

Bond Market Developments in the Fourth Quarter of 2018

Size and Composition

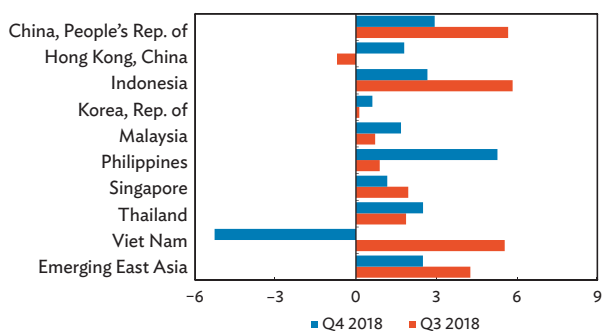
Outstanding local currency bonds in emerging East Asia surpassed USD13 trillion at the end of December.

The size of emerging East Asia's local currency (LCY) bond market reached USD13.1 trillion at the end of December, despite growth moderating in the fourth quarter (Q4) of 2018.³ Growth slowed to 2.4% quarter-on-quarter (q-o-q) in Q4 2018 from 4.3% q-o-q in the third quarter (Q3) of 2018 (Figure 1a). Four out of nine markets in the region posted slower q-o-q growth during the review period. The four markets were the People's Republic of China (PRC), Indonesia, Singapore, and Viet Nam. All other bond markets in the region posted higher q-o-q growth in Q4 2018 than in Q3 2018.

On an annual basis, emerging East Asia's LCY bond market grew 11.9% year-on-year (y-o-y) in Q4 2018, down from the 12.6% y-o-y expansion posted in the previous quarter (Figure 1b). All markets in the region posted positive y-o-y growth in Q4 2018. However, the region's aggregate y-o-y growth was affected by a slowdown in the PRC's LCY bond market. Nonetheless, the PRC was still the region's fastest-growing bond market on a y-o-y basis. It was followed by Indonesia and the Philippines, although these growth rates were magnified due to the small base of their respective bond markets.

The PRC continued to have the region's largest LCY bond market, with outstanding bonds of USD9.5 trillion at the end of December. The PRC accounted for 72.2% of emerging East Asia's aggregate LCY bond stock at the end of the review period. However, growth in the PRC bond market moderated to 2.9% q-o-q in Q4 2018

Figure 1a: Growth of Local Currency Bond Markets in the Third and Fourth Quarters of 2018 (q-o-q, %)



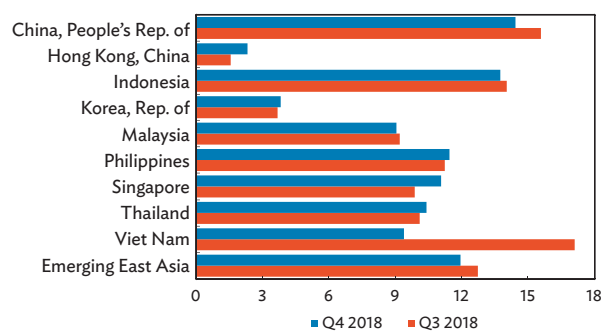
q-o-q = quarter-on-quarter, Q3 = third quarter, Q4 = fourth quarter.

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 2018 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).

Figure 1b: Growth of Local Currency Bond Markets in the Third and Fourth Quarters of 2018 (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 2018 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).

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 5.7% q-o-q in Q3 2018 as a result of slower growth in government bonds. The slowdown in the growth of government bonds stemmed largely from lower issuance volumes, particularly for local government bonds. As issuance quotas for special bonds of local governments had been mostly realized by the end of Q3 2018, there was limited room for new issuance of this type of government bond in Q4 2018. Despite this, the government bond segment still drove much of the q-o-q expansion in Q4 2018. Corporate bonds grew 5.3% q-o-q due to increased issuance volume as some corporates sought to refinance their debt obligations. On an annual basis, the PRC's bond market grew 14.3% y-o-y, with growth broadly balanced between government and corporate bonds.

The Republic of Korea was home to the region's second-largest bond market, with outstanding bonds of USD2.0 trillion at the end of December. Overall growth rose a marginal 0.6% q-o-q in Q4 2018, buoyed by growth in the corporate bond segment. The stock of government bonds contracted 1.5% q-o-q, led by declines in the stock of central government bonds and central bank bonds. Frontloading policy of issuance of bonds and higher tax revenue led the government to pare its issuance of bonds in Q4 2018. The corporate bond stock rose as firms locked in lower borrowing costs ahead of an expected interest rate hike. (The Bank of Korea raised its policy rate by 25 basis points [bps] on 30 November.) The y-o-y growth of the Republic of Korea's bond market was broadly steady in Q4 2018 compared with Q3 2018.

Hong Kong, China's LCY bonds outstanding reached USD249.0 billion at the end of December, up 1.8% q-o-q from the end of September. Much of the growth was driven by corporate bonds, with new corporate issuance exceeding maturities during the quarter. Government bonds also contributed to the overall growth, buoyed by increases in the stock of Hong Kong Special Administrative Region Bonds and Exchange Fund Bills. The stock of Exchange Fund Notes, however, continued to decline as issuance has been limited to the 2-year maturity only. On an annual basis, Hong Kong, China's bond market growth inched up to 2.3% y-o-y in Q4 2018 from 1.5% y-o-y in the previous quarter.

The outstanding LCY bonds of member economies of the Association of Southeast Asian Nations

(ASEAN) reached a total of USD1.4 trillion at the end of December, slightly higher than the USD1.3 trillion posted at the end of September.⁴ Growth in Q4 2018 (1.9% q-o-q and 10.6% y-o-y) was little changed from Q3 2018 (2.2% q-o-q and 10.6% y-o-y). At the end of December, ASEAN's total government bond stock reached USD0.9 trillion and corporate bonds totaled USD0.4 trillion. The LCY bond market of Thailand was the largest among ASEAN member economies, followed by Malaysia's and Singapore's.

Thailand's LCY bond market reached a size of USD385.0 billion at the end of December, with growth rising 2.5% q-o-q. Government bonds accounted for much of the growth, driven by a lower volume of maturities for Treasury instruments and a higher issuance volume for central bank securities. The corporate bond stock grew marginally from the previous quarter. The Thai bond market posted a 10.3% y-o-y hike in Q4 2018, slightly higher than the 10.0% y-o-y growth in Q3 2018.

Malaysia's LCY bond market expanded to a size of USD338.9 billion at the end of December, with growth picking up from only 0.7% q-o-q in Q3 2018 to 1.6% q-o-q in Q4 2018. The higher growth was led by government bonds, particularly central government bonds as issuance volume exceeded maturity. The stock of central bank bills also rose but to a lesser extent. Growth in corporate bonds was broadly similar to that of central government bonds, rising 1.3% q-o-q in Q4 2018. Growth in Malaysia's bond market in Q4 2018 was 8.9% y-o-y.

Malaysia continued to account for the largest *sukuk* (Islamic bond) market in emerging East Asia, with about 60% of the aggregate bond stock in Malaysia structured following Islamic principles. *Sukuk* comprised about 46% of its government bond market, while corporate *sukuk* accounted for an even larger share of 76% of the corporate bond segment.

Singapore's outstanding LCY bonds totaled USD295.5 billion at the end of December, with growth rising 1.2% q-o-q in Q4 2018. Growth was largely driven by government bonds, particularly increases in the stock of Singapore Government Securities bonds as there was an absence of maturities during the quarter. On the other hand, the corporate bond stock was broadly unchanged,

⁴ LCY bond statistics for ASEAN include the markets of Indonesia, Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

rising marginally by 0.7% q-o-q. Between Q4 2017 and Q4 2018, growth in the Singapore bond market accelerated to 11.0% y-o-y.

In Indonesia, LCY bonds outstanding reached USD197.2 billion at the end of December, up 2.7% q-o-q, which was slower than the 5.9% q-o-q growth posted in Q3 2018. Growth was driven largely by increases in the stock of Treasury instruments and, to a lesser extent, central bank bills. The government continued to issue a higher volume of Treasury instruments than its targeted amount, a trend also observed in Q3 2018. This led the government to fulfill its funding requirements ahead of time, resulting in the cancellation of four scheduled auctions in Q4 2018. Central bank bills also contributed to the growth, with the addition of Bank Indonesia *sukuk* as a monetary policy tool beginning in December. In contrast, the corporate bond stock slightly declined, as the volume of maturing bonds exceeded issuance in Q4 2018. On an annual basis, growth of the Indonesian bond market moderated to 13.7% y-o-y from 13.9% y-o-y in Q3 2018.

The Philippines' bond market recorded the fastest q-o-q growth rate among the region's LCY bond markets in Q4 2018. Its outstanding bonds total climbed to USD116.0 billion, with growth rising from 0.9% q-o-q in Q3 2018 to 5.3% q-o-q in Q4 2018. Government bonds expanded 4.1% q-o-q on account of increased issuance. The government took advantage of strong demand and issued more bonds via a tap facility as investor sentiments improved on expectations that the United States (US) Federal Reserve would engage in fewer rate hikes in 2019 and of a pause in rate hikes by the Bangko Sentral ng Pilipinas (BSP). Corporate bonds also helped to boost growth as a number of commercial banks were encouraged to tap the bond market for funding following the relaxation of rules by the BSP for the issuance of bank bonds. On an annual basis, the Philippine bond market rose 11.4% y-o-y in Q4 2018.

Viet Nam's LCY bond market was the sole market in the region that recorded a q-o-q contraction during the review period. LCY bonds outstanding slipped to USD50.9 billion at the end of December, falling 5.3% q-o-q due mainly to a decline in government bonds. All outstanding central bank bills had matured by the end of December, leading to the decline of 6.2% q-o-q in the government bond total. While corporate bonds

grew slightly, it was not enough to pull up the overall bond market. On an annual basis, growth in Viet Nam's bond market decelerated to 9.3% y-o-y in Q4 2018 from 17.0% y-o-y in Q3 2018.

At the end of December, the government bond market in emerging East Asia accounted for about two-thirds of the regional stock, with its overall size rising to USD8.8 trillion (**Table 1**). Growth in the region's government bond market moderated to 1.7% q-o-q and 12.5% y-o-y in Q4 2018 from 4.9% q-o-q and 14.6% y-o-y in Q3 2018. The largest government bond markets in the region were those of the PRC (USD6.8 trillion) and the Republic of Korea (USD0.8 trillion). Together, these two markets accounted for 87.5% of emerging East Asia's LCY government bond total at the end of December.

Among ASEAN member economies, the largest government bond market at the end of December was that of Thailand (USD278.0 billion). Next were the markets of Malaysia (USD178.7 billion) and Singapore (USD179.3 billion), followed by Indonesia (USD168.6 billion). The smallest government bond markets were those of Viet Nam and the Philippines, with each of their LCY government bonds outstanding still below the USD100 billion mark.

Emerging East Asia's corporate bond total rose to USD4.3 trillion at the end of December, representing a 33.2% share of the regional LCY bond stock. Unlike the trend in government bonds, growth in the region's corporate bond market accelerated in Q4 2018 relative to Q3 2018 on both a q-o-q and y-o-y basis. The PRC and the Republic of Korea accounted for the largest corporate bond markets in the region, with a combined 87.6% of the regional corporate total. Among ASEAN economies, Malaysia was home to the largest corporate bond market, followed by Singapore and Thailand.

As a share of the region's gross domestic product (GDP), the size of emerging East Asia's LCY bond market was equivalent to 73.3% in Q4 2018 compared with 73.2% in the prior quarter (**Table 2**). The share of government bonds relative to regional GDP slipped to 49.0% in Q4 2018 from 49.3% in Q3 2018. The share of corporate bonds relative to GDP inched up to 24.3% from 24.0% in the same period. The Republic of Korea led the region in terms of its bonds-to-GDP share at 125.5% at the end of December.

Table 1: Size and Composition of Local Currency Bond Markets

	Q4 2017		Q3 2018		Q4 2018		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q4 2017		Q4 2018		Q4 2017		Q4 2018	
							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	8,739	100.0	9,195	100.0	9,453	100.0	4.0	14.9	2.9	14.3	6.3	22.6	2.8	8.2
Government	6,327	72.4	6,707	72.9	6,837	72.3	4.4	19.2	2.1	14.2	6.7	27.2	1.9	8.1
Corporate	2,413	27.6	2,488	27.1	2,615	27.7	2.9	4.9	5.3	14.6	5.2	12.0	5.1	8.4
Hong Kong, China														
Total	244	100.0	245	100.0	249	100.0	1.1	4.1	1.8	2.3	1.0	3.3	1.8	2.0
Government	148	60.5	147	60.3	149	59.9	3.3	8.4	1.2	1.3	3.3	7.5	1.2	1.1
Corporate	96	39.5	97	39.7	100	40.1	(2.2)	(1.8)	2.7	3.7	(2.2)	(2.5)	2.7	3.5
Indonesia														
Total	184	100.0	185	100.0	197	100.0	2.9	14.0	2.7	13.7	2.3	13.3	6.3	7.1
Government	156	84.5	157	84.8	169	85.5	2.1	12.3	3.5	15.0	1.5	11.6	7.1	8.3
Corporate	29	15.5	28	15.2	29	14.5	7.7	24.3	(1.7)	6.3	7.0	23.5	1.8	0.2
Korea, Rep. of														
Total	2,020	100.0	2,005	100.0	2,014	100.0	0.5	4.3	0.6	3.8	7.8	17.9	0.5	(0.3)
Government	827	40.9	837	41.7	823	40.8	0.3	4.2	(1.5)	3.5	7.6	17.7	(1.7)	(0.5)
Corporate	1,193	59.1	1,168	58.3	1,191	59.2	0.6	4.4	2.1	4.0	8.0	18.0	2.0	(0.1)
Malaysia														
Total	318	100.0	333	100.0	339	100.0	1.8	10.2	1.6	8.9	6.2	22.2	1.7	6.6
Government	166	52.3	175	52.6	179	52.7	0.3	6.2	1.9	9.8	4.7	17.8	2.0	7.5
Corporate	152	47.7	158	47.4	160	47.3	3.5	14.9	1.3	8.0	7.9	27.4	1.5	5.7
Philippines														
Total	110	100.0	107	100.0	116	100.0	5.1	12.5	5.3	11.4	7.2	11.9	8.2	5.6
Government	89	81.4	85	79.3	91	78.4	5.8	12.0	4.1	7.4	7.9	11.4	7.1	1.8
Corporate	20	18.6	22	20.7	25	21.6	2.2	14.4	9.7	28.9	4.3	13.8	12.8	22.3
Singapore														
Total	272	100.0	291	100.0	295	100.0	0.1	7.9	1.2	11.0	1.7	16.9	1.5	8.8
Government	166	61.1	176	60.5	179	60.7	0.6	14.9	1.5	10.2	2.3	24.4	1.8	8.0
Corporate	106	38.9	115	39.5	116	39.3	(0.8)	(1.4)	0.7	12.3	0.8	6.8	1.0	10.0
Thailand														
Total	346	100.0	376	100.0	385	100.0	2.2	3.9	2.5	10.3	13.1	24.6	2.5	11.2
Government	252	72.7	269	71.7	278	72.2	2.7	3.3	3.3	9.6	11.3	21.0	3.3	10.5
Corporate	95	27.3	106	28.3	107	27.8	1.0	5.6	0.5	12.2	18.0	35.5	0.5	13.1
Viet Nam														
Total	48	100.0	53	100.0	51	100.0	1.4	7.9	(5.3)	9.3	1.5	8.2	(4.7)	7.1
Government	44	92.9	49	92.5	47	91.6	(0.2)	6.6	(6.2)	7.8	(0.04)	6.9	(5.6)	5.6
Corporate	3	7.1	4	7.5	4	8.4	27.0	29.3	6.2	29.4	27.2	29.6	6.9	26.7
Emerging East Asia														
Total	12,281	100.0	12,791	100.0	13,099	100.0	3.1	12.0	2.4	11.9	6.4	20.9	2.4	6.7
Government	8,174	66.6	8,604	67.3	8,751	66.8	3.7	16.0	1.7	12.5	6.6	24.7	1.7	7.1
Corporate	4,106	33.4	4,187	32.7	4,348	33.2	2.0	5.0	3.9	10.9	6.1	14.2	3.8	5.9
Japan														
Total	10,212	100.0	10,233	100.0	10,668	100.0	0.6	2.2	0.6	1.7	0.4	6.0	4.3	4.5
Government	9,520	93.2	9,545	93.3	9,939	93.2	0.6	2.4	0.5	1.6	0.5	6.2	4.1	4.4
Corporate	692	6.8	688	6.7	729	6.8	(0.3)	(0.6)	2.2	2.6	(0.5)	3.1	6.0	5.4
Memo Item: India														
Total	1,416	100.0	1,391	100.0	1,466	100.0	1.0	3.6	1.5	13.1	3.2	10.1	5.4	3.6
Government	1,002	70.7	999	71.8	1,044	71.2	0.4	(0.9)	0.5	13.8	2.6	5.4	4.5	4.2
Corporate	414	29.3	392	28.2	423	28.8	2.3	16.3	3.9	11.4	4.6	23.6	7.9	2.0

(-) = 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 are based on *AsianBondsOnline* estimates. For Japan, Q4 2018 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 2018 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 2017	Q3 2018	Q4 2018
China, People's Rep. of			
Total	69.3	71.8	72.2
Government	50.2	52.4	52.2
Corporate	19.1	19.4	20.0
Hong Kong, China			
Total	71.6	68.1	68.5
Government	43.3	41.1	41.1
Corporate	28.3	27.1	27.5
Indonesia			
Total	18.4	19.0	19.1
Government	15.5	16.1	16.4
Corporate	2.9	2.9	2.8
Korea, Rep. of			
Total	124.6	125.7	125.5
Government	51.0	52.5	51.3
Corporate	73.6	73.2	74.3
Malaysia			
Total	95.0	97.7	98.0
Government	49.7	51.4	51.7
Corporate	45.3	46.3	46.3
Philippines			
Total	34.6	34.2	35.0
Government	28.2	27.1	27.5
Corporate	6.5	7.1	7.5
Singapore			
Total	78.0	82.3	82.7
Government	47.7	49.8	50.2
Corporate	30.3	32.5	32.5
Thailand			
Total	73.0	75.3	76.3
Government	53.0	54.0	55.1
Corporate	20.0	21.4	21.2
Viet Nam			
Total	21.6	23.2	21.3
Government	20.0	21.5	19.5
Corporate	1.5	1.7	1.8
Emerging East Asia			
Total	71.1	73.2	73.3
Government	47.3	49.3	49.0
Corporate	23.8	24.0	24.3
Japan			
Total	211.1	211.9	213.2
Government	196.8	197.7	198.6
Corporate	14.3	14.3	14.6

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

Notes:

1. Data for GDP are from CEIC.

2. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Japan, Q4 2018 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).

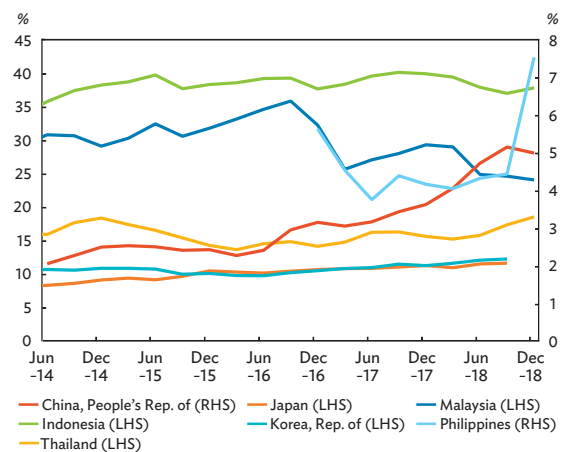
The share of foreign investor holdings in government bonds rose in most emerging East Asian economies in Q4 2018.

The share of foreign investor holdings in the LCY governments bonds of emerging East Asian economies rose for all markets in the region (in which data are available) except the PRC and Malaysia (**Figure 2**). Expectations that the Federal Reserve would slow its pace of monetary tightening in 2019 lifted investor sentiments toward emerging East Asian LCY bonds at the end of 2018.

The largest increase came in the Philippines, where the foreign investor holdings share jumped to 7.5% at the end of December from 4.4% at the end of September. In addition to the expected slowdown in Federal Reserve tightening, lower inflation expectations and a likely pause in BSP monetary tightening also helped boost demand.

Thailand had the next largest increase with its share of foreign holdings rising to 18.5% from 17.3% in the same period. Thailand, benefitting from strong economic fundamentals, has experienced an upward trend in its foreign investor share since June 2018. Indonesia's share of foreign holdings rose to 37.7% from 36.9% in the same period.

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 end-December 2018 except for Japan and the Republic of Korea (end-September 2018).

Source: *AsianBondsOnline*.

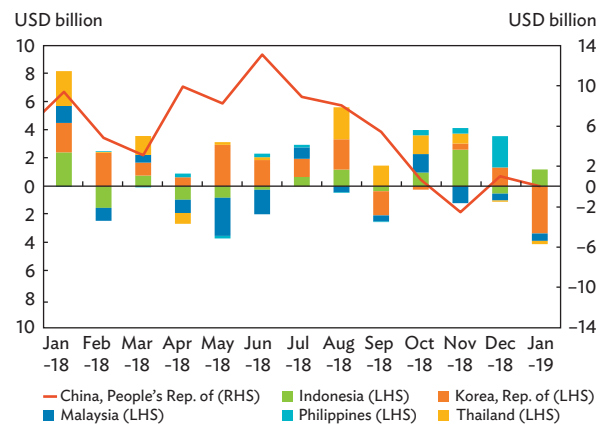
In contrast, the PRC’s foreign holdings share fell to 5.0% from 5.1%, reversing the trend of a continuously rising share in place since 2016. Sentiments in the PRC’s bond market turned negative after the Federal Reserve hinted of a slowdown in its monetary policy tightening. Uncertainties regarding the domestic economy and the PRC–US trade dispute, which led to a depreciation of the renminbi, also contributed.

Nonresident holdings of corporate bonds, for which data are available, declined between the end of December and the end of September (Figure 3). Foreign investor holdings of corporate bonds remained relatively low compared with government bonds, owing to the smaller size of the market and its illiquid nature.

Foreign bond inflows into emerging East Asia’s LCY bond markets continued in Q4 2018.

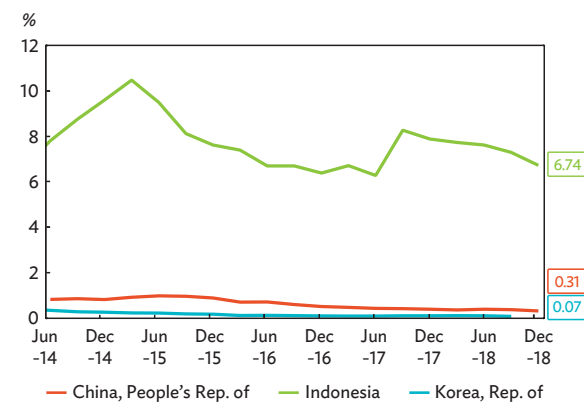
Emerging East Asia’s LCY bond markets continued to attract foreign funds in Q4 2018, although the aggregate amount was lower than in Q3 2018. Investor sentiments turned positive as the Federal Reserve hinted at a slower pace of rate hikes in 2019. Foreign fund inflows were observed in all markets in Q4 2018 for which data are available, except the PRC and Malaysia (Figure 4).

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



LHS = left-hand side, RHS = right-hand side, USD = United States dollar.
 Notes:
 1. The Republic of Korea and Thailand provided data on bond flows. For the People’s Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
 2. Data as of end-January 2019 except for the PRC and the Philippines (end-December 2018).
 3. Figures were computed based on 31 December 2018 exchange rates to avoid currency effects.
 Sources: People’s Republic of China (*Wind Information*); Indonesia (Directorate General of Budget Financing and Risk Management, Ministry of Finance); Republic of Korea (Financial Supervisory Service); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); and Thailand (Thai Bond Market Association).

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



Note: Data as of end-December 2018 except for the Republic of Korea (end-September 2018).
 Sources: People’s Republic of China (*Wind Information*), Indonesia (Otoritas Jasa Keuangan), and Republic of Korea (The Bank of Korea).

Indonesia gained the most as it attracted a net increase in offshore funds worth USD3.03 billion into its LCY bond market. Nonresident investors picked up Indonesian bonds amid renewed interest in emerging market assets. With inflation contained, investors in Indonesian bonds enjoyed high real interest returns. Sentiments were also boosted by the combined efforts of regulators to ensure stability in Indonesian financial markets.

The Philippines lured global funds worth USD2.99 billion during the quarter in review, following renewed optimism that the BSP would rein in inflation and pause its policy rate hikes. (The central banks of Indonesia and the Philippines had both actively engaged in monetary policy tightening earlier in 2018.) The Philippines was also the sole market in the region for which inflows were recorded in all 3 months of Q4 2018.

Net foreign bond inflows into the Thai bond market reached USD2.0 billion in Q4 2018, while the Republic of Korea’s bond market gained USD1.5 billion in foreign

investment. The only regional bond markets to experience net foreign outflows during the quarter were the PRC's and Malaysia's.

For full-year 2018, net foreign bond inflows in emerging East Asia's bond markets reached a total of USD95.5 billion. All regional markets posted net foreign bond inflows in 2018 except Malaysia's.

Emerging East Asia's aggregate LCY issuance declined in Q4 2018, with lower debt sales in most economies in the region.

Emerging East Asia's total LCY bond issuance in Q4 2018 amounted to USD1.1 trillion, reflecting a decline of 18.7% q-o-q and reversing the 13.7% q-o-q growth in Q3 2018 (**Table 3**). The contraction during the quarter was due to lower bond sales from the government that offset higher issuance from corporates. The region's issuance in Q4 2018 comprised 58.5% government bonds and 41.5% corporate bonds. Lower debt issuance was seen in all economies in the region except Hong Kong, China; the Republic of Korea; Malaysia; and the Philippines. The PRC and Indonesia had the largest dips in issuance, with declines of 29.7% q-o-q each; their combined issuance in Q4 2018 made up 55.8% of the regional total. On an annual basis, total LCY issuance increased 7.1% y-o-y, lifted by corporate debt issuance as government bond issuance declined.

Total LCY bond issuance in the government sector was weak in Q4 2018, declining 32.6% q-o-q from a growth of 16.0% q-o-q in the previous quarter. Issuance amounted to USD663.5 billion amid lower government bond sales in all economies in the region except Hong Kong, China; Malaysia; the Philippines; and Thailand. The PRC had the largest decline in issuance of 49.0% q-o-q, while the Philippines had the largest increase at 14.6% q-o-q. Both central bank and Treasury and other government securities registered quarterly declines in Q4 2018 in contrast to increases in Q3 2018. On an annual basis, government debt issuance fell 4.6% y-o-y.

The corporate sector's total LCY debt issuance amounted to USD471.1 billion in Q4 2018, growing 14.6% q-o-q. This growth was faster compared with 8.3% q-o-q in Q3 2018, indicating vibrant issuance activity in the private sector.

This was largely driven by the PRC and the Republic of Korea, which together comprised about 92.5% of the region's total corporate issuance in Q4 2018 with growth rates of 11.9% q-o-q and 33.3% q-o-q, respectively. Firms in the PRC tapped the bond market for their refinancing needs, while firms in the Republic of Korea issued debt ahead of an expected interest rate hike from the Bank of Korea. Malaysia and the Philippines also registered positive issuance growth in Q4 2018. On an aggregate basis, regional corporate issuance increased 29.4% y-o-y during the quarter.

The PRC's total LCY bond issuance fell 29.7% q-o-q in Q4 2018 following growth of 27.4% q-o-q in Q3 2018. The PRC posted the largest decline in the region in Q4 2018 alongside Indonesia, whose issuance declined by the same magnitude. Total debt sales in the PRC in Q4 2018 were lower at USD622.8 billion, dragged down by the 49.0% q-o-q decrease in government issuance. Lower issuance from local governments was seen during the quarter as they had nearly fully utilized their annual issuance quotas in the previous 3 quarters. By the end of Q3 2018, about 92% of the local government debt sales quota had already been reached.⁵ Local governments are expected to accelerate their bond issuance in 2019 to fund infrastructure projects and help revitalize the slowing economy. Government bonds comprised 49.6% of total issuance in the PRC in Q4 2018.

The corporate sector, on the hand, saw increased issuance of 11.9% q-o-q that totaled USD314.1 billion. The corporate bonds will largely be used for refinancing that was necessitated by a large volume of bond maturities in Q1 2019 as well as the weakening Chinese renminbi, which made borrowing costs in USD-denominated bonds more expensive.

The Republic of Korea's LCY bond issuance in Q4 2018 reached USD181.6 billion, increasing 7.2% q-o-q. The Republic of Korea's issuance growth helped moderate the regional decline as being the second-largest issuer next to the PRC, comprising 16.0% of the market. Issuance from the government and corporate sectors moved in opposite directions, with the former registering a decline and the latter registering an increase. Government issuance totaled USD59.9 billion on a decline of 23.3% q-o-q, accelerating from a decrease of 7.4% q-o-q in Q3 2018.

⁵ Bloomberg. 2018. *China's \$195 Billion Debt Splurge Has Less Bang Than You Might Think*. 22 October. <https://www.bloomberg.com/news/articles/2018-10-21/china-s-195-billion-debt-splurge-has-less-bang-than-you-think>.

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

	Q4 2017		Q3 2018		Q4 2018		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q4 2018		Q4 2018	
							q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	605	100.0	887	100.0	623	100.0	(29.7)	8.9	(29.8)	3.0
Government	374	61.8	606	68.3	309	49.6	(49.0)	(12.7)	(49.1)	(17.4)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	374	61.8	606	68.3	309	49.6	(49.0)	(12.7)	(49.1)	(17.4)
Corporate	231	38.2	281	31.7	314	50.4	11.9	43.7	11.7	36.0
Hong Kong, China										
Total	113	100.0	112	100.0	113	100.0	1.4	0.4	1.4	0.2
Government	104	91.9	104	92.9	106	93.9	2.5	2.6	2.4	2.3
Central Bank	103	91.2	104	92.7	105	92.8	1.6	2.2	1.5	2.0
Treasury and Other Govt.	0.8	0.7	0.2	0.2	1	1.1	427.8	46.2	427.5	45.8
Corporate	9	8.1	8	7.1	7	6.1	(12.3)	(24.0)	(12.4)	(24.2)
Indonesia										
Total	13	100.0	15	100.0	11	100.0	(29.7)	(8.4)	(27.2)	(13.7)
Government	9	70.1	13	85.0	10	91.3	(24.5)	19.2	(21.8)	12.3
Central Bank	0.1	1.1	2	13.9	2	15.4	(21.9)	1,161.4	(19.1)	1,088.2
Treasury and Other Govt.	9	69.0	11	71.1	8	75.9	(25.0)	0.7	(22.4)	(5.2)
Corporate	4	29.9	2	15.0	0.9	8.7	(59.3)	(73.3)	(57.8)	(74.9)
Korea, Rep. of										
Total	171	100.0	170	100.0	182	100.0	7.2	10.9	7.1	6.5
Government	66	38.5	78	46.1	60	33.0	(23.3)	(5.2)	(23.4)	(8.9)
Central Bank	33	19.6	34	20.3	33	17.9	(5.5)	1.3	(5.7)	(2.7)
Treasury and Other Govt.	32	18.9	44	25.7	27	15.1	(37.3)	(11.9)	(37.4)	(15.3)
Corporate	105	61.5	91	53.9	122	67.0	33.3	20.9	33.1	16.2
Malaysia										
Total	23	100.0	22	100.0	25	100.0	11.1	10.1	11.2	7.8
Government	9	38.7	14	61.7	14	57.7	3.9	64.3	4.0	60.8
Central Bank	1	6.5	6	28.8	7	30.0	15.8	411.7	16.0	400.9
Treasury and Other Govt.	7	32.2	7	32.9	7	27.7	(6.6)	(5.4)	(6.5)	(7.4)
Corporate	14	61.3	9	38.3	10	42.3	22.6	(24.1)	22.8	(25.7)
Philippines										
Total	9	100.0	5	100.0	7	100.0	43.4	(19.9)	47.4	(24.0)
Government	9	93.6	4	81.8	5	65.4	14.6	(44.0)	17.8	(46.9)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	9	93.6	4	81.8	5	65.4	14.6	(44.0)	17.8	(46.9)
Corporate	0.6	6.4	0.9	18.2	2	34.6	173.3	332.1	180.9	309.8
Singapore										
Total	90	100.0	106	100.0	100	100.0	(5.9)	13.5	(5.6)	11.3
Government	87	96.7	102	95.5	97	96.9	(4.5)	13.8	(4.2)	11.6
Central Bank	83	91.8	95	89.7	94	93.2	(2.2)	15.3	(1.9)	13.0
Treasury and Other Govt.	4	4.9	6	5.8	4	3.7	(39.3)	(13.6)	(39.1)	(15.3)
Corporate	3	3.3	5	4.5	3	3.1	(35.9)	6.0	(35.7)	3.9
Thailand										
Total	64	100.0	72	100.0	70	100.0	(2.9)	9.1	(2.9)	9.9
Government	50	78.4	58	80.4	59	84.3	1.9	17.3	1.8	18.2
Central Bank	43	67.1	50	69.7	53	75.7	5.4	23.1	5.4	24.0
Treasury and Other Govt.	7	11.3	8	10.7	6	8.6	(21.6)	(16.9)	(21.6)	(16.3)
Corporate	14	21.6	14	19.6	11	15.7	(22.2)	(20.8)	(22.2)	(20.2)

continued on next page

Table 3 continued

	Q4 2017		Q3 2018		Q4 2018		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q4 2018		Q4 2018	
							q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	15	100.0	7	100.0	3	100.0	(50.1)	(76.3)	(49.8)	(76.8)
Government	14	94.3	6	94.6	3	90.3	(52.3)	(77.3)	(52.0)	(77.8)
Central Bank	13	86.2	5	69.1	0.7	19.1	(86.2)	(94.8)	(86.1)	(94.9)
Treasury and Other Govt.	1	8.0	2	25.4	2	71.2	39.8	109.8	40.7	105.5
Corporate	0.8	5.7	0.4	5.4	0.3	9.7	(10.7)	(59.9)	(10.2)	(60.7)
Emerging East Asia										
Total	1,102	100.0	1,396	100.0	1,135	100.0	(18.7)	7.1	(18.7)	2.9
Government	721	65.4	985	70.5	663	58.5	(32.6)	(4.6)	(32.6)	(8.0)
Central Bank	277	25.1	297	21.3	294	25.9	(1.1)	7.6	(1.0)	6.4
Treasury and Other Govt.	445	40.3	688	49.2	369	32.5	(46.3)	(12.5)	(46.3)	(16.9)
Corporate	381	34.6	412	29.5	471	41.5	14.6	29.4	14.5	23.6
Japan										
Total	406	100.0	397	100.0	411	100.0	0.0	(1.4)	3.7	1.3
Government	378	93.0	359	90.5	372	90.5	0.0	(4.1)	3.7	(1.4)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	378	93.0	359	90.5	372	90.5	0.0	(4.1)	3.7	(1.4)
Corporate	28	7.0	38	9.5	39	9.5	0.0	33.9	3.7	37.5

() = 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. For Japan, Q4 2018 issuance data are based on *AsianBondsOnline* estimates.

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 2018 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).

The declines in the second half of the year were a result of the frontloading of debt sales in the first half of the year. In contrast, corporates in the Republic of Korea increased their issuance activity 33.3% q-o-q to reach USD121.7 billion. The double-digit growth came during a prolonged low-interest-rate environment ahead of an expected policy rate hike from the Bank of Korea, which happened on 30 November. Corporate bond issuance comprised a 67.0% share of the Republic of Korea's total issuance in Q4 2018, the highest in the region, that provided a lift to the region's issuance total during the quarter despite the decline in government issuance.

Hong Kong, China's total LCY debt issuance increased 1.4% q-o-q in Q4 2018 after declining 3.7% q-o-q in Q3 2018, lifted mainly by government issuance. Total issuance amounted to USD113.4 billion, making Hong Kong, China the third-largest source of issuance in emerging East Asia with a market share of 10.0%. Debt sales from the government grew a modest 2.5% q-o-q due to higher issuance of Exchange Fund Bills and Hongkong

Special Administrative Region bonds. Corporate bond issuance decreased 12.3% q-o-q to USD6.9 billion in Q4 2018. While still registering a decline, this represented an improvement from the 36.4% q-o-q drop in Q3 2018.

ASEAN member economies issued debt amounting to USD216.8 billion in Q4 2018, which accounted for 19.1% of the total issuance in emerging East Asia. Singapore was the largest issuer among the ASEAN economies during the quarter, while Viet Nam was the smallest. Only Malaysia and the Philippines saw q-o-q increases in total issuance in Q4 2018, supported by both the government and corporate segments. Issuance in the ASEAN region during the quarter primarily comprised government debt with an 86.9% share of the total; corporate debt comprised the remaining 13.1% share.

Indonesia's total LCY bond issuance fell 29.7% q-o-q in Q4 2018 following a surge of 94.6% q-o-q in the preceding quarter. Total issuance during the quarter amounted to only USD10.9 billion on lower debt sales

in both the government and corporate segments. Government bond issuance dropped 24.5% q-o-q to USD9.9 billion after more than doubling in Q3 2018. The q-o-q decrease was due to a high base for issuance in Q3 2018 as the government sought to finance the budget deficit and Bank Indonesia continued to issue conventional Sertifikat Bank Indonesia in large volumes. In November, the Ministry of Finance called off the four remaining bond auctions scheduled for 2018, citing attainment of the government's issuance plan and a budget deficit that was smaller than the previous target. Corporate issuance in Q4 2018 fell more rapidly than government issuance, declining 59.3% q-o-q to USD0.9 billion. Issuance in the corporate sector comprised 8.7% of total issuance in the market in Q4 2018.

Malaysia registered an 11.1% q-o-q increase in LCY bond issuance in Q4 2018, bringing the total to USD24.7 billion and accelerating from 1.4% q-o-q in the previous quarter. The tally in Q4 2018 was lifted by higher issuances in both the government and corporate segments. The government issued a total of USD14.3 billion in Q4 2018, reflecting modest growth of 3.9% q-o-q on increased central bank securities issuance, while issuance from the central government, mainly comprising Malaysian Government Securities and Government Investment Issues, declined 6.6% q-o-q. Corporate bond issuance increased more rapidly than for government bonds, gaining 22.6% q-o-q in Q4 2018 after declining 11.4% q-o-q in Q3 2018. While Malaysia's corporate issuance registered a q-o-q increase, there was a declining trend in debt sales between October and December. Issuance in October amounted to MYR18.8 billion, nearly twice as much as December's MYR9.6 billion. This intra-quarterly decline matched forecasts of a slowdown in corporate issuance, particularly infrastructure- and construction-related bonds, as a result of the government's project-rationalization stance.

The Philippines recorded the fastest q-o-q growth in total LCY bond issuance in Q4 2018 among all emerging East Asian economies. Issuance in the bond market increased 43.4% q-o-q, amounting to USD7.2 billion, a turnaround from the 37.8% q-o-q decline in Q3 2018. LCY bond issuance from the government in Q4 2018 increased 14.6% q-o-q, underpinned by higher debt issuance than originally planned with the opening of the

Bureau of the Treasury's tap facility to take advantage of strong demand and low yields.⁶ In the corporate sector, issuance surged to USD2.5 billion in Q4 2018 from USD0.9 billion in Q3 2018 after the BSP eased bank regulation for issuing corporate bonds. In Q4 2018, banks raised a total of USD1.4 billion, up from USD0.4 billion in the previous quarter. The Philippines comprised 0.6% of total issuance in the region in Q4 2018, the smallest share next to Viet Nam.

In Singapore, LCY bond issuance in Q4 2018 declined 5.9% q-o-q, reversing the 3.7% q-o-q growth in Q3 2018. Issuance during the quarter amounted to USD100.5 billion, largely comprising government bonds. Issuance from the government declined 4.5% q-o-q to USD97.4 billion, following a marginal increase of 0.7% q-o-q in Q3 2018. Monetary Authority of Singapore bills almost entirely made up the government issuance total in Q4 2018, amounting to USD93.6 billion. These bills are primarily used for reference pricing for financial assets. Corporate issuance declined by a larger magnitude than issuance of government bonds, falling 35.9% q-o-q, although the corporate segment only accounted for a minor share of 3.1% of total issuance in Q4 2018.

Thailand's total LCY bond issuance declined 2.9% q-o-q to USD70.2 billion in Q4 2018, reversing the growth of 7.3% q-o-q in Q3 2018. Issuance was weighed down by the decline in corporate debt sales, while the increase in government issuance during the quarter was minimal. Government debt sales went up 1.9% q-o-q to USD59.1 billion, driven almost entirely by issuance of Bank of Thailand securities amounting to USD53.1 billion. In the corporate sector, issuance declined 22.2% q-o-q to USD11.0 billion from an increase of 24.4% q-o-q in the previous quarter. The reversal can be attributed to the high base in Q3 2018 when several merger and acquisition deals were conducted, including Thailand's biggest corporate debt sales yet, from Thai Beverage, amounting to THB77.0 billion.

Viet Nam's total debt sales in Q4 2018 declined 50.1% q-o-q to USD3.4 billion on lower issuance in both the government and corporate segments. It was the third consecutive quarter that Viet Nam recorded negative growth in issuance. Government debt issuance, which made up 90.3% of total issuance in Q4 2018, declined 52.3% q-o-q to USD3.1 billion. Issuance from the central

⁶ The Bureau of the Treasury's tap facility allows Government Securities Eligible Dealers to access bonds after the initial primary auction.

bank declined 86.2% q-o-q to USD0.7 billion, while that from the Treasury and other government entities increased 39.8% q-o-q. This resulted in a larger market share for the latter compared with the former, at 71.2% and 19.1%, respectively, in contrast to Q3 2018 when the opposite was the case. The increased debt sales from Treasury and other government entities were led by government-guaranteed bonds. Issuance from the corporate sector also declined in Q4 2018, falling 10.7% q-o-q to USD0.3 billion.

Cross-border bond issuance in emerging East Asia reached USD5.4 billion in Q4 2018.

Total cross-border issuance in emerging East Asia reached USD5.4 billion in Q4 2018, up 29.1% q-o-q and 1.4% y-o-y, mainly on large issuances of HKD-denominated bonds amounting to USD2.9 billion and accounting for 54.3% of the total cross-border issuance for the quarter (**Figure 5**). The single-largest issuance in the region was an HKD7.8 billion (USD1.0 billion) 5-year special purpose bond carrying a 4.5% coupon, issued in December by Smart Insight, which is wholly owned by Country Garden Holdings. The next two largest issuances were also from the PRC, together amounting to about USD0.9 billion. These three issuances accounted for 55.5% of the region's total cross-border issuance for the quarter.

Korea Land and Housing Corporation issued a bond worth HKD1.3 billion (USD0.2 billion) with a tenor of 3 years

and a coupon rate of 2.87%. The Republic of Korea's cross-border issuances accounted for 5.1% of the region's total cross-border issuance for the quarter.

Issuers from three ASEAN economies—Singapore, Malaysia, and the Lao People's Democratic Republic (Lao PDR)—raised a combined USD0.7 billion worth of issuance in Q4 2018, comprising bonds denominated in various currencies.

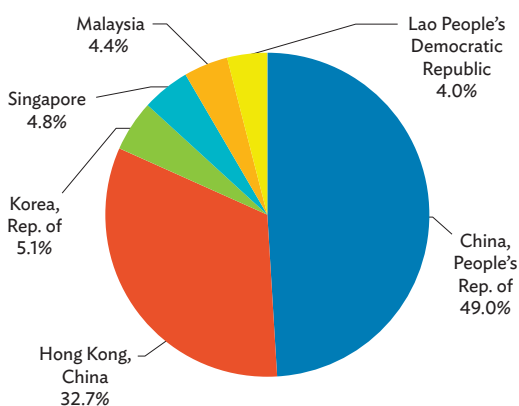
Cross-border issuance from Singapore totaled USD259 million in Q4 2018 and the issuances were denominated in Chinese renminbi, Hong Kong dollar, Korean won, and Philippine peso. The largest issuance was a CNY1.3 billion (USD0.2 billion) 3-year bond carrying a 4.5% coupon from Industrial and Commercial Bank of China's Singapore subsidiary. Cross-border issuance from Singapore accounted for 4.8% of the region's total cross-border issuance for the quarter.

Cross-border issuance from Malaysia accounted for 4.4% of the region's total cross-border issuance in Q4 2018. Cagamas Berhad issued a bond worth SGD160.0 million (USD117.4 million) with a tenor of 2 years and a coupon rate of 2.79%. Malayan Banking issued four bonds worth a total of USD122.2 million, with different tenors and denominated currencies.

One month after the Law on State Debt Management came into effect on 29 October, the Government of the Lao PDR issued four bonds worth a total of THB7.0 billion (USD0.2 billion), the longest tenor of which was 12 years and with a coupon rate of 6.45%. The Lao PDR's cross-border issuances are denominated in Thai baht due to a sovereign rating exemption from Thailand. Cross-border issuances from the Lao PDR accounted for 4.0% of the region's total cross-border issuance for the quarter.

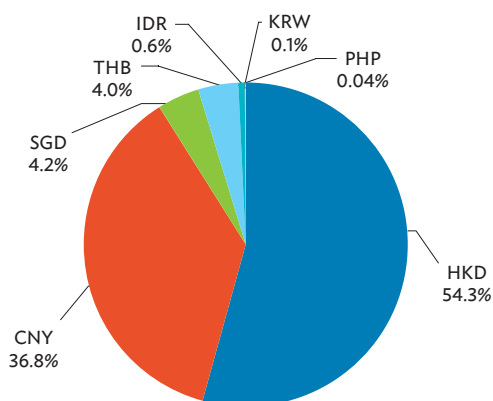
On a regional level, issuances in Q4 2018 were denominated in Hong Kong dollars and Chinese renminbi, accounting for 91.1% of the region's total cross-border issuance for the quarter (**Figure 6**). Issuers of Hong Kong dollar bonds came from the PRC, the Republic of Korea, Singapore, and Malaysia, with the PRC accounting for 90.4% of all HKD-denominated issuance. In fact, all of the PRC's cross-border bond issuance in Q4 2018 was HKD-denominated. Cross-border bond issuance from the PRC, Singapore, and Malaysia in Q4 2018 rose 226.3% q-o-q, 102.2% q-o-q, and 37.8% q-o-q, respectively. In the Republic of Korea, issuance decreased 67.6% q-o-q.

Figure 5: Origin Economies of Intra-Emerging East Asian Bond Issuance in the Fourth Quarter of 2018



Source: AsianBondsOnline calculations based on Bloomberg LP data.

Figure 6: Currency Shares of Intra-Emerging East Asian Bond Issuance in the Fourth Quarter of 2018



CNY = Chinese yuan, HKD = Hong Kong dollar, IDR = Indonesian rupiah, KRW = Korean won, PHP = Philippine peso, SGD = Singapore dollar, THB = Thai baht.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

CNY-denominated bonds issued in Q4 2018 amounted to USD2.0 billion, accounting for 36.8% of the region's total cross-border issuance. Issuance came from the PRC; Hong Kong, China; the Republic of Korea; Malaysia; and Singapore.

Total G3 currency bond issuance in emerging East Asia dropped to USD293.5 billion in 2018.

Total issuance of G3 currency bonds in emerging East Asia fell 14.1% y-o-y in 2018 to USD293.5 billion from USD341.6 billion in 2017 (Table 4).⁷ The region's bond markets felt the effects of several global factors such as the trade war between the PRC and the US, and increasing interest rates in the US. This was a reversal from the growth experienced annually since 2016.

In 2018, all economies that issued G3 currency bonds sold USD-denominated debt, while some sparingly issued in euros and Japanese yen. Consequently, bonds issued in US dollars dominated with a 90.1% share of all G3 currency bond issuance, distantly followed by euros and Japanese yen with shares of 7.7% and 2.2%, respectively. In 2018, a total of USD264.5 billion worth of USD-denominated bonds were issued in emerging East Asia, representing a 15.6% y-o-y decrease from 2017. The equivalent of USD22.7 billion of EUR-denominated bonds were issued in 2018, down 10.0% y-o-y from 2017. On the other hand, bonds issued in Japanese yen more

than doubled to USD6.3 billion as Indonesia and the Philippines issued samurai bonds worth a combined total of USD2.3 billion.

The PRC issued the most G3 currency bonds in emerging East Asia in 2018, amounting to USD183.5 billion or 62.5% of the region's total G3 currency bond issuance. This was, however, down 18.6% y-o-y due to the PRC's slowing economic growth, its ongoing trade war with the US, and increased number of corporate bond defaults. The PRC was followed by the Republic of Korea, whose G3 currency bond issuance in 2018 grew 0.9% y-o-y to USD30.0 billion.

G3 currency bond issuance increased in 2018 in Thailand (164.1% y-o-y), the Philippines (56.1% y-o-y), Singapore (28.8% y-o-y), and the Republic of Korea (0.9% y-o-y). On the other hand, G3 issuance declined in 2018 in Hong Kong, China (40.4% y-o-y), Malaysia (33.3% y-o-y), the PRC (18.6% y-o-y), and Indonesia (2.1% y-o-y). Viet Nam and Cambodia issued G3 currency bonds in 2018, while the Lao PDR issued in 2017 but not in the following year.

The PRC led all economies with 62.5% of all G3 currency bond issuances, issuing USD170.8 billion in US dollars and the equivalent of USD11.9 billion and USD0.7 billion in euros and Japanese yen, respectively. Chinese state-owned chemical company CNAC (HK) Finbridge led all issuers from the PRC with USD6.3 billion across six tranches issued in a mix of both US dollars and euros, the largest of which was a 10-year USD-denominated bond worth USD1.8 billion and with a 5.13% coupon. Multinational investment holding conglomerate Tencent Holdings issued US dollar bonds amounting to USD5.0 billion, the largest of which was a 10-year USD2.5 billion callable bond with a coupon rate of 3.6%.

The Republic of Korea accounted for a 10.2% share of all G3 currency bonds issued in 2018. By denomination, the Republic of Korea issued USD24.5 billion in US dollars, USD3.2 billion in euros, and USD2.4 billion in Japanese yen. The Export-Import Bank of Korea issued a total of USD5.8 billion via a combination of all three G3 currencies, the largest of which was a USD0.9 billion 5-year bond with coupon rate of 0.63% issued in euros, as the state-run bank's upcoming redemptions in 2019 and 2020 called for new euro benchmark bonds.

⁷ G3 currency bonds are denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2017			2018		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
Cambodia	0.0		Cambodia	0.3	
China, People's Rep. of	225.4		China, People's Rep. of	183.5	
Postal Savings Bank of China 4.50% Perpetual	7.3	27-Sep-17	Tencent Holdings 3.595% 2028	2.5	19-Jan-18
China Evergrande Group 8.75% 2025	4.7	28-Jun-17	CNAC (HK) Finbridge Company 5.125% 2028	1.8	14-Mar-18
Alibaba Group Holding 3.40% 2027	2.6	6-Dec-17	Scenery Journey 11.000% 2020	1.6	6-Nov-18
State Grid Overseas Investment Ltd. 3.50% 2027	2.4	4-May-17	Zhongyuan Bank 5.600% 2099	1.4	21-Nov-18
China Zheshang Bank 5.45% 2050	2.2	29-Mar-17	CNAC (HK) Finbridge Company 1.750% 2022	1.4	14-Mar-18
Kaisa Group Holdings Ltd 9.38% 2024	2.1	30-Jun-17	CNAC (HK) Finbridge Company 4.625% 2023	1.3	14-Mar-18
Others	204.3		Others	173.6	
Hong Kong, China	36.7		Hong Kong, China	21.9	
Radiant Access Limited 4.60% Perpetual	1.5	18-May-17	CHMT Peaceful Development Asia Property 7.5% 2019	3.3	25-Apr-18
China Cinda Finance 3.65% 2022	1.3	9-Mar-17	Bank of China (Hong Kong) 5.9% Perpetual	3.0	14-Sep-18
Others	33.9		Others	15.6	
Indonesia	26.7		Indonesia	26.1	
Perusahaan Penerbit SBSN Sukuk 4.15% 2027	2.0	29-Mar-17	Perusahaan Penerbit SBSN Sukuk 4.40% 2028	1.8	1-Mar-18
Indonesia (Sovereign) 4.35% 2048	1.8	11-Dec-17	Indonesia Asahan Aluminium (Persero) 5.71% 2023	1.3	15-Nov-18
Perusahaan Listrik Negara 4.13% 2027	1.5	15-May-17	Republic of Indonesia (Sovereign) 4.75% 2029	1.3	11-Dec-18
Indonesia (Sovereign) 3.50% 2028	1.3	11-Dec-17	Perusahaan Penerbit SBSN Sukuk 3.75% 2023	1.3	1-Mar-18
Indonesia (Sovereign) 2.15% 2024	1.2	18-Jul-17	Republic of Indonesia (Sovereign) 1.75% 2025	1.1	24-Apr-18
Others	19.0		Others	19.5	
Korea, Rep. of	29.8		Korea, Rep. of	30.0	
Republic of Korea (Sovereign) 2.75% 2027	1.0	19-Jan-17	Hanwha Life Insurance 4.700% 2048	1.0	23-Apr-18
Export-Import Bank of Korea 3.00% 2022	1.0	1-Nov-17	Korea Development Bank 0.625% 2023	0.9	17-Jul-18
Export-Import Bank of Korea 0.50% 2022	0.9	30-May-17	Export-Import Bank of Korea 0.625% 2023	0.9	11-Jul-18
Others	26.9		Others	27.3	
Lao People's Democratic Rep.	0.03		Lao People's Democratic Rep.	0.0	
Malaysia	4.4		Malaysia	2.9	
Genting Overseas Holdings Limited Capital 4.25% 2027	1.0	24-Jan-17	TNB Global Ventures Capital 4.85100% 2028	0.8	1-Nov-18
CIMB Bank 1.93% 2020	0.6	15-Mar-17	Malayan Banking Berhad 3.51813% 2023	0.3	10-Aug-18
CIMB Bank 3.26% 2022	0.5	15-Mar-17	Malayan Banking Berhad 3.63031% 2023	0.2	18-Oct-18
Others	2.3		Others	1.7	
Philippines	4.0		Philippines	6.2	
Republic of the Philippines (Sovereign) 3.7% 2042	2.0	2-Feb-17	Republic of the Philippines (Sovereign) 3.0% 2028	2.0	1-Feb-18
Others	2.0		Others	4.2	
Singapore	12.5		Singapore	16.1	
DBS Bank 0.38% 2024	0.9	23-Jan-17	Temasek Financial (I) 3.625% 2028	1.4	1-Aug-18
DBS Group Holdings 1.71% 2020	0.8	8-Jun-17	DBS Bank 3.300% 2021	1.3	27-Nov-18
Others	10.9		Others	13.5	
Thailand	2.2		Thailand	5.9	
PTTEP Treasury Center Company 4.60% Perpetual	0.5	17-Jul-17	Bangkok Bank of Hong Kong 4.45% 2028	0.6	19-Sep-18
Others	1.7		Others	5.3	
Viet Nam	0.0		Viet Nam	0.7	
Emerging East Asia Total	341.6		Emerging East Asia Total	293.5	
Memo Items:			Memo Items:		
India	15.0		India	6.4	
Vedanta Resources 6.375% 2022	1.0	30-Jan-17	Export-Import Bank of India 3.875% 2028	1.0	1-Feb-18
Others	14.0		Others	5.4	
Sri Lanka	3.7		Sri Lanka	3.9	

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. Bloomberg LP end-of-period rates are used.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

Indonesia's regional share of G3 currency bonds issued in 2018 was 8.9%. The issuances comprised USD23.4 billion in USD-denominated bonds, USD1.7 billion in euros, and USD1.0 billion in Japanese yen. Sovereign *sukuk* worth a total of USD9.1 billion were issued in all three currencies, the largest of which was a USD-denominated 10-year USD1.8 billion bond with a coupon rate of 4.4%.

Hong Kong, China had a 7.5% share of G3 currency bond issuance in 2018. Broken down into currencies, USD19.2 billion was issued in US dollars, USD2.1 billion in euros, and USD0.6 billion in Japanese yen. CHMT Peaceful Development Asia Property issued USD-denominated bonds worth USD4.1 billion. The largest issuance was a 2-year USD3.3 billion callable bond with a 7.5% coupon rate that will be used to finance the acquisition of a skyscraper in Hong Kong, China.

Singapore's 5.5% regional share of total issuances of G3 currency bonds comprised bonds denominated in US dollars, euros, and Japanese yen amounting to USD12.3 billion, USD3.6 billion, and USD0.2 billion, respectively. United Overseas Bank's USD2.6 billion of issuance was a mix of USD- and EUR-denominated bonds. The biggest was a 3-year USD-denominated bond worth USD0.7 billion and with a coupon rate 3.2%. The Development Bank of Singapore sold USD2.5 billion worth of bonds denominated in US dollars, the largest of which was a 3-year mortgage covered bond worth USD1.3 billion and with a 3.3% coupon as part of its USD10.0 billion global covered bond program.

The Philippines' G3 currency bond issuances represented a 2.1% share, with USD4.8 billion sold in US dollars and USD1.4 billion issued in Japanese yen in 2018. The Philippines issued sovereign bonds in a mix of US dollars and Japanese yen. The largest issuance was a 10-year USD-denominated global bond worth USD2.0 billion with a 3.0% coupon rate, the proceeds of which will be used to finance the government's infrastructure projects.

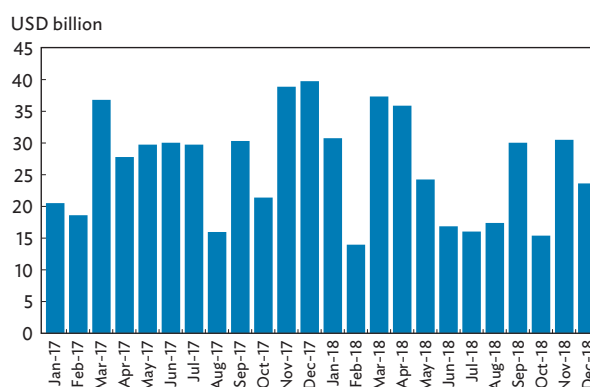
Thailand issued 2.0% of all G3 currency bonds in the region in 2018. Its issuances comprised USD5.8 billion denominated in US dollars and USD0.09 billion in euros. Thaiolt Treasury Center sold a total of USD1.6 billion, all of which was issued in US dollars. Its largest issuance was a 30-year USD0.6 billion bond with a coupon rate of 5.38% as part of its global medium-term note program.

Malaysia's 1.0% share of the region's G3 currency bond issuance comprised USD2.9 billion issued in US dollars and USD0.01 billion in Japanese yen. Malayan Banking issued USD1.1 billion worth of USD-denominated bonds, the largest of which was a 5-year USD0.3 billion floating-rate bond.

Viet Nam and Cambodia contributed 0.2% and 0.1%, respectively, to emerging East Asia's total G3 currency bond issuance in 2018, with both economies issuing in US dollars. Viet Nam issued USD0.7 billion, USD0.5 billion of which was Vinpearl's 5-year bond with a 3.5% coupon that will be used to fund hospitality projects and support its subsidiaries and affiliates. In Cambodia, resort and hotel operator NagaCorp sold USD0.3 billion worth of 3-year bonds with a coupon of 9.38% to support the growth of its tourism business and upgrade its facilities.

Monthly trends for 2017–2018 show that November and December 2017 saw the highest level of G3 currency bond issuance in emerging East Asia with USD39.1 billion and USD40.0 billion, respectively, spurred by issuances in the PRC after its National Development and Reform Council eased rules and regulations pertaining to companies' issuances of offshore bonds (**Figure 7**).

Figure 7: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.

Notes:

1. Emerging East Asia comprises Cambodia; 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 2018 currency exchange rates and do not include currency effects.

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

On the other hand, 2018 saw more volatile issuance volumes. The year started with declines, with continuous up and down movements throughout the year, reflecting the effects of volatile global market conditions on the region.

Government bond yield curves fell for most emerging East Asian economies following dovish remarks from the Federal Reserve and a slowdown in global economic conditions.

While the Federal Reserve raised its policy target range as expected on 19 December by 25 bps to 2.25%–2.50%, other indications suggested that it would slow the pace of tightening in 2019. The Federal Reserve's economic projections for December showed a downgrade of the US' expected GDP growth rate for 2019 from 2.5% y-o-y to 2.3% y-o-y. In addition, the Federal Reserve's dot plot for the federal funds rate showed a decrease in the expected number of rate hikes for 2019 from the projections made in September, from three to two.

While the Federal Reserve acknowledged that the US economy has posted solid economic gains, it also noted increased financial volatility toward the end of 2018 and slower economic growth in some foreign markets. This led to the Federal Reserve keeping its policy rate target unchanged on 30 January. The Federal Reserve also said that it would be patient in assessing future changes to its policy rate. US GDP growth in Q4 2018 decelerated to an annualized rate of 2.6% y-o-y from 3.4% y-o-y in the previous quarter.

Similarly, the European Central Bank ended its asset purchase program in December but also noted headwinds in the euro area economy. During its 24 January meeting, the central bank left monetary policy unchanged while noting that incoming data were weaker than expected. The euro area's GDP growth rate fell to 1.1% y-o-y in Q4 2018.

Japan's GDP grew at an annual rate of 1.9% y-o-y in Q4 2018 after contracting 2.4% y-o-y in the previous quarter. In January, the Bank of Japan forecast for 2019 GDP growth was also slightly higher at 0.9% y-o-y, up from 0.8% y-o-y in October. The forecasted inflation rate for 2019 fell to 1.1% from 1.6%. The Bank of Japan noted some uncertainties with regard to the impact of the consumption tax to be implemented in October 2019.

Overall, global economic growth is largely expected to slow down.

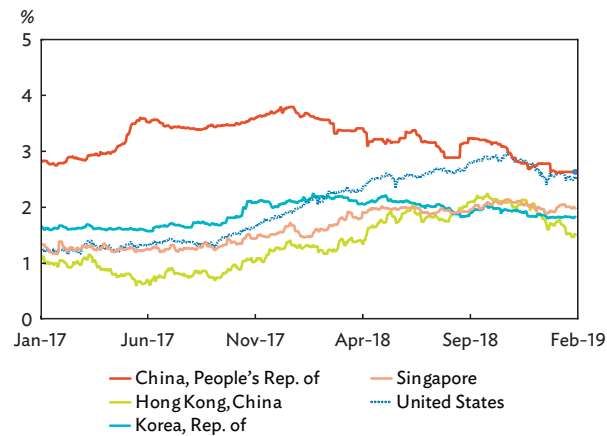
Yields in most emerging East Asian economies have largely trended downward as a result, giving LCY bond markets some respite after previous tightening measures by the Federal Reserve.

The markets that tracked US yields the closest were naturally Singapore and Hong Kong, China, with their 2-year yields closely following US 2-year yield movements (**Figure 8a**), including the spike at the start of January when US yields temporarily rose following the better-than-expected December nonfarm payrolls report. All other emerging East Asian economies showed declines in their 2-year yields, with the exception of Thailand, where the 2-year yield was roughly steady (**Figure 8b**).

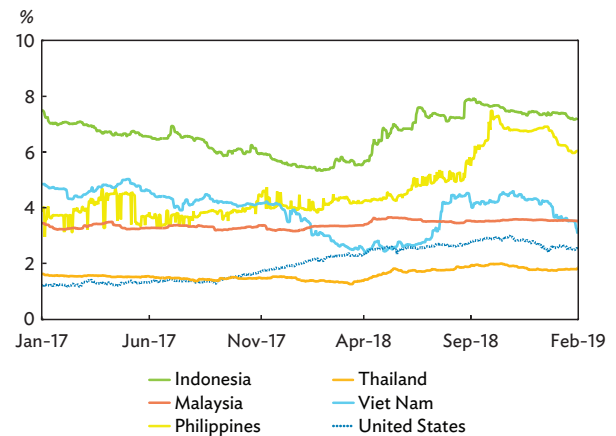
The 10-year yield movements were roughly similar, with the 10-year yields of Singapore and Hong Kong, China also following the January spike in US yields (**Figure 9a**). The 10-year yield in the Republic of Korea was roughly steady during the review period. The 10-year yield in Indonesia trended downward in November 2018 on expectations that the Federal Reserve would become more dovish. It soon became relatively stable as market concerns over Indonesia's current account deficit counteracted the downward pressure on yields resulting from the Federal Reserve outlook (**Figure 9b**).

Similarly, most government bond yield curves in emerging East Asia shifted downward between 28 December and 15 February for almost all tenors (**Figure 10**). One exception was Indonesia, where yields rose in the belly of the curve while falling for most other tenors. Also, in both the Republic of Korea and Thailand, yields rose for most tenors after an improved economic performance in Q4 2018; in Thailand, a policy rate hike by the central bank in December also drove yields higher.

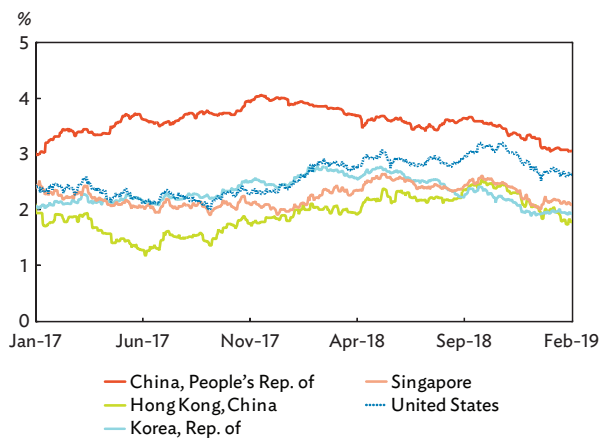
Most emerging East Asian economies posted either stable or lower economic growth in Q4 2018 than in Q3 2018, with the exception of the Republic of Korea, Malaysia, Thailand, and Viet Nam. In the Republic of Korea, GDP growth accelerated to 3.1% y-o-y in Q4 2018 from 2.0% in Q3 2018, while in Malaysia, GDP growth quickened to 4.7% y-o-y in Q4 2018 from 4.4% y-o-y in the previous quarter. In Thailand, GDP grew 3.7% y-o-y in Q4 2018, up from 3.2% y-o-y in the previous quarter.

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

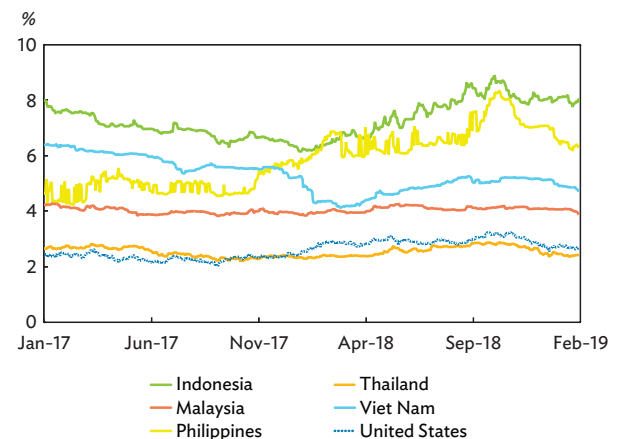
Note: Data as of 15 February 2019.
Source: Based on data from Bloomberg LP.

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

Note: Data as of 15 February 2019.
Source: Based on data from Bloomberg LP.

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

Note: Data as of 15 February 2019.
Source: Based on data from Bloomberg LP.

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

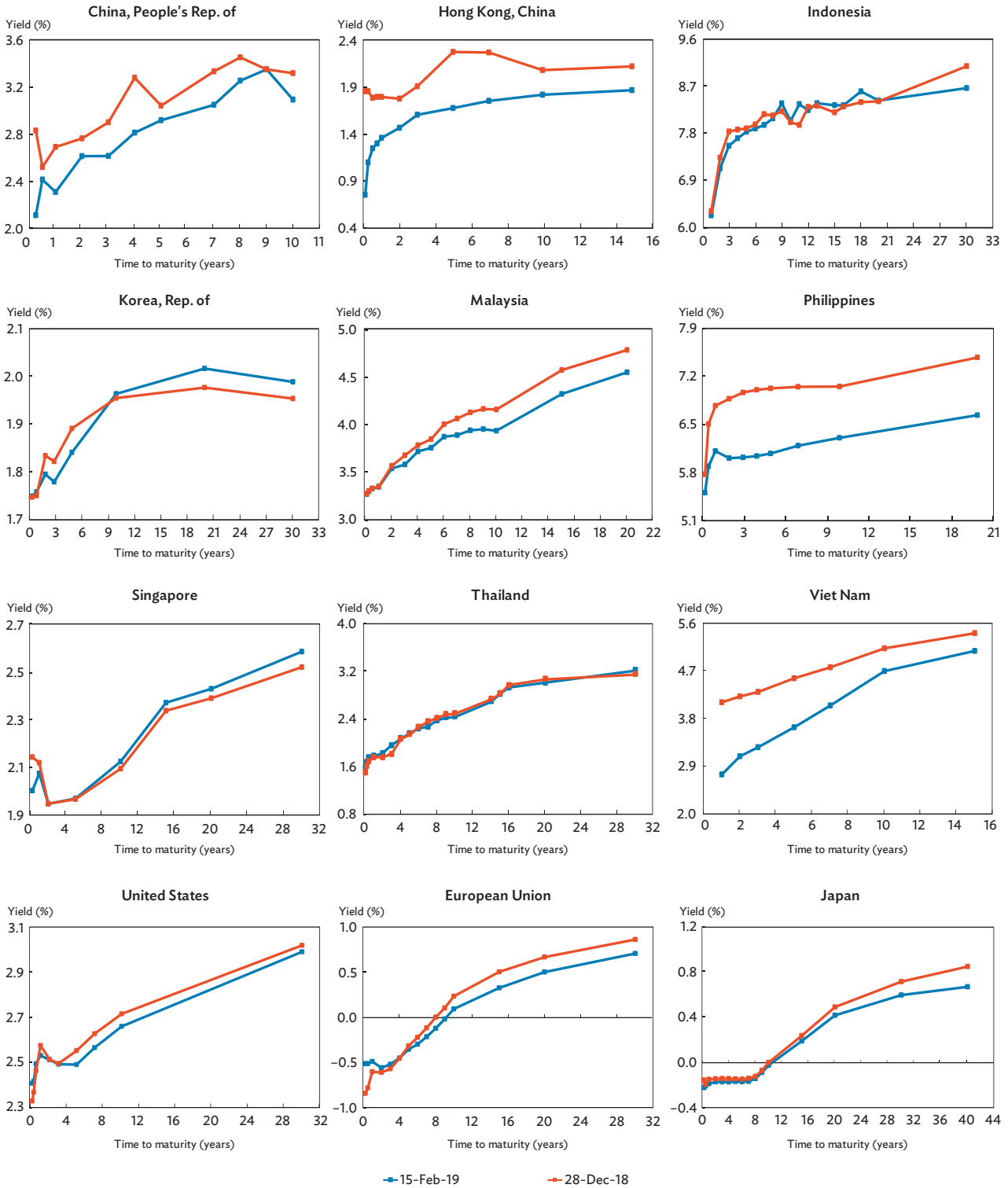
Note: Data as of 15 February 2019.
Source: Based on data from Bloomberg LP.

Viet Nam reported full-year 2018 GDP growth of 7.1%, up from 7.0% in the first 3 quarters of 2018. The PRC, Indonesia, and the Philippines exhibited roughly stable growth in Q4 2018. In the PRC, GDP growth slowed to 6.4% y-o-y from 6.5% y-o-y during the review period. In Indonesia, GDP growth was nearly unchanged in Q4 2018 at 5.18% y-o-y versus 5.17% y-o-y in the previous quarter. In the Philippines, GDP growth rose slightly to 6.1% y-o-y in Q4 2018 from 6.0% y-o-y in Q3 2018. The only market to post significantly slower growth was Hong Kong, China,

where GDP growth slowed to 1.3% y-o-y in Q4 2018 from 2.8% y-o-y in Q3 2018.

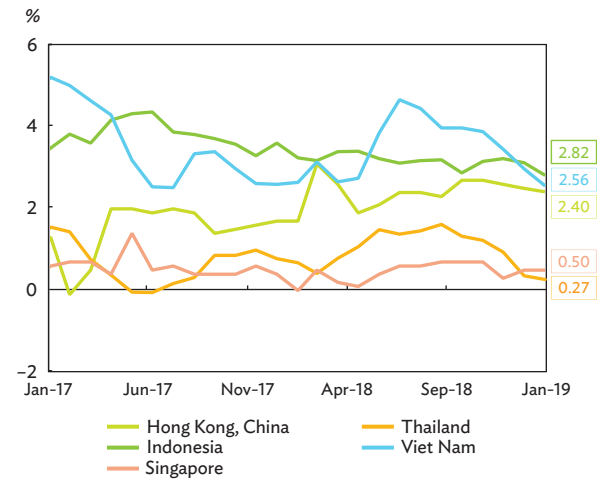
Consistent with expectations of slower economic growth, inflation in emerging East Asia has largely trended downward, with the exception of Singapore (**Figure 11a**). The biggest decline in inflation was observed in the Philippines (**Figure 11b**), where inflation expectations have fallen and the impacts of past tax measures have largely abated.

Figure 10: Benchmark Yield Curves—Local Currency Government Bonds



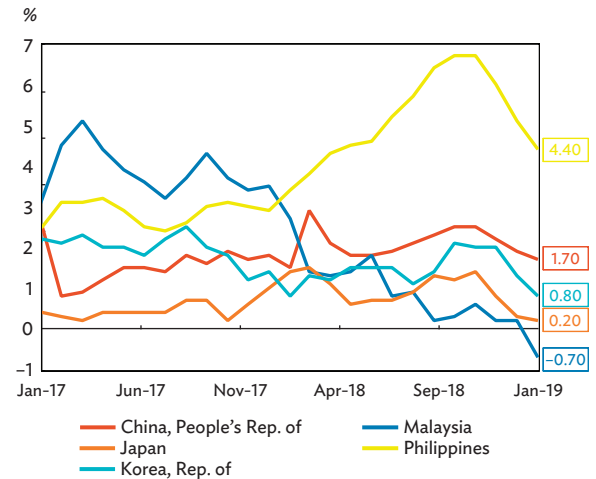
Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

Figure 11a: Headline Inflation Rates



Note: Data as of January 2019.
Source: Based on data from Bloomberg LP.

Figure 11b: Headline Inflation Rates

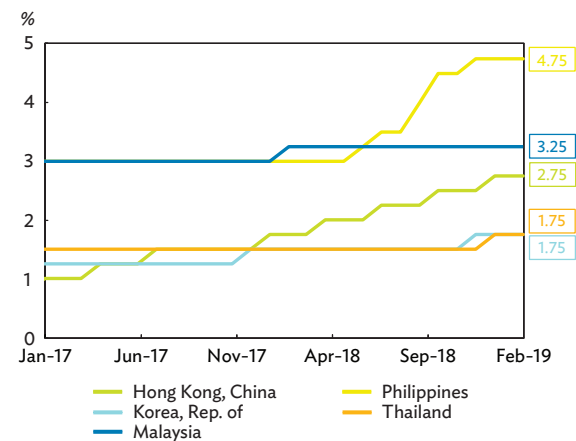


Note: Data as of January 2019.
Source: Based on data from Bloomberg LP.

The decline in inflation as well as the dovishness of the Federal Reserve allowed nearly all emerging East Asian central banks to keep their monetary policy rates unchanged during the review period. The exceptions were Hong Kong, China, whose policy rate passively tracks US policy rate movements; the Republic of Korea, where the Bank of Korea raised the policy rate 25 bps on 30 November; and Thailand, where the central bank raised the policy rate 25 bps on 19 December to 1.75%

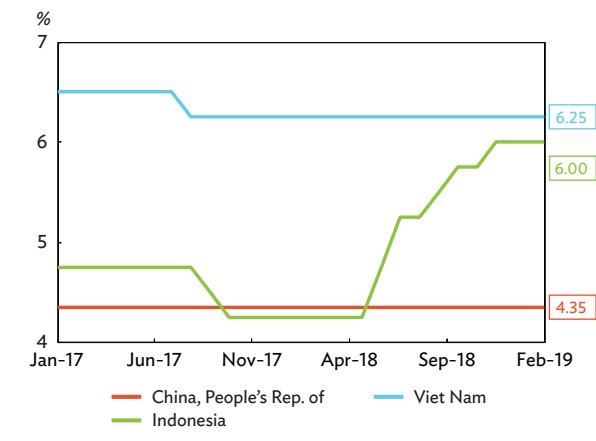
amid strong domestic economic growth (Figure 12a). While the Bank of Thailand left policy rates unchanged on 6 February, two members voted to raise the policy rate again. With the Federal Reserve's softening monetary policy stance (and lower inflation expectations in the Philippines), Indonesia and the Philippines left their respective policy rates unchanged during the review period after previous series of monetary tightening (Figure 12b).

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



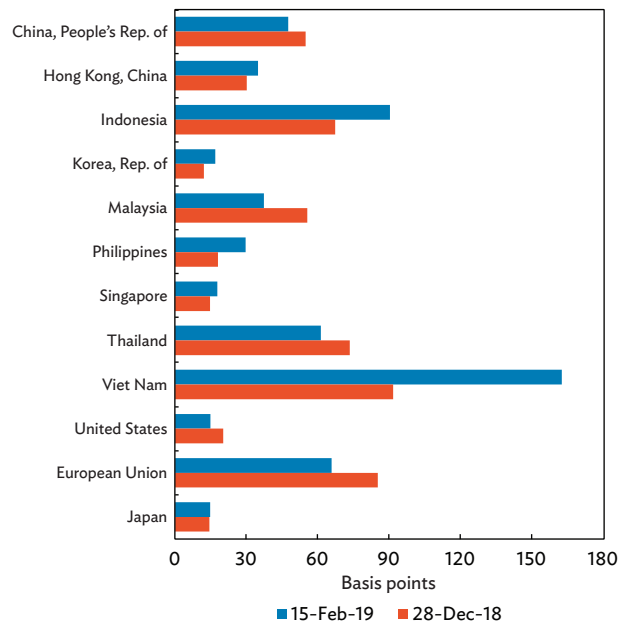
Notes:
1. Data as of 15 February 2018.
2. Bank Indonesia shifted its policy rate to the 7-day reverse repurchase rate effective 19 August 2016.
Source: Based on data from Bloomberg LP.

The 2-year versus 10-year yield spread rose in most emerging East Asia economies, with the exception of the PRC, Malaysia, and Thailand (Figure 13).

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

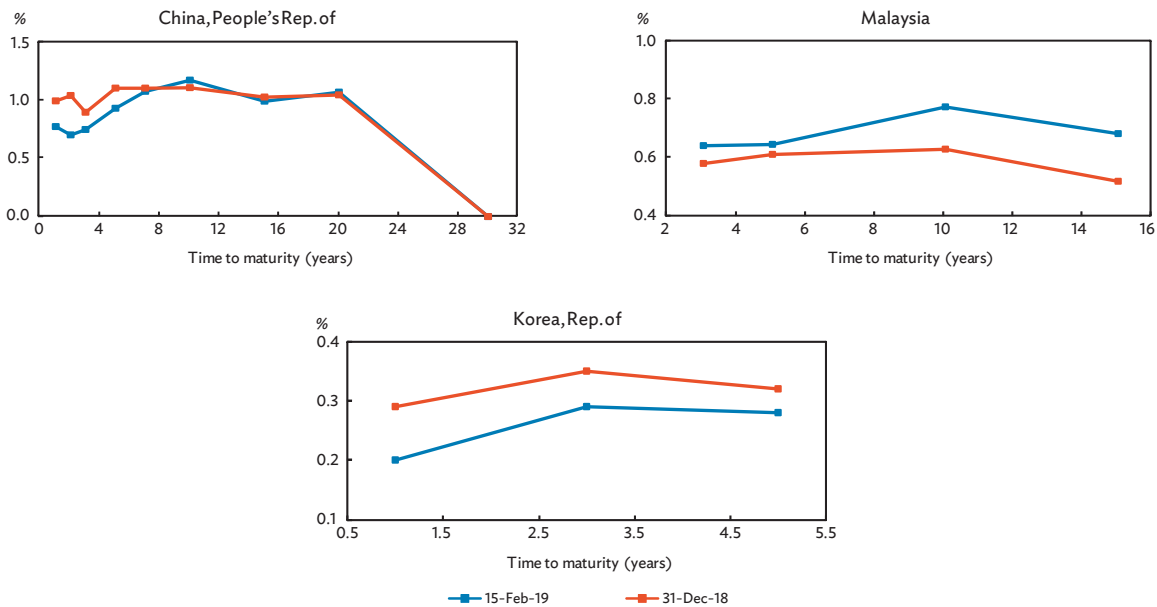
Expectations of a slowdown in the Federal Reserve’s monetary tightening improved investor sentiment across the region. However, the risks of a slowdown in global growth also weighed on investors. In the PRC, credit spreads fell for AAA-rated corporates versus government yields at the shorter-end of the curve as the Federal Reserve’s dovishness helped improve investor sentiment and the market expects the government to provide additional stimulus (Figure 14a). Improved sentiment also led to a fall in credit spreads for the Republic of Korea, while spreads rose in Malaysia over concerns that the slowdown in global economic growth could dampen oil prices.

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

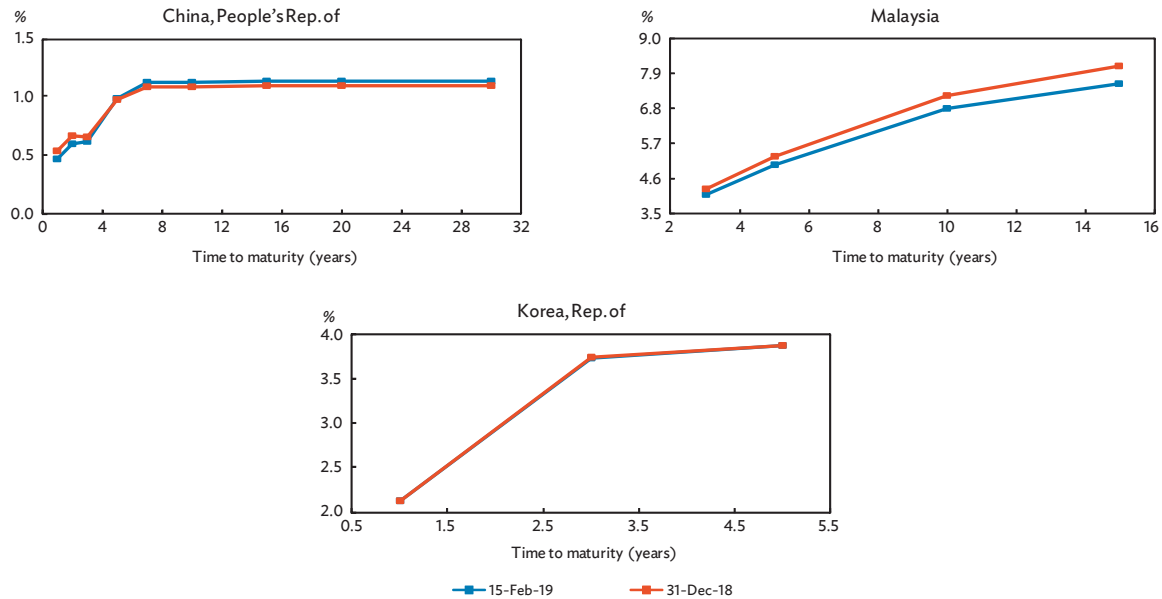


Notes:
 1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
 2. For Malaysia, data on corporate bonds yields are as of 31 December 2018 and 14 February 2019.
 Sources: People's Republic of China (*Wind Information*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (Bank Negara Malaysia).

In contrast, the spread rose between AAA-rated corporate bonds and lower-rated bonds in the PRC, highlighting lingering concerns over corporate defaults

among the most vulnerable firms (**Figure 14b**). Spreads were unchanged in the Republic of Korea and fell in 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, data on corporate bonds yields are as of 31 December 2018 and 14 February 2019.
- Sources: People's Republic of China (*Wind Information*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).