

Highlights

Key Trends

- Local currency (LCY) government bond yields declined in most emerging East Asian markets between 28 December 2018 and 15 February 2019. The exceptions were the bond markets of Indonesia, the Republic of Korea, and Singapore, which all saw marginal gains in their 10-year yields.¹
- The overall decline in yields stemmed partly from expectations that the United States (US) Federal Reserve would slow its pace of monetary policy normalization, which reduced pressure on emerging East Asia's financial markets.
- Emerging East Asia's equity markets benefited from improved investor sentiment, with all markets in the region rising during the review period except for Malaysia, which declined marginally. The largest gains were in Hong Kong, China; and the People's Republic of China (PRC) amid progress in the PRC-US trade talks and on expectations that authorities in the PRC would ease monetary policy and take measures to boost domestic financial markets.
- Most of the region's currencies appreciated versus the US dollar during the review period. The best-performing currency was the Thai baht, given Thailand's strong economic fundamentals. Next was

the Indonesian rupiah, which was buoyed by strong net flows into the Indonesian bond market. In contrast, the Korean won weakened the most, driven by outflows from its equity and bond markets.

- As financial markets in emerging East Asia stabilized, credit default swap spreads narrowed in nearly all markets.
- The foreign holdings share in LCY government bonds climbed during the fourth quarter of 2018 in all markets except the PRC and Malaysia. The largest gains in the share of foreign holdings were observed in the Philippines, due to falling inflation expectations, and in Thailand.
- Emerging East Asia's LCY bond market reached a size of USD13.1 trillion at the end of December. Overall growth moderated in the fourth quarter of 2018 to 2.4% quarter-on-quarter and 11.9% year-on-year.

Risks to the Bond Market

- While the region's financial markets have recently stabilized, risks arising from unsettled trade issues pose a threat to the fragile recovery.
- Uncertainties relating to Brexit, particularly should it become disorderly, could also strain the region's bond markets.

¹ 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.