o-q in the previous quarter as the rise in government bonds was capped by the decline in the stock of corporate bonds. Government bonds rose 3.3% q-o-q in Q4 2017, led by the growth in the stock of Exchange Fund Bills. The Hong Kong Monetary Authority has been issuing additional Exchange Fund Bills to help mop up excess liquidity in the market. Meanwhile, the stock of corporate bonds fell 2.2% q-o-q in Q4 2017 as the volume of maturing bonds was higher than the volume of newly issued bonds during the quarter.

The LCY bond market of Thailand remained the largest bond market among Association of Southeast Asian Nations (ASEAN) economies, with outstanding bonds worth USD346 billion at the end of December, and it expanded at a faster pace of 2.2% q-o-q in Q4 2017 versus 0.5% q-o-q in Q3 2017. The expansion was driven by the rise in issuance of central bank bonds from the Bank of Thailand, resulting in 5.3% q-o-q growth in central bank bonds outstanding. The outstanding amount of government bonds and state-owned bonds increased 0.9% q-o-q and 2.6% q-o-q, respectively. Meanwhile, Thailand's corporate bonds posted minimal growth of 1.0% q-o-q.

In Malaysia, LCY bonds outstanding reached USD318 billion at the end of December on growth of 1.8% q-o-q, slightly higher than the 1.4% q-o-q increase posted in Q3 2017. Corporate bonds were the primary driver of growth in Malaysia's LCY bond market, expanding 3.5% q-o-q due to a surge in issuance. Companies in Malaysia took advantage of relatively low rates in anticipation of a rate hike by Bank Negara Malaysia in January 2018. Moreover, government-guaranteed companies, whose bonds comprise part of Malaysia's corporate bond market, issued bonds to fund planned infrastructure projects. Meanwhile, Malaysia's government bond market posted minimal growth of 0.3% q-o-q as only the stock of Government Investment Issues and central bank bills increased.

Malaysia continues to be home to the largest *sukuk* (Islamic bond) market in emerging East Asia. *Sukuk* comprised 59% of Malaysia's total LCY bond market at the end of December with an aggregate size of USD187 billion on 3.3% q-o-q growth. Nearly three-fourths of Malaysia's corporate bond market comprises *sukuk* and 44.3% of its government bond market.

Singapore's LCY bond market was barely changed at USD272 billion at the end of December, registering growth of 0.1% q-o-q in Q4 2017 following a 3.8% q-o-q increase in Q3 2017, based on *AsianBondsOnline* estimates. The low growth was primarily due to declines in the corporate segment and in the outstanding stock of Singapore Government Securities as redemptions of bills exceeded new issuance of bonds. Only the stock of central bank bills rose in Q4 2017, indicating the continued efforts by the Monetary Authority of Singapore to mop up excess liquidity in the market.

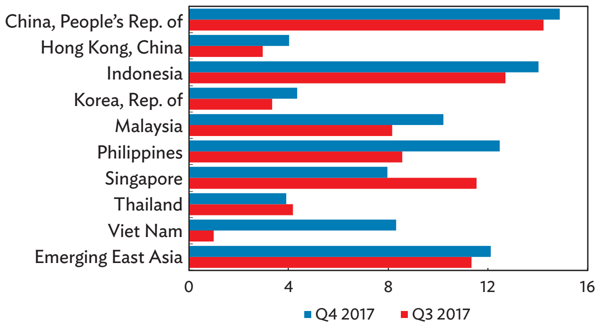
The LCY bond market in Indonesia grew 2.9% q-o-q to reach USD184 billion at the end of December, driven by a rise in the outstanding stocks of central government bonds and corporate bonds. However, growth was slower than the 4.1% q-o-q expansion posted in Q3 2017, mainly due to the decline in issuance of central government bonds in Q4 2017 as the government had already met its annual budgetary requirements in previous quarters. Meanwhile, the amount of central bank bills outstanding continued to decrease in Q4 2017, with shariah-compliant issues being the only remaining outstanding central bank instruments as Bank Indonesia now uses other tools for its monetary policy operations.

The Philippines posted the fastest growth rate in the region of 5.1% q-o-q in Q4 2017, following minimal growth of 0.8% q-o-q in Q3 2017. Total outstanding LCY bonds at the end of December amounted to USD110 billion as both the government and corporate segments posted q-o-q growth. The main driver of growth was the issuance of PHP255.4 billion of Retail Treasury Bonds by the Government of the Philippines in November. This allowed the Bureau of Treasury to reject all bids in its remaining auctions of Treasury bonds and bills as market participants sought higher yields.

Viet Nam remained the smallest market in the region with outstanding bonds of USD48 billion, posting growth of 2.7% q-o-q in Q4 2017, slightly lower than the 2.9% q-o-q increase registered in the previous quarter. Growth in the government segment stemmed from increased bond issuance by state-owned entities. Corporate bonds registered rapid growth of 22.9% q-o-q in Q4 2017 as a result of a surge in issuance.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bonds rose 12.1% at the end of December, slightly higher than the 11.3% y-o-y growth posted in Q3 2017 (**Figure 1b**). Excluding Singapore and Thailand, all markets in the region posted a higher annual growth rate in Q4 2017 than in the previous quarter. The PRC

Figure 1b: Growth of Local Currency Bond Markets in the Third and Fourth Quarters of 2017 (y-o-y, %)



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 local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 31 December 2017 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind Information*); 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 Indonesia posted the two fastest growth rates at 14.9% y-o-y and 14.0% y-o-y, respectively.

LCY government bonds in emerging East Asia amounted to USD8.2 trillion at the end of December and continued to dominate the region's bond market. Debt securities issued by governments, central banks, and state-owned entities comprised 66.6% of total bonds, almost at par with the 66.4% share at the end of September (**Table 1**). The total outstanding amount of the region's government bonds rose 3.7% q-o-q, slower than the 4.8% q-o-q growth posted in Q3 2017.

The PRC continued to dominate emerging East Asia's government bond market, accounting for a 77% of the regional total. The Republic of Korea remained the second-largest government bond market with a share of 10%. The Philippines (USD89 billion) and Viet Nam (USD45 billion) remained the smallest LCY government bond markets in the region. At the same time, the Philippine government bond market registered the fastest growth rate in Q3 2017 at 5.8% q-o-q, followed by the PRC, which posted growth of 4.4% q-o-q. Meanwhile, government bond markets in the Republic of Korea and Malaysia posted minimal q-o-q growth in Q4 2017.

The region's LCY corporate bonds reached an outstanding size of USD4.1 trillion at the end of December, comprising 33.4% of the region's total bond market. The stock of bonds issued by corporates in the region rose 2.0% q-o-q, easing from growth of 2.5% q-o-q in Q3 2017. The PRC remained the largest corporate bond market in the region with a share of 59.0% and outstanding bonds of USD2.4 trillion at the end of December, followed by the Republic of Korea with 29.0% of the regional total and a bond market size of USD1.2 trillion. The corporate bond markets in Viet Nam (USD3 billion), the Philippines (USD20 billion), and Indonesia (USD29 billion) remained the smallest in the region. Most corporate bond markets in the region registered increases in Q4 2017, except for Hong Kong, China (–2.2% q-o-q) and Singapore (–0.8% q-o-q). Viet Nam's corporate bond market registered the highest growth rate of 22.9% q-o-q, followed by Indonesia at 7.7% q-o-q.

The size of emerging East Asia's bond market relative to the region's gross domestic product (GDP) inched up to 71.3% at the end of December from 70.1% at the end of September (**Table 2**). During the same period, government bonds outstanding as a share of GDP rose to 47.5% from 46.5%, while corporate bonds inched up to 23.8% from 23.5%. For markets with available GDP data for Q4 2017, the bond markets of the PRC, Indonesia, the Philippines, and Thailand saw increases in their ratios of outstanding bonds to GDP. The Republic of Korea and Malaysia continued to have the highest bonds-to-GDP ratios in the region in Q4 2017.

Foreign investor holdings in emerging East Asia's LCY government bond market were stable in Q4 2017.

Foreign investors continued to find emerging East Asia's LCY government bond markets attractive in Q4 2014 despite rising local interest rates as well as policy normalization in the United States as economic fundamentals continue to improve in emerging East Asia.

Malaysia experienced the largest gain, with the share of foreign investor holdings rising 1.3 percentage points in Q4 2017 to reach 29.2% at the end of December due to positive economic fundamentals (**Figure 2**).

In Indonesia, the foreign investor share of government bonds outstanding remained stable at 39.8% in Q4 2017. Foreigner investors continue to be attracted to

Table 1: Size and Composition of Local Currency Bond Markets

	Q4 2016		Q3 2017		Q4 2017		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q4 2016		Q4 2017		Q4 2016		Q4 2017	
							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	7,129	100.0	8,221	100.0	8,739	100.0	3.4	22.0	4.0	14.9	(0.7)	14.1	6.3	22.6
Government	4,974	69.8	5,928	72.1	6,327	72.4	4.2	30.8	4.4	19.2	0.1	22.3	6.7	27.2
Corporate	2,155	30.2	2,293	27.9	2,413	27.6	1.6	5.6	2.9	4.9	(2.4)	(1.2)	5.2	12.0
Hong Kong, China														
Total	236	100.0	241	100.0	244	100.0	0.1	13.4	1.1	4.0	0.1	13.3	1.0	3.2
Government	137	58.1	143	59.2	148	60.5	(0.3)	14.8	3.3	8.4	(0.3)	14.7	3.3	7.5
Corporate	99	41.9	98	40.8	96	39.5	0.5	11.5	(2.2)	(2.0)	0.5	11.4	(2.2)	(2.8)
Indonesia														
Total	163	100.0	180	100.0	184	100.0	1.7	25.1	2.9	14.0	(1.5)	28.1	2.3	13.3
Government	139	85.8	153	85.2	156	84.5	0.7	25.2	2.1	12.3	(2.6)	28.1	1.5	11.6
Corporate	23	14.2	27	14.8	29	15.5	8.7	24.7	7.7	24.3	5.2	27.6	7.0	23.5
Korea, Rep. of														
Total	1,714	100.0	1,873	100.0	2,020	100.0	(0.5)	2.3	0.5	4.3	(9.1)	(0.3)	7.8	17.9
Government	703	41.0	769	41.0	827	40.9	(1.0)	3.1	0.3	4.2	(9.6)	0.5	7.6	17.7
Corporate	1,011	59.0	1,105	59.0	1,193	59.1	(0.2)	1.7	0.6	4.4	(8.8)	(0.9)	8.0	18.0
Malaysia														
Total	260	100.0	299	100.0	318	100.0	(0.1)	4.3	1.8	10.2	(7.8)	(0.1)	6.2	22.2
Government	141	54.3	159	53.1	166	52.3	0.3	3.6	0.3	6.2	(7.5)	(0.8)	4.7	17.8
Corporate	119	45.7	140	46.9	152	47.7	(0.5)	5.2	3.5	14.9	(8.3)	0.7	7.9	27.4
Philippines														
Total	98	100.0	102	100.0	110	100.0	1.4	2.3	5.1	12.5	(0.9)	(3.3)	7.2	11.9
Government	80	81.7	83	80.8	89	81.4	0.6	0.8	5.8	12.0	(1.7)	(4.7)	7.9	11.4
Corporate	18	18.3	20	19.2	20	18.6	5.5	9.5	2.2	14.4	3.1	3.6	4.3	13.8
Singapore														
Total	232	100.0	267	100.0	272	100.0	3.4	4.0	0.1	7.9	(2.6)	2.0	1.7	16.9
Government	133	57.5	162	60.8	166	61.1	5.6	5.4	0.6	14.9	(0.5)	3.3	2.3	24.4
Corporate	99	42.5	105	39.2	106	38.9	0.5	2.1	(0.8)	(1.4)	(5.3)	0.1	0.8	6.8
Thailand														
Total	303	100.0	331	100.0	346	100.0	2.5	8.4	2.2	3.9	(1.1)	9.0	4.5	14.3
Government	222	73.1	240	72.3	252	72.7	1.5	5.9	2.7	3.3	(2.0)	6.5	5.0	13.6
Corporate	81	26.9	92	27.7	95	27.3	5.2	16.0	1.0	5.6	1.5	16.6	3.3	16.2
Viet Nam														
Total	44	100.0	46	100.0	48	100.0	(4.3)	6.4	2.7	8.3	(6.2)	5.1	2.8	8.6
Government	42	95.2	44	95.2	45	94.2	(5.0)	5.0	1.7	7.2	(6.9)	3.7	1.8	7.5
Corporate	2	4.8	2	4.8	3	5.8	13.2	43.1	22.9	31.0	10.9	41.4	23.1	31.3
Emerging East Asia														
Total	10,179	100.0	11,562	100.0	12,280	100.0	2.4	16.2	3.1	12.1	(2.5)	10.5	6.2	20.6
Government	6,572	64.6	7,681	66.4	8,175	66.6	3.2	23.7	3.7	16.1	(1.4)	17.4	6.4	24.4
Corporate	3,607	35.4	3,881	33.6	4,105	33.4	1.1	4.8	2.0	5.0	(4.4)	(0.2)	5.8	13.8
Japan														
Total	9,632	100.0	10,171	100.0	10,215	100.0	0.1	5.0	0.6	2.2	(13.2)	7.9	0.4	6.1
Government	8,961	93.0	9,475	93.2	9,523	93.2	0.2	5.4	0.7	2.4	(13.1)	8.3	0.5	6.3
Corporate	671	7.0	695	6.8	692	6.8	(1.1)	(0.5)	(0.3)	(0.6)	(14.3)	2.2	(0.4)	3.2
Memo Item: India														
Total	1,286	100.0	1,372	100.0	1,416	100.0	11.1	17.5	1.0	3.6	8.9	14.4	3.2	10.1
Government	951	73.9	976	71.1	1,002	70.7	13.9	16.9	0.4	(0.9)	11.7	13.9	2.6	5.4
Corporate	335	26.1	396	28.9	414	29.3	3.8	19.1	2.3	16.3	1.7	16.0	4.6	23.6

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, Q3 = third quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. For Singapore, corporate bonds outstanding data are 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 are based on 31 December 2017 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 Information*); 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); Japan (Japan Securities Dealers Association); and India (Securities and Exchange Board of India and Bloomberg LP).

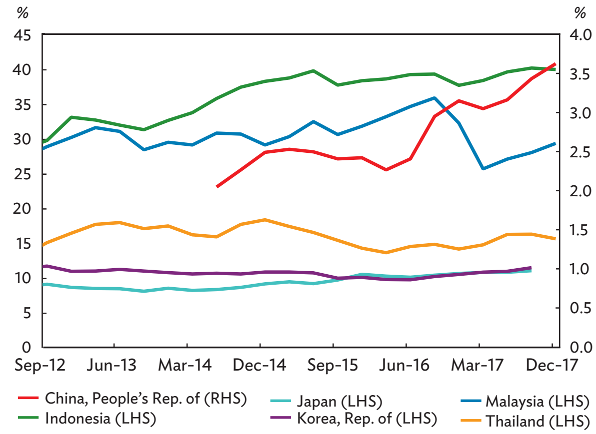
Table 2: Size and Composition of Local Currency Bond Markets (% of GDP)

	Q4 2016	Q3 2017	Q4 2017
China, People's Rep. of			
Total	66.6	68.1	68.8
Government	46.5	49.1	49.8
Corporate	20.1	19.0	19.0
Hong Kong, China			
Total	73.5	71.9	71.6
Government	42.7	42.6	43.3
Corporate	30.8	29.3	28.2
Indonesia			
Total	17.7	18.2	18.4
Government	15.1	15.5	15.5
Corporate	2.5	2.7	2.9
Korea, Rep. of			
Total	126.2	125.6	135.5
Government	51.8	51.6	55.5
Corporate	74.4	74.1	80.0
Malaysia			
Total	94.9	95.3	95.1
Government	51.5	50.6	49.8
Corporate	43.4	44.7	45.3
Philippines			
Total	33.6	33.7	34.7
Government	27.5	27.3	28.2
Corporate	6.2	6.5	6.5
Singapore			
Total	78.5	81.9	81.1
Government	45.1	49.8	49.6
Corporate	33.4	32.1	31.5
Thailand			
Total	74.7	72.6	73.0
Government	54.6	52.5	53.0
Corporate	20.1	20.1	20.0
Viet Nam			
Total	22.2	21.9	21.6
Government	21.1	20.9	20.3
Corporate	1.1	1.1	1.2
Emerging East Asia			
Total	68.9	70.1	71.3
Government	44.5	46.5	47.5
Corporate	24.4	23.5	23.8
Japan			
Total	209.2	210.5	210.6
Government	194.6	196.1	196.4
Corporate	14.6	14.4	14.3

GDP = gross domestic product, Q3 = third quarter, Q4 = fourth quarter.
Notes:
1. Data for GDP is from CEIC. For the Republic of Korea, Q4 2017 GDP figure carried over from Q3 2017.
2. For Singapore, corporate bonds outstanding data are based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind Information*); 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).

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



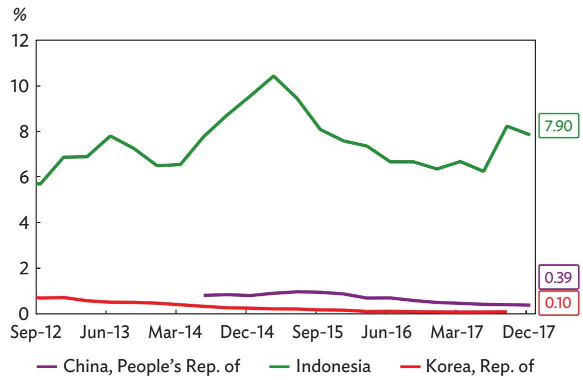
LHS = left-hand side, RHS = right-hand side.
Note: Data as of 31 December 2017 except for Japan and the Republic of Korea (30 September 2017).
Source: *AsianBondsOnline*.

Indonesia's improving economy, especially given Fitch Ratings' upgrade of Indonesia sovereign debt to BBB on 21 December. However, strong investor interest did not result in an increased share of foreign investor holdings, given the increase in government bonds outstanding. The Indonesian bond market's y-o-y growth rate of 14.0% in Q4 2017 was the second-fastest in the region.

The share of foreign investors in the PRC bond market, while small, continued to rise in Q4 2017 to 3.6% at the end of December from 3.4% at the end of September. In the Republic of Korea, the foreign investor share of government bonds outstanding rose to 11.4% at the end of September from 10.9% at the end of June.

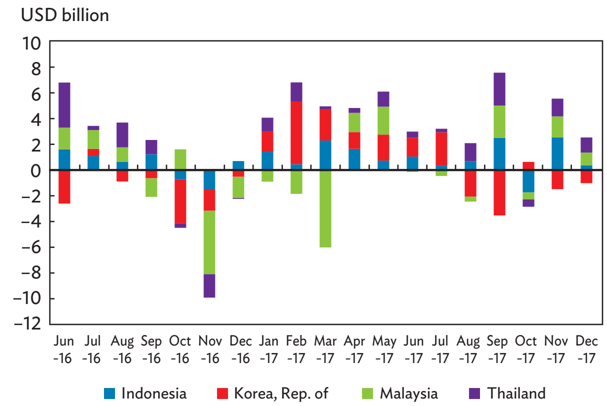
The foreign holdings share in emerging East Asia's LCY corporate bond market remained low relative to government bonds due to the illiquidity of corporate bonds and the need for additional due diligence on the part of investors. Only Indonesia has a somewhat substantial share of foreign investors to corporate bonds outstanding among all markets in the region for which such data are available. However, this share fell in Indonesia to 7.9% at the end of December from 8.3% at the end of September (**Figure 3**). Both the PRC and the Republic of Korea have foreign investor shares in their respective corporate bond markets of less than 0.5%.

Figure 3: Foreign Holdings of Local Currency Corporate Bonds in Select Emerging East Asian Economies (% of total)



Note: Data as of end-December 2017 except for the Republic of Korea (end-September 2017).
Sources: Based on data from *Wind*, Otoritas Jasa Keuangan, and the Bank of Korea.

Figure 4: Foreign Bond Flows in Select Emerging East Asian Economies



Notes:
1. The Republic of Korea and Thailand provided 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 December 2017.
3. Figures were computed based on 31 December 2017 exchange rates to avoid 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.

Emerging East Asia's LCY bond markets continued to attract foreign funds in Q4 2017.

Emerging East Asia's LCY bond markets posted net positive inflows in Q4 2017 amid attractive economic fundamentals and an improving growth outlook. The sole exception was the Republic of Korea, which posted net outflows for the quarter. While net inflows were recorded for most markets in Q4 2017, most markets also recorded net outflows in October that were largely offset by strong inflows in November and December (**Figure 4**).

For Q4 2017, Indonesia recorded the third-highest net inflows among markets for which data are available. However, for full-year 2017, Indonesia attracted the highest net inflows, largely due to a number of rating upgrades in 2017, with the most recent coming from Fitch Ratings in December. Indonesia also has some of the highest bond yields in the region. Furthermore, Indonesia is also one of the few markets that reduced its policy rates in 2017, helping push up bond prices.

Malaysia recorded positive bond inflows in Q4 2017 due to the economy's stable fundamentals. However, net outflows were recorded for full-year 2017, largely due to large outflows in the first quarter of 2017.

Thailand had the second-highest net inflows in Q4 2017 and the second-highest net inflows in full-year 2017, largely on the back of strong economic fundamentals. News sources cited Thailand's strong current account-to-GDP ratio as one factor for its bond market's relative attractiveness.

The Republic of Korea recorded a net outflow in Q4 2017. In November, foreign investors exited after better economic figures led to speculation that the Bank of Korea would tighten monetary policy. In December, net outflows were recorded partly due to maturities and partly due to a large foreign institutional fund selling its short-term holdings as part of its portfolio adjustment.

LCY bond issuance in emerging East Asia fell in Q4 2017 on declines in large markets.

Emerging East Asia's total LCY issuance declined 19.7% q-o-q in Q4 2017 to USD1,103 billion, following positive growth in Q3 2017 (**Table 3**). The negative q-o-q growth was attributed to the huge drop in debt issuance during the last quarter of the year in the PRC, the largest debt issuer in the region with a market share of 54.8% at the end of December. Indonesia and the Republic of Korea experienced q-o-q declines in bond issuance, while the rest of the emerging East Asian markets showed positive q-o-q growth. On an annual basis, the region's issuance in Q4 2017 increased 8.9%, lifted by higher issuance in all markets except Thailand.

Total LCY government issuance in emerging East Asia in Q4 2017 fell 26.9% q-o-q to USD722 billion, largely dragged down by the PRC's reduced issuance of local bonds due to measures imposed by the government to control the economy's spiraling debt. Alongside the PRC, lower issuance volumes were observed in Indonesia and the Republic of Korea, which met most of their funding needs in previous quarters. These markets comprised more than half of the region's government issuance in Q4 2017, muting the issuance increases in the remaining markets.

The region's LCY corporate bond issuance in Q4 2017 was little changed from Q3 2017 at USD381 billion as all markets saw q-o-q increases during the quarter except the PRC, the Philippines, and Singapore. Compared to a year earlier, corporates raised 4.2% more through issuance, which can be attributed to firms taking advantage of relatively low interest rates ahead of likely monetary policy tightening in 2018 from most central banks in emerging East Asia as well as in advanced economies. Corporate issuance accounted for 34.5% of total issuance in the region in Q4 2017.

The PRC's total LCY bond issuance in Q4 2017 amounted to USD605 billion, reflecting a drop of 32.1% from the previous quarter but an increase of 6.4% from Q4 2016. Both the government and corporate segments exhibited a q-o-q decline in bond sales, with much of the overall decline accounted for by government bonds. Issuance of government bonds in Q4 2017 was nearly halved to USD374 billion from USD624 billion in Q3 2017. Corporate issuance was also lower, declining 8.6% to USD231 billion as a result of the PRC government's continued campaign to limit credit and leverage. Against this backdrop, debt instruments carried higher yields, making it costlier to borrow and translating into fewer bond issuances. Moreover, lower bond sales from local governments in Q4 2017 also contributed to the decline in issuance as they had already nearly met annual debt issuance limits set by authorities in the preceding quarters. The PRC's Ministry of Finance has set annual quotas for local government debt swap and bond issuance programs to control their debt sales.

Total LCY bond issuance in the Republic of Korea reached USD171 billion in Q4 2017, making it the second-largest issuer next to the PRC. The market registered a 2.4% decline in Q4 2017 from the preceding quarter and an 8.9% increase on an annual basis. The q-o-q decline can be traced to lower issuance from the government during the quarter even as issuance from the corporate sector increased. Issuances of Korea Treasury Bonds was down on a q-o-q basis due to frontloading measures taken in the first half of the year. On the other hand, corporate issuance picked up 8.6% q-o-q.

Total LCY issuance in Hong Kong, China in Q4 2017 amounted to USD113 billion, 5.7% higher than in Q3 2017, led by the government whose issuance accelerated 6.0% q-o-q and comprised about 92% of total issuance. The Hong Kong Monetary Authority upped its issuance of Exchange Fund Bills to meet increased demand among banks on the back of increased liquidity in the banking system. In the corporate sector, issuance rose only 2.4% q-o-q to USD9 billion. Compared to a year earlier, total bond issuance in Hong Kong, China grew 10.0%, while issuance in the corporate sector dropped 16.4%.

In Indonesia, total LCY bond issuance fell 16.1% q-o-q to USD13 billion in Q4 2017, with the decline in government bond issuance offsetting the increase in corporate bond issuance. Bond issuances from Bank Indonesia and the central government were subdued during Q4 2017, resulting in q-o-q declines of 71.7% and 23.2%, respectively, as the government had met most of its annual financing needs through bond sales in the previous quarters. Meanwhile, Bank Indonesia only issued Sertifikat Bank Indonesia in Q4 2017 (sharia-compliant central bank certificates). In contrast to government issuance, bond sales from the corporate segment registered growth of 17.6% q-o-q in Q4 2017, amounting to USD4 billion. On an annual basis, both the government and corporate segments saw increased issuances in 2017.

Malaysia's LCY bond issuance was up 21.1% q-o-q and 86.6% y-o-y to USD23 billion in Q4 2017 on the back of higher bond sales in both the government and corporate segments. Issuance from the government registered a gain of 7.2% q-o-q, with the increases in Malaysian Government Securities and Bank Negara Malaysia bills countering the decreases in Government Investment Issues and Treasury bills. Malaysian Government Securities recorded their highest monthly issuance in 2017 at MYR8.9 billion in December. Meanwhile, growth of debt issuance from the corporate sector surged to 31.9% q-o-q in Q4 2017 from 6.3% q-o-q in Q3 2017. During the quarter, corporate bond issuance reached USD14 billion as firms placed their debt sales ahead of expected interest rate increases after Bank Negara Malaysia signaled it would raise its overnight policy rate in early 2018.

Table 3: Local-Currency–Denominated Bond Issuance (gross)

	Q4 2016		Q3 2017		Q4 2017		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q4 2017		Q4 2017	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	532	100.0	871	100.0	605	100.0	(32.1)	6.4	(30.6)	13.6
Government	314	59.0	624	71.6	374	61.8	(41.4)	11.4	(40.1)	18.9
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	314	59.0	624	71.6	374	61.8	(41.4)	11.4	(40.1)	18.9
Corporate	218	41.0	247	28.4	231	38.2	(8.6)	(0.7)	(6.6)	6.0
Hong Kong, China										
Total	104	100.0	107	100.0	113	100.0	5.7	10.0	5.7	9.1
Government	93	89.4	98	91.7	104	91.9	6.0	13.1	6.0	12.2
Central Bank	92	88.6	98	91.6	103	91.2	5.2	13.2	5.2	12.4
Treasury and Other Govt.	1	0.8	0.1	0.1	0.8	0.7	983.3	0.0	982.9	(0.7)
Corporate	11	10.6	9	8.3	9	8.1	2.4	(16.4)	2.39	(17.0)
Indonesia										
Total	9	100.0	15	100.0	13	100.0	(16.1)	37.9	(16.6)	37.0
Government	6	68.6	12	78.7	9	70.1	(25.2)	41.0	(25.7)	40.1
Central Bank	1	15.1	0.5	3.3	0.1	1.1	(71.7)	(89.7)	(71.9)	(89.8)
Treasury and Other Govt.	5	53.5	11	75.3	9	69.0	(23.2)	77.8	(23.7)	76.7
Corporate	3	31.4	3	21.3	4	29.9	17.6	31.1	16.8	30.3
Korea, Rep. of										
Total	139	100.0	163	100.0	171	100.0	(2.4)	8.9	4.8	23.0
Government	56	40.6	73	44.8	66	38.5	(15.9)	3.4	(9.8)	16.8
Central Bank	27	19.1	35	21.6	33	19.6	(11.5)	11.6	(5.0)	26.1
Treasury and Other Govt.	30	21.5	38	23.1	32	18.9	(20.1)	(4.0)	(14.2)	8.5
Corporate	82	59.4	90	55.2	105	61.5	8.6	12.6	16.6	27.2
Malaysia										
Total	11	100.0	18	100.0	23	100.0	21.1	86.6	26.3	106.8
Government	4	39.2	8	43.7	9	38.7	7.2	84.2	11.8	104.2
Central Bank	1	6.0	0.2	1.3	1	6.5	500.0	100.0	525.8	121.7
Treasury and Other Govt.	4	33.1	8	42.4	7	32.2	(8.0)	81.3	(4.0)	101.0
Corporate	7	60.8	10	56.3	14	61.3	31.9	88.1	37.6	108.6
Philippines										
Total	4	100.0	6	100.0	9	100.0	47.4	130.1	50.4	128.9
Government	3	64.9	5	84.4	9	93.6	63.4	231.6	66.7	229.9
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	3	64.9	5	84.4	9	93.6	63.4	231.6	66.7	229.9
Corporate	1	35.1	1	15.6	1	6.4	(39.1)	(57.9)	(37.9)	(58.1)
Singapore										
Total	62	100.0	88	100.0	90	100.0	0.7	33.9	2.3	45.0
Government	61	98.4	85	96.5	87	96.7	1.0	31.6	2.6	42.5
Central Bank	56	90.2	81	92.4	83	91.8	0.1	36.2	1.7	47.5
Treasury and Other Govt.	5	8.1	4	4.1	4	4.9	20.4	(19.2)	22.4	(12.5)
Corporate	1	1.6	3	3.5	3	3.3	(5.9)	168.4	(4.4)	190.7
Thailand										
Total	70	100.0	57	100.0	64	100.0	8.7	(17.5)	11.2	(9.3)
Government	56	80.1	47	82.1	50	78.4	3.8	(19.2)	6.2	(11.1)
Central Bank	51	72.2	40	68.9	43	67.1	5.9	(23.3)	8.3	(15.6)
Treasury and Other Govt.	6	7.9	8	13.2	7	11.3	(7.1)	18.1	(5.0)	29.9
Corporate	14	19.9	10	17.9	14	21.6	31.3	(10.7)	34.2	(1.8)

continued on next page

Table 3 *continued*

	Q4 2016		Q3 2017		Q4 2017		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q4 2017		Q4 2017	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	14	100.0	13	100.0	15	100.0	19.4	8.0	19.5	8.3
Government	14	98.3	13	99.9	15	96.4	15.2	6.0	15.3	6.3
Central Bank	13	89.9	12	93.4	13	83.6	100.0	0.5	–	0.8
Treasury and Other Govt.	1	8.4	1	6.6	2	12.8	132.5	64.5	132.9	64.9
Corporate	0.2	1.7	0.01	0.1	1	3.6	100.0	122.2	–	122.8
Emerging East Asia										
Total	946	100.0	1,339	100.0	1,103	100.0	(19.7)	8.9	(17.6)	16.6
Government	608	64.3	965	72.1	722	65.5	(26.9)	11.6	(25.2)	18.8
Central Bank	240	25.4	267	19.9	277	25.1	1.8	9.5	3.6	15.3
Treasury and Other Govt.	368	38.9	698	52.1	445	40.4	(37.8)	12.9	(36.2)	21.0
Corporate	338	35.7	374	27.9	381	34.5	(1.6)	4.2	1.8	12.7
Japan										
Total	413	100.0	419	100.0	406	100.0	(2.9)	(5.4)	(3.1)	(1.8)
Government	389	94.1	387	92.5	378	93.0	(2.4)	(6.5)	(2.6)	(3.0)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	389	94.1	387	92.5	378	93.0	(2.4)	(6.5)	(2.6)	(3.0)
Corporate	24	5.9	31	7.5	28	7.0	(9.4)	12.8	(9.5)	17.1

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q3 = third quarter, Q4 = fourth quarter, USD = United States dollar, 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 2017 currency exchange rates and do not include currency effects.
Sources: People's Republic of China (*ChinaBond* and *Wind Information*); 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).

Corporate bond issuance was also spurred by ongoing large infrastructure projects. Optimism in Malaysia's economic outlook further bolstered buying interest in its LCY bond market.

The Philippines total LCY bond issuance in Q4 2017 reached USD9 billion, up 47.4% q-o-q and more than doubling on a y-o-y basis predominantly due to huge bond sales from the government. The Government of the Philippines issued total debt of USD9 billion in Q4 2017, with USD5 billion from the sales of Retail Treasury Bonds, the government's second tranche of such bonds in 2017. On the other hand, corporate bond issuance fell 39.1% q-o-q and 57.9% y-o-y in Q4 2017, the largest drop in the region. However, the share of corporate issuance was small at 6.4% of the Philippine market in Q4 2017, and 0.2% of the total emerging East Asian market, suggesting that the drop was not sizable in real terms and the impacts were muted.

Issuance of LCY bonds in Singapore was marginally up in Q4 2017 to USD90 billion from USD88 billion in Q3 2017. The slight increase was mainly driven by government issuance, which saw an uptick of 1.0% q-o-q to USD87 billion, representing 96.7% of total issuance. Issuance of corporate bonds continued to contract in Q4 2017, though at a slower pace of 5.9% q-o-q versus a decline of 9.6% q-o-q in the previous quarter. On an annual basis, both government and corporate bond issuance recorded positive growth rates.

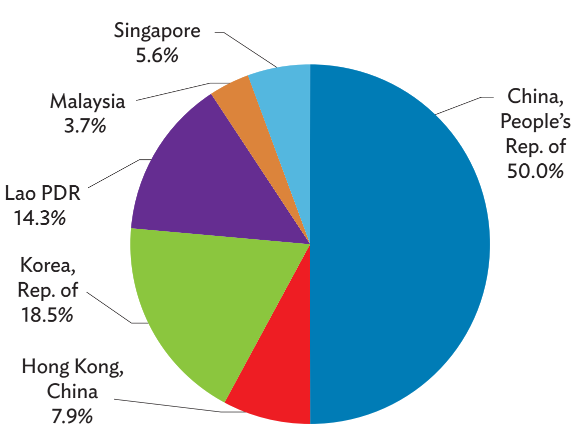
In Thailand, total LCY debt issuance increased 8.7% q-o-q in Q4 2017 following 2 consecutive quarters of q-o-q contractions. The reversal was driven by higher issuances from the government and corporate segments. On the government side, bond issuance was up 3.8% q-o-q, with the increase in Bank of Thailand securities offsetting the decrease in central government bonds. While Bank of Thailand securities exhibited an increase in Q4 2017, the amount remained low compared with last year's level as a result of the central bank's tapering of short-term bonds starting in April 2016 to rein in the Thai baht's appreciation. On an annual basis, Thailand's total LCY bond issuance continued to contract, dropping 17.5% in Q4 2017, albeit at a slower pace than in Q3 2017.

Viet Nam's LCY bond issuance continued to expand in Q4 2017 on both a q-o-q and y-o-y basis, totaling USD15 billion, supported by growth in bond sales in both the government and corporate sector. The government issued USD15 billion of bonds during the quarter, comprising almost all of Viet Nam's total issuance, driven by debt sales from state-owned firms. Issuance in the corporate sector in Q4 2017 rose to USD500 million from USD10 million in Q3 2017 as more firms tapped the bond market for their financing needs toward the end of 2017, likely due to the relatively low interest rates.

Cross-border bond issuance in emerging East Asia reached USD4.3 billion in Q4 2017.

Total cross-border issuance in emerging East Asia reached USD4.3 billion in Q4 2017, up 37.5% q-o-q and 94.6% y-o-y, mainly due to large issuances of HKD-denominated bonds from the PRC amounting to USD2.1 billion and accounting for 50% of the total cross-border issuance for the quarter (**Figure 5**). The largest single issuance in the region was an HKD8.0 billion (USD1.0 billion) 5-year zero-coupon exchangeable bond issued by Qingdao Haier in November through Harvest International. The next three largest issuances were also from the PRC, which together amounted to

Figure 5: Origin Economy of Intra-Emerging East Asian Bond Issuance in the Fourth Quarter of 2017



Lao PDR = Lao People's Democratic Republic.
Note: Data as of 31 December 2017.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

HKD8.6 billion and accounted for 26% of the region's total cross-border issuance for the quarter.

Issuers from Hong Kong, China raised CNY2.2 billion (USD339 million) worth of bonds denominated in Chinese renminbi and issued in various tenors. Iowa China Offshore Holdings was the largest cross-border issuer issuing a CNY1.0 billion 5-year bond carrying a 4.99% coupon.

Issuers from the Republic of Korea sold a total of USD795 million of bonds of various tenors denominated in Chinese renminbi, Hong Kong dollars, Indonesian rupiah, and Singaporean dollars. The Korea Development Bank was the largest cross-border issuer, selling USD350 billion worth of bonds denominated in various currencies. Its single largest issuance was a 3-year bond carrying a 4.5% coupon and worth CNY1.4 billion. Cross-border issuances from the Republic of Korea accounted for 18.5% of the total amount of cross-border issuance for the quarter.

Issuers from three ASEAN economies—the Lao People's Democratic Republic (Lao PDR), Malaysia, and Singapore—raised a combined USD1.0 billion worth of issuance in Q4 2017, comprising bonds denominated in various currencies.

The Government of the Lao PDR issued a multitranche bond worth THB14.0 billion (USD430 million), the longest tenor of which was 15 years with a coupon rate of 6.05%. This was the sixth THB-denominated issuance by the Lao PDR since May 2013. Nam Ngum 2 Power, a hydroelectric power company, also issued THB6.0 billion worth of THB-denominated bonds of various tenors. Cross-border issuances from the Lao PDR accounted for 14.3% of the region's total cross-border issuance for the quarter.

Cross-border issuance from Singapore totaled USD241 million in Q4 2017 and was denominated in various currencies. The largest issuance was by BOC Aviation, which issued a CNY1.0 billion 3-year bond carrying a 4.5% coupon.

Malayan Banking Berhad (Maybank) sold USD157 million worth of bonds denominated in Chinese renminbi and Hong Kong dollars.

On a regional level, issuances in Q4 2017 were denominated in Chinese renminbi, Hong Kong dollars, Indonesian rupiah, Philippine pesos, Singapore dollars, and Thai baht.

HKD-denominated bonds comprised the majority of cross-border issuance in Q4 2017, amounting to USD2.4 billion and accounting for 55% of the total (**Figure 6**). Issuers of Hong Kong dollar bonds came from the PRC, the Republic of Korea, and Malaysia.

CNY-denominated bonds issued in Q4 2017 amounted to USD804 million, accounting for 19% of the region's total amount of cross-border issuance for the quarter. Issuers came from Hong Kong, China; the Republic of Korea; Malaysia; and Singapore.

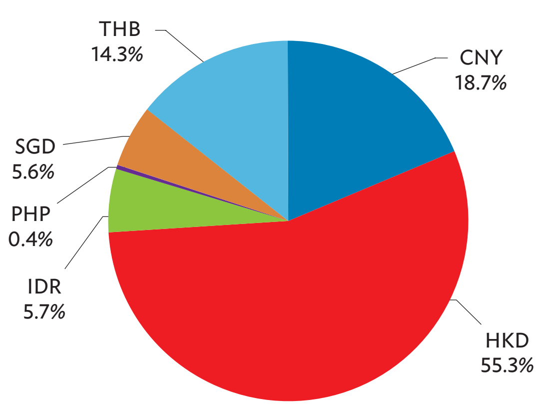
Issuances denominated in Thai baht, all of which came from the Lao PDR, amounted to USD614 million in Q4 2017, accounting for 14% of the total amount of cross-border issuance for the quarter.

A total of USD244 million worth of bonds denominated in Indonesian rupiah were issued in Q4 2017, originating from the Republic of Korea and Singapore.

SGD-denominated issuances worth USD240 million were sold by two issuers from the Republic of Korea.

Issuances denominated in Philippine pesos, amounting to USD16 million, originated from Singapore.

Figure 6: Currency Share of Intra-Emerging East Asian Bond Issuance in the Fourth Quarter of 2017



CNY = Chinese renminbi, HKD = Hong Kong dollar, IDR = Indonesian rupiah, PHP = Philippine peso, SGD = Singapore dollar, THB = Thai baht.
Note: Data as of 31 December 2017.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Total G3 currency bond issuance in emerging East Asia rose to USD341.6 billion in 2017.

Emerging East Asia's G3 currency bond issuance totaled USD342 billion in 2017, a hefty 56.7% increase over the USD218 billion recorded in 2016 (**Table 4**).[4] It was the second year in a row that G3 currency bond sales reached a record high as emerging East Asian economies became more active in the bond market, particularly in the last quarter of year, in anticipation of tighter US monetary policy in 2018.

By currency of issuance, US dollar bonds remained the most preferred denomination among emerging East Asian issuers, with a share of 91.7% of the total issuance in 2017, owing to the US dollar's status as a global currency. Bond sales in US dollars increased 61.2% y-o-y to USD313.3 billion from USD194.3 billion in 2016. EUR- and JPY-denominated bond issuance also rose in 2017, with total bond sales volume of USD25.2 billion and USD3.1 billion, respectively, despite the slight fall in the shares of both currencies relative to last year's G3 currency bond basket.

The PRC remained the region's largest issuer of G3 currency bond sales in 2017 at USD225 billion, as well as the fastest-growing issuer with an 86.1% increase over 2016. In 2017, the PRC's stable economic growth and attempts by the government to curb outflows contributed to the renminbi's appreciation, making issuance in foreign currency more attractive.

Hong Kong, China; Indonesia; the Philippines; Singapore; and Thailand all posted positive growth in their issuances compared to a year earlier, while G3 currency bond issuances declined in the Lao PDR and Malaysia. There was no G3 currency bond issuance in Viet Nam or in Cambodia in 2017.

The continuing economic structural adjustments in the PRC did not weaken Chinese companies' dominance in the issuances of G3 currency bonds. The PRC accounted for about 66% of the total G3 currency bond issuance, primarily denominated in US dollars and the rest in euros, with no issuance made in Japanese yen. Aside from a stronger renminbi, companies in the PRC continued to borrow from offshore markets where funding costs remained cheaper than local sources, as the government implemented measures to curb credit growth. Most

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

Table 4: G3 Currency Bond Issuance

2016			2017		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
China, People's Rep. of	**121.1**		**China, People's Rep. of**	**225.4**	
China Cinda Asset Management 4.45% Perpetual	3.2	30-Sep-16	Postal Savings Bank of China 4.50% Perpetual	7.3	27-Sep-17
Proven Honour Capital 4.125% 2026	2.0	6-May-16	China Evergrande Group 8.75% 2025	4.7	28-Jun-17
China Minsheng Banking 4.95% Perpetual	1.4	14-Dec-16	Alibaba Group Holding	2.6	06-Dec-17
Huarong Finance 3.625% 2021	1.4	22-Nov-16	State Grid Overseas Investment Ltd 3.50% 2027	2.4	04-May-17
Sinopec 2% 2021	1.3	29-Sep-16	China Zheshang Bank 5.45% 2050	2.2	29-Mar-17
Export–Import Bank of China 2% 2021	1.3	26-Apr-16	Kaisa Group Holdings Ltd 9.38% 2024	2.1	30-Jun-17
China Development Bank 0.875%	1.2	3-Feb-16	CNAC (HK) Synbridge Company Ltd 5.00% 2020	2.0	05-May-17
Sinopec 1.75% 2019	1.1	29-Sep-16	CNAC (HK) Finbridge Company Ltd 3.85% 2020	2.0	22-Dec-17
Others	108.3		Others	200.3	
Hong Kong, China	**29.7**		**Hong Kong, China**	**36.7**	
CK Hutchison 1.25% 2023	1.6	8-Apr-16	Radiant Access Limited 4.60% Perpetual	1.5	18-May-17
China Overseas Finance 0% 2023	1.5	5-Jan-16	China Cinda Finance 3.65% 2022	1.3	9-Mar-17
Others	26.6		Others	33.9	
Indonesia	**18.3**		**Indonesia**	**26.7**	
Indonesia (Sovereign) 3.75% 2028	1.8	14-Jun-16	Perusahaan Penerbit SBSN *Sukuk* 4.15% 2027	2.0	29-Mar-17
Indonesia (Sovereign) 2.625% 2023	1.8	14-Jun-16	Indonesia (Sovereign) 4.35% 2048	1.8	11-Dec-17
Perusahaan Penerbit SBSN *Sukuk* 4.55% 2026	1.8	29-Mar-16	Perusahaan Listrik Negara 4.13% 2027	1.5	15-May-17
Indonesia (Sovereign) 5.25% 2047	1.5	8-Dec-16	Indonesia (Sovereign) 3.5% 2028	1.3	11-Dec-17
Indonesia (Sovereign) 4.35 2027	1.3	8-Dec-16	Indonesia (Sovereign) 2.15% 2024	1.2	18-Jul-17
Others	10.2		Others	19.0	
Korea, Rep. of	**28.8**		**Korea, Rep. of**	**29.8**	
Korea Development Bank 3% 2026	1.0	13-Jan-16	Republic of Korea (Sovereign) 2.75% 2027	1.0	19-Jan-17
Korea Eximbank 1.75% 2019	1.0	26-May-16	Export-Import Bank of Korea 3.00% 2022	1.0	1-Nov-17
Korea Eximbank 2.625% 2026	1.0	26-May-16	Export–Import Bank of Korea 0.50% 2022	0.9	30-May-17
Others	25.8		Others	26.9	
Lao People's Democratic Rep.	**0.3**		**Lao People's Democratic Rep.**	**0.03**	
Malaysia	**6.0**		**Malaysia**	**4.4**	
Malaysia (Sovereign) *Sukuk* 3.179% 2026	1.0	27-Apr-16	Genting Overseas Holdings Limited Capital 4.25% 2027	1.0	24-Jan-17
Danga Capital 3.035% 2021	0.8	1-Mar-16	CIMB Bank 1.93% 2020	0.6	15-Mar-17
TNB Global Ventures Capital 3.244% 2026	0.8	19-Oct-16	CIMB Bank 3.26% 2022	0.5	15-Mar-17
Others	3.5		Others	2.3	
Philippines	**2.7**		**Philippines**	**4.0**	
Philippines (Sovereign) 3.7% 2041	2.0	1-Mar-16	Republic of the Philippines (Sovereign) 3.7% 2042	2.0	2-Feb-17
Others	0.7		Others	2.0	
Singapore	**9.8**		**Singapore**	**12.5**	
BOC Aviation 3.875% 2026	0.8	27-Apr-16	DBS Bank 0.38% 2024	0.9	23-Jan-17
DBS Group 3.6% Perpetual	0.8	7-Sep-16	DBS Group Holdings Ltd 1.71% 2020	0.8	8-Jun-17
Others	8.3		Others	10.9	
Thailand	**1.2**		**Thailand**	**2.2**	
Kasikorn Bank PLC 2.375% 2022	0.4	6-Oct-16	PTTEP Treasury Center Company Ltd 4.60% Perpetual	0.5	17-Jul-17
Others	0.8		Others	1.7	
Emerging East Asia Total	**218.0**		**Emerging East Asia Total**	**341.6**	
Memo Items:			**Memo Items:**		
India	**8.4**		**India**	**15.1**	
Export–Import Bank of India 3.375% 2026	1.0	5-Aug-16	Vedanta Resources PLC 6.375% 2022	**1.0**	**30-Jan-17**
Others	7.4		Others	14.1	
Sri Lanka	**2.9**		**Sri Lanka**	**3.7**	

USD = United States dollar.
Notes:
1. Data exclude certificates of deposits.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Figures were computed based on 31 December 2017 currency exchange rates and do not include currency effects.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

of the firms faced mounting pressures to find cheaper source of refinancing their maturing debts in 2017. China Evergrande Group was the PRC's largest issue of G3 currency bonds in 2017, raising a total of USD9.1 billion in USD-denominated bonds in the first half of the year. The two other top issuers in the PRC were Huarong Finance and the Postal Savings Bank with USD8.7 billion and USD7.3 billion of G3 currency bond issuance, respectively. Other notable issuances include the PRC's first sovereign issuance since 2004, which comprised USD2.0 billion worth of 5-year and 10-year bonds issued in November. The issuance is also notable for being a sovereign USD-denominated bond with no credit rating.

Hong Kong, China remained the second-largest G3 currency bond issuer in 2017 with aggregate issuance of USD37 billion, a 23.6% jump from total G3 bonds sold in 2016. China Cinda Finance was the largest bond issuer with total bond issuance worth USD3.6 billion.

The Republic of Korea was the third-largest G3 currency bond issuer with a total of USD29.8 billion issued in 2017, in all three currencies, roughly the same as in 2016. The top three issuers this year were Export–Import Bank and Korea Development Bank, both government-owned, and Hyundai Capital Services, which together comprised 40.8% of total G3 currency bonds sales in the Republic of Korea. Quarterly bond sales in Q4 2017 were the lowest of the year at USD5.7 billion.

G3 currency bond issuance by members of ASEAN grew 29.5% in 2017 to USD49.7 billion from USD38.4 billion in 2016. The combined sales from Indonesia and Singapore comprised 79% of the total issuance from ASEAN.

Indonesia's new G3 issuance grew strongly at 45.6% y-o-y in 2017, reaching a total value of USD26.7 billion. The Government of Indonesia was the top issuer in the market during the year, selling USD8 billion. The government intends to use the proceeds of G3 currency bond issuance to finance the state budget, while continuing its debt instrument diversification plans. In 2017, Q4 2017 bond sales were the highest among all quarters at USD8.1 billion.

Singapore issued USD12.5 billion of G3 currency bonds in 2017 on an increase of 27.0% y-o-y. Similar to Hong Kong, China, issuers in Singapore were from the financial sector. Total issuance in Q4 2017 of USD3.3 was almost at par with the previous quarter.

Thailand's G3 currency bond issuance almost doubled in 2017 to USD2.2 billion. Despite the surge, only a small number of firms issue G3 currency bonds in Thailand, with the bulk of the issuance conducted in the second half of the year.

G3 currency bond sales in the Philippines registered an increase of 47.7% to USD4.0 billion in 2017, all of which was denominated in US dollars. The largest chunk was issued by the government, which sold USD2.0 billion worth of bonds in the first quarter of the year. The Philippines G3 currency bond issuance in Q4 2017 totaled USD850 million.

For the second year in a row, G3 currency bond issuance in Malaysia declined, dropping 27.7% y-o-y to USD4.4 billion. The issuances comprised USD- and JPY-denominated bonds. The seemingly anemic performance of G3 currency bond issuance can be attributed to lingering negative investor sentiment from Bank Negara Malaysia clamping down on the offshore trading of the Malaysian ringgit, which caused episodes of large capital outflows during 2017. About USD960 million worth of G3 currency bonds were sold in Q4 2017.

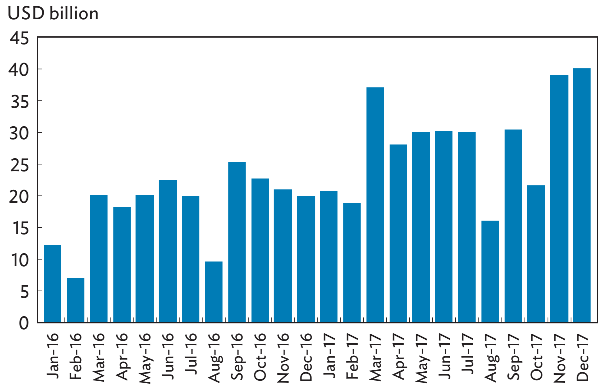
The sole G3 bond issuance in the Lao PDR in 2017 was a USD25.7 million bond from Kolao Holding in Q3 2017.

Examining the monthly trends in 2017, G3 currency bond issuance volumes in emerging East Asian economies were highest in March, November, and December at USD37 billion, USD39 billion, and USD40 billion, respectively (**Figure 7**). The high issuance volumes in these months were driven by surges in G3 currency bond issuance in the PRC. The large spate of issuances in November and December came after the completion of the National Congress of the Communist Party of China in October when the National Development and Reform Council began allowing more companies to issue offshore bonds.

Emerging East Asia's government bond yield curves fell for most markets at the longer-end as the US continued its monetary policy normalization and the positive global growth outlook remained unchanged.

Despite a slowdown in GDP growth in the US to 2.5% y-o-y in Q4 2017 from 3.2% y-o-y in the previous quarter, the US continued to maintain its current

Figure 7: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.
Notes:
1. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Figures were computed based on 31 December 2017 currency exchange rates and do not include currency effects.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

trajectory of gradual monetary policy normalization. On 12 December, the Federal Reserve raised its key policy rate target range by 25 basis points (bps) to between 1.25% and 1.50%. The Federal Reserve noted that its forecast for growth is largely on track and in December upgraded its forecast for 2018 to 2.5% from 2.4%. The Federal Reserve kept its policy rate target unchanged in its 30 January meeting but noted that both the economy and labor markets continue to strengthen. While US GDP growth slowed in Q4 2017, consumption was strong and the decline was mostly due to a rise in imports.

In the eurozone, flash estimates of GDP growth for Q4 2017 also slowed to 2.7% y-o-y from 2.8% y-o-y in the prior quarter. The European Central Bank (ECB) kept monetary policy unchanged on 25 January but noted that surveys indicate that growth continues to be strong and broad-based. The ECB's survey of professional forecasters released on 25 January also confirms this with participants upgrading their growth forecasts for 2018 to 2.3% y-o-y from 1.9% y-o-y. While the ECB lags the US Federal Reserve in terms of policy normalization, in January the ECB reduced its asset purchases from EUR60 billion to EUR30 billion a month and announced plans to end such purchases entirely in September 2018.

GDP growth in Japan slowed much more, falling to an annual rate of 1.6% in Q4 2017 from 2.4% in the prior quarter. Like other advanced economy central banks, on 23 January the Bank of Japan announced it would keep monetary policy unchanged. It also affirmed that it expects 2018 growth to exceed potential. In March, the BOJ, announced that it would be thinking about normalizing monetary policy in April 2019.

In summary, while global economic growth showed signs of slowing in Q4 2017, expectations are that economic gains will continue to be made that will allow central banks in advanced markets to begin normalizing monetary policy.

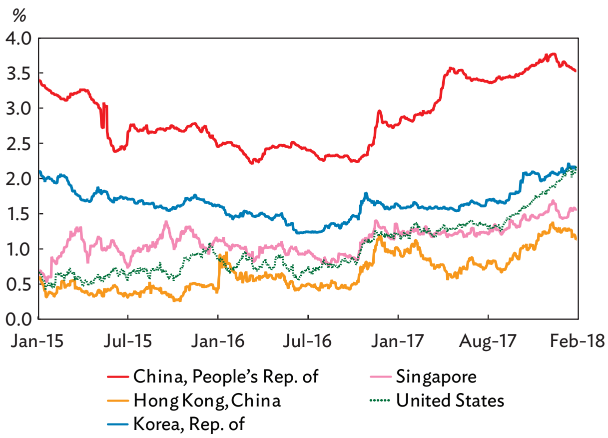
Confidence in the continuation of global economic gains as well as the current trajectory of US monetary policy has led to upward pressure on interest rates in emerging East Asia, particularly at the longer-end of the curve. However, 2-year yields in a number of emerging East Asian economies have trended downward. Hong Kong, China's 2-year yield fell between 29 December and 15 February, largely on ample domestic liquidity, prompting the Hong Kong Monetary Authority to issue additional Exchange Fund Bills (**Figure 8a**). In Singapore, the fall in the 2-year yield was led by investors shortening the duration of their portfolios. Indonesia experienced a decline in its 2-year yield following adjustments in the reserve requirement ratios in January (**Figure 8b**). Viet Nam's 2-year yield also fell following a reduction in its open market operation rates.

On the other hand, 10-year yields trended strongly upward across the region, reflecting a rise in US interest rates and growth expectations. The PRC's 10-year yield was also affected by the government's ongoing deleveraging efforts (**Figure 9a**). Viet Nam was the exception to this trend, with its 10-year rate falling along with the 2-year yield (**Figure 9b**).

Between 29 December and 15 February, most emerging East Asian economies saw their government bond yield curves rise for longer tenors. The PRC; Hong Kong, China; the Republic of Korea; the Philippines; and Singapore all saw yields at the longer-end of the curve rise, while yields rose for all tenors in Malaysia. Viet Nam was the sole exception, with yields falling for all tenors (**Figure 10**).

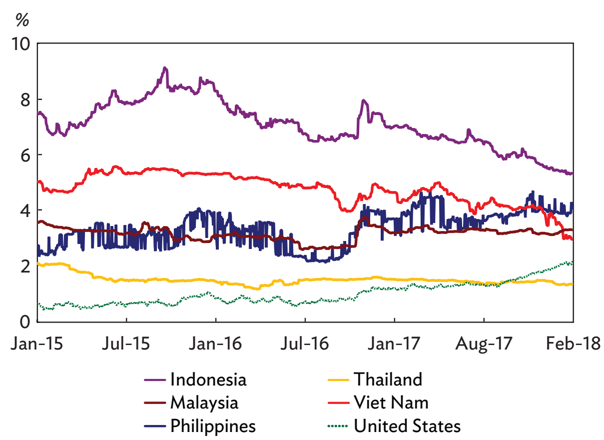
Similar to advanced economies, emerging East Asian economies largely experienced slower growth in Q4 2017. The PRC's quarterly growth rate was unchanged at

Figure 8a: 2-Year Local Currency Government Bond Yields



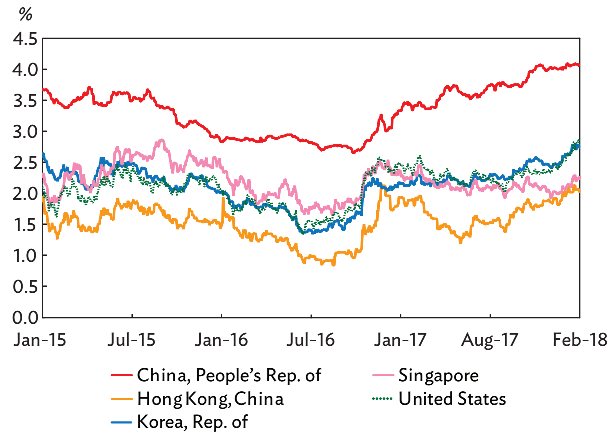
Note: Data as of 15 February 2018.
Source: Based on data from Bloomberg LP.

Figure 8b: 2-Year Local Currency Government Bond Yields



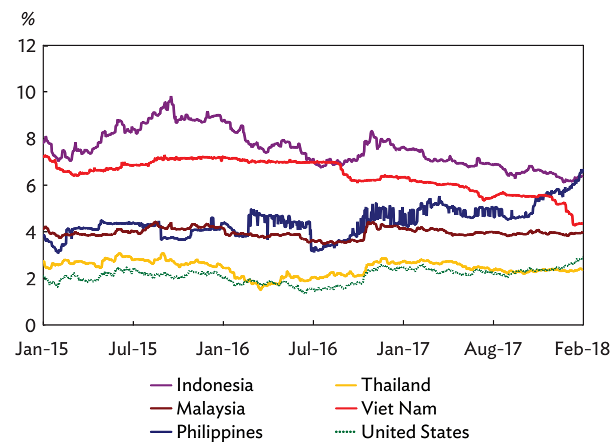
Note: Data as of 15 February 2018.
Source: Based on data from Bloomberg LP.

Figure 9a: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 February 2018.
Source: Based on data from Bloomberg LP.

Figure 9b: 10-Year Local Currency Government Bond Yields

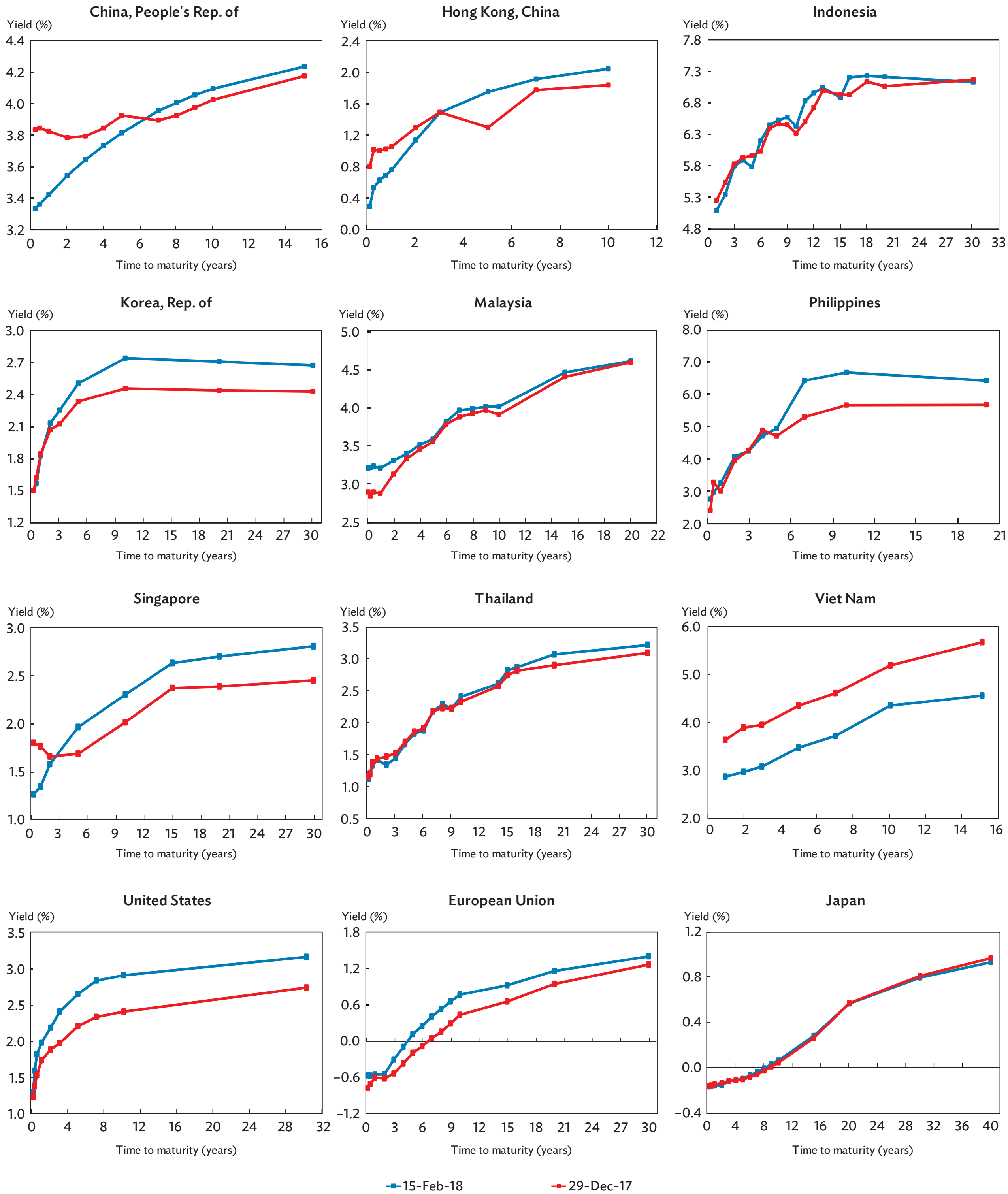


Note: Data as of 15 February 2018.
Source: Based on data from Bloomberg LP.

6.8% y-o-y while Malaysia's slowed to 5.9% y-o-y from 6.2% y-o-y in the same period. The Philippine economy's growth rate fell to 6.6% y-o-y from 7.0% y-o-y, while Singapore's fell steeply to 3.6% y-o-y from 5.5% y-o-y. Thailand's economic growth slowed to 4.0% y-o-y in Q4 2017 from 4.3% y-o-y in the previous quarter. The Republic of Korea's economy contracted 0.2% q-o-q in Q4 2017, but grew, albeit at a slower pace of 3.0% y-o-y. The q-o-q contraction was largely attributed to a high base effect in Q3 2017. Only Indonesia and Viet Nam showed an acceleration in GDP growth in Q4 2017, with Indonesia's GDP growth rate quickening to 5.2% y-o-y from 5.1%y-o-y, while Viet Nam's economy expanded 6.8% in full-year 2017, up from 6.4% in the first 3 quarters. Overall, emerging East Asia is largely expected to benefit from improving economic growth in 2018.

Other than economic growth, inflation in emerging East Asian markets also largely tracked weakness in advanced economies. While advanced economy forecasts have largely shown growth picking up in 2018, inflation has continued to be below target. However, projections show that inflation in advanced economies will pick up as early as 2019.

Figure 10: Benchmark Yield Curves—Local Currency Government Bonds

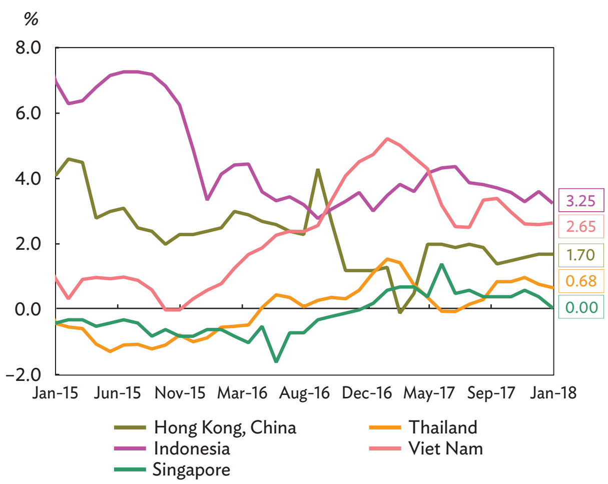


Source: Based on data from Bloomberg LP.

Singapore saw its annual inflation rate fall to zero in January (**Figure 11a**). The sole exception to this inflationary trend in the region was the Philippines, whose inflation accelerated to 4.0% y-o-y in January from 3.3% y-o-y in December, largely on the back of a tax reform program that pushed up prices of goods (**Figure 11b**).

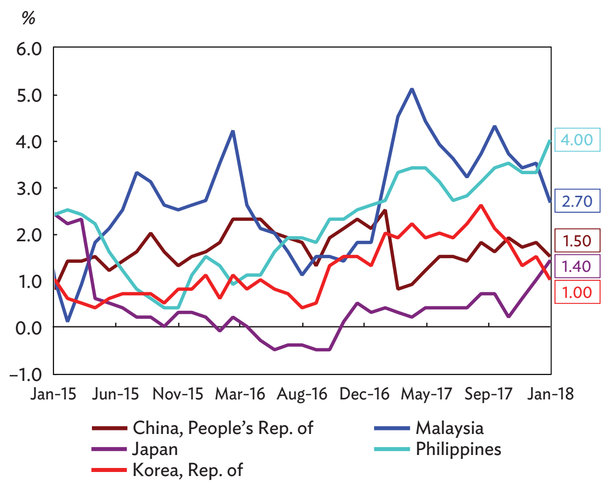
The low-inflation environment, coupled with expectations of improved growth, largely allowed central banks in emerging East Asia to leave monetary policy unchanged in Q4 2017. The Republic of Korea even raised its policy rate by 25 bps on 30 November and Malaysia increased its policy rate by 25 bps on 24 January (**Figure 12a**). The central banks of Indonesia and Viet Nam, both having the distinction of cutting policy rates in Q3 2017, largely kept policy rates unchanged in Q4 2017 (**Figure 12b**). These are also the only two economies in the region that had accelerating GDP growth rates in Q4 2017. However, while Indonesia left its policy rate unchanged

Figure 11a: Headline Inflation Rates



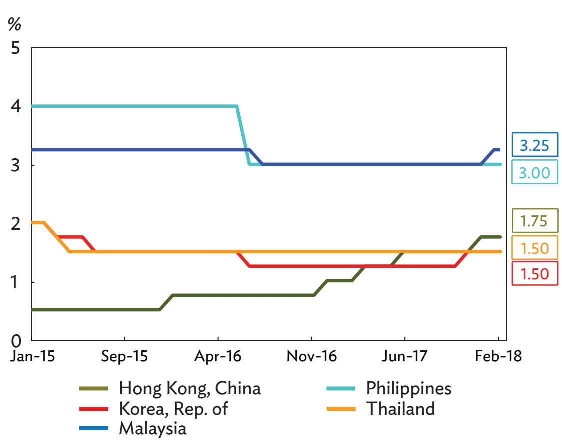
Note: Data as of January 2018.
Source: Based on data from Bloomberg LP.

Figure 11b: Headline Inflation Rates



Note: Data as of January 2018.
Source: Based on data from Bloomberg LP.

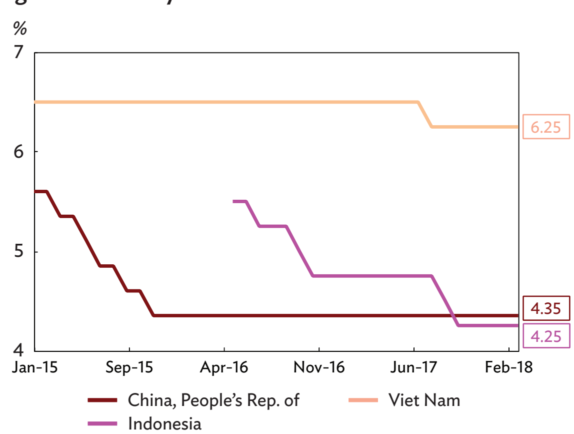
Figure 12a: Policy Rates



Notes:
1. Data as of 15 February 2018.
2. The policy rate of the Philippines was adjusted to 3.0% from 4.0% in June 2016 following the shift in the Bangko Sentral ng Pilipinas' monetary operations to an interest rate corridor system.

Source: Based on data from Bloomberg LP.

Figure 12b: Policy Rates



Notes:
1. Data as of 15 February 2018.
2. Bank Indonesia shifted its policy rate to the 7-day reverse repurchase rate effective 19 August 2016.

Source: Based on data from Bloomberg LP.

on 18 January, it reduced banks' day-to-day reserve requirement ratio by 50 bps to 4.5%. The 2-week average reserve requirement ratio was left unchanged at 6.5%. On 17 January, Viet Nam reduced its open market operation rate by 25 bps to 4.75%. The Philippines also reduced its reserve requirement ratio on 15 February by 100 bps to 19.0%.

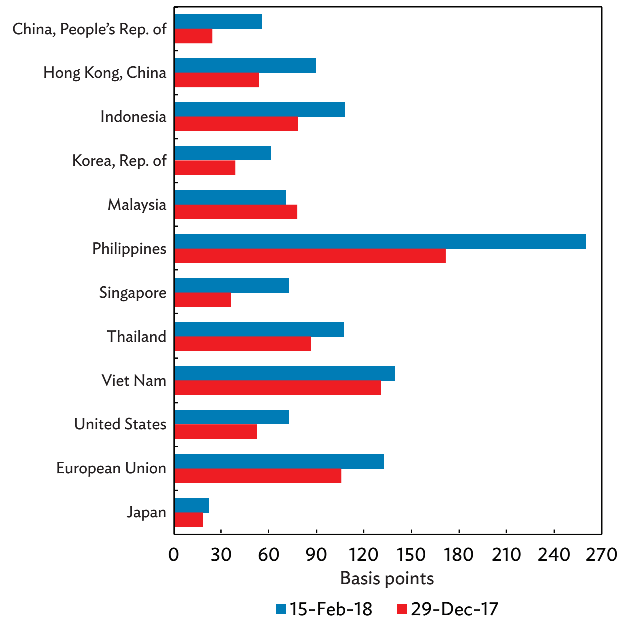
Expectations of improved economic gains also led to a rise in the 2-year versus 10-year yield spread in all markets in the region except Malaysia (**Figure 13**).

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

The improved economic outlook led to an improvement in the credit spreads at the longer-end of the curve in the Republic of Korea and Malaysia. In contrast, however, the AAA-rated credit spread versus government yields in the PRC rose as the government continued its deleveraging process (**Figure 14a**).

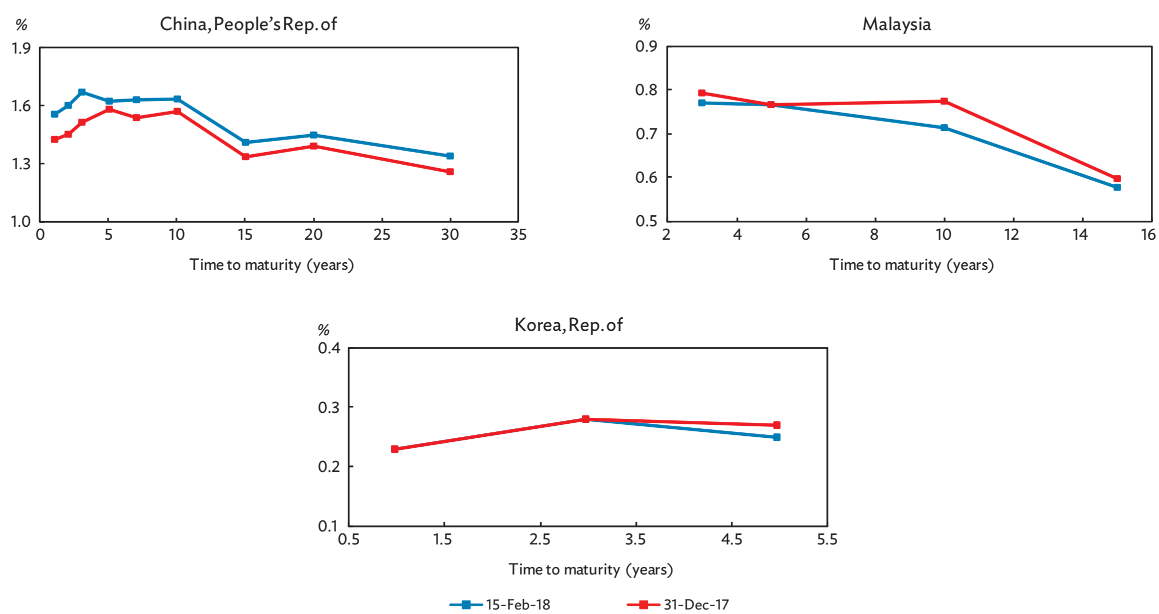
The spread between AAA-rated corporates and lower-rated corporates were roughly unchanged for all markets (**Figure 14b**).

Figure 13: Yield Spreads Between 2-Year and 10-Year Government Bonds



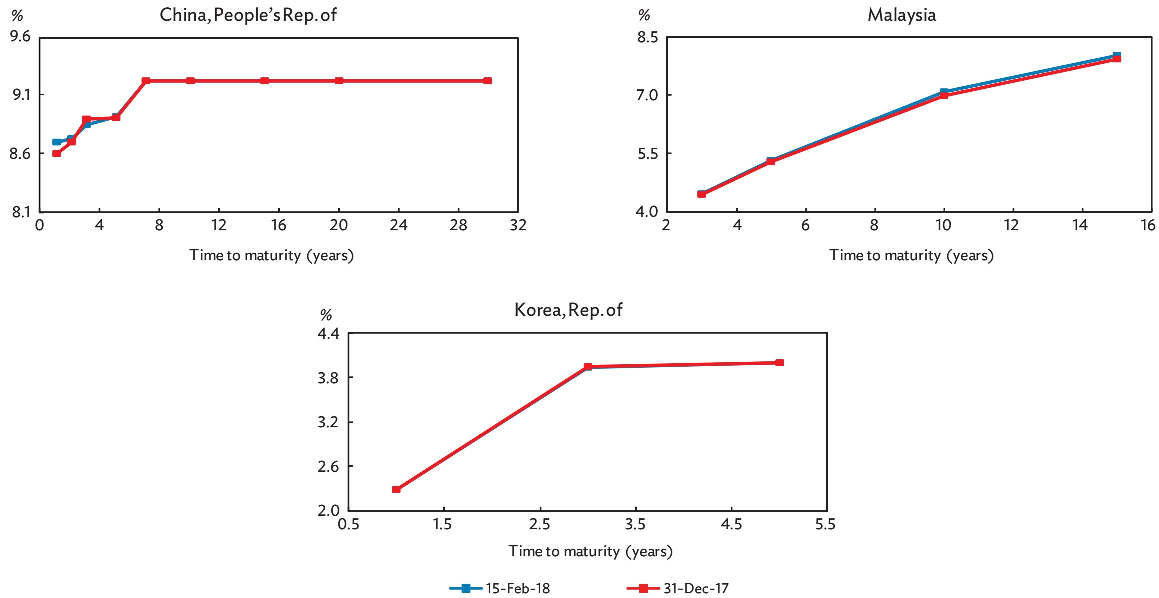
Source: Based on data from Bloomberg LP.

Figure 14a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Notes:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For Malaysia, data on corporate bonds yields are as of 14 February 2018.
Sources: People's Republic of China (*Wind Information*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (Bank Negara Malaysia).

Figure 14b: Credit Spreads—Lower-Rated Local Currency Corporates vs. AAA



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 14 February 2018.

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