

Bond Market Developments in the Third Quarter of 2016

Size and Composition

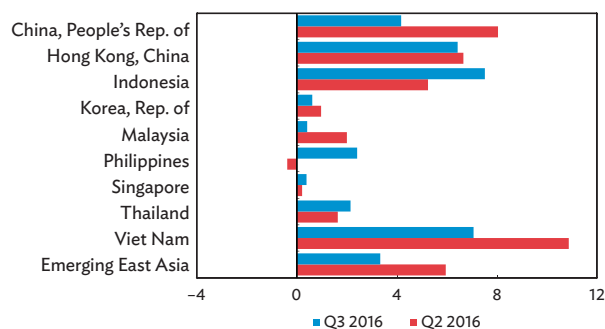
The local currency bond market in emerging East Asia expanded 3.3% quarter-on-quarter to reach USD10.4 trillion at the end of September.

Emerging East Asia's local currency (LCY) bond market continued to expand in the third quarter (Q3) of 2016, reaching a size of USD10,435 billion at the end of September, buoyed largely by growth in the government bond segment.⁵ Growth moderated to 3.3% quarter-on-quarter (q-o-q) in Q3 2016 from 5.9% q-o-q in the second quarter (Q2) of 2016 (**Figure 1a**). Positive but slower q-o-q growth rates were noted for all markets except those in Indonesia, the Philippines, Singapore, and Thailand. The fastest-growing bond markets on a q-o-q basis were in Indonesia (7.5%); Viet Nam (7.0%); and Hong Kong, China (6.4%).

In terms of absolute size, the largest markets were the People's Republic of China's (PRC) and the Republic of Korea's. These two markets accounted for 86.9% of the region's total bond stock at the end of September. Leading the region was the PRC, with outstanding bonds of USD7,178 billion at the end of September, which accounted for a 68.8% share of emerging East Asia's aggregate bond stock. Its q-o-q growth slowed to 4.2% in Q3 2016 because of only marginal gains in its corporate bond segment amid increased risk aversion following a number of corporate bond defaults this year, which shifted demand toward government bonds. The government bond market continued to post strong growth of 6.0% q-o-q in Q3 2016.

The Republic of Korea's LCY bond market, which reached a size of USD1,886 billion at the end of September, expanded 0.6% q-o-q in Q3 2016. Both the government and corporate bond segments posted marginal increases. Growth stemmed mainly from increases in the stock of corporate bonds, Korean Treasury Bills and Bonds, and industrial finance debentures. In contrast, the stock of central bank bonds slipped 1.0% q-o-q in Q3 2016.

Figure 1a: Growth of Local Currency Bond Markets in Q2 2016 and Q3 2016 (q-o-q, %)



q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 September 2016 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, Q3 2016 corporate bonds outstanding based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind Info*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP and Vietnam Bond Market Association).

At the end of September, the LCY bond market in Thailand amounted to USD306 billion worth of bonds outstanding, up 2.1% q-o-q. Growth was driven largely by the corporate bond segment on higher bond sales. The government bond segment also contributed to the growth, although at a slower pace, on increases in its stock of Treasury bills and state-owned enterprise bonds. On the other hand, central bank bonds posted a q-o-q decline.

In Malaysia, the LCY bond market was broadly unchanged at a size of USD282 billion at the end of September on overall growth of 0.4% q-o-q. Growth came largely from the corporate bond segment, which recorded a 3.3% q-o-q hike. In contrast, the government bond stock contracted during the review period as redemptions of matured Malaysian Government Securities exceeded

⁵ Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

new issuance. Also, central bank bills continued to fall in Q3 2016.

Malaysia's LCY bond market is largely dominated by *sukuk* (Islamic bonds), making it the largest *sukuk* market in the region. *Sukuk* accounted for 56.3% of the aggregate bond market at the end of September, including 42.0% of all government bonds and 73.3% of the corporate bond segment.

In Hong Kong, China, the LCY bond market expanded to reach a size of USD241 billion at the end of September on growth of 6.4% q-o-q. Growth came largely from increases in Exchange Fund Bills, Hong Kong Special Administrative Region bonds, and corporate bonds. On the other hand, the stock of Exchange Fund Notes slipped on a q-o-q basis as the Hong Kong Monetary Authority shifted issuance from notes with maturities of 2 years or more to Hong Kong Special Administrative Region bonds.

The LCY bond market in Singapore was almost unchanged in Q3 2016, reaching a size of USD231 billion at the end of September. Growth was largely driven by government bonds on increases in the stock of Monetary Authority of Singapore bills. Singapore Government Securities bonds declined during the review period as redemptions of maturing bonds exceeded new issuance. Corporate bonds, on the other hand, remained steady.

At the end of September, the outstanding amount of LCY bonds in Indonesia climbed to USD165 billion amid strong 7.5% q-o-q growth. The increase was driven largely by central government bonds, comprising Treasury bills and bonds. Declining borrowing costs, as Bank Indonesia engaged in monetary easing, and increased demand for government bonds provided leeway for the government to accept bids in excess of their targeted amount in order to finance a wider budget deficit. The revised state budget for 2016 projected a deficit equivalent to 2.4% of gross domestic product (GDP). However, the Ministry of Finance has recently indicated that the budget deficit in 2016 may reach an equivalent of 2.7% of GDP. To a lesser extent, increases in the stock of central bank bills, known as *Sertifikat Bank Indonesia*, and corporate bonds also contributed to q-o-q growth during the review period.

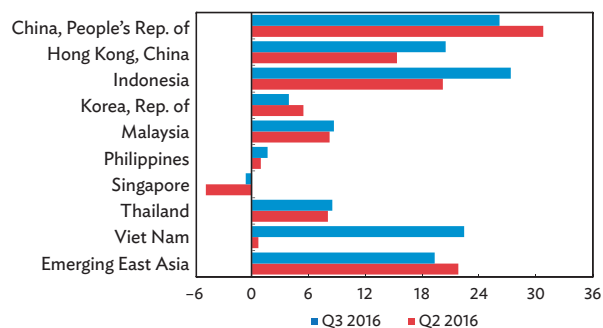
In the Philippines, outstanding LCY bonds reached USD99 billion at the end of Q3 2016, up 2.4% q-o-q. Growth stemmed from increases in the stock of Treasury

bills and bonds and corporate bonds. In contrast, the stock of other government bonds, comprising the bonds of government agencies and state-owned corporations, remained unchanged.

By the end of September, Viet Nam's LCY bond market had expanded to a size of USD47 billion on growth of 7.0% q-o-q. Growth was led by government bonds, particularly State Bank of Vietnam bills, as the central bank purchased US dollars to prop up its foreign exchange reserves, and state-owned enterprise bonds and other bonds. Growth was also buoyed by corporate bonds on the back of new issuance by five corporate entities during the quarter in review.

The region's overall LCY bond market growth of 19.2% year-on-year (y-o-y) in Q3 2016 was a moderation from the 21.7% y-o-y hike posted in the previous quarter (**Figure 1b**). On a y-o-y basis, the fastest-growing bond markets were in Viet Nam, Indonesia, and the PRC. These markets, together with Hong Kong, China's, posted double digit y-o-y growth in Q3 2016. All other markets registered y-o-y growth of between 1.6% and 8.6%, except

Figure 1b: Growth of Local Currency Bond Markets in Q2 2016 and Q3 2016 (y-o-y, %)



Q2 = second quarter, Q3 = third quarter, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 September 2016 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, Q3 2016 corporate bonds outstanding based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind Info*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP and Vietnam Bond Market Association).

for the LCY bond market of Singapore, which contracted marginally.

Emerging East Asia's LCY bond market remained largely dominated by government bonds in Q3 2016, representing a 63.9% share of the region's aggregate bond stock at the end of September (**Table 1**). Total outstanding government bonds stood at USD6,666 billion at the end of September on growth of 4.8% q-o-q and 26.9% y-o-y.

In terms of size, the PRC remained home to the largest LCY government bond market in the region at the end of September at USD4,969 billion. In the second spot was the Republic of Korea with a government bond market size of USD777 billion, followed by Thailand with USD226 billion worth of bonds outstanding. The government bond markets of Hong Kong, China; Indonesia; Malaysia; and Singapore were broadly comparable with one another in terms of size; each had outstanding bonds of between USD134 billion and USD153 billion at the end of September. The smallest government bond markets in the region were those of the Philippines and Viet Nam, which both had outstanding bonds of less than USD100 billion.

At the end of September, the region's LCY corporate bond market reached a size of USD3,769 billion, up 0.9% q-o-q and 7.8% y-o-y. The share of corporate bonds was smaller than that of government bonds, accounting for 36.1% of the region's total bond stock. The PRC was also home to the largest corporate bond market in the region in Q3 2016, with outstanding bonds of USD2,209 billion. This was followed by the Republic of Korea at USD1,109 billion. These two markets together accounted for 88.0% of emerging East Asia's corporate bond market.

The size of emerging East Asia's LCY bond market as a share of GDP climbed to 69.9% in Q3 2016, up from 68.2% in Q2 2016 (**Table 2**). Much of this expansion came from the government bond market as its share of GDP rose by more than 1 percentage point to 44.6% in Q3 2016 from 43.1% in Q2 2016. The share of corporate bonds to GDP was broadly unchanged at 25.2%. As a share of GDP, the largest markets were those of the Republic of Korea and Malaysia with shares of 136.3% and 96.9%, respectively.

Foreign investors' holdings in emerging East Asia's LCY government bond markets continued to rise.

Foreign investors' holdings of emerging East Asia's LCY government bonds remained strong at the end of September amid a global low interest rate environment and the US holding off raising interest rates. At the end of September, foreign holdings' share of LCY government bonds had risen in most markets for which data are available (**Figure 2**). Nonresidents increased their holdings of Indonesian, Malaysian, and Thai government bonds during the review period.

The largest increase came from Malaysia, where the holdings of foreign investors in the LCY government bond market rose to 35.7% at the end of September from 34.5% at the end of June. The increase was largely due to positive economic sentiments as Malaysia's economy grew 4.3% y-o-y in Q3 2016.

Thailand was the second-biggest gainer, with its share of foreign holdings rising to 14.8% in September from 14.5% in June amid expectations of a stable economy in Q3 2016. The Thai economy's GDP growth rate accelerated to 3.5% y-o-y in Q2 2016 from 3.2% y-o-y in the previous quarter.

The foreign holdings' share of government bonds in Indonesia grew slightly to 39.2% at the end of September from 39.1% at the end of June. Foreign investors continue to be attracted to Indonesian yields, which are the highest in emerging East Asia.

In the Republic of Korea, the share of foreign holdings held steady at 9.7% between the end of March and the end of June.

In contrast to government bonds, the share of foreign holdings in the LCY corporate bond market declined in Indonesia in Q2 2016, falling to 6.7% from 7.4% between the end of March and the end of June (**Figure 3**). This continued a trend that has been in place since the share of foreign holdings in the Indonesian LCY corporate bond market peaked at 10.5% in March 2015.

The share of foreign holdings in the Republic of Korea's corporate bond market held steady at a marginal 0.1% during Q2 2016.

Table 1: Size and Composition of Local Currency Bond Markets

	Q3 2015		Q2 2016		Q3 2016		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q3 2015		Q3 2016		Q3 2015		Q3 2016	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	5,978	100.0	6,916	100.0	7,178	100.0	8.0	19.2	4.2	26.0	5.3	15.2	3.8	20.1
Government	3,862	64.6	4,706	68.0	4,969	69.2	9.9	20.6	6.0	35.1	7.2	16.5	5.6	28.7
Corporate	2,116	35.4	2,210	32.0	2,209	30.8	4.7	16.8	0.3	9.5	2.1	12.8	(0.1)	4.4
Hong Kong, China														
Total	200	100.0	226	100.0	241	100.0	1.9	2.9	6.4	20.4	1.9	3.1	6.4	20.3
Government	113	56.5	131	57.7	138	57.2	3.6	2.4	5.4	21.8	3.7	2.6	5.4	21.7
Corporate	87	43.5	96	42.3	103	42.8	(0.3)	3.6	7.8	18.5	(0.3)	3.8	7.8	18.4
Indonesia														
Total	115	100.0	152	100.0	165	100.0	1.5	12.4	7.5	27.2	(7.6)	(6.5)	8.9	42.9
Government	98	85.3	131	86.5	143	86.7	0.9	12.3	7.7	29.4	(8.1)	(6.6)	9.1	45.3
Corporate	17	14.7	20	13.5	22	13.3	4.4	13.4	6.2	14.9	(4.9)	(5.7)	7.5	29.0
Korea, Rep. of														
Total	1,687	100.0	1,792	100.0	1,886	100.0	2.1	10.5	0.6	3.9	(3.9)	(1.7)	5.2	11.8
Government	686	40.7	741	41.3	777	41.2	1.0	14.3	0.3	5.2	(5.0)	1.8	4.9	13.2
Corporate	1,000	59.3	1,051	58.7	1,109	58.8	2.9	7.9	0.8	3.0	(3.2)	(3.9)	5.5	10.8
Malaysia														
Total	245	100.0	289	100.0	282	100.0	(0.01)	(0.3)	0.4	8.6	(14.2)	(25.6)	(2.3)	15.3
Government	137	55.9	160	55.4	153	54.1	(1.0)	(4.9)	(1.9)	4.9	(15.0)	(29.0)	(4.5)	11.5
Corporate	108	44.1	129	44.6	130	45.9	1.3	6.1	3.3	13.3	(13.1)	(20.8)	0.6	20.3
Philippines														
Total	101	100.0	99	100.0	99	100.0	1.7	2.8	2.4	1.6	(1.8)	(1.1)	(0.4)	(2.0)
Government	84	83.4	82	82.8	82	82.4	1.1	2.4	1.9	0.4	(2.4)	(1.4)	(0.8)	(3.2)
Corporate	17	16.6	17	17.2	17	17.6	4.7	4.8	4.6	7.7	1.1	0.8	1.8	3.9
Singapore														
Total	223	100.0	233	100.0	231	100.0	(3.9)	(1.1)	0.4	(0.7)	(8.9)	(11.3)	(0.8)	3.6
Government	132	59.1	135	57.8	134	57.9	(5.0)	(3.6)	0.6	(2.6)	(10.0)	(13.6)	(0.6)	1.7
Corporate	91	40.9	98	42.2	97	42.1	(2.2)	2.9	0.1	2.0	(7.4)	(7.7)	(1.1)	6.5
Thailand														
Total	269	100.0	295	100.0	306	100.0	1.7	6.5	2.1	8.4	(5.5)	(5.0)	3.7	14.0
Government	201	74.9	220	74.4	226	73.8	0.2	5.7	1.3	6.9	(6.9)	(5.7)	2.8	12.4
Corporate	68	25.1	75	25.6	80	26.2	6.5	8.9	4.6	13.0	(1.0)	(2.9)	6.2	18.8
Viet Nam														
Total	38	100.0	43	100.0	47	100.0	(11.9)	(13.3)	7.0	22.3	(14.4)	(18.1)	7.1	23.3
Government	37	96.8	42	96.0	45	96.1	(12.5)	(14.6)	7.2	21.4	(15.0)	(19.4)	7.2	22.4
Corporate	1	3.2	2	4.0	2	3.9	9.4	67.0	3.4	49.8	6.3	57.7	3.4	51.0
Emerging East Asia														
Total	8,856	100.0	10,046	100.0	10,435	100.0	5.5	14.7	3.3	19.2	1.6	7.5	3.9	17.8
Government	5,351	60.4	6,347	63.2	6,666	63.9	6.7	16.1	4.8	26.9	3.0	9.3	5.0	24.6
Corporate	3,505	39.6	3,699	36.8	3,769	36.1	3.7	12.6	0.9	7.8	(0.4)	4.9	1.9	7.5
Japan														
Total	9,125	100.0	10,812	100.0	11,110	100.0	0.6	2.5	0.9	2.9	2.8	(6.3)	2.8	21.8
Government	8,464	92.8	10,062	93.1	10,327	93.0	0.7	2.9	0.8	3.2	2.9	(5.9)	2.6	22.0
Corporate	661	7.2	749	6.9	783	7.0	(0.9)	(2.7)	2.6	0.1	1.3	(11.0)	4.4	18.4

(-) = negative, LCY = local currency, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. For Hong Kong, China, Q3 2016 corporate bonds outstanding based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

2. Corporate bonds include issues by financial institutions.

3. Bloomberg LP end-of-period LCY-USD rates are used.

4. For LCY base, emerging East Asia growth figures based on 30 September 2016 currency exchange rates and do not include currency effects.

5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Sources: People's Republic of China (*ChinaBond* and *Wind Info*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP and Vietnam Bond Market Association); and Japan (Japan Securities Dealers Association).

Table 2: Size and Composition of Local Currency Bond Markets (% of GDP)

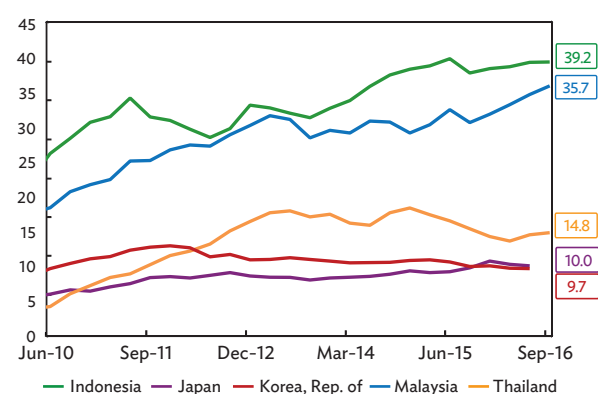
	Q3 2015	Q2 2016	Q3 2016
China, People's Rep. of			
Total	56.3	64.9	66.3
Government	36.4	44.2	45.9
Corporate	19.9	20.7	20.4
Hong Kong, China			
Total	65.5	72.0	76.0
Government	37.0	41.6	43.4
Corporate	28.5	30.5	32.6
Indonesia			
Total	15.0	16.7	17.7
Government	12.8	14.5	15.3
Corporate	2.2	2.3	2.4
Korea, Rep. of			
Total	129.9	129.5	136.3
Government	52.9	53.5	56.2
Corporate	77.0	76.0	80.1
Malaysia			
Total	94.1	98.1	96.9
Government	52.7	54.3	52.4
Corporate	41.5	43.8	44.5
Philippines			
Total	36.0	33.9	34.0
Government	30.0	28.1	28.0
Corporate	6.0	5.8	6.0
Singapore			
Total	79.1	78.3	77.7
Government	46.7	45.3	45.0
Corporate	32.4	33.0	32.7
Thailand			
Total	72.8	75.0	77.8
Government	54.5	55.8	57.4
Corporate	18.3	19.2	20.4
Viet Nam			
Total	20.6	22.6	23.7
Government	20.0	21.7	22.8
Corporate	0.7	0.9	0.9
Emerging East Asia			
Total	61.7	68.2	69.9
Government	37.3	43.1	44.6
Corporate	24.4	25.1	25.2
Japan			
Total	220.3	222.1	223.7
Government	204.4	206.7	207.9
Corporate	16.0	15.4	15.8

GDP = gross domestic product, Q2 = second quarter, Q3 = third quarter.

Notes:

1. Data for GDP is from CEIC. Q3 2016 GDP figures carried over from Q2 2016 for the Republic of Korea, Singapore, and Thailand.
2. For Hong Kong, China, Q3 2016 corporate bonds outstanding based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind Info*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP and Vietnam Bond Market Association); and Japan (Japan Securities Dealers Association).

Figure 2: Foreign Holdings of Local Currency Government Bonds in Select Asian Economies (% of total)

Note: Data as of end-September 2016 except for Japan and the Republic of Korea (end-June 2016).

Source: *AsianBondsOnline*.

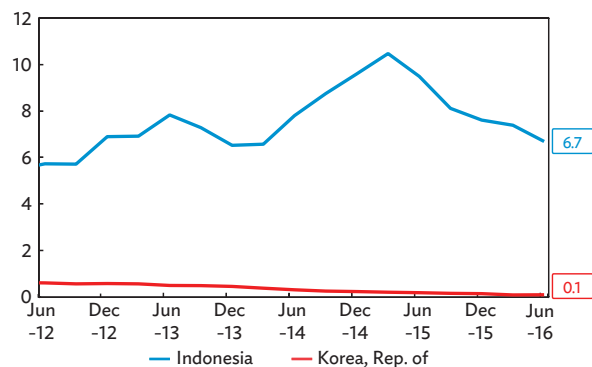
Emerging East Asia recorded positive net foreign capital flows in Q3 2016.

Consistent with the foreign holdings data, foreign bond inflows were positive in Q3 2016, albeit weaker when compared with Q2 2016. The only exception was Indonesia, which recorded higher bond inflows during the quarter. On the other hand, the Republic of Korea posted a net capital outflow during the review period (**Figure 4**). However, some degree of reversal is expected given current market conditions that include investors shifting to safe-haven assets.

Given its relatively high interest rates, Indonesia continued to attract foreign capital in Q3 2016, when capital inflows in Indonesia's bond market reached USD3.1 billion, up from USD2.9 billion in the prior quarter. While capital inflows in Thailand's bond market fell to USD3.2 billion in Q3 2016 from USD3.9 billion in Q2 2016, these were still the region's largest inflows during the review period among all markets for which data are available.

Malaysia's net capital inflows moderated to USD1.1 billion in Q3 2016 from USD3.9 billion in Q2 2016 due to outflows in September, which were partly due to maturing Malaysian Government Securities as well as investors' risk aversion over concerns that the Organization of the

Figure 3: Foreign Holdings of Local Currency Corporate Bonds in Indonesia and the Republic of Korea (% of total)



Note: For Indonesia, data as of 1 July 2016. For the Republic of Korea, data as of end-June 2016.
Sources: Based on data from Otoritas Jasa Keuangan and the Bank of Korea.

Petroleum Exporting Countries would not be able to maintain supply cuts, putting downward pressure on oil prices.

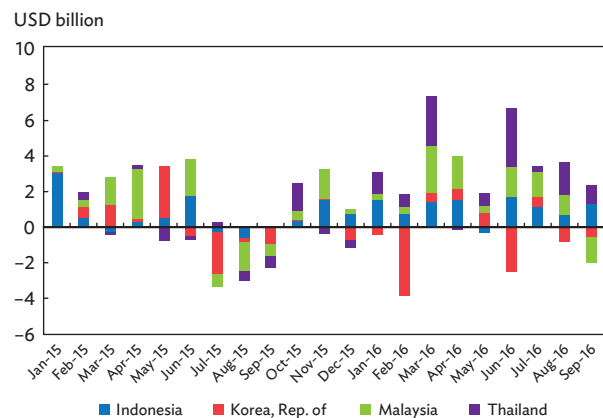
The Republic of Korea continued to experience net foreign bond outflows in Q3 2016, which totaled USD0.9 billion and were down slightly from USD1.1 billion in Q2 2016. According to the Financial Supervisory Service, the outflows in the Republic of Korea stemmed mainly from maturing central bank bonds, while foreign investment in Treasury bond continued to be steady. In contrast, the Financial Supervisory Service reported strong equity inflows, suggesting that some investors may be shifting from bonds to equities.

Emerging East Asia's local currency bond issuance was mixed in the third quarter of 2016.

Emerging East Asia's LCY bond issuance exhibited a mixed performance in Q3 2016 as total issuance of USD1,167 billion was down from USD1,323 billion in Q2 2016 but up from USD1,104 billion in Q3 2015 (**Table 3**). The q-o-q contraction was the result of negative growth in LCY bond sales in the PRC and the Republic of Korea, while the y-o-y increase stemmed from issuance growth in the PRC; Hong Kong, China; Indonesia; Malaysia; Thailand; and Viet Nam.

The PRC led the region in LCY bond issuance in Q3 2016 with USD717 billion, which accounted for 61.4% of the

Figure 4: Foreign Bond Flows in Select Emerging East Asian Markets



Notes:

1. The Republic of Korea and Thailand provides data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data provided as of September 2016.
3. Figures were computed based on 30 September 2016 exchange rates to avoid currency effects.

Sources: Directorate General of Budget Financing and Risk Management, Ministry of Finance; Financial Supervisory Service; Bank Negara Malaysia; and Thai Bond Market Association.

regional total. Its issuance trends were mixed in Q3 2016, with a decline from the previous quarter but a gain from Q3 2015. The y-o-y increase was mainly induced by changes in the issuance of Treasury and other government bonds. The q-o-q decline was driven by a slowdown in the issuance of local government bonds, which totaled CNY1.5 trillion in Q3 2016 versus CNY2.6 trillion in Q2 2016. The slowdown was partly due to the quota for the swap program set by the government of CNY15 trillion until 2017. Since 2015, a total of CNY8.9 trillion had been issued through the end of Q3 2016.

Hong Kong, China's LCY bond issuance totaled USD107 billion in Q3 2016, up on both a q-o-q and y-o-y basis due to increased bond sales by the Hong Kong Monetary Authority in response to demand from banks. Low Hong Kong dollar interest rates also led to more active bond issuance from the corporate sector and contributed to the y-o-y growth.

In the Republic of Korea, LCY bond issuance fell on both q-o-q and y-o-y basis in Q3 2016 to level off at USD144 billion. Issuance was down for Korea Treasury Bonds, Monetary Stabilization Bonds, and corporate bonds.

Table 3: Local-Currency-Denominated Bond Issuance (gross)

	Q3 2015		Q2 2016		Q3 2016		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q3 2016		Q3 2016	
							q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	692	100.0	894	100.0	717	100.0	(19.5)	8.8	(19.8)	3.6
Government	432	62.5	685	76.6	491	68.5	(28.0)	19.2	(28.3)	13.6
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	432	62.5	685	76.6	491	68.5	(28.0)	19.2	(28.3)	13.6
Corporate	259	37.5	209	23.4	226	31.5	8.3	(8.7)	7.9	(13.1)
Hong Kong, China										
Total	84	100.0	98	100.0	107	100.0	9.0	27.1	9.0	27.0
Government	79	93.7	82	83.7	91	85.1	10.7	15.4	10.8	15.3
Central Bank	77	92.1	80	81.5	90	84.5	12.9	16.6	13.0	16.5
Treasury and Other Govt.	1	1.6	2	2.2	1	0.6	(70.9)	(54.7)	(70.9)	(54.8)
Corporate	5	6.3	16	16.3	16	14.9	0.0	201.3	0.03	201.1
Indonesia										
Total	8	100.0	14	100.0	15	100.0	7.1	74.6	8.5	96.2
Government	6	85.4	11	81.7	13	85.8	12.5	75.5	13.9	97.2
Central Bank	1	18.9	2	16.0	4	24.2	61.4	123.0	63.5	150.5
Treasury and Other Govt.	5	66.5	9	65.7	9	61.6	0.5	62.0	1.8	82.0
Corporate	1	14.6	2	18.3	2	14.2	(17.1)	69.4	(16.0)	90.3
Korea, Rep. of										
Total	156	100.0	154	100.0	144	100.0	(10.7)	(14.2)	(6.6)	(7.6)
Government	71	45.6	76	49.0	70	48.5	(11.6)	(8.6)	(7.5)	(1.6)
Central Bank	36	23.2	40	25.9	35	24.2	(16.6)	(10.7)	(12.7)	(3.9)
Treasury and Other Govt.	35	22.3	36	23.2	35	24.4	(6.0)	(6.4)	(1.7)	0.8
Corporate	85	54.4	78	51.0	74	51.5	(9.8)	(18.9)	(5.7)	(12.7)
Malaysia										
Total	15	100.0	15	100.0	16	100.0	6.4	2.2	3.6	8.5
Government	9	62.5	7	45.3	6	39.9	(6.2)	(34.7)	(8.7)	(30.7)
Central Bank	3	20.9	0.4	2.8	1	6.0	128.6	(70.6)	122.5	(68.8)
Treasury and Other Govt.	6	41.6	7	42.5	5	33.9	(15.1)	(16.7)	(17.3)	(11.5)
Corporate	6	37.5	8	54.7	10	60.1	16.9	63.6	13.8	73.7
Philippines										
Total	10	100.0	4	100.0	8	100.0	103.0	(17.3)	97.6	(20.2)
Government	9	90.8	4	96.2	7	87.9	85.6	(19.9)	80.6	(22.8)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	9	90.8	4	100.0	7	87.9	85.6	(19.9)	80.6	(22.8)
Corporate	0.9	9.2	0.1	3.8	0.9	12.1	540.7	9.4	523.5	5.5
Singapore										
Total	63	100.0	63	100.0	65	100.0	4.3	(1.2)	3.1	3.1
Government	61	95.9	60	94.6	62	95.4	5.1	(1.7)	3.9	2.5
Central Bank	58	91.6	52	81.8	58	89.2	13.6	(3.8)	12.3	0.4
Treasury and Other Govt.	3	4.3	8	12.8	4	6.2	(49.5)	41.0	(50.1)	47.2
Corporate	3	4.1	3	5.4	3	4.6	(10.1)	12.6	(11.2)	17.5
Thailand										
Total	62	100.0	74	100.0	78	100.0	3.6	19.2	5.2	25.3
Government	51	81.6	63	85.4	64	82.5	0.1	20.6	1.7	26.8
Central Bank	40	65.2	54	73.5	55	70.6	(0.5)	29.2	1.1	35.9
Treasury and Other Govt.	10	16.4	9	11.9	9	11.9	3.8	(13.5)	5.4	(9.0)
Corporate	11	18.4	11	14.6	14	17.5	23.6	13.0	25.5	18.8

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Table 3 continued

	Q3 2015		Q2 2016		Q3 2016		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q3 2016		Q3 2016	
							q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	15	100.0	7	100.0	18	100.0	173.8	22.2	173.9	23.2
Government	15	98.7	7	98.7	18	99.7	176.5	23.4	176.6	24.4
Central Bank	14	92.2	1	21.3	15	83.6	975.2	10.8	975.6	11.7
Treasury and Other Govt.	1	6.5	5	77.4	3	16.1	(43.1)	202.2	(43.1)	204.6
Corporate	0.2	1.3	0.1	1.3	0.1	0.3	(29.4)	(67.0)	(29.4)	(66.7)
Emerging East Asia										
Total	1,104	100.0	1,323	100.0	1,167	100.0	(12.0)	7.0	(11.8)	5.7
Government	732	66.4	994	75.1	822	70.4	(17.4)	13.6	(17.3)	12.3
Central Bank	230	20.8	230	17.4	258	22.1	11.2	8.4	12.2	12.0
Treasury and Other Govt.	502	45.5	764	57.8	564	48.4	(26.0)	16.2	(26.1)	12.4
Corporate	371	33.6	329	24.9	345	29.6	4.0	(5.9)	4.8	(7.1)
Japan										
Total	407	100.0	469	100.0	509	100.0	6.6	5.6	8.6	24.9
Government	383	94.1	440	94.0	454	89.3	1.3	0.2	3.2	18.5
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	383	94.1	440	94.0	454	89.3	1.3	0.2	3.2	18.5
Corporate	24	5.9	28	6.0	55	10.7	89.7	92.6	93.2	127.8

(-) = negative, - = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Corporate bonds include issues by financial institutions.

2. For Hong Kong, China, Q3 2016 corporate bond issuance carried over from Q2 2016.

3. Bloomberg LP end-of-period LCY-USD rates are used.

4. For LCY base, emerging East Asia growth figures are based on 30 September 2016 currency exchange rates and do not include currency effects.

Sources: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (EDAILY *Bondweb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand and ThaiBMA); Viet Nam (Bloomberg LP and Vietnam Bond Market Association); and Japan (Japan Securities Dealers Association).

In the six Association of Southeast Asian Nations (ASEAN) member countries—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—combined LCY bond sales rose to USD200 billion in Q3 2016 from USD177 billion in Q2 2016 and USD172 billion in Q3 2015.

Indonesia's LCY bond issuance increased on both a q-o-q and y-o-y basis in Q3 2016 to reach USD15 billion, with the q-o-q uptick largely attributed to more active bond issuance from Bank Indonesia and the y-o-y hike ascribed to larger bond sales from Bank Indonesia, the central government, and the corporate sector.

LCY bond issuance in Malaysia stood at USD16 billion in Q3 2016, higher on both a q-o-q and y-o-y basis, mainly on the back of increased corporate bond issues, which were dominated by *sukuk* such as Islamic medium-term notes.

In the Philippines, Q3 2016 LCY bond sales worth USD8 billion were up from Q2 2016 levels due to larger q-o-q issuance of Treasury bills and bonds and corporate bonds, but down from Q3 2015 issuance due to fewer Treasury bond auctions.

Singapore's USD65 billion worth of LCY bond issues in Q3 2016 mostly comprised Monetary Authority of Singapore bills. LCY bond issuance in Q3 2016 was up from the previous quarter but down from the same quarter in the previous year.

LCY bond issuance in Thailand climbed on both a q-o-q and y-o-y basis in Q3 2016, leveling off at USD78 billion at the end of September. The increase from the previous quarter came on the back of greater issuance of central government and corporate securities, while the y-o-y hike came from increased sales of Bank of Thailand bills and bonds and corporate securities.

Viet Nam's LCY bond issuance expanded to USD18 billion in Q3 2016, with the q-o-q growth much larger than the y-o-y increase. The relatively sharp q-o-q hike was mainly the result of a surge in State Bank of Vietnam bond volumes, while the relatively modest y-o-y rise was due to increased issuance of State Bank of Vietnam bonds and Treasury bonds.

Intra-emerging East Asian LCY bond issuance fell 23.7% y-o-y but soared 55.4% q-o-q in Q3 2016, leveling off at USD2.6 billion. Two PRC-based financial institutions sold HKD-denominated bonds worth HKD576 million in Q3 2016. In Hong Kong, China, eight institutions raised a combined CNY11 billion worth of renminbi-denominated bonds. Korea Eximbank raised USD157 million from a multitranche sale of renminbi- and HKD-denominated bonds. Three Malaysian financial institutions sold renminbi- and HKD-denominated bonds totaling USD191 million. In Singapore, five financial institutions issued HKD-denominated bonds amounting to HKD3.5 billion. In Thailand, CIMB Thai Bank sold MYR570 million (USD138 million) worth of 10-year MYR-denominated bonds in Q3 2016.

Emerging East Asia G3 currency bond issuance picked up in January–September.

Emerging East Asia's G3 currency bond issuance in the first 9 months of 2016 stood at USD154 billion, or the equivalent of 84% of the full-year 2015 total (**Table 4**).⁶ The January–September total was up 9.4% y-o-y, fueled by larger bond sales in the PRC; Hong Kong, China; Indonesia; the Republic of Korea; Singapore; and Thailand; as well as new issuance in the Lao People's Democratic Republic (Lao PDR). The US dollar remained the most preferred G3 currency among emerging East Asian issuers, accounting for 90% of the regional total in January–September. The euro and Japanese yen comprised 9% and 1%, respectively.

The PRC continued to dominate the region's G3 currency bond market with issues amounting to USD87.2 billion, which accounted for 57% of the regional total in January–September. The PRC total was 8.9% higher than in the first 9 months of 2015. The largest PRC issuer of G3 currency bonds in the period under review was China Development Bank, which sold USD- and euro-denominated bonds totaling USD6.4 billion. The single-

biggest G3 currency bond issue was that of China Cinda Asset Management, which sold a USD3.2 billion perpetual bond in September.

The Republic of Korea remained the second-largest source of G3 currency bonds in emerging East Asia, accumulating USD20.9 billion in total G3 issuance in January–September, which was up 30.3% y-o-y and represented the equivalent of 90% of the full-year 2015 total. Banks were the dominant issuer group, led by Korea Eximbank and Korea Development Bank, which issued G3 currency bonds totaling USD5.2 billion and USD3.1 billion, respectively.

Hong Kong, China's G3 currency bond issuance between 1 January and 30 September totaled USD17.7 billion, the third-largest amount in the region and 24.5% larger on a y-o-y basis. CK Hutchison was the largest issuer of G3 currency bonds in Hong Kong, China, selling a total of USD2.2 billion, which included a EUR1.35 billion 7-year bond.

G3 currency bond issuance from ASEAN-based entities during the first 9 months of the year reached USD28.3 billion, which was down 7.3% y-o-y. Indonesia was the largest source of G3 currency bonds among ASEAN members, tallying USD12.7 billion in new issuance, which was 8.9% larger on a y-o-y basis, led by the combined USD11.7 billion worth of G3 currency bond sales from the central government and central bank. EDL Generation, an electricity producer in the Lao PDR, raised USD312 million from a triple tranche USD-denominated bond offering in Thailand in September. Malaysia's January–September G3 currency bond sales were valued at USD4.1 billion, down 49.0% y-o-y. Sales were led by the central government, which issued a USD1.5 billion dual-tranche USD-denominated *sukuk* in April. The Philippines' only G3 currency bond issue during the review period was a USD2 billion 25-sovereign bond issued in March, which represented a decline of 49.2% y-o-y. G3 currency bonds issued in Singapore between 1 January and 30 September totaled USD8.6 billion, up 26.2% y-o-y, buoyed by vibrant issuance from financial institutions such as United Overseas Bank, which sold euro- and USD-denominated bonds totaling USD2.2 billion. Three corporate entities from Thailand issued USD-denominated bonds totaling USD675 million in the period under review.

⁶ G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2015			1 January–30 September 2016		
Issuer	Amount (USD million)	Issue Date	Issuer	Amount (USD million)	Issue Date
China, People's Rep. of	103,527		China, People's Rep. of	87,152	
China Construction Bank 4.65% Perpetual	3,050	16-Dec-15	China Cinda Asset Management 4.45% Perpetual	3,200	30-Sep-16
Sinopec 2.5% 2020	2,500	28-Apr-15	Proven Honour Capital 4.125% 2026	2,000	6-May-16
Bank of Communications 5% Perpetual	2,450	29-Jul-15	Sinopec 2% 2021	1,300	29-Sep-16
China Construction Bank 3.875% 2025	2,000	13-May-15	Export–Import Bank of China 2% 2021	1,250	26-Apr-16
CNOOC Finance 3.5% 2025	2,000	5-May-15	China Development Bank 0.5% 2021	1,124	1-Jun-16
ICBC 4.875% 2025	2,000	21-Sep-15	China Development Bank 0.875% 2018	1,124	3-Feb-16
China Cinda Finance (2015) 4.25% 2025	1,700	23-Apr-15	Sinopec 1.75% 2019	1,100	29-Sep-16
Evergrande Real Estate Group 9% Perpetual	1,500	29-Dec-15	Three Gorges Finance 3.15% 2026	1,000	2-Jun-16
Others	86,327		Others	75,054	
Hong Kong, China	18,702		Hong Kong, China	17,658	
Shimao Property 8.375% 2022	1,100	10-Feb-15	CK Hutchison 1.25% 2023	1,517	8-Apr-16
Hong Kong, China (Sovereign) Sukuk 1.894% 2020	1,000	3-Jun-15	China Overseas Finance 0% 2023	1,500	5-Jan-16
Others	16,602		Others	14,641	
Indonesia	15,572		Indonesia	12,651	
Indonesia (Sovereign) 4.75% 2026	2,250	8-Dec-15	Perusahaan Penerbit SBSN Sukuk 4.55% 2026	1,750	29-Mar-16
Indonesia (Sovereign) 4.125% 2025	2,000	15-Jan-15	Indonesia (Sovereign) 2.625% 2023	1,685	14-Jun-16
Indonesia (Sovereign) 5.125% 2045	2,000	15-Jan-15	Indonesia (Sovereign) 3.75% 2028	1,685	14-Jun-16
Perusahaan Penerbit SBSN Sukuk 4.325% 2025	2,000	28-May-15	Perusahaan Penerbit SBSN Sukuk 3.4% 2021	750	29-Mar-16
Indonesia (Sovereign) 3.375% 2025	1,397	30-Jul-15	Listrindo Capital 4.95% 2026	550	13-Sep-16
Others	5,925		Others	6,231	
Korea, Rep. of	23,348		Korea, Rep. of	20,939	
Korea Eximbank 2.875% 2025	1,250	21-Jan-15	Korea Development Bank 3% 2026	1,000	13-Jan-16
Korea Eximbank 2.25% 2020	1,000	21-Jan-15	Korea Eximbank 1.75% 2019	1,000	26-May-16
Korea Eximbank 3.25% 2025	1,000	10-Nov-15	Korea Eximbank 2.625% 2026	1,000	26-May-16
Others	20,098		Others	17,939	
Lao People's Dem. Rep.	182		Lao People's Dem. Rep.	312	
Malaysia	8,496		Malaysia	4,061	
Petronas Capital 3.5% 2025	1,500	18-Mar-15	Malaysia (Sovereign) Sukuk 3.179% 2026	1,000	27-Apr-16
Petronas Capital 4.5% 2045	1,500	18-Mar-15	Danga Capital 3.035% 2021	750	1-Mar-16
Petronas Global Sukuk 2.707% 2020	1,250	18-Mar-15	Maybank 3.905% 2026	500	29-Apr-16
Others	4,246		Others	1,811	
Philippines	4,256		Philippines	2,000	
Philippines (Sovereign) 3.95% 2040	2,000	20-Jan-15	Philippines (Sovereign) 3.7% 2041	2,000	1-Mar-16
Royal Capital BV 5.5% Perpetual	450	26-Aug-15	Singapore	8,599	
Others	1,806		BOC Aviation 3.875% 2026	750	27-Apr-16
Singapore	8,346		DBS Group 3.6% Perpetual	750	7-Sep-16
Global Logistics Properties 3.875% 2025	1,000	4-Jun-15	United Overseas Bank 3.5% 2026	700	16-Mar-16
DBS Bank 1.625% 2018	1,000	6-Aug-15	Temasek Financial 0.5% 2022	674	1-Mar-16
BOC Aviation 3% 2020	750	30-Mar-15	United Overseas Bank 2.88% 2027	600	8-Sep-16
Others	5,596		Others	5,125	
Thailand	176		Thailand	675	
Emerging East Asia Total	182,605		Emerging East Asia Total	154,046	
Memo Items:			Memo Items:		
India	10,919		India	6,489	
Bharti Airtel 4.375% 2025	1,000	10-Jun-15	Export–Import Bank of India 3.375% 2026	1,000	5-Aug-16
Others	8,919		Others	5,489	
Sri Lanka	3,649		Sri Lanka	2,916	

USD = United States dollar.

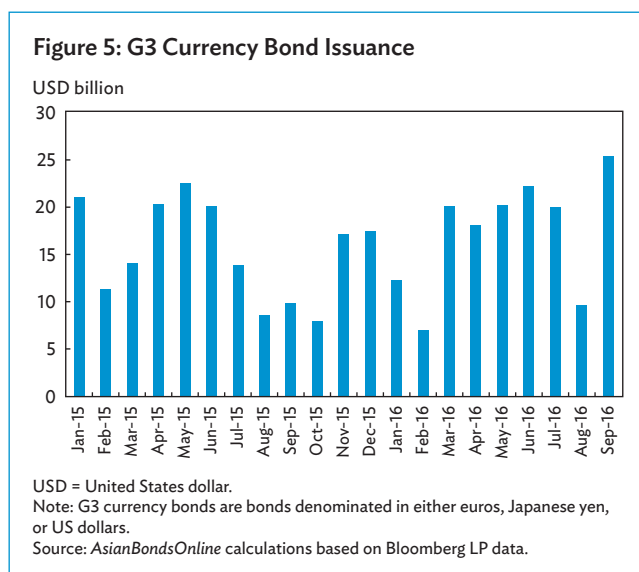
Notes:

1. Data exclude certificates of deposit.

2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Monthly G3 currency bond issuance from emerging East Asia exhibited an erratic trend in Q3 2016, falling from USD19.9 billion in July to USD9.5 billion in August before climbing to USD25.2 billion in September (**Figure 5**). The monthly decline between July and August was brought about by lower month-on-month G3 currency bond sales in the PRC; Hong Kong, China; Indonesia; the Republic of Korea; and Singapore. Between August and September, G3 currency bond issuance accelerated in the PRC; Hong Kong, China; Indonesia; Malaysia; and Singapore. There were also new G3 currency bond sales in the Lao PDR and Thailand in September.



Government bond yield curves in all emerging East Asian markets rose for most tenors due to increased concerns over the direction of the United States economy.

With the recently concluded US election, markets outside of the US experienced rising uncertainty and increased risk aversion as investors struggled to discern the future direction of the incoming US administration's economic policies.

While there are a number of unknowns regarding US economic policy under the new administration, US interest rates have risen since the election as the new government is expected to boost GDP growth and inflation.

In addition, the US economy has strengthened, increasing the likelihood that the Federal Reserve will raise the policy rate in December. The US reported an average monthly

increase in nonfarm payrolls of 206,000 in Q3 2016, compared with a monthly average of 146,000 in Q2 2016. In October, nonfarm payrolls were up a modest 161,000. US GDP growth accelerated to an annual rate of 2.9% in Q3 2016 from 1.4% in Q2 2016, according to advanced estimates from the Bureau of Economic Analysis. There were also gains in manufacturing, with the Institute for Supply Management reporting that the Purchasing Managers Index rose to 51.9 in October from 51.5 in September. Inflation was also up in October, rising to 1.6% y-o-y from 1.5% y-o-y in September.

In the November testimony of Federal Reserve Chair Janet Yellen, she indicated that a rate increase could occur relatively soon if economic data further strengthened, thus bolstering the likelihood of a federal funds rate hike in December.

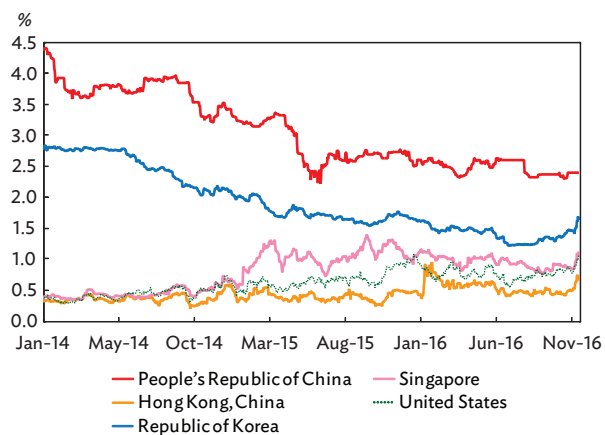
There were also signs of recovery in the European Union (EU). While the European Central Bank (ECB) maintained its existing monetary easing measures at its meeting on 20 October, keeping policy rates and asset purchases unchanged, ECB officials noted that there have been some signs of a strengthening EU economy. Therefore, it does not appear that the ECB will pursue additional easing measures after its asset purchases expire in March 2017. GDP growth in the EU has been stable, as indicated by a flash estimate of 0.3% y-o-y growth in Q3 2016, the same rate as in the previous quarter. Inflation also increased in October to 0.5% y-o-y from 0.4% y-o-y in September.

In contrast to the ECB and Federal Reserve, the Bank of Japan (BOJ) is pursuing additional easing measures. On 21 September, the BOJ adopted a New Framework for Strengthening Monetary Easing, which includes targeting the yield curve as a measure to influence the economy.

As a result, yields for 2-year tenors trended upward between 31 October and 18 November in all regional markets except the PRC's (**Figures 6a, 6b**). Yields for 10-year maturities also rose for all markets during the review period (**Figures 7a, 7b**).

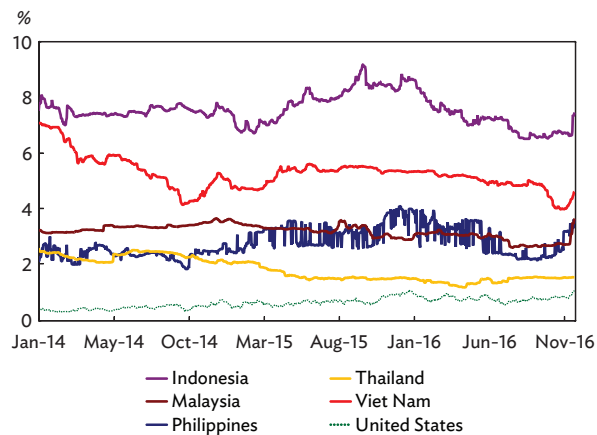
The upward pressure on emerging East Asian yields was also due to outflows in some markets driven by higher US yields, with yields for all markets in the region shifting upward for most tenors (**Figure 8**). The largest yield curve shifts were in Malaysia and Indonesia, where bond markets have a significant foreign investor base

Figure 6a: 2-Year Local Currency Government Bond Yields



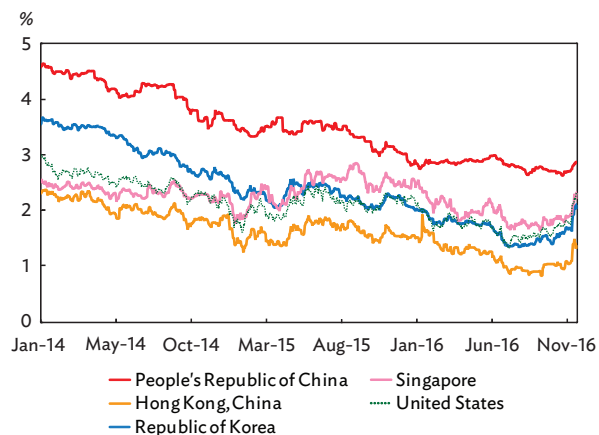
Note: Data as of 18 November 2016.
Source: Based on data from Bloomberg LP.

Figure 6b: 2-Year Local Currency Government Bond Yields



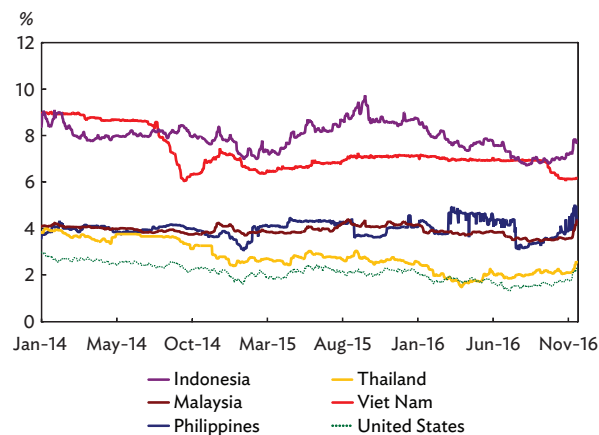
Note: Data as of 18 November 2016.
Source: Based on data from Bloomberg LP.

Figure 7a: 10-Year Local Currency Government Bond Yields



Note: Data as of 18 November 2016.
Source: Based on data from Bloomberg LP.

Figure 7b: 10-Year Local Currency Government Bond Yields



Note: Data as of 18 November 2016.
Source: Based on data from Bloomberg LP.

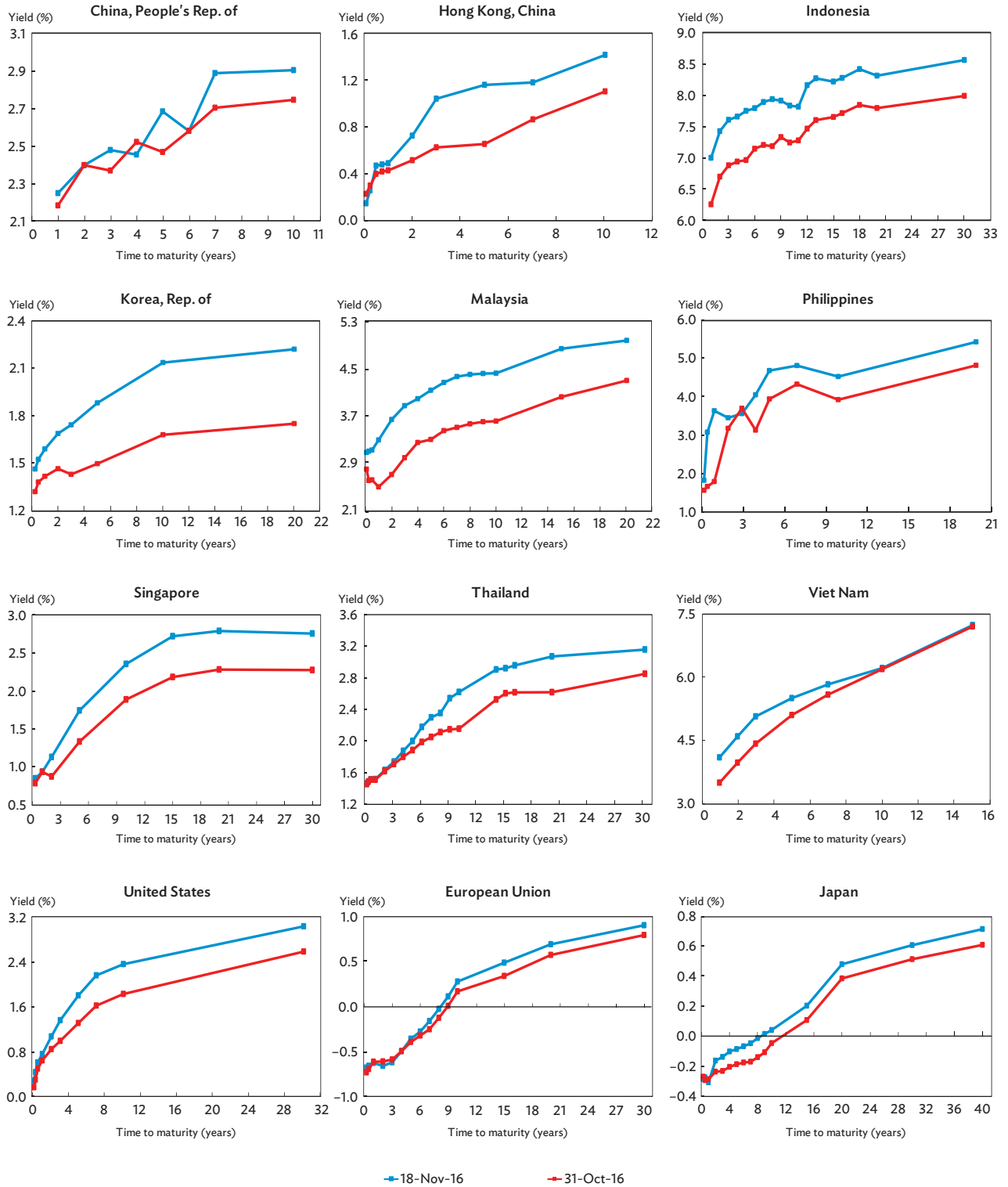
that makes them more sensitive to capital market outflows, and the Philippines, where a recent central bank statement announced that inflation was expected to rise to the midpoint of its target range in 2017.

While inflation remains benign throughout the region, it has shown some recent signs of rising. Inflation in all emerging East Asian economies except for Hong Kong, China experienced a small spike in recent months (Figures 9a, 9b). Inflation in Hong Kong, China is subject to base effects related to government rental subsidies; if these are removed, Hong Kong, China's

inflation would have been roughly stable during the review period. Thailand moved out of deflation in April, while deflation in Singapore has been easing since May.

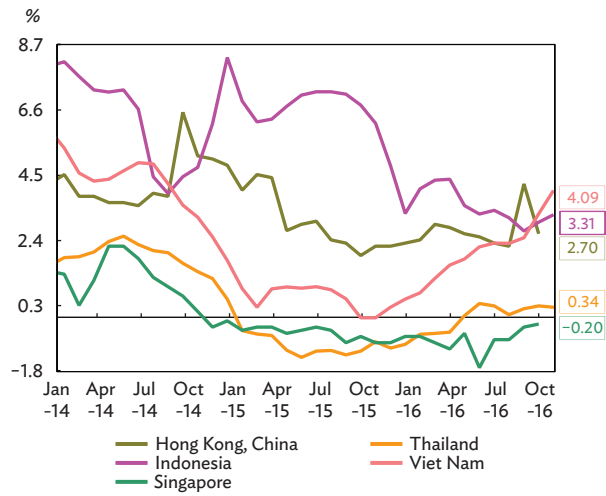
Given rising uncertainty, most central banks in emerging East Asia maintained their existing monetary policies in order to wait for greater clarity regarding US economic policy and its impacts on global financial markets (Figures 10a, 10b). While Bank Indonesia eased its policy rate by 25 basis points (bps) each in its September and October meetings, it maintained the policy rate in its November meeting.

Figure 8: Benchmark Yield Curves—Local Currency Government Bonds



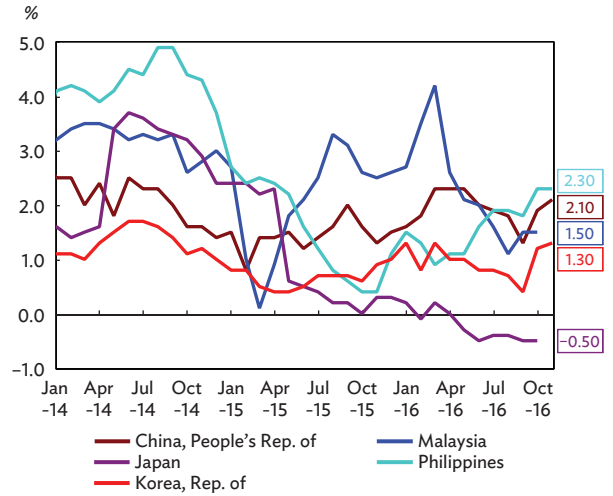
Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

Figure 9a: Headline Inflation Rates



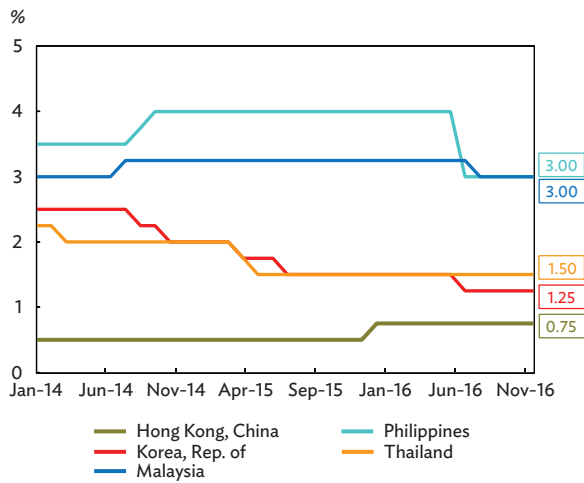
Note: Data as of October 2016 except for Hong Kong, China and Singapore (September).
Source: Based on data from Bloomberg LP.

Figure 9b: Headline Inflation Rates



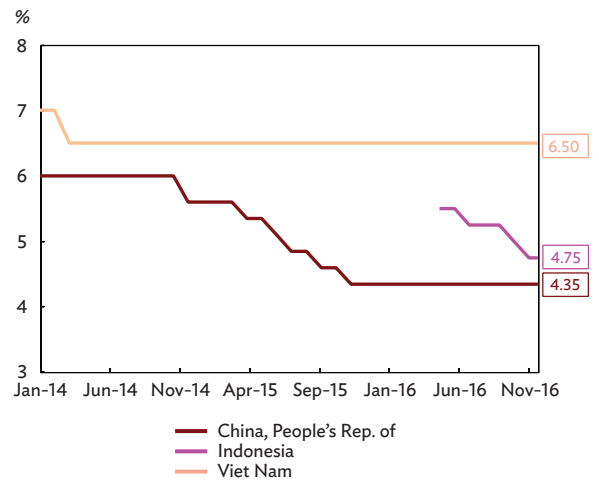
Note: Data as of October 2016 except for Japan and Malaysia (September).
Source: Based on data from Bloomberg LP.

Figure 10a: Policy Rates



Notes:
1. Data as of 18 November 2016.
2. The policy rate of the Philippines was adjusted to 3.0% from 4.0% in June following the shift in the Bangko Sentral ng Pilipinas' monetary operations to an interest rate corridor system.
Source: Based on data from Bloomberg LP.

Figure 10b: Policy Rates



Notes:
1. Data as of 18 November 2016.
2. Bank Indonesia shifted its policy rate to the 7-day reverse repurchase rate effective 19 August 2016.
Source: Based on data from Bloomberg LP.

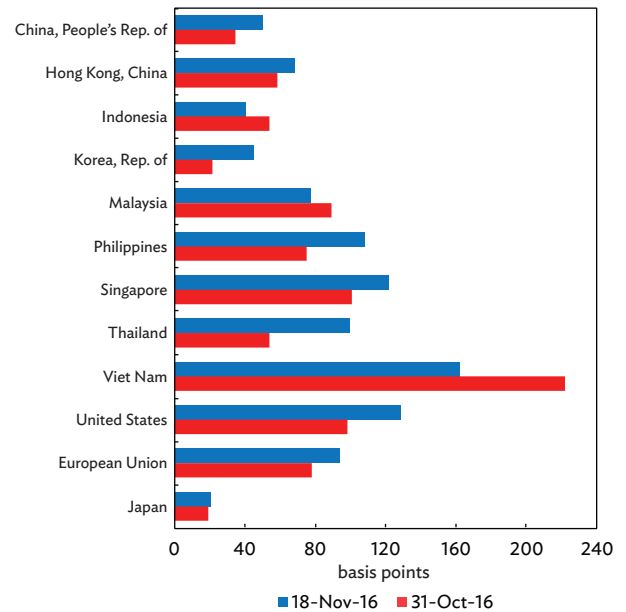
Most yield curves in emerging East Asia steepened between 31 October and 18 November (Figure 11), reflecting market uncertainty. The exceptions to this trend were the yield curves in Indonesia, Malaysia, and Viet Nam.

The spread between AAA-rated corporate bond yields and government bond yields rose in the Republic of Korea and fell in Malaysia.

Credit spreads between AAA-rated corporate bonds and government bonds rose for all tenors in the Republic of Korea and fell for all tenors in Malaysia between 1 September and 31 October (Figure 12a). In the PRC, credit spread changes were mixed.

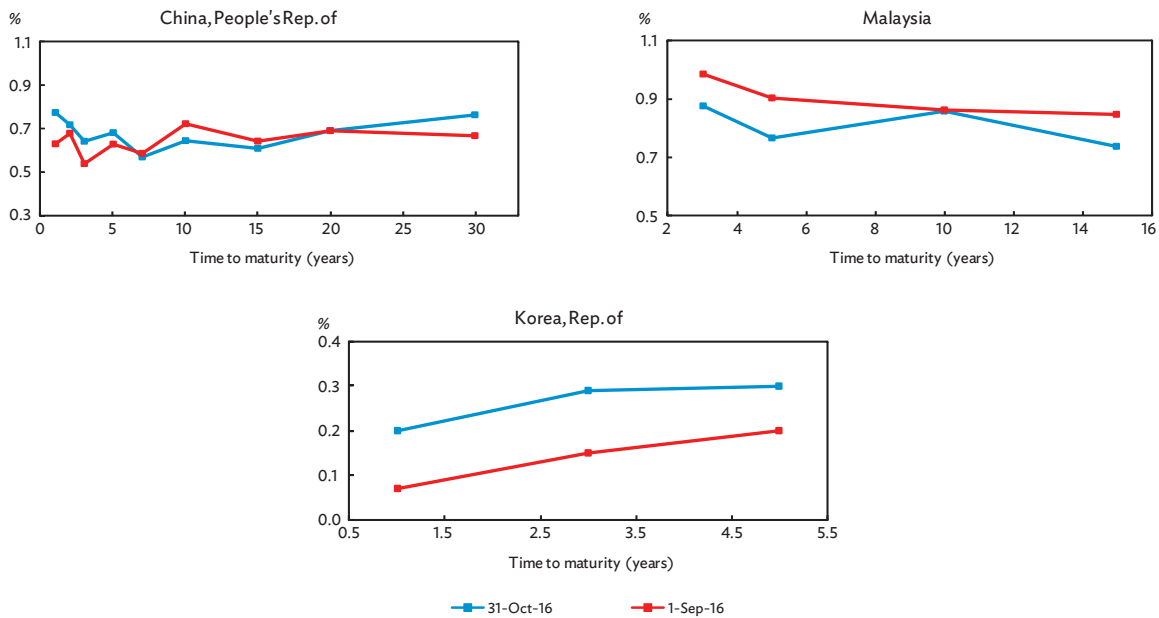
Lower-rated credit spreads fell in the PRC and were unchanged in the Republic of Korea and Malaysia during the review period (Figure 12b).

Figure 11: Yield Spreads Between 2-Year and 10-Year Government Bonds



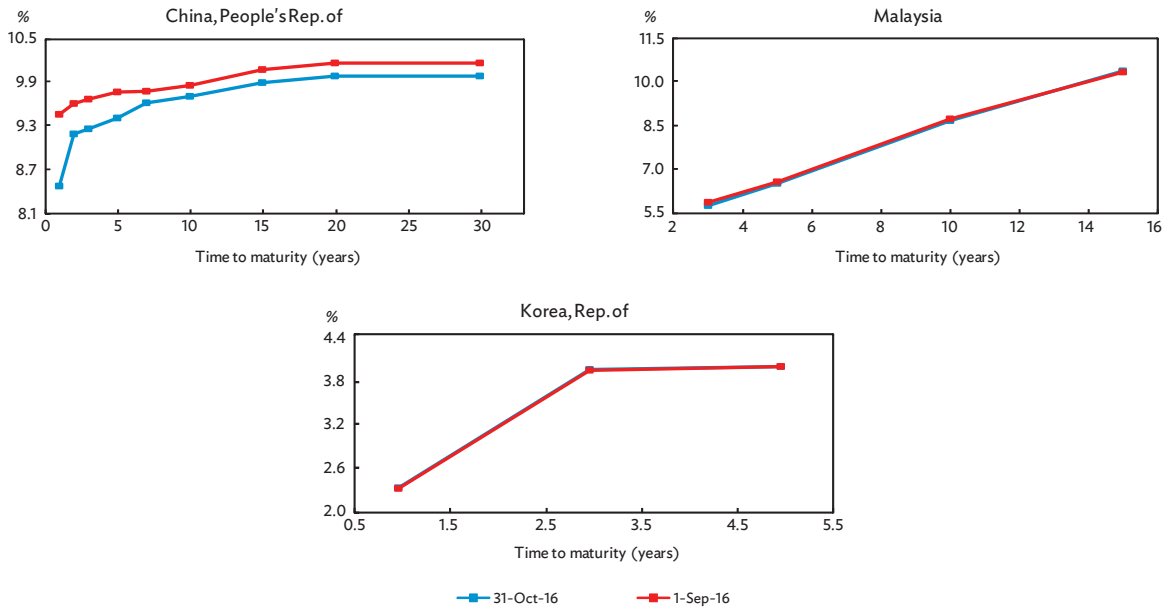
Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

Figure 12a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Notes:
 1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
 2. For Malaysia, data on corporate bond yields are as of 30 August 2016 and 31 October 2016.
 Sources: People's Republic of China (*Wind Info*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).

Figure 12b: Credit Spreads—Lower-Rated Local Currency Corporates vs. AAA



Notes:

1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
3. For Malaysia, data on corporate bond yields are as of 30 August 2016 and 31 October 2016.

Sources: People's Republic of China (*Wind Info*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).