

Bond Market Developments in the Third Quarter of 2011

Size and Composition

Total bonds outstanding in emerging East Asia's LCY market rose 5.5% y-o-y and 1.0% q-o-q to reach US\$5.5 trillion at the end of 3Q11, driven by strong growth in corporate bonds.³

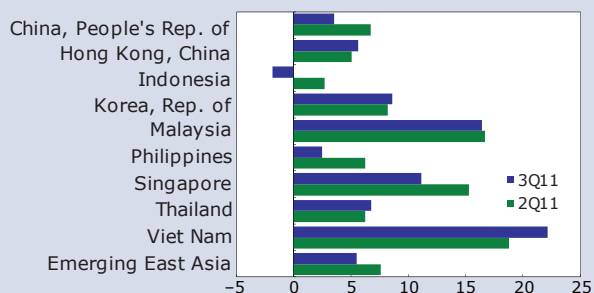
The year-on-year (y-o-y) growth rate for emerging East Asia's local currency (LCY) bond market in 3Q11 was 5.5%, down from 7.6% growth recorded in 2Q11 (**Figure 1**). The government bond market experienced a modest pickup to rise 2.7% y-o-y in 2Q11 before growth slowed to only 1.3% in 3Q11. Growth in the region's corporate bond market was a more robust 15.4% y-o-y in 3Q11, although this was down from 19.7% growth in 2Q11 (**Table 1**).

The region's most rapidly growing LCY bond markets in 3Q11 on a y-o-y basis were Viet Nam, Malaysia, Singapore, and the Republic of Korea, which saw growth rates of 22.2%, 16.5%, 11.2%, and 8.6%, respectively. On a quarter-on-quarter (q-o-q) basis, Malaysia was the most rapidly growing market at 3.4%, followed by Thailand, the Republic of Korea, and Viet Nam at 3.0%, 2.1%, and 1.8%, respectively. Singapore's LCY bond market was not among the q-o-q growth leaders in 3Q11 due to a 2.2% decline in government bonds outstanding.

Total government bonds outstanding grew only 0.5% q-o-q in 3Q11, reflecting marginal or negative growth rates in most markets.

On a q-o-q basis, the LCY government bond markets of Indonesia, Singapore, and the Philippines shrank in 3Q11 by 3.7%, 2.2%, and 0.1%, respectively.

Figure 1: Growth of LCY Bond Markets in 2Q11 and 3Q11 (y-o-y, %)



LCY = local currency, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
 2. Growth rates are calculated from LCY base and do not include currency effects.
 3. Emerging East Asia growth figure is based on end-September 2011 currency exchange rates and does not include currency effects.
 4. For the Philippines, 3Q11 government bonds outstanding figure based on *AsianBondsOnline* estimate. For Singapore, corporate bonds outstanding quarterly figures based on *AsianBondsOnline* estimates. For Japan, 3Q11 government and corporate bonds outstanding carried over from July 2011.
- Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia 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 Japan (Japan Securities Dealers Association).

The government bond market of the People's Republic of China (PRC) grew only 0.1% q-o-q, while the Republic of Korea's expanded 1.2%. The government bond markets in Hong Kong, China and Viet Nam grew 1.9% and 2.1% q-o-q, respectively. Thailand's government bond market exhibited the most robust q-o-q growth in 3Q11, expanding 4.2%, followed by Malaysia which grew 4.1%. The primary reason for the weak performance of the emerging East Asian LCY government bond market was the sharp reduction of bill and bond issuance by the region's central banks and monetary authorities as they continued to retreat from sterilization activities utilized since 2009 and early 2010.

The stock of treasury bonds grew 12.4% y-o-y while the stock of treasury bills outstanding fell 5.3%. The total stock of treasury bills in the region at the

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.

Table 1: Size and Composition of LCY Bond Markets

	3Q10		2Q11		3Q11		Growth Rate (LCY-base %)				Growth Rate (US\$-base %)			
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	3Q10		3Q11		3Q10		3Q11	
							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 (PRC)														
Total	2,991	100.0	3,190	100.0	3,247	100.0	3.6	21.4	0.5	3.5	5.0	23.9	1.8	8.6
Government	2,377	79.5	2,440	76.5	2,474	76.2	1.9	15.6	0.1	(0.7)	3.2	18.0	1.4	4.1
Corporate	614	20.5	750	23.5	773	23.8	10.9	50.5	1.8	20.0	12.4	53.5	3.1	25.9
Hong Kong, China														
Total	161	100.0	167	100.0	170	100.0	1.0	25.4	1.6	5.7	1.4	25.3	1.5	5.3
Government	87	53.7	88	52.7	90	52.8	0.6	61.2	1.9	3.8	1.0	61.0	1.8	3.5
Corporate	74	46.3	79	47.3	80	47.2	1.5	(0.3)	1.2	7.8	1.9	(0.4)	1.2	7.4
Indonesia														
Total	112	100.0	118	100.0	110	100.0	1.6	15.4	(2.9)	(1.8)	3.5	25.2	(6.9)	(2.3)
Government	101	89.7	103	87.0	95	86.3	0.6	13.9	(3.7)	(5.6)	2.5	23.6	(7.7)	(6.0)
Corporate	12	10.3	15	13.0	15	13.7	10.9	30.7	2.0	30.5	12.9	41.8	(2.2)	29.9
Korea, Rep. of														
Total	1,122	100.0	1,274	100.0	1,179	100.0	1.8	8.7	2.1	8.6	9.1	12.3	(7.4)	5.1
Government	496	44.2	547	42.9	501	42.5	1.2	4.6	1.2	4.4	8.4	8.1	(8.3)	1.1
Corporate	626	55.8	727	57.1	678	57.5	2.3	12.1	2.9	11.9	9.6	15.8	(6.8)	8.3
Malaysia														
Total	234	100.0	269	100.0	263	100.0	3.7	15.1	3.4	16.5	8.7	29.1	(2.1)	12.7
Government	137	58.4	161	59.7	158	60.1	5.1	20.9	4.1	19.8	10.1	35.6	(1.4)	16.0
Corporate	97	41.6	108	40.3	105	39.9	1.7	7.8	2.3	11.8	6.6	20.9	(3.1)	8.2
Philippines														
Total	72	100.0	75	100.0	74	100.0	3.3	12.7	(0.3)	2.5	9.2	21.6	(1.2)	2.7
Government	64	88.2	66	87.2	65	87.4	3.8	11.8	(0.1)	1.6	9.8	20.7	(1.0)	1.8
Corporate	9	11.8	10	12.8	9	12.6	(0.5)	19.8	(1.9)	9.3	5.2	29.3	(2.8)	9.5
Singapore														
Total	166	100.0	199	100.0	186	100.0	2.9	8.8	(0.8)	11.2	9.4	16.5	(6.8)	11.9
Government	97	58.6	113	56.6	104	55.8	0.0	4.5	(2.2)	5.8	6.3	11.9	(8.1)	6.5
Corporate	69	41.4	87	43.4	82	44.2	7.4	15.5	1.0	18.8	14.2	23.7	(5.1)	19.6
Thailand														
Total	217	100.0	222	100.0	225	100.0	2.5	14.2	3.0	6.8	9.5	25.9	1.5	3.9
Government	176	81.3	178	80.2	183	81.1	3.3	17.3	4.2	6.5	10.5	29.2	2.7	3.6
Corporate	40	18.7	44	19.8	43	18.9	(1.2)	2.6	(2.0)	8.1	5.7	13.0	(3.5)	5.2
Viet Nam														
Total	15	100.0	17	100.0	17	100.0	(1.1)	27.6	1.8	22.2	(3.2)	16.8	0.6	14.4
Government	14	91.7	15	90.6	15	90.9	0.2	25.5	2.1	21.1	(1.9)	14.9	0.9	13.3
Corporate	1	8.3	2	9.4	2	9.1	(13.2)	56.5	(1.6)	34.7	(15.1)	43.2	(2.8)	26.1
Emerging East Asia (EEA)														
Total	5,089	100.0	5,531	100.0	5,471	100.0	3.0	17.4	1.0	5.5	6.2	21.2	(1.1)	7.5
Government	3,547	69.7	3,709	67.1	3,685	67.3	1.9	14.7	0.5	1.3	4.6	18.3	(0.7)	3.9
Corporate	1,542	30.3	1,822	32.9	1,786	32.7	5.8	24.3	2.0	15.4	10.1	28.2	(1.9)	15.9
EEA Less PRC														
Total	2,099	100.0	2,341	100.0	2,224	100.0	2.1	11.7	1.7	8.6	8.1	17.6	(5.0)	6.0
Government	1,171	55.8	1,269	54.2	1,211	54.4	1.9	12.6	1.3	5.7	7.6	19.1	(4.6)	3.4
Corporate	928	44.2	1,072	45.8	1,014	45.6	2.4	10.6	2.2	12.2	8.7	15.6	(5.4)	9.2
Japan														
Total	11,211	100.0	11,991	100.0	12,633	100.0	1.0	6.2	0.8	4.0	7.0	14.1	5.4	12.7
Government	10,134	90.4	10,887	90.8	11,475	90.8	1.1	6.9	0.8	4.5	7.1	14.8	5.4	13.2
Corporate	1,077	9.6	1,104	9.2	1,158	9.2	0.3	0.1	0.3	(0.8)	6.2	7.5	4.9	7.5

LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. For the Philippines, 3Q11 government bonds outstanding figure based on *AsianBondsOnline* estimate. For Singapore, corporate bonds outstanding quarterly figures based on *AsianBondsOnline* estimates. For Japan, 3Q11 government and corporate bonds outstanding carried over from July 2011.

2. Corporate bonds include issues by financial institutions.

3. Bloomberg LP end-of-period LCY-US\$ rates are used.

4. For LCY base, emerging East Asia growth figures are based on end-September 2011 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. Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); the Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); the 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 Japan (Japan Securities Dealers Association).

end of 3Q11—the equivalent of US\$162 billion—was relatively small and represented only about 10% of the stock of longer-term treasury bonds in the region. The treasury bond markets that grew the most in 3Q11 on a y-o-y basis were those of Viet Nam (31.3%), Malaysia (11.0%), the Philippines (14.8%), and the PRC (13.3%). The increase in Philippine treasury bonds reflected the government’s highly successful debt exchange in July, while the growth rate for the PRC was approximately the same as in 2Q11.

Bonds issued by the PRC’s three policy banks—China Development Bank, the Agricultural Development Bank of China, and the Export-Import Bank of China—are an important class of government debt in the PRC. At the end of 3Q11, policy bank bonds outstanding stood at the equivalent of US\$1.0 trillion, compared with US\$1.1 trillion of PRC treasury bonds and bills outstanding, and US\$331 billion worth of People’s Bank of China (PBOC) bonds and bills outstanding. Furthermore, the y-o-y growth rate for policy bank bonds was 26.3%, compared with 13.3% for treasury bonds and a more than 50% decline in the stock of PBOC bonds.

The PRC government announced that bonds issued by the China Development Bank would no longer receive a government guarantee after 2011. There were US\$698 billion worth of such bonds outstanding at the end of 3Q11.⁴

Bonds issued by local governments may emerge as a new asset class in the region’s LCY bond market.

Regional bonds have been a significant asset class in other emerging markets—such as Latin America—for some time. In emerging East Asia, Thailand has taken steps to permit the issuance of bonds by its local governments.⁵ These bonds are issued to finance improved infrastructure,

both physical and soft (health, education, and other services).

Recent announcements that the PRC government has approved bond issuance by some of its provincial and municipal governments—in their own name—will result in a new source of bond issuance. For example, Shanghai recently issued CNY7.1 billion worth of local government bonds in November. This follows the recent liberalization of local government debt issuance by Shanghai, Shenzhen, Guangdong, and Zhejiang. Provincial and municipal governments have not been allowed to issue debt in the past. Instead the Ministry of Finance has issued bonds each year on their behalf.

The “local corporate bond” segment of the PRC’s corporate bond market grew 45.1% y-o-y in 3Q11, making it the most rapidly growing part of the PRC’s corporate bond market. Many of the companies issuing these bonds are owned by provincial or municipal governments. One benefit of bond issuance by local governments is that it could lead to an expansion of publicly available economic and financial data, especially data on the financial assets and liabilities of local governments.

The corporate bond market in emerging East Asia expanded 15.4% y-o-y and 2.0% q-o-q in 3Q11, reflecting slower corporate bond market growth in a number of economies.

The y-o-y growth rate for the corporate bond market of emerging East Asia in 3Q11 was still quite robust at 15.4%, led by Viet Nam (34.7%), Indonesia (30.5%), the PRC (20.0%), and Singapore (18.8%). However, q-o-q growth in the region’s corporate bond market slowed suddenly, as evidenced by a decline from 4.5% in 2Q11 to 2.0% in 3Q11. The growth rate for the Viet Nam corporate bond market turned negative in 3Q11, declining 1.6% q-o-q. Thailand and the Philippines also reported negative q-o-q growth of 2.0% and 1.9%, respectively. Indonesia’s corporate bond market expanded a modest 2.0% q-o-q

⁴ Bonds issued by the China Development Bank will still be included in the *Asia Bond Monitor*’s definition of government bonds due to their public policy role and assumed implicit sovereign support.

⁵ Enterprises owned by provincial governments in Malaysia have previously issued bonds, and regional governments in the Republic of Korea and the Philippines have issued LCY bonds in the past.

and Singapore's market only grew 1.0%, while the Hong Kong, China market saw growth of 1.2% q-o-q.

The region's most rapid rates of q-o-q growth in 3Q11—until recently found in the smaller markets—were in the Republic of Korea (2.9%) and Malaysia (2.3%). Meanwhile, the very large PRC corporate bond market, with total bonds outstanding equivalent to US\$773 billion (43% of the total regional corporate market), grew 1.8% q-o-q.

The Republic of Korea's corporate bond market grew 11.9% y-o-y in 3Q11. Private sector corporate bonds rose 29.9% y-o-y and 4.5% q-o-q, and accounted for approximately 42% of the Korean corporate bond market. Special public bonds—issued by government-owned companies such as Korea Land and Housing, KEPCO, and Korea Highway—grew at much slower rates of 4.4% y-o-y and 3.3% q-o-q. Finally, financial debentures—bonds issued by the commercial bank subsidiaries of financial sector holding companies (excluding the Korean Development Bank)—declined 1.1% y-o-y and 0.3% q-o-q.

The major growth engine in the Malaysian corporate bond market in 3Q11 was *sukuk* (Islamic bonds), which grew 14.8% y-o-y. The most rapidly growing sub-segment of corporate *sukuk* comprised Islamic medium-term notes (MTNs), which grew 30.0% y-o-y. *Sukuk* constitute almost 60% of the total Malaysian corporate bond market at present. Meanwhile, conventional corporate bonds grew 7.6% y-o-y in 3Q11, with MTNs once again leading the way at 15.0% y-o-y.

Ratio of Bonds Outstanding to Gross Domestic Product

The ratio of bonds outstanding to GDP in emerging East Asia fell to 52.6% in 3Q11 from 55.0% in 2Q11.

The ratio of bonds outstanding to gross domestic product (GDP) for the entire region fell to 52.6% in 3Q11 from 55.0% in 2Q11 and from 58.5% in 3Q10 (**Table 2**). The ratio of government

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

	3Q10	2Q11	3Q11
China, People's Rep. of			
Total	52.4	47.7	46.1
Government	41.6	36.5	35.1
Corporate	10.8	11.2	11.0
Hong Kong, China			
Total	73.1	71.3	70.9
Government	39.3	37.5	37.4
Corporate	33.8	33.8	33.5
Indonesia			
Total	16.1	14.7	13.7
Government	14.5	12.8	11.9
Corporate	1.7	1.9	1.9
Korea, Rep. of			
Total	111.6	112.6	104.2
Government	49.3	48.3	44.3
Corporate	62.2	64.3	59.9
Malaysia			
Total	96.4	100.2	100.7
Government	56.3	59.8	60.5
Corporate	40.0	40.4	40.2
Philippines			
Total	36.3	34.7	34.4
Government	31.9	30.3	30.0
Corporate	4.4	4.4	4.3
Singapore			
Total	73.5	77.4	75.7
Government	43.1	43.8	42.2
Corporate	30.4	33.6	33.5
Thailand			
Total	70.1	64.3	64.5
Government	57.0	51.6	52.3
Corporate	13.1	12.8	12.2
Viet Nam			
Total	15.5	15.8	15.2
Government	14.2	14.3	13.8
Corporate	1.3	1.5	1.4
Emerging East Asia			
Total	58.5	55.0	52.6
Government	40.8	36.9	35.4
Corporate	17.7	18.1	17.2
Japan			
Total	195.7	204.8	215.7
Government	176.9	185.9	195.9
Corporate	18.8	18.9	19.8

GDP = gross domestic product, LCY = local currency.

Notes:

1. Data for GDP from CEIC. 3Q11 GDP figures carried over from 2Q11, for the Republic of Korea, the Philippines, and Japan.

2. For the Philippines, 3Q11 government bonds outstanding figure based on *AsianBondsOnline* estimate. For Singapore, corporate bonds outstanding quarterly figures based on *AsianBondsOnline* estimates. For Japan, 3Q11 government and corporate bonds outstanding carried over from July 2011.

Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); the Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); the 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 Japan (Japan Securities Dealers Association).

bonds to GDP fell to 35.4% in 3Q11 from 36.9% in 2Q11, while the ratio of corporate bonds to GDP fell only slightly from 18.1% to 17.2% over the same period, reflecting the still vibrant growth of the corporate bond market. Meanwhile, the bond markets of Indonesia; Viet Nam; Hong Kong, China; and the Philippines saw their ratios fall by less than 1 percentage point.

Issuance

Issuance in emerging East Asia in 3Q11 totaled US\$829 billion, a 19.9% decline on a y-o-y basis, but a modest 7.6% rise on a q-o-q basis.

The principal cause of the y-o-y decline in issuance in 3Q11 was the curtailment of issuance by central banks and monetary authorities as they either sharply reduced sterilization activities over the last year or shifted to tools other than bills and bonds to reduce liquidity growth. Additionally, corporate bond issuance fell on both a q-o-q and y-o-y basis in 3Q11, as companies put plans for sourcing fresh capital funding and refinancing on hold. The y-o-y decline in corporate issuance had only a modest effect on the growth of corporate bonds outstanding since it occurred from exceptionally high levels.

On a q-o-q basis, the largest declines in central bank issuance were in the PRC (-71.9%), Indonesia (-61.7%), the Republic of Korea (-22.6%), and Thailand (-10.2%) (**Table 3**). Malaysia bucked this trend as Bank Negara Malaysia (BNM) increased bill issuance 24.4% q-o-q. (BNM does not issue long-term bonds.)

The Hong Kong Monetary Authority (HKMA) increased issuance of its Exchange Fund Bills and Notes (EFBNs), which it uses to manage the Hong Kong dollar's peg to the US dollar, by a dramatic 210.1% q-o-q in 3Q11. Meanwhile, the Government of the Special Administrative Region (SAR) increased issuance of SAR Bonds through its Institutional Bond Issuance Program by 540.0% q-o-q, albeit from a modest base of only US\$2 billion. Other q-o-q increases in

government issuance in 3Q11 took place in the Philippines (556.2%), Thailand (150.2%), and Viet Nam (7.0%). Singapore's government bond issuance fell 8.4% on a q-o-q basis and 2.2% on a y-o-y basis.

Emerging East Asia's LCY corporate bond issuance fell 24.4% y-o-y and 23.2% q-o-q in 3Q11. The largest q-o-q decline in corporate issuance came from the Philippines (74.9%), followed by Indonesia (61.1%), the PRC (40.0%), and Thailand (36.6%). The only two markets to record increases in corporate issuance in 3Q11 were Hong Kong, China (5.0%) and Singapore (36.6%). Singapore's increase in issuance followed a decline of 3.7% in 2Q11.

The recent volatility of issuance levels underlines the importance of placing these data in an historical series. **Figure 2a** highlights the trend of overall decline in central bank issuance since 1Q10. While issuance actually rose slightly in 3Q11, it remains below issuance levels in 1Q10. **Figure 2b** shows that issuance from government entities other than central banks has been rising only modestly since 4Q10. Corporate issuance for the region had been following a similar pattern before falling suddenly in 3Q11. **Figure 2c** shows that total issuance in the region (excluding the PRC) has fluctuated a great deal in recent years. PRC issuance, on the other hand, has been trending downward since 3Q10.

Money Market Trends and Bills-to-Bonds Ratios

Bills-to-bonds ratios fell in most emerging East Asian markets in 3Q11.

Total bills-to-bonds ratios fell in 3Q11 in five out of the eight emerging East Asian markets presented in **Figure 3**, which excludes Hong Kong, China due to its unusually high bills-to-bonds ratios. (However, the bills-to-bonds ratio for Hong Kong, China also fell in 3Q11.) The principal reason for the decline in the region's total bills-to-bonds ratio from 0.30 in 2Q11 to 0.25 in 3Q11 was the sharp drop in central banks' bills-to-bonds ratio from 1.17 to 0.92 (**Table 4**).

Table 3: LCY-Denominated Bond Issuance (gross)

	LCY (billion)		US\$ (billion)		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	3Q11	% share	3Q11	% share	3Q11		3Q11	
					q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)								
Total	1,547	100.0	242	100.0	(26.6)	(45.1)	(25.6)	(42.4)
Government	1,232	79.7	193	79.7	(22.1)	(44.5)	(21.1)	(41.8)
Central Bank	164	10.6	26	10.6	(71.9)	(87.1)	(71.6)	(86.5)
Treasury and Other Govt	1,068	69.1	167	69.1	6.9	12.6	8.3	18.1
Corporate	314	20.3	49	20.3	(40.0)	(47.1)	(39.2)	(44.5)
Hong Kong, China								
Total	1,961	100.0	252	100.0	192.6	3.8	192.4	3.5
Government	1,897	96.7	244	96.7	211.4	2.8	211.3	2.5
Central Bank	1,881	95.9	242	95.9	210.1	2.2	209.9	1.8
Treasury and Other Govt	16	0.8	2	0.8	540.0	357.1	539.7	355.6
Corporate	64	3.3	8	3.3	5.0	44.5	5.0	44.0
Indonesia								
Total	58,802	100.0	7	100.0	(44.7)	(77.7)	(47.0)	(77.8)
Government	52,982	90.1	6	90.1	(42.0)	(79.0)	(44.4)	(79.1)
Central Bank	19,822	33.7	2	33.7	(61.7)	(91.0)	(63.3)	(91.1)
Treasury and Other Govt	33,160	56.4	4	56.4	(16.2)	3.3	(19.6)	2.8
Corporate	5,820	9.9	1	9.9	(61.1)	(49.4)	(62.7)	(49.6)
Korea, Rep. of								
Total	151,239	100.0	128	100.0	(12.2)	(6.5)	(20.4)	(9.5)
Government	73,672	48.7	63	48.7	(16.4)	(8.4)	(24.2)	(11.4)
Central Bank	47,060	31.1	40	31.1	(22.6)	(17.7)	(29.8)	(20.4)
Treasury and Other Govt	26,612	17.6	23	17.6	(2.7)	14.4	(11.8)	10.7
Corporate	77,567	51.3	66	51.3	(7.8)	(4.7)	(16.4)	(7.7)
Malaysia								
Total	150	100.0	47	100.0	11.3	30.4	5.4	26.2
Government	125	83.4	39	83.4	16.2	34.0	10.0	29.7
Central Bank	99	66.1	31	66.1	24.4	30.3	17.8	26.1
Treasury and Other Govt	26	17.3	8	17.3	(7.2)	50.4	(12.2)	45.6
Corporate	25	16.6	8	16.6	(8.2)	14.7	(13.1)	11.0
Philippines								
Total	448	100.0	10	100.0	352.7	147.6	348.7	148.1
Government	440	98.2	10	98.2	556.2	150.2	550.4	150.7
Central Bank	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt	440	98.2	10	98.2	556.2	150.2	550.4	150.7
Corporate	8	1.8	0.2	1.8	(74.9)	57.4	(75.1)	57.6

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Table 3 continued

	LCY (billion)		US\$ (billion)		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	3Q11	% share	3Q11	% share	3Q11		3Q11	
					q-o-q	y-o-y	q-o-q	y-o-y
Singapore								
Total	59	100.0	45	100.0	(5.8)	(3.2)	(11.5)	(2.5)
Government	55	91.7	42	91.7	(8.4)	(2.2)	(13.9)	(1.5)
Central Bank	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt	55	91.7	42	91.7	(8.4)	(2.2)	(13.9)	(1.5)
Corporate	5	8.3	4	8.3	36.6	(13.7)	28.4	(13.1)
Thailand								
Total	2,989	100.0	96	100.0	(6.5)	(0.1)	(7.9)	(2.8)
Government	2,797	93.6	90	93.6	(3.4)	1.1	(4.8)	(1.6)
Central Bank	2,489	83.3	80	83.3	(10.2)	(0.6)	(11.5)	(3.3)
Treasury and Other Govt	308	10.3	10	10.3	150.2	17.1	146.5	13.9
Corporate	192	6.4	6	6.4	(36.6)	(14.6)	(37.6)	(16.9)
Viet Nam								
Total	24,956	100.0	1.2	100.0	7.0	188.5	5.8	169.9
Government	24,956	100.0	1.2	100.0	7.0	272.5	5.8	248.5
Central Bank	0	0.0	0.0	0.0	-	-	-	-
Treasury and Other Govt	24,956	100.0	1.2	100.0	7.0	272.5	5.8	248.5
Corporate	0	0.0	0.0	0.0	-	-	-	-
Emerging East Asia (EEA)								
Total	-	-	829	100.0	7.6	(19.9)	5.0	(19.0)
Government	-	-	687	82.9	17.2	(18.9)	15.0	(17.9)
Central Bank	-	-	420	50.7	23.4	(31.5)	20.8	(31.1)
Treasury and Other Govt	-	-	267	32.2	8.7	14.4	6.9	17.4
Corporate	-	-	142	17.1	(23.2)	(24.4)	(26.0)	(23.8)
EEA Less PRC								
Total	-	-	586	100.0	33.1	(1.1)	26.6	(2.6)
Government	-	-	494	84.2	46.1	(0.9)	40.1	(2.1)
Central Bank	-	-	395	67.3	58.4	(4.6)	53.2	(5.9)
Treasury and Other Govt	-	-	99	16.9	11.8	17.4	4.6	16.3
Corporate	-	-	93	15.8	(9.7)	(2.1)	(16.4)	(4.8)
Japan								
Total	50,445	100.0	43	100.0	3.2	0.8	(6.5)	(2.4)
Government	46,504	92.2	39	92.2	1.8	2.0	(7.7)	(1.3)
Central Bank	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt	46,504	92.2	39	92.2	1.8	2.0	(7.7)	(1.3)
Corporate	3,941	7.8	3	7.8	22.2	(11.3)	10.7	(14.1)

- = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Corporate bonds include issues by financial institutions.

2. Bloomberg LP end-of-period LCY-US\$ rates are used.

3. For LCY base, total emerging East Asia growth figures based on end-September 2011 currency exchange rates and do not include currency effects.

4. For Japan, 3Q11 issuance figures based on *AsianBondsOnline* estimates.

Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); the Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); the Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 2a: Government (including SOE) and Central Bank Bond Issuance, 1Q08–3Q11

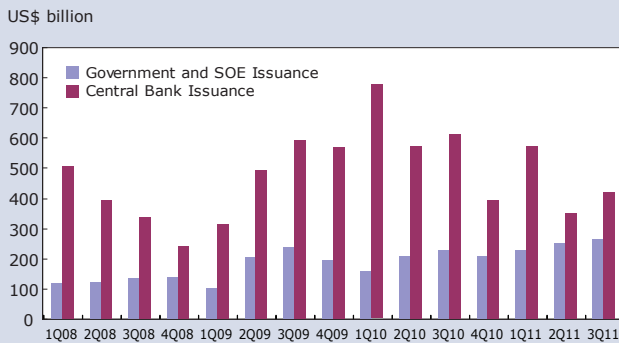


Figure 2b: Government (including SOE) and Corporate Bond Issuance, 1Q08–3Q11

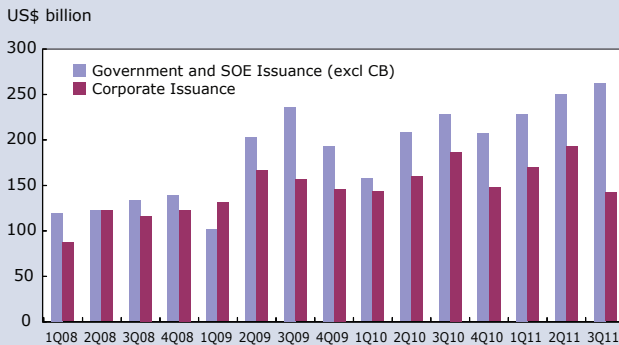
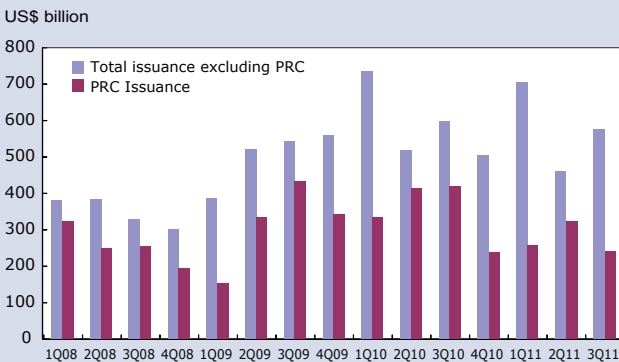
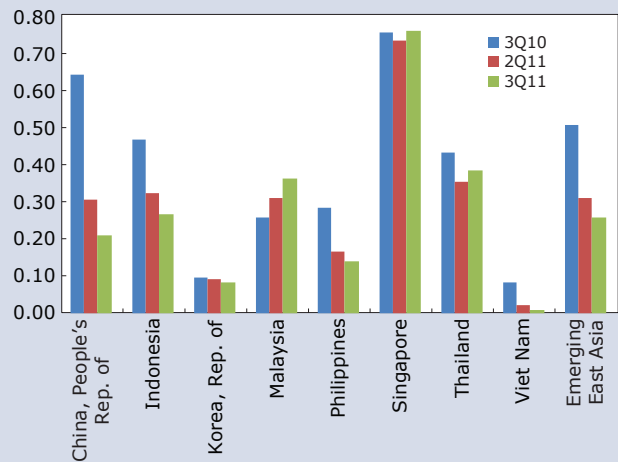


Figure 2c: Total LCY Bond Issuance, 1Q08–3Q11



CB = central bank, LCY = local currency, PRC = People's Republic of China, SOE = state-owned enterprise.
 Note: In the PRC, government issuance (including SOE issuance) includes policy bank bonds, local government bonds, and savings bonds.
 Source: *AsianBondsOnline*.

Figure 3: Total Bills-to-Bonds Ratios



Note: Total bills comprise central bank bills plus treasury bills. Bonds comprise long-term bonds (more than 1 year in maturity) issued by central governments and central banks.
 Source: *AsianBondsOnline*.

Over the past year the largest decline in central bank bills-to-bonds ratios was in the PRC, which saw a decline from 2.76 in 3Q10 to 1.07 in 2Q11 and further to 0.63 in 3Q11. This reflected a reduction in the PBOC's stock of bills outstanding from US\$486 billion in 3Q10 to US\$222 billion in 2Q11 and to US\$127 billion in 3Q11. The PBOC also reduced its stock of longer-term bonds outstanding, albeit slightly, to US\$203 billion from US\$208 billion in 2Q11. Thus, the much larger reduction in the stock of bills resulted in the steep decline in the PBOC's bills-to-bonds ratio.

The only other central banks or monetary authorities in the region to substantially reduce their stock of bills outstanding were Bank Indonesia (BI), which reduced *Sertifikat Bank Indonesia* (SBI) outstanding from US\$22 billion in 2Q11 to US\$17 billion in 3Q11, and The Bank of Korea, which reduced its bills outstanding from US\$37 billion in 2Q11 to US\$34 billion in 3Q11. Meanwhile, the stock of longer-term bonds issued by most central banks and monetary authorities in the region was either flat or falling in 3Q11.

The ratio of treasury bills-to-bonds for the region remained unchanged at 0.10 in 3Q11. The treasury

Table 4: Government Bills-to-Bonds Ratios in LCY Bond Markets

	3Q10		2Q11		3Q11		Government Bills-to-Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	3Q10	2Q11	3Q11	3Q11		3Q11	
										q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)													
Total	1,523	100.0	1,394	100.0	1,334	100.0				(5.5)	(16.4)	(4.3)	(12.4)
Total Bills	588	38.6	322	23.1	229	17.2	0.63	0.30	0.21	(29.7)	(62.8)	(28.8)	(61.0)
Treasury Bills	101	6.6	100	7.2	102	7.6	0.13	0.12	0.11	0.9	(3.8)	2.2	0.9
Central Bank Bills	486	31.9	222	15.9	127	9.5	2.76	1.07	0.63	(43.5)	(75.1)	(42.8)	(73.8)
Total Bonds	935	61.4	1,072	76.9	1,105	82.8				1.8	12.7	3.1	18.2
Treasury Bonds	759	49.8	864	62.0	901	67.6				3.0	13.3	4.3	18.8
Central Bank Bonds	176	11.6	208	14.9	203	15.2				(3.3)	9.9	(2.0)	15.3
Hong Kong, China													
Total	87	100.0	88	100.0	90	100.0				1.9	3.8	1.8	3.5
Total Bills	75	86.6	75	85.4	75	83.9	6.49	5.87	5.22	0.1	0.6	0.01	0.2
Treasury Bills	0	0.0	0	0.0	0	0.0	-	-	-	-	-	-	-
Central Bank Bills	75	86.6	75	85.4	75	83.9	8.29	8.40	8.41	0.1	0.6	0.01	0.2
Total Bonds	12	13.4	13	14.6	14	16.1				12.6	25.0	12.5	24.5
Treasury Bonds	3	2.9	4	4.4	5	6.1				41.7	-	41.6	-
Central Bank Bonds	9	10.5	9	10.2	9	10.0				0.0	(0.9)	(0.05)	(1.2)
Indonesia													
Total	101	100.0	103	100.0	95	100.0				(3.7)	(5.6)	(7.7)	(6.0)
Total Bills	32	31.5	25	24.2	20	20.7	0.46	0.32	0.26	(17.6)	(38.0)	(21.0)	(38.3)
Treasury Bills	3	3.3	3	2.7	3	2.8	0.05	0.04	0.04	1.3	(20.2)	(2.9)	(20.6)
Central Bank Bills	28	28.1	22	21.5	17	17.8	-	-	-	(20.0)	(40.1)	(23.3)	(40.4)
Total Bonds	69	68.5	78	75.8	75	79.3				0.8	9.4	(3.4)	8.8
Treasury Bonds	69	68.5	78	75.8	75	79.3				0.8	9.4	(3.4)	8.8
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-
Korea, Rep. of													
Total	424	100.0	479	100.0	449	100.0				3.3	9.3	(6.4)	5.7
Total Bills	36	8.5	40	8.4	34	7.5	0.09	0.09	0.08	(7.6)	(3.5)	(16.3)	(6.7)
Treasury Bills	0	0.0	3	0.6	0	0.0	-	-	-	-	-	-	-
Central Bank Bills	36	8.5	37	7.8	34	7.5	0.33	0.31	0.30	(0.7)	(3.5)	(10.0)	(6.7)
Total Bonds	388	91.5	439	91.6	415	92.5				4.3	10.4	(5.5)	6.9
Treasury Bonds	280	66.0	320	66.8	301	67.2				4.0	11.2	(5.8)	7.7
Central Bank Bonds	108	25.5	119	24.8	113	25.3				5.2	8.4	(4.7)	4.9
Malaysia													
Total	136	100.0	160	100.0	158	100.0				4.1	20.0	(1.4)	16.1
Total Bills	28	20.2	37	23.3	41	26.2	0.25	0.30	0.35	17.1	55.1	10.9	50.2
Treasury Bills	1	1.0	1	0.9	1	0.9	0.01	0.01	0.01	0.0	0.0	(5.3)	(3.2)
Central Bank Bills	26	19.2	36	22.4	40	25.3	-	-	-	17.8	58.0	11.6	53.0
Total Bonds	109	79.8	123	76.7	117	73.8				0.2	11.0	(5.1)	7.5
Treasury Bonds	109	79.8	123	76.7	117	73.8				0.2	11.0	(5.1)	7.5
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-
Philippines													
Total	61	100.0	63	100.0	62	100.0				0.2	2.2	(0.7)	2.4
Total Bills	13	21.7	9	14.0	7	12.0	0.28	0.16	0.14	(14.0)	(43.3)	(14.8)	(43.2)
Treasury Bills	13	21.7	9	14.0	7	12.0	0.28	0.16	0.14	(14.0)	(43.3)	(14.8)	(43.2)
Central Bank Bills	0	0.0	0	0.0	0	0.0	-	-	-	-	-	-	-
Total Bonds	48	78.3	54	86.0	55	88.0				2.5	14.8	1.6	15.0
Treasury Bonds	48	78.3	54	86.0	55	88.0				2.5	14.8	1.6	15.0
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-

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Table 4 continued

	3Q10		2Q11		3Q11		Government Bills-to-Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	3Q10	2Q11	3Q11	3Q11		3Q11	
										q-o-q	y-o-y	q-o-q	y-o-y
Singapore													
Total	97	100.0	113	100.0	104	100.0				(2.2)	5.8	(8.1)	6.5
Total Bills	41	42.5	47	41.8	44	42.7	0.74	0.72	0.75	0.0	6.2	(6.0)	7.0
Treasury Bills	41	42.5	47	41.8	44	42.7	0.74	0.72	0.75	0.0	6.2	(6.0)	7.0
Central Bank Bills	0	0.0	0	0.0	0	0.0	-	-	-	-	-	-	-
Total Bonds	56	57.5	66	58.2	59	57.3				(3.7)	5.4	(9.5)	6.2
Treasury Bonds	56	57.5	66	58.2	59	57.3				(3.7)	5.4	(9.5)	6.2
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-
Thailand													
Total	160	100.0	162	100.0	171	100.0				7.2	10.3	5.7	7.3
Total Bills	48	29.8	42	25.7	47	27.4	0.42	0.35	0.38	14.3	1.4	12.6	(1.3)
Treasury Bills	5	3.2	0	0.0	4	2.4	0.06	0.00	0.05	-	(18.4)	-	(20.6)
Central Bank Bills	42	26.6	42	25.7	43	25.0	1.34	1.12	1.12	4.5	3.8	2.9	1.0
Total Bonds	112	70.2	120	74.3	124	72.6				4.8	14.0	3.3	10.9
Treasury Bonds	80	50.4	83	51.3	86	50.2				4.9	9.9	3.4	6.9
Central Bank Bonds	32	19.8	37	23.0	38	22.4				4.5	24.6	3.0	21.2
Viet Nam													
Total	6	100.0	6	100.0	7	100.0				12.0	23.3	10.7	15.4
Total Bills	0.5	7.5	0.1	1.6	0.1	1.4	0.08	0.02	0.01	0.0	(76.3)	(1.2)	(77.8)
Treasury Bills	0.5	7.5	0.1	1.6	0.1	1.4	0.08	0.02	0.01	0.0	(76.3)	(1.2)	(77.8)
Central Bank Bills	0	0.0	0	0.0	0	0.0	-	-	-	-	-	-	-
Total Bonds	6	92.5	6	98.4	7	98.6				12.2	31.3	10.9	22.9
Treasury Bonds	6	92.5	6	98.4	7	98.6				12.2	31.3	10.9	22.9
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-
Emerging East Asia (EEA)													
Total	2,594	100.0	2,568	100.0	2,470	100.0				(1.9)	(6.7)	(3.8)	(4.8)
Total Bills	860	33.2	597	23.3	498	20.2	0.50	0.30	0.25	(15.8)	(43.8)	(16.6)	(42.1)
Treasury Bills	166	6.4	163	6.3	162	6.6	0.12	0.10	0.10	0.8	(5.3)	(0.5)	(2.4)
Central Bank Bills	695	26.8	434	16.9	336	13.6	2.13	1.17	0.92	(21.9)	(53.0)	(22.7)	(51.6)
Total Bonds	1,734	66.8	1,971	76.7	1,972	79.8				2.3	12.0	0.0	13.7
Treasury Bonds	1,408	54.3	1,598	62.2	1,607	65.1				2.8	12.4	0.6	14.1
Central Bank Bonds	325	12.5	373	14.5	364	14.7				0.1	10.5	(2.3)	11.9
EEA Less PRC													
Total	1,072	100.0	1,174	100.0	1,135	100.0				2.6	8.2	(3.3)	5.9
Total Bills	273	25.5	275	23.4	269	23.7	0.34	0.31	0.31	1.4	(0.3)	(2.4)	(1.6)
Treasury Bills	65	6.1	63	5.4	60	5.3	0.10	0.09	0.08	0.5	(7.7)	(4.9)	(7.6)
Central Bank Bills	208	19.4	212	18.1	209	18.4	1.40	1.28	1.30	1.7	2.0	(1.6)	0.3
Total Bonds	799	74.5	899	76.6	867	76.3				3.0	11.2	(3.6)	8.5
Treasury Bonds	650	60.6	734	62.5	706	62.2				2.6	11.2	(3.8)	8.6
Central Bank Bonds	149	13.9	165	14.1	161	14.2				4.7	11.3	(2.7)	8.0
Japan													
Total	8,825	100.0	9,482	100.0	9,998	100.0				0.9	4.5	5.4	13.3
Total Bills	357	4.0	372	3.9	389	3.9	0.04	0.04	0.04	0.0	0.7	4.5	9.1
Treasury Bills	357	4.0	372	3.9	389	3.9	0.04	0.04	0.04	0.0	0.7	4.5	9.1
Central Bank Bills	0	0.0	0	0.0	0	0.0	-	-	-	-	-	-	-
Total Bonds	8,468	96.0	9,109	96.1	9,609	96.1				0.9	4.7	5.5	13.5
Treasury Bonds	8,468	96.0	9,109	96.1	9,609	96.1				0.9	4.7	5.5	13.5
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-

- = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

- Notes:
- Bloomberg LP end-of-period LCY-US\$ rates are used.
 - For LCY base, total emerging East Asia growth figures based on end-September 2011 currency exchange rates and do not include currency effects.
 - Total figures per market refer to bills and bonds issued by the central government and the central bank. It excludes bonds issued by policy banks and state-owned enterprises. Bills are defined as securities with original maturities of less than 1 year.
 - For the Philippines, 3Q11 bills-to-bonds figures based on *AsianBondsOnline* estimates. For Japan, 3Q11 bills-to-bonds data carried over from 2Q11.
- Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); the Republic of Korea (Bloomberg LP); Malaysia (Bank Negara Malaysia); the Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore); Thailand (Bloomberg LP); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

bills-to-bonds ratio changed little or not at all in the PRC, Indonesia, Malaysia, and Viet Nam, while it fell slightly in the Philippines from 0.16 in 2Q11 to 0.14 in 3Q11, and rose modestly in Singapore from 0.72 to 0.75.

The continued decline in the region's ratio of bills-to-bonds for central banks and monetary authorities in 3Q11 was primarily driven by the activities of the PBOC. But even in other markets where the central bank or monetary authority issues debt securities, issuance has generally declined as these institutions rely less on sterilization as a tool for dealing with large capital inflows. They are instead focusing on other measures to mop up excess liquidity such as raising banks' administrative requirements.

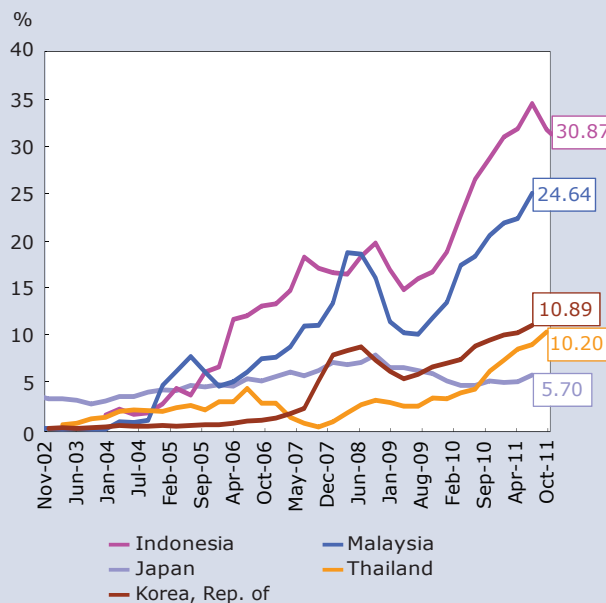
Foreign Holdings

Foreign holdings of the region's LCY domestic bonds continued to rise in the first half of 2011.

In the first half of 2011 foreign holdings of emerging East Asian LCY government bonds—as a percentage of total bond holdings—continued to rise in all markets. **Figure 4** highlights this trend in Japan, the Republic of Korea, and Malaysia through end-June. In Malaysia foreign holdings rose to 24.6% of total LCY government bonds outstanding in June from 22.0% in March, and in the Republic of Korea the share of foreign-held debt rose to 10.9% from 10.1%. In Japan foreign holdings of LCY government bonds outstanding rose to 5.7% in June, reversing a declining trend in place since the middle of 2008.

Foreign holdings of Thailand's LCY government bonds rose to 10.2% in 3Q11 from 8.9% in 2Q11. On the other hand, foreign holdings in Indonesia through end-October revealed a modest decline to 30.9% from 31.3% at end-September and 34.0% at end-June. This reduction likely reflects developments in the eurozone in 3Q11 that led to prudential adjustments in global portfolios to guard against uncertainty.

Figure 4: Foreign Holdings of LCY Government Bonds in Select Asian Economies (% of total)



LCY = local currency.

Notes: Data for Japan, the Republic of Korea, and Malaysia as of June 2011; Thailand as of September 2011; Indonesia as of October 2011. Source: *AsianBondsOnline*.

The Republic of Korea has seen a substantial rise in foreign participation in its bond market since 2009, reflecting the (i) removal of a withholding tax on foreign investment in Korean debt in May 2009; (ii) potential for continued appreciation of the Korean won; and (iii) improving performance of the Korean Treasury Bond (KTB) futures market, which has made it easier for market participants to hedge their investment positions. Parliament's approval of the re-imposition of withholding and capital gains taxes in late 2010 slowed investment inflows briefly before they recovered earlier this year. Since then investors have largely ignored the return of the withholding tax. Net foreign inflows into the Republic of Korea averaged KRW2 trillion–KRW3 trillion per month in May and June before falling in August and turning slightly negative in September. However, net foreign inflows into the bond market recovered sharply in October to reach KRW1.6 trillion.

Government Bond Yield Curves

Yield curves flattened—or in some cases shifted downward—between end-September and end-October.

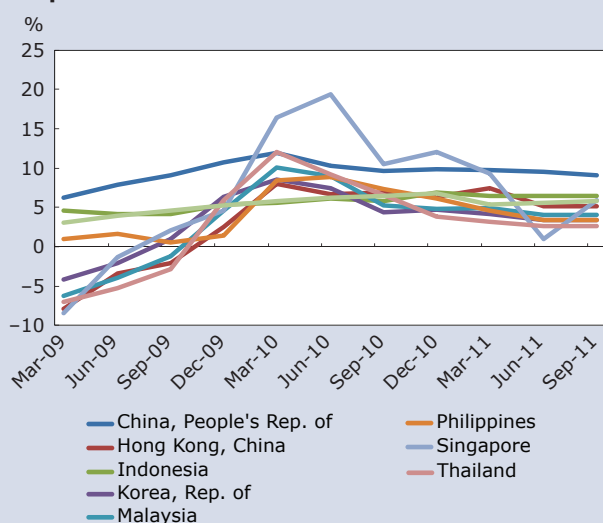
The flattening trend reflects the market's focus on a slowdown in growth and away from concerns over inflation.

The strengthened demand for emerging East Asian government bonds that emerged in the middle of 2010 seems unlikely to dissipate in spite of the current global economic uncertainty and market volatility.

Asian bond markets were largely viewed as a safe haven for most of 2011. However, by the end of 3Q11 the sovereign debt crisis in the eurozone and global market turmoil had brought about comparisons with the crisis period in 2008. GDP growth slowed in most Asian countries in 3Q11 (**Figure 5**) and the region's markets were subject to bouts of volatility.

Despite concerns, LCY bond markets in Asia staged a recovery in October, with most yield curves flattening (**Figure 6**).

Figure 5: Real GDP Growth Rates, March 2009–September 2011



GDP = gross domestic product.
Source: Bloomberg LP.

Inflation in many markets peaked in June–July, though it remains high in some economies, and the focus of the region's policymakers has since turned to supporting growth (**Figure 7**). Most central banks in the region have adopted a wait-and-see approach and halted the monetary policy normalization cycle as the global economic outlook weakened. Indonesia switched to an accommodative stance and cut its policy rate 25 bps to 6.5% on 11 October, and another 50 bps to a new record-low of 6.0% on 10 November (**Figure 8**).

The low debt positions of most emerging East Asian economies make them attractive to investors compared with debt-laden Europe.

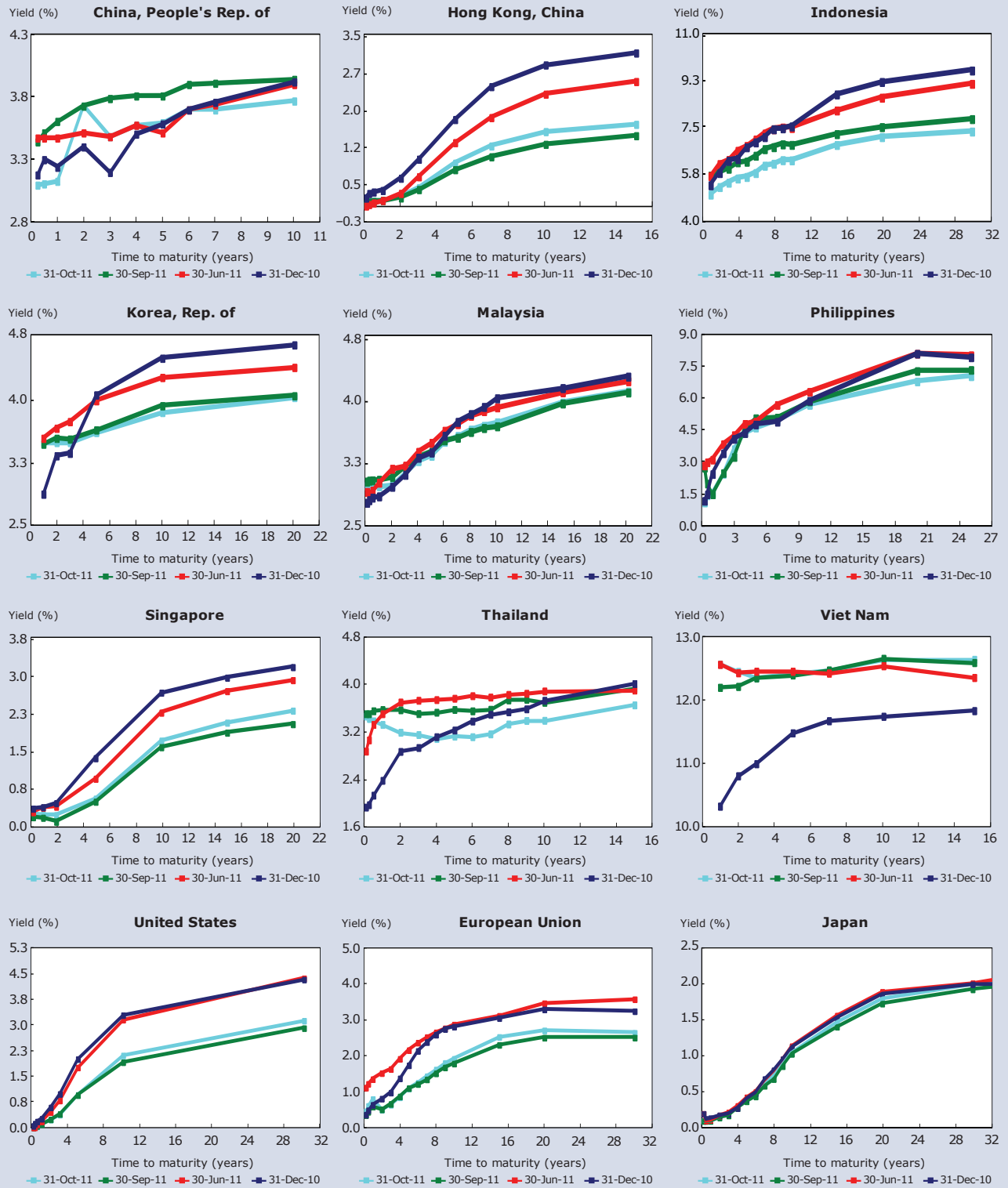
The balance sheets of most Asian economies remain strong (**Figure 9**). External debt-to-GDP ratios have either declined significantly since 2009, as in the cases of Indonesia and the Philippines, or have stayed at manageable levels.

An early departure from the economic stimulus programs of 2008/09 has provided regional governments with some room for flexibility in their current fiscal policies. The foreign currency reserves of Asian countries have also been increasing over time, creating a buffer against sudden capital outflows (**Figure 10**). Furthermore, given the region's strong economic fundamentals and high yield differential compared with developed markets, emerging East Asian bond markets are expected to continue attracting strong portfolio inflows.

Domestic factors, including healthy banking systems, are also strengthening the region's LCY bond market.

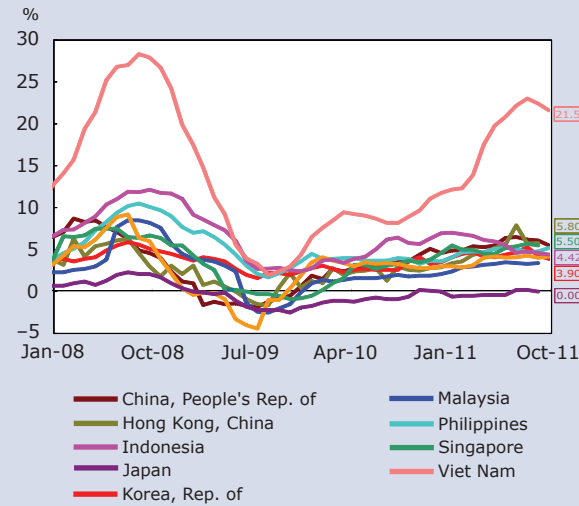
Demand for government bonds is expected to increase further as banking system assets continue to expand (**Figure 11**). At the end of 2010 the total assets of the banking sector in the region stood at US\$19 trillion, a 174% increase over end-2006 levels. Domestic investors, particularly banks, tend to favor domestic securities such as government bonds

Figure 6: Benchmark Yield Curves—LCY Government Bonds



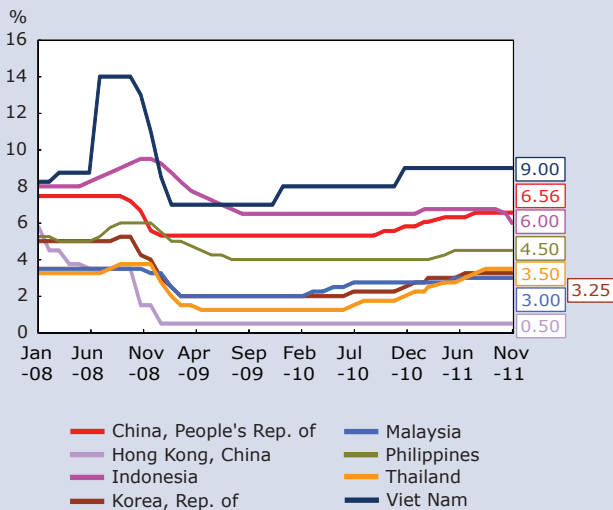
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 7: Headline Inflation Rates, January 2008–October 2011



Note: Inflation rates for the People's Republic of China; Hong Kong, China; Japan; Malaysia; the Philippines; and Singapore are September figures.
Source: Bloomberg LP.

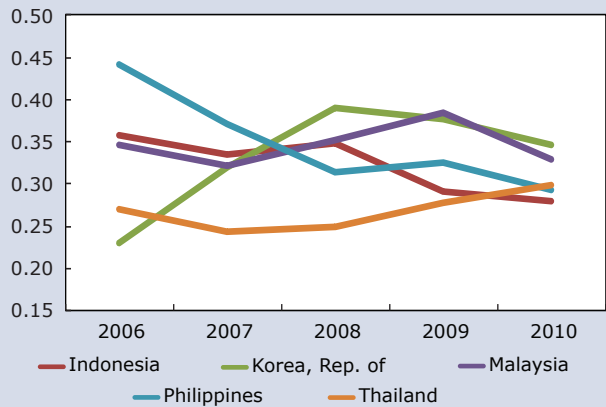
Figure 8: Policy Rates, January 2008–18 November 2011



Source: Bloomberg LP except for Viet Nam (State Bank of Viet Nam).

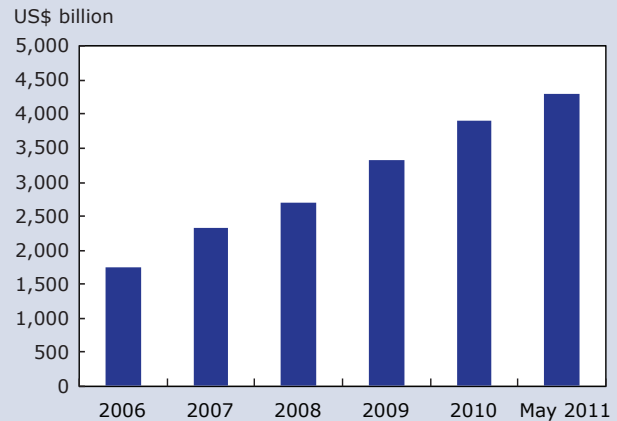
for liquidity and liability management purposes. Indeed, the 2011 *AsianBondsOnline* Bond Market Liquidity Survey revealed that market participants want governments in the region to issue more fixed-income instruments to improve market liquidity.

Figure 9: External Debt-to-GDP Ratios, 2006–2010



Source: World Bank's World Development Indicators and CEIC.

Figure 10: Emerging East Asia's Cumulative Foreign Exchange Reserves, 2006–May 2011

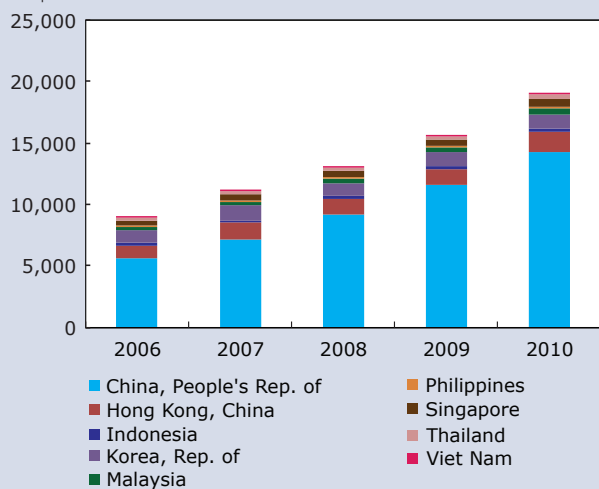


Note: Countries included are the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; and Viet Nam.
Source: Bloomberg LP and International Monetary Fund.

The asset quality of banks has steadily improved since the 2007–09 financial crisis, an event which led bankers in the region to focus on country and liquidity risks by adopting precautionary measures and performing stress tests. For example, banks in the Philippines have maintained an average capital adequacy ratio of 17%, a significantly higher level than the mandatory international standard of 8%. Healthy levels of growth, capitalization, and asset quality have improved the resilience of the region's banking sector.

Figure 11: Total Banking Sector Assets, 2006–2010

US\$ billion



Source: Local sources.

The trends highlighted above, both local and global, have led to a continued flattening of most—but not all—government bond market yield curves in the region in 2011.

In some markets yield curves have shifted downward, rather than flattened, such as in the PRC. The government bond yield curve of the PRC flattened by shifting upward from the short-end to the belly of the curve in the first half of the year. The PRC's yield curve then shifted upward from the very short-end to the long-end of the curve (10-year maturity) in 3Q11 on the back of rising inflationary pressures and monetary tightening by the PBOC. However, in October the entire curve shifted downward except for a spike in the yield for the 2-year maturity.

Movements in the benchmark yield curves of other LCY bond markets in emerging East Asia are detailed below:

(i) In both the Republic of Korea and Malaysia the government bond yield curve flattened

from the short-end to the long-end in the first 9 months of the year before shifting slightly downward in the belly of the curve in October.

- (ii) The Thai yield curve shifted upward and flattened sharply from the short-end to the belly of the curve in the first 9 months of the year. In October the entire curve shifted downward, except at the very short-end, and steepened slightly from the belly to the long-end of the curve.
- (iii) The yield curves for Hong Kong, China and Singapore flattened and shifted downward from the belly to the long-end in the first 9 months of the year. In October, however, both curves suddenly steepened, essentially following the same trend as the US Treasury bond yield curve.
- (iv) In the Philippines yields rose along the entire curve in the first half of the year on the back of rising inflationary pressures and expectations of further policy rate hikes. However, in July–October the entire curve shifted downward except for a few maturities at the short-end of the curve.
- (v) Yields for Indonesian government bonds for maturities between the belly and the short-end of the curve rose in the first half of the year. The entire curve then shifted downward in July–October.
- (vi) The Vietnamese yield curve shifted upward in the first 10 months of the year, with little difference in yields between the very short-end and very long-end of the curve. The State Bank of Viet Nam (SBV) raised its policy rate several times in the first half of the year to combat rising inflation. The SBV also raised its refinancing rate in October, but it has taken no action on its other formal policy rates since the first half of the year.

Corporate Bond Credit Spreads

The movement of high grade and high yield credit spreads varied across the region's markets in 3Q11.

High grade credit spreads in Malaysia have changed only modestly over most of the curve since end-December 2010 (**Figure 12a**). The most notable changes have been a widening of spreads for the 10-year maturity at end-September, and a decline in spreads at the very long-end of the curve at end-October. The PRC's credit curve shifted significantly upward between end-December 2010 and end-September as monetary conditions tightened. However, the PRC credit spread curve shifted downward in end-October between the 5- and 15-year maturities.

The credit spread curve for high grade bonds in the Republic of Korea shifted sharply upward in 3Q11, after having shifted sharply downward in the first half of the year. Credit spread levels in October, however, were largely unchanged from 3Q11. The Thai credit spread curve for high grade bonds continued to steepen throughout the year. By end-October, Thai credit spreads had risen to their highest levels since end-December 2010, except for the shortest-dated maturities, which remained near their end-December 2010 levels.

The movement of credit spreads for the region's high yield bonds thus far in 2011 has been a less complex story (**Figure 12b**). Malaysian high yield credit spreads have remained essentially unchanged throughout the year. The PRC's high yield credit spreads were also mostly unchanged from end-December 2010 through end-September, before the entire curve suddenly shifted upward in October. Meanwhile, high yield credit spreads in the Republic of Korea have gradually shifted downward over the course of the year.

The Thai high yield credit spread curve moved in a more complex pattern. In October Thai high

yield credit spreads rose at various points along the entire curve, while declining or remaining unchanged at other points on the curve, in what appears to be an almost random pattern.

G3 Currency Issuance

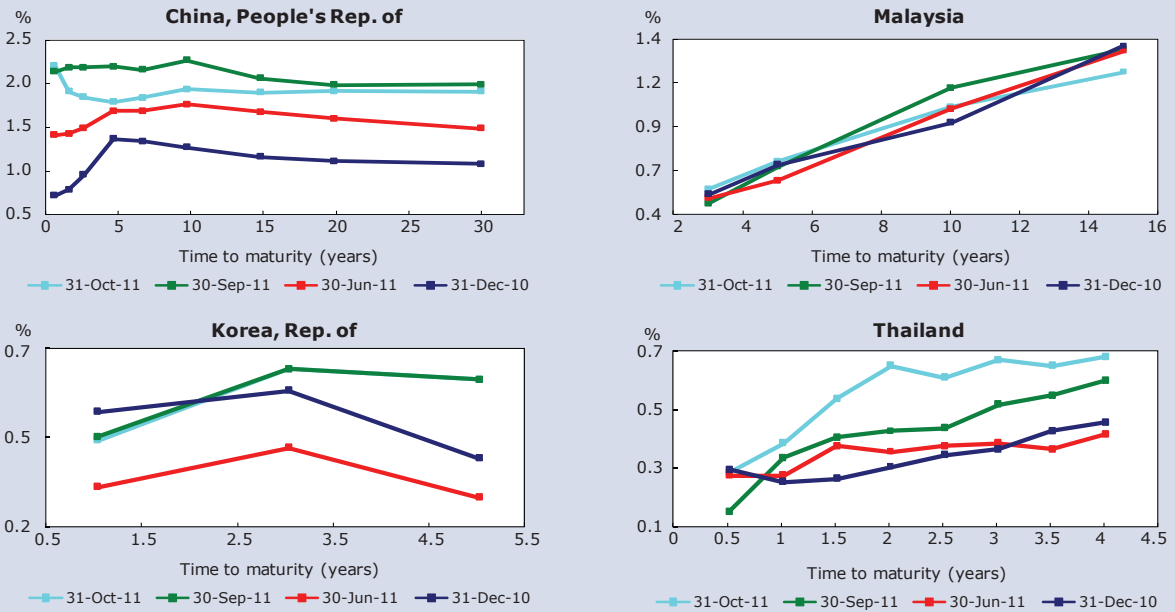
G3 currency issuance in emerging East Asia in 2011 totaled US\$63 billion through the end of October; however, the full-year total may fall short of the record US\$87 billion in G3 issuance in 2010.

G3 currency issuance in emerging East Asia reached an impressive US\$55.4 billion at end-July but increased only US\$7.6 billion in August–October as uncertainty in global markets reduced investor appetite (**Table 5**). With G3 currency issuance slowing sharply in the second half of 2011, it is unlikely to match the record US\$87.2 billion issued in 2010.

G3 currency issuance in the PRC, Indonesia, Malaysia, the Philippines, Singapore, and Thailand was either nil or negligible in August–October. The only market with any significant G3 currency issuance during this period was the Republic of Korea. Issuance from the Republic of Korea rose by US\$6.3 billion between the end of July and the end of October, including a US\$1 billion bond from Korea Eximbank with a 10-year maturity and a 4.375% coupon, and a US\$1 billion bond from Korea National Oil Corp. with a 5-year maturity and a 4.0% coupon. Additionally, Korea Development Bank issued a 1-year *samurai* bond for the equivalent of US\$601 million in October. Issuance from Hong Kong, China rose by approximately US\$1 billion between end-July and end-October.

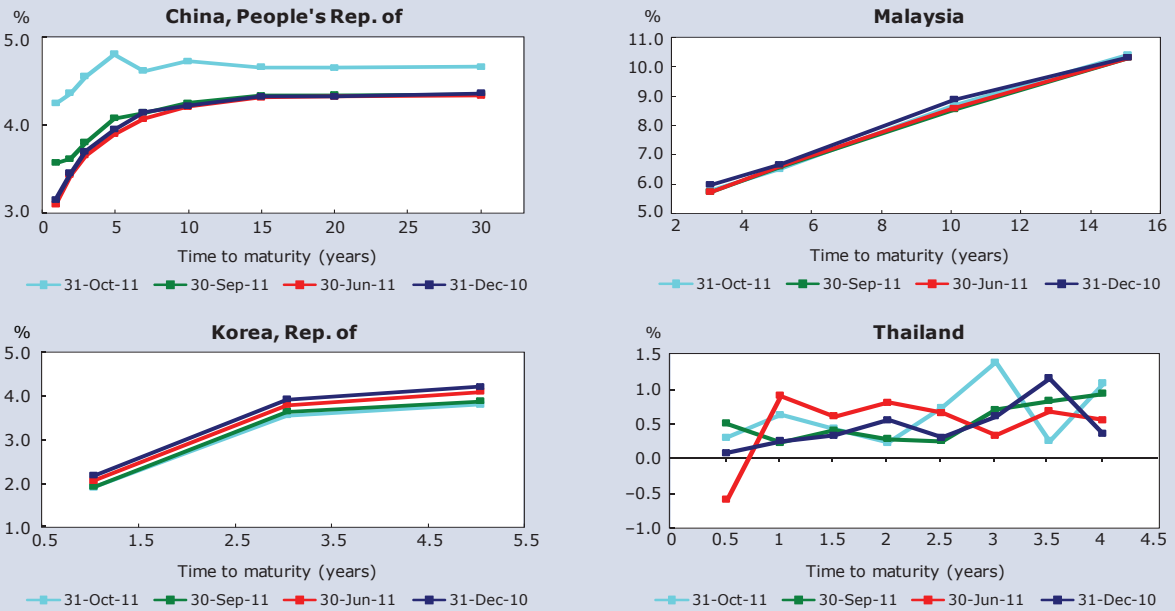
Tighter market conditions since end-July have also reduced the average size of G3 currency issuances. In addition, these issues generally have come from private rather than state-owned companies.

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



LCY = local currency.
 Note: Credit spreads are obtained by subtracting government yields from corporate indicative yields.
 Source: People's Republic of China (*ChinaBond*); Republic of Korea (*EDAILY BondWeb*); Malaysia (Bank Negara Malaysia); and Thailand (*ThaiBMA*).

Figure 12b: Credit Spreads—Lower Rated LCY Corporates vs. LCY Corporates Rated AAA



LCY = local currency.
 Notes:
 1. For the People's Republic of China, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
 2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
 3. For the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as BBB+.
 4. For Thailand, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as A.
 Source: People's Republic of China (*ChinaBond*); Republic of Korea (*EDAILY BondWeb*); Malaysia (Bank Negara Malaysia); and Thailand (*ThaiBMA*).

Table 5: G3 Currency Bond Issuance (2010 and 1 January–31 October 2011)

2010			1 January–31 October 2011		
Issuer	US\$ (million)	Issue Date	Issuer	US\$ (million)	Issue Date
China, People's Rep. of	15,950		China, People's Rep. of	16,309	
Evergrande 13% 2015	1,350	27-Jan-10	CNOOC Finance 4.25% 2021	1,500	26-Jan-11
China Overseas Finance 5.5% 2020	1,000	10-Nov-10	Country Garden 11.125% 2018	900	23-Feb-11
Sino-Ocean Land Capital 8.0% Perpetual	900	27-Jul-10	China Resources Power 7.25% Perpetual	750	9-May-11
Agile Property 8.875% 2017	650	28-Apr-10	Citic Pacific 7.875% Perpetual	750	15-Apr-11
Franshion Capital 6.8% Perpetual	600	12-Oct-10	ENN Energy 6.0% 2021	750	13-May-11
MCE Finance 10.25% 2017	600	17-May-10	Longfor Properties 9.5% 2016	750	7-Apr-11
Others	10,850		Others	10,909	
Hong Kong, China	18,634		Hong Kong, China	5,738	
Hutch Whampoa 6.0% Perpetual	2,000	28-Oct-10	China Resources Land 4.625% 2016	750	19-May-11
Bank of China (Hong Kong) 5.55% 2020	1,600	11-Feb-10	HSBC 1.0599% 2014	500	31-May-11
Sinochem 4.5% 2020	1,500	12-Nov-10	Newford Capital 0.0% 2016	500	12-May-11
PHBS 6.625% Perpetual	1,000	29-Sep-10	The Hong Kong Mortgage Corp. 0.5293% 2013	450	15-Apr-11
Bank of China (Hong Kong) 5.55% 2020	900	19-Apr-10	KWG Power Holdings 12.75% 2016	350	30-Mar-11
Hongkong Electric Finance 4.25% 2020	750	14-Dec-10	Others	2,888	
Others	10,884				
Indonesia	6,784		Indonesia	4,588	
Indonesia Sovereign 5.875% 2020	2,000	19-Jan-10	Indonesia (sovereign) 4.875% 2021	2,500	5-May-11
Indonesia Sovereign (<i>samurai</i>) 1.6% 2020	717	12-Nov-10	Pertamina 5.25% 2021	1,000	23-May-11
Indosat 7.375% 2020	650	29-Jul-10	Pertamina 6.5% 2041	500	27-May-11
Others	3,417		Others	588	
Korea, Rep. of	28,353		Korea, Rep. of	26,828	
Korea Eximbank 5.125% 2020	1,250	29-Jun-10	Korea Eximbank 4.375% 2021	1,000	15-Sep-11
Korea Eximbank 4.125% 2015	1,000	9-Mar-10	Korea National Oil Corp. 4.0% 2016	1,000	27-Oct-11
Korea Eximbank 4.0% 2021	1,000	20-Oct-10	Korea Development Bank 4.0% 2016	750	9-Mar-11
Polyvision 0.0% 2013	990	1-Oct-10	Korea Eximbank (<i>samurai</i>) 0.93% 2013	741	8-Jul-11
Korea Development Bank 3.25% 2016	900	9-Sep-10	Hyundai Capital 4.375% 2016	700	27-Jan-11
Korea Finance Corp. 3.25% 2016	750	20-Sep-10	Korea Eximbank 3.75% 2016	700	20-Apr-11
Korea National Oil Corp. 2.875% 2015	700	9-Nov-10	Posco 5.25% 2021	700	14-Apr-11
Others	21,763		Korea Development Bank (<i>samurai</i>) 1.3% 2012	601	21-Oct-11
			Others	20,636	
Malaysia	1,950		Malaysia	3,100	
1Malaysia (<i>sukuk</i>) 3.928% 2015	1,250	4-Jun-10	Wakala Global (<i>sukuk</i>) 2.991% 2016	1,200	6-Jul-11
Others	700		Others	1,900	
Philippines	8,084		Philippines	3,450	
Philippines Sovereign 4.0% 2021	2,242	6-Oct-10	Philippines (sovereign) 5.5% 2026	1,500	30-Mar-11
Philippines Sovereign (<i>samurai</i>) 2.32% 2020	1,070	2-Mar-10	San Miguel Corp. 2.0% 2014	600	5-May-11
Philippines Sovereign 6.375% 2034	950	6-Oct-10	Energy Development Corp. 6.5% 2021	300	20-Jan-11
Others	3,822		Others	1,050	
Singapore	4,111		Singapore	1,551	
DBS Bank 2.375% 2015	1,000	14-Sep-10	Singtel 4.5% 2021	600	8-Mar-11
Others	3,111		Others	951	
Thailand	2,350		Thailand	1,370	
Bangkok Bank 4.8% 2020	800	18-Oct-10	PTTEP 5.692% 2021	700	5-Apr-11
Others	1,550		Others	670	
Viet Nam	1,000		Viet Nam	90	
Viet Nam (sovereign) 6.75% 2020	1,000	29-Jan-10	HAGL 9.875% 2016	90	20-May-11
Emerging East Asia Total	87,217		Emerging East Asia Total	63,025	
Memo Items:			Memo Items:		
India	13,023		India	11,525	
Novelis 8.75% 2020	1,400	17-Dec-10	Novelis 8.75% 2020	1,400	13-Apr-11
ICICI Bank 5.75% 2020	1,000	16-Nov-10	Novelis 8.375% 2017	1,100	13-Apr-11
State Bank of India (London) 4.5% 2015	1,000	27-Jul-10	ICICI Bank 4.75% 2016	1,000	25-May-11
Others	9,623		Others	8,025	
Sri Lanka	1,573		Sri Lanka	1,512	

Note: The Philippines' US\$2.2 billion 2021 bond and US\$950 million 2034 bond sold in October 2010 were part of a dollar bond exchange program. Not included in this table are the Philippines' two sovereign global peso bond issuances—a PHP54.8 billion (US\$1.2 billion) 25-year bond in January and a PHP44.1 billion (US\$1 billion) 10-year bond in September 2010—and Petron's 7-year global peso bond of PHP20 billion (US\$454 million) issued in November 2010.

Source: Bloomberg LP, newspaper and wire reports.

Market Returns

Returns on LCY bonds have remained buoyant in most of the region's markets in 2011.

The Asian Bond Fund (ABF) Pan-Asian Bond Index gained 7.3% on a US\$ unhedged total return basis in the first 10 months of the year, compared with a 10.2% gain for the full-year 2010 (**Table 6**). Indonesian bonds were the best performers, gaining 19.1%, followed by the Philippines (12.8%), Singapore (9.0%), the Republic of Korea (7.5%), and the PRC (6.0%). Returns on bonds in Hong Kong, China; Malaysia; and Thailand were lower at 5.2%, 4.4%, and 2.2%, respectively.

In 2010 there were large differences across the region between bond market returns on a US\$ unhedged and an LCY total return basis. For example, the US\$ unhedged return for Malaysia was 15.6% in 2010, compared with 5.2% on an LCY total return basis. The Thai bond index had a return of 15.4% on a US\$ unhedged basis, compared with 5.4% on an LCY total return basis. Finally, Singapore had an 11.3% return on a US\$ unhedged basis, compared with 2.5% on an LCY total return basis.

In January–October the US\$ unhedged return for Singapore was a substantial 9.0%, only slightly better than the LCY total return of 6.2%. The year-to-date US\$ unhedged return for Indonesia was also impressive at 19.0%, but this was only somewhat better than the 17.4% on an LCY total return basis. On the other hand, the PRC's modest US\$ unhedged return of 6.0% year-to-date compares well with an unimpressive return of 2.4% on an LCY total return basis.

Bond returns have proven superior to the much lower returns being offered in the region's equity markets in 2011, which have turned sharply negative in recent months. In 2010 the MSCI Far East Ex-Japan Index generated a return of 16.7% in US\$ terms and 12.5% in LCY terms. In January–October, returns were –11.1% in US\$ terms and –11.4% in LCY terms (**Table 7**). The worst performing markets in US\$ terms in the MSCI Index year-to-date have been the PRC (–15.1%); Hong Kong, China (–13.2%); and Singapore (–11.3%).

The better returns of bonds and equities in US dollar terms versus LCY terms can be attributed to the strengthening of the region's currencies year-to-date through October.

Table 6: iBoxx Asia Bond Fund Index Family Returns

Market	Modified Duration (years)	2010 Returns (%)		3Q11 YTD Returns (%)		2011 YTD Returns (%)	
		LCY Total Return Index	US\$ Unhedged Total Return Index	LCY Total Return Index	US\$ Unhedged Total Return Index	LCY Total Return Index	US\$ Unhedged Total Return Index
China, People's Rep. of	5.78	1.55	5.06	1.41	4.61	2.36	6.03
Hong Kong, China	4.19	2.04	1.79	5.73	5.50	5.13	5.21
Indonesia	6.46	19.30	23.70	13.69	15.71	17.44	19.06
Korea, Rep. of	4.12	8.00	10.64	4.53	0.80	5.13	7.50
Malaysia	4.80	5.16	15.64	3.44	0.04	3.83	4.43
Philippines	6.24	14.30	19.67	7.21	7.06	10.08	12.80
Singapore	5.94	2.51	11.34	7.00	5.72	6.20	8.96
Thailand	5.07	5.38	15.41	1.92	(1.51)	4.11	2.23
Pan-Asian Index	5.14	–	10.21	–	4.22	–	7.27
HSBC ALBI	7.68	–	11.49	–	3.37	–	6.57
US Govt. 1–10 years	3.99	–	5.26	–	6.05	–	5.96

– = not applicable, ALBI = Asian Local Bond Index, LCY = local currency, US = United States, YTD = year-to-date.

Notes:

1. The Asian Bond Fund (ABF) indices contain only government debt and government-guaranteed debt obligations.
2. Market bond indices are from iBoxx Index Family. Returns for 2011 are year-to-date as of 31 October 2011.
3. Annual returns are computed for each year using a natural logarithm of end-of-year index value/beginning year index value.
4. Duration as of 31 October 2011.

Source: *AsianBondsOnline* and Bloomberg LP.

Table 7: MSCI Index Returns

Market	2009 Returns (%)		2010 Returns (%)		2011 YTD Returns (%)	
	LCY terms	US\$ terms	LCY terms	US\$ terms	LCY terms	US\$ terms
China, People's Rep. of	58.89	58.80	2.58	2.32	(15.20)	(15.11)
Hong Kong, China	55.28	55.20	19.98	19.67	(13.31)	(13.21)
Indonesia	90.27	120.75	25.82	31.19	5.00	6.87
Korea, Rep. of	56.63	69.42	22.11	25.29	(7.53)	(5.30)
Malaysia	46.25	47.78	19.33	32.51	(2.05)	(1.55)
Philippines	55.79	60.24	23.47	30.29	(2.99)	(0.31)
Singapore	63.02	67.29	8.08	18.45	(13.28)	(11.27)
Thailand	63.00	70.04	36.36	50.81	(2.83)	(4.74)
Far East ex-Japan Index	60.32	65.01	12.50	16.69	(11.39)	(11.06)
MSCI US	-	24.20	-	13.18	-	(0.32)

- = not applicable, LCY = local currency, MSCI = Morgan Stanley Capital International, US = United States, YTD = year-to-date.

Notes:

1. Market indices are from MSCI country indexes. 2011 returns are year-to-date as of 31 October 2011.

2. Far East ex-Japan includes the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Taipei, China; and Thailand.

Source: *AsianBondsOnline* and Bloomberg LP.