

Highlights

- It's a story of two halves. The external environment facing emerging East Asia has weakened as the United States (US) economy continues to struggle and a shadow lingers over the eurozone. The debt crisis facing several peripheral economies in Europe is a reminder of the risk overhang.
- Authorities in mature economies are continuing with, and in some cases introducing more, stimulus packages to spur economic activity.
- Meanwhile, emerging East Asia's economic recovery remains buoyant. Most economies in the region have tightened monetary policy as inflationary pressures increase along with rising foreign portfolio capital inflows.
- Foreign holdings in emerging East Asia's local currency (LCY) government bonds continue to soar as investors chase higher yields, participate in the region's economic recovery, and seek to make additional gains from the anticipated appreciation of regional currencies. There is growing foreign investor interest in LCY corporate bonds.
- Some economies are now introducing capital controls and other administrative measures to dampen volatility and ease pressure on exchange rates.
- Total bonds outstanding in emerging East Asia's LCY bond market reached USD5.1 trillion in 3Q10, rising 17.2% year-on-year (y-o-y) and 3.0% quarter-on-quarter (q-o-q), driven by strong growth in corporate bonds.
- The region's LCY government bond market expanded 1.9% q-o-q in 3Q10 against 5.1% in 2Q10, reflecting a paring down of fiscal stimulus programs in 2010 and an apparent reduction in issuance by central banks and monetary authorities.
- The growth in the region's LCY corporate bond market in 3Q10 was 5.7% q-o-q, outpacing growth in government bonds. The corporate bond market now comprises 30% of total LCY bonds outstanding in emerging East Asia.
- The rapid growth of corporate bonds marks a major structural change in the evolution of regional LCY bond markets. Banks and infrastructure companies are the largest issuers of corporate bonds, which is a similar characteristic of many mature markets.
- LCY bond issuance in emerging East Asia totaled USD1.02 trillion in 3Q10, growing 6.0% q-o-q, largely driven by issuance in the corporate sector.
- Government bond yield curves in emerging East Asia have steepened lately on concerns over inflationary pressures and interest rate hikes, but still remain flat when compared to end-2009 levels.
- G3 currency bond issuance in emerging East Asia reached USD77.8 billion through mid-November, significantly above the record level of USD63.2 billion for all of 2009.

Annual Asian Bond Market Liquidity Survey

- *AsianBondsOnline's* Annual Liquidity Survey showed an improvement in liquidity in most government and corporate LCY bond markets. This has led to a tightening of bid-ask spreads and an increase in average transaction sizes compared with last year.
- The growth in both government and corporate bonds has attracted a diverse range of investors, both local and foreign. Diversity of investors has been identified in the survey as a key factor in promoting liquidity in regional LCY bond markets.