Market Summaries

People's Republic of China

Yield Movements

The People's Republic of China's (PRC) local currency (LCY) government bond yield curve moved upward between 31 October and 18 November except for yields for the 2-year, 4-year, and 6-year maturities **(Figure 1)**. The largest declines occurred at the longer end, with the 5-year tenor rising 21 bps and the 7-year and 10-year tenors rising 18 bps and 16 bps, respectively. The remaining tenors rose between 7 bps and 11 bps, except for the aforementioned 2-year, 4-year, and 6-year tenors. The 2-year and 6-year tenors were unchanged, while the 4-year tenor fell 7 bps. As a result, the 2-year versus 10-year yield spread rose from 35 bps on 31 October to 50 bps on 18 November. The rise in the yield curve was driven by increasing volatility in markets outside of the United States as a result of its presidential election.

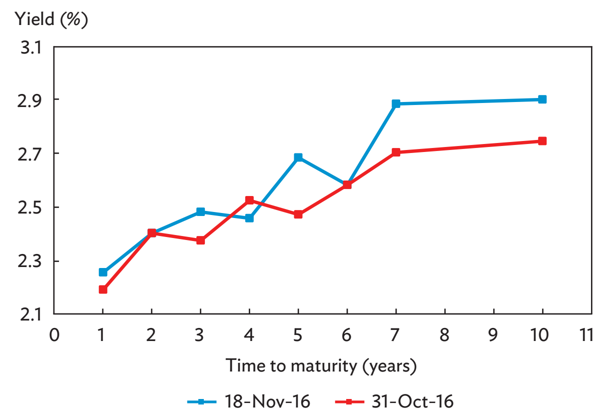
For the third quarter (Q3) of 2016, the PRC reported gross domestic product growth of 6.7% year-on-year (y-o-y), the same pace as in the previous 2 quarters and down from 6.8% y-o-y growth in the fourth quarter of 2015.

Exports from the PRC remained weak in Q3 2016. In renminbi-denominated terms, exports only grew 2.9% y-o-y in July before expanding 5.9% y-o-y in August and then plunging 5.6% y-o-y in September.

The PRC's consumer price inflation has remained manageable. After July's 1.8% y-o-y rise in consumer prices, inflation fell to 1.3% y-o-y in August before accelerating to 1.9% in September, mostly due to a rise in food prices. In October, inflation picked up to 2.1% y-o-y.

Concerns over the direction of the US economy pushed yields up despite increased risk aversion in the PRC's credit markets after a number of corporate bond defaults this year. The central bank governor of the People's Bank of China (PBOC) said during the recent G20 Finance Ministers and Central Bank Governors Meeting that the PRC would take steps to control debt growth.

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



Source: Based on data from Bloomberg LP.

Size and Composition

LCY bonds outstanding in the PRC rose 4.2% quarter-on-quarter (q-o-q) and 26.0% y-o-y to CNY47.9 trillion (USD7.2 trillion) **(Table 1)**.

Government Bonds. Outstanding LCY government bonds grew 6.0% q-o-q and 35.1% y-o-y in Q3 2016 to reach CNY33.2 trillion, with all three government bond categories included in Table 1 exhibiting slower growth. Treasury and other governments bonds grew 10.3% q-o-q in Q3 2016, down from 19.6% q-o-q in the second quarter (Q2) of 2016, on the back of slower but still substantial growth in local government bonds. Local government bonds grew 17.2% q-o-q in Q3 2016 after rising 45.5% in Q2 2016. The slowdown in local government bond growth was partially due the quota limits imposed by the central government being approached.

Central bank bonds continued to decline in Q3 2016 as the PBOC ceased issuance in 2013. In Q3 2016, most central bank bonds came due, resulting in a decline of 93.6% q-o-q.

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**37,998**	**5,978**	**45,980**	**6,916**	**47,890**	**7,178**	**8.0**	**19.2**	**4.2**	**26.0**
Government	24,547	3,862	31,286	4,706	33,154	4,969	9.9	20.6	6.0	35.1
Treasury Bonds	13,263	2,087	18,955	2,851	20,912	3,134	17.5	32.4	10.32	57.7
Central Bank Bonds	428	67	428	64	27	4	0.0	(8.5)	(93.6)	(93.6)
Policy Bank Bonds	10,855	1,708	11,902	1,790	12,215	1,831	2.1	10.0	2.6	12.5
Corporate	13,451	2,116	14,694	2,210	14,736	2,209	4.7	16.8	0.3	9.5
Policy Bank Bonds										
China Development Bank	6,610	1,040	6,976	1,049	7,051	1,057	4.3	6.3	1.1	6.7
Export–Import Bank of China	1,817	286	1,988	299	2,028	304	7.2	22.7	2.0	11.6
Agricultural Devt. Bank of China	2,429	382	2,939	442	3,136	470	11.8	22.8	6.7	29.1

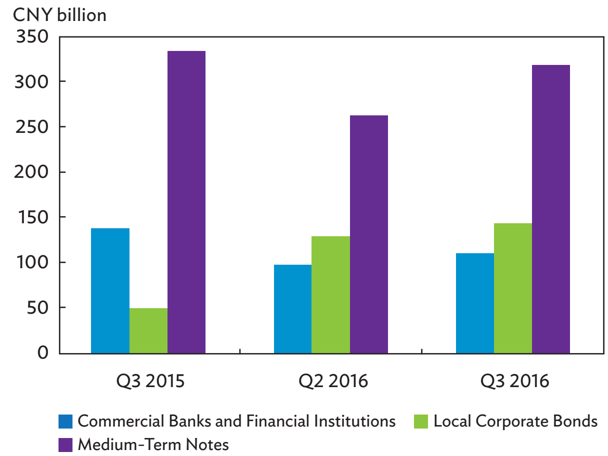
( ) = negative, CNY = Chinese renminbi, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period local currency–USD rate is used.
4. Growth rates are calculated from local currency base and do not include currency effects.
Sources: *ChinaBond*, *Wind Info*, and Bloomberg LP.

The growth of policy bank bonds slowed in Q3 2016, with an increase of 2.6% q-o-q compared with 3.4% q-o-q in Q2 2016.

Corporate Bonds. LCY corporate bonds outstanding rose a marginal 0.3% q-o-q in Q3 2016, following a decline of 0.6% q-o-q in the prior quarter, to reach CNY14.7 trillion at the end of September. Growth was driven by a 4.5% q-o-q increase in commercial bank bonds and Tier 2 notes, and a 4.4% q-o-q increase in local corporate bonds **(Table 2)**. Outstanding commercial paper continued to decline, falling 10.2% q-o-q.

The rise in LCY corporate bonds outstanding corresponded with an increase in corporate bond issuance. In Q3 2016, total corporate bond issuance reached CNY1.5 trillion, up from CNY1.4 trillion in the prior quarter **(Figure 2)**.

Figure 2: Corporate Bond Issuance in Key Sectors



CNY = Chinese renminbi, Q2 = second quarter, Q3 = third quarter.
Sources: *ChinaBond* and *Wind Info*.

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q3 2015		Q3 2016	
	Q3 2015	Q2 2016	Q3 2016	q-o-q	y-o-y	q-o-q	y-o-y
Commercial Bank Bonds and Tier 2 Notes	1,860	2,271	2,372	1.1	21.1	4.5	27.6
SOE Bonds	581	575	560	0.9	(7.7)	(2.6)	(3.7)
Local Corporate Bonds	2,492	2,787	2,911	1.0	11.7	4.4	16.8
Commercial Paper	2,501	2,652	2,380	1.1	29.2	(10.2)	(4.8)
Medium-Term Notes	4,287	4,559	4,604	1.0	10.8	1.0	7.4

( ) = negative, CNY = Chinese renminbi, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, SOE = state-owned enterprise, y-o-y = year-on-year.
Sources: *ChinaBond* and *Wind Info*.

Increases were noted in nearly all major corporate bond categories.

Overall corporate bond issuance has remained weak in 2016 because of continued risk aversion among investors following a number of defaults in the corporate bond market. For comparison, corporate bond issuance was CNY1.8 trillion in both the first quarter of 2016 and the fourth quarter of 2015.

Due to increasing concerns over corporate bond defaults, the PRC announced on 10 October measures to reduce risk by encouraging mergers and debt for equity swaps.

The PRC's corporate bond market is dominated by a few big issuers **(Table 3)**. At the end of Q3 2016, the top 30 corporate bond issuers accounted for CNY5.6 trillion worth of corporate bonds outstanding, or about 38.2% of

Table 3: Top 30 Issuers of Local Currency 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 (USD billion)			
1.	China Railway	1,263.5	189.38	Yes	No	Transportation
2.	State Grid Corp of China	437.1	65.51	Yes	No	Public Utilities
3.	China National Petroleum	365.0	54.71	Yes	No	Energy
4.	Agricultural Bank of China	260.0	38.97	Yes	Yes	Banking
5.	Bank of China	258.9	38.80	Yes	Yes	Banking
6.	Industrial and Commercial Bank of China	258.0	38.67	Yes	Yes	Banking
7.	China Construction Bank	212.0	31.78	Yes	Yes	Banking
8.	Industrial Bank	196.0	29.38	No	Yes	Banking
9.	Bank of Communications	194.0	29.08	No	Yes	Banking
10.	Shanghai Pudong Development Bank	184.6	27.67	No	Yes	Banking
11.	PetroChina	181.0	27.13	Yes	Yes	Energy
12.	China Minsheng Banking	155.1	23.25	No	Yes	Banking
13.	State Power Investment	145.2	21.77	Yes	No	Energy
14.	Bank of Beijing	122.9	18.42	Yes	Yes	Banking
15.	Central Huijin Investment	109.0	16.34	Yes	No	Asset Management
16.	China CITIC Bank	107.5	16.11	No	Yes	Banking
17.	Shenhua Group	104.5	15.66	Yes	No	Energy
18.	China Petroleum & Chemical	94.5	14.16	Yes	Yes	Energy
19.	China Everbright Bank	88.9	13.32	Yes	Yes	Banking
20.	China Datang	86.7	12.99	Yes	Yes	Energy
21.	China Three Gorges	86.5	12.97	Yes	No	Public Utilities
22.	China Guangfa Bank	84.5	12.67	No	Yes	Banking
23.	Tianjin Infrastructure Construction & Investment Group	83.4	12.50	Yes	No	Industrial
24.	Shaanxi Coal and Chemical Industry Group	80.5	12.07	Yes	Yes	Energy
25.	Huaxia Bank	80.4	12.05	Yes	No	Banking
26.	China Merchants Bank	79.0	11.84	No	Yes	Banking
27.	Haitong Securities	78.0	11.69	Yes	Yes	Brokerage
28.	China United Network Communications	77.0	11.54	Yes	Yes	Telecommunications
29.	China Huarong Asset Management	77.0	11.54	Yes	Yes	Asset Management
30.	Beijing State-Owned Capital Operation and Management Center	73.5	11.02	Yes	No	Asset Management
Total Top 30 LCY Corporate Issuers		**5,624.20**	**842.98**			
Total LCY Corporate Bonds		**14,735.71**	**2,208.66**			
Top 30 as % of Total LCY Corporate Bonds		**38.2%**	**38.2%**			

CNY = Chinese renminbi, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of end-September 2016.
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 LP data.

the total market. Out of the top 30, the 10 largest issuers accounted for CNY3.6 trillion.

The top 30 issuer list is dominated by banks, owing to the continued issuance of commercial bank bonds as banks accelerate their fund-raising. Among the top 30 corporate issuers at the end of September, 14 were in the banking industry.

Table 4 lists the most notable corporate bond issuances in Q3 2016. Most companies on the list are from capital-intensive industries such as oil, infrastructure, and power. One bank, China Guangfa Bank, was on the list.

Investor Profile

Treasury Bonds and Policy Bank Bonds. The share of bank holdings of Treasury bonds, including policy bank bonds, continued to fall in Q3 2016, declining to 68.4% at the end of September from a 73.3% share a year earlier **(Figure 3)**. There was a corresponding rise in the holdings of funds institutions such as mutual funds during the same period, with the share of funds institutions rising to 13.6% from 8.2%.

Corporate Bonds. Similar to Treasury bonds, banks' share of local corporate bonds continued to decline in Q3 2016, falling to 18.1% at the end of September from 24.1% a year earlier. Banks were no longer the largest holder of corporate bonds at the end of September **(Figure 4)**. Fund institutions became the dominant holders in Q3 2016, with their share rising to 44.9% at the end of September from 29.8% a year earlier.

Figure 5 presents investor profiles across corporate bond categories at the end of September. Funds institutions continued to be the dominant buyer of both local corporate bonds and medium-term notes, with the share of banks' holdings declining from a year earlier. Banks and insurance companies were the dominant holders of commercial bank bonds at the end of September.

Liquidity

Interest rate swap volumes rose 9.0% q-o-q, driven by a large increase in trading volumes for the 3-month SHIBOR swap. The 7-day repurchase interest rate swap remains the most popular among all swap categories, accounting for 85.8% of the total transaction volume in Q3 2016 **(Table 5)**.

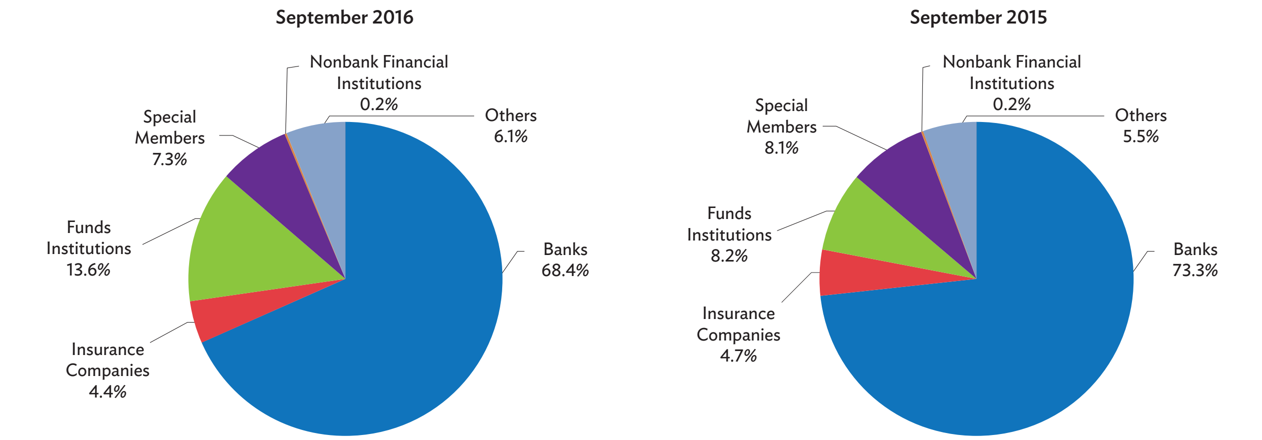
Table 4: Notable Local Currency Corporate Bond Issuance in Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Railway		
270-day bond	2.45	15.0
10-year bond	3.09	15.0
10-year bond	3.15	15.0
20-year bond	3.38	5.0
20-year bond	3.43	5.0
China Huadian		
270-day bond	2.50	4.0
270-day bond	2.57	4.0
270-day bond	2.50	4.0
270-day bond	2.69	3.5
270-day bond	2.48	3.5
270-day bond	2.50	3.0
270-day bond	2.50	3.0
3-year bond	2.99	4.0
5-year bond	2.95	3.0
5-year bond	3.25	3.0

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Petrochemical		
270-day bond	2.50	10.0
5-year bond	2.83	13.0
7-year bond	3.02	4.3
10-year bond	3.30	0.8
China Guangfa Bank		
180-day bond	2.50	2.5
210-day bond	2.53	5.0
240-day bond	2.57	4.0
270-day bond	2.72	3.5
270-day bond	2.78	3.5
3-year bond	2.88	5.0
5-year bond	2.94	4.0

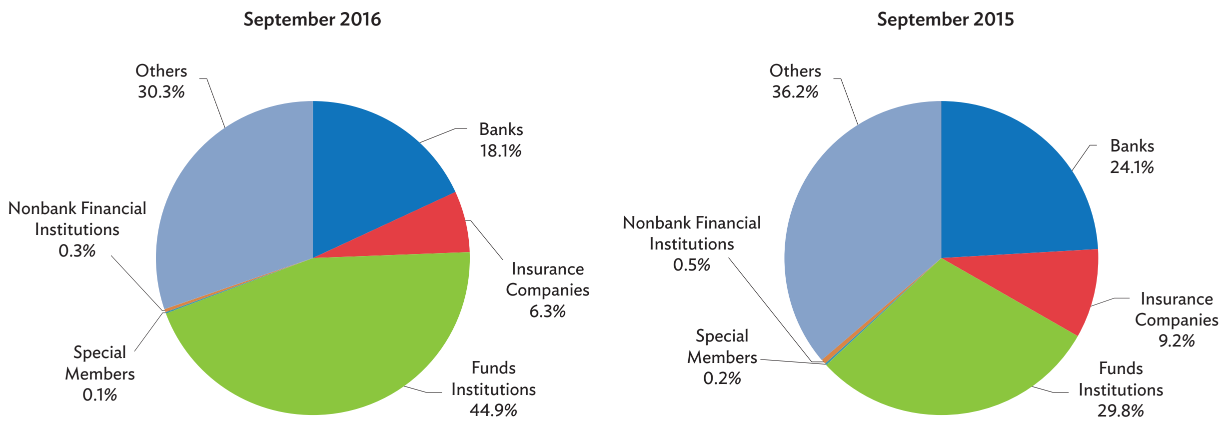
CNY = Chinese renminbi, Q3 = third quarter.
Source: Based on data from Bloomberg LP.

Figure 3: Local Currency Treasury Bonds and Policy Bank Bonds Investor Profile



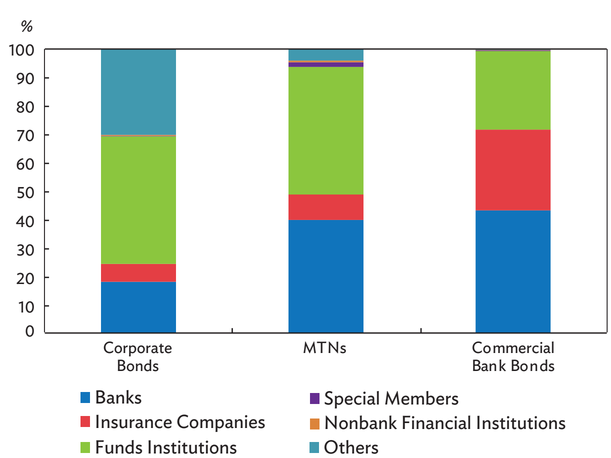
Source: *ChinaBond*.

Figure 4: Local Currency Corporate Bonds Investor Profile



Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



MTNs = medium-term notes.
Note: Data as of end-September 2016.
Source: *ChinaBond*.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in Q3 2016

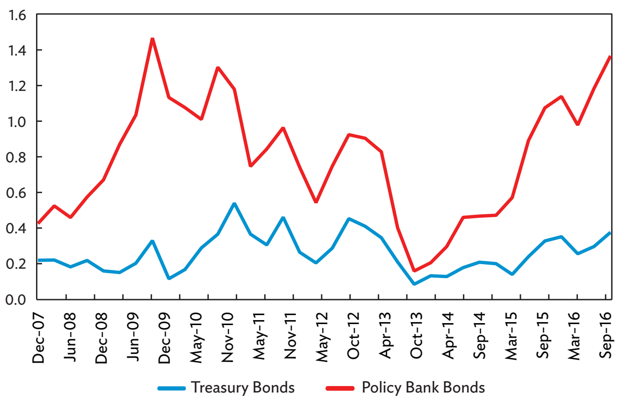
Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Percentage of Total Notional Amount (%)	Growth Rate (%)
	Q2 2016		q-o-q
7-Day Repo Rate	2,217.0	85.8	3.3
Overnight SHIBOR	9.6	0.4	(82.0)
3-Month SHIBOR	348.4	13.5	125.3
1-Year Term Deposit Rate	1.3	0.05	(82.5)
1-Year Lending Rate	5.4	0.2	(32.1)
3-Year Lending Rate	0.1	0.0	0.0
5-Year Lending Rate	1.0	0.04	70.4
Total	**2,582.7**	**100.0**	**9.0**

( ) = negative, CNY = Chinese renminbi, q-o-q = quarter-on-quarter, Q3 = third quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Notes:
1. Growth rate computed based on notional amounts.
2. London Interbank Offered Rate and 1-Year Loan Prime Rate had no transaction for Q3 2016.

Sources: *AsianBondsOnline* and *ChinaMoney*.

Consistent with the decline in interest rates, trading activity in government bonds rose on increased demand, driven by demand for safe assets on credit market concerns as well as expectations of higher government bond prices due to lower interest rates amid slowing economic growth **(Figure 6)**.

Figure 6: Turnover Ratios for Government Bonds



Source: *ChinaBond*.

Policy, Institutional, and Regulatory Developments

People's Bank of China Renews Currency Swap with European Central Bank

On 27 September, the PBOC renewed its currency swap agreement with European Central Bank for an additional 3 years. Under the swap agreement, the PBOC can exchange up to CNY350 billion with the European Central Bank for EUR45 billion.

International Monetary Fund Includes Renminbi in Special Drawing Rights Basket

On 30 September, the International Monetary Fund (IMF) announced that it would include the Chinese renminbi in its Special Drawing Rights basket effective 1 October. The IMF said that the renminbi's inclusion is due to the currency's increasing role in the international monetary system. Other currencies included in the IMF's Special Drawing Rights are the US dollar, euro, Japanese yen, and pound sterling.

Trading in Credit Default Swaps Allowed

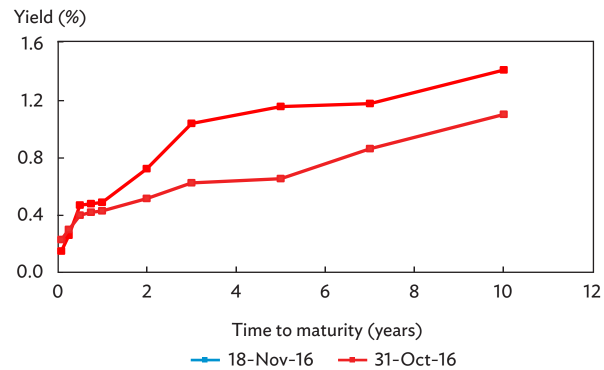
On 31 October, the PRC allowed banks to begin trading credit default swaps as part of efforts to help hedge credit risks amid increasing concerns in the PRC's corporate bond market. The credit default swaps that are being traded in the PRC are similar to those traded in international markets. In the past, the PRC launched credit risk mitigation warrants to hedge against credit risk, but they were not well received by market participants.

Hong Kong, China

Yield Movements

The local currency (LCY) government bond yield curve of Hong Kong, China, which follows United States (US) interest rate movements as a matter of monetary policy, rose for all tenors between 31 October and 18 November except for the 1-month and 3-month tenors. The largest yield movements were in the belly of the curve, with the yield for the 5-year tenor rising 50 basis points (bps) and the 3-year yield rising 41 bps **(Figure 1)**. The shorter end of the curve showed much smaller movements, with the yield for tenors of 1-year and below rising 6–7 bps. The exceptions were the yield for the 1-month tenor, which fell 8 bps, and the yield for the 3-month tenor, which fell by 4 bps. All remaining tenors rose an average of 27 bps. The 2-year versus 10-year yield spread widened from 59 bps on 31 October to 69 bps on 18 November.

Figure 1: Hong Kong, China's Benchmark Yield Curve—Exchange Fund Bills and Notes



Source: Based on data from Bloomberg LP.

Yields in Hong Kong, China faced upward pressure due to expectations of a United States (US) Federal Reserve rate hike in December. Yields were pressured further following the result of the US presidential elections, with local yields tracking a rise in US yields on the prospect of the new administration bolstering economic growth.

Inflation in Hong Kong, China has been steady and somewhat subdued. In September, inflation stood at 2.7% year-on-year (y-o-y), down from 4.3% y-o-y in August. The higher inflation rate in August was due to a low base effect driven by public rental subsidies offered by the government in 2015. The government has said that it does not expect a significant uptick in inflation in the future.

Hong Kong, China's gross domestic product grew 1.9% year-on-year (y-o-y) in the third quarter (Q3) of 2016, up from a 1.7% y-o-y expansion in the second quarter of 2016. The increase in the growth rate was driven by a recovery in investment and improved consumer spending.

Size and Composition

Outstanding LCY bonds in Hong Kong, China grew 6.4% quarter-on-quarter (q-o-q) and 20.4% year-on-year (y-o-y) to reach HKD1,867 billion (USD241 billion) at the end of September **(Table 1)**. Growth was driven mostly by increases in Exchange Fund Bills (EFBs) and corporate bonds.

EFBs rose 6.0% q-o-q and 28.0% y-o-y on higher issuances by the Hong Kong Monetary Authority (HKMA). In Q3 2016, total EFB issuance amounted to HKD698 billion from HKD618 billion in the prior quarter. The HKMA's strong issuance is in response to demand by banks for EFBs due to excess liquidity in the financial system.

Exchange Fund Notes (EFNs) continued to fall in Q3 2016, declining 4.1% q-o-q and 16.9% y-o-y, as the HKMA cancelled issuances of EFNs with tenors longer than 2 years, preferring instead to issue Hong Kong Special Administrative Region (HKSAR) bonds.

In Q3 2016, HKSAR bonds rose 4.8% q-o-q and 2.0% y-o-y to HKD105 billion. A total of HKD4.8 billion worth of bonds was issued in Q3 2016. An HKD1.2 billion 10-year bond and an HKD0.6 billion 15-year HKSAR bond were issued under the Institutional Bond Issuance Programme, while HKD3.0 billion worth of 3-year bonds was issued under the Retail Bond Issuance Programme.

The amount of corporate bonds outstanding rose 7.8% q-o-q and 18.5% y-o-y in Q3 2016 as issuers took advantage of lower Hong Kong dollar interest rates.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,551**	**200**	**1,755**	**226**	**1,867**	**241**	**1.9**	**2.9**	**6.4**	**20.4**
Government	876	113	1,013	131	1,067	138	3.6	2.4	5.4	21.8
Exchange Fund Bills	712	92	859	111	911	117	3.2	4.1	6.0	28.0
Exchange Fund Notes	62	8	53	7	51	7	(3.4)	(9.9)	(4.1)	(16.9)
Government Bonds	103	13	101	13	105	14	11.4	(0.3)	4.8	2.0
Corporate	675	87	742	96	800	103	(0.3)	3.6	7.8	18.5

( ) = negative, HKD = Hong Kong dollar, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = first quarter, USD = United States dollar, 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. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
Sources: Hong Kong Monetary Authority and Bloomberg LP.

The top 30 nonbank issuers in Hong Kong, China had outstanding LCY bonds amounting to HKD143.3 billion at the end of September, representing 17.9% of total corporate bonds outstanding. The top 30 list continued to be dominated by real estate firms and the financing vehicles of corporates **(Table 2)**. The Hong Kong Mortgage Corporation remained the top issuer with outstanding bonds of HKD27.7 billion. It was followed by Sun Hung Kai Properties (Capital Market) with HKD9.7 billion of bonds outstanding and CLP Power Hong Kong Financing with HKD9.0 billion. Among the top 30 nonbank issuers at the end of September, 6 were state-owned companies and 9 were Hong Kong Exchange-listed firms.

The top five nonbank issuances in Q3 2016 came from Swire Pacific MTN Financing, Hong Kong Electric Finance, HKCG (Finance), Swire Properties MTN Financing, and CK Properties Finance (MTN) **(Table 3)**.

Policy, Institutional, and Regulatory Developments

Hong Kong Monetary Authority Assigns Nine Offshore Renminbi Primary Liquidity Providers

On 27 October, the HKMA released the new list of offshore renminbi primary liquidity providers after expiration of the first set of liquidity providers. The list contains nine institutions: Agricultural Bank of China; Bank of Communications; Bank of China (Hong Kong, China); BNP Paribas; China Construction Bank (Asia); Citibank, N.A.; HSBC; Industrial and Commercial Bank of China (Asia); and Standard Chartered Bank (Hong Kong, China). The list adds two additional liquidity providers from the previous seven. The HKMA said that the expansion is part of efforts to strengthen the liquidity of the offshore renminbi bond market.

Table 2: 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 (USD billion)			
1.	The Hong Kong Mortgage Corporation	27.66	3.57	Yes	No	Finance
2.	Sun Hung Kai Properties (Capital Market)	9.65	1.24	No	No	Real Estate
3.	CLP Power Hong Kong Financing	8.96	1.15	No	No	Finance
4.	Swire Pacific	8.62	1.11	No	Yes	Diversified
5.	The Link Finance (Cayman) 2009	8.59	1.11	No	No	Finance
6.	Hongkong Electric Finance	8.59	1.11	No	No	Finance
7.	MTR Corporation (C.I.)	8.22	1.06	Yes	Yes	Transportation
8.	HKCG (Finance)	7.80	1.01	No	No	Finance
9.	Wharf Finance	6.13	0.79	No	No	Finance
10.	NWD (MTN)	5.50	0.71	No	Yes	Finance
11.	Swire Properties MTN Financing	4.34	0.56	No	No	Finance
12.	Wheelock Finance	4.04	0.52	No	No	Finance
13.	Bestgain Real Estate Lyra	3.65	0.47	No	No	Real Estate
14.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
15.	Urban Renewal Authority	3.30	0.43	Yes	No	Real Estate
16.	Emperor International Holdings	2.75	0.35	No	Yes	Real Estate
17.	Yue Xiu Property	2.30	0.30	No	No	Real Estate
18.	Tencent Holdings	2.20	0.28	No	Yes	Comunications
19.	Bohai International Capital	2.00	0.26	No	No	Iron and Steel
20.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
21.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
22.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Finance
23.	Airport Authority Hong Kong	1.65	0.21	Yes	No	Transportation
24.	Chueng Kong Finance (MTN)	1.50	0.19	No	No	Finance
25.	Wharf Finance (No. 1)	1.44	0.19	No	No	Finance
26.	Hysan (MTN)	1.40	0.18	No	Yes	Real Estate
27.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
28.	Cheung Kong Bond Securities (02)	1.00	0.13	No	No	Finance
29.	Dragon Drays	1.00	0.13	No	No	Diversified
30.	K. Wah Intenational Financial Services	1.00	0.13	No	Yes	Finance
Total Top 30 Nonbank LCY Corporate Issuers		**143.26**	**18.47**			
Total LCY Corporate Bonds		**799.86**	**103.12**			
Top 30 as % of Total LCY Corporate Bonds		**17.9%**	**17.9%**			

LCY = local currency.
Notes:
1. Data as of end-September 2016.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Hong Kong Monetary Authority data.

Table 3: Notable Local Currency Corporate Bond Issuance in Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Swire Pacific MTN Financing		
5-year bond	2.05	0.50
5-year bond	1.99	0.50
5-year bond	1.95	0.30
10-year bond	2.59	0.14
12-year bond	2.60	0.30
Hong Kong Electric Finance		
12-year bond	2.55	0.35
14-year bond	2.57	0.47
15-year bond	2.56	0.50
20-year bond	2.90	0.30
HKCG (Finance)		
10-year bond	2.22	0.50
10-year bond	2.25	0.36
Swire Properties MTN Financing		
5-year bond	1.80	0.30
10-year bond	2.35	0.50
CK Properties Finance (MTN)		
10-year bond	2.29	0.75

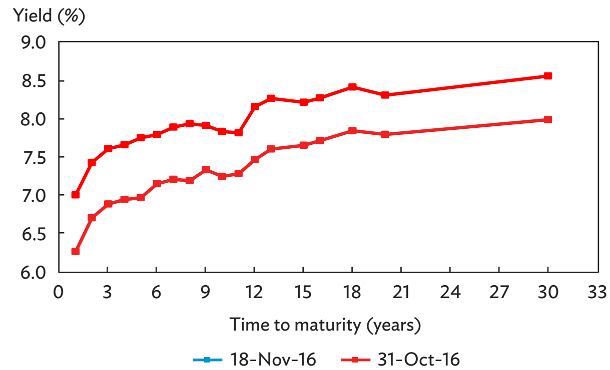
HKD = Hong Kong dollar, Q3 = third quarter.
Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.

Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia rose for all tenors between 31 October and 18 November, leading the entire yield curve to shift upward **(Figure 1)**. All tenors across the curve gained an average of 64 basis points (bps). Yields rose faster at the shorter end than the longer end, resulting in an overall flattening of the yield curve. The spread between the 2-year and 10-year tenors declined from 54 bps on 31 October to 41 bps on 18 November.

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



Source: Based on data from Bloomberg LP.

Bond yields initially climbed in October following the release of the minutes of the September meeting of the United States (US) Federal Reserve. The September minutes, along with the release of data showing stronger third quarter (Q3) economic growth in the US, increased the likelihood of a rate hike by the Federal Reserve in December. Indonesian government bond yields rose further following the results of the US presidential election. Uncertainty over the direction of US economic policy contributed to negative sentiments surrounding emerging market assets, resulting in yield increases and prompting a sell-off in the Indonesian government bond market. As of 11 November, the share of foreign holdings in the government bond market had slipped to 38.1% from 38.4% at the end of October, and from 39.2% at the end of September.

In its meeting on 16-17 November, Bank Indonesia decided to hold steady its 7-day reverse repurchase rate at 4.75% after cuts of 25 bps in both the September and October meetings. The deposit facility rate and lending facility rate were also kept unchanged at 4.00% and 5.50%, respectively. The decision to keep the policy rate steady was made in response to ongoing volatility in global financial markets following the US presidential election. The central bank has reduced the 7-day reverse repurchase rate by a cumulative 50 bps since it shifted to using this rate as its policy rate on 19 August. Bank Indonesia had lowered its previous benchmark interest rate by a cumulative 100 bps between January and June. Bank Indonesia's monetary easing move is expected to stimulate domestic demand and credit expansion to help boost economic growth. The various policy reforms initiated by the Government of Indonesia are expected to provide additional support to the economy amid prevailing volatilities in the market.

Inflation has remained subdued and is expected to come in at the lower end of Bank Indonesia's full-year target of 3.0%–5.0%. Consumer price inflation eased to 3.2% year-on-year (y-o-y) in July and 2.8% y-o-y in August, before rising to 3.1% y-o-y in September and 3.3% y-o-y in October.

For full-year 2016, Bank Indonesia projects the domestic economy will grow at the lower end of its forecast of 4.9%–5.3%. Real gross domestic product (GDP) growth eased to 5.0% y-o-y in Q3 2016 from 5.2% y-o-y in the second quarter (Q2) of 2016. The slower growth in Q3 2016 stemmed from a slowdown in government spending and continued weakness in exports.

Size and Composition

The size of Indonesia's LCY bond market climbed to IDR2,153.0 trillion (USD165 billion) at the end of September, up 7.5% q-o-q and 27.2% y-o-y in Q3 2016 **(Table 1)**. Both the government and corporate bond segments contributed to the growth during the review period. The Indonesian bond market is dominated by government bonds, which accounted for an 86.7% share of the aggregate LCY bond stock at the end of September. Corporate bonds accounted for the remaining 13.3%.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,692,373**	**115**	**2,003,006**	**152**	**2,153,035**	**165**	**1.5**	**12.4**	**7.5**	**27.2**
Government	1,442,758	98	1,732,935	131	1,866,325	143	0.9	12.3	7.7	29.4
Central Govt. Bonds	1,392,407	95	1,646,846	125	1,749,384	134	2.7	16.1	6.2	25.6
of which: *Sukuk*	150,433	10	218,948	17	239,868	18	(3.7)	37.5	9.6	59.5
Central Bank Bills	50,351	3	86,089	7	116,941	9	(30.8)	(41.2)	35.8	132.3
of which: *Sukuk*	7,720	0.5	7,470	0.6	9,442	0.7	(8.7)	19.0	26.4	22.3
Corporate	249,615	17	270,071	20	286,710	22	4.4	13.4	6.2	14.9
of which: *Sukuk*	8,284	0.6	9,561	0.7	10,744	0.8	4.3	19.1	12.4	29.7

( ) = negative, IDR = Indonesian rupiah, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. The total stock of nontradable bonds as of end-September stood at IDR242.6 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; Otoritas Jasa Keuangan; and Bloomberg LP.

Conventional bonds still dominated the market with a share of 87.9% of total LCY bonds outstanding at the end of September. While *sukuk* (Islamic bonds) comprised a smaller share of only 12.1%, both the government and corporate bond segments recorded positive gains during the review period. Indonesia's LCY bond market performed strongly in Q3 2016 relative to its regional peers, leading the region in terms of growth on both a q-o-q and y-o-y basis.

Government Bonds. At the end of September, government bonds outstanding reached IDR1,866.3 trillion on gains of 7.7% q-o-q and 29.4% y-o-y. Growth was driven by central government bonds, which comprise Treasury instruments issued by the Ministry of Finance. Central bank bills, or *Sertifikat* Bank Indonesia (SBI), contributed to the growth to a lesser extent.

Central Government Bonds. At the end of September, the stock of central government bonds expanded to IDR1,749.4 trillion, climbing 6.2% q-o-q and 25.6% y-o-y. Declining borrowing costs and increased demand for government bonds provided leeway for the government to accept bids exceeding the targeted amount as it sought to fund a widened budget deficit.

The revised state budget for 2016 estimated a deficit of IDR296.7 trillion, or the equivalent of 2.4% of GDP. The Government of Indonesia had to raise its gross issuance target to IDR654.4 trillion to help fund its financing requirements. However, recent estimates indicate a wider budget deficit equivalent to 2.7% of GDP due to weaker-than-expected tax revenues. While part of the deficit is expected to be funded by revenue collection from the Tax Amnesty Law, its overall impact has yet to be assessed as the program is still ongoing.

Gross issuance of central government bonds totaled IDR118.9 trillion in Q3 2016, broadly comparable with their issuance volume in Q2 2016. A total of 11 auctions were held during the quarter comprising a mix of conventional and Islamic Treasury securities, and all were awarded in full or above target, including *sukuk* auctions.

Aside from regular Treasury auctions, the government also issued savings *sukuk* in September, further diversifying its debt instruments and investor base. The savings *sukuk* carry a maturity of 2 years and were sold only to Indonesian retail investors. The government raised IDR2.59 trillion from its first sale of Islamic savings bonds. This type of bond, however, is nontradable and does not form part of the *AsianBondsOnline* database.

Central Bank Bills. At the end of September, the stock of central bills, or SBI, soared to IDR116.9 trillion on 35.8% q-o-q and 132.3 y-o-y growth. SBI are issued by the central bank as one of its monetary instruments to manage liquidity. Monthly auctions are held for both conventional and *shariah*-compliant SBI with maturities of 9 months and 1 year. In Q3 2016, issuance of SBI rose to IDR46.6 trillion, up by 61.4% q-o-q and 123.0% y-o-y.

Corporate Bonds. At the end of September, LCY corporate bonds outstanding rose to IDR286.7 trillion, expanding 6.2% q-o-q and 14.9% y-o-y. The relative size of Indonesia's corporate bond market remains small compared with that of the government bond market as corporates generally opt to take bank loans due to issuance hurdles such as lengthy procedures and credit-quality issues. Based on the results of the *AsianBondsOnline* 2016 bond market liquidity survey, higher-rated corporates and those with familiar names—such as banks, state-owned enterprises, and large firms—can command liquidity in the market.

The top 30 issuers of LCY corporate bonds in Indonesia were the same in Q3 2016 as in Q2 2016 with only the order of rankings changing among firms. The outstanding bond stock of the top 30 LCY corporate issuers totaled IDR217.2 trillion at the end of September, representing 75.7% of aggregate corporate bonds outstanding **(Table 2)**. As in past quarters, banks and nonbank financial institutions dominated the list of the top 30 issuers. Other corporate names on the list came from highly capitalized industries such as telecommunications, energy, and property and real estate, among others.

The composition of the top three issuers of corporate bonds changed during Q3 2016. State-owned lender Indonesia Eximbank maintained the top post, further increasing its bond stock to IDR29.1 trillion, or the equivalent of 10.2% of the entire corporate bond segment. The next-largest issuer was Indosat, which ranked fourth at the end of June, with IDR14.5 trillion worth of outstanding bonds. In the third spot was another state-owned lender, Bank Tabungan Negara with outstanding bonds amounting to IDR13.0 trillion. State-owned firms Bank Rakyat Indonesia and PLN, which were ranked second and third at the end of June, respectively, dropped to the fifth and fourth places at the end of September.

In Q3 2016, new corporate debt issues amounted to IDR27.3 trillion, which were lower by 17.1% q-o-q. On a y-o-y basis, however, the volume of new corporate debt issuance climbed 69.4%. A total of 18 companies raised funds from the debt market in Q3 2016. There were 45 new debt series issued, including five issues of *sukuk ijarah* (bonds backed by lease agreements) and four issues of *sukuk mudharabah* (profit-sharing bonds).

Some of the largest new corporate bonds issued in Q3 2016 are presented in **Table 3**. State-owned lender Indonesia Eximbank led the list, with aggregate issuance of IDR4.3 trillion worth of bonds that comprised a dual-tranche sale in August and a single-tranche sale in September. Telecommunications firm Indosat followed with a multitranche issuance of conventional bonds and *sukuk ijarah* in September valued at IDR3.5 trillion, while state-owned Bank Tabungan Negara was third with a total of IDR3.0 trillion in new issuance from a dual-tranche sale in August.

Most of the new corporate bonds (22 out of 45 bond series) issued during Q3 2016 had medium-term maturities (5–7 years). On other hand, 20 bond series carried maturities of between 1 year and 3 years, while three bond series had maturities of 10 years.

Investor Profiles

Central Government Bonds. At the end of September, foreign investors were still the largest investor group in Indonesia's LCY government bond market with aggregate holdings of IDR685.0 trillion, which accounted for a 39.2% share of the total stock **(Figure 2)**. Foreign investor holdings were up slightly from a 39.1% share at the end of June and from a 37.6% share at the end of September 2015. Yields on Indonesian government bonds remained the highest among all emerging East Asian markets and continued to attract foreign investor interest. Included among foreign investors are foreign governments and central banks, which together held a 6.8% share of LCY government bonds outstanding at the end of September.

Foreign holdings are mostly concentrated in long-term maturities (more than 10 years), which accounted for a 38.2% share of foreign investor holdings at the end of September **(Figure 3)**. Nonresident holdings of bonds with maturities of more than 5 years to 10 years were also substantial, representing a 37.9% share at the end of September. On the other hand, bonds with maturities of 2 years or less only accounted for 5.6% of nonresident holdings.

While banking institutions were the largest domestic investor in Indonesian government bonds, it was the only investor group which recorded a decline in holdings in Q3 2016 from Q3 2015. Bank holdings have been declining since Q3 2014 and now account for only 21.1% of the total LCY central government bond stock.

In contrast, insurance firms and pension funds have been beefing up their holdings of central government

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Indonesia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (IDR billion)	LCY Bonds (USD billion)			
1.	Indonesia Eximbank	29,113	2.23	Yes	No	Banking
2.	Indosat	14,493	1.11	No	Yes	Telecommunications
3.	Bank Tabungan Negara	12,950	0.99	Yes	Yes	Banking
4.	PLN	11,733	0.90	Yes	No	Energy
5.	Bank Rakyat Indonesia	11,345	0.87	Yes	Yes	Banking
6.	Adira Dinamika Multifinance	11,051	0.85	No	Yes	Finance
7.	Telekomunikasi Indonesia	8,995	0.69	Yes	Yes	Telecommunications
8.	Federal International Finance	8,893	0.68	No	No	Finance
9.	Bank Internasional Indonesia	8,880	0.68	No	Yes	Banking
10.	Astra Sedaya Finance	8,645	0.66	No	No	Finance
11.	Bank Pan Indonesia	7,560	0.58	No	Yes	Banking
12.	Perum Pegadaian	7,042	0.54	Yes	No	Finance
13.	Sarana Multigriya Finansial	7,002	0.54	Yes	No	Finance
14.	Bank CIMB Niaga	6,865	0.53	No	Yes	Banking
15.	Bank Permata	6,482	0.50	No	Yes	Banking
16.	Waskita Karya	5,575	0.43	Yes	Yes	Building Construction
17.	Bank OCBC NISP	4,785	0.37	No	Yes	Banking
18.	Medco-Energi International	4,750	0.36	No	Yes	Petroleum and Natural Gas
19.	Toyota Astra Financial Services	4,591	0.35	No	No	Finance
20.	Jasa Marga	4,500	0.35	Yes	Yes	Toll Roads, Airports, and Harbors
21.	Indofood Sukses Makmur	4,000	0.31	No	Yes	Food and Beverages
22.	Agung Podomoro Land	3,700	0.28	No	Yes	Property and Real Estate
23.	Bank Mandiri	3,500	0.27	Yes	Yes	Banking
24.	Bumi Serpong Damai	3,315	0.25	No	Yes	Property and Real Estate
25.	Surya Artha Nusantara Finance	3,150	0.24	No	No	Finance
26.	Indomobil Finance Indonesia	3,114	0.24	No	No	Finance
27.	Antam	3,000	0.23	Yes	Yes	Mining
28.	Wahana Ottomitra Multiartha	2,828	0.22	No	Yes	Finance
29.	Mandiri Tunas Finance	2,825	0.22	No	No	Finance
30.	Summarecon Agung	2,500	0.19	No	Yes	Property and Real Estate
Total Top 30 LCY Corporate Issuers		**217,182**	**16.65**			
Total LCY Corporate Bonds		**286,710**	**21.98**			
Top 30 as % of Total LCY Corporate Bonds		**75.7%**	**75.7%**			

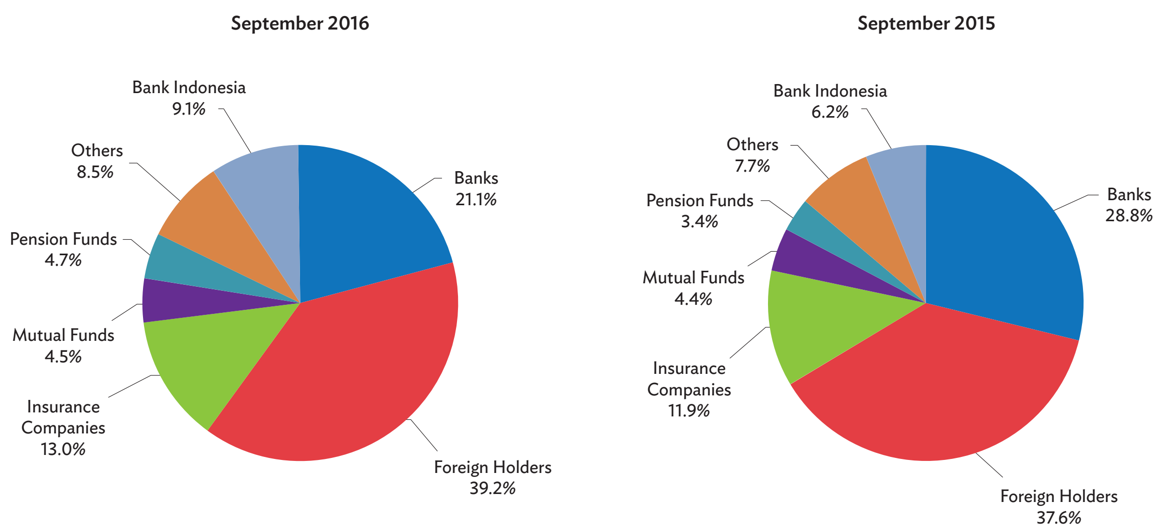
IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of end-September 2016.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

Table 3: Notable Local Currency Corporate Bond Issuance in Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Indonesia Eximbank		
370-day bond	7.25	1,793
3-year bond	7.95	956
5-year bond	8.35	1,582
Indosat		
370-day bond	7.50	1,075
370-day *sukuk ijarah*	7.50	163
3-year bond	8.00	1,047
3-year *sukuk ijarah*	8.00	61
5-year bond	8.60	734
5-year *sukuk ijarah*	8.60	10
7-year bond	9.00	115
10-year bond	9.15	201
10-year *sukuk ijarah*	9.15	54
Bank Tabungan Negara		
3-year bond	8.20	1,347
5-year bond	8.75	1,653
Federal International Finance		
370-day bond	7.25	868
3-year bond	7.95	1,257
Angkasa Pura		
5-year bond	8.60	1,000
7-year bond	8.80	100
10-year bond	9.00	900
Adira Dinamika Multifinance		
370-day bond	7.90	835
370-day *sukuk mudharabah*	7.90	30
3-year bond	8.75	434
3-year *sukuk mudharabah*	8.75	42
5-year bond	9.25	431
5-year *sukuk mudharabah*	9.25	14
Indonesia Infrastructure Finance		
3-year bond	8.25	825
5-year bond	8.70	250
7-year bond	9.00	425

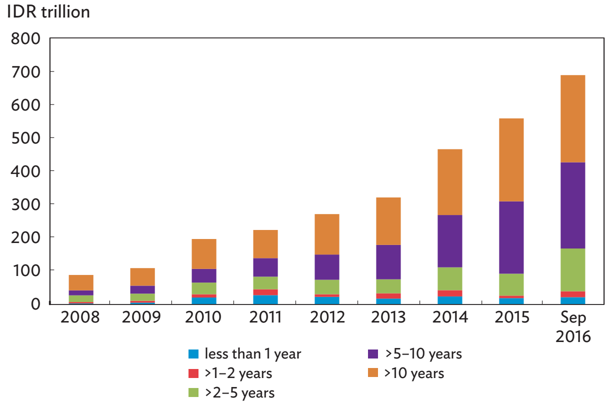
IDR = Indonesian rupiah, Q3 = third quarter.
Notes:
1. *Sukuk ijarah* are Islamic bonds backed by a lease agreement
2. *Sukuk mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
Source: Indonesia Stock Exchange.

Figure 2: Local Currency Central Government Bonds Investor Profile



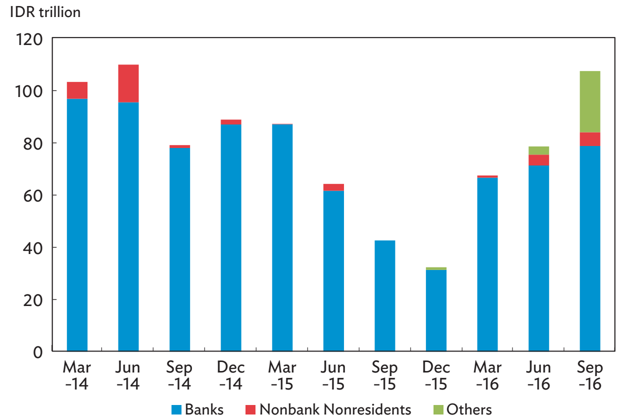
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

Figure 3: Foreign Holdings of Local Currency Central Government Bonds by Maturity



IDR = Indonesian rupiah.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

Figure 4: Local Currency Central Bank Bills Investor Profile



IDR = Indonesian rupiah.
Notes:
1. In September and December 2015, nonbank nonresidents had no holdings of Sertifikat Bank Indonesia.
2. In March 2016, nonbank nonresidents held IDR0.9 trillion of Sertifikat Bank Indonesia.
Source: Bank Indonesia.

bonds in compliance with regulatory requirement to hold 20% of their assets in government bonds by the end of 2016, and to 30% by 2017. Mutual fund holdings of central government bonds also saw an increase, with their share rising to 4.5% at the end of September, which was broadly comparable with pension funds 4.7% share. Other investors, comprising securities companies and individuals, likewise increased their holdings of central government bonds to a share of 8.5% from 7.7% a year earlier. Bank Indonesia's holdings climbed to a 9.1% share at the end of September.

Central Bank Bills. At the end of September, banking institutions remained the dominant holders of SBI. Bank holdings declined to a share of 73.3% of the total at the end of September from 90.7% at the end of June **(Figure 4)**. About 5.0% of SBI outstanding were held by nonbank nonresident investors, while the remaining 21.8% were accounted for by other investors.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Issues Regulation on Foreign Exchange Call Spread Options

In September, Bank Indonesia announced a new regulation that allows banking institutions to engage in call spread option contracts on foreign exchange transactions. Only banks with capitalization of IDR5 trillion or more are allowed to participate in this hedging product. The regulation also requires an underlying transaction.

Indonesia and Japan Extend Bilateral Currency Swap Arrangement

In October, Indonesia and Japan agreed to extend an existing bilateral currency swap arrangement signed in 2013. The size of the swap facility between the two markets amounts to USD22.8 billion.

Parliament Approves 2017 State Budget

In October, the Indonesian Parliament approved the government's 2017 state budget, which estimated a deficit equivalent to 2.4% of GDP. The 2017 budget projects revenues of IDR1,750.3 trillion versus spending of IDR2,080.5 trillion. The budget includes a hike in the cigarette excise tax and cuts in certain electricity subsidies. The underlying macroeconomic assumptions for the 2017 budget include (i) annual GDP growth of 5.1%, (ii) annual inflation of 4.0%, (iii) an exchange rate of IDR13,300 per USD1, (iv) a 3-month Treasury bill rate of 5.3%, and (v) an Indonesian crude oil price of USD45 per barrel.

Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea climbed for all tenors between 31 October and 18 November, shifting the entire yield curve upward **(Figure 1)**. Bond yields for maturities of 2 years and less shed an average of 17 basis points (bps), while yields from the 3-year through 30-year tenors climbed an average of 42 bps. As yields rose faster at the longer end than at the shorter end of the curve, the spread between the 2-year and 10-year tenors widened from 22 bps on 31 October to 45 bps on 18 November.

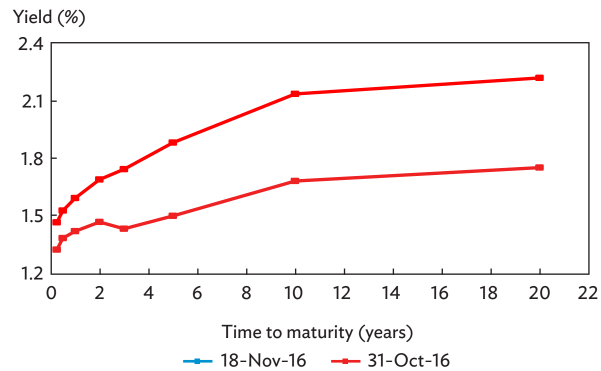
Bond yields rose in October on increased expectations of a United States (US) Federal Reserve rate hike in December following the release of stronger US economic growth in the third quarter (Q3) of 2016. Yields continued to rise in November amid uncertainty over the economic policies of the new US administration.

On 11 November, the Monetary Policy Board of the Bank of Korea decided to maintain the base rate at 1.25% as it has done with its past four monetary policy decisions. The central bank expects that both the domestic and global economies will maintain modest growth. However, the board also noted that risks have increased and therefore it will continue to monitor the domestic and global environments.

Consumer price inflation in the Republic of Korea remained moderate, climbing to 1.3% year-on-year (y-o-y) in October from 1.2% y-o-y in September. On a month-on-month basis, consumer prices inched up 0.1% in October after increasing 0.6% in September.

Real gross domestic product (GDP) growth in the Republic of Korea moderated to 2.7% y-o-y in Q3 2016, according to advance estimates from the Bank of Korea, down from 3.3% y-o-y in the second quarter of 2016. Slower GDP growth in Q3 2016 resulted from declining y-o-y growth in private consumption and weaker y-o-y growth in construction, manufacturing, and services; as well as y-o-y contractions in agriculture, forestry, and fishing production. On a quarter-on-quarter (q-o-q) basis, real GDP growth stood at 0.7% in Q3 2016.

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



Source: Based on data from Bloomberg LP.

In its October economic outlook, the Bank of Korea forecast real GDP to grow 2.5% y-o-y in the second half of 2016 and 2.7% in full-year 2016. It also projected consumer price inflation to level off at 1.1% y-o-y in the second half of 2016 and average 1.0% in full-year 2016.

Size and Composition

The Republic of Korea's LCY bond market expanded 0.6% q-o-q and 3.9% y-o-y in Q3 2016 to reach KRW2,076.6 trillion (USD1,886 billion) at the end of September. The expansion was buoyed by growth in both the government and corporate bond markets **(Table 1)**. The outstanding amount of government bonds grew 0.3% q-o-q and 5.2% y-o-y to KRW855.8 trillion on the back of relatively strong growth in central government bonds, led by Korea Treasury Bonds. Government bond issuance was valued at KRW76.9 trillion in Q3 2016, down 11.6% q-o-q and 8.6% y-o-y on lower quarterly bond sales for both the central bank and the central government.

In the LCY corporate bond market, outstanding bonds grew 0.8% q-o-q and 3.0% y-o-y to reach KRW1,220.8 trillion at the end of September, fueled by relatively fast growth in financial debentures. Issuance of LCY corporate bonds were down 9.8% q-o-q and 18.9% y-o-y to KRW81.5 trillion in Q3 2016.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,999,322**	**1,687**	**2,064,024**	**1,792**	**2,076,602**	**1,886**	**2.1**	**10.5**	**0.6**	**3.9**
Government	813,604	686	853,009	741	855,763	777	1.0	14.3	0.3	5.2
Central Bank Bonds	186,350	157	181,420	158	179,680	163	(1.0)	3.2	(1.0)	(3.6)
Central Government Bonds	536,884	453	583,402	507	585,836	532	1.8	10.0	0.4	9.1
Industrial Finance Debentures	90,370	76	88,188	77	90,247	82	0.7	110.3	2.3	(0.1)
Corporate	1,185,718	1,000	1,211,015	1,051	1,220,839	1,109	2.9	7.9	0.8	3.0

( ) = negative, KRW = Korean won, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Central government bonds include Korea Treasury bonds, National Housing bonds, and Seoul Metro bonds.
Sources: EDAILY *BondWeb* and the Bank of Korea.

The outstanding LCY bonds of the top 30 corporate issuers at the end of September amounted to KRW775.1 trillion, or the equivalent of 63.5% of total LCY corporate bonds outstanding. Korea Housing Finance Corporation remained the largest corporate bond issuer **(Table 2)**. Most of the notable LCY corporate bond issues in Q3 2016 were made by domestic financial institutions such as Industrial Bank of Korea, Korea Eximbank, and Mirae Asset Securities **(Table 3)**.

Investor Profile

The largest investor group in the LCY government bond market at the end of June were insurance companies and pension funds, which held 31.7% of the market's total outstanding stock of LCY government bonds at the end of June **(Figure 2)**. The next-largest investor group were other financial institutions, accounting for a 20.5% share of the total stock. Other major investor groups include general government and banks with shares of 19.3% and 13.4%, respectively.

Insurance companies and pension funds were also the largest investor group in the LCY corporate bond market, with their holdings accounting for 37.7% of the total market at the end of June **(Figure 3)**. In the 12 months through the end of June, insurance companies and pension funds registered the biggest increase in a holdings share at 2.2 percentage points. The largest drop was in the holdings of households and nonprofit organizations at 1.5 percentage points.

Foreign investors sold a net KRW992 billion of the Republic of Korea's LCY bonds in Q3 2016, down from KRW1,229 billion in Q2 2016 and KRW4,149 billion in the first quarter of 2016. On a monthly basis, foreign investors' net bond sales amounted to KRW663 billion in September, down from KRW917 billion in August **(Figure 4)**.

Policy, Institutional, and Regulatory Developments

Financial Services Commission Announces Law on Corporate Governance for Financial Companies

The Financial Services Commission announced in August the State Council's approval on 26 July of the Enforcement Decree of the Act on Corporate Governance of Financial Companies as well as the effectivity of the decree on 1 August. The decree aims to promote the sound and transparent corporate governance of financial companies. Among its key provisions are disqualification criteria for directors and officers, recommended composition of the board of directors, a fit-and-proper rule for the largest shareholder, and performance-based pay for officers and employees.

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

	Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
		LCY Bonds (KRW billion)	LCY Bonds (USD billion)		KOSPI	KOSDAQ	
1.	Korea Housing Finance Corporation	97,834	88.8	Yes	No	No	Housing Finance
2.	NH Investment & Securities	60,743	55.2	Yes	Yes	No	Securities
3.	Mirae Asset Daewoo Securities	55,611	50.5	No	Yes	No	Securities
4.	Korea Investment and Securities	49,345	44.8	No	No	No	Securities
5.	Korea Land & Housing Corporation	49,049	44.5	Yes	No	No	Real Estate
6.	Mirae Asset Securities	40,653	36.9	No	Yes	No	Securities
7.	Industrial Bank of Korea	39,831	36.2	Yes	Yes	No	Banking
8.	Hana Financial Investment	35,411	32.2	No	No	No	Securities
9.	Korea Deposit Insurance Corporation	29,450	26.7	Yes	No	No	Insurance
10.	Hyundai Securities	24,272	22.0	No	No	No	Securities
11.	Korea Electric Power Corporation	23,410	21.3	Yes	Yes	No	Electricity, Energy, and Power
12.	Korea Expressway	22,320	20.3	Yes	No	No	Transport Infrastructure
13.	Shinhan Bank	20,391	18.5	No	No	No	Banking
14.	Korea Rail Network Authority	18,470	16.8	Yes	No	No	Transport Infrastructure
15.	Samsung Securities	18,288	16.6	No	Yes	No	Securities
16.	Kookmin Bank	17,963	16.3	No	No	No	Banking
17.	Woori Bank	17,495	15.9	Yes	Yes	No	Banking
18.	Daishin Securities	16,706	15.2	No	Yes	No	Securities
19.	NongHyup Bank	15,070	13.7	Yes	No	No	Banking
20.	Korea Gas Corporation	14,919	13.5	Yes	Yes	No	Gas Utility
21.	Small & medium Business Corporation	12,990	11.8	Yes	No	No	SME Development
22.	Korea Eximbank	12,120	11.0	Yes	No	No	Banking
23.	Korea Student Aid Foundation	11,340	10.3	Yes	No	No	Student Loan
24.	Standard Chartered First Bank Korea	11,190	10.2	No	No	No	Banking
25.	Shinhan Card	10,789	9.8	No	No	No	Credit Card
26.	Hyundai Capital Services	10,489	9.5	No	No	No	Consumer Finance
27.	Korea Water Resources Corporation	10,481	9.5	Yes	No	No	Water
28.	Shinyoung Securities	9,618	8.7	No	Yes	No	Securities
29.	Korea Railroad Corporation	9,550	8.7	Yes	No	No	Transport Infrastructure
30.	NongHyup	9,340	8.5	Yes	No	No	Diversified
Total Top 30 LCY Corporate Issuers		**775,138.7**	**703.9**				
Total LCY Corporate Bonds		**1,220,839.0**	**1,108.7**				
Top 30 as % of Total LCY Corporate Bonds		**63.5%**	**63.5%**				

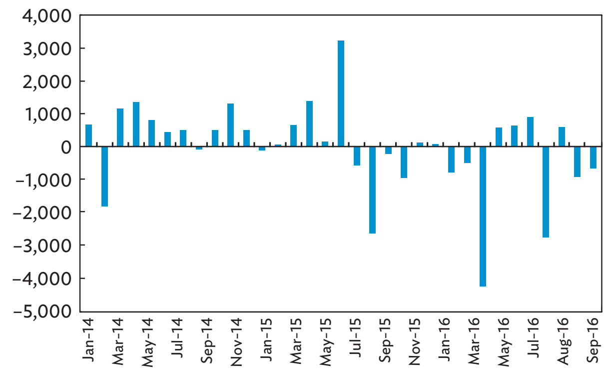
KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, KRW = Korean won, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of end-September 2016.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg LP and EDAILY *BondWeb* data.

Table 3: Notable Local Currency Corporate Bond Issuance in Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Industrial Bank of Korea		
0.5-year bond	1.36	320
0.6-year bond	1.36	410
2-year bond	1.45	300
3-year bond	1.32	300
Perpetual bond	3.16	290
Korea Eximbank		
1-year bond	1.40	310
Mirae Asset Securities		
5.5-year bond	3.50	300

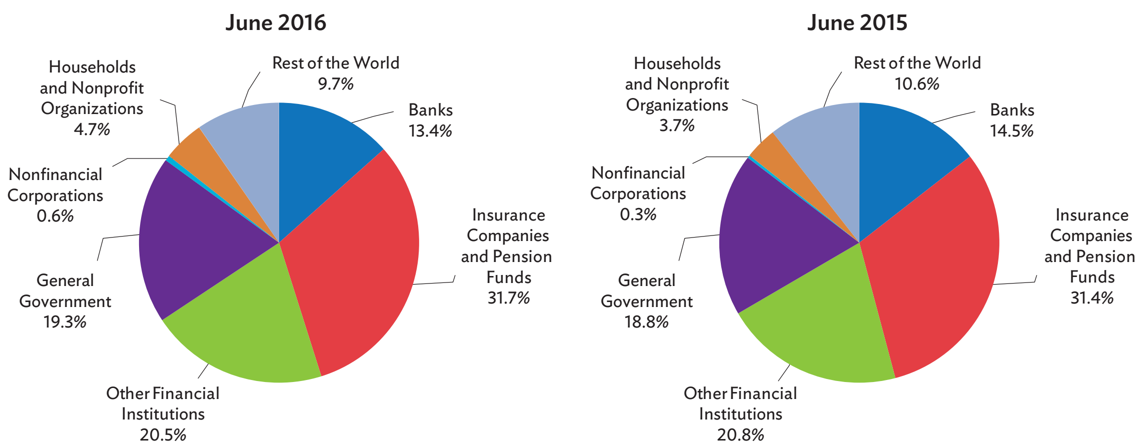
KRW = Korean won, Q3 = third quarter.
Note: Coupon rates for 0.5- and 0.6-year bonds of Industrial Bank of Korea and 1-year bond of Korea Eximbank are indicative yields at end-September 2016.
Source: Based on data from Bloomberg LP.

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



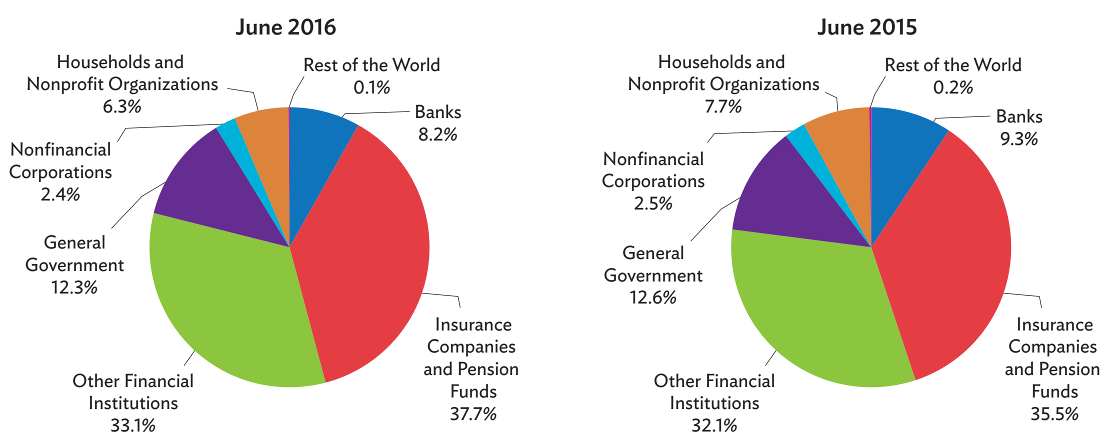
KRW = Korean won.
Source: Financial Supervisory Service.

Figure 2: Local Currency Government Bonds Investor Profile



Sources: *AsianBondsOnline* and the Bank of Korea.

Figure 3: Local Currency Corporate Bonds Investor Profile



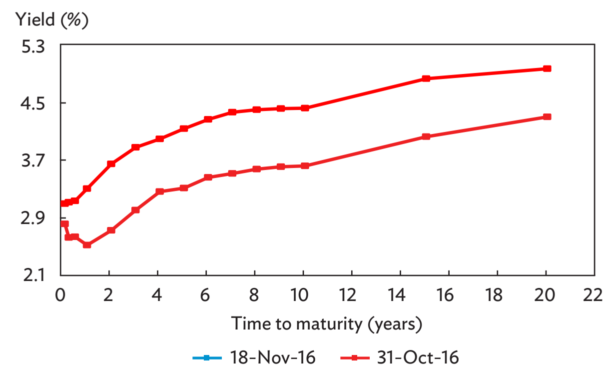
Sources: *AsianBondsOnline* and the Bank of Korea.

Malaysia

Yield Movements

Between 31 October and 18 November, local currency (LCY) government bond yields rose for all tenors. Yields for tenors of less than 1 year rose 42 basis points (bps) on average **(Figure 1)**. Yields for tenors of 1 year to 20 years rose 81 bps on average, ranging between 67 bps and 92 bps. The spread between the 2-year and 10-year yields narrowed to 77 bps on 18 November from 89 bps on 31 October.

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



Source: Based on data from Bloomberg LP.

Yields have been on the rise since September due to volatile oil prices and, particularly, after the October release of the minutes of the United States (US) Federal Reserve meeting, which strengthened the case for the likelihood of a federal funds rate hike in December. Yields soared in November as the market reacted to the unexpected outcome of the US presidential election, reflecting uncertainty over the economic policies of the next administration. Markets foresee increased inflationary pressures in the US as the new administration intends to focus on fiscal expansion, prompting speculation that the Federal Reserve may raise rates more quickly than previously expected. This has led to a sell-off in bonds in the region. Malaysia, along with Indonesia, saw the highest rise in yields as more than a third of its LCY central government bonds are held by foreign investors.

The depreciation of the Malaysian ringgit reflected these developments. As of 18 November, the currency had dropped 8.3% against the US dollar since 1 September and 5.2% since the US presidential election on 8 November. In an effort to mitigate market volalitility, Bank Negara Malaysia (BNM) announced on 13 November the reinforcement of existing restrictions on the facilitation of ringgit nondeliverable forward contracts, which the BNM considers speculative.

Foreign holdings of central government bonds remained high in the third quarter (Q3) of 2016. However, September saw the first net capital outflows for the year, with foreign holdings of central government bonds declining to MYR212 billion at end-September from a high of MYR218 billion in August, partly due to maturing Malaysian Government Securities (MGSs). Foreign investors returned to the market in October due to new issuances of central government bonds, resulting in a rebound of foreign holdings to MYR218 billion. However, recent news in November noted outflows following market uncertainty which resulted after the US election.

At its 7 September Monetary Policy Committee meeting, BNM decided to keep its overnight policy rate at 3.00%. The central bank stated that while volatility in global financial markets has subsided, downside risks remain. The committee expects Malaysia's economy to grow in 2016 in line with prior expectations of continued support from domestic demand.

Malaysia's economic growth inched up to 4.3% y-o-y in Q3 2016 from 4.0% y-o-y in the second quarter (Q2) of 2016, mainly due the accelerated increase in private consumption. Inflation remained subdued in Q3 2016, averaging 1.4% y-o-y over the 3-month period.

Size and Composition

The Malaysian LCY bond market barely changed in size in Q3 2016, with a minimal increase in bonds outstanding of 0.4% quarter-on-quarter (q-o-q) to reach MYR1,168 billion (USD282 billion) at the end of September **(Table 1)**. A decline in the government bond sector was compensated for by growth in the corporate bond market. Total government bonds outstanding summed to MYR632 billion, while corporate bonds amounted to MYR537 billion. *Sukuk* (Islamic bonds)

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,076**	**245**	**1,163**	**289**	**1,168**	**282**	**(0.01)**	**(0.3)**	**0.4**	**8.6**
Government	602	137	644	160	632	153	(1.0)	(4.9)	(1.9)	4.9
Central Government Bonds	549	125	600	149	592	143	(1.5)	8.0	(1.3)	8.0
of which: *Sukuk*	206	47	232	57	236	57	(1.4)	10.4	1.9	14.6
Central Bank Bills	25	6	15	4	11	3	6.4	(77.0)	(29.5)	(56.7)
of which: *Sukuk*	2	0	0	0	0	0	(59.5)	(96.0)	–	(100.0)
Sukuk Perumahan Kerajaan	28	6	28	7	28	7	1.8	67.1	0.0	0.0
Corporate	474	108	519	129	537	130	1.3	6.1	3.3	13.3
of which: *Sukuk*	340	77	375	93	393	95	1.0	8.5	4.9	15.5

( ) = negative, – = not applicable, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rate is used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Sukuk Perumahan Kerajaan are Islamic bonds issued by the Government of Malaysia to refinance funding for housing loans to government employees and to extend new housing loans.
Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

continued to account for most of Malaysia's LCY bond market with a share of 56.3% at the end of September. On a y-o-y basis, Malaysia's LCY bond market expanded 8.6%.

Government Bonds. LCY government bonds outstanding fell 1.9% q-o-q to MYR632 billion at the end of September due to maturing MGSs and declining issuances in Q3 2016. The outstanding stock of central bank bills continued to decline, while Government Investment Issues increased in Q3 2016. On a y-o-y basis, government bonds outstanding rose 4.9%.

Issuance of government bonds fell in Q3 2016 due to smaller bond auction programs for MGSs and Government Investment Issues. On the other hand, issuance of Treasury bills and central bank bills rose in Q3 2016, albeit by smaller amounts.

Corporate Bonds. LCY corporate bonds rose 3.3% q-o-q to MYR537 billion at the end of September. Malaysia's LCY corporate bond market continued to be dominated by *sukuk* in Q3 2016, with their share of the total inching up to 73.3% at the end of September from 72.2% at the end of June.

Table 2 presents the top 30 LCY corporate bond issuers in Malaysia at the end of September. The top 30 issuers comprised 54.7% of the total LCY corporate bond market, with aggregate bonds outstanding amounting to MYR293.5 billion. Financial firms, including banks, continued to account for a majority of the top 30 largest debt issuers, with total bonds outstanding worth MYR158.8 billion. Other firms in the list include those involved in transportation and communications, utilities, construction, and real estate. Approximately two-thirds of those on the list are also state-owned firms. Highway operator Project Lebuhraya Usahasama remained the largest issuer with MYR30.6 billion of outstanding bonds. State-owned mortgage firm Cagamas was second with MYR27.0 billion.

Corporate bond issuance picked up in Q3 2016 to MYR39.9 billion from MYR34.1 billion in the previous quarter. *Sukuk* dominated corporate bond issuance in Q3 2016, with a share rising to 69.9% from 58.9% in the previous quarter. By type of instrument, Islamic medium-term notes (MTNs) continued to account for the single-highest share of total issuance at 53.5%, while conventional commercial paper was next with a share of 16.8%. **Table 3** lists notable corporate bond issuances in Q3 2016.

Government-owned entities were some of the largest bond issuers in Q3 2016, led by Sarawak Hidro, developer of Malaysia's largest hydropower project, which issued MYR5.5 billion worth of multitranche Islamic MTNs. Malaysia's Lembaga Pembiayaan Perumahan Sektor

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Malaysia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (USD billion)			
1.	Project Lebuhraya Usahasama	30.6	7.4	No	No	Transport, Storage, and Communications
2.	Cagamas	27.0	6.5	Yes	No	Finance
3.	Danainfra Nasional	25.2	6.1	Yes	No	Finance
4.	Prasarana	20.6	5.0	Yes	No	Transport, Storage, and Communications
5.	Khazanah	20.0	4.8	Yes	No	Finance
6.	Perbadanan Tabung Pendidikan Tinggi Nasional	14.5	3.5	Yes	No	Finance
7.	Pengurusan Air	13.8	3.3	Yes	No	Energy, Gas, and Water
8.	Maybank	13.7	3.3	No	Yes	Banking
9.	CIMB Bank	10.1	2.4	No	No	Banking
10.	Sarawak Energy	9.5	2.3	Yes	No	Energy, Gas, and Water
11.	Jimah East Power	9.0	2.2	Yes	No	Energy, Gas, and Water
12.	Public Bank	8.6	2.1	No	No	Banking
13.	Sarawak Hidro	6.5	1.6	Yes	No	Energy, Gas, and Water
14.	Aman Sukuk	6.3	1.5	Yes	No	Construction
15.	Rantau Abang Capital	6.0	1.4	Yes	No	Finance
16.	RHB Bank	5.4	1.3	No	No	Banking
17.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
18.	CIMB Group Holdings	5.2	1.3	Yes	No	Finance
19.	BGSM Management	5.1	1.2	No	No	Transport, Storage, and Communications
20.	1Malaysia Development	5.0	1.2	Yes	No	Finance
21.	Danga Capital	5.0	1.2	Yes	No	Finance
22.	Putrajaya Holdings	4.9	1.2	Yes	No	Property and Real Estate
23.	Manjung Island Energy	4.9	1.2	No	No	Energy, Gas, and Water
24.	YTL Power International	4.8	1.2	No	Yes	Energy, Gas, and Water
25.	GOVCO Holdings	4.6	1.1	Yes	No	Finance
26.	Jambatan Kedua	4.6	1.1	Yes	No	Transport, Storage, and Communications
27.	Celcom Networks	4.5	1.1	No	No	Transport, Storage, and Communications
28.	Malakoff Power	4.4	1.1	No	No	Energy, Gas, and Water
29.	Bank Pembangunan Malaysia	4.4	1.1	Yes	No	Banking
30.	AM Bank	4.2	1.0	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**293.5**	**70.9**			
Total LCY Corporate Bonds		**536.6**	**129.7**			
Top 30 as % of Total LCY Corporate Bonds		**54.7%**	**54.7%**			

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of end-September 2016.
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.

Table 3 : Notable Local Currency Corporate Bond Issuance in Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Sarawak Hidro		
3-year Islamic MTN	4.11	245
4-year Islamic MTN	4.16	360
5-year Islamic MTN	4.21	410
6-year Islamic MTN	4.25	425
7-year Islamic MTN	4.29	450
8-year Islamic MTN	4.34	470
9-year Islamic MTN	4.38	470
10-year Islamic MTN	4.43	480
11-year Islamic MTN	4.47	470
13-year Islamic MTN	4.56	510
14-year Islamic MTN	4.61	625
15-year Islamic MTN	4.67	625
Lembaga Pembiayaan Perumahan Sektor Awam		
3-year Islamic MTN	3.50	300
5-year Islamic MTN	3.60	600
7-year Islamic MTN	3.83	700
10-year Islamic MTN	4.05	700
20-year Islamic MTN	4.62	900
30-year Islamic MTN	4.90	800

MTN = medium-term note, MYR = Malaysian ringgit, Q3 = third quarter.
Source: Bank Negara Malaysia Bond Info Hub.

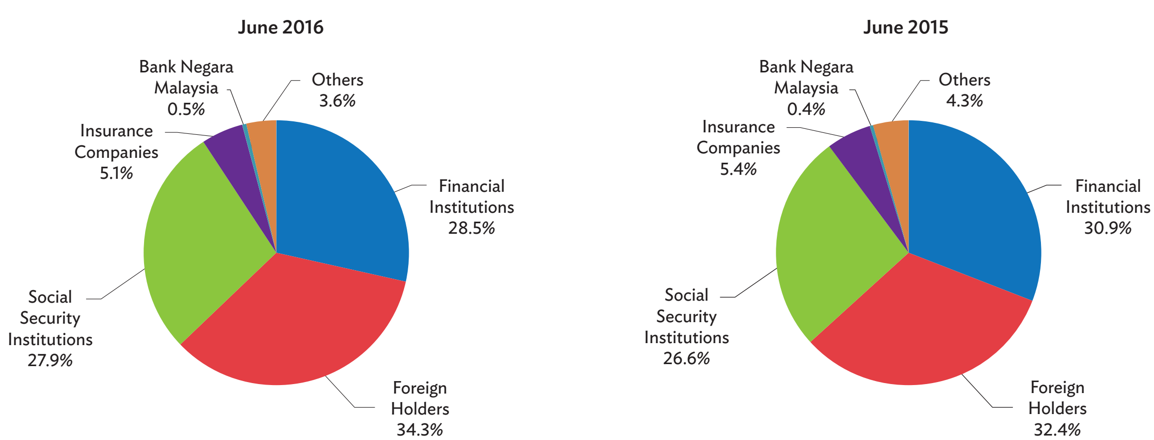
Awam (Public Sector Housing Financing Agency) also issued multitranche Islamic MTN worth MYR4.0 billion. Lebuhraya Duke Fasa 3, established by private company Ekovest Berhad to undertake the Duke Phase 3 expressway under a concession agreement with the Government of Malaysia, issued MYR3.6 billion worth of multitranche Islamic MTNs.

Investor Profile

Foreign investors continued to account for the largest holdings of LCY government bonds at the end of June with a 34.3% share of the total, up from 32.4% a year earlier **(Figure 2)**. Financial institutions remained the second-largest investor group of LCY government bonds with a share of 28.5% at the end of June, down from 30.9% in June 2015. The share of social security institutions' government bond holdings inched up to 27.9% from 26.6% during the review period.

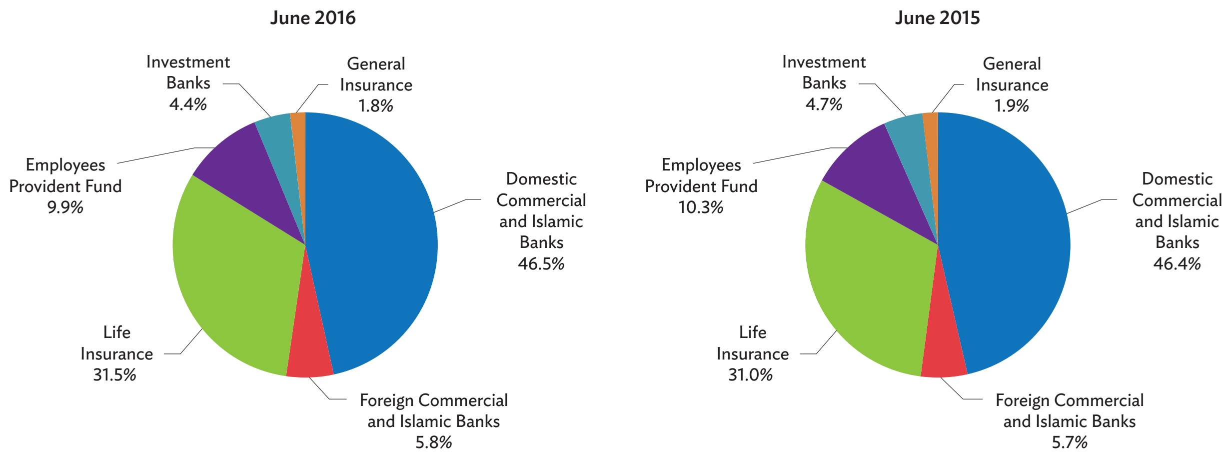
The investor profile of Malaysia's corporate bond market was barely changed at the end of June compared with a year earlier **(Figure 3)**. Domestic banks, both commercial and Islamic, remained the largest investor group with a share of 46.5%. Life insurance companies remained the second-largest holders of corporate bonds with a share of 31.5%.

Figure 2: Local Currency Government Bonds Investor Profile



Note: "Others" include statutory bodies, nominees and trustee companies, and cooperatives and unclassified items.
Source: Bank Negara Malaysia.

Figure 3: Local Currency Corporate Bonds Investor Profile



Note: The Employees Provident Fund's bond holdings data are as of end-December 2015.
Sources: Bank Negara Malaysia and the Employees Provident Fund.

Policy, Institutional, and Regulatory Developments

Prime Minister Announces 2017 Federal Budget

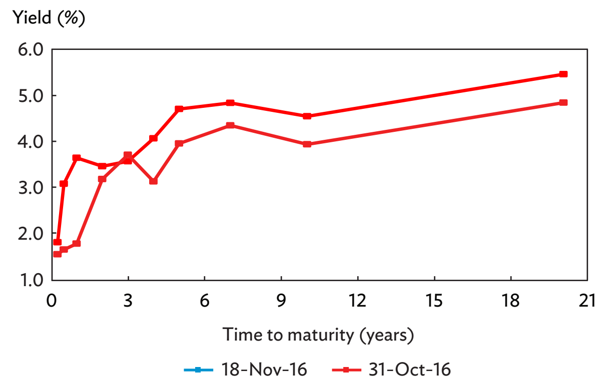
On 21 October, the Prime Minister announced the release of Malaysia's 2017 federal budget with a total allocation of MYR260.8 billion for a 3.4% increase from the 2016 revised budget. The government also announced a fiscal deficit target of MYR40.3 billion, or 3.0% of gross domestic product, down from the 2016 target of 3.1%. Federal government revenue collection is expected to increase 3.0% y-o-y to MYR219.7 billion. The Prime Minister noted the decline in revenues due to the continued fall in oil prices, with an estimated loss of MYR30 billion. Collections from the implementation of the Goods and Services Tax, which was launched in 2015, had reached MYR30 billion as of 19 October 2016. The economy is expected to grow 4.0%–5.0% in 2017, while annual inflation is forecasted at 2.0%–3.0%.

Philippines

Yield Movements

Between 31 October and 18 November, Philippine local currency (LCY) government bond yields rose for all tenors except the 3-year tenor, which fell 14 basis points (bps) **(Figure 1)**. Yields rose the most for the 6-month and 1-year tenors, which soared 142 bps and 186 bps, respectively. Yields for tenors between 2-years and 20-years rose 61 bps on average. The yield spread between the 2-year and 10-year tenors widened to 108 bps on 18 November from 75 bps on 31 October.

Figure 1: Philippines' Benchmark Yield Curve—Local Currency Government Bonds



Source: Based on data from Bloomberg LP.

Yields have been on an upward trend since an uptick was observed in the middle of September ahead of central bank monetary policy meetings in Japan, the Philippines, and the United States (US). Yields likewise rose in October amid expectations of higher US inflation and an increased probability of a US policy rate hike at the end of the year. Yields jumped in November following the outcome of the US presidential election. Markets expect higher inflation in the US as the new administration has expressed its desire to increase fiscal spending. This has further strengthened the case for the US Federal Reserve to push through with a federal funds rate hike in December and it may continue raising rates in 2017 more quickly than previously expected.

The Monetary Board of the Bangko Sentral ng Pilipinas (BSP) decided during its 22 September and 10 November meetings to keep the interest rate on the overnight reverse repurchase facility at 3.0%. The board also kept interest rates on the overnight deposit and lending facilities unchanged and maintained the reserve requirement ratios at their current levels. However, in its 10 November monetary policy meeting, the BSP announced its expectations for inflation to rise to the midpoint of its target range in 2017 and 2018. The BSP noted upward pressures on inflation coming from pending adjustments in power rates and the proposed tax policy reform program. Inflation remained benign in the third quarter (Q3) of 2016 at 1.9% y-o-y in July, 1.8% y-o-y in August, and a 2.3% y-o-y in September. In October, inflation was unchanged at 2.3% y-o-y.

The Philippines' economy grew 7.1% y-o-y in Q3 2016, following growth of 7.0% y-o-y in the second quarter of 2016, and remained the fastest-growing economy in the region. Growth continues to be supported by private consumption, which grew 7.3% y-o-y, and robust investment, which increased 20.0% y-o-y. By industry, the economy's expansion was driven primarily by sustained growth in the industry and services sectors.

Size and Composition

The Philippine LCY bond market expanded in Q3 2016 by 2.4% quarter-on-quarter (q-o-q) and 1.6% y-o-y to reach PHP4,800 billion (USD99 billion) at the end of September **(Table 1)**. The government bond market, with an outstanding size of PHP3,955 billion at the end of September, grew 1.9% q-o-q and 0.4% y-o-y in Q3 2016, buoyed by increases in Treasury bills and bonds. The corporate bond market registered relatively high growth rates of 4.6% q-o-q and 7.7% y-o-y in Q3 2016 for a total of PHP845 billion worth of outstanding bonds at the end of September.

The top 30 issuers in the LCY corporate bond market had combined bonds outstanding of PHP751.3 billion at the end of September, which amounted to 89% of total LCY corporate bonds outstanding **(Table 2)**. The top three LCY corporate issuer groups in the Philippines are banks, property companies, and holding firms, with bonds outstanding that comprise 27.5%, 24.4%, and 20.1%, respectively, of the total market **(Figure 2)**. Across all issuer groups, banks posted the biggest y-o-y drop in their

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,723**	**101**	**4,688**	**99**	**4,800**	**99**	**1.7**	**2.8**	**2.4**	**1.6**
Government	3,939	84	3,880	82	3,955	82	1.1	2.4	1.9	0.4
Treasury Bills	282	6	288	6	293	6	2.6	(0.9)	1.8	3.7
Treasury Bonds	3,577	77	3,517	75	3,587	74	1.0	3.8	2.0	0.3
Others	80	2	76	2	76	2	0.0	(30.9)	0.0	(5.6)
Corporate	784	17	808	17	845	17	4.7	4.8	4.6	7.7

( ) = negative, PHP = Philippine peso, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period local currency–USD rates are used.
3. Growth rates are calculated from a local currency 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) are not included.
Sources: Bloomberg LP and Bureau of the Treasury.

respective share of the total while utility firms recorded the largest y-o-y increase.

LCY bond issuance surged 103.0% q-o-q but dropped 17.3% y-o-y to PHP369.9 billion in Q3 2016. Issuance of government securities, which include Treasury bills and bonds, soared 85.6% q-o-q but plunged 19.9% y-o-y to PHP325.0 billion. The largest issuance of government securities during the quarter was September's sale of Retail Treasury Bonds worth PHP100 billion maturing in 10 years and carrying a 3.5% coupon.

Issuance of corporate bonds increased on both a q-o-q and y-o-y basis in Q3 2016, gaining 540.7% q-o-q and 9.4% y-o-y to total PHP44.9 billion. Among the notable corporate bond issues during Q3 2016 were (i) SMC Global Power Holdings' PHP15 billion triple-tranche fixed-rate bonds sale in July, (ii) Ayala Corporation's PHP10 billion 7-year fixed-rate bonds sold in July, (iii) SM Prime Holdings' PHP10 billion 10-year fixed-rate bonds issued in July, and (iv) Metropolitan Bank & Trust Company's (Metrobank) PHP8.65 billion long-term negotiable certificates of time deposit maturing in 7 years that were sold in September **(Table 3)**. The bonds of Ayala Corporation and SM Prime Holdings were part of an enhanced shelf registration program, launched in November 2015, that allows corporate issuers of securities to time their fund-raising activities as needed and/or to take advantage of favorable market conditions. According to the Securities and Exchange Commission, the shelf registration program has helped boost the issuance of corporate securities thus far in 2016.

Investor Profile

Banks and investment houses were the most dominant investor group in the Philippine government bond market, with their holdings of government securities comprising 37.0% of the total at the end of September **(Figure 3)**. The second-largest holder of government securities were contractual savings institutions (specifically insurance companies) and tax-exempt institutions with a combined holdings share of 31.4%. Among all investor groups shown in Figure 3, the three that experienced increases in their respective holdings shares between September 2015 and September 2016 were (i) contractual savings institutions and tax-exempt institutions; (ii) banks and investment houses; and (iii) brokers, custodians, and depositories.

Ratings Update

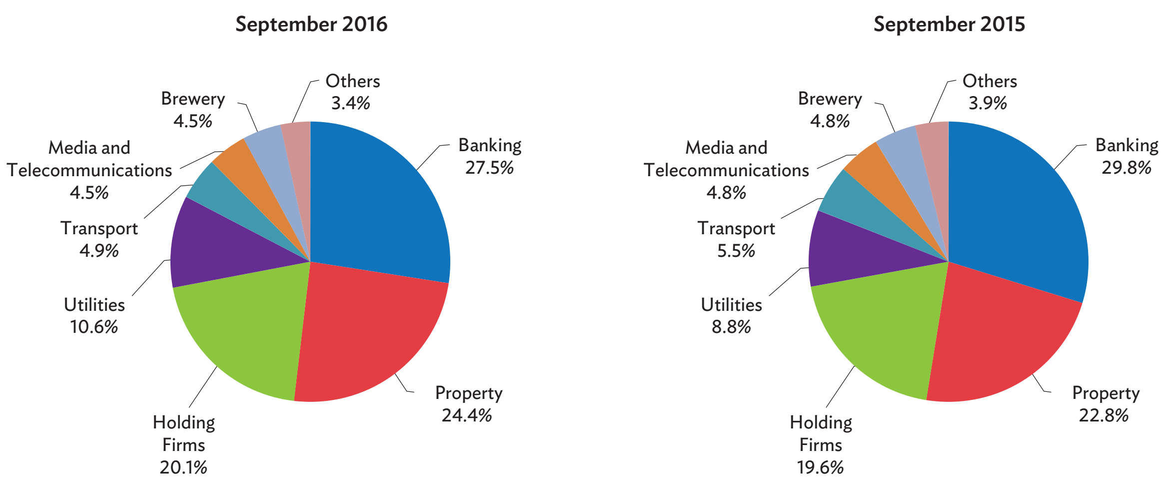
S&P Global Ratings announced in September that it had affirmed its long-term and short-term sovereign credit ratings for the Philippines at BBB and A–2, respectively, with a stable outlook for both ratings. The credit rating agency has likewise affirmed its Association of Southeast Asian Nations (ASEAN) regional scale rating for the Philippines at axA/axA–2. S&P Global Ratings stated that its ratings on the Philippines were the result of the country's "strong external position, which features rising foreign reserves and low and declining external debt" that offset the country's "lower middle-income economy and rising uncertainties surrounding the stability, predictability, and accountability of its new government."

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in the Philippines

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (USD billion)			
1.	Ayala Land	70.3	1.5	No	Yes	Property
2.	Metrobank	55.4	1.1	No	Yes	Banking
3.	SM Prime	55.0	1.1	No	Yes	Property
4.	Ayala Corporation	50.0	1.0	No	Yes	Holding Firms
5.	San Miguel Brewery	37.8	0.8	No	No	Brewery
6.	BDO Unibank	37.5	0.8	No	Yes	Banking
7.	Aboitiz Equity Ventures	32.0	0.7	No	Yes	Holding Firms
8.	Filinvest Land	32.0	0.7	No	Yes	Property
9.	JG Summit	30.0	0.6	No	Yes	Holding Firms
10.	Philippine National Bank	29.1	0.6	No	Yes	Banking
11.	SM Investments	27.3	0.6	No	Yes	Holding Firms
12.	Meralco	23.5	0.5	No	Yes	Electricity, Energy, and Power
13.	Security Bank	23.0	0.5	No	Yes	Banking
14.	Rizal Commercial Banking Corporation	22.1	0.5	No	Yes	Banking
15.	GT Capital	22.0	0.5	No	Yes	Holding Firms
16.	South Luzon Tollway	18.3	0.4	No	No	Transport
17.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
18.	East West Bank	16.8	0.3	No	Yes	Banking
19.	Maynilad Water Services	16.2	0.3	No	No	Water and Wastewater Services
20.	MCE Leisure (Philippines)	15.0	0.3	No	No	Casinos and Gaming
21.	Philippine Long Distance Telephone Company	15.0	0.3	No	Yes	Telecommunications
22.	SMC Global Power	15.0	0.3	No	No	Electricity, Energy, and Power
23.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
24.	First Metro Investment Corporation	12.0	0.2	No	No	Banking
25.	Robinsons Land	12.0	0.2	No	Yes	Property
26.	Manila North Tollways	11.9	0.2	No	No	Transport
27.	MTD Manila Expressway	11.5	0.2	No	No	Transport
28.	Energy Development Corporation	10.5	0.2	No	Yes	Electricity, Energy, and Power
29.	Aboitiz Power	10.0	0.2	No	Yes	Electricity, Energy, and Power
30	8990 Holdings	9.0	0.2	No	Yes	Property
Total Top 30 LCY Corporate Issuers		**751.3**	**15.5**			
Total LCY Corporate Bonds		**845.0**	**17.4**			
Top 30 as % of Total LCY Corporate Bonds		**88.9%**	**88.9%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of end-September 2016.
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 LP data.

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

Table 3: Notable Local Currency Corporate Bond Issuance in Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
SMC Global Power		
5-year bond	4.35	6.15
7-year bond	4.76	4.09
10-year bond	5.18	4.76
Ayala Corporation		
7-year bond	3.92	10.00
SM Prime Holdings		
10-year bond	4.20	10.00
Metrobank		
7-year bond	3.50	8.65

PHP = Philippine peso, Q3 = third quarter.
Source: Bloomberg LP.

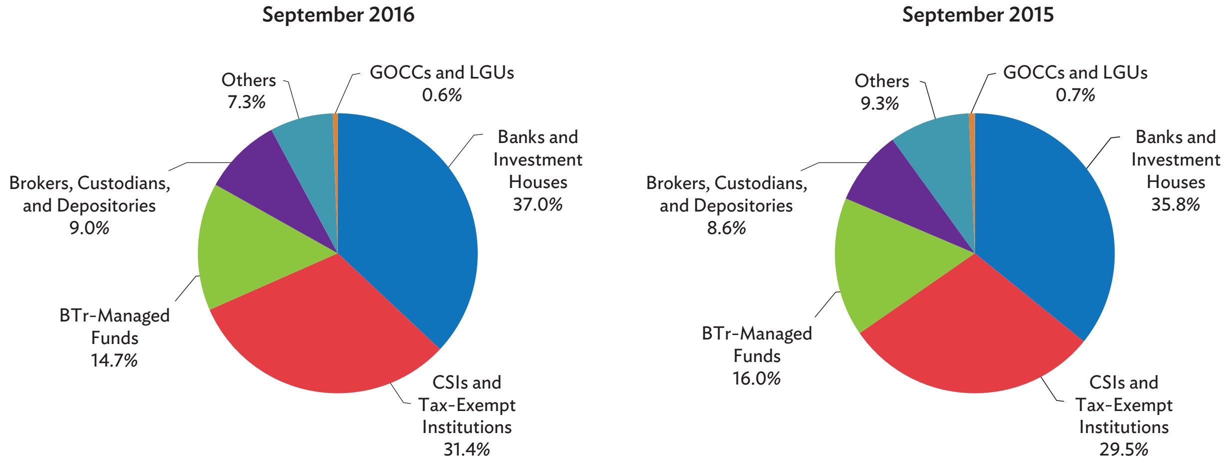
RAM Ratings, a Malaysian credit rating agency, announced in October that it has upgraded the Philippines' ASEAN-scale rating to $_{sea}A_{1(pi)}$/Stable from $_{sea}A2_{(pi)}$/Positive. The ratings upgrade was based on the rating agency's assessment of the Philippine economy's resilience, specifically in terms of favorably "withstanding external volatilities" relative to ASEAN peers as well as the government's "impressive progress" in implementing key administrative and legislative reforms.

Policy, Institutional, and Regulatory Developments

First Tax Reform Package Submitted to Congress in September

The Department of Finance announced in September that it had submitted its first of four tax reform packages to Congress. The proposed tax reform measures include restructuring the personal income tax system, widening the tax base, and adjusting excise taxes on automobiles and petroleum products. The comprehensive tax reform program will enable the government to raise the additional funds needed to increase public infrastructure spending and investments in human capital and social protection.

Figure 3: Local Currency Government Bonds Investor Profile



BTr = Bureau of the Treasury, CSIs = contractual savings institutions, GOCCs = government-owned or -controlled corporations, LGUs = local government units.
Source: Bureau of the Treasury.

Singapore

Yield Movements

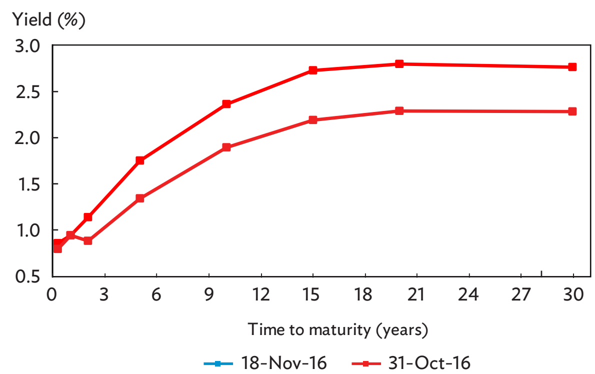
Local currency (LCY) government bond yields rose for all tenors between 31 October and 18 November **(Figure 1)**. Yields for securities with maturities of less than a year increased 6 basis points (bps) while yields for bonds with 1-year maturity remain unchanged. Yields for bonds with 2-year through 5-year maturities rose an average of 33 bps, while yields for 10-year through 30-year maturities rose an average of 50 bps. The spread between the 2-year and 10-year tenors widened from 101 bps on 31 October to 122 bps on 18 November.

Yields at the longer end of the curve for Singapore Government Securities (SGSs) bonds rose higher than at the shorter end. The uneven rise was mainly due to investor uncertainty regarding United States (US) short- and long-term economic policies of the next US administration, and stronger anticipation of a US Federal Reserve rate hike in response to the congressional testimony of the Federal Reserve chair on 17 November signaling that an increase is imminent.

In its second biannual monetary policy statement on 14 October, the Monetary Authority of Singapore (MAS) maintained its policy stance, which has been in place since April 2016, keeping the slope of the Singapore dollar nominal exchange rate policy band at zero and leaving the width and the level at which it is centered unchanged. The decision was made amid a slowing Singapore economy, contracting export sector, and the backdrop of weak global demand. The MAS noted that its neutral policy stance will persist for an extended period to ensure price stability in the medium-term and to offer continued support for the weak economy.

According to the Ministry of Trade and Industry's advance estimates, Singapore's gross domestic product (GDP) for the third quarter (Q3) of 2016 eased to 0.6% year-on-year (y-o-y) from 2.0% y-o-y in the second quarter (Q2) of 2016. The slowdown was mainly due to contractions in the manufacturing and service sectors of 1.1% y-o-y and 0.1% y-o-y, respectively, a reversal from growth of 1.4% y-o-y and 1.2% y-o-y in Q2 2016. On a seasonally adjusted and annualized basis, GDP contracted 4.1% quarter-on-quarter (q-o-q) in Q3 2016 after expanding 0.2% in Q2 2016. GDP for full-year 2016 is expected to come in at the lower end of the 1.0%–2.0% forecast range, with the outlook for 2017 forecast to be only slightly better.

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



Source: Based on data from Bloomberg LP.

Consumer prices fell 0.2% y-o-y in September, the 23rd consecutive month of deflation, primarily due to a continued decline in private road transportation costs and housing and utility costs. The decline largely reflects the ample global oil supply amid weak demand. While on the domestic side, inflationary pressures have been tempered by slack in the labor market. Preliminary estimates by the Ministry of Manpower showed total employment shrinking by 3,300 in Q3 2016, noting it was only the second quarter in which employment has contracted since the global financial crisis. The slowdown in employment will gradually weaken domestic inflationary pressures. The MAS projects inflation of about –0.5% in 2016 and 0.5%–1.5% in 2017, which is in line with an expected rise in global oil prices.

Size and Composition

LCY bonds outstanding in Singapore expanded to SGD315 billion (USD231 billion) at the end of September from SGD314 billion (USD233 billion) at the end of June, reflecting a gain of 0.4% q-o-q and a decline of 0.7% y-o-y **(Table 1)**. Compared with Q2 2016, the outstanding stock of corporate LCY bonds slightly increased, while the stock of SGS bonds declined. Only short-term MAS bills trended upward.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**318**	**223**	**314**	**233**	**315**	**231**	**(3.9)**	**(1.1)**	**0.4**	**(0.7)**
Government	188	132	182	135	183	134	(5.0)	(3.6)	0.6	(2.6)
SGS Bills and Bonds	103	72	109	81	107	78	(2.3)	1.7	(2.0)	4.0
MAS Bills	85	60	73	54	76	56	(8.0)	(9.4)	4.6	(10.5)
Corporate	130	91	133	98	133	97	(2.2)	2.9	0.1	2.0

( ) = negative, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, SGD = Singapore dollar, SGS = Singapore Government Securities, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.
2. SGS bills and bonds do not include the special issue of Singapore Government Securities held by the Singapore Central Provident Fund.
3. Bloomberg LP end-of-period local currency–USD rates are used.
4. Growth rates are calculated from local currency base and do not include currency effects.
Sources: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

Government Bonds. LCY government bonds outstanding amounted to SGD183 billion at the end of September, increasing 0.6% q-o-q and declining 2.6% y-o-y. The q-o-q increase was mainly due to the 4.6% q-o-q rise in the outstanding stock of MAS bills to SGD76 billion. However, in y-o-y terms, the stock of MAS bills declined 10.5% from SGD85 billion as of September 2015. New issuance of MAS bills amounted to SGD79.2 billion in Q3 2016, reflecting a rise of 13.6% q-o-q but a drop of 3.8% y-o-y.

The outstanding stock of SGS bills and bonds decreased 2.0% q-o-q, largely due to the redemption of SGD7.7 billion worth of SGS bonds in Q3 2016, exceeding the SGD5.5 billion of SGS bonds issued in the same quarter.

Corporate Bonds. The outstanding stock of LCY corporate bonds amounted to SGD133 billion at the end of September, up 0.1% q-o-q and 2.0% y-o-y.

In Q3 2016, the top 30 largest LCY corporate bond issuers accounted for a combined SGD68.7 billion worth of notes, or a 51.8% share of the total corporate bond stock **(Table 2)**. Singapore's Housing and Development Board remained atop the list with SGD21.9 billion worth of outstanding bonds. United Overseas Bank was a distant second with SGD4.7 billion. Temasek Financial I, a wholly owned financing subsidiary of state-owned investment company Temasek Holdings, had total bonds outstanding of SGD3.6 billion.

Among the 30 largest corporate bond issuers, 4 were state-owned agencies, while the rest comprised a diverse set of issuers from the banking, consumer goods, education, finance, real estate, transportation, and utilities sectors.

Affecting the LCY corporate bond market is the weak global demand that led to the slump in commodity prices beginning in 2014, with the effects now being felt across Singapore's oil and gas services industry. In November 2015, Singapore-listed and Indonesia-based firm PT Trikomsel Oke missed its coupon payments, which was followed by Singapore-listed and Hong Kong, China-based firm Pacific Andes Resources Development defaulting on its bond obligations before filing for bankruptcy in July, and Singapore-based firm Swiber Holdings defaulting on its coupon payments in August before being placed under judicial management. More Singapore-based and -listed firms in maritime operations and oil and gas services—such as AusGroup, Rickmers Maritime, Macro Polo Marine, ASL Marine Holdings, and Swissco—are considering debt restructuring proposals with their bondholders. Even companies with stronger financials, such as Dyna-Mac Holdings and Cordlife Group, are conducting early note redemptions. Issuers in the high-risk, unrated LCY bond market in Singapore have been placed in the spotlight amid a prolonged slump in oil and gas prices that is expected to add to the challenge faced by commodities-related industries.

Through the end of September, a total of 12 companies had tapped the bond market for funding needs with new issuances of LCY corporate debt in Q3 2016 amounting to SGD4.1 billion, reflecting a rise of 12.6% y-o-y and

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Singapore

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (SGD billion)	LCY Bonds (USD billion)			
1.	Housing & Development Board	21.9	16.1	Yes	No	Real Estate
2.	United Overseas Bank	4.7	3.4	No	Yes	Banking
3.	Temasek Financial I	3.6	2.6	Yes	No	Finance
4.	Land Transport Authority	3.5	2.5	Yes	No	Transportation
5.	Capitaland	3.0	2.2	No	Yes	Real Estate
6.	FCL Treasury	2.4	1.7	No	No	Finance
7.	DBS Bank	2.2	1.6	No	Yes	Banking
8.	SP Powerassets	1.9	1.4	No	No	Utilities
9.	Olam International	1.7	1.3	No	Yes	Consumer Goods
10.	Keppel Corporation	1.7	1.2	No	Yes	Diversified
11.	Public Utilities Board	1.7	1.2	Yes	No	Utilities
12.	City Developments Limited	1.6	1.2	No	Yes	Real Estate
13.	DBS Group Holdings	1.5	1.1	No	Yes	Banking
14.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
15.	Hyflux	1.5	1.1	No	Yes	Utilities
16.	Neptune Orient Lines	1.3	0.9	No	Yes	Transportation
17.	Capitaland Treasury	1.2	0.8	No	No	Finance
18.	Mapletree Treasury Services	1.1	0.8	No	No	Finance
19.	CMT MTN	1.1	0.8	No	No	Finance
20.	Capitamalls Asia Treasury	1.0	0.7	No	No	Finance
21.	National University of Singapore	1.0	0.7	No	No	Education
22.	Singapore Airlines	1.0	0.7	No	Yes	Transportation
23.	Ascendas REIT	1.0	0.7	No	Yes	Finance
24.	Sembcorp Financial Services	1.0	0.7	No	No	Engineering
25.	GLL IHT	0.9	0.7	No	No	Real Estate
26.	Singtel Group Treasury	0.9	0.7	No	No	Finance
27.	Overseas Union Enterprise	0.8	0.6	No	Yes	Real Estate
28.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
29.	Global Logistic Properties	0.8	0.6	No	Yes	Real Estate
30.	SMRT Capital	0.8	0.6	No	No	Transportation
Total Top 30 LCY Corporate Issuers		**68.7**	**50.4**			
Total LCY Corporate Bonds		**132.7**	**97.3**			
Top 30 as % of Total LCY Corporate Bonds		**51.8%**	**51.8%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of end-September 2016.
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 LP data.

Table 3: Notable Local Currency Corporate Bond Issuance in Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
5-year bond	1.47	700
7-year bond	1.91	700
10-year bond	2.04	600
15-year bond	2.55	700
Suntec REIT		
5-year bond	1.75	300
UOL Treasury Services		
4-year bond	2.50	240
Mapletree Commercial Trust		
10-year bond	3.11	175
CMT MTN		
15-year bond	3.35	150

Q3 = third quarter, REIT = Real Estate Investment Trust, SGD = Singapore dollar.
Source: Bloomberg LP.

a decline of 10.1% q-o-q. The largest issuance in Q3 2016 was from the Housing and Development Board's multitranche bond worth SGD2.7 billion. **Table 3** presents the notable corporate bond issues in Q3 2016.

Policy, Institutional, and Regulatory Developments

Singapore's Ministry of Law Accepts Recommendations to Strengthen Debt Restructuring Framework

On 20 July, Singapore's Ministry of Law accepted the recommendations of the Committee to Strengthen Singapore as an International Centre for Debt Restructuring. The 17 recommendations cover enhancing the legal framework for restructurings, creating a restructuring-friendly ecosystem, and addressing the perception gap in Singapore's restructuring capabilities. Ultimately, the Ministry of Law envisions Singapore to be a one-stop location combining efficiency, expertise, and a strong legal framework for global companies seeking debt restructuring.

Singapore Exchange Obtains Approval to List Companies with Dual-Class Shares

In its annual report published 29 August, the Listings Advisory Committee of Singapore Exchange (SGX), an independent council of industry leaders and professionals, authorized SGX to list companies with dual-class shares if they meet required criteria subject to the committee's review and approval. Unless provided with a compelling reason, the default rule of one-share, one-vote remains for companies seeking to list with SGX. This aims to make SGX more attractive to high-quality companies, who may hold a dual-class share corporate structure, to launch their initial public offerings on SGX.

Singapore Exchange Signs Memorandum of Understanding with Industrial and Commercial Bank of China

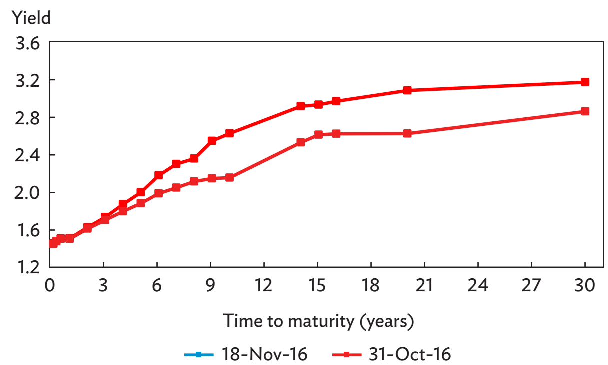
SGX and the Industrial and Commercial Bank of China Limited, the sole renminbi-clearing bank in Singapore, signed a Memorandum of Understanding on 19 September to enhance capital market links between Singapore and the People's Republic of China. The memorandum aims to support companies from the People's Republic of China in tapping Singapore's capital markets for equity and bond financing needs, particularly real investment trusts and offshore renminbi-denominated bonds. The memorandum also aims to realize secondary market activities of renminbi-denominated contracts listed on SGX.

Thailand

Yield Movements

Between 31 October and 18 November, Thailand's local currency (LCY) government bond yields rose for all tenors in the aftermath of the United States (US) presidential election, which affected global financial markets **(Figure 1)**. Yields for bonds with maturities of 1 month to 1 year rose an average of 1 basis point (bp). Yields for tenors of between 2 years and 9 years rose an average of 16 bps, while yields for bonds with 10-year to 30-year maturities rose an average of 38 bps. The 2-year versus 10-year yield spread widened to 99 bps on 18 November from 54 bps on 31 October.

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



Source: Based on data from Thai Bond Market Association.

The economic environment in Thailand was generally good in the third quarter (Q3) of 2016 as the economy expanded amid continued inflation, improved private consumption and investment, and a rise in exports. However, recent events in October and November largely contrasted with the favorable environment in Q3 2016. The passing away of Thailand's King on 13 October, a widely popular and unifying figure in Thailand's political landscape, caused jitters in domestic equity, bond, and currency markets. This was followed by the impact of the US presidential election outcome on 8 November and the US Federal Reserve chair signaling to the US Congress on 17 November that a December rate hike was likely given continued improvement in key indicators of US economic activity, including a tightening labor market amid near full employment. The cumulative impact of these events caused yields to spike across the curve, with yields at the longer end rising more than those at the shorter end.

The Bank of Thailand's Monetary Policy Committee decided to maintain the policy rate at 1.50% for the 12th consecutive time on 9 November. The central bank assessed that Thailand's economy will gradually recover despite the downside risks on both the domestic and global fronts such as the slowdown in tourist arrivals from the People's Republic of China and global political uncertainty, especially in the US and the European Union. The committee decided to preserve policy space to counter uncertainty over the direction of monetary policies and political changes in advanced economies that could lead to exchange rate volatility and sudden capital flows in either direction. Inflation is expected to return to within the central bank's target band in the medium term, while monetary conditions remain accommodative to support the gradual economic recovery.

Thailand's consumer price inflation has been positive for 7 consecutive months, increasing 0.3% year-on-year (y-o-y) in October after rising 0.4% y-o-y in September. The gains were led by an increase in prices of fuel and transportation costs, which rose 0.3% y-o-y in October after declining 0.9% y-o-y in September. The excise tax on cigarettes, which took effect in February, also contributed to inflation with tobacco and alcoholic beverages growing 13.0% y-o-y in October, at par with September. Inflation is expected to gradually rise, but the timing will depend on global oil price movements.

Thailand's economy improved in the second quarter of 2016, with gross domestic product (GDP) growth rising to 3.5% y-o-y, up from 3.2% y-o-y in the first quarter of 2016. The expansion was mainly due to improving private consumption as well as growth in government spending, gross fixed capital formation, tourism, and manufacturing. In September, merchandise exports rose 3.5% y-o-y due to improving demand for electronic products and appliances among Thailand's trading partners. According to preliminary report from the Bank of Thailand, the economy also expanded in Q3 2016 supported by growth in public spending and private consumption. Overall,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**9,769**	**269**	**10,372**	**295**	**10,593**	**306**	**1.7**	**6.5**	**2.1**	**8.4**
Government	7,312	201	7,720	220	7,819	226	0.2	5.7	1.3	6.9
Government Bonds and Treasury Bills	3,698	102	3,884	111	4,035	117	2.7	7.1	3.9	9.1
Central Bank Bonds	2,862	79	3,030	86	2,961	86	(1.6)	6.0	(2.3)	3.5
State-Owned Enterprise and Other Bonds	752	21	807	23	822	24	(4.5)	(1.4)	1.9	9.4
Corporate	2,456	68	2,652	75	2,775	80	6.5	8.9	4.6	13.0

( ) = negative, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, THB = Thai baht, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period local currency–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. ADB calculations used to estimate data for Q3 2016.
Sources: Bank of Thailand and Bloomberg LP.

Thailand's economy is poised to surpass the 2.8% GDP growth attained in 2015 and is projected to grow 3.2% in 2016 and 2017.

Size and Composition

Thailand's LCY bond market expanded 2.1% quarter-on-quarter (q-o-q) and 8.4% y-o-y to reach THB10,593 billion (USD304 billion) **(Table 1)**.

Government Bonds. Government debt securities rose 1.3% q-o-q in Q3 2016 to THB7,819 billion at the end of September from THB7,720 billion at the end of June. The rise came mainly from a 3.9% q-o-q increase in government bonds and Treasury bills, and a 1.9% q-o-q increase in state-owned enterprise and other bonds. Central bank bonds decreased 2.3% q-o-q, but rose 3.5% y-o-y. The outstanding stock of government issued debt securities comprised government bonds (THB4,035 billion), central bank bonds (THB2,961 billion), and state-owned enterprise and other bonds (THB822 billion).

Newly issued government bonds in Q3 2016 amounts to THB2,219 billion. Most of the new issuance comprised central bank bonds (THB1,899 billion), which increased 29.2% from Q3 2015. New issuance of central government bonds (THB280 billion) declined 18.4% q-o-q, but rose 11.4% y-o-y.

Corporate Bonds. Total LCY corporate bonds outstanding rose to THB2,775 billion at the end of September from THB2,652 billion at the end of June. LCY corporate bonds outstanding in Q3 2016 grew 4.6% q-o-q and 13.0% y-o-y. New issuance of LCY corporate bonds amounted to THB470 billion in Q3 2016.

The top 30 LCY corporate bond issuers in Thailand had combined outstanding bonds amounting to THB1,536.5 billion at the end of September, accounting for 55.4% of the total LCY corporate bond market **(Table 2)**. CP All remained the largest corporate issuer in Thailand in Q3 2016 with THB192 billion of LCY bonds outstanding. Siam Cement was second with THB166.5 billion. PTT remained in the third spot with THB145.4 billion of LCY bonds outstanding.

Table 3 lists the notable corporate bond issuances in Q3 2016. Berli Jucker, a large Thai consumer products export and import firm, led all 70 companies that issued new bonds in Q3 2016 with THB54 billion worth of bonds issued in multiple tranches. CPF Thailand, a world leader in pet foods, was second with a multitranche debt issuance worth THB13 billion. The third largest was CP All, a major convenience store operator, with a multitranche bond issuance worth almost THB12 billion.

Investor Profile

In Q3 2016, LCY government bonds in Thailand were still mostly held by contractual savings funds, which accounted for a 28.6% share of the total, but this share declined from 29.2% in the previous year **(Figure 2)**. While the second-largest group of holders were insurance companies, whose share increased from 20.3% in Q3 2015 to 26.0% in Q3 2016. Commercial banks'

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Thailand

Issuers		Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (THB billion)	LCY Bonds (USD billion)			
1.	CP All	192.0	5.6	No	Yes	Commerce
2.	Siam Cement	166.5	4.8	Yes	Yes	Construction Materials
3.	PTT	145.4	4.2	Yes	Yes	Energy and Utilities
4.	Charoen Pokphand Foods	80.0	2.3	No	Yes	Food and Beverage
5.	Bank of Ayudhya	77.3	2.2	No	Yes	Banking
6.	Thai Airways International	54.3	1.6	Yes	Yes	Transportation and Logistics
7.	Berli Jucker	54.0	1.6	No	Yes	Food and Beverage
8.	Kasikorn Bank	50.0	1.4	No	Yes	Banking
9.	Indorama Ventures	45.3	1.3	No	Yes	Petrochemicals and Chemicals
10.	Toyota Leasing Thailand	42.1	1.2	No	No	Finance and Securities
11.	Tisco Bank	41.5	1.2	No	No	Banking
12.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
13.	Mitr Phol Sugar	37.8	1.1	No	No	Food and Beverage
14.	Banpu	37.3	1.1	No	Yes	Energy and Utilities
15.	True Corp	37.2	1.1	No	Yes	Communications
16.	True Move H Universal Communication	34.0	1.0	No	No	Communications
17.	Krungthai Card	33.5	1.0	Yes	Yes	Banking
18.	Thanachart Bank	32.5	0.9	No	No	Banking
19.	PTT Exploration and Production Company	32.1	0.9	Yes	Yes	Energy and Utilities
20.	TPI Polene	32.0	0.9	No	Yes	Property and Construction
21.	Advanced Wireless	31.6	0.9	No	Yes	Communications
22.	CH. Karnchang	30.0	0.9	No	Yes	Property and Construction
23.	CPF Thailand	29.0	0.8	No	Yes	Food and Beverage
24.	Land & Houses	29.0	0.8	No	Yes	Property and Construction
25.	Thai Oil	28.0	0.8	Yes	Yes	Energy and Utilities
26.	Minor International	25.8	0.7	No	Yes	Food and Beverage
27.	TMB Bank	25.4	0.7	No	Yes	Banking
28.	Glow Energy	24.6	0.7	No	Yes	Energy and Utilities
29.	Thai Union Group	24.3	0.7	No	Yes	Food and Beverage
30.	ICBC Thai Leasing	24.1	0.7	No	No	Finance and Securities
Total Top 30 LCY Corporate Issuers		**1,536.5**	**44.4**			
Total LCY Corporate Bonds		**2,774.7**	**80.2**			
Top 30 as % of Total LCY Corporate Bonds		**55.4%**	**55.4%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of end-September 2016.
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 LP data.

Table 3: Notable Local Currency Corporate Bond Issuance in Q3 2016

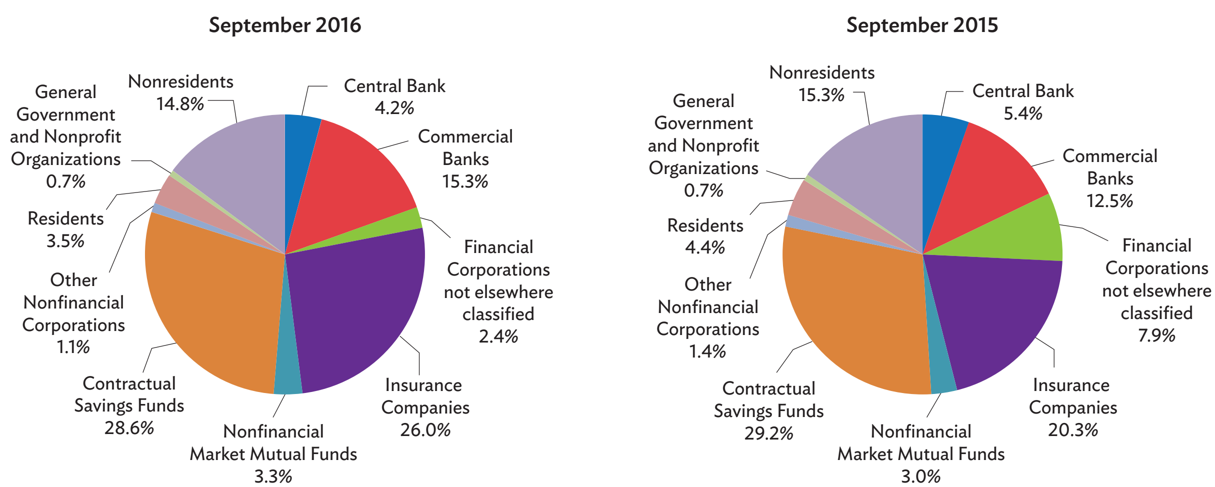
Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Berli Jucker		
3-year bond	2.34	22,000
5-year bond	2.69	9,000
7-year bond	3.07	3,000
10-year bond	3.80	20,000
CPF Thailand		
4-year bond	2.51	5,000
7-year bond	3.09	3,300
10-year bond	3.46	1,400
12-year bond	3.65	1,100
15-year bond	3.95	2,200
CP All		
3-year bond	2.49	5,900
7-year bond	3.25	500
10-year bond	3.68	748
12-year bond	4.00	4,850
Bank of Ayudhya		
8.4-year bond	3.50	10,000
Thai Union Group		
3-year bond	2.03	6,000
5-year bond	2.32	2,000
7-year bond	2.79	2,000

Q3 = third quarter, THB = Thai baht.
Source: Bloomberg LP.

share also increased from 12.5% in Q3 2015 to 15.3% in Q3 2016, while the share of foreign investors fell from 15.3% to 14.8%.

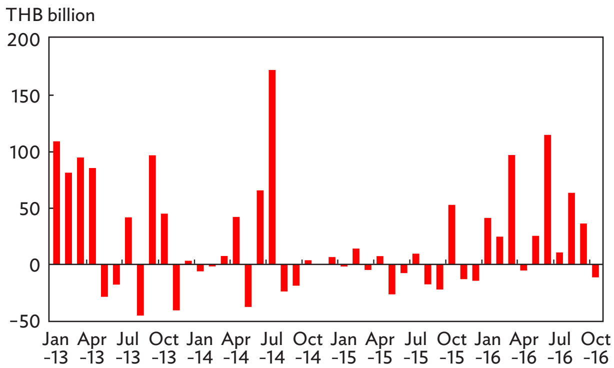
In January–October, net foreign flows into the LCY bond market amounted to THB392.0 billion, up from only THB3.2 billion for the same period in 2015. Foreign flows were net positive in every month during the review period except for April and October. The substantial net inflows reflect positive investor sentiments on improving fundamentals for Thailand's economy even amid anticipation of a US interest rate hike throughout the year. Meanwhile, the British referendum to leave the European in June acted as a tailwind, further increasing fund flows into Thailand as global financial markets reacted to the vote with shock. However, domestic political uncertainty in Thailand on two occasions also made investors cautious: Thailand's referendum on a new constitution in August and the passing away of the King in October. Since then, the government's securing a majority vote for approval of the military-backed constitution and the announcement on the transfer of power to the King's successor on 1 December have calmed jittery sentiments among investors. Net aggregate fund inflows totaled THB109 billion in Q3 2016. The net decline in October

Figure 2: Local Currency Government Bonds Investor Profile



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

Figure 3: Foreign Investor Net Trading of Local Currency Bonds in Thailand



THB = Thai baht.
Source: Thai Bond Market Association.

of THB11 billion mainly comprised large net outflows in mid-October following the King's death as well as reports of improving US economic activity **(Figure 3)**. As of 18 November, net outflows for the month amounted to THB50 billion, reflecting investor sentiments following the result of the US presidential election.

Policy, Institutional, and Regulatory Developments

Stock Exchange of Thailand Plans New Mutual Fund Service Platform in Early 2017

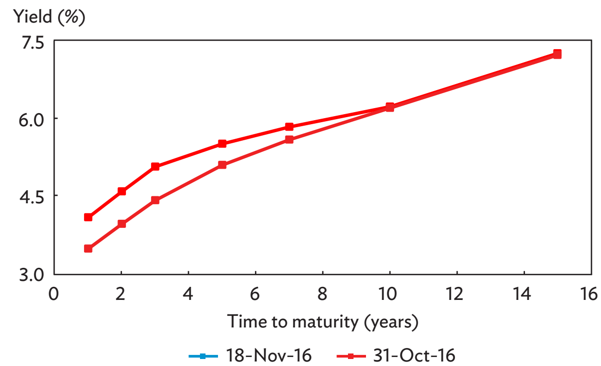
The Stock Exchange of Thailand on 26 September announced its plan to launch a new mutual fund service platform in the first quarter of 2017 to help broaden and make efficient the channeling and access of mutual funds by the public. An industry-wide test run is expected before the end of the year. The announcement came after memorandums of understanding were signed with about 40 mutual fund firms on 15 March. Upon launch, the many stakeholders—which include asset management firms, securities companies, unit investment trusts, life insurance firms, and commercial banks—have all committed to use the new platform to service customer needs in addition to the continued use of traditional person-to-person channels. According to the Securities and Exchange Commission, the plan is an important milestone in establishing Thailand's national infrastructure investment platform, making transactions easier for stakeholders and their customers.

Viet Nam

Yield Movements

Between 31 October and 18 November, local currency (LCY) government bond yields in Viet Nam rose for all tenors **(Figure 1)**. Yields gained the most at the shorter end of the curve, rising an average of 62 basis points (bps) for the 1-year through 3-year maturities. Yields climbed the least at the longer end and were up by an average of only 3 bps for the 10-year through 15-year tenors. An overall flattening of the yield curve resulted, with the spread between the 2-year and 10-year maturities narrowing from 223 bps on 31 October to 163 bps on 18 November.

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



Source: Based on data from Bloomberg LP.

Government bond yields in Viet Nam initially declined in October due largely to ample liquidity in the banking system as the State Bank of Vietnam actively purchased United States (US) dollars to bolster its foreign reserves. Yields then rose following the release in October of minutes from the September meeting of the US Federal Open Market Committee, which indicated the increased likelihood of a rate hike by the Federal Reserve in December. In November, yields were driven higher by uncertainty relating to the economic policies of the incoming US administration.

Real gross domestic product growth reached 5.9% year-on-year (y-o-y) in the first 3 quarters of the year, up from 5.5% y-o-y in the first half of the year, but down from 6.5% y-o-y in the first 3 quarters of 2015. Industry and construction output grew 7.5% y-o-y in January–September and services output rose 6.7% y-o-y, while the agriculture sector grew a marginal 0.7% y-o-y.

Size and Composition

Viet Nam's LCY bond market expanded to VND1,038.2 trillion (USD47 billion) at the end of September, remaining the smallest in terms of size in emerging East Asia **(Table 1)**. Growth was positive on both a quarter-on-quarter (q-o-q) and y-o-y basis in the third quarter of 2016 (Q3 2016). Much of the growth was contributed by government bonds, which account for 96.1% of the aggregate LCY bond market.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**848,760**	**38**	**969,903**	**43**	**1,038,164**	**47**	**(11.9)**	**(13.3)**	**7.0**	**22.3**
Government	821,988	37	931,111	42	998,070	45	(12.5)	(14.6)	7.2	21.4
Treasury Bonds	534,576	24	717,149	32	718,287	32	(2.1)	1.1	0.2	34.4
Central Bank Bonds	90,279	4	9,999	0.4	69,999	3	(54.9)	(59.5)	600.0	(22.5)
State-Owned Enterprise Bonds	197,133	9	203,963	9	209,784	9	2.4	(6.6)	2.9	6.4
Corporate	26,772	1	38,792	2	40,094	2	9.4	67.0	3.4	49.8

( ) = negative, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, VND = Vietnamese dong, y-o-y = year-on-year.
Notes:
1. Bloomberg LP end-of-period local currency–USD rates are used.
2. Growth rates are calculated from local currency base and do not include currency effects.
Sources: Bloomberg LP and Vietnam Bond Market Association.

Government Bonds. The outstanding stock of LCY government bonds climbed to VND998.1 trillion at the end of September, up 7.2% q-o-q and 21.4% y-o-y. Growth largely stemmed from increases in the stock of State Bank of Vietnam bills, which soared to VND70.0 trillion at the end of September from only VND10.0 trillion at the end of June. Contributing to the overall growth in government bonds were state-owned enterprise bonds and other bonds, as well as (to a lesser extent) Treasury bonds.

In Q3 2016, government bond issuance more than doubled to reach VND406.6 trillion due largely to an uptick in central bank issuance. In addition, a VND500 billion municipal bond was issued during the quarter by Ba Ria Vung Tau province to fund various infrastructure projects.

Corporate Bonds. The outstanding stock of corporate bonds climbed to VND40.1 trillion at the end of September, up by 3.4% q-o-q and 49.8 y-o-y in Q3 2016. Viet Nam's corporate bond market accounts for only 3.9% of the aggregate LCY bond market stock and comprises issues from 21 corporate entities **(Table 2)**. The composition of the top three corporate issuers remained the same as in the previous quarter. Masan Consumer Holdings was the largest corporate bond issuer with outstanding bonds valued at VND11.1 trillion, representing a 27.7% share of the entire corporate bond segment. Real estate firm Vingroup was in the second spot with bonds outstanding of VND8.0 trillion, followed by Asia Commercial Joint Stock with VND4.6 trillion.

Five corporate firms tapped the bond market in Viet Nam for their capital requirements in Q3 2016. Real estate firm Hoangquan had the largest new debt issue, raising VND500 billion from the sale of 1-year fixed rate bond with a coupon of 6.0% **(Table 3)**. It was followed by Khang Dien House Trading and Investment, which issued VND452 billion of 4-year bonds. In terms of maturity, the longest new debt issues were 5-year bonds from An Phat Plastic and Green Environment and Son Ha International.

Table 2: Corporate Issuers of Local Currency Corporate Bonds in Viet Nam

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (VND billion)	LCY Bonds (USD billion)			
1.	Masan Consumer Holdings	11,100	0.50	No	No	Diversified Operations
2.	Vingroup	8,000	0.36	No	Yes	Real Estate
3.	Asia Commercial Joint Stock	4,600	0.21	No	Yes	Finance
4.	Hoang Anh Gia Lai	4,000	0.18	No	Yes	Real Estate
5.	Techcom Bank	3,000	0.13	No	No	Banking
6.	Ho Chi Minh City Infrastructure	2,102	0.09	No	Yes	Infrastructure
7.	DIC	1,000	0.04	Yes	No	Chemicals
8.	Ocean Group	980	0.04	No	Yes	Consulting Services
9.	Saigon-Hanoi Securities	950	0.04	No	Yes	Finance
10.	Hoangquan	500	0.02	No	Yes	Real Estate
11.	Saigon Securities	500	0.02	No	Yes	Finance
12.	Tasco	500	0.02	No	Yes	Engineering and Construction
13.	Vietinbank Securities	500	0.02	Yes	Yes	Finance
14.	Khang Dien House Trading and Investment	452	0.02	No	Yes	Building and Construction
15.	An Phat Plastic & Green Environment	450	0.02	No	Yes	Industrial
16.	Sotrans	400	0.02	No	No	Logistics
17.	Vietnam Investment Construction and Trading	350	0.02	No	Yes	Building and Construction
18.	Hung Vuong	300	0.01	No	Yes	Food
19.	Ha Do	200	0.01	No	Yes	Construction
20.	Son Ha International	110	0.005	No	Yes	Building and Construction
21.	Dongnai Plastic	100	0.004	No	Yes	Industrial
Total LCY Corporate Issuers		**40,094**	**1.80**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of end-September 2016.
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 LP and Vietnam Bond Market Association data.

Table 3: Notable Local Currency Corporate Bond Issuance in Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Hoangquan		
1-year bond	6.00	500
Khang Dien House Trading and Investment		
4-year bond	9.50	452
Saigon Securities		
2-year bond	7.00	200
An Phat Plastic & Green Environment		
5-year bond	7.00	150
Son Ha International		
5-year bond	9.80	110

Q3 = second quarter, VND = Vietnamese dong.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

Hanoi Stock Exchange to Test Run Derivatives Product in November and December

The Hanoi Stock Exchange is continuing with preparations to launch a derivatives market. The exchange recently announced that regulations for future contracts on equity indices and government bonds will be implemented in November. The exchange will also test the trading system for the derivative products in November and December.