Market Summaries

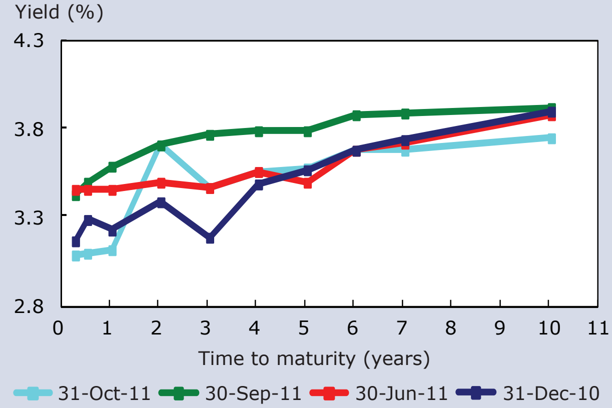
People's Republic of China—Update

Yield Movements

The People's Republic of China's (PRC) government bond yield curve shifted downward in October, reflecting expectations of an end to the monetary tightening efforts of the People's Bank of China (PBOC) **(Figure 1)**. Yields declined the most on the shorter-end of the curve, falling between 34 basis points (bps) and 47 bps on all tenors of 1 year or less. For tenors longer than 2 years, yields fell 17 bps–30 bps.

Due to a spike in the 2-year rate, the spread between 2- and 10-year government bonds narrowed to 4 bps at end-October. Excluding the 2-year rate, the yield curve exhibited overall steepening due to a much larger drop in shorter-term yields.

Figure 1: People's Republic of China's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Inflation remained at elevated levels in the third quarter, with a slight tapering off in August and September. After hitting a high of 6.5% year-on-year (y-o-y) in July, inflation fell to 6.2% in August and 6.1% in September. Due to this slowdown in the inflation rate, the PBOC took measures to tighten the money supply only once in 3Q11, expanding the reserve requirement coverage to include margin deposits. Market expectations are for the PBOC to hold off on any further tightening measures given concerns over the eurozone's sovereign debt crisis and continued weakness in developed markets.

The PRC's gross domestic product (GDP) growth rate slowed to 9.1% y-o-y in 3Q11 from 9.5% in 2Q11. In addition, the trade surplus fell in August to US$17.8 billion from US$31.5 billion in July. The cumulative trade surplus for January–August fell 10.0% y-o-y to US$92.7 billion.

New loans granted in July totaled CNY492.6 billion, down CNY25.2 billion from the same month last year. New loans, however, were up in August compared with August 2010, reaching CNY548.5 billion for an annual increase of CNY9.3 billion. Meanwhile, liquidity growth also slowed in August. The M2 money supply expanded 13.5% y-o-y in August following 14.7% growth in July. The PBOC's money supply growth target for the year is 16.0%.

Risk aversion due to a possible Greek default caused turmoil in the financial markets. Central Huijin Investment, the PRC's investment arm, was forced to purchase shares in various PRC banks in October to mitigate the fall in stock market valuations.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC market reached CNY20.7 trillion (US$3.3 trillion) at end-September, representing a y-o-y increase of 3.5% and a quarter-on-quarter (q-o-q) rise of 0.5% **(Table 1)**.

Table 1: Size and Composition of the LCY Bond Market in the People's Republic of China

	Amount (billion)								**Growth Rates** (%)						
	Jun-11		**Jul-11**		**Aug-11**		**Sep-11**		**Jun-11**		**Jul-11**	**Aug-11**	**Sep-11**		
	CNY	**US$**	**CNY**	**US$**	**CNY**	**US$**	**CNY**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	20,619	3,190	20,726	3,220	20,813	3,263	20,720	3,247	6.7	1.9	0.5	0.4	3.5	0.5	(0.4)
Government	15,773	2,440	15,811	2,456	15,871	2,488	15,788	2,474	1.0	1.0	0.2	0.4	(0.7)	0.1	(0.5)
Treasury Bonds	6,943	1,074	7,050	1,095	7,179	1,126	7,276	1,140	14.4	3.1	1.5	1.8	13.7	4.8	1.4
Central Bank Bonds	2,785	431	2,550	396	2,385	374	2,116	331	(41.3)	(7.2)	(8.4)	(6.5)	(52.4)	(24.0)	(11.3)
Policy Bank Bonds	6,045	935	6,211	965	6,307	989	6,396	1,002	25.9	2.8	2.7	1.5	26.3	5.8	1.4
Corporate	4,846	750	4,916	764	4,942	775	4,932	773	30.8	4.7	1.4	0.5	20.0	1.8	(0.2)
Policy Bank Bonds															
China Development Bank	4,285	663	4,340	674	4,396	689	4,455	698	23.8	2.4	1.3	1.3	21.6	4.0	1.3
Export–Import Bank of China	684	106	750	116	775	121	780	122	42.3	5.6	9.7	3.3	53.2	14.0	0.6
Agricultural Devt. Bank of China	1,077	167	1,122	174	1,137	178	1,162	182	25.6	2.8	4.2	1.3	30.2	7.9	2.2

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

Notes:
1. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period LCY–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.

Source: *ChinaBond* and Bloomberg LP.

LCY government bonds outstanding fell 0.7% y-o-y and grew only 0.1% q-o-q in 3Q11, while corporate bonds rose 20.0% y-o-y and 1.8% q-o-q. In the government sector, the y-o-y decline was due to a drop in central bank bonds outstanding, which fell 52.4% y-o-y and 24.0% q-o-q. In contrast, treasury bonds grew 13.7% y-o-y and 4.8% q-o-q, while policy bank bonds grew 26.3% y-o-y and 5.8% q-o-q.

The reduction in central bank bonds reflected the rise in commercial bank reserve requirements, which has forced the PBOC to reduce its repurchase (repo) sales. Also, demand for central bank bonds fell in 3Q11 in anticipation of monetary tightening.

Corporate Bonds

Local corporate bonds grew 45.1% y-o-y and medium-term notes (MTNs) grew 37.2% in 3Q11, while state-owned corporate bonds grew only 4.0% **(Table 2)**. Commercial paper outstanding fell 8.1% y-o-y and asset- and mortgage-backed securities outstanding fell 54.9% due to a lack of issuance since 4Q08.

On a q-o-q basis, most categories of outstanding corporate bonds fell with the exception of MTNs and local corporate bonds. Commercial paper fell 10.3% q-o-q, while commercial bank bonds fell 0.5% and state-owned corporate bonds fell 0.1%.

The amount of MTNs outstanding continued to grow rapidly in 3Q11 due to their ease of issuance and quick approval process compared to other forms of debt. In fact, MTNs consistently enjoyed double-digit q-o-q growth rates for several quarters prior to 4Q10. The decline in 3Q11 in amounts outstanding for most corporate bonds is likely the result of expectations of monetary tightening as well as the financial turmoil caused by concerns over a Greek default.

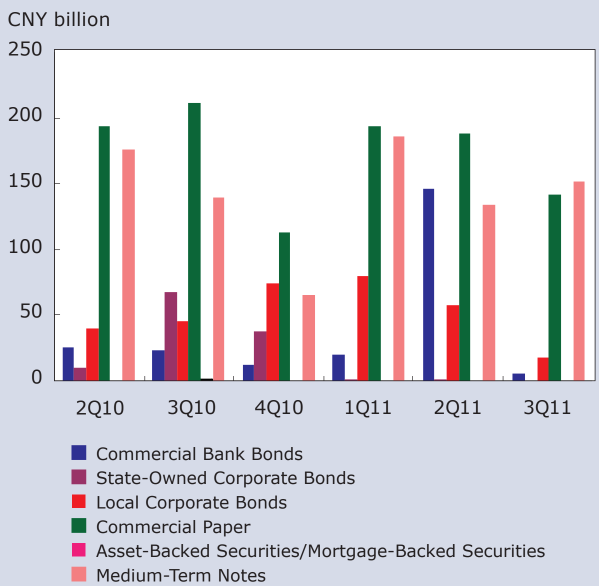
Issuance of corporate bonds slowed in 3Q11 from 2Q11 **(Figure 2)**, with the exception of MTNs, due to market volatility. In particular, commercial bank

Table 2: Corporate Bonds Outstanding in Key Sectors

	Amount (CNY billion)						Growth Rates (%)					
							q-o-q					y-o-y
	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	3Q10	4Q10	1Q11	2Q11	3Q11	3Q11
Commercial Bank Bonds	608.5	609.0	609.5	625.0	758.8	755.2	0.1	0.1	2.5	21.4	(0.5)	24.0
State-Owned Corporate Bonds	781.1	842.6	879.6	879.6	877.1	876.4	7.9	4.4	–	(0.3)	(0.1)	4.0
Local Corporate Bonds	461.7	501.3	569.4	653.1	714.1	727.3	8.6	13.6	14.7	9.3	1.9	45.1
Commercial Paper	615.4	670.6	653.0	683.3	687.1	616.5	9.0	(2.6)	4.6	0.6	(10.3)	(8.1)
Asset-/Mortgage-Backed Securities	26.5	21.9	18.2	10.8	10.1	9.9	(17.2)	(16.8)	(41.0)	(6.1)	(2.2)	(54.9)
Medium-Term Notes	1,151.2	1,289.5	1,353.6	1,532.5	1,621.4	1,768.6	12.0	5.0	13.2	5.8	9.1	37.2

– = not available, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Source: *ChinaBond.*

Figure 2: Corporate Bond Issuance in Key Sectors, 2Q10–3Q11



Source: *ChinaBond.*

bond issuances fell dramatically from 2Q11. In 2Q11, the bulk of commercial bank bond issuance was for capital raising efforts in anticipation of Basel III.

Only a handful of issuers dominate the PRC's corporate bond market **(Table 3)**. At end-October, the top 30 corporate bond issuers accounted for CNY2.85 trillion, or about 56%, of total corporate bonds outstanding. Furthermore, the 10 largest corporate issuers accounted for CNY1.97 trillion, or nearly 69%, of this total.

State-owned companies (defined as majority-owned by the government) dominate the corporate bond market in the PRC. Among the top 30 corporate bond issuers, 24 are state-owned, with a total of CNY2.57 trillion worth of bonds outstanding.

Investor Profile

Treasury bonds. Banks remain the largest category of investors in the PRC's treasury bond market, holding a slightly larger share of these bonds at end-September (65%) than at end-June (64%) **(Figure 3)**. The share held by the second largest group of holders, special members, dropped to 25% in September from 26% in June. Special members comprise the PBOC, Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Co., and China Securities Depository and Clearing Corporation.

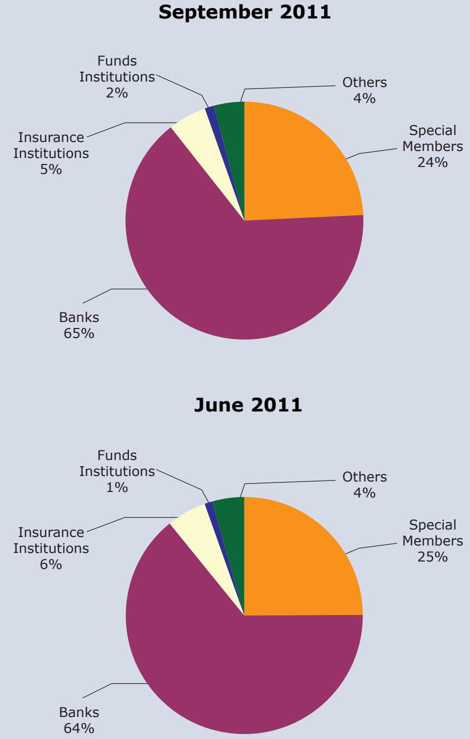
Corporate bonds. Banks remained the largest holder of corporate bonds in September **(Figure 4)**. The share of most major investors remained unchanged with the exception of fund institutions, whose share of ownership increased to 20% in September from 19% in June, and insurance institutions, whose share declined to 21% from 22%.

Table 3: Top 30 Issuers of LCY Corporate Bonds in the People's Republic of China (as of October 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (CNY billion)	LCY Bonds (US$ billion)				
1. Ministry of Railways	593.0	93.3	Yes	No	No	Transportation
2. State Grid Corporation of China	259.5	40.8	Yes	No	No	Public Utilities
3. China National Petroleum	206.0	32.4	Yes	No	No	Energy
4. Bank of China	196.9	31.0	Yes	No	Yes	Banking
5. Industrial and Commercial Bank of China	160.0	25.2	Yes	No	Yes	Banking
6. China Petroleum & Chemical	131.5	20.7	Yes	No	Yes	Energy
7. China Construction Bank	120.0	18.9	Yes	No	Yes	Banking
8. Central Huijin Investment	109.0	17.2	Yes	No	No	Diversified Financial
9. Agricultural Bank of China	100.0	15.7	Yes	No	Yes	Banking
10. Petrochina	97.5	15.3	Yes	No	Yes	Energy
11. Bank of Communications	76.0	12.0	No	Yes	Yes	Banking
12. China Guodian	65.6	10.3	Yes	No	No	Public Utilities
13. Industrial Bank	62.1	9.8	No	Yes	Yes	Banking
14. China Three Gorges Project	51.5	8.1	Yes	No	No	Public Utilities
15. China Southern Power Grid	51.0	8.0	Yes	No	No	Public Utilities
16. Shenhua Group	48.4	7.6	Yes	No	No	Energy
17. China Huaneng Group	44.2	7.0	Yes	No	No	Public Utilities
18. China Telecom	40.0	6.3	Yes	No	Yes	Telecommunications
19. Citic Group	40.0	6.3	Yes	No	No	Diversified Financial
20. State-Owned Capital Operation and Management Center of Beijing	40.0	6.3	Yes	No	No	Diversified Financial
21. Metallurgical Corporation of China	39.6	6.2	Yes	No	Yes	Capital Goods
22. China Power Investment	39.1	6.2	Yes	No	No	Public Utilities
23. China Minsheng Bank	38.3	6.0	No	Yes	Yes	Banking
24. China United Network Communications	38.0	6.0	No	Yes	Yes	Telecommunications
25. Shanghai Pudong Development Bank	37.2	5.9	No	Yes	Yes	Banking
26. Shougang Group	37.0	5.8	Yes	No	No	Raw Materials
27. China Guangdong Nuclear Power Holding	32.7	5.1	Yes	No	No	Public Utilities
28. COFCO	31.6	5.0	Yes	No	No	Retail
29. Aluminum Corporation of China	31.0	4.9	Yes	No	Yes	Raw Materials
30. China Merchants Bank	30.0	4.7	No	Yes	Yes	Banking
Total Top 30 LCY Corporate Issuers	**2846.7**	**448.0**				
Total LCY Corporate Bonds	**5074.2**	**772.9**				
Top 30 as % of Total LCY Corporate Bonds	**56%**	**58%**				

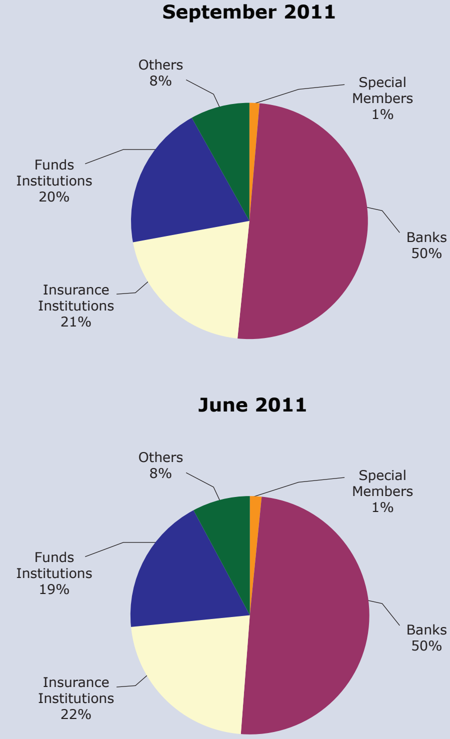
LCY = local currency.
Source: Bloomberg LP and Wind.

Figure 3: Treasury Bonds Investor Profile



Source: *ChinaBond*.

Figure 4: Corporate Bonds Investor Profile



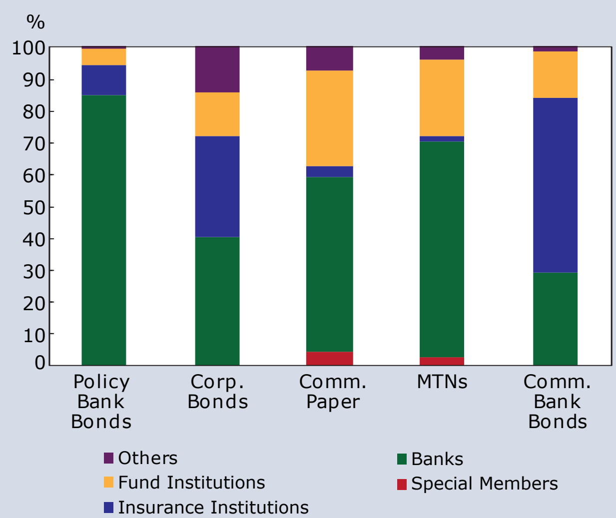
Source: *ChinaBond.*

Figure 5 presents the investor profile across different bond categories, with banks as the largest holder of policy bank bonds at end-September, holding more than 80% of outstanding policy bank bonds. Meanwhile, insurance institutions were the largest holder of commercial bank bonds.

Interest Rate Swaps

The total notional amount traded in the interest rate swap (IRS) market expanded 152.7% y-o-y and 19.5% q-o-q in 3Q11, reaching CNY789.8 billion at end-September on 6,332 transactions **(Table 4)**. The 7-day repo rate remained the most widely used benchmark in 3Q11, accounting for 51.4% of the total notional amount traded. The overnight SHIBOR accounted for 35.3% of the total on significant growth of 567.4% y-o-y and 70.1% q-o-q. These two benchmarks advanced the most because the primary participants in the PRC's onshore

Figure 5: Investor Profile across Bond Categories (as of September 2011)



MTNs = medium-term notes.
Note: Others includes security companies, non-bank financial institutions, individuals, and exchanges.
Source: *ChinaBond*.

Table 4: Notional Values of the PRC's Interest Rate Swap Market

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%)	
	3Q11			q-o-q	y-o-y
7-Day Repo Rate	406.3	51.4%	4,163	9.8%	101.9%
Overnight SHIBOR	278.6	35.3%	1,100	70.1%	567.4%
3-Month SHIBOR	81.7	10.3%	936	(9.6%)	48.4%
1-Year Term Deposit Rate	23.1	2.9%	124	(34.6%)	60.8%
6-Month Lending Rate	0.0	0.0%	1	(20.0%)	–
1-Year Lending Rate	0.1	0.0%	8	368.4%	18.7%
Total	**789.8**	**100.0%**	**6,332**	**19.5%**	**152.7%**

– = not applicable, PRC = People's Republic of China, q-o-q = quarter-on-quarter, repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate, y-o-y = year on year.
Source: *ChinaMoney*, *Wind*, and *AsianBondsOnline*.

IRS market are commercial banks with funding exposure mainly in the form of repo transactions. Therefore, banks desire to use the repo rate as the base rate to hedge their funding.

Policy, Institutional, and Regulatory Developments

PBOC Expands Deposit Coverage for Reserve Requirement Ratios

On 29 August, the PBOC announced that for the purposes of calculating required reserves, margin deposits, such as those paid for issuing bankers' acceptances; letters of guarantee; and letters of credit would be included. The amount to be set aside as reserves will be divided over stages to allow banks time to adjust, with the largest banks asked to set aside the reserves over three stages and smaller banks over six stages. The increase in reserves is estimated to be the equivalent of a 100 bps–150 bps hike in the reserve requirement ratio.

Local Governments Allowed to Issue Bonds

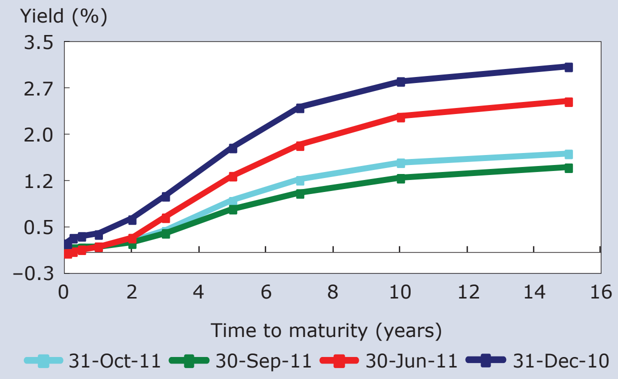
On 20 October, the Ministry of Finance launched a trial program allowing four local governments to issue bonds directly. The four local authorities granted permission are the provinces of Guangdong and Zheijiang, and the municipalities of Shanghai and Shenzen.

Hong Kong, China—Update

Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) rose for most maturities in October, with the exception of maturities at the very short-end of the curve. The 10-year tenor rose the most at 26 basis points (bps), followed by the 15-year tenor, which rose 23 bps **(Figure 1)**. Yields in the middle of the curve (3- to 7-years) rose an average of 12 bps. In contrast, yields for the 6-month and 1-year tenor remained unchanged, while shorter-term tenors fell 1 bp–4 bps. Due to the large drop in yields at the longer-end of the curve, the spread between the 2- and 10-year maturities rose to 129 bps from 107 bps at end-September.

Figure 1: Hong Kong, China's Benchmark Yield Curve—EFBNs



EFBN = Exchange Fund Bills and Notes.
Source: Bloomberg LP.

The yield curve's movement from end-June to end-September showed a strong shift downward, especially at the longer-end. The downward shift, in spite of rising consumer prices, was due to the Special Administrative Region's currency peg to the United States (US) dollar and its status as an international finance center. As a result, interest rates in Hong Kong, China are highly correlated with US interest rates. The US yield curve shifted downward from end-June to end-September, particularly at the longer-end, where the 10-year tenor fell 105 bps. However, in October the yield curve rose slightly, with the 10-year tenor rising 20 bps.

Consumer price inflation in Hong Kong, China hit an all-time high in July, rising to 7.9% year-on-year (y-o-y) from 5.6% in June. The rise in inflation was strongly influenced by a lower base for rental prices in July 2010 due to government relief measures. In August, consumer price inflation fell to 5.6% y-o-y, comparable to the inflation rate in June, but still higher than in prior years.

On the other hand, if the government's relief measures are excluded, consumer price inflation actually rose in August to 6.3% y-o-y from 5.8% in July. The rise in consumer prices has been driven mostly by increases in food prices as well as housing related costs such as rentals and utilities.

Local demand continues to remain robust as indicated by strong retail sales growth. The average growth rate in sales for 2Q11 was 28.1% y-o-y, with sales growth accelerating in July and August to 29.1% and 29.0%, respectively. Demand was further helped by strong spending in the tourism sector. However, demand was negatively affected by the continued slowdown in developed markets, leading to weakened export growth. On a quarter-on-quarter (q-o-q) basis, exports fell 9.4% in 2Q11. On a y-o-y basis, export growth fell to 7.7% in 2Q11 from 24.6% in 1Q11. Slower export growth led to weakening gross domestic product (GDP) growth for the last two quarters with GDP growth at 4.3% in 3Q11 and 5.3% in 2Q11 from 7.5% in 1Q11.

Table 1: Size and Composition of the LCY Bond Market in Hong Kong, China

	Amount (billion)								**Growth Rate** (%)						
	Jun-11		**Jul-11**		**Aug-11**		**Sep-11**		**Jun-11**		**Jul-11**	**Aug-11**	**Sep-11**		
	HKD	**US$**	**HKD**	**US$**	**HKD**	**US$**	**HKD**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	1,300	167	1,311	168	1,315	169	1,320	170	5.4	0.5	0.9	0.3	5.7	1.6	0.4
Government	684	88	694	89	697	90	697	90	2.6	0.5	1.5	0.4	3.8	1.9	0.0
Exchange Fund Bills	585	75	585	75	585	75	585	75	0.6	0.2	0.01	0.0	0.6	0.1	0.0
Exchange Fund Notes	70	9	70	9	70	9	70	9	(0.9)	(0.4)	0.0	0.0	(0.9)	0.0	0.0
HKSAR Bonds	30	4	40	5	43	5	43	5	87.5	9.1	33.3	6.3	117.9	41.7	0.0
Corporate	615	79	616	79	617	79	623	80.0	8.7	0.5	0.2	0.2	7.8	1.2	0.9

HKSAR = Hong Kong Special Administrative Region, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. The amount of corporate bonds outstanding for July, August, and September were estimated based on the compounded monthly growth rate between March and June.

Source: Hong Kong Monetary Authority and Bloomberg LP.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market grew 5.7% y-o-y to reach HKD1.3 trillion (USD170.0 billion) at end-September **(Table 1)**. On a q-o-q basis, LCY bonds outstanding grew at a pace of 1.6%.

Total LCY government bonds outstanding rose 3.8% y-o-y as of end-September, while q-o-q growth was 1.9%. Government bonds include Exchange Fund Bills (EFBs), Exchange Fund Notes (EFNs), and bonds issued under the Institutional Bond Issuance Programme (HKSAR Bonds).

The growth in total government bonds outstanding was largely attributed to the growth of HKSAR Bonds, which expanded 117.9% y-o-y to HKD42.5 billion as of end-September. On the other hand, the stock of EFNs declined slightly by 0.9% to HKD69.6 billion. EFBs grew only slightly by 0.6% y-o-y in the same period.

HKD10.0 billion worth of 3-year HKSAR Bonds were issued in July, HKD2.5 billion in 10-year bonds were sold in August, and HKD3.5 billion of 20-year HKSAR bonds were sold in September.

LCY corporate bonds outstanding reached HKD622.9 billion at end-September, reflecting growth of 7.8% y-o-y and 1.2% q-o-q. The top 18 non-bank corporate issuers in Hong Kong, China accounted for about 14% of total corporate bonds outstanding (Table 2). Hong Kong, China's top corporate issuer of LCY bonds was the state-owned Hong Kong Mortgage Corporation (HKMC), with bonds valued at HKD22.3 billion at end-September. Sun Hung Kai Properties (Capital Market) Ltd. was the next largest issuer with outstanding bonds of HKD12.4 billion, while CLP Power Hong Kong Financing Ltd. was in the third spot with HKD9.9 billion.

Financial firms dominated the list of the top 18 non-bank corporate issuers, accounting for all but four of the firms. Six state-owned companies were included on the list, while 12 were privately owned. Among the companies included in Table 2, only one is listed on the Hong Kong Exchange.

Table 2: Top 18 Non-Bank Corporate Issuers in Hong Kong, China (as of September 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (HKD billion)	LCY Bonds (US$ billion)				
1. The Hong Kong Mortgage Corporate Ltd.	22.32	2.87	Yes	No	No	Finance
2. Sun Hung Kai Properties (Capital Market) Ltd.	12.37	1.59	No	Yes	No	Finance
3. CLP Power Hong Kong Financing Ltd.	9.90	1.27	No	Yes	No	Finance
4. Kowloon-Canton Railway Corporation	6.60	0.85	Yes	No	No	Transportation
5. MTR Corporation (C.I.) Ltd.	5.20	0.67	Yes	No	Yes	Transportation
6. Swire Pacific MTN Financing Ltd.	4.30	0.55	No	Yes	No	Finance
7. Hongkong Electric Finance Ltd.	4.21	0.54	No	Yes	No	Finance
8. The Link Finance (Cayman) 2009 Ltd.	3.98	0.51	No	Yes	No	Finance
9. HKCG (Finance) Limited	2.76	0.35	No	Yes	No	Finance
10. Airport Authority Hong Kong	2.75	0.35	Yes	No	No	Trannsportation
11. Cheung Kong Bond Finance Ltd.	2.45	0.31	No	Yes	No	Finance
12. Wharf Finance Ltd.	2.29	0.29	No	Yes	No	Finance
13. Hysan (MTN) Ltd.	1.80	0.23	No	Yes	No	Finance
14. Urban Renewal Authority	1.70	0.22	Yes	No	No	Property Development
15. Bauhinia MBS Ltd.	1.56	0.20	Yes	No	No	Finance
16. Cheung Kong Finance (MTN) Ltd.	1.51	0.19	No	Yes	No	Finance
17. Henderson Land MTN Ltd.	0.88	0.11	No	Yes	No	Finance
18. The Hongkong Land Notes Company Ltd.	0.20	0.03	No	Yes	No	Finance
Total Top 18 Non-Bank LCY Corporate Issuers	**86.57**	**11.12**				
Total LCY Corporate Bonds	**622.92**	**80.01**				
Top 18 as % of Total LCY Corporate Bonds	**13.9%**	**13.9%**				

LCY = local currency.
Note: Based on Central Money Markets Unit data on tradeable non-bank debt securities issued and outstanding as of 1 July 2011.
Source: Hong Kong Monetary Authority.

Policy, Institutional, and Regulatory Developments

Hong Kong, China's Role as Offshore Renminbi Center Expanded

On 17 August, the People's Republic of China's (PRC) Vice Premier Li Keqiang gave special attention to Hong Kong, China during his keynote speech at the Forum on the 12th Five Year Plan and economic, trade, and financial cooperation and development between the PRC and Hong Kong, China. He stressed that plans for expanding Hong Kong, China's already important role as an offshore financial center would give Hong Kong, China an advantage as an offshore renminbi center. The plans mentioned include allowing Hong Kong, China's insurance companies to open branches in the PRC; the issuance of more sovereign bonds in Hong Kong, China; and the launch of the mini-Qualified Foreign Institutional Investor Program with an initial quota of CNH20 billion.

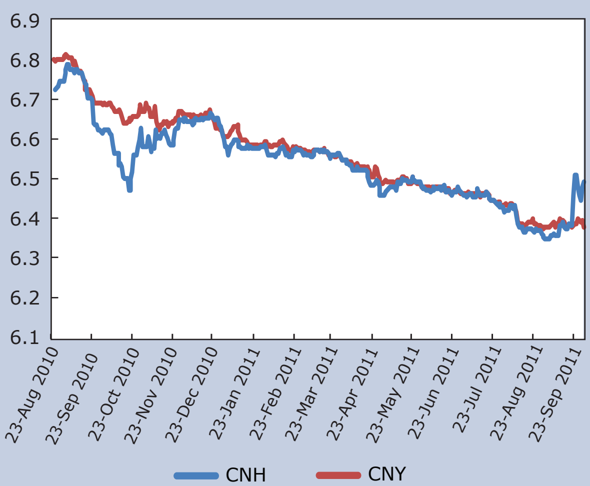
Box 1: Offshore Renminbi Bond Market

The first steps to create an offshore renminbi market were taken in 2003 when banks in Hong Kong, China were permitted to offer renminbi deposits. The amount of these deposits jumped in 2009 after PRC authorities introduced a pilot trade settlement scheme that was subsequently liberalized and expanded. As a result, the renminbi is now deliverable in Hong Kong, China. By 2010 the range of renminbi products was expanded, allowing for the creation of renminbi-denominated insurance and investment products. The CNH traded at a premium against the CNY spot rate,[1] indicating strong demand for the renminbi in the offshore market in Hong Kong, China **(Figure B1.1)**. However, increased market volatility in September has led to the CNH currently trading at a discount. The CNH market is unique as no country has attempted an offshore currency market while retaining capital controls and a tight grip on its onshore currency market.

The rapid growth of CNH deposits derives from anticipated appreciation of the renminbi and its expanded use in trade settlement. In 2004 CNH deposits totaled CNH895 million **(Figure B1.2)**. By September 2011 they totaled CNH622.2 billion. The two critical factors driving CNH market growth have been (i) speculation over the renminbi's appreciation and (ii) expansion in cross-border renminbi trade settlement, resulting in a sharp rise in CNH remittances into Hong Kong, China **(Figure B1.3)**. The proportion of renminbi trade settlement in total trade in goods at the end of 2Q11 was about 8% compared with 1.3% in 2Q10. Demand for CNH has also been in helped in part by regulations released in July 2010 allowing corporations unlimited renminbi purchases in Hong Kong, China.

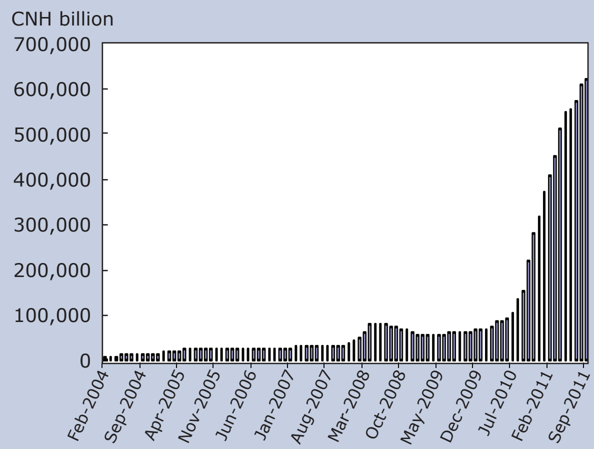
Offshore renminbi bond market growth is critical for CNH market development. In 2007 PRC authorities began allowing financial institutions, such as policy and commercial banks, to issue renminbi bonds in Hong Kong, China. By 2010 issuance rules were liberalized to allow foreign companies to issue CNH bonds, with McDonalds first in line. In August 2011 mainland non-financial companies were allowed to issue CNH bonds; the first to issue was Baosteel Group. The "dim sum bond market," as it was christened by market participants, has grown phenomenally, supported by burgeoning CNH deposits. In 2007 bonds totaling CNH10 billion were issued in the dim sum market **(Figure B1.4)**. As of September 2011 there were 325 dim sum bond issues from 85 issuers for a total of CNH228 billion (CNH160 billion worth of

Figure B1.1: CNH versus CNY, August 2010-September 2011



Source: Hong Kong Monetary Authority and Bloomberg LP.

Figure B1.2: CNH Deposits, February 2004-September 2011



[1] CNH is the three-letter currency code commonly used for offshore renminbi. CNY refers to onshore renminbi traded within the PRC.

bonds and CNH68 billion worth of certificates of deposit.)

Strong demand for CNH bonds has led to lower yields versus CNY bonds, making them an attractive source of debt finance. In December 2009 the Asian Development Bank (ADB) issued onshore CNY bonds with a spread of 57 basis points (bps) over comparable PRC onshore government bonds. However, in October 2010 ADB's offshore CNH bonds were issued 81 bps below comparable PRC onshore government bonds. The International Finance Corporation (IFC) has issued a CNY bond with a spread of 45 bps over comparable PRC government bonds, while its CNH bond, issued in January 2011, had a spread of 182 bps below comparable PRC government bonds. More recently, in August the PRC government conducted a multi-tranche CNH bond auction. The 3-year bonds were issued at a coupon of 0.6% while the prevailing yield on the mainland was 3.65%. The 5-year bonds were issued at a rate of 1.40% while the prevailing onshore yield was 3.80%. The 7-year and 10-year bonds were issued at coupon rates of 1.94% and 2.36%, respectively, while the comparable onshore yields were at 3.90% and 3.94%, respectively. On average the PRC issued the bonds at a spread of 225 bps lower than onshore borrowing costs.

There are limits on available sourcing of CNH to limit speculative flows. Individual purchases are still limited by the CNH20,000 per day cap. While corporations may buy any amount of CNH, banks must note whether the purchase will be used for trade settlement or for other purposes. Banks may square their short positions in CNH from trade settlement transactions with the Clearing Bank (Bank of China [Hong Kong]), but their ability to do so is constrained by the existing supply of CNH for non-trade transactions. Furthermore, banks are limited in their open position to 10% of their renminbi assets or liabilities (depending on whether the bank is net long or net short). Access to the mainland bond and equity markets are subject to approval and quotas (such as through the Qualified Foreign Institutional Investor [QFII] Programme). In October the PRC released rules allowing CNH funds to be used as direct investment into the mainland.

The CNH bond market is still relatively young in terms of duration and issue size. The duration of CNH bonds issued (excluding certificates of deposit) is on the relatively short-end, with 2 years being the most common tenor. In 2007 the average tenor was 2.1 years. By September 20111 it had lengthened slightly to 3.6 years **(Table B1.1)**.

Figure B1.3: CNH Remittances

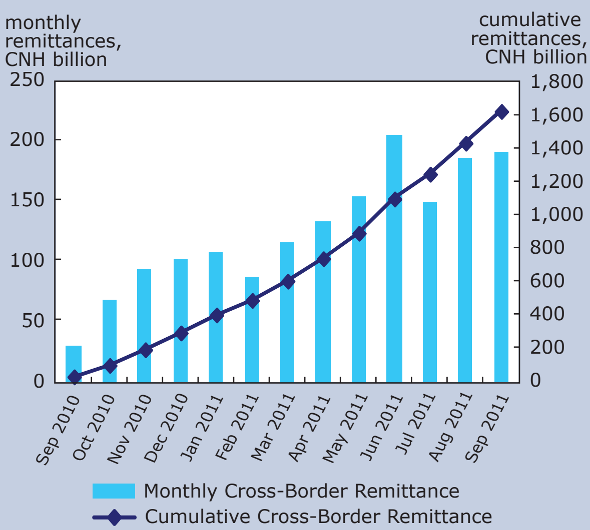
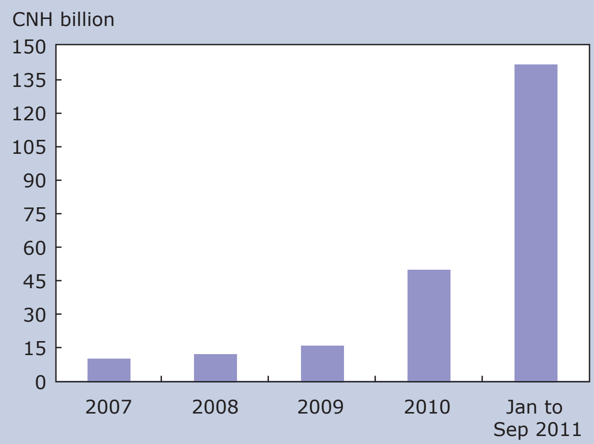


Figure B1.4: CNH Issuance per Year, 2007–2011



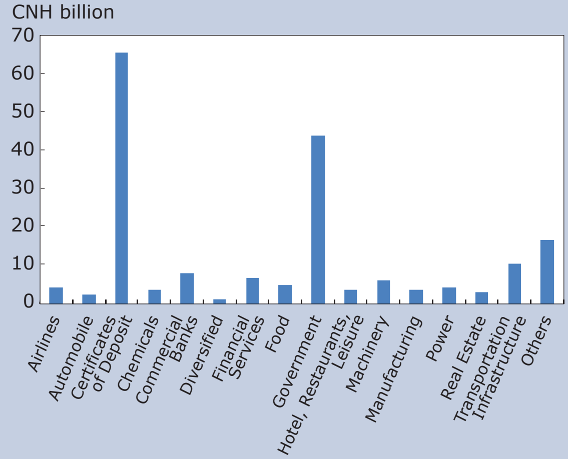
Source: Hong Kong Monetary Authority and Bloomberg LP.

Table B1.1: Weighted Average of CNH Bond Tenor, 2007–2011

Year	Weighted Average Tenor
2007	2.10
2008	2.33
2009	2.25
2010	3.32
Jan to Sep 2011	3.61

Source: CMU HKMA and *AsianBondsOnline*.

Figure B1.5: Outstanding CNH Bonds by Sector (as of August 2011)



Source: Hong Kong Monetary Authority.

The weighted tenor would be lower if CNH certificates of deposit were included, as these certificates of deposit have tenors as short as 3 months. There are only three 10-year CNH bonds; one issued by ADB and the other two by the PRC government. The short tenors of CNH bonds make the market less attractive for longer-term investors and investment funds. The PRC government still remains the largest issuer in CNH bonds **(Figure B1.5)**. But even PRC government bonds are issued in smaller sizes in the CNH market than in the CNY market. By sector, the largest issuers are the PRC government and commercial banks. One reason for the lack of diversity in issuers is that it was only in August that the PRC began allowing mainland non-financial companies to issue CNH bonds.

The PRC intends to expand and develop the CNH bond market. Hong Kong, China was given special focus at the forum on the 12th Five Year Program for National Economic and Social Development, Trade, and Financial Co-operation and Development between the Mainland and Hong Kong. Top officials have said the PRC will further expand Hong Kong, China's role as an offshore renminbi center. PRC's Vice-Premier Li Keqiang, during a recent visit to Hong Kong, China, indicated a number of measures including (i) launching the RMB QFII/mini-QFII program; (ii) allowing Hong Kong, China insurance companies to enter the mainland market; (iii) expanding of treasury bond auctions in Hong Kong, China; (iv) allowing Hong Kong, China enterprises to invest in the mainland using renminbi; and (v) expanding the trade settlement program nationwide. Also, PBOC governor Zhou Xiaochuan has said that mainland non-financial institutions will be allowed to issue CNH bonds.

Synthetic renminbi bonds have recently appeared in Hong Kong, China. Synthetic renminbi bonds are denominated in renminbi but cleared and settled in US dollars. Most synthetic renminbi bond issuers are PRC-based property companies, which find synthetic bonds advantageous since it is easier to remit US dollar proceeds to the PRC for property purchases than it is to remit CNH proceeds. The advantage for investors is that synthetic renminbi bonds provide investors a way of investing in the CNH bond market without the need to source CNH.

Continued growth in the size of the CNH bond market is expected, while further development of the market will help to promote liquidity. The CNH bond market will continue to grow rapidly as issuers seek lower borrowing costs and investors seek exposure to renminbi assets. A more liquid CNH bond market requires a mature and established benchmark yield curve, a wider base of issuers and investors, and the creation of swap and hedging facilities. The creation of a benchmark yield curve will be further aided by the expansion of CNH treasury bond issuances.

Indonesia—Update

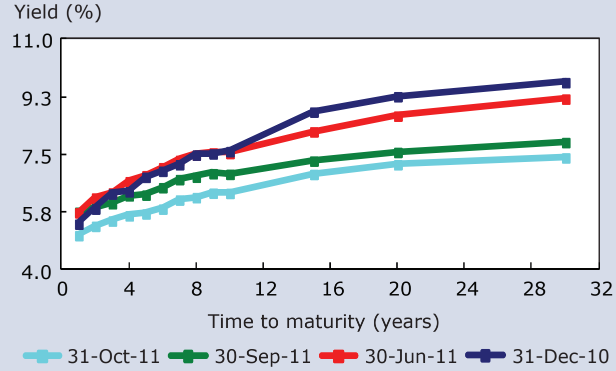
Yield Movements

The government bond yield curve in Indonesia continued to flatten between end-June and end-September, as bond yields fell across all tenors except at the very short-end of the curve **(Figure 1)**. By end-October, bond yields had fallen across all tenors compared with end-September, resulting in the shifting of the entire government bond yield curve downward. Yields at the very short-end fell the most, shedding 71 basis points (bps), while yields from the 2-year maturity through the 10-year maturity fell 52 bps–65 bps. Yields at the long-end of the curve fell 38 bps–46 bps. The spread between the 2- and 10-year maturities narrowed to 100 bps at end-October, compared with 135 bps at end-June and 102 bps at end-September. The overall bullish trend in Indonesia's government bond market can be viewed as a positive response to measures taken by Indonesian authorities.

Consumer price inflation slowed to 4.4% year-on-year (y-o-y) in October from 4.6% in September on account of lower prices for most food items. On a month-on-month (m-o-m) basis, consumer prices fell 0.1% in October—after rising 0.3% in the previous month—driven by lower prices of food, jewelry, and transportation. Core inflation, which excludes volatile food and oil prices, eased to 4.4% y-o-y from 4.9% in September.

On 10 November Bank Indonesia's (BI) Board of Governors decided to lower its benchmark interest rate by 50 bps to 6.00%. This was the second consecutive rate cut following a 25 bps cut in October. The latest cut brings the BI rate to a new record-low level. According to BI, the move was in line both with decreasing inflationary pressures and BI's efforts to narrow the interest rate term structure. The rate cut was also intended to help minimize the impact on the domestic economy of worsening global economic prospects.

Figure 1: Indonesia's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Indonesia's economy expanded 6.5% y-o-y in 3Q11, growing at the same pace as in 2Q11. In 3Q11, domestic consumption remained as the main driver of growth and continued to support the economy. In addition, exports and investments continued to post strong annual growth of 18.5% and 7.14% y-o-y, respectively. On a quarter-on-quarter (q-o-q) basis, gross domestic product (GDP) growth was reported at 3.5% in 3Q11, up from 2.9% in 2Q11.

Size and Composition

The size of Indonesia's local currency (LCY) bond market shrank on both a y-o-y and q-o-q basis in 3Q11 **(Table 1)**. Total bonds outstanding stood at IDR982.4 trillion (US$110 billion) at end-3Q11, after rising to IDR1.0 quadrillion in 2Q11.

As of end-September, outstanding LCY government bonds had fallen 5.6% y-o-y to IDR847.8 trillion. Negative growth in LCY bonds in 3Q11 was mainly attributed to the significant drop in the stock of central bank bills known as *Sertifikat* Bank Indonesia (SBI). The stock of central government bonds (treasury bills and bonds issued by the

Ministry of Finance) posted modest growth on a y-o-y basis.

Central Government Bonds. The stock of central government bonds rose 8.0% y-o-y to IDR696.6 trillion at end-3Q11. On a q-o-q basis, the growth in central government bonds was negligible.

Issuance by the central government in 3Q11 totaled IDR33.2 trillion, representing a 3.3% increase over 3Q10. However, treasury issuance fell 16.2% on a q-o-q basis. LCY bond issues during the quarter consisted of treasury bills, fixed-rate treasury bonds, and *sukuk* (Islamic) treasury bills and treasury bonds. The government issued its first *sukuk* treasury bills during an auction on 2 August as part of efforts to diversify Islamic debt instruments and increase their liquidity.

As of 28 September, the government's total gross bond sales (including international bond issuance) in 2011 had reached IDR155.2 trillion, and the government's net financing (defined as gross issuance less redemption and buyback) had reached IDR83.2 trillion. The 2011 revised state budget included an estimated deficit of IDR150.8 trillion, equivalent to 2.1% of GDP.

In September the Finance Ministry conducted a series of bond buybacks in the secondary market as part of government measures to stabilize the bond market. A total of IDR3.13 trillion in bond buybacks were recorded between 14 September and 23 September, surpassing the Finance Ministry's planned amount of IDR3.07 trillion in bond buybacks for the full-year 2011.

Central Bank Bills. The stock of central bank bills continued to decline sharply in 3Q11. Outstanding SBI stood at IDR151.2 trillion at end-September, representing declines of 40.1% y-o-y and 20.0% q-o-q. During the quarter, BI conducted only three auctions (one per month) of 9-month SBI and 9-month *shari'ah* (Islamic law)-compliant SBI.

Corporate Bonds. Corporate bonds continued to post double-digit growth in 3Q11 on a y-o-y basis, rising 30.5% to IDR134.6 trillion. On a q-o-q basis,

Table 1: Size and Composition of the LCY Bond Market in Indonesia

	Amount (billion)								**Growth Rate** (%)						
	Jun-11		**Jul-11**		**Aug-11**		**Sep-11**		**Jun-11**		**Jul-11**	**Aug-11**	**Sep-11**		
	IDR	**US$**	**IDR**	**US$**	**IDR**	**US$**	**IDR**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	1,012,001	118	1,017,591	120	1,012,034	119	982,415	110	2.7	(1.7)	0.6	(0.5)	(1.8)	(2.9)	(2.9)
Government	880,021	103	883,783	104	877,026	103	847,778	95	(1.4)	(3.1)	0.4	(0.8)	(5.6)	(3.7)	(3.3)
Central Govt. Bonds	691,033	81	700,183	82	703,979	82	696,561	78	11.2	2.4	1.3	0.5	8.0	0.8	(1.1)
Central Bank Bills	188,988	22	183,600	22	173,047	20	151,217	17	(30.3)	(19.1)	(2.9)	(5.7)	(40.1)	(20.0)	(12.6)
Corporate	131,980	15	133,808	16	135,008	16	134,637	15	41.9	8.9	1.4	0.9	30.5	2.0	(0.3)

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank Indonesia, Indonesia Stock Exchange, and Bloomberg LP.

however, growth in corporate bonds was only a marginal 2.0%.

Corporate bonds comprise a small percentage of Indonesia's LCY bond market, accounting for only 14% of total LCY bonds outstanding at end-September. Furthermore, the top 30 corporate bond issuers in Indonesia account for almost 80% of total corporate bonds outstanding **(Table 2)**. The top three issuers in 3Q11 remained the same as in 2Q11: (i) state-power firm PLN was the top issuer with outstanding LCY bonds valued at IDR15.1 trillion, (ii) Bank Pan Indonesia was next with outstanding bonds of IDR6.9 trillion, and (iii) telecommunications firm Indosat was the third-largest issuer with outstanding bonds of IDR6.4 trillion.

Of the top 30 LCY corporate bond issuers at end-September, 70% of the firms were from the banking and financial sectors. The list of top 30 issuers was also dominated by privately owned firms. About two-thirds of the top 30 issuers have shares listed on the Indonesia Stock Exchange, indicating that these firms are tapping both the equity and bond markets as funding sources.

In 3Q11 LCY corporate bond issuance was IDR5.8 trillion, which was down on both a y-o-y and q-o-q basis. Due to uncertain market conditions resulting from the debt crisis in the eurozone, a number of firms decided to postpone planned bond issuances scheduled for the second half of the year.

New corporate bond issues in 3Q11 were dominated by firms from the banking and financial sectors. Furthermore, corporate bond issues in 3Q11 were all conventional bonds except for one subordinated bond issue. **Table 3** highlights notable corporate bond issues in 3Q11.

Automotive financing firm Toyota Astra Financial Services issued IDR1.2 trillion of bonds in three tranches in July. The proceeds from the bond sale will be used to bolster the company's working capital. The bonds comprised the following tranches:

- 370-day bonds worth IDR595 billion, coupon of 7.85%;
- 2-year bonds worth IDR121 billion, coupon of 9.0%; and
- 3-year bonds worth IDR484 billion, coupon of 9.5%.

Property firm Agung Podomoro Land issued IDR1.2 trillion worth of bonds in August. Proceeds from the bond sale will be used to fund its automotive financing business. The bonds consisted of the following series:

- 3-year bonds worth IDR325 billion, coupon of 10.0%; and
- 5-year bonds worth IDR875 billion, coupon of 11.0%.

Bank Sumut issued a total of IDR1.0 trillion of conventional and subordinated bonds in July. The bonds consisted of the following series:

- 5-year bonds worth IDR600 billion, coupon of 10.13%; and
- 7-year subordinated bonds worth IDR400 billion, coupon of 11.35%.

Automotive leasing company Serasi Autoraya raised a total of IDR900 billion from a three-tranche bond sale. The bonds consisted of the following series:

- 1-year bonds worth IDR245 billion, coupon of 7.9%;
- 2-year bonds worth IDR185 billion, coupon of 9.1%; and
- 4-year bonds worth IDR470 billion, coupon of 10.2%.

Investor Profile

Central Government Bonds. At end-September, banks were the top holder of LCY government bonds in Indonesia **(Figure 2)**, although their share of 34.3% was down from a 36.3% share in September 2010.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Indonesia (as of September 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (US$ billion)				
1. PLN	15,100	1.69	Yes	No	No	Energy
2. Bank Pan Indonesia	6,900	0.77	No	Yes	Yes	Banking
3. Indosat	6,350	0.71	No	Yes	Yes	Telecommunications
4. Bank Tabungan Negara	5,450	0.61	Yes	No	Yes	Banking
5. Jasa Marga	5,000	0.56	Yes	No	Yes	Toll Roads, Airports, and Harbors
6. Adira Dinamika Multifinance	4,903	0.55	No	Yes	Yes	Finance
7. Federal International Finance	4,742	0.53	No	Yes	No	Finance
8. Bank Danamon Indonesia	4,050	0.45	No	Yes	Yes	Banking
9. Indonesia Eximbank	3,941	0.44	Yes	No	No	Banking
10. Bank Jabar Banten	3,750	0.42	No	Yes	Yes	Banking
11. Bank Tabungan Pensiunan Nasional	3,650	0.41	No	Yes	Yes	Banking
12. Indofood Sukses Makmur	3,574	0.40	No	Yes	Yes	Food and Beverages
13. Bank Mandiri	3,500	0.39	Yes	No	Yes	Banking
14. Astra Sedaya Finance	3,480	0.39	No	Yes	No	Finance
15. Telekomunikasi Indonesia	3,000	0.34	Yes	No	Yes	Telecommunications
16. Bank CIMB Niaga	2,980	0.33	No	Yes	Yes	Banking
14. Perum Pegadaian	2,664	0.30	Yes	No	No	Finance
18. Bank Permata	2,250	0.25	No	Yes	Yes	Banking
19. Oto Multiartha	2,000	0.22	No	Yes	No	Finance
20. Bank Rakyat Indonesia	2,000	0.22	Yes	No	Yes	Banking
21. Wahana Ottomitra Multiartha	1,990	0.22	No	Yes	Yes	Finance
22. Summit Oto Finance	1,865	0.21	No	Yes	No	Finance
23. Medco Energi Internasional	1,500	0.17	No	Yes	Yes	Petroleum and Natural Gas
24. Excelcomindo Pratama	1,500	0.17	No	Yes	Yes	Telecommunications
25. Bank DKI	1,500	0.17	No	Yes	No	Banking
26. Bank Internasional Indonesia	1,500	0.17	No	Yes	Yes	Banking
27. BCA Finance	1,489	0.17	No	Yes	No	Finance
28. Bank OCBC NISP	1,480	0.17	No	Yes	Yes	Banking
29. Bentoel International Investama	1,350	0.15	No	Yes	Yes	Tobacco
30. Berlian Laju Tanker	1,340	0.15	No	Yes	Yes	Transportation
Total Top 30 LCY Corporate Issuers	**104,797**	**11.71**				
Total LCY Corporate Bonds	**134,637**	**15.04**				
Top 30 as % of Total LCY Corporate Bonds	**77.8%**	**77.8%**				

LCY = local currency.
Source: Indonesia Stock Exchange.

The share of LCY government bonds held by foreign investors rose from 28.3% at end-September 2010 to 31.3% at end-September 2011. However, foreign investors' share actually declined from 34.0% at end-June. Beginning in early September, foreign holdings of LCY bonds declined on the back of fears that global financial conditions would worsen due to the unresolved eurozone debt crisis. A sell-off in LCY government bonds by offshore investors resulted in a sharp drop in their holdings to IDR218.1 trillion at end-September from a high of IDR251.2 trillion on 9 September **(Figure 3)**. Since the BI rate cut on 11 October, however, foreign holdings of LCY government bonds have recovered somewhat.

Nearly two-thirds of all LCY government bonds held by foreigners are in long-dated tenors (5 years or more) **(Figure 4)**. The share of long-dated tenors among foreign-held bonds has declined slightly from about 67% at end-2010 and 71% at end-2009. Offshore holdings of short-dated tenors (bonds with maturities of less than 1 year) dipped to 7.7% at end-September, compared with 10.2% at end-2010.

Table 3: Notable Corporate Issuance in 3Q11

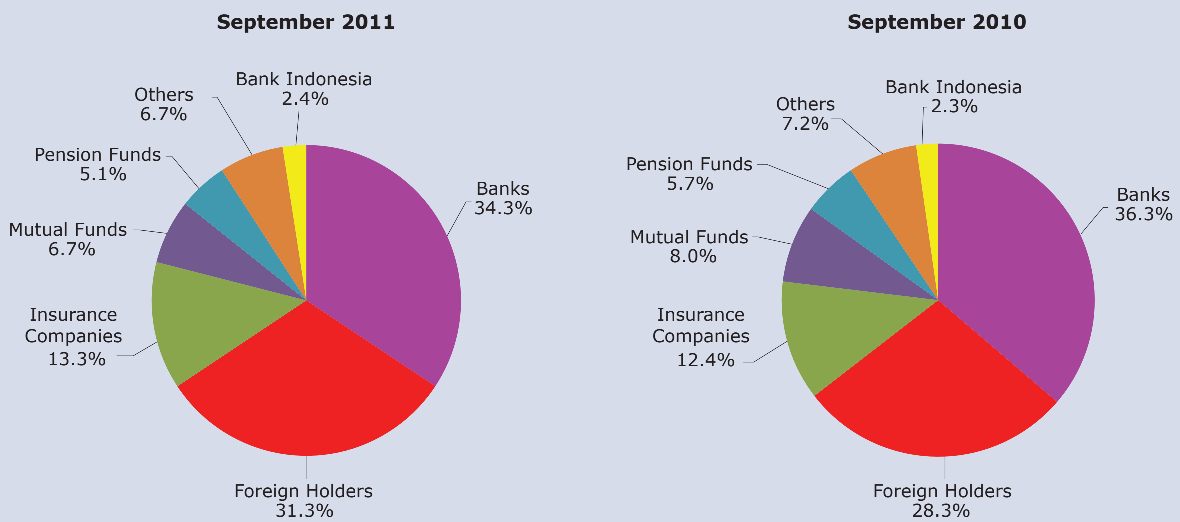
Corporate Issuers	Amount Issued (IDR billion)
Toyota Astra Financial Services	1,200
Agung Podomoro Land	1,200
Bank Sumut	1,000
Serasi Autoraya	900
Others	1,520
Total	**5,820**

Source: Indonesia Stock Exchange.

BI's share of government debt rose marginally to 2.4% at end-September compared with the same period a year earlier. However, BI's holdings of LCY bonds rose significantly, especially during the latter part of the month, to reach IDR17.0 trillion. This represented a quadrupling of BI's holdings of LCY bonds in the month of September from end-August due to intervention in the foreign exchange market as BI bought government bonds to counter the sharp depreciation of the Indonesian rupiah against the dollar. The central bank has said that it will continue to intervene until the foreign exchange market stabilizes.

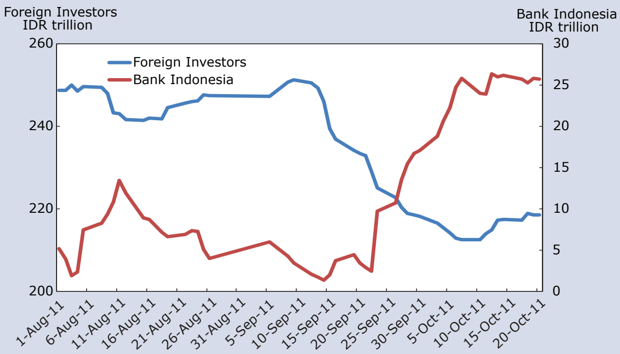
The holdings of LCY government debt by insurance companies was steady at 13.0% at end-September compared with the same month a year earlier. Meanwhile, the shares held by mutual funds and pension funds fell slightly on a y-o-y basis to about 7% and 5%, respectively.

Figure 2: LCY Government Bonds Investor Profile



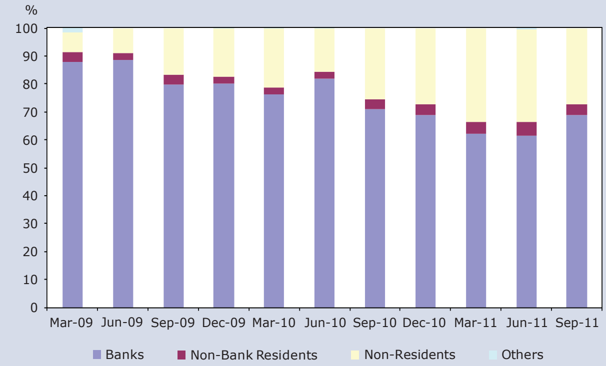
LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 3: LCY Government Bond Holdings of Foreign Investors and Bank Indonesia, August–October 2011



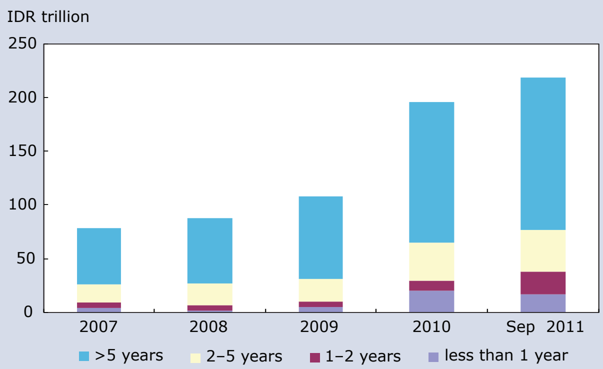
LCY = local currency
Source: Indonesia Debt Management Office.

Figure 5: LCY Central Bank Bills Investor Profile, March 2009–September 2011



LCY = local currency.
Source: Bank Indonesia.

Figure 4: Foreign Holdings of LCY Government Bonds by Maturity, 2007–2011



LCY = local currency.
Source: Indonesia Debt Management Office.

Central Bank Bills. At end-September, banks were still the largest investor in SBI with a share of about 70%, which was up from 62% at end-2Q11 and nearly identical to end-3Q10 **(Figure 5)**. The share of banks' holdings of SBI reached a high of 89% in June 2009.

Foreign investors trimmed their holdings of SBI to a share of 27.4% at end-September from 33.1% at end-June. The foreign share of SBI government debt was still higher than the 25.7% share at end-September 2010. The share of foreign holdings reached a high of 38.9% at end-May before steadily dropping to its current level. The BI regulation that came into effect in May and extended the SBI minimum holding period to 6 months may have led foreign investors to shift to other short-dated instruments such as treasury bills.

Rating Changes

On 24 August, the Japan Credit Rating Agency (JCR) affirmed Indonesia's long-term foreign currency (FCY) senior debt rating at BBB– and long-term LCY senior debt rating at BBB **(Table 4)**. The outlook for both ratings was stable. According to JCR, its ratings reflect Indonesia's sustainable economic growth outlook, which is underpinned by solid domestic demand, a reduced public debt burden, and resilience to external shocks.

Table 4: Selected Sovereign Ratings and Outlook for Indonesia

	Moody's	S&P	Fitch	R&I	JCR
Sovereign FCY LT Ratings	Ba1	BB+	BB+	BB+	BB–
Outlook	Stable	Positive	Positive	Positive	Stable

FCY = foreign currency, LT = long term.
Source: Rating agencies.

On 14 November, Ratings and Investment Information (R&I) affirmed Indonesia's foreign FCY sovereign ratings at BB+ with positive outlook. R&I also affirmed its FCY short-term debt rating for Indonesia at a–3. According to R&I, Indonesia's economy is becoming more resilient to the deteriorating external environment. R&I also stated that the rating could be upgraded if Indonesia can maintain macroeconomic stability in the face of the global economic and financial instability.

Policy, Institutional, and Regulatory Developments

BI Issues New Regulations on Export Proceeds and Foreign Debt Withdrawals

On 30 September BI issued new regulations governing export proceeds and foreign debt withdrawals. Under the new policies exporters will be required to transfer their proceeds from offshore banks into domestic banks within a period of 3 months after the date included on the Export Declaration Form. This policy will become effective on 2 January 2012. During the transition period exporters will be given up to 6 months from the date on the Export Declaration Form to comply with the new measure.

Another new regulation issued by BI requires debtors to conduct their foreign borrowing through domestic banks. The new regulations apply to borrowing in cash, non-revolving loan agreements, and debt securities.

According to BI, the main objective of these new policies is to strengthen macroeconomic stability, particularly exchange rate stability. BI governor Darmin Nasution said that the policies will improve the sustainability of foreign exchange flows into the domestic market by reducing dependence on short-term funding.

Indonesia's First Project-Based *Sukuk* Auction Fails

The Finance Ministry did not accept offers for its planned issue of project-based *sukuk* on 11 October as the Islamic bonds failed to attract a high number of investors. Investors who bid also sought higher yields for the two *sukuk* series (6-years and 21-years). The bonds would have been Indonesia's maiden issue of project-based *sukuk* and were to be backed by over 1,000 infrastructure projects such as roads and railways.

Indonesia Raises IDR11 trillion from its Eighth Series of Retail Bonds

The government raised IDR11 trillion from the sale of its eighth series of retail bonds (ORI008) issued on 26 October. The initial target set by the government was IDR10 trillion, but the government increased the size with final bids reaching IDR12.3 trillion. The retail bonds carried a coupon rate of 7.3% and a maturity of 3 years.

Indonesia Passes Bill to Create Financial Services Supervisory Authority

On 28 October Indonesia's House of Representatives passed a bill that will pave the way for the creation of a new financial superbody to supervise the country's financial sector by early 2013. The Financial Services Supervisory Authority (OJK) will assume Bank Indonesia's current supervisory role on commercial banks. OJK will also oversee capital markets and non-banking institutions that are currently monitored by the Capital Market and Financial Institution Supervisory Board (Bapepam LK).

Indonesia Raises US$1 Billion from Global *Sukuk* Sale

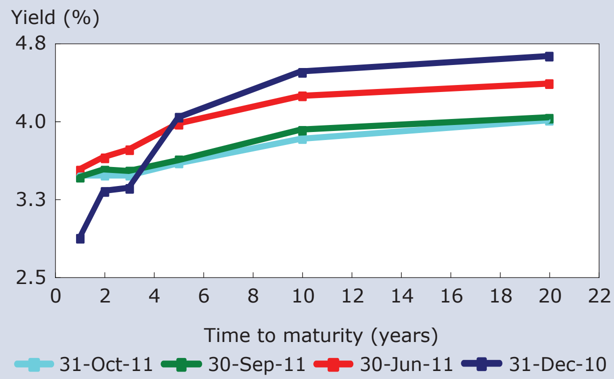
On 14 November, the Indonesian government successfully raised US$1 billion from the sale of global *sukuk*. The sale was Indonesia's second issue of global *sukuk* following an initial sale of US$650 million in April 2009. The most recent *sukuk* carried a maturity of 7-years and was priced to yield 4.0%. (The *sukuk* issued in April 2009 carried a maturity of 5-years and a coupon of 8.8%.) The global *sukuk* generated as much as US$6.5 billion in demand from about 250 investors.

Republic of Korea—Update

Yield Movements

Government bond yields in the Republic of Korea dropped for all tenors between end-June and end-September, and fell further for most tenors in October **(Figure 1)**. Between end-June and end-September, the decline in yields ranged from 7 basis points (bps) in the 1-year tenor to 35 bps in the 5-year tenor. In October, yields fell for tenors longer than 1 year, with the 10-year tenor recording the largest monthly drop.

Figure 1: The Republic of Korea's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The government bond yield curve continued to flatten as the spread between 2- and 10-year tenors narrowed 22 bps between end-June and end-September, and tightened further by 3 bps in October.

The Bank of Korea kept its base rate—the 7-day repurchase rate—steady at 3.25% for the fifth consecutive month in November, after increases totaling 75 bps in the first half of the year. In its monetary policy decision dated 11 November, the central bank's Monetary Policy Committee cited expectations of a moderate global economic recovery—amid uncertainty in international financial markets—and a sustained long-term growth trend in the domestic economy.

Consumer price inflation in October stood at 3.9% year-on-year (y-o-y), down from 4.3% in September, 5.3% in August, and 4.7% in July. On a month-on-month (m-o-m) basis, consumer prices fell 0.2% in October.

Advance estimates of real gross domestic product (GDP) for 3Q11 showed a quarter-on-quarter (q-o-q) growth rate of 0.7%, compared with the previous quarter's growth rate of 0.9%. This was due to an easing in the growth of private consumption and gross fixed capital formation in 3Q11, and in spite of increases in the growth of government consumption and the export of goods and services. On the supply side, the agriculture–forestry–fishing and electricity–gas–water supply sectors contracted in 3Q11, while manufacturing growth eased slightly. On a y-o-y basis, real GDP growth in 3Q11 remained unchanged from the previous quarter at 3.4%.

Size and Composition

The local currency (LCY) bond market in the Republic of Korea expanded 8.6% y-o-y and 2.1% q-o-q to reach KRW1,389 trillion (US$1,179 billion) at end-September **(Table 1)**. Government bonds outstanding stood at KRW590.4 trillion, up 4.4% y-o-y and 1.2% q-o-q. Central government bonds—largely consisting of Korea Treasury Bonds (KTBs)—climbed 5.5% y-o-y and 1.1% q-o-q, leveling off at KRW391.2 trillion. The Bank of Korea's Monetary Stabilization Bonds (MSBs) rose 3.0% y-o-y and 1.4% q-o-q to reach KRW169.4 trillion. On the other hand, industrial financial debentures—bonds issued by the Korea Development Bank (KDB)—declined 1.5% y-o-y but rose 1.0% q-o-q to KRW29.8 trillion.

The LCY corporate bond market grew 11.9% y-o-y and 2.9% q-o-q to reach KRW798.6 trillion at end-September. Private corporate bonds again

Table 1: Size and Composition of the LCY Bond Market in the Republic of Korea

	Amount (billion)								**Growth Rate** (%)						
	Jun-11		**Jul-11**		**Aug-11**		**Sep-11**		**Jun-11**		**Jul-11**	**Aug-11**	**Sep-11**		
	KRW	**US$**	**KRW**	**US$**	**KRW**	**US$**	**KRW**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	1,359,924	1,274	1,367,933	1,298	1,381,012	1,295	1,389,038	1,179	8.2	2.3	0.6	1.0	8.6	2.1	0.6
Government	583,484	547	586,553	556	590,027	553	590,429	501	4.4	1.5	0.5	0.6	4.4	1.2	0.1
Central Bank Bonds	167,030	156	168,740	160	169,920	159	169,420	144	(0.3)	(0.9)	1.0	0.7	3.0	1.4	(0.3)
Central Government Bonds	386,942	362	389,662	370	392,690	368	391,213	332	8.2	2.2	0.7	0.8	5.5	1.1	(0.4)
Industrial Finance Debentures	29,512	28	28,151	27	27,417	26	29,796	25	(12.7)	5.2	(4.6)	(2.6)	(1.5)	1.0	8.7
Corporate	776,440	727	781,380	741	790,985	741	798,609	678	11.3	3.0	0.6	1.2	11.9	2.9	1.0

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: EDAILY *BondWeb* and The Bank of Korea.

boosted the market's expansion, as the outstanding amount surged 29.9% y-o-y and 4.5% q-o-q to reach KRW331.9 trillion. Special public bonds outstanding were valued at KRW261.6 trillion, recording steady growth rates of 4.4% y-o-y and 3.3% q-o-q. On the other hand, financial debentures (excluding KDB bonds) declined 0.3% q-o-q and 1.1% y-o-y, leveling off at KRW205.1 trillion.

As of end-September, the top 30 issuers of LCY corporate bonds had a cumulative outstanding balance of KRW495.7 trillion, comprising 62% of total corporate bonds outstanding **(Table 2)**. Korea Land & Housing Corp. was still the largest corporate issuer at KRW57.6 trillion. About 77% of the top 30 issuers were banks, insurance companies, securities houses, or other financial firms.

LCY corporate bond issuance for 3Q11 amounted to KRW77.6 trillion, of which 46% were private corporate bonds, 30% financial debentures, and 24% special public bonds. Issuance of corporate bonds in 3Q11 was down 7.8% from 2Q11 largely due to a 21.4% quarterly drop in private corporate bond issuance. Compared with the previous year, corporate bond issuance fell 4.7% due to annual declines in the issuance of special public bonds and financial debentures.

The two largest LCY corporate bond issuances in the Republic of Korea in 3Q11 were made by Korea Land & Housing Corp: a 10-year bond worth KRW1,150 billion with a coupon rate of 3.25% and a 3-year bond worth KRW520 billion at a 4.21% coupon.

Investor Profile

As of end-June, the general government—comprising the central government, local government, and social security funds—and insurance companies and pension funds were the two largest investor groups in LCY government bonds with 23% shares each **(Figure 2)**. The next largest investor groups were banks and other financial institutions with 18% shares

Table 2: Top 30 Issuers of LCY Corporate Bonds in the Republic of Korea (as of September 2011)

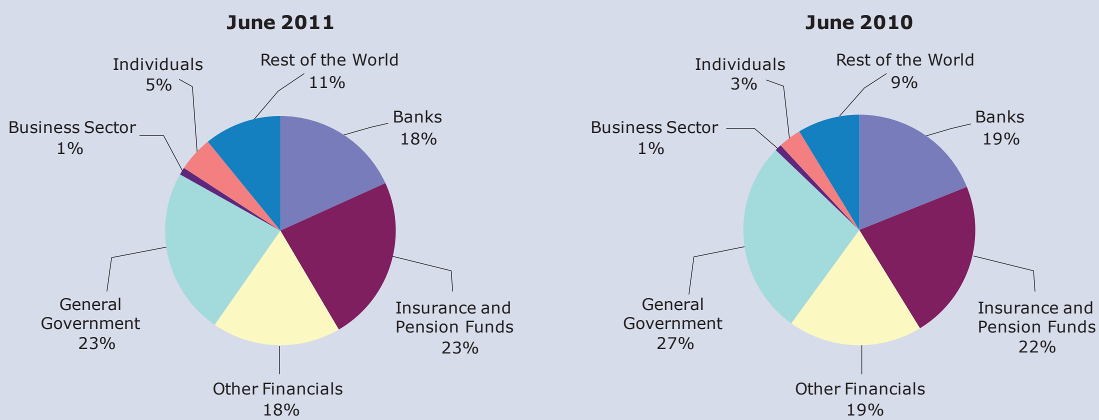
Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed on		Type of Industry
	LCY Bonds (KRW billion)	LCY Bonds (US$ billion)			KOSPI	KOSDAQ	
1. Korea Land & Housing Corp.	57,645	48.9	Yes	No	No	No	Real Estate
2. Korea Housing Finance Corp.	36,968	31.4	Yes	No	No	No	Financial
3. Korea Finance Corp.	31,050	26.4	Yes	No	No	No	Financial
4. Industrial Bank of Korea	30,634	26.0	Yes	No	Yes	No	Bank
5. Korea Deposit Insurance Corp.	23,290	19.8	Yes	No	No	No	Insurance
6. Korea Electric Power Corp.	23,230	19.7	Yes	No	Yes	No	Utility
7. Daewoo Securities	21,745	18.5	Yes	No	Yes	No	Securities
8. Kookmin Bank	21,527	18.3	No	Yes	No	No	Bank
9. Shinhan Bank	18,597	15.8	No	Yes	No	No	Bank
10. Korea Highway	18,130	15.4	Yes	No	No	No	Infrastructure
11. Woori Bank	18,052	15.3	Yes	No	No	No	Bank
12. Woori Investment and Securities	18,031	15.3	Yes	No	Yes	No	Securities
13. Korea Investment and Securities	14,814	12.6	No	Yes	No	No	Securities
14. Small & Medium Business Corp.	14,563	12.4	Yes	No	No	No	Financial
15. Hana Bank	14,314	12.2	No	Yes	No	No	Bank
16. Korea Rail Network Authority	12,745	10.8	Yes	No	No	No	Infrastructure
17. Tong Yang Securities	11,981	9.2	No	Yes	Yes	No	Securities
18. Korea Gas Corp.	11,490	9.8	Yes	No	Yes	No	Utility
19. Nonghyup (National Agricultural Cooperative Federation)	10,870	9.2	Yes	No	No	No	Bank
20. Mirae Asset Securities	10,587	9.0	No	Yes	Yes	No	Securities
21. Hyundai Securities	9,438	8.0	No	Yes	Yes	No	Securities
22. Shinhan Card	9,364	7.9	No	Yes	No	No	Financial
23. Korea Water Resources	7,790	6.6	Yes	No	Yes	No	Utility
24. Shinhan Financial Group	7,530	6.4	No	Yes	Yes	No	Financial
25. Hyundai Capital Services	7,282	6.2	No	Yes	No	No	Securities
26. Hana Daetoo Securities	7,238	6.1	No	Yes	No	No	Securities
27. Korea Railroad Corp.	7,190	6.1	Yes	No	No	No	Infrastructure
28. Standard Chartered First Bank Korea	6,910	5.9	No	Yes	No	No	Bank
29. Korea Eximbank	6,800	5.8	Yes	No	No	No	Bank
30. KB Kookmin Card	5,940	5.0	No	Yes	No	No	Financial
Total Top 30 LCY Corporate Issuers	**495,747**	**420.8**					
Total LCY Corporate Bonds	**798,609**	**677.9**					
Top 30 as % of Total LCY Corporate Bonds	**62.1%**	**62.1%**					

KOSPI = Korea Composite Stock Price Index, KOSDAQ = Korean Securities Dealers Automated Quotations, LCY = local currency.
Source: *AsianBondsOnline*, EDAILY *BondWeb*, and Bloomberg LP.

each, followed by foreign investors with an 11% share. Between June 2010 and June 2011, the share held by the general government declined 4 percentage points, while the shares for banks and other financial institutions fell 1 percentage point each. Meanwhile, the shares of foreign investors and individual investors saw gains of 2 percentage points each, while the share for insurance firms and pension funds rose 1 percentage point.

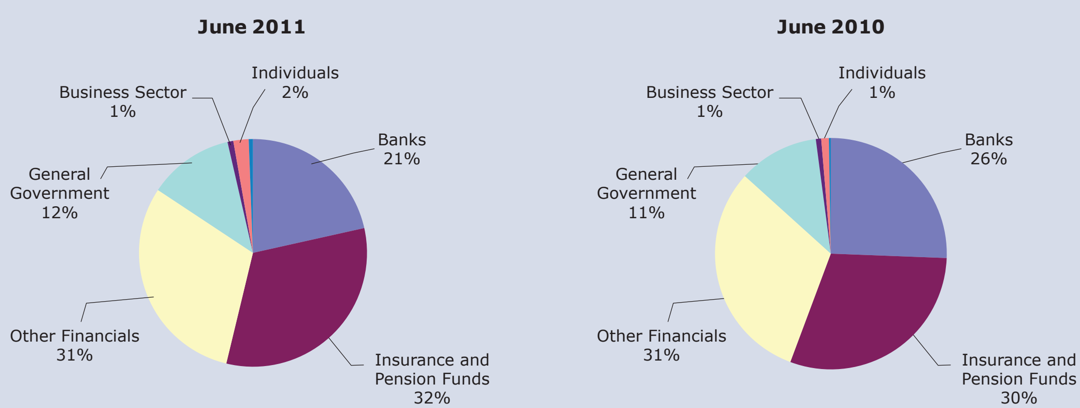
Insurance firms and pension funds remained the largest investor group in LCY corporate bonds at end-June, holding 32% of the total, followed closely by other financial institutions at 31% **(Figure 3)**. Between June 2010 and June 2011, the share for insurance firms and pension funds climbed 2 percentage points, while shares for the general government and individual investors rose 1 percentage point each. In contrast, shares for banks plunged 5 percentage points.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: *AsianBondsOnline* and The Bank of Korea.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: *AsianBondsOnline* and The Bank of Korea.

Rating Changes

In November Fitch Ratings affirmed the Republic of Korea's foreign currency (FCY) long-term issuer default rating at A+ and revised its outlook from stable to positive **(Table 3)**. It also affirmed its LCY long-term issuer default rating at AA with a stable outlook. According to Fitch, the Republic of Korea's sovereign creditworthiness is strengthening amid improvements in its sovereign and external balance sheets. It noted that the country's fiscal prudence and moderate public debt are its key rating strengths, and that its external liquidity has been improving thanks to increasing foreign reserves and declining reliance on short-term external debt. The ratings agency, however, mentioned that the country faces certain risks such as the volatile global economic and financial environment and its heavy external debt refinancing burden in 2012.

Table 3: Selected Sovereign Ratings and Outlook for Republic of Korea

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	A1	A	A+	A+
Outlook	Stable	Stable	Positive	Stable

FCY = foreign currency, LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

Tax Revision Bill for 2011 Introduced

In September the Ministry of Strategy and Finance introduced its tax revision bill for 2011. The bill aims to facilitate sustainable growth and promote employment, improve fiscal conditions, and foster fair competition. One of the key aspects of the bill is fair taxation: yields derived from issuing FCY bonds domestically will be taxed just like LCY bonds, and capital gains taxes coming from financial products, including derivatives, will be legislated.

The Bank of Korea and People's Bank of China Expand Bilateral Swap Arrangement

In October the Bank of Korea announced the renewal of its bilateral swap arrangement with the People's Bank of China for 3 years. The size of the swap arrangement was expanded from KRW38 trillion–CNY180 billion to KRW64 trillion–CNY360 billion.

FSCMA Revision to Allow Hedge Funds

The Financial Services Commission (FSC) reported that the government approved on 27 September the proposed revision of the Enforcement Decree of the Financial Investment Services and Capital Markets Act (FSCMA), which will allow for the entry of locally based hedge funds into the Republic of Korea's capital market. The revision also allows hedge funds to invest in a wider range of asset classes, eases the restrictions on derivatives trading and leverage, and increases the diversity of hedge fund investors.

Macroprudential Stability Levy Imposed

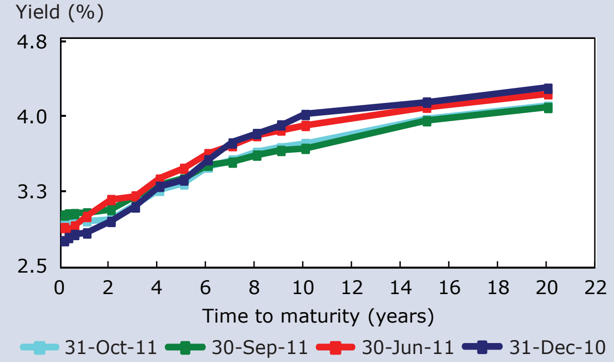
The government imposed a macroprudential levy on the non-deposit FCY liabilities of banks effective 1 August. The levy applies to 56 financial institutions including 13 commercial banks, 37 foreign bank branches, Korea Eximbank, Industrial Bank of Korea, Korea Development Bank, Korea Finance Corporation, Bank of National Agricultural Cooperative Federation, and the National Federation of Fisheries Cooperatives. The levy was introduced in order to help mitigate capital flow volatility, including sudden outflows. The levy is 0.5% or less of face value depending on debt maturity.

Malaysia—Update

Yield Movements

Between end-June and end-September, the yield curve for Malaysian local currency (LCY) government bonds flattened, with rates rising at the very short-end while falling along the rest of the curve. In October, yields fell at the very-short end to the belly of the curve, but rose slightly at the long-end, reflecting concerns over global economic stability **(Figure 1)**. Yields at the very short-end to the belly fell between 2 basis points (bps) and 10 bps in October, while yields at the long end rose between 1 bp and 5 bps. The drop at the short-end and the rise at the long-end of the curve widened the yield spread between 2- and 10-year maturities to 76 bps from 60 bps at end-September.

Figure 1: Malaysia's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

In May, Bank Negara Malaysia (BNM) decided to increase its overnight policy rate by 25 bps to 3.00% from 2.75%. Also, BNM increased the statutory reserve requirement ratio by 100 bps from 2.00% to 3.00%. BNM decided to keep its overnight policy rate at 3.00% during its Monetary Policy Meeting on 11 November.

Malaysia's consumer price inflation slightly rose to 3.4% year-on-year (y-o-y) in September from 3.3% in August. During the first 9 months of the year, the consumer price index has increased 3.2%.

Malaysia's real gross domestic product (GDP) growth increased to 5.8% y-o-y in 3Q11, compared with revised 4.3% growth in 2Q11, due driven by stronger domestic demand. Domestic demand grew 9.0% y-o-y in 3Q11, supported by public consumption growth which surged to 21.7% y-o-y in 3Q11 from 6.6% in 2Q11. Meanwhile, private sector spending posted 7.3% y-o-y growth in 3Q11 following a 6.4% growth in 2Q11. Growth in gross fixed capital formation also improved to 6.1% y-o-y in 3Q11 versus 3.2% in the previous quarter.

On the supply side, all sectors except mining posted higher growth rate. Service sector recorded 7.0% y-o-y growth in 3Q11, slightly higher than the 6.8% growth posted in 2Q11. The increase was mainly due to favorable performance by the wholesale and retail trade subsector which grew 9.0% y-o-y in 3Q11, as well as the communication, and transportation and storage subsectors which increased 8.7% and 6.1%, respectively. Meanwhile, manufacturing sector rose 5.1% in 3Q11 from 2.1% in 2Q11. Agriculture and construction sectors also posted higher growth at 8.2% and 3.0%, respectively.

Size and Composition

The total amount of outstanding LCY bonds increased 16.5% y-o-y to MYR840 billion at end-September, as LCY government and corporate bonds each posted double-digit growth **(Table 1)**. Outstanding LCY government bonds rose 19.8% y-o-y to MYR505 billion, led by central bank bills, which expanded 58.0%. Excluding central bank bills, outstanding LCY government bonds increased 10.9% y-o-y. Meanwhile, outstanding LCY corporate bonds increased 11.8% y-o-y to MYR335 billion.

Table 1: Size and Composition of the LCY Bond Market in Malaysia

	Amount (billion)								Growth Rate (%)						
	Jun-11		Jul-11		Aug-11		Sep-11		Jun-11		Jul-11	Aug-11	Sep-11		
	MYR	US$	MYR	US$	MYR	US$	MYR	US$	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	812.2	269.0	817.8	275.5	836.2	281.4	840.0	263.4	16.7	3.7	0.7	2.2	16.5	3.4	0.4
Government	484.9	160.6	490.3	165.2	500.6	168.5	505.0	158.4	20.9	2.9	1.1	2.1	19.8	4.1	0.9
Central Government Bonds	376.1	124.5	383.6	129.2	388.6	130.7	376.8	118.2	13.5	1.3	2.0	1.3	10.9	0.2	(3.0)
Central Bank Bills	108.4	35.9	106.3	35.8	111.6	37.6	127.7	40.0	57.0	8.8	(1.9)	5.0	58.0	17.8	14.4
Others	0.5	0.2	0.5	0.2	0.5	0.2	0.5	0.1	(52.1)	–	–	–	(52.1)	–	–
Corporate	327.3	108.4	327.5	110.3	335.6	112.9	335.0	105.0	11.1	4.9	0.1	2.5	11.8	2.3	(0.2)

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

Notes:

1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" refers to Khazanah Bonds issued by Khazanah Nasional Berhad and Cagamas Bonds and Notes, Bithaman Ajil Islamic Securities, Sanadat ABBA Cagamas, and Sanadat Mudharabah Cagamas issued by Cagamas Berhad.

Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST), and Bloomberg LP.

On a quarter-on-quarter (q-o-q) basis, total LCY bonds outstanding increased 3.4% in 1Q11, with government and corporate bonds growing 4.1% and 2.3% q-o-q, respectively.

Issuance of government bonds—Malaysian Government Securities (MGSs) and Government Investment Issues (GIIs)—increased 50.4% y-o-y to MYR25.9 billion in 3Q11 from MYR17.2 billion in 3Q10. Government bond issuance is expected to total MYR90.2 billion in 2011—55.2% higher than the MYR58.1 billion in government bonds issued in 2010—of which MYR75.0 billion had already been issued by end-September.

Meanwhile, issuance of LCY corporate bonds increased 14.7% y-o-y to MYR24.8 billion in 3Q11. Among the largest corporate issues during 3Q11 were the subordinated debt issues of Public Bank (MYR3.0 billion), Maybank (MYR2.0 billion), and CIMB Bank (MYR1.5 billion). Also, YTL Power International issued MYR2.2 billion worth of 7-year notes. Prasarana issued MYR2.0 billion of *sukuk* (Islamic bonds) in August, while MISC issued a total of MYR1.3 billion of *sukuk* in July and September. Another notable *sukuk* issuance in 3Q10 was MYR750 million worth of 5-year notes by the Kuwait-based Gulf Investment Corporation.

At end-June, the top 30 corporate issuers in Malaysia accounted for 51.0% of total LCY corporate bonds outstanding **(Table 2)**. Cagamas Bhd, Khazanah Nasional, and Binariang GSM remained the biggest issuers of LCY corporate bonds at the end of 2Q11, with outstanding amounts of MYR20.0 billion, MYR13.2 billion, and MYR11.3 billion, respectively.

Investor Profile

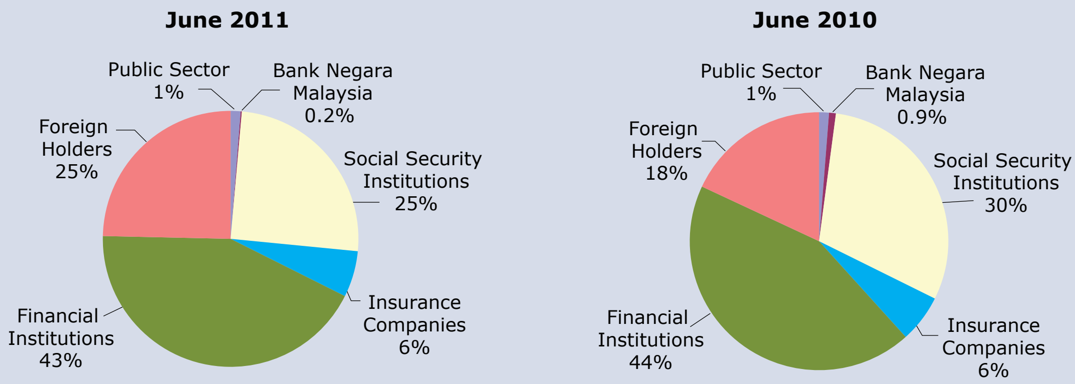
As of end-September, financial institutions were the largest holders of MGSs and GIIs, with 51.0% of total outstanding government bonds, followed by social security institutions at 26.5%. Insurance companies comprised 5.6% of the total **(Figure 2)**. Meanwhile, the share of government bonds outstanding held by foreign investors rose to

Table 2: Top 30 LCY Corporate Issuers in Malaysia (as of September 2011)

Issuers	Outstanding Amount (MYR billion)					State-Owned	Privately-Owned	Listed Company	Type of Industry
	BONDS	IBONDS	MTN	IMTN	TOTAL				
1. Cagamas			9.39	10.56	19.95	Yes	No	No	Finance
2. Khazanah		13.20			13.20	Yes	No	No	Quasi-Govt. and Other
3. Binariang GSM		3.02		8.28	11.30	No	Yes	No	Transport, Storage, and Comm.
4. Maybank	8.10	1.50			9.60	No	Yes	Yes	Finance
5. Malakoff Corp		1.70		5.60	7.30	No	Yes	No	Finance
6. Prasarana	5.10	2.00			7.10	Yes	No	No	Finance
7. CIMB Bank	7.00				7.00	No	Yes	No	Finance
8. Public Bank	1.20		4.87		6.07	No	Yes	Yes	Finance
9. KL International Airport	1.60	4.26			5.86	Yes	No	No	Transport, Storage, and Comm.
10. Project Lebuhraya		5.82			5.82	No	Yes	Yes	Transport, Storage, and Comm.
11. Rantau Abang Capital Bhd				5.80	5.80	No	Yes	No	Quasi-Govt. and Other
12. Senai Desaru Expressway Bhd				5.58	5.58	No	Yes	No	Construction
13. Valuecap	5.10				5.10	Yes	No	No	Finance
14. 1Malaysia Development Bhd				5.00	5.00	Yes	No	No	Finance
15. AM Bank	0.49		4.48		4.96	No	Yes	Yes	Finance
16. Jimah Energy Ventures				4.54	4.54	No	Yes	No	Utilities
17. Bank Pembangunan Malaysia	1.00		2.40	0.90	4.30	Yes	No	No	Finance
18. Celcom Transmission				4.20	4.20	No	Yes	No	Transport, Storage, and Comm.
19. Tanjung Bin				4.07	4.07	No	Yes	No	Utilities
20. YTL Power International			3.63		3.63	No	Yes	Yes	Utilities
21. RHB Bank	0.60		3.00		3.60	No	Yes	No	Finance
22. Danga Capital				3.60	3.60	Yes	No	No	Finance
23. Cekap Mentari	3.50				3.50	No	Yes	Yes	Finance
24. Sarawak Energy				3.00	3.00	Yes	No	Yes	Energy, Gas, and Water
25. GOVCO Holdings				3.00	3.00	Yes	No	No	Quasi-Govt. and Other
26. CIMB Group	2.13		0.50	0.35	2.98	No	Yes	Yes	Finance
27. The Export-Import Bank of Korea			2.98		2.98	Yes	No	No	Finance
28. Hijrah Pertama		2.92			2.92	No	Yes	No	Finance
29. Malaysia Airports Capital				2.50	2.50	No	Yes	No	Finance
30. Gulf Investment Corporation	1.00			1.35	2.35	No	No	No	Finance
Total Top 30 LCY Corporate Issuers					**170.81**				
Total LCY Corporate Bonds					**334.97**				
Top 30 as % of Total LCY Corporate Bonds					**51.0%**				

IBONDS = Islamic bonds, IMTN = Islamic medium-term notes, LCY = local currency, MTN = medium-term notes.
Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST).

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank Negara Malaysia.

24.6% at end-June from 21.5% at end-December 2010 and 18.1% at end-June 2010.

Policy, Institutional, and Regulatory Developments

Securities Commission Issues Revised Guidelines for Corporate Bonds and *Sukuk*

In July the Securities Commission of Malaysia (SC) issued revised guidelines for private debt securities and *sukuk* in line with the broader objectives of the Capital Market Masterplan 2. The revised guidelines replace the earlier Guidelines on Offering Private Debt Securities and Guidelines on the Offering of Islamic Securities, both of which were issued in July 2004. The new measures streamline the approval process and time-to-market for the issuance of corporate bonds and *sukuk*. The revised guidelines also remove the mandatory rating requirement for selected issues and offers, and provide greater disclosure of relevant information for debenture holders. The revised Islamic Security Guidelines provide more clarity to ensure compliance with *sharia'h* (Islamic law) rulings and principles endorsed by the *Sharia'h* Advisory Council of the SC.

Acts Amended Pursuant to Capital Market Masterplan 2

Amendments to the Securities Act 1993 and Capital Markets and Services Act 2007 (CMSA), pursuant to strategies outlined in the Capital Market Masterplan 2, came into force on 3 October. The amendments include

(i) a legal framework for the private retirement scheme industry,
(ii) licensing provisions in the CMSA,
(iii) regulations pertaining to over-the-counter (OTC) derivatives and a framework for reporting OTC derivative contracts,
(iv) a framework to enable the Audit Oversight Board to grant recognition to foreign auditors, and
(v) authority for the SC to obtain information considered necessary for the purpose of monitoring, mitigating and managing systematic risks; and to issue directives for managing systemic risk.

Philippines—Update

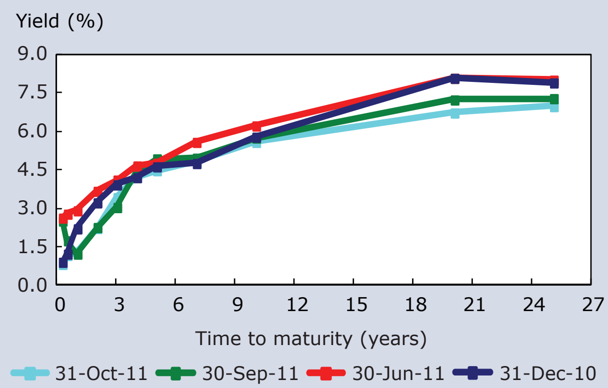
Yield Movements

The Philippine government bond yield curve flattened from the belly through the end of the curve between the beginning of the year and end-October **(Figure 1)**. Yields for all tenors declined year-to-date, with the exception of the 4- and 7-year tenors, due to a lack of liquid benchmarks. Yields for tenors between 3 months and 5 years dropped between 5 basis points (bps) and 97 bps, while yields for 10-year through 25-year tenors decreased 19 bps–131 bps.

Between end-June and end-October, the yield curve shifted downward as domestic liquidity fanned buying momentum and concerns over inflation abated. Yields for tenors between 3 months and 2 years declined between 139 bps—173 bps as foreign investment flowed back into Philippine government securities on easing inflation expectations. The rest of the curve fell between 28 bps and 130 bps, with the recently issued 20-year jumbo bond posting the biggest drop. Spreads between 2- and 10-year yields widened to 323 bps in October from 245 bps in June after the yield on the 2-year tenor fell almost 140 bps.

Consumer price inflation quickened slightly to 5.2% year-on-year (y-o-y) in October from 4.8% in September, using the 2006-based consumer price index (CPI) series. The 2000-based CPI series produced a 5.3% y-o-y increase in October and a 4.6% rise in September. Year-to-date inflation averages through October using the 2006- and 2000-based series were 4.8% and 4.5%, respectively, which are both still within the government's target range of 3.0%–5.0% for 2011. October inflation was greatly affected by higher utility and food indices, including upward adjustments in electricity and water rates, and tight supply conditions due to typhoon-related production disruptions. Bangko Sentral ng Pilipinas (BSP) noted that the uptick in inflation would be temporary and forecast that future inflation would be well-anchored in its target range.

Figure 1: Philippines' Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Gross domestic product (GDP) growth in the Philippines fell to 3.4% y-o-y in 2Q11 from 4.9% in 1Q11, based on 2000 price levels. Reduced government spending, sluggish export growth resulting from the global economic slowdown, and consumption weakened by escalating consumer prices all contributed to lower GDP growth in 2Q11. The government revised its 2011 GDP forecast to a range of 4.5%–5.5% from the original 7.0%–8.0%, and its 2012 GDP forecast to 5.0%–6.0% from 5.5%–6.5%. Growth targets for exports and imports were also lowered to 5% and 13%, respectively in 2011 from original estimates of 9%–10% for exports and 17%–18% for imports.

The Philippines' faltering growth rate has been the prime concern of the government, especially with inflation expectations well within the target range. As a result, BSP held its policy rates and reserve requirement ratios steady in its last two policy meetings in September and October. BSP's overnight reverse repurchase rate (borrowing facility) was left at 4.5% and its overnight repurchase rate (lending facility) was left at 6.5%. The reserve requirement ratio for banks was left at 21%.

Table 1: Size and Composition of the LCY Bond Market in the Philippines

	Amount (billion)								**Growth Rate** (%)						
	Jun-11		**Jul-11**		**Aug-11**		**Sep-11**		**Jun-11**		**Jul-11**	**Aug-11**	**Sep-11**		
	PHP	**US$**	**PHP**	**US$**	**PHP**	**US$**	**PHP**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	3,264	75	3,237	77	3,256	77	3,260	74.5	6.2	3.3	(0.8)	0.6	2.7	-0.1	0.1
Government	2,847	66	2,822	67	2,848	67	2,851	65	5.6	3.2	(0.9)	0.9	1.9	0.2	0.1
Treasury Bills	381	9	345	8	341	8	333	7.613	(32.8)	(4.6)	(9.4)	(1.2)	(42.4)	(12.6)	(2.3)
Treasury Bonds	2,346	54	2,360	56	2,389	57	2,401	55	17.5	4.9	0.6	1.3	14.9	2.3	0.5
Others	119	3	117	3	117	3	117	3	(9.7)	(2.7)	(1.7)	0.0	(11.2)	(1.7)	0.0
Corporate	417	10	415	10	409	10	409	9.35	10.9	3.6	(0.5)	(1.5)	9.3	(1.9)	0.2

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" includes government-guaranteed bonds such as National Power Corporation and Power Sector Assets and Liabilities Management.
Source: Philippine Bureau of the Treasury and Bloomberg LP.

Size and Composition

The expansion of the local currency (LCY) bond market remained modest in 3Q11. Issuance of treasury and corporate bonds buoyed overall growth, compensating for the contraction in treasury bill and other government debt issuance.

Total LCY bonds outstanding grew to PHP3.3 trillion (US$74.5 billion) at end-September, up 2.7% y-o-y **(Table 1)**. This was lower than the 6.2% y-o-y growth rate at end-June as reduced expenditure by the national government reduced funding requirements. LCY bonds outstanding were relatively flat in 3Q11 as growth in treasury bonds was offset by declines in all other government and corporate securities. Government bonds (including treasury bills and government-controlled companies) rose 1.9% y-o-y to PHP2.9 trillion at end-September, while corporate bonds grew 9.3% y-o-y to PHP409 billion. However, the share of treasury bills in the government's total debt stock shrank to PHP333 billion for a decline of 12.6% quarter-on-quarter (q-o-q), while that of longer-term treasury bonds surged 14.9% y-o-y to PHP2.4 trillion.

In 3Q11 significant new government bond issuances included the 10.5- and 20-year treasury bonds from the July bond exchange. Significant corporate issues in 3Q11 included the notes of Filinvest Land Inc. (FLI) and SM Investments Corp (SMIC). FLI's 5-year corporate notes carried a coupon of 6.1962% and totaled PHP3 billion. SMIC's PHP5 billion issue consisted of 7-year bonds totaling PHP916 million with a 5.75% coupon and 10-year bonds totaling PHP4.1 billion with a 6.625% coupon.

Corporate Bond Market Development

At end-September, total outstanding LCY corporate bonds stood at PHP409 billion. Less than 50 firms had corporate bonds outstanding, with the top 30 issuers accounting for almost 94% of the total.

Except for Manila North Tollways and Tanduay Distilleries, all 30 of the top corporate borrowers are listed on the Philippine Stock Exchange. San Miguel Brewery was the largest issuer with PHP38.8 billion of bonds outstanding. Banco de Oro Unibank was the second-largest with PHP36.5 billion and Ayala Corporation was next with PHP26.0 billion **(Table 2).**

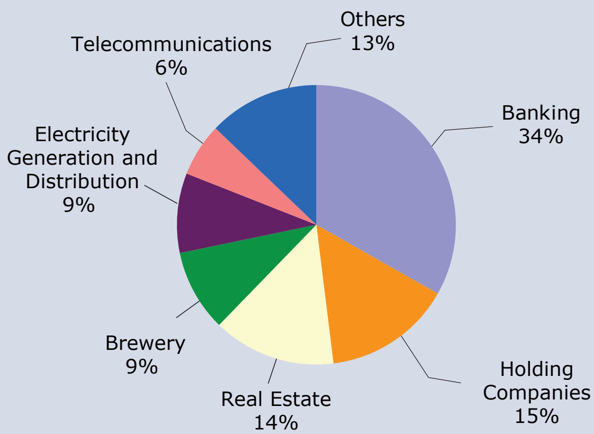
Table 2: Top 30 Issuers of LCY Corporate Bonds in the Philippines (as of September 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (PHP billion)	LCY Bonds (US$ billion)				
1. San Miguel Brewery, Inc.	38.80	0.89	No	Yes	Yes	Brewery
2. Banco De Oro Unibank, Inc.	36.50	0.83	No	Yes	Yes	Banking
3. Ayala Corporation	26.00	0.59	No	Yes	Yes	Diversified Operations
4. SM Investments Corporation	21.40	0.49	No	Yes	Yes	Diversified Operations
5. Philippine National Bank	21.25	0.49	No	Yes	Yes	Banking
6. Manila Electric Company	18.82	0.43	No	Yes	Yes	Electricity Distribution
7. Metropolitan Bank & Trust Company	18.50	0.42	No	Yes	Yes	Banking
8. Rizal Commercial Banking Corporation	16.00	0.37	No	Yes	Yes	Banking
9. Ayala Land, Inc.	15.51	0.35	No	Yes	Yes	Real Estate
10. Robinsons Land Corporation	15.00	0.34	No	Yes	Yes	Real Estate
11. JG Summit Holdings, Inc.	13.31	0.30	No	Yes	Yes	Diversified Operations
12. Globe Telecom, Inc.	12.72	0.29	No	Yes	Yes	Telecommunications
13. Philippine Long Distance Telephone Co	12.50	0.29	No	Yes	Yes	Telecommunications
14. Energy Development Corporation	12.00	0.27	No	Yes	Yes	Electricity Generation
15. Bank of the Philippine Islands	10.00	0.23	No	Yes	Yes	Banking
16. Petron Corporation	10.00	0.23	No	Yes	Yes	Oil Refining and Marketing
17. SM Development Corporation	10.00	0.23	No	Yes	Yes	Real Estate
18. First Philippine Holdings Corporation	8.49	0.19	No	Yes	Yes	Electricity Generation and Distribution
19. Allied Banking Corporation	8.00	0.18	No	Yes	Yes	Banking
20. Filinvest Land, Inc.	8.00	0.18	No	Yes	Yes	Real Estate
21. Aboitiz Power Corporation	6.88	0.16	No	Yes	Yes	Electricity Generation
22. Megaworld Corporation	6.38	0.15	No	Yes	Yes	Real Estate
23. Metrobank Card Corporation	6.30	0.14	No	Yes	Yes	Diversified Financial Services
24. Manila North Tollways Corporation	5.28	0.12	No	Yes	No	Public Thoroughfares
25. China Banking Corporation	5.00	0.11	No	Yes	Yes	Banking
26. Tanduay Distilleries, Inc.	5.00	0.11	No	Yes	No	Beverages
27. United Coconut Planters Bank	4.52	0.10	No	Yes	Yes	Banking
28. Manila Water Company, Inc.	4.00	0.09	No	Yes	Yes	Water Distribution
29. SM Prime Holdings, Inc.	3.99	0.09	No	Yes	Yes	Real Estate Management Services
30. Union Bank of the Philippines	3.75	0.09	No	Yes	Yes	Banking
Total Top 30 LCY Corporate Issuers	**383.91**	**8.77**				
Total LCY Corporate Bonds Outstanding	**409.19**	**9.35**				
Top 30 as % of Total LCY Corporate Bonds Outstanding	**93.8%**	**93.8%**				

LCY = local currency.
Source: Bloomberg LP.

Among LCY corporate bonds outstanding, banks were the dominant issuers of subordinated debt (34%) as they continued to improve their capitalization and ensure compliance with Basel III requirements **(Figure 2)**. Holding companies ranked second (15%) and real estate developers and operators were third (14%). Electric generation and distribution companies and a brewery shared the fourth spot with 9% of the total each. Telecommunications firms comprised 6% of the total and other companies from various industries accounted for the remaining 13%.

Figure 2: LCY Corporate Bond Issuers by Industry
(as of September 2011)



LCY = local currency.
Source: Bloomberg LP.

Benchmark Government Securities Bid–Ask Spreads

In 2011 the most traded government securities with the most frequent bid–ask (two-way) quotes were monitored to identify liquidity trends in the LCY government bond market **(Tables 3 and 4)**. Government securities with the highest level of activity were products of the government's series of bond swaps. The data used to capture the bid–ask spreads for these securities were obtained from the Bloomberg pages of the money brokers operating in the Philippines.

Bid–ask spreads for benchmark government securities tightened from 7 January through 28 October **(Figure 3)**, narrowing from almost 13 bps during the first half of the year to less

Table 3: Benchmark Government Securities Monitored from January to October 2011

Series	ISIN	Outstanding Amount (as of August 2011)		Coupon (%)	Maturity Date	Years to Maturity
		PHP billion	US$ billion			
FXTN 5-67	PIBD0514A673	107.93	2.55	6.250	27-Jan-14	2.42
FXTN 7-48	PIBD0716A488	136.77	3.24	7.000	27-Jan-16	4.42
FXTN 10-42	PIBD1016I420	66.87	1.58	9.125	4-Sep-16	5.03
FXTN 25-8	PIBD2535L086	166.01	3.93	8.125	16-Dec-35	24.38

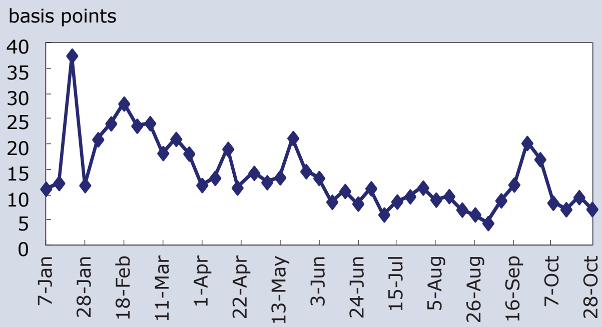
ISIN = International Securities Identification Number.
Source: Philippine Bureau of the Treasury.

Table 4: Additional Benchmark Government Securities Monitored from July to October 2011

Series	ISIN	Outstanding Amount (as of August 2011)		Coupon (%)	Maturity Date	Years to Maturity
		PHP billion	US$ billion			
RTB 10-2	PIID1021C027	63.68	1.51	7.375	3-Mar-21	9.54
FXTN 10-53	PIBD1021D531	32.46	0.77	6.500	28-Apr-21	9.69
FXTN 10-54	PIBD1022G545	67.62	1.60	6.375	19-Jan-22	10.42
FXTN 20-17	PIBD2031G171	255.84	6.06	8.000	19-Jul-31	19.95

ISIN = International Securities Identification Number.
Source: Philippine Bureau of the Treasury.

Figure 3: Benchmark Government Securities Bid-Ask Spreads, 7 January–28 October 2011



Note: 1 basis point = 0.01 percentage point.
Source: *AsianBondsOnline*.

than 10 bps in 3Q11 on improving liquidity. However, there were some notable spikes within this overall trend. Spreads widened to 37 bps during the week of 17–21 January following the partial issuance of 20-year bonds by the Bureau of the Treasury (BTR) despite lack of demand. This fueled more selling pressures causing loss-limit stops to be triggered. Inflation concerns also heightened that same week as transportation costs and oil prices rose. During the week of 16–20 May, average spreads rose 21 bps as Philippine inflation forecasts were raised and the Greek debt problem worsened. More recently, average spreads widened 20 bps during the week of 19–23 September after European finance ministers ruled out further economic stimulus measures and Italy's debt rating was downgraded by Standard & Poor's (S&P).

In 3Q11 the series with the tightest bid–ask spreads were FXTN 20-17 and FXTN 25-08 with averages of 2 bps and 7 bps, respectively. The 3Q11 averages of the following series were also in the single digits: FXTN 10-42 (8 bps), RTB 10-2 (8 bps), FXTN 10-53 (9 bps), and FXTN 10-54 (9 bps). Bid–ask spreads for FXTN 5-67 widened in 3Q11 and became less frequent. The average bid–ask spread for FXTN 5-67 widened from 10 bps in 1H11 to 24 bps in 3Q11. Meanwhile, two-way quotes for FXTN 7-48 also became less frequent.

Foreign Currency Bonds

Philippines Buys Back FCY Debt

In October the government bought back a total of US$1.3 billion of outstanding EUR- and US$-denominated bonds. The government aims to convert its foreign currency (FCY) obligations to LCY bonds as part of its debt liability management efforts. The equivalent of US$17.5 billion of outstanding FCY-denominated bonds is eligible for repurchase. In line with the buyback exercise, the government raised US$50 million through a reopening of its bond maturing on 23 October 2034 with a coupon of 6.375% per annum. The bond was sold at a price of 117.5 to yield 5.077%. The proceeds from the sale will be used to partially fund the repurchase of eligible bonds under the buyback program.

Policy, Institutional, and Regulatory Developments

PSE Readies for Interconnectivity with ASEAN Exchanges

The Philippine Stock Exchange (PSE) extended its trading hours starting in October in preparation for increased connectivity with Bursa Malaysia, the Singapore Exchange, and the Stock Exchange of Thailand under the Association of Southeast Asian Nations (ASEAN) Exchange Collaboration project. The project is the first step in a plan to develop a single market data and order routing network for Southeast Asian capital markets. PSE lengthened its trading hours of 9:30 a.m. to 12 noon by 1 hour to close at 1 p.m. In January 2012 the bourse will further extend its hours to include an afternoon trading session. The ASEAN Exchange Collaboration project named SunGard Financial Systems as the technology provider for the cross-border trading platform in June. The trading link is programmed to start in March 2012, with Indonesia and Viet Nam expected to join in the latter part of 2012.

BTr Sells Retail Treasury Bonds

The Bureau of the Treasury (BTr) issued PHP110 billion of 10- and 15-year Retail Treasury Bonds (RTBs) in October. Of the total amount, PHP54.97 billion of 10-year RTBs was issued and PHP55.12 billion of 15-year RTB was sold. BTr's bond sinking fund purchased PHP53 billion of the total to secure the government's maturing obligations. The 10-year and 15-year RTBs carry coupons of 5.75% and 6.25%, respectively. RTBs have the same features as treasury bonds with the exception of coupons that are paid quarterly and individual investments as low as PHP5,000.

In March BTr issued a total of PHP104 billion of 5- and 10-year RTBs, with coupons of 6.0% and 7.375%, respectively.

BIR Issues Tax Rules on PERA Act

The Personal Equity and Retirement Account (PERA) Act will be implemented after the Bureau of Internal Revenue (BIR) has issued the relevant tax regulations covering investments in and transactions involving PERA accounts. The PERA investment scheme aims to encourage people to save for retirement by granting tax exemptions. PERA products have been described as an alternative to the Social Security System and the Government Service Insurance System. PERA contributions will be exempted from (i) final withholding tax on interest, (ii) capital gains tax on the sale of bonds and shares, (iii) 10% tax on cash and property dividends, and (iv) regular income tax. The tax rules will become effective on 1 January 2012.

BSP Tightens Rules on Hedging Instruments

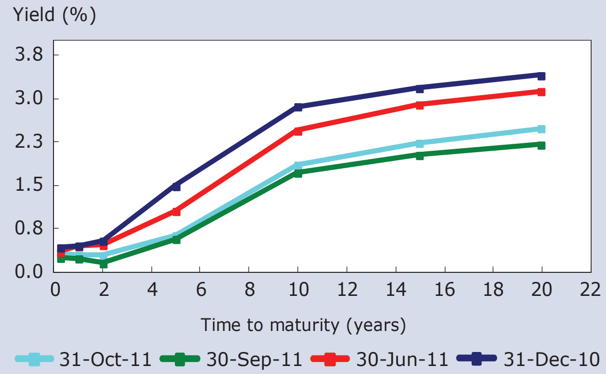
BSP imposed stricter rules on hedging instruments, particularly non-deliverable forward (NDF) contracts, to reduce speculation in the foreign exchange market. An NDF is a contract between two parties to buy or sell an asset such as foreign exchange at an agreed price and settlement date in the future. Counterparties settle the difference between the contracted NDF price and the spot price upon maturity. BSP raised the market risk weighting of NDF contracts to reflect the potential systemic risk they generate as a result of increased volatility in the foreign exchange market. The market risk capital charge to be used in the capital adequacy ratio (CAR) computation for banks for the net open position of NDF contracts will be raised from 10% to 15% effective 1 January 2012.

Singapore—Update

Yield Movements

Between end-June and end-September the yield curve for local currency (LCY) government bonds in Singapore shifted downward across all maturities. Furthermore, the curve flattened as yields dropped more at the belly and the long-end of the curve than at the short-end. During the month of October, yields rose slightly higher across all maturities, but are still below end-June levels **(Figure 1)**. Between end-June and end-October, yields for the 3- and 12-month tenors dropped 3 basis points (bps) and 14 bps, respectively, while yields from the belly to the long-end of the curve fell between 17 bps and 63 bps. The yield spread between 2- and 10-year maturities at end-October was about the same as the spread of 149 bps at end-September, but narrower than the spread of 188 bps at end-June.

Figure 1: Singapore's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

On 14 October the Monetary Authority of Singapore (MAS) announced that it would continue with a policy of modest and gradual appreciation of the Singapore dollar while reducing the slope of the policy band to the prevailing level of the Singapore dollar nominal effective exchange rate (S$NEER). There will be no changes to the width of the policy band and the level at which it is centered.

Headline consumer price inflation in Singapore slightly eased to 5.5% year-on-year (y-o-y) in September after rising 5.7% in August and 5.4% in July. Transport costs eased to 11.4% y-o-y in September from 12.5% in January; housing costs decelerated to 9.6% y-o-y in September from 9.9% y-o-y in August; while food price inflation was slightly higher at 3.1% y-o-y in September from 3.0% y-o-y in August. Core inflation, which excludes private road transportation and accommodation costs, stood at 2.1% in September. Core inflation is expected to ease in 2012 and headline inflation is expected to stay elevated in the near term.

According to the Ministry of Trade and Industry (MTI), Singapore's economy expanded 6.1% y-o-y in 3Q11, an improvement from 1.0% growth in 2Q11. The increase in the rate of economic growth in 3Q11 was due to a turnaround in the manufacturing sector, particularly the biomedical manufacturing subsector. The manufacturing sector expanded 14.2% y-o-y in 3Q11 after posting a 5.6% decline in the previous quarter. The construction sector posted marginal growth of 0.3% in 3Q11, while the services sector expanded 3.7% following 4.0% growth in 2Q11. MTI expects Singapore's gross domestic product (GDP) growth to average 5.0% for the whole of 2011.

Size and Composition

The total amount of outstanding LCY bonds increased 11.2% y-o-y to SGD242.9 billion (US$185.4 billion) at end-September **(Table 1)**. Outstanding Singapore Government Securities (SGS) bills and bonds rose 5.8% y-o-y to SGD135.5 billion. However, on a quarter-on-quarter (q-o-q) basis, outstanding LCY bonds fell 0.8% in 3Q11, with government bonds declining 3.7% as SGD6.8 billion worth of SGS bonds matured in July against only SGD3.8 billion of new issuance in July–September. Issuance of SGS bonds dropped 15.6% y-o-y and 26.9% q-o-q in 3Q11.

On the other hand, SGS bills outstanding have remained flat at SGD57.9 billion since January, with

Table 1. Size and Composition of the LCY Bond Market in Singapore

	Amount (billion)								Growth Rate (%)						
	Jun-11		Jul-11		Aug-11		Sep-11		Jun-11		Jul-11	Aug-11	Sep-11		
	SGD	US$	SGD	US$	SGD	US$	SGD	US$	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	244.8	199.3	239.2	198.7	240.1	199.3	242.9	185.8	15.3	4.1	(2.3)	0.4	11.2	(0.8)	1.2
Government	138.5	112.7	133.9	111.2	133.9	111.2	135.5	103.6	8.1	3.9	(3.3)	–	5.8	(2.2)	1.2
Bills	57.9	47.1	57.9	48.1	57.9	48.1	57.9	44.3	9.0	–	–	–	6.2	–	–
Bonds	80.6	65.6	76.0	63.1	76.0	63.1	77.6	59.4	7.5	6.9	(5.7)	–	5.4	(3.7)	2.1
Corporate	106.3	86.5	105.3	87.5	106.2	88.2	107.4	82.2	26.3	4.3	(0.9)	0.8	18.8	1.0	1.2

– = data not available, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondOnline* estimates.
2. Bloomberg LP end-of-period LCY–US$ rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

y-o-y growth slowing to 6.2% at end-September from 9.0% at end-June.

Meanwhile, outstanding LCY corporate bonds increased 18.8% y-o-y to SGD107.4 billion at end-September, down from the 26.3% y-o-y growth posted at end-June. On a q-o-q basis, outstanding LCY corporate bonds inched up 1.0% at end-September.

Notable issues in 3Q11 included the Housing and Development Board's SGD600 million 10-year bond in July, SGD400 million 3-year bond in August, and SGD625 million 5-year bond and SGD650 million 10-year bond in September. Also, Joynote issued SGD320 million worth of 7-year bonds and United Overseas Land sold SGD300 million worth of 3-year bonds.

The top 30 corporate issuers in Singapore are mainly from the financial and consumer sectors, and accounted for 46.9% of total corporate bonds outstanding at end-September **(Table 2)**. The Housing and Development Board remained the biggest issuer with SGD8.8 billion of outstanding bonds at the end of 3Q11, followed by CapitaLand and Temasek Financial I with outstanding amounts of SGD4.9 billion and SGD3.6 billion, respectively.

Rating Changes

In August, Standard & Poor's (S&P) affirmed Singapore's AAA long-term and A-1+ short-term sovereign credit ratings, with a stable outlook for both **(Table 3)**.

Policy, Institutional, and Regulatory Developments

MAS Announces New Capital Requirements for Singaporean Banks

MAS released new capital rules for banks in Singapore that exceed the levels established under the Basel III agreement. Effective 1 January 2015, MAS will require Singapore-incorporated banks to have a minimum common equity Tier 1 capital adequacy ratio (CAR) of 6.5%, a Tier 1 CAR of 8.0%, and a total CAR of 10.0%. In addition, MAS will require Singapore-

Table 2: Top 30 LCY Corporate Issuers in Singapore (as of September 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (US$ billion)				
1. Housing and Development Board	8.8	6.7	Yes	No	No	Financial
2. Capitaland	4.9	3.7	No	Yes	Yes	Financial
3. Temasek Financial I	3.6	2.8	No	Yes	No	Financial
4. United Overseas Bank	3.3	2.5	No	Yes	Yes	Financial
5. DBS Bank Singapore	3.0	2.3	No	Yes	Yes	Financial
6. SP Power Assets	2.5	1.9	No	Yes	No	Utilities
7. Land Transport Authority	2.4	1.8	Yes	No	No	Industrial
8. Public Utilities Board	2.1	1.6	Yes	No	No	Utilities
9. Oversea-Chinese Banking	2.0	1.6	No	Yes	Yes	Financial
10. Singapore Airlines	1.7	1.3	No	Yes	Yes	Consumer
11. F&N Treasury	1.3	1.0	No	Yes	No	Financial
12. Keppel Land	1.2	0.9	No	Yes	Yes	Financial
13. City Developments	1.1	0.8	No	Yes	Yes	Consumer
14. Capitamall Trust	1.0	0.8	No	Yes	Yes	Financial
15. PSA Corporation	1.0	0.8	No	Yes	No	Consumer
16. Hyflux	0.9	0.7	No	Yes	Yes	Industrial
17. Joynote Limited	0.9	0.7	No	Yes	No	Financial
18. Singtel Group Treasury	0.9	0.7	No	Yes	No	Communications
19. Overseas Union Enterprise	0.8	0.6	No	Yes	Yes	Consumer
20. GLL IHT PTE	0.8	0.6	No	Yes	No	Financial
21. Olam International	0.8	0.6	No	Yes	Yes	Consumer
22. Mapletree Treasury Services	0.7	0.6	No	Yes	No	Financial
23. Capitaland Treasury	0.7	0.6	No	Yes	No	Financial
24. Sembcorp Financial Services	0.7	0.5	No	Yes	No	Industrial
25. Singapore Press Holdings	0.6	0.5	No	Yes	Yes	Communications
26. Neptune Orient Lines	0.6	0.4	No	Yes	Yes	Industrial
27. Capitamalls Asia Treasury	0.6	0.4	No	Yes	No	Financial
28. United Overseas Land	0.6	0.4	No	Yes	Yes	Financial
29. Singapore Post	0.5	0.4	No	Yes	Yes	Industrial
30. Keppel Corporation	0.5	0.4	No	Yes	Yes	Diversified
Total Top 30 LCY Corporate Issuers	**50.4**	**38.5**				
Total LCY Corporate Bonds Outstanding	**107.4**	**82.2**				
Top 30 as % of Total LCY Corporate Bonds Outstanding	**46.9%**	**46.9%**				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for Singapore

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Aaa	AAA	AAA
Outlook	Stable	Stable	Stable

FCY = foreign currency, LT = long-term.
Source: Ratings agencies.

incorporated banks to meet the minimum capital adequacy requirements of Basel III by 1 January 2013, which is 2 years ahead of the Basel Committee's 2015 timeline. MAS plans to adopt Basel III's capital standards to improve the consistency, transparency, and quality of the capital base, and to strengthen the risk coverage of capital rules for banks.

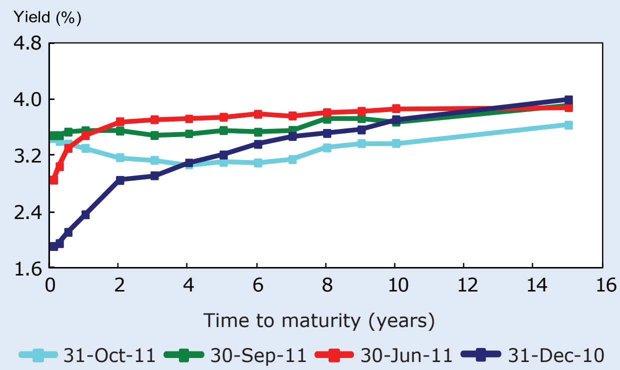
Thailand—Update

Yield Movements

Thailand's government bond yields fell for most tenors between end-June and end-September, and dropped for all tenors in October **(Figure 1)**. Yields for all tenors ranging from 2- to 10-years decreased in 3Q11, with the largest drop of 25 basis points (bps) for the 6-year tenor. In October the decline in yields was relatively large from the belly to the longer-end of the curve, with the 5-year tenor registering the largest decline at 45 bps.

Meanwhile, the yield spread between 2- and 10-year tenors narrowed by 6 bps between end-June and end-September, but widened by 8 bps in October.

Figure 1: Thailand's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 19 October to hold the policy interest rate—the 1-day repurchase rate—steady at 3.5%. The decision was made on the back of expected inflationary pressures amid massive flooding in Thailand, which has dampened agricultural and manufacturing production, as well as uncertainty in the global economy that is expected to weaken export growth. In 3Q11 the BOT raised the policy interest rate by a total of 50 bps, including one 25 bps hike on 24 August and another on 13 July.

Consumer price inflation in Thailand stood at 4.2% year-on-year (y-o-y) in October, the highest level since June. Higher inflation in October was largely triggered by flood damage to farmlands and crops that resulted in a 9.9% y-o-y spike in food prices. Compared with the previous month, consumer prices climbed 0.2% in October.

The real gross domestic product (GDP) growth rate of Thailand rose to 3.5% y-o-y in 3Q11 from 2.7% in the previous quarter, as growth in exports and in private investment strengthened. The y-o-y growth rate for exports of goods increased to 27.3% in 3Q11 from 19.4% in 2Q11. Growth in private investment also climbed to 9.1% y-o-y in 3Q11 from 8.6% in 2Q11. On the supply side, the manufacturing sector expanded 3.1% y-o-y in 3Q11 following a 0.1% contraction in the previous quarter.

Size and Composition

The local currency (LCY) bond market in Thailand had a total outstanding size of THB7.1 trillion (US$229 billion) at end-September, up 8.7% y-o-y and 4.8% from end-June **(Table 1)**. The y-o-y growth rate at end-September was also higher than the 6.2% y-o-y growth rate registered at end-June.

Total government bonds outstanding at end-September climbed 8.9% y-o-y and 6.5% from end-June to reach THB5.8 trillion. Government bonds and treasury bills, which accounted for 48.2% of total government bonds, expanded 8.2% y-o-y and 9.9% quarter-on-quarter (q-o-q) to reach THB2.8 trillion. BOT bonds outstanding, which comprised 43.5% of total government bonds, grew 12.7% y-o-y and 4.5% from end-June to level off at THB2.5 trillion. The outstanding bonds of state-owned enterprise and other entities at end-September recorded declines of 4.8% y-o-y and 0.8% q-o-q.

LCY corporate bonds outstanding reached THB1.3 trillion at end-September, growing 8.1% y-o-y but falling 2.0% from end-June. New issuance of corporate bonds in 3Q11 is estimated to have fallen 22.8% y-o-y and 42.7% q-o-q. The two largest corporate bond issuances in 3Q11 were Glow Energy's 10-year bond worth THB5.6 billion with a coupon of 5.0% and Charoen Pokphand Food's 30-year bond worth THB4.0 billion at a 5.42% coupon.

The top 30 issuers of LCY corporate bonds in Thailand accounted for 70% of total LCY corporate bonds outstanding at end-September **(Table 2)**. PTT was the largest corporate issuer with total bonds outstanding of THB183.5 billion, followed by Siam Cement with THB110.0 billion. About one-third of the 30 largest issuers consisted of financial institutions, while 80% were publicly listed companies.

Investor Profile

At end-September, contractual savings funds, commercial banks, and insurance companies were the three largest investor groups in LCY government bonds in Thailand, with each group accounting for 20% of the total **(Figure 2)**. Resident investors were the next largest holder with a share of 14%. Between September 2010 and September 2011, the shares of the central bank and foreign investors increased 7 and 4 percentage points, respectively. In contrast, the shares of all other investor groups dropped, with the largest decline being felt by contractual savings funds at 6 percentage points.

Table 1: Size and Composition of the LCY Bond Market in Thailand

	Amount (billion)								**Growth Rate** (%)						
	Jun-11		**Jul-11**		**Aug-11**		**Sep-11**		**Jun-11**		**Jul-11**	**Aug-11**	**Sep-11**		
	THB	**US$**	**THB**	**US$**	**THB**	**US$**	**THB**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	6,820	222	6,870	231	6,903	231	7,149	229	6.2	0.3	0.7	0.5	8.7	4.8	3.6
Government	5,466	178	5,523	186	5,566	186	5,823	187	5.6	0.0	1.0	0.8	8.9	6.5	4.6
Government Bonds and Treasury Bills	2,557	83	2,625	88	2,630	88	2,809	90	(0.4)	0.9	2.7	0.2	8.2	9.9	6.8
Central Bank Bonds	2,427	79	2,414	81	2,462	82	2,535	81	15.7	(0.9)	(0.5)	2.0	12.7	4.5	3.0
State-Owned Enterprise and Other Bonds	482	16	484	16	474	16	479	15	(6.1)	0.0	0.4	(2.2)	(4.8)	(0.8)	1.1
Corporate	1,354	44	1,346	45	1,337	45	1,326	43	9.0	1.2	(0.5)	(0.7)	8.1	(2.0)	(0.8)

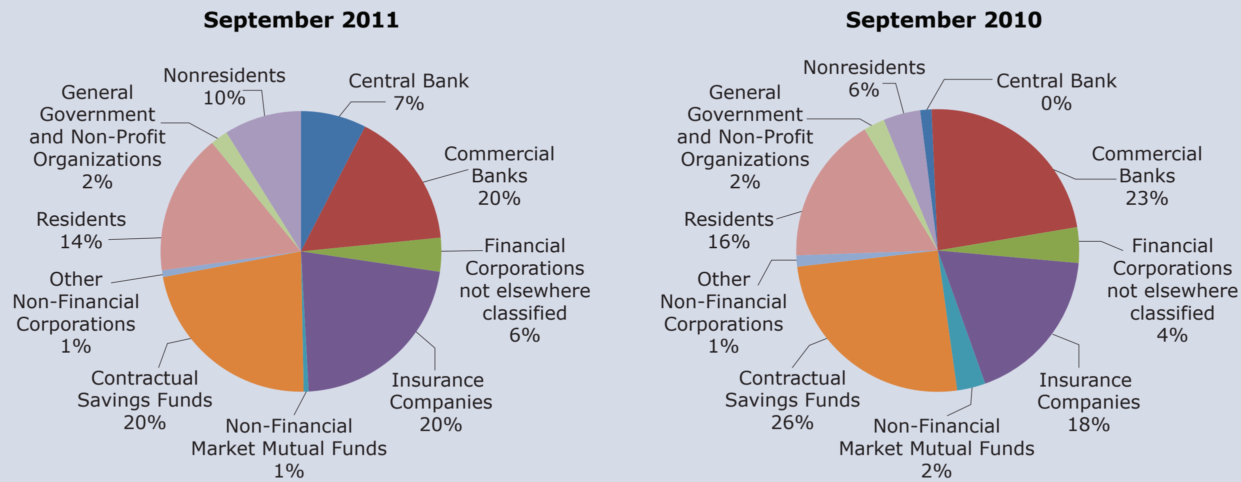
LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank of Thailand (BOT) and Bloomberg LP.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand (as of September 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US$ billion)				
1. PTT Public Company	183.5	5.9	Yes	No	Yes	Energy
2. Siam Cement Public Company	110.0	3.5	Yes	No	Yes	Diversified
3. Krung Thai Bank	55.4	1.8	Yes	No	Yes	Financial
4. PTT Exploration and Production Company	49.0	1.6	Yes	No	Yes	Energy
5. Bank of Ayudhya	41.5	1.3	No	Yes	Yes	Financial
6. PTT Chemical	35.4	1.1	Yes	No	Yes	Basic Materials
7. Charoen Pokphand Foods	33.9	1.1	No	Yes	Yes	Consumer
8. Thai Airways International	31.3	1.0	Yes	No	Yes	Consumer
9. Thanachart Bank	28.0	0.9	No	Yes	No	Financial
10. Kasikorn Bank	25.1	0.8	No	Yes	Yes	Financial
11. DAD SPV Company LTD	24.0	0.8	Yes	No	No	Financial
12. Ayudhya Capital Auto Lease	22.3	0.7	No	Yes	No	Financial
13. Toyota Leasing Thailand	21.9	0.7	No	Yes	No	Consumer
14. Banpu	21.3	0.7	No	Yes	Yes	Energy
15. Thai Oil	20.8	0.7	Yes	No	Yes	Energy
16. Glow Energy	20.6	0.7	No	Yes	Yes	Utilities
17. Krung Thai Card	20.1	0.6	Yes	No	Yes	Financial
18. Siam Commercial Bank	20.0	0.6	No	Yes	Yes	Financial
19. Quality Houses	18.0	0.6	No	Yes	Yes	Consumer
20. TMB Bank	17.3	0.6	No	Yes	Yes	Financial
21. Bangkok Expressway	17.1	0.5	No	Yes	Yes	Consumer
22. True Corporation	16.1	0.5	No	Yes	Yes	Communications
23. Advanced Info Service	15.5	0.5	No	Yes	Yes	Communications
24. Kiatnakin Bank	15.4	0.5	No	Yes	Yes	Financial
25. Thanachart Capital	13.5	0.4	No	Yes	Yes	Financial
26. Ratchaburi Electricity Generating	13.3	0.4	No	Yes	Yes	Utilities
27. Mitr Phol Sugar Corporation	12.9	0.4	No	Yes	No	Consumer
28. Italian-Thai Development Public Company	12.4	0.4	No	Yes	Yes	Industrial
29. Minor International Public Company	12.4	0.4	No	Yes	Yes	Consumer
30. Bangkok Mass Transit System	12.0	0.4	No	Yes	No	Industrial
Total Top 30 LCY Corporate Issuers	**939.9**	**30.1**				
Total LCY Corporate Bonds	**1,336.9**	**42.9**				
Top 30 as % of Total LCY Corporate Bonds	**70.3%**	**70.3%**				

LCY = local currency.
Source: Bloomberg LP.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank of Thailand.

Policy, Institutional, and Regulatory Developments

BOT and BOJ Collaborate to Provide Liquidity and Assist Flood-Affected Companies in Thailand

In October the BOT announced its collaboration with the Bank of Japan (BOJ) to set up a Thai baht lending facility, with Japanese government securities serving as collateral, in order to aid companies affected by the recent flooding. This facility will also expand the range of liquidity provisioning measures in Thailand to ensure financial stability amid slowing economic growth.

BOT Revises 2011 Growth Outlook Downward

The BOT's Monetary Policy Committee revised its economic growth outlook for Thailand downward in October, lowering its GDP growth forecast for 2011 to 2.6% from an earlier forecast of 4.1% made in July. The BOT's revision came amid expectations of a weakening global economy—with greater downside risks to the United States (US) economy and the eurozone's sovereign debt problems—as well as disruptions to domestic agricultural and manufacturing production due to the massive flooding.

BOT and 11 Commercial Banks Sign MOU for BOT Savings Bond Sale

In August the BOT and 11 commercial banks signed a memorandum of understanding (MOU) authorizing the commercial banks to sell 3- and 7-year BOT savings bonds worth THB50 billion between 26 August and 6 September. The savings bonds were issued to help ensure money market liquidity and provide an alternative investment vehicle for individuals, cooperatives, foundations, and nonprofit organizations.

Ministry of Finance Adjusts Application Period for LCY Bond Issuance

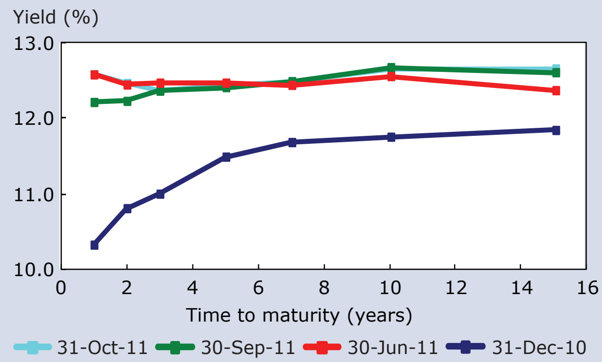
The Ministry of Finance announced in October that it has approved the adjustment of the application period for issuing LCY bonds in Thailand to three times in a year, covering the months of March, July, and November. The ministry also required that the applicant be able to issue within 9 months of the approval date for the bond issuance. The ministry stated that revisions to the application period would help facilitate and promote LCY bond issuance in Thailand.

Viet Nam—Update

Yield Movements

Between end-June and end-September government bond yields in Viet Nam fell at the short-end of the curve but rose at the long-end, after rising for all tenors in 1H11, resulting in a steeper curve. Yields fell the most for the 1-year tenor, dropping 36 basis points (bps), while yields for 2-, 3-, and 5-year tenors declined 22 bps, 10 bps, and 6 bps, respectively **(Figure 1)**. As a result, the yield spread between 2- and 10-year maturities widened to 44 bps at end-September from a spread of 11 bps at end-June. More recently, there was a significant rise at the short-end of the curve in October: 1- and 2-year tenors rose 37 bps and 24 bps, respectively, bringing them back to their end-June levels. This reflected the State Bank of Viet Nam's (SBV) move to hike its refinancing rate from 14.0% to 15.0%. Meanwhile, the SBV has been holding its base interest rate at 9.0% since December 2010 and maintaining its discount rate and reverse repurchase rate at 13.0% and 14.0%, respectively.

Figure 1: Viet Nam's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Controlling inflation remained a top priority of the SBV in the second half of 2011. Consumer price inflation in October reached 21.6% year-on-year (y-o-y), the highest in emerging East Asia. However, the annual rise in consumer prices actually began slowing in September. Price increases in recent months have mainly been attributed to higher costs for food, education, and housing and construction materials.

The country's cumulative gross domestic product (GDP) in the first 9 months of the year was estimated to have grown 5.8% y-o-y, up slightly from the 5.6% y-o-y growth recorded in the first 6 months of the year. It was, however, down from the 6.5% y-o-y growth during the same period last year. In January–September, the agriculture, forestry, and fishery sector, which comprises 21.5% of GDP, grew 2.4% y-o-y; the industry and construction sector (40.7% of GDP) expanded 6.6% y-o-y; and the services sector (37.8% of GDP) grew 6.2% y-o-y.

Size and Composition

Viet Nam's local currency (LCY) government and corporate bonds outstanding each posted double-digit annual growth rates at end-September. The bond market as a whole expanded 22.2% y-o-y and 1.8% quarter-on-quarter (q-o-q) to reach VND353 trillion (US$17 billion) at end-September **(Table 1)**.

Total LCY government bonds outstanding stood at VND321 trillion at end-September, representing growth of 21.1% y-o-y and 2.1% q-o-q. The quarterly increase in government bonds was mainly due to the net treasury bond issuance of VND15.7 trillion in 3Q11, which represented 12.0% q-o-q growth; however, this growth was offset by a 4.9% q-o-q drop in other government bonds (bonds issued by Viet Nam Development Bank and other state-owned enterprises) to VND175 trillion at end-September.

Total LCY corporate bonds outstanding expanded 34.7% y-o-y to VND32 trillion in 3Q11, but fell slightly by 1.6% on a quarterly basis as there was no new corporate bonds issuance in 3Q11.

The top 15 corporate issuers in Viet Nam are mainly commercial banks and real estate developers. Total bonds outstanding among the 15 largest issuers comprised 95.3% of all corporate bonds outstanding at end-September **(Table 2)**. Vietin Bank is the largest corporate issuer in the country with total bonds outstanding of VND7.1 trillion.

Rating Changes

On 19 August Standard & Poor's lowered Viet Nam's LCY long-term sovereign credit rating from BB to BB– **(Table 3)**. The rating agency also affirmed its foreign currency (FCY) long-term and short-term sovereign credit ratings for Viet Nam at BB– and B, respectively. According to the rating agency, the LCY and FCY ratings are now similar because the Vietnamese dong's pegged exchange rate limits monetary policy independence and domestic financial and capital markets are in the early stages of development.

Policy, Institutional, and Regulatory Developments

SBV Issues Circular on Corporate Bond Purchases by Credit Institutions and Foreign Bank Branches

The SBV issued a circular enumerating the conditions required for credit institutions and branches of foreign banks to purchase corporate bonds. The circular notes that buyers of corporate bonds must be (i) commercial banks, (ii) finance companies, or (iii) foreign bank branches established under the Law on Credit Institutions. Furthermore, SBV specified that these institutions must (i) have licenses issued by SBV that cover the purchase of corporate bonds, (ii) meet SBV requirements on prudent operational ratios, and (iii) have an internal credit rating system of corporate bond issuers.

Table 1: Size and Composition of the LCY Bond Market in Viet Nam

	Amount (billion)								**Growth Rate** (%)						
	Jun-11		**Jul-11**		**Aug-11**		**Sep-11**		**Jun-11**		**Jul-11**	**Aug-11**	**Sep-11**		
	VND	**US$**	**VND**	**US$**	**VND**	**US$**	**VND**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	347,278	17	354,648	17	352,673	17	353,370	17	18.3	5.0	2.1	(0.6)	22.2	1.8	0.2
Government	314,479	15	322,160	16	320,285	15	321,112	15	17.9	6.2	2.4	(0.6)	21.1	2.1	0.3
Treasury Bonds	130,413	6	139,790	7	142,135	7	146,087	7	8.3	12.0	7.2	1.7	23.3	12.0	2.8
Central Bank Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds, and Other Bonds	184,067	9	182,370	9	178,150	9	175,025	8	26.0	2.5	(0.9)	(2.3)	19.3	(4.9)	(1.8)
Corporate	32,799	2	32,488	2	32,388	2	32,258	2	21.7	(5.9)	(0.9)	(0.3)	34.7	(1.6)	(0.4)

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

Notes:

1. Bloomberg LP end-of-period LCY–US$ rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bloomberg LP.

Table 2: Top 15 LCY Corporate Issuers in Viet Nam (as of September 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US$ billion)				
1. Vietin Bank	7,095	0.34	No	Yes	Yes	Finance
2. Asia Commercial Joint Stock Bank	5,090	0.24	No	Yes	Yes	Finance
3. Vincom	5,000	0.24	No	Yes	Yes	Real Estate
4. Vietnam Techcombank	3,880	0.19	No	Yes	No	Finance
5. Agribank Securities	2,000	0.10	No	Yes	Yes	Finance
6. Sacombank	2,000	0.10	No	Yes	Yes	Finance
7. Vietnam Maritime Commercial Bank	1,000	0.05	No	Yes	No	Finance
8. Minh Phu Seafood	900	0.04	No	Yes	No	Fisheries
9. Hoa Phat Group	800	0.04	No	Yes	Yes	Industrial
10. An Binh Bank	600	0.03	No	Yes	No	Finance
11. HAGL	530	0.03	No	Yes	Yes	Real Estate
12. Kinh Bac City Development	500	0.02	No	Yes	Yes	Real Estate
13. Vinpearl	500	0.02	No	Yes	Yes	Resorts/Theme Parks
14. HCMC General Import Export & Investment	450	0.02	No	Yes	Yes	Trade
15. Vietnam Steel	400	0.02	No	Yes	No	Industrial
Total Top 15 LCY Corporate Issuers	**30,745**	**1.48**				
Total LCY Corporate Bonds	**32,258**	**1.55**				
Top 15 as % of Total LCY Corporate Bonds Outstanding	**95.3%**	**95.3%**				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for Viet Nam

	Moody's	S&P	Fitch
Sovereign FCY LT Rating	B1	BB–	B+
Outlook	Negative	Negative	Stable

FCY = foreign currency, LT = long-term.
Source: Rating agencies.

Viet Nam Hikes FCY Reserve Requirement Ratios

On 29 August the SBV hiked the FCY reserve requirement ratios for state-owned commercial banks, joint stock commercial banks, joint venture banks, foreign bank branches, and wholly owned foreign banks. The reserve requirement ratio for FCY demand deposits and time deposits of less than 12 months was raised from 7.0% to 8.0%, while the ratio for FCY time deposits of more than 12 months was increased from 5.0% to 6.0%. For the Viet Nam Bank for Agriculture and Rural Development, the Central People's Credit Fund, and cooperative banks, the reserve requirement ratios for FCY demand deposits and time deposits of less than 12 months was raised from 6.0% to 7.0%, while the ratio for deposits with terms of more than 12 months was raised from 4.0% to 5.0%.

SBV Issues Circular to Set Maximum LCY Mobilizing Interest Rates

On 28 September the SBV issued a circular to fix the maximum mobilizing interest rates at 6.0% per annum for demand and time deposits less than 1 month, and at 14.0% per annum for time deposits over 1 month. These rates are applicable to entities and individuals at credit institutions and foreign bank branches. The local People's Credit Funds were permitted an exemption and may apply a maximum LCY mobilizing rate of 14.5% per annum.

SBV Hikes Refinancing Rate in October

The SBV raised its refinancing rate, one of its three policy rates, by 100 basis points to 15.0% effective 10 October 2011. The move was the fifth increase in the refinancing rate this year.