Market Summaries

People's Republic of China—Update

Yield Movements

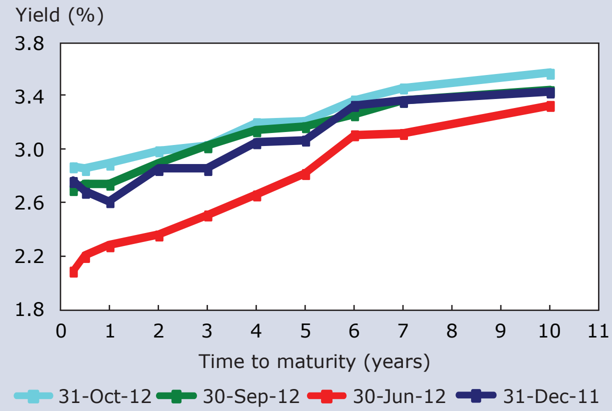
The government bond yield curve in the People's Republic of China (PRC) shifted upward from end-June to end-September, particularly at the shorter-end. Yields rose between 46 basis points (bps) and 61 bps for tenors of 1-year or less in 3Q12. Meanwhile, yields rose 15 bps–53 bps between the 2- and the 6-year tenors, and 11 bps–24 bps between the 7- and 10-year tenors **(Figure 1)**.

As a result of the rise in interest rates, particularly at the shorter-end of the curve, the yield curve flattened in 3Q12. From end-September to end-October, yields rose again, with the yields rising 11 bps to 17 bps for tenors of 1-year or less. The 7-year tenor rose 10 bps while the 10-year tenor rose 13 bps. By 31 October, the yield spread between 2- and 10-year maturities had narrowed further to 58 bps, a level similar to that at end-December 2011.

The rise in yields in September was primarily due to the cautious monetary policy of the People's Bank of China (PBOC), which ceased issuing new bills and notes in 2012, while also using reverse repurchase agreements to increase liquidity. In the last week of October, the PBOC injected CNY395 billion into the money supply through reverse repurchase agreements.

Seasonal factors also contributed to the rise in yields in September as banks' need for liquidity increased during the PRC's Golden Week. In addition, economic data suggested a bottoming out of the PRC's economic growth, putting further upward pressure on yields in October. While inflation has remained low, it is no longer falling and seems to have stabilized. The consumer price inflation rate was at 2.0%, 1.9%, and 1.7% year-on-year (y-o-y) for the months of August, September, and October, respectively.

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



LCY = local currency.
Source: Bloomberg LP.

Gross domestic product (GDP) growth slowed further as the economy expanded 7.4% y-o-y in 3Q12 from 7.6% in 2Q12. Exports posted a strong rebound in September, growing 9.9% y-o-y from 2.7% in August. Manufacturing activity has also picked up, as indicated by the manufacturing purchasing managers' index (PMI), which rose to 50.2 in October from 49.8 in September. Industrial production also grew 9.6% y-o-y in October from 9.2% in August.

In spite of a few positive signs, the external and domestic environments remain challenging. Foreign direct investment (FDI) has been declining on a y-o-y basis since June. FDI in January–September was at US$83.4 billion, or 3.8% less than in the same period last year.

On 7 September, the government announced a CNY1.0 trillion package to fund 60 infrastructure projects. Local governments have also begun planning their own stimulus packages. Tianjin announced that it would spend CNY1.5 trillion on 10 industries, including petrochemicals,

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

	Amount (billion)								**Growth Rates** (%)						
	Jun-12		Jul-12		Aug-12		Sep-12		Jun-12		Jul-12	Aug-12	Sep-12		
	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	22,042	3,469	22,337	3,511	22,737	3,581	22,963	3,654	6.9	1.5	1.3	1.8	10.8	4.2	1.0
Government	16,396	2,580	16,682	2,622	16,981	2,675	17,036	2,711	3.9	1.1	1.7	1.8	7.9	3.9	0.3
Treasury Bonds	7,500	1,180	7,630	1,199	7,811	1,230	7,915	1,259	8.0	1.1	1.7	2.4	8.8	5.5	1.3
Central Bank Bonds	1,644	259	1,631	256	1,619	255	1,514	241	(41.0)	(14.7)	(0.8)	(0.7)	(28.5)	(7.9)	(6.5)
Policy Bank Bonds	7,251	1,141	7,421	1,166	7,551	1,189	7,606	1,210	20.0	5.6	2.3	1.8	18.9	4.9	0.7
Corporate	5,646	889	5,655	889	5,756	907	5,927	943	16.5	2.5	0.2	1.8	20.2	5.0	3.0
Policy Bank Bonds															
China Development Bank	4,921	775	5,031	791	5,131	808	5,142	818	14.9	5.2	2.2	2.0	15.4	4.5	0.2
Export–Import Bank of China	930	146	960	151	990	156	1,008	160	36.0	3.1	3.2	3.1	29.2	8.4	1.8
Agricultural Devt. Bank of China	1,400	220	1,429	225	1,430	225	1,457	232	30.0	8.4	2.1	0.1	25.4	4.1	1.9

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.

port equipment, and aerospace. Chongqing announced that it would spend CNY1.5 trillion over a period of 3 years in industries such as electronics, information technology (IT), and automobiles. Other local governments have announced plans for stimulus packages, including Nanjing, Guangzhou, and Changsha. For example, Changsha said that it plans to spend up to CNY829 billion on construction projects such as airports and subway lines.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC market reached CNY23 trillion (US$3.7 trillion) at end-September, representing a y-o-y increase of 10.8% and a quarter-on-quarter (q-o-q) rise of 4.2% **(Table 1)**.

LCY government bonds outstanding grew 7.9% y-o-y and 3.9% q-o-q in 3Q12, while corporate bonds rose 20.2% y-o-y and 5.0% q-o-q. Central bank bonds continued to act as a drag on government bond growth, falling 28.5% y-o-y and 7.9% q-o-q as a result of fewer sterilization activities and additional monetary easing by the PBOC. In contrast, treasury bonds grew 8.8% y-o-y and 5.5% q-o-q, and policy bank bonds grew 18.9% y-o-y and 4.9% q-o-q.

Corporate Bonds. Corporate bonds outstanding grew 20.2% y-o-y in 3Q12. Growth was driven mainly by an increase in outstanding commercial bank bonds, local corporate bonds, and medium-term notes (MTNs). Commercial bank bonds grew 46.5% y-o-y in 3Q12, due largely to a carryover from the issuance of subordinated notes in 2Q12 as banks sought to bolster their capital bases in advance of the PRC's implementation of Basel III capital adequacy requirements.

Local corporate bonds grew 51.7% y-o-y and MTNs expanded 32.3% in 3Q12, while state-owned corporate bonds rose 13.1% **(Table 2)**. Asset-backed securities continued to decline as well, falling 16.5% in 3Q12 due to an ongoing lack of issuance.

Table 2: Corporate Bonds Outstanding in Key Sectors

	Amount (CNY billion)						Growth Rates (%)					
							q-o-q					y-o-y
	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	3Q11	4Q11	1Q12	2Q12	3Q12	3Q12
Commercial Bank Bonds	759	755	924	1,028	1,100	1,106	(0.5)	22.4	11.2	7.0	0.6	46.5
State-Owned Corporate Bonds	877	876	894	953	992	991	(0.1)	2.1	6.6	4.1	(0.1)	13.1
Local Corporate Bonds	714	727	782	876	987	1,103	1.8	7.5	12.0	12.6	11.8	51.7
Asset- and Mortgage-Backed Securities	10	10	10	9	8	8	(2.3)	(3.5)	(9.6)	(4.3)	–	(16.5)
Medium-Term Notes	1,621	1,769	1,974	2,030	2,129	2,340	9.1	11.6	2.8	4.9	9.9	32.3

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

On a q-o-q basis, local corporate bonds and MTNs showed the strongest growth: local corporate bonds grew 11.8% and MTNs grew 9.9%. Commercial bank bonds grew only 0.6% q-o-q as banks conducted most of their capital-raising efforts in 2Q12.

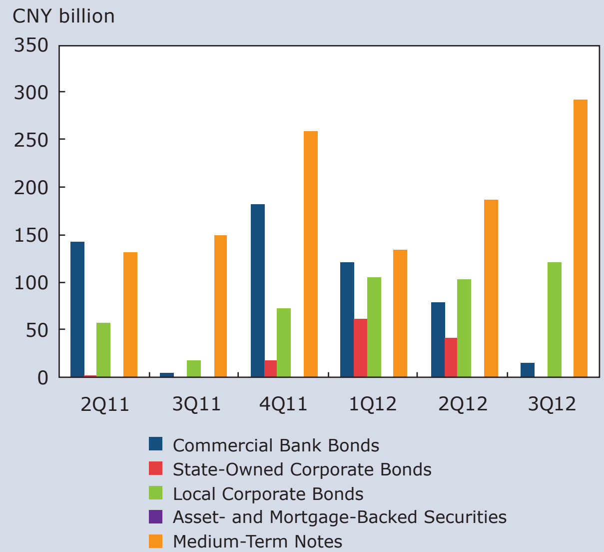
Overall issuance of corporate bonds was down in 3Q12 from 2Q12 levels **(Figure 2)**, with the exception of local corporate bonds and MTNs.

The lack of asset-backed securities stems from the PRC's decision to temporarily halt new issuance in 2008. However, a recently expanded pilot program is underway. Commercial bank bond issuance was strong in 1Q12 and 2Q12, but still lower than its peak level in prior quarters, as banks sought to bolster their capital bases in preparation for the PRC's implementation of Basel III.

A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. At end-September, the top 30 corporate bond issuers accounted for CNY3.5 trillion worth of corporate bonds outstanding, or about 60% of the total market. Among the top 30 corporate issuers, the 10 largest accounted for CNY2.4 trillion worth of bonds outstanding.

State-owned companies (defined as majority-owned by the government) dominate the corporate bond market in the PRC. Among the top 30 corporate issuers at end-September, 23 were state-owned, with a total of CNY3.1 trillion worth of bonds outstanding.

Figure 2: Corporate Bond Issuance in Key Sectors, 2Q11–3Q12



Source: *ChinaBond.*

Investor Profile

Treasury Bonds. Banks remained the largest category of investors in the PRC's treasury bond market, holding a slightly larger share of these bonds at end-September 2012 (68%) than at end-September 2011 (65%) **(Figure 3a)**. The shares held by special members fell to 22% from 24% during the same period. 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.

Table 3: Top 30 Issuers of LCY Corporate Bonds in the People's Republic of China (as of end-September 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (CNY billion)	LCY Bonds (US$ billion)				
1. Ministry of Railways	697.0	110.9	Yes	No	No	Transportation
2. State Grid Corporation of China	326.5	52.0	Yes	No	No	Public Utilities
3. China National Petroleum	310.0	49.3	Yes	No	No	Energy
4. Industrial and Commercial Bank of China	230.0	36.6	Yes	No	Yes	Banking
5. Bank of China	196.9	31.3	Yes	No	Yes	Banking
6. China Construction Bank	160.0	25.5	Yes	No	Yes	Banking
7. China Petroleum & Chemical	158.2	25.2	Yes	No	Yes	Energy
8. Central Huijin Investment	109.0	17.3	Yes	No	No	Diversified Financial
9. Agricultural Bank of China	100.0	15.9	Yes	No	Yes	Banking
10. Shenhua Group	92.0	14.6	Yes	No	No	Energy
11. China Minsheng Bank	82.3	13.1	No	Yes	Yes	Banking
12. Bank of Communications	76.0	12.1	No	Yes	Yes	Banking
13. China Guodian	74.9	11.9	Yes	No	No	Public Utilities
14. Industrial Bank	72.1	11.5	No	Yes	Yes	Banking
15. Petrochina	67.5	10.7	Yes	No	Yes	Energy
16. Shanghai Pudong Development Bank	67.2	10.7	No	Yes	Yes	Banking
17. China Three Gorges Project	65.5	10.4	Yes	No	No	Public Utilities
18. China Power Investment	60.3	9.6	Yes	No	No	Public Utilities
19. China Life	58.0	9.2	Yes	No	Yes	Insurance
20. State-Owned Capital Operation and Management Center of Beijing	55.0	8.8	Yes	No	No	Diversified Financial
21. Citic Group	53.5	8.5	Yes	No	No	Diversified Financial
22. China United Network Communications	53.0	8.4	Yes	No	Yes	Telecommunications
23. China Everbright Bank	52.7	8.4	No	Yes	Yes	Banking
24. China Huaneng Group	52.2	8.3	Yes	No	No	Public Utilities
25. China Merchants Bank	50.0	8.0	No	Yes	Yes	Banking
26. Huaneng Power International	49.0	7.8	Yes	No	Yes	Public Utilities
27. Metallurgical Corporation of China	45.6	7.3	Yes	No	Yes	Capital Goods
28. China Southern Power Grid	44.0	7.0	Yes	No	No	Public Utilities
29. China Citic Bank	42.5	6.8	No	Yes	Yes	Banking
30. Shougang Group	42.0	6.7	Yes	No	No	Raw Materials
Total Top 30 LCY Corporate Issuers	**3,542.9**	**563.7**				
Total LCY Corporate Bonds	**5,927.2**	**943.1**				
Top 30 as % of Total LCY Corporate Bonds	**59.8%**	**59.8%**				

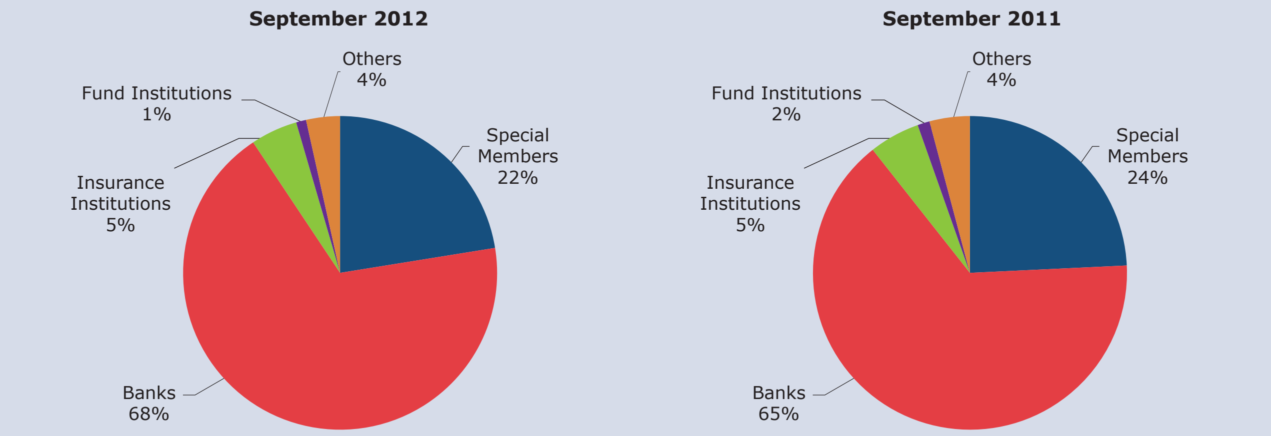
LCY = local currency.
Source: Bloomberg LP and Wind.

Banks are a much more significant holder of policy bank bonds **(Figure 3b)**. At end-September, banks held 85% of outstanding policy bank bonds, up slightly from 84% at end-September 2011. Insurance institutions' holdings fell slightly to 8% at end-September from 10% a year earlier.

Corporate Bonds. Banks remained the largest holder of corporate bonds at end-September, albeit with a comparatively smaller share than bank holdings of treasury bonds and policy bank bonds. Banks' share of corporate bonds fell slightly to 45% at end-September from 50% at end-September 2011 **(Figure 4)**. The shares held by insurance and fund institutions at end-September were 21% and 25%, respectively, from 21% and 20% a year earlier.

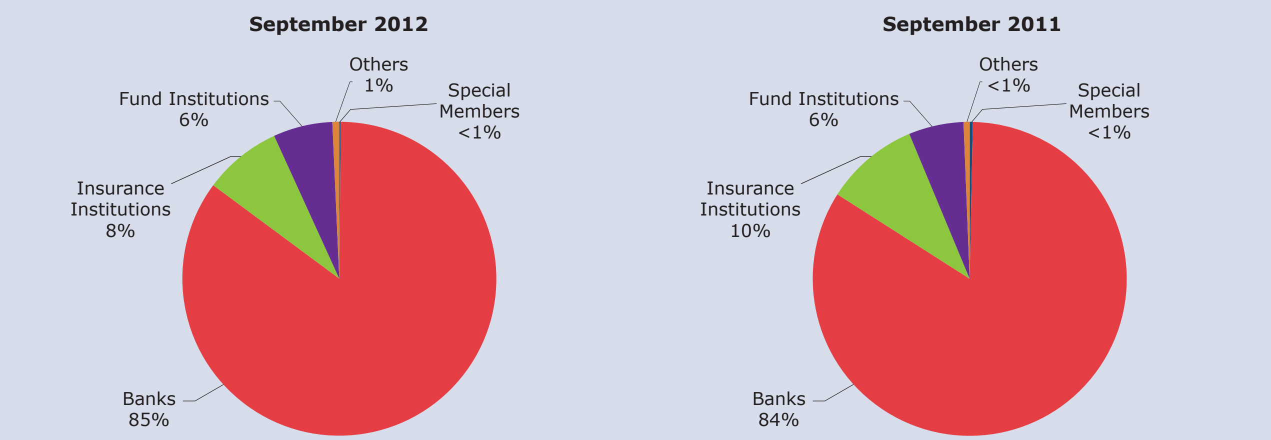
Figure 5 presents the investor profile across different bond categories. Banks were the largest holder of treasury bonds and policy bank bonds at end-September, with a more than 80% share of outstanding policy bank bonds. Meanwhile, insurance institutions were the largest holder of commercial bank bonds.

Figure 3a: LCY Treasury Bonds Investor Profile



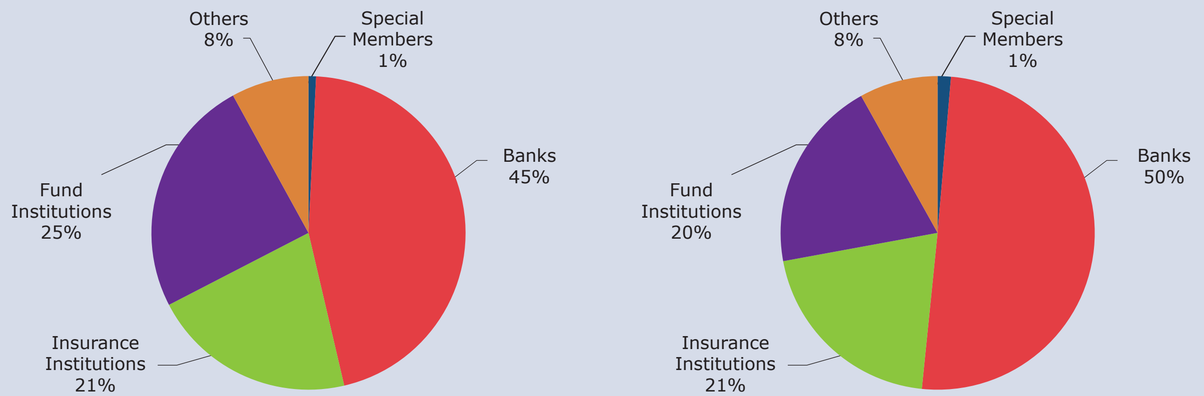
LCY = local currency.
Source: *ChinaBond*.

Figure 3b: LCY Policy Bank Bonds Investor Profile



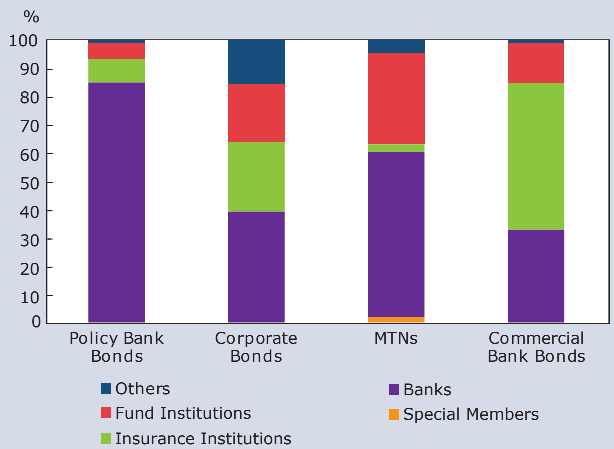
LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



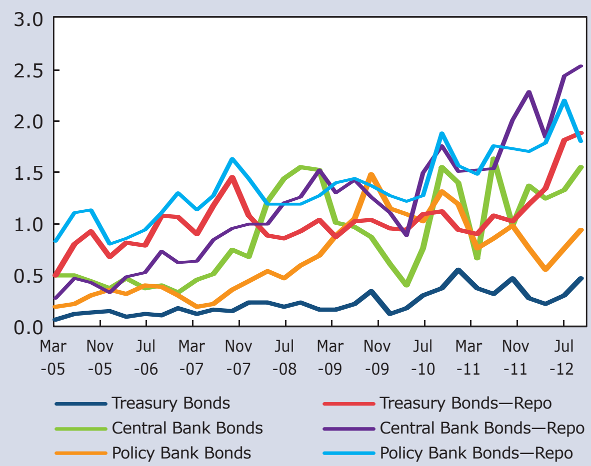
LCY = local currency.
Source: *ChinaBond*.

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



bps = basis points, MTNs = medium-term notes.
Source: *ChinaBond*.

Figure 6: Turnover Ratios for Government Bonds



Repo = repurchase.
Source: *ChinaBond*.

Liquidity

Figure 6 presents the turnover ratio for government bonds, including both spot trading as well as repo trading volumes. As can be seen, the repo market is the more active of the two, with volumes much larger than spot trading.

Interest Rate Swaps

The total notional amount traded in the interest rate swap (IRS) market rose 1.4% y-o-y and 17.4% q-o-q in 3Q12 to CNY801 billion on 6,662 transactions **(Table 4)**. The most popular benchmark was the 7-day repurchase (repo) rate, accounting for 53% of the notional amount

Table 4: Notional Values of the PRC's Interest Rate Swap Market (as of 3Q12)

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%)	
	3Q12			q-o-q	y-o-y
7-Day Repo Rate	424.1	52.9	4,699	22.0	4.4
Overnight SHIBOR	253.5	31.6	629	8.5	(9.0)
3-Month SHIBOR	78.7	9.8	791	4.2	(3.6)
1-Year Term Deposit Rate	26.8	3.3	237	27.7	16.1
6-Month Lending Rate	0.07	0.0	4	(65.2)	787.5
1-Year Lending Rate	13.4	1.7	257	458.1	14,955.1
3-Year Lending Rate	3.2	0.4	22	639.4	–
5-Year Lending Rate	0.9	0.1	21	38.7	–
Above 5-Year Lending Rate	0.3	0.0	2	55.6)	–
Total	**801.0**	**100.0**	**6,662**	**17.4**	**1.4**

– = 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: *AsianBondsOnline* and *ChinaMoney*.

traded, followed by the overnight SHIBOR at 32%. These two benchmarks were the most actively traded in 3Q12 because the primary participants in the PRC's onshore IRS market are commercial banks with high levels of funding exposure in the form of repo transactions. Therefore, banks make extensive use of the repo rate as the base rate to hedge their funding.

Policy, Institutional, and Regulatory Developments

Allowable Investments for QFIIs Expanded

On 28 July, the China Securities Regulatory Commission (CSRC) issued new rules allowing Qualified Foreign Institutional Investors (QFIIs) to invest in the interbank market. QFIIs were previously only allowed to trade in the exchange market. The new regulations also allow QFIIs to invest in private placement bonds issued by small and medium-sized enterprises (SMEs). Finally, the 20% stake limit in a listed company was raised to 30%.

Home Price Controls to Continue

On 29 August, an official from the National Development and Reform Council (NDRC) said that it would take measures to prevent rising home prices. These measures include restricting speculation and increasing the housing supply, particularly small and medium-sized homes.

CSRC Approves First Direct Offshore Bond Fund

On 16 October, the CSRC approved Huaxia Asset Management's bid to launch a bond fund investing in offshore bonds under the Qualified Domestic Institutional Investor (QDII) program. The fund will invest 80% of its assets in bonds, unlike existing QDII funds that invest mostly in equities. The fund will also invest in bonds directly, rather than indirectly, as is the case with other QDII bond funds.

Allowable Offshore Investments of Insurance Companies Expanded

On 23 October, the China Insurance Regulatory Commission (CIRC) began allowing insurance companies to invest offshore in countries other than Hong Kong, China. The list of allowable countries was expanded to 45 and the allowable investments were expanded from bonds and equity to also include real estate, currency products, and fixed-income products other than bonds.

Bank of Communications Prices First ABS under Pilot Program

On 2 November, Bank of Communications priced the first asset-back security (ABS) under the new ABS pilot scheme. The security comprises three tranches. The A1-rated tranche had a size of CNY850 million and was priced at 4.2%. The A2-rated tranche had a size of CNY1.6 billion with a floating rate of 140 bps over the 1-year deposit rate. The B-rated tranche was sized at CNY310 million with a floating rate of 300 bps over the 1-year deposit rate. An unrated subordinated tranche worth CNY263.3 billion will also be privately placed. The collateral for the notes comprises 60 corporate loans from 34 borrowers.

Hong Kong, China—Update

Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) flattened between end-June and end-October. **(Figure 1)**. The yield curve flattened as yields on longer tenors moved downward while yields on the shorter-end were roughly unchanged. Yields for 6- to 12-month maturities were unchanged, while yields for 1-month to 3-year maturities fell by 2 basis points (bps) or more. In contrast, yields fell between 8 bps and 29 bps for the longer-dated tenors. The 10-year tenor fell 29 bps while the 15-year tenor fell 26 bps.

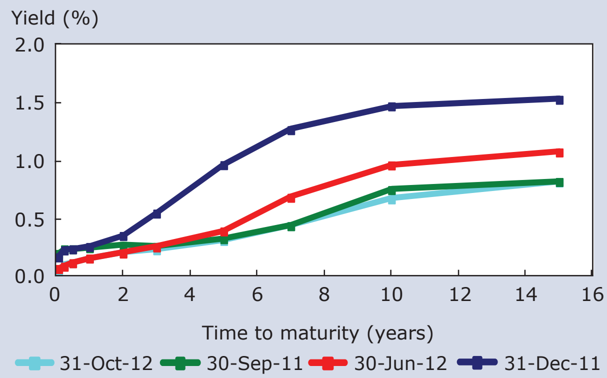
Due to the fall in yields for longer-term tenors, the spread between the 2- and 10-year rates fell to 46 bps at end-October from 76 bps at end-June.

The fall in longer-tenor yields was due to increased demand for high-quality Exchange Fund Bills and Notes due to increased risk aversion on renewed concerns over the global slowdown.

The performance of Hong Kong, China's economy improved in September. Export growth recovered to expand 15.2% year-on-year (y-o-y), from marginal growth of only 0.6% in August, as demand from Asia and the United States (US) improved. However, the government's outlook for 2012 suggests that economic growth remains weak. The annual gross domestic product (GDP) growth rate for 2012 is forecast at 1%–2%.

The government also remains concerned over rising property prices as a driver of inflation, which rebounded to 3.7% y-o-y in August from 1.6% in July, increasing slightly again to 3.8% in September. Inflation is rising mostly due to increases in property prices and other housing-related costs.

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



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

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market grew 3.3% y-o-y to HKD1.4 trillion (US$176 billion) as of end-September **(Table 1)**. On a quarter-on-quarter (q-o-q) basis, LCY bonds outstanding rose 1.3% in 3Q12.

Total LCY government bonds outstanding rose 3.4% y-o-y and 0.1% q-o-q to reach HKD721 billion as of end-September. Government bonds include Exchange Fund Bills (EFBs), Exchange Fund Notes (EFNs), and bonds issued under the Institutional Bond Issuance Programme (HKSAR Bonds).

Most of the growth in government bonds in 3Q12 can be attributed to growth in HKSAR Bonds, which expanded 50.6% y-o-y to HKD64 billion. On the other hand, the stock of EFNs declined slightly by 0.9% y-o-y to HKD69 billion, while EFBs grew only slightly by 0.5% y-o-y to HKD588 billion.

In September, HKD3.5 billion worth of 2-year HKSAR Bonds were issued.

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

	Amount (billion)								Growth Rate (%)						
	Jun-12		Jul-12		Aug-12		Sep-12		Jun-12		Jul-12	Aug-12	Sep-12		
	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	1,347	174	1,353	174	1,358	175	1,364	176	3.7	1.2	0.4	0.4	3.3	1.3	0.4
Government	720	93	721	93	721	93	721	93	5.3	2.1	0.01	0.0	3.4	0.1	0.02
Exchange Fund Bills	587	76	588	76	588	76	588	76	0.4	0.1	0.01	0.0	0.5	0.1	0.03
Exchange Fund Notes	69	9	69	9	69	9	69	9	(0.9)	(0.4)	0.00	0.0	(0.9)	0.0	0.00
HKSAR Bonds	64	8	64	8	64	8	64	8	113.3	29.3	0.00	0.0	50.6	0.0	0.00
Corporate	627	81	632	82	638	82	643	83	1.9	0.1	0.9	0.9	3.3	2.6	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.

Source: Hong Kong Monetary Authority and Bloomberg LP.

The amount of LCY corporate bonds outstanding rose slightly to HKD643 billion at end-September, reflecting growth of 3.3% y-o-y and 2.6% q-o-q. The top 28 non-bank corporate issuers in Hong Kong, China accounted for almost 17% of total corporate bonds outstanding as of end-September **(Table 2)**. Hong Kong, China's top corporate issuer of LCY bonds remained the state-owned Hong Kong Mortgage Corporation (HKMC) with outstanding bonds valued at HKD17.7 billion. CLP Power Hong Kong Financing Ltd. was the next largest issuer at HKD11.3 billion. Sun Hung Kai Properties (Capital Market) Ltd. was the third largest issuer with outstanding bonds of HKD10.9 billion.

Financial firms dominated the list of the top 25 non-bank corporate issuers at end-September, accounting for nine out of the 28 issuers. Six state-owned companies were included on the list, while 18 were privately owned. Among the companies in Table 2, eight were listed on the Hong Kong Exchange.

Policy, Institutional, and Regulatory Developments

HKMA Implements Prudential Loan Property Measures

On 14 September, the Hong Kong Monetary Authority (HKMA) released new regulations regarding property lending in order to limit property price risks. For borrowers with multiple properties under mortgage, the loan-to-value ratios and debt servicing ratios were adjusted. Also, the maximum mortgage loan tenor was reduced to 30 years.

HKMA to Implement First Phase of Basel III

On 19 October, HKMA announced that the first phase of its implementation of Basel III requirements would take effect on 1 January 2013. The first phase consists mostly of changes to the capital adequacy ratio, splitting it into three distinct ratios: (i) common equity Tier 1 capital ratio, (ii) Tier 1 capital ratio, and (iii) total capital ratio.

Table 2: Top 28 Non-Bank Corporate Issuers in Hong Kong, China (as of end-September 2012)

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.	17.70	2.28	Yes	No	No	Finance
2. CLP Power Hong Kong Financing Ltd.	11.33	1.46	No	Yes	No	Electric
3. Sun Hung Kai Properties (Capital Market) Ltd.	10.86	1.40	No	Yes	No	Real Estate
4. Kowloon-Canton Railway Corporation	6.30	0.81	Yes	No	No	Transportation
5. MTR Corporation (C.I.) Ltd.	6.20	0.80	Yes	No	Yes	Transportation
6. HKCG (Finance) Limited	5.60	0.72	No	Yes	No	Gas
7. The Link Finance (Cayman) 2009 Ltd.	5.29	0.68	No	Yes	No	Finance
8. Swire Pacific MTN Financing Ltd.	4.98	0.64	No	No	Yes	Diversified
9. Hongkong Electric Finance Ltd.	4.81	0.62	No	Yes	No	Electric
10. Wheelock Finance Ltd.	3.75	0.48	No	Yes	No	Diversified
11. Cheung Kong Bond Finance Ltd.	3.45	0.44	No	Yes	Yes	Finance
12. Airport Authority Hong Kong	2.85	0.37	Yes	No	No	Trannsportation
13. Wharf Finance Ltd.	2.50	0.32	No	Yes	No	Diversified
14. Urban Renewal Authority	2.50	0.32	Yes	No	No	Property Development
15. Hysan (MTN) Ltd.	2.43	0.31	No	Yes	No	Finance
16. Cheung Kong Finance (MTN) Ltd.	2.21	0.28	No	Yes	No	Finance
17. Yue Xiu Enterprises (Holdings) Ltd.	2.00	0.26	No	Yes	No	Diversified
18. Henderson Land MTN Ltd.	1.83	0.24	No	Yes	Yes	Finance
19. Cathay Pacific MTN Financing Ltd.	1.18	0.15	No	No	Yes	Airlines
20. Wharf Finance (No.1) Ltd.	1.14	0.15	No	Yes	No	Diversified
21. Dragon Drays Ltd.	1.00	0.13	No	Yes	No	Diversified
22. Swire Properties MTN Finanicing Ltd.	0.80	0.10	No	No	Yes	Diversified
23. Nan Fung Treasury Ltd.	0.80	0.10	No	Yes	No	Real Estate
24. Wharf Finance (BVI) Ltd.	0.45	0.06	No	Yes	No	Diversified
25. HLP Finance Ltd.	0.41	0.05	No	No	Yes	Real Estate
26. Bauhinia MBS Ltd.	0.26	0.03	Yes	No	No	Finance
27. Cheung Kong Infrastructure Finance (BVI) Ltd.	0.26	0.03	No	Yes	Yes	Finance
28. The Hongkong Land Notes Company Ltd.	0.20	0.03	No	Yes	No	Finance
Total Top 28 Non-Bank LCY Corporate Issuers	**103.09**	**13.29**				
Total LCY Corporate Bonds	**643.21**	**82.95**				
Top 28 as % of Total LCY Corporate Bonds	**16.0%**	**16.0%**				

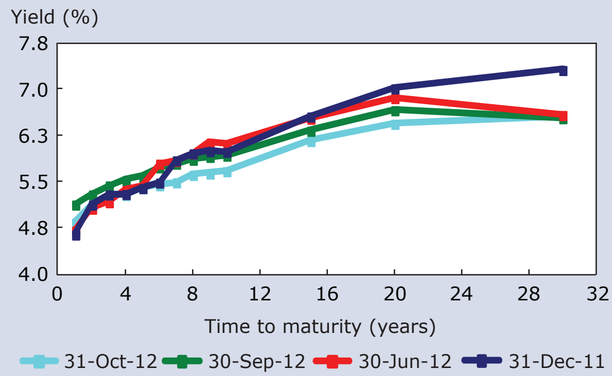
LCY = local currency.
Note: Based on Central Money Markets Unit data on tradeable non-bank debt securities issued and outstanding as of 2 July 2012.
Source: Hong Kong Monetary Authority.

Indonesia—Update

Yield Movements

Between end-June and end-September, the local currency (LCY) government bond yield curve for Indonesia flattened, as yields rose from the short-end of the curve through the 5-year maturity, while yields fell from the belly through the long-end of the curve **(Figure 1)**. Yields rose the most at the shortest-end of the curve (1-year maturity), climbing 43 basis points (bps) on inflation concerns. Yields from the 10-year maturity through the long-end of the curve fell between 4 bps and 23 bps.

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



LCY = local currency.
Source: Bloomberg LP.

Between end-September and end-October, however, yields fell across all tenors on positive sentiment after Standard and Poor's (S&P) stated that modest improvements in the country's political and policy dynamics might result in a ratings upgrade. In addition, foreign fund inflows into the Indonesian bond market resumed following the announcement of stimulus measures by the United States (US) Federal Reserve Bank. Indonesia's bond market continues to attract foreign investor interest as its bond yields are among the highest in the region. The yield spread between the 2- and 10-year maturities narrowed to 55 bps at end-October from 64 bps at end-September and 105 bps at end-June.

Consumer price inflation slowed to 4.3% year-on-year (y-o-y) in September from 4.6% in August. However, inflation inched up again in October, rising 4.6% y-o-y on higher prices for food, beverages, and tobacco products. The inflation rate, however, remained within Bank Indonesia's (BI) target range of 3.5% to 5.5% for the year. On a month-on-month (m-o-m) basis, inflation accelerated to 0.16% in October from 0.01% in September. Inflation for the rest of the year is expected to remain tame and end near the midpoint of BI's target range.

On 8 November, BI's Board of Governors decided to hold its benchmark interest rate steady at a record-low level of 5.75% to support economic growth. The BI rate has been kept at this level since a 25 bps cut in February. According to BI, the policy rate at its current level remains consistent with an inflation forecast that expects price increases to remain low and contained. BI also noted that external balances have started to improve, with a declining current account deficit and the overall balance of payments turning into a surplus. The Indonesian rupiah also moved according to market condition as depreciation pressures abated.

In 3Q12, Indonesia recorded a US$0.8 billion balance of payments surplus, a turnaround from a US$2.8 billion deficit in 2Q12. The current account deficit eased to US$5.3 billion in 3Q12 compared with US$7.7 billion in 2Q12 due largely to an improving trade balance. The capital and financial account surplus rose to US$6.0 billion in 3Q12, amid robust inflows of foreign direct investment and a reduction in offshore deposits held by residents. Also, portfolio investments contributed to the surplus due to foreign buying of stocks and local currency (LCY) government bonds. BI expects these trends to continue into 4Q12.

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

	Amount (billion)								Growth Rate (%)						
	Jun-12		Jul-12		Aug-12		Sep-12		Jun-12		Jul-12	Aug-12	Sep-12		
	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	1,050,246	111	1,053,322	111	1,058,174	111	1,054,800	110	3.8	3.6	0.3	0.5	7.4	0.4	(0.3)
Government	884,029	94	884,500	93	886,902	93	883,479	92	0.5	3.0	0.1	0.3	4.2	(0.1)	(0.4)
Central Govt. Bonds	791,180	84	799,660	84	803,053	84	812,796	85	14.5	4.0	1.1	0.4	16.7	2.7	1.2
Central Bank Bills	92,849	10	84,840	9	83,849	9	70,683	7	(50.9)	(5.3)	(8.6)	(1.2)	(53.3)	(23.9)	(15.7)
Corporate	166,217	18	168,822	18	171,272	18	171,321	18	25.9	7.4	1.6	1.5	27.2	3.1	0.0

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.
4. The total stock of non-tradable bonds as of end-September stood at IDR277.2 trillion
Source: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, and Bloomberg LP.

Buoyed by strong domestic consumption and investment, economic growth in Indonesia expanded 6.2% y-o-y in 3Q12 after posting annual growth of 6.4% in 2Q12. Domestic consumption climbed 5.7% y-o-y and investment grew 10.0% in 3Q12. According to BI, economic growth is expected to accelerate and will continue to be supported by private consumption and investment. Export performance is also expected to improve as the economies of some of Indonesia's main trading partners strengthen, although uncertainty remains in the global economy. BI is forecasting economic growth of 6.3% in 2012 and between 6.3% and 6.7% in 2013.

Size and Composition

The amount of LCY bonds outstanding in Indonesia grew marginally to IDR1.05 quadrillion (US$110 billion) in 3Q12, expanding 0.4% quarter-on-quarter (q-o-q) **(Table 1)**. On a y-o-y basis, the bond market saw modest 7.4% growth. The corporate sector continued to drive growth in Indonesia's bond market.

At end-September, outstanding LCY government bonds were almost unchanged at IDR883.5 trillion, down 0.1% on a q-o-q basis. On a y-o-y basis, however, growth in government bonds climbed 4.2%. Growth in the government bond market was driven by central government bonds, comprising treasury bills and treasury bonds issued by the Ministry of Finance. The stock of central bank bills, known as *Sertifikat* Bank Indonesia (SBI), continued to decline steeply in 3Q12. Government bonds accounted for 83.8% of total LCY bonds in Indonesia at the end of 3Q12.

Central Government Bonds. The stock of central government bonds grew a modest 2.7% q-o-q to IDR812.8 trillion in 3Q12 **(Table 2)**. On a y-o-y basis, central government bonds rose 16.7%.

As of end-September, fixed-rate bonds accounted for 70.3% of total LCY central government bonds and variable rate bonds accounted for 15.6%.

Table 2: Government Bonds Outstanding by Type of Bond (as of end-September 2012)

Government Bonds	Amount Outstanding (IDR billion)	% Share	Growth Rates (%)	
			y-o-y	q-o-q
Treasury Bills (SPN)	28,220	3.5	22.7	0.1
Fixed-Rate Bonds	571,434	70.3	22.6	5.7
Variable-Rate Bonds	127,123	15.6	(5.9)	(2.0)
Zero-Coupon Bonds	2,512	0.3	0.0	0.0
Retail Bonds	21,476	2.6	(32.1)	(27.9)
Islamic Treasury Bills	905	0.1	–	(23.6)
Sukuk	17,137	2.1	4.7	0.0
Retail *Sukuk*	28,989	3.6	38.5	0.0
Project Based *Sukuk*	15,000	1.8	–	16.3
Total	**812,796**	**100.0**	**16.7**	**2.7**

Source: Indonesia Stock Exchange.

Conventional treasury bills and retail bonds accounted for 3.5% and 2.6%, respectively. The share of *sukuk* (Islamic bonds) was equivalent to 7.6% of the total. Among the different types of Islamic instruments, retail *sukuk* accounted for 3.6% of total central government bonds at the end of 3Q12, while project-based *sukuk* and Islamic treasury bills accounted for 1.8% and 0.1%, respectively.

In 3Q12, new issuance of treasury bills and bonds was flat on a q-o-q basis at IDR40.6 trillion. Issuance of treasury instruments, however, rose 8.7% in 3Q12 compared with a year earlier. Issuance during the quarter consisted of fixed-rate bonds, treasury bills, Islamic treasury bills, and project-based *sukuk*. Of the 11 scheduled auctions during the quarter, two *sukuk* auctions failed as investors sought higher yields.

As of 25 September, the government raised a total of IDR212.1 trillion in bond sales (including international bond issuance), representing 78.4% of gross issuance (IDR270.4 trillion) as stated in the 2012 revised state budget. In the same period, total redemptions and buybacks reached IDR75.4 trillion. The government will continue to prioritize issuance of IDR-denominated government securities, as part of its financing strategy. In addition, the government plans to issue global *sukuk* in 4Q12 to help finance the budget deficit.

Table 3: Corporate Bonds Outstanding by Type of Bond (as of end-September 2012)

Corporate Bonds	Amount Outstanding (IDR billion)	% Share	Growth Rates (%)	
			y-o-y	q-o-q
Conventional Bonds	141,781	82.8	30.5	3.2
Subordinated Bonds	22,611	13.2	12.3	0.0
Convertible Bonds	150	0.1	–	–
Zero-Coupon Bonds	500	0.3	–	–
Sukuk Ijarah	4,390	2.6	(12.8)	(2.0)
Sukuk Mudharabah	775	0.5	(7.6)	0.0
Sukuk Mudharabah Subordinated	1,114	0.7	–	–
Total	**171,321**	**100.0**	**27.2**	**3.1**

Notes:
1. *Sukuk Ijarah* refers to Islamic bonds backed by a lease agreement.
2. *Sukuk Mudharabah* refers to Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.

Source: Indonesia Stock Exchange.

Central Bank Bills. The stock of central bank bills continued to fall, dropping 23.9% q-o-q and 53.3% y-o-y to IDR70.7 trillion at end-September. However, issuance of SBI and *shari'a*-compliant SBI climbed during the quarter, rising 101.7% q-o-q and 48.7% y-o-y, although this was coming from a low base. SBI are issued by BI as one of its monetary operation tools to help manage liquidity.

Corporate Bonds. The size of Indonesia's LCY corporate bond market rose to IDR171.3 trillion in 3Q12, expanding 3.1% q-o-q and 27.2% y-o-y. Corporate bonds, however, only comprise a small share of Indonesia's LCY bond market, accounting for just 16.2% of total LCY bonds. Relatively high yields on corporate bonds issued in recent months, ranging from 6.5% to 10.5%, have made the Indonesian corporate bond market an important part of Asia's nascent high-yield bond sector.

Conventional corporate bonds accounted for 82.8% of total corporate bonds outstanding in 3Q12, while subordinated bonds represented 13.2% **(Table 3)**. *Sukuk* issues by corporate entities remained small, accounting for a share of only 3.7% at end-September.

The amount of total bonds outstanding from the top 31 corporate bond issuers in Indonesia stood at IDR133.5 trillion at end-September **(Table 4)**,

Table 4: Top 31 Issuers of LCY Corporate Bonds in Indonesia (as of end-September 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (US$ billion)				
1. PLN	14,208	1.48	Yes	No	No	Energy
2. Adira Dinamika Multifinance	9,659	1.01	No	Yes	Yes	Finance
3. Indosat	9,350	0.97	No	Yes	Yes	Telecommunications
4. Federal International Finance	7,379	0.77	No	Yes	No	Finance
5. Bank Tabungan Negara	7,150	0.75	Yes	No	Yes	Banking
6. Astra Sedaya Finance	7,105	0.74	No	Yes	No	Finance
7. Indonesia Eximbank	7,034	0.73	Yes	No	No	Banking
8. Bank Pan Indonesia	5,500	0.57	No	Yes	Yes	Banking
9. Jasa Marga	5,000	0.52	Yes	No	Yes	Toll Roads, Airports, and Harbors
10. Bank Tabungan Pensiunan Nasional	4,900	0.51	No	Yes	Yes	Banking
11. Perum Pegadaian	4,664	0.49	Yes	No	No	Finance
12. Bank CIMB Niaga	4,480	0.47	No	Yes	Yes	Banking
13. Bank Internasional Indonesia	4,000	0.42	No	Yes	Yes	Banking
14. Indofood Sukses Makmur	3,610	0.38	No	Yes	Yes	Food and Beverages
15. Bank Mandiri	3,500	0.36	Yes	No	Yes	Banking
16. Antam	3,000	0.31	Yes	No	Yes	Petroleum and Natural Gas
17. Telekomunikasi Indonesia	3,000	0.31	Yes	No	Yes	Telecommunications
18. Bank Danamon Indonesia	2,800	0.29	No	Yes	No	Banking
19. BCA Finance	2,530	0.26	No	Yes	No	Finance
20. Medco-Energi Internasional	2,487	0.26	No	Yes	Yes	Petroleum and Natural Gas
21. Bank Permata	2,450	0.26	No	Yes	Yes	Banking
22. Agung Podomoro Land	2,400	0.25	No	Yes	Yes	Property and Real Estate
23. Bank Jabar Banten	2,400	0.25	No	Yes	Yes	Banking
24. Sarana Multigriya Finansial	2,312	0.24	Yes	No	No	Finance
25. Indomobil Finance Indonesia	2,225	0.23	No	Yes	No	Finance
26. Bank Rakyat Indonesia	2,000	0.21	Yes	No	Yes	Banking
27. Surya Artha Nusantara Finance	1,995	0.21	No	Yes	No	Finance
28. Toyota Astra Financial Services	1,905	0.20	No	Yes	No	Finance
29. Bank Bukopin	1,500	0.16	No	Yes	Yes	Banking
30. Bank DKI	1,500	0.16	No	Yes	No	Banking
31. Japfa	1,500	0.16	No	Yes	Yes	Animal Feed
Total Top 31 LCY Corporate Issuers	**133,541**	**13.92**				
Total LCY Corporate Bonds	**171,321**	**17.86**				
Top 31 as % of Total LCY Corporate Bonds	**77.9%**	**77.9%**				

LCY = local currency.
Source: Indonesia Stock Exchange.

accounting for nearly 80% of total corporate bonds outstanding. State-power firm PLN remained the largest issuer of LCY corporate bonds in Indonesia with bonds outstanding valued at IDR14.2 trillion. Automotive leasing company Adira Dinamika Multifinance climbed to the second spot with total bonds of IDR9.7 trillion. Telecommunications firm Indosat dropped to the third spot with bonds outstanding of IDR9.4 trillion at end-September.

The list of the top 31 LCY corporate bond issuers was dominated at end-September by firms from the banking and financial sector. Other bond issuers were from energy, telecommunications, toll roads, food and beverages, petroleum and natural gas, and property and real estate. About a third of the companies on the list were state-owned firms with total bonds valued at IDR51.9 trillion.

In 3Q12, corporate bond issuance totaled IDR10.0 trillion, a significant 60.2% q-o-q decline but a 71.1% increase over a year earlier. Corporate issuance during the quarter comprised 24 bond series issued by 10 corporate entities. The new corporate bond issues in 3Q12 were all conventional bonds except for one *sukuk* issue. Most of these new bond issues had a maturity of 3–5 years. **Table 5** lists a number of notable corporate bonds issued in 3Q12.

Automotive leasing company Adira Dinamika Multi Finance raised a total of IDR1.6 trillion through a triple bond sale in September. The proceeds from the bonds will be used to repay maturing debts and finance the firm's business operations. The bond issue was the third part of the company's IDR6 trillion continuous bond issuance program. The bond sale comprised the following issues:

- 370-day bonds worth IDR376 billion, coupon of 6.50%;
- 3-year bonds worth IDR578 billion, coupon of 7.75%; and
- 5-year bonds worth IDR673 billion, coupon of 8.75%.

Mid-sized lender Bank Tabungan Pensiunan Nasional sold a total of IDR1.25 trillion worth of bonds in a dual-tranche bond sale in August. The proceeds from the bond sale will be used to boost its lending business. The bond issue consisted of the following series:

- 3-year bonds worth IDR525 billion, coupon of 7.75%; and
- 5-year bonds worth IDR725 billion, coupon of 8.25%.

Media firm Global Mediacom raised a total of IDR1.25 trillion of bonds from a two-tranche bond sale in July. The proceeds from the bond sale will be used to fund the company's capital expenditure and working capital, and to develop media-related business. The bond issue consisted of the following series:

- 3-year bonds worth IDR250 billion, coupon of 9.75%; and
- 5-year bonds worth IDR1 trillion, coupon of 10.5%.

Property developer Agung Podomoro Land issued IDR1.2 trillion of 5-year bonds in August. The bonds carry a coupon of 9.38%. Proceeds from the bond sale will be used to finance its property development projects.

Property developer Bumi Serpong Damai raised a total of IDR1 trillion from a triple-tranche bond sale. About 70% of the bond sale proceeds will be used to support the development and expansion of the company's BSD City project, and the remaining 30% will be used for working capital.

Table 5: Notable LCY Corporate Issuance in 3Q12

Corporate Issuers	Amount Issued (IDR billion)
Adira Dinamika Multi Finance	1,627
Bank Tabungan Pensiunan Nasional	1,250
Global Mediacom	1,250
Agung Podomoro Land	1,200
Bumi Serpong Damai	1,000
SMART	1,000
Tunas Baru Lampung	1,000
Others	1,630
Total	**9,957**

Source: Indonesia Stock Exchange.

The bonds were rated IdA+ by Pefindo. The bond sale comprised the following issues:

- 3-year bonds worth IDR85 billion, coupon of 8.0%;
- 5-year bonds worth IDR479 billion, coupon of 9.25%; and
- 7-year bonds worth IDR436 billion, coupon of 9.5%.

Sinar Mas Agro Resources and Technology (SMART), an Indonesian plantation firm, raised a total of IDR1 trillion from a dual-tranche bond sale. About 60% of the bond sale proceeds will be used by the company to expand the capacity of its refineries, and the remaining 40% for working capital. The bonds were rated idAA- by Pefindo. The bonds consisted of the following series:

- 5-year bonds worth IDR900 billion, coupon of 9.0%; and
- 7-year bonds worth IDR100 billion, coupon of 9.25%.

Palm oil company Tunas Baru Lampung sold IDR1 trillion of 5-year bonds. The bonds carry a coupon of 10.5%. Proceeds from the bond sale will be used to finance a new refined sugar plant and other investment projects.

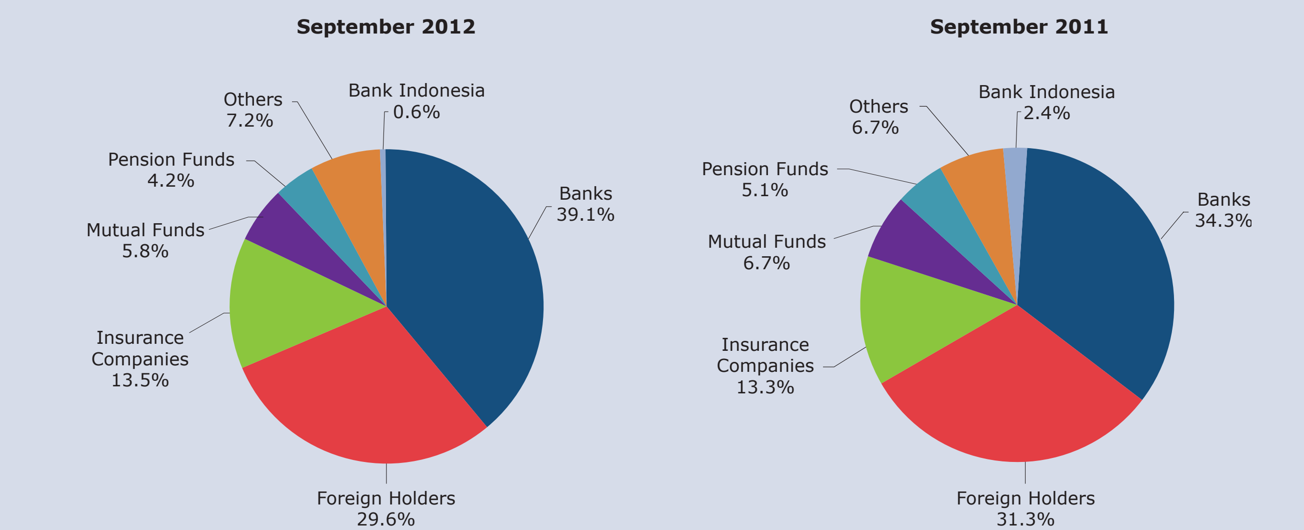
Investor Profile

Central Government Bonds. Banking institutions were the largest holder of central government bonds in Indonesia at the end of 3Q12 **(Figure 2)**. The share of banking institutions climbed to 39.1% in 3Q12 compared with 34.3% in the same period a year earlier. Banking institutions include state recap banks, private recap banks, non-recap banks, regional banks, and *shari'a* banks. Among the banking institutions, state banks hold the largest chunk of central government bonds with a share of 45% of banks' total bond holdings.

Foreign investors were the second largest holder of Indonesian LCY central government bonds at end-September. The share of foreign investors tapered off to 29.6% at end-September from 31.3% a year earlier. However, this reflected an improvement as the share of foreign investors had been steadily declining since the start of the year. The share of foreign investors was 32.1% in January before dropping to 29.5% in March and 28.4% in June **(Figure 3)**. Foreign investors include non-resident private banks, fund and asset management firms, securities firms, insurance companies, and pension funds.

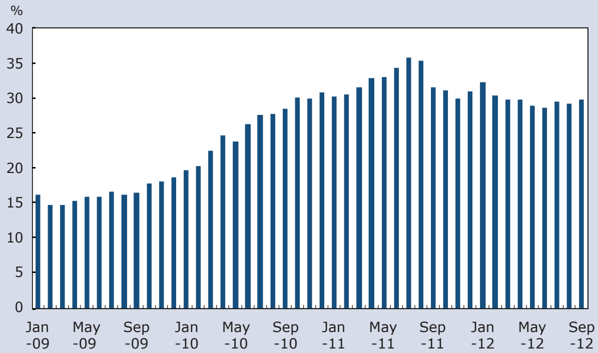
As of end-September, 70.1% of LCY bonds held by foreign investors were in long-dated tenors

Figure 2: LCY Government Bonds Investor Profile



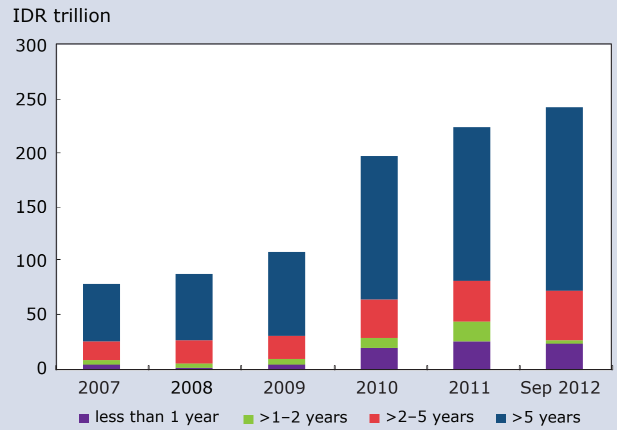
LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 3: Monthly Foreign Investor Share of LCY Government Bonds, January 2009–September 2012



LCY = local currency
Source: Indonesia Debt Management Office.

Figure 4: Foreign Holdings of Indonesian LCY Government Bonds by Maturity, 2007–September 2012



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

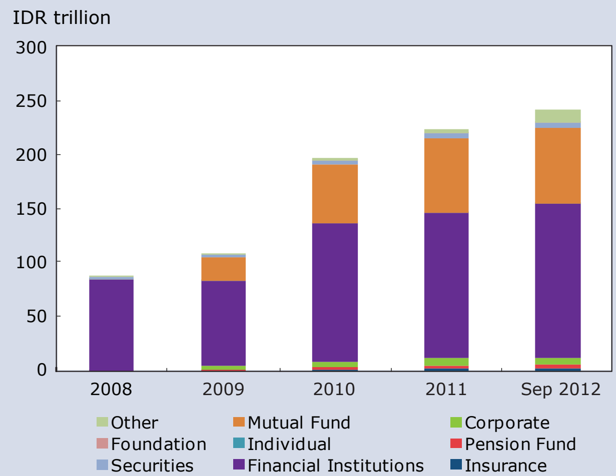
(maturities of 5-years or more) **(Figure 4)**. This was an increase from the 63.2% share of the total recorded at end-2011. Offshore investor holdings of short-dated tenors (bonds with maturities of less than 1 year) dropped to 9.8% at end-September, while bonds with maturities of more than 1 year to 2 years declined to 1.5%.

By type of foreign investor, offshore financial institutions owned more than half of bonds (58.6%) held by foreign investors at end-September **(Figure 5)**. This was followed by mutual funds with an ownership share equivalent to 28.5% of the total bonds held by non-residents. Insurance companies, pension funds, corporate investors, and securities companies hold shares of 2.8% or less.

Meanwhile, the share of insurance companies was steady at 13.5% in 3Q12 compared with the same period a year ago. On the other hand, the share of pension funds fell to 4.2% in 3Q12 from 5.1% in 3Q11. Mutual fund holdings of LCY central government bonds also dropped to 5.8% at end-September.

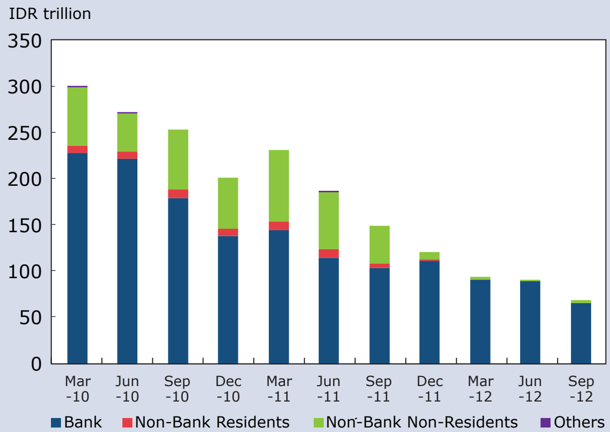
Central Bank Bills. At end-September, banking institutions held a dominant share of central bank bills, although their ownership share fell to 96.7% from 99.0% in 2Q12 **(Figure 6)**. The total amount of SBI held by banks reached IDR65.9 trillion at end-September. Market analysts believe that some banks liquidated SBI holdings to boost their funds and diversify their portfolio holdings into other investment instruments. Offshore investors held the remaining 3.3%, an improvement of about 1 percentage point since end-June following a steady decline in foreign investors' share that began after the central bank implemented a 6-month holding period for SBI last year.

Figure 5: Foreign Holdings of LCY Government Bonds by Type of Investors, 2008–September 2012



LCY = local currency.
Source: Bank Indonesia.

Figure 6: LCY Central Bank Bills Investor Profile, March 2010–September 2012



LCY = local currency.
Source: Bank Indonesia.

Rating Changes

On 18 October, Ratings and Investment (R&I) raised Indonesia's sovereign credit rating to BBB- from BB+ **(Table 6)**. The outlook on the rating was stable. R&I cited Indonesia's economic resilience amid the downturn in the global economy, conservative fiscal management, low debt burden, and stable financial system as the reasons for the ratings action.

Policy, Institutional, and Regulatory Developments

BI to Impose Capital Requirements on Foreign Lenders

In August, BI announced plans to require foreign banks to comply with minimum paid-up capital requirements. Current regulations require domestic banks to meet a IDR3 trillion capitalization. Foreign banks that will be affected by this new regulation are those that were set up at a time when BI allowed foreign lenders to open branches without establishing a locally incorporated company.

Table 6: Selected Sovereign Ratings and Outlook for Indonesia

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Baa3	BB+	BBB–	BBB–
Outlook	Stable	Positive	Positive	Stable

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

BI to Require *Shari'a* Banks to Comply with LTV Rule

In August, BI announced plans to require *shari'a* banks to comply with the loan-to-value (LTV) rule currently applied to conventional banks. The LTV rule requires a minimum down payment amount for those seeking housing and automotive loans, effective 15 June. The minimum down payment requirement is 25% for two-wheeled vehicles and 30% for 4-wheeled vehicles. *Shari'a* banks were excluded from the regulation as Islamic rules do not require down payments.

Government Raises IDR12.7 Trillion from Sale of Retail Bonds

In September, the Indonesian government raised a total of IDR12.7 trillion from the sale of its ninth series of retail bonds. Due to huge demand, the government decided to increase its target by IDR1 trillion a day prior to the close of the offer period. The retail bonds carry a coupon of 6.25% and a maturity of 3 years.

Government Sells JPY60 Billion of 10-Year Samurai Bonds

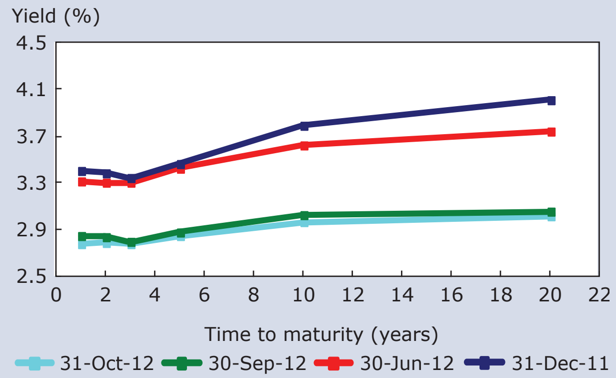
On 6 November, the Indonesian government priced JPY60 billion of 10-year *samurai* bonds with a coupon of 1.13%. The bonds were offered via a private placement and launched through the Japan Bank for International Cooperation's (JBIC) Guarantee and Acquisition Toward Tokyo Market Enhancement (GATE) program. According to the Directorate General of Debt Management, the deal was well received, with strong demand coming from central and regional banking accounts, and life and non-life insurers.

Republic of Korea—Update

Yield Movements

Government bond yields in the Republic of Korea fell for all tenors between end-June and end-September **(Figure 1)**. The drop in yields in 3Q12 ranged from 47 basis points (bps) for the 1- and 2-year tenors to 69 bps for the 20-year tenor. Yields fell further for all tenors between end-September and end-October. The decline in yields since end-June has been attributed to expectations of policy rate cuts amid a sluggish global economy. Meanwhile, the yield spread between the 2- and 10-year tenors narrowed 13 bps between end-June and end-September, and decreased slightly by 1 bp between end-September and end-October.

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



LCY = local currency.
Source: Bloomberg LP.

The Bank of Korea's Monetary Policy Committee decided on 9 November to keep the base rate—the 7-day repurchase rate—steady at 2.75%. In its previous meeting in October, the committee decided to reduce the policy rate by 25 bps from 3.00% to 2.75%, and to lower the interest rate on Aggregate Credit Ceiling Loans to 1.25% from 1.50%. Consumer price inflation inched up to 2.1% year-on-year (y-o-y) in October from 2.0% in September.

Real gross domestic product (GDP) growth of the Republic of Korea eased to 1.6% y-o-y in 3Q12 from 2.3% in 2Q12, based on advance estimates of The Bank of Korea. The Bank of Korea in October revised downward its 2012 GDP growth forecast for the Republic of Korea to 2.4% from an earlier estimate of 3.0% made in July. It also lowered its forecast for 2013 to 3.2% from 3.8%.

Size and Composition

Total local currency (LCY) bonds outstanding in the Republic of Korea expanded 9.6% y-o-y and 2.1% quarter-on-quarter (q-o-q) to reach KRW1,523 trillion (US$1.4 trillion) at end-September **(Table 1)**. The outstanding amount of LCY government bonds amounted to KRW603.6 trillion, up 2.2% y-o-y and 0.4% q-o-q. The central government's bonds outstanding rose 5.8% y-o-y and 1.3% q-o-q to reach KRW413.8 trillion. Meanwhile, central bank bonds were valued at KRW162.5 trillion, down 4.1% y-o-y and 1.3% q-o-q, while industrial finance debentures also slipped 8.4% y-o-y and 3.3% q-o-q to level off at KRW27.3 trillion.

Issuance of LCY government bonds in 3Q12 totaled KRW63.3 trillion, which was down 5.1% from the previous quarter. The quarterly drop was induced by an 8.2% fall in central bank bond issuance, which stood at KRW39.0 trillion in 3Q12, compared with KRW42.5 trillion in the previous quarter. Meanwhile, issuance of central government bonds inched up 0.4% q-o-q to KRW22.7 trillion, while issuance of industrial finance debentures slipped 2.0% q-o-q to KRW1.6 trillion in 2Q12.

Total LCY corporate bonds outstanding grew 15.1% y-o-y and 3.3% q-o-q to reach KRW919.3 trillion at end-September. This growth was bolstered by increases of 23.5% y-o-y and 5.2% q-o-q for private corporate bonds outstanding, which rose to a level of

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

	Amount (billion)								**Growth Rate** (%)						
	Jun-12		Jul-12		Aug-12		Sep-12		Jun-12		Jul-12	Aug-12	Sep-12		
	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	1,491,463	1,302	1,501,447	1,328	1,514,137	1,334	1,522,869	1,370	9.7	2.1	0.7	0.8	9.6	2.1	0.6
Government	601,162	525	605,189	535	604,655	533	603,590	543	3.0	(0.05)	0.7	(0.1)	2.2	0.4	(0.2)
Central Bank Bonds	164,580	144	166,240	147	162,000	143	162,460	146	(1.5)	(2.0)	1.0	(2.6)	(4.1)	(1.3)	0.3
Central Government Bonds	408,361	357	411,271	364	415,533	366	413,848	372	5.5	1.1	0.7	1.0	5.8	1.3	(0.4)
Industrial Finance Debentures	28,221	25	27,678	24	27,122	24	27,283	25	(4.4)	(5.0)	(1.9)	(2.0)	(8.4)	(3.3)	0.6
Corporate	890,301	777	896,258	793	909,482	802	919,279	827	14.7	3.6	0.7	1.5	15.1	3.3	1.1

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.

KRW409.9 trillion. Also, the outstanding size of special public bonds climbed 16.7% y-o-y and 3.1% q-o-q to KRW305.3 trillion. In contrast, the outstanding size of financial debentures, excluding Korea Development Bank (KDB) Bonds, marginally fell 0.5% y-o-y and 0.2% q-o-q to level off at KRW204.1 trillion at end-September.

The top 30 LCY corporate bond issuers at end-September had combined outstanding bonds of KRW568.0 trillion, accounting for 62% of total LCY corporate bonds outstanding **(Table 2)**. Korea Land & Housing Corp. remained the largest issuer of corporate bonds with a total outstanding amount of KRW57.0 trillion.

Issuance of LCY corporate bonds in 3Q12 amounted to KRW96.8 trillion, which was 1.5% lower than in the previous quarter. The quarterly decline stemmed from a 9.7% q-o-q fall in issuance of private corporate bonds, outweighing the 12.7% and 4.2% q-o-q increases in issuance of special public bonds and financial debentures, respectively.

The largest LCY corporate bond issues in 3Q12 included Kookmin Bank's KRW500 billion 10-year bond offering a 3.4% coupon, Hyundai Heavy Industries' KRW400 billion 5-year bond carrying a 3.35% coupon, and Lotte Shopping's 3-year bond with a 2.98% coupon. The longest-dated LCY corporate bond issued during the quarter was Korea Expressway's 50-year bond worth KRW100 billion carrying a 3.48% coupon. Meanwhile, among the high-yield corporate bond issues made in 3Q12 were a 3-year asset-backed security (ABS) worth KRW6.8 billion issued by Gibo Green Hitech 1st Securitization Specialty Inc. at a coupon rate of 10.0%, Dongbu Corporation's 1-year bond worth KRW70 billion carrying an 8.9% coupon, and Tongyang Inc.'s 1.5-year bond worth KRW130 billion offering a 7.4% coupon.

Liquidity

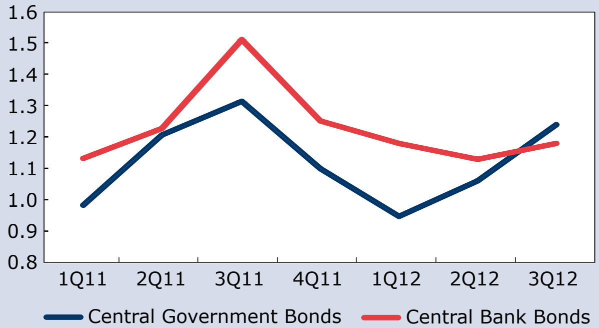
Liquidity in LCY government bonds improved in 3Q12, as the turnover ratio for government bonds increased to 1.16, compared with 1.02 in 2Q12

Table 2: Top 30 Issuers of LCY Corporate Bonds in the Republic of Korea (as of end-September 2012)

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.	56,983	51.3	Yes	No	No	No	Real Estate
2. Korea Housing Finance Corp.	41,209	37.1	Yes	No	No	No	Financial
3. Korea Deposit Insurance Corp.	39,740	35.8	Yes	No	No	No	Insurance
4. Korea Finance Corp.	37,130	33.4	Yes	No	No	No	Financial
5. Korea Electric Power Corp.	29,550	26.6	Yes	No	Yes	No	Utillity
6. KDB Daewoo Securities	29,436	26.5	Yes	No	Yes	No	Securities
7. Industrial Bank of Korea	27,866	25.1	Yes	No	Yes	No	Bank
8. Woori Investment and Securities	23,599	21.2	Yes	No	Yes	No	Securities
9. Korea Investment and Securities	21,635	19.5	No	Yes	No	No	Securities
10. Korea Expressway Corp.	19,740	17.8	Yes	No	No	No	Infrastructure
11. Shinhan Bank	19,098	17.2	No	Yes	No	No	Bank
12. Kookmin Bank	18,828	16.9	No	Yes	No	No	Bank
13. Mirae Asset Securities	18,142	16.3	No	Yes	Yes	No	Securities
14. Tong Yang Securities	16,797	15.1	No	Yes	Yes	No	Securities
15. Woori Bank	15,992	14.4	Yes	No	No	No	Bank
16. Small & Medium Business Corp.	15,168	13.6	Yes	No	No	No	Financial
17. Korea Rail Network Authority	13,760	12.4	Yes	No	No	No	Infrastructure
18. Korea Gas Corp.	12,845	11.6	Yes	No	Yes	No	Utility
19. Hana Bank	12,464	11.2	No	Yes	No	No	Bank
20. Hyundai Securities	11,146	10.0	No	Yes	Yes	No	Securities
21. Hana Daetoo Securities	10,964	9.9	No	Yes	No	No	Securities
22. Korea Water Resources	9,387	8.4	Yes	No	Yes	No	Utility
23. Standard Chartered First Bank Korea	9,040	8.1	No	Yes	No	No	Bank
24. Shinhan Investment Corp.	8,990	8.1	No	Yes	No	No	Securities
25. Shinhan Card	8,648	7.8	No	Yes	No	No	Financial
26. Korea Eximbank	8,370	7.5	Yes	No	No	No	Bank
27. Hyundai Capital Services	8,235	7.4	No	Yes	No	No	Securities
28. Korea Railroad Corp.	7,860	7.1	Yes	No	No	No	Infrastructure
29. Shinhan Financial Group	7,690	6.9	No	Yes	Yes	No	Financial
30. Samsung Securities	7,675	6.9	No	Yes	Yes	No	Securities
Total Top 30 LCY Corporate Issuers	**567,989**	**511.1**					
Total LCY Corporate Bonds	**919,279**	**827.2**					
Top 30 as % of Total LCY Corporate Bonds	**61.8%**	**61.8%**					

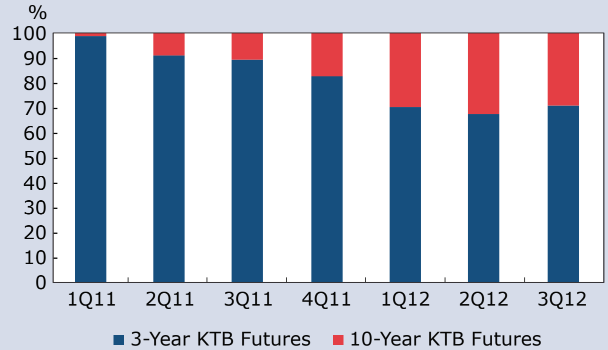
KOSPI = Korea Composite Stock Price Index, KOSDAQ = Korean Securities Dealers Automated Quotations, LCY = local currency.
Source: *AsianBondsOnline*, Bloomberg LP, and EDAILY *BondWeb*.

Figure 2: Turnover Ratio for Central Government and Central Bank Bonds, 1Q11-3Q12



Note: Central government bonds include treasury bonds and National Housing Bonds.
Source: The Bank of Korea and EDAILY *BondWeb*.

Figure 3: Trading Volume of KTB Futures Contracts, 1Q11–3Q12 (%)



KTB = Korea Treasury Bond.
Source: Korea Exchange.

and 0.96 in 1Q12. Between 2Q12 and 3Q12, the turnover ratio for central government bonds, mostly Korea Treasury Bonds (KTBs), rose from 1.06 to 1.24, while also climbing for Monetary Stabilization Bonds (MSBs) from 1.13 to 1.18 **(Figure 2)**.

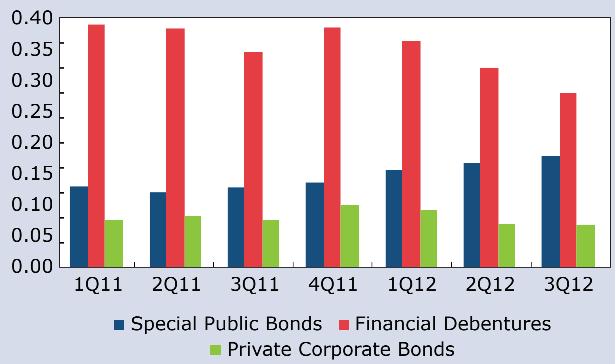
Trading activity in the KTB futures market strengthened in 3Q12, as the number of KTB futures contracts traded rose to 9.5 million for the quarter from 6.3 million in 2Q12. About 71% of the total KTB futures contracts traded in 3Q12 were 3-year, while the rest were 10-year **(Figure 3)**.

For LCY corporate bonds, the turnover ratio fell marginally to 0.15 in 3Q12 from 0.16 in 2Q12, induced by lower trading activity for financial debentures. Between 2Q12 and 3Q12, the turnover ratio for financial debentures fell to 0.28 from 0.32, inched up for special public bonds from 0.17 to 0.18, and remained unchanged for private corporate bonds at 0.07 **(Figure 4)**.

Investor Profile

Insurance companies and pension funds remained the largest investor group in LCY government bonds in 2Q12, holding 24% of total government bonds at end-June **(Figure 5)**. They were followed by the general government—consisting of the central government, local government, and social security funds—which held 23% of the total. Banks and other financial companies each held 19%, while foreign investors owned 10%. Compared with end-June 2011, the shares of insurance companies and pension funds, banks, and other financial companies rose by 1 percentage point each. In contrast, the shares of households and nonprofit organizations, non-financial corporates, and foreign investors fell by 1 percentage point each.

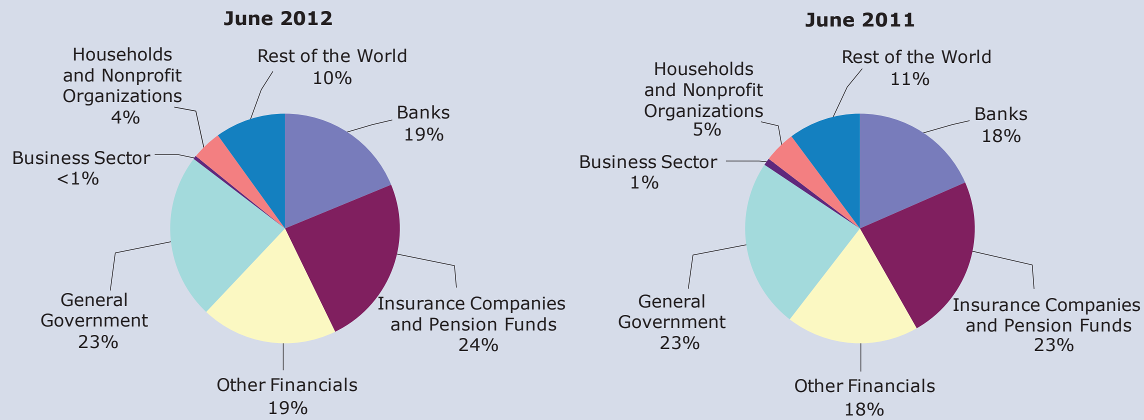
Figure 4: Turnover Ratios for Special Public Bonds, Financial Debentures, and Private Corporate Bonds, 1Q11–3Q12



Source: EDAILY *BondWeb*.

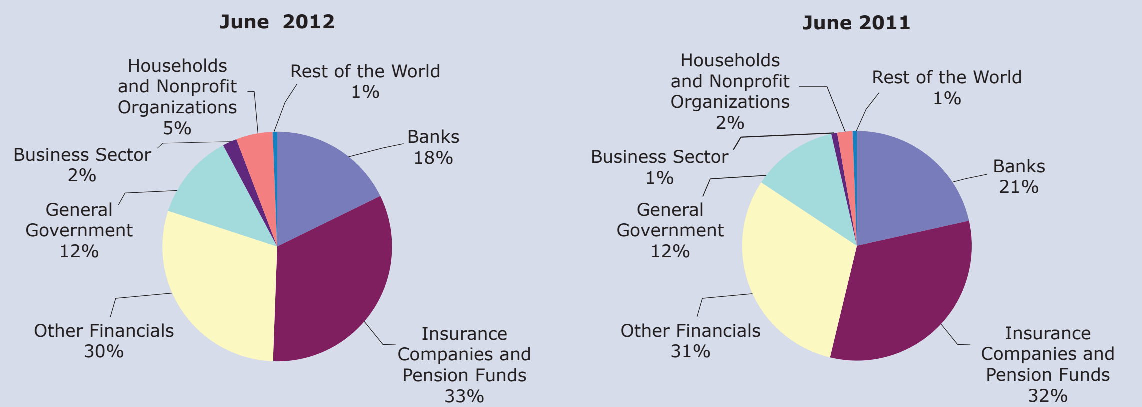
Insurance companies and pension funds were also the largest investor group in LCY corporate bonds, holding 33% of the total as of end-June **(Figure 6)**. Financial companies other than banks were the second-largest corporate bondholders with a share of 30%, followed by banks (18%), the

Figure 5: LCY Government Bonds Investor Profile



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

Figure 6: LCY Corporate Bonds Investor Profile



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

general government (12%), households and nonprofit organizations (5%), non-financial companies (2%), and foreign investors (1%). Between end-June 2011 and end-June 2012, the share of households and nonprofit organizations rose 3 percentage points, while insurance companies and pension funds, and non-financial corporates, both recorded a 1 percentage point increase in their respective shares. In contrast, the shares of banks and other financial companies fell 3 percentage points and 1 percentage point, respectively.

Rating Changes

Standard and Poor's (S&P) announced in September that it had upgraded the Republic of Korea's foreign currency (FCY) long-term rating to A+ from A, the LCY long-term rating to AA– from A+, and the LCY short-term rating to A-1+ from A-1 **(Table 3)**. Also in September, Fitch Ratings upgraded the country's long-term FCY issuer default rating to AA– from A+, and the short-term FCY issuer default rating to F1+ from F1, with a stable outlook for both. According to Fitch, the ratings upgrade reflects the

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

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Aa3	A+	AA–	A+
Outlook	Stable	Stable	Stable	Stable

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

country's strong macroeconomic policy framework, sustained fiscal discipline, and continued economic and financial stability. Meanwhile, Moody's Investor Service (Moody's) upgraded the FCY and LCY long-term ratings of the Republic of Korea to Aa3 from A1 in August.

Policy, Institutional, and Regulatory Developments

FSS Introduces Tighter Rules on Commercial Paper

The Financial Supervisory Service (FSS) announced in October that it had begun requiring issuers of asset-backed commercial paper to disclose the structure, credit ratings, and collateral of these instruments, together with information on the issuers' financial soundness and credit ratings. The FSS also announced that a one-stop inquiry system for commercial paper would be established in October and that it would strengthen its supervision of brokerages selling asset-backed commercial paper.

FSC Announces Measures to Strengthen Investor Protection in ELS/DLS Market

The Financial Services Commission (FSC) reported in September that a monitoring system for the issuance and operations of equity-linked securities (ELS) and derivatives-linked securities (DLS) would be established. To enhance investor protection, the FSC would discourage securities houses from issuing excessive short-term ELS and DLS.

FSC and FSS Revise Regulations on Bank Supervision

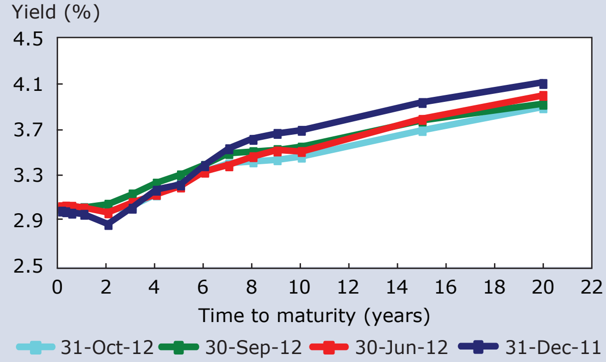
The FSC announced in September a joint effort with the FSS to revise regulations on bank supervision for domestic implementation of Basel III standards, which will take effect in 2013. The revisions will include subdividing the criteria for the minimum capital requirement, which is 8% of total capital, into three criterion: (i) 4.5% of common equity Tier 1 capital, (ii) 6% of Tier 1 capital, and (iii) 8% of total capital. The revisions will also include the introduction of a capital buffer of 2.5 percentage points in addition to the minimum capital requirement.

Malaysia—Update

Yield Movements

Between end-June and end-September, the yield curve for Malaysian local currency (LCY) government bonds steepened, with yields falling at the very short- and very long-end of the curve but rising elsewhere else along the curve **(Figure 1)**. As inflation continued to ease, yields at the very short-end fell between 1 basis point (bp) and 2 bps, while yields rose in the belly of the curve, but fell at the very-long end of the curve. Between end-September and end-October, yields at the very short-end of the curve rose slightly, while yields at the belly to the very-long end fell between 3 bps and 11 bps. The yield spread between the 2- and 10-year maturities narrowed to 47 bps at end-October from 50 bps at end-September and 53 bps at end-June.

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



LCY = local currency.
Source: Bloomberg LP.

Bank Negara Malaysia (BNM) decided to keep its overnight policy rate steady at 3.0% after its Monetary Policy Committee meeting on 6 September. BNM has kept its rate at this level since May last year. BNM expects headline inflation to remain moderate for the rest of 2012 and into 2013.

Malaysia's consumer price inflation eased further to 1.3% year-on-year (y-o-y) in September from 1.4% in August and July. During the first 9 months of the year, consumer price inflation averaged 1.8% y-o-y.

In 3Q12, Malaysia's real gross domestic product (GDP) grew 5.2% y-o-y, slightly lower than the revised 5.6% growth in the previous quarter. Domestic demand buoyed Malaysia's economy as weakness in the global economy persisted. Aggregate domestic demand growth eased to 7.3% y-o-y in 3Q12 from a revised 9.2% in 2Q12, due to lower growth in private and public consumption. Private consumption growth eased slightly to 8.5% y-o-y in 3Q12 from 8.8% in 2Q12, while public consumption growth slowed to 2.2% y-o-y in 3Q12 from 10.5% in the previous quarter. Capital spending continued to post double-digit growth at 22.7% y-o-y, with the private and public sectors registering growth of 22.9% and 22.4% y-o-y, respectively.

On the supply side, growth in the construction sector slowed to 18.3% y-o-y in 3Q12 from 22.2% in 2Q12. Manufacturing sector growth eased to 3.3% y-o-y in 3Q12 from 5.6% in the previous quarter. The mining sector shrank 1.2% y-o-y in 3Q12, after posting 2.3% growth in the previous quarter. Meanwhile, the services and agriculture sectors expanded as the former grew 7.0% y-o-y in 3Q12 from 6.6% in 2Q12, while the latter posted 0.5% growth in 3Q12 after a 4.7% decline in 2Q12.

Size and Composition

Malaysia's total LCY bonds outstanding rose 15.7% y-o-y to MYR972.2 billion (US$318 billion) at end-September, with both government and corporate bonds posting strong growth **(Table 1)**. Total LCY government bonds rose 16.1% and total LCY corporate bonds increased 15.3% in 3Q12. On a quarter-on-quarter (q-o-q) basis, total LCY bonds outstanding grew 4.1% in 3Q12.

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

	Amount (billion)								Growth Rate (%)						
	Jun-12		Jul-12		Aug-12		Sep-12		Jun-12		Jul-12	Aug-12	Sep-12		
	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	934	305	952	304	952	305	972	318	15.0	12.1	1.9	(0.0)	15.7	4.1	2.2
Government	559	183	576	184	570	183	586	192	15.3	12.1	3.0	(1.1)	16.1	4.8	2.9
Central Government Bonds and Bills	417	136	426	136	420	135	424	139	10.9	6.4	2.3	(1.5)	12.6	1.8	1.1
Central Bank Bills	142	46	147	47	147	47	159	52	31.0	33.1	3.4	0.1	24.5	12.0	8.2
Sukuk Permuhan Kerajaan	0	0	3	1	3	1	3	1	-	-	-	-	-	-	-
Corporate	375	123	376	120	382	122	386	126	14.6	12.1	0.2	1.6	15.3	2.9	1.1

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

Total LCY government bonds stood at MYR586.1 billion at end-September, rising 16.1% y-o-y as central government bonds and bills and central bank bills posted robust growth in 3Q12. On a q-o-q basis, total LCY government bonds outstanding rose 4.8% in 3Q12. Central government bills and bonds rose 12.6% y-o-y and 1.8% q-o-q to MYR424.5 billion at end-September. Meanwhile, outstanding central bank bills grew 24.5% y-o-y and 12.0% q-o-q in 3Q12.

Total LCY government bond issuance rose 13.1% y-o-y to MYR141.3 billion in 3Q12, mainly due to the increased issuance of central bank bills, which rose 13.1%. Meanwhile, issuance of government bonds—Malaysian Government Securities (MGSs) and Government Investment Issues (GIIs)—rose 3.1% y-o-y in 3Q12.

Outstanding LCY corporate bonds rose 15.3% y-o-y to MYR386.1 billion at end-September, slightly higher than the 14.6% growth posted in the previous quarter. On a q-o-q basis, total LCY corporate bonds outstanding rose 2.9% in 3Q12. The surge in issuance of corporate bonds that began in 1Q12 was sustained in 3Q12, with issuance rising 67.1% y-o-y in June–September.

Table 2: Notable Corporate Issuances in 3Q12

Corporate Issuer	Instrument	Amount (MYR billion)
Celcom Transmission	IMTNs	5.00
Tanjung Bin Power	IMTNs	4.20
Khazanah Nasional	IBONDS	2.50
DanaInfra Nasional	IMTNs	2.40
Prasarana	IBONDS	2.00
HLA Holdings	MTNs	2.00
Malacoff Corp	IBONDS	1.80
Kuala Lumpur Kepong	IMTNs	1.00
Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN)	IMTNs	1.00
Magnum Corp	MTNs	1.00
AMMB Holdings	MTNs	1.00

BONDS = conventional corporate bonds, IBONDS = Islamic bonds, IMTNs = Islamic medium-term notes, MTNs = medium-term notes.
Source: Bank Negara Malaysia.

Among the largest corporate LCY issues during 3Q12 were the *sukuk* (Islamic bond) issuances of Celcom Transmission and Tanjung Bin Power worth MYR5.0 billion and MYR4.2 billion, respectively **(Table 2)**. Several state-owned companies also issued *sukuk* in 3Q12. DanaInfra Nasional, a company wholly owned by the Ministry of Finance, issued MYR2.4 billion worth of Islamic medium-term notes (MTNs) in July. In August, government investment holding arm Khazanah Nasional raised MYR2.5 billion from the sale of zero-coupon *sukuk* with 10- and 20-year maturities, while state-owned Syarikat Prasarana Negara Berhad (Prasarana) sold MYR2 billion worth of 10- and 15-year *sukuk*. Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN), Malaysia's National Higher Education Corporation, issued MYR1 billion worth of 10-year *sukuk*.

Other notable issuances in 3Q12 included MTNs from HLA Holdings (MYR2.8 billion), AMBB Holdings (MYR1 billion), and gaming firm Magnum Corporation (MYR1 billion). In September, power generation company Malakoff Corporation raised MYR1.8 billion from the sale of 30-year Islamic MTNs, while rubber and oil palm producer Kuala Lumpur Kepong issued MYR1 billion worth of 10-year *sukuk*.

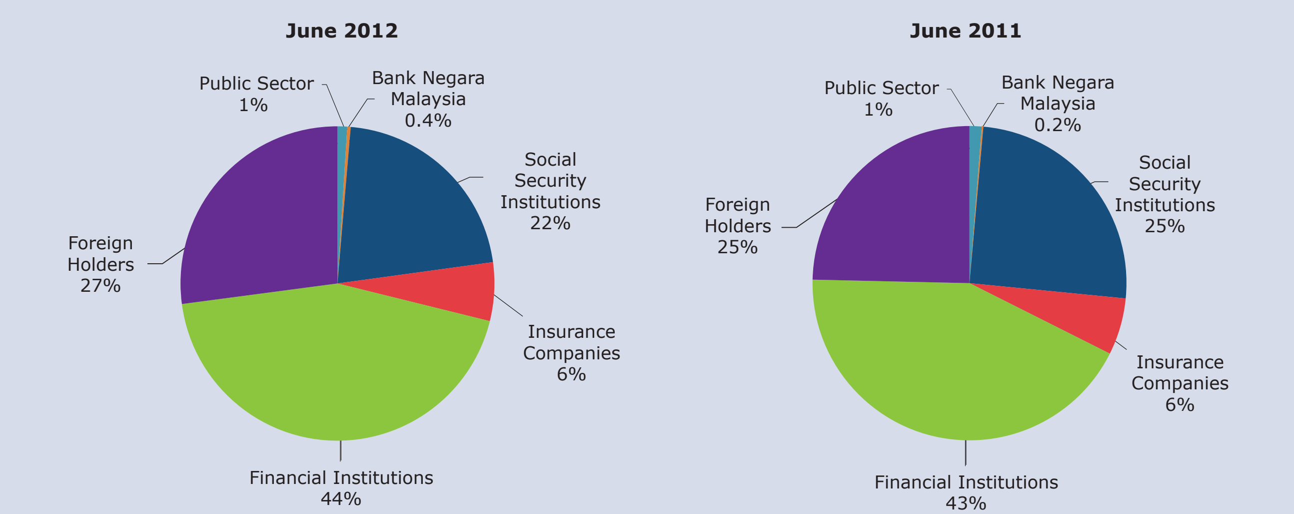
As of end-September, the top 30 issuers in Malaysia accounted for 56.3% of total LCY corporate bonds outstanding **(Table 3)**. Project Lebuhraya remained the largest issuer of LCY corporate bonds with MYR30.6 billion outstanding, followed by national mortgage corporation Cagamas Bhd. and the government's investment holding arm Khazanah Nasional with outstanding amounts of MYR19.9 billion and MYR15.7 billion, respectively.

Investor Profile

At end-June, financial institutions were still the largest holders of MGSs and GIIs, with 44.1% of total outstanding government bonds, followed by foreign investors and social security institutions, which held 27.1% and 21.5%, respectively. The holdings of insurance companies accounted for 6.0% of the total **(Figure 2)**.

Despite the depreciation of the Malaysian ringgit against the United States (US) dollar in the

Figure 2: Malaysian LCY Government Bonds Investor Profile



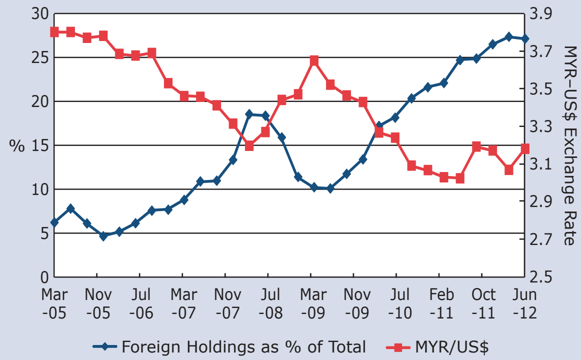
LCY = local currency.
Source: Bank Negara Malaysia.

Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia (as of end-June 2012)

Issuers	Outstanding Amount (MYR billion)					State-Owned	Privately-Owned	Listed Company	Type of Industry
	BONDS	IBONDS	MTNs	IMTNs	TOTAL				
1. Project Lebuhraya				30.60	30.60	No	Yes	Yes	Transport, Storage, and Comm.
2. Cagamas			9.57	10.38	19.94	Yes	No	No	Finance
3. Khazanah		15.70			15.70	Yes	No	No	Quasi-Govt. and Other
4. Pengurusan Air Bhd.				11.28	11.28	Yes	No	No	Energy, Gas, and Water
5. Maybank	9.70	1.50			11.20	No	Yes	Yes	Finance
6. Binariang GSM		3.02		7.22	10.24	No	Yes	No	Transport, Storage, and Comm.
7. Prasarana	1.91	4.00		4.00	9.91	Yes	No	No	Finance
8. Malakoff Corp.		1.80		5.60	7.40	No	Yes	No	Finance
9. CIMB Bank	7.00				7.00	No	Yes	No	Finance
10. Public Bank	1.20		4.87		6.07	No	Yes	Yes	Finance
11. Senai Desaru Expressway Bhd.				5.58	5.58	No	Yes	No	Construction
12. Sarawak Energy				5.50	5.50	Yes	No	Yes	Energy, Gas, and Water
13. KL International Airport	1.60	3.76			5.36	Yes	No	No	Transport, Storage, and Comm.
14. Celcom Transmission				5.00	5.00	No	Yes	No	Transport, Storage, and Comm.
15. 1Malaysia Development Bhd.				5.00	5.00	Yes	No	No	Finance
16. Hong Leong Bank	3.70		1.16		4.86	No	Yes	Yes	Finance
17. Manjung Island Energy Bhd.				4.85	4.85	No	Yes	No	Energy, Gas, and Water
18. AM Bank	0.49		4.28		4.77	No	Yes	Yes	Finance
19. RHB Bank	0.60		4.00		4.60	No	Yes	No	Finance
20. Aman Sukuk Bhd.				4.42	4.42	Yes	No	No	Construction
21. Jimah Energy Ventures				4.32	4.32	No	Yes	No	Energy, Gas, and Water
22. Putrajaya Holdings		0.39		3.88	4.27	No	Yes	No	Finance
23. Bank Pembangunan Malaysia	0.90		2.40	0.90	4.20	Yes	No	No	Finance
24. Tanjung Bin Power				4.20	4.20	No	Yes	No	Energy, Gas, and Water
25. Rantau Abang Capital Bhd.				3.80	3.80	No	Yes	No	Quasi-Govt. and Other
26. Danga Capital				3.60	3.60	Yes	No	No	Finance
27. Perbadanan Tabung Pendidikan Tinggi Nasional				3.50	3.50	No	Yes	No	Quasi-Govt. and Other
28. Cekap Mentari	3.50				3.50	No	Yes	Yes	Finance
29. YTL Power International			3.32		3.32	No	Yes	Yes	Energy, Gas, and Water
30. Tanjung Bin Energy				3.29	3.29	No	Yes	No	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers	**30.60**	**30.17**	**29.60**	**126.90**	**217.26**				
Total LCY Corporate Bonds	**60.57**	**63.18**	**61.79**	**180.65**	**386.09**				
Top 30 as % of Total LCY Corporate Bonds	**50.5%**	**47.7%**	**47.9%**	**70.2%**	**56.3%**				

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

Figure 3: Foreign Holdings of LCY Government Bonds vs. the MYR–US$ Exchange Rate



LCY = local currency.
Source: Bank Negara Malaysia.

second half of 2011 and in 2Q12, the share of foreign holdings among total LCY government bonds continued to rise from 21.5% at end-2010 to 26.5% at end-2011 (**Figure 3**). The share of foreign holdings increased further to 27.3% at end-March and slightly dropped to 27.1% at end-June.

Policy, Institutional, and Regulatory Developments

ASEAN Trading Link Launches with the Connection of Bursa Malaysia and Singapore Exchange

ASEAN Exchanges—a collaboration among the seven stock exchanges of the Association of Southeast Asian Nations (ASEAN) that seeks to promote growth in the region's capital markets—announced the rollout of the ASEAN Trading Link on 18 September with the connection of Bursa Malaysia and Singapore Exchange. The ASEAN Trading Link allows brokers to execute trades directly to connected exchanges without having to be licensed with that exchange.

Bloomberg AIBIM Bursa Malaysia Corporate *Sukuk* Index Launches

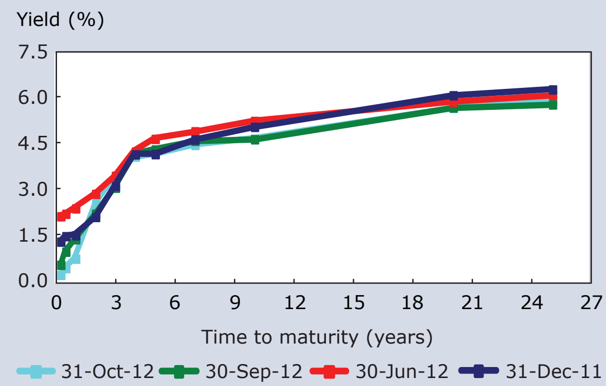
Bloomberg announced in September the launch of an index developed in partnership with the Association of Islamic Banking Institutions Malaysia (AIBIM) and Bursa Malaysia. The Bloomberg AIBIM Bursa Malaysia Corporate *Sukuk* Index will serve as a benchmark for investors in MYR-denominated *sukuk* in Malaysia. According to Bloomberg, the new index will track and measure the performance of the most liquid and credit worthy *sukuk* in Malaysia.

Philippines—Update

Yield Movements

Between end-December and end-October, the Philippine local currency (LCY) government bond yield curve arched slightly upward as yields on both ends fell, while those in the 2- to 3-year range rose **(Figure 1)**. Yields for tenors of 1 year and below plunged between 75 basis points (bps) and 108 bps as foreign investors sought these bills on the back of the strong peso. Government bonds with maturities of 4 years and above fell between 1 bp and 40 bps during the same period. Meanwhile, yields for tenors between 2 years and 3 years climbed 31 bps–43 bps.

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



LCY = local currency.
Source: Bloomberg LP.

Between end-June and end-October, the yield curve generally shifted downward with a steepening bias as the decline at the short-end outpaced that of the long-end. Movement in the yield curve reflected the monetary easing policies implemented by Bangko Sentral ng Pilipinas (BSP) and the country's credit upgrade from Standard and Poor's (S&P) in July and Moody's Investors Service (Moody's) in October. Government securities with maturities of 1 year and below dropped the most, with declines ranging between 163 bps and 190 bps. The yield spread between the 2- and 10-year tenors narrowed 31 bps between end-June and end-October—from 241 bps to 210 bps.

Inflation in the Philippines has been favorable in 2012, enabling the pursuit of expansionary fiscal and monetary policy goals. Consumer price inflation began slowing after peaking in August at 3.8% year-on-year (y-o-y); September and October inflation came in at 3.6% and 3.1%, respectively. Year-to-date headline inflation stood at 3.2% at end-October, while core inflation, which excludes selected food and energy items, was slightly higher at 3.8%. Both figures fell at the low-end of the government's 3%–5% annual target inflation range. Slower inflation in October was brought about by falling prices of food and oil imports, and an appreciating peso.

During the first half of 2012, the growth of the Philippine economy surpassed many analysts' forecasts as gross domestic product (GDP) grew 6.1% y-o-y. Growth trends in the second half of the year point to a slight easing due to disruptions caused by weather disturbances and a slowdown in exports and remittances, the combined effects of which may result in curtailed household consumption.

Merchandise exports recovered to grow 22.8% y-o-y in September from a 9.0% fall in August, bringing cumulative 9-month export growth to 7.2% y-o-y on US$40.1 billion in exports. Electronics products were a drag on export performance, dropping 7.24% y-o-y in January–September. Meanwhile, cumulative January–August personal remittances from overseas Filipinos grew 5.6% y-o-y, reaching US$15.3 billion. Total remittances for the month of August grew 7.9% y-o-y. Cash remittances expanded 7.6% y-o-y in August and 5.5% y-o-y in January–August. In June, BSP began recording personal remittances in line with the International Monetary Fund's (IMF) balance of payment calculation methodology.

BSP has noted an increase in the level of liquidity in the financial system as the Philippine currency

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

	Amount (billion)								Growth Rate (%)						
	Jun-12		Jul-12		Aug-12		Sep-12		Jun-12		Jul-12	Aug-12	Sep-12		
	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	3,667	87	3,745	90	3,752	89	3,801	91	12.4	2.9	2.1	0.2	16.1	3.7	1.3
Government	3,172	75	3,239	78	3,237	77	3,286	79	11.5	1.7	2.1	(0.1)	14.7	3.6	1.5
Treasury Bills	255	6	259	6	257	6	262	6	(33.1)	(4.7)	1.4	(0.6)	(20.6)	2.7	1.8
Treasury Bonds	2,793	66	2,856	68	2,855	68	2,900	69	19.0	2.5	2.3	0.04	19.8	3.8	1.6
Others	124	3	124	3	124	3	124	3	6.4	(2.4)	0.0	0.3	8.6	0.3	0.0
Corporate	495	12	506	12	515	12	514	12	18.7	11.5	2.2	1.9	26.1	3.9	(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 bonds issued by government agencies, instrumentalities, and corporations with which repayment was guaranteed by the National Government. These include issues of Power Sector Assets and Liabilities Management (PSALM), National Food Authority, and others.
5. Peso Global Bonds (PHP-denominated bonds but payable in US$) and multi-currency Retail Treasury Bonds are not included. As of 30 September 2012, the Government of the Philippines and Petron Corporation had PHP98.9 billion and PHP20.0 billion of Peso Global Bonds outstanding, respectively. The government also had PHP20.8 billion of multi-currency Retail Treasury Bonds outstanding.
Source: Philippine Bureau of the Treasury and Bloomberg LP.

strengthens. To help insulate the country from "risks associated with weaker external demand by encouraging investment and consumption," BSP has stated that further monetary easing may be necessary. In its meeting on 25 October, BSP reduced the policy rates by another 25 bps each, bringing the overnight borrowing (reverse repurchase) and lending (repurchase) rates to 3.5% and 5.5%, respectively. BSP reported that it would continue easing monetary policy as needed to ward off the destabilizing effects of an overly strong peso.

Size and Composition

The Philippine LCY bond market grew at a robust rate of 16.1% y-o-y as of end-September, led by both treasury and corporate bond expansion **(Table 1)**. Improving macroeconomic fundamentals combined with transparency in political governance has improved business sentiment and encouraged investment. Total LCY bonds outstanding reached PHP3.8 trillion (US$91 billion) at end-September, up 3.7% from end-June's level of almost PHP3.7 trillion. Government securities still accounted for the majority of bonds outstanding, totaling PHP3.3 trillion, while corporate bonds summed to PHP514 billion.

Government Bond Market Development. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies rose 14.7% y-o-y and 3.6% quarter-on-quarter (q-o-q) to close at PHP3.3 trillion at end-September. Treasury bonds advanced at the most rapid pace—19.8% y-o-y and 3.8% q-o-q—to stand at PHP2.9 trillion at end-September. Meanwhile, only treasury bills registered a decline in 3Q12, contracting 20.6% y-o-y to PHP262 billion. However, September's balance of outstanding treasury bills was up 2.7% on a q-o-q basis. Total outstanding bonds of government agencies was almost unchanged at PHP124 billion in 3Q12, although this was 8.6% higher than in the same period last year.

In terms of issuance in 3Q12, PHP143 billion worth of treasury bills were sold compared with PHP63 billion of treasury bonds. Notable issues included the PHP30 billion worth of 182-day treasury bills sold in September and the PHP25 billion of 362-day treasury bills sold in August. Among treasury bonds, PHP9 billion worth of 5-year, PHP18 billion of 7-year, PHP18 billion of 10-year, PHP9 billion of 20-year, and PHP9 billion of 25-year bonds were sold during the quarter.

The National Home Mortgage Finance Corporation (NHMFC), the government's secondary mortgage institution, sold a total of PHP420 million of residential mortgage-backed securities known as Bahay Bonds II **(Table 2)**. NHMFC opted to list PHP300 million of the bonds with the Philippine Dealing and Exchange Corporation (PDEx), marking the first time that mortgage-backed securities were listed on the country's exchange.

The government has programmed LCY borrowing of PHP90 billion through its regular auction schedule in 4Q12. Half of the borrowing will consist of treasury bills with 91-, 182-, and 364-day tenors, and the other half will consist of treasury bonds with maturities of 5, 7, and 10 years.

In October, the government reached another milestone by completing a 25-year Retail Treasury Bond (RTB) offering worth PHP188 billion. The RTBs, which carry a coupon of 6.125% payable quarterly, are primarily intended to encourage participation by individual investors and promote savings. The 25-year RTBs have the longest maturity of any RTB issue.

Corporate Bond Market Development. As of end-September, total outstanding LCY corporate bonds stood at PHP514 billion (US$12.3 billion), equivalent to a growth rate of 26.1% y-o-y. Comparing 3Q12 with 2Q12, the size of the corporate bond market expanded modestly at 3.9% q-o-q. A total of PHP27.4 billion of LCY corporate bonds were sold in 3Q12. Major issuers for the quarter included (i) SM Investments Corporation (SMIC), (ii) First Metro Investment Corporation (FMIC), and (iii) Security Bank Corporation (SBC).

In October, BDO issued PHP5 billion of fixed-rate certificates of deposit (CDs). The CDs carry a coupon of 5.25% payable quarterly.

Only 47 companies are actively tapping the capital markets in the Philippines. Not surprisingly, the top 30 issuers accounted for 93.2% of the total amount of LCY corporate bonds outstanding (PHP514 billion) at end-September **(Table 3)**. Out of the top 30 bond issuers, only 5 companies were privately-held corporations and the rest were publicly listed with the Philippine Stock Exchange (PSE). San Miguel Brewery (SMB) remained the largest corporate borrower in the country with PHP45.2 billion of outstanding debt. Banco de Oro Unibank (BDO)

Table 2: Selected Issuance in 3Q12

	Issue Date	Amount		Coupon Rate (%)	Bond Type
		PHP (billion)	US$ (billion)		
July-September 2012					
SM Investments Corporation	16-Jul-12	15.00	0.36		Senior Unsecured
PHP6.34 billion 6.0% due 2019					
PHP8.66 billion 6.9442% due 2022					
First Metro Investment Corporation	10-Aug-12	7.00	0.17		Senior Secured
PHP4 billion 5.5% due 2017					
PHP3 billion 5.75% due 2019					
Security Bank Corporation	15-Aug-12	5.00	0.12	5.5	Certificate of Deposit
Bahay Bonds II Special Purpose Trust	17-Aug-12	0.42	0.01		Mortgage-Backed
PHP300 million 4.8% due 2017					
PHP120 million 6.00% due 2022					

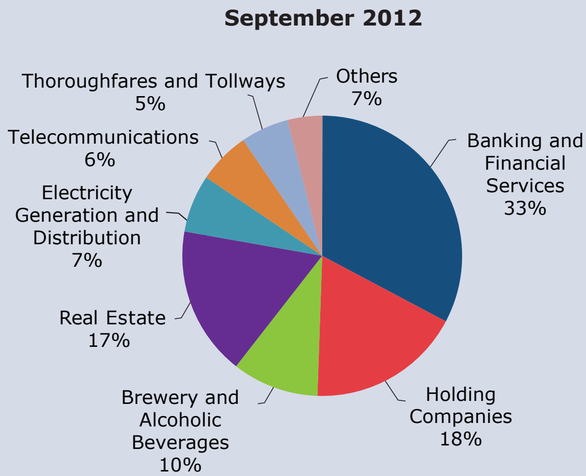
Note: *AsianBondsOnline* classifies Bahay Bonds II Special Purpose Trust as part of government bonds.
Source: Bloomberg LP.

Table 3: Top 30 Issuers of LCY Corporate Bonds in the Philippines (as of end-September 2012)

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.	45.21	1.08	No	Yes	Yes	Brewery
2. BDO Unibank Inc.	38.00	0.91	No	Yes	Yes	Banking
3. SM Investments Corporation	36.09	0.86	No	Yes	Yes	Diversified Operations
4. Ayala Corporation	36.00	0.86	No	Yes	Yes	Diversified Operations
5. Ayala Land Inc.	30.51	0.73	No	Yes	Yes	Real Estate
6. Philippine National Bank	21.85	0.52	No	Yes	Yes	Banking
7. Rizal Commercial Banking Corporation	21.00	0.50	No	Yes	Yes	Banking
8. Manila Electric Company	19.38	0.46	No	Yes	Yes	Electricity Distribution
9. Metropolitan Bank & Trust Co.	18.50	0.44	No	Yes	Yes	Banking
10. Philippine Long Distance Telephone Co.	17.50	0.42	No	Yes	Yes	Telecommunications
11. SM Development Corporation	16.31	0.39	No	Yes	Yes	Real Estate
12. Filinvest Land, Inc	15.00	0.36	No	Yes	Yes	Real Estate
13. Petron Corporation	13.60	0.33	No	Yes	Yes	Oil Refining and Marketing
14. JG Summit Holdings, Inc.	13.31	0.32	No	Yes	Yes	Diversified Operations
15. Security Bank Corporation	13.00	0.31	No	Yes	Yes	Banking
16. Energy Development Corporation	12.00	0.29	No	Yes	Yes	Electricity Generation
17. First Metro Investment Corporation	12.00	0.29	No	Yes	Yes	Investment Banking
18. Robinsons Land Corporation	12.00	0.29	No	Yes	Yes	Real Estate
19. MTD Manila Expressway Corporation	11.50	0.28	No	Yes	No	Transport Services
20. South Luzon Tollway Corporation	11.00	0.26	No	Yes	No	Transport Services
21. Globe Telecom Inc.	10.92	0.26	No	Yes	Yes	Telecommunications
22. United Coconut Planters Bank	9.52	0.23	No	Yes	Yes	Banking
23. Allied Banking Corporation	8.00	0.19	No	Yes	Yes	Banking
24. Megaworld Corporation	6.38	0.15	No	Yes	Yes	Real Estate
25. Manila North Tollways Corporation	6.15	0.15	No	Yes	No	Public Thoroughfares
26. Bank of the Philippine Islands	5.00	0.12	No	Yes	Yes	Banking
27. China Banking Corporation	5.00	0.12	No	Yes	Yes	Banking
28. SM Prime Holdings Inc.	5.00	0.12	No	Yes	Yes	Real Estate Management Services
29. Tanduay Distilleries Inc.	5.00	0.12	No	Yes	No	Alcoholic Beverages
30. Philippine Phosphate Fertilizer Corporation	4.50	0.11	No	Yes	No	Agricultural Chemicals
Total Top 30 LCY Corporate Issuers	**479.23**	**11.48**				
Total LCY Corporate Bonds	**514.43**	**12.32**				
Top 30 as % of Total LCY Corporate Bonds	**93.2%**	**93.2%**				

LCY = local currency.
Note: Petron Corporation has PHP20 billion of peso global bonds outstanding that are not included in this statistics.
Source: Bloomberg LP.

Figure 2: LCY Corporate Bond Issuers by Industry



LCY = local currency.
Source: Bloomberg LP.

followed SMB as the next largest borrower with PHP38.0 billion. SMIC was in the third spot with PHP36.1 billion of outstanding bonds.

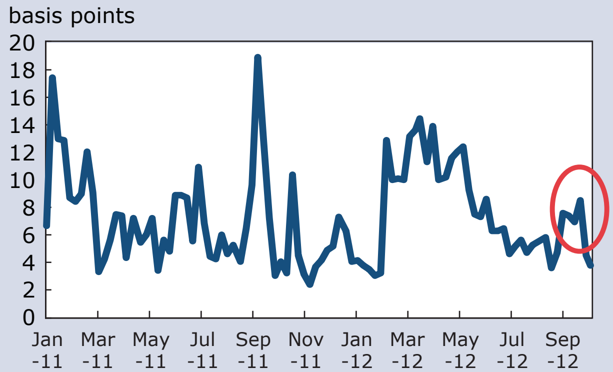
The diversity of LCY corporate bond issuers in 3Q12 was comparable with that in 2Q12 **(Figure 2)**. Banks and financial services, including investment houses, remained the leading issuers of debt in 3Q12 with 33% of the total as BSP moved toward more stringent liquidity and capital requirements. The share of holding companies rose to 18% in 3Q12 from 15% in 2Q12. Real estate companies, meanwhile, accounted for 17% of total LCY corporate bonds outstanding in 3Q12, slightly lower than the 18% share recorded in the previous quarter. The share of breweries and alcoholic beverage companies was 10% of the total, similar to their share at end-June. Firms from industries as diverse as (i) electricity generation and distribution, (ii) telecommunications, and (iii) thoroughfares and tollways continued to hold shares of total corporate bonds outstanding in the single-digit levels.

Benchmark Government Securities Bid–Ask Spreads. Liquidity in the secondary trading market for government securities is an indication of market sentiment and investor confidence. Bid–ask spreads and trading volume trends are common indicators of liquidity in the secondary market. *AsianBondsOnline* monitored the most traded treasury bonds with the most frequent bid–ask (two-way) quotes from 7 January 2011 to 25 October 2012. The data used to capture the bid–ask spreads for these securities were obtained from the Bloomberg pages of money brokers operating in the Philippines.

Bid–ask spreads for benchmark government securities continued to tighten in 2012, reflecting a trend discussed in previous editions of the Asia Bond Monitor **(Figure 3)**. Year-to-date through 25 October, bid–ask spreads averaged 7.7 bps. The average bid–ask spread stood at 7.6 bps in 1Q12 before increasing to 10.4 bps in 2Q12 on the back of rising risk aversion resulting from the possibility of a Greek exit from the eurozone and an economic slowdown in the People's Republic of China (PRC). From 1 July to 25 October, bid–ask spreads narrowed to 5.7 bps on renewed risk appetite resulting from the Philippines' credit upgrades from S&P and Moody's, and continuous monetary easing policies from BSP in response to the rapid appreciation of the Philippine peso.

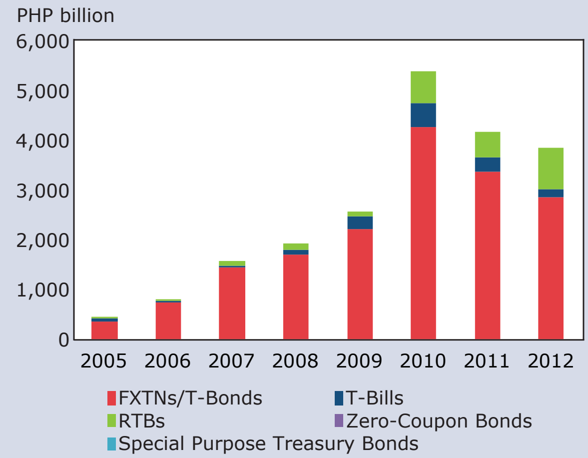
From 1 July to 25 October, the series with the tightest bid–ask spreads were FXTN 20-17 and RTB 20-1, with an average of 1.3 bps and 2.7 bps,

Figure 3: Weekly Average Bid–Ask Spreads of the Philippines' Most Active Government Securities, 7 January 2011–25 October 2012



Note: The following were included among the monitored government securities: (i) FXTN 7-51, (ii) FXTN 7-53, (iii) RTB 10-2, (iv) FXTN 10-53, (v) RTB 10-3, (vi) FXTN 10-54, (vii) FXTN 10-55, (viii) RTB15-1, (ix) RTB15-2, (x) FXTN 20-17, (xi) RTB 20-1, and (xii) FXTN 25-8.
Source: *AsianBondsOnline*.

Figure 4: PDEx Trade Volume Trends—Government Securities, 2005–October 2012



FXTNs = fixed-rate treasury notes, RTBs = Retail Treasury Bonds.
Note: PDEx reports one side of the trade only.
Source: Philippine Dealing and Exchange Corporation (PDEx).

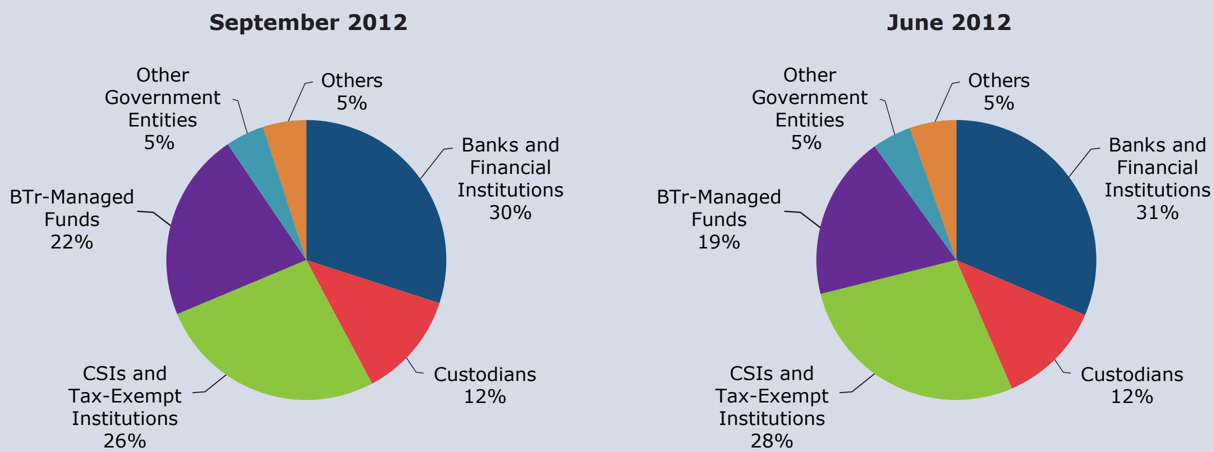
respectively. The other series considered the most liquid were (i) FXTN 7-51 with a bid–ask spread of 5.0 bps, (ii) FXTN 10-54 with 5.4 bps, (iii) FXTN 10-55 with 6.0 bps, and (iv) FXTN 10-53 and RTB 10-3 with 6.2 bps each. FXTN 25-08 and RTB 10-2 had bid–ask spreads of 7.2 bps and 7.7 bps, respectively. On-the-run 15-year RTBs enjoyed bid–ask spreads of 7.8 bps and 8.5 bps, respectively. Two-way quotes for FXTN 7-53 became less frequent and widened to 11.7 bps during the period. Meanwhile, two-way quotes for FXTN 5-67 (1.23 years), FXTN 7-48 (3.23 years), and FXTN 10-42 (3.83 years) were dropped from the analysis since it has been observed that they have lost their liquidity. Interestingly, these government securities have remaining maturities of less than 5 years.

PDEx Trade Volume Trends—Government Securities. As the sole fixed-income exchange in the country, PDEx captures the secondary trading of listed fixed-income issues. The volume of secondary trading of government securities has surged tremendously between 2005 and end-October 2012 **(Figure 4)**. From annual trading of PHP437.7 billion in full-year 2005, trade volume increased to PHP3.83 trillion in the first 10 months of 2012. The largest annual volume was recorded in 2010, when secondary trading reached PHP5.35 trillion. Between January 2005 and October 2012, treasury bonds accounted for almost 82% of all trades in the secondary market as investors sought greater capital gains and interest income from these securities.

Investor Profile

The largest grouping of investors of government securities in 3Q12 comprised banks and financial institutions with 30.0% of the total **(Figure 5)**. This was slightly down from their share of 31.5% in 2Q12. Contractual savings institutions—the Social Security System (SSS), the Government Service Insurance System (GSIS), Pag-ibig, and life insurance companies—and tax-exempt institutions—trusts and other tax-exempt entities—accounted for 26.4% in 3Q12, down from 27.6% in 2Q12. Meanwhile, the share of funds being managed by the Bureau of the Treasury (BTr), which includes the Bond Sinking Fund, rose to 21.9% at end-September from 19.0% at end-June. The participation of custodians remained steady in 3Q12 at around 12% of the total. Other government entities and other investor, which include individuals and private corporations, were almost unchanged between end-June and end-September at around 5%.

Figure 5: LCY Government Bonds Investor Profile



BTr = Bureau of Treasury, CSIs = contractual savings institutions, LCY = local currency.
Note: For the purpose of this investor profile only, LCY government bonds are defined as domestic bonds, which include multi-currency (US$ and EUR) retail tresury bonds totaling to almost PHP21 billion as of end-September 2012.
Source: Philippine Bureau of the Treasury.

Rating Changes

The Philippines received an upgrade from Moody's on 29 October, leaving its credit rating one notch away from investment grade **(Table 4)**. Moody's raised the foreign currency (FCY) and LCY long-term bond ratings of the Government of the Philippines to Ba1 from Ba2. The ratings outlook was stable for both. Moody's rationale for the upgrade took into account the Philippines' (i) improved economic performance and strong fiscal position in the face of deteriorating global demand, (ii) enhanced prospects for growth over the medium-term, and (iii) sound financial system that poses limited contingent risks and provides a stable source of government financing. Moody's also upgraded the issue ratings for the BSP-rated liabilities to Ba1 from Ba2, with a stable outlook.

Table 4: Selected Sovereign Ratings and Outlooks for the Philippines

	Moody's	S&P	Fitch
Sovereign FCY LT Rating	Ba1	BB+	BB+
Outlook	Stable	Stable	Stable

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

Policy, Institutional, and Regulatory Developments

BSP Requires Loss Absorbency Clause for Hybrid Instruments

BSP issued Circular 768 on 21 September, requiring instruments eligible as capital under Basel III rules to have loss absorbency features. The circular requires hybrid Tier 1 capital and lower Tier 2 capital to either be written off or converted into common equity upon the occurrence of a trigger event as determined by BSP. In addition, the circular states that "the issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted."

Philippines Sells PHP30.8 Billion (US$750 Million) of Global Peso Notes, Offers Bond Buy-Back

The Philippines sold PHP30.8 billion (US$750 million) of 10-year global peso notes priced at 3.9% during the second week of November. The foreign exchange rate at pricing was PHP41.07 to US$1. The proceeds will be used to partially fund the repurchase of the 15 most expensive US$- and euro-denominated government bonds. The government has offered to repurchase US$1.5 billion of such foreign bonds, with the offer set to expire on 15 November. Should the repurchase require additional US dollars, the government will source the needed funding from the reserves of the BSP. The global peso notes are registered with the US Securities and Exchange Commission (SEC) as they are PHP-denominated but settled in US dollars. The issuance and tender offer are part of the government's external liability management efforts to minimize the foreign exchange risk inherent in the Philippines' outstanding debt portfolio.

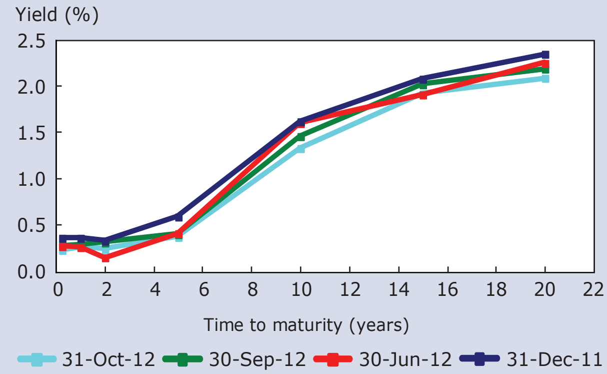
With the sale, the Philippines has completed three global peso notes offerings. The two previous issues were a PHP44.1 billion (US$1.0 billion) 10-year bond offering in September 2010 and a PHP54.8 billion (US$1.25 billion) 25-year bond offering in January 2011. *AsianBondsOnline* does not include global peso notes in its statistics of LCY and FCY government bonds.

Singapore—Update

Yield Movements

Between end-June and end-September, the yield curve for local currency (LCY) government bonds in Singapore rose slightly at the shorter-end, while falling between the belly of the curve and the longer-end, with the exception of the 15-year maturity. Yields fell across all maturities between end-September and end-October **(Figure 1)**. Despite the uptick in the inflation rate in 3Q12, yields between the 2-month and 5-year maturities fell between 3 basis points (bps) and 7 bps between end-September and end-October. Meanwhile, the yield for the 10-year benchmark posted a larger decline at 13 bps, while the 15- and 20-year maturities each fell by 10 bps. The yield spread between the 2- and 10-year maturities narrowed further to 109 bps at end-October from 115 bps at end-September and 145 bps at end-June.

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



LCY = local currency.
Source: Bloomberg LP.

Inflation in September accelerated to 4.7% year-on-year (y-o-y) in September from 3.9% in August and 4.0% in July, mainly due to higher transportation and housing costs. The increase in Certificate of Entitlement (COE) premiums drove the increase in the index for transportation in September.

Based on advance estimates by the Ministry of Trade and Industry, Singapore's economy posted modest 1.3% y-o-y growth in 3Q12, down from revised growth of 2.3% in the previous quarter. Growth in the manufacturing sector slipped to 0.7% y-o-y in 3Q12 from 4.6% in 2Q12, while construction sector growth eased to 8.5% in 3Q12 from 10.1% in 2Q12. Meanwhile, growth in the services sector slightly improved to 1.1% y-o-y in 3Q12 from 0.9% in the previous quarter. On a seasonally adjusted quarter-on-quarter (q-o-q) annualized basis, however, Singapore's gross domestic product (GDP) fell 1.5% in 3Q12, after posting revised 0.2% growth in 2Q12. The q-o-q decline was mainly due to a 3.9% drop in manufacturing that reflected the decline in output in the electronics cluster. Growth for the rest of the year is expected to be weighed down by subdued global economic conditions, with the externally oriented sector continuing to be affected by the slowdown in demand from advanced economies. The GDP growth projection is still within the 1.5%–2.5% forecast for the year.

In October, the Monetary Authority of Singapore (MAS) decided to maintain a modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band. MAS also decided to keep the slope and width of the S$NEER policy band unchanged.

Size and Composition

The total amount of outstanding LCY bonds in Singapore increased 18.1% y-o-y to reach SGD290.8 billion (US$236.9 billion) at end-September, mainly due to a surge in LCY corporate bond issuance **(Table 1)**. Outstanding LCY corporate bonds accelerated 27.8% y-o-y to SGD120.0 billion at end-September, after posting 18.3% y-o-y growth at end-June. On a q-o-q basis, outstanding LCY corporate bonds rose 9.1% in 3Q12.

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

	Amount (billion)								**Growth Rate** (%)						
	Jun-12		**Jul-12**		**Aug-12**		**Sep-12**		**Jun-12**		**Jul-12**	**Aug-12**	**Sep-12**		
	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	274	217	274	220	282	226	291	237	15.8	3.2	0.1	2.6	18.1	6.1	3.3
Government	164	130	161	129	164	132	171	139	14.1	1.5	(1.8)	1.8	12.1	4.0	4.1
Central Govt. Bonds and Bills	144	114	141	114	142	114	144	117	3.8	–	(1.7)	0.8	6.2	0.1	1.1
Central Bank Bills	20	16	20	16	22	17	27	22	277.8	13.3	(2.5)	9.0	60.1	31.9	24.0
Corporate	110	87	113	91	117	94	120	98	18.3	5.8	3.0	3.8	27.8	9.1	2.1

– = 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. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.
2. Government bonds and bills do not include the special issue of Singapore Government Securities held by the Singapore Central Provident Fund (CPF).
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: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

Issuance of LCY corporate bonds in 3Q12 reached SGD10.1 billion, more than twice the SGD4.9 billion of issuance in 3Q11. Among the notable bond issues in 3Q12 were the SGD1.2 billion 10-year notes issued by United Oversea Bank Ltd., SGD1.0 billion 10.5-year notes issued by DBS Bank Ltd., and Oversea-Chinese Banking Corporation's SGD1.0 billion perpetual notes **(Table 2)**. Mapletree Treasury Services issued SGD600 million of perpetual bonds, while Ezra Holdings and Ezion Holdings issued smaller perpetual bonds worth SGD150 million and SGD125 million, respectively. Finally, the Housing and Development Board raised SGD950 million from the sale of 5- and 10-year bonds, and NTUC Income Insurance issued SGD600 million worth of 15-year bonds.

Outstanding LCY government bonds increased 12.1% y-o-y at end-September, slightly lower than the 14.1% growth posted at end-June. Meanwhile, outstanding MAS bills rose 60.1% y-o-y to SGD22 billion. On the other hand, outstanding Singapore Government Securities (SGS) bills and bonds rose 6.2% y-o-y, but were roughly flat on a q-o-q basis at SGD143.9 billion.

Issuance of SGS bonds dropped 5.3% y-o-y but went unchanged q-o-q in 3Q12. During the first 9 months of the year, SGS bonds issuance was down 10.8% compared with the same period last year. On the other hand, issuance of SGS bills rose 0.6% y-o-y but fell 8.9% q-o-q, while issuance of MAS bills rose 6.0% y-o-y but dropped 4.0% q-o-q in 3Q12.

Table 2: Notable Corporate Issuances in 3Q12

Corporate Issuers	**Amount Issued** (SGD million)	**Tenor** (years)	**Coupon** (%)
United Overseas Bank Ltd.	1,200.00	10	3.15
DBS Bank Ltd.	1,000.00	10.5	3.10
Oversea-China Banking Corp.	1,000.00	Perpetual	4.00
Mapletree Treasury Services	600.00	Perpetual	5.13
NTUC Income Insurance	600.00	15	3.65
Housing and Development Board	500.00	10	2.09
		5	1.11

Source: Bloomberg LP.

The top 30 corporate issuers in Singapore accounted for 50.1% of total corporate bonds outstanding at end-September and were found mainly in the financial and consumer sectors **(Table 3)**. The Housing and Development Board remained the biggest issuer with SGD11.6 billion of outstanding bonds at the end of 2Q12, while DBS Bank Singapore and Capitaland followed with outstanding amounts of SGD5.0 billion and SGD4.9 billion, respectively.

Policy, Institutional, and Regulatory Developments

ASEAN Trading Link Launches with the Connection of Bursa Malaysia and Singapore Exchange

ASEAN Exchanges—a collaboration among the seven stock exchanges of the Association of Southeast Asian Nations (ASEAN) that seeks to promote growth in the region's capital markets—announced the rollout of the ASEAN Trading Link on 18 September with the connection of Bursa Malaysia and Singapore Exchange. The ASEAN Trading Link allows brokers to execute trades directly on connected exchanges without having to be licensed with that exchange.

MAS Sets Up Contingent Liquidity Facility

MAS announced in its annual report released in July 2011 that it entered into an agreement with the Singapore Deposit Insurance Corporation Limited (SDIC) through which MAS could offer a contingent liquidity facility of up to SGD20 billion in the event of a banking crisis. The agreement was signed in February; as of 31 March, no request had been made on the facility.

Table 3: Top 30 Issuers of LCY Corporate Bonds in Singapore (as of end-September 2012)

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	11.6	9.4	Yes	No	No	Financial
2. DBS Bank Singapore	5.0	4.1	No	Yes	yes	Financial
3. CapitaLand	4.9	4.1	No	Yes	Yes	Financial
4. United Overseas Bank	4.5	4.0	No	Yes	Yes	Financial
5. Temasek Financial I	3.6	2.9	No	Yes	No	Financial
6. Oversea-Chinese Bank	2.9	2.4	No	Yes	Yes	Financial
7. SP Powerassets Ltd.	2.5	2.0	No	Yes	No	Utilities
8. Public Utilities Board	2.1	1.7	Yes	No	No	Utilities
9. Land Transport Authority	2.1	1.7	Yes	No	No	Industrial
10. GLL IHT PTE	1.5	1.2	No	Yes	No	Financial
11. Keppel Corp	1.5	1.2	No	Yes	Yes	Industrial
12. Olam International	1.5	1.2	No	Yes	Yes	Consumer
13. Keppel Land	1.4	1.1	No	Yes	Yes	Financial
14. Mapletree Treasury	1.3	1.1	No	Yes	No	Diversified
15. Temasek Financial III	1.3	1.1	No	Yes	No	Financial
16. CapitaMalls Asia Treasury	1.1	0.9	No	Yes	No	Financial
17. Overseas Union Enterprise	1.1	0.9	No	Yes	Yes	Consumer
18. City Developments	1.1	0.9	No	Yes	Yes	Consumer
19. PSA Corporation	1.0	0.8	No	Yes	No	Consumer
20. Neptune Orient Lines	1.0	0.8	No	Yes	Yes	Industrial
21. F&N Treasury	1.0	0.8	No	Yes	No	Financial
22. Hyflux	1.0	0.8	No	Yes	Yes	Industrial
23. Singapore Post	0.9	0.7	Yes	No	No	Industrial
24. Singtel Group Treasury	0.9	0.7	No	Yes	No	Communications
25. Capitamall Trust	0.8	0.7	No	Yes	Yes	Financial
26. Singapore Airlines	0.8	0.7	No	Yes	No	Transportation
27. Global Logistic Properities	0.8	0.6	No	Yes	yes	Industrial
28. CapitaLand Treasury	0.7	0.6	No	Yes	No	Financial
29. Joynote Ltd.	0.7	0.6	No	Yes	No	Financial
30. Sembcorp Financial Services	0.7	0.6	No	Yes	No	Industrial
Total Top 30 LCY Corporate Issuers	**61.1**	**49.8**				
Total LCY Corporate Bonds	**120.0**	**97.8**				
Top 30 as % of Total LCY Corporate Bonds	**50.9%**	**50.9%**				

LCY = local currency.
Source: Bloomberg LP.

Thailand—Update

Yield Movements

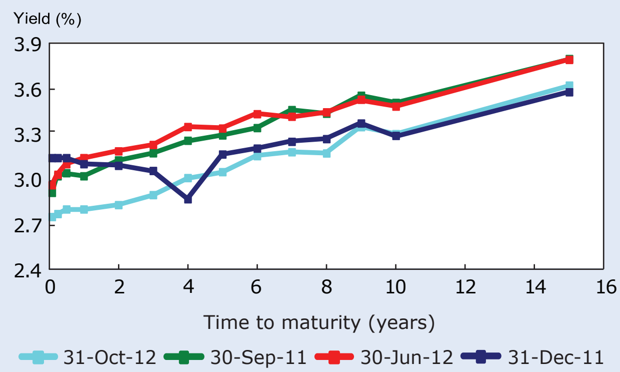
Thailand's government bond yields fell for most tenors between end-June and end-September, and dropped further for all tenors between end-September and end-October **(Figure 1)**. The decrease in yields between end-September and end-October ranged from 18 basis points (bps) for the 15-year tenor to 30 bps for the 2-year tenor. Expectations of policy rate cuts were the cause of declining yields. Meanwhile, yield spreads between the 2- and 10-year tenors widened 9 bps between end-June and end-September, and climbed an additional 9 bps between end-September and end-October.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 17 October to reduce the policy rate—the 1-day repurchase rate—by 25 bps to 2.75%. The BOT stated that the committee's decision to cut the policy rate was in line with monetary easing to help improve domestic demand and cushion the economy from the negative effects of a fragile global economy.

Consumer price inflation in Thailand eased to 3.3% year-on-year (y-o-y) in October from 3.4% in September. The price index for food and beverages rose 3.4% in October following a 3.7% increase in the prior month. Meanwhile, the price index for non-food items climbed 3.3% in October after a 3.2% hike in September.

Thailand's real gross domestic product (GDP) growth accelerated to 4.2% y-o-y in 2Q12 from mild 0.4% growth in 1Q12. Exports of goods and services rebounded in 2Q12, posting 0.9% y-o-y growth for the quarter compared with a contraction of 3.2% in the previous quarter. Comparing y-o-y growth rates in 1Q12 and 2Q12, private consumption rose from 2.9% to 5.3%, government spending rebounded from –0.2% to 5.6%, and domestic investment increased from 5.2% to 10.2%.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The outstanding amount of local currency (LCY) bonds in Thailand grew 14.4% y-o-y and 1.9% quarter-on-quarter (q-o-q) to reach THB8.2 trillion (US$265 billion) at end-September **(Table 1)**. Total government bonds amounted to THB6.5 trillion, which was up 12.1% from a year ago and 1.3% from the previous quarter. The combined size of outstanding government bonds and treasury bills rose 6.3% y-o-y, but declined 0.4% q-o-q, to THB3.0 trillion. Similarly, the central bank's bonds outstanding increased 15.7% y-o-y, but contracted 1.0% q-o-q, to level off at THB2.9 trillion. Meanwhile, state-owned enterprise (SOE) bonds climbed 26.7% y-o-y and 26.0% q-o-q to THB607 billion.

The largest government bond issues in 3Q12 were BOT's 1-year bond worth THB115 billion and 3-year bond worth THB85 billion. Provincial Waterworks Authority (PWA)—an SOE—sold the longest-dated government bonds of the quarter, issuing 15-year bonds in three tranches totaling THB850 million. One tranche of PWA's 15-year bonds was valued at THB350 million and offered the highest coupon rate across all

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

	Amount (billion)								Growth Rate (%)						
	Jun-12		Jul-12		Aug-12		Sep-12		Jun-12		Jul-12	Aug-12	Sep-12		
	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	8,027	254	8,149	259	8,187	262	8,176	265	17.7	4.1	1.5	0.5	14.4	1.9	(0.1)
Government	6,444	204	6,560	208	6,559	210	6,527	212	17.9	4.8	1.8	(0.03)	12.1	1.3	(0.5)
Government Bonds and Treasury Bills	3,000	95	3,043	97	3,107	99	2,987	97	17.3	8.0	1.4	2.1	6.3	(0.4)	(3.8)
Central Bank Bonds	2,963	94	2,973	94	2,855	91	2,933	95	22.1	1.7	0.3	(4.0)	15.7	(1.0)	2.7
State-Owned Enterprise and Other Bonds	481	15	545	17	597	19	607	20	(0.2)	4.5	13.1	9.6	26.7	26.0	1.7
Corporate	1,583	50	1,588	50	1,629	52	1,649	54	16.9	1.6	0.3	2.6	24.4	4.2	1.3

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 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.

government bond issues in 3Q12 at 4.18%. The largest SOE issuer for the quarter was Bank for Agriculture and Agricultural Cooperatives (BAAC), which issued a total of THB102.5 billion worth of bonds.

LCY corporate bonds outstanding amounted to THB1.6 trillion at end-September, up 24.4% y-o-y and 4.2% q-o-q. On a month-on-month (m-o-m) basis, the outstanding size of the corporate bond market rose 1.3%. As of end-September, the top 30 corporate bond issuers had combined bonds outstanding of THB1.0 trillion, accounting for 61% of total corporate bonds outstanding **(Table 2)**. PTT and Siam Cement remained the two largest corporate issuers of LCY bonds.

The largest corporate bond issues in 3Q12 included Siam Commercial Bank's THB20 billion 12-year subordinated debt offering a 4.65% coupon, PTT's 7-year bond worth THB10 billion with a 4.1% coupon, and Thanachart Bank's THB8.5 billion 10-year subordinated debt carrying a 4.7% coupon. Meanwhile, Charoen Phokphand sold the longest-dated tenor among all corporate bonds issued in the quarter, a 20-year bond worth THB5 billion and carrying a 5.3% coupon. Additionally, Hemaraj Land and Development sold the corporate bond with the quarter's highest coupon rate, a 9-year bond worth THB2 billion and with a coupon rate set at 5.65%.

Investor Profile

Contractual savings funds remained the largest holder of LCY government bonds in Thailand at end-September, accounting for 27% of the total, followed by insurance companies with a 22% share **(Figure 2)**. Compared with end-September 2011, the respective shares of contractual savings funds, foreign investors, insurance companies, and non-financial market mutual funds all increased, while shares fell for most other types of bondholders.

Individual retail investors remained the largest investor group in LCY corporate bonds in 2Q12, the latest period for which data is available,

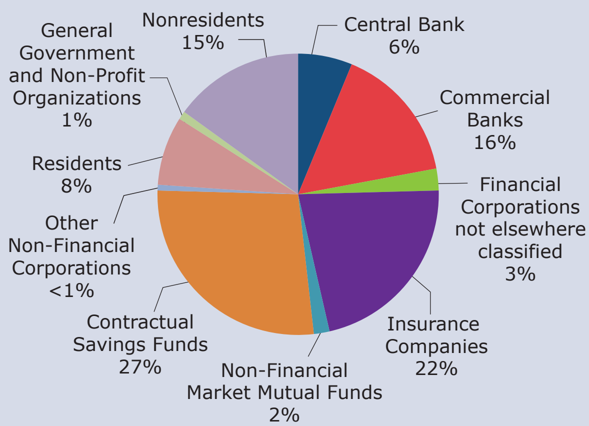
Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand (as of end-September 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US$ billion)				
1. PTT	187.0	6.1	Yes	No	Yes	Energy
2. Siam Cement	115.0	3.7	Yes	No	Yes	Diversified
3. Charoen Pokphand Foods	61.0	2.0	No	Yes	Yes	Consumer
4. Siam Commercial Bank	60.0	1.9	No	Yes	Yes	Financial
5. Kasikorn Bank	47.1	1.5	No	Yes	Yes	Financial
6. Thanachart Bank	38.6	1.3	No	Yes	no	Financial
7. Bank of Ayudhya	37.8	1.2	No	Yes	Yes	Financial
8. PTT Global Chemical	35.4	1.1	Yes	No	Yes	Basic Materials
9. Thai Airways International	32.2	1.0	Yes	No	Yes	Consumer
10. PTT Exploration and Production Company	29.2	0.9	Yes	No	Yes	Energy
11. Ayudhya Capital Auto Lease	28.3	0.9	No	Yes	No	Financial
12. Thai Oil	27.8	0.9	Yes	No	Yes	Energy
13. TMB Bank	27.7	0.9	No	Yes	Yes	Financial
14. Banpu	25.3	0.8	No	Yes	Yes	Energy
15. Krung Thai Card	23.7	0.8	Yes	No	Yes	Financial
16. Glow Energy	20.6	0.7	No	Yes	Yes	Utilities
17. Toyota Leasing Thailand	19.9	0.6	No	Yes	No	Consumer
18. IRPC	19.6	0.6	Yes	No	Yes	Energy
19. Quality Houses	18.3	0.6	No	Yes	Yes	Consumer
20. Indorama Ventures	16.9	0.5	No	Yes	Yes	Basic Materials
21. True Corporation	16.1	0.5	No	Yes	Yes	Communications
22. Kiatnakin Bank	15.3	0.5	No	Yes	Yes	Financial
23. Land & Houses	15.0	0.5	No	Yes	Yes	Consumer
24. Minor International	14.9	0.5	No	Yes	Yes	Consumer
25. Bangkok Expressway	14.2	0.5	No	Yes	Yes	Consumer
26. Tisco Bank	12.8	0.4	No	Yes	No	Financial
27. Pruksa Real Estate	12.5	0.4	No	Yes	Yes	Industrial
28. Italian-Thai Development	12.0	0.4	No	Yes	Yes	Industrial
29. Thanachart Capital	12.0	0.4	No	Yes	Yes	Financial
30. Central Pattana	11.7	0.4	No	Yes	Yes	Industrial
Total Top 30 LCY Corporate Issuers	**1,007.7**	**32.7**				
Total LCY Corporate Bonds	**1,649.5**	**53.5**				
Top 30 as % of Total LCY Corporate Bonds	**61.1%**	**61.1%**				

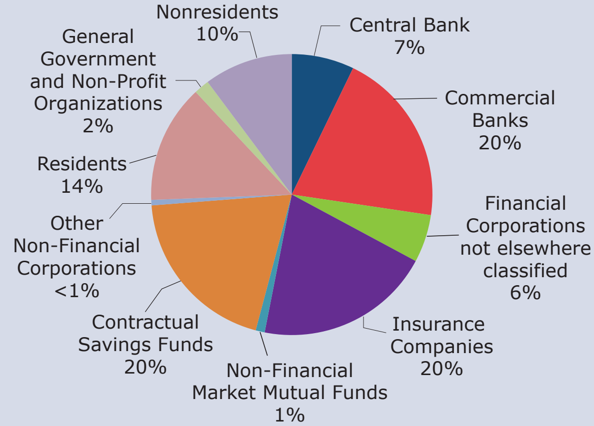
LCY = local currency.
Source: Bloomberg LP.

Figure 2: LCY Government Bonds Investor Profile

September 2012



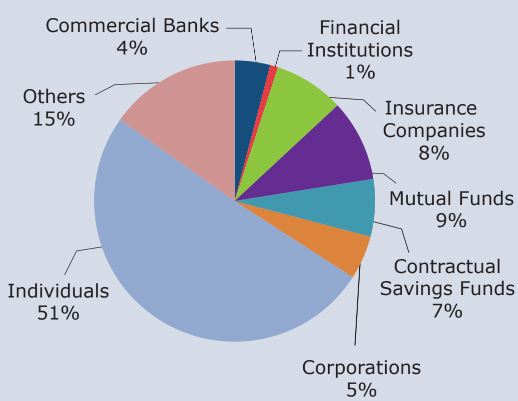
September 2011



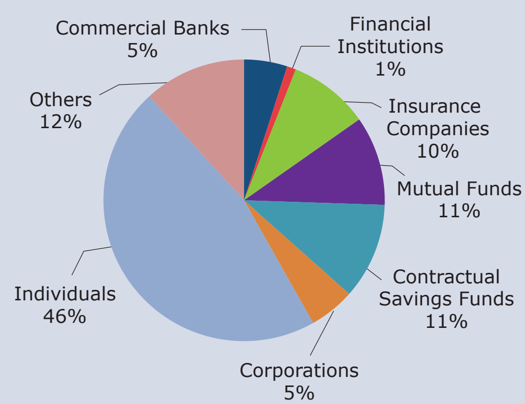
LCY = local currency.
Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
Source: *AsianBondsOnline* and Bank of Thailand.

Figure 3: LCY Corporate Bonds Investor Profile

June 2012



June 2011



LCY = local currency.
Source: ThaiBMA.

holding 51% of the total at end-June **(Figure 3)**. They were followed by other investors—such as the government, cooperatives, and foundations—with a combined 15% share, then mutual funds (9%), insurance companies (8%), contractual savings funds (7%), non-financial corporations (5%), commercial banks (4%), and other financial institutions (1%). Compared with end-June 2011, the share of individual retail investors rose 5 percentage points, while the share of the combined group of government, cooperatives, and foundations rose by 3 percentage points. In contrast, the respective shares of contractual savings funds, mutual funds, insurance companies, and commercial banks fell compared with end-June 2011.

Rating Changes

Rating and Investment Information, Inc. (R&I) upgraded Thailand's foreign currency (FCY) issuer rating in October to BBB+ from BBB, and its LCY issuer rating to A– from BBB+, while affirming the country's FCY short-term debt rating at a-2 **(Table 3)**. R&I stated that Thailand's external balance is stable and that the economy is returning to a normal growth path following its recovery from massive flooding in late 2011.

Table 3: Selected Sovereign Ratings and Outlook for Thailand

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Baa1	BBB+	BBB	BBB+
Outlook	Stable	Stable	Stable	Stable

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

Policy, Institutional, and Regulatory Developments

BOT Announces Capital Account Liberalization Master Plan

In October, the BOT proposed the Capital Account Liberalization Master Plan to encourage businesses and depositors to diversify their investments and enhance business efficiency, create an environment for more balanced capital flows, and promote financial market development to facilitate economic integration under the Association of Southeast Asian Nations (ASEAN) Economic Community, which comes into effect in 2015. Specifically, the BOT announced plans to relax rules on outward portfolio investment to allow (i) listed companies to directly invest in derivatives and securities products outside Thailand, (ii) Thai residents to buy foreign currency (FCY) bonds issued in Thailand, and (iii) institutional investors to freely unwind foreign exchange hedging. Additionally, the BOT stated that it will conduct an initial relaxation of foreign exchange regulations by the end of the year and that it will allow Thai individuals to invest in securities outside Thailand through securities companies or private funds without BOT approval.

MOF Restricts Foreign Entities from Issuing LCY Bonds in Thailand between September 2012 and May 2013

The Ministry of Finance (MOF) announced in September that it would not permit foreign entities to issue THB-denominated bonds or debentures in Thailand from 1 September 2012 to 31 May 2013. Normally, foreign entities planning to issue an LCY bond or debenture in Thailand can submit a letter of intent to MOF during three months in a year: March, July, and November.

SET Connects to ASEAN Trading Link

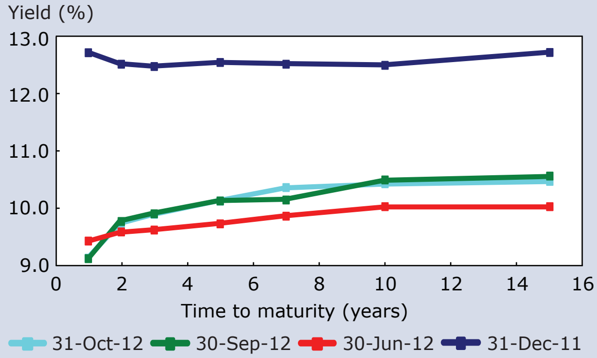
The Stock Exchange of Thailand (SET) became the third stock exchange to connect to the ASEAN Trading Link in October, following Bursa Malaysia and Singapore Exchange. The ASEAN Trading Link was launched in September to offer investors single entry-point access to ASEAN's participating stock exchanges. Brokers who are connected through the ASEAN Trading Link can execute trades directly on any of these three stock exchanges.

Viet Nam—Update

Yield Movements

Between end-June and end-October, yields on Viet Nam's 1-year government bonds fell 30 basis points (bps) to 9.13% **(Figure 1)**. Yields rose between 15 bps and 50 bps over the same period for maturities between 2 years and 15 years. As a result, the spread between 2- and 10-year government bonds widened to 69 bps at end-October from 44 bps at end-June and from –2 bps at end-December 2011, as the yield curve assumed a more normal upwardly-sloping curvature.

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



LCY = local currency.
Source: Bloomberg LP.

Viet Nam's economic expansion slowed to 4.7% year-on-year (y-o-y) in the first 9 months of 2012 from 5.8% in the same period last year. On a quarter-on-quarter (q-o-q) basis, the economy's expansion accelerated to an estimated 5.4% y-o-y in 3Q12 from 4.7% in 2Q12. The slowing year-to-date expansion in 2012 was due to the government's tightening of lending standards in the early months of the year in an effort to control inflation. Meanwhile, bad debts have limited the ability of Vietnamese banks to provide credit to the private sector. Loans outstanding as of 20 September increased only 2.4% from the end of 2011, compared with credit growth of 10.9% and 27.7% in 2011 and 2010, respectively. The State Bank of Viet Nam (SBV) has lowered its 2012 credit growth rate target to 8%–10% from an estimate of 15%–17% made earlier this year. The lackluster credit growth in 2012 has occurred in spite of continuous monetary easing by the SBV since March.

Meanwhile, consumer price inflation in Viet Nam accelerated in October to 7.0% y-o-y from 6.5% in September. October was the second month in which inflation had risen, following a steady decline in inflation over the previous 12 months, in response to measures taken since September 2011 to quell inflationary pressures. In October, Viet Nam posted total exports of US$9.9 billion, up 4.4% from September. Total imports were estimated to have reached US$10.4 billion in October, up 11.7% from a month earlier. This resulted in a trade gap of US$500 million for the month of October. In the first 10 months of the year, Viet Nam experienced a total trade deficit of US$357 million.

Viet Nam's industrial production index (IPI) in October increased 5.8% from the previous month and surged 5.7% from a year earlier. On a year-to-date basis, the IPI has risen 4.5% in the first 10 months of this year. The IPI of the mining and quarrying sector rose 3.9% y-o-y and the manufacturing sector rose 3.8%.

Size and Composition

As of end-September, Viet Nam's total local currency (LCY) bonds outstanding stood at VND443.7 trillion (US$21.2 billion), an increase of 21.4% y-o-y that was driven mainly by the 48.0% growth of treasury bonds and the resumption of SBV bill issuance beginning in March. However, significant growth in these areas was partially offset by contractions of 3.3% and 21.4% y-o-y, respectively, in state-owned enterprise (SOE) and corporate bonds outstanding **(Table 1)**.

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

	Amount (billion)								**Growth Rate** (%)						
	Jun-12		**Jul-12**		**Aug-12**		**Sep-12**		**Jun-12**		**Jul-12**	**Aug-12**	**Sep-12**		
	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	455,892	22	440,181	21	448,111	22	443,731	21	28.5	10.5	(3.4)	1.8	21.4	(2.7)	(1.0)
Government	417,525	20	401,814	19	412,514	20	410,237	20	33.5	12.6	(3.8)	2.7	27.0	(1.7)	(0.6)
Treasury Bonds	185,403	9	191,583	9	211,433	10	218,743	10	42.0	11.7	3.3	10.4	48.0	18.0	3.5
Central Bank Bonds	58,078	3	39,787	2	31,787	2	22,070	1	–	–	(31.5)	(20.1)	–	(62.0)	(30.6)
State-Owned Enterprise Bonds	174,044	8	170,444	8	169,294	8	169,424	8	(4.4)	(0.2)	(2.1)	(0.7)	(3.3)	(2.7)	0.1
Corporate	38,367	2	38,367	2	35,597	2	33,494	2	(8.7)	(7.9)	–	(7.2)	(21.4)	(12.7)	(5.9)

– = 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.

Total LCY government bonds outstanding rose 27.0% y-o-y to VND410.2 trillion as of end-September. Of this total, treasury bonds grew 48.0% y-o-y to VND218.7 trillion and SBV bills stood at VND22.1 trillion after resumption of their issuance in March. On the other hand, SOE bonds contracted 3.3% y-o-y to VND169.4 trillion and total LCY corporate bonds outstanding contracted 21.4% to VND33.5 trillion.

Treasury bond issuance remained active in 3Q12, with total new issuance amounting to VND15.3 trillion, due to Viet Nam's need to fund its rising fiscal deficit. Meanwhile, new issuance of SOE bonds amounted to VND900 billion. Given the tough market conditions, Vietnamese banks have had less risk appetite for corporate bonds. Thus, Viet Nam's LCY corporate bond market was mostly inactive in 3Q12, with only one new issuance by HAGL—a real estate company—amounting to VND850 billion.

As of 30 September, the Viet Nam Technological and Commercial Joint Stock Bank (Techcombank) remained the largest corporate issuer with outstanding bonds of VND5.1 trillion **(Table 2)**. HAGL became the second largest issuer in Viet Nam's LCY corporate bond market in 3Q12 with its VND850 billion issuance in August, the only corporate bond issuance to date in 2012. HAGL was previously the sixth largest corporate bond issuer at end-June. Total LCY bonds outstanding among the 15 largest issuers comprised 92.7% of all LCY corporate bonds outstanding.

Rating Changes

On 28 September, Moody's Investors Service (Moody's) downgraded Viet Nam's foreign currency and LCY government bond ratings to B2 from B1, with a stable outlook for both **(Table 3)**. The downgrade was driven by increasing banking system vulnerabilities due to overhang from a prolonged credit boom and the subsequent tightening in lending policy.

Table 2: Top 15 Issuers of LCY Corporate Bonds in Viet Nam (as of end-September 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US$ billion)				
1. Techcombank	5,100	0.24	No	Yes	No	Finance
2. HAGL	4,110	0.20	No	Yes	Yes	Real Estate
3. Vietin Bank	4,095	0.20	No	Yes	Yes	Finance
4. Vincom	4,000	0.19	No	Yes	Yes	Real Estate
5. Vinpearl	3,500	0.17	No	Yes	Yes	Resorts/Theme Parks
6. Asia Commercial Joint Stock Bank	3,000	0.14	No	Yes	Yes	Finance
7. Agribank Securities	2,000	0.10	No	Yes	Yes	Finance
8. Viet Nam Maritime Commercial Bank	1,000	0.05	No	Yes	No	Finance
9. Minh Phu Seafood	900	0.04	No	Yes	Yes	Fisheries
10. Hoa Phat Group	800	0.04	No	Yes	Yes	Industrial
11. Phu Hoang Anh	600	0.03	No	Yes	No	Real Estate
12. An Binh Bank	600	0.03	No	Yes	No	Finance
13. Kinh Bac City Development	500	0.02	No	Yes	Yes	Real Estate
14. HCMC General Import Export	450	0.02	No	Yes	No	Import/Export
15. Viet Nam Steel	400	0.02	No	Yes	No	Steel Producer
Total Top 15 LCY Corporate Issuers	**31,055**	**1.49**				
Total LCY Corporate Bonds	**33,494**	**1.60**				
Top 15 as % of Total LCY Corporate Bonds	**92.7%**	**92.7%**				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for Viet Nam

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	B2	BB–	B+
Outlook	Stable	Stable	Stable

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

Policy, Institutional, and Regulatory Developments

Government Tasks the SBV to Strengthen the Banking Sector in 2013

On 8 October, the Government of Viet Nam released a resolution appointing the SBV to take necessary measures to tighten discipline in the banking sector and strengthen all weak banks in 2013. The SBV was also asked to design comprehensive solutions to deal with non-performing loans, increase foreign reserves, and strictly control the exchange rate. In the same resolution, the government re-emphasized that it will continue to pursue a flexible monetary policy to help businesses maintain access to capital while seeking to avoid a recurrence of high inflation. The government also announced it would continue to offer a 3-month extension of value added tax payments origanally due in June 2012.

In addition, the Ministry of Planning and Investment has been instructed to speed up investment promotion and take more measures to mobilize and disburse official development assistance (ODA) and foreign direct investment (FDI) capital. The ministry will revamp its statistical methodology in accordance with international standards to improve socio-economic data collection.