Market Summaries

People's Republic of China

Yield Movements

Yields rose for most tenors on the People's Republic of China (PRC) government bond yield curve between end-June and end-September **(Figure 1)**. The biggest increase was for the 1-year tenor, with the yield rising 37 basis points (bps). Yields rose between 3 bps and 15 bps for all remaining tenors, with the exception of the 6-year and 10-year tenors, which declined.

The PRC's yield curve actually rose between end-June and end-August, mostly reflecting demand for funds in the PRC's money markets. In July and August, rates were higher because of seasonal demand for cash due to tax payments and a number of large initial public offerings that temporarily locked up liquidity.

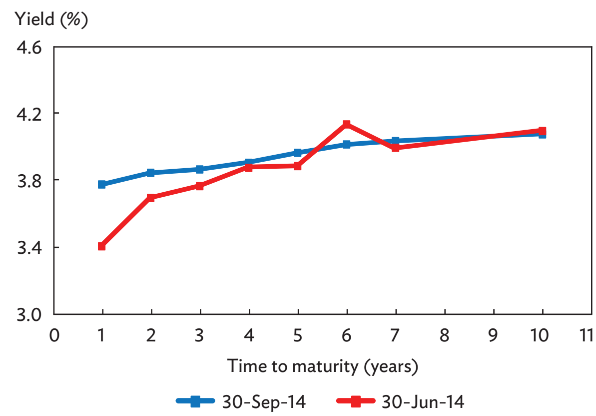
As a measure of funding demand, the 7-day repo rate was 3.40% on 3 July and rose to 3.98% by end-July. The month of August showed some volatility, with the 7-day rate dipping to 3.65% on 5 August before rising again to 3.70% by end-August.

The PRC's bond yield curve shifted downward from end-August to end-September, falling between 3 bps and 28 bps along the length of the curve. The 1-year rate remained somewhat elevated in advance of the holidays in the first week of October.

The downward shifting of the yield curve from end-August to end-September mostly reflected sentiments that the PRC's economy is weakening. The PRC's gross domestic product (GDP) growth in 3Q14 fell to 7.3% year-on-year (y-o-y) from 7.5% in the prior quarter. Inflation in the PRC has been showing a gradual decline as well, with September's inflation rate falling to 1.6% y-o-y from 2.0% in August.

In addition, there are concerns over the PRC's property market. September property data showed that new home prices fell for the fifth consecutive month, with only one out of 70 cities not showing a decline in average prices. The PRC has tried to ease some property market conditions by reducing the down payment required for second-home buyers with no existing mortgages to 30% from 60%.

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



LCY = local currency.
Source: Bloomberg LP.

While the PRC has not engaged in any broad-based stimulus—preferring fine-tuning measures such as providing stimulus to small and medium-sized enterprises, and the agricultural sector—some market participants speculate that the PRC will eventually be forced to adjust interest rates.

More recently, during a State Council executive meeting, Premier Li Keqiang said that the council would focus on boosting the economy's consumption growth. Six areas were identified as particularly important: the Internet, sustainable energy, housing, tourism, education, and social security.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC reached CNY31.6 trillion (US$4.8 trillion) at end-June, an increase of 3.7% quarter-on-quarter (q-o-q) and 13.4% y-o-y, largely driven by growth in policy bank and local corporate bonds **(Table 1)**.

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

	Outstanding Amount (billion)						Growth Rates (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**27,853**	**4,550**	**30,462**	**4,911**	**31,578**	**5,143**	**2.1**	**13.6**	**3.7**	**13.4**
Government	18,117	2,960	19,625	3,164	20,354	3,315	1.6	5.8	3.7	12.3
Treasury Bonds	8,895	1,453	9,461	1,525	10,015	1,631	5.4	12.4	5.86	12.6
Central Bank Bonds	564	92	489	79	468	76	(43.3)	(64.8)	(4.3)	(17.0)
Policy Bank Bonds	8,658	1,415	9,675	1,560	9,870	1,608	3.1	13.8	2.0	14.0
Corporate	9,736	1,591	10,837	1,747	11,224	1,828	3.0	31.7	3.6	15.3
Policy Bank Bonds										
China Development Bank	5,678	928	6,217	1,002	6,240	1,016	2.8	10.4	0.4	9.9
Export–Import Bank of China	1,277	209	1,480	239	1,542	251	0.7	26.7	4.2	20.8
Agricultural Devt. Bank of China	1,703	278	1,978	319	2,088	340	6.2	16.9	5.6	22.6

( ) = 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. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period LCY–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: *ChinaBond* and *Wind*.

Government Bonds. LCY government bonds outstanding grew 3.7% q-o-q and 12.3% y-o-y in 3Q14, driven by growth in policy bank bonds and Treasury bonds. Central bank bonds continued to decline as the People's Bank of China (PBOC) opted to use other tools to manage liquidity (e.g., reverse repos). Treasury bond growth in 3Q14 received a significant boost due to an increase in local government bonds outstanding, which rose 25.0% q-o-q to CNY1.2 trillion. The increase in local government bonds outstanding was due to a number of factors including a slowdown in local government revenues due to a weakening property market, and the renovation of shantytowns as part of the PRC's urbanization process. In addition, new changes implemented by the PRC allow local governments to issue bonds directly, while limiting the use of local government financing and corporate vehicles.

Corporate Bonds. Corporate bonds outstanding grew 3.6% q-o-q and 15.3% y-o-y in 3Q14 to reach CNY11.2 trillion **(Table 2)**. Bonds with strong positive growth rates were those issued by banks and insurance companies, and local corporates, rising 18.2% and 37.3% y-o-y, respectively. The strong growth in financial bonds was mostly due to issuance of subordinated bonds by banks in 3Q14 to boost capital ratios.

Overall corporate bond issuance was strong in 3Q14. While corporate issuance was lower in 3Q14 versus 2Q14, issuance was still high compared with prior quarters **(Figure 2)**. Driving the growth was arise in bonds issued by banks and insurance companies. The primary driver was subordinated debt issued by banks as part of their capital raising efforts in line with Basel III requirements. LCY corporate bond issuance was the highest among the major corporate bond types in 3Q14.

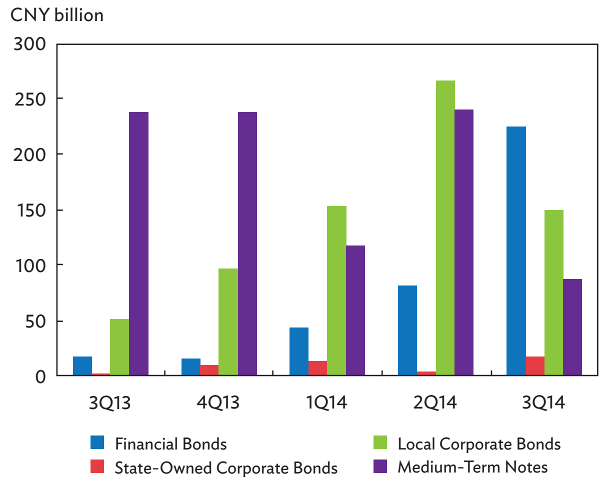
A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. At the end of

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)				Growth Rate (%)				
					q-o-q				y-o-y
	4Q13	1Q14	2Q14	3Q14	4Q13	1Q14	2Q14	3Q14	3Q14
Financial Bonds	1,295	1,324	1,369	1,536	(0.3)	2.2	3.4	12.2	18.2
SOE Bonds	630	635	618	630	(2.6)	0.8	(2.7)	1.8	(2.7)
Local Corporate Bonds	1,702	1,833	2,085	2,231	4.7	7.7	13.7	7.0	37.3
Medium Term Notes	3,848	3,841	3,985	4,054	3.4	(0.2)	3.7	1.7	9.0

( ) = negative, q-o-q = quarter-on-quarter, SOE = state-owned enterprise, y-o-y = year-on-year.
Sources: *ChinaBond* and *Wind*.

Figure 2: Corporate Bond Issuance in Key Sectors



LCY = local currency.
Sources: *ChinaBond*.

3Q14, the top 30 corporate bond issuers accounted for CNY4.2 trillion worth of corporate bonds outstanding, or about 38% of the market. Among the top 30 corporate issuers, the 10 largest accounted for CNY2.8 trillion worth of bonds outstanding.

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 3Q14. Among the top 30 corporate issuers at end-September, 23 were state-owned.

Table 4 presents the most significant issuances of 3Q14. The largest issuances came from banks issuing subordinated debt.

Investor Profile

Treasury Bonds and Policy Bank Bonds. Banks remained the largest category of investors in the PRC's Treasury bond market, which includes policy bank bonds, holding a slightly smaller share of Treasury bonds at end-September (76.2%) than in the same period a year earlier (77.3%) **(Figure 3)**.

Corporate Bonds. Banks were also the largest holders of corporate bonds at the end of 3Q14, albeit with a comparatively smaller share than their holdings of Treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 28.9% at the end of 3Q14 from 30.7% a year earlier **(Figure 4)**. The second-largest holders of corporate bonds were funds institutions, with a 22.9% share at the end of 3Q14, down from a 25.4% share a year earlier.

Figure 5 presents investor profiles across corporate bond categories at end-September. Banks were the largest holders of medium-term notes at end-September with more than 50% of the total. Meanwhile, insurance companies were the largest holders of commercial bank bonds.

Liquidity

Figure 6 presents the turnover ratios for different categories of government bonds, which have seen a significant decline since 2013 owing to the tight liquidity conditions driven by the June 2013 SHIBOR shock and a crackdown on illegal bond trades. However, 3Q14 showed a slowdown in the increase in the turnover ratios from the prior quarter, mostly due to the volatile interest rates as some traders adopted a wait-and-see attitude regarding the direction of the PRC economy and PBOC actions.

Policy, Institutional, and Regulatory Developments

Property Companies Allowed to Issue Medium-Term Notes

On 3 September, the PRC allowed qualified, listed property companies to issue medium-term notes on the interbank bond market. Funding from the notes can be used for new residential projects, operating cash flows, or bank loan repayment. The funds cannot be used for land purchases.

New Regulations to Manage Local Government Debt Risks

On 2 October, the State Council of the PRC passed new regulations governing local government debt. Under the new rules, local governments can now issue bonds directly subject to a quota. There are other restrictions such as the requirement that funding raised from bond issuances by local governments cannot be used to pay for existing government operations. It can only be used to repay debt servicing and to fund public services. In addition, local governments are no longer allowed to issue bonds through special funding vehicles or local-government-owned corporations.

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	1,017.5	165.73	Yes	No	Transportation
2.	State Grid Corporation of China	415.5	67.68	Yes	No	Public Utilities
3.	China National Petroleum	380.0	61.90	Yes	No	Energy
4.	Industrial and Commercial Bank of China	203.4	33.13	Yes	Yes	Banking
5.	Bank of China	182.3	29.70	Yes	Yes	Banking
6.	China Construction Bank	158.0	25.74	Yes	Yes	Banking
7.	Agricultural Bank of China	155.0	25.25	Yes	Yes	Banking
8.	China Minsheng Bank	115.1	18.75	No	Yes	Banking
9.	Central Huijin Investment	109.0	17.75	Yes	No	Diversified Financial
10.	China Power Investment	107.7	17.54	Yes	No	Public Utilities
11.	Senhua Group	101.5	16.53	Yes	No	Energy
12.	Bank of Communications	93.5	15.23	No	Yes	Banking
13.	Petrochina	91.0	14.82	Yes	Yes	Energy
14.	China Citic Bank	90.5	14.74	No	Yes	Banking
15.	China Petroleum & Chemical	87.5	14.25	Yes	Yes	Energy
16.	China Guodian	84.4	13.74	Yes	No	Public Utilities
17.	Industrial Bank	83.0	13.52	No	Yes	Banking
18.	Tianjin Infrastructure Investment Group	69.1	11.26	Yes	No	Capital Goods
19.	China Life	68.0	11.08	Yes	Yes	Insurance
20.	China Southern Power Grid	66.9	10.90	Yes	No	Public Utilities
21.	China Three Gorges Project	62.5	10.18	Yes	No	Public Utilities
22.	Beijing State-owned Assets Operation & Management Center	60.5	9.85	Yes	No	Diversified Financial
23.	Shanghai Pudong Development Bank	60.4	9.84	No	Yes	Banking
24.	China Huaneng Group	56.6	9.22	Yes	No	Public Utilities
25.	China Datang	55.7	9.07	Yes	No	Energy
26.	Shananxi Coal and Chemical Industry Group	54.5	8.88	No	Yes	Energy
27.	China Everbright Bank	52.9	8.62	Yes	Yes	Banking
28.	China Merchants Bank	50.0	8.14	No	Yes	Banking
29.	Tianjin Binhai New Area Construction & Investment Group	49.9	8.13	Yes	No	Engineering and Construction
30.	Beijing Infrastructure Investment	46.6	7.59	Yes	No	Institutional Financial Services
Total Top 30 LCY Corporate Issuers		**4,228.39**	**688.73**			
Total LCY Corporate Bonds		**11,224.25**	**1,828.23**			
Top 30 as % of Total LCY Corporate Bonds		**37.7%**	**37.7%**			

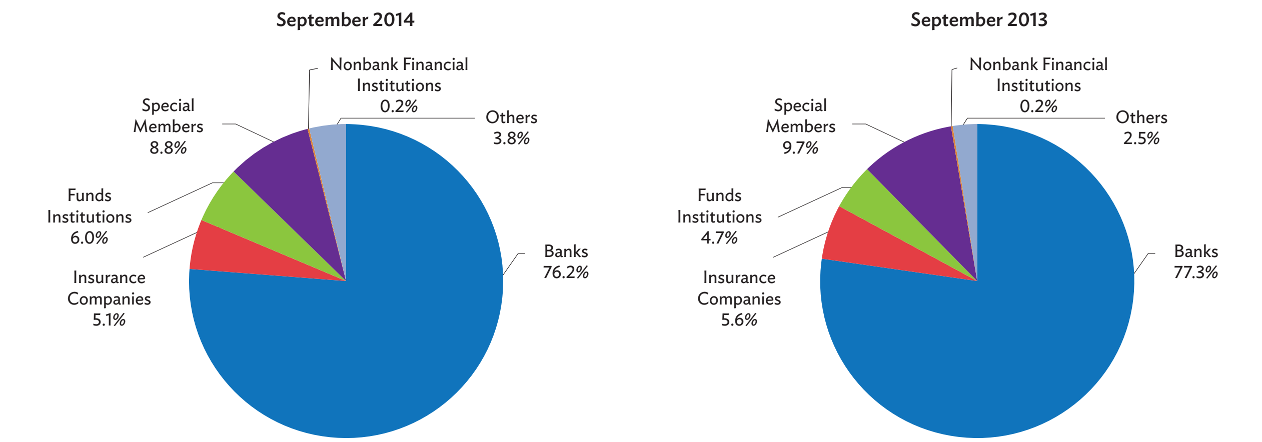
LCY = local currency.
Notes:
1. Data as of end-September 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on *Wind* data.

Table 4: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China CITIC Bank		
10-year bond	6.13	37
Bank of China		
10-year bond	5.8	30
Agricultural Bank of China		
10-year bond	5.8	30
Bank of Communications		
10-year bond	5.8	28
Industrial and Commercial Bank of China		
10-year bond	5.8	20

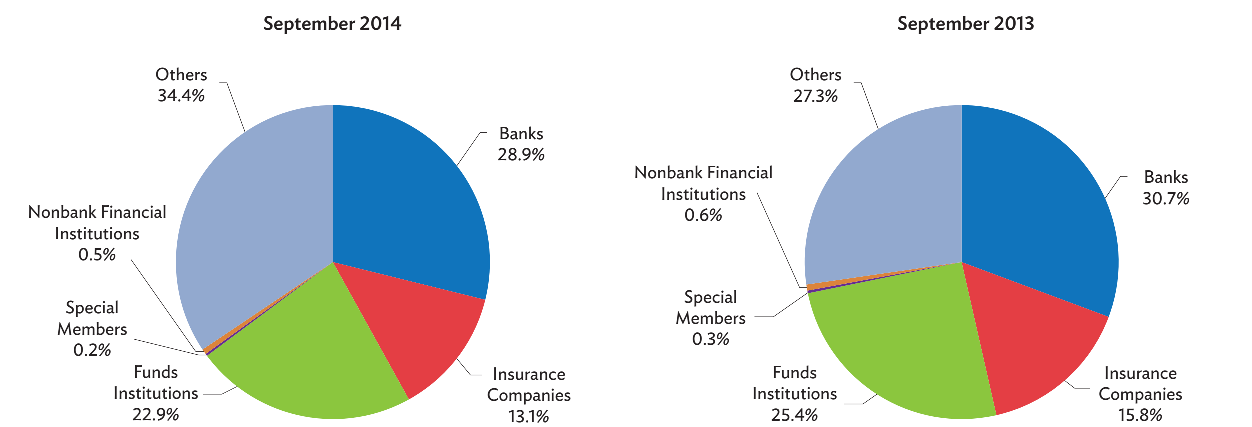
LCY = local currency.
Source: Bloomberg LP.

Figure 3: LCY Treasury Bonds and Policy Bank Bonds Investor Profile



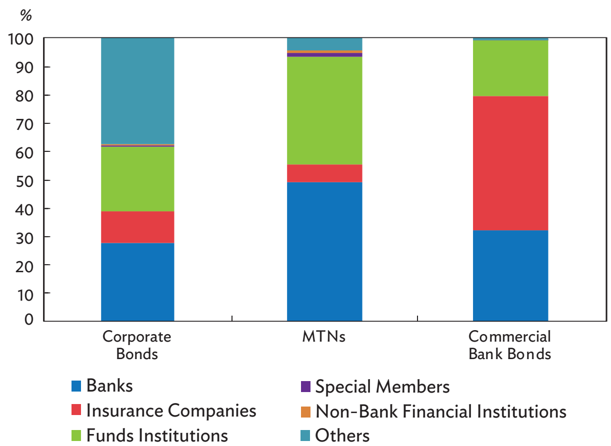
LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



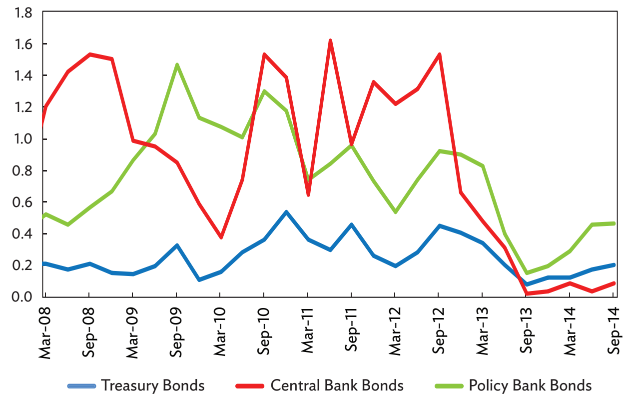
LCY = local currency.
Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



MTNs = medium-term notes.
Note: Data as of end-September 2014.
Source: *ChinaBond*.

Figure 6: Turnover Ratios for Spot Market



Source: *ChinaBond*.

Hong Kong, China

Yield Movements

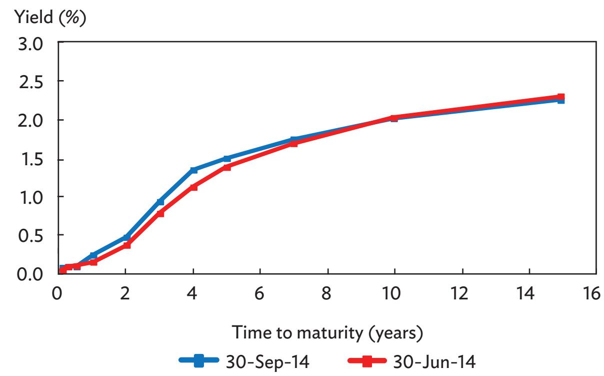
Between end-June and end-September, yields for Hong Kong, China's Exchange Fund Bills and Notes rose for most maturities, but fell slightly at the very long-end of the curve **(Figure 1)**. Yields rose the most for the 3-year and 4-year tenors, rising 15 basis points (bps) and 22 bps, respectively. Hong Kong, China's 10-year and 15-year yields fell 1 bp and 5 bps, respectively. As a result, the 2-year versus 10-year spread narrowed to 153 bps at end-September from 164 bps at end-June.

Yield movements in Hong Kong, China tracked United States (US) interest rate movements in 3Q14, reflecting the Hong Kong dollar's peg to the US dollar. Yields on 3-year and 5-year bonds in the US rose 17 bps and 12 bps, respectively, while 10-year bond yields fell 4 bps.

Hong Kong, China's economy showed some improvements but risks remain. In August, retail sales recovered, rising 3.4% year-on-year (y-o-y) following a decline of 3.2% in July. However, the government noted that growth was partially boosted by the timing of the Mid-Autumn Festival. Looking forward, there are uncertainties related to changing tourist demand and external demand. Exports from Hong Kong, China rose 6.4% y-o-y in August after gaining 6.8% in July. However, the government is cautious, citing geopolitical risks and uncertainties regarding developed markets.

Inflation risk in Hong Kong, China remained moderate, although consumer price inflation rose to 6.6% y-o-y in September from 3.9% in August. According to the government, the increase was driven by a low-base effect last year due to public housing rental subsidies. As a result, the housing sub-sector of the Consumer Price Index rose 13.5% in September. Also, utilities prices rose 25.7% y-o-y due to the exhaustion of the government's one-time subsidy for some households. The government said that inflation should be stable in the near-term due to a lack of supply-side pressures.

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 rose 0.5% quarter-on-quarter (q-o-q) and 0.3% y-o-y to reach HKD1,500 billion (US$193 billion) at end-September **(Table 1)**.

At end-September, the stock of government bonds comprising Exchange Fund Bills, Exchange Fund Notes, and Hong Kong Special Administrative Region (HKSAR) bonds rose 0.8% q-o-q to reach HKD856 billion. This was largely driven by an increase in outstanding HKSAR bonds as a result of a HKD10 billion issuance of 3-year HKSAR bonds under the Retail Bond Issuance Programme.

LCY corporate bonds outstanding remained unchanged on a q-o-q basis and fell 2.0% y-o-y to reach HKD645 billion at end-September, as companies preferred to raise funds via bank loans. In 3Q14, the five largest nonbank issuances came from Emperor International Holdings (HKD1.7 billion), Hong Kong Mortgage Corporation (HKD1.3. billion), Eastern Creation (HKD0.6 billion), CITIC Limited (HKD0.42 billion), and CLP Power Hong Kong Financing (HKD0.3 billion) **(Table 2)**.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,496**	**193**	**1,494**	**193**	**1,500**	**193**	**0.5**	**9.7**	**0.5**	**0.3**
Government	838	108	849	110	856	110	0.5	16.2	0.8	2.2
Exchange Fund Bills	682	88	684	88	684	88	0.1	16.0	(0.1)	0.2
Exchange Fund Notes	68	9	68	9	68	9	0.0	(0.9)	0.9	0.0
HKSAR Bonds	87	11	97	13	104	13	4.2	35.9	6.7	19.0
Corporate	658	85	645	83	645	83	0.5	2.4	0.0	(2.0)

( ) = 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. 3Q14 corporate bonds outstanding data carried over from 2Q14.
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: Hong Kong Monetary Authority and Bloomberg LP.

Table 2: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Emperor International Holdings		
3-year bond	5.00	1.65
Hong Kong Mortage Corporation		
2-year bond	0.38	0.70
3-year bond	1.33	0.55
Eastern Creation		
3-year bond	2.35	0.60
Citic Limited		
10-year bond	4.35	0.42
CLP Power Hong Kong Financing		
15-year bond	3.78	0.30

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

Corporate bonds outstanding from the top 30 nonbank issuers in Hong Kong, China amounted to HKD114.8 billion at end-September, representing about 17.8% of total outstanding corporate bonds. The top 30 list of issuers was dominated by real estate firms **(Table 3)**. HKMC remained the top issuer in Hong Kong, China with outstanding bonds of HKD14.6 billion. Next was CLP Power Hong Kong Financing with HKD10.6 billion of bonds outstanding, followed closely by Sun Hung Kai Properties with HKD9.9 billion. Among the top 30, five are state-owned companies and 11 are Hong Kong Exchange-listed firms. Only one state-owned company, the MTR Corporation, is listed on the exchange.

Policy, Institutional, and Regulatory Developments

Hong Kong, China Issues Debut *Sukuk*

On 10 September, Hong Kong, China issued its debut *sukuk* (Islamic bond). The *sukuk* was priced at a profit rate of 2.005%. The *sukuk* has an issue size of US$1.0 billion and demand was strong with orders exceeding US$4.7 billion. In terms of geography, buyers of the *sukuk* were diverse, with 36% going to the Middle East, 47% to Asia, 6% to Europe, and 11% to the US.

Table 3: Top 30 Nonbank 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	14.57	1.88	Yes	No	Finance
2.	CLP Power Hong Kong Financing	10.65	1.37	No	No	Electric
3.	Sun Hung Kai Properties (Capital Market)	9.91	1.28	No	No	Real Estate
4.	Wharf Finance	7.03	0.91	No	No	Diversified
5.	The Link Finance (Cayman) 2009	6.14	0.79	No	No	Finance
6.	MTR Corporation (C.I.)	5.75	0.74	Yes	Yes	Transportation
7.	HKCG (Finance)	5.60	0.72	No	No	Gas
8.	Swire Pacific	5.53	0.71	No	Yes	Diversified
9.	Hongkong Electric Finance	5.51	0.71	No	No	Electric
10.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
11.	Cheung Kong Bond Finance	4.62	0.60	No	Yes	Real Estate
12.	Urban Renewal Authority	4.60	0.59	Yes	No	Real Estate
13.	Kowloon-Canton Railway	4.40	0.57	Yes	No	Transportation
14.	Wheelock Finance	4.04	0.52	No	No	Diversified
15.	Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
16.	Airport Authority Hong Kong	2.80	0.36	Yes	No	Transportation
17.	Hysan (MTN)	2.43	0.31	No	No	Finance
18.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
19.	Emperor International Holdings	1.65	0.21	No	Yes	Real Estate
20.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
21.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
22.	AIA Group	1.16	0.15	No	Yes	Insurance
23.	Swire Properties MTN Financing	1.10	0.14	No	No	Real Estate
24.	Dragon Drays	1.00	0.13	No	No	Diversified
25.	K. Wah International	1.00	0.13	No	Yes	Real Estate
26.	Citic Limited	0.92	0.12	No	Yes	Diversified
27.	R-Reit International Finance	0.78	0.10	No	No	Real Estate
28.	Wing Tai Properties (Finance)	0.68	0.09	No	No	Real Estate
29.	HLP Finance	0.56	0.07	No	Yes	Real Estate
30.	The Hongkong Land Notes Company	0.20	0.03	No	No	Finance
Total Top 30 Nonbank LCY Corporate Issuers		**114.84**	**14.82**			
Total LCY Corporate Bonds		**644.73**	**83.19**			
Top 30 as % of Total LCY Corporate Bonds		**17.8%**	**17.8%**			

LCY = local currency.
Notes:
1. Data as of end-September 2014.
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.

Indonesia

Yield Movements

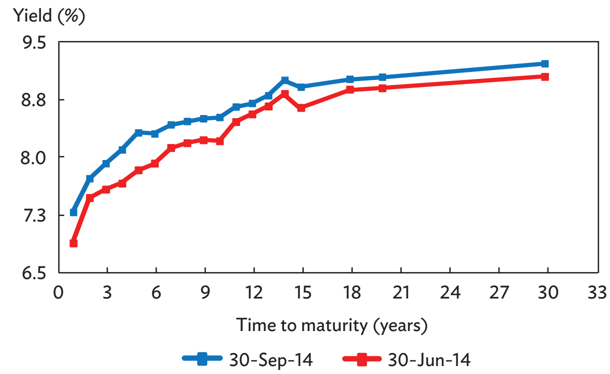
Between end-June and end-September, local currency (LCY) government bond yields in Indonesia rose across all tenors, resulting in the shifting of the entire curve upward **(Figure 1)**. Yields climbed the most for medium-dated tenors (4–9 years), gaining between 28 basis points (bps) and 49 bps. The yield at the very short-end of the curve also rose 40 bps at end-September. Yields at the long-end (10- to 30-year maturities) climbed between 14 bps and 31 bps. The yield spread between the 2- and 10-year maturities widened to 80 bps at end-September from 74 bps at end-June.

Domestic factors continued to weigh on Indonesia's bond market with negative sentiments arising from political issues as legislation scrapping direct regional elections was passed. Also, the annual inflation rate picked up in September on higher liquefied petroleum gas (LPG) prices and adjustments in electricity costs. Inflation had eased to 4.5% year-on-year (y-o-y) in July and 4.0% in August before accelerating again to 4.5% in September. Between January and September, the average annual inflation rate stood at 3.7%, well within Bank Indonesia's 2014 target range of 3.5%–5.5%.

Bank Indonesia maintained a tightening bias in its monetary policy, keeping the benchmark interest rate steady at 7.50% in a meeting held on 7 October. (The benchmark rate has been 7.50% since November 2013.) Bank Indonesia also held the lending facility rate at 7.50% and the deposit facility rate at 5.75%. Bank Indonesia deemed that, current levels, these rates are consistent with efforts to keep inflation within its target range and lower the current account deficit to a more sustainable level.

Meanwhile, Bank Indonesia estimates economic growth in 2014 will come in at the lower-end of its projection of 5.1%–5.5%. In 2Q14, gross domestic product (GDP) growth in Indonesia slowed to 5.1% y-o-y compared with revised 5.2% growth in 1Q14. The slower growth was due mainly to weak exports, a decline in imports, and a slowdown in government spending. Domestic consumption and investments continued to drive economic growth in 2Q14, albeit at a much slower pace than in 1Q14, expanding 5.6% and 4.5% y-o-y, respectively. On a quarter-on-quarter (q-o-q) basis, the economy grew 2.5% in 2Q14.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The LCY bond market in Indonesia continued to expand at end-September to reach IDR1,505.3 trillion (US$124 billion) for growth of 2.7% q-o-q and 22.7% y-o-y **(Table 1)**. The LCY bond market in Indonesia is still dominated by conventional issues, with *sukuk* (Islamic bonds) accounting for only a small share. At end-September, outstanding *sukuk* totaled IDR122.9 trillion, or 8.2% of the total bond stock.

The outstanding stock of LCY government bonds climbed to IDR1,285.1 trillion at end-September, rising 2.9% q-o-q and 27.1% y-o-y. Growth was driven by an increase in the stock of central government bonds, which comprised treasury instruments issued by the Ministry of Finance. On the other hand, central bank bills, which are known as *Sertifikat* Bank Indonesia (SBI), registered a 26.6% q-o-q decline and a 24.9% y-o-y increase.

Central Government Bonds. At end-September, the outstanding size of central government bonds climbed 6.0% q-o-q and 27.2% y-o-y to reach IDR1,199.4 trillion. Growth was largely driven by increases in the stock of conventional fixed-rate bonds and Islamic Treasury

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	IDR	US$	IDR	US$	IDR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,226,334**	**108**	**1,465,790**	**123**	**1,505,260**	**124**	**3.9**	**16.3**	**2.7**	**22.7**
Government	1,011,443	89	1,248,379	105	1,285,059	105	3.7	14.5	2.9	27.1
Central Govt. Bonds	942,859	83	1,131,630	95	1,199,395	98	6.1	16.0	6.0	27.2
of which: *Sukuk*	87,690	8	101,329	9	109,444	9	10.0	41.4	8.0	24.8
Central Bank Bills	68,584	6	116,749	10	85,664	7	(20.8)	(3.0)	(26.6)	24.9
of which: *Sukuk*	3,610	0.3	6,792	0.6	6,490	0.5	(21.9)	44.7	(4.4)	79.8
Corporate	214,891	19	217,412	18	220,202	18	4.6	25.4	1.3	2.5
of which: *Sukuk*	6,974	0.6	6,958	0.6	6,958	0.6	(7.5)	6.0	0.0	(0.2)

( ) = 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 nontradable bonds as of end-September stood at IDR268.2 trillion.
Sources: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, Otoritas Jasa Keuangan, and Bloomberg LP.

instruments, including Islamic Treasury bills and project-based *sukuk*.

In 3Q14, the government raised a total of IDR95.7 trillion worth of Treasury bills and bonds, in line with its quarterly target. A total of 13 auctions were conducted in 3Q14, of which seven were auctions of conventional bonds and the remaining six were auctions of Islamic instruments.

The government had to issue more bonds in 3Q14 to help fund a projected budget deficit in 2014 that was recently increased to 2.4% of GDP from 1.7%. New issuance by the central government was higher on both a q-o-q and y-o-y basis. As of 26 September, the government had raised nearly 97% of its net government securities issuance target for the year, which includes foreign-currency-denominated bonds.

Central Bank Bills. At end-September, the stock of central bank bills (SBI) reached IDR85.7 trillion, down 26.6% q-o-q, but up 24.9% y-o-y. Bank Indonesia issues SBI as one of its monetary tools for liquidity management. In 3Q14, new issuance of SBI and *shari'a*-compliant SBI with 9-month tenors totaled IDR25.0 trillion. Auctions of SBI are held on a monthly basis.

Corporate Bonds. The outstanding stock of LCY corporate bonds in Indonesia totaled IDR220.2 trillion at end-September on growth of 1.3% q-o-q and 2.5% y-o-y. Only 3.2% of total LCY corporate bonds outstanding in 3Q14 were *sukuk*.

At end-September, the aggregate of outstanding bonds of the top 30 LCY corporate issuers in Indonesia totaled IDR163.6 trillion, or 74.3% of total LCY corporate bonds outstanding **(Table 2)**. By industry type, 20 out of the 30 firms on the list were banks or financial institutions.

The composition of the top three issuers remained the same as in the previous quarter. Leading the list was state power firm PLN with outstanding LCY bonds valued at IDR15.6 trillion. PLN was followed by another state-owned entity, Indonesia Eximbank, with outstanding bonds of IDR13.1 trillion. In the third spot was Astra Sedaya Finance with an outstanding bond stock of IDR11.7 trillion.

In 3Q14, new corporate bond issuance reached only IDR6.8 trillion, compared with IDR16.8 trillion in 2Q14 and IDR11.9 trillion in 3Q13. A total of seven corporate firms raised funds from the bond market during 3Q14. Some firms delayed their planned issues due to uncertainties relating to the results of the presidential election.

A total of 12 new corporate bond series were issued in 3Q14, all of which were conventional except for one issue of *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or a partnership). In terms of maturity, two bond series had 370-day maturities, nine bond series had maturities of 3–5 years, and one bond series had a 7-year tenor. Some of the largest corporate bonds issued in 3Q14 are presented in **Table 3**.

Table 2: 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	15,573	1.28	Yes	No	Energy
2.	Indonesia Eximbank	13,108	1.08	Yes	No	Banking
3.	Astra Sedaya Finance	11,691	0.96	No	No	Finance
4.	Adira Dinamika Multi Finance	11,612	0.95	No	Yes	Finance
5.	Bank Internasional Indonesia	8,800	0.72	No	Yes	Banking
6.	Bank Tabungan Negara	7,950	0.65	Yes	Yes	Banking
7.	Bank CIMB Niaga	7,930	0.65	No	Yes	Banking
8.	Bank Pan Indonesia	6,800	0.56	No	Yes	Banking
9.	Jasa Marga	6,600	0.54	Yes	Yes	Toll Roads, Airports, and Harbors
10.	Bank Permata	6,478	0.53	No	Yes	Banking
11.	Indosat	6,190	0.51	No	Yes	Telecommunications
12.	Perum Pegadaian	5,819	0.48	Yes	No	Finance
13.	Federal International Finance	4,875	0.40	No	No	Finance
14.	Bank Tabungan Pensiunan Nasional	4,820	0.40	No	Yes	Banking
15.	Agung Podomoro Land	4,025	0.33	No	Yes	Property, Real Estate, and Building Construction
16.	Sarana Multigriya Finansial	4,011	0.33	Yes	No	Finance
17.	Indofood Sukses Makmur	4,000	0.33	No	Yes	Food and Beverages
18.	Bank Mandiri	3,500	0.29	Yes	Yes	Banking
19.	Medco-Energi International	3,500	0.29	No	Yes	Petroleum and Natural Gas
20.	Antam	3,000	0.25	Yes	Yes	Petroleum and Natural Gas
21.	Telekomunikasi Indonesia	3,000	0.25	Yes	Yes	Telecommunications
22.	Bank OCBC NISP	2,907	0.24	No	Yes	Banking
23.	Bumi Serpong Damai	2,750	0.23	No	Yes	Property, Real Estate, and Building Construction
24.	Indomobil Finance Indonesia	2,659	0.22	No	No	Finance
25.	Toyota Astra Financial Services	2,311	0.19	No	No	Finance
26.	BCA Finance	2,100	0.17	No	No	Finance
27.	Bank Rakyat Indonesia	2,000	0.16	Yes	Yes	Banking
28.	Garuda Indonesia	2,000	0.16	Yes	Yes	Infrastructure, Utilities, and Transportation
29.	BII Finance	1,824	0.15	No	No	Finance
30.	Bank Jabar Banten	1,724	0.14	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**163,556**	**13.42**			
Total LCY Corporate Bonds		**220,202**	**18.07**			
Top 30 as % of Total LCY Corporate Bonds		**74.3%**	**74.3%**			

LCY = local currency.
Notes:
1. Data as of end-September 2014.
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.

Table 3: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Internasional Indonesia		
3-year *Sukuk Mudharabah*	9.49	300
7-year bond	11.35	1,500
Pupuk Indonesia		
3-year bond	9.63	568
5-year bond	9.95	1,131
Jasa Marga		
5-year bond	9.85	1,000
Perum Pegadaian		
370-day bond	8.65	360
3-year bond	9.35	202
5-year bond	9.75	398
Indonesia Eximbank		
3-year bond	9.25	500
Sarana Multigriya Finansial		
370-day bond	9.13	500

LCY = local currency.
Note: *Sukuk Mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or a partnership.
Source: Indonesia Stock Exchange.

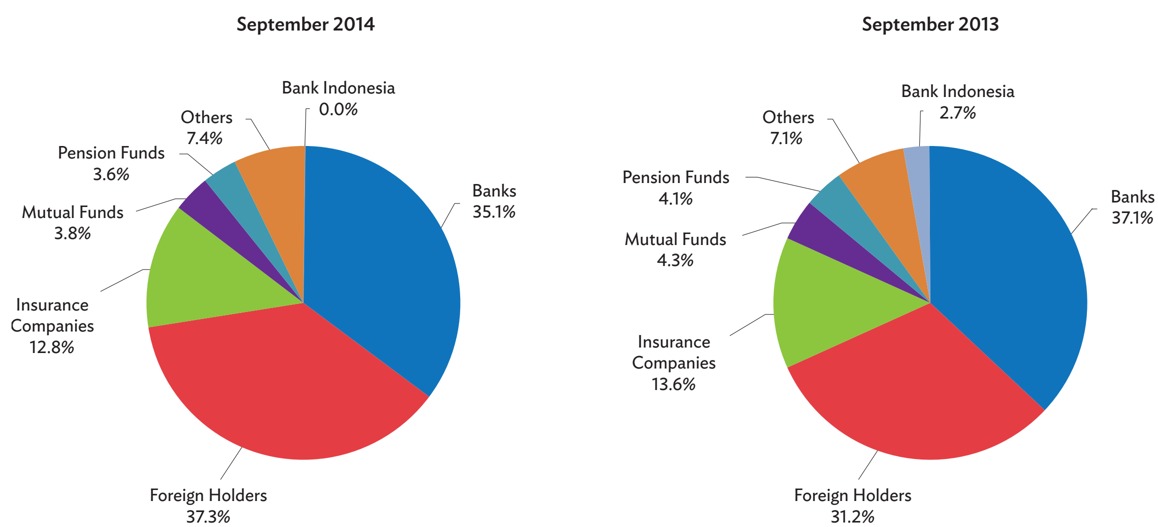
Investor Profiles

Central Government Bonds. Foreign investors continued to increase their holdings of Indonesia's LCY central government bonds at end-September, making them the largest participant in Indonesia's bond market. At end-September, the share of LCY central government bonds held by foreign investors rose to 37.3% from 31.2% a year earlier **(Figure 2)**. In absolute terms, outstanding bonds held by foreign investors reached IDR447 trillion at end-September. Demand from foreign investors continued to be strong as foreign holdings hit all-time highs in recent months. Indonesian LCY government bonds offer the highest yields among emerging East Asian markets.

At end-September, holdings of government bonds by foreign investors were mostly in long-term maturities. About 42% of government bonds held by foreign investors carried maturities of more than 10 years. This, however, was slightly lower compared with a share of 44% at end-December 2013 **(Figure 3)**. On the other hand, foreign holdings of medium-term bonds (maturities of more than 5 years and up to 10 years) rose to a share of 34% in 3Q14 from 32% at end-December 2013. Foreign ownership of bonds with maturities of more than 2 years and up to 5 years also rose to a share of 15% at end-September from 13% at end-December 2013. Meanwhile, foreign holdings of bonds with maturities of less than 1 year were steady at 5%.

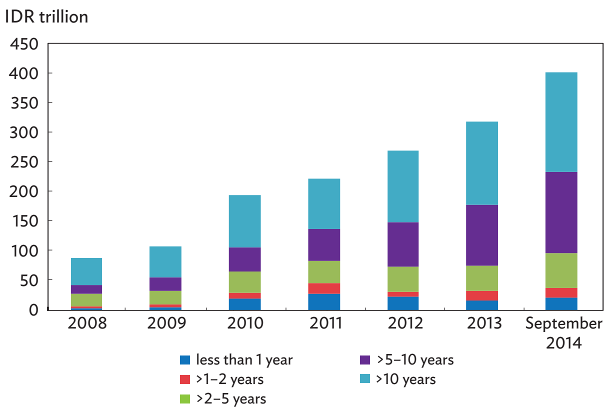
Banking institutions were the second-largest investor group in 3Q14, albeit their share of LCY government bonds has steadily declined from 82.0% of the total at end-2003. At end-September, banks held 35.1% of central government bonds, down from a 37.1% share in the same period a year earlier. Banking institutions comprise state recap banks, private recap banks, non-recap banks, regional banks, and *shari'a* banks.

Figure 2: LCY Central Government Bonds Investor Profile



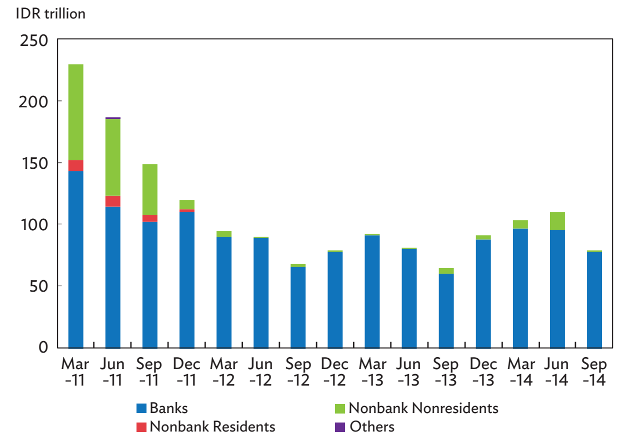
LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 3: Foreign Holdings of LCY Central Government Bonds by Maturity



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

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

Central government bond holdings of all domestic investors recorded declines in 3Q14 compared with the same period a year earlier. The only exceptions were other investors, whose share rose to 7.4% at end-September from 7.1% in the previous year.

Central Bank Bills. At end-September, banking institutions were the dominant holders of central bank bills **(Figure 4)**. Bank holdings of SBI accounted for 98.6% of the total at end-September, up from 86.9% in the previous quarter. The remaining 1.4% share of SBI holdings were held by foreign nonbank investors.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Issues Guidelines for State-Owned Companies on FX Hedging Transactions

On 17 September, Bank Indonesia issued guidelines for state-owned firms to engage in foreign exchange (FX) hedging transactions. Bank Indonesia noted that hedging transactions serve as an important measure to strengthen exchange rate stability and ease pressure in the domestic FX market. Through the issuance of the guidelines, Bank Indonesia expects the volume of FX hedging transactions by state-owned companies to increase, and for the perception to diminish that losses incurred from such activities are considered state losses. Bank Indonesia has been encouraging state-owned companies to undertake hedging transactions for foreign currency borrowings to cover FX risks.

Government Approves 2015 State Budget

On 29 September, the House of Representatives approved the 2015 state budget, which projects a deficit equivalent to 2.2% of GDP. The 2015 budget deficit was up from the deficit projection of 1.7% made in the original 2014 state budget, but down from the projection of 2.4% in the revised 2014 state budget. The underlying macroeconomic assumptions for the 2015 state budget include (i) GDP growth of 5.8% y-o-y, (ii) annual inflation of 4.4% y-o-y, (iii) an exchange rate of IDR11,900 per US$1, (iv) a 3-month Treasury bill rate of 6.0%, and (v) an Indonesian crude oil price of US$105 per barrel.

Republic of Korea

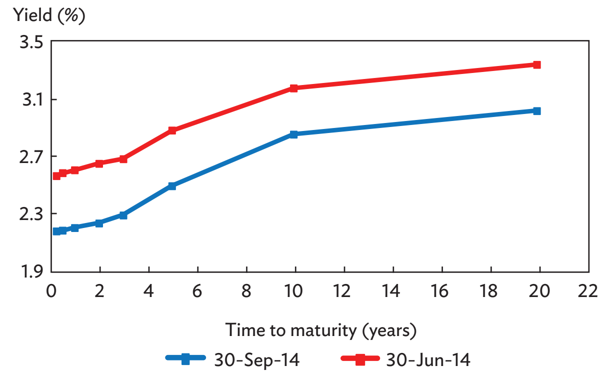
Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea fell for all tenors between end-June and end-September, leading the yield curve to shift downward **(Figure 1)**. The drop in government bond yields in 3Q14 can be attributed to market expectations of a policy rate cut to support the recovery of the domestic economy amid low inflationary pressures. Meanwhile, the yield spread between the 2- and 10-year tenors widened 9 basis points (bps) between end-June and end-September, resulting in a steepening of the yield curve.

The Bank of Korea's Monetary Policy Committee decided on 15 October to lower the base rate 25 bps from 2.25% to 2.00% to support economic growth in the Republic of Korea and ensure price stability in the domestic economy. This was the second time in 2 months that the base rate was reduced 25 bps by the committee, with the previous policy rate cut made on 14 August. (On 12 September, the committee decided to maintain the base rate at 2.25%.)

Real gross domestic product GDP growth in the Republic of Korea stood at 0.9% quarter-on-quarter (q-o-q) and 3.2% year-on-year (y-o-y) in 3Q14, based on advance estimates released by The Bank of Korea in October. Meanwhile, The Bank of Korea also reported that it was revising its GDP growth outlook downward to 3.5% for 2014 and 3.9% for 2015 from previous forecasts made in July of 3.8% and 4.0%, respectively.

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



LCY = local currency.
Source: Bloomberg LP.

Consumer price inflation continued to moderate in 3Q14, as the inflation rate, based on the Consumer Price Index, stood at 1.1% y-o-y in September, down from 1.4% in August and 1.6% in July. In October, the inflation rate was 1.2% y-o-y. Meanwhile, in October, the central bank revised downward its annual inflation outlook to 1.4% (from 1.9%) in 2014 and 2.4% (from 2.7%) in 2015.

Size and Composition

The LCY bond market of the Republic of Korea continued to expand as the existing stock of all LCY bonds in the economy recorded positive growth on both a q-o-q and y-o-y basis in 3Q14 **(Table 1)**. Growth in the LCY

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,680,687**	**1,564**	**1,779,533**	**1,759**	**1,821,497**	**1,726**	**1.8**	**10.4**	**2.4**	**8.4**
Government	645,333	601	700,464	692	723,074	685	1.3	6.9	3.2	12.0
Central Bank Bonds	164,880	153	174,000	172	177,650	168	(0.3)	1.5	2.1	7.7
Central Government Bonds	444,599	414	485,792	480	502,457	476	1.3	7.4	3.4	13.0
Industrial Finance Debentures	35,854	33	40,671	40	42,967	41	9.3	31.4	5.6	19.8
Corporate	1,035,354	963	1,079,069	1,066	1,098,423	1,041	2.2	12.6	1.8	6.1

( ) = 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. Central government bonds include Korea Treasury bonds, National Housing bonds, and Seoul Metro bonds.
Sources: EDAILY *BondWeb* and The Bank of Korea.

government bond market was led by increases in the outstanding size of central government bonds, which include Korea Treasury Bonds (KTBs); central bank bonds, which are known as Monetary Stabilization Bonds (MSBs); and industrial finance debentures, which comprise bonds issued by the Korea Development Bank (KDB).

The outstanding size of LCY corporate bonds likewise expanded on both a q-o-q and y-o-y basis. The q-o-q growth was induced by increases in the stocks of special public bonds, financial debentures, and bonds issued by private corporates. Meanwhile, y-o-y growth during the quarter was due to hikes in the stocks of special public bonds and private corporate bonds. The top 30 LCY corporate bond issuers at end-September had a combined stock valued at KRW681.1 trillion, which was 62.0% of total LCY corporate bonds outstanding **(Table 2)**. Korea Land & Housing Corporation, which surpassed Korea Housing Finance Corporation as the largest LCY corporate bond issuer in 2Q14, remained the largest issuer at end-September.

Issuance of LCY corporate bonds gathered pace in 3Q14, expanding 50.4% q-o-q and 14.9% y-o-y. Of the five largest LCY corporate bond issues in 3Q14, three were made by banks, one by a financial group, and one by a public urban developer. Three of these bonds have tenors of 1 year and the other two have maturities of 5 years **(Table 3)**.

Liquidity

The turnover ratios for LCY central government and central bank bonds declined in 3Q14 as q-o-q growth in central government and central bank bonds outpaced the quarterly increase in the trading volume of these bonds; this suggests a tightening in the liquidity of the LCY government bond market for the quarter **(Figure 2)**.

In the KTB futures market, liquidity appears to have improved on a quarterly basis as the combined value of 3-year and 10-year KTB futures contracts traded increased to 7.9 million in 3Q14 from 6.6 million in 2Q14; however, on an annual basis, liquidity in the KTB futures market was down from a year earlier when the total value of traded contracts reached 8.8 million in 3Q13 **(Figure 3)**.

LCY corporate bond market liquidity appears to have tightened further in 3Q14, as the turnover ratio for LCY corporate bonds stood at 0.12, down from 0.13 in both 2Q14 and 3Q13. The quarterly slip was led by q-o-q decreases in the turnover ratios of LCY financial debentures and private corporate bonds, while the y-o-y decline was brought about by an annual drop in the turnover ratio of LCY private corporate bonds **(Figure 4)**.

Investor Profile

Insurance companies and pension funds remained the largest investor group in the LCY government bond market in the Republic of Korea, with a 29.4% share of the market at end-June, up 1.3 percentage points from a year earlier **(Figure 5)**. Other investor groups that showcased a y-o-y increase in their share of the LCY government bond market in 2Q14 were other financial institutions and households and nonprofit institutions. In contrast, the respective shares of the general government and foreign investors dropped 2.8 and 0.8 percentage points, respectively, from end-June 2013.

Insurance companies and pension funds were also the largest investor group in the LCY corporate bond market, with a 33.2% share of the market, at end-June **(Figure 6)**. Insurance companies and pension funds recorded the highest y-o-y increase in LCY corporate bond holdings in 2Q14, with a share that rose 2.4 percentage points from a year earlier. Most other investor groups posted y-o-y decreases in their respective LCY corporate bond holding shares.

Net foreign investment in the Republic of Korea's LCY bond market turned positive in September, amounting to KRW0.5 trillion for the month, after recording net bond outflows of KRW0.1 trillion in August, based on Financial Supervisory Service (FSS) data **(Figure 7)**. The reversal stemmed from a sharper monthly increase in foreign investor net bond purchases when compared to bond redemptions; in September, foreign investor net bond purchases jumped 80.6% month-on-month (m-o-m) to KRW4.2 trillion, while bond redemptions climbed 53.8% m-o-m to KRW3.7 trillion. Net foreign bond investment was valued at KRW0.9 trillion in 3Q14, down from 2Q14's KRW2.6 trillion. On a year-to-date basis, foreign net bond investment stood at KRW3.5 trillion in January–September, down from KRW7.3 trillion recorded in the first 9 months of 2013.

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 Land & Housing	57,309	54.3	Yes	No	No	Real Estate
2.	Korea Housing Finance	54,584	51.7	Yes	No	No	Financial
3.	Korea Finance	46,981	44.5	Yes	No	No	Financial
4.	Korea Deposit Insurance	41,850	39.7	Yes	No	No	Insurance
5.	KDB Daewoo Securities	40,790	38.7	Yes	Yes	No	Securities
6.	Woori Investment and Securities	38,567	36.5	Yes	Yes	No	Securities
7.	Korea Investment and Securities	38,511	36.5	No	No	No	Securities
8.	Korea Electric Power	30,600	29.0	Yes	Yes	No	Utilities
9.	Hana Daetoo Securities	27,645	26.2	No	No	No	Securities
10.	Mirae Asset Securities	27,583	26.1	No	Yes	No	Securities
11.	Industrial Bank of Korea	27,559	26.1	Yes	Yes	No	Bank
12.	Korea Expressway	21,230	20.1	Yes	No	No	Infrastructure
13.	Kookmin Bank	18,251	17.3	No	No	No	Bank
14.	Korea Rail Network Authority	17,100	16.2	Yes	No	No	Infrastructure
15.	Hyundai Securities	16,059	15.2	No	Yes	No	Securities
16.	Korea Gas	15,354	14.6	Yes	Yes	No	Utilities
17.	Small & Medium Business Corp.	15,005	14.2	Yes	No	No	Financial
18.	Shinhan Bank	14,404	13.7	No	No	No	Bank
19.	Shinhan Investment	13,960	13.2	No	No	No	Securities
20.	Woori Bank	13,952	13.2	Yes	No	No	Bank
21.	Standard Chartered First Bank Korea	11,490	10.9	No	No	No	Bank
22.	Korea Railroad	11,210	10.6	Yes	No	No	Infrastructure
23.	Samsung Securities	10,776	10.2	No	Yes	No	Securities
24.	Tong Yang Securities	10,717	10.2	No	Yes	No	Securities
25.	Korea Water Resources	10,463	9.9	Yes	Yes	No	Utilities
26.	Hana Bank	10,302	9.8	No	No	No	Bank
27.	Korea Student Aid Foundation	10,240	9.7	Yes	No	No	Financial
28.	Daishin Securities	10,062	9.5	No	Yes	No	Securities
29.	Korea Eximbank	9,520	9.0	Yes	No	No	Bank
30.	Shinhan Card	9,046	8.6	No	No	No	Financial
Total Top 30 LCY Corporate Issuers		**681,119.7**	**645.5**				
Total LCY Corporate Bonds		**1,098,423.0**	**1,041.0**				
Top 30 as % of Total LCY Corporate Bonds		**62.0%**	**62.0%**				

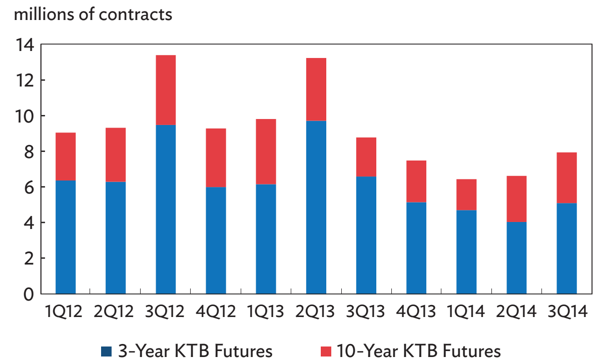
KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-September 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Industrial Bank of Korea		
1-year bond	2.24	450.0
1-year bond	2.24	400.0
Hana Financial Group		
5-year bond	2.74	500.0
Woori Bank		
1-year bond	2.25	450.0
Gyeonggi Urban Innovation		
5-year bond	3.00	400.0

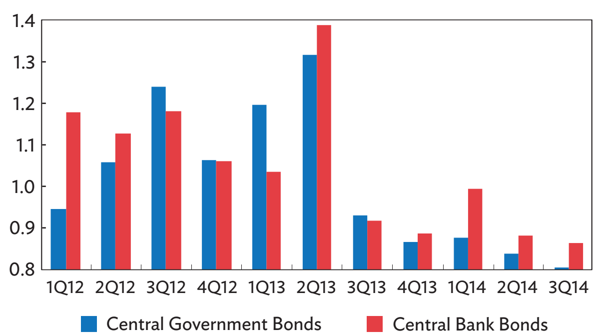
LCY = local currency.
Note: Coupon rates for 1-year bonds of Industrial Bank of Korea and Woori Bank are indicative yields as of end-September 2014.
Source: Bloomberg LP.

Figure 3: Trading Volumes of KTB Futures Contracts



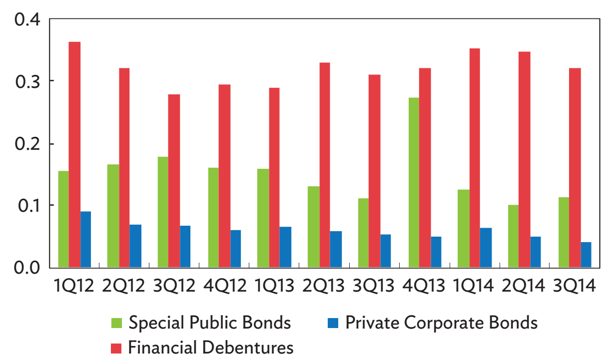
KTB = Korea Treasury Bond.
Source: Korea Exchange.

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



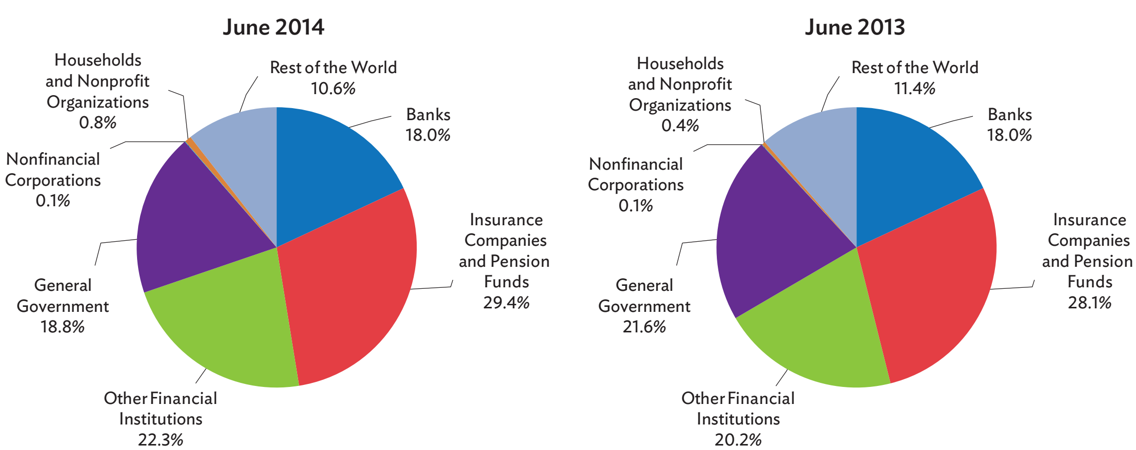
Note: Central government bonds include Korea Treasury Bonds and National Housing Bonds.
Sources: The Bank of Korea and EDAILY *BondWeb*.

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



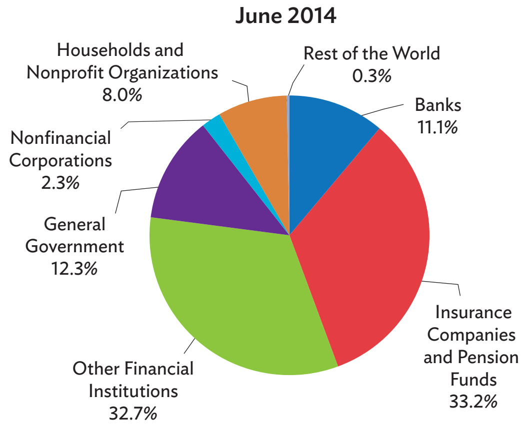
Source: EDAILY *BondWeb*.

Figure 5: LCY Government Bonds Investor Profile



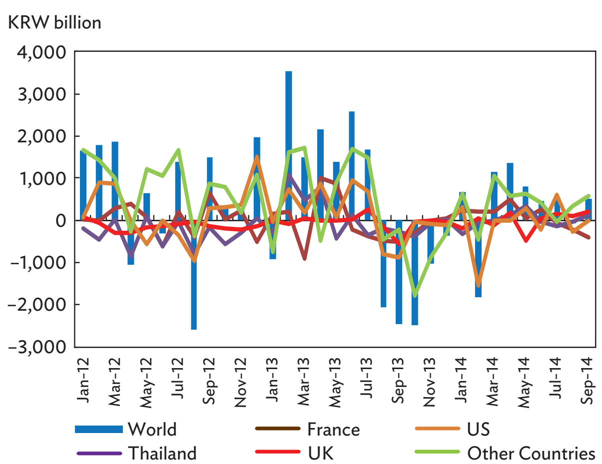
LCY = local currency.
Sources: *AsianBondsOnline* and The Bank of Korea.

Figure 6: LCY Corporate Bonds Investor Profile



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

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



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

Policy, Institutional, and Regulatory Developments

Basel III LCR Introduced in the Banking Sector

In August, the FSC introduced Basel III's liquidity coverage ratio (LCR) to banks conducting business in the Republic of Korea. The FSC stated that domestic banks are obliged to meet the minimum LCR of 100% starting January 2015; domestic branches of foreign banks are required to meet the minimum ratio of 20% starting in 2015, and the ratio will be raised 10 percentage points each year to reach 60% by 2019; and the minimum ratio for specialized banks and policy banks will start at 60% in 2015 and climb by 10 percentage points per year to reach 100% by 2019.

Prudential Regulation Reform for the Asset Management Industry

The Republic of Korea's Financial Services Commission (FSC) announced in September plans for the reform of prudential regulations governing the country's asset management industry. The plans involve replacing the net capital ratio—which has been utilized since April 1997 as a standard for "prompt corrective action" covering asset management and securities companies—with a minimum capital requirement for the equity holdings of asset management companies. The plan is expected to take effect in April 2015.

Malaysia

Yield Movements

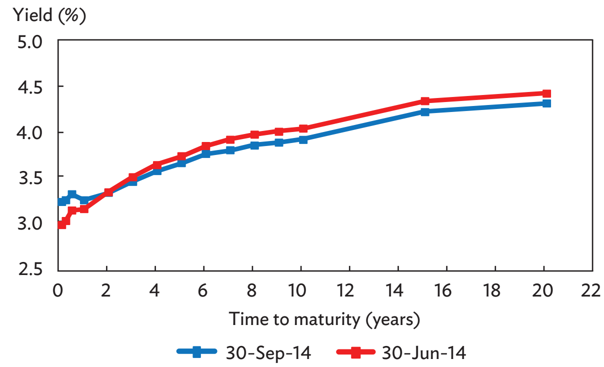
Between end-June and end-September, all Malaysian local currency (LCY) government bond yields fell, except for instruments at the shorter-end of the curve, resulting in a slight flattening of the curve **(Figure 1)**. Yields for the 1-month tenor climbed as much as 25 basis points (bps), while yields for the 3-month to 1-year maturities edged up between 10 bps and 23 bps. The rise in yields on the shorter-end of the curve was due to Bank Negara Malaysia's (BNM) decision on 10 July to raise the overnight policy rate 25 bps to 3.25% to mitigate the risk of continued high inflation and potential economic and financial imbalances. Meanwhile, yields for securities with tenors of 3 years or more declined between 6 bps and 12 bps, which narrowed the gap between 2-year and 10-year tenors to 58 bps at end-September from 69 bps at end-June. Yields on the longer-end of the curve fell as the market reacted positively to BNM's decision to raise the policy rate on expectations of more manageable inflation in the near-term.

In its Monetary Policy Committee meeting on 18 September, BNM decided to keep its overnight policy rate steady at 3.25%. BNM deemed its current monetary policy stance to be supportive of growth. Inflation is expected to be relatively stable as the effects of price adjustments for utilities and energy have diminished.

However, inflation has remained elevated in 3Q14, increasing to 3.3% year-on-year (y-o-y) in August from 3.2% in July, before easing to 2.6% in September. Risks to inflation remain as the government raised fuel prices in early October and is planning to implement the good and services tax (GST) in April 2015.

Malaysia's real gross domestic product (GDP) growth accelerated to 6.4% y-o-y in 2Q14, the fastest pace in 6 quarters, from 6.2% in 1Q14. On the supply side, the growth was fueled by increases in the manufacturing sector, which rose 7.3% y-o-y compared with 6.8% in the previous quarter, led by electrical and electronic products, and transport equipment. On the demand side, exports and domestic demand drove the economy, accelerating 8.8% and 6.5%, respectively. On a seasonally adjusted and q-o-q basis, the economy grew 1.8%.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Total LCY bonds outstanding in Malaysia rose 2.5% quarter-on-quarter (q-o-q) to MYR1,079 billion (US$329 billion) at end-September, led by the government bond sector, particularly central bank bills **(Table 1)**. Government bonds outstanding totaled MYR633 billion (US$193 billion), while corporate bonds summed to MYR446 billion. *Sukuk* (Islamic bonds) dominated the market, surpassing conventional securities in terms of share of the total market in 3Q14, with 52% of bonds outstanding. On a y-o-y basis, the LCY bond market grew 8.7% as of end-September.

Government Bonds. LCY government bonds increased 3.4% q-o-q to close at MYR633 billion at end-September. Central government bonds—comprising Malaysian Government Securities, Government Investment Issues, and Treasury bills—remained unchanged at MYR508 billion. The size of outstanding BNM monetary notes, on the other hand, climbed 22.0% q-o-q to MYR108 billion. The increase may be a result of the central bank mopping up excess liquidity in the market amid elevated inflation.

The government issued more bonds in 3Q14 than in the previous quarter, with issuance rising 14.5% q-o-q to MYR105.8 billion, led by central bank bills. Meanwhile, issuance of central government securities fell 20.0% q-o-q.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**993**	**305**	**1,053**	**328**	**1,079**	**329**	**(0.04)**	**2.2**	**2.5**	**8.7**
Government	584	179	612	191	633	193	(0.7)	(0.4)	3.4	8.4
Central Government Bonds	468	143	508	158	508	155	1.9	10.1	0.02	8.7
of which: *sukuk*	166	51	190	59	187	57	2.5	20.4	(1.8)	12.7
Central Bank Bills	107	33	88	28	108	33	(12.5)	(32.6)	22.0	0.6
of which: *sukuk*	41	13	35	11	42	13	(19.3)	(34.7)	19.8	3.8
Sukuk Perumahan Kerajaan	9	3	16	5	17	5	43.5	242.3	9.7	91.0
Corporate	410	126	442	138	446	136	0.9	6.1	1.1	9.0
of which: *sukuk*	274	84	302	94	314	96	1.0	9.0	4.0	14.5

( ) = negative, 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.

Corporate Bonds. LCY corporate bonds slightly increased 1.1% q-o-q, bringing total outstanding bonds to MYR446 billion at end-September. The share of corporate *sukuk* to total corporate bonds outstanding increased to 70% at end-September from 68% at end-June.

Corporate bond issuance expanded 25.8% q-o-q to MYR33 billion in 3Q14 on a total of 80 new issues during the quarter, from MYR27 billion in the previous quarter. **Table 2** lists some notable corporate bonds issued in 3Q14.

The largest corporate issuers in 3Q14 were from the financial sector, led by Maybank and Bank Pembangunan Malaysia. Maybank issued a 10-year bond valued at MYR3.5 billion. The bond was rated AA3 by RAM Ratings and has a coupon rate of 5.30%. Bank Pembangunan Malaysia, rated AAA, raised MYR3.0 billion from the sale of four tranches of *murabahah* (profit-sharing) medium-term notes.

Table 3 provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR249.2 billion at end-September, representing 55.8% of the LCY corporate bond market. Financial firms comprised 10 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR88.8 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

Table 2: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Maybank		
10-year bond	5.30	3,500
Bank Pembangunan Malaysia		
7-year Islamic MTN	4.19	700
10-year Islamic MTN	4.38	500
15-year Islamic MTN	4.75	900
20-year Islamic MTN	4.85	900
Danainfra Nasional		
7-year Islamic MTN	4.23	400
10-year Islamic MTN	4.41	400
15-year Islamic MTN	4.76	400
20-year Islamic MTN	4.93	500
25-year Islamic MTN	5.14	400
30-year Islamic MTN	5.29	500

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

Investor Profile

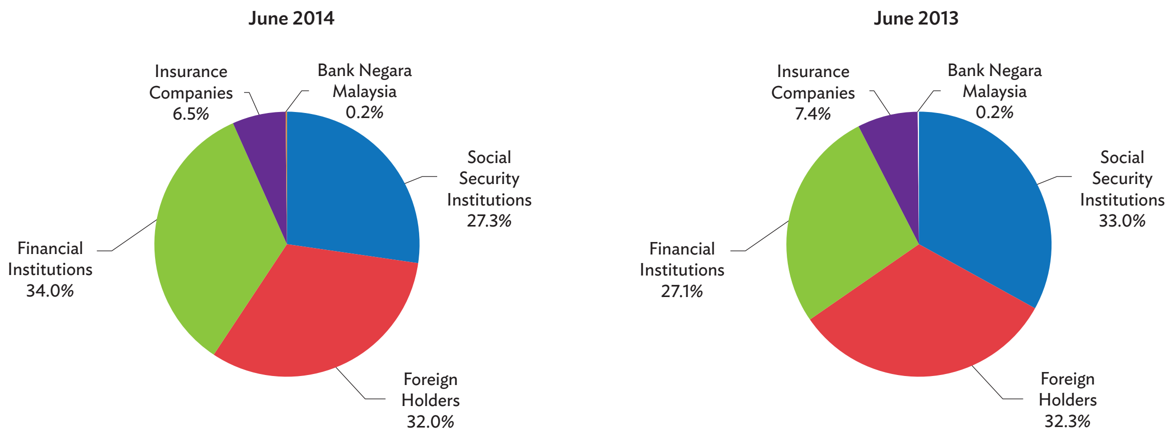
At end-June, the share of government bonds held by financial institutions—including banking institutions, development financial institutions, and nonbank financial institutions—rose both on a q-o-q and y-o-y basis. Financial institutions accounted for 34.0% of the total government bond market at end-June with holdings valued at MYR164.5 billion **(Figure 2)**. Banks remained

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	30.60	9.33	No	Yes	Transport, Storage, and Communications
2.	Cagamas	23.21	7.07	Yes	No	Finance
3.	Khazanah	20.00	6.10	Yes	No	Quasi-Government
4.	Prasarana	13.91	4.24	Yes	No	Transport, Storage, and Communications
5.	Pengurusan Air	11.73	3.58	Yes	No	Energy, Gas, and Water
6.	Danainfra Nasional	11.70	3.57	Yes	No	Finance
7.	Maybank	11.36	3.46	No	Yes	Finance
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	9.50	2.90	Yes	No	Quasi-Government
9.	CIMB Bank	8.05	2.45	No	No	Finance
10.	Public Bank	8.02	2.45	No	Yes	Finance
11.	BGSM Management	7.20	2.19	No	No	Transport, Storage, and Communications
12.	Sarawak Energy	7.00	2.13	Yes	No	Energy, Gas, and Water
13.	Aman *Sukuk*	6.44	1.96	Yes	No	Construction
14.	Bank Pembangunan	6.00	1.83	No	No	Finance
15.	RHB Bank	5.60	1.71	No	No	Finance
16.	Cagamas MBS	5.38	1.64	Yes	No	Finance
17.	Malakoff Power	5.38	1.64	No	No	Energy, Gas, and Water
18.	Turus Pesawat	5.31	1.62	Yes	No	Quasi-Government
19.	1Malaysia Development	5.00	1.52	Yes	No	Quasi-Government
20.	Celcom Transmission	5.00	1.52	No	No	Transport, Storage, and Communications
21.	Hong Leong Bank	4.95	1.51	No	Yes	Finance
22.	Manjung Island Energy	4.85	1.48	No	No	Energy, Gas, and Water
23.	Rantau Abang	4.80	1.46	Yes	No	Quasi-Government
24.	AM Bank	4.54	1.38	No	No	Finance
25.	KL International Airport	4.36	1.33	Yes	No	Transport, Storage, and Communications
26.	Putrajaya Holdings	4.13	1.26	No	No	Property and Real Estate
27.	Tanjung Bin Power	4.05	1.23	No	Yes	Energy, Gas, and Water
28.	YTL Power International	3.77	1.15	No	Yes	Energy, Gas, and Water
29.	Jimah Energy Ventures	3.71	1.13	No	No	Energy, Gas, and Water
30.	TNB Western Energy	3.66	1.11	No	No	Construction
Total Top 30 LCY Corporate Issuers		**249.20**	**75.96**			
Total LCY Corporate Bonds		**446.37**	**136.07**			
Top 30 as % of Total LCY Corporate Bonds		**55.8%**	**55.8%**			

LCY = local currency.
Notes:
1. Data as of end-September 2014.
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.

the largest holder among this group and strengthened their position in Government Investment Issues by MYR6.3 billion from end-March levels.

Holdings of foreign investors were slightly down from a share of 32.3% a year earlier to 32.0% at end-June, but higher compared with 30.8% in the previous quarter. Foreign investors increased their holdings of Malaysian Government Securities by MYR5.4 billion from the previous quarter.

Social security institutions dropped to the third-largest holder of LCY government bonds at end-June from the top spot a year earlier. The holdings of social security institutions fell to a share of 27.3% of the total market, down from 33.0% at end-June 2013 and 29.4% at end-March 2014, as a result of divestments made by the Employees Provident Fund.

Policy, Institutional, and Regulatory Developments

Prime Minister Announces 2015 Federal Budget

On 10 October, Malaysia announced the release of its 2015 federal budget. The 2015 budget allocates MYR273.9 billion, an increase of MYR9.8 billion from the 2014 initial allocation. The government stated that the economy is expected to grow between 5% and 6% in 2015, and the government's fiscal deficit will be reduced to 3% of GDP. The government also announced planned amendments to tax rates in 2015, including a reduction in income taxes by 1%–3%, implementation of the GST of 6%, and abolition of the sales and services tax. Furthermore, the corporate income tax and small and medium-sized income tax will be reduced 1% each in 2016. To strengthen the Islamic financial market, the government plans to introduce the Investment Account Platform, a *shari'a*-compliant investment product that will allow investors to finance businesses, small and medium-sized enterprises, and other entities via the Islamic financial market. The Investment Account Platform will have an initial start-up fund of MYR150 million. The government also announced plans of further rationalization of its current subsidies. A report by the Ministry of Finance indicated a reduction in subsidies to MYR37.7 billion in 2015 from MYR40.6 billion in 2014.

Philippines

Yield Movements

Between end-June and end-September, yields rose for most tenors of Philippine local currency (LCY) bonds **(Figure 1)**. Yields for the 3-month and 6-month tenors rose 35 basis points (bps) and 45 bps, respectively. Yields for bonds with tenors of between 5 years and 10 years rose 27 bps–50 bps. Meanwhile, yields for the 20-year and 25-year tenors fell 7 bps and 11 bps, respectively. The rise in yields was a result of inflationary concerns amid speculation over continued monetary tightening by the Bangko Sentral ng Pilipinas (BSP).

On 31 July, the BSP raised its key policy rates 25 bps each, bringing the overnight borrowing rate to 3.75% and the overnight lending rate to 5.75%. On 11 September, the BSP decided to raise by an additional 25 bps the (i) overnight borrowing rate to 4.0%; (ii) the overnight lending rate to 6.0%; and (iii) interest rates on term reverse repurchases, repurchases, and the special deposit account facility. Reserve requirement ratios were left unchanged. According to the BSP, it raised rates because its 2015 inflation target of 3.0±1% was at risk due to rising food prices and a potential upward adjustment to utility prices.

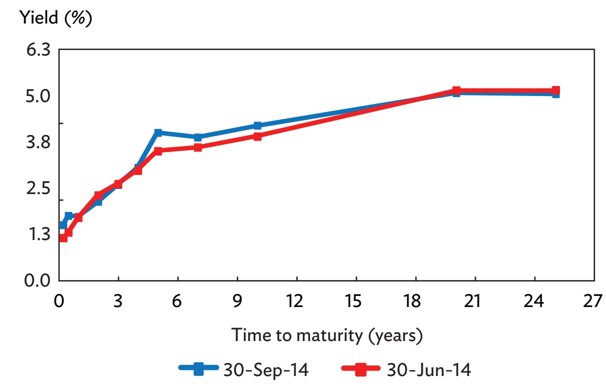
Inflation remained elevated in 3Q14, accelerating to 4.9% year-on-year (y-o-y) in July from 4.4% in June. Inflation remained steady at 4.9% in August before slowing to 4.4% again in September. Average inflation for the first 9 months of the year was 4.4%, which is at the upper-end of the BSP's 2014 target range of 4.0±1%.

The Philippines' real gross domestic product (GDP) growth accelerated to 6.4% y-o-y in 2Q14, following 5.6% growth in 1Q14. However, this was down from the 7.9% growth posted in the same period last year. Growth in 2Q14 was mainly driven by the industrial and services sectors, which expanded 7.8% and 6.0% y-o-y, respectively. For the first half of 2014, real GDP grew 6.0% y-o-y.

Size and Composition

The Philippine LCY bond market grew 2.3% quarter-on-quarter (q-o-q) in 3Q14, led by Treasury and corporate bonds, to reach PHP4,595 billion (US$102 billion) at end-September **(Table 1)**. Government securities accounted for the majority of bonds outstanding, totaling PHP3,846 billion, while corporate bonds summed to PHP749 billion. On a y-o-y basis, the LCY bond market had grown 6.7% as of end-September.

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



LCY = local currency.
Source: Bloomberg LP.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies slightly increased 0.7% q-o-q and 2.2% y-o-y to close at PHP3,846 billion at end-September. Treasury bills decreased 1.2% q-o-q and 8.0% y-o-y to stand at PHP285 billion at end-September. The Bureau of the Treasury (BTr) rejected some of its Treasury bill auctions as the market continued to seek higher yields amid rising inflationary concerns and policy rate hikes.

Treasury bonds increased 0.9% q-o-q and 3.2% y-o-y to PHP3,445 billion. In August, BTr conducted another bond exchange program as part of its domestic liability management exercise. The total issue size of PHP140 billion included PHP122 billion worth of exchange offers from existing bondholders. The resulting increase from this program and from bond auctions was capped, given that PHP55 billion worth of retail Treasury bonds also matured in 3Q14. Meanwhile, fixed-income instruments issued by government-controlled companies remained unchanged in 3Q14 at PHP116 billion.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,307**	**99**	**4,492**	**103**	**4,595**	**102**	**4.3**	**13.3**	**2.3**	**6.7**
Government	3,763	87	3,819	87	3,846	86	4.9	14.5	0.7	2.2
Treasury Bills	310	7	288	7	285	6	0.6	18.4	(1.2)	(8.0)
Treasury Bonds	3,339	77	3,415	78	3,445	77	5.5	15.2	0.9	3.2
Others	113	3	116	3	116	3	0.0	(8.8)	0.0	2.1
Corporate	544	13	673	15	749	17	0.6	5.8	11.3	37.6

( ) = 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 end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management (PSALM) and the National Food Authority, among others.
5. Peso Global Bonds (PHP-denominated bonds payable in US dollars) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-September 2014, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively. There was a total of PHP6.2 billion of outstanding multi-currency Treasury Bonds as of end-September 2014.

Sources: Bloomberg LP and Bureau of the Treasury.

In terms of issuance, 3Q14 saw higher volume at PHP257 billion compared with PHP177 billion in 2Q14, primarily due to the PHP140.4 billion bond swap held in August. The government has programmed LCY borrowing of PHP135 billion through its regular auction schedule in 4Q14: PHP60 billion of Treasury bills with 91-, 182-, and 364-day tenors; and PHP75 billion of Treasury bonds with 3-, 5-, and 7-year tenors.

Corporate Bonds. Total outstanding LCY corporate bonds increased 11.3% q-o-q and 37.6% y-o-y to reach PHP749 billion. Total corporate bond issuance in 3Q14 stood at PHP66.2 billion. Seven companies issued bonds and Tier 2 notes. SM Prime Holdings was the largest issuer in 3Q14, raising PHP20 billion worth of bonds, GT Capital was second with PHP12 billion, followed by Aboitiz Power and Security Bank with PHP10 billion each **(Table 2)**.

There were 53 companies that had outstanding stock of bonds as of end-September. The top 31 issuers accounted for 87.9% of the total amount of LCY corporate bonds outstanding at end-September **(Table 3)**. Out of the top 31 bond issuers, only eight companies were privately held corporations and the rest were publicly listed with the Philippine Stock Exchange (PSE). Ayala Land remained the largest corporate issuer in the country with PHP57.9 billion of outstanding debt at end-September. SM Investments was the next largest borrower with PHP41.9 billion outstanding. Ayala Corporation was in the third spot with PHP40.0 billion of outstanding bonds.

The diversity of LCY corporate bond issuers in 3Q14 was comparable with that in 3Q13 **(Figure 2)**. Banks and financial services, including investment houses, remained the leading issuers of debt in 3Q14 with 26.3% of the total, down from a share of 27.2% in 3Q13. The market share of most industries remained relatively unchanged, except for real estate, which increased to 21.4% from 17.9%; holding companies, which increased to 20.6% from 18.6%; and brewery and alcoholic beverages, which decreased to 5.8% from 9.5%. Firms from industries as diverse as electricity generation and distribution,

Table 2: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
SM Prime Holdings		
5.5-year bond	5.10	15.04
7-year bond	5.20	2.36
10-year bond	5.74	2.60
GT Capital Holdings		
5-year bond	4.71	3.00
7-year bond	5.20	5.00
10-year bond	5.63	4.00
Aboitiz Power		
7-year bond	5.21	6.60
12-year bond	6.10	3.40
Security Bank		
10-year Tier 2 note	5.38	10.00
Metrobank		
10-year Tier 2 note	5.25	6.50
East West Bank		
10-year Tier 2 note	5.50	5.00
Century Properties		
3-year bond	6.00	1.19
5.5-year bond	6.69	1.39
7-year bond	6.98	0.12

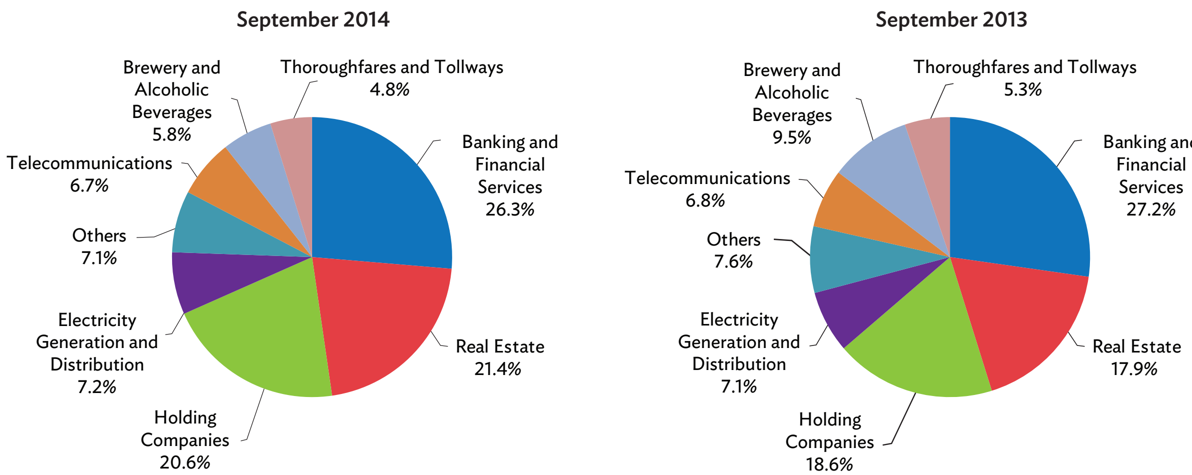
LCY = local currency.
Source: Bloomberg LP.

Table 3: Top 31 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.	Ayala Land	57.9	1.3	No	Yes	Real Estate
2.	SM Investments	41.9	1.0	No	Yes	Diversified Operations
3.	Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4.	JG Summit Holdings	39.0	0.9	No	Yes	Diversified Operations
5.	San Miguel Brewery	37.8	0.9	No	No	Brewery
6.	Metrobank	32.5	0.7	No	Yes	Banking
7.	Philippine Long Distance Telephone	29.8	0.7	No	Yes	Telecommunications
8.	Philippine National Bank	27.6	0.6	No	Yes	Banking
9.	RCBC	25.0	0.6	No	Yes	Banking
10.	SM Prime Holdings	25.0	0.6	No	Yes	Real Estate
11.	Meralco	23.5	0.5	No	Yes	Electricity Distribution
12.	Security Bank	23.0	0.5	No	Yes	Banking
13.	GT Capital Holdings	22.0	0.5	No	Yes	Investment Companies
14.	Filinvest Land	21.5	0.5	No	Yes	Real Estate
15.	BDO Unibank	20.0	0.5	No	Yes	Banking
16.	Energy Development Corporation	19.0	0.4	No	Yes	Electricity Generation
17.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
18.	Maynilad Water Services	16.5	0.4	No	No	Water
19.	MCE Leisure	15.0	0.3	No	No	Casino Services
20.	SM Development	14.3	0.3	No	Yes	Real Estate
21.	Manila North Tollways	13.0	0.3	No	No	Transport Services
22.	First Metro Investment	12.0	0.3	No	No	Investment Banking
23.	MTD Manila Expressway	11.5	0.3	No	No	Transport Services
24.	South Luzon Tollway	11.0	0.3	No	No	Transport Services
25.	Aboitiz Power	10.5	0.2	No	Yes	Electricity Generation
26.	United Coconut Planters Bank	9.5	0.2	No	No	Banking
27.	East West Bank	9.3	0.2	No	Yes	Banking
28.	Filinvest Development	8.8	0.2	No	Yes	Real Estate
29.	Petron	8.4	0.2	No	Yes	Oil Refining and Marketing
30.	Allied Bank	8.0	0.2	No	Yes	Banking
31	Aboitiz Equity Ventures	8.0	0.2	No	Yes	Diversified Operations
Total Top 31 LCY Corporate Issuers		**658.5**	**15.1**			
Total LCY Corporate Bonds		**749.1**	**17.2**			
Top 31 as % of Total LCY Corporate Bonds		**87.9%**	**87.9%**			

LCY = local currency.
Notes:
1. Data as of end-September 2014.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that were 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.

Figure 2: LCY Corporate Bond Issuers by Industry



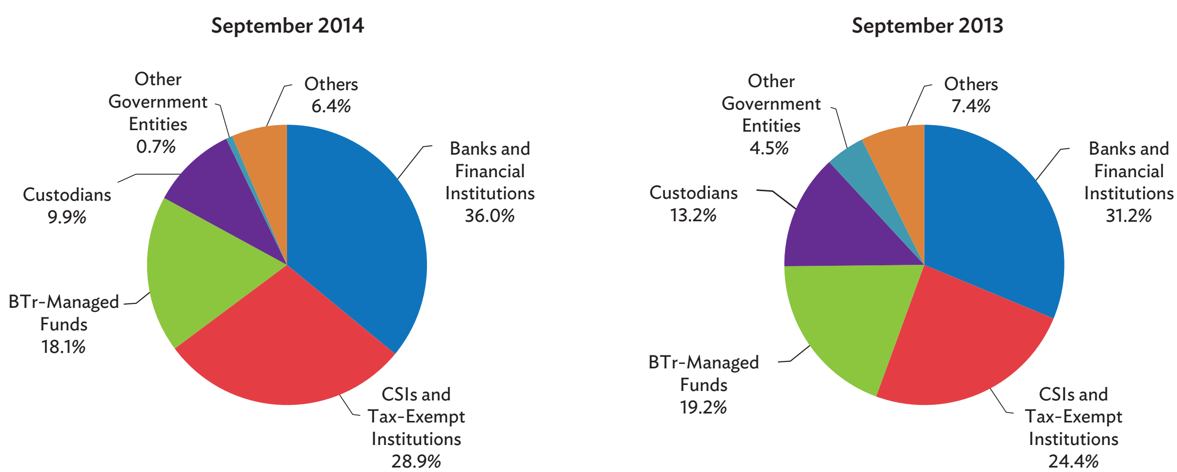
LCY = local currency.
Source: Bloomberg LP.

telecommunications, and thoroughfares and tollways continued to have shares of total corporate bonds outstanding in the single-digit levels.

Investor Profile

The largest grouping of investors in government securities in 3Q14 comprised banks and financial institutions with a 36.0% share of the total **(Figure 3)**, this was up from a 31.2% share in 3Q13. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and life insurance companies—and tax-exempt institutions—such as trusts and other tax-exempt entities—accounted for 28.9% of the total in 3Q14, up from 24.4% in 3Q13. The shares of funds being managed by BTr, including the Bond Sinking Funds, and custodians fell slightly to 18.1% in 3Q14 from 19.2% in 3Q13. The participation of custodians also decreased to 9.9% from 13.2%. The share of other government entities and

Figure 3: LCY Government Bonds Investor Profile



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

other investors, which include individuals and private corporations, also decreased to 7.1% in 3Q14 from 11.9% in 3Q13.

Policy, Institutional, and Regulatory Developments

BTr Issues Circular for LCY Government Securities Secondary Market

On 22 September, BTr issued a circular on the Revised Rules and Regulations for the Issuance, Placement, Sale, Service, and Redemption of Treasury Bills and Bonds under Republic Act No. 245 (as amended). The circular provides guidance on the implementation of non-restricted trading across tax categories in the secondary market for Philippine LCY coupon-bearing government securities, with the intention of deepening liquidity in the bond market and providing additional investment avenues for tax-exempt institutions and individuals. The circular also covered the tax-tracking mechanisms and operating guidelines to be used in the trading and settlement of the bonds. These include the establishment and opening of a Securities Account for Tax Tracking (SATT), the monitoring of the balances in the SATT, the assignment of an Investor Code associated with the SATT, and the reimbursement of any final withholding tax—to be calculated by a tax-tracking facility—that may have been deducted from the proceeds of the tax exempt holder or seller. The circular is targeted to take effect on 27 October.

Bank of Japan and BSP Sign Third Bilateral Swap Arrangement

On 17 October, the Bank of Japan and the Bangko Sentral ng Pilipinas signed their third Bilateral Swap Arrangement, which is an expansion of a prior agreement. The new arrangement allows a swap between US dollars and Philippine pesos of up to US$12 billion from Japan, and allows the swap between US dollars and Japanese yen of up to US$500 million from the Philippines. The arrangement also includes a crisis prevention scheme to address possible liquidity needs.

BSP Increases Minimum Capital Requirement for Banks

On 20 October, the Monetary Board of the BSP decided to increase the minimum capital requirement for all bank categories to further strengthen the banking system. The BSP noted that this is different from the Basel III requirements as implemented by previous BSP circulars. The new minimum capital requirement for universal and commercial banks will be tiered based on a bank's network size, as measured by the number of branches. For thrift, rural, and cooperative banks, the head office location and size of the physical network are to be considered in the tiering. Banks that will not immediately comply with the new capital requirement may avail of a 5-year transition period. These banks will be required to submit an acceptable capital build-up program. The banks that fail to submit an acceptable program and those that fail to comply with the new capital requirements shall be subject to restrictions on future expansion plans.

Singapore

Yield Movements

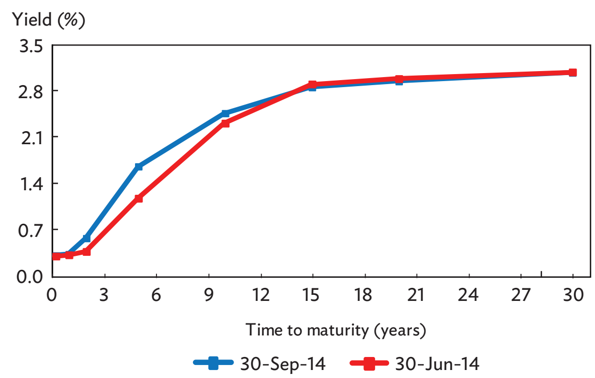
Local currency (LCY) government bond yields in Singapore rose for most tenors from the short-end of the curve through the 10-year tenor between end-June and end-September **(Figure 1)**. Bond yields rose the most for the 5-year maturity, gaining 48 basis points (bps). On the other hand, bond yields with maturities of 15 years or more shed between 1 bp and 5 bps. The yield spread between the 2- and 10-year tenors narrowed to 188 bps at end-September from 193 bps at end-June.

Inflation has remained benign thus far in 2014. Consumer price inflation eased to 1.2% year-on-year (y-o-y) in July and further slowed to 0.9% in August and 0.6% in September. The Monetary Authority of Singapore (MAS) expects inflation to remain subdued and has revised downward its 2014 headline inflation forecast to a range of 1.0%–1.5%.

In its monetary policy decision held on 14 October, MAS decided to maintain its existing policy of a slow and gradual appreciation of the Singapore Dollar Nominal Effective Exchange Rate ($NEER). MAS will make no change to either the slope, width, or level at which the exchange rate is centered. MAS cited its forecast of moderate growth in the economy for the remainder of 2014 and in 2015. MAS expects that growth in Singapore's economy will be driven by a recovery in external markets, though tempered by supply-side pressures. MAS sees overall inflation moderating but core inflation is expected to be under pressure due to higher imported food prices and little slack in labor markets.

Advanced estimates released by the Ministry of Trade and Industry indicated Singapore's economy expanded 2.4% y-o-y in 3Q14, the same pace of growth as in 2Q14. The manufacturing and construction sectors both recorded 1.4% y-o-y growth rates in 3Q14, slower compared with the earlier quarter. On the other hand, the output of services-producing industries rose 2.9% y-o-y. On a quarter-on-quarter (q-o-q) and seasonally adjusted annualized basis, gross domestic product (GDP) stood at 1.2% after contracting 0.1% in 2Q14.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The outstanding size of LCY bonds in Singapore increased to SGD322 billion (US$252 billion) at end-September on growth of 4.7% q-o-q and 6.1% y-o-y **(Table 1)**.

Government Bonds. LCY government bonds recorded modest growth of 2.8% q-o-q and 4.2% y-o-y to reach SGD195 billion at end-September. Growth mostly came from increases in the stock of MAS bills, which are a tool of MAS money market operations. The stock of MAS bills rose 4.8% q-o-q and 58.5% y-o-y to SGD94 billion. In 3Q14, new issuance of MAS bills totaled SGD97 billion, up 2.8% q-o-q and 27.1% y-o-y.

In 3Q14, the outstanding size of Singapore Governments Securities (SGS) bills and bonds, which account for 52% of total government bonds, was up 1.0% q-o-q but declined 20.9% y-o-y to SGD101 billion. New issuance of SGS bonds fell 26.9% q-o-q and 66.5% y-o-y in 3Q14. There was no SGS bill issuance during the quarter under review.

Corporate Bonds. Based on *AsianBondsOnline* estimates, the outstanding size of LCY corporate bonds in Singapore stood at SGD127 billion at end-September. This translates to growth of 7.8% q-o-q and 9.3% y-o-y.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**303**	**241**	**307**	**247**	**322**	**252**	**0.6**	**9.9**	**4.7**	**6.1**
Government	187	149	189	152	195	153	(0.3)	9.4	2.8	4.2
SGS Bills and Bonds	128	102	100	80	101	79	(7.2)	(11.1)	1.0	(20.9)
MAS Bills	59	47	89	72	94	73	19.0	119.3	4.8	58.5
Corporate	116	93	118	95	127	100	2.2	10.7	7.8	9.3

( ) = 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 SGS 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: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

At end-September, the outstanding bonds of the top 31 LCY corporate bond issuers in Singapore reached SGD67 billion, accounting for 52.7% of total outstanding LCY corporate bonds **(Table 2)**.

The largest bond issuer in Singapore is the state-owned Housing and Development Board with outstanding bonds amounting to SGD20.3 billion at end-September. Taking the second spot was real estate firm Capitaland with outstanding bonds valued at SGD5.3 billion. United Overseas Bank was the third-largest issuer with outstanding bonds amounting to SGD4.1 billion.

The top 31 corporate bond issuers consisted of diverse sectors including, financial, real estate, utilities, transportation, telecommunications, industrial, and consumer. There were only three state-owned firms on the list, all of which were ranked in the top 10.

In 3Q14, new corporate bond issuance totaled SGD5.7 billion, rising a notable 32.0% q-o-q and 35.4% y-o-y. A total of 24 new bond series were issued in 3Q14 by 22 corporate firms. Ten bond series carried maturities of 2–4 years, while eight had maturities of 5–7 years. Three new bond series had maturities of 10 years, one of 15 years, and two were perpetual maturity bonds. **Table 3** lists some of the largest corporate bond issues during the quarter.

Policy, Institutional, and Regulatory Developments

ASEAN CIS Framework Launched

On 25 August, MAS, Securities Commission for Malaysia, and Securities and Exchange Commission (Thailand) jointly launched the Association of Southeast Asian Nations (ASEAN) Collective Investment Scheme (CIS) Framework to facilitate cross-border offers of CIS to retail investors. The ASEAN CIS Framework allows fund managers based in Singapore, Malaysia, and Thailand to offer CIS products to retail investors in all three markets under a streamlined authorization process.

Table 2: Top 31 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	20.3	15.9	Yes	No	Financial
2.	Capitaland	5.3	4.1	No	Yes	Real Estate
3.	United Overseas Bank	4.1	3.2	No	Yes	Financial
4.	Temasek Financial I	3.6	2.8	No	No	Financial
5.	DBS Bank	3.3	2.6	No	Yes	Financial
6.	SP PowerAssets	2.4	1.9	No	No	Utilities
7.	Public Utilities Board	2.1	1.6	Yes	No	Utilities
8.	GLL IHT	1.8	1.4	No	No	Real Estate
9.	Land Transport Authority	1.8	1.4	Yes	No	Industrial
10.	City Developments	1.6	1.3	No	Yes	Consumer
11.	Keppel	1.5	1.2	No	Yes	Industrial
12.	Olam International	1.4	1.1	No	Yes	Consumer
13.	Hyflux	1.4	1.1	No	Yes	Industrial
14.	Singapore Airlines	1.3	1.0	No	No	Transportation
15.	Neptune Orient Lines	1.3	1.0	No	Yes	Transportation
16.	CapitaLand Treasury	1.2	1.0	No	No	Real Estate
17.	Keppel Land	1.1	0.9	No	Yes	Real Estate
18.	CapitaMalls Asia Treasury	1.0	0.8	No	No	Real Estate
19.	Oversea-Chinese Banking Corp.	1.0	0.8	No	Yes	Financial
20.	PSA	1.0	0.8	No	No	Consumer
21.	Mapletree Treasury Services	1.0	0.8	No	No	Financial
22.	CMT MTN	0.9	0.7	No	No	Financial
23.	Singtel Group Treasury	0.9	0.7	No	No	Telecommunications
24.	DBS Group Holdings	0.8	0.6	No	Yes	Financial
25.	Temasek Financial III	0.8	0.6	No	No	Financial
26.	Global Logistic Properties	0.8	0.6	No	Yes	Real Estate
27.	FCL Treasury	0.7	0.6	No	No	Real Estate
28.	Joynote	0.7	0.6	No	No	Real Estate
29.	Overseas Union Enterprise	0.7	0.5	No	Yes	Consumer
30.	Sembcorp Financial Services	0.7	0.5	No	No	Industrial
31.	SMRT Capital	0.7	0.5	No	No	Transportation
Total Top 31 LCY Corporate Issuers		**67.0**	**52.6**			
Total LCY Corporate Bonds		**127.1**	**99.6**			
Top 31 as % of Total LCY Corporate Bonds		**52.7%**	**52.7%**			

LCY = local currency.
Notes:
1. Data as of end-September 2014.
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 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
5-year bond	2.29	500
10-year bond	3.10	900
FCL Treasury		
Perpetual bond	4.88	600
Jurong Shipyard		
7-year bond	2.95	275
15-year bond	3.85	325
Capitaland Treasury		
10-year bond	3.80	500
Olam International		
5-year bond	4.25	400
Lend Lease REIT		
7-year bond	3.28	300
CMT MTN		
10-year bond	3.48	300
Pacific International		
3-year bond	5.90	300

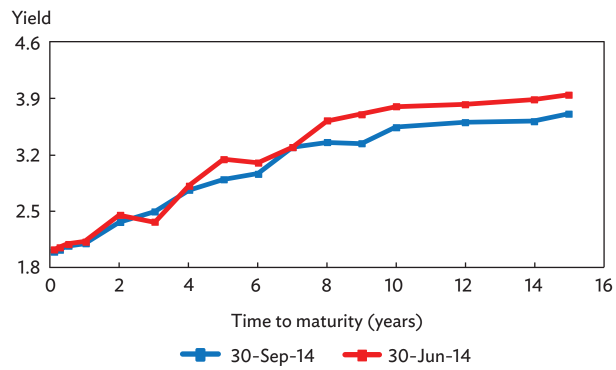
LCY = local currency.
Source: Bloomberg LP.

Thailand

Yield Movements

Local currency (LCY) government bond yields in Thailand fell for all tenors, except the 3-year and 7-year, between end-June and end-September, partly on the back of expectations that the policy rate would be kept low to support the country's economic recovery **(Figure 1)**. Meanwhile, the yield spread between the 2-year and 10-year tenors fell 17 basis points (bps) between end-June and end-September, resulting in a flattening of the yield curve.

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



LCY = local currency.
Source: Bloomberg LP.

On 5 November, the Bank of Thailand's (BOT) Monetary Policy Committee decided to maintain the policy rate at 2.00%, the fifth consecutive time that it was held unchanged by the committee. Consumer price inflation in Thailand continued to moderate, as the inflation rate (based on the Consumer Price Index) dropped to 1.5% year-on-year (y-o-y) in October from 1.8% in September. Real gross domestic product (GDP) in Thailand grew 0.4% y-o-y in 2Q14 after contracting 0.5% in 1Q14. The BOT reported in September that the Monetary Policy Committee's 2014 GDP growth projection remained unchanged from its previous forecast of 1.5%, while its 2014 inflation forecast was lowered to 2.2% from 2.6%.

Size and Composition

The stock of LCY bonds in Thailand stood at THB9.1 trillion at the end of 3Q14, down 0.4% from 2Q14, but up 2.3% from 3Q13 **(Table 1)**. The outstanding amount of LCY government bonds, which accounted for about three-fourths of the value of total LCY bonds, was down 1.5% on both a quarter-on-quarter (q-o-q) and y-o-y basis, amid a lower stock of central bank bonds. On the other hand, the LCY corporate bond market exhibited positive growth as the stock of corporate bonds climbed 3.4% q-o-q and 16.0% y-o-y to level off at THB2.2 trillion at end-September.

The top 30 corporate issuers had a combined stock of LCY corporate bonds amounting to THB1.3 trillion, which accounted for about 60% of the LCY corporate bond market at end-September **(Table 2)**. The five largest LCY corporate bonds issued in Thailand during

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**8,931**	**286**	**9,169**	**283**	**9,134**	**282**	**0.6**	**9.1**	**(0.4)**	**2.3**
Government	7,005	224	7,008	216	6,899	213	(0.02)	7.3	(1.5)	(1.5)
Government Bonds and Treasury Bills	3,371	108	3,425	106	3,454	106	4.3	12.8	0.8	2.5
Central Bank Bonds	2,920	93	2,824	87	2,700	83	(5.8)	(0.4)	(4.4)	(7.6)
State-Owned Enterprise and Other Bonds	713	23	759	23	746	23	5.5	17.6	(1.7)	4.6
Corporate	1,926	62	2,161	67	2,235	69	2.7	16.3	3.4	16.0

( ) = 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.
Source: Bank of Thailand.

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	191.9	5.9	Yes	Yes	Energy and Utilities
2.	The Siam Cement	146.5	4.5	Yes	Yes	Construction Materials
3.	CP All	130.0	4.0	No	Yes	Commerce
4.	Charoen Pokphand Foods	69.3	2.1	No	Yes	Food and Beverage
5.	Bank of Ayudhya	60.1	1.9	No	Yes	Banking
6.	Krung Thai Bank	47.2	1.5	Yes	Yes	Banking
7.	Thai Airways International	43.6	1.3	Yes	Yes	Transportation and Logistics
8.	Toyota Leasing Thailand	41.6	1.3	No	No	Finance and Securities
9.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
10.	True Corporation	39.0	1.2	No	Yes	Communications
11.	TMB Bank	38.7	1.2	No	Yes	Banking
12.	Thanachart Bank	37.9	1.2	No	No	Banking
13.	Mitr Phol Sugar	35.4	1.1	No	No	Food and Beverage
14.	Banpu	35.4	1.1	No	Yes	Energy and Utilities
15.	PTT Exploration and Production	32.1	1.0	Yes	Yes	Energy and Utilities
16.	Ayudhya Capital Auto Lease	30.2	0.9	No	No	Financial
17.	Kasikorn Bank	29.5	0.9	No	Yes	Banking
18.	Thai Oil	28.0	0.9	Yes	Yes	Energy and Utilities
19.	IRPC	27.6	0.9	Yes	Yes	Energy and Utilities
20.	Indorama Ventures	27.6	0.8	No	Yes	Petrochemicals and Chemicals
21.	Krung Thai Card	25.3	0.8	Yes	Yes	Finance and Securities
22.	Quality Houses	22.5	0.7	No	Yes	Property Development
23.	DAD SPV	22.5	0.7	Yes	No	Finance and Securities
24.	Kiatnakin Bank	21.9	0.7	No	Yes	Banking
25.	Bangkok Dusit Medical Services	21.1	0.7	No	Yes	Health Care
26.	ICBC Thai Leasing	20.4	0.6	No	No	Finance and Securities
27.	PTT Global Chemical	20.3	0.6	No	Yes	Petrochemicals and Chemicals
28.	Bangkok Bank	20.0	0.6	No	Yes	Banking
29.	Pruksa Real Estate	20.0	0.6	No	Yes	Property Development
30.	Bangkok Expressway	19.4	0.6	No	Yes	Transportation and Logistics
Total Top 30 LCY Corporate Issuers		**1,345.0**	**41.5**			
Total LCY Corporate Bonds		**2,235.0**	**68.9**			
Top 30 as % of Total LCY Corporate Bonds		**60.2%**	**60.2%**			

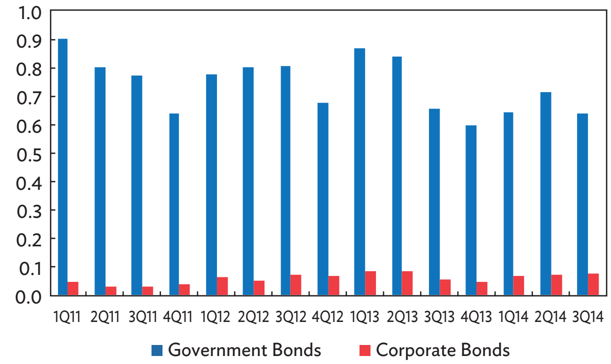
LCY = local currency.
Notes:
1. Data as of end-September 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
TMB Bank		
10-year bond	5.50	15.00
CP All		
10-year bond	5.05	10.44
Bangkok Dusit Medical Services		
5-year bond	1.85	10.00
PTT Global Chemical		
7-year bond	4.50	10.00
Toyota Leasing (Thailand)		
5-year bond	3.85	8.00

LCY = local currency.
Source: Bloomberg LP.

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



Sources: Bank of Thailand and ThaiBMA.

3Q14 were (i) TMB Bank's (Basel III-compliant) THB15 billion Tier 2 10-year bond carrying a 5.5% coupon, (ii) CP All's THB10.4 billion 10-year bond offering a 5.05% coupon, (iii) Bangkok Dusit Medical Services' THB10 billion 5-year zero-coupon convertible bond, (iv) PTT Global Chemical's THB10 billion 7-year bond carrying a 4.5% coupon, and (v) Toyota Leasing Thailand's THB8 billion 5-year bond offering a 3.85% coupon **(Table 3)**.

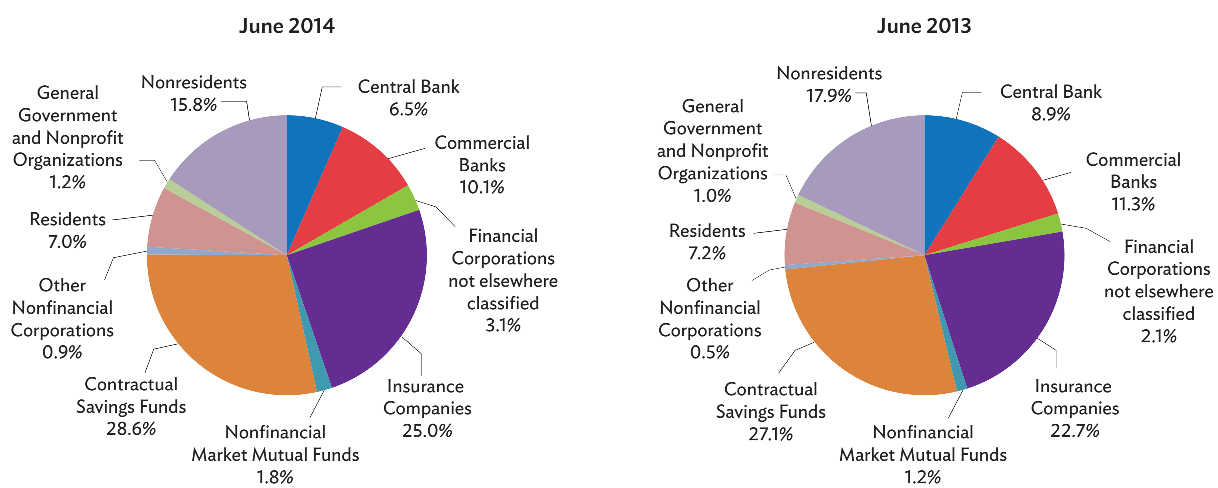
Liquidity

The turnover ratio for LCY government bonds fell to 0.64 in 3Q14 from 0.71 in 2Q14, while the turnover ratio for LCY corporate bonds remained steady at 0.07 **(Figure 2)**. The quarterly drop in the turnover ratio for LCY government bonds was brought about by a q-o-q decline in the trading value of government bonds, central bank bonds, and Treasury bills.

Investor Profile

As of end-June, contractual savings funds were the largest investor group in Thailand's LCY government bond market, with holdings accounting for 29% of the total LCY government bond market **(Figure 3)**. They were followed by insurers, which held 25% of the total.

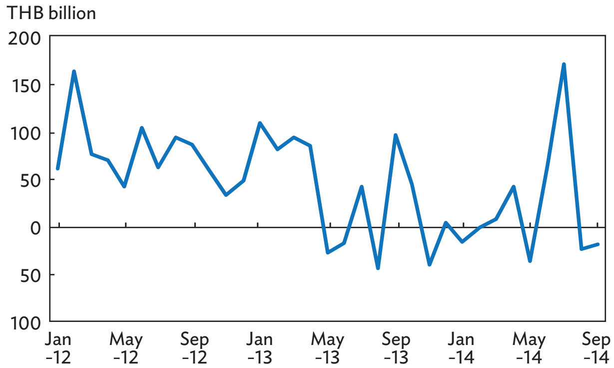
Figure 3: LCY Government Bonds Investor Profile



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

Foreign investors recorded net sales of Thai LCY bonds in September and August following relatively large net bond purchases in July **(Figure 4)**. However, on a q-o-q basis, foreign investor net bond purchases rose to THB128.1 billion in 3Q14 from THB69.3 billion in 2Q14 amid a positive economic outlook.

Figure 4: Foreign Investors' Net Purchases of LCY Bonds in Thailand



LCY = local currency.
Source: ThaiBMA.

Policy, Institutional, and Regulatory Developments

SEC Allows Commercial Banks to Offer Basel III-Compliant Tier 2 Instruments to Retail Investors

The Securities and Exchange Commission (SEC) announced in September that the Capital Market Supervisory Board has approved regulations to allow the offering of commercial banks' Basel III-compliant Tier 2 instruments to retail investors, with the regulations to take effect starting in 4Q14.

Revised Rules on Adequacy of Net Capital of Securities Companies

The SEC announced in September that the Capital Market Supervisory Board had approved the revision of rules governing securities firms that are unable to maintain adequate net capital as required. The revised rules took effect in October 2014.

Viet Nam

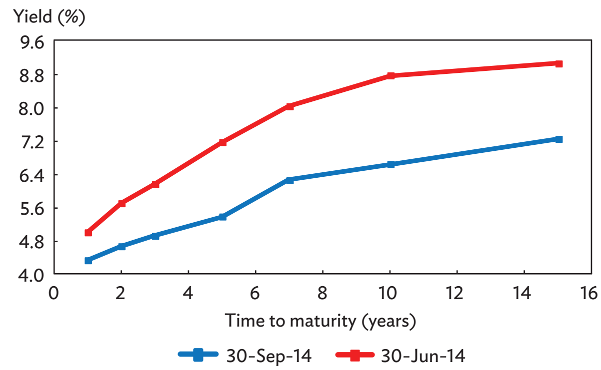
Yield Movements

Viet Nam's local currency (LCY) government bond yields fell sharply for all tenors between end-June and end-September, with declines ranging from 67 basis points (bps) to 212 bps **(Figure 1)**. The yield spread between 2-year and 10-year bonds tightened to 197 bps from 306 bps at end-June.

Quickening economic growth, benign inflation, and a credit rating upgrade from Moody's in July likely helped reduce Viet Nam's borrowing costs. Real gross domestic product (GDP) growth accelerated to 6.2% year-on-year (y-o-y) in 3Q14 from revised growth of 5.4% in 2Q14. For the first 3 quarters of 2014, the country's GDP growth stood at 5.6% on an annualized basis, up from 5.2% in the first 2 quarters of the year, driven by the services sector as well as the industrial and construction sectors. Meanwhile, inflation remained benign, easing to 3.6% y-o-y in September—the slowest pace since October 2009—from 4.3% in August. Price increases for food and foodstuffs (4.5%), housing and construction materials (3.1%), and transport (0.5%) moderated compared with the previous month.

Indications of a possible upgrade from Fitch Ratings may have added to Viet Nam's positive momentum. In September, Fitch commented that it may raise Viet Nam's rating in the next 12–18 months to BB–, three levels below investment grade, from B+ on stronger external finances.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Total LCY bonds outstanding in Viet Nam continued to grow on both a quarterly and an annual basis in 3Q14 to reach VND802.8 trillion (US$38 billion), driven by expansion in the government sector **(Table 1)**.

Government Bonds. LCY government bonds outstanding rose to VND791.0 trillion (US$37 billion) at end-September, up 1.9% quarter-on-quarter (q-o-q) and 54.5% y-o-y.

Government issuance amounted to VND229 trillion in 3Q14, with issuance from the State Bank of Viet Nam

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**527,304**	**25**	**788,313**	**37**	**802,796**	**38**	**(8.8)**	**18.8**	**1.8**	**52.2**
Government	511,945	24	775,943	36	790,976	37	(8.7)	24.8	1.9	54.5
Treasury Bonds	267,800	13	412,263	19	408,560	19	(17.4)	22.4	(0.9)	52.6
Central Bank Bills	46,405	2	153,926	7	173,038	8	6.5	110.3	12.4	272.9
State-Owned Enterprise Bonds	197,741	9	209,754	10	209,377	10	2.3	16.7	(0.2)	5.9
Corporate	15,359	1	12,370	0.6	11,820	0.6	(10.0)	(54.1)	(4.4)	(23.0)

( ) = negative, 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.

Table 2: Corporate 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.	Techcom Bank	3,000.00	0.14	No	No	Finance
2.	Asia Commercial Joint Stock	3,000.00	0.14	No	Yes	Finance
3.	HAGL JSC	2,480.00	0.12	No	Yes	Real Estate
4.	Vincom	1,000.00	0.05	No	Yes	Real Estate
5.	Vinpearl	1,000.00	0.05	No	Yes	Resorts and Theme Parks
6.	Kinh Bac City Development	500.00	0.02	No	Yes	Real Estate
7.	Saigon Telecommunication	300.00	0.01	No	No	Computer Services
8.	Binh Chanh Construction	300.00	0.01	No	Yes	Building and Construction
9.	Tan Tao Investment	130.00	0.01	No	No	Real Estate
10.	Ho Chi Minh City Securities	110.00	0.01	No	No	Finance
Total LCY Corporate Issuers		**11,820.00**	**0.56**			

LCY = local currency.
Notes:
1. Data as of end-September 2014.
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.

comprising VND202 trillion, or close to 90% of the total issuance during the quarter.

Corporate Bonds. LCY corporate bonds stood at VND11.8 trillion (US$0.6 billion) at end-September. A total of 10 issuers comprised the entire corporate bond sector **(Table 2)**.

Policy, Institutional, and Regulatory Developments

Viet Nam Releases New FCY Rules for Vietnamese Nationals

On 17 July, the Government of Viet Nam issued Decree No. 70/2014/ND-CP allowing Vietnamese nationals to deposit foreign currency (FCY) in local banks and withdraw principal and interest in the currency deposited. The decree also allows resident and nonresident to buy, transfer, or carry FCY abroad without the need to show certification of fulfilment of tax obligations in Viet Nam. Residents with FCY-denominated incomes from exports or other income sources abroad may transfer them into their FCY-denominated accounts in licensed credit institutions in Viet Nam. On the other hand, if residents intend to retain such income abroad, they must first acquire permission from the SBV.

VSD Issues Rules on Securities Lending

On 6 September, the Viet Nam Securities Depository (VSD) released the list of securities to be used as collateral under its Decision No. 111/QD-VSD on securities lending regulations. This comprises 223 codes listed on Viet Nam's two national stock exchanges, including government bonds and government-guaranteed bonds listed on the Ha Noi Stock Exchange. The rate to be deducted from the prices of securities used as collateral was set at 5% for government and government-guaranteed bonds, 30% for securities in the VN30 and HNX30 packages, and 40% for all other bonds. Lending rates shall be based on the agreement between the borrower and lender, but should not exceed 120% of the rate regulated by the SBV.