Market Summaries

People's Republic of China

Yield Movements

From 1 September to 15 October, the local currency (LCY) government bond yield curve in the People's Republic of China (PRC) fell between 5 basis points (bps) and 31 bps for all tenors of 3 years or longer **(Figure 1)**. On the other hand, yields for the 1-year and 2-year tenors rose 9 bps and 13 bps, respectively. The 2-year versus 10-year yield spread fell to 38 bps from 82 bps as a result.

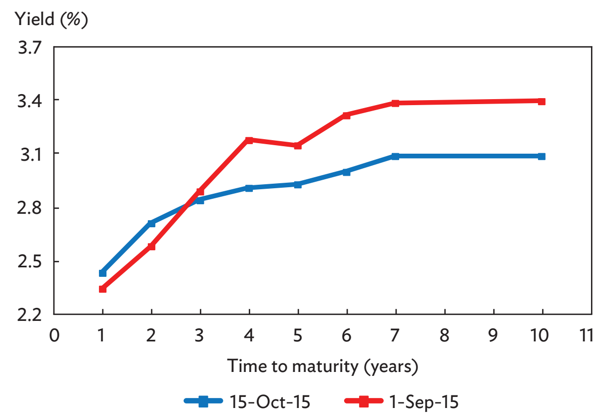
The PRC's yield curve shifted downward at the long-end due to weaker economic growth. Gross domestic product growth fell to 6.9% year-on-year (y-o-y) in 3Q15, compared with growth of 7.0% y-o-y in 2Q15 and 7.4% in full-year 2014. Profits among large industries fell 0.1% y-o-y in September. Investor sentiment has also been affected by the weakening economy, with the growth of private investment in fixed assets falling to 10.3% y-o-y in January–September from 10.9% in January–August.

External demand continues to remain weak. Exports fell 3.7% y-o-y in September after declining 5.5% y-o-y in August. Imports also remain weak, falling 20.4% y-o-y in September after dipping 13.8% y-o-y in August.

Continued weak demand has led the People's Bank of China (PBOC) to implement additional easing measures. In October, the PBOC reduced policy rates by 25 bps, taking the 1-year lending rate to 4.35% and the 1-year deposit rate to 1.50%. The PBOC has also sought to liberalize interest rates by removing the ceiling on deposit rates. In addition, the PBOC reduced the reserve requirement ratios of financial institutions by 50 bps to 17.5% for large banks (See Policy, Institutional, and Regulatory Developments at the end of this Market Summary for more details.)

In contrast to declining yields at the long-end of the curve, yields for the 1-year and 2-year tenors rose on tightened liquidity resulting from large issuances by local government seeking to refinance existing debt obligations.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The amount of outstanding LCY bonds in the PRC reached CNY37.4 trillion (US$5.9 trillion) at the end of September, an increase of 8.0% quarter-on-quarter (q-o-q) and 18.6% y-o-y, largely driven by growth in Treasury bonds and local corporate bonds **(Table 1)**.

Government Bonds. LCY government bonds outstanding grew 9.9% q-o-q and 20.6% y-o-y in 3Q15, driven by growth in Treasury bonds, which have grown rapidly in 2015 on account of the fundraising requirements of local governments. Local government bonds outstanding have risen 84.4% q-o-q in 3Q15, driven by refinancing requirements due to maturing debt. The weaker economy has negatively impacted revenue collection, putting additional strain on local government funding. Initiatives to increase debt transparency and ease the debt burden of local governments also contributed to rising issuance in 3Q15.

Last year, the central government barred local governments from raising debt through the use of

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

	Outstanding Amount (billion)						Growth Rates (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**31,578**	**5,143**	**34,666**	**5,590**	**37,444**	**5,891**	**3.7**	**13.4**	**8.0**	**18.6**
Government	20,354	3,315	22,344	3,603	24,547	3,862	3.7	12.3	9.9	20.6
Treasury Bonds	10,015	1,631	11,284	1,820	13,263	2,087	5.9	12.6	17.54	32.4
Central Bank Bonds	468	76	428	69	428	67	(4.3)	(17.0)	0.0	(8.5)
Policy Bank Bonds	9,870	1,608	10,632	1,715	10,855	1,708	2.0	14.0	2.1	10.0
Corporate	11,224	1,828	12,322	1,987	12,897	2,029	3.6	15.3	4.7	14.9
Policy Bank Bonds										
China Development Bank	6,240	1,016	6,538	1,054	6,610	1,040	0.4	9.9	1.1	5.9
Export–Import Bank of China	1,542	251	1,797	290	1,817	286	4.2	20.8	1.1	17.8
Agricultural Devt. Bank of China	2,088	340	2,297	370	2,429	382	5.6	22.6	5.7	16.3

( ) = 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*, *Wind*, and Bloomberg LP

state-owned corporations. This year, the PRC launched a local government debt swap program to exchange local government debt for local government bonds.

The amount of central bank bonds was steady on a q-o-q basis in 3Q15, but fell on a y-o-y basis, as the PBOC continued using other tools to manage liquidity such as reverse repurchases. The PBOC has not issued central bank bonds since December 2013.

Corporate Bonds. Corporate bonds outstanding grew 4.7% q-o-q and 14.9% y-o-y in 3Q15 to reach CNY12.9 trillion **(Table 2)**. The types of bonds with strong q-o-q growth rates were those issued by banks and insurance companies (6.4%), and commercial paper (13.0%). Medium-term notes outstanding rose 2.9% q-o-q due to maturing debt and accounted for the largest issuances in 3Q15 among longer-term corporate bonds.

The rise in bonds issued by commercial banks and insurance companies was due to a resurgence in the issuance of subordinated debt that started in 2Q15 and continued in 3Q15 **(Figure 2)**.

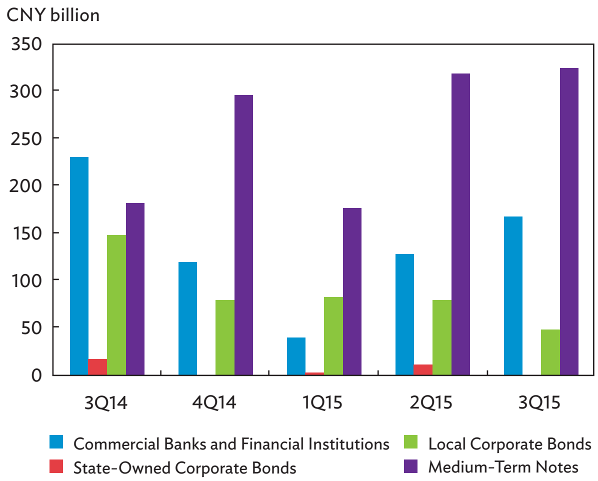
A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. At the end of 3Q15, the top 30 corporate bond issuers accounted for

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)				Growth Rate (%)				
					q-o-q				y-o-y
	4Q14	1Q15	2Q15	3Q15	4Q14	1Q15	2Q15	3Q15	3Q15
Commercial Bank Bonds and Tier 2 Notes	1,612	1,639	1,748	1,860	24.0	1.7	6.6	6.4	43.1
SOE Bonds	622	612	612	581	(3.9)	(1.5)	(0.1)	(5.0)	(10.2)
Local Corporate Bonds	2,306	2,377	2,456	2,492	41.9	3.1	3.3	1.5	53.3
Commercial Paper	1,738	1,866	2,038	2,302	18.0	7.3	9.2	13.0	56.3
Medium-Term Notes	4,179	4,227	4,342	4,470	12.3	1.2	2.7	2.9	20.1

( ) = 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* and *Wind*.

CNY5.1 trillion worth of corporate bonds outstanding, or about 40% of the market. The 10 largest issuers accounted for CNY3.4 trillion worth of bonds outstanding.

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 3Q15. Among the top 30 corporate issuers, 23 were state-owned. By industry, seven of the top 10 corporate issuers were banks, largely as a result of their capital-raising efforts this year.

Table 4 presents the most notable corporate bond issuances in 3Q15.

Investor Profile

Treasury Bonds and Policy Bank Bonds. Banks remained the investor category comprising the largest share of the PRC's Treasury bond market, which includes policy bank bonds, accounting for a slightly smaller share of the market at the end of September (73.3%) than in the same month a year earlier (76.2%) **(Figure 3)**.

Corporate Bonds. Banks were also the largest holders of corporate bonds at the end of 3Q15, albeit with a comparatively smaller share than their holdings of Treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 24.1% at the end of 3Q15 from 27.5% a year earlier **(Figure 4)**. The second largest holders of corporate bonds were funds institutions, with a 29.8% share at the end of September, up from a 22.8% share a year earlier.

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

Liquidity

Demand for liquidity increased in 3Q15, driven by local government bond issuances and stock market initial public offerings. As a result, the use of interest rate swaps also increased in 3Q15, with the total volume of swaps rising 16.3% q-o-q. The bulk of interest rate swaps involved the 7-day repurchase rate, which accounted for 92.6% of all volume traded **(Table 5)**.

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 caused by the June 2013 Shanghai Interbank Offered Rate shock and a crackdown on illegal bond trades. However, 3Q15 saw a massive uptick in the trading for government bonds due to a continued decline in interest rates as the economy slowed.

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	1,183.5	186.20	Yes	No	Transportation
2.	State Grid Corporation of China	429.1	67.51	Yes	No	Public Utilities
3.	China National Petroleum	350.0	55.07	Yes	No	Energy
4.	Bank of China	298.9	47.02	Yes	Yes	Banking
5.	Agricultural Bank of China	260.0	40.91	Yes	Yes	Banking
6.	Industrial and Commercial Bank of China	238.0	37.44	Yes	Yes	Banking
7.	China Construction Bank	188.0	29.58	Yes	Yes	Banking
8.	Shanghai Pudong Development Bank	139.2	21.90	No	Yes	Banking
9.	China Minsheng Bank	136.5	21.48	No	Yes	Banking
10.	Industrial Bank	136.0	21.40	No	Yes	Banking
11.	Petrochina	131.0	20.61	Yes	Yes	Energy
12.	State Power Investment	128.4	20.21	Yes	No	Energy
13.	Bank of Communications	119.0	18.72	No	Yes	Banking
14.	Central Huijin Investment	109.0	17.15	Yes	No	Diversified Financial
15.	Senhua Group	104.0	16.36	Yes	No	Energy
16.	China Citic Bank	103.5	16.28	No	Yes	Banking
17.	China Petroleum and Chemical	98.5	15.50	Yes	Yes	Energy
18.	China Everbright Bank	88.9	13.99	Yes	Yes	Banking
19.	China Three Gorges Project	81.5	12.82	Yes	No	Public Utilities
20.	China Southern Power Grid	80.0	12.59	Yes	No	Public Utilities
21.	China Merchants Bank	79.0	12.43	No	Yes	Banking
22.	Shaanxi Coal and Chemical Industry Group	74.0	11.64	Yes	No	Energy
23.	Beijing State-Owned Assets Operation & Management Center	72.5	11.41	Yes	No	Diversified Financial
24.	China Datang	71.2	11.20	Yes	No	Energy
25.	China Guodian	71.1	11.18	Yes	No	Public Utilities
26.	Haitong Securities	71.0	11.17	No	Yes	Financial Services
27.	China Life	68.0	10.70	Yes	Yes	Insurance
28.	China Huarong Asset Management	67.0	10.54	Yes	Yes	Asset Management
29.	China Cinda Asset Management	66.0	10.38	Yes	Yes	Asset Management
30.	Tianjin Infrastructure Investment Group	64.9	10.21	Yes	No	Capital Goods
Total Top 30 LCY Corporate Issuers		**5,107.63**	**803.59**			
Total LCY Corporate Bonds		**12,896.91**	**2,029.09**			
Top 30 as % of Total LCY Corporate Bonds		**39.6%**	**39.6%**			

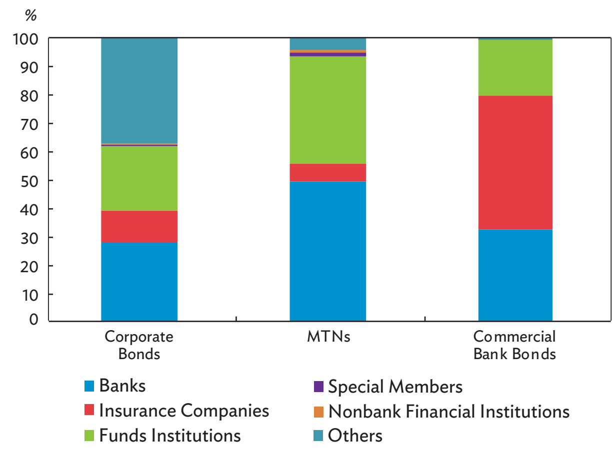
LCY = local currency.
Notes:
1. Data as of end-September 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 4: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Huarong Asset Management		
3-year bond	4.01	17.50
5-year bond	4.21	17.50
China Railway Corp.		
1-year bond	3.10	10.00
10-year bond	4.32	15.00
10-year bond	4.23	10.00
Shanghai Pudong Development Bank		
10-year bond	4.50	30.00
Central Huijin Investment		
3-year bond	3.32	13.00
5-year bond	3.55	13.00
Postal Savings Bank		
10-year bond	4.50	25.00
Dalian Wanda Commercial Properties		
5-year bond	4.60	10.00

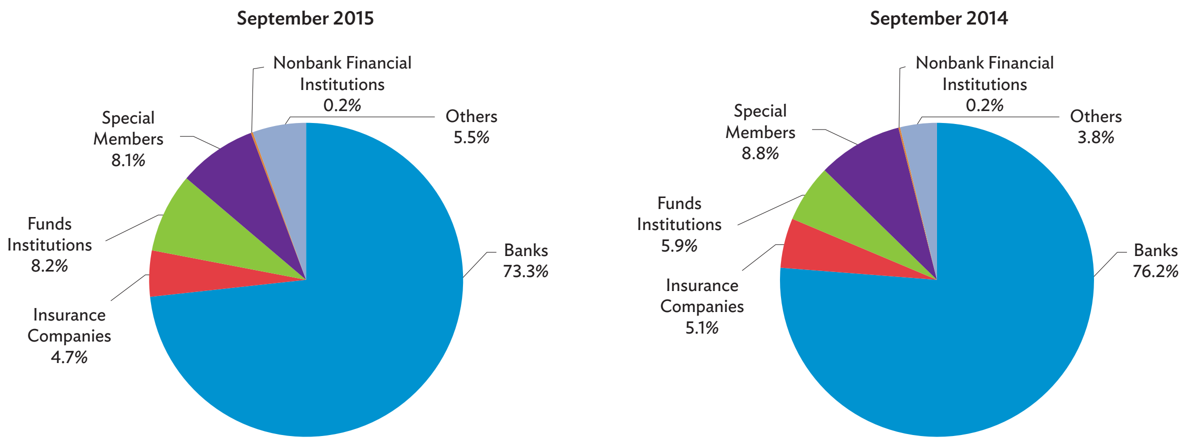
LCY = local currency.
Source: Bloomberg LP.

Figure 5: Investor Profile across Bond Categories



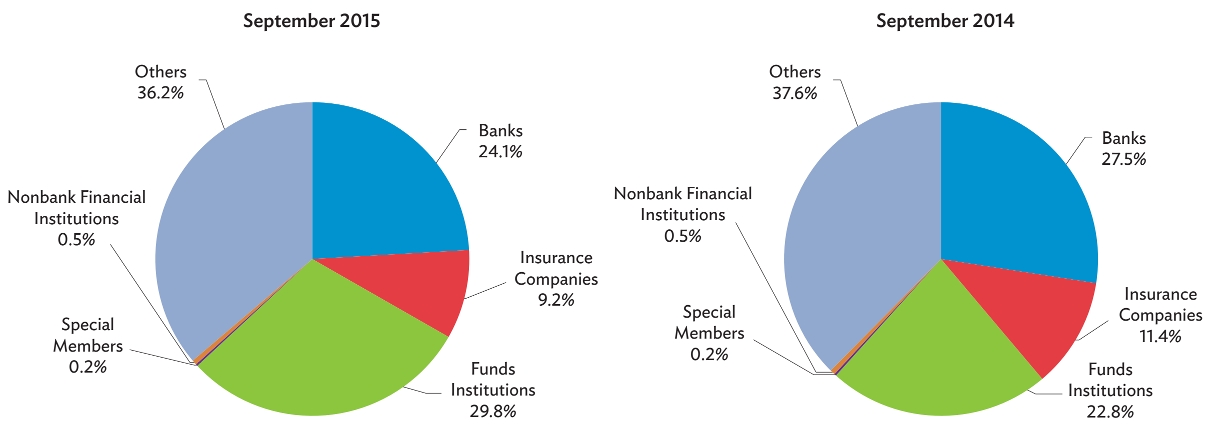
MTNs = medium-term notes.
Note: Data as of end-September 2015.
Source: *ChinaBond*.

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



LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



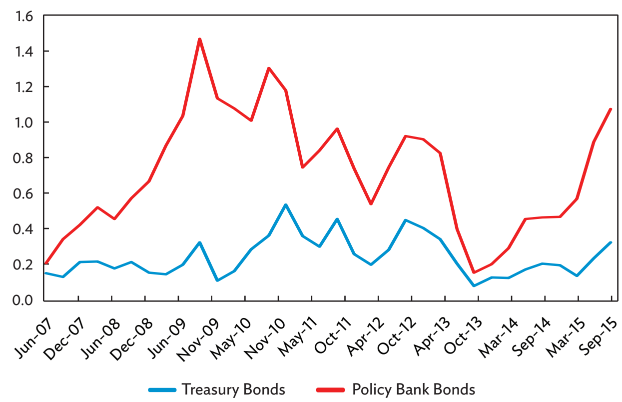
LCY = local currency.
Source: *ChinaBond*.

Table 5: Notional Values of the PRC's Interest Rate Swap Market in 3Q15

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%) q-o-q
7-Day Repo Rate	2,088.9	92.6	15,488	20.92
Overnight SHIBOR	38.9	1.7	57	(37.20)
3-Month SHIBOR	120.5	5.3	737	(11.75)
1-Year Term Deposit Rate	3.0	0.1	29	(40.34)
LIBOR	0.0	0.0	0	0.00
1-Year Lending Rate	4.3	0.2	6	(48.30)
LPR1Y	0.0	0.0	3	0.00
3-Year Lending Rate	0.0	0.0	0	0.00
5-Year Lending Rate	0.0	0.0	0	0.00
Total	**2,255.7**	**100.00**	**16,320**	**16.31**

( ) = negative, PRC = People's Republic of China, LIBOR = London Interbank Offered Rate, q-o-q = quarter-on-quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *ChinaMoney*.

Figure 6: Turnover Ratios for Government Bonds



Source: *ChinaBond*.

Policy, Institutional, and Regulatory Developments

Restrictions Eased on Overseas Funding

On 16 September, the National Development and Reform Commission eased restrictions on corporations seeking funding overseas. The new guidelines streamline the process by which corporations apply for a foreign currency loan and issue offshore renminbi bonds. The previous process required approval on a per deal basis, but the new regulations only require corporations to register with the National Development and Reform Commission.

PBOC Reduces Reserve Requirement Ratios

On 18 October, the PBOC lowered the reserve requirement ratios of financial institutions by 50 bps. For large banks, the changes resulted in a reserve requirement ratio of 17.5%, while for medium-sized banks the ratio was reduced to 15.5%. Select financial institutions involved in lending to the agricultural sector or to small and medium-sized enterprises will qualify for an additional reduction of 50 bps.

Hong Kong, China

Yield Movements

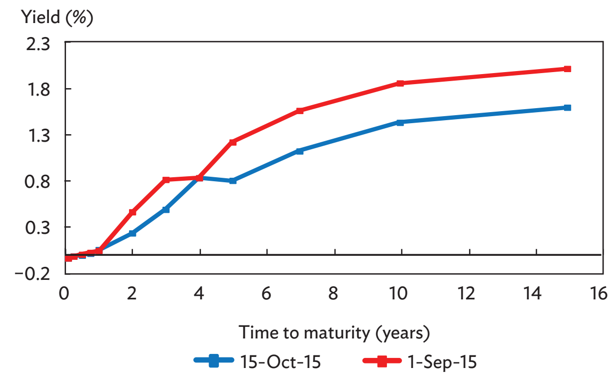
Hong Kong, China's yield curve movements between 1 September and 15 October mostly followed those of the United States (US) **(Figure 1)**. Yields fell for most tenors, particularly at the long-end of the curve, with yields from the 2-year tenor falling between 23 basis points (bps) and 44 bps, with the exception of the 4-year tenor, which remained unchanged. At the short-end, yields for the 6-month and 9-month tenor fell 1 bp each, while for tenors of 1 year it gained 1 bp.

The 2-year-versus-10-year spread fell to 119 bps on 15 October from 138 bps on 1 September.

Hong Kong, China's yield curve changes track those of the US due to Hong Kong, China's fixed exchange rate system. The US government bond yield curve fell for all tenors following the Federal Reserve's decision to hold interest rates during its September 17 meeting.

Yields were also partly dragged down by consumer prices as inflation remained subdued. Consumer price inflation slowed to 2.4% year-on-year (y-o-y) in August and fell further to 2.0% y-o-y in September. The government has indicated that it expects inflation to remain soft given low import prices and the lack of domestic price 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 1.3% quarter-on-quarter (q-o-q) and 2.4% y-o-y to reach HKD1,543 billion (US$199 billion) at the end of September **(Table 1)**. The q-o-q growth was mostly driven by increases in Exchange Fund Bills (EFBs) and Hong Kong Special Administrative Region (HKSAR) bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,507**	**194**	**1,523**	**196**	**1,543**	**199**	**0.9**	**0.7**	**1.3**	**2.4**
Government	856	110	846	109	876	113	0.8	2.2	3.6	2.4
Exchange Fund Bills	684	88	689	89	712	92	(0.1)	0.2	3.2	4.1
Exchange Fund Notes	68	9	64	8	62	8	0.9	0.0	(3.4)	(9.9)
HKSAR Bonds	104	13	93	12	103	13	6.7	19.0	11.4	(0.3)
Corporate	651	84	677	87	666	86	1.1	(1.1)	(1.6)	2.4

( ) = negative, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Hong Kong Monetary Authority and Bloomberg LP.

EFBs outstanding rose 3.2% q-o-q, due to increased issuance in 3Q15 by the Hong Kong Monetary Authority (HKMA) in order to siphon off excess liquidity as investors converted offshore renminbi assets to Hong Kong dollar assets following the depreciation of the renminbi in August.

Exchange Fund Notes (EFNs) continued to decline, falling 3.4% q-o-q and 9.9% y-o-y, as the HKMA sought to align the EFB and EFN markets with HKSAR bonds by replacing issuances of EFNs with tenors of 3 years or more with HKSAR bonds.

In 3Q15, the amount of HKSAR bonds rose 11.4% q-o-q due to a HKD10 billion issuance of 3-year bonds under the Retail Bond Issuance Programme.

The five largest nonbank issuances in 3Q15 came from Tencent Holdings (HKD1.0 billion), Swire Pacific (HKD0.8 billion), The Link Finance (Cayman 2009) (HKD0.5 billion), Swire Properties (HKD0.2 billion), and Hong Kong Mortgage Corporation (HKD0.1 billion) **(Table 2)**.

Total corporate bonds outstanding fell 1.6% q-o-q in 3Q15 amid a lack of LCY corporate bond issuances given a lack of funding needs this year.

The top 30 nonbank issuers in Hong Kong, China had outstanding bonds amounting to HKD123.5 billion at the end of September, representing 18.5% of total outstanding corporate bonds. The top 30 list was dominated by real estate firms **(Table 3)**. The Hong Kong Mortgage Corporation remained the top issuer in Hong Kong, China with outstanding bonds of HKD19.9 billion. Next was CLP Power Hong Kong Financing with HKD9.5 billion of bonds outstanding, followed by Sun Hung Kai Properties with HKD9.1 billion. Among the top 30, six were state-owned companies and 11 were Hong Kong Exchange-listed firms. Only one state-owned company, MTR Corporation, was listed on the Hong Kong Exchange.

Table 2: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Tencent Holdings		
3-year bond	2.30	1.00
Swire Pacific		
7-year bond	2.85	0.61
10-year bond	3.35	0.15
The Link Finance (Cayman) 2009		
7-year bond	2.67	0.53
Swire Properties		
10-year bond	3.10	0.20
The Hong Kong Mortgage Corporation		
3-year bond	1.25	0.12

LCY = local currency.
Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.

Policy, Institutional, and Regulatory Developments

Hong Kong, China Issues Fifth iBond Series

On 7 August, the Government of the Special Administrative Region of Hong Kong, China issued HKD10 billion worth of inflation-linked bonds (iBonds), marking the government's fifth issuance of iBonds. Total tenders reached HKD35.7 billion.

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 Corporation	19.87	2.56	Yes	No	Finance
2.	CLP Power Hong Kong Financing	9.46	1.22	No	No	Electric
3.	Sun Hung Kai Properties (Capital Market)	9.11	1.18	No	No	Real Estate
4.	The Link Finance (Cayman) 2009	7.32	0.94	No	No	Finance
5.	Wharf Finance	7.22	0.93	No	No	Diversified
6.	Swire Pacific	6.68	0.86	No	Yes	Diversified
7.	HKCG (Finance)	6.42	0.83	No	No	Gas
8.	MTR Corporation (C.I.)	5.75	0.74	Yes	Yes	Transportation
9.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
10.	Hongkong Electric Finance	4.51	0.58	No	No	Electric
11.	Wheelock Finance	4.04	0.52	No	No	Diversified
12.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
13.	Urban Renewal Authority	3.30	0.43	Yes	No	Real Estate
14.	Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
15.	Airport Authority Hong Kong	2.60	0.34	Yes	No	Transportation
16.	Yue Xiu Property	2.30	0.30	No	No	Real Estate
17.	CK Hutchison Holdings	2.21	0.28	No	Yes	Real Estate
18.	Swire Properties MTN Financing	2.20	0.28	No	No	Real Estate
19.	Tencent Holdings	2.20	0.28	No	Yes	Comunications
20.	Bohai International	2.00	0.26	No	No	Diversified
21.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
22.	Emperor International Holdings	1.95	0.25	No	Yes	Real Estate
23.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
24.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
25.	Cheung Kong Holdings	1.65	0.21	No	Yes	Real Estate
26.	Hysan (MTN)	1.40	0.18	No	Yes	Real Estate
27.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
28.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
29.	Dragon Drays	1.00	0.13	No	No	Diversified
30.	K. Wah International	1.00	0.13	No	Yes	Real Estate
Total Top 30 Nonbank LCY Corporate Issuers		**123.51**	**15.94**			
Total LCY Corporate Bonds		**666.42**	**85.99**			
Top 30 as % of Total LCY Corporate Bonds		**18.5%**	**18.5%**			

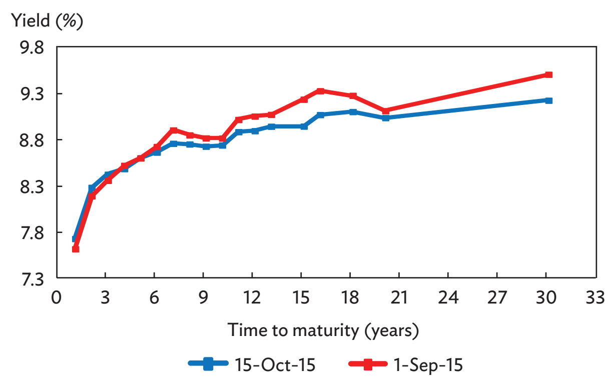
LCY = local currency.
Notes:
1. Data as of end-September 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Hong Kong Monetary Authority data.

Indonesia

Yield Movements

Between 1 September and 15 October, local currency (LCY) government bond yields in Indonesia fell for all tenors except maturities of 3 years or less, which rose between 7 basis points (bps) and 11 bps **(Figure 1)**. Yields dropped the most at the very long-end of the curve, shedding between 8 bps and 29 bps for maturities of 15 years or more. As a result, the spread between the 2-year and 10-year tenors narrowed to 46 bps in mid-October from 63 bps in 1 September.

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



LCY = local currency.
Source: Bloomberg LP.

Investor sentiment in the Indonesian bond market turned positive after the United States (US) Federal Reserve delayed raising interest rates during its Federal Open Market Committee meeting in September. In addition, concerns arising from domestic issues—particularly inflation, the exchange rate, and economic growth—have moderated, resulting in an overall decline in yields.

Inflationary pressures have also moderated in recent months on the back of lower food prices. Consumer prices were up 7.3% year-on-year (y-o-y) in July before easing to 7.2% y-o-y in August and 6.8% y-o-y in September. Bank Indonesia expects inflation for full-year 2015 to fall within its target range of 3.0%–5.0%.

A dovish monetary stance by the Federal Reserve has allowed the Indonesian rupiah to appreciate against the US dollar, with the exchange rate strengthening in October to below the IDR14,000 per US$1 level. The year-to-date depreciation of the Indonesian rupiah fell to 8.3% on 15 October from 18.3% at the end of September.

Bank Indonesia has maintained a tight bias in its monetary policy by keeping the benchmark interest rate at 7.5% since February. Bank Indonesia deems its policy to be supportive of stability in the economy and notes that full-year inflation will come in at the lower-end of its 2015 target level. The central bank also expects a smaller annual current account deficit than previously projected.

Economic growth in Indonesia rose marginally to 4.73% y-o-y in 3Q15 from 4.67% y-o-y growth in 2Q15. On an expenditure basis, the fastest rising component of gross domestic product was government spending, which rose 6.6% y-o-y. Domestic consumption rose 5.0% y-o-y and investments rose 4.6% y-o-y. By industry, the fastest growing sector was the information and communications sector, which grew 10.8% y-o-y, followed by financial services, which rose 10.4% y-o-y.

Size and Composition

Indonesia's LCY bond market continued to expand in 3Q15 to reach a size of IDR1,692.4 trillion (US$115 billion) at the end of September **(Table 1)**. However, growth moderated to 1.5% quarter-on-quarter (q-o-q) and 12.4% y-o-y in 3Q15. Conventional bonds continued to account for a dominant share of the market at 90.2% of the total bond stock at the end of September. *Sukuk* (Islamic bonds) accounted for the remaining 9.8% share.

Government Bonds. The outstanding stock of government bonds rose to IDR1,442.8 trillion at the end of September on growth rates of 0.9% q-o-q and 12.3% y-o-y. Growth came largely from an increase in the stock of central government bonds, which comprise Treasury bills and bonds issued by the Ministry of Finance. The outstanding stock of central bank bills, known as *Sertifikat* Bank Indonesia (SBI), continued to decline in 3Q15.

Central Government Bonds. Central government bonds reached a size of IDR1,392.4 trillion at the end of September on growth of 2.7% q-o-q and 16.1% y-o-y. Growth was driven mainly by increases in the stock of conventional fixed-rate bonds and Treasury bills. While

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	IDR	US$	IDR	US$	IDR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,505,261**	**124**	**1,668,177**	**125**	**1,692,373**	**115**	**2.7**	**22.7**	**1.5**	**12.4**
Government	1,285,060	105	1,429,181	107	1,442,758	98	2.9	27.1	0.9	12.3
Central Govt. Bonds	1,199,395	98	1,356,434	102	1,392,407	95	6.0	27.2	2.7	16.1
of which: *Sukuk*	109,444	9	156,209	12	150,433	10	8.0	24.8	(3.7)	37.5
Central Bank Bills	85,665	7	72,748	5	50,351	3	(26.6)	24.9	(30.8)	(41.2)
of which: *Sukuk*	6,490	0.5	8,458	0.6	7,720	0.5	(4.4)	79.8	(8.7)	19.0
Corporate	220,202	18	238,996	18	249,615	17	1.3	2.5	4.4	13.4
of which: *Sukuk*	6,958	0.6	7,944	0.6	8,444	0.6	0.0	(0.2)	6.3	21.4

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources. 2Q15 *sukuk* outstanding taken from Indonesia Stock Exchange.
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 at the end of September stood at IDR261.9 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; Otoritas Jasa Keuangan; and Bloomberg LP.

the stock of Islamic Treasury bills and project-based *sukuk* declined 3.7% q-o-q, it expanded 37.5% y-o-y.

In 3Q15, a total of IDR73.4 trillion worth of Treasury bills and bonds were issued by the government through weekly auctions that comprised both conventional and Islamic bills and bonds. The central government's issuance volume was lower on both a q-o-q and y-o-y basis, with two of the auctions falling short of the target in 3Q15.

Central Bank Bills. The outstanding stock of central bank bills, or SBI, declined to IDR50.4 trillion at the end of September, down significantly on both a q-o-q and y-o-y basis. Bank Indonesia issues SBI as one of its monetary policy tools for liquidity management. Between April and July, Bank Indonesia opted to only issue *shari'ah*-compliant SBI carrying a 9-month maturity, choosing to use other monetary tools, such as *Sertifikat Deposito* Bank Indonesia and reverse repurchases, for its open market operations. Issuance of conventional SBI only resumed in August.

In 3Q15, issuance of SBI totaled IDR20.9 trillion, higher on a q-o-q basis but lower on a y-o-y basis. Beginning in August, Bank Indonesia started offering 12-month conventional and *shari'ah*–compliant SBI.

Corporate Bonds. The LCY corporate bond stock in Indonesia rose to IDR249.6 trillion at the end of September on growth rates of 4.4% q-o-q and 13.4% y-o-y. The corporate bond segment only accounted for 14.7% of the total LCY bond market at the end of September. Conventional corporate bonds dominated the corporate bond stock in 3Q15, accounting for a 96.6% share of the total, while the remaining 3.4% was accounted for by corporate *sukuk*.

The top 31 LCY corporate bond issuers in Indonesia had aggregate outstanding bonds of IDR190.0 trillion at the end of September **(Table 2)**. This accounted for a 76.1% share of the total LCY corporate bond stock. Nearly two-thirds of the firms on the list were from the banking and financial sectors. The rest were from capital-intensive industries such as energy, telecommunications, airline, property, real estate, and building construction. There were 12 state-owned firms on the top 31 list, of which five were ranked in the top 10.

At the end of September, the three largest corporate bond issuers in Indonesia were all state-owned firms. The largest corporate bond issuer was Indonesia Eximbank with outstanding bonds valued at IDR22.6 trillion. In the second spot was an energy firm, PLN, with an outstanding bond stock of IDR13.3 trillion. Bank Tabungan Negara moved up to the third spot (from the ninth spot in 2Q15) with an outstanding bond stock of IDR11.0 trillion at the end of September.

New issuance of corporate debt totaled IDR16.1 trillion in 3Q15, down from IDR23.6 trillion in 2Q15. A total of 10 firms raised capital in the bond market, of which eight were from the banking and financial sectors. A total of

Table 2: Top 31 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.	Indonesia Eximbank	22,638	1.54	Yes	No	Banking
2.	PLN	13,268	0.91	Yes	No	Energy
3.	Bank Tabungan Negara	10,950	0.75	Yes	Yes	Banking
4.	Indosat	10,742	0.73	No	Yes	Telecommunications
5.	Adira Dinamika Multifinance	10,631	0.73	No	Yes	Finance
6.	Astra Sedaya Finance	10,465	0.71	No	No	Finance
7.	Telekomunikasi Indonesia	8,995	0.61	Yes	Yes	Telecommunications
8.	Bank Internasional Indonesia	8,360	0.57	No	Yes	Banking
9.	Perum Pegadaian	7,959	0.54	Yes	No	Finance
10.	Bank CIMB Niaga	7,750	0.53	No	Yes	Banking
11.	Federal International Finance	6,935	0.47	No	No	Finance
12.	Bank Permata	6,482	0.44	No	Yes	Banking
13.	Bank Pan Indonesia	6,000	0.41	No	Yes	Banking
14.	Jasa Marga	5,900	0.40	Yes	Yes	Toll Roads
15.	Bank OCBC NISP	5,378	0.37	No	Yes	Banking
16.	Sarana Multigriya Finansial	4,738	0.32	Yes	No	Finance
17.	Agung Podomoro Land	4,575	0.31	No	Yes	Property, Real Estate, and Building Construction
18.	Indofood Sukses Makmur	4,000	0.27	No	Yes	Food and Beverages
19.	Bank Mandiri	3,500	0.24	Yes	Yes	Banking
20.	Medco-Energi International	3,500	0.24	No	Yes	Petroleum and Natural Gas
21.	Bank Tabungan Pensiunan Nasional	3,310	0.23	No	Yes	Banking
22.	Antam	3,000	0.20	Yes	Yes	Petroleum and Natural Gas
23.	Bank Rakyat Indonesiai	3,000	0.20	Yes	Yes	Banking
24.	Toyota Astra Financial Services	2,821	0.19	No	No	Finance
25.	Bumi Serpong Damai	2,665	0.18	No	Yes	Property, Real Estate, and Building Construction
26.	BCA Finance	2,425	0.17	No	No	Finance
27.	Wahana Ottomitra Multiartha	2,003	0.14	No	Yes	Finance
28.	Garuda Indonesia	2,000	0.14	Yes	Yes	Transportation
29.	Permodalan Nasional Madani	2,000	0.14	Yes	No	Finance
30.	Sumber Alfaria Trijaya	2,000	0.14	No	Yes	Retail
31.	Summarecon Agung	2,000	0.14	No	Yes	Property, Real Estate, and Building Construction
Total Top 31 LCY Corporate Issuers		**189,990**	**12.97**			
Total LCY Corporate Bonds		**249,615**	**17.04**			
Top 31 as % of Total LCY Corporate Bonds		**76.1%**	**76.1%**			

LCY = local currency.
Notes:
1. Data as of end-September 2015.
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.

27 new bond series were issued in 3Q15, including two series of *sukuk mudharabah* (profit-sharing bonds). The largest corporate issuers in 3Q15 were Bank Rakyat Indonesia and Bank Tabungan Negara with each raising IDR3.0 trillion from a multitranche bond sale. The largest corporate bond issuances in 3Q15 are provided in **Table 3**.

In terms of maturity structure, 18 bond series carried maturities of more than 1 year to 3 years, six bond series had maturities of 5 years, one series carried maturities of 7 years, and two bond series carried maturities of 10 years.

Investor Profiles

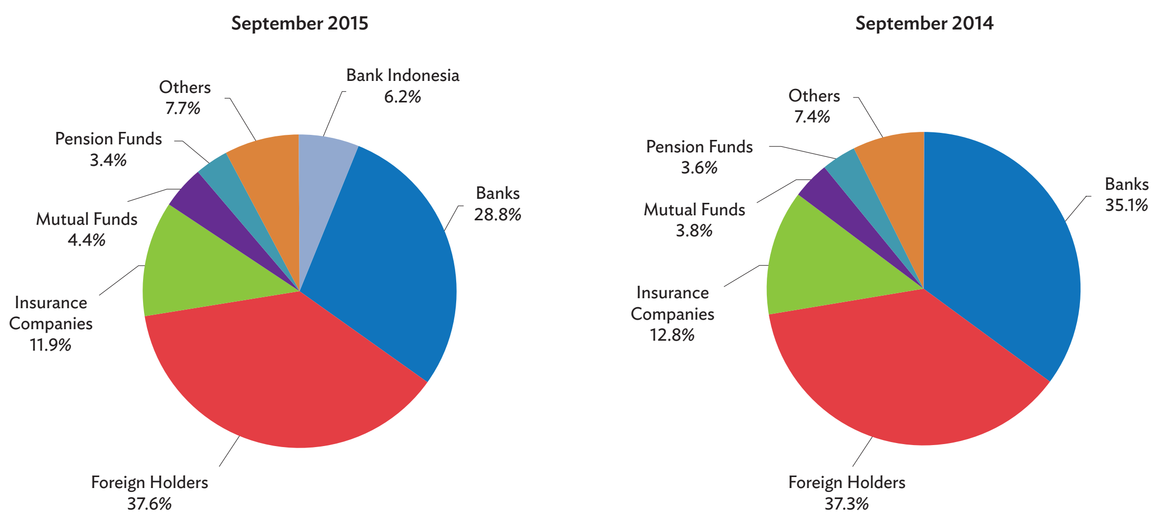
Central Government Bonds. At the end of September, foreign investors were still the largest holders of Indonesian LCY government bonds, representing a share of 37.6% of the total market **(Figure 2)**. This was broadly comparable to their share of 37.3% in the same period a year earlier, but lower compared with a share of 39.6% at the end of June. In absolute terms, foreign investors held a total of IDR523.4 trillion at the end of September. Investors continued to chase the high yields of Indonesian LCY bonds, which are the highest among emerging East Asian markets. A number of sovereign wealth funds and central banks are invested in Indonesian LCY bonds, representing a share of about 8% of the total government bond stock.

Table 3: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Rakyat Indonesia		
370-day bond	8.40	655
3-year bond	9.20	925
5-year bond	9.50	1,420
Bank Tabungan Negara		
3-year bond	9.625	900
5-year bond	9.875	500
7-year bond	10.00	800
10-year bond	10.50	800
Adira Dinamika Multifinance		
370-day *sukuk mudharabah*	8.75	441
370-day bond	8.75	492
3-year bond	9.50	741
3-year *sukuk mudharabah*	9.50	59
3-year bond	9.50	668
5-year bond	10.25	238
5-year bond	10.25	277
Indonesia Eximbank		
370-day bond	8.40	757
3-year bond	9.20	309
5-year bond	9.50	913
Astra Sedaya Finance		
370-day bond	8.50	750
3-year bond	9.25	825
Federal International Finance		
370-day bond	8.50	913
3-year bond	9.25	587

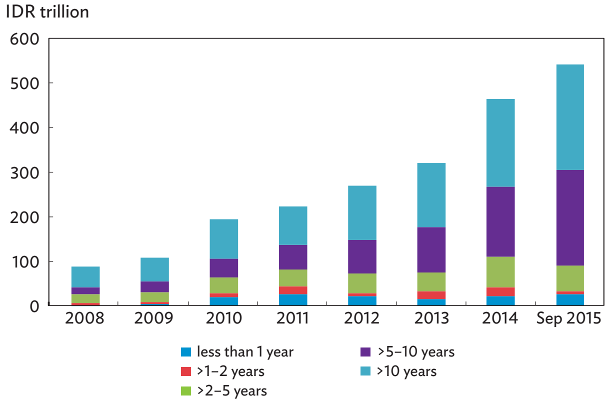
LCY = local currency.
Note: *Sukuk mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
Source: Indonesia Stock Exchange.

Figure 2: LCY Central Government Bonds Investor Profile



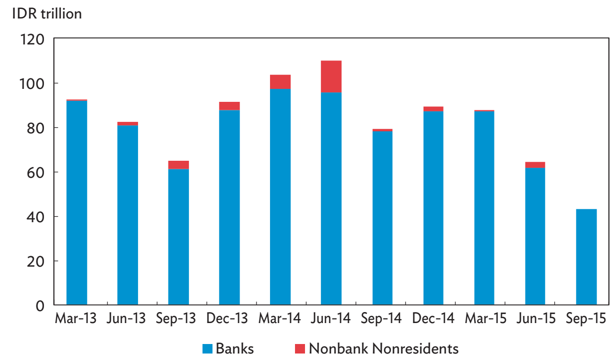
LCY = local currency.
Note: For September 2014, Bank Indonesia had no holdings of government bonds.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

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



LCY = local currency.
Source: Directorate General of Debt Management Ministry of Finance.

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Note: In September 2015, nonbank nonresidents had no holdings of *Sertifikat* Bank Indonesia.
Source: Bank Indonesia.

Most foreign investors are positioned at the long-end of the curve, with about 44% of their holdings at the end of September in maturities of 10 years or more **(Figure 3)**. Foreign holdings of medium-dated tenors (maturities of 5 years to 10 years) accounted for 40% of their total holdings. On the other hand, foreign holdings of bonds with maturities of 5 years or less declined, except for those with a maturity of less than 1 year, whose share of the total remained at 5%.

Banking institutions were the second largest investor group in the Indonesian central government bond market in 3Q15, accounting for a 28.8% share. Banks' share declined from 35.1% in the same period a year earlier. Insurance companies and mutual funds also recorded declines in their respective shares of holdings of central government bonds between 3Q14 and 3Q15.

Bond holdings of other domestic investor groups mostly recorded marginal annual increases. The only significant increase was Bank Indonesia's holdings of central government bonds, which climbed to a share of 6.2% at the end of September from zero a year earlier as the result of active intervention in the market in recent months.

Central Bank Bills. At the end of September, the entire stock of central bank bills, or SBI, was held solely by banking institutions **(Figure 4)**.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Announces Additional Rupiah Exchange Rate Stabilization Measures

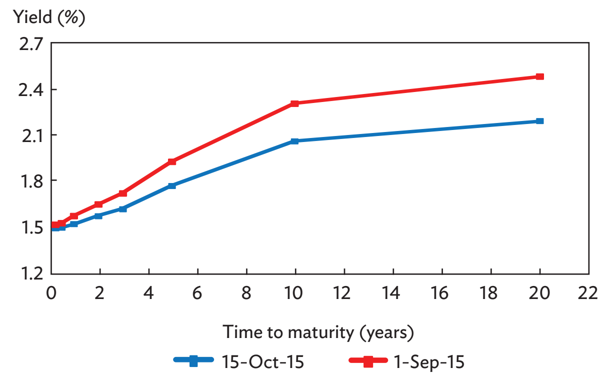
On 30 September, Bank Indonesia announced additional policy measures to stabilize the rupiah exchange rate. In addition to maintaining rupiah exchange rate stability, the new policy package strengthens rupiah liquidity management. The new measures include Bank Indonesia's intervention in the forward market and the offering of 3-month Bank Indonesia certificates of deposit and 2-week reverse repurchase tradable government securities. Policy measures were also announced to help manage the supply and demand of foreign exchange, including, among others, issuing foreign-currency-denominated Bank Indonesia certificates, reducing the holding period for SBI to 1 week, and tax incentives on term deposits for exporters depositing their foreign exchange earnings with Indonesian banks or converting proceeds into rupiah.

Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea decreased for all tenors between 1 September and 15 October, with yields for longer-term tenors registering the largest declines **(Figure 1)**. The drop in yields was partly induced by market expectations of a low policy interest rate environment that aims to support the Korean economy. The yield curve flattened during the review period with the yield spread between 2-year and 10-year tenors falling 17 basis points (bps).

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



LCY = local currency.
Source: Bloomberg LP.

Real gross domestic product (GDP) growth in the Republic of Korea accelerated to 2.6% year-on-year (y-o-y) in 3Q15 from 2.2% y-o-y in 2Q15, according to advance estimates from the Bank of Korea, buoyed by improved growth in domestic demand and expansion in the construction, manufacturing, and utilities sectors. In 3Q15, y-o-y growth accelerated for private consumption, gross fixed capital formation, and imports of goods and services; and growth reversed from negative to positive for exports of goods and services. On the production side, y-o-y growth accelerated for manufacturing and utilities; shifted from negative to positive for construction; and contracted less rapidly for agriculture, forestry, and fishing. On a quarter-on-quarter (q-o-q) basis, real GDP growth accelerated to 1.2% in 3Q15 from 0.3% in 2Q15.

The Bank of Korea's Monetary Policy Board decided on 15 October to keep the base rate steady at 1.50%, marking the fourth consecutive month that the policy interest rate was kept unchanged. Inflationary pressures remained low throughout 3Q15 as consumer price inflation stood at 0.7% y-o-y in July and August, and 0.6% y-o-y in September. In October, consumer prices rose 0.9% y-o-y.

In October, the Bank of Korea revised downward its 2015 GDP growth forecast to 2.7% from a July estimate of 2.8%, and lowered the 2015 inflation forecast to 0.7% from 0.9%.

Size and Composition

The size of the local currency (LCY) bond market in the Republic of Korea grew 3.1% q-o-q and 11.5% y-o-y in 3Q15, reaching KRW2,018.6 trillion at the end of September **(Table 1)**. The existing stock of LCY

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,810,149**	**1,715**	**1,958,273**	**1,756**	**2,018,573**	**1,703**	**1.7**	**7.7**	**3.1**	**11.5**
Government	711,726	674	805,593	722	832,855	703	1.6	10.3	3.4	17.0
Central Bank Bonds	180,580	171	188,310	169	186,350	157	3.8	9.5	(1.0)	3.2
Central Government Bonds	488,180	463	527,583	473	552,452	466	0.5	9.8	4.7	13.2
Industrial Finance Debentures	42,967	41	89,700	80	94,053	79	5.6	19.8	4.9	118.9
Corporate	1,098,423	1,041	1,152,680	1,033	1,185,718	1,000	1.8	6.1	2.9	7.9

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. 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.
5. 3Q15 data for central government bonds and industrial finance debentures are *AsianBondsOnline* estimates.
Sources: EDAILY *BondWeb* and the Bank of Korea.

government bonds, which comprise about 41% of total LCY bonds, climbed 3.4% q-o-q and 17.0% y-o-y in 3Q15. Quarterly growth was buoyed by an increase in the stocks of central government bonds and industrial finance debentures, while annual growth was driven by central government and central bank bonds, as well as industrial finance debentures.

LCY government bond issuance fell 4.3% q-o-q in 3Q15, mainly due to a drop in central bank bonds issued, which more than offset the q-o-q hikes in the issuance of central government bonds and industrial finance debentures. On the other hand, LCY government bond issuance was up 1.6% y-o-y in 3Q15, led by double-digit growth in the issuance of central government bonds and industrial finance debentures that eclipsed the decline in central bank bond issues.

LCY corporate bonds outstanding climbed 2.9% q-o-q and 7.9% y-o-y in 3Q15. The q-o-q growth stemmed from increases in special public bonds, financial debentures, and private corporate bonds, while the y-o-y uptick was driven by financial debentures and private corporate bonds. LCY corporate bond issuance dropped 26.2% q-o-q but was up 7.0% y-o-y.

The combined LCY bonds outstanding of the top 30 corporate issuers in the Republic of Korea were valued at KRW757.0 trillion at the end of September, representing 63.8% of the total LCY corporate bond stock **(Table 2)**. Korea Housing Finance Corporation remained the largest corporate issuer of LCY bonds. Overall LCY corporate bond issuance exhibited a mixed performance in 3Q15, decreasing 26.2% q-o-q but rising 7.0% y-o-y. Of the five most notable LCY corporate bonds issued in 3Q15, two came from special public agencies, two from banks, and one from a department store **(Table 3)**.

Investor Profile

Insurance companies and pension funds held 32.3% of LCY government bonds in the Republic of Korea at the end of June, remaining the largest investor group in the LCY government bond market **(Figure 2)**. Compared with a year earlier, the share of insurance companies and pension funds rose 2.5 percentage points, the largest hike across all investor groups during the review period. The biggest drop between 2Q14 and 2Q15 was in the share of banks at 3.2 percentage points.

Insurance companies and pension funds also remained the largest investor group in the LCY corporate bond market at the end of June with a 35.5% share **(Figure 3)**. In contrast, foreign investors were the smallest investor group with a share of 0.2%. The share of insurance companies and pension funds rose 2.3 percentage points y-o-y at end-June, the biggest increase among all investor groups. In contrast, banks posted the largest y-o-y drop at 2.1 percentage points.

Foreign investor net LCY bond sales in the Republic of Korea totaled KRW3,771 billion in 3Q15, a reversal from 2Q15's foreign net bond investment of KRW2,779 billion. On a monthly basis, foreign investor net LCY bond sales stood at KRW937 billion in September, the fourth consecutive month of foreign capital outflows from the Korean LCY bond market amid expectations of an eventual interest rate hike in the United States **(Figure 4)**.

Ratings Update

In September, Standard & Poor's (S&P) raised its long-term foreign currency (FCY) sovereign rating for the Republic of Korea to AA− from A+, and its short-term FCY rating to A-1+ from A-1. S&P also affirmed its short- and long-term LCY ratings at A-1+ and AA−, respectively. The credit rating agency stated that the rating upgrades were due to its assessment that the Republic of Korea's economic growth would outpace most developed economies for the next 3–5 years; its fiscal position is sound; and risks to external financing have moderated, buoyed by a reduction in Korean banks' external debt.

Policy, Institutional, and Regulatory Developments

Korea Exchange Is Designated as a Trade Repository

The Financial Services Commission (FSC) announced in August that the Korea Exchange has been designated as a trade repository that will compile, manage, and analyze data on over-the counter derivatives transactions. The FSC stated that this will strengthen the credibility and international competitiveness of the Republic of Korea's financial market infrastructure.

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

Issuers		Outstanding Amount		State-Owned	Listed on		Type of Industry
		LCY Bonds (KRW billion)	LCY Bonds (US$ billion)		KOSPI	KOSDAQ	
1.	Korea Housing Finance Corp.	90,350	76.2	Yes	No	No	Finance
2.	NH Investment & Securities	55,542	46.9	Yes	Yes	Yes	Securities
3.	Korea Land & Housing Corp.	55,042	46.4	Yes	No	No	Real Estate
4.	KDB Daewoo Securities	51,760	43.7	Yes	Yes	No	Securities
5.	Korea Investment and Securities	47,087	39.7	No	No	No	Securities
6.	Industrial Bank of Korea	37,323	31.5	Yes	Yes	No	Banking
7.	Mirae Asset Securities	35,770	30.2	No	Yes	No	Securities
8.	Hana Financial Investment	35,182	29.7	No	No	No	Securities
9.	Korea Deposit Insurance Corp.	33,610	28.4	Yes	No	No	Insurance
10.	Korea Electric Power Corp.	27,010	22.8	Yes	Yes	No	Utilities
11.	Hyundai Securities	23,145	19.5	No	Yes	No	Securities
12.	Korea Expressway	22,350	18.9	Yes	No	No	Infrastructure
13.	Kookmin Bank	19,158	16.2	No	No	No	Banking
14.	Korea Rail Network Authority	18,320	15.5	Yes	No	No	Infrastructure
15.	Shinhan Bank	18,063	15.2	No	No	No	Banking
16.	Woori Bank	17,795	15.0	Yes	No	No	Banking
17.	Samsung Securities	16,668	14.1	No	Yes	No	Securities
18.	Daishin Securities	15,953	13.5	No	Yes	No	Securities
19.	Korea Gas Corp.	15,499	13.1	Yes	Yes	No	Utilities
20.	Small & Medium Business Corp.	14,380	12.1	Yes	No	No	Finance
21.	Standard Chartered First Bank Korea	11,730	9.9	No	No	No	Banking
22.	Korea Student Aid Foundation	11,580	9.8	Yes	No	No	Finance
23.	Shinhan Investment Corp.	11,387	9.6	No	No	No	Securities
24.	Korea Eximbank	10,980	9.3	Yes	No	No	Banking
25.	Korea Water Resources Corp.	10,509	8.9	Yes	Yes	No	Utilities
26.	Hana Bank	10,300	8.7	No	No	No	Banking
27.	Korea Railroad Corp.	10,270	8.7	Yes	No	No	Infrastructure
28.	Hyundai Capital Services	10,174	8.6	No	No	No	Finance
29.	Shinyoung Securities	10,114	8.5	No	Yes	Yes	Securities
30.	Shinhan Card	9,906	8.4	No	No	No	Finance
Total Top 30 LCY Corporate Issuers		**756,957.6**	**638.6**				
Total LCY Corporate Bonds		**1,185,718.0**	**1,000.3**				
Top 30 as % of Total LCY Corporate Bonds		**63.8%**	**63.8%**				

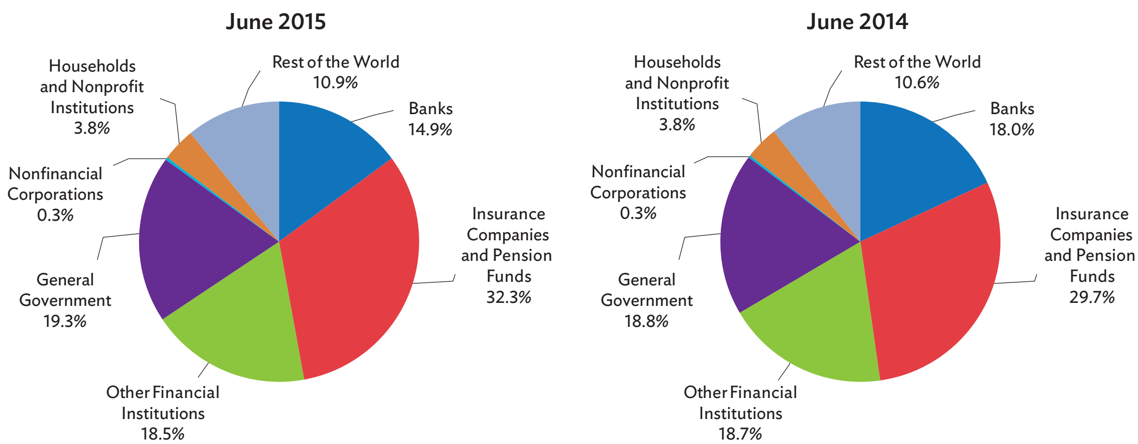
KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-September 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Industrial Bank of Korea		
10-year bond	2.55	400
Hyundai Department Store		
3-year bond	1.94	300
KEB Hana Bank		
10-year bond	2.78	300
Korea Land & Housing Corporation		
30-year bond	2.66	280
Korea Deposit Insurance Corporation		
3-year bond	1.79	270

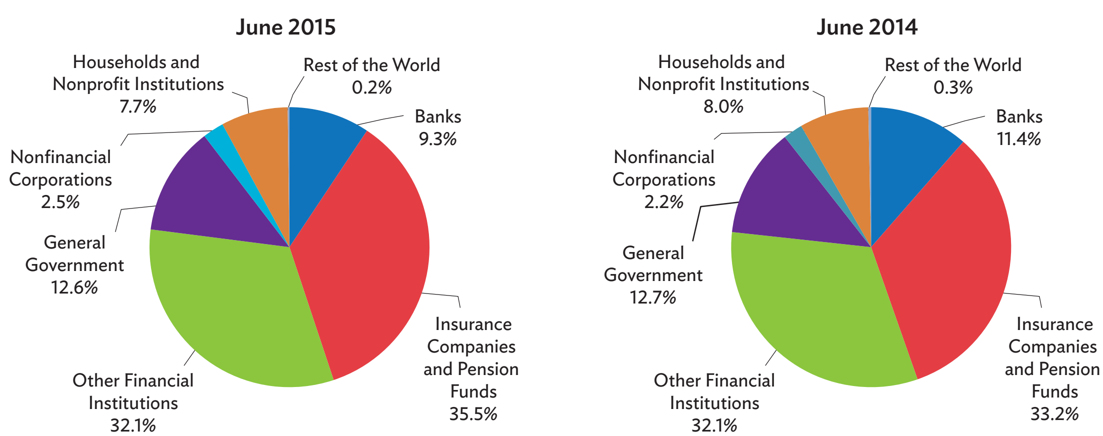
LCY = local currency.
Source: Bloomberg LP.

Figure 2: LCY Government Bonds Investor Profile



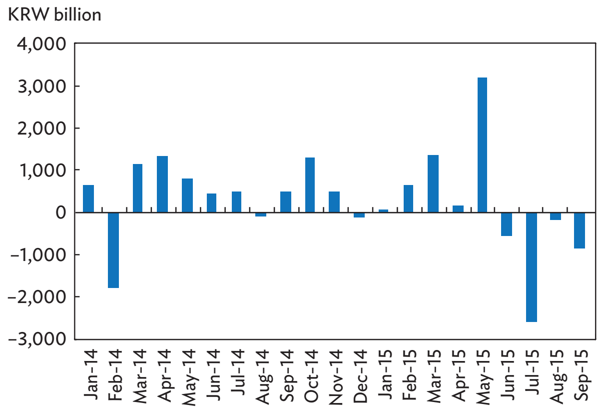
LCY = local currency.
Sources: The Bank of Korea.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.
Sources: The Bank of Korea.

Figure 4: Net Foreign Investment in LCY Bonds in the Republic of Korea



LCY = local currency.
Source: Financial Supervisory Service.

FSC to Improve Competitiveness of Financial Investment Business Entities

The FSC announced in October that it will introduce measures to enhance the competitiveness of financial investment business entities in the Republic of Korea. The planned measures are aimed at improving the corporate financing functions of brokerage firms, widening the scope of business activities of securities companies, and easing regulatory restrictions in order to diversify certain types of financial services. Among the FSC's plans are to allow companies with total assets worth less than KRW2 trillion to issue private placements of securities, and to revise regulations to allow the investment banking departments of securities companies to engage in certain brokerage activities such as buying and selling short-term bonds.

Malaysia

Yield Movements

Between 1 September and 15 October, Malaysian local currency (LCY) government bond yields fell for all tenors except the 3-year tenor, which rose 20 basis points (bps) **(Figure 1)**. Yields for all remaining tenors fell between 8 bps and 25 bps.

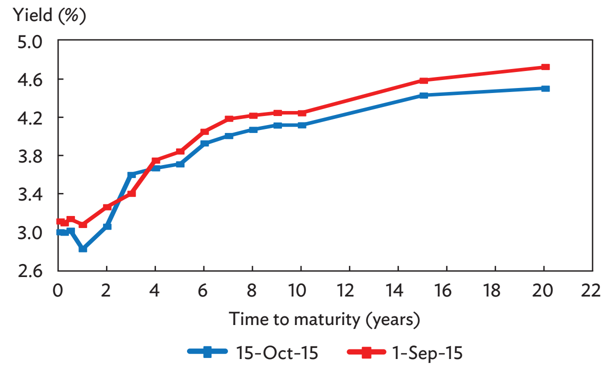
The fall in yields was due to a correction in the market after a selloff in LCY government bonds in the months preceding October amid concerns over a possibile rate hike by the United States (US) Federal Reserve in September, the slowdown in People's Republic of China, and the continued depreciation of the Malaysian ringgit. There likely were also foreign outflows toward the end of September due to the maturation of benchmark government securities. However, the decision by the Federal Reserve in September to leave its policy rates unchanged resulted in the local government bond market rebounding in October.

The Malaysian ringgit depreciated 17.9% year-to-date through 15 October, reaching a low of MYR4.5 to US$1 on 29 September before reboudning modestly to MYR4.1 in mid-October. Near-term risks to the Malaysian bond market and the ringgit include potential foreign outflows in response to an impending rate hike by the Federal Reserve and declining oil prices. The latter would also constrain the government's ability to achieve its fiscal targets.

Inflation trended downward in 3Q15, falling to 2.6% year-on-year (y-o-y) in September from 3.1% y-o-y in August and 3.3% y-o-y in July, primarily due to the continued contraction in the transportation index as a result of lower domestic fuel prices. Easing inflation allowed Bank Negara Malaysia (BNM) to maintain its overnight policy rate at 3.25% in its 11 September policy meeting.

Malaysia's gross domestic product growth slowed to 4.9% y-o-y in 2Q15 from 5.6% y-o-y in 1Q15, due to weaker private consumption and fixed capital formation, and a contraction in exports. Lower inflation and a slowdown in the domestic economy have prompted expectations that the BNM will maintain its policy rate for the rest of the year to support economic growth.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The Malaysian LCY bond market barely moved in 3Q15, with only a slight decline of 0.01% quarter-on-quarter (q-o-q) to MYR1,076 billion (US$245 billion) at end-September **(Table 1)**. Increases in the stock of outstanding corporate bonds, central bank bills, and *Sukuk Perumahan Kerajaan* were offset by a decline in the outstanding stock of central government bonds, due to scheduled maturities of Malaysian Government Securities (MGS) and Government Investment Issues (GII). On a y-o-y basis, the LCY bond market declined 0.3% in 3Q15. Government bonds outstanding totaled MYR602 billion at end-September, while corporate bonds summed to MYR474 billion. *Sukuk* (Islamic bonds) continued to comprise the majority of the LCY bond market, with a share of 53% of total bonds outstanding at end-September.

Government Bonds. LCY government bonds outstanding decreased 1.0% q-o-q and 4.9% y-o-y to close at MYR602 billion at end-September. This was due to a sizable number of scheduled maturities among MGS and GII in 3Q15 relative to new issuances. Meanwhile, BNM resumed issuance of central bank bills in August, albeit at a lower volume than in 2014.

Total government bond issuance increased 26.7% q-o-q to MYR41 billion in 3Q15, led by central bank bills and

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,079**	**329**	**1,076**	**285**	**1,076**	**245**	**2.5**	**8.7**	**(0.01)**	**(0.3)**
Government	633	193	608	161	602	137	3.4	8.4	(1.0)	(4.9)
Central Government Bonds	508	155	557	148	549	125	0.02	8.7	(1.5)	8.0
of which: *sukuk*	185	56	207	55	203	46	(1.9)	12.8	(1.9)	10.0
Central Bank Bills	108	33	23	6	25	6	22.0	0.6	6.4	(77.0)
of which: *sukuk*	42	13	4	1	2	0.4	19.8	3.8	(59.5)	(96.0)
Sukuk Perumahan Kerajaan	17	5	28	7	28	6	9.7	91.0	1.8	67.1
Corporate	446	136	468	124	474	108	1.1	9.0	1.3	6.1
of which: *sukuk*	314	96	337	89	340	77	4.0	14.5	1.0	8.5

( ) = 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.

Treasury bills. Meanwhile, there was a lesser amount of GIIs issued in 3Q15.

Corporate Bonds. LCY corporate bonds slightly increased 1.3% q-o-q in 3Q15, bringing total outstanding bonds to MYR474 billion at end-September. Many corporate bond issuers opted to wait on new issuances as anticipation of a Federal Reserve rate hike in September caused an uptick in yields. The ratio of corporate *sukuk* to total corporate bonds outstanding slightly fell to 71.9% at end-September from 72.1% at end-June.

Corporate bond issuance fell 18.4% q-o-q to MYR24 billion in 3Q15 (on a total of 49 new issues) from MYR30 billion in 2Q15. *Sukuk* accounted for 60.5% of total issuance, while conventional bonds registered a share of 39.5%. By type of instrument, conventional commercial paper had the highest share of total issuance at 39.3%, followed by Islamic medium-term notes with a share of 28.7%. **Table 2** lists notable corporate bond issuances in 3Q15.

The largest corporate issuers in 3Q15 were from the casino, financial, and utilities sectors, led by GENM Capital, Pengurusan Air, and Sarawak Energy. GENM Capital, a casino operator, issued dual-tranche medium-term notes comprising a MYR1.1 billion 5-year tranche and a MYR1.3 billion 10-year tranche with coupon rates of 4.5% and 4.9%, respectively. Pengurusan Air SPV, a water services company wholly owned by the Ministry of Finance, issued *sukuk* comprising a MYR700 million 5-year tranche and a MYR800 million 10-year tranche with coupon rates of 4.28% and 4.63%, respectively.

Table 3 provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR253.8 billion at end-September, representing 53.6% of the LCY corporate bond market. Financial firms, including banks, comprised 15 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR132.2 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

Investor Profile

At the end of June, foreign investors were the largest holder of government bonds at a share of 32.4%, supplanting financial institutions—including banks, development financial institutions, and nonbank financial institutions—whose share declined to 30.9% from 32.4% at end-June 2014 **(Figure 2)**. Social security institutions remained the third largest holders of government bonds with a share of 26.6%, slightly higher than their share of 26.0% a year earlier. The share of insurance companies' government bond holdings fell to 5.4% from 6.2% a year earlier.

The largest investor groups in LCY corporate bonds at the end of June remained domestic and foreign banks

Table 2: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
GENM Capital		
5-year MTN	4.50	1,100
10-year MTN	4.90	1,300
Pengurusan Air SPV		
5-year Islamic MTN	4.28	700
10-year Islamic MTN	4.63	800
Sarawak Energy		
10-year Islamic MTN	4.75	700
20-year Islamic MTN	5.28	800
Kuala Lumpur Kepong		
10-year Islamic MTN	4.58	1,100
Krung Thai Bank Public Company		
10-year bond	5.10	1,000
Putrajaya Holdings		
4-year Islamic MTN	4.03	150
6-year Islamic MTN	4.23	200
7-year Islamic MTN	4.31	150
8-year Islamic MTN	4.41	150
9-year Islamic MTN	4.48	250

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

(commercial and Islamic) with shares of 47.5% and 5.8%, respectively **(Figure 3)**. Compared with the same period in 2014, the share of domestic banks increased 1.2 percentage points, while that of foreign banks decreased 1 percentage point. Life insurance companies remained the second largest holders of LCY corporate bonds with a share of 31.7%, slightly higher than the 31.2% share a year earlier. The share of investment banks remained unchanged at 4.9%.

Policy, Institutional, and Regulatory Developments

Prime Minister Announces 2016 Federal Budget

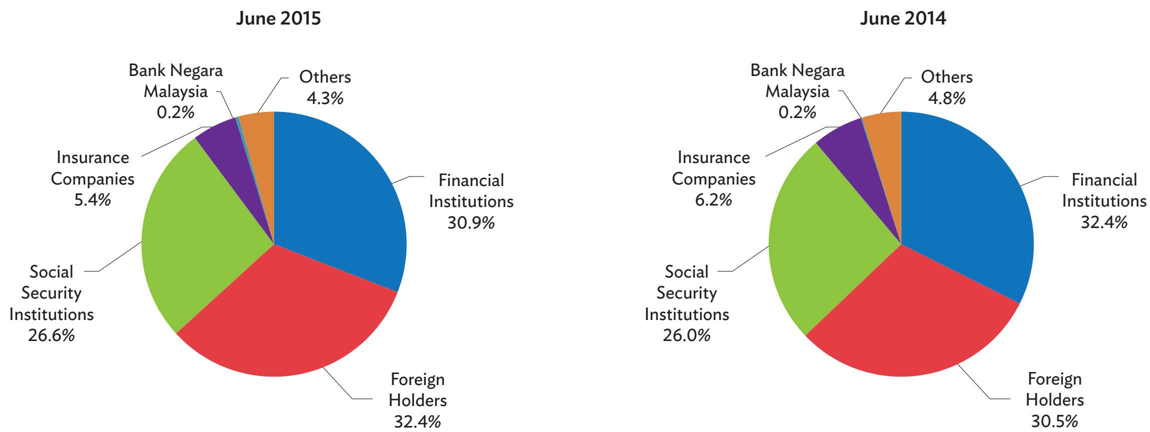
On 23 October, the prime minister announced the release of Malaysia's 2016 federal budget, which totals MYR267.2 billion, up from the 2015 revised budget total of MYR260.7 billion. Federal government revenue is estimated to be MYR225.7 billion in 2016, MYR3.2 billion higher than the 2015 target. The government also announced a fiscal deficit target of 3.1% of gross domestic product in 2016, down slightly from 3.2% in 2015. The economy is expected to grow between 4.0% and 5.0% in 2016, and annual inflation is expected to be between 2.0% and 3.0%. The government also announced plans for both tax relief and higher income tax rates of 26% (from 25%) for those with an income of MYR0.6 million–MYR1 million and 28% (from 25%) for those with income of more than MYR1 million. The goods and services tax is expected to contribute to the MYR39 billion increase in revenue in 2016, although certain basic goods and medicines shall be exempted from this tax. A small reduction in subsidy allocations from MYR 26.2 billion to MYR26.1 billion is also expected in 2016.

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	30.6	7.0	No	No	Transport, Storage, and Communications
2.	Cagamas	21.1	4.8	Yes	No	Finance
3.	Khazanah	20.0	4.6	Yes	No	Finance
4.	Danainfra Nasional	17.6	4.0	Yes	No	Finance
5.	Prasarana	15.6	3.6	Yes	No	Transport, Storage, and Communications
6.	Pengurusan Air	13.5	3.1	Yes	No	Energy, Gas, and Water
7.	Maybank	11.4	2.6	No	Yes	Banking
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	11.0	2.5	Yes	No	Finance
9.	Sarawak Energy	8.5	1.9	Yes	No	Energy, Gas, and Water
10.	CIMB Bank	8.1	1.8	No	No	Banking
11.	Public Bank	7.6	1.7	No	No	Banking
12.	Aman Sukuk	6.6	1.5	Yes	No	Construction
13.	BGSM Management	6.0	1.4	No	No	Transport, Storage, and Communications
14.	RHB Bank	5.4	1.2	No	No	Banking
15.	Turus Pesawat	5.3	1.2	Yes	No	Transport, Storage, and Communications
16.	Putrajaya Holdings	5.1	1.2	Yes	No	Property and Real Estate
17.	1Malaysia Development	5.0	1.1	Yes	No	Finance
18.	Malakoff Power	4.9	1.1	No	No	Energy, Gas, and Water
19.	Manjung Island Energy	4.9	1.1	No	No	Energy, Gas, and Water
20.	YTL Power International	4.8	1.1	No	Yes	Energy, Gas, and Water
21.	AM Bank	4.5	1.0	No	Yes	Banking
22.	Cagamas MBS	4.5	1.0	Yes	No	Finance
23.	Celcom Networks	4.5	1.0	No	No	Transport, Storage, and Communications
24.	Bank Pembangunan Malaysia	4.4	1.0	Yes	No	Banking
25.	Tanjung Bin Power	4.0	0.9	No	No	Energy, Gas, and Water
26.	Danga Capital	4.0	0.9	Yes	No	Finance
27.	Hong Leong Bank	4.0	0.9	No	Yes	Banking
28.	Telekom Malaysia	3.7	0.8	No	Yes	Transport, Storage, and Communications
29.	TNB Western Energy	3.7	0.8	Yes	No	Energy, Gas, and Water
30.	CIMB Group Holdings	3.6	0.8	Yes	No	Finance
Total Top 30 LCY Corporate Issuers		**253.8**	**57.8**			
Total LCY Corporate Bonds		**473.8**	**107.8**			
Top 30 as % of Total LCY Corporate Bonds		**53.6%**	**53.6%**			

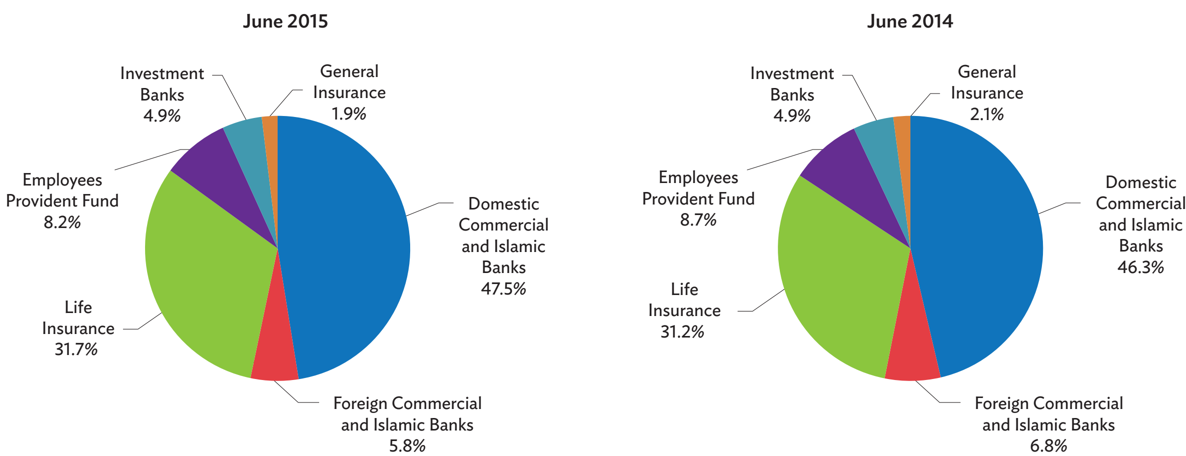
LCY = local currency.
Notes:
1. Data as of end-September 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank Negara Malaysia.

Figure 3: LCY Corporate Bonds Investor Profile



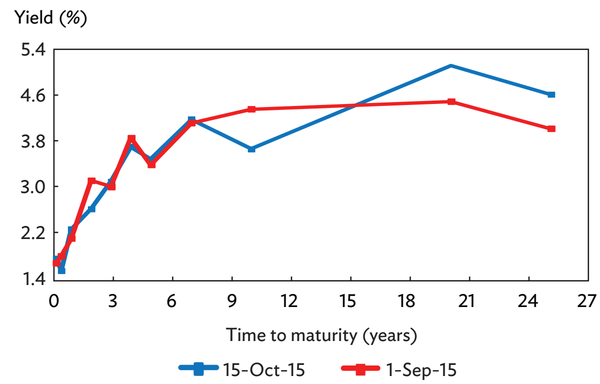
LCY = local currency.
Note: The Employees Provident Fund's (EPF) bond holdings data is as of end-December 2014, as data is based on the EPF's annual report.
Source: Bank Negara Malaysia.

Philippines

Yield Movements

Between 1 September and 15 October, yield movements for Philippine local currency (LCY) government bond yields were mixed **(Figure 1)**. At the short-end of the curve, yields for the 3-month and 1-year tenors rose 8 basis points (bps) and 16 bps, respectively, while the yield for the 6-month tenor fell 25 bps. Yields mostly rose for maturities of between 3 years and 25 years, excluding the 4-year and 10-year tenors. The rise in yields was most evident at the long-end of the curve, with the 20-year and 25-year tenors rising 62 bps and 59 bps, respectively. This was reflective of investors' risk aversion due to uncertainties over the timing of an impending rate hike by the United States Federal Reserve.

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



LCY = local currency.
Source: Bloomberg LP.

Inflation decelerated in 3Q15 to 0.4% year-on-year (y-o-y) in September from 0.6% y-o-y in August and 0.8% y-o-y in July. A sufficient supply of food items, downward adjustments in utility rates, and lower fuel prices contributed to lower inflation, while also providing room for the Bangko Sentral ng Pilipinas (BSP) to maintain its policy rates.

At its 24 September monetary policy meeting, the BSP decided to keep its policy rates—the overnight borrowing rate and the overnight lending rate—unchanged at 4.0% and 6.0%, respectively. The BSP stated that inflation is expected to rise gradually in line with its targets for 2016 to 2017, while noting that upward price pressures remain due to pending adjustments in utilities rates and higher food prices resulting from El Niño.

The Philippines' economy grew 5.6% y-o-y in 2Q15, up from 5.0% y-o-y growth in 1Q15, supported by sustained growth in both private and public consumption, as well as a boost in capital formation.

Size and Composition

The Philippine LCY bond market grew 1.7% quarter-on-quarter (q-o-q) to PHP4,723 billion (US$101 billion) at end-September **(Table 1)**. Government securities accounted for the majority of bonds outstanding, totaling PHP3,939 billion, while corporate bonds summed to PHP784 billion. On a y-o-y basis, the LCY bond market grew 2.8% in 3Q15.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies rose 1.1% q-o-q to PHP3,939 billion at end-September. The rise was most notable in the outstanding stock of Treasury bonds, primarily due to the new funds raised from the most recent bond swap conducted by the Bureau of the Treasury (BTr). In September, the BTr accepted total exchange offers of eligible bonds worth PHP237 billion and new subscription offers of PHP9.6 billion. As a result, the BTr raised PHP121 billion worth of new 10-year benchmark bonds and PHP142 billion worth of new 15-year benchmark bonds, which were priced at 3.625% and 4.625%, respectively.

As a result, government bond issuance rose significantly in 3Q15 to PHP406 billion from PHP90.4 billion in 2Q15. The government's bond auction results were also more successful in 3Q15 than in 2Q15, with the total volume awarded rising to PHP107 billion from PHP90.4 billion.

The government has programmed borrowing of PHP135 billion through its regular LCY bond auction schedule in 4Q15. The auction schedule comprises PHP60 billion of Treasury bills with 91-, 182-, and

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,594**	**102**	**4,645**	**103**	**4,723**	**101**	**2.2**	**6.7**	**1.7**	**2.8**
Government	3,846	86	3,896	86	3,939	84	0.7	2.2	1.1	2.4
Treasury Bills	285	6	275	6	282	6	(1.2)	(8.0)	2.6	(0.9)
Treasury Bonds	3,445	77	3,541	79	3,577	77	0.9	3.2	1.0	3.8
Others	116	3	80	2	80	2	–	2.1	–	(30.9)
Corporate	748	17	749	17	784	17	10.4	37.5	4.7	4.8

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from 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 multicurrency Retail Treasury Bonds (RTBs) are not included. As of end-September 2015, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively.
Sources: Bloomberg LP and Bureau of the Treasury.

364-day tenors; and PHP75 billion of Treasury bonds with 3- and 5-year tenors.

Corporate Bonds. Total outstanding LCY corporate bonds rose 4.7% q-o-q to PHP784 billion at the end of September. Three companies tapped the domestic bond market in 3Q15. 8990 Holdings, a mass housing developer, raised PHP8.99 billion via a triple-tranche bond issuance comprising a PHP8.4 billion 5-year tranche, PHP220 million 7-year tranche, and PHP380 million 10-year tranche with coupon rates of 6.208%, 6.131%, and 6.867%, respectively. Aboitiz Equity Ventures also had a triple-tranche issue comprising 5-year, 7-year, and 12-year bonds with an aggregate issuance volume of PHP24 billion **(Table 2)**.

Table 2: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Aboitiz Equity Ventures		
5-year bond	4.47	10.46
7-year bond	5.01	8.47
12-year bond	6.02	5.07
8990 Holdings		
5-year bond	6.21	8.40
7-year bond	6.13	0.38
10-year bond	6.87	0.22
Filinvest Land		
7-year bond	5.36	7.00
10-year bond	5.71	1.00

LCY = local currency.
Source: Bloomberg LP.

Only 51 companies are actively tapping the bond market in the Philippines. The top 30 issuers accounted for 89.9% of total LCY corporate bonds outstanding at end-September **(Table 3)**. The majority of the top 30 issuers are listed on the Philippine Stock Exchange, with eight firms having privately held shares. Ayala Land remained the largest corporate issuer in the Philippines with PHP64.9 billion of outstanding bonds at end-September. Metrobank was the next largest borrower with PHP46.8 billion of outstanding bonds. Ayala Corporation was in the third spot with PHP40 billion.

The diversity of LCY corporate bond issuers in 3Q15 was comparable with that in 3Q14 **(Figure 2)**. Banks and other financial institutions, including investment houses, remained the leading issuers of debt in 3Q15 with 30.4% of the total, up from a share of 26.6% in 3Q14. Real estate companies were second with a share of 22.8% of the total, compared with a 20.5% share in 3Q14. Meanwhile, the share of holding companies declined to 19.6% in 3Q15 from 21.2% in 3Q14. Firms from industries as diverse as electricity generation and distribution, telecommunications, and thoroughfares and tollways continued to have single-digit shares of total corporate bonds outstanding.

Investor Profile

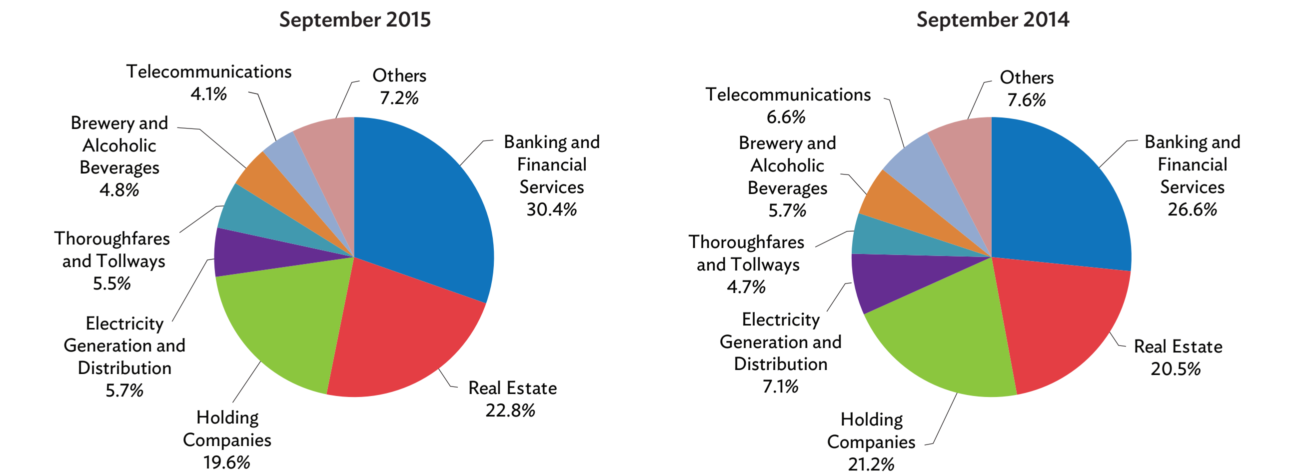
The largest grouping of investors in government securities at the end of September comprised banks and financial institutions with a 35.8% share of the total

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (US$ billion)			
1.	Ayala Land	64.9	1.4	No	Yes	Real Estate
2.	Metrobank	46.8	1.0	No	Yes	Banking
3.	Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4.	San Miguel Brewery	37.8	0.8	No	No	Brewery
5.	BDO Unibank	37.5	0.8	No	Yes	Banking
6.	Philippine National Bank	34.6	0.7	No	Yes	Banking
7.	Aboitiz Equity Ventures	32.0	0.7	No	Yes	Diversified Operations
8.	Filinvest Land	32.0	0.7	No	Yes	Real Estate
9.	JG Summit Holdings	30.0	0.6	No	Yes	Diversified Operations
10.	SM Investments	28.3	0.6	No	Yes	Diversified Operations
11.	RCBC	27.1	0.6	No	Yes	Banking
12.	SM Prime	25.0	0.5	No	Yes	Real Estate
13.	Meralco	23.5	0.5	No	Yes	Electricity Distribution
14.	Security Bank	23.0	0.5	No	Yes	Banking
15.	GT Capital Holdings	22.0	0.5	No	Yes	Investment Companies
16.	South Luzon Tollway	18.3	0.4	No	No	Transport Services
17.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
18.	East West Bank	16.8	0.4	No	Yes	Banking
19.	Maynilad Water Services	16.4	0.4	No	No	Water
20.	MCE Leisure Philippines	15.0	0.3	No	No	Casino Services
21.	Philippine Long Distance Telephone	15.0	0.3	No	Yes	Telecommunications
22.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
23.	Manila North Tollways	13.0	0.3	No	No	Transport Services
24.	First Metro Investment	12.0	0.3	No	No	Investment Banking
25.	Robinsons Land	12.0	0.3	No	Yes	Real Estate
26.	MTD Manila Expressway	11.5	0.2	No	No	Transport Services
27.	Aboitiz Power	10.5	0.2	No	Yes	Electricity Generation
28.	Energy Development	10.5	0.2	No	Yes	Electricity Generation
29.	United Coconut Planters Bank	9.5	0.2	No	No	Banking
30	8990 Holdings	9.0	0.2	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**704.9**	**15.1**			
Total LCY Corporate Bonds		**784.2**	**16.8**			
Top 30 as % of Total LCY Corporate Bonds		**89.9%**	**89.9%**			

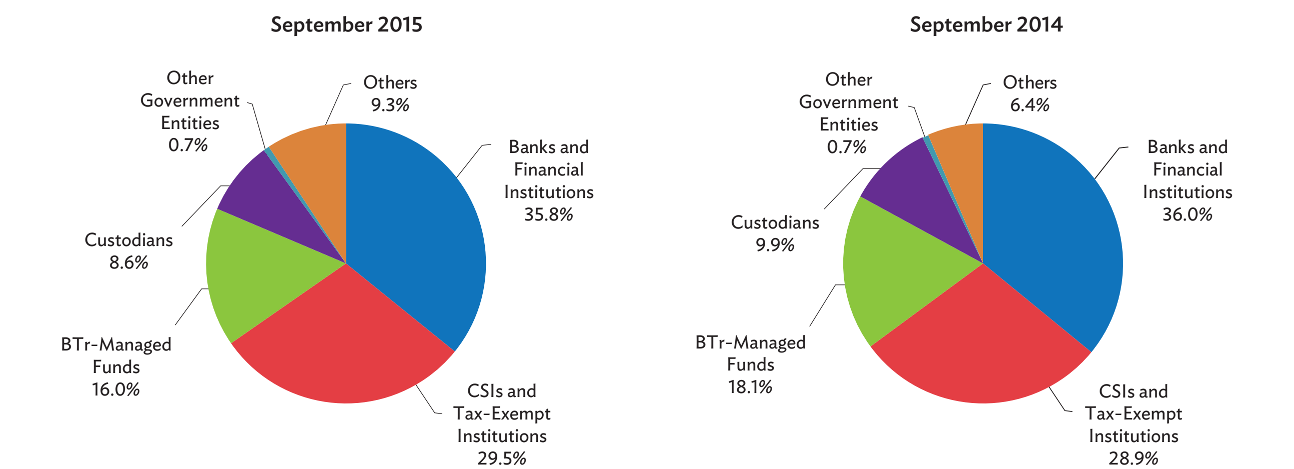
LCY = local currency.
Notes:
1. Data as of end-September 2015.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that were not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Figure 2: LCY Corporate Bond Issuers by Industry



LCY = local currency.
Source: Bloomberg LP.

Figure 3: LCY Government Bonds Investor Profile



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

(Figure 3), down slightly from a 36.0% share a year earlier. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and life insurance companies—and tax-exempt institutions—including trusts and other tax-exempt entities—accounted for 29.5% of the total at the end of September, up from 28.9% a year earlier. Over the same period, the holdings of government securities among custodians fell to 8.6% from 9.9%, and funds managed by the BTr declined to 16.0% from 18.1%.

Ratings Update

In September, Fitch Ratings affirmed the Philippines' long-term foreign currency issuer default rating and long-term local currency issuer default rating at BBB– and BBB, respectively. The outlook on both ratings was revised to positive from stable. Fitch cited the Philippines' stable economic growth and strong external finances as reasons for its ratings decision.

Policy, Institutional, and Regulatory Developments

BSP to Implement Interest Rate Corridor System by 2Q16

In September, the BSP announced its plan to implement an interest rate corridor system by 2Q16. The system will include the implementation of a deposit facility and a lending facility that will form a corridor around the BSP's policy rate. These facilities shall be conducted via weekly auctions of term deposits. The interest rate corridor system is expected to support the development of the capital market by encouraging more active liquidity management and increased trading by financial institutions. The new system also aims to reduce reliance on the reserve requirement for the market's liquidity management.

BSP Releases New Regulations on Treasury Activities

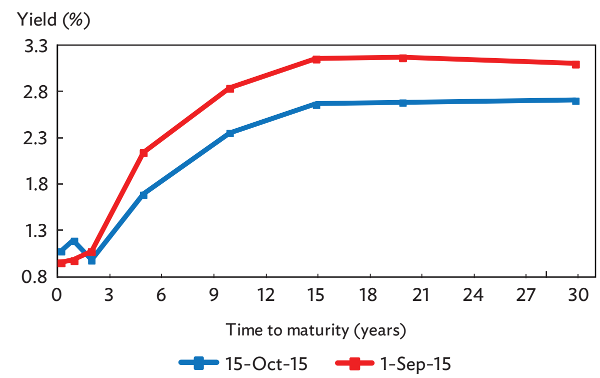
In October, the BSP released new regulations on treasury activities conducted by BSP-supervised financial institutions, particularly the management of operational risk. The new regulations highlight the responsibility of firms' board of directors and senior management in establishing standards of good behavior and compliance with market conduct rules. The regulations also require BSP-supervised financial institutions to differentiate among the various functions of treasury units to separate possibly conflicting duties such as risk-taking and recording, and reconciliation and settlement. The BSP expects the control units of the financial institutions it supervises—risk management, compliance, and audit—to regularly monitor treasury activities.

Singapore

Yield Movements

Between 1 September and 15 October, local currency (LCY) government bond yields in Singapore fell for all tenors, largely tracking the movement of United States (US) Treasuries, except at the very short-end of the curve (maturities of 3 months and 12 months), where yields rose **(Figure 1)**. Yields on Singapore Government Securities (SGS) bonds fell most sharply for maturities of between 5 years and 20 years, shedding 45–49 basis points (bps), while yields at the very long-end of the curve dipped 39 bps. On the other hand, yields for SGS bills gained 12 bps and 21 bps for the 3-month and 12-month maturities, respectively. As a result, the yield spread between the 2-year and 10-year tenors narrowed to 137 bps in mid-October from 175 bps at end-September.

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



LCY = local currency.
Source: Bloomberg LP.

Declining yields reflected market expectations of monetary easing by the Monetary Authority of Singapore (MAS) given weak economic growth and the persistence of deflation.

In its monetary policy statement on 14 October, MAS announced it would maintain its policy of modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band and held constant the width and level at which the S$NEER policy band is centered. MAS will also slightly reduce the rate of appreciation, signaling a slight easing in its monetary policy stance.

Based on advance estimates released by the Ministry of Trade and Industry, economic growth eased to 1.4% year-on-year (y-o-y) in 3Q15 from 2.0% y-o-y in 1Q15. The slowdown was due largely to a continued slump in the manufacturing sector amid weakness in the electronics, biomedical manufacturing, and transport engineering clusters. On a seasonally adjusted quarterly basis, the economy grew 0.1% in 3Q15 after contracting 2.5% in 2Q15, narrowly missing a technical recession, which is defined as 2 consecutive months of contraction. MAS expects economic growth to moderate earlier than initially projected, but kept its 2015 gross domestic product growth forecast at 2.0%–2.5%.

Singapore recorded deflation for the 10th consecutive month in August as consumer prices declined 0.8% y-o-y, following a 0.4% y-o-y drop in July, largely on account of lower private road transport costs. Accommodation costs also declined due to a soft housing rental market. MAS expects full-year inflation in 2015 to come in at between –0.5% and 0.5%.

Size and Composition

Singapore's LCY bond market contracted 3.9% quarter-on-quarter (q-o-q) in 3Q15 to SGD318 billion (US$224 billion) at end-September **(Table 1)**. On a y-o-y basis, the LCY bond market declined at a pace of 1.4% in 3Q15.

Government Bonds. The stock of LCY government bonds fell 5.0% q-o-q in 3Q15 to SGD188 billion at end-September, as SGS bills and bonds and MAS bills all recorded declines during the quarter in review. SGS bills and bonds slipped 2.3% q-o-q in 3Q15, but were up 1.7% on a y-o-y basis at end-September. Redemption of SGS bonds outpaced new issuance in 3Q15, resulting in a decline in the stock of SGS. New issuance of SGS bills and bonds in 3Q15, which declined 58.1% q-o-q and 42.6% y-o-y to SGD3.9 billion, comprised a SGD2.8 billion 5-year SGS bond and a SGD1.1 billion reopening of a 15-year SGS bond. There were no new issues of SGS bills during the quarter in review.

The outstanding amount of MAS bills declined to SGD85 billion at end-September, falling 8.0% q-o-q

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**323**	**253**	**331**	**246**	**318**	**224**	**3.5**	**6.4**	**(3.9)**	**(1.4)**
Government	195	153	197	147	188	132	2.8	4.2	(5.0)	(3.6)
SGS Bills and Bonds	101	79	105	78	103	72	1.0	(20.9)	(2.3)	1.7
MAS Bills	94	73	92	68	85	60	4.8	58.5	(8.0)	(9.4)
Corporate	128	100	134	99	131	92	4.7	10.1	(2.2)	2.0

( ) = 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.

and 9.4% y-o-y. New issuance of MAS bills totaled SGD82.3 billion in 3Q15, a decline of 7.1% q-o-q and 14.8% y-o-y.

Corporate Bonds. The outstanding stock of LCY corporate bonds stood at SGD131 billion at end-September, according to *AsianBondsOnline* estimates, which was down 2.2% q-o-q but up 2.0% y-o-y.

At end-September, the 30 largest LCY corporate bond issuers had combined outstanding bonds valued at SGD66.5 billion, representing 50.9% of the total corporate bond stock **(Table 2)**. State agency Housing Development Board topped the list with outstanding bonds valued at SGD20.0 billion. The second spot was taken by United Overseas Bank with bonds worth SGD4.1 billion. Another state-owned firm, Land Transport Authority, took the third spot, up from 12th at end-June, with total bonds outstanding of SGD4.0 billion.

The top 30 corporate issuers in Singapore comprise a diverse set of industries including banking, finance, real estate, transportation, and utilities. Only three state-owned firms were on the list of the top 30 issuers in Singapore, although all three were among the top 10.

In 3Q15, new issuance of LCY corporate debt totaled SGD3.7 billion, lower on both a q-o-q and y-o-y basis. Ten firms raised funds from the corporate bond market and issued a total of 13 new bond series. Of these new bond series, nine carried maturities of less than 10 years, and there was one bond series each of 10-year, 12-year, 15-year, and perpetual bonds.

The largest corporate debt issuance during the quarter was Land Transport Authority's four-tranche bond issue totaling SGD2.5 billion. It was followed by Oversea-Chinese Banking Corporation with a perpetual bond issue worth SGD500 million. All other new corporate bonds issues had a size of SGD150 million or less. The largest corporate bond issues in 3Q15 are shown in **Table 3**.

Policy, Institutional, and Regulatory Developments

Singapore Sells its First Singapore Saving Bonds

In September, MAS accepted a total of SGD413 million in applications for its first offering of Singapore Savings Bonds. However, the issue was met with weak demand that fell short of the SGD1.2 billion target. The savings bond program is aimed at providing individual investors with a long-term savings alternative with safe returns. The Singapore Savings Bonds carry a maturity of 10 years and are fully backed by the government. The bonds will be issued monthly for at least 5 years. Up to SGD4 billion worth of Singapore Savings Bonds could be issued in 2015, depending on demand.

MAS and the PRC to Promote Cross-Border Renminbi Transactions

On 13 October, Singapore and the People's Republic of China (PRC) agreed to undertake new initiatives to promote renminbi transactions in Singapore. The existing cross-border renminbi transactions covering Suzhou Industrial Park and the Singapore–Sino Tianjin Eco City

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (SGD billion)	LCY Bonds (US$ billion)			
1.	Housing and Development Board	20.04	14.1	Yes	No	Real Estate
2.	United Overseas Bank	4.05	2.8	No	Yes	Banking
3.	Land Transport Authority	3.98	2.8	Yes	No	Transportation
4.	Temasek Financial I	3.60	2.5	No	No	Finance
5.	DBS Bank	3.30	2.3	No	Yes	Banking
6.	Capitaland	2.97	2.1	No	Yes	Real Estate
7.	FCL Treasury	2.13	1.5	No	No	Real Estate
8.	SP PowerAssets	1.88	1.3	No	No	Utilities
9.	Public Utilities Board	1.75	1.2	Yes	No	Utilities
10.	Olam International	1.72	1.2	No	Yes	Consumer Goods
11.	Keppel Corp	1.50	1.1	No	Yes	Diversified
12.	Oversea-Chinese Banking	1.50	1.1	No	Yes	Banking
13.	GLL IHT	1.47	1.0	No	No	Finance
14.	Hyflux	1.30	0.9	No	Yes	Utilities
15.	Neptune Orient Lines	1.28	0.9	No	Yes	Logistics
16.	City Developments	1.24	0.9	No	Yes	Real Estate
17.	Capitaland Treasury	1.15	0.8	No	No	Finance
18.	Singtel Group Treasury	1.15	0.8	No	Yes	Telecommunications
19.	Keppel Land	1.03	0.7	No	Yes	Real Estate
20.	CapitaMalls Asia Treasury	1.00	0.7	No	No	Finance
21.	Singapore Airlines	1.00	0.7	No	No	Transportation
22.	Sembcorp Financial Services	0.95	0.7	No	No	Finance
23.	Mapletree Treasury Service	0.94	0.7	No	No	Finance
24.	National University of Singapore	0.90	0.6	No	Yes	Education
25.	DBS Group	0.81	0.6	No	Yes	Banking
26.	CMT MTN	0.80	0.6	No	No	Finance
27.	Overseas Union Enterprise	0.80	0.6	No	Yes	Real Estate
28.	Sembcorp Industries	0.80	0.6	No	Yes	Shipbuilding
29.	Global Logistic Properties	0.75	0.5	No	Yes	Real Estate
30.	SMRT Capital	0.75	0.5	No	No	Transportation
Total Top 30 LCY Corporate Issuers		**66.51**	**46.8**			
Total LCY Corporate Bonds		**130.6**	**91.8**			
Top 30 as % of Total LCY Corporate Bonds		**50.9%**	**50.9%**			

LCY = local currency.
Notes:
1. Data as of end-September 2015.
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 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
5-year bond	2.73	650
7-year bond	2.57	600
12-year bond	3.09	600
15-year bond	3.51	650
Oversea-Chinese Banking		
Perpetual bond	3.80	500
Aspial Treasury		
5-year bond	5.25	150
Ezion Holdings		
5-year bond	3.65	120
Ascendas REIT		
5-year bond	2.95	100
CCT MTN		
6-year bond	2.96	100

LCY = local currency.
Source: Bloomberg LP.

will be expanded to cover the cities of Suzhou and Tianjin. The new initiatives will allow banking institutions in Singapore to provide renminbi lending to corporates in Suzhou and Tianjin. Corporates in Suzhou and Tianjin will also be allowed to issue renminbi bonds in Singapore.

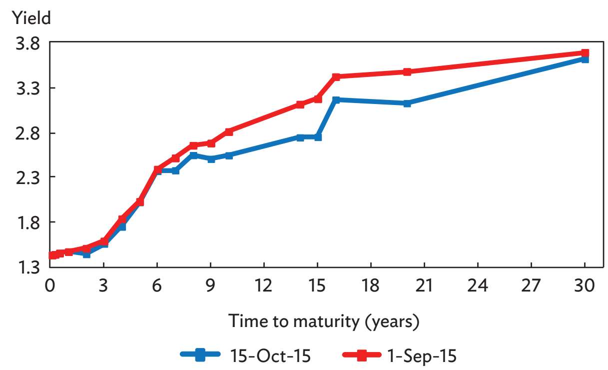
Thailand

Yield Movements

Local currency (LCY) government bond yields in Thailand declined for most tenors between 1 September and 15 October amid market expectations of domestic interest rates remaining low **(Figure 1)**. The yield spread between the 2-year and 10-year tenors narrowed 20 basis points (bps).

The Bank of Thailand's Monetary Policy Committee decided on 16 September to keep the 1-day repurchase rate steady at 1.50%, marking the third consecutive time that the Thai central bank has maintained the policy interest rate. The committee stated that the Thai economy recovered gradually in 2Q15, and that inflationary pressures have weakened. Thailand's overall consumer prices fell 0.8% year-on-year (y-o-y) in October, the tenth consecutive month of decline amid falling energy prices.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The LCY bond market of Thailand continued to expand in 3Q15 as the outstanding stock grew 1.0% quarter-on-quarter (q-o-q) and 5.8% y-o-y, leveling off at THB9,702 billion (US$267 billion) at the end of September **(Table 1)**. The government bond market posted 5.4% y-o-y growth, buoyed by increases in the stock of central bank bonds, central government bonds, and Treasury bills. On a q-o-q basis, total government bonds outstanding slipped 0.1%. Issuance of LCY government bonds in 3Q15 totaled THB1,385 billion, down 23.4% q-o-q and 11.7% y-o-y, due to lower volumes of central government and central bank bond issues.

The outstanding size of Thai LCY corporate bonds was estimated at THB2,413 billion at end-September, posting growth rates of 4.6% q-o-q and 7.0% y-o-y. Issuance of corporate bonds in 3Q15 was estimated at THB399 billion, down 2.1% from the previous quarter and 4.3% from 3Q14.

The top 30 Thai corporate issuers had combined LCY bonds outstanding of THB1,406.9 billion at the end of September, representing 58.3% of total LCY corporate bonds in Thailand **(Table 2)**. The three largest corporate bond issuers were CP All, PTT, and Siam Cement. Of the

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**9,172**	**283**	**9,606**	**284**	**9,702**	**267**	**(0.1)**	**2.7**	**1.0**	**5.8**
Government	6,916	213	7,299	216	7,289	200	(1.3)	(1.3)	(0.1)	5.4
Government Bonds and Treasury Bills	3,454	106	3,602	107	3,678	101	0.8	2.5	2.1	6.5
Central Bank Bonds	2,700	83	2,910	86	2,862	79	(4.4)	(7.6)	(1.6)	6.0
State-Owned Enterprise and Other Bonds	763	24	787	23	749	21	0.5	7.1	(4.8)	(1.8)
Corporate	2,256	70	2,307	68	2,413	66	3.8	17.1	4.6	7.0

( ) = 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.
Sources: Bank of Thailand and Bloomberg LP.

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.	CP All	173.0	4.8	No	Yes	Commerce
2.	PTT	171.3	4.7	Yes	Yes	Energy and Utilities
3.	The Siam Cement	166.5	4.6	Yes	Yes	Construction Materials
4.	Charoen Pokphand Foods	80.0	2.2	No	Yes	Food and Beverage
5.	Thai Airways International	56.6	1.6	Yes	Yes	Transportation and Logistics
6.	Bank of Ayudhya	50.8	1.4	No	Yes	Banking
7.	Indorama Ventures	42.6	1.2	No	Yes	Petrochemicals and Chemicals
8.	The Siam Commercial Bank	40.0	1.1	No	Yes	Banking
9.	Mitr Phol Sugar	38.4	1.1	No	No	Food and Beverage
10.	Banpu	37.9	1.0	No	Yes	Energy and Utilities
11.	True Corporation	36.5	1.0	No	Yes	Communications
12.	Kasikorn Bank	36.0	1.0	No	Yes	Banking
13.	Toyota Leasing Thailand	34.5	0.9	No	No	Finance and Securities
14.	Thanachart Bank	32.5	0.9	No	No	Banking
15.	PTT Exploration and Production Company	32.1	0.9	Yes	Yes	Energy and Utilities
16.	Phatra Securities	31.7	0.9	No	No	Finance and Securities
17.	TPI Polene	29.6	0.8	No	Yes	Property and Construction
18.	Tisco Bank	28.1	0.8	No	No	Banking
19.	Thai Oil	28.1	0.8	Yes	Yes	Energy and Utilities
20.	Land & Houses	26.5	0.7	No	Yes	Property and Construction
21.	TMB Bank	25.4	0.7	No	Yes	Banking
22.	Krung Thai Card	25.1	0.7	Yes	Yes	Finance and Securities
23.	Quality Houses	24.9	0.7	No	Yes	Property and Construction
24.	Krung Thai Bank	23.8	0.7	Yes	Yes	Banking
25.	CH. Karnchang	23.5	0.6	No	Yes	Property and Construction
26.	IRPC	22.6	0.6	Yes	Yes	Energy and Utilities
27.	DAD SPV	22.5	0.6	Yes	No	Finance and Securities
28.	Minor International	22.3	0.6	No	Yes	Food and Beverage
29.	ICBC Thai Leasing	22.1	0.6	No	No	Finance and Securities
30.	Pruksa Real Estate	22.0	0.6	No	Yes	Property and Construction
Total Top 30 LCY Corporate Issuers		**1,406.9**	**38.7**			
Total LCY Corporate Bonds		**2,413.0**	**66.3**			
Top 30 as % of Total LCY Corporate Bonds		**58.3%**	**58.3%**			

LCY = local currency.
Notes:
1. Data as of end-September 2015.
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.

top five LCY bond corporate issues in Thailand in 3Q15, three were from (two) telecommunication companies and two were from a domestic bank **(Table 3)**.

Investor Profile

Contractual savings funds continued to be the largest investor group in Thailand's LCY government bond market, holding 27.9% of the total at the end of June **(Figure 2)**. They were followed by insurance companies with 25.8%. Across investor groups, commercial banks had the largest y-o-y increase in bond holdings share, while individual resident investors posted the biggest y-o-y drop.

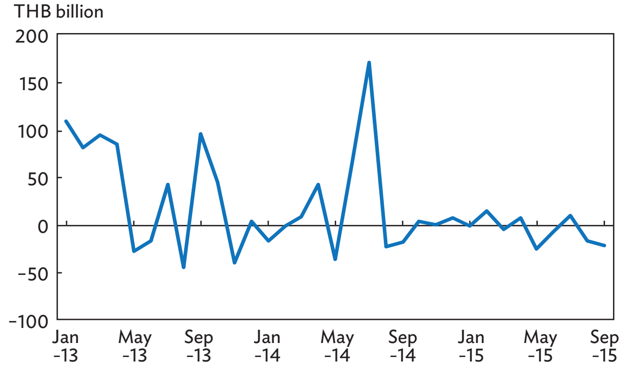
Foreign investors' net bond sales stood at THB29.9 billion in 3Q15—up from 2Q15's THB26.4 billion— with August and September recording relatively large bond sales amid market expectations of an interest rate hike in the United States as well as domestic political concerns **(Figure 3)**.

Table 3: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
True Move H Universal Corporation		
3-year bond	4.20	10.00
3-year bond	4.20	8.40
Bank Ayudhya		
2-year bond	2.00	8.00
3-year bond	2.25	7.00
DTAC Trinet Company		
10-year bond	3.98	6.00

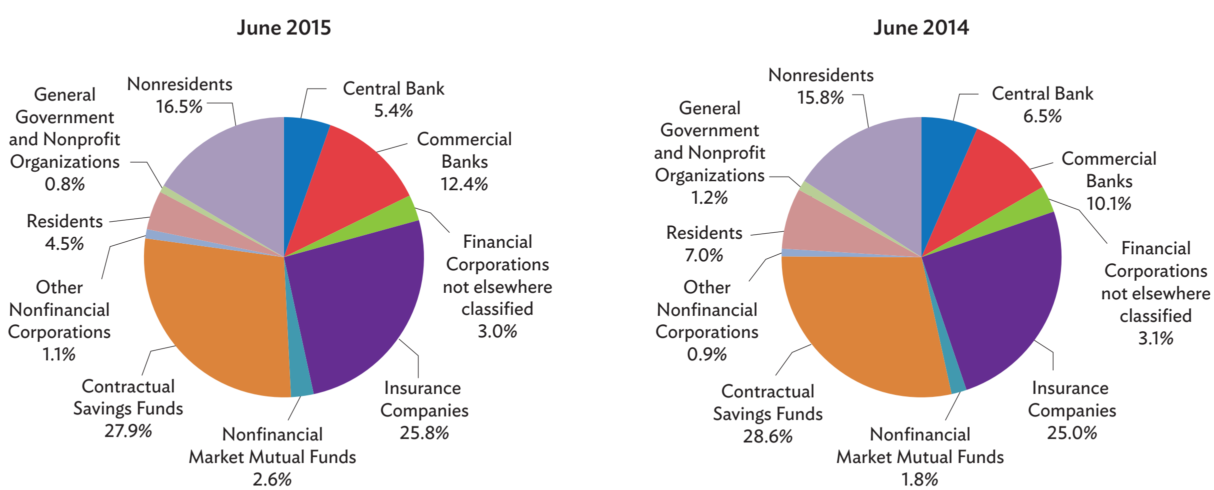
LCY = local currency.
Source: Bloomberg LP.

Figure 3: Foreign Investor Net Trading of LCY Bonds in Thailand



LCY = local currency.
Source: ThaiBMA.

Figure 2: 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.

Policy, Institutional, and Regulatory Developments

Cabinet Approves Growth Measures

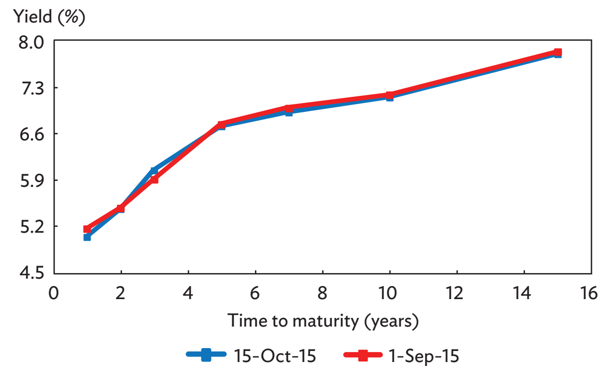
The cabinet approved five policy measures in October to improve the Thai economy, enhance business sentiment, and develop the government's venture capital program. These measures, proposed by the Ministry of Finance, include (i) reducing the corporate income tax rate to 20% from 23%, (ii) providing corporate income and dividend tax exemptions for government venture capital funds over a span of 10 years, (iii) lowering real estate transfer and mortgage fees, (iv) providing a THB10 billion 1-year budget to the Government Housing Bank, and (v) allowing taxable income deductions over 5 years for first-home buyers of up to 20% of the home's value.

Viet Nam

Yield Movements

Between 1 September and 15 October, local currency (LCY) government bond yields in Viet Nam fell for most tenors **(Figure 1)**. The only exception was the 3-year maturity, which gained 14 basis points (bps) during the review period. Bond yields declined the most for the 1-year maturity, shedding 13 bps, while yields slipped 2–7 bps for maturities of between 2 years and 5 years or more. The yield spread between the 2-year and 10-year tenors narrowed to 168 bps on 15 October from 170 bps on 1 September.

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



LCY = local currency.
Source: Bloomberg LP.

Renewed confidence in the LCY bond market has helped keep yields at bay after the United States (US) Federal Reserve refrained from raising interest rate at its mid-September Federal Open Market Committee meeting, which eased concerns of further depreciation of the Vietnamese dong versus the US dollar. A commitment by the State Bank of Viet Nam (SBV) to keep the exchange rate steady for the rest of the year has also contributed to the overall decline in yields.

While bond yields have fallen, the government is still seeking to lower its borrowing costs to ease the public debt burden. Investors have sought higher yields during auctions, making it difficult for the government to fund its budget. Banks' risk preference has veered toward short-dated tenors, deeming long-term bonds more risky. Banks, which are the largest holder of government bonds, continued to channel most of their funds toward lending activities.

Liquidity in the LCY bond market is expected to improve, further easing pressure on long-term yields. The National Assembly has approved the proposal of the Ministry of Finance to issue Treasury bonds with maturities of 5 years or less (see Policy, Institutional, and Regulatory Developments for more detail). However, an upside risk remains as the lead-up to the next Federal Open Market Committee meeting in December may once again put pressure on the currency exchange rate and the yield curve.

Inflation has remained benign so far in 2015, averaging less than 1.0% from January through September.

Consumer prices climbed 0.9% year-on-year (y-o-y) in July, gained 0.6% y-o-y in August, and were unchanged in September. Gross domestic product growth climbed to 6.5% y-o-y in the first 9 months of the year, compared with 5.5% y-o-y over the same 9-month period in 2014. By sector, industry and construction expanded 9.6% y-o-y in January–September, while services grew 6.2% y-o-y. Meanwhile, agriculture, forestry, and fishing grew at a much slower pace of 2.1% y-o-y.

Size and Composition

The outstanding size of Viet Nam's LCY bond market reached VND831.9 trillion (US$37 billion) at end-September, declining 12.6% quarter-on-quarter (q-o-q) and 14.9% y-o-y **(Table 1)**. Growth was mainly driven by state-owned enterprise bonds. Treasury bonds, central bank bonds, and corporate bonds contracted during the review period. At end-September, government bonds continued to dominate the market, accounting for a 98.7% share of the total bond stock; corporate bonds accounted for the remaining 1.3% of the total.

Government Bonds. The outstanding stock of government bonds reached VND821.5 trillion at end-September on declines of 12.5% q-o-q and 14.7% y-o-y. Treasury bonds contracted 2.1% q-o-q, while central bank bonds slipped at a much faster pace of 54.9% q-o-q.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**976,992**	**46**	**951,431**	**44**	**831,890**	**37**	**8.8**	**54.8**	**(12.6)**	**(14.9)**
Government	962,960	45	939,049	43	821,488	37	9.0	56.3	(12.5)	(14.7)
Treasury Bonds	528,885	25	546,192	25	534,576	24	3.6	44.0	(2.1)	1.1
Central Bank Bonds	223,003	11	200,308	9	90,279	4	37.5	380.6	(54.9)	(59.5)
State-Owned Enterprise Bonds	211,072	10	192,549	9	196,633	9	0.1	4.4	2.1	(6.8)
Corporate	14,032	0.7	12,382	0.6	10,402	0.5	(2.8)	(8.6)	(16.0)	(25.9)

( ) = 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.

Growth came solely from state-owned enterprise bonds, which grew 2.1% q-o-q.

In 3Q15, central government bond issuance totaled VND0.9 billion, lower on both a q-o-q and y-o-y basis. The issuance of Treasury bonds dropped sharply as most auctions fell short of target. Through end-September, the Treasury issuance had only reached about 50% of its planned issuance target for the year. The government is now looking at issuing in foreign currency to help fund its fiscal shortfall, with the National Assembly approving issuance of US$3 billion worth of sovereign bonds to fund debt maturing in 2015 and 2016.

On the other hand, issuance of SBV bills in 3Q15 rose 68.4% q-o-q and 22.3% y-o-y, as the central bank issued more bills to mop up excess liquidity in the system and prevent further speculation on the currency.

Corporate Bonds. The outstanding stock of corporate bonds reached VND10.4 trillion at end-September, down 16.0% q-o-q and 25.9% y-o-y. The decline in corporate bonds was due largely to the absence of new issues since the start of the year. Most corporates chose to take out loans instead of raising funds from the bond market. However, some corporates issued debt through a private placement to institutional investors. (*AsianBondsOnline* excludes private placement in its computation of bonds outstanding.)

Viet Nam's entire corporate bond market comprised seven firms at end-September **(Table 2)**. Sharing the

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.	Asia Commercial Joint Stock Bank	3,000.00	0.13	No	Yes	Banking
2.	Techcom Bank	3,000.00	0.13	No	No	Banking
3.	Masan Consumer Holdings	2,100.00	0.09	No	No	Diversified Operations
4.	Ho Chi Minh City Infrastructure	1,081.85	0.05	No	Yes	Infrastructure
5.	Ocean Group	980.00	0.04	No	Yes	Consulting Services
6.	Tan Tao Investment	130.00	0.01	No	No	Real Estate
7.	Ho Chi Minh City Securities	110.00	0.00	No	No	Finance
Total LCY Corporate Issuers		**10,401.8**	**0.46**			

LCY = local currency.
Notes:
1. Data as of end-September 2015.
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.

top post were Asia Commercial Joint Stock Bank and Techcom Bank, with an outstanding bond stock of VND3.0 trillion each. The next largest issuer was Masan Consumer Holdings with outstanding bonds worth VND2.1 trillion.

Policy, Institutional, and Regulatory Developments

SBV Reduces Dollar Interest Rates

In September, the SBV reduced interest rates on US dollar deposits as part of efforts to stabilize the Vietnamese dong. Effective 28 September, the interest rate ceiling was reduced to zero from 0.25% for the US dollar deposits of corporates, and to 0.25% from 0.75% for the US dollar deposits of individuals. The move aims to discourage hoarding of foreign currency and to aid in the implementation of monetary policy and banking activities.

National Assembly Approves Proposal to Resume Issuance of Treasury Bonds with Maturities of Less Than 5 Years

In October, the National Assembly approved a Ministry of Finance proposal to issue government bonds with maturities of 5 years or less beginning in November. Regulations passed in November 2014 limited issuance of Treasury bonds in 2015 to those with maturities of 5 years or more. However, sluggish demand for longer-dated bonds (5 years and up) has made it difficult for the government to fulfill its issuance target. The Ministry of Finance has proposed the issuance of 1-year, 2-year, and 3-year bonds beginning in November.

National Assembly Approves Government Plan to Sell US$3 Billion Worth of International Bonds

In October, the National Assembly approved the government's plan to raise US$3 billion through the issuance of bonds in order to fund debt maturing in 2015 and 2016. The National Assembly's Committee for Budget and Finance, however, noted that borrowing costs for the offshore issuance should not exceed domestic borrowing costs.