Market Summaries

People's Republic of China

Yield Movements

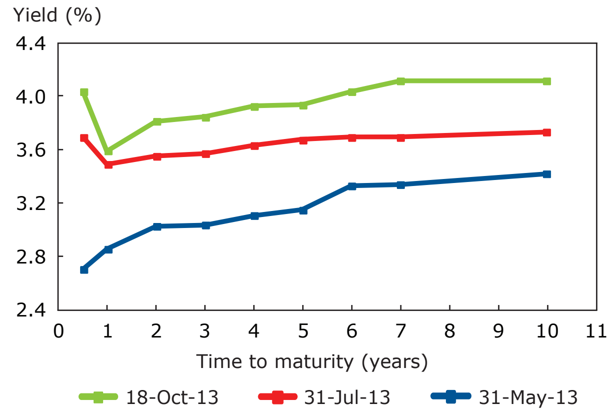
The government bond yield curve for the People's Republic of China (PRC) dramatically shifted upward between end-May and end-July **(Figure 1)**. At the shorter-end of the curve, yields rose between 63 basis points (bps) and 111 bps for tenors of 1 year or less. Yields rose between 31 bps and 53 bps for tenors longer than 1 year.

The steep rise in yields between end-May and end-July was the result of the SHIBOR shock event in June. The overnight SHIBOR rate was 4.6% and the 7-day interbank repurchase (repo) rate was 4.8% at the beginning of June. By 8 June, liquidity demands had driven the SHIBOR rate up to 7.5% and the 7-day repo rate to 7.8%. The People's Bank of China's (PBOC) issuance of bills in June for the first time since 2011 exacerbated the situation, further reducing liquidity in the market.

Yields between end-July and 18 October also rose, particularly for the 6-month tenor, which rose 34 bps. Yields rose between 26 bps and 42 bps for tenors longer than 1 year. Yields have risen due to both economic and regulatory factors. In May, the government launched a crackdown on illegal bond trading activities, causing a reduction in trading volumes. Policy measures were taken including the removal of the interbank trading accounts of non-financial companies. Trading volumes have also declined due to uncertainty over the United States (US) Federal Reserve's monetary policy as well as concern over the recent confrontation in the US Congress over renewing approval of the federal government's borrowing authority.

At the same time, yields have risen, particularly at the shorter-end of the curve, on concerns that the PBOC might tighten the money supply. On 17 October, the PBOC suspended reverse repo operations, reducing overall liquidity in the system. The market is concerned that the central bank may tighten in response to rising inflation and amid a gross domestic product (GDP) growth outlook that remains stable. As a result, at the start of October the 1-week SHIBOR stood at 4.4%, but by 28 October had risen to 4.9%. The 1-week interbank repo rate rose from 4.4% to 5.6% in the same period. In order to calm the market, the PBOC resumed reverse repo operations in the last week of October.

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



LCY = local currency.
Source: Bloomberg LP.

GDP grew 7.8% year-on-year (y-o-y) in 3Q13 following 7.5% growth in 2Q13. The year-to-date GDP growth rate stood at 7.7% at end-September, exceeding the government's target of 7.5%. Domestic demand is driving growth as the government seeks to rebalance the country's economy amid concern over the external environment. Demand from developed nations remains weak, with exports from the PRC falling 0.3% y-o-y in September from 7.1% in August.

Consumer price inflation rose to 3.1% y-o-y in September from 2.6% in August. The increase in prices for September was mostly due to rising food prices.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC market reached CNY26.4 trillion (US$4.3 trillion) at end-September, an increase of 3.0% quarter-on-quarter (q-o-q) and 14.4% y-o-y, largely driven by growth in policy bank and corporate bonds **(Table 1)**.

Government Bonds. LCY government bonds outstanding grew 2.7% q-o-q and 5.8% y-o-y in 3Q13, largely driven by growth in policy bank bonds, which expanded 3.1% q-o-q and 13.8% y-o-y, and treasury bonds, which rose 5.4% q-o-q and 12.4% y-o-y. Central bank bonds fell 30.3% q-o-q and 64.7% y-o-y. The PBOC, due to the SHIBOR shock event in June, allowed a number of central bank bills and bonds to mature while issuing only 3-year bonds in 3Q13. At end-September, there were no central bank bills outstanding.

Corporate Bonds. Corporate bonds outstanding grew 3.9% q-o-q and 39.1% y-o-y in 3Q13 **(Table 2)**. Growth was driven mainly by increases of 5.6% q-o-q and 58.3% y-o-y in medium-term notes, and a 2.9% q-o-q and 47.4% y-o-y

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

	Outstanding Amount (billion)						Growth Rates (%)			
	3Q12		2Q13		3Q13		3Q12		3Q13	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**23,046**	**3,667**	**25,584**	**4,168**	**26,364**	**4,307**	**4.6**	**11.2**	**3.0**	**14.4**
Government	17,119	2,724	17,644	2,875	18,117	2,960	4.4	8.4	2.7	5.8
Treasury Bonds	7,915	1,259	8,438	1,375	8,895	1,453	5.5	8.8	5.4	12.4
Central Bank Bonds	1,597	254	809	132	564	92	(2.9)	(24.5)	(30.3)	(64.7)
Policy Bank Bonds	7,606	1,210	8,397	1,368	8,658	1,415	4.9	18.9	3.1	13.8
Corporate	5,927	943	7,940	1,294	8,247	1,347	5.0	20.2	3.9	39.1
Policy Bank Bonds										
China Development Bank	5,142	818	5,525	900	5,678	928	4.5	15.4	2.8	10.4
Export–Import Bank of China	1,008	160	1,268	207	1,277	209	8.4	29.2	0.7	26.7
Agricultural Devt. Bank of China	1,457	232	1,604	261	1,703	278	4.1	25.4	6.2	16.9

( ) = negative, LCY = local currency, 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 an LCY base and do not include currency effects.
5. The balance of outstanding commercial paper as of 3Q13 was CNY1.5 trillion based on data from *Wind*.
Sources: Bloomberg LP, *ChinaBond,* and *Wind*.

Table 2: Corporate Bonds Outstanding in Key Sectors

	Outstanding Amount (CNY billion)				Growth Rates (%)				
					q-o-q				y-o-y
	4Q12	1Q13	2Q13	3Q13	4Q12	1Q13	2Q13	3Q13	3Q13
Commercial Bank Bonds	1,265	1,304	1,329	1,299	14.4	3.1	1.9	(2.2)	17.5
State-Owned Corporate Bonds	993	1,024	653	647	0.2	3.2	(36.3)	(0.9)	(34.7)
Local Corporate Bonds	1,305	1,484	1,580	1,626	18.3	13.7	6.4	2.9	47.4
Medium-Term Notes	2,492	2,662	3,509	3,705	6.5	6.8	31.8	5.6	58.3

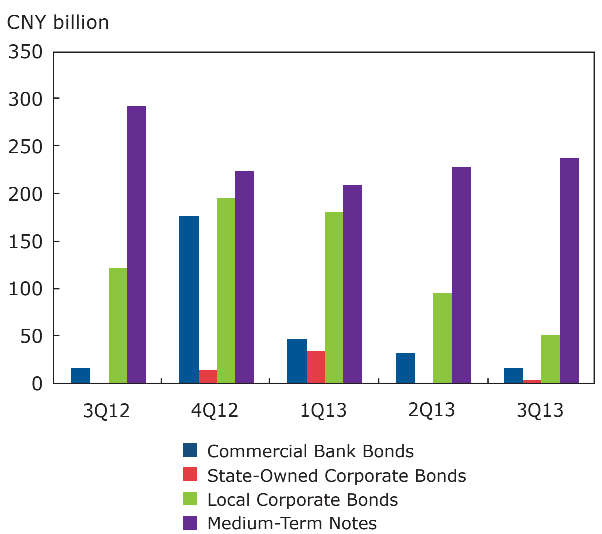
( ) = negative, – = not available, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Source: *ChinaBond.*

increase in local corporate bonds outstanding. Commercial bank bonds fell 2.2% q-o-q but grew 17.5% y-o-y, largely due a carryover effect from the issuance of subordinated notes in 2012 as the PRC's banks sought to bolster their capital bases ahead of the implementation of Basel III capital adequacy requirements. State-owned enterprise (SOE) bonds outstanding fell 0.9% q-o-q and 34.7% y-o-y in 3Q13.

The overall issuance of corporate bonds was lower in 3Q13 compared with 2Q13 **(Figure 2)**, with the exception of medium-term notes (MTNs) and SOE bonds. Commercial bank bonds have been on the decline; 4Q12 was the last time banks issued bonds ahead of the implementation of Basel III requirements.

A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. As of 3Q13, the top 30 corporate bond issuers accounted for CNY4 trillion worth of corporate bonds outstanding, or about 49% of the market. Among the top 30 corporate issuers, the 10 largest accounted for CNY2.6 trillion worth of bonds outstanding.

Figure 2: Corporate Bond Issuance in Key Sectors



Source: *ChinaBond.*

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 3Q13. Among the top 30 corporate issuers at end-September, 23 were state-owned, with a total of CNY3.5 trillion worth of bonds outstanding.

Table 4 presents the most significant issuances of 3Q13.

Investor Profile

Treasury Bonds. Banks remained the largest category of investors in the PRC's treasury bond market, which includes policy bank bonds, holding a slightly larger share of these bonds at the end of 3Q13 (77.3%) than at the end of 3Q12 (77.0%) **(Figure 3)**. The share held by special members fell to 9.7% from 10.8% during the same period. Special members comprise the PBOC, Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Company, and China Securities Depository and Clearing Corporation.

Corporate Bonds. Banks were also the largest holder of corporate bonds at the end of 3Q13, albeit with a comparatively smaller share than their holdings of treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 30.7% at the end of 3Q13 from 38.5% a year earlier **(Figure 4)**. The second largest holder of corporate bonds was insurance companies, with a 15.8% share at end-September, down from their 24.9% share at end-September 2012.

Figure 5 presents the investor profile across different bond categories. Based on the latest data available, banks were the largest holders of MTNs at end-September with more than 50% of MTNs. Meanwhile, insurance companies were the largest holders of commercial bank bonds.

Liquidity

Figure 6 presents the turnover ratio for government bonds, including both spot trading and repo trading volumes. The volume of repo

Table 3: Top 30 Issuers of LCY Corporate Bonds in the People's Republic of China

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (CNY billion)	LCY Bonds (US$ billion)			
1. China Railway	827.0	135.11	Yes	No	Transportation
2. China National Petroleum	340.0	55.55	Yes	No	Energy
3. State Grid Corporation of China	339.5	55.47	Yes	No	Public Utilities
4. Industrial and Commercial Bank of China	230.0	37.58	Yes	Yes	Banking
5. Bank of China	219.9	35.93	Yes	Yes	Banking
6. China Construction Bank	200.0	32.67	Yes	Yes	Banking
7. Agricultural Bank of China	150.0	24.51	Yes	Yes	Banking
8. China Petroleum & Chemical	134.7	22.01	Yes	Yes	Energy
9. Central Huijin Investment	109.0	17.81	Yes	No	Diversified Financial
10. Petrochina	107.5	17.56	Yes	Yes	Energy
11. China Guodian	107.1	17.50	Yes	No	Public Utilities
12. China Minsheng Bank	102.3	16.71	No	Yes	Banking
13. Shenhua Group	92.0	15.03	Yes	No	Energy
14. China Power Investment	87.9	14.36	Yes	No	Public Utilities
15. Bank of Communications	86.0	14.05	No	Yes	Banking
16. Shanghai Pudong Development Bank	79.2	12.94	No	Yes	Banking
17. China Three Gorges Project	77.5	12.66	Yes	No	Public Utilities
18. China Southern Power Grid	70.5	11.52	Yes	No	Public Utilities
19. Industrial Bank	68.0	11.11	No	Yes	Banking
20. China Life	68.0	11.11	Yes	Yes	Insurance
21. China Merchants Bank	61.7	10.08	No	Yes	Banking
22. State-Owned Capital Operation and Management Center of Beijing	58.5	9.56	Yes	No	Diversified Financial
23. China Huaneng Group	58.2	9.51	Yes	No	Public Utilities
24. Citic Group	53.5	8.74	Yes	No	Diversified Financial
25. Huaneng Power International	53.0	8.66	Yes	Yes	Public Utilities
26. China Everbright Bank	52.7	8.61	No	Yes	Banking
27. Tianjin Infrastructure Investment Group	47.8	7.81	Yes	No	Capital Goods
28. China Datang	45.7	7.47	Yes	No	Public Utilities
29. Bank of Beijing	43.5	7.11	No	Yes	Banking
30. Aluminum Corporation of China Limited	43.0	7.03	Yes	Yes	Raw Materials
Total Top 30 LCY Corporate Issuers	**4,013.74**	**655.74**			
Total LCY Corporate Bonds	**8,246.74**	**1,347.31**			
Top 30 as % of Total LCY Corporate Bonds	**49%**	**49%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on *Wind* data.

Table 4: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Railway Construction		
7-year bond	5.06	20
7-year bond	5.2	15
10-year bond	4.97	10
10-year bond	5.1	10
20-year bond	5.35	10
China State Grid		
3-year bond	4.68	10
Bank of Communications		
5-year bond	4.37	10
Wuhan Iron and Steel Group		
3-year bond	4.99	7
Shenyin & Wanguo Securities		
6-year bond	5.2	6
Shanghai Shengtong Metro Group		
5-year bond	5.35	6

LCY = local currency.
Source: *Wind*.

trading is larger than that of spot trading in the PRC bond market, and the repo market is also the more active of the two. In 3Q13, spot turnover ratios for treasury, central bank, and policy bank bonds all fell dramatically due to a government crackdown on illegal bond trading.

Interest Rate Swaps

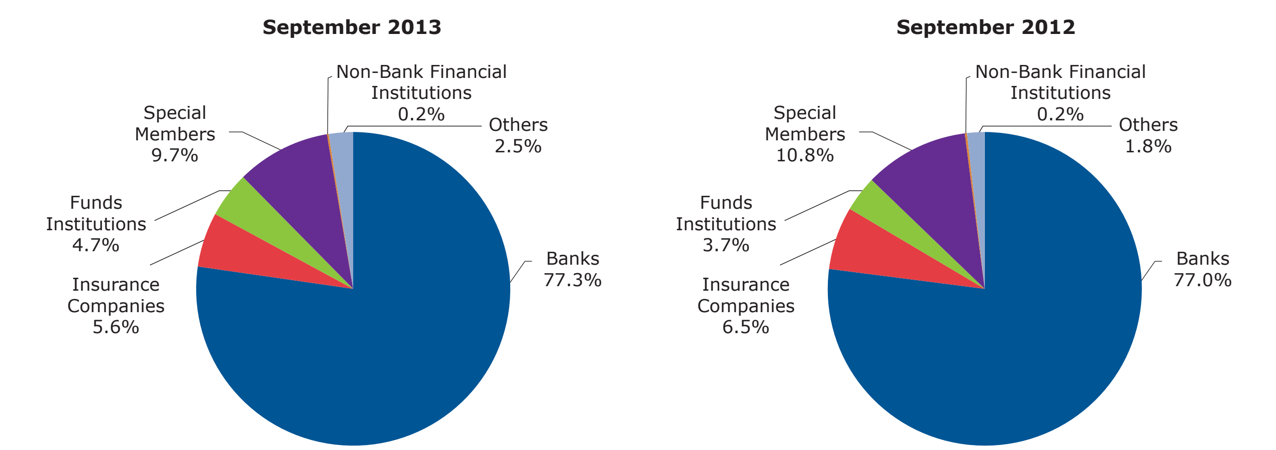
In 3Q13, the total notional amount of signed interest rate swap (IRS) agreements in the PRC reached CNY569.8 billion on 5,634 transactions **(Table 5)**. The most popular benchmark is the 7-day repo, which accounts for 70.9% of all transactions.

Policy, Institutional, and Regulatory Developments

The PRC Tightens Rules on Interbank Bond Trading

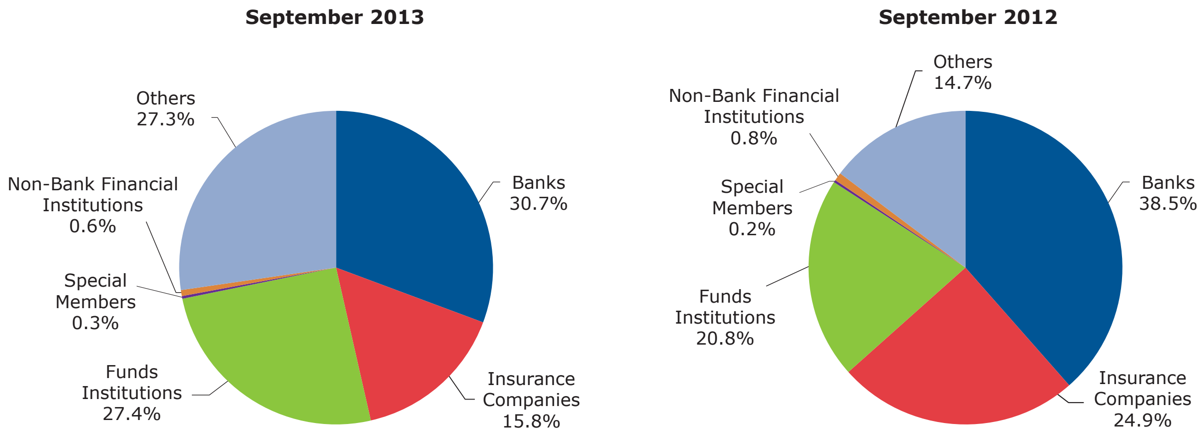
On 9 May, the PRC suspended trading of bond accounts by non-financial institutions on the interbank bond market. On 9 July, the PBOC issued rules requiring interbank bond market participants to conduct all trades through the National Interbank Funding Center. The move is part of the government's crackdown on illegal bond trading activities. Among the activities that the government is targeting are the use of third parties by financial managers to move bonds off their balance sheets to manipulate profits and trading volumes, and the use of client funds to skim profits for personal gain.

Figure 3: LCY Treasury Bonds Investor Profile



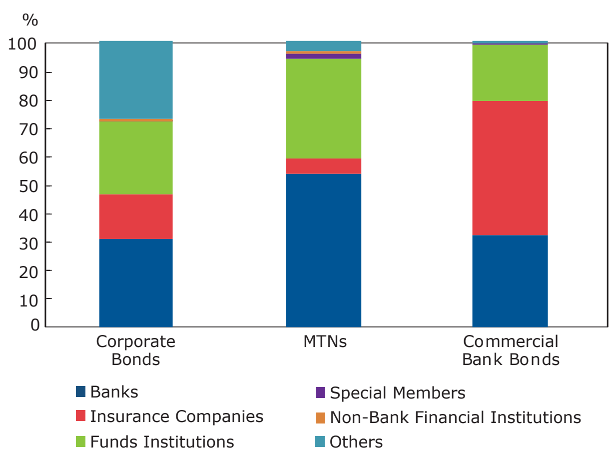
LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



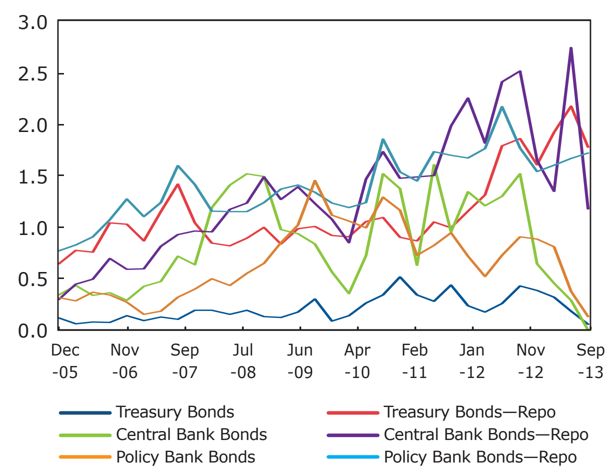
LCY = local currency.
Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



MTNs = medium-term notes.
Note: Data as of end-September 2013.
Source: *ChinaBond*.

Figure 6: Turnover Ratios for Government Bonds



Repo = repurchase.
Source: *ChinaBond*.

SME Pilot Bond Program to be Expanded

On 26 August, the China Securities Regulatory Commission said it will expand the number of participating companies in the private placement bond program for small and medium-sized enterprises (SMEs). The list will be expanded to include more companies that are listed on the Third Board.

SAFE Expands QDII Program

On 28 August, the State Administration of Foreign Exchange (SAFE) said that it will relax the requirements of the Qualified Domestic Institutional Investor (QDII) program, making it easier to make foreign investments. Among the changes to be implemented include relaxation on the types of foreign currency to be used, simplified foreign exchange quota applications, and foreign exchange settlement.

Table 5: Notional Values of the PRC's Interest Rate Swap Market in 3Q13

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%)	
		3Q13		q-o-q	y-o-y
7-Day Repo Rate	403.9	70.9	4,518	(24.2)	(4.7)
Overnight SHIBOR	79.0	13.9	156	(55.9)	(68.8)
3-Month SHIBOR	80.1	14.1	833	8.5	1.8
1-Year Term Deposit Rate	4.1	0.7	36	7.9	(84.8)
1-Year Lending Rate	1.7	0.3	82	(68.0)	(87.3)
3-Year Lending Rate	1.0	0.2	9	(8.3)	(70.0)
Total	**569.8**	**100.0**	**5,634**	**(28.4)**	**(28.9)**

( ) = negative, 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.
Sources: *AsianBondsOnline* and *ChinaMoney*.

The PRC Launches Treasury Bond Futures Trading

On 6 September, the trading of treasury bond futures, previously banned in 1995, resumed. The bond futures contract will be based on a hypothetical 5-year bond but actual bonds with tenors of between 4 years and 7 years will be allowed as the deliverable asset.

PBOC Preparing for Self-Regulatory Pricing Mechanism

On 24 September, the PBOC conducted its first meeting on the Self-Regulatory Pricing Mechanism. The meeting identified tasks to be performed in order to allow a more market-based setting of interest rates. The tasks include setting up a self-regulatory pricing mechanism that will allow coordination among participating financial institutions in setting interest rates. A quotation system for providing lending rate quotes will also be established, expanding the quotation of interest rates from the money market to the include the credit market as well. Finally, the development of tradable certificates of deposit will be promoted. The meeting is widely regarded as the first step toward the PRC government's liberalization of interest rates.

Shanghai Free Trade Zone Launched

On 29 September, the Shanghai Free Trade Zone was officially opened. At the time of the opening, 10 banks had already received approval to operate in the free trade zone. Companies' activities are subject to a "negative list" that details restrictions. Companies are free to conduct their activities so long as the acts are not specifically banned by the list, which includes restrictions on investments in telecommunications and broadcasting. Investments in news portals and online gaming are also banned. Also, foreign auto companies are still limited to a 50% stake in a joint venture and there will be restrictions on investments in financial institutions.

The free trade zone is expected to allow financial institutions to set their own borrowing and lending interest rates, and the freer conversion of the renminbi is also expected.

New Prime Lending Rate Launched

On 25 October, the PRC launched a benchmark lending rate to guide banks in setting lending rates to their prime customers. The benchmark is another step in the liberalization of the PRC's interest rates since it removed the limits on lending rates on 20 July. The new rate has a 1-year tenor and is set by nine commercial banks: Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, Bank of Communications, Citic Bank, Shanghai Pudong Development Bank, China Merchants Bank, and Industrial Bank.

Hong Kong, China

Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) steepened dramatically between end-May and end-July **(Figure 1)**, with yields rising between 3 basis points (bps) and 15 bps on tenors of 3-years or less, and between 41 bps and 84 bps on longer-dated tenors. The rise in yields was prompted by statements from United States (US) Federal Reserve Chairman Ben Bernanke in May that the pace of bond purchases could be tapered later in 2013 and halted in 2014 should economic data support such action.

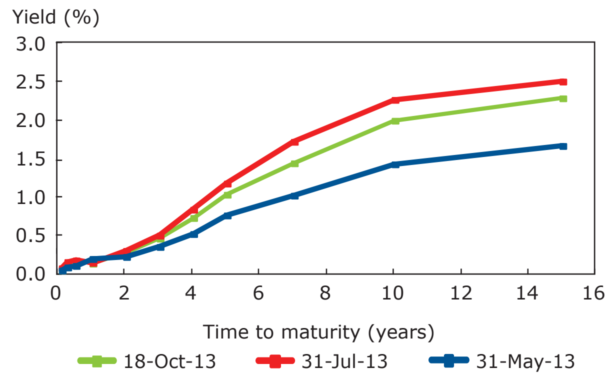
Between end-July and mid-October, yields fell between 1 bp and 4 bps on tenors of 3-years or less, and between 10 bps and 28 bps on longer-dated tenors. The declines were driven by statements of the US Federal Reserve Bank in mid-September that the tapering of its bond-buying program was not imminent and by the resolution in mid-October of the dispute in the US Congress over raising the federal government's debt ceiling. Hong Kong, China's bond yields track closely with yield changes in the US Treasury market as Hong Kong, China does not have an independent monetary policy and pegs its currency to the US dollar.

The rise in yields also reflected improvements in Hong Kong, China's economy as well as rising inflation. Specifically, Hong Kong, China's economic growth accelerated to 3.3% year-on-year (y-o-y) in 2Q13 from 2.8% y-o-y in 1Q13. Growth in 2Q13 was supported mostly by domestic demand, with private consumption adding 2.9 percentage points to GDP growth. In June, retail sales rose 14.7% y-o-y from 12.8% in May.

The government now expects GDP growth for 2013 to be between 2.5% and 3.5%, compared with an original forecast of 1.5%–3.5%.

Inflation has since come down from July's 6.9% y-o-y rise. August's inflation was 4.5% and September's inflation was 4.6%. July's 6.9% inflation was driven by a low base effect in 2012 due to the government's subsidy of public housing rentals for the month. Inflation rose slightly in September from August due to higher food prices. The government expects further upside risks to inflation to be contained as the feed-through effect of housing rents in late 2012 passes and imported inflation continues to be subdued.

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 0.8% quarter-on-quarter (q-o-q) to reach HKD1.5 trillion (US$194 billion) at end-September **(Table 1)**. On a y-o-y basis, LCY bonds outstanding rose 10.1% in 3Q13.

Total LCY government bonds outstanding rose 0.5% q-o-q and 16.2% y-o-y at end-September. Government bonds include Exchange Fund Bills (EFBs), Exchange Fund Notes (EFNs), and bonds issued under the Institutional Bond Issuance Programme (HKSAR Bonds).

The amount of LCY government bonds reached HKD838 billion at end-September. Most of the growth in government bonds in 3Q13 could be attributed to growth in HKSAR bonds, which

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q12		2Q13		3Q13		3Q12		3Q13	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,364**	**176**	**1,488**	**192**	**1,501**	**194**	**1.4**	**3.3**	**0.8**	**10.1**
Government	721	93	834	107	838	108	0.1	3.4	0.5	16.2
Exchange Fund Bills	588	76	682	88	682	88	0.1	0.5	0.1	16.0
Exchange Fund Notes	69	9	68	9	68	8.8	0.0	(0.9)	0.0	(0.9)
HKSAR Bonds	64.0	8.2	84	11	87	11	0.0	50.6	4.2	35.9
Corporate	643	83	655	84	663	86	3.0	3.3	1.3	3.2

( ) = negative, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, 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 an LCY base and do not include currency effects.
Sources: Hong Kong Monetary Authority and Bloomberg LP.

expanded 4.2% q-o-q to HKD87 billion from HKD84 billion at end-June. On the other hand, the stock of EFNs remained unchanged on a q-o-q basis at HKD68 billion, while EFBs rose a marginal 0.1%.

Under the Institutional Bond Issuance Programme, HKD2 billion of 5-year HKSAR bonds were issued in July, HKD1.5 billion of 10-year HKSAR bonds were issued in August, and HKD3.5 billion of 2-year bonds were issued in September.

The amount of LCY corporate bonds outstanding rose to HKD663 billion at end-September, reflecting growth of 1.3% q-o-q and 3.2% y-o-y. The top 27 non-bank corporate issuers in Hong Kong, China accounted for about 16% of total corporate bonds outstanding in 3Q13 **(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 HKD13.8 billion at end-September. CLP Power Hong Kong Financing Ltd. was the next largest issuer with outstanding bonds of HKD10.4 billion. Sun Hung Kai Properties (Capital Market) Ltd. was the third largest issuer with outstanding bonds of HKD10 billion.

Real estate firms dominated the list of the top 27 non-bank corporate issuers in 3Q13, accounting for nine of the 27 issuers. Five state-owned companies were included on the list, while 22 were privately owned. Among the companies in Table 2, eight are listed on the Hong Kong Exchange. **Table 3** presents some notable issuances from non-bank institutions in 3Q13.

Policy, Institutional, and Regulatory Developments

Malaysia and Hong Kong, China Agree to Strengthen Financial Cooperation

On 28 August, the Hong Kong Monetary Authority (HKMA) and Bank Negara Malaysia (BNM) held a meeting in Kuala Lumpur to discuss bilateral economic and financial issues. Following the meeting, the two central banks agreed to help strengthen economic cooperation by promoting trade and investment. Among the areas discussed were offshore renminbi business development and the internationalization of Islamic finance.

Table 2: Top 27 Non-Bank Corporate Issuers in Hong Kong, China

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (HKD billion)	LCY Bonds (US$ billion)			
1. The Hong Kong Mortgage Corporate Ltd.	13.83	1.78	Yes	No	Finance
2. CLP Power Hong Kong Financing Ltd.	10.43	1.34	No	No	Electric
3. Sun Hung Kai Properties (Capital Market) Ltd.	10.01	1.29	No	No	Real Estate
4. MTR Corporation (C.I.) Ltd.	6.35	0.82	Yes	Yes	Transportation
5. Wharf Finance Ltd.	6.24	0.80	No	No	Diversified
6. The Link Finance (Cayman) 2009 Ltd.	6.14	0.79	No	No	Finance
7. HKCG (Finance) Limited	5.60	0.72	No	No	Gas
8. Hongkong Electric Finance Ltd.	5.51	0.71	No	No	Electric
9. Swire Pacific Ltd.	4.83	0.62	No	Yes	Diversified
10. Kowloon-Canton Railway Corporation	4.80	0.62	Yes	No	Transportation
11. Cheung Kong Bond Finance Ltd.	4.62	0.60	No	Yes	Real Estate
12. Urban Renewal Authority	3.90	0.50	Yes	No	Real Estate
13. Wheelock Finance Ltd.	3.74	0.48	No	No	Diversified
14. NWD (MTN) Ltd.	3.50	0.45	No	Yes	Real Estate
15. Airport Authority Hong Kong	3.30	0.43	Yes	No	Transportation
16. Yue Xiu Enterprises (Holdings) Ltd.	3.00	0.39	No	No	Diversified
17. Hysan (MTN) Ltd.	2.43	0.31	No	No	Finance
18. Henderson Land MTN Ltd.	1.83	0.24	No	Yes	Finance
19. Cathay Pacific MTN Financing Ltd.	1.70	0.22	No	Yes	Airlines
20. Nan Fung Treasury Ltd.	1.31	0.17	No	No	Real Estate
21. Dragon Drays Ltd.	1.00	0.13	No	No	Diversified
22. Swire Properties MTN Financing Ltd.	0.80	0.10	No	No	Real Estate
23. R-Reit International Finance Ltd., BVI	0.78	0.10	No	No	Real Estate
24. Wing Tai Properties (Finance) Ltd., BVI	0.58	0.07	No	No	Real Estate
25. HLP Finance Ltd.	0.56	0.07	No	Yes	Real Estate
26. CITIC Pacific Ltd.	0.50	0.06	No	Yes	Diversified
27. The Hongkong Land Notes Company Ltd.	0.20	0.03	No	No	Finance
Total Top 27 Non-Bank LCY Corporate Issuers	**107.45**	**13.85**			
Total LCY Corporate Bonds	**663.44**	**85.54**			
Top 27 as % of Total LCY Corporate Bonds	**16.20%**	**16.20%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Hong Kong Monetary Authority data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
NWD (MTN) Ltd.		
10-year bond	6.00	2.00
10-year bond	5.90	1.15
10-year bond	5.90	0.35
Swire Pacific MTN Financing Ltd.		
10-year bond	4.00	0.52
10-year bond	4.00	0.23
The Hong Kong Mortgage Corporation		
2-year bond	0.39	0.50

LCY = local currency.
Source: Central Moneymarkets Unit (CMU) HKMA.

Indonesia

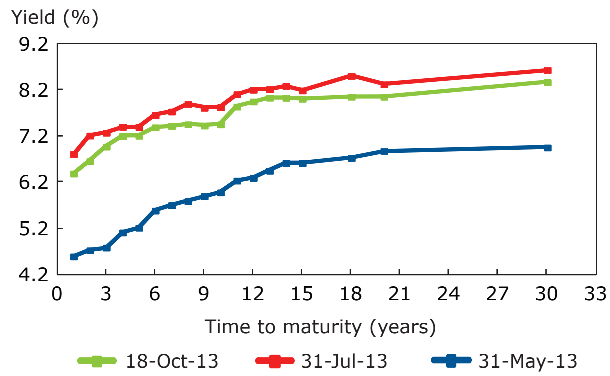
Yield Movements

Local currency government (LCY) bond yields in Indonesia rose dramatically and shifted the entire curve upward between end-May and end-July **(Figure 1)**. Yields gained more at the shorter-end of the curve than at the longer-end, resulting in the flattening of the yield curve. The steep rise in yields reflected negative sentiments stemming from both domestic and external factors. Bond yields have been on the rise since May on concerns that the United States (US) Federal Reserve will begin to taper its asset purchase program in the latter part of the year. On the domestic front, several issues weighed on market sentiment, including rising inflation expectations, a widening current account deficit, a weakening rupiah exchange rate, higher financing requirements for the state budget, and warnings of a possible rating downgrade.

Between end-July and 18 October, government bond yields fell across the curve, shifting the yield curve downward. Yields dropped the most for the 2-year maturity, shedding 56 basis points (bps). Yields fell 42 bps at the shortest-end of the curve and 26 bps at the longest-end. The spread between the 2-year and 10-year maturities narrowed to 62 bps at end-July before it widened again to 80 bps by mid-October.

Since mid-September, LCY bond yields have recovered following the decision of the US Federal Reserve to maintain its quantitative easing program. Immediately after the US Federal Reserve announcement on 18 September, 10-year bonds rebounded with yields falling below the 8.0% level. Bond yields further corrected through mid-October after US lawmakers agreed to end the federal government shutdown and raise the debt ceiling to avoid a possible default. The 10-year bond yield rose to nearly 9.0% in early September, and bottomed at 7.5% on 18 October. However, Bank Indonesia (BI) continues to take a cautious stand and is not overly optimistic in its outlook for the global economy, due in part to the US Congress having to vote again on raising the US debt ceiling in early 2014.

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



LCY = local currency.
Source: Bloomberg LP.

The correction in bond yields was also boosted by improving domestic economic fundamentals as coordinated stabilizing efforts by the government and the central bank began to show positive signs. For example, consumer price inflation slowed to 8.3% year-on-year (y-o-y) in October and 8.4% in September, after rising to 8.6% and 8.8% in July and August, respectively. (Indonesia's inflation rate, however, remains the highest in emerging East Asia.) In addition, a trade surplus was recorded in August. More recent data, however, show a trade deficit amounting to US$657 million in September.

BI's policy bias has changed from neutral to tightening with the cumulative 150 bps hike in the benchmark rate between June and September. The rate hikes provided a confidence boost to investors who were worried about the widening current account deficit and external funding risks. On 8 October, the meeting of BI's Board of Governors concluded with the benchmark rate being maintained at 7.25%. BI also kept the lending facility and deposit facility rates steady at 7.25% and 5.50%, respectively. BI said that it will continue to monitor global and domestic economic developments, and further synergize its monetary and macroprudential policy mix, to ensure that inflationary pressures are contained, rupiah exchange rate stability is maintained, and the current account deficit is reduced to a sustainable level.

Meanwhile, economic growth in Indonesia fell below 6.0% y-o-y in 2Q13 for the first time since September 2010. Real gross domestic product (GDP) growth eased to 5.8% in 2Q13 compared with annual growth of 6.0% in 1Q13. Domestic consumption and investments moderated to 5.1% and 4.7%, respectively, in 2Q13. Growth in government spending, on the other hand, rose to 2.1% in 2Q13 from 0.4% in the previous quarter. On a quarter-on-quarter (q-o-q) basis, however, the economy grew 2.6% in 2Q13 following a 1.4% expansion in 1Q13. BI forecasts economic growth to slow to 5.6% in 3Q13, with growth of between 5.5% and 5.9% for the year as a whole.

Size and Composition

LCY bonds outstanding in Indonesia rose to IDR1,226.3 trillion (US$108 billion) at end-September, climbing 3.9% q-o-q **(Table 1)**. On a y-o-y basis, the bond market rose at a faster pace of 16.3%.

Outstanding LCY government bonds posted 3.7% q-o-q and 14.5% y-o-y growth rates to reach IDR1,011.4 trillion at end-September. Growth in the government bond sector was mainly driven by central government bonds, comprising treasury bills and treasury bonds issued by the Ministry of Finance. Central bank bills, which are also known as *Sertifikat* Bank Indonesia (SBI), continued to post negative growth on both a q-o-q and y-o-y basis.

Central Government Bonds. The stock of central government bonds climbed 6.1% q-o-q to IDR942.9 trillion at end-September. On a y-o-y basis, central government bonds grew at a robust rate of 16.0%. Conventional fixed-rate bonds, which account for the bulk of the central government bond stock, continued to drive growth, rising 6.8% q-o-q and 18.0% y-o-y in 3Q13 **(Table 2)**. Short-term instruments—treasury bills and Islamic treasury bills—also contributed to growth (albeit from a low base).

In 3Q13, new issuance of treasury bills and treasury bonds totaled IDR98 trillion, rising a notable 64.0% q-o-q and 91.7% y-o-y. There were six auctions of conventional bonds and five auctions of *sukuk* (Islamic bonds) during the quarter. At these auctions, the government awarded a higher amount than what was targeted, with the exception of three of the *sukuk* auctions. Demand for treasuries was strong as reflected by

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	IDR	**US$**	**IDR**	**US$**	**IDR**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**1,054,800**	**110**	**1,180,422**	**118**	**1,226,334**	**108**	**0.4**	**7.4**	**3.9**	**16.3**
Government	883,479	92	975,057	97	1,011,443	89	(0.1)	4.2	3.7	14.5
Central Govt. Bonds	812,796	85	888,514	89	942,859	83	2.7	16.7	6.1	16.0
Central Bank Bills	70,683	7	86,543	9	68,584	6	(23.9)	(53.3)	(20.8)	(3.0)
Corporate	171,321	18	205,365	21	214,891	19	3.1	27.2	4.6	25.4

( ) = negative, LCY = local currency, 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 IDR267.8 trillion.
Sources: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, and Bloomberg LP.

Table 2: Central Government Bonds Outstanding by Type of Bond

Government Bonds	Outstanding Amount (IDR billion)	% Share	Growth Rate (%)	
			q-o-q	y-o-y
Treasury Bills	34,600	3.7	66.4	22.6
Fixed-Rate Bonds	674,138	71.5	6.8	18.0
Variable-Rate Bonds	122,755	13.0	0.0	(3.4)
Zero-Coupon Bonds	0	0.0	–	–
Retail Bonds	23,677	2.5	(30.7)	10.2
Islamic Treasury Bills	9,578	1.0	217.2	958.3
Sukuk	17,137	1.8	0.0	0.0
Retail *Sukuk*	35,924	3.8	0.0	23.9
Project-Based *Sukuk*	25,051	2.7	5.8	67.0
Total	**942,860**	**100.0**	**6.1**	**16.0**

( ) = negative, – = not applicable, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note: Data as of end-September 2013.
Source: Indonesia Stock Exchange.

Table 3: Corporate Bonds Outstanding by Type of Bond

Corporate Bonds	Outstanding Amount (IDR billion)	% Share	Growth Rate (%)	
			q-o-q	y-o-y
Bonds	182,681	85.0	4.9	28.8
Subordinated Bonds	24,886	11.6	6.0	10.1
Convertible Bonds	150	0.1	0.0	0.0
Zero Coupon Bonds	500	0.2	0.0	0.0
Sukuk Ijarah	4,095	1.9	(3.1)	(6.7)
Sukuk Mudharabah	1,079	0.5	0.0	39.2
Sukuk Mudharabah Subordinate	1,500	0.7	(17.3)	34.6
Total	**214,891**	**100.0**	**4.6**	**25.4**

( ) = negative, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Data as of end-September 2013.
2. *Sukuk Ijarah* refers to Islamic bonds backed by a lease agreement.
3. *Sukuk Mudharabah* refers to Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
Source: Indonesia Stock Exchange.

bids reaching IDR173.5 trillion against a 3Q13 issuance target of IDR54 trillion.

On 8 October, the government raised IDR20.2 trillion from the sale of retail bonds. The amount awarded was slightly higher than the government's target of IDR20 trillion. The bonds carry a coupon of 8.5% and a maturity of 3 years. This latest offering was Indonesia's 10th series of retail bonds (ORI010) and attracted a total of 26,824 investors, including employees of private firms, entrepreneurs, and housewives.

Central Bank Bills. At end-September, the stock of central bank bills (SBI) stood at IDR68.6 trillion, contracting 20.8% q-o-q and 3.0% y-o-y. In 3Q13, new issuance of SBI and *shari'a*-compliant SBI rose 5.9% q-o-q, but declined 31.2% y-o-y. SBI are issued by the central bank as one of its monetary tools to help contain inflation. In August, BI reduced the minimum holding period for SBI from 6 months to 1 month.

Corporate Bonds. Indonesia's LCY corporate bond market continued to post strong growth in 3Q13 to reach a size of IDR214.9 trillion, expanding 4.6% q-o-q and 25.4% y-o-y. Growth came mainly from an increase in outstanding conventional corporate bonds and subordinated bonds. A breakdown of corporate bonds outstanding by type of bonds at end-September is presented in **Table 3**. Conventional corporate bonds, which accounted for 85% of total corporate bonds, grew 4.9% q-o-q and 28.8% y-o-y. Subordinated bonds, which accounted for about 12% of total corporate bonds, rose 6.0% q-o-q and 10.1% y-o-y.

The top 30 LCY corporate bond issuers in Indonesia in 3Q13 accounted for 76.7% of total corporate bonds with an outstanding amount of IDR164.9 trillion **(Table 4)**. The top 30 issuers were once again largely dominated by financial and banking institutions, which accounted for two-thirds of the firms in the list. The composition of the top three corporate issuers remained the same from the previous quarter. State-power firm PLN topped the list with outstanding LCY corporate bonds of IDR15.2 trillion, followed by Indonesia Eximbank with an outstanding bond stock valued at IDR12.6 trillion. The third largest corporate bond issuer was Astra Sedaya Finance with a total bond stock valued at IDR10.6 trillion.

In 3Q13, new issuance of corporate bonds totaled IDR11.9 trillion, representing a 39.4% decline on a q-o-q basis. On a y-o-y basis, however, corporate bond issuance rose 19.5% at end-September. Corporate bond issuance was still

Table 4: Top 30 Issuers of LCY Corporate Bonds in Indonesia

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (US$ billion)			
1. PLN	15,208	1.33	Yes	No	Energy
2. Indonesia Eximbank	12,569	1.10	Yes	No	Banking
3. Astra Sedaya Finance	10,641	0.93	No	No	Finance
4. Adira Dinamika Multifinance	10,277	0.90	No	Yes	Finance
5. Bank Tabungan Negara	8,850	0.78	Yes	Yes	Banking
6. Federal International Finance	7,901	0.69	No	No	Finance
7. Indosat	7,820	0.69	No	Yes	Telecommunications
8. Jasa Marga	7,100	0.62	Yes	Yes	Toll Roads, Airports, and Harbors
9. Bank Internasional Indonesia	7,000	0.61	No	Yes	Banking
10. Bank Pan Indonesia	7,000	0.61	No	Yes	Banking
11. Bank CIMB Niaga	6,480	0.57	No	Yes	Banking
12. Perum Pegadaian	5,739	0.50	Yes	No	Finance
13. Bank Tabungan Pensiunan Nasional	5,385	0.47	No	Yes	Banking
14. Medco-Energi International	4,487	0.39	No	Yes	Petroleum and Natural Gas
15. Bank Permata	4,250	0.37	No	Yes	Banking
16. Bank OCBC NISP	3,880	0.34	No	Yes	Banking
17. Sarana Multigriya Finansial	3,709	0.33	Yes	No	Finance
18. Indofood Sukses Makmur	3,610	0.32	No	Yes	Food and Beverages
19. Agung Podomoro Land	3,600	0.32	No	Yes	Property, Real Estate, and Building Construction
20. Bank Mandiri	3,500	0.31	Yes	Yes	Banking
21. Antam	3,000	0.26	Yes	Yes	Petroleum and Natural Gas
22. Telekomunikasi Indonesia	3,000	0.26	Yes	Yes	Telecommunications
23. BCA Finance	2,850	0.25	No	No	Finance
24. Bank Danamon Indonesia	2,800	0.25	No	No	Banking
25. Bumi Serpong Damai	2,750	0.24	No	Yes	Property, Real Estate, and Building Construction
26. Toyota Astra Financial Services	2,595	0.23	No	No	Finance
27. Indomobil Finance Indonesia	2,518	0.22	No	No	Finance
28. Bank Jabar Banten	2,400	0.21	No	Yes	Banking
29. Bank Rakyat Indonesia	2,000	0.18	Yes	Yes	Banking
30. Garuda Indonesia	2,000	0.18	Yes	Yes	Infrastructure, Utilities, and Transportation
Total Top 30 LCY Corporate Issuers	**164,917**	**14.46**			
Total LCY Corporate Bonds	**214,891**	**18.84**			
Top 30 as % of Total LCY Corporate Bonds	**76.7%**	**76.7%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

robust through July, with 12 firms raising a total of IDR9.3 trillion. However, issuance stalled in August amid increasing inflation expectations and rising borrowing costs. Issuance by corporates resumed in late September as bond issues by two firms amounted to a combined IDR2.6 trillion.

A total of 14 corporate firms issued 28 bond series during the quarter. Of these bonds, all were conventional except for one *sukuk ijarah* and one subordinated bond. In terms of maturity, 17 bond series carried maturities of 3–5 years, 5 series had maturities of 7 years, and 1 series had maturities of 10 years. Corporate bonds issued in July carried coupons ranging from 7.25% to 11.5%, while those issued in late September carried coupons ranging from 8.4% to 9.75%. Some notable corporate bonds issued in 3Q13 are shown in **Table 5**.

Foreign Currency Bonds. At end-September, foreign currency (FCY) government bonds outstanding reached US$32.7 billion, or the equivalent of about 40% of the government's LCY bonds outstanding, which stood at US$82.7 billion. The government raised a total of US$5.5 billion from the sale of US$-denominated bonds this year. Of which, two issues were sold in 3Q13 for a combined amount of US$2.5 billion.

Table 5: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Jasa Marga		
370-day bond	8.40	700
3-year bond	8.70	400
5-year bond	8.90	1,000
Garuda Indonesia		
5-year bond	9.25	2,000
Perum Pegadaian		
370-day bond	7.25	430
3-year bond	7.40	17
5-year bond	7.75	177
7-year bond	8.00	601
PLN		
7-year bond	8.00	182
7-year *Sukuk Ijarah*	8.00	121
10-year bond	8.25	697
Permodalan Nasional Madani		
5-year bond	9.20	1,000
Bank Tabungan Pensiunan Nasional		
3-year bond	7.75	450
5-year bond	8.25	350

LCY = local currency.
Source: Indonesia Stock Exchange.

In July, the government sold US$1 billion of 10-year bonds. The bonds were priced to yield 5.45% and carry a coupon of 5.375%. The bonds were oversubscribed with the order book reaching US$1.9 billion. Nearly half of the bonds were sold to investors from the US, while 26% were taken by European investors and the remainder by Asian investors. The bonds were rated Baa3 by Moody's, BB+ by Standard & Poor's, and BBB– by Fitch Ratings.

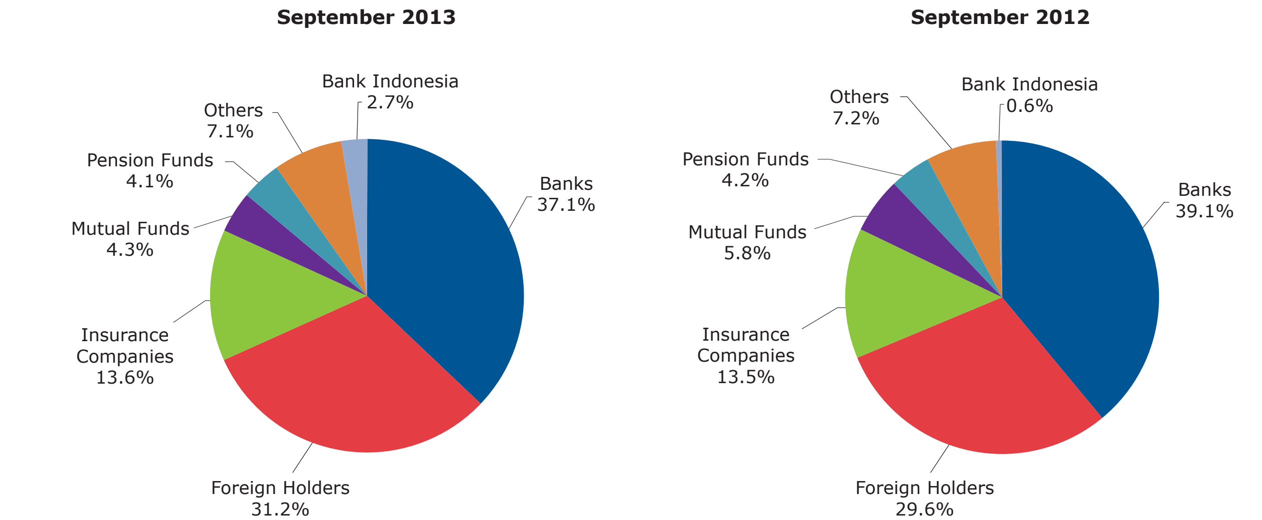
Also, the government raised US$1.5 billion from the sale of Islamic bonds in September, its fourth issuance of global *sukuk* and the biggest in terms of size since 2009. The bonds carry a maturity of 5.5 years and were sold at par to yield 6.125%. The bonds were oversubscribed with demand reaching US$5.7 billion. Investors from Asia took 25% of the bonds, while investors from the US, Middle East, and Europe bought 24%, 20%, and 16%, respectively. The remaining 15% was taken by domestic investors.

Investor Profile

Central Government Bonds. At end-September, the share of government bonds held by banking institutions dropped to 37.1% of the total with bond holdings valued at IDR350 trillion **(Figure 2)**. This was down from a share of 39.1% a year earlier, but higher in terms of nominal value. Banks remained the largest holder of central government bonds. Banking institutions comprise state recap banks, private recap banks, non-recap banks, regional banks, and *shari'a* banks. Among these institutions, state recap banks are the largest holder of central government bonds.

The share of LCY central government bonds held by foreign investors increased to 31.2% in 3Q13 from 29.6% a year earlier. Their share, however, was almost unchanged from an end-June 2013

Figure 2: LCY Central Government Bonds Investor Profile

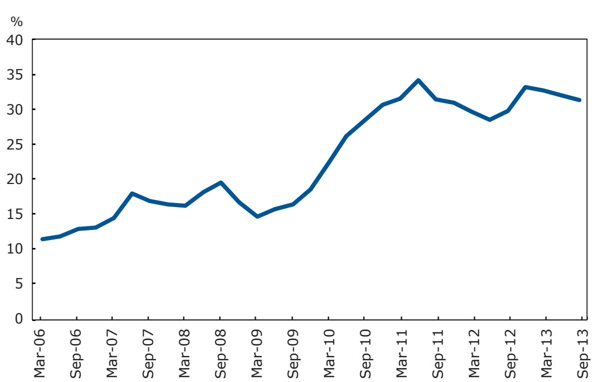


LCY = local currency.
Source: Indonesia Debt Management Office.

level of 31.8% **(Figure 3)**. Foreign investors play an active role in Indonesia's bond market as they are among the largest players in the market. In absolute terms, outstanding bonds held by foreign investors reached IDR294.1 trillion at end-September 2013.

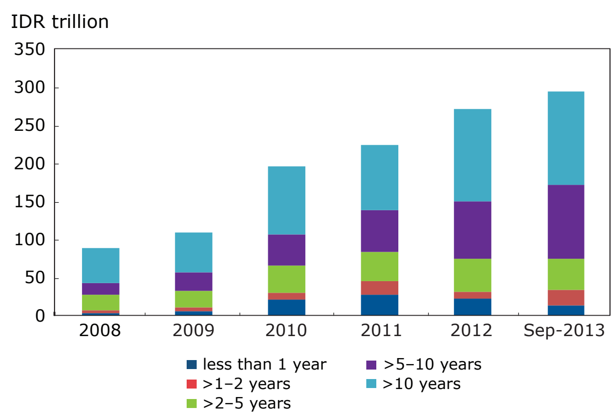
Despite volatile market conditions in 3Q13, foreign investors continued to shore-up their holdings of longer-dated bonds. At end-September, 42% of government bonds held by offshore investors carried maturities of more than 10 years **(Figure 4)**. These investors also increased the share of medium-term bonds (maturities of more than 5 years to 10 years) among their total holdings to 33% in 3Q13 from 30% in the previous quarter. Meanwhile, the share of shorter-dated maturities (bonds with maturities of 1 year or less) among foreign investors' total holdings accounted for a 4% share in 3Q13.

Figure 3: Foreign Investor Share of LCY Central Government Bonds



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

Figure 4: Foreign Holdings of LCY Central Government Bonds by Maturity

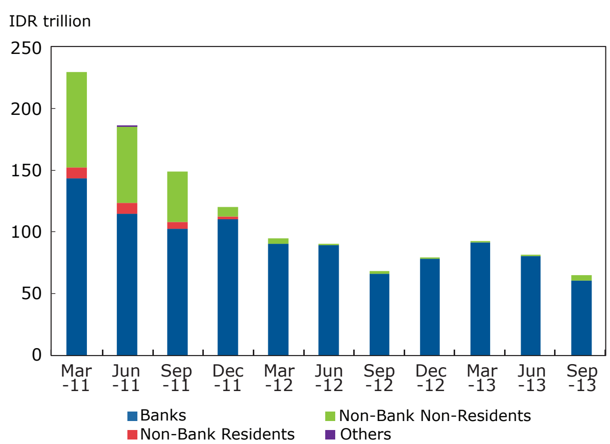


LCY = local currency.
Source: Indonesia Debt Management Office.

Central government bond holdings of other domestic investors either hardly changed or declined slightly in 3Q13 on a y-o-y basis. Mutual funds' holdings of government bonds fell to a share of 4.3% from 5.8% a year earlier. While most other investor classes, including insurance companies and pension funds, registered negligible changes in their respective holdings of government bonds. The only other significant change in investor holdings were those of BI, whose share of government bonds climbed to 2.7% of the total at end-September from 0.6% in the previous year.

Central Bank Bills. At end-September, central bank bills (SBI), were primarily held by banking institutions with holdings equivalent to a share of 94% of the total. In absolute terms, outstanding SBI held by banks reached IDR60.9 trillion at end-September, compared with IDR80.8 trillion in the previous quarter **(Figure 5)**. Foreign non-bank investors accounted for the remaining 6% of SBI holdings. The marked increase in foreign holdings of SBI during 3Q13 was due to BI's decision in late August to reduce the minimum holding period of SBI from 6 months to 1 month. The reduced holding period is expected to attract renewed interest in SBI from offshore funds. Foreign investors' share had dropped significantly after the central bank implemented the 6-month holding period for SBI in 2011. The all-time high for foreign holdings' share of SBI was in March 2011 at 34% based on nominal holdings of IDR77.4 trillion.

Figure 5: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

Rating Changes

On 11 October, Ratings and Investment Information (R&I) affirmed its BBB– sovereign credit rating for Indonesia. The outlook on the rating was stable. In making its decision, R&I took note of Indonesia's ability to achieve sustainable economic growth in the long-term, conservative fiscal management, sound banking sector, and low level of government debt. R&I also stated that Indonesia would able to maintain adequate foreign exchange reserves to service its external debt even amid pressures on the exchange rate.

Policy, Institutional, and Regulatory Developments

BI and PBOC Extend Bilateral Swap Arrangement

On 2 October, BI signed an extension of its bilateral swap arrangement with the People's Bank of China (PBOC) amounting to CNY100 billion (IDR175 trillion). The new agreement will run for 3 years and is subject to an extension depending on an agreement between the two parties. The new bilateral swap arrangement is expected to boost trade and direct investment between Indonesia and the People's Republic of China, and bolster the availability of short-term liquidity.

BI Introduces Regulation on Hedging

On 9 October, BI announced that it will regulate the hedging activities of local residents and corporates based in Indonesia in order to deepen the country's foreign exchange market. Specifically, it seeks to regulate the use of hedging instruments, such as foreign exchange forwards and swaps, by individuals and corporates, including state-owned firms. The central bank stated that individuals need to present documents showing the economic rationale underlying the hedging transaction such as international trade, investments, or payment of foreign debt.

Indonesia and the Republic of Korea Establish Bilateral KRW–IDR Swap Arrangement

On 12 October, the ministries of finance and central banks of Indonesia and the Republic of Korea agreed to establish a bilateral KRW–IDR swap arrangement. The size of the swap arrangement is up to KRW10.7 trillion–IDR115 trillion (equivalent to US$10 billion). The agreement will run for 3 years and is subject to an extension depending on an agreement between the two parties. The bilateral swap arrangement aims to promote bilateral trade and further strengthen financial cooperation between the two countries.

House of Representatives Approves the 2014 National Budget

On 25 October, the House of Representatives approved the 2014 national budget. The underlying macroeconomic assumptions included in the budget are (i) economic growth of 6.0%; (ii) an inflation rate target of 5.5%; (iii) an IDR–US$ exchange rate of IDR10,500–US$1; (iv) a 3-month treasury bill yield of 5.5%; (v) an Indonesian crude oil price of US$105 per barrel; and (vi) oil and gas lifting volumes set at 0.87 million barrels per day and 1.24 million barrels per day, respectively. The 2014 budget estimates central government revenues of IDR1,667.1 trillion and expenditures of IDR1,842.5 trillion, resulting in a budget deficit of IDR175.4 trillion, or the equivalent of 1.7% of GDP.

Republic of Korea

Yield Movements

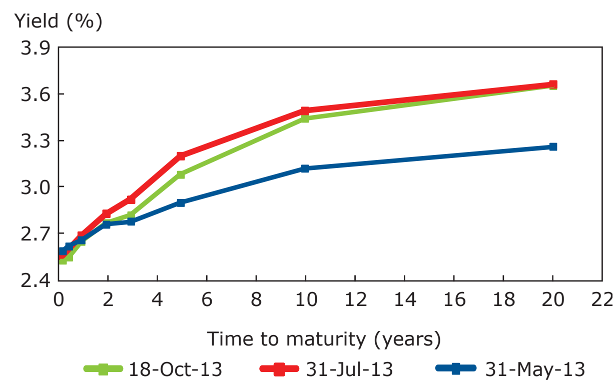
Yields of local currency (LCY) government bonds in the Republic of Korea rose for most tenors between end-May and 18 October **(Figure 1)**. During this period, yields climbed for tenors of more than 1 year, with the increases ranging from 1 basis point (bp) for the 2-year tenor to 39 bps for the 20- and 30-year tenors, while yields fell for tenors of 1 year or less. The yield hike in most tenors was relatively strong between end-May and end-July amid expectations of a tapering in the asset purchase program of the United States (US) Federal Reserve. But yields later fell at a less rapid pace for all tenors between end-July and 18 October amid the US Federal Open Market Committee's decision in September to maintain its asset purchase program at its current pace. Meanwhile, the yield spread between 2- and 10-year tenors widened 31 bps between end-May and 18 October.

The Bank of Korea's Monetary Policy Committee decided on 10 October to keep the base rate steady at 2.50%, forecasting that the global economy would sustain its recovery and that a negative output gap and low inflationary pressures would persist in the domestic economy for the time being.

Consumer price inflation decelerated in the Republic of Korea to 0.7% year-on-year (y-o-y) in October from 0.8% in September, induced by an annual fall in the prices of food and non-alcoholic beverages and transport costs. The price indices for food and non-alcoholic beverages and transport dropped 1.8% and 1.4% y-o-y, respectively.

The Bank of Korea released its latest economic outlook for 2013 and 2014 in October. The central bank maintained its 2013 gross domestic product (GDP) growth rate projection for the Republic of Korea at 2.8%. On the other hand, it revised downward its 2014 GDP growth rate forecast to 3.8% from a forecast of 4.0% made in July.

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



LCY = local currency.
Source: Bloomberg LP.

Meanwhile, advance GDP growth estimates of The Bank of Korea revealed that the country's real GDP growth rate in 3Q13 stood at 1.1% quarter-on-quarter (q-o-q), the same as in 2Q13, and 3.3% y-o-y, an improvement from the previous quarter's 2.3%. The acceleration in y-o-y GDP growth was led by faster annual growth in private consumption expenditure and gross fixed capital formation on the demand side, and increased production in the agriculture, forestry, and fishing; manufacturing; construction; and services sectors on the supply side.

Size and Composition

The size of the LCY bond market in the Republic of Korea amounted to KRW1,681 trillion (US$1.6 trillion) at the end of 3Q13, up 1.8% q-o-q and 10.4% y-o-y **(Table 1)**. In 3Q13, LCY government bonds outstanding rose 1.3% q-o-q and 6.9% y-o-y to reach KRW645.3 trillion at end-September, led by an expansion in central government bonds, which accounted for 69% of the outstanding stock of LCY government bonds. Specifically, LCY central government bonds outstanding grew 1.3% q-o-q and 7.4% y-o-y

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q12		2Q13		3Q13		3Q12		3Q13	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,528,239**	**1,370**	**1,650,267**	**1,445**	**1,680,687**	**1,564**	**2.1**	**9.6**	**1.8**	**10.4**
Government	603,590	543	637,277	558	645,333	601	0.4	2.2	1.3	6.9
Central Bank Bonds	162,460	146	165,420	145	164,880	153	(1.3)	(4.1)	(0.3)	1.5
Central Government Bonds	413,848	372	439,059	384	444,599	414	1.3	5.8	1.3	7.4
Industrial Finance Debentures	27,283	25	32,798	29	35,854	33	(3.3)	(8.4)	9.3	31.4
Corporate	919,279	827	1,012,990	887	1,035,354	963	3.3	15.1	2.2	12.6

( ) = negative, LCY = local currency, 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.
Sources: EDAILY *BondWeb* and The Bank of Korea.

in 3Q13 to level off at KRW444.6 trillion, buoyed by Korea Treasury Bonds (KTBs), which stood at KRW390.6 trillion at the end of the quarter. Similarly, outstanding LCY industrial finance debentures issued by Korea Development Bank (KDB) surged 9.3% q-o-q and 31.4% y-o-y to reach KRW35.9 trillion at end-September. In contrast, LCY central bank bonds outstanding slipped 0.3% q-o-q, but rose 1.5% y-o-y in 3Q13, leveling off at KRW164.9 trillion.

Issuance of LCY government bonds during 3Q13 surged 17.7% y-o-y, but contracted 2.3% q-o-q. The y-o-y increase in LCY government bond issuance came from annual increases in the issuance of central government bonds, central bank bonds, and industrial finance debentures. On the other hand, the q-o-q fall in LCY government bond issuance was largely a result of quarterly declines in LCY bond issuance by the central bank and KDB that more than offset the quarterly increase in LCY central government bond issuance.

The outstanding amount of LCY corporate bonds stood at KRW1,035 trillion at end-September, having expanded 2.2% q-o-q and 12.6% y-o-y. Private sector corporate bonds, which occupied 46% of the corporate bond market, grew 1.6% q-o-q and 16.0% y-o-y; special public bonds, which accounted for 33% of total corporate bonds outstanding, increased 2.8% q-o-q and 13.0% y-o-y; and financial debentures (excluding KDB bonds), which comprised 21% of the corporate bond market, were up 2.6% q-o-q and 5.3% y-o-y.

Issuance of LCY corporate bonds fell 10.1% q-o-q and 15.5% y-o-y during 3Q13 as private corporate bond issues, which accounted for 47% of total LCY corporate issuance in the quarter, dropped 21.3% q-o-q and 21.9% y-o-y. Meanwhile, LCY bond issues by special public companies plunged 19.1% y-o-y, but were up 5.4% q-o-q in 3Q13. In contrast, issuance of financial debentures (excluding KDB bonds) climbed 0.5% q-o-q and 5.3% y-o-y.

At end-September, the top 30 LCY corporate bond issuers had outstanding bonds of KRW640.3 trillion, accounting for 61.8% of total LCY corporate bonds **(Table 2)**. Korea Housing Finance Corporation became the largest issuer of LCY corporate bonds in 3Q13, surpassing Korea Land and Housing Corporation, with bonds outstanding of KRW60.7 trillion.

The five largest LCY corporate bonds issued in 3Q13 included NongHyup Bank's KRW500 billion 10-year bond offering a 4.03% coupon, KRW350 billion 30-year bond with a 4.88% coupon, and KRW320 billion 3-year bond with a 3.13% coupon; Kookmin Bank's KRW400 billion

Table 2: Top 30 Issuers of LCY Corporate Bonds in the Republic of Korea

Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
	LCY Bonds (KRW billion)	LCY Bonds (US$ billion)		KOSPI	KOSDAQ	
1. Korea Housing Finance	60,659	56.4	Yes	No	No	Financial
2. Korea Land & Housing	59,219	55.1	Yes	No	No	Real Estate
3. Korea Finance	44,730	41.6	Yes	No	No	Financial
4. Korea Deposit Insurance	43,770	40.7	Yes	No	No	Insurance
5. Industrial Bank of Korea	33,296	31.0	Yes	Yes	No	Bank
6. KDB Daewoo Securities	31,160	29.0	Yes	Yes	No	Securities
7. Korea Electric Power	30,640	28.5	Yes	Yes	No	Utility
8. Woori Investment and Securities	29,384	27.3	Yes	Yes	No	Securities
9. Korea Investment and Securities	28,077	26.1	No	No	No	Securities
10. Mirae Asset Securities	23,652	22.0	No	Yes	No	Securities
11. Korea Expressway	20,450	19.0	Yes	No	No	Infrastructure
12. Kookmin Bank	18,895	17.6	No	No	No	Bank
13. Tong Yang Securities	18,160	16.9	No	Yes	No	Securities
14. Shinhan Bank	17,938	16.7	No	No	No	Bank
15. Korea Rail Network Authority	15,810	14.7	Yes	No	No	Infrastructure
16. Small & Medium Business	15,105	14.1	Yes	No	No	Financial
17. Hana Daetoo Securities	13,780	12.8	No	No	No	Securities
18. Woori Bank	13,602	12.7	Yes	No	No	Bank
19. Korea Gas	13,315	12.4	Yes	Yes	No	Utility
20. Hyundai Securities	12,111	11.3	No	Yes	No	Securities
21. Hana Bank	11,835	11.0	No	No	No	Bank
22. Shinhan Investment	11,282	10.5	No	No	No	Securities
23. Standard Chartered First Bank Korea	10,350	9.6	No	No	No	Bank
24. Samsung Securities	10,020	9.3	No	Yes	No	Securities
25. Korea Water Resources	9,849	9.2	Yes	Yes	No	Utility
26. NongHyup Bank	9,050	8.4	Yes	No	No	Bank
27. Shinhan Card	8,643	8.0	No	No	No	Financial
28. Korea Eximbank	8,640	8.0	Yes	No	No	Bank
29. Korea Railroad	8,600	8.0	Yes	No	No	Infrastructure
30. Korea Student Aid Foundation	8,310	7.7	Yes	No	No	Financial
Total Top 30 LCY Corporate Issuers	**640,332.0**	**595.9**				
Total LCY Corporate Bonds	**1,035,354.0**	**963.4**				
Top 30 as % of Total LCY Corporate Bonds	**61.8%**	**61.8%**				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
NongHyup Bank		
3-year bond	3.13	320
10-year bond	4.03	500
30-year bond	4.88	350
Kookmin Bank		
7-year bond	3.82	400
Samsung Everland		
5-year bond	3.52	350

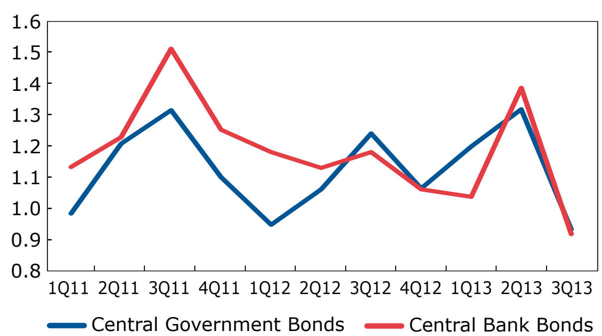
LCY = local currency.
Source: Bloomberg LP.

7-year bond carrying a 3.82% coupon; and Samsung Everland's KRW350 billion 5-year bond offering a 3.52% coupon **(Table 3)**.

Liquidity

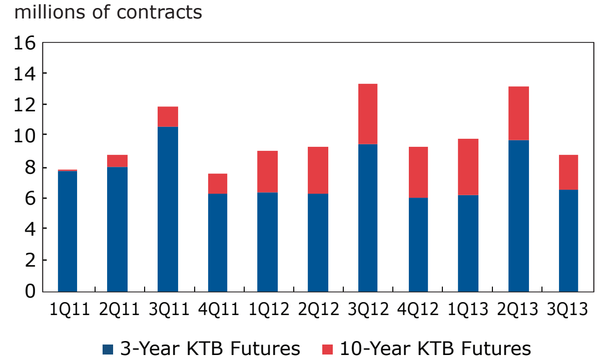
Liquidity in the LCY government bond market appears to have tightened in 3Q13, on both a quarterly and annual basis, as the turnover ratio for government bonds fell to 0.87 in 3Q13 from 1.27 in 2Q13 and 1.16 in 3Q12. By government bond type, the turnover ratio for central government bonds—mostly KTBs—dropped to 0.93 in 3Q13 from 1.32 in 2Q13 and 1.24 in 3Q12, while the ratio for central bank bonds decreased to 0.92 in 3Q13 from 1.39 in 2Q13 and 1.18 in 3Q12 **(Figure 2)**.

Figure 2: Turnover Ratios for Central Government and Central Bank Bonds



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

Figure 3: Trading Volume of KTB Futures Contracts

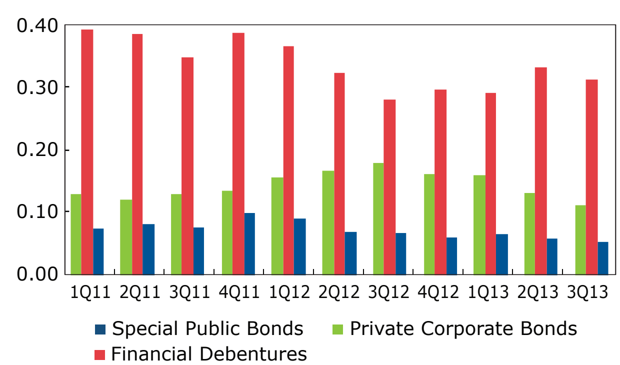


KTB = Korea Treasury Bond.
Source: Korea Exchange.

Meanwhile, liquidity in the KTB futures market appears to have tightened as well in 3Q13, as the total number of 3- and 10-year KTB futures contracts traded fell to 8.8 million from 13.2 million in the previous quarter **(Figure 3)**. Between 2Q13 and 3Q13, the share of 3-year KTB futures contracts traded climbed from 73% to 75% of all KTB futures contracts traded, while the share of 10-year KTB futures contracts traded fell from 27% to 25%.

In the LCY corporate bond market, liquidity conditions appear to have tightened in 3Q13, albeit marginally, as the turnover ratio for corporate bonds fell slightly to 0.13 from 0.14 in the previous quarter. The turnover ratio for all

Figure 4: Turnover Ratios for Special Public Bonds, Financial Debentures, and Private Corporate Bonds



Source: EDAILY *BondWeb*.

three types of corporate bonds fell between 2Q13 and 3Q13—from 0.13 to 0.11 for special public bonds, from 0.33 to 0.31 for financial debentures, and from 0.06 to 0.05 for private corporate bonds **(Figure 4)**.

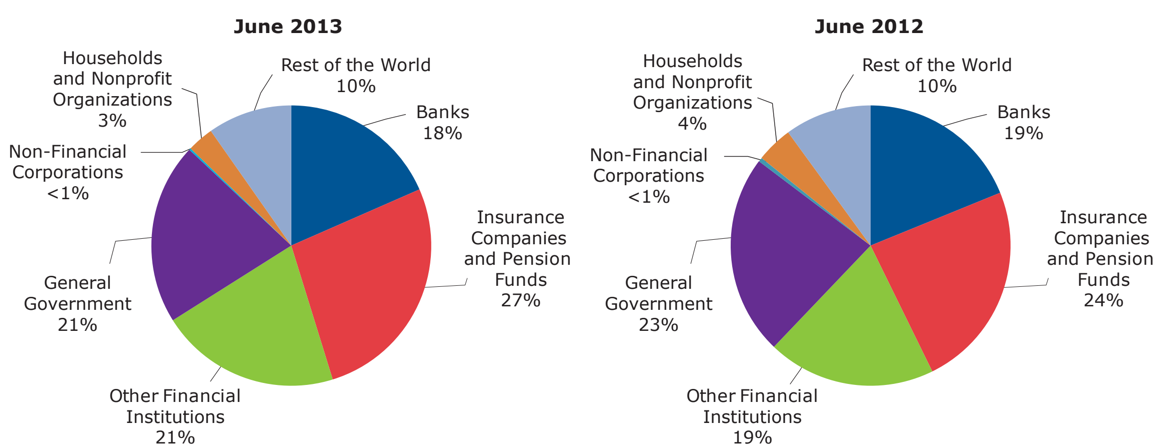
Investor Profile

At end-June, the largest investor group in the LCY government bond market comprised insurance companies and pension funds with a combined 27% share of the total market **(Figure 5)**, a 3 percentage point gain in market share from a year earlier. Meanwhile, general government entities—the central government, local government, and social security funds—and financial institutions (other than banks, insurance companies, and pension funds) had investor shares of 21% each. Compared with a year earlier, the share of general government entities dropped 2 percentage points at end-June, while that of financial institutions (other than banks, insurance companies, and pension funds) climbed 2 percentage points. Between June 2012 and June 2013, the shares of banks and households and non-profit organizations slipped 1 percentage point each to 18% and 3%, respectively. In addition, the share of non-financial corporations stood at 0.2% at end-June, down 0.3 percentage points from a year earlier. Lastly, the share of foreign investors in LCY government and public bonds at end-June remained the same at 10%.

Insurance companies and pension funds continued to hold the largest amount of LCY corporate bonds among all investor groups with a combined 34% share of the total market at end-June, an increase of 1 percentage point from a year earlier **(Figure 6)**. The second-largest investor group in LCY corporate bonds at end-June with a 28% share was financial institutions (other than banks, insurance companies, and pension funds). However, this represented a 2 percentage point decline from a year earlier. Meanwhile, the share of LCY corporate bonds held by banks dropped to 14% from 18% over the same period. Similarly, the share of foreign investors' holdings in the LCY corporate bond market slipped 0.5 percentage points to 0.5% at end-June.

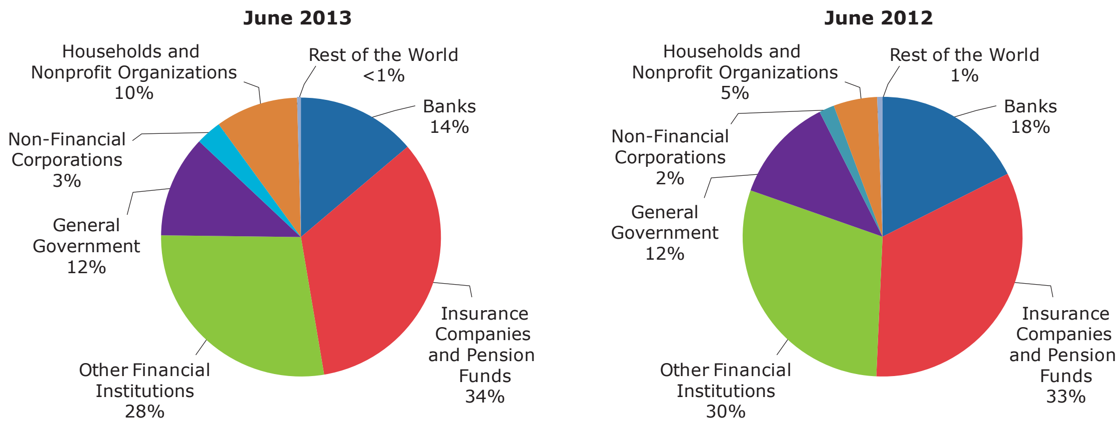
In contrast, the share of non-financial corporations' holdings of LCY corporate bonds rose 1 percentage point to 3%, and the share of households and non-profit organizations climbed 5 percentage points to 10%. Meanwhile, the share of general government entities' holdings of LCY corporate bonds remained unchanged between end-June 2012 and end-June 2013 at 12%.

Figure 5: LCY Government Bonds Investor Profile



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

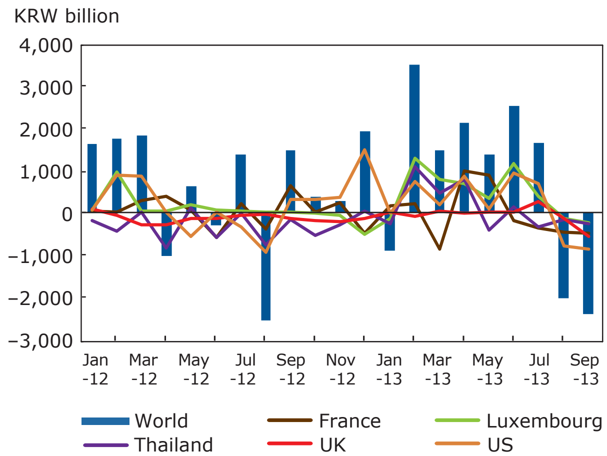
Figure 6: LCY Corporate Bonds Investor Profile



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

Net foreign investments in the Republic of Korea's LCY bond market were negative for the second consecutive month in September, according to Financial Supervisory Service (FSS) data **(Figure 7)**. Net bond purchases by foreign investors amounted to only KRW100 billion in September, down significantly from August's KRW1.6 trillion. On the other hand, bond redemptions by foreign investors were valued at KRW2.5 trillion in September, down from KRW3.7 trillion in the previous month. As a result, net bond sales by foreign investors rose to KRW2.4 trillion in September from KRW2.1 trillion in August. In January–September, net foreign bond investments in the Republic of Korea stood at KRW7.3 trillion, an increase over the KRW4.8 trillion posted in the first 9 months of 2012.

Figure 7: Net Foreign Investment by Country in LCY Bonds in the Republic of Korea



LCY = local currency, UK = United Kingdom, US = United States.
Source: Financial Supervisory Service (FSS).

Rating Changes

Standard and Poor's (S&P) announced in September that it was affirming its foreign currency (FCY) and LCY credit ratings for the Republic of Korea at A+/A-1 and AA-/A-1+, respectively, with its outlook for both long-term ratings being stable.

S&P stated that its credit ratings for the Republic of Korea reflected the country's "favorable policy environment, sound fiscal position, and broadly balanced external liability position."

Policy, Institutional, and Regulatory Developments

Republic of Korea and UAE Establish Bilateral Currency Swap Arrangement

The Bank of Korea and the Central Bank of the United Arab Emirates (UAE) announced in October the establishment of a 3-year KRW–AED swap arrangement. The size of the bilateral currency swap arrangement is up to KRW5.8 trillion–AED20 billion (US$5.4 billion). The arrangement can be extended upon agreement by both parties and is aimed at promoting bilateral trade and financial cooperation between the Republic of Korea and the UAE.

Republic of Korea and Malaysia Establish Bilateral Currency Swap Arrangement

The Bank of Korea and Bank Negara Malaysia announced in October the establishment of a 3-year KRW–MYR swap arrangement. The size of the bilateral currency swap arrangement is up to KRW5 trillion–MYR15 billion. The arrangement can be extended upon agreement by both parties and is aimed at promoting bilateral trade and financial cooperation between the Republic of Korea and Malaysia.

Republic of Korea and Indonesia to Establish Bilateral Currency Swap Arrangement

The central banks and ministries of finance of the Republic of Korea and Indonesia agreed in October to establish a bilateral KRW–IDR swap arrangement. The size of the swap arrangement is up to KRW10.7 trillion–IDR115 trillion (US$10 billion). Its effective period is 3 years with a possible extension upon a joint agreement by the two parties. The swap arrangement is expected to foster bilateral trade and financial cooperation between the Republic of Korea and Indonesia.

2013 Tax Revision Bill Finalized

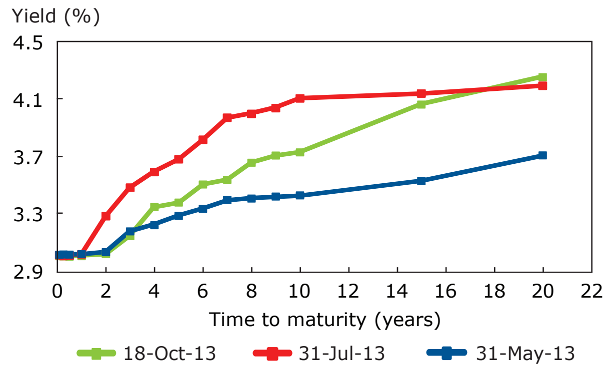
The 2013 Tax Revision Bill was finalized in September, according to the Ministry of Strategy and Finance (MOSF). The revisions included increases in income tax deductions for long-term mortgage payments and rental payments, increases in the earned income tax credit and charitable donation tax credit, and reductions in sales taxes for rental houses and income taxes for small rental homes.

Malaysia

Yield Movements

Between end-May and end-July, Malaysia's local currency (LCY) government bond yields soared dramatically for tenors of 2 years and longer **(Figure 1)**. Yields for 10-year maturities surged the most, rising 68 basis points (bps), followed by 62 bps for 9-year maturities and 61 bps for 15-year maturities. The yield on government notes due March 2023 jumped to 4.1%, the highest for a benchmark 10-year bond since April 2011.

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



LCY = local currency.
Source: Bloomberg LP.

The yield curve had shifted downward by mid-October, as yields slumped for all maturities except the 20-year tenor. Yields for 7- to 10-year maturities dropped the most, falling between 33 bps and 43 bps. Yields for 20-year maturities, however, rose an additional 6 bps on the back of a 49 bps increase in July.

Bond yields have risen sharply since May on concerns stemming from the United States (US) Federal Reserve's announcement about tapering its monthly bond purchases. Domestic factors in Malaysia—including (i) a narrowing current account surplus and weakening ringgit, (ii) rising inflation expectations after the government cut fuel subsidies, and (iii) Fitch Ratings' credit outlook downgrade to negative—have dampened investor interest and clouded the demand outlook. However, speculation that the US government shutdown may delay tapering of the Federal Reserve's asset purchase program helped ease some concerns, with the yield on 10-year government bonds sliding to 3.7% in mid-October. Meanwhile, the yield spread between 2- and 10-year tenors narrowed to 71 bps in mid-October from 82 bps at end-July.

The ringgit weakened to a 3-year low of MYR3.3346–US$1 in August amid mounting concerns over the deterioration in the current account balance and the risk of capital outflows. In 2Q13, the current account surplus fell to MYR2.6 billion, shrinking from MYR8.7 billion in 1Q13 and MYR7.9 billion in 2Q12, mainly due to a smaller goods surplus. The current account surplus stood at 1% of gross domestic product (GDP) in 2Q13, down from 8% of GDP at the end of 2012. Meanwhile, the large redemption of sovereign debt also caused the depreciation in the ringgit on concerns that global investors will repatriate funds. At end-July, MYR9.2 billion (US$2.9 billion) of Malaysian Government Securities (MGSs) matured.

Consumer price inflation accelerated to 2.6% year-on-year (y-o-y) in September—the highest in 20 months—from 1.9% in August, led by higher food and transportation costs. The price index for food and non-alcoholic beverages inched up 3.9% y-o-y and transport prices rose 4.6%. On a month-on-month (m-o-m) basis, inflation increased 0.8%.

In its Monetary Policy Committee meeting on 5 September, Bank Negara Malaysia (BNM) decided to maintain the overnight policy rate at 3.0%, the same level where it has been since May 2011. BNM expects inflation to increase in the remainder of the year and into 2014 due to domestic cost factors, including subsidy adjustments. The increase in inflation, however, is from a low level and should be dampened by a stable external price environment, expansion in domestic capacity, and moderate domestic demand pressures.

Size and Composition

Total LCY bonds outstanding in Malaysia grew 1.8% quarter-on-quarter (q-o-q) and 4.1% y-o-y to reach MYR1.01 trillion (US$310.4 billion) at the end of 3Q13. Growth in the corporate bond market outpaced growth in the government bond sector, rising 3.8% q-o-q and 9.1% y-o-y **(Table 1)**.

Government Bonds. LCY government bonds outstanding stood at MYR590.2 billion at end-September, growing at modest rates of 0.5% q-o-q and 0.7% y-o-y. Central government bonds increased 1.9% q-o-q and 10.1% y-o-y, driven by growth in Government Investment Issues (GIIs) and MGSs. *Sukuk Perumahan Kerajaan* (Islamic bonds) also expanded rapidly from a low base, posting growth of 149.7% q-o-q and 495.4% y-o-y. However, BNM monetary notes continued to act as a drag on government bond growth, contracting 12.5% q-o-q and 32.6% y-o-y.

The share between conventional bonds and *sukuk* was comparable to that of the previous quarter, with conventional bonds accounting for 63% and *sukuk* comprising 37% of total bonds outstanding.

Government bond issuance fell 15.7% q-o-q to MYR85.2 billion in 3Q13, continuing a downward trend in place since 4Q12. Issuance volumes for central bank bills dropped almost 30% q-o-q and 52% y-o-y. Of the total issuance, *sukuk* comprised 57% and conventional bonds accounted for 43%.

In August, the government bond market saw the debut of the inaugural 20-year GII with an issuance size of MYR2.5 billion. Demand for the *shari'a*-compliant debt exceeded the offered amount by 1.6 times with an average yield of 4.582%. In September, Malaysia raised MYR2.5 billion from issuing a 30-year MGS, the longest-ever maturity on offer in Malaysia. The bond maturing in September 2043 attracted a bid-to-cover ratio of 2.4 times and was priced to yield 4.935%.

Corporate Bonds. Malaysia's LCY corporate bonds outstanding reached MYR421.4 billion at end-September, rising 3.8% on a q-o-q basis and 9.1% y-o-y. The share between *sukuk* and conventional bonds remained constant, with *sukuk* accounting for 67% of the total and conventional bonds comprising 33%.

Corporate issuance climbed 2.2% q-o-q to MYR21.1 billion in 3Q13, reversing the decline posted in the previous quarter. A total of 84 bond series were issued by 53 corporate entities, with conventional bonds accounting for 55% of new corporate bond issues and *sukuk* registering 45%. **Table 2** lists some notable corporate bonds issued during 3Q13.

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	MYR	**US$**	**MYR**	**US$**	**MYR**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**972**	**318**	**994**	**314**	**1,012**	**310**	**4.1**	**15.7**	**1.8**	**4.1**
Government	586	192	588	186	590	181	4.8	16.1	0.5	0.7
Central Government Bonds and Bills	424	139	459	145	468	143	1.8	12.6	1.9	10.1
Central Bank Bills	159	52	123	39	107	33	12.0	24.5	(12.5)	(32.6)
Sukuk Perumahan Kerajaan	3	1	6	2	15	5	–	465.2	149.7	495.4
Corporate	386	126	406	128	421	129	2.9	15.3	3.8	9.1

( ) = negative, – = not applicable, 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.
Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

Table 2: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Kapar Energy Ventures		
1-year Islamic MTN	3.82	150
2-year Islamic MTN	3.97	180
3-year Islamic MTN	4.12	180
4-year Islamic MTN	4.22	200
5-year Islamic MTN	4.30	200
6-year Islamic MTN	4.39	200
7-year Islamic MTN	4.47	100
8-year Islamic MTN	4.55	100
9-year Islamic MTN	4.63	110
10-year Islamic MTN	4.71	110
11-year Islamic MTN	4.79	150
12-year Islamic MTN	4.87	160
13-year Islamic MTN	4.95	160
Cagamas		
3-month Islamic commercial paper	3.20	500
3-year Islamic MTN	KLIBOR+0.14	50
3-year Islamic MTN	KLIBOR+0.15	180
3-year MTN	KLIBOR+0.15	180
1-year MTN	3.40	160
2-year MTN	3.60	60
3-year MTN	3.75	15
Syarikat Prasarana Negara		
10-year Islamic MTN	4.26	500
15-year Islamic MTN	4.58	500
Public Bank		
10-year Subordinated MTN	4.80	1,000

LCY = local currency, MTN = medium-term note.
Source: Bank Negara Malaysia Bond Info Hub.

The largest corporate LCY issuer in 3Q13 was Kapar Energy Ventures (KEV), with issuance of Islamic medium-term notes (IMTNs) totaling MYR2 billion. KEV is a subsidiary of Tenaga Nasional, which was established to acquire and operate the Kapar Power Station, the largest thermal power station in Malaysia with a capacity of 2,420 megawatts. The proceeds from the issuance in July will be utilized to refinance the company's existing Bai' Bithaman Ajil Islamic Debt Securities facility, which is due to fully mature by 2019. The bond was rated AA+IS by Malaysian Rating Corp. Berhad (MARC) and given a stable outlook.

State-owned companies such as Cagamas and Prasarana were the next largest issuers in 3Q13, with issuances of MYR1.2 billion and MYR1 billion, respectively. In August, national mortgage corporation Cagamas issued three tranches of floating-rate bonds with 3-year tenors worth a total of MYR410 million. The bonds were rated AAA by both RAM Ratings and MARC and are based on a 15-bps spread on the 1-year Kuala Lumpur Interbank Offered Rate (KLIBOR). Meanwhile, public transport provider Prasarana issued a total of MYR1 billion of 10- and 15-year *sukuk* with profit rates of 4.26% and 4.58%, respectively.

Public Bank issued the single-largest note in 3Q13 amounting to MYR1 billion. The subordinated MTN is the first tranche of Public Bank's MYR10 billion bond issue under its Basel III-compliant Tier 2 program. The bond has a tenor of 10-years (5-year non-callable) and carries a coupon of 4.8%. It was rated AA1 with a stable outlook by RAM Ratings.

At end-September, the amount of LCY bonds outstanding of the top 30 corporate bond issuers in Malaysia stood at MYR225.2 billion and accounted for 53.4% of the LCY corporate bond market **(Table 3)**. Project Lebuhraya remained the largest issuer of LCY corporate bonds with MYR30.6 billion outstanding, followed by Cagamas and Khazanah Nasional, with outstanding amounts of MYR19.2 billion and MYR18.7 billion, respectively.

Investor Profile

Social security institutions were the largest holders of MGSs and GIIs in 3Q13, with 31.7% of total government bonds outstanding at end-June **(Figure 2)**, which was up slightly from 31.6% a year earlier but lower from 31.9% at end-March. In absolute terms, the holdings of social security institutions amounted to MYR144.1 billion at end-June, up from MYR130.3 billion a year earlier.

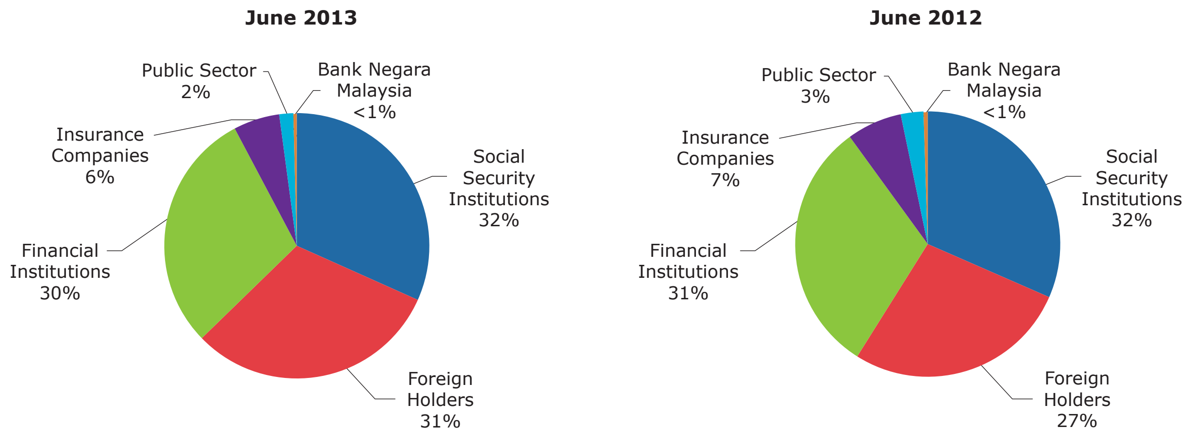
The share of foreign holdings climbed to 31% at end-June from 27.3% a year earlier and dropped slightly from 31.6% at the end of the previous

Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (MYR billion)	LCY Bonds (US$ billion)			
1. Project Lebuhraya Usahasama Bhd.	30.60	9.39	No	Yes	Toll Roads and Expressway
2. Cagamas	19.19	5.89	Yes	No	Finance
3. Khazanah	18.70	5.74	Yes	No	Quasi-Govt.
4. Pengurusan Air Bhd.	11.63	3.57	Yes	No	Energy, Gas, and Water
5. Prasarana	10.91	3.35	Yes	No	Transport, Storage, and Communications
6. Binariang GSM	9.89	3.03	No	No	Transport, Storage, and Communications
7. Maybank	9.70	2.98	No	Yes	Finance
8. CIMB Bank	7.75	2.38	No	No	Finance
9. Public Bank	6.07	1.86	Yes	No	Finance
10. Cagamas MBS	6.03	1.85	Yes	No	Finance
11. Perbadanan Tabung Pendidikan Tinggi Nasional	6.00	1.84	Yes	No	Quasi-Govt.
12. Senai Desaru Expressway	5.57	1.71	No	No	Construction
13. Sarawak Energy	5.50	1.69	Yes	No	Energy, Gas, and Water
14. Turus Pesawat Sdn. Bhd.	5.31	1.63	Yes	No	Quasi-Govt.
15. Putrajaya Holdings	5.26	1.61	No	No	Property and Real Estate
16. Malakoff Power	5.10	1.56	No	No	Energy, Gas, and Water
17. Aman Sukuk	5.03	1.54	Yes	No	Construction
18. Celcom Transmission	5.00	1.53	No	No	Transport, Storage, and Communications
19. 1Malaysia Development	5.00	1.53	Yes	No	Quasi-Govt.
20. KL International Airport	4.86	1.49	Yes	No	Transport, Storage, and Communications
21. Hong Leong Bank	4.86	1.49	No	Yes	Finance
22. Manjung Island Energy	4.85	1.49	No	No	Energy, Gas, and Water
23. AM Bank	4.61	1.41	No	No	Finance
24. RHB Bank	4.60	1.41	No	No	Finance
25. YTL Power International	4.12	1.26	No	Yes	Energy, Gas, and Water
26. Tanjung Bin Power	4.05	1.24	No	No	Energy, Gas, and Water
27. Jimah Energy Ventures	4.03	1.24	No	No	Energy, Gas, and Water
28. Danainfra Nasional	3.90	1.20	Yes	No	Finance
29. Danga Capital	3.60	1.10	No	No	Finance
30. Cekap Mentari	3.50	1.07	Yes	No	Finance
Total Top 30 LCY Corporate Issuers	**225.21**	**69.09**			
Total LCY Corporate Bonds	**421.39**	**129.28**			
Top 30 as % of Total LCY Corporate Bonds	**53.4%**	**53.4%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Figure 2: LCY Government Bonds Investor Profile

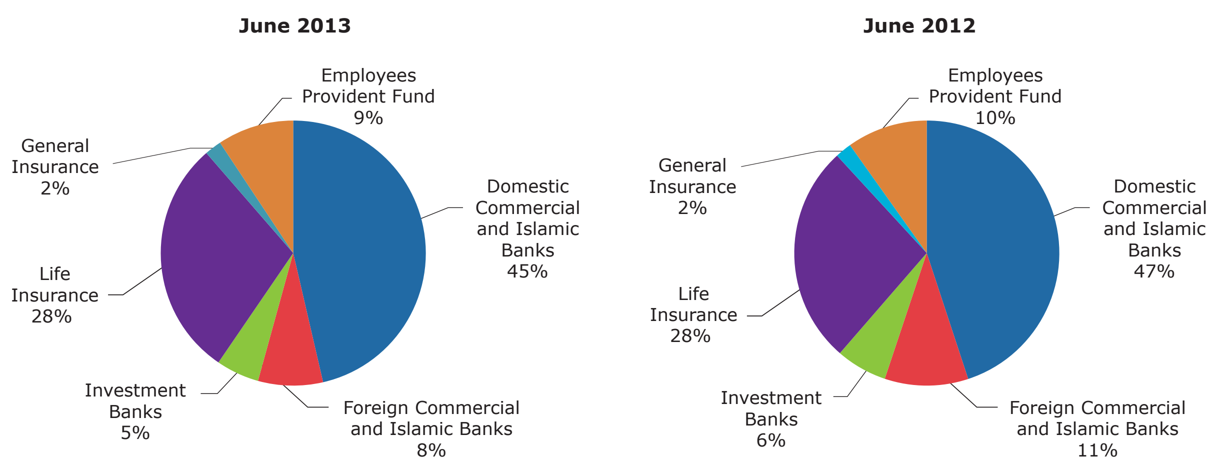


LCY = local currency.
Source: Bank Negara Malaysia.

quarter. Meanwhile, the holdings of financial institutions and insurance companies fell to 29.6% and 5.6%, respectively, at end-June from 31.1% and 6.7% a year earlier.

Domestic and foreign banks (commercial and Islamic) scaled back their shares of holdings in Malaysia's corporate bond market to 45.1% and 7.7%, respectively, at end-June from 46.6% and 10.6% a year earlier **(Figure 3)**. Meanwhile, investment banks also trimmed their position to 5.1% of total corporate bonds from 6.5%. Insurance companies slightly increased their share of corporate bond holdings to 30.5% at end-June from 29.8% a year earlier, continuing a trend in place since 2006.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.
Note: Employees Provident Fund as of end-2012.
Source: Bank Negara Malaysia.

Policy, Institutional, and Regulatory Developments

Malaysia, Singapore, and Thailand Sign MOU to Establish ASEAN CIS Framework

On 1 October, the Securities Commission Malaysia, Monetary Authority of Singapore (MAS), and Securities and Exchange Commission of Thailand signed a memorandum of understanding to establish the framework for an ASEAN Collective Investment Scheme (CIS) that will facilitate cross-border offerings to retail investors in Malaysia, Singapore, and Thailand. The signatories expect the framework to be implemented in the first half of 2014.

BNM and the Central Bank of the United Arab Emirates Enhance Cooperation

On 10 October, BNM signed a memorandum of understanding with the Central Bank of the United Arab Emirates to further strengthen Islamic financial services linkages between the two countries.

2014 Federal Budget Released

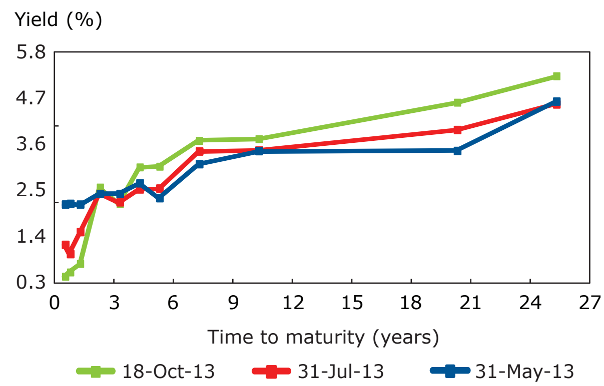
On 25 October, Malaysia announced the release of its 2014 federal budget covering economic activity; fiscal management; and human capital, urban, and rural development. The government's fiscal deficit will be reduced from 4.0% of GDP in 2013 to 3.5% in 2014 as Malaysia moves toward a balanced budget by 2020. The government assured the public that the federal debt level will not exceed the government's limit of 55% of GDP. Malaysia will implement a series of fiscal consolidation measures including a 6% goods and sales tax (GST) by 1 April 2015, the abolition of the sugar subsidy of MYR0.34 per kilogram effective 26 October, and an increase in the real property gains tax (RPGT) rates. The government forecasts the domestic economy will grow 5.0%–5.5% in 2014, from an estimated 4.5%–5.0% growth rate in 2013, driven by annual growth in private investment of 12.7% and private consumption of 6.2%. Finally, to strengthen financial markets, the Securities Commission will introduce a Framework of Socially Responsible *Sukuk* Instruments that will support the financing of sustainable and responsible investments.

Philippines

Yield Movements

Between end-May and end-July, yields fell for most Philippine local currency (LCY) bonds **(Figure 1)**. Yields for tenors of 1 year and below plunged between 65 basis points (bps) and 119 bps, while yields for 3- and 4-year bonds fell 20 bps and 14 bps, respectively. The fall in yields was due to a correction in the market after the sell-off in late May caused by speculation over how and when the United States (US) Federal Reserve will start to taper its quantitative easing program. Yields also fell in the Philippines in July due to continued high levels of liquidity in the market, and as a result of the Bangko Sentral ng Pilipinas (BSP) lowering the Special Deposit Account rate to 2.0% during its 25 April meeting of the Monetary Board and limiting the access of banks to the facility.

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



LCY = local currency.
Source: Bloomberg LP.

Between end-July and 18 October, yield rose for most tenors. Yields for all tenors above 2 years, except the 3-year tenor, rose between 15 bps and 66 bps. Meanwhile, the yield for the 3-year tenor fell slightly by 4 bps. The rise in yields was evident prior to the US Federal Open Market Committee meeting on 18 September as market players continue to monitor the decision of the Federal Reserve on its quantitative easing program. Yields fell briefly after the Federal Reserve's decision to continue the program. However, yields started to rise again toward the end of September as BSP released amended rules on the valuation of government securities held by banks and non-bank financial institutions. Under BSP Circular 813, the weighted average of executed deals will now be used as the basis for the valuation. Anticipated negative mark-to-market valuations induced a sell-off at the longer-end of the yield curve in the latter part of September. Moody's upgrade of the Philippines to investment grade on 3 October provided good news for the market and resulted in a brief fall in yields, though market participants continue to monitor the fiscal issues of the US government. Meanwhile, yields for tenors of 1 year and below fell between 43 bps and 75 bps.

Economic data in the Philippines continued to be positive in 3Q13. Inflation remained benign, enabling the pursuit of expansionary fiscal and monetary policy goals. Consumer price inflation increased slightly to 2.7% year-on-year (y-o-y) in September, bringing year-to-date inflation to 2.8%, which was still below BSP's 2013 target range of 3%–5%. This led BSP to hold its policy rates steady during its Monetary Board meeting on 12 September.

During the first half of 2013, the Philippine economy grew 7.6%, compared with 6.4% in the same period in 2012. The growth continues to be supported by strong business and consumer sentiment, as well as sustained government capital expenditure. The services sector continues to post strong performances, outweighing the negative contribution of exports.

Size and Composition

The Philippine LCY bond market grew at a robust rate of 12.5% y-o-y as of end-September, led by both treasury bills and bonds. Total LCY bonds reached PHP4.3 trillion (US$98 billion) at end-September, up 3.6% from end-June's level of PHP4.1 trillion. Government securities accounted

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	PHP	**US$**	**PHP**	**US$**	**PHP**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**3,801**	**91**	**4,128**	**96**	**4,276**	**98**	**4.2**	**16.1**	**3.6**	**12.5**
Government	3,286	79	3,587	83	3,732	86	4.3	14.7	4.0	13.6
Treasury Bills	262	6	308	7	309	7	2.7	(20.6)	0.3	18.1
Treasury Bonds	2,900	69	3,165	73	3,309	76	4.6	19.8	4.6	14.1
Others	124	3	113	3	113	3	0.3	8.6	0.0	(8.8)
Corporate	514	12	541	13	544	13	3.9	26.1	0.6	5.8

( ) = negative, LCY = local currency, 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. Data for government bonds as of end-August 2013.
5. "Others" comprises bonds issued by government agencies, instrumentalities, and corporations with which repayment was guaranteed by the central government. These include issues of Power Sector Assets and Liabilities Management (PSALM), National Food Authority, and others.
6. Peso Global Bonds (PHP-denominated bonds payable in US$) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-August 2013, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20 billion of outstanding Peso Global Bonds, respectively. There was a total of PHP6 billion of outstanding multi-currency treasury bonds as of end-August 2013.

Sources: Bureau of the Treasury and Bloomberg LP.

for the majority of bonds outstanding, totaling PHP3.7 trillion, while corporate bonds summed to PHP544.2 billion.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies rose 4.0% quarter-on-quarter (q-o-q) and 13.6% y-o-y to close at PHP3.7 trillion at end-August. Treasury bills advanced at 0.3% q-o-q and 18.1% y-o-y to stand at PHP309.3 billion at end-August. Treasury bonds expanded 4.6% q-o-q and 14.1% y-o-y to PHP3.3 trillion. Meanwhile, fixed-income instruments issued by government-controlled companies registered a decline of 8.8% y-o-y to PHP113.5 billion at the end of 3Q13.

In terms of issuance in 3Q13, PHP210 billion worth of treasury bonds were sold compared with PHP130 billion of treasury bills. The Bureau of the Treasury sold PHP100 billion worth of 10-year Retail Treasury Bonds in August. The government has programmed LCY borrowing of PHP120 billion through its regular auction schedule in 4Q13: PHP40 billion of treasury bills with 91-, 182-, and 364-day tenors; and PHP80 billion of treasury bonds with 5-, 7-, and 20-year tenors.

Corporate Bonds. As of end-September, total outstanding LCY corporate bonds grew 0.6% q-o-q and 5.8% y-o-y to reach PHP544.2 billion. Ayala Land, Inc. and Globe Telecom issued corporate bonds in amounts of PHP15 billion and PHP7 billion, respectively. Banco de Oro Unibank and Philippine National Bank were the next largest issuers in 3Q13, raising PHP5 billion worth of Tier 2 notes each **(Table 2)**.

Only 50 companies are actively tapping the capital market in the Philippines. The top 30 issuers accounted for 80.9% of the total amount of LCY corporate bonds outstanding (PHP544.2 billion) at end-September **(Table 3)**. Out of the top 30 bond issuers, only six companies

Table 2: Notable LCY Corporate Bond Issuance in 2Q13

Corporate Issuers	**Coupon Rate** (%)	**Issued Amount** (PHP billion)
Ayala Land, Inc.		
10.5-year bond	5.00	15
BDO Unibank, Inc.		
7-year LTNCD	3.50	5
Globe Telecom		
7-year bond	4.89	4
10-year bond	5.28	3
Philippine National Bank		
5.5-year LTNCD	3.00	5
Philippine National Bank	3.00	5

LCY = local currency, LTNCD = long-term negotiable certificate of deposit.
Source: Bloomberg LP.

Table 3: Top 30 Issuers of LCY Corporate Bonds in the Philippines

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (PHP billion)	LCY Bonds (US$ billion)			
1. San Miguel Brewery Inc.	45.2	1.0	No	Yes	Brewery
2. Ayala Land Inc.	43.9	1.0	No	Yes	Real Estate
3. Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4. BDO Unibank Inc.	21.5	0.5	No	Yes	Banking
5. SM Investments Corporation	21.1	0.5	No	Yes	Diversified Operations
6. Philippine Long Distance Telephone Co.	17.3	0.4	No	Yes	Telecommunications
7. Philippine National Bank	17.3	0.4	No	Yes	Banking
8. Globe Telecom Inc.	17.0	0.4	No	Yes	Telecommunications
9. Maynilad Water Services	16.6	0.4	No	Yes	Water
10. Energy Development Corporation	16.0	0.4	No	Yes	Electricity Generation
11. Manila Electric Company	14.4	0.3	No	Yes	Electricity Distribution
12. SM Development Corporation	14.3	0.3	No	Yes	Real Estate
13. Rizal Commercial Banking Corporation	14.0	0.3	No	Yes	Banking
14. Petron Corporation	13.6	0.3	No	Yes	Oil Refining and Marketing
15. First Metro Investment Corporation	12.0	0.3	No	No	Investment Banking
16. Filinvest Land Inc.	11.5	0.3	No	Yes	Real Estate
17. MTD Manila Expressway Corporation	11.5	0.3	No	No	Transport Services
18. South Luzon Tollway Corporation	11.0	0.3	No	No	Transport Services
19. GT Capital Holdings Inc.	10.0	0.2	No	Yes	Investment Companies
20. Metropolitan Bank & Trust Co.	10.0	0.2	No	Yes	Banking
21. Robinsons Land Corporation	10.0	0.2	No	Yes	Real Estate
22. JG Summit Holdings Inc.	9.0	0.2	No	Yes	Diversified Operations
23. Security Bank Corporation	8.0	0.2	No	Yes	Banking
24. Manila North Tollways Corporation	6.1	0.1	No	No	Public Thoroughfares
25. Bank of the Philippine Islands	5.0	0.1	No	Yes	Banking
26. Megaworld Corporation	5.0	0.1	No	Yes	Real Estate
27. SM Prime Holdings, Inc.	5.0	0.1	No	Yes	Real Estate
28. United Coconut Planters Bank	5.0	0.1	No	No	Banking
29. Eagle Cement Corporation	4.5	0.1	No	Yes	Industrial
30. Philippine Phosphate Fertilizer Corp.	4.5	0.1	No	No	Industrial
Total Top 30 LCY Corporate Issuers	**440.2**	**10.1**			
Total LCY Corporate Bonds	**544.2**	**12.5**			
Top 30 as % of Total LCY Corporate Bonds	**80.9%**	**80.9%**			

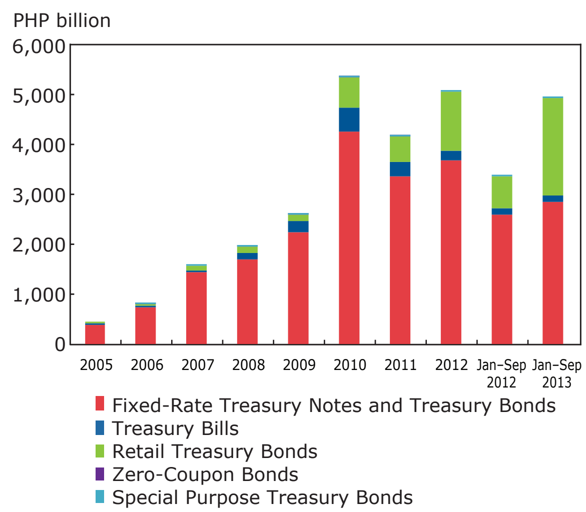
LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. Petron Corporation has PHP20 billion of Global Peso Bonds outstanding that are not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

are privately-held corporations and the rest are publicly listed with the Philippine Stock Exchange (PSE). San Miguel Brewery (SMB) remained the largest corporate issuer in the country with PHP45.2 billion of outstanding debt. Ayala Land, Inc. followed SMB as the next largest borrower with PHP43.9 billion outstanding. Ayala Corporation was in the third spot with PHP40 billion of outstanding bonds.

The diversity of LCY corporate bond issuers in 3Q13 was comparable with that in 2Q13 **(Figure 2)**. Banks and financial services, including investment houses, remained the leading issuers of debt in 3Q13 with 27.2% of the total as BSP moved toward more stringent liquidity and capital requirements. The market share of most industries remained unchanged, except for real estate, which increased to 17.9% from 15.7%. Firms from industries as diverse as (i) electricity generation and distribution, (ii) telecommunications, and (iii) thoroughfares and tollways continued to have shares of total corporate bonds outstanding in the single-digit levels.

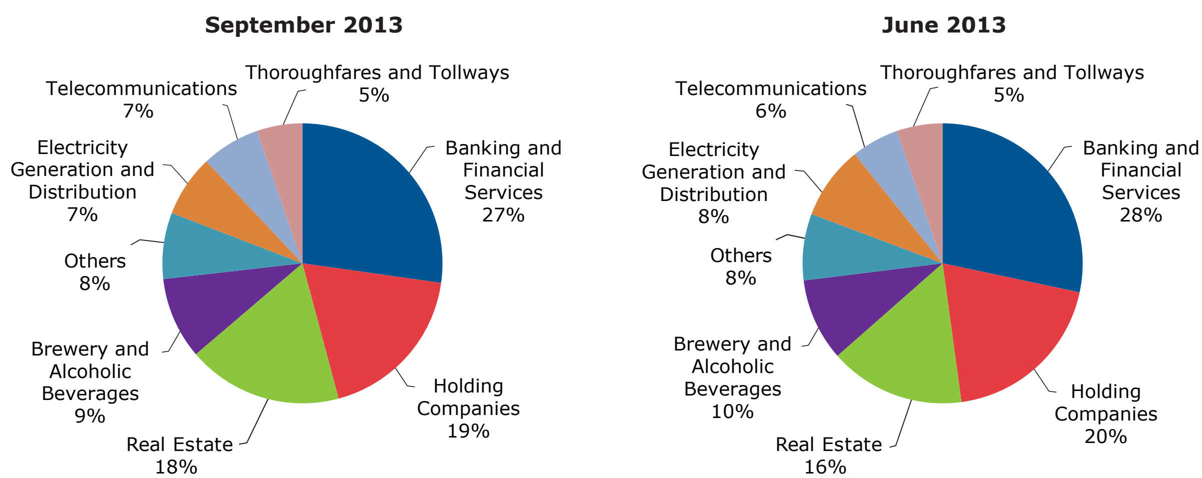
As the sole fixed-income exchange in the country, the Philippine Dealing and Exchange Corporation (PDEx) captures the secondary trading of listed fixed-income issues. The volume of secondary trading of government securities surged between 2005 and 2012 **(Figure 3)**. From an annual trading volume of PHP437.7 billion in 2005, trading volume increased to PHP5 trillion in 2012. The largest annual volume was recorded in 2010, when secondary trading reached PHP5.4 trillion.

Figure 3: PDEx Trade Volume Trends—Government Securities



Note: PDEx reports one side of the trade only.
Source: Philippine Dealing and Exchange Corporation (PDEx).

Figure 2: LCY Corporate Bond Issuers by Industry



LCY = local currency.
Source: Bloomberg LP.

Total trading volume in January–September increased 47.0% y-o-y to PHP4.9 trillion, which is equivalent to 97.8% of the total trading volume in 2012. Between January 2005 and September 2013, treasury bonds accounted for almost 76.7% of all trades in the secondary market as investors sought greater capital gains and interest income from these securities.

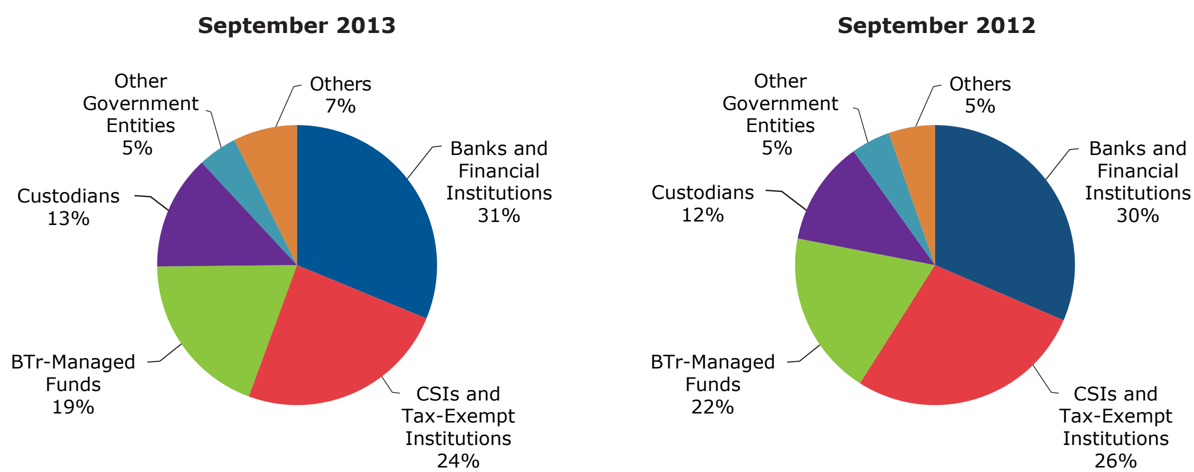
Investor Profile

The largest grouping of investors in government securities in 3Q13 comprised banks and financial institutions with 31.2% of the total **(Figure 4)**. This was slightly higher than its share of 30.0% in 3Q12. Contractual savings institutions—including the Social Security System (SSS), Government Service Insurance System (GSIS), Pag-ibig, and life insurance companies—and tax-exempt institutions—such as trusts and other tax-exempt entities—accounted for 24.4% of the total in 3Q13, down from 26.4% in 3Q12. The share of funds being managed by the Bureau of the Treasury (BTr), which includes the Bond Sinking Fund, fell to 19.2% in 3Q13 from 21.9% in 3Q12. The participation of custodians increased to 13.2% from 12.2%. The share of other government entities and other investors, which include individuals and private corporations, increased to 11.9% in 3Q13 from 9.5% in 3Q12.

Rating Changes

On 3 October, Moody's upgraded its sovereign foreign currency (FCY) and LCY long-term ratings for the Philippines to Baa3 from Ba1, with a positive outlook. Moody's said the factors that prompted the review for an upgrade announced in July 2013 remained intact. These include the country's robust economic performance, ongoing fiscal and debt consolidation, and political stability and improved governance. Moody's also mentioned the stability of the Philippines' funding conditions as an indicator of the country's lack of vulnerability to external financial shocks—the most recent of which resulted from the US Federal Reserve's announced tapering of its quantitative easing policy.

Figure 4: LCY Government Bonds Investor Profile



BTr = Bureau of the Treasury, CSIs = contractual savings institutions, LCY = local currency.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

BSP Releases Amended Rules on Market Valuation of Government Securities

On 27 September, BSP released the amended rules on the market valuation of government securities. As stated in BSP Circular 813, the benchmark or reference prices to be used for the market valuation shall be based on the weighted average of completed or executed deals in a trading market registered with the Securities and Exchange Commission (SEC). Only in the absence of completed or executed deals, shall the following be applied: (i) the simple average of all firm bids per benchmark tenor shall be used for benchmark government securities, and (ii) the interpolated yields derived from the benchmark or reference rates shall be used for non-benchmark government securities. The circular took effect 15 calendar days following its publication.

BSP Maintains Policy Rates

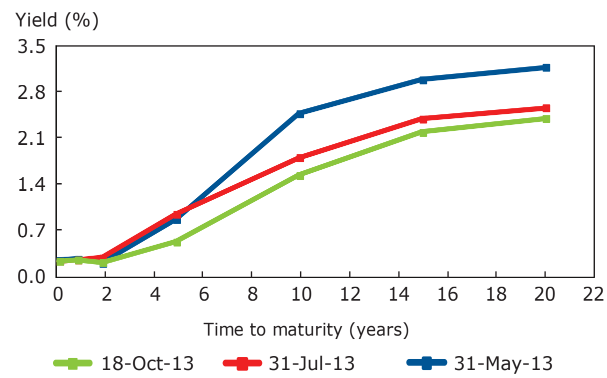
On 24 October, the Monetary Board of the BSP decided to keep its key policy rates—the overnight borrowing and lending rates—steady at 3.50% and 5.50%, respectively. The reserve requirement ratios and the interest rate for BSP's Special Deposit Account facility were also kept steady. The decision to hold the policy rates at their current levels reflected the Monetary Board's assessment that the future inflation path continues to be broadly in line with BSP's target range for 2013–15. The Monetary Board noted that while global economic conditions are challenging, expectations for domestic activity remain robust. Moreover, BSP also noted that most lending in the system has been going to the productive sectors of the economy. This has, in turn, improved the economy's absorptive capacity for liquidity and helped moderate price pressures.

Singapore

Yield Movements

Between end-July and 18 October, the yield curve for Singapore's local currency (LCY) government bonds rose slightly at the shorter-end and fell at the longer-end of the curve, resulting in a flattening of the yield curve **(Figure 1)**. Yields rose between 1 basis point (bp) and 14 bps for 3-month to 2-year tenors, while yields fell between 6 bps and 26 bps for 10- to 20-year tenors. The yield spread between 2- and 10-year tenors narrowed from 225 bps at end-July to 185 bps on 18 October. However, between end-May and end-July, the yield curve steepened as a result of a significant rise at the longer-end of the curve, with yields rising between 59 bps and 66 bps for 10- to 20-year tenors, which was partly attributed to the announced tapering of the United States (US) Federal Reserve's bond-buying program in June.

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



LCY = local currency.
Source: Bloomberg LP.

On 14 October, the Monetary Authority of Singapore (MAS) announced that it will maintain its policy of a modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (NEER) policy band, with no change to the slope of the policy band or the level at which it is centered. The present width of the band is deemed sufficient to accommodate temporary fluctuations in the Singapore dollar NEER. This policy stance is assessed to be appropriate, taking into account the balance of risks between external demand uncertainties and rising domestic inflationary pressures. In the same statement, MAS also said that core inflation is expected to range between 1.5% and 2.0% in 2013, and rise to between 2.0% and 3.0% in 2014.

Consumer price inflation in Singapore eased to 1.6% year-on-year (y-o-y) in September from 2.0% in August. The easing came largely on the back of private road transport costs, which fell 2.0% y-o-y in September after posting a mild 0.1% increase in August. Accommodation costs climbed 3.9% y-o-y, compared with a 4.2% rise in August, mainly reflecting a smaller increase in market rentals for both private and Housing and Development Board (HDB) properties. Food prices rose 2.4% y-o-y in September, the same pace as in the previous month. On a month-on-month (m-o-m) basis, consumer price inflation increased 0.1% in September after recording a 0.8% rise in August.

According to advance estimates released by the Ministry of Trade and Industry (MTI), Singapore's economy expanded 5.1% y-o-y in 3Q13, compared with 4.2% in the previous quarter. In 3Q13, growth in the construction sector moderated to 3.6% y-o-y from 6.9% in 2Q13, while the services sector expanded at a similar pace of 5.7% y-o-y from 5.6% in the previous quarter. The manufacturing sector expanded 4.5% y-o-y in 3Q13 after expanding 1.3% in 2Q13. On a quarter-on-quarter (q-o-q) seasonally adjusted and annualized basis, Singapore's economy contracted 1.0%, compared with a 16.9% expansion in the previous quarter. MTI also announced that it has upgraded the gross domestic product (GDP) growth forecast for 2013 from between 1.0% and 3.0% to between 2.5% and 3.5%.

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	SGD	**US$**	**SGD**	**US$**	**SGD**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**276**	**225**	**303**	**239**	**301**	**240**	**4.4**	**12.0**	**(0.7)**	**9.2**
Government	171	139	187	148	187	149	4.7	12.1	(0.3)	9.4
SGS Bills and Bonds	144	117	138	109	128	102	0.8	6.2	(7.2)	(11.1)
MAS Bills	27	22	50	39	59	47	31.9	60.1	19.0	119.3
Corporate	105	86	116	91	114	91	3.9	11.9	(1.3)	8.7

( ) = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, SGS = Singapore Government Securities, 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. SGS bills and bonds 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$ rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

Size and Composition

The size of Singapore's LCY bond market contracted to SGD301 billion (US$240 billion) at end-September **(Table 1)**, representing a 0.7% q-o-q decline due to a drop in treasury bills and bonds outstanding. However, the LCY bond market grew 9.2% y-o-y, driven by MAS bills more than doubling over the past year.

Government Bonds. The stock of LCY government bonds reached SGD187 billion at end-September, declining 0.3% q-o-q, but rising 9.4% y-o-y. The total comprises SGD128 billion of Singapore Government Securities (SGS) bills and bonds, and SGD59 billion of MAS bills. The q-o-q drop in the government bond market was driven by a 7.2% drop in the stock of SGS bills and bonds (mostly due to a drop in SGS bills), while the increase on a y-o-y basis was attributed to a substantial rise of 119.3% in MAS bills outstanding, resulting from increased issuance since April 2011 as part of MAS money market operations.

Corporate Bonds. Singapore's LCY corporate bonds outstanding were estimated at SGD114 billion at end-September, declining 1.3% q-o-q and expanding 8.7% y-o-y.

At end-September, the amount of LCY bonds outstanding of the top 30 corporate bond issuers in Singapore reached SGD63.1 billion, representing 55.3% of the total corporate bond market **(Table 2)**. HDB retained its ranking as the top corporate issuer in Singapore with outstanding bonds valued at SGD16.1 billion, followed by CapitaLand—one of the largest real estate and real estate fund management companies headquartered in Singapore—which moved up to the second spot in 3Q13 with bonds outstanding of SGD5.2 billion at end-September. The third largest corporate issuer was DBS Bank—previously the second-largest corporate issuer at end-June—with a total bond stock amounting to SGD5 billion.

Corporations from the financial sector dominated the list of the top 30 LCY corporate bond issuers in Singapore. Other major issuers were from the utilities, industrial, real estate, telecommunications, transportation, consumer, and energy sectors. Only three companies on the list were state-owned firms.

Corporate bond issuance reached SGD4.2 billion in 3Q13, up from SGD3.8 billion in 2Q13. A total of 18 bond series were issued by 16 companies during the quarter, with maturities ranging from 2 years to 10 years and with coupon rates of between 1.2% and 7.3%. Two perpetual bonds were also issued by Sembcorp Industries and United Overseas Bank. **Table 3** lists notable corporate bond issuance in 3Q13.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Singapore

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (US$ billion)			
1. Housing and Development Board	16.1	12.8	Yes	No	Financial
2. CapitaLand Ltd.	5.2	4.2	No	Yes	Financial
3. DBS Bank Ltd.	5.0	4.0	No	Yes	Financial
4. United Overseas Bank Ltd.	4.1	3.2	No	Yes	Financial
5. Temasek Financial I	3.6	2.9	No	No	Financial
6. SP PowerAssets Ltd.	2.4	1.9	No	No	Utilities
7. Public Utilities Board	2.1	1.7	Yes	No	Utilities
8. Land Transport Authority	1.8	1.4	Yes	No	Industrial
9. GLL IHT Pte Ltd.	1.8	1.4	No	No	Real Estate
10. Oversea-Chinese Banking Corp.	1.7	1.4	No	Yes	Financial
11. Keppel Corp Ltd.	1.5	1.2	No	Yes	Industrial
12 .Olam International Ltd.	1.4	1.1	No	Yes	Consumer
13. Temasek Financial III	1.3	1.0	No	No	Financial
14. Neptune Orient Lines Ltd.	1.3	1.0	No	Yes	Industrial
15. City Developments Ltd.	1.3	1.0	No	Yes	Consumer
16. CapitaMalls Asia Treasury	1.1	0.9	No	No	Financial
17. Keppel Land Ltd.	1.1	0.9	No	Yes	Real Estate
18.PSA Corporation Ltd.	1.0	0.8	No	No	Consumer
19.Overseas Union Enterprise Ltd.	1.0	0.8	No	Yes	Consumer
20.Mapletree Treasury Services	1.0	0.8	No	No	Financial
21.Hyflux Ltd.	1.0	0.8	No	Yes	Industrial
22.Singtel Group Treasury	0.9	0.7	No	No	Telecommunications
23.Singapore Airlines	0.8	0.6	No	No	Transportation
24.Global Logistic Properties	0.8	0.6	No	Yes	Industrial
25.CapitaLand Treasury Ltd.	0.7	0.6	No	No	Financial
26.Joynote Ltd.	0.7	0.6	No	No	Financial
27.F&N Treasury Pte Ltd.	0.7	0.6	No	No	Financial
28.Sembcorp Financial Services	0.7	0.6	No	No	Industrial
29.Hotel Properties Ltd.	0.7	0.5	No	Yes	Consumer
30.CMT MTN Pte Ltd.	0.7	0.5	No	No	Financial
Total Top 30 LCY Corporate Issuers	**63.1**	**50.3**			
Total LCY Corporate Bonds	**114.2**	**90.9**			
Top 30 as % of Total LCY Corporate Bonds	**55.3%**	**55.3%**			

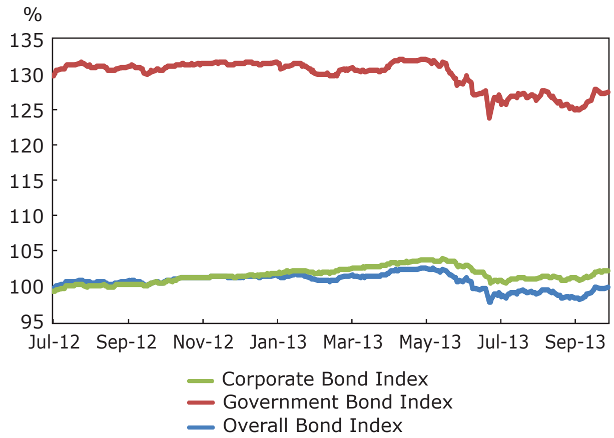
LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
3-year bond	1.17	520
5-year bond	2.37	1,450
United Overseas Bank		
Perpetual bond	4.90	850
Sembcorp Industries		
Perpetual bond	5.00	200
Swiber Capital		
5-year bond	6.50	150
Oxley Holdings		
2-year bond	4.75	135
5-year bond	4.75	125
Hotel Properties		
10-year bond	3.90	100
Tat Hong Holdings		
5-year bond	4.50	100

LCY = local currency.
Source: Bloomberg LP.

Figure 2: Select Markit iBoxx SGD Bond Indices



SGD = Singapore dollar.
Notes:
1. Markit iBoxx SGD Overall Bond Index covers 198 bonds as of 21 October 2013.
2. Markit iBoxx SGD Government Bond Index covers 18 Singapore Government Securities as of 22 October 2013.
3. Markit iBoxx SGD Corporate Bond Index, as known as Market iBoxx SGD Non-Sovereign Index, covers 180 bonds as of 21 October 2013.
Source: Markit.

Figure 2 presents the select indices from the Markit iBoxx SGD Bond Index Family comprising the Overall Bond Index, Government Bond Index, and Corporate Bond Index (or Non-Sovereign Bond Index). The indices use a market capitalization weighting scheme and any unrated bond will be included in the index at 50% of its full notional value.

The Overall Bond Index covers approximately SGD150 billion worth of debt denominated in Singapore dollars (about 50% of the total bond market size), including investment grade and high-yield segments of the market across sovereign, quasi-sovereign, and corporate bonds.

The Government Bond Index consists of SGSs only, and the Corporate Bond Index consists of bonds other than SGSs such as bonds issued by Singapore's Statutory Boards as well as higher-yielding bonds issued by mid-sized companies.

Policy, Institutional, and Regulatory Developments

Singapore and other APEC Economies to Launch Asia Region Funds Passport

On 20 September, the finance ministers of Singapore, Australia, the Republic of Korea, and New Zealand signed a statement of intent to jointly develop the Asia Region Funds Passport (ARFP), which will facilitate the cross-border offering of funds in the region. When implemented, the ARFP will offer fund managers operating in a passport economy a direct and efficient route to distribute their funds in other passport economies. Investors in the region will also benefit from having access to a broader range of quality investment products. As an inclusive regional initiative, the ARFP will strengthen the region's fund management capabilities, deepen its capital markets, and provide financing for sustainable economic growth.

The PRC Extends CNY50 Billion RQFII Quota to Singapore

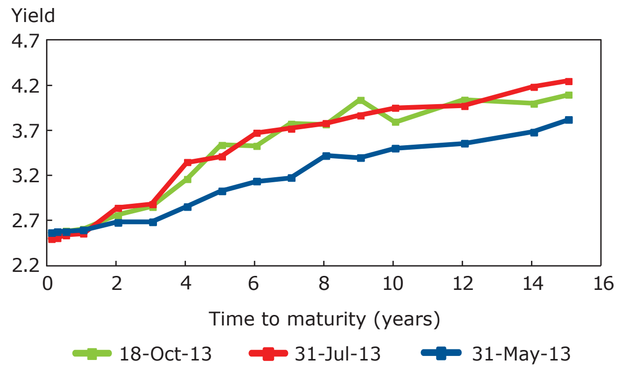
On 22 October, the PRC and Singapore agreed on initiatives to strengthen their cooperation on financial sector development and regulation. One of these initiatives is for the PRC to extend its Renminbi Qualified Foreign Institutional Investor (RQFII) program to Singapore, with an aggregate quota of CNY50 billion, in order to allow qualified Singapore-based institutional investors to channel offshore renminbi from Singapore into the PRC's onshore securities markets. Under this initiative, RQFII license holders may also issue CNY-denominated investment products to investors based in Singapore, within the RQFII quota. This program will help diversify the investor base in the PRC's capital market and promote the renminbi for investment use. In addition, Singapore will be given consideration as one of the investment destinations under the new Renminbi Qualified Domestic Institutional Investor (RQDII) scheme. This will allow qualified PRC institutional investors to use renminbi to invest in Singapore's capital markets. The measure will help broaden the universe of assets available to PRC investors and expand the investor base in Singapore's capital markets.

Thailand

Yield Movements

Yields on Thailand's local currency (LCY) government bonds rose for most tenors between end-May and 18 October **(Figure 1)**. Yield hikes were evident in tenors of more than 3 months, ranging from 1 basis point (bp) for 6-month and 1-year government bonds to 64 bps for the 9-year government bond. The increase in yields for most tenors was more pronounced between end-May and end-July, amid market concerns over a possible tapering in the asset purchase program of the United States (US) Federal Reserve. Between end-July and 18 October, yield movements were mixed, rising for half of the tenors along the yield curve and falling for the other half. Meanwhile, the yield spread between the 2- and 10-year tenors widened 22 bps between end-May and 18 October, resulting in a steepening of the curve.

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



LCY = local currency.
Source: Bloomberg LP.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 16 October to maintain its policy rate at 2.50%. In its monetary policy decision, the committee reported that the global economy has gradually improved amid substantial downside risks, and while the economy of Thailand has grown more slowly than expected it has started to stabilize and exhibit improvements in some sectors. The committee also stated that the current accommodative monetary policy is still appropriate in supporting the country's economic recovery amid uncertainty in the global financial and economic environment.

The BOT reported in October that it has revised downward its 2013 and 2014 gross domestic product (GDP) growth forecasts to 3.7% (from 4.2% in July) and 4.8% (from 5.0%), respectively. The downward revision was made amid the more-than-expected moderation in domestic demand and slow export recovery. The central bank also revised downward its inflation forecasts for both years. Meanwhile, in September, the Ministry of Finance, through its Fiscal Policy Office (FPO), announced its latest economic projections for 2013 and 2014. It forecast that Thailand's economy would expand by not less than 3.5% in 2013, with growth reaching 4.0% if the budget disbursement for October–December follows Cabinet-approved policy measures to promote sustainable economic growth. For 2014, the FPO projected 5.1% annual GDP growth.

In 2Q13, Thailand's real GDP growth stood at 2.8% year-on-year (y-o-y), lower than 1Q13's growth rate of 5.4%, amid slower growth in domestic demand and exports. In August, the Government of Thailand's Cabinet approved measures—covering private consumption, private investment, government spending, and exports—aimed at promoting stable economic growth.

Consumer price inflation inched up to 1.5% y-o-y in October from 1.4% in September. The y-o-y increase in the price index for food and non-alcoholic beverages accelerated to 2.9% in October from 2.5% in September. Meanwhile, the y-o-y hike in the price index for non-food and beverages slowed to 0.7% in October from 0.8% in September.

Thailand's current account deficit narrowed to US$888 million in 3Q13 from US$6.7 billion in 2Q13. The quarterly decline was largely induced by the merchandise trade balance shifting into a surplus position of US$5 billion in 3Q13 from a deficit of US$497.4 million in the previous quarter. Exports of goods grew 4.3% quarter-on-quarter (q-o-q) to US$58 billion while merchandise imports contracted 5.6% q-o-q to US$52.9 billion in 3Q13, leading to the reversal in the merchandise trade balance. Meanwhile, the deficit position in the net services, primary income and secondary income account narrowed 4.0% q-o-q to US$5.9 billion.

Size and Composition

The outstanding stock of LCY bonds in Thailand at the end of 3Q13 stood at THB8.9 trillion (US$285 billion), registering growth of 0.2% q-o-q and 8.8% y-o-y **(Table 1)**. The growth rates for 3Q13, however, were lower compared with 3Q12. In the LCY government bond market, the outstanding volume was estimated at THB7 trillion as of end-September, up 7.3% y-o-y, but marginally lower by 0.04% on a q-o-q basis. The combined amount of treasury bills and bonds stood at THB3.4 trillion at the end of quarter, expanding 4.3% q-o-q and 12.8% y-o-y. Similarly, the outstanding value of state-owned enterprise (SOE) and other bonds grew 5.3% q-o-q and 17.4% y-o-y to reach THB712 billion at the end of 3Q13. In contrast, central bank bonds were down 5.8% q-o-q and 0.4% y-o-y in 3Q13, leveling off at THB2.9 trillion.

LCY government bond issuance in 3Q13 was lower compared with the previous quarter and in the same quarter of the previous year. Between 2Q13 and 3Q13, total LCY government bond issuance was down 7.3%, as issuance of central bank bonds fell 8.3%, more than offsetting the 1.3% increase in the combined bond issues of the central government and SOEs. On a y-o-y basis, issuance of LCY government bonds was down 20.6% in 3Q13, led by a 14.1% reduction in BOT's bond issues and a 48.7% fall in the bond issuance of the central government and SOEs. The relatively sharp annual decline in issuance by both the central government and SOEs was largely due to a high base in 3Q12, due in part to bonds issued by the state-owned Bank for Agriculture and Agricultural Cooperatives (BAAC).

In the LCY corporate bond market, the outstanding stock of bonds stood at THB1.9 trillion in 3Q13, up 1.3% q-o-q and 14.7% y-o-y. By the end of September, the top 30 corporate issuers had combined bonds outstanding of THB1.2 trillion, which comprised 63.7% of the

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	THB	**US$**	**THB**	**US$**	**THB**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**8,183**	**265**	**8,882**	**286**	**8,903**	**285**	**1.9**	**14.5**	**0.2**	**8.8**
Government	6,527	212	7,007	226	7,004	224	1.3	12.1	(0.04)	7.3
Government Bonds and Treasury Bills	2,987	97	3,231	104	3,371	108	(0.4)	6.3	4.3	12.8
Central Bank Bonds	2,933	95	3,099	100	2,920	93	(1.0)	15.7	(5.8)	(0.4)
State-Owned Enterprise and Other Bonds	607	20	676	22	712	23	26.0	26.7	5.3	17.4
Corporate	1,656	54	1,875	60	1,899	61	4.6	24.9	1.3	14.7

( ) = negative, LCY = local currency, 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 an LCY base and do not include currency effects.
Sources: Bank of Thailand (BOT) and Bloomberg LP.

total outstanding stock of LCY corporate bonds **(Table 2)**. The two-largest corporate issuers as of end-September were PTT and Siam Cement with bonds outstanding of THB190 billion and THB131.5 billion, respectively. Overall, Thailand's LCY corporate bond issuance in 3Q13 was down 50.8% q-o-q and 2.5% y-o-y.

The five largest LCY corporate bond issues in Thailand during 3Q13 were (i) True Corporation's

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US$ billion)			
1. PTT	190.0	6.1	Yes	Yes	Energy
2. Siam Cement	131.5	4.2	Yes	Yes	Diversified
3. Charoen Pokphand Foods	71.5	2.3	No	Yes	Consumer
4. Krung Thai Bank	68.2	2.2	Yes	Yes	Financial
5. Bank of Ayudhya	59.7	1.9	No	Yes	Financial
6. Kasikorn Bank	59.1	1.9	No	Yes	Financial
7. Thai Airways International	43.7	1.4	Yes	Yes	Consumer
8. Thanachart Bank	41.9	1.3	No	No	Financial
9. Ayudhya Capital Auto Lease	40.4	1.3	No	No	Financial
10. Siam Commercial Bank	40.0	1.3	No	Yes	Financial
11. PTT Global Chemical	33.3	1.1	Yes	Yes	Basic Materials
12. Banpu	29.6	0.9	No	Yes	Energy
13. Toyota Leasing Thailand	28.1	0.9	No	No	Consumer
14. True Corporation	27.9	0.9	No	Yes	Communications
15. Thai Oil	27.8	0.9	Yes	Yes	Energy
16. TMB Bank	27.7	0.9	No	Yes	Financial
17. Krung Thai Card	25.5	0.8	Yes	Yes	Financial
18. Mitr Phol Sugar	25.2	0.8	No	No	Consumer
19. PTT Exploration and Production Company	24.2	0.8	Yes	Yes	Energy
20. Indorama Ventures	23.9	0.8	No	Yes	Basic Materials
21. DAD SPV	22.5	0.7	Yes	No	Financial
22. Tisco Bank	20.6	0.7	No	No	Financial
23. Bangkok Bank	20.0	0.6	No	Yes	Financial
24. IRPC	19.6	0.6	Yes	Yes	Energy
25. Glow Energy	19.1	0.6	No	Yes	Utilities
26. Bangkok Expressway	18.2	0.6	No	Yes	Consumer
27. Land & Houses	18.0	0.6	No	Yes	Real Estate
28. Quality Houses	18.0	0.6	No	Yes	Real Estate
29. Kiatnakin Bank	17.5	0.6	No	Yes	Financial
30. Pruksa Real Estate	17.0	0.5	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers	**1,209.4**	**38.7**			
Total LCY Corporate Bonds	**1,899.1**	**60.8**			
Top 30 as % of Total LCY Corporate Bonds	**63.7%**	**63.7%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

THB11.2 billion 4-year bond carrying a coupon rate of 5.55%, (ii) PTT's THB10 billion 10-year bond at a 5.12% coupon, (iii) Charoen Pokphand Foods' 10-year bond worth THB5.5 billion with a 4.90% coupon, (iv) Toyota Access Communication's 3-year bond worth THB5 billion with a 3.72% coupon, and (v) Toyota Leasing's (Thailand) THB4.75 billion 2-year bond at a 3.34% coupon **(Table 3)**.

Table 3: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
True Corporation		
4-year bond	5.55	11.21
PTT		
10-year bond	5.12	10.00
Charoen Pokphand Foods		
10-year bond	4.90	5.50
Toyota Access Communication		
3-year bond	3.72	5.00
Toyota Leasing (Thailand)		
2-year bond	3.34	4.75

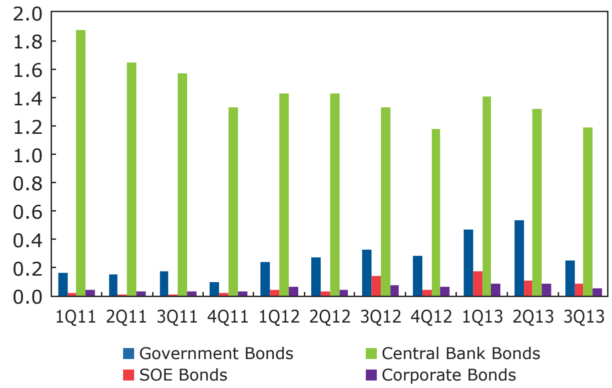
LCY = local currency.
Source: Bloomberg LP.

Liquidity

Liquidity conditions in Thailand's LCY bond market appear to have tightened in 3Q13 from the previous quarter and a year earlier **(Figure 2)**. The turnover ratio for LCY government bonds fell to 0.65 in 3Q13 from 0.84 in 2Q13 and 0.80 in 3Q12. The turnover ratios for LCY bonds issued by the central government, central bank, and SOEs fell in 3Q13 from 2Q13 and 3Q12 levels as trading volumes for all of these types of bonds declined on both q-o-q and y-o-y bases. In particular, 3Q13 trading volume was down (i) 51.4% q-o-q and 14.0% y-o-y for central government bonds, (ii) 10.9% q-o-q and 8.5% y-o-y for central bank bonds, and (iii) 9.0% q-o-q and 17.2% y-o-y for SOE bonds.

Similarly, the turnover ratio for LCY corporate bonds also fell on both a quarterly and annual

Figure 2: Turnover Ratios of Government and Corporate Bonds in Thailand



SOE = state-owned enterprise.
Source: Bank of Thailand and ThaiBMA.

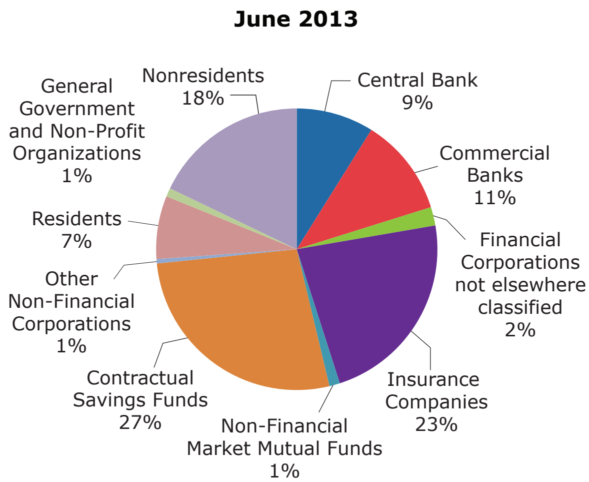
basis to 0.06 in 3Q13 from 0.08 in 2Q13 and 0.07 in 3Q12. These declines were partly induced by a fall in the trading volume of LCY corporate bonds of 32.8% q-o-q and 11.4% y-o-y.

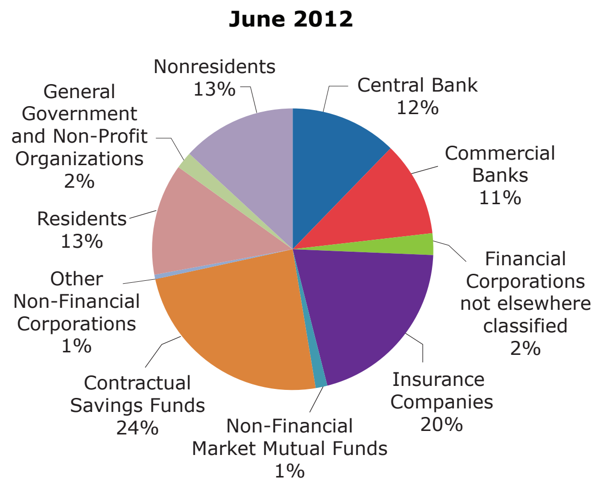
Investor Profile

At end-June, the largest investor group in Thailand's LCY government bond market was contractual savings funds with 27% of total government bonds **(Figure 3)**. They were followed by insurance companies with a 23% share. Compared with the same month in the previous year, the shares of contractual savings funds, insurance companies, and nonresidents all climbed, with the share of foreign investors posting the biggest increase. In contrast, the shares of the central bank, general government and non-profit organizations, and domestic residents all decreased during this period.

In the LCY corporate bond market, the most recent data on investor holdings indicate that individual retail investors remain the largest investor group, holding 52% of the total at end-December 2012 **(Figure 4)**. On an annual basis, the share of individual retail investors rose 6 percentage points, while the share of the combined group of government, cooperatives, foundations, and temples rose 1 percentage point. In contrast, the

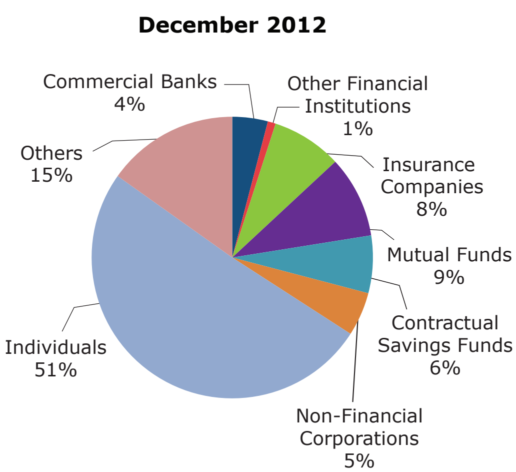
Figure 3: LCY Government Bonds Investor Profile

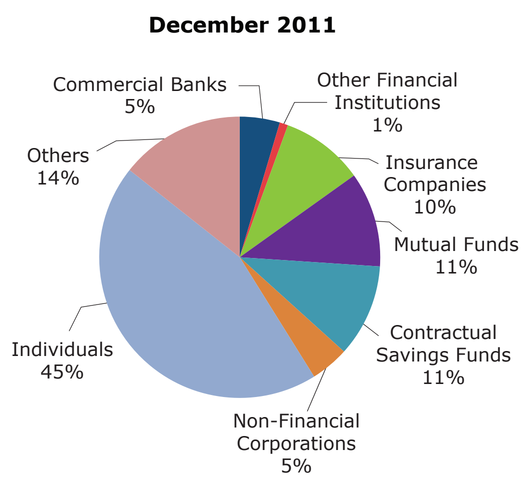




LCY = local currency.
Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
Sources: *AsianBondsOnline* and Bank of Thailand.

Figure 4: LCY Corporate Bonds Investor Profile





LCY = local currency.
Source: ThaiBMA.

shares of commercial banks, contractual savings funds, insurance companies, and mutual funds all fell on an annual basis.

Rating Changes

On 8 March, Fitch Ratings (Fitch) announced that it had upgraded Thailand's long-term foreign currency (FCY) issuer default rating (IDR) to BBB+ from BBB with a stable outlook, affirmed the long-term LCY IDR at A– with a stable outlook, upgraded the short-term FCY IDR to F2 from F3, and upgraded the country ceiling to A– from BBB+. In making its rating decisions, Fitch cited key rating drivers such as the economy's resilience to shocks, sound external finances, and low gross general government indebtedness, among other factors.

Policy, Institutional, and Regulatory Developments

Thailand's Cabinet Approves Measures to Promote Stable Economic Growth

On 6 August, the Government of Thailand's Cabinet agreed on the implementation by the relevant government offices of measures focusing on stimulating private consumption, private investment, government spending, and exports. These measures, aimed at promoting stable economic growth, include (i) offering tax incentives to boost the tourism industry and promote the organization of seminars, (ii) promoting investments in the agro-processing industry, (iii) accelerating budget disbursements for fiscal years 2013 and 2014, (iv) expanding exports into potential new markets, and (v) increasing the access of small and medium-sized enterprises (SMEs) to financing.

Thailand Signs MOU with Malaysia and Singapore to Establish ASEAN CIS Framework

On 1 October, Securities and Exchange Commission, Thailand; the Securities Commission Malaysia; and the Monetary Authority of Singapore (MAS) signed a memorandum of understanding to establish an Association of Southeast Asian Nations (ASEAN) collective investment schemes (CIS) Framework that will facilitate the cross-border offering of CIS to retail investors in Malaysia, Singapore, and Thailand. The signatories expect the framework to be implemented in the first half of 2014.

Thailand Plans US$-Denominated Bond Issuance for Infrastructure Financing

The Government of Thailand plans to issue US$-denominated bonds worth between US$1 billion and US$1.5 billion in 2014 to help finance its infrastructure projects—such as transport infrastructure—as well as water management projects. The country's infrastructure needs for fiscal year 2014 was estimated at THB137 billion, and is part of the government's total funding needs worth THB756 billion for the fiscal year.

CGIF Guarantees Noble Group's THB2.85 Billion 3-Year Bond

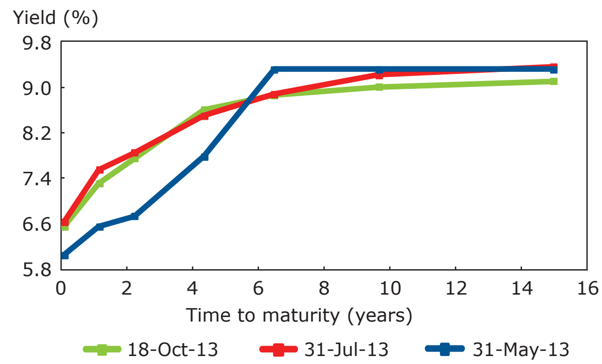
The Credit Guarantee and Investment Facility (CGIF) announced in April its first guaranteed bond transaction, which is Noble Group's THB-denominated bond issuance worth THB2.85 billion sold in Thailand's LCY bond market. The bond has a tenor of 3 years, a coupon rate of 3.55%, and a rating of 'AAA(tha)' from Fitch Ratings (Thailand).

Viet Nam

Yield Movements

Between end-May and end-July, Viet Nam's local currency (LCY) government bond yields rose dramatically from the shorter-end to the belly of the curve **(Figure 1)**. Yields for 2- and 3-year maturities rallied the most, rising 100 basis points (bps) and 111 bps, respectively, shifting the curve upward. The rise in yields reflected concerns in global financial markets that the United States (US) Federal Reserve would exit from its accommodative monetary policy, as well as concern about rising inflationary pressures and a devaluation of the reference rate for the Vietnamese dong by 1% in June. Yields advanced to 6-month highs in September amid expectations of more rapid inflation, before retreating slightly in mid-October.

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



LCY = local currency.
Source: Bloomberg LP.

Between end-July and 18 October, yields fell for most tenors. Yields fell between 8 bps and 25 bps across the length of the curve, with the exception of the 5-year tenor, dropping more at the longer-end than at the shorter-end and resulting in a slight flattening of the yield curve for maturities of 5-years or longer. The yield spread between the 2- and 10-year maturities was largely unchanged at 169 bps in mid-October compared with 165 bps at end-July, but was significantly more narrow than the 275 bps spread at end-May.

Viet Nam's economy has yet to recover from its growth slump in 2012. Year-to-date gross domestic product (GDP) expanded 5.1% year-on-year (y-o-y) at end-September from 4.9% at end-June as strong foreign direct investment (FDI) inflows countered weak lending from Viet Nam's strained banking industry. However, the trade balance shifted back into a deficit of US$88 million in September, after posting 3 consecutive months of trade surpluses. Exports were up 17.9% y-o-y to US$11.2 billion during the month, while imports grew 21.1% y-o-y to US$11.3 billion. From January through September, the trade deficit stood at US$187 million. The cumulative budget deficit for 2013 reached VND140.8 trillion at end-September, representing 87% of the deficit approved for 2013. The government is targeting a budget deficit of 4.8% of GDP in 2013 and 5.3% in 2014. Moreover, total public sector debt—defined to include LCY and foreign currency (FCY) bond issuance, and borrowing from official sources—is expected to increase to 56% of GDP in 2013 from 55.7% in 2012 and 54.9% in 2011.

Meanwhile, consumer price inflation decelerated in September to 6.3% y-o-y, following a 15-month high of 7.5% in August. Prices for food and foodstuffs rose 3.5% y-o-y, while housing and construction costs increased 4.0%.

Size and Composition

Total LCY bonds outstanding in Viet Nam fell 8.8% quarter-on-quarter (q-o-q) to VND527.3 trillion (US$25 billion) at end-September, as both the government and the corporate bond markets slumped. The contraction in the corporate bond market outpaced the decline in the government sector, sliding 10.0% q-o-q compared with an 8.7% q-o-q decline in the government bond market. On a y-o-y basis, however, total LCY bonds outstanding rose 18.8% in 3Q13 **(Table 1)**.

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	VND	**US$**	**VND**	**US$**	**VND**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**443,731**	**21**	**577,997**	**27**	**527,304**	**25**	**(2.7)**	**21.4**	**(8.8)**	**18.8**
Government	410,237	20	560,938	26	511,945	24	(1.7)	27.0	(8.7)	24.8
Treasury Bonds	218,743	10	324,054	15	267,800	13	18.0	48.0	(17.4)	22.4
Central Bank Bonds	22,070	1	43,586	2	46,405	2	–	–	6.5	110.3
State-Owned Enterprise Bonds	169,424	8	193,298	9	197,741	9	(2.7)	(3.3)	2.3	16.7
Corporate	33,494	2	17,059	0.8	15,359	0.7	(12.7)	(21.4)	(10.0)	(54.1)

( ) = negative, – = not applicable, LCY = local currency, 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.

Government Bonds. LCY government bonds outstanding stood at VND511.9 trillion at end-September, which was down 8.7% q-o-q, but up 24.8% y-o-y. Government bonds outstanding dropped for the second consecutive quarter in 3Q13 due to a decline in demand for treasury bonds. Since July, the State Treasury has mobilized only a portion of its offered amount at its bond auctions **(Table 2)**.

Table 2: Selected Government Debt Security Issuances in 3Q13

Auction Date	Type of Security	Average Yield (%)	Amount Offered (LCY billions)	Amount Issued (LCY billion)
5-Jul	2-year Treasury Bond	6.85	5,000	1,050
	3-year Treasury Bond		2,000	0
	5-year Treasury Bond		1,000	0
19-Jul	2-year Treasury Bond	7.15	1,000	450
	3-year Treasury Bond		1,000	0
	5-year Treasury Bond		1,000	0
7-Aug	3-year Treasury Bond	7.45	1,000	125
	5-year Treasury Bond		1,000	0
13-Aug	2-year Treasury Bond	7.00	2,000	700
	3-year Treasury Bond	7.50	1,000	850
	5-year Treasury Bond		1,000	0
22-Aug	2-year Treasury Bond	7.30	1,500	1,200
	3-year Treasury Bond	7.70	1,500	750
29-Aug	2-year Treasury Bond	7.30	1,000	50
	3-year Treasury Bond	7.70	1,000	50
	5-year Treasury Bond		1,000	0
5-Sep	3-year Treasury Bond		1,000	0
	5-year Treasury Bond	8.50	1,000	200
19-Sep	2-year Treasury Bond	7.55	1,000	930
	3-year Treasury Bond	7.80	1,000	300
	5-year Treasury Bond		1,000	0

Source: Local market sources.

Government issuance amounted to VND59.7 trillion in 3Q13, up from VND53.9 trillion in 2Q13. Growth in government issuance can be attributed to the resumption of central bank bills issuance, which summed to VND46.4 trillion. SBV bills issued in 3Q13 had 91- and 182-day tenors and issue sizes of between VND19 billion and VND4 trillion. Issuance by the central government and agencies, however, plummeted 75.0% q-o-q to VND13.3 trillion.

Among government-owned corporations, Viet Nam Development Bank (VDB) and Viet Nam Bank for Social Policies (VBSP) were the consistent bond issuers in the first 3 quarters of 2013. VDB has raised a total of VND24.8 trillion year-to-date, while VBSP has raised VND11.7 trillion. In 3Q13, new VDB and VBSP bonds carried maturities of between 1 year and 3 years, and coupons ranging from 7.6% to 8.3%, which were less than the coupons of up to 9.0% offered in 2Q13.

In a statement from the State Treasury, the government announced plans to issue a total of VND25.2 trillion of government bonds in 4Q13, with tenors ranging from less than 1 year to 15 years.

Corporate Bonds. The size of Viet Nam's corporate bond market plunged another 10.0% q-o-q to VND15.4 trillion in 3Q13 following a 22.5% drop in the previous quarter. LCY corporate bonds outstanding tumbled due to (i) zero issuance of corporate debt for the third consecutive quarter, and (ii) VND1.7 trillion worth of corporate bonds maturing in 3Q13.

A total of 17 corporate entities comprised the corporate bond market in Viet Nam at end-September, of which the top 15 issuers accounted for 98.6% of total LCY corporate bonds outstanding **(Table 3)**. The composition of the top three LCY corporate issuers remained unchanged from 2Q13,

Table 3: Top 15 Issuers of LCY Corporate Bonds in Viet Nam

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US$ billion)			
1. HAGL	3,010.00	0.14	No	Yes	Real Estate
2. Asia Commercial Joint Stock	3,000.00	0.14	No	Yes	Finance
3. Techcom Bank	3,000.00	0.14	No	No	Finance
4. Vinpearl	2,000.00	0.09	No	Yes	Resorts and Theme Parks
5. Vincom	1,000.00	0.05	No	Yes	Real Estate
6. Minh Phu Seafood	700.00	0.03	No	Yes	Fisheries
7. Kinh Bac City Development	500.00	0.02	No	Yes	Real Estate
8. Development Investment	350.00	0.02	No	No	Building and Construction
9. Phu Hoang Anh	350.00	0.02	No	No	Real Estate
10. Saigon Telecommunication	300.00	0.01	No	No	Computer Services
11. Binh Chanh Construction	300.00	0.01	No	Yes	Building and Construction
12. Thu Duc Housing Development	208.87	0.01	No	Yes	Real Estate
13. Quoc Cuong Gia	150.00	0.01	No	Yes	Building and Construction
14. Lam Son Sugar	150.00	0.01	No	No	Diversified
15. Tan Tao Investment	130.00	0.01	No	No	Real Estate
Total Top 15 LCY Corporate Issuers	**15,148.87**	**0.72**			
Total LCY Corporate Bonds	**15,358.87**	**0.73**			
Top 15 as % of Total LCY Corporate Bonds	**98.6%**	**98.6%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

led by real estate company HAGL with bonds outstanding of VND3 trillion.

Policy, Institutional, and Regulatory Developments

SBV Issues New Rules on VAMC's Operations

On 6 September, SBV released Circular No.19/2013/TT-NHNN to regulate the purchase, sale, and resolution of nonperforming loans (NPLs) by the Viet Nam Asset Management Company (VAMC). The circular confirms that banks with a bad-debt ratio higher than 3% must sell their NPLs to VAMC, which will issue special bonds upon purchase of impaired loans. VAMC can restructure such loans and provide financial support to the debtors if the purchased loans satisfy all stipulated conditions such as ability to repay debts. VAMC can then sell the purchased impaired loans via auction, competitive offering, or an equity swap with corporate debtors.

On 9 September, SBV issued Circular No. 20/2013/TT-NHNN to regulate the issuance of refinancing loans with special bonds issued by VAMC. SBV will offer refinancing loans to local credit institutions of up to 70% of the special bonds' face value. To receive refinancing, credit institutions must legally own VAMC's special bonds and have made provisions for special bonds as prescribed in Decree No. 53/2013/ND-CP. The refinancing interest rate will be decided by the Prime Minister and the term will be less than 12 months and not exceeding the remaining term of the special bonds.

Both rules took effect on 15 September.